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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ BEL	25-Sep-06	1,108	1,460	1,715
♦ BHEL	11-Nov-05	1,203	2,010	2,650
♦ ICICI Bank	23-Dec-03	284	821	1,240
♦ Infosys	30-Dec-03	689	2,007	2,670
♦ ITC	12-Aug-04	69	162	220

ICI India

Ugly Duckling

Stock Update

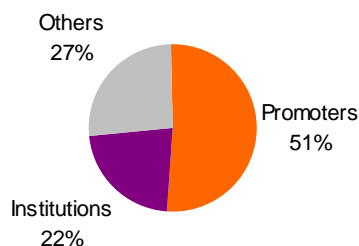
ICI sells Quest International

Buy; CMP: Rs435

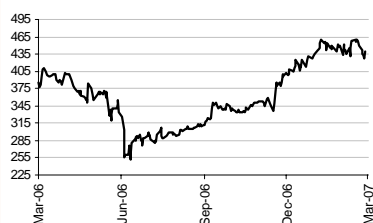
Company details

Price target:	Rs550
Market cap:	Rs1,774 cr
52 week high/low:	Rs495/243
NSE volume: (No of shares)	11,429
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float: (No of shares)	2.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.0	10.9	42.5	13.7
Relative to Sensex	9.6	19.0	29.9	-7.6

Key points

- ICI India (ICI) on March 02, 2007 sold its 100% equity share holding in Quest International India to Givaudari (India) Pvt Ltd for Rs320 crore. The company had also received an interim dividend of about Rs31 crore prior to the sale of Quest International India. Further, it expects an additional consideration of about Rs35 crore for various agreed adjustments in the next quarter.
- At the current market price of Rs435, the stock trades at 14.7x its FY2008E earnings per share (EPS) of Rs29.7. We maintain our Buy recommendation on the stock with a price target of Rs550.

Background

ICI had acquired Quest International India, its fragrance and flavours business, from Hindustan Lever Ltd (HLL) in December 2001. The business of flavours and fragrance depends on the growth in the fast moving consumer goods and food industries.

The company had later exercised its right to acquire the balance 49% stake in Quest International India held by HLL for Rs54 crore. With this acquisition ICI's stake in Quest International India had gone up to 100%.

Till now, ICI has sold off the following businesses.

- The company sold its rubber chemical business to a joint venture with the US-based PMC Group International in Q3FY2006 (see our report "Sale of rubber chemical business" dated November 09, 2006).
- The company sold its surfactant business to the Croda Group, UK with effect from September 02, 2006 (see our report "Exiting surfactant business" dated June 30, 2006).

Cash to be utilised to grow inorganically

At the end of March 2006, ICI had Rs350 crore of investments on book. With an additional cash inflow of Rs250 crore from the sale of the surfactant business, Rs355 crore as sales consideration from Quest International India and Rs50 crore

Valuation table (consolidated)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	42.6	53.7	110.0	121.0
Shares in issue (crore)	4.1	4.1	4.1	4.1
EPS (Rs)	10.4	13.1	26.9	29.6
% y-o-y change	-	26.1	104.8	9.9
P/E (x)	43.2	33.1	16.2	14.7
Book value (Rs)	128.0	133.0	207.0	290.0
P/BV (x)	2.7	2.6	1.7	1.19
EV/Sales (x)	1.3	1.1	1.1	1.13
EV/EBITDA (x)	12.8	9.8	9.0	7.9
RoNW (%)	8.0	10.0	16.0	12.0
RoCE (%)	9.0	11.0	9.0	8.0

from the sale of the auto refinish paint business, the company is sitting on a cash pile of Rs1,000 crore (cash per share of Rs245). We believe these resources would be utilised by the company to grow inorganically.

ICI might look at the inorganic growth option in the paint and starch businesses as it has ample liquid cash on its books and considers its starch business to be a big opportunity in the future.

Valuations

We have revised our EPS estimate for the stock for FY2008, from Rs24.2 to Rs29.7, taking into account the sale of Quest International India as well as the higher non-operating income.

