investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
India Cements	28-Sep-06	220	**229**	315
Infosys	30-Dec-03	689	**2,234**	2,430
Lupin	06-Jan-06	403	**519**	565
Thermax	14-Jun-05	124	**381**	425
UTI Bank	24-Feb-05	229	**497**	*

*Under review

Nicholas Piramal India

Apple Green

Stock Update

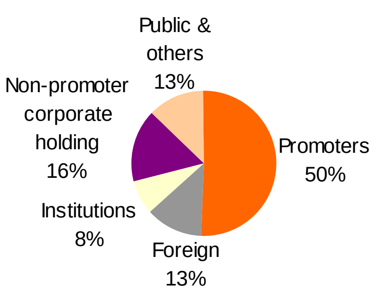
CRAMS to power revenues

Buy; CMP: Rs235

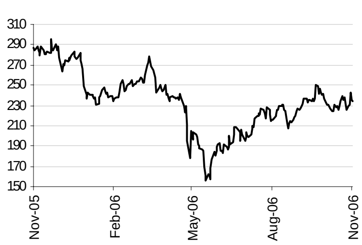
Company details

Price target:	Rs325
Market cap:	Rs4,923 cr
52 week high/low:	Rs299/150
NSE volume: (No of shares)	72,259
BSE code:	500302
NSE code:	NICOLASPIR
Sharekhan code:	NICHPI
Free float: (No of shares)	10.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.7	9.6	17.2	-11.8
Relative to Sensex	-8.4	-8.7	-8.4	-45.1

Key points

- Several products of Nicholas Piramal India Ltd (NPIL) are amongst the top brands across various therapeutic segments. With its focus on building brands rather than merely launching new products and initiatives to expand and improve the productivity of its field force, NPIL expects to outgrow the domestic market in the coming years.
- With six contract-manufacturing deals under its belt, NPIL expects the custom manufacturing business to be its growth driver in the coming years. The company expects revenues of Rs60 crore in FY2007E and of Rs140 crore in FY2008E from this business.
- Acquired in December 2005, Avecia Pharmaceutical, UK has healthy gross margins but it is making losses due to its high fixed costs. NPIL is currently in the process of integrating Avecia into its operations and is undertaking several initiatives to derive cost synergies from Avecia. With these initiatives NPIL believes that Avecia will break even by the end of FY2007 and start contributing positively from FY2008.
- NPIL recently acquired one of Pfizer's facilities at Morpeth, UK. The Morpeth facility is currently being integrated with NPIL, following which NPIL plans to scale up production at the unit to make use of the idle capacity. The Morpeth unit current has EBIDTA margin of around 15.5% and is currently earnings accretive for NPIL. With a ramp-up in revenues, the management believes Morpeth's margins would improve with the increased operating leverage.
- With the Baddi facility going on stream, the increased operating leverage derived from the higher capacity utilisation at the Morpeth plant and the shift of manufacturing of the inhalation anaesthetics to India, NPIl expects its margins to improve significantly in the future.
- To account for the delay in the ramp-up of NPIL's contract-manufacturing business, the contribution from the recently acquired the Morpeth facility and the improved scenario in the domestic market, we are revising our revenue and earnings estimates for FY2007 and FY2008. Our revised earnings estimates stand at Rs10.7

Valuation table Rs (cr)

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net sales consolidated	1391.5	1308.2	1582.5	2298.5	2719.5
PAT consolidated	199.7	164.1	124.2	226.5	336.3
Shares in issue (cr)	3.8	19.0	20.9	20.9	20.9
EPS (Rs)	58.8	4.3	6.0	10.7	16.0
PER (x)	4.0	54.8	39.5	22.0	14.7
cash EPS (Rs)	72.8	7.1	9.3	15.1	20.5
cash PER (x)	3.2	33.4	25.4	15.6	11.5
EV	1227.1	4827.9	5139.1	5117.1	4932.4
EV/Ebidta (x)	4.4	28.5	26.0	14.6	10.5
Book value (Rs/share)	120.6	29.0	48.5	55.1	67.0
P/BV (x)	2.0	8.1	4.9	4.3	3.5
Mcap/sales	0.6	3.4	3.1	2.1	1.8

per share for FY2007 and Rs16 per share for FY2008. At the current market price of Rs235, NPIL is discounting its FY2008 estimated earnings by 14.7x. Considering the strong revenue flows and enhanced profitability picture expected for the coming years, we maintain our Buy recommendation on the stock, with a price target of Rs325.

