investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**4,793**	5,420
Ipca Lab	05-Nov-07	660	**710**	875
ITC	12-Aug-04	69	**209**	241
M&M	1-Apr-04	232	**739**	900
SBI	19-Dec-03	476	**2,421**	2,680

Apollo Tyres

Apple Green

Stock Update

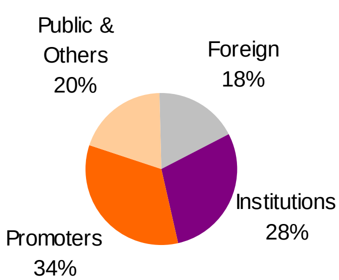
Price target revised to Rs66

Buy; CMP: Rs54

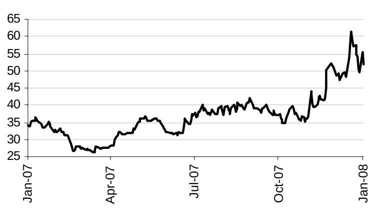
Company details

Price target:	Rs66
Market cap:	Rs2,740 cr
52 week high/low:	Rs63/25
NSE volume: (No of shares)	10.7 lakh
BSE code:	500877
NSE code:	APOLLOTYRE
Sharekhan code:	APOLLOTYR
Free float: (No of shares)	3.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.6	40.4	41.0	55.0
Relative to Sensex	0.4	32.0	5.9	6.9

Result highlights

- Apollo Tyres' Q3FY2008 results have been ahead of our expectations on account of a higher than expected top line and strong margins.
- The revenues for the quarter have grown by 13.6% to Rs974.1 crore, driven mainly by a strong volume growth. Despite a slower offtake from original equipment manufacturers (OEMs), the replacement demand remained strong during the quarter with its contribution to overall sales rising to 70% against 65% same quarter last year.
- In spite of a rise in the raw material prices, the operating profit margin (OPM) has further improved by about 260 basis points on a year-on-year (y-o-y) basis and by 60 basis points sequentially to 13.4%. The margin improvement was led by greater operating efficiencies and a better product mix.
- The consolidated results were even better as the net sales have grown by 14% to Rs1,240 crore whereas the consolidated profits have grown by a stupendous 165% to Rs82 crore on the back of a strong improvement in its subsidiary Dunlop South Africa's performance. Dunlop's EBIDTA margins for the quarter reached 17%.
- The company has outlined its capital expenditure (capex) plans and is also planning to invest Rs220 crore towards setting up a greenfield radial facility in the Oragadam Industrial Park, near Chennai. This investment is towards the first phase of the project, which is likely to be completed in the next 18 months. Another Rs100 crore would be spent to set up a 10-tonne-a-day off-the-road (OTR) tyre facility at the company's plant at Limda. The company would also spend about Euro 200 million towards setting up a plant at Hungary to cater to the demand from European and North American markets.

Result table Rs (cr)

Particulars	Q3FY08	Q3FY07	% yoy	M9FY08	M9FY07	% yoy
Net sales	**974.1**	**857.5**	**13.6**	**2,692.6**	**2,382.1**	**13.0**
Expenditure	843.2	765.1		2,353.1	2,173.2	
RM consumed	599.3	551.7		1,773.0	1,681.2	
Change in stock	33.7	20.3		-31.4	-65.4	
Staff cost	60.8	51.7		174.5	148.9	
Other expenses	149.4	141.4		437.0	408.5	
Operating profit	**130.9**	**92.4**	**41.6**	**339.5**	**208.9**	**62.5**
Other income	0.4	0.1		9.6	0.4	
EBIDTA	**131.3**	**92.6**	**41.9**	**349.1**	**209.3**	**66.8**
Interest	13.0	13.0		41.6	39.3	
PBDT	118.3	79.6	48.7	307.5	170.0	80.9
Depreciation	22.7	18.3		63.4	55.3	
PBT	95.7	61.3	56.0	244.0	114.7	112.7
Tax	33.5	26.2		84.0	44.0	
Profit after tax	**62.2**	**35.1**	**77.3**	**160.0**	**70.7**	**126.5**
EPS	1.3	0.7	77.3	3.4	1.5	126.5
OPM (%)	13.4	10.8		12.6	8.8	
PATM (%)	6.4	4.1		5.9	3.0	

- On back of consistent performance by the company, and sharp improvement in Dunlop's performance, we are raising our consolidated earnings estimates by 16% to Rs6.1. At the current market price of Rs54, the stock is discounting its consolidated FY2009E earnings by 9x. We maintain our Buy recommendation on the stock with a revised price target of Rs66.

Top line growth led by tonnage growth

Apollo Tyres' Q3FY2008 top line has grown by 13.6% to Rs974.1 crore completely on the back of volume growth since the realisations remained stable during the quarter. The volume growth was led by the strong growth in the replacement market, as the OEM business continued to witness a slowdown. The contribution of the replacement sales went up to 70% of sales as against 65% in the same quarter last year.

Higher operational efficiencies, better product mix boost margins

The OPM improved by 260 basis points year on year (yoy) and 60 basis points sequentially to 13.4%, despite high raw material prices. We believe this improvement was a result of greater operational efficiencies and also a better product mix in favour of the replacement sales (which carry higher margins). During the quarter, the prices of rubber increased, with the average rubber prices for the company rising to Rs98 per kilogram as against Rs90 per kilogram in the same quarter last year and about Rs93 per kilogram in Q2FY2008. However, due to a strong top line and greater efficiencies, the company was able to report strong profitability.

