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DAY ONE

# INVESTOR CONFERENCE

**On 14th & 15th February 2007, Mumbai.**

## The UNSTOPPABLES 2

Marico

Larsen & Toubro

Cadila Healthcare

Dish TV

Lanco Infratech

Gammon India &

Gammon Infrastructure

M&M Systech

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## Notes

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INDIA EQUITY RESEARCH

# Marico

**Rs569; Not Rated**

**Sector: FMCG**

| | |
|---|---|
| Market caps (bn) | Rs32.7/US$0.7 |
| 52-week range | Rs610/330 |
| Shares in issue (mn) | 58.0 |
| 6-mon avg daily vol (no of shares) | 41,688 |
| 6-mon avg daily vol (mn) | Rs23.5/US$0.5 |
| Bloomberg | MRCO IN |
| Reuters | MRCO.BO |
| BSE Sensex | 14539 |
| Website | www.maricoindia.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 63.4 |
| FIIs | 16.7 |
| MFs/FIs/Banks | 12.4 |
| Others | 7.5 |

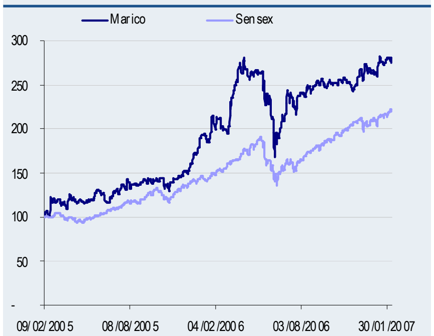
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 4.6 | 8.6 | 30.1 |
| Relative* | (2.3) | (1.8) | (14.4) |

**To the BSE Sensex*

**Relative Performance**




*(As of 9 February 2007)*

**Analyst:**
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# Finding growth across the globe

## Highlights

- **Firing on all cylinders:** Marico has demonstrated solid growth in all business segments (hair oils, beauty products and international) and with the new businesses (in particular, Kaya, Sundari and the new international ventures) gaining traction, we expect the strong growth momentum to sustain heading into FY08E and FY09E.
- **Product innovation keeps company ahead of the curve:** As companies slug it out for a share of the demand pie, we believe companies that have a robust product pipeline of innovative products (either new launches or extensions) in key segments will emerge the winners. Our confidence in the company's new ventures remains high.
- **International business to be a strong growth driver:** Marico's recent acquisitions in Bangladesh and Egypt give it a strong platform to grow international revenues to about 15-20% of revenues in the next 2-3 years, from about 10% currently.
- **Steady improvement in margins likely:** The company has steadily de-focused its low margin business (contribution from products like Sweekar soya etc) and focused on high margin products like value added hair oils. We expect margins to continue to improve, albeit modestly, over the next two years from current levels.
- **High input costs:** Copra prices, which are currently about 10% higher on a YoY basis, could potentially increase further. The company may not be able to pass on the full effect of these rising input costs, thereby pressuring margins.

## Financials

- **Steady performance, long-term outlook remains strong:** Marico has grown its revenues by a strong 14% CAGR between FY03-FY06. Profits in the same period have grown 16%, while margins have consistently improved by 280 bps to 12.6%. The 9M FY07 period has maintained the strong growth momentum with a topline growth of 36% and PAT growth of 18%. We have a positive outlook on the company and believe that it is well placed in terms of products and geographies to take advantage of the strong consumer demand environment.

**Exhibit 1: Financial summary** **(Rs mn)**

| Y/E March | FY04 | FY05 | FY06 | 9MFY07 |
|---|---|---|---|---|
| Net Revenues | 8,885 | 10,070 | 11,439 | 11,600 |
| EBITDA | 745 | 883 | 1,443 | 1,726 |
| EBITDA Margin (%) | 8.4 | 8.8 | 12.6 | 14.9 |
| Net Profit | 590 | 701 | 869 | 848 |
| EPS (Rs) - Annualized | 10.2 | 12.1 | 15.0 | 19.0 |
| EPS Growth (%) | 5.2 | 19.0 | 23.9 | - |
| RONW (%) | 31.3 | 35.0 | 36.4 | - |
| ROCE (%) | 21.5 | 21.2 | 19.0 | - |
| EV/EBITDA (x) | 43.2 | 37.8 | 24.2 | - |
| PE (x) | 56.5 | 47.5 | 38.4 | 30.2 |
| Price/Sales (x) | 3.8 | 3.3 | 2.9 | 2.9 |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007.*

## Notes

# Larsen & Toubro

**Rs1,650; Not Rated**

**Sector: Capital Goods**

| | |
|---|---|
| Market cap (bn) | Rs463.0/US$10.5 |
| 52-week range | Rs1,778/903 |
| Shares in issue (mn) | 280.6 |
| 6-mon avg daily vol (no of shares) | 956,720 |
| 6-mon avg daily vol (mn) | Rs1,578.7/US$35.7 |
| Bloomberg | LT IN |
| Reuters | LART.BO |
| BSE Sensex | 14539 |
| Website | www.larsentoubro.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | – |
| FIIs | 21.3 |
| MFs/FIs/Banks | 37.9 |
| Public | 37.6 |
| Others | 3.2 |

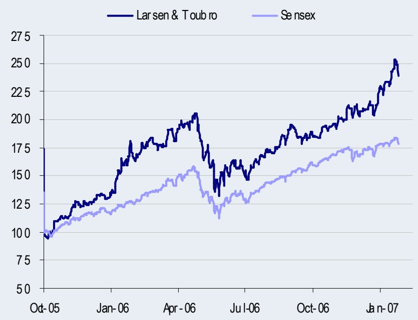
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 12.4 | 23.4 | 42.7 |
| Relative* | 11.5 | 16.6 | 2.3 |

**To the BSE Sensex*

**Relative Performance**




*(As of 9 February 2007)*

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# Engineering India

## Highlights

- **Domestic capex cycle to augur well:** Improvement in domestic demand, high current capacity utilization in manufacturing sector, and the government's pro-reform approach has put India into an investment cycle. Private and public enterprises in sectors such as oil and gas, auto and auto components, metals and mining, infrastructure development (roads, airports, ports), etc. have lined up strong capex plans. These investments augur well for Larsen & Toubro (L&T), the country's largest engineering and construction company.

