

Stock Compendium

09 July 2010

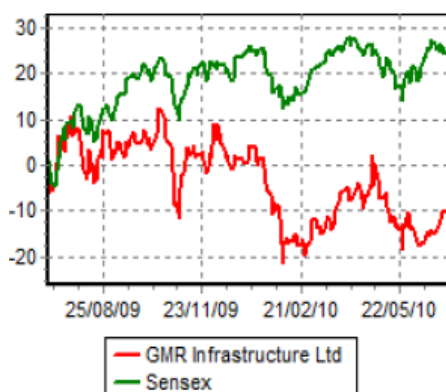
In the past month we have looked at various stocks which have been in the news. We decided to have a reality check as to whether these stocks justify the valuations they trade at. The results of our analysis are presented in this report. We believe this short analysis of ours will help the investors take better informed decisions.

Stock	Recommendation	CMP	Page No.
GMR Infra	Buy	58.90	1 - 2
NHPC	Sell	31.45	2 - 3
Advanta	Hold	492.00	3 - 4
KS Oils	Accumulate	56.55	4 - 5
Bajaj Hindusthan	Sell	121.40	6

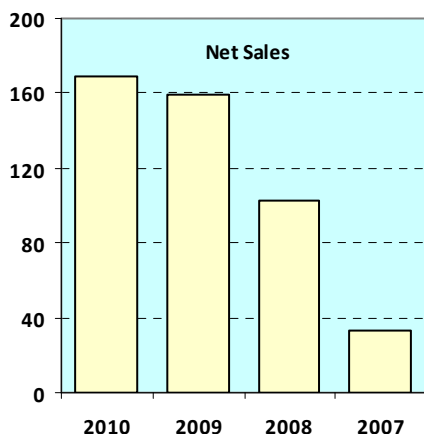
GMR Infrastructure

CMP: 58.90

BUY



Relative Performance Chart

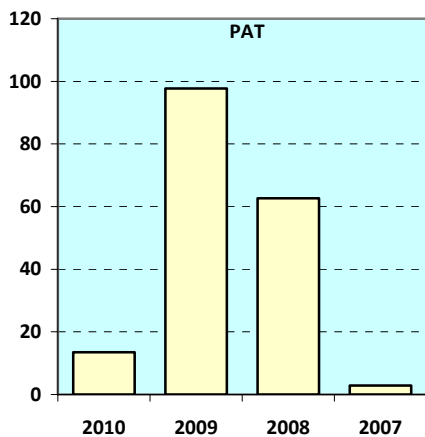


Consistent sales growth, likely to be even better after new terminal is opened at Delhi Airport

The company has three main revenue streams viz. Airport's Operations, Power Generation and Road Construction. All the businesses entail asset ownership and provide income in form of annuities.

- Airports segment: The Company is the operator for two international airports- Delhi and Hyderabad. Delhi airport recorded strong passenger traffic growth of 14% y-o-y in FY2010. Hyderabad airport lagged behind and reported a modest 4.6% y-o-y growth; total passenger traffic at Hyderabad airport for FY2010 was 65 lakh, still below FY2008 level of 70 lakh.
- Power segment: Power segment reported 26% y-o-y decline in power revenues in Q4FY10 as Karnataka plant was out of operation for relocation. PAT was boosted by recognition of Rs.70 crore deferred tax asset for Vemagiri plant. Vemagiri continues to operate at high PLF (Plant Load Factor) of 90% while other power plant with PLF at 64%, appears to be recovering back to historical 75-80% level after falling to 45% in Q3FY10.
- Roads segment: The Company reported monthly toll collection of about Rs.9.9 crore in Q4FY10, about 50% below expectation, likely due to lower traffic count. GMRI has achieved financial closure for Hyderabad-Vijaywada and expects closure of Chennai projects in the next few days. GMR has recently secured Rs.1700 crore Hungund - Hospet project and expects financial closure in a few months.

