investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bharti	8-Jan-07	625	**667**	1,100
Glenmark	17-Jul-08	599	**458**	754
HDFC	19-Nov-07	2,700	**1,905**	2,805
HUL	24-Nov-05	172	**253**	280
L&T	18-Feb-08	1,768	**815**	1,802

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Tata Consultancy Services

Evergreen

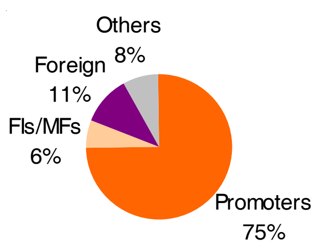
Stock Update

Q2FY2009 results: First-cut analysis

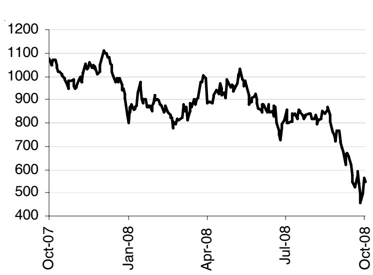
Buy; CMP: Rs546

Company details	
Price target:	Under review
Market cap:	Rs53,453 cr
52 week high/low:	Rs1124/445
NSE volume: (No of shares)	14.2 lakh
BSE code:	532540
NSE code:	TCS
Sharekhan code:	TCSCONS
Free float: (No of shares)	25.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-35.9	-37.9	-50.5	-55.0
Relative to Sensex	-15.8	-19.7	-23.2	-27.0

Result highlights

- Tata Consultancy Services' (TCS) results in Q2FY2009 were ahead of our estimates at revenue and operating profit levels. However, the net earnings growth was way below our and street expectations on the back of provisions for bad debts (from some of the financial services clients affected by the financial crisis in the USA) and much higher-than-expected foreign exchange (forex) fluctuations losses.
- The consolidated revenues grew by 8.5% quarter on quarter (qoq) to Rs6,953 crore in Q2FY2009. The sequential growth in the revenues was driven by a 6% growth in volumes, higher realisations and the steep depreciation in the rupee. In the dollar terms, the revenues grew by 3.2% qoq to US$1,574 million in Q2FY2009.
- The earnings before interest and tax (EBIT) margin improved by 217 basis points to 24.2% in Q2FY2009 on account of positive impact of rupee depreciation (147 basis points), favourable effort mix (55 basis points), higher realisations and productivity gains (165 basis points). This was partially offset by provisions for bad debts (55 basis points) and higher overhead expenses (94 basis points). Consequently, the company's operating profit grew by 19.1% sequentially to Rs1,684.8 crore.
- However, the net income grew by 1.4% sequentially to Rs1,261.5 crore, largely on account of a sharp dip in the other income to a negative Rs178.4 crore in Q2FY2009 as compared with a positive Rs33.2 crore in Q1FY2009. The company has accounted

Results table Rs (cr)

Particulars	Q2FY09	Q2 FY08	Q1FY09	% yoy	% qoq
Revenue	6953.4	5639.8	6410.7	23.3	8.5
Development cost	3687.9	3015.2	3642.7	22.3	1.2
Gross profit	3265.5	2624.6	2768.0	24.4	18.0
SG&A expenses	1445.8	1142.6	1236.6	26.5	16.9
Operating profit	1819.7	1482.0	1531.4	22.8	18.8
Depreciation	134.9	138.1	116.7	(2.3)	15.6
EBIT	1684.8	1343.9	1414.7	25.4	19.1
Other income	(178.4)	110.5	33.2	---	7.8
Profit before tax	1506.4	1454.3	1447.9	3.6	4.0
Tax	229.1	203.7	194.7	12.5	17.7
PAT	1277.3	1250.7	1253.2	2.1	1.9
Affiliates earnings	(0.7)	0.4	0.1	---	---
Minority interest	15.1	4.2	9.7	259.6	55.7
RPAT	1261.5	1246.9	1243.6	1.2	1.4
Equity capital	97.9	97.9	97.9		
EPS (Rs)	12.9	12.7	12.7		
Margins (%)					
GPM	47.0	46.5	43.2		
OPM	26.2	26.3	23.9		
EBIT	24.2	23.8	22.1		
NPM	18.6	21.7	19.3		

for a forex fluctuation loss of $59 million (Rs261 crore) in the other income component during the quarter.

- TCS is suffering due to its aggressive hedging policy. In addition to the forex losses already taken in the profit & loss account, the company has derivatives loss of Rs659.3 crore and foreign currency translation gain of Rs355.8 crore sitting on its balance sheet as on September 2009. This amount would have to be amortised in the coming quarters if the rupee continues to remain weak against the US dollar.
- In Q2FY2009, the employee addition remained healthy with a net addition of 5,328 employees. The company is on track on its hiring target of 30,000-35,000 employees and has made 24,789 campus offers for FY2010. In addition to healthy campus offers, the addition of 51 clients during the quarter is also encouraging.
- In terms of deals, the company has won four large deals (one each in BFSI, retail, public and pharma vertical) during the quarter. Moreover the company currently has 20 deals in pipeline.
- At the current market price, the stock is trading at attractive valuations of 9.3x FY2009 earnings estimate and 8.1x FY2010 earnings estimate. However, the estimates are under review as we have to account for the change in the exchange rate assumption, the muted demand environment and the recent acquisitions. We maintain our Buy recommendation on the stock and will follow up with revised estimates and target price in a detailed note.

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

Wipro

Apple Green

Stock Update

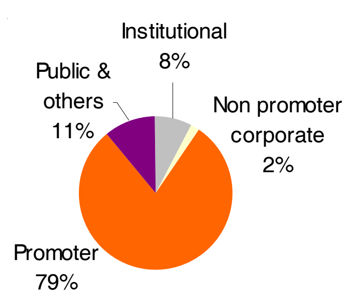
Q2FY2009 results: First-cut analysis

Hold; CMP: Rs279

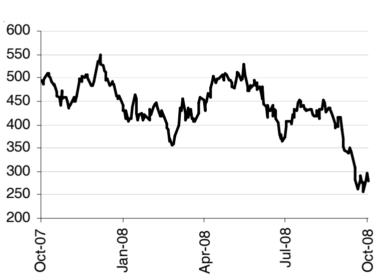
Company details

Price target:	Under review
Market cap:	Rs61,091 cr
52 week high/low:	Rs552/239
NSE volume: (No of shares)	11.8 lakh
BSE code:	507685
NSE code:	WIPRO
Sharekhan code:	WIPRO
Free float: (No of shares)	30.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-32.4	-23.0	-38.1	-42.9
Relative to Sensex	-11.2	-0.6	-4.0	-7.3

Result highlights

- Wipro's Q2FY2009 results under US GAAP were largely in line with our estimates. However, a muted growth guidance in Q3FY2009 for its IT services business and uncertainty related to business from some of the key industry verticals like semiconductors and telecom equipment manufacturers are the key negative takeaways from the quarterly results.
- Wipro's consolidated revenues under US GAAP grew by 7.5% sequentially to Rs6,409.4 crore, ahead of our expectation of Rs6,296.3 crore.
- The operating profit margin (OPM) declined by 49 basis points to 15.9% on account of decline in the margins of IT products business (220 basis points down to 2.2%) and consumer care & lighting business (down 200 basis points to 10.7%) and foreign exchange loss on external commercial borrowing loan. On the other hand, the margin in the IT services business improved by 20 basis points to 20.3% sequentially.
- The consolidated net earnings grew sequentially by 1% to Rs822.4 crore, in line with our expectation of Rs828.9 crore, largely due to a lower-than-expected other income. The company reported a negative other income of Rs78.9 crore in Q2FY2009 v/s a negative other income of Rs27.2 crore in Q1FY2009.

