

May 22, 2007

# Man Midcap Ideas



Amtek Auto, Andhra Bank, Automotive Axles, Ess Dee Aluminium, Goodlass Nerolac, Indian Overseas Bank, IVRCL, Jagran Prakashan, Kirloskar Brothers, Mphasis, NIIT Technologies, Patel Engineering, Petronet LNG, RK Forgings, Zensar Technologies

Man Equity Research Team

# Amtek Auto

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**Prachi Kulkarni** (Research Associate)

## Price yet to capture the growth

- Emerged as one of the largest Indian auto component giant with presence across a vast range of critical forged and casted components.
- AAL is one of the very few Indian auto component manufacturers to have gained access to global automobile giants like Renault, Ford, BMW and Land Rover to name the few.
- Operational integration of subsidiaries to ensure healthy margins.
- Robust revenue and earnings growth visibility, combined with attractive valuations vis-à-vis peers.

### Investment Rationale

- Along with its subsidiary companies, AAL can boast of a highly competitive product range comprising of connecting rods, crankshafts, steering knuckles, gear shifter forks and turbochargers.
- Historical trends reflect commendable capabilities of scaling up businesses. Its consolidated revenue and profit have grown at a CAGR of 73% and 74% during FY03-FY06 to Rs 26.5 billion and Rs 2.6 billion respectively.
- Outsourcing from overseas subsidiaries gaining momentum. Supplies to GWK have increased to Rs 1.6 billion in FY06 against Rs 0.8 billion in FY05 and is targeted to touch Rs 3.5 billion by FY08.
- Consolidated EBIDTA margin has improved to 20% in Q3FY07 from a low of 18.1% Q1FY06, best amongst the peers.
- Scouting for a major acquisition in the US, for which it has raised \$250 million
- Fully diluted EPS to grow at a CAGR of 22% during FY07E-FY09E.

### Risks

- Delay in operational integration could impact margin improvement going ahead.
- Any further equity dilution would adversely impact our EPS forecasts and investor sentiments as well.

### Valuation

- At CMP of Rs 406, AAL is trading at 14.8x and 12.7x FY08E and FY09E fully-diluted consolidated EPS of Rs 27.4 and Rs 31.9, respectively. However, if adjusted to the year-end cash per share in the books, it is trading at 11.1x and 9x FY08E and FY09E fully diluted consolidated EPS, respectively. We maintain BUY with a price target of Rs 470.

### Valuation summary

| Y/E Jun, Rs mn       | FY05   | FY06   | FY07E  | FY08E  | FY09E  |
|----------------------|--------|--------|--------|--------|--------|
| Net Operating Income | 16,605 | 26,451 | 37,920 | 45,779 | 53,033 |
| Growth, %            | 109.1  | 59.3   | 43.4   | 20.7   | 15.8   |
| Core EBIDTA          | 3,001  | 5,105  | 7,522  | 9,357  | 10,973 |
| EBIDTA margins, %    | 18.1   | 19.3   | 19.8   | 20.4   | 20.7   |
| Net profit           | 1,476  | 2,565  | 3,476  | 4,445  | 5,169  |
| Dil. EPS, Rs         | 14.4   | 21.0   | 21.4   | 27.4   | 31.9   |
| EPS Growth, %        | 62.7   | 45.6   | 1.8    | 27.9   | 16.3   |
| PER, x               | 28.1   | 19.3   | 19.0   | 14.8   | 12.7   |
| EV/EBIDTA, x         | 17.2   | 13.9   | 7.8    | 6.2    | 5.2    |
| EV/Net Sales, x      | 3.1    | 2.7    | 1.5    | 1.3    | 1.1    |
| Price/Book Value, x  | 4.9    | 2.8    | 1.8    | 1.6    | 1.4    |
| ROIC, %              | 19.2   | 17.1   | 17.3   | 19.6   | 21.3   |
| ROE, %               | 25.6   | 19.6   | 12.9   | 11.6   | 11.9   |
| Dividend Yield, %    | 0.4    | 0.5    | 0.6    | 0.7    | 0.7    |

Source: Company, Man Financial Research Estimates

Maintain BUY / Rs 406  
Target Rs 470 (+16%)

### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : AMTK IN  
Reuters code : AMTK.BO  
www.amtek.com

BSE Sensex : 14419  
NSE Nifty : 4261

### Company data

|                          |           |
|--------------------------|-----------|
| O/S shares :             | 128mn     |
| Market cap (Rs) :        | 52bn      |
| Market cap (USD) :       | 1273mn    |
| 52 - wk Hi/Lo (Rs) :     | 435 / 240 |
| Avg. daily vol. (3mth) : | 185,334   |
| Face Value (Rs) :        | 2         |

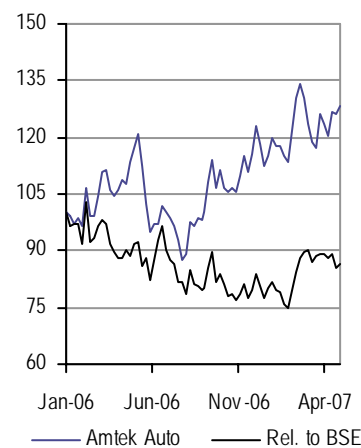
### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 33.2 |
| FII / NRI :                   | 44.8 |
| FI / MF :                     | 17.9 |
| Non Promoter Corp. Holdings : | 1.9  |
| Public & Others :             | 2.2  |

### Price performance, %

|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | 7.6  | 3.9  | 32.9 |
| Rel to BSE | 3.9  | 2.2  | 1.1  |

### Price vs Sensex



Source: Bloomberg, Man Financial Research

# Automotive Axles

Not Rated / Rs 556

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## Attractive Valuations

### Investment Rationale

- Automotive Axles, a JV between Arvin Meritor Inc and Kalyani Group, is the largest independent manufacturer of rear drive axle assemblies in India.
- Enjoys esteemed client portfolio, which includes names like Ashok Leyland, Tata Motors and Maruti Udyog in the domestic market and Daimler Chrysler and Meritor in the international markets.
- AAxL is expanding axle and gear manufacturing capacities to take care of domestic demand and more importantly to capitalize upon the export (outsourcing) potential that it enjoys through Arvin Meritor. The outsourcing potential for AAxL could be huge over the period of next few years, considering the poor financial health of global auto and ancillary players.
- Exports have disappointed in the past. But it is estimated to grow at CAGR of 55% during FY06-FY09E to Rs 1.69 billion, driving the overall revenue CAGR at 22% during the same period.
- AAxL enjoys one of the most respectable margins (~17%+) in the domestic auto ancillary space, which is expected to remain stable.
- EPS growth estimated to be around 21% CAGR during FY06-FY09E.

### Valuations

- At the current price of Rs 556, it is trading at a PER of 12.8x and 0.9x and EV/EBIDTA of 7x and 6.0x FY08E and FY09E EPS, respectively. We believe that AAxL deserves to enjoy at superior valuations vis-à-vis peers in the industry due to its high-end product portfolio and highly reputed parentage.

Bloomberg code : ATXL IN  
 Reuters code : ATOA.BO  
 www.autoaxle.com

BSE Sensex : 14419  
 NSE Nifty : 4261

### Company data

O/S shares : 15mn  
 Market cap (Rs) : 8bn  
 Market cap (USD) : 203mn  
 52 - wk Hi/Lo (Rs) : 675 / 331  
 Avg. daily vol. (3mth) : 8,759  
 Face Value (Rs) : 10

### Share holding pattern, %

Promoters : 71.0  
 FII / NRI : 2.7  
 FI / MF : 12.3  
 Non Promoter Corp. Holdings : 8.4  
 Public & Others : 5.6

### Price performance, %

|            | 1mth | 3mth  | 1yr   |
|------------|------|-------|-------|
| Abs        | -3.9 | -13.1 | -7.8  |
| Rel to BSE | -8.5 | -12.7 | -33.3 |

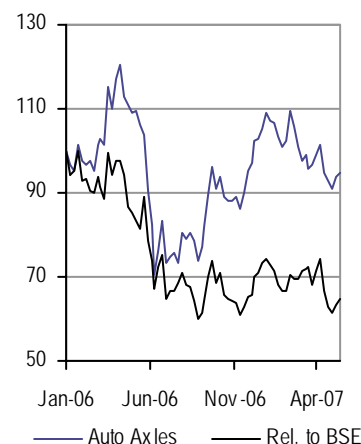
### Valuation summary

| Y/E Jun, Rs mn       | FY05  | FY06  | FY07E | FY08E | FY09E |
|----------------------|-------|-------|-------|-------|-------|
| Net Sales            | 3,547 | 4,618 | 6,286 | 7,428 | 8,435 |
| Growth, %            |       | 30.2  | 36.1  | 18.2  | 13.5  |
| EBIDTA               | 680   | 842   | 1,107 | 1,298 | 1,496 |
| EBIDTA margins, %    | 19.2  | 18.2  | 17.6  | 17.5  | 17.7  |
| Net profit           | 369   | 434   | 568   | 658   | 763   |
| Net profit margin, % | 10.4  | 9.4   | 9.0   | 8.9   | 9.0   |
| MAN EPS, Rs          | 24.4  | 28.7  | 37.6  | 43.6  | 50.5  |
| EPS Growth, %        |       | 17.6  | 31.0  | 16.0  | 15.9  |
| PER, x               | 22.8  | 19.4  | 14.8  | 12.8  | 11.0  |
| EV/EBIDTA, x         | 13.3  | 10.6  | 8.2   | 7.0   | 6.0   |
| EV/Net Sales, x      | 2.5   | 1.9   | 1.4   | 1.2   | 1.1   |
| Price/Book Value, x  | 11.3  | 8.8   | 6.4   | 4.9   | 3.8   |
| ROIC, %              | 27.8  | 30.0  | 29.7  | 29.9  | 32.5  |
| ROE, %               | 49.7  | 45.6  | 43.4  | 38.2  | 34.4  |
| Dividend Yield, %    | 2.2   | 2.3   | 2.5   | 2.9   | 3.2   |

Source: Company, Man Financial Research Estimates

Note: We do not have coverage on the stock. Estimates are on rough-cut basis.

