

Strategy In-Depth

30 November 2006 | 10 pages

India Investment Daily

Thursday, 30 November 2006

- NIIT: Initiating at Buy: Structural Upturn, Play the Leader in IT Training** – India's retail IT training business is undergoing structural changes, which are being driven by two factors: (1) IT companies are looking for cheaper non-engineering talent; and (2) new non-IT engineers from less known colleges are enrolling in IT training institutes to improve their job prospects. NIIT, the leader in IT training, is a key beneficiary of these trends. We forecast that NIIT's revenues, EBITDA and EPS will rise at CAGRs of 34-38% over FY06-09. Initiating coverage at Buy/Medium Risk with ETR of 35%. **Hitesh Shah +91 22 6631 9872** Click on www.citigroupgeo.com/pdf/SAP01076.pdf for the report.
- India Downstream R&M: Sell: Oil Price Cut Negative for Sentiment** – The government's decision to cut prices underlines continued political interference in retail fuel pricing and reinforces our view that introduction of pricing reform is unlikely in the near future. While a token cut in petrol prices was expected, the cut in diesel prices came as a surprise and will have a big negative impact on the marketing margins of the OMCs. Based on the constrained profitability of the OMCs, coupled with the recent waiver of subsidy sharing for pure refiners and the likely reduction of oil bonds in 2H, we reiterate our Sell on BPCL, HPCL, and IOC. **Rahul Singh +91 22 6631 9863** Click on www.citigroupgeo.com/pdf/SAP01077.pdf for the report.

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Key Market Data

Markets & Currency

29-Nov	Close	1 Day	YTD
BSE Sensex	13,617	0.11	44.9
BSE 100	6,904	0.07	39.4
S&P CNX Nifty	3,928	0.16	38.5
BSE 500	5,214	0.32	37.3
Rs/US\$	44.69	0.01	0.8

Institutional Activity

(US\$ Mils.)	24-Nov	MTD	YTD
FIIs			
Purchase	796.4	9,790.6	93,758.1
Sale	574.0	7,773.9	84,954.1
Net	222.5	2,016.7	8,804.0

Local MFs

Purchase	65.3	2,327.6	26,489.6
Sale	113.0	2,217.5	23,274.8
Net	(47.6)	110.1	3,214.8
Total - Net	174.8	2,126.8	12,018.8

Major Gainers and Losers*

LANCO INFRA	13.9	GREAT EASTE	5.2
ESCORTS LTD.	8.6	BONGAIGAON R	5.0
EIH LIMITED	6.8	UTI BANK	4.1
DENA BANK	6.8	INDIAN OIL C	4.0
JINDAL SAW	6.4	I.B.P.LTD.	3.5
ADANI ENTER	5.0	HINDUSTAN PETRI	3.4
RAMCO SYSTEM	4.8	ORIENTAL BK	2.9
BH.EARTH MOV	4.7	CIPLA LTD.	2.5
HINDUJA TMT	4.5	NATIONAL FER	2.3
NESTLE LTD	4.4	TATA CHEMICALS	2.2

Source: Bloomberg

Source: BSE. *BSE-Group 'A'

See page for Analyst Certification and important disclosures.

