



Sensex: 12,173

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# BUY: Stronger UPA Govt !

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# Investment Summary

- ❖ With the UPA at a provisional 261 seats (Cong= 202), a stable reformist government is now certain, partly discounted by fund managers much ahead of pollsters & strategists
- ❖ Global investors had decided in late CY 08 itself, to decrease exposure to a slower LT growth West for the immediately hurt but eventually higher growth EMs. However, this got actionated only by March 09 when the USD started falling
- ❖ India participated in the EM rally thereafter, though not as much due to electoral fears. Unlike other EMs, India has been hurt more by a lack of financial flows vs trade flows. Thus, India stands to gain the most among EMs from this resurgent global liquidity, with the removal of political fears. The country-confidence and global liquidity would also sharply reverse the (chicken-&-egg) of INR depreciation which has been hurting investments into India
- ❖ **Reform expectations:** Roadmap for GST implementation, Return to **Fiscal prudence**, **FDI/ FII liberalization** (Banking/ Insurance/ Retail), **Disinvestment**, **3G** spectrum auction , **NELP VIII** for oil & gas exploration, maybe even oil decontrol
- ❖ **Sectors to gain the most in the immediate term would be those:**
  - ❑ Liquidity-dependant for growth: **Realty, Retail & Infrastructure**
  - ❑ Demand-slowdown to reverse: **Banking** (Sectors like Auto, Cement, FMCG which witnessed relatively higher Demand vs other sectors in the last few months, to Underperform relatively), **Gas-chain**.
  - ❑ Appreciating INR: **Commodities** (IT & Pharma to suffer)
  - ❑ Reform: **Power, Retail, Telecom, Insurance**, PSUs which require capital to grow (esp **PSU banks**). PSUs as a whole have no particular reason to benefit, though Divestments could improve valuations of their competitors
- ❖ **Outperformers among Sensex stocks:** **Bharti, DLF, ICICI, ONGC, RCom, Sterlite, Rel Infra**
- ❖ 52 Buys mentioned on slide 4, followed by Rationale on each. The highest Upsides are likely to be in Banking, Engg & Power, Infra, Metals, Realty, Retail and Telecom
- ❖ **But Watch, by July/ Aug:** a) Flood of QIPs, b) Union Budget

# Sensex Outperformers

- ❖ The immediate catch-up of India to the global EM rally could take the Sensex up by upto 20-25% (15K). We have tried to determine potential Out vs Under Performers within the Sensex below, using such a crude guide. As every stock will not hit its potential, buying upto ~14K is safe. **52 Buys are provided on the next slide**

Company name	Mcap (USDm)	CMP	Potential Price	% Upside	Implied Valuation
Sterlite Inds	6,573	460	736	60	8x FY11E core EPS + cash/share of Rs 116
DLF	8,838	258	387	50	Price/ NAV of ~ 1.0x
Reliance Com	9,668	232	348	50	FY10E EV/EBITDA of 6x + Rs 135 embedded value in tower co (taken at last placement)
ICICI Bank	12,898	574	833	45	1.5x FY11E Adj. BV (banking) + VOI Rs 365 (of which life insurance valued at Rs 143)
Bharti Airtel	30,625	800	1,120	40	FY10E EV/EBITDA of 10.5x + Rs 180 embedded value in tower co
ONGC	35,075	813	1,097	35	P/E at 12.5x FY10E EPS; EV/boe at ~USD 4.4
Reliance Infrs	3,721	819	1,105	35	Adj. Vol for RPWR of Rs 455, implied P/B is 1.1x FY10E
HDFC Bank	10,168	1,185	1,540	30	3x FY11E Adj. BV and 18x FY11E earnings
HDFC	11,106	1,936	2,517	30	3.5x FY11E Adj. BV (mortgage) + VOI Rs 1,018 (of which life insurance valued at Rs 263)
State Bank	16,806	1,312	1,706	30	1.3x FY11E Adj. BV (banking) + VOI Rs 520 (of which life insurance valued at Rs 198)
BHEL	16,860	1,707	2,220	30	PE of 24x FY10E and 20x FY11E
Grasim Inds	3,480	1,882	2,258	20	7x FY10E EV/EBITDA plus VOI of Rs 173/share
ITC	14,173	186	223	20	
Larsen & Toubro	11,675	988	1,186	20	Adj for Vol of Rs 58 is PE of 26x FY10E and 22x FY11E
Tata Motors	2,405	265	318	20	7.5x FY11E EV/EBITDA + value of subs at Rs 7/share
Reliance Inds	61,850	1,948	2,256	16	P/E at 12.4x FY11E EPS
Mahindra & Mahindra	2,890	514	591	15	12x FY11E core EPS of Rs 37.7 + VOI of Rs 147/ share
Sun Pharma	5,394	1,298	1,493	15	INR appreciation can impact profits, as it is a net exporter. Implied PE of 19.4x FY10E.
Tata Power	4,058	909	1,045	15	Adj. Vol for telecom investment of Rs 194, implied P/B is 1.5x FY10E and 1.3x FY11E
Hero Honda	4,921	1,222	1,405	15	17x FY11E EPS of Rs 81
Hindustan Unilever	9,863	224	258	15	Target median PE of 23.5x vs 5 yr average of 24.4
Maruti Suzuki	4,939	848	975	15	16.5x FY11E FDEPS of 58.4 (translates into a 8x FY11E EV/EBITDA)
ACC	2,403	635	698	10	7x FY10E EV/EBITDA
Infosys Tech	18,422	1,594	1,754	10	FY11E P/E at ~16.5x.
NTPC	31,203	188	206	10	P/BV of 2.7x FY10E and 2.5x FY11E
Hindalco Inds	2,415	70	74	5	6x FY11E EPS + VOI of Rs 14
Tata Steel	4,010	272	286	5	7x FY11E EPS
Wipro	11,157	378	397	5	FY11E P/E at ~14.5x.
TCS	12,752	646	678	5	FY11E P/E at ~12x.
Jaiprakash Asso	3,357	141	141	0	
<b>Sensex</b>		<b>12,173</b>	<b>15,051</b>	<b>24</b>	