Results table Rs (cr)

Particulars	Q2FY09	Q2 FY08	Q1FY09	% yoy	% qoq
Net revenue	6,409.4	4,728.1	5,962.3	35.6	7.5
Cost of revenue	4,522.3	3,316.6	4,140.0	36.4	9.2
Gross profit	1,887.1	1,411.5	1,822.3	33.7	3.6
S&M expenses	455.2	328.8	443.3	38.4	2.7
G&A expenses	345.2	265.5	325.4	30.0	6.1
R&D expenses	0.0	0.0	22.7		
Amortisation of intangibles	49.5	9.9	0.0		
Forex gain/(loss)	(32.1)	5.8	(68.9)		
Others, net	11.8	3.2	13.2	268.8	-10.6
Operating profit	1016.9	816.3	975.2	24.6	4.3
Affiliate profit/(loss)	10.6	8.4	10.7	26.2	-0.9
Other income	(78.9)	74.3	(27.2)		
Profit before tax	948.6	899.0	958.7	5.5	-1.1
Tax	124.0	86.5	143.6	43.4	-13.6
PAT(before adjustments)	824.6	812.5	815.1	1.5	1.2
Minority interest/Adjustments	(2.2)	(0.3)	(1.2)		
Net profit	822.4	812.8	813.9	1.2	1.0
Equity	292.6	291.9	291.8		
EPS (Rs)	5.6	5.6	5.6		
Margins (%)					
GPM	29.4	29.9	30.6		
OPM	15.9	17.3	16.4		
NPM	12.8	17.2	13.7		

- In terms of performance of IT services business, the revenues grew by 4% sequentially to US$1,110 million, which was 1.9% above its guidance of US$1,089 million. The revenue growth was driven by a 1.2% volume growth and a 2.7% price realisation during the quarter. The margin improved by 20 basis points to 20.3% on the back of positive impact of the rupee depreciation (38 basis points) and a higher realisation and utilisation rate (70.3% in Q2FY2009 v/s 67.9% in Q1FY2009).
- In terms of outlook, the IT services are guided to grow by 1% sequentially to US$1,121 million in Q3FY2009. This is largely to factor in the lower number of working days in Q3FY2009 due to festive season and on account of uncertain global scenario. More concerning is the fact that some of the key user industry domain such as semiconductors and telecom equipment manufacturing are witnessing a slowdown in the business ramp-up.
- In the IT product business, the company reported a healthy growth of 31.4% sequentially to Rs914 crore in Q2FY2009 on the back of a seasonally weak base in Q1FY2009.
- In terms of operating metrics, the net employee addition stood at 1,877 employees in Q2FY2009. The total number of active customers declined to 906 in Q2FY2009, down from 928 in Q1FY2009.
- The hedge position stood at US$2.17 billion at the end of FY2009. The unrecognised foreign exchange (forex) losses on the hedge position in the balance sheet under the head "other comprehensive income" expanded further to Rs1,382.3 crore at the end of Q2FY2009 compared with Rs934.4 crore at the end of the previous quarter.
- At the current market price, the stock is trading at 11.7x FY2009 earnings estimate and 9.6x FY210 earnings estimate. Though the valuations are compelling, the uncertain growth outlook and an overhang of an aggressive forex hedges would keep the sentiments weak at the counter. We had downgraded the stock to Hold recommendation after Q1FY2009 results. We will review the stock and the earnings estimates in a detailed note.

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

Bank of India

Apple Green

Stock Update

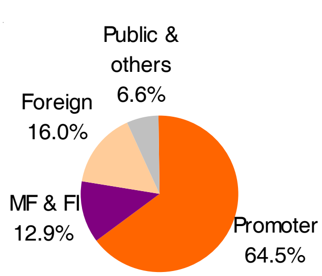
Q2FY2009 results: First-cut analysis

Buy; CMP: Rs270

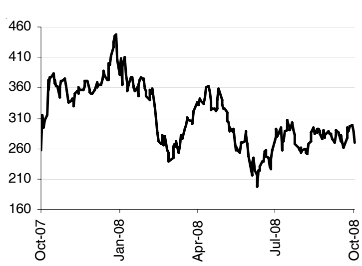
Company details

Price target:	Rs365
Market cap:	Rs14,195 cr
52 week high/low:	Rs421/145
NSE volume: (No of shares)	25.8 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BOI
Free float: (No of shares)	18.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.4	15.0	-6.2	18.0
Relative to Sensex	37.1	48.6	45.3	91.4

Result highlights

- Bank of India (BoI) has reported a net profit of Rs762.9 crore for Q2FY2009, indicating an impressive growth of 79.9% year on year (yoy). The Q2FY2009 net profit came in well above our estimate of Rs568 crore.
- The bank's net interest income (NII) grew by 38.3% yoy to Rs1,363.1 crore on the back of a robust growth in the advances coupled with a healthy expansion in the margins.
- The reported net interest margin (NIM; global) for the quarter stood at 3.2%, indicating an expansion of sixteen basis points yoy. The expansion in the NIM was largely driven by a 14-basis-point increase in the yield on funds as the bank has hiked its lending rates. Further, the cost of funds remained largely stable yoy.
- The non-interest income rose by 23% yoy to Rs649.5 crore from Rs528 crore a year ago. The strong growth was achieved on the back of a significant jump (up 47.5% yoy) in the recoveries, followed by a 36% year-on-year (y-o-y) growth each in the foreign exchange (forex) income and 'commissions, exchanges and brokerage' (CEB).
- The operating expenses increased by 18.3% yoy to Rs797.9 crore during the quarter. During the quarter the bank provided Rs70.4 crore towards AS-15 and Rs72 crore towards wage revision, which led to a 26.7% y-o-y growth in the staff expenses. Meanwhile, the growth in the operating expenses was contained at 7.4%. Consequently, the cost/income ratio improved significantly to 39.6% in Q2FY2009 from 44.6% a year ago.
- The provisions and contingencies declined by 4.2% yoy, mainly due to write-back of provisions under the implementation of the debt waiver scheme and lower

Results table Rs (cr)

Particulars	Q2FY09	Q2FY08	% yoy	% qoq	H1FY09	H1FY08	% yoy
Net interest income	1363.1	985.8	38.3	15.4	2543.9	1933.0	31.6
Non-interest income	649.5	528.0	23.0	14.7	1215.9	909.6	33.7
Treasury income	*18.0*	*125.0*	*-85.6*	*-73.5*	*87.0*	*191.0*	*-54.5*
CEB	*264.0*	*194.0*	*36.1*	*14.8*	*493.0*	*345.0*	*42.9*
Net income	2012.6	1513.8	33.0	15.2	3759.8	2842.6	32.3
Operating expenses	797.9	674.4	18.3	18.2	1472.7	1324.9	11.1
Staff expenses	*481.7*	*380.1*	*26.7*	*4.8*	*941.6*	*793.4*	*18.7*
Other operating expenses	*316.2*	*294.3*	*7.4*	*47.1*	*531.1*	*531.5*	*-0.1*
Operating profit	1214.7	839.4	44.7	13.3	2287.2	1517.6	50.7
Core operating profit (excluding treasury)	1196.7	714.4	67.5	19.1	2200.2	1326.6	65.8
Provisions & contingencies	286.8	300.0	-4.4	-17.8	635.8	498.5	27.5
PBT	928.0	539.4	72.0	28.3	1651.4	1019.1	62.0
Provision for taxes	165.1	115.3	43.3	2.3	326.6	278.6	17.2
Net profit	762.9	424.1	79.9	35.8	1324.8	740.5	78.9

non-performing assets provisions. However, this was partially offset by higher investment provisions as the bank has fully provided for its exposure of Rs108.6 crore towards Lehman Brothers.

- The gross NPAs remained largely flat with a 0.3% decline yoy to Rs1,978.1 crore, after considering the reduction of Rs182 crore on account of debt waiver implementation. Meanwhile, the net NPAs declined by 14.8% yoy to Rs608 crore. While asset quality remains healthy, a 27.5% y-o-y increase in slippages is a concern.

- The gross advances witnessed a robust growth of 35% yoy and stood at Rs129,314 crore at the end of Q2FY2009. This growth was achieved on the back of a 64.1% growth in the corporate segment, a 26.2% rise in the agricultural segment and a 25.9% increase in the small and medium enterprises segment.

- The global deposits grew by a healthy 26.7% yoy to Rs164,246 crore. Importantly, the current account and savings account ratio declined to 32% in Q2FY2009 from 37% a year ago.

- At the current market price of Rs270, BoI trades at 5.5x 2009E earnings per share, 3.3x 2009E pre-provisioning profit per share and 1.3x 2009E book value per share. We maintain our Buy recommendation on the stock and shall follow up this note with a detailed analysis soon.

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

Jindal Saw

Emerging Star

Stock Update

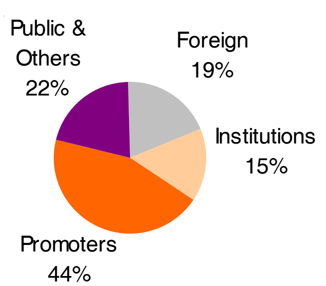
Q3CY2008 results: First-cut analysis

Buy; CMP: Rs352

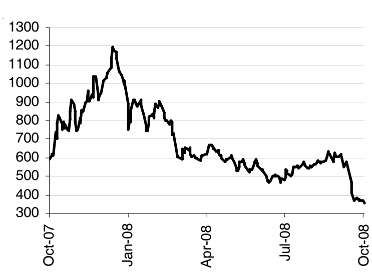
Company details

Price target:	Rs910
Market cap:	Rs1,973 cr
52 week high/low:	Rs1225/346
NSE volume: (No of shares)	85,985
BSE code:	500378
NSE code:	JINDALSAW
Sharekhan code:	JINDALSAW
Free float: (No of shares)	2.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-39.0	-24.5	-39.6	-34.2
Relative to Sensex	-19.9	-2.5	-6.5	6.8