At the current market price of Rs435, the stock trades at 14.7x its FY2008E EPS of Rs29.7. We maintain our Buy recommendation on the stock with a price target of Rs550.

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

ICICI Bank

Apple Green

Stock Update

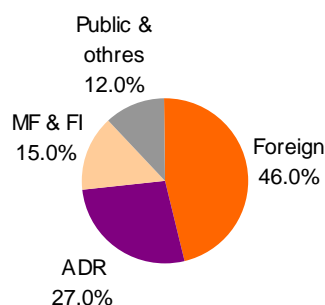
New holding structure to unlock value

Buy; CMP: Rs820

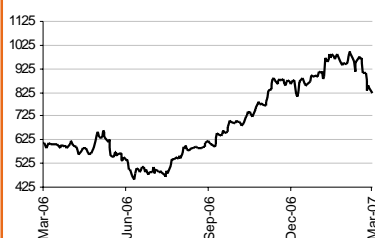
Company details

Price target:	Rs1,240
Market cap:	Rs72,980 cr
52 week high/low:	Rs1,006/440
NSE volume;; (No of shares)	13 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float: (No of shares)	65.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.4	-3.5	38.9	38.8
Relative to Sensex	0.1	3.5	26.6	12.8

Key points

- ◆ **Key investments in insurance and asset management businesses to be transferred:** ICICI Bank has decided to transfer its 74% stake in the insurance and 51% stake in the asset management businesses to a separate wholly owned subsidiary company called ICICI Holdings. It plans to further list ICICI Holdings separately in CY2007. The independent listing should unlock significant value for its life insurance business and provide further visibility to its stock's valuation. The bank plans to transfer the investments at the current book value, which stands at Rs1,950 crore.
- ◆ **Listing will provide insurance companies greater access to capital:** The insurance business needs a huge amount of capital infusion and ICICI Bank could not have met the capital demands without having to go for another equity issue. The transfer of stakes to a holding company was done with the idea of providing insurance companies greater access to capital.
- ◆ **Significant value to be unlocked in the insurance business:** Currently there are no listed insurance companies in the Indian market and the valuation provided to certain stocks like ICICI Bank and Bajaj Auto based on the new business adjusted profit (NBAP) multiple varies across the analyst community. The analyst community has taken a cue from comparable valuations given to the Chinese insurers which in the past year had been re-rated to 30-40x NBAP multiples. The listing of the holding company will provide a valuation benchmark for these high-growth businesses of the bank and unlock significant value for the insurance businesses. We have valued the life insurance business at 21x FY2009E NBAP, which we feel is a fair multiple for such a high-growth business.

Benefits of the holding company structure and its future listing

Shorten the time line for unlocking value from subsidiaries: The holding company structure will help ICICI Bank overcome regulatory uncertainty on listing norms and foreign investment restrictions in life and general insurance businesses. The performance of the bank's stock over the past couple of years has been influenced by the valuations attributed to the bank's key subsidiaries that it has now decided to

Key financials

Particulars	FY05	FY06	FY07E	FY08E	FY09E
Net profit (Rs cr)	2005.2	2540.1	3375.7	4041.9	4958.0
Shares in issue (cr)	73.7	89.0	89.0	89.0	89.0
EPS (Rs)	27.2	28.5	37.9	45.4	55.7
EPS growth (%)	2.5	4.9	32.9	19.7	22.7
PE (x)	30.1	28.7	21.6	18.1	14.7
P/PPP (x)	20.4	15.6	10.4	8.0	6.0
Book value (Rs/share)	170.3	249.6	276.7	310.2	351.9
P/BV (x)	4.8	3.3	3.0	2.6	2.3
Adj book value (Rs/share)	149.9	237.7	255.2	279.2	306.1
P/ABV (x)	5.5	3.4	3.2	2.9	2.7
RONW (%)	18.1	13.6	14.4	15.5	16.8

transfer to a separate holding company. While the market had been attributing high valuations to these subsidiaries, investors had no clarity on when ICICI Bank would divest its stake in these three companies. The holding company structure will help ICICI Bank overcome regulatory uncertainty over the listing of individual subsidiaries. The bank plans to list the holding company in CY2007.

