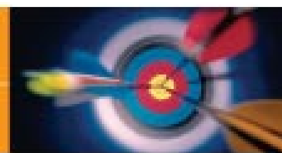
investor's eye



Index

- Market Outlook >> Markets dance to local tunes
- Stock Update >> Ashok Leyland
- Viewpoint >> Phoenix Mills

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Deepak Fertilisers	17-Mar-05	50	**84**	126
HLL	24-Nov-05	172	**204**	280
ICICI Bank	23-Dec-03	284	**854**	1,240
IndoTech Trans	28-Nov-06	199	**288**	335
Infosys	30-Dec-03	689	**2,044**	2,670

Market Outlook

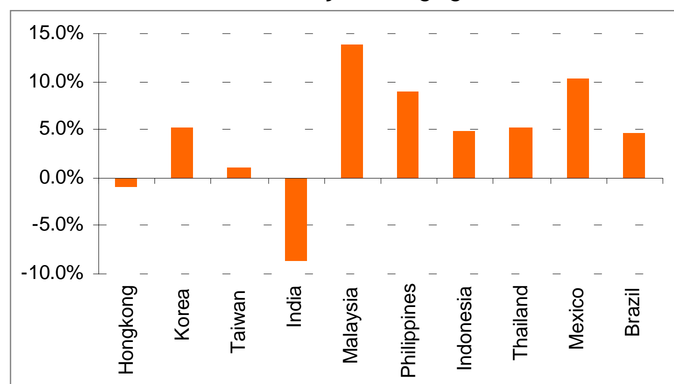
Markets dance to local tunes

- Uncertainty and risk in the market have sharply risen in the recent past. In addition to the global uncertainties the market now has to grapple with domestic interest rate related risks as well.
- There are widespread concerns that the tightening of money supply has been excessive and could lead to a significant slowdown in the economy, especially in the interest rate sensitive sectors such as automobiles and housing.
- We are still maintaining our views that (1) inflation will moderate going forward and (2) the US economy will slow down but not go in recession. As these events unfold, concerns should ease and the environment for equities should improve. However, the risks around our base case have certainly risen.
- Volatility is likely to peak in the next four weeks. We expect inflation to ease by the end of this month. End April shall also bring the initial monsoon forecast as well as the credit policy of the Reserve Bank of India (RBI). While the fourth quarter results of Indian companies may not be a trigger, the market will keenly await the guidance on the FY2008 prospects of the corporate sector, especially that of automobiles, banks and the other interest rate sensitive sectors.

Uncertainty and risk in the market have sharply risen in the past few weeks. Until recently, every fall in the benchmark index was linked to global factors, viz the US Federal Reserve (Fed), China, the Middle East and yen. These factors persist but now, in addition to the global uncertainties, the market has to grapple with certain local risks as well. In 2005 and 2006, each time the market stumbled and fell on global concerns, such as the possibility of recession in the USA, higher crude prices or unwinding of yen carry trades, it was the promise of India's economic growth and superior corporate earnings growth that helped it get back on its feet.

That is why the Indian market bounced back far more strongly than the other emerging markets after the May/ June fall last year. Alas, today, there hangs a big question mark on this source of strength itself, mainly on account of concerns over interest rates, inflation and most importantly, policy uncertainty caused by desperate government actions to stem inflation. The chart below shows that India has delivered negative returns for the calendar year to date while its emerging market peers have delivered superior positive returns.

CY2007-to-date returns of major emerging markets



Source: Bloomberg

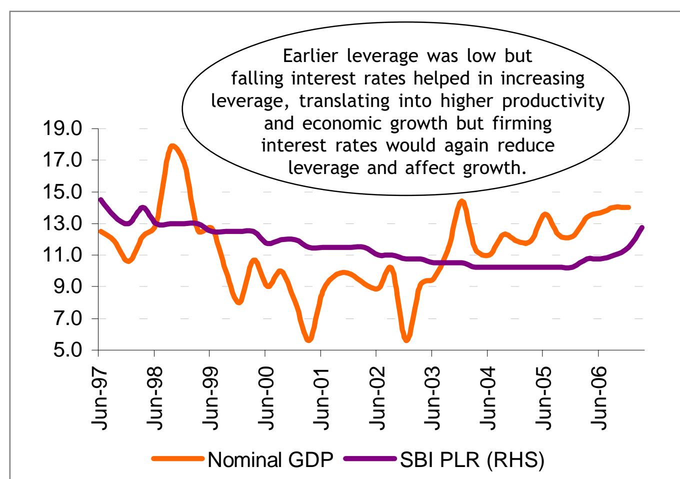
A recap: Market situation then and now

Factors	May - June 2006	Impact on markets	Current scenario	Impact on markets
Global	Global interest rate tightening (in June 2006, the US Fed raised rates for the last time)	Outflow of foreign funds from most emerging equity markets.	Most of the global tightening measures look to be over.	Stable global interest rate environment is better for emerging market equities.
Domestic	Higher leverage in derivatives market and margin calls, inflation was close to 5%	A downward cascading effect on stock prices.	Inflation running high at 6.4% and RBI policy measures remain the key concern.	Sudden unexpected moves by RBI are always negative for the markets.
	Strong corporate earnings expectations	FY2007 Sensex earnings growth estimate upgraded to 21% from 18.5%, leading to a faster recovery.	Concerns over earnings growth due to higher interest, foreign exchange rates and some budget pronouncements.	Better than expected guidance in key sectors could lead to earnings upgrade.

