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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Cadila Healthcare	21-Mar-06	297	353	425
♦ Ceat	28-Nov-06	122	127	190
♦ Lupin	06-Jan-06	403	603	670
♦ Subros	26-Apr-06	206	240	370
♦ Thermax	14-Jun-05	124	369	425

New Delhi Television

Emerging Star

Stock Update

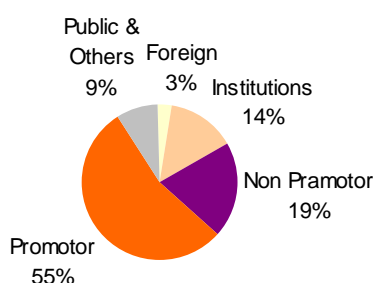
Not quite the ugly duckling

Buy; CMP: Rs230

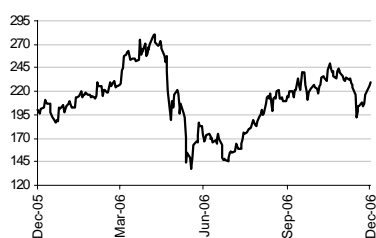
Company details

Price target:	Rs260
Market cap:	Rs1,411 cr
52 week high/low:	Rs288/129
NSE volume: (No of shares)	4.5 lakh
BSE code:	532529
NSE code:	NDTV
Sharekhan code:	NDTV
Free float: (No of shares)	2.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.5	9.5	32.9	19.3
Relative to Sensex	-4.6	-2.8	0.8	-19.4

Key points

- ◆ New Delhi Television (NDTV)'s performance on the bourses has remained sluggish over the last few months due to increased competition and the company's unimpressive Q2FY2007 results.
- ◆ While the other media companies like Zee Telefilms and Television Eighteen India (TV18) have soared on catching the investors' fancy, NDTV has lagged behind in the last three months. If we compare the market capitalisation to sales (Mcap/Sales) of the major media companies, we find that the gap between the valuation of these companies and that of NDTV is alarming. This leads us to believe that the market's reaction to NDTV's non-performance is overdone.
- ◆ NDTV has two potential triggers. One, the demerger of Zee News and the listing of Global Business News (GBN), which would provide better valuation comparables. Two, a new business model that would provide more clarity about the news business, leading to improved valuations.
- ◆ We see merit in NDTV's media property and evolving business model, and continue to maintain a Buy on the stock with price target of Rs260.

Reeling under increased competition, mediocre results...

NDTV has been quite the ugly duckling for the investors. Its stock has moved at a snail's pace over the past few months due to the increased competition it faces from CNN-IBN in the English news genre and its unimpressive Q2FY2007 results. Driven by a slow revenue growth of 28.4% year on year (yoy) to Rs54.2 crore, and a 106% year-on-year (y-o-y) and a 3.5% quarter-on-quarter (q-o-q) increase in the expenditure, NDTV reported an operating loss of Rs3.7 crore for Q2FY2007 compared with an operating profit of Rs3.0 crore in Q2FY2006. The marketing and distribution (M&D) cost has gone up due to the increased competition, which has affected the profits.

...resultant impact on the stock—overdone?

The company's lacklustre performance has affected its stock's performance in the last three months. The stock yielded a paltry return of 9.5% compared with stellar

Key financials

Particulars	FY2005	FY2006	FY2007E	FY2008E	Rs (cr)
Net profit (Rs crore)	33.2	24.1	31.2	50.3	
Shares in issue (crore)	6.1	6.1	6.3	6.3	
EPS (Rs)	5.5	4.0	5.0	8.0	
(%) y-o-y growth	-123.0	-27.0	25.1	61.0	
PER (x)	42.1	58.0	46.4	28.8	
Book value (Rs)	32.5	35.8	34.6	41.7	
P/BV (x)	7.1	6.4	6.7	5.5	
EV/EBIDTA (x)	26.5	31.8	25.4	17.5	
RoCE (%)	15.3	0.1	14.1	19.2	
RoNW (%)	17.4	11.6	14.4	20.9	

returns of 22% given by Zee Telefilms and of over 100% delivered by TV18 (given the relisting of TV18 India and the expected listing price of Network 18). We believe the market's reaction to the company's poor performance, though justified due to the above issues, has been overdone. If we compare the Mcap/Sales of the major media companies, we find that the gap between the valuation of these companies and that of NDTV is alarming. Both Zee Telefilms and TV18 have run up significantly due to their restructuring efforts, which have helped unlock their value and improved their valuations.

But the restructuring initiatives of both these companies are also positive for pure-play news companies like NDTV and TV Today, as the same will now provide for better comparatives in the form of Zee News and GBN.