Note: The above Potential prices are NOT our analysts' Target Prices (some may be revised in the next few weeks); they are a crude multiple expansion exercise based on the impact of stable reformist Govt & continuing Liquidity. Hero Honda replaces Ranbaxy in end-June

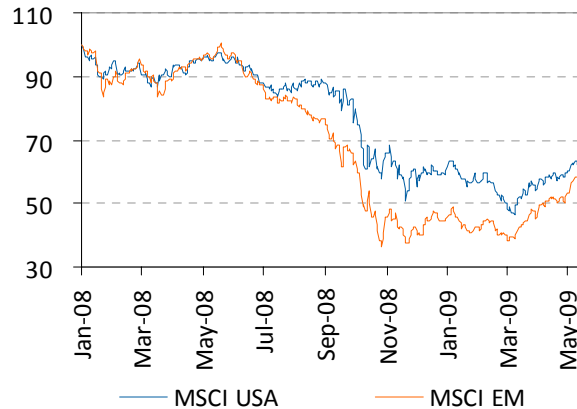
- ❖ The highest Upsides are likely to be in Banking, Engg & Power, Infra, Metals, Realty, Retail and Telecom. Slides 7 onwards provide the rationale for the following Buys

Company Name	MCAP (\$ mn)	Price		CMP/ 8-Jan-08
		CMP	8-Jan-08	
ONGC	35,075	813	1,322	-39%
Bharti Airtel	30,625	800	974	-18%
ICICI Bank	12,898	574	1,334	-57%
Reliance Comm	9,668	232	804	-71%
DLF	8,838	258	1,151	-78%
GAIL	6,895	269	350	-23%
Sterlite Inds	6,573	460	1,035	-56%
Reliance Power	6,247	129	-	-
Jindal Steel & Power	5,003	1,603	3,182	-50%
Hindustan Zinc	4,555	534	790	-32%
GMR Infra	4,156	113	245	-54%
IDEA	4,062	65	136	-52%
Mundra Port	3,807	471	1,200	-61%
Reliance Infra	3,721	819	2,536	-68%
PNB	3,657	575	683	-16%
Reliance Capital	2,927	591	2,696	-78%
Bank of Baroda	2,515	342	452	-24%
Suzlon Energy	2,318	77	455	-83%
Bajaj Auto	2,314	793	-	-
Sesa Goa	2,312	146	186	-22%
Unitech	2,101	51	525	-90%
Asian Paints	1,847	955	1,243	-23%
Union Bank	1,780	175	224	-22%
Sun TV	1,602	202	421	-52%
Lupin	1,306	782	610	28%
Crompton Greaves	1,300	176	380	-54%
Zee Ent	1,253	143	306	-53%
Piramal Healthcare	1,068	253	295	-14%
Aditya Birla Nuvo	1,054	550	2,132	-74%
HDIL	1,013	182	941	-81%