Domestic branded formulation business to surpass industry growth

NPIL has established a strong foothold in the branded formulation segment of the domestic market. With several of its products being amongst the top brands across various therapeutic categories, NPIL's domestic branded formulation business provides a strong foundation for steady growth. NPIL's strategy for its domestic branded formulation business is to build brands, rather than merely launch new products, as new products have been contributing barely over 1% to the total sales. The strategy is aligned more towards growing its existing brands, which already have acceptance and recall value in the market.

For this, the company has been investing heavily in growing its field force and has undertaken several initiatives to increase the focus and productivity of its sales force. It has created a separate field force for general practitioners (GPs) as it believes that this segment drives the first line of prescriptions for its products. It has also created a special sales force to focus on the tier-II cities, in order to increase penetration and coverage across the country. Recently, NPIL has also separated its field force for channel partners (stockists) from the field force for doctors and created two distinct entities to focus on each of these. Moreover, it has linked the incentives of its field force to the value of retail sales instead of stockist sales, so that the sales team focuses more on marketing the company's brands to doctors (who will in turn write more prescriptions).

Overall, NPIL plans to build its domestic branded formulation business by growing its existing brands, launching 30-40 new products every year (mainly novel drug delivery products (NDDS) and combination products) and growing its in-licencing portfolio. After taking a hit on account of the Phensydyl issue with the narcotics bureau and the withdrawal of Valdecoxib from the shelves in FY2006, the branded formulation business has turned around significantly in H1FY2007. The management expects the positive trend to continue over the next two quarters and expects to end the year with a higher-than-industry growth in this business. We expect NPIL's domestic branded formulation business to grow at a compounded annual growth rate of 12.1% over FY2006-08.

Contract manufacturing to power future growth

Over the past one year, NPIL's business model has undergone a transformation from the one that was based primarily on the sale of formulations in the domestic market to the one that concentrates on being a partner of choice for big innovator pharmaceutical companies for outsourcing. The company has signed six contract-manufacturing deals, which, it believes, will be its prime growth driver over the next few years.

Of the six contracts, the ones with AMO and Allergan are currently under operation. The company has booked Rs36 crore in revenues from the AMO and Allergan contracts in H1FY2007. It is awaiting the approval of the US Food and Drug Authority for its formulation facility at Pithampur; the same is expected in Q1FY2008 following which NPIL will also start supplying to the Fortune 500 company. Further, NPIL is also expecting to start supplying to the hospital product company by H2FY2008. Based on the estimated size of the deals, NPIL estimates it will get business of Rs60 crore through these contracts in FY2007 and of Rs140 crore in FY2008. The other two contracts with Pfizer and Astra Zeneca are more of contract research deals, under which NPIL is supplying products for pilot studies being conducted by the innovator companies. The revenues from these are currently miniscule. However, if the products for which the research is being carried out do get commercialised, NPIL hopes to secure large contract manufacturing orders through these two relationships.

NPIL's CRAMS agreements

Year	Company	Expected start date	Estimated size ($ million)	Details
Dec-03	Advanced Medical Optics, USA	Q2FY2006	approx. $ 15 m	Eye care products for global markets including USA, Europe and Japan
Nov-04	Allergan, USA	Q2FY2006	very small size	Long-term API contract for Levobunololand Brimonidine
Nov-04	Fortune 500 company	Q1FY2008	approx. $30 m	Pharmaceutical products for USA
Nov-05	Hospital Product Company	H2FY2008	$12-15 m	Hospital care products for global market
Nov-05	Astra Zeneca, AB, Sweden		-	Development of processes for API, to turn onto contract manufacturing upon product launch
Dec-05	Pfizer International		-	Process development for animal health products, will get contract-manufacturing order upon product launch

Avecia and Morpeth acquisitions to contribute positively from FY2008

NPIL acquired Avecia and its affiliate company, Torcan Chemical, Canada in December 2005. Avecia recorded a top line of GBP36 million in FY2004. Even though Avecia has healthy gross margins, the business is making losses due to a high fixed-cost component. The post-acquisition integration is currently under progress. NPIL plans to increase synergistic benefits between Avecia and itself by sourcing active pharmaceutical ingredients (APIs) for Avecia from low-cost countries like India and China, shifting a major chunk of manufacturing from Avecia to its Indian base and transferring all general overhead expenses of Avecia to NPIL. With this multi-pronged approach, the management believes that Avecia will break even by the end of FY2007 and start contributing positively to NPIL's bottom line by FY2008. Over the next two years, the management expects Avecia to post earnings before interest, depreciation, tax and amortisation (EBIDTA) margin of 12-13%, similar to the other western assets.

