investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aditya Birla Nuvo	06-Dec-05	714	**1,700**	*
M&M	1-Apr-04	232	**783**	900
Sun Pharma	24-Dec-03	302	**1,130**	1,287
SBI	19-Dec-03	476	**2,446**	2,625
TCS	6-Mar-06	852	**1,039**	1,425

*Price target under review

Tourism Finance Corporation of India

Cannonball

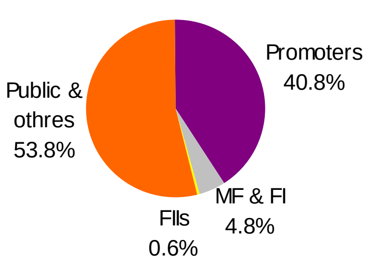
Stock Update

Price target revised to Rs47

Buy; CMP: Rs33

Company details	
Price target:	Rs47
Market cap:	Rs222 cr
52 week high/low:	Rs39/9.8
NSE volume: (No of shares)	5.9 lakh
BSE code:	526650
NSE code:	TFCILTD
Sharekhan code:	TFCI
Free float: (No of shares)	4.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	20.5	10.1	107.5	198.1
Relative to Sensex	14.3	-13.9	45.5	104.0

Result highlights

- For Q2FY2008, Tourism Finance Corporation of India's (TFCI) profit after tax (PAT) grew by only 2.2% year on year (yoy) to Rs1.4 crore. The overall profit growth was restricted by the absence of cash recoveries and by higher operating expenses.
- Operating expenses that were higher than envisaged earlier have made us reduce our FY2008E earnings by 3% to Rs19.5 crore. We have also changed the earnings per share (EPS) estimates for FY2008 from Rs3 to Rs2, while EPS estimates for FY2009 has been changed from Rs4.1 to Rs3.4. The change in EPS estimates were mainly due to the capital raising plans, which have been factored into our current update.
- Net interest income (NII) was down by 14.4% yoy to Rs4.4 crore. Absence of pre-payment premium and cash recoveries resulted in a lower NII component in Q2FY2008 as compared with that in Q2FY2007.
- Operating expenses jumped to Rs2.6 crore from Rs1 crore mainly due to a significant increase in lease rentals for its office space and increase in employee salary levels. The operating profit was down by 40.7% to Rs2.5 crore.
- Due to sustained improvement in TFCI's asset quality in past couple of years the company didn't require to make any provisions and contingencies during the quarter. There was no requirement for further provisioning as net non-performing assets (NPAs) were almost nil and as incremental defaults were contained.
- TFCI's current capital base restricts it to bid for bigger projects requiring more capital (in the range of Rs40-50 crore). Hence, it is currently considering to expand its capital base by raising capital from primary market. This could be in the nature of qualified institutional placement, preferential allotment, rights issue or even roping in a strategic investor. A board meeting in this regard is scheduled on December 19, 2007.
- We have factored in a capital raising of Rs125 crore by the company in FY2008 at an expected issue price of Rs42, which would be at a 15-20% premium to the current prevailing price. We feel the pricing should be decided keeping in mind the future growth prospects and the current prices do not factor in the improved earnings growth potential of the company.

Results table Rs (cr)

Particulars	Q2FY08	Q2FY07	% yoy	% qoq	H1FY08	H1FY07	% yoy
Interest earned	12.5	14.4	-13.2	-3.2	25.5	26.9	-5.5
Interest expended	8.1	9.3	-12.5	-1.0	16.3	18.4	-11.4
NII	4.4	5.2	-14.4	-7.0	9.2	8.5	7.4
Other income	0.7	0.1	-	-	0.7	0.2	-
Net total income	5.1	5.3	-3.4	6.7	9.9	8.7	12.9
Operating expenses	2.6	1.0	-	-	3.6	1.7	-
Operating profit	2.5	4.3	-40.7	-32.8	6.3	7.0	-10.7
Depreciation	0.1	0.2	-6.7	-6.7	0.3	0.3	-3.3
Provisions and contingencies	0.0	2.5	-	-	1.0	4.0	-75.0
Profit before tax	2.4	1.6	48.8	-8.5	5.0	2.7	83.1
Tax	1.0	0.3	-	1.0	2.0	0.5	-
Profit after tax	1.4	1.3	2.2	-14.4	3.0	2.2	35.0