- **Order book provides visibility:** Given L&T's strong balance sheet, expertise and prequalification for most infrastructure projects is expected to be major beneficiary investments in India. The company currently has strong order backlog of Rs357 bn (up 51% YoY) as of end December 2006. The order backlog to net sales (12 months trailing) ratio is 2.2x.

- **Focusing on key businesses and geographies:** L&T is now focusing on high growth - key business segments. It has exited the diary machinery and glass container business and has divested stake in L&T John Deere, L&T Niro, and other non core assets. Further in the overseas market it is focusing on fast growing Middle East and African markets. The company is expected to grow at the rate of 20-25% in the international markets and expect its international business to contribute 20% to its total revenues in next 2-3 years (18% as on FY06).

- **Subsidiaries to add value:** The company has set up subsidiaries viz. L&T Infotech (IT and ITES), L&T IDPL (portfolio of BOOT investments in road, port and urban infrastructure projects), L&T Finance (equipment financing) and others. These subsidiaries have added significant value and any unlocking by stake sale or IPO could unlock this value.

## Financials

- **Earnings grow 46% YoY:** For 3Q FY07, L&T's topline increased by 12% YoY to Rs41.2 bn. The company's operating margins improved by 370bps to 10.4% YoY. Adjusted net profits increased strongly by 46% YoY to Rs3.4 bn.

**Exhibit 1: Key financials (Rs mn)**

| Y/E March | FY04 | FY05 | FY06 | 9M FY07 |
|---|---|---|---|---|
| Net sales | 95,613 | 131,567 | 147,631 | 113,412 |
| EBITDA | 4,519 | 8,428 | 10,677 | 9,176 |
| EBITDA (%) | 4.7 | 6.4 | 7.2 | 8.1 |
| Net Profit (Adj) | 5,223 | 6,900 | 8,642 | 7,023 |
| EPS (Rs) | 18.6 | 24.6 | 30.8 | 25.0 |
| EPS Growth (%) | | 32.1 | 25.2 | NA |
| ROCE (%) | 16.7 | 22.1 | 24.2 | NA |
| ROE (%) | 17.0 | 22.7 | 23.8 | NA |
| PE (x) | 88.6 | 67.1 | 53.6 | 65.9 |
| Price/Book Value (x) | 16.9 | 13.9 | 10.0 | NA |
| EV/EBITDA (x) | 102.7 | 55.1 | 43.4 | NA |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007.*

## Notes

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# Cadila Healthcare

**Rs334; Buy**

### Sector: Pharmaceuticals

| | |
|---|---|
| **Target Price** | **Rs450** |
| Market cap | Rs42.0 bn/US$950.8 mn |
| 52-week range | Rs400/231 |
| Shares in issue (mn) | 125.6 |
| 6-mon avg daily vol (no of shares) | 69,477 |
| 6-mon avg daily vol (mn) | Rs23.2/US$0.5 |
| Bloomberg | CDH IN |
| Reuters | CADI.BO |
| BSE Sensex | 14539 |
| Website | www.zyduscadila.com |

### Shareholding Pattern (%)

| | |
|---|---|
| Promoters | 72.0 |
| FIIs | 4.5 |
| MFs/FIs/Banks | 14.6 |
| Others | 8.7 |

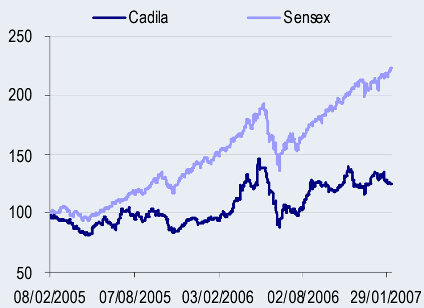
*(As of 31 December 2006)*

### Price Performance (%)

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | (6.3) | (10.4) | 26.0 |
| Relative* | (13.5) | (22.5) | (19.7) |

**To the BSE Sensex*

### Relative Performance




*(As of 9 February 2007)*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# Changing landscapes

## Highlights

- **Sales growth of 20% p.a. over the next 2-3 years:** Generics markets, pick up in domestic markets and scale up in contract manufacturing (CM) business to drive 20% YoY sales growth over the next two years.
- **Generics business to scale up significantly:** US generics to scale up from US$10 mn in FY06 to US$40 mn in FY08E driven by robust ANDAs filings and approvals. French generics to grow from Euro 10 mn in FY06 to Euro 22 mn in FY08E. However, French business has already crossed Euro 23 mn sales in CY06 and expected to grow rapidly even in CY07E, surpassing our expectations by huge margin. We expect French business to turnaround in CY07E.
- **Contract manufacturing deals with peak sales of US$28 mn:** The company has been signing couple of contracts every quarter and currently has 20 CM deals signed having peak revenue of US$28 mn. Revenue from these deals to scale up significantly going forward as many of these deals would enter 2-3 year of supplies.
- **Margins improvement of 50-100 bps annually:** Cadila continues to focus on improving EBITDA margin through operational efficiencies, better control over cost and focusing on newer areas of cost optimisation. These initiatives would help company profits to grow at 35% CAGR over the next two years.
- **Better visibility for JV with Mayne post acquisition by Hospira:** Cadila has 50:50 JV with Mayne for manufacturing and marketing of generic oncology products in regulated as well as unregulated markets. With Hospira, US taking over the Mayne, we believe that scope of JV could further expand.

## Valuations

- The stock trades at 18.6 x FY07E earnings and 14.2 x FY08E earnings and EV/EBITDA of 13.4 x FY07E and 10.6 x FY08E. We believe that with improved visibility across businesses and strong growth in earnings of 30% plus, stock offers more than 35% upside from current levels. We maintain our Buy.

