Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
ACC	10-Aug-04	260	**1,003**	1,210
Balaji Tele	9-July-07	231	**248**	303
HUL	24-Nov-05	172	**205**	280
Maruti	23-Dec-03	360	**850**	921
SBI	19-Dec-03	476	**1,636**	1,780

Sharekhan Ltd
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

ORG Informatics

Emerging Star

Stock Update

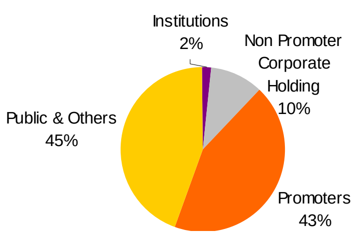
In line with expectations

Buy; CMP: Rs109

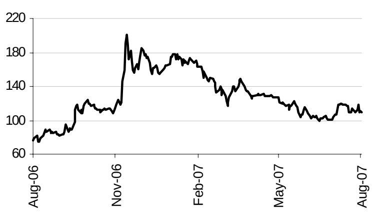
Company details

Price target:	Rs184
Market cap:	Rs14.6 cr
52 week high/low:	Rs209/73
BSE volume: (No of shares)	81,398
BSE code:	517195
Sharekhan code:	SARAELE
Free float: (No of shares)	83 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.6	-12.9	-32.2	47.5
Relative to Sensex	7.2	-19.8	-35.4	5.7

Result highlights

- ORG Informatics' performance was in line with expectations during Q1FY2008. Its consolidated revenues grew by 76% to Rs84.3 crore largely driven by 89.3% increase in the revenues from the telecom segment.
- The operating profit margin (OPM) during the quarter stood at 9.5%, which is slightly higher than 9.4% in Q1FY2007 but significantly higher than 1.3% reported in Q4FY2007. The low OPM in Q4FY2007 was an aberration resulting from the cumulative impact of high contribution from the low-margin hardware supply part of the Mahanagar Telephone Nigam Ltd (MTNL) order, restructuring cost related to recent acquisitions and one-time write-off and provisions for debt. Consequently, the operating profit grew by 77.7% to Rs8 crore in Q1FY2008.
- The consolidated earnings of the company during the quarter grew at a relatively slower rate of 60.1% to Rs4.1 crore due to the increase in the interest outgo, higher depreciation charge and higher effective tax rate.
- In terms of the outlook, the management expects to maintain the growth momentum on the back of a healthy order pipeline and the margins in the 9-10% range. It has a pending order backlog of over Rs400 crore as in June 2007. Moreover, the company would continue to actively scout for inorganic opportunities and has given the mandate to Standard Chartered Bank for its proposed foreign currency convertible bond (FCCB) issue to raise $20 million to fund its inorganic initiatives.
- At the current market price the stock trades at 10.6x FY2007 and 7.7x FY2008 estimated earnings (on a diluted equity base of Rs17.1 crore). We maintain our Buy call on the stock with a price target of Rs184 (13x FY2008 earnings).

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	84.3	47.9	76.0
Total expenditure	76.2	43.4	75.9
Operating profit	8.0	4.5	77.7
Other income	0.8	0.5	57.1
Interest	1.2	0.4	168.6
Depreciation	1.2	0.7	85.1
PBT	6.4	3.9	63.6
Tax	2.0	1.2	73.9
Deferred tax	0.2	0.2	-
RPAT	4.1	2.6	60.1
Extra-ordinary Items	0.0	0.0	-
Net profit	**4.1**	**2.6**	**60.1**
Equity	17.1	11.7	
EPS	2.4	2.2	
Margins (%)			
OPM	9.5	9.4	
NPM	4.9	5.4	

Margins back to normalised levels

As indicated in the note post-Q4FY2007 results, the sharp decline in the OPM to 1.3% in Q1FY2007 was a blip and driven by the clubbing of the hardware supplies (which had low or negative margins) for the MTNL order and the provision of Rs1.3 crore related to inventory bad debts.

In Q1FY2008, the OPM jumped back to the normailsed rate of 9.5% and the management expects to maintain the margins in a band of 9-10% in the current fiscal.

Order backlog provides growth visibility

The company expects to maintain its growth momentum on the back of a robust order book position and incremental revenues from the recent acquisitions. It currently has an order backlog of over Rs400 crore, which provides a strong growth visibility for the current year.

Valuation

We have maintained our earnings estimate for FY2008 and introduced the FY2009 estimates in this note. At the current market price the stock trades at 10.6x FY2007 earnings and 7.7x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs184.