RBI opting for strong measures to curb inflation

Inflation has stubbornly remained well above 6% for four weeks now, far higher than the RBI's target level of 5.0-5.5%. To rein in inflation and the galloping growth in money supply and credit, the RBI has raised the repo rate six times since January 2006 and increased the cash reserve ratio (CRR) three times in the past three months. There has been a noticeable shift in the RBI's focus away *from striking a balance between containing inflation and maintaining growth to curbing inflation at any cost* (even at the cost of growth). The same is evident from the RBI's recent statement: "The stance of monetary policy has progressively shifted from an equal emphasis on price stability along with growth to one of reinforcing price stability with immediate monetary measures and to take recourse to all possible measures promptly in response to evolving circumstances."

Leverage—nominal GDP growth and interest rates



Source: Bloomberg

Certain factors leading to uncertainty in the markets

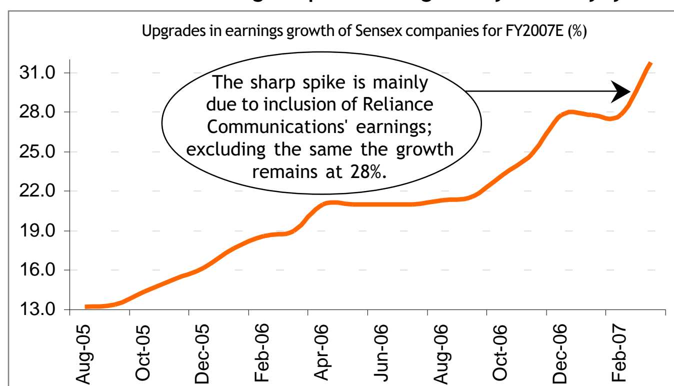
With inflation being driven largely by food and international metal prices, it's not surprising that the RBI's actions have not had any visible effect on inflation. Further, it normally takes six to nine months for monetary policy actions to take effect, so monthly actions are definitely unsettling for the markets. However, this aggressive stance and the unprecedented 150-basis-point CRR hike that has sucked out Rs45,000 crore of liquidity have led to several concerns.

- *Will the aggressive stance of the RBI continue for some more time due to political exigencies?* The central bank is slated to announce its annual monetary policy statement for FY2008 on April 24 and since inflation is showing no signs of abating, another rate hike could be in the offing.
- *Has the tightening been excessive and could it lead to a significant slowdown, especially in sectors such as automobiles and housing that are dependent on credit?*
- *Would the government intervene and adopt the same heavy-handed approach towards the other sectors as it has shown towards the cement sector?*
- *What would happen if the monsoon were to be poor and food inflation were to spike further? Would the RBI tighten the money supply further and exacerbate the problem?*

Earnings momentum needs to be watched carefully

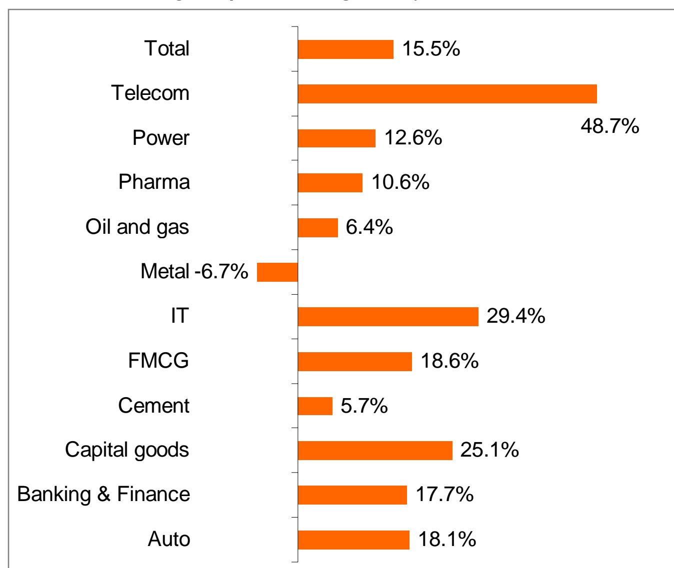
We feel with so many concerns looming large over the equity market, corporate earnings would continue to remain the key deciding factor. The Q3FY2007 performance of the Sensex companies was way ahead of expectations. The year-on-year (y-o-y) and quarter-on-quarter (q-o-q) growth in the Sensex' earnings stood at 40% and 12.6% respectively compared to the market expectations of a 26% y-o-y and a 1.2% q-o-q growth respectively. The implied growth in the Q4FY2007 earnings of the Sensex excluding oil and telecom companies stands at 28%, which is in line with the growth rates recorded in the past few quarters. However, the growth is expected on a slightly lower base of 22% growth recorded in Q4FY2006.