Result highlights

- Jindal Saw Ltd's Q3CY2008 numbers were ahead of our expectations on the back of an exceptionally strong top line. The top line was driven by higher sales of submerged arc welded (SAW) pipes due to a higher inventory at the end of the previous quarter. Further, lower exports in the previous quarter on account of the imposed duty led to increased shipments in the present quarter. Post the hive-off of the US division, the results are not strictly comparable with those of the corresponding quarter of the last year.
- The revenues from Indian operations marked a brilliant growth of 48.7% year on year to Rs1,485.5 crore and by 46% on a sequential basis, particularly on the back of a strong growth in SAW pipes. The sales volumes of other divisions, ie ductile iron (DI) and seamless pipe sales also remained firm during the quarter.
- The operating margins declined on sequential comparison on account of change in the product mix with higher sales of SAW pipes. The margins in SAW pipes are lower than that in the DI and the seamless pipes segments. Consequently, the operating profit margin (OPM) stood at 13.4% during the quarter as against 16.6% in Q2CY2008 as the operating profit grew by 17.9% on quarter on quarter basis to Rs198.7 crore.
- Both the interest and the depreciation cost has risen on account of high capital expenditure programme of the company. Its planned facility for LSAW and Mundra

Results table Rs (cr)

Particulars	Q3CY08	Q4FY07*	% yoy	Q2CY08	% qoq
Net sales	**1,485.5**	**1,428.6**	**4.0**	**1,017.5**	**46.0**
Sales from Indian operations	1,485.5	999.3	48.7	1,017.5	46.0
Total expenditure	1,286.9	1,258.7		849.0	
Raw Material Consumed	1,137.6	1,054.9		684.0	
Stock Adjustment	-110.5	-151.6		-20.3	
Employee Expenses	36.1	26.4		29.1	
Other Expenses	223.6	329.0		156.1	
Operating profits	**198.7**	**169.9**	**16.9**	**168.5**	**17.9**
Other income	3.2	1.9		2.0	
EBIDTA	**201.8**	**171.8**	**17.4**	**170.6**	**18.3**
Interest	54.7	28.2		25.5	
PBDT	147.1	143.7	2.4	145.1	1.4
Depreciation	17.8	15.0		15.5	
PBT	129.3	128.7	0.5	129.7	-0.3
Taxes	29.2	38.6		23.3	
Adjusted PAT	**100.1**	**90.1**	**11.1**	**106.4**	**-5.9**
Extraordinaries (forex	0.0	0.0		-36.2	
Reported PAT	**100.1**	**90.1**	**11.1**	**70.2**	**42.6**
OPM (%)	13.4	11.9		16.6	
EPS	19.2	18.6		20.4	

*July-September 2007

is likely to commence operations by December 2008, while the HSAW facility at Bellary has already commenced operations. Consequently, the company reported a 42.6% sequential growth in its reported profits to Rs100.1 crore.

- The company further improved its order book during the quarter, with an order book of about $1.14 billion at the end of the quarter executable by June/July 2009. Of this, $825 million orders were for SAW pipes, while the remaining orders were for DI and seamless pipes.
- We would be coming out with our full update on the company after a conference call with the management of the company. At the current levels, the stock is trading at 3.9x its CY2009E earnings and is available at an enterprise value/earnings before interest, depreciation, tax and amortisation of 1.9x. We maintain our Buy recommendation on the stock with a price target of Rs910.

Indian Hotels Company

Apple Green

Stock Update

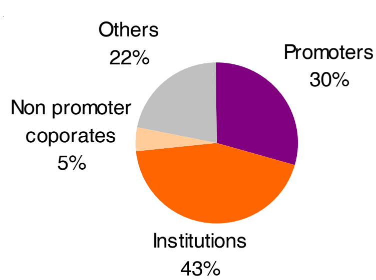
Price target revised to Rs107

Buy; CMP: Rs57

Company details

Price target:	Rs107
Market cap:	Rs4,123 cr
52 week high/low:	Rs178/55
NSE volume: (No of shares)	10.1 lakh
BSE code:	500850
NSE code:	INDHOTEL
Sharekhan code:	INDNHOT
Free float: (No of shares)	51 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-19.2	-29.7	-46.6	-50.2
Relative to Sensex	6.1	-9.2	-17.3	-19.2

Result highlights

- Indian Hotels Company Ltd (IHCL) has posted a subdued operating performance for Q2FY2009, which is below our expectation. The revenues grew moderately by 8% year on year (yoy) to Rs367.8 crore on account of lower occupancy rate.
- The operating profit margin (OPM) declined by 459 basis points yoy to 24.4% on account of higher-than-expected employee expenses and other expenditure. Thus the operating profit declined by 9.1% to Rs89.9 crore in Q2FY2009.
- However higher other income, lower interest outgo and lower incidence of tax led to a 17.7% year-on-year (y-o-y) growth in the adjusted net profit to Rs58.1crore.
- The reported net profit declined by 4.8% yoy to Rs50.7 crore on account of an exchange loss of Rs9.4 crore (post-tax Rs7.4 crore) during the quarter.
- We are revising downwards our earnings estimate for FY2009 by 7.9% and for FY2010 by 10.7% to factor lower occupancies, lower average room rate (ARR), possible delays in the commencement of new properties in India and delay in breakeven of international properties under IHMS Inc.
- We expect IHCL's properties in India and overseas to see pressure on their occupancies and ARRs in the coming year. Hence, the revenue and the earnings growth would be driven more by the increase in the room count. Thus even in these difficult times we expect IHCL to deliver revenue and net profit at a compounded annual growth rate (CAGR) of 12% and 19.7% respectively, which is commendable. The company is adequately funded by the proceeds from rights issue to execute its capital expenditure (capex) plans.
- At 8.0x FY2010E earnings the stock is trading much below its historical average one-year forward PE of 17.4x. We believe IHCL, being the largest and a growing hotelier in the country with global presence, should create value in medium to long term. While we maintain our Buy recommendation on the stock we are cutting our price target on the stock to Rs107 post pruning of the estimates. Our price target discounts the FY2010E earnings per share (EPS) by 15x.

Results table Rs (cr)

Particulars	Q2FY09	Q2FY08	% yoy	H1FY09	H1FY08	% yoy
Net sales	367.8	340.6	8.0	744.7	686.3	8.5
Expenditure	277.9	241.7	15.0	538.2	477.8	12.6
Operating profit	89.9	98.9	-9.1	206.6	208.5	-0.9
Other income	31.6	19.3	64.0	52.7	23.5	124.6
PBIDT	121.5	118.1	2.8	259.3	232.0	11.8
Depreciation	22.6	20.7	9.3	42.9	42.0	2.2
PBIT	98.9	97.4	1.5	216.4	190.0	13.9
Interest	22.5	25.7	-12.3	46.0	48.4	-5.0
PBT	76.4	71.8	6.4	170.4	141.6	20.4
Tax	18.3	22.4	-18.4	47.1	46.6	1.1
Adjusted PAT	58.1	49.3	17.7	123.3	95.0	29.8
OPM (%)	24.4	29.0		27.7	30.4	

Q2FY2009—strained operating performance

IHCL's operating performance in Q2FY2009 was below our expectation. While the revenue growth of 8% yoy was a tad below our expectation the profitability was much below. For the quarter, the occupancy rate was down 200 basis points yoy to 64%. However the ARR growth was decent at 11.8%. The operating margin declined by 459 basis points yoy to 24.4% (below our estimate of 29.2%). The employee expenses increased by 22.8% yoy to Rs90.4 crore on account of normal salary revision and increased staff count for new properties that are to start operations in the coming quarters. Also the other expenditure increased by 11.7% yoy to Rs108.7 crore, mainly on account of higher brand building activities towards the launch of IHCL's new upper upscale brand *Gateway* and spends on the renovation of existing properties during the quarter. Thus the operating profit declined by 9.1% to Rs89.9 crore in Q2FY2009, as against Rs98.9 crore in Q2FY2008.

Occupancies under pressure

Particulars	Q2 FY09	Q2 FY08	% yoy	Q1 FY09	Q1 FY08	% yoy
Occupancy rate (%)	64	66	-200 bps	66	69	-300 bps
ARR	9,763	8,736	11.8	10,049	8,505	18.2

Despite a below-par operating performance the company delivered a 17.7% y-o-y growth in the adjusted net profit due to higher other income, lower interest outgo and lower tax incidence. The higher other income was a result of dividend income from investment in group companies and returns on temporary investment of the proceeds from the rights issue. Out of Rs1,400 crore accruing from the proceeds of the rights issue, IHCL has utilised Rs700 crore for its upcoming new projects and the remaining Rs700 crore have been invested (Rs200 crore in inter-corporate deposits and Rs500 crore in mutual funds).

Revenue break-up Rs (cr)

Particulars	H1FY09	H1FY08	% yoy
Room sales	399.4	362.9	10.1
F&B sales	257.7	237.1	8.7
Other operating income	87.6	86.2	1.6
Total sales	744.7	686.2	8.5

Source: Company

For H1FY2009, the net revenues grew by 8.5% to Rs744.7 crore as against Rs686.3crore in H1FY2008. The room revenues for H1FY2009 increased by 10.1% to Rs3,994.0 crore, driven by a 15% y-o-y jump in ARRs. The OPM declined by 264 basis points to 27.7% on account of higher employee cost. Consequently the operating profit declined by 0.9% to Rs206.6 crore. Steep increase in other income, lower interest and incidence of tax resulted into a 29.8% growth in the adjusted net profit to Rs123.3 crore during HIFY2009.