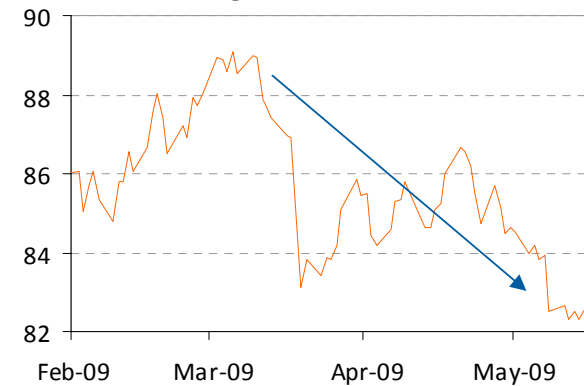
Company Name	MCAP (\$ mn)	Price		CMP/ 8-Jan-08
		CMP	8-Jan-08	
Punj Lloyd	807	132	549	-76%
GVK Power & Infra	798	28	83	-66%
Titan Inds	790	882	1,602	-45%
Indiabulls Real Estate	769	148	775	-81%
Oriental Bank	725	143	296	-52%
Thermax	676	281	814	-65%
Pantaloon Retail	672	209	800	-74%
Shree Cement	576	819	1,367	-40%
Century Textile	527	281	1,203	-77%
Voltas	441	66	240	-72%
IVRCL Infra	437	162	526	-69%
Chennai petro	382	127	404	-69%
Gujarat Gas	355	275	354	-22%
Indraprastha Gas	336	119	167	-29%
AIA Engg	330	174	320	-46%
ING Vysya	269	130	351	-63%
TV Eighteen	262	108	510	-79%
Patel Engg	262	218	967	-78%
Peninsula Land	236	42	152	-72%
Redington	220	140	404	-65%
Sobha Developers	163	111	932	-88%
Brigade Enterprises	112	49	369	-87%

# Globally, recovery signs catalyze liquidity moves

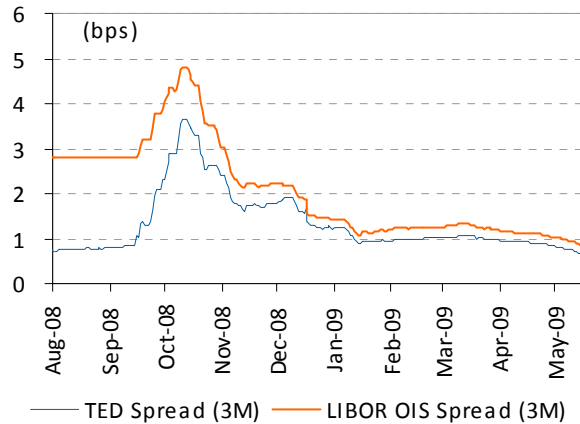
**Global markets rallied...**



**As USD fell against broader currencies**



**Libor & TED spreads reached pre-Lehman levels**



Source: Federal Reserve Bank.

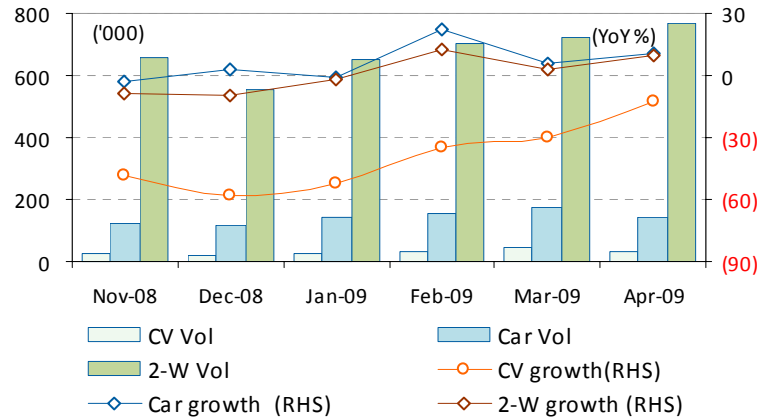
**US banks' stress test allays worst fears**

Banks	(USD bn)
Bank of America Corporation	33.9
Wells Fargo & Company	13.7
GMAC LLC	11.5
Citigroup, Inc	5.5
Regions Financial Corporation	2.5
Sun Trust Bank, Inc	2.2
KeyCorp	1.8
Morgan Stanley	1.8
Fifth Third Bancorp	1.1
PNC Financial Corporation	0.6