### Price vs Sensex



Source: Bloomberg, Man Financial Research

# Andhra Bank

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## Consistent performer...

Andhra Bank's strategy of pursuing a calibrated growth (lower than industry average) has paid off well with the net interest income registering a healthy growth of 21% in FY07 (9% in FY06). Core fee-based income growth disappointed in FY07 but we expect fee income growth to gain further traction on back of bank's initiatives to ramp up its efforts in TPP distribution (FY06-FY09E CAGR of 14%). Operating efficiency improved with cost-to-income ratio declining to 48% from 53% a year ago. Net profit for the year was up by 11% yoy (notwithstanding a much higher tax rate of 31% in FY07 as against 13% a year ago). Advances portfolio growth was broad based with medium and large industries, agriculture and retail witnessing yoy growth rates of 40%, 27% and 31% respectively. Retail advances constitute 23% of total advances. SLR investments stood at 27%. CASA declined to 34.5% from 36.3% a year ago. Andhra Bank is adequately capitalized with its Tier I ratio at ~10%. The bank has a strong technology platform in place with 93% of its business covered under CBS.

**Calibrated growth with focus on margins:** Andhra Bank has pursued a calibrated growth, growing its advances and deposits portfolios by 25% and 22% respectively. Net interest margins stood at 3.37% in FY07. We expect the net interest margins to improve to 3.43% in FY08E on account of (i) benefit of PLR hikes of 125bps to be reflected in FY08E numbers, (ii) management's conscious strategy of shredding high-cost bulk deposits from the current level of 32%.

**Asset quality remains amongst the best:** Andhra Bank's asset quality remains comfortable with Gross NPAs and Net NPAs at 1.41% and 0.17% respectively. Incremental defaults stood at 1% in FY07 (0.8% in FY06). Standard assets stood at 98.5% of the total advances portfolio at the end of FY07.

**De-risked treasury portfolio:** Andhra Bank has de-risked its investment portfolio with 70% of its investment portfolio in the HTM category. Duration of AFS portfolio stood at 2.31yrs. Our analysis reveals that every 25bps rise in bond yields hereon might impact the pre-provision profits to the tune of 2.2-2.3%.

## Valuation summary

| Y/E Mar, Rs mn   | FY05  | FY06  | FY07  | FY08E | FY09E |
|------------------|-------|-------|-------|-------|-------|
| Pre-prov ROE (%) | 60.4  | 32.4  | 32.8  | 34.4  | 36.0  |
| Pre-prov ROA (%) | 3.4   | 2.2   | 2.4   | 2.4   | 2.4   |
| Net Profit       | 5,115 | 4,857 | 5,379 | 6,635 | 7,825 |
| % growth         | 10.3  | -5.0  | 10.7  | 23.3  | 17.9  |
| EPS (Rs)         | 12.8  | 10.0  | 11.1  | 13.7  | 16.1  |
| Adj BVPS (Rs)    | 44.7  | 58.6  | 65.8  | 74.8  | 85.7  |
| ROE (%)          | 31.1  | 20.5  | 17.5  | 19.2  | 19.8  |
| P/E (x)          | 7.0   | 8.9   | 8.0   | 6.3   | 5.3   |
| Adj. P/BV (x)    | 2.0   | 1.5   | 1.4   | 1.2   | 1.0   |

Source: Company, Man Financial Research Estimates

Maintain BUY / Rs 90  
Target Rs 105 (+18%)

### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : ANDB IN  
Reuters code : ADBK.BO  
www.andhrabank-india.com

BSE Sensex : 14419  
NSE Nifty : 4261

### Company data

|                          |         |
|--------------------------|---------|
| O/S shares :             | 485mn   |
| Market cap (Rs) :        | 39.7bn  |
| Market cap (USD) :       | 978mn   |
| 52 - wk Hi/Lo (Rs) :     | 99 / 57 |
| Avg. daily vol. (3mth) : | 464,297 |
| Face Value (Rs) :        | 10      |

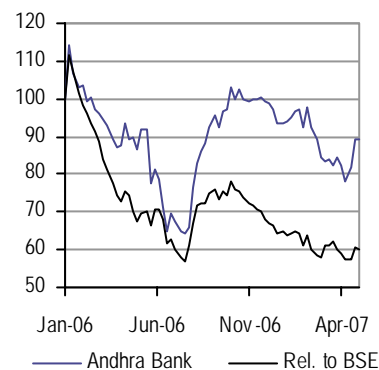
### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 51.6 |
| FII / NRI :                   | 19.0 |
| FI / MF :                     | 10.2 |
| Non Promoter Corp. Holdings : | 2.3  |
| Public & Others :             | 16.9 |

### Price performance, %

|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | 13.9 | 8.3  | 7.2  |
| Rel to BSE | 8.8  | 8.7  | -9.8 |

## Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Ess Dee Aluminium

Not Rated / Rs 358

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**Chaturya Tipnis** (Research Associate)

## Growth-packed

- We recently met the management of Ess Dee Aluminium (EDAL) to discuss the company's new initiatives and capacity expansion programs for which it undertook an IPO of Rs 1566mn.

### Key takeaways

- The company is present in a niche segment (pharma packaging) within the overall packaging industry, which is witnessing a 14-15% growth.
- Ess Dee has three main sources of operations, namely manufacturing of aluminium foil, PVC, and printing. Major value addition takes place during the process of reducing aluminium sheets to lesser microns.
- It has an ambitious expansion plan to increase its capacity from 3,600 tons to 18,000 tons in FY06-08E.
- The company plans to enter the FMCG aluminium packaging segment, towards which the initial groundwork has been completed, and business is expected to commence from 1QFY08.

### Our take

- Ess Dee's healthy relationship with Indian pharma companies makes it well poised to achieve its goal of becoming a Rs 3000mn company by FY08E from Rs 588mn in FY06. Clients include Cipla, Wockhardt, Cadila and Torrent.

### Valuation

- EDAL's stock is trading at a P/E of 17.7x FY08E, which is attractive for a company which is expected to grow its sales at 108% FY06-08E and EPS at 138% FY06-08E. The PEG is attractive at 0.4x FY07. The risk is high net working capital days of 302 days. The D/E is comfortable at 0.3x in FY08.

Bloomberg code : EDS IN  
 Reuters code : ESDA.BO  
 www.duttagroup.in

BSE Sensex : 14419  
 NSE Nifty : 4261

### Company data

|                             |           |
|-----------------------------|-----------|
| O/S shares :                | 26mn      |
| Market cap (Rs) :           | 9bn       |
| Market cap (USD) :          | 232mn     |
| 52 - wk Hi/Lo (Rs) :        | 346 / 210 |
| Avg. daily vol. (monthly) : | 157,273   |
| Face Value (Rs) :           | 10        |

### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 64.6 |
| FII / NRI :                   | 7.9  |
| FI / MF :                     | 10.2 |
| Non Promoter Corp. Holdings : | 3.0  |
| Public & Others :             | 14.3 |

### Price performance, %

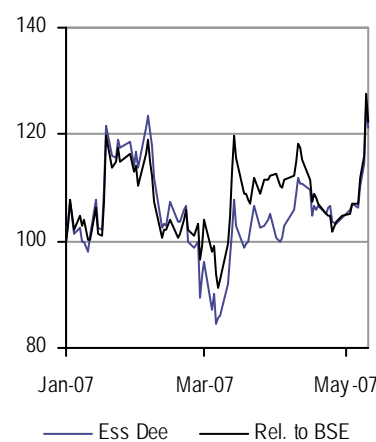
|            | 1mth | 3mth | 1yr |
|------------|------|------|-----|
| Abs        | 27.9 | 28.8 | -   |
| Rel to BSE | 24.2 | 27.6 | -   |

### Valuation summary

| Y/E Mar, Rs mn            | FY2006  | FY2007E | FY2008E |
|---------------------------|---------|---------|---------|
| Net Sales                 | 625     | 1,407   | 2,700   |
| Growth, %                 | #DIV/0! | 139.2%  | 91.9%   |
| Core EBIDTA               | 150     | 333     | 699     |
| EBIDTA margins, %         | 24.1%   | 23.7%   | 25.9%   |
| Net profit                | 94      | 276     | 533     |
| Net profit margin %       | 15.0%   | 19.6%   | 19.7%   |
| EPS, Rs                   | 3.6     | 10.5    | 20.2    |
| EPS Growth, %             | #DIV/0! | 130.5%  | 92.9%   |
| PER, x (Adj)              | 94.1    | 34.2    | 17.7    |
| EV/EBIDTA, x (Adj)        | 64.8    | 31.0    | 14.8    |
| EV/Net Sales, x           | 15.6    | 7.4     | 3.8     |
| Price/Book Value, x (Adj) | 50.9    | 19.5    | 16.0    |
| ROIC, %                   | 34.5    | 12.9    | 16.0    |
| ROE, %                    | 38.1    | 11.4    | 18.0    |
| Dividend Yield, %         | #DIV/0! | 0.0     | 0.0     |

Source: Company, Man Financial Research Estimates

### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Goodlass Nerolac

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**Kunal Motishaw** (Research Associate)

## Valuation re-rating to continue

- In terms of sales growth, EBITDA margins, Goodlass has caught up with Asian Paints but trades at a significant discount. Despite re-rating, we find the existing discount high
- The outlook for the paints industry remains robust for both decoratives as well as the industrial segment. Goodlass, by virtue of its strong client relationships and parentage, is expected to record robust growth.
- At 14.8x FY2008E P/E, the stock is trading at a two-year forward PEG of 0.85x, one of the cheapest among leading FMCG stocks

### Investment Rational

- We believe that gross margins and hence operating margins are likely to expand more than what we have built in, as we expect crude oil and titanium di-oxide prices to be lower than last year's.
- We believe that Goodlass' valuation discount to Asian Paints is unjustified given its commendable catch-up act in terms of sales growth and EBITDA margins. With its robust growth outlook, we expect re-rating.
- We are quite optimistic about the growth of both the decoratives and industrial segments. We expect decorative paints to grow at a CAGR of around 15% and industrial paints at 12-13% in the medium term

### Risks

- Declining bargaining power with auto clients and inflationary pressure can upset our estimates.
- Liquidity has been traditionally thin in this stock.

