# The Front Page

August 18, 2008

- **What's Inside: India Construction, Hindalco (REDUCE), Jain Irrigation (ADD), Events calendar**

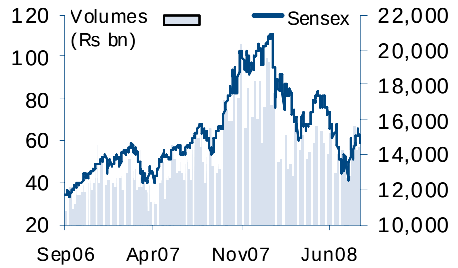
## Market Front Page

| Index Movements | Closing | % Chg | % YTD |
|---|---|---|---|
| Sensex | 14,724 | (2.4) | (27.4) |
| Nifty | 4,431 | (2.2) | (27.8) |
| BSE Smallcap | 7,110 | (1.7) | (46.7) |
| CNX Midcap | 5,805 | (1.9) | (36.9) |
| Nasdaq | 2,453 | (0.0) | (7.5) |
| DJIA | 11,660 | 0.4 | (12.1) |
| IBOV | 54,244 | (1.6) | (15.1) |
| FTSE | 5,455 | (0.8) | (15.5) |
| CAC | 4,454 | 0.7 | (20.7) |
| **Turnover** | | US$m | % Chg |
| BSE | | 1,118 | (2.9) |
| NSE | | 2,581 | (8.6) |
| Derivatives (NSE) | | 11,126 | 8.0 |
| **FII F&O (US$m)** | | Index | Stocks |
| Net buying | | (112) | (46) |
| Open interest | | 8,058 | 4,382 |
| Chg in open int. | | (289) | (120) |
| **Equity Flows (US$m)** | Latest | MTD | YTD |
| FII (13/8) | (160) | 97 | (6,649) |
| MF (12/8) | (62) | (54) | 2,555 |

| ADR/GDR (US$) | Latest | % Chg | % Prem |
|---|---|---|---|
| HDFC Bank | 84.7 | 0.8 | 2.6 |
| Reliance | 107.0 | 0.2 | 0.3 |
| Infosys | 42.4 | 0.4 | 6.9 |
| Satyam | 22.9 | (1.2) | 18.5 |
| Wipro | 11.7 | (0.5) | 16.1 |
| ICICI Bank | 31.1 | (1.0) | (1.4) |
| SBI | 69.0 | 0.1 | 1.2 |
| ITC | 4.4 | (0.9) | (2.6) |
| **Commodities** | Latest | %Chg | %YTD |
| Gold (US$/ounce) | 788 | (2.3) | (5.5) |
| Crude (US$/bl) | 114 | (1.1) | 18.5 |
| Aluminium (US$/MT) | 2,780 | 0.1 | 15.4 |
| Copper (US$/MT) | 7,360 | (0.3) | 10.3 |
| **Forex Rates** | Closing | % Chg | %YTD |
| Rs/US$ | 42.8 | 0.2 | 8.7 |
| Rs/EUR | 63.8 | 0.1 | 9.8 |
| Rs/GBP | 80.0 | (0.9) | 1.6 |
| **Bond Markets** | | Closing | bps Chg |
| 10 yr bond | | 9.2 | 11.0 |
| Interbank call | | 9.4 | (10.0) |

## Charts Front Page

**Sensex price volume**




**Sensex intraday**


## Corporate Front Page

- **Reliance Infratel** scraps its plans for a Rs60bn IPO (TOI)
- **Idea Cellular** defers its open offer for an additional 20% stake in **Spice Communications** following a delay in approval (FE)
- GSM operators to defy TRAI's directive to give links to connect **Reliance Communications's** new network by 21 August (BL)
- **NMDC** to sign an agreement next week with global miner Rio Tinto to buy mineral assets (ET)
- **Jindal Steel and Power** to invest Rs183bn in Chattisgarh to set up a steel unit and a 1,000MW captive power plant (DNA)
- **Tata Steel** has kicked off fresh talks to sell the aluminum smelting business of Corus Group (ET)
- **Ispat Industries** and **Bhushan Steel** out of the race to get the iron-ore mines in Kawardha district of Chattisgarh (BS)
- Assessment of commerciality and development plan of **Gujarat State Petroleum Corp's** KG Basin gas find is likely to be completed by next month (BL)
- **Essar Oil** said its exploration blocks in Vietnam and Madagascar have shown initial indication of gas reserves of 2trn-3trn cubic feet and around 1bn barrels of oil (BS)
- **Indraprastha Gas** and two other companies have asked oil regulator to reject **Reliance Industries** EOI for six cities (ET)
- **Mahindra & Mahindra** plans to enter the US market with its diesel-powered trucks and SUVs (ET)
- **Punj Lloyd**, which is constructing two LNG tanks for **Petronet LNG** in Gujarat, may not meet its October deadline (Mint)
- **Bharti Airtel** says it has crossed the 75m customer mark to become the fourth largest in-country mobile operator in the world (FE)
- **Hotel Leelaventure** plans to increase its room tariffs (DNA)
- **ICICI Bank** decides to introduce floating rates of interest for two-wheelers (BS)
- **Idea Cellular** to launch wireless telephony services in Mumbai soon (ET)
- **Tata Power, CESC**, **DLF**, amongst others, respond to the EOI floated by Andrew Yule to divest up to 57.2% in DPSC (ET)

## Market Front Page

### Top Movers BSE 200

| Top Gainers | Price (Rs) | Chg (%) | YTD (%) | Top Losers | Price (Rs) | Chg (%) | YTD (%) |
|---|---|---|---|---|---|---|---|
| Marico | 63 | 6.5 | -8.7 | Indiabulls Real | 304 | -13.3 | -59.1 |
| Mphasis | 227 | 5.3 | -26.4 | Dish TV India | 36 | -8.9 | -64.7 |
| Shree Precoated | 111 | 4.9 | -73.1 | Canara Bank | 205 | -8.2 | -38.2 |
| Glenmark Pharma | 665 | 4.8 | 11.7 | Bombay Dyeing | 564 | -8.0 | -25.5 |
| HCL Tech | 236 | 2.4 | -28.4 | IDFC | 96 | -7.9 | -57.9 |

### Volume spurts

| Company | CMP | M.Cap | Vol. (in '000) | 10D A.Vol (in '000) | % Chg |
|---|---|---|---|---|---|
| EIH | 129 | 1,181 | 1,331 | 268 | 396 |
| CESC | 354 | 1,034 | 723 | 167 | 333 |
| Exide Industries | 72 | 1,345 | 845 | 263 | 221 |
| Indian Hotels | 80 | 1,349 | 4,591 | 1,513 | 203 |
| Dabur India | 91 | 1,838 | 1,606 | 546 | 194 |
| Castrol India | 315 | 910 | 183 | 72 | 155 |
| BF Utilities | 2291 | 2,016 | 84 | 36 | 134 |
| Hexaware Technology | 51 | 170 | 568 | 246 | 131 |
| Raymond Ltd | 201 | 288 | 125 | 62 | 101 |
| Tata Chemicals | 319 | 1,753 | 2,622 | 1,381 | 90 |

