SSKI
INDIA RESEARCH

EMERGING STARS
CONFERENCE 2007

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INDIA RESEARCH

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Emerging Stars Conference 2007

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Emerging Stars Conference 2007

SSKI Securities hosted its annual 'Emerging Stars' Conference on 1-2 February 2007, wherein more than 1,400 small group meetings (and a few one-on-one meetings) were conducted between managements of 62 companies and around 350 investors across the globe. The scope of the Conference this year was a significant improvement on previous year's 800 meetings and 40 companies – and we intend to beat our performance every year.

As symbolized by the title, we showcased what, according to us, are the future pockets of growth and opportunity. The spaces that we found most interesting relate to Consumerisation, Media, Infrastructure and Financials as also other stock-based themes. Our sense is that while the corporate mood is bullish and exhibits a new streak of entrepreneurship, there is also significant 'easy capital' willing to back these ideas, which is slightly unnerving. Powered against the backdrop of strong economic winds, capital, scale and an incremental ability to take bigger risks, we see merit in entrepreneurs going 'The Extra Mile'.

Right Place…A rare confluence of positives – including rising consumerism, infrastructure development and a ticking capex scoreboard – has steered India on to the path of high growth. These positive economic indicators are also profoundly shaping the corporate landscape and empowering businesses to effectively tackle global headwinds.

Right Plays…Business enterprises are creating their own niches…even better, turning them into full-blown markets. We believe each and every one (well almost!) of the 62 companies on display at the Conference has it in them to make a material difference. However, the spaces that we found most interesting relate to that of Consumerisation, Media, Infrastructure and Financials.

Right Time…The imprints from the Emerging Stars Conference 2007 are that of "differentiated and sustainable" business models – models that we believe will live their course, and thereby create incremental investment opportunities.

Diversified

ADANI ENTERPRISES

UNRATED (RS217; MCAP: RS53.4BN / US$1.2BN)

Adani Enterprises (AEL), formerly Adani Exports, is the listed flagship company of the Adani Group – a key player in the Indian infrastructure sector. The company is a market leader in the traditional global trading business. Having evolved from being an importer/ exporter to a value chain enhancer with emphasis on asset creation for long-term growth sustainability, AEL currently serves over 200 major clients through its 24 global offices and trades in 70 commodities. AEL is one of the largest players in thermal coal, iron ore, ferrous scrap and edible oils trading.

Key financials

Year to March 31	FY04	FY05	FY06
Profit & Loss Account			
Consolidated Income	89,957	150,079	123,428
EBITDA	2,017	2,165	3,181
Profit After Tax	1,401	1,216	1,346
Balance Sheet			
Shareholders' Fund	6,980	7,430	8,525
Net Debt	6,935	8,441	13,661
Ratios (%)			
EBITDA / Sales	2.2	1.4	2.6
Current Ratio	2.2	1.7	1.9
Dividend	40	40	45

❑ Energy business –AEL India’s largest coal importer and private sector power trader

AEL is the largest coal importer in India accounting for almost 34% of the country’s coal imports in FY06. The company is also the largest private sector power trader in India (3,000 MW/ 3bn units in FY06). AEL is implementing a 660 MW imported coal based power plant at its Mundra SEZ. Two more projects of 2 X 330 MW capacity are in the pipeline, and in advanced stages of financial closure. AEL also has interest in coalmines in Malaysia and India with ~340m tonnes of reserves, which will be used both for trading and for captive consumption in power projects.

❑ Agro business – cargo handled expected to double over FY06-10 to 3m tonnes

AEL is a leading trader in diversified agri commodities with emphasis on the entire range of oil & oil meals, food grains and pulses with a 15% share of the bulk trading market in India. The company handled 1.5m tonnes of cargo in FY06, which is expected to touch 3m tonnes by 2010. AEL’s edible oil business was rated as one of the top three food processing companies in India with the largest refining capacity of 3,500 tonnes a day. The oil business commands a leadership position in the domestic market with a 45% share in soya oil and 13% share in mustard oil segments. AEL is working on a Food Corporation of India's project, which involves developing vertical silos to store grains and for bulk movement in top loading/ bottom discharge wagons.

❑ Infrastructure and logistics

Key projects under implementation include a 2m sq. ft commercial complex at Bandra-Kurla, residential projects in Mumbai (28 acres in Borivali and 13 acres in Byculla) and a 500-acre township in Ahmedabad. The company is also into shipping and freight operations and chartered around 250 ships to move various products aggregating 11m tonnes in FY06.

❑ Metals and minerals

AEL is the leading trader in steel imports, iron ores and unbranded studded jewellery and gold medallion.

Auto Components

ANG AUTO

UNRATED (RS300; MCAP: RS2.97BN / US$67M)

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ANG Auto is a leading manufacturer of auto parts such as axles, landing gears and air brakes. The company is India's largest exporter of worms and gears for automotive slack adjusters (ASA) to major OEMs in the US and Europe. ANG Auto's business model is diversified with ~45% revenues coming in from auto components, 20% from forged components and the remaining from the assembly division. The company has entered into a strategic tie-up with Ashok Leyland for the supply of trailers. The Rs15bn order, to be supplied over a period of five years, would be executed through a subsidiary ANG Autotech, in which the company holds a 75% stake. These trailers will be manufactured in technical collaboration with FUWA Engineering of China. Also, effective April 2007, HCVs in India will have to use automatic slack adjusters instead of manual ones, which would likely provide a boost to the company's domestic revenues.

Key financials

Year to March 31	FY02	FY03	FY04	FY05	FY06
Net sales (Rs m)	75.3	98.8	104.8	190.0	568.1
Shares in issue (m)	4.2	4.2	4.2	4.2	9.9
Adj. EPS (Rs)	0.31	0.59	0.54	2.39	9.45
% growth	*(23.5)*	*92.3*	*(8.0)*	*339.1*	*295.1*
PER (x)	975.0	507.0	551.1	125.5	31.8
Price/Book (x)	20.3	19.6	19.0	20.2	8.4
EV/EBITDA (x)	331.7	530.7	NA	162.5	22.4
RoE (%)	2.1	3.6	3.5	15.6	44.8
RoCE (%)	10.8	10.9	5.1	11.8	29.5

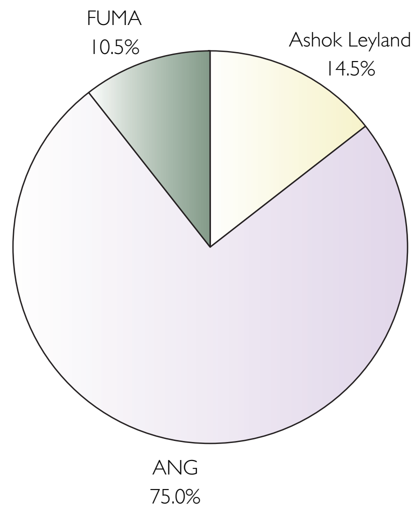
❑ ANG Auto – India's largest exporter of worms and gears for automotive slack adjusters

ANG Auto is a leading manufacturer of auto parts such as axles, landing gears and air brakes. The company exports most of these products to global majors like Arvin-Meritor, Daimler-Chrysler and the Bosch group. ANG Auto is India's largest exporter of worms and gears for automotive slack adjusters (ASA) to major OEMs in the US and Europe. Presence in a niche segment has enabled ANG Auto to strengthen its foothold in the high-margin export markets. Consequently, the company has gained an edge over other domestic players in the auto component space. ANG Auto's business model is diversified with ~45% revenues coming in from auto components, 20% from forged components and the remaining from the assembly division.

❑ Tie-up with Ashok Leyland for supply of trailers

ANG Auto has entered into a strategic tie-up with Ashok Leyland for the supply of trailers. The venture will be executed through ANG Autotech, in which ANG Auto holds a 75% stake. As per the agreement, ANG Autotech will supply trailers of Rs15bn over a period of five years. ANG Autotech will incur a capex of Rs610m for setting up a manufacturing unit with a capacity of 6,000 units per annum in two phases. In the first phase, the company will set up a capacity of 3,600 units, which would subsequently be increased to 6,000 units by July 2007. In the second phase, the company will supply specialty trailers to Ashok Leyland. The trailers will be manufactured in technical collaboration with FUWA Engineering of China, which holds a 10.5% stake in ANG Autotech. The company will spend Rs250m and Rs360m in phase one and two respectively. While ~40% of the capex would be funded through term debt, the remaining will be raised through equity and unsecured loans from the parent.

Shareholding pattern for ANG Autotech



Going forward, the strong economic and infrastructure growth would ensure sustained growth in multi-axle and tractor trailer truck segments. Moreover, Ashok Leyland is in the process of hiking its capacity from ~77,000 units p.a. to 100,000 units p.a., which bodes well for ANG Auto. Furthermore, the trailer market in India is quite fragmented with lack of standardization, which provides a unique opportunity to the company.

❑ Joint venture with Carl Stover

ANG Auto has entered into a 70:30 Joint Venture with Carl Stover, which will acquire a facility in West Virginia from Stover Industry. The running facility has in-house engineering, machining, fabrication and welding capacities. The JV will enhance ANG Auto's presence in the US and would enable it to cater to the existing as well as new customers with a low cost and a front end, local manufacturing base in the US.

❑ Increasing focus on the domestic market

In FY06, ANG Auto derived just 7% of its revenues from the domestic market. However, the company expects this proportion to increase to 25% in FY07. Furthermore, a new regulation (to be applicable from April 2007) that requires the replacement of manual slack adjusters by automatic slack adjusters for HCVs will provide a boost to the company's domestic revenues. ANG Auto's patented product in this space is likely to support its business position.

Real Estate

ANSAL HOUSING & CONSTRUCTION

OUTPERFORMER (RS248; MCAP: RS3.4BN / US$77M)

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Ansal Housing & Construction (AHCL) is one of India's premier companies and has been focused on real estate development for more than two decades. The company has been the pioneer to introduce the concept of large integrated townships in India. AHIL's ability to identify attractive development opportunities in cities unexplored by other large developers, integrated township offerings, timely project execution and a strong track record (67.6m sq. ft executed till date) differentiate it from other real estate developers. AHIL has lined up 56.1m sq. ft of development (80% in the residential segment) spread over 22 cities in the next five years.

Key financials

Year to March 31	FY05	FY06
Net Sales (Rs m)	858	1,297
Shares in issue (m)	13	15
Adj. EPS (Rs)	4.8	14.2
% growth	-	*196.9*
PER (x)	52.1	17.5
Price/Book (x)	5.8	3.8
EV/EBITDA (x)	21.8	11.7
RoE (%)	11.6	27.3
RoCE (%)	7.1	13.2
EV/CE (x)	1.6	1.4

❑ AHCL – a strong track record

AHCL, one of India's premier real estate developers, has more than 20 years of experience in the field. The company has to its credit 67.6m sq. ft of commercial and residential development across high-potential cities like Delhi, Noida, Bhopal, Agra, Ghaziabad, etc. In fact, AHCL has been the first to enter Tier-II cities like Rewari, Ghaziabad and Agra. AHCL also has operations in hospitality, estate management, and car sales and services segments through its subsidiaries and joint ventures (3% of FY07E net profit).

❑ Business model – focus on integrated townships

AHCL is among the pioneers of the township concept in India. AHCL's township projects include apartments, villas, row houses and luxury apartments with in-house amenities and associated infrastructure such as convenience shopping, retail malls, schools, hospitals, recreational facilities, etc. We believe integrated townships offer higher profitability to a real estate developer as the company can spread its product offerings over a 4-5 year period. For example, realizations from a mall / office space are much better if it is developed after the residential township in an area is well occupied/ sold. In a typical township, AHCL staggers development of products (plots, houses, malls, offices, etc) over a 4-5 year period.

❑ Exposure to Tier-II cities reduces demand and price volatility

AHCL is a real estate developer with extensive experience in project execution, mainly in Tier-II cities of North India. AHCL typically focuses on Tier-II cities where price appreciation is likely to be faster and real estate fundamentals are driven by buoyant economic activity. Project profitability in Tier-II cities is more stable compared to that in large cities as smaller towns not only offer lower price volatility but also lesser demand fluctuations. Real estate in most of these areas is dominated by local development authorities and is marked by the absence of large reputed developers. Though development in Tier-II cities remains AHCL's focus area, the company has also identified and profitably explored opportunistic development in Tier-I cities. Going forward too, AHCL would continue to scout for such opportunities.

❑ AHCL has lined up 56.1m sq. ft of development over five years

AHCL currently has 27 projects under execution at various stages of development. Besides, the company has also lined up eight new projects on which work is likely to commence soon. These projects would convert into a saleable area of 56.1m sq. ft and would absorb AHCL's entire land bank. Residential property development would continue to command a lion's share (estimated at 80%) of the development. Though AHCL has plans of reducing the share of plots in its overall residential mix (as it grows in size), the same is unlikely to come off sharply in the near term.

AHCL – break-up of development plans over FY07-12

Development details	m sq. ft
Plot sales	31.8
Villas	2.9
Apartments	9.9
Total residential	44.7
Commercial plot	8.3
Office/ Convenience shops	1.8
Mall/ Multiplexes	1.4
Total commercial	11.5
Total area under development	**56.1**

Source: Company presentation

❑ Huge land bank; acquired at an attractive cost

AHCL's ability to acquire land at cheap prices and strategic locations is one of its key strengths. ACHL has a huge land bank of 2,564 acres, which is well diversified across 22 cities. More importantly, AHCL's land bank is completely tied-up with a significant 45% of the total already owned by AHCL/ wholly owned subsidiaries (though payment would be staggered over the next 2-3 years) and the remaining under firm collaborator agreements. At a total estimated cost of Rs6.7bn for the owned land, we believe the average land cost of Rs6m per acre is quite attractive.

Construction

ASHOKA BUILDCON

UNLISTED

Ashoka Buildcon (ABL) is a leading toll road operator and construction contractor. The company is well equipped to capitalize on the booming infrastructure sector, and has superior project evaluation and execution skills. We like ABL's focused business approach towards owning BOT assets (11 BOT toll roads are already operational) and construction contracting. EBITDA from toll collection business forms 84% of the total EBITDA, and provides significant comfort on future cash flows. IDFC Private Equity has recently made an equity investment in ABL, and the company is planning to get listed on the bourses in the near future.

Key financials

Year to March 31 (Rs m)	FY06	FY07E	FY08E
Revenues			
EPC	1,160	2,700	3,500
BOT	950	1,118	1,320
RMC	170	600	400
Total	**2,280**	**4,253**	**5,085**
EBITDA			
EPC	120	250	320
BOT	800	950	1,150
RMC	14	37	37
Total	**934**	**1,170**	**1,495**
EBITDA margin (%)			
EPC	10	10	9
BOT	84	85	87
RMC	8	9	9

❑ Macro opportunity – high growth potential sector

Infrastructure spend is expected to witness a CAGR of 60% over the next three years to US $100bn. Major growth drivers include a discernible change in political will, increasing private sector participation and removal of regulatory hurdles. Experiences with past NHDP projects and an improved BOT model are attracting considerable private sector participation in the road sector, which is expected to form 61% of the total investment.

❑ Expertise in BOT road projects

ABL is among the most profitable BOT road operators and is one of the few to have 11 operational road BOTs in their portfolio. These roads spanning 1,764 lane kilometers contribute 84% of the company's total EBITDA. A focus on state roads has ensured that ABL's profitability is among the highest in the industry. The company has acquired significant project development skills like accurate traffic forecasting, superior project evaluation, project completion within cost and time, etc.

❑ Superior project evaluation skills

ABL has the advantage of being an early mover in the BOT segment, which gives it a key edge over peers. The company's strength lies in accurate traffic forecasts and superior project execution skills. Over the last decade, ABL has developed a 12-member team dedicated full time for conducting traffic studies and monitoring toll collections. ABL's network of roads in Madhya Pradesh and Maharashtra provide the company with deep insights into traffic patterns and helps it bid more competitively.

❑ Strong growth prospects

ABL has a strong order book of over Rs20bn, implying a book-to-bill ratio of 8x FY06 revenues, of which majority are in the roads sector. The company has two BOT road projects under construction that are expected to be operational in the next 12 months. In addition, ABL has recently won bids for three BOT projects to be commissioned, in phases, over the next three years. ABL has already identified projects that are likely to be up for bidding in the near future and is currently involved in performing feasibility studies, well in advance of the likely bid dates.

IT Services

AURIONPRO SOLUTIONS

UNRATED (RS267; MCAP: RS3.1BN / US$69M)

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Established in 1997 by first generation entrepreneurs, Aurionpro Solutions (Aurionpro) has presence in cash management products and risk management solutions for banks. Key banking clientele includes HDFC, Standard Chartered, UTI, Kotak, ICICI Bank, United Western Bank, DBS, etc. Aurion Pro has acquired two companies in USA (Corban Corp and SPS Corp) and one in Bahrain (Infobyte) to improve its geographical footprint. The company reported robust revenue growth of 59% yoy for FY06. At Rs309, the stock trades at 21x trailing 12-month earnings.

Key financials

Year to March 31	FY05	FY06	9MFY07
Net sales (Rs m)	105	231	705
Shares in issue (m)	8	11	11
Adj EPS (Rs)	3.6	5.6	12.4
% growth		*55.6*	
PER (x)	74.7	48.0	
Price / book (x)	19.1	6.8	
EV/EBITDA (x)	71.9	36.5	
RoE (%)		22.6	
RoCE (%)		23.0	

❑ Company background

Established in 1997 by first generation entrepreneurs, Aurion Pro provides cash management products and risk management solutions for banks. BFSI contributes 80% to revenues, while 20% of revenues come from logistics ERP – mainly ASP maintenance for BDP. The key management team (~11 members) is highly experienced (12+ years) in the banking technology space.

❑ Cash management product – cashPro

Aurion Pro's cash management product assists banks in carrying out operations like:

- **Collections** – Cheque, cash, trade bills, receivables management, retail collection, etc.
- **Payments** – Bulk DD, PO, Cheque writing, warrant handling, electronic bill payments, anywhere banking, Swift/ RTGS/ ECS/ EFT.
- **Outsourcing** – PDC collection and warehousing, capital market and FI collection and payments, channel financing, working capital management, etc. Meridian Research has estimates worldwide technology market to be US$3bn – Asia US$850m.

❑ Risk management solutions – riskPro

In this space, Aurion Pro intends to partner with proven risk management product companies and has tied up with SunGuard. The Tower group estimates a US $21bn global IT spend for risk management in 2005.

❑ Taking the inorganic route to improve geographical presence

Aurion Pro has acquired two companies in USA and one in Bahrain to establish its presence in these markets.

Acquisition snapshot

Company	Location	Announced	People	Comment
Corban Corp	USA	Aug-06	-	Corban provides web technologies and enterprise integration technologies, it has partnership with Vignett
SPS Corp	USA	Jul-06	93	Profit making co with revenue of $9.2m in FY06. Acquisition ($5.5m) funded through cash and stock (30%) mix. Stock to be given over 3 year
Infobyte	Bahrain	Q4FY06	35	Paid $1.5m for acquisition

Auto Components

BALKRISHNA INDUSTRIES

OUTPERFORMER (RS522; MCAP: RS10.1BN / US$228M)

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Balkrishna Industries (Balkrishna), the largest exporter of tyres from India, is set to catapult into the top league of global suppliers of off-highway tyres by leveraging its strong and cost competitive product development capabilities. Exports contribute 71% to Balkrishna's total revenues. The company has a high operating margin (19.2% in 9MFY07), as margins are higher in the OTR tyre segment. Going forward, we expect exports to register 35% CAGR over FY05-07, which would in turn drive a 28% CAGR in Balkrishna's earnings. Balkrishna has carved a niche for itself in off-the-road (OTR) tyres as diverse varieties and low volumes that characterize the segment act as an entry barrier for larger players. The segment is a low focus area for global majors as it forms a small part of their total revenues. In order to increase its presence in the segment, Balkrishna plans to set up a Rs1.3bn OTR radial plant. While Balkrishna plans to raise Rs700m for the capex through term lending, the remaining funds would come from internal accruals.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	3,652	4,880	6,358	8,427	10,663
Shares in issue (m)	18.6	18.6	19.3	19.3	20.1
Adj. EPS (Rs)	15.6	31.0	38.3	42.1	55.4
% growth	*8.9*	*98.1*	*23.7*	*10.0*	*31.6*
PER (x)	33.5	16.9	13.7	12.4	9.4
Price/Book (x)	8.9	6.1	3.5	3.0	2.0
EV/EBITDA (x)	33.4	16.9	13.6	12.4	9.4
RoE (%)	8.9	6.1	3.5	2.9	2.0
RoCE (%)	17.1	10.1	8.5	7.4	5.4

❑ Balkrishna Industries – a diversified player

Balkrishna Industries has presence in tyres, paper products and synthetic textiles, which contribute 75%, 20% and 5% of total revenues respectively. Balkrishna Tyres (BKT – the tyre division) exports 95% of its production to Europe, USA and Australia (~75% tyres exported under the BKT brand). In the domestic market, BKT's customers include almost all leading off-highway vehicle manufacturers.

❑ Core strengths – wide product profile and fast pace of new product development

BKT is one of the world's premier manufacturers of pneumatic tyres for OTR applications such as agricultural, industrial and construction earthmovers, all-terrain vehicles (ATVs), and lawn and garden vehicle applications. Currently, the company has a 2-3% share in the global OTR market. BKT has a 20-member product development team, which is among the largest in the world. BKT's product development team develops over 100 new products a year as compared to 20-25 new products by peers. This enables BKT to offer a much wider range of tyres at prices lower than those of competitors.

❑ Strong financial performance

Balkrishna's net sales witnessed a CAGR of 33% over FY02-06 with tyre exports increasing at a CAGR of 52% over the same period. In fact, the share of tyre exports in total revenues has gone up from 25% in FY01 to 75% in FY06. The company enjoys high margins (OPM of 19.2% in 9MFY07) owing to its highly profitable tyre business. EBIT margins in the tyre business have expanded from 11.1% in FY02 to 18.7% in 9MFY07 on the back of Balkrishna's superior pricing power, increasing share of exports in total revenues and lower cost structure. Average realizations have progressed at a CAGR of 7.5% over FY02 to 9MFY07.

❑ Capacity expansion plans

Balkrishna plans to incur a capex of Rs1.3bn, most of which will be spent for augmenting the OTR radial capacity. The company plans to fund Rs700m of the same through term lending and the remaining through internal accruals.

❑ Inventory build up of natural rubber and price hike to help sustain margins

In order to shield itself from rising input prices, especially that of natural rubber, Balkrishna has built up sufficient inventory of natural rubber (expected to last until May 2007). The company also plans to hike the prices of its products by 2-3% wef April 2007. These initiatives would enable Balkrishna to maintain operating margins at current levels.

❑ Strong competitive positioning

The OTR tyre segment is characterized by low volumes and diverse varieties. Therefore, larger players eschew this segment as the product varieties are too many and volumes are not high enough to justify management time and effort. BKT has developed a niche for itself in this segment through its superior R&D and new product development capabilities as also lower cost structure. In international markets, Balkrishna has an edge over other European manufacturers owing to its low cost structure, attributable mainly to the huge wage differential between the two continents.

Balkrishna plans to aggressively extend its presence to new markets like Eastern Europe, Latin/South America and Africa. In order to leverage on its lower cost structure and enhance its capacity utilization, Balkrishna has entered into an off-take arrangement with international tyre manufacturing companies like Michelin for supply of OTR tyres. BKT, however, plans to restrict the sales under this off-take arrangement to within 20% of the total, as it does not want to dilute its pricing power.

❑ Demerger of paper and synthetic textiles division

The paper and synthetic textiles division contribute almost 20% and 5% respectively to Balkrishna's revenues. The company plans to demerge these divisions into separate subsidiaries to increase the focus on these divisions. Currently, the capital employed in these two businesses stands at ~Rs.420m and ~Rs230m respectively. For the paper division, the company also plans to introduce a new product, i.e. paper box, which is likely to boost volumes as well as margins of the division.

❑ Valuations and view

We expect Balkrishna's net sales to register a CAGR of 29.5% over FY06-08 led by a 30.1% CAGR in exports over the same period. Furthermore, we estimate CAGR of 22.5% in net profit over FY06-08. At CMP, the stock trades at 9.4x FY08E earnings and 5.4x EV/EBITDA. Reiterate Outperformer.

Metals

BHUSHAN STEEL & STRIPS

UNRATED (RS397; MCAP: RS16.3BN / US$368M)

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With the distinction of being India's third largest secondary steel producer (after SAIL and Tata Steel), Bhushan Steel & Strips (BSSL) is a play on the rapidly growing consumerism in India. With leadership in manufacturing cold rolled and galvanized steel, the company is a leading supplier to passenger car and white goods industries, which are expected to witness robust growth. To further improve its cost competitiveness, BSSL is setting up an integrated steel plant of 2.2m tonnes capacity in Orissa (expected to be operational by March 2009) and a 110 MW capital power plant. For the expansion, BSSL has been allocated coal mines (reserves of 325m tonnes) and is in advanced stages of obtaining allotment of iron ore mines (224m tonnes) in Orissa. We believe that control on raw material sources on account of backward integration would lead to margin expansion for BSSL and propel its earnings into a higher growth trajectory. At CMP, the stock trades at 6.0x 9MFY07 annualised earnings.

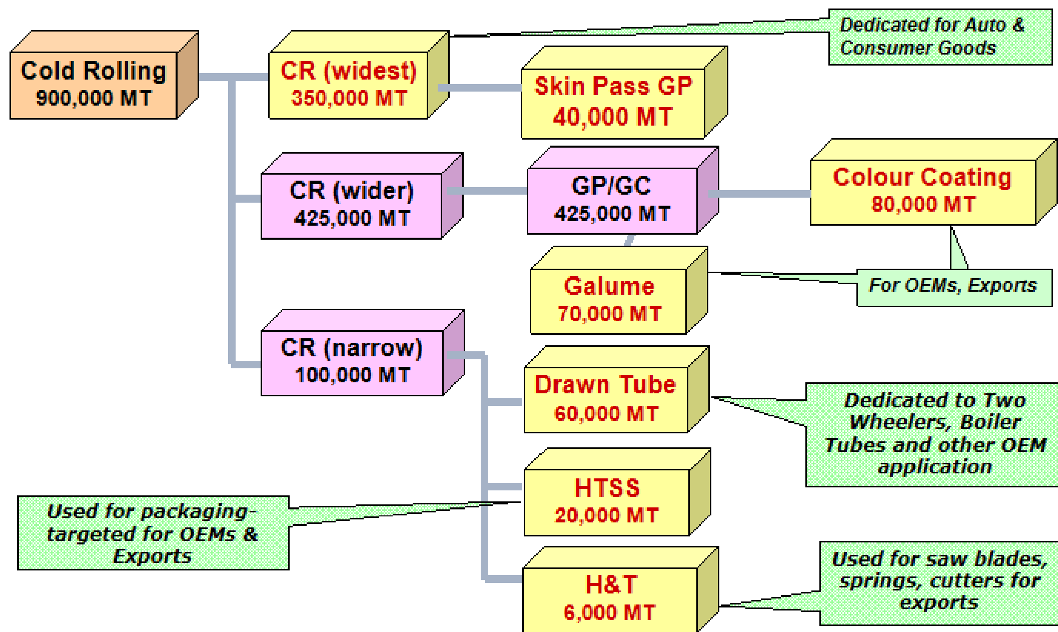
Key financials

Year to March 31	FY03	FY04	FY05	FY06
Net sales (Rs m)	10,977	15,526	26,363	27,162
Shares in issue (m)	40.5	40.5	40.5	41.3
Adj. EPS (Rs)	13.60	22.31	37.89	37.42
% growth	*21.1*	*64.1*	*69.8*	*(1.2)*
PER (x)	29.2	17.8	10.5	10.6
Price/Book (x)	3.2	2.7	2.2	1.8
EV/EBITDA (x)	22.2	14.5	9.8	11.6
RoE (%)	10.9	16.5	23.2	19.1
RoCE (%)	7.1	10.3	20.4	5.7
EV/CE (x)	2.8	2.4	1.7	1.2

❑ BSSL – leader in cold roll coils and galvanized steel

BSSL, which started its operations in 1989 with a capacity of 60,000 tpa, has come a long way to become the largest manufacturer of cold rolled coils and galvanized sheets in India. The company has the distinction of being the third largest secondary steel producer in the country with cold rolling capacity of 900,000 tpa located in Sahibabad, UP and Khapoli, Maharastra.