### Valuation

- At 14.8x FY2008E and 12x FY2009E EPS, we find valuations very attractive. The stock trades at 34% PER discount to Asian Paints on its FY2008E numbers.
- It trades at a PEG of 0.85x (two-year forward estimated EPS growth), one of the cheapest among leading FMCG stocks. Our DCF valuation indicates a fair value of Rs920.

### Valuation summary (Stand alone)

| Y/E Mar, Rs mn         | FY2005 | FY2006 | FY2007P | FY2008E | FY2009E |
|------------------------|--------|--------|---------|---------|---------|
| Total Income           | 8,723  | 10,096 | 12,223  | 14,196  | 16,568  |
| Total Income Growth, % | 14.7   | 15.7   | 21.1    | 16.1    | 16.7    |
| Core EBITDA            | 1,303  | 1,571  | 1,714   | 2,048   | 2,443   |
| EBIDTA margins, %      | 14.9   | 15.6   | 14.0    | 14.4    | 14.7    |
| Net profit             | 880    | 952    | 1,076   | 1,283   | 1,576   |
| PAT margins, %         | 10.1   | 9.4    | 8.8     | 9.0     | 9.5     |
| EPS, Rs                | 34.5   | 37.3   | 39.9    | 47.6    | 58.5    |
| EPS Growth, %          | 51.9   | 8.1    | 7.0     | 19.3    | 22.8    |
| PER, x                 | 20.4   | 18.8   | 17.6    | 14.8    | 12.0    |
| EV/EBIDTA, x           | 13.7   | 11.6   | 10.0    | 8.1     | 6.4     |
| EV/Net Sales, x        | 2.1    | 1.8    | 1.4     | 1.2     | 0.9     |
| Price/Book Value, x    | 5.5    | 4.4    | 4.2     | 3.7     | 3.2     |
| ROIC, %                | 31.0   | 23.0   | 25.2    | 32.0    | 39.4    |
| ROE, %                 | 29.9   | 26.1   | 25.0    | 26.8    | 28.9    |
| Dividend Yield, %      | 1.6    | 2.8    | 2.8     | 3.6     | 3.6     |

Source: Company, Man Financial Research Estimates

Maintain BUY / Rs 703  
Target Rs 1050 (+49%)

#### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

#### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : KNPL IN  
 Reuters code : KANE.BO  
 www.nerolac.com

BSE Sensex : 14419  
 NSE Nifty : 4261

#### Company data

|                             |           |
|-----------------------------|-----------|
| O/S shares :                | 26mn      |
| Market cap (Rs) :           | 18mn      |
| Market cap (USD) :          | 440mn     |
| 52 - wk Hi/Lo (Rs) :        | 960 / 634 |
| Avg. daily vol. (monthly) : | 1,250     |
| Face Value (Rs) :           | 10        |

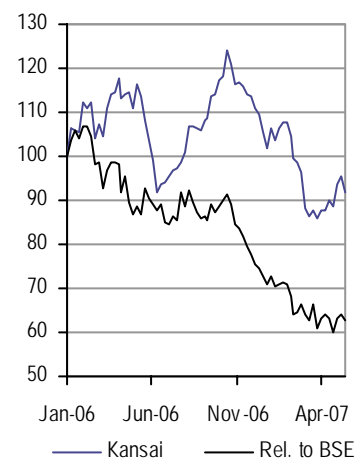
#### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 64.6 |
| FII / NRI :                   | 7.9  |
| FI / MF :                     | 10.2 |
| Non Promoter Corp. Holdings : | 3.0  |
| Public & Others :             | 14.3 |

#### Price performance, %

|            | 1mth | 3mth | 1yr   |
|------------|------|------|-------|
| Abs        | 3.5  | -6.3 | -14.9 |
| Rel to BSE | -0.2 | -7.9 | -46.7 |

#### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Indian Overseas Bank

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## Banking on growth...

Indian Overseas Bank has witnessed strong business growth in FY07 with advances and deposits registering yoy growth rates of 34% and 36% respectively. Net interest margins stood at 3.69% (down by 15bps yoy). We believe the aggressive growth strategy followed by the bank has taken a toll on its margins. However, even after contraction, margins are above the industry average. We expect the margins to come down marginally further due to pressure from the resources side. An analysis of the ALM situation reveals that IOB has nearly quadrupled borrowings, leading to sharp rise in borrowing costs. We believe a measured approach towards growth should be critical for IOB's margins. Despite pressure on margins, IOB has delivered superior return ratios as compared to peers. ROE stood at 28% - the best amongst the peers on the back of strong fee income growth and better operating efficiency (C/I ratio @ 41%). IOB is adequately capitalized with CAR @ 13.3%. Tier-I ratio remains comfortable at 8.2%, which is of much significance in view of the proposed guidelines for capital adequacy under Basel II.

**Fee income growth remains impressive:** IOB's fee-based income (excluding treasury gains) grew by 26% yoy, lending stability to the non-interest income stream.

**Asset quality remains comfortable:** IOB's asset quality remains comfortable with Gross NPAs and Net NPAs at 2.4% and 0.6% respectively. Incremental defaults (as % of average advances) stood at 1.7% in FY07 against last five year's average of 2.8%.

**De-risked treasury portfolio:** IOB's investment portfolio stands derisked with 73% of investment portfolio under HTM and duration of AFS @ 5.1yrs (duration of AFS portfolio have increased significantly with reclassification of recapitalisation bonds, mostly comprising of long-dated securities, as SLR bonds. The management has indicated of transferring some securities to HTM in Q1FY08 bringing down the duration. We have accordingly built in higher provisions in our estimates for FY08E.

Maintain BUY / Rs 119  
Target Rs 145 (+22%)

### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : IOB IN  
Reuters code : IOBK.BO  
www.iob.com

BSE Sensex : 14419  
NSE Nifty : 4261

### Company data

|                          |          |
|--------------------------|----------|
| O/S shares :             | 545mn    |
| Market cap (Rs) :        | 64.9bn   |
| Market cap (USD) :       | 1596bn   |
| 52 - wk Hi/Lo (Rs) :     | 128 / 65 |
| Avg. daily vol. (3mth) : | 342,085  |
| Face Value (Rs) :        | 10       |

### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 61.2 |
| FII / NRI :                   | 18.0 |
| FI / MF :                     | 5.6  |
| Non Promoter Corp. Holdings : | 1.3  |
| Public & Others :             | 13.9 |

### Price performance, %

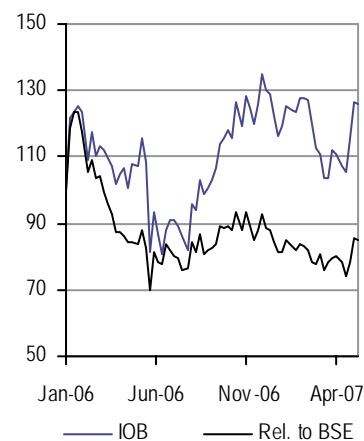
|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | 11.4 | 13.8 | 58.6 |
| Rel to BSE | 7.7  | 12.2 | 26.8 |

## Valuation summary

| Y/E Mar, Rs mn   | FY05  | FY06  | FY07   | FY08E  | FY09E  |
|------------------|-------|-------|--------|--------|--------|
| Pre-prov ROE (%) | 56.1  | 52.4  | 56.8   | 54.8   | 51.9   |
| Pre-prov ROA (%) | 2.7   | 2.8   | 2.9    | 2.7    | 2.7    |
| Net Profit       | 6,513 | 7,833 | 10,084 | 12,530 | 14,509 |
| % growth         | 27.0  | 20.3  | 28.7   | 24.3   | 15.8   |
| EPS (Rs)         | 12.0  | 14.4  | 18.5   | 23.0   | 26.6   |
| Adj BVPS (Rs)    | 38.8  | 52.0  | 66.3   | 84.6   | 106.5  |
| ROE (%)          | 28.0  | 27.2  | 28.1   | 27.9   | 25.9   |
| P/E (x)          | 9.9   | 8.3   | 6.4    | 5.2    | 4.5    |
| Adj. P/BV (x)    | 3.0   | 2.3   | 1.8    | 1.4    | 1.1    |

Source: Company, Man Financial Research Estimates

## Price vs Sensex



Source: Bloomberg, Man Financial Research

# IVRCL

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Chaturya Tipnis (Research Associate)

## Roads to Realty

IVRCL's leadership in water-related projects (~40% of its revenue through FY09E from 47% in FY07E) and contribution from diversified segments like real estate, transportation and power, ensure 38% revenue growth through FY09E. 44% of the incremental cash raised through recent issuances funds four SPVs and IVR Prime, which are back-ended projects, however ROIC will increase to 15.3% by FY09E largely due to increase in asset turnover. Value unlocking through the listing of its realty subsidiary, and clarity on operating margins, will be the triggers for the future.