**Exhibit 1: Key financials** **(Rs mn)**

| Y/E March | F2004 | 2005 | 2006 | 2007E | 2008E |
|---|---|---|---|---|---|
| Net Sales | 11,962 | 12,430 | 14,545 | 17,755 | 21,410 |
| EBITDA | 2,229 | 2,079 | 2,562 | 3,402 | 4,231 |
| EBITDA (%) | 18.6 | 16.7 | 17.6 | 19.2 | 19.8 |
| Net Profit (adj) | 1,393 | 1,285 | 1,631 | 2,259 | 2,965 |
| EPS (Rs) | 11.1 | 10.2 | 13.0 | 18.0 | 23.6 |
| EPS Growth (%) | 50.4 | (7.7) | 26.9 | 38.5 | 31.2 |
| ROCE (%) | 19.2 | 17.6 | 19.8 | 23.0 | 25.5 |
| ROE (%) | 26.4 | 21.5 | 24.1 | 28.4 | 30.4 |
| PE (x) | 30.1 | 32.6 | 25.7 | 18.6 | 14.2 |
| Price/Book Value (x) | 7.4 | 6.7 | 5.7 | 4.9 | 3.9 |
| EV/EBITDA (x) | 20.4 | 21.5 | 17.7 | 13.4 | 10.6 |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007.*

**Please see important disclaimer at the end of the report.**

## Notes

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# Dish TV

**Fair Value Rs125**

**Sector: Media**

| | |
|---|---|
| Market cap | Rs52.0 bn/US$1,131.7 mn |
| Shares in issue (mn) | 416.0 |
| BSE Sensex | 14539 |
| Website | www.dishtvindia.in |

| Proposed Structure | (%) |
|---|---|
| Promoters | 70 |
| FIIs | 19 |
| MFs/FIs/Banks | 9 |
| Others/Public | 2 |

*(As of 30 November 2006)*


Analysts:

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## Conquering the sky

### Highlights

- **Departing from parent:** Dish TV (previously known as ASCEL) got demerged from ZEEL w.e.f 12 February 2007 and would now operate as an independent entity. The company is expected to list by end of February 2007.
- **Premium private player:** The company commenced its operations in May 2005 by launching DTH services and was the first private Indian company to initiate DTH satellite broadcast operations in the country.
- **Management of repute:** Dish TV, an Essel group venture, is under the umbrella of strong management expertise of Zee who has experience of more than a decade in the entertainment and media industry.
- **Growing subscriber base:** The company provides next level of digital entertainment coupled with high quality viewing experience to the consumers at affordable rates and presently serves over 1.5 mn subscribers with an existing ARPU of Rs200 per month.
- **Post de-merger:** The shareholders of ZEEL would get 57.5 shares of Dish TV for every 100 shares of ZEEL, resulting in 57.5% holding in Dish TV.

## Valuations and outlook

- **Growing rapidly:** We are valuing the company taking into account its rapidly growing subscriber base and steadily growing average revenue per user (ARPU). We expect an ARPU of Rs360 by 2012 and a subscriber base of 6.81 mn for Dish TV. We expect a CAGR of 103% from FY07E to FY10E and EBIDTA margins would stabilize at 28.7% by FY12E.
- **DCF valuation:** Based on our DCF valuations we expect a fair value of Rs125 per share. We foresee an upside to our fair value price if DTH technology supersedes the competitive distribution technologies like digital cable and IPTV in the next couple of years.

**Exhibit 1: Summary**

| | FY07E | FY08E | FY09E | FY10E | FY11E | FY12E |
|---|---|---|---|---|---|---|
| No of Subscribers (mn) | 2.1 | 3.3 | 4.41 | 5.28 | 6.08 | 6.78 |
| ARPU (Rs) | 185 | 210 | 260 | 300 | 330 | 360 |
| Total revenue (Rs bn) | 2.2 | 7.0 | 12.2 | 18.3 | 23.3 | 28.4 |

*Source: Company data, ASK Raymond James.*

## Notes

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# Lanco Infrastructure

**Rs214; Not Rated**

**Sector: Power**

| | |
|---|---|
| Market caps | Rs47.1 bn/US$1,068.2 mn |
| 52-week range | Rs276/215 |
| Shares in issue (mn) | 219.8 |
| Bloomberg | LANCI IN |
| BSE Sensex | 14539 |
| Website | http://www.lancogroup.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 75.0 |
| FIIs | 8.2 |
| MFs/FIs/Banks | 4.4 |
| Public | 10.6 |
| Others | 1.9 |

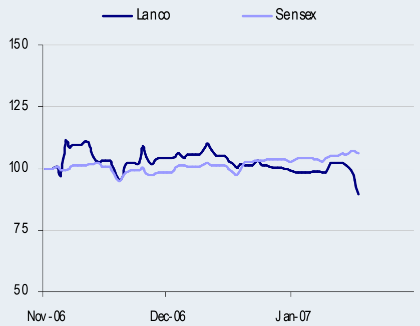
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | (12.6) | – | – |
| Relative* | (19.8) | – | – |

**To the BSE Sensex*

**Relative Performance**




*(As of 9 February 2007)*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## A good long-term play

### Highlights

- **Power business - taking big leaps:** Lanco Infrastructure (LITL), as a sponsor has majority stake in 13 power producing companies operating as SPVs. As of now, 518 MW of power generation capacity is operational out of 3,793 MW to be operational by FY10. Remaining power projects are under various stages of construction.

  The company in consortium with Globeleq Singapore Pte has emerged as the successful bidder for the 4,000 MW Ultra Mega Power Project to be set up at Sasan in Madhya Pradesh.

- **Strong order book of Rs16 bn in construction business:** LITL provides integrated EPC services and construction services for civil and infrastructure sector projects. As of 30 October 2006, construction division had orders worth Rs16.0 bn in its order book, out of which Rs12.0 bn (75%) has come from its affiliate concerns, while the balance Rs4.0 bn is external orders. This strong order book gives earnings visibility to LITL in near future.

- **Large land bank makes it a prominant player in property development business:** The company is a new entrant into the property development business, centered in the State of Andhra Pradesh. As of 31 May 2006, it owns approximately 19.5 mn sq ft of saleable area. In the near future, LITL plans to develop an IT park and township on a 100 acre plot near Hyderabad. Besides this project, it also plans to develop a residential housing project with 1 mn sq ft saleable area in Hyderabad and a IT park-cum-township project in Vizag over a 10.7 acre plot.

### Financials

- **9M FY07 results:** On a consolidated basis, LITL reported net sales of Rs 11.2 bn, YoY growth of 2097% and operating margins of 25.9% a YoY jump of 890 bps. Net profit stood at Rs1,311 mn as compared to Rs87.6 mn for the same period last year.

