Strategy Focus

COUNTRY RESEARCH

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India Investor Conference 2008

Highlights of Day 2

- **About the event —** The 3rd Citi India Investor Conference (11-12th March in Mumbai, 13-14th March in New Delhi) got under way 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 one-on-one and group meetings. We present the highlights of day 2 of the Mumbai leg.

- **Guest speaker takeaways** — Dr. T. C. Nair, whole-time member of the Securities & Exchange Board of India, today spoke about the increasing relevance of regulation in the market, and highlighted the role of the regulator in some key issues, like participatory notes, corporate bond markets, and short-selling in the markets.

- **Company takeaways** — We feature highlights from the meetings with companies that participated today (Apollo Hospitals, Axis Bank, Bank of Baroda, Bharati Shipyard, Idea Cellular, M & M, Satyam Computers, Sterlite Industries, etc.)

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Guest Speaker Takeaways

Dr. T. C. Nair, Whole-time Member, Securities and Exchange Board of India

- **State of the markets:** Even though investment in equities represented a mere 6.3% of gross financial savings, and 1.2% of the GDP, it was nevertheless relevant to the economy. Dr. Nair pointed out that Indian markets are amongst the best in the world in terms of technology and transparency, with a booming mutual fund industry, and a large FII population, and that very few markets have fared better than India globally over the last five years.

- **Increasing role of the regulator:** Stressing the importance of regulation in these markets, Dr. Nair discussed three areas where the regulator had played an important role in markets recently: (1) Participatory notes; (2) Development of the corporate bond market; and (3) Short-selling in Indian markets.

- **Participatory notes:** The ban on PN issuance in Oct 2007 was aimed towards encouraging front-door entry for all investors in the form of registration, transparency in terms of ensuring KYC norms, and elimination of operational hassles. Massive capital inflows of almost US$18bn in 2007, compared with previous annual flows of less than US$10bn, prompted a review of FII investments. Dr. Nair stressed that the move had no lasting impact on the markets, with over 200 FIIs, and 400 sub-accounts having registered with the SEBI since the announcement.

- **Corporate Bond Markets:** India has over US$100bn of corporate debt outstanding, but most of it is privately placed, and at present markets are not very liquid. There is a pressing need to develop the corporate bond markets to meet India's planned investment of US$475-500bn over the next five years, as credit is largely bank-based today. Among the measures mentioned were simplifying regulations for bond issuance, the need to lower transaction costs, improving transparency, liquidity, and implementation of the Patil Committee report. Platforms were being set up at the BSE, the NSE, and FIMMDA, for comprehensive reporting and trade felicitation of corporate bonds.

- **Short-selling:** As part of ongoing efforts towards development of market mechanisms, lending and borrowing in the Indian markets were to be operationalized soon, with short-selling to be initiated in the F&O segment.

AXIS Bank (AXBK.BO)

Hold/Low Risk	**2L**
Price (12 Mar 08)	Rs851.90
Target price	Rs1,215.00
Expected share price return	42.6%
Expected dividend yield	0.5%
Expected total return	**43.1%**
Market Cap	Rs304,674M
	US$7,549M

Price Performance (RIC: AXBK.BO, BB: AXSB IN)

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Axis spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Growth momentum, healthy profitability** — Axis's asset growth has been strong over the past few years; management expects the momentum to continue across SME and agriculture segments in addition to consolidating its growth in corporate assets. It is likely to maintain its high net interest margins at 3.5-4.0% levels, with ROEs of 21% over a 3-year normalized capital raising cycle.
- **Asset quality healthy: no immediate pressures** — Management does not see immediate pressures on asset quality, and expects the retail segment to show continued growth. The bank's total effected exposure on the farm loan waiver is Rs3.14bn; management expects to be reimbursed for any write-offs over a period of time.
- **To make prudent provisioning for FX derivatives** — Axis has not seen any corporate defaults on the FX derivatives portfolio; however, it is likely to make prudent provisioning to cover any stress in the current quarter. In addition, mark to market exposure to overseas investments is limited to Rs100m (only CLN exposure of Rs5bn-6bn).
- **Fee income growth robust** — Fee income growth has been robust, especially in retail banking, which has been growing at a rapid pace. There, however, could be a slowdown in treasury product sales, which have shown strong growth over the past 18-24 months.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	4,848	17.20	32.1	49.5	8.3	18.4	0.4
2007A	6,588	23.05	34.0	37.0	7.1	21.0	0.4
2008E	10,881	33.60	45.8	25.4	3.4	17.7	0.5
2009E	15,845	43.96	30.9	19.4	2.9	16.5	0.5
2010E	21,200	58.82	33.8	14.5	2.5	18.8	0.5

Source: Powered by dataCentral

AXIS Bank

Company description

Axis Bank is India's third-largest private-sector bank after the significantly larger ICICI Bank and HDFC Bank. It is more than twice the size of the next largest private-sector bank. The top three private-sector banks collectively account for almost 9.6% market share, while private-sector banks as a group are about 18.6% of the system. Axis Bank is a small player in the broader banking sector; its market share is less than 2% in terms of loans and deposits. Axis Bank was started by the erstwhile Unit Trust of India (UTI) in 1994, along with LIC and GIC, two government-owned insurance companies. UTI's stake is now held by UTI-I, a government-owned entity, with a 28% holding. LIC and GIC together own 16.3%, and collectively, these government-owned shareholders own approximately 44% of the bank.

Investment strategy

Axis Bank is one of the few clean (in terms of asset book), rapidly growing, profitable, and competitive private-sector banks in India; thus we think it will be a major beneficiary of the favorable banking environment. The Indian banking sector is in a sweet spot: consumer and corporate lending is strong, asset quality is improving and fee-income opportunities are growing. We expect this favorable environment to continue in the medium term but recognize that a key challenge for banks will be funding growth. Looking at its profile, we believe Axis Bank stands to gain disproportionately from existing opportunities in the sector. The bank has strong technology and products, an expanding distribution franchise, adequate scale, a strong service culture, and management enterprise – features that should help it stay ahead of the dominant government banks to win market share.

Valuation

We set our Rs1215 (previously Rs675) target price using an EVA-based methodology. Our price target, based on the EVA, is being meaningfully enhanced from previous levels, because a) 12-23% earnings increase (accounts for over 40% of the target price change), b) Increase in long-term spread expectations – up 20bps, c) Higher long-term fee growth estimates: +5% and d) Lower Loan Loss expectations;-50bps. We continue to use an 8% risk free rate estimate –even though the current interest rate levels provide some potential cushion, if rates were to fall.

Our secondary valuation methodology is based on P/BV. We expect private-sector banks to trade at a premium to the sector on a P/BV basis. We value Axis Bank at 4X 09E PBV, equivalent to Rs 1163; this is a significant increase, and is now benchmarked at the highest level of valuation that we attribute to any Indian Bank. This is higher than our previous peak PBV multiple for Axis – 3.4X 1 Yr Fwd, that we were attributing when its return levels were 20%+, against our current expectations of 17-18% ROE over FY09. This higher benchmark is on account of a combination of elements – a) The structurally superior earnings, and quality expectations for Axis – margins, asset quality, deposit mix and stability, b) Significant growth momentum on an already high base – Axis is by far the fastest growing bank, among the larger private ones in India and c) Higher multiple levels in the broader Indian Market – which should apply more so to a liability capturing business- with regulatory barriers to entry.

Risks

We rate Axis Bank shares as Low Risk based on our quantitative risk-rating system, which tracks historical share price volatility. Key upside risks to our target price include: (1) stronger-than-expected margins, (2) higher-than-expected fee income levels, and (3) any corporate activity including mergers and acquisitions. Key downside risks that could impede the stock from reaching our target price include: (1) mid-market credit focus; (2) a large share of wholesale funding; (3) aggressive trading orientation; and (4) the role of key shareholders.

Apollo Hospitals (APLH.BO)

Buy/Medium Risk	**1M**
Price (12 Mar 08)	Rs483.55
Target price	Rs610.00
Expected share price return	26.2%
Expected dividend yield	1.8%
Expected total return	**27.9%**
Market Cap	Rs28,377M
	US$703M

Price Performance (RIC: APLH.BO, BB: APHS IN)

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Citi India Conference 2008: Day 2 Takeaways

- **Aggressive expansion in hospitals...** — AHEL plans to set up 3,235 (c2,164 wholly/partly owned) beds over the next 3-4 years to add to its current base of 7,461 (4146 wholly/partly owned) beds - at a total project cost of cRs1.2-1.3bn to be funded via a mix of debt, cash from recent equity infusion & operating cash flow.