The prices of the other crude-linked raw materials like carbon black and synthetic rubber are also rising. However, the impact of the same will be felt with a lag of one quarter, ie it will be felt in the next quarter. Stable interest rates and depreciation charges helped the net profit for the quarter to rise by 77.3% to Rs62.2 crore.

Consolidated performance even better

The performance of Apollo Tyres' subsidiary, Dunlop South Africa, has shown further improvement in recent times. The company reported a 14% growth in its consolidated sales to Rs1,240 crore. The EBIDTA margins of Dunlop have reached 17% for the quarter, though we do not believe that these levels are sustainable. The consolidated profits grew by a stupendous 165% to Rs82 crore on the back of a strong operational improvement in its performance.

Capex plans

Apollo Tyres has outlined its capex plans and is also planning to invest Rs220 crore towards setting up a greenfield radial facility in the Oragadam Industrial Park, near Chennai. This investment is towards the first phase of the project, which is likely to be completed in the next 18 months. Another Rs100 crore would be spent to set up a 10-tonne-a-day OTR tyre facility at the company's plant at Limda. As a result, the company would raise its capacity in India from 740 tonnes a day presently by another 100 tonnes a day in two years' time. Further, the company is looking to set up an additional 8-megawatt wind energy project in Gujarat at a cost of Rs39 crore. The company is also looking to set up a greenfield plant in Hungary to make it a manufacturing hub to supply to European and North American markets. The first phase of this project is expected to be completed in 18 months, with an investment of Euro 200 million.

Revising estimates

In view of the company's brilliant performance in the last few quarters as well as the fabulous improvement in its subsidiary's performance, we are raising our estimate for the company. On a stand-alone basis, we are raising our FY2009 earnings estimate by 12% to Rs4.9. On the basis of extremely strong performance of Dunlop, we are also raising our consolidated estimates by to 16% to Rs6.1 for FY2009.

Valuations and view

In view of the strong growth seen in the medium and heavy commercial vehicle segment over the past two years, we expect the replacement demand for tyres to be healthy going forward. The consolidated performance of the company has shown an excellent improvement in the last one year, with Dunlop South Africa recording a growth in both the top line and the margin. At the current market price of Rs54, the stock is trading at 9x its FY2009E consolidated earnings. We value the company at 11x FY2009E consolidated earnings and maintain our BUY recommendation on the stock with a revised price target of Rs66.

Earnings table (stand-alone)

Particulars	FY2006	FY2007	FY2008E	FY2009E
Net sales (Rs cr)	2613.6	3284.3	3620.1	4084.4
Net profit (Rs cr)	78.2	113.4	217.6	248.9
Shares in issue (cr)	50.4	50.4	50.4	50.4
EPS (Rs)	1.6	2.25	4.32	4.9
% y-o-y growth	*15.6*	*45.1*	*91.9*	*14.4*
PER (x)	37.5	23.5	12.6	11.0
Book value (Rs)	12.6	19.4	25.5	29.9
P/BV	4.3	2.8	2.1	1.8
EV/EBITDA	14.4	9.3	6.2	5.2
Mcap/Sales	1.1	0.8	0.8	0.7
ROCE (%)	12.7	17.6	23.2	23.5
RONW (%)	11.6	11.9	16.9	16.5

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

Tata Consultancy Services

Evergreen

Stock Update

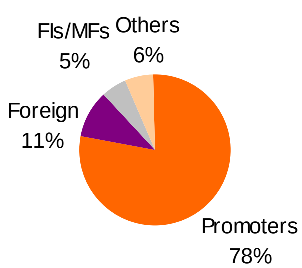
Price target revised to Rs1,250

Buy; CMP: Rs960

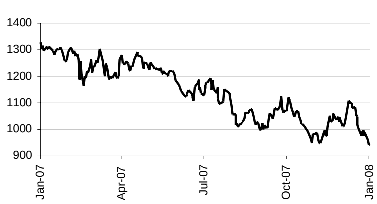
Company details

Price target:	Rs1,250
Market cap:	Rs93,946 cr
52 week high/low:	Rs1,350/867
NSE volume: (No of shares)	10.1 lakh
BSE code:	532540
NSE code:	TCS
Sharekhan code:	TCSCONS
Free float: (No of shares)	21.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.2	-12.4	-17.0	-28.6
Relative to Sensex	-11.2	-17.6	-37.7	-50.7

Result highlights

- Tata Consultancy Services (TCS) has reported growth of 5% on quarter-on-quarter (q-o-q) basis and of 21.9% on year-on-year (y-o-y) basis in its consolidated revenues to Rs5,924.1 crore during Q3FY2008. The sequential growth in the revenues was contributed by a 5.3% growth in the volume, a 53-basis-point improvement in the billing rates (including productivity gains) and a favourable effort mix (81-basis-points positive impact due to higher proportion of onsite revenues). On the other hand, the appreciation in the rupee adversely affected the revenue growth by 160 basis points on a sequential basis.

- The earnings before interest and tax (EBIT) margin improved by 33 basis points sequentially to 24.2% during the quarter. The improvement in the billing rates and productivity gains boosted the margins by 125 basis points, whereas the appreciation of the rupee had an adverse impact of 92 basis points on the EBIT margins during the quarter. The EBIT grew by 6.5% quarter on quarter (qoq) and 12.9% year on year (yoy) to Rs1,431.4 crore.

