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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aban Offshore	03-Mar-05	330	1,208	1,760
♦ HLL	24-Nov-05	172	230	300
♦ ICICI Bank	23-Dec-03	284	596	770
♦ Orient Paper	30-Aug-05	214	542	675
♦ UltraTech	10-Aug-05	384	794	1,000

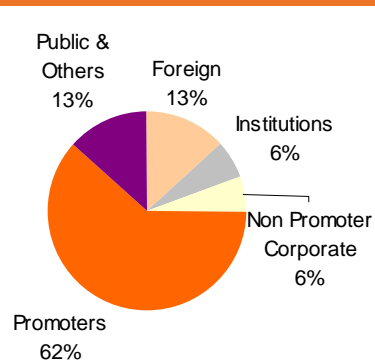
JK Cement

Cannonball
Stock Update
Management meet note
Buy; CMP: Rs165

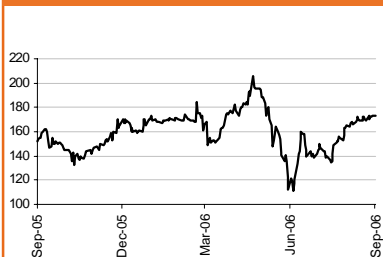
Company details

Price target:	Rs295
Market cap:	Rs1,154 cr
52 week high/low:	Rs211/109
NSE volume: (No of shares)	1.4 lakh
BSE code:	532644
NSE code:	JKCEMENT
Sharekhan code:	JKCEMENT
Free float: (No of shares)	2.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.2	55.9	8.2	15.1
Relative to Sensex	-2.1	20.7	-5.8	-23.3

We recently met the management of JK Cement (JKC) and the key takeaways from the meeting are discussed below.

- During FY2007 JKC mobilised Rs290 crore through a follow-on public issue for its capital expenditure (capex) needs. As per its capex plan, the company is enhancing the production capacity of gray cement and white cement, setting up a 20-megawatt pet coke-based captive power plant (CPP), replacing the existing 7.5-megawatt thermal power turbine with a 10-megawatt turbine and installing a waste heat recovery (WHR) power plant.
- The commissioning of the three power plants is on track and the management expects savings of Rs48 crore for FY2008 and of Rs72 crore for FY2009.
- The expansion of the capacity of its gray cement and white cement plants to 4 million tonne (MT) and 0.4MT respectively has been completed and the benefits of the same will start reflecting from Q2FY2007.
- The WHR plant, which will generate power out of the hot gases emitted during the production process at the current facilities, will entitle JKC to sell carbon credits. The project has already been approved by the UNFCCC and the company expects decent savings from the sale of carbon credits after the implementation of the project by June 2007.
- To diversify its presence in India, JKC is setting up a greenfield gray cement plant of 3MT capacity at Mudgal, Karnataka, at a cost of Rs750 crore. The plant is expected to start commercial operations by December 2008.
- JKC has acquired 100% holding of a group company, JayKay Cem, at a nominal cost of Rs5 crore. JayKay Cem holds limestone-mining rights, which will be utilised for JKC's greenfield Karnataka plant. JKC will eventually merge this company with itself, which will be positive as it would allay the fears that JKC may have to buy limestone from a group company at a higher price.

Going forward, firm cement prices and volume growth from recent capacity expansion would drive JKC's top line. This coupled with the company's drive to bring down its power cost through the installation of a CPP and a WHR plant would result in substantial margin improvement and drive the earnings. Further the greenfield plant at Karnataka would ensure continuous volume growth for JKC even in FY2009 as well as expand its cement market. We expect JKC's earnings to grow at a compounded annual growth rate of 112% over FY2006-08. At the current market price of Rs165, the stock is discounting its FY2007E earnings by 12.4x and its FY2008E earnings by 7.9x. On an enterprise value (EV)/tonne basis, the stock is trading at USD75.5. We believe the valuations are attractive as in the next 18 months JKC will completely transform itself, with 100% captive power arrangement, higher cement grinding capacity and a lot cleaner balance sheet with the constant repayment of debt and a strong improvement in the return ratios. We maintain our Buy recommendation on the stock with a price target of Rs295.