FY2007 Sensex' earnings expected to grow by 31.8% yoy



Source: Sharekhan Research

FY2008E earnings expected to grow by 15.5%

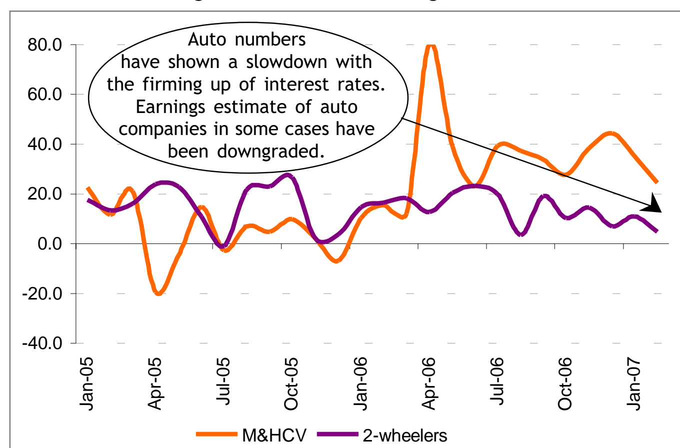


Source: Sharekhan Research

The Sensex' earnings are expected to grow by 15.5% yoy in FY2008 and the composition of its earnings appears to be evenly distributed among its constituents with achievable growth rates. Bank and automobile companies account for 19% of the index' earnings and both these sectors are vulnerable to rising interest rates. The impact is already visible in the form of a slowdown in the automobile sales volumes. The other leading indicators, viz housing related demand, cement dispatches, exports that are a function of global demand and US led economic growth are also pointing to a slowdown.

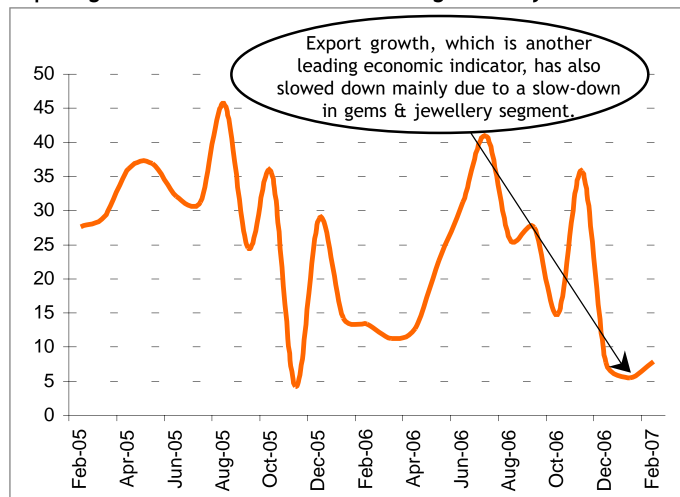
We have seen some downgrades in the earnings estimates of companies from interest rate sensitive sectors like automobiles and banking; however no major upward revision has been reported following the upgrades effected after the Q3FY2007 numbers. The FY2008 earnings estimates for Maruti Udyog and Hero Honda Motors have been downgraded by 1% and 3.5% respectively while for private sector banks like ICICI Bank and HDFC Bank the earnings estimates have been reduced by 2-3%. State Bank of India has seen a reduction of around 1% in its earnings estimate.

Auto sales slowing down with hardening of interest rates



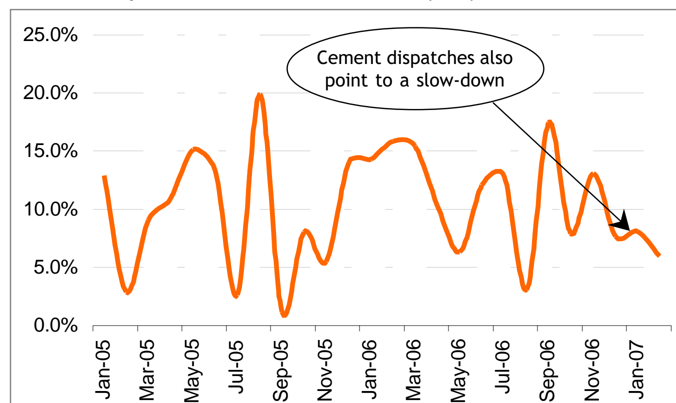
Source: SIAM

Export growth has also slowed down significantly



Source: DGCI&S

Cement dispatches have also shown a y-o-y decline



Source: CMA

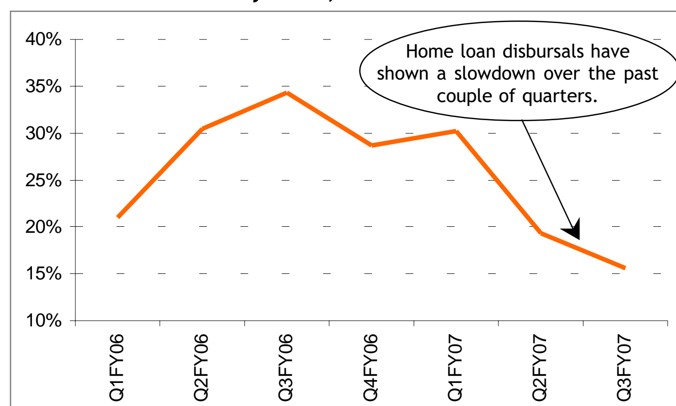
Home loan disbursals slow down

If we see the total home loan disbursals of major housing finance companies and banks, the y-o-y growth rates have slowed down in the past few quarters. The reasons for that are a steep rise in property prices and higher interest rates on home loans in recent times. Although the increase in income levels helped to maintain the affordability factor (AF) earlier, the recent sustained hike in the interest rates and higher property prices have seen the AF at 63% from 44% in 2003. An AF of 63% in 2007 compared with that of 44% in 2003 means that a person who wants to buy the same property that cost Rs13 lakh in 2003 would now need to shell out 63% of his annual income towards the equated monthly installment (EMI) commitments, compared with 44% in 2003.