**Exhibit 1: Key financials** **(Rs mn)**

| Y/E March | FY04 | FY05 | FY06 | 9MFY07 |
|---|---|---|---|---|
| Net sales | 1,293 | 1,839 | 1,471 | 11163 |
| EBITDA | 170 | 161 | 167 | 2,887 |
| EBITDA (%) | 13.2 | 8.8 | 11.4 | 25.9 |
| Net Profit (Adj) | 71 | 92 | 171 | 1,311 |
| EPS (Rs) | 9.2 | 12.0 | 5.5 | 6.0 |
| EPS Growth (%) | (26.2) | 30.7 | (53.9) | NA |
| ROCE (%) | 12.7 | 9.0 | 7.8 | NA |
| ROE (%) | 10.8 | 12.5 | 19.6 | NA |
| PE (x) | 23.3 | 17.8 | 38.6 | 35.7 |
| Price/Book Value (x) | 2.4 | 6.9 | 2.1 | NA |
| EV/EBITDA (x) | 12.3 | 12.7 | 45.2 | NA |

*Source: Company, ASK Raymond James. Note : Valuations as of 9 January 2007.*

## Notes

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# Gammon India

**Rs350; Buy**

### Sector: Metals

| | |
|---|---|
| **Target Price** | **Rs515** |
| Market cap | Rs19.7 bn/US$437.3 mn |
| 52-week range | Rs589/276 |
| Shares in issue (mn) | 87.6 |
| 6-mon avg daily vol (no of shares) | 317,873 |
| 6-mon avg daily vol (mn) | Rs71.4/US$1.6 |
| Bloomberg | GMON IN |
| Reuters | GAMM.BO |
| BSE Sensex | 14539 |
| Website | www.gammonindia.com |

### Shareholding Pattern (%)

| | |
|---|---|
| Promoters | 31.1 |
| FIIs | 29.8 |
| MFs/FIs/Banks | 15.7 |
| Others | 23.4 |

*(As of 31 December 2006)*

### Price Performance (%)

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | (11.6) | (18.6) | (33.5) |
| Relative* | (18.8) | (29.3) | (78.2) |

**To the BSE Sensex*

### Relative Performance


*(As of 9 February 2007)*


**Analyst:**

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# Strong growth ahead

## Highlights

- **Revenue CAGR of 38% and profit CAGR of 33% in FY06-FY09E:** Gammon India (GIL) currently has a strong order book position of Rs75 bn. This order book is to be executed over the next 2.5 years, and is spread over 70-75 projects. On the back of this strong order book position, we expect the company to have strong revenue CAGR of 38% during FY06-FY09E coupled with a profit CAGR of 33%. As additional orders flow in, given the giant planned infrastructure spending of over US$300 bn over the next five years our revenue and profit growth estimates could be exceeded.

- **Hidden value in GIPL:** GIL has a 82.5% stake in Gammon Infrastructure Projects (GIPL), which has a controlling stake in nine (BOT) projects. By DCF methodology, our enterprise value works out to around Rs13.4 bn, which offers Rs125/share for GIL's shareholders. Although GIPL has been banned by SEBI from listing for one year, the business of the company has not been impacted in any way. Additionally, the company has around Rs500-1,000 mn cash on its books, which with its leverage opportunities (as the company is net debt free) will suffice its cash requirements over the next one year.

- **Further equity dilution not expected till FY10:** For financing working capital requirements, which is the crux of a construction business, companies raise funds through the equity capital route. This is a cause for concern as it results in dilution and lower returns to shareholders. However, as GIL raised Rs4.4 bn in FY06, further equity dilution is not expected till FY10 for fuelling current growth. Apart from EPS accretion, as raised funds are deployed, GIL's return ratios will improve significantly to 18-19% levels.

## Financials and valuations

- **Growth yet to be factored:** The strong visible revenue and profit growth of GIL, on the back of its present order book, is yet to be factored in. The core construction business at 11.5x EV/EBITDA FY09E (20% lower than the average since FY05 of 14.4x, adjusting for GIPL) is valued at Rs390/share. This implies a PE of 16.6x FY09E. A sum-of-parts valuation, given Rs125 per share for GIPL, arrives at our target price of Rs515.

**Exhibit 1: Financial summary** **(Rs mn)**

| Y/E March | FY06 (15)# | FY06 (12)* | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|
| Income from operations | 16,677 | 13,871 | 20,113 | 28,158 | 36,606 |
| EBITDA | 1,921 | 1,616 | 1,810 | 2,534 | 3,295 |
| EBITDA (%) | 11.5 | 11.6 | 9.0 | 9.0 | 9.0 |
| Net profit (adj) | 1,028 | 886 | 1,058 | 1,551 | 2,075 |
| EPS (Rs) | 11.6 | 10.0 | 12.0 | 17.5 | 23.5 |
| EPS growth (%) | - | - | 19.4 | 46.6 | 33.8 |
| ROCE (%) | 18.3 | 15.4 | 12.8 | 16.2 | 18.1 |
| RONW (%) | 17.4 | 14.7 | 11.7 | 15.1 | 17.5 |
| PE (x) | 19.3 | 22.4 | 18.8 | 12.8 | 9.6 |
| PBV (x) | 2.3 | 2.3 | 2.1 | 1.8 | 1.5 |
| EV/EBITDA (x) | 10.5 | 12.5 | 11.8 | 8.7 | 7.0 |

*Source: Company data, ASK Raymond James. Note: Valuation as on 9 February 2007, excluding Rs125 / share of GIPL.*
*# Company changed Y/E from December to March and results are for 15 months period, * Based on quarterly data for comparison.*

## Notes

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DAY TWO

# INVESTOR CONFERENCE

**On 14th & 15th February 2007, Mumbai.**

The UNSTOPPABLES 2

Financial Technologies

Voltas

Parsvnath Developers

Aptech

Deccan Aviation

Overview on the offshore oil exploration service industry

Ceat Tyres

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## Notes

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# Financial Technologies

**Rs2,022; Not Rated**

**Sector: IT**

| | |
|---|---|
| Market cap | Rs89.0 bn/US$2,016.7 mn |
| 52-week range | Rs2,225/988 |
| Shares in issue (mn) | 44.0 |
| 6-mon avg daily vol (no of shares) | 36,139 |
| 6-mon avg daily vol (mn) | Rs73.1/US$1.7 |
| Bloomberg | WWTC IN |
| Reuters | NODS.BO |
| BSE Sensex | 14539 |
| Website | www.ftindia.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 47.6 |
| FIIs | 30.0 |
| MFs/FIs/Banks | 1.0 |
| Others | 21.4 |