### FII - FII trades

| Scrip | 13/8/2008 | | | 14/8/2008 | | |
|---|---|---|---|---|---|---|
| | Volume '000 | Price | Prem % | Volume '000 | Price | Prem % |
| Tata steel | 926 | 615 | 0.3 | 924 | 624 | 0.6 |
| Sbi | 637 | 1,577 | 0.7 | 262 | 1,482 | 0.3 |
| Grasim inds | 32 | 2,100 | 2.5 | 46 | 2,100 | 2.0 |
| Obc | 10 | 172 | 3.0 | 9 | 164 | 2.5 |
| Union bank | 999 | 158 | 4.0 | - | - | - |
| Allahabad bank | - | - | - | 389 | 65 | - |
| Iob | - | - | - | 300 | 100 | 4.5 |
| Pantaloon | - | - | - | 25 | 465 | 21.0 |

## Corporate Front Page

- Government puts on hold France's Societe Generale's proposed JV with **SBI** for operating custodial and depository services after RBI raised its concerns (TOI)
- **Reliance ADAG** lines up Rs1bn for advertising and promotional campaign for DTH roll-out (ET)
- Government plans to rope in **DLF, Omaxe** and **Rahejas** for Delhi slum redevelopment (ET)
- Goa-based **Dempo** Group plans to divest 40% in a company that will house its 100m-tonne iron ore reserve (BS)
- **Fortis Healthworld** will acquire pharmacy retail chain CRS Health as part of expansion (Mint)
- **Tata Power** planning and studying a minimum US$3bn foray into nuclear power (ET)
- **JSW Steel**, which is setting up a 2mn tonne per annum coking coal facility in Mozambique, might not be able to complete its project on time (DNA)
- **Seshasayee Paper and Boards** plans to invest Rs3bn to double its printing writing paper production capacity to 225,000 tonnes. (BS)
- **Country Club India** has earmarked Rs2.5bn investment for its foray into the wellness tourism segment (ET)
- IFC weighing option to part-finance **GSPC** Gas Company's US$140mn city gas distribution project in Gujarat (FE)
- **ONGC** will set up an integrated offshore supply base and processing unit in Andhra Pradesh (BL)
- **PNB** is in talks with Visa Inc to start its independent credit card business and is likely to launch the service by October (FE)
- **Reliance Industries** is looking at exporting diesel from its upcoming refinery at Jamnagar in Gujarat to Pakistan (ET)
- **Larsen & Toubro** in talks with Germany-based Voith to export paper machinery. (BL)
- **BHEL** announced an investment of US$2.5bn in the next four years to ramp up capacity to meeting the growing electricity needs (FE)

## Corporate Front Page

- **Indian Hotels** has earmarked Rs18bn for funding inorganic growth in the next three years (ET)
- **SBI** says Finance Ministry has approved the merger of State Bank of Saurashtra with itself (FE)
- TRAI to ask DoT to take action against GSM operators if they fail to connect their networks to **Reliance Communications** GSM network by August 21, 2008 (ET)
- **Nuclear Power Corp.** shortlists four suppliers for reactors (BL)
- **SCI** plans to purchase 40 vessels, including four very large crude containers, worth US$2.5bn-3bn in the next three years (ET)
- **Sun Pharmaceuticals** says it has got US Federal Trade Commission approval for the open offer made to shareholders of Taro (FE)
- **Kingfisher Airlines** plans to launch its first international flight on 3 September (ET)
- **Air India** plans to save Rs10bn this fiscal by cutting operational costs (Mint)
- **BSNL** plans to offer bundled CDMA handsets (ET)
- **BHEL** is the best bidder in 2,400MW Debrand project of **Tata Power** and in the 1,050MW Orissa project of **Monnet Ispat** (BL)
- **EIH** plans to set up hotels in Bangalore and Goa for an investment of Rs6.5bn and has secured land in both the locations. (ET)

## Economy Front Page

- Driven by higher fruit and fuel prices, inflation rises to 12.44% for the week ended August 2 (FE)
- DoT seeks PMOs approval to raise 2G spectrum usage charges for telecom operators (ET)
- DoT rejects Samajwadi Party leader's formula for levying a charge on GSM-based mobile operators with excess spectrum over 6.2MHz (FE)
- PSU general insurers may be allowed to tap market for additional funds (DNA)

## Economy Front Page

- TRAI questions DoT's mobile number portability methodology (TOI)
- Duty-free export of steel items may get government approval (ET)
- DoT says it is open to auctioning 3G spectrum for CDMA (BS)
- Hotels across cities to hike tariffs by 10-50% (ET)
- Excise duty waived for goods used in ultra mega power projects (BL)
- Indirect tax collection increase 13.5% YoY in July (FE)
- FDI in Q1 FY09 exceeds total inflows in 2005-06 (Mint)
- Government has initiated a new scheme of generation based incentive (GBI) for wind power generation (ET)
- India Infrastructure Finance Company, an SPV floated by the government, will raise US$1.2bn from foreign lenders (BS)
- Cement prices are likely to go up in the next one or two months due to increasing input costs, especially in wages, salaries and coal (BL)
- A single excise duty will be levied on all foreign liquors, irrespective of the prices, in Maharashtra (ET)
- Government may sell 4m tonnes of wheat to reduce prices (BS)
- CERC proposes a new tariff scheme for power generated from hydroelectric stations whereby the risks associated with changes in water flow would now be borne by producers instead of buyers (BS)
- World Bank will provide a US$600m loan to India to part finance a US$10.7bn education programme (FE)
- DoT invites proposals for 3G e-auction agency (ET)
- Government issues show-cause notice to 252 sugar mills for failing to submit monthly returns regarding dismantling of sugar buffer stocks (BS)
- Exporters may have to settle for a lower duty drawback rates for 2008-09 (BL)
- IRDA plans to frame guidelines for insurance companies' valuation. (ET)
- Commerce Ministry likely to propose reduction in iron ore export duty (FE)
- Ethanol producers are demanding double the current prices for the by-product (DNA)
- Government announced an average increase of 21% in salaries of 5m government employees wef 1 January 2006 (FE)

## Insider Trades

| Company | Name of Acquirer / Seller | Transaction Date | Buy / Sale | Quantity | Price (Rs) | Deal Size (Rs m) | Shares Transaction (%) | Holding after Transaction (%) |
|---|---|---|---|---|---|---|---|---|
| Asian Oilfield Services Ltd. | Avinash Chandra Manchanda | 08/08/2008 - 12/08/2008 | Sell | 129,083 | 146.0 | 19 | 1.2 | - |
| Dabur Pharma Limited | Fresenius Kabi (Singapore) Pte Ltd. | 08/08/2008 | Buy | 353,409 | 62.0 | 22 | 0.2 | - |
| Dabur Pharma Limited | Fresenius Kabi (Singapore) Pte Ltd. | 11/08/2008 | Buy | 114,444,846 | 62.3 | 7130 | 73.0 | 90.9 |
| Gokul Refoils and Solvent Limited | Pacific Corporate Services Ltd. | 07/08/2008 | Sell | 737,595 | 218.0 | 161 | 2.8 | 7.7 |
| IVRCL Infrastructures & Projects Ltd. | Citigroup Global Mkts (Mauritius) P Ltd. | 06/08/2008 | Sell | 132,000 | 325.0 | 43 | 0.1 | 3.1 |
| Ruchi Soya Industries ltd. | Citigroup Global Mkts(Mauritius) P Ltd | 08/08/2008 | Sell | 1,902,456 | 80.0 | 152 | 1.0 | 2.6 |

