



Index

- ◆ Stock Update >> [Gateway Distriparks](#)
- ◆ Stock Update >> [ICI India](#)

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
◆ India Cements	28-Sep-06	220	225	315
◆ Infosys	30-Dec-03	689	2,225	2,430
◆ Lupin	06-Jan-06	403	513	565
◆ Thermax	14-Jun-05	124	378	425
◆ UTI Bank	24-Feb-05	229	505	*

*Under review

Gateway Distriparks

Cannonball

Stock Update

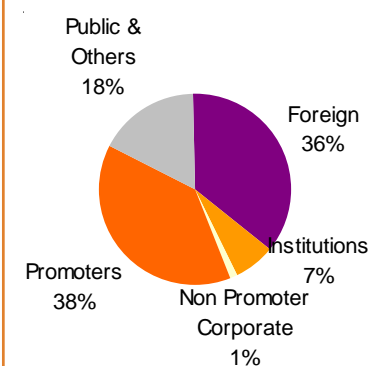
GDL acquires control of Snowman

Buy; CMP: Rs178

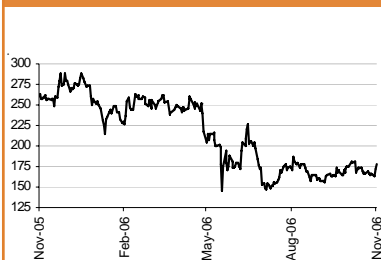
Company details

Price target:	Rs250
Market cap:	Rs1,641 cr
52 week high/low:	Rs299/144
NSE volume: (No of shares)	4.5 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GATEWAY
Free float: (No of shares)	5.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	2.3	-13.2	-31.6
Relative to Sensex	-5.4	-14.2	-33.6	-57.4

Gateway Distriparks Ltd (GDL) has acquired a 50.10% stake in Snowman Frozen Foods (Snowman) for Rs48.12 crore. This deal puts the enterprise value of the firm at about Rs104 crore. GDL will infuse fresh funds in Snowman by subscribing to 34,390,000 new equity shares of Snowman at a price of Rs10.50 per share. Further GDL will purchase 861,000 existing equity shares of Snowman at a price of Rs17.50 per share from Amalgam Foods. GDL is already sitting on a huge cash pile of Rs300-350 crore that it had raised from a global depository receipt issue earlier this year. Hence the funding of the latest acquisition will not be an issue.

About Snowman

Snowman is engaged in the business of providing cold-chain logistic services across the country through its comprehensive facilities for storage, handling, refrigeration, transportation and secondary distribution of chilled and frozen foods. Snowman is owned by Amalgam Foods, Mitsubishi Corporation, Mitsubishi Logistics Corporation and Nichirel Logistics Group Inc. These stakeholders will hold the balance stake of 49.9% in the company.

Acquisition at 3.6x FY2007 sales

Snowman has recorded revenues of Rs14 crore for H1FY2007 and an operating profit of Rs2 crore. However at the net level, the company has not made any significant profit because of its Rs8-10-crore debt and high depreciation. For FY2007 Snowman is expected to earn revenues of Rs30-32 crore and an operating profit of Rs4-5 crore. Hence Snowman's acquisition has been carried out at valuations of 21x FY2007 enterprise value/earnings before interest, depreciation, tax and amortisation (EBIDTA) and 3.6x sales.

Deal will expand GDL's portfolio of logistic services

This acquisition will bring another business segment within GDL's ambit, thereby further expanding the Indian company's portfolio of logistic services. Agreed that at FY2007E EBIDTA of Rs5 crore, Snowman will not provide GDL with the much-needed growth trigger, but with the gradual scale-up in its operations coupled with the ramp-up in its capital expenditure, Snowman can add significant value to GDL's business in two to three years' time.

We will be revising our earnings estimates in view of this development after obtaining further details of the acquisition. At the current market price of Rs178, the stock is discounting its FY2008 earnings by 13.6x. The valuation, we believe, is attractive given the kind of growth triggers that are lined up for GDL. We maintain our Buy recommendation on the stock with a price target of Rs250.