NPIL also acquired one of Pfizer's manufacturing units at Morpeth, UK in June 2006. Even though the company has not disclosed the size of the Morpeth deal, it has indicated that the acquisition cost is not higher than the projected internal accruals of the company in FY2007. The acquisition transaction includes, along with the assets, a five-year supply contract extending up to November 2011 for approximately $350 million, with the revenues being skewed more over the first three years. The Morpeth facility is currently operating at a capacity utilisation level of 50% and yielding EBIDTA margin of around 15.5%. Once the integration of the Morpeth facility with NPIL is completed, NPIL plans to utilise the idle capacity to improve its margins as the effect of operating leverage starts kicking in. Overall, the management expects the Morpeth facility to be earnings accretive from FY2007 itself and compensate for the losses of Avecia.

Path labs—a promising area

The NPIl management is upbeat about the prospects of its pathology laboratory (path lab) business. It plans to scale up this business by acquiring more labs across India and expand its existing labs. In line with this strategy, NPIL, through its Wellspring chain of pathology labs, has recently acquired the balance 40% in its joint venture with Dr Phadke's Labs. NPIL's path lab business has been growing in excess of 30% for the past two years, reporting healthy margins. We estimate the path lab revenues to double between FY2006 and FY2008, touching Rs90 crore in FY2008.

Margins to improve going forward

With its various strategic initiatives playing out in the coming quarters, the company expects its margins to improve going forward. Some of these initiatives are discussed below.

- *Ramp-up of production at the Baddi facility:* NPIL has commenced its formulation plant at Baddi in Q2FY2007. It is currently in the process of ramping up production at the plant and expects 60% of production to be transferred to Baddi by December 2006. By the end of FY2007, the Baddi plant is expected to operate at 100% capacity utilisation, leading to excise savings of Rs32 crore per year. Further, with the shift of complete production to the Baddi unit in FY2008, the company's tax rate is expected to drop substantially.
- *Shift of manufacturing of inhalation anaesthetics from Rhodia, France to Indian base:* NPIL is in the process of shifting the manufacturing of Rhodia's inhalation anaesthetic products from France to India, in order to derive cost synergies. The company has already shifted the major product, halothane, to its plant at Hyderabad and is in the process of shifting isofluorane as well. Rhodia currently operates at margins of around 22%, which the company hopes to improve by 5-6% by completely shifting the manufacturing process to Baddi.
- *Increased revenues from contract manufacturing contracts:* NPIL's current contract manufacturing service contracts with global players are on a small scale. Apart from adding new contracts, the company also expects the size of these contracts to gradually scale up, thus increasing the share of the business' revenues in its total business mix. These contracts generally offer margins higher than the core branded formulation business of NPIL. With an increase in the share of these high-margin contracts, NPIL's margins are set to improve going forward.

With the above-mentioned initiatives panning out, we believe NPIL's operating profit margin will show a robust expansion of 480 basis points over FY2006-08.

R&D initiatives on track

NPIL's research and development (R&D) efforts are focused on new chemical entities (NCEs), NDDS and process innovation. In the NCE field, NPIL is focused on three therapeutic segments: oncology, diabetes and inflammation. The company's lead candidate P-276-00, an oncology molecule, is currently in late phase-I trials, without having reported any adverse effects so far. NPIL expects P-276-00 to go into phase II in December 2006, following which the company may explore the possibility of an outlicencing deal for the molecule. NPIL plans to continue spending 6-7% of its revenues on R&D every year.

On the prowl for acquisitions

In order to scale up its custom manufacturing business, NPIL is pursuing the organic and inorganic routes both. It is on the look out for custom manufacturing assets with niche technologies in markets where it is currently not present (including Europe and the USA). The management has historically had a conservative approach towards acquisitions and is currently also aiming at acquiring under-performing contract manufacturing companies and turning them around through synergistic integration. The management's pay-back criterion is four to five years for acquisitions. Funding the inorganic growth should not be a problem for NPIL as the company already has in place an enabling resolution from its shareholders to raise up to $1.5 billion. However, we have not factored in the impact of any potential future acquisitions and any development in this regard will provide an upside to our estimates.