The management has guided that it will require Rs.6500 crore of equity for the upcoming power projects over the



PAT suffered on higher interest outgo for new terminal at DIAL and one time income in FY 2010

next 3-4 years, in addition to Rs.1500 crore already invested by the company. Additionally, the three new road projects would require equity investments of about Rs.600-700 crore. The company mentioned that it is in advance talks to raise about US\$100 mn in GMR Energy through Private Equity investment which would be structured similar to the Temasek US\$200 mn investment. The company has already raised US\$300 mn through a QIP. The management also mentioned that it would have sufficient funds for equity requirement of existing projects for about next two years.

GMR has subsidiaries in diverse business segments so any comparable valuation method is not likely to reveal a true picture. As a ballpark figure the valuation of major business segments is as follows:

- ~Rs.25/share from the Delhi airport and associated real estate development,
- ~Rs.11/share from Hyderabad airport and associated real estate & SEZ development,
- ~Rs.3/share from road projects,
- ~Rs.14/share from power plants under advanced stage of development,
- ~Rs.1/share from Krishnagiri SEZ development and
- ~Rs.3.5/share of net cash.

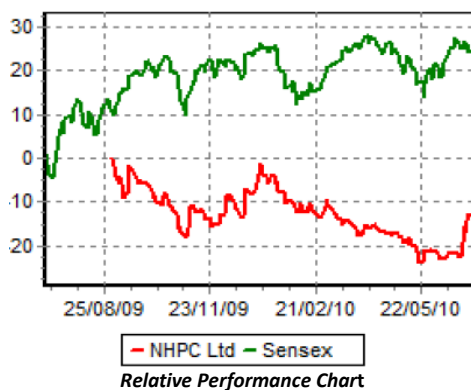
Further the power projects under initial phase of development could potentially contribute ~Rs.12/share while the coal mines could add an additional Rs.4/share to the value of the company. However as the projects are in initial stages of development, we attribute a discount factor of 50% to these projects. Thus these projects can Rs.8 to the valuation.

SOTP of the company would be thus Rs.65.5. Upsides would come from future development opportunities and the strong execution track record of the company.

NHPC

CMP: 31.45

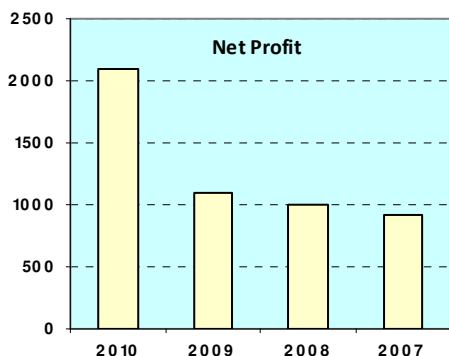
SELL



India has historically been a power deficient country. However to augment the infrastructure and sustain the growth momentum, power sector has been a thrust area for the government. Thus on a sectoral basis we are overweight on the sector as a growth play on the Indian Economy.

NHPC is the largest Indian hydro-power company. It currently operates thirteen hydro power plants with an installed capacity of 4.2 GW. The company over the course of next six years aims to double its capacity by installing a combined power capacity of 4.6 GW by installing eleven new projects which are in various stages of execution. The result for the latest March quarter was tepid.

Though the company has a superior generation base and



Profits rose after commissioning of a new plant, likely to remain flat in coming years

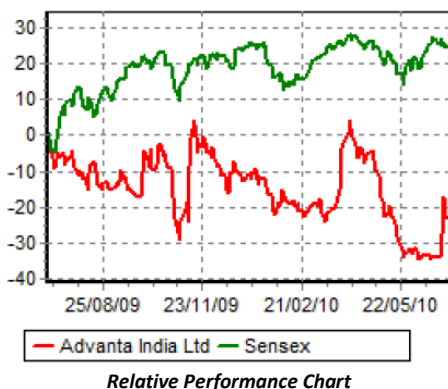
technical know how in hydro electricity generation, it suffers from a slow execution track record and has been slow in execution of its products. The company is an inefficient user of capital. Despite having a RoE of 15.5% on its hydro-electric projects, the implied RoE for the company drops to 6-7% due to high cash and capital work in progress. The company has high cash on its books and till these are deployed into viable projects it will continue to have lower RoE and this will lead to lower valuations for the company.