### Investment Rationale

- Ongoing infrastructure spend** IVRCL is set to benefit from the proposed government spend (~US\$120 billion, according to our estimates for 2007-12) on infrastructure.
- Robust revenue growth** Revenue CAGR of 38% through FY07-FY09E, with a strong order book of 3.9x FY07E sales at Rs85bn.
- Low gearing and stable economic profit creation** Lower FY07E leverage of 0.2x reduces the risk of immediate equity dilution. Rising asset turnover, a small improvement in EBITDA margin, and prudent working capital management will ensure economic profit creation.
- Value unlocking through real estate arm** The expected IPO of its real estate arm, IVR Prime, will unlock value. We assign a value of Rs135/share, and Cushman Wakefield's valuation gives a range of Rs235–260/share at the higher-end.

### Risks

- Rising interest rates and the non-availability of skilled manpower. High exposure to Andhra Projects (mainly water) at 25% of order book.

### Valuation

- We value the business on a sum-of-the-parts basis and assign a DCF value of Rs229 per share, which is at 8.7x FY09E EV/EBITDA and 14.4x P/E FY09E. Trailing adjusted EV/EBITDA and P/E is 18x and 24x respectively. BOT projects have been valued at 18% COE and 8.25% post-tax cost of debt. The other ventures like IVR Prime, HDO and four BoT projects are valued at Rs177 per share.

- Buy with a target price of Rs 406 i.e. 22% appreciation.**

### Valuation summary (Stand alone)

| Y/E Mar, Rs mn       | FY2005 | FY2006 | FY2007E | FY2008E | FY2009E |
|----------------------|--------|--------|---------|---------|---------|
| Net Sales            | 10,547 | 15,214 | 21,600  | 30,500  | 41,000  |
| Growth, %            | 36.4%  | 44.2%  | 42.0%   | 41.2%   | 34.4%   |
| Core EBIDTA          | 865    | 1,343  | 2,009   | 2,928   | 4,059   |
| EBIDTA margin, %     | 8.2%   | 8.8%   | 9.3%    | 9.6%    | 9.9%    |
| Net profit           | 567    | 930    | 1,057   | 1,588   | 2,166   |
| Net profit margin, % | 5.4%   | 6.1%   | 4.9%    | 5.2%    | 5.3%    |
| EPS, Rs              | 8.2    | 9.7    | 8.9     | 11.9    | 15.9    |
| EPS Growth, %        | 10.8%  | 17.5%  | -7.8%   | 34.1%   | 33.3%   |
| PER, x               | 25.3   | 21.5   | 23.3    | 17.4    | 13.1    |
| EV/EBIDTA, x         | 37.4   | 24.1   | 16.1    | 11.1    | 8.0     |
| EV/Net Sales, x      | 3.1    | 2.1    | 1.5     | 1.1     | 0.8     |
| Price/Book Value, x  | 6.9    | 4.7    | 2.2     | 1.9     | 1.7     |
| ROIC, %              | 15.1   | 15.0   | 12.3    | 13.8    | 15.3    |
| ROE, %               | 14.1   | 19.5   | 8.6     | 10.5    | 12.7    |
| Dividend Yield, %    | 0.3    | 0.2    | 0.3     | 0.4     | 0.5     |

Source: Company, Man Financial Research Estimates

Note: Valuations above are arrived at by deducting 70% value of non-core business. Therefore they are based on the price of Rs 182.9 and not Rs 362, the CMP.

BUY / Rs 332  
Target Rs 406 (+22%)

#### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

#### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : IVRC IN  
Reuters code : IVRC.BO  
www.ivrcl.com

BSE Sensex : 14419  
NSE Nifty : 4261

#### Company data

O/S shares : 130mn  
Market cap (Rs) : 43bn  
Market cap (USD) : 1,050mn  
52 - wk Hi/Lo (Rs) : 460 / 164  
Avg. daily vol. (3mth) : 3.7mn  
Face Value (Rs) : 2

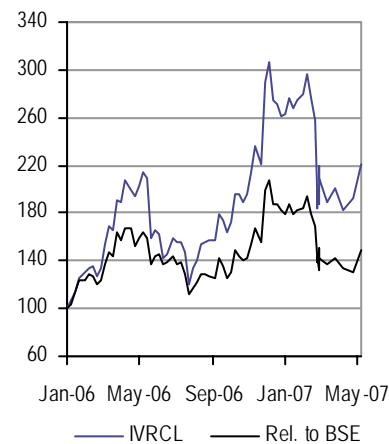
#### Share holding pattern, %

Promoters : 10.4  
FII / NRI : 55.3  
FI / MF : 16.2  
Non Promoter Corp. Holdings : 6.6  
Public & Others : 11.5

#### Price performance, %

|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | 16.6 | -6.6 | 40.6 |
| Rel to BSE | 12.8 | -8.2 | 8.8  |

#### Price vs. Sensex



Source: Bloomberg, Man Financial Research



# Jagran Prakashan

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Chaturya Tipnis (Research Associate)

## Localised Ads Glamorise Returns

Jagran Prakashan Ltd (JPL), the publisher of *Dainik Jagran*, India's largest-selling daily, offers an attractive entry into the Indian print media story. JPL will strongly outgrow the Indian print media with a 26.5% CAGR in advertisement revenue against the industry growth of 13 – 14%.

### Investment Rationale

- JPL has increased its ad rates by 26% effective from April 2007. Adjusting for bulk discount, organic growth and low circulation growth, we expect a 25% CAGR in turnover for FY07E-09E. JPL has been witnessing strong growth in its local ad ratio, which is expected to continue.
- JPL has added two new business verticals (outdoor advertisement and event management), which, in the first year of operation, have shown substantial potential to improve and have started adding to its bottom-line.
- Given the strong advertisement growth and reduction in newsprint prices, EBITDA margin is expected to increase to 22.9% in FY08E from 19.6% in FY07E.
- JPL is in the initial development mode of its strategy for Internet and SMS service. The management is very confident of scaling the business over the next 1 – 2 years.

### Risks

- Apart from the change in economic growth impacting the ad revenue, JPL's high exposure to local advertisements (~30%) could bring in higher impact due to inconsistency in ad expenditure of local players.

### Valuation

- We value JPL at 18.5x FY09E at Rs 454, a 15% discount to a national player as HTML; JPL has about Rs 2.7bn as cash and equivalents at Rs 43 per share. We recommend a BUY with a target price of Rs 497, an upside of 15%.

### Valuation summary

| Y/E Mar, Rs mn         | FY2005 | FY2006 | FY2007E | FY2008E | FY2009E |
|------------------------|--------|--------|---------|---------|---------|
| Total Income           | 3,764  | 4,782  | 5,955   | 7,538   | 9,314   |
| Total income Growth, % |        | 27.0   | 24.5    | 26.6    | 23.6    |
| Core EBIDTA            | 259    | 712    | 1,165   | 1,757   | 2,391   |
| EBIDTA margins, %      | 6.9    | 14.9   | 19.6    | 23.3    | 25.7    |
| Net profit             | 17     | 347    | 734     | 1,095   | 1,475   |
| PAT margin, %          | 0.5    | 7.3    | 12.3    | 14.5    | 15.8    |
| EPS, Rs                | 1.7    | 11.5   | 13.3    | 18.2    | 24.5    |
| EPS Growth, %          |        | 565.3  | 15.4    | 36.7    | 34.8    |
| PER, x                 | 249.6  | 37.5   | 32.5    | 23.8    | 17.7    |
| EV/EBIDTA, x           | 105.5  | 38.1   | 21.9    | 15.2    | 11.3    |
| EV/Net Sales, x        | 7.3    | 5.7    | 4.3     | 3.5     | 2.9     |
| Price/Book Value, x    | 6.3    | 2.7    | 4.7     | 4.6     | 3.9     |
| ROIC, %                | 1.3    | 10.1   | 18.1    | 21.3    | 24.3    |
| ROE, %                 | 2.5    | 12.5   | 14.8    | 20.4    | 24.0    |
| Dividend Yield, %      | 2.3    | 1.5    | 1.9     | 1.7     | 1.7     |

Source: Company, Man Financial Research Estimates

Buy / Rs 433  
Target Rs 497 (+15%)

#### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

#### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : JAGP IN  
Reuters code : JAGP.BO  
www.jagran.com

BSE Sensex : 14419  
NSE Nifty : 4261

#### Company data

|                          |           |
|--------------------------|-----------|
| O/S shares :             | 60mn      |
| Market cap (Rs) :        | 27bn      |
| Market cap (USD) :       | 666mn     |
| 52 - wk Hi/Lo (Rs) :     | 465 / 142 |
| Avg. daily vol. (3mth) : | 54,086    |
| Face Value (Rs) :        | 10        |

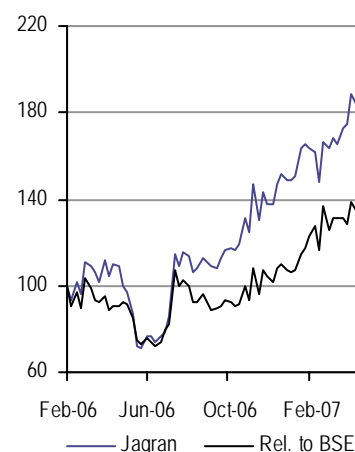
#### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 52.1 |
| FII / NRI :                   | 3.9  |
| FI / MF :                     | 12.0 |
| Non Promoter Corp. Holdings : | 21.5 |
| Public & Others :             | 10.5 |