Product portfolio



Source: Company, SSKI Research

❑ Khapoli unit focused on the export markets

While the Sahibabad facility specializes in manufacturing special grades for the automobile and white goods industry, the Khapoli unit (located 70 km from Mumbai) services the export markets. The Sahibabad unit's capabilities to produce cold roll coils of widest width provide BSSL a competitive edge for supplies to auto and white good companies. The Khapoli unit has the distinction of being India's largest colour coating line and is also capable of manufacturing Galume (zinc and aluminium coated coils). The company has thus emerged as a leading supplier to auto and white goods majors in India.

❑ Core strengths – vision, proximity to clients and ports

BSSL's vision is demonstrated by the fact that it took the bold step of setting up a high-tech plant in 1996 to cater to the automobile sector, at a time when the Indian automobile industry was in its infancy. Today, the company is reaping the benefits of this foresight. An apt example is the fact the Maruti Udyog's most successful launch in the recent past "SWIFT" is made 100% using the steel supplied by BSSL. Also, the location of its UP facilities (close to Maruti and LG's manufacturing facilities is another key competitive edge for BSSL. Besides this, BSSL's Khapoli plant, which is only 70km from Mumbai and has proximity to the port, is well placed to service the export markets (in fact, 80% of the production in this plant is exported).

❑ A marquee client list

BSSL has emerged as a leading supplier to the auto and white goods industries (refer to exhibit below for a list of key clients). The company has also earned acceptance in the international markets and currently exports to USA, Canada, Africa, China and the Middle East.

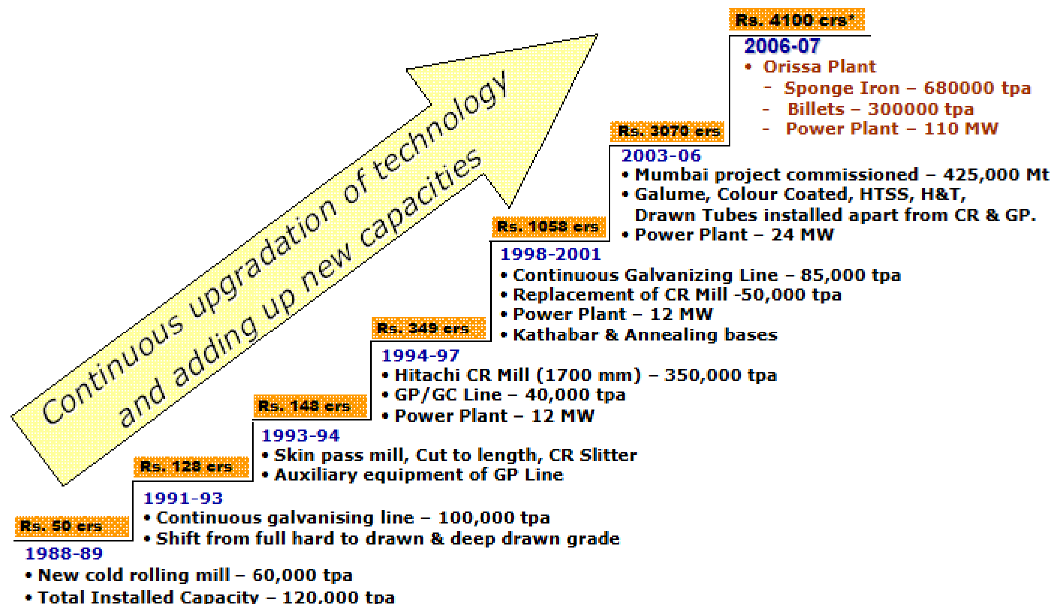
Key clients in the domestic market

Source: Company, SSKI Research

❑ Steady capacity expansion

BSSL has, over the years, consistently expanded its capacity and has added newer offerings to its product portfolio. Starting with cold rolling capabilities, the company has gradually expanded its product portfolio to value added products like galvanizing, wide cold roll coil for the auto industry, galume and colour coating capabilities. Further, BSSL's focus on the OEM market has enabled it to increase its revenue contribution from these clients from 43% in FY02 to 63% in FY06. Increase contribution from OEM translates to strong visibility in revenues and higher margins as the company is able charge a premium for high quality products.

Growth trajectory



Source: Company, SSKI Research

❑ Backward integration to provide a growth kicker

To improve its control on raw materials and capture the entire value chain, BSSL is setting up a 2.2m integrated steel plant in Orrisa. The company's plans also include setting up a 110 MW capital power plant. The process route will be DRI- BF- EAF and will have a caster, hot strip mill and billet caster. The project is expected to cost Rs51.5bn (US $1.1bn and is likely to be funded at a debt to equity ratio of 70:30 (Rs24bn has already been incurred).

Project implementation schedule

Products	Capacity (tpa)				
HR Coils	1,900,000				
Billets	300,000				
Facility	**Status**	**Product**	**Capacity**	**Product**	**Capacity**
2 Kilns and billets	Started	DRI	340,000	Billets	300,000
2 Kilns	Mar-07	DRI	340,000		
4 Kilns	Dec-08	DRI	170,000		
Blast Furance	Jun-08				
Conarc Furnace	Jun-08				
Slab caster	Jun-08	Slab	2,000,000		
Hot Strip Mill	Apr-09	HRC	1,900,000		

Source: Company, SSKI Research

For the expansion, BSSL has been allocated coal mines (reserves of 325m tonnes) and is in advanced stages of obtaining allotment of iron ore mines (224m tonnes) in Orissa. Once the backward integration is complete, BSSL will be among the select players in India integrated from iron ore to specialized value added steel.

❑ Valuations and view

BSSL has established its dominance in the value added products segment. Also, the backward integration programme would help BSSL significantly improve its EBITDA margins.

The management is confident of achieving revenue CAGR of 32.7% over FY05-07 with margins trending north. At Rs397, the stock trades at 6.0x 9mFY07 annualised earnings of ~Rs65.9per share.

Engineering

CARBORUNDUM UNIVERSAL

OUTPERFORMER (RS173; MCAP: RS16.1BN / US$365.1M)

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Carborundum Universal (CUMI), a market leader in abrasives and industrial ceramics with a product range of over 20,000 types of abrasives and ceramics, is best positioned to benefit from the high growth in user categories. Strong demand from a diverse user base lends stability to growth outlook of abrasives companies. CUMI's fully integrated operations, coupled with a timely expansion, place it in a position to capitalize on growth opportunities in the domestic as well as international markets. Reiterate Outperformer with a price target of Rs 216 (18x FY08E consolidated earnings).

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	3,776	3,978	4,907	6,556	8,600
Shares in issue (m)	47	47	93	93	93
Adj. EPS (Rs)	6.9	10.0	5.5	8.5	12.0
% growth	*72.4*	*45.3*	*(45.4)*	*56.2*	*40.5*
PER (x)	25.1	17.3	31.6	20.2	14.4
Price/Book (x)	4.0	3.4	5.6	4.3	3.3
EV/EBITDA (x)	11.9	10.6	16.6	12.0	8.3
RoE (%)	17.5	21.2	19.3	24.1	25.9
RoCE (%)	19.9	21.5	23.5	23.5	26.1
EV/CE (x)	3.0	2.7	4.1	2.8	2.3

❑ Robust demand across user segments

Demand for abrasives is on a high on the back of robust growth in user segments, especially auto and auto ancillary companies. The abrasives industry will get a further boost from massive investments planned in infrastructure and construction sectors. Industrial ceramics segment is also gaining traction with substantial investments flowing into power, steel and cement sectors.

❑ A perfectly timed capacity expansion

CUMI is set to benefit from its aggressive capex programme undertaken to capitalize on the available growth opportunities (high capacity utilization of 90% in FY06 in abrasives division). The new-coated abrasives facility at Sriperumbudur near Chennai has commenced commercial production in December 2006. A bonded abrasives facility at Uttaranchal is being set up at a cost of Rs 200m and is expected to be operational in Q1FY08.

❑ Robust earnings growth ahead; reiterate Outperformer

In view of the strong growth traction across divisions and a robust investment environment, we expect 48% CAGR in CUMI's earnings over FY06-08. CUMI's fully integrated operations, coupled with a timely expansion, place it in an enviable position to capitalize on growth opportunities in the domestic as well as international markets. Reiterate Outperformer with a price target of Rs 216 (18x FY08E consolidated earnings).

Financials

CENTURION BANK OF PUNJAB

OUTPERFORMER (RS35; MCAP: RS53BN / US$1.2BN)

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Centurion Bank of Punjab (CBoP) has charted a unique growth strategy comprising various organic and inorganic growth initiatives. The bank's strength in retail lending, coupled with alternate growth drivers such as SME and wealth management, would help it achieve rapid organic growth. Also, its size, strong management with experience of turning around weak banks and well capitalized balance sheet put CBoP in an advantageous position to pursue inorganic growth. We expect 39% CAGR in CBoP's earnings over FY06-08. Reiterate Outperformer.

Key Valuation Metrics

Year to March 31	2005*	2006	2007E	2008E	2009E
Net profit (Rs m)	(352.0)	878	1,266	2,108	3,061
yoy growth (%)	*N.A.*	*N.A.*	*44*	*66*	*45*
Shares in issue (m)	1,249.5	1,408	1,749	1,831	1,915
Weighted avg shares (M)	1,249.5	1,408	1,645	1,790	1,915
EPS (Rs)	(0.3)	0.6	0.72	1.15	1.60
EPS growth (%)	*(95.1)*	*151.6*	*16.1*	*59.0*	*38.9*
PE (x)	(128.3)	58.0	49.9	31.4	22.6
Book value (Rs/share)	5.2	6.6	8.3	9.2	10.5
Adjusted book value	4.8	6.8	8.3	9.3	11.0
Price /adjusted book	7.5	5.3	4.4	3.9	3.3
RoAE (%)	(9.9)	16.1	11.1	13.4	16.5

**Pro-forma merged for LKB*

❑ Multiple growth drivers

Multiple drivers in place for organic growth: CBoP has a number of growth drivers available to it in the form of retail and SME lending, while wealth management and remittances would help the bank generate strong fee based income. At present, productivity levels of CBoP's branch network are low compared to its peer group, thereby offering significant potential for improving the overall return ratios.

❑ Merger of Lord Krishna Bank into CBoP to create India's ninth largest private bank

Merger of Lord Krishna Bank (LKB) into CBoP will create an entity with a balance sheet size of ~Rs150bn. The merged entity will be the ninth largest private sector bank in India. While LKB's balance sheet size is ~20% that of CBoP's, it would add almost 50% to CBoP's existing branch network.

Key business figures for CBoP and LKB

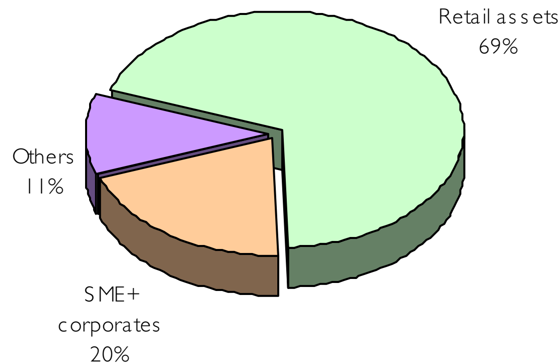
(Rs m)	Centurion Bank of Punjab As on Sep-06	Lord Krishna Bank As on Mar-06	CBoP + LKB
Total assets	138,685	25,993	164,678
Advances	83,847	14,209	98,056
Deposits	113,836	22,789	136,625
Branches (nos.)	249	112	361
ATM (nos.)	402	44	446

Source: Company, SSKI Research

❑ Strong competencies in retail and SME lending

CBoP has traditionally been quite strong in high yielding retail lending segments such as 2-wheelers and personal loans. In fact, as of September 2006, retail advances constituted almost 70% of CBoP's total loan book. On the other hand, Bank of Punjab (BoP) and LKB have been traditionally active in SME lending with healthy relationships in the states of Punjab and Kerala respectively. The merger of LKB and earlier BoP has provided the bank with another strong alternative growth engine in the form of SME lending.

CBoP – loan book composition



Source: Company

❑ Attractive valuations

CBoP has an excellent management, which has demonstrated its capability to capture the organic and inorganic growth opportunities. The bank's return ratios are likely to improve on the back of consistently high margins and improving productivity as well as asset quality. The stock currently trades at 4.4x FY07E and 3.9x FY08E adjusted book value. Reiterate Outperformer.

Alcoholic Beverages

CHAMPAGNE INDAGE

OUTPERFORMER (RS654; MCAP: RS79.4BN / US$176M)

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Champagne Indage (CIL), the pioneer and market leader in the Indian wine industry with a 70% share, is all set to lead the way for the domestic wine market. With a robust economy and structural changes in demographics, the Indian wine industry is estimated to witness 60% CAGR over 2006-10 and 25% CAGR over 2010-15 to Rs60bn by 2015. To capitalize on this huge opportunity, CIL has expanded its capacity by 250%+ from 3.5m litres in FY06 to 9m litres by FY06. Capacity would further grow to 36m litres by end-FY07 on the back of the acquisition of Vontelnella Tandou, a South Australian wine manufacturer. We believe CIL's leadership should enable it to clock higher-than-average growth (75% CAGR in revenues and 90% CAGR in earnings over FY06-09E).

Key financials

Year to March 31	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E
Net sales (Rs m)	212	235	363	688	1,413	2,658	3,731
Share in issue (m)	7	7	7	10	12	15	15
EPS (Rs)	3.2	4.4	8.4	10.6	16.2	34.7	56.8
growth (%)			*88*	*27*	*52*	*114*	*64*
PER (x)	209.0	149.7	79.6	62.6	41.1	19.2	11.2
EV/ EBITDA (x)	99.2	90.6	45.3	39.1	21.7	12.2	7.8
EV/ sales (x)	21.4	19.9	13.6	10.6	5.8	3.7	2.6
Book Value (Rs/ share)	40.3	42.8	43.7	82.9	119.8	194.6	246.3
Price/ BV (x)	16.5	15.5	15.2	8.0	5.6	3.4	2.7
RoCE (%)	8.9	9.6	15.7	16.9	18.6	24.0	28.6
RoE (%)	7.9	10.8	18.7	18.4	16.6	23.7	25.6

❑ A dominant market share

With over 70% of the market share, CIL is the largest and the only listed player in the Indian wine industry. The company is vertically integrated with over 6,000 acres of prime vine plantations – both owned by the group and on contract farming basis. CIL also has Asia's largest Oak maturation facility with a capacity of 350,000 litres. CIL's robust portfolio of 25 fully owned brands straddles the entire price spectrum (from Rs99/ bottle to Rs 2000+/ bottle) in the market place.

❑ Indian wine industry – on a high

With consistently high economic growth and favourable changes in the underlying demographics creating strong demand for inspirational products, wine industry is expected to log in a CAGR of 60%+ over the next four years and 24% CAGR up to FY15 (to a size of Rs20bn and Rs60bn respectively from Rs2.6bn currently). Rapid capacity expansion from 3.5m litres in FY06 to 15m litres by FY10 in a market growing at 60% would lead to a revenue CAGR of 75% and earnings CAGR of 90%+ for CIL over FY06-09E. Also, with an expected improvement in raw material availability that would ease supply constraints, CIL has put into place infrastructure to bottle 9,000 bottles per hour using the latest technology. Besides providing concentric diversification, the expanded capacity would enable CIL to retain its leadership status.

❑ Adopting the inorganic route for rapid growth

CIL recently acquired the seventh largest Australian wine manufacturer, Vontelnella Tandou, for USD10m. CIL currently has 9m litres of capacity at a market valuation of ~USD 150m; and though Vontelnella Tandou (100% acquired by CIL for USD 10m) is not a highly profitable organization, it has a capacity of 27m litres/ 3m cases per annum. Vontelnella Tandou has been acquired mainly for its capacity (3x the size of CIL available for 1/7th the price) and brands, and as a strategic investment to gain entry into the ever growing international wine market. CIL, through this acquisition, plans to export and create a market for its *Chantilli* brand in Australia as well as import and tap the niche market for foreign imported wine in India.

CIL has also recently acquired a 56% stake in the brands and business of Seabuckthorn Indage. This company markets the *Leh Berry* brand of fruit juices and other consumer products derived from Seabuckthorn, a wild fruit, which grows in the Himalayas and the Alps. The derivatives from this fruit (juices, OTC medicines, biscuits and cosmetics to name a few) are very beneficial from the health perspective, and CIL plans to tap the opportunity by leveraging its marketing expertise.

❑ Valuations and view

With exciting growth prospects in the organic and the inorganic market and at 12.2x FY08E EV/EBIDTA, valuations look attractive compared to peers in the alcoholic beverages sector.

Pharmaceuticals

CLARIS LIFESCIENCES UNLISTED

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Claris Lifesciences (Claris) is an unlisted pharmaceutical company focused on niche hospital products like sterile parenterals, anesthetics, etc. Claris's differentiated product portfolio is a key competitive advantage as it enables the company to operate in segments with relatively low competition and hence superior profitability. Claris is present in 76 countries globally and is poised to enter the regulated markets in a big way over the next few quarters. The company has been registering a CAGR of 44% over the last five years with consistent improvement in profitability. The growth momentum is expected to sustain, and even accelerate, with the imminent entry of the company in the regulated US and EU markets. Carlyle, a PE investor, has invested US $20m in Claris in CY06; the funds would be utilized to fund Claris's growth plans.

❑ Focused on the hospital segment

Claris has a sharp focus on servicing the hospital segment and its strategy involves building up a diverse portfolio of niche products to cater to the needs of the end users. Claris's key product segments include anesthesia, anti-infectives, PVE and blood products, nutrition, renal & transplant and infusion products. Claris is probably the only Indian company with such a diverse product portfolio catering to the hospital segment. This significantly enhances Claris's competitiveness and differentiates its business model from generic peers. Further, given that these products involve complex technology-based delivery systems like Liposome, Penems, steroids, etc, this segment has high entry barriers. Claris has leveraged its superior NDDS capabilities to products across these segments.

Claris has three manufacturing facilities which are USFDA compliant and three more facilities are under construction. Claris has already filed nine ANDAs in the US market and shortly expects a USFDA approval for its manufacturing facilities (already been approved by UKMHRA, TGA-Australia, ANVISA-Brazil, etc).

❑ A global footprint

Claris's growth strategy involves driving growth through multiple registrations of its products in countries across the globe (currently present in 66 countries). A key indicator of Claris's capabilities is its flagship product Profol which is sold in 47 countries and had sales of US $8m in CY06. Another competitive advantage for Claris is its strong global sales and distribution network spread across 76 countries with almost 400 sales people. Claris has also formed distribution partnerships with major players like Stada, Sandoz, Mayne, Paddock Labs, etc in various markets across the globe.

❑ Scorching growth track record and exciting future prospects

Claris has been growing rapidly (44% CAGR over the last five years) and recorded sales of Rs4,000 in CY06. Despite being in an aggressive investment phase, the company generated ~23% EBITDA margins in CY06 which is quite encouraging. Profitability growth, in particular, is set to accelerate with initiation of sales to the more profitable markets of US and EU in the coming years. Claris has been aggressively building a product pipeline in these markets which will start delivering in the coming quarters. Carlyle, a PE investor, has invested US $20m in Claris in CY06; the funds would be utilized to fund Claris's growth plans.

Engineering

ELECON ENGINEERING COMPANY

OUTPERFORMER (RS410; MCAP: RS12.7BN / US$284M)

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Elecon Engineering (Elecon) – with over five decades of experience and a diverse product portfolio of material handling equipment (MHE) and industrial gears – is benefiting from the huge capacity being created in core sectors. While the material handling equipment division (lying low due to a slack investment outlook) would be the future growth driver, leadership position in industrial gears would provide stability to earnings. With the core business on a fast track, Elecon is entering other high growth areas like manufacturing of wind mills and windmill gears along with fabrication of ships in collaboration with Pipavav Shipyards.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	1,584	2,777	4,425	6,907	9,514
Shares in issue (m)	28	28	29	31	31
Adj. EPS (Rs)	0.8	3.6	11.0	18.8	28.5
% growth	*29.9*	*343.9*	*210.5*	*70.7*	*51.5*
PER (x)	512.6	115.5	37.2	21.8	14.4
Price/Book (x)	20.3	17.0	11.7	8.1	5.2
EV/EBITDA (x)	109.9	39.0	22.5	14.6	10.1
RoE (%)	4.2	16.0	37.3	45.2	43.9
RoCE (%)	2.8	16.0	20.9	24.8	27.8
EV/CE (x)	9.6	7.3	4.3	3.5	2.7

❑ Core business – on an autopilot

Elecon, with its presence in industrial gears and material handling equipment segments, is best placed to benefit from the ongoing robust industrial activity and massive core sector investment. With aggressive investments lined up by NTPC towards capacity addition over the next few years, the material handling space will be witnessing a lot of action. Industrial gears that find usage across industries will also witness strong growth, in line with the improving industrial activity.

❑ Operating margins – touching new highs

Elecon's operating margins on the back of improving scale benefits in the material handling division, coupled with stable raw material prices, have jumped to 16.2% for 9MFY07 vis-à-vis 12.9% for the corresponding previous period.

❑ Order backlog of Rs6.76bn as of end-December 2006

Elecon's order backlog has remained almost flat (Rs6.76bn as of end-December compared to Rs6.78bn as on 31 October 2006). Elecon continues to receive major orders for material handling equipment with an order backlog of Rs5.05bn with the remaining coming from the industrial gears division. Given its dominant position in the power sector, rising investments make Elecon a play on the massive opportunity in the space.

❑ New ventures to accelerate the pace of growth

Elecon is entering other high growth areas like manufacturing wind mills and windmill gears as also fabrication of ships in collaboration with Pipavav Shipyards to reduce cyclicality of revenues in the existing business. The company will invest Rs800m each on ship building blocks and windmill gear boxes over the next one year and ~Rs150m for manufacturing wind mills. As for technology transfer for gear boxes, Elecon is in discussion with two European companies. With regards fabrication of ship blocks, Elecon will fabricate the blocks while the assembly will be done at the Pipavav port. The company expects to fabricate ~60,000 tonnes in the first full year of operations, i.e. FY09. Elecon is exploring various options to fund the capital expenditure programme.

❑ Reiterate Outperformer

Strong growth traction across divisions and a robust investment environment have led to growth in order enquiries inflow. This, we believe, would propel revenue growth going forward. With strong order book on the back of robust capex flowing across different sectors and softening raw material costs, we expect 67% CAGR in Elecon's fully diluted earnings over FY06-08. Reiterate Outperformer with a 12-month price target of Rs509 (18x FY08E earnings).

Power Equipment

EMCO

OUTPERFORMER (RS852; MCAP: RS7.7BN / US$174.3M)

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The APDRP, rural electrification programme and large generation capacity addition are driving huge investments in power systems. We believe EMCO – a globally competitive producer of transformers – would be a key beneficiary of the investments owing to its presence across the entire transformer range. We expect EMCO's order backlog of Rs10bn to drive a 30% CAGR in its earnings over FY06-08. Moreover, EMCO's volatility of cash flows would reduce considerably post the commissioning of its 135MW thermal power plant in FY09. At a steep discount to peer valuations, we believe EMCO's valuations are extremely attractive in view of the strong earnings momentum. Reiterate Outperformer.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	1,536.0	2,359.5	4,053.7	6,313.1	8,899.7
Shares in issue (m)	6.1	6.1	7.9	10.2	10.5
Adj. EPS (Rs)	6.8	16.1	34.5	46.0	58.3
% growth	*56.7*	*138.8*	*113.9*	*33.4*	*26.5*
PER (x)	126.4	53.0	24.8	18.6	14.7
Price/Book (x)	7.5	7.1	4.8	2.6	2.4
EV/EBITDA (x)	26.8	20.1	14.9	10.2	7.7
RoE (%)	5.7	13.5	18.5	19.3	18.1
RoCE (%)	10.5	14.4	20.8	23.0	22.5
EV/CE (x)	3.7	3.1	3.1	2.0	1.7

❑ EMCO – a key beneficiary of investments in the power sector

The APDRP, rural electrification programme and huge generation capacity addition have boosted investments in transmission and distribution (T&D) segment of the power sector. This is, in turn, driving strong order flows for producers of power systems. EMCO, a globally competitive producer offering the entire range of transformers, is a key beneficiary of the strong order flow (current order backlog of Rs10bn).

❑ EMCO setting up a 135MW thermal power plant

EMCO, to reduce volatility in its cash flows, is setting up a 135MW thermal power plant in Maharashtra. The plant is estimated to cost Rs6.2bn and would be completed by December 2008. EMCO has tied up the entire debt as also fuel linkage, land and water for the power plant.

❑ Valuations attractive – reiterate Outperformer

EMCO has an order backlog of Rs10bn as on date, which is likely to drive 30% earnings CAGR for the company over FY06-08. The stock trades at 14.7x FY08E earnings and 7.7x EV/EBITDA after factoring in equity dilution for funding the power plant. Based on DCF valuations, we have valued the power plant at Rs13/share of EMCO. Given the strong revenue visibility, earnings momentum and a steep 40% valuation discount to peers, we find EMCO undervalued. Maintain Outperformer on the stock with a price target of Rs1084.

Media

ENTERTAINMENT NETWORK (INDIA)

NEUTRAL (RS325; MCAP: RS15.5BN / US$350.1M)

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Entertainment Network (India) (ENIL), a Times Group entity, is emerging into a city-centric media model with a leadership position in the FM Radio space and presence in outdoor advertising and live entertainment. ENIL, with strong brand equity of Radio Mirchi, licenses for 32 stations and presence in all the 13 metro and A+ cities, is well placed to capture the Rs13bn FM radio opportunity created by Phase II licensing. ENIL is also rapidly ramping up its Out-of-Home advertising business (Times OOH) and has managed to bag rights for key sites including the Delhi Airport. While we like ENIL's competitive positioning in each of the business segments, we continue to have reservation over valuations in view of the limited opportunity scale (bets case profitability of Rs1.5bn for the radio industry in FY10). Maintain Neutral.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	556	749	1,374	2,383	3,501
Shares in issue (m)	117	117	48	48	48
Adj. EPS (Rs)	(2.5)	(1.5)	4.5	6.8	11.6
% growth		*(38.9)*	*(390.7)*	*53.1*	*70.5*
PER (x)	n/a	n/a	73.0	47.7	28.0
Price/Book (x)	73.7	112.9	6.0	5.4	4.6
EV/EBITDA (x)	(155.5)	(280.2)	41.9	28.9	18.3
RoE (%)	(113.7)	(42.0)	14.6	12.0	17.9
RoCE (%)	(118.0)	(44.3)	15.5	11.2	16.7
EV/CE (x)	73.5	112.8	5.4	4.9	4.3

❑ ENIL – an emerging city-centric model

Taking a cue from American radio operators like Clear Channel Communications (USA's largest radio operator), Infinity Radio, Chancellor Media, etc. and realizing high synergy, ENIL is becoming a city-centric model with operations in radio, outdoor advertising and live entertainment. Today, the top four outdoor companies – Outdoor Systems, Eller Media, Lamar Advertising/Chancellor Outdoor and TDI – are either owned by or have alliances with radio companies and command 53% of the total outdoor revenues. ENIL has developed brands like Radio Mirchi, Times OOH and 360 degree experience for the FM radio, outdoor advertising and live entertainment businesses respectively.

