



### Index

- ♦ [Stock Update >> Ratnamani Metals and Tubes](#)
- ♦ [Stock Update >> Cadila Healthcare](#)

### Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aurobindo	28-May-07	684	781	914
♦ BASF	18-Sep-06	220	261	300
♦ JP Associates	30-Dec-03	125	714	850
♦ UltraTech	10-Aug-05	384	816	935
♦ Zensar Tech	18-Jun-07	342	334	484

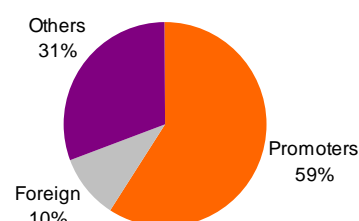
# Ratnamani Metals and Tubes

**Ugly Duckling**
**Stock Update**
**Price target revised to Rs1,215**
**Buy; CMP: Rs917**

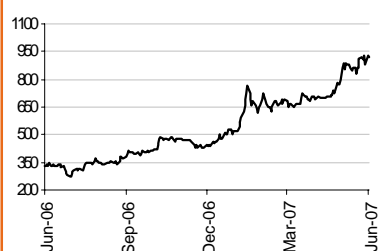
## Company details

Price target:	Rs1,215
Market cap:	Rs825 cr
52 week high/low:	Rs948/266
NSE volume: (No of shares)	4,630
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float: (No of shares)	0.4 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	15.8	33.6	115.3	167.9
Relative to Sensex	14.2	21.9	98.7	89.7

## Result highlights

- ◆ The Q4FY2007 results of Ratnamani Metals & Tubes Ltd (RMTL) are above our expectations.
- ◆ The company reported strong quarterly results. Its revenues for the quarter grew by 95.3% to Rs172.6 crore.
- ◆ The operating profit for the quarter grew by 78.3% to Rs34 crore. The operating profit margin (OPM) for the quarter declined by 240 basis points to 22.3% from 24.7% in Q4FY2006. The OPM declined due to a higher raw material cost as a percentage of sales. The raw material cost went up by 310 basis points to 62.9% from 59.8% in Q4FY2006. Other expenses as a percentage of sales also went up by 110 basis points to 12.4%.
- ◆ The interest expense for the quarter increased by 111.4% to Rs4.9 crore, while the depreciation cost for the quarter increased by 309.6% to Rs6.2 crore.
- ◆ The profit before tax grew by 80% to Rs27.7 crore. The net profit for the quarter grew by 39.4% to Rs17.6 crore due to a higher tax rate of 36.7% in this quarter compared with 17.8% in Q4FY2006.
- ◆ For the full year, the net sales grew by 79% to Rs571 crore and the net profit grew by 91% to Rs64.2 crore.
- ◆ The order book at the end of the quarter stood at Rs500 crore.

## Result table

Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Gross	172.6	88.3	95.6	614.7	349.9	75.7
Excise duty	20.0	11.0	82.3	43.5	30.8	41.2
<b>Net sales</b>	<b>152.6</b>	<b>77.3</b>	<b>97.4</b>	<b>571.2</b>	<b>319.1</b>	<b>79.0</b>
Total expenditure	118.5	58.2	103.7	443.5	255.8	73.4
Operating profit	34.1	19.1	78.3	127.7	63.3	101.7
Other income	4.7	0.0	14996.8	5.0	0.1	8266.7
EBIDTA	38.8	19.2	102.4	132.7	63.4	109.4
Interest	4.9	2.3	111.1	16.4	8.9	84.6
Depreciation	6.2	1.5	309.6	15.6	7.4	110.5
<b>PBT</b>	<b>27.7</b>	<b>15.3</b>	<b>80.6</b>	<b>100.7</b>	<b>47.1</b>	<b>113.9</b>
Tax	10.1	2.7	270.5	36.5	13.6	169.6
PAT	17.6	12.6	39.4	64.2	33.5	91.4
Extraordinary items	0.0	0.0	-	0.0	0.0	-
<b>Reported PAT</b>	<b>17.6</b>	<b>12.6</b>	<b>39.4</b>	<b>64.2</b>	<b>33.5</b>	<b>91.4</b>
EPS	19.5	14.0	39.4	71.3	37.3	91.4
<b>Margins</b>						
OPM (%)	22.3	24.7		22.4	19.8	
PATM (%)	11.5	16.3		11.2	10.5	

The strong order book and increasing demand for its products from its key user industries, which are in capital expansion phase, impart a strong visibility to its earnings. At the current market price, the stock is quoting at 9.9x its FY2008E earnings and 7.1x its FY2009E earnings. In terms of enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA), the stock is trading at 5.5x its FY2008E EV/EBIDTA and 4.0x its FY2009E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised price target of Rs1,215.