Revising estimates

To account for the delay in the ramp-up in the company's contract manufacturing business, we are downgrading our earnings estimates for FY2007 by 12.4%. On the other hand, to factor in the contributions from the recently acquired Morpeth facility and the improved scenario in the domestic market, we are upgrading our earnings estimates for FY2008 by 4.5%. Our revised earnings estimates now stand at Rs10.7 per share for FY2008 and Rs16 per share for FY2008.

	Earlier esimates		Revised esimates		% change	
	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
Net sales	1737.4	2034.2	2298.5	2719.5	32.3	33.7
Net profit	255.9	320.1	226.5	336.3	-11.5	5.1
EPS (Rs)	12.2	15.3	10.7	16.0	-12.4	4.5

Valuation and view

From being a formulation player in the domestic market, NPIL has emerged as a leader in the custom manufacturing space. Having made substantial investments in world-class facilities and infrastructure, the company has capitalised successfully on the global opportunities in this space. With six agreements already in hand, the company seeks to increase its thrust on this business in the coming years. Simultaneously, the company has also undertaken several strategic initiatives to strengthen its position in the domestic market. With leading brands under its umbrella, the company has been steadily investing to increase the number and productivity of its field force. Today NPIL boasts of having the largest domestic field force amongst the domestic pharma players. With a sound base, NPIL's strategic efforts are expected to yield sweet fruits in the future. Moreover, the contributions from the recently acquired Avecia and Morpeth facility will also boost NPIL's growth in the coming years. Going forward, we expect the organic growth to be driven primarily by the custom manufacturing business, coupled with a steady growth in the domestic formulation business.

With the Baddi facility going on stream, the increased operating leverage derived from the higher capacity utilisation at the Morpeth unit and the shift of manufacturing of the inhalation anaesthetic to India, the company's margins should also present a good picture in the future. Further, any new acquisitions or new contract manufacturing deals will enhance the growth of the company. At the current market price of Rs236, NPIL is discounting its FY2008 earnings by 14.7x. Considering the strong revenue flows and enhanced profitability picture expected for the coming years, we maintain our Buy recommendation on the stock with a price target of Rs325.

Aditya Birla Nuvo

Apple Green

Stock Update

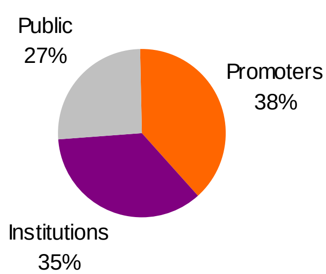
A right(s) *Idea*

Buy; CMP: Rs1,100

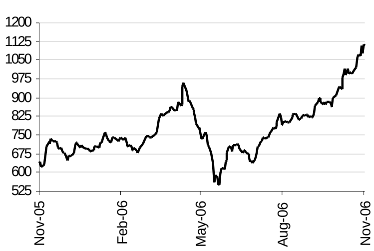
Company details

Price target:	Rs1,280
Market cap:	Rs9,186 cr
52 week high/low:	Rs1,150/510
NSE volume: (No of shares)	38,162
BSE code:	500303
NSE code:	ABIRLANUVO
Sharekhan code:	INDRAYON
Free float: (No of shares)	5.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.0	41.0	44.0	78.2
Relative to Sensex	13.5	17.4	12.6	10.9

Key points

- Aditya Birla Nuvo (ABN) yesterday announced the ratio and the price of its proposed rights issue. The company plans to raise close to Rs780.0 crore through the rights issue.
- It will issue two equity shares for every 17 equity shares held. The pricing of the issue is attractive as it is at a 28% discount to the stock's current market price of Rs1,100.
- Over the last one month the stock has run up by over 20% and breached our price target of Rs1,031.
- In view of the fact that ABN's leverage after the rights issue will come down to more comfortable levels and the continued stellar performance of the growth business, we are revising our estimates and price target for the stock.
- We continue to like ABN's strategy of having twin motors of value creation: the value business and the growth business. We believe that the cash flow from the value business is being invested profitably in growth areas, creating good value for the shareholders. We are revising our price target to Rs1,280 due to the higher valuation that we believe the telecom business ought to enjoy. In fact, the telecom and insurance businesses together contribute 78% of the old price target or roughly Rs1,018. This implies that the investor is getting all the value businesses, the business process outsourcing (BPO) and the garment business for zilch.