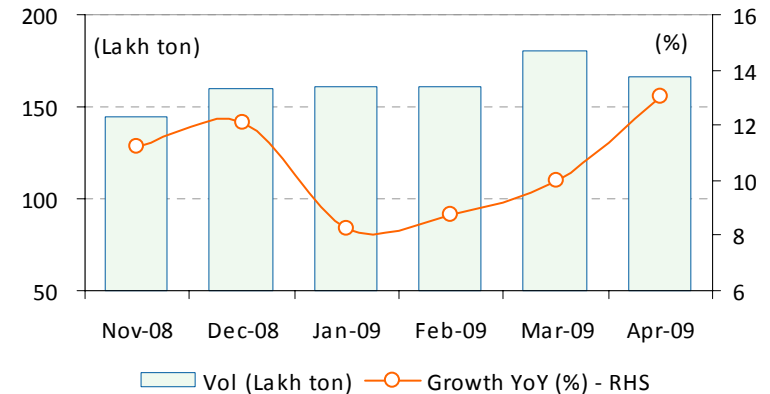
**While indicators such as US ISM survey, Michigan Consumer confidence index, Chinese Ind production, credit growth etc seem to be bottoming out, concerns abound on corporate profit growth and any further financial accidents. There are hints of a possible trough in China & UK as per OECD lead indicators. HOWEVER, there is still a STRONG SLOWDOWN in the US, Euro area & Japan**

# Domestic indicators flash an uptick in 1Q CY 09 from its trough

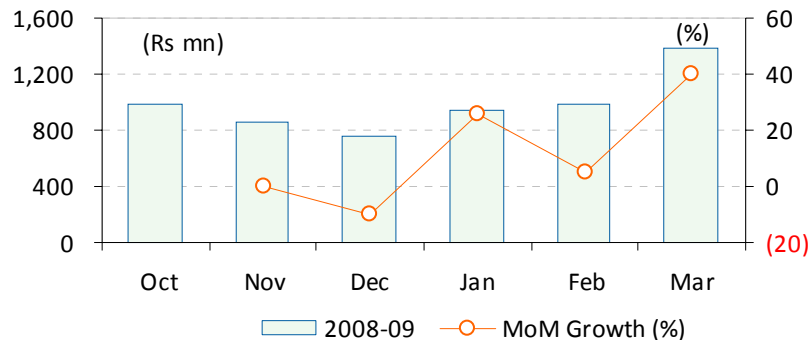
### Car, CV, 2W sales



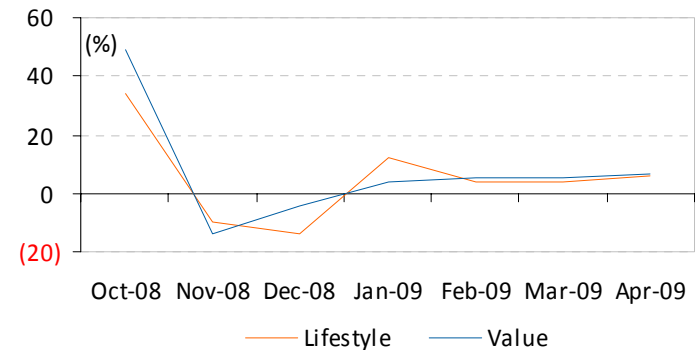
### Cement dispatches



### Leading pvt player: Home loan disbursals



### Pantaloon retail sales



Source: CMIE.

- ❖ Rail & Port freight volumes also turned up sharply from their trough in Feb 09. Anecdotal info from banks show that incremental credit to Infra & Realty has increased substantially from Feb onwards vs the previous 12 months. DLF & Unitech have raised USD 1.1 bn through QIPs, hinting at end of their liquidity drought.
- ❖ However, IIP, exports and services growth continue to flash signs of distress

# Buys: Rationale

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The **highest Upsides** are likely to be in Banking, Engg & Power, Infra, Metals, Realty, Retail and Telecom

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❖ <b>Telecom</b>	<b>24</b>
❖ Others	25



## ❖ Sector Comments:

- ❑ Interest rates to remain benign, and **availability of finance** to the sector should increase
  - ▶ **Draft guidelines on repossession** to be enforced, which will improve lending to two-wheeler sector.
- ❑ **Higher infra spend by the govt.** would lead to an improvement in M&HCV volumes

## ❖ Top Buy: Bajaj Auto

- ❑ Domestic volumes will improve as **banks increase lending** to the sector. Bajaj Auto is **more dependent on financing** v/s peers.

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Bajaj Auto	2,314	793	-	56	60	13

Source: Bloomberg, ENAM Research

## ❖ Sector Comments:

- ❑ FDI regulations can be relaxed in **insurance** sector – unlocking of value for parent companies
- ❑ **Listing of non-banking entities** like Mutual Fund, insurance and securities business
- ❑ Mergers & Acquisitions - **Consolidation** to gain priority and importance
- ❑ **Capital raising** to become easier and support future growth
- ❑ Low inflation and ample liquidity to keep **interest rates benign** and support high growth rates

## ❖ Top Buys:

- ❑ SOTP plays: **ICICI Bank, Reliance Capital**
- ❑ Valuation plays: **PNB, Bank of Baroda, Union Bank, Oriental Bank and ING Vysya Bank**

