

March 6, 2007

FOR PRIVATE CIRCULATION

**Equity**

	5 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	12,415	(3.7)	(14.3)	(11.0)
Nifty	3,577	(4.0)	(14.8)	(10.9)
Banking	6,221	(3.5)	(16.2)	(13.6)
IT	3,352	(4.0)	(13.9)	(7.8)
Healthcare	3,328	(4.6)	(14.2)	(11.5)
FMCG	1,701	(3.1)	(11.3)	(17.2)
PSU	5,453	(4.1)	(13.9)	(12.7)
CNX Midcap	4,599	(5.1)	(14.7)	(10.0)
<b>World indices</b>				
Nasdaq	2,340.7	(1.2)	(5.3)	(4.3)
Nikkei	16,642	(3.3)	(3.6)	2.5
Hangseng	18,665	(4.0)	(8.4)	(0.5)

**Value traded (Rs cr)**

	5 Mar 07	% Chg - 1 Day
Cash BSE	3,860	1.2
Cash NSE	8,551	(4.6)
Derivatives	33,866	4.1

**Net inflows (Rs cr)**

	2 Mar 07	% Chg	MTD	YTD
FII	325	(174)		5,642
Mutual Fund	(209)	(616)	(512)	(1,854)

**FII open interest (Rs cr)**

	2 Mar 07	% chg
FII Index Futures	13,852	(0.1)
FII Index Options	6,158	1.1
FII Stock Futures	14,299	(4.7)
FII Stock Options	33	(23.9)

**Advances/Declines (BSE)**

5 Mar 07	A	B1	B2	Total	% Total
Advances	16	20	98	134	7
Declines	204	675	766	1,645	92
Unchanged	-	2	10	12	1

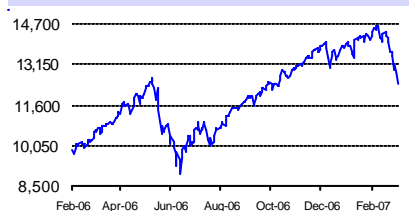
**Commodity**

	5 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	60.1	(2.5)	2.3	(3.8)
Gold (US\$/OZ)	636.6	(0.9)	(1.7)	1.8
Silver (US\$/OZ)	12.6	(1.9)	(5.6)	(5.5)

**Debt/forex market**

	5 Mar 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.98	7.95	7.74	7.39
Re/US\$	44.65	44.29	44.11	44.53

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- Starting April 1, 2007, venture capital funds will have to pay tax on income, whether interest or capital gains, earned from their past investments in firms operating in a host of sectors ranging from manufacturing and real estate to non-tech services. (ET)
- An SPV, to be set up by India Infrastructure Finance Co in a foreign country, will invest in creation of infrastructure outside India, of the kind that would either supplement India's infrastructure needs or help in sourcing raw materials for domestic development. (ET)
- Exchangeable bonds, a new financial instrument in the hands of corporates that will enable them to raise capital by unlocking value in their strategic holdings in group companies, is likely to have a maturity cap of four to five years. (ET)
- The Finance minister has made it clear that any reduction in corporate tax rate is contingent on removal of exemptions. (ET)
- Cement makers have turned down the Government's call to rollback the price hikes announced after a proposal to impose dual excise duty in Budget 2007 saying they were not in a position to absorb increase in taxes. (BS)

**CORPORATE NEWS**

- Carrefour is learnt to have a new partner, the **HDFC** group. The actual entity could be a private equity arm of HDFC. Details of the exact arrangement that the two companies are looking at could not be found. (ET)
- **Tata Steel, Essar Steel, JSW Steel, Ispat Industries, RINL** and **SAIL** have agreed on a 50-100% rollback of the price hike announced on March 1. The move follows a fervent appeal by the Government to curb any price hike that can fuel inflationary trends. (ET)
- Reliance Wind Energy (RWE), a subsidiary of **Reliance ADA Group's** energy business, is setting up a 150 MW wind power project worth Rs.9 bn with **Suzlon Energy** to serve the power deficit Mumbai. (ET)
- Data storage major **Moser Baer India** will invest around \$250 mn over the next three years to set up the largest thin film fabrication facility in India. Moser has signed US-based Applied Materials, a provider of nano manufacturing technology solutions for the electronics industry, as its technology partner for the project. (BS)
- **Bharti Enterprises** and French insurance major AXA are set to launch a realty fund. At the moment the two are in talks to finalize the details of the JV. (ET)
- Leading pharmaceutical companies like **Ranbaxy, Dr Reddy's, Lupin** and **Glenmark** are teaming up with other domestic companies for strategic manufacturing and marketing alliances to boost their international business operations. (BS)
- **Thermax Ltd** has commenced the process to wind up its subsidiary, Thermax Energy Performance Services Limited. (BS)
- **National Thermal Power Corporation Ltd's** board of Directors has approved a proposal to enable the company enter the nuclear power generation business. (BL)
- Textile firm **House of Pearl Fashions India Ltd** has said that FMR Corporation, Fidelity International, along with their direct and indirect subsidiaries bought 1.84% stake in the company. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### COMPANY UPDATE