### Strong order book of Rs500 crore

The order book of RMTL stood at Rs500 crore at the end of the fourth quarter as the company added orders worth Rs220 crore during the quarter. Of the total orders, Rs330 crore worth of orders are for the stainless steel tubes & pipes (SSTP) division and Rs170 crore worth of orders are for the carbon steel tubes & pipes (CSTP) division. The majority of the order book is to be executed over the next six months.

### Segmental performance

#### SSTP

The SSTP division's revenues grew by 100% to Rs295 crore in FY2007. The sales volumes of this segment were at 7,358 tonne in FY2007, up 55.3% over FY2006. The realisations were up by about 29%. The realisations are expected to remain buoyant in line with the robust demand for SSTP pipes.

#### CSTP

The CSTP division's revenues grew by 69% to Rs300 crore in FY2007. The sales volumes of this segment were at 61,525 tonne, up by 57.2% over FY2006. The strong growth in the volumes is expected to continue in FY2008 and FY2009, as the company has expanded its capacity at Kutch from 150,000 tonne to 300,000 tonne. The realisations of this division were higher by 7.6% in FY2007.

### SS mother pipe capacity installed

The company has installed a 7,000-metric-tonne capacity for mother pipes, which are used as raw material for making SS pipes. Currently the company imports 100% of its mother pipe requirement from countries like Japan, Korea and China. The new mother pipe capacity will help the company save close to Rs5-10 crore per annum and will also reduce its dependency on the overseas suppliers. This capacity will meet 60-70% of RMTL's mother pipe requirement with imports catering to the balance need.

### Capex plans

To cater to the increasing demand for its products the company is expanding its capacities by way of balancing and setting up newer capacities. For instance, RMTL plans to expand its SS pipe capacity from the current 14,000 metric tonne (MT) to 18,000MT by September 2007. It has also set up of a mother pipe plant. The company plans to spend about Rs40-50 crore each in FY2007 and FY2008 towards capital expenditure.

### Introducing our FY2009 earnings estimate at Rs134.6 per share, raising price target to Rs1,215

We are introducing our FY2009 earnings estimate for RMTL at Rs134.6 per share and revising our FY2008 earnings per share estimate (EPS) by 28.8% to Rs95.9. We are also raising our price target to Rs1,215, which is based on 9x its expected FY2009 EPS.

We expect RMTL's order book to remain strong with the surge in the demand for both its products, ie stainless steel (SS) pipes and carbon steel (CS) pipes. The capital expenditure lined up by the refining and petrochemical majors in India augurs well for RMTL. SS pipes primarily find application in steam boilers in power plants as well as in heat exchangers in the oil & gas and petrochemical sectors. India is expected to add approximately 68,000 megawatt of power generation capacity in the 11th Five-Year Plan. This would drive the demand for SS pipes.

At the current market price, the stock is quoting at 9.9x its FY2008E earnings and 7.1x its FY2009E earnings. In terms of EV/EBIDTA, the stock is trading at 5.5x its FY2008E EV/EBIDTA and 4.0x its FY2009E EV/EBIDTA. We maintain our Buy recommendation on the stock with a revised price target of Rs1,215.

### Key financials

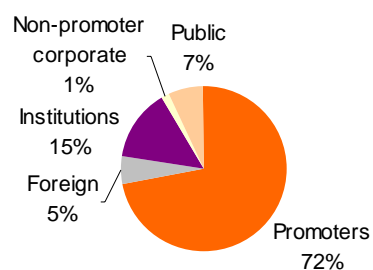
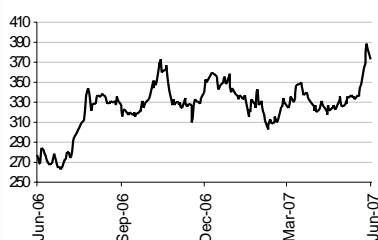
Particulars	FY05	FY06	FY07	FY08E	FY09E
Net sales (Rs crore)	181.0	319.1	571.2	818.4	1087.8
Net profit (Rs crore)	13.3	33.5	64.1	88.5	125.7
Shares in issue (crore)	0.9	0.9	0.9	0.9	0.9
EPS (Rs)	14.7	37.3	71.2	95.9	134.6
% y-o-y change	226.4	153.1	91.1	34.7	40.3
PER (x)	64.5	25.5	13.3	9.9	7.1
Book value (Rs)	56.3	90.7	156.2	249.8	379.2
P/BV (x)	16.9	10.5	6.1	3.8	2.5
EV/EBIDTA (x)	29.8	14.5	7.7	5.5	4.0
EV/Sales (x)	4.8	2.9	1.7	1.2	0.9
Dividend yield (%)	2.3	0.8	0.5	0.5	0.5
RoCE (%)	45.3	38.7	45.3	45.0	50.0
RoNW (%)	57.7	50.7	57.7	47.7	43.0

