

December 14, 2007

FOR PRIVATE CIRCULATION

Equity

	13 Dec 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	20,104	(1.3)	0.9	28.8
Nifty	6,058	(1.6)	2.0	34.1
Banking	11,495	(1.9)	1.7	41.3
IT	3,880	(2.1)	5.6	9.9
Healthcare	4,202	0.7	7.5	14.6
FMCG	2,232	1.9	6.2	7.7
PSU	10,083	(1.6)	(4.0)	38.1
CNX Midcap	8,866	0.3	15.3	41.2
World indices				
Nasdaq	2,668	(0.1)	0.9	2.5
Nikkei	15,537	(2.5)	0.5	(3.4)
Hangseng	27,744	(2.7)	(5.2)	11.6

Value traded (Rs cr)

	13 Dec 07	% Chg - 1 Day
Cash BSE	9,024	17.7
Cash NSE	21,779	(2.3)
Derivatives	70,156.5	(1.7)

Net inflows (Rs cr)

	12 Dec 07	% Chg	MTD	YTD
FII (11 Dec)	690	130	3,033	70,089
Mutual Fund	37	(88)	466	3,361

FII open interest (Rs cr)

	12 Dec 07	% chg
FII Index Futures	18,523	(1.1)
FII Index Options	8,425	4.8
FII Stock Futures	51,646	(0.2)
FII Stock Options	107	(2.7)

Advances/Declines (BSE)

	13 Dec 07	A	B1	B2	Total	% Total
Advances	76	404	713	1,193	61	
Declines	142	349	258	749	38	
Unchanged	-	4	13	17	1	

Commodity

	13 Dec 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	92.4	0.2	(1.8)	16.9
Gold (US\$/OZ)	797.6	(1.9)	(1.2)	13.3
Silver (US\$/OZ)	14.1	(4.0)	(5.2)	13.0

Debt/forex market

	13 Dec 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.86	7.87	7.88	7.87
Re/US\$	39.41	39.38	39.44	40.44

Sensex



Source: Bloomberg

ECONOMY NEWS

- The Government is set to fix a one-time spectrum fee for all new players who plan to offer 2G mobile services in India. This start-up fee will be in addition to the entry fee that all new entrants have to pay for a pan-India license. (ET)
- RBI Governor YV Reddy has said the US Fed rate cut was relevant to Indian monetary policy but not a determining factor. (BS)
- The Union Finance Ministry has written to DoT asking it to 'stay' the implementation of the grant of crossover licenses for CDMA operators to commence GSM operations. (BL)
- The Government is planning to offer up to 51% stake in the Delhi-Mumbai Industrial Corridor Development Corp to financial investors. (ET)
- India expects to attract at least \$4 bn of investment in oil and gas hunt in the seventh round of auction of acreage under New Exploration Licensing Policy. (BL)
- India will soon allow 100% FDI for setting up industrial parks as part of an overarching and progressive review of its FDI policy. (ET)
- The Government has allowed Postal Life Insurance Fund and Rural Postal Life Insurance Fund to enter the markets through investments in public sector mutual funds. (ET)

CORPORATE NEWS

- **RIL** plans to spend \$24 bn over the next ten years in setting up petrochemicals projects in West Asia, CMD Mukesh Ambani has said. (BL)
- **ONGC** is believed to have approached global oil firms seeking an ultra deepwater rig for drilling well UD-1 in the Krishna Godavari basin block KG-DWN/98-2. (ET)
- The total investment by **Tata Motors** and its vendors in the Rs.1 lakh car project is Rs.37 bn. The West Bengal government has disclosed that the investment in the vendor park would be around Rs.22 bn. (BS)
- **Bhel** has bagged a Rs.1.21 bn contract from **BPCL** for supplying compressor packages for its Kochi Refinery. (BS)
- **Videocon Industries** is spinning off its myriad energy businesses stretching from coal fields in Indonesia to oil and gas blocks in Brazil into a separate company in an attempt to help investors value them better. (ET)
- Hero Motors, a part of the **Hero Group**, has inked a joint venture deal with Japan's Sumitomo Corporation to manufacture disc brakes for four wheelers, which will have an enterprise value of Rs.2.4 bn. (BS)
- Suzlon Gujarat Wind Park Ltd, a wholly-owned subsidiary of **Suzlon Energy**, has signed an MoU with state-owned Punjab Energy Development Agency to set up 100 MW wind energy projects in Punjab, involving an outlay of Rs.5 bn. (BL)
- **Lanco Infratech** has secured a mandate for supply of 390 MW of power to Haryana and 600 MW to Madhya Pradesh. (BL)
- **Rajesh Exports** has said the company has bagged its maiden branded diamond jewelry order, worth Rs.1.16 bn, from Excel Goldsmiths of Sharjah. (BL)
- **Finolex Cables** has entered into a JV with the \$660-mn J-Power Systems to manufacture very high voltage power cables and offer complete turnkey solutions in extra high voltage cable systems in India and abroad. (ET)
- **Praj Industries** has said it has formed a JV with Brazil's Jaragua Equipamentos Industriais Ltda. Praj will hold 54% in the venture with the Brazilian firm holding the remaining stake. (BL)