Capex plans on track

During FY2007, JKC mobilised Rs290 crore through a follow-on public issue for its capex plan that will be implemented in two phases. In the first phase the capacity of

gray cement and white cement will be increased by 0.5 million tonne and 50,000 tonne respectively. In the second phase JKC will set up a 20-megawatt pet coke-based CPP, replace the existing 7.5-megawatt thermal power turbine with a 10-megawatt turbine and install a WHR power plant. The first phase of the capex has already been completed and the company would enjoy the benefit of higher capacity from Q2FY2007.

The second phase of the capex will be completed in three parts. First, the 10-megawatt turbine will be commissioned by December 2006. The pet coke-based CPP will be commissioned by April 2007 whereas the WHR plant will be commissioned by June 2007. The company, which has till now been purchasing electricity from the state electricity boards, has been shelling out Rs3.9 per KWH. The average cost of electricity generated from the pet coke and WHR plants is expected to be Rs1.33 per KWH. The management expects savings of Rs48 crore in FY2008 and of Rs72 crore in FY2009. Our earnings estimates already factor in these savings.

Schedule of cost and commissioning of CPPs

Particulars	Capacity (MW)	Date of completion	Cost (Rs cr)
Upgradation of thermal power plant	10.0	Dec 2006	8.5
WHR plant	13.2	Apr 2007	85.0
Pet coke-based plant	20.0	June 2007	111.0

Carbon credits—icing on the cake

The WHR plant, which will generate power out of hot gases emitted in the production process, would be entitled to carbon credits. The company has already got the project registered with UNFCCC and expects to get credit for 70,800 units. This will add close to Rs5.5 crore to the company's top line from FY2008; however we have not factored the same in our estimates.

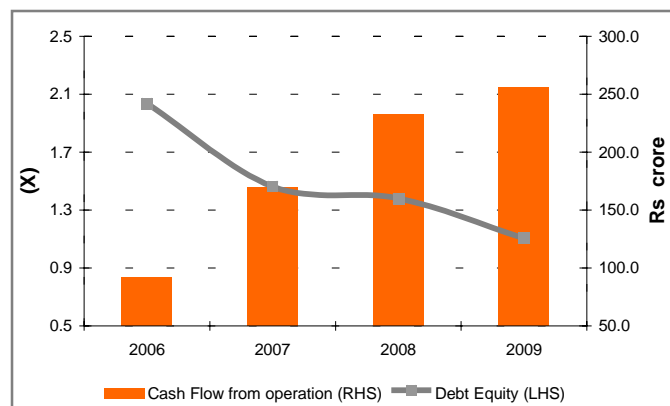
Capacity expansion of 3MT at Mudgal, Karnataka...

To cash in on the tight demand-supply scenario in the domestic cement market and the resulting higher realisations, the company is setting up a 3MT greenfield gray cement capacity at Mudgal (Karnataka) at a cost of Rs750 crore. This will give the company exposure to the southern market where it currently has no presence. The management expects the plant to get operational by September 2008. We expect the plant to start contributing positively to JKC's top line from the fourth quarter of FY2009.

The Karnataka project is to be financed through a mix of debt and internal accruals. JKC will take debt of Rs400 crore to part-finance the project and the balance will be

contributed through its internal accruals. Even though JKC's current debt/equity ratio at 2:1 is high, the strong cash flow from the operations (close to Rs650 crore of cash flow expected from the operations over FY2007-09) and the repayment of debt of approximately Rs210 crore over the next three years would mean that JKC's debt/equity ratio would stay at a comfortable level of 1:1.

Strong cash flows to bring down the debt/equity ratio



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Valuation and view

At the current market price of Rs165, the stock is discounting its FY2007E earnings by 12.4x and its FY2008E earnings by 7.9x. On an EV/tonne basis, the stock is trading at USD75.5. We believe the valuations are attractive as in the next 18 months JKC will completely transform itself, with 100% captive power arrangement, higher cement grinding capacity and a lot cleaner balance sheet with the constant repayment of debt and a strong improvement in the return ratios. We maintain our Buy recommendation on the stock with a price target of Rs295.

