investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
BEL	26-Sep-06	1,108	**1,102**	1,525
ICICI Bank	23-Dec-03	284	**776**	*
India Cements	28-Sep-06	220	**219**	315
ITC	12-Aug-04	69	**191**	220
TV18	23-May-05	214	**776**	850

*Target under review

Sharekhan Special

Monetary Policy Review

RBI raises repo rate, leaves other rates unchanged—but keeps options open

In its mid-term review of the Annual Monetary Policy for 2006-07, the Reserve Bank of India (RBI) has raised the repo rate by 25 basis points from 7% to 7.25%, leaving the reverse repo and bank rates unchanged.

We believe that increasing the repo rate will not have much impact on banks as there is enough liquidity in the system and the banks do not have to borrow from RBI. The more relevant rate in the current times is the reverse repo rate, the rate at which banks park money with the RBI. With no change in this rate, we believe that the hike in the repo rate is a non-event of sorts. However, in the busy October-December season, when maximum loan disbursals take place, the banks may have to borrow from the RBI to meet the supply-demand gap but the effect of the hike in the repo rate would be minimal even then.

However, the RBI has kept its options open by saying that it may change any policy rate before the next quarterly review if the situation warrants so.

Deadline for Basel II implementation extended

The central bank has also extended the deadline for the implementation of the Basel II norms by two years to March 31, 2009 for the banks not having high overseas exposure. For the ones with overseas exposure, the extension has been by one year to March 31, 2008.

We believe this is very positive for the banks, especially the ones like Bank of India and Union Bank of India which already have their Tier-I capital near the threshold level of 6%. The extension of the deadline will give more breathing space to the banks, as they would be able to raise equity at a later date.

GDP target raised to 8%

The RBI has raised the annual growth target for the gross domestic product (GDP) to 8% from its earlier estimate of 7.5-8% for three reasons.

- The agriculture sector has grown by 3.4% for Q1FY2007 on the back of a good *rabi* crop in the 2005-06 season and the prospects for the sector are bright owing to the near normal south-west monsoon this year.
- The industrial output has grown by 10.6% till August 2006, as indicated by the Index of Industrial Production, and is not showing any visible signs of a slow-down.
- The service sector is also expected to grow at a robust pace as indicated by the leading indicators like the surging tourist arrivals, rising telecom subscribers and increasing exports of information technology services.

Inflation target kept at 5-5.5%

The inflation rate as measured by the growth in the Wholesale Price Index has grown by 4.78% till September 2006. The RBI has kept the annual inflation target at 5-5.5%, looking at the softening prices of crude oil. However, containing inflation within that range would be the central bank's priority.

RBI's stance turns a little hawkish

While not doing much on the interest rate side, the RBI has turned a little hawkish in its language, keeping in mind the robust growth in the GDP and industrial production commensurate with the increasing prices.

The same is visible from the fact that it has kept its option open to change any policy rates before the next quarterly review and also from the statement of the review.

"... it is critical to be watchful for early signs of overheating. An overheating economy is one which is growing rapidly and its productive capacity cannot keep up with resulting demand pressures. ***Emergence of inflationary pressures is usually seen as the first indication of overheating.****"*

"... recent developments, in particular, the combination of high growth and consumer inflation coupled with escalating asset prices and tightening infrastructural bottlenecks underscore the need to reckon with dangers of overheating and the implications for the timing and direction of monetary policy setting.

- Mid-Term Review of Annual Policy Statement for the Year 2006-07, RBI

Madras Cement

Cannonball

Stock Update

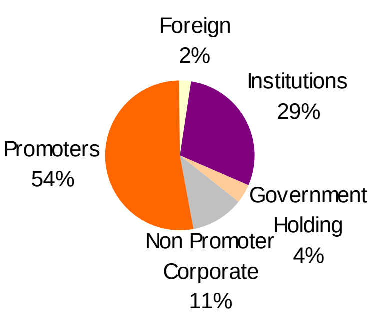
Price target revised to Rs4,000

Buy; CMP: Rs3,386

Company details

Price target:	Rs4,000
Market cap:	Rs4,090 cr
52 week high/low:	Rs3,499/1,280
NSE volume: (No of shares)	8,300
BSE code:	500260
NSE code:	MADRASCEM
Sharekhan code:	MADCEM
Free float: (No of shares)	70 lakh

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.2	25.0	12.4	153.9
Relative to Sensex	-2.8	3.3	1.6	52.4

Result highlights

- At Rs90 crore the Q2FY2007 net profit of Madras Cement Ltd (MCL) is in line with our expectations. Cement prices for the year till date have remained extremely strong and on account of the same we are upgrading MCL's FY2007 and FY2008 earnings estimates by 28.1% and 21.4% respectively. Our earnings per share (EPS) estimates now stand at Rs257.7 for FY2007 and Rs303.7 for FY2008.
- The revenues for the quarter grew by a whopping 66% year on year (yoy) to Rs407.2 crore driven by a 19% growth in the cement volumes and a staggering 39.4% growth in the cement realisation.
- As the cement realisation improved sharply, MCL's operating leverage came into play and consequently the operating profit for the quarter grew by a huge 208% yoy to Rs158.2 crore. The operating profit margin (OPM) for the quarter improved by 1,800 basis points to 38.9%.
- On the cost front, MCL implemented strict cost-control measures as the total cost per tonne saw a rise of just 7.7% compared with a 39.4% growth in the cement realisation. Hence most of the Rs800-increase in the realisation per tonne flowed into the earnings before interest, depreciation, tax and amortisation (EBIDTA) per tonne. As a result the EBIDTA per tonne jumped to Rs1,127, one of the highest in the entire industry.
- With a 40% decline in the interest cost and a 66% increase in the other income, the net profit for the quarter grew by a staggering 378% to Rs90 crore.

Result table Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy	H1FY07	H1FY06	% yoy
Net sales	**407.2**	**246.1**	**65.5**	**748.1**	**466.0**	**60.5**
Total expenditure	249.0	194.7	27.9	453.5	364.1	24.5
Operating profits	158.2	51.4	208.0	294.6	101.8	189.3
Other income	1.7	1.0	65.7	4.6	2.0	133.0
EBIDTA	159.9	52.4	205.2	299.2	103.8	188.3
Interest	4.2	7.0	-40.3	8.4	14.1	-40.2
Depreciation	18.3	16.6	10.9	35.7	33.1	8.0
PBT	137.4	28.8	376.8	255.1	56.6	350.3
Tax	47.3	6.7	604.6	86.2	16.5	422.6
Deferred tax		3.3		0.0	3.3	
Profit after tax	**90.0**	**18.8**	**378.6**	**168.9**	**36.9**	**358.0**
EPS	74.4	15.6		139.6	30.5	
Margins (%)						
OPMs	38.9	20.9		39.4	21.9	
EBIDTA	39.3	21.3		40.0	22.3	
EBT	33.7	11.7		34.1	12.2	
EAT	22.1	7.6		22.6	7.9	

Going forward, a strong growth in the cement consumption would drive MCL's cement volume. The recent price hikes in the southern region and a further reduction in the sales tax on account of the implementation of the value-added tax (VAT) in Tamil Nadu from January 2007 would firm up MCL's cement realisation. This, in turn, would drive its earnings at a strong compounded annual growth rate (CAGR) of 114% over FY2006-08E. At the current market price of Rs3,386, MCL is discounting its FY2007E earnings by 13.1x and FY2008E earnings by 11.1x. Further on an enterprise value (EV)/tonne basis, the stock is trading at valuations of USD143 per tonne of cement for its FY2008 capacity and at only USD96 for its FY2009 capacity. This is almost 25% lower than that of its peers who have EBIDTA per tonne of over Rs1,000. We believe the valuations are attractive given the strong earnings growth and the positive outlook for the south-based cement manufacturers. We maintain our Buy recommendation on the stock with a revised price target of Rs4,000.

Strong volume and prices boost MCL's net sales by 65.5%

The southern region has been one of the biggest beneficiaries of the upturn in the cement cycle. This is evident from the fact that in the first six months cement consumption in the region has grown by 18% as compared with the overall growth rate of 10%. With supply lagging demand, the capacity utilisation has been in the range of 92-95% and the prices have been on an upward trajectory, hovering currently at Rs200-210 per bag as compared with Rs135 per bag during the same period last year. These two factors are clearly reflected in the performance of MCL, as it is the second-largest player in the south. The company's dispatches witnessed a 19% year-on-year (y-o-y) growth to 1.4 million tonne whereas its realisation registered a healthy y-o-y growth of 39.4% to Rs2,900 per tonne. This resulted in a stupendous revenue growth of 65.5% yoy to Rs407 crore in the current quarter.

Operating profit grows at a whopping 208%

The company's continuous focus on cost-control measures is reflected in its per-tonne cost, which grew by a mere 7.7% yoy. Continuing its downward trend the power & fuel cost reduced by 10.4% yoy to Rs538.1 crore as the company's 18MW coal-fired captive power plant (CPP) at Jayanthipuram became operational in Q1FY2007. (This is the second CPP set up in the last one year—the company had commissioned a 36MW coal fired CPP at Alathiyur last year). The freight cost grew by a 5.1% yoy to Rs355.3 per tonne. Backed by a healthy 39.4% jump in the realisation, the EBIDTA per tonne grew by a massive 159.6% to Rs1,127. The operating profit stood at Rs158.3 crore, clocking a whopping growth of 208% yoy. The OPM expanded by 1,800 basis points to 38.9%.

Per-tonne analysis

Per tonne costs	Q2FY07	Q2FY06	% yoy chg
Raw material	392.4	266.6	47.2
- Consumed	376.0	315.8	19.1
- Stock adjustment	16.4	-49.2	-133.3
Employee	93.1	101.1	-7.9
Power and fuel	538.1	600.4	-10.4
Freight	355.2	338.1	5.1
Other expenses	394.5	339.6	16.2
Realisation	2900.3	2080.0	39.4
Total cost per tonne	1773.3	1645.8	7.7
EBIDTA per tonne	1127.0	434.2	159.6

Net profit surges by 378%

At the operating level, MCL's performance was further sweetened by the other items. As the other income grew by 67% and the interest cost declined by 40%, the net profit for the quarter grew by a staggering 378.6% yoy to Rs90.02 crore.

Upgrading earnings

Cement prices for the year till date have remained extremely strong and on account of the same we are upgrading MCL's FY2007 and FY2008 earnings estimates by 28.1% and 21.4% respectively. Our EPS estimates now stand at Rs257.7 for FY2007 and Rs303.7 for FY2008.

Capex plan of Rs1,052 crore

On account of a strong growth in cement consumption and the continuously waning cement surplus in the southern region, MCL has announced a capital expenditure (capex) plan of Rs1,052 crore to expand its cement capacity by 4 million tonne to 10 million tonne. The company plans to set up a new cement manufacturing plant of 2-million-tonne capacity near its Alathiyur facility at a cost Rs613 crore. Further, the clinker facility at its Jayanthipuram plant will be increased which will enhance the cement manufacturing capacity of this facility by 2 million tonne. The entire capex would be funded through a mix of debt and internal accruals, and will be completed by the end of FY2008. Hence after FY2008, a significant capacity addition will drive MCL's earnings. The company's long-term fundamentals are thus intact.

