investor's eye

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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Loyd	03-Mar-05	330	**900**	1,760
Bajaj Auto	15-Nov-05	1,873	**2,460**	3,500
BHEL	11-Nov-05	1,203	**1,787**	2,650
Esab India	21-May-04	60	**279**	575
Infosys	30-Dec-03	689	**1,603**	1,865

Ranbaxy Laboratories

Apple Green

Stock Update

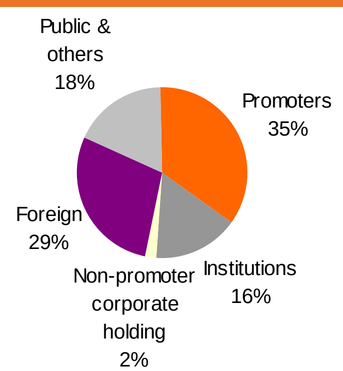
Strong recovery in operating performance

Buy; CMP: Rs354

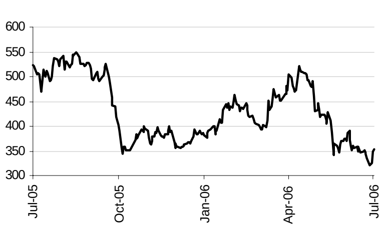
Company details

Price target:	Rs558
Market cap:	Rs13,159 cr
52 week high/low:	Rs559/317
NSE volume: (No of shares)	30.4 lakh
BSE code:	500359
NSE code:	RANBAXY
Sharekhan code:	RANBAXY
Free float: (No of shares)	24.25 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.3	-24.8	-7.0	-31.8
Relative to Sensex	-11.5	-13.4	-15.3	-52.3

Result highlights

- The consolidated sales of Ranbaxy Laboratories (Ranbaxy) grew by 8.8% year on year (yoy) to Rs1,433.9 crore in Q2CY2006. The sales growth was led by strong performances in North America (+11%) and Asia Pacific & Middle East (+35%). On the other hand, the company posted a decline in its sales in Brazil, China and the European markets, mainly because of regulatory reforms (in Brazil and Europe) and pricing pressures (in the UK).
- The company's operating profit margin (OPM) improved by 570 basis points yoy to 18.2% in the quarter, largely due to a 27% reduction in the research and development (R&D) expenses and a 7% drop in the selling, general & administrative (SG&A) expenses. Consequently, the operating profit (OP) grew by 56% yoy to Rs264.8 crore.
- The profit after tax (PAT) stood at Rs121 crore, growing by 20% yoy and by 70% quarter on quarter. The PAT growth was subdued on account of a lower other operating income and a foreign exchange (forex) loss of Rs50.6 crore in the quarter.
- Starting from June 23, 2006, Ranbaxy secured 180-day exclusivity rights to market generic Simvastatin 80mg in the US market. In its first week of launch, the product has garnered a market share of almost 50% in the USA.
- The US Food and Drug Authority (USFDA) has issued a warning letter to Ranbaxy's plant at Paonta Sahib for deviations from good manufacturing practices. This might delay Ranbaxy's launch of Pravastatin in the USA. However, the company is proactively working to resolve the issue.

Result table Rs (cr)

Particulars	Q2CY06	Q2CY05	% chg	H12006	H12005	% chg
Net sales	1,433.9	1,317.7	8.8	2,697.0	2,439.2	10.6
Other operating income	22.3	44.2	-49.5	57.3	106.2	-46.0
Consumption of materials	697.8	637.9	9.4	1,383.3	1,216.8	13.7
SG&A expenses	411.7	442.1	-6.9	803.2	838.6	-4.2
EBIDTR	346.7	281.9	23.0	567.8	490.0	15.9
R&D expenditure	81.9	112.0	-26.9	154.8	192.6	-19.6
Operating profit	264.8	169.9	55.9	413.0	297.4	38.9
Other income	15.1	8.5	77.6	20.6	11.6	77.6
EBITDA	279.9	178.4	56.9	433.6	309.0	40.3
Interest	27.7	17.0	62.9	53.4	30.8	73.4
Foreign exchange effect	50.6	-2.3		50.6	-2.3	
Depreciation & amortisation	45.7	37.4	22.2	88.4	70.0	26.3
PBT	155.9	126.3	23.4	241.2	210.5	14.6
Tax	33.6	24.7	36.0	47.1	37.7	24.9
PAT	121.1	101.3	19.5	192.5	172.2	11.8
OPM (%)	18.2	12.5	570 bps	15.0	11.7	330 bps
EBIDTR margin (%)	23.8	20.7	310 bps	20.6	19.3	130 bps
EBIDTA margin (%)	19.2	13.1	610 bps	15.7	12.1	360 bps

- The company maintains its growth guidance of 18% and of earnings before interest, depreciation, tax and amortisation (EBIDTA) margin target of 16% for CY2006. It has achieved a growth of 10.6% in H1CY2006 and thus expects to grow at a higher rate in H2CY2006, in order to grow at its targeted rate during the year.
- In line with the management guidance, we are revising our earnings estimates marginally downwards for CY2006E and CY2007E. CY2006E earnings have been revised downwards by 1.1% to Rs17.4 per share and CY2007E have been revised downwards by 7.6% to Rs22.3 per share. Assigning a price/earnings multiple of 25x, the revised price target stands at Rs558. At the current market price of Rs354, Ranbaxy is trading at 15.9x its CY2007E earnings. Considering the strong growth prospects for the future, the robust R&D pipeline and the good performance in this quarter, we maintain our Buy call on the company with a revised price target of Rs558.

Sales grow by 7.3%, driven by US sales

Ranbaxy's consolidated revenues grew by 8.8% to Rs1,433.9 crore in Q2CY2006. The growth was primarily on account of the strong growth seen in the USA and Asia Pacific.

The domestic sales stood at $67 million, 4% higher than that in the corresponding quarter of the previous year. The domestic growth was modest due to a higher base in Q2CY2005 on account of re-stocking after the implementation of the value-added tax. Ranbaxy's share in the domestic market now stands at 5.02%, up from 4.73% last year. The domestic growth was primarily driven by a strong growth in the chronic therapy portfolio, which contributed 23.1% to the sales and grew at a robust 41.6% as compared with the market growth of only 20%.

The US operations recorded sales of $8.9 million for the quarter, an increase of 8% yoy. The growth was largely due to an increase in the volumes, as pricing pressures continued to remain strong in the USA. The growth was also led by the launch of Simvastatin tablets (80mg) with 180-day exclusivity. In its first week of launch, Ranbaxy has garnered a 50% share of the Simvastatin generic market. The launch of Simvastatin helped Ranbaxy to increase its market share in the US generic market from 12.2% in Q2CY2005 to 15.2% in Q2CY2006.