Particulars	2003	2004	2005	2006	2007
Property prices (in lakh)	13.0	14.0	18.0	25.0	27.0
(%) y-o-y growth		*7.7*	*28.6*	*38.9*	*8.0*
Income (in lakh)	2.7	3.2	3.8	5.0	5.3
(%) y-o-y growth		*18.0*	*19.0*	*30.9*	*6.0*
EMI**	775	791	821	900	1033
(%) y-o-y growth		*2.1*	*3.8*	*9.6*	*14.8*
Interest rates (%)	7.00	7.25	7.75	9.00	11
Affordability factor *(%)	44	41	46	54	63

* Affordability factor = (annual EMI on property price indicated / annual income)
**Per lakh for a 20 year loan.

Home loan disbursals by HDFC, ICICI Bank and LICHFL

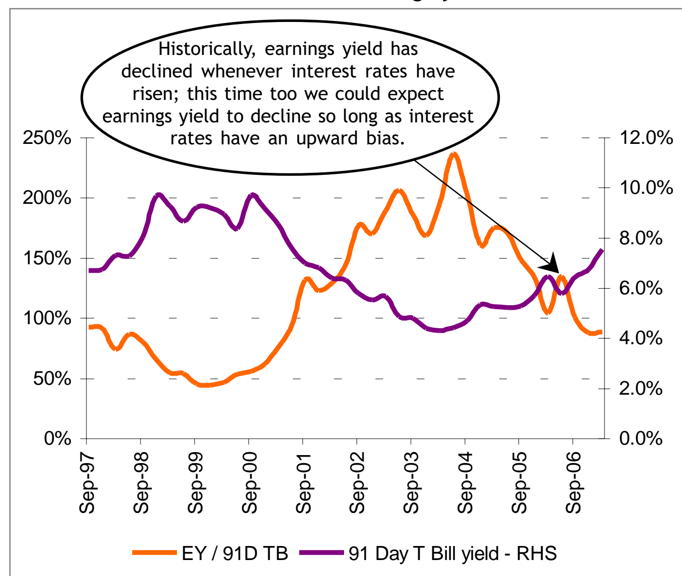


Source: Sharekhan Research

Interest rates—the double whammy

Apart from having an impact on corporate earnings interest rates would also affect valuations. Further, the risk premium would rise too, given the rising uncertainty surrounding government policy actions.

Inverse relation exists between earnings yield and interest rates



Source: Sharekhan Research and RBI

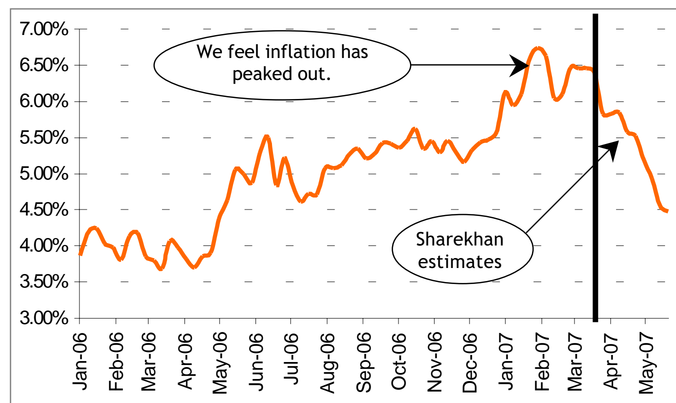
Maintaining our base case for now

We are still maintaining our views that (1) inflation will moderate going forward and (2) the US economy will slow down but not go in recession. However, the risks around our base case have certainly risen.

We expect inflation to moderate from the current levels of 6.39% going forward as the high base effect kicks in and inflation settles within the RBI's comfort zone by mid May 2007.

We also expect a favourable monsoon forecast to help ease inflation fears. We had earlier voiced concerns that *El Nino* conditions may affect the south-west monsoon in 2007. Our fears stemmed from the January forecast of the US National Oceanographic and Atmospheric Administration (NOAA) that *El Nino* conditions would deteriorate in the following three months (historically, in majority of *El Nino* years, the rainfall had been below normal). However the latest NOAA estimate suggests that *El Nino* indicators have visibly weakened in recent weeks, thus increasing the chances that we may have a normal monsoon this year. A normal monsoon would no doubt give the market some reason to cheer but whether the rain god will actually oblige remains to be seen.