Valuation and view

Going forward, a strong growth in the cement consumption would drive MCL's cement volume. The recent price hikes in the southern region and a further reduction in the sales tax on account of the implementation of the VAT in Tamil Nadu from January 2007 would firm up MCL's cement realisation. This, in turn, would drive its earnings at a strong CAGR of 114% over FY2006-08E. At the current market price of Rs3,386, MCL is discounting its FY2007E earnings by 13.1x and FY2008E earnings by 11.1x. Further on an EV/tonne basis, the stock is trading at valuations of USD143 per tonne of cement for its FY2008 capacity and at only USD96 for its FY2009 capacity. This is almost 25% lower than that of its peers who have EBIDTA per tonne of over Rs1,000. We believe the valuations are attractive given the strong earnings growth and the positive outlook for the south-based cement manufacturers. We maintain our Buy recommendation on the stock with a revised price target of Rs4,000.

Earnings table

Particulars	FY04	FY05	FY06	FY07	FY08
Net profit (Rs cr)	33.4	55.7	79.9	311.3	366.9
% y-o-y growth	*158.0*	*67.0*	*44.0*	*290.0*	*17.9*
Shares in issue (cr)	1.21	1.21	1.21	1.21	1.21
EPS (Rs)	27.6	46.1	66.2	257.7	303.7
% y-o-y growth	*158.0*	*67.0*	*44.0*	*290.0*	*17.9*
PER (x)	122.5	73.5	51.2	13.1	11.1
Book value (Rs)	242.3	277.2	325.5	557.4	830.8
P/BV (Rs)	14.0	12.2	10.4	6.1	4.1
EV/EBIDTA (x)	27.7	29.7	21.4	7.8	6.6
Dividend yield (%)	0.2	0.3	0.4	0.8	0.9
RoCE (%)	11.2	10.0	14.9	44.2	35.6
RoNW (%)	11.4	16.6	20.3	46.2	36.6

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

Cadila Healthcare

Emerging Star

Stock Update

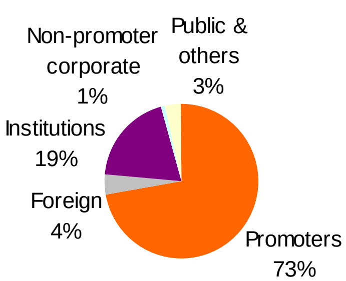
Above expectations on net profit front

Buy; CMP: Rs350

Company details

Price target:	Rs425
Market cap:	Rs4,396 cr
52 week high/low:	Rs400/303
NSE volume: (No of shares)	37,196
BSE code:	532321
NSE code:	CADILAHC
Sharekhan code:	CADILAHEAL
Free float: (No of shares)	10.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	6.9	23.0	-2.1	54.6
Relative to Sensex	2.7	1.6	-11.5	-7.2

Result highlights

- The net sales of Cadila Healthcare increased by 25.2% year on year (yoy) to Rs467.3 crore in Q2FY2007, driven by a 97% growth in the formulation exports and a 56% rise in the exports of active pharmaceutical ingredients (APIs). The improved performance of the French (growth of 87% year on year [yoy]) and US (growth of 352% yoy) businesses also aided the robust sales growth. The sales growth was in line with our expectations.
- The operating profit margin (OPM) expanded by 200 basis points to 23.0% in the quarter. The margin improvement was driven by a sharp decline of 380 basis points in the company's raw material cost, on account of an improved product mix (a higher share of formulations and exports in the overall sales mix). Consequently, the operating profit (OP) of the company rose by 34.1% to Rs109 crore in the quarter under review.
- The reported profit after tax (PAT) of the company grew by a whopping 46.9% to Rs70.5 crore in Q2FY2007. The profit growth surpassed our expectations. The earnings for the quarter stood at Rs5.6 per share as against Rs4 per share in Q2FY2006.
- The company has signed three new contracts during the quarter under review for contract manufacturing with international companies, taking the cumulative number of contracts to 17, with peak revenue potential of $25.5 million.
- Cadila has filed 2 abbreviated new drug applications (ANDAs) and 5 drug master files (DMFs) in Q2FY2007, taking the total number of filings to 45 ANDAs and 45 DMFs.

Result table Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy	H1FY07	H1FY06	% yoy
Net sales	467.3	373.0	25.3	903.5	739.3	22.2
Other operating income	7.5	14.4	-47.9	17.2	21.3	-19.2
Total operating income	474.8	387.4	22.6	920.7	760.6	21.0
Expenditure	365.8	306.1	19.5	722.0	611.8	18.0
Operating profit	109.0	81.3	34.1	198.7	148.8	33.5
Other income	0.3	0.1	200.0	5.2	0.1	5100.0
EBIDTA	109.3	81.4	34.3	203.9	148.9	36.9
Interest	6.9	3.8	81.6	12.5	9.4	33.0
Forex losses	-1.5	2.3		-0.2	1.8	
Depreciation	21.3	19.2	10.9	41.0	37.1	10.5
PBT	82.6	56.1	47.2	150.6	100.6	49.7
Taxes	10.0	6.7	49.3	17.5	12.5	40.0
PAT	72.6	49.4	47.0	133.1	88.1	51.1
Minority interest	2.1	-1.1		4.2	-1.6	
PAT (before extraordinary)	70.5	50.5	39.6	128.9	89.7	43.7
Extraordinary items	0.0	2.5	-100.0	0.0	7.5	-100.0
PAT (after extraordinary)	70.5	48.0	46.9	128.9	82.2	56.8
EPS (Rs)	5.6	4.0	39.6	10.3	7.1	43.7
OPM (%)	23.0	21.0		21.6	19.6	
EBIDTA margin (%)	23.0	21.0		22.1	19.6	

- At the current market price of Rs350, the company is quoting at 15.0x its FY2008E estimated earnings. We maintain our Buy recommendation on the company with a price target of Rs425.

Exports—the key growth driver

Cadila Healthcare Ltd (Cadila) reported a 25.2% year-on-year (y-o-y) growth in its consolidated revenues to Rs467.3 crore, which was primarily driven by an impressive 77% jump in the exports revenue to Rs139.6 crore in Q2FY2007. Also the improved performance at the domestic level and in the French and US businesses supported the revenue growth of the company.

In fact, the formulation exports increased 97.1% to Rs81 crore and the exports of APIs went up by 56% to Rs58.6 crore. With the progressive US initiatives in terms of ANDA filing and new product launches, the US revenues grew by 352% to Rs28.2 crore. Also the French business improved by 87% to Rs26.36. The Alatana joint venture contributed sales worth Rs20.7 crore (63% growth).

Domestic revenue to scale up in H2FY2007

On the domestic front, the sales of formulations and APIs improved by 8.8% to Rs296.8 crore as against the industry growth rate of over 15% during the quarter. The comparatively lesser growth was because the company started restructuring its domestic business in Q1FY2007 by shutting down four divisions (out of the total 13 divisions), reduced the field force by 400 numbers and discarded certain products. However, with the rationalisation of the product basket and the field force, the company expects stronger formulation growth in H2FY2007 and anticipates a growth of over 12% during FY2007. The local APIs generated Rs11.9 crore (up by 9.6%).

With the inclusion of revenues from Carnation Nutra-Analogue Foods Ltd, (wherein the company holds a 30.69% stake), the consumer and others segments witnessed a 43.8% growth to Rs41 crore.

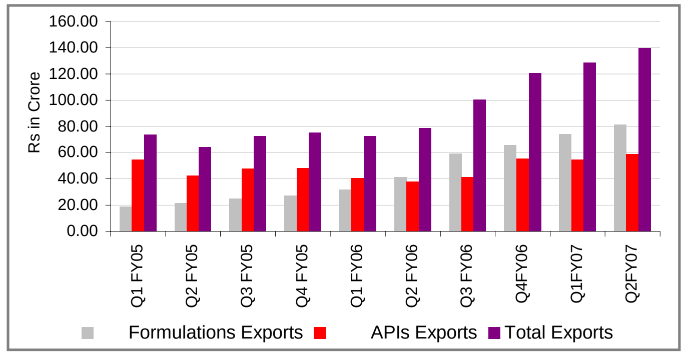
Revenue break-up

Particulars	Q1 FY07	Q1 FY06	% chg	H1 FY07	H1 FY06	% chg
Domestic	349.7	312	12.1	677.4	619.5	9.3
- Formulation	296.8	272.7	8.8	572.1	538.5	6.2
- APIs	11.9	10.8	10.2	21.2	23.5	-9.8
- Consumers & others	41	28.5	43.9	84.1	57.5	46.3
Exports	139.6	78.6	77.6	268.4	151.2	77.5
- Formulation	81	41.1	97.1	155	73.1	112.0
- APIs	58.6	37.5	56.3	113.4	78.1	45.2
Total gross sales	489.3	390.6	25.3	945.8	770.7	22.7

Higher exports and better product mix widens OPM

The operating profit margin (OPM) expanded by 200 basis points to 23.0% in Q2FY2007, which was largely contributed by a steady growth in the exports, especially the sales of formulations to the regulated markets. Also, the improved product mix led to the expansion of the margins.

Steady exports growth



In terms of cost analysis, the material consumption has come down by 380 basis points to 34.6% of the total operating income largely due to the improving product mix and higher exports. The employee cost remained almost flat at 10.8% and the other expenses were higher by 180 basis points to 31.6% during the quarter under review. Consequently, the operating profit saw a 34.1% rise to Rs109.0 crore.

Particulars	Q1 FY07	Q1 FY06	% chg	H1 FY07	H1 FY06	% chg
Consumption of materials	181.5	156.9		365.9	295.8	
Stock adjustment	-17.1	-8.0		-49.2	-6.5	
Adjusted material cost	164.4	148.9	10.4	316.7	289.3	9.5
% of net sales	*34.6*	*38.4*		*34.4*	*38.0*	
Employee expenses	51.5	41.6	23.8	99.3	86.7	14.5
% of net sales	*10.8*	*10.7*		*10.8*	*11.4*	
Other expenses	149.9	115.6	29.7	306.0	235.8	29.8
% of net sales	*31.6*	*29.8*		*33.2*	*31.0*	

PAT improves by 43.7%

The interest cost witnessed a significant hike to Rs6.90 crore (as against Rs3.80 crore), largely due to the regulated market initiatives and the depreciation was Rs21.3 crore (up 10.9%). However, with the flattish tax incidence, the PAT after minority interest reported a 39.6% growth to Rs70.5 crore.

During H1FY2007, Cadila reported a 22.2% revenue growth to Rs903.5 crore, coupled with a 200-basis-point expansion to 21.6%, leading to a 43.7% growth in the PAT after minority interest to Rs128.9 crore.

French and US businesses march ahead

During the quarter, Cadila's subsidiaries in France and the USA registered a strong performance. Zydus France SAS, which currently markets over 85 generic presentations, registered an 87% growth in its sales to Rs26.37 crore. The loss for the quarter was Rs3.40 crore. The company expects to break even by FY2008. The subsidiary filed 6 dossiers for new products and 6 additional site transfer applications with the French regulatory authority AFSSAPS during the quarter.

In the USA, Cadila's sales grew by 352% to Rs28.2 crore and the profit was Rs4.10 crore. The group filed 2 more ANDAs and 5 additional DMFs during the quarter taking the total to 41 ANDA filings and 45 DMFs. During the quarter, the group received approval for Meloxicam tablets taking the cumulative approvals to 17, of which 7 products have been launched so far.

New developments during the quarter

Cadila incorporated a subsidiary in Japan to market generic formulations and APIs in the Japanese market. The product registration process is expected to begin in 2007.

The company signed three more contracts during the quarter for contract manufacturing with international companies, taking the cumulative number of contracts signed to 17 with peak revenue potential of US $25.5 million.

The company launched Novolizer, a device for asthma and COPD. Meda Pharma of Sweden has provided the technology for the device along with the exclusive rights to manufacture and market Novolizer in India.

Valuation

Cadila is progressing well in the regulated markets (particularly the US market) and strengthening its global positioning in terms of CRAMS services by signing more contracts. On the domestic front, its product rationalisation initiatives would strengthen the revenues in H2FY2007 and FY2008. Hence, we maintain our confidence in the stock.