Company name	MCAP (USDm)	Price		Adj. BV		VOI	P/ ABV on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e	FY10e
Bank of Baroda	2,515	342	452	341	395		0.9
ICICI Bank	12,898	574	1,334	296	302	218	1.2
ING Vysya	269	130	351	142	159		0.8
Oriental Bank	725	143	296	241	268		0.5
PNB	3,657	575	683	419	513		1.1
Reliance Capital	2,927	591	2,696	304	329		1.8
Union Bank	1,780	175	224	133	165		1.1

Source: Bloomberg, ENAM Research

- ❖ **Infrastructure thrust and focus on rural India** to boost cement demand
- ❖ This would support industry to ease overcapacity situation in medium term
- ❖ **Govt. risk on capping cement prices to be mitigated** by fresh supply in next 12 months
- ❖ **Top Buy: Shree Cement**
  - ▶ **Strong volume growth** with front-loaded capacity expansion
  - ▶ **Investing in merchant power business** to counter cement cyclicality
  - ▶ Attractive valuations – trading at **USD 60/t** (FY10)

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Shree Cement	576	819	1,367	175	87	9

Source: Bloomberg, ENAM Research

# Engineering and Power...

## ❖ Sector Comments:

- ❑ **Concerns on cancellations / deferrals in existing order book to subside** as availability of finance (equity + debt) eases
  - ▶ Key beneficiaries would be companies with higher exposure to private sector capex
- ❑ **Corporates will expedite their long-pending expansion plans**
- ❑ Order inflow to regain momentum driven by Govt. thrust on infra projects ( power, roads, etc)
  - ▶ BHEL and L&T to benefit from faster clearance on **NTPC/DVC bulk tender of Rs 210 bn** for 11x660MW super critical projects
  - ▶ L&T & PUNJ key beneficiaries as PPP for NHA road/port likely to take centre-stage
  - ▶ Possibility of equity raising by PGCIL, NHPC, DVC, etc to be sentimentally positive as large hydro orders could get awarded

## ❖ Top Buys: Reliance Power, Reliance Infra, Suzlon, Crompton, Punj Lloyd, Thermax, AIA, Voltas

### ❖ Reliance Power

- ❑ Easing liquidity & benign interest rates will **expedite financial closure** and boost IRRs
- ❑ Existing equity can support only 15 GW out of the planned 30 GW of expansion, **further equity raising** to enhance visibility
- ❑ **INR strengthening** to benefit, as Reliance Power is **importing power equipments**
- ❑ The stock under-owned by most institutions

### ❖ Reliance Infra

- ❑ Easing liquidity & benign interest rates will expedite financial closure and boost IRRs
- ❑ Expect more projects in power transmission, roads, etc. leading to deployment of cash in better return projects
- ❑ INR strengthening to benefit, as Reliance Power is importing power equipments

### ❖ Suzlon

- ❑ Concerns on **funding mismatch to subside** with easing liquidity (debt + Equity)
- ❑ Expect reforms in renewable sector

# ...Engineering and Power (Contd)

## ❖ Crompton Greaves

- ❑ Concerns on allocation of **additional capital to non-core power biz to subsidize** with easing liquidity
- ❑ Order flows from T&D and industrial sectors to gain momentum

## ❖ Punj Lloyd:

- ❑ Expect strong order inflows in domestic oil & gas segment as well as infra segment;
- ❑ Availability of finance to reduce interest costs and impact earnings positively.

## ❖ Thermax

- ❑ Easing liquidity pressure to help regain momentum of order inflow from private sector
- ❑ A strong delta possible as fund deployment in power sector can bring in **large orders equivalent to the current order-book**

## ❖ Voltas

- ❑ Majority of biz from the realty sector and easing liquidity will expedite projects and **reduce working capital requirement**
- ❑ An enhanced thrust on infrastructure expenditure will boost the contribution from equipments division

## ❖ AIA Engineering

- ❑ With a stable government, expect Cement sector to expedite expansion plans ;ease of liquidity to aid order flows from Power and Mining sector.

