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Take Five				
Scrip	Reco Date	Reco Price	CMP	Target
◆ Aban Loyd	03-Mar-05	330	1,217	1,760
◆ HLL	24-Nov-05	172	242	300
◆ ICICI Bank	23-Dec-03	284	613	770
◆ Orient Paper	30-Aug-05	214	514	675
◆ UltraTech	10-Aug-05	384	790	1,000

Pulse Track

◆ July 2006 Infra Index grows 9% albeit on lower base

The Infrastructure Index has grown by a strong 9% for July 2006. However, the growth has come on a lower base as in the same month last year, the index had grown by only 2.3% due to following reasons:

- ◆ a fire break-out at ONGC's Bombay High oil fields which pulled down the crude production
- ◆ heavy rains in western India (Maharashtra and Gujarat)

The coal, petroleum products and cement were the growth leaders. The coal production was up by 10.6%. The production of petroleum products was up by 12.6% backed by new capacities coming on stream. The cement production reported a rise of 11.2%. Commendably, the production of finished steel grew by a strong 8% on a higher base of 10.4% growth in the same month last year.

July 2006 IIP growth to be strong

We expect the Index of Industrial Production (IIP) to show a strong growth in line with the growth in the Infrastructure Index looking at the growth in major constituent industries like automobiles and capital goods. The vehicle sales have been strong with all three major sectors—commercial vehicles, passenger vehicles and two-wheelers—reporting a strong growth for July 2006. The capital goods sector is expected to record a strong growth with the order inflow for capital goods companies remaining strong and good order booking.

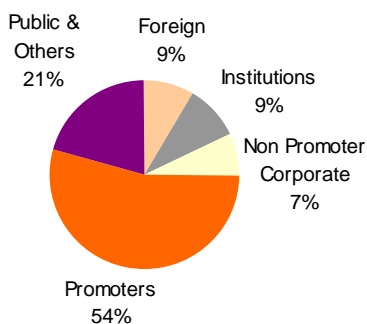
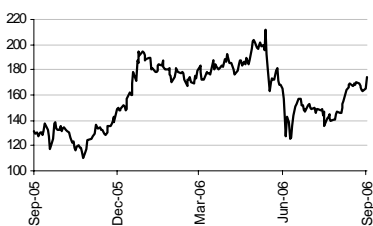
Growth in sales of	% yoy
Commercial vehicles	34.9
Passenger vehicles	20.5
Two-wheelers	19.7
Motorcycles	19.2

	July-06	July-05	Jun-06	Apr-Jul 2006	Apr-Jul 2005
Crude	4.1	-3.9	1.2	1.2	-1.6
Petroleum products	12.6	3.6	10.4	12.1	-2.8
Coal	10.6	-1.6	11.9	8.3	5.3
Electricity	8.6	-1.0	4.5	6.1	5.3
Cement	13.3	3.6	11.2	10.5	11.3
Steel	8.0	10.4	5.6	7.1	12.7
Total	9.0	2.3	6.2	7.0	6.1

3i Infotech

Emerging Star
Stock Update
3i Infotech acquires G4 Soft
Buy; CMP: Rs174
Company details

Price target:	Rs244
Market cap:	Rs920 cr
52 week high/low:	Rs218/109
NSE volume: (No of shares)	3.1 lakh
BSE code:	532628
NSE code:	3IINFOTECH
Sharekhan code:	ICICINFO
Free float: (No of shares)	2.4 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	12.8	-0.4	-6.5	25.0
Relative to Sensex	2.7	-13.3	-17.8	-18.2

3i Infotech has acquired 100% stake in the Mumbai-based G4 Software Technologies (G4) that specialises in providing enterprise application integration services and solutions in the niche areas of payment and back office exception processing services.

G4 has staff strength of 50 people and annual revenues of around Rs8.4 crore (or \$1.8 million). It broke even at the operating level during the last fiscal. The acquisition has been made for a consideration of \$1.1 million, which amounts to valuation of around 0.6x G4's annual revenues. It is a relatively small acquisition and would not have any significant impact on our FY2007 and FY2008 estimates for 3i Infotech.

