Index

Sharekhan Ltd
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Hindustan Unilever

Apple Green

Stock Update

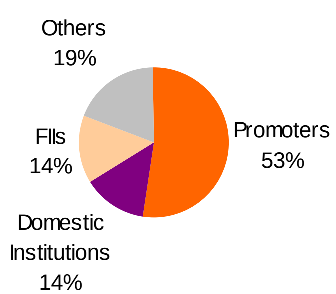
Profit outlook subdued

Hold; CMP: Rs230

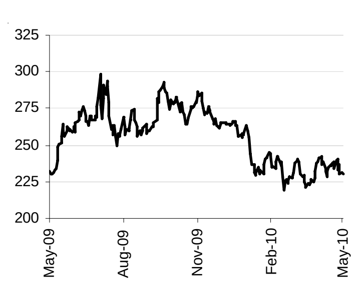
Company details

Price target:	Rs243
Market cap:	Rs50,203 cr
52 week high/low:	Rs306/218
NSE volume: (No of shares)	30.9 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HLL
Free float: (No of shares)	148.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.1	-4.3	-17.2	2.5
Relative to Sensex	4.0	-5.8	-14.2	-14.7

Result highlights

- Hindustan Unilever Ltd (HUL)'s Q4FY2010 results are below our expectations. While the top line growth is marginally above our expectation, a lower than estimated operating profit margin (OPM) led the adjusted net profit to be much below our estimate.
- The net sales grew by 8.2% year on year (yoy) to Rs7,315.8 crore backed by a 7.8% year-on-year (y-o-y) growth in the domestic fast moving consumer goods (FMCG) business, which was driven by a strong 11% y-o-y growth in volumes. The volume growth was broad based with almost all the key segments growing in double digits however the value growth was let down by price reductions/ discounts/promotions especially for the soaps and detergents segment that posted a decline of 1.9% yoy.
- Lower product realisation along with stepped-up brand spends in the highly competitive environment led the OPM shrink by 147 basis points on a y-o-y basis. This led the operating profit decline by 3.3% yoy, but a higher other income helped the company manage a flat profit before tax (PBT) on a y-o-y basis. With a higher effective tax rate the adjusted net profit declined 7.9% yoy to Rs420.5 crore.
- Extraordinary gains on sale of property, sale of remaining 49% stake in Capgemini Business Services and reduction in provisions for gratuity due to change in actuarial assumptions led the reported net profit to grow by 47.1% yoy to Rs581.2 crore.
- The company has declared a final dividend of Rs3.5 per share taking the total dividend for the year to Rs6.5 per share.

Results table Rs (cr)

Particulars	Q4FY10	Q4FY09	% yoy	FY2010	12MFY09#	% yoy
Net sales	**4315.8**	**3988.3**	**8.2**	**17523.8**	**16539.6**	**6.0**
Total expenditure	3784.8	3439.1	10.1	14975.4	14269.5	4.9
Operating profit	**531.0**	**549.3**	**-3.3**	**2548.4**	**2270.1**	**12.3**
Other income	92.9	67.3	38.0	405.8	402.7	0.8
EBIDTA	623.9	616.6	1.2	2954.2	2672.8	10.5
Interest	0.1	2.2	-93.7	7.0	21.8	-68.0
PBDT	623.8	614.4	1.5	2947.2	2651.0	11.2
Depreciation	50.3	41.3	21.9	184.0	159.0	15.7
PBT	573.5	573.1	0.1	2763.2	2492.0	10.9
Tax	153.0	116.3	31.5	629.7	479.0	31.5
Adjusted PAT	**420.5**	**456.8**	**-7.9**	**2133.5**	**2013.0**	**6.0**
Extraordinary items	160.7	-61.8	-	68.5	102.5	-
Reported PAT	**581.2**	**395.0**	**47.1**	**2202.0**	**2115.5**	**4.1**
OPM (%)	12.3	13.8	-147	14.5	13.7	82

#FY2009 was of 15 months for the company hence 12MFY2009 numbers taken for proper comparison

- In a bid to ensure sustained growth over the medium to long term, the company plans to triple its rural reach from the current 6 lakh outlets in the coming years.
- With pricing pressure likely to sustain (in wake of a heightened competition in bulk of the business) and higher advertising spends coupled with inflation in raw material cost and higher royalty outgo (with royalty increase likely to impact the margins by 50-60 basis points), the company's profitability is likely to witness severe stress in FY2011. Thus we have revised downwards our net profit estimates for FY2011 by 8.9% and for FY2012 by 6.3% primarily reflecting the impact of deterioration in the OPM.
- On our revised earnings per share (EPS) estimate of Rs10.2 and Rs12.2 for FY2011 and FY2012 respectively, the stock trades at 22.6x and 18.9x at the current market price of Rs230.1. We are rolling forward our price target based on 20x FY2012E EPS, hence in spite of an earnings downgrade, our price target remains at Rs243. We prefer ITC to HUL in the large cap FMCG space and with the headwinds on its growth we maintain our Hold recommendation on HUL.

Segmental revenue growth Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	12M FY09	% yoy
Soaps and detergents	1978.5	2016.3	-1.9	8265.6	8146.4	1.5
Personal products	1255.2	1055.7	18.9	5047.9	4365.7	15.6
Beverages	570.2	494.3	15.3	2142.4	1868.5	14.7
Processed foods	197.6	161.0	22.7	730.8	656.3	11.3
Ice creams	55.3	45.5	21.7	231.0	198.3	16.5
Exports	255.5	220.9	15.7	1005.3	1177.2	-14.6
Others	64.4	65.1	-1.0	346.7	314.4	10.3
Total	4376.7	4058.7	7.8	17769.7	16726.8	6.2

Home and personal care profitability tumbles

- As expected, the volume growth in the soaps and detergents segment picked up strongly in the quarter on the back of lower prices/discounts/promotions and a low base. However, the value sales declined by 1.9% yoy due to lower product realisations. The profitability of the segment shrunk by a sharp 377 basis points to 12.8% due to lower realisations and higher advertising and promotional spends in the quarter. In the coming quarters, though we expect the volume growth to continue at high rates, the profitability is likely to remain subdued.
- The personal products segment delivered a strong sales growth of 18.9% yoy however the profitability declined by 85.5 basis points on a y-o-y basis as the company continued higher brand spends. We expect the segment to continue growing at ~15% yoy in the coming quarters.
- Thus the overall sales of the home and personal care business grew by 5.3% yoy however the profit went down by 8.1% yoy due to muted profit margins.

Performance of HPC business Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	12M FY09	% yoy
Revenue						
Soaps and detergents	1978.5	2016.3	-1.9	8265.6	8146.4	1.5
Personal products	1255.2	1055.7	18.9	5047.9	4365.7	15.6
Total	3233.7	3072.0	5.3	13313.5	12512.1	6.4
PBIT						
Soaps and detergents	252.7	333.5	-24.2	1185.3	1249.2	-5.1
Personal products	273.4	238.9	14.4	1296.5	1183.2	9.6
Total	526.1	572.5	-8.1	2481.8	2432.4	2.0
PBIT margins (%)			**Chg bps**			**Chg bps**
Soaps and detergents	12.8	16.5	-377	14.3	15.3	-100
Personal products	21.8	22.6	-86	25.7	27.1	-142
Total	16.3	18.6	-237	18.6	19.4	-80

Foods registers above expected growth

- HUL's foods portfolio registered a healthy overall sales growth of 14.7% yoy to Rs804 crore in the quarter. The processed food portfolio led by *Knorr* and *Annapurna* grew by a robust 22.7% yoy while the ice cream business on the back of the launch of eight new variants and expansion of Swirls parlours grew by 21.7% yoy. The beverages portfolio grew by a moderate 11.5% yoy with coffee outperforming tea sales growth.
- With a good sales growth and better overall margin, the profit of the foods business grew by 44% yoy.