At the current market price of Rs350, the company is quoting at 15.0x its FY2008E estimated earnings. We maintain our Buy recommendation on the company, with a price target of Rs425.

Valuation table (consolidated) Rs (cr)

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net sales	1196.2	1243.0	1445.3	1729.4	2029.7
PAT	133.2	119.9	152.4	226.8	293.8
Shares in issue (cr)	12.6	12.6	12.6	12.6	12.6
EPS (Rs)	10.6	9.5	12.1	18.1	23.4
PER (x)	33.0	36.7	28.8	19.4	15.0
cash EPS (Rs)	16.3	15.3	18.3	24.9	31.0
cash PER (x)	21.5	22.9	19.1	14.0	11.3
EV	4789.4	4729.2	4795.4	4905.9	5044.3
EV/Ebidta (x)	19.1	19.6	16.7	12.9	11.3
Book value (Rs/share)	42.7	47.2	55.6	52.6	49.6
P/BV (x)	8.2	7.4	6.3	6.6	7.1

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

KSB Pumps

Emerging Star

Stock Update

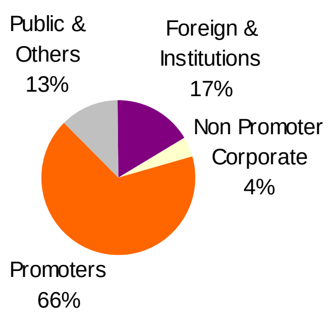
Results below expectations

Buy; CMP: Rs550

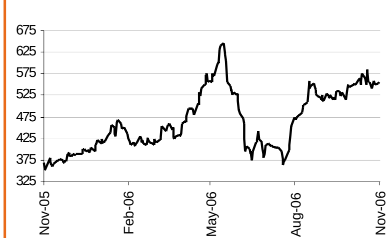
Company details

Price target:	Rs650
Market cap:	Rs957 cr
52 week high/low:	Rs658/352
NSE volume: (No of shares)	5,172
BSE code:	500249
NSE code:	KSBPUMPS
Sharekhan code:	KSBPUMPS
Free float: (No of shares)	58 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	17.2	0.1	57.7
Relative to Sensex	-2.0	-3.2	-9.6	-5.3

Result highlights

- KSB Pumps' Q3CY2007 results are below our expectations primarily because of lower-than-expected top line growth and lesser operating profit margin (OPM).
- The top line is lower because of a delay in the dispatch of some orders, as is reflected by the inventory, which stood at Rs6.3 crore. The revenues for the quarter grew by a meagre 2.9% to Rs90.2 crore.
- The operating profit for the quarter stood flat year on year (yoy) at Rs16.4 crore, as the OPM declined by 40 basis points to 18.2%. The OPM declined on account of higher raw material cost (adjusted for stocks) and other expenditure.
- The interest and depreciation charges declined by 65% and 5.6% respectively.
- However the tax rate jumped up significantly from 34.2% in Q3CY2005 to 39.3% in Q3CY2006. Consequently, the net profit for the quarter declined by 4.2% yoy to Rs9.4 crore.
- On account of the lower-than-expected top line growth and OPM we are downgrading our CY2006 earnings estimates by 9% to Rs33.7 per share. We maintain our CY2007 EPS estimates at Rs40.4.

The capital goods sector has maintained its growth momentum and grown by 18.6% for the first five months of FY2007 as compared with a 13.8% growth for the same period in FY2006. This highlights the strong investment phase that the country is witnessing. With huge investments lined up in the user industries (eg power) and fluid-handling industries (petrochemicals and sugar), the outlook for KSB Pumps remains positive, as it is the leading supplier of pumps to these industries. Hence

Result table Rs (cr)

Particulars	Q3CY06	Q3CY05	% yoy	M9CY06	M9CY05	% yoy
Net sales	90.2	87.7	2.9	298.1	272.9	9.2
Total expenditure	73.9	71.4	3.4	235.3	223.9	5.1
Raw material consumed	44.1	40.1		126.5	128.7	
Stock adjustment	-6.3	-3.2		-2.3	-5.2	
Employee expenses	12.7	12.6	1.2	40.3	37.5	7.3
Other expenses	23.3	21.9	6.6	70.8	62.9	12.6
Operating profits	16.4	16.3	0.5	62.9	49.0	28.3
Other income	1.3	1.1	20.9	4.6	3.3	40.3
EBIDTA	17.7	17.4	1.8	67.5	52.3	29.1
Interest	0.1	0.2	-65.0	0.3	0.4	-32.5
Depreciation	2.2	2.3	-5.6	6.4	6.8	-6.3
PBT	15.5	14.9		60.9	45.1	
Tax	6.1	5.1	19.2	21.4	16.3	31.2
Profit after tax	9.4	9.8	-4.2	39.5	29.5	33.9
Operating margins (%)	18.2	18.6	-0.4	21.1	18.0	3.1
EBIDTA (%)	19.6	19.8		22.6	19.2	
PATM (%)	10.4	11.2		13.2	10.8	

we expect KSB Pumps to register a strong double-digit top line growth going forward. Further with its high operating leverage to top line growth, its earnings are all set to gather further momentum. At the current market price of Rs550, the stock is discounting its CY2007E earnings by 13.3x and CY2007E earnings before interest, depreciation, tax and amortisation (EBIDTA) by 7.5x. We believe the stock's valuations are attractive as compared with that of its peers. We maintain our Buy recommendation on the stock with a price target of Rs650.

Muted top line growth of 2.9% yoy...

In the previous two quarters KSB Pumps had registered a top line growth of 10% yoy and 14% yoy respectively. In the current quarter the company has recorded a mere 3% y-o-y growth to Rs90.24 crore as against Rs87.7 crore in the same quarter last year. A decline of 4.18% yoy in the revenues of the pump business (which contributes the lion's share to the top line) negated the robust 25% jump in the valve business to Rs23.5 crore. The overall lacklustre performance can be attributed to the delay in the dispatch of some orders. This delay in the orders is clearly reflected in the inventory built-up of Rs6.3 crore in the quarter as against a built-up of just Rs3.2 crore in the same quarter last year. We believe this to be an aberration and thus expect the volume to pick up in the coming quarters as the inventory gets cleared.

Segmental results

	Q3CY06	Q30CY05	% yoy chg
Revenue			
Pumps	65.7	68	-3.5
Valves	23.8	19	25.3
Others	7.3	6.2	17.7
EBIT	16.0	15.2	5.3
Pumps	9.8	12	-18.3
Valves	6.4	3.2	100.0
Others	-0.2	0	
EBIT margins (%)			
Pumps	14.9	17.6	-2.7
Valves	26.9	16.8	10.0
Other	-2.7	0.0	-2.7

...affects operating and net profits

KSB Pumps' high operating leverage caused the operating profit to grow by a measly 0.5% yoy to Rs16.38 crore whereas the OPM witnessed a contraction of 40 basis points to 18.2%. The interest cost reduced by 65% whereas the depreciation charge reduced by a marginal 6%. The trickle-down effect of the drop in the OPM coupled with a higher tax rate of 39% led to a drop of 4.2% yoy in the net profit to Rs9.39 crore.

Downgrading earnings

On account of the lower-than-expected top line growth and OPM we are downgrading our CY2006 earnings estimates by 9% to Rs33.7 per share. We maintain our CY2007 EPS estimates at Rs40.4.

Valuation and view

The capital goods sector has maintained its growth momentum and grown by 18.6% for the first five months of FY2007 as compared with a 13.8% growth for the same period in FY2006. This highlights the strong investment phase that the country is witnessing. With huge investments lined up in the user industries (eg power) and fluid-handling industries (petrochemicals and sugar), the outlook for KSB Pumps remains positive, as it is the leading supplier of pumps to these industries. Hence we expect KSB Pumps to register a strong double-digit top line growth going forward. Further with its high operating leverage to top line growth, its earnings are all set to gather further momentum. At the current market price of Rs550, the stock is discounting its CY2007E earnings by 13.3x and CY2007E EBIDTA by 7.5x. We believe the stock's valuations are attractive as compared with that of its peers. We maintain our Buy recommendation on the stock with a price target of Rs650.

Earnings table

Particulars	CY03	CY04	CY05	CY06E	CY07E
Net profit (Rs cr)	19.9	30.0	38.0	58.7	70.4
% y-o-y growth	*46.0*	*50.0*	*27.0*	*55.0*	*20.0*
Shares in issue (Cr)	1.74	1.74	1.74	1.74	1.74
EPS (Rs)	11.5	17.2	21.8	33.7	40.4
% y-o-y growth	*46.0*	*50.0*	*27.0*	*55.0*	*20.0*
PER (x)	48.0	31.9	25.2	16.3	13.6
Book value (Rs)	62.9	76.8	93.3	118.6	149.0
P/BV (Rs)	8.7	7.2	5.9	4.6	3.7
EV/EBIDTA (x)	31.1	18.5	14.7	9.6	7.6
Dividend yield (%)	0.6	0.7	1.2	1.5	1.8
RoCE (%)	28.6	42.1	44.1	52.7	50.6
RoNW (%)	16.7	22.5	23.4	28.4	27.15

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

Ratnamani Metals and Tubes

Ugly Duckling

Stock Update

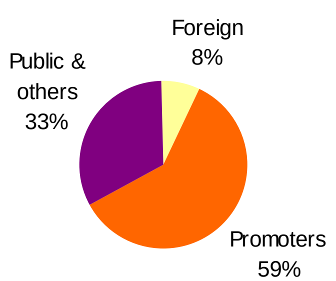
Price target revised to Rs570

Buy; CMP: Rs457

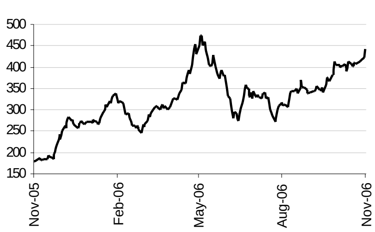
Company details

Price target:	Rs570
Market cap:	Rs411 cr
52 week high/low:	Rs498/180
NSE volume: (No of shares)	15,712
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float: (No of shares)	37 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.3	41.7	2.3	150.1
Relative to Sensex	5.0	17.1	-7.6	50.2

Result highlights

- For Q2FY2007 Ratnamani Metals and Tubes Ltd (RMTL) reported a whopping growth of 135% in its net profit year on year (yoy) to Rs16.4 crore, far ahead of our expectations.
- The net revenues grew by 90% yoy to Rs143.1 crore driven by a four-fold jump in the exports. The domestic sales grew by 10% yoy.
- The operating profit grew by 116% yoy to Rs32.4 crore with a 273-basis-point expansion in the operating profit margin (OPM), again much ahead of our expectations.
- The OPM expanded because of controlled other expenses, which grew by 21.6% and as a percentage of sales declined by 620 basis points. However, the gains were partially offset by the pressure on the raw material cost, which increased by 340 basis points as a percentage of sales.
- The net profit increased by 135% yoy to Rs16.4 crore driven by operational efficiency.
- We have upgraded our earnings per shares (EPS) estimates for FY2007 and FY2008 by 8.0% and 5.4% to Rs47.7 and Rs57.0 respectively to take into account the better-than-expected earnings growth and margin expansion.
- At the current market price of Rs457, the stock is trading at 7.5x its FY2008E EPS and 4.6x its FY2008E enterprise value (EV)/earnings before interest, depreciation, taxes and amortisation (EBIDTA). We reiterate our Buy recommendation on the stock with a revised price target of Rs570.