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## ENTERTAINMENT NETWORK INDIA LTD (ENIL) (Rs.305, FY09E: EV/EBITDA: 11x, BUY)

### Management Meet Update, radio station roll out & OoH projects on course, maintain BUY

We recently met the management of ENIL and came away positive about the prospects of its radio business and its growing presence in the OoH segment. ENIL's radio expansion plans are on course and all new stations are likely to be rolled out by H2 of FY08. The recent Delhi Airport win in OoH is also expected to start contributing to consolidated revenues in FY08. We like ENIL due to its dominant position in the fast-growing radio markets, emerging presence in the out of home (OoH) space (through 100% owned-TIMPL) and its strong positioning as a cross-media entity. ENIL also intends to grow its radio footprint extensively with a proposed roll out of 22 new stations in addition to the existing 10 over the next fiscal.

### Out of home (OoH): An emerging advertising medium

Currently, OoH has a share of about 4.5% of the overall advertising market in India, totaling about Rs.7-8 bn; nearly 2X the current radio market that is estimated at Rs.5-5.5bn.

Billboards account for the largest share of the OoH industry, while bus shelters, buses, trains and others constitute the rest. According to our discussions with companies, the market is highly city-centric, with about 80% of the business coming from India's top-10 cities, and is further dominated by the metros.

### Competitive Landscape

The OoH industry in India is fragmented with many players, and is operated by several local players that are small and unorganized. Some of the key organised players in the industry are Clear Channel, Times OoH, Selvel, Vantage, Pioneer, Portland, and Lakshya.

We opine that as commercialization and scaling up take place in the industry, consolidation activities could take place given the nascent nature of the industry. This could lead to significant opportunities for companies belonging to larger media corporations with prior industry experience garnering significant market share going forward.

### Characteristics of OoH

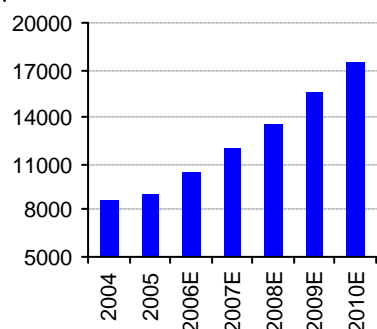
- **Fragmented nature of industry** - The OoH industry is highly fragmented. Several small and disorganized local players, each owning or having lease rights for a few properties, operate it.
- **Prevalent in larger centers** - OoH is common mainly in metros and large towns, as it needs a large critical mass of target audience. However, we believe that as rural marketing picks up in India, we should see an increasing use of OoH as a medium for advertising in small towns and rural areas.
- **Medium with an impact** - As OoH makes use of visuals, it is an effective medium for advertising, and mainly targets people in cars or on the street. In addition, with new display techniques like LEDs, OoH provides greater chances of grabbing eyeballs and increasing effectiveness for advertisers.

### Summary table

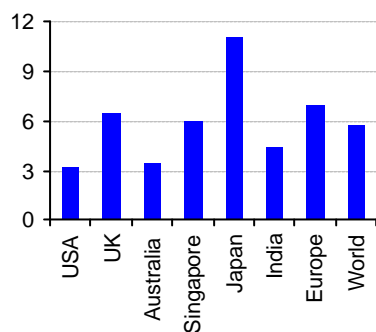
(Rs mn)	FY07E	FY08E	FY09E
Sales	2290.5	4054.6	4908.5
Growth (%)	66.7	77.0	21.1
EBITDA	514.7	919.9	1260.3
EBITDA margin (%)	22.5	22.7	25.7
Net profit	344.8	526.9	608.6
Net cash (debt)	200.3	-180.5	-1350.4
EPS (Rs)	7.2	11.1	12.8
Growth (%)	11.1	52.8	15.5
CEPS	8.5	13.8	16.4
DPS (Rs)	0.5	0.5	1.0
ROE (%)	12.3	16.1	14.7
ROCE (%)	11.9	17.1	19.4
EV/Sales (x)	6.4	3.5	2.7
EV/EBITDA (x)	28.4	15.8	10.9
P/E (x)	42.1	27.5	23.8
P/Cash Earnings	35.9	22.0	18.6
P/BV (x)	4.9	4.0	3.1

