Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**4,050**	4,829
Infosys	30-Dec-03	689	**1,871**	2,013
L&T	18-Feb-08	3,536	**2,994**	4,044
Opto Circuits	13-May-08	338	**350**	460
Tata Chem	31-Dec-07	411	**399**	535

ICI India

Ugly Duckling

Stock Update

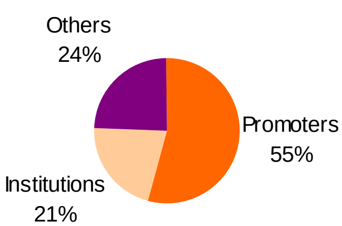
Back on the buying list

Buy; CMP: Rs542

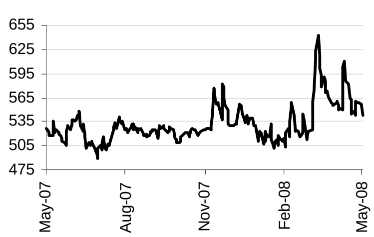
Company details

Price target:	Rs622
Market cap:	Rs2,090 cr
52 week high/low:	Rs679/450
NSE volume: (No of shares)	9,397
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float: (No of shares)	1.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.2	9.3	5.7	11.1
Relative to Sensex	-4.2	11.6	18.0	-8.7

Result highlights

- For Q4FY2008 ICI India has reported a sales growth of 9% year on year (yoy) to Rs220.0 crore; the same is as per our expectations. The paints business of the company grew by 7.9% yoy to Rs183.9 crore whereas the adhesives business (which is a "discontinuing" business) achieved a growth of 20.6% to Rs31.6 crore.
- The operating profit margin (OPM) declined by 30 basis points yoy to 8.7% during Q4FY2008. The margin declined mainly because of higher raw material and employee costs, which grew by 9.2% and 22.1% respectively. The operating profit increased by 6.1% to Rs19.2 crore.
- The other income stood at Rs1.5 crore, which is lower compared with the previous year's other income of Rs36.2 crore. The other income was lower in Q4FY2008 because in Q4FY2007 the other income had included a dividend income of Rs31.1 crore from Quest International India prior to the latter's divestment.
- The lower other income and higher incidence of tax led to a decline of 24.0% in the adjusted net profit to Rs9.6 crore in Q4FY2008 as compared with Rs12.7 crore during the corresponding quarter of the previous year.
- As part of its global strategy, ICI India's adhesive business is being sold to an Indian affiliate of the Henkel group for a total consideration of Rs260 crore, subject to adjustments for actual working capital and cash balances. The company has obtained the approval of its shareholders for the sale. The completion of the transaction requires certain regulatory approvals and will be accounted for after the receipt of the same.
- For FY2008 the consolidated net sales dropped by 6.3% yoy to Rs951.2 crore. The raw material cost as a percentage of sales declined by 270 basis points yoy to 58.6% during the year, leading to a 70-basis-point improvement in the OPM to 11.6%.
- We remain positive on ICI India primarily on account of its focus on the paints business, the good prospects for the paint industry and the huge pile of cash at the

Result table Rs (cr)

Particulars	Q4FY2008	Q4FY2007	% yoy	FY2008	FY2007	% yoy
Net sales	220.1	201.8	9.0	951.2	1015.2	-6.3
Other income	1.5	36.2	-95.7	21.8	42.1	-48.3
Total income	221.6	238	-6.9	973.0	1057.3	-8.0
Total expenditure	200.8	183.7	9.3	840.7	904.3	-7.0
EBIDTA	20.8	54.3	-61.8	132.3	153	-13.5
Interest	-0.4	0.1	-357.1	0.1	2.1	-97.6
Depreciation	5.8	5.5	5.3	23.0	35.5	-35.7
PBTand extraordinary item	15.3	48.6	-68.5	109.2	115.4	-5.4
Adjusted Profit after tax	9.6	12.7	-24.3	72.3	87.4	-17.3
OPM (%)	8.7	9.0	-24 bps	11.6	10.9	70 bps

company's disposal that opens up opportunities for organic and inorganic growth.