ENIL – a city-centric model

	Radio	Out of Home advertising	Live Entertainment
Brand name	Radio Mirchi	Times OOH	360 degree experience
Business	Market leader with 10 channels, extending to 32 stations	Marketing Contract for BQS in Mumbai, hoardings on Delhi Metro Route, DND Flyover, Kolkatta Metro	Event management, brand and sales promotions and exhibitions for leading brands in India
Revenues	Rs1.2bn	Rs17m	Rs183m

❑ Radio opportunity estimated to be Rs13bn by 2010

FM radio space, plagued by faulty licensing policy of the government till recently, has become one of the most sought after business spaces. Having moved to the revenue sharing licensing model, Indian FM radio space has attracted huge participation and will see 266 stations operational across 87 cities by 2010. This, we believe, would drive a 34% CAGR in the space to Rs13bn by the year.

❑ ENIL – best placed to capitalize on the opportunity

Having survived the turbulent times, ENIL has built strong brand equity for *Radio Mirchi* and dominates the key advertising markets of Mumbai and Delhi. ENIL is the best placed player among the 43 players vying for the radio opportunity (Rs13bn by 2010E). ENIL has acquired license for 32 cities and is also the only player to have acquired licenses in the top 13 cities, the key advertising markets. Confident of *Radio Mirchi*'s ability to leverage its brand, strong marketing ability, capable management team and ability to leverage Times Group's pan media presence, we expect ENIL to sustain its leadership position in the radio business. We see ENIL's radio business growing to Rs3.5bn by FY10 (Rs1.2bn in FY06). While we like ENIL's competitive positioning, we have our reservations over the scale of opportunity as we expect best case profits of Rs1.4bn for the whole industry in 2010.

❑ Times OOH – ramping up

OOH advertising business is considered to be the most synergistic business to radio. ENIL has presence in the space through its brand '*Times OOH*'. *Times OOH* is ramping up rapidly with ENIL having bagged rights for six attractive outdoor advertising properties – Patel Bridge, Bus Queue Shelter, Kolkatta Metro, DND Flyover and Delhi Metro Rail. ENIL has also recently acquired 3-year rights for 150 sites at Delhi international as well as domestic airports. OOH business is gaining relevance and is attracting more and more corporate participation (Future Group, Jagran Prakashan, JC Decaux, etc).

❑ Valuations and view- Maintain Neutral

While we are excited about ENIL's business model and its emergence as a city centric model, our key reservation pertains to scale of opportunity in the radio business. We believe that a best-case profit that the whole radio industry can make is Rs1.5bn (for 43 players). Given the limited scale, we maintain Neutral call on ENIL.

IT Services/ Commodity Exchange

FINANCIAL TECHNOLOGIES (INDIA)

UNRATED (RS2094; MCAP: RS91.3BN / US$2BN)

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Incorporated in 1995 by young entrepreneurs to operate in the product technology space catering to the financial services sector, Financial Technologies (FTIL) is today a front-runner in driving the commodity exchange opportunity in India as also in pioneering India's first FX trading platform (IBS Forex). FTIL is the only company having presence across multiple exchanges - Multi Commodity Exchange (MCX), Dubai Gold and Commodity Exchange (DGCX), Safal National Exchange (SNX) National Spot Exchange for Agri Produce (NSEAP), IBS Forex, and National Bulk Handling Corporation (NBHC). Given the fact that commodity exchanges in India are at the cusp of explosive growth as also the management's ability to identify newer growth avenues, we see merit in FTIL's business model.

Key financials

Year to March 31	FY03	FY04	FY05	FY06
Net sales (m)	140	250	300	900
Share in issue (m)	37	41	44	44
Adj. EPS (Rs)	0.7	3.1	2.2	9.8
% growth		*340.0*	*(28.6)*	*343.2*
PER (x)	3,070.1	697.7	976.8	220.4
Price/Book (x)	1.7	5.5	8.4	62.6
EV/EBITDA (x)	27.8	21.7	80.3	119.9
RoE (%)	9.4	32.5	10.2	32.2
RoCE (%)	1.7	33.1	13.8	42.5
EV/CE (x)	326.5	134.1	54.4	49.7

❑ Technology products – growing transaction and widening participants

Revenues in technology products business are driven by scaling up of the financial services sector (equity, commodities, forex, derivatives, etc) through increasing number of transactions and as also market participants (increasing retail participation). FTIL is a focused play and a leading technology product player in the financial and transaction driven industry. The company offers products like ODIN, Inet.net, iWin, FXDirect, etc registered under IPR covering all the stages of trading – pre-trade, trade and post-trade. FTIL has a strong client base including ICICIdirect.com, sharekhan.com, kotak.com, MCX, Birla Sunlife Securities and SBI Capital Markets among others. FTIL has also taken other initiatives like ATOM technologies, Tickerplant Infovending and Risk Consulting, which will be operational from the next fiscal.

❑ Multi Commodity Exchange – at a cusp of explosive growth

Given the fact that Indian commodity derivatives market is just 5x the spot market vis-à-vis 60-70x globally, we believe commodity exchanges are the next big thing. FTIL is a frontrunner in the commodities exchange space in India and has successfully incubated an independent, demutualised national Multi Commodity Exchange (MCX). MCX is the largest commodity exchange in India with 72 commodities being live traded on the exchange including bullion, energy, agri-commodities and plastics. The exchange conducts an average daily turnover of USD 1.6bn in the quarter ended December 2006. MCX has a number of international strategic alliances with reputed exchanges like the Tokyo Commodities Exchange, Baltic Exchange, DMCC, LME, Chicago Climate Exchange, New York Board of Trade, etc. Besides being the first exchange in the Indian sub-continent to offer crude oil for futures trading, it is also the only one to have its operations in 400+ cities with over 1,550 members and 7,000 TWS. We believe that commodity exchanges are a cusp of explosive growth and MCX is best placed.

❑ Other commodity exchanges and related businesses

Dubai Gold and Commodities Exchange (DGCX): DGCX is a joint venture between FTIL, MCX and Dubai Metal and Commodity Center. DGCX, which began operations in November 2005, currently trades in bullion, currency, and fuel futures and will be soon start trading in steel, freight rates, cotton and other commodities. We also like the strategic locations of DGCX and is the only international exchange in a Free Trade Zone with a 50-year tax holiday.

National Spot Exchange for Agri Produce (NSEAP): FTIL, in association with MCX and NAFED, has set up NSEAP, a national level electronic spot market for agri produce. Model APMC Act is an enabler for this national level electronic spot market and with 7,325 APMCs trading in 140 crop varieties, it is the perfect national level electronic spot market to complement the online futures market. While ITC's e-choupal offers a similar platform through e-choupal, it does not offer electronic trading facility. As large corporate houses have turned their focus on the agri space, and owing to increasing logistics facilities and government priority, we see a dramatic shift in the way agri business is done in India.

National Bulk Handling Corporation: With a view to support supply chain and provide single window access to information, finance, trade, logistics, FTIL formed National Bulk Handling Corporation to provide solutions in the area of warehousing grading, quality certification and price risk management. NBHC offers international quality systems for receival, storage out loading services for agri-commodities for product classification and weighment certification services at designated locations which encourages Indian farmer to achieve more competitive and fair price realisation for the fruits of their hard labour in growing produce.

Besides, FTIL has also presence on other commodity exchanges like Safal National Exchange (a JV with NDDB to set up spot exchange for fruits and vegetables) and is also invited by Global Board of Trade, Mauritius to set up commodity exchange in Mauritius.

❑ IBS Forex

IBS forex service is an end-to-end STP platform for inter-bank FX trading and matching, using India's first foreign exchange trading platform- 'FXDirect' from FTIL. The 'FXDirect' platform enables STP platform environment to deliver liquidity, efficiency, and deep functionality in foreign exchange dealing and matching services allowing both real time matching and negotiated dealing in foreign exchange. IBS Forex Exchange has deeply penetrated Indian banking system.

Construction

GAMMON INDIA

OUTPERFORMER (RS390; MCAP: RS33.8BN / US$764M)

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Gammon India (Gammon), with its diversified capabilities across segments of the infrastructure sector, will be one of the key beneficiaries of the boom in infrastructure spending. Gammon's strong and well-diversified order backlog of Rs77bn (as of December 2006) would drive a 31% earnings CAGR for the company over FY06-08. Gammon's infrastructure development business, through its subsidiary Gammon Infrastructure Projects (GIPL), is worth Rs130 per share based on DCF valuation of project cash flows. The fundamentals of the business remain strong with a huge order pipeline of both construction and BOT projects. We remain bullish and retain Outperformer rating on the stock.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	11,230	8,772	14,851	18,087	24,915
Shares in issue (m)	62	76	87	87	87
Adj. EPS (Rs)	6	10	10	13	18
% growth	*68.8*	*58.5*	*3.8*	*22.5*	*41.9*
PER (x)	41.2	26.0	25.0	20.4	14.4
Price/Book (x)	10.5	5.1	2.4	2.3	2.0
EV/EBITDA (x)	16.0	16.4	13.1	11.2	8.8
RoE (%)	27.9	26.6	13.6	11.9	15.0
RoCE (%)	23.5	19.8	14.8	13.7	17.3
EV/CE (x)	4.3	3.2	2.0	2.0	1.8

❑ Gammon has versatile capabilities

Gammon has capabilities to execute projects in all the sub segments of the construction business. The capabilities have been amply demonstrated over the past 80 years, where Gammon has executed projects in almost all the segments of the construction business including roads, bridges, flyovers, tunnels, hydel power, port terminals, pipelines, etc. Moreover, Gammon has been an early entrant in the infrastructure development business through its subsidiary GIPL and has already built a well-diversified portfolio of projects across roads, ports, power plants, etc.

❑ Strong order book to drive 31% earnings CAGR over FY06-08

Gammon has a well-diversified order book of Rs77bn (as of December 2006) with projects across the entire gamut of infrastructure segments. The diversity protects Gammon from over-exposure to any one segment, thereby ensuring stability in margins. Moreover, majority of the orders are from the Central government or Central government companies, which ensures a better working capital cycle. We believe the strong order book, accelerated project execution and stable margins would drive a CAGR of 31% in Gammon's earnings over FY06-08E.

❑ Attractive valuations – reiterate Outperformer

Gammon has built a portfolio of projects in the infrastructure development business through GIPL, which we have valued at Rs11.3bn (Rs130 per share for Gammon's 82.5% stake) based on NPV of the individual project cash flows. Net of Rs130/share BOT value, Gammon trades at 14.4x its FY08E earnings. Gammon's business remains strong in terms of a huge order pipeline of both construction and BOT projects with high earnings growth for the next two years. We maintain our Outperformer rating on the stock.

IT Services

GEODESIC INFORMATION SYSTEMS

OUTPERFORMER (RS265; MCAP: RS15.9BN / US$359M)

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Geodesic Information Systems (Geodesic) has grown 100%+ yoy over the last two years on the back of innovative products under the 'Mundu' platform. Geodesic has recently acquired Clangula IT, Picopeta Simputers and Engage Solutions to expand the application base of the Mundu messenger platform. The recently launched Mundu Radio (free version) has received a good response. The company has tied up with BenQ to distribute Mundu (IM+Radio) for multiple BenQ smartphone models, scheduled for release in 2007. In addition, Geodesic is expected to commercially launch VoIP on mobile. At 14x FY08E earnings, we reiterate Outperformer on the stock.

Key financials

Year to March 31	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	402	967	1,736	2,756
Shares in issue (m)	51	58	60	60
Adj. EPS (Rs)	3.6	7.0	13.6	18.5
% growth	*135.5*	*94.0*	*93.6*	*36.1*
PER (x)	73.9	38.1	19.7	14.5
Price/Book (x)	24.1	7.6	5.7	4.1
EV/EBITDA (x)	55.3	29.1	15.8	10.0
RoE (%)	40.6	31.3	33.6	33.0
RoCE (%)	38.5	29.2	31.4	34.1
EV/CE (x)	22.3	7.4	5.6	3.9

Source: SSKI Research

❑ Expanding application for Mundu platform

Geodesic's flagship product, Mundu messenger, is witnessing strong demand. In the previous quarter, the company won clients like Daiwa Securities, SCMB Securities, Gotherberg-Posten, Ozu, etc. Geodesic has recently added two new messenger applications, IM referral and IM toolbar, to its Mundu portfolio.

The recently launched Mundu Radio (free version) has received a good response. The company is contemplating a global marketing campaign to promote the retail launch of Mundu ICE stack, which includes VoIP on mobile, during Q4FY07. Geodesic has also announced a tie-up with BenQ to distribute Mundu (IM+Radio) for multiple BenQ smartphone models, scheduled for release in 2007.

Picopeta (a recently acquired company) has developed "Olai", a computing machine targeted at students, the commercial launch of which is expected during 2HCY07.

❑ Strengthening the management team

Geodesic is strengthening its top management team by adding senior level people having experience in telecom companies and technology marketing.

❑ Strong growth outlook

We expect 69% revenue CAGR and 62% earnings CAGR for Geodesic over FY06-08 on the back of growth led by the messaging business. New VoIP product performance is yet to play out. At 14x FY08E earnings, reiterate Outperformer.

Diversified

GHCL

OUTPERFORMER (RS169; MCAP: RS16.3BN / US$367M)

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GHCL (formerly Gujarat Heavy Chemicals) was jointly promoted in 1987 by GIIC and the Dalmias through their companies GTC Industries and Dalmia Dairy Corporation respectively. Historically a soda ash manufacturer, the company forayed into the textiles business in 1998 with the acquisition of sick textiles units in South India. Post the acquisition of Dan River – a leading product development and logistics player in the US, and Rosebys – the largest home textile retailer in the UK, GHCL has become a fully integrated player in the textiles business. For growing its soda ash business, GHCL is expanding its presence to new geographies. The stock trades at 22.1x FY06 earnings.

Key financials

Year to December 31	FY03	FY04	FY05	FY06*
Net Sales (Rs m)	5,226	5,594	6,353	5,878
Shares in issue (m)	95.0	95.0	95.0	95.0
Adj. EPS (Rs)	4.90	2.38	2.81	7.61
% growth	*-*	*(51.5)*	*18.1*	*171.2*
PER (x)	34.3	70.7	59.8	22.1
Price/Book (x)	7.3	7.2	7.0	5.8
EV/EBITDA (x)	22.2	29.2	22.2	15.8
RoE (%)	21.3	10.3	11.9	28.7
RoCE (%)	19.7	10.6	14.2	15.2
EV/CE (x)	6.4	5.7	4.9	2.3

** 9 months only, year-end changed to December. FY03, FY04 & FY05 end in March*

❑ Soda ash business – a source of steady cash flows

GHCL has a capacity of 600,000 tpa at Veraval, Gujarat. This constitutes 22% of the Indian soda ash market. Dense soda ash, which constitutes 30% of the business, is predominantly used by infrastructure, automobile and FMCG sectors. Light soda ash, which contributes 70% to the business, is used in the detergent and chemical industry. In the last five years, prices of soda ash have increased by 33% despite reduction of import duty from 35% to 12.5%. GHCL is the lowest cost producer of soda ash in India on the back of 100% captive raw material.

❑ A two-pronged strategy for future growth

GHCL is expanding its domestic soda ash capacity to 1.1m tpa by FY10. The capacity of 600,000 tpa at Verval has been increased to 850,000 tpa. The increased capacity consists mainly of dense soda ash and is operational since January 2007. GHCL also has a foothold in Eastern Europe through an acquisition in Romania having a capacity of 300,000 tpa. The Romanian capacity has been acquired at US $150 per tonne compared to US $ 570 per tonne required for a greenfield investment in the region. GHCL's technical team is in the process of restructuring the company's operations. GHCL is also evaluating options to establish its presence in other key geographies like USA and Europe.

GHCL's soda ash plans

Markets	Size 2006 (m t)	Growth 2010 (m t)	GHCL's plans
China	13.2	17	Actively Evaluating proposals
India	2.3	3	Existing capacity 0.6 MTPA being expanded to 1.1 MTPA - will be largest in India
USA	11.3	13	Being approached for strategic partnerships
Europe	12.6	14	Have acquired facilities in Romania of 0.3 MTPA Being approached for other strategic acquisitions
Other countries	2.9	3	
Total	**43**	**50**	

Source: Company

❑ Home textiles business – the new growth engine

GHCL is a fully integrated player in the global home textiles market. With operations spanning across the globe, GHCL manufactures yarn and has an 85,000 spindles per annum capacity at Madurai. This capacity is in an advanced stage of expansion to 140,000 spindles. GHCL has also set up a state-of-the-art home textile manufacturing capacity of 36m meters at a cost of Rs2,300m. The plant commenced operations in July 2006 and is currently running at a capacity utilization of 60%. The plant is expected to hit a monthly capacity utilization of 80% by March 2007.

GHCL also owns the largest home textiles retail chain, Rosebys, in the UK with over 300 stores. Rosebys was acquired on 31 July 2006 and the management is in the process of EBITDA improvement and increasing outsourcing from Asia.

GHCL also acquired the third largest home textiles player – Dan River Inc – with more than 50 years of presence in the US. The company owns and operates a warehousing network and has in-house designing capability with an over 200 strong multi-sourcing team in place. GHCL owns a few brands in the home textiles segment and also supplies to prominent household retail chains such as *JC Penny, K-mart, Wal Mart, Bed Bath & Beyond and Kohls.* GHCL has recently signed up with SONY Pictures for its promotion of its brands. Dan River is in the process of acquiring top of the line companies in related business in the US such as HW Baker.

❑ Valuations and view

GHCL has established its dominance in the soda ash business. Restructuring of the Romanian operations will help GHCL improve its operating margins significantly. The company also plans to leverage on its integrated capabilities to grow swiftly in the textiles business.

The management hopes to achieve revenues of US $2bn in the next three years (US $675m in FY07E). At Rs397, the stock trades at 22.1x FY06E earnings of ~Rs7.6 per share.

Pharamaceuticals

GLENMARK PHARMACEUTICALS

UNRATED (RS628; MCAP: RS75.1BN / US$1.7BN)

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Glenmark Pharmaceuticals (Glenmark) is one of the most exciting mid-sized pharma companies in India with a long-term plan to transform into a specialty company through research focus. In our view, Glenmark is probably the best company to play the discovery R&D opportunity in the Indian pharma space. The company has successfully out-licensed two of its molecules to global pharma companies and is aiming to out-license another 3-4 molecules by 2010 including one more deal over the next few quarters. These deals clearly underline the effectiveness of Glenmark's discovery R&D capabilities. Over the medium term, Glenmark's discovery R&D efforts are well supported by a consistently strengthening generics business across geographies.

Key financials

Year to March 31	FY02	FY03	FY04	FY05	FY06
Net sales (Rs m)	2,609	3,376	3,498	5,694	7,020
Shares in issue (m)	51	51	59	119	119
Adj. EPS (Rs)	4.6	6.4	7.0	9.0	7.4
% growth		*39.3*	*9.1*	*29.4*	*(18.0)*
PER (x)	137	98	90	69	85
Price/Book (x)	5.3	4.5	16.6	24.1	20.0
EV/EBITDA (x)	161.2	139.0	161.5	62.3	62.4
RoE (%)	18.3	24.6	22.3	25.5	23.3
RoCE (%)	21.5	22.8	20.1	19.3	11.6

❑ Trail blazer in discovery R&D arena in the Indian pharma industry

Till date, Glenmark has been probably the most successful Indian pharma company in the area of discovery R&D. Within five years of its inception, Glenmark has been successfully able to outlicense two molecules – GRC 3886 (PDE 4 inhibitor) and GRC 8200 (DPP-IV Inhibitor) –to global pharma companies like Forest Labs and E-Merck. As part of these deals, Glenmark can generate potential milestone revenues of US $483m in addition to mid-teen royalties upon commercialization. Glenmark targets to put one NCE in clinics every year and will have six NCEs in clinics by FY08. The management is confident of outlicensing one more molecule (GRC 6211) over the next two quarters. Glenmark's medium-term discovery R&D strategy involves proactively outlicensing molecules during the early clinical development phase to generate resources with in-house Phase II and III trials on promising NCEs only in the next growth phase. Successful commercialization of even one of its out-licensed molecules will enable Glenmark to transition to the next phase of its R&D strategy. Glenmark has also initiated an R&D programme to develop biological NCEs.

❑ US generics – another big medium-term growth driver

Glenmark has built a strong generics sales front-end in USA, which has started to deliver. The company has adopted an aggressive strategy to build its US portfolio through both organic and inorganic routes. Glenmark is targeting niche segments like controlled substances, pain and dermatology, etc to strengthen its US business. Further, Glenmark has opted for partnering with players like Shasun and Invagen for expanding its ANDA pipeline. Glenmark has filed 38 ANDAs with 12 product launches. The business is highly profitable with EBITDA margins in excess of 30% for Q3FY07 and is set for strong very growth over the next few years as the pipeline unfolds.

❑ Lat-Am and India formulations and APIs – the other key growth drivers

Along with US generics, other key components of Glenmark's core business are also doing quite well. Glenmark has invested heavily in building a strong presence in Latin America. These investments have started to pay off with the business growing at 80-85% in FY07. The India business continues to grow strongly for Glenmark and the company is targeting 15% growth in the coming period. The API segment is projected to grow at 30% in the current year and helps improve Glenmark's cost competitiveness by strengthening its vertical integration for key formulations. Glenmark is also targeting to aggressively grow the RoW formulations as well as create a strong branded formulations presence in Central and Eastern Europe.

❑ Growth guidance

Glenmark has guided to 42% revenue CAGR over FY06-08 with a 91% CAGR in profits resulting in US $55m of core business profits in FY08. Further, the company expects $69m of milestone revenues in FY08 on the back of milestone incomes for GRC 3886 and GRC 8200. Revenues from outlicensing of any other molecule, including GRC 8211, will be an upside.

Financials

GLOBAL TRADE FINANCE

UNLISTED

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Global Trade Finance (GTFL) is the one of the largest factoring companies in India having a 20% share of the industry. The company has a dominant position in the Indian international factoring market with a 70% share. GTFL has been promoted by Exim Bank - India, West LB - Germany and IFC Washington. Low penetration levels of factoring products in India, increasing global trade, growing acceptability of factoring as a financing product and increasing trade on open account are the main drivers for the industry's future growth in India. GTFL's ability to constantly innovate products and penetrate through a wider distribution network are the key success factors. The company has developed a high-end IT platform along with strong credit and risk management processes, which would ensure the scalability of the business model.

Key financials

Year to March 31 (Rs m)	FY04	FY05	FY06
Net interest income	60	140	172
yoy growth (%)	*(6.3)*	*135.0*	*22.6*
Other income	87	97	157
yoy growth (%)	*189.3*	*11.6*	*62.1*
Trading profits	0	0	0
Non trading income	19	19	54
Net revenue	147	237	329
yoy growth (%)	*56.5*	*61.8*	*38.8*
Operating expenses	104	112	124
yoy growth (%)	*43.7*	*7.7*	*11.0*
Provisions	18	27	2
PBT	25	99	203
yoy growth (%)	*15.3*	*299.1*	*106.3*
Provision for tax	9	37	70
PAT	15	61	133
yoy growth (%)	*14.8*	*302.7*	*117.7*

❑ A favorable market position

Despite being a late entrant, GTFL has captured a 20% share of the Indian factoring industry. In the fast growing international factoring segment, the company has used its first mover advantage to command a dominant 70% share. Being a standalone factoring company has aided GTFL to develop the requisite skill sets for the business. The company has attained this market share on the back of product innovation, building institutional linkages, a high-end IT platform, wide distribution network, significant investments in brand-building and leveraging the strengths of its promoters – Exim Bank - India, West LB - Germany and IFC Washington.

❑ Key growth drivers for factoring industry in India

There are strong structural drivers in place which will lead to wider acceptance of factoring as a financing product in India.

- **Low penetration levels:** At less than 1% compared to ~16% in Asia Pacific, penetration level (as defined by factoring as a percentage of the total trade) is quite low in India
- **Increasing global trade:** Increasing integration of India with the global markets and buoyant economic conditions would lead to higher global trade

- **Increasing trade on Open Account:** Worldwide, there is a change in trade preference from Letter of Credit to Trade on Open Account. This is expected to lead to higher demand for factoring.

Strong risk management processes to ensure scalability

GTFL has invested prudently in setting up a high-end IT platform and strong risk management processes to ensure future scalability of the business model. Risk processes are in place in the form of credit selection, process controls, field survey and collection controls. The company has developed the requisite skill sets for the factoring business.

IT Services / Media

HINDUJA TMT

UNRATED (RS609; MCAP: RS24.8BN / US$552M)

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Hinduja TMT (HTMT), a Hinduja group entity, operates in the IT/ ITES and media (mainly cable distribution) businesses. With a view to scale up individual business operations and focused investments, HTMT is demerging the IT/ ITES and Media operations as two separate entities. Given the high cash on books - USD450m (USD260m net of tax) received on account of stake sale in Hutch, HTMT is well equipped to chart out aggressive growth plans in each of the business operations. HTMT has stepped up its aggression in the IT/ ITES space and is resorting to the inorganic route for growth. Besides entering into a JV with Centri, UK, HTMT has acquired Affina (revenues of US $60m). We also see high growth potential as also value creation opportunity in HTMT's media operations, particularly in cable distribution. As the cable distribution industry in India undergoes a changeover and economics turn favourable for MSOs, HTMT can capitalize upon the high cash on its book to scale up the existing subscriber reach of 5m (0.5m paid).

Key financials Consolidated

Year to 31 March	FY05	FY06
Net sales (Rs m)	6,138	4,700
Shares in issue (m)	41	41
Adj EPS (Rs)	56.5	6.4
% growth		*(89)*
PER (x)	10.9	96.5
Price / book (x)	4.7	4.5
EV/EBITDA (x)	117	83
RoE (%)	53.2	4.7
RoCE (%)	nm	2.9

❑ IT/ ITES operations – the key contributor to revenues

In FY06, the IT/ ITES business contributed 67% to HTMT's consolidated revenues. The IT/ BPO business, employing 9,000+ people, has grown from revenues of $23m in FY03 to $66m in FY06 (67% of the total revenues) and $65m for 9MFY07. The company has 20 centers across seven countries with presence in healthcare, telecom, consumer electronics and BFSI verticals and a customer base of 65 companies. In FY07, HTMT acquired Affina (a US-based CRM BPO with annual revenues of US $60m). Post demerger, the technology business is expected to have cash of Rs6.5bn. The company has recently entered into a JV with Centric, UK to offer Legal Process Outsourcing solutions. The JV has a potential to grow to $40m by 2010 with high margins. Going forward, the company intends to strengthen its US presence inorganically and venture into KPO, Mortgage and HR outsourcing.

❑ Cable distribution – a highly promising business

HTMT's media operations pan cable content and broadcast (CVO), cable distribution (InCablenet) and broadband services (In2Cable). Besides this, the company has also invested in a niche retail venture (surfing) – Planet eShop. While HTMT's cable operations are under Indusind Media & Communications, broadband services are under In2Cable business (a 100% subsidiary). The highest growth potential as also the biggest value creation opportunity lies in the cable distribution business, where HTMT operates as an MSO. As television distribution undergoes a change in the wake of CAS rollout, digital cable and consolidation, economics will heavily tilt in favour of MSOs. The MSOs' share in pay revenues is expected to move up from 4-6% currently to 30% by 2010. HTMT is believed to have 5m cable subscribers and 50,000 broadband subscribers with presence across 14 cities. As HTMT has over USD110m of cash on book, it can potentially ramp up much faster by offering heavy subsidies. HTMT also has plans to align LCOs with itself by offering a stake in the parent company to trigger increased declaration (a model on the lines of ESOPs). However, we would like HTMT to be more aggressive in this business.