- The other income declined by 5.1% qoq to Rs104.8 crore inspite of foreign exchange fluctuation gains of Rs66.1 crore (as compared with 57.7 crore in Q2). However, the lower-than-expected effective tax rate of 12.7% resulted in earnings growth of 6.7% qoq and 20.6% yoy to Rs1,330.8 crore (slightly higher than our estimates of Rs1,311.4 crore).

Result table (as per consolidated US GAAP) Rs (cr)

Particulars	Q3FY08	Q2FY08	Q3FY07	% qoq chg	% yoy chg
Revenue	5924.1	5639.8	4860.5	5.0	21.9
Development cost	3138.4	3015.2	2650.6	4.1	18.4
Gross profit	2785.7	2624.6	2209.9	6.1	26.1
SG&A expenses	1206.8	1142.6	834.7	5.6	44.6
Operating profit	1578.9	1482.1	1375.3	6.5	14.8
Depreciation	147.5	138.1	108.0	6.8	36.6
EBIT	1431.4	1343.9	1267.3	6.5	12.9
Other income	104.8	110.5	29.2	(5.1)	259.1
Profit before tax	1536.2	1454.4	1296.5	5.6	18.5
Tax	194.7	203.7	182.8	(4.4)	6.5
PAT	1341.5	1250.7	1113.7	7.3	20.5
Affiliates earnings	0.3	0.4	1.7	(32.4)	(83.7)
Minority interest	11.0	4.2	11.5	161.0	(4.5)
RPAT	**1330.8**	**1246.9**	**1103.9**	**6.7**	**20.6**
Equity capital	195.7	195.7	195.7		
EPS(Rs)	6.8	6.4	5.6		
Margins(%)					
GPM	47.0	46.5	45.5		
OPM	26.7	26.3	28.3		
EBIT	24.2	23.8	26.1		
NPM	22.1	21.7	22.6		

- The company did not give any specific growth guidance. However, the management is not witnessing any slowdown in the information technology (IT) budgets or deterioration in the demand environment (due to the sub-prime mess) as of now. The revenues from the banking, financial services and insurance (BFSI) vertical registered a healthy sequential growth of 7.9% in Q3. The company signed nine large sized deals of over $50 million (including the contract worth $1.2 billion from Nielsen Co.) during the quarter and has a pipeline of around 25 deals of over $50 million each. However, given the continued flow of negative news from some of the large financial institutions in USA, the management is cautious and is not clear about the possible impact on the discretionary IT spending going forward. In terms of margins, the company expects to maintain the EBIT margin in the range of 24% to 25% in FY2008 (largely in line with the margins reported in FY2007).
- In terms of key operational highlights, the net addition of 4,037 employees is lower than expectations. However, the campus offers of 22,295 fresh graduates this season (up from around 11,500 in the last fiscal) reflects the management's confidence in the growth outlook. Another noticeable point is the healthy double-digit sequential growth in all the relatively new service lines such as consulting, assurance, and business process outsourcing (BPO).
- TCS has adopted an aggressive hedging strategy (forward cover of $3.1 billion) resulting in a much higher than expected other income in the first nine months. To factor in the same we have marginally revised upwards the earning estimates. At the current market price, the stock trades at 18.3x FY2008 and 15.3x FY2009 estimated earnings. We maintain the Buy call on the stock with a revised price target of Rs1,250 (around 20x FY2009E earning per share in line with the revision in target multiple for Infosys Technologies).

Volume growth disappoints; uncertainty continues

The overall volume growth of 5.3% was lower than our expectations. The sequential growth in volumes of international business was even lower at 4% and adds to the apprehensions about the uncertainty related to the demand environment. What's more, the management also seems to be unclear about the possible impact of the subdued economic conditions in USA on the discretionary IT spend by its client base. This essentially means that the uncertainty related to demand environment would continue to dampen the sentiment on the tech counters in the near future.

Drivers of revenue growth (qoq) in rupee terms

Volume (overall)	5.31
Billing rate/productivity	0.53
Onsite shift	0.81
Forex impact	(1.60)
Revenue growth (%)	5.04

Pricing/productivity gains support margin

TCS was able to make up for the adverse impact of the rupee appreciation on the back of the benefits from the pricing and productivity gains that it has been recording consistently over the past few quarters.

Break-up of factors affecting margins (in bps)

Pricing/productivity	125
Forex impact	(92)
Net impact	33

Muted recruitment

The lower-than-expected net addition of 4,037 employees is also concerning given the backdrop of muted volume growth during the quarter. However, the campus offers of 22,295 fresh graduates this season (up from around 11,500 in the last fiscal) reflects the management's confidence in the growth outlook. The attrition rate has inched up to 12.2% as compared with 11.5% reported in Q2FY2008.

Valuation

TCS has adopted an aggressive hedging strategy (forward cover of $3.1 billion) resulting in a much higher than expected other income in the first nine months. To factor in the same we have marginally revised up the earning estimates for FY2008 and FY2009. At the current market price, the stock trades at 18.3x FY2008 and 15.3x FY2009 estimated earnings. We maintain the Buy call on the stock with a revised price target of Rs1,250 (around 20x FY2009E earning per share in line with the revision in target multiple for Infosys Technologies).

