investor's eye



## Index



## Take Five

| Scrip | Reco Date | Reco Price | CMP | Target |
|---|---|---|---|---|
| Alphageo | 26-Nov-06 | 150 | **428** | 480 |
| Axis Bank | 24-Feb-05 | 229 | **654** | 901 |
| Bharti Airtel | 08-Jan-07 | 625 | **799** | 1,100 |
| India Cement | 28-Sec-06 | 220 | **145** | 260 |
| Lupin | 06-Jan-06 | 403 | **737** | 840 |

# Shiv-Vani Oil & Gas Exploration Services

**Ugly Duckling**

**Stock Update**

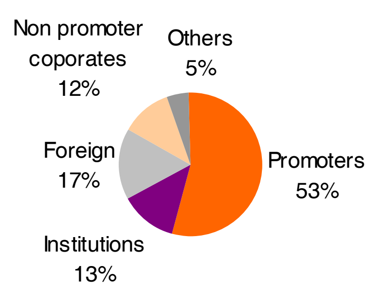
## Good results; order book zooms

**Buy; CMP: Rs552**

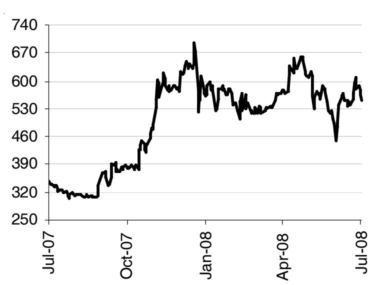
### Company details

| | |
|---|---|
| **Price target:** | Rs725 |
| **Market cap:** | Rs2,430 cr |
| **52 week high/low:** | Rs740/300 |
| **NSE volume:** (No of shares) | 44,387 |
| **BSE code:** | 522175 |
| **NSE code:** | SHIV-VANI |
| **Sharekhan code:** | SHIVVANI |
| **Free float:** (No of shares) | 2.0 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 15.8 | -1.8 | 0.6 | 63.3 |
| Relative to Sensex | 8.7 | 17.9 | 23.9 | 72.4 |

### Result highlights

- Shiv-Vani Oil and Gas Exploration Services' (Shiv-Vani) Q1FY2008 results were ahead of our expectations on the back of improved profitability. The consolidated top line grew by 104% to Rs188.5 crore in line with our estimates. The top line growth was on the back of incremental revenues from the coal bed methane (CBM) project and firm realisations.
- Higher realisations and increased efficiency led to a 280-basis-point year-on-year improvement in the operating margins to 40.2%. Consequently, the operating profits grew by 119.2% to Rs75.7 crore.
- Both the interest and depreciation charges rose in line with our expectations on the back of the capital expenditure (capex) incurred by the firm to acquire new assets. Consequently, the consolidated net profits rose by 110.2% to Rs36.3 crore.
- The company plans to spend close to Rs700 crore in FY2009. It has already taken up its fleet size to 29 rigs at present and plans to take the same to 40 rigs by the end of the fiscal.
- Shiv-Vani's order book has soared to Rs4,800 crore currently, as compared to Rs3,500 crore at the end of FY2008. The order book growth has mainly been driven by an excellent growth in the onshore drilling segment. Its strong order book executable over the next three years imparts great visibility to company's future earnings. Greater focus on onshore blocks in the New Exploration Licensing Policy VII would continue to drive strong growth for the company going forward.

**Result table** Rs (cr)

| Particulars | Q1FY09E | Q2CY2007 | % change |
|---|---|---|---|
| **Net income** | **188.5** | **92.4** | **104.0** |
| Consumption of raw materials | 19.7 | 9.2 | |
| Staff cost | 18.6 | 12.8 | |
| Contract expenses | 43.9 | 19.8 | |
| Oil & lubricant consumed | 10.5 | 6.4 | |
| Administration expenses | 10.2 | 5.3 | |
| Other expenses | 9.9 | 4.4 | |
| Total operating expenses | 112.8 | 57.9 | 94.9 |
| **Operating profits** | **75.7** | **34.5** | **119.2** |
| Other income | 0.5 | 1.7 | |
| EBIDTA | 76.2 | 36.2 | 110.5 |
| Interest | 17.8 | 7.9 | |
| PBDT | 58.4 | 28.3 | 106.3 |
| Depreciation | 10.3 | 6.2 | |
| **PBT** | **48.1** | **22.2** | **117.2** |
| Provision for taxes | 11.8 | 4.9 | |
| **PAT** | **36.3** | **17.3** | **110.2** |
| OPM (%) | 40.2 | 37.4 | |
| PATM (%) | 19.3 | 18.7 | |

- At the current market price, the stock trades at 15.2x FY2009 and 11.6x FY2010 estimated earnings. We maintain our Buy call on the stock with a price target of Rs725.

### Top line continues to surge

The net revenues grew by an excellent 104% in Q1FY2009 to Rs188.5 crore owing to strong realisations and incremental revenue contribution of the CBM project. The realisations continue to remain firm on the back of increasing E&P activities. Recently some of the rigs have been deployed at the rate of $28,000 per day.

### Margins improve further

Higher realisations and improving efficiencies led to further improvement in the margins, as the OPM improved by 280 basis points yoy and by 110 basis points sequentially to 40.2%. The employee cost as a percentage of sales came down to 9.9% as against 13.9% in the same quarter last year.

Higher capex incurred by the company towards asset addition led to an increase in both the interest and depreciation charges of the company, leading to a 110.2% growth in the net profit to Rs36.3 crore.

### Capex plans

Shiv-Vani currently has an asset base of 29 rigs. About three rigs are in the pipeline and are expected to be added by the first week of August 2008. Further the company plans to take the total number of rigs to about 40 rigs by the end of the fiscal year. For FY2009, the company plans to spend close to Rs700 crore as capex in FY2009. The company would be part financing the capex through the warrant issues to promoters (60 lakh warrants convertible at a price of Rs660), while the balance would be met through internal accruals and debt.

### Valuation and view

The company has further strengthened its order book to Rs4,800 crore (executable over the next three years) currently as against Rs3,500 crore as on March 31, 2008. The order book growth has mainly been driven by strong growth in the onshore drilling segment, and the same provides excellent visibility to its earnings. In line with the surge in the E&P activities, the company continues to strengthen its asset base in order to take advantage of the buoyant climate. At the current market price of Rs534, the stock discounts at 11.6x its FY2010E earnings and is quoting at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 8.6x. We maintain our Buy recommendation with a price target of Rs725.

**Valuation table**

| Particulars | CY05 | CY06 | FY08E* | FY09E | FY10E |
|---|---|---|---|---|---|
| Net sales (Rs cr) | 221.0 | 276.8 | 526.6 | 891.7 | 1139.8 |
| Net profit (Rs cr) | 21.2 | 37.1 | 98.7 | 159.6 | 209.5 |
| No. of shares (crs) | 3.7 | 4.4 | 4.4 | 4.4 | 4.4 |
| EPS (Rs) | 5.7 | 8.4 | 22.5 | 36.3 | 47.6 |
| YoY change (%) | - | 47.4 | 166.1 | 61.6 | 31.3 |
| PER (x) | 83.4 | 65.5 | 24.6 | 15.2 | 11.6 |
| Price/BV (x) | 9.4 | 11.0 | 7.5 | 4.9 | 3.5 |
| EV/EBIDTA(x) | 24.5 | 27.4 | 14.8 | 10.3 | 8.3 |
| Dividend yield (%) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| RoCE (%) | 14.4 | 18.1 | 36.3 | 39.2 | 35.1 |
| RoNW (%) | 10.1 | 10.4 | 16.9 | 19.3 | 18.9 |

*15 months

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

# Sun Pharmaceutical Industries

**Ugly Duckling**

## Stock Update

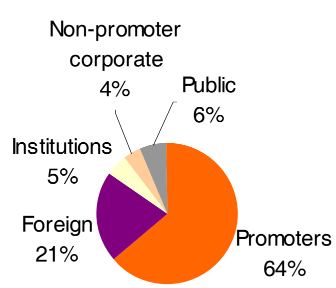
## Results beat expectations

**Buy; CMP: Rs1,410**

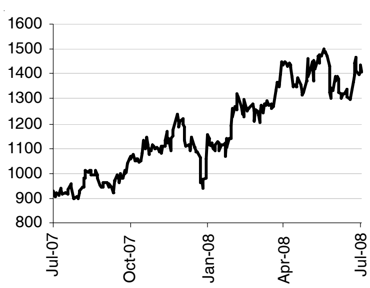
### Company details

| | |
|---|---|
| **Price target:** | Rs1,640 |
| **Market cap:** | Rs29,228 cr |
| **52 week high/low:** | Rs1,515/886 |
| **NSE volume:** (No of shares) | 3.0 lakh |
| **BSE code:** | 524715 |
| **NSE code:** | SUNPHARMA |
| **Sharekhan code:** | SUNPHARM |
| **Free float:** (No of shares) | 7.5 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 2.5 | -0.8 | 24.4 | 55.0 |
| Relative to Sensex | -3.7 | 19.1 | 53.2 | 63.6 |

### Result highlights

- Sun Pharmaceuticals' (Sun Pharma) Q1FY2009 revenues grew by 66% to Rs1,041.8 crore. The revenues were in line with our estimates and were driven by strong growth in the base business and continued contribution from the generic Pantoprazole and the generic Ethyol exclusivities.
- Sun Pharma's domestic formulation revenues grew by 17.1% to Rs429.6 crore. Though the growth was relatively lower than the supernormal growth seen in the past, it was still way above the industry growth of 12-13%. We expect Sun Pharma's domestic formulation business to continue outpacing the industry.
- Caraco Pharmaceuticals (Caraco Pharma), Sun Pharma's US subsidiary, continued its impressive performance by registering a three-fold jump in the revenues to $108 million in Q1FY2009, in line with our estimates. The exceptional performance was driven by continued contributions from the generic Pantoprzole and the generic Ethyol exclusivities. We estimate Caraco Pharma to have recorded exclusivity revenues of ~$60 million in Q1FY2009. Caraco Pharma has guided for a 25% growth in FY2009 on the back of a strong pipeline of new launches, which we believe is fairly conservative, given the visibility of strong upsides from the Pantoprazole, Ethyol and the potential Effexor XR exclusivities.
- Sun Pharma has been awarded a 180-day exclusivity for generic Effexor XR, a blockbuster anti-depressant, with $2.6 billion in annual revenues. However, despite the expiration of the product patent on Effexor XR, the launch has been delayed as Osmotica Pharma, the other generic player, has filed a citizen petition with the US Food and Drug Administration (US FDA) in an attempt to stall Sun Pharma's launch of the product. We have not modeled the impact of the launch into our estimates. The US FDA ruling on the citizen petition and the subsequent launch of generic Effexor XR by Sun Pharma in the USA would be a trigger for an upgrade.

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Net sales | 1,041.8 | 627.5 | 66.0 |
| Expenditure | 503.8 | 412.7 | 22.1 |
| Operating profit | 537.9 | 214.8 | 150.4 |
| Other income | 47.2 | 60.6 | -22.1 |
| EBITDA | 585.1 | 275.4 | 112.5 |
| Interest | .0 | .0 | - |
| Depreciation | 27.7 | 22.6 | 22.7 |
| PBT | 557.4 | 252.8 | 120.5 |
| Taxes | 29.9 | 9.8 | 205.1 |
| PAT | 527.5 | 243.0 | 117.1 |
| Minority interest | 26.1 | 15.8 | 64.6 |
| Net profit | 501.5 | 227.2 | 120.7 |
| EPS (Rs) | 24.2 | 11.5 | 110.0 |
| OPM (%) | 51.6 | 34.2 | |
| EBITDA margin (%) | 56.2 | 43.9 | |
| Net profit margin (%) | 48.1 | 36.2 | |

- Driven by substantial high-margin revenues from exclusivities and scale benefits, Sun Pharma's margins expanded by 1,740 basis points to 51.6% in Q1FY2009. The margin expansion caused the operating profit to increase by a whopping 150.4% to Rs537.9 crore. We expect the margins to start moderating in the coming quarters due to the expiration of the exclusivities.
- Sun Pharma's net profit grew by a stellar 120.7% to Rs501.5 crore during Q1FY2009 and was ahead of our estimates of Rs479.3 crore. The profit growth was restricted due to reduction in other income and increase in tax provision.
- Sun Pharma remains confident on closing the acquisition of Taro Pharmaceuticals (Taro Pharma), however it does expect to undergo a protracted legal battle with Taro Pharma and is a shareholder for the same, which could result in a delay in closing the acquisition. While the successful closure of the acquisition is strategically important for Sun Pharma, the failure to do so would not impact our estimates, as our estimates do not factor in the impact of Taro acquisition. The uncertainty around the acquisition of Taro Pharma could act as a sentimental overhang on the stock in the near term, while positive news flow on the acquisition would catalyse the stock's upward movement.
- At the current market price of Rs1,410, the stock is valued at 17.3x FY2009E and 17.2x FY2010E fully diluted earnings. We reiterate our Buy recommendation with a revised price target of Rs1,640 (20x FY2010E earnings).

### Exclusivity income boosts revenues

Sun Pharma's Q1FY2009 revenues grew by 66% to Rs1,041.8 crore. The revenues were in line with our estimates and were driven by a strong growth in the base business and continued contribution from the generic Pantoprazole and the generic Ethyol exclusivities. We estimate Caraco Pharma to have recorded exclusivity revenues of ~$60 million in Q1FY2009 in line with our estimates. Excluding the impact of this non-recurring stream of revenues, the sales would have grown by ~25-26% year on year (yoy) in Q1FY2009.

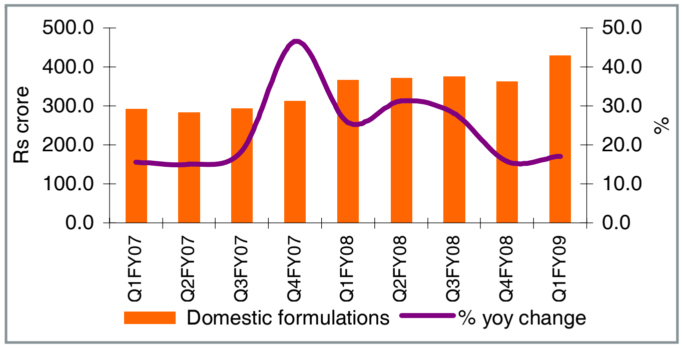
**Revenue break-Up** Rs (cr)

| Particulars | Q4FY08 | Q4FY07 | % change |
|---|---|---|---|
| Domestic | 454.5 | 394.7 | 15.1 |
| Formulations | 429.6 | 366.9 | 17.1 |
| Bulk | 24.5 | 27.4 | -10.8 |
| Others | .4 | .4 | 5.7 |
| Exports | 609.9 | 260.6 | 134.0 |
| Formulations | 531.0 | 193.8 | 174.0 |
| Bulk | 78.0 | 66.3 | 17.7 |
| Others | .9 | .5 | 70.0 |
| **Total** | **1,064.3** | **655.4** | **62.4** |

### Domestic formulation sales moderate

Sun Pharma's domestic formulation revenues grew by 17.1% to Rs429.6 crore. Though the growth was relatively lower than the supernormal growth seen in the past, it was still way above the industry growth of 12-13%. The company has expressed confidence in ramping up the growth in the coming quarters. On the positive side, Sun Pharma continues to maintain its numero uno position in its key therapeutic areas of cardiology, diabetology, gastroenterology and psychiatry, which form over 72% of its domestic portfolio. The company maintained its pace of launching new products and has made seven new launches during the quarter.

**Moderation in domestic formulation sales**




### Caraco Pharma's performance buoyed by exclusivities

Caraco Pharma, Sun Pharma's US subsidiary, continued its impressive performance by registering a three-fold jump in the revenues to $108 million, in line with our estimates. The exceptional performance was driven by continued contributions from the generic Pantoprazole and the generic Ethyol exclusivities. We estimate Caraco Pharma to have recorded exclusivity revenues of ~$60 million in Q1FY2009. Excluding this non-recurring exclusivity income, the growth would have been at around 35-37% yoy, ahead of the 25% guidance issued by Caraco Pharma. Even though the Pantoprazole exclusivity has now expired the limited competitive scenario (assuming that Teva Pharmaceuticals does not re-enter the market) is expected to continue for the next two-three quarters. However, Sun Pharma's continued participation in the generic Pantoprazole market in the absence of a verdict on the ongoing litigation would depend on its risk appetite, as it would have to cough up severe penalties in the event of an unfavourable litigation outcome.

