

## Weekly Wrap

Stock idea of the week

April 07, 2008

### Tata Motors Ltd **SELL** CMP Rs614

#### Strategy through JLR acquisition not clear

Tata Motors recently has signed an acquisition proposal for Jaguar and Land Rover (JLR) brands for US\$2.5bn in an all cash deal. The proposal is under regulatory clearance and is expected to receive approvals by Q2 CY08. With this deal Tata Motors product portfolio will now, consist of wide range of products from the world cheapest cars Nano to premium brands like Jaguar and Land Rover. However, the synergy from the deal is still unclear as problems related to R&D expenses, promotional activity and revamp of JLR brand in the market looms large on Tata Motors.

#### Shareholding pattern

As on 31st Dec 2007	Holding (%)	No. of Shares (in Lacs)
Promoter	38.2	1,288
Non-promoter corporate holding	1.2	41
FII & MF	39.7	1,339
Public & others	21.0	708

#### Pension liabilities will strain Tata's books

In a recent conference call by Tata Motors on JLR deal, the management clarified that Ford will contribute US\$600mn to fund a substantial portion of JLR's pension plan deficit. The figure was arrived on an actual valuation done as on 31 October 2007. With 70% of JLR pension assets is invested in equities amounting to US\$480mn. The recent crash in equity markets has further broadened the deficit gap. We believe Tata Motors have to infuse further ~US\$450-500mn into JLR pension fund post April 2009 if market remain weak. However, the company does not have to fund the deficit immediately. Still the clarity on the total strain on Tata Motors book is likely to emerge only after April 2009.

#### Bridge loans may cause concern

Tata Motors is likely to raise money for JLR acquisition through SPV in Singapore and UK. According to the management, the company has secured a bridge loan for US\$3bn. It is likely to use US\$2.3bn for funding the acquisition and rest US\$700mn for other contingent issues. The company intends to refinance bridge loan with either equity or debt within next 15 months. However, with rating agency like S&P downgrading Tata Motors to BB category coupled with weak primary market, the company may not be able to raise fund for refinancing bridge loan at a reasonable rate.

#### Inflation concerns and rise in fuel cost could defer Indian car purchases

The global economy is entering into a stagflation mode. The

#### Financials \*

March (Rs cr)	FY06	FY07	FY08E	FY09E
Revenues	20,293	27,062	29,226	32,149
yoy growth (%)	-	33.4	8.0	10.0
Operating profit	2,448	2,975	3,124	3,311
OPM (%)	12.1	11.0	10.7	10.3
Pre-exceptional PAT	1,529	1,914	1,931	2,144
yoy growth (%)	-	25.2	0.9	11.0
EPS (Rs)	39.9	49.6	49.4	52.5
P/E (x)	15.4	12.4	12.4	11.7
P/BV (x)	4.3	3.4	2.8	2.2
ROE (%)	27.6	27.9	22.3	19.8
ROCE (%)	25.8	26.6	20.4	19.7

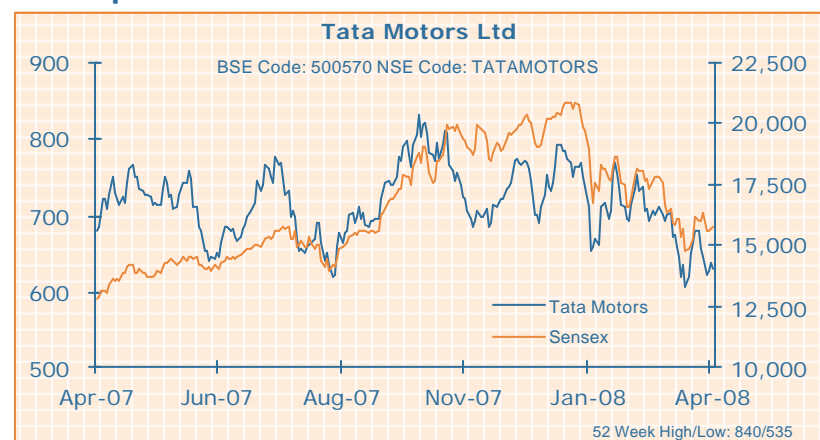
Source: Company, India Infoline Research  
\*Standalone basis

commodity and crude prices are making new peaks leading to high inflation globally. Inflation in India has touched 7% (a 3-year high) for the week ended 22nd March 2008. Recent budgetary announcement to cut the existing excise duties, CENVAT duty and increase in disposable income is likely to increase the incremental demand by 3-4%. However, we expect the demand will be reflected in sales only after couple of quarters. Despite this positive development, the present sluggishness in the four-wheeler market is likely to continue on rising inflation and weak market sentiment.

