investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
BEL	25-Sep-06	1,108	**1,505**	1,715
BHEL	11-Nov-05	1,203	**2,175**	2,650
ICICI Bank	23-Dec-03	284	**863**	1,240
Infosys	30-Dec-03	689	**2,142**	2,670
ITC	12-Aug-04	69	**160**	220

Transport Corporation of India

Cannonball

Stock Update

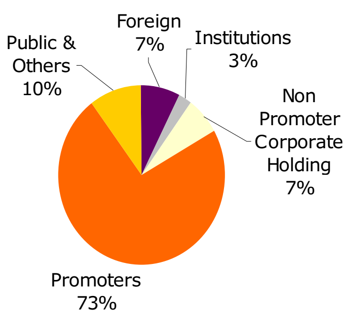
Results ahead of our expectations

Buy; CMP: Rs62

Company details

Price target:	Rs86
Market cap:	Rs418 cr
52 week high/low:	Rs102/41
NSE volume: (No of shares)	5,866
BSE code:	532349
NSE code:	TRANSPORTCO
Sharekhan code:	TCIL
Free float: (No of shares)	1.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-19.2	-33.3	5.4	6.9
Relative to Sensex	-6.0	-26.1	-0.9	-10.2

Result highlights

- The Q3FY2007 net profit of Transport Corporation of India (TCI) registered a year-on-year (y-o-y) growth of 53.65% to Rs8 crore, in line with our expectations.
- The net revenues (excluding trading revenues) grew by 32.7% year on year (yoy) to Rs257.8 crore on the back of a 30.6% y-o-y growth in the combined revenues of the transport and supply chain divisions to Rs178.6 crore.
- The earnings before interest, tax, depreciation and amortisation (EBITDA) grew by 59% yoy to Rs18.3 crore on account of a significant decline in its raw material costs arising from the closure of its petrol pumps. Consequently the EBITDA margins grew by 140 basis points yoy to 6.6%.
- The profit before interest and tax (PBIT) margins in the transport and express cargo (XPS) divisions improved by 70 basis points to 3.4% and 40 basis points to 8.3% respectively on account of higher capacity utilisation of the company's fleet whereas the margins in the shipping division declined on account of an increase in the fuel prices.
- The net profit at Rs8 crore grew by 54% yoy whereas the net margins improved by 80 basis points yoy to 2.9%.
- To capitalise on the growth opportunity, the company has lined up a huge capital expenditure (capex) plan of Rs430 crore to be implemented over the next four years. The capex plan broadly includes Rs150 crore for setting up warehouses, Rs120 crore for acquiring trucks and Rs100 crore for buying ships.

Results table (Rs cr)

Particulars	M9FY07	M9FY06	% yoy	Q3FY07	Q3FY06	% yoy
Net sales	795.2	619.2	28.6	278.9	223.1	24.7
Stock adjustment	1.5	0.0	-	1.2	-0.2	-
Purchase of finished goods	71.3	77.6	-8.1	20.8	28.8	-27.8
Employee expenses	34.2	27.1	26.2	12.9	9.1	41.1
Other expenses	637.5	489.2	30.3	224.7	173.9	29.2
Total expenditure	744.4	593.9	25.3	259.6	211.6	22.7
Operating profit	50.8	34.2	48.5	19.3	11.5	67.7
Other income	2.7	1.2	115.4	1.4	0.2	545.5
PBIDT	53.5	35.5	50.8	20.7	11.7	76.7
Interest	7.2	5.0	43.5	2.8	1.8	54.4
PBDT	46.2	30.4	52.0	17.9	9.9	80.7
Depreciation	14.5	12.4	16.5	5.2	4.0	29.3
PBT	31.8	18.0	76.4	12.7	5.9	116.0
Tax	9.1	6.4	43.3	3.7	2.3	60.5
Profit after tax	22.7	11.7	94.4	9.0	3.6	151.6

