investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aurobindo	28-May-07	684	**787**	914
Crompton	19-Aug-05	88	**262**	280
HDFC Bank	23-Dec-03	358	**1,146**	1355
JP Associates	30-Dec-03	125	**758**	850
Zensar Tech	18-Jun-07	342	**340**	484

Orient Paper and Industries

Vulture's Pick

Stock Update

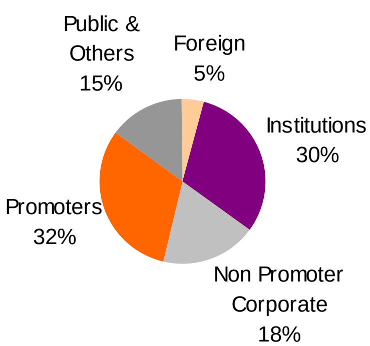
Price target revised to Rs680

Buy; CMP: Rs427

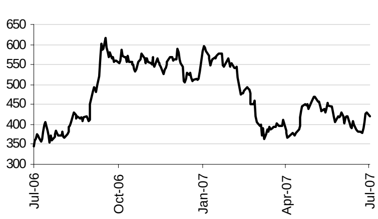
Company details

Price target:	Rs680
Market cap:	Rs623 cr
52 week high/low:	Rs639/322
NSE volume: (No of shares)	12,419
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	3.1	9.3	-17.8	33.5
Relative to Sensex	1.7	-3.6	-23.2	-8.8

Result highlights

- In Q4FY2007 the cement revenues of Orient Paper and Industries (Orient Paper) grew by a robust 33% year on year (yoy) to Rs166.7 crore, helping the overall business to grow by a healthy 22% yoy to Rs340.3 crore. Backed by the stellar performance of the cement division, the company's net profit for FY2007 doubled to Rs59.6 crore.
- For the full year, the company registered a robust top line growth of 28.5% yoy to Rs1,102 crore backed by a 100% growth in its cement revenues to Rs591 crore. The fan business grew by 26% yoy to Rs242 crore whereas the paper revenues were flat at Rs262 crore over the same period.
- With the realisations growing by 25-30% in FY2007, the earnings before interest and tax (EBIT) of the cement division grew by a mammoth 431% yoy to Rs226 crore whereas its margin expanded by a whopping 2,380 basis points to 38% in FY2007. On the back of the superb performance of the cement division the EBIT of the company grew by 235% yoy to Rs252 crore whereas the margin expanded by 1,100 basis points to 22% in FY2007. The margin could have been higher but for the margin pressure faced by the paper and fan businesses during the fiscal.
- With the company not adding any asset during the year, the depreciation provision stood flat at Rs26 crore whereas the interest cost reduced by Rs9 crore to Rs32.7 crore in FY2007, as the company repaid debt to the tune of Rs111 crore during the year.

Result table Rs (cr)

Particulars	FY2007	FY2006	% yoy	Q4FY07	Q4FY06	% yoy
Net sales	**1102.2**	**857.6**	**29.0**	**340.3**	**278.4**	**22.2**
Total expenditure	849.9	750.1	13.0	250.8	228.3	9.9
Raw material consumed	328.1	275.4	19.0	97.6	80.9	20.6
Power, oil & fuel	152.5	156.3	-2.0	40.7	37.4	8.6
Employee expenses	74.1	64.8	14.0	18.4	16.6	10.8
Selling & administrative expenses	145.4	112.7	29.0	37.5	34.0	10.1
Provisions & write-offs	7.4	5.1	44.0	2.4	1.6	52.5
Other expenses	148.3	136.0	9.0	39.1	37.1	5.4
Stock adjustments	-5.8	4.0	-245.0	15.2	20.6	-26.5
Operating profit	252.2	107.5	135.0	89.5	50.1	78.5
Other income	**14.4**	**8.0**	**81.0**	**9.0**	**3.3**	**175.5**
PBIDT	266.6	115.5	131.0	98.5	53.4	84.5
Interest	32.7	41.9	-22.0	9.1	8.7	4.9
PBDT	233.9	73.5	218.0	89.4	44.7	99.9
Depreciation	26.2	26.6	-2.0	6.7	6.7	0.4
PBT	**207.7**	**46.9**	**343.0**	**82.7**	**38.0**	**117.4**
Tax	75.0	13.5	457.0	32.6	9.5	
PAT before extra ordinary items	**142.4**	**33.5**	**325.0**	**59.7**	**28.6**	**108.8**
Extraordinary items	11.7	0.0		11.7	-18.5	
Adj PAT extraordinary item	130.7	21.6	505.0	48.0	10.1	