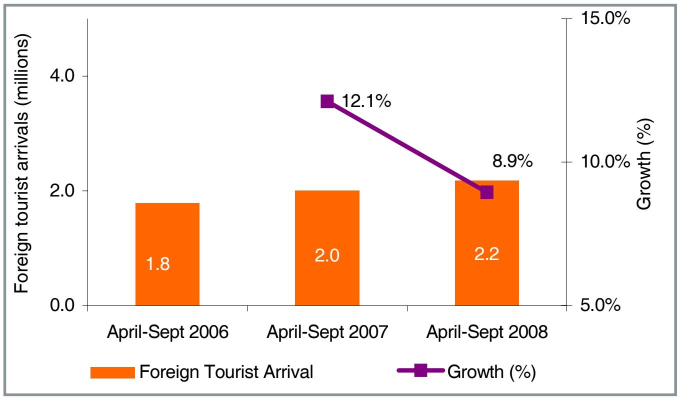
High on expansions

- We believe the growth of IHCL in these difficult times for the hotel industry will more be a function of increase in the room count than an increase in the room rates. IHCL (stand-alone) has an inventory of 3,434 rooms. The company is set to operationalise a new hotel ITPL at Bangaluru (199 rooms) in November 2008 and the expansion of 130 rooms at Taj Lands End at Mumbai in December 2008. Under Taj GVK (a group company) it would launch Taj Mount Road at Chennai (215 rooms) in December 2008.
- Apart from its existing planned hotel properties (under IHCL stand-alone) of 829 rooms expected to operationalise in India in FY2010 the company is also planning to launch new premium hotels at Dwarka, near Delhi with a room inventory of 400 rooms (expected to be operational before 2010 Commonwealth games in Delhi) and 125 rooms small luxury hotel in Gauhati, Assam.
- The company is also expanding its services under management contracts. In Q2FY2009, Taj Residency, Trivandrum (which is a management contract) commenced operations with an inventory of 134 rooms. To increase its global footprint, IHCL has entered into a management contract for a luxury hotel each in Beijing and Hainan in China. While the hotel in Beijing would be commissioned by the end of 2009, work on hotel in Hainan will commence by early next year.
- During Q2FY2009, IHCL unveiled its new brand *Gateway* targeting the upper upscale business and leisure segment. The *Gateway* brand is aimed at bridging the gap between the premium and budget hotel segments, where IHCL already has a presence. Eighteen of the existing properties would be transferred under the new brand and 11 new hotels are under construction at various locations in India. ARR for hotels under the *Gateway* brand would be in the range of Rs3,500- 8,000 depending on the location. The company is planning to have 50 *Gateway* hotels in the next three years.

Foreign tourist arrivals moderate

The growth in foreign tourist arrivals has moderated to 8.9% yoy (against the steady growth of 12.1% yoy last year) during the period April-September 2008 to reach 2.2 million as against 2.0 million during the corresponding period of the last year. However we believe this is still impressive given the current macro-economic scenario.

Foriegn tourist arrivals



Source: Ministry of Tourism

Foreign tourist arrivals (Nos)

Particulars	2007	2008*	%yoy
April	350550	384203	9.6
May	277017	300840	8.6
June	310364	340159	9.6
April-June	**937931**	**1025202**	**9.3**
July	399866	429456	7.4
August	358446	391423	9.2
September	301892	330874	9.6
July-September	1060204	1151753	8.6
April-September	**1998135**	**2176955**	**8.9**
January to September	**3507952**	**3871163**	**10.4**

*Provisional numbers Source: Ministry of Tourism

Occupancies under pressure, ARR's show steady growth in H1FY2009

City	Average room rate	% chg	Occupancy (%)	Chg in bps
South Mumbai	12349	19.1	60	-100
North Mumbai	12039	16.5	69	-600
Delhi	11360	14.8	62	-600
Bangaluru	11909	2.7	66	-100
Chennai	8559	14.9	68	-100
Hyderabad	7093	-3.2	67	-100
Kolkata	7375	20.3	72	-200
Goa	5841	12.2	56	-800

Source: Company

The first half of the financial year is a lean season for the hotel industry. The above data on y-o-y occupancy comparison shows that occupancies have dropped across cities, as expected. In the same period IHCL has been able to maintain steady increase in ARRs in the major cities such as Delhi and Mumbai. However, as the pricing contracts are renewed with corporates for the coming year starting October 2008 we expect the increase in ARRs to be much lower compared with those of the past couple of years.

Revising estimates

We are revising downwards our earnings estimate for FY2009 and FY2010 to factor lower occupancies, lower ARRs, possible delays in commencement of new properties in India and delay in break-even of international properties under IHMS Inc.

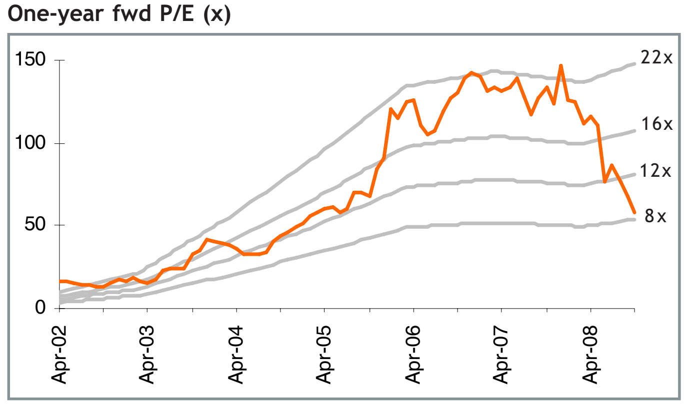
Revised estimates

Particulars	FY09E	FY10E
Stand-alone		
Revenues	1924.6	2267.4
% chg	*-3.7*	*-3.8*
Net profit	418.1	480.0
% chg	*-2.6*	*-11.0*
Consolidated		
Revenues	3105.9	3779.5
% chg	*-8.6*	*-7.7*
Net profit	449.0	559.9
% chg	*-7.9*	*-10.7*

Outlook and Valuation

We expect IHCL's properties in India and overseas to see pressure on the occupancies and the ARRs in the coming year. Hence the revenue and the earnings growth would be driven more by an increase in the room count. Thus even in these difficult times we expect IHCL to deliver revenue and net profit at a CAGR of 12% and 19.7% respectively, which is commendable. The company is adequately funded from the rights issue's proceeds to execute its capex plans. Trading at 8.0x FY2010E earnings, we believe IHCL being the largest and a growing hotelier in the country with global presence should create value in medium to long term. Also the chart below shows that the stock is trading well below its historical average PE band of 17.4x one-year forward. While we maintain our Buy recommendation on the stock we are cutting our price target on the stock to Rs107 reflecting the pruning of the estimates. Our price target discounts FY2010E EPS by 15x.

One-year fwd P/E (x)



Valuation table

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
Stand-alone					
Adj net profit (Rs cr)	181.2	322.4	377.5	418.1	480.0
Share in issue (cr)	58.4	60.3	60.3	72.3	78.4
EPS (Rs)	3.1	5.3	6.3	5.8	6.1
% y-o-y growth	*88*	*72*	*17*	*-8*	*6*
PER (x)	18.4	10.7	9.1	9.9	9.3
Book value (Rs)	29.4	29.1	33.1	42.7	55.2
P/BV (x)	1.9	2.0	1.7	1.3	1.0
EV/EBIDTA (x)	9.9	6.0	5.1	5.0	4.2
ROCE (%)	14.0	21.6	22.7	18.4	16.6
RONW (%)	10.6	17.9	18.5	13.3	11.0
Consolidated					
Adj net profit (Rs cr)	246.7	370.3	391.1	449.0	559.9
EPS (Rs)	4.2	6.1	6.5	6.2	7.1
% y-o-y growth	*68*	*45*	*6*	*-4*	*15*
PER (x)	13.5	9.3	8.8	9.2	8.0

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

Crompton Greaves

Apple Green

Stock Update

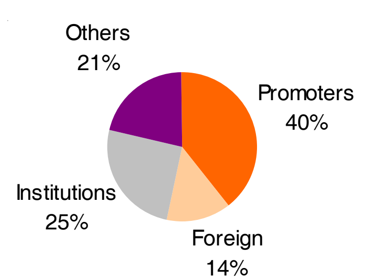
Price target revised to Rs271

Buy; CMP: Rs165

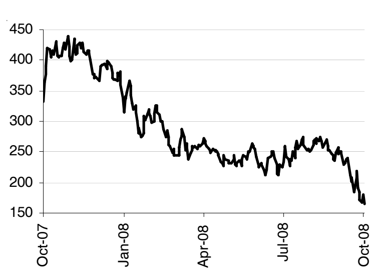
Company details

Price target:	Rs271
Market cap:	Rs6,047 cr
52 week high/low:	Rs452/164
NSE volume: (No of shares)	5.6 lakh
BSE code:	500093
NSE code:	CROMPGREAVE
Sharekhan code:	CROMPTON
Free float: (No of shares)	22.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-33.0	-26.7	-35.1	-48.6
Relative to Sensex	-12.0	-5.3	0.5	-16.7