Performance of Foods business Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	12M FY09	% yoy
Revenues						
Processed foods	197.6	161.0	22.7	730.8	656.3	11.3
Ice creams	55.3	45.5	21.7	231.0	198.3	16.5
Beverages	551.1	494.3	11.5	2142.4	1868.5	14.7
Total	804.0	700.8	14.7	3104.2	2723.2	14.0
PBIT						
Processed foods	7.9	-4.5	-	4.4	-2.0	-
Ice creams	-1.6	-1.9	-	12.7	11.1	14.0
Beverages	79.0	65.5	20.5	319.8	254.7	25.6
Total	85.3	59.2	44.1	336.9	263.8	27.7

PBIT margins (%)

Particulars	Q4 FY10	Q4 FY09	Chg bps	FY10	12M FY09	Chg bps
Processed foods	4.0	-2.8	678	0.6	-0.3	91
Ice creams	-2.8	-4.1	125	5.5	5.6	-12
Beverages	14.3	13.3	108	14.9	13.6	130
Total	10.6	8.4	216	10.9	9.7	116

Downgrading estimates

With pricing pressure likely to sustain (in wake of a heightened competition in bulk of the business) and higher advertising spends coupled with inflation in raw material cost and higher royalty outgo (with royalty increase likely to impact the margins by 50-60 basis points), the company's profitability is likely to witness severe stress in FY2011. Thus we have revised downwards our net profit estimates for FY2011 by 8.9% and for FY2012 by 6.3% primarily reflecting the impact of deterioration in the OPM.

Valuation and recommendation

On our revised EPS estimate of Rs10.2 and Rs12.2 for FY2011 and FY2012 respectively, the stock trades at 22.6x and 18.9x at the current market price of Rs230.1. We are rolling forward our price target based on 20x FY2012E EPS, hence in spite of an earnings downgrade, our price target remains at Rs243. We prefer ITC to HUL in the large cap FMCG space and with the headwinds on its growth we maintain our Hold recommendation on HUL.

Valuation table

Particulars	CY07	*FY09	FY10E	FY11E	FY12E
Net sales (Rs cr)	13675.4	20239.3	17523.8	19473.2	21976.0
Net profit (Rs cr)	1743.1	2391.4	2133.5	2223.2	2661.0
% y-o-y growth	*13.2*	-	-	*4.2*	*19.7*
Shares in issue (cr)	217.7	217.9	218.2	218.2	218.2
EPS (Rs)	8.0	11.0	9.8	10.2	12.2
PER (AA)	28.7	26.2	23.5	22.6	18.9
Book value (Rs)	6.6	9.5	11.8	13.8	17.8
P/BV (Rs)	38.8	24.3	19.4	16.6	12.9
EV/EBIDTA (AA)	28.9	22.6	18.5	18.1	14.7
RoCE (%)	100.5	119.1	118.6	101.4	103.7
RoNW (%)	83.7	109.3	92.9	87.5	82.2

* FY2009 numbers are for 15 months ended Mar 2009 hence not comparable

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

Gayatri Projects

Ugly Duckling

Stock Update

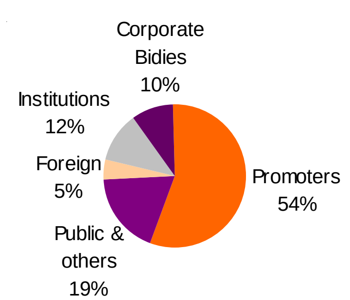
A step towards financial closure of the power project

Buy; CMP: Rs418

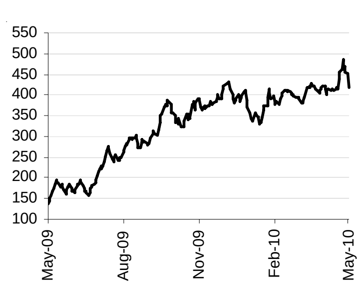
Company details

Price target:	Rs549
Market cap:	Rs465 cr
52 week high/low:	Rs503/131
BSE volume: (No of shares)	69,412
BSE code:	532767
Sharekhan code:	GAYAPROJ
Free float: (No of shares)	0.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	17.8	16.2	253.2
Relative to Sensex	15.2	16.0	20.4	193.7

Event—Ropes in a strategic partner for setting up 1320MW thermal power project

Gayatri Energy Ventures Ltd (GEVL), a wholly owned subsidiary of Gayatri Projects Ltd (GPL), has brought in a strategic partner for its 1320MW thermal power project in Andhra Pradesh by entering into a 51:49 joint venture with M/s Sembcorp Utilities Pte Ltd Singapore, a wholly owned subsidiary of Sembcorp Industries. The total estimated cost of the project at Rs6,869 crore is to be funded through Rs5,151 crore of debt and Rs1,718 crore of equity. Sembcorp Utilities will invest about Rs1,100 crore for its 49% stake in the project, which is at 31% premium to the book value. This puts the value of the whole project at Rs2,245 crore, which works out to Rs739 per share for GPL's 51% stake. We have assumed only Rs48 per share on account of the power project in our price target of Rs549. We had given a price/book value (P/BV) of 0.5x to GPL's investment of Rs150 crore in the project.

About the 1320MW thermal power plant

As a part of its strategy of mitigating risks by expanding vertically into other business segments, GPL is developing a 1320MW (2X660MW) thermal power plant at Krishnapatnam, Andhra Pradesh, through Thermal Powertech Corporation India, a wholly owned subsidiary of GEVL. The proposed power plant is located near Krishnapatnam Ultra Mega Power Project and will thus benefit from the associated development in the area. For the proposed project, GPL has already been allotted 1,400 acre of land in Krishnapatnam district. Further, the company has also secured environmental clearances and water and coal linkages for the plant. It has also entered a power purchase agreement with Power Trading Corporation for selling 70% of the power generated at the facility at the rate of Rs2.55 per unit. The balance 30% will be sold on merchant basis.

Out of the total equity of Rs1,718 crore—GPL has invested Rs150 crore, Sembcorp Utilities will invest Rs1,100 crore, while the remaining Rs468 crore will be invested by GPL over the next two-three years. With equity in place and 90% of the debt

Valuation table

Particulars	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Sales (Rs cr)	752.4	1004.6	1288.6	1528.4	2030.0
Adjusted Net profit (Rs cr)	39.3	41.3	53.8	65.0	102.7
% yoy growth	*66.9*	*5.1*	*30.2*	*20.9*	*58*
Shares in issue (cr)	1.0	1.0	1.1	1.2	1.5
EPS (Rs)	38.9	40.9	48.4	53.7	66.3
% yoy growth	*65.1*	*5.1*	*18.5*	*10.9*	*23.4*
PER (x)	10.8	10.2	8.6	7.8	6.3
Book Value (Rs)	177.3	213.5	257.9	291.5	352.3
P/BV (Rs)	2.4	2.0	1.6	1.4	1.2
EV/EBIDTA (x)	5.6	5.3	4.7	4.1	3.4
RoCE (%)	14.2	11.9	12.7	12.9	16.0
RoNW (%)	24.6	20.9	21.4	20.3	22.9

already tied up, we expect the project to achieve financial closure by June 2010. GEVL has already invited bids for the BTG contract and is in the process of finalising the player. The construction is expected to be complete by March 2014 and the revenues will start flowing in by FY2015.