- The company received Rs6.4 crore as the estimated net realisable value of Certified Emission Reduction (CER) units received during the quarter ended March 2007 at its cement plant. The other income component for the fiscal stood at Rs14 crore. Backed by the stupendous performance at the operating level, the adjusted net profit grew six fold to Rs130 crore.
- The company has planned capital expenditure (capex) of Rs640 crore for the next three years (it has already spent about Rs60 crore of the same) to augment its cement capacity by 2.6 million metric tonne (MMT) including a captive power plant (CPP) of 50 megawatt. It is also augmenting its tissue paper capacity by 20,000 tonne and has already increased its fan capacity.
- As mentioned in our earlier reports, the company is raising Rs160 crore through a rights issue at a price of Rs360 per share. This will result in additional capital of Rs4.44 crore, thereby diluting the equity share capital by 30%. The company will use the proceeds to part finance its capex drive.
- The incremental volumes from the augmented cement capacity, higher blending and savings from power costs will drive the company's earnings in the next three years at a compounded annual growth rate (CAGR) of 15%. We believe that the company will be willing to sell its investment in Century Textiles, if need be, to fund its capital requirements. Thus we have considered it as part of liquid investments which provides a cushion of Rs54 per share to the stock. At the current market price of Rs427 the stock trades at 4.6x its FY2009 earnings per share (EPS) estimate whereas the cement business trades at a valuation of USD24.
- Taking cognisance of the positive outlook for the company as well as the stock's attractive valuations we maintain our Buy recommendation on the stock with a reduced price target of Rs680.

Cement revenues continue to fuel growth in the top line…

For the quarter ended March 2007, the company's cement revenues grew by 33 % yoy to Rs166.7 crore on the back of an 11.6% growth in the volumes to 0.648MMT, including 90,000 tonne of the clinker sold in the quarter. The realisations grew by 19% yoy to Rs2,572.2 per tonne as the prices firmed up in Maharashtra and Andhra Pradesh in the quarter. In FY2007 the cement volumes grew by 6% yoy to 2.35MMT whereas the realisations jumped by 41% yoy to Rs2,511. Consequently, the revenues grew by 50% yoy to Rs591 crore in the same period. The fan business witnessed a robust 26% growth yoy in both Q4FY2007 and FY2007 whereas the paper business stood flat at Rs73 crore and Rs262 crore in the fourth quarter and FY2007 respectively.

Cement break-up

Cement	Q4FY07	Q4FY06	% yoy	FY07	FY06	% yoy
Revenue	166.7	125.6	33	591.7	395.1	50
Dispatches	648000	580480	12	2356000	2221192	6
Realisation	2572.2	2162.9	19	2511.4	1779	41