Deal Size worth more than Rs10m considered

## BSE/ NSE - Bulk Deals

| Company | Name of Acquirer / Seller | Transaction Date | Buy / Sale | Quantity | Price (Rs) | Deal Size (Rs m) |
|---|---|---|---|---|---|---|
| Cera Sanitaryware Limited | Deutsche International Trust Corp.(Mauritius)Ltd A/C Minivet | 14/08/2008 | Sell | 39,616 | 130 | 5 |
| CERA SANITRY | Deutsche International Trust Corp Mauritius Ltd Ac Minivet Fdi Ac | 14/08/2008 | Sell | 35,384 | 135 | 5 |
| K.P.R. MILL | Kotak Securities Ltd | 14/08/2008 | Buy | 1,700,000 | 99 | 168 |
| K.P.R. MILL | Kotak Mahindra Bank Ltd | 14/08/2008 | Sell | 1,700,000 | 99 | 168 |
| Sasken Commu Techno Ltd | Goldman Sachs Investments MauritiusI Ltd | 14/08/2008 | Buy | 178,071 | 154 | 27 |
| Subex Limited | The Master Trust Bank Of Japan Ltd A/C Nomura India Invest | 14/08/2008 | Sell | 221,240 | 108 | 24 |

# India Construction

## Hyderabad visit update

18 August 2008

**We recently met managements of Nagarjuna Construction (NJCC), IVRCL Infra and Maytas Infra during our visit to Hyderabad. There was a fair deal of convergence on order inflow outlook and none of the companies expressed concerns that worsening macro environment would affect fresh order intake. However, the commentary on margins was divergent, with NJCC being the most worried about impact of input price increases and IVRCL expressing the most confidence about maintaining margins. Increase in borrowings and the resultant sharp increase in interest costs was also a cause of concern across companies. A prolonged adverse funding environment would impair growth of asset-owning businesses. In our view, IVRCL and Maytas's current order profiles equip them to face external challenges better than NJCC.**

**Companies sanguine on order inflows:** Managements indicated that order inflows would remain strong, driven by capex in the water, irrigation, building, road and power sectors. NJCC is targeting inflows of Rs70bn during FY09, roughly the same as it was last year. IVRCL guided for end-FY09 order book of Rs170bn, implying an order inflow of Rs90bn, again flat YoY. Maytas has already seen strong inflows of Rs56bn during 1QFY09; this is 82% of the company's order book of Rs62.3bn as at end-FY08.

**Revenue growth on track:** With a strong order book in place, managements were confident about revenue growth prospects over the next couple of years. With the bulk of IVRCL's order book consisting of projects in its area of core competence (water supply/irrigation), the company does not see execution issues constraining growth. With initial mobilisation over for most large projects in its order book, NJCC also indicated that execution would likely be smooth and reiterated its revenue guidance of Rs45bn for FY09. Maytas expects a ~50% CAGR over FY08-10, driven by a huge order book and recent additions to project teams. However, the company indicated that availability of raw material could pose some problems.

**High raw-material price is a concern for NJCC:** All the three companies indicated that margins would be affected by input price increases. However, the extent would vary across companies. Only ~25% of NJCC's order book is based on star rates. Another 45% of the order book has partial pass-through clauses. NJCC's margins would be hit by the fixed-price BOT road projects and the blast-furnace order from SAIL. Since majority of IVRCL's order book has pass-through clauses, management is not unduly worried about EBITDA margins. There is not much concern for Maytas either, since majority of its order book has been won in 1QFY09. Also, in a couple of BOT projects, banks have agreed to increase project costs.

**Rising interest rates are a concern:** Rising interest rates are a concern for all the three companies. NJCC indicated that high increase in interest charges would likely lead to earnings remaining flat YoY in FY09. The impact on IVRCL's net margins would be muted, given the strong growth trajectory. Given low capitalisation and significant investment commitment in BOT projects, the debt-equity ratio would rise the fastest for Maytas. The company might have to raise fresh capital sooner rather then later.

**Financial summary**

| Nagarjuna - Y/e 31 Mar | FY08A | FY09ii | FY10ii |
|---|---|---|---|
| Revenue growth (%) | 21.0 | 25.0 | 20.0 |
| EBITDA margins (%) | 10.4 | 9.7 | 10.0 |
| EPS (Rs) | 7.1 | 7.6 | 9.8 |
| Growth (%) | 8.0 | 7.5 | 28.0 |
| **PER (x)** | **18.7** | **17.4** | **13.6** |
| ROE (x) | 10.3 | 10.0 | 11.5 |
| EV/EBITDA (x) | 11.6 | 10.9 | 9.4 |

| IVRCL - Y/e 31 Mar | FY08A | FY09ii | FY10ii |
|---|---|---|---|
| Revenue growth (%) | 58.8 | 32.1 | 20.0 |
| EBITDA margins (%) | 9.9 | 9.9 | 9.9 |
| EPS (Rs) | 15.4 | 16.77 | 20.5 |
| Growth (%) | 48.8 | 9.0 | 22.2 |
| **PER (x)** | **20.8** | **19.1** | **15.6** |
| ROE (x) | 12.9 | 12.3 | 13.0 |
| EV/EBITDA (x) | 13.9 | 11.2 | 9.8 |

| Maytas - Y/e 31 Mar | FY08A | FY09ii | FY10ii |
|---|---|---|---|
| Revenue growth (%) | 172.4 | 40.0 | 35.0 |
| EBITDA margins (%) | 12.7 | 12.0 | 12.0 |
| EPS (Rs) | 16.9 | 20.3 | 27.3 |
| Growth (%) | 87.6 | 19.9 | 34.6 |
| **PER (x)** | **25.3** | **21.1** | **15.7** |
| ROE (x) | 14.7 | 15.0 | 16.8 |
| EV/EBITDA (x) | 14.7 | 12.2 | 10.0 |

Source: Company, IIFL Research

**Nagarjuna Cons (NJCC IN) - BUY**

| | |
|---|---|
| ***12-mth Target price (Rs)*** | ***201 (52%)*** |
| **Market cap (US$ m)** | **713** |
| 52Wk High/Low (Rs) | 388/107 |
| Diluted o/s shares (m) | 231.3 |
| Daily volume (US$ m) | 5.0 |
| Dividend yield FY08ii (%) | 0.9 |
| Free float (%) | 77.5 |

**IVRCL Infra (IVRC IN) - BUY**

| | |
|---|---|
| ***12-mth Target price (Rs)*** | ***405 (27%)*** |
| **Market cap (US$ m)** | **1,017** |
| 52Wk High/Low (Rs) | 575/250 |
| Diluted o/s shares (m) | 137 |
| Daily volume (US$ m) | 8.7 |
| Dividend yield FY08ii (%) | 0.3 |
| Free float (%) | 90.4 |

**Maytas Infra (MAY IN) - BUY**

| | |
|---|---|
| ***12-mth Target price (Rs)*** | ***518 (21%)*** |
| **Market cap (US$ m)** | **582** |
| 52Wk High/Low (Rs) | 1152/370 |
| Diluted o/s shares (m) | 59 |
| Daily volume (US$ m) | 0.4 |
| Dividend yield FY08ii (%) | 0.4 |
| Free float (%) | 63.4 |

**Price performance (%)**

| | 1M | 3M | 1Y |
|---|---|---|---|
| Nagarjuna | 4.7 | -34.1 | -33.4 |
| IVRCL Infra | 7.0 | -24.1 | -15.7 |
| Maytas Infra | -2.7 | -33.2 | - |

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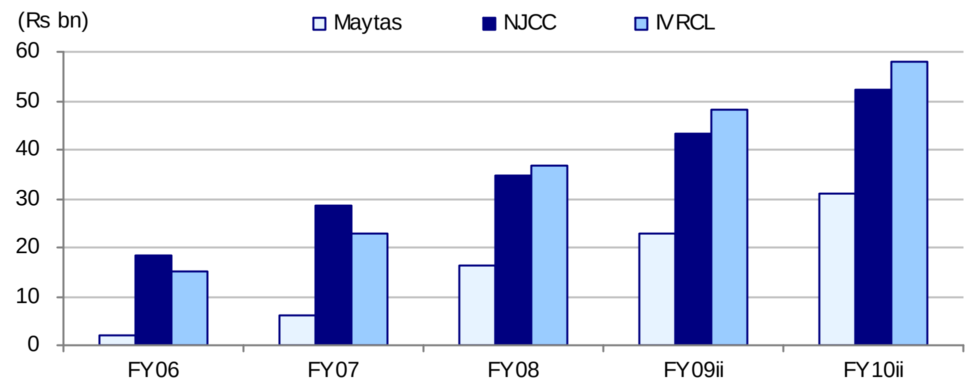
**Execution on track:** Managements of all the three companies indicated that they are not facing any significant execution issues and hence were confident of achieving their revenue growth targets.