Earnings and valuation table

Year ended Mar 31	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	6.3	32.6	93.4	145.9
% y-o-y growth		418.0	187.0	56.0
Shares in issue (cr)	4.99	4.99	6.99	6.99
EPS (Rs)	1.3	6.5	13.4	20.9
PER (x)	131.1	35.4	12.4	7.9
EV/EBIDTA (x)	45.2	11.0	6.9	4.6
RoCE (%)	6.8	9.6	14.8	19.9
RoNW (%)	1.6	4.8	12.2	16.0

Telecom

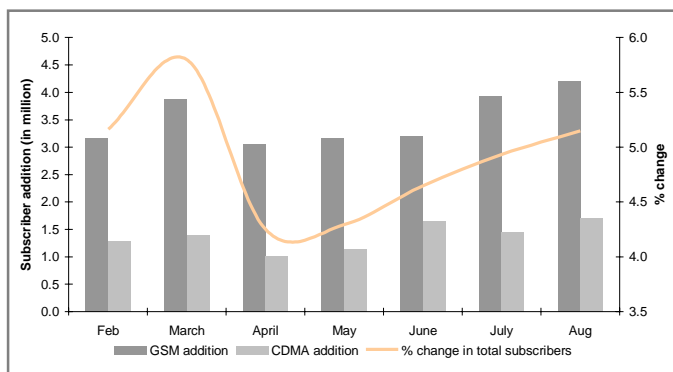
Sector Update

GSM records its highest ever additions

The upswing in the Indian wireless telephony service industry continued with the addition of a brilliant 5.9 million new users during August (a growth of 5.1% over August 2006), taking the total user base to 120.6 million. The falling tariffs and lucrative offers by the service providers continue to attract new mobile customers. Both the GSM and the CDMA segment rendered strong performances in the month.

In August the GSM industry witnessed the highest ever subscriber addition in its history by reporting a healthy addition of 4.2 million subscribers (a growth of 5.1% over the August 2006 subscriber numbers), taking the user base to 86.6 million. On the other hand, the CDMA operators added 1.7 million new users in August (a growth of 5.3% over August 2006), taking the user base to 33.9 million.

GSM and CDMA subscriber growth: a positive trend since April



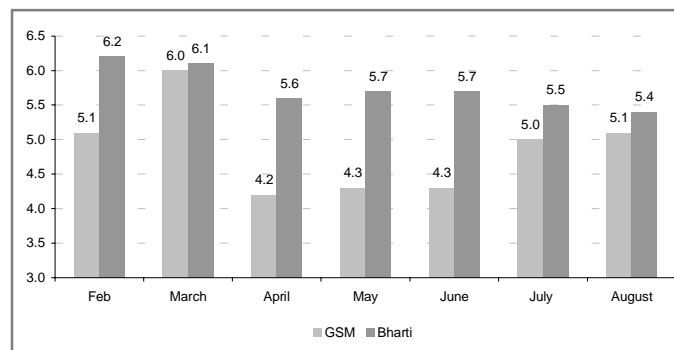
Bharti continues to lead; BSNL, Idea Cellular do well

Bharti Airtel continued to outperform the industry with a 5.4% month-on-month growth in August. Bharti Airtel continues with its leadership position and further consolidated its market share by ten basis points to 21.3% in August.

The state-owned Bharat Sanchar Nigam Ltd (BSNL) and Idea Cellular too reported strong numbers during the month. BSNL added 1.03 million users, which amounts to a month-

on-month growth of 5.4%. This is the second month of good performance by BSNL after a mediocre performance between April and June. Idea Cellular managed to post another good month with a growth of 6.7%, taking its user base to 9.7 million. Hutch added 0.9 million subscribers during the month, taking its total subscriber base to 19.2 million as it maintained its market share at 15.9%.

Subscriber growth (%): GSM & Bharti



Reliance Communications added 1.2 million new users in August, a growth of 4.9% over July 2006. It added 0.93 million subscribers (up 4.4% month on month) in the CDMA segment and 0.22 million subscribers (an 8.7% growth) in the GSM segment. Its user base stands at 24.8 million and is second only to Bharti Airtel's, with a market share of 20.6%. Tata Teleservices added 0.8 million users in August, recording a strong growth of 6.8% month on month, thereby increasing its market share to 10%.