Key financials

Particulars	FY06	FY07	FY08E	FY09E
Net revenue (Rs cr)	13245	18633	23060	28889
Net profit (Rs cr)	2911	4132	5144	6153
Number of shares (cr)	97.9	97.9	97.9	97.9
EPS (Rs)	29.7	42.2	52.6	62.9
% y-o-y chg	*21.3*	*41.9*	*24.5*	*19.6*
PER (x)	32.3	22.7	18.3	15.3
OPM (%)	25.7	24.9	24.1	23.4
RONW (%)	49.4	45.2	38.8	33.4
ROCE (%)	40.1	39.5	35.6	32.1

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

India Cements

Ugly Duckling

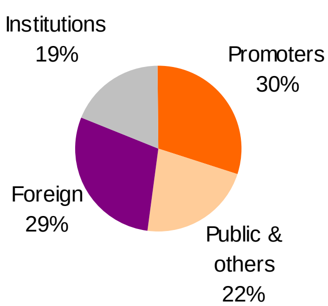
Stock Update

Q3FY2008 results: First-cut analysis

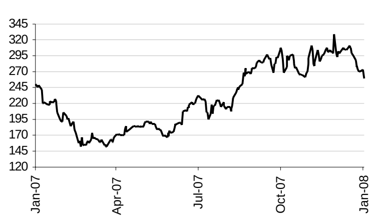
Buy; CMP: Rs260

Company details	
Price target:	Rs330
Market cap:	Rs73,286 cr
52 week high/low:	Rs333/145
NSE volume: (No of shares)	5.8 lakh
BSE code:	530005
NSE code:	INDIACEM
Sharekhan code:	INDCEM
Free float: (No of shares)	2.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16.7	-10.4	21.1	14.6
Relative to Sensex	-17.7	-15.7	-9.0	-21.0

Result highlights

- Net sales of India Cements Ltd (ICL) for Q3FY2008 were up 81% year on year (yoy), but down 4% sequentially at Rs854.5 crore.
- Operating profit of the company for the quarter went up 80% yoy, but was down 20% sequentially at Rs245 crore.
- Other income rose by 76% yoy, but dropped by 49% sequentially at Rs3 crore.
- Profit before tax (PBT) grew 136% yoy, but fell 26% sequentially at Rs189.5 crore.
- Reported profit after tax (PAT) was up 59% yoy, but was down 43% sequentially at Rs127 crore.

ICL's reported PAT for Q3FY2008 was up 59% yoy, but was down by 43% sequentially at Rs127.1 crore. The PAT of Rs127.1 crore for the quarter was much below our estimated PAT of Rs182 crore. The low PAT was mainly because of higher tax provisioning of Rs62 crore for this quarter. The higher tax provision of Rs62 crore during the quarter marked an increase of 96% on a sequential basis and was higher by Rs40 crore compared with our estimate of Rs20 crore. Another reason for the lower-than-expected PAT was the one-time expense on employee stock option scheme (ESOS) and the employee bonus of Rs20 crore, which were charged to the staff cost. If these deviations are adjusted, the net earnings are close to our estimate.

The net sales grew robustly by 81% yoy to Rs854.5 crore mainly due to the merger of ICL with Visaka Cement Industries Ltd. The net sales were however sequentially down by 4% on account of slightly lower volumes, which for the quarter ended stood at 2.29 million tonne against 2.42 million tonne in the previous quarter.

Result table Rs (cr)

Particulars	Q3FY08	Q3FY07	% yoy	M9FY08	M9FY07	% yoy
Net sales	854.5	472.4	81	2,445.9	1,473.9	66
Total expenditure	609.6	339.4	80	1,629.2	1,002.7	62
Operating profit	244.9	133.0	84	816.7	471.2	73
Other income	3.0	1.7	76	18.6	7.9	135
EBIDTA	247.9	134.7	84	835.3	479.1	74
Interest	27.3	34.7	-21	86.9	110	-21
PBDT	220.6	100.0	121	748.4	369.1	103
Depreciation	31.1	19.8	57	88.9	58.3	52
PBT	189.5	80.2	136	659.5	310.8	112
Tax	62.4	0.5	-	126.0	1.2	-
Reported profit after tax	127.1	79.7	59	533.5	309.6	72
Margins (%)						
OPM	28.7	28.2		33.4	32.0	
EBIDTA	28.9	28.4		33.9	32.3	
PATM	14.8	16.8		21.6	20.9	
Tax	49.1	0.6		23.6	0.4	

The earnings before interest, depreciation, tax, and amortisation (EBIDTA) for Q3FY2008 was up 84% yoy at Rs248 crore. The EBIDTA was however down by 21% on a sequential basis on account of lower volumes this quarter. Realisation for the quarter stood at Rs3,730 per tonne, up 1.4% sequentially. The total cost per tonne however went up 10% on a sequential basis at Rs2,660 per tonne.

The company maintained an operating profit margin (OPM) of 29% during the quarter against that of 34.5% the quarter before and 28% in the corresponding period last year.

ICL from now onwards has to pay a marginal tax rate and going forward we see the company paying higher taxes compared to the previous years. This quarter the company made a tax provision of Rs62 crore and for the period of nine months ended December 31, 2007 the tax rate stood at 24%.