The business in the BRICS countries (Brazil, Russia, India, China and South Africa) grew by 11% yoy to $112 million. Notable amongst the BRICS markets was the 62% year-on-year growth seen in Russia, Ukraine and Romania. The recently acquired Romanian company, Terapia, recorded a robust sales growth of 44% during the quarter. Ranbaxy's management expects Terapia to grow faster than the overall Romanian market going forward. The sales in Brazil and China declined by 13% and 11% respectively due to the change in healthcare regulations in these countries.

Ranbaxy's sales in Europe posted a decline of 17% yoy to $46 million. This was primarily due to the strong pricing pressures in the UK and lower primary market sales in France and Germany on account of the changing healthcare reforms in these countries. The sales in France were lower despite four new product launches.

Sales break-up

(US$ million)	Q2CY2006	Q2CY2005	% chg
Formulations	284.0	265.0	7.2
Domestic--India	72.0	69.0	4.3
International	212.0	196.0	8.2
Europe, CIS and Africa	88.0	85.0	3.5
Asia Pacific and Middle East	23.0	17.0	35.3
Latin America	10.0	12.0	-16.7
North America	91.0	82.0	11.0
Active pharmaceutical ingredients (API)	32.0	33.0	-3.0
Sales without discontinued operations	316.0	298.0	6.0
Allied businesses (discontinued)	0.0	9.0	-100.0
Net sales	316.0	307.0	2.9

Cost-cutting measures, high operating leverage drive up OPM

Ranbaxy's OPM improved by 570 basis points to 18.2% in Q2CY2007. This was effected by the strong cost-cutting initiatives undertaken by the company. The company recorded sharp declines of 27% and 7% in its R&D expenditure and SG&A costs respectively, leading to the steep improvement in the OPM. The R&D expenses constituted only 5.7% of the sales, as against 8.5% of the sales in Q2CY2005, whereas the SG&A expenses were down to 28.7% of the sales in Q2CY2006 from 33.6% in Q2CY2005. Even though the company does not expect to sustain such sharp declines in its costs in the upcoming quarters, it continues to focus on cost optimisation.

The leaner cost structure coupled with the high operating leverage coming into play drove the margins higher, causing the OP to rise by 56% to Rs264.8 crore in the quarter.

Cost break-up

Rs crore	Q2CY2006	Q2CY2005	% chg
Net sales	1433.9	1317.7	8.8
Consumption of materials	697.8	637.9	9.4
% of net sales	*48.7*	*48.4*	
SGA expenses	411.7	442.1	-6.9
% of net sales	*28.7*	*33.6*	
R&D expenses	81.9	112.0	-26.9
% of net sales	*5.7*	*8.5*	

Forex losses cause PAT growth to be subdued at 20%

Even though Ranbaxy recorded a stellar rise of 56% in its OP, its PAT grew by only 20% yoy to Rs121.1 crore in Q2CY2006. This sharp swing was on account of a lower other operating income and higher interest and depreciation costs. The other operating income comprising share of ciprofloxacin sales from Bayer and export benefits, stood at only Rs22.3 crore, a drop of 50% yoy. The PAT growth was also affected by the huge forex loss of Rs50.6 crore incurred by the company on its foreign currency loans and foreign currency convertible bond issue. The interest cost at Rs27.7 crore was higher by 63%, whereas the depreciation cost of Rs45.7 crore was up by 22.2% yoy.

USFDA notice to the Paonta Sahib facility remains a concern, may affect launch of Pravastatin 80mg

In June 2006, Ranbaxy's facility at Paonta Sahib received a warning letter from the USFDA for deviation from good manufacturing practices. Even as the company is actively working with the USFDA to resolve the issue, new launches from this facility have temporarily come to a halt. This has affected Ranbaxy's launch of Pravastatin 80mg with 180-day exclusivity in the US market. While the management has not indicated any timeline for the resolution of the issue, it has indicated that it is vigorously pursuing the case to satisfy the USFDA's objections.

Strong R&D pipeline

Ranbaxy has a strong product pipeline in the offing. The company received approval for two of its abbreviated new drug applications (ANDAs) in the quarter, taking the cumulative ANDA approvals to 113, with 56 ANDAs pending approval from the USFDA. In the European Union, Ranbaxy made four national filings in two reference member states (RMS) during the quarter, taking the total national filings during the year to seven. The company has also received three approvals in the two RMS, taking the total number of approvals to four. The management has indicated that it is on track with the filing of 20+ new ANDAs in CY2006.

Even as the company achieved a sharp drop in its R&D expenditure, its drug discovery programmes are progressing as planned. Phase II clinical studies for anti-malaria drug RBx 11160, being developed under a collaborative research programme with the Medicines of Malaria venture, have begun and patients are being enrolled in India, Thailand and Africa.

Key new developments

- Ranbaxy acquired Mundogen S.A. Spain, the generic business of Glaxo SmithKline in Spain, to further strengthen its presence in the fast growing Spanish generic market.
- It launched Simvastatin 80mg with 180-day exclusivity in the USA on June 23, 2006.
- It received the USFDA approval to market Doxyclycline 50mg, 75mg and 100mg in the US market. It also received the approval to market Cefprozil oral suspension 125mg/5 ml and 250mg/5ml.
- The company signed a licencing and supply agreement with Janssen-Ortho, Inc in Canada in July 2006 for a generic version of Risperidone compressed tablets to be sold under its label.
- It entered into a strategic partnership with New York-based Invagen Pharmaceuticals to commercialise their epilepsy drug, Zonisamide, in the US market.
- Ranbaxy formed a strategic alliance with Zenotech Laboratories to market 11 oncology generic formulations in the USA and Canada.
- It received marketing authorisation for Pravastatin 20mg and 40mg in France; the same are to be launched on day one in Q3CY2006.
- It launched two new products--Clarithromycin and Terbinafine generics--in Japan.
- It introduced a new asthma drug, Synasma, in India through in-licencing from Eurodrug Laboratories, a Dutch pharma company.
- It in-licenced Trambax Flashtab (Tramadol 50mg), a new drug delivery system analgesic product, from French company, Ethypharm.
- Four additional anti-retroviral (ARV) products of Ranbaxy were included by the World Health Organization in its pre-qualification list, taking the total number of ARV inclusions to 12.

Outlook

Overall, the Q2CY2006 performance of Ranbaxy has been its strongest operating performance over the last few quarters. The company has taken a series of positive steps to grow its top line, including the launch of Simvastatin 80mg under six-month exclusivity, multiple acquisitions in Europe, several licencing deals and new product launches in several of its markets. A strong top line growth coupled with a strong cost management focus has enabled Ranbaxy to achieve a strong operating turn-around.

Going forward, the company reiterates its robust revenue growth guidance of 18% for CY2006, with EBIDTA margin of 16%. The company has grown at 10.6% in HICY2006. Hence, it expects a stronger performance in H2CY2006 so as to achieve its overall yearly target.