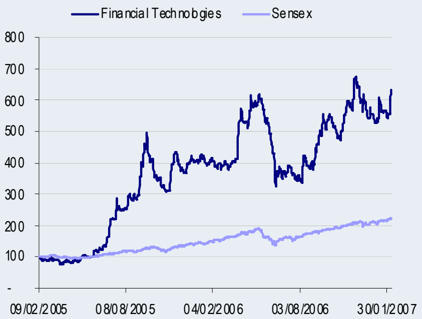
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 19.6 | 6.2 | 62.3 |
| Relative* | 12.5 | (4.4) | 17.6 |

**To the BSE Sensex*

**Relative Performance**




*(As of 9 February 2007)*


**Analysts:**

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# The Midas touch

## Highlights

- **Core business - growing leaps and bounds:** Financial Technologies has sold around 120,000 licenses as on 31 December 2006 and already has more than 90% market share. The management expects the overall market to expand as clients are getting into newer offshoots like multiple exchange licenses (e.g. separate licenses for BSE and NSE), F&O and commodities. With the possibility of mobile trading becoming a reality, license sales could see a huge jump.
- **MCX - unlocking of value:** MCX has added about 325 members in 9M FY07 taking its tally to about 1,575. Membership fee has been hiked to Rs2.5 mn from the earlier Rs1.0 mn w.e.f May 2007. The proposed MCX IPO is still on cards, the only hitch being lack of clarity from the government regarding FII holding norms in commodity exchanges.
- **DGCX- golden oppurtunity:** DGCX currently has around 200 members out of which about 140 are active participants. There are plans to introduce futures in steel, cotton and freight in CY07 along with the introduction of options. The exchange would also go on to become operational for seven days a week from the current five trading days sometime during CY07.
- **Other ventures - on track:** The management maintains that the new ventures are on track. NSEAP would be rolled out in FY07 while the pilots for ATOM (transaction automation solutions for wireless telephony devices) and Tickerplant Infovending (view only terminals) are expected in the next 2 -3 months. SAFAL and the Mauritius exchange are expected to be rolled out sometime in latter part of 2H CY07.

## Financials and valuation

- **Valuations streched:** With no immediate triggers, we expect the consolidated revenues to grow at a CAGR of 44% over FY06-08E while profits are expected to grow at a CAGR of 35% over the same period. Due to the added dilution of US$100 mn via FCCBs in FY08E, we expect EPS to grow at a slower pace of 32% CAGR over FY06-08E. On FY08E, the stock currently trades at a PE of 72.0x and an EV/ EBITDA of 36.6x. We believe that though the company's business model is scalable, valuations look stretched at this point of time.

**Exhibit 1: Key financials** **(Rs mn)**

| Y/E March | 2004 | 2005 | 2006 | 2007E | 2008E |
|---|---|---|---|---|---|
| Net Sales | 216 | 574 | 1,820 | 2,820 | 3,776 |
| EBITDA | 72 | 284 | 1,046 | 1,607 | 2,171 |
| EBITDA (%) | 33.4 | 49.4 | 57.5 | 57.0 | 57.5 |
| Net Profit | 58 | 202 | 709 | 968 | 1,262 |
| Fully diluted EPS (Rs) | 1.6 | 4.8 | 16.1 | 22.0 | 28.1 |
| EPS Growth (%) | 97.5 | 203.3 | 238.6 | 36.5 | 27.6 |
| ROCE (%) | 10.1 | 16.3 | 49.8 | 21.1 | 25.2 |
| ROE (%) | 9.6 | 13.4 | 34.9 | 36.9 | 15.7 |
| PE (x) | 1,289 | 425 | 125.5 | 91.9 | 72.0 |
| Price/Book Value (x) | 173 | 63 | 48.4 | 37.6 | 12.1 |
| EV/EBITDA (x) | 1,231 | 306 | 82.3 | 53.0 | 36.6 |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007.*

## Notes

# Voltas

**Rs96; Not Rated**

## High growth visibility

### Highlights

- **Strong order book in the electromechanical segment:** Voltas derives about 60% of its turnover from the electromechanical segment. This segment consists of two revenue streams, one from the domestic operations and second from the international operations. In the domestic operations it has primarily the air conditioning business (HVAC) and in the international operation it is primarily from the mechanical, electrical, and public health turnkey projects. The order book of this division stands at Rs24 bn as of end December 2006 (up by 70% YoY).

- **Engineering division growing at 80% YoY:** The main business in this segment is textile machinery business, mining and construction equipment, materials handling, and machine tools. This segment reported growth of 80% YoY for 9M FY07, primarily led by investment in the industrial sector, higher movement of goods in the ports and an overall increase in the capital cycle.

- **Unitary cooling solutions - under competitive pressures:** While Voltas is the second largest player in the Indian air conditioner market with a market share of 14.2% (FY06), it hardly commands any pricing power. High competition in the segments (Window and Split ACs), higher prices of raw material viz. copper, steel, aluminium, etc and inability to increase realizations have put the company's margins under severe pressure. The segment is not profitable since the last two years.

### Financials

- **3Q FY07 - margins muted:** For 3Q FY07, Voltas recorded a topline growth of 31% YoY led by strong 76% YoY growth in the engineering division. However, the EBITDA margins (excluding other income) are down 100 bps to 4.8%. Adjusted net profit was down by 20% YoY due to higher taxation (converted from MAT).