Inorganic initiatives, an important part of overall strategy

3i Infotech has been successfully using the inorganic route to enhance its product portfolio and range of service offerings as well as to acquire customers in newer geographies. In the last fiscal, the company raised \$50 million through foreign currency convertible bonds to further accelerate the process and emerge as an integrated service provider (offerings across the value chain).

To meet the set objective, the company has made six acquisitions over the past one year. Through these acquisitions the company has acquired software products in the niche and fast-growing areas of anti-money laundering and fraud management, capital markets and enterprise resource planning (ERP) segments. In terms of service offerings, the acquisitions strengthened its positioning in consulting services, business intelligence, application integration and business process outsourcing services.

On an acquisition binge

Acquired companies	Stake acquired	Acquisition cost (USD mn)	Annual revenue (USD mn)	Services/ products
Innovative Business Soln*	100%	7.8	7.2	Consulting services in enterprise application integration, business intelligence and network security
FormulaWare	100%	0.6	1	ERP solution for the process manufacturing industries
SDG Software Tech	100%	3.6	2.2	Anti-money laundering and fraud management products
Datacons	100%	0.6	5	Products for capital market participants/intermediaries
Delta Technologies#	51%	1.1	3	BSFI focused transaction processing company
G4 Software Tech	100%	1.1	1.8	Solutions in the area of payment services, exception processing and integration services

* Acquisition cost is adjusted for the free cash on the books

Consideration paid to acquire 51% stake

Apart from this, the company has been quite selective in its acquisitions, both in terms of size and valuations. All of its recent acquisitions are reasonably smaller-sized companies, which are easier to integrate with the existing operations. Even on the valuation front, the company has paid only 0.5x and 1x the annual sales (over 1x sales only in case of Innovative Business and SDG Software due to the acquisition of intellectual property). The cumulative incremental revenues from the six acquisitions work out to around \$20 million for a consideration of around \$16 million.

Valuation

At the current market price the stock trades at 12.9x FY2007 and 9.3x its FY2008 earnings. We maintain our Buy recommendation on the stock with a target price of Rs244.

Key financials

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	289.2	417.8	595.7	754.5
Adj net profit (Rs cr)	21.4	48.8	84.7	118.0
Share in issue (cr)	3.1	5.3	5.3	5.3
EPS (Rs)	6.9	9.2	13.5	18.8
<i>% y-o-y growth</i>	<i>194.7</i>	<i>33.3</i>	<i>46.9</i>	<i>39.3</i>
PER (x)	25.2	18.9	12.9	9.3
P/BV (x)	2.4	2.1	1.8	1.4
EV/Ebidta (x)	9.6	9.2	7.5	5.7
Dividend yield (%)	0.8	1.1	1.5	1.5
ROCE (%)	9.5	9.4	14.5	17.0
RONW (%)	15.1	15.7	20.8	22.9

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

International Combustion (India)

Cannonball

Stock Update

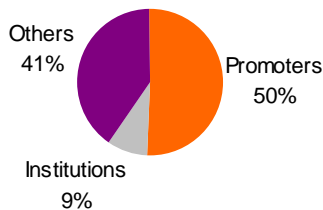
Outsourcing card plays out

Buy; CMP: Rs302

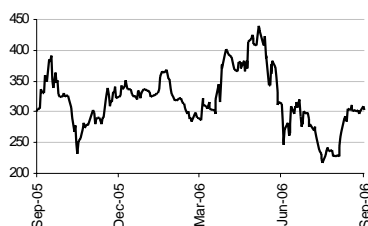
Company details

Price target:	Rs519
Market cap:	Rs68.7 cr
52 week high/low:	Rs460/163
BSE volume: (No of shares)	6,120
BSE code:	505737
Sharekhan code:	INTLCOMB
Free float: (No of shares)	11.2 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	38.0	-0.9	8.4	4.4
Relative to Sensex	25.7	-13.6	-4.7	-31.7

International Combustion India Ltd (ICIL) conducted its annual general meeting on September 2, 2006. The highlights of the same are presented below.