A fresh capacity of 396 MW is expected to be available for sale this year. Another 1052 MW is expected to be operational by FY12. The company is currently trading close to 1.7 times its FY10 book value. However all these are already factored into the price. For a very patient investor willing to hold onto the stock for five or more years, the stock may fetch some returns. However, we believe there are better stocks available in the power space viz. NTPC, Tata Power which can reward investors better.

Advanta Limited

CMP: 56.55

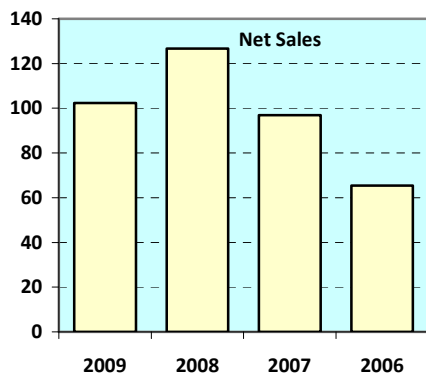
HOLD



Relative Performance Chart

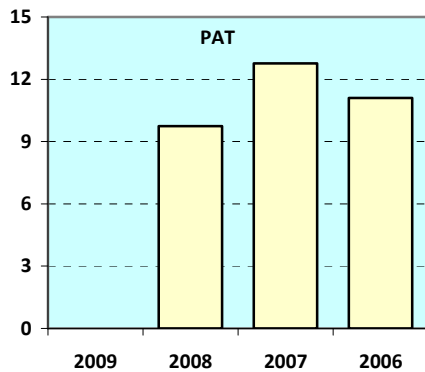
The core business of Advanta is seeds and agricultural biotechnology. It has global operations in seeds. Advanta is the largest sorghum seed company in the world today and has leadership position in some of the other crops like Sunflower, Tropical Corn, Mustard and Sweet Corn. Advanta has taken giant strides in the last four year period to emerge as one of the fastest growing seed and biotech Companies in the world. It has sharp focus on its strategies, enhanced research investments, acquired five businesses around the world, and entered the vegetables seed business for the first time, made investment in biotech area, introduced first transgenic crops in India, Argentina and Australia. It has set up a global supply chain function.

The need for continuously increasing agricultural productivity is high on the priorities of many countries including India. This is possible only by increasing the genetic potential of the seeds on a continuous basis. Enhanced demand for bio-fuels and healthy oils is also pushing up the business prospects for some crops like sorghum and sunflower. Seed is the most critical input in this process. So, the demand for good quality hybrid seeds will keep increasing around the world particularly in Asia, Latin America and Africa. This is the biggest opportunity for Advanta.



Net sales fell in FY09 on account of poor monsoons, likely to pick up this year

Use of biotechnology in agriculture is going up rapidly and is creating additional value for the farmers and the seed industry. This is another area of opportunity which Advanta is trying to tap into. The company has now got global exclusive licenses for some important GM traits like drought tolerance, salt tolerance and Nitrogen Use Efficiency for application in different crops.



Losses in FY09 should turn into profits in FY2010 on account higher sowing due to good monsoon

Weather remains to be the most important area of risk and concern in this business particularly because of climate change and variations in weather in different parts of the world. The weather impacts our sale as well as our seed production. With the meteorological department predicting good monsoon season in India, the main market for Advanta, the prospects for the company look bright.

Despite the good outlook, the seasonality of the business weighs heavily on the stock performance. Most of the sales are in June quarter, the traditional time for sowing seeds in India. As most of the agriculture in India is dependent on monsoon rains, the stock is unduly exposed to vagaries of the nature. Last years when the monsoons' rains were scanty, the sales of the company tanked and it reported losses and negative operational cash flows.

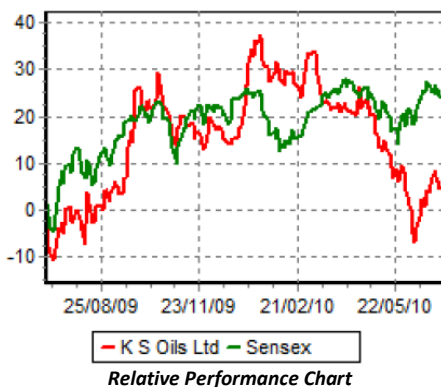
This year with the monsoon is slated to be good and the company is expected to report good set of numbers. However, as prediction of rain in fraught with danger and if god forbid, the rains are not plentiful; it could weigh heavily on the stock. This is what leads us to not be too bullish on the stock despite good business environment and attractive valuations.