#### Valuation

The potential earning dilution from new Debt/ Equity issuance could lead to further contraction in earnings of the company. In addition, slag in local demand and uncertainty over the profitability of Nano are among the headwinds. This could dilute earnings by 25-30% in FY09E on a consolidated basis, which could squeeze down EPS to Rs35-38 for the same period. Looking at the uncertainty coupled with bad market sentiment, we recommend a Sell on the stock with a price target of Rs552.

#### Share price chart



Source: Company, India Infoline Research

## Stock idea of the week

### Hindustan Construction SELL CMP Rs122

#### Slowdown in infrastructure and industrial sectors

Hindustan Construction Company (HCC) has its expertise in the construction and long gestation periods projects. The business mix of the company encompasses a play on infrastructure and industrial sectors. Recent slowdown of investment in both infrastructure and industrial segment is likely to affect the company. The current IIP numbers and six key infrastructure growth data indicates a slowdown in construction and infrastructure space in the previous quarter. With HCC emanating major revenues from these sectors, it is likely to witness weak quarters ahead. Further, the company has infrastructure projects under PPP agreements, which are highly sensitive to interest rates. With inflation rising to 7% return from PPP projects could be impacted.

#### Shareholding pattern

As on 31st Dec 2007	Holding (%)	No. of Shares (in Lacs)
Promoter	47.2	1,203
Non-promoter corporate holding	10.1	259
FII & MF	31.0	791
Public & others	11.7	298

#### Execution risk

HCC's execution ability continues to disappoint on back of start-up and execution delays in the Bandra-Worli(BW) project. The company has mounted losses on account of poor execution on the BW project. As a result, the company will have to further enhance capital for various projects in its core business and real-estate ventures. The total order backlog of the company stands at Rs9,330cr (3.6x FY07 consolidated revenues) providing growth visibility for future. However, low execution ability has resulted in slowdown in order intake for the company. Historically, election years have turned out to be dull for construction companies and with current year being an election year further slowdown in the order intake is expected.

#### Average growth initially; large number of long gestation projects

Power projects which has long gestation period and require high capital investment account 48% of the HCC current

#### Financials

March (Rs cr)	FY05	FY06	FY07
Revenues	1,578	1,958	2,301
Operating profit	165	178	256
OPM (%)	10.5	9.1	11.1
APAT	71	75	33
Equity	23	26	26
EPS (Rs)	3.1	3.0	1.1

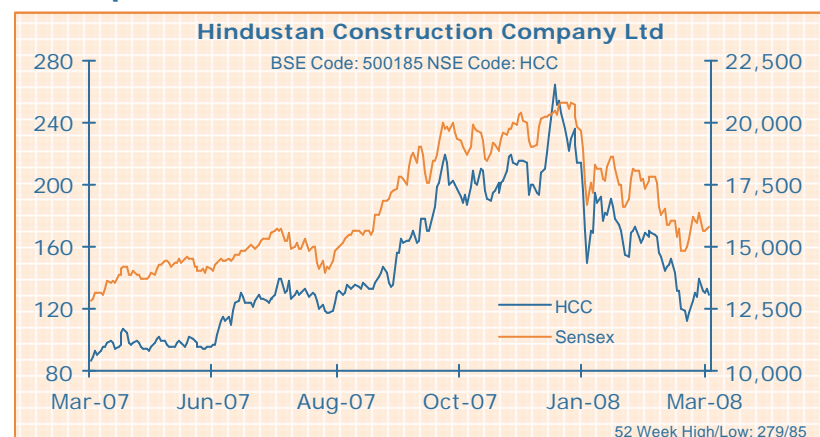
Source: Company, India Infoline Research

order book. Therefore, the revenues are likely to remain subdued in initial years. Further, long gestation projects lead to execution risk, where the company has not lived up to its expectations.

#### Lavassa project – a fortune decider

HCC's fortune, to a large extent, is dependent on its Lavassa project. The company is planning to develop 12,500 acres township at hill land of Lavassa near Pune. The company has already invested Rs550cr and would need additional Rs650cr over the next couple of years. Further, the company has to construct basic infrastructure to attract possible customers. Lavassa project will be completed in gradual phases and is likely to generate cash flows only after a couple of years. This being a long gestation project with lot of uncertainty around it, stocks with better valuations and higher visibility appear a better bet than HCC. We recommend a sell on the stock with short-term price target of Rs109, implying a downside of 12%.