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

# Cadila Healthcare

**Emerging Star**
**Stock Update**
**Cadila acquires Brazilian firm Nikkho**
**Buy; CMP: Rs395**
**Company details**

Price target:	Rs425
Market cap:	Rs4,977 cr
52 week high/low:	Rs385/241
NSE volume: (No of shares)	31,038
BSE code:	532321
NSE code:	CADILAHC
Sharekhan code:	CADILAHEAL
Free float: (No of shares)	3.5 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	14.4	13.3	11.4	32.7
Relative to Sensex	12.9	3.4	2.8	-6.0

**Key points**

- ◆ Cadila Healthcare (Cadila) has signed an agreement to acquire 100% stake in Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho) for a consideration of around \$26 million (ie about 1x of Cadila's annual sales).
- ◆ Nikkho had posted sales of US\$ 26 million for CY2006. It currently markets 22 products under 13 different brands. It also has nearly 50 registered brands that are yet to be launched.
- ◆ The acquisition is a strategic one for Cadila, as it would help the company to foray into the high-margin branded generic market of Brazil.
- ◆ Anticipating 18% and 15% growth for Nikkho in FY2008 and FY2009 respectively, we estimate the latest acquisition would contribute about 5-6% of our estimated revenue in FY2009. Our back-of-the-envelope calculation shows that the acquisition would have a marginal positive impact on the earnings of Cadila during FY2008.
- ◆ At the current market price of Rs395, Cadila is trading at 17.9x its estimated FY2008 earnings and 14.8x its estimated FY2009 earnings. Considering the strong growth momentum of the company, we maintain our Buy recommendation on the stock with a price target of Rs425.

Cadila has signed an agreement to acquire 100% stake in Quimica e Farmaceutica Nikkho for a consideration of around \$26 million (ie about 1x of Cadila's annual sales). The proposed acquisition is in line with Cadila's strategy to expand its global business and foray into the high-growth branded generic market of Brazil. However, the agreement would come into effect after the satisfaction of the closing conditions.

**About Nikkho**

Nikkho is a profit-making mid-sized, privately held company in Brazil with a revenue base of US\$26 million. In fact, it had posted sales of US\$ 26 million for CY2006. The company caters exclusively to the Brazilian prescription (branded generics) drug market and has been in the market for over four decades.

With a strong marketing network, Nikkho's sales force of 125 people cover all the major markets in Brazil and enjoy a good rapport with 60,000 medical practitioners.

**Valuation table**

Rs (cr)

Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net sales	1277.9	1484.5	1828.8	2129.7	2474.0
Net profit	132.4	164.9	233.8	277.4	335.6
Shares in issue (cr)	12.6	12.6	12.6	12.6	12.6
EPS (Rs)	10.5	13.1	18.6	22.1	26.7
% y-o-y change	0.4	24.5	41.8	23.9	21.0
PER (x)	37.5	30.1	21.2	17.9	14.8
Cash EPS (Rs)	16.3	19.3	25.2	29.7	34.9
Cash PER (x)	24.3	20.4	15.7	13.3	11.3

The company currently markets 22 products under 13 different brands. It also has nearly 50 registered brands that are yet to be launched. Its product basket comprises a wide range of therapeutic products covering segments such as general medicine, paediatrics, gynaecology, neurology, gastroenterology, otolaryngology, respiratory and dermatology.

It has also got a manufacturing facility in Brazil with a total annual production capacity of 4.99 million ampoules of both injectable and oral liquids and 96 million units of solids (tablets).

### Implication and synergies of acquisition

The acquisition seems to be a beneficial one for Cadila as the latter has valued Nikkho at about 1x its CY2006 sales. As Nikkho is exclusively into high-growth and high-margin branded generic segment of Brazil (which is again one of the fastest growing pharma markets in the world), the deal seems cheaper.

On the other hand, the acquisition is a strategic one for Cadila, as it would help the company to foray into the high-margin branded generic market of Brazil. In fact, Cadila has already gained presence in the highly commoditised pure generic segment and that is under losses. It currently markets 13 generic products in Brazil. In FY2007, Cadila's generic business reported sales of Rs17.6 crore with a loss of Rs10.3 crore. Now, with the entry into the branded generic segment, Cadila expects the latest acquisition to be instrumental in turning around its Brazilian business.