#### Price performance, %

|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | 9.8  | 17.0 | 93.3 |
| Rel to BSE | 6.1  | 15.4 | 61.5 |

### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Kirloskar Brothers

Abhijeet Dakshikar (abhijeet.dakshikar@manfinancial.in) +91 22 6667 9963

## Business confidence continues unabated

We recently met the management of KBL for an update on the business outlook and returned with a positive view. KBL is reasonably confident of a sustained 25-30% growth in top line, between FY08 and FY09, with no major impact on margins. This is despite a growing proportion of a construction component in the top line. Recently-acquired Aban Construction would be used to minimise sub-contracting by KBL, from now on, while growing its own business. Adjusting for 70% of the current group holdings value, KBL trades at a PER of 15.1x FY08E and 12.8x FY09E. We maintain BUY with a raised target price of Rs 421 (+18% over CMP)

### Investment Rationale

- The projects and engineered pumps' order book remains strong at Rs10 billion, a 40% increase over the Rs7 billion at end FY06. Approximately Rs5.5 billion of this includes irrigation projects in Andhra, Rs2 billion from the Kerala water supply project (ADB-supported) and Rs1.2 billion of exports.
- The industry expects the remaining ~Rs150 billion (of the total Rs450 billion) orders from Andhra to flow in FY08E, wherein KBL will bid for an EPC role. In addition, our interactions with other construction players indicate that even for the Rs300 billion projects already in the order books of construction companies, ~50% of pump orders are yet to awarded. (pumps constitute 20% of the total cost of any lift irrigation project).
- Other states like Madhya Pradesh, Karnataka and Maharashtra are expected to increase the irrigation spend in the next budgetary period.
- KBL's FY07 results are in line with estimates.

### Valuation

**(Adjusted for 70% of the value of group holdings—KOEL & K'Pneumatic)**

- CMP valuations: PER 15.1x FY08E, EV/EBITDA 7.8x FY08E
- Target valuations: PER 15.2x FY09E, EV/EBITA 8.8x FY09E
- Valuation is supported by a DCF analysis of KBL's consolidated entity, which works out to Rs330. Group holdings (mainly KOEL and K' Pneumatic are at a CMP of Rs91 per share.

### Valuation summary (Stand alone)

| Y/E Mar, Rs mn      | FY2005 | FY2006E | FY2007E | FY2008E | FY2009E |
|---------------------|--------|---------|---------|---------|---------|
| Net Sales           | 13,179 | 15,062  | 16,517  | 19,366  | 21,746  |
| Core EBIDTA         | 1,271  | 1,930   | 2,254   | 2,739   | 3,135   |
| EBIDTA margins, %   | 9.6    | 12.8    | 13.6    | 14.1    | 14.4    |
| Net profit          | 799    | 1,344   | 1,705   | 1,853   | 2,180   |
| EPS, Rs             | 7.5    | 12.7    | 14.7    | 17.5    | 20.6    |
| EPS Growth, %       | 45.6   | 68.2    | 15.7    | 19.2    | 17.6    |
| PER, x              | 40.5   | 24.1    | 18.0    | 15.1    | 12.8    |
| EV/EBIDTA, x        | 16.8   | 11.1    | 9.4     | 7.8     | 6.8     |
| EV/Net Sales, x     | 1.83   | 1.59    | 1.45    | 1.24    | 1.10    |
| Price/Book Value, x | 7.8    | 5.6     | 7.5     | 6.3     | 5.6     |
| ROIC, %             | 26.6   | 36.4    | 41.3    | 41.9    | 44.7    |
| ROE, %              | 22.4   | 26.9    | 45.8    | 41.9    | 44.0    |
| Dividend Yield, %   | 10.1   | 6.7     | 1.8     | 2.0     | 3.0     |

Source: Company, Man Financial Research Estimates

BUY / Rs 355  
Target Rs 421 (+18%)

#### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

#### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : KKB IN  
Reuters code : KRBR.BO  
www.kbl.co.in

BSE Sensex : 14419  
NSE Nifty : 4261

#### Company data

|                          |           |
|--------------------------|-----------|
| O/S shares :             | 106mn     |
| Market cap (Rs) :        | 38bn      |
| Market cap (USD) :       | 922mn     |
| 52 - wk Hi/Lo (Rs) :     | 532 / 274 |
| Avg. daily vol. (3mth) : | 24,279    |
| Face Value (Rs) :        | 2         |

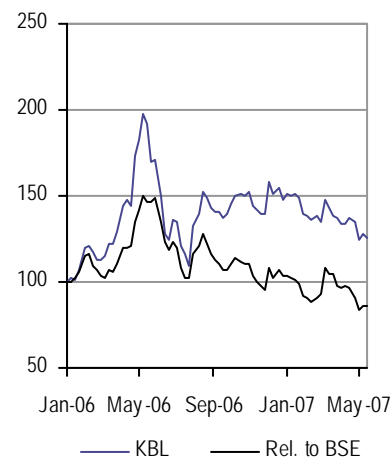
#### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 62.1 |
| FII / NRI :                   | 3.1  |
| FI / MF :                     | 9.9  |
| Non Promoter Corp. Holdings : | 3.5  |
| Public & Others :             | 21.4 |

#### Price performance, %

|            | 1mth | 3mth | 1yr   |
|------------|------|------|-------|
| Abs        | -2.6 | -5.0 | -22.8 |
| Rel to BSE | -6.3 | -6.6 | -54.6 |

### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Mphasis Ltd

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**Manik Taneja** (Research Associate) / **Aravind Manickam** (Research Associate)

## Keystone to EDS's resurrection

We initiate coverage on Mphasis Ltd with a 'BUY' rating and a 1 year price target of Rs 390. Mphasis is an important lynchpin in EDS's future strategy to resurrect itself against the competition from global IT and the Indian offshore vendors. Mphasis is expected to be the key beneficiary of EDS's revitalization moves driving robust financial performance over the foreseeable future, as flow of work from EDS is inevitable.

### Investment Rationale

- M** Mphasis would be the prime beneficiary of the 'Best Shore' initiatives of EDS as it targets an overall offshore headcount of 45000 by CY08 and cost savings of ~US\$ 1 bn in CY07 alone.
- M** Employee addition of 1960 employees during Q4FY07 indicates that Mphasis is on track to achieve the targeted employee addition of 10,000 for CY07 and reinforces our positive stance on the robust business pipeline for Mphasis.
- M** Robust financial performance over FY07-09E to be driven by multiple drivers- (1) existing business (2) Shared services business from EDS (3) joint pursuit of large deals and (4) business from EDS's clientele.
- M** New service lines like Remote Infrastructure Management (RIM) to be a strong driver over foreseeable future given EDS's expertise in IT Outsourcing (accounted for 57% of annual revenues in FY06).
- M** Operating Margins are on the comeback trail after the blip in FY07 through lower SGA and improved pricing through EDS association. Offshore BPO billing rates moved up marginally to US\$ 10 /hr driven by change in business work. (non-voice component increased to 39% in Q4FY07 V/s 31% in Q3FY07).

### Risks

- M** Mphasis intends to scale up employee headcount by ~50% in CY07E alone. We believe that the inability to scale up according to EDS's requirements is the most significant risk to our earnings estimates

### Valuation

- M** Mphasis is currently trading a PER of 17.8x and 11.8x on FY08 and FY09. Mphasis has historically traded at the lower end of the 15-20x PE band. Our target price of Rs 390 is based on a 1 year forward PER multiple of 15 on FY09E. There could be further upside to our target multiple once more visibility on the work flow from EDS emerges.

### Valuation summary

| Y/E Mar, Rs mn      | FY2005 | FY2006 | FY2007 | FY2008E | FY2009E |
|---------------------|--------|--------|--------|---------|---------|
| Net Sales           | 7,657  | 9,401  | 11,958 | 26,888  | 37,449  |
| Growth, %           | 31.9   | 22.8   | 27.2   | 124.8   | 39.3    |
| Core EBIDTA         | 1,412  | 1,981  | 2,035  | 5,557   | 8,106   |
| EBIDTA margins, %   | 18.4   | 21.1   | 17.0   | 20.7    | 21.6    |
| Net profit          | 1,247  | 1,499  | 1,199  | 3,614   | 5,428   |
| PAT margin, %       | 16.3   | 15.9   | 10.0   | 13.4    | 14.5    |
| EPS, Rs             | 7.9    | 9.3    | 7.4    | 17.4    | 26.1    |
| EPS Growth, %       | (41.1) | 16.6   | (20.0) | 134.5   | 50.2    |
| PER, x              | 38.9   | 33.4   | 41.7   | 17.8    | 11.8    |
| EV/EBIDTA, x        | 35.4   | 25.2   | 24.6   | 9.0     | 6.2     |
| EV/Net Sales, x     | 6.5    | 5.3    | 4.2    | 1.9     | 1.3     |
| Price/Book Value, x | 7.6    | 7.6    | 6.6    | 6.0     | 4.2     |
| ROIC, %             | 26.1   | 23.8   | 19.3   | 40.5    | 45.3    |
| ROE, %              | 24.3   | 23.0   | 17.0   | 39.7    | 42.0    |
| Dividend Yield, %   | -      | 1.5    | 1.5    | 1.7     | 1.8     |

Source: Company, Man Financial Research Estimates. \* Includes the merged EDS India

BUY / Rs 309  
Target Rs 390 (+26%)

### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : MPHL IN  
Reuters code : MBFL.BO  
www.mphasis.com

BSE Sensex : 14419  
NSE Nifty : 4291

### Company data

|                          |           |
|--------------------------|-----------|
| O/S shares :             | 164mn     |
| Market cap (Rs) :        | 51bn      |
| Market cap (USD) :       | 1241mn    |
| 52 - wk Hi/Lo (Rs) :     | 340 / 121 |
| Avg. daily vol. (3mth) : | 885,871   |
| Face Value (Rs) :        | 10        |

### Share holding pattern, %\*

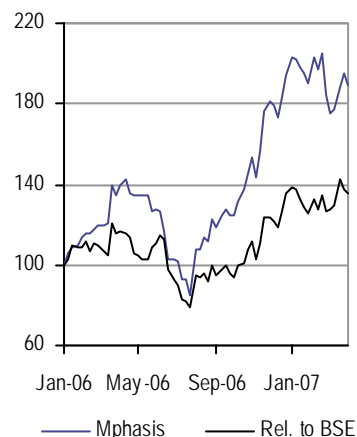
|                          |      |
|--------------------------|------|
| Promoters :              | 40.6 |
| FII / NRI :              | 31.1 |
| FI / MF :                | 13.5 |
| Non Pro. Corp Holdings : | 2.4  |
| Public & Others :        | 12.3 |

\*Includes the merged EDS India

### Price performance, %

|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | -3.1 | 5.7  | 63.5 |
| Rel to BSE | -6.9 | 4.1  | 31.7 |

### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# NIIT Technologies (NTL)

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**Manik Taneja** (Research Associate) / **Aravind Manickam** (Research Associate)

## Improvement in earnings quality to drive re-rating

- NTL is a US\$100mn+ company focusing in the Insurance, Travel & transport, retail & manufacturing verticals with a clientele of marquee clients like British Airways, Sabre, ING, Holcim and others.
- We expect NIIT tech revenues to cross US\$200mn by FY08 considering a CAGR of 40% over 2years with improvement in the quality of earnings.

### Investment Rationale

■ NTL has won orders worth US\$ 56 mn in Q3FY07, thereby increasing the order backlog (to be executed over the next 12 months) to US\$ 95 mn.

■ Operating margins have shown significant improvement of 230 bps to 21.2% in Q3FY07 (against 18.9% in Q2FY07). We believe that margins could sustain at these levels through increase in offshore proportion and lowering the SGA proportion.

■ The BPO operations broke even on the operational level in Q2FY07 and continued to be on the improvement trail (Operating margins increased to 3% from 1% in Q2FY07). Management also indicated that it is seeing good response for it's services and would be starting a pilot for one of the prospective clients in Q4FY07E.

■ A natural hedge against US slowdown as Europe contributes 50% of its revenues and expected to drive growth further.

■ Recent acquisition of Room Solutions to enable the company to make inroads into the Insurance space in US & Europe.

■ The company has lower dependence over its top clients as compared to its peers. It has lower amount of revenues coming from its Top 10 clients.

■ Multiple levers available for EBITDA margin expansion in FY08.

### Risks

■ Unavailability of the appropriate resources would impact growth negatively.

■ NTL may invest heavily in marketing activities to acquire new clients due to which the margins could suffer. However we believe that the company has multiple levers to absorb higher marketing cost.

### Valuation

■ At CMP of Rs 513, the stock is quoting at 9.3x FY09E on PER and 6.1x FY09E on EV/EBITDA. We maintain Buy.

### Valuation summary

| Y/E Mar, Rs mn      | FY2005 | FY2006 | FY2007E | FY2008E | FY2009E |
|---------------------|--------|--------|---------|---------|---------|
| Net Sales           | 5,432  | 6,075  | 8,901   | 12,105  | 14,984  |
| Growth, %           | 10.1   | 11.8   | 46.5    | 36.0    | 23.8    |
| Core EBITDA         | 930    | 1,113  | 1,949   | 2,699   | 3,356   |
| EBITDA margins, %   | 17.1   | 18.3   | 21.9    | 22.3    | 22.4    |
| Net profit          | 559    | 649    | 1,162   | 1,587   | 2,129   |
| EPS, Rs             | 14.5   | 16.8   | 30.1    | 41.1    | 55.1    |
| EPS Growth, %       | 81.6   | 16.2   | 78.9    | 36.6    | 34.2    |
| PER, x              | 35.5   | 30.6   | 17.1    | 12.5    | 9.3     |
| EV/EBITDA, x        | 21.9   | 18.2   | 10.6    | 7.6     | 6.1     |
| EV/Net Sales, x     | 3.8    | 3.3    | 2.3     | 1.7     | 1.4     |
| Price/Book Value, x | 8.5    | 7.2    | 5.4     | 4.0     | 2.9     |
| ROIC, %             | 27.7   | 33.6   | 50.3    | 55.6    | 64.0    |
| ROE, %              | 26.0   | 25.4   | 36.1    | 36.6    | 35.9    |
| Dividend Yield, %   | 1.1    | 1.2    | 1.2     | 1.2     | 1.2     |

Source: Company, Man Financial Research Estimates

Maintain BUY / Rs 513

### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code :

NITEC IN

Reuters code :

NIIT.BO

www.niit-tech.com

BSE Sensex :

14419

NSE Nifty :

4261

### Company data

|                          |           |
|--------------------------|-----------|
| O/S shares :             | 39mn      |
| Market cap (Rs) :        | 20bn      |
| Market cap (USD) :       | 493mn     |
| 52 - wk Hi/Lo (Rs) :     | 564 / 131 |
| Avg. daily vol. (3mth) : | 943,425   |
| Face Value (Rs) :        | 10        |

### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters :                   | 40.0 |
| FII / NRI :                   | 12.0 |
| FI / MF :                     | 20.0 |
| Non Promoter Corp. Holdings : | 10.6 |
| Public & Others :             | 17.4 |

### Price performance, %

|            | 1mth | 3mth | 1yr   |
|------------|------|------|-------|
| Abs        | 10.3 | 2.7  | 149.0 |
| Rel to BSE | 6.6  | 1.0  | 117.2 |

### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Patel Engineering

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## Hydro-powered!

- **Patel Engineering's end markets— hydropower, irrigation, urban infrastructure, and transportation— are in a strong growth phase. Its order book at Rs 50bn is ~4.6x (Last 4 quarter sales). We expect FY06-09E revenue CAGR of 33%.**
- **Margin improvement by 80bps over FY06-08E, as 80% of revenues coming from higher margin business (hydropower and irrigation), increasing proportion of revenues from high-margin standalone Patel Engineering, Equipment constrains of the sector, increasing average project size, and better project selection.**
- **Foray into realty with a land bank of 500 acres to give a big push to revenues over a period and to valuations in near future. We have valued its realty business at Rs 141/share (+33% CMP). We believe that cash flows from realty will help further strengthen its core business.**

### Investment rational

- Strong earnings visibility and revenue growth. Hydropower projects of Rs 900bn (~1,800MW) along with strong investments (Rs 250bn/year each) in irrigation and urban infrastructure segments are expected during the 11th plan. Patel will be one of the key beneficiaries of these investments. Also the micro tunneling market size is expected to be Rs 5 bn/year (Patel's share of 20%).
- Favorable project mix of the hydro projects (50%), irrigation (28%), and micro tunneling transportation and others (22%) will ensure that the margins remain high. *We expect the margins to improve by 80 bps over FY06-08*
- Earnings expected to grow at a healthy CAGR of 42% over FY06-09E.
- The management is actively seeking inorganic expansion to gain qualifications and capabilities in upcoming segments. Michigan Engineering is its recent acquisition (turnover of Rs 250mn) in the urban infrastructure segment.

### Valuation

- We have used sum-of-the-parts methodology to arrive at a fair value of Rs 506. Our DCF based 12-month target for its core business is Rs 365 and for its realty business it is Rs 141.
- CMP valuations: Adjusted (for realty value) PER of 14.4x FY08E, 11x FY09E, EV/EBITDA of 7.6x FY08E
- Target valuations: Adjusted PER of 14x FY09E, EV/EBITDA of 7.8x FY09E

### Valuation summary

| Y/E Mar, Rs mn       | FY05  | FY06   | FY07E  | FY08E  | FY09E  |
|----------------------|-------|--------|--------|--------|--------|
| Net Sales            | 7,779 | 10,148 | 13,331 | 18,438 | 24,217 |
| Growth, %            | 2.5%  | 30.4%  | 31.4%  | 38.3%  | 31.3%  |
| Core EBIDTA          | 716   | 1,261  | 1,736  | 2,516  | 3,271  |
| EBIDTA margins, %    | 9.1%  | 12.3%  | 12.9%  | 13.6%  | 13.4%  |
| Net profit           | 421   | 742    | 851    | 1,187  | 1,571  |
| Net profit margin, % | 5.2%  | 7.1%   | 6.3%   | 6.4%   | 6.5%   |
| EPS, Rs              | 6.9   | 12.2   | 14.2   | 19.8   | 26.2   |
| EPS Growth, %        | 49.1  | 76.4   | 16.0   | 39.6   | 32.3   |
| PER, x               | 41.1  | 23.3   | 20.1   | 14.4   | 10.9   |
| EV/EBIDTA, x         | 21.3  | 14.5   | 10.2   | 7.6    | 6.5    |
| EV/Net Sales, x      | 2.3   | 2.0    | 1.4    | 1.1    | 0.9    |
| Price/Book Value, x  | 11.4  | 7.9    | 2.3    | 2.0    | 1.7    |
| ROIC, %              | 9.0   | 14.8   | 12.2   | 14.8   | 15.6   |
| ROE, %               | 27.6  | 33.7   | 11.4   | 13.9   | 15.9   |
| Dividend Yield, %    | 0.5   | 0.3    | 0.5    | 0.7    | 1.0    |

