Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Ashok Leyland	23-May-06	38	**39**	53
Elder Pharma	26-Apr-06	298	**320**	410
Subros	26-Apr-06	206	**209**	370
TVS Motor	03-Apr-06	140	**124**	210
WS Industries	02-Dec-05	51	**60**	112

Pulse Track

Q4FY2006 GDP beats expectation—FY2006 estimates revised upwards

India's gross domestic product (GDP) for Q4FY2006 grew by 9.3% beating the consensus estimates of 7.9%. The surprise was mainly on account of a higher than expected growth in the agriculture and allied sectors, which grew by a strong 5.5% for Q4FY2006. The industrial sector grew by a strong 8.9% for the quarter under review on the back of the manufacturing sector, which grew by 8.9% and the construction sector, which grew by 12%.

The services sector grew by 10.9% in Q4FY2006. The trade, hotel, transport and communications services grew by 12.9%. The financial services sector grew by 10.5% indicating a vibrant growth in the capital markets, insurance and other financial services.

Consequently the central statistical organisation has also revised its GDP estimate for FY2006, which now stands at 8.4% from the earlier 8.1%.

	Q1FY2006	Q2FY2006	Q3FY2006	Q4FY2006	FY2005	FY2006
GDP (Overall)	8.5	8.4	7.5	9.3	7.5	8.4
Agriculture & allied sectors	3.4	4.0	2.9	5.5	0.7	3.9
Industry	10.2	7.8	8.1	8.9	8.6	8.7
Manufacturing	*10.7*	*8.1*	*8.3*	*8.9*	*8.1*	*9.0*
Mining & quarrying	*3.1*	*-2.6*	*0.0*	*3.0*	*5.8*	*0.9*
Electricity, gas & water supply	*7.4*	*2.6*	*5.0*	*6.1*	*4.3*	*5.3*
Construction	*12.4*	*12.3*	*11.5*	*12.0*	*12.5*	*12.1*
Services	9.8	10.0	9.4	10.9	9.9	10.0
Trade, hotel, transport & comm	*11.7*	*11.0*	*10.2*	*12.9*	*10.6*	*11.5*
Finance, services	*8.8*	*10.5*	*8.9*	*10.5*	*9.2*	*9.7*
Social & personal services	*7.3*	*8.0*	*8.4*	*7.6*	*9.2*	*7.8*

Sharekhan Ltd
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

Infrastructure index grows by 6.7% for April 2006

The infrastructure index grew by 6.7% for April 2006 compared to 8.7% in March 2006. All the constituents except crude petroleum (decline of 1.9%) registered a good growth.

Cement and finished steel production continued on the strong growth path, up by 11.7% and 8.6% respectively. The continued growth in the production of these two commodities vindicates the underlying theme of capital investment and the boom in the construction industry.

The electricity production was up by 5.6%. The output of refined petroleum products was up by 13.5%.

Sector	Weight (%)	Apr-05	Mar-05	Apr-06
Crude petroleum	4.2	-0.4	-2.5	-1.9
Petroleum ref products	2	-7.7	9.4	13.5
Coal	3.2	8.2	7.2	3.4
Electricity	10.2	3	3.2	5.6
Cement	2	9.9	17	11.7
Finished (carbon) steel	5.1	16.9	17.1	8.6
Overall	26.7	6	8.7	6.7

Wockhardt

Ugly Duckling

Stock Update

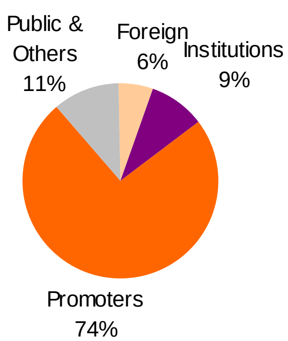
On the look out for acquisitions

Buy; CMP: Rs360

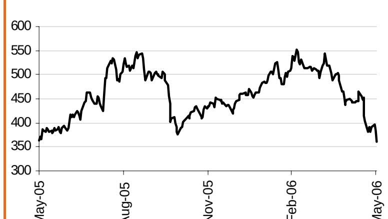
Company details

Price target:	Rs552
Market cap:	Rs4,284 cr
52 week high/low:	Rs562/311
NSE volume: (No of shares)	2.4 lakh
BSE code:	532300
NSE code:	WOCKPHARMA
Sharekhan code:	WOCKLTD
Free float: (No of shares)	2.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.0	-25.2	-11.6	3.9
Relative to Sensex	-4.6	-28.3	-28.3	-36.9

Background

Wockhardt is amongst the leading pharmaceutical companies in the country. It has its operations spread all over the world with the major regions beings Europe, India and the USA. The company has also ventured into biotechnology that is a strongly growing part of its product portfolio.