Relative valuation

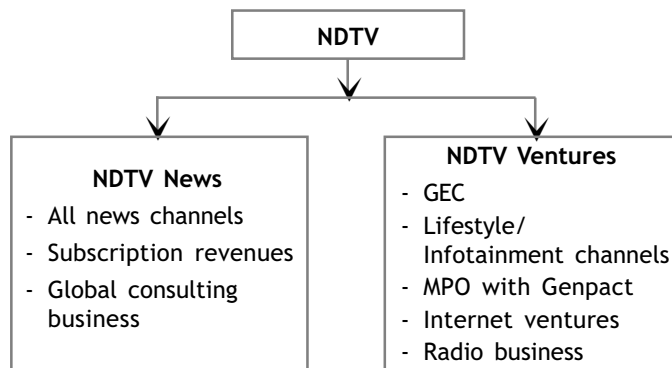
	NTDV	TV18@	TV Today	Zee*
Nos of shares	6.1	5.2	5.8	42.6
CMP	230.0	618.0	78.0	361.0
MCAP	1406.5	3238.8	452.1	15363.0
FY2008E sales	359.4	218.1	195.0	2013.0
MCAP/Sales	3.9	14.8	2.3	7.6

*Pre-restructuring price
@ TV18 India new

New business model to provide more clarity...

NDTV has proposed to separate its businesses into NDTV News and NDTV Ventures. Both the companies will be 100% subsidiaries of NDTV. Till now, the expenses incurred on account of the new initiatives like the general entertainment channel (GEC) and lifestyle channels were bleeding the profitability of the news content business.

With the new model in place, NDTV Ventures will incur these expenses from now on. This again will improve the valuations and facilitate comparison of the news business.



Source: Sharekhan Research

NDTV still an attractive play

NDTV is in the process of building new growth avenues, in news as well as beyond news genre. Though the new growth avenues may continue to drag the financial performance in the near future, NDTV shall remain an attractive play due to (1) its strong brand franchise; (2) its ability to create strong content; (3) its market leadership in the English news genre and joint leadership in the business news genre; (4) the scalability of its new ventures (eg MPO, GEC etc) and (5) the valuation gap that exists between it and its peers. We believe the company's financial performance shall improve going ahead which will help the stock to bounce back.

We see merit in NDTV's media property and evolving business model, and continue to maintain a Buy on the stock with a price target of Rs260.

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

Pharmaceuticals

Sector Update

Ondansetron: Impact on Indian players

Subsequent to the expiry of the Ondansetron patent on December 24, 2006, Dr Reddy's Laboratories (Dr Reddy's) got the marketing exclusivity for tablets while Wockhardt got the generic approval for injection. The impact of the developments has been discussed below.

Ondansetron exclusivity—big positive for Dr Reddy's

Dr Reddy's has received the approval of the US Food and Drug Administration (USFDA) for its abbreviated new drug application (ANDA) for the Ondansetron Hydrochloride tablets of 4mg, 8mg, 16mg and 24mg strengths. Since it is the first company to file an ANDA containing a paragraph IV certification for this product, Dr Reddy's has been awarded a 180-day marketing exclusivity.

About the product

Ondansetron is indicated for the prevention of nausea and vomiting associated with the initial and repeat courses of emetogenic cancer chemotherapy (cancer therapy that causes vomiting) as well as for the prevention of post-operative nausea and vomiting.

Ondansetron Hydrochloride tablets are the generic equivalent of GlaxoSmithKline's Zofran® tablets. The Zofran® tablets have annual IMS sales (June 2006 MAT) of approximately \$639 million.

With the USFDA grant Dr Reddy's has got the exclusivity for the tablet form of Ondansetron Hydrochloride. But the other forms of the drug (like Ondansetron injection and oral solution) got genericised on the patent expiry day (ie December 26, 2006) and nobody has been awarded exclusivity for them. The market for Ondansetron injection is going to get crowded, as 13 players having tentative approvals are ready to enter the generic market.

Impact of Ondansetron approval on Dr Reddy's

With the six-month exclusivity approval, Dr Reddy's expects to commence the shipment of this product shortly. During the exclusivity period (starting from December 24, 2006 to June 23, 2007), Dr Reddy's would be marketing all the four strengths of Ondansetron HCL tablets along with the innovator, GlaxoSmithKline.

We believe the patent expiry of Ondansetron would erode the brand product prices by about 50% and Dr Reddy's can grab around 50% market share in the entire Ondansetron tablet market during the exclusivity period. Given the scenario and anticipating a 45% profit margin, we estimate Dr Reddy's can generate fresh revenues worth \$79.9 million and profits of \$35.9 million during the six-month exclusivity. The said earnings translate into incremental earnings per share (EPS) of Rs10.5 for the exclusivity period.

