June 25, 2007

FOR PRIVATE CIRCULATION

Equity

		% Chg		
	22 June 07	1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,467	(0.2)	0.9	8.9
Nifty	4,252	(0.4)	0.1	10.1
Banking	7,835	0.1	4.9	14.8
IT	3,699	(0.3)	(1.2)	2.0
Healthcare	3,824	0.4	2.1	7.0
FMCG	1,818	0.0	(4.9)	7.6
PSU	6,720	(0.1)	(0.2)	14.3
CNX Midcap	5,826	0.1	4.4	20.0
World indices				
Nasdaq	2,589.0	(1.1)	1.2	5.7
Nikkei	18,189	(0.3)	3.5	3.5
Hangseng	22,000	0.2	7.3	11.8

Value traded (Rs cr)

	22 June 07	% Chg - 1 Day
Cash BSE	5,055	(1.2)
Cash NSE	9,251	(10.9)
Derivatives	37,941.3	(9.0)

Net inflows (Rs cr)

	21 June 07	% Chg	MTD	YTD
FII	653	(2,360)	444	17,711
Mutual Fund	149	(540)	104	(372)

FII open interest (Rs cr)

	21 June 07	% chg
FII Index Futures	19,768	(1.8)
FII Index Options	7,676	(0.1)
FII Stock Futures	22,691	0.1
FII Stock Options	87	6.1

Advances/Declines (BSE)

22 June 07	A	B1	B2	Total	% Total
Advances	84	317	501	902	47
Declines	122	395	429	946	50
Unchanged	4	23	34	61	3

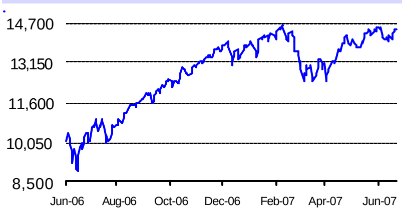
Commodity

		% Chg		
	22 June 07	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	68.7	(0.7)	5.3	10.3
Gold (US$/OZ)	654.3	0.4	(0.4)	(0.6)
Silver (US$/OZ)	13.1	(0.4)	0.7	(0.9)

Debt/forex market

	22 June 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.17	8.18	8.19	7.96
Re/US$	40.8	40.7	40.6	43.7

Sensex



Source: Bloomberg

Economy News

- The country's policy makers are planning to monitor private equity funds' activities closely to decide whether norms which apply to them need to be reviewed. (ET)
- Having been loaded with the burden of fringe benefit tax, companies have tweaked employee compensation to restrict their FBT outgo. A study reveals that the cumulative FBT payout has witnessed a sharp drop of about 38% to Rs.9.82 bn in FY07. (ET)
- The revenue department has said no to imposition of securities transaction tax on unlisted securities, exemption from withholding tax on interest paid on overseas borrowings, scrapping of dividend distribution tax and tax breaks for companies investing in ultra mega power projects. (ET)
- A drastic change in the fiscal package criteria for the coming oil and gas exploration licensing round could be in the offing. This would minimize any chances of companies playing with the Government's share of profit during various periods of production. (BL)
- India is set to emerge as the fastest growing market in the global entertainment and media space with a size of over Rs.1 tn by 2011, a study by PricewaterhouseCoopers says. The global E&M industry will grow at a CAGR of 6.4% to $2 tn in the same period. (BS)

Corporate News

- **Lupin** is looking for an acquisition in the US market to rapidly expand its operations in the world's largest pharmaceutical market. This is a major strategy shift for the company as Lupin has until now chosen the organic route to expand its international operations. (ET)
- Ranbaxy Pharmaceuticals, a wholly-owned subsidiary of **Ranbaxy Laboratories,** has received tentative approval from the USFDA to manufacture and market Tamsulosin Hydrochloride Capsules, 0.4 mg. (ET)
- **Dabur India** plans to focus on its soaps portfolio as part of its overall corporate plan to become a dominant player in the domestic category. (ET)
- The Government will lose $10 bn in revenues and **Reliance Industries** will make no profit if natural gas from its KG basin fields is sold at subsidized rates instead of the market price, a Petroleum Ministry official said. (ET)
- **Tata Chemicals,** which has lined up $1 bn in investment over the next two to three years, will foray into bio diesel, fresh fruits and vegetables production and distribution as part of its expansion strategy. (BS)
- The race for buying a strategic stake in **SpiceJet** is hotting up with three full-service carriers, **Jet Airways, Kingfisher Airlines** and **Paramount Airways** lining up crucial meetings with investment bankers and target company executives this week. (BS)
- **Moser Baer** is scripting the next chapter of a massive capacity ramp-up in the country. Moser Baer Photo Voltaic Ltd is in talks with two or three states including Tamil Nadu for a post-2008 expansion blueprint that would entail an additional investment outlay of Rs.20 bn at a new site. (BL)
- **Pyramid Retail** will be launching in-house brands for grocery items at its supermarket chain TruMart. The company will be launching these products by July at its TruMart. The grocery items will be launched under the brand name TruMart Uttam. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

MANAGEMENT MEET UPDATE

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Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	10,391	12,710	14,955
Growth %	26.6	22.3	17.7
EBITDA	1,902	2,776	3,828
EBITDA margin %	18.3	21.8	25.6
Net profit	1,149	1,796	2,414
Net debt (cash)	(2,623)	(3,962)	(6,017)
EPS (Rs)	4.9	7.7	10.3
Growth %	208.2	56.3	34.4
CEPS	6.6	9.5	12.3
DPS (Rs)	0.4	0.4	0.4
ROE %	15.4	20.5	22.5
ROCE %	20.9	26.4	30.4
EV/Sales (x)	5.0	4.0	3.2
EV/EBITDA (x)	27.3	18.2	12.7
P/E (x)	46.9	30	22.3
P/Cash Earnings	34.9	24.1	18.7
P/BV (x)	6.8	5.6	4.5

Source: Company & Kotak Securities - Private Client Research

HT MEDIA LTD.