- **...and in pharmacies** — AHEL currently has a base of 586 retail pharmacies, which it intends to expand to c1,500 over the next 3-4 years, at which stage it believes it will have the critical scale to look at value unlocking options. We highlight that it is this aggressive roll-out of pharmacies that is currently depressing margins & return ratios, thus masking the improving profitability of the hospitals business.

- **Value unlocking options** — AHEL holds c46% stake in a medical BPO company (Apollo Health Street), for which it intends to explore the option of an IPO in the near to medium term. Also, it is in the process of setting up a REIT structure for its new projects, which should get ready over the next 6 months. While AHEL indicated that there is significant value in its land bank for existing facilities, unlocking this would need changes in rules related to stamp duty, capital gains etc.

- **Strong growth ahead** — AHEL expects to grow revenues at c24-25% CAGR over next 2 years and retail pharmacy operations should break even at an aggregate level in FY09. This should translate into healthy improvement in margins & bottomline growth.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	612	12.10	7.3	40.0	4.0	13.4	0.9
2007A	644	12.47	3.0	38.8	3.3	9.4	1.0
2008E	964	16.00	28.4	30.2	2.2	9.3	1.3
2009E	1,291	21.44	34.0	22.6	2.1	9.6	1.8
2010E	1,567	26.02	21.4	18.6	2.0	11.0	2.2

Source: Powered by dataCentral

Apollo Hospitals

Company description

Apollo Hospitals is an integrated healthcare company in India's private sector, with the largest hospital network in Asia. The group and its subsidiaries own 16 hospitals, and it operates 24 hospitals. These hospitals are owned either by joint ventures and associated companies or operated under contracts as franchise hospitals or under consultancy contracts across the Afro-Asian region, with more than 5,000 operational beds. It has a network of more than 2,000 doctors (including more than 1,300 "fee-for-service" doctors), around 2,000 nurses and 1,000 paramedical personnel on its payroll. It also operates a network of primary-care clinics, a medical back-office operation, a health-insurance company and a healthcare staffing company that provides nurses to the UK, the US and other countries. Its retail pharmacy business is one of the largest in India, with a network of 557 outlets.

Investment strategy

We rate Apollo Hospitals Buy/Medium Risk. We are positive on the Indian healthcare delivery market and believe that Apollo is one of the best plays on the burgeoning healthcare opportunity in India. It appears poised to benefit from healthcare opportunities in India, driven by both domestic and international patients, and is ahead of most of its competitors on scale, brand recognition and service offerings. It has an integrated business model that, in addition to hospitals, includes clinics, diagnostic services, pharmacies, telemedicine, and healthcare education and training. The company, which dominates the tertiary-care segment, is pursuing a strategy of expanding its presence in secondary- and tertiary-care markets: secondary hospitals can offer 25-30% higher returns than tertiary hospitals. We expect Apollo's new hospitals and improvements in asset utilization to drive a 21% revenue CAGR and 26% in EBIDTA over FY07-10E.

Valuation

Our target price for Apollo is Rs610/share. While there are few listed comparables in the domestic market, the company has a reasonable and well-diversified global peer group. Some of these are much bigger than Apollo, but we see healthcare growth opportunities as greater in India than in developed markets given the country's current low expenditure and health care penetration. Notionally, P/E and EV/EBITDA relative to earnings growth would seem to be ideal tools to value Apollo, given the high predictability and stability of earnings streams in the healthcare services industry. Yet we believe that this method may not be optimal, since high interest and depreciation charges incurred upfront would lead to earnings not fully reflecting operating performance. We therefore use EV/EBIDTA v/s EBIDTA CAGR as our primary methodology to value Apollo Hospitals. Our target price is based on 15x FY09E EBIDTA, which is within the stock's EV/EBIDTA trading band of 12-20x over the past two years.

Risks

We rate Apollo Hospitals Medium Risk based on our quantitative risk-rating system. Main downside risks to our target price and estimates are: 1) Apollo Hospital has a fixed-cost-intensive business with high operating leverage. Inability to scale up occupancy and realizations could depress capital efficiency; 2) The business requires large investments in technology-intensive medical equipment that could be rendered obsolete quickly by rapid progress in technology; and 3) Slippage in service quality by Apollo's primary-care franchisees could dilute its brand equity.

Bank of Baroda (BOB.BO)

Buy/Medium Risk	1M
Price (12 Mar 08)	Rs289.20
Target price	Rs475.00
Expected share price return	64.2%
Expected dividend yield	2.1%
Expected total return	**66.3%**
Market Cap	Rs105,346M
	US$2,610M

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

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — BoB spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Overall business** — Management is confident of growing at 23-25% over the next year. It sees growth strong in the tier 1 and 2 cities, and expects continued momentum in global operations, maintaining margins at 2.8% levels.
- **Derivative positions, well under control** — BoB had $300m in offshore CLN (corporate-linked note) and MTM charges of about $5m as of Feb 08 with no investment in CDS. Management suggests that it has no complex FX derivative structures in place and has no MTM exposure risk with corporates.
- **Farm credit, no problem** — BoB has a total farm credit overdue exposure of Rs9-10bn with the small and marginal farmers, and a total outstanding farm credit of Rs120bn as of Dec 07. BoB suggests this would be reimbursed by the government and there could be some write-backs for provisions made.
- **Gains on investment portfolio** — BoB has realised equity gains of Rs2.9m in P&L for 9M08 on an equity book of Rs8bn (book value). There are also potential unrealized gains on some unlisted investments (SIDBI, NSE, etc.).
- **Insurance, MF** — The insurance venture has got shareholder nod. It could take 6-8 months to be operational (BoB has 49% stake; Andhra Bank and Legal and General are other partners). BoB has sold a 49% stake in the AMC business (AUM of sub-Rs10bn) to Pioneer; it would be running at full pace in 3 months.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,270	25.06	9.0	11.5	1.3	12.3	1.7
2007A	10,260	28.07	12.0	10.3	1.2	12.4	1.9
2008E	15,970	43.69	55.7	6.6	1.1	17.1	2.1
2009E	18,009	49.27	12.8	5.9	0.9	16.8	2.1
2010E	21,558	58.98	19.7	4.9	0.8	17.4	2.1

Source: Powered by dataCentral

Bank of Baroda

Company description

Bank of Baroda (BoB) was incorporated in 1908 as a private institution, and subsequently nationalized in 1969. The bank is headquartered in Baroda, Gujarat. The government holds 66% of the bank's equity. BoB is among the top-five banks in the country, with a nearly 5% share of the deposits and advances of the banking system. BoB has a large nationwide branch network of 2,730 branches, and has 38 branches in 10 countries.

Investment strategy

We rate BoB Buy (1M) with a target price of Rs475. BoB has made visible improvements in key operating parameters. However, it has lagged behind the sector: loan growth, until recently, has been well below the industry levels and its technology plan has been slow to take off. Management's aggressive interest-rate positioning on the bank's bond portfolio led to losses in the portfolio when interest rates reversed. This aspect of its balance sheet has meant that BoB has been viewed largely as an interest-rate cyclical stock, with falling/rising rates increasing/decreasing the value of its bond portfolio. Structurally, we believe BoB will continue to trade at a discount to its larger peers due to lower fee incomes, a higher proportion of international businesses, a modest lending franchise, and a slight geographic concentration. BoB will also likely remain the most interest-rate cyclical bank among its larger peers. However, the focus on bond yields has camouflaged changes in what the market formerly perceived as other weakness. We believe positive changes have come about, and the market appears to have failed to fully appreciate them.

Valuation

Our target price of Rs475 (previously Rs390) is based on CIR's EVA model, which we believe captures the long-term value of the business and is a standard valuation measure for our India banking coverage. We are revising our EVA-based target on the back of a) revised earnings estimates, b) lower risk-free rate of 7.5% (previously 8%) and c) slightly lower long-term loan growth estimates. We maintain industry-average margin (230bps) and higher-than-industry capital ratio (6%).

We are also benchmarking our target price on a 1.4x FY09E PBV (previously 1.3X PBV FY09E). Our target price based on this methodology is now Rs430 (previously Rs394) . Our target multiple factors in the healthy asset pricing and operating environment. Our target multiple continues to be at discounts to those for SBI and PNB. We believe a valuation discount to some peer banks is still justified due to the quality and structure of the businesses. BoB generates relatively low fee income, has a higher proportion of international businesses that we believe adds less value to the business, and its business has a modest geographic concentration. Important to note, its ROEs have also tended to lag the sector, and though we do see signs of a catch-up, management still needs to deliver.

Risks

We rate BoB Medium Risk based on our quantitative risk-rating system, which tracks 260-day share price volatility. The following downside risks could impede the stock from reaching our target price: (1) sharp rises in interest rates, which could undermine the performance of the bond portfolio; (2) BoB's inability to sustain loan growth; and (3) further delays in management's technology plans.