#### Share price chart



Source: Company, India Infoline Research

## Heard it on the grapevine

**Unity Infra projects** is likely to get orders worth Rs300cr for developing commercial space in tier-II cities.

**Modern India** may raise money in order to develop the company prime properties at Mahalaxmi and Khopoli.

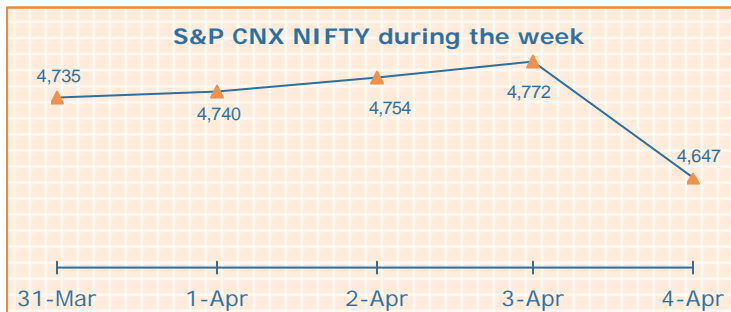
**Jumbo Bag** may raise money via a GDR issue. The issue size could be around US\$20-30mn.

Italian Oil Major, ENI is likely to make an open offer in **Hindustan Oil Exploration (HOEC)**. The company currently holds 27% stake in HOEC.

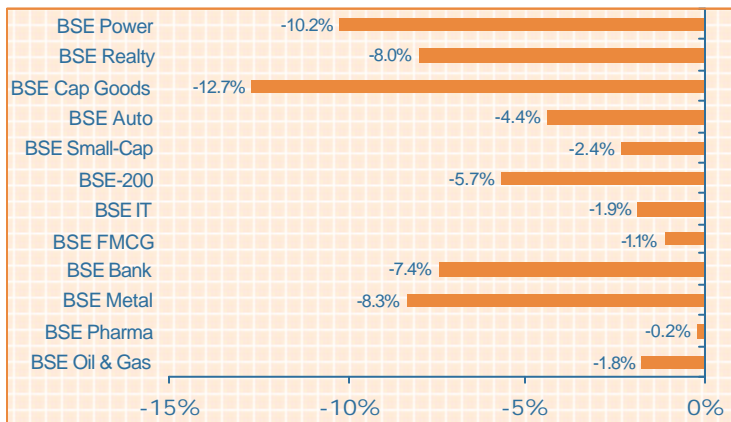
**GMR Infra** has been shortlisted as one of the bidders for US power company Interger. The bid size could be near US\$900mn.

## Market overview

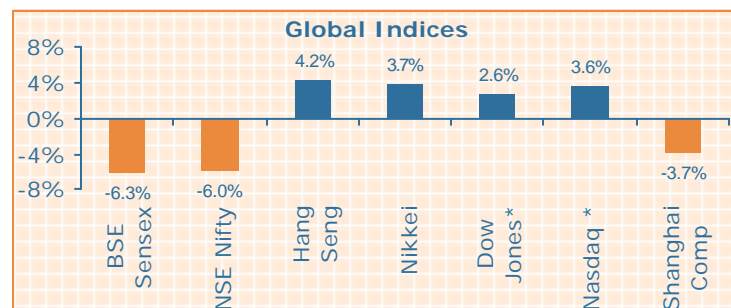
Key indices closed the week lower over increasing concerns of slowdown in the local economy due to high interest rates and inflation. For week ended March 22, inflation touched a 3-year high of 7.0% as against 6.6% in the previous week. Also, selling pressure in index heavyweights like BHEL, L&T, ICICI Bank and Bharti dragged the markets lower. Finally, the benchmark Sensex fell by 6% or 1,028 points to close at 15,343 and NSE Nifty lost 6% or 295 points to close at 4,647.



All the major sectoral indices ended deep in the red. Steel stocks were under pressure after government asked steel companies to roll back recent price hikes. Selling was also seen in cement stocks. Capital Goods companies took a knock after BHEL reported its least quarterly profit growth in six years.



Barring China, most of the markets closed the week higher on speculation that financial companies will be able to overcome credit market losses. Gains were also seen in US markets, following the plans of UBS to raise 'fresh capital'. Also, announcement of Lehman Brothers' equity offering raised hopes that banks and brokerages will be able to weather the turbulence in credit markets.