PRICE : RS.230 **RECOMMENDATION : BUY**

TARGET PRICE : RS.266 **FY09E - EV/EBITDA: 12x**

Highlights

- **Print business remains robust for HT, aided by weakening newsprint prices.**
- **A strong 'Mint', healthy 'Fever' and emerging presence in consumer internet add to our optimism on HT emerging as a strong cross-media entity.**
- **We incorporate value for the radio business in our fair value derivation.**
- **We revise upward our estimates for the print business on better visibility for ad revenues in FY09E and lower newsprint costs.**
- **We upgrade HTML to BUY with a price target of Rs.270.**

We recently met the management of HT Media and came away optimistic about the growth engines of HT and the strategies it is pursuing to emerge as a leading cross-media entity. Its new initiatives - the business paper 'Mint' and radio business 'Fever 104' have met with an encouraging response in target markets and look positioned to deliver longer-term growth in the respective media segments.

Our consistent optimism on HT's core print business stems from the fact that contrary to developed markets we expect print media's share of the ad revenue pie in India to remain at hgh levels going ahead. This is based on the broader premise that India is one of the few markets that is expected to witness growth in print readership given the demographics, growing urbanization and improving literacy rates. We also opine that successful print businesses are in a good place with the healthy prospects enjoyed by newer segments of its advertisers like financial services, retail, telecom and real estate.

To top its significant presence in print - English and Hindi; HT is on course to build strong franchises through its new initiatives - 'Mint', the business daily and 'Fever 104' in radio. It is also laying building blocks for its consumer internet foray that is expected to feed on HT's established print presence through verticals like employment, matrimonial and real estate. With good execution, we see HT emerging as a successful cross-media entity well positioned to reap the benefits of the strong growth expected in India's domestic consumption patterns.

We have consistently valued HT Media using an average of the fair values thrown up by our DCF and EV/EBITDA multiple methodologies. We have added to this a per share value of Rs.14 accruing to the HT Media shareholder from the radio business where HT Media has a 75% stake. This adds up to a price target of Rs.266 for the stock. We upgrade the stock to **BUY.**

KEY OBSERVATIONS

A strong 'Mint'...

- We believe that, Mint, with its easy- to-read layout, strong editorial team and content partnership with 'The Wall Street Journal' is a strong and niche offering in the business news space. Media reports and management commentary put the estimated circulation of Mint at 80,000 copies in Mumbai and Delhi. We expect 'Mint' to attain cash break even by Q4FY08 and outline the possibility of further rollouts in other metros during FY08, given the encouraging response.
- In the longer term, we expect the business paper initiative to add value both in terms of increased profitability and brand positioning. We also note that business papers enjoy higher ad yields and could provide an upside to the overall yields of the company on cross-selling with HT Media's general broadsheets.

... Healthy 'Fever'...

Print retains strong outlook; new franchises "Mint" & "Fever" gaining currency in target markets

- 'Fever 104', HT's radio business, has also gained momentum in the Delhi and Mumbai markets; HT Music, the company which houses the radio business, has licenses and operational stations across the four metros. We opine that the value addition from 'Virgin' in terms of content and format has also helped 'Fever' gain listener ship and strong branding. According to the management, recent internal checks estimate Fever's market share of ad volumes at close to 13%, a significant pick up over the last quarter. 'Fever' has consciously looked to target the upper end of SEC categories, a major target market of advertisers, through the' different' music it plays.
- We also like HT's strategy of targeting the more lucrative radio markets; metros account for close to 60% of the current Rs.5 bn radio market. We expect HT Music to gain 10% market share by FY09, turn EBITDA positive in FY10 and value it at Rs.4.16b n; Rs.14 per HT Media share.

... Ad rate hikes across English & Hindi in print...

- We believe HT's traditional print businesses are also shaping well with ad rate hikes of 15-20% affected recently (Q1FY08) across its different editions - in Hindi and English. We opine that the competitive intensity with ToI in Delhi has also moderated, evident in similar quantum of rate hikes and cover price increases. HT's Mumbai edition launched to extend its national reach is progressing well with a print order of 0.28 mn in FY07, a growth of 45% YoY, according to the management.
- We opine that the Mumbai entry has added to HT's attractiveness to advertisers and impacted yields positively. The satisfactory Mumbai entry in our opinion has more vitally, increased ad yields for HT's dailies on the back of selling combined Delhi-Mumbai ad packages to advertisers that is reflected in robust ad revenue growth registered during the recent quarters.

... Increasing traction for 'Hindustan' and...

- Hindustan, HT's Hindi paper, has gained readership and maintains its dominant position in Jharkhand and Bihar. Hindustan's new launches in UP - Agra, Kanpur, Meerut and Varanasi have gained circulation. Ad revenue momentum is also picking up in tandem with a positive macro environment and edition popularity. HT, buoyed by the success of its recent Hindi launches in UP is now looking actively to increase its footprint in the Hindi heartland over FY08-09.

...an emerging internet foray

- HT has refurbished its website www.hindustantimes.com and also has the internet add-on of 'Mint'- www.livemint.com, also done in collaboration with 'The Wall Street Journal'. We have not accorded any value yet to HT Media's nascent consumer Internet initiatives due to lack of details. HT has put in place a team for the internet business that is expected to take form during FY08. HT expects to execute this franchise efficiently and hopes to build on the successes of 'Mint' & 'Fever 104".

Newsprint costs: EBITDA positive, will aid margin expansion over FY08-09, Industry opines trend to sustain on new capacity additions & falling newsprint demand in US

- In the print business, the easing of newsprint prices (high imported proportion for HT) coupled with the 9% rupee appreciation against the dollar is expected to positively impact HT's financials. Newsprint prices have tapered close to 11-13% from the peak levels of $670-690 experienced in Q2FY07. This is consistent with industry expectations and has happened due to falling demand for newsprint from the US coupled with setting up of new capacities in China.