About Sembcorp Industries

Sembcorp Industries, a Singapore-based listed company (with a market capitalisation of US$4.9 billion), is a leading energy, water and marine group with facilities of over 3800MW of gross power capacity and over 4 million cubic meters of water management per day in operation and under development. The company's CY2009 turnover stood at S$9.6 billion (US $6.8 billion) and the profit after tax (PAT) came in at S$683 million (US$481 million).

Outlook and valuation

Power is virtually a new business for GPL and this project is its largest project so far. Since the project is first of its kind, GPL has roped in a strategic partner, Sembcorp Utilities, to offer technical and fiscal assistance in executing the project.

GPL has a strong order book of Rs7,000 crore (5.4x its FY2010E revenue). Further it is de-risking its business model by entering into new segments. It is moving up the value chain by focusing more on the road built-operate-transfer (BOT) projects and foraying into power space. Hence we remain positive on the future outlook of the company. At the current market price, the stock is trading at 7.8x and 6.3x its FY2011E and FY2012E earnings respectively and the valuations are attractive given the company's growth plans. We maintain our Buy recommendation on the stock with a price target of Rs549.

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

Opto Circuits India

Emerging Star

Stock Update

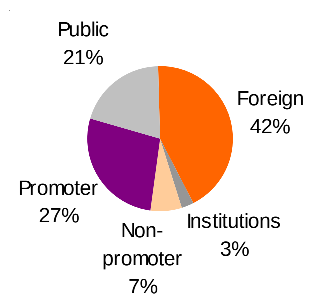
Price target revised to Rs265

Buy; CMP: Rs214

Company details

Price target:	Rs265
Market cap:	Rs3,912 cr
52 week high/low:	Rs247/131
NSE volume: (No of shares)	2.9 lakh
BSE code:	532391
NSE code:	OPTOCIRCUI
Sharekhan code:	OPTOCIRC
Free float: (No of shares)	13.3 cr

Shareholding pattern



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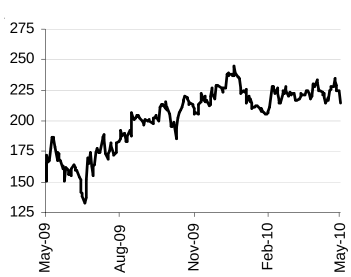


Price performance

(%)	1m	3m	6m	12m
Absolute	-2.2	8.3	5.9	37.1
Relative to Sensex	4.9	6.7	9.7	14.0

Result highlights

- **Strong top line growth:** Opto Circuits (Opto) has reported a top line growth of 56.9% to Rs334.5 crore for Q4FY2010. The revenue growth was driven by a spike in the invasive segment (Eurocor), which grew by 147% year on year (yoy), and a 78.2% jump in the Criticare (non-invasive) segment.
- **Invasive business and Criticare surprise positively:** The growth of the invasive segment that has a normal run-rate of Rs45-50 crore per quarter almost doubled in Q4FY2010 on the back of new product launches (Taxcor Plus, Magical and Freeway) in H2FY2010, and aggressive promotion and marketing by Opto in newer markets. Criticare's revenue shot up from the two tenders in the European Union (EU) markets, contributing approximately 20% to the overall sales.
- **Higher promotional expenses put margins under pressure:** Opto's operating profit margin (OPM) contracted by 120 basis points yoy to 33.2% in Q4FY2010. A higher promotional expenditure (up 400 basis points) for newer products put pressure on the margin. However, with the revenues from the high-margin products coming in, we expect the margin to grow steadily going ahead.
- **Adjusted net profit grows by 23.5%:** Opto incurred a foreign exchange (forex) loss of Rs2.8 crore during the quarter owing to the rupee's appreciation (as 78% of its revenues are dollar denominated). Adjusted for the same, the net profit grew by 23.5% to Rs68.4 crore, in line with our estimate. Higher depreciation charges and tax rates restricted the bottom line growth during the quarter.

Results table (stand-alone) Rs (cr)

Particulars	Q4FY10	Q4FY09	% yoy	FY2010	FY2009	% yoy
Net sales	**334.5**	**213.1**	**56.9**	**1077.6**	**818.5**	**31.7**
Expenditure	223.5	139.8	59.9	710.7	559.5	27.0
Operating profit	**111.0**	**73.3**	**51.4**	**366.9**	**259.1**	**41.6**
Other income	0.0	13.6	-	-7.6	28.8	-126.4
EBITDA	111.0	86.9	27.7	359.3	287.8	24.8
Interest	7.1	15.6	-54.3	38.2	53.7	-28.8
Depreciation	9.9	7.3	35.5	27.8	13.8	101.3
PBT	93.9	64.0	46.8	293.3	220.3	33.1
Tax	20.4	5.7	254.9	29.9	7.5	298.8
Minority interest	5.2	2.9	78.9	0.1	0.6	-81.2
Adjusted PAT	68.4	55.4	23.5	263.3	212.3	24.0
Extraordinary items	2.3	0.0	-	3.2	3.5	-9.6
Reported PAT	**66.1**	**55.4**	**19.4**	**260.1**	**208.7**	**24.6**
Equity capital	3.7	3.4		1.4	13.1	
EPS (Rs)	182.9	161.5		1829.0	161.5	
OPM (%)	33.2	34.4		34.0	31.6	
EBITDA margin (%)	33.2	40.8		33.3	35.2	
Net profit margin (%)	20.5	26.0		24.4	25.9	

- **Estimates revised upwards to factor higher invasive revenues:** In order to factor in the higher than expected revenues from the invasive segment we have revised our earnings per share (EPS) estimates for FY2011 and FY2012 upwards by 7% each to Rs18.7 (from Rs17.3) and Rs22 (from Rs21.1) respectively.
- **Buy maintained:** Opto's growth is likely to be driven by the non-invasive businesses in the near to medium term. We expect the non-invasive segment to continue to dominate the revenue mix, with its FY2012 revenue share expected at approximately 80%. The approval for DIOR in the USA (the management expects the approval in the next 24-30 months) could trigger a re-rating of the stock. The new products form the invasive segment would also aid the growth substantially in our view. At the current market price of Rs217, Opto is trading at compelling valuations of 11.6x FY2011E fully diluted earnings and of 9.9x FY2012E fully diluted earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs265.

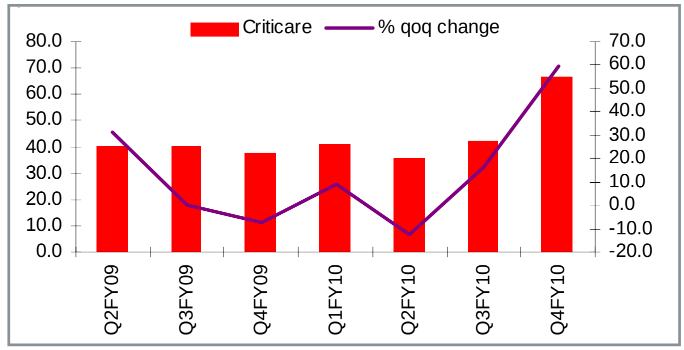
Invasive and Criticare segment drive the revenue growth—positive surprise

Opto has reported a top line growth of 56.9% to Rs334.5 crore for Q4FY2010. The top line was above our estimate mainly due to higher than expected revenues from the invasive segment. The growth of the invasive segment, which has a normal run rate of Rs45-50 crore per quarter, almost doubled in Q4FY2010 on the back of new product launches, and aggressive promotion and marketing by Opto in newer markets.