❑ Demerger – potential value unlocking

HTMT has planned a demerger of its existing businesses. As a result of the same, there would be two distinct listed entities, namely "HTMT Technologies" focusing on the IT/ITES business, and "Hinduja TMT" to undertake new business initiatives, acquisitions as also hold the combined and unified media and entertainment entity named Indusind Media & Communications. The appointed date of the demerger is 1 October 2006. Post restructuring of the share capital pursuant to the demerger, a shareholder holding two equity shares of HTMT of Rs10 each prior to the demerger would receive one equity share of Rs10 in HTMT Technologies and one equity share of Rs10 in HTMT post the demerger. While restructuring will help focus on individual SBUs as well as business-wise funding, it can also potentially unlock value of HTMT's media operations.

Construction

HINDUSTAN CONSTRUCTION COMPANY OUTPERFORMER (RS116; MCAP: RS29.7BN / US$672.6M)

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Hindustan Construction Company (HCC), with proven capabilities across construction sub-segments, focuses on high-value contracts in power, roads, ports and urban infrastructure. A strong order backlog of Rs76.6bn is expected to drive a 27% CAGR in HCC's earnings over FY06-08. Moreover, HCC's real estate ventures are estimated to be worth Rs60 per share. Net of the value of real estate holdings, HCC currently trades at 9.5x FY08E earnings and 5.5x EV/EBITDA. Considering the strong order backlog, the resultant strong earnings growth, improving return ratios and gradual unlocking of value in its land bank, we reiterate Outperformer on the stock.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	10,548	14,856	19,901	25,777	34,289
Shares in issue (m)	200	229	256	256	256
Adj. EPS (Rs)	1.8	3.4	3.9	4.1	6.4
% growth	*24.4*	*92.8*	*15.0*	*4.0*	*55.2*
PER (x)	34.0	17.6	15.3	14.7	9.5
Price/Book (x)	7.4	3.4	1.5	1.6	1.4
EV/EBITDA (x)	11.0	10.0	6.5	6.5	5.5
RoE (%)	23.5	26.6	14.4	11.1	15.4
RoCE (%)	15.6	14.4	9.7	8.7	11.2
EV/CE (x)	2.3	1.8	0.6	0.8	0.8

❑ 80-year track record of successful project execution

Incorporated in 1926 as part of the Walchand Hirachand Group, HCC is currently mainly owned by Mr Ajit Gulabchand and associates with a 47% stake in the company. HCC has proven capabilities across construction segments, but concentrates on high-value sub-sectors — power, roads, ports and urban infrastructure. HCC also has a strong foothold in construction of nuclear power plants and is expected to benefit from the India-US nuclear deal approved recently.

❑ Value-accretive foray in real estate

HCC has forayed into real estate development through its 50% subsidiary, Lavasa Corporation (LCL), which is setting up a 12,500 acre new township near Pune. HCC is also developing other real estate projects such as development of an IT Park at Vikhroli - Mumbai, slum rehabilitation projects in Vikhroli - Mumbai and townships over 500 acres across various cities in Maharashtra.

❑ Attractive valuations

HCC has a strong order book of Rs76.6bn (3.9x FY06 revenues), which is expected to drive a revenue and profit CAGR of 31% and 27% respectively over FY06-08 after factoring in losses on the Bandra Worli Sea Link. Despite a long gestation, HCC's real-estate foray (including Lavasa) would be hugely value accretive. We estimate the total value of its real estate projects at Rs59.6 per share. At 9.5x FY08E earnings and 5.5x EV/EBITDA, valuations appear attractive considering HCC's huge order backlog, improving return ratios and value in its real estate ventures. Reiterate Outperformer.

Media

HT MEDIA

UNDER REVIEW (RS180; MCAP: RS41.7BN / US$896M)

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HT Media, a leading print media play, has been extending its business operations through new market entries (Mumbai), new segments (financial newspaper) and new businesses (radio and, internet). Having stabilized its Mumbai operations, HT Media has recently entered the financial newsdaily segment, where there is a clear void, in association with world's largest financial news daily The Wall Street Journal. Moving beyond newspaper, HT Media has also acquired three FM radio licenses for Mumbai, Delhi, Kolkatta and Bangalore circles (which account for 60% of the advertising spends in India). We believe that the long-term strategy of HT Media is to be an integrated player in the news content business and have a more comprehensive model.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	4,165	6,249	8,210	10,231	11,713
Shares in issue (m)	186	209	232	232	232
Adj. EPS (Rs)	(0.0)	1.8	2.6	6.1	7.8
% growth			*41.4*	*135.3*	*28.6*
PER (x)		98.8	69.9	29.7	23.1
Price/Book (x)	12.1	9.7	6.2	5.3	4.4
EV/EBITDA (x)	241.9	51.4	35.0	16.9	12.9
RoE (%)	(0.4)	11.5	11.3	19.2	20.7
RoCE (%)	(0.7)	9.8	11.3	22.5	25.8
EV/CE (x)	7.4	6.6	5.0	4.4	3.6

❑ Newspaper – spreading its wings

HT Media has been rapidly expanding its geographical presence for both its Hindi as and English newspaper. HT Media has deepened its presence in the Hindi belt by launching newer editions of *Hindustan* in Bihar, Jharkhand, UP and Chandigarh and is now targeting Uttaranchal. However, the biggest market entry comes in the form of launch of *Hindustan Times* in Mumbai, one of the most fought over and with an indomitable market player like *The Times of India*. HT Media has managed to reach a subscriber base of ~200,000 copies per day in Mumbai. While this gives HT Media an ability to leverage its presence in two of the largest advertising markets, we believe that HT Media has been more contented limiting its reach (and thereby bleed in the initial years).

❑ *Mint* – a business news venture

While there are quite a few players present in the Indian financial newspaper market, there is a clear void for the number two position. *The Economic Times* dominates the space with a circulation of almost 6x the next player – *Business Standard*. Identifying an opportunity, HT Media has made a foray into this space in a tie up with *The Wall Street Journal* (world's largest circulating financial newspaper). In the initial phase, HT Media has entered the Mumbai and Delhi markets and is focusing on a subscription based circulation of ~100,000 copies, thereby becoming the second highest selling financial newspaper. We expect competition to intensify in this space as business news broadcasters like TV18 are also eyeing the segment.

❑ Radio 'Fever'

With the government opening up the FM radio space, it has attracted substantial corporate participation (43 players). HT Media too has acquired FM radio licenses for four cities, viz Mumbai, Delhi, Kolkatta and Bangalore, for Rs752m. HT Media operates through its brand *'Fever 104'*. We like the fact that HT Media is present in the key advertising markets, which account for over 60% of the advertising spends. While the radio business is set for an explosive growth from abysmally low share in overall ad spend currently, we also see immense competition on account of little or no content differentiation. Besides, we see limited profit making potential in this market. We consider HT's entry into the radio space as a preface to launch a news channel as and when private players are allowed to enter the news and current affairs space.

Media

HUNGAMA

UNLISTED

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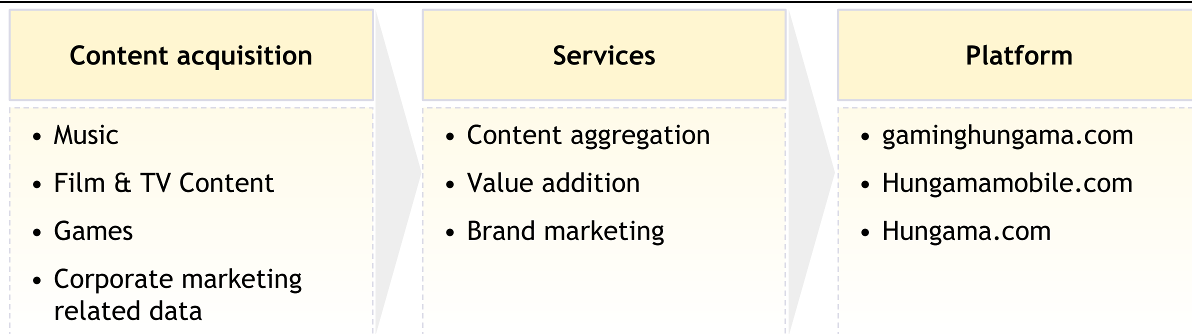
Hungama is present in the right business (value added services) at the right time and with a right business model (present across genres and segments). The world's largest mobile and web aggregator for Indian entertainment content, Hungama is an amalgamation of various businesses like mobile entertainment, product promotion on Internet and mobile, multiplayer gaming and general web entertainment. Value added services is one of the fastest growing media segments globally, as mobile operators as well as web models hunt for newer revenue streams. What differentiates Hungama from others is its ability to create a unique brand for each of its content offerings (indiafm, Hungama mobile, hungama.com, etc), and an illustrious list of domestic and global clientele across businesses. We see Hungama's potential growing multifold and the company emerging as a key global player. What also excites us is the value that these businesses can attract globally, which is evident from the fact that Google, the world's largest aggregator of information and VAS, is valued at USD 148bn.

❑ Content aggregator – key play in the chain

With various distribution platforms like mobile, internet and broadband looking for rich content and enhancing their revenues from the same set of users, Value Added Services (VAS) is gaining significant relevance globally. India too narrates the same story. Being in a nascent stage, the content development market is dominated by small and fragmented developers, whereas the distribution platforms are organized. Small and fragmented content developers, as they are a weak force vis-à-vis carriers, need an aggregator for better negotiations and to explore multiple platforms. At the same time, acquiring content from multiple developers is a difficult task for the carriers. This makes the job of content aggregator highly relevant in the space. Relevance of content aggregators is also evident from the fact that they pocket in almost 30% of the VAS revenues, which is equivalent or more than the revenue sharing for a content developer.

Hungama's working business model



❑ Hungama present across the value chain, thereby reaching multiple genres

What began as an advertising based model is today being built over the content aggregation model. Hungama has an integrated model in the space with its presence as a developer, publisher and aggregator. Besides developing its own content, Hungama holds exclusive licenses of over 35,000 music titles, 3,000+ videos, and over 500 movie games. Having built a vast library of content like music, gaming, movie clippings, etc, Hungama is ready to exploit the content on multiple platforms.

***Hungama Mobile*:** Hungama has branded its delivery on the mobile platform as Hungama Mobile. Hungama Mobile provides innovative services across the value chain, and serves clients from diverse fields like movies (Hollywood and Indian cinema), FMCG, retail, telecom services, food & beverages, electronics, petroleum and general entertainment. Hungama is a key content aggregator for Reliance Communications. Having strong contacts with the various mobile operators and device manufacturers around the world, Hungama Telecom has spread its wings to some of the most untapped mobile and web VAS markets like Middle East and Africa. The company already has a strong presence in high growth areas in mobile VAS market like USA and UK.

Internet platform: Hungama uses internet as a content delivery platform through its various properties like indiafm.com, hungama.com and gaminghungama.com. Hungama.com, voted as South Asia's best entertainment website for two years in a row, is an entertainment portal catering to content development and aggregation for various national and international brands. While Hungama initially started with only online advertisements as its major revenue source, it has transformed itself into an entity using both the digital interface and the physical market to organize everything from ads to loyalty programme management. Hungama has developed a loyal subscriber base of over 700,000 users with almost 250 corporate clients. IndiaFM, its other portal, captures all aspects of Bollywood entertainment from music, video clips and wallpapers to even full-length movies. This has increased Hungama's stretch to all kinds of film entertainment consumers. While Hungama's operations are currently restricted to the domestic market with Bollywood content, it also plans to tap offshore markets.

❑ Strong clientele

Hungama's tie-ups with some of the best brands in the domestic and the international market across sectors is its key strength. Companies like Coca Cola, Paramount pictures, 20th Century Fox, Nokia, Idea, Maruti, McDonalds, Fosters, CNN, Columbia Pictures, GE, etc are a few of Hungama's more than 200 national and international clients, whom it services in more than five countries on an average. We believe that Hungama is now set to leverage its strong tie-ups – up as well as down the value chain.

Sector-wise clients

Sector	Clients
Auto	Kinetic, M&M, Maruti Udyog, TVS Scooty
Entertainment	20th Century Fox, BMG, Columbia Pictures, Dreamworks, Magansound, Paramount, Sony Pictures, Virgin Records, Walt Disney Pictures, Warner Bros
Apparels/ Retail	Astro mischief, Brunswick, Casio, Ericsson, Levis, Nokia, Swatch
White Goods	Akai, Philips, Sansui, Hitachi,
FMCG	Axe, Bacardi, Britannia, Cadburys, Coca-cola, Calvin Klein, Frito Lays, Unilever, McDonalds

Besides the attractive growth opportunity in the VAS business, content aggregators also attract high valuations. Google, world's largest content aggregator is currently valued at USD148bn. Tanla Solutions, one of the content aggregation companies in India catering to global markets, is valued at Rs20bn for revenues of Rs400m in FY06 and is growing at 100%.

Financials

ICICI LOMBARD — UNLISTED

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ICICI Lombard General Insurance Company (ICICI Lombard) is the largest private sector general insurance company in India having a 12% share of the general insurance industry and a 36% share among private sector general insurers. ICICI Lombard is a 74:26 JV between ICICI Bank, India's second largest commercial bank, and Fairfax Financial Holdings of Canada. Very low penetration of general insurance products in India, improving asset ownership driven by retail finance and increasing healthcare related costs are some of the key drivers for the Indian general insurance industry. With a view to diversify its risk, ICICI Lombard has since inception focused on building a retail-focused, annuity-based business. Cost effective distribution, usage of technology in improving customer service and building scalability, robust risk management processes and product innovation are some of the key components of ICICI Lombard's overall growth strategy.

Key business and financial indicators

Year to March 31	FY05	FY06
Number of policies sold	607,926	1,461,039
Gross Written Premium (Rs m)	8,851.70	15,919.90
Industry market share (%)	4.89	0.0781
Claims Disposal Ratio (%)	94	95
Operating profit / (loss) from insurance policies (Rs m)	264.3	180.4
Income from Investments (Rs m)	276.1	368.39
Other income (Rs m)	0.7	0.03
Total Income (Rs m)	541.1	549
Net Profit (Rs m)	483.5	503.06
Paid-up Capital (Rs m)	2,200	2450
Shareholder's equity (Rs m)	2,494	3729.2

Source: Annual Report of ICICI Lombard

❑ ICICI Lombard is at the forefront of product innovation

ICICI Lombard has developed a comprehensive product portfolio catering to various needs of retail and corporate customers. The company's product portfolio for the business segment consists of standard products including fire and marine insurance, industrial insurance and new products like liability insurance and key man insurance. Products catering to retail consumers include health, home, motor, overseas travel and student medical insurance. In the rural insurance space, ICICI Lombard is the pioneer with innovations such as weather insurance and issuance of biometric cards for health insurance policyholders to its credit.

❑ Rapid scale-up of distribution network

ICICI Lombard has rapidly scaled up its distribution network and has more than 190 branches. The company follows a multi-channel strategy to reduce dependence on a single channel and to accelerate its growth momentum. While own sales force, agents and brokers continue to bring the majority of the business, channels such as banc assurance, online marketing and telemarketing are also scaling up to become material contributors. In fact, banc assurance generates almost 30% of the total business.

A multi-channel strategy

	Mar-2004	Dec-2006
Offices	74	190
Employees	561	4339
Telecallers	-	1250
Website	1	Multiple
Bancassurance	2 bank partners	5 bank partners
Agents, brokers and intermediaries	1000	15000

Source: Company

❑ Thrust on building an annuity-based, retail-focused model

Since its inception, ICICI Lombard has focused on building a retail-focused, annuity-based business. This was in sharp contrast to state-owned insurance companies, whose main retail business (motor insurance) made losses and corporate business (fire and engineering) was the highest profit-making segment.

Hence, leading state-owned general insurers were never keen on developing the retail insurance model. On the contrary, private sector players such as ICICI Lombard have taken various initiatives such as developing a team of their own valuers and tying up with automobile service stations to get better rates to generate operating efficiencies in a high-claims category like motor insurance. The company is also quite clear that the corporate business is lumpy and highly volatile in terms of both premium income generation and crystallization of claims. The corporate market is also very competitive and the bargaining power more than often lies with the corporate rather than insurance company. As a result, ICICI Lombard has been focused on developing a robust annuity-based, retail-focused business model.

❑ Consistent improvement in operating efficiencies

ICICI Lombard has improved upon its operating efficiencies over the years and its expense ratio (operating expenses as a per cent of the net written premium) has come down to 41% in FY06 from 94% in FY03. This decline was driven by the company achieving economies of scale and aggressively using technology in the areas of origination, customer service and claims processing.

Financials

ICICI PRU LIFE

UNLISTED

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ICICI Prudential (I-Pru) is the largest private sector life insurance company in India having a 10% share in the overall industry and a 30% share among private sector life insurance companies. I-Pru is a 74:26 JV between ICICI Bank, India's second largest commercial bank, and Prudential Plc of UK. The company has maintained its leadership (~1.7x the nearest competitor) by focusing on customer-centric product innovation, a rapid build-up of distribution network and investing in brand building. I-Pru has built a scalable model by replicating its strategy in other businesses. Low penetration of life insurance products in India, increasing awareness about life insurance and aggressive marketing of the concept of a combination of risk and investment products are the key growth drivers for life insurance business in India.

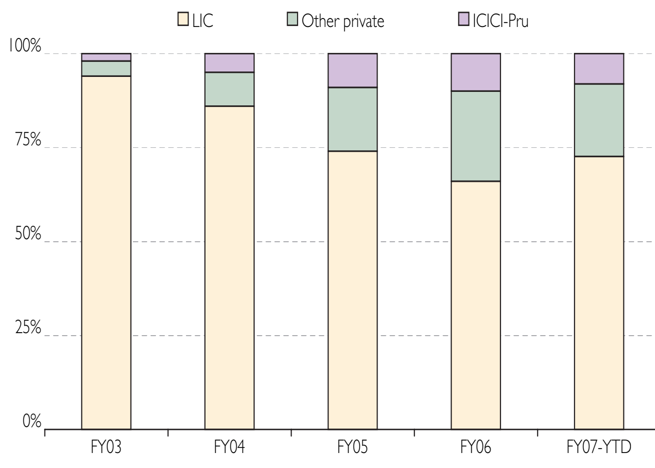
Key business and financial indicators

Year ending 31st March (Rs m)	FY05	FY06
No of new policies (in '000s)	615	838
Premium income	23,630	42,610
Of which New business premium (including single premium)	15,840	26,030
Of which Renewal premium	7,790	16,580
Total income	24,800	46,840
Annualized Premium Equivalent (APE)	12,560	21,630
Funds under Management (FUM)	38,310	88,210
Paid-up capital	9,250	11,850
Debit balance in P&L account	6,857	9,527
New Business Achieved Profit (NBAP)	3,122	5,277
Conservation ratio (%)	90	90
Expense ratio (%)	17	14
Presence in no of locations	74	132
No. of advisors	56,600	72,000

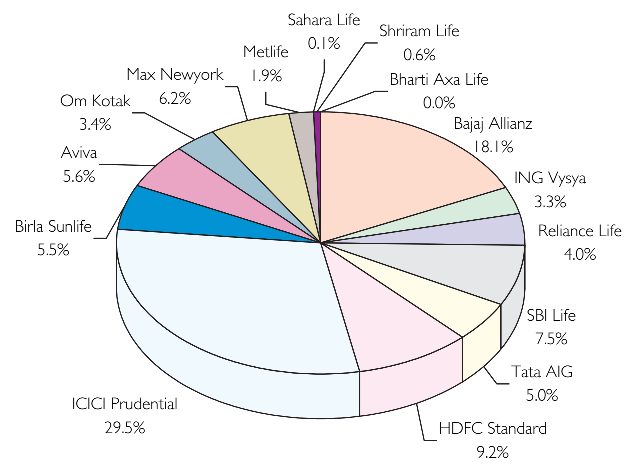
❑ I-Pru continues to be the largest private insurer

Since its inception, I-Pru has been the largest private sector insurance company and has steadily gained market share (defined as share of weighted new business premium for individual business) from 2% in FY03 to 10% in FY06. I-Pru clearly leads the private sector with almost 30% market share in FY06. The company has built and sustained its leadership on the back of product innovation, rapid expansion in distribution network, significant investments in brand-building and leveraging the strengths of its promoters – ICICI Bank and Prudential Corporation – in the areas of local knowledge, customer base and insurance expertise.

Increasing market share



Leadership among private life insurers



❑ A customer-centric approach in product offerings

Over the years, I-Pru has developed a comprehensive product portfolio covering both investment and protection needs. Its products also cater to various life stages and related income needs. The company has been capitalizing on new opportunities arising from distinct customer needs such as health products (e.g., critical illness plan, cancer care plan and diabetes care plan) and annuity cards for pension holders.

❑ A rapidly expanding distribution reach

I-Pru has scaled up its distribution network substantially with presence in more than 362 locations in India. The company's distribution strategy is driven by a multi-channel approach with advisors (agency channel) bringing in the largest share of business (~60%), which is adequately complemented by banc assurance (through 18 partners), corporate agents/ brokers and an in-house sales team for the group business. The company has tied up with more than 50 micro finance institutions (MFIs) and NGOs to increase its rural coverage. It had covered more than 0.5m rural lives as of March 2006.

Distribution network

	Mar-03	Mar-04	Mar-05	Mar-06	Dec-06
Locations	25	54	74	132	362
Branches	29	70	107	177	472
Advisors	18,000	33,000	57,000	72,000	176,000
Non-agency share (%)	27	28	30	37	40

Source: Company

IT Services

iGATE GLOBAL SOLUTIONS

OUTPERFORMER (RS380; MCAP: RS12BN / US$272M)

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iGate Global Solutions (iGate) is witnessing a turnaround achieved by way of a change in its revenue mix. The contracts/ clients won in the last couple of years with higher billing rates are exhibiting good growth and currently contribute ~35% to revenues. In addition, iGate has managed to squeeze higher billing rates out of a few contract renewals. The management expects EBITDA margins to expand to 15-16% by Q4FY07 from 12.7% in Q3FY07. We expect earnings to grow 84% yoy in FY08. At 14x FY08E and 11x FY09E earnings, we reiterate Outperformer with a price target of Rs462 based on 13x FY09E earnings.

Key financials

Year to March 31	FY06	FY07E	FY08E	FY09E
Net sales (Rs m)	6,358	8,131	9,988	12,112
Shares in issue (m)	31	32	32	33
Adj. EPS (Rs)	1.8	14.7	27.0	35.5
% growth	*(76.2)*	*710.7*	*83.6*	*31.5*
PER (x)	209.4	25.8	14.1	10.7
Price/Book (x)	4.4	2.9	1.9	1.4
EV/EBITDA (x)	19.3	11.4	5.7	3.4
RoE (%)	1.8	13.7	16.3	14.9
RoCE (%)	6.9	12.1	16.2	15.6
EV/CE (x)	3.5	2.1	1.2	0.7

❑ Blended billing rates on an uptrend

iGate has won a few superior quality clients over the last couple of years, which are growing well and yielding good revenue growth as well as increase in blended billing rates. Also, some of the existing clients have given billing rate hikes during contract renewals. Going forward, the topline is expected to grow at 5-6% qoq. The company is adding 5-6 Fortune 1000 customers per quarter.

❑ Management expects EBITDA margins to expand to 15% by Q4FY07

EBITDA margins are expected to increase on the back of higher blended billing rates, SG&A leverage kicking in on steady growth ahead and offshorization (46% of revenues are offshore in Q3FY07).

❑ Maintain Outperformer on an expected turnaround

We expect 22% revenue CAGR for iGate over FY07-09 while PAT is expected to register 55% CAGR over the same period, underpinned by a sharp margin expansion. Supply side pressure and slower growth in GE are the key risks to our estimates. Maintain Outperformer on an expected turnaround.

IT Services

INFO EDGE (INDIA)

UNRATED (RS661; MCAP: RS18BN / US$412M)

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Info Edge owns leading internet properties in India including Naukri.com (India's #1 job site), Jeevansathi.com (India's #3 matrimony site), and a real estate site (99acres.com). Recruitment business is the main revenue earner for the company contributing more than 90% to total revenues. Both matrimony and real estate businesses are currently in an investment mode. In future, the company intends to diversify into portal businesses involving information sharing, and does not intend to get involved with trading related activities.

Key financials

Year to 31 Mar (Rs m)	FY05	FY06	9MFY07
Net sales	441	824	960
Shares in issue (m)	22	22	26
Adj EPS	0.2	6.1	6.5
% growth		*nm*	
PER (x)	4,406.7	108.7	
Price / book (x)	114.5	58.9	
EV/EBITDA (x)	442.8	77.6	
RoE (%)	3.2	71.6	
RoCE (%)	26.8	103.1	

❑ Dominates the online recruitment space

Naukri.com, the recruitment portal of Info Edge launched in 1997, is the number one job site in India. According to the company, the portal has a ~50% share of the Indian online recruitment market. The services offered by the portal mainly include job-posting services for employers, free resume uploading for job seekers, and resume database services for employers. The site has more than 20,000 corporate clients and 7.5m+ resumes. TCS, IBM and Cognizant are some of the large clients of Naukri.com. The IT industry contributes 30-32% of revenues, placement consultants ~15-20%, financial services ~10% and the remaining is from manufacturing and other sectors. Monster India, JobsAhead and Timesjobs are the portal's key competitors.

❑ Matrimony and real estate portals are in an investment phase

Jeevansathi.com is the number three matrimony site in India after shaadi.com and Bharatmatrimony.com. Info Edge upped its stake in the portal from 35% earlier to 100% in September 2004. Info Edge started its real estate portal, 99acres.com, in September 2005. The portal brings together subscribers who want to sell or lease their properties and visitors who plan to buy or take property on lease. Though the online real estate market has huge growth potential, it is still nascent and fragmented.

❑ Healthy financials

Info Edge is witnessing robust revenue growth – revenues grew 87% yoy for FY06 to Rs824m and to Rs960m in 9MFY07. EBITDA margins improved from 9% in FY05 to 27% in FY06 (26% for 9MFY07. In FY06, Info Edge had a healthy RoE of 72%. In November 2006, the company raised Rs1.7bn @Rs320 per share through an IPO.

IT Services

INTELLVISIONS SOFTWARE

UNRATED (RS165; MCAP: RS1.2BN / US$26M)

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Intellvisions Software (ISL), that began its operations as a multimedia company, provides self-service automation products that enable consumers to automate routine transactions. The company also offers five ISPs that give 24x7 support to dot-com companies. ISL is a dominant and dedicated player in the self-service technologies industry with the largest number of operational terminals (over 5,000+) and patents for two self-service products. ISL has the largest array of self-service products that include banking kiosks, telecom/ utility bill payment and presentment kiosks, Q-management systems, ATM surveillance solutions as also high-end surveillance solutions. The company has a monopoly in the ATM branch surveillance and has also pioneered some of the industry firsts like Bill Payment Terminals to I-Watch (ATM surveillance solution).