Easing of newsprint prices is EBITDA positive - we assume 8-9% of easing in FY08E

- Imported newsprint is generally of better quality and used extensively by HT (nearly 70% of HT's newsprint is imported). This proportion is expected to go up as 'Mint', which is targeted at SEC A niche markets is expected to gain circulation as current editions gain traction and newer editions are rolled out.
- For HT, we expect newsprint prices to be lower by close to 8-9% factoring in higher proportion of imported newsprint and a rupee rate of Rs.42/US dollar over FY08. For FY09, we estimate print orders (POs) to increase due to 'Mint' and increasing circulation from the other editions of 'Hindustan'. We opine that a part of savings on newsprint will be ploughed back to drive investments across recently launched editions.
- Our blended average newsprint cost assumption is $608/MT for HT, with the imported proportion being close to 73% in FY08. For FY09, we have assumed landed newsprint costs to go up by 5%. We have also assumed higher pagination. In our estimates we have assumed POs post FY09 to increase in line with circulation growth and have again assumed higher pagination. In the longer term, we have assumed newsprint prices to rise gradually by 3-4% from our assumed levels in FY09.

Financials: Changes in ad revenue growth assumptions, newsprint costs, assumed higher investments in 'Mint'

- We have made changes to our projections for FY08 & FY09 to account for:
  - Increased growth in ad revenues over FY09; we now estimate ad revenues for HT to grow a full 18.3% over FY08 to Rs.12.58 bn (Rs.12.37 bn earlier). We have left our FY08 ad revenue estimate broadly unchanged at Rs.10.63 bn growing 21.7% over the Rs.8.73 bn on FY07.

Expect healthy ad revenue growth in FY09E - 22% CAGR over FY07-09E

  - Consequently, we now expect revenues of Rs.12.7 bn and Rs.14.95 bn in FY08 and FY09, a CAGR of 20% over FY07-09E. Ad revenues are expected to grow at a CAGR of 22% to Rs.10.63 bn in FY08 and Rs.12.58 bn in FY09.
  - Lower newsprint costs. We expect newsprint prices to be lower by close to 8-9% factoring in lower landed costs and a rupee rate of Rs.42/US dollar over FY08. We have assumed higher POs and pagination in FY08 and FY09 to factor in higher circulation numbers from 'Mint' and other regional editions.
  - We have also assumed higher investments in 'Mint' and expect it to break even in Q4FY08. We have assumed 'Mint' to gain circulation of 95000 by FY08 and 112000 by FY09. This is modestly higher than our previous estimates to account for better than expected response and initial circulation numbers.
  - We have also assumed lower interest outgo assuming modest debt retirement given the strong cash flow generation we estimate for FY08.

Operating leverage driven by maturing investments and fixed cost nature of print business

- We expect EBITDA margins to improve to 21.8% (22.7% previously) in FY08 and further to 25.6% from the 18.4% reported in FY07. In FY08, we have assumed higher investments in and higher number of print orders for Mint, as compared to our earlier estimates. We see this expansion in profitability as editions ramp up their revenues and profitability after the initial high investments, aided by a conducive macro environment and tapering newsprint costs. The expansion in margins is more on account of edition profitability (including Mumbai) ramping up and is supported by weakening newsprint costs.

- Consequently, we expect EBITDA for the existing operations of the company to grow at a CAGR of 42% to Rs.2.77 bn in FY08 and further to Rs.3.83 bn in FY09 from the Rs.1.9 bn reported in FY07.
- On the back of the operational leverage expected to play out we expect HT's net profits to post a strong CAGR of 45% over FY07-09 to Rs.2.41 bn in FY09. The nature of the newspaper industry is of high fixed cost; the incremental revenues above the cost base resulting in an improved margin profile.
- Consequently, we expect a modified EPS of Rs.7.7 in FY08 and Rs.10.3 in FY09 for HT Media's print businesses (Rs.7.8 and Rs.9.9 earlier).

Valuation & Recommendation

- We have valued HT Media using an average of the fair values thrown up by our DCF and EV/EBITDA multiple methodologies. We have to this added a per share value accruing to the HT Media shareholder from the radio business where HT has a 75% stake. This adds up to Rs.270 including the Rs.14 per share value accruing from the radio business.

We accord HT a premium to international peers due to earnings growth profile and Indian print sector's strong positioning

- We opine that EV/EBITDA is a representative multiple for print businesses that enjoy strong operating cash flows when mature. We accord HT's print business a multiple of 14x 1 year forward EV/EBITDA, a constant premium of 25% to international peers that trade at 10.5-11.2x. This methodology gives us a fair value of Rs.246 for HT Media's print business.
- We opine that HT should be accorded a trading band that is at a premium on account of its superior earnings growth rates and the expected growth rates in the target markets. HT is also a dominant player in a print market that is expected to witness growth in print readership given the demographics, growing urbanization and improving literacy rates

Factors that have impacted our DCF valuation positively: Greater optimism on ad revenues, better operational synergies, lower newsprint cost and greater value from new initiatives.

- Revised assumptions on ad revenue growth given strong momentum exhibited in previous quarters. For FY07, HT's same edition ad revenues grew a strong 33%, much ahead of estimated industry growth of 18-20%. In FY08 and FY09, we assume same edition ad growth at 21% and 18% respectively, in line with industry growth.
- We have accounted for better profitability from 'Mint' in our longer term projections. We have expectations of better yields and margins as HT is expected to drive synergies between its different publications on the costs front.
- Lower newsprint costs, 8% lower in FY08 over FY07 and a subsequent conservative 3-4% up tick in the following years.
- In our projections, we are targeting a peak EBITDA margin in print of 29% in the longer term, which we find achievable given the fixed cost nature of the print business. We note mature print businesses in developed markets (for example, Tribune & Washington Post) generate operating margins in excess of 37%. The management also shares our optimism on peak EBITDA percentage for print touching the mentioned levels.
- Our conventional two-stage DCF methodology assumes a terminal growth of 4% and WACC of 13%. This points to a fair value of Rs.264. This is up from the previous Rs.214, post incorporation of the above modifications to our assumptions.