Bharati Shipyard (BHAR.BO)

Buy/Medium Risk	1M
Price (12 Mar 08)	Rs580.95
Target price	Rs790.00
Expected share price return	36.0%
Expected dividend yield	0.4%
Expected total return	**36.4%**
Market Cap	Rs16,016M
	US$397M

Price Performance (RIC: BHAR.BO, BB: BHSL IN)

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Bharati Shipyard spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Dabhol greenfield yard update** — The new yard at Dabhol (250 acres), would have capability to build vessels up to 100K DWT as well as jackup rigs. Like Mangalore, the yard is also proposed to be set up as an SEZ. Majority of Swan Hunter equipment, including the floating dock, would be installed at the yard. Civil work is in progress, while fabrication has already commenced. The jackup rig on order is being constructed at this yard. The yard has already started contributing to revenues. Total estimated capex of Rs6bn; estimated peak revenues of Rs20bn.
- **Mangalore yard update** — The Mangalore yard (90 acres) would be equipped to build smaller vessels of size up to 60K DWT. The yard would be situated in ONGC SEZ. The balance Swan Hunter equipment would be installed at the yard. The yard would start contributing to revenues mainly from FY10E. Total estimated capex of Rs4bn; estimated peak revenues of Rs15bn.
- **Robust order book position** — The total order book of Rs46bn comprises 68% of orders from the offshore industry (incl. the jackup rig). Exports comprise 67% of the order book.
- **Management guidance** — Management expects revenues and PAT to grow at 5-year CAGR of 35-40%. On subsidy, it is likely to be extended by another 5 years, though at a lower rate (say 20%).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	510	15.92	30.9	36.5	7.2	32.0	0.4
2007A	732	22.86	43.6	25.4	5.3	34.4	0.5
2008E	1,109	34.61	51.4	16.8	3.8	37.4	0.5
2009E	1,690	52.74	52.4	11.0	2.6	39.5	0.5
2010E	2,733	85.31	61.8	6.8	1.7	42.6	0.6

Source: Powered by dataCentral

Bharati Shipyard

Company description

Set up in 1973, Bharati Shipyard is one of the largest private shipyards in India. From its shipyards, spread across three regions – Ratnagiri, Ghodbunder, and Goa - the company has built ships including OSVs, cargo ships, and a wide range of tugs/deepwater trawlers. It is setting up a new shipyard in Mangalore and has expanded its capacity in Ratnagiri. It has bagged an order to build a jack-up rig, a first for any Indian shipyard. Its order book currently stands at Rs44bn. The company had an initial public offering in May 2004 and subsequently raised $100m through an FCCB in Dec 2005.

Investment strategy

Bharati Shipyard has strong earnings momentum and an order book cover of 5.3x FY08E sales. We rate the stock Buy/Medium risk (1M) with a target price of Rs790. Fundamentals for Indian shipbuilders remain strong, driven by: (1) the robust E&P cycle ensuring demand in the OSV segment and (2) the continued tightness in the global shipbuilding sector. Our positive stance is backed by solid 50% earnings CAGR for FY08-FY10E. The company's current order book of Rs44bn is geared towards the oil & gas segment, which has strong demand drivers. The company has also bagged an order for a jack-up rig, the first of its kind for an Indian company. Its aggressive expansion plans are backed by its strong order book. The company has expanded its capacity at Ratnagiri, while its greenfield yard at Mangalore should start generating revenues in 2HFY08E. The Mangalore yard will be able to produce ships of up to 60,000 DWT and will also house the rig building unit.

Valuation

We rate Bharati Shipyard Buy/Medium Risk (1M) with a target price of Rs790, based on 15x FY09E earnings. The valuation accounts for complete conversion of the FCCB, leading to a 42% dilution in earnings. This is based on our methodology of rating Indian shipbuilders, at a slight premium to other similar profiled Singapore shipyards that have significantly lower earnings growth, but in-line with our target multiples for the Korean shipyards. Given Bharati's superior earnings CAGR of 50% over FY08-10E and an unexecuted order book that is 5.3x FY08E sales, we believe that Bharati deserves to trade at a slight premium to its Singapore peers, subsidy concerns notwithstanding.

Risks

We rate Bharati Shipyard Medium Risk based on our global quantitative analysis. Being a small shipyard in the global context, Bharati is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise in global shipbuilding capacity. Further, global macroeconomic variables such as a decline in GDP growth rates or a decline in sea trade could adversely affect Bharati Shipyards. Key risks include 1) removal of subsidies; 2) declining oil prices; and 3) execution risk.

Firstsource Solutions (FISO.BO)

Price (12 Mar 08)	Rs36.00
Shares Outstanding	427M
Free Float (%)	75
Fiscal Year End	31 Mar
Market Cap	Rs15,373M
	US$381M

Price Performance (RIC: FISO.BO, BB: FSOL IN)

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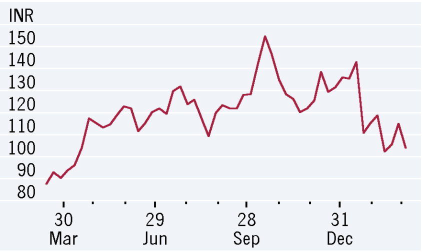
Analyzed Non-Rated Snapshot

- **Conference takeaways** — Firstsource Solutions spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Business mix has changed post MedAssist acquisition** — Firstsource management indicated that the business model has been de-risked considerably after the MedAssist acquisition. BFSI now contributes only ~25% of revenues and healthcare ~40%, which the company believes is recession-proof.
- **Inorganic initiatives an integral part of strategy** — Firstsource has done 7 acquisitions so far. Ex-MedAssist, most of the acquisitions were very small and cumulatively account for ~20% of Firstsource's revenues. Management indicated that it would continue to look at inorganic initiatives.
- **BFSI outlook challenging** — Within BFSI, ~40% of the business is from collections, which has been a challenging segment primarily because of output- based pricing. Management expects business volume to grow, but revenue growth could be lower than the company average.
- **Telecoms and healthcare outlook good** — Management indicated that healthcare is primarily US-driven but recession-proof, while telecoms is highly diversified across the US, the UK and India. Management expects good growth from these verticals.

IDEA Cellular (IDEA.BO)

Buy/Low Risk	**1L**
Price (12 Mar 08)	Rs101.75
Target price	Rs140.00
Expected share price return	37.6%
Expected dividend yield	0.0%
Expected total return	**37.6%**
Market Cap	Rs268,148M
	US$6,644M

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



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Citi India Conference 2008: Day 2 Takeaways

- **Confident of spectrum in new circles** — Idea claimed that it is 2nd in the queue for spectrum in 8 of its 9 recently acquired licenses (first in Punjab). Spectrum release is likely in next 3-6 months. Capex in the new circles would be US$1.2bn after accounting for savings from Indus towers. Launch in 6 months post-spectrum and EBITDA breakeven 18 months thereafter

- **Spectrum mapping** — The spectrum release in Januray-08 (including Mumbai and Bihar for Idea) was from the 20Mhz with ONGC, Dept of Posts and other government agencies. Defence still occupies 40Mhz. Meanwhile spectrum is not a constraint in existing circles except few towns.

- **Towerco to aid rollout** — Idea is contributing 8,500-9,000 towers to Indus with gross value of Rs21bn i.e. Rs2.3m per tower. Idea also claimed that their tower portfolio has got higher weightage which is factored into arriving at 16% weightage.

- **Elasticity alive, MNP neutral to slight +ve** — Idea said that even the most marginal customer's usage goes upto 200mins over a period. The high pre-paid churn levels mean MNP will be a non-event. Though Idea will try to wean away post-paid subs in its new circles, it is not counting on it in a big way.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,683	0.74	636.7	136.6	35.3	30.9	0.0
2007A	5,022	1.94	160.0	52.5	12.1	35.5	0.0
2008E	10,261	3.89	101.0	26.1	7.6	36.0	0.0
2009E	12,163	4.62	18.5	22.0	5.7	29.4	0.0
2010E	14,267	5.41	17.3	18.8	4.3	26.2	0.0

Source: Powered by dataCentral

IDEA Cellular

Company description

Idea Cellular, a pure-play wireless provider, is the fifth-largest cellular operator in India. It has licenses to provide cellular-phone services in 13 of the 23 telecom circles in India and an active presence in 11 of them. The company listed on the Indian bourse in March 2007 and is part of the Aditya Birla Group.