Attractively priced rights issue

ABN yesterday announced the ratio and the price of its rights issue. It plans to raise close to Rs780.0 crore through the rights issue. The company will issue two equity shares for every 17 equity shares held. The pricing of the issue is attractive as it is at a 28% discount to the current market price of Rs1,100. Also given the embedded value of Rs1,280 per share, the rights are very lucrative for the shareholders.

Valuation table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	65.6	204.9	393.7	495.5
Shares in issue (cr)	6.0	8.4	9.3	9.3
EPS (Rs)	10.9	24.5	42.2	53.1
% y-o-y growth	*355.9*	*212.5*	*92.2*	*25.9*
PER (x)	101.3	45.2	26.3	20.9
Book value (Rs)	177.8	238.7	324.8	361.0
P/BV	6.2	4.6	3.4	3.1
EV/EBIDTA (x)	30.8	19.9	14.4	11.5
Dividend yield (%)	0.4	0.5	0.5	0.5
RoCE (%)	4.8	7.8	8.0	7.4
RoNW (%)	6.0	12.8	14.8	14.7

Repayment of debt to reduce debt/equity ratio sharply

During FY2007, ABN had made substantial investments in Idea Cellular (Rs979 crore) and Minacs (Rs575 crore). These investments were largely funded through debt. Hence our major concern has been the company's highly leveraged balance sheet. However with the proposed rights offering, a substantial part of the total debt of Rs4,300 crore will be paid off and this coupled with the higher net worth will substantially reduce ABN's debt/equity ratio from 2.1 to 1.3.

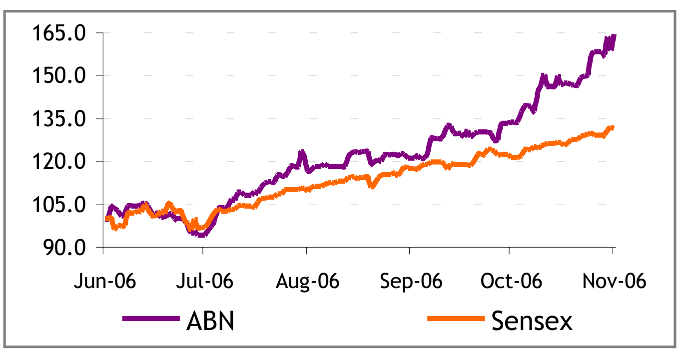
Proposed issue to bring down leverage

	FY2007E	FY2008E
Original debt/equity ratio	2.1	1.9
New debt/equity ratio	1.3	1.2

Price performance over the last few months

Over the last few months the stock has outperformed the markets. In fact, over the last one month itself it has risen by 20%. It has rallied primarily in anticipation of the rights issue and the private placement made by the Aditya Birla group to private equity investors. According to media reports, close to 33% has been placed by the Aditya Birla group companies. Another trigger has been the proposed initial public offering (IPO) of Idea. Though this will be a fresh issue, the valuation of the issue will help unlock the value of the ABN shareholders.

Outperformer!!

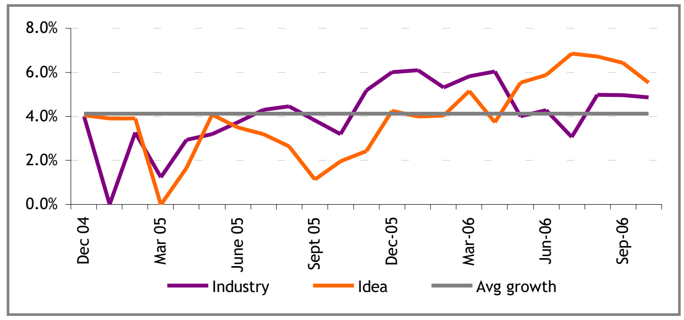


Source: BSE

An Idea whose time has come!

Idea has been growing at a healthy pace ever since the Aditya Birla group acquired the Tata group's stake in it earlier this year. This is clearly evident from the month-on-month growth figures of Idea vs the industry. In spite of its smaller size, Idea grew at less than 4% till March 2006, but following the acquisition of the Tatas' stake it has outpaced the market by growing at close to 6%. What's even more attractive is the fact that Idea will be entering the largest mobile market in India, Mumbai, in FY2008. To meet its capital expenditure plans Idea plans to come out with an IPO and this will lead to unlocking of investment value.

Outpacing the market



Source: COAI

We have valued the telecom business at an average of (a) enterprise value (EV)/subscriber in $ and (b) EV/earnings before interest, depreciation, tax and amortisation (EBIDTA). We have assumed a 25% discount to the EV/ subscriber and a 15% discount to the EV/EBIDTA for the average of Bharti Tele and Reliance Communication. The discounts have been assumed in view of the pan-India presence of the two players.

