investor's eye

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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
◆ **BASF India**	18-Sep-06	220	**235**	300
◆ **BEL**	26-Sep-06	1,108	**1,149**	1,525
◆ **ICICI Bank**	23-Dec-03	284	**705**	770
◆ **Orient Paper**	30-Aug-05	214	**612**	800
◆ **UltraTech**	10-Aug-05	384	**879**	1,000

Pulse Track

◆ Infrastructure index grew by 5.5% for August 2006

The index of six core infrastructure industries grew by 5.5% for August 2006, lower than the previous month's growth of 9.0% due to following reasons.

- *Base effect:* The growth in the same month last year was very high in a few sectors like cement, coal and electricity. In the same month last year there was a lot of spill over of production to August 2005, as the floods had affected the production in July 2005.
- *Floods in various western and northern states:* The floods affected Gujarat, Maharashtra, Uttar Pradesh and Madhya Pradesh in August 2006. The same was reflected in a 2.4% month-on-month decline in the index for August 2006.

The crude production grew by 11.9% year on year (yoy) in August 2006 as the same had dipped by 16.1% yoy in August 2005 following a fire at the Bombay High fields of ONGC. The petroleum refinery products grew by 12.2% yoy due to the commissioning of new refining capacities over the last year.

The cement production grew by 2.2% yoy as the same had grown by a high 19.3% in August 2005. The steel production grew at a steady rate of 6.3%.

% y-o-y growth	Weight (%)	% y-o-y change			% m-o-m change
		Jul-06	Aug-05	Aug-06	Aug-06
Crude petroleum	4.2	4.1	-16.1	11.9	-5.8
Petroleum ref products	2.0	12.6	2.5	12.2	-0.9
Coal	3.2	10.6	10.9	0.2	-6.2
Electricity	10.2	8.6	7.9	3.7	0.1
Cement	2.0	13.3	19.3	2.2	-9.8
Finished steel (carbon)	5.1	8.0	6.9	6.3	-1.3
Overall	26.7	9.0	5.7	5.5	-2.4

Sharekhan Special

IT earnings preview

Given the robust demand environment, the front-line information technology (IT) services companies are expected to maintain the growth momentum in Q2 also. We expect the volumes to grow in the range of 6.5-10% sequentially for the quarter. The depreciation of the rupee would further aid the overall growth in the revenues (based on the average exchange rate during the quarter). However, the impact of the exchange rate fluctuation is likely to be lower in Q2. Especially in terms of the translation gains (that means lower other income), as the end of the period exchange rate was more or less stable as compared to Q1.

Average exchange rates during the quarter

INR vs	30-Sep-06	30-Jun-06	31-Mar-06
US ($)	46.3	45.5	44.4
% q-o-q chg	*1.9*	*2.4*	*-2.2*
Euro	59.1	57.1	53.4
% q-o-q chg	*3.5*	*6.9*	*-1.1*
Pound Sterling	87.0	83.1	77.8
% q-o-q chg	*4.7*	*6.7*	*-2.0*

End of the period exchange rates

INR vs	30-Sep-06	30-Jun-06	31-Mar-06
US ($)	45.9	46.1	44.6
% q-o-q chg	*-0.4*	*3.3*	*-1.3*
Euro	58.4	58.9	54.1
% q-o-q chg	*-0.9*	*8.9*	*0.6*
Pound Sterling	86.1	85.1	77.5
% q-o-q chg	*1.2*	*9.8*	*-1.3*

Margins, varied performance

With the wage hikes and additional visa costs already taken in Q1, Infosys and TCS are expected to report an improvement of 150 basis points and 170 basis points respectively in the operating profit margins (OPM) in Q2. On the other hand, Satyam is likely to witness a 160-basis-point decline in the OPM on the back of an aggressive wage hike with effect from July 1, 2006. HCL Tech and Wipro have a policy of giving wage hikes in a staggered fashion and consequently there would be a partial impact of the wage hikes (a 30-basis-point decline each) in Q2.

Possible earnings upgrade in Wipro and HCL Tech

Based on the implied compounded sequential quarterly growth rate (CQGR) for the next two quarters, we believe that there is scope for a possible earnings upgrade in the case of HCL Technologies and Wipro. We would make the required changes in the result updates.

Underperformance of IT stocks

Apart from Infosys, the other front-line IT stocks have underperformed the benchmark index Sensex. We expect Infosys to maintain its outperformance on the back of its superior financial results. However, Wipro also offers a favourable risk-reward ratio given the fact that it trades at a discount to Infosys now (if one considers a possible earnings upgrade). Wipro's Q3 revenue guidance of the global IT services business would be an important factor that would influence investor sentiments.