The company expects its growth to be driven by the US markets, primarily through the launches of Simvastatin and the pending launch of Pravastatin. Even after the six-month exclusivity period, the management is confident of maintaining the high market shares given the company's complete vertical integration in the Statin products. The company is aggressively increasing its customer listings and volumes in the US market and plans to launch new products as soon as approvals are received.

The company expects its French operations to break even at the operating level in the current year and is working on creating a strong product portfolio to combat pricing pressures in the UK. Moreover, it expects the true impact of the Terapia acquisition to be visible in Q3CY2006, since the acquisition of Terapia was completed only towards the end of Q2CY2006. Ranbaxy expects to sustain its strong growth in the Asia Pacific region in the future quarters on the back of good product flow.

We believe that the numerous measures taken by Ranbaxy to drive its top line growth will be reflected over the next few quarters and drive stronger profitability growth by leveraging the leaner cost structure. The company's vigorous cost controlling initiatives demonstrates its commitment to compete amidst a fiercely competitive environment with strong pricing pressures.

In line with the management guidance, we are revising our earnings estimates marginally downwards for CY2006E and CY2007E. CY2006E earnings have been revised downwards by 1.1% to Rs17.4 per share and CY2007E have been revised downwards by 7.6% to Rs22.3 per share. Assigning a price/earnings multiple of 25x, the revised price target stands at Rs558. At the current market price of Rs354, Ranbaxy is trading at 15.9x its CY2007E earnings. Considering the strong growth prospects for the future, the robust R&D pipeline and the good performance in this quarter, we maintain our Buy call on the company with a revised price target of Rs558.

Valuation table

Particulars	CY2004	CY2005	CY2006E	CY2007E
Net sales (Rs cr)	5,307.9	5,109.0	6,028.6	6,932.9
PAT (Rs cr)	701.1	261.0	650	831.9
Shares in issue (cr)	37.2	37.2	37.3	37.3
EPS (Rs)	18.8	7.0	17.4	22.3
PER (x)	18.8	50.4	20.3	15.9
Book value (Rs/share)	62.8	68.6	86.2	110.1
Price/BV (x)	5.6	5.2	4.1	3.2

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

ITC

Apple Green

Stock Update

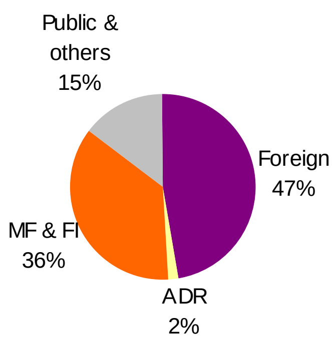
Cheers for all businesses

Buy; CMP: Rs168

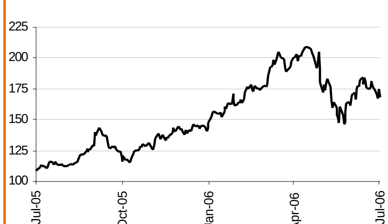
Company details

Price target:	Rs220
Market cap:	Rs63,084 cr
52 week high/low:	Rs213/106
NSE volume: (No of shares)	71.3 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float: (No of shares)	368 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.9	-11.6	20.8	59.3
Relative to Sensex	3.8	1.9	10.0	11.3

Result highlights

- ITC's adjusted net profit grew by 22.7% year on year (yoy) to Rs652.0 crore, in line with our expectations.
- The net revenues for the quarter grew by 25.7% yoy as most of its businesses grew strongly. However, the growth in the revenues from cigarettes as well as the paperboard business was slightly below our expectations.
- The profit before interest and tax (PBIT) grew by 21.6% yoy with margin expansion in all the businesses. Overall the PBIT margins (adjusted for one-off items) expanded by 8.4 basis points yoy.
- The non-cigarette fast moving consumer goods (FMCG) business is the only business in ITC's portfolio which is making losses. However, with the strong growth in the revenues, the magnitude of the losses ie, the loss margins have come down considerably.
- We have always liked the way ITC has channelised the strong cash flows generated from the cigarette business into the other businesses without affecting its return on capital employed. At the current market price of Rs168, the stock is attractively quoting at 19.0x its FY2008E earnings per share (EPS) and 12.0x FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on ITC with a price target of Rs220.

Revenues grow on all-round performance

ITC's net revenues for Q1FY2007 grew by 25.7% yoy backed by a strong growth in all its businesses. The core business of cigarettes grew by 11.1% yoy (approximately 5-6% volume growth). Among the other businesses the non-cigarette FMCG business witnessed a growth of 79% yoy.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	2,849.7	2,266.9	25.7
Other income	84.9	84.5	0.5
Total income	2,934.6	2,351.4	24.8
Total expenditure	1,879.2	1,440.1	30.5
Operating profit	970.5	826.8	17.4
Interest	0.7	1.1	-33.3
Depreciation	87.6	80.1	9.5
Profit before tax	967.1	830.1	16.5
Tax	314.9	271.8	
Reported profit after tax	652.2	558.3	16.8
Extraordinary items	0.0	26.8	
Profit after extraordinary items	652.2	531.5	22.7
OPM (%)	34.1	36.5	-241.4

Segment wise gross revenues (Rs crore)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg	% q-o-q chg
FMCG - cigarettes	3,159.2	2,843.1	11.1	9.6
FMCG - others	359.7	200.3	79.6	17.7
Hotels	198.8	146.9	35.3	-24.5
Agri business	1,111.1	753.9	47.4	38.2
Paperboards, paper & packaging	501.5	460.7	8.8	5.5
Total	5,330.2	4,404.9	21.0	12.7

Source: Company

PBIT grows by 21.6% yoy

The PBIT (adjusted for one-off items) grew by 21.6% yoy on the back of an 8.4-basis-point expansion in the margins. The expansion in the margins was led by a 900-basis-point expansion in the hotel business and the reduced loss margins in the other FMCG businesses.

Segmental PBIT

Particulars	Rs crore		% yoy	Margins (%)		Chg
	QFY07	Q1FY06	chg	QFY07	Q1FY06	in bps
FMCG-cigarettes	815.6	694.6	17.4	25.8	24.4	138.3
FMCG-others	-58.2	-54.7	-	-16.2	-27.3	1111.1
Hotels	57.6	29.3	96.1	29.0	20.0	897.6
Agri business	47.1	36.3	29.7	4.2	4.8	-57.7
Paperboards, paper & packaging	104.6	89.6	16.8	20.9	19.4	142.6
Total	966.7	795.2	21.6	18.1	18.1	8.4

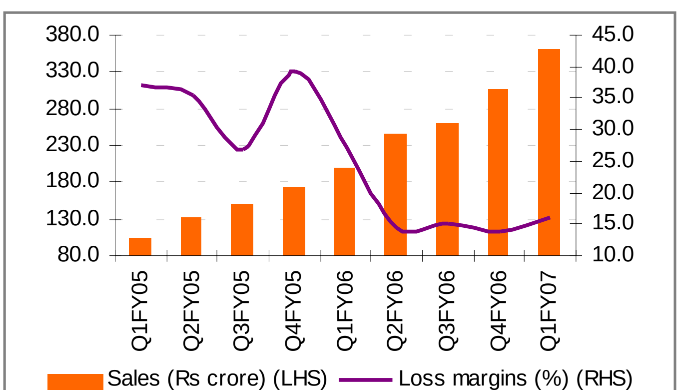
Source: Company

ITC's PBIT from the hotel business for Q1FY2006 included Rs26.8 crore on account of one-time settlement money received for one of its hotel properties.