Result highlights

- During Q2FY2009 Crompton Greaves Ltd's (CGL) consolidated income from operations grew by 32.5% to Rs2,098.4 crore led by a strong 51.5% top line growth of the subsidiaries. The operating profit margin (OPM) improved by 90 basis points while the net profit (post minority interest) grew by 32.1% to Rs120.1 crore.
- Looking at segmentals, the consolidated power systems division's sales have reported a strong 35% growth in the revenues while the earnings before interest and tax (EBIT) margin of the division improved by 120 basis points. The revenues of the consumer products (up 24.1% yoy) and the industrial systems (up 26.7% yoy) divisions too reported a decent growth. However the profit before interest and tax (PBIT) margin of the industrial systems division contracted mainly due to execution of lower margin orders.
- The order book of the company grew by 31% on a consolidated basis and stood at around Rs6,750 crore, up from Rs6,004 crore at the end of Q1FY2009. The current order book provides revenue visibility for the next 12 months.
- In the conference call, the management highlighted that the power systems division has not seen any drop in the order booking and inquires while the industrial systems division is witnessing a slowdown in the new order intake. On international front, the US and the Ireland markets are witnessing a slow down in the demand for distribution transformers due to collapse of housing markets.

Results table Rs (cr)

Particulars	Stand-alone			Consolidated		
	Q2FY09	Q2FY08	% yoy	Q2FY09	Q2FY08	% yoy
Net income from operations*	1089.6	917.6	18.7	2098.4	1583.6	32.5
Total expenditure	942.7	798.2	18.1	1860.9	1419.5	31.1
Operating profit	146.9	119.4	23.0	237.4	164.2	44.6
Other income	6.9	6.0	15.4	6.9	6.0	16.1
EBIDTA	153.7	125.3	22.7	244.4	170.1	43.6
Interest	3.9	6.0	-34.9	16.6	14.0	18.9
Depreciation	12.0	11.3	6.0	34.3	29.2	17.5
PBT	137.9	108.1	27.6	193.4	127.0	52.4
Tax	45.3	33.9	33.8	72.5	34.9	107.5
PAT	92.5	74.2	24.7	120.9	92.0	31.4
Extra-ordinary items	0.0	0.0		0.0	0.0	
Reported PAT	92.5	74.2	24.7	120.9	92.0	31.4
Minority interest	-	-	-	-0.8	-1.1	-25.5
PAT after minority interest	-	-	-	120.1	90.9	32.1
EPS	2.5	2.0		3.3	2.5	
Margins						
OPM (%)	13.5	13.0		11.3	10.4	
PATM (%)	8.5	8.1		5.8	5.8	

Net income from operations include net sales and other operating income, the financials of the previous year have been accordingly restated

- The capital expenditure (capex) of Rs200 crore (Rs100 crore for domestic business and Rs100 crore for international business) has been put on hold currently and any affect on the revenues from the cut in the capex would be visible only in FY2011.
- H1FY2009 results of CGL have been in line with our estimate, hence we maintain our full year estimate. CGL, which is one of the leading players in the power transmission and distribution (T&D) space in the country, would remain the prime beneficiary of the spending in the sector.
- We remain bullish on the stock and reiterate our Buy recommendation with a revised price target of Rs271. At the current market price the stock is attractively priced at 11.6x and 9.2x FY2009E and FY2010E earnings per share respectively.

Stand-alone results

Revenue growth in line with estimate

The net income from operations of the stand-alone entity came in at Rs1,089.6 crore (up 18.7% yoy) led by a 24.1% year-on-year (y-o-y) growth in the revenues of the consumer products division. The industrial systems division too reported a 23.1% growth in the revenues while the power systems division reported a slower 16.2% revenue growth.

Segmental results (stand-alone) Rs (cr)

Particulars	Q2FY2009	Q2FY2008	% growth
Revenue			
Power systems	534.8	460.1	16.2
Consumer products	313.8	252.8	24.1
Industrial systems	317.9	258.3	23.1
Others	12.6	27.0	-53.3
PBIT			
Power systems	61.4	49.1	25.0
Consumer products	42.2	31.6	33.4
Industrial systems	52.2	44.7	16.7
Other	-0.4	-1.5	-71.5
PBIT margin (%)			Chg (bps)
Power systems	11.5	10.7	80.0
Consumer products	13.4	12.5	94.0
Industrial systems	16.4	17.3	-90.0

Lower material cost aids margin improvement

The OPM during the period under review reported a 50-basis-point improvement on a y-o-y basis, led by a 190-basis-point decline in the raw material cost as a percentage of sales to 68% due to value engineering. The other expenses as a percentage of sales however went up by 200 basis points to 13.5%. The other expenses were up mainly on account of higher cost on exports and forex loss. Looking at segmentals, the margin improved by 80 basis points in the power systems business while the consumer products division improved its margin by 94 basis points. The margin of the industrial systems division contracted by 90 basis points as the company is adopting an aggressive order booking strategy, thereby accepting orders on relatively lower margins.

Cost analysis (stand-alone)

% of sales	Q2FY2009	Q2FY2008	Change (bps)
Material cost	68.0	69.9	-190
Staff cost	5.0	5.6	-60
Other expenses	13.5	11.5	200
Total cost	**86.5**	**87.0**	**-50**

Net profits up by 24.7%

The other income increased by 15.4% to Rs6.9 crore while the interest cost went down by Rs3.9 crore. Consequently, the net profit of the company grew by 24.7% to Rs92.5 crore against our estimate of Rs86.9 crore.

Consolidated results

Power systems division aids strong revenue growth

Led by strong performance of the subsidiaries coupled with positive exchange rate movement the power systems division reported a stupendous 35% growth in the revenues to Rs1,496.5 crore. For the first half, the exchange rate movement helped the sales to improve by an additional 15%. The net income from operations of the entity as a whole grew by 32.5% to Rs2,098.4 crore. The subsidiaries reported a 51.5% growth in the net operating income.

Segmental results (consolidated) Rs (cr)

Particulars	Q2FY2009	Q2FY2008	% growth
Revenue			
Power systems	1496.5	1108.4	35.0
Consumer products	313.8	252.8	24.1
Industrial systems	342.1	269.9	26.7
Others	33.4	38.3	-12.7
PBIT			
Power systems	133.9	85.0	57.5
Consumer products	32.1	26.7	20.5
Industrial systems	53.6	46.6	14.8
Other	4.1	-1.9	-
PBIT margin (%)			Chg (bps)
Power systems	8.9	7.7	120.0
Consumer products	10.2	10.6	-31.0
Industrial systems	15.7	17.3	-162.0

Significant margin improvement

The operating profit during the quarter under review grew by 44.6% to Rs237.4 crore resulting in a 90-basis-point improvement in the OPM. The OPM improved mainly on account of a 120-basis-point improvement in the profit before interest and tax (PBIT) margin of the power systems division. The PBIT margin of the consumer products and industrial systems divisions declined by 31 basis points and 162 basis points respectively. The other expenses as a percentage of sales increased by 156 basis points mainly on account of forex loss and higher expenses on exports. The subsidiaries reported an OPM of 9%, an improvement of 230 basis points on a y-o-y basis, which was due to good performance by Ganz at the operating level.

Cost analysis (consolidated)

% of sales	Q2FY2009	Q2FY2008	Change (bps)
Material cost	63.3	65.6	-227
Staff cost	12.0	12.3	-23
Other expenses	13.3	11.7	156
Total cost	**88.7**	**89.6**	**-94**

Net profit in line with estimate

The other income grew by 16.1% to Rs6.9 crore. The interest cost and the depreciation charge was up 18.9% and 17.5% respectively. Consequently, the net profit grew by 32.1% to Rs120.1 crore, led by a strong revenue growth and an improvement in the OPM of the company. The profit growth was in line with our estimate of Rs123.7 crore.

The subsidiaries reported a 65% increase in the net profit, however there is a sharp increase in the effective tax rate that went up to 48.9% from 5.5% in Q2FY2008.

Business outlook

During H1FY2009, CGL witnessed a 31% increase in the order book taking it close to Rs6,750 crore. The aforesaid order book makes CGL well placed for the next 12 months' revenues. In the conference call the management remained cautious about the future. The key takeaways of the conference call are as below:

- The company has maintained its guidance of 18-20% growth in the consolidated revenues.
- The domestic power systems business has not shown any sign of slowdown in both the new orders and inquiries.
- The consumer products division may see some moderation in the demand given the uncertainty of the macros, however clearer sign may only be visible after the festive season.
- The industrial systems division has shown signs of slower inquiries, typically for the business derived out of the new capex spending by the company. Currently the company derives 50% of the revenues from the requirement of products by the clients taking up the new capex.
- The US and Ireland markets are witnessing a drying demand for the distribution transformers against the backdrop of lull in the housing market in the respective geographies. Out of the total revenues derived from these regions 55% of the revenues come from distribution transformers.
- The company had embarked Rs200 crore for capex (Rs100 crore for domestic business and Rs100 crore for overseas business). The same has been put on hold for time being and would not have any impact on the revenues of FY2009 and FY2010.

