investor's eye

Visit us at www.sharekhan.com June 08, 2007

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aurobindo	28-May-07	684	**757**	914
BASF	18-Sep-06	220	**270**	300
Grasim	30-Aug-04	1,119	**2,392**	2,975
Infosys	30-Dec-03	689	**1,951**	2,440
JP Associates	30-Dec-03	125	**642**	850

ORG Informatics

Emerging Star

Stock Update

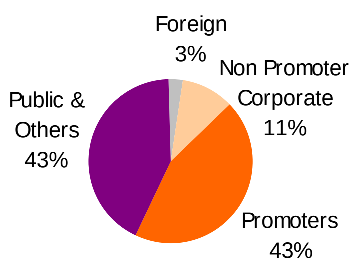
Price target revised to Rs184

Buy; CMP: Rs105

Company details

Price target:	Rs184
Market cap:	Rs153 cr
52 week high/low:	Rs209/70
BSE volume: (No of shares)	81398
BSE code:	517195
Sharekhan code:	SARAELE
Free float: (No of shares)	0.83 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-11.9	-9.8	-39.3	-4.3
Relative to Sensex	-13.9	-20.3	-40.5	-35.1

Result highlights

- ORG Informatics' performance was below expectations in Q4FY2007. Its revenues grew by 17% to Rs70.4 crore, below our expectations. The revenue growth was dented partly by the slippage of some revenues to Q1FY2008.
- The operating profit margin (OPM) declined sharply to 1.3% (as against 9.5% in the nine months ended December 2006) due to the cumulative impact of the higher contribution from low-margin hardware supply part of the MTNL order, expenses related to integration and restructuring of the recently acquired entities (United Technologies and DGIT) and a one-time write-off (around Rs1.3 crore related to provision for bad debts and stock adjustments).
- However, the steep jump in the other income and the write-back of tax provisions enabled the company to post a relatively higher growth of 24.7% in its consolidated earnings to Rs5.3 crore.
- On the full year basis, the consolidated revenues and earnings grew by 97.6% to Rs306.6 crore and 113.7% to Rs17.3 crore. The OPM declined by 110 basis points to 7.6% in FY2007.
- In terms of the outlook, the management expects to maintain the growth momentum on the back of a healthy order pipeline and the expected improvement in its margins as the high-margin maintenance revenues kick in from the MTNL contract. Moreover, the company would continue to actively scout for inorganic opportunities and has got the board approval to raise up to $30 million for the same.
- We have revised downwards the earnings estimate of FY2008 by 2.6% to factor in a higher tax rate. We maintain our Buy call on the stock with a price target of Rs184.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Net sales	70.4	60.2	17.0	306.6	155.2	97.6
Total expenditure	69.5	52.9	31.2	283.2	141.7	99.9
Operating profit	0.9	7.2	-87.5	23.4	13.5	73.2
Other income	5.7	0.8	590.7	7.9	1.2	539.3
Interest	2.0	0.7	206.1	4.4	1.7	156.5
Depreciation	1.5	1.0	47.2	3.5	2.4	46.4
PBT	3.1	6.4	-52.1	23.5	10.7	120.0
Tax	-2.8	2.2	-	4.4	1.8	144.5
Deferred tax	0.8	0.0	-	1.6	0.8	103.1
RPAT	5.1	4.2	21.3	17.5	8.1	116.3
Prior period items	0.0	0.0	-	-0.2	0.0	-
Net profit	5.3	4.2	24.7	17.3	8.1	113.7
Equity	14.6	11.7		11.7	11.7	
EPS	3.6	3.6		14.8	6.9	
Margins (%)						
OPM	1.3	12.0		7.6	8.7	
NPM	7.5	7.0		5.6	5.2	
Tax rate	-67.2	34.0		25.3	24.0	

Clubbing of low or negative margin hardware supplies in Q4

On an overall basis, the company has been able to achieve around 6% OPM on the hardware supply part of the contract. However, in Q4 the profitability was severely dented by the clubbing of the hardware supplies (which have low or negative margins) for the MTNL order.

The margins were also affected by the write-off of Rs1.3 crore related to inventory (Rs1 crore) and provisioning for bad debts (Rs0.3 crore). The company expects the situation to normalise in Q1 and the OPM to improve on a full-year basis. That's because the hardware supply part of the order has largely been completed and the company would benefit from the contribution of the high-margin maintenance revenues in FY2008.