Per tonne analysis (Rs)

Particulars	Q3FY08	Q3FY07	% yoy	Q2FY08	% qoq
Realisation	3,730	2,700	38.1	3,680	1.4
Expenditure	2,660	1,940	37.1	2,410	10.4
EBIDTA	1,070	760	40.8	1,270	-15.7
Cement volumes (MMT)	2.29	1.75	30.9	2.42	-5.4

Sequential performance Rs (cr)

Particulars	Q3FY2008	Q2FY2008	% qoq chg
Net sales	854.5	890.2	-4
Total expenditure	609.6	582.8	5
Operating profit	244.9	307.4	-20
Other income	3.0	5.9	-49
EBIDTA	247.9	313.3	-21
Interest	27.3	28.2	-3
PBDT	220.6	285.1	-23
Depreciation	31.1	30.3	3
PBT	189.5	254.8	-26
Tax	62.4	31.9	96
Reported profit after tax	127.1	222.9	-43
Margins (%)			
OPM	28.7	34.5	
EBIDTA	28.9	35.0	
PATM	14.8	24.9	
Tax	49.1	14.3	

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

Allahabad Bank

Cannonball

Stock Update

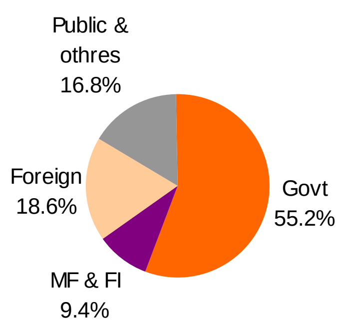
Q3FY2008 results: First-cut analysis

Buy; CMP: Rs131

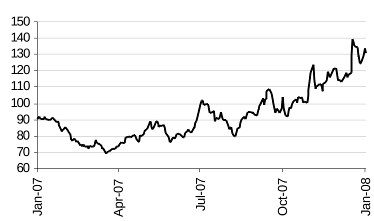
Company details

Price target:	Undre review
Market cap:	Rs5,845 cr
52 week high/low:	Rs143/68
NSE volume: (No of shares)	8.9 lakh
BSE code:	532480
NSE code:	ALBK
Sharekhan code:	ALLBANK
Free float: (No of shares)	20.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.3	38.1	46.0	53.1
Relative to Sensex	9.1	29.8	9.6	5.6

Result highlights

- Allahabad Bank reported a profit after tax (PAT) of Rs365.1 crore for Q3FY2008, beating the consensus estimate of Rs269.8 crore. The Q3FY2008 PAT indicates a 27.6% year-on-year (y-o-y) growth and 52.2% quarter-on-quarter (q-o-q) growth, which were primarily driven by a jump in the non-interest income.
- The net interest income (NII) was up by a moderate 5.3% on y-o-y basis to Rs445.3 crore from Rs422.7 crore (adjusted for one-time income of Rs60 crore for the year ago period), but was almost flat on a q-o-q basis.
- The gross advances on a y-o-y basis grew by a moderate 18.3% to Rs45,791 crore, while the deposits increased by 20.4% year on year (yoy) to Rs68,044 crore. Among the deposits, the low-cost deposits grew by 13.6% yoy, implying that term/bulk deposits drove the growth of the total deposits. Consequently, the current and saving accounts (CASA) ratio witnessed a decline of 2.1% to 35.6% from 37.7% for the year ago period. The net interest margin (NIM) of the bank improved by 14 basis points on a sequential basis to 2.90% for Q3FY2008 from 2.76% for Q2FY2008.
- The non-interest income spiked up significantly (197.2% yoy and 190.0% qoq) to Rs372.9 crore on the back of a whooping 560% growth in the treasury income on a y-o-y basis. The strong non-interest income outweighed the moderate interest income growth and helped post a strong operating profit growth of 80.3% yoy inspite of higher operating expenses.
- The asset quality remained healthy with the gross non-performing assets (GNPA) down by 20.2% yoy to Rs944.3 crore, whereas the net non-performing assets (NNPA) was up by 11.3% yoy to Rs303.8 crore. Consequently, the coverage ratio

Result table Rs (cr)

Particulars	Q3FY08	Q3FY07	% yoy chg	% qoq chg
Net interest income	445.3	422.7#	5.3	0.8
Non-interest income	372.9	125.5	197.2	190.0
Treasury	*282.8*	*42.8*	*560.8*	*687.1*
Fee income	*90.1*	*63.4*	*42.1*	*-13.6*
Others	*ND*	*19.3*	*-*	*-*
Net income	818.2	548.2	49.3	43.4
Operating expenses	297.1	259.1*	14.6	9.7
Operating profit	521.1	289.0	80.3	74.0
Core operating profit (excluding treasury)	238.3	236.3	0.8	-13.4
Provisions & contingencies	125.0	16.6*	651.9	293.0
PBT	396.1	334.4	18.4	47.9
Provision for taxes	31.1	48.3	-35.7	11.1
Net profit	365.1	286.1	27.6	52.2

#Adjusted for income of Rs62 crore pertaining to prior period. *Adjusted for amortisation

ND: not disclosed

slipped to 68% for Q3FY2008 from 77% for the year ago period inspite of a significant increase in provisioning.