Estimated fair value at Rs.266. BUY

- Simple average of the above and adding Rs.14 per share from radio leads to a consolidated fair value of Rs.266 for HT Media. We recommend **BUY**.

Estimated EBITDA break even for 'Fever 104' in FY10: Riding on good execution, station selection & operating leverage typical of radio businesses.

Expect Fever to break even at EBITDA level by FY10E

Estimated EBITDA break even for 'Fever 104" in FY10E

	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E
Fever 104	**268.5**	**460.3**	**695.8**	**1001.7**	**1300.5**	**1575.3**
Market share in metros (%)	7	9.5	11.5	13.5	15	16.5
Growth Rate (%)		71.5	51.2	44.0	29.8	21.1
Revenues (Rs mn)	**268.5**	**460.3**	**695.8**	**1001.7**	**1300.5**	**1575.3**
Cost Structure						
Royalty Costs	20	20	20	20	20	20
Employee Costs	105	128.1	153.7	181.4	210.4	244.1
License Fees	56.9	97.6	147.5	212.4	275.7	334.0
Rent & Electricity	95.0	109.3	123.5	137.0	149.4	161.3
Marketing expenses	105.0	126.0	148.7	172.5	196.6	220.2
Total expenditure	**381.9**	**480.9**	**593.4**	**723.3**	**852.1**	**979.6**
Growth Rate (%)		25.9	23.4	21.9	17.8	15.0
EBITDA	**-113.5**	**-20.7**	**102.4**	**278.4**	**448.4**	**595.7**
as a % of revenues	-42.3	-4.5	14.7	27.8	34.5	37.8

Source: Kotak Securities - Private Client Research

HT Media's SoTP valuation stands at Rs.266. BUY

HT Media: SoTP Valuation

	FY09E	Assumption/Validation
EV/EBITDA Methodology		
EBITDA	3828.4	
EV/EBITDA(x) EV Less: Net Debt	14.0 53597.5 -3962.2	14x, at a premium to international peers in lieu of HT' Media's healthy cash flow generation, earnings growth profile & Indian print market's favorable positioning.
Target EV	57559.7	
EV/Share	245.7	
DCF based fair value	**258.0**	WACC of 13%, terminal growth of 4.5%.
Weighted Average	252	
Radio Valuation		
Enterprise EV	7342.3	Estimate FY10E EBITDA break even with OPM of 14.7%. At 15% discount to our target valuations for ENIL's radio business of 14x 1 year forward EV/EBITDA.
	4166.2	Discounted to current time period by 13% WACC
Effective value for HT shareholder	3124.7	HT has 75% stake in the radio JV with Virgin as a consultant.
Value of Radio/share	13.8	
Total EV/Share	**266**	

Source: Kotak Securities - Private Client Research

Result Update

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PSL Ltd (PSL)

Price : Rs.290 **Recommendation : BUY**

Target Price : Rs.343 **FY09E PE : 6.4x**

PSL's FY07 results were slightly below our expectation on the operating front. However, they were in line with our expectation at the net earnings level, as the company reported net profit of Rs.621 mn compared to our expectation of Rs.612 mn. The standalone results of Q4FY07 have been slightly disappointing, as the company experienced de growth of 15% in the operating earnings due to lesser order execution QoQ as well as YoY.

We believe the high earnings variation is due to the tender driven nature of the business. We expect the coming quarters to be better on the back of higher order book and maintain our FY08-09 earning estimates, target price (Rs.343) and recommendation BUY.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	15,832	23,758	38,362
Growth (%)	10.5	50.1	61.5
EBITDA	1,779	2,591	4,042
EBITDA margin (%)	11.2	10.9	10.5
Net profit	622	1,000	1,873
Net debt (cash)	5,493	5,440	8,217
EPS (Rs)	18.3	24.2	45.3
Growth (%)	13.8	32.5	87.3
DPS (Rs)	5.0	3.6	3.6
ROE (%)	20.0	21.2	27.6
RoIC (%)	9.6	14.0	17.2
EV/Sales (x)	1.0	0.7	0.5
EV/EBITDA (x)	8.7	6.7	5.0
P/E (x)	15.9	12.0	6.4
P/BV (x)	2.8	2.0	1.6

Source: Company & Kotak Securities - Private Client Research

Q4FY07 - Volume declines, subdued performance; on expected lines...

In Q4FY07, net sales declined 14% YoY, despite an increase in HR coil prices by 30%. The decline is primarily due to lesser orders executed, as the raw material consumption has declined by 10% and 30% in value and volume terms, respectively, as shown in the table below. We believe the high variation is part of the order driven business, and expect better volumes in the coming quarters.

There were also some positives in the quarterly results, as operating margins improved to 8.4% from 5.4% despite a 30% rise in HR coil prices. Other income shot up 70% due to cash receipt from QIB of Rs.430 mn. Interest and depreciation charges rose as the company had to borrow funds to finance its US and West Asian expansion.