Investment strategy

We rate Idea Buy/Low Risk. Continued robust wireless market expansion and Idea's ability to regain its growth potential following its restructuring and full control by Aditya Birla Group are key factors in our investment argument. Idea's strong competitive position in its existing circles and comparable operational parameters provide us sufficient comfort in management's ability to execute its plans. With a relatively smaller base compared to larger peers, we estimate earnings CAGR of 41% over FY07-10E, ahead of peers and more than double that of the broader market. However, post the disappointing quality of earnings in 2Q, the Idea stock will likely decouple from Bharti, with a renewed upsurge in investor sentiment probably hinging on a turnaround in operational data points.

Valuation

We have set our 12-month target price at Rs140 based on Sep-08E DCF of Rs108 and towerco option value of Rs32/share through its 16% stake in Indus. We prefer DCF as our primary valuation methodology due to the back-ended nature of free cash flows given the new circle roll-outs. Our DCF assumes a WACC of 10.8% at a target debt to capital of 50.0% and terminal growth rate of 4.0% (similar to Bharti). Our DCF is based on explicit forecasts for FY07-16E with a terminal year EBITDA margin at 39.3% (~600bps below Bharti) and capex/sales of ~8% (in line with Bharti). The DCF value implies an EV/EBITDA of 11.8x, slightly lower than Bharti's target multiples (for the ex-towerco portion of Rs930), which is supported by Idea's higher growth rates notwithstanding Idea's smaller size and relatively less established track record.

Risks

We have a Low Risk rating on Idea. Operationally, the risks facing Idea are slightly higher than its more established peers given the roll-out in new circles. Project cost over-runs, delays in spectrum allocation and hence commercial launches could affect the value accretion opportunity in new circles. Idea will also face competition from established players in new circles and market share gains may be lower than expected. Idea will incur higher capex requirements in the new circles due to the coverage compulsions, which may depress return parameters in the initial years. Any rollout plans beyond 13 circles may also require a fresh equity infusion. These risk factors could impede the stock from reaching our target price.

Mahindra & Mahindra (MAHM.BO)

Buy/Low Risk	1L
Price (12 Mar 08)	Rs685.00
Target price	Rs865.00
Expected share price return	26.3%
Expected dividend yield	1.6%
Expected total return	**27.9%**
Market Cap	Rs168,333M
	US$4,171M

Price Performance (RIC: MAHM.BO, BB: MM IN)

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — M&M spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Core business outlook mixed** — Management guided to a mixed outlook, with healthy growth of 10-12% forecast for UVs over the next 2 years; outlook for tractors was cautious – flat growth over FY09 despite the benefits being provided to farmers by the government.
- **Capex plan** — Management reiterated a capital expenditure of Rs90bn over FY08-10; Rs50bn will be absorbed at the new Chakan plant (and the platforms that will be built at Chakan) and Rs11bn is allocated toward inorganic initiatives (for Systech); Rs5bn is for the tractor business.
- **Value unlocking in subsidiaries** — Mahindra plans to list Mahindra Holiday and Resorts over the next few months, in line with management's philosophy.
- **Inorganic initiatives at Systech** — Management appears confident of achieving a revenue target of $1bn by end-2009 (from annualized ~$850m at present) through organic and inorganic initiatives.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	6,688	26.18	-39.5	26.2	5.5	27.2	1.5
2007A	9,872	38.64	47.6	17.7	4.4	29.9	1.7
2008E	10,250	40.12	3.8	17.1	3.7	25.2	1.6
2009E	11,293	44.20	10.2	15.5	3.1	23.4	1.8
2010E	13,133	51.40	16.3	13.3	2.6	23.0	1.9

Source: Powered by dataCentral

Mahindra & Mahindra

Company description

Mahindra and Mahindra manufactures utility vehicles, light commercial vehicles and tractors. It has recently entered the three-wheeler segment. M&M is the market leader in both the utility vehicle and tractor segments.

Investment strategy

We rate M&M shares Buy / Low Risk (1L) with a target price of Rs865. Tractor sales are benefiting from relatively low penetration levels and the government's emphasis on increasing credit to the agriculture sector. Apart from dominance of the lower end of the market, where competition has been limited, M&M's utility vehicle business is also benefiting from product initiatives, particularly the launch of the Scorpio and Bolero models and variants of these, which have enabled M&M to tap into the urban markets for passenger vehicles. Moreover, we also recognize management's efforts to retain market share within segments like three-wheelers, given the stiff competition in this segment. We remain positive on management's efforts to de-risk from the local market by pursuing sales in select international markets. The target is to raise international sales from around 10% at present to 20% over the next three years. Their efforts have met with substantial success particularly in the tractor segment, wherein they are currently ranked No. 4 (in terms of unit sales) globally. The substantial value of the company's real estate and investment holdings (particularly in the information technology business through Tech Mahindra and in the financial services business through M&M Financial Services) should

provide downside support (especially with increasing dividends from key subsidiaries). Given recent initiatives to unlock value in subsidiaries – MMFSL and Tech Mahindra being the primary examples – we incorporate the value of key subsidiaries within our sum–of-parts valuation.

Valuation

Our target price of Rs865 is based on a sum-of-parts methodology. We value M&M's core business at Rs468 (9x FY09E core CEPS). We also incorporate value for M&M's listed subsidiaries (Rs222/share), its auto component business (Rs57/share) and M&M's investments in other subsidiaries (including Mahindra Holidays at Rs102/share). Our core multiple of 9x, is supported by an 11% CAGR in core cash earnings (excluding dividends from group companies) for M&M over FY07E-09E. We value the key subsidiaries / associates / auto component initiatives at Rs397/share. At our core target price (of Rs468) the

stock would trade at around 10.2x FY08E core EPS (excluding dividends from subsidiaries) and should be supported by 11% CAGR in earnings over FY07E-09E. We have chosen to use P/CEPS as our primary valuation metric to ensure proper comparison with historical trading bands — the company is undertaking a significant product development and capital expenditure program, and also undertook a restructuring of the balance sheet in FY02. We believe valuations will also be supported by: a) management's continued efforts to unleash value from investments in group concerns (we believe that the listing of the group's hotel / resorts venture is next on the anvil); and b) new initiatives announced in the passenger cars, commercial vehicles and auto components segments, which should fructify over the next 2-3 years.

Risks

We rate M&M shares Low Risk, in line with our quantitative model which tracks 260-day historical share price volatility. Key Risk factors to our investment thesis which could prevent the shares from reaching our target price include:

Any substantial rise in interest rates that could curb demand for farm equipment and utility vehicles. Given M&M's strong dependence on the rural economy (a substantial part of the demand for their products emanates herein), any weak trend in the prices of agricultural commodities could also impact demand and sales. Escalating competition within the UV segment, which might lead to an increase in discounts and result in margin pressure.

Motilal Oswal Financial Services (MOFS.BO)

Buy/Medium Risk	**1M**
Price (12 Mar 08)	Rs690.55
Target price	Rs2,400.00
Expected share price return	247.5%
Expected dividend yield	0.1%
Expected total return	**247.6%**
Market Cap	Rs19,614M
	US$486M

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

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Motilal Oswal spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Business as usual** — MOFS said all business segments continued to grow, with brokerage volumes still increasing over the past year. Around 60% of its costs are variable and therefore operating efficiencies would be in play if revenues were to decline. New business forays have scaled up and are generating significant traction.
- **Revenue mix** — MOFS' revenue mix is more broad-based than that of most peers. Management targets a revenue mix with transactions (equity and commodity brokerage) contributing 70%, fees (PMS, IB and PE) and fund-based (margin finance) contributing the rest.
- **Impact of market volatility, much less than market estimates** — Management suggested the total dues from customers, which relate to the market turmoil in late Jan 08, are around Rs50m. Management estimates losses in the region of Rs30m-40m post recoveries over the medium term.
- **Private equity fund raising** — The first PE fund has been closed with a total corpus of $126m, of which about $27m has already been invested. MOFS plans to open 3 more PE funds – one each for real estate, infrastructure and diversified growth fund.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	602	21.43	na	32.2	17.6	54.7	0.0
2007A	780	30.70	43.2	22.5	5.3	35.2	0.0
2008E	1,679	59.11	92.5	11.7	2.6	30.7	0.1
2009E	2,737	96.36	63.0	7.2	1.9	30.5	0.1
2010E	3,599	126.71	31.5	5.4	1.4	29.7	0.1

Source: Powered by dataCentral

Motilal Oswal Financial Services

Company description

Motilal Oswal Securities Ltd, incorporated in 1994, was started by entrepreneurs Raamdeo Agrawal and Motilal Oswal. It began business as a retail broker and has broadened to include institutional equity broking and commodity broking, investment banking, discretionary portfolio management, venture capital management, and third party product distribution. The company's predominant business lines are institutional and retail broking; it has expanded into the areas of investment banking and venture capital management recently. In addition, it is seeking to build on its equity and retail market businesses, and establishing a wealth management platform.

