Strategy Focus

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Citi India Investor Conference 2008

Highlights of Day 1

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India Research Team

- **About the Event —** The 3rd Citi India Investor Conference (11-12th March in Mumbai, 13-14th March in New Delhi) got underway in Mumbai on Tuesday, with more than 110 companies and 380 domestic and international investors. The conference features guest speakers, company presentations and side tours, in addition to 1-1 and group meetings. We present the highlights from day 1 of the conference here.

- **Guest Speaker Takeaways —** Former Chief of the World Bank and Chairman of Citi's International Advisory Group, Jim Wolfensohn, reiterated the growing influence of China and India on the world economy, and the increased responsibility of these countries to the world. Senior Fellow at the National Institute of Public Finance and Policy, Ajay Shah, spoke about the lack of an appropriate fiscal and monetary stabilization framework that leaves India susceptible to shocks to its economic growth.

See Appendix A-1 for Analyst Certification and important disclosures.

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Guest Speaker Takeaways

James Wolfensohn, Chairman, Citi's International Advisory Board

- The key take-away from Jim Wolfensohn's address was the reiteration of the growing influence of China and India on the world economy. Asia is expected to account for 50% of the world's output by 2050, a situation similar to what was seen in the 15th century. Alluding to the Pareto law, Jim Wolfensohn stressed that 50 years ago, 80% of the world's output was produced by 20% of its people, but now China and India contribute to 15% of the world's GDP.

- A tectonic shift is on the way. Defining the middle class as those with income levels between $16,000 - $55,000, Jim Wolfensohn believes that the size of China and India's middle class will grow to more than 1.2bn by 2025, thereby signaling a tectonic shift of economic forces towards Asia.

- He classifies the countries of the world in four groups viz (1) OECD countries, home to 1bn of the world's population; (2) 'Globalisers' like China and India, countries with growth rates over 3.5%; (3) 'Reindeer' countries with growth up to 3.5%; and (4) the 'Laggards' comprising largely of African countries. He stressed that the Globalisers would see a strong move towards using technology, lowering the cost of production and accounting for a growing proportion of the world's consumption.

- With power comes responsibility. While concluding that the future belongs to China and India, Jim Wolfensohn stressed that economic power comes with responsibility. The first responsibility is to take care of rising inequality due to the fact that the billion people currently classified within Laggards would rise to 2.5bn by 2025, posing threats to economic stability. The other responsibility refers to environment hazards due to development — safeguards are needed for the planet.

Ajay Shah, Senior Fellow, National Institute of Public Finance and Policy

- The key take-away from Dr Ajay Shah's luncheon presentation was that while India does not have the characteristics of a typical emerging market, it is not equipped to cope with shocks to economic growth due to the lack of an appropriate monetary and fiscal stabilisation framework.

- The reason is that in the past, India was prone to shocks driven by monsoon failure rather than business cycle dynamics, as investments largely comprised of public spending which was relatively stable. With over half of the gross capital formation coming from the private sector, the business cycle is more relevant to growth today.

- The key reasons why Dr Shah believes that India's monetary policy is ill-equipped to deal with shocks are: (1) a de facto pegged exchange rate regime, which coupled with an open capital account, precludes monetary policy autonomy; and (2) an effective monetary policy transmission mechanism. On the fiscal front, given the current level of deficits, India does not have the leeway for a large scale stimulus.

- As a result, even though GDP growth has risen to 9.6% in four years from 3.8% in 2002-03, given the lack of a stabilisation framework, a shock could negatively impact growth just as fast and lead to high growth volatility.

Asian Paints (ASPN.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs1,164.00
Target price	Rs1,335.00
Expected share price return	14.7%
Expected dividend yield	2.2%
Expected total return	**16.9%**
Market Cap	Rs111,651M
	US$2,764M

Price Performance (RIC: ASPN.BO, BB: APNT IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Asian Paints spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Domestic business to outpace industry growth** — Management expects Asian Paints to outpace industry growth, and sees 15% volume growth for its paints business going forward. This should further enhance its market leadership.
- **International business margins improving** — Margins for the international business have been improving and are currently at about 3% at the net level, ahead of management guidance. Management expects further improvement in margins going forward.
- **Price hikes to offset raw-material costs** — Asian Paints has hiked prices 1.2% to offset raw-material cost pressures. Management has indicated stable margins going forward.
- **New initiatives** — It is working on new initiatives to secure long-term growth. The company is setting up an R&D centre focusing on the industrial paints segment. It is also looking to position decorative paints on a fashion platform, and is currently researching consumer behavior in this regard.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,208	23.02	26.5	50.6	17.3	36.4	1.1
2007A	2,861	29.84	29.6	39.0	14.4	40.2	1.1
2008E	4,164	43.42	45.5	26.8	12.5	49.8	2.2
2009E	5,120	53.39	23.0	21.8	11.0	53.7	3.0
2010E	6,190	64.55	20.9	18.0	9.9	57.8	3.6

Source: Powered by dataCentral

Asian Paints

Company description

Asian Paints is the market leader in India's decorative paints industry, accounting for 47% of the total revenues of the top six companies in the organized segment. Asian Paints also caters to the industrial paints segment, and has a presence in 22 countries, including South Asian countries, China, Australia, the Caribbean and the Middle East. Asian Paints has strong brands, a wide range of offerings across all product categories, and the most extensive distribution network in the Indian paints industry.

Investment strategy

The rise in urbanization, higher disposable incomes, cheaper housing loans and a shift from semi-permanent to permanent housing structures are driving the paints market at over 1.5x GDP growth. Asian Paints enjoys competitive advantages that should help it outpace the market — strong brands, a wide range of offerings across all product categories, and the most extensive distribution network in the paints industry. The company is leveraging off its local expertise to improve the performance of the assets acquired abroad. The Berger acquisition in 2002 increased the share of revenues from the overseas ventures to more than 20% of group sales, from 5%. Over the past 10 years, Asian Paints' profit CAGR has been 15%; we expect this to pick up over the next three years.

Valuation

We prefer P/E as our primary valuation tool because the company operates in a non-cyclical industry. Being the market leader, the company also has reasonable pricing power. Historically, the stock has traded at an average of 16x one-year rolling forward EPS for the standalone entity. However, we believe the stock is a re-rating candidate (especially with international operations turning around and local growth accelerating) and could trade at over 20x-25x P/E, the higher end of its historical trading band. Our target price of Rs1335 is based on 25x FY09E consolidated EPS. Our target multiple reflects the pickup in the growth profile of Asian Paints' domestic paints business and increasing profitability of the international and industrial coatings businesses. Our 25x target multiple is in-line with what we attribute to other mid-cap consumer stocks in our universe that have similar growth and ROE characteristics.

Risks

We rate Asian Paints as Low Risk based on our quantitative risk-rating system. The main downside risks that could impede the stock from reaching our target price include: (1) Integration risks include streamlining of operations and integrating employees; (2) Asian Paints has operations in 22 countries outside India, therefore any wild currency fluctuation could hurt profitability; (3) If economic growth slows, it would affect demand for paints; (4) If Asian Paints is unable to aggressively respond to recent moves from the competition, it could lose market share; and (5) Raw materials constitute almost 57% of Asian Paints' total operational costs. A major part of raw-material prices is linked to global oil and petrochemical prices.

Bajaj Hindusthan (BJHN.BO)

Sell/Medium Risk	**3M**
Price (11 Mar 08)	Rs235.60
Target price	Rs229.00
Expected share price return	-2.8%
Expected dividend yield	0.0%
Expected total return	**-2.8%**
Market Cap	Rs33,316M
	US$825M

Price Performance (RIC: BJHN.BO, BB: BJH IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Bajaj Hindusthan spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Sugar prices looking up** — According to management, sugar prices are looking up, given lower-than-expected production in the 07 season. Management expects further declines in sugar output in 08, which should continue to drive up sugar prices.
- **Inventories may be lower than estimates** — According to BJH management, sugar inventories in India are lower than current "consensus" estimates. Management believes that sugar consumption estimates are understated by about 10%, and adjusted for that, expects inventories to decline to 9% of consumption in 09, the lowest over the last 5 years.
- **MDF business rolled out** — BJH commenced production of medium density fibre boards last week, and the market's response has been good. Management expects 80% capacity utilization this year, scaling up to full utilization next year. BJH expects 40-45% EBITDA margin from this business.
- **Legislative overhang** — Uncertainty on raw material prices persists. Until the courts resolve the cane pricing issues, we expect an overhang on the stock price, despite improving sugar prices.

Statistical Abstract

Year to 30 Sep	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	1,404	11.43	64.1	20.6	4.7	37.3	0.2
2006A	1,908	13.53	18.4	17.4	2.4	19.2	0.3
2007E	-403	-2.85	-121.1	nm	2.5	-3.0	0.0
2008E	2,228	15.79	653.3	14.9	2.1	15.5	0.0
2009E	3,375	23.93	51.5	9.8	1.8	19.6	0.0

Source: Powered by dataCentral

Bajaj Hindusthan

Company description

Bajaj Hindusthan (BHL) is India's largest sugar manufacturer and among the 10 largest globally. Its experience in the sugar business spans 70 years with manufacturing plants in UP, and cane crushing capacity of 56,300 TCD, which is likely to increase to 100,000 TCD by FY07. BJH also manufactures industrial alcohol/ethanol, and has capacity of 320 KLPD, which will be expanded to 800KLPD by FY08E. The company plans to sell some of its surplus power from its co-generation unit. Surplus capacity is likely to be 90MW by FY07.

Investment strategy

We have a Sell/Medium Risk (3M) rating. The stock has rallied sharply over last 6 months, following news flows pertaining to favorable court rulings on cane prices and government subsidies, and now trades at significant premium to the replacement cost of assets, almost a 25% premium, which we believe is discounting the best case scenario on policy outcome pertaining to setting of sugar cane prices. In the event of the best case scenario not playing out, we expect the stock price to revert to replacement cost valuations.

Valuation

Our target price of Rs229 is based on replacement cost analysis. We no longer use a P/E-based valuation methodology given sharp sugar price down cycle and uncertainty over UP state government sugar subsidies that could significantly alter our earnings estimates. In this uncertain environment, we believe that asset replacement cost (net of debt) provides base valuations to the stock. We value its sugar assets at Rs300,000 per TCD, which for 136,000TCD gives a value of Rs40.8bn. We value the 800KLPD alcohol assets at Rs3.5m per KLPD, arriving at a value of Rs2.8bn for the assets. We value the co-generation assets at Rs3.8bn, based on Rs40m per MW valuation. Stripped of total debt of Rs17.5bn, the net asset valuation of BJH is Rs32.3bn or Rs229 per share.

Risks

Although our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns a High Risk to the stock, we rate it as Medium Risk given is has finished its first phase of capacity expansion. The sugar industry in general and BHL in particular, faces significant risks, some of which are structural. Key downside risks are: 1) regulations and the possibility of government intervention in an industry with little pricing power; (2) sugarcane output is governed by agro-climatic factors; an adverse climate could lead to crop failures, affecting raw-material availability; and 3) specific to BJH is execution risk, as the company is aggressively expanding capacity. The key upside risks to our target price would be 1) UP government's planned new sugar policy being more favorable than the earlier policy, which could significantly alter sentiment and drive stock price beyond our price target 2) Global weather conditions, which could destroy cane crop and lead to early recovery in prices 3) Cane cost reduction higher than expectations

Everest Kanto Cylinder (EKCL.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs292.75
Target price	Rs437.00
Expected share price return	49.3%
Expected dividend yield	0.6%
Expected total return	**49.9%**
Market Cap	Rs29,614M
	US$733M

Price Performance (RIC: EKCL.BO, BB: EKCL IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Everest Kanto spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Robust industry outlook reiterated** — Management stated that the growth outlook for CNG cylinders remains extremely robust, especially in the Middle East and South East Asia. CNG vehicle population is expected to grow by ~800K vehicles/yr in Iran, ~250K/yr in Pakistan, and ~200K/yr (combined) in other countries such as Thailand, Malaysia, Philippines, Indonesia, etc. The Indian market also looks set for rapid growth with increased gas supplies from recent discoveries resulting in ~46 cities under the CNG net over the next few years (~10 currently). The Indian CNG vehicle population is estimated to increase to ~1m by 2011 (~0.4m currently). In China, the number of CNG stations is expected to increase to 1846 by 2010 from 260 currently, contributing to rapid growth there.
- **Expansion plans on track** — The China plant, with an initial capacity of 215K cyl/yr + a line for jumbo cylinders, is expected to go into commercial production this month (trial production already commenced). The billet piercing plant at Gandhidham (200K industrial cyl/yr) and the jumbo cylinder plant at Gandhidham (5K cyl/yr) are expected to be commissioned by 3QFY09. Construction work for the greenfield plant at Kandla SEZ (300K CNG cyl/yr) is in progress and the plant is likely to be operational by 4QFY09.
- **Acquisition of CPI; good facility, significant market share...** – Management gave a few more details on the proposed acquisition of the vessel manufacturing facilities of CP Industries (CPI), USA for a total of US$64m. The deal is expected to be completed by Apr-08 subject to court and other regulatory approvals. CPI manufactures large seamless vessels for the transportation and storage of pressurized gases. The products are compliant with various agencies and bodies such as ASME (American Society of Mechanical Engineers), US Dept of Transportation, US govt., NASA, Transport Canada, China govt., and ISO (recognized by all members of the EU). Based on 2007 sales, CPI had a global market share of 43% in the large vessel segment (total industry sales of c.US$93m).
- **...along with strong customer base, robust operating performance** – CPI's key customers include US and international companies such as Weldship, Praxair, Chesterfield, BOC Air Products, Air Liquide, and JB Kelley, amongst others. CPI has 118 employees, one manufacturing facility in US, and one representative office in Beijing. In CY07, it had sales of US$41m (80% in US) and EBITDA of US$9.3m (23% margin) at a (sub-optimal) capacity utilization of 65-70%. Operating margins have increased from 15% to 23% over the last few years driven by a better sales mix and product price hikes; management stated that CPI has a dominant position in the industry, enabling it to pass on input cost increases to their customers.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	324	3.68	54.6	79.6	17.1	33.7	0.2
2007A	718	7.35	99.9	39.8	9.4	31.7	0.3
2008E	1,115	10.54	43.4	27.8	6.1	28.4	0.6
2009E	1,748	16.53	56.8	17.7	4.7	31.5	0.9
2010E	2,492	23.56	42.5	12.4	3.6	34.4	1.5

Source: Powered by dataCentral

Everest Kanto Cylinder

Company description

Everest Kanto Cylinder (EKC) is the largest domestic manufacturer of high pressure gas cylinders used for the storage of industrial gases and CNG. While the first manufacturing facility (at Aurangabad) was set up in collaboration with Kanto Koatsu Yoki of Japan in 1978, subsequent facilities have been built using in-house technology. The company currently has four manufacturing plants -- in Aurangabad, Tarapur, Gandhidham, and Dubai -- that have a total production capacity of 806,000 cylinders per year. An aggressive expansion plan, including a greenfield plant in China, expansion of the Gandhidham facility, and a new plant in an SEZ, would increase EKC's capacity to 2.3m cylinders over the next 4-5 years.

Investment strategy

We rate the stock as Buy / Medium Risk (1M) with a target price of Rs437. We believe EKC is uniquely positioned to capture the significant growth potential of the market for high pressure gas cylinders, driven largely by increasing CNG penetration both domestically and abroad. Increased production from new and existing plants amidst the current tightness in the cylinder market would see the company deliver EPS CAGR of 47% for FY07-10, on our estimates. While the CNG segment in India is still at a relatively nascent stage, cost economics, improving refueling infrastructure and visibility of gas supplies should mean an accelerating trajectory for city gas distribution and consequently CNG penetration, thereby boosting demand for CNG cylinders. Coupled with the robust global outlook for natural gas-powered vehicles and a sanguine IP-linked growth outlook for industrial cylinders, we expect EKC's production to increase ~3x over FY07-10E.