Caraco Pharma has guided for a 25% growth in FY2009 on the back of a strong pipeline of new launches, which we believe is fairly conservative, given the visibility of strong upsides from Pantoprazole, Ethyol and Effexor XR exclusivities. We have modeled a growth of 22.5% in

FY2009E (our estimates do not include the impact of the Effexor XR exclusivity). For FY2010 we expect Caraco Pharma's revenues to decline marginally despite a 25-30% jump in the base business, as we have not factored in any exclusivity opportunities for FY2010E.

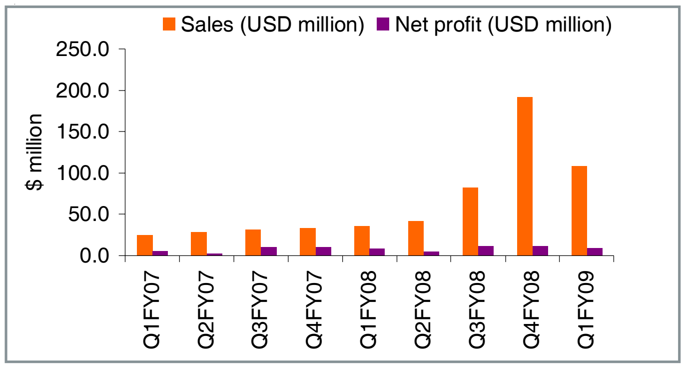
### Generic Effexor—hits a roadblock

Sun Pharma had received a 'will not sue' covenant from Wyeth Pharmaceuticals (Wyeth) in relation to its Para IV filing for Wyeth's blockbuster antidepressant drug Effexor XR (generic name—Venlafaxine) with $2.6 billion in annual sales. This implies that Sun Pharma could potentially launch the drug with a 180-day exclusivity upon the receipt of US FDA's approval after the expiration of Wyeth's patent on Venlafaxine on June 13, 2008. However, the generic player, Osmotica Pharmaceutical (Osmotica Pharma) has teamed up with the innovator Wyeth with an attempt to block Sun Pharma from launching the product by filing a citizen's petition with the US FDA. In its citizen petition, Osmotica Pharma has requested the FDA to ask Sun Pharma to re-file its abbreviated new drug application (ANDA) using Osmotica Pharma's Effexor XR as the reference listed drug (RLD), instead of using Wyeth's product as the RLD. Even though Sun Pharma remains confident of winning a favourable verdict in the case on the back of weak arguments put up by Osmotica Pharma, the timing of the US FDA ruling and hence the launch of Effexor XR remains uncertain and could remain as a negative overhang on the stock. However, we have not modeled the impact of the launch into our estimates. The approval and the subsequent launch of generic Effexor XR by Sun Pharma in the USA would be a trigger for an upgrade.

### Strong pipeline for base US business

Apart from exclusivities, Sun Pharma has created one of the strongest pipeline of generic products for the USA. Between Sun Pharma and Caraco Pharma ANDAs for 88 products (including eight tentative approvals) are awaiting US FDA approval. Further, the management has indicated that the filings contain a good mix of Para IV patent challenges, difficult to make niche opportunities and the regular high-volume commodity generics. Additionally, Sun Pharma has continued making filings for controlled substances and creams and ointments from Able Labs and Valeant's Ohio facilities. Lastly, the management plans to file at least 30 ANDAs in FY2009 as well, further strengthening its pipeline.

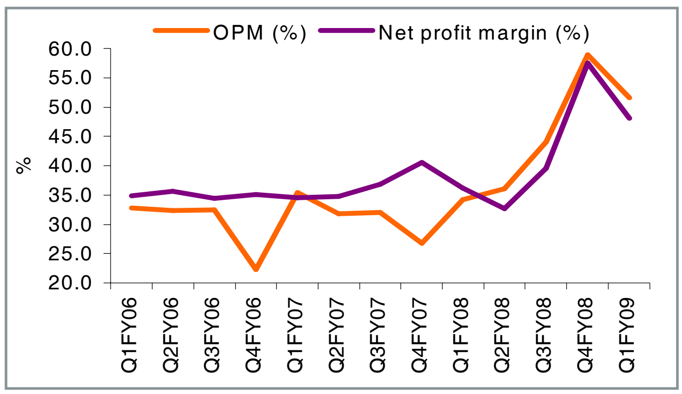
**Caraco Pharma continues impressive performance**




### OPM boosted due to high-margin exclusivity income

Sun Pharma's operating profit margin (OPM) expanded by 1,720 basis points to 51.6% in Q1FY2009 on the back of substantial high-margin revenues from products launched under exclusivity (where the company makes almost 90% gross margins) and scale benefits (which have resulted in a reduction in the other expenses).

**Margin trend**




The margin expansion caused the operating profit to increase by 150.4% yoy to Rs537.9 crore in Q1FY2009. We expect the margins to start moderating in the coming quarters due to the expiration of the exclusivities.

**Cost break-up**

| Particulars | Q2FY08 | Q2FY07 | % change |
|---|---|---|---|
| Adjusted material cost | 189.3 | 192.5 | -1.7 |
| *% of sales* | *18.2* | *30.7* | |
| Staff cost | 96.2 | 74.2 | 29.7 |
| *% of sales* | *9.2* | *11.8* | |
| Other indirect taxes | 17.9 | 12.2 | 46.8 |
| *% of sales* | *1.7* | *1.9* | |
| Other expenditure | 200.4 | 74.5 | 169.1 |
| *% of sales* | *19.2* | *11.9* | |
| R&D expense | 200.4 | 133.7 | 49.8 |
| *% of sales* | *19.2* | *21.3* | |

### Lower other income restricts profit growth; net profit ahead of estimates

On the back of a strong top line growth and a robust operating performance, Sun Pharma's net profit grew by a stellar 120.7% to Rs501.5 crore during Q1FY2009. The profit growth was restricted due to sharp reduction in other income and increase in tax provision. Other income dropped due to translation losses on foreign currency assets & investments and significant reduction in interest income on unused funds (which were utilised during the year for investments in Taro Pharma). The net profit, however was significantly ahead of our estimates of Rs479.3 crore.

### Other highlights

- Sun Pharma's active pharmaceutical ingredient (API) business grew by 18% in Q1FY2009. During the period, Sun Pharma scaled up nine new APIs which is indicative of the momentum in Sun Pharma's underlying business.
- After languishing revenues in FY2008, the formulation exports to the rest of world (ROW) markets recovered sharply during Q1FY2009.The company is confident of clocking a 40% growth in the ROW formulation exports during FY2009.

### Strong focus on R&D continues

Despite the de-merger of the innovative research into a separate company, Sun Pharma has maintained its strong R&D focus. This is clearly reflected in the R&D expenses (solely on generic R&D) incurred during Q1FY2009 at 7% of the sales. This indicates that the management has heightened its focus on innovation in the generics space, including development of complex and niche molecules. This clearly underlines the robustness of Sun Pharma's business model and ensures strong growth potential for the future.

### Taro acquisition could de delayed

After Taro Pharma's unilateral pull out of the merger agreement, Sun Pharma and Taro Pharma have been involved in a protracted legal battle. While Sun Pharma has moved the Israeli and the US courts to enforce the merger agreement on the Taro Pharma's shareholders as well as to force Taro Pharma's promoters to hand over their shares as part of the options agreement, Taro Pharma has approached the Israeli courts to force Sun Pharma to go in for a special tender offer as per the Israeli laws in order to get a higher price for Taro shares. While the management remains confident of closing the acquisition, it does anticipate delays in the same.

While the successful closure of the acquisition is strategically important for Sun Pharma as it will bring substantial scale to its US business along with enhancing its presence in the niche space of dermatology (where Taro Pharma has a significant presence), the failure to close the acquisition would not impact our estimates, as our estimates do not factor in the impact of the Taro acquisition. The uncertainty around the Taro acquisition could act as a sentimental overhang on the stock in the near term, while positive news flow on the acquisition would catalyse the stock's upward movement.

### Valuation and view

Sun Pharma has continued its stellar performance in Q1FY2009. The company's track record of delivering consistent and robust growth while maintaining strong profitability and return ratios makes it the best Indian player in the generic space. The improving visibility on strong patent challenge pipeline, rapid growth across geographies and strong domestic franchise with focus on the fast growing chronic lifestyle diseases will enable Sun Pharma to continue its strong growth traction. Further with ~$600 million in cash currently, Sun Pharma's cash position is expected to shore up to ~$1-1.2 billion by FY2010 as it starts accumulating cash collected from exclusivities. This would make Sun Pharma's balance sheet position the strongest in the industry allowing it to explore new growth avenues for the future.

With the base business performing well, the citizen petition ruling on Effexor XR and the subsequent launch of generic Effexor XR under exclusivity, progress on Taro Pharma's acquisition and further news flow on new first-to-file opportunities will act as near-term triggers for the stock. At the current market price of Rs1,410, the stock is valued at 17.3x FY2009E and 17.2x FY2010E fully diluted earnings. We reiterate our Buy recommendation on the stock with a revised price target of Rs1,640 (20x FY2010E earnings).

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net sales (cons) | 1636.8 | 2135.9 | 3356.5 | 4034.7 | 4316.9 |
| PAT (consolidated) | 573.3 | 784.2 | 1486.9 | 1691.6 | 1700.9 |
| Shares in issue (cr) | 18.6 | 19.3 | 20.7 | 20.7 | 20.7 |
| EPS (Rs) | 30.9 | 40.5 | 71.8 | 81.7 | 82.1 |
| PER (x) | 45.7 | 34.8 | 19.6 | 17.3 | 17.2 |
| EV | 26521.6 | 26985.6 | 27335.1 | 26238.9 | 24922.5 |
| EV/Ebidta (x) | 54.0 | 40.1 | 17.6 | 14.5 | 14.0 |
| Book value (Rs/share) | 85.6 | 143.4 | 241.7 | 311.1 | 380.9 |
| P/BV (x) | 16.5 | 9.8 | 5.8 | 4.5 | 3.7 |
| Mcap/sales | 16.0 | 12.8 | 8.7 | 7.2 | 6.8 |
| RoCE (%) | 17.2 | 21.4 | 30.9 | 28.0 | 23.1 |
| RoNW (%) | 36.0 | 28.3 | 29.7 | 26.3 | 21.6 |

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

# Television Eighteen India

**Emerging Star**

## Stock Update

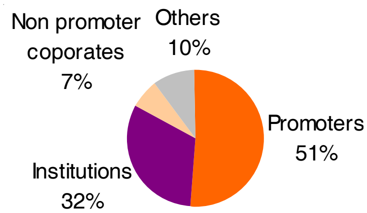
## Price target revised to Rs355

**Buy; CMP: Rs220**

### Company details

| | |
|---|---|
| **Price target:** | Rs355 |
| **Market cap:** | Rs2,633 cr |
| **52 week high/low:** | Rs600/184 |
| **NSE volume:** (No of shares) | 1.1 lakh |
| **BSE code:** | 532299 |
| **NSE code:** | TV-18 |
| **Sharekhan code:** | TV18 |
| **Free float:** (No of shares) | 5.9 cr |

### Shareholding pattern




### Price chart


### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -1.8 | -38.2 | -53.5 | -47.4 |
| Relative to Sensex | -7.8 | -25.8 | -42.7 | -44.5 |

### Result highlights

- TV18's Q1FY2009 results were below our expectations with the revenues of the news and the internet businesses below the estimates. The operating revenue for the quarter grew by 36.5% year on year (yoy) to Rs93 crore, which was below our and street's expectations.
- The news business' revenues grew by only 30.1% yoy to Rs75.3 crore (as against our estimate of 48% revenue growth). The lower revenue growth for the segment can be attributed to seasonal weakness and slowdown in the financial sector that impacted the advertising revenues. The operating profit margin (OPM) for the segment was up 389 basis points to 33.1%.
- The revenue growth of Web18 was disappointing at 41.3% yoy to Rs13.2 crore. The revenues declined by 27.1% quarter on quarter (qoq) and points towards the impact of the stock market on the segment's revenues as ~70% of Web 18's revenues come from www.moneycontrol.com—the website catering to stock markets. In our preview, we had mentioned that Web18's revenue growth would be a key monitorable in the Q1FY2009 results. As the Q1FY2009 performance of Web 18 was lower than expectations, we have downgraded our revenue growth estimates for FY2009 and FY2010 to 35% and 30% respectively.
- The newswire business grew in line with our expectations to Rs4.5 crore, albeit on a low base. The operating expenditure of the business went up to Rs7.2 crore leading to an operating loss of Rs2.7 crore.
- The consolidated OPM of the company during the quarter stood at 18% against 15.2% in the corresponding quarter of the last year. The lower revenue growth in the news and web businesses (the increase in the expenditure is in line with

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Net sales | 93.0 | 68.1 | 36.5 |
| Total expenditure | 76.3 | 57.8 | 32.0 |
| Operating Profit | 16.7 | 10.3 | 61.8 |
| Interest (net) | 6.9 | 2.4 | 187.4 |
| Depreciation | 7.3 | 6.2 | 18.3 |
| ESOP charge | 3.3 | 1.2 | 176.0 |
| Profit before tax | -1.2 | 0.9 | -230.2 |
| Taxes | 1.4 | 0.9 | 68.2 |
| Profit after tax | -2.7 | 0.1 | - |
| Minority interest | -0.1 | -0.4 | - |
| Reported PAT before extraordinary | -2.5 | 0.5 | -656.2 |
| Extraordinary expense | 6.5 | - | |
| Reported PAT after extraordinary | -9.0 | 0.5 | |
| Adjusted profit after tax (Pre-ESOP) | 0.3 | 0.6 | -48.1 |
| OPM (%) | 18.0 | 15.2 | |

estimates) led the actual OPM remain lower than the expected OPM of 20.8%. Thus the operating profit grew by 61.8% yoy to Rs16.7 crore on a low base of Q1FY2008.

- Consequent to a higher interest charge and an extraordinary expenditure (interest payable for acquisition of Infomedia India) of Rs6.48 crore, the company reported a net loss of Rs9 crore for the quarter.
- We have revised downwards our revenue and profit estimates for FY2009 and FY2010 to factor in the lower revenue growth for the web business, increased losses for the web and newswire businesses and the increase in the interest cost as a result of a higher debt. Consequently we are downgrading our price target on the stock to Rs355 based on our sum-of-the-parts valuation.

**Break up of revenues and profitability** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| **Revenues** | | | |
| News | 75.3 | 57.9 | 30.1 |
| Internet | 13.2 | 9.3 | 41.3 |
| Newswire | 4.5 | 0.9 | 409.6 |
| **Operating profit** | | | |
| News | 25.0 | 16.9 | 47.3 |
| Internet | -5.6 | -2.4 | - |
| Newswire | -2.7 | -4.2 | - |
| **OPM (%)** | | | |
| News | 33.1 | 29.2 | |
| Internet | -42.5 | -25.7 | |
| Newswire | -59.3 | -479.1 | |

### Q1FY2009 performance—revenue growth of news and web businesses disappoint

*—News business*

The news business' revenue growth was below our expectations in Q1FY2009. Against our expectation of a 48% increase in the revenues, the actual growth stood at 30.1% to Rs75.3 crore. We believe the revenue growth during the quarter was lower as Q1 was a seasonally weak quarter and due to a slowdown in the banking, finance, service and insurance (BFSI) vertical. However we believe that these could be the first signs of a lower advertising revenue growth going ahead in the wake of correlation of CNBC TV18 and Awaaz's revenues to the state of the financial markets. However, we maintain that the niche positioning of CNBC TV18 and its dominance in the english business news genre would provide it with a cushion in turbulent times. The operating margins stood at 33.1% (as against the expectation of 39.4% in Q1FY2009) and 29.2% in Q1FY2008. The lower than expected margins are attributed to a lower revenue growth and a possible increase in the staff cost. The above normal increase in the staff cost during the quarter could have been led by increasing competition in the english business news genre, as UTV has already launched a business news channel and the Times group plans to follow suit soon. Thus the operating profit of the news business increased by 47.3% yoy to Rs25 crore.

