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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ F-M Goetze	18-Jan-07	385	339	559
♦ HCL Tech	30-Dec-03	206	656	720
♦ HLL	24-Nov-05	172	203	280
♦ India Cements	28-Sep-06	220	195	315
♦ SKF	23-Dec-04	141	284	406

Pulse Track

◆ December 2006 IIP above market estimates

The Index of Industrial Production (IIP) grew by a strong 11.1% year on year (yoy) for December 2006 compared to the market estimates of a growth of 10.5%. The IIP had grown by 15.4% in November 2006 and by 5.7% in December 2005. After the latest IIP data for the months of November and December we can conclude that the October 2006 IIP number of a growth of 4.4% was an aberration and we can expect a stable growth in the IIP going forward.

Manufacturing up 11.9% yoy

The manufacturing sector maintained its double-digit growth rate at 11.9% with most of the heavyweight sectors contributing.

The mining production in the economy grew by 3.8% yoy while the electricity production grew by 9.3% yoy during December 2006.

Capital goods growth remains on track

The capital goods production index reported a year-on-year (y-o-y) growth of 20.2%. However the base for December 2005 was comparatively lower than in the previous months.

Consumer goods growth—likely signs of a slowdown

The consumer goods production index reported a y-o-y growth of 7.4% in December 2006 after reporting a 12.8% y-o-y growth in November 2006. The durables grew by only 3.3% yoy while the non-durables grew by 8.7% yoy.

In % yoy chg	Dec-06	Dec-05	Nov-06	YTD FY07	YTD FY06
IIP	11.1	5.7	15.4	10.8	8
General					
Manufacturing	11.9	6.4	16.7	11.8	9
Mining	3.8	-0.1	8.0	3.9	0.5
Electricity	9.3	3.4	8.7	7.5	4.8
Use based					
Capital goods	20.2	12.9	29.2	17.5	15.7
Consumer goods	7.4	7.3	12.8	9.5	12.5
- Durables	3.3	12.0	10.3	11.4	13.9
- Non-durables	8.7	6.0	13.7	8.9	12.0

Year-till-date growth rates remain comfortable

The IIP growth for the nine-month period April-December 2006 stood at 10.8% on a y-o-y basis compared to 8% in the corresponding period of the previous year. The growth in the manufacturing sector stood at 11.8% yoy while the capital goods reported a growth of 17.5%. The slowdown in

the production has been mainly witnessed in the consumer goods category, which reported a year-till-date growth rate of 9.5% for FY2007 compared to 12.5% in FY2006. Durables and non-durables have reported a slowdown in their year-till-date production growth compared to the corresponding period of the previous year.

First revision of November data reports a further increase in IIP

The revised figures for November 2006 indicate a further improvement in the earlier reported IIP numbers. The revised manufacturing index reported a growth of 16.7% from the earlier reported 15.7% while the electricity production growth rate remained unchanged and mining reported an improvement from 7% to 8%.

In % y-o-y change	Nov-06	Nov-06*
IIP	14.4	15.4
General		
Manufacturing	15.7	16.7
Mining	7.0	8.0
Electricity	8.7	8.7
Use-based		
Capital goods	25.3	29.2
Consumer goods	11.9	12.8
- Durables	11.4	10.3
- Non-durables	12.1	13.7

*Revised

Heavyweight manufacturing sectors maintain the momentum

The 11.9% growth in the manufacturing sector for December 2006 was due to the good growth witnessed in most of the heavyweight sectors. The highest growth was recorded for wood and wood products, which grew by 29.3% yoy. The basic metals pack grew by an impressive 28.9% yoy and the non-metallic minerals grew by 13.6% yoy.

The latest gross domestic product estimate for FY2007 has been revised to 9.2% based on the improved performance of the manufacturing and services sectors. A lot of capacity addition is taking place and slowly the same would contribute to the increased production. Consumer goods have shown signs of a slowdown based on the year-till-date figures. The y-o-y IIP growth for the three months January to March 2006 was above 8.5% compared to the 6% and 5.7% growth witnessed in November and December 2005 respectively. Hence, going forward we expect a more stable and sustained growth in the IIP on a higher base rather than very strong growth rates as witnessed in November 2006.