## FII & MF activity

(Rs in cr)

Date	FII Net Investment	MF Net Investment
27-Mar	431	(52)
28-Mar	(114)	344
31-Mar	11	(90)
1-Apr	(1,188)	(285)
2-Apr	(20)	(128)
Total 2008	(13,428)	5,961

## BSE Sensex & BSE 200 Five Top Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hero Honda Motor	758	8.2	Orchid Chem	179	24.3
Ranbaxy Labs Ltd	458	4.4	BF Utilities	1,189	14.8
Satyam Computer	425	4.1	Amtek Auto	293	12.4
Dr Reddy'S Labs	599	1.4	MRPL	85	11.9
			Matrix Labs	180	9.1

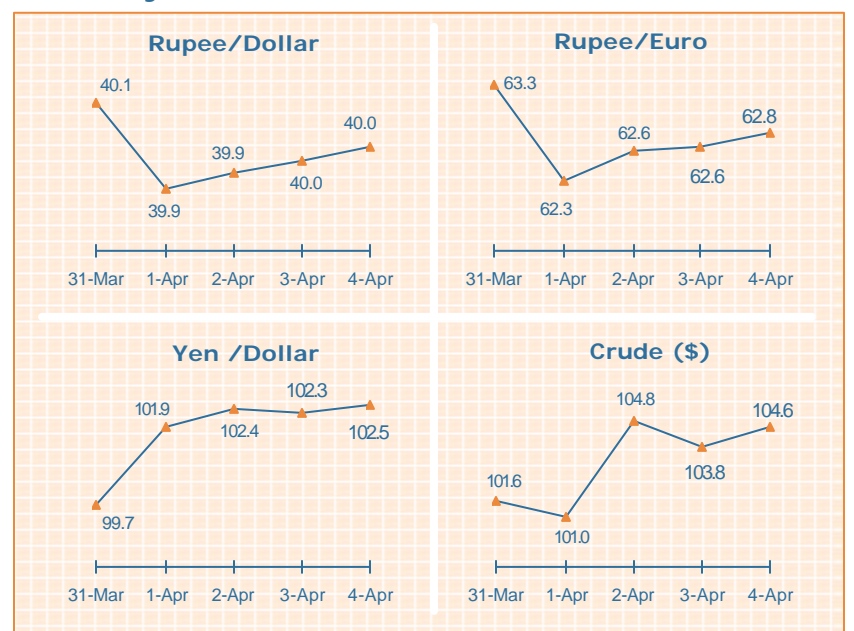
## BSE Sensex & BSE 200 Five Top Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
BHEL	1,634	(21.9)	GHCL	91	(20.0)
L&T	2,686	(14.6)	Crompton Grv	238	(17.3)
HDFC	2,276	(12.9)	SAIL	165	(16.6)
REL	1,166	(12.5)	Reliance Capital	1,168	(16.5)
ICICI Bank	764	(8.6)	Jindal Steel	1,870	(15.7)

## Stocks in no delivery period

Company	From	To
Karuturi Network	04-Apr-08	10-Apr-08
Sh. Renuka Sugar	10-Apr-08	17-Apr-08