Wholesale Price Index expected to moderate going forward



Source: Office of the Economic Adivsor

Interest rate outlook: The non-food credit and money supply growth at 30% and 22% respectively should also slow down further after the latest round of a 50-basis-point CRR hike, but only time will tell whether the same will enter the RBI's comfort zone of 20% and 15% respectively. The FY2008 annual policy statement due later this month thus assumes greater significance in terms of how the RBI perceives the above three factors, ie inflation, credit growth and money supply, in FY2008. In our view, while it might be difficult to bring down all the parameters (especially the money supply growth) to the desired level, the upward bias on interest rates may get checked once inflation shows signs of easing. Till then, the uncertainty on interest rates will loom large and the interest rate sensitive sectors like banking, automobiles and real estate may underperform the broader market.

Impact of global factors on markets: Apart from the domestic interest rates, a host of global factors are also influencing our domestic markets. In our view, while US economic growth will continue to moderate, recession is unlikely in the world's largest economy. Further, the fears of default of sub-prime mortgages and unwinding of Japanese carry trades are also overdone.

US economy

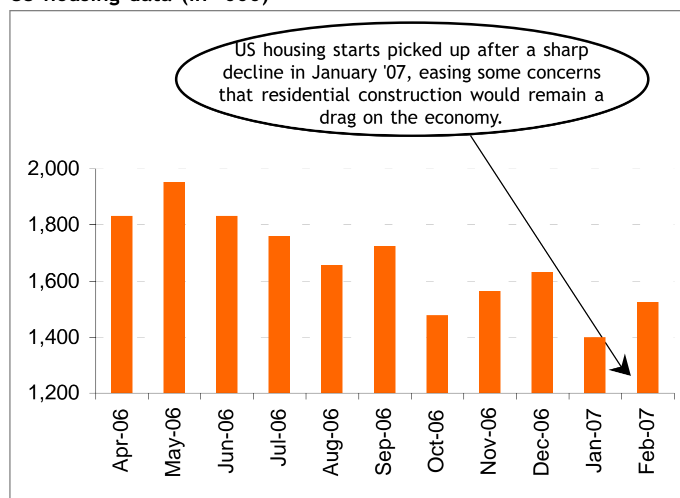
For more than a year, we have been highlighting that as the housing market in the USA slows down, it would have a rub-off impact on the overall economy. This we hope would lead to some softening of the US interest rates and be positive for India (and the other equity markets) provided that the housing downturn only slows the economy and does not drag the same in recession. Until now this seemed to be the case as the US economy had weathered the housing downturn reasonably well helped by low unemployment and moderate interest rates.

Homebuilders have sharply reduced new projects (known as housing starts) since last year but because houses that were earlier under construction have continued to come

onto the market as they have got completed, the decline in the housing starts has only recently resulted in a sharp decline in home completions. The reduction in the supply of new houses should over time lead to stabilisation in the housing market. Meanwhile the fall-off of residential construction is beginning to have some spill-over effects on the economy.

As construction workers come off completed projects, unemployment is likely to rise. The slowdown in residential construction has also contributed to the decline in business investment. A sharp decline in the shipment of construction equipment has cut into the shipment of durable goods. However, apart from these closely related sectors, consumer confidence and other economic indicators have held up.

US housing data (in '000)



Source: US Department of Commerce

Sub-prime mortgages—unlikely to be a big risk to the financial system

Sub-prime loans (ie housing loans taken by borrowers with poor capacity to repay) accounted for about 13% of all mortgage loans at the end of 2006 and the current delinquency rate in the sub-prime sector is 13.3%. Thus out of the total sub-prime loans of an estimated US$1.3 trillion the potential loss is in the range of US$170 billion. If even 50% of the loans are recovered by sale of the underlying houses then the total loss will be around $85 billion, which is insignificant at around 0.8% of the US gross domestic product (GDP) and equally small percentage of the overall housing loan market. At this point, there is little evidence that the problems in the sub-prime mortgage market are spilling over to the other borrowers and hence the concerns that sub-prime loans may destabilise the entire financial system seem to be overdone.

Carry trade likely to carry on

Carry trades involve the borrowing of currencies with low nominal interest rates and investing the same in high-yielding currencies. If the carry trade involves the borrowing in yen (interest rates in Japan are very low), we call it "yen carry trade". Yen carry trade implies the borrowing of the Japanese Yen at low interest rates (0.5%) to finance purchases of high-yielding assets. The investor earns the interest rate spread or "carry" as long as the interest rates in Japan do not rise (and do not increase the borrowing cost) and exchange rates remain stable (exchange rate risk arises if the yen appreciates). For example, let's assume a trader borrows 1,000 yen from a Japanese bank at a nominal interest rate of 0.5%, converts the funds into US Dollars and buys a bond for an equivalent amount. Let's assume that the bond pays 4.5% and the Japanese interest rate is set at 0.5%. The trader stands to make a profit of 4% (4.5% minus 0.5%), as long as the exchange rate between the countries does not change. The big risk in a carry trade is the uncertainty of exchange rates. If the yen appreciates against the dollar, then the spread declines and the carry trade doesn't look attractive anymore because the trader receives less yen on converting his dollars. That's because the yen has appreciated, thereby reducing his spread by the percentage appreciation in the carry currency.