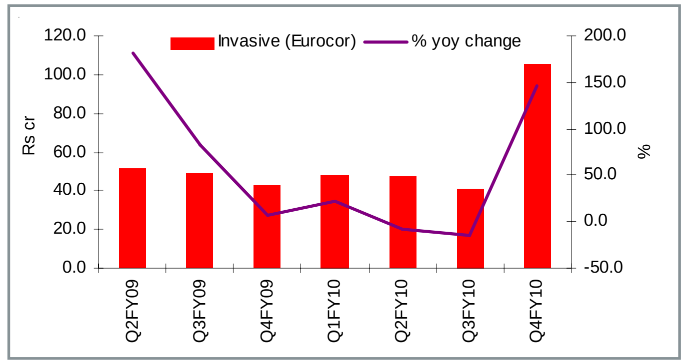
The new launches that Opto made in FY2010 (gas bench module, modular patient monitoring system and patient monitoring system with networking capability) under the non-invasive category and Eurocor's unique invasive products, viz "Magical" (which is a combination of a drug-eluting balloon with a bare metal stent) and Cobalt Chromium stent, added to Opto's revenue in this quarter.

Criticare's revenue shot up from the two tenders in the emerging markets, contributing approximately 20% to the overall sales. Opto has been focusing on bringing Criticare's margins in line with that of the company's and we note that the recent tender approvals (in the EU markets) would just do the trick for Opto. The non-invasive business (excluding the Criticare business) grew by 11.9% whereas the invasive business spiked by 147% during the quarter under review. Criticare contributed revenue of Rs67 crore (about 20% of the total sales) during the quarter. On excluding the Criticare contribution, the organic growth stood at 52.5%.

After a series of lacklustre performance, revenues from Criticare offer respite



New product launches fuel the growth



Revenue break-up Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	FY09	% yoy
Invasive	105.3	42.6	147.0	242.6	180.1	34.7
Non-invasive (excluding Criticare)	144.0	128.6	11.9	802.0	464.7	72.6
Criticare	67.0	37.6	78.2	0.0	149.2	-100.0
Others	18.4	4.3	332.3	32.7	24.6	33.0
Total revenues	**334.7**	**213.1**	**57.1**	**1077.3**	**818.5**	**31.6**

Higher promotional expenses put margins under pressure

Opto's OPM contracted by 120 basis points yoy to 33.2% in Q4FY2010. A higher promotional expenditure (up 400 basis points) for newer products put pressure on the margin. However, with the revenues from the high-margin products coming in, we expect the margin to grow steadily going ahead. Consequently, the operating profit grew by 51.4% to Rs111 crore in Q4FY2010.

Cost break-up Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	FY09	% yoy
Material cost	188.1	120.9	55.6	599.5	455.3	31.7
% of sales	*73.2*	*57.3*		*80.7*	*75.2*	
Employee expenses	11.5	12.1	-4.7	49.7	40.1	24.1
% of sales	*4.5*	*5.7*		*6.7*	*6.6*	
Other expenses	23.9	6.8	252.1	61.5	64.2	-4.2
% of sales	*9.3*	*3.2*		*8.3*	*10.6*	

Adjusted net profit grows by 23.5%

Opto incurred a forex loss of Rs2.8 crore during the quarter owing to the rupee's appreciation (as 78% of its revenues are dollar denominated). Adjusted for the same, the net profit grew by 23.5% to Rs68.4 crore, in line with our estimate. Higher depreciation charges and tax rates restricted the bottom line growth during the quarter.

Strong balance sheet also boosts confidence

Opto has shown a remarkable improvement in its balance sheet with receivable days improving to 150 days in FY2010 from 181 days in FY2009. The net debt for FY2010 stands at Rs95 crore. Opto's high debt and receivable days had been a concern amongst investors; however, the improvement in the same would help regain investors' faith in the company.

Estimates revised upwards to factor higher invasive revenues

In order to factor in the higher than expected revenues from the invasive segment we have revised our EPS estimates for FY2011 and FY2012 upwards by 7% each to Rs18.7 (from Rs17.3) and Rs22 (from Rs21.1) respectively.

Valuation and view

Opto's Q4FY2010 performance was in line with our estimates on the profit front; however, the top line estimates were beaten due to the higher than expected revenues from the invasive segment. On the back of new product launches and higher penetration in the existing markets, we expect Opto to continue its growth trajectory in the near to medium term. The improvement in the receivables and reduction in debt will strengthen the balance sheet and boost investors' confidence in the company's growth prospects.

The company has been trying to get the US Food and Drug Administration's approval for its invasive products (DIOR), which, if it comes through, could be a re-rating factor for the stock. We maintain our positive outlook on Opto, as we like its niche business model with high margins, strong capital efficiency and high entry barriers. At the current market price of Rs217, Opto is trading at compelling valuations of 11.6x FY2011E fully diluted earnings and of 9.9x FY2012E fully diluted earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs265.

Valuation table

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net sales (Rs cr)	468.1	818.5	1077.6	1270.0	1493.4
Net profit (Rs cr)	133.3	212.8	263.4	353.6	415.0
Shares in issue (cr)	9.4	16.1	18.3	18.9	18.9
EPS (Rs)	14.2	13.2	14.4	18.7	22.0
PER (x)	15.3	16.4	15.0	11.6	9.9
EV/Ebidta (x)	15.1	15.2	11.1	9.3	7.7
Book value (Rs/share)	35.5	32.0	60.4	78.4	95.7
P/BV (x)	6.1	6.8	3.6	2.8	2.3
Mcap/sales	4.4	4.3	3.7	3.2	2.7
RoCE (%)	33.3	25.7	24.8	23.7	23.5
RoNW (%)	39.1	40.4	23.6	23.8	22.9

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

Sun Pharmaceutical Industries

Ugly Duckling

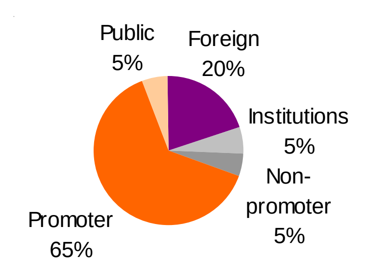
Stock Update

Q4 results meet estimates

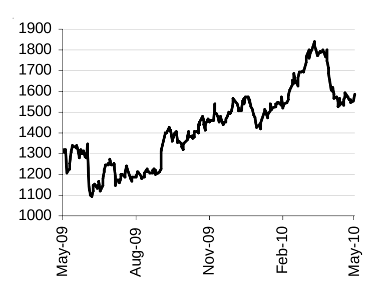
Buy; CMP: Rs1,589

Company details	
Price target:	Rs1,757
Market cap:	Rs32,909 cr
52 week high/low:	Rs1846/1070
NSE volume: (No of shares)	52 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Sharekhan code:	SUNPHARM
Free float: (No of shares)	75.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.1	1.4	6.1	21.3
Relative to Sensex	-1.3	-0.2	9.9	0.9

Result highlights

- **Net sales decline by 2.2%:** Sun Pharmaceutical Industries (Sun)' Q4FY2010 results were in line with our estimates primarily due to a strong rebound in the export formulation business (up 11.9% year on year [yoy]) and a sluggish 14% year-on-year [y-o-y] increase in the domestic formulations (adjusted for the slump sale of Rs200 crore in Q4FY2009). The export formulation business ex-Caraco grew by 32.5% yoy in the quarter. The net sales declined by 2.2% yoy (but improved by 8.6% on a quarter-on-quarter [q-o-q] basis).
- **Operating margin improves by 549 basis points:** After reeling under the Caraco issue and higher Para IV sales (in M9FY2010), the operating profit margin (OPM) improved in Q4FY2010. The OPM expanded by 549 basis points to 38.5% in Q4FY2010 aided by lower research and development (R&D) and strong gross margin during the quarter. The continuous improvement in the margin over the last two quarters depicts the strength of the company's base business. We expect the margin to rebound once the Caraco issue is resolved and the first-to-file (FTF) products are launched.
- **Bottom line remains flat yoy:** During the quarter the adjusted net profit remained flat at Rs394.8 crore, in line with our estimate.
- **Optimistic guidance:** Sun has guided to an 18-20% top line growth in FY2011. The guidance is impressive given that FY2010 included the full year's sales of generic Protonix in the USA (Sun has stopped Protonix sales in the USA). It expects to maintain the margin at FY2010 levels, despite a higher R&D cost (7-