- With initial mobilisation over for most large projects in its order book, NJCC indicated that execution would likely be smooth and reiterated its revenue guidance of Rs45bn for FY09, implying YoY growth of 30%. We estimate standalone revenues of Rs43.4bn, lower than management's guidance.
- IVRCL continues with its strategy of focussing on executing simpler projects in its areas of core strength, where it has rich execution history. This strategy reduces risk of execution issues constraining revenue growth. Management indicated that revenues should increase by 35-40% over FY08-10.
- Maytas Infra has ramped up its execution capabilities over the past two years and posted revenue growth of over 170% in FY07 and FY08. With a strong order book of Rs11.5bn, growth visibility remains good. Management expects ~50% CAGR over FY08-10. Execution would be helped by recent additions to its project teams.

**Figure 1: Strong revenue growth over FY08-10ii for the three companies**



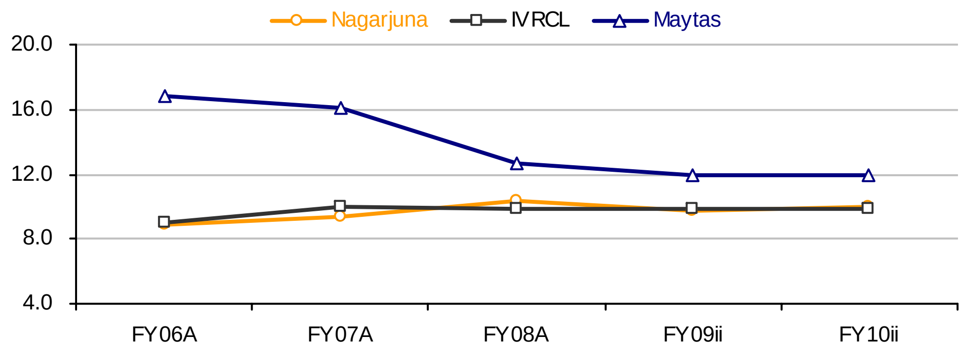

Source: Company, IIFL Research

**EBITDA margins would be hit by rising raw-material prices**

All the three companies expressed concerns that the recent surge in raw-material prices would adversely affect margins. However, the comments differed markedly.

- NJCC management indicated that raw-material price rise is a significant concern for the company, as about 30% of its order book has no price-variation clause. This includes road construction contracts for its BOT projects (6% of order book) and the Rs7.42bn (NJCC share) blast-furnace order from SAIL. All the international orders are also fixed-price; however, clients have agreed to pass-through of bitumen price rise for Muscat road project and steel/cement price rise for the Abu Dhabi buildings project. The Andhra Pradesh government too has allowed pass-through on its contracts for all construction contractors.
- Of the 70% order book with pass-through clauses, 25% orders are on star rates and have 100% pass-through. The balance 45% does not have 100% pass-through.
- IVRCL is not unduly worried about impact on margins due to input price inflation, as ~93% of the order book has pass-through clauses. Also, a significant proportion of water and building order book is from the Andhra Pradesh government, which has allowed pass-through in all existing construction contracts.
- Maytas reported EBTIDA margin of 16.1% in 1QFY09, 530bps higher than in the previous quarter, as the company was able to recover some price variation claims on irrigation projects. Management indicated that quarterly margins would remain volatile as price variation claims get recovered. Management was not worried about lower margins due to high raw-material prices, as ~48% of its current order book of Rs11.5bn was won in June-July 2008 and hence builds in revised raw-material prices.
- Maytas indicated that financers for some of its BOT road projects have agreed to increasing projects costs to compensate construction contractors for increases in raw-material prices. This should help cushion the impact for its fixed-price BOT road construction contracts. NJCC, which partners Maytas in three road BOT projects, indicated no such relief from financers.

**Figure 2: We estimate stable margins over FY08-10 for the three companies**




Source: Company, IIFL Research

**Interest costs would hurt earnings growth for NJCC and Maytas**: Though rising interest cost is definitely a concern for all the three companies, the degree of impact differs widely.

- NJCC management indicated that its interest expense has risen sharply, given the combined impact of increase in interest rates and higher borrowings for financing working-capital requirements and investment in subsidiaries. Management said FY09 earnings could remain flat YoY because of the impact of higher input prices and higher interest expense.
- IVRCL is not very worried about rise in interest costs. High growth trajectory would mean that interest costs as proportion of revenues would not increase materially, thereby protecting net margins.
- Interest expenses for Maytas should also rise significantly, driven by the increase in borrowings for financing its working-capital growth and equity investments in the various SPVs for the road, power and metro projects. However, management expects that strong revenue growth of ~50% over FY08-10 should offset the rise in interest expenses and hence strong growth in revenues should translate into robust earnings growth as well.

**BOT projects becoming operational should boost cash flows and valuations:**
Execution of BOT projects across the three companies is on track. As these BOT projects become operational in the FY09 and FY10, cash flows from these companies could help finance further investments in asset business.

- NJCC's three BOT road projects would become operational in FY10. While Bangalore Elevated Tollway and the Orai-Bhognipur annuity project would start operations by April 2009, the Western UP road project between Meerut and Muzaffarnagar would be operational by June 2009. The Bangalore Elevated Tollway and Western UP road project also has Maytas as one of the equity partners.
- The Pondicherry-Tindivanam project is scheduled to be complete by June 2010. Both Nagarjuna and Maytas hold stakes in this project.
- Initial mobilisation at the Himachal Sorang hydropower project is over and the project should be completed by 2012. Both Nagarjuna and Maytas hold stakes in this project.
- IVRCL Infra's three BOT road projects—Salem Tollways, Kumarapalayam Tollways and Jalandhar-Amritsar Tollways—are likely to start operations in FY09. The annuity-based Chennai desalination project should also commence operations by end-FY09.

**Companies plan to raise funds, but waiting for the right valuations**
All the three companies indicated that they plan to raise funds but are waiting for valuations to improve.

- Nagarjuna Construction is looking to raise funds for its real-estate projects. However, PE deals in these projects have been stuck because of valuation differences. In the interim, the company is raising debt at the SPV level.
- Maytas Infra's management indicated that strong revenue growth for the construction business and its portfolio of infra projects in the road, power and metro sectors would require significant cash investment. Given low capitalisation as compared to peers and significantly higher promoter stake, the company would look to raise further equity at the right valuations. In our view, the next round of funding post the IPO last year would happen sooner rather than later.