Valuation

Our 12-month target price for EKC of Rs437 is based on 22x Sep09E earnings, representing a discount to fair-value multiples of 23-30x for its manufacturing / engineering peers in India. We base our target multiple on mid-FY09E earnings because we believe it better captures the contribution from China, full utilization of Dubai, and part contribution from the newly announced expansions. We prefer comparing EKC with capital goods companies that manufacture industrial goods that have a similar growth profile. However, given the difference in the nature of the business and the higher order book visibility of these companies, we believe EKC should trade at a discount to its peers. EKC is also a leveraged play on the alternative energy/CNG theme and one of the most leveraged plays to the expanding city gas distribution market in India. Our target P/E is well supported by an EPS CAGR of 47% for FY07-10E.

Risks

We assign a Medium Risk rating to EKC shares, rather than the High Risk rating as per our quantitative risk-rating system, given the strong visibility of growth on increasing CNG penetration. Key downside risks to our target price include: 1) Exposure to a single supplier – EKC's reliance on Tenaris for most of its raw materiasl makes it vulnerable to the latter's pricing power. 2) China –

a hitherto unexplored market, with the risk that EKC's entry there could incur teething troubles. 3) Competition – low physical barriers to entry have led to some players entering the market in the recent past, which might adversely impact EKC's pricing power. 4) Project risk – EKC is implementing significant expansion plans that are subject to time and cost over-runs. 5) Crude prices – significantly lower crude prices could adversely impact CNG's strong economics and consequently slow CNG penetration.

Gammon India (GAMM.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs440.40
Target price	Rs642.00
Expected share price return	45.8%
Expected dividend yield	0.1%
Expected total return	**45.9%**
Market Cap	Rs9,744M
	US$241M

Price Performance (RIC: GAMM.BO, BB: GMON IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Gammon spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **New PPP norms to favour larger players** — Gammon looks well placed to capitalize on this opportunity. Changed qualification norms require that only the top 5-6 players in the technical qualification round will be allowed to submit financial bids. Gammon has entered several tie-ups to gain technical qualifications, like Macquarie for airports and Nobel Group, HK for ports.
- **Revenue to grow faster in FY09E —** In FY08 Gammon's revenue growth is expected to be around ~25%. The company sees higher revenue growth of 35%+ in FY09. EBITDA margins are to stay at current 9% levels. Gammon's margins are lower than those of peers as it executes fixed-price projects of GIPL. Orders from GIPL form around 18% of the current order backlog (OB).
- **Order book outlook —** Current OB stands at Rs75bn. The company is L1 in ~Rs14bn-worth of projects. The order book to sales ratio stands at ~3x. Gammon does not consider slower growth in order book as a cause for concern as it is able to easily replace the executed part of its order book.
- **BOT projects —** The company's annuity projects are earning 20%+ equity IRRs. The company's internal threshold for BOT projects is equity IRR of 15-16%. Going forward all BOT projects will come under GIPL, and the company expects to continue receiving construction orders from GIPL.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,028	11.86	na	37.1	4.4	na	0.1
2007A	984	11.34	-4.3	38.8	4.3	11.2	0.1
2008E	1,142	13.17	16.1	33.4	3.8	12.0	0.1
2009E	1,622	18.70	42.0	23.5	3.3	14.9	0.1
2010E	2,300	26.52	41.8	16.6	2.8	18.0	0.1

Source: Powered by dataCentral

Gammon India

Company description

Gammon is an 86-year-old construction company with cash contracting and build-operate-transfer (BOT) skill-sets in sectors as varied as bridges, flyovers, roads, energy (hydroelectric, nuclear and thermal), tunnels, ports, pipelines (oil, gas and water), water supply and sewage, utilities, ports, harbors, and other marine structures. A presence across sub-sectors provides Gammon with an advantage, as it is in a position to bid, win and implement a wide range of projects in this very active space.

Investment strategy

We rate Gammon shares as Buy / Low Risk (1L), with a target price of Rs642.

We expect the core construction business to grow EPS at a CAGR of 33% over FY07-10E driven by sales CAGR of 33% and stable EBITDA margins of 9.4%. Gammon has an order backlog of Rs73bn and expects to win orders worth Rs8-10bn by March 2008. Further, GIPL, the asset-holding company, has increased its portfolio of projects to 13 from seven over the past year and is bidding for many more projects. Gammon enjoys a strong competitive advantage in BOT/Public Private Partnership (PPP), as it, along with L&T, is the only company in the Indian construction universe having substantial experience in the dynamics of this business. Gammon has also forayed into the transmission towers business with a 28% stake in Associated Transrail and the real estate business with investments of Rs1bn in the business.

Valuation

We value Gammon shares at a target price of Rs642 using a sum-of-the-parts comprising:

(1) **Construction business:** At Rs384 valued at 17x Sep09E, in line with our target multiple for IVRCL.

(2) **GIPL:** At Rs192 valued at the recent transaction value between Gammon Cooling Towers and AMIF I

(3) **Associated Transrail (28% Stake)**: At Rs45 valued at target P/E multiple of 17x FY09E.

(4) **Gammon Realty**: At Rs12 value at book value of investments

(5) **Sadbhav Engineering (8% Stake)**: At Rs9 valued at 20% discount to market value.

Risks

We rate Gammon shares as Low Risk. The rating differs from the Medium Risk rating assigned by our quantitative risk-rating, which tracks 260-day historical share price volatility, primarily because Gammon's current order book of Rs73bn implies sales coverage for the next three years. Further, steady EBITDA margins imply good earnings visibility over the medium term. The key risk factors that could impede the stock from reaching our target price include: the construction business is subject to project risks; slower-than-expected order inflows and execution, and sudden increases in prices of steel, bitumen and cement.

Gateway Distriparks (GATE.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs105.30
Target price	Rs172.80
Expected share price return	64.1%
Expected dividend yield	3.0%
Expected total return	**67.1%**
Market Cap	Rs12,172M
	US$301M

Price Performance (RIC: GATE.BO, BB: GDPL IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Gateway Distriparks spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Strong growth outlook** — Management targets 600,000 units of throughput by FY10 (~30% CAGR over FY08-10). Growth will be driven by improved utilization at the Punjab Conware facility, as also the growth in throughput at Garhi.
- **Margins to remain stable at JNPT** — JNPT's aggregate CFS capacity continues to outstrip demand, though management indicated that the demand supply situation should correct into FY09 – management expects that pricing could be hiked in FY09, which augurs well for margins.
- **ICD rollout continues as per expectations** — GDL's new ICD facilities at Ludhiana, Faridabad, Cochin are being developed as per forecast – most of these facilities should be operational by FY10E. Garhi's expansion to ~350-400,000 units will also be undertaken in conjunction with Concor's plans – the expansion should occur over the medium term.
- **Gateway Rail Freight** — GRFL (in which GDL currently holds 85%) is expected to raise funds over the short term, which should provide a fillip to the stock price. GRFL has aggressive growth plans – it currently has 6 rakes, which it forecasts will increase to ~30 by FY10. Total investment in GRFL is Rs4bn thus far.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	346	3.69	54.2	28.5	5.9	28.0	1.5
2006A	723	6.27	70.0	16.8	2.1	19.5	2.3
2007E	860	7.46	19.0	14.1	2.0	14.4	3.0
2008E	1,044	9.05	21.4	11.6	1.8	16.1	3.8
2009E	1,262	10.95	20.9	9.6	1.6	17.7	3.8

Source: Powered by dataCentral

Gateway Distriparks

Company description

Incorporated in 1994, GDL offers logistics support services to export-import containerized cargo traffic in India. After commencing operations in 1998 with a single container freight station (CFS) at Mumbai, the company has acquired CFS facilities at Chennai and an inland container depot (ICD) at Garhi Harsaru (near Delhi). It is also developing a CFS at Vizag. The company has emerged as the largest private-sector player in the segment and has a presence on the east and west coasts of India, as well as the Delhi–Gurgaon–Manesar industrial belt.

Investment strategy

We have a Buy/Medium Risk (1M) rating on GDL, with a target price of Rs216. We estimate that India's containerized traffic will post a 14-15% CAGR over the next decade, benefiting from a low base as well as increased investment in the country's container handling terminals. Containerized traffic typically grows at 2-2.5x economic growth. Assuming base-case GDP growth of 6%, containerized traffic should grow at a rate of 15% in the long term. With facilities at key ports such as JNPT and Chennai, GDL looks well positioned to benefit from growth in container traffic and port-based logistics. The company has a head start over other private-sector entities, and has managed to garner around 20% market share of CFS addressable throughput at JNPT. We are positive on the train business. Although its margins are lower than at the CFS business, we believe GDL's business model is becoming more robust as its operations extend vertically through the logistics chain.

Valuation

Our 12-month target price of Rs216 is based on (1) the average of 13.3x FY08E EV/EBIT, or Rs173, and a DCF-based fair value of Rs251, and (2) Rs4 for the Punjab Conware facility. Considering GDL's strong growth prospects, but adjusting for its inherently riskier business model, we assign a 10% premium to the CY07E peer group multiple to arrive at 13.3x EV/EBIT for FY08E. We employ the EV/EBIT methodology because it reflects the depreciation costs associated with GDL's large capex program. At this multiple, we arrive at a valuation of Rs173 for GDL. We also utilize a DCF methodology because it captures growth in earnings and cash flows for GDL's train project, whose roll-out we view as crucial for the long-term growth prospects of the company. Our DCF-based target price of Rs251 is much higher than the EV/EBIT-based fair value. The EV/ EBIT methodology does not fully capture the growth potential of the train business, which is a long-term story given that the near-term valuations are depressed due to high capex. At our target price of Rs216, the stock would trade at 18.7x FY08E P/E, which is at a premium to the 16.5x P/E of the peer group given GDL's higher growth potential.

Risks

We continue to rate GDL as Medium Risk, deviating from the High Risk rating assigned by our quantitative model, which tracks 260-day share price volatility. We rate the stock Medium Risk because of the following: (1) Strong secular growth prospects for the ports-related logistics business in India with low containerized traffic penetration levels should drive long-term growth; and (2) Increasing momentum of investment in ports and container terminals is driving development of CFSs and ICDs, which should support growth in container traffic. The key downside risks to our target price include: (1) GDL's business model is undergoing transition. The entry into rail-based logistics should strengthen GDL's business model in the long term, but near-term profitability could suffer; (2) Execution risks with the rail-logistics business will persist; (3) Relatively low entry barriers into the industry, suggesting intensifying competition. We believe this could impact profitability of the incumbents, as pricing/TEU remains static or even declines in the face of competition.

Glenmark Pharmaceuticals (GLEN.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs465.80
Target price	Rs592.00
Expected share price return	27.1%
Expected dividend yield	0.2%
Expected total return	**27.3%**
Market Cap	Rs115,400M
	US$2,856M

Price Performance (RIC: GLEN.BO, BB: GNP IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Glenmark spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Robust R&D pipeline** — With GRC-4039 entering the clinic, Glenmark now has 4 NCEs in the clinic – 3 in phase 2b and 2 licensed out. It also has 2 MABs in its Swiss unit, which are expected to enter the clinic in FY09. Glenmark expects to have 4 NCEs licensed out at any point as a de-risking and cash generating level, and move the rest of its pipeline forward on its own. It thus intends to out-license GRC-8200 (returned by Merck) again over the next year.
- **Business restructuring** — Glenmark is making progress in its plan to split into separate branded and generics entities as part of its effort to replicate the Novartis-Sandoz model.
- **Generics gaining traction on growth in base US generics, para IV opportunities** — It will mark its entry into derma in FY08 and it plans to enter a new segment (undisclosed) in 09, where it claims no other Indian or Chinese firm is present.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	864	3.22	-20.9	144.5	29.8	25.5	0.1
2007A	3,093	11.54	258.0	40.4	16.3	58.5	0.1
2008E	5,885	21.96	90.3	21.2	9.0	60.9	0.2
2009E	6,710	25.04	14.0	18.6	5.9	42.8	0.2
2010E	7,947	29.66	18.4	15.7	4.2	34.9	0.2

Source: Powered by dataCentral

Glenmark Pharmaceuticals

Company description

Glenmark Pharmaceuticals is a fully integrated research-based pharmaceutical company, with a business model spanning drug discovery research, APIs and formulations in the domestic and international markets. It operates in more than 65 countries, including the regulated markets of the US and Europe, with around 50% of its revenues coming from overseas markets. The company came into the limelight in September 2004 after it licensed out the US market rights of its first new chemical entity (NCE), GRC-3886, to Forest Laboratories.

Investment strategy

We have a Buy/Medium Risk rating on Glenmark Pharmaceuticals. Our positive outlook on the stock is based on: a) The R&D pipeline has broadened, with the company expecting seven molecules to be in the clinic by end FY08; b) With two molecules licensed out, the R&D option value or value at risk is now spread across a larger number of molecules; c) The base business has achieved significant traction, especially in the US and Latin America. We also believe that the rapid scale-up in the base business adds another catalyst for the stock apart from the option value being built in by its R&D effort (primarily Oglemilast, GRC-8200 & GRC-6211). Although there are potential risk triggers (especially related to Oglemilast) that could lead to partial erosion of the option value, we believe the risk-reward remains in favor of investors.

Valuation

Our target price for Glenmark Pharmaceuticals of Rs592 is derived by valuing the R&D deals and the base business separately. We believe probability-adjusted DCF is appropriate to calculate the option value from Oglemilast, GRC-6211 and GRC-8200 as it captures the reducing probability of success as the molecules progress on the clinical path. We have used the licensing deal with Forest Laboratories for the US market as a benchmark as well as a 15% discount rate. We adjust for the higher-risk income streams by probability of success. Accordingly, we arrive at a value of Rs111/share for Oglemilast. We use a similar approach for GRC-8200 and GRC-6211, arriving at respective values of Rs31/share and Rs87/share. We value Glenmark's non-R&D business based on 20x forward earnings, which we use for front-line Indian pharma companies such as Ranbaxy and Cipla. We believe Glenmark deserves a P/E premium to other mid-tier companies, given the higher value addition in its business and its proven ability to leverage its assets.

Risks

We rate Glenmark Medium Risk, even though our quantitative model suggests Low Risk, as we believe the R&D-related option value built into the stock warrants a higher risk rating. The main downside risks to our target price and estimates include: (1) Glenmark's efforts to build its own front-end in regulated markets could prove to be a drag on earnings if execution is lacking; (2) growing competition, rapid price erosion and fragmented market share are risks that are inherent to the generics business; and (3) the failure of any molecule could lead to the R&D milestone payments being removed from our estimates.

Grasim Industries (GRAS.BO)

Sell/Medium Risk	3M
Price (11 Mar 08)	Rs2,789.50
Target price	Rs2,700.00
Expected share price return	-3.2%
Expected dividend yield	1.3%
Expected total return	**-2.0%**
Market Cap	Rs255,725M
	US$6,330M

Price Performance (RIC: GRAS.BO, BB: GRASIM IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Grasim spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.

- **Grasim's view on cement** — The company is on track to put up (along with UltraTech Cement) 15m tpa of capacity by Sep 2008. It expects the industry to set up 70m tonnes of capacity in the next 3 years vs. demand of 50m tonnes at 10% growth over the same period. Despite a possible mismatch, Grasim still hopes to maintain margins, as capacity increases should be staggered and cost increases should be passed on through price increases in the coming months.

- **Power for cement** — Grasim (including UltaTech) currently has ~100MW of captive power for its cement plants. Grasim has plans to set up 171MW of power and UltraTech plans to set up 225MW of power over the next few months to be used for its existing as well as new capacity. The total captive power will help Grasim be self sufficient up to 85% of its power requirements.

- **VSF outlook** — VSF is benefiting from high margins of ~39% due to substantial growth in pricing. Grasim has the combination of captive power, water and technology and is hedged up to 75% of its pulp requirements. With the rise in raw material costs, margins are unlikely to sustain and likely to go down over a period to 30-35%. The VSF division should be partly helped by Grasim's expected capacity increase by April 2008.

