investor's eye

Index

- Stock Update >> Shree Cement
- Stock Update >> Grasim Industries
- Stock Update >> Sintex Industries
- Stock Update >> Omax Auto
- Stock Update >> Infosys Technologies
- Stock Update >> MRO-TEK
- Stock Update >> Ashok Leyland

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Loyd	03-Mar-05	330	**1,033**	1,760
BHEL	11-Nov-05	1,203	**2,104**	2,650
ICICI Bank	23-Dec-03	284	**549**	750
Infosys	30-Dec-03	689	**1,659**	1,870
Orient Paper	30-Aug-05	214	**396**	675

Shree Cement

Cannonball

Stock Update

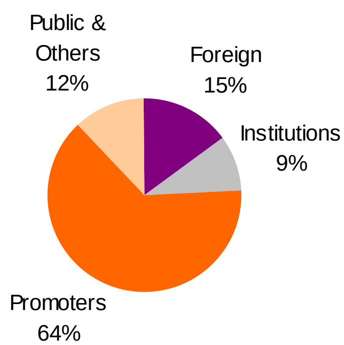
Better than expected performance

Buy; CMP: Rs902

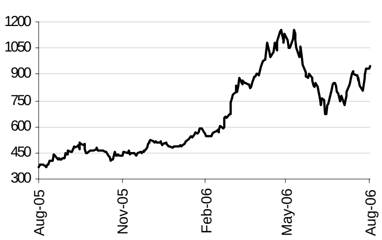
Company details

Price target:	Rs1,400
Market cap:	Rs3,143 cr
52 week high/low:	Rs1,187/352
NSE volume: (No of shares)	38,385
BSE code:	500387
NSE code:	SHREECEM
Sharekhan code:	SHREECEM
Free float: (No of shares)	1.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.0	-13.0	67.2	155.0
Relative to Sensex	19.2	-4.9	52.8	78.4

Result highlights

- Shree Cement's (Shree) Q1FY2007 net profit at Rs90 crore is ahead of our expectations, primarily because of a lower-than-expected increase in the costs.
- The revenue for the quarter grew by 117% to Rs309.4 crore, driven by a 54% growth in cement volumes and a 41% growth in cement realisations. The volumes went up substantially as the company commenced production at its new plant in April 2006.
- The operating profit for the quarter grew by a whopping 210.5% to Rs137.5 crore as the operating profit margins (OPMs) improved by a huge 10.3% to 44.4%. These are by far the highest OPMs reported by any cement manufacturer till date for Q1FY2007.
- Against the growth of 41% in the realisation per tonne, the total cost per tonne went up by 13.6% and hence the earnings before interest, depreciation, tax and amortisation (EBIDTA) per tonne for the quarter stood at Rs1,223, which is by far the highest in the industry.
- Interest and depreciation for the quarter went up substantially as the company commissioned its new 1.2 million tonne plant in April 2006.
- The other income for the quarter grew almost ten-fold as the company was sitting on substantial cash reserves of Rs75 crore.
- The net profit for the quarter grew by a staggering 247.6% to Rs90.4 crore.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Net sales	**309.4**	**142.5**	**117.1**
Total expenditure	171.9	98.2	75.0
Operating profit	**137.5**	**44.3**	**210.5**
Other income	3.0	0.3	978.6
EBIDTA	140.5	44.6	215.3
Interest	5.4	3.9	37.9
PBDT	135.1	40.7	232.3
Depreciation	26.3	12.3	114.3
PBT	**108.8**	**28.4**	**283.3**
Tax	18.5	2.4	672.0
Profit after tax	**90.4**	**26.0**	**247.6**
EPS (Rs)	25.9	7.5	
Margins			
OPMs (%)	44.4	34.1	10.3
EBIDTA (%)	45.4	34.5	10.9
EBT (%)	35.2	23.8	11.4
EAT (%)	29.2	23.2	6.0

Going forward, firm cement prices in the wake of the narrowing demand-supply scenario in the county in general and the northern region in particular would drive Shree's realisations. This coupled with the continuous volume growth over the next two years, would maintain the momentum in Shree's earnings growth. In the wake of firm cement prices and strict cost control measures implemented by Shree, we are upgrading our earnings estimates for the company by 14% and 16.5% for FY2007 and FY2008 respectively. Our earnings per share (EPS) estimates now stand at Rs80.6 for FY2007 and Rs103.5 for FY2008. At the current market price (CMP) of Rs902, the stock is trading at 8.7x its FY2008 earnings and 5.5x FY2008 EBIDTA. On enterprise value (EV)/tonne basis the stock is trading at EV/tonne of USD122 per tonne of cement. We believe the valuations are attractive given the strong earnings growth of a 54% compounded annual growth rate (CAGR) over FY2006-08. We maintain our Buy recommendation on the stock with a price target of Rs1,400.

New plant buoys Shree's volume by 54%

During the quarter Shree commenced commercial production from its 1.2 million tonne Unit III. This coupled with the recent capacity upgrade from its unit I and unit II in turn helped Shree register a stupendous volume growth of 54% for the quarter and the same stood at 11.24 lakh tonne. Further in the wake of the narrowing demand-supply gap in the northern region, the cement prices in the northern region stayed near the Rs200 per bag level. Hence the company grabbed the opportunity as the net sales for the quarter registered a staggering growth of 117.1% to Rs309.4 crore.

Per tonne analysis

Rs/tonne	Q1FY07	Q1FY06	% yoy chg
Raw material	315	246	27.9
Stocks	49	-1	-4044.2
Employee	101	100	1.7
Power and fuel	420	415	1.0
Freight	386	373	3.3
Other exp	259	220	17.5
Total cost per tonne	1529	1347	13.6
Realisation	2752	1954	40.9
EBIDTA	1223	607	101.5

Shree achieves Rs1,223 EBIDTA per tonne—highest in the industry

As Shree's cement realisation grew by 41%, the total cost per tonne went up by 13.6% and hence, it reported an EBIDTA per tonne of Rs1,223 for the quarter, which is by far the highest in the industry. This makes Shree a player with an extremely high leverage to the cement volumes, as every additional tonne of cement sold will generate an additional EBIDTA of Rs1,223 per tonne for the company. With its unit III already operational, the volume growth will drive Shree's EBIDTA in FY2007. Further with Shree's unit IV all set to commence commercial operations by July 2007, the volume as well as the EBIDTA growth will maintain its momentum.

EBIDTA per tonne and EV/Tonne

Companies	EV/tonne ($ US/Tonne) FY08E	EBIDTA/ tonne
ACC	153.2	950
Grasim		1051
UTCL	134.5	842
JP Associates		803
Shree Cements	122	1223
Madras Cement	114.4	1155
JK Cement	58.6	702
GACL	175	1176
India Cement	100	895

(Source: Sharekhan Research and Consensus estimates

Net profit for the quarter surged 247.6%

The other income for the quarter grew almost ten-fold as the company was sitting on substantial cash reserves of Rs75 crore. The net profit for the quarter grew by a staggering 247.6% to Rs90.4 crore.