Results table (stand-alone) Rs (cr)

Particulars	Q4FY10	Q4FY09	% yoy	FY2010	FY2009	% yoy
Net sales	**1,109.0**	**1,134.4**	**-2.2**	**4,102.8**	**4,272.3**	**-4.0**
Expenditure	682.0	759.9	-10.2	2,740.0	2,408.4	13.8
Operating profit	**427.0**	**374.5**	**14.0**	**1,362.8**	**1,864.0**	**-26.9**
Other income	13.7	62.7	-78.1	205.3	208.5	-1.5
EBITDA	440.7	437.2	0.8	1,568.2	2,072.5	-24.3
Interest	-	-	-	-	-	-
Depreciation	41.9	35.9	16.8	153.3	123.3	24.3
PBT	398.8	401.2	-0.6	1,414.8	1,949.2	-27.4
Taxes	-1.3	-4.5	-71.9	67.9	71.2	-4.6
PAT	400.0	405.7	-1.4	1,347.0	1,878.0	-28.3
Minority interest	5.3	10.9	-51.5	-4.1	60.3	-106.8
Adjusted net profit	394.8	394.8	0.0	1,351.1	1,817.7	-25.7
Extraordinary item	-	-	-	-	-	-
Net profit	**394.8**	**394.8**	**0.0**	**1,351.1**	**1,817.7**	**-25.7**
EPS (Rs)	19.1	19.1	0.0	65.2	87.8	-25.7
OPM (%)	38.5	33.0		33.2	43.6	
EBITDA margin (%)	39.7	38.5		38.2	48.5	
Net profit margin (%)	35.6	34.8		32.9	42.5	

8% of total sales) and plans to file 30 abbreviated new drug applications (ANDAs) in FY2011. The company has also guided to a capital expenditure (capex) of Rs200 crore for FY2011. Although the management has not clarified the growth areas that will help it meet the optimistic growth target, yet we feel that the management is extremely positive about the resolution of the Caraco issue in FY2011 and some FTF opportunities like Eloxatin and Effexor XR, which should be a re-rating factor.

- **USFDA approves Caraco's work plan:** Caraco's work plan has been approved by the US Food and Drug Administration (USFDA) and covers remedial actions that would lead to the resumption of manufacturing at its Michigan facilities. This indicates that the resolution may be in the hindsight. We view this as a positive development. However, the company has shied away from committing any time line for the same. In the interim, Caraco has filed for site transfers for the key products which may provide some upside to the revenues going forward. However, the company will find it difficult to regain its lost market share. During the quarter Caraco posted sales of $55 million.

- **Maintain Buy:** We feel the company will post a better growth in the subsequent quarters as its base business is gaining strength (due to the overall growth in the ex-US business) and as the operational performance will now hopefully sustain at about 30% margin levels (as there are no more one-offs). We are of the view that news flow like the key ANDA approvals for Effexor XR, the movement in Caraco and updates on Taro Pharmaceutical Industries (Taro) would act as re-rating triggers for the stock. At the current market price of Rs1,589 the stock is valued at 22x FY2011E and 18.7x FY2012E fully diluted earnings. With the impact of the Caraco and Taro issues already built in the price, we believe that the stock's valuations reflect most of the negatives and the risk-reward ratio has become favourable for investors. We thus maintain our Buy recommendation on the stock with a price target of Rs1,757.

Adjusted domestic formulation grew by 14% in Q4FY2010

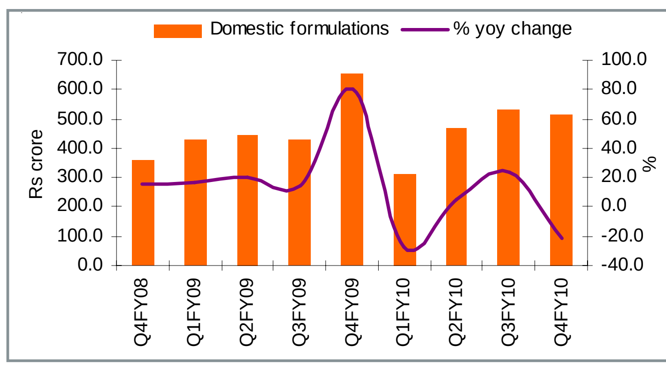
Sun expects to maintain its growth rate in the domestic market with the help of new product launches. It currently has a market share of 3.7% in the domestic market with cardiology, psychiatry, neurology and gastro intestinal as the key areas of focus. Almost 70% of the domestic formulations growth in FY2010 was driven by the products launched after FY2006. The company expects to marginally expand its 2,500-strong field force during the year.

The domestic formulation sales grew at a sluggish pace of 14% in this quarter (adjusting for the spill-over effect in Q4FY2009). The company maintained its pace of launching new products and made 11 new launches across 18 markets during the quarter, taking the total number of launches for FY2010 to 49.

Pantoprazole crossed revenues of Rs100 crore in FY2010 and Sun has about five to six brands generating over Rs50 crore in revenues. Over the next two to three years, Sun plans to launch more differentiated products and grow by monetising SPARC's new chemical entity (NCE) pipeline and by in-licencing products from multinationals in the long run.

The management has indicated that on the back of the strong focus on chronic lifestyle products and the sustained pace of new product introductions Sun would continue to grow in terms of market share and that the growth in the domestic formulation business would sustain going ahead.

Slump sale in Q4FY2009 takes toll on reported domestic sales

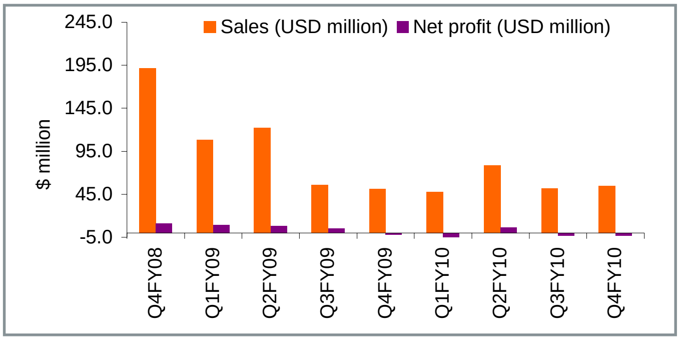


USFDA approves Caraco's work plan

Caraco's revenues grew by 7.9% yoy in the quarter under review on account of the sales from the manufactured products of Sun. The revenues of $55 million are higher than our estimate of $46 million. The net loss of Caraco stood at $3 million for the quarter.

Caraco's work plan has been approved by the USFDA and covers remedial actions that would lead to the resumption of manufacturing at its Michigan facilities. This indicates that a resolution may be in the offing. We view this as a positive development. However, the company has shied away from committing any time line for the same. In the interim, Caraco has filed for site transfers for the key products, which may provide some upside to the revenues, going forward. However, the company will find it difficult to regain its lost market share.

Caraco continues to languish



Ex-US export formulations business continues its strong momentum

The export formulations (ex-Caraco) business continued its winning streak and grew by 32.5% in Q4FY2010. Sun has formidable presence in about 40 emerging markets including Mexico, Brazil, South Africa, Russia, China, Venezuela, Algeria and Vietnam. It has a field force of 600 representatives in the emerging markets.

