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## Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aban Loyd	03-Mar-05	330	1,113	1,200
♦ Alphageo	27-Dec-05	81	118	135
♦ Indian Hotels	17-Nov-05	766	1,283	1,474
♦ Orient Paper	30-Aug-05	214	281	335
♦ TCS	06-Mar-06	1,705	1,802	1,980

Sharekhan Research Team  
takes this opportunity to  
wish all of you a very happy holi!!!

May on this Holi, your portfolios shine  
as bright as the bonfire and  
the gains are as bright  
as the colours on the earth!!!

Happy holi, happy investing!!!

# Mahindra & Mahindra

Apple Green

## Stock Update

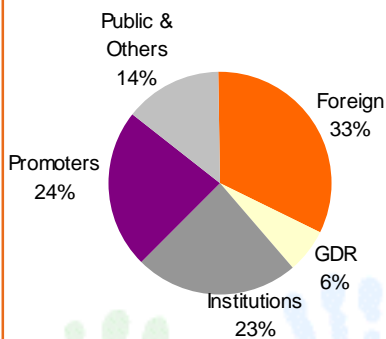
### A beehive of activity

Buy; CMP: Rs612

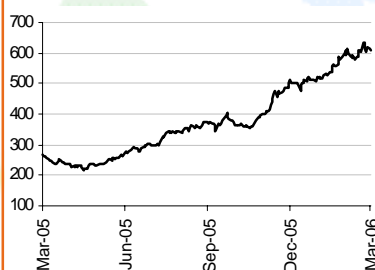
#### Company details

Price target:	Rs700
Market cap:	Rs14,252 cr
52 week high/low:	Rs730/345
NSE volume: (No of shares)	8.24 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	16.3 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	23.3	65.3	135.8
Relative to Sensex	-3.0	7.5	-5.6	1.5

Mahindra and Mahindra (M&M) was in the news recently for making some important announcements. These include:

- the launch of a new version of *Scorpio*,
- the expansion of the capacity of its Nasik plant at a cost of Rs100 crore, and
- the setting up of its first overseas factory in Russia.

#### A new version of *Scorpio*

M&M has unveiled a new version of *Scorpio*. The new *Scorpio* has incorporated 43 new features though the engine remains the same. The upgrade took 18 months and cost the company Rs30 crore. Despite many new features in the new model, the company has kept the price unchanged as of now. However, the company indicated that it might review the price in a month and a half's time. The model would be available nation-wide by April this year.

#### Increasing capacity in the Nasik plant

M&M has announced a plan to invest Rs100 crore to ramp up the production capacity of its Nasik unit. The company will be raising the capacity from 330 units a day to 570 units and the expansion work is expected to get completed in the next 12-18 months. The investment would also be used to set up production lines for Renault's *Logan*, which will mark the company's re-entry into the passenger car market next year. M&M will also be adding a new capacity to produce the mid-sized *Logan*.

The company expects its exports to pick up and contribute 20% to the overall revenues in the next three years from the current level of 4-5%. At present, 60% of the exports are that of *Scorpio* which is sold in the SAARC countries, South Africa, Kenya, France, Italy, and South and Central America. In the April-February 2005 period, the company exported 4,900 units of utility vehicles as compared with 3,000 units exported in the corresponding period a year ago.

#### Russian venture

Congruent to its plans to increase its presence overseas, M&M has decided to set up its first overseas factory in Russia by the end of the year to make *Scorpio*-type special utility vehicles and expand its overseas sales. It will form a joint venture with a local partner to set up a unit that will assemble kits sent from its Indian factory. The company is seeking to improve its presence in Russia, South Africa, China and Latin America, and plans to increase its sales from the overseas markets to 20% in the next three years.

#### Valuations

Taking into account the strong growth in the tractor industry, the improvement in the company's margins, its good product line, growing exports and increasing reach

as a result of its overseas acquisitions, we maintain our positive outlook on M&M. The stock is currently discounting its consolidated FY2006 earnings per share by 15.6x and its FY2007 earnings by 13.9x. We maintain our Buy recommendation on the stock with a price target of Rs700.

#### Earnings table

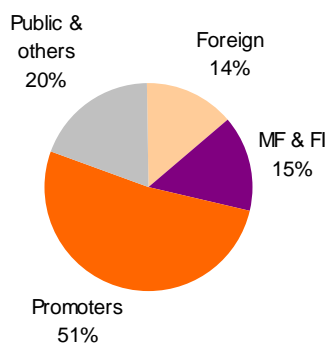
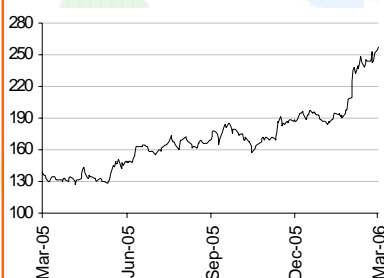
	FY2004	FY2005	FY2006E	FY2007E
<b>Stand-alone</b>				
Net sales (rs cr)	4873.8	6511	8322	9571
y-o-y change (%)		33.6	27.8	15.0
Net profit (Rs cr)	322.5	499.5	694.0	752.2
Shares in issue (cr)	23.2	23.2	23.2	23.2
EPS (Rs)	13.9	21.5	29.9	32.4
y-o-y change (%)		54.9	38.9	8.4
PER (x)	44.0	28.4	20.5	18.9
<b>Consolidated</b>				
Net profit (Rs cr)	425	681.4	910	1019.2
Shares in issue (cr)	23.2	23.2	23.2	23.2
EPS (Rs)	18.3	29.4	39.2	43.9
y-o-y change (%)		60.3	33.5	12.0
PER (x)	33.4	20.8	15.6	13.9

