



Economy News

- ▶ The government will soon announce another package to encourage exports, which have dipped sharply this fiscal due to shrinking demand from the Western countries, a major market for Indian goods. An announcement to this effect is expected anytime after September 30 (ET).
- ▶ A panel of ministers has recommended price regulation for 348 drugs deemed essential, up from 74 earlier. The panel has finalized the proposal and it would be forwarded to the cabinet within a week (BS)
- ▶ The government raised taxes on rail fares and vowed to stick to its planned borrowing target for the year, underlining its will to curb its fiscal deficit and avoid a credit ratings downgrade. (BS).

Corporate News

- ▶ **Lanco Infratech** is planning to raise \$1 billion by selling non-core assets and diluting equity in some of its subsidiaries by the end of FY13 (ET).
- ▶ ONGC Teri Biotech Limited (OTBL), the joint venture between **Oil and Natural Gas Corporation (ONGC)** and The Energy and Research Institute (Teri), will bid for the Rs 150 bn desert oil slick clean-up contract in Kuwait (BS).
- ▶ **Kingfisher Airlines (KFA)** may approach the corporate debt restructuring (CDR) cell in the next two-three weeks as part of a turnaround plan. The seventeen bank consortium rejected Mallya's request to provide a "lifeline" of Rs 2 bn to get all the "grounded aircraft" back into operation (BL).
- ▶ **Tata Power** subsidiary Coastal Gujarat Power Ltd that operates the Mundra Ultra Mega Power Project and buyers led by Gujarat Urja Vikas Nigam Ltd, will have to wait before their difference on tariff is resolved by the Central Electricity Regulatory Commission (CERC). (BL)
- ▶ **Siemens** will build the country's first 765 Kv test laboratory in Bina, Madhya Pradesh, at a cost of Rs 1468 mn. The facility is for the National High Power Test Laboratory, a joint venture company formed by NTPC, NHPC, PowerGrid, Damodar Valley Corp and Central Power Research Institute. (BL)
- ▶ **Arvind**, has acquired the business operations of British fashion retailers Debenhams, Next and American lifestyle brand Nautica in India from Planet Retail for Rs 550 mn which will help the company enter into the department store segment and also the globally fast-growing apparel speciality retail segment (BS).
- ▶ Power generation at **NTPC** 3,000 MW Kaniha plant, the country's second biggest power plant, has drastically gone down in September due to coal crunch. According to NTPC sources, a 500 MW unit has been shut down since the beginning of this month for lack of coal. (BS)
- ▶ **Reliance Communications (RCOM)** has decided to introduce tariffs that are 40% lower than those offered by GSM operators in postpaid. It has already slashed prices in pre-paid segment (ET).
- ▶ **GMR Infrastructure** plans commissioning of the first 350-Mw unit of GMR Kamalanga Energy Limited in Odisha and the 300-Mw unit of Emco Energy Limited (Warora power project) in Maharashtra will start from October-November and progressive commissioning of the units will be completed before the end of the current financial year (BS).

Equity

	27 Sep 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,580	(0.3)	5.4	9.4
NIFTY Index	5,650	(0.2)	5.9	9.7
BANKEX Index	13,092	(0.1)	13.4	13.8
BSET Index	5,890	(1.1)	1.6	3.6
BSETCG INDEX	10,938	0.9	13.9	13.1
BSEOIL INDEX	8,582	(1.6)	2.1	8.1
CNXMcap Index	7,745	0.4	9.3	7.6
BSESMCAP INDEX	6,958	0.2	8.4	7.7
World Indices				
Dow Jones	13,486	0.5	2.9	7.0
Nasdaq	3,137	1.4	1.9	10.1
FTSE	5,779	0.2	0.1	5.2
NIKKEI	8,950	0.5	(1.3)	0.5
HANGSENG	20,762	1.1	5.1	9.4

Value traded (Rs cr)

