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Take Five

| Scrip | Reco Date | Reco Price | CMP | Target |
|---------------------|-----------|------------|-------|--------|
| ♦ Aditya Birla Nuvo | 06-Dec-05 | 714 | 1,189 | 1,280 |
| ♦ Ceat | 28-Nov-06 | 122 | 130 | 190 |
| ♦ India Cements | 28-Sep-06 | 220 | 230 | 315 |
| ♦ Lupin | 06-Jan-06 | 403 | 545 | 565 |
| ♦ Thermax | 14-Jun-05 | 124 | 385 | 425 |

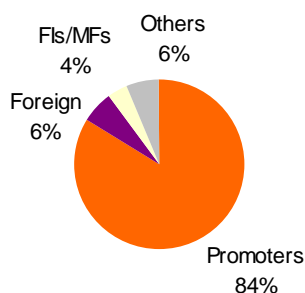
Tata Consultancy Services

Evergreen
Stock Update
Orders galore
Buy; CMP: Rs1,192

Company details

| | |
|-------------------------------|--------------|
| Price target: | Rs1,325 |
| Market cap: | Rs116,453 cr |
| 52 week high/low: | Rs1,212/768 |
| NSE volume: (No of shares) | 7.6 lakh |
| BSE code: | 532540 |
| NSE code: | TCS |
| Sharekhan code: | TCSCONS |
| Free float: (No of shares) | 16.0 cr |

Shareholding pattern



Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|------|------|------|
| Absolute | 12.3 | 20.9 | 39.4 | 49.5 |
| Relative to Sensex | 5.8 | 2.6 | -2.6 | -4.8 |

Key points

- ♦ **Large orders bagged:** Tata Consultancy Services (TCS) has bagged seven large outsourcing deals in the past six weeks, amounting to a combined value of over \$500 million. The clients are from diverse industry domains and geographies.
- ♦ **Boosting the Chinese operations:** TCS has secured a \$100-million order from the Bank of China, which is one of the largest outsourcing deals from China to an Indian vendor. Moreover, the induction of the global technology major Microsoft Corporation as a strategic investor with a 10% stake in its Chinese subsidiary, TCS China, also augurs well for the company's growth plans in China.
- ♦ **Maintain Buy call:** At the current market price the stock trades at 29.3x FY2007 and 23.3x FY2008 estimated earnings. We maintain our Buy call on the stock with price target of Rs1,325.

Another large order in bag

The order inflow for TCS continues. The company has announced a five-year multi-million-pound contract from the UK-based United Biscuits. The specifics of the contract (eg the size of the order) are not known but the contract makes TCS the preferred supplier of information technology (IT) application and support services. It also makes TCS the favoured provider of maintenance services for critical applications meant for key business functions of manufacturing and supply chain management.

Lucky seven

TCS has announced seven large outsourcing deals since the beginning of November 2006. The combined value of the seven contracts is estimated at over \$500 million. What's more, the orders have come from diverse industry verticals and geographies. The client list includes reputed names in transportation, pharmaceutical, banking, retail and healthcare segments spread across the USA, the UK, part of Europe and China.

Earnings table

| | Rs (cr) | | | |
|-----------------------|---------|----------|----------|----------|
| Particulars | FY2005 | FY2006 | FY2007E | FY2008E |
| Net revenue (Rs cr) | 9,727.0 | 13,245.0 | 18,344.0 | 23,803.0 |
| Net profit (Rs cr) | 2,356.0 | 2,911.0 | 3,977.0 | 4,993.0 |
| Number of shares (cr) | 96.0 | 97.9 | 97.9 | 97.9 |
| EPS(Rs) | 24.5 | 29.7 | 40.6 | 51.0 |
| % y-o-y chg | | 21.3 | 36.6 | 25.5 |
| PER | 48.5 | 40.0 | 29.3 | 23.3 |
| OPM (%) | 27.7 | 25.7 | 24.9 | 24.2 |
| RoNW | 58.2 | 49.4 | 44.3 | 38.5 |
| RoCE | 51.4 | 40.1 | 38.7 | 35.6 |

Chosen outsourcing partner

| Company | USD million | Industry vertical | Geography |
|----------------|-------------|---------------------------------|-----------|
| Eli Lilly | 30-35 | Pharmaceuticals | US |
| Qantas | 90 | Transportation | Australia |
| Novo Nordisk | 30-35 | Pharmaceuticals | Europe |
| Kimberly Clark | 100 | Healthcare and hygiene products | US |
| Somerfield | 65 | Retail | UK |
| Bank of China | 100 | Banking | China |
| United Biscuit | NA | Manufacturing | UK |

Racing ahead of others in China

One of the notable order wins is the \$100-million contract from the Bank of China to provide a range of banking solutions. This is one of the largest contracts from China to an Indian IT service vendor and puts TCS ahead of its peers in the race to expand operations in China.