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

MANAGEMENT MEET UPDATE

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We recommend a **HOLD** on UTV Software with a price target of **Rs.945**

UTV SOFTWARE LTD.

PRICE : **Rs.979**

TARGET PRICE : **Rs.945**

RECOMMENDATION : **HOLD**

FY09E PE : **28x**

The steep run up in the stock factors in the estimated strong earnings growth and some speculation. We recommend **HOLD** with a price target of **Rs.945**. We see possible share price upsides from potential 'value unlocking' as UTV raises capital in its broadcasting business in the medium term. We see longer term valuation triggers in the nascent gaming business.

We upgrade our earnings to reflect traction in the business and a strong release pipeline in H2FY08. We also assume consolidation of Indiagames in Interactive segment.

We remain positive on the growth prospects of UTV's integrated business model. We would though prefer a better risk-reward ratio.

We reiterate that execution across different verticals - movies, TV content, broadcasting, new media will be key for sustaining valuations.

- During the course of a recent analyst interaction, UTV's top management outlined the progress and prospects of its four verticals - movie production, TV content, interactive and broadcasting.
- UTV plans to raise Rs.3 bn; Rs.2 bn for its broadcasting venture and the remaining for its gaming business. For this it is looking at selling stakes in its broadcast company and also the company level, respectively. It is reportedly in talks with strategic and financial investors for this fund raising activity.
- There has been speculation about UTV's fund raising plans and also on current investors increasing stake (Walt Disney at 14.9%) and gaining possible management control. The management has stated that the promoter group will look to maintain its holding (c31%) post the current round of funding.
- The management also refuted newspaper articles mentioning a stake sale in the listed company to the Future group at a significant premium to the current price.

Financials

- We estimate revenues and profits of Rs.4.3 bn and Rs.592 mn in FY08, going up to a further Rs.6.3 bn and Rs.878 mn in FY09E, an EPS CAGR of 63% over FY07-09E. These are expected to translate into an EPS of Rs.24 (Rs.23 earlier) and Rs.35.4 (Rs.32.5 earlier) in FY08 and FY09E, respectively.
- The management has guided for revenues of Rs.4-4.5 bn in FY08 and profits of Rs.800 mn (before MI) for FY08. Our estimates are lower than guidance as we prefer to be conservative in our projections for the movie segment given the volatile nature of the business.

Valuations

- In our financials, we have projected strong earnings growth for the company driven by ramp up in movies, content and the gaming businesses. We have modified our SoTP price target to Rs.945 as we roll forward our valuation base and incorporate greater contribution from the movie production and gaming business.
- We now attribute higher valuations to Ignition (part of Interactive segment) as we believe that current earnings do not possibly reflect the potential earnings upside from the game 'Wardevil', which will be launched in Q4FY09 and is not reflected in our current estimates. Also, we factor in consolidation of IG in estimates

- We have made changes to our price target on account of greater traction in the movies segment (regional releases have been good grossers) coupled with more visibility regarding segment profitability post tactical pre selling of certain projects. We have also rolled forward our valuation base in segmental valuation.
- We have assigned a higher multiple for the movie business (17x), noting the strong growth (movie revenues expected at Rs.1.8 bn in FY08 and Rs.2.9 bn in FY09 v/s the Rs.720 mn in FY07) and improved profitability. Growth rates across segments for the company are at top end of global peers and expected EBITDA CAGR is above 50% across segments. Global peer multiple for movie production is 18x.
- We opine that UTV will likely enjoy high valuations given its unique positioning as an end-to-end integrated media company in addition to the high growth rates estimated in its target segments. It will also likely enjoy a scarcity premium on account of a lack of identical comparables. Our target price of Rs.945 would imply a multiple of 27x FY09E earnings for the stock.
- Key upside triggers to our target valuations will be any tie-ups with Walt Disney for animation motion picture co-production, gaming, TV content etc and/or stake sales to a financial/strategic partner at valuations higher than existing.