Marginal revenue impact on stand-alone ICICI Bank numbers: The dividend income earned from the general insurance and asset management businesses included in the bank's stand-alone figures accounted for 1.2% of its stand-alone FY2006 profit. However, after the transfer the dividend income will now have to be accounted for at the holding company level, hence the revenue impact at the stand-alone level remains marginal.

RBI guidelines prompting a change in holding structure

The decision to incorporate a holding company was prompted by the regulation of the Reserve Bank of India (RBI) that banks can invest a maximum of 20% of their net worth in subsidiary companies. ICICI Bank's investments in its subsidiaries are already at the 20% cap, which means the bank can no longer infuse more capital in its insurance subsidiaries.

Valuation of the holding company

We value the holding company at Rs44,029 crore and our total sum-of-parts per share valuation for ICICI Bank based on the FY2009 estimates is Rs1,240. The implied value of the three key investments being hived off comes to Rs360 per share of ICICI Bank; of this the life insurance business is valued at Rs338 per share. The restructuring will be

treated as a positive trigger for the stock for the following reasons.

- ♦ It provides a concrete plan to unlock value in the subsidiaries in the medium term.
- ♦ The holding company structure will help ICICI Bank overcome regulatory uncertainty over the listing of individual subsidiaries and provide an indirect way of listing the insurance subsidiaries.
- ♦ The insurance subsidiaries have been guzzling up the parent's capital due to their unprecedented growth. This new structure will help to raise capital without diluting the parent's earnings and also put less stress on the capital adequacy of the parent bank in the future.

Sum-of-parts valuation

Business	Basis	Period	Stake	Value Share
Stand-alone core banking	2.4x BV	FY09E	-	850.6
ICICI Prudential Life Ins.	21x NBAP	FY09E	74%	338.2
ICICI Lombard General Ins.	10x PAT	FY09E	74%	6.2
Pru - ICICI Asset Mgt	6% of AUM	FY09E	51%	15.0
Others		FY09E		28.2
Total (rounded off)				1240.0

Valuation and view

The bank's valuation looks attractive after the creation of the holding company, which would help unlock the value in its subsidiaries post-listing on bourses. At the current market price of Rs820, the stock is quoting at 14.7x its FY2009E earnings per share, 6x its pre-provisioning profits and 2.3x book value. We maintain our Buy recommendation on the stock with a one-year price target of Rs1,240.

Holding company valuation

(Rs crore)

Company	ICICI holding (%)	Value of the company	Value of ICICI's stake	Value per share of ICICI
ICICI Prudential Life Insurance	74	40663.7	30091.2	338.2
ICICI Lombard General Insurance	74	746.4	552.3	6.2
ICICI AMC and ICICI Trust	51	2618.6	1335.5	15.0
Total		44028.6	31978.9	359.4

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

Cement

Sector Update

ACC reports negative dispatch growth

The cement majors have recorded a dispatch growth of 3% year on year (yoy) to 5.62 million tonne in the month of February.

Company	February	% yoy chg
Gujarat Ambuja	1.36	9.7
ACC	1.42	- 7.2
AV Birla	2.84	6.8
Cumulative	5.62	3.0

Amongst the cement majors, Gujarat Ambuja continued to register a buoyant growth and grew by 9.7% yoy to 1.36 million tonne. The AV Birla group reported a growth of 6.8% yoy to 2.84 million tonne whereas ACC reported a negative growth of 7.2% yoy to 1.42 million tonne.

ACC dispatches decline 7.2% yoy

Contrary to our expectations of a flattish growth, ACC reported a negative growth of 7.2% yoy to 1.42 million tonne. We learn that this was on account of a stoppage in three of its plants for technical modification. We believe this to be a one-off event and expect the dispatches to bounce back in the next month.