- The company plans to fund this capex through debt, internal accruals and fresh equity in equal measures. The equity issue is expected to be undertaken in two parts. The first equity issue of close to Rs75 crore will be done in the next couple of months. Hence we have assumed that the first tranche of equity will be raised at Rs65 per share in FY2008 whereas the second tranche of Rs75 crore will be raised at Rs75 per share in FY2009. Consequently we have adjusted our numbers factoring in the same.
- Considering the company's focus towards high-margin XPS and supply chain divisions as well as higher volumes from the transport division, we are upgrading our FY2007 and FY2008 profit after tax (PAT) estimates by 4.9% to Rs32.1 crore and 8.8% to Rs44.2 crore respectively. On the revised numbers, the earnings per share (EPS) would stand at Rs4.8 per share for FY2007 and Rs5.6 per share for FY2008.
- We expect TCI's net revenues to grow at a compounded annual growth rate of 21% over FY2006-08 to Rs1,330 crore. The net profit is estimated to register a 28% CAGR growth to Rs44.2 crore by FY2008. At the current market price of Rs62, the stock trades at 13x FY2007E earnings and 11x FY2008E earnings. Considering the bullish outlook for the company as well as higher profitability, we maintain our Buy recommendation with a price target of Rs86.

Top line grows 24.6% yoy

TCI's revenues witnessed a strong 25% y-o-y growth to Rs290 crore for Q3FY2007. The transport division grew by a smart 9% yoy to Rs149 crore whereas the XPS division witnessed a healthy 19% y-o-y growth to Rs67 crore. The contribution from the wind power division was very healthy with the division delivering a 10x y-o-y and a 7x quarter-on-quarter (q-o-q) jump to Rs13 crore. The revenues of the supply chain and shipping divisions remained flat sequentially at Rs29.15 crore and Rs10.85 crore respectively.

Operating profit grows by 59% yoy; OPMs expand by 140 basis points yoy

The operating profit increased by 59% yoy to Rs18.32 crore on the back of a higher operating leverage resulting in the operating margins expanding by 140 basis points yoy to 6.6%. The margins of the supply chain division (which had witnessed a sequential decline in the previous quarter on account of a ramp-up in infrastructure) bounced back with a sequential rise of 230 basis points. Similarly, the margins of the XPS division, which were subdued in the previous quarter, saw its margins stabilising at 8.3%, a q-o-q rise of 140 basis points. As mentioned in our earlier report, we maintain our belief that the margins of the company will rise going ahead as the company starts deriving increasing revenues from the high-margin supply chain solutions and XPS divisions.

Capex of Rs430 crore to drive growth

To capitalise on the growth opportunity, the company has lined up a huge capital expenditure plan of Rs430 crore to

Segmental analysis

Particulars	9MFY07	9MFY06	% yoy chg	Q3FY07	Q3FY06	% yoy chg
Net revenues (Rs cr)	**795.9**	**619.2**	**28.6**	**278.9**	**223.6**	**24.7**
*Transport Division	497.1	383.1	8.9	178.6	136.7	9.3
Express	189.1	153.5	23.2	67.0	56.2	19.2
Trading Division	72.2	78.9	-8.6	21.0	29.4	-28.4
Wind Power Division	5.0	3.6	38.6	1.3	1.3	1.5
Shipping	32.6	19.9	64.2	10.8	0.0	
EBIT (Rs cr)	**38.9**	**24.1**	**61.0**	**14.6**	**8.1**	**81.0**
Transport Division	14.4	7.0	50.0	6.7	2.5	102.0
XPS Cargo Division	14.4	12.5	15.0	5.6	4.4	25.0
Trading Division	0.4	0.8	-44.0	0.1	0.4	-68.0
Wind Power Division	3.2	2.5	24.0	0.7	0.8	-13.0
Shipping	6.6	3.5	88.0	1.7	0.0	0.0
EBIT Margins (%)						
Transport Division	4.9	3.9		5.2	3.6	
XPS Cargo Division	7.6	8.1		8.3	7.9	
Trading Division	0.6	1.0		0.6	1.3	
Wind Power Division	63.3	70.6		51.9	60.3	
Shipping	20.3	17.7		15.3	-	