Danfoss Bauer outsourcing argument—eventually plays out

The €100-million-turnover Danfoss Bauer GmbH of Germany has chosen ICIL as its outsourcing partner. This outsourcing deal was one of our key investment arguments while initiating coverage on the company (refer Stock Idea "Fire-power" dated September 19, 2005). Soon (around November 2006) ICIL will commence bulk supplies of cast iron machine parts manufactured at its Aurangabad facility.

Danfoss Bauer sources for its B-2000 series cast iron parts to the tune of Rs90.0 crore from numerous suppliers in China and Brazil. ICIL is targeting around 25% of the outsourcing kitty over the next three years. On a conservative basis we have considered an incremental top line of Rs3-4 crore in FY2007 from this opportunity. Any further increase will make way for a positive surprise on the top line.

A new opportunity emerges-Allgaier

An icing on cake, another European collaborator of the company, Allgaier, has initiated discussions for outsourcing screening machines that are manufactured at ICIL's Nagpur factory. The negotiation is at an early stage, hence it is very difficult to quantify the same. However, considering the success of the B-2000 series, we are confident that the management will pull out a winner with Allgaier as well.

Management guidance

- ◆ *Capex of Rs10 crore—already factored in our estimates*

The management has guided for an Rs10 crore-capital expenditure (capex) programme. The capex includes the greenfield expansion at Aurangabad to manufacture the B-2000 series of gear motors and augmentation of material handling capacities at the Nagpur facility. We have already factored the same in our estimates.

- ◆ *Looking at 20% revenue growth—slightly conservative*

The management expects a robust growth of 20% in revenues in FY2007. Given the healthy growth prospect of the Heavy Engineering Division (HED), the incremental revenues from the export opportunities and an order backlog of Rs56 crore, we believe this guidance is conservative. We expect the revenues to grow by 38.9% in FY2007.

- ◆ *Export will earn 25% of revenues in next three years*

After the success in the Danfoss Bauer deal, the management expects contribution from exports to increase from 10% currently to 25% over a period of time.

Valuations

ICIL's key end users like steel, sugar, chemicals, non-ferrous metals, and mineral and mining sectors are on an expansion binge. This translates into a huge opportunity

for the company's products like sizers, screeners and feeders. With its market leadership position and quality product offerings ICIL is well placed to capitalise on the opportunity. Besides this ICIL is leveraging its ties with overseas companies to increase exports/outsourcing, with exports earning 25% of its revenues in the next three years.

ICIL is currently trading at a price/earnings ratio of 6.4x its FY2008E earnings and 4.0x its FY2008E enterprise value/earnings before interest, depreciation, tax and amortisation. We maintain the Buy recommendation on the stock with a price target of Rs519.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	2.2	5.7	9.5	11.3
Share in issue (cr)	0.2	0.2	0.2	0.2
EPS (Rs)	10.3	24.0	39.9	47.2
<i>% yoy growth</i>	<i>144.0</i>	<i>133.1</i>	<i>66.4</i>	<i>18.4</i>
PER (x)	29.4	12.6	7.6	6.4
Book value (Rs)	69.2	101.1	138.5	183.2
P/BV (x)	4.4	3.0	2.2	1.7
EV/EBIDTA (x)	12.1	6.6	4.9	4.0
Dividend yield (%)	0.8	0.8	0.8	0.8
ROCE (%)	13.8	28.9	33.9	30.8
RONW (%)	9.4	17.5	22.9	21.6

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

Banking

Sector Update

UWB—apple of everyone's eye

The Reserve Bank of India (RBI) suspended the operations of United Western Bank Ltd (UWBL) on September 2, 2006. The RBI had ordered a moratorium on the bank's operation for a period of three months. The moratorium order was issued as a consequence of the deteriorating financial health of the bank.

Since then there have been many suitors for the bank from both the private and the public sectors. Public sector banks like Andhra Bank, Canara Bank and Allahabad Bank, and private sector banks like ICICI Bank and Federal Bank have expressed their interest to acquire the ailing bank and merge the same with themselves (the Federal Bank board is yet to formally express its interest in UWBL).