Gujarat Ambuja registers a higher growth of 9.7% year on year

As we had mentioned in our previous update, Gujarat Ambuja continued to record the highest growth amongst the majors at 9.7% yoy to 1.36 million tonne. The company has been able to maintain its growth rate on account of higher blending at its various plants, mainly at Ambujanagar.

Sharekhan cement universe

Company	Price Target	PER		EV/EBITDA		EV/Tonne	
		FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
ACC	1250	12.0	10.7	7.4	6.6	145.4	125.9
Grasim	3350	10.7	8.0	5.4	4.2	-	-
UltraTech	1365	12.9	8.7	7.2	5.0	106.8	118.1
Shree Cement	1700	11.2	8.8	8.0	5.9	210.7	148.7
JK Cement	295	6.7	4.6	6.4	4.4	66.7	61.0
Madras Cements	4000	13.2	11.2	8.3	7.8	128.0	114.8
India Cements	315	8.1	5.6	6.4	4.4	101.0	77.0
Jaiprakash Associates	850	20.8	14.5	10.9	8.3	-	-
Orient Paper	800	6.1	4.1	3.8	2.2	56.0	32.0

Companies pass on excise duty to consumers; hike prices by Rs12 per bag

In the Budget 2007-08, the government revised the excise duty linking it to the retail price per bag. The rate was reduced by Rs50 per tonne to Rs350 per tonne if cement is sold at or below Rs190 per bag whereas it was raised by Rs200 per tonne to Rs600 per tonne if the retail price is more than Rs190 per bag. Considering the fact that the average cement price in the country was hovering at Rs205 per bag pre-budget, it was evident that most cement manufacturers would have to pay higher excise duty. Thus on Friday the companies across the country hiked the prices by Rs12 per bag passing on the entire rise in the excise duty to the consumers.

Post the hike, the cement prices in Mumbai stand at Rs250-260 per bag, the prices in Chennai are Rs220-225 per bag, while in Delhi the prices stand at Rs215-220 per bag.

Railway budget...a non-event for the sector

In the railway budget, the government announced a cut of 6% in the freight cost of limestone and also announced a freight discount of 40% for transporting cement in open wagons. We don't expect either of these measures to have a significant impact on the cement sector as most of the companies have their factories located at the pitheads whereas cement as a commodity is not transported through open wagons. Thus the railway budget is a non-event for the sector.

Gujarat Ambuja trims stake in Ambuja Cement India Limited (ACIL) by 11%

Gujarat Ambuja exercised its put option selling one-third of its 33% stake in ACIL to Holcim for Rs526 crore making a profit of Rs240 crore. Consequently, Holcim's stake in ACIL has increased by 11% to 78%. ACIL in turn has a 9.93% stake in Gujarat Ambuja and holds a 35% stake in ACC. Roughly, the value of the company's investments stand at Rs7,300 crore.

Outlook

As the construction activity across the country is in full swing, the demand for cement is extremely buoyant. We learn from dealers that there is a huge demand-supply gap prevailing currently in the market. This can also be substantiated by the fact that the companies have been

able to comfortably pass on the excise hike to the consumers. We expect this trend to continue for the next couple of months due to the hectic activity in housing and construction. There are rumours in the market that cement exports could be banned by the government to curb the prices. But we believe this move will have negligible impact on the sector as the cement exports currently stand at 6-7 million tonne, less than 5% of the cement demand.

In the last couple of weeks, the cement stocks have witnessed a major fall as fallout of the budget. Considering the fact that the companies would be able to maintain their profitability post the price hike, we believe that valuations look very attractive. We thus maintain our positive view on the sector and recommend UltraTech and Madras Cements as our top picks.

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

Evergreen

HDFC Bank
 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
 ACC
 Apollo Tyres
 Bajaj Auto
 Balrampur Chini Mills
 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
 Hindustan Lever
 Hyderabad Industries
 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
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 Tata Elxsi
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 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
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Vulture's Pick

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