Mobile subscribers: August 2006 (In million)

	Aug-06	Jul-06	% chg	Additions	Market share (%)
Bharti	25.6	24.3	5.4	1.3	21.3
Reliance	24.8	23.6	4.9	1.2	20.6
BSNL	20.1	19.0	5.4	1.0	16.6
Hutch*	19.2	18.3	4.9	0.9	15.9
Idea	9.7	9.1	6.7	0.6	8.1
Tata Tele	12.1	11.3	6.8	0.8	10.0
Total	120.6	114.7	5.1	5.9	

* includes Hutch and Aircel

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

What's In—What's Out

Mutual Fund

Fund Analysis: September 2006

Favourite stock picks in the portfolios of equity and mid-cap funds

An analysis has been undertaken on equity and mid-cap funds' portfolios, indicating the favourite picks of fund managers for the month of August 2006. Equity funds comprise of all diversified, index, sector and tax planning funds, whereas mid-cap funds include a universe of 17 funds such as Reliance Growth, Franklin India Prima Fund, HDFC Capital Builder, Birla Mid-cap Fund etc.

What's in

Top new stocks added to the equity funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Dabur Pharma	1316384	19.7
GMR Infrastructure	402303	19.5
Goodyear India	--	0.7
IDFC	--	3.0
Kripa Chemicals	--	0.0
Rajasthan Spg. & Wvg. Mills	719518	8.0
R System International	--	19.8
Ramco Systems	3	0.0
S Kumars Nationwide	300000	2.2
Shri Ramrupai Balaji Steel	--	6.5
Tata Infotech	--	0.6
Tech Mahindra	202247	129.6

Top new stocks in the mid-cap funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Ahmednagar Forgings	7684	0.1
CEAT	270000	2.8
Crest Animation Studios	656491	8.2
Godrej Consumer	42000	0.7
HPCL	300108	8.3
Igarashi Motor India	213655	2.8
Kochi Refineries	125090	2.0
Panacea Biotec	88000	2.9
PTC India	1499036	8.6
Punjab National Bank	74730	3.5
Tata Infotech	--	0.6
Tech Mahindra	128046	31.3

What's out

Complete exits in the equity funds' portfolios.

Company name
Gujarat Flourochemicals
Rajasthan Spg. & Wvg. Mills
Rajesh Exports
Torrent Power Aec
Saksoft
Ambika Cotton

Complete exits in the mid-cap funds' portfolios.

Company name	Company name
Celebrity Fashions	Nectar Life Sciences
Era Constructions (India)	Rajesh Exports
Glaxo Smithkline Pharma	RPG Life Sciences
Indo Rama Synthetics (India)	Saksoft
ISMT	Titan Industries
LG Balakrishnan & Bros	Torrent Cables
Mahindra & Mahindra	Ugar Sugar Works
National Aluminium Company	

Favourite picks for the month

Top additions to the existing holdings of equity funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Andhra Bank	4022077	35.1
Aventis Pharma India	1036735	170.3
Bank of Baroda	1441762	36.1
Century Textiles & Industries	1164661	50.3
Container Corporation Of India	240492	38.8
Great Eastern Shipping Company	7616917	206.1
Gujarat Ambuja Cements	2532752	28.5
HCL Technologies	896334	52.0
Himatsingka Seide	5605704	66.1
HPCL	3963058	110.2
India Cements	2766757	55.4
Jindal Steel and Power	416576	61.8
Maruti Udyog	1432408	123.4
Reliance Energy	3204712	140.8
Siemens	702958	73.7
Sterlite Industries (India)	1425592	59.2
Tata Tea	587463	47.0
Titan Industries	442026	34.6
Videsh Sanchar Nigam	643778	26.8
Zee Telefilms	4294064	118.1

Top additions to the existing holdings of mid-cap funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Andhra Bank	948853	8.3
Bajaj Hindustan	258654	7.8
Bank of Baroda	262506	6.6
Bank of India	496248	7.1
Crest Animation Studios	656491	8.2
Glenmark Pharmaceuticals	307998	10.6
GMDC	666863	22.9
Himatsingka Seide	790459	9.3
HPCL	300108	8.3
Infosys Technologies	35500	6.4
Jindal Saw	306303	9.0
Kesoram Industries	314330	11.9
Mphasis BFL	611344	10.7
PTC Industries	1499036	8.6
Radico-Khaitan	580811	8.7
Spentex Industries	2148037	13.4
Tata Tea	144609	11.6
Tech Mahindra	128046	6.9
Union Bank of India	592170	6.9
Voltas	77534	7.3

