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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aditya Birla Nuvo	06-Dec-05	714	1,163	1,280
♦ India Cements	28-Sep-06	220	235	315
♦ Infosys	30-Dec-03	689	2,180	2,430
♦ Lupin	06-Jan-06	403	529	565
♦ Thermax	14-Jun-05	124	381	425

Pulse Track

♦ GDP clocks above 9% growth—better than expected

India's gross domestic product (GDP) for Q2FY2007 grew by 9.2% year on year (yoy), slightly above the market expectation of 8.9%. The strong growth was achieved on the back of a 10.3% year-on-year (y-o-y) growth in the industrial sector with improved contribution coming from all the key industrial segments and a 10.9% y-o-y growth in the service sector. The unexpected high GDP growth has been a function of higher government and consumer spending that is evident from the strong industrial and service growth rates.

Agricultural growth remains low

Agriculture, which accounts for about 23% of the GDP, registered a growth of only 1.7% yoy during Q2FY2007. The growth was low due to a decline in the production of some major crops. According to the Department of Agriculture & Cooperation production of rice and coarse cereals declined by 2.9% and 9.2% respectively while that of pulses grew by 6.7% during the *kharif* season of 2006-07 over the *kharif* season of 2005-06. The production of oil seeds declined by 21.4% while cotton production decreased by 7.3% compared with that in the previous *kharif* season. We feel the major reason for such a decline in the agricultural output is the overall patchy rainfall received during the 2006-07 *kharif* season.

Industrial and service sectors keep GDP growth momentum intact

The estimated numbers show that the industrial sector has registered a strong growth of 10.3% yoy for Q2FY2007 on the back of a robust performance from all its constituents. The manufacturing sector grew by 11.9%, electricity, gas and water supply grew by 7.7% and construction was up 9.8%. The growth in the construction sector has slowed down to above 9% levels from the highs of 11-12% y-o-y growth registered between Q1FY2006 and Q4FY2006. The lower growth rates in the construction sector could be a function of a higher base and rising interest rates in the economy; however we feel the growth rates are still at comfortable levels.

The service sector continued its growth momentum with a 10.9% y-o-y growth coming mainly from a sustained improved performance of the trade and hotel business segment, which grew by 13.9% yoy. The financial service segment grew by 9.5% yoy.

The GDP growth for H1FY2007 stood at 9.1%, with agriculture at 2.6%, industry at 10% and services at 10.7%. The Reserve Bank of India in its mid-term policy review has revised its FY2007 GDP target from 7.5-8%

% y-o-y growth in GDP

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	H1FY06	H1FY07
GDP (Overall)	8.4	7.5	9.3	8.9	9.2	8.5	9.1
Agriculture & allied	4.0	2.9	5.5	3.4	1.7	3.7	2.6
Industry	7.8	8.1	8.9	9.7	10.3	9.0	10.0
Manufacturing	8.1	8.3	8.9	11.3	11.9	9.4	11.6
Mining & quarrying	-2.6	0.0	3.0	3.4	3.1	0.3	3.2
Electricity, gas & water supply	2.7	5.0	6.1	5.4	7.7	5.0	6.5
Construction	12.3	11.5	12.0	9.5	9.8	12.4	9.7
Services	10.0	9.4	10.9	10.6	10.9	9.9	10.7
Trade, hotel, transport & comm.	11.0	10.2	13.0	13.2	13.9	11.4	13.5
Finance, services	10.5	8.9	10.5	8.9	9.5	9.6	9.2
Social & personal services	8.0	8.4	7.6	7.4	6.9	7.7	7.2

Source: CSO
At constant (1999-2000 prices)

New Delhi Television

Emerging Star

Stock Update

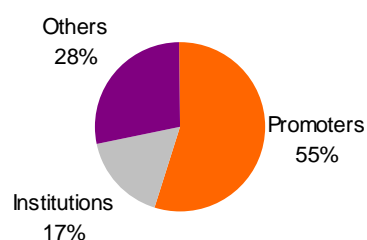
Karan Johar on board

Buy; CMP: Rs235

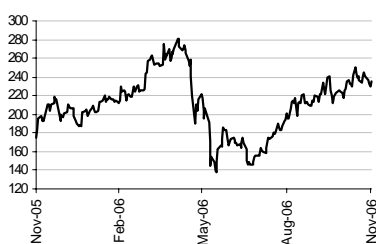
Company details

Price target:	Rs260
Market cap:	Rs1,428 cr
52 week high/low:	Rs288/127
NSE volume: (No of shares)	1.1 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	2.6	18.3	4.2	28.9
Relative to Sensex	-2.8	1.6	-17.8	-16.7

