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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Bharti	8-Jan-07	625	941	1,100
♦ ITC	12-Aug-04	69	206	241
♦ M&M	1-Apr-04	232	834	900
♦ SBI	19-Dec-03	476	2,384	2,680
♦ TCS	6-Mar-06	852	1,080	1,425

ITC

Apple Green

Stock Update

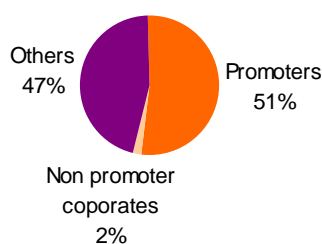
Price target revised to Rs241

Buy; CMP: Rs205

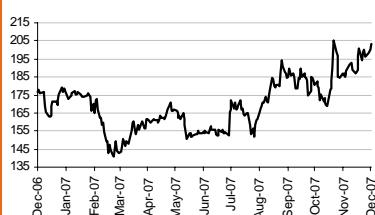
Company details

Price target:	Rs241
Market cap:	Rs77,161 cr
52 week high/low:	Rs212/140
NSE volume: (No of shares)	56.4 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float: (No of shares)	183.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.3	10.0	35.0	17.6
Relative to Sensex	3.4	-6.8	-4.1	-20.3

ITC's non-cigarette fast moving consumer goods (FMCG) business has grown by leaps and bounds over the last few years. The segment grew at a compounded annual growth rate (CAGR) of 77.6% over FY2004-07E to register revenues of Rs1,701.5 crore. The branded packaged foods division constitutes a major chunk and the growth of the segment. With presence across product categories of biscuits, staples, confectionery and snack foods, ITC has created big brands such as *Sunfeast*, *Aashirvaad*, *Kitchens of India* and the most recent *Bingo*. ITC is leveraging its wide sales and distribution network that has an unparalleled reach throughout the country, economy and quality in procurement of inputs from its agri-business and strong cash flows from its cigarettes business to grow the branded foods business.

Within foods, the *Sunfeast* range of biscuits has been a major revelation. The brand that spans across glucose, marie, cream, milk, chocolate and cookies doubled its sales in FY2006 and registered a strong growth of 55% in FY2007. The brand promises to continue its growth momentum as ITC launches new variants in the category. Recently, the company expanded the biscuits portfolio by launching a new range of health biscuits with Sachin Tendulkar being involved in the product development process as a co-creator of the Sachin's fit kit range. The range comprises two offerings—vitamin and protein enriched biscuits and multigrain biscuits. To further expand this range of health food products, ITC plans launching 'Sunfeast Benne Vita Flaxseed biscuits' early next year. Flaxseed reduces the risk of cardio vascular diseases and that is the major proposition for its addition to health product offerings. ITC is also launching health pasta 'Sunfeast Benne Vita Pasta' in four variants. We believe, in the wake of changing tastes of Indians and their increasing inclination towards a healthy lifestyle particularly health food, ITC's focus on increasing the product offerings in the health food category makes a sound business sense. We expect the company to launch further products in this category.

We like the way ITC is making strides in the non-cigarette FMCG business. The management has shown its brilliance in penetrating the Indian FMCG market challenging MNCs like Hindustan Unilever and Procter & Gamble. We like the diverse and niche business model of ITC and remain positive on the stock. We value the stock at 25x FY2009E earnings per share (EPS) of Rs9.6 and upgrade our price target to Rs241. At the current market price of Rs205 the stock trades at 21.3x its FY2009E EPS.

Valuation table

Particulars	FY2006	FY2007	FY2008E	FY2009E
Net profit (Rs crore)	2,280.4	2,699.8	2,998.3	3,629.2
Shares in issue (crore)	375.5	376.2	376.2	376.2
EPS (Rs)	6.1	7.2	8.0	9.6
% y-o-y chg	4.0	18.2	11.1	21.0
PER (x)	33.8	28.6	25.7	21.3
Book value (Rs)	24.1	27.7	32.1	38.1
P/BV (x)	8.5	7.4	6.4	5.4
EV/EBIDTA (x)	22.1	18.8	16.6	13.7
EV/Sales (x)	7.5	6.0	5.1	4.2
RoCE (%)	33.2	34.9	33.5	35.5
RoNW (%)	26.4	27.7	26.6	27.5

Rolta India

Viewpoint

Robust growth but fully priced

CMP: Rs710

Rolta India (Rolta) has established itself as a leading offshore vendor in the geospatial information system (GIS) and engineering service space. It has three business divisions: GIS, engineering design and automation (EDA) and enterprise information & communication technology (ICT).

GIS business, defence and inorganic initiatives to drive growth

Rolta is the pioneer in the CAD/CAM and GIS space in India through its partnership with Intergraph Corporation. This has been the traditional business that caters to the needs of defence, utilities and government organisations. The business has been growing at a steady rate of 15-20% for the past few years. However, the management has taken both organic and inorganic initiatives to boost the growth.

It has formed a 51:49 joint venture with the French-major Thales to offer cutting edge defence solutions based on the C4ISTAR technology. This is essentially an ERP solution for military for better co-ordination between various units to improve the efficiencies and effectiveness of the overall functioning of the armed forces. The French government has agreed to transfer technology (as per an obligation under the offset clause of the defence procurement policy) in case the Rolta and Thales joint venture bags the order in competition with the other global majors like Lockheed Martin and General Dynamics.