- **Sponge iron outlook** — The sponge iron division is running at ~65% utilization due to shortage of natural gas. Grasim hopes that gas availability will improve by June 2008 on completion of a pipeline. This should help bring down average raw material costs, as natural gas will replace part of the more expensive naptha, which is being used currently.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,137	88.76	-13.7	31.4	5.1	17.5	0.7
2007A	14,987	163.48	84.2	17.1	4.1	26.7	1.0
2008E	19,249	209.98	28.4	13.3	3.3	27.5	1.3
2009E	17,641	192.44	-8.4	14.5	2.8	20.8	1.3
2010E	16,456	179.51	-6.7	15.5	2.4	16.8	1.3

Source: Powered by dataCentral

Grasim Industries

Company description

Grasim is a diversified company with five main divisions - cement, viscose staple fibre (VSF), sponge iron, chemicals and textiles. Cement (13m tpa) is its largest division, accounting for 55-60% of sales and 60% of EBITDA. VSF is the other core business. The two core businesses account for around 85% of sales and around 90% of EBITDA. Its subsidiary - UltraTech (54% holding) - has a capacity of 17m tpa. The current group capacity is 30m tpa, which is expected to rise to 45m tpa by 2QFY09. Grasim's domestic markets are well spread across regions, and it does not export cement.

Investment strategy

We rate Grasim as Sell/Medium Risk (3M) with a target price of Rs2,700. Despite its diversification, cement has the biggest impact on Grasim's revenues and profits. The expected downturn in cement will offset the upside seen in other divisions, based on our analysis. We expect the substantial increase in domestic cement capacity to create oversupply and pricing declines in FY09 and FY10 and hurt the cement division's profits. The cement division's EBITDA/tonne will rise in FY08 but fall in FY09 and FY10, based on our estimates. In VSF (26% of sales and EBITDA) we expect the division to benefit from both pricing and volume growth in FY08-09. We forecast EBITDA margins at 37% in FY08 but lower levels of 33% in FY09 as margins are impacted due to higher costs. Grasim's other divisions are doing reasonably well. Sponge iron (8% of sales and 3% of EBITDA) should do better on the back of better pricing and improved availability of natural gas from end-FY08E onward.

Valuation

We value Grasim on EV/EBITDA, a common metric used for cement companies. Our target price of Rs2,700 is based on 6.5x FY09 EV/EBITDA, a 10% premium to the stock's seven-year mean of 5.9x. The downturn in cement in FY09E is expected to be partly offset by other businesses, which should perform well in FY09E-10E. We therefore use a premium over historical valuations to value the stock. At our target price the consolidated EV/tonne for Grasim equates to US$130/tonne and a consolidated P/E of 11x for FY09E.

Risks

Grasim is rated as Medium Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. The key upside risks to our target price include: (1) further delays in industry capacity; (2) higher than expected domestic cement demand growth; (3) changes in the duty/tax regime in favor of producers; (4) higher international prices or rise in prices of competing fibres, both of which will positively impact VSF prices; and (5) better prices for scrap and cheaper natural gas than we anticipate, leading to better sponge iron margins than expected.

Gujarat State Petronet (GSPT.BO)

Buy/Low Risk	1L
Price (11 Mar 08)	Rs68.15
Target price	Rs104.00
Expected share price return	52.6%
Expected dividend yield	0.6%
Expected total return	**53.2%**
Market Cap	Rs38,301M
	US$948M

Price Performance (RIC: GSPT.BO, BB: GUJS IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — GSPL spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Growth plans** — GSPL is in the midst of expanding its pipeline network in Gujarat incurring an estimated capex of ~Rs20bn (to be funded through debt and internal accruals). Construction of the pipeline for carrying RIL's gas from Bharuch to Jamnagar is on track (to be commissioned by 2Q FY09E). GSPL is also looking at expanding to other states such as Rajasthan, Maharashtra, and TN, though these would also be driven by how the regulatory environment pans out. It is also indirectly participating in city gas projects (~25 potential cities) through equity investments in group companies, GSPC Gas and Sabarmati Gas.
- **Gas volumes remain robust** — Current gas volumes are trending between 18-20 mmscmd (PLNG and Shell together account for nearly 80%). Volume growth in FY09 (expected to increase to ~35 mmscmd) would be driven by: (1) volumes to Torrent Power from 1QFY09 and (2) volumes to RIL (Jamnagar) plant from 2Q/3QFY09. With PMT volumes constituting <1.5 mmscmd, the impact of these volumes ceasing to flow through GSPL's network looks manageable.
- **Regulatory environment should provide growth opportunities** — Though draft guidelines for gas transmission have been issued, regulations will probably take around 5-6 months to be finalized. Regulations should not have a significant impact on tariffs, while potential opening up of the sector by allowing for bidding of new pipelines should provide a meaningful growth opportunity for established and experienced players like GSPL.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	467	1.04	95.1	65.5	4.1	7.1	0.4
2007A	894	1.65	58.4	41.4	3.8	9.5	0.7
2008E	806	1.46	-11.4	46.7	3.4	7.7	0.6
2009E	1,263	2.25	54.1	30.3	3.2	10.8	1.0
2010E	1,894	3.37	50.0	20.2	2.9	14.9	1.5

Source: Powered by dataCentral

Gujarat State Petronet

Company description

GSPL is a gas transmission company with a network of pipelines in the western Indian state of Gujarat. The company has a gas transmission network comprising over 1,100 kms of pipelines connecting Hazira, Vadodara, Ahmedabad, Kalol, Himmatnagar, Mehsana, Rajkot, and Vapi. GSPL's network connects all the major supply sources in Gujarat to important consumption centres in the state and currently transports c.16mmscmd of gas.

Investment strategy

We rate Gujarat State Petronet as Buy/Low Risk (1L). GSPL has seized the opportunity for setting up an "open access" pipeline network in India's most vibrant gas market, Gujarat. Gujarat has the advantage of being the landfall point of gas from India's western offshore fields (the largest source of gas for India) as well as having two LNG receiving terminals. The state is also among the most industrialized regions in India with a large presence of energy-intensive industries in addition to traditional gas-using industries. GSPL's parent, Gujarat State Petroleum Corporation, has played and continues to play an important role as an aggregator of gas demand and supplies.

Valuation

Our target price of Rs104 is based on our DCF fair value for Mar-09E. Our DCF is based on gas volumes tied up with Reliance (11-20mmscmd) and announced capex plans (Rs26bn over FY08-10E). We use DCF to value the company given the utility nature of the business, which ensures steady cash flows. Discounted cash flows also capture the value of the business over a longer term. Our DCF valuation is based on five years of explicit forecasts, 27% CAGR of committed volumes over FY07-12E, FY12E volumes of 54mmscmd, and terminal growth of 3%. We use a WACC of 9.7% (risk free 8.0%, risk premium 6.0%, beta of 0.85, target D/E of 50%). Also, on a price/cash earnings basis, we think GSPL is at a justifiable premium to other gas utilities (13x FY10E) given our high growth expectations of its gas transmission business (EPS CAGR of 27% over FY07-10E). We prefer P/CEPS to the more traditional P/E multiple as a valuation benchmark given GSPL's aggressive depreciation policy.

Risks

We assign a Low Risk rating to GSPL as opposed to the Medium Risk suggested by our quantitative risk-rating system as improved visibility of gas supplies will likely ensure high utilization of the company's pipelines even after its ongoing expansions. The key downside risks to our target price include: 1) Government regulation of gas pipeline tariffs - with the setting up of the Petroleum and Natural Gas Regulatory Board, pipeline tariffs could come under scrutiny; 2) Gas supplies - we assume a 27% CAGR in gas volumes for GSPL. If supplies are lower than our expectations, this could impact earnings and valuations; 3) Project risk - GSPL is implementing expansion of its pipeline network that is subject to time and cost over-runs that could impact earnings. If any of these factors has a greater impact than we expect, the stock could have difficulty achieving our target price.

HDFC Bank (HDBK.BO)

Hold/Low Risk	2L
Price (11 Mar 08)	Rs1,331.95
Target price	Rs1,565.00
Expected share price return	17.5%
Expected dividend yield	0.6%
Expected total return	**18.1%**
Market Cap	Rs472,087M
	US$11,685M

Price Performance (RIC: HDBK.BO, BB: HDFCB IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — HDFC Bank spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Integration of CBOP merger** — The merger will be put up for shareholders approval of both banks before end Mar 08. It expects legal approvals (from RBI) to be in place by Jul 08. The integration process would, however, take an additional 12-15 months. Key near-term benefits from the merger would be increases in operational efficiencies, resulting in lower costs and higher CASA ratio.
- **Asset growth on track** — Management reiterated asset growth remained strong and well balanced. Growth is well diversified between retail (55% of book) and corporate, across credit and deposit products and across products and customer segments.
- **Asset quality – no signs of strain** — Despite the strong growth outlook, management is not seeing any significant deterioration in quality of assets in the retail segment, and provisioning is in-line with its evolving asset mix. Also, there is no impact of the farm loan waiver to HDBK's loan portfolio.
- **Fee income – sustained growth** — Management seemed confident of sustaining strong growth in fees as its dependence on trading income remains low. The fee base remains well balanced across products, though growth might slow down a bit due to relatively slower growth in treasury-linked product sales (strong area of growth last year).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,709	27.28	25.1	48.8	7.9	17.7	0.4
2007A	11,414	35.23	29.1	37.8	6.6	19.5	0.5
2008E	16,374	47.40	34.5	28.1	4.0	17.8	0.6
2009E	21,375	58.76	24.0	22.7	3.4	16.6	0.6
2010E	28,501	78.35	33.3	17.0	2.9	19.0	0.8

Source: Powered by dataCentral

HDFC Bank

Company description

In 2000 HDFC Bank took over private-sector Times Bank. HDFC Bank is headquartered in Mumbai and has a network of more than 734 branches spread across 263 cities. The bank has a network of more than 1,471 ATMs. HDFC Bank entered into an arrangement with its parent FY04 through which HDFC Bank sources mortgages for the parent. HDFC Bank has had strong and steady growth over the past 10 years and continues to grow at more than 30%.

Investment strategy

We rate HDFC Bank as Hold/Low Risk (2L) with a 12-month target price of Rs1,565. We believe HDFC Bank should be able to generate a premium to its current trading level as it sustains asset growth, consolidates its distribution, leverages off new capital and stabilizes its business mix with increased retail returns. HDFC Bank should also enjoy increased growth and stability in its fee franchise due to its consistently widening distribution platform. While we expect HDFC Bank to trade in the 3-4x P/BV band over the longer term, we see it trading at the upper end of its trading band, as its raises ROE's on capital that it has recently raised. We remain positive on the bank's prospects and management's ability to deliver, but in the near term the stock's performance could be moderated by high valuations relative to ROE and peers, uncertainty on interest rates, and competitive pricing environment.

Valuation

Our valuation is based on our EVA-based methodology, which values HDFC Bank at Rs1,565. Our EVA value is based on an 8% risk-free rate, higher-than-industry margins and higher capital ratio (6.75% vs. 6% average).

Our target price is also benchmarked off a 4x FY09E P/BV of Rs1,545. The basis for our target multiple - a distinct premium to all other Indian commercial banks - is HDBK's structurally higher margin, de-risked earnings and balance sheet mix, and gains in the consumer-lending franchise. We believe a re-rating from current levels would be difficult.

We prefer using an EVA-based valuation benchmark to P/BV because EVA concentrates on the economic value creation of the bank.

Risks

We rate HDFC Bank as Low Risk based on our quantitative risk-rating system, which tracks 260-day historical share-price volatility. The downside and upside risks to our target price lie in: (1) any negative/positive news on asset quality; (2) management changes; and (3) emergence of high quality and scale competitors. If any of these factors has a greater impact than we expect, the stock could have difficulty achieving our target price.

Hindustan Unilever (HLL.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs223.75
Target price	Rs258.00
Expected share price return	15.3%
Expected dividend yield	4.0%
Expected total return	**19.4%**
Market Cap	Rs487,311M US$12,062M

Price Performance (RIC: HLL.BO, BB: HUVR IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — HUL spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Market growth outlook positive** — According to HUL management, the growth outlook for the FMCG industry remains robust, driven by a strong economic growth outlook, rising rural incomes and the recent measures in the budget.
- **Catering to all income segments** — HUL has tailored its products to cater to all income segments, and has been undertaking product innovations to make these relevant to changing consumer tastes.
- **New growth drivers being put in place** — HUL is putting in place new growth drivers: it is scaling up its water business through a national launch, looking to expand its high-end personal-care portfolio and will roll out new food products.
- **Profits to grow ahead of sales** — HUL management has indicated that it endeavors to grow profits ahead of sales going forward, driven by operating margin improvement. Margins should be driven by improving product mix, investment in new businesses fructifying and rising profitability for detergents.

Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	18,554	8.41	31.4	26.6	18.1	73.8	3.1
2007A	19,255	8.84	5.2	25.3	18.1	71.1	4.0
2008E	20,778	9.54	7.9	23.4	17.4	75.7	4.0
2009E	24,513	11.26	18.0	19.9	16.6	85.6	4.8
2010E	28,419	13.05	15.9	17.1	15.8	94.7	5.5

Source: Powered by dataCentral

Hindustan Unilever

Company description

HUL is the largest consumer non-durables company in Asia. 51%-owned by the Unilever Group, HUL has one of the best-managed businesses in India, in our view, and a record of steady growth spanning decades. It has a diversified product portfolio, including fabric wash, personal care, tea, coffee and staple foods. Some of the strongest brands in India such as Lifebuoy, Lux, Surf, Wheel, Lakme, Ponds and Lipton are from the HUL stable.

Investment strategy

We have a Buy/Low Risk (1L) rating on the stock. HUL's valuations look attractive after the recent sell-off. The stock is trading at the lower end of its historical trading range and offers downside protection, in our view. HUL's fundamentals are looking up, with a significant pick-up in growth on improving demand from the urban as well as rural segments, especially in the rural areas. Management has increased its focus on market-share gains and as a result investment in brands has picked up. The company has been aggressively launching new product variants and has also undertaken product re-launches, which we believe will continue. With the high-end personal-care segment growing faster, the product mix is also improving. We believe margins could also surprise on the upside, driven by price hikes and declines in commodity prices. Margins have been under pressure in the past few quarters, and we believe they have bottomed.

Valuation

HUL's fairly steady stream of earnings makes P/E a good tool to value the stock. Our target price of Rs258 is based on what we think is a conservative multiple of 27x 2008E P/E, at the mid-end of the stock's historical trading band of 20-35x, over the past 8 years. We choose mid-end as we expect a re-rating for the stock given that its operating parameters are improving. We do not use a top-end multiple, as competitive intensity has increased over last few years and the environment in which HUL operates is not as conducive as before. At 27x P/E, HUL would trade at a 65-70% premium to the Sensex. The company has historically enjoyed more than a 100% premium to the Sensex owing to its high capital-efficiency ratios and consistent earnings growth. However, we do not expect the stock to re-trace to its historical high premium, given that the company now operates in a different competitive landscape, with higher competitive intensity and a lower margin profile. On EV/EBITDA, we believe the stock should trade at 24x 2008E EV/EBITDA, which gives a fair value of close to Rs250. The stock's trading band has been 20-30x over the past three years.

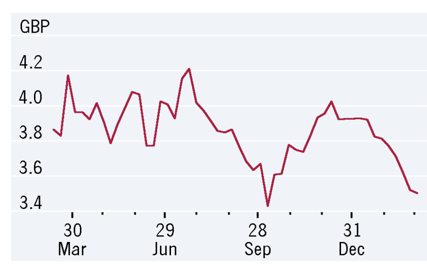
Risks

We rate HUL as Low Risk because the company operates in branded consumer products and has a diversified product portfolio. The Low Risk rating is consistent with our quantitative risk rating system which tracks the 260-day share price volatility of the shares. The most significant risk to our target price is the possibility of a prolonged battle for market share with other MNC peers as well as Indian companies. HUL is leveraged equally to the rural and the urban economies and, as such, any dislocation would affect the company's performance. Although the company's brands have strong pricing power, in a challenging external environment price increases are limited. PG is aggressively seeking to increase its market share in detergents, shampoos and some other categories. Other downside risks include higher-than-expected raw-material costs and the company's inability to deliver on top-line growth.