- At the current market price of Rs542 the stock is trading at 15.7x (net of cash on books) its FY2010E core earnings per share (EPS) of Rs17.6. We upgrade our recommendation on the stock from Hold to Buy with a price target of Rs622.

Sales growth as per our expectation

ICI India's sales growth of 9.0% yoy to Rs220.1 crore in Q4FY2008 is as per our expectations. The paints business posted a 7.9% growth in sales to Rs183.9 crore during the quarter. However, on a year-on-year (y-o-y) basis, the numbers of the paints business are not comparable, as the company had sold off its advanced 2K refinished paints business in March 2007. Excluding the sales of this business, the like-to-like growth of the paints segment was at 16% yoy. The impressive sales growth was achieved through the sales of more value-added products in this quarter. The adhesives business (which is a "discontinuing" business) grew by 20.2% to Rs31.6 crore. The other chemical business, which includes polymer and food starch, saw a decline of 4.0% during the quarter.

Segmental sales (gross) Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy chg
Paints	183.9	170.5	7.9
Chemicals	4.6	4.8	-4.0
Total (continued businesses)	188.5	175.2	7.5
"Discontinuing" business	31.6	26.3	20.2
Total revenues	**220.1**	**201.5**	**9.2**

During the fourth quarter, the profit before interest and tax (PBIT) margin for the paints business and the "discontinuing" adhesives business shrunk by 45 basis points and 188 basis points respectively, causing the overall PBIT margin to decline by 21 basis points to 8.4% yoy. However, the segmental profit for the total chemical business increased by 19.7% yoy on account of an improved product mix and the price actions implemented across product lines.

Segmental PBIT Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy chg
Paints	11.9	11.8	0.77
PBIT margins (%)	6.4	6.9	-45bps
Chemicals	1.18	0.5	136.0
PBIT margins (%)	25.7	10.4	1521bps
"Discontinuing" business	2.8	2.8	-1.1
PBIT margins (%)	8.8	10.7	-188bps
Total Chemicals	4.0	3.3	19.7
PBIT margins (%)	10.9	10.6	29.7bps
Total PBIT	15.8	15.1	4.91
PBIT%	8.4	8.6	-21bps

The OPM for the quarter declined by 30 basis points to 8.7% against 9.0% in Q4FY2007. This was mainly due to a higher employee cost, which increased by 22.1% yoy to Rs13.5 crore during the quarter. The operating profit marginally increased by 6.1% yoy to Rs19.2 crore during the quarter. The other income stood at Rs1.5 crore, which is lower compared with the previous year's other income of Rs36.2 crore. The other income was lower in Q4FY2008 because in Q4FY2007 the other income had included a dividend income of Rs31.1 crore from Quest International India prior to the latter's divestment. A lower other income coupled with a higher tax incidence led to a drop of 24% yoy in the adjusted net profit to Rs9.6 crore during the quarter. The exceptional item of Rs7 lakh for the quarter includes adjustments in respect of the divested business and is not comparable with the income of Rs190.5 crore earned in the previous year from the sale of the company's shareholding in Quest International India and the 2K paint business. As a result, the reported net profit of Rs9.7 crore is not comparable with the reported net profit of Rs184.4 crore in the corresponding quarter of the previous year.

Divestment of adhesive business

After the acquisition of ICI Plc, ie the parent company of ICI India, AKZO Nobel had made clear its strategy to concentrate on ramping up the paint business of ICI Plc and divest the other businesses. As part of the global strategy, ICI India's adhesive business is being sold to an Indian affiliate of the Henkel group for a total consideration of Rs260 crore, subject to adjustments for the actual working capital and cash balances. The proposed sale enjoys the approval of the shareholders. The completion of the transaction requires certain regulatory approvals and will be accounted for after the receipt of the same. The adhesives business contributes around 80% to the total chemical sales whereas the food starch and polymer businesses together contribute the remaining 20% to the total chemical sales.