In Europe, Sun currently markets three to four products in six key markets. It plans to increase its presence over the next two to three years once new product approvals start flowing in. Further, it plans to focus on hospital and institutional segments in the European markets.

Strong ANDA pipeline

Sun had filed 15 ANDAs during Q4FY2010 taking the total tally for FY2010 to 30 ANDA filings. On a cumulative basis, Sun's 123 ANDAs are pending approval (inclusive of 12 tentative approvals). Sun plans to file 30 ANDAs in FY2011. To date it has filed 155 drug master files (DMFs)/CEP applications of which 89 have been approved. It has also submitted 246 patent applications of which 81 have been approved.

Update on FTF products

Sun has indicated that the USFDA has recently rejected the 2nd Citizen's petition of Osmotica barring the generic company from launching the drug in the USA. Since Sun's generic version of capsules would be different from that of Wyeth, it would not have to wait for the drug's patent to expire later this year and it could launch the drug in the next one to two quarters, subject to approval. This is likely to be a one-off opportunity when it comes through. However, we do factor in the upside (if any) from Effexor XR (a market size of $2.6 billion) at the moment and the launch of the product could offer an upside to our estimates.

On Eloxatin, Sun is appealing the lower court verdict and we await clarity on the same. On another positive, Sun believes that there is an increased possibility of Sun getting the approval to launch its Effexor XR tablets in H1FY2011. The USFDA has recently squashed Osmotica's recent Citizen's Petition which does clear the deck for Sun's approval. We have not accounted for Effexor XR in our estimates yet.

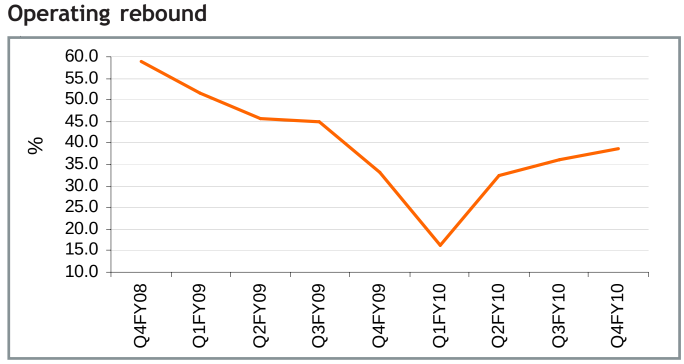
Revenue break-up Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	FY09	% yoy
Domestic	530.9	674.0	-21.2	1,933.4	2,065.0	-6.4
Formulations	513.6	652.6	-21.3	1,830.1	1,959.7	-6.6
Bulk	17.0	21.2	-19.8	102.1	104.2	-2.1
Others	0.3	0.3	7.4	1.1	1.1	3.7
Exports	494.3	482.5	2.4	2,142.8	2,310.1	-7.2
Formulations	391.1	352.0	11.1	1,689.2	1,925.6	-12.3
Bulk	99.6	130.5	-23.7	447.0	380.4	17.5
Others	3.6	-	-	6.6	4.1	61.6
Total	**1025.2**	**1156.5**	**-11.4**	**4076.1**	**4375.1**	**-6.8**

Operating margin improves by 549 basis points

After reeling under the Caraco issue and higher Para IV sales (in M9FY2010), the OPM improved in Q4FY2010. The OPM expanded by 549 basis points to 38.5% in Q4FY2010 aided by lower R&D and strong gross margins during the quarter. The continuous improvement in the margins over the last two quarters depicts the strength of the company's base business. We expect the margin to rebound once the Caraco issue is resolved and the FTF products are launched.

Operating rebound



Cost break-up Rs (cr)

Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	FY09	% yoy
Material cost	266.2	216.6	22.9	1,097.8	855.6	28.3
% of sales	*24.0*	*19.1*		*26.8*	*20.0*	
Staff cost	116.0	119.3	-2.8	482.2	340.1	41.8
% of sales	*10.5*	*10.5*		*11.8*	*8.0*	
Other expenses	243.9	359.5	-32.2	912.9	813.8	12.2
% of sales	*22.0*	*31.7*		*22.3*	*19.0*	
Recurring R&D expenses	56.0	64.5	-13.2	247.0	309.9	-20.3
% of sales	*5.0*	*5.7*		*6.0*	*7.3*	

Optimistic guidance for FY2011

Sun has guided to an 18-20% top line growth for FY2011. The guidance is impressive given that FY2010 included the full year's sales of generic Protonix in the USA (Sun has stopped Protonix sales in the USA). It expects to maintain the margin at FY2010 levels despite a higher R&D cost (7-8% of total sales) and it plans to file 30 ANDAs in FY2011. The company has also guided to a capex of Rs200 crore for FY2011. Although the management has not clarified the growth areas that will help it meet the optimistic growth target, yet we feel that the management is extremely positive about the resolution of the Caraco issue in FY2011 and some FTF opportunities like Eloxatin and Effexor XR that could lead to the re-rating of the stock.

Valuation and view

Sun's Q4FY2010 and FY2010 numbers are in line with our estimates. The domestic sales growth remained sluggish while the non-US formulation exports growth trajectory continued to be robust. We feel that the company will post better growth in the subsequent quarters as the base business is gaining strength (due to the overall growth in the ex-US business) and the operational performance will now hopefully sustain at about 30% margin levels (as there are no more one-offs).

The implementation of a corrective action plan for Caraco is a positive development for the company in our view. However, the management's guidance of an 18-20% revenue growth despite no sales from Pantoprazole indicates the potential launch of key products like Eloxatin and Effexor XR and this should be a re-rating factor.

At the current market price of Rs1,589, the stock is valued at 22x FY2011E and 18.7x FY2012E fully diluted earnings. With the impact of the Caraco and Taro events already built in the price, we believe that the stock's valuations reflect most of the negatives and the risk-reward ratio has become favourable for investors. We thus maintain our Buy recommendation on the stock with a price target of Rs1,757.

Valuation table (consolidated)

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net sales (Rs cr)	3356.5	4272.3	4102.8	4539.0	5362.9
PAT (Rs cr)	1486.9	1817.7	1351.1	1491.1	1750.1
Shares in issue (cr)	20.7	20.7	20.7	20.7	20.7
EPS (Rs)	71.8	87.8	65.2	72.0	84.5
PER (x)	22.0	18.0	24.3	22.0	18.7
EV/Ebidta (x)	20.4	16.3	21.9	20.4	16.3
Book value (Rs/share)	241.0	340.1	389.7	445.6	514.0
P/BV (x)	6.6	4.7	4.1	3.6	3.1
Mcap/sales	9.8	7.7	8.0	7.2	6.1
RoCE (%)	31.1	27.0	17.1	16.8	17.1
RoNW (%)	29.8	25.8	16.7	16.2	16.4

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

Tata Chemicals

Vulture's Pick

Stock Update

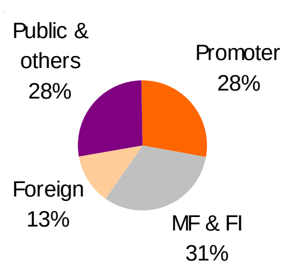
Price target revised to Rs318

Hold; CMP: Rs297

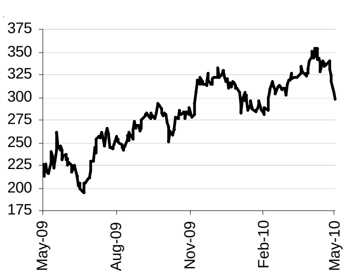
Company details

Price target:	Rs318
Market cap:	Rs7,225 cr
52 week high/low:	Rs356/190
NSE volume: (No of shares)	5.8 lakh
BSE code:	500770
NSE code:	TATACHEM
Sharekhan code:	TATACHEM
Free float: (No of shares)	17.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.4	7.3	5.6	41.5
Relative to Sensex	-3.8	5.7	9.5	17.7