Popular stocks in mid-cap funds

Company name	No of shares	Mkt value (Rs cr)
Aditya Birla Nuvo	1750056	144.7
Bank of Baroda	3464351	86.9
Bharat Earth Movers	1416598	135.3
Crompton Greaves	5265054	110.1
Cummins India	2545376	71.1
Fag Bearings India	1591871	81.5
Gammon India	2908968	99.3
Goodlass Nerolac Paints	1106202	92.8
India Cements	7121843	142.8
IPCA Laboratories	2738568	106.2
JaiPrakash Associates	5378076	232.4
Jindal Saw	2475373	71.9
Jindal Steel and Power	533639	79.1
JSW Steel	267057	100.2
Maharashtra Seamless	2689899	95.6
Matrix Laboratories	3605501	98.5
MICO	356625	110.6
Reliance Industries	1025546	114.6
Sintex Industries	4794144	80.8
State Bank of India	900001	83.8

Exclusive stocks

Some stocks held by only one fund.

Company	Fund house
Apollo Fibres	UTI Mutual Fund
Bag Films	UTI Mutual Fund
Balmer Lawrie Investments	PRINCIPAL Mutual Fund
Central India Polyesters	UTI Mutual Fund
Control Print (I)	HDFC Mutual Fund
Deccan Aviation	UTI Mutual Fund
Dhunseri Tea & Industries	PRINCIPAL Mutual Fund
Ennore Foundries	PRINCIPAL Mutual Fund
Goodyear India	Reliance Mutual Fund
JK Pharmachem	UTI Mutual Fund
Kirloskar Pneumatic	HDFC Mutual Fund
Malwa Cotton Spinning Mills	Reliance Mutual Fund
National Steel Industries	UTI Mutual Fund
Sanghi Polyesters	UTI Mutual Fund
Sanjivani Paranteral	Tata Mutual Fund
State Bank of Bikaner and Jaipur	UTI Mutual Fund
Tezapore Tea Company	UTI Mutual Fund
Zicom Electronic Security Systems	SBI Mutual Fund

Cash rich funds: Top 10 funds having more cash compared to the others (%)

JM Emerging Leaders Fund, Sundaram Rural India Fund, JM Hi Fi Fund, Sundaram Select Midcap, SBI Magnum Midcap Fund and Reliance Equity Fund are some of the cash rich equity diversified funds waiting for right valuations to invest.

Scheme	Equity (%)	Debt (%)	Cash & equivalent (%)
JM Emerging Leaders Fund	48.05	0	51.95
UTI Index Select Fund	65.16	0	34.84
Sundaram Rural India Fund	66.66	0	33.34
JM Hi Fi Fund	67.09	0	32.91
Sundaram Select Midcap	67.85	0	32.15
Reliance Equity Fund	69.36	0	30.64
JM Equity	74.7	0	25.3
SBI Magnum Midcap Fund	74.75	0	25.25
Sahara Wealth Plus Fund	76.89	0	23.11
UTI Equity Fund	77.53	0	22.47

Disclaimer: mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.

Evergreen

HDFC Bank
 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
 Associated Cement Companies
 Bajaj Auto
 Balrampur Chini Mills
 Bank of Baroda
 Bank of India
 Bharat Bijlee
 Bharat Heavy Electricals
 Canara Bank
 Corporation Bank
 Crompton Greaves
 Elder Pharmaceuticals
 Godrej Consumer Products
 Grasim Industries
 Hindustan Lever
 Hyderabad Industries
 ICICI Bank
 Indian Hotels Company
 ITC
 Mahindra & Mahindra
 Marico Industries
 Maruti Udyog
 MRO-TEK
 Lupin
 Nicholas Piramal India
 Omax Auto
 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
 Solelectron Centum Electronics
 Television Eighteen India
 Thermax
 TVS Motor Company
 UTI Bank
 Welspun Gujarat Stahl Rohren

Ugly Duckling

Ashok Leyland
 Deepak Fertilisers & Petrochemicals Corporation
 Genus Overseas Electronics
 HCL Technologies
 ICI India
 Jaiprakash Associates
 JM Financial
 KEI Industries
 NIIT Technologies
 Punjab National Bank
 Ratnamani Metals and Tubes
 Sanghvi Movers
 Saregama India
 Selan Exploration Technology
 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

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