Net sales grow by 90% yoy

RMTL's net sales for Q2FY2007 grew by a whopping 90% yoy to Rs143.1 crore on the back of a near four-fold increase in its export sales. The domestic sales grew by 10.2% yoy. The exports were higher due to deemed exports of Reliance Petroleum's special economic zone.

Result table Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy chg	H1FY07	H1FY06	% yoy chg
Net sales	143.1	75.4	90.0	231.2	130.4	77.3
Total expenditure	110.7	60.3	83.5	179.8	106.3	69.2
Operating profit	32.4	15.0	116.0	51.4	24.2	112.8
Interest	4.3	2.3	85.8	8.1	3.9	107.0
Depreciation	3.3	2.1	60.4	6.0	3.5	73.7
Profit before tax	24.8	10.6	133.6	37.3	16.8	122.3
Tax	8.4	3.6		12.6	5.7	
Profit after tax	16.4	7.0	134.6	24.7	11.1	123.2
OPM (%)	22.2	18.5		22.7	19.9	

Break-up of sales (Rs crore)

	Q2FY2007	Q2FY2006	% yoy chg
Domestic	70.8	64.2	10.2
Exports	80.8	17.5	362.7
Gross sales	151.6	81.7	85.6
Less: excise	8.4	6.3	33.5
Net sales	143.1	75.4	90.0

Operating profit grows by a whopping 116.0% yoy

The operating profit grew by a whopping 116% yoy to Rs32.4 crore on the back of a 273-basis-point expansion in the OPM. The expansion in the OPM was driven by control over the operating cost, which grew by only 21% yoy over a sales growth of 90% yoy. As a result, the other operating expenses as a percentage of sales declined to 11.1% from 17.4% in Q2FY2006.

Raw material cost pressure factored in our estimates

During the quarter under review, the raw material cost as a percentage of sales jumped up by 339 basis points due to an increase in the stainless steel prices and a change in the product mix in favour of carbon steel pipes. However, we have taken the increased raw material cost into consideration in our revised numbers.

Cost break-up (Rs crore)

Stock adjustment	Q2FY07	Q2FY06	% yoy chg
Raw material cost	90.1	44.9	50.0
As % sales	*63.0*	*59.6*	*339.2 bps*
Employee expenses	4.7	2.4	97.2
As % of sales	*3.3*	*3.1*	*12.0 bps*
Other expenses	15.9	13.1	21.6
As % of sales	*11.1*	*17.4*	*-624.5 bps*
Total expenditure	110.7	60.3	83.5
As % of sales	*77.3*	*80.1*	*-273 bps*

Strong order book of Rs376 crore

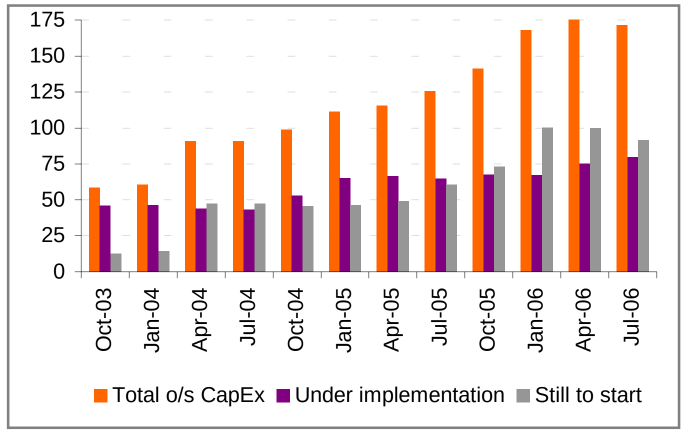
The order book as on date stands at Rs376 crore as the company added orders worth Rs180 crore during the quarter under review. The majority of the order book is to be booked over the next six months.

Valuation and view

We expect RMTL's order book to remain strong with the surge in the demand for both its products, ie stainless steel (SS) pipes and carbon steel (CS) pipes.

The capital expenditure (capex) lined up by the refining and petrochemical majors in India augurs well for RMTL (see the chart). On the SS pipe front, the addition of approximately 25,000 megawatt of capacity in the power generation sector will help in building a strong order book for the company.

Capex in refining sector (Rs '000 crore)



Source: CMIE

We have upgraded our EPS estimates for FY2007 and FY2008 by 8.0% and 5.4% to Rs47.7 and Rs57.0 respectively to take into account the better-than-expected earnings growth and margin expansion.

At the current market price of Rs457, the stock is trading at 7.5x its FY2008E EPS and 4.6x its FY2008E EV/EBIDTA. We reiterate our Buy recommendation on the stock with a revised price target of Rs570.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	13.3	33.5	47.7	57.0
Shares in issue (cr)	0.9	0.9	0.9	0.9
EPS (Rs)	14.7	37.2	50.5	60.3
PER (x)	30.5	12.1	8.9	7.5
Book value (Rs)	56.3	91.0	134.7	191.5
P/BV (x)	8.0	4.9	3.3	2.3
EV/EBIDTA (x)	15.3	7.9	5.3	4.6
EV/Sales (x)	2.5	1.6	1.0	0.8
RoCE (%)	49.1	37.0	39.0	37.9
RoNW (%)	52.3	50.5	45.6	37.0

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

Television Eighteen India

Emerging Star

Stock Update

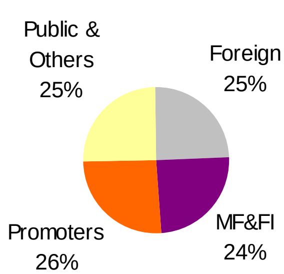
Price target revised to Rs850

Buy; CMP: Rs776

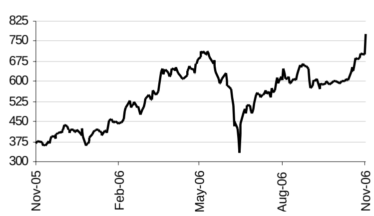
Company details

Price target:	Rs850
Market cap:	Rs1,630 cr
52 week high/low:	Rs793/316
NSE volume: (No of shares)	67,989
BSE code:	532299
NSE code:	TV18
Sharekhan code:	TV18
Free float: (No of shares)	1.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.5	13.8	5.5	93.7
Relative to Sensex	-3.6	-3.5	-20.5	18.3

Result highlights

- The Q2FY2007 net profit of Television Eighteen India (TV18) at Rs16.2 crore is in line with our expectations.
- The net revenues grew by a strong 72% year on year (yoy) and 27.8% quarter on quarter (qoq) to Rs53 crore. During the quarter under review, TV18 consolidated the revenues from the Awaaz channel.
- Even after excluding the revenues from the Awaaz channel, the revenues grew by a strong 44.1% yoy and 8.0% qoq to Rs45 crore, in line with our estimates.
- The operating profit grew by a slower 43.3% yoy and 16.8% qoq to Rs23.5 crore as the operating profit margin (OPM) declined by 820 basis points yoy and 400 basis points qoq. The decline in the OPM was on account of the inclusion of the numbers of Awaaz, which is still at a nascent stage.
- With stable deprecation and interest expenses, the net profit grew by 42.6% yoy and 17% qoq to Rs16.2 crore, in line with our estimates.
- During the quarter under review, Web18 Caymans (a TV18 group company) raised $10 million from Tracer Capital Management LP (TCML), valuing Web18 at more than Rs460 crore.
- At the current market price of Rs776, the stock is quoting at 21.3x its FY2008E earnings per share (EPS) and 13.3x FY2008 enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA).
- We like the way TV18 has been monetising its various media properties. The TCML deal, for instance, which gives a rough idea of the valuations that its other Internet ventures may enjoy. TV18 is also bringing out the initial public offering (IPO) of Global Broadcast News (GBN). We reiterate our Buy recommendation on the stock with a revised price target of Rs850 which captures the unlocking of the value of its media ventures that are still at a nascent stage.

Result table Rs (cr)

Particulars	H1FY07	H1FY06	% yoy chg	Q2FY07	Q2FY06	% yoy chg	% qoq chg
Net sales	94.6	57.8	63.6	53.0	31.2	69.7	27.4
Total expenditure	52.1	28.9	80.3	29.5	14.8	98.9	30.4
Operating Profit	42.5	28.9	46.9	23.5	16.4	43.3	23.8
Interest	5.1	2.3	119.9	3.0	1.2	164.7	50.5
Depreciation	7.3	6.2	18.0	3.8	3.2	20.1	10.4
Extraordinary expenses	-3.9	-1.1		-2.5	-1.1		
Profit before tax	26.2	19.3	36.0	14.1	10.9	29.7	17.4
Taxes	1.2	1.0	21.7	0.5	0.7	-33.0	-43.2
Profit after tax	24.9	18.2	36.8	13.7	10.2	33.8	21.7
Adjusted profit after tax	26.3	18.6	41.2	14.6	10.6	36.9	23.9
OPM (%)	44.9	50.0		44.3	52.5		

Revenues show a sterling growth

TV18's revenues for the quarter grew by 69.7% yoy to Rs53.0 crore. The strong growth came from both the segments. The news segment grew by 91.5% yoy to Rs47.7 crore whereas the Internet segment grew two-fold to Rs5.3 crore.

During the quarter under review, TV18 consolidated the numbers of the Awaaz channel which boosted the revenue growth. However, even after excluding the revenues from Awaaz, TV18's revenues grew by 44.2% yoy and 8% qoq.

Revenue break-up (Rs crore)

	Q2FY2007	Q2FY2006	% yoy change	% qoq change
News content	47.7	29.5	61.5	30.8
CNBC-TV18	39.7	29.5	34.6	8.8
Awaaz#	8.0	0.0	0.0	
Internet revenues	5.3	1.7	211.8	1.9
Total	53.0	31.2	69.9	27.1
Total excl Awaaz	45.0	31.2	44.2	7.9

Source: Company, Sharekhan Research # estimated

Operating profit grows by 43.3% yoy

TV18's operating profit grew by 43.3% yoy and 23.8% qoq to Rs23.5 crore. The growth in the operating profit was slower than that in the revenues due to the consolidation of the numbers of Awaaz, which is at a nascent stage and has much lower OPM. The overall OPM contracted by 820 basis points yoy and 400 basis points qoq.

While we had expected Awaaz to contribute positively to the operating profit, it has negatively affected the operating profit during the current quarter.

Offering complete bouquet of news channels

With the acquisition of a 50% stake in Channel 7 (at a cost of Rs60 crore), a Hindi news channel owned by the Dainik Jagran group, TV18 has widened its bouquet of channel offerings. The acquisition of Channel 7 has helped TV18 to complete its channel portfolio with presence across the whole genre of news channels.

Segment	Channel
Business news channels	
English	CNBC TV18
Hindi	Awaaz
General news channels	
English	CNN-IBN
Hindi	Channel 7

During June 2006, Channel 7 was revamped with new looks and content. We believe that Channel 7 will be a substantial contributor to the TV18 group's overall value with its strong editorial team in place. The management and editorial control of Channel 7 will be with TV18 and the editor-in-chief of CNN-IBN Rajdeep Sardesai will be the editor-in-chief of Channel 7.

Internet ventures--picking up pace

TV18's existing Internet ventures (www.moneycontrol.com, www.commoditiescontrol.com and www.poweryourtrade.com) have done exceedingly well. The revenues from these ventures have increased almost three-fold over Q2FY2006 particularly with the huge success of www.poweryourtrade.com.

To further leverage on the success of these ventures and to increase its presence in this space TV18 has taken the inorganic route and acquired stakes in various Internet portals.

- It has recently acquired a 50% stake in the Indian arm of Asia's biggest job portal, www.jobstreet.com for Rs8-9 crore.