Quick Take

# Hindalco - REDUCE

Metals

18 August 2008

## Rights issue sweetened; in-line result by Novelis

**Novelis reported EBIDTA of US$176m for QE June 2008, higher than our estimate of US$150m. The surprise in earnings came primarily from a metal price lag of US$34m. Reported earnings of US$25m were boosted by a US$66m gain on derivative instruments. Hindalco has priced its forthcoming rights issue at Rs96 and changed the rights ratio to 3:7 from 1:3. We believe Hindalco's stock will continue to be weighed down by refinancing of the US$3.03bn debt taken to fund the Novelis acquisition, Novelis's negative impact on consolidated earnings and weakness in LME aluminium prices. Retain REDUCE.**

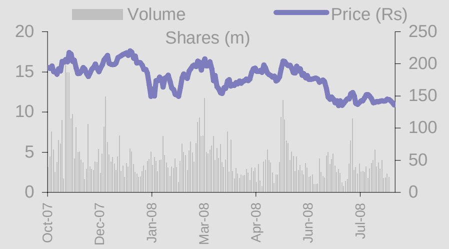
- **Underlying EBIDTA at US$112m:** Novelis's reported EBIDTA of US$176m for QE June 2008 included US$64m accretion from the reserve created at the time of acquisition by Hindalco. Adjusted for this, underlying EBIDTA came in at US$112m, which was further boosted by metal price lag of US$34m (the company gains on its aluminium inventory in a rising-price environment).
- **Refinancing bridge loan remains a challenge:** Bridge loans of US$3.03bn taken to fund Novelis acquisition will come up for refinance in November 2008. The company will fund US$1.2bn through a rights issue but is yet to finalise financing of the balance amount. Interest rates have moved up by 200-300bps over the past year and raising debt will not be easy in the current environment—which means it will likely have to dip into its treasury.
- **Aluminium prices to remain weak:** Despite several announcements of production cuts at aluminium smelters, we expect the metal to remain in surplus. Aluminium consumption is also slowing down in line with production. This will negatively affect the company's profitable upstream operations in India.
- **Novelis to remain a drag on cash-flow:** Novelis's earnings will continue to be weighed down by price ceilings till FY10. Even beyond FY10, meaningful debt repayment is unlikely, as interest cost and recurring capex will leave less than US$100m (acquisition price US$6.1bn).

| | |
|---|---|
| **CMP** | **Rs136** |
| ***12-mth Target price (Rs)*** | ***151(11%)*** |
| **Market cap (US$ m)** | **4,232** |
| **Bloomberg** | **HNDL IN** |
| 52Wk High/Low (Rs) | 220/135 |
| Diluted o/s shares (m) | 1,307 |
| Daily volume (US$ m) | 13.3 |
| Dividend yield FY08 (%) | 1.3 |
| Free float (%) | 68.6 |
| **Shareholding pattern (%)** | |
| Promoters | 31.4 |
| FIIs | 12.3 |
| Domestic MFs/Insurance cos | 16.1 |
| Others | 40.2 |

**Price performance (%)**

| | 1M | 3M | 1Y |
|---|---|---|---|
| Hindalco | -1.7 | -29.3 | -11.7 |
| Rel. to Sensex | -18.0 | -16.0 | -9.8 |
| Sterlite | -9.5 | -27.5 | 1.9 |
| NALCO | 0.6 | -21.3 | 53.8 |

**Stock movement**




**Financial summary**

| Y/e 31 Mar | FY06A | FY07A | FY08ii | FY09ii | FY10ii |
|---|---|---|---|---|---|
| Revenues (Rs m) | 112,045 | 183,130 | 192,010 | 216,004 | 199,487 |
| EBITDA margins (%) | 21.5 | 21.9 | 17.7 | 22.3 | 20.1 |
| Pre-exceptional PAT (Rs m) | 14,637 | 26,495 | 23,202 | 33,823 | 27,951 |
| Reported PAT (Rs m) | 16,557 | 25,643 | 28,609 | 33,823 | 27,951 |
| EPS (Rs) | 16.8 | 24.6 | 23.3 | 19.5 | 16.1 |
| Consolidated EPS (Rs) | 16.0 | 25.7 | 19.5 | 15.6 | 12.4 |
| Growth (%) | 20.0 | 46.3 | -5.1 | -16.5 | -17.4 |
| **PER (x)** | **8.1** | **5.5** | **5.8** | **7.0** | **8.5** |
| Consolidated PER(x) | 8.5 | 5.3 | 7.0 | 8.7 | 11.0 |
| ROE (%) | 17.2 | 20.6 | 16.4 | 12.5 | 9.5 |
| Debt/Equity (x) | 0.5 | 0.6 | 0.4 | 0.3 | 0.2 |
| **EV/EBITDA (x)** | **6.1** | **3.4** | **4.4** | **4.2** | **5.0** |
| Price/Book (x) | 1.4 | 1.1 | 1.0 | 0.9 | 0.8 |

Prie as at close of business on 14 August 2008. Source: Company, IIFL Research

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**Figure 1: Quarterly financial summary**

| Rs m | 1QFY08* | 4QFY08 | 1QFY09 | % YoY | % QoQ |
|---|---|---|---|---|---|
| Revenues | 2828 | 2862 | 3103 | 9.7 | 8.4 |
| | | | | | |
| **Costs** | | | | | |
| Cost of goods sold | 2641 | 2576 | 2831 | 7.2 | 9.9 |
| As % of revenues | 93.4 | 90.0 | 91.2 | | |
| SG&A | 137 | 90 | 84 | -38.7 | -6.7 |
| As % of revenues | 4.8 | 3.1 | 2.7 | | |
| R&D | 19 | 12 | 12 | -36.8 | 0.0 |
| As % of revenues | 0.7 | 0.4 | 0.4 | | |
| Others | 32 | 0 | 0 | -100.0 | NM |
| **EBIDTA** | **-1** | **184** | **176** | **NM** | **-4.3** |
| EBIDTA margins | 0.0 | 6.4 | 5.7 | | |
| Other income / expense | -15 | -7 | -22 | 46.7 | 214.3 |
| Financial expense | 51 | 45 | 40 | -21.6 | -11.1 |
| Depreciation | 78 | 110 | 116 | 48.7 | 5.5 |
| Gains on change in value of derivative | 34 | 22 | 66 | 94.1 | 200.0 |
| **Operating PBT** | **-111** | **44** | **64** | **NM** | **45.5** |
| Provision for tax | 40 | -73 | 35 | **NM** | **-147.9** |
| **PAT** | **-151** | **117** | **29** | **NM** | **-75.2** |
| Share in profit of associate | 0 | 5 | -2 | **NM** | **-140.0** |
| Minority interest | 2 | 2 | 2 | **NM** | **0.0** |
| **PAT for shareholders** | **-153** | **120** | **25** | **NM** | **-79.2** |

*YoY numbers are not comparable, given several one-time adjustments related to acquisition recognised in 1QFY08

Source: Company, IIFL Research

**Figure 2: Novelis's underlying EBIDTA significantly lower than reported**

| US$ m | 4QFY07 | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 |
|---|---|---|---|---|---|---|
| Reported EBIDTA | 76 | -1 | 168 | 150 | 184 | 176 |
| Transfer from reserve | 0 | 44 | 85 | 76 | 65 | 64 |
| Underlying EBIDTA | 76 | -45 | 83 | 74 | 119 | 112 |
| As % of reported EBIDTA | 100 | NM | 49.4 | 49.3 | 64.7 | 63.6 |

