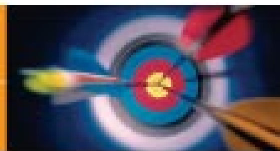
investor's eye



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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
BHEL	11-Nov-05	1,203	**2,103**	2,650
Cadila Healthcare	21-Mar-06	297	**326**	425
ICICI Bank	23-Dec-03	284	**870**	1,240
ITC	12-Aug-04	69	**145**	220
TCS	06-Mar-06	852	**1,267**	1,508

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Elder Pharmaceuticals

Apple Green

Stock Update

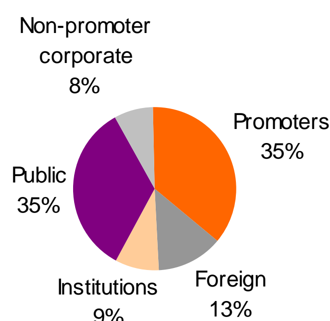
Angellini hikes stake in Elder

Buy; CMP: Rs392

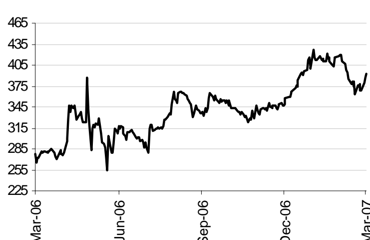
Company details

Price target:	Rs508
Market cap:	Rs686 cr
52 week high/low:	Rs438/223
BSE volume: (No of shares)	7,808
BSE code:	532322
NSE code:	ELDERPHARM
Sharekhan code:	ELDERPHARM
Free float: (No of shares)	1.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.7	11.8	16.2	37.0
Relative to Sensex	3.4	17.2	10.4	16.2

Italian pharma company Angellini ACRAF SPA (Angellini) has hiked its stake in Elder Pharmaceuticals (Elder) by 5% to 15%. According to Elder, the stake hike would not activate the takeover code; rather it would strengthen the business tie-up between the two companies. Angellini is one of Italy's top five pharmaceutical companies in terms of sales volume and has a wide presence in 60 countries. During FY2006, Elder had entered into an ownership deal with Angellini, whereby the Italian company had out-licenced three products to Elder and picked up a 10% stake in the company.

Implications for Elder

The stake increase by the out-licencing partner can prove to be a significantly positive development for Elder, as Angellini has already indicated that it might out-licence the manufacturing rights to Elder for its products.

Currently, Elder imports three products from Angellini and markets them in India under the brand name, *Tantum*. It expects to secure the manufacturing rights for these three products which will enhance its margin on these products by about 10% to about 50%. Moreover, Angellini wants Elder as the manufacturing and distribution hub for its South-East Asian and African businesses. Further, Elder has indicated that Angellini would out-licence a few more products to the company and also outsource manufacturing service for a couple of its products for the entire global distribution. Elder expects to leverage its new Uttaranchal facility and Patalganga plant for active pharmaceutical ingredients to capitalise on the possible contract research and manufacturing service (CRAMS) opportunity.

Such developments would expand the revenues from the in-licenced products (which currently contribute 17-18% of the total revenue), scale up the CRAMS business and most importantly, expand the margins for the company.

Valuation & view

Elder has been steadily growing on the back of the strong performance of its core brands, *Shelcal*, *Chymoral* and *Eldervit*, as well as the incremental revenue from the in-licenced products. Alongside, the likely CRAMS opportunities add to the growth visibility for the company. Also, Elder is on its way to generating substantial cost savings by shifting its manufacturing activities to excise-free zones of Uttaranchal and Himachal Pradesh. As more products start coming in from these facilities, the company will be able to reap the benefits of lower excise and tax rates.

With its strong marketing agreements with foreign firms, continued launch of new products, scale-up of business in the lifestyle, skin-care and paediatric areas, and effective cost-cutting measures, the company is on a growth track and will continue to show good results in the coming years. Hence, we remain positive on Elder's future growth prospects. At the current market price of Rs392, the stock is trading at 9.7x its FY2008E earnings. We maintain our Buy recommendation on Elder with a price target of Rs508.

Valuation table (consolidated)

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	256.4	283.7	352.4	457.5	562.1
PAT (Rs cr)	16.5	20.4	36.7	55.7	74.8
EPS (Rs)	15.0	12.7	21.0	29.9	40.2
PER (x)	26.1	30.8	18.7	13.1	9.7

Telecommunication services

Sector Update

TRAI reduces ADC burden

The Telecom Regulatory Authority of India (TRAI) has announced a reduction in the access deficit charge (ADC) levied on the private sector operators to provide support to Bharat Sanchar Nigam Ltd (BSNL) for its operations in unviable rural areas. The regulator has gone ahead with the decision to reduce the ADC despite a strong protest voiced by BSNL and it clearly reflects that TRAI intends to gradually phase out the ADC regime.

Moreover, the encouraging response for the government's rural mobile project (under the Universal Services Obligation Fund) to roll out telecom services in the far flung rural areas is also indicative of the need to reduce the subsidy (in the form of ADC levied on private operators) provided to BSNL for its rural operations. In fact, in some of the cases, the bids by the private sector operators to roll out infrastructure in rural areas have been quite aggressive and much lower than the subsidy benchmark set by the Department of Telecommunications.

Proposed amendments to the ADC regime

Currently, the private sector operators pay ADC in three ways: 1.5% of their annual aggregate gross revenues (AGR); Rs1.6 per minute for all incoming international calls to India and Rs0.8 per minute for every outgoing international call.