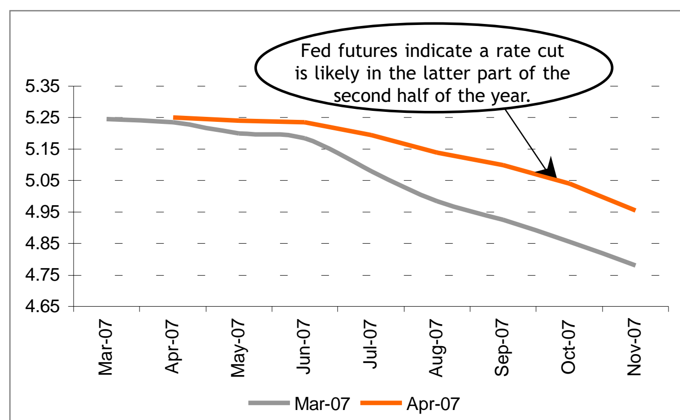
There has been widespread concern that Japanese investors would withdraw money from all non-Japanese assets (including bonds, commodities and equities) if the Japanese interest rates become attractive or the yen begins to appreciate. Although the carry trade is a long-term concern, yet we feel it is unlikely to be an issue for the short to medium term because of the following reasons.

- A weak yen has been a key driver of Japan's exports (which are growing at 9%+) and thus of the country's overall GDP and economic recovery; the Japanese government would therefore prefer a weak yen.
- Inflation in the Japanese economy is most likely to remain very low this year. The Core Consumer Price Index (CPI; excluding fresh food) is currently at zero and the core CPI inflation adjusted for energy still remains in negative territory.
- We expect Bank of Japan's next hike to be delayed until the year-end, given the mid-year elections and the possibility of weaker consumer spending as tax rebates come to an end.

US Fed interest rate stance

The Fed kept the rates unchanged at 5.25% in its latest policy meeting on March 21, 2007 but continued to focus more on inflation. The core inflation eased month on month to 0.2% in February 2007 compared with 0.3% in January 2007. The inflation numbers continue to remain at high levels and unless the same subside, a rate cut may not be in the immediate horizon (see our chart on Fed rate futures) except in the event of a significant slowdown in the US economy. However, even the current scenario of moderate growth and stable rates is positive from the viewpoint of our markets.

Fed rate futures (%)

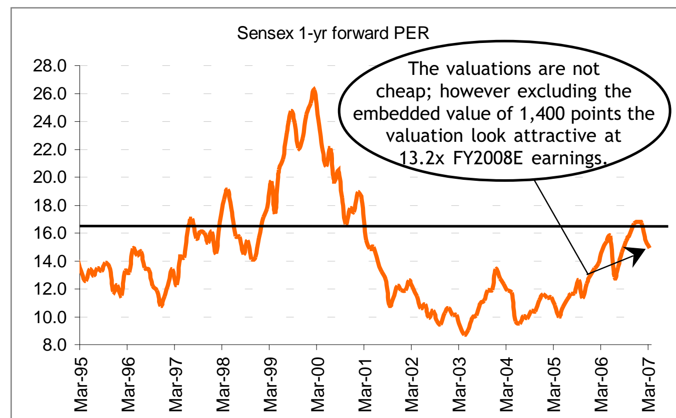


Source: Bloomberg

The market looks attractive from the medium- to long-term perspective

Despite the concerns over domestic interest rates and attendant problems highlighted above, we feel the long-term fundamentals have not changed and our long-term India growth story remains intact. Corrections would be there in the market which would also help it to build a stronger base to make the next move upwards. At the current valuation (excluding the embedded value of 1300-1400 points) the Sensex is trading at 13.2x its FY2008E earnings, which is not expensive and provides buying opportunity in quality stocks.

Sensex trading at 14.9x FY2008E earnings



Source: Sharekhan Research

In the first quarter of CY2007 foreign institutional investors (FIIs) have pumped in $1.5 billion in the market. This is over and above the $8 billion invested by them in Indian equities during 2006. Thus it is evident that the FIIs continue to remain bullish on India as far as the long-term story is concerned. Mutual funds have Rs12,000 crore of cash which is likely to get invested if the market falls to lower levels. This should protect the downside.

We expect sectors with higher growth visibility like telecom and engineering to outperform the others. The fourth quarter results would start rolling in soon. While the Q4 results in themselves may not be a trigger, companies are likely to guide on their prospects for FY2008 and the impact of the interest rate hikes. This will be keenly watched by the market. April shall bring the initial monsoon forecast as well as the RBI credit policy and hopefully better inflation numbers—these we hope will help allay the market's current concerns.