But, with the competition in the generic segment expected to be intense in the post-exclusivity period, Dr Reddy's market share is feared to decline to 15% from 50% during exclusivity period. Already seven players (including Glenmark, Taro, Sun Pharma, Teve, Kali Lab, Pliva and Mylan) have got the tentative approval for the Ondansetron tablets and they are all set to penetrate the generic Ondansetron market. We expect few more players would be getting the approval by the expiration of the exclusivity, leading to higher competition.

Hence, considering Dr Reddy's exclusivity for Ondansetron tablets during Q4FY2007 and Q1FY2008 as well as the wider competition in the generic segment during the post-exclusivity period, we estimate Dr Reddy's would get fresh revenues of Rs80.9 crore and Rs95.4 crore in FY2007 and FY2008 respectively. Anticipating 60% gross margin during exclusivity and 41% in the post-exclusivity period on Ondansetron, the product approval would earn incremental EPS of Rs5.3 and Rs9.7 in FY2007 and FY2008 respectively.

Valuation of Dr Reddy's exclusivity on Ondansetron

	Exclusivity period	FY2007	FY2008
Annual market size (\$mn)	639	639	639
No of player	2	2	11
Price erosion (%)	50	50	95
Market share (%)	50	50	15
Effective months	6	3	12
Revenue (\$mn)	79.9	39.9	108.2
Gross margin (%)	60.0	60.0	41.0
Gross profit (\$mn)	47.9	24.0	44.3
Tax rate (%)	25.0	25.0	25.0
Net profit (\$mn)	35.9	18.0	33.2
Net profit (Rs crore)	161.7	80.9	149.6
Incremental EPS (Rs)	10.5	5.3	9.7

View

While the authorised generic deals for Zocor and Proscar with Merck have already placed Dr Reddy's in the higher growth trajectory in H1FY2007, the 180-day exclusivity for Ondansetron tablets would improve the company's medium-term earnings visibility. Further, around 60 ANDAs that are awaiting approval (including 25 Para IVs) and the anticipated authorised deals (as indicated by the management) would drive the earnings growth for the company going forward.

The competitive pricing scenario may affect the visibility of the earnings from the recently acquired Betapharm in Germany. However, Dr Reddy's is maintaining strong growth in the domestic and emerging markets including the Commonwealth of Independent States and Latin America. Further, Dr Reddy's has five molecules under clinical development including Balaglitazone and has assigned four molecules to Perlecan Pharma. These would unearth value for the company in the medium to longer term.

At the current price of Rs807.55, Dr Reddy's trades at 24.5x and 20.1x of FY2008E EPS (Rs32.9) and FY2009E EPS (Rs40.1) respectively. Considering the company's growing US business, and research and development pipeline, we remain confident of the visibility of its future earnings.

Dr Reddy's consensus estimates

Paticulars	FY2007E	FY2008E	FY2009E
Net sales (Rs Crore)	5910.6	4989.5	5575.7
PAT (Rs crore)	698.5	546.4	665.8
EPS (Rs)	42.1	32.9	40.1

Ondansetron approval—marginal upside for Wockhardt

Wockhardt USA Inc, Wockhardt's US subsidiary, has got the USFDA approval for its ANDA, the Ondansetron injection. The company's approved product is the generic version of GlaxoSmithKline's Zofran injection and is used in controlling nausea and vomiting following cancer chemotherapy.

This is Wockhardt's eighth product approval from the USFDA in 2006 and the third injection product in the US market. Currently, Wockhardt markets 15 products in the USA, ten of them launched during 2006.

The sales of the Zofran injection in the USA during the 12 months ending September 30, 2006 stood at \$628 million. The Ondansetron injection is manufactured at the USFDA certified sterile formulation plant at Waluj in Aurangabad, India. The market for the Ondansetron injection is crowded, with the presence of 13 players. Hence, anticipating 96% price erosion and 5% market share for Wockhardt, the approval would add revenue worth Rs5.6 crore and profit worth Rs2.5 crore. The upside from the Ondansetron injection translates into incremental EPS of Rs0.21 in CY2007 leading to consolidated EPS of Rs30.61. At the current price of Rs340, the Wockhardt stock trades at 11.1x of CY2007 earnings.

Wockhardt's consensus estimates

Paticulars	CY2005	CY2006E	CY2007E
Net sales consolidated	1412.1	1682.0	2278.5
PAT consolidated	257.1	270.3	365.8
Shares in issue (cr)	10.9	11.9	11.9
EPS (Rs)	23.5	22.6	30.6

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

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 Selan Exploration Technology
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