At CMP the stock trades close to 1.8 times its book value. (Any P/E comparison is rendered meaningless as the company reported losses in its trailing four quarters. The results of the latest March quarter also were disappointing due to the reasons outlined above). The stock is currently trading close to its multi-year lows. If it falls to below Rs.400, the stock can be added in small quantity.

KS Oils

CMP: 56.55

Accumulate



K S Oils is in the business of manufacturing and marketing of branded crude mustard (rapeseed) oil and refined mustard/other edible oils.

- The Company is the largest processor of rapeseed in India
- Largest player in the crude mustard oil market
- Largest exporter of rapeseed de-oiled Cake
- Significant presence in the refined oil market (soyabean/palm)
- Other products include vanaspati, de-oiled cakes, solvent and fatty acids and other oils

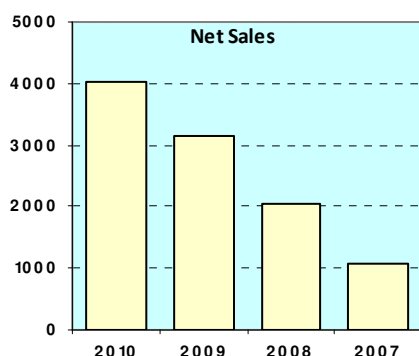
Manufacturing facilities are located in Madhya Pradesh and Rajasthan. The manufacturing units are located in Morena, Ratlam, Guna in Madhya Pradesh and Jodhpur, Alwar, Kota in Rajasthan. It has a strong distribution network with 32 C&F

agents, 1,133 distributors and over 1,70,000 retailers.

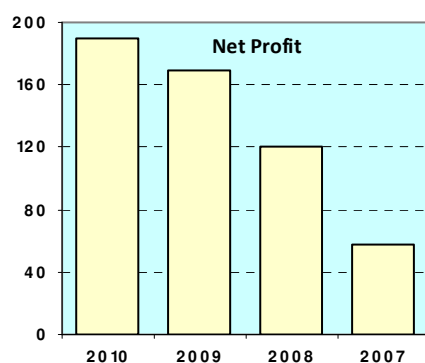
The Company has established brands with high brand recall in their respective segments:

- Mustard Oil (Kalash and Double Sher)
- Kalash is the flagship brand throughout all mustard oil consuming states
- Double Sher has nearly 30% market share in the North East and enjoys a premium over other brands. The brand has high penetration and acceptance in the rural areas.
- Refined Oils (Kalash, KS and KS Gold)
- Vanaspati (KS Gold and KS Gold Plus)

- Ongoing consolidation in the mustard/ domestic oilseed sector and conversion of unorganized (70%) to organized market (30%)
- Continued growth in the Indian edible oil industry fuelling need for organic growth through greenfield projects to tap other cultivating regions
- Backward integration (plantations and power generation) and forward integration (value added products for personal care and oleo chemicals)



Consistent growth in Sales over years



Consistent growth in profits over years

The integrated nature of the manufacturing units of the Company's divisions is a very important source of KS Oil's high profitability. Significant operational efficiencies by reducing power and fuel costs, chemical costs and increasing automation have been achieved.

- Largest rapeseed crushing capacity in India 4,650 MT/day
- Four times more than the nearest competitor (Gokul Refoils – 690 MT/ day)
- It has integrated manufacturing facilities across 5 locations in oilseeds belt.
- It is a market leader ~ 11% market share of mustard oil market (Rs. 13,000) 25% share of the organized mustard oil market.