Result highlights

- Tata Chemicals' reported net profit contracted by 26% year on year (yoy) to Rs127.8 crore. The profit after tax (PAT) contracted despite a strong operating performance (the operating profit expanded by 52% yoy) on account of a significant tax write-back incurred by the company during the corresponding period of the previous year. The top line expanded by 13% yoy and was below expectations as a result of a volume contraction in the fertiliser space.
- For Q4FY2010, the consolidated total income from operations expanded by 13.4% yoy to Rs2,267.6 crore but the same contracted by 14.4% on a sequential basis. However, the current quarter's numbers include the contribution from Rallis India (Rallis) that has now become a subsidiary of Tata Chemicals. Excluding the revenue contribution from Rallis, the total income from operations expanded by merely 3.8% yoy to Rs2,075.61 crore but contracted by 17.4% on a sequential basis.
  - **Fertilisers:** The revenues from the fertiliser business showed a 22% growth on a year-on-year (y-o-y) basis but a 28% drop on a sequential basis. The sequential performance was affected due to the production loss in the urea plant during the quarter.
  - **Chemicals:** The revenues from the chemical business contracted by 6% yoy and by 9% sequentially to Rs1,264.7 crore. The contraction in the revenues could partially be attributed to the lower soda ash volumes as a result of adverse weather conditions that led to a loss of production days for BMGL as

Results table Rs (cr)

Particulars	Q4FY10	Q4FY09	% yoy	%qoq	FY10	FY09	% yoy
Net sales/income from ops	**2252.0**	**1918.9**	**17%**	**-14%**	**9448.5**	**12651.9**	**-25**
Other operating income	15.6	80.8	-81	-43	95.3	120.6	-21
Total income	2267.6	1999.7	13	-14	9543.8	12772.6	-25
Total expenditure	1858.3	1730.9	7	-11	7706.4	10770.9	-28
Operating profit	**409.3**	**268.8**	**52**	**-26**	**1837.4**	**2001.7**	**-8**
Other income	-70.9	19.6	-461	-1213	81.1	82.6	-2
PBIDTA	338.4	288.4	17	-40	1918.5	2084.2	-8
Less: Depreciation	125.2	107.6	16	12	446.8	422.6	6
PBIT	213.2	180.9	18	-53	1471.8	1661.6	-11
Less: Interest	93.1	105.4	-12	2	393.2	395.3	-1
Extraordinary (forex (gain)/loss)	-43.6	-32.9	33	-297	145.7	349.0	-58
PBT	163.7	108.4	51	-52	932.9	917.3	2
Less: Taxes	-0.7	-80.1	-99	-101	209.7	157.5	33
PAT	164.4	188.5	-13	-33	723.2	759.8	-5
Less: Minority interest	50.1	16.3	207	50	131.1	111.7	17
Profit from associates	13.5	0.0			13.5	0.0	
Reported PAT	127.8	172.2	-26	-40	605.5	648.1	-7
Adj. PAT	**171.9**	**226.9**	**-24**	**-27**	**751.2**	**997.1**	**-25**

well as GCIP. However, the segment saw improved profitability on a y-o-y basis, with the margin registering an uptick of 32.56 basis points as compared to the levels in Q4FY2009.

- **Agri inputs:** The acquisition of Rallis, in which Tata Chemicals now owns a 50.06% stake, has proved to be accretive for the company. Several new products introduced by the subsidiary have been well received in the market with the domestic formulation and institution businesses showing a strong growth.

- Despite the production loss during the quarter on account of the Haldia strike and the technical snag at the ammonia plant, the stringent cost-control exercise under the ADAPT programme coupled with efficient energy norms resulted in a strong 147-basis-point improvement in the OPM from 16.6% to 18%.

- The profit before tax (PBT) for the quarter came in at Rs163.7 crore, up 51% yoy. Excluding Rallis' financials, the PBT grew by 20.6% on a y-o-y basis while the adjusted PAT for the quarter stood at Rs171.85 crore, down 24.3% yoy and 19.1% quarter on quarter (qoq). The significant tax write-back (Rs80 crore) during Q4FY2009 makes the bottom line comparison on a y-o-y basis meaningless.

- Tata Chemicals displayed a strong performance on the operating level during the quarter as a result of stabilisation of raw material costs and implementation of stringent cost control measures. Looking ahead, the top line growth is likely to remain muted on the back of a low volume uptake in the soda ash segment. However, the management expects the profitability of BMGL to improve leading to an improvement in the overall profitability of the company. We have fine-tuned our estimates for FY2011 and FY2012 to factor in the company's performance during FY2010 and are rolling forward our target multiple on 2012 estimates. Our revised earnings per share (EPS) for FY2011 and FY2012 stands at Rs29.9 and Rs35.3 respectively. At the current market price of Rs297, the stock trades at 8.4x its FY2012E EPS and 4.4x its FY2012E enterprise value (EV)/earnings before interest, tax, deprecation and amortisation (EBITDA). We maintain our Hold recommendation on the stock with a revised price target of Rs318. However, we view the ongoing expansion as a positive step for the company and believe that the final gas supply agreement (both availability as well as pricing) could be a crucial rerating factor for the stock.

Fertiliser business

The revenues from the fertiliser business posted a strong 22% y-o-y growth on the back of a stable environment in the phosphatic fertiliser space.

- ***Urea:*** Though the demand for urea remains robust, the sales volumes contracted by 17% on a sequential basis and by 31% on a y-o-y basis to 239,000 tonne for the quarter due to the loss of production on account of a technical slag in the ammonia plant. Currently, the urea plant at Babarla has resumed production and is operating at 75-80% capacity utilisation. It is further expected to reach its optimal 100% levels by June 2010. The company has insured itself against any production loss and hence the financial impact of the same would be minimal on the FY2011 results. Enthused by the strong urea demand in the country, the company has undertaken a brownfield expansion exercise to double its urea capacity at the existing site of Babrala. This would involve an investment of Rs3,800-4,000 crore. We believe that assured availability and reasonable pricing of gas is crucial for attaining the financial closure of this project. The company expects to use a combination of debt and equity to fund the expansion.

- ***Phosphatics:*** The phosphatic volumes for the quarter contracted by 47.4% on a quarter-on-quarter (q-o-q) basis while on a y-o-y basis the volume growth was seven times than that witnessed in Q4FY2009. We highlight the fact that owing to the sharp drop in the phosphatic prices in Q4FY2009, the overall volumes had received a strong set-back. The management believes that the problems relating to the non-availability of rock phosphate are now behind them and the phosphatic production is expected to function at a normalised capacity going ahead.

- ***Other agri inputs (including Rallis):*** Rallis, in which Tata Chemicals now has a 50.06% stake, proved to be earnings accretive for the company. The subsidiary contributed Rs192 crore towards the revenues during Q4FY2010, with an EBITDA margin of 19%. Further, with the commencement of its new plant at Dahej (that is likely to come on stream in June 2010) Rallis' exports are expected to receive a strong uptick. We remain bullish on this segment.

- On the fertiliser front, the company is trying to move away from regulatory control by focusing on specialty fertiliser sales. Going ahead, Tata Chemicals is looking to set up a customised fertiliser capacity of 130,000 tonne which is expected to be operational by Q2FY2011.

The strong cost efficiency measures undertaken by the company coupled with its lowest energy consumption in the Indian fertiliser space, the profitability of the fertiliser segment saw a robust improvement, with its PBIT margin at 12.2% in Q4FY2010.