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

# Hindustan Lever

**Apple Green**
**Stock Update**
**HLL raises price of Lakme products**
**Buy; CMP: Rs258**
**Company details**

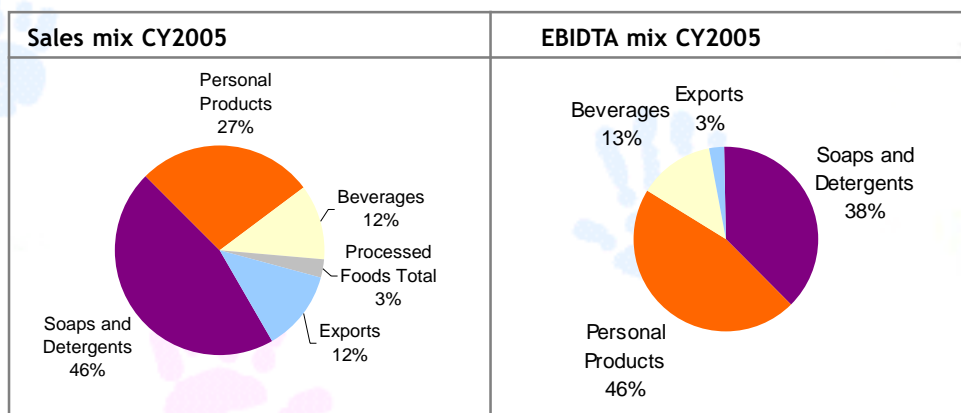
Price target:	Rs270
Market cap:	Rs56,760 cr
52 week high/low:	Rs259/126
NSE volume: (No of shares)	28 lakh
BSE code:	500696
NSE code:	HINDLEVER
Sharekhan code:	HLL
Free float: (No of shares)	106 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	3.0	34.7	49.8	83.0
Relative to Sensex	-3.0	15.4	13.4	14.2

Hindustan Lever Ltd (HLL) has marked up the prices on its leading cosmetic brand, *Lakme*. The increase is across the *Lakme* range of colour cosmetics and skincare products. For some products, the price hike comes after a gap of two years.

The home and personal care (HPC) division of which *Lakme* is a part contributes 27% of HLL's revenues and 46% of its earnings before interest, depreciation, tax and amortisation (EBIDTA).



Source: Company, Sharekhan Research

**Valuation and view**

The margins in the HPC division have taken a dent over the last few quarters due to higher raw material costs and advertisement spent. Although the price hikes have been effected to take care of the pressure on the cost side, the same vindicate our view that the growth in the fast moving consumer goods sector is bound to remain strong with the rising purchasing power of the average Indian consumer. The growth in the rural segment has acted as an icing on the cake.

At the current market price of Rs258 the stock is quoting at 30.0x its CY2007E earnings per share and 25.8x CY2007E enterprise value/EBIDTA. We reiterate our Buy recommendation on the stock with a price target of Rs270 per share.

**Valuation table**

Particulars	CY2003	CY2004	CY2005E	CY2006E	CY2007E
EPS	8.0	5.4	6.2	7.2	8.6
PER	32.1	47.4	41.9	35.8	29.9
P/B	26.6	27.1	24.2	20.1	15.6
EV/EBIDTA	28.3	38.5	38.0	30.7	25.8
EV/Sales	5.4	5.6	5.0	4.3	3.9
M Cap/Sales	5.6	5.7	5.1	4.5	4.0

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## 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  
 Container Corporation of India  
 Corporation Bank  
 Crompton Greaves  
 Emco  
 Godrej Consumer Products  
 Grasim Industries  
 Hindustan Lever  
 Hyderabad Industries  
 ICICI Bank  
 Indian Hotel Company  
 ITC  
 Mahindra & Mahindra  
 Marico Industries  
 Maruti Udyog  
 McDowell & Company  
 MRO-TEK  
 Lupin  
 Nicholas Piramal India  
 Omax Auto  
 Ranbaxy Laboratories  
 Satyam Computer Services  
 Sintex Industries  
 SKF India  
 State Bank of India  
 Tata Motors  
 Tata Tea  
 Unichem Laboratories

## Vulture's Pick

Esab India  
 Mahanagar Telephone Nigam  
 Orient Paper and Industries  
 WS Industries India

## Emerging Star

3i Infotech  
 Aarvee Denim and Exports  
 Aban Loyd Chiles Offshore  
 Alok Textile Industries  
 Alphageo India  
 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  
 UTI Bank  
 Welspun Gujarat Stahl Rohren  
 Welspun India

## Ugly Duckling

Deepak Fertilisers & Petrochemicals Corporation  
 Genus Overseas Electronics  
 HCL Technologies  
 ICI India  
 Jaiprakash Associates  
 JM Financial  
 KEI Industries  
 Nelco  
 Numeric Power Systems  
 Punjab National Bank  
 Ratnamani Metals and Tubes  
 Sanghvi Movers  
 Saregama India  
 Sun Pharmaceutical Industries  
 Surya Pharmaceuticals  
 UltraTech Cement  
 Union Bank of India  
 Universal Cables  
 Wockhardt

## Cannonball

Balmer Lawrie & Company  
 Cipla  
 Gateway Distriparks  
 International Combustion (India)  
 JK Cements  
 Madras Cement  
 Shree Cement  
 Transport Corporation of India

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