Investment strategy

We rate Motilal Oswal Financial Services (MOFS) shares Buy/Medium Risk (1M) with an Rs2,400 target price. MOFS is one of larger domestic brokers in India; it has been gaining market share and enjoys about 5% market share. MOFS is one of few direct and diversified plays on the Indian capital markets opportunity, with a strong management and a relatively low-risk approach. MOFS offers a healthy mix of retail and institutional business, backed by a strong research focus. MOFS, among the top five domestic retail and institutional brokers, has consistently and significantly gained market share over the past five years. MOFS' broking business is also backed by its strong research focus, especially for the institutional segments. It has large coverage and has been ranked consistently amongst leading domestic brokerages. MOFS also distinguishes itself through its broader platform - in addition to the broking business (equities and commodities), it offers a broad product suite in both retail and institutional business segments. In the institutional segment, the focus is on investment banking. In the retail segment, it offers margin finance third-party product distribution and is moving up the value chain to wealth management and asset management.

Valuation

MOFS is one of few concentrated capital market exposures in the Indian market - its larger brokerage peers also offer substantially large other businesses. We would expect its primary valuation benchmark to be the broader market (Sensex) P/E multiple (now 20x FY09E). We value MOFS at 25% premium to the market multiple, in part supported by lack of scale, diversified, standalone domestic brokers. We base our target multiple on MOFS' diversified, low-risk business model, strong management, a growing market share and underlying structural growth in the industry. Our target multiple (25x FY09E P/E) implies a target price of Rs2,400. It could be argued, however, that in a strong capital market environment (as is the case now); valuations should be at a discount to market multiples to factor in the business cyclicality. Our target multiple, though slightly aggressive, appears justified on the higher current growth and outlook for industry volumes, in our view.

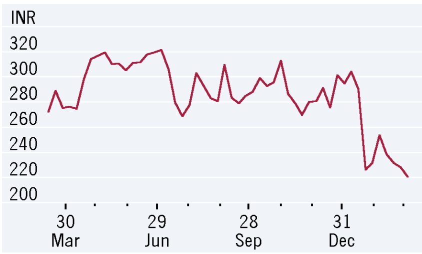
Risks

We rate MOFS Medium Risk, though our quantitative risk rating system which tracks 260-day historical share price volatility suggests a High Risk rating. MOFS has a broad and diversified business revenue mix, is well balanced between the retail and institutional segments and has a strong and relatively risk averse management, which we believe reduces operating risk. Key risks that could prevent the shares from reaching our target price are: a) Earnings strongly correlated to volatile capital markets; b) Execution of aggressive expansion; c) Margin finance risks; and) Regulatory changes.

Mphasis (MBFL.BO)

Buy/High Risk	**1H**
Price (12 Mar 08)	Rs197.50
Target price	Rs355.00
Expected share price return	79.7%
Expected dividend yield	1.5%
Expected total return	**81.3%**
Market Cap	Rs41,199M US$1,021M

Price Performance (RIC: MBFL.BO, BB: MPHL IN)



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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Mphasis spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Cautious on application near-term** — Management commented that projects-based business in organic Mphasis application work (~15% of Mphasis overall revenue) was seeing sporadic cases of 1-3 week delays as employees are transitioned from one project to another. This could impact near-term growth and profitability (onsite utilization affecting profitability). ITO and BPO businesses continue to see strong traction.
- **EDS channel remains robust** — EDS channel now accounts for ~52% of revenue (3Q FY08) and continues to grow fast. Mphasis has been adding 10-12 EDS clients every quarter. The current pending order backlog from EDS is well over US$1bn. Moreover, all application deals in the market place being pursued by EDS have a significant offshore component.
- **Longer-term growth intact** — The company believes that longer-term growth remains intact and sporadic cases of project delays are likely to be temporary. Also, the supply side is easing and wage hikes could moderate in FY09. The company is closely watching teir-1 IT players for benchmark wage hikes.
- **Pricing continues to trend up** — The company continues to see uptick in pricing across most clients, though there are some cases of clients asking for some pricing discounts (volume-based) – part and parcel of the business. At the company level, management expects average billing to increase 3-4%.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,499	9.25	16.9	21.3	4.8	23.0	1.5
2007A	1,801	8.63	-6.7	22.9	4.1	21.6	1.5
2008E	2,599	12.35	43.1	16.0	3.4	23.6	1.5
2009E	3,695	17.57	42.2	11.2	2.8	27.5	1.5
2010E	4,577	21.76	23.9	9.1	2.2	27.2	1.5

Source: Powered by dataCentral

Mphasis

Company description

Mphasis Ltd (formerly Mphasis BFL Ltd.) is a mid-tier Indian IT services company headquartered in Bangalore, India. The company has a presence in IT services (primarily application development and maintenance) and BPO services. It serves global clients across financial services, retail, logistics and transportation verticals and had 80 million-dollar clients at end-FY07. Mphasis BFL was originally formed by the integration of BFL Software, Mphasis Corp and Msource. It later acquired Navion Shanghai Software (2003), Kshema

Technologies (2004), Princeton Consulting (Feb 2005) and Eldorado Consulting (March 2005) over a few years after the tech slowdown in the US. Post majority stake acquisition in Mphasis and merger with EDS India, Electronic Data Systems Corporation (EDS) holds over 60% in Mphasis.

Investment strategy

We rate Mphasis as Buy/High Risk (1H) based on a fundamental 12-month view. Offshore IT outsourcing has now become a mainstream option. Scale and scalability offshore, in our view, remains the key criterion for success of MNC firms like IBM, Accenture, EDS, etc. Mphasis is in a sweet spot as the offshore arm of a global IT major, EDS, for whom getting its best shore strategy right is a key to success. The demand side of the business is near-guaranteed for Mphasis due to EDS' order backlog and new large deals it has signed. Supply-side scalability and execution record are also key factors. In our view, revenue and earnings growth should accelerate from here as offshore creditability of Mphasis is established. We expect a revenue CAGR of 39% and an EPS CAGR of 36% in FY07-10.

Valuation

Our target price of Rs355 is based on 18x average FY09-10E EPS. We believe P/E remains the most appropriate valuation measure given the company's profitable record and high earnings visibility. The 18x target multiple is closer to the lower end of the last one-year trading band of 16-30x one-year forward earnings post the EDS acquisition of a majority stake. This multiple factors in some premium for the likelihood of de-listing as EDS would like to own a larger share of its offshore base. We forecast a revenue CAGR of 39% and EPS CAGR of 36% over FY07-10E. This is at the higher end of our coverage universe, with some upside potential from further wins in the offshore application space for the EDS-Mphasis combination. Eventual de-listing from Indian exchanges could be a likely endgame for Mphasis, in our view.

Risks

Although our quantitative risk-rating system suggests Medium Risk for Mphasis, we rate it as High Risk given the risk ratings of similar IT peer-group companies in our coverage universe and greater global economic risks. Key risks that could impede the stock from reaching our target price include: (1) high client concentration; (2) a slowdown in the financial, retail, transportation & logistics industries; (3) a slowdown in the US/global economies; (4) supply-side situation becoming more difficult, i.e., wage inflation being higher than that factored in our model, or higher-than-expected attrition; (5) surprises in INR appreciation; (6) risk of transfer pricing; and (7) limited quota for H1B visas.

Pantaloon (PART.BO)

Sell/Medium Risk	**3M**
Price (12 Mar 08)	Rs490.05
Target price	Rs520.00
Expected share price return	6.1%
Expected dividend yield	0.1%
Expected total return	**6.2%**
Market Cap	Rs73,876M
	US$1,830M

Price Performance (RIC: PART.BO, BB: PF IN)

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Pantaloon spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Slowing same-store sales growth** — Same-store sales growth is showing some signs of a pick-up after a slowdown until January. February sales grew 12.5% for value retailing and 5.1% for lifestyle retailing, albeit off a low base.
- **Expansion plan** — Due to delay in property deliveries by mall developers, Pantaloon is running 12-18 months behind its target of achieving 30msqft of retail space by 2011, which would now be achieved only after 2012. High real estate prices have also slowed the signing of new leases.
- **Margins likely to improve —** Management indicated that margins are likely to improve. The company had hired McKinsey & Co to carry out operational restructuring, which has already started delivering results as was evident in the last quarter, which saw an EBITDA margin expansion of 138bps to 8.9%.
- **Update on subsidiaries** — Management is scaling up its unlisted subsidiaries. Hometown has broken even and investments are being made in the out of home media and e-tailing businesses. There could be a potential dilution in the media and e-tailing business.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	642	4.86	38.5	100.8	12.3	17.1	0.1
2007A	1,200	8.18	68.2	59.9	6.6	14.8	0.1
2008E	1,592	10.56	29.1	46.4	5.9	13.6	0.1
2009E	2,004	13.30	25.9	36.9	5.2	15.0	0.1
2010E	2,866	19.01	43.0	25.8	4.3	18.3	0.2

Source: Powered by dataCentral

Pantaloon

Company description

Pantaloon is the largest organized modern-format retailer in India, with a presence in apparel, general merchandise, home products and food retailing. It has retail space of about 3.5m sq. ft. with plans to expand to 30m sq. ft. by FY11. Pantaloon retails fashion apparel and accessories through its Pantaloon stores, and general merchandise and food through discount department stores Big Bazaar and Food Bazaar. It has presence in retail property management services through Central Malls, managing retail space for concessionaries fees and a share of sales. It has recently launched Home Town for home interiors, which it plans to expand aggressively. Its real estate investment subsidiary, Kshitij Retail Destinations plans to set up 51 malls across India spanning 14.5m sq. feet in the next three years. Pantaloon also has interests in media, logistics, brand management and e-tailing, through subsidiaries.