Bharti Airtel

Apple Green

Stock Update

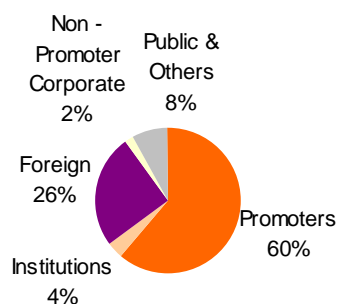
Vodafone deal to boost valuations

Buy; CMP: Rs729

Company details

Price target:	Rs820
Market cap:	Rs138,218 cr
52 week high/low:	Rs797/310
NSE volume: (No of shares)	8.8 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTI
Free float: (No of shares)	74.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.7	40.0	86.6	103.3
Relative to Sensex	12.6	26.3	42.5	38.4

Key points

- ◆ The entry of the global telecom giant Vodafone into the Indian markets through the acquisition of a controlling stake in Hutchison Essar Ltd (HEL) would result in a tougher competitive scenario in the already crowded domestic telecom service space.
- ◆ The Vodafone deal values HEL at an enterprise value (EV) of \$18.8 billion and is at a steep premium to the current valuations of Bharti Airtel Ltd (BAL) and Reliance Communications (Rcom) in terms EV/earnings before interest, tax, depreciation and amortisation (EBITDA). Consequently, it should have a positive impact on the sector's valuations over the long term and reflects the increasing confidence of global players in the Indian telecom service market.
- ◆ The Bharti group has been granted an option to acquire the 5.6% direct stake held by Vodafone in BAL while Vodafone would retain the 4.4% indirect stake (held in lieu of its interest in a holding company) as a financial investor. The direct stake of 5.6% has been offered to BAL at a consideration of \$1.6 billion, which is at a 10-12% discount to the existing equity value of BAL. The Bharti group is likely to utilise the acquired stake to either enhance the free float (through placement to institutional investors) or bring in a strategic partner (some global telecom giant) that could support BAL to roll out 3G services. Thus, the deal is a positive development for BAL from a long-term perspective.
- ◆ On the other hand, the deal is likely to have a negative impact on Rcom. Especially since the acquisition of HEL could have given Rcom the required head start in the GSM-based wireless service space and also enabled it to emerge as the largest telecom service operator in the country.
- ◆ BAL continues to be our preferred pick in the sector. We maintain our Buy call on the stock with a price target of Rs820.

The Hutch deal

Vodafone, the UK-based telecommunication giant, has succeeded in acquiring a controlling stake in HEL, the fourth largest wireless telephony service operator in

Key financials

Particulars	FY2005	FY2006E	FY2007E	FY2008E
Net profit (Rs cr)	1497.9	2257.6	4214.0	5894.6
No of shares (crore)	185.3	189.4	189.6	189.8
EPS (Rs)	8.1	11.9	22.2	31.1
% y-o-y change	195.1	47.5	86.4	39.7
PER (x)	90.2	61.2	32.8	23.5
Price/BV (x)	22.1	15.0	10.3	7.2
EV/EBIDTA(x)	47.9	33.0	19.2	13.6
Market Cap/Sales	16.9	11.8	7.4	5.3
RoCE (%)	24.5	24.6	31.4	30.5
RoNW (%)	17.9	20.7	28.8	31.4

India. This essentially means the entry of a global giant with a sizeable size of operations and is likely to result in a much tougher competitive landscape for the existing service providers.

The equity stake of 67% held by the Hutchison group (and its associates including some of the employees) is valued at \$11.7 billion. Thus, including the net debt of \$1.96 billion, the EV of HEL is pegged at \$18.8 billion (which is lower than the market expectations of \$20-21 billion).

