

**December 13, 2007**
**FOR PRIVATE CIRCULATION**

Equity				
12 Dec 07	% Chg			
	1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>				
Sensex	20,376	0.4	7.0	30.5
Nifty	6,159	1.0	8.1	36.0
Banking	11,712	(0.6)	11.1	44.9
IT	3,964	0.4	12.1	11.3
Healthcare	4,174	2.8	8.4	13.0
FMCG	2,190	0.9	5.8	5.7
PSU	10,246	1.6	1.2	38.5
CNX Midcap	8,840	1.9	18.6	39.5
<b>World indices</b>				
Nasdaq	2,671	0.7	(0.1)	2.7
Nikkei	15,932	(0.7)	4.1	(0.5)
Hangseng	28,521	(2.4)	2.4	16.1

Value traded (Rs cr)		
12 Dec 07	% Chg - 1 Day	
Cash BSE	9,024	17.7
Cash NSE	22,289	19.0
Derivatives	71,385	20.1

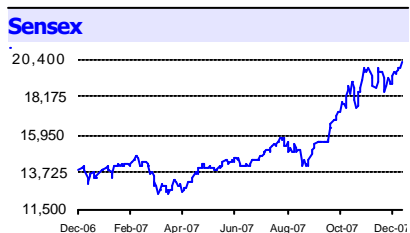
Net inflows (Rs cr)				
11 Dec 07	% Chg	MTD	YTD	
FII	690	130	3,033	70,089
Mutual Fund	308	(214)	429	3,324

FII open interest (Rs cr)		
11 Dec 07	% chg	
FII Index Futures	18,720	4.8
FII Index Options	8,040	1.5
FII Stock Futures	51,775	4.1
FII Stock Options	110	0.6

Advances/Declines (BSE)					
12 Dec 07	A	B1	B2	Total	% Total
Advances	147	530	775	1,452	74
Declines	67	222	198	487	25
Unchanged	2	6	12	20	1

Commodity				
12 Dec 07	% Chg			
	1 Day	1 Mth	3 Mths	
Crude (NYMEX) (US\$/BBL)	94.0	(0.5)	3.0	17.3
Gold (US\$/OZ)	813.5	2.1	1.1	14.5
Silver (US\$/OZ)	14.7	1.5	0.2	17.1

Debt/forex market				
12 Dec 07	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.87	7.88	7.91	7.89
Re/US\$	39.38	39.34	39.35	40.43



Source: Bloomberg

## ECONOMY NEWS

- The Government is evaluating a proposal to reduce corporate tax rates, according to revenue department officials. One option is to slash the statutory rate, which is now 30% to close to 26%, while retaining the surcharge and education cess. (ET)
- Belying expectations of a slowdown, manufacturing-led industrial growth (IIP) leapfrogged to 11.8% in October from 4.5% a year ago. Enthused by the growth, the Finance Minister has described the industrial outlook as 'encouraging'. (BL)
- The Communications Minister has ruled out auctioning of 2G spectrum to new players to maintain a level playing field between new and existing service providers. The Prime Minister has assured telecom players that spectrum will be vacated for the industry soon. (BL, BS)