Investment strategy

We rate Pantaloon Sell/Medium Risk (3M) with a target price of Rs520. The stock has had a strong rally over the last 12 months, outperforming the Sensex. The core business and subsidiaries are fully valued at current levels. We also believe that in the recently changed market sentiment, chances of positive valuation surprises from its unlisted / about to be listed subsidiaries seem low.

Valuation

Our Rs520 target price is based on sum of the parts. We value parent Pantaloon Retail at Rs333 per share based on 25x FY09E P/E, benchmarked off its regional retail peer group. Our target multiple is at about a 20% premium to the retail average, taking into account the superior growth profile for Pantaloon. We benchmark valuations of Home Solutions against recent stake sales (mid-point of Rs7.5bn-Rs10bn). We also use market cap/sales valuation of 1.2x FY08E, at par with Pantaloon's valuations. Our fair value per share for the Home Solutions subsidiary is Rs60 per share. We attribute per share value of Future Capital at Rs127. The Future Capital IPO is impending and price band is already fixed. In addition, the IPO has already been fully subscribed. We value Pantaloon post IPO shareholding of 55%, applying the average price of IPO price band and attributing a 25% holding-company discount.

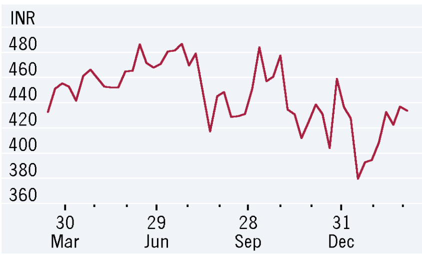
Risks

We assign a Medium Risk rating to Pantaloon Retail based on our quantitative risk-rating system. The main downside risks to our target price include: 1) Delay in store opening plans; 2) Legislative changes that allow FDI in retail; 3) Increase in competitive intensity, irrational competition; and 4) Continued pressure on rentals, which could result in lower than expected margins. The main upside risks to our target price and estimates include: 1) Better-than-expected sales growth; 2) Value unlocking in subsidiaries through listing / stake sales; and 3) Any significant acquisitions perceived to be creating value.

Satyam Computers Services (SATY.BO)

Buy/Medium Risk	**1M**
Price (12 Mar 08)	Rs404.70
Target price	Rs540.00
Expected share price return	33.4%
Expected dividend yield	1.7%
Expected total return	**35.2%**
Market Cap	Rs271,266M
	US$6,721M

Price Performance (RIC: SATY.BO, BB: SCS IN)



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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Satyam spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Business trends remain robust** — Satyam management indicated that business trends continue to remain robust. There is no change in terms of pricing, deal flow etc. However, management is cautious as things are changing every day.
- **Package implementation demand remains strong** — Large ERP companies are still doing well and Satyam continues to witness strong demand in package implementation. Around 15% of Satyam's package implementation is strategic in nature – even in this, there are a lot of transformational deals that are likely to continue.
- **Pricing trends** — No customers have asked for a price cut. Satyam continues to aggressively pursue price increases.
- **Wage hikes likely to moderate** — Wage hikes for the industry are likely to moderate. Satyam is planning a hike in line with the industry. In the last two years, Satyam has given wage hikes that were higher than at peers.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	9,979	15.09	36.9	26.8	6.1	26.2	0.9
2007A	14,047	20.81	38.0	19.4	4.6	27.9	0.9
2008E	17,066	24.92	19.7	16.2	3.9	26.8	1.7
2009E	19,991	29.20	17.1	13.9	3.3	26.3	2.5
2010E	21,242	31.02	6.3	13.0	2.9	24.1	3.0

Source: Powered by dataCentral

Satyam Computers Services

Company description

Satyam is the fourth-largest IT solutions provider from India and is one of the pioneers of offshore IT services delivery. The company has more than 570 clients across the globe and employs over 45,500 professionals across IT and BPO services. Satyam was an early entrant into IT consulting/package implementation work. Around 45% of its revenue came from this service line. It has domain competencies in verticals such as Manufacturing, Banking & Financial Service and Insurance, among others.

Investment strategy

We rate Satyam as Buy/Medium Risk (1M). We believe offshore IT outsourcing is now a mainstream option and Satyam, which has achieved meaningful scale with its top-five position in India, appears well positioned to benefit from growing business volumes. Over the past several quarters, volume growth has trended at over 9% qoq. With revenues over US$1.5bn, Satyam becomes a strong contender for winning large deals. It has won at least three large deals over the past four quarters. We expect a gradual margin decline (rather than steep), as wage inflation should be partly offset by positive leverage from a better onsite-offshore mix, hiring strategies and improved utilization. Overall, we forecast 24% revenue CAGR and 15% EPS CAGR over FY07-10E.

Valuation

Our 12-month target is Rs540, based on 18x average of FY09E-FY10E EPS. We value Satyam on a historical P/E basis relative to its medium-term growth potential and cross-check its valuation relative to peer Infosys, which is the industry benchmark. Given that we expect Satyam's earnings to grow at a 15% CAGR over the next three years, we believe the stock should trade toward the upper end of its historical three-year trading range of 12-21x 12-month forward earnings. Satyam has traded at a 10-40% discount to Infosys in the past two years due to its slower growth rates. Our forward P/E equates to a ~15% discount to our target multiple of 21x for Infosys.

Risks

Although our quantitative risk-rating system suggests Low Risk for Satyam, we rate Satyam as Medium Risk given the similar risk ratings for other similar-sized IT peer-group companies in our coverage universe. The key downside risks that could impede the shares from reaching our target price include: (1) a slowdown in enterprise software license revenues; (2) the supply side situation becoming more difficult; (3) risks to earnings from a sharp US slowdown; (4) any significant appreciation of the rupee against the US Dollar/Euro/GBP; (5) a slowdown in the banking, financial services and insurance (BFSI) sector; and (6) limited H1B visa quotas.

Sterlite Industries (India) (STRL.BO)

Buy/Low Risk	**1L**
Price (12 Mar 08)	Rs787.70
Target price	Rs1,123.00
Expected share price return	42.6%
Expected dividend yield	0.5%
Expected total return	**43.1%**
Market Cap	Rs558,081M
	US$13,828M

Price Performance (RIC: STRL.BO, BB: STLT IN)

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Sterlite spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation
- **Copper operations** — Sterlite's net cost of production fell from ~USc6/lb to almost nil in 3QFY08, largely due to higher free metal recovery and credits from by-product sales. The company expects the net cost for FY08 to settle at ~USc5/lb. Average TC/RC margins are expected to be ~USc15-16/lb in FY08 and ~USc11-12/lb in FY09. Sterlite expects mine supply to come in by 2H FY09, which would help TC/RC margins (current spot rate are ~USc7-8/lb) towards the end of FY09.
- **Zinc** — Hindustan Zinc's (HZL) zinc and lead capacity is expected to go up by 88,000 tpa to ~750,000tpa by June 08. According to Brook Hunt, HZL's current cash cost is ~US$830/t compared to the global average of ~US$1,650/t. HZL hopes to bring this cost down to ~US$680/t as its capacity gets fully ramped up.
- **Aluminium business** — The ramping up of alumina production would help bring down the cost of alumina production from ~US250/t to ~US$125/t. This would benefit Balco as well since it sources alumina from Vedanta Alumina (VAL) for its new smelter. The company will also benefit as VAL is expected to commission the first phase of 250,000tpa of its aluminium smelter by June 2008, one year ahead of schedule *(see page 2 for more takeaways).*
- **Acquisition of stakes** — Sterlite is hopeful of exercising its call option in HZL in the next few weeks and completing the acquisition process within 60 days thereafter. It hopes to acquire the government's balance stake in Balco by 1QFY09, perhaps at a premium to the original valuation of Rs11bn.
- **Commercial power** — Through its 100% power subsidiary, Sterlite plans to commission ~9600MW of commercial power by 2012. It has already been allocated coal reserves of ~320m tonnes and hopes to build a coal portfolio of ~1bn tonnes over the next 3-4 years. Assuming coal usage of 40-45m tpa for 9600MW, the 1bn tonnes of reserves should meet the requirements for at least 20 years.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	16,781	30.05	153.1	26.2	7.3	32.3	0.2
2007A	44,841	80.29	167.2	9.8	4.4	55.9	0.5
2008E	44,832	63.28	-21.2	12.4	1.8	21.5	0.5
2009E	61,655	87.02	37.5	9.1	2.1	21.2	0.6
2010E	46,746	65.98	-24.2	11.9	1.8	16.1	0.6

