



(Investment Idea

CMC India

CMC has come out with an excellent performance for Q3 FY2007. Topline grew by 24% q-o-q (i.e. over Q2 FY2007) to Rs.298.63 crore. OPM % improved marginally to 12.5% (12.3%). After adjusting Rs. 8 crore (Rs.12.6 crore) on account of Provision of possible losses that may arise from a contract under dispute, PBT spurted by 84% to Rs.28.24 crore.

Y-o-Y (i.e. on Q3 FY 2006) Income from operations grew significantly by 44% to Rs.298.63 crore. OPM % improved smartly to 12.5% (5.8%) with repositioning of businesses and focus on more value added services, including ITES and systems integration. Consequently, PBT (before extraordinary items) zoomed by 295% to Rs.36.24 crore. After adjusting for Rs. 8 crore for Provision of possible losses that may arise from a contract under dispute (in Q3 FY 2006 there was income of Rs. 4.03 crore on sale of land and residential properties), PBT spurted by 114% to Rs.28.24 crore. PAT increased by 67% to Rs.20.40 crore.

The current trends in IT spend both in domestic as well as international market presents an unprecedented opportunity for growth. Going forward, company will continue its focus on high margin service and international business division. These two changes will define its future direction, which will see quarter over quarter expansion in OPM%. CMC with its expertise in embedded system, ports solution and providing offshore services in critical back office processes, is well poised to exploit emerging opportunities in domestic as well as global arena in synergy with TCS.

Apart from excellent operational growth, another propeller for growth is that company has around 49 acres of land in Hyderabad, on which it is developing 100% SEZ.

At CMP of Rs. 697.95, share is trading at 11.6 times FY 2007 expected consolidated EPS of Rs. 60/- and 8.2 times FY 2008 expected consolidated earning of Rs. 85/-. Thus, CMC appears to be an excellent investment opportunity. **We recommend "Buy" at CMP.**

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January 15, 2007