Comparison with competitors

	www.naukri.com	www.jobstreet.com
Reach per million users	1,250	800
Rank#	303	590

Source: www.alexa.com
#Three months average

- Along with Reliance Capital and Norwest Venture Partners TV18 has acquired a stake in Yatra Online--a travel and tourism service portal.
- www.cricketnext.com: An Indian sports portal with a user base of over five million people.
- www.compareindia.com: A product comparison site, with a user base of over two million people.
- Urban Eye, a web design and technology firm with 50 Internet technology professionals.

As per the plan TV18 has transferred the stakes in its various Internet ventures to its subsidiary Web18 Caymans. The TV18 group holds 100% in Web18 Caymans.

Web18 Caymans has recently raised $10 million from US-based TCML via convertible instruments. We believe that the conversion would lead to less than 10% dilution in Web18 Caymans' equity, valuing it at more than Rs460 crore.

We believe that though Web18 is currently valued at more than Rs460 crore, eventually it could be valued much higher because of the immensely valuable properties that it owns. Recently Info Edge (India) Ltd (IEIL), the owner of www.naukri.com, filed the draft red herring prospectus (DRHP) for its IPO. The IPO priced at Rs290-320 values IEIL at Rs880 crore and can be used as a yardstick in the industry. IEIL also owns other Internet properties like www.jeevansathi.com and www.99acre.com.

Home shopping network by December 2006

TV18 has entered into a strategic alliance with SB Asia Infrastructure Fund (SAIF) to launch an integrated home shopping network (HSN) in the Indian market. While SAIF has experience in the sector (it has also invested in China's home shopping business), TV18 brings a strong reach through its brand name and channel platform.

The joint venture will set up the distribution network and back-end support (call centre), and is expected to start functioning by December 2006.

Rates with Zee Turner revised

CNBC TV18 channel is currently offered to the viewers as part of the Zee-Turner International's bouquet of channels. While the rates for the cities like Mumbai, Kolkata and Delhi, where the conditional access system will be rolled out from January 01, 2007, are fixed at Rs5 per channel per subscriber per month, TV18 has revised the rates for the rest of the country and also started offering Awaaz as a pay channel.

Restructuring to be over by December 2006

In a move to consolidate its various media properties and to comply with the regulations, TV18's board had recommended the restructuring of its business. Under the scheme of arrangement TV18 would consolidate its various media properties, like television channels and Internet ventures, into two companies as given hereunder.

TV18 has already received the High Court's order approving the scheme of arrangements. We expect the whole process of the formation of the new companies and their listing to be a little delayed and get over by December 2006 compared with our earlier estimate of September 2006.

GBN files for IPO

GBN has filed a DRHP to raise Rs105 crore through an IPO. GBN owns general news channels like CNN-IBN and IBN7. Under the scheme of arrangement for the restructuring of the TV18 group, the ownership of GBN is to be transferred to TV18 [N] and Network 18 India.

Further information regarding the number of shares being offered, the price band etc are not available. However, for GBN the issue might entail a maximum dilution of around 15-17% which translates into an issue price of Rs228.0-264.0 per share compared with that of Rs188 per share for IL&FS Trust Company. (In January 2005, GBN had issued optionally convertible debentures to IL&FS Trust Company, convertible at Rs188 per share.)

While we had earlier valued GBN at Rs320 crore, the valuations based on the issue price as mentioned above will put GBN's valuations at anywhere between Rs600 crore and Rs700 crore or at Rs40 per share of TV18 (see our note, "Unlocking of value starts", dated August 21, 2006).

Valuation and view

At the current market price of Rs687, the stock is quoting at 18.9x its FY2008E EPS and 11.6x FY2008E EV/EBIDTA. We maintain our Buy recommendation on the stock and revise our price target to Rs850 per share to take into account the value accretion due to Web18 and the GBN IPO.

Derivation of price target
TV18 (N)

Particulars	Rs crore	Comment
CNBC TV18	1,105.4	@20x FY2008E earnings
Internet ventures	630.0	Based on IEIL valuations
Awaaz	149.1	@15x FY2008E earnings
GBN	121.1	Based on likely IPO price
Total	2,005.6	
Equity (shares in crore)	5.2	
Per share (Rs) (A)	382.7	

Particulars	Existing	NEW	
Company	TV18 India	TV18 India [TV18 (N)]	Network 18 India
No of shares	100 of Rs10 each	140 of Rs5 each	120 of Rs5 each
Shareholders interest	75%	49%	49%
Properties (stake)	▪ CNBC TV18 - (90%) ▪ www.moneycontrol.com - (80%) ▪ www.commoditiescontrol.com - (78%) ▪ www.poweryourtrade.com - (100%)	▪ CNBC TV18 - (90%) ▪ Awaaz - (100%) ▪ GBN*/# - (17.3%) ▪ Web18 - (90%)	▪ TV18 (N) - (51%) ▪ GBN*/# - (38.4%)

GBN is a holding company for CNN-IBN.

assuming 17% dilution in IPO

Note: Figures on the right denote the respective company's stake in the venture.

Network 18 India

Particulars	Rs crore	Comment
TV18 (N) (51%)	1,022.9	Based on valuation of TV18 (N)
GBN (51%)	268.8	Based on likely IPO price
Total	1,291.7	
Equity (Shares in crore)	5.0	
Per share (Rs) (B)	258.8	

TV18 (existing)

Particulars	Per share	Comment
14 shares of TV18 (N) for 10 shares of TV18 existing	535.8	(A)*140/100
12 shares of Network 18 India for 10 shares of TV18 existing	310.6	(B)*120/100
Fair value of TV18 existing	846.4	

Valuation table#

Year ended Mar 31	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	33.0	52.4	65.5	78.9
Shares in issue (crore)	1.7	2.1	2.1	2.1
EPS (Rs)	19.5	25.0	31.2	37.6
% y-o-y growth	*180.0*	*28.0*	*25.0*	*20.0*
PER (x)	38.3	42.9	27.7	21.3
Book Value (Rs)	61.2	85.7	125.9	158.9
P/BV x)	11.6	6.8	5.1	4.2
EV/EBITDA (x)	34.3	22.5	16.3	13.3
RoNW (%)	42.2	37.0	29.5	26.4
RoCE (%)	29.2	29.4	25.6	24.1

Estimates for TV18's existing entity which has only one channel as of now, viz CNBC TV18, and the Internet ventures

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

India Cements

Ugly Duckling

Stock Update

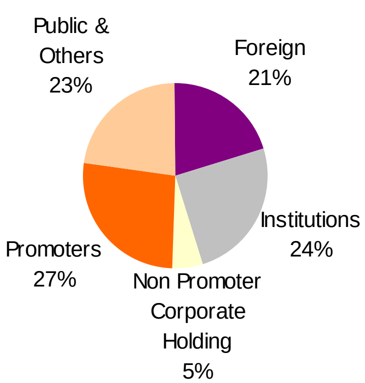
Upgrading earnings

Buy; CMP: Rs219

Company details

Price target:	Rs315
Market cap:	Rs4,818 cr
52 week high/low:	Rs250/86
NSE volume: (No of shares)	16.0 lakh
BSE code:	530005
NSE code:	INDIACEM
Sharekhan code:	INDCEM
Free float: (No of shares)	20.1 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.1	16.9	-3.3	143.2
Relative to Sensex	-7.0	-3.4	-12.6	46.0

Result highlights

- India Cements Ltd (ICL) achieved a net profit of Rs117 crore for Q2FY2007, much ahead of our expectations.
- The net revenues grew by a healthy 31.9% to Rs517 crore and the net profit grew by a staggering 1,900% year on year (yoy) to Rs117 crore. (For detailed quarterly analysis refer to our report dated October 23, 2006).
- Cement consumption in the southern region has grown at 18% in the first six months of the current fiscal as against the industry growth rate of 10%. As a result, the cement capacity utilisation levels stand at 92-95% which is reflected in the cement prices that are hovering at Rs200-210 per 50kg bag as against Rs135-140 per 50kg bag last year.
- The company has also lined up a capital expenditure (capex) plan of Rs350 crore to augment its production capacity by 2 million metric tonne by December 2007.
- The company has also revamped its balance sheet by infusing capital in bouts. Consequently, the debt:equity ratio reduced to a much respectable 1.8:1 at the end of FY2006. Now with a strong free cash flow, we expect the debt:equity ratio to reduce further to 0.8:1 by FY2007 and to 0:3:1 by FY2008.
- Also the date for the conversion of 13.5% optionally convertible debentures (OCDs) worth Rs109 crore into equity shares (convertible at a price of Rs125) elapsed in September 2006. Consequently, the company has redeemed these high-cost OCDs. This in effect is a positive, as it not only reduces the company's interest cost but also adds value to its shareholders on account of the lower-than-expected equity dilution. For example, we had expected the conversion of these OCDs to result in higher equity capital of Rs229 crore. However on non-conversion of the OCDs, the equity capital stands at Rs220 crore.
- Encouraged by the stellar performance of ICL we are upgrading our net profit estimates for FY2007 and FY2008 by 14% and 10% respectively. Our earnings per share (EPS) estimates now stand at Rs20 for FY2007 and Rs28.6 for FY2008. Our EPS estimates have been upgraded by 19% for FY2007 and by 14% for FY2008 on account of the non-conversion of the OCDs.
- At the current market price of Rs219, ICL is trading at 7.7x its FY2008E earnings and 5.4x its EV/EBITDA. On an EV/tonne basis, it is trading at USD105/tonne, which is a huge discount of 30% to its peers. We maintain a Buy on the stock with a price target of Rs315.

Earnings table Rs (cr)

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	-95.9	-61.1	35.8	439.9	629.9
% y-o-y growth				*1129.2*	*43.2*
Shares in issue (Cr)	13.9	13.9	19.1	22.0	22.0
EPS (Rs)	-6.9	-4.4	1.9	20.0	28.6
PER (x)	-31.6	-49.7	116.7	11.0	7.7
P/BV (Rs)	8.4	9.0	4.9	3.4	2.3
EV/EBIDTA (x)	51.1	43.7	22.7	7.8	5.4
RoCE (%)	2.0	3.0	8.0	26.3	32.5
RoNW (%)	-28.6	-19.5	4.3	31.1	30.8

Bank of Baroda

Apple Green

Stock Update

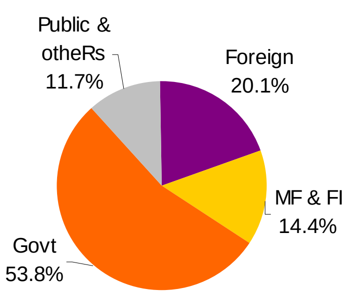
Asset growth drives numbers

Buy; CMP: Rs281

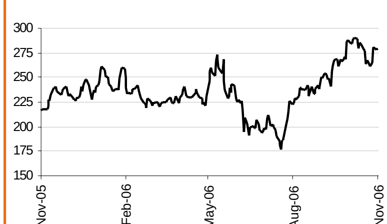
Company details

Price target:	Rs327
Market cap:	Rs10,257 cr
52 week high/low:	Rs296/176
NSE volume: (No of shares)	621,189
BSE code:	532134
NSE code:	BANKBARODA
Sharekhan code:	BOB
Free float: (No of shares)	16.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.2	25.7	29.6	30.8
Relative to Sensex	-7.0	3.9	17.1	-21.5

Key points

- Bank of Baroda's net profit grew by 11.3% year on year (yoy) in line with our estimates of a growth of 12.1% as the lower-than-expected net interest income (NII) growth was compensated by higher other income growth and flat operating expenses.
- During the quarter the bank's NII grew by 13.9% yoy to Rs890.8 crore, driven by a robust growth of 45% yoy in the advances.
- The net interest margins (NIMs) declined by 26 basis points yoy to 3.1% for H1FY2006 mainly due to lower investment yields due to a change in the accounting practice.
- The other income increased by 3.9% yoy to Rs321.7 crore due to a lower treasury income. However, the core fee income has shown a robust growth of 24.3% yoy.
- With the net income growing by 11.1% and the operating expenses remaining flat yoy, the operating profit was up by 24.3% yoy to Rs615.7 crore. The core operating profit reported a 43.1% year-on-year (y-o-y) growth.
- We have downgraded our earnings per share (EPS) estimates for FY2008 from Rs38.1 to Rs35.1 mainly on account of the pressure on the margins and higher expected non-performing asset (NPA) provisioning required going forward.
- At the current market price of Rs281, the stock is quoting at 8x its FY2008E EPS, 3.6x pre-provision profits (PPP) and 1.1x book value. The bank is available at attractive valuations given its low price to book multiple compared to its peers and earnings upside possibilities if we see the margins improving going ahead. We maintain our Buy call on the stock with a price target of Rs327.