Source: Company, IIFL Research

**Figure 3: Calculation of normalised EBIDTA**

| US$ m | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 |
|---|---|---|---|---|---|
| Reported EBIDTA | -1 | 168 | 150 | 184 | 176 |
| Less: Transfer from reserve | 44 | 85 | 76 | 65 | 64 |
| Add: Impact of contracts | 80 | 60 | 45 | 45 | 78 |
| Add: Impact of metal price leg | -11 | 4 | -9 | -4 | -34 |
| Add: Impact of one time expense | 32 | 0 | 0 | 0 | 0 |
| Normalised EBIDTA | 56 | 147 | 110 | 160 | 156 |

Source: Company, IIFL Research

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# Jain Irrigation Systems - ADD

| JISL IN | Rs513 | Agri-business | 18 Aug 2008 | Company Update |
|---|---|---|---|---|

## Acquisition integration: teething troubles

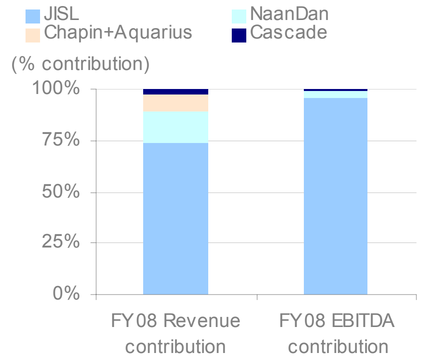
**JISL's consolidated earnings for FY08 came in 12% below our estimate, as margins of overseas subsidiaries fell short of our expectation as did revenue growth at US subsidiaries affected by the housing slowdown. We expect restructuring of subsidiaries and improved integration of these acquisitions to improve their margins by 200-300bps, but reduce our earnings estimate for FY09 by 7.5% and for FY10 by 10%, in view of lower-than-expected FY08 consolidated earnings. We continue to expect strong growth in the domestic business, which accounts for ~70% of JISL's earnings. In line with the downward revision in our earnings estimate, we lower our 12-month target price from Rs600 to Rs553 and downgrade the stock from BUY to ADD.**

**Micro-irrigation segment (MIS) subsidiaries' margins poor: JISL's** US-based subsidiaries Chapin and Aquarius barely broke even at the EBITDA level, severely affected by the housing slowdown. The company has restructured these businesses and changed the revenue mix to increase share of drip irrigation, for which agri-based demand remains strong. Israel-based NaanDan was affected by rising costs, though management indicated that realisations have improved in recent months. We expect these subsidiaries' margins to improve by 200-300bps during FY09.

**Domestic growth remains on track**: Demand from the MIS and agro-processing segments remains robust. The piping division's margins could see near-term pressure, owing to delays in capex plans in the private sector (especially telecom), though demand from public infrastructure investments should partly offset this demand weakness. We continue to expect strong revenue growth (30% CAGR over FY08-11) and stable margins for JISL's standalone operations.

**Integration issues, forex losses pose downside risk**: Our expectation of margin improvements hinges on successful integration and restructuring of acquisitions. Any slowdown or failure in integration poses downside risks. Management said it has entered into derivative contracts to hedge forex earnings. Should the rupee stay at current levels, we estimate forex losses from these contracts could drag earnings lower by 4-5%.

**Subsidiary EBITDA contribution lower than expected**




Source: IIFL Research

**Financial summary**

| Y/e 31 Mar | FY07A | FY08A | FY09ii | FY10ii | FY11ii |
|---|---|---|---|---|---|
| Revenue (Rs m) | 12,390 | 22,159 | 28,460 | 34,756 | 41,895 |
| EBITDA margins (%) | 14.5 | 15.5 | 16.0 | 16.6 | 16.9 |
| Pre-exceptional PAT (Rs m) | 797 | 1,376 | 1,885 | 2,638 | 3,313 |
| Reported PAT (Rs m) | 797 | 1,325 | 1,885 | 2,638 | 3,313 |
| EPS (Rs) | 13.6 | 16.3 | 23.2 | 32.5 | 40.8 |
| Growth (%) | 67.4 | 19.9 | 42.3 | 39.9 | 25.6 |
| **PER (x)** | 37.7 | 31.5 | 22.1 | 15.8 | 12.6 |
| ROE (%) | 19.7 | 15.8 | 16.2 | 16.9 | 17.9 |
| Debt/Equity (x) | 2.8 | 1.6 | 1.4 | 1.1 | 1.0 |
| EV/EBITDA (x) | 30.6 | 17.1 | 13.6 | 11.0 | 0.0 |
| **Price/Book (x)** | 10.9 | 5.3 | 3.7 | 2.7 | 2.3 |

Price as at close of business on 14 August 2008

***12-mth Target price (Rs) 553 (8%)***

| | |
|---|---|
| **Market cap (US$ m)** | **869** |
| 52Wk High/Low (Rs) | 770/410 |
| Diluted o/s shares (m) | 72 |
| Daily volume (US$ m) | 2.1 |
| Dividend yield FY08ii (%) | 0.4 |
| Free float (%) | 67.5 |

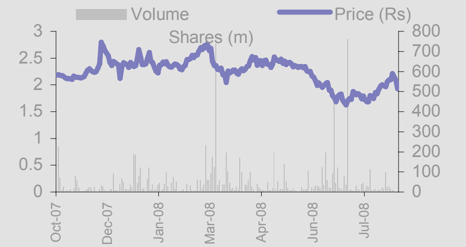
**Shareholding pattern (%)**

| | |
|---|---|
| Promoters | 32.5 |
| FIIs | 43.2 |
| Domestic MFs | 7.8 |
| Others | 16.5 |

**Price performance (%)**

| | 1M | 3M | 1Y |
|---|---|---|---|
| Jain irrigation | 6.1 | -20.3 | 6.2 |
| Rel. to Sensex | -10.1 | -5.2 | 8.0 |
| IVRCL | 19.3 | -24.8 | -15.7 |
| Finolex | 8.6 | -21.8 | -26.6 |
| Lakshmi energy and foods | -1.0 | 6.9 | 28.0 |

**Stock movement**





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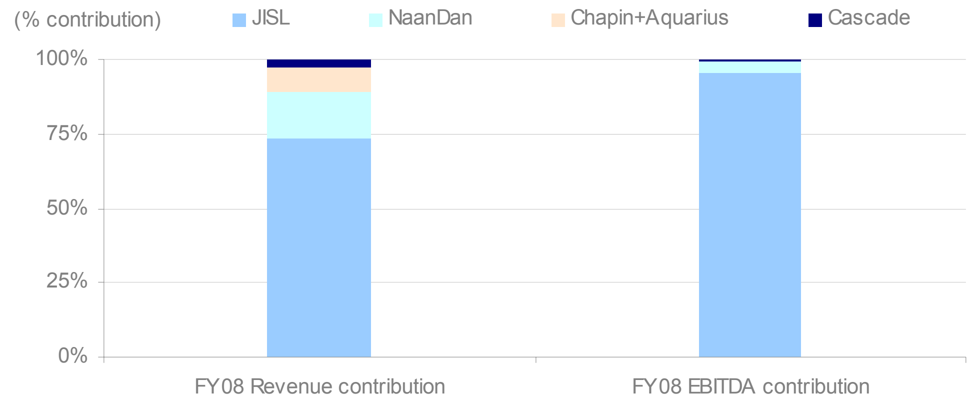
## Subsidiaries' earnings lower than expected

JISL's micro-irrigation subsidiaries—the US-based Chapin and Aquarius, and Israel-based NaanDan Irrigation—registered revenue in line with our expectation though margins fell short of our expectation, because of lower demand in the US and lower realisations for NaanDan. Management indicated that Chapin and Aquarius together just broke even at the EBITDA level (vs our estimate of 7% margin), while NaanDan recorded an EBITDA margin of 7% (vs our estimate of 11%). JISL's food-processing subsidiary, the US-based Cascade, registered an EBITDA margin of 17%, in line with our expectation.