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

Ashok Leyland

Ugly Duckling

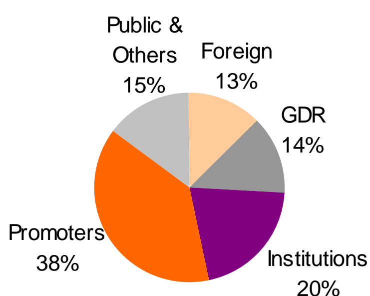
Stock Update

Price target revised to Rs44

Buy; CMP: Rs36

Company details	
Price target:	Rs44
Market cap:	Rs4,843 cr
52 week high/low:	Rs54/29
NSE volume: (No of shares)	48.8 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	63.1 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.0	-18.0	-22.6	-9.8
Relative to Sensex	-2.7	-11.8	-25.8	-18.9

Key points

- Ashok Leyland's total vehicle sales during March dropped by 1.55% to 8,444 units as against 8,577 units in the same month a year ago. The bus sales rose by 5% to 1,671 vehicles while the truck sales marked a decline of 2% of 6,773 vehicles. The domestic sales declined slightly by 1.9% year on year (yoy) to 7,936 vehicles while the exports saw an improvement of 3.7% with sales of 508 vehicles.
- The decline can be attributed to the non-availability of finance in the month and a *bandh* being declared in Tamil Nadu on the last working day of the year. The sales in Tamil Nadu comprise of approximately 15%-18% of the overall sales volume.
- For the full year FY2007, the company has marked a sales growth of 34.8% yoy to 83,101 vehicles. The company has comfortably surpassed its sales target of 80,000 vehicles for the year.
- Going forward, the company expects the growth in the commercial vehicle industry to continue at 10-15%. However, with the rising interest rates, tightening liquidity and huge capital expenditure planned for the next 3-4 years, we would take a cautious outlook at the industry and the company.
- The company had a dream run in FY2007 as its volumes marked a brilliant growth of 35%. The growth rates are expected to moderate henceforth. Consequently we are reducing our volume growth estimates for the company from 15% to 11.9% for FY2008. The doubling of the capital expenditure for FY2008 to Rs1,000 crore is expected to restrict the profit after tax (PAT) growth. Consequently, we are downgrading our earnings per share (EPS) estimate for FY2008 by 10% from Rs4 to Rs3.6.
- At the current market price of Rs36, the stock discounts its revised FY2008E earnings by 10x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 6.3x. We maintain our Buy recommendation on the stock with a revised price target of Rs44.

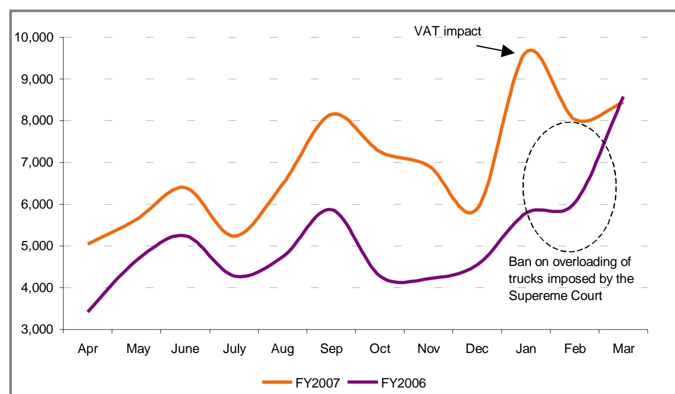
Earnings table Rs crore

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	4247.7	5329.8	7118.8	8302.2
Net profit (Rs cr)	233.8	285.0	424.2	480.0
% y-o-y growth		*22.0*	*49.0*	*13.0*
EPS (Rs)	1.8	2.1	3.2	3.6
% y-o-y growth		*22.0*	*49.0*	*13.0*
PER (x)	20.8	17.1	11.5	10.1
P/BV (Rs)	4.2	3.4	2.5	2.3
EV/EBIDTA (x)	11.4	8.6	5.9	5.9
RoCE (%)	19.3	21.6	26.4	25.4
RoNW (%)	20.0	20.2	21.9	22.4

Sales performance for March-07

	Mar-07	Mar-06	% yoy	Feb-06	% mom	FY07	FY06	% yoy
MDV passenger	1,671	1,594	4.8	1,671	0.0	15,497	15,665	-1.1
MDV goods	6,773	6,905	-1.9	6,347	6.7	67,301	45,193	48.9
LCV	0	78	-100.0	18	-100.0	303	797	-62.0
Total sales	8,444	8,577	-1.6	8,036	5.1	83,101	61,655	34.8

Ashok Leyland sales performance



Industry outlook

Going forward, the company management expects the commercial vehicle industry to grow at 10-15%. Though the freight rates continue to be strong and the profitability of the freight operators will be intact, we would take a cautious look at the industry in view of the rising interest rates and the tightening liquidity.

Increase in capital expenditure

The company has aggressive plans of a capital expenditure of Rs4,000 crore over the next three to four years. The proposed new unit at Uttaranchal would see an expenditure of Rs1,200 crore in two phases. In phase I, a vehicle and cab assembly facility will be set up with a capacity of 25,000 units per annum at an outlay of Rs700 crore. In phase II, the company will hike the vehicle assembly capacity to 40,000 units per annum and set up an engine and gearbox assembly facility with a capacity of 50,000 units per annum.

The Uttaranchal plant is expected to be commissioned in Q1FY2008. This plant will enjoy excise duty exemption and income tax concession for five/ten years. The company will also increase the capacity at its existing plant from 80,000 units per annum to 100,000 units per annum by FY2008. Further, the company will commission an engine assembly plant (50,000 units/annum) by September 2007 and a gearbox assembly plant (50,000 units/annum) by March 2008 at Ennore.