Q4FY07 and FY07 Performance

(Rs mn)	FY07Q3	FY06Q4	FY07Q4	QoQ (%)	YoY (%)	FY06	FY07	YoY (%)
Net Sales	**4,988**	**4,688**	**4,013**	**(19.6)**	**(14.4)**	**15,391**	**15,832**	**2.9**
Other Income	60	61	103	70.6	69.8	176	251	42.4
Total Income	5,049	4,748	4,116	(18.5)	(13.3)	15,567	16,083	3.3
Expenditure	4,509	4,434	3,676	(18.5)	(17.1)	14,046	14,304	1.8
Operating Profit	539	314	439	(18.6)	39.9	1,521	1,779	17.0
Op Margins	10	5	8	(12.7)	55.1	9	10	10.5
Interest	134	57	106	(20.9)	86.5	485	435	(10.4)
Gross Profit	405	257	333	(17.8)	29.5	1,035	1,344	29.8
Depreciation	117	15	111	(4.7)	650.0	339	439	29.7
Profit before Tax	289	242	222	(23.1)	(8.4)	697	904	29.8
Tax	81	57	50	(37.8)	(12.3)	177	240	35.7
Tax rate (%)	27.9	23.6	22.6	(19.1)	(4.2)	25.4	26.6	4.6
Profit after Tax	208	185	172	(17.4)	(7.2)	520	664	27.8
Extraordinary Items	-	28	42	-	53.6	27.6	42.4	53.6
Net Profit	208	158	130	(37.7)	(17.8)	492	622	26.4
Net profit margins	4.1	3.3	3.2	(23.6)	(5.2)	3.2	3.9	22.3
Equity Capital	320	320	341	6.6	6.6	320	341	6.6
EPS (Rs)	**6.5**	**4.9**	**3.8**	**(41.6)**	**(22.9)**	**15.4**	**18.3**	**18.5**
Reserves						2,305	3,021	31.1
BVPS						**82.2**	**98.7**	**20.2**
Operation Parameter								
HR Coil (Rs/tonne)	32,719	25,431	32,913	0.6	29.4	27,691	32,864	18.7
Raw material consumption (Rs mn)	4,011	2,593	2,327	(42.0)	(10.3)	10,555	10,556	0.0
Estimated executed orders (tonne)	94,306	78,445	54,391	(42.3)	(30.7)	293,213	256,954	(12.4)
Operation Margins (%)	9.6	5.4	8.4	(12.7)	55.1	8.74	9.65	10.5
Staff cost (Rs mn)	99.2	71.4	143.2	44.4	100.6	318	428	34.5
Other expenses (Rs mn)	1,104	985	1,464	32.6	48.7	3,240	4,094	26.4

Source: Company, Kotak Securities - Private Client Research

FY07 - Revenues disappoint; however, better operating margins despite high HR coil prices result in decent performance...

FY07 results at the net earnings level have been in line with our expectation at Rs.621 mn, despite slightly lower than expected revenue (volume and value), primarily due to better operating margins and higher other income. We estimate a 12% decline in volumes YoY to 257 kilo tons per annum (ktpa) from 293 ktpa in FY06.

However, the volume decline was compensated by a 10.5% improvement in operating margins to 9.6% despite 18.6% increase in HR coil prices. The improvement is a reflection of better working capital management as well as PSL's ability to pass on the high HR coil price to customers due to its cost competitiveness vis-à-vis other competitors.

The net profit and EPS improved 26% and 18% to Rs.621 mn and Rs.18, respectively. The EPS increase was less, as there was some equity dilution due to the issue of Rs.430 mn QIB for setting up the West Asian plant.

We recommend a BUY on PSL with a price target of Rs.343

FY08 Outlook & recommendation

We expect a much better performance in FY08 compared to FY07, on the back of a healthy order book of Rs.26.8 bn. PSL recently bagged orders worth Rs.3.8 bn from Sharjah and Malaysia (Petronas). The company has also commissioned its West Asian plant. It would be supplying pipes for the Sharjah order. Hence, we remain positive on FY08 earnings and expect an EPS and net profit of Rs.24 and Rs.1.0 bn, respectively, representing growth of 35%.

Apart from a better FY08 performance, we also expect a substantial earnings jump in FY09 due to higher domestic utilization and commissioning of US plants of 300 ktpa. The company is also planning an investment worth $50-60 mn in China. The trunk pipe industry outlook globally as well as domestically continues to remain attractive. Hence, we remain positive on the growth prospect of the company. Thus, we maintain our **BUY.**

RESULT UPDATE

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MURUDESHWAR CERAMICS LTD.

PRICE : RS.97 **RECOMMENDATION : BUY**
TARGET PRICE : RS.156 **FY08E PE : 4.6X**

We maintain BUY on Murudeshwar Ceramics with a price target of Rs.156

Highlights

- The company posted a good set of numbers for Q4FY07 and for the full year FY07. Revenues for the current quarter and full year FY07 registered a growth of 17.6% and 23% YoY, respectively. This was in line with our expectations.
- Murudeshwar Ceramics has managed to obtain good operating profit margins of 30.5% for Q4FY07 despite commissioning the low margin ceramic tile plant. For the full year also, the company's operating margins of 29.7% are better than our expectations.
- Interest and depreciation charges are in line with our estimates. However, overall tax outgo is at 18.75%, as against our estimate of 15%, resulting in in line growth in profitability for Q4FY07 and for the full year FY07.
- We maintain our **BUY** on the stock with a price target of Rs.156, providing an upside of 60% from the current levels.

Financial performance

(Rs mn)	Q4FY07	Q4FY06	YoY (%)	FY07	FY06	YoY (%)	FY08E
Net sales	**676**	**575**	**17.6**	**2,502**	**2,030**	**23.3**	**3,124**
EBITDA	**196**	**175**	**11.8**	**740**	**602**	**23.0**	**809**
EBITDA margin	30.5	34.8		29.7	29.6		25.9
Depreciation	64	52		221	182		227
EBIT	**132**	**123**	**7.6**	**519**	**419**	**23.9**	**582**
Interest	41.2	34.3		163	146		137
EBT(exc other income)	91	89	2.8	357	274	30.4	445
Other income	2.6	1.9		9.7	7.3		5.0
EBT	**94**	**91**	**3.5**	**366**	**281**	**30.5**	**450**
Tax	23	11		69	42		81
Tax (%)	24.5	12.6		18.8	15.1		18.0
PAT	**71**	**79**	**-10.6**	**298**	**239**	**24.8**	**369**
NPM (%)	13.8	13.8		11.9%	11.8%		11.8
Capital	175	150		175	150		150
EPS (Rs)	4.1	5.3		17.0	15.9		24.6
P/E (x)	-	-	-	5.5	7.0		4.6
EV/EBITDA (x)	-	-	-	4.2	4.8		3.7

Source: Company, Kotak Securities - Private Client Research

In line revenue growth

With strong demand from the construction and real estate sector, Murudeshwar Ceramics has managed to achieve a 23% YoY growth in its full year revenues. Moreover, the new capacities commissioned in the last one year are showing improving utilization. In the future, we expect significant growth from the vitrified tile segment at Karaikal and ceramic tile segment at Hubli.