	EV/Sub ($)	EV/Ebidta
Bharti	933.7	14.5
Reliance Communication	690.2	10.9
Idea	609.0	10.8

Valuation and revised price target

Considering the fact that ABN's leverage after the rights issue will come down to more comfortable levels and the continued stellar performance of the growth business, we are revising our estimates. We continue to like ABN's strategy of having twin motors of value creation: the value business and the growth business. We believe that the cash flow from the value business is being invested profitably in growth areas, creating good value for the shareholders. We are revising are price target to Rs1,280 due to the higher valuation that we believe the telecom business should enjoy. In fact, the telecom and insurance businesses together contribute 78% of the price target or roughly Rs1,018. This implies that the investors are getting all the value businesses, the BPO business and the garment business for zilch.

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

HDFC Bank

Evergreen

Stock Update

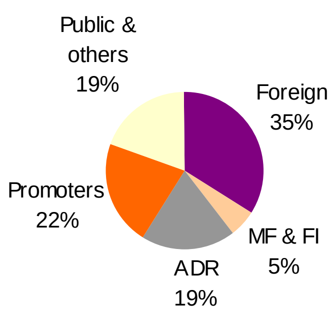
Double advantage

Buy; CMP: Rs1,105

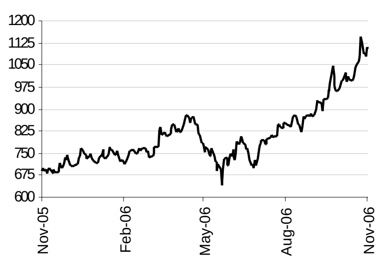
Company details

Price target:	Under review
Market cap:	Rs34,785 cr
52 week high/low:	Rs1,150/620
NSE volume: (No of shares)	4.2 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	18.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.7	31.8	34.9	102.8
Relative to Sensex	4.0	9.7	5.4	26.2

Key points

- **Leading banks caught in IPO scam:** In order to penalise errant banks caught in the initial public offering (IPO) scam as well as to avoid such defaults in future, the Reserve Bank of India (RBI) had decided against granting fresh branch licences to the banks unless it was convinced that the processes and checks were in place.
- **New branch licences a positive development for HDFC Bank:** The RBI has granted HDFC Bank the permission to set up new branches and automated teller machines (ATMs). The bank's current network comprises 535 branches and 1,323 ATMs as on September 30, 2006. Though the exact number of new branches and ATM licences granted to the bank are not yet known, we expect the same to be in the range of 18-20% of its existing network.
- **Branch licences remain crucial to sustain margins:** Although HDFC Bank didn't face any significant pressure on its NIM due to the denial of new branch licences by the apex bank, yet going forward the absence of new branches and ATMs could have had a material impact.
- **Business mix and asset growth maintained:** HDFC Bank is predominantly a retail bank with 70% of its business mix generated through retail banking. Branch presence is crucial to execute retail banking and hence banks need to open new branches in potentially untapped areas to generate new business.
- **Permission to open new demat accounts a positive:** HDFC Bank is a major player in the capital market related business areas, be it loan against shares or demat facility and advisory services. The bank has a very high component of fee income in its total income and the SEBI's recent permission to open new demat accounts would help the bank to improve its fee income.
- **Valuation:** The RBI's permission to set up new branches and SEBI's consent to open new demat accounts are positive developments for the bank. Based on the current market price of Rs1,105 the stock trades at 23.1x FY2008E earnings per share (EPS), 9.4x FY2008E pre-provisioning profit (PPP) and 4.7x FY2008E book value. Currently the price target for the bank is under review.

Valuation table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	665.6	870.8	1,129.8	1,499.6
Shares in issue (cr)	31.0	31.3	31.3	31.3
EPS (Rs)	21.5	27.8	36.1	47.9
EPS growth (%)	20.1	29.5	29.7	32.7
PE (x)	51.4	39.7	30.6	23.1
P/PPP (x)	24.1	16.7	12.1	9.4
Book value (Rs/share)	145.9	169.2	197.9	237.2
P/BV (x)	7.6	6.5	5.6	4.7
RONW (%)	17.9	17.7	19.7	22.0

Leading banks caught in IPO scam

Between 2004 and 2006 certain leading private, public and foreign sector banks had violated the "know your customer" norms and allowed the opening up of multiple demat accounts under the same name. This helped certain people to fraudulently deal in IPO transactions. The errant banks included Bharat Overseas Bank, HDFC Bank, ICICI Bank, Citibank, Standard Chartered Bank, Vijaya Bank, ING Vysya Bank and IDBI. The RBI had penalised these banks by deciding against granting them fresh branch licences unless it was convinced that the processes and checks were in place to avoid such defaults.