With the acquisition, Cadila would also have access to Nikkho's branded generic portfolio of 22 products, which are growing at over 15% annually. Apart from this Nikkho has 50 registrations in niche therapy segments like gynecology, neurology and respiratory; the same have not been launched yet. Incidentally, the Brazilian branded generic market is expanding at over 20% annually.

Hence, taking into consideration the new launches from the acquired pipeline and its own registrations (Cadila has five branded generic applications pending for Brazil), the

company expects over 25% growth for the Brazilian branded generic business in future. But anticipating 18% and 15% growth for Nikkho in FY2008 and FY2009 respectively, we estimate the latest acquisition would contribute about 5-6% of our estimated revenue in FY2009.

Further, the decades of marketing experience of Nikkho in Brazil would strengthen Cadila's position in Brazil (the Brazilian pharma market size is estimated at \$8 billion), which is the largest Latin American market and one of the fastest growing pharma markets in the world.

### Valuation

The company has not indicated the financial details of the acquisition except for the CY2006 revenues of the Brazilian company. Currently Nikkho is growing at around 15% annually. We have assumed an 18% revenue growth with an EBITDA margin of 14% (as per the Brazilian industry average of 14-18%) for Nikkho for FY2008. We have estimated the asset base of Nikkho by assuming an asset turnover ratio of 0.75 (as per the Brazilian industry average). Our back-of-the-envelope calculation shows that the acquisition would have a marginal positive impact on the earnings of Cadila during FY2008.

The acquisition of Nikkho is in line with Cadila's strategy to expand its global business and achieve its vision of becoming a \$1-billion company by December 2010 (ie FY2011). Further, Cadila is in the process of acquiring a couple of mid-sized companies with a marketing platform in Spain and Italy where the generic penetration is limited. These acquisitions would be financed from the planned foreign currency convertible bond/American depository receipt/global depository receipt issue of US\$100 million.

At the current market price of Rs395, Cadila is trading at 17.9x its estimated FY2008 earnings and 14.8x its estimated FY2009 earnings. Considering the strong growth momentum of the company, we maintain our Buy recommendation on the stock with a price target of Rs425.

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

## Evergreen

HDFC Bank  
 Infosys Technologies  
 Reliance Industries  
 Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
 ACC  
 Apollo Tyres  
 Bajaj Auto  
 Bank of Baroda  
 Bank of India  
 Bharat Bijlee  
 Bharat Electronics  
 Bharat Heavy Electricals  
 Bharti Airtel  
 Canara Bank  
 Corporation Bank  
 Crompton Greaves  
 Elder Pharmaceuticals  
 Grasim Industries  
 HCL Technologies  
 Hindustan Unilever  
 ICICI Bank  
 Indian Hotels Company  
 ITC  
 Mahindra & Mahindra  
 Marico  
 Maruti Udyog  
 Lupin  
 Nicholas Piramal India  
 Omax Autos  
 Ranbaxy Laboratories  
 Satyam Computer Services  
 SKF India  
 State Bank of India  
 Sundaram Clayton  
 Tata Motors  
 Tata Tea  
 Unichem Laboratories  
 Wipro

## Cannonball

Allahabad Bank  
 Andhra Bank  
 Cipla  
 Gateway Distriparks  
 International Combustion (India)  
 JK Cement  
 Madras Cement  
 Shree Cement  
 Tourism Finance Corporation of India  
 Transport Corporation of India

## Emerging Star

3i Infotech  
 Aban Offshore  
 Alphageo India  
 Cadila Healthcare  
 Federal-Mogul Goetze (India)  
 KSB Pumps  
 Marksans Pharma  
 Navneet Publications (India)  
 Network 18 Fincap  
 New Delhi Television  
 Nucleus Software Exports  
 Orchid Chemicals & Pharmaceuticals  
 ORG Informatics  
 Tata Elxsi  
 Television Eighteen India  
 Thermax  
 UTI Bank

## Ugly Duckling

Ahmednagar Forgings  
 Ashok Leyland  
 Aurobindo Pharma  
 BASF India  
 Ceat  
 Deepak Fertilisers & Petrochemicals Corporation  
 Fem Care Pharma  
 Genus Power Infrastructures  
 Hexaware Technologies  
 ICI India  
 India Cements  
 Indo Tech Transformers  
 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  
 Subros  
 Sun Pharmaceutical Industries  
 Surya Pharmaceuticals  
 UltraTech Cement  
 Union Bank of India  
 Universal Cables  
 Wockhardt  
 Zensar Technologies

## Vulture's Pick

Esab India  
 Orient Paper and Industries  
 WS Industries India

[To know more about our products and services click here.](#)

### Disclaimer

"This document has been prepared by Sharekhan Ltd.(SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."