The proportion of revenues coming in from the ceramic division to the total revenues has also grown from 1% last year to 18% in FY07. Though the percentage of revenues from the vitrified segment has come down, this is in line with the growth in the ceramic division. We expect vitrified division sales to increase in the future with improving capacity utilizations of its new plants.

Segmental revenues				
(Rs. mn)	Q4FY07	Q4FY06	FY07	FY06
Ceramic	128.9	17.7	442.4	18
% of total revenues	19	3	18	1
Vitrified	519.6	542.3	1943.8	1908.8
% of total revenues	77	94	78	94
Granite and earth work	27.6	14.9	116	102.7
% of total revenues	4	3	5	5
Total revenues	**676.1**	**574.85**	**2502.2**	**2029.5**

Source: Company

Better than expected operating margins

Murudeshwar Ceramics has managed to obtain excellent operating margins for the full year at 29.7% as well as for Q4FY07 at 30.5%. This is due to the access to cheaper raw materials, lower transportation costs and access to natural gas at the Karaikal plant. With an increasing proportion of ceramic tile sales in the total sales, we expect operating margins to go down to 26% in the future since ceramic tiles have lower margin than vitrified tiles.

Net profits registering a growth of 25%

Net profits of Murudeshwar Ceramics for the full year have registered a growth of 25%, resulting in net profit margins of 12%. With the capacity expansion almost getting over, the company's ceramic tile capacity stands at 22000 sq m per day. By Q4FY07, the company further expanded its vitrified tile capacity at the Karaikal plant to 15000 sq m per day. Thus, the total vitrified tile capacity of the company is 25000 sq m per day. We expect that improving capacity utilizations at both plants will result in a 25% growth in revenues and 24% growth in net profits of the company in FY08.

Valuation and recommendation

At the current market price of Rs.111, the stock is trading at very attractive valuations of 4.6 x FY08E and 4.1 x FY09E earnings, respectively. On EV/EBITDA multiples, it is available at 3.7x and 3.1x its FY08 and FY09 estimates, respectively. We maintain **BUY** on MCL with a price target of Rs.156. Our target price provides an upside of 60%. At our target price, the stock would be trading at 7.4x P/E and 5.0x EV/EBITDA multiples on FY08 estimates.

EVENT UPDATE

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ICICI BANK

PRICE : RS.953 **RECOMMENDATION : BUY**
TARGET PRICE : RS.1075 **FY08E PE : 20.8x; P/B:2.2x**

ICICI Bank fixes FPO issue price at Rs.940. Sale of shares in domestic market to raise Rs.87.5 bn, with greenshoe option of Rs.13.12 bn. We recommend BUY on the stock with a target price of Rs.1075, which can provide a 13% upside from current levels.

ICICI Bank, the largest private sector bank in India, has fixed the issue price of its follow-on public offer (FPO) at Rs.940 per share. Hence, the sale of shares in the domestic market will raise Rs.87.50 bn with a greenshoe option of Rs.13.12 bn. The bank has also mobilized $2.14 bn through ADR, at $49.25 per share, by placing it at 6.6% premium over domestic offerings (one ADR is equivalent to two shares of the bank).

The FPO of about 988 mn shares was subscribed 11.5 times with major demand coming from foreign institutional investors (FIIs). The issue received great demand from qualified institutional buyers (QIBs), with the portion reserved for them getting subscribed over 21.6 times.

Since the management has announced that it will utilize the greenshoe options, hence the equity of the bank will rise from 0.90 bn to 1.1 bn, an increase of 207 mn shares.

ICICI Bank, with its assets of more than $79 bn, is well placed to dominate the Indian financial sector with its aggressive growth ventures. In the past, its management has also demonstrated the ability to strategize and enter into new business segments.

Now, after its success in the retail business, the bank is looking at overseas expansion and rural banking to leverage the huge growth opportunities unfolding in these areas. We believe international and rural banking would be the next growth engines for ICICI Bank. These new segments will not only generate stable deposits but also higher fee income for the banks.

This capital raising exercise would help the bank in meeting capital requirements for its loan growth as well as to comply with the new Basel-II guidelines. These guidelines will become effective wef March 31 2008. This will require that banks maintain their Tier-I capital at 6%. ICICI Bank would also use some part of the raised capital to meet the investment needs of its subsidiaries.

Equity dilution of 207 mn shares (assuming the bank utilizes greenshoe options in both domestic as well as foreign markets) would definitely be a drag on its RoE in the short to medium term. This could also negatively impact the stock price. However, we have a positive bias on the stock in the long run and believe this would make ICICI Bank's balance sheet much bigger and stronger and reduce its dependence on bulk deposits for financing future credit growth.