*—Internet*

Web18's revenues disappointed us with a year-on-year growth of only 41.3% to Rs13.2 crore, as the quarter-on-quarter decline of 27.1% is much more than could be explained by seasonal effect. Web18 derives 70% of its revenues from www.moneycontrol.com. As the portal caters to financial markets (specifically stock markets), its lower-than-expected revenue growth can be attributed to the bad state of the financial markets. We believe the below-par performance of Web18 on the revenue front provides sufficient evidence of its dependence on the state of the financial markets. Consequently we have lowered our revenue growth expectations for FY2009 and FY2010 to 35% and 30% respectively. The company has launched a horizontal portal www.in.com. We believe the marketing and gestation costs of the portal along with several other properties owned by Web18 that are in a nascent stage would lead to a higher operating expenditure. Thus we believe that Web18 will continue to make losses in FY2009 and may achieve breakeven only in FY2010. For Q1FY2009 the operating losses increased to Rs5.6 crore against Rs2.4 crore in Q1FY2008. The management has clarified that the planned e-broking venture with Centurion Bank of Punjab and Ambit is on a pause on account of regulatory reasons, and we do not expect the venture to fructify in the near future.

*—Newswire18*

The newswire business grew in line with our expectations to Rs4.5 crore, albeit on a low base. The operating expenditure in the business went up to Rs7.2 crore leading to an operating loss of Rs2.7 crore. We expect the business to continue its growth traction for FY2009 and FY2010 as it has a very low base, though we expect it to breakeven only by FY2010. TV18 has committed a capital expenditure (capex) of Rs20 crore for Newswire18 primarily to drastically augment the current offering.

### Foray in print media

- After acquiring a 40% stake in Infomedia India from ICICI Ventures, TV18 had made an open offer for an additional 20% stake in the company. However the company has been able to garner only 4% additional stake via the open offer. While currently TV18 has a

44% stake in Infomedia India, it plans to garner a controlling stake through the issue of preferential warrants as per the terms agreed upon at the time of the acquisition.

- Infomedia India is a publishing house with business interests in publishing, printing and publishing outsourcing. TV18 has started deriving synergies with Infomedia India's operations; Infomedia India's auto magazine 'Overdrive' was launched as a show on CNBC TV18. Banking on the printing facilities of Infomedia India, TV18 will launch a business magazine using its content alliance with Forbes Media. While the alliance would begin with the launch of a business magazine soon, other publications from Forbes' global portfolio would follow suit.
- The company has also entered into a 50:50 joint venture with Jagran Prakashan for launching a Hindi business newspaper. The Hindi business paper is expected to be launched in the coming months. The duo would also launch business dailies in other Indian languages. TV18 also intends to launch English business news daily. We believe TV18's print foray completes an integrated media model. We opine that the print business would derive a lot of synergies with the existing electronic media properties of TV18. The company has committed Rs100 crore towards its expansion in the print business.

## Revising estimates

We have revised downwards our revenue and profit estimates for FY2009 and FY2010 to factor in the lower revenue growth for the web business, increased losses for the web and newswire businesses and increase in the interest cost as a result of a higher debt.

**Revised estimates** Rs (cr)

| Particulars | FY2009 | FY2010 |
|---|---|---|
| Revenues | 524.2 | 670.6 |
| *% chg* | *-5.1* | *-8.6* |
| Net profit | 53.5 | 98.8 |
| *% chg* | *-26.8* | *-21.2* |

## Recommendation and valuation

We believe TV18's wholesome business model promises immense growth potential. The core news business awaits a substantial flow of pay revenues. The web and newswire businesses though in investment mode promise to be high-growth high-margin businesses in future. Its foray into print media provides another pedestal to capture a bigger pie of the Indian advertising market. We maintain our positive stance on the stock. Though the near-term profitability will be dented by gestation costs of the new businesses, the wholesome media model holds promises for the future. We maintain our Buy recommendation on the stock with a revised price target of Rs355.

**SOTP valuation**

| Properties | Value (Rs cr) |
|---|---|
| News Business | 2683 |
| 85% in Web 18 | 974 |
| Stake in GBN | 293 |
| Newswire 18 & source 18 | 350 |
| 53% in infomedia | 324 |
| Cash and equivalents | 174 |
| Less: Debt | 558 |
| **Total value** | **4240** |
| Nos of shares (cr) | 12.0 |
| **Value per share** | **355** |

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net profit (Rs crore) | 37.2 | 32.2 | 25.5 | 53.5 | 98.8 |
| Shares in issue (crore) | 2.1 | 5.7 | #12.0 | 12.0 | 12.0 |
| EPS (Rs) | 17.7 | 5.7 | 2.1 | 4.5 | 8.3 |
| *% y-o-y growth* | *-9.1* | - | - | *109.8* | *84.6* |
| PER (x) | 50.6 | 91.6 | 122.3 | 58.3 | 31.6 |
| Book value (Rs) | 113.5 | 53.6 | 25.9 | 28.7 | 35.3 |
| P/BV x) | 7.9 | 12.8 | 10.1 | 9.1 | 7.4 |
| EV/EBITDA (x) | 27.9 | 44.6 | 38.6 | 25.8 | 16.0 |
| RoNW (%) | 21.2 | 11.9 | 8.3 | 16.4 | 25.9 |
| RoCE (%) | 19.4 | 10.4 | 11.7 | 15.7 | 21.0 |

# number of shares has increased due to issue of bonus shares in the ratio of 1:1.

* our numbers do not include financials of the recently acquired Infomedia India

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

# Ashok Leyland

**Ugly Duckling**

**Stock Update**

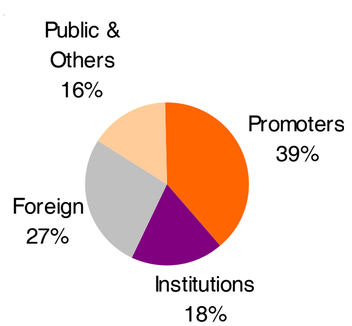
## Price target revised to Rs39

**Hold; CMP: Rs29**

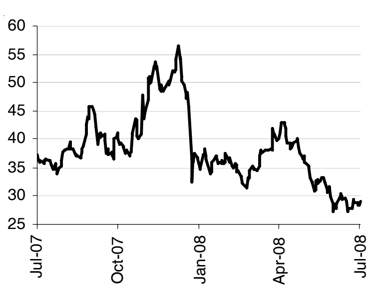
**Company details**

| | |
|---|---|
| **Price target:** | Rs39 |
| **Market cap:** | Rs3,725 cr |
| **52 week high/low:** | Rs58/26 |
| **NSE volume:** (No of shares) | 40.4 lakh |
| **BSE code:** | 500477 |
| **NSE code:** | ASHOKLEY |
| **Sharekhan code:** | ASHOKLEY |
| **Free float:** (No of shares) | 81.7 cr |

**Shareholding pattern**




**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 4.2 | -27.7 | -16.8 | -19.4 |
| Relative to Sensex | -2.2 | -13.2 | 2.5 | -14.9 |

### Result highlights

- Ashok Leyland's results for Q1FY2009 were below expectations mainly on the profitability front.
- The net sales for Q1FY2009 grew by 16.2% year on year (yoy) to Rs1,884 crore. Despite a lower volume growth of only 1.4% the sales were boosted by higher sales of engines and spare parts and higher than expected price increase.
- The increase in the raw material cost led the operating profit margin (OPM) decline to 8% in Q1FY2009 from 9.5% in Q1FY2008. The decline in the OPM was higher than expectations and led the operating profit to drop by 2.2% to Rs151.1 crore.
- The company has provided for foreign exchange (forex) losses of Rs33.9 crore during the quarter as against gains of Rs19.7 crore in the same quarter last year and VRS expenses. Consequently, the reported profit after tax (PAT) declined by 42.6% to Rs50.6 crore.
- In view of the rising interest cost and non-availability of funding, we would like to take a cautious stand on the growth this year.
- Taking this into consideration, we have reduced our growth estimates for FY2009 and FY2010. Coupling this with the decline in margins, we are downgrading our estimates for FY2009 by 13.5% to Rs3.2 and for FY2010 by 7% to Rs3.9. Consequently, we are reducing our price target to Rs39 and maintain a Hold on the stock.

### Sales growth backed by higher realisations and spare part sales

Ashok Leyland's Q1FY2009 net sales grew by 16.2% yoy to Rs1,884 crore. The sales growth was backed by volume growth of only 1.2% to 18,425 units. However, the higher sales growth can be attributed to higher than expected price increase and higher sales of engines and spare parts.

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| **Net sales** | **1883.9** | **1759.6** | **16.2** |
| Expenditure | 1732.8 | 1466.6 | 18.1 |
| **Operating profit** | **151.1** | **154.5** | **-2.2** |
| Other income | 12.16 | 7.55 | 61.1 |
| Interest | 10.69 | 12.76 | -16.2 |
| Depreciation | 44.1 | 41.29 | 6.8 |
| PBT | 108.4 | 108 | 0.4 |
| Tax | 21.8 | 36.1 | |
| **Adj PAT** | **86.6** | **71.9** | **20.5** |
| EOI/E | -36.07 | 16.30 | |
| Reported PAT | 50.6 | 88.2 | -42.6 |
| OPM (%) | 8.0 | 9.50 | |
| **Adj EPS (Rs)** | **0.7** | **0.5** | |

The sales of medium duty vehicles (goods vehicles) grew by 4.5% yoy to 13,450 units. The sales of non-vehicle segment (engines sets and defence equipment) showed a prodigious growth of 81% yoy to 4,816 units and contributed more to the revenues, as the margins for the segment is higher than that of the vehicle segment. In the passenger segment, the sales of medium-duty vehicles (MDV) declined by 8% yoy to 4,730 units.

**Volume growth**

| Volumes | Q1FY09 | Q1FY08 | % yoy |
|---|---|---|---|
| Passenger | 4,730 | 5,128 | -7.8 |
| MDV goods | 13,450 | 12,876 | 4.5 |
| LCV goods | 245 | 159 | 54.1 |
| **Total vehicle sales** | **18,425** | **18,163** | **1.4** |

## Raw material cost pressurises margins

During the quarter, the raw material cost increased by 23.2% yoy to Rs1,437.6 crore. Raw material consumption as a percentage to sales increased to 76.3% in the quarter as compared to 72% in the same quarter last year. Consequently, the operating profit for the quarter declined by 2.2% to Rs151.1 crore. Due to forex losses of Rs33.9 crore incurred during the quarter against gains of Rs. 19.7 crore in the sequential quarter last year, the reported PAT declined by 42.6% yoy to Rs50.6 crore.

## Capex plans

The company plans to incur a capital expenditure (capex) of Rs1,200 crore for the year of which most will be spent towards product improvement of Neptune, Unitruck and Newgen cabin. Apart from the capex, the company plans to invest Rs350 crore in joint ventures during the current financial year. Its joint venture with Nissan to manufacture light commercial vehicles will require an investment of Rs2,200 crore.

## Outlook and view

Due to rising raw material cost, the company has taken a price hike of 3% in end of June, the full impact of which can be seen in the next quarter. By mid-year, the company plans to expand its capacity to 134,000 vehicles per year. However in view of the rising interest cost and availability of funding, we would like to take a cautious stand on the growth this year.

In view of this, we have reduced our growth estimates for FY2009 and FY2010. Coupling this with the decline in the margins, we are downgrading our estimates for FY2009 by 13.5% to Rs3.2 and for FY2010 by 7% to Rs3.9. Consequently, we are reducing our price target to Rs39 and maintain a Hold on the stock.

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net sales (Rs cr) | 5,329.8 | 7,168.2 | 7,729.1 | 8,743.0 | 9,704.0 |
| Net profit (Rs cr) | 327.0 | 441.3 | 466.5 | 428.7 | 514.3 |
| *% yoy growth* | *20.0* | *35.0* | *6.0* | *-8.0* | *20.0* |
| EPS (Rs) | 2.1 | 3.4 | 3.5 | 3.2 | 3.9 |
| *% yoy growth* | *20.0* | *35.0* | *6.0* | *-8.0* | *20.0* |
| PER (x) | 13.1 | 8.3 | 8.0 | 8.7 | 7.2 |
| P/BV (Rs) | 2.6 | 2.0 | 1.7 | 1.6 | 1.4 |
| EV/EBIDTA (x) | 6.5 | 5.3 | 4.5 | 6.5 | 5.9 |
| RoCE (%) | 21.7 | 26.7 | 24.7 | 16.3 | 17.0 |
| RoNW (%) | 20.2 | 23.6 | 21.7 | 18.2 | 19.5 |

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

# Unity Infraprojects

**Ugly Duckling**

### Stock Update

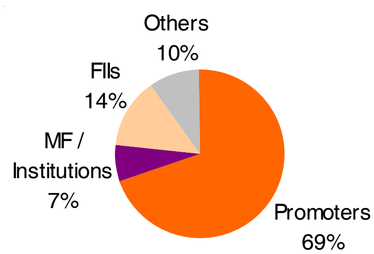
## Results above expectations

**Buy; CMP: Rs412**

**Company details**

| | |
|---|---|
| **Price target:** | Rs871 |
| **Market cap:** | Rs551 cr |
| **52 week high/low:** | Rs1,120/348 |
| **NSE volume:** (No of shares) | 26,318 |
| **BSE code:** | 532746 |
| **NSE code:** | UNITY |
| **Sharekhan code:** | UNITYINFRA |
| **Free float:** (No of shares) | 40.8 lakh |

**Shareholding pattern**




**Price chart**


**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 3.0 | -29.0 | -53.0 | -35.9 |
| Relative to Sensex | -3.3 | -14.8 | -42.2 | -32.3 |

### Result highlights

- Unity Infraprojects' (Unity) top line grew by 50.9% year on year (yoy) to Rs223.7 crore on account of better execution. The top line growth was above our expectation of Rs197.2 crore.
- The operating profit margin (OPM) remained flat at 12.6% inspite of a significant rise in the raw material cost.
- The company's interest and tax expenses also grew by 42.7% and 55.7% respectively. Consequently the company's net income grew by 43.5% yoy to Rs15.6 crore, which is above our expectation of Rs13.4 crore. The results were above our expectations primarily on account of better than expected sales and OPM during the quarter.
- The order inflow remained healthy during the quarter. The company's order book grew by 22.9% quarter on quarter (qoq) to Rs2,963 crore. On the back of a healthy order book, we expect the company's top line and bottom line to grow at a compounded annual growth rate (CAGR) of 29.2% and 26.7% respectively during the period FY2008-2010.
- We maintain our earnings estimates for FY2009 and FY2010. In terms of valuation, we are now removing UMC project valuation as the company is facing delay in terms of land hand over from UMC.
- We continue to value the stock with sum-of-the-parts (SOTP) methodology and maintain our Buy recommendation on the stock with revised price target of Rs871.

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Net sales | 223.7 | 148.3 | 50.9 |
| Share of profit from joint ventures | 0.2 | 0.1 | 218.1 |
| Other income | 2.8 | 2.4 | 15.8 |
| Total Revenues | 226.6 | 150.7 | 50.4 |
| Consumption of raw material | 99.4 | 66.6 | 49.2 |
| Staff cost | 8.9 | 4.5 | 95.8 |
| Construction expenses | 82.6 | 55.7 | 48.3 |
| Other expenditure | 4.6 | 2.7 | 68.8 |
| Total expenditure | 195.4 | 129.5 | 50.9 |
| Operating profit | 28.2 | 18.7 | 50.8 |
| Depreciation | 2.5 | 1.6 | 60.7 |
| Interest | 6.0 | 4.2 | 42.7 |
| PBT | 22.7 | 15.5 | 47.1 |
| Taxes | 7.1 | 4.6 | 55.7 |
| PAT | 15.6 | 10.9 | 43.5 |
| Equity Capital | 13.4 | 13.4 | |
| EPS | 11.7 | 8.1 | 43.5 |
| **Margin (%)** | | | |
| OPM | 12.6 | 12.6 | |
| NPM | 7.0 | 7.3 | |

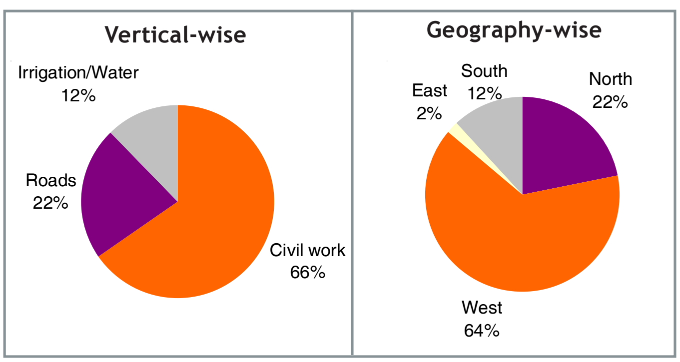
At the current market price, the stock is trading at attractive valuation of 7.2x FY2009 and 5.7x FY2010 earnings estimates.