	27 Sep 12	% Chg - Day
Cash BSE	2,722	(9.9)
Cash NSE	18,960	31.9
Derivatives	273,403	49.58

Net inflows (Rs cr)

	26 Sep 12	% Chg	MTD	YTD
FII	806	(82.3)	23,145	76,426
Mutual Fund	(433)	(318.0)	(803)	(8,851)

FII open interest (Rs cr)

	26 Sep 12	% Chg
FII Index Futures	12,892	(40.0)
FII Index Options	37,905	(34.1)
FII Stock Futures	27,376	(17.2)
FII Stock Options	120	(95.3)

Advances / Declines (BSE)

	27 Sep 12	A	B	T	Total	% total
Advances	106	1,118	286	1,510	51	
Declines	92	1,050	178	1,320	45	
Unchanged	3	92	39	134	5	

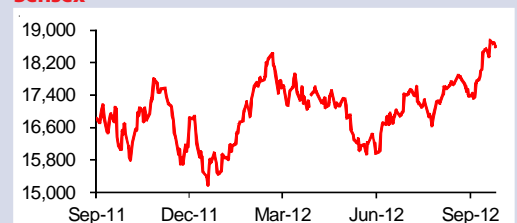
Commodity

	27 Sep 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	92.3	0.5	(4.2)	18.8
Gold (US\$/OZ)	1,777.6	1.6	6.6	14.7
Silver (US\$/OZ)	34.7	2.5	12.4	31.8

Debt / forex market

	27 Sep 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	8.3	8.4	N/A
Re/US\$	53.3	53.5	55.7	57.1

Sensex



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IL&FS TRANSPORTATION NETWORK LTD

PRICE: Rs.189

RECOMMENDATION: BUY

TARGET PRICE: Rs.237

FY14E P/E: 6.9x

Stock details

BSE code	: 533177
NSE code	: IL&FSTRANS
Market cap (Rs mn)	: 36,717.03
Free float (%)	: 27.54
52 wk Hi/Lo (Rs)	: 224.3/143.1
Avg daily volume	: 111660
Shares (o/s) (mn)	: 194.27

Summary table

(Rs mn)	FY12	FY13E	FY14E	
Sales	56,056	67,663	72,173	
Growth (%)	38.5	20.7	6.7	
EBITDA	14,656	18,847	21,388	
EBITDA margin (%)	26.1	27.9	29.6	
PBT	7,846	8,422	7,989	
Net profit	4,970	5,424	5,333	
EPS (Rs)	25.6	27.9	27.5	
Growth (%)	14.6	9.2	(1.7)	
CEPS(Rs)	29.5	32.6	34.5	
Book value(Rs/share)	142.3	165.4	188.1	
DPS (Rs)	4.1	4.1	4.1	
ROE (%)	19.5	18.2	15.5	
ROCE (%)	14.6	12.9	11.6	
Net debt	95,467	129,684	155,265	
P/E (x)	7.4	6.8	6.9	
P/BV (x)	1.3	1.1	1.0	
EV/Sales (x)	2.4	2.6	2.8	
EV/EBITDA (x)	9.3	9.2	9.3	
	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Sales	12,555	12,684	19,887	15,796
EPS (Rs)	6.0	4.5	9.1	6.3

Source: Company,
Kotak Securities - Private Client Research

IL&FS Transportation Networks Ltd has the largest road BOT asset portfolio with a pan India presence. It also has a balanced mix of toll and annuity projects thereby de-risking it from traffic fluctuations. With a diversified present in road projects, a metro rail project, airport project, border check post and city bus project, ITNL is set to benefit from upcoming opportunities from NHAI and state governments. Company is also expected to be a significant beneficiary of decline in interest rates. Strong parentage of IL&FS also enhances its expertise and enables it to bag projects from various concessionaires. Company has expanded its footprints across various locations internationally such as Spain, Portugal, Latin America and even China through its stake purchases in Elsamex and YuHe Expressway

Based on current order book and portfolio of projects, we expect construction revenues to remain strong while completion of work on under construction projects is expected to increase the toll revenues from FY14 onwards. Operating margins are likely to remain strong due to increase in proportion of BOT revenues going forward. Company is also sufficiently funded for current portfolio of projects where investments are to be made over next 2-2.5 years.