Chemical business

The revenues from the chemical business contracted by 6% yoy and by 9% sequentially to Rs1,264.7 crore. However, the segment's profitability improved on a y-o-y basis, with the margin registering an uptick of 32.56 basis points as compared to the levels in Q4FY2009.

- ***Soda ash:*** The total soda ash volumes expanded by a strong 23% yoy on the back of a revival in US demand coupled with a robust 55% y-o-y increase in the sales volumes of the African subsidiary. However, on a sequential basis, the soda ash volumes contracted by 1% as a result of poor weather that led to a production loss of 20 days for BMGL and that of seven to eight days for GCIP. Domestic soda ash volumes, however, reported a healthy sequential growth of 8%. The government is currently reviewing the extension of the safeguard duty on Chinese soda ash imports--the discontinuation of the same could negatively affect domestic volumes going ahead.

- ***Consumer products:*** The volume growth for the domestic consumer products segment remained muted on both y-o-y and q-o-q bases. Tata Chemicals continues to lead the salt market with a market share of 60% amongst the national brands. It is further looking to expand its salt production capacity by 60%. The company had launched Tata Swach in the previous quarter which was very well received in the market and has become the market leader within a short period of its launch. The cumulative sales for the financial year stand at 50,000 units.

Segmental results Rs (cr)

Particulars	Q4FY10	Q4FY09	% qoq	% yoy
Revenues				
Inorganic chemicals	1264.7	1342.6	1264	-6
Fertilisers	803.3	660.3	-28	22
Other agri inputs (Rallis)	203.1	0.0	47	
Net sales/Income from ops	2256.9	1927.8	-15	17
PBIT				
Inorganic chemicals	169.1	175.1	-39	-3
Fertilisers	98.3	-186.6	-44	
Other agri inputs	34.3	0.0	46	
PBIT margins (%)				
Inorganic chemicals	13.4	13.0		
Fertilisers	12.2	-28.3		
Other agri inputs	16.9			

Performance of subsidiaries

The international operations have shown a revival in demand on a y-o-y basis with the volumes increasing by 24% yoy on the back of a strong uptick in the African and US operations. On a sequential basis, however, the volumes of the subsidiaries contracted by 3% as a result of lower capacity utilisation due to adverse weather conditions.

BMGL: BMGL's revenues for the quarter came in at Rs371 crore vs Rs438 crore in Q4FY2009. The contraction in revenues was partially on account of adverse weather conditions that had led to a production loss of 20 days for the subsidiary during the quarter. The subsidiary suffered an operating loss of Rs20 crore during Q4FY2010 as compared to a profit of Rs8 crore during Q4FY2009. The loss was a result of a write-off incurred during the quarter owing to the closure of the Dutch facility. The operating margin of the UK facility, however, remained strong at around 20% during the quarter.

IMACID: During Q4Y2010, IMACID reported a PAT of Rs26 crore as compared with a loss of Rs39 crore seen in the

Subsidiaries' performance Rs (cr)

Particulars	BMGL		IMACID		GCIP		Rallis		Consolidated	
	Q4FY10	Q4FY09	Q4FY10	Q4FY09	Q4FY10	Q4FY09	Q4FY10	Q4FY09	Q4FY10	Q4FY09
Sales	371	438	85	59	524	822	192	0	2312	2304
EBIT	-20	8	29	-46	98	141	33	0	178	403
EBIT(%)	-5.4	1.8	34.1	-78.0	18.7	17.2	17.2		7.7	17.5
PBT	-76	-104	27	-45	80	-14	33	0	164	108
PAT (after minority int)	-38	-22	26	-39	64	36	7	0	114	172
PATM (%)	-10.2	-5.0	30.6	-66.1	12.2	4.4	3.6		4.9	7.5

corresponding quarter of the previous year. The turnaround in IMACID was a result of stable raw material prices.

GCIP: GCIP reported a top line of Rs524 crore during the quarter. The performance of GCIP remained muted during the quarter as the subsidiary faced competition from Chinese manufacturers that forced it to lower its prices in order to maintain its market share. Additionally, production during the quarter was affected due to adverse weather conditions that led to a production loss of seven to eight days for the subsidiary during the quarter.

Rallis: Rallis (a 50.06% subsidiary of Tata Chemicals) recorded a PAT of Rs7 crore for Q4FY2010. The profitability of Rallis improved on account of a better portfolio mix and improved quality of operations. Going ahead, the expansion at the Dahej facility is expected to drive revenue growth of the subsidiary.

Other highlights

- To part fund the Rs3,800-4,000-crore brownfield expansion at Babrala the company has done preferential allotment of 11.5 million shares to Tata Sons. This has increased Tata Sons' holding in the company from 28.15% to 31%.
- For FY2010 the company declared a final dividend of Rs9 per share, resulting in a 58.42% pay-out and a total cash outflow of Rs255 crore.
- The balance sheet of the company remained fairly liquid with cash and cash equivalents amounting to Rs1,357 crore, including Rs198 crore in mutual funds.
- As on December 31, 2009 the consolidated net debt had stood at Rs4,994 crore, resulting in a net debt-to-equity ratio of 0.81.
- Tata Swatch was introduced in the quarter and is available across Karnataka and Maharashtra. In the very first quarter of its launch it sold 50,000 units.
- The company has guided for an overall capex (excluding the Babrala expansion) of Rs300 crore.
- The safeguard duty on Chinese soda ash is under review and the company expects the outcome of the review by this month end. The management has maintained that the non-renewal of the safeguard duty would likely cause some disruption in the company's domestic sales.

Valuation and outlook

Tata Chemicals displayed a strong performance on the operating level during the quarter as a result of stabilisation of raw material costs and implementation of stringent cost control measures. Looking ahead, the top line growth is likely to remain muted on the back of a low volume uptake in the soda ash segment. However, the management expects the profitability of BMGL to improve leading to an improvement in the overall profitability of the company. We have fine-tuned our estimates for FY2011 and FY2012 to factor in the company's performance during FY2010 and are rolling forward our target multiple on 2012 estimates. Our revised EPS for FY2011 and FY2012 stands at Rs29.9 and Rs35.3 respectively. At the current market price of Rs297, the stock trades at 8.4x its FY2012E EPS and 4.4x its FY2012E EV/EBITDA. We maintain our Hold recommendation on the stock with a revised price target of Rs318. However, we view the ongoing expansion as a positive step for the company and believe that the final gas supply agreement (both availability as well as pricing) could be a crucial rerating factor for the stock.

Valuation table

Particulars	FY08	FY09	FY10E	FY11E	FY12E
Net sales (Rs cr)	6023.1	12772.6	9544.0	10118.4	11508.3
Adj net profit (Rs cr)	964.4	997.1	751.2	761.8	901.5
Rep net profit (Rs cr)	476.9	648.1	605.5	761.8	901.5
No of shares (cr)	25.5	25.5	25.5	25.5	25.5
Fully diluted EPS (Rs)	18.7	25.4	23.7	29.9	35.3
% y-o-y change	*-6*	*36*	*-7*	*26*	*18*
PER (x)	15.9	11.7	12.5	9.9	8.4
Price/BV (x)	2.0	1.6	1.4	1.2	1.1
EV/EBIDTA(x)	9.8	5.5	5.9	5.4	4.4
RoCE (%)	9.2	16.7	13.9	12.8	14.2
RoNW (%)	12.8	13.6	11.5	12.4	13.3

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

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Vulture's Pick

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Mahindra Lifespace Developers
Orient Paper and Industries
Unity Infraprojects
Tata Chemicals