Hirco (HRCO.L)

Price (11 Mar 08)	£3.51
Shares Outstanding	77M
Free Float (%)	NA
Fiscal Year End	30 Sep
Market Cap	£269M US$540M

Price Performance (RIC: HRCO.L, BB: HRCO LN)



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Analyzed Non-Rated Snapshot

- **Conference takeaways** — Hirco spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Investments** — Of the net IPO proceeds of £362.6m, Hirco has invested ~£350.8m in mixed-used townships in Chennai and Panvel having a total area of 66.4m sq ft. The investment represents ~97% of the net funds raised in the IPO.
- **Increase in NAV** — The NAV of the company as computed by JLL as at 30 September 2007 was £469.7m, representing an increase of 29.5% since the IPO in December 2006. The NAV per share has increased from £4.74 to £6.14.
- **Progress on Chennai project** — Hirco has invested ~£125.7m in its Chennai township project which is located in the Sriperumbudur business corridor near Chennai and has an area of ~30.1m sq ft. Pre-construction sales began in May 07 and as at Jan 08 the company accepted sales consideration for ~1.38m sq ft at an average price of Rs3,834/ sq ft. Construction of the project began in August 2007.
- **Panvel project** — Hirco's other investment is a township development in Panvel in the Mumbai Metropolitan region. Hirco has invested ~£225m in the township. The project is designated as an SEZ (Special Economic Zone) and pre-construction sales are expected to begin in a month.
- **Investment structure** — In each project, Hirco will have a 70% equity stake and 100% preferred equity with 12% return, while the Hiranandani Group will hold the balance 30% equity stake. However, the profits will be split between Hirco and the Hiranandani Group in the ratio of 40% and 60% respectively.

Hotel Leela Venture (HTLE.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs45.05
Target price	Rs62.00
Expected share price return	37.6%
Expected dividend yield	0.9%
Expected total return	**38.5%**
Market Cap	Rs17,021M
	US$421M

Price Performance (RIC: HTLE.BO, BB: LELA IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Hotel Leela spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Capex** — 5 hotels are planned at Udaipur, Chennai, New Delhi, Hyderabad and Pune at a cost of Rs20bn – largely funded. Of this, Rs9.6bn has been incurred and the balance is to be funded through the $100m FCCBs raised earlier and internal accruals. Capex is to double room inventory to ~2,050.
- **Additional revenue streams** — It is setting up a 300,000 sq ft IT Park next to its upcoming hotel in Chennai, which will open shortly. It has entered into a management contract for a hotel with 319 rooms and 90 serviced apartments in Gurgaon – to be operational by June 2008.
- **Bangalore outlook, steady ARRs expected** — Near-term ARRs have softened a little. Management indicates additional room supply to come in FY10-11, and expects steady ARRs of Rs15,000 and occupancy of 65%. Bangalore contributes ~46% of FY07 revenues; while the recent addition of 105 rooms is expected to drive near-term growth, trends in ARRs would be crucial.
- **Mumbai growing** — Leela recently refurbished its 390-room Mumbai property. Management expects Mumbai to be best positioned, with robust demand and a modest increase in room supply over the next few years. We see this as an opportunity to offset some of the sluggish trend in Bangalore.
- **Growth initiatives** — Casino in Goa; exploring Jaipur, Agra, Kolkata, and Kerala.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	724	1.96	72.9	22.9	2.1	9.8	0.9
2007A	837	1.99	1.4	22.6	1.6	8.4	1.0
2008E	1,378	3.28	64.7	13.7	1.4	10.8	0.9
2009E	1,531	3.64	11.1	12.4	1.3	10.9	0.9
2010E	1,584	3.77	3.5	11.9	1.2	10.3	0.9

Source: Powered by dataCentral

Hotel Leela Venture

Company description

Hotel Leela Venture is a well-known hotel chain in India catering primarily to the premium segment. The company operates four hotels (estimated 1,000 rooms) under the 'The Leela' brand across India. The company has a marketing alliance with Kempinski for properties in India. Its luxury properties cater to both business and leisure travelers. With rapid growth in room demand, the company plans to expand its presence in the growth cities of Hyderabad, Chennai, Pune and New Delhi through management contracts. It is the flagship company of Leela Group, which holds a 49% stake in Hotel Leela Venture.

Investment strategy

We rate Leela Buy/Medium Risk (1M), with a target price of Rs62 based on 18x Sept 08 P/E. Our positive view on the stock is premised on: 1) Leela's solid 65% earnings growth, vs. 38% for the sector, in FY08E, leveraging on additional rooms operational in Mumbai and Bangalore (ahead of expected supply in mid-2008); and 2) the stock's laggard performance (it has underperformed the Sensex by 22% over the last three months).

Leela's high dependence on the Bangalore market (where ARR growth is peaking) and lack of a presence in key growth markets - are growth limitations. However, with Mumbai refurbishments (133 rooms) complete and Bangalore room expansion (101 rooms) starting in 4QFY07, we see additional rooms and sustained high ARRs driving Leela's outperformance with earnings growth of 65% vs. sector growth of 38% in FY08E. With growth momentum strong due to room additions and the stock currently trading at 15x Sept 08E P/E, at a 6%, discount to sector P/E of 16x and at the lower end of the stock's two-year historical P/E band of 16-25x, we see upside potential from here.

Valuation

Our target price of Rs62 is based on 18x Sept 08E P/E. Our target multiple places the stock at a premium to sector valuations of 16x. We assign this premium due to Leela's earnings outperformance vs. the sector.

We use P/E as our primary valuation tool, as we think this captures the company's rapid earnings growth potential. While risk of high dependence on Bangalore and lack of scale remain, with the stock's 23% underperformance over past three months and valuations currently at 15x Sept 08E P/E (at a discount to the sector and at the lower end of the stock's two-year historical P/E band of 16-25x), we see upside potential from here.

Risks

We rate Leela Medium Risk based on our quantitative risk-rating system, which tracks 260-day stock volatility. Company-specific downside risks include: 1) Any further plans to raise equity for funding some of the company's capex requirements could be detrimental to our target price; 2) Significant supply of rooms in Bangalore ahead of expectations would likely adversely impact our ARR growth and occupancy assumptions; and 3) Any delay in execution of its new hotels in Chennai, Pune, and Hyderabad, which would push back growth assumptions and dampen sentiment on the stock.

ICICI Bank (ICBK.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs854.45
Target price	Rs1,510.00
Expected share price return	76.7%
Expected dividend yield	1.2%
Expected total return	**78.0%**
Market Cap	Rs950,668M US$23,531M

Price Performance (RIC: ICBK.BO, BB: ICICIBC IN)

Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — ICICI Bank spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Provisions on investment portfolio** — ICICI Bank has made US$264m of provisions till Jan 2008, of which US$110m relate to international subsidiaries. Management suggests that these investments will be held till maturity (3-5 years term to maturity), in which case, the provisions will be reversed. However, in the event credit spreads widen, further provisioning cannot be ruled out.
- **Asset quality** — Expect provisioning costs to increase slightly over the next 9-12 months, especially in the retail segment as retail growth slows down to 10-12%. Impact of the farm loan waiver on provisioning is not clear (expects clarity by end of week), though management is confident of getting reimbursed for the waiver.
- **Asset growth – international and rural focus** — Management reiterated aggressive growth in international, corporate and rural loan portfolios to be the mainstay; will likely reduce margins though management expects to offset this by lower costs and higher fees.
- **Listing of subsidiaries** — Listing of the securities/brokerage subsidiary is currently on track (expects listing before end CY08). It does not have immediate plans to list life insurance subsidiary separately.

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Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	25,397	28.13	5.2	30.4	3.4	14.6	1.0
2007A	31,097	34.46	22.5	24.8	3.1	13.4	1.2
2008E	43,396	39.12	13.5	21.8	2.0	12.1	1.2
2009E	58,356	52.60	34.5	16.2	1.8	11.7	1.3
2010E	78,380	70.65	34.3	12.1	1.6	14.3	1.4

Source: Powered by dataCentral

ICICI Bank

Company description

ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development finance institution. It is a leader in retail lending, with more than 30% market share in all consumer-finance segments. ICICI Bank has international banking operations as its key focus area.

Investment strategy

Our Buy/Low Risk (1L) rating is premised on: (1) ICBK's broad exposure to the strong momentum in the Indian economy, and its strong market position in the Indian market; (2) a broad asset mix, which should reduce the risk and profitability strain from concentration; (3) the growing value of its subsidiary businesses; (4). the bank, in our view, offers one of the best exposures to the consumer finance and financial services opportunity in India, and has been at the forefront of building market leadership in most products; and (5) its strong and deep management team. ICICI Bank also offers large exposure to the corporate lending and capex cycle, which should be viewed against the economy's bright prospects.

Valuation

Our target price of Rs1,510 is based on our EVA model. Our target price incorporates Rs386 for its securities unit ; b) risk free rate – we factor in 7.75%. Our EVA methodology is a standard valuation measure for our India banking universe. Our target price is premised on the following: (1) a risk-free rate of 7.75%; (2) a long-term loan loss of 100bps; and (3) subsidiary value of Rs386 per share.

We also use the sum of parts methodology, benchmarking valuations to individual businesses. On our sum-of-the-parts methodology, our fair value for ICICI Bank is Rs1,383. We value ICICI Bank's banking business on a 2.25x FY09E PBV, reflecting the leverage potential of the business as also peer company valuations, but also factor in the ROE, which is currently below its cost of capital. In addition, we are factoring in Rs386 as the value of its subsidiaries – specifically, these are; Life insurance Business at Rs246 per share (18X FY09E NBAP), General Insurance at Rs40per share (20X FY09E PE), AMC at Rs27 per Share (8% of AUM), ICICI securities at Rs55 per Share (20X FY09E), Venture Fund at Rs21per share (15% of FY09E AUM).

We prefer to use EVA as our primary methodology as we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business.

Risks

Our risk rating is Low based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. The downside risks that could impede the shares from reaching our target price include: (1) continued deterioration in asset quality; (2) low margins, with a limited cushion if there is further downside pressure; (3) aggressive growth in a range of business areas raises the risk of some failures; (4) aggressive international operations where returns appear low, and risk levels relatively high, and (5) inability to leverage capital, which keeps ROEs low.

Infosys Technologies (INFY.BO)

Buy/Medium Risk	1M
Price (11 Mar 08)	Rs1,427.90
Target price	Rs2,060.00
Expected share price return	44.3%
Expected dividend yield	1.1%
Expected total return	**45.3%**
Market Cap	Rs816,122M
	US$20,201M

Price Performance (RIC: INFY.BO, BB: INFO IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Infosys spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Cautious on near term** — Infosys indicated that there was increased clarity on budgets: overall trends have been flat or shown marginal declines. Budgetary allocations (for various vendors) are still not very clear. With delays in allocations, management remains cautious on the near term.
- **BFSI/Retail challenging** — The outlook remains challenging for BFSI/Retail verticals. In other segments like communication, entertainment and media, the pipeline remains strong.
- **Expects telecoms to be a higher growth large vertical (vs. company average)** — This is contrary to recent concerns on some slowdown in the telecoms segment for Infosys.
- **Vendor consolidation/pricing trends** — Vendor consolidation is clearly becoming a trend: clients prefer larger vendors in such an environment. Infosys also indicated that, surprisingly, there has been no impact on pricing so far.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	24,599	43.82	27.5	32.6	11.3	40.4	1.6
2007A	38,560	67.76	54.6	21.1	7.1	42.3	0.8
2008E	46,339	80.82	19.3	17.7	5.4	35.3	1.1
2009E	54,207	94.54	17.0	15.1	4.2	31.6	1.4
2010E	58,278	101.64	7.5	14.0	3.4	27.1	1.7

Source: Powered by dataCentral

Infosys Technologies

Company description

Infosys is the second-largest IT services company in India with more than 88,000 professionals. It is also among the fastest-growing IT services organization in the world, and is a leader in the offshore services space. Infosys provides business consulting, application development and maintenance and engineering services to more than 500 active clients across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing and Utilities in the Americas, Europe and Asia Pacific. Infosys sells a core banking application, Finacle, which is used by leading banks in India, the Middle East, Africa and Europe. Its subsidiary, Infosys BPO, which employs more than 13,000 people, is a provider of BPO services. It launched a subsidiary in April 2004, Infosys Consulting, which provides high-end IT consulting services.

Investment strategy

We rate Infosys as Buy/Medium Risk (1M). We are positive on the stock from a fundamental 12-month view. Offshore IT outsourcing has now become a mainstream option, and we think scale and scalability, along with an ability to move up the value chain, are key criteria for successful offshore IT vendors. In this respect, Infosys appears well positioned and continues to gain ground given its strong branding and industry-leading sales force. Infosys should see above-industry average volume growth along with modest pricing improvement. We expect Infosys to deliver revenue CAGR of 18.6% and EPS CAGR of 14.5% for FY07-10E. Unlike many other high-growth firms in other industries, Infosys continues to generate solid FCF, and its RoE of 30%+ continues to be well above its cost of capital.

Valuation

Our target price of Rs2,060 is based on 21x the average of FY09-10E EPS. This is close to the midpoint of the last one-year trading band of 16-26x 1-year forward earnings and factors in some deceleration in growth. We are forecasting 14.5% earnings growth (on a high base of FY07) with some upside potential from pricing improvement and/or rupee depreciation. The 21x multiple was also derived from a P/E band analysis of Infosys' trading pattern. Our estimates continue to assume a certain P/E premium to the market; this is justified, in our view, given the strong FCF, ROIC and growth rates for Infosys vs. the overall market. We believe P/E remains the most appropriate valuation measure given Infosys' profitability record and high earnings visibility.

Risks

Although our quantitative risk-rating system suggests Low Risk for Infosys, we rate Infosys as Medium Risk given the similar risk ratings for other similar-sized IT peer-group companies in our coverage universe. The key downside risks to the shares reaching our target price include: (1) any significant appreciation of the rupee against the US Dollar/Euro/GBP; (2) pressure on billing rates (as Infosys continues to enjoy a 10-15% premium in its billing rates); (3) a sharp slowdown in the US economy; and (4) limited H1B visa quotas.

Jet Airways (JET.BO)

Sell/Medium Risk	3M
Price (11 Mar 08)	Rs630.85
Target price	Rs765.00
Expected share price return	21.3%
Expected dividend yield	1.3%
Expected total return	**22.5%**
Market Cap	Rs135,164M
	US$3,346M

Price Performance (RIC: JET.BO, BB: JETIN IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Jet Airways spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation
- **Domestic outlook** — Near-term outlook remains challenging, as supply overhang persists. Management forecasts 15-18% growth in seat capacity in FY09, and expects the demand-supply mismatch to rectify itself over the next fiscal year. Longer term demand growth is forecast at 2-2.5x GDP growth.
- **Substantial improvement in international operations profitability by FY10E —** Management stated that international operations were expected to become profitable on a sustainable basis by FY10 – as all new routes to the US, the Middle East and HK would have matured by then. Sub-optimal utilization of aircraft should also improve, improving EBITDAR margin to 20-22%.
- **Fund raising —** The promoter is expected to dilute his stake to 70% from c80%. These proceeds would then be deployed to fund the promoter's contribution to the $400m rights issue that is targeted for 1Q FY09. Subsequent to that, Jet might raise another $400m in equity offerings. Target debt-equity is forecast at ~2.5x (currently ~5x).
- **JetLite update —** All 24 aircraft will be operational from early FY09. The airline is expected to break even in FY09. The airline will be consolidated in Jet's operations from FY09. JetLite also has rights to fly internationally *(see page 2 for more takeaways).*
- **Fleet Expansion:** Management stated that the first round of expansion is almost complete, with only 4 of 30 aircraft to be delivered by Oct 08. Next round of expansion will require $700-800m capex from FY10 onwards for purchase of 10 aircraft. The company plans to use 4:1 debt/equity mix for funding the capex requirement. The company is also looking at investors for placing 10% promoter stake before the rights issue to part fund the rights issue promoter funding requirement.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,240	25.94	-39.7	24.3	2.4	10.4	1.0
2007A	-1,414	-16.38	-163.1	nm	2.4	-6.2	1.0
2008E	-5,968	-69.13	na	-9.1	2.7	-28.0	1.0
2009E	-2,766	-25.87	62.6	nm	1.8	-9.5	1.0
2010E	4,876	45.61	276.3	13.8	1.4	11.5	1.3

Source: Powered by dataCentral

Jet Airways

Company description

Jet Airways is one of India's leading domestic airlines with around 22% market share (around 31% including Jet Lite). Long the leader in the domestic market, it has scaled up its international operations and now flies to several international destinations in the Asia Pacific region, as also to Europe. It plans to enter the North American market in FY08, and, subject to regulatory approval, the Middle East markets too. Jet has an aggressive fleet expansion plan, and it plans to increase its fleet to 97 planes at end FY11, from 61 planes at end FY07.