At current price of Rs.189, stock is trading at 6.8x and 6.9x P/E and 9.2x and 9.3x EV/EBITDA on FY13 and FY14 estimates. We value the company on sum-of-the-parts valuation methodology taking into account valuation of construction business, BOT project and urban transportation related projects and arrive at a one year forward target price of Rs.237. We remain positive on the company due to its robust business model, excellent operating cash flows and expertise to capitalize on the upcoming opportunities in the road BOT segment. We thus recommend BUY on the stock.

Key investment argument

- ❑ **Pan India presence; diversified and de-risked order book.** ILFS Transportation Network limited has a pan India presence with projects spread across nearly 16 states in India. These projects are a mix of toll and annuity thereby de-risking the order book against fluctuations in traffic flow as well as toll rates. This also helps company leverage its experience and ability to execute multiple projects across geographies while bidding for new road projects. Current order book of Rs 107 bn to be executed over next 2.5-3 years provides revenue visibility till FY16 for the construction division.
- ❑ **Largest road portfolio in terms of lane km.** ITNL has the largest BOT road portfolio in terms of lane kilometers in India with around 12,000 km spread across 24 road projects. Company has an operational portfolio of 5453 km of highways which is expected to increase to 10272 km by end of FY16 across domestic road assets. With this, we believe that company would be able to maintain its market position in the road BOT segment.
- ❑ **Strong parentage enhances company's expertise.** ITNL gained significant expertise in implementing various PPP projects along with IL&FS in areas of surface transportation, water supply etc in comparison with its peers in the same space. Along with this, IL&FS also eases funding of project due to its strong relations with financial institutions and enables range of financing options such as securitization, refinancing etc. Strong parentage and professional management team also enhances the corporate governance standards of the company in comparison with various other players in the industry.

- ❑ **Bilateral negotiations hedge company against slowdown in NHAI projects.** IL&FS often assists various concessioning authorities in the early stages of project award process by customizing the scope of the work specific to the project. In these cases, ITNL is also allowed to submit its competitive bid and is often awarded the project. Additionally, company is also awarded concessions by the concessioning authorities for the development of additional roads without going through a competitive bidding process thereby hedging it against slowdown in NHAI projects.
- ❑ **Revenue mix expected to change going forward.** ITNL's revenue growth has been largely led by growth in construction income since most of the road assets are in construction phase. Based on current order book and portfolio of projects, we expect construction income as a percentage of total revenues to peak out during FY13 and then start declining from FY14 onwards. With increase in BOT revenues, overall margins are expected to remain strong. On a consolidated basis, we expect revenues to grow at a CAGR of 13.5% between FY12-14. Since we expect proportion of BOT revenues to increase going forward, we expect margins to improve to 29.6% in FY14 from 26.1% in FY12. But higher interest and depreciation outgo is likely to keep net profit growth flat.
- ❑ **Foray into urban transportation.** ITNL has emerged as a key player in surface transportation with specific focus towards roads and has leveraged its experience to bag projects in railways and urban transportation. Company is currently executing metro rail project in Gurgaon and border check post project in MP and is already operating a bus transport system in the city of Nagpur.
- ❑ **International presence enables company to tap new locations.** Company has expanded its footprint across various locations internationally such as Spain, Portugal, Latin America and even China through its stake purchases in Elsamex and YuHe Expressway. This enables the company to bid for upcoming projects in these locations and also it can jointly bid for upcoming projects domestically.
- ❑ **Interest rate cycle reversal to benefit the company.** ITNL's leverage is expected to increase to 4.4x in FY14 from 3.1x in FY12 due to increase in pace of execution of projects and hence correspondingly increase in borrowings. We have already witnessed commencement of interest rate cycle reversal and further cuts from here on would be very positive for the company in terms of refinancing options for its projects like it did for North Karnataka Expressway project (NKEL) through Separately Transferable Principal Parts (STRPPS).
- ❑ **Sufficiently-funded for current projects.** With current portfolio of projects, we expect ITNL to need nearly Rs 16-17 bn of equity investments including the recently awarded projects where financial closure is not yet achieved. Company has till date invested nearly Rs 27.9 bn as equity across its projects and we believe that further requirement of Rs 16-17 bn to be invested in next 2.5-3 years is expected to be met by internal accruals.
- ❑ **Attractive valuations.** At current price of Rs.189, stock is trading at 6.8x and 6.9x P/E and 9.2x and 9.3x EV/EBITDA on FY13 and FY14 estimates. We value the company on sum-of-the-parts valuation methodology taking into account valuation of construction business, BOT project and urban transportation related projects and arrive at a one year forward target price of Rs.237.