## CORPORATE NEWS

- Eton Park, the US-based global multi-strategy investment organization, has bought 5% stake in Reliance Capital Asset Management, the wholly-owned mutual fund arm of **Reliance Capital**, for Rs.5.01 bn. (BS)
- **SBI** has reduced interest rates on domestic term deposits of less than one year by 0.25 percentage point. SBI's proposed rights issue is expected to hit the market during the fourth quarter of the current financial year, he added. (BL)
- **ONGC Videsh** is hopeful of receiving an offer from Iran for a stake in Yadavaran oil and gas field on the back of an agreement inked between Iran and China's Sinopec for development of the field. (BL)
- **Ashok Leyland** has made its entry into the multi-axle vehicle segment with the launch of its 3121 H (8x2) truck. (BL)
- **Videocon Industries** is putting in a fresh bid early next week for acquiring Daewoo Electronics, the ailing Korean company. (ET)
- German auto maker Daimler Trucks has zeroed in on the Munjals of **Hero Honda** for a joint venture to make commercial vehicles in India. The announcement is expected before Christmas. (BS)
- **Punj Lloyd** has won a Rs.5.9-bn contract for building delayed coker unit and coker LPG Merox Block for the residue upgradation project of Indian Oil Corporation at its Vadodara refinery in Gujarat. (BS)
- **Petronet LNG** has said it is looking for a strategic partner willing to ship LPG for no more than \$7.25 per mn British thermal units, in line with a domestic pricing benchmark. (ET)
- **Power Grid Corporation India** has opted out of the race for operating Philippines' National Transmission Corp, the license to run which has been bagged by a consortium led by State Grid of China. (BL)
- Securities Appellate Tribunal has dismissed the stay against delisting of **Essar Steel** after the complaint against the move was withdrawn. Essar officials said the stock is expected to be suspended from trading effective December 14 and delisted on December 21. (BS)
- **Cairn India's** much touted Rajasthan oil finds face risk of production delays as the Government has further put-off a decision on its proposal to claim cost recovery for a \$700-mn pipeline needed to evacuate crude oil. (BS)
- **Aztecsoft** has said it has opened a 1,500-seater development facility at Hinjewadi near Pune, at an investment of Rs.400 mn. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### SECTOR REPORT

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#### Companies covered

- Vishal Retail
- Shoppers Stop

## RETAIL - Time to get organized

With only about 3% share in an estimated \$320-bn Indian retail industry, we see significant growth potential in the organized retail segment in India. The expected growth in income levels, easy availability of credit, increasing urbanization and favorable demographic conditions are expected to put the Indian organized retail industry on a rapid growth path. We expect a CAGR of 26% for this industry over the next four years and have a positive view on the sector. We initiate coverage on Vishal Retail with a BUY rating and a price target of Rs.861. We also initiate coverage on Shoppers Stop with a REDUCE recommendation with a target price of Rs.490, due to valuations.

### Key investment rationale

□ **Low penetration provides growth potential.** According to Crisil, the total size of the retail industry in India is about US\$320 bn, of which only 3-4% is organized. This provides significant potential for growth, in our opinion. Over the next few years, penetration levels of organized retail are expected to double and reach approximately 9% of the total retail industry by 2011.

□ **Favorable Demographics.** India has the youngest population in the world, with more than 50% of the population under the age of 25 according to E&Y. This population is the consuming population and is the one with demanding lifestyles. Thus, this is one of the key markets for retailers. We expect this to support growth of the organized retailing industry in India in the years to come.

Also, growth in urbanization is key for retailers to succeed as currently nearly 85% of the organized retail market is concentrated in India's eight largest cities. The population of urban areas is expected to touch 550 mn in 2021 as compared to 376 mn (Source: Government of India) currently.

□ **Rising income & consumption patterns to spur growth.** With the economy on an upswing, income levels and consumption patterns of the Indian consumer are changing. The number of high income households has been growing at 20% year on year since 1995-96 and by 2010, 35% of socio economic classes A&B are expected to be double income homes, hence increasing their spending capacity. Spending by Indian consumers is already 12% higher in the current year as compared to the whole of the last year. They are expected to spend 42% more in the current year as compared to what they spent last year.

Also, with increase in income levels the spending on lifestyle products increases, which is expected to fuel the growth of these formats in the retail industry.

**We initiate coverage on Vishal Retail with a BUY rating and a price target of Rs.861. We also initiate coverage on Shoppers Stop with a REDUCE recommendation with a target price of Rs.490.**

### Risks & concerns

- Opposition from the unorganized sector and change in Government regulations.
- Slowdown in the economy and change in consumption patterns of the population

### Peer Comparison based on FY09 earnings

Company	Price (Rs)	EPS (Rs)	P/E (x)	EV/ EBITDA	ROE (%)	EBITDA mgn (%)	NPM (%)	Target (Rs)
Shoppers' Stop	492	7.7	63.9	19.0	8.5	6.0	1.6	490
Vishal	740	34.3	21.6	11.1	25.0	10.7	4.3	861