In what is being touted as the first step towards launching a world-class general entertainment channel (GEC) NDTV today announced its partnership with Karan Johar's production company, Dharma Productions. Under the agreement, Mr Johar will be on the board of NDTV's GEC holding company, NDTV Venture, and Dharma Productions will hold an undisclosed equity stake in it.

Karan Johar will work exclusively with NDTV and help to originate concepts and new programming ideas for the channel besides being an ambassador for the NDTV entertainment brand. Dharma Productions will produce shows for NDTV's entertainment channel. The channel will have the first right of refusal on any programme that Dharma Productions produces for television.

NDTV has had experience in general entertainment space producing programmes like *Jeena Issi Ka Naam Hai*, *Chupa Rustam* and *Jee Mantriji*. NDTV's GEC is expected to hit the small screen by the middle of next year. It will compete with the top three players-Star, Zee and Sony-in the Rs1,600-crore Hindi general entertainment space.

We believe that this development is positive for NDTV's entry into the general entertainment genre. Financially, we continue to maintain that investment in this business would bleed the consolidated financials. But, we also believe that this business brings an embedded value that cannot be measured by short-term profits. We have valued this business at Rs67 a share based on the valuation indicated by the management for a private placement of a 5% stake in a general entertainment subsidiary. We reiterate our Buy recommendation on the stock with a price target of Rs260 based on the sum-of-parts method.

Earnings table

	Rs (cr)			
Particulars	FY2005	FY2006	FY2007E	FY2008E
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 change	-123.0	-27.0	25.1	61.0
PER (x)	43.0	59.3	47.4	29.4
Book value (Rs)	32.5	35.8	34.6	41.7
P/BV (x)	7.2	6.6	6.8	5.6
EV/EBIDTA (x)	27.1	32.5	26.0	17.9
RoCE (%)	15.3	0.1	14.1	19.2
RoNW (%)	17.4	11.6	14.4	20.9

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

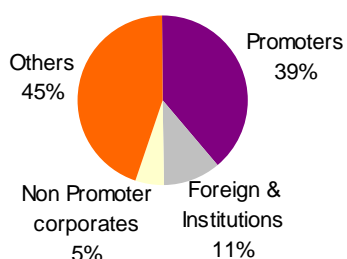
Selan Exploration Technology

Ugly Duckling
Stock Update
Relatively attractive
Buy; CMP: Rs75

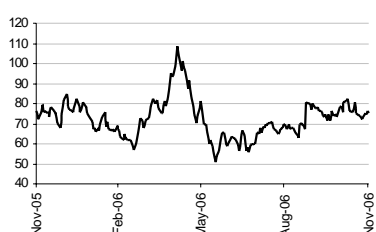
Company details

Price target:	Rs94
Market cap:	Rs108 cr
52 week high/low:	Rs114/50
BSE volume: (No of shares)	42,576
BSE code:	530075
Sharekhan code:	SELAEXP
Free float: (No of shares)	0.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	9.1	-1.6	-5.1
Relative to Sensex	-1.7	-6.4	-22.3	-38.6

Key points

- ♦ **Comparatively cheaper:** Selan Exploration Technology (SETL) is comparatively much cheaper than the benchmark valuation of \$10.7 per barrel of oil & oil equivalent (boe) of Cairn India at the upper band of its forthcoming public issue. Even as compared with its peer Hindustan Oil Exploration (HOEC), SETL is trading at one-third of HOEC's valuation.
- ♦ **Efforts to monetise oil assets:** Apart from the cheaper relative valuations, SETL is likely to get re-rated from the success of its efforts to monetise its oil assets. The company has invested Rs17.3 crore in the first phase of the development of its oil field that is likely to result in the commercialisation of four new oil wells.
- ♦ **Maintain Buy call:** At the current market price SETL trades at 13.3x FY2007 and 6.1x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs94 (valued at \$1.5 per boe).