NII growth at 13.9% yoy

During the quarter the bank's net interest income (NII) grew by 13.9% yoy to Rs890.8 crore, below our expectations of a 29.9% y-o-y growth. The growth in the NII was achieved on the back of a steep growth in the balance sheet size as the advances grew by a robust 45% although the NIMs have taken a hit.

Result table Rs (cr)

Particulars	H1FY07	H1FY06	% y-o-y chng	Q2FY07	Q2FY06	% y-o-y chng	% q-o-q chng
Net interest income	1,773.1	1,540.5	15.1	890.8	781.8	13.9	1.0
Other income	599.3	518.3	15.6	321.7	309.6	3.9	15.9
Other income (excl treasury)	521.4	378.4	37.8	250.7	194.9	28.6	-7.4
Fee income	203.3	170.2	19.4	108.4	87.2	24.3	14.2
Net income	2,372.4	2,058.8	15.2	1,212.5	1,091.3	11.1	4.5
Operating expenses	1,200.8	1,088.1	10.4	596.8	596.0	0.1	-1.2
Operating profit	1,171.6	970.7	20.7	615.7	495.3	24.3	10.8
Core operating profit	1,093.7	830.8	31.7	544.7	380.7	43.1	-0.8
Provisions	464.8	402.6	15.4	159.3	125.7	26.8	-47.8
Tax	255.1	152.1	67.8	168.0	110.6	52.0	92.9
Net Profit	451.7	416.0	8.6	288.4	259.1	11.3	76.6

The NIMs decreased by 26 basis points yoy to 3.1% for H1FY2006 mainly due to the lower investment yields. A change in the accounting practice followed by the bank in respect of charging redemption losses in the investments has partly influenced the fall in the investment yield and the NIMs.

The lower NIMs were on account of two reasons.

- Till June 2006, the bank charged redemption losses as part of the operating expenses. However from Q2FY2006 onwards it has started to net off these losses against the interest income from its investments.
- Re-pricing of the deposits at a higher rate (H1FY2006 reported cost of deposits is up by 31 basis points yoy) also contributed to the fall in the NIMs.

Although the bank has not reported the yield break-up for Q2FY2007, we believe that sequentially the NIMs adjusted for the redemption losses would have remained flat despite an increase in the lending rates.

Yield assessment (%)

	H1FY07	H1FY06	yoy chg (in bps)
Yield on investments (calculated)	7.69	7.85	-15.9
Yield on advances	8.12	7.58	54.0
Cost of deposit	4.43	4.12	31.0
NIM	3.11	3.37	-26.0

Source: Sharekhan Research, reported by the bank

Advances up 45% yoy

The 43.6% y-o-y growth in the domestic advances is much above the industry average of ~30% which is creating pressure on deposit mobilisation for the bank and also on the yield on assets. The domestic deposits also increased by 25% yoy, which is also above the industry average of ~20%. Although the CASA ratio has improved by 100 basis points to 41.8%, re-pricing of the deposits at a higher rate has been a concern.

Business mix (Rs crore)

	H1FY07	H1FY06	% y-o-y chng
Total deposits	**107,681.5**	**86,145.2**	**25.0**
OF which			
Domestic deposits	88,224.0	74,013.4	19.2
Overseas deposits	19,457.5	12,131.8	60.4
Total advances	**70,956.7**	**48,935.6**	**45.0**
OF which			
Overseas advances	12,782.5	8,432.8	51.6
Domestic advances	58,174.2	40,502.8	43.6
- Retail credit	11,407.1	7,331.0	55.6

Source: Sharekhan research

Other income (excluding treasury) up 28.6% yoy

The other income increased by a modest 3.9% yoy to Rs 321.7 crore due to the lower treasury income. However, commendably the core fee income grew by a robust 24.3% yoy.

Other income (Rs crore)

	Q2Y07	Q2FY06	% y-o-y chng	% q-o-q chng
Other income (excl. treasury)	250.7	194.9	28.6	-7.4
Fee income	108.4	87.2	24.3	14.2
Treasury income	71.0	114.6	-38.1	-
Total	321.7	309.6	3.9	15.9

Source: Company, Sharekhan Research

Operating profit grew by 24.3% yoy

An 11.1% y-o-y growth in the net income coupled with stable operating expenses helped the operating profit increase by 24.3% yoy to Rs615.7 crore. The operating expenses remained flat as during Q2FY2006 the bank had spent a huge amount on technology implementation and core banking solution.

Operating expenses (Rs crore)

Particulars	Q2FY07	Q2FY06	% y-o-y chng	% q-o-q chng
Employee cost	387.3	411.4	-5.9	1.2
Other operating expenses	209.5	184.6	13.5	-5.4
Total operating expenses	596.8	596.0	0.1	-1.2

Core operating profit, ie the operating profit excluding the treasury gains reported a robust 43.1% y-o-y growth.

	Q2FY07	Q2FY06	% y-o-y chng	% q-o-q chng
Reported operating profit	615.7	495.3	24.3	10.8
Less: treasury gains	71.0	114.6	-38.1	
Core operating profit	544.7	380.7	43.1	-0.8

NPA provisions down 39.8% yoy

While the other provisions increased substantially, the NPA provisions decreased during the quarter on a y-o-y basis. While no clarity is available on the other provisions we believe that the same have been because of the higher provisioning required on the standard assets and regular amortisation expenses.

Break-up of provisions

Particulars	Q2FY07	Q2FY06	% y-o-y chng
NPA provision	63.2	104.9	-39.8
Others	96.2	20.8	362.0
Total	**159.3**	**125.7**	**26.8**

The PAT grew by 11.3% yoy in line with our estimates of 12.1%. This was despite lower-than-expected NII as the fall in the NII was compensated by higher-than-expected other income growth.

Valuation and view

We have downgraded our earnings per share (EPS) estimates for FY2008 from Rs38.1 to Rs35.1 mainly on account of the pressure on the margins and the higher expected NPA provisioning required going forward.

At the current market price of Rs281, the stock is quoting at 8x its FY2008E EPS, 3.6x pre-provision profits (PPP) and 1.1x book value. The bank is available at attractive valuations given its low price to book multiple compared to its peers and earnings upside possibilities if we see the margins improving going ahead. We maintain our Buy call on the stock with a price target of Rs327.

Valuation table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	676.8	826.8	980.6	1,282.6
Shares in issue (cr)	29.5	36.6	36.6	36.6
EPS (Rs)	23.0	22.6	26.8	35.1
EPS growth (%)	-30.0	-1.6	18.6	30.8
PE (x)	12.2	12.4	10.5	8.0
P/PPP (x)	3.5	5.1	4.3	3.6
Book value (Rs)	191.1	214.6	235.2	263.4
P/BV (x)	1.5	1.3	1.2	1.1
Adj. book value (Rs)	170.0	200.4	225.0	256.6
P/ABV (x)	1.7	1.4	1.2	1.1
RONW (%)	12.6	11.2	11.9	14.1

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

Ahmednagar Forgings

Ugly Duckling

Stock Update

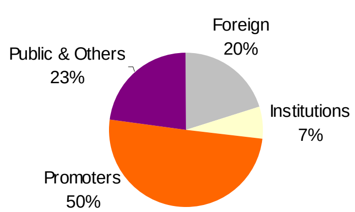
A stellar performance

Buy; CMP: Rs269

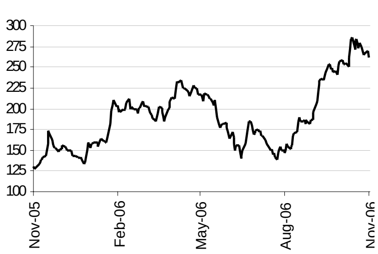
Company details

Price target:	Rs380
Market cap:	Rs893.6 cr
52 week high/low:	Rs292/122
NSE volume: (No of shares)	30,301
BSE code:	513335
NSE code:	AHMEDFORGE
Sharekhan code:	AHMDFORG
Free float: (No of shares)	1.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	75.1	20.9	106.5
Relative to Sensex	-1.9	44.7	9.3	24.0

Result highlights

- Ahmednagar Forgings has reported a stellar performance for Q1 and the results are better than our expectations.
- The top line for the quarter grew by 72.5% to Rs122 crore. The company's additional capacity of 40,000 tonne per annum (tpa) commenced operations from June 2006 and hence was operational for the whole quarter.
- The operating profit margin (OPM) has improved by 140 basis points to 19.3% as the operating profit rose by 86.5% year on year (yoy) to Rs23.6 crore. The margin improved despite a rise in the raw material cost from 60.7% to 66.7% as a percentage of sales. However, the company made savings in its staff cost and other expenditures.
- Stable depreciation charge and taxes caused the profit to grow by a stellar 92.2% to Rs13.5 crore for the quarter.
- The company has an order book of Rs850 crore which is to be executed in the next twelve months, triggering a strong top line growth going forward. A higher contribution from the machined products and higher non-automotive revenues should also trigger a growth in the margins going forward.
- At the current market price of Rs269, the stock discounts its FY2008E earnings by 7.1x and trades at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 3.9x. We believe that the valuations are very attractive and maintain our Buy on the stock with a price target of Rs380.

Result table Rs (cr)

Particulars	Q1FY07	Q1FY06	% yoy change
Net sales	**122.0**	**70.8**	**72.5**
Total expenditure	98.5	58.1	
Consumption of RM	*81.0*	*41.2*	
Incr/decr in stock	*0.5*	*2.8*	
Employee expenses	*3.7*	*3.1*	
Other expenses	*13.3*	*11.0*	
Operating profit	**23.6**	**12.6**	**86.5**
Interest	2.6	1.2	
PBDT	20.9	11.5	
Depreciation	1.2	1.2	
PBT	**19.7**	**10.3**	**92.1**
Tax	6.2	3.2	
PAT	**13.5**	**7.0**	**92.2**
EPS	4.1	8.8	
OPM (%)	19.3	17.9	
PATM (%)	11.1	9.9	

Strong top line growth

The net sales for the quarter grew by 72.5% to Rs122 crore. The company's new capacity of 40,000tpa commenced operations from June 2006 and hence was operational for the whole of the current quarter.

Margins improve

The OPM has improved by 140 basis points to 19.3% as the operating profit rose to Rs23.6 crore, growing by 86.5% yoy. The margins improved despite a rise in the raw material cost from 60.7% to 66.7% as a percentage of sales. However, the company reported significant savings in its staff cost and other expenditures. Going forward, the product mix of the company would be further enriched by the higher contribution of the non-automotive segment and machined products, which have higher margins. Hence, the margins are expected to improve further in the coming two years.