We recently met the management of Wockhardt. Based on the inputs of the meeting and our analysis about the company we are providing an update on Wockhardt.

Formulations

Developments in key geographies

Europe

In Europe, the company has a presence in the UK and German markets through Wockhardt UK and Esparma respectively. The UK generic market is a mature market and the company does not plan to launch any significant products in the UK during the year. Hence we expect the growth in this market to be close to 8-9% year on year (yoy) that is equal to the industry average.

The German market is a less penetrated market and we believe that the company will be able to sustain a much higher growth in this region. Overall we expect the European business to grow at close to 12% over the next couple of years. The contribution from Europe to the bottom line is expected to improve as the manufacturing of the products gradually shifts to India and the sales of high margin injectables in the portfolio increases.

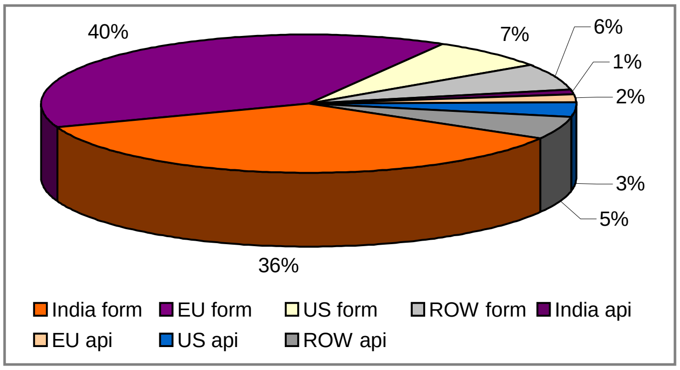
India

Wockhardt is consolidating its presence in the domestic market with small changes in the product portfolio. It intends to in-licence molecules in the domestic market. We expect the diabetology and biopharmaceutical portfolios to show consistent growth, as the company has been able to garner a 40% market share of all new insulin prescriptions. The key products like Wepox (Erythropoeitin) and Wosulin (human recombinant insulin) should see a good growth in the domestic portfolio. As the majority of the drugs from the company's domestic portfolio are not subject to price control and are in high growth segments, we expect the company to grow at a higher rate than the growth rate of the industry. Further the company will be launching new products like Glargine and Interferon in the market that will help bump up its sales in the future.

USA

Wockhardt has made substantial investments by setting up marketing infrastructure in the USA and is now about to enter the reaping phase in this market. The company is now marketing 12 products in the USA as against 5 products in CY2005. Three of these products are in-licenced from Aurobindo Pharma. The company also plans to introduce close to five additional new products of its own during the course of the year. We believe that even with the modest market shares, the company will be able to garner a 50% growth in this market in CY2006. We believe that this growth rate is sustainable over the next couple of years as the company intends to launch an increasing number of products in the USA. Wockhardt plans to file 20 abbreviated new drug applications (ANDAs) in the USA in CY2006. Currently the company has 20 ANDA filings pending approval.

Sales break-up CY05



Rest of the World

We believe that in the other less regulated markets, the company will grow at steady growth rates over the next couple of years due to the introduction of biotechnology products and products from its existing portfolio. The biotech products are registered in close to 30 countries and the sales of these products are expected to pick up from the current year.

We believe that the bulk dug division of the company might see a de-growth over the coming years due to the greater use of these bulk drugs in the manufacture of formulations and lack of a steady strategy in the ramping up of bulk drug sales.

Operating margin to remain steady

We expect the company's operating margin to remain steady in the near future. This is because the increases in the gross contribution due to high margin revenues from the US market and the shifting of manufacturing to India will be compensated by greater research & development (R&D) spending and an increased sales push. We estimate an operating margin of 23.6% for CY2007.