Source: Kotak Securities - Private Client Research

**Stockdetails**

BSE code	: 532638
NSE code	: SHOPERSTOP
Market cap (Rsm)	: 17146
Free float (%)	: 33.84
52-wk Hi/Lo (Rs)	: 777/441
Avg. daily volume (m)	: 3487
Shares o/s (m)	: 34.85

**Summary table - Standalone**

Rs mn	FY07	FY08E	FY09E
Sales	8,995	12,772	16,674
Growth %	32.8	42.0	30.6
EBITDA	674	715	1,004
EBITDA margin %	7.49	5.60	6.02
Net profit	261	197	268
Net cash (debt)	(137)	(488)	(1,698)
EPS (Rs)	7.6	5.7	7.7
Growth %	(3.5)	(24.5)	35.9
CEPS	15.0	16.9	23.2
DPS (Rs)	1.5	1.1	1.5
ROE %	9.2	6.6	8.5
ROCE %	11.9	9.8	11.8
EV/Sales (x)	2.0	1.4	1.1
EV/EBITDA (x)	26.9	25.6	19.0
P/E (x)	64.9	86.9	63.9
P/Cash Earnings	32.8	29.2	21.2
P/BV (x)	5.8	5.6	5.3

Source: Company, Kotak Securities - Private Client Research

**SHOPPERS' STOP****PRICE : Rs.492****TARGET PRICE : Rs.490****RECOMMENDATION : REDUCE****FY09E PE : 63.9x**

Shoppers' Stop is a leading player in the lifestyle apparel segment. Shoppers' Stop operates 1.17 mn sq ft of space across formats such as Shoppers' Stop, Home Stop, Crossword, Café Brio, MAC and Mothercare.

The company is on an expansion mode. We estimate that an increase in capacity by 89% should result in revenues growing at a CAGR of 36% between FY 07 and FY09. Profits are expected to be stagnant at Rs.268 mn in FY09 viz-a-viz F07. EBITDA margins are seen moving downwards from 7.5% to 6.0% between FY07 and FY09. Consequently, EPS is expected to be Rs.5.7 and Rs.7.7 in FY08 and FY09, respectively.

The main reason for the contracting margins and stagnant profit is that the company is on an expansion mode and is setting up new stores and new formats. These new stores take about three to five quarters to break even. Since some of the formats are new, they will be biting into the margins until they gain some scale.

We value the standalone business at Rs.440 using the DCF methodology. We have valued the Hypercity stake at Rs.50 (0.72x Sales), giving it a discount to Pantaloons, India's largest player in the value retail segment. Thus, our sum-of-the-parts valuation gives us a 12-month target price of Rs.490.

**Stockdetails**

BSE code	: 532867
NSE code	: VISHALRET
Market cap (Rsm)	: 16569
Free float (%)	: 36.07
52-wk Hi/Lo (Rs)	: 815/423
Avg. daily volume (m)	: 29802
Shares o/s (m)	: 22.39

**Summary table**

(Rs mn)	FY07	FY08E	FY09E
Sales	6,027	10,589	17,853
Growth %	108.9	75.7	68.6
EBITDA	670	1,240	1,916
EBITDA margin %	11.1	11.7	10.7
PBT	393	693	1,147
Growth (%)	110.0	76.5	65.4
Net profit	250	465	768
Growth (%)	100.3	85.9	65.4
EPS (Rs)	11.2	20.7	34.3
Net cash (debt)	(2,281)	(2,954)	(4,347)
ROE %	25.0	23.1	25.0
ROCE %	21.6	19.8	21.8
Operating Cash Flow	(1,008)	140	736
Net W Capital (Days)	150.5	123.6	97.4
P/E (x)	66.3	35.7	21.6
P/BV (x)	13.1	6.0	4.9
DPS (Rs)	0.0	3.1	5.1
EV/Sales (x)	3.2	1.9	1.2
EV/EBITDA (x)	28.4	16.2	11.1

Source: Company, Kotak Securities - Private Client Research

**VISHAL RETAIL****PRICE : Rs.740****TARGET PRICE : Rs.861****RECOMMENDATION : BUY****FY09E PE : 21.6x**

Vishal Retail is a leading player in the value retailing segment in Tier-II and Tier-III cities. Vishal retail operates 1.26 mn square feet of space with majority of its stores located in Tier-II and Tier-III cities. Vishal plans to expand its retail space to 2.1 mn sq ft in FY08 and to 3.1 mn sq ft in FY09.