Source: Sharekhan Research

Segmental break-up

Particulars	FY07	FY06	% yoy	Q4FY07	Q4FY06	% yoy
Revenue	**1102.2**	**857.7**	**29**	**340.3**	**278.4**	**22**
Paper & board	262.6	263.3	0	73.4	72.8	1
Cement	591.7	395.1	50	166.7	125.6	33
Electric fans	242.5	192.0	26	98.9	78.8	26
Know-how & service fees	5.4	7.3	-26	1.3	1.3	-1
EBIT	**251.5**	**94.7**	**166**	**93.6**	**46.8**	**100**
Paper & board	13.0	20.9	-38	6.9	7.9	-13
Cement	226.2	54.6	314	78.3	30.3	158
Electric fans	7.8	11.9	-34	7.6	7.4	2
Know-How & service fees	4.5	7.3	-38	0.9	1.2	-25

Source: Sharekhan Research

…and the operating profit

Backed by a strong realisation growth and cost control measures, the EBIT of the cement division grew by 158% yoy to Rs78 crore in the quarter whereas for the full year the growth in the cement EBIT was even higher at 314% yoy which resulted in an overall profit of Rs226.2 crore in FY2007. The profit of the paper division declined by 13% yoy to Rs6.9 crore whereas the profit of the fan division grew by a marginal 2% yoy to Rs7.6 crore in Q4FY2007. Backed by the stellar performance of the cement division, the overall profit jumped to Rs94 crore for the quarter and Rs252 crore for the full year respectively.

Net profit jumps six-times for FY2007

The company received the first allotment of 96,310 units of CERs for activities undertaken up to March 2006. The realisable value of the same amounting to Rs6.4 crore was included in the "Other income". The interest cost and depreciation provision remained flat yoy at Rs9.12 crore and Rs6.72 crore respectively. Consequently, the net profit grew at a higher rate of 108.8% yoy to Rs59.68 crore in FY2007. The company wrote off an extraordinary expense of Rs11.68 crore relating to the energy development cess paid in the earlier years. Thus the adjusted net profit for the quarter stood at Rs48 crore.

Since FY2007, the company repaid a debt of Rs111 crore, the interest cost reduced by Rs9 crore to Rs32 crore whereas the deprecation provision remained flat at Rs26 crore in FY2007. Consequently, the adjusted net profit jumped six times to Rs130 crore for FY2007.

Capex to drive growth going ahead…

The company has planned a capex of Rs640 crore (it has already incurred about Rs60 crore of this) for the next few years to augment its cement and paper capacities. The capacity addition planned for the fan business has already taken place and increased the fan capacity from 2,580,000 units to 3,500,000 units. The company has augmented its grinding unit's capacity at Jalgaon by 0.2MMT; the same will be available for nine months of FY2008. On the other hand, by the end of the current fiscal the company will commission a 0.8MMT grinding unit at Devapur, Andhra Pradesh; this unit will be effectively available for the whole of FY2009. The tissue paper capacity will be enhanced by 20,000 tonne by the end of the third quarter of FY2009 and would thus be effectively available for three months.

The company also proposes to expand the cement capacity by another 1.4MMT to 5MMT and is putting up a clinker unit of one million tonne capacity at a cost of Rs320 crore for the same. It has decided to set up a coal-based thermal power plant of 50 megawatt at a cost of Rs207 crore. Both these expansions will be completed by the first quarter of FY2010 and would be effectively available for the nine months of the fiscal.

Particulars	Capacity	Amount in cr	Commiss-ioning date	Remarks
CPP at Devapur	50MW	207	Q1FY10	Cost savings of Rs140 per unit
Devapur-Clinker	1MMT	320	Q1FY10	Cement capacity will increase to 5MMT
Devapur-Grinding	0.8MMT	60	Q4FY08	Incremental blending
Jalgaon-Grinding	0.2MMT	8	Completed	Incremental blending
Tissue paper capacity	20,000 tonne	45	Q4FY08	
Total capex		640		

Source: Sharekhan Research

…to be funded through rights issue

As mentioned in our earlier reports, the company is raising Rs160 crore through a rights issue at a price of Rs360 per share. This will result in additional capital of Rs4.44 crore and would thus dilute the equity share capital by 30%.