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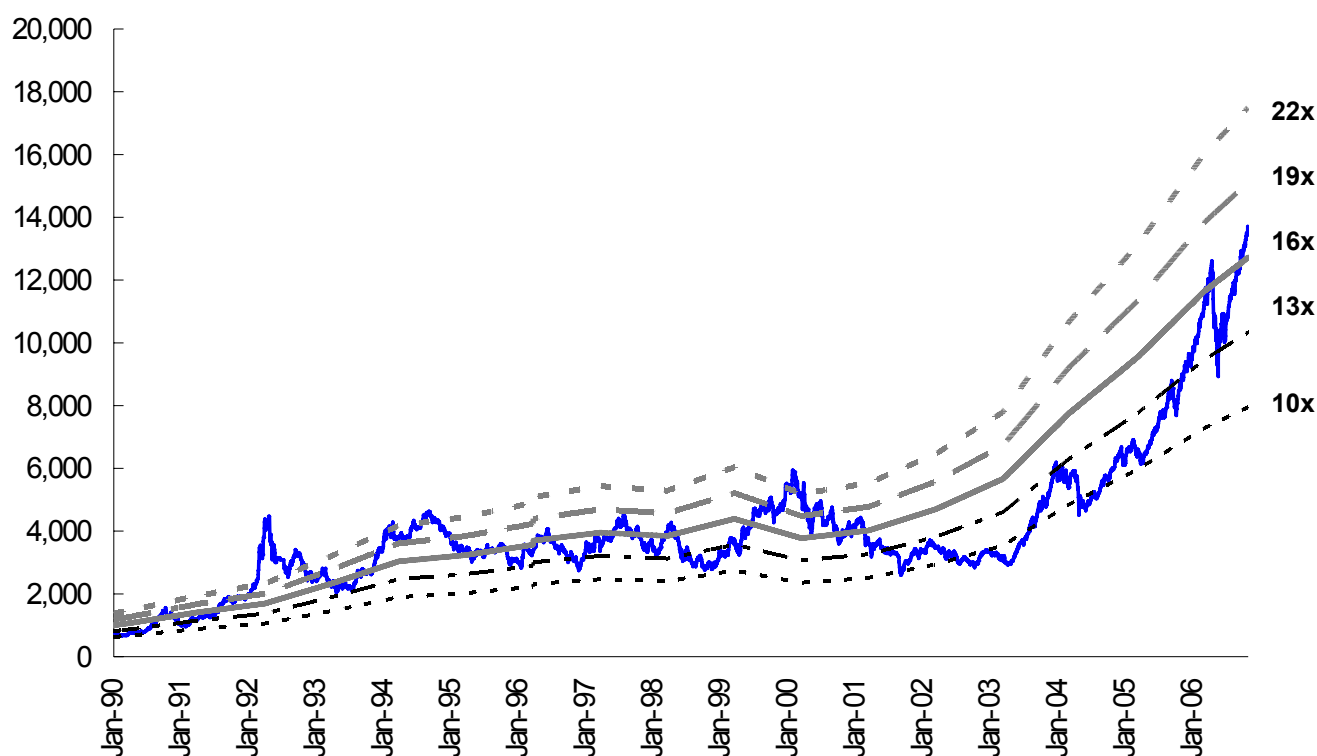
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BSE- Sensex 12-Month Forward PE Band Chart



Source: Bloomberg, Citigroup Investment Research estimates

Economy

- The government has decided to cut petrol price by Rs2 per litre (approx. 4%) and diesel by Rs 1 per litre (approx.3%). This reduction in fuel prices has come after a gap of 2 years (The Economic Times)

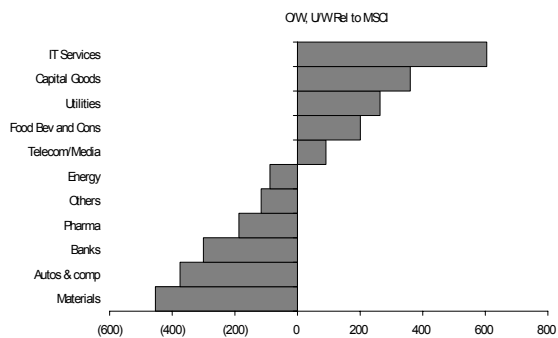
Industry

- The steel ministry has decided to maintain status quo with respect to iron ore exports. The present system of canalization of exports of high grade ore above 64% iron content and free exports below this grade to continue (The Economic Times)

Company News

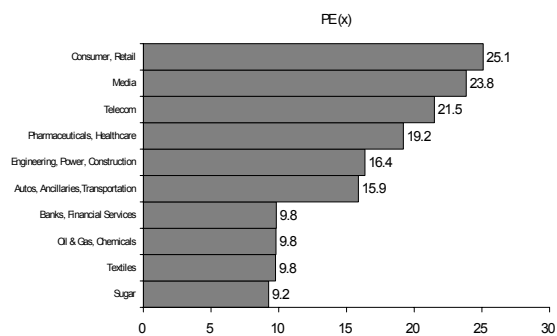
- The Government has cleared Essar group's proposal to increase foreign holding in Hutchison Essar by 5.85%, which takes the total foreign equity to the permissible limit of 74% (The Economic Times)
- The board of directors of Indian Oil Corporation Ltd and Bongaigaon Refinery and Petrochemicals Ltd has approved their merger. The swap ratio is pegged at 4:37 - 4 shares of IOC for every 37 shares of BRPL (The Hindu Business Line)
- Unitech has announced plans to raise over Rs 31 billion (£ 360 million) through the listing of a newly floated company, Unitech Corporate Parks Plc. on the Alternative Investment Market of the LSE (Business Standard)
- Dr. Reddy's Laboratories has entered into an agreement with Torrent Pharmaceuticals for exclusive commercialization of two of Torrent's brands in Russia, Listril and Listril Plus, both cardiovascular drugs (The Hindu Business Line)

Key Overweights/ Underweights



Source: Citigroup Investment Research

CIR Universe P/E FY07E (x)



