Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**4,183**	4,829
Infosys	30-Dec-03	689	**1,861**	2,013
L&T	18-Feb-08	3,536	**2,917**	4,044
Opto Circuits	13-May-08	338	**346**	460
Tata Chem	31-Dec-07	411	**379**	535

JK Cement

Cannonball

Stock Update

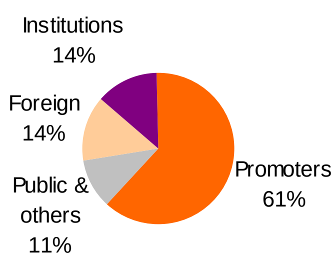
Price target revised to Rs250

Buy; CMP: Rs148

Company details

Price target:	Rs250
Market cap:	Rs1,035 cr
52 week high/low:	Rs265/123
NSE volume: (No of shares)	1.0 lakh
BSE code:	532644
NSE code:	JKCEMENT
Sharekhan code:	JKCEMENT
Free float: (No of shares)	2.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	-5.9	-19.1	-3.1
Relative to Sensex	-1.0	-3.4	-12.9	-19.8

Result highlights

- For Q4FY2008 JK Cement has reported a 5.2% year-on-year (y-o-y) increase in its net sales to Rs385.6 crore. The sales growth was achieved on the back of an 8.6% rise in the y-o-y blended realisation per tonne to Rs3,888. On the other hand, the volumes declined 3.1% yoy to 9.92 lakh tonne (9.3 lakh tonne grey cement and 0.64 lakh tonne white cement) due to a shutdown at one of its kilns during the quarter.
- There was a sharp increase of 14.6% in the total cost per tonne of cement to Rs2,853. This was mainly on account of a 59.3% y-o-y increase in the employee cost to Rs20 crore along with a 10.1% y-o-y increase in the per tonne cost of power and fuel to Rs920. The freight cost also increased by 9.7% to Rs786 per tonne. Consequently the earnings before interest, depreciation, tax and amortisation (EBIDTA) per tonne declined by 5.2% yoy to Rs1,035 during the quarter.
- The operating profit margin (OPM) of the company witnessed a sharp decline of 390 basis points to 26.6%. The margin came under pressure on account of the rising input cost and the company's inability to pass on the increase to the consumer. Consequently, the operating profit declined by 8.1% year on year (yoy) to Rs102.6 crore.
- The reported profit after tax (PAT) also declined by 2.6% yoy to Rs59.8 crore. This was much lower than our estimate of Rs72 crore due to a lower volume growth and effective higher tax rate.
- For the year ended FY2008, JK Cement has reported an 18.2% y-o-y growth in its net sales to Rs1,485.3 crore and a 48.5% growth in its reported PAT to Rs265.2 crore.

Result table Rs (cr)

Particulars	Q4FY2008	Q4FY2007	% yoy	FY2008	FY2007	% yoy
Net sales	385.6	366.6	5.2	1458.3	1233.3	18.2
Total expenditure	283.0	254.9	11.0	1042.6	904.1	15.3
Operating profits	102.6	111.7	-8.1	415.7	329.2	26.3
Other income	2.4	3.4	-29.4	7.9	10.7	-26.2
EBIDTA	105.0	115.1	-8.8	423.6	339.9	24.6
Interest	9.1	9.2	-1.1	35.9	34.7	3.5
PBDT	95.9	105.9	-9.4	387.7	305.2	27.0
Depreciation	11.2	8.7	28.7	41.1	33.2	23.8
PBT	84.7	97.2	-12.9	346.6	272.0	27.4
Tax	24.9	35.8	-30.4	81.4	93.4	-12.8
Reported profit after tax	59.8	61.4	-2.6	265.2	178.6	48.5
Margins						
Operating margins (%)	26.6	30.5		28.5	26.7	
EBIDTA (%)	27.1	31.1		28.9	27.3	
Tax rate	29.4	36.8		23.5	34.3	

- The company has declared a dividend of Rs5 per share for the quarter.
- To factor in the cost savings arising due to the full operation of all its captive power plants, including the 13-megawatt (MW) waste heat recovery plant, we have increased our FY2009 earnings per share (EPS) estimate by 10% to Rs30.9. We have also introduced our FY2010 estimates in this note.
- At the current market price of Rs148, the stock is trading 4.8x its FY2009E EPS, 3.4x its FY2010E EPS and an enterprise value (EV) per tonne of US$48 based on the expanded capacities. We maintain a Buy on the stock with a revised price target of Rs250.