Buy-back of shares

In keeping with its ongoing buy-back scheme, till FY2008 the company had bought back 24.91 lakh shares at an average price of Rs529 per share for an aggregate consideration of Rs131.8 crore. This constitutes 6.0% of the paid-up equity capital as against the target of buying back 36.7 lakh shares. This includes 1.8 lakh shares bought back during the quarter for an aggregate consideration of Rs19.2 crore.

Valuation and view

We remain positive on ICI India primarily on account of its focus on the paints business, the good prospects for the paint industry and the huge pile of cash at the company's disposal that opens up opportunities for organic and inorganic growth. At the current market price of Rs542 the stock is trading at 15.7x (net of cash on books) its FY2010E core EPS of Rs17.6. We upgrade our recommendation on the stock from Hold to Buy with a price target of Rs622.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs cr)	49.6	87.4	72.3	108.8	119.2
Shares in issue (cr)	4.1	4.1	3.8	3.8	3.8
EPS (Rs)	12.1	21.4	18.8	28.4	31.1
% y-o-y change		*76.1*	*-11.9*	*50.6*	*9.5*
P/E (x)	44.6	25.3	28.8	19.1	17.4
Book value (Rs)	132.7	212.8	202.4	225.3	256.3
P/BV (x)	4.1	2.5	2.7	2.4	2.1
EV/Sales (x)	1.9	1.4	1.5	1.4	1.2
EV/EBITDA (x)	17.8	12.5	12.6	12.3	9.6
RoNW (%)	9.3	12.4	8.8	13.3	12.9
RoCE (%)	10.9	8.6	11.1	10.1	10.1

The author doesn't hold any investment in any of the companies mentioned in the article.

Tata Chemicals

Ugly Duckling

Stock Update

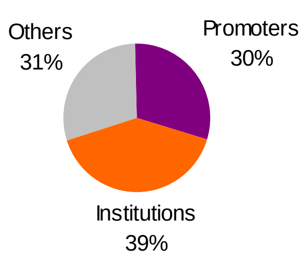
Hardening soda ash prices augur well

Buy; CMP: Rs400

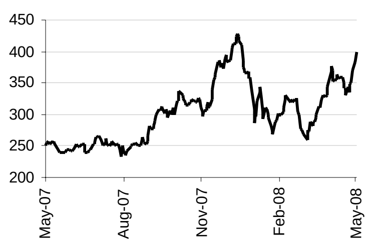
Company details

Price target:	Rs535
Market cap:	Rs8,604 cr
52 week high/low:	Rs420/187
NSE volume: (No of shares)	5.8 lakh
BSE code:	500770
NSE code:	TATACHEM
Sharekhan code:	TATACHEM
Free float: (No of shares)	15.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.0	29.1	23.0	66.2
Relative to Sensex	7.1	31.8	37.3	36.6

GCIP hiked soda ash prices

Tata Chemicals' newly acquired US subsidiary, General Chemical Industrial Products Inc. (GCIP), has increased contract prices by US$50 per short tonne and spot prices by US$75 per short tonne for all bulk and packaged soda ash shipments with immediate effect. The revised spot price (FOB Green River, Wyoming) ranges between US$260 and US$290 per net tonne excluding energy surcharge of US$7.5 per net tonne. GCIP is the second largest soda ash producer in the USA. Following this, FMC Wyoming Corporation, which is the largest US soda ash producer, has also announced a US$50 hike in the list and off-list prices for all grades of soda ash effective July 1, 2008, or as contract terms permit.

Impact analysis

The jump in soda ash prices has been primarily on account of soaring energy costs and extremely high demand in Latin America and Asia. In addition, the rising domestic demand and production disruptions in some regions have led to a slower than expected growth in the Chinese exports, resulting in a steep rise in the Chinese export prices during Q1CY2008.