Source: Citigroup Investment Research

Market Snapshot

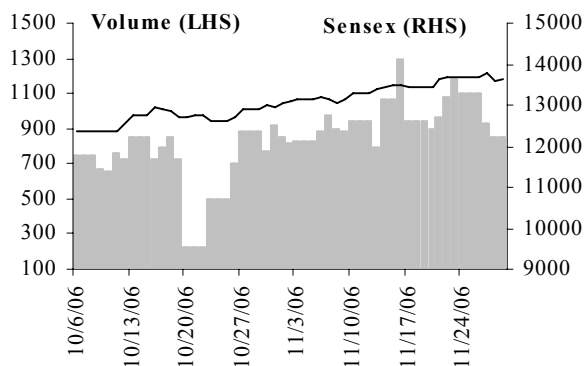
Performance (%)	1-Day	1-Week	1-Month	3-Month	6-Month	12-Month	YTD	Mkt Volume	(Rs Mils.)
Absolute								BSE	44,087
BSE Sensex	0.1	(0.7)	5.5	16.3	30.9	52.5	44.9	NSE	80,840
CIR	(0.1)	(0.7)	4.1	5.0	14.7	25.9	20.3	Top Volume*	(Rs Mils.)
Aluminum	0.0	(0.3)	(4.7)	2.3	(1.5)	25.0	10.3	LANCO INFRA	2943.6
Auto	0.4	(0.1)	(2.9)	3.3	4.5	28.8	23.5	REL COM LTD	886.7
Banks	0.2	1.3	11.6	31.7	47.2	43.3	38.9	GMR INFRASTR	402.8
Capital Goods	(0.4)	(0.1)	1.5	11.8	28.3	70.3	68.4	STERL BIOTEC	326.3
Cement	3.6	6.6	15.5	24.9	50.4	116.5	114.1	GUJARAT AMBUJA CEMENTS LTD.	316.2
Consumer	0.5	(1.1)	2.5	1.7	1.8	17.9	11.5	STR OPTICAL	308.6
Hotels	2.6	1.8	3.7	14.4	21.4	59.6	45.5	ADANI ENTER	288.9
IT Services	(0.1)	(2.4)	2.8	14.2	34.6	39.0	29.9	STEEL AUTHOR	225.2
Media	0.4	4.5	20.3	27.0	57.1	134.0	131.8	NTPC LTD	223.9
Oil & Gas	(1.7)	(1.9)	3.3	2.6	10.6	9.2	1.4	WELSP GUJ SR	109.0
Petrochemical	(0.1)	(2.2)	1.9	11.1	30.4	46.1	39.4	Top Gainers*	Close (Rs)
Pharmaceutical	0.1	0.0	0.5	(4.7)	(0.3)	14.7	12.8	LANCO INFRA	267
Power	0.3	0.5	10.1	12.0	13.3	10.7	11.2	ESCORTS LTD.	121
Steel	2.7	2.3	(2.9)	6.8	4.8	61.1	49.9	EIH LIMITED	107
Telecom Equipment	0.7	1.3	18.1	31.1	35.5	41.9	34.7	DENA BANK	35
Telecom	(1.2)	(2.6)	13.4	37.7	53.4	57.5	61.6	JINDAL SAW	406
Relative to BSE-30 Sensex								ADANI ENTER	217
CIR India Index	(0.2)	(0.0)	(1.4)	(11.3)	(16.2)	(26.6)	(24.6)	RAMCO SYSTEM	209
Aluminum	(0.1)	0.3	(10.2)	(14.1)	(32.4)	(27.5)	(34.6)	BH.EARTH MOV	1,000
Auto	0.3	0.6	(8.4)	(13.0)	(26.5)	(23.6)	(21.4)	HINDUJA TMT	616
Banks	0.1	2.0	6.1	15.4	16.3	(9.2)	(6.0)	NESTLE LTD	1,077
Capital Goods	(0.5)	0.6	(4.0)	(4.5)	(2.7)	17.8	23.5	Top Losers*	Close (Rs)
Cement	3.5	7.3	10.0	8.5	19.5	64.0	69.2	GREAT EASTE	214
Consumer	0.4	(0.4)	(3.0)	(14.6)	(29.1)	(34.5)	(33.4)	BONGAIGAON R	51
Hotels	2.5	2.5	(1.8)	(1.9)	(9.5)	7.1	0.6	UTI BANK	471
IT Services	(0.2)	(1.8)	(2.7)	(2.1)	3.7	(13.4)	(15.0)	INDIAN OIL C	463
Media	0.3	5.2	14.8	10.7	26.2	81.5	86.9	I.B.P.LTD.	483
Oil & Gas	(1.8)	(1.2)	(2.2)	(13.7)	(20.3)	(43.3)	(43.5)	HINDUSTAN PETROLEUM CORP	292
Petrochemical	(0.2)	(1.6)	(3.6)	(5.2)	(0.5)	(6.4)	(5.5)	ORIENTAL BK	242
Pharmaceutical	(0.1)	0.7	(5.0)	(21.0)	(31.3)	(37.7)	(32.1)	CIPLA LTD.	249
Power	0.2	1.1	4.6	(4.3)	(17.6)	(41.8)	(33.7)	NATIONAL FER	30
Steel	2.6	2.9	(8.4)	(9.5)	(26.2)	8.6	5.0	TATA CHEMICALS LTD.	221
Telecom Equipment	0.6	2.0	12.6	14.8	4.5	(10.6)	(10.1)		
Telecom	(1.3)	(1.9)	7.9	21.3	22.4	5.0	16.7		