* The company has started reporting revenues for SCD separately only from the current fiscal prior to which it was combined with the transport division.So for lie to like comparison,the revenues have been combined with the transport division.

be implemented over the next four years. The capex plan broadly includes Rs150 crore for setting up warehouses, Rs120 crore for acquiring trucks and Rs100 crore for buying ships. The company plans to fund this capex through debt, internal accruals and fresh equity in equal measures. The company is expected to spend Rs100 crore in the current fiscal for which it has already availed an External Commercial Borrowing (ECB) of USD11 million and has already spent USD6.5 million for buying land for the warehouses.

The equity issue is expected to be undertaken in two parts. The first equity issue of close to Rs75 crore will be done in the next couple of months. Hence we have assumed that the first tranche of equity will be raised at Rs65 per share in FY2008 whereas the second tranche of Rs75 crore will be raised at Rs75 per share in FY2009. Consequently we have adjusted our numbers factoring in the same.

Greater focus on SCD and XPS to improve profitability

TCI has enhanced its focus on the supply chain and express cargo divisions, which command higher margins as compared to the transport business. The company has earmarked capex of Rs150 crore for setting up warehouses, which will enable it to service more clients. By leveraging on its common logistic infrastructure, the company will be able to expand the margins of its supply chain division whereas its XPS division will continue to clock better margins as the increased branches and delivery centres achieve greater revenues. This coupled with the company's decision to hive off the thin margin trading business will improve the profitability of the company going ahead. We expect the EBITDA margins to increase by 290 basis points from 5.9% in FY2006 to 8.8% in FY2008.

Earnings upgraded

Considering the company's focus towards high-margin logistics and supply chain division as well as higher volumes from the transport division, we are upgrading our FY2007 and FY2008 PAT estimates by 4.9% to Rs32.1 crore and 8.8% to Rs44.2 crore respectively. On the revised numbers, the EPS would stand at Rs4.8 per share for FY2007 and Rs5.6 per share for FY2008.

Gradual phase out of CST to have a positive impact

The government's decision to phase out the central sales tax (CST) over the next 4 years from the existing 4% to nil spells good times ahead for transportation companies like TCI. The reason for the same is that under the current regime, manufacturing companies are operating through multiple stocking points to avoid the inter-state sales tax. With the gradual phasing out of the tax, they will be able to operate using the hub-and-spoke model, which will result in outsourcing of logistics services. This will create a huge demand for logistics companies including TCI.

Valuation and view

Going forward, TCI would benefit from India's growing internal and external trade. The company has rightly devised the strategy of shifting its focus to the high-margin, high growth businesses of XPS and SCS. We expect TCI's net revenues to grow at a CAGR of 24% over FY2006-08 to Rs1,383 crore. The net profit is estimated to register a 28% CAGR growth to Rs44.2 crore by FY2008. At the current market price of Rs62, the stock trades at 13x FY2007E earnings and 11x FY2008E earnings. Considering the bullish outlook for the company as well as higher profitability, we maintain our Buy recommendation with a price target of Rs86.

Earnings table (Rs cr)

Paticulars	FY04	FY05E	FY06E	FY07E	FY08E
Net profit (Rs cr)	7.6	10.5	20.7	32.1	44.2
Share in issue (Rs cr)	5.3	5.3	6.8	6.8	7.9
EPS (Rs)	1.4	2.0	4.0	4.8	5.6
% y-o-y growth	*32.0*	*39.7*	*96.4*	*54.9*	*37.6*
PER (x)	43.1	30.9	15.5	13.0	11.1
Book value (x)	10.9	12.4	15.8	20.6	32.6
P/BV (x)	5.7	5.0	3.9	3.0	1.9
EV/EBITDA (x)	15.0	12.4	9.8	8.2	5.9
Dividend yield (%)	2.9	3.2	3.5	4.0	5.6
RoCE (%)	11.7	12.5	17.8	19.4	20.9
RoNW (%)	13.2	16.2	19.4	23.1	17.1