In addition to this, TCS has forged strategic partnership with three Chinese companies and the global technology leader Microsoft Corporation to establish its operations in China. It recently sealed the tripartite investment agreement with Microsoft and the Chinese companies (which are state-owned software exports parks/bases) that enabled Microsoft to acquire a 10% stake in the venture, TCS China. It would be controlled by TCS (having a 65% stake) with a 25% stake held by the three Chinese companies and a 10% with Microsoft.

TCS aims to ramp up the employee capacity of its Chinese subsidiary, TCS China, to over 5,000 employees (up from around 500 now) over the next four to five years.

Valuation

At the current market price the stock trades at 29.3x FY2007 and 23.3x FY2008 estimated earnings. We maintain our Buy call on the stock with price target of Rs1,325.

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

Television Eighteen India

Emerging Star

Stock Update

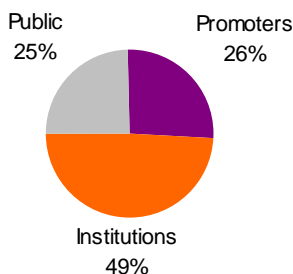
TV18 enters stock broking business

Buy; CMP: Rs895

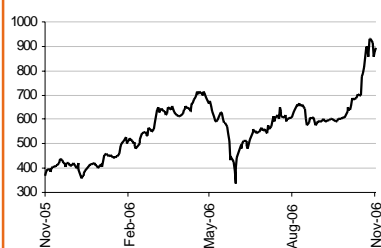
Company details

| | |
|-------------------------------|--------------|
| Price target: | Under review |
| Market cap: | Rs1,884 cr |
| 52 week high/low: | Rs975/316 |
| NSE volume: (No of shares) | 56,957 |
| BSE code: | 532299 |
| NSE code: | TV18 |
| Sharekhan code: | TV18 |
| Free float: (No of shares) | 1.6 cr |

Shareholding pattern



Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|-------|-------|-------|
| Absolute | 40.1 | 106.9 | 144.6 | 198.4 |
| Relative to Sensex | 31.9 | 75.5 | 70.8 | 90.0 |

Key points

- Web18, a subsidiary of TV18 India, has entered into a partnership with Ambit and Centurion Bank of Punjab (CBoP) to pursue stock broking business. In this venture Ambit and Web18 will hold a 40% stake each whereas CBoP will hold a 20% stake. It will leverage the partners' complementary strengths.
- This deal puts Web18 in a completely new line of business which allows it to put its niche Internet properties to good use. Given the market's thumbs-up to the deal (evident from the surge in CBoP price), the new TV18 stock is also expected to trade higher by Rs45-60.
- Earlier TV18 had acquired CRISIL Marketwire. Our estimates and the price target do not reflect the acquisition and the latest deal with Ambit and CBoP. After the listing of TV18 (new) and gaining clarity from the management we will be revising our estimates and price targets.
- We remain bullish on TV18 in view of the company's compelling properties and the ability of its management to monetise the same.

Web18 inks partnership with Ambit and Centurion Bank of Punjab...

Web18, a subsidiary of TV18 India, has entered into a partnership with Ambit and CBoP to pursue stock broking business that will have a strong Internet presence in India. Ambit and Web18 will hold 40% each while CBoP will hold 20% in the venture. Apart from stock broking, a range of financial services including distribution of third-party products and portfolio management services will also be offered by the venture. The new business will leverage upon the online presence of Web 18's several Internet properties, including *moneycontrol.com*, *easymf.com*, *poweryourtrade.com* and *commoditiescontrol.com*, as well as the extensive branch reach of CBoP. A professional board chaired by Rana Talwar will manage the businesses.

The three players bring together complementary strengths for the business. Ambit has extensive experience in providing financial services such as investment banking, stock broking and investment advisory services. Web18 is a leading player in the

Valuation table#

| | Rs (cr) | | | |
|-------------------------|---------|--------|---------|---------|
| Particulars | FY2005 | FY2006 | FY2007E | FY2008E |
| Net profit (Rs crore) | 34.1 | 39.0 | 58.7 | 76.3 |
| Shares in issue (crore) | 1.7 | 2.1 | 2.1 | 2.1 |
| EPS (Rs) | 20.2 | 18.6 | 27.9 | 36.3 |
| % y-o-y growth | 164.0 | -11.0 | 55.0 | 30.0 |
| PER (x) | 55.1 | 48.2 | 32.0 | 24.6 |
| Book value (Rs) | 67.0 | 113.8 | 150.7 | 182.5 |
| P/BV x) | 13.4 | 7.9 | 5.9 | 4.9 |
| EV/EBITDA (x) | 28.2 | 20.8 | 19.0 | 15.7 |
| RoNW (%) | 41.2 | 21.6 | 21.1 | 21.8 |
| RoCE (%) | 24.6 | 14.3 | 17.2 | 20.9 |

#Estimates for TV18's existing entity which has only one channel as of now, viz CNBC TV18, and the Internet ventures

Indian Internet space with over 5 million unique visitors per month. With more than 3 million customers at its 249 branches, CBoP has strong presence across the country and significant understanding of the retail segment in India.