Magnitude of losses in other FMCG business decreasing with scale

The non-cigarette FMCG business continued to make losses in Q1FY2007. However, over the past couple of quarters the magnitude of the losses is decreasing. The margins of the losses have reduced from 37% in Q1FY2005 to around 16% in Q1FY2007.

Magnitude of losses going down with rising sales



Source: Company, Sharekhan Research

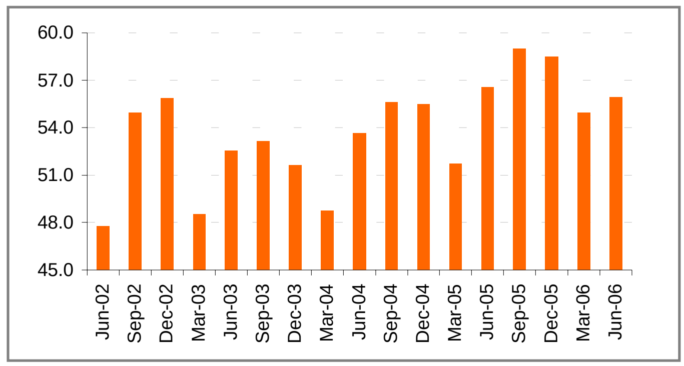
Adjusted net profit grows by 22.7% yoy

The reported net profit for the quarter under review grew by 16.8% yoy to Rs652.2 crore. However, the profit from the hotel business for Q1FY2006 included a sum of Rs26.8 crore on account of the settlement in one of the hotel properties adjusted for which the net profit grew by 22.7% yoy.

Valuation and view

We have always liked the way ITC has channelised the strong cash flows generated from the cigarette business into the other businesses of FMCG products, hotels, paperboards and now e-Choupals. Notably over FY2000-06, the company has incurred a capital expenditure (capex) of more than Rs4,500 crore for its various businesses without affecting the return on capital employed.

ITC's trailing 12-month RoCE (%)



Source: Company, Sharekhan Research

At the current market price of Rs168, the stock is trading at 19.0x FY2008E EPS and 12.0x its FY2008E EV/EBIDTA. We reiterate our Buy recommendation on the stock with a price target of Rs220.

Valuation table

Particulars	FY05	FY06	FY07E	FY08E
Net profit (Rs crore)	1,837.5	2,275.8	2,791.3	3,312.4
Shares in issue (crore)	375.5	375.5	375.5	375.5
EPS (Rs)	4.9	6.1	7.4	8.8
% y-o-y chg	*15.3*	*23.9*	*22.7*	*18.7*
PER (x)	34.2	27.6	22.5	19.0
Book value (Rs)	21.0	24.1	28.5	34.3
P/BV (x)	8.0	6.9	5.9	4.9
EV/EBIDTA (x)	21.2	18.1	14.6	12.0
EV/Sales (x)	7.8	6.1	4.8	3.9
RoCE (%)	32.8	32.7	35.1	35.1
RoNW (%)	25.7	26.8	28.2	28.1

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

3i Infotech

Emerging Star

Stock Update

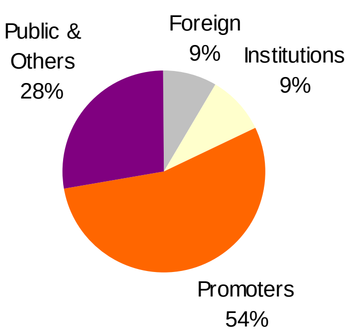
In line with expectations

Buy; CMP: Rs137

Company details

Price target:	Rs244
Market cap:	Rs724 cr
52 week high/low:	Rs218/91
NSE volume: (No of shares)	3.4 lakh
BSE code:	532628
NSE code:	3IINFOTECH
Sharekhan code:	ICICINFO
Free float: (No of shares)	2.4 cr

Shareholding pattern



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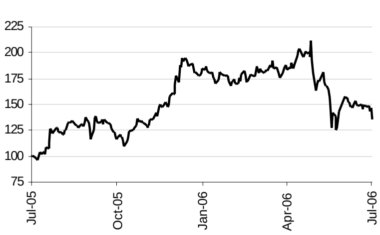


Price performance

(%)	1m	3m	6m	12m
Absolute	-2.9	-20.7	-19.5	44.8
Relative to Sensex	-8.3	-8.7	-26.7	1.1

Result highlights

- 3i Infotech reported a growth of 7.1% quarter on quarter (qoq) and of 45.2% year on year (yoy) to Rs128.5 crore for Q1FY2007. Excluding the impact of its recent acquisition Datacons, the growth in the organic business stood at 5.4% qoq, which is below our expectation.
- The operating profit margin (OPM) improved by 150 basis points to 22.8% on a sequential basis. Despite the annual salary hikes in Q1, the OPM improved on the back of the increase in the proportion of the contribution from the high-margin product business (up 50 basis points to 48.9% of the net revenues), higher gross margins in the service business (a 270-basis-point improvement to 39.3%) and favourable foreign exchange (forex) movement.
- The other income component stood at Rs4.8 crore as compared with Rs1.6 crore in Q4FY2006 and Rs1.5 crore in Q1FY2006. The other income was boosted by forex gains of Rs1.1 crore and the incremental interest income of Rs2 crore on the foreign currency convertible bond (FCCB) proceeds of $50 million.
- The higher other income negated the adverse impact of the higher interest outgo and depreciation charges during the quarter. Consequently, the consolidated earnings grew by 21.7% qoq and by 107% yoy to Rs21.3 crore, ahead of our expectation of Rs20 crore.
- The order backlog has grown by 10.1% qoq to Rs293.2 crore, with the product order book growing by 10.7% qoq to Rs146.5 crore and the software service backlog was up by 9.4% qoq to Rs146.7 crore. This is the second consecutive quarter of a double-digit sequential growth in the order backlog.