All the three levies have been reduced now. The levy on the AGR has been reduced to 0.75%, the ADC on incoming international calls stands at Rs1 per minute whereas the outgoing calls would not be charged any ADC. The regulator estimates that the move would reduce the ADC burden on the private sector operators from Rs3,200 crore to Rs2,000 crore in FY2007-08. The benefits would more than nullify the adverse impact of the reduction in the roaming charges announced by the regulator earlier.

Long-term benefits for private sector players

Given the competitive environment, we expect the telecom operators to pass on a substantial part of the benefits to the customers. Consequently, the tariff on international calls is likely to reduce further with effect from April 2007, which would be positive for the private sector operators for the following reasons.

- Lower tariffs are likely to result in higher usage and faster growth in traffic volumes.
- A level playing field in the outgoing international call business as compared to Internet telephony would result in better revenues for the telecom service providers.
- A reduction in arbitrage for the incoming international calls would discourage the grey market in the international long distance business.

ADC amendments

	Current regime	Proposed amendments	Comment
International calls			
- Outgoing calls	Rs0.8/min	Nil	Likely to be fully passed on to customers
- Incoming calls	Rs1.6/min	Rs1.0/min	
Percentage of adjusted revenues from private operators	1.50%	0.75%	A substantial part of it could be retained by telecom operators. Margins of Bharti Airtel could get boosted by 40 to 50 basis points.

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

Dish TV India

Viewpoint

Dish TV India-new listing

Dish TV, India's first private direct to home (DTH) service provider will be listing next week (on March 26 or March 28) The promoters of Zee Telefilms (ZTL) housed the DTH venture, which was launched in May 2005, in ASC Enterprises, a company wholly-owned by the Zee promoters. Post the restructuring of Zee Telefilms (ZTL) a holder of 100 shares in ZTL has been allotted 57.5 shares in Dish TV India on transfer of certain DTH assets held in ZTL. Thus the shareholders of ZTL get a 57.5% holding in Dish TV.

Key takeaways from the investor meet

DTH subscriber growth in India

With three more players, Sun, Reliance ADAG and Bharti set to enter the DTH market (present DTH providers are Dish TV and Tata Sky) coupled with enhanced content and value-added services, the Dish TV management estimates a steep 84% compounded annual growth rate (CAGR) in the subscriber numbers till 2011E for the DTH industry and a growth in the DTH market share (of all the cable and satellite [C&S] households) to 24.8% from the current 3.5%.

Robust growth expected in DTH

Figures in millions	2007E	2011E	2015E
No of households (HHs)	215	238	262
No of TV HHs	117	151	188
TV penetration (%)	*54*	*63*	*72*
Nos of C&S HHs	68	110	159
C&S penetration in TV HHs (%)	*58*	*73*	*85*
DTH HHs excluding FTA	2.4	27.3	61
% growth CAGR	-	*84*	*22*

Market share in C&S HHs

Year	2007E	2011E	2015E
Analogue cable (%)	94.1	49.2	19.7
DTH (%)	**3.5**	**24.8**	**38.4**
Digital cable and others (%)	2.4	26.0	41.9

ARPU to double by 2011

While Dish TV has managed to up its average revenue per user (ARPU) from Rs180 to Rs230 (~$5) per month, it estimates the ARPU to more than double over the next 5 years to ~Rs470 ($10.4) per month. This, the management indicates, should come through a mix of value-added services and premium content channels such as channels dedicated to health, adult content etc. While the ARPU in the C&S industry in India is around $5 a month, it is among the lowest compared to established players in the other countries such as Direct TV, USA ($73), Echostar, USA ($65) and Astro, Malaysia ($22). These global standards provide high growth visibility for DTH ARPU in India in the long term.

Dish TV to grow exponentially

Mirroring the strong growth in the DTH market the management has targeted a subscriber base of 8 million by 2011 from the current 1.9 million, indicating a CAGR of 43.2%. It has projected revenues of Rs3,350 crore in 2011 against a paltry Rs82 crore in FY2006 resulting from both ARPU and growth in the subscribers. The management expects earnings before interest, depreciation, tax and amortisation margin of 26% by FY2011 that would make the business highly profitable and the company will see cash breakeven by FY2009.

Business entails deep pockets

To attain the planned growth in subscriber numbers the company would need funds to the tune of ~Rs1,000 crore in the next two years primarily to subsidise for set top boxes (currently subsidises Rs1,600 per subscriber), marketing, enhancement of content offerings (currently offers 160 channels) and run the business through the initial gestation period. The company plans to raise Rs300-400 crore by way of debt and the balance through equity.

Expected shareholding pattern

Promoters	67%
FIIs	20%
MFs	8%
Others	5%
Total	100%

Valuations and view

The C&S industry has been at the helm of things of late with CAS paving the way for digitalisation of cable in the southern parts of Mumbai, Delhi and Kolkata. DTH joined the bandwagon jumping on the opportunity provided by the implementation of CAS in these areas. Industry estimates that approximately 25% of the subscribers in

these areas moved to DTH. Thus while the expansion of CAS to other parts of the country would provide an opportunity for DTH, it will also gain from value-added services, other benefits of digitalisation and expansion of the C&S market in general. The huge funding requirements, 5-7 years of gestation and scarcity of the much-required transponder space would act as an entry barrier. Thus we believe that as against cable, DTH will see about 5-6 players get a slice of the growing market and in turn lead to expansion of the entire DTH market.

We expect Dish TV India to get listed in the range of Rs100-120 per share based on different methodologies of valuation and believe that it is attractive in the above range.

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Sharekhan Stock Ideas

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

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Aban Offshore
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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
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
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