Source: Company & Kotak Securities - Private Client Research

### Out-of-Home(OoH) Industry Growth (Rs mn)



Source: PwC Report on Indian Media and Entertainment Industry

**OoH as a % of ad-spend for CY05 (%)**

Source: Zenith Optimedia

**DIAL win to start kicking in FY08****For TIMPL...we see significant revenue potential in the OoH segment**

We see significant revenue potential, going forward, in its subsidiary - TIMPL that has interests in the nascent OoH and live entertainment spaces on the back of growing infrastructure additions like airports, malls, highways and complexes.

We expect TIMPL with its strong positioning in OoH after this order win backed by the Times pedigree to participate actively in the growing revenue opportunity in OoH.

**DIAL win in OoH to start contributing in Q1FY08... close to Rs.2.1 bn over FY08-10E**

TIMPL, 100% owned subsidiary of ENIL has bagged the advertisement rights for the international airport in Delhi. The Delhi International Airport Pvt Ltd (DIAL) awarded these rights to TIMPL for a period of three years starting FY08. This contract would involve designing, setting up, development and maintenance of advertisement locations.

Under the license Times OoH Media would cover approximately 150 display sites inside the terminal buildings, approach roads, hoardings around terminals and advertisement options inside the terminal buildings and aerobridges. Our calculations suggest that @ 75% occupancy levels and with realizations in line with prime properties like airports, the revenue opportunity could be close to Rs.2.1 bn over the course of the initial three year license (FY08-10E).

We expect this contract to add close to Rs.675 mn of revenues in FY08, with the projected consolidated revenue for TIMPL at Rs.1.63 bn. We have incorporated these financials into our SoTP valuations and arrive at an NPV of Rs.18 for this particular order win.

**TIMPL has also added other properties in FY07...**

In line with growing visibility for the OoH medium, TIMPL has also added significant contracts to its order book during FY07, in addition to the latest DIAL win. During FY07, TIMPL has won prestigious contracts on the Delhi Metro, Kolkata Metro, Delhi-Noida flyway, Patel Bridge in South Mumbai and LED walls in the NCR area. In the current quarter, TIMPL has won contracts for two LED screens in the Mumbai airport.

**Maintain BUY**

In our consolidated DCF we have assumed revenue growth in OoH segment to taper off post the end of the contract period and assumed revenue growth only on revenues excluding this project. The respective methodologies lead to a weighted average price target of **Rs.360** for the stock. We maintain **BUY**.

**Radio: Updates on Radio Mirchi's rollout**

ENIL intends to grow its radio footprint extensively with a proposed roll out of 22 new stations in addition to the existing 10 over the next fiscal. The company aims to roll out the proposed stations over the next two quarters. The current quarter is expected to see ENIL rolling out two to three radio stations in line with its expansion plans.

Post the roll out, ENIL will be the only major radio player that would have a presence in all top 13 radio markets in the country. The top 13 radio stations, according to industry, account for a major chunk of the radio advertising market.

**..currently, Radio Mirchi leads the competition by a distance****Market-leader in radio**

According to the data released, ENIL has daily listenership that is more than 2x its nearest competitor in Delhi & NCR, Radio City. ENIL has listenership of close to 4.2-mn vis-à-vis the 2.094 mn & 2.048 mn reported by competitors Radio city and Red FM, respectively. ENIL also leads the closest competitor in Mumbai by close to 40% with daily listenership numbers of 2.629 mn. MRUC for the first time has also released listenership numbers for the Kolkata market wherein also ENIL leads the market with daily listener ship of close to 2.73 mn.

## Financials and Recommendation

ENIL's consolidated revenues are expected to grow at a CAGR of 72% over FY06-08E to Rs.4.05 bn in FY08E driven by a robust 41% CAGR growth in radio revenues to Rs.2.4 bn and a healthy ramp up in TIMPL revenues to Rs.1.63 bn by FY08E.

Healthy revenue growth, aided by economies of scale emerging across the different business, is expected to impact operating margins positively. Consequently, we expect ENIL to report consolidated profits of Rs.344 mn and Rs.527 mn in FY07E and FY08E translating into an EPS of Rs.7.2 and Rs.11.1 over the fiscals.