Research Pipeline

The company is bumping up its filing base with estimated 20 ANDA filings for the current year. The new chemical entities WCK771 (anti-infective molecule) and WCK1152 (respiratory infections treatment) are progressing well in the clinical trials. We expect WCK771 to be close to completion of phase II clinical trials by the end of CY2006. These molecules represent good out-licencing opportunity and the company intends to out-licence these molecules at the right time thus de-risking its R&D business. We expect the R&D revenue expenditure to increase to Rs105 crore in CY2007 from Rs68.3 crore in CY2005.

On the look out for acquisitions

The company is on the look out for acquisitions. We believe that it has over US$120 million in cash currently and has also received approval to raise US$800 million for acquisition purposes. With close to a US$1 billion (Rs4500 crore) war chest, the company may be looking to acquire either a big giant in the regulated markets or a few small sized companies spread in various geographies.

Outlook

We believe that the company is poised at a very interesting phase with both its organic and inorganic growth plans lined up over the next couple of years. The company's US business will be a key organic growth driver and a good out-licencing deal for its New Chemical Entities will act as another trigger. The inorganic plans hold huge potential and the company from its recent deliberations has shown good due diligence and prudent resource management discipline. Considering the expected size of the acquisition we believe that further re-rating of the company will depend upon the nature of the businesses acquired and the valuations of the acquired company.

Keeping in mind the organic growth plans of the company we are revising our estimates for CY2006 upwards by 2.2%. We now estimate an EPS of Rs23.4 for CY2006 and Rs27.6 for CY2007. At the current market price of Rs360 the stock is trading at 13x its CY2007 earnings estimate. Considering the stable organic growth and strong inorganic growth prospects of Wockhardt, we re-iterate our Buy recommendation on the stock with the price target of Rs552.

Valuation table Rs (cr)

Particulars	CY03	CY04	CY05E	CY06E	CY07E
Net sales	942.1	1251.6	1412.1	1578.4	1838.1
Net profit	142.4	213.5	257.1	279.7	330.0
Shares in issue	11.9	11.9	11.9	11.9	11.9
EPS	11.9	17.9	21.5	23.4	27.6
PE	30.2	20.1	16.7	15.4	13.0
Cash EPS	14.2	21.0	25.1	28.0	32.6
Cash PE	25.4	17.2	14.3	12.9	11.1
BV/ share	38.7	51.2	72.8	96.2	123.8
Price/BV	9.3	7.0	4.9	3.7	2.9
EV/EBITDA	22.1	15.0	12.6	10.8	8.8

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

Alfa Laval India

Viewpoint

Double-digit growth going ahead

CMP: Rs985

We recently visited Alfa Laval India's (ALIL) mother plant situated at Pune and had an interaction with its management about the future outlook of the company. Here are the key takeaways from the plant visit.

Key points

- ALIL has enhanced the capacity of its equipments segment, represented by doubling the capacity to manufacture decanters and by increasing the assembling capacity of the separators.
- ALIL will continue to be a preferred destination for the group in sourcing mainly as a result of the cost advantage and the quality of people with the technical skills. Moreover, the closing down of the group's facilities at other locations will also result in more sourcing from ALIL.
- The key feature of ALIL over other engineering companies remains that it has a well-diversified product and user industry portfolio, which enables it to serve a broad spectrum of industries. The same ensures a secular growth over a sustainable period of time as deceleration in the growth in one industry is cushioned by the growth in some other industry.
- The management sees that user industries like distilleries and fuel ethanol plants, environmental engineering, paper, metal and marine engineering would be the growth drivers at present. The management expects ALIL to report a good double-digit growth going ahead.
- At the current market price of Rs985, ALIL is trading at 18x its CY2006E consensus earnings per share (EPS) of Rs53 and 16x its CY2007 consensus EPS of Rs62. On the basis of enterprise value (EV)/order book, the stock trades at 5.8x its present order book of Rs298 crore.

Key financials Rs (cr)

Particulars	CY2003	CY2004	CY2005
Net profit	64.9	78.3	64.9
Shares in Issue (cr)	1.8	1.8	1.8
EPS (Rs)	35.7	43.1	35.7
% y-o-y growth		*13.0*	*-17.2*
PER	27.6	22.8	27.6
BV	96.5	111.9	122.35
P/BV	10.2	8.8	8.0
EV/EBIDTA	22.0	16.4	17.9
Dividend yield (%)	2.5	2.5	2.5

Business overview

Equipment division

ALIL's product portfolio of the equipment segment ranges from stainless steel pumps, heat exchangers to high value separators and decanters. These products have good acceptance in industries like food processing, personal care, pharma and life sciences, chemicals, refrigeration, environmental and marine engineering etc. The revenues from the equipment division have grown at a compounded annual growth rate (CAGR) of 18% over CY2003-05.