Summary table

(Rs bn)	FY07	FY08E	FY09E
Interest income	229.94	312.52	374.03
Interest expense	163.56	227.45	260.49
Net interest income	66.39	85.07	113.55
Other income	59.29	75.51	94.72
Gross profit	58.78	73.4	95.65
Net profit	31.13	38.85	50.73
Gross NPA (%)	2.5	2.3	2.3
Net NPA (%)	1.0	0.9	0.8
Net interest margin (%)	2.2	2.2	2.4
RoE (%)	13.4	11.0	10.5
RoAA (%)	1.0	1.0	1.1
Dividend Yield (%)	1.0	1.0	1.0
EPS (Rs)	34.8	38.7	45.9
Adjusted BVPS (Rs)	252.8	403.2	435.5
P/E (x)	27.4	24.6	20.8
P/ABV (x)	3.8	2.4	2.2

Source: Company & Kotak Securities - Private Client Research

SUBSIDIARIES: Unlocking of value....

❑ ICICI Prudential Life:

ICICI Prudential Life Insurance Company is one of the dominant private sector players in life insurance with about 10% share of the overall market and about 30% market share in the private sector space. ICICI Bank has already invested more than Rs.9 bn in this venture till FY06, holding 74% stake.

Life Insurance Business

(Rs mn)	FY05	FY06	FY07	FY08E	FY09E
Single Premium	1,300	3,090	7,915	9,894	12,368
Regular Premium	14,543	22,935	43,706	74,300	111,451
New Business Premium (NBP)	**15,843**	**26,025**	**51,621**	**84,194**	**123,818**
% growth	111	64	98	63	47
Weighted NBP (APE)	**14,673**	**23,244**	**44,498**	**75,290**	**112,687**
NBAP Margin (on weighted NBP)	21	23	20	19	19
NBAP (New Business Achieved Profit)	3,120	5,280	8,810	14,305	21,411
% growth	53	69	67	62	50
At P/NBAP of 18	**56,160**	**95,040**	**158,580**	**257,491**	**385,391**
Value assigned to ICICI Bank	41,558	70,330	117,349	190,543	285,189
Value/Share for Life Insurance Business	**38**	**64**	**106**	**172**	**258**

Source: Company, Kotak Securities - Private Client Research

While the life insurance business has been making accounting losses due to customer acquisition and business set-up costs and reserving (it reported a loss of Rs.6.49 bn in FY07 against Rs.1.87 bn in FY06), there has been a considerable value build up over the last five years.

Its new business premiums have grown at 93% CAGR over FY03-06 and are expected to grow at a CAGR of 68% between FY06-09E mainly driven by rapid network expansion, new product launches and strong demand from under penetrated semi-urban markets. (The number of branches rose from 177 to 583, whereas the number of advisors rose from 72,000 to 234,000 in the last year)

We expect new business achieved profit (NBAP) to grow at 59% CAGR over FY06-09, with margins stabilizing slightly below 20% by FY09E. We are assigning a lower NBAP multiple of 18x, despite strong volume and NBAP growth. We arrive at a value of Rs.385.4 bn for the company on FY09E estimates, thus resulting in a value of Rs.258 per ICICI Bank share.

❑ ICICI Lombard

ICICI Lombard, with 33% market share is the largest private sector player in the non-life insurance business. It accounted for 31% of the industry growth and 43% of private sector growth in FY07. It achieved a profit after tax of Rs.680 mn in FY07 compared to Rs.503 mn in FY06. About 56% of its gross written premiums comprised non-corporate business. In our view, ICICI Bank's general insurance venture is worth Rs.15.94 bn, which translates into Rs.11 per share of ICICI Bank, for its 74% stake.

❑ ICICI Securities

ICICI Securities is India's leading investment bank, with a dominant position in all segments of its operations, corporate finance, fixed income and equities. In FY06, it registered a 162% rise in profit after tax to Rs.1.48 bn from Rs.0.56 bn. We estimate the value of its brokerage and investment banking business (ICICI Securities) at Rs.38.93 bn, which translates into Rs.35 per share of ICICI Bank, for its 100% share.

❑ Prudential ICICI Asset Management Company

Prudential ICICI Asset Management Company continues to be among the top two asset management companies in India with asset under management of over Rs.378.7 bn as on March 31 2007, ($8.7 bn) and about 10% market share. M&A transactions in the industry in past have taken place at 4-9% of AUM. We also assume that by the end of FY09, the AUM would increase to Rs.591.7 bn. We estimate its AMC business at Rs.35.5 bn, which translates into Rs.16 per share of ICICI Bank, for its 51% share.

❑ Private Equity

Its private equity business would get higher multiples due to higher return potential and higher growth in the near future than mutual funds. We estimate the value of this business at Rs.35.04 bn, translating into Rs.32 per share of ICICI Bank, for its 100% stake in the venture.

Businesses

	Basis	Multiple	Year	Value per Share
Core Banking Business (standalone)	PAT	16	FY09	740
Overseas Banking Subsidiaries	BV	2	FY09	42
Life Insurance Business	NBAP	18	FY09	258
Investment Banking	PAT	12	FY09	35
Asset Management	AUM	6%	FY09	16
Private Equity	AUM	10%	FY09	32
Non Life Insurance	PAT	15	FY09	11
Total Value of subsidiaries				**394**
15% discounted value				335
Total Value				**1,075**

Source: Company, Kotak Securities - Private Client Research

Valuation and recommendation

We like ICICI Bank for its presence across businesses - retail assets, corporate banking, SME, agriculture, international banking, life insurance. We believe the bank's low margins are more than offset by its high growth. However, its valuations do not reflect this.

We expect that net profit for FY08 and FY09 will be Rs.38.85 bn and Rs.50.73 bn, respectively resulting into an EPS of Rs.38.74 and Rs.45.86, respectively. The adjusted book value for FY08 and FY09 is forecast at Rs.403.2 and Rs.435.5, respectively.

On the basis of SOTP, we have arrived at a fair value of Rs.1075 (increasing from Rs.1012) where the standalone value comes to Rs.740 (P/E:16x FY09 EPS, P/ABV: 1.7x FY09E ABV) and value of subsidiaries comes to Rs.335 (15% discount to the fair value of its subsidiaries at Rs.394) Its overseas banking subsidiary is valued at 2x FY09 BV, which has a decent RoE of around 22%.