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
AIA Engg	330	174	320	19	20	9
Crompton Greaves	1,300	176	380	14	14	13
Punj Lloyd	807	132	549	13	13	10
Reliance Infra	3,721	819	2,536	47	53	16
Reliance Power	6,247	129	-			
Suzlon Energy	2,318	77	455	10	7	11
Thermax	676	281	814	24	22	13
Voltas	441	66	240	6	7	9

Source: Bloomberg, ENAM Research

- ❖ **Sector Comments: Strong re-rating potential as stable govt. expected to give thrust to infra sector**
  - ❑ **Expect strong order inflows:** Govt. thrust on infra projects ( roads, power, ports, airports) to regain momentum
    - ▶ PPP for NHAI road/port/airport projects likely to take centre-stage
    - ▶ Possibility of **National Hydro Power Corporation (NHPC) IPO to be sentimentally positive for hydro EPC players** as large hydro orders could get awarded
  - ❑ Improvement in **financing availability** to reduce interest costs; **improve project IRR's**
- ❖ **Top Buys: GMR Infra, GVK Power & Infra, IVRCL Infra, Mundra Port, Patel Engg**
- ❖ **GMR Infra:**
  - ❑ **Political risks subside** with formation of stable govt., financing availability to enable **bidding for new projects**, benign interest rate environment favorable for **financial closure of Kamalanga power project**( 1050MW).
- ❖ **GVK Power:**
  - ❑ Possible **divestment of stake in road/ power assets**; Gas availability to boost profitability of hitherto stranded power plants
- ❖ **Mundra Port:**
  - ❑ May participate in **new port projects**; Rising prospects for manufacturers to invest at Mundra SEZ; **Recovery in trade flows** will improve cargo throughput at port.
- ❖ **IVRCL:**
  - ❑ **Perception of political risk** (in terms of change in ruling party at State level) **to subside** with re-election of incumbent. Key **beneficiary of irrigation order flows.**

# ...Infrastructure (Contd)

## ❖ Patel Eng:

- Key **beneficiary of strong inflows in hydro power**. Improved liquidity to expedite development of BOT and real estate projects.

Company name	MCAP (USDm)	Price		EPS		VOI	PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e	FY10e
GMR Infra	4,156	113	245	2	1		128
GVK Power & Infra	798	28	83	1	2		17
IVRCL Infra	437	162	526	16	19	28	7
Mundra Port	3,807	471	1,200	10	17	33	26
Patel Engg	262	218	967	26	24	34	8

Source: Bloomberg, ENAM Research

## ❖ Sector Comments:

- ❑ **INR appreciation to impact EPS growth**; adding to topline concerns
- ❑ For every 1% INR appreciation, EPS would decline btw 1.2-1.5%
- ❑ Forex losses for companies with higher hedges (TCS/Wipro/HCL Tech) would reduce. Nonetheless, in case of TCS supply factor would cap upside
- ❑ Expect **companies to increase hedging** in expectation of INR appreciation
- ❑ Any **extension of STPI** benefits during the budget by another year to **provide a one-time upside**

## ❖ Top Buys: Redington India:

- ❑ 1) Economic recovery and **improvement in corporate capex spending to boost volumes** 2) **Benign interest rates to aid PAT** growth 3) INR appreciation may have a neutralizing effect as lower cost of Sales for Indian business may be offset by lower realisations from the international business

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Redington	220	140	404	20	23	6

EPS before minority interest

Source: Bloomberg, ENAM Research



## ❖ Sector Comments:

- ❑ Increased **access to capital to fund growth** of those media companies having properties in the incubation stage
- ❑ Improved business sentiment to lead to higher **growth in ad spends**

## ❖ Top Buys:

- ❑ **Sun TV**
  - ▶ Sun TV has sustained its dominance in South India, maintaining a ~60% viewership share in Tamil Nadu
  - ▶ **Perception of political risk to subside**
- ❑ **Zee Entertainment**
  - ▶ Flagship Hindi GEC, Zee TV, has closed the GRP gap with Star Plus and Colors.
  - ▶ Week 19 GRPs: Star Plus (248); Colors (248); Zee TV (236). Non-film GRPs, Zee TV' (208), Star Plus (201); Colors (196)
  - ▶ ZEEL's low cost strategy has helped keep content costs under check while its managed to hold its place in the top 3
- ❑ **TV Eighteen**
  - ▶ The planned rights issue of Rs 5.1bn (to be underwritten by Network 18) to reduce debt
  - ▶ Increased risk appetite may help **revive advertising in the capital market/ BFSI** space.