Reasonably strong growth visibility

The company expects to maintain its growth momentum on the back of a robust order book position and incremental revenues from the recent acquisitions. Among the major deal wins, the company has bagged a Rs62-crore order from Houston Technologies (end user Bharat Sanchar Nigam) and expects to bag some substantially large orders in the domestic market.

Utilisation of GDR proceeds

ORG raised $10 million (or Rs44.7 crore) through a global depository receipt (GDR) in December 2006; the issue was priced at around Rs155 per share and resulted in the dilution of the equity base by 28.6 lakh shares. The company has utilised Rs29 crore as on March 2007, including Rs15.7 crore on the acquisition of a majority stake in two companies and a minority stake in Six Dee (a Bangalore-based company having intellectual property right [IPRs] in the telecom space). The acquisitions are aimed at strengthening the services business and gain IPRs in the telecom space.

Utilisation details (as on March 2007)

	Rs cr
Issue expenses	1.9
Investment in United Tech	10.1
Investment in DGIT	2.9
Investment in Six Dee	2.7
Purchase of fixed assets	10.1
Adv. for land	1.3
Balance cash	15.8

As on March 2007, the company had cash & cash equivalents of Rs33 crore (including Rs15.8 crore balance from the GDR proceeds). Moreover, to fund its organic and inorganic growth initiatives, the company also plans to raise further resources (approval of up to $30 million taken from the board as well as shareholders) over the next three months.

Valuation

We have revised downwards the earnings estimate for FY2008 by 2.6% to factor in a higher tax rate. At the current market price the stock trades at 10.2x FY2007 earnings and 7.4x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs184.

Consolidated financials

Particulars	FY2005	FY2006	FY2007	FY2008E
Sales (Rs cr)	85.5	155.2	306.6	426.2
Net profit (Rs cr)	2.7	8.1	17.3	24.1
No of shares (crs)	1.1	1.4	1.7	1.7
EPS (Rs)	2.4	5.9	10.2	14.1
% y-o-y change	*33.1*	*146.2*	*71.8*	*38.9*
PER (x)	43.7	17.7	10.2	7.4
Price/BV (x)	10.5	4.7	1.8	1.3
EV/EBIDTA(x)	21.6	9.2	6.2	4.0
RoCE (%)	18.7	37.5	36.7	30.9
RoNW (%)	28.3	43.2	27.6	20.5

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

Transport Corporation of India

Cannonball

Stock Update

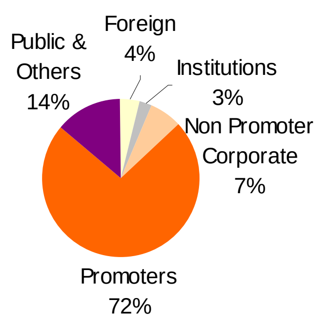
Price target revised to Rs100

Buy; CMP: Rs88

Company details

Price target:	Rs100
Market cap:	Rs594 cr
52 week high/low:	Rs102/41
NSE volume: (No of shares)	18,153
BSE code:	532349
NSE code:	TRANSPORTCO
Sharekhan code:	TCIL
Free float: (No of shares)	1.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	31.6	37.5	-8.4	27.7
Relative to Sensex	28.6	21.5	-10.2	-13.4