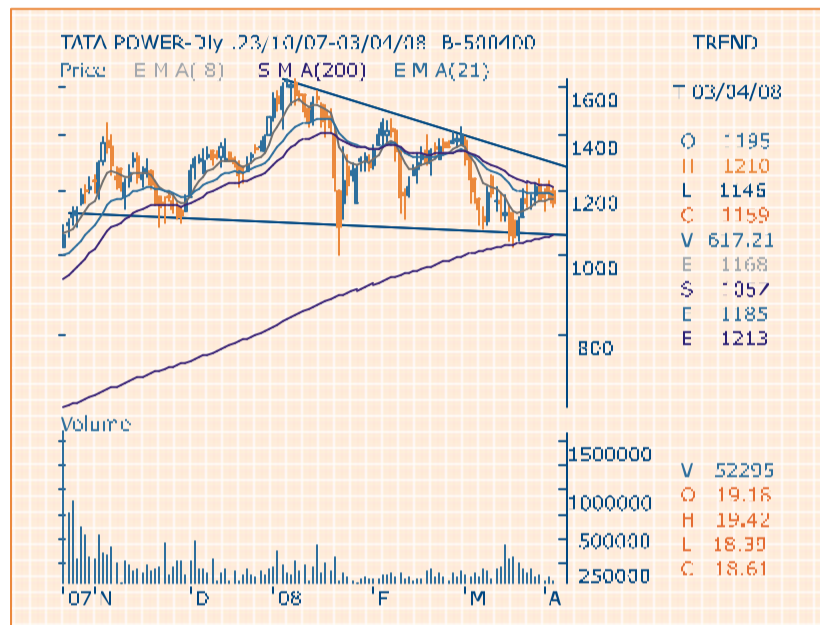
## Currency and crude movements



# INDIA INFOLINE WEEKLY WRAP

## Technical stock ideas of the week

### Tata Power SELL CMP Rs1,120



The stock rallied smartly from a low of Rs480 in March 2007 to touch a high of Rs1,641 in January 2008.

The market wide correction for the past three months saw the stock correcting to a low of Rs1,025 in March 2007.

The price movements since October 2007 till date have taken the shape of a Head & Shoulder pattern. The pattern has a Declining Neckline placed at the 200 DMA levels of Rs1,050. This pattern indicates weakness in the trend and price declines in the coming weeks.

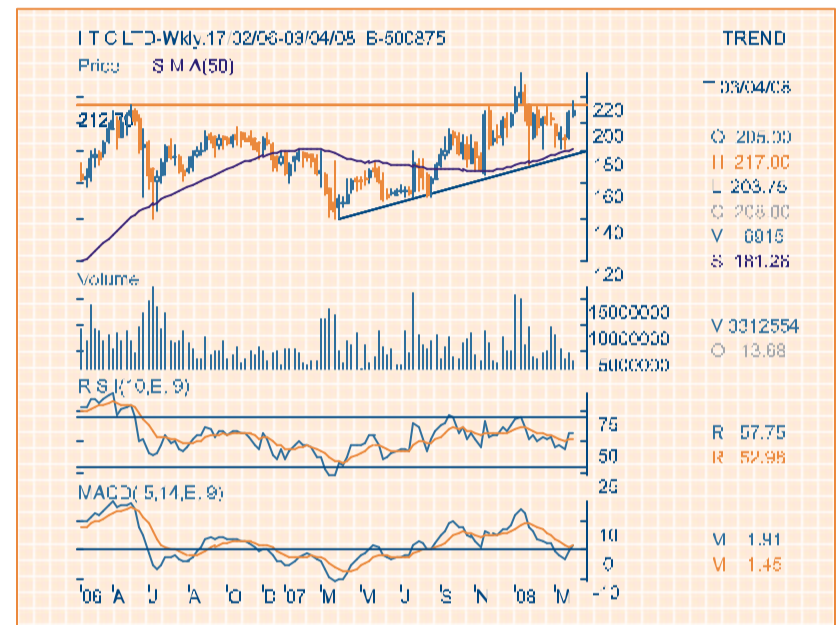
The measured implication of the observed price pattern suggests a target of Rs500-600 levels; whether the same gets achieved would depend on the overall broad trend of the markets in the coming months. However on a realistic basis we expect the prices to test levels of Rs800-850 in the coming months. A stop loss above Rs1,251 is suggested on all short positions.

Investors are recommended to exit the stock in view of the above price pattern formation.

#### Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
CESC	405	402	2.1	0.3
i-Flex	962	951	0.5	0.1
Tata Chem	299	279	2.7	1.2
BEL	1,178	1,136	1.2	0.7
ACC	831	819	1.3	1.0

### ITC Ltd BUY CMP Rs200



The stock rallied from a low of Rs140 in March 2007 to a high of Rs240 in January 2008.

The stock has since then been trading between the broad range of Rs180-205 levels. The stock has held onto the 200 DMA as well as the 50 week SMA for the past three months in spite of the weakness in the broad markets.

The weekly RSI is moving in line with the prices whereas the medium term MACD is on the verge of generating a crossover Buy signal.

Keeping in mind the above mentioned technical evidences we recommend Investors to buy at current levels and on any declines to supports of Rs185-192 range. We expect the stock to rally onto price targets of Rs230-240 levels in the coming weeks. All Investment positions should be protected with a stop loss below Rs178 levels.

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#### Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
L&T	2,686	2,962	4.7	1.8
IVRCL Infra	363	377	1.6	0.7
R Com	500	522	0.1	0.1
BEML	987	995	13.5	40.6
Bombay Dyeing	593	615	16.1	40.3

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