We initiate coverage on IL&FS Transportation Network with BUY recommendation and with a price target of Rs.237

Key risks and concerns

- ❑ Delays in financial closure of recently awarded projects
- ❑ Lower than expected toll revenues or slowdown in traffic growth
- ❑ Execution delays
- ❑ Slower than expected decline in interest rates
- ❑ Delay in award of new projects from NHAI or state authorities

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
27-Sep	Aarey Drugs	Ridhisidhi Financial Advisory Pvt Ltd	S	70,299	50.37
27-Sep	Ankush Finstock	Jagrut Saidas Vanjare	B	36,908	11.62
27-Sep	Arcuttipore Tea	Seema Garg	B	26,000	27.52
27-Sep	Epic Energy-\$	KKK Investments Ltd	S	119,485	11.96
27-Sep	Longview Tea	Laxmi Kant	B	59,049	10.75
27-Sep	Longview Tea	Uco Bank	S	66,197	10.75
27-Sep	Monarch Health	Networth Stock Broking Ltd	S	48,000	42.26
27-Sep	Monarch Health	Vishal Sharma	B	48,000	42.26
27-Sep	Parekh Alum	Pacific Corporate Services Ltd	B	68,176	319.99
27-Sep	Pasupati Fin	Pawan Kumar Aggarwal	B	50,000	18.32
27-Sep	Pasupati Fin	Charishma Engineering Ltd	S	33,000	18.13
27-Sep	PG Electroplast	Satish Gogia	S	85,000	219.85
27-Sep	RFL Intl	Bhailal Devrajbhai Patel	S	74,000	8.18
27-Sep	RFL Intl	Santosh Kumar	B	74,000	8.18
27-Sep	Shriram City Uni	SBI Mutual Fund Ac Msfuebf	B	456,666	750.00
27-Sep	Shriram City Uni	Van Gogh Limited	S	456,666	750.00
27-Sep	Tai Inds-\$	Camberley Investments Ltd	S	106,002	6.24
27-Sep	Tai Inds-\$	Jai Pitreshwar Vyapaar Pvt Ltd	B	84,905	6.24
27-Sep	Triochem Prod	Mehrangarh Financial Advisors P Ltd	B	6,700	14.70
27-Sep	Triochem Prod	Ramesh Rajaram Patil	S	6,700	14.70

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
L&T	1,598	2.3	6.2	2.0
ITC	267	1.2	5.5	12.3
Hindustan Unilever	538	2.1	3.6	2.5
Losers				
Reliance Ind	830	(1.8)	(7.9)	7.0
Infosys	2,549	(1.5)	(6.1)	1.7
ICICI Bank	1,055	(1.0)	(3.7)	4.7

Source: Bloomberg

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