Rising input cost dents margins

Rising pet coke prices put pressure on the OPM of the company during Q4FY2008. Pet coke prices increased by Rs2,000 per tonne during the quarter, averaging at Rs6,600 per tonne. Since then the pet coke prices have increased further to Rs7,500 per tonne. However, we estimate the company will save Rs30 crore in the power cost on account of the full operation of all its captive power plants, including the 13-MW waste heat recovery plant. The saving in the power cost will also be aided by the change in the raw material mix for power generation from 70% pet coke and 30% domestic coal to 100% domestic coal in its 20MW thermal power plant.

The employee cost also went up by 59% yoy during the quarter to Rs20 crore; the employee cost will go up further once the planned capacities come on stream. There was a 9.7% y-o-y increase in the freight cost during the quarter to Rs786 per tonne; this was mainly on account of the fuel price hike effected in February 2008. Considering the increasing crude oil prices, we expect another fuel price hike which will further inflate the freight cost. On account of a 14.6% y-o-y increase in the cost of production of per tonne of cement to Rs2,853, the EBIDTA per tonne declined by 5.2% yoy to Rs1,035 during the quarter.

Capacity expansion to fuel growth going forward

The company will be increasing its current capacity from 4 million tonne per annum (MTPA) to 4.4MTPA in August 2008. The increase in the capacity will come from its Nihon facility, which had been acquired during the last financial year. However, the operationalisation of this facility has been delayed and we expect the capacity to operate for only seven months in FY2009.

The company claims that its proposed greenfield expansion in Karnataka is expected to be completed by March 2009 (as against the earlier expectations of January 2009). The total capital expenditure (capex) of the company is pegged at Rs1,125 crore, of which Rs525 crore has already been tied up in the form of debt.

The management has also announced that the company is planning to set up a grey cement plant at Fujairah in the UAE at an estimated cost of Rs1,400 crore. The company has already entered into a 90:10 joint venture agreement with the Fujairah government as per which JK Cement will be holding a 90% stake in the joint venture. The project would be funded through a mix of debt and dilution of equity in the joint venture.

Earnings revision

To factor in the cost savings arising due to the full operation of all its captive power plants, including the 13-MW waste heat recovery plant, we have increased our FY2009 EPS estimate by 10% to Rs30.9. We have also introduced our FY2010 estimates in this note.

Valuation and view

We expect the company's earnings to decline in FY2009 due to a limited growth in volumes and pressure on the margin on account of a drop in the realisations and a rise in the input cost during the fiscal. However, the growth in FY2010 is likely to be robust with the capacity slated to expand in the fourth quarter of FY2009. Moreover, the cost saving measures will provide a cushion against the input cost pressures. At the current market price of Rs148, the stock is trading 4.8x its FY2009E EPS, 3.4x its FY2010E EPS and EV per tonne of US$48 based on the expanded capacities. We maintain a Buy on the stock with a revised price target of Rs250.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs cr)	32.6	178.9	265.2	216.3	304.0
% y-o-y growth	-	*449*	*48*	*-18*	*41*
Shares in issue (cr)	5.0	7.0	7.0	7.0	7.0
EPS (Rs)	6.5	25.6	37.9	30.9	43.5
PER (x)	22.7	5.8	3.9	4.8	3.4
EV/EBIDTA (x)	10.1	4.2	3.7	5.2	2.8
RoCE (%)	9.2	23.3	26.0	17.2	19.7
RoNW (%)	4.8	21.8	25.2	17.3	19.8

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

Bajaj Holdings & Investment

Apple Green

Stock Update

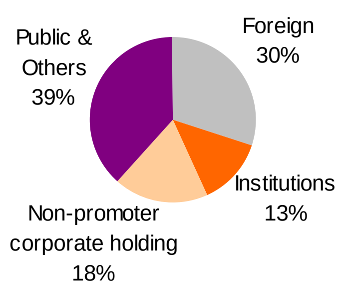
Q4FY2008 results: First-cut analysis

Hold; CMP: Rs672

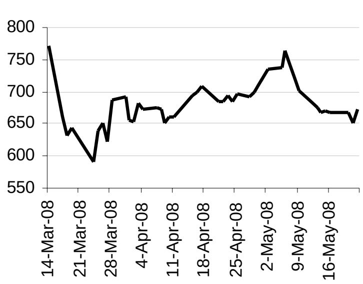
Company details

Price target:	Rs1,044
Market cap:	Rs6,800 cr
52 week high/low:	Rs772/586
NSE volume: (No of shares)	2.1 lakh
BSE code:	500490
NSE code:	BAJAJHLDNG
Sharekhan code:	BAJAJ
Free float: (No of shares)	7.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-	-	-
Relative to Sensex	-8.1	-	-	-

Result highlights

- Bajaj Holdings & Investment Ltd (BHIL) has reported a consolidated top line of Rs62.6 crore for Q4FY2008 and that of Rs3,629.8 crore for FY2008. Since the company was formed after the de-merger of the erstwhile Bajaj Auto, the previous comparable figures are not available. BHIL is the holding company having a 30% stake each in both the new Bajaj Auto and Bajaj Fin Serv. BHIL also holds cash and investments held by the erstwhile Bajaj Auto.