- The capital adequacy ratio (CAR) of the bank stood at 12.8% as on December 31, 2007 in line with 12.8% as on December 31, 2006, while marginally down from 13% as on September 30, 2007.
- The Q3FY2008 numbers were above the consensus estimates primarily due to higher-than-expected treasury income. Due to this, the year-to-date PAT of Rs805.2 crore was more than our full FY2008 PAT estimate. Hence we intend to revisit our numbers following the analyst meet. Post the analyst meet, we intend to follow-up with a note. At the current market price of Rs131, the stock is trading at 6x its FY2009E earnings, 3.7x FY2009E pre-provisioning profit (PPP), and 1.2x FY2009E book value.

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

Industry Update

Mutual Fund

Equity funds outperform the Sensex

Industry news

- **UTI MF beats ICICI Prudential MF:** UTI Mutual Fund (MF) has overtaken ICICI Prudential MF, thus regaining its no. 2 position in the MF industry. The asset under management (AUM) of UTI MF increased by 9% month on month to Rs56,800 crore in December 2007. Reliance MF still remains at the forefront, with an AUM of over Rs80,000 crore.

- **Sebi waives off entry load on direct MF applications:** The Securities and Exchange Board of India (Sebi) has issued circular exempting entry load for direct MF applications. It has waived off entry load on direct MF applications from January 4, 2008. The entry load exempt for application is not routed via distributor, agent or broker.

- **Sebi to unveil norms for real estate MFs, REITs in India:** Sebi will soon unveil norms for real estate MFs and real estate investment trusts (REITs). The new norms will allow asset management firms to raise money from investors that could be invested in realty sector, in projects and equity of both listed and unlisted firms.

- **UTI AMC files IPO papers with Sebi:** UTI Asset Management Company (AMC) has filed the draft red herring prospectus with the Sebi to enter the capital market soon with an initial public offering (IPO) of 48,500,000 equity shares of Rs10 each. Its four sponsors and selling shareholders are the State Bank of India, Life Insurance Corporation of India, Punjab National Bank and Bank of Baroda.

Highlights

- The AUMs of equity MFs rose by 10.4% to Rs213,642 crore in December 2007, outperforming the Sensex, which advanced by 4.8% in the same period.

- Fund managers made purchases worth Rs20,745 crore and turned net buyers to the tune of Rs3,024 crore during the month.

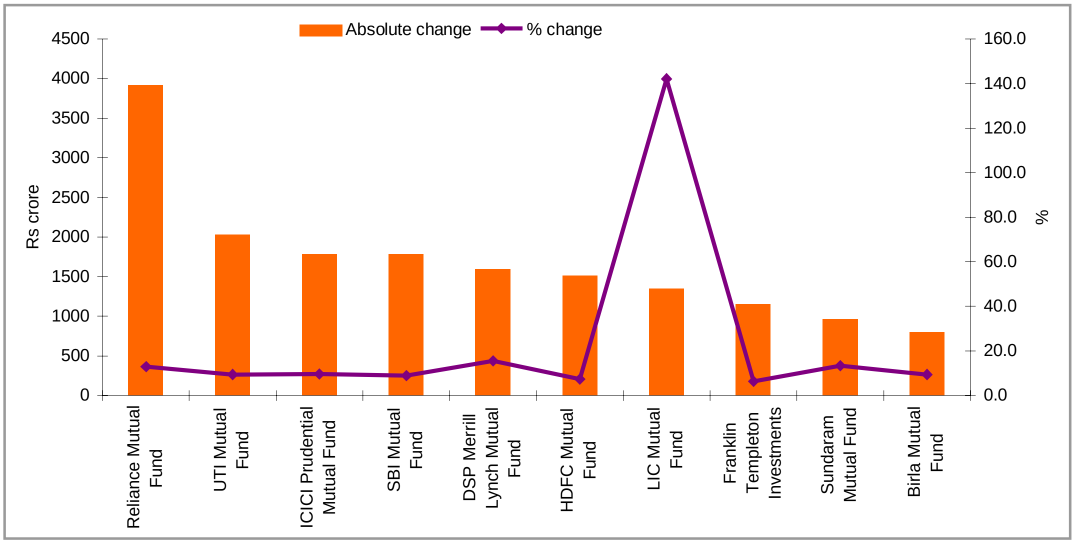
- Net inflows into equity funds declined by 25% to Rs4,680 crore in December 2007 as compared with only Rs6,275 crore recorded in November 2007. The decline in the overall fund flow was due to a decrease in the amount mobilised through new fund offerings (NFOs) and an increase in the redemption volumes.

- MFs are sitting on Rs15,927 crore of cash that is waiting to be deployed in the market. Of this Rs14,520 crore lies with the existing MFs while the remaining Rs1,407 crore has been mobilised through the NFOs.

- All sector funds have generated strong returns in December 2007, with pharmaceutical funds delivering the highest returns, followed by fast moving consumer goods (FMCG) and technology funds. Moreover, all the fund categories have outperformed the Sensex by margins of 3-13%.

- MFs have slashed their exposure to cement, automobile and electrical companies, and have bought stocks in the oil & gas, pharmaceutical and financial services sectors.

- **Major movers for December 2007**



The AUM of equity MFs rose by 10.4% from Rs213,642 crore in November 2007 to Rs235,755 crore in December 2007, outperforming the Sensex, which recorded a 4.8% gain during the same period. The AUM of the equity-diversified funds rose by 9.7%, whereas that of the tax planning funds increased by 12.9%. The AUM of sector funds and index funds also increased by 15.7% and 18.3% respectively.