Upgrading earnings—maintain buy with a price target of Rs1,400

Going forward, firm cement prices in the wake of the narrowing demand-supply scenario in the county in general and the northern region in particular would drive Shree's realisations. This coupled with the continuous volume growth over the next two years, would maintain the momentum in Shree's earnings growth. In the wake of firm cement prices and strict cost control measures implemented by Shree, we are upgrading our earnings estimates for the company by 14% and 16.5% for FY2007 and FY2008 respectively. Our EPS estimates now stand at Rs80.6 for FY2007 and Rs103.5 for FY2008. At the CMP of Rs902, the stock is trading at 8.7x its FY2008 earnings and 5.5x FY2008 EBIDTA. On EV/tonne basis the stock is trading at EV/tonne of USD122 per tonne of cement. We believe the valuations are attractive given the strong earnings growth of a 54% CAGR over FY2006-08. We maintain our Buy recommendation on the stock with a price target of Rs1,400.

Earnings table Rs (cr)

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	40.7	109.6	152.6	281.0	360.6
% y-o-y growth	*17.7*	*169.0*	*39.2*	*84.1*	*28.3*
Shares in issue (cr)	3.5	3.5	3.5	3.5	3.5
EPS (Rs)	11.7	31.5	43.8	80.6	103.5
% y-o-y growth	*17.7*	*169.0*	*39.2*	*84.1*	*28.3*
PER (x)	77.1	28.7	20.6	11.2	8.7
P/BV (Rs)	14.5	12.3	12.0	11.2	3.6
EV/EBIDTA (x)	25.8	19.9	15.2	7.6	5.5
RoCE (%)	13.4	21.2	26.5	40.0	36.8
RoNW (%)	18.9	45.3	51.5	50.1	40.0

Grasim Industries

Apple Green

Stock Update

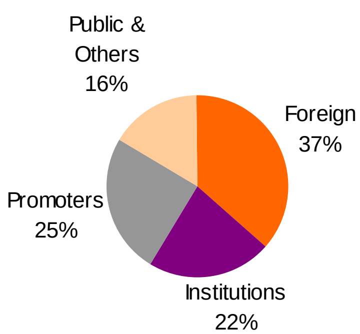
Concrete edifice

Buy; CMP: Rs2,080

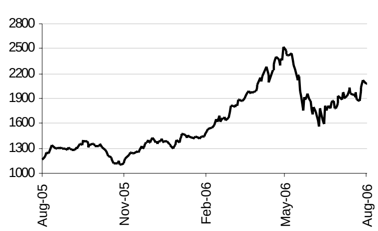
Company details

Price target:	Rs3,150
Market cap:	Rs19,071 cr
52 week high/low:	Rs2,605/1,087
NSE volume: (No of shares)	3.1 lakh
BSE code:	500300
NSE code:	GRASIM
Sharekhan code:	GRASIM
Free float: (No of shares)	6.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.4	-11.7	43.0	74.8
Relative to Sensex	5.8	-3.5	30.8	22.3

Result highlights

- Grasim's Q1FY2007 stand-alone net profit at Rs311.9 crore is ahead of our expectations.
- The revenues for the quarter grew by 20.8% to Rs1,877 crore, driven by a 37% growth in the cement revenues.
- The operating profit for the quarter grew by a smart 37.1% to Rs513 crore, primarily driven by the stellar performance of its cement division.
- Amongst the divisional performances, the cement division again stole the show as the division recorded a 37% growth in the revenues and a 101% growth in its earnings before interest, depreciation, tax and amortisation (EBIDTA). Also the VSF division delivered an impressive performance as it recorded a 24.4% growth in its EBIDTA. This was despite a 45-day shutdown during the quarter at the company's Nagda plant.
- However, the sponge iron and chemical divisions delivered poor performances, as the divisions recorded a drop in the revenues and EBIDTA.
- Overall, the performance at the operating level was sweetened by an 86.4% increase in the other income and an 11.4% reduction in the interest cost. As a result the pre-exceptional net profit for the quarter grew by 51.7 % to Rs311.9 crore.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Net sales	1,877.0	1,553.3	20.8
Total expenditure	1,363.7	1,178.9	15.7
Operating profit	513.3	374.4	37.1
Other income	37.5	20.1	86.4
PBIDT	550.7	394.5	39.6
Interest	23.5	26.5	-11.4
PBDT	527.2	367.9	43.3
Depreciation	74.1	70.5	5.1
PBT	453.1	297.5	52.3
Tax	141.2	91.9	53.7
PAT	311.9	205.6	51.7
Extraordinary items	0.0	45.4	
Reported profit after tax	311.9	250.9	24.3
EPS (Rs)	34.0	20.5	
Margins			
OPMs	27.3	24.1	
EBIDTA	29.3	25.4	
PBT(%)	24.1	19.2	
PAT	16.6	13.2	

- The reported net profit, which included an extraordinary other income during Q1FY2006, grew by 24.3%.
- The consolidated results were still better because of the stupendous results of UltraTech Cement. The consolidated revenues grew by 29.2% and the net profit grew by 89% to Rs536 crore.

With the VSF business showing strong signs of recovery and the sponge iron business almost at the bottom of its performance, our concerns over these two businesses have been allayed. This coupled with the concrete performance of its cement business and the impressive performance of its 51% subsidiary UltraTech Cement has led us to upgrade the company's consolidated earnings by 39% and 20.6% for FY2007 and FY2008 respectively. Our revised consolidated EPS for FY2007 and FY2008 stand at Rs168 and Rs200 respectively.

Going forward the improved performance of the VSF business, continued concrete performance of its cement business and the steep uptrend in the earnings of its 51% subsidiary UltaTech would drive Grasim's consolidated earnings. At the current market price (CMP) of Rs2,080, the stock is discounting its FY2007 consolidated earnings by 12.3x and its FY2008 consolidated earnings by 10.4x. We believe the valuations are attractive with a strong earnings growth of 40% over FY2006-08. We maintain our Buy recommendation on the stock, with a price target of Rs3,150. We have valued the company based on the sum-of-the-parts method; wherein we have valued Grasim's FY2008 consolidated cement capacity of 36 million tonne at US$150 per tonne of cement. This is still at a discount to the current valuation commanded by GACL.

Segmental results

Particulars	Q1FY07	Q1FY06	% yoy chg
Sales (Rs crore)			
VSF	441.1	417.8	5.6
Chemical	71.5	99.3	-28.0
Cement	1096.8	801.8	36.8
Sponge iron	175.4	220.5	-20.5
EBIDT (Rs crore)			
VSF	114.3	91.9	24.4
Chemical	17.9	37.4	-52.2
Cement	376.5	187.6	100.7
Sponge iron	14.2	69.2	-79.5
EBIDTA (%)			
VSF	25.9	22.0	
Chemical	25.0	37.7	
Cement	34.3	23.4	
Sponge iron	8.1	31.4	

VSF—strong signs of improvement

The VSF division recorded a 5.6% year-on-year (y-o-y) growth with revenues of Rs441.1 crore for the quarter. This performance was impressive considering that the operations at its Nagda plant got suspended for 45 days during the quarter due to water shortage. This contingency also resulted in lower sales volumes, which dropped by 1.9% during Q1FY2007. However as the realisation improved by 8.0% during the quarter, the EBIDTA for the quarter stood at Rs114.3 crore witnessing a growth of 24.4% year on year (yoy). The improvement in the VSF business is now visible with the segmental margins improving by 391 basis points on a y-o-y basis to 25.9%.