Result highlights

- In Q4FY2007 the overall revenues of Transport Corporation of India (TCI) grew by 18.9% year on year (yoy) to Rs292.6 crore on the back of the better performance of both the XPS and the SCM division.
- The earnings before interest and tax (EBIT) of the company grew by 61% to Rs15.7 crore yoy whereas the margin improved by 300 basis points to 10% in the quarter, driven by the SCM division's margin of 12%.
- The interest cost doubled to Rs3.12 crore from Rs1.7 crore last year whereas the depreciation provision stood flat on a sequential basis at Rs5.45 crore but increased by 41% yoy, as the company added assets in the form of warehouses and trucks.
- On the back of a better performance at the operating level, the net profit more than doubled to Rs9.42 crore.
- As we have mentioned in our earlier update, TCI has drawn up a capital expenditure (capex) plan of Rs440 crore for the next two to three years. The funds would be utilised for buying ships, expanding the warehouses and augmenting its truck fleet.
- The company is also in the process of forming a 50:50 joint venture with Scan Trans Holding, Denmark to conduct shipping business. It is in the initial stages of forming the joint venture and we will update you on the same once we get more information.
- The company has identified four properties covering a total area of 12.5 acre for development. The value of these properties taken together translates into Rs26 per share on diluted equity. We believe this provides significant cushion to the company's stock price.
- At the current price of Rs88 per share, the stock is trading at 14.7x its FY2009 earnings estimate. Considering the bullish outlook for the company, we are upgrading our target price to Rs100 per share.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Net sales	292.2	255.7	14.3	1087.4	904.9	20.2
Total expenditure	271.3	233.7	16.2	1013.2	844.2	20.0
Operating profit	20.9	12.0	73.9	74.3	60.7	22.4
Other income	1.5	0.8	76.8	4.1	2.1	95.2
PBIDT	22.3	12.8	74.1	74.3	62.8	18.3
Interest	3.1	1.7	89.1	10.3	7.1	45.
PBDT	19.2	11.2	71.9	63.9	55.7	14.8
Depreciation	5.5	3.9	41.6	19.9	18.5	7.5
PBT	13.8	7.3	87.8	44.0	37.2	18.5
Tax	4.3	3.3	30.0	13.5	17.3	
Profit after tax	9.4	4.0	136.1	30.6	19.8	54.3
Extraordinary item				0.0	7.0	
Reported PAT	9.4	4.0		30.6	26.8	

Net revenues rise by 19% yoy

The overall revenue of the company witnessed an 18.9% rise yoy to Rs292.6 crore. The transport division's revenue remained flat at Rs156.4 crore. The express cargo (XPS) division's revenue grew by 23% yoy to Rs74.2 crore whereas the supply chain management (SCM) division's revenue increased by 14% to Rs33.2 crore. As mentioned in our previous report, the company is hiving off its trading division into a subsidiary firm in a phase manner which was reflected in the performance of the division in this quarter. The trading division's revenue declined to Rs16.9 crore from Rs29 crore in the same quarter last year.

SCM division boosts EBIT by 61% yoy

The EBIT of the company grew by 61% yoy to Rs15.7 crore whereas its margin improved by 300 basis points to 10% in the quarter. The XPS division's margin declined to 3.7% from 8.1% in the previous quarter (Q3FY2007) as the courier division incurred higher expenses whereas the SCM division's margin jumped to 12.3%. The SCM division's margin improved significantly because the projects undertaken by the division in the previous quarters were completed in this quarter. The margin of the transport division increased by 140 basis points yoy to 5.4% in the same period.

Divisional performance Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	Q3FY07	% yoy
Net revenues	**292.58**	**255.30**	**14.6**	**278.9**	**4.9**
Transport division*	190.00	156.17	21.4	179.0	6.0
Express	74.22	60.32	23.0	67.0	10.7
Trading division	16.90	28.95	-41.6	21.0	-19.7
Wind power division	0.99	0.54	83.3	1.3	-25.6
Shipping	10.84	9.32	16.3	10.9	-0.1
EBIT	**15.73**	**9.84**	**59.9**	**14.6**	**7.4**
Transport division*	9.81	6.52	50.5	6.6	48.4
XPS cargo division	2.70	3.11	-13.2	5.6	-51.4
Trading division	0.19	0.20	-5.0	0.1	58.3
Wind power division	0.37	-0.03		0.7	-46.4
Shipping	2.66	0.04		1.7	60.2
EBIT margin (%)	**10.0**	**7.0**		**5.2**	
Transport division*	5.2	4.2		3.7	
XPS cargo division	3.7	4.2		8.3	
Trading division	1.1	0.7		0.6	
Wind power division	37.4	-5.6		51.9	
Shipping	24.5	0.0		15.3	

*Note: The company has started reporting separately the revenues of the SCS business, which was hitherto part of the transport division.