Self sufficiency by global agri-companies in raw material sourcing will help insulate against short supplies and spiralling prices. The company has taken steps to achieve the same by owning plantations in Asian tropical countries:

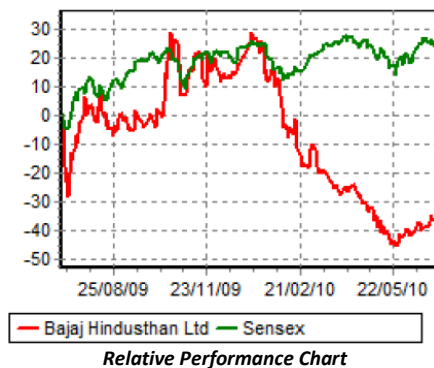
- 900 acres of palm plantations in Malaysia
- 50,000 acres of palm plantation land in Indonesia
- 88,000 acres of palm plantations in Indonesia

At the CMP the stock trades at a TTM P/E ratio of 14.14 and a P/BV ratio of 2.19. This is inline with other agri-processing companies. However, when we view from Market Cap / Sales ratio the stock looks cheap. It trades at a Market Cap/ Sales ratio of 0.67. We advise accumulate on dips.

Bajaj Hindusthan

CMP: 121.40

Sell



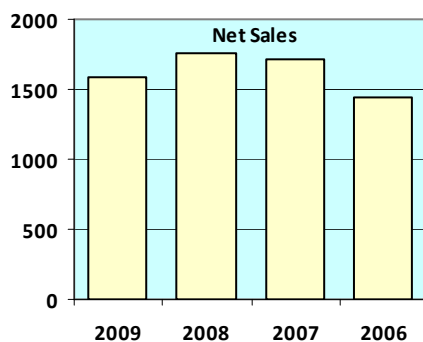
With average sugar realisation at Rs.32.90/kg (up 62% Y-o-Y) and 17-18% lower sugar volume at about 1.46 lakh tonne, Bajaj Hindusthan reported net revenue (including other operating income) of Rs.632 crore for the quarter ending Mar 2010, up 22% y-o-y. However, the Operating Profit Margin dipped from 39.9% to 22.6% on the back of higher cane cost during the season as the company paid Rs.247 per quintal (100 kg) of sugarcane in Oct'09 - Mar'10 against Rs.150 per quintal in last season. The resultant operating profit came down 31% y-o-y to Rs.142.56 crore. Revenue in sugar segment was up 38% Y-o-Y at Rs.564 crore while that in power segment was up 110% y-o-y to Rs.104.74 crore. AT PBIT level, the sugar profit dipped 11% y-o-y to Rs.27.19 crore while in Power, profit surged 139% y-o-y to Rs.90.06 crore. In the distillery business the PBIT witnessed turnaround from loss of Rs.1.19 crore to Rs.10.26 crore profit.

High interest expenses at Rs.65 crore (up 4% y-o-y) weighed down on the profitability as the lower forex gain (Rs.0.96 crore against Rs.30.46 crore gain in Q2 FY10) was offset by lower tax expenses (at Rs.0.73 crore against Rs.37.42 crore in Q2 FY09 while the effective tax rate dipped from 31.5% to 2.2%). The PAT ended 61% lower y-o-y at Rs.31.79 crore.

The company has announced that its planned 450MW of coal based power plants would be implemented under a 100% owned subsidiary called Bajaj Energy. The parent Bajaj Hindusthan would have a minimum mandated ownership of 26% in this SPV (Special Purpose Vehicle). The company was recently recommended for coal linkages and they have also got into a MoU to sell 90% of the production to the state power board under a fixed return basis.

The company enjoyed an unprecedented 2009 on account of record sugar prices. However, in the last few months, sugar prices tumbled which have led to lower realisations. Sugar prices are cyclical just like other commodities. Currently the prices are trending downwards and we expect them to remain so in the coming few quarters. It might not be an appropriate time to initiate fresh position in the company. We would recommend sell on every rise.

Note - The Financial year for the company extends from October – September.



Sales reached their peak in 2008-09 sugar cycle. Likely to go down in coming years.

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Risk Profile

Low Risk: Fundamentally sound companies, with low beta. Expected market out performance is 0-10%

Medium Risk: Expected market out performance is 10-20%. Preferably for investors with a maximum time frame of about 6 months.

High Risk: High Beta Stocks, expected market out performance is more than 20%, preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

Disclaimer Appendix

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