Grasim has increased the production capacity at Harihar by 9,125 tonne through de-bottlenecking. This coupled with a recent price hike by another Rs5/kilogram for VSF during July 2006 would improve the performance of the division. The worst for the VSF division seems to be over with the material cost stabilising and a moderate price improvement already on. In order to overcome the water shortage problem, the company has constructed an additional reservoir equivalent to 45 days of its water requirement. The outlook for this division is positive, as over the next two years the company plans to expand its VSF capacity by 20% at a cost of Rs627 crore. Further AV Nackawick Pulp Mill is expected to produce rayon grade pulp from December 2007. The plantation-cum-pulp project at Laos is progressing according to plan. This would help in augmenting the supply of quality pulp.

Cement—concrete edifice

The cement business has once again done the trick for Grasim Industries. The cement revenues in Q1FY2007 jumped by a very impressive 36.8% to Rs1,097 crore. This was driven by a 4.5% growth in the volumes and a 31% rise in the realisations to Rs3,063 per tonne. The increase in the realisation is attributed to an increase in the prices across regions. The volumes increased as the company's capacity utilisation inched up to 109%, on the back of the robust demand across all regions driven by the sustained demand from the retail housing and infrastructure sectors. The EBIDTA margins expanded by 1,090 basis points to 34.3% during Q1FY2007 due to the better performance by various margin drivers like the proportion of blended cement, which increased from 50% to 63%, increase in the rail-road mix from 36% to 47% and the continued thrust on cost-control.

Blockbuster capex of Rs3,736 crore for the cement division

Grasim has lined up a blockbuster capital expenditure (capex) plan of Rs3,736 crore for its cement division which includes the setting up of two greenfield cement plants of 4 million tonne each in the northern state of Rajasthan.

This would entail an investment of approximately Rs2,475 crore, which includes the cost of setting up of thermal power plants at both these places. Additionally, the company plans to invest around Rs1,261 crore over the next two years on modernisation, de-bottlenecking, and the setting up of a grinding unit at Dadri, ready mix concrete unit and the setting up of captive power plants. The company expects the capacity to be operational by March 2008. Post this expansion, Grasim's own capacities will go up to 24 million metric tonne (MMT) and the AV Birla group's cement capacities (including UltraTech) will go up to 41MMT, surpassing the 35MMT capacity of the Holcim group (ACC and Ambuja).

Chemical—affected by drop in realisation

Grasim's chemical division delivered a poor performance as the revenues fell by 28% yoy to Rs71.5 crore during the quarter. This was primarily because of a water shortage, which had a negative impact of 15% on the production. The production loss coupled with a 22% y-o-y fall in the realisations of caustic soda and chlorine (in line with the international caustic soda prices) resulted in a 52% decline in the division's EBIDTA to Rs17.9 crore. Consequently, the operating margins fell by 12.67% points to 25% in Q1FY2007. The outlook for the segment looks dull, with expectation of pressure on the domestic prices due to surplus capacities in the industry and the softening of the prices globally. Also, the volumes will be impacted going ahead due to the maintenance shutdown of the company's captive power plants for about a month.

Sponge iron—still bleeding

Grasim's sponge iron division continued its poor performance during the quarter. The quarter witnessed a 20.5% decline in the revenues as the sponge iron volumes suffered due to lower capacity utilisation on account of the low availability of natural gas. The sponge iron realisations also fell by 14.4% yoy on the back of lower global scrap prices. This situation got worse as the prices for natural gas increased (up 170% yoy). These factors severely impacted the division's EBIDTA margins, which fell steeply from 31.4% in Q1FY2006 to 8.1% in Q1FY2007. Consequently the sponge iron division's EBITDA stood at Rs14.2 crore, a decline of 80% yoy. Going ahead the profitability for the division will depend on the increase in its realisations, but the competition from coal-based sponge iron plants continues to be a threat.

Consolidated results better than stand-alone results

Grasim's consolidated results were better on the back of the stupendous results of UltraTech Cement. The 51% subsidiary reported a 45% growth in the revenues and a whopping 250% increase in its net earnings. Consequently Grasim's consolidated revenues grew by 29.2% to Rs3,196 and the net profit grew by 89% to Rs536 crore.

Consolidated results

Particulars	Q107	Q106	% yoy chg
Revenues	3195.9	2473.6	29.2
Exp	2272.8	1908.7	19.1
OP	923.1	564.9	63.4
Other income	49.2	30.0	63.7
Margins	*28.9*	*22.8*	
PAT	535.8	283.7	88.9

Upgrading earnings

With the VSF business showing strong signs of recovery and the sponge iron business almost at the bottom of its performance, our concerns over these two businesses have been allayed. This coupled with the concrete performance of its cement business and the impressive performance of its 51% subsidiary UltraTech Cement has led us to upgrade the company's consolidated earnings by 39% and 20.6% for FY2007 and FY2008 respectively. Our revised consolidated EPS for FY2007 and FY2008 stand at Rs168 and Rs200 respectively.

Valuation and view

Going forward the improved performance of the VSF business, continued concrete performance of its cement business and the steep uptrend in the earnings of its 51% subsidiary UltaTech would drive Grasim's consolidated earnings. At the current market price (CMP) of Rs2,080, the stock is discounting its FY2007 consolidated earnings by 12.3x and its FY2008 consolidated earnings by 10.4x. We believe the valuations are attractive with a strong earnings growth of 40% over FY2006-08. We maintain our Buy recommendation on the stock, with a price target of Rs3,150. We have valued the company based on the sum-of-the-parts method; wherein we have valued Grasim's FY2008 consolidated cement capacity of 36 million tonne at US$150 per tonne of cement. This is still at a discount to the current valuation commanded by GACL.