- The business fundamentals of the company have improved significantly on the back of capacity expansion in hotel and tourism sectors planned for the next three to four years. We expect TFCI's earnings to grow at a compounded annual growth rate (CAGR) of 50% over the period FY2007-10E, as it will undertake much higher volume of business after its capital raising in FY2008. At the current market price of Rs34 the stock is quoting at 9.8x its FY2009E earnings and 0.9x FY2009E book value. We believe the strong earnings growth coupled with a higher leverage will result in significant improvement in RoE (from 6.5% in FY2007 to 12.8% in FY2010E). This should help the company gradually trade at higher book value multiples in the range of 1-1.2x from the current 0.9x. Thus we maintain Buy recommendation on the stock with the revised 12-month price target of Rs47 at which it would trade at 1.2x average of FY2009E and FY2010E book values.

NII likely to improve going forward

Company's NII for the quarter was down by 14.4% yoy to Rs4.4 crore. The NII component in Q2FY2007 included a pre-payment premium amount. Cash recovery component was again absent in Q2FY2008. Both these factors resulted in a lower NII component in Q2FY2008 as compared with that in Q2FY2007. Going forward we expect NII to improve as interest expenses are expected to remain subdued due to limited borrowing requirements of TFCI for FY2008 and as cash recoveries get accounted in the second half of FY2008.

TFCI likely to raise around Rs125 crore in FY2008

TFCI's current capital base restricts it to bid for projects requiring more capital (in the range of Rs40-50 crore). Hence, to expand its capital base, it is currently considering raising capital from the primary market. We have factored in a capital raising of Rs125 crore by the company in FY2008 at an issue price of Rs42, which would be at a 15-20% premium to the current prevailing price.

Current market price not factoring in the future positives

Our assumed issue price of Rs42 is at a premium to the current market price, but we feel the pricing should be decided keeping in mind the future growth prospects. However the current prices are not factoring in the future positives that are stated below:

- Robust outlook of hotel and tourism sectors is directly going to benefit the company, as it is present in the niche segment of financing hotel and tourism sector projects only.
- Enhanced capital base will allow the company to bid for projects requiring higher capital. This will lead to higher growth in balance sheet, as the company would be able to leverage the increase in equity base, which will ultimately result in higher earnings growth.
- Asset quality of the company has improved significantly with almost nil net non-performing assets. This has resulted in lower provisioning requirements and improved profitability.
- The company is likely launch a $100-million private equity fund in FY2009E catering to hotel and tourism sectors. This should further enhance its fee income and return on equity (RoE).
- Recent examples of investor interest in financial institution stocks like IFCI goes to show that investor appetite is high especially in the financial services space. Again considering the small issue size and the niche segment it caters to, raising funds should not be a difficult task.

Strong earnings growth and RoE to fetch higher valuation

We expect TFCI's assets to grow at a CAGR of 26% and its earnings to rise by a CAGR of 50% over FY2007-10E. RoE is expected to get a boost from incremental fee income of Rs5-6 crore that is expected to accrue from FY2010E as a management fee for the private equity fund. Thus based on our calculations RoE is expected to improve to 12.8% in FY2010E from 6.5% in FY2008E. Due to the sheer improvement in its earnings growth potential and RoE we believe the stock deserves to trade at a higher multiple of 1-1.2x from its current 0.9x book value.

Valuation and view

The business fundamentals of the company have improved significantly on the back of capacity expansion in hotel and tourism sectors planned for the next three to four years. We expect TFCI's earnings to grow at a CAGR of 50% over the period FY2007-10E, as it will undertake much higher volume of business after its capital raising in FY2008. At the current market price of Rs34 the stock is quoting at 9.8x its FY2009E earnings and 0.9x FY2009E book value. We believe the strong earnings growth coupled with a higher leverage will result in significant improvement in RoE (from 6.5% in FY2007 to 12.8% in FY2010E). This should help the company gradually trade at higher book value multiples in the region of 1-1.2x from the current 0.9x. Thus we maintain Buy recommendation on the stock with the revised 12-month price target of Rs47 at which it would trade at 1.2x average of FY2009E and FY2010E book values.