**Exhibit 1: Key financials (Rs mn)**

| Y/E March | FY04 | FY05 | FY06 | 9M FY07 |
|---|---|---|---|---|
| Net sales | 12,732 | 13,867 | 18,366 | 16,792 |
| EBITDA | 328 | 445 | 993 | 740.1 |
| EBITDA (%) | 2.6 | 3.2 | 5.4 | 4.4 |
| Net Profit (Adj) | 291 | 454 | 927 | 639.3 |
| EPS (Rs) | 0.9 | 1.4 | 2.9 | 1.9 |
| EPS Growth (%) | | 55.7 | 113.1 | NA |
| ROCE (%) | 13.4 | 17.9 | 32.3 | NA |
| ROE (%) | 15.4 | 23.4 | 39.6 | NA |
| PE (x) | 108.5 | 69.6 | 32.7 | 49.4 |
| Price/Book Value (x) | 16.8 | 16.4 | 13.6 | NA |
| EV/EBITDA (x) | 96.6 | 70.5 | 31.6 | NA |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007.*

**Sector: Automobiles**

| | |
|---|---|
| Market cap (bn) | Rs31,601/US$706 |
| 52-week range | Rs121/64 |
| Shares in issue (mn) | 330.6 |
| 6-mon avg daily vol (no of shares) | 1,432,570 |
| 6-mon avg daily vol (mn) | Rs137.0/US$3.1 |
| Bloomberg | VOLT IN |
| Reuters | VOLT.BO |
| BSE Sensex | 14539 |
| Website | www.voltas.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 27.3 |
| FII | 28.1 |
| FI/MF | 22.1 |
| Public | 19.4 |
| Others | 3.1 |

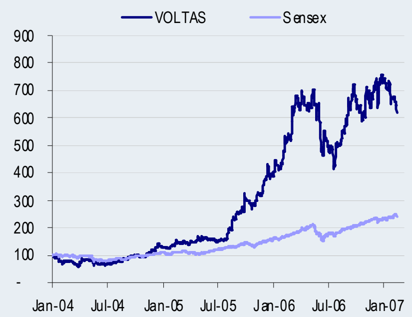
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | (12.9) | (11.7) | 18.7 |
| Relative* | (13.8) | (18.5) | (21.7) |

**To the BSE Sensex*

**Relative Performance**

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## Notes

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# Parsvnath Developers

**Rs339; Not Rated**

**Sector: Real Estate**

| | |
|---|---|
| Market caps (bn) | Rs63/US$1.4 |
| 52-week range | Rs579/351 |
| Shares in issue (mn) | 184.7 |
| Bloomberg | PARSV IN |
| BSE Sensex | 14539 |
| Website | www.parsvnath.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 80.0 |
| FIIs | 4.1 |
| MFs/FIs/Banks | 1.3 |
| Others | 14.7 |

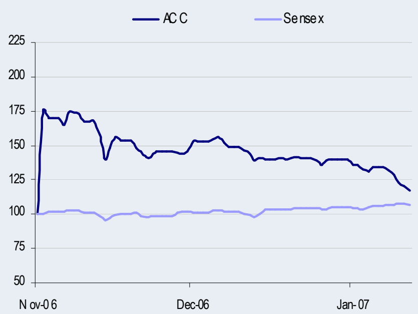
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | (21.7) | – | – |
| Relative* | (28.8) | – | – |

**To the BSE Sensex*

**Relative Performance**

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## Diversified PAN India play

### Highlights

- **Leading real estate company:** Parsvnath Developers (PDL) is one of the leading real estate development companies in the country with pan-India presence across 45 cities and 16 states with projects spanning across key verticals of real estate industry. Till FY06, PDL had developed 5.6 mn sq ft, which will increase to 14 mn sq ft till FY07. It's current projects aggregate a saleable area of over 122.07 mn sq ft.

- **Diversified portfolio:** PDL has de-risked its business model by building a diversified project portfolio, with projects varying from residential complexes to commercial/shopping centers, multiplexes, from metro malls at DMRC stations to Hotels and IT Parks, and integrated townships. Thus it provides a good base to tackle the real estate cycle through the multiple revenue streams. The company would retain about 20-30% of its commercial developments for rental income.

**Exhibit 1: Project details**

| Upcoming Projects | No. of Projects | Saleable Area (mn sq ft) | Total Cost (Rs mn) |
|---|---|---|---|
| Residential | 27 | 20 | 27,800 |
| Commercial | 21 | 5 | 20,390 |
| Integrated Townships | 21 | 86 | 83,710 |
| IT Parks | 4 | 6 | 9,200 |
| DMRC | 6 | 2 | 5,400 |
| Hotels | 18 | 3 | 11,440 |
| **Total** | **97** | **122** | **157,940** |

*Source: Company data, ASK Raymond James.*

- **Revenues from Delhi Metro Railway Corporation (DMRC):** PDL has also entered into agreements to develop shopping malls on 11 stations owned by DMRC on Built-Operate-Transfer basis. The 11 DMRC stations are expected to earn Rs2.6 bn of rental income with a leased area of 1.8-mn sq.ft. The company has already executed five of these projects and they are expected to yield rental income for a period of 12 to 30 years. Thus these annuity streams of incomes differentiate PDL from the other developers, who are largely dependent on the property cycles.

- **Financials :** PDL reported a healthy 121% revenue CAGR, 149% EBIDTA CAGR and 139% earnings CAGR over FY02-06 period. Currently it is trading at PE of 34x FY07E (annualised).

**Exhibit 2: Financial summary** **(Rs mn)**

| Y/E March | FY04 | FY05 | FY06 | 9M FY07 |
|---|---|---|---|---|
| Operating Revenue | 1,121 | 3,032 | 6,438 | 8,364 |
| EBITDA | 208 | 724 | 1,440 | 2,176 |
| EBITDA (%) | 18.5 | 23.9 | 22.4 | 26.0 |
| Net Profit (reported) | 184 | 657 | 1,070 | 1,393 |
| EPS (Rs) | 1.0 | 3.6 | 5.8 | 7.5 |
| EPS growth (%) | 60.6 | 256.7 | 62.9 | 30.2 |
| ROCE (%) | 85.9 | 67.4 | 5.3 | 10.7 |
| ROE/RONW (%) | 49 | 65 | 53 | 10 |
| PE (x) | 340.3 | 95.4 | 58.6 | 45.0 |
| EV/EBITDA (x) | 303.8 | 87.0 | 44.9 | 31.8 |
| EV/Sales (x) | 56.3 | 20.8 | 10.0 | 8.3 |

*Source: Company data, ASK Raymond James. Note: Valuation as on 9 February 2007.*