Consolidated financials

Year ended 31st March	FY06	FY07	FY08E	FY09E
Net sales	155.2	306.6	426.2	490.1
Net profit (Rs cr)	8.1	17.3	24.1	27.3
No. of shares (crs)	1.4	1.7	1.7	1.7
EPS (Rs)	5.9	10.2	14.1	16.0
% y-o-y chg	*146.2*	*71.6*	*38.9*	*13.6*
PER (x)	18.4	10.6	7.7	6.8
Price/BV (x)	4.9	1.8	1.4	1.2
EV/EBIDTA(x)	9.5	6.5	4.2	3.4
RoCE (%)	37.5	36.7	30.9	30.2
RoNW (%)	43.2	27.6	20.5	18.6

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

JK Cement

Cannonball

Stock Update

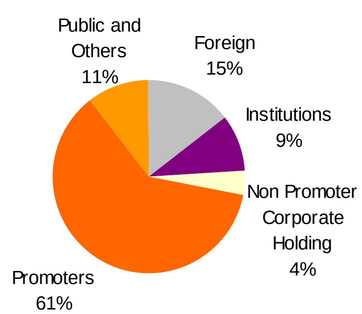
In line with expectations

Buy; CMP: Rs161

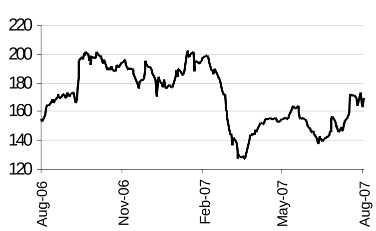
Company details

Price target:	Rs200
Market cap:	Rs1,163.84 cr
52 week high/low:	Rs231/125
NSE volume: (No of shares)	67,843
BSE code:	532644
NSE code:	JKCEMENT
Sharekhan code:	JKCEMENT
Free float: (No of shares)	2.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	6.7	-17.7	4.7
Relative to Sensex	4.0	-1.7	-21.5	-25.0

Result highlights

- JK Cement's top line in Q1FY2008 grew by 17% year on year (yoy) to Rs326 crore on the back of a 25% growth in realisations to Rs3,564 per tonne. The volumes , however, declined by 7% yoy to 915,820 tonne as the grey cement plant remained shut for 20 days for maintenance.
- On the costs front, the fixed costs increased by 33% yoy on the back of a 25% rise in employee costs and 38% yoy surge in the operating expenditure. The variable cost per tonne, which increased marginally by 3% yoy to Rs1,770 per tonne during the quarter, along with the drop in volumes resulted in the overall operating expenditure growing slower by 8% yoy to Rs229 crore.
- On the back of a higher realisation growth during the quarter, the operating profit jumped by 47% yoy to Rs96.5 crore whereas the operating profit margin (OPM) improved by 610 basis points to 29.6%. The higher realisations and flat variable cost structure caused earnings before interest, tax, depreciation and amortisation (EBITDA) per tonne expanding to Rs1,051 per tonne during the quarter from Rs280 per tonne in the corresponding quarter last year.
- The interest cost increased by 11% yoy to Rs9.1 crore due to the higher interest rates, whereas the depreciation provision increased by 11% yoy to Rs9.1 crore.
- Thanks to the excellent performance at the operating level, the net profit grew by 59% yoy to Rs52.5 crore.
- The company's 20 mega watt (MW) pet coke power plant commenced its trial production in July 2007 and will be fully operational from August 2007. The 10MW turbine will get commissioned by August 2007, whereas the 13.5MW waste heat recovery plant will get commissioned in two phases from September to December 2007.

Result table Rs (cr)

Particulars	Q1FY08	Q1FY07	% yoy chg	Q4FY07	% yoy chg
Net sales	326.4	279.5	17	366.6	-11.0
Total expenditure	229.9	213.8	8	254.9	-9.8
- Raw material consumed	29.2	29.3	0	32.8	-11.0
- Stock adjustment	2.0	-3.3	-161	-0.8	-350.0
- Stores	23.9	22.1	8	20.6	16.0
- Employee expenses	15.2	12.2	25%	12.3	23.6
- Power, oil & fuel	72.4	73.6	-2	85.5	-15.3
- Freight	58.5	59.1	-1	73.4	-20.3
- Other expenses	28.7	20.8	38	31.1	-7.7
- Operating profits	96.5	65.7	47	111.7	-13.6
- Other income	1.6	0.7	129	3.4	-52.9
EBIDTA	98.1	66.4	48	115.1	-14.8
- Interest	9.1	8.2	11	9.2	-1.1
PBDT	89.0	58.2	53	105.9	-16.0
- Depreciation	9.1	8.2	11	8.70	4.6
PBT	79.9	50.0	60	97.2	-17.8
- Tax	27.4	17.0	61	35.8	-23.5
Reported profit after tax	52.5	33.0	59	61.4	-14.5