HEL valuation (\$ billion)

	\$ bln
EV	18.8
Net debt (including holding company)	2.0
Market cap	16.8
Bid for 67% stake of Hutchison	11.7

Source: Vodafone press release

Comparative valuations

In terms of peer comparison, the valuations work out to EV of \$770 per subscriber (on a base of 24.4 million subscribers as on end of January 2007). This is a discount of around 26-27% to the EV per subscriber of \$955 (excluding the broadband and wireline subscriber bases) commanded by the market leader BAL.

However, on an EV/EBITDA basis, the deal values HEL at around 18x EV/EBITDA (FY2008 estimates), which is at a premium of over 33% (13.6x EV/EBITDA) and of over 47% (12.3x EV/EBITDA) attracted by BAL and Rcom. Thus, notwithstanding the lower than anticipated valuations of HEL, the steep premium of HEL on the EV/EBITDA basis should actually have a positive impact on the sector's valuations. Especially for the leading players like BAL and Rcom.

Peer comparison

	HEL	BAL	Rcom
EV (\$ bln)	18.8	32.2	22.1
Subscriber base (mln as on Jan 207)	24.4	33.7	31.4
EBITDA (\$ bln; FY2008E)	1.0	2.4	1.8
Valuation			
EV per subscriber (\$)	770	955	703
EV/EBITDA (FY2008E)	18.0	13.6	12.3

Source: Sharekhan Research, Bloomberg

Vodafone to dilute its stake in BAL

In addition to setting the benchmark valuations, the deal also affects BAL in the form of the reduction of the holding by Vodafone. As per the understanding, Vodafone has granted an option to the Bharti group for acquiring the

5.6% direct stake held in BAL while retaining the indirect stake of 4.4% as a financial investor. The 5.6% stake is offered at a consideration of \$1.6 billion (and can be paid over 18 months), which is a discount of around 12% to BAL's current equity valuation. If the option is not exercised, Vodafone would be free to sell its stake to any institutional investor or in the open market.

The Bharti group is likely to utilise the acquired stake to either enhance the free float (through placement to institutional investors) or bring in a strategic partner (some global telecom giant) that could support BAL in the roll-out of its 3G services.

Moreover, given the existing relationship and understanding with the Vodafone top brass, BAL is likely to have a better working relationship with one of its key competitors. It is clearly visible in the infrastructure sharing agreement between BAL and Vodafone that has been announced along with the acquisition and has the potential to bring down the capital expenditure of both the parties. Thus, the deal is likely to be beneficial for BAL over the long term.

Rcom's GSM roll-out to get delayed

On the other hand, the deal is likely to have a negative impact on Rcom. Especially since the acquisition of HEL could have given Rcom the required head start in the GSM-based wireless service business and also enabled it to emerge as the largest telecom service operator in the country. Consequently, Rcom would have to build its own network and that means a delay in tapping the explosive growth in the subscriber base.

Having lost the race to acquire HEL, Rcom could shift its focus on acquisition of smaller and regional players in the sector. This would only further boost the consolidation process in the industry.

Idea, much higher benchmark valuation before the issue

The Idea's public issue would be positively impacted by the much higher benchmark valuations set by the HEL deal. The issue is priced attractively in the range of \$380-423 per subscriber, which is a discount of 82-102% to HEL's valuation. A re-rating of the Idea scrip post its public issue would also reflect on the valuations of group companies like Aditya Birla Nuvo that holds over 36% in the company.

Bharti, top pick in the sector

BAL continues to be our preferred pick in the sector. We maintain our Buy call on the stock with a price target of Rs820.