Earnings table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	959.0	1,039.0	1,545.0	1,837.0
% y-o-y growth	*23.3*	*8.3*	*48.7*	*18.9*
Shares in issue (Cr)	9.2	9.2	9.2	9.2
EPS (Rs)	104.6	101.3	168.5	200.4
PER (x)	19.9	20.5	12.3	10.4
Book value (Rs)	525.0	609.0	725	869
P/BV (Rs)	4.0	3.4	2.9	2.4
EV/EBIDTA (x)	11.0	10.0	6.0	5..0
RoCE (%)	18.7	17.8	28.8	30.9
RoNW (%)	19.9	16.6	23.2	23.1

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

Sintex Industries

Apple Green

Stock Update

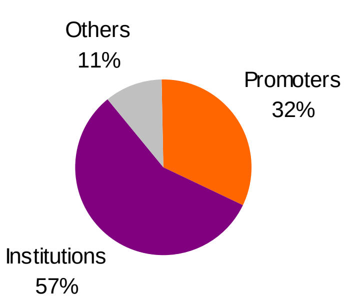
Firmly placed

Buy; CMP: Rs139

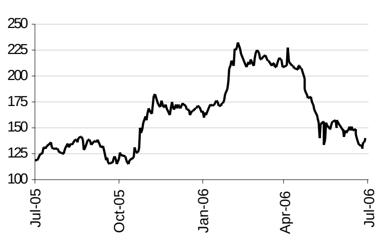
Company details

Price target:	Rs192
Market cap:	Rs1,392 cr
52 week high/low:	Rs258/110
NSE volume: (No of shares)	68,351
BSE code:	502742
NSE code:	SINTEX
Sharekhan code:	SINTEX
Free float: (No of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.5	-32.4	-17.2	21.3
Relative to Sensex	-15.4	-25.7	-24.2	-15.6

Result highlights

- The revenue of Sintex Industries Ltd (SIL) grew by a sharp 52.6% year on year (yoy) in Q1FY2007 to Rs223.8 crore—ahead of our estimate.
- The plastic division's revenue grew by 59.2% yoy to Rs160.0 crore. Its profit before interest and tax (PBIT) rose by 67.1% yoy to Rs21.8 crore as the margins expanded by 60 basis points yoy to 13.6%.
- The textile division's revenue increased by 38.2% yoy to Rs65.3 crore. The growth was driven by an 11.3% jump in the volumes and a 23.5% jump in the realisations yoy. Reeling under severe margin pressure the PBIT grew by only 7.1% to Rs7.9 crore.
- The operating profit margin (OPM) of the company grew by only ten basis points yoy to 17.3%—in line with our estimate. The decrease in the material and employee costs as a percentage of sales were offset by the increase in the other expenses.
- The other income increased by 158.3% yoy to Rs6.5 crore, but the growth was neutralised by a tax outgo of Rs6.9 crore in the current quarter against a write back of Rs0.9 crore in Q1FY2006. Consequently the net profit grew at a slower rate of 40.9% yoy to Rs20.4 crore—in line with our estimate.
- The stock is trading at attractive valuations of a price/earnings ratio (PER) of 11.2x FY2008E and enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 6.8x FY2008E. These valuations should be seen in conjunction with the facts that the company's earnings are expected to grow at a healthy compounded annual growth rate (CAGR) of 26% over FY2006-08 and that the inorganic growth trigger is long overdue. We maintain a Buy on SIL with a price target of Rs192, at which the stock would discount its FY2008E earnings by 15.5x.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	223.8	146.7	52.6
Expenditure	185.1	121.4	52.5
Operating profit	38.7	25.3	53.1
Other income	6.5	2.5	158.3
PBIDT	45.2	27.8	62.7
Interest	7.9	6.8	16.1
Depreciation	10.0	7.3	36.6
PBT	27.3	13.6	100.0
Tax	6.9	-0.9	-
PAT	20.4	14.5	40.9
EPS (Rs/share)	2.0	1.6	29.2
Margins			
OPM (%)	17.3	17.2	10 bps
PBIDTM (%)	20.2	19.0	120 bps
PATM (%)	9.1	9.9	-80 bps

Revenue growth of 52.6% in Q1FY2007—ahead of our estimate

The revenue of SIL grew by a sharp 52.6% yoy in Q1FY2007 to Rs223.8 crore and the growth was ahead of our estimate. The revenue of the plastic division grew by 59.2% yoy to Rs160.0 crore whereas that of the textile division increased by 38.2% yoy to Rs65.3 crore.

Operating profit growth higher at 53.1%—ahead of our estimate

The operating profit growth was higher at 53.1% yoy to Rs38.7 crore and the same was ahead of our estimate. The OPM expanded by ten basis points to 17.3%—in line with our estimate. The decrease in the material and employee costs as a percentage of sales were offset by the increase in the other expenses.

as a % of net sales	Q1FY07	Q1FY06	Change in bps
Material cost	64.9	65.5	-60 bps
Employee expenses	4.0	5.1	-110 bps
Other expenses	13.8	12.2	160 bps
Operating profit	17.3	17.2	10 bps

Segment-wise results-solid performance of plastic division

Particulars (Rs cr)	Q1FY07	Q1FY06	% yoy chg
Revenue			
Textile	65.3	47.3	38.2
Plastic	160.0	100.5	59.2
PBIT			
Textile	7.9	7.4	7.1
Plastic	21.8	13.1	67.1
PBITM			
Textile	12.2	15.7	-350 bps
Plastic	13.6	13.0	60 bps

Textile division

- The revenues for this division grew by 38.2% yoy to Rs65.3 crore. The growth was driven by a rise of 23.5% yoy in the realisation to Rs145.7 per metre and higher sales to Canclini.
- Sales to Canclini grew by 66.7% yoy to Rs15.3 crore. The growth was due to a 62.5% rise in the volume to 650,000-metres yoy. The sales to Canclini now contribute 24.1% to the textile division's revenue.
- The volumes of the domestic business saw a slow growth of 5.4% during the quarter but the realisation improvement of 23.5% led to the 30.2% growth yoy in this business.
- The PBIT margin was down 350 basis points yoy to 12.2%, mainly due the sales of low-margin products and an 85% increase in the power cost (largely due to furnace oil). Consequently, the PBIT grew by a meagre 7.1% to Rs7.9 crore.
- SIL has also entered into an agreement with a UK-based company for supply of structured fabrics. The agreement entails product designing and product sales for a three-year period and is then renewable for another five years. This UK-based company will give SIL 3,000 designs per quarter. Through this agreement, SIL believes it can sell about 1 million metres of fabric in the first year and this volume can be expected to increase to four million metres of fabric in the coming three years.

Textile division—mixed bag

Particulars (Rs cr)	Q1FY07	Q1FY06	% yoy chg
Sales value (Rs cr)	63.2	46.0	37.4
Fabric	48.0	36.9	30.2
Canclini	15.3	9.2	66.7
Volume (in lakh meters)	43.4	39	11.3
Fabric	36.9	35.0	5.4
Canclini	6.5	4.0	62.5
Realisation (per meter)	145.7	118.0	23.5
Fabric	130.0	105.3	23.5
Canclini	234.9	229.0	2.6

Plastic division

- The revenue grew by a robust 59.2% yoy to Rs160.0 crore, in line with our expectation.
- The businesses of pre-fab and custom moulding continued to be the fastest growing segments within the plastic division. The pre-fab business grew by 85.8% yoy to Rs76.0 crore and the custom molding business grew 42.8% yoy to Rs44.0 crore, driven by a strong growth in the volumes. The business of tanks reported an impressive growth of 15.4% yoy to Rs18.2 crore. The pre-fab and custom molding businesses contributed 85.1% of the plastic division's revenue in Q1FY2007.
- The PBIT margin expanded by 60 basis points due to strong demand traction and focus on value addition. Consequently the PBIT grew 67.1% yoy to Rs21.8 crore, ahead of our expectation.
- During the current quarter this division received a breakthrough order from Indian Army for pre-fab and renewed its contracts with key clients, GE and Cummins. SIL also ramped up the power product portfolio.
- The Baddi plant, which started commercial production in February 2006, witnessed a capacity utilisation of 35%. The performance of this plant will stabilise over the next couple of quarters.