The increase in soda ash prices is expected to spread to the other parts of the world, as exports constitute almost 60% of the total production in the USA. Considering hikes of US$15 each effected in the last two years, the latest price hike of US$50-75 reaffirms the strong pricing scenario across the globe.

Valuation and view

We would revise our earnings estimates after the announcement of the company's Q4FY2008 results. We would revise the soda ash pricing assumption upwards by 5%. We would also revise the rupee-dollar exchange rate assumption from 37.5 to 41 for FY2009 and from 36.5 to 39.5 for FY2010 as the company would benefit from the rupee's depreciation vis-à-vis the dollar. However, rising coke and coal prices would lead to lower profit margins. This would lead to a revision of our earnings estimates by 10-12%. At the current market price of Rs400, the stock is trading at 13.5x its FY2009E diluted earnings and an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 6.6x. We maintain our Buy recommendation on the stock with a price target of Rs535.

Key financials

Key financials	FY06	FY07	FY08E	FY09E	FY10E
Net sales (Rs cr)	4034.4	5809.6	6141.8	6992.8	7533.3
Net profit (Rs cr)	433.0	511.9	526.6	722.0	856.3
No of shares (cr)	21.516	21.516	21.516	21.516	21.516
EPS (Rs)	17.6	20.9	21.6	29.6	35.2
% y-o-y change	-	19	4	37	19
PER (x)	22.7	19.2	18.5	13.5	11.4
Price/BV (x)	4.4	3.8	3.4	2.9	2.5
EV/EBIDTA(x)	12.3	9.3	8.5	6.6	5.5
RoCE (%)	14.8	17.5	18.6	23.8	26.6
RoNW (%)	19.4	19.8	18.4	21.6	22.1

Thermax

Emerging Star

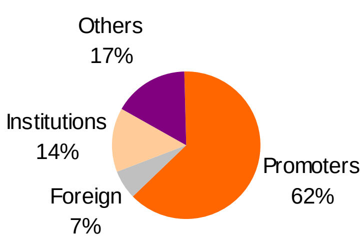
Stock Update

Q4FY2008 results: First-cut analysis

Buy; CMP: Rs465

Company details	
Price target:	Rs633
Market cap:	Rs5,536 cr
52 week high/low:	Rs919/310
NSE volume: (No of shares)	67,898
BSE code:	500411
NSE code:	THERMAX
Sharekhan code:	THERMAX
Free float: (No of shares)	4.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-11.8	-28.5	-49.2	11.9
Relative to Sensex	-15.7	-27.0	-43.3	-8.0

Result highlights

- For Q4FY2008 Thermax has reported a growth of 18.8% in its consolidated revenues to Rs1,017.3 crore. The sales growth is in line with our expectation.
- The energy division continues to drive the company's growth; during the quarter the division's revenues grew by 20.5% to Rs815.8 crore. The environment division's revenues increased by 5.2% on a high base to Rs221.3 crore.
- The operating profit of the company grew by 28.7% to Rs136.4 crore. The operating profit margin improved by 100 basis points on a year-on-year basis to 13.4%. The margin improvement was led by operating leverage and reduced raw material cost as a percentage of sales. The raw material cost stood at 58.9% as against 66% in the corresponding quarter of the previous year.
- The interest expenses grew by 60% to Rs0.6 crore while the depreciation charge rose by 25.2% to Rs6.8 crore.
- The net profit before the extraordinary items increased by 20.9% to Rs80.9 crore. The net profit is marginally lower than our expectation owing to a lower than expected other income and a higher than expected tax rate. The tax rate for the quarter stood at 43.2%.
- At the end of FY2008 the company had an order book of Rs2,637 crore. The company is witnessing a slowdown in order inflows.
- We would revisit our estimates and price target after attending the conference call of the management and bring to you our revised estimates. Though we may moderate our earnings estimates, we continue to recommend a Buy on the stock.