Recommendation

- At the current price levels the stock is trading at 28x our FY09E earnings and c4% above our estimated fair value. The current price levels factor in most of the earnings upsides in the medium term, in our opinion.
- The stock has also run up sharply and returned 6x since our initiation in Q2FY07 and a high 40% in the last two weeks. Given the steep stock run-up and ample valuations, we opine shorter term investors should pare positions in the counter.
- Longer term investors though can remain invested given the potential we see in effective execution of UTV's gaming business (IP owned 'Wardevil' to release in Q4FY09) and a faster and more profitable scale up in movie business.
- Valuation upsides from stake sales at higher than estimated valuations and corporate action in the form of share issue to existing/new investors at significant premium to market price may also likely support the stock price, if they materialize.
- We recommend a HOLD on the stock despite the lower target price on account of the reasons elucidated above. We like UTV's integrated business model but would await a better risk-reward ratio on account of our concerns on near term valuations.
- Greater details on UTV's possibly high valuation potential gaming business and more clarity on movie slate for FY09-10E can also lead to recommendation/price target upgrades.
- We also believe greater clarity on broadcasting business' valuation can be incorporated in our fair value only as the listed company's exact ownership of it becomes clear. We have assumed 50% ownership of the broadcasting company with the listed entity currently.

Concerns- broadcasting losses, early tie-up of financing for BCS

- We are cautious on UTV's broadcasting foray and believe it will pare overall profits in the medium term but also opine capital raising for the same could provide value unlocking opportunities for minority shareholders.
- Also, any delay in tying up financing for the broadcasting venture could end up straining cash flows generated by the other profitable segments of business.
- We note that efficient execution of its new initiatives and capturing the opportunity space would remain the key to sustaining valuations.
- Details on broadcasting foray (initial losses to be significant), modes of capital raising in the different businesses will be issues to watch out for going forward.

UTV- an integrated media model; segments with high valuation potential

- UTV over the period of our coverage has built an encompassing media model straddling movies, gaming, animation, TV content and now broadcasting. It has also managed to scale up its movie business significantly through a slew of prestigious projects domestically and internationally.
- The AIM listing valued UTV's movie business at \$313 mn (raised \$70 mn), where the listed company has 77% stake has helped fund capital requirement.
- UTV is also looking to raise capital for its broadcasting business where it plans to launch another four to five channels in addition to the recently launched two. UTV plans to invest Rs.4.5 bn, of which close to Rs.2 bn it hopes to mop up through stake sales.
- UTV through its acquisitions of Ignition and Indiagames (IG) has entered the gaming segment. Ignition owns the IP of the game 'Wardevil' that is currently under development. It is looking to route the product through the PS3 platform and is targeting a Q4FY09 release. Ignition has incurred development costs of \$18mn for 'Wardevil'.
- In addition to Wardevil, Ignition is developing 'Reich' and 'Angelic' due for release in Q1 and Q3FY10, respectively. For these projects Ignition has outlined development costs of \$8 mn and \$15 mn, respectively.
- Globally gaming companies are valued richly at 25-30x forward earnings; we opine efficient execution of the gaming property can create significant value for UTV shareholders. We opine UTV's management will look to unlock value in this business at an opportune time as the business gains scale.
- At this point though we believe the business needs to scale up and more comfort on revenue visibility before we attribute higher value to the Interactive segment.

Financials: A strong 2H'08 expected.

We expect UTV to report a stronger 2HFY08 on the back of:

- (1) Strong movie pipeline of eight releases, including high profile releases with noted directors like Ashutosh Gowariker. UTV has already pre-sold rights of its production release this quarter-'Welcome'. UTV plans to self distribute its major release 'Jodha Akbar' slated for Q4FY08 produced at a budget of Rs.400 mn.
- (2) Monetization of past Hollywood movies in the movie segment.
- (3) New game launches in Q4FY08 and also the consolidation of Indiagames in the Interactive segment.