- The current outstanding order book in the pre-fab business is approximately Rs600 crore to be executed over the next eighteen months.

Plastic division—star performer

Products	Q1FY07		Q1FY06		% Chg in
	Revenue (Rs cr)	%	Revenue (Rs cr)	%	Revenue (yoy)
Tanks	21.0	14.9	18.2	20.2	15.4
Pre - Fab	76.0	53.9	40.9	45.4	85.8
Custom/FMD	44.0	31.2	30.9	34.3	42.4

Net profit growth slower at 40.9%—in line with our estimate

The other income increased by 158.3% yoy to Rs6.5 crore, but the effect of the same was neutralised by a tax outgo of Rs6.9 crore in the current quarter against a write back of Rs0.9 crore in Q1FY2006. Consequently the net profit grew at a slower rate of 40.9% yoy to Rs20.4 crore. In the current quarter there was a conversion of foreign currency convertible bonds into equity that led to dilution and as a result the earnings grew at 29.2% yoy to Rs2.0 per share.

Consolidated results for Q1FY2007

For Q1FY2007 the consolidated revenues stood at Rs231.7 crore, operating profit at Rs40.3 crore and PAT at Rs21.3 crore. The consolidated earnings were at Rs2.1 per share. SIL consolidated two months performance of Zeppelin Mobile Systems India Ltd (ZMIL), which it acquired this year. ZMIL earned revenues of Rs7.9 crore, operating profit of Rs1.7 crore and net profit of Rs1.3 crore. The operating margins at 21.7% in the quarter were significantly higher than SIL margins of 17.3%.

Valuations

The stock is trading at attractive valuations of a PER of 11.2x FY2008E and EV /EBIDTA of 6.8x FY2008E. These valuations should be seen in conjunction with the facts that the company's earnings are expected to grow at a healthy CAGR of 26% over FY2006-08E and that the inorganic growth trigger is long overdue. We maintain a Buy on SIL with a price target of Rs192, at which the stock would discount its FY2008E earnings by 15.5x.

Earnings table (stand-alone) Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	50.3	81.1	112.2	149.9
Share in issue (cr)	9.2	9.9	12.0	12.0
EPS (Rs)	5.4	8.2	9.3	12.5
% y-o-y growth	*17.8*	*51.2*	*13.4*	*33.6*
PER (x)	25.6	16.9	14.9	11.2
Book value (Rs)	35.1	43.8	67.4	79.0
P/BV (x)	4.0	3.2	2.1	1.8
EV/Ebidta (x)	11.9	9.8	9.1	6.8
Dividend yield (%)	0.6	0.6	0.6	0.6
ROCE (%)	12.7	14.0	15.0	17.3
RONW (%)	9.9	18.1	13.5	15.5

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

Omax Auto

Apple Green

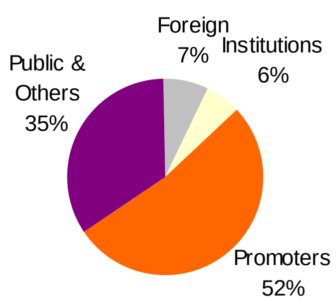
Stock Update

In line with expectations

Buy; CMP: Rs90

Company details	
Price target:	Rs178
Market cap:	Rs184 cr
52 week high/low:	Rs174/58
NSE volume: (No of shares)	42,600
BSE code:	520021
NSE code:	OMAXAUTO
Sharekhan code:	OMAX
Free float: (No of shares)	1.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.2	-32.6	-49.0	-43.1
Relative to Sensex	-0.4	-26.3	-53.4	-60.2

Result highlights

- Omax Auto's Q1FY2007 results are in line with our expectations as the net sales grew by 11.3% to Rs160.3 crore.
- The operating margins for the quarter declined by 40 basis points to 9.8% owing to a rise in the raw material and employee costs. The margins pressure continued as the raw material costs rose from 65.7% to 75.2% as a percentage of sales.
- Both the Bangalore and Binola plants have started contributing to the top line and have stabilised their operations. Going forward, as the production of both the new plants rises further, we expect the margins to improve.
- The net profit for the quarter marked a growth of 4.3% to Rs5.6 crore.
- Going forward, the margins are expected to improve as the company is reducing costs by using captive raw material sources and consolidating its operations at a single location.
- At the current market price of Rs90, the stock trades at 4.3x its FY2008E earnings. We maintain our Buy on the stock with a price target of Rs178.

Net revenues grew by 11.3% at Rs160.3 crore

The net revenues for Q1FY2007 have shown a growth of 11.3% to Rs160.3 crore, as the domestic revenues revived with the stabilisation of the new plants. The export sales for the quarter were at Rs8 crore as compared to Rs5.0 crore in the corresponding

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Net sales	160.3	144.0	11.3
Total expenditure	144.6	129.4	11.8
Raw materials consumed	122.9	95.6	-
Change in stock	-3.2	-1.4	-
Staff cost	15.6	7.4	-
Other expenses	9.3	27.8	-
Operating profit	15.7	14.6	7.1
Other income	1.9	1.1	67.9
EBIDTA	17.6	15.7	11.4
Interest	3.8	2.4	60.1
PBDT	13.7	13.4	2.8
Depreciation	5.0	5.2	-2.9
PBT	8.7	8.2	6.3
Tax	3.1	2.8	-
Reported profit after tax	5.6	5.4	4.3
Margin			
OPM (%)	9.8	10.2	-

period last year. Both the new plants at Bangalore and Binola have started their operations. While the Bangalore unit contributed revenues of Rs12 crore in the first quarter, the Binola plant contributed Rs8 crore. The operations of both the Bangalore and the Binola plants are expected to be ramped up further by the year-end with revenue targets of Rs60 crore and Rs50 crore respectively. The Binola plant is mainly reserved for export orders to the USA and Europe.

Operating profits grow by 7% as margins decline

The operating profits for the quarter have grown by 7.1% to Rs15.7 crore, as the operating margins declined by 40 basis points to 9.8%. The margins contracted due to a rise in the raw material costs (the costs rose from 65.7% to 75.2% as a percentage of sales) and a 110% rise in the staff costs. The company expects to sustain the current level of margins for the rest of the year while they are expected to improve next year onwards as the production from the new plants rises. Further, the margins would improve as the company is reducing costs by using captive raw material sources and consolidating its operations at a single location.

The interest cost was high due to higher borrowings to fund its expansion plans. Consequently, the net profit for the quarter stood at Rs5.61 crore, as compared to Rs 5.4 crore in the same period of the previous year.