Funding pattern	Amount in cr
Proceeds from rights issue	160
Internal accruals	415
Capex over the next 3 years	575

Source: Sharekhan Research

Incremental blending and savings in power cost to trim the cost structure

On completion of the CPP, the company will be able to save Rs1.40 per unit of electricity, leading to savings of Rs123 per tonne in the power cost. Going ahead, the company will be producing more PPC by resorting to incremental blending. With fly ash available within a radius of 60 kilometre of the company's existing units, we believe that the company will be able to increase its blending ratio from 1.2 currently to 1.4 in FY2009 (by increasing PPC production from 58% to 90%), leading to cost savings. Both these measures will keep the company's costs under control and be beneficial for the company in the wake of a downturn in the cement cycle. We expect the company's debt/equity ratio to come down from 1.87 in FY2007 to 0.25 in FY2010.

Boosted by incremental capacity, we expect the cement volumes to grow at a CAGR of 15% over FY2007-10. Coupled with savings from incremental blending and in power cost, we expect the company's earnings to grow at a CAGR of 15% over the same period.

Outlook and valuation

With the government having officially announced that it will cease to exercise control on the pricing of cement, we believe cement prices will be determined by demand-supply economics, leaving scope for further price appreciation. Prices in Andhra Pradesh have already increased by Rs5-9 per bag in June 2007, though we are not factoring the same in our estimates. Though we expect the cement industry to witness a tight situation even in FY2009, we have factored a drop of Rs5 per bag. Going ahead, more of such price hikes in the wake of a tight demand-supply situation will be an upside for the company's earnings and thus a positive trigger for the stock. We believe that the company will be willing to sell its investment in Century Textiles, if need be,to fund its capital requirements. Thus we have considered it as part of liquid investments which provides a cushion of Rs54 per share to the stock.

Assumptions for cement business

Particulars	FY08	FY09	FY10
Volumes	2610500	2800000	3640000
Realisation	Same as Q4FY07	Rs5 drop	Rs10 drop
Power savings	0	0	Rs123 per tonne

Source: Sharekhan Research

At the current market price of Rs427 the stock trades at 4.6x its FY2009 EPS whereas the cement business trades at a valuation of USD24. Taking cognisance of the positive outlook and the stock's attractive valuations, we maintain our Buy recommendation on the stock with a revised price target of Rs680.

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

Valuation table

Particulars	FY05	FY06	FY07E	FY08E	FY09E	FY010E
Net profit (Rs cr)	2.7	29.6	138.4	183.7	182.7	210.5
% y-o-y chg	*-135.6*	*984.4*	*367.8*	*32.7*	*-0.5*	*15.2*
Shares in issue (cr)	1.5	1.5	1.5	1.9	1.9	1.9
EPS (Rs)	1.8	19.9	85.4	95.3	94.8	109.2
% y-o-y chg	*-135.6*	*984.4*	*367.8*	*32.7*	*-0.5*	*15.2*
PER (x)	235.5	21.7	5.1	4.5	4.6	4.0
Book value (Rs)	22.1	20.4	96.6	251.4	344.9	452.8
P/BV (Rs)	19.6	21.2	4.5	1.7	1.3	1.0
EV/EBIDTA (x)	15.7	9.7	3.4	2.7	3.1	2.2
RoCE (%)	9.7	16.3	48.8	45.6	32.7	31.8
RoNW (%)	5.2	75.0	94.8	37.4	27.1	23.8