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

Telecom

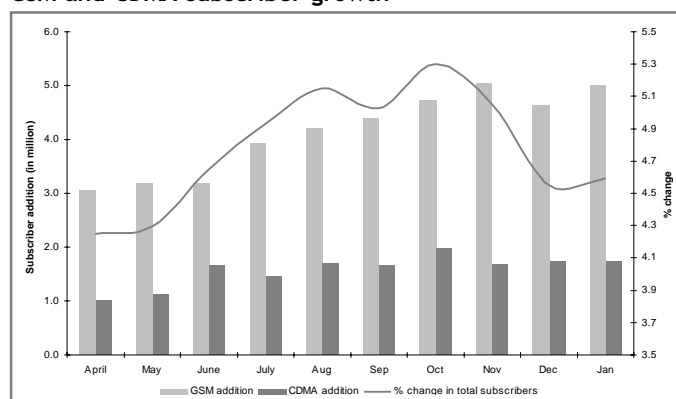
Sector Update

Ringin loud

The upswing in the Indian telecom industry continued as the industry added as many as 6.7 million users during January 2007 (a strong growth of 4.6% over December 2006), taking the total user base to 153.2 million users.

Both the GSM and the CDMA segments witnessed robust growth in their subscriber add-ons. The GSM segment added 5.0 million subscribers during the month, taking the total GSM mobile subscriber base to 110.4 million. The CDMA segment added 1.7 million subscribers, marking a growth of 4.2% over December 2006, and taking its user base to 42.7 million.

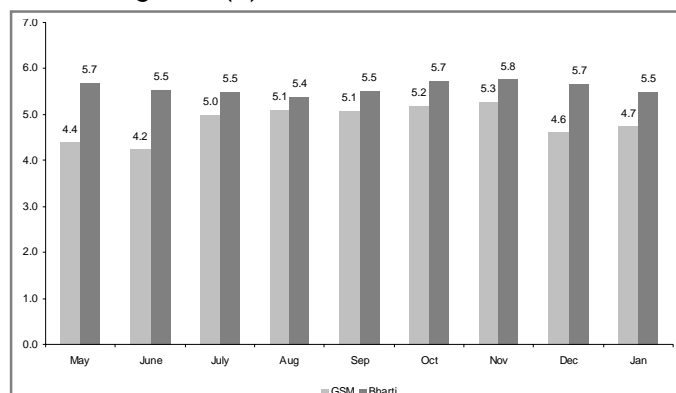
GSM and CDMA subscriber growth



Bharti tops the charts

Bharti Airtel continues to lead the GSM pack with an addition of 1.76 million subscribers, witnessing a 5.5% month-on-month growth in January 2007. With a strong subscriber base of 33.7 million mobile users, Bharti Airtel has maintained its leadership position, commanding a 22% market share.

Subscriber growth (%): GSM and Bharti Airtel



Idea Cellular was another player that reported strong numbers registering a strong growth of 5.1% in January 2007. It added 0.6 million users, taking its total user base to 13.1 million subscribers. Bharat Sanchar Nigam continued to underperform the industry, growing by 3.5% as it added 0.8 million users over the previous month. Consequently, its market share slipped to 16.0%. Hutch added 1.1 million subscribers during the month, taking its total subscriber base to 24.4 million, and it maintained its market share at 16.6%.

Reliance Communications added 1.4 million users in January, a growth of 4.7% month on month. It added 1.17 million subscribers (up 4.4% month on month) in the CDMA segment and 0.24 million subscribers (up 6.5% month on month) in the GSM segment. Overall, it has a market share of 20.5%. On the other hand, Tata Teleservices added 0.6 million users in January 2007, recording a strong 4.6% month-on-month growth.

	Jan-07	Dec-06	% chg	Additions	Market share (%)
Bharti	33.7	32.0	5.5	1.8	22.0
Reliance	31.4	30.0	4.7	1.4	20.5
Hutch+BPL	25.5	24.4	4.6	1.1	16.6
BSNL	24.4	23.6	3.5	0.8	16.0
Idea	13.1	12.4	5.1	0.6	8.5
Tata Tele	15.0	14.5	3.9	0.6	9.8
Total	153.2	146.4	4.6	6.7	

Bharti—our top pick in the telecom industry

Bharti Airtel is our top pick in the telecom industry. At the current market price, the stock trades at 22.9x its FY2008E earnings. We maintain our Buy call on the stock with a price target of Rs820.