New branch licences a significant positive development for the bank

The central bank has however granted HDFC Bank the permission to open new branches and ATMs. The bank's current network comprises 535 branches and 1,323 ATMs as on September 30, 2006. Though the exact number of new branches and ATMs licences granted to the bank are not yet known, we expect the same to be in the range of 18-20% of its existing network.

Particulars	Mar-04	Mar-05	Mar-06
Cities	163	211	228
Branches	312	467	535
ATMs	910	1147	1323
Customer base	4.6 mn	6.8 mn	9.6 mn

Branch licences remain crucial to sustain margins...

Although HDFC Bank didn't face any significant pressure on its NIM due to the denial of new branch licences by the apex bank, yet going forward the continued absence of new branches and ATMs could have had a material impact. Following the RBI's denial, the NIM of the bank had dipped slightly below 4% quarter on quarter. Also the low-cost deposit base comprising current accounts and savings accounts showed a gradual decline from 55% in March 2006 to 52% in September 2006.

Particulars	Mar-04	Mar-05	Mar-06	Jun-06	Sep-06
NIMs (%)	3.8	3.9	4.0	4.0	3.9
CASA (%)	55.0	60.0	55.0	53.0	52.0
Average asset growth (%)	34.0	30.0	47.6	52.5	40.0

...and maintain business mix and asset growth

HDFC Bank is predominantly a retail bank with 70% of its business mix generated through retail banking. Branch presence is crucial to execute retail banking and hence banks need to open new branches in potentially untapped areas to generate new business. We feel a major portion of the new branch licences granted to HDFC Bank would be for the non-metro markets where it already has a good presence and can thus further consolidate its position.

Strong presence in non-metro markets

Particulars	Mar-04	Mar-05	Mar-06
Branches	57	55	54
Deposits	38	29	28
Retail loans	26	47	53

Note: all figures are in % to its respective total

Permission to open new demat accounts to improve fee income

In view of the preliminary findings in the multiple demat account opening scam and for cornering retail portion of shares in the IPO scam, HDFC Bank was directed by the Securities and Exchange Board of India (SEBI) not to open fresh demat accounts till further notice. The SEBI has now granted HDFC Bank the permission to open new demat accounts.

HDFC Bank is a major player in the capital market related business areas, be it loan against shares or demat facility and advisory services. The bank has a very high component of fee income in its total income and capital market related fees generate a sizeable portion of it. The RBI's new draft guidelines on capital market exposure (CME) norms are positive for private banks especially profitable banks like HDFC Bank (please refer to our *Investor Eye dated November 20, 2006*). The CME guidelines along with the permission to open new demat accounts would help the bank to improve its fee income.

Valuations

The RBI's permission to set up new branches and SEBI's consent to open new demat accounts are positive developments for the bank. Based on the current market price of Rs1,105 the stock trades at 23.1x FY2008E EPS, 9.4x FY2008E PPP and 4.7x FY2008E book value. Currently the price target for the bank is under review.

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

Siemens

Viewpoint

Results review

CMP: Rs1,177

Siemens has announced its fourth quarter and full year results for the financial year ended September 30, 2006. The company's consolidated sales grew by a strong 65.8% to Rs6,032 crore from Rs3,638 crore last year. The consolidated profits however grew at a lower rate of 26.4% to Rs392 crore from Rs310 crore last year. The profit growth was lower largely because of a high raw material cost, the investments done in the year in new ventures (such as transformers) and the subdued performance of its subsidiaries, Siemens Information Systems Ltd (SISL) and Siemens Public communication Networks Pvt Ltd (SPCNL).