Key financials

Year to March 31	FY03	FY04	FY05	FY06
Net sales (Rs m)	20.6	40.7	52.8	165.1
% change		*97.6*	*29.7*	*212.7*
PAT	0.5	2.3	0.7	30.2
Share in issue (m)	5.0	5.0	5.0	5.9
EPS (Rs)	0.1	0.5	0.1	5.0
EPS growth (%)		360.0	(69.6)	3,492.9
PER (x)	1,650.0	358.7	1,178.6	32.8
EV/ EBITDA (x)	693.1	336.0	553.6	25.4
EV/ sales	53.8	27.2	21.0	7.3
Book Value (Rs/ share)	12.2	10.9	11.0	25.2
Price/ BV (x)	13.6	15.2	15.0	6.5
RoCE (%)	0.01	0.04	0.02	0.31

❑ A diversified product portfolio

I-Watch: ISL, through I-Watch, has a virtual monopoly in the ATM branch surveillance business. The product is an industrial grade ATM surveillance solution with an advanced image capture algorithm triggered on a transaction/ motion detector. Along with a real time watermarking algorithm to prevent image tampering, it also has a comprehensive monitoring system to detect tampering on site. With more than 2,300 plus installations servicing 3,500 ATMs, I-Watch has a successful track record of identifying several high profile frauds.

Automated Bill Payment Terminals: ISL's Pay-Point Terminals are designed to automate many of the routine transactions in banking institutions. The modular designs of these models ensure easy cleaning of instruments/cash, a hybrid card reader capable of reading credit cards and smart cards, cash acceptor and data backup on floppy and zip cartridge. ISL also offers a kiosk outsourcing solution, allowing companies to concentrate on their core technologies.

Banking kiosks: With a cheque deposit automation system and utility bill payments, ISL's banking kiosks offer flexible payment options and internet options which facilitate routine teller inquiries like balance inquiry, account statement, funds transfer, etc.

Opti-Q: The opti-Q, a dynamic queue management system, is the most comprehensive queue management system in India. Along with audio and visual notification of called tokens, it provides a single token for multiple services informing customers of the expected time to service these requests. Also, the product not only provides the company with detailed statistics on the wait time and average time to service per customer, it also provides real time statistics to the floor manager on the efficiency of employees.

Pay 24/7: This is the most comprehensive of all the kiosks made by ISL. The infrastructure elements of this one stop kiosk include facility of anytime, anywhere payments using cash, card and cheques along with convenient and secure access for bill pay in telecoms and utilities. Along with an electronic recharge or pre-paid top up services, e-ticketing for airlines and railways, and delivery of banking and financial products, pay 24/7 has a comprehensive digital signage network on a 17-42 inch LCD with centralized management and monitoring software. With a presence at more than 320 locations in the country, ISL receives product revenues through signage advertisement on a per transaction basis, a first time set up fee, revenue from system integration and monthly support fee as also a fixed set-up cost. The company has an elaborate rollout plan for pay 24/7, wherein in the first 12 months of the launch of pay 24/7, it is planning to set up 500 kiosks attached to 1,500 screens. This would eventually be increased to 5,000 kiosks attached to a total of 15,000 screens by the end of phase II.

The future prospects of ISL appear bright on the back of its comprehensive product portfolio consisting of cheque automation systems, bill payment terminals, dynamic Q-management systems and surveillance solutions along with employee strength of 200 people with expertise across industrial design, engineering, software development and thorough understanding of networks. The company also has advanced CAD and prototyping methods and a pan India support across 250+ locations.

Agri-related

JAIN IRRIGATION SYSTEMS

OUTPERFORMER (RS430; MCAP: RS26.4BN / US$557.6M)

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Jain Irrigation Systems' (JISL) ability to manage two tough variables (government and farmers) as also build a business model around them makes it a perfect play to ride upon the brewing agri opportunity. JISL's derisked agri model is coming to the fore, as the Rs615bn potential opportunity in MIS business sees the light of implementation and other businesses (pipes, food processing and PVC sheets) grow at a brisk pace. Besides assured organic growth, we like the fact that JISL has been aggressively pursuing inorganic growth opportunities in the domestic as well as international markets (in irrigation and food processing business in particular). Confident of sustained growth momentum of over 30% and earnings CAGR of over 45% for the next three years, we reiterate our Outperformer call on the stock.

Key financials

Year to 31 March	FY04	FY05	FY06	FY07E	FY08E*
Net sales (Rs m)	4,146	6,375	8,766	12,021	15,380
Shares in issue (m)	54	58	58	61	61
Adj. EPS (Rs)	3.5	4.9	10.8	15.6	22.2
% growth	*(59.3)*	*37.3*	*122.1*	*44.9*	*42.1*
PER (x)	121.5	88.5	39.8	27.5	19.4
Price/Book (x)	12.3	10.7	8.4	6.2	4.8
EV/EBITDA (x)	37.8	29.7	21.5	15.0	10.9
RoE (%)	12.1	13.3	23.6	26.6	28.1
RoCE (%)	8.4	11.9	15.0	19.1	21.6
EV/CE (x)	4.5	4.3	3.7	2.9	2.6

**FY08 numbers are up for revision, to account for recent acquisitions*

❑ Micro irrigation – execution stage

With agriculture topping the priority chart for central as also various state governments, Rs615bn of documented micro irrigation opportunity (Task Force Committee report) has now entered the implementation phase. While the Andhra Pradesh government has allocated Rs3bn of projects over 200,000 acres of land, Tamil Nadu and Karnataka have proposed MIS implementation covering 20,000 hectares of land. Projects in other states like Gujarat and Maharashtra have also entered the implementation phase. Given JISL's strong rural franchise, integrated manufacturing operations and extensive distribution network, it is the perfect play to capitalize upon India's micro irrigation opportunity. JISL dominates the MIS market with a ~40% share, and continues to top the empanelment and allocation charts with various government projects.

❑ Other businesses – backing growth

While it is the MIS business that would spearhead JISL's future growth, it will be well supported by a steep traction in all other business segments. The pipes and fittings business – driven by the infrastructure boom, PVC sheets business – piggy riding on the opportunity created in the US owing to the lumber market getting replaced by foam sheet, and the food processing business are in a sweet spot.

Food processing – the NEXT big thing!

With emergence of organized retail on the front end, changing consumer preferences towards packaged foods, and participation of players like Reliance Industries, Bharti and ITC in the agri value chain, we believe the food processing business will be the next big thing in the Indian industry. JISL, being the largest fruit and vegetable processing company in India, is well placed to capitalize upon this opportunity. Besides growing through the inorganic route (Parle's mango processing plant, Terra Agro, Cascade Onion Dehydration, etc), JISL has also been expanding its capacity (by >3x over FY05-08E as also the range of product offerings.

Pipes – riding the infrastructure boom

JISL dominates the PE pipes business in India, and is the second largest player in PVC pipes controlling almost 15% of the market. With the government setting ambitious targets for its projects like Bharat Nirman Yojna, Swajaldhara Yojna, etc, the potential for pipes business is immense. JISL is piggy-riding the rapid growth in the MIS business as also various infrastructure projects like water transportation, sewerage, gas distribution and telecommunications. JISL has undertaken huge cable laying projects for the Tatas, Bharti and BSNL as also gas distribution projects for Mahanagar Gas, Indraprastha Gas and water projects for IVRCL. Besides strong institutional sales, retail market for PVC pipes is also growing at a rapid pace.

Plastic sheets – surfing global waters

Plastic sheets (PVC) are largely used for home building, roofing and fencing. With over 2m homes built annually in the US, USD450m-500m spend earmarked for home improvement and construction, and replacement of lumber with PVC sheets, USA is the largest market for PVC sheets. The key differentiators in the business are new product development and strong distribution tie-ups and JISL boasts of both. To tap this market, JISL has also bought a 51% stake in a start up venture – NuCedar. With the intent to derisk the business model, JISL is looking at developing newer applications like advertising signage market as also scaling up its European operations.

❑ Inorganic growth – further adding pace

We like the fact that JISL is prepared to take the incremental risk of inorganic growth and shows willingness to extend its opportunity space to the global markets. In the last couple of years JISL has been on an acquisition spree across businesses in domestic as well as international markets. Prior to this acquisition, JISL has acquired Chapin Watermatics, US and 7.5% in Euro Drip in the Micro Irrigation space, Parle's Mango processing unit, Terra Agro, Orient Vegetexpo, Eurissko and 60% in Cascade in the food processing space and has acquired 51% stake in a startup venture – NuCedar, US in PVC Sheets business. We like JISL's appetite to take inorganic growth path, chart global opportunity as also not go overboard on price paid for the acquisitions.

Inorganic route

Company	Business segment	Reason	Financials
Aquarius Brands	Drip irrigation	Fourth largest player in the US	USD16m (0.5x revenues)
Chapin Watermatics	Drip irrigation	New global markets - USA, Mexico, Europe, Africa	US $6m (0.8x revenues)
7.5% of Eurodrip	Drip irrigation	Explore synergies in global markets	Euro3.5m (1.3x revenues)
51% stake in NuCedar Mills	PVC sheets	Proximity to end market (USA)	US $3m
Mango processing unit of Parle Bisleri Pvt Ltd	Fruit processing	Capacity enhancement	Rs140m (0.4x revenues)
Terra Agro	Vegetable dehydration	Capacity enhancement & diversify into vegetable dehydration	Rs135m (20% of PRICOL's initial investment)
Orient Vegetexpo & Eurissko	Vegetable dehydration	Capacity of 5,200MT, proximity to crop, revenue potential of Rs420m	Less than 1x revenues
60% in Cascade	Onion dehydration	Access to world's largest dehydration markets - US, capacity of 11,000MT	USD4.75m (0.8x revenues)

Enthused by the scalability of JISL's business model and also the high earnings visibility (33% sales CAGR and 45% PAT CAGR over FY06-08E), we maintain our Outperformer recommendation on the stock.

Construction

JAIPRAKASH ASSOCIATES

OUTPERFORMER (RS628; MCAP: RS136.9BN / US$3.1BN)

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Jaiprakash Associates (JAL), with its proven capabilities in hydel power construction and an existing order backlog of Rs72bn, is well positioned to capitalize on its pipeline of orders. The strong order backlog of Rs72bn, coupled with firm cement prices, is likely to drive a 33% CAGR in JAL's consolidated earnings over FY06-08. JAL trades at 25.7x FY08E standalone and 20.6x consolidated earnings. Moreover, the Taj Expressway land, valued at Rs289/share, would act as re-rating trigger for the stock over the next 12 months. Maintain Outperformer.

Key financials (consolidated)

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	26,191	31,881	36,516	42,670	48,685
Shares in issue (m)	176	176	190	218	218
Adj. EPS (Rs)	12.2	15.9	17.8	23.8	30.5
% growth	*116.6*	*30.4*	*12.3*	*33.3*	*28.3*
PER (x)	51.8	39.7	35.4	26.5	20.7
Price/Book (x)	9.0	7.8	5.2	4.8	3.9
EV/EBITDA (x)	19.2	16.5	17.7	13.3	11.4
RoE (%)	18.6	21.0	18.2	20.1	20.8
RoCE (%)	11.3	11.2	9.3	12.8	13.9
EV/CE (x)	2.8	2.2	2.0	2.0	1.9

❑ Dominant player in hydel power and northern cement markets

JAL has interests in four businesses: EPC contracting (hydropower), power generation, cement, and hotels (which account for 2% of its turnover). The cement business, which was run as a 100% subsidiary, Jaypee Cement (JPCL), has been merged with JAL in FY04. JAL commissioned its first BOT based hydel power plant (JHPL – 300MW) in June 2003 and subsequently commissioned JPVL (400MW) in September 2006.

❑ Robust 33% CAGR expected in earnings over FY06-08

JAL, with its focus and expertise in hydel power, has a strong order backlog of Rs72bn as on December 2006. The new 3m tpa greenfield cement plant in Himachal Pradesh (commissioning in FY08) is eligible for a 10-year excise exemption, making it one of the most profitable cement plants in India. The huge power cost savings arising from captive thermal power plants, firm prices and volume growth from the recent capacity expansions are expected to drive earnings growth in the cement business over the next two years. Overall, we expect 33% CAGR in JAL's consolidated earnings over FY06-08.

❑ Taj Expressway project clearance acts as trigger

JAL's Taj Expressway project has been approved by the UP state cabinet in October 2006. The project involves building a greenfield 165km 6-lane access control expressway between Agra and Noida at a cost of Rs60bn. As a part of the concession, JAL will get 6,250 acres of land at various locations as a sweetener, at government notified rates. We have valued 900 acres land (the remaining assumed to be for funding equity and debt component) at Noida at Rs70m/acre amounting to Rs63bn or Rs289/share of JAL. At 25.7x FY08E standalone and 20.6x consolidated earnings, we find the stock attractively valued considering its strong order backlog of Rs72bn, Taj Expressway land value and robust cement price outlook. Reitertae Outperformer with a price target of Rs830/share.

Power Equipment

KEC INTERNATIONAL

OUTPERFORMER (RS567; MCAP: RS21.4BN / US$485M)

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KEC International (KEC), the leader in transmission towers erection business – is one of the key beneficiaries of the expansion of inter-regional transmission network by Power Grid Corporation (PGCIL). Strong growth in revenues over FY06-08, and an improvement in margins led by lower raw material prices, execution of higher margin orders and operating leverage are likely to drive a 67% CAGR in KEC's earnings over the period. At 15.6x FY08E earnings, the stock is attractively valued considering the strong earnings growth and sharp improvement in return ratios post the balance sheet restructuring. Outperformer

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	8,163	12,303	17,272	20,568	24,764
Shares in issue (m)	35.9	37.6	37.7	37.7	37.7
Adj. EPS (Rs)	13.0	11.8	13.1	28.5	36.4
% growth	-	*(9.4)*	*11.1*	*117.7*	*27.7*
PER (x)	43.6	48.1	43.3	19.9	15.6
Price/Book (x)	8.2	7.1	12.3	7.7	5.3
EV/EBITDA (x)	25.8	19.0	14.1	8.6	6.7
RoE (%)	18.6	15.8	21.4	47.7	40.2
RoCE (%)	9.8	13.4	20.9	37.9	39.7

❑ KEC – a large power transmission EPC company

KEC is an end-to-end solutions provider for transmission line projects and its strength lies in designing transmission networks. KEC focuses on its core strength of designing and executing networks, and outsources transmission towers if required, thereby focusing more on the service component (high-margin) of the value chain.

❑ Earnings estimated to increase at 67% CAGR over FY06-08

We believe the strong pipeline of domestic orders from PGCIL's grid expansion and rural electrification programme, coupled with international orders across Africa, Middle East, Afghanistan and other CIS countries, will continue to drive KEC's order backlog over the next 12 months. We believe KEC's order backlog of Rs29bn as on 31 December 2006 and margin improvement (led by lower raw material prices, high-margin orders and operating leverage) would drive a 67% CAGR in KEC's earnings over FY06-08E.

❑ Valuations attractive – reiterate Outperformer

The stock currently trades at 15.6x FY08E earnings and 6.7x on FY08E EV/EBITDA basis. Given the rich pipeline of orders, strong earnings growth and a sharp improvement in return ratios over the next two years, we believe valuations are attractive. Moreover, the split of KEC's investments and operating business into two separate companies has crunched KEC's balance sheet with a higher management focus on the core business. We maintain Outperformer rating on the stock.

Power Equipment

KALPATARU POWER TRANSMISSION

OUTPERFORMER (RS1183; MCAP: RS12.9BN / US$291M)

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Kalpataru Power Transmission's (KPTL) presence across the entire value chain of the transmission line business and backward integration of towers is likely to drive a strong growth in KPTL's transmission division. The company's infrastructure division, consisting mainly of pipelines, is growing at a robust pace driven by orders from GAIL and BPCL. KPTL has acquired a 49.9% stake in JMC Projects, which has turned around smartly led by a balance sheet clean up as well as escalation-based orders. Consequently, JMC Projects is well positioned to tap the ongoing boom in infrastructure construction. Overall, we like the strategic direction adopted by the management in its core power transmission and construction business, which will enable KPTL to grow rapidly over the next 2-3 years.

Key financials

Year to March 31	FY02	FY03	FY04	FY05	FY06	9MFY07
Net sales (Rs m)	1,391	2,612	3,447	5,418	8,404	10,027
Shares in issue (m)	10.9	10.9	10.9	10.9	10.9	26.5
Adj. EPS (Rs)	6.8	8.2	13.0	26.4	61.3	35.9
% growth	*(10.7)*	*21.9*	*57.8*	*103.4*	*131.7*	-
PER (x)	175.0	143.5	91.0	44.7	19.3	-
Price/Book (x)	15.6	15.9	14.1	11.3	7.7	-
EV/EBITDA (x)	79.1	50.5	42.4	23.5	11.6	-
RoE (%)	9.1	11.0	16.4	28.0	47.2	-
RoCE (%)	10.3	14.0	14.0	25.0	39.4	-

❑ Transmission business contributes 90% of revenues

KPTL has a diversified business model across transmission lines (90% of FY06 revenues), infrastructure (5%), real estate (3%) and biomass energy (2%). The backward integration into transmission tower manufacturing has given KPTL the capability to offer end-to-end solutions to customers, leading to a strong order backlog of Rs20bn. Moreover, KPTL has higher margins in the transmission business compared to peers, primarily due to lower outsourcing (tower capacity of 84,000m tpa) and higher tower sales. KPTL's gas pipeline business has witnessed a rapid scale up on the back of orders from GAIL, BPCL, etc. Going forward, the infrastructure division's contribution to revenues (2% currently) is likely to increase substantially driven by its strong order backlog over the next two years.

❑ Strategic investment in JMC to leverage the high growth construction sector

KPTL holds a 49.9% stake in JMC projects, which is one of the leading civil contractors for commercial and residential buildings, factories, commercial buildings, etc as well as for projects in roads, bridges, etc. Post the acquisition of JMC, KPTL has cleaned up its balance sheet and has shifted towards escalation based contracts. JMC Projects has an outstanding order backlog of Rs10bn, which is likely to drive a strong growth in revenues and earnings over the next 2-3 years.

❑ KPTL well positioned to benefit from a sharp rise in T&D and construction capex

KPTL is likely to be a key beneficiary of the huge investments in the power transmission segment – both on account of maintenance programmes and expansion of the T&D network by PGCIL and rural electrification programme. Moreover, KPTL's diversification into infrastructure projects along with its stake in JMC further consolidates its position in the infrastructure space.

Engineering

LLOYD ELECTRIC & ENGINEERING

UNRATED (RS174; MCAP: RS5.4BN / US$122M)

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Lloyd Electric & Engineering (Lloyd Electric) is in the core business of manufacturing condensing coils, evaporator coils and AC cooling units. The company controls 60-70% of the entire market. The customer list includes leading AC manufacturers like Fedders Lloyd, Blue Star, Voltas, LG, Samsung, along with the Indian Railways. With the Delhi Metro Rail Corporation also joining the client list, Lloyd Electric's future looks bright.

Key financials

Year to March 31	FY04	FY05	FY06
Net sales (Rs m)	1,594	2,396	3,457
Shares in issue (m)	17.8	17.8	27.0
EPS (Rs)	2.1	6.2	10.4
growth (%)		*202.0*	*67.0*
PER (x)	78.6	26.0	15.6
EV/ EBITDA (x)	24.9	15.8	9.7
EV/ sales	2.1	1.5	1.2
Book Value (Rs/ share)	29.3	35.3	79.2
Price/ BV	5.5	4.6	2.0
RoCE (%)	8.4	14.4	16.8
RoNW (%)	6.6	18.1	19.7

❑ Plans to enter new geographies

Lloyd Electric is the largest manufacturer in the evaporator and condenser coil industry in India, with 60-70% of the market share (the AC industry is a low margin industry and hence there are no unorganized players). The company's product portfolio extends from heat exchangers, window and split air conditioners, a press shop and a system tubing and header shop to rail coach air conditioning units, manufactured in Bhiwandi (Rajasthan), Kala-Amb (Himachal Pradesh) and Dehradun (Uttranchal). These products usually account for ~30% of the entire manufacturing costs of ACs and refrigerators. Lloyd Electric also has plans of opening up more manufacturing units over 2007-08 in Pantnagar (Uttranchal) and near JNPT (Maharashtra). Lloyd Electric is the largest Original Equipment Manufacturer (OEM) supplier in the domestic market with client base comprising almost all AC manufacturers in India. Exports account for ~20% of the total sales, mainly from the Middle East and European markets. The company is also looking at venturing into other international markets.

❑ Capacity expansion

Lloyd Electric has recently increased its manufacturing capacity from 50,000 units to 200,000 units at its Kala-Amb factory in Himachal Pradesh. It has recently set up a plant in Dehradun, in which it plans to invest a further Rs200m-250m over FY07-08. Lloyd Electric also has plans of setting up a plant close to JNPT (Maharashtra) for the manufacture of frost free coils with an initial investment of Rs200m-250m and a capacity of 400,000 coils in FY08. By FY08, capacity would almost double on the back of incremental capacity from the new plants and revamping of all the existing plants. Also, the provision to import compressors at zero custom duty (from September 2006) from Thailand will prove beneficial to the company.

❑ Inorganic growth plans

Lloyd Electric recently raised USD28m through an issue of Global Depository Receipts (GDRs), which it will be using for further inorganic growth. In the UK, the company is looking at acquiring a 51% stake in a company and has earmarked USD65m for the same. Last year, the company entered into a joint venture with a Korean company, Hanyung Alcobis, to manufacture roll bond and fin cross evaporators and all types of evaporators/ condensers for refrigerators produced by the Korean company. The move would also ramp up Lloyd Electric's exports by a further 15-20% and provide it a foothold into a new market. This technology is currently not available in India and Lloyd Electric will be the first one to bring it here. This would certainly provide Lloyd Electric with a first mover advantage in the segment.

In 2006, Lloyd Electric also signed an MoU with an Australian company, Air International Transit Pty Ltd, for designing, manufacturing and supplying of AC package units to Delhi Metro Rail Corporation for Phase II (AIT, Australia also provided the ACs for Phase I of the DMRC) of the project. Though worth only 1-2% of the entire DMRC project, the MoU gives Lloyd and AIT (Australia) a competitive edge over competitors.

❑ High potential

In view of Lloyd Electric's aggressive expansion plans in the domestic (increase in capacity at the Dehradun and Bhiwadi plant and setting up new plants at Pantnagar and near JNPT) and the overseas markets (acquisition in UK for a 51% stake, joint venture with the Korean company, Hanyung Alcobis and MOU with AIT, Australia), we believe the company has a huge upscale potential in the future.

Auto Components

LOKESH MACHINES

UNRATED (RS141; MCAP: RS1.6BN / US$37M)

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Lokesh Machines (LML) is an integrated machine tools manufacturer operating in two main business segments – machine tools and auto components. LML caters to customers in the auto OEM, auto ancillaries and general engineering space. LML's prominent customers include M&M, Ashok Leyland, Tata Motors, Bajaj Auto, Everest Kanto Cylinders, etc in the domestic market and FPT Industries Spa - Italy, Honda Motorcycles - Japan, etc in international markets. In April 2006, the company raised ~Rs400m through an initial public offering (IPO), the proceeds of which would be used to partly fund expansion and modernisation plans as also working capital requirements (estimated at Rs470m). LML is also setting up an additional facility for machining and supply of 40,000 units per annum each of cylinder blocks and cylinder heads to Ashok Leyland, with the plant expected to start production in April 2007. LML has also made a foray in the overseas markets with orders from M/s FPT Industries Spa - Italy, Honda Motorcycles - Japan and HOWA - Japan.

Key financials

Year to March 31	FY02	FY03	FY04	FY05	FY06
Net sales (Rs m)	268	363	372	599	785
Shares in issue (m)	10.3	9.7	8.8	8.8	8.8
Adj. EPS (Rs)	0.9	0.4	(1.4)	6.1	9.4
% growth	*214.7*	*(51.3)*	*NA*	*NA*	*54.6*
PER (x)	152.9	314.2	NA	23.2	15.0
Price/Book (x)	8.5	8.1	7.7	6.1	4.6
EV/EBITDA (x)	24.7	18.5	22.6	10.3	7.8
RoE (%)	5.7	2.6	21.0	29.2	34.9
RoCE (%)	10.5	13.2	9.1	21.9	27.3

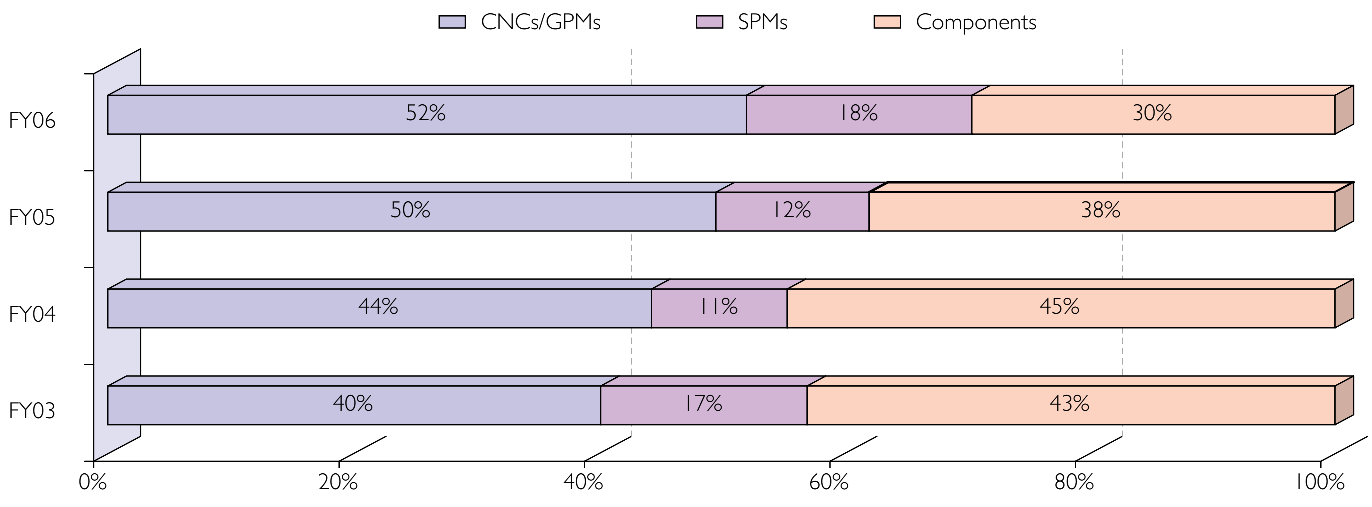
Business overview

Incorporated in 1984, Lokesh Machines (LML) is an integrated machine tools entity providing high quality lean manufacturing solutions. The company has manufacturing facilities at five locations and has a strong team of more than 100 engineers and 300 other technical personnel. It has technical associations with Grob GMBH - Germany, Fagima - Italy and AVM Angelini - Italy. The company's machine tool division is ISO 9001:2000 certified and auto components division is TS 16949:2002 certified, thereby offering huge export ramp-up possibility.

Product profile

LML primarily operates in two business segments – machine tools and auto components. In the machine tools segment, LML manufactures three types of machines – Special Purpose Machines (SPMs), General Purpose Machines (GPMs) and Computer Numerically Controlled (CNC) Machines, along with their components. In the auto components segment, LML undertakes machining of cylinder blocks/ cylinder heads for automobile engines. LML also undertakes job work for its clients for manufacturing various custom made machines and contracts for various processes.

Share in revenues by products



❑ Domestic business

In the domestic market, LML caters mainly to M&M, Ashok Leyland, Cummins India, Force Motors, Everest Canto Cylinders, Kirloskar Oil Engines, etc. With the strengthening of the dealer network and after service support provided to the dealers, the sales of CNC/GPMs in the domestic market is expected to improve considerably. LML currently has a capacity for machining and supply of 120,000/ annum each of cylinder blocks and cylinder heads, which is being utilized for supplies to M&M for use in its tractors and utility vehicles. LML is also setting up an additional facility for machining and supply of 40,000 units/ annum each of cylinder blocks and cylinder heads. The entire facility will be utilized for machining and supplying of cylinder blocks and cylinder heads to Ashok Leyland and is expected to start production in April 2007.