Source: Powered by dataCentral

Sterlite Industries (India)

Company description

Sterlite is a non-ferrous metals major with a presence in aluminium, zinc and copper. It is a custom copper smelter (capacity 400,000 tpa) with treatment and refining charges (TC/RCs) driving profit. Sterlite is in the lowest-cost quartile of worldwide copper smelting operations. Its aluminium revenues and profits come from its 51% ownership of Bharat Aluminium Co (Balco), with smelter capacity of 345,000 tpa. It has access to 810MW power, the most important cost component in aluminium manufacturing. Sterlite's zinc and lead revenues come from its 64.9% holding in Hindustan Zinc Ltd (HZL), an integrated zinc producer with a 60% domestic share. It is among the lowest-cost producers in the world largely due to the low cost of mining ore at the Rampura Agucha mine which meets about 90% of its requirement. HZL is expanding its zinc capacity by 63% to 669,000 tpa by 1Q FY09, accompanied by expansion in captive power capacity by 85% to 349MW. Sterlite is now buying out the minority government stake in HZL (29.5%) and Balco (49%).

Investment strategy

We rate Sterlite shares Buy/Low Risk (1L). Zinc (Hindustan Zinc) is the biggest contributor to Sterlite's EBITDA (70% of total) and should continue to benefit from strong volume growth. Sterlite is expected to soon raise its holding in HZL to 94.4%, making it an alternate investment vehicle for investors looking to participate in Hindustan Zinc. Sterlite is also 4x more liquid than HZL. In the aluminium business, lower costs and some volume growth should help compensate for lower domestic prices in FY08. Sterlite's shareholding in Balco is also expected to soon reach 100%. Copper has a difficult outlook due to the lower TC/RC margins expected in FY08-09 vs. FY07. We expect Sterlite's attributable net income to rise 38% yoy in FY09E due to higher profits in zinc and aluminium and completion of the minority stake acquisition of Hindustan Zinc (29.5%) and Balco (49%) over the next few months. Sterlite has just been allocated coal mines for Balco, which should result in cost savings in the long term. Commissioning of the first phase of the power project being set up by its 100% power subsidiary from Dec 2009 onwards is on track.

Valuation

Since April 2006, the stock has re-rated to a P/E range of 6-10x due to positive trends in its three major businesses. We expect this re-rating to continue based on volume growth for zinc and steady profits in aluminium, with triggers coming from progress in acquiring the balance minority stakes from HZL and Balco. Based on this we maintain our target multiple at 12.5x, yielding a price of Rs1,088/share. To this we add the value of the power business (at book value of the equity investment) to arrive at our target price of Rs1,123. The stock has also crossed its 4-year average EV/EBITDA of 3.5x in the past few months, largely driven by these factors. Based on these triggers, we expect the EV/EBITDA upside to continue. At our target price, the stock would trade at an EV/EBITDA of 8.1x.

Risks

Risk factors that could prevent the shares from reaching our target price are: 1) Any delays in completion of Hindustan Zinc minority stake acquisition; 2) Any delays in acquisition of Balco minority stake; 3) Weaker-than-expected commodity prices or TC/RC margins; 4) Delays in expansion plans for zinc and power; 5) Substantial dependence on the Rampura Agucha mines in case of zinc; and 6) Trends in exchange rates.

Tata Consultancy Services (TCS.BO)

Buy/Medium Risk	**1M**
Price (12 Mar 08)	Rs832.70
Target price	Rs1,165.00
Expected share price return	39.9%
Expected dividend yield	1.7%
Expected total return	**41.6%**
Market Cap	Rs814,889M
	US$20,191M

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

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — TCS spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Cautious in near term** — TCS indicated that a couple of large clients have cut IT budgets and delayed further projects. With the business environment remaining uncertain, TCS remains cautious in the near term.
- **Pipeline solid** — However, pipeline remains very strong and is up 2.5x yoy – implying continued momentum in offshoring.
- **Wage hikes to moderate** — Wage hikes are expected to moderate to ~10-12% yoy from the 12-15% levels in the last few years. All the Tier I companies presenting in our conference till now have supported the view that wage hikes are likely to moderate this year after high increase over the last few years.
- **Pricing remains stable** — TCS has not witnessed any pricing pressure till now and is looking at price hikes from select customers going forward.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	29,074	29.71	39.1	28.0	14.0	64.3	0.8
2007A	40,608	41.50	39.7	20.1	9.2	55.1	1.4
2008E	50,817	51.93	25.1	16.0	6.5	47.2	1.7
2009E	57,077	58.33	12.3	14.3	4.9	38.9	1.9
2010E	63,031	64.41	10.4	12.9	3.8	33.1	2.2

Source: Powered by dataCentral

Tata Consultancy Services

Company description

TCS is India's largest and among the oldest IT companies. It is part of the diversified Tata Group, one of the largest corporate groups in Asia. It has more than 100,000 employees, including its subsidiaries, with marketing presence across 32 countries and development presence in 10 countries besides India. It provides a comprehensive range of IT services to industries such as banking and financial services, insurance, manufacturing, telecommunications, retail and transportation. It had more than 800 active clients, including six of the Fortune Top 10 companies in the US. The company started with data processing work in 1968, and was the first to provide offshore services in 1974. Over the last three decades, the company has come a long way with deep technical and project management expertise in handling complex client projects and strong offshore processes.

Investment strategy

We rate TCS as Buy/Medium Risk (1M) based on a fundamental 12-month view. As India's largest and most experienced IT services firm, TCS looks well positioned to benefit from the growing demand for offshore IT services. It is a well-regarded stock among investors familiar with India and the IT-services sector. We believe TCS' margins in its international IT services business (around 95% of EBIT) are likely to trend down over the next few years. However, we expect this decline to be relatively modest, as we expect positive leverage from a better onsite-offshore mix, more hiring of fresh graduates, and improved utilization with a strong demand outlook to offset margin pressures from wage inflation. We expect revenue CAGR of 21.8% and an EPS CAGR of 16.9% in FY07-10E.

Valuation

Our target price of Rs1,165 is based on 19x average of FY09-10E EPS, derived from a small discount to our target 21x for Infosys, TCS's closest peer on business model. We expect TCS to continue to trade at slightly lower multiples than Infosys due to investors' greater comfort and familiarity with Infosys and the periodic supply of additional stock by Tata Sons. Our target price assumes a one-year forward P/E of 15-20% above the average BSE Sensex multiple, which we think is justified given TCS' superior FCF, RoIC and growth rates than the overall market, and it actually implies a slightly lower premium than that for Infosys. We believe P/E remains the most appropriate valuation measure given TCS' profitable track record and strong earnings visibility.

Risks

Although our quantitative risk-rating system suggests Low Risk for TCS, we rate TCS as Medium Risk given the similar risk ratings for other similar-sized IT peer-group companies in our coverage universe. The key downside risks that could impede the stock from reaching our target price include: (1) any significant appreciation of the rupee against the US Dollar/Euro/GBP; (2) a sharp slowdown in the US economy; (3) H1B visa quotas; (4) large exposure to fixed-price contracts; (5) higher onsite revenue contribution (~53% of total); and (6) acquisition-related risks, including M&A with other Tata-group IT firms.