Earning estimates

Rs crore	Net sales			Net profit			EPS	OPM
	Q2FY07	qoq (%)	yoy (%)	Q2FY07	qoq (%)	yoy (%)	(Rs)	(%)
Infosys Tech	3343.2	10.9	45.7	863.8	8.8	45.8	15.5	31.0
Guidance	*3257-3280*			*823.1*			*14.9*	
Satyam Computer	1558.3	8.0	34.9	304.0	-14.1	28.1	9.23	23.0
Guidance	*1521-1529*			*289.0*			*8.87*	
HCL Tech#	1341.4	7.0	38.2	239.5	2.8	43.0	7.4	22.2
Wipro (cons)	3391.1	8.3	35.8	655.5	6.7	39.3	4.6	20.5
Wipro (Global IT)	2671.4	9.0	41.5					
Guidance (Global IT)	*$577 mln*							
TCS	4462.3	7.7	41.4	932.4	8.1	35.1	9.7	24.0

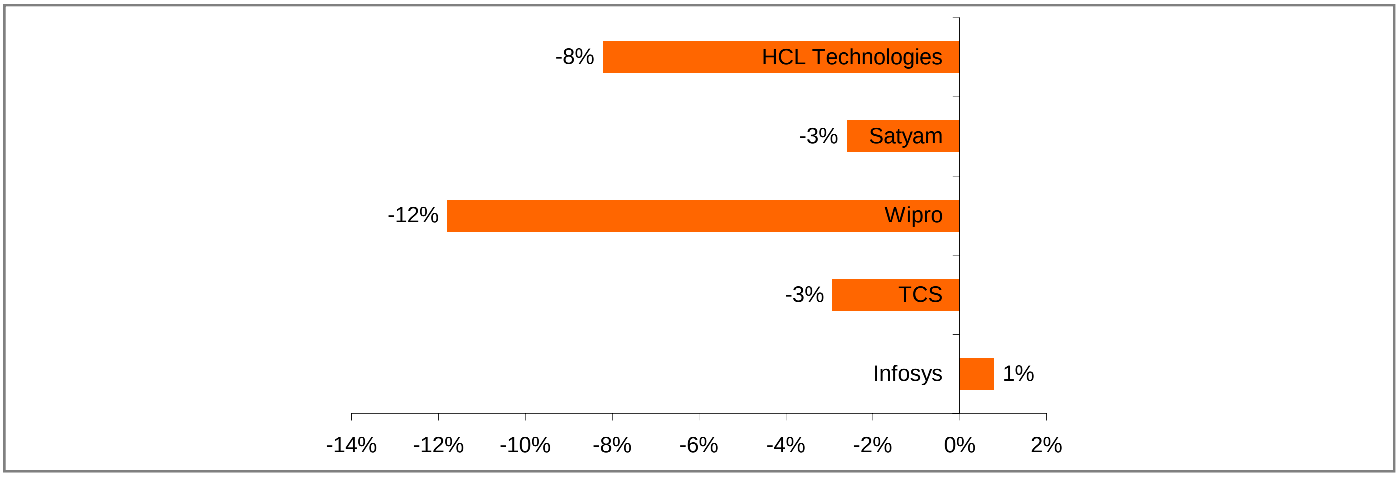
HCL Technologies is a June ending company

Implied sequential growth in Q3 & Q4

(in %)	CQGR (Q3-Q4) Net sales	Net profit	Comment
Infosys Tech	7.0	10.7	Would need to show further improvement in the margins to achieve the implied earning CQGR.
Satyam Computer	6.5	9.2	Significant improvement in the margins expected in H2, especially since RSU grants in December 2006.
HCL Tech#	4.0	1.0	Booking of unrealised gains could result in considerable earnings upgrade.
Wipro (cons)	5.4	0.6	Salary hikes effective in H2; mostly October for offshore and January for onsite, plus RSU charges. Still scope for potential earnings upgrade.
TCS	4.0	6.5	Performance on track to achieve the estimated figures. Margin improvement in Q2 is an important factor to be watched.

HCL Technologies is a June ending company. The CQGR pertains for Q2, Q3 and Q4.