Other highlights

- The management has maintained its export target of about Rs50 crore for FY2007. The company is planning to reduce its power and fuel costs by replacing its diesel generation sets with low cost fuel. The employee cost is planned to be controlled by increasing automation, productivity and reducing contract workers.
- Omax Auto has set up a subsidiary Omax Steels at a cost of Rs5.57 crore, which is expected to commence its commercial operations by the end of September 2006 while the trial production would commence this month. Omax is expected to utilise a majority of its output.

Outlook and valuations

The domestic sales have revived with the stabilisation of its new units while the margins have also improved on a sequential basis. We expect Omax Auto to benefit from the upswing in the two-wheeler industry and also to take advantage of the huge outsourcing opportunity. Though the growth was slightly laggard in the last year, we expect the company to deliver a strong performances hereon. We have estimated a growth of 15% in the company's domestic sales for FY2007.

At the current levels, the stock discounts its FY2008E earnings by 4.1x and enterprise value (EV) by 3.2x. The stock appears to be attractive at these levels and we maintain our Buy recommendation on the stock with a price target of Rs178.

Earnings table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	529.8	578.6	684.3	829.5
% y-o-y growth		*9.2*	*18.3*	*21.2*
Net profit (Rs cr)	20.3	20.0	31.8	44.5
% y-o-y growth		*-1.2*	*58.8*	*39.8*
EPS (Rs)	8.9	9.4	14.9	20.8
PER (x)	9.5	9.1	5.7	4.1
Book value (x)	43.9	52.8	69.1	90.5
P/BV (x)	1.9	1.6	1.2	0.9
EV/EBITDA (x)	5.3	5.8	4.2	3.2
Dividend yield (%)	2.4	2.4	2.6	2.9
RoCE (%)	16.8	13.4	21.0	20.1
RoNW (%)	23.2	18.8	28.5	26.1

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

Infosys Technologies

Evergreen

Stock Update

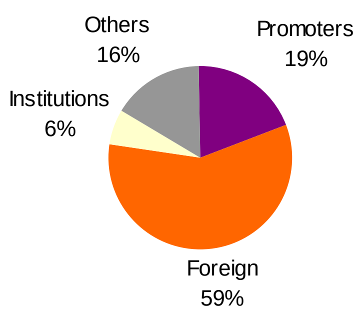
It's different

Buy; CMP: Rs1,659

Company details

Price target:	Rs1,870
Market cap:	Rs91,676 cr
52 week high/low:	Rs1,700/786
NSE volume: (No of shares)	10.3 lakh
BSE code:	500209
NSE code:	INFOSYSTCH
Sharekhan code:	INFOSYS
Free float: (No of shares)	44.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	7.5	7.0	16.4	48.1
Relative to Sensex	5.9	17.0	6.4	3.6

We attended the investor meet organised by Infosys Technologies recently. The key points that emerged from the interaction with the management team are given below.

- The management sounded quite confident and optimistic about the future growth prospects and outlined some of the reasons for the same.
- It has created differentiation by realigning the organisational structure with focus on industry domains (termed as verticalisation) and enhancing the range of service offerings over the past couple of years.

Beaming with optimism

In the opening address, the management stressed on the fact that the company is poised to grow at a rapid rate due to its superior business model (based on the global delivery model [GDM]) that enables it to provide better and faster services to the clients as compared with the large multinational companies (MNCs). Moreover, it would be difficult for an MNC to adopt the GDM model due to issues like revenue cannibalisation and rationalisation of their onsite employee force.

The other drivers of growth are the increased need to transform businesses globally that would result in higher spending on setting up and upgrading information technology (IT) infrastructure across many industries. The transformation is essential due to the changing business dynamics (like increased outsourcing of manufacturing activity, shifting consumer preferences and competitive pressures leading to the need for faster go-to-market strategy). Other factors like electronification of services (eg online trading in the equity markets) and the growing regulatory requirements (eg the tightening regulations in the banking industry) is also resulting in a favourable demand environment.

In case of the opportunity from the renewal of large outsourcing deals, the company re-iterated its stand that it would not compromise on the margins to bag large orders. However, the trend of disintegrating the large outsourcing deals among various vendors would offer opportunities with decent margins and the company would actively pursue such opportunities.

Domain focus and increased range of service offerings

In terms of the overall growth strategy, the company has taken two significant steps over the past couple of years: it has realigned the organisational structure to focus on specific industry domains and enhanced the range of its service offerings.

In 2003, the company outlined its strategy to focus on certain industry domains (where the opportunity is huge) and has been investing in building domain-specific capabilities in terms of both employee base (functional or domain experts, industry certification for developers and intense training programmes) and intellectual property rights (IPR). The IPRs are more in the form of processes, solutions and frameworks developed to shorten the delivery cycle and showcase the capabilities to potential clients. In addition to the largest industry domain of banking, financial services and insurance (BSFI), the company has built substantially large employee and knowledge base in industries like retail, communication service providers, transportation, utilities and energy among others. The revenues from these industry domains have grown at a much faster rate than the overall growth rate of the company.

Key industry domains

Particulars	Employee base	% of total revenues	Client base
Retail	3600	9.7	45
Resources, Utilities and Energy	1400	6.7	37
Telecom	8500	17.7	12*
Transportation	1200	3.3	11

* Client base of communication service providers only

Additionally, the company is incubating new service offering like independent validation services (IVS, also known as testing services). Moreover, it has set up a dedicated team of over 350 employees to continuously research on new and emerging technologies, and find application of technology for the business purposes.

Other highlights

The management believes that almost 50% of the incremental addition to the global workforce (of around 7 million employees) in IT services and IT enabled services would happen in India alone. Thus, the company is investing heavily in the recruitment and training of the employee base. It would invest Rs1,200 crore to expand the training capacity to around 40,000 employees annually, up from the current capacity of around 12,000 employees.

Valuation

To summarise, Infosys has created differentiation by moving up the value chain with its strategy to focus on building capabilities in specific industry domains. The service offerings introduced in the last four to five years already provide over 40% of its turnover and the company is continuously making efforts to incubate and develop new service lines. The demand environment is also favourable. Consequently, the management is quite confident of maintaining the growth momentum in spite of the challenges like the increasing competition and wage inflation to name a few.

At the current market price, the stock trades at 25.2x FY2007 and 20.5x FY2008 estimated earnings. We maintain the Buy call on the sock with a price target of Rs1,870.