Valuation table

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	19.1	34.9	73.0	89.3	120.9
Shares in issue (cr)	6.4	7.5	9.2	9.2	9.2
EPS (Rs)	3.0	4.7	7.9	9.7	13.1
% y-o-y growth	27.3	82.7	109.2	22.3	35.4
PER (x)	59.6	38.3	22.5	18.4	13.6
Book value (Rs)	12.7	22.0	62.4	72.1	85.2
P/BV (Rs)	14.0	8.1	2.9	2.5	2.1
EV/EBIDTA (x)	42.1	25.1	15.8	14.7	9.7
RoCE (%)	24.4	27.1	20.0	16.0	18.7
RoNW (%)	23.5	21.1	12.7	13.4	15.4

ICI India

Ugly Duckling

Stock Update

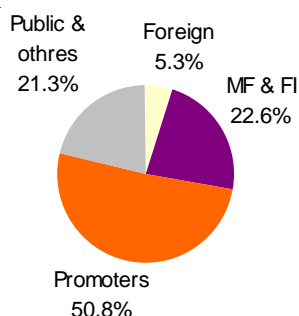
ICI India to divest its stake in Quest India

Buy; CMP: Rs372

Company details

Price target:	Rs430
Market cap:	Rs1,525 cr
52 week high/low:	Rs421/243
NSE volume: (No of shares)	74,226
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float: (No of shares)	2.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	3.9	-3.9	17.2
Relative to Sensex	-3.8	-3.9	-23.7	-27.0

Key points

- ICI India has announced that it will sell its last subsidiary, Quest International India Ltd, which is in the flavour and fragrance business. This is a strategic move by the company to concentrate on its core businesses of paints and chemicals.
- At the current market price the stock trades at 20.4x its FY2007 estimated earnings. We maintain our Buy recommendation on the stock with a price target of Rs430 based on the sum-of-parts valuation method.

Sale of Quest India

ICI India has announced that it will sell off its flavour and fragrance (F&F) business Quest International India Ltd (QII) to the Givaudan group—one of the global leaders in the F&F business—for a total consideration of Rs390 crore. ICI's decision to sell the business is in line with the strategic decision of ICI Plc (ICI's parent company) to focus on its core business and divest the F&F business. The transfer of the business is expected to be completed by the end of FY2007.

History of Quest India

QII was established in 2001 as a joint venture between the ICI group and Hindustan Lever Ltd (HLL) with ICI India holding the controlling interest. ICI India acquired HLL's 49% shareholding in May 2006 for Rs54 crore. ICI India subsequently acquired the remaining 1% of the share capital held by a group company of ICI Plc, making Quest India its wholly-owned subsidiary. Quest India reported net sales of Rs116 crore and a net profit of Rs7.8 crore for the year ended March 31, 2006. The transfer will include its manufacturing site at Daman, and about 100 employees currently employed at its Quest division.

Reasonably attractive deal for ICI India

Given the company's total investment of Rs209 crore, the deal would result in a profit from the sale of investment of Rs181 crore for the company. Moreover, at the total consideration of Rs390 crore QII has been valued at a 50.4x its FY2006 earnings and 3.4x its FY2006 revenues, which appears to be quite attractive.

Valuation table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	42.6	53.7	74.9	98.8
Shares in issue (crore)	4.1	4.1	4.1	4.1
EPS (Rs)	10.4	13.1	18.3	24.1
% y-o-y change	-12.0	26.1	39.5	31.9
PER (x)	35.8	28.4	20.4	15.4
Book value (Rs)	128.0	133.0	182.2	200.1
P/BV (x)	2.9	2.8	2.0	1.9
EV/EBIDTA (x)	12.8	9.8	9.0	7.2
EV/Sales (x)	1.3	1.1	1.1	1.0
RoCE (%)	8.7	11.5	10.6	13.5
RoNW (%)	8.2	10.1	11.6	12.6

In terms of the impact on earnings also, the deal is estimated to be earnings accretive for the company. A back of the envelope calculation suggests that the loss of earnings from the divestment would be more than made up by the interest income (around Rs20 crore) on the cash inflows from the deal. On a rough basis, we expect the deal to add Rs10 crore to the company's bottom line in FY2008. We would update our estimations based on more clarity/details on the deal from the management.

Huge cash on its books

Given the huge cash inflow of Rs525 crore (adjusted for tax) from the divestment of the surfactant business and Quest India in this fiscal, the free cash on the company's books is expected to grow to Rs719 crore at the end of FY2007 (up from around Rs198 crore as on March 2006). This translates into free cash of around Rs175.3 per share.

The huge cash reserves are likely to be utilised for inorganic initiatives in its core businesses of paints and chemicals. The shareholders are also likely to be rewarded with a liberal dividend policy and buy back of shares. The company had announced a buy back of shares earlier this year.

Valuations

At the current market price the stock trades at 20.4x its FY2007 estimated earnings. However, adjusting for the estimated cash of Rs175.3 per share on its books, as on March 2007, the stock is available at 10.9x its FY2007 estimated earnings. We maintain our Buy recommendation on the stock with a price target of Rs430 based on the sum-of-parts valuation method.

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

Evergreen

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 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

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Vulture's Pick

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