Broadcasting: Ambitious proposal to launch multiple TV channels in various genres; will burn financials initially. Initial launches off to a sober start.

We estimate the company will have significant funding requirement in the broadcasting segment- Rs.9 bn over three years. We also opine that given the investments going into the channels and their break-even time frames (two to three years); the broadcasting segment will be a drag on the consolidated company's financials.

UTV has launched two channels in the recent past; both have got off to a sober start in terms of popularity ratings. Management indicated that in the 4 m since launch the channels have clocked close to Rs.70-80 mn of ad revenues and a run rate of close to Rs.9 mn per month of pay revenues. Each of the channels pays close to Rs.180 mn of carriage fees per annum, according to the management.

UTV is looking at launching a world movies channel, Hindi movie channel in addition to possibly a business news channel in the medium term. It has also ramped up management bandwidth for its BCS and gaming ventures by adding personnel from the industry.

We believe the segment will burn significant cash in FY09 and await greater visibility to factor in its impact on consolidated FY09 financials.

Broadcasting			
Company	UTV Broadcasting Ltd's stake	Genre	
Gen X Entertainment	50%	Youth- Bindass	
XXX	20%	Possibly business news	
V & S Broadcasting	90%	Variety & Specialty- ex. 'Olive'	

Source: Company

Future Prospects: Excluding broadcasting financials in FY08-09E					
(Rs mn)	FY07*	FY08E**	% chg	FY09E**	% chg
Revenues	1743.4	4318.5	147.7	6316.5	46.3
Expenditure	1636.6	3468.7		4988.7	
EBDITA	106.8	849.8	696.0	1327.8	56.2
Depreciation	31.3	71.4		113.0	
EBIT	75.5	778.4	931.6	1214.8	56.1
Net Interest	16.1	53.1		53.0	
Other Income	23.7	63.7		60.0	
PBT	115.3	789.0	584.6	1221.8	54.9
Tax	7.0	87.9		224.2	
Deferred tax	6.1	2.2		0.0	
PAT	102.2	698.9		997.6	
Minority Int	0.0	106.1		120.0	
PAT after M I	102.2	592.7		877.6	
EO items*	436.0	0.0		0.0	
PAT after EO items	538.2	592.7	10.1	877.6	48.1
EPS (Rs)*	21.7	23.9		35.4	
OPM (%)	6.1	19.7		21.0	
GPM (%)	4.3	18.0		19.2	
NPM (%)	30.9	13.7		13.9	

Source : Company, Kotak Securities - Private Client Research

*- Inclusive of one-time capital gains of Rs.266mn in Q3FY07 and deferred tax benefit of Rs.170mn in Q4FY07

** - Inclusive of Ignition/Indiagames acquisitions

SoTP Valuation				
	EBIT (Rs mn)	EV/EBIT (x)	EV of segment, based on FY 09E	Assumption
Motion Pictures	580.5	17	9,869	EV/EBIT multiple based at premium- high growth trajectory. Diversified content slate, profitability.
Television Content	175.4	14	2,456	Growth rates to pick up as demand from own broadcasting initiatives set in.
Interactive (Incl. gaming, animation & allied services)	510.5	16	8,168	Current earnings do not factor in possible upsides from IP exploitation of high end game War Devil, expected to kick in towards late FY09.
Broadcasting		2	3,000	Valued at 3x EV/Sales, discount to other broadcasting companies.
Total EV			23,493	
No. of shares, currently			24.7	
EV/Share			945	