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Sun TV	1,602	202	421	9	11	18
TV Eighteen	262	108	510	(1)	1	116
Zee Ent	1,253	143	306	8	10	15

Source: Bloomberg, ENAM Research

- ❖ **Increased infrastructure spending** to increase domestic demand for metals
- ❖ **Mining reforms: Captive mine allocation/clearance process could be streamlined**
  - ❑ Would help processors in reducing raw material cost
- ❖ **Top Buys: Sterlite Inds, Hindustan Zinc, Jindal Steel & Power, Sesa Goa**
  - ❑ **Sterlite Industries**
    - ▶ Acquisition of residual govt's stake in Balco and HZL to a) be earning accretive and b) give access to USD 2 bn of HZL's cash
    - ▶ Potential value unlocking through public offering of merchant power business
    - ▶ Best placed to capitalize on merchant power sector – Commissioning 2,400 MW of power plant over next 12 months; Can further scale it up substantially
  - ❑ **Jindal Steel and Power**
    - ▶ Potential value unlocking through public offering of merchant power business + substantial scale up (3x) in power business
  - ❑ **Sesa Goa**
    - ▶ Volume growth of 20-25% in next 2 years; ~50% EBITDA margin even at current low iron ore prices, strong cash position (Rs 59/sh)
  - ❑ **Hindustan Zinc**
    - ▶ Well positioned with >30 yrs of mine life, volume growth, globally low-cost operations & strong cash position (Rs 227/sh)

Company name	MCAP (USDm)	Price		EPS		VOI	PE on CMP FY10e
		CMP	8-Jan-08	FY09	FY10e	FY10e	
Hindustan Zinc	4,555	534	790	65	68	254	4
Jindal Steel & Power	5,003	1,603	3,182	214	174		9
Sesa Goa	2,312	146	186	25	21	65	4
Sterlite Inds	6,573	460	1,035	47	49	143	6

Source: Bloomberg, ENAM Research

## ❖ Sector Comments:

- ❑ Prime sector for **Divestment**
  - ▶ Govt holding high in most listed stocks (ONGC – 74%, IOCL – 80%, GAIL – 58%)
- ❑ Possible **de-regulation** of auto fuel prices
  - ▶ OMCs, ONGC & GAIL prime beneficiaries
- ❑ Appreciation of INR to benefit OMCs
- ❑ Focus on **gas based infrastructure** to benefit companies in Gas value chain

## ❖ Top Buys:

- ❑ **ONGC**
  - ▶ Prime candidate for divestment
  - ▶ Potential upsides from de-regulation of auto fuels and listing of other E&P major Oil India Ltd.
- ❑ **GAIL, Indraprastha Gas, Gujarat Gas**
  - ▶ **Increased gas availability** both from domestic as well as international sources to bring additional volumes and will provide growth
  - ▶ **Implementation of final regulations** to bring transparency in transmission and distribution markets

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Chennai petro	382	127	404	(33)	30	4
GAIL	6,895	269	350	23	25	11
Gujarat Gas	355	275	354	23	27	10
Indraprastha Gas	336	119	167	14	17	7
ONGC	35,075	813	1,322	96	88	9

Source: Bloomberg, ENAM Research

## ❖ Sector Comments:

- ❑ Sharp **INR appreciation to hurt margins**, especially where largely unhedged (Divi's)
- ❑ However, cos. with large Fx debt (Jubilant, Ranbaxy) and significant out-of-the-money Fx hedges will benefit (Ranbaxy)

## ❖ Top Buys: Lupin, Piramal Healthcare

## ❖ Beneficiaries from INR appreciation

### ❑ Ranbaxy

- ▶ Entered into forward contracts to sell USD 1.6 bn, which includes USD 1.4 bn in currency options below Rs 45/INR. It has USD 440 mn of FCCBs outstanding, due for retirement in CY11.
- ▶ INR appreciation will reduce potential losses from these; however, we consider the stock fundamentally overvalued

### ❑ Jubilant

- ▶ USD 194 mn of FCCB's outstanding. INR appreciation will reduce redemption premium in case of FCCB redemption

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Lupin	1,306	782	610	60	71	11
Piramal Healthcare	1,068	253	295	19	22	12

Source: Bloomberg, ENAM Research

## ❖ Sector Comments:

- ❑ Strong Sentiment boost for realty
  - ▶ With **improved affordability** (Mortgage rates down to ~8%; capital values corrected by ~30-40%), emergence of a **stable govt. to improve Sentiment** significantly → faster revival in volumes, esp. in the affordable mid income housing segment
  - ▶ **Liquidity to ease further** → help refinance/ roll over near term debt with additional fresh loan disbursements
  - ▶ Re-start of realty cycle → **Adequate cash flow generation to meet interest and construction costs** → Multiplier effect to allow incremental cash flows generation to be used to repay debt