Cairn India, relatively expensive public offer

Before its proposed mega public issue, Cairn India has set the benchmark valuation (for its issue) through the pre-issue placement of 210 million shares at the rate of Rs176.5 each. Based on enterprise value (EV)/proven and probable (2P) oil reserves, the transaction was carried out at a valuation of \$9.9 per boe reserves. Cairn India's 2P oil reserves are estimated at 701 million barrel (which includes the net share of 2P contingent oil reserves).

At the higher end of its price band for the public offer (Rs190 per share), Cairn India is valued at \$7.5 billion. In terms of EV/oil reserves (2P), Cairn India's public issue (at the upper end) is priced at almost double the valuation of \$5.4 per boe attracted by the state-owned giant Oil & Natural Gas Corporation (ONGC). However, in case of ONGC the company's huge subsidy burden in the form of the under-recoveries tends to act as a drag on its stock's valuations.

EV/oil reserve (2P)

	SETL	HOEC	Cairn		ONGC
			@Rs176.5	@Rs190	
Reserve (mm boe)	23	40	701	701	5257
EV (US\$)	25	121	6941	7474	28291
EV/Reserve (US\$/boe)	1.1	3.1	9.9	10.7	5.4

Source: Annual Report, Company

Earnings table

Paticulars	FY2005	FY2006	FY2007E	FY2008E	Rs (cr)
Net profit (Rs cr)	1.2	6.6	8.1	17.6	
No of shares (cr)	1.3	1.4	1.4	1.4	
EPS (Rs)	0.9	4.6	5.6	12.2	
% y-o-y change	45.0	414.7	23.0	116.9	
PER (x)	84.2	16.4	13.3	6.1	
Price/BV (x)	4.3	3.2	2.6	1.8	
EV/EBIDTA(x)	34.6	7.6	7.8	3.7	
EV/Sales (x)	8.4	5.5	4.7	2.5	
RoCE (%)	6.7	26.0	20.7	35.1	
RoNW (%)	5.1	19.5	19.3	29.6	

Selan Exploration, available at a steep discount

Even the other private sector oil exploration companies like Selan Exploration Technology (SETL) that do not have to bear any subsidy burden are available at a steep discount to Cairn India's valuation in the forthcoming public issue. SETL trades at EV/oil reserves (2P) of just \$1.1 per boe, which is almost one-tenth the valuation of Cairn India at the upper end of the price band.

As compared with the other private sector companies like Hindustan Oil Exploration Company (HOEC), SETL trades at one-third the valuation on a relative basis. This is despite the fact that HOEC has been unable to ramp up its annual crude oil production during the last fiscal.

Aggressive ramp-up plans

In addition to the relatively much attractive valuation, we believe that SETL's efforts to monetise the oil assets would result in the re-rating of its stock. As part of the first phase of its development programme, SETL has invested

Rs17.3 crore in drilling four new wells in its Bakrol oil field (one of the oil fields is situated in Cambay Basin) during the last fiscal. The results have been quite encouraging and the company has discovered significant amount of recoverable oil deposits at a depth of around 1,300-1,500 metre (zone 8, 9 and 10). The quality of oil is also good (between Brent and Texas, with low sulphur content).

SETL has already commercialised two wells, one in June end and another in August end. It hopes to commercialise the next two wells in the next couple of quarters. The four new wells would generate incremental production volumes of around 45,000-50,000 barrel of oil annually.

Valuation

At the current market price SETL trades at 13.3x FY2007 and 6.1x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs94 (valued at \$1.5 per boe).