We are positive on the prospects of Vishal Retail as it has a strong foothold in the cities that it is present in. Its margins are also high as most of the products sold are in-house brands. We expect the revenues to grow at a CAGR of 72% between FY07 and FY09 and PAT to grow at a CAGR of 76% over the same period.

We value the company on a P/E multiple basis. We accord a PE multiple of 25x to our FY09E earnings. This is at a discount to Pantaloons which is India's largest retailer and leader in the hypermarket segment. We recommend a **BUY** on Vishal Retail with a 12-month price target of Rs.861.

This 10% discount to Pantaloon is because Pantaloon is the leader in the hyper market segment and due to the relatively smaller size of Vishal Retail.

## COMPANY UPDATE

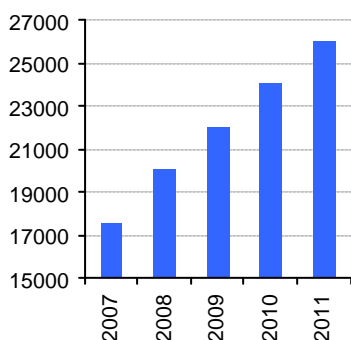
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## Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	79,857	131,550	193,192
Growth (%)	107.9	64.7	46.9
EBITDA	12,958	20,205	31,994
EBITDA margin (%)	16.2	15.4	16.6
Net profit (Adj)	10,001	12,636	19,111
EPS (Rs)	30.1	45.2	74.5
Growth (%)	13.7	50.2	64.9
CEPS	36	53.3	86.1
ROE (%)	28.9	33.8	39.7
ROCE %	19.3	18.4	22.5
EV/Sales (x)	7.7	4.8	3.4
EV/EBITDA (x)	47.3	31.4	20.3
P/E (x)	66.8	44.5	27.0
P/Cash Earnings	55.8	37.7	23.4
P/BV (x)	19.3	14.0	9.5

Source: Company & Kotak Securities - Private Client Research

## Global wind power capacity addition (MW)



Source: Company, Kotak Securities - Private Client Research

## SUZLON ENERGY

PRICE : Rs.2010  
 TARGET PRICE : Rs.2281

RECOMMENDATION : BUY  
 FY09E PE : 27x

- Hansen has completed its IPO on the LSE with an offer price of £1.75 per share, implying a market cap of £1.14 bn.
- The proceeds are to be used to fund ongoing capex on forgings, foundry and gear box facilities in India and China.
- We are raising our target price to Rs.2281 and maintain BUY.

## Hansen has a strong debut on LSE

As indicated by Suzlon in its Q2FY08 briefing, Hansen has completed the formalities for listing on the LSE. The final share price for the IPO has been fixed at £1.75 per share. Post listing, Hansen's share has been trading at GBP 2.4 per share, which reflects a total market capitalisation of GBP 1.6 billion, or Rs 129.9 bn.

## Proceeds of €400 mn to be utilized to fund ongoing capex

Suzlon has current debt equity ratio of 1.6x and has a net debt of Rs.6.56 bn. Over the next 12-18 months, the company's fund requirements are likely to remain high on account of capex of Rs.26.9 bn towards capacity expansions as tabulated below. Additionally, over the next 18 months, Suzlon has to purchase stake of Areva and Martifer in REpower. The cost of purchase of Areva (likely in June-July 2008) and Martifer (likely in June/July 2009) works out to Rs.39 bn at the current price of REpower.