❑ Overseas business

LML has made a foray in the overseas markets with orders from M/s FPT Industries Spa - Italy, Honda Motorcycles - Japan and HOWA - Japan. The company exported 26 GPMs in FY06 with export revenues of ~Rs80m. At present, LML has confirmed export orders for 42 machines in FY07, valued at ~Euro 630,000 (Rs37m). Further, M/s. Wenig Wemas GmbH (Wenig) has placed an initial order for 100 machines worth Rs 200 million. The Company will start dispatches from the beginning of April 2007. The off-take could increase to 300 nos. a year in the next three years.

❑ Marketing and selling strategy

LML has adopted a multi-pronged marketing strategy to cater to the needs of different segments. For the CNC machines and GPM segment, the company is in the process of establishing a strong dealer network throughout India. The dealer network would be supported by the techno-marketing team of LML to foster a strong sales-service back up.

For the auto component sector, LML's strategy has been to build on the stable relationships already established with its long-term customers, and maintain ongoing interaction with customers to understand and quickly respond to client requirements. The overall strategy of LML is to carve out a niche as an outsourcing destination for critical components, hitherto produced in-house by the auto majors. This will act as a springboard for establishing sustained long-term relationships with other auto majors.

In the export markets, LML's strategy is to tap the opportunity by forging alliances with existing organizations having strong marketing networks and also through overseas marketing agents. The above marketing efforts will be supplemented by participation in international and domestic trade fairs, and also special campaigns through the print and electronic media.

Capex plans

In April 2006, LML raised ~Rs400m through an initial public offering (IPO). The company plans to use the proceeds of the issue to partly fund its expansion and modernisation plans as also working capital requirements estimated at Rs470m. An additional amount of Rs80m is to be funded from bank loans. LML is setting up the additional unit for Ashok Leyland at a cost of Rs210m. The company has acquired land at Shahzadiguda village in Ranga Reddy district of Andhra Pradesh. Commercial production is scheduled to commence from April 2007. Also in the pipeline is a modernisation project for the upgradation of existing facilities for manufacturing CNC machine tools for export markets of Japan, Europe and the UAE.

Construction

MADHUCON PROJECTS

OUTPERFORMER (RS239; MCAP: RS8.4BN / US$189.7M)

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Madhucon Projects (MPL), with its focus on road, irrigation and real estate sectors, has higher margins than those of peers owing to its prudent policy of using own equipment and limited subcontracting. A strong order backlog of Rs45.6bn (13x FY06 revenues), along with stable margins, would likely drive a 50% CAGR in MPL's earnings over FY06-08. Despite the sharp earnings growth and four value-accretive BOT road projects in hand, MPL trades at a steep discount to peers, which we find unjustified. We retain our Outperformer rating on the stock.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	3,014	3,063	3,421	5,234	9,578
Shares in issue (m)	25	27	37	37	37
Adj. EPS (Rs)	7.4	5.9	10.6	13.3	23.9
% growth	*(2.2)*	*(20.2)*	*79.3*	*24.7*	*80.3*
PER (x)	29.8	37.4	20.8	16.7	9.3
Price/Book (x)	7.7	5.9	1.7	1.8	1.5
EV/EBITDA (x)	14.6	14.5	10.1	7.8	3.8
RoE (%)	29.7	18.4	13.0	11.4	17.9
RoCE (%)	20.6	20.0	13.1	10.5	21.0
EV/CE (x)	5.1	3.9	1.2	1.3	1.0

❑ Focused on road and irrigation projects

MPL, one of the fastest growing construction companies in India, is focused on roads, irrigation, hydel power and property development. MPL uses limited subcontracting for its contracts and employs own equipment for executing the projects, which enables it to earn better operating margins vis-à-vis peers. MPL currently has an order backlog of Rs45.6bn or 13x FY06 revenues – the highest among peers.

❑ Foray into BOT projects – a logical business extension

In order to exploit its construction capabilities along with its financial acumen, MPL has entered the infrastructure development business. MPL has won four toll-based BOT road projects and one property development project over the past 12-15 months. Although in early stages of development, we estimate the total value of BOT portfolio to be Rs40/share of MPL.

❑ Stock attractively valued – reiterate Outperformer

An extremely strong order backlog would drive a 67% CAGR in MPL's revenues over FY06-08. We expect 50% CAGR in MPL's earnings over this period on the back of strong revenue growth and stable margins. MPL trades at 9.3x FY08E earnings and 3.8x EV/EBITDA. Considering the strong earnings momentum and significant valuation discount to industry peers, we believe the stock is undervalued. We maintain our Outperformer rating on the stock.

Financials

MAHINDRA & MAHINDRA FINANCIAL SERVICES OUTPERFORMER (RS233; MCAP: RS16BN / US$369M)

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Mahindra & Mahindra Financial Services (M&M Fin) is the largest NBFC operating in rural India. The company occupies a unique slot between a commercial bank and a traditional moneylender, especially in the rural economy, on the back of the requisite operating and credit management competencies. A strong parentage and scalable (as also difficult to replicate) business model give M&M Fin the wherewithal to become a one-stop shop for distribution of financial products in rural India. At 2.3x FY08E adjusted book, we believe valuations are reasonable. We reiterate our Outperformer call on the stock with a 12-month price target of Rs320 – a 37% potential upside from here.

Key financials

Year to March 31	FY03	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs m)	442	651	840	1,091	1,343	1,668
yoy growth (%)		*47.3*	*29.1*	*29.9*	*23.0*	*24.2*
Shares in issue (m)	60.6	60.6	70.2	84.1	86.0	86.0
EPS (Rs)	7.3	10.7	13.7	15.3	15.6	19.4
EPS growth (%)		*47.3*	*27.4*	*11.9*	*2.0*	*24.2*
PE (x)		21.6	17.0	15.2	14.9	12.0
Book value (Rs/share)		41.5	50.9	81.2	91.6	107.0
P / BV (x)		5.6	4.6	2.9	2.5	2.2
Adj. Book value (Rs/share)		37.0	45.1	75.6	86.2	102.6
P/ Adj. Book (x)		6.3	5.1	3.1	2.7	2.3
RoAE (%)		28.5	26.9	20.0	18.1	19.5

❑ Better prospects for rural economy

M&M Fin is essentially a play on India's rural economy with more than 70% of its business coming from rural and semi-urban areas. We believe increasing focus on agriculture by the government, corporates and organized financiers would propel India's rural economy on to a higher growth trajectory. M&M Fin is ideally placed to capture this opportunity.

❑ Strong business model with multiple entry barriers

M&M has developed a rich knowledge base of operating in rural/ semi-urban areas with more than 10 years of experience in lending. With M&M as a parent, strong dealer presence and sound operating processes designed to cater to the demands of rural economy, M&M Fin has developed a business model difficult to replicate in the near term. M&M Fin is on its way to become a one-stop shop in rural India offering all retail finance products.

❑ Aspiring to be a financial supermarket in rural India

Initially, when M&M Fin began its operations, it started with financing only M&M utility vehicles. In 2002, it commenced financing of non-M&M vehicles – which today contributes almost 30% of the business. However, over a period of time, M&M Fin has diversified into multiple product lines – eventually, the company wants to be present in all the key categories of retail lending as well as in distribution of investment products. It has already forayed into categories such as car financing, 2-wheeler financing and is in the process of setting up a subsidiary for housing finance. On the other hand, distribution of insurance and mutual fund products presents a lucrative opportunity for earning fee-based income as the products have a low penetration in rural India.

The existing base of half a million customers helps M&M Fin identify potential clients for new products. For example, if the company has financed a tractor to a customer and his track record is satisfactory, it would also market an auto loan (car loan) to the same customer after taking into account his repayment abilities. M&M Fin's typical customers include small entrepreneurs, self-employed individuals such as transport operators and taxi operators, and agriculturists.

Introduction of new products at periodic intervals

1993	Commences financing of M&M UVs
1996	Financing M&M dealers for purchase of tractors
1999	Retail tractor financing in rural / semi-urban areas
2002	Begins financing of non M&M vehicles
2004	Insurance distribution through subsidiary MIBL
2005	Commences distribution of third party mutual funds
2006	Entry into 2-wheeler financing
2006	In the process of setting up a separate housing finance subsidiary

❑ Captive advantage can be leveraged if needed

M&M Fin has a strong parent in M&M – the market leader in UVs as well as tractors. The company's standalone performance till date is without any preferential treatment/ subvention from M&M. However, in future, M&M can use the subvention route, if required, to fuel the growth rates.

❑ Healthy growth potential with reasonable valuations:

With its multiple growth drivers, we expect M&M Fin to generate 23.6% CAGR in net profit over FY06-08 with average RoE of 19.2%. Valuations of 2.3x FY08E adjusted book are reasonable considering the attractive potential of rural economy. Reiterate Outperformer with 12-month price target of Rs320, which is 3.1x FY08E adjusted book.

Metals

MONNET ISPAT ENERGY

UNRATED (RS241; MCAP: RS8.2BN / US$186M)

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Monnet Ispat Industries (Monnet) has a capacity of 0.3m tonnes of coal based sponge iron production – one of the largest such capacities in India. The company also manufactures steel products and has a capacity of 0.3m tonnes of billets and ingots. Monnet enjoys strong cost competitiveness with captive resources of raw material, viz coal, iron ore and power. With significant capacity expansions lined in steel and power divisions, Monnet is emerging as a large mineral, metal and power company with integrated and inter-woven operations. Monnet currently trades at 6.2x 9MFY07 annualized earnings.

Key financials

Year to March 31	FY04	FY05	FY06	9MFY07
Net sales (Rs m)	2,471	5,197	5,324	4,516
Shares in issue (m)	19.5	29.9	31.8	34.4
Adj. EPS (Rs)	14.4	40.8	33.28	37.2
% growth	*11*	*183*	*(18)*	*12*
PER (x)	16.0	5.6	6.9	6.2
Price/Book (x)	3.1	2.0	1.8	1.5
RoE (%)	26.7	45.8	25.8	18
RoCE (%)	10.3	29.3	26.07	15

**Growth and EPS numbers are annualised for 9MFY07*

❑ Emerging as a scalable steel manufacturer

Monnet has large scale expansions lined up in both sponge and steel capacities through a greenfield project in Raigarh. Post the expansion, Monnet would have 0.8m tonnes and 1.3m tonnes capacities in sponge and steel products respectively. The expansion is expected to be executed over FY08.

Monnet Ispat: The growth story

Particulars	Units	Existing capacity	Under implementation	Post expansion (by FY09)
Sponge Iron	tonnes	300,000	500,000	800,000
Steel (Billets/ Ingots/structurals/plates)	tonnes	300,000	1,000,000	1,300,000
Rolling steel	tonnes	200,000	0	200,000
Ferro Alloys	tonnes	60,000	0	60,000
Captive Power	MW	60	90	150

❑ Cost competitiveness to improve going forward

Monnet currently enjoys captive access to coal required for power and steel production. The company also has a captive iron mine and is in the process of increasing production from the captive mines to ensure complete integration for its steel operations. By FY10, Monnet plans 100% captive access to raw materials, which should significantly improve its cost competitiveness. The company is also in the process of seeking clearances for two more iron ore mines with estimated reserves of 32m tonnes.

❑ Power business – reaching for scale with cost competitiveness

Monnet has laid out massive expansion plans in the power sector (outside the captive capacities) and is on its way to become one of the largest and lowest cost power generators in India. The company is currently setting up a 1000MW thermal power plant at an investment of Rs42bn through a wholly owned subsidiary. The project is in the process of achieving financial closure and would be extremely cost efficient. The competitiveness would emanate from two factors – pithead-based operations with owned coalmines (that reduce transportation costs) and lower inventory requirements. Further, being a merchant power plant, it would be outside the purview of regulated returns. Monnet believes that the power plant can generate an RoE far in excess of 14% assured return for a regulated power business.

Organised Retail

NILKAMAL LTD

OUTPERFORMER (RS170; MCAP: RS1.5BN / US$33M)

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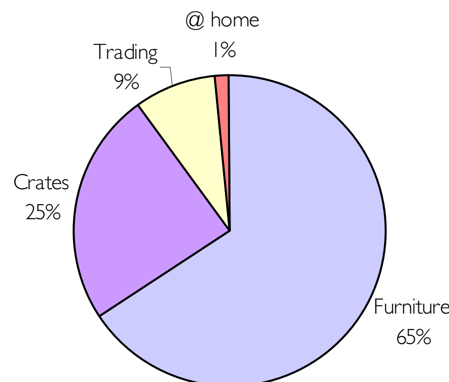
Nilkamal is the world's largest player in moulded furniture and a leader in the domestic material handling business (plastic crates). Having built a dominant position in the core business, Nilkamal is well set to tread the high growth path on the back of its lifestyle furniture retailing business (@home). With a view to tap the Rs700bn home furnishing market, which is transitioning from unorganized to organized, Nilkamal has charted out plans to have 38 @home stores by FY10. In the material handling space, Nilkamal has also entered into a JV with Bito Lagertechnik Bittmann GMBH of Germany. The company is also enhancing its material handling portfolio to become a one-stop solutions provider. With sustained momentum in the core operations and growth driven by new ventures, we see significant value creation opportunity in the stock.

Key financials

As on 31 March	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	3,111	3,238	3,697	4,841	6,210
Shares in issue (m)	9	9	9	9	9
Adj. EPS (Rs)	18.0	15.0	8.2	8.2	24.0
% growth	*36.2*	*(16.6)*	*(45.4)*	*54.7*	*87.5*
PER (x)	9.4	11.3	20.7	20.7	7.1
Price/Book (x)	1.3	1.2	1.1	1.1	1.0
EV/EBITDA (x)	5.9	6.9	7.0	8.0	3.9
RoE (%)	14.4	10.9	5.6	5.0	14.1
RoCE (%)	10.4	7.5	6.6	6.4	14.8
EV/CE (x)	1.1	1.0	1.0	0.9	0.9

Net sales break-up (FY06)



Source: SSKI Research, Company

❑ The core – world's largest moulded furniture player

Nilkamal, with a production of more than 10m chairs in a year, is the world's largest manufacturer of moulded furniture. Having created a strong brand in 'Nilkamal', a pan-India distribution network (30 branch offices and 26 warehouses) and adequate manufacturing facilities, Nilkamal is best placed in the Indian moulded furniture market. Also, consolidation – driven by three years of stagnancy in the industry and high material prices – has worked to Nilkamal's benefit. The core business (moulded furniture) is set to witness rapid growth on the back of focused marketing and new product lines (sofas and cabinets). Nilkamal will also look at the inorganic route to accelerate growth.

❑ Branded furniture – @home

The Rs700bn Indian home furnishing and décor market is set to boom on the back of a swiftly growing new home market (6m homes built every year) and brewing consumerism. While the home décor market is set to grow to Rs1trillion by 2010, there is also an evident shift from unorganized to organized. While many retailers like Pantaloon Retail and Shopper's Stop are offering , we believe that Nilkamal – with its specialty store @home – is better placed (Ikea, and not Wal Mart, is the global leader in the home furnishing market). Nilkamal plans to reach 38 @home stores by FY10 from seven currently. With Rs80-100m of average through put per store, Nilkamal can potentially scale up its operations to over Rs3bn by FY10. While we remain positive on the business, we would also like Nilkamal to further pace up the expansion plans.

❑ Material handling business – a one-stop shop

Nilkamal is scaling up its material handling business beyond its dominance in the crates segment. Nilkamal intends to be a single stop shop for all the material handling needs. In order to accomplish this objective, the company has forged a 50:50 joint venture (JV) with Bito Lagertechnik Bittmann GMBH of Germany, entailing an estimated cost of Rs400m (to be funded at a gearing of 1:1). The facility would manufacture racking and shelving systems made up of metals (Bito is a market leader in racking and shelving systems in Europe). With the plant expected to begin its operations by the next month, revenues will start flowing in from FY08 and can potentially clock in revenues of Rs800m within two years of operations. Besides a few technical alliances, Nilkamal has also entered into a strategic alliance with Plastics Omninum, France for solid waste handling business and a strategic alliance with Conveyor Multibag Systems, Belgium for high value added material handling business.

❑ Valuations and view – reiterate Outperformer

Strong core operations and new business initiatives will ensure that Nilkamal stays on the high growth path. While start-up losses in the fast growing retail operations will restrict profit growth, we see immense value creation potential in the business in the long run. Given the fact that retail operations, expected to attain revenues of Rs3bn by FY10, retail operations can get valued at Rs4.5bn (1.5x revenues) and considering steady state profits of Rs150m from core operations, we see immense value from the current market capitalization of Rs1.6bn.

IT Services

NORTHGATE TECHNOLOGIES

UNRATED (RS1005; MCAP: RS16BN / US$370M)

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Northgate Technologies (Northgate) focuses on online Internet advertising and Internet technologies. Online advertising (90% of business) is primarily marketed through Axill Inc, a US-based 100% subsidiary. Top online advertising campaigns, including AOL, Wal-Mart, Sony BMG, Avon, are with Axill. Telecom products include patented SIP based soft phone – Globe 7. Northgate continues to witness strong growth rates on a small base (revenues grew by 59% yoy in FY06 to Rs1.06bn). Growth strategies include penetrating Europe, China and India for online advertising and focusing on social networking and gaming sites.

Key financials

Year to March 31	FY05	FY06	9MFY07
Net sales (Rs m)	668	1,059	1,926
Shares in issue (m)	12	13	17
Adj EPS	6.7	17.5	23.9
% growth		*161.3*	
PER (x)	149.8	57.3	
Price / book (x)	28.8	20.4	
EV/EBITDA (x)	161.2	52.6	
RoE (%)		42.4	
RoCE (%)		45.5	

❑ Focus on online advertising

Northgate gets revenue from (1) internet advertising / e-commerce commissions, and (2) telecom subscription.

Online advertising - Axill.com: Axill is an online tracking engine developed in-house, which offers a total advertising solution – from impression to sell. Client base for the product suite includes Walmart, Avon, Lycos, ebay, amazon.com, Dell, yahoo, AOL, Sony BMG, etc. Axill aggregates traffic to all online advertisers using XML and RSS with more – crossed 750 advertisers and 3,500 publishers in 2006. As per company reports, the online advertising market in USA, Europe and EMEA is set to almost double over 2006-2010 to $50bn.

Telecom products - Globe 7: It is a patented SIP (Session Initiation Protocol) soft phone that can serve content geographically or demographically, targeting each individual. The product is equipped with MP3, 'Pay per Call' Technologies, real time video, Global SMS engine and instant messenger. It also has the ENUM (electronic numbering) facility. Globe 7 is also expected to help Northgate in better penetration for online advertising.

❑ Future growth strategy

Northgate intends to replicate its US success in online advertising in Europe, China and India. To increase the online ad inventory, the company plans to focus on social networking sites and gaming sites.

❑ Witnessing healthy growth

Revenues grew 59% yoy in FY06 to Rs1.06bn, and Northgate has clocked revenues of Rs1.93m in 9MFY07. In 9MFY07, the company has reported PAT of Rs396m, which has significantly surpassed the Rs232m PAT reported for FY06. RoE is healthy at 42% for FY06.

Auto Components

OMAX AUTO

OUTPERFORMER (RS86; MCAP: RS1.84BN / US$41M)

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Omax Auto is one of India's largest manufacturers of sheet metal and tubular machined components with a portfolio of ~600 products. Hero Honda accounts for ~62% of revenues of the company (the entire Honda group accounts for ~70% of revenues). As a part of its customer diversification strategy, the company has entered into an agreement with Tata Motors to supply chassis. Omax Auto is setting up a new chassis manufacturing unit in Lucknow inside Tata Motors' plant. Becoming a supplier to Tata Motors is a good de-risking strategy as it would reduce the client concentration risk. Omax has also undertaken various initiatives to reduce its operating expenses by resorting to various cost/ employee rationalization programmes, i.e. switching over from diesel-based power supply to HFO based DG sets (on lease rent) at three of its plants and reducing excess temporary workforce (by 500 workers). As a result, margins have improved by 170bp yoy to 10% for 9MFY07. The company will also likely benefit from the partial captive sourcing of raw material, i.e. steel, and higher capacity utilization at the its Bangalore and Binola plants. At 6.1x FY08E earnings and 4.2x EV/EBIDTA, we reiterate Outperformer.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	4,248	5,298	5,786	6,954	8,501
Shares in issue (m)	20	21	21	21	21
Adj. EPS (Rs)	9.6	9.5	9.4	11.1	14.1
% growth	*29.7*	*(1.2)*	*(1.1)*	*18.6*	*26.7*
PER (x)	9.0	9.1	9.2	7.7	6.1
Price/Book (x)	2.4	1.9	1.6	1.4	1.2
EV/EBITDA (x)	5.9	5.2	5.6	4.4	4.2
RoE (%)	32.5	23.6	19.0	19.6	21.3
RoCE (%)	19.1	16.1	13.3	15.7	16.7

Omax Auto – largest manufacturer of sheet metal and tubular machined components in India

Omax Auto, based in Gurgaon, is among India's largest manufacturer of sheet metal and tubular machined components with a portfolio of ~600 products. The company's main components include body frames, mufflers, sprockets, electroplated tubular components, piston rods and studs, etc. It caters primarily to two-wheeler and four-wheeler OEMs and exports account for ~5% of its total revenues. Hero Honda accounts for 62% of revenues while the entire Honda group accounts for ~70%.

Revenue ramp up expected from higher capacity utilization

Omax Auto has eight manufacturing facilities with two of them set up in mid-FY05 at Bangalore and Binola respectively. While the Bangalore plant caters to domestic OEMs and Tier-I customers like TVS Motors, Sundaram Clayton and Delphi, the Binola plant is an export oriented unit (EOU) focusing on exports. The plants had combined revenues of Rs380m in FY06 (against an expected Rs800m) and Rs340m in H1FY07. However, scale up of both these plants started off on a slow pace due to delayed product approvals and slow offtake by customers.

Revenues are expected to ramp up further with supplies to TVS, Sundaram Clayton and Mitsubishi, and with the initiation of commercial supplies of some pipeline orders from the Bangalore plant. Exports too are expected to scale up from the Binola plant going forward, with confirmed orders in excess of ~Rs500m currently. We expect 21% revenue CAGR for Omax Auto over FY06-08 to Rs8.4bn in FY08. We expect exports to grow by 57.1% yoy to Rs550m for FY08.

❑ Cost reduction measures have started paying off

Omax has undertaken measures to reduce its cost base. The cost rationalization exercise is expected to result in margin improvement for Omax. The company had hired 500 temporary workers in Q2FY06 due to labour unrest at two of its Gurgaon plants, which led to a 45% jump in contract labour costs (additional cost burden of ~Rs15.2m in H2FY06 – 0.5% of H2FY06 sales). Post the settlement with the unions and a revised 3-year wage contract, Omax laid off the redundant 500 temporary workers in phases by Q1FY07.

Further, Omax has also switched from diesel-based power supply to HFO based DG sets (on lease rent) at three of its plants. Omax expects net savings of Rs7.5m-10.0m per plant per annum due to the switch. As a result of these initiatives, the company's operating margins for 9MFY07 have increased by 170bp to 10%.

❑ Capacity expansion plans

As a part of its customer diversification strategy, Omax Auto has been short listed by Tata Motors to supply chassis, for which Omax Auto is setting up a new manufacturing unit in Lucknow inside Tata Motors' plant. The unit is expected to start production from December 2007 with an initial capacity of 48,000 units at a total outlay of Rs500m. The company will then gradually increase the capacity to 96,000 units. The unit is expected to yield revenues of Rs1.2bn by FY09. Becoming a supplier to Tata Motors is a good de-risking strategy as the share of Hero Honda in sales would come down. We believe that this is a positive development for the company as the project is likely to fetch higher margins vis-à-vis the company's current business.

Details of Omax's proposed plant in Lucknow

	Capex (Rsm)	Capacity (units)	Capex Time line	Annual Revenues (Rsm)	Revenue impact in
Phase I	500	48,000	Dec-07	1,200	FY09
Phase II	500	48,000	FY09	1,200	FY10
Total	**1,000**	**96,000**	**FY09**	**2,400**	**FY10**

Source: Company, SSKI Research

Omax Auto also plans to expand capacities across its units including the facilities at Dharuhera, Binola and Bangalore. For the current fiscal, the estimated capex is Rs600m for FY07 and Rs1.2bn for FY08 (including the new unit in Lucknow). The capex will be funded through a mix of term loans and internal accruals.

Omax has invested ~Rs150m (76% stake) in setting up a steel plant in Gurgaon, named Omax Steel, with an installed capacity of 30,000 tonnes per annum. The plant has commenced commercial production from December 2006. Going forward, Omax Steel plans to set up 50,000 tonnes per annum of CR rolling capacity with one-third of the total production to be sourced by Omax and the remaining to be sold in the open market. Omax expects savings of 5% on its purchase of steel from Omax Steel.

❑ Valuations and view

Omax Auto has lowered its operating cost base over the last two quarters and will further benefit from partial captive sourcing of steel and higher capacity utilization at its Bangalore and Binola plants. Omax Auto has signed an agreement with Tata Motors to set up a new plant near the latter's Lucknow facility for manufacturing chassis for its M&HCVs. Omax Auto will invest Rs1bn in this plant in two phases by FY09 and the project is likely to fetch annual revenues of ~Rs2.4bn annually when fully operational. We believe this is a positive step for the company as the project is likely to fetch higher margins vis-à-vis the current business and will reduce its dependence on a single client. We expect revenues from this project to kick in substantially from FY09 only. At CMP, the stock trades at 6.1x FY08E earnings and 4.2x EV/EBIDTA. Reiterate Outperformer.

Pharmaceuticals

PANACEA BIOTEC

UNRATED (RS430; MCAP: RS28.2BN / US$640.1M)

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Panacea Biotec (Panacea) is an exciting and differentiated business model in the Indian pharma space, and focuses on niche segments like vaccines and NDDS based generic formulations. Panacea's corporate strategy of concentrating on segments with high entry barriers and emphasis on partnering has started to pay off. Panacea has registered scorching growth over the last few quarters with a sharp increase in exports of Oral Polio Vaccine (OPV) to UNICEF/ WHO. OPV is currently Panacea's largest product segment accounting for ~70% of sales. Panacea has been doing very interesting R&D work in the area of Combination Vaccines and Anthrax Vaccines, which will be the key growth drivers going forward. Panacea has also entered into multiple collaborations with players across the globe to significantly enhance its vaccine pipeline. Sales of NDDS based branded formulations like Willgo and Sitcom in regulated and non-regulated markets will be another growth driver.

Key financials

Year to March 31	FY02	FY03	FY04	FY05	FY06
Net sales (Rs m)	2,773	2,717	2,633	3,279	5,419
Shares in issue (m)	57	57	57	57	57
Adj. EPS (Rs)	4.2	3.7	2.8	4.8	10.4
% growth		*(13.2)*	*(23.7)*	*69.5*	*117.1*
PER (x)	101	117	153	90	41
Price/Book (x)	2.8	24.5	22.5	20.2	15.8
EV/EBITDA (x)	50.1	69.3	234.1	117.5	24.6
RoE (%)	29.8	22.2	14.9	21.9	39.9
RoCE (%)	29.2	22.0	11.8	14.6	18.7

❑ Vaccines – the principal growth driver

Panacea is the second largest vaccine manufacturer in India. With the global vaccines market expected to grow at 15-20%, the segment offers an attractive growth opportunity. Given that the technology driven vaccine-manufacturing business has high entry barriers, it has considerably strengthened Panacea's competitive advantage. Panacea's vaccine manufacturing capabilities are underlined by the fact that it is probably the largest supplier of OPV to WHO/ UNICEF. Panacea's vaccines, led by OPV, have grown 473% yoy over 9MFY07. In addition to OPV, Panacea has a very exciting R&D pipeline comprising multiple new vaccines.