...reinforcing our confidence in the stock

This deal puts Web18 in a completely new line of business which allows it to put its niche Internet properties to good use. This event should come as a good short-term trigger for the stock when the same re-lists after the restructuring of the company's business (see annexure "What's next?"). In fact, the stock of one of the partners, CBoP, was up over 4% after the announcement of this deal, adding around Rs180 crore of market capitalisation in a day. Given the market's thumbs-up to the deal, the TV18 stock is also expected to trade higher by Rs45-60.

Earlier TV18 had acquired CRISIL Marketwire. Our estimates and the price target do not reflect the acquisition and the latest deal with Ambit and CBoP. After the listing of TV18 (new) and gaining clarity from the management we will be revising our estimates and price targets.

We remain bullish on TV18 in view of the compelling properties that it has in its kitty (CNBC TV 18, Awaaz, CNN IBN, IBN 7, *moneycontrol.com*, *commoditiescontrol.com*, *poweryourtrade.com*, *jobstreet.com*, *cricketnext.com* and *yatra.in*). We are also impressed with the management's ability to monetise each of these properties.

Annexure: What's next?

TV18's board has recommended the restructuring of its business. Under the scheme of arrangement, TV18 would consolidate its various media properties, like television channels and Internet ventures, into two companies as given hereunder. The shareholders as on November 24 will get 14 shares of TV18 (new) for ten shares of TV18 (existing) and 12 shares of Network 18 India for ten shares of TV18 (existing).

We have derived the price target of the existing entity based on our price targets for TV18 (Rs382.7) and Network 18 (Rs 258.8) (Refer our earlier report dated November 1, 2006: "Price target revised to Rs850"). Henceforth we shall be reporting these two companies independently with independent price targets.

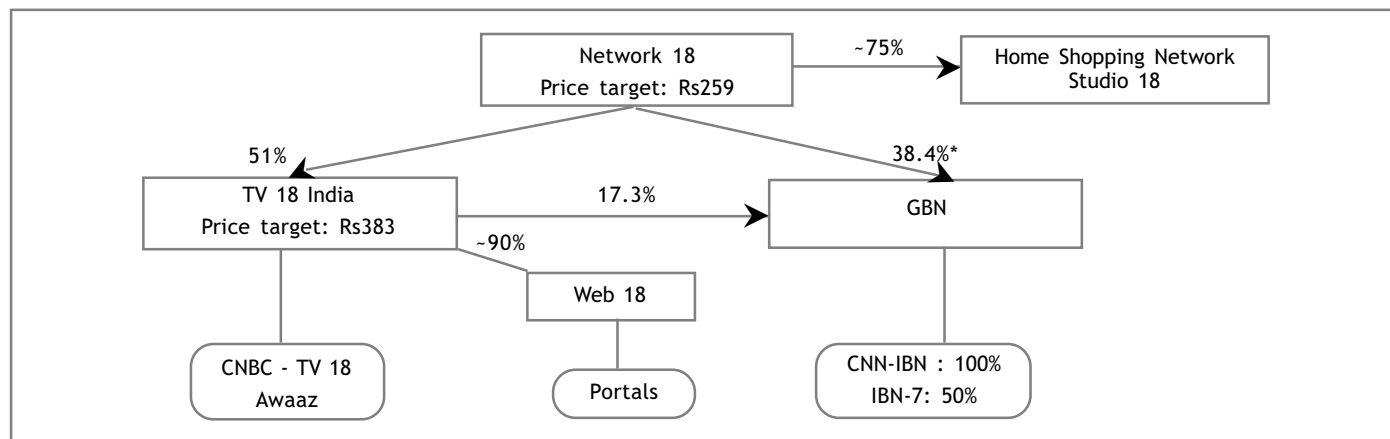
Price targets for thee companies post-listing

| | Name of the company | Price target | Rounded off |
|-----|---------------------|--------------|-------------|
| (A) | TV18 (new) | 382.7 | 383 |
| (B) | Network 18 India | 258.8 | 259 |

Price target for TV18 (existing)

| | Rs per share | Comment |
|--|--------------|-----------------|
| 14 shares of TV18 (new) for 10 shares of TV18 (existing) | 535.8 | 382.7 * 140/100 |
| 12 shares of Network 18 India for 10 shares of TV18 existing | 310.6 | 258.8 * 120/100 |
| Fair value of TV18 (existing) | 846.4 | |

TV18: Post-restructuring exercise



Source: Company. * assuming 17% dilution in IPO

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

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
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SKF India
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Tata Tea
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Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solelectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

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

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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