# Notes

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# Aptech

**Rs210; Not Rated**

**Sector: IT**

| | |
|---|---|
| Market cap | Rs7.9 bn/US$179.4 mn |
| 52-week range | Rs224/69 |
| Shares in issue (mn) | 37.6 |
| 6-mon avg daily vol (no of shares) | 1,185,090 |
| 6-mon avg daily vol (mn) | Rs249.2/US$5.6 |
| Bloomberg | APTR IN |
| Reuters | APTA.BO |
| BSE Sensex | 14539 |
| Website | www.aptech-worldwide.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 18.4 |
| FIIs | 39.2 |
| MFs/FIs/Banks | 5.1 |
| Others | 37.3 |

*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 28.6 | 35.3 | 77.7 |
| Relative* | 21.4 | 24.6 | 33.0 |

**To the BSE Sensex*

**Relative Performance**


*(As of 9 February 2007)*


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## In transit

### Highlights

- **International business, the future growth engine:** Aptech has maintained the number one position in the Chinese market with a 27% market share. The Chinese IT education market has been growing at 20-25% in the last four years while Aptech's JV (with Beijing University) has registered a galloping growth of about 60% in CY05. Presence in the other geographies such as Vietnam (with 20 centres), Turkey, Yemen, Fiji etc on a franchisee model are doing well.
- **Institutional business margins driven by corporates:** Aptech has been working on reducing its focus on the low profitability government segment and substituting it with the higher margins corporate segment. This shift would be beneficial not only in terms of higher margins but also in improved receivables, lower capex and higher RoCE.
- **Domestic retail training making a comeback:** The domestic retail business has three products - Aptech, SSI and Arena - spanning the IT and multimedia segments. Aptech is growing faster than the industry rates in both these segments. The company has also recently forayed into the non-IT retail training space with the acquisition of Avalon Aviation Academy.
- **Allied services:** Learning services, with noted clients like Microsoft, Sun Microsystem, Daimler Chrysler, etc, has gross margins at 30-40% levels, while for testing services (clients like Welingkars, IMT, etc) it is around 25-30%. Aptech has recently got a mandate to conduct online TOEFL tests and hopes to venture into related areas like GMAT, GRE etc. With the continuing trend of students going abroad for further studies, Aptech stands to be a major beneficiary.

### Financials and valuation

- **Expensive valuations:** The company has clocked Rs1.76 bn in revenues and PAT of Rs169 mn in CY06. At the current market price, on our rough-cut numbers assuming complete conversion of the warrants, valuations look demanding at about 35.3x CY07E earnings. We are optimistic on the prospects of the company and believe that this is a long-term play.

**Exhibit 1: Key financials** **(Rs mn)**

| Y/E December | 2003 | 2004 | 2005 | 2006 | 2007E |
|---|---|---|---|---|---|
| Net Sales | 1,778 | 1,282 | 1,543 | 1,755 | 2,287 |
| EBITDA | 294 | 246 | 323 | 372 | 526 |
| EBITDA (%) | 16.5 | 19.2 | 20.9 | 21.2 | 23.0 |
| Net Profit (Adjusted) | 117 | 38 | 24 | 169 | 256 |
| EPS (Rs) | 4.5 | (18.5) | (12.5) | 4.5 | 6.8 |
| EPS (Fully diluted - Rs)* | 4.5 | (18.5) | (12.5) | 4.5 | 6.0 |
| EPS Growth (%) | 72.7 | (507.8) | (32.2) | (135.6) | 33.6 |
| ROCE (%) | 9.7 | 4.0 | 5.6 | 15.9 | 18.3 |
| ROE (%) | 9.6 | 3.0 | 2.9 | 19.6 | 18.7 |
| PE (x) | 46.4 | (11.4) | (16.8) | 47.1 | 35.3 |
| Price/Book Value (x) | 4.5 | 7.4 | 10.2 | 9.3 | 5.5 |
| EV/EBITDA (x) | 23.6 | 30.3 | 22.9 | 19.5 | 12.3 |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007, Note: *Assuming conversion of warrants.*

## Notes

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# Offshore Exploration Services

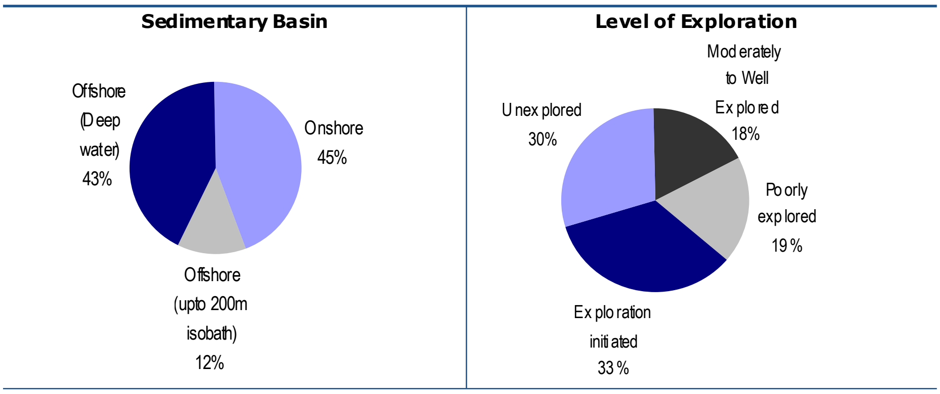
Sector: Oil & Gas

## Heightened activity

### Highlights

- **Huge capex lined-up:** Offshore explorations services industry is in for an exciting outlook over the next 5-10 years, citing the recently concluded NELP VI round wherein 24 deepwater and 10 shallow water blocks were awarded (out of total 55 blocks). In NELP VII this year, the government is offering another 70 blocks for exploration across India. Exploration giants like ONGC, RIL and GSPC have already chalked out around US$15-20 bn capex plans for development activities of their prospective offshore blocks at KG basin.
- **Major areas yet to be explored:** As per the Directorate General of Hydrocarbons (DGH), India has 26 sedimentary basins, comprising the onshore and offshore areas. Only 19 of the 26 sedimentary basins of India have been taken up for exploration so far with acquisition of seismic data and carrying out of exploratory drilling. Depending on the degree of exploration activities, the total sedimentary areas (including deep waters) is divided into four different categories illustrated in Exhibit 1 which clearly signifies the potential of future exploration and production activities in India.