❑ Strong R&D focus has created an exciting vaccine pipeline

Key pipeline products include thermostable vaccines (vaccines that do not need cold chain), multiple combination vaccines (Panacea is in advanced stage of pre-qualification process for WHO for three of these vaccines), and Anthrax vaccine (US government has a programme to stockpile Anthrax vaccine and is still scouting for a suitable manufacturer) among others. Panacea expects its combination vaccines to be the next big growth driver with sales across multiple non-regulated markets. The company expects WHO approval for these combination vaccines during the next few quarters, which can lead to strong revenue growth going forward. Panacea is also expanding the capacity of its vaccines manufacturing facilities.

❑ Branded formulations – another growth driver

Panacea has steered clear of the competitive generic exports segments and focuses on niche branded formulations leveraging its NDDS R&D capabilities. Key focus segments include pain management, diabetes management, organ transplantation, etc. The formulations business has grown 28% yoy in 9MFY07 and indicates the potential of this segment. Panacea's strategy involves registration and selling of these patented NDDS formulations in non-regulated markets over the medium term and in regulated markets over the long term. Given Panacea's focus entirely on niche branded formulations, this segment is likely to be significantly more profitable than the regular unbranded generics operating in highly competitive market places.

Organized Retail

PROVOGUE (INDIA)

OUTPERFORMER (RS469; MCAP: RS7.6BN / US$171.7M)

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Provogue is one of the fastest emerging retail and proxy retail plays in India. Provogue continues to extend '*Provogue*' brand equity to newer categories like women's wear, footwear, fashion accessories, etc and is rapidly scaling up its retail formats – Provogue Studios and Provogue Mega Stores. Prozone is also foraying into value retailing business through introduction of 'Promart'. While Provogue will continue to piggy ride the retail growth, the biggest opportunity and value lies in its subsidiary – Prozone, the retail development and mall management business, and a perfect proxy to the retail story. Having roped in Liberty International, UK (that recently infused Rs2bn for a 25% stake in Prozone), a large global retail developer and mall manager, Prozone has lined up six mall development projects to be completed in the next couple of years. We see immense value creation potential in Provogue. Reiterate Outperformer.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	280	1,154	1,597	2,177	3,046
Shares in issue (m)	5	12	16	16	16
Adj. EPS (Rs)	2.6	5.9	8.0	12.6	19.5
% growth	*(30.9)*	*127.1*	*35.3*	*58.4*	*54.5*
PER (x)	180.6	79.5	58.8	37.1	24.0
Price/Book (x)	21.9	13.1	6.6	5.7	4.7
EV/EBITDA (x)	71.4	42.6	36.1	23.4	15.2
RoE (%)	13.7	26.5	16.3	16.5	21.4
RoCE (%)	11.7	22.7	16.3	19.0	25.1
EV/CE (x)	8.1	7.8	5.4	4.8	4.1

❑ Extending the brand 'Provogue'

In the last 10 years of operations, Provogue has done a commendable job of creating a lifestyle brand – Provogue. Having built a strong equity, Provogue has extended its presence to newer categories and segments like women's wear, innerwear, footwear and fashion accessories. Akin to brands like GAP, GUESS, Tommy Hilfiger, etc, Provogue is creating a complete fashion brand. Having built extensive merchandise on the one hand, Provogue is also ramping up its retail presence through Provogue Studios (1,200-1,500 sq. ft stores) and Provogue Mega Stores (6,000-10,000 sq. ft stores), besides selling through other retailers like Shopper's Stop, Pantaloon, Piramyd, etc.

❑ 'Promart' – a value retailing venture

Identifying the vast opportunity in the value retailing segment for branded products, Provogue is setting up destination stores – Promart, each ranging from 50,000-100,000 sq. ft. A format akin to Pantaloon Retail's Brand Factory, Promart will be a perfect model catering to Tier II cities and bargain hunters, as brands will be available at 20-60% discounted rates.

❑ Prozone – 'real'ty value lies here

Retail development business is dominated by unorganized residential property developers and there is evident void of organized retail developers in the business. With poor execution skills of existing developers, there is a need for organized retail property developers in India. As we expect Indian Organized retail to move up from USD7bn to USD35bn by 2010, it calls for additional 150m sq. ft of retail space and an investment of Rs300bn on retail development. Provogue is present in the retail development and mall management business through its wholly owned subsidiary Prozone. In a major breakthrough development, Prozone has roped in Liberty International, UK as a strategic partner. Besides bringing in Rs2bn of funds (for a 25% stake), Liberty International brings to the table its global expertise of managing retail properties worth GBP7.5bn. Liberty's designing expertise is complemented by Prozone's strong relationships with various retailers (tenants) and understanding of the domestic market. Being adequately funded (Rs2bn by Liberty and Rs1.1bn by Provogue), Prozone has embarked on an aggressive expansion path. In the initial phase, the company has lined up six properties across 6m sq. ft of retail space in cities like Mysore, Aurangabad, Thane, Surat, Indore and Chandigarh. Currently valued at Rs8bn, we see immense value creation potential in this business.

❑ Valuations and view – reiterate Outperformer

While the core branded business continues to grow at a brisk pace, we believe that it will continue to be valued as a branded business. We believe that the major value creation lies in the Prozone business, which is currently valued at Rs8bn, based on the pricing at what Liberty has bought 25% stake. We maintain our positive bias for Provogue and see significant value creation potential. Reiterate Outperformer.

Alcoholic Beverages

RADICO KHAITAN

OUTPERFORMER (RS160; MCAP: RS15.4BN / US$349.4M)

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Radico Khaitan (Radico) has grown from relative oblivion into India's second largest liquor manufacturer (12% market share) within a short span of five years. Radico, with its pan India presence and extensive product portfolio, is well placed to capture the booming opportunity in the Indian spirits industry. Besides extending its brand portfolio in the domestic market, Radico has also identified opportunity of growth through JV with Diageo, inorganic growth and increasing presence in the international markets. While Radico has built a war chest of USD70m, we would like Radico to gear up further. We expect Radico's revenues and earnings to register 15% CAGR over FY06-08 on the back of robust volume growth and improved portfolio mix. Maintain Outperformer.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	3,060	4,318	4,919	5,535	6,521
Shares in issue (m)	96	96	96	96	96
Adj. EPS (Rs)	1.9	3.1	4.6	5.3	6.2
% growth	*(14.7)*	*63.4*	*50.3*	*14.7*	*18.1*
PER (x)	85.4	52.2	34.8	30.3	25.7
Price/Book (x)	21.1	15.4	11.0	7.0	5.6
EV/EBITDA (x)	56.0	35.5	23.9	19.9	15.3
RoE (%)	29.1	34.1	36.9	28.3	24.4
RoCE (%)	12.6	14.5	16.1	12.1	13.2
EV/CE (x)	7.4	5.2	3.7	2.3	2.4

❑ Indian alcoholic beverages business – on a High!

Unshackling of regulatory framework on one side and brewing consumerism on the other, has triggered rapid growth in Indian alcoholic beverages industry. With more state governments moving to free markets, volume offtake as well as margins in the business have improved substantially. We expect the Indian alcoholic beverages continuing to grow at ~15% CAGR over the next five years.

❑ Radico Khaitan – sweetly placed

Radico Khaitan has increased its market share from 4.5% in FY02 to 12% in FY06 through innovative marketing and leveraging its extensive distribution. Radico has presence in each of the 29 states of India either directly or through tie-up units. With 12m cases sold annually, Radico is the second largest player in the Indian liquor industry and has strong stable of brands like 8PM, Magic Moments, Contessa, Old Admiral, etc. Radico's deep distribution is now being leveraged to further enhance the product portfolio – across productlines (Whisky, Vodka, Rum, Gin) and across price points. We believe that Radico is sweetly poised in the Indian alcoholic beverages industry and would expect more aggression in the domestic market. With USD70m raised in the last one year, Radico can potentially gear up further.

❑ Diageo JV and international operations – opening new vistas

With a view to capitalize upon its distribution network and manufacturing facilities, Radico also entered into a 50:50 JV with the world's largest liquor manufacturer Diageo. JV will operate to market newly created brands for the rapidly growing premium liquor markets. While this gives Diageo an entry into Indian market, for Radico it helps to improve product offering. Radico is now aggressively vying for opportunity in the international markets like Europe, CIS and Latin America. Radico has also entered into distribution tie ups in few of these markets and has revamped its product packaging to cater to global markets (on the move market in particular). Radico expects international markets to be a major revenue stream over the next five years.

❑ Valuations and view

At Radico's IMFL sales volume will continue to grow rapidly on the back of its core brands and entry into new initiatives (international markets and JV with Diageo). We believe that Radico is poised to ride the booming Indian spirits business. We expect Radico to witness a 15% CAGR over FY06-08. Maintain Outperformer.

Agri-related

REI AGRO

UNRATED (RS204; MCAP: RS9.1BN / US$205M)

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With revenues registering a CAGR of 45% over the past five years, REI Agro has emerged as the fastest growing player in the Indian basmati rice industry. The company also has the distinction of being the largest integrated processor of basmati rice in the world with an annual capacity of 0.5m tpa. Leadership position and continuous capacity expansion would ensure that REI Agro gets the largest portion of the growth pie, thereby growing faster than the annual demand and the industry growth curve. Along with being a focused player operating in its areas of core competency (basmati rice), REI Agro is also extending its operations to retail to enhance its reach. The stock trades at 24x FY06 earnings.

Key financials

Year to March 31	FY03	FY04	FY05	FY06
Net sales (Rs m)	4,973	6,024	8,450	9,578
Share in issue (m)	13.0	70.0	73.0	79.0
EPS (Rs)	6.4	2.3	5.2	8.4
growth (%)		*(65.0)*	*127.0*	*63.0*
PER (x)	31.3	88.6	39.0	24.0
EV/ EBITDA (x)	15.9	43.1	22.8	16.0
EV/ sales (x)	1.0	2.9	2.4	2.5
Book value (Rs/ share)	10.0	10.0	10.0	10.0
Price/ BV (x)	20.1	20.1	20.1	20.1

❑ REI Agro – a well-known name in the basmati rice segment

Established in 1996 with a capacity of 87,600 tpa, REI Agro has emerged as one of the world's largest exporters of basmati rice as also the largest integrated processor of basmati rice with a capacity of 0.54m tpa. The company pioneered the concept of broken basmati rice (all broken basmati rice is sold under REI brands), which constitute more than 1/3rd of its entire basmati rice sales of Rs3.35bn. Along with being a focused player operating in its areas of core competency (basmati rice), REI Agro is also extending its operations to retail to enhance its reach.

REI Agro is India's fastest growing and the largest rice processing company with a capacity of 1,000 tpd. The company has registered a CAGR of 45% over the past five years with strong focus on the basmati rice segment. This has ensured a higher overall realization per tonne as indeed profitability per kg of rice sold for the company vis-à-vis peers. Currently, 31% of its revenues are through branded sales from brands like Mr Miller (popular), Al Tahhan (exports), Kasauti (premium end) and Hansraj (mass) among others.

❑ Business moving in the right direction

Despite being a relatively late entrant in the business, REI Agro has become the largest as also the fastest growing player (45% sales CAGR over FY00-06) in the international branded basmati rice segment. With a strong presence in the popular and value segments, REI Agro has adopted a unique strategy, wherein it focuses on branded broken basmati. Currently, 10% of the market is accounted for by premium branded rice, 40% by the mid/ value segment and the remaining 50% by popular/ mass segment. REI Agro now straddles all price points with brands like Kasauti, Real Magic, Mr Miller, Hungama and Hansraj among others. While sales mix is tilting in favour of branded basmati rice over the past one year, we expect the trend to be sustained for at least two more years. With a higher proportion of sales coming from branded basmati rice, we expect margins to expand in the coming period.

❑ On a high-growth path

REI Agro is planning to capitalize on its core competency by retaining its focus on the value added basmati rice business. The company is building up its already expanded capacity of 0.54m tpa in FY06 to a further 1m tpa by FY10. Besides capturing the entire value chain with its foray into direct retailing, the company is consolidating the large unorganised basmati rice market through branding, promotions and pricing. With its increased concentration on the export market, REI Agro is set to emerge as the largest exporter of basmati rice in the world. Exports of par boiled basmati rice accounted for 15% of the entire turnover only after a year of REI Agro commissioning the par-boiling unit.

❑ Valuations and view

While India is the fourth largest economy in the world on PPP basis, basmati rice reaches only 25m households out of a total population of 1,100m. Also, 65% of the highly fragmented Indian basmati rice industry is controlled by small unorganised players, REI Agro looks aptly positioned for consolidation through branding, promotion and pricing strategies, thereby providing scope for higher market penetration and better price realisations.

Media

SAREGAMA INDIA

UNRATED (RS229; MCAP: RS3.1BN / US$68.2M)

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Saregama is India's largest music catalogue company with over 300,000 music tracks across languages and genres. Making a comeback after facing tough times since 2000, Saregama is set to capitalize upon the opportunity created by opening up of the FM radio space, a rapidly growing mobile music market and emergence of digitized licensed music library. Beyond music, Saregama has also entered the home entertainment business. While piracy will remain a drag on the physical distribution market, rapid growth in publishing and home video income will ensure steeper profit growth. Saregama expects to increase its topline at 15% CAGR and profit at 40% CAGR over the next five years.

Key financials

Year to March 31	FY03	FY04	FY05	FY06
Net sales (m)	1,150	690	980	1,140
Share in issue (m)	93.4	93.4	93.4	146.7
Adj. EPS (Rs)	-	-	5.6	6.1
% growth				*8.4*
PER (x)			41.0	37.9
Price/Book (x)	3.4	5.1	4.6	4.2
EV/EBITDA (x)	(2.0)	(4.2)	14.4	31.4
RoE (%)	(31.6)	-	10.0	11.9
RoCE (%)	(22.9)	-	10.3	12.5
EV/CE (x)	4.9	6.3	6.3	5.1

❑ Music catalogue – time to capitalize

Music industry, which has been plagued by piracy, is seeing some growth and opportunity to monetize the music library. Saregama, with its 300,000 music tracks (190,000 of which are already digitized), is set to make the best of this opportunity.

Radio opportunity: The biggest boost to the Indian music industry comes in the form of opening up of the FM Radio space. With 266 FM stations expected to be operational by the end of CY07, the music industry will potentially garner Rs1.2bn in the form of royalties. Saregama, with a market share of 35% in the historical Hindi movie song library and 15% of the new marketable library, will be the key gainer.

Mobile music: Ring tones, call back ring tones, caller tunes and mobile music market is growing at an explosive pace as music forms 40% of the mobile entertainment content globally. The Indian market is also growing rapidly with service providers like Airtel, Hutch and Reliance Communications aggressively promoting these services. With 146m mobile subscribers, the market expected to move up to 350m by 2010. We see this as a major revenue propeller for a music publishing company like Saregama.

Internet business: Internet as a content delivery platform is growing fast with over 300 new legitimate music download websites launched in the last couple of years. Saregama has also started to put its huge music archive to effective use by offering flexible downloadable packages at attractive rates, and is making its archives available on platforms such as iTunes, MSN Music and Sony Connect. Saregama is even looking to do an 'iTunes' by setting up its own online music retail portal – **saregama.in**.

❑ Home entertainment – an attractive opportunity

The home video business currently accounts for 19% of Saregama's revenues. The Indian home entertainment market would likely witness 41% CAGR in revenues over 2005-10 and will be Rs24bn business by 2010. While Saregama is currently present in regional, devotional and ghazal segments, it is now acquiring rights for Hollywood and Bollywood movies. Saregama has also entered into tie-ups with global studios like Warner Brothers, Universal, Paramount, MGM, Miramax, Dreamworks and BBC to distribute dubbs of popular English movies.

❑ HamaraCD – a unique concept

HamaraCD.com is a unique concept offering a platform to create one's own audio CDs of favorite songs. By far, HamaraCD today is the largest, most popular and possibly the only legitimate site offering CD customization facility for Indian songs globally. HamaraCD offers more than 25,000 most popular as well as truly rare songs from 100 years of Saregama's collection spread across 12 genres.

❑ Improved quality of earnings

While piracy will continue to plague the physical distribution revenues, Saregama is expected to sustain a robust growth pace, as publishing income and home entertainment business grows briskly. More importantly, profit growth will be much sharper, as high margin businesses like publishing (40-65% margins) and home entertainment (30-35%) will grow faster than the low margin physical distribution business (4-6%). Saregama expects to increase its topline at 15% CAGR and profit at 40% CAGR over the next five years.

IT Services

SASKEN COMMUNICATION TECHNOLOGY OUTPERFORMER (RS511; MCAP: RS14BN / US$325M)

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Sasken Communications (Sasken) is a hybrid play (IT services and products) on the telecom vertical. Sasken's blue chip clientele, including names like Nortel, Lucent and Nokia, is a testimony to its strength in telecom services. We expect 31% revenue CAGR in the company's services business over FY06-08 driven by increased offshoring of telecom R&D services. Product revenues are set to multiply 2x on the back of royalty revenues kicking in, thereby shoring up overall margins in FY08. We expect 56% earnings CAGR for Sasken over FY07-09; Outperformer.

Key financials

Year to March 31	FY06	FY07E	FY08E	FY09E
Net sales (Rs m)	3,081	4,829	6,822	8,516
Shares in issue (m)	28	28	28	29
Adj. EPS (Rs)	10.6	15.9	29.0	38.8
% growth	*(21.3)*	*49.7*	*82.2*	*33.8*
PER (x)	48.0	32.1	17.6	13.2
Price/Book (x)	3.7	3.5	3.1	2.8
EV/EBITDA (x)	25.4	17.5	10.5	8.2
RoE (%)	11.3	11.3	18.9	22.5
RoCE (%)	11.4	13.2	20.8	25.7
EV/CE (x)	3.2	2.8	2.9	2.6

❑ Services business – marquee clients

A positive outlook for R&D offshoring and network engineering services provides growth visibility for Sasken. Botnia – acquired in July 2006 – has added 11 Tier I customers to Sasken's client list in Europe, which comprises marquee clients like Alcatel, Ericsson, Siemens, Nortel, Nokia, Lucent, etc. We expect 31% revenue CAGR and 26% EBITDA CAGR for Sasken's services business over FY07-09. EBITDA margins are likely to decline 170bp over FY07-09 due to wage pressure.

❑ Products business – benefits set to accrue from FY08

Sasken's products business is expected to turn around in FY08 when significant royalty based revenues start kicking in. We expect 25%+ steady state EBITDA margins for the products business FY09 onwards.

❑ We value Sasken at Rs634/share

We value Sasken's products business at 2.75x FY08E sales (Rs47/share), a 10% discount to the multiple at which Motorola acquired Sasken's former competitor TTPCom. At 12x FY08E EV/EBITDA, the value of services business works out to Rs597 per share. Accordingly, we have arrived at a price target of Rs634 per share of Sasken net of debt. Concentration risk (client and domain) and disappointing handset sales by clients are the key risks.

Financials

SHRIRAM TRANSPORT FINANCE COMPANY OUTPERFORMER (RS137; MCAP: RS22.7BN / US$516M)

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Shriram Transport Finance Company (STFC) is the leader in the highly profitable pre-owned commercial vehicle financing business. STFC's understanding of this business, relationships with small road transport operators, expertise in valuation and management of credit risks have ensured its success in the space. With business consolidation through merger of three operating companies and capitalization through recent equity infusion, we expect STFC to generate 34.4% CAGR in net profit over FY06-08 and RoE of ~22%. Reiterate Outperformer with a 12-month price target of Rs184, which is equivalent to 2.6x FY08E adjusted book.

Key valuation metrics

Year to March 31	FY04	FY05	FY06	FY07E	FY08E	FY09E
Net profit (Rs m)	771	1,075	1,416	1,963	2,560	3,143
yoy growth (%)		*39.4*	*31.7*	*38.6*	*30.4*	*22.8*
Shares in issue (mn)	100.8	142.2	172.7	178.5	194.5	194.5
EPS (Rs)	8.5	10.3	9.62	11.2	13.7	16.2
EPS growth (%)		*21.5*	*(6.7)*	*16.3*	*22.8*	*17.7*
PE (x)	15.3	12.6	13.5	12.3	10.0	17.0
Book value (Rs/share)	22.2	29.7	47.4	55.4	69.9	82.0
P / BV (x)	5.9	4.4	2.7	2.5	2.0	3.4
Adj. Book value (Rs/share)	22.3	29.4	47.2	55.5	70.3	83.0
P/ Adj. Book (x)	5.8	4.4	2.8	2.5	2.0	3.3
RoAE (%)	41.8	33.3	22.8	21.7	21.8	21.3

**Financials for FY04 and FY05 are pro-forma merged for Shriram Transport, Shriram Investments and Shriram Overseas Finance*

❑ Huge market potential

Truck financing is estimated to be a ~Rs450bn potential market (~Rs230bn for 0-3 years old trucks and ~Rs220bn for 4-10 years old trucks). Positive macroeconomic factors, an improving road network and a higher proportion of cargo being carried by road network are driving healthy growth in CV sales (35% CAGR over the past three years). Legislative pressure on banning more than 10-year old trucks from entering major cities is likely to lead to modernization of the industry over the medium term. This, we believe, would result in a significant demand uptick for "relatively newer" trucks (4-10 years of age).

❑ Wide network providing competitive edge

STFC has a pan-India presence with 327 branch offices. Merger of three group companies – Shriram Transport, Shriram Investments and Shriram Overseas in FY06 has created a single entity having wide presence and a large balance sheet (~R91bn as of Q3FY07). STFC has a share of ~25% in the target market of financing >4 years old trucks. The unorganized segment (moneylenders) caters to the remaining 75% of the segment.

❑ A judicious mix of fund based and fee based revenues

STFC has adopted a strategy of funding old trucks on its own balance sheet, and partnering with commercial banks and manufacturers (UTI Bank, ICICI Bank, Citibank and Tata Motors) for funding new trucks where yields are low and lower cost of funds is required to be competitive. The company has adopted the portfolio management approach by partnering with leading banks and NBFCs for funding new trucks, whereby STFC originates assets and collects receivables on behalf of banks for a fee, and assets are booked on balance sheet of banks. STFC earns ~2% fees for the portfolio management activity.

❑ Unique competencies act as formidable entry barriers

Ground level relationships with small truck operators and first time buyers of old CVs is the key strength for STFC's competencies in sourcing as well as collection. A large customer base providing valuable market references and expertise in valuation of old trucks are other strengths that have enabled STFC to manage its credit quality effectively. Authority and accountability for loan origination and collection is delegated to branches, and field officers are recruited at very low fixed costs but incentivized for collection efficiencies.

❑ Well capitalized balance sheet and improving credit ratings

STFC's unique business model has attracted many reputed investors such as Newbridge Capital, Chrys Capital, Citicorp, UTI Bank, Reliance capital and FMO. The recent preferential allotment by STFC to Shriram Holdings, the holding company of Shriram group where Newbridge has acquired a 49% stake for US $100m, has created a well-capitalized balance sheet. Improving ratings (already upgraded from A+ to AA by Fitch) would further help the company contain its cost of funds in a rising interest rate scenario. On the lending side, rates are relatively insulated due to lesser competition from banks and other organized financiers.

❑ Attractive valuations – reiterate Outperformer

STFC has consistently generated high RoE on the back of firm lending rates and efficient management of credit defaults. Going forward, RoE is likely to come off due to substantial capitalization and a likely decline in NIMs in the face of stiff competition. However, we expect RoE to average 22% over FY06-08, which is still quite attractive. We have valued STFL using the Competitive Advantage Period (CAP) method and arrive at 12-month target price of Rs184, which is 2.6x FY08E adjusted book value. Reiterate Outperformer.

Diversified

SINTEX INDUSTRIES

OUTPERFORMER (RS225; MCAP: RS25.1BN / US$564M)

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Sintex Industries (Sintex) has demonstrated an impressive ability to scale up new businesses over the last few years. With its first mover advantage, the company has emerged as a leader in mass unexplored product segments, especially prefabs. New businesses like electrical accessories too are gaining momentum. Sintex is aggressively scouting for acquisitions to strengthen its presence in high-end plastic applications. In textiles, scale-up of high-end structured fabrics business is equally impressive. We remain bullish on Sintex in view of its high earnings visibility (37% CAGR estimated over FY06-08) and expected expansion in return ratios. Reiterate Outperformer.

Key financials

Year to March 31	FY05	FY06	FY07	FY08E	FY09E
Net sales (Rs m)	6,590	8,530	12,161	15,207	17,169
Shares in issue (m)	92	99	121	121	121
Adj. EPS (Rs)	5.5	9.3	11.6	14.3	16.7
% growth	*17*	*71*	*24*	*23*	*17*
PER (x)	40	24	19	15	13
Price/Book (x)	5.8	4.8	3.8	3.1	2.6
RoE (%)	19	23	25	23	22
RoCE (%)	14	14	23	22	25

❑ Prefabs – high growth visibility

Sintex continues to grow its prefabs business across nine states of India where it is operational. Despite the huge potential, India is still a nascent market for prefabs. State governments and local government bodies have only gradually started recognizing prefabs as the accepted route for building rural infrastructure – as reflected in the stupendous growth witnessed by Sintex over the last few years. Prefabs business offers tremendous growth visibility for Sintex with new product launches, introduction of new technology and increasing product applications. Nationwide launch of prefabs (five units across India by October 2007) would drive strong growth in the segment. With each prefab unit costing ~Rs550m, the business is likely to generate Rs2bn of revenues in FY08. Sintex has also recently increased the number of product offerings from 11 to 14 in the prefabs segment. The prefabs order book position is around Rs7bn and would be executed over the next 18-24 months.

❑ Electrical accessories – growth uninterrupted

Commencement of power transmission projects across several states is reflected in the strong revenue pipeline for Sintex's electrical accessories business. Sintex is currently working with several state electricity boards for supplying equipment like SMC enclosures, polymeric enclosures and cross arms for power transmission grids. Sintex has received tremendous breakthrough in this line of business – the recently commissioned Kutch unit is dedicated towards electrical accessories products – the company is planning to quadruple the capacity here from 4,000 tonnes / p.a. to 16,000 tpa to cater to the increasing demand, particularly from private companies operating in the power distribution space. The management has recently guided that it expects 70-90% CAGR in this business over the next 3-4 years.

❑ Zeppelin – exciting product launches ahead

Sintex has a 74% controlling stake in Zeppelin Mobile System India (ZMSIL), which is into designing and commissioning of sophisticated polyurethane foam based shelters and structures for the telecom sector. The company intends to launch mobile hospitals, refrigerated bodies and other multi-purpose shelters in a big way for the Indian market. Further, Sintex is also increasing its shelter manufacturing capacity from 6,000 per annum now to 17,000 per annum.

❑ Inorganic growth – expect newsflow soon

Sintex is actively looking at large inorganic growth opportunities to strengthen its presence in niche plastic applications with focus on high-end applications for auto and other industrial plastics. The management believes that plastic-based auto components offer a huge upcoming opportunity as their share in the overall mix is increasing steadily. Very recently, Tata Motors has stated its intention to seek regulatory permission to use plastic components for its new automobiles. This can potentially open up a huge opportunity for companies like Sintex, which are geared towards introducing innovation in plastic technology. Sintex is also aggressively looking at inorganic growth options in the prefabs business.