### Healthy order book, 3.5x FY2008 revenues

Unity's order book grew by 22.9% quarter on quarter to Rs2,963 crore, which sums to 3.5x FY2008 revenues. ~90% of the contracts have the price escalation clause. The order inflow remains healthy during the quarter and the company bagged orders worth Rs828 crore. The key orders won since April 2008 are mentioned below.

- Two orders aggregating to Rs383 crore for road upgradation from Haryana State Roads and Bridges Development Corporation, Chandigarh.
- A prison complex construction by PWD, Delhi worth Rs154 crore.
- A civil construction contract from the government of Assam for the construction of Tezpur Medical College at Tezpur, Assam worth Rs136 crore (Unity's share is 51%).
- Construction of high rise residential buildings from Flagship Infrastructure Pvt Ltd at Hinjewadi, Pune worth Rs92 crore.

### Order book break-up




On account of this healthy order book, we expect the company's revenues to grow at a CAGR of 29.2% and the bottom line to grow by 26.7% during the period FY2008-FY2010.

### Real estate project updates

The construction work of three malls aggregating to 1.2 million square feet at Nagpur is underway. A hotel project at Pune is likely to be complete in August 2008 and the operations at the hotel are expected to commence by January 2009. The commissioning of this hotel is expected to be fastest in the country with an execution time frame of 15 months.

For UMC project, UMC is facing difficulties in land acquisition, which has led to a significant delay in the project. The joint venture between Unity and Pratibha Industries are reviewing this project as the estimated cost of the project has increased from Rs94 crore to ~Rs125 crore. Due to lack of clarity we are excluding this project from our valuation.

### Valuation and view

We maintain our earnings estimates for FY2009 and FY2010. In terms of valuation, we are now removing UMC project valuation as the company is facing delay in terms of land hand over from UMC. We continue to value the stock with SOTP methodology and maintain our Buy recommendation on the stock with revised price target of Rs871. At the current market price, the stock is trading at attractive valuation of 7.2x FY2009 and 5.7x FY2010 earning estimates.

| SOTP | Value | Basis |
|---|---|---|
| Construction business | 792 | 11x on FY2010E EPS |
| Real estate business | | |
| Nagpur | 21 | NPV |
| Goa | 37 | NPV |
| Pune | 21 | Stake sold to Clear Hotel Capital |
| **Target price** | **871** | |

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net sales (Rs cr) | 328.7 | 542.9 | 849.5 | 1127.0 | 1417.8 |
| Net profit (Rs cr) | 24.6 | 42.3 | 60.0 | 76.7 | 96.2 |
| No of shares (crore) | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 |
| EPS (Rs) | 23.2 | 31.7 | 44.9 | 57.3 | 72.0 |
| *% y-o-y growth rate* | | *36.6* | *41.7* | *27.8* | *25.5* |
| PER(x) | 17.8 | 13.0 | 9.2 | 7.2 | 5.7 |
| Price/BV(x) | 4.6 | 1.8 | 1.5 | 1.3 | 1.0 |
| EV/EBITDA(x) | 11.9 | 7.4 | 4.8 | 3.7 | 2.8 |
| RoCE(%) | 31.7 | 26.2 | 23.6 | 23.8 | 25.2 |
| RoNW(%) | 35.2 | 21.3 | 18.1 | 19.2 | 19.8 |

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

# Indo Tech Transformers

**Ugly Duckling**

**Stock Update**

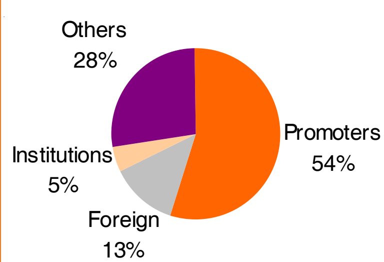
## Price target revised to Rs460

**Buy; CMP: Rs300**

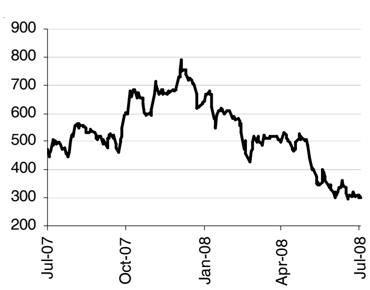
### Company details

| | |
|---|---|
| **Price target:** | Rs460 |
| **Market cap:** | Rs319 cr |
| **52 week high/low:** | Rs865/265 |
| **NSE volume:** (No of shares) | 12,776 |
| **BSE code:** | 532717 |
| **NSE code:** | INDOTECH |
| **Sharekhan code:** | INDOTECH |
| **Free float:** (No of shares) | 0.5 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -2.9 | -40.4 | -52.1 | -31.7 |
| Relative to Sensex | -8.9 | -28.5 | -40.9 | -27.9 |

### Result highlights

- The Q1FY2009 results of Indo Tech Transformers Ltd (ITTL) are better than our expectations on both revenue growth and profitability fronts.
- The company's revenues increased by 37.1% to Rs54 crore on the back of a strong growth of 44.6% in the volumes to 875 mega volt ampere (MVA) from 605MVA in Q1FY2008. The realisation was, however, down by 5.2% to Rs6.17 lakh/MVA. The realisation declined mainly due to a change in the company's product mix as ITTL has now started selling larger transformers.
- The operating performance of the company continues to surprise on the positive side. In Q1FY2009, the company's operating profit margin (OPM) improved by 385 basis points to 28.9% on the back of a decline in its other expenses. Consequently, the operating profit grew by 58.2% to Rs15.6 crore.
- The interest cost increased by 208.3% to Rs0.4 crore as the company raised term loan for its new plant. The depreciation charge also rose by 177.1% to Rs1 crore in the same quarter.
- The other income shot up by 57.5% to Rs1.37 crore as the company received Rs0.43 crore on account of insurance claims during the quarter. Led by a strong revenue growth and better than expected operating profit, the net profit grew by 51.2% to Rs10.4 crore, which is higher than our estimate.
- Currently, the order book of the company stands at Rs123 crore as against Rs153 crore in Q4FY2008. The slowdown in the company's order inflows remains our prime concern.

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| **Net sales** | **54.0** | **39.4** | **37.1** |
| Total expenditure | 38.4 | 29.5 | 30.0 |
| **Operating profit** | **15.6** | **9.9** | **58.2** |
| Other income | 1.4 | 0.9 | 57.5 |
| EBIDTA | 17.0 | 10.7 | 58.1 |
| Interest | 0.4 | 0.1 | 208.3 |
| Depreciation | 1.0 | 0.4 | 177.1 |
| **PBT** | **15.6** | **10.3** | **52.3** |
| Tax | 5.2 | 3.4 | 54.6 |
| PAT | 10.4 | 6.9 | 51.2 |
| Extraordinary items | 0.0 | 0.0 | - |
| **Reported PAT** | **10.4** | **6.9** | **51.2** |
| EPS | 9.8 | 6.5 | 51.2 |
| **Margins** | | | |
| OPM (%) | 28.9 | 25.0 | |
| PATM (%) | 19.3 | 17.5 | |

Source: Sharekhan research

- The new 4,000MVA plant of the company is now in commercial operation and shipped 350MVA of transformers during the current quarter. Going forward, we expect the company to ramp up production in this plant and aggressively look at opportunities in the large transformer space.
- We maintain our estimates for ITTL and Buy recommendation on its stock with a revised price target of Rs460.

### Revenues grow strongly led by volume growth

In Q1FY2009, ITTL's revenues grew by 37.1% to Rs54 crore led by a 44.6% growth in its volumes. The realisation, however, dropped by 5.2% to Rs6.17 lakh/MVA. The realisation dropped due to a change in the product mix—the company has now started booking revenues for large transformers. Typically, the large transformers enjoy lower realisation vis-à-vis the smaller ones.

**Realisation rates**

| Particulars | Q1FY09 | Q1FY08 | % yoy |
|---|---|---|---|
| Sales (in MVA) | 875 | 605 | 44.6 |
| Realisation/ MVA (in Rs) | 616914 | 650909 | -5.2 |

Source: Company, Sharekhan research

### Operating performance continues to surprise positively

The company continued with its strong operating performance in Q1FY2009. Its OPM improved by 385 basis points to 28.9% in the quarter. The OPM improved due to a decrease in the other expenses as a percentage of sales. The other expenses (as a percentage of sales) declined by 426 basis points to 3.7% in the same period. The prime reason for the decline in the other expenses is the lower commission expenses during the quarter on account of a slower order inflow. We continue to believe that the OPM of ITTL would taper off going forward due to its changing product mix, as it enters the higher rating transformer business that would affect its pricing power and realisation. The industry scenario is also changing. As the majority of the players in the organised and the unorganised sector bring on stream their expanded capacities, the demand-supply gap will narrow down, leaving little pricing power with players in the industry.

**Cost analysis**

| % of sales | Q1FY09 | Q1FY08 | Change (basis points) |
|---|---|---|---|
| Raw material cost | 64.7 | 64.4 | 30 |
| Staff cost | 2.7 | 2.6 | 11 |
| Other expenses | 3.7 | 7.9 | -426 |
| Total expenditure | 71.1 | 75.0 | -385 |

Source: Sharekhan research

### Net profit ahead of estimate

The interest cost of ITTL increased by 208.3% to Rs0.4 crore in Q1FY2009. As the interest cost on the term loan for the new plant was capitalised earlier, the same was charged to the profit and loss account in Q1FY2009. Its depreciation charge also rose by 177.1% yoy to Rs1 crore in Q1FY2009. The other income increased by 57.5% to Rs1.37 crore and the same is higher than expected because the company received an insurance claim of Rs0.43 crore during the quarter.

### Order book at Rs123 crore, slowing inflows a concern

The company has orders worth Rs123 crore to be executed over the next five to six months. The order book had stood at Rs153 crore at the end of Q4FY2008. The company has witnessed a slower order inflow during the last couple of quarters, mainly on account of a slowdown in the tender finalisation process of the various state electricity boards (SEBs). Though the order inflow has slackened in the domestic market, the company is increasing its focus on the international markets. In the current order book, Rs27 crore worth of order are for exports.

**Order book details** Rs (cr)

| Particulars | Value | % |
|---|---|---|
| **Transformer type** | | |
| Power transformers | 108 | 87.8 |
| Distribution transformers | 15 | 12.2 |
| Total | 123 | |
| **Customer type** | **Value** | |
| SEBs | 78 | 63.4 |
| Industrial | 45 | 36.6 |
| Total | 123 | |

Source: Company, Sharekhan research

### New capacity—now up and running

The new facility of ITTL that was started in February 2008 commenced commercial production in Q1FY2009. The capacity of this plant would be ramped up gradually going forward. We expect a 40% utilisation rate from the new capacity during the current financial year. In the quarter under review, the new plant contributed 350MVA of the total volume sale of 875MVA.

### Outlook and view—order inflow a concern

With increased production capacity and broader product portfolio, the company looks geared up to benefit from the huge expenditure lined up in the transmission and distribution segments of India's power sector. However, the slowdown in the company's order inflow remains a concern. The company's new manufacturing facility though operational now would gradually be ramped up. We maintain our estimates for the company. We also maintain our Buy call on its stock with a revised price target of Rs460. At the current market price the stock trades at 6.5x FY2009E earnings.

**Valuation table**

| Particulars | FY2006 | FY2007 | FY2008 | FY2009E | FY2010E |
|---|---|---|---|---|---|
| Net sales (Rs crore) | 92.7 | 155.4 | 189.9 | 277.9 | 335.6 |
| Net profit (Rs crore) | 11.1 | 26.2 | 39.0 | 48.8 | 56.0 |
| Shares in issue (crore) | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| EPS (Rs) | 10.5 | 24.7 | 36.7 | 46.0 | 52.7 |
| *% y-o-y change* | *(60.6)* | *136.1* | *48.8* | *25.2* | *14.7* |
| PER (x) | 28.7 | 12.2 | 8.2 | 6.5 | 5.7 |
| Book value (Rs) | 67.2 | 85.9 | 116.7 | 156.5 | 203.2 |
| P/BV (x) | 4.5 | 3.5 | 2.6 | 1.9 | 1.5 |
| EV/EBIDTA (x) | 26.2 | 11.7 | 8.8 | 6.5 | 5.3 |
| EV/Sales (x) | 5.1 | 3.2 | 2.8 | 1.8 | 1.4 |
| Dividend yield (%) | 0.4 | 0.9 | 1.2 | 1.2 | 10.5 |
| RoCE (%) | 23.0 | 41.2 | 44.1 | 42.0 | 37.6 |
| RoNW (%) | 23.3 | 32.3 | 36.3 | 33.5 | 29.3 |

Source: Sharekhan research

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

# Corporation Bank

**Apple Green**

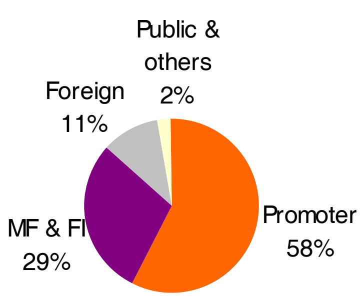
### Stock Update

## Price target revised to Rs321

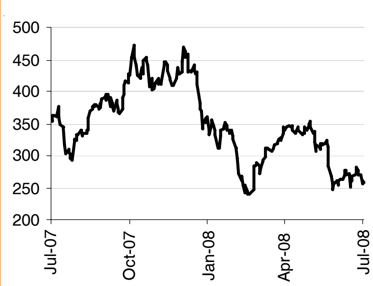
**Buy; CMP: Rs258**

| Company details | |
|---|---|
| **Price target:** | Rs321 |
| **Market cap:** | Rs3,699 cr |
| **52 week high/low:** | Rs490/230 |
| **NSE volume:** (No of shares) | 0.8 lakh |
| **BSE code:** | 532179 |
| **NSE code:** | CORPBANK |
| **Sharekhan code:** | CORPBANK |
| **Free float:** (No of shares) | 6.1 cr |

**Shareholding pattern**




**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 0.3 | -21.1 | -25.4 | -25.0 |
| Relative to Sensex | -5.8 | -5.3 | -8.1 | -20.9 |

### Result highlights

- For Q1FY2009 Corporation Bank has reported a profit after tax (PAT) of Rs184.3 crore, indicating a growth of 4.1% year on year (yoy). The PAT is above our estimate of Rs143 crore.
- The net interest income (NII) of the bank increased by a muted 7.2% yoy to Rs378.0 crore despite a healthy growth in the advances (up 28.3% yoy) because the reported margin contracted by 58 basis points yoy to 2.43%.
- The non-interest income increased by 13.8% yoy to Rs157.6 crore on the back of a 77.0% year-on-year decline in the treasury income.
- The operating expenses were flat at Rs214.6 crore during the quarter. The expenses were contained primarily due to a 13.0% decline in the staff expenses while the other operating expenses grew by 12.4% yoy.
- Notably, the provisions witnessed a significant (five-fold) jump and stood at Rs100.8 crore. The spike was primarily due to a significant (Rs63.8 crore) mark-to-market (MTM) loss on the bank's investment book.
- The asset quality of the bank remained healthy with an improvement in absolute and relative terms. The gross non-performing assets (GNPAs) in percentage terms came in at 1.46%, down 61 basis points yoy; the net non-performing assets (NNPAs) in percentage terms declined 10 basis points to 0.36%.
- The growth in the advances was healthy at 28.3% yoy, while the deposits registered a growth of 26.6% yoy. The healthy business growth implies that the bank is again focusing on building the advances book after a muted performance in Q4FY2008.
- We are lowering our earnings estimate for FY2009 by 5.0% to account for the higher than expected MTM losses on the investment portfolio. Further, we are raising our cost of equity assumptions to factor in the higher 10-year G-Sec yields. At the current market price of Rs258, the stock trades at 4.8x 2009E

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy | % qoq |
|---|---|---|---|---|
| Net interest income | 378.0 | 352.5 | 7.2 | -6.1 |
| Non-interest income | 157.6 | 138.4 | 13.8 | -25.4 |
| Total net income | 535.6 | 490.9 | 9.1 | -12.7 |
| Operating expenses | 214.6 | 215.4 | -0.3 | 2.1 |
| *Staff expenses* | *94.0* | *108.0* | *-13.0* | *20.8* |
| *Other operating expenses* | *120.7* | *107.4* | *12.4* | *-9.0* |
| Operating profit | 321.0 | 275.6 | 16.5 | -20.5 |
| Provisions & contingencies | 100.8 | 20.0 | 405.5 | -1.0 |
| PBT | 220.1 | 255.6 | -13.9 | -27.0 |
| Provision for taxes | 35.8 | 78.5 | -54.3 | -62.7 |
| Net profit | 184.3 | 177.1 | 4.1 | -10.4 |

earnings per share (EPS), 2.8x 2009E pre-provisioning profit (PPP) and 0.8x 2009E book value (BV). We maintain our Buy recommendation on the stock with a revised price target of Rs321.