Source: Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
13-Dec	Allied Comp	Vaghjibhai Gagaldas Shah	B	120,000	74.40
13-Dec	Ashco Indust	Ankk Media Arts Pvt Ltd	S	148,000	38.05
13-Dec	Axon Infotec	Avinash Arvind Jagushte	S	8,665	112.98
13-Dec	Birla Cap	Chunilal C. Gada	B	50,000	11.37
13-Dec	Cat Vision P	Shalani Dhoop Pvt Ltd	B	51,348	14.88
13-Dec	Choksi Labor	Dheeraj Kumar	S	29,719	24.48
13-Dec	DMC Inter	Chintan H Haria	B	30,000	29.68
13-Dec	Empower Inds	Dewang D Master	S	70,000	22.55
13-Dec	Gemstone Inv	Bhavesh Prakash Pabari	B	15,368	25.98
13-Dec	Gopala Polyp	Ketan Prabhashankar Joshi	B	100,000	7.03
13-Dec	Gopala Polyp	IDBI Ltd	S	100,000	7.35
13-Dec	HaryaCapfin	Kotak PMS	S	55,000	95.88
13-Dec	HFCLInfotel	Landmark Capital Markets Ltd	S	100,000	52.14
13-Dec	Ind-Swift Lt	Morgan Stanley Mauritius Co Ltd	S	205,873	40.06
13-Dec	Ishit Drug I	BDS Share Brokers Pvt Ltd	S	17,950	13.20
13-Dec	Kalpana Indu	Melchior Indian Oppertunities Fund	B	200,000	149.55
13-Dec	Kalpana Indu	Citigroup Global Markets Mauritius	B	200,000	149.55
13-Dec	Kalpana Indu	Jacqua Industries and Sales Co Ltd	S	475,000	149.55
13-Dec	Kovilp Lak R	Aap Investments	B	172,000	50.19
13-Dec	Lincoln Phar	Unichem Dyes Drugs Pvt Ltd	S	200,000	10.02
13-Dec	Mah Ind Leas	Shah Samir D	S	43,748	46.05
13-Dec	Mh Mills & I	Rachnaben Janakbhai Parikh	S	37,000	16.17
13-Dec	Mukand Eng	Jannat Investment	B	69,542	65.06
13-Dec	Netwo St Bro	UBS Securities Asia Ltd	B	124,365	192.40
13-Dec	Nouvea Multi	Bahubali Properties Ltd	S	70,000	35.37
13-Dec	Patel Airtem	Rajesh Trexim Pvt Ltd	B	32,570	108.64
13-Dec	Patel Airtem	Vijay Kumar Mundhra	S	40,000	118.49
13-Dec	Prime Secu L	GKK Capital Markets Private Ltd	B	200,000	220.77
13-Dec	Rexnor Ele C	Manoj Chandak	B	32,500	18.16
13-Dec	Rish Digh St	BDS Share Brokers Pvt Ltd	S	34,600	23.53
13-Dec	Rish Digh St	Saurabh B. Mehta Huf	S	30,000	24.06
13-Dec	S.S.Organics	Regal Corporate Advisors P Ltd	S	55,000	10.37
13-Dec	Sahil Financ	Era Resorts Pvt Ltd	S	70,185	23.50
13-Dec	Southern Isp	A V Investments Corporation	S	97,257	22.35
13-Dec	Steel Exch	Apex Securities	S	133,529	103.28
13-Dec	Sujanatower	Suashish Diamonds Limited	B	300,000	181.79
13-Dec	Sujanatower	Citigroup Global Markets Mauritius	S	500,000	182.60
13-Dec	Tulsyan Nec	Apex Securities	S	25,200	130.24
13-Dec	Tutis Tech	Asmah Shares And Stock Brokers	S	117,941	32.46
13-Dec	Tutis Tech	Mehul Sumatibhai Shah	S	113,592	30.11
13-Dec	Tutis Tech	Niral Patel	S	220,100	29.18
13-Dec	Tutis Tech	Kanubhai Patel	S	250,000	31.74
13-Dec	Visaka Ind L	Vaghjibhai Gagaldas Shah	B	80,000	108.35
13-Dec	Visesh Infot	Integral Vinimay Private Ltd	S	138,636	35.71

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ITC	196	3.6	4.4	9.1
Tata Steel	890	2.9	3.2	4.2
HDFC	3,169	1.8	2.8	0.8
Losers				
Bharti Airtel	988	(6.7)	(23.4)	3.9
Reliance Ind	2,833	(1.7)	(12.2)	3.3
ICICI Bank	1,243	(3.7)	(9.0)	2.4

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
14-Dec	VSNL holds Extra Ordinary General Meeting; Gulf Finance House holds press meet for new initiative; Motilal Oswal organizes a press conference; Birla Sun Life holds press conference for new initiative; 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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