While the stock looks costly at 16x FY08E EV/EBITDA and 27x FY08E P/E, we maintain a BUY on ENIL. We believe the revenue potential in the OoH space, expected strong growth in the radio industry, ENIL's leadership position therein and a strong management team will lead to high and sustainable growth in the years to come.

**BUY with a weighted  
average price target of  
Rs.360**

Our two-stage DCF valuation and SoTP methodology suggests a weighted price target of Rs.360. We maintain BUY. We have valued ENIL using the DCF methodology and by according comparable EV/EBITDA multiples to the different business segments. Consequently, we have arrived at a weighted average fair value of Rs.360 for the stock. For our DCF analysis, we have assumed a terminal growth rate of 4% and WACC of 12.5% that yields a fair value of Rs.360 over one year based on a rolling 12-month basis.

We continue to recommend a **BUY** despite the seemingly limited upside on account of positive earnings surprises that could come from ENIL's OoH business (TIMPL). TIMPL has emerged as one of the stronger players in the segment backed by a healthy balance sheet and the Times group pedigree. We consequently expect TIMPL to participate actively in the growing revenue opportunity in OoH.

The company reports TIMPL numbers only at the end of the fiscal. Contribution from this subsidiary above our estimates/incremental order wins could provide upsides to our earnings estimates for ENIL.

### Projected healthy growth in consolidated financials: economies of scale, low operating cost in radio to drive margin expansion

Given the healthy revenue growth expected, radio's low operating costs and past investments maturing in TIMPL we expect consolidated operating margins for ENIL to expand to 22.5% in FY07 and further to 22.7%(25% earlier) and 25.7%(27.3% earlier) in FY08E and FY09E. For ENIL, we expect:

**a) Radio business to drive revenue growth:** We expect healthy growth in ENIL's radio business on the back of its network expansion, competitive positioning and expected robust demand from the user segments. We note that ENIL has hiked its ad rates on extant radio stations by an average of 10-25% depending on the station's maturity towards the end of Q2FY07.

We also expect the pan-India presence of ENIL post its rollout to improve attractiveness to advertisers in the medium-term.

**b) TIMPL, 100% owned subsidiary to start contributing significantly:** We are optimistic about the growth prospects for ENIL's emerging businesses- OoH and Event Management given the revenue visibility and expected growth potential in these businesses.

**c) Emergence as a city-centric cross-media entity:** On the back of a strong positioning in radio, emerging presence in OoH and event management and a strong urban strategy we expect ENIL to emerge as a formidable cross-media entity going forward. We believe that ENIL given its strong execution skills, management bandwidth and the Times pedigree has an advantage over peers and could consolidate its extant dominant position.

## Future prospects

For ENIL, we expect radio revenues to grow robustly from the current Rs.1.17 bn in FY06 to Rs.2.42 bn in FY08 and, further, to Rs.3 bn in FY09 on the back of growing traction from the target markets, network expansion and also due to the ad rate hikes affected recently. We expect the standalone radio business to report EBITDA margins of 27% in FY07 and 29% in FY08. We see this expansion in radio margins on account of operating leverage across properties and the low cost nature of radio.

### Revenues to grow at 72% CAGR over FY06-08E

For TIMPL, we expect revenues to grow at a CAGR of 96% over FY06-09E to Rs.1.63 bn in FY08E and Rs.1.87 bn in FY09E from the Rs.590 mn in FY07. Overall, we expect consolidated revenues for ENIL to register a CAGR of 72% over FY06-08E. We expect consolidated revenues to grow to Rs.4.05 bn in FY08 and to Rs.4.9 bn in FY09 from the Rs.1.37 bn reported in FY06.

We expect net profits to further grow to Rs.344 mn in FY07, Rs.527 mn in FY08 and Rs.609 mn in FY09. On an equity capital of Rs467.5 mn, this would translate into an EPS of Rs.7.2 for FY07, Rs.11.1 in FY08 and Rs.12.8 in FY09.