### Decline in margins affects top line

The growth in the NII during Q1FY2009 was lower than expected at 7.2%, mainly due to a 58-basis-point contraction in the net interest margin (NIM). Though the growth in the advances during the quarter was robust at 28.3% yoy, continued pressure on the margins took its toll on the NII. The credit/deposit ratio during the quarter improved to 71.2% from 70.2% in Q1FY2008.

### NIM remains under pressure

The reported NIM for the quarter stood at 2.43%, indicating a 58-basis-point decline from 3.01% a year ago. The pressure on the NIM was maintained primarily because of a decline of 20 basis points yoy in the yields on the advances on the back of the prime-lending rate (PLR) cut undertaken by the bank in Q4FY2008. However, the sequential 28 basis points decline in the NIM is a cause for concern.

**Yield analysis (%)**

| Particulars | Q1FY09 | Q1FY08 | yoy bps | qoq bps |
|---|---|---|---|---|
| Yield on advances (reported) | 9.97 | 10.17 | -20 | -23 |
| Cost of deposits (reported) | 6.43 | 6.56 | -13 | -2 |
| NIM (reported) | 2.43 | 3.01 | -58 | -28 |
| NIM (calculated) | 2.24 | 2.67 | -43 | -50 |

### Business growth marginally above industry growth

During the quarter, business growth for the bank was marginally above the industry growth. The advances grew by 28.3% to Rs38,952 crore while the deposits increased by 26.6% to Rs54,742 crore in Q1FY2009. Notably, the current account and savings account (CASA) deposits grew at a lower pace of 21.0%, leading to a 130-basis-point decline in the CASA ratio to 27.4%. The lower CASA ratio of the bank puts further pressure on its margins.

**Deposit break-up**

| Particulars | Q1FY09 | Q1FY08 | % yoy |
|---|---|---|---|
| Total deposits | 54,742 | 43,231 | 26.6 |
| Demand deposits | 15,010 | 12,407 | 21.0 |
| *as % of total deposits* | *27.4* | *28.7* | |
| Term deposits | 39,732 | 30,825 | 28.9 |
| *as % of total deposits* | *72.6* | *71.3* | |
| CASA ratio (%) | 27.4 | 28.7 | -1.3 |

### Non-interest income up by 13.9% yoy

The non-interest income for the quarter grew by 13.9% yoy to Rs157.6 crore. The growth was primarily driven by a 95.9% year-on-year increase in the foreign exchange (forex) income, while the commission, exchange and brokerage income (CEB) grew by 18.1% yoy. However, a 77% decline in the treasury income partially offset the growth in the fee income of the bank.

**Non-interest income details** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy | % qoq |
|---|---|---|---|---|
| Fee income | 48.5 | 41.1 | 18.1 | -36.7 |
| Treasury | 4.5 | 19.6 | -77.0 | -74.4 |
| Forex | 16.6 | 8.5 | 95.9 | 15.7 |
| Other income | 58.4 | 45.3 | 28.9 | 21.9 |
| Recovery | 29.6 | 24.0 | 23.3 | -46.0 |
| **Total** | **157.6** | **138.4** | **13.9** | **-25.4** |

### Provisions increase five fold

The provisions for Q1FY2009 have come in at Rs100.8 crore as compared with Rs20.0 crore in the corresponding quarter of the last year. The major reason for such an increase in the provisions is the investment depreciation provision, which jumped up to Rs63.8 crore in Q1FY2009 compared with the Rs18.2-crore write-back of provision in Q1FY2008. This was in line with the current trend in the industry as the MTM losses for banks on their bond portfolio increased significantly due to the run-up in the G-Sec bond yields.

**Provisions break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 |
|---|---|---|
| Bad & doubtful debts | 35.0 | 34.5 |
| Std. assets | -3.0 | 4.0 |
| Investment depreciation | 63.8 | -18.2 |
| Others | 5.0 | -0.4 |
| **Total** | **100.8** | **20.0** |

### Lower operating expenses and tax rate boost bottom line

The operating expenses for Q1FY2009 remained largely stable at Rs214.6 crore. During the quarter the operating expenses increased by 12.4% yoy. However, this was offset by a 13.0% decline in the employee expenses. The decline in the employee expenses was mainly due to the AS-15 provisions made by the bank in Q1FY2008 leading to a higher base effect. This led to a significant decline of 380 basis points in the cost/income ratio to 40.1%. Further, the effective tax rate for the bank came in at 16.3% as compared with 30.7% in Q1FY2008.

## Asset quality continues to improve

The asset quality of the bank remained healthy with an improvement in both absolute and relative terms. The percentage of the GNPAs stood at 1.46%, down 61 basis points yoy, while the percentage of the NNPAs was down 10 basis points yoy to 0.36%. On an absolute basis, the GNPAs declined by 9.7% yoy to Rs575.3 crore, while the NNPAs remained largely stable.

**Asset quality details** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy | % qoq |
|---|---|---|---|---|
| GNPA | 575.3 | 636.9 | -9.7 | -1.6 |
| %GNPA | 1.46 | 2.07 | -61bps | -1bps |
| NNPA | 139.5 | 140.7 | -0.8 | 9.9 |
| %GNPA | 0.36 | 0.46 | -10bps | 4bps |
| Provisioning coverage (%) | 75.7 | 77.9 | -216bps | -253bps |

## Capital adequacy comfortable at 12.4%

The capital adequacy ratio at the end of Q1FY2009 stood at a comfortable 12.4% compared with the year-ago level of 13.3%. The Tier I ratio as on June 30, 2008 stood at 10.1%, which indicates that the bank has enough headroom to raise Tier II capital.

## Valuation and view

We are lowering our earnings estimate for FY2009 by 5.0% to account for the higher than expected MTM losses on the investment portfolio. Further, we are raising our cost of equity assumptions to factor in the higher 10-year G-Sec yields. At the current market price of Rs258, the stock trades at 4.8x 2009E EPS, 2.8x 2009E PPP and 0.8x 2009E BV. We maintain our Buy recommendation on the stock with a revised price target of Rs321.

**Valuation table**

| Year to 31 March | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net profit (Rs cr) | 542.5 | 536.1 | 734.7 | 803.8 | 916.5 |
| Shares in issue (cr) | 14.3 | 14.3 | 14.3 | 14.3 | 14.3 |
| EPS (Rs) | 37.8 | 37.4 | 51.2 | 56.0 | 63.9 |
| EPS growth (%) | 34.9 | -1.2 | 37.0 | 9.4 | 14.0 |
| PE (x) | 6.8 | 6.9 | 5.0 | 4.6 | 4.0 |
| P/PPP (x) | 3.5 | 3.2 | 3.0 | 2.7 | 2.3 |
| BV (Rs/share) | 235.3 | 262.5 | 294.8 | 339.4 | 390.2 |
| P/BV (x) | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 |
| Adj BV (Rs/share) | 224.6 | 252.6 | 286.0 | 322.0 | 365.2 |
| P/ABV (x) | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 |
| RoNW (%) | 16.9 | 15.0 | 18.4 | 17.7 | 17.5 |

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

# Punjab National Bank

**Ugly Duckling**

**Stock Update**

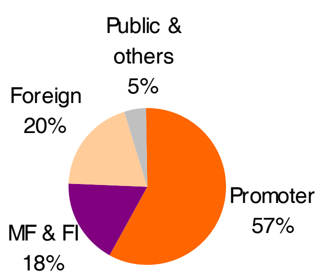
## Price target revised to Rs587

**Buy; CMP: Rs451**

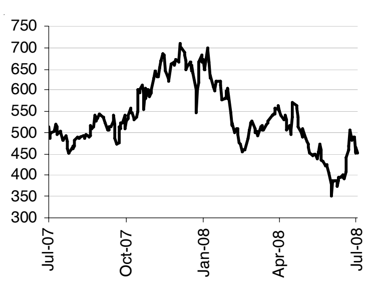
**Company details**

| | |
|---|---|
| **Price target:** | Rs587 |
| **Market cap:** | Rs14,228 cr |
| **52 week high/low:** | Rs721/332 |
| **NSE volume:** (No of shares) | 6.3 lakh |
| **BSE code:** | 532461 |
| **NSE code:** | PNB |
| **Sharekhan code:** | PUNBNK |
| **Free float:** (No of shares) | 13.3 cr |

**Shareholding pattern**




**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 24.6 | -13.3 | -28.9 | -5.4 |
| Relative to Sensex | 16.9 | 4.1 | -12.4 | -0.2 |

### Result highlights

- Punjab National Bank (PNB) reported a profit after tax (PAT) of Rs512.4 crore in Q1FY2009 indicating a growth of 20.5%. The PAT was slightly below our estimate of Rs526 crore.
- The net interest income (NII) for the quarter stood at Rs1,444.7 crore, up 11% year on year (yoy). The moderate growth in NII was primarily due to sub-industry advances growth coupled with contraction in the net interest margin (NIM).
- The calculated NIM witnessed a contraction of 33 basis points to 2.85% primarily due to a ~50-basis point increase in the cost of funds. With a view to improve NIM, the bank has announced a 100-basis-point hike in its prime lending rate (PLR) in response to monetary tightening, which should help avoid further erosion in the margins.
- The non-interest income registered a 10.4% decline yoy to Rs456.1 crore. The decline primarily stems from a 90.2% decline in the treasury income.
- Notably the operating expenses growth was contained at 4.7% to Rs918.5 primarily due to a higher base last year when the bank provided for AS-15 transitional liability. Notably the bank provided excess provision of Rs150 crore towards AS-15.
- Interestingly the provisions and contingencies were down by 31.5% yoy to Rs210.5 crore. The decline in provisions was primarily due to a higher base last year on account of a surge in non-performing assets (NPAs). With an improvement in the asset quality in recent quarters, the provisions have been declining.
- The advances registered a growth of 19.6% yoy to Rs95,640 crore, while the deposits were up by 21.4% yoy to Rs173,074 crore. The current account and

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy | % qoq |
|---|---|---|---|---|
| Net interest income | 1444.7 | 1301.0 | 11.0 | -4.8 |
| Non-interest income | 456.1 | 509.1 | -10.4 | -15.1 |
| *Treasury income* | *12.9* | *132* | *-90.2* | *-81.6* |
| *CEB* | *316.4* | *274.8* | *15.1* | *-2.8* |
| *Others* | *126.8* | *102.3* | *24.0* | *-10.5* |
| Net income | 1900.9 | 1810.1 | 5.0 | -7.5 |
| Operating expenses | 918.5 | 877.0 | 4.7 | -22.2 |
| *Staff expenses* | *644.2* | *641.1* | *0.5* | *-47.4* |
| *Other operating expenses* | *274.2* | *235.9* | *16.2* | *220.5* |
| Operating profit | 982.4 | 933.1 | 5.3 | -19.9 |
| Core operating profit (excluding treasury) | 969.5 | 801.1 | 21.0 | -16.2 |
| Provisions & contingencies | 210.5 | 307.2 | -31.5 | 25.6 |
| PBT | 771.9 | 625.9 | 23.3 | -27.1 |
| Provision for taxes | 259.5 | 200.9 | 29.2 | -49.6 |
| Net profit | 512.4 | 425.1 | 20.5 | -5.8 |

saving account (CASA) ratio declined by ~300 basis points to 41.3% but remains one of the best among peers.

- The asset quality improved yoy on both absolute and relative basis. The gross non-performing asset (GNPA) in percentage terms stood at 2.82%, significantly down from 3.81% a year ago, while the net non-performing asset (NNPA) in percentage terms declined to 0.63% from 0.98% a year ago. However on sequential basis the %GNPA is up 12 basis points.
- We have maintained our estimates for FY2009 and revised FY2010 estimates downwards by 1.5%. We are raising our cost of equity assumptions to factor in the increase in the 10-year G-sec yields and consequently we are revising our price target downwards to Rs587. At the current market price of Rs451, the stock trades at 6.1x 2009E earnings per share (EPS), 3.1x 2009E pre-provisioning price (PPP) per share and 1.1x 2009E book value (BV) per share. We maintain our Buy recommendation on the stock.

### NII growth moderate at 11% yoy

PNB's NII grew by a moderate 11% yoy to Rs1,444.7 crore compared with our estimate of Rs1,496 crore. The moderation in the NII growth was primarily due to contraction in the NIM coupled with moderate advances growth (19.6% yoy).

### Margins under pressure

Our calculations suggest a NIM of 2.85%, indicating a contraction of 33 basis points yoy. The contraction in the NIM was largely driven by a 47-basis-point year-on-year increase in the cost of funds, which overshadowed the 14-basis-point expansion in yields on assets. The y-o-y expansion in yield on advances was contained at 28 basis points owing to PLR reduction of 50 basis points announced by the bank in the previous quarter. With a view to improve its NIM, the bank has announced a 100-basis-point hike in its PLR over and above the 50-basis point hikes announced earlier this fiscal. While the bank has also announced ~75-basis-point hike in the deposit rates, the PLR hike augurs well for the margin outlook.

**Yield analysis (%)**

| Particulars | Q1FY09 | Q1FY08 | yoy bps |
|---|---|---|---|
| Yield on advances | 10.31 | 10.03 | 28 |
| Yield on assets | 8.17 | 8.02 | 14 |
| Cost of funds | 5.31 | 4.85 | 47 |
| NIM (calculated) | 2.85 | 3.18 | -33 |
| NIM (reported) | 3.19 | 3.74 | -55 |

### Advances growth moderates to 19.6%

The advances growth moderated to 19.6% yoy for the quarter compared with 23.7% y-o-y growth in the previous quarter. Notably the 19.6% advances growth is well below the ~26% growth at industry level. The moderation in advances growth primarily stems from the agriculture segment (up only 1.3% yoy). Going forward the management intends to grow its advances book at around 20% levels in line with the Reserve Bank of India's target growth for the current fiscal.

**Advances break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy |
|---|---|---|---|
| Total advances | 1,144 | 956 | 19.6 |
| Retail | 189 | 165 | 14.5 |
| *as % of total advances* | *16.5* | *17.3* | |
| Agricultural | 190 | 188 | 1.3 |
| Others | 765 | 604 | 26.7 |

### CASA ratio dips by 290 basis points

The deposits were up by a healthy 21.4% yoy to Rs173,074 crore driven by a 27.8% y-o-y growth in term deposits. The growth in CASA balances was moderate at 13.3%, which led to a 290-basis-point y-o-y contraction in the CASA ratio to 41.3%. The dip in the CASA ratio partly explains the increase in the cost of funds.

**Deposit break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy | % qoq |
|---|---|---|---|---|
| Total deposits | 1,731 | 1,426 | 21.4 | 4.0 |
| Demand deposits | 715 | 631 | 13.3 | -0.1 |
| *as % of total deposits* | *41.3* | *44.2* | | |
| Term deposits | 1,016 | 795 | 27.8 | 7.1 |
| CASA ratio (%) | 41.3 | 44.2 | -2.9 | -1.7 |

### Non-interest income growth disappoints

The non-interest income for the quarter declined by 10.4% yoy to Rs456.1 crore. The disappointing non-interest income growth primarily stems from a 90.2% y-o-y decline in the treasury income. The significant decline in the treasury income overshadowed a healthy growth in CEB (up 15% yoy) and others (up 24% yoy).

### Operating expenses growth contained

The growth in the operating expenses for the quarter was contained at 4.7% yoy to Rs918.5 crore primarily due to flattish staff expenses. Meanwhile the other operating expenses grew by 16.2% yoy. The contained growth was primarily due to a higher base last year, when the bank provided for AS-15 transitional liability. During Q1FY2009, the bank provided excess provision of Rs150 crore towards AS-15.