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Cement

Sector Update

Cement majors report lacklustre dispatches

Near full capacity utilisations result in muted volume growth

For the month of January, the cement majors cumulatively reported a meagre growth of 2.8% year on year (yoy) at 59.4 lakh tonne on account of operations at near capacity levels.

Dispatches	Jan-07	% yoy chg	Capacity utilisation (%)
Gujarat Ambuja	14.9	6.0	108
ACC	16.4	-0.5	105
AV Birla	28.1	2.7	94
Cumulative	59.4	2.8	

Amongst the cement majors, Gujarat Ambuja registered the highest growth of 6% yoy at 1.49 million tonne. ACC's volumes stood flat at 1.64 million tonne whereas the AV Birla group (Grasim + UltraTech) reported a meagre 3.09% year-on-year (y-o-y) growth.

ACC witnesses a flat growth

ACC has not witnessed any capacity additions in the last one year. At the same time, the company has little scope for further blending as it already has a very high clinker conversion ratio of 1.39 and blended sales already account for 85-88% of its total volumes. This subsequently has subdued the growth in the production as well as the dispatches.

UltraTech witnesses a domestic growth of 5.5% yoy

UltraTech's domestic dispatches grew by 5.5% yoy to 1.40 million tonne whereas Grasim's dispatches increased by a subdued 3.5% yoy to 1.33 million tonne.

Ambuja to maintain its volumes growth

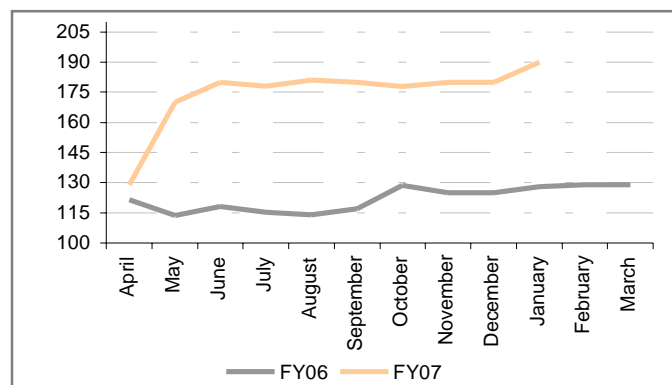
On account of the higher blending at its Ambujanagar plant (clinker conversion ratio is currently low at 1.05), Gujarat Ambuja has been able to drive up its volumes. Going forward, we expect Gujarat Ambuja to maintain its growth on account of the scope for further blending (mainly at the Ambujanagar plant) whereas ACC will witness a flattish growth for the next two months before additional cement starts flowing from its Lakheri unit.

Demand-supply gap drives up prices

Prices in Andhra Pradesh witness rise of Rs5 per bag in first week of February

With the construction activity picking up post the monsoons, the prices have started moving skywards. Tamil Nadu as well as Andhra Pradesh witnessed a Rs10 per bag rise in the prices in the month of January. In the month of February, Andhra Pradesh has already witnessed a Rs5 per bag increase in the prices and the dealers expect the prices to rise further by at least Rs10 per bag in the current month. The dealers in Tamil Nadu are expecting a further Rs5-10 per bag increase during the month.

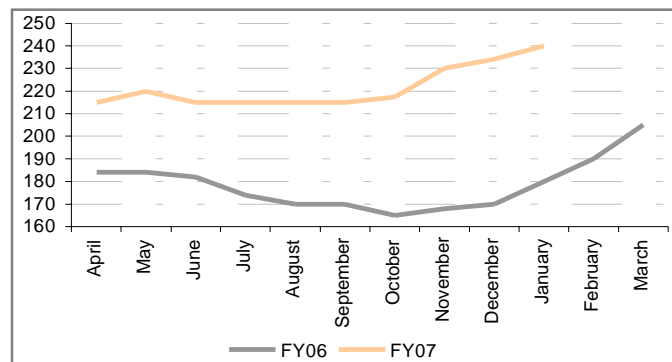
Hyderabad average price rise yoy by 48%



Prices stable in the West

In Ahmedabad, the retail cement prices stand at Rs205-210 per bag wherein they have increased by Rs3-4 per bag in the first week of February. In Mumbai the retail prices have risen by Rs5 per bag to Rs240 per bag in the month of January. On account of the demand-supply gap, the dealers expect the prices to reach Rs250 per bag by the end of March.