Result table Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy chg
Net sales	1017.3	856.5	18.8
Total expenditure	880.9	750.5	17.4
Operating profit	136.4	106.0	28.7
Other income	13.2	12.3	7.5
EBIDTA	149.6	118.3	26.5
Interest	0.6	0.4	60.0
Depreciation	6.8	5.4	25.2
PBT	142.2	112.5	26.4
Tax	61.4	45.7	34.4
PAT	80.8	66.8	20.9
Extraordinary Items	2.1	4.1	-
Reported PAT	82.9	62.7	32.3
EPS	7.0	5.3	32.3
Margins			
OPM (%)	13.4	12.4	
PATM (%)	7.9	7.8	

Bharat Forge

Viewpoint

Subsidiaries drag FY2008 performance

CMP: Rs294

Result highlights

- The stand-alone Q4FY2008 results of Bharat Forge Ltd (BFL) are in line with the consensus estimate. The consolidated results are below expectations due to the poor performance of the subsidiaries.
- On a stand-alone basis, the sales grew by 12.3% to Rs580 crore during the quarter. The domestic sales grew by 4.4% and the exports grew by 22.8%.
- Despite a rise in the prices of its raw materials the company's raw material cost did not rise in this quarter because it had contracted the raw materials at a lower cost. As a result, the operating profit margin (OPM) for Q4FY2008 increased by 70 basis points to 24.8%, leading to a growth of 15.6% in the operating profit to Rs144 crore.
- The stand-alone profit after tax (PAT) for Q4FY2008 grew by 6.3% to Rs68.3 crore.
- For FY2008 the stand-alone sales grew by 17.8% to Rs2,196.5 crore, the operating profit grew by 11.7% and the adjusted PAT declined by 11.4% to Rs217.2 crore.
- The consolidated FY2008 sales grew by 11.3% to Rs4,652.3 crore. The reported PAT grew by 3.7% year on year (yoy) to Rs301.5 crore against Rs290.6 crore in FY2007. The consolidated performance remains adversely affected by a lower than expected improvement in the company's Chinese operations as well as a slowdown in its US operations.
- BFL's plan to expand into the non-auto segment is on track and it is setting up two plants, one each in Baramati and Pune, which are expected to commence operations from Q4FY2009 and Q1FY2010 respectively. BFL has entered into a joint venture with National Thermal Power Corporation (NTPC) to manufacture power equipment.
- The recovery in the domestic commercial vehicle (CV) market has got delayed due to the rising prices of steel and strong interest rates. The US CV market is expected to be volatile in the current year. The de-risking strategy by diversification in the non-automotive space will bear fruits only from FY2010 onwards. At the current market price of Rs294, the stock quotes at a price/earnings ratio of 21.7x its FY2008 consolidated earnings and an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 10.0x.

Stand-alone performance-in line with expectations

The sales for Q4FY2008 grew by 12.3% to Rs580 crore. The domestic sales grew by 4.4% and the exports grew by 22.8%. Despite a rise in the prices of its raw materials the

Result table Rs (cr)

Particulars	Standalone FY08	FY07	% yoy	Consolidated FY2008	FY2007	% yoy
Net sales	**2196.5**	**1864.4**	**17.8**	**4652.3**	**4178.3**	**11.3**
Expenditure	1674.3	1396.8	19.9	3947.8	3531.9	11.8
Operating profit	**522.2**	**467.6**	**11.7**	**704.5**	**646.4**	**8.9**
Other Income	62.3	78.4	-20.5	78.2	92.4	-15.4
Interest	105.0	82.1	27.9	126.9	106.7	18.9
Depreciation	138.9	99.8	39.2	227.1	188.1	20.7
PBT	340.6	364.1	-6.5	428.7	444.0	-3.4
Tax	123.4	118.9		158.9	152.9	
PAT	**217.2**	**245.2**	**-11.4**	**269.8**	**291.1**	**-7.2**
Extraordinaries	56.4	-4.3		21.1	-7.7	
Adjusted PAT	**273.6**	**241.0**	**13.5**	**290.9**	**283.4**	**2.6**
Add: Share of profit in associate co				0.12		
Less: Minority interest				10.6	7.12	
Reported PAT attributed to consolidated grp				301.5	290.6	3.7
EPS	9.7	11.0		13.5	13.1	
OPM (%)	23.7	25.1		15.1	15.5	