**Exhibit 1: Sedimentary basin & level of exploration in India**




*Source: DGH (India).*

- **Mumbai High revamp:** ONGC has drawn up around Rs120 bn capex for undertaking repairs and modifications of their existing oil fields and development of new infrastructure at Mumbai High. In addition to this, there is substantial work lined-up for underwater pipe laying and expansion of existing pipelines. ONGC also intends to replace all its existing pipelines over the next 10 years. As majority of offshore service providers are heavily dependent on ONGC (constituting around 50-70% of their order book), we believe this to be a key driver of their earnings going forward.
- **Offshore service providers to benefit:** We foresee a surge in demand for offshore services covering wide spectrum of activities like drilling service providers (Aban Offshore, Great Offshore, Jindal Drilling), marine construction (Dolphin Offshore, Great Offshore), vessel management (Greatship India, Garware Offshore, Seamac, Great Offshore) and helicopter services (Global Vectra). We are especially upbeat on niche service providers like Global Vectra and Dolphin Offshore.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# Notes

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# Ceat Tyres

**Rs140; Not Rated**

**Sector: Automobiles**

| | |
|---|---|
| Market cap | Rs6.4 bn/US$140.2 mn |
| 52-week range | Rs162/56 |
| Shares in issue (mn) | 45.7 |
| 6-mon avg daily vol (no of shares) | 602,958 |
| 6-mon avg daily vol (mn) | Rs84.2/US$1.9 |
| Bloomberg | CEAT IN |
| Reuters | CEAT.BO |
| BSE Sensex | 14539 |
| Website | www.ceatyres.com |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 43.2 |
| FIIs | 4.3 |
| MFs/FIs/Banks | 25.7 |
| Publc | 19.7 |
| Others | 7.1 |

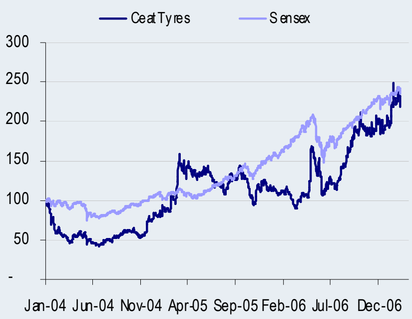
*(As of 31 December 2006)*

**Price Performance (%)**

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 10.9 | 20.6 | 103.0 |
| Relative* | 9.9 | 13.8 | 62.6 |

**To the BSE Sensex*

**Relative Performance**




*(As of 9 February 2007)*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# Turnaround on track

## Highlights

- **Changing business outlook:** We feel that fortunes are returning for the tyre industry as majority of players are operating at more than 90% capacity utilization. The business outlook on demand and product pricing front is much better than in the recent past. There are some indications that producers are realizing that it would be difficult to sustain the business at this lower ROE (in single digits) level. In the last several months, the industry has been bargaining hard with OEMs and pricing power is expected to return to the industry.
- **Six price hikes in the last one year:** The company announced six price hikes in the last eight months, not seen in last 2-3 years. Price hikes have been in the range of about 14% during this period. Ceat has off late started taking a lead in hiking the price. The impact of the same would be visible in FY08.
- **Demand for tyre will continue to grow at above 7%:** The demand for tyres will continue to grow at above 7% led by OEM sales growth as well as replacement demand (higher sales of new vehicles in the last four years should result in higher than average demand from replacement segment, accounting for 60% of total sales, in the next few years). Ceat's exports have been growing at 20% and contributes more than 20% of sales.
- **Multiple drivers:** Soft to stable input prices, capacity expansion, anti dumping duty on Chinese and Thai imports, contribution from Srilankan JV, possible reversal in inverted duty structure anomaly and value unlocking of non core investments (current value at Rs65 per share) should act as a good cushion for investors. Further we expect margins to improve from the levels of 6.2% (9M FY07) to 8% (FY08E) on back of improvement in realizations. Ceat board has also approved to sell seven acres of land in Mumbai which should bring in close to Rs850 mn in FY08E (Rs19 per share).
- **Valuations attractive:** Currently Ceat trades at 16.8x and 11.7x its FY07E and FY08E earnings and going at 0.3x marketcap/sales respectively. Given the value of land and holding in group companies, the stock is attractively valued at current levels.

**Exhibit 1: Key financials** **(Rs mn)**

| Y/E March | FY05 | FY06 | 9M FY07 | FY07E | FY08E |
|---|---|---|---|---|---|
| Net sales | 15,320 | 17,440 | 15,720 | 21,460 | 23,770 |
| EBITDA | 915 | 999 | 971 | 1,400 | 1,850 |
| EBITDA (%) | 6.0 | 5.7 | 6.2 | 6.5 | 7.8 |
| Net Profit | (19) | 5 | 161 | 371 | 550 |
| EPS (Rs) | NA | NA | 3.5 | 8.3 | 12.0 |
| Mktcap/sales (x) | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| PE (x) | NA | 280 | 40.0 | 16.8 | 11.7 |
| EV/EBITDA (x) | 11.5 | 10.6 | - | 7.6 | 5.7 |

*Source: Company, ASK Raymond James. Note: Valuations as of 9 February 2007.*

## Rating Structure

Our Equity Rating Structure is based on Absolute Valuations– based on a Discounted Cash-Flow (DCF) Model, though we also look at PE, EV/EBITDA and other related valuation metrics. Our implicit belief is that stock prices tend to approximate, at one time or another, their true value based on future cash flows, if these estimates materialize.

Our Rating Structure is based on the following levels of expected Absolute Returns:

| Rating | Target Price *(if the value exceeds the Current Market Price)* |
|---|---|
| **Buy** | by more than 14% |
| **Hold** | by 6% to 14% |
| **Sell** | is below 6% |

The Percentage Bands are based on the current Risk-free Rate (RFR) of 6% and the Equity Risk Premium of 8% which are empirically observed in India's Debt and Equity markets. Therefore, for a **'BUY'** recommendation on Indian equities, the minimum under-valuation or expected return in absolute terms must be greater than 14% to compensate for the market risk of equities. Similarly, we think that for a **'HOLD'** recommendation, the minimum under-valuation or expected return must be at least equivalent to the risk-free rate and, ideally, much higher. But if the expected return is below even the risk-free rate or if the stock is over-valued, implying a negative absolute return, then the stock under consideration is a clear **'SELL'.**


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