Result table Rs (cr)

Particulars	Q1FY07	Q1FY06	Q4FY06	% yoy chg	% qoq chg
Net sales	128.5	88.5	120.0	45.2	7.1
Software development cost	69.7	50.2	66.7	38.8	4.5
Gross profit	58.7	38.3	53.2	53.5	10.3
SG&A expenses	29.4	21.4	27.7	37.5	6.2
Total operating cost	99.1	71.6	94.4	38.4	5.0
Operating profit	29.3	16.9	25.5	73.1	14.8
Other income	4.8	1.5	1.6	220.9	196.9
Interest	3.2	2.5	2.5	25.6	30.2
Depreciation	7.9	5.6	6.5	40.0	21.3
PBT	23.0	10.3	18.2	124.3	26.4
Provision for tax	1.7	0.0	0.6	-	173.2
Tax	0.6	0.7	1.2	-	-
Deferred tax	1.0	-0.7	-0.6	-	-
Net profit	21.3	10.3	17.6	107.3	21.3
Less: Minority interest	0.0	0.0	0.1	-	-100.0
RPAT	21.3	10.3	17.5	107.3	21.7
Equity capital	53.0	31.0	53.0		
EPS (Rs)	4.0	3.3	3.3		
Margins(%)					
GPM	45.7	43.2	44.4		
OPM	22.8	19.1	21.3		
NPM	16.6	11.6	14.7		

- Along with the quarterly results, the company announced the acquisition of a 51% stake in a Mumbai-based business process outsourcing (BPO) company, Delta Services (India) Ltd. The acquired company has annual revenues of around $3 million and is profitable at the net level.
- The management has maintained the annual revenue growth guidance at 25-30% and the diluted earnings guidance at Rs13-13.5 per share (net of dividend on preference share capital) in FY2007. However, the guidance does not include the incremental revenues and earnings from the acquisition of Delta Services.
- At the current market price the stock trades at 10.2x FY2007 and 7.4x FY2008 estimated earnings. We maintain our Buy call with a price target of Rs244.

Revenue growth lower than expectations

The sequential growth of 7.1% was lower than our expectation. The growth in the existing business (including the first three acquisitions: Innovative Business Solutions, SDG Software and Formula Ware) stood at 5.4%, which is lower than expectations.

(Rs cr)	Q1FY07	Q1FY06	Q4FY06	% yoy chg	% qoq chg
Products	62.8	40.0	58.0	56.8	8.2
Services	65.7	48.4	62.0	35.6	6.1

On the positive side, the order book has continued to grow at a healthy double-digit rate for the past two quarters and stood at Rs293.2 crore. The order backlog in the product business has almost doubled in the past three quarters, from Rs74 crore in Q2FY2006 to Rs146.5 in Q1FY2007. The management expects the same to get reflected in the performance over the coming quarters.

The sequential growth in the service business is also expected to pick up in the coming quarters. The backlog in the service business grew at a healthy rate of 9.4% qoq to Rs146.7 crore as compared to the muted sequential growth in the previous four quarters. Moreover, the growth in the service business would also be driven by the higher billing rates that have been renegotiated with some of its large clients, including ICICI Bank and other group companies.

Margins improve by 150 basis points

The sequential improvement in the OPM was positively affected by three factors. First, the proportion of high-margin product revenues improved by 50 basis points to 48.9% of the net sales. The positive impact of the same was partially nullified by the sequential drop of 20 basis points in the gross margins to 52.5% due to annual salary hikes.

Second, the gross margins in the service business improved by 270 basis points due to the higher billing rates renegotiated with some of its large clients. Third, the depreciation of the rupee also marginally boosted the margins.

Segmental break-up (Gross profit)

(Rs cr)	Q1FY07	Q1FY06	Q4FY06	% yoy chg	% qoq chg
Products	33.0	20.8	30.6	58.4	7.9
Services	25.8	17.2	22.7	49.8	13.7
Gross margins (%)					
Products	52.5	52.0	52.7		
Services	39.3	35.5	36.6		

Guidance maintained

The management has maintained the annual revenue growth guidance at 25-30% and the diluted earnings guidance at Rs13.0-13.5 per share (net of dividend on preference share capital) in FY2007. However, the guidance does not include the incremental revenues and earnings from the acquisition of Delta Services.

Other highlights

The company announced the acquisition of a 51% stake in a Mumbai-based BPO company, Delta Services, which is focused on the banking, financial services and insurance space. The acquired company has annual revenues of around $3 million and is profitable at the net level.

The revenues from its largest client, ICICI Bank (and other group companies), grew by 7.1% qoq to Rs23.2 crore and contributed 18% of the net sales (the same as in Q4).

On a sequential basis, revenues from India and EMEA (Europe, Middle East and Asia) grew by 20.5% and 17.2% respectively. On the other hand, those from the USA declined by 5.5% during the quarter.

Valuation

At the current market price the stock trades at 10.2x FY2007 and 7.4x FY2008 estimated earnings. We maintain our Buy call with a price target of Rs244.

Earnings table

(Rs crore)	FY2005	FY2006	FY2007E	FY2008E
EPS	6.9	9.5	13.5	18.4
PER	19.9	14.5	10.2	7.4
P/B	2.2	2.0	1.3	1.1
EV/EBIDTA	15.2	11.1	7.4	5.5
EV/Sales	1.6	1.9	1.6	1.2
M Cap/EBIDTA	9.4	9.0	6.1	4.7
M Cap/Sales	1.6	1.9	1.3	1.0

Ratnamani Metals and Tubes

Ugly Duckling

Stock Update

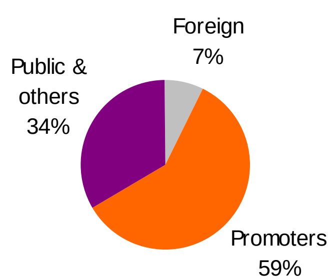
Performance shows the mettle

Buy; CMP: Rs285

Company details

Price target:	Rs520
Market cap:	Rs256 cr
52 week high/low:	Rs498/166
BSE volume: (No of shares)	15,712
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float: (No of shares)	37 lakh

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-11.9	-25.2	-4.2	70.3
Relative to Sensex	-16.8	-13.8	-12.8	18.9

Result highlights

- Ratnamani Metals and Tubes Ltd (RMTL) reported a strong 103% year-on-year (y-o-y) growth in its net profit for Q1FY2007 to Rs8.3 crore on the back of robust sales and operating profit margins (OPMs).
- The net sales grew by 60% year on year (yoy) to Rs88.1 crore on the back of a five-fold increase in the booking of its exports sales. The domestic sales grew by 28.5% yoy.
- The operating profit grew by 107.6% yoy as the OPM expanded by 495 basis points.
- As a result, the net profit grew by 103.4% yoy to Rs8.3 crore.
- We believe that there is a strong visibility of earnings for RMTL with key user industries for its products going in for capital expansion over the next two years.
- At the current market price of Rs285, the stock is trading at 5.1x its FY2008E earnings per share (EPS) and 3.3x its FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We reiterate our Buy recommendation on the stock with a price target of Rs520.