## Key Concerns

- **Competition and possible irrational behavior of new entrants:** It is expected that the 43 new players in this space are expected to roll out close to 245 stations over the fiscals of FY07 and FY08. We note that in an attempt to gain market share, new entrants could look to indulge in irrational pricing in certain key pockets and/or exert pressure on employee payouts.
- **Losses in new properties:** Higher than estimated cost pressures on account of the new station roll out could impact our estimates negatively and lead to a subdued stock performance.
- **Lower than estimated revenues and profitability from the OoH segment** could impact our earnings estimates negatively.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
5-Mar	Ansal Hsg Cn	La Compagnie Financiere	S	80,000	217.36
5-Mar	Apollo Hos E	Fid Fund Mauritius Ltd	B	2,942,513	491.50
5-Mar	Apollo Hos E	Aranda Investment Pte Ltd	S	640,000	491.50
5-Mar	Apollo Hos E	Maxwell Mauritius Pte Ltd	S	2,079,930	491.50
5-Mar	C & C Constr	Edelweiss Commodities	B	100,000	206.34
5-Mar	C & C Constr	ABN Amro Bank Nv London	S	97,414	206.50
5-Mar	Dawn Mills C	Peninsula Land Ltd Esop T	B	11,385	6,250.00
5-Mar	Dawn Mills C	Bengal Finance and Invest	S	11,385	6,250.00
5-Mar	Deep Inds	Latin Manharlal Sec Pvt	S	100,000	49.80
5-Mar	Empower Inds	Sanjay Chhabra	B	50,000	8.25
5-Mar	Empower Inds	Dharmendra H Bhojak	S	48,000	8.25
5-Mar	Gravity Ind	Manisha Bhandari	B	49,301	10.07
5-Mar	H.S.India	Rich Udyog Network Ltd	B	72,000	68.54
5-Mar	Jyoti Structure	UBS Securities Asia Ltd.	S	406,225	163.95
5-Mar	Kandagir Spi	Trupti Perolium Pvt. Ltd.	B	27,870	82.36
5-Mar	Kandagir Spi	Prescient Securities Pvt.	S	27,870	82.25
5-Mar	Liberty Phos	Dhermendra J Madhani	S	23,650	16.99
5-Mar	Man Indust I	Principal Trustee Co Pvt Ltd.	B	200,000	189.00
5-Mar	Man Indust I	UTI Basic Ind Fund	S	200,000	189.00
5-Mar	Mida Pharmas	Madhvi Dharmesh Parekh	B	25,000	8.26
5-Mar	Mida Pharmas	Kalpana R. Maheshwari	B	19,086	8.26
5-Mar	Mohit Indust	Shah Manish Ratilal	B	33,600	33.70
5-Mar	Mohit Industries	Rakesh Kumar G	B	25,000	33.40
5-Mar	Mohit Industries	Chandrakant Bhogilal Shah	S	35,000	33.40
5-Mar	Mohit Industries	Rajeev Goyal	S	25,000	33.61
5-Mar	Moving Pictu-PMS	Jagdish H Bharwani	B	100,000	7.12
5-Mar	Moving Pictu-PMS	Namita Jagdish Bharwani	S	100,000	7.12
5-Mar	Nettlinx Ltd.	Mrs. Niraja Jaleshwar Sin	B	77,379	27.93
5-Mar	Nettlinx Ltd.	Anil Goyal	B	75,000	26.79
5-Mar	P I Drugs	Agnus Holdings Pvt Ltd	B	33,220	61.05
5-Mar	RaneMadras	Rane Holdings Ltd	B	127,100	111.84
5-Mar	RaneMadras	Sundaram Mutual Fund	S	100,500	111.99
5-Mar	Stanpacks In	Rahul Chhabra	B	50,000	7.50

Source: BSE



## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Gujarat Ambuja	112	2.0	0.7	12.0
Grasim Ind	2,102	0.3	0.1	0.3
MTNL	134	(0.8)	(0.1)	3.9
<b>Losers</b>				
Reliance Ind	1,259	(4.3)	(15.9)	5.4
ONGC	773	(3.2)	(11.1)	1.2
Wipro	537	(6.5)	(10.8)	1.4

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
6-Mar	GAIL India to announce special interim dividend; Teleradiology and National Healthcare holds press conference
7-Mar	Mind Tree hosts listing ceremony at NSE; Rediff.com organizes a press conference
8-Mar	Wockhardt to announce interim dividend
9-Mar	Colgate, Nalco to announce second interim dividend
10-Mar	Reliance, IPCL, FDC to announce interim dividend
12-Mar	Suzlon Energy, Grasim Industes, Aditya Birla Nuvo, Hindalco, MIRC Electronics to announce interim dividend
13-Mar	L&T, JSW Steel, Dabur India to announce interim dividend
14-Mar	Essel Propac to announce earnings and dividend
16-Mar	Maharashtra Seamless to announce interim dividend
17-Mar	Asahi India Glass to announce interim dividend
20-Mar	Nestle India to announce earnings and dividend

Source: Bloomberg

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