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

Television Eighteen India

Emerging Star

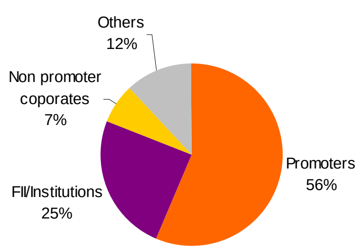
Stock Update

Web-18 expands, Network-18 to raise funds

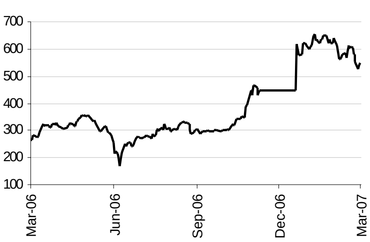
Buy; CMP: Rs565

Company details	
Price target:	Under review
Market cap:	Rs2,972 cr
52 week high/low:	Rs681/158
NSE volume: (No of shares)	1.3 lakh
BSE code:	532299
NSE code:	TV-18
Sharekhan code:	TV18
Free float: (No of shares)	2.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.1	-38.6	27.1	41.4
Relative to Sensex	1.2	-31.9	19.5	18.9

Web-18 acquires Bigtree Entertainment

Adding another feather to its cap Web-18, the Internet arm of TV-18, has acquired a majority stake in Bigtree Entertainment, the industry leader in movie and entertainment ticketing. The acquiree specialises in ticket selling services to end consumers and provides the necessary software, processes, systems, door delivery options, cash collection, warehousing and accounting services. Its software "Vista Cinema Ticketing" includes box office ticketing, concessions management, web ticketing, mobile ticketing, loyalty management software, film programming, bar code ticketing, voucher management etc. Its customer base includes major cinema chains such as Inox, PVR, Fame Adlabs and Fun Republic among others and spans across 35 cities in India. The company currently handles over 2.5 million ticketing transactions annually for all major exhibition chains/centres across the country.

Although the management has not specified the deal size we believe it should be in single-digit crore for a majority stake.

With the multiplex industry set for exponential growth we believe Bigtree will be a key beneficiary of the rapidly expanding Indian exhibition industry. Further automation of even a small proportion of the existing ~11,500 single screen cinemas across India provides an opportunity for its products. Apart from cinema its applications also find use in live entertainment, sports and shows.

Web-18 has been consolidating its Internet properties across domains and has added e-transaction portals like www.yatra.com and www.jobstreet.com in the recent past. The acquisition of Bigtree strengthens its position to capture the high growth in Indian consumerism. We believe the creation of a diversified portfolio of Internet properties will seed immense long-term value creation for TV-18.

Valuation and view

At the current market price of Rs565 the stock trades at 34x is FY2008E earnings per share of Rs16.7. We maintain our BUY recommendation on TV18.

Valuation table (TV-18 consolidated)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	32.9	37.2	64.1	90.6
Shares in issue (crore)	1.7#	2.1#	5.6	5.6
EPS (Rs)	19.5	18.2	11.7	16.7
% y-o-y growth	*160.0*	*-6.7*	-	*42.5*
PER (x)	45.9	49.2	48.1	33.7
Book value (Rs)	66.9	113.5	58.4	73.9
P/BV x)	13.4	7.9	9.7	7.7
EV/EBITDA (x)	35.0	27.9	32.2	21.8
RoNW (%)	29.1	21.7	23.2	25.3
RoCE (%)	18.5	15.4	16.9	19.5

Pre-restructuring—face value Rs10

Network-18 to raise Rs200 crore

Network-18 plans to raise Rs200 crore through the issue of preference shares.

Fund raising

The board of Network-18, the holding company for the restructured TV-18 group, has approved raising Rs200 crore for its new ventures. The company would offer on a rights basis one partly convertible cumulative preference share of face value of Rs200 for every 5 equity shares held. The current equity base of Network-18 is 4.99 crore shares, thus ~1 crore preference shares will be offered. The convertible portion of the preference shares, the conversion price and the ratio will be announced in the forthcoming period.