Valuation—Maintain Buy

CGL is a leading player providing equipment and services for power T&D space. The company with its international subsidiaries has emerged as an integrated player in the business. The near-term business scenario is uncertain however its current order book provides visibility for the revenues of the next 12 months. In spite of the reduction in the profitability margin of the industrial systems division the company remains confident of maintaining its consolidated margins through value engineering.

During H1FY2009 the company has delivered good performance, which has been in line with our expectation. We are maintaining our full-year estimates and our Buy recommendation on the stock with a revised price target of Rs271.

We believe at the current market price the stock is attractively priced as it discounts its FY2009 and FY2010 estimates EPS by 11.6x and 9.2x respectively.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs cr)	4,131.4	5,639.6	6,832.3	8,315.3	9,995.9
Net profit* (Rs cr)	228.9	281.9	405.0	520.0	659.5
EPS (Rs)	8.7	7.7	11.1	14.2	18.0
% yoy change		-	*43.7*	*28.4*	*26.8*
PER (x)	18.9	21.4	14.9	11.6	9.2
P/B (x)	5.5	6.2	4.6	3.4	2.6
EV/EBIDTA (x)	12.2	13.8	8.8	7.1	5.5
RoCE (%)	32.2	31.6	33.8	34.9	35.6
RoNW (%)	29.5	29.6	31.5	29.8	28.2

*Post-minority interest

Marico

Apple Green

Stock Update

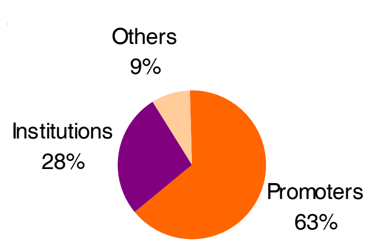
Results ahead of expectations

Buy; CMP: Rs53

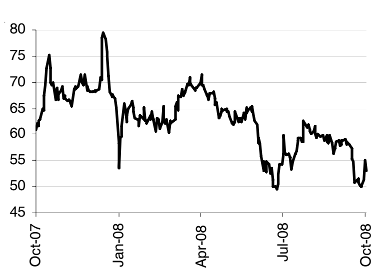
Company details

Price target:	Rs77
Market cap:	Rs3,228 cr
52 week high/low:	Rs83/46
NSE volume: (No of shares)	1.9 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	22.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.9	-5.4	-25.5	-14.0
Relative to Sensex	14.4	22.2	15.4	39.6

Result highlights

- The Q2FY2009 results of Marico are ahead of our expectation. The company's net sales grew by a robust 30.1% year on year (yoy) to Rs603.9 crore during the quarter against our expectation of Rs574.5 crore. The hefty growth in the top line was achieved on account of a 11% volume growth, a 3% inorganic growth and a price-led growth of 16% yoy.
- Despite the inflationary pressure, the company has achieved a decent volume growth of 11% yoy, backed by strong performance by some of its focus brands. *Parachute*, Marico's flagship brand, achieved a healthy volume growth of 12% yoy, while *Saffola*'s volume growth moderated to 9% during the quarter. The hair oil portfolio continued its strong performance with the overall volume growth of 14% yoy in Q2FY2009.
- The cost of some of the key inputs such as copra, sunflower oil, safflower, corn oil and rice bran oil rose by 30.0%, 20.0%, 50.0%, 10.0% and 25.0% yoy respectively during the period. Consequently the raw material cost as a percentage of sales increased by 267 basis points to 54.3% in Q2FY2009.
- The staff cost increased by 51.1% yoy (on account of consolidation of the South African business, which was not there in the previous year and due to an increase in the staff count for eight new Kaya clinics). However the advertising and selling expenditure as a percentage declined by 402 basis points to 9.0% on account of lack of any new product launch during the quarter. This led to a just 60-basis-point year-on-year (y-o-y) decline in the operating profit margin (OPM) to 13.4% during the quarter.
- The price increases affected across the brands during the last 12 months also prevented a steeper decline in the OPM. This coupled with outstanding top line growth led to a healthy 25.0% growth in the operating profit to Rs80.9 crore in Q2FY2009. Consequently the adjusted net profit increased by 25.3% to Rs52.9 crore, ahead of our expectation of Rs47.5 crore for the quarter.

Result table (consolidated) Rs (cr)

Particulars	Q2FY09	Q2FY08	% yoy	H1FY09	H1FY08	% yoy
Net sales	603.5	463.8	30.1	1204.4	932.9	29.1
Expenditure	522.6	399.1	31.0	1047.9	802.2	30.6
Operating profit	80.9	64.7	25.0	156.6	130.7	19.8
Interest	8.7	6.5	33.5	16.7	13.6	22.7
Depreciation	8.2	6.4	27.6	15.6	12.2	28.3
PBT	65.3	52.3	24.7	126.5	106.2	19.1
Tax	12.3	10.1	22.1	27.2	23.7	14.8
Adjusted PAT	52.9	42.2	25.3	99.3	82.5	20.4
Extraordinary items	5.8	0.0	-	5.8	0.0	-
Reported PAT	47.1	42.2	11.6	93.4	82.5	13.3
EPS	0.9	0.7	25.3	1.53	1.35	13.3
OPM (%)	13.4	14.0	(60) bps	13.0	14.0	(100) bps

- During Q2FY2009 the company witnessed a marked-to-market (MTM) loss of Rs7 crore (post-tax Rs5.8 crore) on account of a steep depreciation in the rupee. This has resulted into a 11.6% y-o-y growth in the reported net profit to Rs47.1 crore.
- We expect the prices of key raw materials used by Marico to soften in the coming quarters, which would help the company to post better margins. Marico has maintained strong volume growth across product categories even in the current inflationary scenario, which has exceeded our expectation. However the company guides for a cautious outlook as far as its rate of growth is concerned considering the inflationary pressures.
- We expect Marico's revenue and profit to grow at a compounded annual growth rate (CAGR) of 20.3% and 20.8% respectively over FY2008-10. At the current market price, the stock trades at 17.2x and 13.8x its FY2009E earnings of Rs3.0 and FY2010E earnings of Rs3.8 respectively. We maintain our Buy recommendation on the stock with a price target of Rs77.

Price hikes coupled with decent volumes led to hefty top line growth

Marico registered a hefty top line growth of 30.1% yoy to Rs603.9 crore, backed by a decent volume growth of 11%, an inorganic growth of 3% and a price-led growth of 16% yoy. Though the prices of key raw material have softened a bit in the recent times, they were higher on a y-o-y basis. Consequently the raw material cost as a percentage of sales increased by 267 basis points to 54.3% in Q2FY2009. The staff cost increased by 51.1% yoy on account of consolidation of the South African business, which was not there in the previous year and due to an increase in the staff count for eight new Kaya clinics. However a 402-basis-point decline in the advertisement and selling expenditure coupled with price increases affected across the brands during the last 12 months prevented a steeper decline in the OPM. Thus the OPM contracted by just 60 basis points yoy to 13.4%. A hefty increase in the top line led to a robust 25.0% growth in the operating profit to Rs80.9 crore in Q2FY2009 and a consequential increase of 25.3% yoy in the adjusted net profit to Rs52.9 crore.

For H1FY2009, the company's top line grew by a robust 29.1% to Rs1,203.4 crore on account of steady volumes and price hikes across the product portfolio. The raw material cost as a percentage of sales increased by 215 basis points to 54.0%, which led to a 100-basis-point y-o-y dip in the OPM to 13.0% in H1FY2009. A hefty increase in the top line reflected into a 19.8% growth in the operating profit to Rs156.6 crore and a 20.4% growth in the adjusted net profit to Rs99.3 crore.

Consumer product business

- ***Coconut oil:*** *Parachute*, Marico's flagship brand, achieved a healthy volume growth of 12% yoy in Q2FY2009. Copra prices continuing its upward trend increased by 6.5% during the quarter (increased by 30% on a y-o-y basis) enforcing Marico to implement another price hike of 5% during Q2FY2009. Thus the weighted average price increase effective for FY2009 is 7.5%. The price increase has thus provided some cushion to the margin.

  Nihar registered a steady performance with a 10% y-o-y volume growth in rigid packs during the quarter. Together with *Nihar*, Marico continues to dominate the coconut oil market in India with a 55% market share (*Parachute* and *Nihar* has market share of 48% and 6% respectively).
- ***Edible oil:*** In the backdrop of inflationary scenario, *Saffola*'s volume growth moderated to 9% during the quarter. This look subdued when compared with Q1FY2009, which saw a 28% y-o-y volume growth. However with the softening in the prices of the key edible oils and to prevent downgrading of consumers to lesser brands, the company has taken corrective measures by implementing price-off of around 10% on *Saffola Tasty* and *Saffola Active*. We expect *Saffola*'s volume growth to improve from this level in the coming quarters.
- ***Hair oil portfolio:*** Marico's hair oil portfolio (including *Parachute Jasmine*, *Nihar Perfumed* hair oils, *Hair & Care* and *Shanti Badam Amla*) achieved a steady volume growth of 14% during the quarter and the market share improved to 20.4%. Q2FY2009 is marked with the launch of *Hair & Care Almond Gold*, which helped *Hair & Care* brand of non-sticky hair oils to register a robust 23% volume growth. *Shanti Badam Amla* also posted a strong performance during the quarter by registering a volume growth of 25% during the quarter.
- *Parachute Advansed* hair cream and hair gel, which has a share of 21% in the Rs100-crore hair creams and gels markets in India, registered a robust volume growth of 13% yoy during the quarter.