Consolidated profits of BHIL Rs (cr)

Particulars	FY2007-08
Profits of stand-alone BHIL	307.0
Consolidated profits of BAL (30% share)	225.4
Consolidated profits of BFS (30% share)	-9.9
Other subsidiaries, joint ventures etc.	3.2
Consolidated profits of BHIL	**525.7**

- The sales of Bajaj Auto, which consists of the automobile portfolio, stood at Rs2,074.4 crore during the quarter. The operating profit margin (OPM) stood at 12.6%, which was lower than expected despite an 11.7% drop in the volumes in the fourth quarter. However, the results contained a foreign exchange loss of Rs16 crore. Adjusting for the same, the OPM works out to 13.4%. For the full year, the company has reported a top line of Rs9,168.8 crore, OPM of 14.3% and net profits of Rs756 crore.

- The activities of Bajaj Fin Serv include the wind farm business and the financial services business. It has two insurance subsidiaries, dealing in life insurance and general insurance. For FY2008, Bajaj Fin Serv has reported consolidated sales of Rs12,225 crore and a consolidated net loss of Rs32.7 crore. The growth in the life insurance subsidiary's new premiums has been lower than our estimate.

Result table Rs (cr)

Particulars	9MFY2008	Q4FY2008	FY2008
Net sales & income from operations	300.4	6.3	363.0
Expenditure	8.0	0.2	9.7
Change in stock	0.0	0.0	0.1
Consumption of raw materials	0.1	0.0	0.1
Employees cost	2.9	0.1	4.1
Other expenditure	5.0	0.0	5.4
Operating profits	292.3	6.1	353.3
Depreciation	0.4	0.0	0.5
Share of profit on investments in associates	184.3	3.1	215.5
PBT	476.2	9.2	568.3
Taxes	29.9	1.3	42.6
PAT	**446.4**	**7.9**	**525.7**

- We have valued the stakes of Bajaj Auto and Bajaj Fin Serv at a 50% holding company discount, which works out to Rs236.7 per share. Further, as on date the value of BHIL's investment portfolio is Rs495 per share.
- The company has given a flattish outlook on the two-wheeler industry for the next year and an early revival of the industry appears difficult. However, the company would endeavour to outperform the industry on the strength of its products.
- We will come back with a detailed performance note along with our revised estimates.

Power

Sector Update

Power to empower

We recently attended the conference on "Key Inputs for Power Sector for 11th Plan & Beyond" organised by the Confederation of Indian Industry (CII). We present below the key takeaways from the meeting.

- The conference was buzzing with optimism regarding the power sector, with the actual capacity addition expected to be pretty close to the planned addition in the 11th Five-Year Plan period.
- In the past, the actual additions have consistently missed the planned capacity additions and that too by a long margin. In the 10th plan period itself, the actual addition was just 21,180 megawatt (MW) as against the planned target of 41,110MW, ie it was just 51.5% of the planned addition.

	Target (MW)	Achievement (MW)	%
7th Plan	22,245	21,401	96.2
8th Plan	30,538	16,423	53.8
9th Plan	40,245	19,015	47.2
10th Plan	41,110	21,180	51.5