Investment strategy

We rate Jet Airways Sell/Medium Risk (3M) with a target price of Rs765. Jet is one of India's leading airlines with a market share of around 22% and arguably the best brand and service orientation. In the past, the domestic aviation sector grew at a sedate 6% and was characterized by low levels of competition and high airfares, accompanied by high costs due to regulation. But the situation has changed over the past few years. Economic growth and liberalization have stimulated demand for air travel, and the sector has been averaging growth of over 25% over the past few years. Given the strong base effect over the past few years, we expect growth rates to moderate over the medium term. Deregulation has also resulted in a substantial increase in seat capacity, which we estimate to grow at a CAGR of at least 20-22% over FY08E-10E. The industry has come full circle, with consolidation commencing among key players. Given the supply overhang, the benefits of consolidation are yet to be reflected - we believe that airline P&Ls will remain under pressure unless they meaningfully scale back capacity induction. A rapidly consolidating industry should also discourage the entry of new players in the industry. It should also help the domestic market to return to profitability over the next 2 years. The profitability of Jet's international operations is forecast to improve significantly, especially as routes mature over an 18-24 month period. We forecast profitability to improve substantially over FY09-10E, driven by expectations of relatively stable yields and declining costs /ASK.

Valuation

Airlines are trading plays – given the cyclical nature of their business, high operational and financial leverage and an earnings profile that is excessively volatile and sensitive to macro variables like oil prices and currency movements. Given the excessive volatility in earnings of airlines, we prefer to utilize a more stable metric to value airlines. The price-to-book metric is a good fall-back measure for airlines, especially in times of distress, but it is not so appropriate for Jet Airways, which is entering a high growth phase, and wherein industry conditions (in the domestic market) are improving. We could also use a DCF valuation but as India is a high growth market and new players are entering a transition phase, predicting cash flows over a longer term is quite difficult in our view. Hence we stick to our preferred method of EV/EBITDAR. While Jet arguably has superior growth opportunities to most of the global full service carriers, but Jet has still to demonstrate its ability to

deliver robust and consistent earnings over time, and strong sustainable market share in the face of aggressive competition. Nevertheless, Jet's market position within the domestic market is fairly well entrenched, and its international operations are proceeding at a satisfactory pace. We value Jet by rolling forward our EV/EBITDAR multiple to FY10E as we believe that FY09E is a transition year for Jet with the launch of new international routes. We retain our multiple of 7x as we roll forward. We accordingly assign a target price of Rs765 to Jet Airways.

Risks

Our Medium Risk rating on Jet Airways is in line with the risk ratings on peers in our regional coverage universe. We believe that Jet merits a Medium risk rating, given: a) the competitive scenario in the domestic market; b) its international operations are still at a relatively embryonic phase and should take at least 2-3 years to stabilize; and c) turnaround of the Air Sahara acquisition. Key upside risks to our recommendation and target price are: a) Faster than anticipated capacity rationalization in the domestic airline industry; b) A sustained decline in ATF prices; c) Faster than anticipated ramp up, and greater than forecast profitability of international operations; and d) Rapid restructuring and turnaround of Jet Lite.

JSW Steel (JSTL.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs916.90
Target price	Rs1,243.00
Expected share price return	35.6%
Expected dividend yield	2.2%
Expected total return	**37.7%**
Market Cap	Rs150,398M
	US$3,723M

Price Performance (RIC: JSTL.BO, BB: JSTL IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — JSW Steel spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation
- **Expansion plans** — JSW Steel plans to expand capacity from 3.8m tpa to 11m tpa (including Siscol's 1m tpa) by 2011. It expects the volumes to grow by ~45% to ~5.2m tonnes in FY09 and 34% in FY10 to ~7m tonnes. Since these expansions are brownfield in nature, the company does not expect project delays and is, in fact, ahead of schedule by 3-6 months. JSW Steel plans to take its capacity to ~31m tpa by 2020 with 10m tonnes each in West Bengal and Jharkhand.
- **Increasing captive raw materials** — JSW Steel has ~25% of captive iron ore, and is fully dependent on external sources for coal. It expects to attain self sufficiency to the extent of ~60% in iron ore, 45% in coking coal (including soft coal) by 2010. This would be achieved through a combination of captive mines and JVs both in India and countries such as Chile and Mozambique.
- **Steel prices moving north** — Indian steel prices have been rising in the last few months but are still lagging international prices. The domestic prices are currently ~US$750/t vs. international prices of ~US$850-900/t. Further increases are expected in the coming months to compensate for increasing costs of iron ore and coal. This should help them maintain margins at 3Q FY08 levels of ~US250/t.
- **West Bengal Steel Project** — The company has proposed setting up a 10m tpa steel plant in WB. The project is expected to be commissioned in phases. Although it announced 6m tpa of capacity initially, it is now considering setting up a 3m tpa plant in the first phase and hopes to achieve financial closure in the next 3-6 months. It has acquired land and has tied up ~50% of its coal requirements.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	5,297	33.74	-42.1	27.2	3.5	15.2	0.9
2007A	12,155	74.12	119.7	12.4	2.8	25.9	1.4
2008E	18,006	96.96	30.8	9.5	2.1	26.6	2.2
2009E	21,391	115.19	18.8	8.0	1.7	23.6	2.4
2010E	17,229	92.77	-19.5	9.9	1.5	16.3	2.2

Source: Powered by dataCentral

JSW Steel

Company description

JSTL is one of India's largest integrated steel producers with crude steel capacity of 3.8m tpa. Of this capacity, 1.6m tpa uses the Corex process and the rest uses blast furnace technology. JSTL manufactures flat steel products

ranging from slabs to high-end colour coated steel products. Its upstream facilities are close to abundant iron ore deposits. JSTL plans to expand capacity to 6.8m tpa by 2H FY09 and 10m tpa by 2010. The expansion will be accompanied by adequate captive power and other inputs such as sinter and coke capacity. JSTL will also be setting up capacity for production of long products by Dec 2008. JSTL recently acquired plate (1m tpa) and pipe (0.5m tpa) capacity in the US, close to the main consumption centres of oil and gas production. In October 2007, JSTL also announced that it will merge an associate company, Southern Iron & Steel Co Ltd (SISCOL) with itself wef 1April 2007. SISCOL is expanding capacity by 0.3m tpa to 1.0m tpa by end-FY08. To enhance its product mix and expand its market presence in the UK and Europe, JSTL has acquired a Service Centre in the UK, whose output is mainly directed towards the construction sector. JSTL has begun preliminary work on setting up two steel plants with an eventual size of 10m tpa over the next 3-12 years at greenfield locations in Jharkhand and West Bengal.

Investment strategy

We rate JSTL Buy/Medium Risk (1M). We expect steel prices to be steady over the next 12 months, and forecast an HRC price of US$620/t (+4% yoy) for 2008. India's steel demand growth should remain buoyant, and Indian companies are likely to gain from any decline in Chinese exports. JSTL should benefit from this scenario given its robust crude steel volume growth (CAGR of 32% through FY10E). JSTL's use of both Corex and blast furnace technologies has helped keep cost of production low (HR cost was US$294/t in FY07). Going forward, we expect costs to be lower due to increased captive iron ore, coke, power, and a beneficiation plant. The new CR mill and the sale of surplus value-added slabs to its new US subsidiary should also add to consolidated earnings.

Valuation

We use P/E as our preferred valuation metric for JSTL as its stock price is largely expected to be driven by earnings momentum. Our target multiple of 10x on FY09E consolidated EPS is higher than JSTL’s previous valuation range but takes into account the upward rerating in Indian steel stocks in the last two months. Consensus PE multiples for the Indian steel majors for FY09 have risen from 7-10x to 10-13x. Our target PE is in line with the current re-rated PE range, as we expect strong volume growth, higher value addition, and lower average production costs over FY08-10.

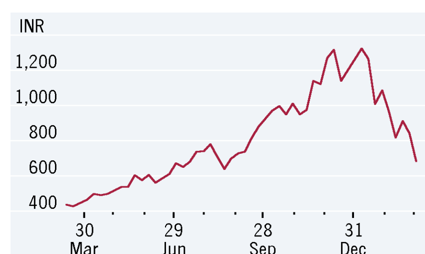
Risks

We rate JSTL as Medium Risk based on our quantitative risk-rating system, which tracks 260-day historical share-price volatility. Risk factors that could prevent the shares from reaching our target price include: (1) weakness in steel prices; (2) trends in exchange rates; (3) delays in access to new iron-ore deposits; and (4) delays in capacity expansion plans.

Kotak Mahindra Bank (KTKM.BO)

Hold/Medium Risk	**2M**
Price (11 Mar 08)	Rs681.00
Target price	Rs1,110.00
Expected share price return	63.0%
Expected dividend yield	0.1%
Expected total return	**63.1%**
Market Cap	Rs234,716M
	US$5,810M

Price Performance (RIC: KTKM.BO, BB: KMB IN)



Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Kotak Mahindra spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Business overview** — Only brokerage is showing signs of a slowdown. Management suggests the overall business is still strong. Out of the four businesses that Kotak operates — banks life insurance, corporate and investment banking and Investment services — only brokerage could see some slowdown in line with the market. Other businesses continue to grow.
- **MTM charge on derivatives position; one default, but little risk ahead** — Management said there were no open derivatives positions on its books. There are client corporate positions, which are squared with other banks. It estimates the total MTM position in the market today is about $3bn, of which Kotak would have 4-5%.However about 85% of these are with large corporates and till date has seen only one case of default. Some of these positions are out of the money for the corporate (not KTKM); and KTKM believes the risk of these translating into losses for itself is remote. Kotak has, however, slowed this business, but believe loss of revenue would be minimal.
- **Attrition** — It remains an issue, but is in line with industry. Specifically, wealth management attrition is at 8%, bank attrition at the front office at 35%, middle- management at 12% - all in line with industry averages. The talked about loss of the derivates team has been largely internal, and is business as usual.

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Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	7,297	23.56	318.9	28.9	9.4	39.3	0.1
2007A	5,382	16.89	-28.3	40.3	6.9	19.6	0.1
2008E	8,173	24.35	44.2	28.0	4.1	18.4	0.1
2009E	10,263	29.82	22.5	22.8	3.5	16.7	0.1
2010E	12,114	35.21	18.0	19.3	3.0	16.8	0.2

Source: Powered by dataCentral

Kotak Mahindra Bank

Company description

KTKM is a private-sector bank in which Mr. Uday Kotak, the major shareholder, and his associates have a 55% stake. Main businesses of the bank are consumer lending, retail broking, investment banking, asset management, and rapidly growing life insurance. Its focus is to develop a niche wealth-management platform.

Investment strategy

KTKM, in our view, is a high-quality play on the growing financial-services market in India. It is backed by a management team that has a track record of managing market and credit risk well and of being conservative in its approach. We see Kotak as a leveraged play on: 1) Ongoing disintermediation, with a shift from traditional bank-deposit-type savings instruments to more market-oriented ones - Kotak is a direct provider of these services and looks well positioned to capture the distribution potential of these services. 2) KTKM has a strong market position in consumer lending, has robust and specialized distribution and is probably one of only two players with experience in consumer-credit cycles. Kotak is highly leveraged to this segment. Over 80% of its asset book is in consumer lending. We think its portfolio is well managed, mature and profitable. 3) Direct exposure to growth in the capital market - Kotak is a leader in the primary and secondary markets, which is backed by an extensive and independent distribution franchise. However, its high dependence on the capital market raises the risk of business cyclicality. This risk appears more pronounced in the near term, given the recent market upswing. We rate Kotak Hold/Medium Risk, as we believe returns from the stock will be muted after its recent surge.

Valuation

Our target price of Rs1110 (Rs825 previously) is based on our EVA methodology. KTKM's relatively high share of securities fees suggests a valuation benchmark of an investment bank. However, there are no such comparables in the Indian market, and Kotak is much smaller than its global peers. Hence, we use EVA to value Kotak. In our EVA methodology, we have used an 800bp risk-free rate and a market beta of 1. We are not consolidating the insurance subsidiary's financials, and value it independently with a value of Rs115 per share (previously Rs105). Our EVA upgrade is based on higher earnings, higher longer term margins and greater momentum on the fee income front. We are also attributing discrete value to the Asset management business, which we were not doing previously.

We also benchmark our valuation of a sum of parts methodology – our target price based on this is Rs1025 (previously Rs780), which values the banking business at 3X FY09E PBV (previously 2.5X FY09E), 20X FY09E PE multiple to the investment banking and broking business (previously 18X), the insurance subsidiary at Rs115 per share (previously Rs105), and we attribute Rs110 to the AMC business (6% of AUM for MF, and 9% for Portfolio and alternative assets, at estimated FY09E levels).

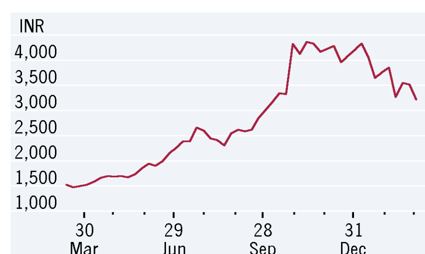
Risks

We rate KTKM as Medium Risk, though our quantitative risk-rating system suggests Low Risk. We believe a higher risk rating is justified in part because of the strong stock performance over the recent past and in part because of KTKM's relatively small balance sheet. The key downside risks to our target price include: (1) KTKM is growing aggressively. The pace of change amid KTKM's conservatism and the competitive business environment could create execution risks; (2) KTKM generates more revenues from the capital markets than any other bank in India, and its profitability in the recent past has been significantly boosted by strong equity markets. The cyclical nature of the capital markets, particularly after a strong performance, is a key risk to earnings and valuations. Upside risks to our rating and target price include: (1) KTKM's strong position in the capital markets and relatively high earnings reliance could significantly boost earnings and valuations; and (2) stronger-than-expected performance and benchmark valuations for the unlisted life-insurance venture.

Larsen & Toubro (LART.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs2,837.15
Target price	Rs4,561.00
Expected share price return	60.8%
Expected dividend yield	0.5%
Expected total return	**61.3%**
Market Cap	Rs828,933M
	US$20,518M

Price Performance (RIC: LART.BO, BB: LT IN)



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Citi India Conference 2008: Day 1 Takeaways

- **Our top E&C pick** — We are not too concerned about the commodity losses in L&T Intl. FZE (LTIZE), and recommend buying L&T following the stock's correction. With a 40%-plus earnings CAGR in FY07-10E and diversification through new businesses such as shipbuilding and power equipment, L&T is, in our view, the best proxy to India's infrastructure build-out.

- **Commodity losses not due to speculation** — L&T re-iterated that the commodity losses in LTIZE were hedging losses and not speculative in nature.

- **Hedging up to 10% of commodity exposure** — L&T has around US$2.5bn of commodity costs on its books, which have to be hedged given the project nature of its business. Its policy is to hedge up to a maximum of 10% of the commodity exposure. LTIZE currently runs a hedging book of US$200m.

- **LTIZE losses neutralized by L&T parent gains** — The hedging losses were a result of volatile movements in zinc, copper and oil derivatives, triggering stop losses. The company expects US$50m-60m losses for LTIZE in FY08. In FY08E this would lead to parent L&T gaining at the EBITDA level. Further, in CY05-06 when LTIZE made gains on commodity hedging it might have had a negative effect in L&T standalone financials in FY06-07.