## Lower provisions helped bottom line growth

Interestingly the provisions and contingencies were down by 31.5% yoy to Rs210.5 crore. The y-o-y decline in the provisions despite a significant MTM loss provision (Rs151 crore) on investment portfolio was primarily due to the fact that the year-ago NPA provisions were significantly higher due to a surge in the NPAs. With improvement in the asset quality in the recent quarters the provisions have been declining.

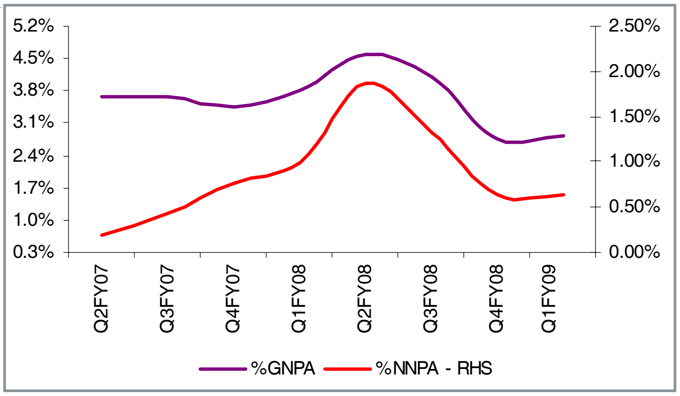
**Provision break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy |
|---|---|---|---|
| Prov for NPA | 51.8 | 137.9 | -62.4 |
| Provision for depreciation | 151.1 | 155.0 | -2.5 |
| Others | 7.7 | 14.3 | -46.2 |
| Total provisions | 210.5 | 307.2 | -31.5 |

## Asset quality deteriorated sequentially

After reporting improving asset quality for past few quarters, the bank witnessed an uptick in its asset quality ratios. As evident in the chart below, %GNPA stood at 2.82% down from 3.81% a year ago but up from 2.74% for the previous quarter. The management indicated that the increase in %GNPA was primarily driven by the higher slippages in the agricultural loans. The management intends to step up its recovery efforts to bring the situation under control.

**Trend in asset quality**




## Valuation and view

We have maintained our estimates for FY2009 and revised FY2010 estimates downwards by 1.5%. We have maintained our estimates for FY2009 and fine-tuned our FY2010 estimates. We are raising our cost of equity assumptions to factor in the increase in 10-year G-sec yields and consequently we are revising our price target downwards to Rs587. At the current market price of Rs451, the stock trades at 6.1x 2009E EPS, 3.1x 2009E PPP per share and 1.1x 2009E BV per share. We maintain our Buy recommendation on the stock.

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net profit (Rs cr) | 1439.3 | 1540.0 | 2048.8 | 2347.5 | 2764.2 |
| Shares in issue (cr) | 31.5 | 31.5 | 31.5 | 31.5 | 31.5 |
| EPS (Rs) | 45.6 | 48.8 | 65.0 | 74.5 | 87.7 |
| EPS growth (%) | 2.1 | 7.0 | 33.0 | 14.6 | 17.7 |
| PE (x) | 9.9 | 9.2 | 6.9 | 6.1 | 5.1 |
| P/PPP (x) | 4.9 | 3.9 | 3.5 | 3.1 | 2.8 |
| BV (Rs/share) | 297.4 | 321.6 | 342.0 | 399.0 | 466.2 |
| P/BV (x) | 1.5 | 1.4 | 1.3 | 1.1 | 1.0 |
| Adj BV (Rs/share) | 290.7 | 298.6 | 308.4 | 365.1 | 421.9 |
| P/ABV (x) | 1.6 | 1.5 | 1.5 | 1.2 | 1.1 |
| RoNW (%) | 16.4 | 15.8 | 19.6 | 20.1 | 20.3 |

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

# HDFC Bank

**Evergreen**

**Stock Update**

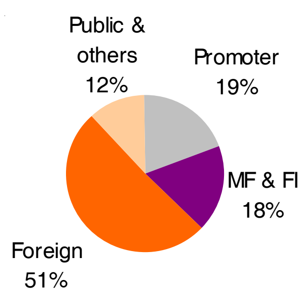
## Price target revised to Rs1,482

**Buy; CMP: Rs1,095**

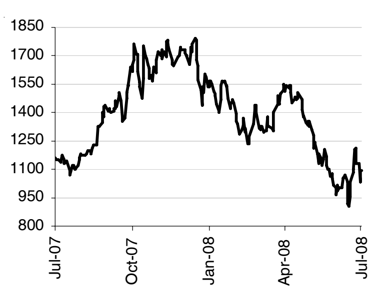
### Company details

| | |
|---|---|
| **Price target:** | Rs1,482 |
| **Market cap:** | Rs46,506 cr |
| **52 week high/low:** | Rs1,825/890 |
| **NSE volume:** (No of shares) | 8.0 lakh |
| **BSE code:** | 500180 |
| **NSE code:** | HDFCBANK |
| **Sharekhan code:** | HDFCBANK |
| **Free float:** (No of shares) | 34.2 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 8.6 | -28.2 | -28.2 | -5.9 |
| Relative to Sensex | 1.9 | -13.8 | -11.6 | -0.7 |

### Result highlights

- HDFC Bank reported a profit after tax (PAT) of Rs464.4 crore indicating a growth of 44.6% year on year (yoy). The Q1FY2009 financials include the effect of the merger of Centurion Bank of Punjab (CBoP) with HDFC Bank and hence are not strictly comparable with prior periods.
- The net interest income (NII) for the quarter stood at Rs1,723.5 crore, up 74.9% yoy buoyed by acquisition-led balance sheet expansion. The reported core net interest margin (NIM) stood at a healthy 4.1% though it has contracted by 30 basis points sequentially from 4.4% in the previous quarter. The capital raised by HDFC Bank and CBoP during FY2008 has contributed the same.
- The non-interest income growth was muted at 3.6% and stood at Rs593.4 crore. The muted growth in the non-interest income primarily stemmed from a treasury loss of Rs77.6 crore (includes mark-to-market loss of Rs72 crore) compared with a gain of Rs52.6 crore. The treasury loss was offset by a robust growth (37.3% yoy) in the fee income.
- The operating expenses grew by 66.5% yoy to Rs1,289.4 crore primarily driven by a 90.4% year-on-year (y-o-y) growth in staff expenses and a 52.7% y-o-y growth in other operating expenses. Considering the fact that CBoP retail franchisee was relatively less profitable, the merger has resulted in a 590-basis-point increase in the cost-income ratio to 55.7%. Consequently, the growth in the operating profit was contained at 31.1% yoy to Rs1,027.5 crore, while the core operating profit (excluding treasury income) grew by a strong 51.2% yoy.
- Notably, provisions were up by only 12.2% yoy to Rs344.5 crore. During the quarter, the bank provided for CBoP's non-performing assets (NPAs) through reserves,

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy | % qoq |
|---|---|---|---|---|
| Net interest income | 1723.5 | 985.5 | 74.9 | 5.0 |
| Non-interest income | 593.4 | 572.5 | 3.6 | 8.0 |
| *Treasury income* | *-77.6* | *52.6* | - | - |
| *Fee income* | *511.2* | *372.3* | *37.3* | *4.2* |
| *Forex* | *157.4* | *146.5* | *7.4* | - |
| Net income | 2316.9 | 1558.1 | 48.7 | 5.7 |
| Operating expenses | 1289.4 | 774.4 | 66.5 | 16.9 |
| *Staff expenses* | *540.6* | *283.9* | *90.4* | *56.4* |
| *Other operating expenses* | *748.8* | *490.5* | *52.7* | *-1.1* |
| Operating profit | 1027.5 | 783.7 | 31.1 | -5.6 |
| Core operating profit (excluding treasury) | 1105.1 | 731.1 | 51.2 | 2.6 |
| Provisions & contingencies | 344.5 | 307.1 | 12.2 | -25.9 |
| PBT | 683.0 | 476.6 | 43.3 | 9.5 |
| Provision for taxes | 218.7 | 155.3 | 40.8 | 43.5 |
| Net profit | 464.4 | 321.2 | 44.6 | -1.4 |

while the MTM loss provisions were reported under non-interest income, which resulted in a moderate growth in the provisions.

- The asset quality of the merged entity indicated deterioration but remains healthy. While the increase looks substantial on absolute basis (GNPA up 111.6% yoy and NNPA up 131.5%), it is misleading due to the effect of merger. On a relative basis, a more reliable indicator, %GNPA increased by 20 basis points to 1.5% while %NNPA increased by 10 basis point to 0.5%.
- HDFC Bank's balance sheet saw significant expansion owing to the consolidation of CBoP's balance sheet with itself. The net advances grew by 79.8% yoy to Rs96,797 crore, while the deposits grew by 60.4% yoy to Rs130,918 crore. Notably the growth in the current and savings account (CASA) balance was relatively lower at 39.8%, which resulted in a 660-basis-point contraction in the CASA ratio to 44.9%.
- We have revised our earnings estimates to factor in the effect of CBoP merger. At the current market price of Rs1,127, HDFC Bank trades at 20.2x FY2009E earnings per share (EPS), 8.1x FY2009E pre provisioning profit (PPP) and 3.1x FY2009E book value (BV). We maintain our Buy recommendation on the stock with a revised price target of Rs1,482.

### NII growth strong at 75%

The NII for the quarter came in at Rs1,723.5 crore, indicating a strong growth of 74.9% yoy. The growth was driven by strong momentum in advances (up 79.8% yoy), while the core NIM was largely stable yoy at 4.1%.

### Strong momentum in advances growth

HDFC Bank reported a strong growth of 79.8% yoy in its advances helped by CBoP acquisition. On a like-to-like basis, the growth is relatively lower at 47.2% yoy though its is strong compared with ~26% y-o-y growth at industry level.

**Business growth** Rs (cr)

| | Reported | | | Merged-proforma* | |
|---|---|---|---|---|---|
| | Q1FY09 | Q1FY08 | % yoy | Q1FY08 | % yoy |
| Advances | 96,797 | 53,839 | 79.8 | 65,780 | 47.2 |
| Deposits | 130,918 | 81,604 | 60.4 | 97,704 | 34.0 |
| Assets | 168,599 | 105,695 | 59.5 | 125,360 | 34.5 |

*Consolidated numbers for HDFC Bank and CBoP.

### Reported NIM contracts sequentially

The reported core NIM for the quarter stood at 4.1% in Q1FY2009, stable yoy but down 30 basis points sequentially from 4.3% in Q4FY2008. The sequential contraction in the NIM was largely expected considering the lower NIM of CBoP compared with that of HDFC Bank. Based on the reported quarterly average balances, the NIM for Q1FY2009 comes in at 4.6% indicating expansion of 57 basis points yoy. This expansion is largely due to a 162-basis-point jump in yields, which outweighed a 77-basis-point increase in the cost of funds.

**Yield analysis (%)**

| Particulars | Q1FY09 | Q1FY08 | yoy bps | qoq bps |
|---|---|---|---|---|
| Yield on advances | 13.16 | 11.54 | 162 | 124 |
| Yield on investments | 8.00 | 6.82 | 118 | 24 |
| Cost of funds | 6.55 | 5.78 | 77 | 128 |
| NIM (calculated) | 4.57 | 4.00 | 57 | -40 |
| NIM (reported) | 4.10 | 4.10 | 0 | -30 |

### CASA ratio dips by 660 basis points

Notably the CASA ratio witnessed a significant decline of 660 basis points to ~45% during the quarter. The dip primarily stemmed from consolidation of CBoP's lower CASA base (~24%). As at the end of Q3FY2008, CBoP's CASA ratio was low at around 25%. Going forward, we expect the CASA ratio to improve as HDFC Bank leverages CBoP retail franchisee (around 400 branches) optimally. HDFC Bank's management has guided towards a CASA ratio in 48-50% range over the next two quarters.

**Depsoti break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Total deposits | 130,918 | 81,604 | 60.4 |
| *Savings* | *31,853* | *20,925* | *52.2* |
| *Current* | *26,866* | *21,085* | *27.4* |
| CASA deposits | 58,719 | 42,010 | 39.8 |
| Term deposits | 72,199 | 39,594 | 82.3 |
| CASA ratio (%) | 44.9 | 51.5 | -6.6 |

### Non-interest income muted at 3.6%

The non-interest income growth during the quarter was muted at 3.6% yoy and stood at Rs593.4 crore. The muted growth primarily stems from the treasury loss of Rs77.6 crore (MTM loss of Rs72 crore) as against a gain of Rs52.6 crore for Q1FY2008. The treasury loss was offset by a strong growth in the fee income (up 37.3% yoy). Meanwhile the forex income was up a moderate 7.4% yoy pointing towards lower demand for exotic forex derivatives, though the demand for traditional plain vanilla forex products remains robust. Going forward, the momentum in fee income should benefit from further integration of CBoP's operations with that of HDFC Bank, which would open up cross-selling opportunities.

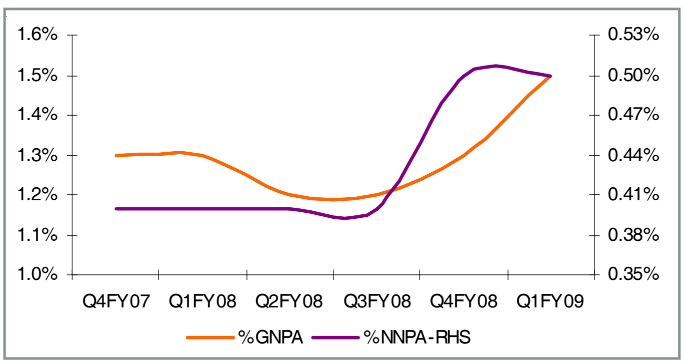
### CBoP effect pulls down operating efficiency

The operating expenses registered a growth of 66.5% yoy primarily driven by a 90.4% y-o-y jump in staff expenses. Meanwhile other operating expenses grew by 52.7% yoy. The surge in operating expenses led to a decline in the operating efficiency, which was largely expected considering the relatively less cost efficient branch franchisee of CBoP. The cost-income ratio stood at 55.7% compared with 49.7% a year ago.

### Asset quality dips marginally

During the quarter, %GNPA (gross non-performing assets as percentage of advances) saw an increase of 20 basis points yoy to 1.5%. The increase is primarily driven by higher slippages in CBoP's advances portfolio, especially personal loans and two-wheelers. At net level, there was an increase of 10 basis points yoy to 0.5% as the bank provided about Rs325 crore for CBoP's NPAs from the reserves to bring provisioning level of CBoP's advances book to the bank's level. Notably, the asset quality ratios are stable on sequential basis. In line, the provisioning coverage remains healthy and stable sequentially at 67%.

**Trend in asset quality**




### Provisions up a moderate 12% yoy

Interestingly the provisions grew by a moderate 12.2% yoy to Rs344.5 crore. The moderate growth in provisions compared with other banking players was due to two reasons. First, the bank provided for CBoP's NPAs through reserves. Two, the MTM loss provisions were reported under non-interest income. On forex derivatives front, the bank provided additional Rs11 crore during the quarter.

### CAR dips but healthy at 12.2%

The capital adequacy ratio (CAR) for the bank dipped to 12.2% from 13.1% a year ago, but remains healthy and well above the regulatory requirement of 9%. The dip is in line with the reduction of ~Rs700 crore in reserves (due to NPA provision, restructuring charges and changes in CBoP's accounting policy etc).

### Merger to stress operations in short term

As evident in our analysis above, the CBoP merger has stressed HDFC Bank's operational performance matrices. In line, the return on equity (ROE) is likely to dip in short term owing to potential exercise of 2.62 crore warrants issued to HDFC (the parent company) and shares issued to CBoP shareholders. The effect of operational stress and dilution would remain in short term, however in long term we see significant benefit from the merger, considering HDFC Bank's strong focus on optimally leveraging CBoP's retail franchisee.

### Valuation and view

We have revised our earnings estimates to factor in the effect of CBoP merger. At current market price of Rs1,127, HDFC Bank trades at 20.2x FY2009E EPS, 8.1x FY2009E PPP and 3.1x FY2009E BV. We maintain our Buy recommendation on the stock with a revised price target of Rs1,482.