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

Real estate

Sector Update

Rather pricey

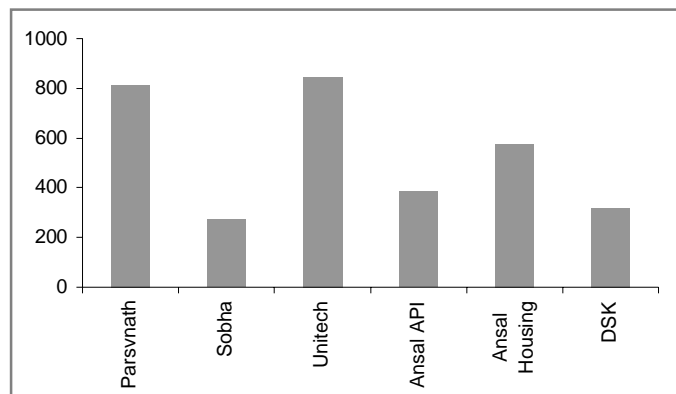
The much-awaited listing of Parsvnath Developers was quite heartening for the investors as well as the other real estate companies that have plans to raise funds through offerings in the domestic and/or overseas markets. Parsvnath's share price closed at Rs526 that works out to a premium of 75.3% over the issue price of Rs300 per share. The stock touched an intra-day high of Rs579 per share.

Comparative valuations

At today's closing price, Parsvnath trades at an enterprise value (EV) per square foot (sf) of a saleable area of Rs814, which is at a discount of just 4% as compared to the current valuation of Unitech (EV/sf of Rs845). Unitech is a much larger, reputed and proven player with a relatively better quality of land assets.

What's more, Parsvnath Developers is trading at a steep premium to the other comparable companies like Ansal Properties & Infrastructure (Ansal API; EV/sf of Rs387) and DS Kulkarni Developers (DSK; EV/sf of Rs318). Moreover, in case of DSK, the bulk of the land bank is located in the lucrative Pune market.

Comparative valuation based on EV/sf of saleable area (Rs)



Source: Sharekhan Research

Sobha Developers, relatively attractive valuations

Going by the comparative valuations, Sobha Developers appears to be most attractively valued at EV/sf of Rs273 even at the upper end of the price band at Rs640. Sobha Developers also has the advantage of having a superior quality of land bank. A large part (almost 94%) of the land bank is located in the reasonably lucrative tier-I and tier-II cities like Bangalore (29%), Chennai (49.6%) and Pune (16.3%) while the rest is spread over tier-III cities like Cochin, Mysore and Thissur. Moreover, the total acquisition cost of the land bank (including land reserves and land arrangements) works out in the range of Rs112 to Rs134 per sf (depending upon the price band in the land arrangement contracts for the amount yet to be paid). The acquisition cost is among the lowest in the industry.

View

As per the ranking of the various real estate players (based on the quantitative and qualitative factors considered by us in the real estate sector report), we continue to maintain our stand that Unitech and Ansal API lead the pack and are relatively more attractive than Parsvnath Developers at the current valuations.

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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
 Canara Bank
 Corporation Bank
 Crompton Greaves
 Elder Pharmaceuticals
 Grasim Industries
 Hindustan Lever
 Hyderabad Industries
 ICICI Bank
 Indian Hotels Company
 ITC
 Mahindra & Mahindra
 Marico Industries
 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
 KSB Pumps
 Marksans Pharma
 Navneet Publications (India)
 New Delhi Television
 Orchid Chemicals & Pharmaceuticals
 ORG Informatics
 Solectron Centum Electronics
 Television Eighteen India
 Thermax
 TVS Motor Company
 UTI Bank
 Welspun Gujarat Stahl Rohren

Ugly Duckling

Ahmednagar Forgings
 Ashok Leyland
 BASF India
 Ceat
 Deepak Fertilisers & Petrochemicals Corporation
 Genus Overseas Electronics
 HCL Technologies
 ICI India
 India Cements
 Indo Tech Transformers
 Jaiprakash Associates
 JM Financial
 KEI Industries
 NIIT Technologies
 Punjab National Bank
 Ratnamani Metals and Tubes
 Sanghvi Movers
 Saregama India
 Selan Exploration Technology
 South East Asia Marine Engineering & Construction
 Subros
 Sun Pharmaceutical Industries
 Surya Pharmaceuticals
 UltraTech Cement
 Union Bank of India
 Universal Cables
 Wockhardt

Vulture's Pick

Esab India
 Orient Paper and Industries
 WS Industries India

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