Tourism Finance Corporation of India

Cannonball

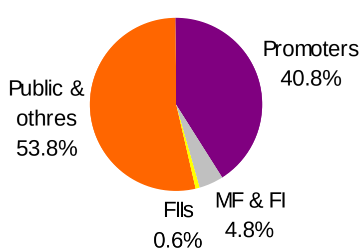
Stock Update

Strong demand from hotels to benefit TFCI

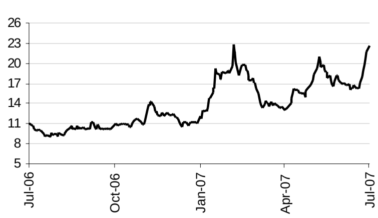
Buy; CMP: Rs22.7

Company details	
Price target:	Rs30
Market cap:	Rs153 cr
52 week high/low:	Rs24.2/8.9
NSE volume: (No of shares)	4.8 lakh
BSE code:	526650
NSE code:	TFCILTD
Sharekhan code:	TFCI
Free float: (No of shares)	4.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.6	62.2	94.5	101.8
Relative to Sensex	18.0	43.0	81.7	37.9

Result highlights

- For Q4FY2007 Tourism Finance Corporation of India (TFCI) has reported a 33.1% year-on-year (y-o-y) growth in its profit after tax (PAT) to Rs9.6 crore, which is ahead of our estimate of Rs8.6 crore. The quarter-on-quarter (q-o-q) PAT growth stood at 281.3% but since the earnings of the company are back-ended, the q-o-q PAT figure is not relevant.
- TFCI has managed to register a healthy y-o-y growth of 81% in sanctions to Rs240 crore and of 36% in disbursements to Rs120 crore. The revival in the demand from the hotel and tourism sectors has helped TFCI register an 81% y-o-y growth in sanctions for FY2007 compared with a 20% sanction growth in FY2006.
- The net interest income (NII) was up by 8.2% to Rs15.4 crore for Q4FY2007 and by 1.2% to Rs28.9 crore for FY2007. The substantial y-o-y growth in the other income to Rs0.45 crore from Rs0.01 crore in Q4FY2006 was achieved due to the consultancy services provided by the company.
- The operating profit was up by 6.3% to Rs13.7 crore for Q4FY2007 but down 3% to Rs24.9 crore for FY2007.
- Provisions and contingencies declined by 43.4% for Q4FY2007 and by 27.5% for FY2007, reflecting the lower provisioning requirement as the incremental non-performing assets (NPAs) remained very low. The net NPA was almost nil in March 2007.
- We have made changes to our initial provisioning assumptions based on the significant improvement in the company's asset quality during FY2007. This has resulted in 12.3% and 14.2% increase in our PAT estimates to Rs20.2 crore and Rs27.5 crore for FY2008 and FY2009 respectively.
- We expect TFCI's earnings to grow at a 32% compounded annual growth rate over the period FY2006-09. The business fundamentals of the company have improved

Result table Rs (cr)

Particulars	FY07	FY06	% yoy	Q4FY07	Q4FY06	% yoy	% qoq
Interest earned	63.2	64.4	-1.8	22.0	22.7	-3.3	53.5
Interest expended	34.3	35.8	-4.2	6.6	8.5	-22.3	-28.5
NII	28.9	28.6	1.2	15.4	14.2	8.2	203.6
Other income	0.8	0.8	-2.5	0.5	0.0	-	275.0
Net total income	29.7	29.4	1.1	15.8	14.2	11.3	205.2
Operating expenses	4.8	3.7	29.7	2.1	1.3	61.2	105.9
Operating profit	24.9	25.7	-3.0	13.7	12.9	6.3	229.3
Depreciation	0.6	0.7	-6.2	0.2	0.2	-6.3	-6.3
Provisions and contingencies	7.0	9.7	-27.5	1.5	2.7	-43.4	0.0
Profit before tax	17.3	15.4	12.4	12.1	10.1	19.5	381.3
Tax	3.0	3.5	-13.4	2.5	2.9	-14.0	-
Profit after tax	14.3	11.9	20.0	9.6	7.2	33.1	281.3

significantly on the back of the capacity expansion in the hotel and tourism sectors planned for the next three to four years. Higher sanctions and significant improvement in the company's asset quality are testimonies to this fact. Again as per our expectations, the company has resumed dividend payment and declared a 5% dividend, which gives a 2.2% dividend yield. At the current market price of Rs22.7 the stock is quoting at 5.6x its FY2009E earnings and 0.6x FY2009E book value. We maintain our Buy recommendation on the stock with the price target of Rs30.