Net sales grow by 60% yoy

RMTL's net sales for Q1FY2007 grew by 60% yoy to Rs88.1 crore on the back of a five-fold growth in its exports sales. The domestic sales grew by 28.5% yoy. The growth in the domestic sales would have been higher but for one order which was only partly booked in Q1FY2007.

Break up of gross sales (Rs crore)

Particulars	Q1FY2007	Q1FY2006	% y-o-y change
Domestic	74.4	57.7	29.0
Exports	22.7	3.9	488.9
Gross sales	97.0	61.5	57.7

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	88.1	55.1	59.9
Total income	88.1	55.1	59.9
Total expenditure	69.1	45.9	50.4
Operating profit	19.0	9.2	107.6
Interest	3.8	1.6	138.4
Depreciation	2.7	1.4	93.3
Profit before tax	12.5	6.2	102.9
Tax	4.3	2.2	103.0
Reported profit after tax	8.3	4.1	103.4
OPM (%)	21.6	16.6	495 bps

Operating profit grows by 107.6% yoy

The operating profit grew by 107.6% yoy on the back of a 495-basis-point expansion in the OPM. The backward integration helped the company to save on the raw material cost, which declined from 65% of the sales to 59% of the sales.

The other expenditure went up during the quarter for the following two reasons.

- The freight cost related to the export orders.
- The expenses related to an order from Reliance Petroleum Ltd for which some sales still have to be booked; however, the expenses related to the same have been booked.

The net profit grew by 103.4% yoy to Rs8.3 crore.

Strong order book of Rs350 crore

The order book as on date stands at Rs350 crore as the company added orders worth Rs100 crore during the quarter under review. The majority of the order book is to be booked over the next six months.

Valuation and view

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 (capex) lined up by the refining and petrochemicals majors in India augurs well for RMTL (see the table). On the SS pipes front, the addition of approximately 25,000 megawatt of capacity in the power generation sector will help in building a strong order book of the company.

Capex plans of major Indian refiners

Company	Place of expansion	Capex (Rs crore)
HPCL	Vizag	18,000.0
	Bhatinda	13,000.0
BPCL	Bina	5,000.0
IOC	Panipat	22,000.0
RPL		27,000.0
Total		**85,000.0**

At the current market price of Rs285, the stock is trading at 5.1x its FY2008E EPS and 3.3x its FY2008E EV/EBIDTA. We reiterate our Buy recommendation on the stock with a price target of Rs520.

Valuation table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	13.3	33.5	43.4	53.0
Shares in issue (cr)	0.9	0.9	0.9	0.9
EPS (Rs)	14.7	37.2	45.9	56.1
PER (x)	19.4	7.7	6.2	5.1
Book value (Rs)	56.3	91.0	130.1	182.7
P/BV (x)	5.1	3.1	2.2	1.6
EV/EBIDTA (x)	10.3	5.6	3.9	3.3
EV/Sales (x)	1.7	1.1	0.8	0.6
RoCE (%)	49.1	37.0	36.3	36.5
RoNW (%)	52.3	50.5	42.4	35.9

Union Bank of India

Ugly Duckling

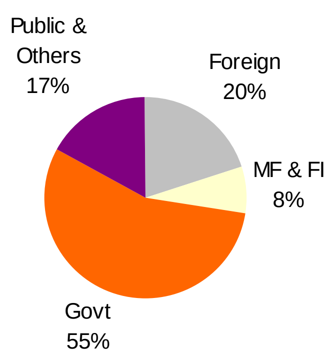
Stock Update

Strong operating performance

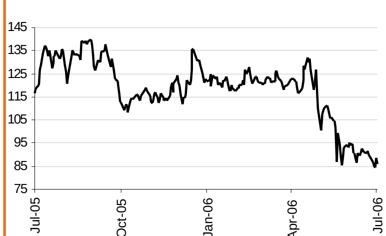
Buy; CMP: Rs86

Company details	
Price target:	Rs150
Market cap:	Rs4,328
52 week high/low:	Rs149/81
NSE volume: (No of shares)	8.1 lakh
BSE code:	532477
NSE code:	UNIONBANK
Sharekhan code:	UBI
Free float: (No of shares)	8.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.9	-24.9	-24.4	-21.9
Relative to Sensex	-10.2	-13.5	-31.1	-45.5

Result highlights

- Union Bank of India's (UBI) net interest income (NII) grew by a strong 18.7% year on year (yoy) to Rs634.5 crore on the back of a 34.1% growth in its advances and a fairly stable net interest margin (NIM).
- A 23.8% year-on-year (y-o-y) growth in the fee income to Rs137 crore was also a positive surprise.
- The operating profit grew by 21% yoy to Rs426.5 crore with a strong growth in the income and stable expenses.
- However, high provisions on account of investment depreciation and amortisation led to a decline of 30% yoy in the net profit to Rs167 crore.
- We have lowered our FY2007 earnings per share (EPS) estimate by 17% to take into account the increased amortisation and depreciation expenses due to the rising interest rates.
- At the current market price of Rs86, UBI is quoting at 3.9x its FY2008E EPS and 0.7x its FY2008E book value. We reiterate our Buy recommendation on the stock with a price target of Rs150.

Strong growth in core earnings

UBI's NII grew by a strong 18.7% yoy on the back of a strong 34.1% y-o-y growth in the advances. The NIM remained fairly stable at 2.94% for Q1FY2007 compared with 3.02% in Q1FY2006. A 23.8% y-o-y growth in the fee income was also a positive surprise.

Operating profit grows by strong 21.0%

The operating profit grew by 21.0% yoy as the NII grew strongly and the expenses were under control.

Increased provisioning hurts at net profit level

Despite a strong growth of 21% in the operating profit, the net profit for Q1FY2007 declined by 30% yoy to Rs167 crore due to increased provisioning for investment

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
NII	634.5	534.7	18.7
Other income	165.0	133.7	23.4
Fee income	137.0	110.7	23.8
Treasury income	28.0	23.0	21.7
Net income	799.5	668.4	19.6
Total operating expenses	373.0	315.3	18.3
Operating profit	426.5	353.1	20.8
Provisions & contingencies	157.9	64.7	144.1
Provision for taxes	101.8	48.0	
Net profit	166.8	240.4	-30.6

depreciation and amortisation, and a very high effective tax rate. During Q1FY2007, the effective tax rate stood at 37.9% compared with 16.6% in Q1FY2006.

Break-up of provisioning

Rs crore	Q1FY2007	Q1FY2006
Amortisation	99.0	31.0
NPA	55.0	25.0
Others	3.9	9.0
Tax	101.8	48.0

Provisioning to reduce going forward

As of now UBI has 27% of its total investment portfolio in the "available for sale" category with an average duration of two years. The bank is likely to redeem the same over FY2007. Hence, going forward the provisioning on account of investment depreciation is likely to reduce.