United Spirits (UNSP.BO)

Buy/Low Risk	**1L**
Price (12 Mar 08)	Rs1,646.45
Target price	Rs2,164.00
Expected share price return	31.4%
Expected dividend yield	0.3%
Expected total return	**31.7%**
Market Cap	Rs164,539M
	US$4,077M

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

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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — United Spirits spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Strong growth ahead** — Favorable demographics (50% of the population is below 25 years) and migration from local to branded liquor will likely sustain long-term double-digit volume growth for UNSP.
- **Margins could rise further** — Margins have expanded following the Shaw Wallace acquisition, and the trend is likely to continue driven by improvement in product mix as consumers trade up to higher-end brands.
- **More value addition from Whyte & Mackay** — Management indicated that global scotch shortage is likely to persist at least for another 4-5 years, which should continue to drive scotch prices. This bodes well for W&M margins, which could further surprise if its branded business scales up.
- **Innovations aiding growth** — Despite being a market leader in an industry with high entry barriers, UNSP remains consumer-centric, leading to innovations like tetra-pack packaging and a patented diet variant of its key liquor brands.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	445	7.37	3.3	nm	11.8	7.9	0.2
2007A	2,973	35.86	386.8	45.9	10.0	26.9	0.2
2008E	4,128	41.28	15.1	39.9	9.7	27.0	0.3
2009E	6,465	64.65	56.6	25.5	7.4	33.0	0.4
2010E	8,043	80.43	24.4	20.5	5.7	31.4	0.6

Source: Powered by dataCentral

United Spirits

Company description

United Spirits is the largest player in India's branded spirits market. It pursues an inorganic growth strategy, acquiring the second-largest Indian liquor manufacturer, Shaw Wallace and recently acquiring scotch manufacturer Whyte & Mackay. While the Shaw Wallace acquisition has significantly enhanced its competitive position, increasing its market share in branded spirits to 53%, Whyte & Mackay has given it access to scotch inventory, which will drive the next leg of India growth strategy. UNSP has also acquired French winemaker Bouvet Ladubay — the wine arm of champagne major Taittinger - and is looking to introduce its products to the Indian market.

Investment strategy

We have a Buy (1L) rating on United Spirits and a target price of Rs2164. India's organized liquor market is growing at a rate of 13%, driven by rising disposable incomes, favorable demographics and a shift in consumption patterns. Being the market leader, United Spirits looks well positioned to benefit from this growth rate. Its acquisition of Shaw Wallace has strengthened its competitive position. It has a 53% share of India's organized liquor market, which is characterized by high entry barriers. United Spirits is exploring international acquisitions to fuel growth. It has recently acquired Whyte & Mackay, the fourth-largest scotch company in the world. The acquisition is EPS accretive and is a good strategic fit. It will significantly enhance UNSP's plans to expand its presence in the Indian premium whisky segments, as well as expand into the fast-growing Chinese and Russian markets. In addition, Whyte & Mackay will provide UNSP access to the European market, though we expect UNSP's focus to remain on the Indian market. UNSP is well positioned to enhance the value of Whyte & Mackay's inventory of scotch whiskey, by providing access to a ready and fast-growing market for premium whisky. Steady sales growth, margin expansion and lower interest costs should drive an EPS CAGR of 51% in FY07-09E. United Spirit's capital efficiency is looking up amid strong earnings growth.

Valuation

Our target price of Rs2164 is based on 18x FY09E EV/EBITDA. We have benchmarked our 18xEV/EBITDA target multiple against the regional and global liquor companies. Our 18x EV/EBITDA target multiple is at about a 15% discount to the Asian peer group average, which we believe is conservative, given that UNSP EBITDA growth CAGR is significantly higher than the peer group average. However, we attribute a premium of about 20%-25% to UNSP to the global FY09E average valuation multiples in recognition of: 1) United Spirit's dominant position in India's liquor market; 2) strong demand growth of 13%, driven by rising incomes and market-share gains at the expense of the unbranded sector; 3) high barriers to entry; and 4) a 51% two-year EPS CAGR, almost 2x higher than the global peer group average.

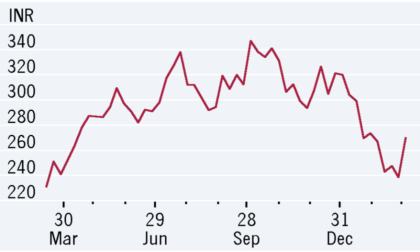
Risks

We rate United Spirits Low Risk based on our quantitative risk-rating system, which tracks 260-day historical share-price volatility. The key downside risks to our rating and target price include: 1) the liquor industry is highly regulated. Any change in policy (like increase in taxes, further control on distribution or an outright ban on liquor sales in some states) could adversely impact growth and profitability. 2) Easing the norms for entry of foreign players could increase competition and hurt growth prospects. 3) The company is looking for international acquisitions. Any bad buyout would result in further pressure on gearing and interest costs. 4) A general slowdown in GDP / income growth could lead to slowdown in market growth and sales 5) Post acquisition of Whyte & Mackay, gearing has increased significantly, increasing cash flow risks 6) UNSP will also need to successfully integrate Whyte & Mackay.

Zee Entertainment (ZEE.BO)

Buy/Low Risk	**1L**
Price (12 Mar 08)	Rs266.50
Target price	Rs354.00
Expected share price return	32.8%
Expected dividend yield	1.4%
Expected total return	**34.2%**
Market Cap	Rs115,546M
	US$2,863M

Price Performance (RIC: ZEE.BO, BB: Z IN)



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Citi India Conference 2008: Day 2 Takeaways

- **Conference takeaways** — Zee spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **Ratings continue to improve** — Zee's viewership ratings continue to improve and its latest ratings are almost at par with the leading channel, Star TV. Zee also now leads with over 50 of its programs in the top 100. This should allow it to continue to hike advertising rates. Management has guided at 20-25% ad revenue growth going forward.
- **Subscription revenues to pick up** — Management expects to double its DTH subscription revenues in FY09, and expects overall pay TV revenue growth to pick up to close to 20% next year and continue to accelerate beyond that.
- **Margins to remain stable** — According to the management, costs associated with the new channel (Zee Next) may pare margin expansion – in the worst case, margins will be stable, but could expand depending on the competitive landscape.
- **CAGR of 30%** — Management targets of growing the business from Rs11bn in FY06 to Rs40bn by FY11, a CAGR of 30% over the 5 years.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,142	5.19	-32.5	51.3	10.5	17.9	0.3
2007A	2,411	5.55	6.8	48.0	6.9	17.6	0.2
2008E	3,987	9.17	65.4	29.1	6.1	22.2	1.4
2009E	5,130	11.80	28.7	22.6	5.5	25.6	2.2
2010E	6,232	14.34	21.5	18.6	4.9	27.8	2.7

Source: Powered by dataCentral

Zee Entertainment

Company description

Zee Telefilms Limited (Zee) is India's largest vertically integrated media and entertainment company. It has an integrated range of businesses, encompassing the content-to-consumer value chain of media and entertainment business. The company owns a bouquet of channels across various genres including general entertainment, cinema, music, news and sports. Zee has been investing heavily in new businesses, including new channels and content.

Investment strategy

We rate Zee as Buy/Low Risk (1L). We view the recent restructuring by Zee in which the company has split its business into four entities as positive because this has added focus to the business and allays our concerns related to Zee's investment in DTH, which we believe would have strained Zee's balance sheet and diverted the focus away from the core broadcasting business. Additionally, Zee is well positioned to benefit from the rising share of broadcasters in the rapidly increasing pay revenue stream. Zee's viewer ratings are also rising which is expected to drive advertising revenue growth of over 20%. Strong revenues and margin expansion are likely to drive 37% EPS CAGR over the next 3 years.

Valuation

We are valuing Zee on a P/E multiple. We believe that P/E is the appropriate valuation methodology, given Zee's stable earnings stream and low capital intensity of the business. We use a 30x P/E multiple which returns a value of Rs354 per share. Our 30x target multiple is at the higher end of the historical trading average, which we believe is warranted given that fundamentals are looking up as channel ratings are improving. Our target multiple of 30x factors in: a) an improving EPS growth profile due to a pickup in advertising and pay revenues; b) higher ROE and free cash flow profile of Zee on account of de-merger of distribution businesses; and c) maintaining a relative premium to the Sensex.

Risks

We believe that with the restructuring, the business will become more transparent and that the execution risk on DTH will be mitigated. As such, our Low Risk rating is consistent with our quantitative risk-rating system, which tracks 260-day historical share price volatility. The following factors could negatively affect earnings and investor sentiment: an economic slowdown, which could result in a decline in advertising growth rates; the loss of channel ratings; change in regulatory environment curbing pay revenue growth; slower than expected growth of CAS and DTH; and an increase in competitive activity resulting in higher costs and margin contraction. Any of these risks could impede the stock from reaching our target price.

Appendix A-1

Analyst Certification

Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

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A member of Tirthankar Patnaik's household holds a long position in the shares of Bharati Shipyard.

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Citigroup Global Markets Inc. or an affiliate received compensation in the past 12 months from Apollo Hospitals, Sterlite Industries (India) and United Spirits.

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Citi Investment Research Ratings Distribution

Data current as of 31 December 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3421)	50%	37%	12%
% of companies in each rating category that are investment banking clients	52%	53%	40%

Guide to Fundamental Research Investment Ratings:

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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