Process technology (projects division)

ALIL's process technology division offers solutions for critical processes for its user industries. The company offers solutions from concept to commissioning for distilleries, breweries and vegetable oil plants. ALIL offers solutions for critical processes in the metals, paper and power plants. The revenues from the process technology business have grown at a CAGR of 28% over CY2003-05.

For CY2005, ALIL has reported a turnover of Rs578 crore and a profit after tax (PAT) of Rs65 crore, translating into an EPS of Rs35.71.

Segment revenues & operating margins

Revenues (Rs crore)	2003	2004	2005	% CAGR
Equipment division	145.2	193.6	202.9	18.0
Process technology	227.7	304.6	373.9	28.0
Total revenues	372.9	498.2	576.8	24.0
Operating margins (%)				
Equipment division	30.3	28.0	19.5	
Process technology	15.7	18.3	18.0	
Overall margins	20.7	20.8	16.7	

Exports

Decanters and separators supplied to the parent and the group companies form an important part of the export revenues. The overall exports have grown at a CAGR of 8% over CY2003-05. The exports to the parent and group companies were adversely affected during CY2005 on account of the depreciation of the euro against the rupee and the lesser demand for certain flow equipments. However, the exports to external customers have grown at a CAGR of 31% over CY2003-05. This was mainly on account of the execution of major export orders in South East Asia for distilleries.

Details of exports (Rs crore)

	2003	2004	2005	% CAGR
Exports to external customers	51.2	33.9	87	31.0
Group exports	115.7	137.6	106	-
Total	166.9	171.5	193	8.0

Order book position

ALIL's order book has grown at a CAGR of 22% over CY2003-05. ALIL had received a major long-term order worth Rs75 crore from Vedanta Aluminium during August 2004 as a result of which the order book as on March 2005 had a higher base effect. ALIL's present order book stands at Rs298 crore which is to be executed during CY2006.

Order book position (Rs crore)

As on	Mar-04	Mar-05	Mar-06	% CAGR
Rs crore	201	337	298	22.0

Takeaways from the plant visit

ALIL's mother plant at Pune caters to the production of separators and decanters from the equipments segment and also takes care of the process technology, ie the projects business.

Decanters

In November 2005, ALIL had inaugurated a new decanter facility at its existing location. This facility has a capacity to produce 1,000 decanters per annum. A decanter is a high-end product unit having realisations in the range of Rs15-17 lakh per unit. In CY2005, ALIL produced 459 decanters and is expected to produce 600 decanters in CY2006 and 800 decanters in CY2007. Recently ALIL has received an order for supplying 40 decanters to the BMC. Decanters are basically a type of a separator and cater mainly to dairy, olive oil and the environmental industries.

Separators

On the separators side, ALIL had undertaken certain de-bottlenecking exercises by putting one additional assembly line. The same will result in increasing the capacity by 15-20%. Separators are sold as single units and also as a vital part of a complete module. The average realisations of the separators range between Rs50,000 and Rs7-8 lakh depending upon whether they go as a single unit or as part of the complete module.

Process solutions/projects business

On the process technology or the projects business the floor area of the company has increased due to the shifting of the decanters manufacturing as a separate factory. The projects business takes care of the complete solutions for the distilleries & ethanol plants, breweries, vegetable oil plants, specialised evaporation solutions for non-ferrous metals, black liquor treatment for the paper industry etc. This part of the business has a comparatively longer lean time depending upon the size of the project. Although most of the projects tend towards fabrication work, ALIL's equipments also form a part of the project solutions. The major part of the floor space is presently consumed for work of paper, non-ferrous metals and distilleries projects.

Takeaways of the interaction with the management

After the plant visit we had an interaction with ALIL's management represented by the managing director, Mr Nish Patel and Mr Ajay Joshi, director finance, and here are the key takeaways.