Source: Company, Man Financial Research Estimates

We have considered 80IA impact for FY07E

BUY / Rs 426  
Target Rs 506 (+19%)

#### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

#### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code: PEC IN  
 Reuter's code: PENG.BO  
 www.pateleng.com

BSE Sensex: 14419  
 NSE Nifty: 4261

#### Company data

|                          |           |
|--------------------------|-----------|
| O/S shares :             | 60mn      |
| Market cap (Rs) :        | 25bn      |
| Market cap (USD) :       | 625mn     |
| 52 - wk Hi/Lo (Rs) :     | 550 / 222 |
| Avg. daily vol. (3mth) : | 158,715   |
| Face Value (Rs) :        | 1         |

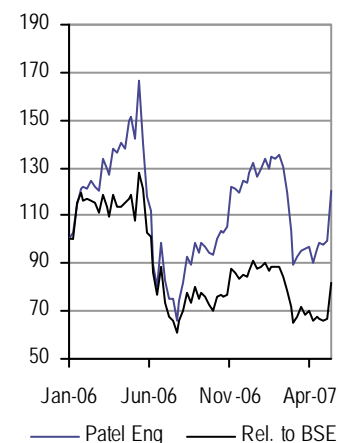
#### Share holding pattern, %

|                              |      |
|------------------------------|------|
| Promoters:                   | 55.0 |
| FII / NRI:                   | 9.5  |
| FI / MF:                     | 9.2  |
| Non Promoter Corp. Holdings: | 1.9  |
| Public & Others :            | 24.5 |

#### Price performance, %

|            | 1mth | 3mth | 1yr   |
|------------|------|------|-------|
| Abs        | 24.2 | 5.0  | -13.0 |
| Rel to BSE | 20.4 | 3.4  | -44.8 |

### Patel Engg vs. Sensex



Source: Bloomberg, Man Financial Research

# Petronet LNG

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## High Returns; Overplayed Risks

- PLL has demonstrated its ability to successfully market R-LNG including spot cargoes in India. Capacity expansion to 2.5x of existing, would enable strong volume growth beyond FY10
- We expect drop in regas charges post FY10 due to increase in supply of gas, which we have factored in our DCF value calculation
- We believe the concerns relating to LNG sourcing for upcoming projects and offtake of R-LNG after the increase in supply beyond 2009, are overdone and the stock is available at attractive valuation

### Investment rationale

- De-bottlenecking of Dahej Phase I capacity has enabled the company to regassify additional 1.5 MMT of LNG each year through purchase of spot cargoes, which will shore up the bottomline by 20% in FY08
- The company will augment its capacity significantly as it will add another 5 MMTPA capacity at Dahej and 2.5 MMTPA at Kochi. Current capacity is 5 MMTPA at Dahej
- Supply for its existing capacity is tied up for 25 years with Rasgas, Qatar purchased at fob price of \$2.53/mmbtu. PLNG has already tied up LNG supply for its Kochi terminal while for Dahej expansion, supply contract with Iran is also pending finalization.

### Risks

- Higher than expected pressure on regas charges will reduce our DCF based fair value.
- Inability to procure LNG at competitive rates will make it difficult to market re-gassified LNG resulting in low utilization rate for PLNG

### Valuation

- The stock currently quotes at P/E and EV/EBIDTA of 10.8x and 7.3x respectively, based on our FY08 estimates
- We have arrived at DCF based valuation of Rs 68 per share
- At our DCF value, the stock would quote at P/E of 13.6x and EV/EBIDTA of 8.7x

### Valuation summary

| Y/E Mar, Rs mn       | FY05   | FY06    | FY07E  | FY08E  | FY09E  |
|----------------------|--------|---------|--------|--------|--------|
| Net Sales            | 19,453 | 38,372  | 55,090 | 68,918 | 75,288 |
| Growth, %            |        | 97.3    | 43.6   | 25.1   | 9.2    |
| Core EBIDTA          | 1,526  | 4,902   | 6,480  | 7,514  | 8,255  |
| EBIDTA margins, %    | 7.8    | 12.8    | 11.8   | 10.9   | 11.0   |
| Net profit           | -290   | 1,902   | 3,032  | 3,763  | 3,860  |
| Net profit margin, % | (1.5)  | 5.0     | 5.5    | 5.5    | 5.1    |
| EPS, Rs              | (0.4)  | 2.5     | 4.0    | 5.0    | 5.1    |
| EPS Growth, %        |        | (755.3) | 59.4   | 24.1   | 2.6    |
| PER, x               |        | 21.3    | 13.4   | 10.8   | 10.5   |
| EV/EBIDTA, x         | 34.8   | 10.8    | 8.2    | 7.3    | 7.2    |
| EV/Net Sales, x      | 2.7    | 1.4     | 1.0    | 0.8    | 0.8    |
| Price/Book Value, x  | 4.6    | 3.8     | 2.9    | 2.3    | 1.9    |
| ROIC, %              | 4.0    | 13.5    | 16.9   | 16.3   | 13.6   |
| ROE, %               | (6.6)  | 19.5    | 24.7   | 23.9   | 19.7   |
| Dividend Yield, %    | -      | -       | -      | -      | -      |

Source: Company, Man Financial Research Estimates

BUY / Rs 54  
Target Rs 68 (+26%)

#### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

#### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code: PLNG IN  
 Reuter's code: PLNG.BO  
 www.petronetlng.com

BSE Sensex: 14419  
 NSE Nifty: 4261

#### Company data

|                          |         |
|--------------------------|---------|
| O/S shares :             | 750mn   |
| Market cap (Rs) :        | 40bn    |
| Market cap (USD) :       | 987mn   |
| 52 - wk Hi/Lo (Rs) :     | 68 / 36 |
| Avg. daily vol. (3mth) : | 1.7mn   |
| Face Value (Rs) :        | 10      |

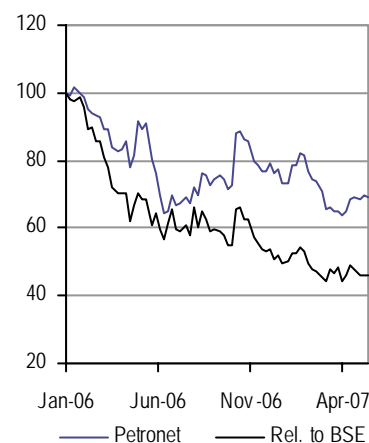
#### Share holding pattern, %

|                              |      |
|------------------------------|------|
| Promoters:                   | 50.0 |
| FII / NRI:                   | 24.4 |
| FI / MF:                     | 0.5  |
| Non Promoter Corp. Holdings: | 2.5  |
| Public & Others :            | 22.7 |

#### Price performance, %

|            | 1mth | 3mth | 1yr   |
|------------|------|------|-------|
| Abs        | 17.4 | 11.6 | 0.9   |
| Rel to BSE | 13.7 | 9.9  | -30.9 |

### Patel Engg vs. Sensex



Source: Bloomberg, Man Financial Research

# Ramkrishna Forgings Limited

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**Prachi Kulkarni** (Research Associate)

## Moving up the Value Chain

- Doubling of capacity and high margin new product introduction (crown wheel, ring gears and bearing races) through ring rolling line to drive volumes and margins
- Rising asset turnover once the capacity utilisation rises and higher margins to drive profitability and economic profits and hence a re-rating
- Valuations are attractive at 8x FY08E earnings

### Investment Rationale

- R K Forgings has a focused business model—It has consistently tried to diversify into wider sectors and geographies.
- Capacity to be doubled to 51,000 tpa by May'07 through ring rolling line with introduction of high margin new products like crown wheel, ring gears and bearing races
- Ring rolling will give the company an edge over competition in the domestic crown-wheels market.
- Derisking business model with new customer additions and starting supplies to domestic bearings industry. Received orders from Timken and SKF.
- Profitability to improve on account of higher capacity utilisation and increasing contribution of machined components
- Exports growing at a brisk pace and will continue to receive greater thrust. We estimate exports to constitute 19% of sales by FY09E.

### Risks

- Higher client concentration
- Delay in installation and stabilization of the new ring rolling line
- Input costs in the medium to long term

### Valuation

- At the current price of Rs 153, R K Forgings trades at 10.1x and 7.0x its FY08E and FY09E EPS, respectively.
- Valuations are attractive as the company is on a high-growth trajectory and enjoys a fairly strong revenue and earnings growth visibility. Is a strong re-rating candidate.
- We recommend Buy with a target price of Rs 197, at which it will trade at 13x FY08E earnings.