❑ Reiterate Outperformer

We believe Sintex's ability to identify and explore new scalable business opportunities remains impressive. We remain bullish on the company given its strong growth visibility (37% CAGR in net profit over FY06-08E) and expected expansion in return ratios. Inorganic growth would add further upside to our growth numbers. Our fully diluted EPS estimates for FY07 and FY08 stand at Rs11.6 and Rs14.3 respectively. Considering the high order backlog, the resultant strong earnings growth and improvement in return ratios, we reiterate our Outperformer rating on the stock.

Real Estate

SOBHA DEVELOPERS

UNRATED (RS799; MCAP: RS58.4BN / US$1.3BN)

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Sobha Developers is a leading real estate development and construction company with presence in both residential and contractual projects. Though Sobha Developers has hitherto been focused on residential development in Bangalore (Karnataka), the company is now rapidly diversifying its geographical base to other cities in South and West India. The company has a sizeable land bank of 6,120 acres (including land arrangements of 3,373 acres). The total land bank is expected to translate into 250m sq. ft of development over the next 7-10 years.

Key financials

Year to March 31	FY04	FY05	FY06	9MFY07
Net sales (Rs m)	2,016	4,629	6,277	8,985
Shares in issue (m)	63	63	63	73
Adj. EPS (Rs)	1.4	5.4	14.2	18.1
% growth	*633*	*281*	*163*	*28*
PER (x)	694	182	69	12
Price/ Book (x)	5	10	22	8.9
RoE (%)	30.1	70.3	87	n.a.
RoCE (%)	16	23	25	n.a.

**Growth and EPS numbers are annualised for 9MFY07*

❑ A unique business model

Sobha Developers is a fully integrated real estate developer with in-house resources to deliver a project from concept to completion (including all services like interiors, electrical fitting, plumbing, etc). This model ensures that the products and services required for development and construction project meet the requisite quality standards and are delivered in a timely manner. Infosys is the company's key contractual client.

❑ Sizeable land bank

Sobha Developers has a sizeable land bank of 6,120 acres as on 30 September 2006 (250m sq. ft) including land arrangement of 3,373 acres. The total land bank is expected to be fully developed over the next 7-10 years.

❑ Commercial, retail real estate – the next focus area

Sobha Developers plans to enter the retail/ commercial real estate segment over the next two years. The company intends to follow a build-and-sell model for commercial properties; however, it could adopt the lease model for retail mall development. The company expects retail stock to start accruing from FY08 onwards.

❑ Expanding into new geographical areas

Hitherto, Sobha Developers' residential development activities were largely restricted to Bangalore (Karnataka). The company is now geographically diversifying into other cities like Mysore, Pune, Kochi, National Capital Region of Delhi, Thrissur, Chennai, Mumbai, Mangalore, Coimbatore, Jaipur, Goa and Hyderabad. In the initial phase, Sobha Developers would establish project offices in these cities, and later develop and construct residential projects, townships, malls, special economic zones, retail commercial projects and plot development in these cities.

Engineering

THERMAX — OUTPERFORMER (RS393; MCAP: RS46.8BN / US$1.1BN)

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Thermax is riding on a strong wave of capital expenditure flowing across manufacturing and power sectors. The diverse underlying forces, ranging from capacity expansion in core sectors and captive power addition to environmental compliance, lend stability to Thermax's order book. Robust revenue growth owing to an ever-increasing order backlog, coupled with margin expansion on the back of stable raw material prices and closure of loss making ME Engineering, will be the main earnings driver going ahead. We estimate a 61% CAGR in Thermax's consolidated earnings over FY06-08. Reiterate Outperformer with a price target of Rs448 based on 20x FY08E earnings.

Key financials

Year to March 31	FY04	FY05	FY06	FY07E	FY08E
Net sales (Rs m)	7,772	12,471	16,062	21,609	27,633
Shares in issue (m)	119	119	119	119	119
Adj. EPS (Rs)	6.1	5.6	7.7	17.0	22.4
% growth	*(89.6)*	*(7.4)*	*35.7*	*122.5*	*31.6*
PER (x)	64.6	69.7	51.4	23.1	17.5
Price/Book (x)	12.2	11.5	10.2	7.4	5.5
EV/EBITDA (x)	78.7	53.3	29.1	14.5	10.6
ROE (%)	18.7	17.0	21.0	37.0	35.8
ROCE (%)	9.5	14.0	24.6	44.8	46.1
EV/CE (x)	9.1	8.5	7.9	6.3	4.6

❑ Thermax is in a sweet spot

Thermax, with its diversified product and application range, is riding on a sustained capex momentum in the industrial and infrastructure sectors. Driven by capacity expansion and related projects in core sectors (viz metals, steel and power – especially captive), Thermax's order backlog is witnessing an unprecedented surge.

❑ Thermax's order book at Rs33bn as on 31 December 2006

Thermax's current order backlog stands at ~Rs33bn as on 31 December 2006 – an increase of 10.4% qoq. We expect the order book to grow rapidly over the next 12 months on the back of a rich project pipeline across sectors. Thermax is a prime beneficiary of the ongoing capex boom in the core sectors, especially cement where over 85m tonnes capacity is expected to come on stream over the next two years. As a result, the company's total order backlog in the cogen division currently stands at 265MW, which represents orders worth over Rs10bn.

❑ Stable raw material costs to lead to margin expansion

Softening raw material prices since then (RMC to sales down to 60.7% for nine months of FY07 vis-à-vis 61.6% for the corresponding previous year period) have helped Thermax improve its operating margins to 12.4% for nine months of FY07 vis-à-vis 9.8% for the same period last year.

❑ Closure of ME Engineering – another trigger

The management plans to close down ME Engineering – Thermax's loss making subsidiary (accumulated losses of Rs230m as of H1FY07)). This would do away with the concern of ME Engineering poor performance impacting Thermax's overall performance. This move would also allow the management to focus on the fast growing domestic market.

❑ Aggressive capex programme to capitalize on new growth opportunities

Thermax is investing aggressively in expanding its capacity as it is operating at nearly full capacity utilization levels. With a part of the new capacity coming on stream by October 2007 and the remaining by January 2008, capacity constraints would ease. The company is also entering into the Chinese market to manufacture Vapour Absorption Chiller machines.

❑ We maintain Outperformer on the stock

Thermax, with its strong business fundamentals, is a pure play on the ongoing capex boom across manufacturing and services industries. With robust order backlog and improving margins, we remain bullish on the stock. Retain Outperformer with a price target of Rs448 based on 20x FY08E earnings.

Agrochemicals

UNITED PHOSPHORUS

OUTPERFORMER (RS326; MCAP: RS60.9BN / US$1.4BN)

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United Phosphorous (UPL) is a unique opportunity in the agrochemical generics space – a large market characterized by high entry barriers and superior profitability for cost competitive manufacturers. UPL is one of the fastest growing global generic players consistently strengthening its product portfolio and geographical presence through aggressive new product registrations and acquisitions. In our view, UPL has entered a new league altogether with the acquisition of Cerexagri. The acquisition has catapulted UPL to the position of the third largest generic player and offers multiple strategic advantages. We expect the benefits of this consolidation to gradually play out over the next few years. Further, the acquisition of Advanta's seeds business has enhanced UPL's position in the agricultural inputs space. We expect a strong 47% CAGR in UPL's earnings over FY06-09 as well as value unlocking in the seeds business through the proposed Advanta IPO. Reiterate Outperformer.

Key financials

Year to March 31	FY05	FY06	FY07E	FY08E	FY09E
Net sales (Rs m)	14,163	17,954	22,386	39,216	44,424
Fully diluted shares (m)	173	201	201	201	201
FDEPS pre-exceptional (Rs)	9.0	10.7	16.2	21.3	34.1
% growth	*39.3*	*18.9*	*50.9*	*31.4*	*60.2*
PER (x)	36.1	30.3	20.1	15.3	9.5
Price/Book (x)	6.9	4.6	3.9	3.3	2.4
EV/EBITDA (x)	17.9	13.0	10.4	8.4	6.8
RoE (%)	24.9	21.0	22.9	24.8	31.2
RoCE (%)	19.3	17.0	15.3	17.3	24.2
EV/CE (x)	4.8	3.1	2.2	2.2	1.9

❑ Attractive opportunity in agrochemical generics

Agrochemical generics is a huge space (off-patent market estimated at US $21bn by FY07 or 70% of the agrochemicals market) and a highly profitable opportunity. The high level of consolidation in the industry, and strong entry barriers in terms of regulations and distribution network make it a profitable and stable business for incumbents in the generics space.

❑ UPL gaining scale

UPL has undergone a 10-year gestation process in the industry; it currently has 15-20 registrations in the US/ EU markets and strong relationships with most global distribution majors. UPL has been aggressively ramping up its generics business through large product acquisitions. In particular, we believe the Cerexagri acquisition has significantly enhanced UPL's position in the regulated markets and added a strong fungicide component to its portfolio. The acquisition of Advanta's seeds business has further strengthened UPL's positioning in the agricultural inputs value chain.

❑ Excellent earnings growth record; high future growth visibility

UPL has delivered 25%+ yoy growth for the last 11 quarters and we are confident about UPL's ability to sustain this performance. Further, Cerexagri is poised for a sharp profitability improvement under the UPL management, which would lead to accelerated growth. We expect UPL to get re-rated on the back of a 35% CAGR in its topline driving 47% CAGR in earnings over FY06-09 and value unlocking in high growth seeds business. Buy with a 12-month price target of Rs512 (15x fully diluted FY09E earnings).

Pipes

WELSPUN GUJARAT STAHL ROHREN OUTPERFORMER (RS114; MCAP: RS15.3BN / US$345M)

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Welspun Gujarat Stahl Rohren (WGSR) is set to capitalize on the global boom in demand for pipes on the back of its well timed capacity expansion, backward integration, long list of accreditations and foray into fast growing geographies. A robust order book of Rs28bn (0.9x FY07E sales) indicates the strength in pipe demand. Over FY06-09, growth would be driven by a sustained volume increase as incremental capacities ramp up. Also, the plate capacity, expected to go on stream from July 2007, will allow WGSR to control raw material sourcing and lead to a sharp expansion in EBITDA margins. We expect 51% CAGR in WGSR's earnings over FY06-09. Reiterate Outperformer with a revised 1-year price target of Rs155 for the stock.

Key financials

Year to March 31	FY05	FY06	FY07E	FY08E	FY09E
Net profit (Rs m)	338	614	1,352	1,748	2,132
Shares in issue (m)	107	133	150	150	150
Adj. EPS (Rs)	3.2	4.6	9.0	11.7	14.2
% growth	*24.0*	*46.3*	*95.4*	*29.2*	*22.0*
PER (x)	37.1	25.4	13.0	10.0	8.2
Price/Book (x)	4.6	3.3	2.3	1.9	1.5
EV/EBITDA (x)	20.7	12.5	8.3	8.8	5.5
ROE (%)	13.9	16.5	22.0	20.7	20.5
ROCE (%)	7.6	12.1	16.1	12.7	14.3
EV/CE (x)	1.9	1.5	1.3	1.1	1.1

❑ Major accreditations – increasing business potential

Of WGSR's US $620m order book, 90% are for exports. WGSR's stellar performance in export markets is a result of its constant perseverance. Over the last five years, the company has won accreditations from more than 40 oil & gas majors, which increases the scope of WGSR's addressable market. Marquee orders like that from Enterprise Products (WGSR was one of the pipe suppliers for its Independent Trail project – world's deepest gas pipeline located in the Gulf of Mexico) have given WGSR considerable visibility in the global markets. Also, in November 2006, WGSR received a US $102m (Rs46bn) order from Exxon Mobil – the first for any Indian pipe manufacturer. The increasing ticket size of orders is another indicator of the company's growing success in the global markets – the latest three export orders have been for over US $100m.

❑ Plate mill nearing completion – to provide margin kicker

WGSR imports more than three-fourth of its raw material from Europe and the CIS countries. Given the resultant higher input costs, some of WGSR's cost advantages get diluted. To offset this handicap, the company is in the process of setting up a plate-cum-coil mill in Anjar, Gujarat (near its SAW pipe facilities). The project, at an estimated cost outlay of ~Rs18bn, is scheduled to be operational by December 2007. The plant would have a capacity of 1.5m tonnes, which would not only meet WSGR's raw material requirement but also supply to the company's JVs. The plate mill is fully funded – of the total fund requirement of Rs18bn, ~Rs3.5bn has been met through an FCCB issue in FY06 and Rs1bn from warrants issued to promoter. The remaining part has been funded through a debt of Rs12.9bn and internal accruals. As a result of the plate mill, we expect WGSR's SAW pipe margins to improve from US $99 per tonne currently to ~$148 in FY09. Margins would expand on the back of a reduction in cost of plates, as WGSR saves on the spread between slabs and plates/coils. We have assumed that the company will be able to save US $90 per tonne of plate/coil due to its plate mill.

❑ Reiterate Outperformer with a price target of Rs155/share

Based on the DCF methodology, we have arrived at a value of Rs155 per share for WGSR's business excluding value from joint venture investments in Russia and USA. At DCF value, WGSR's valuations work out to 10.9x FY09E earnings and 6.5x EV/EBITDA. We believe current valuations of 8.2x FY09E earnings and 5.5x EV/EBITDA are attractive in view of the high growth visibility and anticipated benefits of backward integration.

Media

WIRE & WIRELESS INDIA (WWIL)

UNDER REVIEW (RS105; MCAP: RS22.8BN / US$507M)

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An improving distribution landscape is the most important changeover taking place in the Indian television industry. WWIL (Siticable), the largest and the most aggressive MSO with 6.7m subscribers (claims to have reached 9.3m now) is bound to be the biggest beneficiary of the shift. CAS rollout extension beyond the notified areas, ramp up of digital cable (14m digital cable connections by 2010) and realignment of the existing chain are making business economics favourable for MSOs. With direct customer acquisition, HITS and triple play, we believe that WWIL is taking the right steps to reach out to a larger subscriber base as also garner higher ARPUs. However, as WWIL is the only player striving to grow the market, it would have to invest heavily (Rs5.4bn by 2010) and bleed for longer. We are positive on WWIL's growth prospects, though we believe that funding would remain critical to the business.

Key financials

Year to March 31 (Rs m)	FY06	9MFY07
Net Sales	1,545	1,417
EBITDA	17	(68)
PAT	7	(311)
Share in Issue (m)	210	217

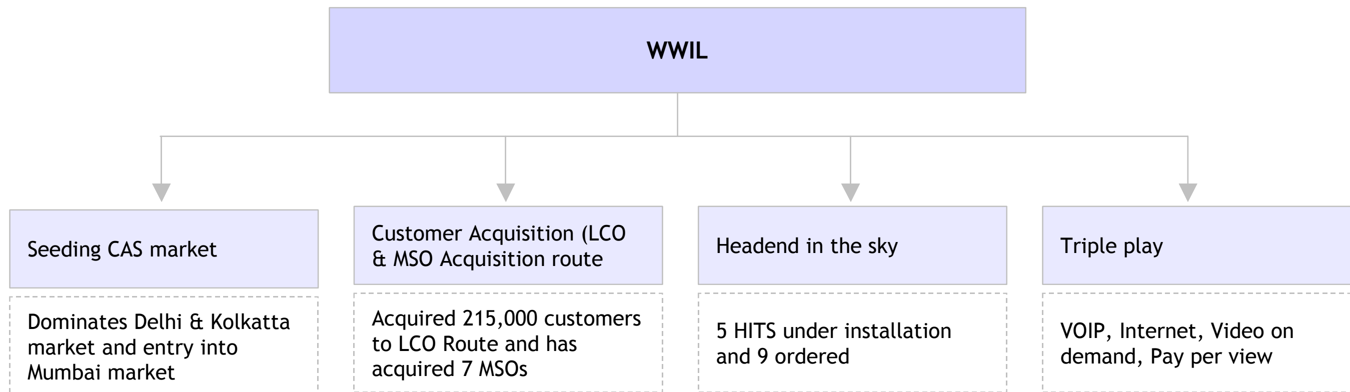
❑ A changing cable distribution landscape – MSOs to be the key beneficiaries

Digitization of cable distribution has begun with the first phase of CAS implementation meeting success. This, added with emergence of other digital platforms (DTH and IPTV), will also trigger realignment in the traditional distribution chain. We believe that MSOs will be the biggest beneficiary of the digitization drive (14m households by 2010), as MSOs' share in pay revenues moves up from 4-6% of the revenue pie now to 30% on the digital platform. In CAS notified areas, MSOs will earn 30% of the pay channel subscription revenues besides a rental on STBs. WWIL, along with other MSOs, has also asked for a pie of the Rs77 charged by LCOs on FTA channels.

❑ WWIL making the right moves

WWIL is the largest MSO with 6.7m subscribers as of end-FY06 (claims to have 9.3m subscribers now) and has a dominant position in the northern and eastern markets of India. With a view to increase its reported subscriber base from 1m currently as also enhance ARPUs, WWIL has lined up heavy investment to fund subsidies on Set Top Boxes, seed newer markets (like Mumbai), install Head end in The Sky (HITS), add customers through LCO and MSO acquisition and roll out triple play services.

WWIL – making right moves



Source: SSKI Research

***Seeding the CAS markets*:** We expect WWIL to have ~50% of the estimated 1.5m-2.0m subscriber base in CAS notified areas. This implies that WWIL has deployed 200,000 STBs out of the total expected 400,000 STBs deployed in these markets. WWIL dominates the Delhi and Kolkatta markets, and has already deployed 97,000 STBs in the Mumbai market.

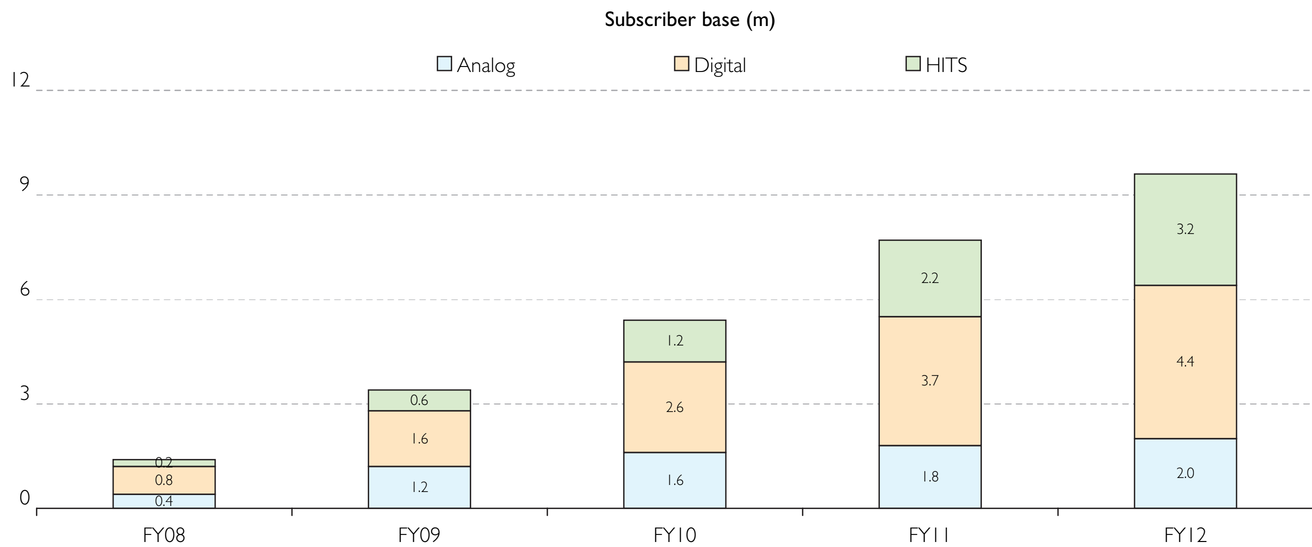
Customer acquisition*:** WWIL is acquiring customers through MSO acquisition in a phased manner, direct customer acquisition from LCOs or partnering with LCOs. Given the imminent threat of competition from other digital platforms like DTH, IPTV and HITS, we believe that existing LCOs and MSOs will realign with organized players. WWIL has till now acquired seven MSOs in Lucknow, Agra, Indore, Pune, Nagpur, etc at 1.5-2.0x the reported revenues. With a view to eliminate the last mile operator, wherein maximum leakage happens, WWIL has also begun customer addition through LCO acquisition or partnering with LCOs (a 51% stake). WWIL claims to have acquired 200,000 subscribers in the last one year. ***While the route looks attractive and we believe that consolidation is imminent, we are not convinced that LCOs and MSOs are selling off at such low valuations of Rs2,000 per subscriber.

Headend in The Sky (HITS): WWIL is the only MSO with digital HITS technology in place. While it has five HITS under installation, it has placed orders for another nine digital headends with each transponder costing Rs30m-40m. This technology directly competes with DTH and is more profitable than digital cable offered through the LCO route. WWIL has set a target of reaching out to over 3.2m subscribers by FY12 through the HITS technology.

Triple play and value added services: With a view to garner higher revenues per subscriber, WWIL will be offering triple play services, video on demand, pay per view, Voice over IP and High Speed Broadband services. Consumer spends on these services are significantly higher (30-40% of ARPU). In certain markets spends on value added services can go even exceed the base ARPU. While this stream of revenue will take time to take off, triple play will help increase ARPUs as also profitability as the services entail high margins. Globally, triple play and value added services account for 35-40% of the ARPUs.

We believe that WWIL is making the right moves and given the fact that WWIL is the largest player, it is prepared to seed the market. The management has guided to digital subscriber reach across 66 cities (3 cities currently) and service 9.6m subscribers by FY12 (1m). By FY12, WWIL intends to achieve revenues of Rs35bn and an EBITDA margin of 25%.

WWIL – rapid ramp up plans



Source: Company

❑ However, funding will be critical

WWIL's aggressive ramp up plans will call for capex to the tune of Rs5.4bn by 2010. Of the total capex, 45% will go towards hardware and technology (HITS and triple play), ~25% towards Set Top Boxes and 25% towards customer acquisition. ***We believe that timing of external funding and valuations that it can fetch would be critical to WWIL's growth. Funding becomes even more critical given the fact that the onus to seed the market is on WWIL.***

Financials

YES BANK

UNRATED (RS233; MCAP: RS42BN / US$961M)

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YES Bank, by leveraging its knowledge banking model, has gained significant client traction with a customer base of over 350 large corporates and 400 mid corporates. The bank's management team has rich experience and an impeccable pedigree. A unique technology strategy to ensure strong future growth with an outsourced operating lease for IT infrastructure and the basic technology platform are already in place. The bank strives to grow its loan book by focusing on emerging sectors and adopting the 'knowledge banking' approach. The stock trades at 4.7x its FY06 adjusted book.

Key valuation metrics

Year to March 31	FY05	FY06
Net profit (Rs m)	(37.6)	553.2
yoy growth (%)	-	*(1,571.8)*
Shares in issue (mn)	200.0	270.0
EPS (Rs)	(0.2)	2.0
EPS growth (%)	-	*(1,190.2)*
PE (x)	(239.4)	48.8
Book value (Rs/share)	10.7	21.2
Adj. Book value (Rs/share)	10.7	21.2
P/ Adj. Book (x)	4.2	4.7
RoNW (%)	(1.8)	14.1

A senior management team with rich experience in banking

YES Bank's senior personnel bring strong management relationships to the table which we believe would help the bank achieve its aggressive growth plans.

Loan book growth to be driven by focus on emerging sectors and 'knowledge banking' approach

YES Bank focuses on sectors having immense growth potential. This, coupled with a strong domain expertise, would help the bank grow its balance sheet on the asset side. In a short span of time, the bank's loan book has grown to about Rs48bn as of end-December 2006.

Cross-selling to generate substantial non-interest income

The bank is leveraging its unique technology strategy and domain expertise, along with existing client relationships, to cross sell a wide variety of financial products to clients. The strategy helps the bank maximize the revenue generated per customer and boost its non-interest income.

Unique retail banking initiatives on the anvil

YES Bank's retail branch rollout will be the first of its kind in India. The bank plans to launch retail branches that would give a look and feel of a contemporary retail store instead of a conventional bank with high counters and teller windows. The bank has so far opened 29 branches and plans to have 50 branches in place by June 2007. The bank aims to have 100 branches in place by FY08.

A unique technology strategy to ensure strong growth in future

With an outsourced operating lease for its IT infrastructure and the basic technology platform already in place, YES Bank is in a good position to deliver a superior value proposition to clients while keeping its operating costs low.

Media

ZEE DTH (DISH TV) — UNLISTED

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Dish TV (A Zee Group company), the pioneer in the Indian DTH market, is set to piggy ride upon the burgeoning DTH opportunity in the country. Having established the required infrastructure (satellite & customer management systems) and with a reach of ~1.7m subscribers, Dish TV has the first mover advantage – more so given Tata Sky's complacency in subsidizing subscribers. While entry of players like Reliance ADAG, Bharti and Sun TV will intensify competition and call for heavy subsidies, it will also ensure that the DTH market grows faster than other digital distribution platforms. Dish TV expects to reach 8m subscribers by 2011 and will need funding to the tune of Rs4bn. At an estimated 3-3.5m reach by FY08 and valuing each subscriber at US $250, we value Dish TV at US $750-875m. We expect Dish TV to get listed at Rs90-100 per share. We have positive bias over the business proposition as also value creation potential in Dish TV.

Key financials

Year to March 31 (Rs m)	FY06	H1FY07
Net Sales	818	485
EBITDA	(751)	(591)
PAT	(791)	(767)
Share in Issue (m)	416	429

❑ Indian DTH space – 16m subscribers by 2010E

The Indian digital distribution business is undergoing a structural makeover. We believe the DTH opportunity is set to grow at a rapid pace on the back of heavy corporate investments. Besides, given the lack of content differentiation in the Indian market, heavy subsidies are required for growing the DTH market. As the incumbents (Dish TV and Tata Sky) as also potential entrants (Reliance ADAG, Bharti and Sun TV) have deep pockets, we see the DTH space growing rapidly. Importantly, there are little regulatory hurdles and virtually no unorganized players (unlike in cable business) in the DTH business. We expect the Indian DTH market to grow to 16m subscribers by 2010 (Dish TV management expects it to grow to 17m by 2011). ARPUs too are expected to increase from USD5 currently to USD10 in the next five years.

❑ Dish TV has the first mover advantage

Dish TV is the first private DTH player in India and currently reaches out to 1.7m subscribers (Tata Sky is at around 0.5m). Ahead of the competition, Dish TV has in place all the requisite infrastructure and customer management systems. We believe that Dish TV would benefit from its early entry and continue to lead the market in the near term, more so because Tata Sky has not stepped up its ante on customer subsidies. Even after the entry of Tata Sky, Dish TV continues to add 25,000 subscribers every week. Dish TV expects to reach out to 8m and 13m subscribers by 2011 and 2015 respectively and have revenues of Rs34bn by 2011.

❑ Need for funds – will bleed in the near term

Global DTH businesses like BSkyB, DirecTV, Echostar, Sky Perfect, etc have grown on heavy subsidies, and while in the subscriber base ramping up stage, cash flows remained negative for 5-7 years. We see the Indian market to follow suit as there is no major price incentive to switch from the existing analogue system. DTH players will have to subsidize Set Top Boxes to the tune of Rs2,000-3,000 per subscriber (STB subsidization). Players will have to be adequately funded and ready to bleed in the near term. However, the DTH business will not be as capital intensive as the digital cable business owing to the fact that there are other organized players who will grow the market and the onus is not just on Dish TV. We have estimated a fund requirement of Rs4bn for Dish TV over the next 3-4 years. We are highly positive on the DTH opportunity in India, as also Dish TV's position in the space. Estimating Dish TV's reach to grow to 3-3.5m by FY08 and valuing each subscriber at US $250, we value Dish TV US $750-875m.

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