## ❖ Top Buys:

- ❑ **DLF:** Liquidity to increase with **>Rs 100 bn to be generated** to help de-leverage balance sheet
  - ▶ ~Rs 35 bn to be received from **DAL** in FY10 (Rs 15 bn from promoter stake sale + Rs 20 bn from LRD)
  - ▶ ~Rs 55 bn of **non core assets to be sold** in FY10 (total disposable inventory seen at ~Rs 10 bn)
  - ▶ ~Rs 20 bn of operating cash flows to be generated (successful launch of mid income housing projects)
- ❑ **Unitech:**
  - ▶ **Further refinancing/ rolling** over of ~ Rs 17 bn of debt maturing in FY10 to be possible
  - ▶ QIP of USD Rs 16 bn + **sale of non-core assets** (~Rs 16 bn) to help reduce debt to ~ Rs 65 bn by FY10
  - ▶ **Higher cash flows from mid income housing segment** to help meet interest & construction costs
- ❑ **HDIL:**
  - ▶ Revival of volumes to result in **increased demand for TDR** → higher profitability of airport project
  - ▶ **Possible fund raising** to provide much needed liquidity to launch additional projects

# ...Real Estate (Contd)

## ❖ Top Buys:

### ❑ Indiabulls Real Estate:

- ▶ Planned QIP of USD 200 mn to help provide cash flows to meet financial criteria for **bidding for larger projects**

### ❑ Century Textiles:

- ▶ **Funding availability to possible expedite real estate development** of prime Mumbai land

Company name	MCAP (USDm)	Price		NAV		VOI	CMP/NAV
		CMP	8-Jan-08	FY09	FY10e	FY10e	FY10e
Brigade Enterprises	112	49	369	300	63		0.8
Century Textile #	527	281	1,203	28	26	248	1.3
DLF	8,838	258	1,151	663	296		0.9
HDIL	1,013	182	941	978	210		0.9
Indiabulls Real Estate	769	148	775	665	166		0.9
Peninsula Land	236	42	152	185	47		0.9
Sobha Developers	163	111	932	1,047	110		1.0
Unitech	2,101	51	525	367	59		0.9

# SOTP target price revised to Rs 440/share; NAV refers to EPS; VOI refers to value of real estate

Source: Bloomberg, ENAM Research

# Retail & Paints

## ❖ Sector Comments:

- ❑ **Funding availability:** 1) Potential clarification of **FDI norms** in favour of multi brand retailing. 2) **Easy credit availability** due to improving economic conditions.
- ❑ **Benign interest rates** & improved sentiment to boost retail consumption/ housing demand.
- ❑ Availability of real estate: Easing credit availability to **aid project execution**.

## ❖ Top Buys: Pantaloon Retail, Titan Inds & Asian Paints

Company name	MCAP (USDm)	Price		EPS		VOI	PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e	FY10e
Asian Paints	1,847	955	1,243	42	54		18
Pantaloon Retail	672	209	800	7	11	28	16
Titan Inds	790	882	1,602	45	55		16

Source: Bloomberg, ENAM Research

- ❖ Re-rating triggers: (1) **3G reforms** (2) **value-unlocking** in tower companies / subsidiaries (3) **better debt financing** (4) lower capex outgo on INR appreciation and (5) higher MoUs due to expectations of economic recovery
- ❖ **INR appreciation to aid lower capex outgo and forex losses to get arrested**
  - ❑ **Bharti:**
    - ▶ 1) **Best Balance Sheet** for 3G
    - ▶ 2) Benign interest rates, lower capex outgo due to INR appreciation and better MoUs from economic recovery
    - ▶ 3) **Value unlocking in Bharti Infratel / Indus Towers**
  - ❑ **RCOM:**
    - ▶ **De-leveraging of Balance Sheet** and lower interest outgo
    - ▶ **Value unlocking in GlobalCoM / RTIL** (RITL value taken at Rs 135 per share based on last transaction, deal value can be higher than that)
  - ❑ **Idea:**
    - ▶ Lower interest outgo
    - ▶ **Value unlocking in Indus Towers**

Company name	MCAP (USDm)	Price		EPS		VOI	PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e	FY10e
Bharti Airtel	30,625	800	974	45	49	180	13
IDEA	4,062	65	136	3	3	20	15
Reliance Comm *	9,668	232	804	29	24	135	4

\* VOI for RCOM is taken at last placement of Rs. 135 per share

Source: Bloomberg, ENAM Research



## ❖ Top Buys:

- ❑ **Aditya Birla Nuvo** – Following factors would lead to lower holdco discount and higher valuation upside
  - ▶ **Insurance reforms** by government
  - ▶ Stake divestment in Insurance (Current SOTP of Rs. 731 is after holdco discount of 30% to Insurance business valued at 15% NBAP margin and 10x NBAP multiple + Embedded Value)
  - ▶ **Resolving of funding issues** for funding capex

Company name	MCAP (USDm)	Price		EPS		PE on CMP
		CMP	8-Jan-08	FY09	FY10e	FY10e
Aditya Birla Nuvo	1,054	550	2,132	(45)	(7)	NA

Source: Bloomberg, ENAM Research

Thank you