Source: Citigroup Investment Research estimates

*BSE-Group A

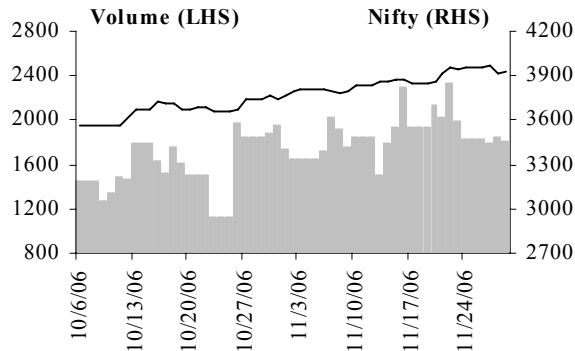
Source: The Economic Times, www.bseindia.com.

BSE-30 – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIFTY – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIIT (NIIT.BO)

Initiating at Buy: Structural Upturn, Play the Leader in IT Training

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Buy/Medium Risk	1M
Price (28 Nov 06)	Rs390.00
Target price	Rs520.00
Expected share price return	33.3%
Expected dividend yield	1.8%
Expected total return	35.1%
Market Cap	Rs7,579M US\$170M

	2006	2007E	2008E
EPS new	19.29	21.28	31.07
EPS Growth	10.1	10.3	46.0
P/E	20.2	18.3	12.6
EV/EBITDA	10.6	11.1	9.0
Consensus Data	21.40	24.64	30.72

Price Performance (RIC: NIIT.BO, BB: NIIT IN)



- **Target price Rs520** — We forecast that NIIT's revenues, EBITDA and EPS will rise at CAGRs of 34-38% over FY06-09. Our target price is derived from a sum-of-the-parts analysis.
- **Structural upturn** — India's retail IT training business is undergoing structural changes, which are being driven by two factors: (1) IT companies are looking for cheaper non-engineering talent; and (2) new non-IT engineers from less known colleges are enrolling in IT training institutes to improve their job prospects. NIIT, the leader in IT training, is a key beneficiary of these trends.
- **Corporate business lowers risk** — Healthy orders over the past few quarters should help the business grow steadily with stable margins. We view NIIT's recent ElementK acquisition as positive, because it brings with it a large online content library and marquee client relationships.
- **Restructuring of institutional business until FY08E** — We expect the restructuring in the business to extend beyond management's timeline. Our estimates for FY07 and FY08 factor in declines in the international business.
- **Near-term correction cannot be ruled out** — While we remain positive on the long-term prospects for the business, the stock could decline in the near term because it has run up about 30% since its 2Q FY07 results and a seasonally weak 3Q for the retail segment could possibly lead to a quarterly loss.
- **Key risks** — Slowdown in the Indian IT industry, disappointments in new orders, integration of ElementK, and high receivables.

Indian Downstream R&M

Sell: Oil Price Cut Negative for Sentiment

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- **Oil prices cut** — The government has announced a cut of 3-4% on auto fuels (Rs2/liter on petrol, Re1/litre on diesel ex-Delhi) following the decline in crude prices (-16% since the price hike in June). The decision to cut prices underlines continued political interference in retail fuel pricing and reinforces our view that introduction of pricing reform is unlikely in the near future.
- **Cut in diesel prices not expected** — In the past, the government had allowed OMCs to recoup their losses in a declining crude environment. In this light, while a token cut in petrol prices was expected, the cut in diesel prices came as a surprise and will have a big negative impact on the marketing margins of the OMCs, given the much higher proportion of diesel sales vis-à-vis petrol.
- **Blended margins down to ~US\$2/bbl** — Margins on the marketing of auto fuels had turned positive following the cool-off in crude over the last few months – ~Rs4/liter on petrol and ~Re1/liter on diesel in November (blended margins of ~US\$5/bbl). Marketing margins will now likely decline to ~US\$2/bbl, with diesel margins likely to reduce to near break even levels.
- **Reiterate Sell** — Constrained profitability of the oil marketing companies will continue to put pressure on oil sector earnings and impact market sentiment towards the public sector oil companies. Coupled with the recent waiver of subsidy sharing for pure refiners and the likely reduction in oil bonds in 2HFY07, we reiterate our Sell on BPCL, HPCL, and IOC.

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Data current as of 30 September 2006

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<i>% of companies in each rating category that are investment banking clients</i>	52%	65%	38%

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