Segment results and margins Rs (cr)

Particulars	FY2006	FY2005
Segment revenue		
Information & communication	141.8	107.9
Automation & drives	1221.0	883.9
Industrial solutions & services	532.1	286.9
Power	1978.2	967.4
Transport	248.3	181.7
Healthcare & other services	413.8	368.2
Building technologies	75.6	45.8
Automotive	124.0	0.0
Real estate	42.1	44.1
	4776.9	2885.9
Less: Inter segment revenue	266.6	137.4
Net sales	4510.3	2748.5
Segment results		
Information & communication	14.6	10.9
Automation & drives	105.2	59.4
Industrial solutions & services	58.5	31.1
Power	122.8	77.3
Transport	20.6	22.6
Healthcare & other services	10.0	15.3
Building technologies	4.1	2.9
Automotive	1.8	0.0
Real estate	24.8	37.0
	362.3	256.4
Add: Interest income	36.7	21.5
Add: Other un-allocable	106.5	85.2
Total profit before tax	505.5	363.2
Segmental margin (%)		
Information & communication	10.3	10.1
Automation & drives	8.6	6.7
Industrial solutions & services	11.0	10.8
Power	6.2	8.0
Transport	8.3	12.4
Healthcare & other services	2.4	4.1
Building Technologies	5.4	6.4
Automotive	1.4	0.0
Real estate	58.8	83.8
PBT margin	11.2	13.2

Swelling order book

The unexecuted order value as of September 30, 2006 stood at Rs7,523 crore. That is an increase of a massive 97% (September 30, 2005: Rs3,814 crore). The same does not include the recent order won by the company of Rs3,600 crore from Qatar General Electricity and Water Corporation. The complete order book is to be executed over a period of two years, including the recent Qatar order won by the company. This provides greater visibility for the revenue growth in the coming years.

All the verticals of the company registered an impressive growth in their order books: power generation orders grew by a whopping 598%, power transmission & distribution orders grew by 335%, automation & drives orders grew by 44%, building technology orders grew by 52% and medical solution orders grew by 9%. Transportation and VDO automotive segments also saw a steady growth in their order books.

Mega orders won during the year

Qatar	Rs2,700 crore
Torrent Power	Rs880 crore
Suzlon	Rs100 crore
WBEB	Rs94 crore
MSEB	Rs75 crore

Subdued performance by subsidiaries dragged the margins down

The performance of two of its largest subsidiaries, SISL and SPCNL, was not as good as its stand-alone performance. This affected the overall margins and profitability of the company.

SISL's performance

SISL is a 100% information technology (IT) subsidiary of Siemens; its order booking grew by 62% to Rs1,070 crore from Rs660 crore last year whereas the unexecuted order book at the end of September 30, 2006 stood at Rs520 crore. The sales turnover grew by 34% to Rs860 crore from Rs640 crore while the profit after tax grew by a moderate 8% to Rs136 crore from Rs125 crore last year. The profit growth was lower due to higher staff cost and high attrition rates.

However, the outlook for the subsidiary remains positive as Siemens AG (the parent company of Siemens) has announced the bundling of its worldwide IT business into a new group—Siemens IT Services (SIS)—where SISL has been given a greater role.

SPCNL's performance

SPCNL is a 100% telecom vertical of Siemens. Its order booking grew by 26% to Rs761 crore from Rs604 crore last year and the unexecuted order book at the end of September 30, 2006 stood at Rs599 crore. The sales turnover grew by 30% to Rs619 crore from Rs478 crore while the profit after tax declined by 25% to Rs21 crore from Rs28 crore last year.

However, Siemens has decided to divest/sell its 100% stake in this subsidiary to Nokia Siemens Networks India Pvt Ltd, a 50:50 joint venture between Nokia and Siemens AG. The decision has been taken consequent to the announcement by Siemens AG of the merger of the network businesses of Nokia and Siemens worldwide.

We believe this is a positive for Siemens as the performance of this subsidiary was not that good; moreover it will help the company to focus on its high growth businesses and the new ventures (such as transformers) that it is entering into.

Outlook

Overall, the year gone by has been good for the company, Siemens has completed 50 years of its manufacturing presence in India and is on a growth trajectory on the back of a good order book and continued growth momentum in the Indian economy. The company sees tremendous potential at three levels, complete infrastructure solutions for mega cities, complete customised solutions for industries such as healthcare, steel, cement, oil & gas, railways and airports, and focus on specific products and solutions for the smaller entrepreneurs.

Valuation

At the current market price, the stock is trading at 32.5x its FY2007E earnings.

Peer group comparison

Company	P/E	Mcap/Order book
Siemens*	32.58	1.55
ABB**	42.08	1.12
BHEL***	25.80	1.65

*Year ending Sep'07
**Year ending Dec'06
***Year ending Mar'07

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Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
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
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
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
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UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

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