Apart from this, in July 2007, Rolta announced its intent to acquire a Canadian Enterprise Web GIS company, Orion, in an all-cash deal. Though Orion was profitable with a slightly lower margin profile than Rolta's, the deal has been EPS accretive. Moreover, the management has guided for US\$100 million incremental cumulative revenue from this deal over the next three to five years, starting from Q1 FY2008 (quarter ending September 2007). With this acquisition, Rolta would add over 100 clients from the USA, Canada, the UK and the Middle East; and bring in 50 employees.

EDA, well positioned for the huge opportunity

Rolta has a differentiated strategy in the EDA space. Unlike its peers (who are focused on developing embedded

software for the global players in the automotive, aviation and consumer electronic industries), Rolta is focused on the domestic market. It specialises in manufacturing plants, shipping and mechanical design work. This has enabled the company to leverage on the Indian growth story in terms of huge investments in infrastructure and manufacturing in India and also to insulate itself from the vagaries of exchange rate fluctuations.

Rolta has further strengthened its EDA business through a 50:50 joint venture with a Fortune 500 company, Stone & Webster, which is a leading player in designing of refineries & petrochemical plants and nuclear power plants globally. In addition to tapping the opportunity in the domestic markets, the joint venture would also gain from subcontracted work of global projects from its joint venture partner. Currently, the joint venture contributes just 3% of the consolidated revenues but is expected to significantly increase the same as it is estimated to grow at a compounded annual growth rate (CAGR) of over 50% for the next three years. The company expects the joint venture to generate revenues worth \$500 million over the next four to five years.

Enterprise ICT, niche focus on e-security and network management

This is the smallest business division with employee strength of around 225 people. However, the business is growing at a steady rate of 20-25% and provides the critical software support to the other two business divisions in the company.

Robust order backlog provides growth visibility

Rolta has order backlog of around \$250 million which is executable over the next five to six quarters. The order backlog for the GIS business stands at around \$120 million and around \$80-85 million pertains to the EDA business division. That's not all. The demand outlook for both the business divisions is quite encouraging. For instance, the key user industries like infrastructure, power, oil & gas and defence are poised for high capacity additions and aggressive investments in the coming years. The infrastructure spending is expected to increase at a CAGR

of 28% over FY2007-12. Power capacity is growing at the rate of 10x in the 11th Five-Year Plan. Moreover, the defence budget would only grow in the coming years and the focus would be on modernisation and investment in technology. The outsourcing opportunity is also huge in the EDA business with the engineering services outsourcing business expected to grow at a 25% CAGR over FY2004-20E.

Healthy operational matrices

Due to its differentiated business model and focus on niche areas, Rolta has been able to not only maintain but also improve its operating profit margin (to 40% in FY2007) over the past couple of years. This is higher than even that of the front-line tech stocks. What's more, the attrition rate is also quite low at below 10% which limits the wage inflation pressure on the margins. The high debtor days due to the dependence on government business has been a cause for concern. However, the company has shown a marked improvement in this parameter as well and is likely to show healthy operating cash inflows (after working capital adjustments) in FY2008 and FY2009.

Valuation

Rolta is well poised to grow its earnings at a CAGR of 30-35% for the next three years. However, the growth seems to be factored in the share price. At the current market price it trades at 18.5-19x its FY2009 consensus estimate which is in line with that of quality tech stock like Infosys Technologies and Wipro, and much higher than that of Satyam Computer Services and Tata Consultancy Services.

Financials		(Rs crore)		
Particulars	Q1FY2008	FY2007	FY2006	
Net sales	221.0	711.4	534.9	
Total expenditure	137.0	424.8	312.0	
Operating profit	84.0	286.6	222.9	
Other income	9.6	10.3	8.5	
EBIDTA	93.6	296.9	231.3	
Interest	0.0	0.7	14.7	
Depreciation	31.6	101.8	74.7	
PBT	62.1	194.3	142.0	
Tax	8.2	21.7	14.7	
PAT	53.8	172.6	127.3	
Equity capital	88.3	88.3	88.3	
EPS* (Rs)	24.4	19.6	14.4	
Margins (%)				
OPM (%)	38.0	40.3	41.7	
PAT (%)	24.4	24.3	23.8	

* Q1FY2008 EPS figures are annualised

Segmental results		(Rs crore)		
Particulars	Q1FY2008	FY2007	FY2006*	
Revenues				
Geospatial/ GIS	120.4	404.3	482.5	
Engineering design	74.5	220.5	-	
Enterprise information & comm.	26.2	86.5	52.4	
Profits (PBT)				
Geospatial/ GIS	47.7	170.3	206.8	
Engineering design	28.8	87.3	-	
Enterprise information & comm.	7.6	29.0	16.1	
Margins (%)				
Geospatial/ GIS	39.6	42.1	42.9	
Engineering design	38.6	39.6	-	
Enterprise information & comm.	28.9	33.5	30.7	

* GIS and EDA were results clubbed in FY2006

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

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HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

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