Studio-18—the show begins...

Network-18 has formidable plans for its film production and distribution business—Studio-18. While the management has consistently proved its capabilities in innovating, expanding and exploiting its broadcast properties, its understanding of the cinema business needs to be monitored specifically considering the risk-reward associated with the business.

Studio-18's portfolio will include film production, acquisition, distribution, marketing, syndication, home video and music labels. It has put in place an experienced team of professionals that include Sandeep Bhargava (Ex-CEO Sahara One Motion Pictures), Ashok Holla and Tanuj Garg (ex-UTV) and Gayatri Batra (ex-Star and Sahara) to nurture and grow the business. The management targets introducing a film a month; it has achieved great success in overseas marketing and distribution of "Honeymoon Travels Pvt. Ltd". Its other distribution venture "1971: Prisoners of War" is due for release in the coming weeks. It has also tied up for co-production of "Halla Bol" a movie directed by Raj Kumar Santoshi and "Bhootnath" staring Amitabh Bacchan and Shahrukh Khan. The management intends achieving revenues of Rs100 crore from the venture for the first full year of operation; however, the profitability of the business needs to be watched.

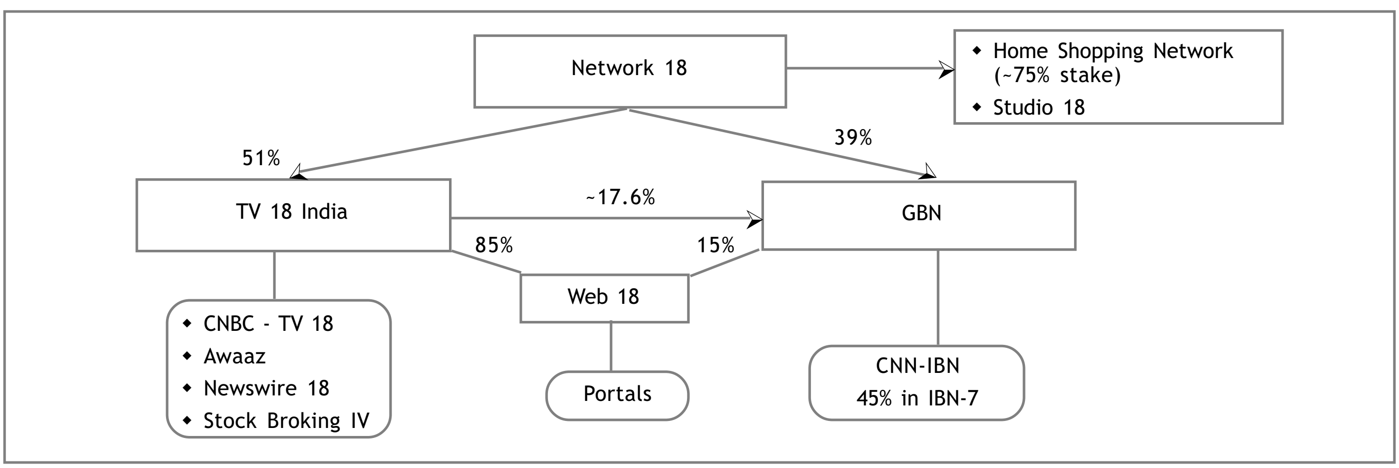
Use of funds

We believe that approximately Rs100 crore out of the rights issue proceeds would be allocated for Studio-18, a small portion of the proceeds may also be pumped in Home Shop-18 (an integrated home shopping network) and the balance would be utilised for *new initiatives that the company is exploring*.

Network-18 valuation table

Particulars	(Rs cr)	Comments
51% in TV18	1,516	At CMP of Rs565
39% in GBN	547	At CMP of Rs522
Studio 18 &~75% in HSN	161	Valued in the range of $25-50mn
Total value	2,224	
20% discount for holding company	1,779	
Nos of shares	5	
Value per share (Rs)	**357**	

TV18 group structure



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Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

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

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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