Stock performance relative to Sensex (last quarter)



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

Orient Paper and Industries

Vulture's Pick

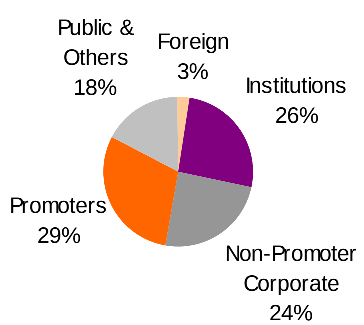
Stock Update

Orient Paper to raise Rs175 crore

Buy; CMP: Rs612

Company details	
Price target:	Rs800
Market cap:	Rs908 cr
52 week high/low:	Rs667/150
NSE volume: (No of shares)	48,124
BSE code:	502420
NSE code:	ORIENTPPR
Sharekhan code:	ORIENTPAP
Free float: (No of shares)	1.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	16.1	54.2	87.7	176.0
Relative to Sensex	13.3	34.0	76.8	96.2

Orient Paper to raise Rs175 crore through a rights issue

Orient Paper & Industries at its board meeting today has decided to raise Rs175 crore through a rights issue. The proceeds of the rights issue will be utilised towards the expansion of its cement capacity by one million tonne to 3.4 million tonne, enhancing its tissue paper capacity by 20,000 tonne, setting up of a captive power plant (CPP) and repayment of debt. The current issue size is in contrary to our earlier estimate of Rs100 crore, as the company had earlier planned to raise the cement capacity to 3 million tonne as against 3.4 million tonne as per the current plan.

The issue to dilute equity by 29% but FY2008 EPS by only 12%

Generally, the investors expect the company to offer the rights shares at a 25-30% discount to the current market price. Thus assuming that the shares are issued at Rs.400, the company will be diluting the current equity base of Rs14.82 crore by 29% to Rs19.2 crore at the end of the current fiscal. However we expect the FY2008 earnings per share (EPS) to be diluted by only 12% due to the following reasons.

- The profitability would be higher on account of the enhanced cement capacity (the cement division commands the highest ROCE.)
- Earlier than expected commissioning of the tissue paper capacity.
- Interest savings of Rs15 crore in FY2008 as a consequence of the repayment of debt.

Equity dilution of 29%

Calculation of rights shares	Crore
Amount (Rs)	175.00
Price assumption (Rs)	400.00
No of rights shares	0.44
Current equity shares	1.48
Total no of shares post-issue	1.92
Equity dilution (%)	29.48

Earnings table Rs (cr)

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	-7.7	2.7	39.1	103.2	141.2
% y-o-y growth	-	*-135.6*	*1332.0*	*164.0*	*36.9*
Shares in issue (cr)	1.5	1.5	1.5	1.5	1.5
EPS (Rs)	-5.2	1.8	26.3	69.5	95.1
% y-o-y growth	-	*-135.6*	*1332.0*	*164.0*	*36.9*
PER (x)	-118.6	332.9	23.2	8.8	6.4
Book value (Rs)	20.7	22.1	23.3	91.2	184.6
P/BV (Rs)	29.5	27.7	26.2	6.7	3.3
EV/EBIDTA (x)	21.1	20.3	11.5	5.5	4.1
RoCE (%)	8.3	9.7	18.0	35.0	36.9
RoNW (%)	-15.1	5.2	92.9	74.4	50.6

EPS dilution of 12% only

Particulars	Before issue	After issue	% chg
PAT	141.20	160.14	13
Equity shares	1.48	1.92	29
EPS	95.15	83.34	-12

Rights issue to be EPS neutral in FY2009

Against the earnings dilution of 12% in FY2008, we expect the FY2009 earnings to be earnings neutral as the entire capacity of 3.4 million tonne will be available for production in FY2009, as against the availability of 3 million tonne for FY2008. This, coupled with the savings from the CPP as well as the interest savings of Rs30 crore, will neutralise the effect of equity dilution on the earnings of the company.

The company has two paper plants, one in Madhya Pradesh and the other in Orissa, which has been shut since 1999 on account of worker unrest. The company earlier had plans to divest the non-operational Orissa plant, which would have led to significant value unlocking. The company also holds equity investments in Century Textiles and Hyderabad Industries of close to Rs100 crore. But after the announcement of the proposed issue, we don't expect the company to sell off either the plant or the equity investments in the near future, which could prove to be a dampener for the company.

Outlook

The management has said that the rights issue will take 2-3 months and the price as well as the ratio for the rights issue will be decided in due course. Hence we are not revising our estimates as well as our price target. In the meanwhile, all the three businesses of the company are peaking simultaneously with cement being the growth engine. At the current market price (CMP) of Rs612, the stock is discounting its FY2007 earnings by 8.8x and FY2008 earnings by 6.4x. With cash and cash equivalents of Rs100 per share (28.5% of the CMP), the stock offers a decent margin of safety. We remain positive on Orient Paper and Industries and maintain our Buy recommendation on the stock with a price target of Rs800.

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
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Godrej Consumer Products
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren

Ugly Duckling

Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
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UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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