Stable depreciation charge and taxes caused the profits to grow by a stellar 92.2% to Rs13.5 crore for the quarter.

Strong order book to ensure future growth

At present, the company has a very healthy order book of Rs850 crore executable over the next twelve months. Of these, orders worth Rs600 crore are from the domestic market while the balance orders worth Rs250 crore are export orders. This would ensure a strong top line growth in the coming quarters.

Capex plans

The company has already increased its capacity from 46,000tpa in FY2006 to 86,000tpa. Further, it would increase its capacity to 130,000tpa by December 2006 as the lines acquired from Anvil would be shifted to India. It would further add 35,000tpa by June 2007, taking the total capacity to 165,000tpa. The machining capacity is also being increased from the current levels of 10,000tpa to 25,000tpa by the next year.

Valuation and view

The buoyancy in the auto component division, the strong order book of Rs850 crore in the domestic and export markets, and the acquisition of two forging lines from Anvil would continue to drive a strong growth in the company's earnings. At the current market price of Rs269, the stock discounts its FY2008E earnings by 7.1x and its EV/EBIDTA by 3.9x. We believe that the valuations are very attractive and maintain our Buy on the stock with a price target of Rs380.

Earnings table

Particulars	FY2005	FY2006E	FY2007E	FY2008E
Net sales	166.2	375.5	635.0	934.2
Net profit	20.6	38.8	72.6	126.7
EPS	25.7	11.7	21.9	38.1
% y-o-y growth	*64.6*	*-54.6*	*86.9*	*74.5*
PER	10.5	23.0	12.3	7.1
P/B	2.8	3.4	2.7	2.0
EV/EBIDTA	-255.3	11.9	6.7	3.9
ROCE (%)	31.0	25.3	29.8	38.6
RONW (%)	27.2	14.8	21.9	28.0

Godrej Consumer Products

Apple Green

Stock Update

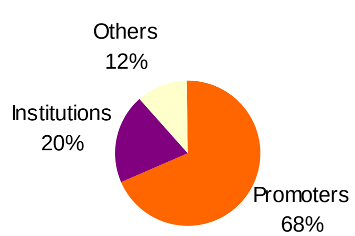
Book profits

Book Profit; CMP: Rs171

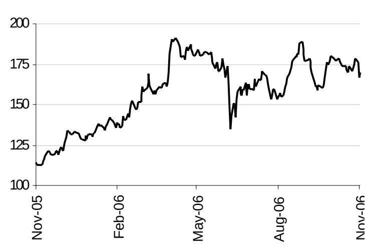
Company details

Market cap:	Rs3,856 cr
52 week high/low:	Rs200/111
NSE volume: (No of shares)	26,801
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODRCON
Free float: (No of shares)	7.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.1	33.6	17.9	147.9
Relative to Sensex	4.8	10.4	6.6	48.8

Result highlights

- Godrej Consumer Products Limited's (GCPL) stand-alone revenues grew by 16.2% year on year (yoy) to Rs182.5 crore in Q2FY2007--below our expectations. The soaps business grew by 16.5% yoy to Rs127.2 crore whereas the personal care business grew by 15.4% yoy to Rs55.3 crore.
- GCPL's operating profit (OP) grew by a meagre 3.8% yoy to Rs33.8 crore in Q2FY2007, which is below our expectations. The operating profit margins (OPM) contracted by 220 basis points to 18.5%. This mediocre growth in the OP was attributable to a sharp increase in the material cost by 27.8% to Rs92.2 crore. The material cost as a percentage of sales spiked to 50.5%, up 460 basis points yoy and 120 basis points sequentially, due to the hardening of the vegetable oil prices. Vegetable oil is a key ingredient for fast moving consumer goods (FMCG) companies.
- The profit before interest and tax (PBIT) margins of the soaps division reduced by 400 basis points yoy to 10.8%, while the PBIT margins of the personal care division increased by 60 basis points yoy to 42.7%.
- The interest cost zoomed by 87.1% to Rs1.6 crore. The effective tax rate also increased from 5.8% in Q2FY2006 to 12.7% Q2FY2007, leading to a 122.9% year-on-year (y-o-y) increase. The higher-than-expected interest cost and tax expenses coupled with the lower-than-expected operating performance led to a 6% decline in the profit after tax to Rs26.1 crore, which is below our expectations.
- GCPL's consolidated revenues for Q2FY2007 were Rs231.8 crore, the operating profit was Rs39.7 crore and the net profit was Rs31.0 crore. GCPL's consolidated numbers reflect the stand-alone numbers, Keyline, UK's numbers and the numbers of Rapidol, South Africa (the subsidiary company, which was acquired this quarter).
- Though we like the space in which GCPL is operating, we are concerned over GCPL's continued subdued growth for the last three quarters in the high-margin hair colour business. In the soaps business, while we see GCPL sustaining its

Result table Rs (cr)

Particulars	Q2FY2007	Q2FY2006	% yoy chg
Net sales	182.5	157.1	16.2
Expenditure	148.7	124.5	19.4
Operating profit	33.8	32.6	3.8
Other income	0.6	0.5	7.7
PBIDT	34.4	33.1	3.9
Interest	1.6	0.9	87.1
Depreciation	2.9	2.7	4.8
PBT	29.9	29.5	1.4
Tax	3.8	1.7	122.9
PAT	26.1	27.8	-6.0
EPS (Rs/Share)	1.16	1.23	-6.0
OPM (%)	18.5	20.7	-220 bps
PBTM (%)	16.4	18.8	-240 bps
PATM (%)	14.3	17.7	-340 bps

robust growth traction, the profitability in the business will remain limited as the mass segment brand (Godrej No. 1) continues to outpace the other brands besides the margins pressures due to the increase in the vegetable oil prices. In light of its muted H1FY2007 performance, we are downgrading our consolidated earnings estimates for FY2007 and FY2008 by 12.7% and 10.6% and recommend booking profits on the stock.

Revenues grow by 14.3% yoy—below expectations

GCPL's own brand business has reported a strong 17.8% growth, as the toilet soaps business has grown ahead of the market growth at 18.7% and the toiletries business has grown at 37%. However, the hair colour business has reported a second quarter of subdued growth of 10.4% and the contract manufacturing revenues were wiped out this quarter. Consequently, GCPL's stand-alone revenues grew by 16.2% year on year (yoy) to Rs182.5 crore in Q1FY2007, below our expectations.

Particulars	Q2FY2007	Q2FY2006	% chg
Godrej brands	178.9	151.8	17.8
Soaps	124.0	104.5	18.7
Hair colors	39.7	36.0	10.4
Toiletries	11.3	8.2	37.0
Liquid detergents	3.9	3.1	24.7
Contract manufacturing	0.0	1.0	-100.0
By-products	3.6	4.3	-15.2
Revenue	182.5	157.1	16.2

Operating margins (OPM) contracted by 220 basis points to 18.5%--below our expectation

The OPM contracted by 220 basis points to 18.6% in Q2FY2007 and consequently the operating profits grew by a meagre 3.8% yoy to Rs33.8 crore. This mediocre growth in the operating profit was attributable to a sharp increase in the material cost by 27.8% to Rs92.2 crore. The material cost as a percentage of sales spiked to 50.5%, an increase of 460 basis points yoy and an increase of 120 basis points sequentially, due to the hardening of the vegetable oil prices. The margin contraction was muted due to the lower employee expenses and lower advertising and publicity expenses.

Cost analysis

As a % of net sales	Q2FY2007	Q2FY2006	Change in basis points
Material cost	50.5	45.9	460.0
Employee expenses	5.7	6.7	-100.0
Advert/publ expenses	5.3	6.6	-130.0
Other expenses	20.0	20.0	0.0
Total expenditure	81.5	79.3	220.0
Operating profit	18.5	20.7	-220.0

Segmental results

Segmental analysis

Particulars	Q2FY2007	Q2FY2006	Change %
Revenues (Rs crore)	**182.5**	**157.1**	**16.2**
Soap	127.2	109.2	16.5
Personal care	55.3	47.9	15.4
PBIT (Rs crore)	**37.4**	**36.3**	**2.9**
Soap	13.7	16.1	-15.0
Personal care	23.6	20.2	17.3
PBIT (%)	**20.5**	**23.1**	**-260 bps**
Soap	10.8	14.8	-400 bps
Personal care	42.7	42.1	60 bps

Soaps segment—margins slippery

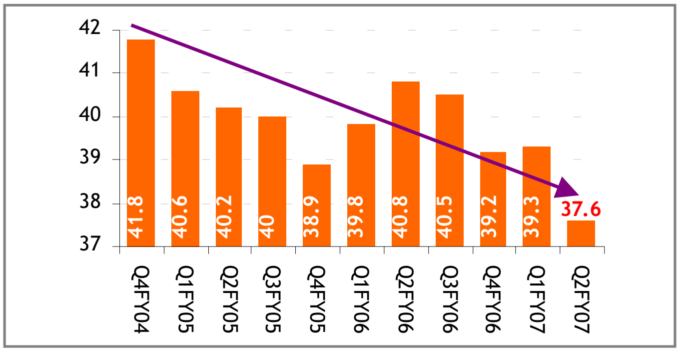
The soaps segment revenues grew by 16.5% yoy to Rs127.2 crore on the back of an 18.7% value growth in the toilet soaps category. The growth in the toilet soaps category was above the industry growth rate of 12.8% in the quarter and this helped GCPL to increase its market share by 90 basis points yoy to 9.3%. Contract manufacturing was discontinued this quarter due to the strong demand for GCPL's own brands and this led to the segment growth being muted at 16.5%. The increasing vegetable oil prices and the higher growth of the popular brands led to the margins contracting by 400 basis points yoy and 200 basis points sequentially to 10.8%. To counter the increasing margins pressure the company has increased the prices of all its soap brands by 5-8% from October 2006. This should help ease the margins pressure through the next two quarters in the face of the increasing raw material prices.

Personal care segment—bad hair day!!

The personal care segment revenues, consisting of hair colours, toiletries and liquid detergents, grew by 15.4% yoy to Rs55.3 crore. GCPL's hair colour sales grew at a slow 10.4% yoy, against the industry growth rate of 38.2% yoy. The PBIT margins of the personal care segment bounced back with a 60-basis-point increase yoy and a 400-basis-point improvement sequentially to 42.7%. Though operationally the performance is average what concerns us is the lack of ability to grow in a market that is increasing at a robust pace and further losing market share.

GCPL derives 75% of its revenues from the price sensitive dye business. This business continues to enjoy a volume growth of 10-11%, but in the current year GCPL has been reluctant to increase its prices leading to a snail pace value growth. The remaining 25% of its revenues come from the fashion colour segment where it is facing intense competition from L'Oreal, Garnier and Schwarzkopf (new entrant). The management has expressed its disappointment with the performance of this segment and is considering a range of strategies from re-launching of the powder hair dye products and increasing its product prices.

Market Share- Going Down, Down, Down!!



Source:Company

Earnings decline by 6% to Rs26.1 crore—below our expectation

GCPL has increased its capital expenditure (capex) during the year to Rs110.0 crore to avail of the fiscal benefits offered at various locations like Himachal Pradesh and Sikkim. This and the funds required to acquire Keyline required the company to raise debt and consequently the interest cost increased by 87.1% yoy to Rs1.6 crore. Also due to the minimum alternate tax (MAT) rate increasing the tax expenses have gone up by 122.9% yoy to Rs3.8 crore. These factors combined with the margins contraction led to an earnings decline of 6% Rs26.1 crore.