All this has led to the doubling of the capital expenditure for FY2008 to Rs1,000 crore. The planned expansion will be financed through internal accruals and debt. In a rising interest rate scenario, this will restrict the PAT growth.

Outlook and valuation

The company had a dream run in FY2007 as its volumes marked a brilliant growth of 35%. The growth rates are expected to moderate henceforth due to non-availability of finance, rising interest rates and a high base effect. Consequently we are reducing our volume growth estimates for the company from 15% to 11.9% for FY2008.

In view of the lower volume growth for FY2008 and an increase in the capital expenditure plans, we are downgrading our EPS estimate for FY2008 by 10% from Rs4 to Rs3.6.

At the current market price of Rs36, the stock discounts its revised FY2008E earnings by 10x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 6.3x. We maintain our Buy recommendation on the stock with a revised price target of Rs44.

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

Phoenix Mills

Viewpoint

Flying high

CMP: Rs1,550

Phoenix Mills Ltd (PML), promoted by the Atul Ruia group, has pioneered the concept of developing mill land (of defunct mills) into shopping-cum-entertainment-cum-commercial hubs. This is being done through the phased development of 21 acre of land parcel located in the heart of the Mumbai city (Lower Parel).

Development of PML land

Under the first two phases of development that have already been completed, PML has developed two residential towers (with saleable area of 3.5 lakh sq ft out of which around 0.5 lakh sq ft is still not sold), retail space of around 5 lakh sq ft (under Phoenix High Street, Courtyard etc), commercial space and entertainment & leisure space (0.5 lakh sq ft).

In its third and fourth phases of development (that are currently underway), the company would add another 5.5 lakh sq ft of retail space. Plus, a 5-star deluxe hotel spread over 6.3 lakh sq ft, 7-screen multiplex, an automall and five-level car park (spread over 5 lakh sq ft) is being constructed at Lower Parel. PML has already sold the 7-screen multiplex to the PVR Cinema group for around Rs48 crore and intends to sell shops in its one-lakh-sq-ft single unit shopping arcade. The hotel would be transferred to its wholly owned subsidiary for a consideration of Rs250 crore. The rest of the property would be leased out.

Amalgamation of ARE

The PML board has taken a decision to amalgamate group company Atul Ruia Enterprises (ARE) with itself. ARE, a privately held company of the Atul Ruia group, is undertaking several projects to develop a market city (similar to Phoenix Mills in concept) in various other cities and towns including Mumbai (at Kurla), Bangalore, Chennai, Pune, Thane and Raipur. It has plans to explore more cities in the next phase of development.

The share exchange ratio for the merger has been determined by independent valuers, ie Haribhakti MRI Corporate Services Pvt Ltd and M/s. Dalal & Shah, Chartered Accountants. The share capital of the company comprises 12,250,000 equity shares of Rs10 each whereas the share capital of AREPL (the merged entity) comprises 5,000,000 equity shares of Rs10 each. Based on the recommendation of the independent valuers, every shareholders of AREPL holding five equity shares of ARE will be issued eight equity shares of Rs10 of PML. This would increase the PML equity base to Rs20.25 crore (up from the existing equity base of Rs12.25 crore).

However, it should be noted that the swap ratio is based on the existing fair value of ARE. Consequently, we have not considered the upside from the projects under ARE or the dilution in equity from the merger in the valuations.

Valuation

We have used two methods to derive the fair value of the PML share. First, under the sum-of-the-parts (SOTP) valuation method, the fair value of PML share works out to Rs2,240. We have given a multiple of 10x to FY2009 estimated earnings before interest, tax, depreciation and amortisation and discounted the same by 20% for two years to get the present value. We have also taken only the value of the 51% stake in the proposed hotel as the company intends to raise resources through the sale of 51% stake in the subsidiary that would be the holding company for the hotel business.

SOTP valuation

EBIDTA (FY09) ($ mln)	74
Estimated EBIDTA (FY09) (Rs crore)	318
Multiple assigned (10x)	10
EV (Rs crore)	3182
Discounted EV (20% for 2 yrs)	**2210**
Hotel	1500
51% stake	765
Total EV (Rs crore)	**2975**
Less: Funds reqd. for development under phases III & IV	231
Equity value	2744
No. of shares	1.2
Fair value per share	**2240**

Under the net asset value (NAV) method, the fair value per share works out to Rs2,978. We have assumed the realisable property price of Rs22,000 per share per sq ft for calculating the enterprise value (EV). The saleable area has been adjusted for the property sold (or already reduced) for the calculations.

NAV valuation

(lakh sq ft)	Adj saleable area
Retail	7.5
Entertainment and F&B	1.5
Hotel	3.2
Commercial	3.6
Residential	0.5
School	0.6
Automall	0.6
Total	**17.6**
Value/sf	22000
Total EV	**3878**
Less: Funds reqd. for development	231
Equity value	3648
Number of shares	1.2
Fair value per share	**2978**

The average fair value from the above two methods works out to Rs2,609 (around 100% upside from the current market price). Please note that the above valuation doesn't include the 29% stake held by PML in Galaxy Entertainment, a joint venture with the Future group that has a market cap of $55-60 million.

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
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
HCL Technologies
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ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
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Vulture's Pick

Esab India
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