company's raw material cost did not rise in this quarter because it had contracted the raw materials at a lower cost. As a result, the operating profit margin (OPM) for Q4FY2008 increased by 70 basis points to 24.8%, leading to a growth of 15.6% in the operating profit to Rs144 crore. The stand-alone adjusted PAT for Q4FY2008 grew by 6.3% to Rs68.3 crore.

In order to re-organise and restructure its holdings in its global ventures BFL has sold its interests in BF Betellingungs Gmbh (the holding company for BF Kilsta and FAW BF) to CDP BF Gmbh, leading to a profit of Rs30.3 crore in the stand-alone financials. BFL's Q4FY2008 PAT after considering the impact of the foreign exchange (forex) gain/loss and extraordinary income grew by 28.9% yoy to Rs82.9 crore.

For FY2008 the stand-alone sales grew by 17.8% to Rs2,196.5 crore, the operating profit grew by 11.7% and the adjusted PAT declined by 11.4% to Rs217.2 crore.

Geographical distribution of revenue Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy
India	333	315	5.7
USA	118	121	-2.5
Europe	120	74	62
Asia Pacific	9	6	50
Total	**580**	**516**	**12.3**

In the export market, the company witnessed a very strong growth in its European and Asia-Pacific exports as the same grew by 62% and 50% respectively.

Consolidated performance—affected by slowdown in the USA

BFL's FY2008 consolidated revenues grew by 11.3% to Rs4,652.3 crore. Its EBIDTA margin at 15.1% was lower compared with 15.5% in FY2007. The PAT after minority interest and profit from associates (before considering the impact of the forex gain/loss and extraordinary items) declined by 5.3% to Rs290 crore. The reported PAT grew by 3.7% yoy to Rs301.5 crore against Rs290.6 crore in FY2007.

The consolidated performance remains adversely affected by the lower than expected improvement in the company's Chinese operations as well as a slowdown in its US operations. The revenues in the Chinese subsidiary grew strongly by 80% to Rs290 crore but the business continues to be loss-making with a loss of Rs70 million (after minority interest).

Expansion into non-auto space on track

The company has increased its focus on the non-automotive segment in the recent times. It had indicated that the contribution of the same would rise from 17% at the end of FY2007 to about 40% in four to five years. The company is in the process of setting up two plants, one each at Baramati and Pune, for increasing its non-automobile capabilities. The two plants for the non-auto business are expected to commence operations from Q4FY2009 and Q1FY2010 respectively. The capital expenditure is estimated at Rs350 crore. The profitability in this segment is higher than that in the automobile segment.

BFL is planning to address sectors such as power and energy, rail and marine, oil and gas, capital goods, metals and mining and aerospace. BFL plans to foray into the manufacture of capital goods such as power equipment in its joint venture with NTPC.

To finance its expansion plans in the non-automotive segment, BFL is planning a rights issue of non-convertible debentures with warrants totaling Rs400 crore.

Outlook

The recovery in the domestic CV market appears to have been delayed due to the rising steel prices and strong interest rates. The US CV market is also expected to be volatile. The Chinese venture is expected to break even by the end of this fiscal. BFL is trying to de-risk its business model by entering the non-auto forging space and manufacturing capital goods. The results of this de-risking exercise will start getting reflected only from FY2010 onwards. At the current market price of Rs295, the stock quotes at a price/earnings ratio of 22.1x its FY2007 consolidated earnings and an EV/EBIDTA of 10.0x.

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Opto Circuits India
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Unity Infraprojects
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India