- **Re-iterates guidance** — Despite noises about an economic slowdown, L&T does not see a lull. The company re-iterated its FY08 sales growth guidance of 35-40% and FY08 order inflow growth guidance of 30%-plus. Further, the company expects medium-term revenue growth of 25%-plus and order inflow growth of 20%-plus.

- **Margins sustainable** — The company believes that EBITDA margins of 11.5%-plus are sustainable, and may increase a few basis points. We believe this is supported by the electrical & electronics business (~10% of sales, to grow 35-40%) and Heavy Machinery (~10% of revenues, to grow at a faster pace), with margins in the high teens and both businesses should also grow at a faster pace.

L&T International FZE

Year Ending (Rsmn)	**Dec 04**	**Dec 05**	**Dec 06**
Income from commodity transactions	0.0	518	1,223
Hire charges	2.0	44	133
Income from operations	**2.0**	**562**	**1,356**
PBT	0.8	534	1,329
PAT	**0.8**	**534**	**1,329**

Source: Company and Citi Investment Research

L&T Sum of the Parts

Part	New Methodology	Value
Parent	**P/E Multiple 30x Dec09 FD EPS**	**3,779**
Value of Subsidiaries		**781**
- L&T Infotech (100% Stake)	In line with a 2nd tier IT Company 14x FY09E EPS	143
- L&T IDPL (78.4% Stake)	50% strategic premium to private equity valuations	98
- L&T UIL (58.8% Stake)	50% strategic premium to private equity valuations	11
- Ultratech Cemco (11.5% Stake)	Current market value	50
- L&T Finance (100% Stake)	P/BV of 2.5x FY09E	79
- L&T Infrastructure Finance	P/BV of 2.0x of initial equity invested	18
- L&T IIDL (100% Stake)	P/E Multiple of 12x on FY07 PAT	11
- HPL Co Gen (51% Stake)	P/E Multiple of 12x on FY07 PAT	19
- L&T International FZE	**P/E Multiple of 15x on FY07 PAT**	**68**
- L&T Oman LLC	P/E Multiple of 15x on FY07 PAT	8
- Other Subsidiaries & Associates	P/BV of 4x FY07	18
- L&T Ship Building (100% Stake)	P/E of 18x FY13E Fully Evolved PAT Discounted to Mar09	122
- L&T MHI (51% Stake)	P/E of 20x FY13E Fully Evolved PAT Discounted to Mar09	135
Value/Share		**4,561**

Source: Citi Investment Research estimates

Larsen & Toubro

Company description

L&T is a diversified conglomerate with market leadership in the engineering and construction (E&C) and electrical-equipment businesses in India. L&T Information Technology is its 100% subsidiary engaged in software services. L&T demerged its cement business into a separate company, and sold it to Grasim. L&T holds a residual stake of 11.5% in Ultratech Cemco.

Investment strategy

We rate L&T Buy/Low Risk (1L) with a target of Rs4,561. With earnings CAGR of 40%+ over FY07-FY10E in the core business and the spawning of new businesses like shipbuilding and power equipment which could hit critical mass in the next 3 - 4 years, L&T remains one of the fundamentally best proxies to India's infrastructure build-out. Buoyed by strong infrastructure tailwinds, L&T is in the envious position of picking and choosing orders. L&T's order backlog of Rs440bn plus and forecast stable margins provide good earnings visibility. That most process industries are operating at near peak capacity utilization, together with the thrust on hydrocarbon and infrastructure spending, should augur well for the order pipeline. We are positive on management's efforts at improving the company's product mix by increasing the share of high-technology products for process industries, defense, nuclear, and aerospace applications; and of engineering and embedded services. These segments have better growth potential and margins than the projects business, in our view.

Valuation

Using a comps-based P/E of 30x Dec 09E, we get a core business value of Rs3,779 per share for L&T's core business. We also believe that the parent numbers do not capture the value inherent in the subsidiaries of L&T. We use a sum-of-the-parts (SOTP) methodology to value the L&T group, resulting in a target price of Rs4,561. We value L&T's subsidiaries at Rs741 with L&T Infotech at Rs145 (14x FY09E EPS, in-line with second-tier peers); L&T Finance at Rs98 (2.5x FY09E P/BV); L&T IDPL at Rs79 (1.5x private equity valuations); L&T Shipbuilding at Rs122 and L&T MHI at Rs135.

Risks

We rate L&T Low Risk, as opposed to the High Risk suggested by our quantitative risk-rating system, because L&T's order backlog of c.Rs440bn represents two years' sales and provides earnings visibility. Downside risks to our target price include: 1) Attracting and retaining talent; 2) the E&C and electrical equipment businesses are sensitive to economic variables; 3) Competitive pressures; and 4) L&T needs to keep abreast of technology trends to sustain valuations and earnings.

Nicholas Piramal India (NICH.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs296.05
Target price	Rs448.00
Expected share price return	51.3%
Expected dividend yield	1.4%
Expected total return	**52.7%**
Market Cap	Rs61,878M
	US$1,532M

Price Performance (RIC: NICH.BO, BB: NP IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Nicholas Piramal spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **CRAMS —** It's gaining traction even as NPIL continues with efforts to restructure and improve profitability. Indian CMG sales are expected at cRs2bn in FY08 and grow to cRs3.25bn-3.5bn in FY09 without building in any upside from business transitioned from the UK assets. This smart growth from higher-margin facilities, along with restructuring efforts at UK operations (Avecia and Morpeth), would lead to significant improvement in CRAMS profitability.
- **Restructuring on course** — NPIL continues to trim its work force at Morpeth and Avecia with a large part to be completed in 4Q FY08. This would improve EBIDTA margins at Morpeth from the current levels of 15% (extent not disclosed) while margins at Avecia would more than double from current levels of c5%. Overall, NPIL expects EBIDTA margins to improve from the guided level of 18.7% in FY08 to over 20% in FY09.
- **India business on steady state** — NPIL expects India formulation sales to grow in excess of the market rate on a consistent basis. While codeine availability (for phensydyl) still has to be tracked on a regular basis, there is very low probability of a major disruption here on. Meanwhile, pathlabs remains on the high growth path with steady EBIDTA margins (c20%). If growth continues in the same vein, NPIL may look at value unlocking options for this business over the long term.
- **High capex phase at end** — Having achieved scale across most businesses through aggressive capex and acquisitions, NPIL expects capex to settle down around Rs1bn from FY09, with the focus shifting towards improving profitability, sweating assets and scaling up capacity utilization. This is likely to translate into high growth in cash flows and a smart improvement in return ratios over the next few years.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,210	5.79	-31.6	51.1	6.4	16.6	1.0
2007A	2,256	10.80	86.5	27.4	5.9	22.5	1.2
2008E	3,638	17.40	61.2	17.0	5.5	33.4	1.4
2009E	4,675	22.37	28.5	13.2	4.1	35.6	1.5
2010E	5,749	27.50	23.0	10.8	3.2	33.4	1.7

Source: Powered by dataCentral

Nicholas Piramal India

Company description

Nicholas Piramal (NPIL), the fourth-largest company in the Indian formulations market, is targeting the regulated pharmaceutical markets through custom manufacturing (CMG). The company has scaled up in the domestic market through both organic and inorganic initiatives, and is looking at doing the same in overseas markets. Some initial CMG successes have been achieved in the form of six diverse contracts with innovator companies and two acquisitions in overseas markets.

Investment strategy

We rate NPIL Buy/Medium Risk. We believe NPIL is one of the best plays on custom manufacturing and the branded formulations market in India. Among the Indian mid-tier companies, NPIL has a unique approach to the domestic and export markets. Leveraging its manufacturing capabilities and relationships with global majors, the company has positioned itself as a 'partner of choice' for innovator companies across the product life cycle and value chain. On the domestic front, it has focused on building brands and strengthening its marketing and distribution network, making it less dependent than its peers on new product launches for growth. The move to demerge its NCE R&D unit would also add significant value for shareholders over the next 6-9 months, in our view.

Valuation

Our target price for NPIL of Rs448/share is based on 20x March '09E earnings. This is at a premium to our target multiple for mid-sized Indian pharma companies and in-line with our target multiple for sector leaders. We believe NPIL deserves a higher multiple given its leadership in innovator CRAMS as well as the nature of its CRAMS business and possible upside from inorganic initiatives. Revenue visibility and sustainability are high in the CRAMS business: these are long-term exclusive contracts with innovators with no risk of litigation-related delays and competitive pressures. Also, given the 18-24 month time lag between doing a deal and commencement of revenues, the full upside is not captured in one-year forward earnings. As such, we believe the NPIL stock deserves a higher valuation multiple than other mid-sized Indian pharma companies.

Risks

We rate NPIL Medium Risk, as opposed to the Low Risk suggested by our quantitative risk-rating system, to account for the integration-related issues of the Avecia and Morpeth acquisitions. The main downside risks to our target price are: 1) While custom manufacturing should drive NPIL's revenues and profitability, any slip-up in executing the contracts would be a big negative. 2) A break-up of any major association could have a short-term impact on revenues and earnings. 3) Any unfavorable trend in growth or pricing could have an adverse impact on the company's financials. The main upside risks to our target price are: 1) If NPIL bags new contracts that have a shorter lead time, it could have a positive impact on our estimates and target price. 2) NPIL continues to scout for acquisitions, which could add further to its strengths in target businesses and our estimates.

Puravankara Projects (PPRO.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs259.45
Target price	Rs536.00
Expected share price return	106.6%
Expected dividend yield	0.4%
Expected total return	**107.0%**
Market Cap	Rs55,373M
	US$1,371M

Price Performance (RIC: PPRO.BO, BB: PVKP IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Puravankara spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Landbank** — Saleable area is 115.9m sq ft after recent land acquisitions in Hyderabad (5.9m sq ft) and Sriperumbudur near Chennai (4.5m sq ft). Ongoing projects constitute 15.45m sq ft of saleable area comprising 16 residential (14.72m sq ft) and 3 commercial projects (0.73m sq ft), and is expected to increase to 25m sq ft in a few months. The company intends to acquire land in suburban areas of Tier I cities, particularly Chennai, and Tier II cities.
- **Increasing mix of commercial projects** — Currently residential projects account for 94% of the landbank, with commercial projects comprising the balance 6%. However, in the medium term the company intends to increase the proportion of its commercial and hospitality projects to 20-25%.
- **Recent project launches** — Projects launched recently include Purva Widermere (2.9m sq ft) in Chennai, Elita Garden Vista (2.26m sq ft) in Kolkata, Hall Mark (0.02m sq ft) in Bangalore and Oceana (0.2m sq ft) in Cochin.
- **Strengths** — 1) Quality landbank in key cities in South India – Bangalore, Chennai, Hyderabad, Kochi, Coimbatore and Mysore, 2) established brand, 3) in-house construction capability, 4) value-added services through in-house modification and interior decoration facilities.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	735	3.83	93.3	67.8	44.7	90.2	0.0
2007A	1,304	6.79	77.4	38.2	22.5	78.3	0.3
2008E	2,527	11.83	74.3	21.9	4.2	32.9	0.4
2009E	4,868	22.80	92.7	11.4	3.1	31.6	0.6
2010E	6,477	30.34	33.0	8.6	2.3	31.3	0.8

Source: Powered by dataCentral

Puravankara Projects

Company description

Puravankara Projects is one of the leading developers in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business, with Puravankara being incorporated in 1986. The company has self-constructed most of its properties developed in Bangalore. Though Puravankara remains focused on Bangalore, it is also expanding to other regions in South India. These expansions are spread over locations such as Chennai, Coimbatore, Mysore, Cochin and Hyderabad, and to Colombo in Sri Lanka.

Investment strategy

We rate Puravankara Buy (1M) with a target price of Rs536. Growth for Puravankara's residential-heavy model stems from its quality landbank of ~107m sq ft. Its clear development titles, acquired at a low cost of ~Rs100/sq ft and a large part already paid, differentiates it from other developers. We believe its competitive strength lies in some of its operating virtues: it runs primarily a direct marketing model, supports its development activity with its own construction capabilities, has relatively high levels of in-house execution, and enjoys a strong execution and post-delivery record. Puravankara's focus on S. India, in the larger markets of Bangalore (73% of gross NAV) and Chennai (8%), is in our view an advantage over developers with a National Capital Region (NCR) bias.

Valuation

Our target price of Rs536 is based on a 5% discount to an estimated core NAV of Rs564. We believe an NAV-based valuation methodology is most appropriate for developers, as it factors the varied development projects and spread out time frame. Our NAV estimate of Rs564 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume will be 105.3m sq ft (as ~1.5m is already recognized as revenue in FY07); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Bangalore and Chennai and 10% for other locations; 4) all projects undertaken by Puravankara will be completed largely on schedule; 5) an average cost of capital of 14%; and 6) a tax rate of 25%. We expect Puravankara, a quality mid-scale developer, to trade at a 5% discount to NAV. We ascribe the discount to the following factors: 1) Puravankara's concentration risk in Bangalore (73% of total development), where the potential supply could be large; 2) the company's residential-heavy business model, exposing its business to demand/price risks; 3) possible execution delays, given the large development; and 4) risk of slower than expected sales, given its direct sales model could push back cash flows.

Risks

We rate Puravankara Medium Risk, as opposed to the Speculative Risk rating assigned by our quantitative risk-rating system to stocks that have less than 260-day trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's integrated model with in-house construction expertise and direct marketing channel; 2) relatively healthy cash flows, at a time when most developers are facing fund constraints; and 3) the company's large exposure to South India, which we believe is a relatively less speculative market and has strong demand potential. The main downside risks to our target price include: 1) Concentration in the Bangalore region (73% of development), where excess supply over the next 2-3 years could adversely impact our price realization assumptions; 2) Delays in the execution of projects and planned developments would impact the company's reputation and our NAV assumptions; and 3) A rapidly changing property market environment could lead to property price-demand risks, regulatory risks and potential supply risks.

Reliance Communications (RLCM.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs546.00
Target price	Rs760.00
Expected share price return	39.2%
Expected dividend yield	0.4%
Expected total return	**39.6%**
Market Cap	Rs1,126,959M
	US$27,895M

Price Performance (RIC: RLCM.BO, BB: RCOM IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — RCOM spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Focus on execution now** — The presentation focused on execution now that all the regulatory issues are behind. With likely GSM launch by end-08, the company reiterated its FY09 capex guidance of US$6bn, including US$2bn for towers, US$1.3bn for active GSM, US$0.7bn for FLAG and US$2.0bn for backhaul, data centres, IPTV/DTH and enterprise. Capex in FY10 would be materially lower, though no guidance was given.
- **Access to spectrum will be key to low-cost structure —** The company believes that access to spectrum across technologies will make it cost competitive in the long run and lead the price declines, rather than reacting to it. RCOM reiterated, however, that pricing cannot be a differentiator in the Indian wireless market.
- **MNP can only mean upside** — Given the impending GSM launch, MNP will help RCOM gain incremental market share. While 4Q08 remains the timeframe for implementation, TRAI will come up with detailed milestones and the ultimate timing could vary a bit.
- **Recent developments** — RCOM believes that the recent "MVNO-type" launch on Tata Tele network will not have too much impact and could also be motivated by general brand-building purposes. Investors, however, were concerned that such sharp price cuts could accelerate the rate of rev/min declines.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	4,823	2.36	na	nm	9.5	na	0.0
2007A	31,131	15.23	545.6	35.8	5.5	19.4	0.1
2008E	54,661	26.50	74.0	20.6	4.4	23.7	0.2
2009E	72,698	35.24	33.0	15.5	3.5	25.0	0.4
2010E	87,464	42.40	20.3	12.9	2.8	23.9	0.4

Source: Powered by dataCentral

Reliance Communications

Company description

RCOM is an integrated player in the Indian telecoms sector. It was listed on the Indian stock exchanges following the de-merger of Reliance Industries. RCOM is the second-largest player in the mobile segment, has an 80,000km-long India-wide optic-fiber network and owns the FLAG submarine cable network. RCOM has three business units: 1) Wireless, which includes a nationwide wireless network on CDMA and GSM; 2) Global Business comprising wholesale voice and data; and 3) Broadband for both retail and enterprise.