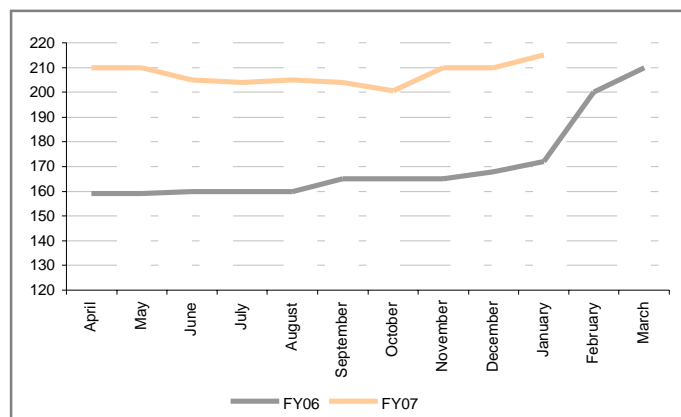
Mumbai Average price rise yoy by 33%



Prices increase by Rs5 per bag in Delhi

At the end of January, the prices in Delhi stood at Rs215 per bag witnessing a hike of Rs5 per bag. Jaipur also witnessed a Rs5 per bag increase in the prices to Rs190 per bag. In the month of February, Jaipur has already witnessed a Rs5 per bag hike in the prices on account of the tight demand-supply situation. The dealers expect this scenario to continue for the next couple of months and thus expect further hikes in the prices.

Delhi average price rise yoy by 25%YTD 27%



Pricing trends in major cities

City	Jan	% yoy	YTD	% yoy
Mumbai	240	33	222	27
Delhi	215	25	207	27
Hyderabad	190	48	175	45
Chennai	200	22	196	14

Source: Dealers, ShareKhan

Outlook

Going forward we expect the cement demand to maintain its momentum on the back of vibrant construction activity across the country and thus expect the prices to firm up further. This will be extremely positive for the cement companies, as their earnings would receive a tremendous fillip by the double impact of rising volumes and substantially higher cement realisations. We thus maintain our positive view on the sector and rate UltraTech, India Cements and Madras Cements as our top picks in the sector.

Companies	Price Target	PER		EV/EBITDA		EV/Tonne	
		FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
ACC	1250	18.1	14.6	11.7	8.6	184.4	162.2
Grasim	3350	13.5	11.4	6.9	5.4		
UTCL	1365	16.6	11.2	9.1	6.3	179.8	171.8
JP Associates	850	25.9	18	13	10	-	-
Shree Cement	1700	11.7	10.5	9.4	6.5	252.3	187.2
Madras Cement	4000	12.3	10.1	7.7	5.9	156	118
JK Cement	295	7.7	5.9	5.7	4.3	83.6	71.9
Orient Paper	800	7.2	5.8	4.3	2.9	74	48
India Cements	315	9.9	6.9	7.1	4.9	121	94

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
 Bharti Airtel
 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
 State Bank of India
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 Tata Tea
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 Wipro

Cannonball

Allahabad Bank
 Andhra Bank
 Cipla
 Gateway Distriparks
 International Combustion (India)
 JK Cement
 Madras Cement
 Shree Cement
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Emerging Star

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 Aban Offshore
 Alphageo India
 Cadila Healthcare
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 Tata Elxsi
 Television Eighteen India
 Thermax
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Ugly Duckling

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 Ashok Leyland
 BASF India
 Ceat
 Deepak Fertilisers & Petrochemicals Corporation
 Fem Care Pharma
 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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