Earnings table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net revenue (Rs cr)	7130.0	9521.0	13758.0	18704.0
Net profit (Rs cr)	1847.0	2458.0	3673.0	4602.0
No of shares	27.0	27.6	55.8	56.8
EPS(Rs)	34.2	44.6	65.8	81.0
% y-o-y chg		*30.4*	*47.6*	*23.1*
PER	48.5	37.2	25.2	20.5
EV/EBIDTA	18.5	13.7	19.8	15.2
EV/Sales	6.1	4.4	6.4	4.7
ROCE	40.8	39.7	44.2	43.3
RONW	35.3	35.3	38.9	37.4

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

MRO-TEK

Apple Green

Stock Update

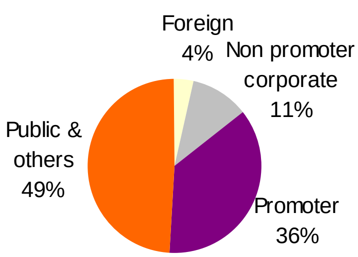
Weak performance as anticipated

Hold; CMP: Rs56

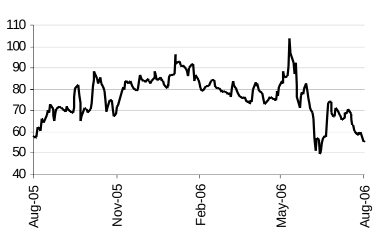
Company details

Price target:	Rs113
Market cap:	Rs114 cr
52 week high/low:	Rs109/49
NSE volume: (No of shares)	2.4 lakh
BSE code:	532376
NSE code:	MRO-TEK
Sharekhan code:	MROTEKLTD
Free float: (No of shares)	1.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-22.4	-26.6	-31.9	0.4
Relative to Sensex	-23.6	-19.8	-37.7	-29.7

Result highlights

- MRO TEK reported a 35.7% decline in its net revenues to Rs22.7 crore during the first quarter, much below the average quarterly run rate of Rs34.9 crore reported in the last fiscal.
- Despite the 420-basis-point improvement in the gross margin to 35.4% (up from 31.2% in Q1FY2006), the operating profit margin (OPM) declined by 210 basis points to 12.5% on an annual comparison basis.
- Consequently, the profit after tax declined by 40.3% to Rs2.1 crore. The management indicated that the performance lacked lustre largely due to the postponement of orders from some of the key clients.
- We had anticipated the weak performance of Q1 and the same was indicated in our Stock Update report dated July 29, 2006. Consequently, the recommendation on the stock was downgraded to Hold.
- At the current market price, the stock trades at 5.6x FY2007 and 4.7x FY2008 estimated earnings. We maintain the Hold recommendation on the stock.

Second consecutive quarter of a lacklustre performance

MRO TEK has reported two consecutive quarters of sequential decline in its revenues. Even on an annual basis, the growth slowed down to 5.8% in Q4FY2006 and declined sharply by 35.7% in Q1FY2007.

Result table Rs (cr)

Particulars	Q1FY07	Q1FY06	Q4FY06	% yoy chg	% qoq chg
Net sales	22.7	35.3	31.3	-35.7	-27.4
Raw material consumed	14.7	24.3	19.0	-39.6	-22.9
Gross profit	8.0	11.0	12.3	-27.0	-34.5
Selling, general & admin expenses	5.2	5.8	6.1	-11.0	-15.1
Total operating cost	19.9	30.1	25.2	-34.0	-21.0
Operating profit	2.8	5.2	6.1	-45.1	-53.8
Other income	0.9	1.1	1.3	-18.2	-27.0
Interest	0.1	0.2	0.1	-63.0	-38.8
PBDT	3.7	6.1	7.3	-39.6	-49.4
Depreciation	0.7	0.8	1.3	-3.6	-44.6
PBT	2.9	5.3	5.9	-44.8	-50.5
Tax	0.8	1.8	0.9	-	-
RPAT	2.1	3.5	5.1	-39.8	-58.2
Prior period items	0.0	0.0	-0.3	-	-
Net profit	2.1	3.5	4.7	-40.3	-55.2
Equity capital (par value Rs5)	10.2	10.2	10.2		
EPS (Rs)	1.0	1.7	2.3		
GPM (%)	35.4	31.2	39.2		
OPM (%)	12.5	14.6	19.6		

The decline (on an annual basis) could be partially attributed to the higher base effect (a sharp jump of 43.9% in Q1FY2006) and postponement of orders by some of its clients. However, the continued lacklustre performance is a cause for concern. Especially given the fact that the demand drivers continue to be in place. According to industry estimates, the total capital expenditure by telecommunication service providers (the key user industry, providing 70-75% of the company's revenues) stood at $4.8 billion, which is likely to increase to around $6.5-7 billion in the current fiscal. Thus, the company is clearly unable to effectively exploit the robust demand from the user industry.

The management indicated that the company has not lost any orders to its competitors and has re-iterated its guidance of achieving a 15-20% growth in its revenues in the current year. This implies a considerable improvement in its performance over the remaining three quarters, which is an uphill task. Moreover, there are still no signs of any distinct improvement in the performance.

OPM hit by SG&A cost

Though the company reported an improvement in the gross margins on an annual comparison basis, the OPM declined by 210 basis points as compared to that in Q1FY2006 due to the higher selling, general and administration (SG&A) cost as a percentage of sales. The decline in the net revenues and the annual salary hike (average of 10%) pushed up the SG&A cost as a percentage of sales.

Other highlights

MRO TEK received the AC Nielsen CIO Jury Award for the innovative use of technology to address business challenges. MRO TEK was among the ten companies that got the award among the 115 nominations from across the country.

The management expects to introduce a broadband network product in the current quarter. The product is also targeted at its traditional customer base of telecommunication service providers that are aggressively looking at expanding their inter-city broadband network.

Valuation

We had anticipated the weak performance of Q1 and the same was indicated in our Stock Update report dated July 29, 2006. Consequently, the stock was downgraded to Hold.

At the current market price, the stock trades at 5.6x FY2007 and 4.7x FY2008 estimated earnings. Though the valuations are compelling, we maintain the Hold recommendation on the stock (and wait for signs of improvement in the company's performance).

Key financials Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit* (Rs cr)	12.3	17.6	20.4	24.4
No of shares (cr)	2.0	2.0	2.0	2.0
EPS (Rs)	6.0	8.6	10.0	12.0
% y-o-y chg		*43.4*	*15.9*	*20.1*
PER (x)	9.3	6.5	5.6	4.7
Price/BV (x)	1.6	1.4	1.2	1.0
EV/EBIDTA(x)	7.4	3.8	2.8	2.0
Dividend yield (%)	2.2	4.0	4.9	5.8
RoCE (%)	18.5	29.2	31.7	32.2
RoNW (%)	17.1	20.9	20.5	20.9

* Before non recurring extra-ordinary items

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

Ashok Leyland

Ugly Duckling

Stock Update

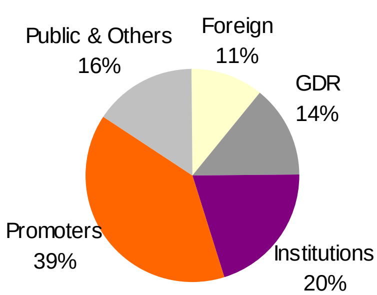
Good performance

Buy; CMP: Rs36

Company details

Price target:	Rs53
Market cap:	Rs 4,716 cr
52 week high/low:	Rs54/23
NSE volume: (No of shares)	75.7 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	61.7 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.5	-28.1	17.7	23.0
Relative to Sensex	-5.0	-21.4	7.6	-14.0

Result highlights

- Ashok Leyland's (ALL) Q1FY2007 results are in line with our expectations.
- The net sales for the quarter grew by 34% to Rs1,423.9 crore led by a volume growth of 28% and a realisation growth of 5%.
- The expenditure for the quarter includes a forex loss of Rs2.6 crore. Adjusting for the same the operating profits grew by 42% to Rs121.3 crore as the operating profit margins improved from 8% to 8.5%.
- The other income was higher at Rs13.9 crore while the tax rate was lower at 25%.
- Last year, there was an extraordinary gain arising out of the sale of Ductron Castings unit to Ennore Foundries. As a result the reported profit after tax (PAT) looks flattish. However, adjusting for the extraordinary item, the adjusted PAT has jumped by 128% to Rs75.6 crore.
- At the current market price of Rs36, the stock quotes at 9.5x its FY2008E earnings and 5.3x its FY2008E earnings before interest, depreciation, tax and amortisation. We maintain our Buy recommendation on the stock with a price target of Rs53.