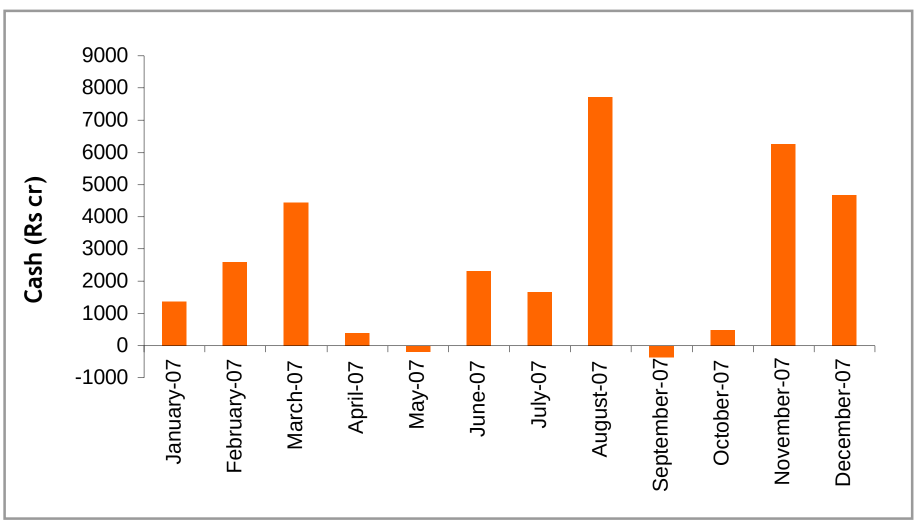
Reliance Mutual Fund saw the largest rise of Rs3,918 crore in its AUM, followed by UTI Mutual Fund and ICICI Prudential Mutual Fund. LIC Mutual Fund also recorded an increase of 142%, amounting to Rs1,344 crore, in its AUM, driven by the success of its NFO, LIC Top 100 Fund.

- **Stock market activities for mutual funds**

MFs turned net buyers of equities in December 2007

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
December 2007	20,744.7	17,720.6	3,024.4

Equity fund flow



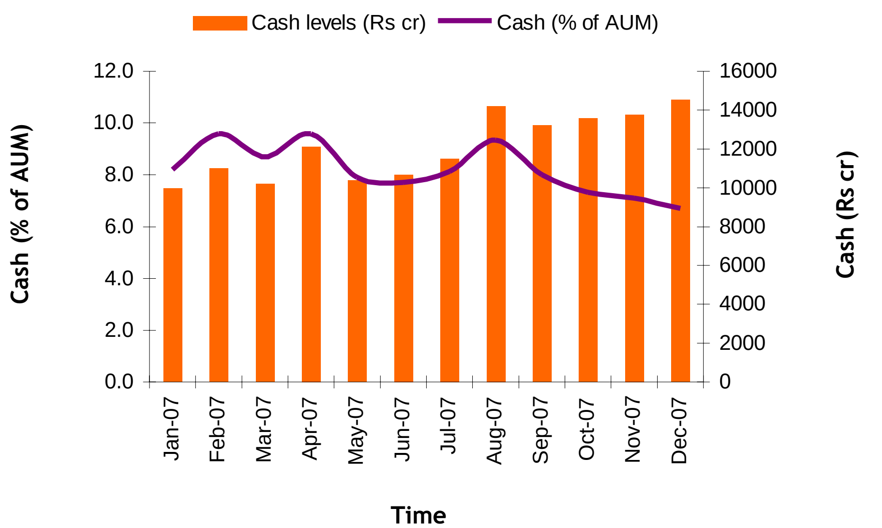
The net inflows into equity MFs declined by 25% to Rs4,680 crore in December 2007 as compared with only Rs6,275 crore recorded in November 2007. The decline in the overall fund flow was largely due to a 42% reduction in the amount mobilised through NFOs coupled with a 21% increase in the total redemption volume in December 2007. The amount mobilised through the NFOs stood lower at Rs1,407 crore (as compared with Rs2,441 crore in October 2007). The NFO collections include the amounts raised by Lotus India AGILE Fund, JP Morgan India Smaller Companies Fund, LIC Top 100 Fund and Standard Chartered Fixed Maturity Arbitrage Fund. The same, however, do not include the amounts collected by Sundaram BNP Paribas Select Thematic Energy Opportunities Fund, Franklin Asian Equity Fund, JM Agri & Infra Fund, UTI Infrastructure Advantage Fund, DBS Chola Small Cap Fund and Kotak Indo World Infrastructure Fund. These funds were launched in December 2007 but did not close in the month, as the allotment of the units for these funds has not been completed. The collections made by these funds (approximately Rs8,000 crore) will be reflected in the next month's fund flow figures.

Cash levels

Liquidity

The absolute cash levels for all the existing equity funds rose by 5.5% to Rs14,520 crore in December 2007 from Rs13,757 crore in November 2007. However, the cash as a percentage of the total corpus declined to 6.7% in December 2007 from 7.1% in November 2007. The declining cash levels underlined the bullish sentiment prevalent in the market, with fund managers participating aggressively in the growth story of India Inc.