Investment strategy

We rate RCOM Buy/Low Risk. Continued expansion of the wireless market and RCOM's ability to capture its due market share profitably will, in our view, be a recurring theme. The wireless business has maintained return parameters despite lower revenue yields. Competitive pressures, though intense, should continue to be rational. RCOM's GSM foray has gained visibility with expected launch by 3Q-4QFY09. RCOM has higher market shares in dual technology circles as compared to single technology circles. Yet there are inherent risks in the execution of the dual network strategy (i.e. cost duplication, low market share gains) that cannot be wished away.

Valuation

Our 12-month forward target price of Rs760 is based on a core business fair value of Rs620 and net towerco value of Rs140. We usually value Indian wireless plays on DCF given the back-ended nature of profits and cash flow. For RCOM, however, we use EV/EBITDA. Our 12-month core business value of Rs620 is based on 9.2x FY10E EV/EBITDA (by when RCOM's GSM roll-out would be fully evolved), at 5% discount to Bharti's implied target multiple (ex-towerco).Notwithstanding the narrowing of the leadership gap vs. Bharti, we believe that the dual network strategy carries inherent risks of cost duplication and/or execution which prompts us to retain the valuation discount. Higher-than-average earnings growth (CAGR of 41% over FY07-10E) and the low sensitivity of wireless demand to interest rates should continue to support premium valuations for the sector, in our view.

Risks

Our risk-rating system, which tracks 260-day share price volatility, assigns a High Risk rating to RCOM, but we believe Low Risk is more appropriate. RCOM has been de-merged from Reliance Industries, and its shareholding at the time of listing mirrored the holding of RIL. The stock is therefore unlikely to have risks that are typical of newly listed companies. Besides, growth in the telecoms sector gives visibility to RCOM's prospects. Downside risks to our target price include smaller-than-expected market share, lower-than-anticipated operating leverage due to handset subsidies, cost-overruns in GSM overlay, regulatory and competition risks and un-remunerative capex.

SICAL Logistics (SICA.BO)

Price (11 Mar 08)	Rs173.10
Shares Outstanding	40M
Free Float (%)	44
Fiscal Year End	31 Mar
Market Cap	Rs6,841M
	US$169M

Price Performance (RIC: SICA.BO, BB: SICL IN)

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Analyzed Non-Rated Snapshot

- **Conference takeaways** — SICAL Logistics spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation

- **Sical Infra Assets —** Management stated that it would invest in 7 infrastructural assets (created as SPVs in Sical Infra Assets). These businesses would serve as the future growth drivers for the company. Management reckons that the rail business would be key to its growth over the longer term, and plans to increase the rakes in service from 2 at present to 40-50 over the next 5 years.

- **Rail business —** In FY09, it forecasts the rail business revenues at Rs800m, with nominal profitability at the net level. Over the long term, management targets revenues of Rs25bn, with a PAT margin of 10%. The key success factor would be to maintain load factors above 80% as breakeven levels in the business are extremely high. Overall breakeven for the project is expected in 4-5 years.

- **New initiatives —** The company plans to venture into the air freight business by acquiring a freight forwarding company over the next 3-4 months. It also plans to develop a greenfield port on the east coast of India through a joint-venture with the Jurong Port of Singapore.

- **Aggressive capex plan —** Over the medium term, Sical Infra Assets will invest around Rs25bn across various initiatives, with a large proportion of the capex being raised through debt. The JV partners in each of the projects typically provide expertise, capital and in some instances land / assets.

Sun Pharmaceuticals (SUN.BO)

Buy/Low Risk	**1L**
Price (11 Mar 08)	Rs1,275.00
Target price	Rs1,350.00
Expected share price return	5.9%
Expected dividend yield	0.9%
Expected total return	**6.8%**
Market Cap	Rs260,862M
	US$6,457M

Price Performance (RIC: SUN.BO, BB: SUNP IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Sun Pharma spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **More visibility on patent challenges** — Sun highlighted the growing visibility in its patent challenge pipeline, with the launch of generic Trileptal, "at risk" launch of generic Protonix in a shared exclusivity with Teva (Teva is currently out of the market), settlement with Novartis for Exelon & "will not sue" covenant received from Wyeth for Effexor-XR. While generic Trileptal drove strong profitability & growth in 3QFY08, the "at risk" launch of Protonix is expected to sustain this trend over FY09.
- **Effexor-XR could be the next growth driver** — Having received a "will not sue" covenant from Wyeth, Sun is ready to launch the product as soon as the FDA approval comes through. With the base patent expiring in June 2008, the approval could come through anytime after this – although it is difficult to predict an exact time frame with the US FDA. Sun has still not shared how it intends to go about distributing / marketing the drug given that it is not an AB rated product – the management is still trying to determine whether this represents a short term or long term opportunity and would structure its strategy accordingly.
- **Taro nearing closure** — The management remains confident of closing the Taro acquisition without much delay. Despite buying Brandes' stake out at US$10.25 (a premium to the offer price), Sun has maintained its US$7.75 / share offer price and does not see any pressing need to raise this offer as of now, although it has not ruled this out as a probability in the future. Sun has free cash of cUS$500m after paying cUS$100m already for buying stake in Taro – these funds would be used to fund the transaction.
- **US, India remain key focus markets** — Unlike most of its peers, Sun is in no hurry to scale up in Europe and has ruled out inorganic measures in EU markets. It intends to work with partners and scale up gradually. US and India continue to be the key markets – while the former will get a fillip post the Taro acquisition, the company also believes it has a good pipeline of product launches lined up for the Indian market at least for the next 3-4 years, despite the stronger IPR law in India.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	5,733	27.68	35.7	46.1	16.3	41.4	0.4
2007A	7,843	37.87	36.8	33.7	9.4	35.4	0.5
2008E	11,971	57.80	52.6	22.1	7.0	36.2	1.1
2009E	14,008	67.64	17.0	18.9	5.3	32.0	1.3
2010E	15,788	76.23	12.7	16.7	4.2	28.1	1.4

Source: Powered by dataCentral

Sun Pharmaceuticals

Company description

Sun Pharma is one of the fastest-growing companies in the domestic pharmaceutical market, growing at about 2x the industry rate. The company has followed a strategy of being the first to enter niche, high-growth segments (both organic and through acquisitions). The company has a presence in the CNS, pain management, ophthalmology, cardiovascular and respiratory segments. Sun is facing stiff competition in its traditional strongholds, but has managed to sustain growth and is focusing on new therapeutic areas. The company is looking to export its top formulation products to drive growth, and has set up marketing and distribution infrastructure in various markets. It is also filing for ANDA approvals through its US subsidiary Caraco and is close to concluding its second key acquisition in the US (Taro Pharma).

Investment strategy

We rate Sun Pharma as Buy/Low Risk (1L), with a target price of Rs1,350. The recent Taro acquisition, using idle funds on the balance sheet, improves the company's global scale and reach as well as improving quality of earnings. Having taken a big step forward towards being bigger and more geographically spread out, we believe that Sun is now well placed to grow despite the challenges that keep coming in the way of global generics companies. Its strong base in India should continue to be a good driver of growth and profitability as well as a source of cash flows, besides providing it with a cushion against an appreciating rupee. At the same time, the growing visibility and success on its patent challenge pipeline improves cash flows as well as ability to gain traction with the trade.

Valuation

Our target price of Rs1,350 is based on a sum-of-the-parts approach. We continue to value Sun's base business using a P/E vs. earnings CAGR approach and ascribe an option value for its patent challenge pipeline. We value Sun's base business at 22x FY09E earnings. With a steadily growing profit line, we believe P/E is the best method to value Sun Pharma. We value frontline pharma stocks at a premium of around 40% to the broad market, due to the intellectual property built into the business models, faster growth as well as the potential to deliver positive earnings surprises. This works out to a multiple of 20x that we use for Sun Pharma as well as its peers such as Dr Reddy's and Cipla. However, since we do not include a few upsides (Effexor XR, Taro acquisition) into our estimates at this point in time, we use a higher multiple of 22x to capture this value. At 22x FY09E earnings, we arrive at a value of Rs1,300 /share for the base business. We also ascribe an option value of Rs50/share to Sun's patent challenge pipeline – the higher value is on account of the success achieved by Sun in monetizing three patent challenges (Trileptal, Protonix, Exelon), which we value on an NPV basis, and the growing number of patent challenges in the public domain.

Risks

We rate Sun Pharma as Low Risk because of its steady growth and visible earnings stream. This is also consistent with our quantitative risk-rating system, which tracks 260-day historical share price volatility. The key risks to our target price are: (1) Price deterioration in any of its key markets; (2) Inability to close / effectively integrate the Taro acquisition and exploit synergies could keep earnings depressed for longer than we have anticipated; (3) A stronger IPR law in India could lead to a gradual slowdown in growth rates for the Indian market; (4) damages to be paid in case it loses the litigation on Protonix with Wyeth. Upside risks to our target price include a faster-than-expected integration of the Taro acquisition and a win in any patent challenge.

Suzlon Energy (SUZL.BO)

Sell/Medium Risk	3M
Price (11 Mar 08)	Rs269.90
Target price	Rs241.00
Expected share price return	-10.7%
Expected dividend yield	0.4%
Expected total return	**-10.3%**
Market Cap	Rs404,023M
	US$10,001M

Price Performance (RIC: SUZL.BO, BB: SUEL IN)

Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Suzlon Energy spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Medium-term revenue growth to be 2x that of market** — Suzlon expects to grow at twice the growth rate of the market in the medium term. As per the company's estimates, wind markets are growing at ~22%. Suzlon has embarked on an aggressive growth plan to add 3000MW capacity by 2009 and is on track to do the same.
- **Healthy demand environment** — The company expects demand for WTG to remain strong over the next 3-5 years and is not seeing any pricing pressures.
- **Supply chain is the biggest concern** — Suzlon sees the global supply chain as a key concern area. Currently the company's supply chain is running at peak capacity, and small disturbances in any part can have large consequences. The company is integrating REPower into its supply chain and plans to supply a large part of its input requirement.
- **Backward integration on track** — Suzlon is setting up a 70,000-ton capacity forging plant at Vadodara and a 120,000-ton foundry plant at Coimbatore. These plants will be commissioned in 2QFY09 and will provide 70% of Suzlon's requirements. These plants will ease supply constraints to a great extent.

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Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	7,562	5.26	-37.4	51.3	14.3	43.1	0.4
2007A	8,648	6.00	14.0	45.0	11.1	27.8	0.4
2008E	8,944	5.76	-4.0	46.9	4.6	14.5	0.4
2009E	14,338	9.23	60.3	29.2	4.0	15.2	0.4
2010E	20,199	13.00	40.9	20.8	3.4	18.4	0.4

Source: Powered by dataCentral

Suzlon Energy

Company description

Suzlon Energy Limited is the world's fifth-largest wind turbine generator (WTG) company, and the largest WTG manufacturer in India and Asia. Suzlon is a fully integrated wind power company that provides customers with consultancy, design, manufacturing, operations, and maintenance services. Suzlon has a subsidiary in Germany for technology development, an R&D facility in the Netherlands for rotor blade molding and tooling, and wind turbine and rotor blade manufacturing facilities in India. The company is implementing a capacity expansion program to set up an integrated manufacturing facility in China, a rotor blade manufacturing facility in the US and a forging and foundry plant in India that should increase its capacity from the current 1500MW to 4700MW by FY09E. SUEL's product range includes turbines of 350kW, 600kW, 950kW, 1000kW, 1250kW, 1500kW, 2000kW, and 2100kW capacity.

Investment strategy

We rate Suzlon to Sell/ Medium Risk.

We believe that Suzlon is a company with the right overall strategy in terms of its intention (1) to acquire and grow Hansen to meet Suzlon's demand for gearboxes and at the same time benefit from the strong demand for WTG gearboxes globally; (2) to acquire REPower to make a credible entry in Europe, the largest absolute market for WTGs over the near future; and (3) to backward integrate into components and sub components to take control of the supply chain to mitigate raw material pressures and component supply bottlenecks.

However, we underestimated the cost that Suzlon would have to pay in executing its strategy to become the top 3 WTG manufacturers in each market it operates and the pressures that it would put on management bandwidth in managing so many moving parts of a complex supply chain.

The international expansion drive has taken its toll in the form of (1) supply delays, (2) tower shortages in the international markets, (3) other key component shortages, (4) negative effects of foreign currency movements, and (5) negative effects of nacelle custom duty changes in the US. The latest in this chain of problems is product liabilities.

We think it would be too simplistic to assume that there is a quick fix to these problems and that other problems would not occur in the future.

Valuation

Our target multiple of 20x Dec09 is at a 24% discount to that of BHEL, which we believe is justified because BHEL (BHEL.BO - Rs1,992.70; 1L) is free cash flow positive and has a larger order backlog which provides sales coverage for the next three years. The FY08E - 11E EPS CAGR of 44% for Suzlon looks robust but is coming off the low base of FY08E. It is also pertinent to note that Suzlon's consolidated RoEs come to 14 - 20%, well below that of ABB (ABB.BO - Rs1,116.10; 2L) and BHEL and, most importantly, Suzlon's cash flow from operations will be negative at least till FY10E, based on our estimates.

Risks

We rate Suzlon shares Medium Risk based on a number of factors, namely: industry-specific risks, financial risk and management risks.

Key upside risks include better-than-expected MW sales in the international and domestic markets, better-than-expected realizations, and Suzlon significantly improving its international sales operating margins. If any of these risk factors has a greater impact than we expect, Suzlon's share price could exceed our target price.

UTV Software Communications (UTVS.BO)

Buy/High Risk	**1H**
Price (11 Mar 08)	Rs801.75
Target price	Rs887.00
Expected share price return	10.6%
Expected dividend yield	0.2%
Expected total return	**10.9%**
Market Cap	Rs19,918M
	US$493M

Price Performance (RIC: UTVS.BO, BB: UTV IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — UTV spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Revisiting the Disney deal** — Pending shareholders and regulatory approvals, Disney's stake in UTV is set to increase to 32.1% through a preferential allotment of shares at Rs860.8/share. Also, Disney will make an open offer at the same price for another 20%. However, under an agreement between Disney and the UTV group, incremental shares acquired over 32.1% by Disney would be without voting rights. Ronnie Screwvala at his option can acquire the 20% shares bought through open offer from Disney over the next four years.
- **Scale-up in all businesses** — UTV has planned a significant scale-up in all its businesses - movies, interactive and gaming. After Disney's stake increase, the funds for expansion are secured, though the management has remained tightlipped on quantifying the strategic synergies that will flow through.
- **Broadcasting business on track** — UTV has already launched four channels with a news channel being slated for launch in a month's time. UTV would be distributing its bouquet of channels and has already achieved connectivity of 60-65%. UTV is looking for alliances and JVs to enhance its bouquet of offerings. Management is targeting breakeven in 7-8 quarters and has clearly indicated M&A as a possible growth strategy in this business.
- **Moving to IP intensive model in Interactive** — UTV is slowly making the transition to an IP intensive business in gaming. Initial slate of games like Wardevil, Reich and Angelic are on track to be published over the next 1-2 years.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	91	4.69	-43.8	170.9	11.7	6.8	0.0
2007A	198	8.66	84.5	92.6	10.1	12.6	0.4
2008E	323	13.01	50.3	61.6	8.0	15.1	0.2
2009E	629	25.31	94.5	31.7	6.6	22.9	0.4
2010E	807	32.48	28.3	24.7	5.4	24.0	0.6

Source: Powered by dataCentral

UTV Software Communications

Company description

UTV is an integrated media and entertainment company with presence in Indian and international film production and distribution business, television content and interactive media such as animation, VFX and online and mobile gaming. UTV started off by producing ad-films and then TV content in 1990 for state-owned Doordarshan and consequently for Zee TV. It ventured in movie production and distribution in 1998. In 2005, it launched the kids channel Hungama, which became the top kids' channel within a year. UTV sold off Hungama to the Walt Disney Co. UTV recently listed its movie subsidiary UTV Motion Pictures Plc (UTV IOM) on London Stock Exchange's AIM market raising US$70m by offloading a 23% stake. It. acquired an online and mobile gaming company, 'Indiagames' and console game company 'Ignition', which would add the final dots in its presence across the integrated media value-chain. UTV has also re-entered the broadcasting space by the launch of 'Bindaas' a youth-centric general entertainment channel. It is planning to roll out nine channels before mid-2008

Investment strategy

We rate UTV Software Communications (UTV Buy/High Risk (1H) with a target price of Rs887. UTV Software Communications (UTV) is one the few listed integrated media players in India straddling the entire media value chain from Motion Pictures, Broadcasting and TV content to high-growth new media businesses such Animation and Gaming. UTV has broken new ground in India's motion picture business by operating a studio-like model. Relationships with international production houses like Walt Disney, 20th Century Fox, Overbrook Entertainment have catapulted UTV into the international motion picture space. UTV has a strong slate of 30 movies to be launched in next three years. We forecast revenue CAGR of 78% in the movie business over FY07-FY10E. An US$11m order book and strategic relationships with Walt Disney and other international production houses will drive growth in this business. Gaming revenues will be driven by acquisition of Ignition, UK based console game developer and Indiagames, India's largest online and mobile co. We forecast a CAGR of 113% growth for interactive segment over FY07-10E. After the success of Hungama, UTV is re-entering the broadcasting space by launching nine channels by mid 2008. Besides creating value, in-house channels will also drive UTV's content business. Induction of strategic/ financial partner will unlock value in the broadcasting venture. We forecast revenue CAGR of 66% and earnings CAGR of 40% for UTV over FY07-10E.