Net profit jumps by 136% yoy

The interest cost of TCI doubled to Rs3.12 crore in Q4FY2007 from Rs1.7 crore in the same quarter last year as the company raised debt to finance its capex plan of Rs440 crore for the next two to three years. The depreciation provision stood flat on a sequential basis at Rs5.45 crore but increased by 41% yoy as the company added assets in the form of warehouses and trucks. On the back of a better performance at the operating level, the net profit more than doubled to Rs9.42 crore.

Capex plan on track

As we had mentioned earlier, TCI has drawn up a capex plan of Rs440 crore for the next two to three years. The funds would be utilised for buying ships, expanding the warehouses and augmenting the truck base. The company incurred a capex of Rs100 crore in FY2007 as it added 1.5 million square feet to its warehouse space and increased its fleet size to five by purchasing two ships in the year. It has earmarked Rs200 crore for the next year, ie FY2008. The company is also in the process of forming a 50:50 joint venture with Scan Trans Holding, Denmark to conduct shipping business. We do not have enough information on the same as the company is in the initial stages of forming the joint venture. We will update you on the same after obtaining more information on the joint venture.

Capex plan

Particulars	FY07	FY08	FY09	FY10	Total
Warehouses	22	110	10	10	152
Wind power	9.1	18		0	27.1
Ships	37	40	25	25	127
Trucks	23	30	30	27	110
Others	8.9	2	5	8	23.9
Total	100	200	70	70	440

Source: Sharekhan

Funding pattern

Particulars	Amount (cr)
Debt	150
Equity	125
Internal accruals	65
Total	340

The company plans to raise Rs125 crore through the issue of fresh equity (qualified institutional placement/foreign currency convertible bonds). It has already obtained the board's approval for the same. The company plans to raise funds in two equal tranches. In our estimates we have factored in an equity dilution of 24% by FY2009. The company has indicated that the debt component will be raised through a mix of external commercial borrowing and domestic debt.

Property development plan

TCI has 220 properties with book value of Rs93 crore; the same had been acquired earlier to expand its warehouse space. But with the city limits being extended, these are no longer in the usable area. Thus the company plans to either develop these properties for outright sale or lease them out.

To begin with the company would develop four properties covering a total area of 12.5 acre over the next five years. The net realisable value of these properties would be Rs200 crore which translates into a value of Rs26 per share on a diluted equity base of the company. We believe this will provide tremendous cushion to the company's stock price.

Location	Book value	Type	Area	Realisable value (cr)	Impact on EPS*
Rambagh, Delhi	4.9	Commercial/ Residential	1.15	50	7.4
Dehradun	0.52	Commercial	1.46	50	7.4
Nalmangala, Bangalore	1.46	Residential	6.3	80	11.85
Aslali, Ahmedabad	1.52	Residential	3.54	20	3.0
	8.4		**12.45**	**200**	**26.0**

*Diluted equity Source: Sharekhan

Outlook

We maintain our positive outlook on the stock, as we believe that the company's increased focus on the higher-margin businesses, namely the XPS and the SCM division, will drive the overall business as well as the profitability of the company. The company's capex over the next three years will also start bearing fruits which will drive the earnings of the company. The gradual phasing out of the central sales tax by 2010 will also benefit the company's business going ahead.

We expect TCI's profits to grow at a compounded annual growth rate of 62% over FY2007-09. The growth in the profit of the company will be partially negated by the equity dilution. At the current price of Rs88, the stock is trading at 14.7x its FY2009 earnings estimate. Considering the bullish outlook for the company, we maintain our Buy recommendation with an upgraded price target of Rs100.

Earnings table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net profit (Rs cr)	10.5	20.7	30.8	39.0	49.9
Share in issue (Rs cr)	5.3	6.8	6.8	7.6	8.4
EPS (Rs)	2.0	4.0	4.6	5.1	5.9
% y-o-y growth	*39.7*	*96.4*	*48.8*	*26.5*	*28.1*
PER (x)	43.3	21.8	19.1	17.1	14.7
Book value (x)	12.4	15.8	20.4	31.3	41.0
P/BV (x)	7.0	5.5	4.3	2.8	2.1
EV/EBITDA (x)	16.4	12.9	10.9	8.4	6.7
Dividend yield (%)	2.3	2.5	2.9	4.0	4.0
RoCE (%)	12.5	17.8	17.6	17.1	16.1
RoNW (%)	16.2	19.4	22.4	16.3	14.5

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

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

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India