International business

Marico's international business registered a hefty growth of 59% yoy (part of the growth is attributed to Enaleni's acquisition made in Q3FY2008) during the quarter. Thus excluding the South Africa's contribution, the international business grew by 41% yoy during the quarter backed by a decent volume growth and price hikes across geographies. Inflationary pressure was not a constraint in the domestic market alone, International markets such as those of Bangladesh and South Africa were also affected by rising inflation. This necessitated Marico to take price hikes in the international markets too.

In Bangladesh, *Parachute* continued its strong performance and its market share went up to 70% in Q2FY2009. However the revenues from the Egyptian business were flat yoy, as the economy witnessed heavy inflation. Also the profitability of the business has seen a decline. However the management expects profitability to improve as it is rationalising the distribution aspect of the business.

Kaya

Marico is banking on its aggressive growth plan in the beauty and wellness segment and has opened eight new Kaya clinics in Q2FY2009, taking the total number of clinics to 77 (67 in India and 10 in the Middle East). During Q2FY2009, Kaya achieved a robust growth of 67% yoy to Rs40 crore. The clinics, which were operational in Q2FY2008, achieved a like-to-like growth of 26% yoy during the quarter. Product sales comprise about 12% of Kaya's revenues. We expect the company to add five more clinics in the second half taking the total number of clinics to 17 for FY2009.

Outlook and valuation

We expect softening of prices of key raw materials used by Marico in the coming quarters, which would help the company to post better margins. Marico has maintained strong volume growth across product categories even in the current inflationary scenario, which has exceeded our expectations. However the company guides for a cautious outlook as far as its rate of growth is concerned considering the inflationary pressures.

We expect Marico's revenue and profit to grow at a CAGR of 20.3% and 20.8% respectively over FY2008-10. At the current market price, the stock trades at 17.2x and 13.8x its FY2009E earnings of Rs3.0 and FY2010E earnings of Rs3.8 respectively. We maintain our Buy recommendation on the stock with a price target of Rs77.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs cr)	86.3	102.0	166.0	187.5	234.4
Share in issue (cr)	58.0	60.9	60.9	60.9	60.9
EPS (Rs)	1.5	1.7	2.6	3.1	3.8
% yoy growth		*12.7*	*57.3*	*16.8*	*25.0*
PER (x)	35.7	31.7	20.1	17.2	13.8
Book value (Rs)	4.5	3.2	5.2	8.2	12.1
P/BV (x)	11.9	16.8	10.3	6.4	4.4
EV/EBIDTA (x)	24.5	17.8	14.3	11.3	9.1
RoCE (%)	26.1	32.9	39.8	34.9	33.9
RoNW (%)	36.3	45.1	63.3	45.9	37.8

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

Ratnamani Metals and Tubes

Ugly Duckling

Stock Update

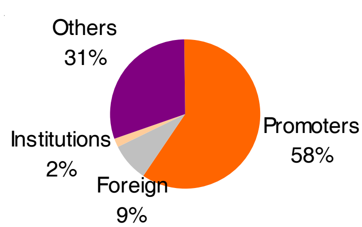
Price target revised to Rs694

Buy; CMP: Rs361

Company details

Price target:	Rs694
Market cap:	Rs325 cr
52 week high/low:	Rs1495/625
NSE volume: (No of shares)	3,516
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float: (No of shares)	0.4 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-46.3	-45.9	-55.5	-62.0
Relative to Sensex	-29.5	-30.0	-31.0	-38.3

Result highlights

- Ratnamani Metals & Tubes Ltd (RMTL) has reported a 21.4% growth in the sales to Rs253.9 crore in Q2FY2009 led by a strong 62.2% growth in the revenues of the carbon steel pipes business.
- RMTL has restated its accounts for Q2FY2008 and has also made a marked-to-market provision of Rs3.5 crore on its current foreign transactions. Adjusting for the same the operating profit of the company grew by 11.8% to Rs50.1 crore. The operating profit margin (OPM) declined by 180 basis points year on year (yoy) to 19.7%. The decline in the margin was primarily due to change in the product mix and higher raw material cost. The raw material cost as a percentage of sales increased by 155 basis points yoy to 67.2%.
- On segmental basis, the stainless steel (SS) pipe division reported an increase of 9.5% in the revenues led by a 19.1% growth in the volumes. The carbon steel (CS) pipe division's sales were up by 62.2% to Rs114.9 crore while the volumes grew by 56.4%.
- The interest cost declined by 17.7% to Rs4.5 crore while the depreciation charge rose by 9.4%. During the quarter the effective tax rate was high at 36.4%.
- Consequently, after adjusting for the foreign exchange (forex) loss the net profit of the company reported an increase of 12.8% to Rs25.8 crore. The net profit was below our estimates mainly due to a lower-than-expected operating performance and a higher tax rate. The reported profit after tax (PAT) declined by 12.5% to Rs23.4 crore.
- The order book of the company stands at Rs539 crore. Apart from these orders the company also has a Rs200-crore-worth contract for manufacturing 40,0000 metric tonne (MT) of helical submerged arc welded (HSAW) pipes. That said, we

Results table Rs (cr)

Particulars	Q2FY09	Q2FY08	% yoy	H1FY09	H1FY08	% yoy
Net sales	253.9	209.1	21.4	503.5	399.1	26.2
Total expenditure	203.7	164.2	24.0	397.0	308.8	28.6
Operating profit	50.1	44.9	11.8	106.5	90.3	18.0
Other income	1.1	0.0	-	1.4	0.0	-
EBIDTA	51.3	44.9	14.3	107.9	90.3	19.5
Interest	4.5	5.4	-17.7	8.1	10.6	-23.6
Depreciation	6.5	5.9	9.4	12.9	11.3	14.8
PBT	40.3	33.5	20.3	86.9	68.5	26.9
Tax	14.6	10.7	36.4	30.5	23.0	32.2
PAT	25.8	22.8	12.8	56.4	45.4	24.1
Extra-ordinary items	-2.3	4.0	-	-7.5	4.0	-
Reported PAT	23.5	26.8	-12.5	48.9	49.4	-1.0
Margins						
OPM (%)	19.7	21.5		21.2	22.6	
PATM (%)	10.1	10.9		11.2	11.4	

see any slowdown in the refinery space as a key risk to the order inflow going forward.

- We have revised our earnings estimates for the company to factor in the softening of the key metal inputs (steel, nickel etc), which in turn will lower the realisations. Consequently we have revised our estimates downwards by 7.7% for FY2009 and 10.8% for FY2010. Our revised fully diluted earnings per share (EPS) for FY2009E now stands at Rs116.5 per share and that for FY2010 stands at Rs135.8.
- At the current market price the stock is trading at attractive valuations of 3.1x and 2.7x FY2009 and FY2010 fully diluted EPS respectively. We continue to recommend Buy on the stock with a price target of Rs694 valuing the stock at 5.5x one-year forward earnings.

Financial review

CS pipes contribute 42% to the top line

During Q2FY2009 the revenues of RMTL grew by 21.4% to Rs253.9 crore, marginally lower than our estimate. The CS pipe division contributed 42% to the top line. Overall the volumes grew by 39.1%.

Operating performance

RMTL has restated its financial accounts and has also reported a forex loss of Rs3.5 crore. Adjusting for the same the operating profit of the company grew by 11.8% to Rs50.1 crore, implying an OPM of 19.7%. The OPM has contracted by 170 basis points on a year-on-year (y-o-y) basis mainly on account of change in the product mix. The carbon steel prices have continued to remain high, resulting in an increase of 155 basis points in the raw material cost as a percentage of sales to 67.2%. The staff cost as a percentage of sales also increased by 102 basis points to 4.3%.

Cost analysis

As a % of sales	Q2FY09	Q2FY08	Change (bps)
Raw material cost	67.2	65.6	155
Staff cost	4.3	3.3	102
Other expenses	8.8	9.7	-87
Total cost	80.3%	78.5%	170

Net profit

The interest cost declined by 17.7% to Rs4.5 crore while the depreciation charge rose by 9.4% to Rs6.5 crore. For Q2FY2009, the effective tax rate was higher at 36.4%. Consequently the adjusted net profit grew by 12.8% to Rs25.8 crore, below our estimate on account of a lower-than-expected operating performance and a higher tax rate.