## Fund requirement

Location	Capex (Rs mn)	Date of commissioning	Capacity
Foundry at Coimbatore	11000	Q1 FY09	120000 tons
Forging at Vadodara		Q2 FY09	70000 ton
Integrated turbine mfg plant at karnataka	15000	Q1-Q3 FY09	3000 MW
<b>Total capex</b>	<b>26000</b>		

Source: Company

## Global demand environment remains strong for wind gearbox manufacturers

Hansen supplies gearboxes to Vestas, Gamesa and Siemens, some of the largest wind turbine manufacturers globally. The market for wind-mill gear boxes remains tight due to supply constraints at the component level.

Given the healthy pace of development of wind power, Suzlon plans to increase Hansen's current wind mill gearbox capacity of 3800 MW to 14300 MW over the next five years. It plans to build plants in India and China. Moreover, there exists strong potential for labor cost arbitrage as employee cost to sales at Lommel Belgium is more than 20%.

## Further fund raising likely in near future

Suzlon has taken approval to raise Rs.50 bn through equity/quasi equity instruments. Out of this, it has already got Rs.20 bn through FCCB. The company may raise the balance amount in the coming months.

The proceeds of the issue are likely to be utilized for acquisition of stake in REpower. The company may acquire Areva's stake of 30.9% in the next year. While the purchase price of Areva's stake is firmed up, we estimate that at current price of REpower, the cost works out to Rs.22.8 bn.

**We recommend BUY on Suzlon Energy with a price target of Rs.2281**

**We maintain a BUY with an enhanced price target of Rs.2281**

Post the listing of Hansen, we have valued Suzlon on a sum-of-the-parts basis. Our target EV/EBITDA multiple for Suzlon's pure wind mill business is based on current FY09 EV/EBITDA for Bhel.

### Sum of the parts

	(Rs mn)
Target EV/EBITDA (X) for pure wind mill business	19
EBITDA in FY09	30,763
EV	584,498
Net Debt	65,640
Implied fair value of pure wind mill business	518,858
Value of Suzlon's stake in Hansen at current market price of GBP 2.5	99,261
Value of Suzlon's stake in Repower at current market price	24,878
Total Fair Value	642,997
FV per share	2,233

Source: Kotak Securities - Private Client Research

### Global valuations

	2 Yr EPS CAGR (%)	PE (x)		EV/EBITDA (x) FY09
		2008	2009	
Gamesa	18.9	32	26.3	14.7
Vestas	52.7	54	29.7	15.7
Nordex	45.2	53.7	32	21.1
Suzlon	43.6	44.5	27.0	20.3

Source: Bloomberg

### Risks

- **Regulatory risk:** The decrease in or elimination of government incentives to renewable energy sources, and in particular to wind energy, may have an adverse effect on the demand for wind power development.
- The PTC or production tax credit is expected to expire in the US at the end of CY08. The production tax credit (PTC) provides a 1.9-cent per kilowatt-hour (kWh) benefit for the first ten years of a renewable energy facility's operation. This PTC has been extended twice in the past. However, any adverse development on this front could be a setback for wind power in the US.