Consolidated results

For Q2FY2007, Keyline posted revenues of Rs46.3 crore, operating profit of Rs5.3 crore and a net profit of Rs4.5 crore. Keyline has lower OPM than GCPL at 11.4%. It also has higher interest costs (being a leveraged transaction) and a higher tax rate of 30%. Hence its net profit margins are even lower at 9.7% as compared to 14.3% for stand-alone. A cause of concern for Keyline is the fact that the operating profit margins declined by 280 basis points to 11.4%. Rapidol the company that GCPL acquired in September 2006 reported a turnover of Rs3.0 crore for that particular month, while its PBT and PAT stood at Rs0.5 crore and Rs0.4 crore respectively.

GCPL's consolidated results consist of its stand-alone results and that of Keyline and Rapidol. For Q2FY2007, GCPL's consolidated revenues stood at Rs231.8 crore, operating profit at Rs39.7 crore and net profit at Rs31.0 crore. The OPMs at 17.1% were lower than the stand-alone margins on account of Keyline.

Capex of Rs110.0 crore on track

GCPL has planned a capex of Rs110 crore for FY2007 which includes soap related de-bottlenecking at the Malanpur facility, setting up a new facility in Katha, Himachal Pradesh for soaps and expansion in Sikkim for hair colour and toiletries. The company will avail of the MAT benefit for the next five years due to this capex.

Present in an attractive space—but needs to up the ante!!

While GCPL operates in attractive business segments, we are concerned over GCPL's continued subdued growth in the hair colour market. For the third quarter in a row, GCPL has reported low double-digit or high single-digit growth, against a market growth at over 30%. This raises concern over the slow-down in the incremental distribution gains in the powder hair dye business, which is 75% of the company's portfolio. Besides, as the shift in the hair colour segment is towards the premium fashion colour segment, GCPL is up against international players like L'Oreal and Garnier. We believe that GCPL needs to up its ante in the hair colour space. In the soaps business, while we are confident of GCPL maintaining double-digit growth, as the mass segment brands outpace other brands and the competitive intensity increases, the profitability in the business will remain under check.

Revising our estimates and book profits

In light of its muted H1FY2007 performance, we are downgrading our consolidated earnings estimates for FY2007 and FY2008 by 12.7% and 10.6% and we recommend booking profits on the stock. The company's earnings could have a positive surprise if it increases the prices of its hair products. But such happenings are uncertain and speculative and in the current scenario we believe that the stock is richly valued leaving limited potential for investors to gain. The stock has returned 37.4% including the stock appreciation and dividend. We recommend investors to book profits and look at more attractive opportunities in the FMCG space like ITC and Marico.

Comparative valuation

Company	PER	Earnings CAGR (%)
HLL	27.9	19.0
Marico	21.1	29.4
Dabur	25.8	22.5
ITC	21.6	20.1
GCPL	23.4	17.5

Earnings table (consolidated)

Year ended Mar 31	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	83.1	119.3	130.9	164.7
Share in issue (cr)	22.6	22.6	22.6	22.6
EPS (Rs)	3.7	5.3	5.8	7.3
% y-o-y growth	*28.3*	*43.9*	*7.9*	*25.8*
PER (x)	48.1	33.4	29.5	23.4
Book value (Rs)	2.2	3.5	3.6	5.4
P/BV (x)	80.3	52.4	47.4	31.6
EV/Ebidta (x)	40.4	29.4	24.2	18.8
Dividend yield (%)	1.7	2.0	2.0	2.0
ROCE (%)	150.4	192.5	83.3	99.0
RONW (%)	166.8	156.7	153.4	130.9

Automobiles

Sector Update

Subdued growth despite festive season

Bajaj Auto

- Bajaj Auto reported decent numbers for October, with an overall growth of 15.7% year on year (yoy).
- The motorcycle sales grew by 14.2% to 251,022 units during the month. The company is seeing strong volume growth from *Platina*, *Discover* twins and the *Pulsar* range. On the back of the strong demand of the above-mentioned vehicles, it expects buoyant sales for November and December.
- Three-wheeler volumes continue to be strong growing by 30.3% yoy. With the success of the up-graded *Mega* and strong exports, three-wheelers are expected to sustain the good volumes currently achieved.
- The exports continued to record remarkable growth and reached 40,148 units for the current month (marking a growth of 77%).
- Retail sales for the month of October (ie sales from dealers to consumers) were strong at 3.5 lakh units. The lower billing of the company's sales was due to production constraints because of *Diwali* holidays.

Hero Honda Motors

- Hero Honda Motors' sales bounced back in the festive season as the company reported a strong sales growth of 20.4% yoy to 363,480 units.
- The growth was driven by the strong performance recorded by *Super Splendour* and *Passion Plus*.
- In an effort to boost its sales, the company is now investing heavily in the advertising and sales promotion activities.
- The company launched two new variants during the month: the new *Glamour* and P*assion Plus Limited Edition*. Recently it also launched *CBZ X-treme*, which has received an encouraging response from the market. The company expects these new additions to help boost volumes and aid it to consolidate and gain market share.
- Hero Honda's retail sales were extremely strong at 500,000 units. We believe that the huge inventory build-up in the earlier months has been significantly cleared up.

TVS Motors

- TVS Motors sold 142,325 vehicles in the month, posting a disappointing growth of just 3.2% yoy even though October is usually a good month for the automobile industry.
- The sales of motorcycles grew by just 8% to 92,328 vehicles.
- The scooter sales stood at 22,836 units in October 2006 compared with 25,373 units in the same period last year. The company will soon launch a two-stroke variant, *Scooty Teenz*.
- TVS's retail sales for the month stood at 185,000 units. The lower reporting of the company's sales to dealers was due to the high inventory build-up during the previous months.

Sales figures for October

Particulars	Oct-06	Oct-05	Growth %	YTD-06	YTD-05	Growth %
Bajaj Auto						
Motorcycles	251,022	205,012	22.4	1,442,270	1,073,112	34.4
Total two-wheelers	251,071	219,927	14.2	1,457,133	1,157,323	25.9
Three-wheelers	28,507	21,881	30.3	180,065	143,677	25.3
Grand total	279,578	241,808	15.6	1,637,198	1,301,000	25.8
Exports out of the above	40,148	22,713	76.8	250,257	135,119	85.2
Hero Honda Motors						
Domestic	356,407	295,654	20.5	1,868,440	1,672,772	11.7
Exports	7,073	6,358	11.2	64,591	59,232	9.0
Total	**363,480**	**302,012**	**20.4**	**1,933,031**	**1,732,004**	**11.6**
TVS Motors						
Motorcycle	92,328	85,463	8.0	584,465	450,243	29.8
Scooters	22,836	25,373	-10.0	159,792	156,749	1.9
Mopeds	27,161	27,050	0.4	193,537	163,849	18.1
TOTAL	**142,325**	**137,886**	**3.2**	**937,794**	**770,841**	**21.7**

Maruti Udyog

- Maruti Udyog sold overall 60,163 vehicles in October as compared with 51,543 units in last October, marking a growth of 16.7% yoy.
- The domestic sales for the month were up by 11.1% yoy to 55,894 vehicles while the exports jumped by 245.7% to 4,269 vehicles.
- The sales of *M800* declined by 30% yoy to 6,354 units. The strong growth in the A2 segment continued as the company sold 38,940 vehicles (rising by 23.5% yoy). The sales in the A2 segment were driven by strong sales of *Alto* and *WagonR*. The *Alto* sales for the month rose to 22,294 units, which is also the highest ever monthly sales figure for any model and make in India.
- The volumes in the C-segment (*Omni* and *Versa*) were also good, rising by 21.6% to 7,753 units. The sales in the A3 segment comprising *Baleno* and *Esteem* declined by 11.7% yoy.
- The company plans to launch the diesel version of *Swift* in the current financial year.

Mahindra and Mahindra

- The utility vehicle (UV) segment of Mahindra and Mahindra (M&M) marked a decline of 3.8% for the month due to lower *Scorpio* sales as the total UV sales stood at 11,789 units. The *Scorpio* sales declined by 13.3% to 2,947 units for the month.
- The three-wheeler and the light commercial vehicle (LCV) segments continued to perform well for the company. The three-wheeler sales rose at a phenomenal rate of 55.5% yoy to 3,626 units as its brand *Champion Alfa* continued to garner strong volumes. The LCV volumes rose by 758 units (up 31.6% yoy).
- The exports during the month reported a strong growth of 81.4% to 936 units.
- The tractor sales for the month were good, marking a growth of 18.3% yoy and of 18.3% month on month. M&M has recently launched its new tractor *Shaan*, which is powered by a 23.5HP engine. It has an in-built trolley and comes with a soft-top canopy, windscreen and wipers. The product is expected to garner good volumes in the coming months.

Tata Motors

- Tata Motors' overall sales stood at 43,540 vehicles (including exports) for the month of October 2006, growing by 5.6% compared to 41,219 vehicles sold last year.
- The domestic commercial vehicle sales in October 2006 grew by 18.6% to 23,354 vehicles. M&HCV sales grew by 14.4% to 13,184 while LCV sales were grew by 24.3% to 10,170 units.
- The domestic passenger vehicle sales decreased by 2.8% to 16,726 vehicles, primarily due to the fire which broke out in its Pune plant. The *Indica* sales for the month were 10,998 vehicles (up 9.1%), and the *Indigo* family registered sales of 1,722 units, declining by 51.3% yoy. The *Sumo* and *Safari* sales were up 11.6% yoy to 4,006 units.
- The exports were 3,460 vehicles in October 2006 as compared to 4,433 vehicles last year, declining by 22%.

Sales figures for October

Particulars	Oct-06	Oct-05	Growth %	YTD-06	YTD-05	Growth %
Maruti Udyog						
A1-(M800)	6,354	7,423	-14.4	46,799	49,301	-5.1
A2-(Alto, Wagon R, Zen, Swift)	7,753	6,022	28.7	230,137	186,035	23.7
A3-(Baleno, Esteem)	38,940	29,456	32.2	18,660	17,993	3.7
C-(Omni,Versa)	2,700	3,168	-14.8	45,085	38,608	16.8
Total Cars	**55,747**	**46,069**	**21.0**	**340,681**	**291,937**	**16.7**
MUVs-(Gypsy,Vitara)	147	324	-54.6	1,835	2,007	-8.6
Total Domestic Sales	**55,894**	**46,393**	**20.5**	**342,516**	**293,944**	**16.5**
Exports	4,269	2,885	48.0	20,278	20,005	1.4
Total	**60,163**	**49,278**	**22.1**	**362,794**	**313,949**	**15.6**
Mahindra and Mahindra						
Utility vehicles	11,789	12,251	-3.8	66,510	63,697	4.4
Scorpio	2,947	3,399	-13.3	20,933	18,553	12.8
LCVs	758	576	31.6	4,679	4,267	9.7
Three-wheelers	3,626	2,332	55.5	19,095	11,355	68.2
Total automotive	16,173	15,159	6.7	90,284	79,319	13.8
Exports	936	516	81.4	5,028	3,194	57.4
Tractors	13,384	11,318	18.3	64,314	50,689	26.9
Total	**30,493**	**26,993**	**13.0**	**159,626**	**133,202**	**19.8**
Tata Motors						
M&HCV	13,184	11,520	14.4	90,578	63,572	42.5
LCV	10,170	8,180	24.3	67,148	43,480	54.4
Passenger vehicles	16,726	17,205	-2.8	121,020	101,346	19.4
Domestic sales	40,080	36,905	8.6	278,746	208,398	33.8
Exports	3,460	4,443	-22.1	30,853	28,331	8.9
Total sales	**43,540**	**41,348**	**5.3**	**309,599**	**236,729**	**30.8**

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Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

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ACC
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
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Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
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Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Godrej Consumer Products
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
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Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
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Tata Motors
Tata Tea
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