We recommend a BUY on ICICI Bank with a price target of Rs.1075

We are upgrading the stock from **HOLD** to **BUY** with the target price of Rs.1075. In the long-term, we have a positive bias on the stock. However, in the short-term, it may be range bound as equity dilution would be a drag on its RoE (likely to get suppressed to 11.0% and 10.5% in FY08 and FY09, respectively). Yet, we believe the bank is better placed to benefit from the robust economic growth, which would translate into strong credit demand from corporate as well as retail consumers.

The stock is currently trading at 20.8x its FY09E standalone earnings and 2.2x its FY09E adjusted book value. So, we recommend a **BUY** call on the stock with a target price of Rs.1075, which can provide an upside of 13% from the current level.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
22-Jun	Aditya Forge	Sainath Herbal Care Marketing	B	165,000	14.59
22-Jun	Bihar Tubes	Bhavna S. Sethia	B	16,189	74.06
22-Jun	Bihar Tubes	Janak Steel and Tubes Ltd	S	20,000	119.90
22-Jun	Chan Guide I	Bakliwal Financial Ser I Pvt Ltd	B	33,510	20.40
22-Jun	Crazy Infote	Bhavesh P Pabari	B	30,000	125.00
22-Jun	Cupid Ltd	Jogesh Shivlal Bhasin HUF	B	50,000	63.05
22-Jun	DMC Inter	JA Finance and Management C	B	13,729	69.34
22-Jun	Expo Ga Cont	Vasant Sohanlal Jain	S	40,733	12.93
22-Jun	Foundry Fuel	Integra International Pvt Ltd	B	38,004	5.87
22-Jun	Genus Over E	L and T Capital Company Limited	B	102,475	249.00
22-Jun	Interf Fin S	Hudson Commodity Brokers Pvt Ltd	B	500,000	1.85
22-Jun	IQMS Softwar	Sterling Finman Pvt Ltd	S	718,069	1.07
22-Jun	JM Financial	Morgan Stanley and Co Intl Ac Morgan Stanley Dean Witter Mau	B	614,395	1,069.97
22-Jun	JM Financial	Fidelty Investment Mgmt HK Ltd Ac Fidelity Funds Mauritius L	S	613,938	1,070.00
22-Jun	Kanoi Pap In	Sharon Gupta	B	40,000	22.23
22-Jun	Kanoi Pap In	Hemant Kumar Gupta	B	45,289	20.77
22-Jun	Mah Ind Leas	Pragnesh Harshadbhai Patel	B	25,000	46.37
22-Jun	Mah Ind Leas	Sejal Gopalbhai Shah	S	24,430	46.30
22-Jun	Mahalaxmi Sm	Madhaw Prasad Jalan	B	37,000	30.00
22-Jun	Mahalaxmi Sm	Jeevi Bai	S	74,368	30.00
22-Jun	Malu Paper	Diamant Investment and Finance	B	93,699	34.92
22-Jun	Maximaa Syse	Ramakant Tiwari	B	101,000	9.01
22-Jun	Nettlinx Ltd.	Nimeshbhai Harkishandas Chitalia	S	90,000	22.65
22-Jun	Nutraplus Pr	Sitabaiagarwal	B	25,000	9.80
22-Jun	Nutraplus Pr	Kalpana Madhani Securities	B	25,000	9.97
22-Jun	Nutraplus Pr	Dheeraj Kumar	S	26,000	9.75
22-Jun	Nutraplus Pr	Vishal Agarwal	S	39,760	9.90
22-Jun	Panam Petroc	Rajesh Shah	B	22,000	176.20
22-Jun	Panam Petroc	Diamant Investment and Finance	S	22,000	176.20
22-Jun	Pentium Inft	Navneet V Bhalani	S	765,000	1.18
22-Jun	Polytex(P)	Sadhana P. Kariya	B	30,000	5.32
22-Jun	Polytex(P)	Chandni Nirmal Malhotra	S	30,000	5.32
22-Jun	Prime Secu L	Citigroup Global Markets Mauritius	B	153,696	84.98
22-Jun	Proto Infosy	Lilac Farms Pvt Ltd	S	289,495	4.04
22-Jun	Raipur All S	Macquarie Bank Limited	B	500,000	188.93
22-Jun	Rasoi Ltd	Prism Impex Pvt Ltd	B	65,000	232.20
22-Jun	Rasoi Ltd	Manu Stock Broking P Ltd	S	17,525	232.20
22-Jun	Rasoi Ltd	Hi Tech Designs P Ltd	S	16,982	232.20
22-Jun	Rasoi Ltd	Doyen Marketing P Ltd	S	30,668	232.20
22-Jun	Sun Pharma	Deutsche Securities Mauritius	B	997,500	1,061.65
22-Jun	Tripex Over	Jesnar Trading Private Ltd	S	85,000	23.59

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Bharti Airtel	826	1.1	3.4	0.5
GAIL India	306	3.7	1.8	0.9
HDFC	1,881	1.6	1.4	0.5
Losers				
Reliance Ind	1,705.1	(1.7)	-7.9	2.1
BHEL	1,438.7	(3.0)	-4.2	0.9
Wipro	517.3	(1.4)	(2.1)	0.8

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
25-Jun	Annual General Meeting of SBI; ONGC to announce earnings; Everonn Systems India holds press conference to announce IPO
26-Jun	Apollo Hospitals enterprise to announce earnings and dividend; Allied Digital Services holds press conference to announce IPO; Housing Development holds press conference to announce IPO
28-Jun	Pfizer to announce 2nd quarter earnings; Sun TV to announce earnings and dividend; TVS Motor Company to announce earnings and dividend
29-Jun	TCS holds annual shareholders meeting
30-Jun	Tata Tele Services, Colgate Palmolive to announce earnings and dividend; Tata Coffee and Castrol India earnings expected

Source: Bloomberg

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