## Bulk deals

### Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
12-Dec	Aditya Forge	Dinesh Ranchhoddas Kapadia	B	25,000	13.98
12-Dec	Ankit Metal	Sophia Growth A Class Of Somerset India Fund	B	700,000	75.00
12-Dec	Ansal Hsg Cn	Akruti Trade Finvest	B	95,000	250.15
12-Dec	Ansal Hsg Cn	The Indiaman Fund Mauritius	B	250,000	250.10
12-Dec	Ansal Hsg Cn	Beach Financial Sev	S	500,000	251.12
12-Dec	Birla Cap	Pradeep Bhat	B	123,500	10.83
12-Dec	Cals Limited	Taib Sec Mauritius	S	30,000	56.20
12-Dec	Choksi Labor	Dheeraj Kumar	S	40,459	20.73
12-Dec	Comp-U-Learn	Srinivasa Rao D	S	301,500	7.72
12-Dec	Edelweiss Ca	FID Fund Mauritius	B	564,276	1,534.57
12-Dec	Empower Inds	Dewang D Master	S	207,726	21.50
12-Dec	Ferro Allo C	Cornell Corporation	S	2,000,000	34.61
12-Dec	G V Films Lt	BNP Paribas Arbitage	S	4,081,161	8.13
12-Dec	Garnet Const	Anagha Investment	B	50,000	74.22
12-Dec	Gemini Commu	Ayodhyapati Investment	B	60,016	216.60
12-Dec	Gemstone Inv	Prem Mohanlal Parikh	B	45,000	25.53
12-Dec	Gopala Polyp	IDBI Ltd	S	80,000	6.01
12-Dec	HaryaCapfin	Kotak PMS	S	50,000	77.75
12-Dec	HFCL Infotel	Landmark Capital Markets	S	100,000	50.30
12-Dec	Hindus Dor O	Pacific Corporate Services	B	193,813	172.00
12-Dec	Infomedia	Meridian Investments	S	103,446	270.03
12-Dec	Jyoti Res Ad	Anjali Agrawal	S	20,000	5.23
12-Dec	K Sera Sera	Oudh Finance Investment	B	145,720	35.05
12-Dec	Kalpna Indu	JM Financial Mutual Fund Ac Equity Tax Saver	B	200,000	142.45
12-Dec	Kirti Finves	Enca Finlease	S	391,950	0.94
12-Dec	Lok Housi Co	Macquarie Bank	B	110,762	344.54
12-Dec	Mangalam Cem	SBI Mut Fund Magnum Mcap Fund	B	500,000	191.50
12-Dec	Mangalam Cem	Lloyd George Inv Mgmt Lg India	S	406,382	191.51
12-Dec	Marg Constru	Deutsche Securities Mauritius	S	175,000	457.30
12-Dec	Mh Mills & I	Rachnaben Janakbhai Parikh	S	40,000	15.83
12-Dec	Nexsoft Info	Manoj H.Mehta	S	51,050	29.35
12-Dec	Nouvea Multi	Ind Associates	S	40,000	34.95
12-Dec	Parekh Alum	Beejay Inv and Fin Cons	S	38,498	274.20
12-Dec	RFL Internat	Lakhmichand T Bhatia	S	93,084	1.08
12-Dec	Rish Digh St	BDS Share Brokers	B	31,503	19.72
12-Dec	Sarang Chemi	Urmilaben M Dave	S	29,626	7.32
12-Dec	Sh Bhaw Pa M	Ramesh Mithubhai Shah	S	25,000	14.08
12-Dec	Shloka Info	Manish Kumar Gilada	B	19,451	26.25
12-Dec	Spectra Indu	Vishu Enterprise	S	36,000	23.00
12-Dec	Super Crop S	Mukesh B Chokshi	S	32,350	8.33
12-Dec	Syncom Formu	Piush Avlani HUF	S	51,568	57.00
12-Dec	Syncom Formu	Ketan H. Doshi HUF	S	77,812	57.00
12-Dec	Systel Infot	Mukesh Hiralal Doctaria	S	210,225	0.59
12-Dec	Tutis Tech	Asmah Shares and Stock Brokers	B	87,650	31.33
12-Dec	White Lion A	Pradeep Bhat	S	23,302	12.85
12-Dec	White Lion A	Logic Infotech	S	25,000	12.81

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
NTPC	251	3.1	10.9	10.0
Reliance Com	768	3.5	9.4	7.2
HDFC	3,112	5.7	8.2	1.1
<b>Losers</b>				
Infosys	1,686	(3.4)	(5.8)	1.5
ICICI Bank	1,290	(1.9)	(4.7)	2.5
BHEL	2,648	(0.8)	(1.9)	1.0

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
13-Dec	Kolte-Patil Developers listing on BSE & NSE; Manaksia holds press meet to discuss on IPO
14-Dec	MRF to announce earnings and final dividend; Initial Public Offer of Aries Agro opens
17-Dec	Public Offer of Porwal Auto Components and Manaksia Ltd opens

Source: Bloomberg

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