Segmental analysis

SS pipes

The SS pipe division reported a 9.5% increase in the net sales to Rs137.4 crore. The growth in the sales was mainly due to a 19.1% increase in the volumes of the division. The realisation declined by 8% on a y-o-y basis.

CS pipes

The revenues of the CS pipe division were up by 62.2% to Rs114.9 crore. The division reported a strong growth led by a robust 56.4% growth in the volumes while the realisation went up by 3.7% on a y-o-y basis.

Segmental analysis

Particulars	Q2FY09	Q2FY08	% yoy chg
Stainless steel tubes & pipes			
Sales (Rs crore)	137.39	125.45	9.5
Volume (Mt tonne)	3267	2744	19.1
Carbon steel tubes & pipes			
Sales (Rs crore)	114.97	70.9	62.2
Volume (Mt tonne)	18507	11830	56.4

Order book

The order book of RMTL stood at Rs539 crore at the end of the quarter. Of the total orders, the stainless steel tubes and pipes division accounted for Rs298-crore-worth of orders whereas the carbon steel tubes and pipes division's share stood at Rs241 crore. The domestic orders were to the tune of Rs412 crore while exports and deemed exports orders were worth Rs127 crore, with the majority being physical exports. The company continues to carry 40,000 million tonne of HSAW pipes for conversion with a production value of Rs200 crore.

Capacity addition

RMTL has brought on stream an additional 50,000 tonne per annum (tpa) capacity of HSAW pipe during September 2008 while another 50,000tpa capacity would come on stream by the end of FY2009. During Q2FY2009, the company has also brought on stream a 3,000 metric tonne per annum (mtpa) capacity in the SS pipes division along with a pipe coating line. Further, the company now plans to add another 3,000mtpa capacity to the existing capacity of SS tubes division, which would be used in the power plants. The company plans to add this capacity at its existing facility in Chattraland and the same is expected to come on stream only at the beginning of FY2011.

Valuation and view—Downgrade earnings by 7-11%

The prices of key inputs for RMTL like HR coil and nickel have seen a sharp correction recently. Consequently we expect the realisations for RMTL to witness pressure from Q4FY2009 onwards as the company starts booking newer orders, which would be at lower realisations. To factor in the same we have revised our estimates for both FY2009 and FY2010 by 7.7% and 10.8% respectively. Subsequently, our fully diluted EPS for FY2009 and FY2010 stands at Rs116.5 and Rs135.8 per share respectively.

We maintain our bullish stance on the prospects of the company. However, we highlight that any slow down in the refinery sector is a downside risk to the order inflows going forward. We continue to recommend a Buy on the stock with a revised price target of Rs694 valuing the stock at 5.5x one-year forward earnings.

At the current market price the stock trades at 3.1x and 2.7x FY2009E and FY2010E fully diluted EPS. On the enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) basis the stock is available at 3.8x and 3.2x FY2009 and FY2010 estimates respectively.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs cr)	319.1	571.2	845.1	1060.7	1265.5
Net profit (Rs cr)	33.5	53.8	90.0	112.7	134.4
Shares in issue (cr)	0.90	0.90	0.90	0.97	0.99
EPS (Rs)	37.3	59.8	100.0	116.5	135.8
% y-o-y change	*153.1*	*60.5*	*67.2*	*16.5*	*16.5*
PER (x)	9.7	6.0	3.6	3.1	2.7
Book value (Rs)	90.7	156.2	248.0	390.3	515.9
P/BV (x)	4.0	2.3	1.5	0.9	0.7
EV/EBIDTA (x)	12.5	7.4	4.6	3.8	3.2
EV/Sales (x)	2.5	1.5	1.0	0.8	0.6
Dividend yield (%)	0.8	0.6	0.9	0.9	0.9
RoCE (%)	38.7	39.7	44.1	43.0	39.5
RoNW (%)	50.7	48.4	49.5	37.5	30.3

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

Infrastructure Development Finance Company

Viewpoint

Results above expectations

CMP: Rs58

Result highlights

- The Q2FY2009 results of Infrastructure Development Finance Company (IDFC) were above street expectations. The net interest income for the quarter came in at Rs417.8 crore indicating a strong 28% year-on-year growth, while the net profit stood at Rs232.3 crore, 20% higher compared with Rs194.5 crore during the year-ago period.
- Despite a strong growth in the net interest income, higher operating expenses marred the bottom-line growth. The operating expenses increased by 80% year on year (yoy) due to the consolidation of the asset management business of Standard Chartered, on account of which the cost to income ratio spiked up to 21% (vs 15% during the year-ago period).
- The non-interest income increased by a robust 72% yoy to Rs220 crore in Q2FY2009 as compared with Rs128 crore in Q2FY2008. This primarily stemmed from a significant increase in the asset management fees, as the company managed to close two private equity funds during the quarter.
- The company reduced its leverage to 4.9x in Q2FY2009 as compared with 5.2x in Q1FY2009.
- The gross approvals declined by 12% yoy to Rs7,420 crore, while the gross disbursements decreased by 7% yoy to Rs4,663 crore during the quarter.

Asset management fees increase multifold

During the quarter the asset management fees increased multifold as the company achieved closure of two private equity funds. The closure of these funds led to an accrual of asset management fees from these funds, which have been booked by the company during the quarter under review. Besides this the assets under management for IDFC Mutual Fund has also increased to $2.26 billion, which has lent support in increasing the asset management fees. IDFC is in the process of closing its project equity fund in which it has been able to raise ~$0.87 billion till date.

Non-interest income break-up Rs (cr)

Particulars	Q2 FY09	Q2 FY08	% yoy	H1 FY09	H1 FY08	% yoy
Principal investment	89	49	82	153	127	20
Asset management	60	13		77	26	
Investment banking	37	41	-10	73	91	-20
Loan related & other fees	33	26	27	79	49	61
Total non-interest income	**220**	**128**	**72**	**382**	**293**	**30**

Results table Rs (cr)

Particulars	Q2FY09	Q2FY08	% yoy	H1FY09	H1FY08	% yoy
Income from operations	939.7	655.1	43.4	1,808.3	1,264.7	43.0
Interest & other charges	521.9	330.6	57.9	1,008.6	641.7	57.2
Net interest income	417.8	324.5	28.7	799.7	623.0	28.4
Expenditure						
Employees cost	48.8	34.4	41.9	95.6	69.2	38.2
Other expenditure	38.3	14.2	169.9	63.5	28.0	126.8
Total expenditure	87.1	48.6	79.3	159.1	97.2	63.7
Operating profit	330.6	275.9	19.8	640.6	525.8	21.8
Other income	6.8	1.6	318.3	8.7	1.7	411.7
Total income	337.4	277.5	21.6	649.3	527.5	23.1
Depreciation	5.8	1.3	355.3	10.7	2.5	336.4
Pre provisioning profit	331.7	276.2	20.1	638.6	525.0	21.6
Provisions & contingencies	14.8	16.4	-10.0	34.7	22.8	52.4
Profit before tax	316.9	259.8	22.0	604.0	502.3	20.2
Tax	83.3	62.1	34.1	151.8	120.3	26.2
Profit after tax	233.6	197.7	18.2	452.2	382.0	18.4
Share of profit of associates & minority interest	-1.3	-3.2	-59.0	-3.2	-6.5	-50.7
Net profit	232.3	194.5	19.4	449.0	375.5	19.6

AUM break-up Rs (cr)

Fund name	AUM
IDFC Private Equity	6,118
Fund I	844
Fund II	1,988
Fund III	3,286
IDFC Project Equity	3,589
IDFC Investment Advisors	106
IDFC Mutual Fund	10,646
TOTAL	**20,459**

Loans against shares portfolio pose threat

Currently the loans against shares contribute 11% (over Rs2,200 crore) to IDFC's total outstanding disbursements. The loan to value on this portfolio roughly stands at two times. The company has received top-ups on accounts where there has been a margin shortfall and the management is confident of recovering dues from such accounts. However, the current volatile market condition raises concerns over recoveries from this part of loan portfolio.

Issue over capital adequacy remains

The capital adequacy ratio of IDFC currently stands at 22% with 18.9% tier I capital adequacy. Some credit rating agencies have raised concerns over IDFC's capital adequacy and have demanded the company to shore up its tier I capital base looking at the uncertain macro-economic conditions. However, the management has clarified that they currently do not have any capital raising plans and would do so as and when required.

Outlook and valuation

IDFC has a diversified business model with presence in infrastructure financing as well as financial services space. There has been a decline in the approvals as well as disbursements during the quarter, which partially stemmed from the moderation in demand and partially from the management's focus on preserving the capital considering the current turmoil in the credit market. The management's key focus remains on maintaining the profitability and not asset growth. Besides this, concerns over its capital adequacy and uncertainty over income from capital market related businesses raises risk of earnings visibility from that segment. At the current market price of Rs58, the stock currently trades at 7.1x its FY2010 consensus estimated earnings per share of Rs8.2 and 1.0x its FY2010 consensus estimated book value of Rs56.7.

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 Auto
Bajaj Finserv
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
Glenmark Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
Sintex Industries
State Bank of India
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
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
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