**Figure 1: Subsidiary earnings lower than expected; domestic growth on track**




Source: IIFL Research

**Figure 2: Subsidiaries' margins should expand after restructuring**

| Entity | FY08 revenues (Rs m) | EBITDA margin | Comments |
|---|---|---|---|
| JISL | 16,712 | 19.7% | Margin up 350bps YoY |
| NaanDan | 3,500 | 7% | Higher realisations, more sourcing from India and cross-selling should improve margins by 100-150bps |
| Chapin+ Aquarius | 1,900 | 0% | Restructuring efforts, plant shutdowns, better product mix should improve margins by 200bps |
| Cascade | 516 | 17% | Higher realisations should improve margins by 300bps |

Source: IIFL Research

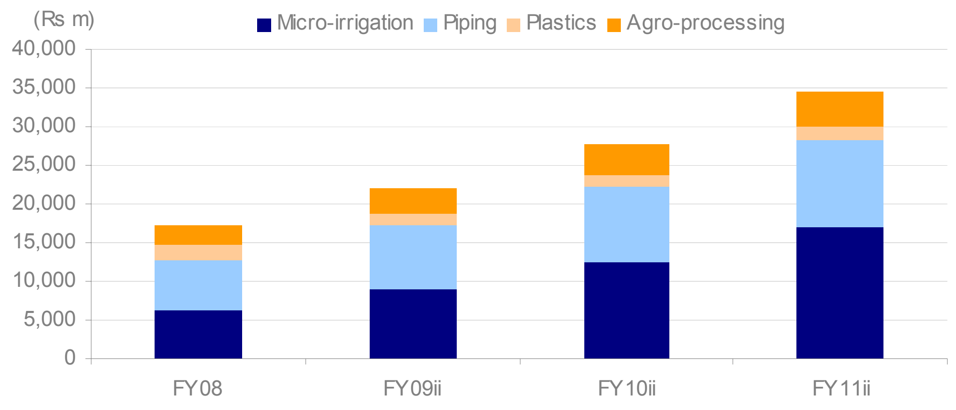
**Chapin and Aquarius hit by housing slowdown:** Both Chapin and Aquarius reported poor offtake of sprinkler systems (which form a large share of their revenues) because of the housing slowdown. Management said it has merged the two companies into one called JHI Group and restructured their operations by shutting down two of the four plants in the US. It has also changed the product mix to include a larger share of drip-irrigation systems, which cater to the agriculture segment and continue to see strong offtake in the US. We expect these restructuring efforts to help expand the company's EBITDA margin by 200bps.

**NaanDan margin affected by cost pressure**: NaanDan's margin were lower partly because of lower price realisations and rising input costs. Management said the company has raised prices over the past few months, offseting cost increases. It also said the company would increase its sourcing of products from JISL's plants in India, to alleviate cost pressures. We expect these measures to improve EBITDA margins by 200bps.

**Cascade's margins may expand as realisations improve:** The US-based food-processing subsidiary recorded an EBITDA margin of 17% and revenue of US$13m, in line with our estimates. Management indicated that realisations had improved further in recent months, driven by strong demand in the processed-foods category. We expect higher price realisations to improve EBITDA margins by 300bps.

## Domestic growth on track

**Figure 3: Domestic business - revenue growth to be led by MIS, agri-processing**




Source: IIFL Research

**Micro-irrigation segment continues to post healthy growth:** JISL standalone revenue rose 64% in FY08 and 87% in 1QFY09, indicating continued strength in demand. The company's realisations have been rising faster than its costs, as reflected in the 100bps YoY expansion in its EBITDA margin in 1QFY09. We remain positive on this segment's growth prospects and expect 45% YoY revenue growth during FY09.

**Piping segment to see some margin pressure in the near term due to changing revenue mix:** Management indicated that demand for HDPE pipes is beginning to see a modest slowdown, especially in the telecom segment, where capex plans have been postponed. However, demand from public infrastructure investments and from overseas markets (Middle East and Africa) remains strong. As such, we see little risk to our revenue growth estimate of 22% for FY09, though margins will be under pressure as share of HDPE pipes (on which EBITDA margin was 10-12% in FY08) will be lower this year.

**Plastics slowdown in line with expectation:** We continue to expect a deceleration in the plastics business, owing to weakness in the US housing segment. We expect 15% YoY decline in this business during FY09.

**Agro-processing set to see strong growth:** We expect continued strong growth and margin expansion in the agro-processing segment, driven by healthy demand for processed foods and strong price realisations. The company expects to increase fruit-processing capacities by 35% and onion-processing capacities by 20% this year. Availability of raw material for processing should not be an issue, given strong growth in fruit and vegetable output in India (owing to healthy rainfall in the northern region).

**Figure 4: Company plans 20-50% capacity expansion across segments during FY09**

| Segment ('000 tpa) | FY07 | FY08 | FY09ii |
|---|---|---|---|
| Micro-irrigation | 56 | 72 | 110 |
| Piping | | | |
| PVC | 65 | 79 | 101 |
| PE | 50 | 71 | 108 |
| Plastics | 36 | 36 | 36 |
| Agro-processing | | | |
| Onion dehydration | 15 | 15 | 18 |
| Fruits | 81 | 89 | 120 |

Source: JISL, IIFL Research

**We lower our PAT estimates for FY09 by 7.5% and FY10 by 10%:** Drivers of our downward revision for FY09 include: a) lower-than-expected margin in overseas subsidiaries (of 6.8% vs our earlier estimate of 8%); and b) margin pressure in the piping business due to change in revenue mix (9.2% vs our previous estimate of 10.5%). On the other hand, we raise our margin estimate for the micro-irrigation segment to 27.5% (from 27%) in view of continued strength in realisations and raise our revenue growth estimates for this segment, to 28.4% (from 28% earlier).

**Forex losses represent potential downside:** Management said it has entered into forex derivative contracts to hedge ~15% of its net forex earnings. As these contracts were entered into over the last few months, it is likely that they built in a rupee 5-8% stronger than it is now. Should the rupee stay at current levels, we reckon the company will report forex losses of Rs80m-90m (which would be 4% of its FY09ii earnings).

**Water projects offer potential upside:** The company's JV with the Israel-based water management company Mekorot is under negotiations for potential water management projects. These projects will likely be turnkey in nature, with EBITDA margins of 15-18%, higher than the piping segment's margins of 9-11%. Should the JV win any water management contracts, earnings from these projects offer potential upside to our FY10 estimates.

**We lower our 12-month target price in line with the cut in our earnings estimate:** Based on our sum-of-the-parts framework, we lower our target price from Rs600 to Rs553. The per-share value of the micro-irrigation segment is lower by 10.5% (on account of the overseas subsidiaries' lower margins) and the per-share value of the piping business is lower by 6.2% (on account of near-term pressure on margins following change in revenue mix). On our revised earnings estimates, the 12-month target price represents a PE of 23.8x on FY09ii and 17x on FY10ii.