### Valuation summary

| Y/E Mar, Rs mn       | FY2005 | FY2006 | FY2007E | FY2008E | FY2009E |
|----------------------|--------|--------|---------|---------|---------|
| Net Sales            | 753    | 946    | 1,482   | 2,276   | 2,596   |
| Growth, %            | 142.1  | 25.7   | 56.6    | 53.6    | 14.1    |
| Core EBIDTA          | 95     | 182    | 277     | 469     | 553     |
| EBIDTA margins, %    | 12.7   | 19.2   | 18.7    | 20.6    | 21.3    |
| Net profit           | 45     | 85     | 142     | 231     | 278     |
| Net profit margin, % | 6.0    | 9.0    | 9.6     | 10.1    | 10.7    |
| EPS, Rs              | 3.5    | 5.6    | 9.3     | 15.2    | 18.3    |
| EPS Growth, %        | 97.3   | 58.7   | 66.8    | 62.4    | 20.6    |
| PER, x               | 43.4   | 27.3   | 16.4    | 10.1    | 8.4     |
| EV/EBIDTA, x         | 28.0   | 15.3   | 11.1    | 7.0     | 5.5     |
| EV/Net Sales, x      | 3.5    | 2.9    | 2.1     | 1.4     | 1.2     |
| Price/Book Value, x  | 7.2    | 3.9    | 3.2     | 2.5     | 2.0     |
| ROIC, %              | 10.4   | 13.0   | 14.6    | 15.4    | 14.7    |
| ROE, %               | 23.0   | 19.5   | 21.5    | 28.1    | 26.7    |
| Dividend Yield, %    | 0.7    | -      | 0.8     | 1.3     | 1.6     |

Source: Company, Man Financial Research Estimates

BUY / Rs 153  
Target Rs 197 (+29%)

### Sector (Relative to market)

| OW | N | UW |
|----|---|----|
|    |   |    |

### Stock (Relative to market)

| B     | OP        | N         | UP          | S      |
|-------|-----------|-----------|-------------|--------|
|       |           |           |             |        |
| > 10% | 5% to 10% | 5% to -5% | -5% to -10% | < -10% |

Bloomberg code : RMKF IN  
Reuters code : RKFO.BO  
[www.ramkrishnaforgings.com](http://www.ramkrishnaforgings.com)

BSE Sensex : 14419  
NSE Nifty : 4261

### Company data

|                          |          |
|--------------------------|----------|
| O/S shares :             | 15mn     |
| Market cap (Rs) :        | 2bn      |
| Market cap (USD) :       | 57mn     |
| 52 - wk Hi/Lo (Rs) :     | 162 / 65 |
| Avg. daily vol. (3mth) : | 35,242   |
| Face Value (Rs) :        | 10       |

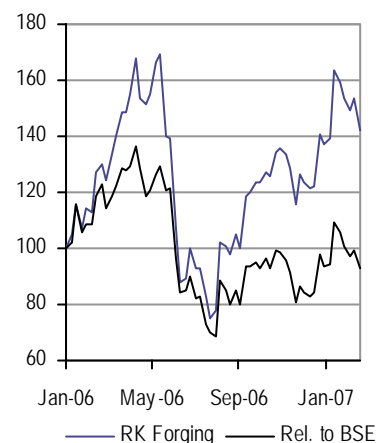
### Share holding pattern, %

|                               |      |
|-------------------------------|------|
| Promoters:                    | 43.9 |
| FII / NRI :                   | 4.6  |
| FI / MF :                     | 28.7 |
| Non Promoter Corp. Holdings : | 9.5  |
| Public & Others :             | 13.4 |

### Price performance, %

|            | 1mth | 3mth | 1yr   |
|------------|------|------|-------|
| Abs        | 7.9  | 13.1 | 15.5  |
| Rel to BSE | 4.1  | 11.5 | -16.3 |

### Price vs. Sensex



Source: Bloomberg, Man Financial Research

# Zensar Technologies

Not Rated/ Rs 316

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**Manik Taneja** (Research Associate) / **Aravind Manickam** (Research Associate)

## On an improvement trial

- Zensar technologies is a US\$100mn+ company with expertise in the Telecom, Manufacturing, Retail, Financial services, logistics and utilities verticals and its key strength being Application Portfolio Management and ERP.
- Zensar is spreading its wings by enhancing its service portfolio to include Remote Infrastructure management, Integrated IT and BPO solutions and retail solutions.
- Revenues growth of 9.5% CQGR and PAT growth of 25% CQGR over past 6 consecutive quarters.
- Europe and rest of the world account for 50% of the total revenues, reducing the impact of US \$ depreciation.
- Recent acquisition of Thought Digital to drive growth in the Enterprise application service space.
- EBITDA margin expansion in FY08 can further boost earnings.
- The management has given a revenues and earnings guidance for FY08 at Rs. 8.5bn (>40% growth yoy) and Rs. 850 mn (>48% growth yoy) respectively even after factoring the recent rupee appreciation.
- Company's guidance for FY08 appears achievable given the fact that full year Thought Digital integration would add close to US\$27mn (similar to CY06 revenues) at least in the year thereby leaving a yoy growth requirement of 24% for organic revenues against 40% achieved in FY07. Further, profitability turnaround in ITS segment or even break-even here would act as a big margin lever enabling in sustaining operating margin on yoy basis.
- Management's earnings guidance translates into an EPS of Rs35.5 and reflects attractive P/E valuation of 8.5x on FY08 basis. We have a positive view on the stock.

### Valuation

- At CMP of Rs 316, Zensar is quoting at a P/E and EV/EBITDA of 8.9 and 6.1 on FY08E. We do not have a rating on the stock.

Bloomberg code : ZENT IN  
 Reuters code : ZENT.BO  
 www.zensar.com

BSE Sensex : 14419  
 NSE Nifty : 4261

### Company data

O/S shares : 24mn  
 Market cap (Rs) : 8bn  
 Market cap (USD) : 184mn  
 52 - wk Hi/Lo (Rs) : 323 / 166  
 Avg. daily vol. (3mth) : 68,352  
 Face Value (Rs) : 10

### Share holding pattern, %

Promoters: 58.4  
 FII / NRI : 23.1  
 FI / MF : 1.9  
 Non Promoter Corp. Holdings : 3.3  
 Public & Others : 13.4

### Price performance, %

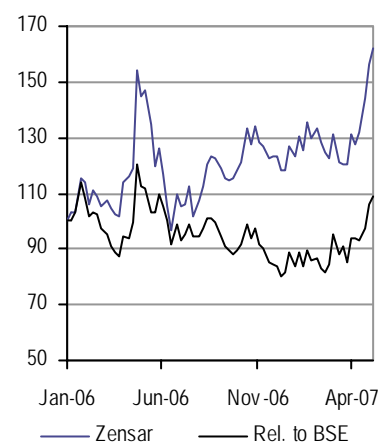
|            | 1mth | 3mth | 1yr  |
|------------|------|------|------|
| Abs        | 18.4 | 27.0 | 42.1 |
| Rel to BSE | 14.6 | 25.4 | 10.3 |

### Valuation summary

| Y/E Mar, Rs mn      | FY2005 | FY2006 | FY2007 | FY2008E | FY2009E |
|---------------------|--------|--------|--------|---------|---------|
| Net Sales           | 3,449  | 4,288  | 6,059  | 8,528   | 10,931  |
| Growth, %           | 29.1   | 24.3   | 41.3   | 40.8    | 28.2    |
| Core EBIDTA         | 307    | 541    | 813    | 1,207   | 1,603   |
| EBIDTA margins, %   | 8.9    | 12.6   | 13.4   | 14.2    | 14.7    |
| Net profit          | 391    | 339    | 573    | 857     | 1,138   |
| EPS, Rs             | 16.6   | 14.3   | 24.0   | 35.8    | 47.6    |
| EPS Growth, %       | 209.0  | -14.0  | 67.7   | 49.4    | 32.8    |
| PER, x              | 19.0   | 22.1   | 13.2   | 8.8     | 6.6     |
| EV/EBIDTA, x        | 23.5   | 12.9   | 8.7    | 6.1     | 4.5     |
| EV/Net Sales, x     | 2.1    | 1.6    | 1.2    | 0.9     | 0.7     |
| Price/Book Value, x | 6.3    | 4.9    | 4.2    | 3.3     | 2.3     |
| ROIC, %             |        | 35.5   | 61.0   | 38.8    | 64.1    |
| ROE, %              | 33.4   | 22.2   | 31.6   | 37.4    | 35.3    |
| Dividend Yield, %   | 0.7    | 0.8    | 1.1    | 1.1     | 1.1     |

Source: Company, Man Financial Research Estimates

### Price vs. Sensex



Source: Bloomberg, Man Financial Research



|                        |   |                        |  |
|------------------------|---|------------------------|--|
| <b>Gangadhara Kini</b> | <b>Head – Institutional Equities</b>        | <b>91-22-6667 9752</b> | <b>gangadhara.kini@manfinancial.in</b> |
| <b>Vasudeo Joshi</b>   | <b>Head – Institutional Equity Research</b> | <b>91-22-6667 9754</b> | <b>vasudeo.joshi@manfinancial.in</b>   |
| <b>Jignesh Shah</b>    | <b>Head – Equity Derivatives</b>            | <b>91-22-6667 9735</b> | <b>jignesh.shah@manfinancial.in</b>    |

### Equity Research

|                        |                                   |                 |  |
|------------------------|-----------------------------------|-----------------|--|
| Abhijeet Dakshikar     | Engineering, Construction & Power | 91-22-6667 9963 | abhijeet.dakshikar@manfinancial.in     |
| Ambrish Mishra         | Automobiles & Auto Component      | 91-22-6667 9758 | ambrish.mishra@manfinancial.in         |
| Anjali Verma           | Economist                         | 91-22-6667 9969 | anjali.verma@manfinancial.in           |
| Kartik Mehta           | Pharmaceuticals                   | 91-22-6667 9974 | kartik.mehta@manfinancial.in           |
| Mandar Pawar           | Oil & Gas                         | 91-22-6667 9987 | mandar.pawar@manfinancial.in           |
| Nimesh Mistry          | IT Services                       | 91-22-6667 9768 | nimesh.mistry@manfinancial.in          |
| Parthapratim Gupta     | Financial Services                | 91-22-6667 9962 | parthapratim.gupta@manfinancial.in     |
| Shishir Manuj          | FMCG & Retail                     | 91-22-6667 9759 | shishir.manuj@manfinancial.in          |
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