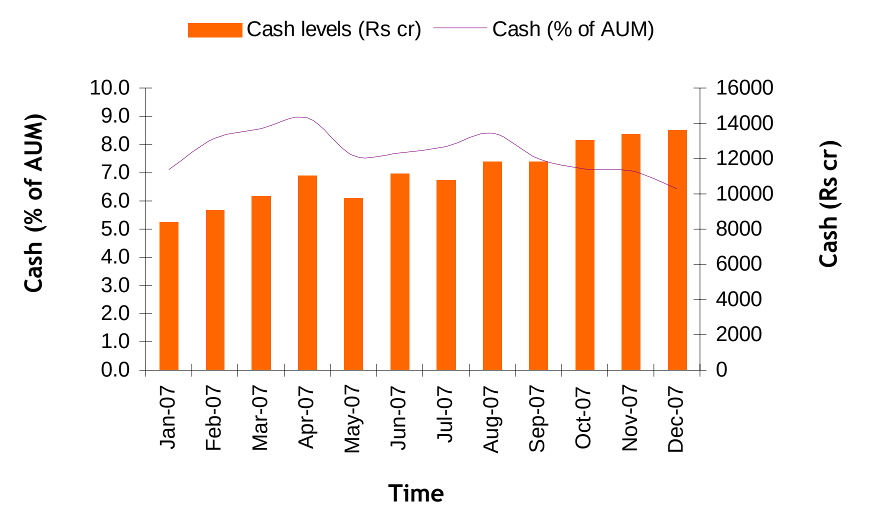
Further, the total cash sitting with the MFs, including the cash mobilised through the recently launched NFOs (Rs1,407 crore), stands at a healthy Rs15,927 crore. Flush with cash, MFs are well placed to maintain the buying interest and propel the market forward.



Note: Includes all equity funds in the industry launched before December 2007

Sentiments

The cash level for all funds more than three months old also showed a similar trend, declining to 6.4% of the total corpus in December 2007 (from 7.1% of the total corpus in November 2007). This, once again, reflects that mutual funds were in aggressive investment mode during December 2007.



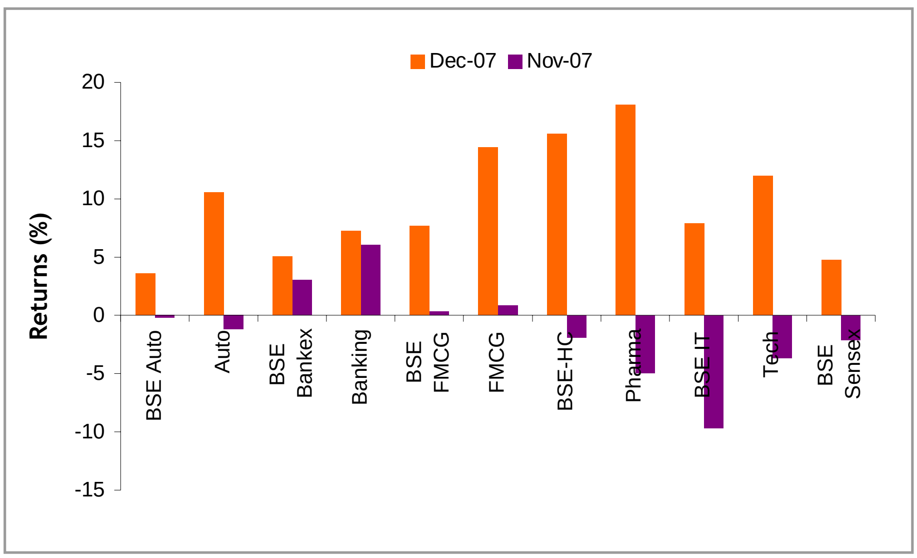
Note: Includes all equity funds in the industry with a NAV track record of three months+.

Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	December 2007		November 2007		%
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	chg
Increase in exposure					
Oil & gas, petroleum & refinery	16,847.0	10.6	17,404.9	9.9	0.7
Mutual funds	1,088.6	0.7	25.2	0.0	0.7
Entertainment	4,870.3	3.1	4,350.3	2.5	0.6
Pharmaceuticals	6,859.1	4.3	6,749.6	3.8	0.5
Power generation, transmission & equip	9,972.9	6.3	10,299.6	5.8	0.4
Textiles	3,808.9	2.4	3,710.8	2.1	0.3
Decrease in exposure					
Cement	4,246.6	2.7	6,489.8	3.7	-1.0
Auto & auto ancilliaries	5,693.1	3.6	7,897.1	4.5	-0.9
Electricals & electrical equipments	6,148.3	3.9	8,238.2	4.7	-0.8
Engineering & industrial machinery	9,198.4	5.8	11,311.4	6.4	-0.6
Telecom	7,636.4	4.8	9,341.6	5.3	-0.5
Metals	2,446.2	1.5	3,450.9	2.0	-0.4

Performance of sector funds



In line with the upward momentum in the equity markets, all sector funds have generated higher returns in December 2007, erasing much of the losses recorded in November 2007. Pharmaceutical and technology funds recorded significant gains as stocks in these sectors advanced after having corrected significantly on account of the appreciation in the Indian Rupee against the major global currencies. All the other fund categories outperformed the Sensex, which advanced by an appreciable 4.8% in December 2007. Additionally, all fund categories outperformed their respective benchmark indices. Pharmaceutical funds gave the highest returns in December 2007, followed by FMCG and technology funds.

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
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 Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India