Strong volume growth drives top line

On the back of a strong volume growth of 28.1%, the top line witnessed a growth of 33.9% to Rs1,423.9 crore. The goods carrier segment, contributing about 87% of the total sales, led the volume surge with a 40% increase while the passenger carrier segment sales declined by 16% to 2,184 units.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Net sales	**1423.9**	**1063.2**	**33.9**
Expenditure	1302.6	977.7	33.2
Raw material consumed	1126.7	847.4	
Change in stock	-82.1	-94.6	
Staff cost	129.1	104.7	
Other exp	128.9	120.2	
Operating profit	**121.3**	**85.5**	**41.8**
Other income	13.9	3.4	
EBIDTA	135.2	88.9	52.1
Interest	0.5	-1.2	
PBDT	134.6	90.0	49.6
Depreciation	32.8	29.8	
PBT	**101.9**	**60.3**	**69.0**
Tax	26.2	27.1	
PAT	75.6	33.2	128.1
Extraordinary items*	-6.5	24.1	
Net Profit	69.2	57.3	20.8
Margins			
OPM (%)	8.5	8.0	
PATM (%)	5.3	3.1	

* Extraordinary item for Q1FY2006 includes Rs30.2 crore on account of the profit on the sale of Ductron Castings.

Volume growth table

Volumes	Q1FY2007E	Q1FY2006	% y-o-y chg
Passenger	2,184	2,608	-16.3
MDV goods	14,785	10,595	39.5
LCV goods	98	117	-16.2
Total vehicle sales	17,067	13,320	28.1

ALL expects the commercial vehicle (CV) industry to perform well in the coming two years and expects it to grow by approximately 10%. A strong economy, infrastructure developments and the Supreme Court's recent decision to ban overloading of trucks are expected to work in favour of the company. Taking note of these factors, ALL has maintained its 2007 sales target of 75,000 vehicles.

Margin improvement despite high raw material costs

The other expenditure for the quarter includes a forex loss of Rs2.6 crore as against a gain of Rs3.2 crore last year. We have taken this item as extraordinary and therefore on a like-to-like basis, we find that the operating profits have marked a growth of 42% year on year (yoy) to Rs121.3 crore while the operating margins improved by 50 basis points to 8.5%. The growth in the operating margins was restricted due to a rise in the raw material costs, which rose to 74.8% of sales from 73.2% of sales in the corresponding period last year. However, this rise was offset by increasing operating efficiencies due to the success of 'Mission Gemba', which the company had initiated in order to save costs.

Higher other income and lower taxes further aided the company in posting strong Q1 results. Due to a one-time gain arising out of the sale of Ductron Castings to Ennore Foundries in Q1FY2006 last year, the reported profits seem to show a flattish growth. However adjusting for the extraordinary item, the profits have marked a strong jump of 128% yoy to Rs75.6 crore.

Acquisition of Czech truck maker

One of the important events for the company during the quarter was the acquisition of the truck business of the Czech truck maker, Avia. The acquisition proceedings are still going on and are likely to be finalised soon. The company has still not disclosed the cost of the acquisition.

We believe the acquisition would have positive implications for ALL. It goes well with the company's strategy to enter new markets and would help it to gain a foothold into the European markets. Apart from Avia's own products, we believe that this would help the company to launch its own products in the European markets, particularly the eastern European markets. The company would also look to integrate its own facilities with Avia to develop new products, which can be launched in newer markets like the Middle East, Africa and some of the South East Asian markets. Further, Avia has some strong LCV brands (D-series trucks), particularly in the 6-12 tonne segment, which may be launched in India. This is one area where the company has miniscule presence as of now. ALL will also benefit from the technological and designing capabilities of Avia and should also boost its auto component revenues as the parts may be outsourced to Avia due to cost advantages.

Raising funds to finance its capex plans

ALL plans to spend Rs600 crore in the next two years to raise its vehicle capacity from 77,000 units to 100,000 units. The capital expenditure (capex) planned for the current year stands at Rs300-350 crore. To finance its capex, the company has recently passed a resolution enabling it to raise funds up to $150 million through foreign currency convertible bonds or notes, global depository receipts or private placement. The final capital-raising instrument is yet to be decided and a committee of directors has been formed to deal with the issue of raising funds.

New product launches in the pipeline

The company plans to introduce a number of products in the next two years. Its Inter Century-Luxura buses are likely to be introduced in Q3FY2007 whereas the new J-series should be launched in the second or third quarter of FY2007. The other launches planned are the NEWGEN range of trucks and a new HMV defence truck for the Indian army.

Outlook

With capacity expansions, benefits accruing from the recent acquisition and scaling up of the operations of its auto components division, we believe that the company would be able to strengthen its product portfolio and de-risk its business model across products and geographies. ALL has drawn up ambitious plans to catapult Auto Component Group's revenues to $100 million by FY2009, which would be done by widening its product range and entering into new export markets in the USA, Europe, South East Asia and West Asia. At the current market price of Rs36, the stock quotes at 9.5x its FY2008E earnings and 5.3x its FY2008E earnings before interest, depreciation, tax and amortisation. We maintain our positive outlook on Ashok Leyland with a Buy recommendation on the stock with a price target of Rs53.

Earnings table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	281.0	305.6	406.7	503.5
Shares in issue (cr)	118.9	122.2	133.2	133.2
EPS (Rs)	2.4	2.5	3.1	3.8
% y-o-y growth		*9.0*	*33.0*	*24.0*
PER (x)	15.2	14.4	11.8	9.5
Book value (Rs)	9.6	11.4	15.0	15.6
P/BV (Rs)	3.7	3.2	2.4	2.3
EV/EBIDTA (x)	10.3	8.3	6.5	5.3
Dividend yield (%)	2.8	3.6	3.3	3.3
RoCE (%)	20.7	21.8	25.9	28.8
RoNW (%)	23.7	23.6	20.4	24.2

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
- Elder Pharmaceuticals
- Godrej Consumer Products
- Grasim Industries
- Hindustan Lever
- Hyderabad Industries
- ICICI Bank
- Indian Hotels 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
- Surya Pharmaceuticals
- UltraTech Cement
- Union Bank of India
- Universal Cables
- Wockhardt

Vulture's Pick

- Esab India
- Nelco
- Orient Paper and Industries
- WS Industries India

Home