- However, the situation is likely to change in the 11th plan period, with a better achievement ratio. The government had earlier set an ambitious target to add 78,577MW of capacity during the period; it has now raised the planned addition target to 80,020MW. Another 82,200MW is expected to be added in the 12th plan period. In the 11th plan period, out of the total target, 9,600MW has already been commissioned, about 66,000MW is under execution and tenders for about 5,500MW have also been floated. This time, most of the orders were placed during the first year of the plan itself, in contrast with the past practice of doing so in the second or the third year of the plan periods. This should improve the achievement ratio.
- It was observed that the demand for power is growing extremely rapidly, outpacing the current supply, with peak shortages rising year on year. It was also noted that the consumers are now willing to pay for quality and uninterrupted power supply—a trend that is no doubt a shot in the arm for the power sector.
- On the technological front, the focus was on supercritical technology. In the 11th plan period, about eight to nine plants would be using the supercritical technology. While it is already mandatory to use the technology in case of the ultra mega power projects, the bulk of the additions in the 12th plan period would also use the technology as it offers much better efficiency.
- The major bottleneck areas were also identified and discussed during the conference. For example, in the previous plan periods, there had been considerable delays on account of delays in the commissioning of balance of plants, such as coal handling plants, ash handling plants and cooling towers. Hence, the urgent need to increase the number of vendors for balance of plants was also recognised. There were also suggestions that the contracts for balance of plants be awarded as a single package instead of breaking them up into equipment contracts, civil contracts and mechanical erection contracts. It was also proposed that additional capacities for forgings and casting component be created in the country to avoid delays in the execution of projects.
- The Central Electricity Authority also suggested that in order to protect the profitability, in the future, the contracts having a gestation period of more than one year have a price variation clause.
- Another important point discussed pertained to the fuel linkages for the power plants. The total fuel requirement for capacity addition in 11th plan period is mentioned below.

Fuel	Requirement
Domestic coal	550MT
Lignite	33MT
Gas/LNG	89mmscmd

- Majority of the fuel linkage tie-ups have already been achieved for the 11th Five-Year Plan, while the power ministry has already recommended to the coal ministry that the window to fuel linkages should be opened for the requirement of the 12th Five-Year Plan.

There were also representations from the corporate side in the conference. Strong investments in the various segments of the power sector would benefit the entire sector. Frontliners such as Larsen & Toubro (L&T) and Bharat Heavy Electricals Ltd (BHEL) are taking proactive efforts to create new capacities and develop new technologies for future growth.

BHEL

BHEL would be one of the primary beneficiaries of the thrust on the power sector. Historically, BHEL has provided equipment for almost 65% of the total installed capacity in the country. For the 11th Five-Year Plan as well, out of the total orders for 73,940MW of capacity, orders for 42,427MW (or 57%) have been bagged by BHEL. We believe that this high ratio would be maintained and the company would benefit from the strong capacity addition in the country. Looking at the demand scenario and the shortages, we believe India would see a sustained capacity addition going forward rather than a sporadic one, and companies like BHEL would be the primary beneficiaries of the resulting boom. In line with the demand, the company has raised its capacity from 6,000MW per year to 10,000MW per year by December 2007. It further plans to raise its capacity to 15,000MW by December 2009 by investing Rs3,200 crore. In future, the capacity may be raised to 20,000MW if need be, to meet the country's capacity addition programme. We maintain our Buy recommendation on the stock with a price target of Rs2,381.

L&T

L&T has entered into a 51:49 joint venture with Mitsubishi Heavy Industries, Japan to develop indigenous supercritical technology. We believe that this alliance would help the company in getting the right technology in order to get into this lucrative business and tap the huge opportunity. The company is setting up a plant at Hazira at a total investment of Rs750 crore with a capacity of 3,000MW per annum. This plant is likely to become operational by September 2009. At full utilisation, the plant would generate revenues to the tune of Rs3,000 crore. We maintain our Buy recommendation on the stock with a price target of Rs4,044.

T&D network development

Another feature that stands out in the 11th Five-Year Plan is the strong impetus not only on power generation but also on power transmission and distribution (T&D). The emphasis is on creating new T&D networks in order to evacuate the power from the new capacities being built and on upgrading the current network to cut down the T&D losses that range from 5% to as high as 60% in the country. The government has taken steps in this direction by involving private players in the power distribution sector in cities such as New Delhi, Mumbai, Bhiwandi and Nagpur, which was recently taken over by Crompton Greaves. In our view, with the success of the public private partnership model in various aforesaid cities, the government might choose this path to arrest the mounting T&D losses.

All these steps augur well for players involved in manufacturing of inputs for T&D space, such as transformer manufacturers, power cable manufacturers and energy meter manufacturers. In this space we prefer Crompton Greaves, which is the lead player in the 765KV transformer space and provides a host of services and products for the T&D segment. The recent energy efficiency drive by the government has resulted in strong order inflows for energy efficiency meters manufacturer Genus Power Infrastructure. Other companies that will benefit are Bharat Bijlee, Indo Tech Transformers and KEI Industries.

- All this reinforces our positive view on the power sector. We continue to believe that the entire sector, from generation companies to transmission and distribution companies, would benefit from the buoyancy that would result from the increased investments. It remains a fact that India, which is growing at a healthy rate of 8% and above, needs sustained addition in power capacity to meet the surging demand and plug the shortfall. This scenario sure augurs well for the power sector in the long term.

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

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Holdings & Investment
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 Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Opto Circuits India
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Unity Infraprojects
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India