About ALIL's importance in the Alfa Laval group

ALIL is among the top 5 revenue generating group companies of the parent with employee strength of more than 1,000 people. At the same time, only the Indian operations offer all the products from the parent's portfolio. As a result, India is one of the focused countries for the parent. ALIL will continue to be a preferred destination for the group in sourcing mainly as a result of the cost advantage and the quality of people with the technical skills. Moreover, closing down of the group's facilities at other locations will also result in more sourcing from ALIL.

A well-diversified user industry portfolio

The management expressed that the key feature of ALIL over other engineering companies remains that it has a well-diversified product and user industry portfolio, which enables it to serve a broad spectrum of industries. The same ensures a secular growth over a sustainable period of time as deceleration in the growth in one industry is cushioned by the growth in some other industry.

Future outlook

The management expects the user industries like distilleries and fuel ethanol plants,environmental engineering, paper, metal and marine engineering would be prominent among those that will be the growth drivers at present. For the distilleries and fuel ethanol plants, India and South East Asia would remain as a focus market for ALIL. The order book as on March 2006, stood at Rs298 crore which is to be executed during CY2006. The operating margins are expected to be stable going ahead in the range of 19-20%. The management sees no difficulty in passing on the increase in the metal prices to the customers, as it has been able to do so in the past. Although the management did not give any guidance, it expected ALIL to report a good double-digit growth.

Valuation

At the current market price of Rs985, ALIL is trading at 18x its CY2006E consensus EPS of Rs53 and 16x its CY2007 consensus EPS of Rs62. On the basis of EV/order book, the stock trades at 5.8x its present order book of Rs298 crore.

Financials

Profit and loss account

Rs (cr)

Particulars	CY2003	CY2004	CY2005
Net sales	376.5	505.7	577.6
Expenditure	298.6	400.7	481.3
Operating profit	77.9	105.0	96.3
Other income	7.2	7.8	10.3
PBIDT	83.1	110.6	106.5
Interest/finance cost	0.1	0.5	0.7
Depreciation	7.2	6.9	6.8
PBT	75.8	103.2	99.1
Tax	19.2	39.4	34.2
PAT	56.6	63.8	64.9
Extraordinary income	8.3	14.5	0.0
Reported PAT	64.9	78.3	64.9

Balance sheet

Rs (cr)

Particulars	CY2003	CY2004	CY2005
Share capital	18.2	18.2	18.2
Reserves	157.0	185.0	198.1
Shareholders' funds	175.2	203.2	216.3
Secured loans	6.6	6.5	6.5
Deferred tax	2.0	0.8	-0.5
Total liabilities	183.8	210.4	222.2
Net fixed assets	36.3	41.9	56.6
CWIP	1.5	3.9	2.62
Investments	59.6	52.2	45.7
Net current assets	86.4	112.4	117.3
Total assets	183.8	210.4	222.2

Valuations

Particulars	CY2003	CY2004	CY2005
EPS (Rs)	35.7	43.1	35.7
Cash EPS (Rs)	39.7	46.9	39.4
PE (x)	27.6	22.8	27.6
P/CEPS	24.8	21.0	25.0
P/BV	10.2	8.8	8.0
EV/EBIDTA	22.0	16.4	17.9
EV/Sales	3.4	3.0	2.4
Mcap/Sales	4.8	3.5	3.1

Key ratios

Particulars	CY2003	CY2004	CY2005
OPM (%)	20.7	20.8	16.7
PAT (%)	17.2	15.5	11.2
ROCE (%)	41.3	49.3	44.5
RONW (%)	37.0	38.6	29.9
Debt/Equity	0.04	0.03	0.03
EV/Order Book (x)	8.5	5.1	5.8

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

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Associated Cement Companies
Bajaj Auto
Balrampur Chini Mills
Bharat Bijlee
Bharat Heavy Electricals
Corporation Bank
Crompton Greaves
Godrej Consumer Products
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotel Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
MRO-TEK
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
Sintex Industries
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories

Cannonball

Cipla
Gateway Distriparks
International Combustion (India)
JK Cements
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aarvee Denim and Exports
Aban Loyd Chiles Offshore
Alok Industries
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
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Solectron Centum Electronics
Television Eighteen India
Thermax
Tube Investments of India
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Welspun Gujarat Stahl Rohren
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Ugly Duckling

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Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
Jaiprakash Associates
JM Financial
KEI Industries
Nelco
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
Subros
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Union Bank of India
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Vulture's Pick

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