**Figure 5: Sum-of-the-parts valuation gives a value of Rs553**

| Segment | Peer sector | 1-yr fwd P/E multiple | Per-share value (Rs) |
|---|---|---|---|
| Micro-irrigation | Infrastructure | 18.0x | 379 |
| Piping | Infrastructure | 18.0x | 89 |
| Plastics | Construction | 6.0x | 2 |
| Agro-processing | Food processing | 10.0x | 83 |
| Total | | | 553 |

Source: IIFL Research

The revised target price represents an upside of 8% and we lower our recommendation to ADD from BUY.

# Financial summary

Revenue growth driven primarily by demand for agri-inputs in India as well as the US

Large part of interest expense towards working capital in the micro-irrigation business

### Income statement summary (Rs m)

| Y/e 31 Mar | FY07A | FY08A | FY09ii | FY10ii | FY11ii |
|---|---|---|---|---|---|
| Revenue | 12,390 | 22,159 | 28,460 | 34,756 | 41,895 |
| EBITDA | 1,793 | 3,442 | 4,545 | 5,761 | 7,078 |
| **EBIT** | 1,456 | 2,884 | 3,938 | 5,105 | 6,294 |
| Net Interest expense | 713 | 1,327 | 1,412 | 1,658 | 1,961 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| Others | 305 | 401 | 142 | 278 | 335 |
| **Profit before tax** | 1,042 | 1,942 | 2,668 | 3,725 | 4,667 |
| Taxes | 200 | 540 | 747 | 1,043 | 1,307 |
| Minorities and other | 46 | 25 | 36 | 44 | 47 |
| **Net profit** | 797 | 1,376 | 1,885 | 2,638 | 3,313 |

Capex of Rs2.5bn-3bn on increasing capacities in all segments

Conversion of warrants held by promoters expected to bring in equity during FY09 and FY10

### Cashflow summary (Rs m)

| Y/e 31 Mar | FY07A | FY08A | FY09ii | FY10ii | FY11ii |
|---|---|---|---|---|---|
| Profit before tax | 1,042 | 1,942 | 2,668 | 3,725 | 4,667 |
| Depr. & amortization | 337 | 558 | 608 | 656 | 784 |
| Tax paid | -89 | -233 | -374 | -522 | -653 |
| Working capital Δ | -1,792 | -5,705 | -4,833 | -3,389 | -3,531 |
| Other operating items | -298 | 17 | 0 | 0 | 0 |
| Operating cashflow | -800 | -3,422 | -1,931 | 471 | 1,268 |
| Capital expenditure | -2,563 | -2,655 | -2,500 | -2,750 | -2,800 |
| **Free cash flow** | **-3,364** | **-6,077** | **-4,431** | **-2,279** | **-1,532** |
| Equity raised | 451 | 1,371 | 1,725 | 1,194 | -23 |
| Investments | 0 | -440 | 0 | 0 | 0 |
| Debt financing/disposal | 1,586 | 5,965 | 2,932 | 1,401 | 1,954 |
| Dividends paid | -259 | -197 | -227 | -317 | -398 |
| Other items | 175 | 155 | 0 | 0 | 0 |
| **Net change in cash** | **-1,410** | **777** | **0** | **0** | **0** |

Source: Company data, IIFL Research

Micro-irrigation segment (MIS) is working-capital-intensive; increase in current assets in line with growth in MIS

Short-term debt represents mostly working-capital credit

Margin improvement largely driven by restructuring of overseas subsidiaries' operations

RoE to improve as acquisition integration begins to bear fruit

**Balance sheet summary (Rs m)**

| Y/e 31 Mar | FY07A | FY08A | FY09ii | FY10ii | FY11ii |
|---|---|---|---|---|---|
| Cash & equivalents | 443 | 1,036 | 1,036 | 1,036 | 1,036 |
| Sundry debtors | 3,585 | 6,556 | 8,421 | 10,284 | 12,396 |
| Inventories - trade | 4,697 | 8,099 | 10,790 | 12,767 | 14,653 |
| Loans and advances | 1,162 | 2,831 | 3,509 | 4,285 | 5,165 |
| Other current assets | 101 | 174 | 4,414 | 4,762 | 7,127 |
| **Net fixed assets** | 5,802 | 7,760 | 5,999 | 8,093 | 7,309 |
| Intangible assets | 664 | 1,201 | 1,201 | 1,201 | 1,201 |
| Other term assets | 1,527 | 1,892 | 690 | 690 | 690 |
| **Total assets** | **17,981** | **29,551** | **36,060** | **43,118** | **49,577** |
| Short-term debt | 2,772 | 6,243 | 9,868 | 12,409 | 15,057 |
| Sundry creditors | 4,021 | 6,793 | 7,193 | 8,421 | 9,768 |
| Other current liabs | 1,123 | 620 | 620 | 620 | 620 |
| Long-term debt/CBs | 5,918 | 6,513 | 5,820 | 4,680 | 3,986 |
| Other long-term liabs | 0 | 0 | 0 | 0 | 1 |
| Minorities/other equity | 989 | 1,534 | 1,412 | 1,372 | 1,614 |
| **Net worth** | 3,158 | 7,847 | 11,146 | 15,615 | 18,531 |
| **Total liabs & equity** | **17,981** | **29,551** | **36,060** | **43,118** | **49,578** |

**Ratio analysis**

| Y/e 31 Mar | FY07A | FY08A | FY09ii | FY10ii | FY11ii |
|---|---|---|---|---|---|
| Revenue growth (%) | 47.1 | 78.8 | 28.4 | 22.1 | 20.5 |
| Op Ebitda growth (%) | 39.5 | 91.9 | 32.1 | 26.7 | 22.9 |
| Op Ebit growth (%) | 43.1 | 98.1 | 36.5 | 29.6 | 23.3 |
| Op Ebitda margin (%) | 14.5 | 15.5 | 16.0 | 16.6 | 16.9 |
| Op Ebit margin (%) | 11.8 | 13.0 | 13.8 | 14.7 | 15.0 |
| Net profit margin (%) | 6.4 | 6.2 | 6.6 | 7.6 | 7.9 |
| Dividend payout (%) | 15.8 | 12.0 | 12.0 | 12.0 | 12.0 |
| Tax rate (%) | 19.1 | 27.8 | 28.0 | 28.0 | 28.0 |
| Net debt/equity (%) | 204.0 | 134.2 | 126.2 | 102.7 | 97.2 |
| Return on equity (%) | 19.7 | 15.8 | 16.2 | 16.9 | 17.9 |
| Return on assets (%) | 4.4 | 4.7 | 5.2 | 6.1 | 6.7 |

Source: Company data, IIFL Research

# Events calendar – August 2008

| Monday | Tuesday | Wednesday | Thursday | Friday | Saturday |
|---|---|---|---|---|---|
| | | | | 1 June Foreign Trade | 2 |
| 4 | 5 Hind Motor | 6 | 7 Welspun Guj<br>WPI for 26 Jul | 8 | 9 |
| 11 June IIP | 12 UTV Soft | 13 Peninsula Land | 14 WPI for 2 Aug | 15 | 16 Divi's Lab |
| 18 **SIB** | 19 | 20 | 21 WPI for 9 Aug | 22 | 23 |
| 25 | 26 | 27 Sun TV | 28 WPI for 16 Aug | 29 1QFY09 GDP | 30 **AGM**<br>SAIL–10 Sept |

Blue: Economic data, Orange: AGM

We have moved to a new recommendation structure from 14 July. The key objective of the change is to provide an unequivocal view on each stock, either positive or negative.

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, we introduce **Add** and **Reduce** recommendations based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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