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net profit (Rs cr) | 871.2 | 1141.9 | 1589.7 | 2252.2 | 3136.6 |
| Shares in issue (cr) | 31.3 | 31.9 | 35.4 | 42.4 | 46.7 |
| EPS (Rs) | 27.8 | 35.8 | 44.9 | 53.1 | 67.1 |
| EPS growth (%) | 29.5 | 28.5 | 25.5 | 18.3 | 26.4 |
| PE (x) | 39.4 | 30.6 | 24.4 | 21.2 | 16.8 |
| P/PPP (x) | 17.3 | 12.5 | 10.3 | 7.8 | 6.7 |
| BV (Rs/share) | 169.2 | 201.4 | 324.4 | 355.3 | 451.5 |
| P/BV (x) | 6.5 | 5.6 | 3.5 | 3.2 | 2.5 |
| AdjBV (Rs/share) | 164.3 | 195.1 | 316 | 344.7 | 432.2 |
| P/ABV (x) | 6.7 | 5.8 | 3.6 | 3.3 | 2.6 |
| RoNW (%) | 17.7 | 19.3 | 17.1 | 15.6 | 16.6 |

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

# ITC

Apple Green

Stock Update

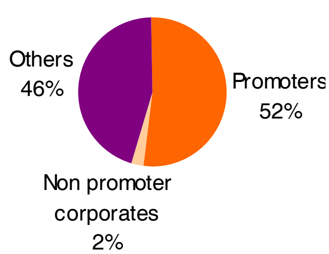
## Non-cigarette FMCG disappoints

Buy; CMP: Rs188

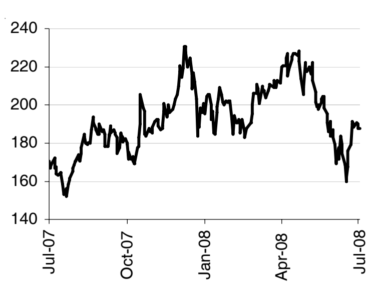
### Company details

| | |
|---|---|
| **Price target:** | Rs247 |
| **Market cap:** | Rs70,763 cr |
| **52 week high/low:** | Rs239/152 |
| **NSE volume:** (No of shares) | 55.6 lakh |
| **BSE code:** | 500875 |
| **NSE code:** | ITC |
| **Sharekhan code:** | ITC |
| **Free float:** (No of shares) | 182.2 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 2.4 | -12.5 | -3.5 | 14.9 |
| Relative to Sensex | -3.9 | 5.0 | 18.9 | 21.2 |

### Result highlights

- ITC's Q1FY2009 results are below our expectations as its profitability was hurt by increase in the raw material cost and the continued brand building expenditure on new launches.
- The company registered a growth of 17.3% year on year (yoy) in its net sales to Rs3,899.7 crore during Q1FY2009 led by more than expected growth in cigarettes and strong performance by agri-commodities and paperboards, paper & packaging businesses. The top line was higher than our expectation of Rs3,624.3crore.
- The raw material cost as a percentage of sales increased by 311 basis points to 46.2% and the other expenses as a percentage of sales increased by 161 basis points to 19.3%. Both these led to a hefty 500.6-basis-point decline in the operating profit margin (OPM) to 28.9% for the quarter. Thus a higher raw material cost coupled with an increase in the other expenses resulted in year-on-year (y-o-y) flat operating profit to Rs1,127.2 crore in Q1FY2009.
- The OPM was impacted by a 2.75x increase in the losses of the non-cigarette FMCG business. We believe a lower contribution (to the sales) of the high margin cigarettes business and an increase in the contribution of the low margin agri-commodities business led to lower operating margins.
- Consequently no growth at operating level coupled with higher incidence of tax led to decline of 4.4% in the bottom line to Rs748.7, which is less than our expectation of Rs819.6crore.
- Despite the exit from non-filter cigarettes, ITC's cigarette business registered a growth of 6.2% in its revenues to Rs1,739.7crore (ahead of our expectation of Rs1,659.5 crore) in Q1FY2009. As against popular expectations of a 6-7% decline in the cigarette business volumes consequent to the closure of the non-filter cigarettes business (~20% of total cigarette volumes) the actual decline in cigarette volumes stood at ~3% which is commendable and points towards upgrading of 60-70% of the non-filter cigarette smokers to filter cigarettes.

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Net sales | 3,899.7 | 3,325.2 | 17.3 |
| Other income | 114.4 | 101.6 | 12.6 |
| Total income | 4,014.1 | 3,426.8 | 17.1 |
| Total expenditure | 2,772.6 | 2,197.7 | 26.2 |
| Operating profit | 1,127.2 | 1,127.6 | 0.0 |
| Interest | 1.4 | -0.8 | - |
| Depreciation | 126.1 | 101.0 | 24.8 |
| Profit before tax | 1,114.0 | 1,128.9 | -1.3 |
| Tax | 365.3 | 346.1 | 5.6 |
| Reported profit after tax | 748.7 | 782.9 | -4.4 |
| OPM (%) | 28.9 | 33.9 | (500.6) Bps |

- After several quarters of strong performance, the non-cigarette FMCG business recorded a revenue growth of only 27.9% to Rs693.6crore, which is below our expectation. The segmental loss increased to Rs122.6 crore (a margin loss of 17.7%) on account of the gestation costs of several new products in the personal care category and significant brand building activity for the new products.
- We believe the cigarette business continues to be a cash cow for ITC and remains a key cash generator to plough in new businesses, which would ensure sustained growth for the company. In near term as ITC ramps up its food and personal care businesses, consequent gestation costs would lead to significant cash losses. However hefty marketing and brand building exercise undertaken by ITC specifically on the personal care products would lead to creation of strong brands in the medium to long term. Thus while losses in the non-cigarette FMCG business would be a dampener, substantial and continuous top line growth is what one has to watch out for. At the current market price of Rs188 the stock trades at 19.5x FY2009 earnings per share (EPS) of Rs9.6 and 16.3x FY2010E EPS of Rs11.5. We maintain our Buy recommendation on the stock with a price target of Rs247.

**Q1FY2009 performance—Cigarette outperforms expectations, non-cigarette FMCG disappoints**

For Q1FY2009 ITC's top line registered a robust growth of 17.3% yoy to Rs3,899.7 crore driven by strong revenue growth in cigarette, agri business and paperboards, paper & packaging revenues. However the OPM witnessed a sharp decline of 500.6 basis points yoy to 28.9% for the quarter on account of higher raw material cost and other expenses. The raw material cost as a percentage of sales increased by 311 basis points to 46.2% on account of sharp increase in the commodity prices. The other expenses as a percentage of sales increased by 161 basis points to 19.3% due to increase in the marketing cost towards the launch of new products and branding of existing non-cigarette FMCG portfolio. Thus a higher raw material cost and an increase in the other expenses resulted in a flat operating profit to Rs1,127.2crore. Consequently the adjusted net profit also witnessed a decline of 4.4% to Rs748.7 crore on account of flat operating profit and higher incidence of tax.

**Segment-wise gross revenues** (Rs crore)

| Particulars | Q1FY09 | Q1FY08 | % yoy |
|---|---|---|---|
| FMCG - cigarettes | 3,636.1 | 3,441.5 | 5.7 |
| FMCG - others | 693.6 | 542.2 | 27.9 |
| Hotels | 259.4 | 221.2 | 17.3 |
| Agri-business | 1,834.5 | 1,418.1 | 29.4 |
| Paperboards, paper & packaging | 651.7 | 526.2 | 23.9 |
| Total | 7,075.3 | 6,149.2 | 15.1 |

## Cigarettes

ITC exited from the non-filtered cigarette business owing to the steep excise duty hike proposed on non-filter cigarettes in the Union Budget 2008-09. Inspite of exiting from the non-filter cigarette business, ITC's cigarette business recorded a 5.7% growth in its revenues at gross levels to Rs3,636.1crore (6.2% at net levels to Rs1,739.7 crore) during the quarter. As against the popular expectation of a 6-7% decline in the cigarette business volumes consequent to the closure of the non-filter cigarettes business (~20% of total cigarette volumes), the actual decline in the cigarette volumes stood at ~3%, which is commendable and points towards upgrading of 60-70% of the non-filter cigarette smokers to filter cigarettes. However the business' profit before interest and tax (PBIT) margin shrunk by marginal 85 basis points yoy to 26.4%. We believe consequent to hike in the prices of some of its key brands the company will be able to maintain better margins going forward.

## Non-cigarette FMCG business

**Branded packaged foods**

The company's branded packaged food business (bakery, staples, confectioneries, ready-to-eat and salty snacks) registered a subdued growth of 23% yoy in the revenues on account of lesser than expected revenue growth in staples and confectioneries in Q1FY2009. Increase in the price of commodities such as wheat, vegetable oil, maize, skimmed milk powder and fuel coupled with the development cost of new products is imposing huge pressure on the margins of the branded packaged food business.

—*Bingo* (a range of potato chips and finger snacks) witnessing an enthusiastic consumer response in the salty

**Segment PBIT** Rs (cr)

| Segment | PBIT (Rs crore) | | | Margins (%) | | |
|---|---|---|---|---|---|---|
| | Q1FY09 | Q1FY08 | % yoy | Q1FY09 | Q1FY08 | Chg in bps |
| FMCG - cigarettes | 961.4 | 939.1 | 2.4 | 26.4 | 27.3 | -85 |
| FMCG - others | -122.6 | -44.6 | 174.7 | -17.7 | -8.2 | -945 |
| Hotels | 85.3 | 64.3 | 32.7 | 32.9 | 29.0 | 382 |
| Agri-business | 76.5 | 54.5 | 40.5 | 4.2 | 3.8 | 33 |
| Paperboards, paper & packaging | 123.4 | 86.6 | 42.6 | 18.9 | 16.5 | 248 |
| **Total** | **1124.0** | **1099.8** | **2.2** | **15.9** | **17.9** | **-200** |

snacks category posted a stupendous growth of 72% in the revenues during the quarter.

*—Biscuits*

The biscuit category continued to grow with the sales growing by around 16% during the quarter. This is mainly on account of good consumer response towards value-added variants of cookies, creams and increased volumes of new category launches of 'Coconut', 'Nice' and 'Golden Bakery' premium cookies. The excise relief awarded to low and mid-priced biscuits augurs well for ITC and the sector.

*—Staples*

In the staples category *Aashirvaad Atta* continuing its leadership position registered a revenue growth of only 31% yoy. Aashirvaad spices expanded its porfolio with the launch of *Pickle Mirch* variant in Andhra Pradesh.

*—Confectionery*

The confectionary category posted a revenue growth of only 10% yoy even though the company continues to expand its portfolio. The company recently added 'Lactos' to its portfolio which is being nationally rolled out.

### Lifestyle retailing

Lifestyle retailing business registered a revenue growth of 15% yoy on account of launch of new product line and innovative market activities. However soaring rental costs have hampered the pace of store expansion, as the company has not opened any new store during the quarter.

### Personal care

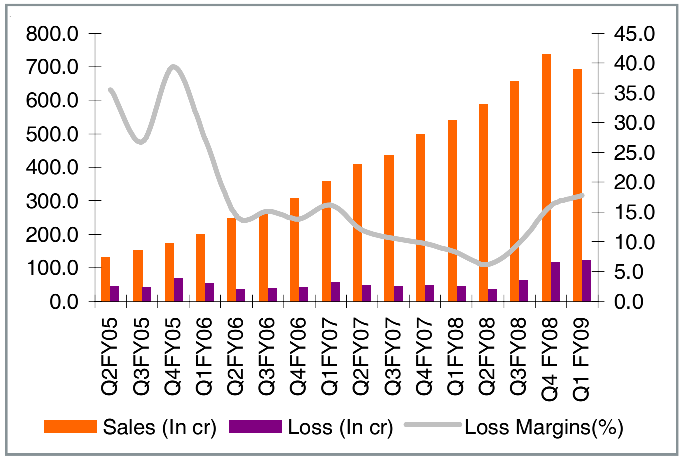
In Q2YF2008 ITC forayed into personal care segment by launching *Fiama Di Wills*—a premium range of shampoos and shower gels. This was further expanded with the launch of *Fiama Di Wills* soaps and *Superia* range of soaps and shampoos to penetrate the mass consumer market. which gained a decent acceptance in the market. Thus continuous brand building activities and strong distribution system aided ITC to achieve a market share of 2% in the soap market in India within a short span of time. Consequently the company has further extended its personal care portfolio with the launch of conditioners under the *Fiama Di wills* brand and shampoos under the *Vivel* brand.

### Educational and stationery products

The stationery business recorded a healthy sales growth of 25% yoy on account of strong performance by two of its flagship brands *Classmate* in the notebook category and *Paperkraft* in the premium stationery category for working executives. The company is focusing on Rs9,000-crore stationery market, which has established players like Navneet Publications.

After several quarters of strong revenue growth (in the range of 45-50%), ITC's non-cigarette FMCG business recorded a revenue growth of only 27.9% to Rs693.6 crore on the back of subdued performance by the branded packaged food segment during the quarter. The PBIT loss increased to Rs122.6 crore on account of 1) increase in commodity prices; 2) launch cost of new products in the personal care segment and; 3) brand building and marketing cost towards the existing non-cigarette FMCG products.

**Performance of non-cigarette FMCG business**




### Hotels

The hotel segment registered an impressive revenue growth of 17.3% for the quarter driven by better occupancies, higher room rates and good performance of food and beverage segment. The segment continued to maintain healthy PBIT margin that improved by 382 basis points to 32.9% on account of operating efficiencies.

The construction of super deluxe luxury hotels at Bengaluru (362 rooms to be commissioned by December 2008) and Chennai (550 rooms to be commissioned in 12 months) is progressing on schedule. We believe with the average room rate (ARR) peaking out, the growth for the business will be driven by the increase in the number of rooms. Towards this end, apart from the above luxury properties, Fortune Hotels (a 100% subsidiary of ITC) has tied up with Parsvnath Hotels Ltd (PHL), a wholly owned subsidiary of Parsvnath Developers, to manage 50 hotels across the country in the next three to five years. Fortune Hotels is also planning to add six new properties under its brand 'Fortune' in various locations of India, which will take the total number of hotels to 31 in a short span of time.

### Paperboards, specialty paper and packaging

The business registered a robust growth of 23.9% in the revenues driven by a 30% growth in the premium value-added portfolio of paper and paperboards and strong performance of the packaging business. Continuous operating efficiencies, optimised buying of raw material and increasing sales realisation led to a 42.6% growth in the PBIT and a 248-basis-point improvement in the PBIT margin during Q1FY2009. The recent commissioning of a new pulp capacity at Bhadrachalam unit would help in cost efficiencies and remove the dependency on imported hardwood pulp, the prices of which have seen a sharp rise and adversely impact the margins. The company has also commenced initial trial of its 1-lakh-tonne paper plant, which is expected to drive strong growth on linkage with its stationery business.

**Agri-business**

The agri-business registered a strong performance with the revenues increasing by 32% driven by continuous growth in soybean trading and leaf tobacco exports, which recorded the growth of 49% during the quarter. Consequently, the agri business' revenues increased by 29.4% to Rs1,834.5 crore and the PBIT margin improved by 33 basis points to 4.2% for Q1FY2009.

**Outlook and valuation**

The upgrading of non-filter cigarette smokers to filter cigarettes has been better than our expectation. Thus for the year FY2009 we expect the cigarette volumes to be marginally negative to flattish. Further, the price hikes undertaken by the company would ensure a decent top line growth while maintaining the margins. We believe the cigarette business continues to be a cash cow for ITC and remains a key cash generator to plough in new businesses, which would ensure sustained growth for the company. In near term as ITC ramps up its food and personal care businesses, consequent gestation costs would lead to significant cash losses. However we believe the hefty marketing and brand building exercise undertaken by ITC specifically on the personal care products would lead to creation of strong brands in the medium to long term. Thus while losses in the non-cigarette FMCG business would be a dampener, substantial and continuous top line growth is what one has to watch out for. At the current market price of Rs188 the stock trades at 19.5x FY2009 EPS of Rs9.6 and 16.3x FY2010E EPS of Rs11.5. We maintain our Buy recommendation on the stock with a price target of Rs247.