Need to shore up Tier-I equity capital

UBI's Tier-I capital adequacy ratio (CAR) at the end of June 2006 was at 7.2% with an overall CAR of 11.2%. UBI will have to resort to raising Tier-I capital over the next 12-18 months to grow its balance sheet at a similar pace. However, with the norms to raise Tier-I capital through hybrid instruments in place, UBI will not have to dilute its equity.

Valuation

We have lowered our FY2007 EPS estimate by 17% to take into account the increased amortisation and depreciation expenses due to the rising interest rates. At the current market price of Rs86, UBI is quoting at 3.9x its FY2008E EPS and 0.7x its FY2008E book value. We reiterate our Buy recommendation on the stock with a price target of Rs150. The price target is based on a fair price/book value of 1.23x with an average return on equity of 18.8%.

Earnings table

Year to 31 March	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	718.9	675.2	912.0	1,129.0
Shares in issue (cr)	46.0	50.5	50.5	51.5
EPS (Rs)	15.6	13.4	18.1	21.9
EPS growth (%)	1.0	-14.5	35.1	21.4
PE (x)	5.5	6.4	4.8	3.9
Book value (Rs/share)	78.8	90.2	103.8	121.2
P/BV (x)	1.1	1.0	0.8	0.7
RONW (%)	21.4	15.8	18.6	19.5

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

Satyam Computer Services

Apple Green

Stock Update

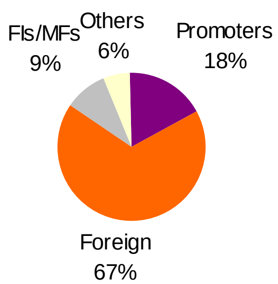
Beats market expectations

Buy; CMP: Rs687

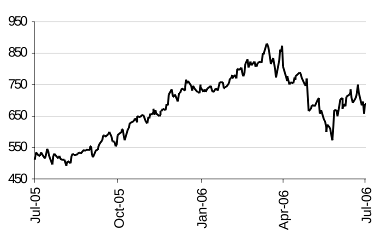
Company details

Price target:	Rs900
Market cap:	Rs22,328 cr
52 week high/low:	Rs890/487
NSE volume: (No of shares)	32.5 lakh
BSE code:	500376
NSE code:	SATYAMCOMP
Sharekhan code:	SATYAM
Free float: (No of shares)	27.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.1	-21.0	-7.4	37.0
Relative to Sensex	0.3	-9.0	-15.7	-4.4

Result highlights

- Satyam reported a 9.8% quarter-on-quarter (q-o-q) and a 36.3% year-on-year (y-o-y) growth in its consolidated revenues to Rs1,443 crore. The sequential growth was contributed by a 10.1% q-o-q growth in the stand-alone revenues and a sequential growth of 4.6% in the revenues from its various subsidiaries. The sequential growth in the volume at 7.2% on a consolidated basis was higher than the sequential growth shown in the previous two quarters. The performance was ahead of the revenue guidance of 3.7% q-o-q growth to Rs1,363 crore given at the beginning of the quarter.
- The operating profit margin (OPM) declined by 90 basis points to 24.6% on a sequential basis but was better than 22.7% reported in Q1FY2006 (not comparable as the annual salary hikes were given in Q1 itself in FY2006). The sequential decline in the OPM was contributed by a drop in the offshore employee utilisation rate by 95 basis points (this was expected due to a record intake of employees in Q4), an increase of 30 basis points in the selling, general and administration (SG&A) expense as a percentage of sales and the additional visa charges.
- The other income component jumped to Rs74.5 crore, sharply up from Rs29 crore in Q4FY2006. The other income component was boosted by the net foreign exchange (forex) gains of Rs45.2 crore during the quarter. In addition to this, the lower depreciation charges and a decline in the tax rate also boosted the earnings.

Result table Rs (cr)

Particulars	Q1FY07	Q1FY06	Q4FY06	% yoy chg	% qoq chg
Total revenue	1442.9	1058.7	1313.6	36.3	9.8
Software development expenses	831.6	639.1	750.0	30.1	10.9
Gross profit	611.3	419.6	563.5	45.7	8.5
Other expenses	256.3	178.9	229.1	43.3	11.9
Total expenditure	1087.9	818.0	979.1	33.0	11.1
Operating profit	355.0	240.7	334.5	47.5	6.1
Non-operating income	74.5	23.4	28.9	218.1	157.9
Interest & financial charges	2.6	0.5	1.7	442.6	54.5
Profit before depreciation and tax	426.9	263.7	361.7	61.9	18.0
Depreciation/amortisation	36.2	31.3	37.2	15.5	-2.7
Profit before tax	390.8	232.4	324.5	68.2	20.4
Provision for taxation	36.8	39.2	39.7	-6.2	-7.5
Profit after tax	354.0	193.2	284.8	83.3	24.3
Share of associate companies	0.1	2.9	0.2	-95.9	-33.3
Net profit after exceptional items	354.1	190.3	284.6	86.2	24.4
Equity share capital	65.3	63.9	64.2		
Basic EPS (Rs)	10.9	6.0	8.9		
Margins (%)					
GPM(%)	42.4	39.6	42.9		
OPM(%)	24.6	22.7	25.5		
PBT margin (%)	27.1	21.9	24.7		
NPM(%)	24.5	18.2	21.7		

- Consequently, the consolidated earning grew by 24.4% quarter on quarter (qoq) and by 86.2% year on year (yoy) to Rs354 crore, much higher than the market expectations. The earning per share (EPS) stood at Rs10.9 as against the guidance of Rs8.6.
- For the full year, the management has revised upwards the annual growth guidance for the revenues and earnings by 3% and 8% respectively. As per the revised guidance, the revenues are expected to grow by 29-31% (Rs6,190-6,290 crore) and the EPS (excluding the non-cash charges related to the restricted stock options) is expected in the range of Rs40-40.6 (31.3-33.3% growth over FY2006).
- However, the Q2 guidance is quite muted. The consolidated revenues are expected to grow by 5.4-6% sequentially and the EPS is expected to decline by 18.4-18.8% to Rs8.8. The annual salary hikes and the expectations of a lower other income is the reason behind the expected drop in the earnings. The management has assumed an exchange rate of Rs45.8 per US dollar for its guidance that leaves scope for a better performance given the current movement of the rupee against the US dollar.
- At the current price the stock trades at 16.8x FY2007 and 13.8x FY2008 estimated earnings (excluding the non-cash charges for the stock options). The EPS estimates for FY2007 have been revised upwards by 5.4% to Rs41.1. We maintain our Buy call on the stock with a target price of Rs900.

Robust volume growth

The consolidated volume growth of 7.2% was higher than the 6.5-6.7% reported in the previous two quarters and much ahead of the market expectations. Especially given the fact that the subsidiaries contributed only 82 basis points to the consolidated growth as compared to 147 basis points in Q4FY2006.