Asset growth and margin improvement to drive NII

We expect the company's NII to grow by 26% in FY2008 and by 30% in FY2009 compared with a marginal 1% growth registered during FY2007. The growth is expected to be driven by the growth in its loan assets coupled with some improvement in its margins. TFCI has managed to register a healthy y-o-y growth of 81% in sanctions to Rs240 crore and of 36% in disbursements to Rs120 crore. The revival in the demand from the hotel and tourism sectors has helped TFCI to register an 81% y-o-y growth in sanctions for FY2007 compared with a 20% sanction growth in FY2006. Margin improvement is expected due to higher interest income contribution compared with the interest expended as the management has stated that since adequate funds are available to take care of the asset growth in FY2008, borrowings will remain nominal.

Operating performance to improve going forward

The operating profit was up by 6.3% to Rs13.7 crore for Q4FY2007 but down 3% to Rs24.9 crore for FY2007. The marginal NII growth coupled with higher operating expenses, which grew by 19% yoy in FY2007, resulted in a 3% decline in operating profits. We expect the operating profit of the company to increase by 24% in FY2008 and by 31% in FY2009 driven by a higher NII component.

Significant improvement in asset quality

Provisions and contingencies declined by 43.4% for Q4FY2007 and by 27.5% for FY2007, reflecting the lower provisioning requirement as the incremental NPAs remained very low. The net NPA was almost nil in March 2007. The buoyancy in the hotel and tourism sectors has helped TFCI to recover most of the assets that had been written off. The incremental net NPA is very low, hence the provisioning requirements have decreased significantly from our earlier estimate. Hence, we have made changes to our initial provisioning assumptions which has resulted in 12.3% and 14.2% increase in our PAT estimates to Rs20.2 crore and Rs27.5 crore for FY2008 and FY2009 respectively.

Capital raising plans under consideration

TFCI is considering some capital raising plans as its current capital base is not allowing it to bid for projects in the range of Rs40-50 crore. The company sees a lot of demand for high-ticket projects from the hotel and tourism sectors in the next three to four years and hence would like to adequately capitalise itself to benefit from the upturn in demand.

Valuation and view

We expect TFCI's earnings to grow at a 32% compounded annual growth rate over the period FY2006-09. The business fundamentals of the company have improved significantly on the back of the capacity expansion in the hotel and tourism sectors planned for the next three to four years. Higher sanctions and significant improvement in the company's asset quality are testimonies to this fact. Again as per our expectations, the company has resumed dividend payment and declared a 5% dividend, which gives a 2.2% dividend yield. At the current market price of Rs22.7 the stock is quoting at 5.6x its FY2009E earnings and 0.6x FY2009E book value. We maintain our Buy recommendation on the stock with the price target of Rs30.

Valuation table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net profit (Rs cr)	14.2	11.9	14.3	20.2	27.5
Shares in issue (cr)	6.7	6.7	6.7	6.7	6.7
EPS (Rs)	2.1	1.8	2.1	3	4.1
% y-o-y chg	*12.0*	*-17.0*	*21.0*	*41.0*	*36.0*
PE (x)	10.8	12.9	10.7	7.6	5.6
Book value (Rs/share)	25.6	27.4	29	31.5	35
P/BV (x)	0.9	0.8	0.8	0.7	0.6
Adj book value	15.4	25.2	28	30.8	34.6
P/ABV (x)	1.5	0.9	0.8	0.7	0.7
RoNW (%)	8.4	6.6	7.5	9.9	12.3

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
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 Udyog
Lupin
Nicholas Piramal India
Omax Autos
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
Tourism Finance Corporation of India
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
Network 18 Fincap
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India