Valuation

Particulars	FY09E	FY08E	FY07	FY06	FY05
Net profit (Rs cr)	32.8	19.5	14.3	11.9	14.2
Shares in issue (cr)	9.7	9.7	6.7	6.7	6.7
EPS (Rs)	3.4	2.0	2.1	1.8	2.1
% yoy change	*68*	*-5*	*21*	*-17*	*12*
PE (x)	9.8	16.4	15.6	18.8	15.6
Book value (Rs/share)	36.8	33.9	28.2	27.4	25.6
P/BV (x)	0.9	1.0	1.2	1.2	1.3
Adj book value	36.5	33.5	28.2	25.2	15.4
P/ABV (x)	0.9	1.0	1.2	1.3	2.1
RoNW (%)	9.5	6.5	7.6	6.6	8.4

Telecommunications

Sector Update

Large players continue to dominate

GSM mobile service providers reported a net addition of 5.82 million subscribers during November, taking the total subscriber base to 165.8 million. The month-on-month (m-o-m) growth works out to 3.6%, which is bit lower than 3.7% reported in the previous month.

GSM operators have been adding, on an average, around 6 million subscribers every month and the performance in November was largely in line with the trend seen in the past five months. Key highlights of GSM subscriber additions in November are: 1) Bharti Airtel and Idea Cellular showed consistent growth in their subscriber additions; 2) Vodafone showed fourth consecutive quarter of decline in net additions; 3) Aircel recorded net additions; 4) Bharat Sanchar Nigam Ltd's (BSNL) growth momentum picked up further.

Bharti Airtel—consistent growth

Bharti Airtel reported net addition of 2.05 million subscribers during the month. This is the sixth consecutive month of close to two million net addition (range of 1.96-2.06 million). The market share of net additions stood at 35.3% and improved its overall GSM market share by 12 basis points to 31.9%.

Idea Cellular—also improves its market share

The net addition of 8 lakh subscribers by Idea Cellular during November was fairly in line with 7.5 lakh additions in October. Its market share of net additions stood at 13.8% and improved its overall GSM market share by 6 basis points to 12.2%.

Vodafone—losing steam

Vodafone added 1.38 million subscribers during the month, which is substantially lower than 1.53 million subscribers added in the previous month. Moreover, this is the fourth consecutive quarter when the subscriber addition witnessed a decline (from a high of 1.69 million in July 2007) and was surprising given the promotional schemes (including bundling of handsets) by Vodafone. Its market share was largely flat with 3.7% m-o-m growth in the subscriber base during November.

Other operators

State-owned BSNL further built the momentum shown in October and reported an addition of 9.1 lakh subscribers in November. But it was the record net addition of 5 lakh subscribers during the month that came as a surprise.

GSM subscriber base

Company	Subscriber base			Net addition		Share in net addition	
	Oct-07	Nov-07	% change	Oct-07	Nov-07	Oct-07 (%)	Nov-07 (%)
Bharti	50,908,636	52,961,289	4.0	2,032,972	2,052,653	33.8	35.3
Vodafone	37,186,630	38,562,650	3.7	1,529,086	1,376,020	25.4	23.7
BPL	1,201,464	1,220,651	1.6	48,107	19,187	0.8	0.3
BSNL	31,032,779	31,945,006	2.9	727,855	912,227	12.1	15.7
IDEA	19,421,968	20,222,263	4.1	750,108	800,295	12.5	13.8
MTNL	2,825,859	2,889,726	2.3	53,739	63,867	0.9	1.1
Reliance	5,342,025	NA	--	305,540	--	5.1	0.0
Spice	3,570,000	3,661,000	2.5	89,000	91,000	1.5	1.6
Aircel	8,524,281	9,026,130	5.9	485,110	501,849	8.1	8.6
Total	**160,013,642**	**165,830,740**		**6,021,517**	**5,817,098**	100.0	100.0
% m-o-m growth	3.7	3.6					

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

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
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
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
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Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
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Ceat
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India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India