Sequential growth in volumes (%)

	Q3FY06	QFY06	Q1FY07
Stand-alone	5.5	5.3	6.4
Consolidated	6.5	6.8	7.2

The growth has been driven by the robust traction in the enterprise solutions practice (largely constitutes package implementation, including the ERP package like SAP), which contributes to over 40% of the total turnover. The revenues from the horizontal grew by 12.8% sequentially to Rs558 crore.

The enterprise business grew by 49.4% in FY2006 and has been the key growth driver for the company. The demand environment remains robust and the recent surveys also indicate that the enterprise segment would continue to grow at a robust pace over the next couple of years. We expect the revenues from the enterprise business to grow by 40-42% in FY2007.

The overall growth would also be aided by the infrastructure management services that have grown by 57.6% qoq in Q1. The segment has more of annuity revenues and hence is likely to maintain the growth momentum on an annual comparison basis.

Margins to decline further in Q2

On a sequential basis, the OPM was adversely impacted by the decline in the employee utilisation rate by around 90 basis points (the decline was expected due to a record intake of employees in Q4), an increase of 30 basis points in the SG&A expense (the company conducted the annual conference for its customers) as a percentage of sales and the additional visa charges (Rs24 crore as compared to Rs5 crore in Q4FY2006). The OPM was also impacted by the higher provisions made for the change in the leave encashment policy, which has been extended to the onsite employees also.

On the other hand, the depreciation of the rupee (50-60 basis points gain) and an increase in the proportion of the high-margin offshore revenues provided some cushion against the margin pressure.

Steep upgrade in the annual growth guidance

For the full year, the management has revised upwards the annual growth guidance for the revenues and earnings by 3% and 8% respectively. As per the revised guidance, the revenues are expected to grow by 29-31% (Rs6,190-6,290 crore) and the EPS (excluding the non-cash charges for the restricted stock options) is expected in the range of Rs40-40.6 (31.3-33.3% growth over FY2006). The management reiterated that the OPM would decline by 100 basis points in FY2007.

In Q2, the consolidated revenues are expected to grow by 5.4-6% sequentially whereas the EPS is expected to decline by 18.4-18.8% to Rs8.8 due to the annual salary hikes (with effect from July) and the expected decline in the other income component. However, the management has assumed an exchange rate of Rs45.8 per US dollar for its guidance that leaves scope for a better performance given the current movement of the rupee against the dollar.

The full year guidance also appears to be conservative as it implies an average sequential growth of 5.2% over the next three quarters. However, given the strong demand environment, we expect the revenues to grow at an average rate of around 7.5% qoq over the next three quarters. In the case of earnings, the estimated sequential growth of around 8.5-9% in the last two quarters would make up for the expected decline in the earnings during Q2.

Seasonal weakness in Nipuna

Nipuna, the business process outsourcing (BPO) subsidiary, reported a 7.5% sequential growth in the revenues to Rs36.4 crore due to the seasonal weakness. The net employee addition of 240 associates was encouraging, but resulted in a higher net loss of Rs6.2 crore, up from the Rs2.5 crore loss reported in the previous quarter. The profitability was also impacted by the salary hikes (and incentives) given during the quarter.

The company has maintained the revenue guidance of $36 million for Nipuna during the current year. Apart from Nipuna, the other subsidiaries reported cumulative revenues of Rs20 crore (flat on a sequential basis) and a marginal profit at the net level.

Other highlights

During the quarter, the net employee addition stood at 1,123 associates, taking the staff strength to 27,634. The subsidiaries had staff strength of 2,209 employees at the end of the quarter and the consolidated manpower stood at 29,843 professionals. The attrition rate inched up further to 19.6% as against 19.2% in the previous quarter. However, on an annualised basis, the attrition rate stood at 18.2%.

The company added 34 new clients in Q1. The clients with over $10 million revenue run rate increased to 33, up from 27 reported in Q4FY2006.

The receivables days at 77 improved from 80 days reported in Q4FY2006.

Revision of earning estimates

The EPS estimates for FY2007 have been revised upwards by 4% to Rs41.1 (excluding the non-cash charges related to the restricted stock units). The revision is primarily based on the change in the exchange rate assumption to Rs45.8 per US dollar. The earning estimates of FY2008 have been increased marginally to Rs49.8 per share.

Valuation

At the current price the stock trades at 16.8x FY2007 and 13.8x FY2008 estimated earnings (excluding the non-cash charges for the stock options). We maintain our Buy call on the stock with a target price of Rs900.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net revenue (Rs cr)	3,521.0	4,793.0	6,430.0	8,166.0
Net profit (Rs cr)	712.0	982.0	1,352.0	1,655.0
Shares in issue (cr)	31.9	32.4	32.9	33.2
EPS (Rs)	22.3	30.3	41.1	49.8
% y-o-y change		*36.0*	*35.7*	*21.2*
PER	30.8	22.7	16.7	13.8
OPM (%)	24.7	24.3	24.2	23.5
Dividend (Rs)	5.0	7.0	8.0	9.0
Dividend yield (%)	0.7	1.0	1.2	1.3

Operational metrics—Q1 results

Particulars	Infosys	TCS	Wipro	Satyam
Volume growth				
- % chg qoq	8.5	8.1	5.5	7.2
Billing rates				
- Onsite (% chg qoq)	1.1	0.0	-0.1	0.3
- Offshore (% chg qoq)	0.2	0.0	-0.2	0.2
Recruitment				
- Net employee addition	5694	4698	2841	1219
- % increase on base	10.8	7.1	5.0	4.3
Attrition rate				
- IT services (%)	11.9	10.6	17.0	19.6
Salary hikes	Taken in Q1	Taken in Q1	In Sept	Effective July
Operating margin				
- Absolute (%)	29.5	24.2	24.1	24.6
- bps chg qoq	-230	-220	-60	-90
- Outlook	Improve	Improve	Decline	Decline
Exchange rate impact				
- % qoq revenue growth	3.2	3.2	1.7	2.5
- Non operating income (Rs cr)	52	40	-4	45

Note: 1) The figures for Wipro pertain to its global IT services business.

2) The performances of Infosys and Satyam are as per consolidated Indian GAAP whereas Wipro and TCS figures are based on consolidated US GAAP.

qoq: quarter on quarter (ie Q1FY2007 as compared to Q4FY2006)

bps: basis points

Valuation matrix

Company	EPS (Rs)		P/E	
	FY07	FY08	FY07	FY08
Infosys	65.8	81.0	24.4	19.8
TCS	78.6	98.7	22.5	17.9
Wipro	18.2	23.0	24.6	19.5
Satyam	41.1	49.8	16.7	13.8

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
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aarvee Denims and Exports
Aban Loyd Chiles Offshore
Alok Industries
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
Tube Investments of India
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren
Welspun India

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
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