Valuation

We use a sum-of-the-parts methodology to value UTV. Given the high earnings trajectory of the movie business at 133% CAGR (FY07-09E), we value it at an EV/EBIT multiple of 23x FY09E EBIT, a premium to the global entertainment universe. We feel this premium is justified given the scarcity premium applied to UTV – it is the only listed motion picture company in India making Hollywood, Bollywood and Indian regional movies – delivering revenue CAGR of 110% over FY07-09E. We value the content business at 18x FY09E EBIT,

which is at a premium to the existing listed players. UTV's own broadcasting initiatives will deliver UTV content and will drive EBIT CAGR of 35% over FY07-10E which justifies the premium, in our view. We attribute a premium to global valuations while valuing Ignition as we believe that current earnings do not reflect the potential earnings kick-in from the high-end game Wardevil which will be launched in 2008-09 and which is not factored into our forecasts. We have valued the broadcasting entity at the cost of investment by UTV in this venture as the final shareholding structure and UTV's stake in this business is unclear pending the induction of a financial/strategic partner. We expect significant value-unlocking in this business once a partner is brought in. The valuation multiples we have ascribed to the different businesses may look expensive in the global context, but are at a significant discount compared to the Indian media universe. We thus arrive at a sum-of-the-parts target price of Rs887 for UTV.

Risks

Using our quantitative risk rating system that tracks 260-day historical share price volatility, we rate UTV Software Communications High Risk (H). Key downside risks to our target price are: 1) UTV's business is largely content-driven except its new mobile and online gaming businesses. This aspect induces inherent risks associated with content into its business model. 2) Timing film launches and their success/failure at the box office imparts certain lumpiness into revenues, which we believe will remain. 3) UTV is in a heavy investment phase over the next 2-3 years with investments in the mobile and online gaming businesses, broadcasting initiatives and its movie and television content business. As a result, the return ratios will remain depressed. 4) Broadcasting business in the initial years is expected to make losses. Should UTV consolidate broadcasting accounts with itself, its EPS may be depressed till broadcasting breaks even. 5) Timing the induction would be critical. Any delays on this front may mean more investment from UTV, which may put a strain on its other businesses. Key upside risks to our target price are: 1) Potential content tie-up with Walt Disney for animation motion picture co-production, gaming, TV content etc as management has indicated in the past or outsourcing orders from Walt Disney would lend substantial upsides to our numbers and target price. 2) Induction of a financial/strategic partner at valuations more than that is expected in the market would be positive for the stock price.

Wipro (WIPR.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs390.20
Target price	Rs535.00
Expected share price return	37.1%
Expected dividend yield	1.8%
Expected total return	**38.9%**
Market Cap	Rs569,966M
	US$14,108M

Price Performance (RIC: WIPR.BO, BB: WPRO IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Wipro spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Mixed commentary** — Wipro indicated that there were some sporadic cases of project cuts/holds (in BFSI, retail verticals). Deal pipeline looks very strong with lots of transformational projects to be awarded in the near future. Wipro expects wage hikes to moderate at 8-10% for offshore in FY09.
- **Improved visibility on telecom OEMs** — Wipro expects the telecoms OEM segment to recover as consolidation is already behind and companies are starting to spend on development of new applications/integrating old applications.
- **Pricing trends and large deals** — Wipro indicated that price increases are still coming in. The large deal pipeline has not witnessed any deferrals/withdrawal – most of these deals are transformational in nature and looking at longer-term cost benefits.
- **Acquisitions an integral part of strategy** — Wipro continues to pursue its "string of pearls" strategy, and is looking at more acquisitions. Wipro has net cash of ~US$300m, and is not averse to leveraging balance sheet/using equity to fund acquisitions.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	20,270	14.08	24.3	27.7	7.0	29.9	1.3
2007A	29,130	20.18	43.3	19.3	5.5	32.3	1.5
2008E	32,201	22.12	9.6	17.6	4.7	29.1	1.8
2009E	38,765	26.63	20.4	14.7	3.8	29.0	2.1
2010E	42,860	29.44	10.6	13.3	3.2	26.6	2.6

Source: Powered by dataCentral

Wipro

Company description

Wipro is India's leading Indian company with business interests in IT and BPO services exports, domestic hardware, consumer lighting and consumer care. It has one of the widest range of services, including systems integration, IT-enabled services, package implementation, software application development and maintenance, and R&D services. Wipro is the first P CMM Level 5 and SEI CMM Level 5 certified IT services company in the world. It has close to 700 clients spanning the BFSI, Manufacturing, Retail, Utilities and Telecom verticals. Its IT services exports team has more than 57,000 employees and BPO operation has around 20,000 employees.

Investment strategy

We rate Wipro as Buy/Medium Risk (1M). Being one of the top three Indian IT services firms, Wipro looks well positioned to benefit from the growing demand for offshore IT services. Apart from economies of scale in offshore delivery, one of Wipro's key strengths is its full-service model. This includes a strong position in the infrastructure/R&D services business, which offers significant long-term growth potential. It has strong exposure to the BPO segment, which should offer above-average growth in the long term. Wipro's management has actively pursued acquisitions to strengthen its service portfolio. We expect Wipro's global IT revenues to grow above the industry average rates over the next 2-3 years. We believe wage inflation will be largely offset by gains from improved employee mix, an improving offshore-onsite ratio and better utilization. We expect 26.7% revenue CAGR and 14.8% EPS CAGR over FY07-10E. For the global IT business, we expect 22.8% revenue CAGR over the same period.

Valuation

Our 12-month target price of Rs535 is based on 19x FY09E and FY10E EPS, a ~10% discount to our target multiple for Infosys. Our target multiple is derived from a P/E-band analysis of Wipro's historical trading pattern and peer group valuations. Because of its small free float, strong exposure to R&D services and a model leveraged to large SI and IT outsourcing deals, Wipro has historically traded at a premium of 10-20% to Infosys. But now Wipro has started trading at a discount to Infosys due to Wipro's slower growth and RoIC/RoE in the recent past. We think Wipro will continue to trade at a marginal discount to Infosys given expected sub-par growth vs. Infosys in the coming years. We believe P/E is the most appropriate valuation measure given Wipro's profitability and earnings visibility.

Risks

Although our quantitative risk-rating system suggests Low Risk for Wipro, we rate Wipro as Medium Risk given the similar risk ratings for other similar-sized IT peer-group companies in our coverage universe. The key downside risks to our target price include: (1) high exposure to the telecom/tech sectors (~33% of total); (2) risks to earnings from a sharp US slowdown; (3) any significant appreciation of the rupee against the US Dollar/Euro/GBP; (4) a slowdown in the banking, financial services and insurance (BFSI) sector; (5) H1B visa quotas; and (6) acquisition-related risks.

Wockhardt (WCKH.BO)

Buy/High Risk	1H
Price (11 Mar 08)	Rs303.95
Target price	Rs550.00
Expected share price return	81.0%
Expected dividend yield	2.3%
Expected total return	**83.3%**
Market Cap	Rs33,263M
	US$823M

Price Performance (RIC: WCKH.BO, BB: WPL IN)

Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Wockhardt spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation

- **Morton Grove on course** — The restructuring effort of Morton grove is on course and it has turned in an EBITDA of US$1-2m for 4Q07 vs. EBITDA losses in 2007. The company also indicated that it is in the process of addressing the issue of the warning letter on Lindane.

- **US generics** — Wockhardt is expecting FDA approval for a nasal product with limited generic competition (3-4 players). Overall pipeline for the US remains strong with more than 40 ANDAs pending at the FDA. About 30% of these are "difficult to make" or niche generics.

- **Bio-generic** — Wockhardt IND for insulin was filed in Feb 08 for the EU and has got approval in the US. For the rest of the world market, Wockhardt will be a key player in the bio generic opportunity with about 75 registrations.

- **NCE R&D** — Wockhardt is contemplating a de-merger of it NCE R&D effort. Wockhardt may spend cRs800m on NCE R&D in 2008 (vs. Rs600m in 2007). It expects NCE R&D to jump significantly in 2009 as one of its lead molecule WCK 771 progresses further in the clinics. More clarity over the structure of the demerger is expected in 2H CY08.

- **Guidance** — It re-iterated its revenue growth guidance of 32-35% in 08 and indicated it was on target for a US$1bn revenue and >15% net margin by 09.

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Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	2,571	21.54	20.2	14.1	4.1	35.9	1.6
2006A	3,017	25.31	17.5	12.0	3.1	32.1	2.0
2007E	3,825	32.32	27.7	9.4	2.5	32.1	2.3
2008E	4,544	38.39	18.8	7.9	2.0	30.9	2.6
2009E	5,213	44.05	14.7	6.9	1.7	28.8	2.6

Source: Powered by dataCentral

Wockhardt

Company description

Wockhardt, a leading player in the Indian pharma market, has carved a niche for itself in bio-generic products. In the domestic market, it follows a strategy of offering products at deep discounts to competing products, allowing it to build up large volumes. In its pharma portfolio, Wockhardt's emphasis on new products in the chronic-care segments. In the overseas markets, the company has adopted the inorganic route to build a sizeable presence in Europe, with a focus on the formulations segment. It continues to focus on acquisitions as a means to grow in the US and Europe.

Investment strategy

We rate Wockhardt as Buy/High Risk. Wockhardt is an emerging global bio-generics firm with strong earnings growth potential. It has had several disappointments over the past 2 years, especially with its US initiatives. But with most of these issues addressed, we expect improving fundamentals and earnings growth to drive upside. Wockhardt is making steady progress in filing bio-generics for approval in emerging and developing countries. In the developed markets, the regulatory framework is still being established. The EU is leading the way, and the US has still to come up with tangible guidelines. The company is working on erythropoietin and insulin for the EU. We believe this will be positively perceived in the market. We expect Wockhardt to introduce its first bio-generic product in the EU in CY09. We believe that the current low valuations and robust growth in Wockhardt's core business make it a good investment.

Valuation

We expect the company's earnings growth to remain steady and, therefore, believe P/E is the best method to value the stock. Mid-sized Indian pharma stocks tend to trade at a 20% discount to local frontline pharma names. For Wockhardt, we have ascribed a 40% discount to reflect equity dilution and integration risks. Our target multiple for Wockhardt of 14x March 2009E EPS is within the stock's 6-year trading range of 7-40x. Our target multiple is at a discount to the 16-18x multiple range we have used for other mid-sized Indian pharma stocks. At 14x March 2009E EPS, our target price works out to Rs550.

Risks

We rate Wockhardt High Risk to reflect the integration challenges after 3 large acquisitions in various geographies in the past 2 years. Our quantitative risk-rating system, which tracks 260-day historical share price volatility, would have rated the stock Low. Factors that could impede the stock from reaching our target price include: (1) Inability to drive organic growth in Europe could hurt earnings growth, especially if the currency moves against it; (2) US exports are crucial to the company's export strategy. The generic market for biotech products is not well established, and there could be roadblocks; and (3) While the domestic market appears to be recovering, growth has slowed to the mid-single-digits. Competition is becoming keener, and hence margins could come under pressure.

Yes Bank (YESB.BO)

Buy/Medium Risk	**1M**
Price (11 Mar 08)	Rs194.80
Target price	Rs300.00
Expected share price return	54.0%
Expected dividend yield	0.0%
Expected total return	**54.0%**
Market Cap	Rs57,620M
	US$1,426M

Price Performance (RIC: YESB.BO, BB: YES IN)

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Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Yes Bank spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Business momentum; going strong** — Yes Bank continues to grow with incremental lending now focused on small enterprises, growing CASA deposits and maintaining NIM's at current levels. On a sectoral level, the emphasis would be on growing infrastructure, food, agri and media lending.
- **Derivative business, some strain but in control** — Management suggests about 80-90% of its derivate positions are with the bigger corporates (annual turnover more than Rs7.5bn). Yes Bank has not seen any case of default (though one of its exposures had defaulted with another bank).
- **Capital raising plans** — Yes Bank now plans to do a private placement to raise additional capital as against a QIP planned earlier. With current capital adequacy at 14% and Tier 1 at 9% growing at about 70%, management suggests it could do so anytime before March'09.
- **New initiatives** — Management plans to enter asset management and brokerage and start an asset reconstruction company. The first amongst these will be AMC business, in which it would be eligible to receive approvals only after Nov'08 (SEBI guidelines require 5-yr tract record).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	553	2.35	na	82.7	9.2	14.1	0.0
2007A	944	3.43	45.8	56.8	6.9	13.9	0.0
2008E	1,948	6.55	90.9	29.7	3.5	15.3	0.0
2009E	2,891	9.19	40.2	21.2	3.0	15.2	0.0
2010E	4,218	13.40	45.9	14.5	2.5	18.6	0.0

Source: Powered by dataCentral

Yes Bank

Company description

Yes Bank was started in FY05 by Mr. Rana Kapoor and Mr. Ashok Kapur, and is the newest private-sector bank in India. Yes Bank has grown rapidly since inception and what it lacks in size currently is made up in our view by its strong growth, quality management, and a rapidly building franchise. The bank currently has 60 branches and management suggests a target of 100 branches by March 2008 and 250 by March 2010. In its second full year of operations (FY07), the bank grew total assets by over 150% to Rs111bn and net profits by 71% to Rs944m.

Investment strategy

We rate Yes Bank with a Buy/ Medium Risk (1M) rating and an EVA-based Rs300 target price. Though relatively young, we believe Yes Bank has strong execution skills. It has built a focused asset portfolio, has strong treasury and advisory income businesses, and has kept risks relatively low. Moreover, we believe the bank offers aggressive growth potential. The key catalysts for the stock's medium-term performance are likely to be a) easing domestic interest rate and liquidity environment - should provide a respite to margins and bolster quarterly performance over the next two to three quarters; b) fresh capital raising - possibly at a premium to prevailing market prices; and c) strong growth in investment banking fees - a potential spin-off of this business could drive stock returns further.

Valuation

We value Yes Bank at Rs300 per share based on our EVA model. Our key assumptions are a) longer-term spreads of 2.2%, slightly lower than most peers given its structurally lower spreads; b) 100bs loan loss provisioning over the longer term, in line with private banks; and c) 45% longer term cost-income ratio, in line with peers. Our EVA valuation is premised on a 7.5% risk free rate, consistent with our assumptions for other Indian banks. We prefer the EVA methodology as we believe it better captures longer-term value of the business, and is in line with our approach to valuing other banks in the sector.

Risks

We rate Yes Bank as Medium Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key risks that could prevent the shares from reaching our target price include: a) rise in deposit costs due to tighter liquidity or interest rates; b) reversal in loan growth and asset quality environment; c) relatively high capital market linkage in the form of fees from investment banking activities; d) relatively higher portfolio concentration; and e) any further capital raising over the next 12-18 months, which is likely to be returns dilutive.

Appendix A-1

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