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net profit (Rs cr) | 2,280.4 | 2,700.0 | 3,120.1 | 3,576.6 | 4,303.8 |
| Shares in issue (cr) | 375.5 | 376.2 | 376.9 | 376.6 | 376.6 |
| EPS (Rs) | 6.1 | 7.2 | 8.3 | 9.5 | 11.4 |
| *yoy chg (%)* | *4.0* | *18.2* | *15.4* | *14.7* | *20.3* |
| PER (x) | 30.9 | 26.2 | 22.7 | 19.8 | 16.4 |
| Book value (Rs) | 24.1 | 27.7 | 32.0 | 37.9 | 45.7 |
| P/BV (x) | 7.1 | 6.2 | 5.4 | 4.5 | 3.8 |
| EV/EBIDTA (x) | 18.4 | 15.6 | 14.1 | 11.7 | 9.6 |
| EV/Sales (x) | 6.3 | 5.1 | 4.5 | 3.7 | 3.0 |
| RoCE (%) | 33.2 | 34.9 | 33.1 | 33.8 | 35.3 |
| RoNW (%) | 26.4 | 27.7 | 27.7 | 27.2 | 27.3 |

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

# Cadila Healthcare

**Emerging Star**

## Stock Update

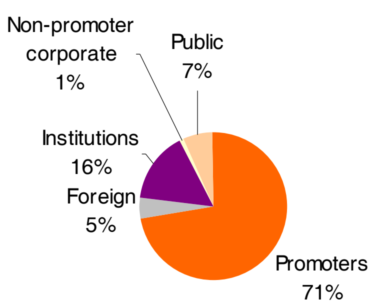
## Q1 net profit higher than estimated

**Buy; CMP: Rs310**

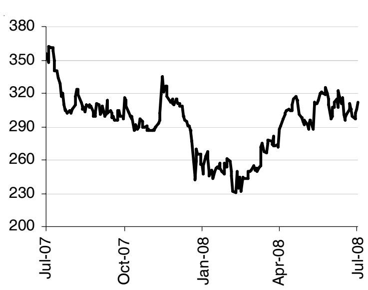
### Company details

| | |
|---|---|
| **Price target:** | Rs372 |
| **Market cap:** | Rs3,893 cr |
| **52 week high/low:** | Rs367/202 |
| **NSE volume:** (No of shares) | 19,538 |
| **BSE code:** | 532321 |
| **NSE code:** | CADILAHC |
| **Sharekhan code:** | CADILAHEAL |
| **Free float:** (No of shares) | 3.5 cr |

### Shareholding pattern




### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 3.1 | 7.4 | 20.8 | -12.5 |
| Relative to Sensex | -3.2 | 28.9 | 48.8 | -7.6 |

### Result highlights

- Cadila Healthcare's (Cadila) total operating income grew by 24.8% to Rs714.0 crore in Q1FY2009. Its net profit rose by 21.4% to Rs89.7 crore (against our estimate of Rs67 crore) in the same quarter.
- The top line growth is above our estimate. It is also broad based and was driven by strong traction in the US generic, Brazilian and French businesses, and the higher than expected contribution from the Nycomed joint venture (JV).
- The domestic formulation business grew by a tepid 5.1%, well below the industry growth rate, due to a shortage of raw materials imported from China. The management has, however, maintained its growth guidance for the domestic formulation business at 13-15%, as it expects the growth to scale up in the coming quarters with the easing of the raw material shortage.
- Cadila's revenues from its JV with Nycomed (formerly Altana) increased by an impressive 32.7% to Rs27.6 crore, while the profits grew by 38.6% to Rs21.2 crore. This was contrary to our expectation of a decline in the business. The strong growth was driven by the demand from the European and the rest of world (ROW) markets. Further, the management has expressed its confidence in maintaining the contributions from this JV at the FY2008 levels in FY2009 and FY2010.

**Result table** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Net sales | 685.7 | 560.9 | 22.3 |
| Other operating income | 28.3 | 11.3 | 150.7 |
| Total operating income | 714.0 | 572.2 | 24.8 |
| Expenditure | 552.4 | 461.0 | 19.8 |
| Operating profit | 161.7 | 111.2 | 45.4 |
| Other income | 0.3 | 0.3 | -6.7 |
| EBIDTA | 161.4 | 110.9 | 45.5 |
| Interest | 14.8 | 7.3 | 102.9 |
| Forex losses | 13.2 | -9.1 | -244.6 |
| Depreciation | 24.6 | 23.9 | 2.8 |
| PBT | 108.9 | 88.8 | 22.6 |
| Taxes | 12.1 | 12.1 | 0.0 |
| PAT | 96.8 | 76.7 | 26.1 |
| Minority interest | 0.0 | 3.4 | -100.0 |
| Adjusted PAT | 96.8 | 73.3 | 32.0 |
| Extraordinary items | -7.4 | 0.0 | - |
| Reported PAT | 89.4 | 73.3 | 21.9 |
| EPS (Rs) | 7.1 | 5.9 | 21.4 |
| OPM (%) | 22.6 | 19.4 | |
| EBITDA margin (%) | 23.5 | 19.8 | |
| PAT margin (%) | 13.5 | 12.8 | |

- A higher contribution from the high-margin Nycomed JV and an improved profitability of the French business caused Cadila's margins to expand by 320 basis points to 22.6%, which is ahead of our estimate of 19.3%. Consequently, the operating profit rose by 45.4% to Rs161.7 crore in Q1FY2009.
- At the current market price of Rs310, the stock is available at attractive valuations of 13.2x our FY2009 and at 11.0x our FY2009 estimated earnings. We reiterate our Buy recommendation on Cadila with a sum-of-the-parts based price target of Rs372.

**Domestic formulations—subdued performance**

Despite an expansion in the field force, Cadila's domestic formulation business grew by a tepid 5.1% to Rs329.3 crore in Q1FY2009. This was way below the industry growth rate of 12-13% in the same period. The performance was subdued largely because of a shortage of raw materials due to a supply crunch in China, where many of the active pharmaceutical ingredient (API) manufacturers have been forced to shut shop. The company, however, has now addressed the raw material supply problem and thus expects the growth to rebound in the coming quarters. The management has maintained its growth guidance for the domestic formulation business at around 13-15% in FY2009. We have built in a growth of 13% each for the FY2009 and FY2010 estimates.

**Consumer business maintains momentum**

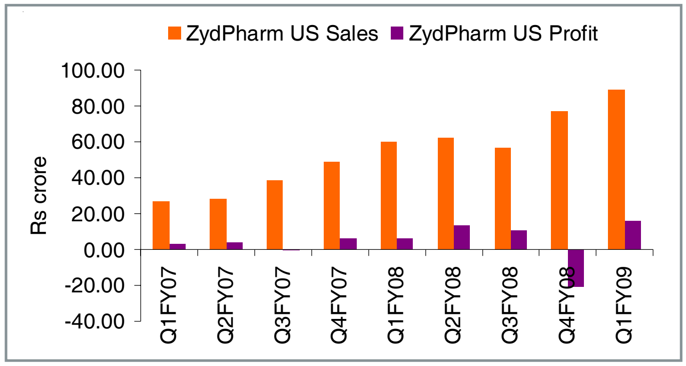
Cadila's consumer division recorded a robust growth of 18.9% year on year (yoy) to Rs78.1 crore in Q1FY2009. The performance was in line with our estimate and was driven by a 73.5% jump in the Carnation Nutra Analogue business (comprising Nutralite) and a 13.3% rise in the animal health business.

**US generic business maintains strong growth momentum**

Cadila's US subsidiary posted sales of Rs89.0 crore during the quarter, an increase of 48.1% yoy. At the net level, the subsidiary has reported a profit of Rs16.2 crore for Q1FY2009 after providing for technology transfer charges. The growth in the US business was largely driven by the launch of three new products in the USA during the quarter (Venlafaxine hydrochlorise, Pravastatin sodium and Benazepril) and an improvement of market share in the older products.

Cadila filed one abbreviated new drug application (ANDA) during the quarter, taking the total number of filings to 79 ANDAs and 59 drug master files. Of these 78 ANDAs filed, 39 have been approved and only 18 have been launched in the market so far. Further, the company intends to file 14 ANDAs in FY2009. We believe the company's US business would continue to witness strong traction as the pipeline gets commercialised.

**Strong momentum in US business**




**Sustained growth and improved profitability in French business**

The sales of Cadila's French subsidiary were up by 35.9% yoy to Rs45.8 crore in Q1FY2009. Building on the profitability achieved in the previous quarter, the French business recorded profits of Rs6.8 crore in Q1FY2009.

Cadila has made six additional applications for site transfers of the existing products, taking the total tally of site transfer applications to 47. The company has continued the process of shifting manufacturing of products to its Indian base, which has improved the profitability of the business. The company expects to continue to launch new products in the market as its dossiers get approved and to shift the production to India in order to improve the profitability of the French business.

**Brazil performance in line with expectations**

In line with our estimates, Cadila's Brazilian business reported sales of Rs42.3 crore and profits of Rs3.1 crore, driven by new launches both in the branded and generic segments.

**Performance of Nycomed JV—ahead of expectations**

Cadila's revenues from its JV with Nycomed (formerly Altana) increased by an impressive 32.7% to Rs27.6 crore, while the profits grew by 38.6% to Rs21.2 crore. The JV contributed ~4% to the total revenues and ~24% to the total profits in Q1FY2009. This was contrary to our expectation of a decline in the business. The strong growth was driven by the increased offtake of Pantoprazole intermediate from the JV for the European and the ROW markets. Further, the management has expressed its confidence in maintaining the contributions from this JV at the FY2008 levels in FY2009 and FY2010.

**Revenue break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Domestic | 421.3 | 392.5 | 7.3 |
| Formulations | 329.3 | 313.4 | 5.1 |
| Branded formulations | 314.5 | 298.5 | 5.4 |
| Generic formulations | 14.8 | 14.9 | -0.7 |
| APIs | 13.9 | 13.4 | 3.7 |
| Consumer & others | 78.1 | 65.7 | 18.9 |
| Exports | 276.5 | 193.0 | 43.3 |
| Formulations | 200.6 | 125.6 | 59.7 |
| APIs | 75.9 | 67.4 | 12.6 |
| Total gross sales | 697.8 | 585.5 | 19.2 |

### Margin expansion ahead of estimates

A higher contribution from the high-margin Nycomed JV and an improved profitability of the French business caused Cadila's margins to expand by 320 basis points to 22.6%, which is ahead of our estimate of 19.3%. Consequently, the operating profit rose by 45.4% to Rs161.7 crore in Q1FY2009.

**Cost break-up** Rs (cr)

| Particulars | Q1FY09 | Q1FY08 | % yoy chg |
|---|---|---|---|
| Material cost | 237.7 | 209.4 | 13.5 |
| *% of total operating income* | *33.3* | *36.6* | |
| Staff costs | 88.5 | 57.9 | 52.8 |
| *% of total operating income* | *12.4* | *8.1* | |
| Other expenses | 226.2 | 193.7 | 16.8 |
| *% of total operating income* | *31.7* | *27.1* | |

### Net profit beats estimate

The robust top line growth and the expanding margins caused Cadila's net profit to grow by 21.4% to Rs89.7 crore. This was despite a substantial increase in the interest cost (due to acquisitions) and mark-to-market foreign exchange (forex) losses of Rs13.2 crore in Q1FY2009 (as compared with a forex gain of Rs9.1 crore in Q1FY2008).

### Acquisition spree continues

In order to gain an entry into newer markets, Cadila continued its acquisition spree during the quarter. The company announced two acquisitions during the quarter: Laboratorios Combix in Spain and Simayla Pharmaceuticals in South Africa. As per the management, these acquisitions made an insignificant contribution in the current quarter but their contribution is expected to ramp up in the coming quarters. Both the acquisitions are expected to strengthen the group's global operations significantly.

### Cadila-Hospira JV to contribute from Q4FY2009 onwards

The JV with Hospira for oncology injectables is progressing well. The plant in Ahmedabad for the JV has been commissioned and trial batches have started. Cadila has initiated the process of product filings from the plant and is expecting a US Food and Drug Administration inspection in September 2008. Thus, the JV seems to be on track to start contributing from Q4FY2009 onwards.

### Valuation and view

Cadila's Q1FY2009 and FY2008 results have surpassed our expectations, mainly on account of strong traction in the US generic, French and consumer businesses. The Nycomed JV has also surprised positively and the management's indication that the contribution from this JV would be maintained at FY2008 levels is a clear positive signal. The positive developments on the Nycomed JV and the increasing visibility of the business from the Hospira JV reinforce our view on Cadila's continued growth prospects.

At the current market price of Rs310, the stock is available at attractive valuations of 13.2x our FY2009 and at 11.0x our FY2009 estimated earnings. We reiterate our Buy recommendation on Cadila with a sum-of-the-parts based price target of Rs372.

**Valuation table**

| Particulars | FY06 | FY07 | FY08 | FY09E | FY10E |
|---|---|---|---|---|---|
| Net sales | 1484.5 | 1854.7 | 2324.5 | 2779.4 | 3188.8 |
| Net profit | 164.9 | 233.8 | 261.4 | 321.0 | 384.2 |
| Shares in issue (cr) | 12.6 | 12.6 | 12.6 | 13.6 | 13.6 |
| EPS (Rs) | 13.1 | 18.6 | 20.8 | 23.5 | 28.1 |
| *% yoy change* | *24.5* | *41.8* | *11.8* | *13.0* | *19.7* |
| PER (x) | 23.6 | 16.7 | 14.9 | 13.2 | 11.0 |
| cash EPS (Rs) | 19.3 | 25.2 | 28.6 | 31.7 | 36.8 |
| cash PER (x) | 16.0 | 12.3 | 10.8 | 9.8 | 8.4 |
| EV | 4293.0 | 4248.1 | 4638.7 | 4820.2 | 4700.6 |
| EV/EBITDA (x) | 14.9 | 11.2 | 10.1 | 8.6 | 7.2 |
| Book value (Rs/share) | 55.6 | 68.9 | 84.6 | 95.4 | 118.4 |
| P/BV (x) | 5.6 | 4.5 | 3.7 | 3.3 | 2.6 |
| Mcap/sales | 2.6 | 2.1 | 1.7 | 1.5 | 1.3 |
| RoCE (%) | 17.0 | 20.4 | 17.8 | 19.4 | 20.1 |
| RoNW(%) | 23.6 | 27.0 | 24.6 | 24.7 | 23.9 |

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

# Banking

## Sector Update

## Impact of debt waiver guidelines

The Reserve Bank of India (RBI) has released prudential guidelines on income recognition, asset classification and provisioning, and capital adequacy requirements related to the Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008. The key points of the guidelines are summarised below.

### Debt waiver scheme

- The amount eligible for the debt waiver scheme and the remaining receivable from the Government of India (GoI) may be transferred by banks to a separate account named "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008". The balance in this account may be treated by the banks as a "performing" asset, provided adequate provision is made for the loss in the present value (PV) terms. The computation of the PV should be based on a discount rate of 9.56% and the timing of the payments to be received from GoI.
- The amount under the account, permitted to be treated as a performing/standard asset, would not attract provisioning under the current norms for standard assets.
- The provisions held by the bank on the debt found eligible under the waiver scheme may be recognised for meeting the provisions required on PV basis. However, if the amount of provision held is more than the amount of provision required on PV basis, such excess provision may be reversed in a phased manner (in line with the scheduled dates for the receipt of payment from GoI).

### Impact analysis

The guidelines have realised our fears with regard to the implementation of the scheme. The table below summarises the impact of the PV method assuming an eligible amount of Rs100. The recognition based on the PV method is lower by 10.5% compared with the eligible amount. Our conversations with banks suggest that most of the public sector banks have recognised the eligible amount upfront. Hence, the banks would be required to create additional provisions to the extent the PV loss (10.5%) is greater than the asset provisions. This might force some of the banks to reverse the provision write-backs done during the Q1FY2009.

| Particulars | Sep-08 | Jul-09 | Jul-10 | Jul-11 |
|---|---|---|---|---|
| Phased recognition | 32.0 | 19.0 | 39.0 | 10.0 |
| Discount rate (%) | | 9.56 | 9.56 | 9.56 |
| PV of recognition | 32.0 | 17.3 | 32.5 | 7.6 |

### Maintain target prices

Though the guidelines may negatively affect the FY2009 bottom line of banks by 2-3%, the impact of the same on their net worth is going to be negligible (0.3-0.5%). Hence, we are maintaining our price target on the banks in our universe. Notably, the estimated impact on the earnings of these banks is based on the assumption that the banks had provided 5% on loans eligible under the scheme. The eventual impact may vary depending on each bank's provisioning level. Refer below for the potential impact on some of the banks under our coverage.

| Banks | PV impact | Impact on FY09E PAT | Impact on FY09E NW |
|---|---|---|---|
| BoB | 28 | 1.7% | 0.3% |
| PNB | 62 | 2.7% | 0.5% |
| SBI | 199 | 2.9% | 0.4% |
| UBI | 39 | 2.7% | 0.5% |

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
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Glenmark Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
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