While the board of directors of UWBL are likely to come up with a restructuring plan of their own, the strong interest of the above mentioned suitors is quite understandable looking at the strong semi-urban and rural branch networks of UWBL in the state of Maharashtra. We believe that among all ICICI Bank would benefit the most from an amalgamation of UWBL with itself if the same were allowed.

UWBL's profile

UWBL is a private sector bank with strong presence in Maharashtra. Over the last two years its financial health has deteriorated significantly with a severe increase in its non-performing assets, a negative Tier-I capital adequacy ratio and net losses. Consequently, the RBI had to issue a moratorium on the bank's operation for a period of three months.

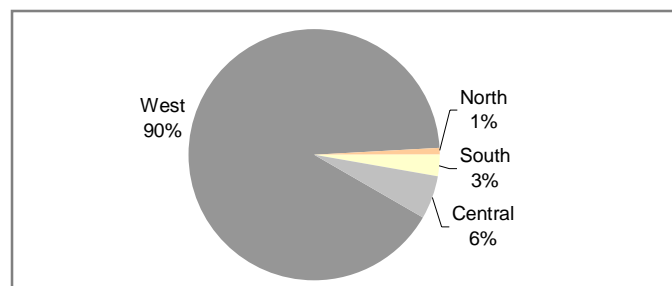
UWBL's financials on brief

Particulars	Rs crore
Advances	3,976.3
Deposits	6,452.9
Gross NPA	491.0
As % of advances	11.5
Net NPA	227.3
As % of advances	5.7
Tier I CAR (%)	-0.5
Book value (Rs)	22.1
Adj book value (Rs)	-41.3
EPS (Rs)	-29.7

Up for grabs—230 branches mostly in semi-urban areas

UWBL has a network of more than 230 branches mostly in the semi-urban and rural areas of eastern Maharashtra and Vidarbha. From the profile of the banks that have expressed their interest in acquiring UWBL it is evident that such an arrangement would make sense for them.

UWBL's branch network



Bank	Comment
Allahabad Bank	Stronghold in north and east
Andhra Bank	Stronghold in south
Canara Bank	Stronghold in south
Federal Bank	Stronghold in south
ICICI Bank	Pan-India presence but looking for expansion in semi urban and rural areas

Impact of a merger with UWBL

Allahabad Bank

We do not see the merger affecting the vital financial parameters of Allahabad Bank much. A merger would give Allahabad Bank a footprint in western India. Allahabad Bank currently has stronghold in the northern and eastern areas.

Particulars	FY2007E	FY2007E post-merger	Impact
Net profit (Rs crore)	653.0	586.0	-10%
Tier I CAR (%)	8.3	7.4	-90 bps
Net NPA (%)	0.6	1.0	-40 bps

Andhra Bank

We see the negative impact on the vital financial parameter to be higher in case of Andhra Bank than any other player in the fray. However, the acquisition would give Andhra Bank a foothold in the western region.

Particulars	FY2007E	FY2007E post-merger	Impact
Net profit (Rs crore)	518.1	453.1	-13%
Tier I CAR (%)	11.2	9.1	-200 bps
Net NPA (%)	0.2	0.8	-60 bps

Canara Bank

We do not expect a merger with UWBL to affect Canara Bank's vital financial parameters much. A merger would give Canara Bank a footprint in western India. Canara Bank currently has stronghold in southern India.

Particulars	FY2007E	FY2007E post-merger	Impact
Net profit (Rs crore)	1,250.5	1,195.0	-5.4%
Tier I CAR (%)	7.4	6.9	-50 bps
Net NPA (%)	0.3	0.4	-10 bps

ICICI Bank

We believe that a merger with UWBL would be most beneficial to ICICI bank as the negative impact of the merger on its vital financial parameters would be the least (almost negligible) and also give it foothold in the semi-urban and rural parts of eastern Maharashtra and Vidarbha.

Particulars	FY2007E	FY2007E post-merger	Impact
Net profit (Rs crore)	3,478.8	3,413.8	-1.9%
Tier I CAR (%)	7.2	7.1	-10 bps
Net NPA (%)	0.6	0.7	-10 bps

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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 Loyd Chiles 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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