Source: ShareKhan

- The company expects a power savings of Rs150-200 per tonne once the captive power plants (CPP) get fully commissioned. In our calculations, we are assuming savings of Rs150 per tonne for the entire fiscal year FY2009.
- The company will be able to get the full benefit of the savings from the power plants in the fiscal FY2009, which will augur well for the company in the wake of a fall in the pricing power. We are maintaining our earnings per share (EPS) estimates of Rs30.2 per share for FY2008 and Rs25.8 per share for FY2009. At the current market price of Rs161, the stock is trading 5.3x its FY2008 earnings and 6.2x its FY2009E EPS. We maintain our Buy recommendation on the stock with a price target of Rs200.

Top line grows by 17% yoy much in line with expectations

The grey cement volumes for the quarter declined by 6% yoy due to the shutdown at the kilns of the company for maintenance. The white cement volumes, too, declined by 18% to 48,937 tonne. The overall volumes for the quarter declined by 7% yoy to 915,820 tonne. The realisations rose by 25% yoy to Rs3,565 per tonne though it remained more or less constant on a quarter-on-quarter (q-o-q) basis as the prices remained constant in the quarter. On the back of the year-on-year (y-o-y) growth in realisations, the net sales grew by 17% yoy to Rs326 crore.

Volume break up	Q1FY08	Q1FY07	% yoy	Q4FY07	% qoq
Grey	866,883	922,392	-6.0	952,179	-9
White	48,937	59,698	-18.0	67,105	-27
Total	915,820	982,090	-6.7	1,019,284	-10
Net revenue					
Grey	286.0	240.0	19.2	310.0	-8
White	40.5	39.0	3.8	56.6	-28
Total	326.5	279.0	17	366.6	10.9
Realisation					
Grey	3,299.2	2,601.9	26.8	3,255.7	1
White	8,276.0	6,532.9	26.7	8,434.5	-2
Blended realisation	**3564.0**	**3018.4**	**18.0**	**3581.4**	**-0.5**

Source: Company

Slower growth in operating costs boosts operating profits by 47% yoy

The variable cost per tonne on a y-o-y basis grew by a marginal 3% to Rs1,770 as the power & fuel as well as the freight costs remained constant. The employee expenditure grew by 25% yoy thanks to the increment in salaries. The operating expenditure grew by 38% yoy. Thus on the back of a flat variable cost structure, the overall expenditure grew by a muted 8% yoy in the quarter.

Per tonne analysis

Expenditures per tonne	Q1FY08	Q1FY07	% yoy	Q4FY07	%qoq
Raw material consumed	318.8	316.4	0.8	320.4	0
Stock adjustment	21.8	-35.6	-161.3	-7.8	-379
Stores	261.0	238.7	9.3	201.2	30
Employee expenses	166.0	131.7	26.0	120.2	38
Power, oil & fuel	790.5	794.8	-0.5	835.3	-5
Freight	638.8	638.2	0.1	717.1	-11
Other expenses	313.4	224.6	39.5	303.8	3

Source:ShareKhan

.....thus operating profits grow by a healthy 47% yoy

Consequently, the operating profit witnessed a healthy growth of 47% yoy to Rs96.5 crore, whereas the operating profit margin (OPM) expanded by 610 basis points to 29.6%. The EBITDA per tonne jumped by 49% yoy to Rs1,053.7, though it was lower on a sequential basis on account of lower volumes.

Particulars	Q1FY08	Q1FY07	% yoy	Q4FY07	% qoq
Realisation	3564.0	3018.4	18.1	3581.4	0
Total exp	2510.3	2308.9	8.7	2490.2	1
EBIDTA/tonne	1053.7	709.5	48.5	1091.2	-3

Source: ShareKhan

Net profit jumps by 59%

The interest costs as well as depreciation grew by 11% yoy to Rs9.1 crore. With the tax rate remaining constant at 34%, the net profit grew higher by 59% yoy to Rs52.5 crore.

Capex in progress

The company's 20MW pet coke power plant commenced its trial production in July 2007 and will be fully operational by August 2007. The 10MW turbine will get commissioned by August 2007 whereas the 13.5MW waste heat recovery plant will get commissioned in two phases from September to December 2007. The company expects a power savings of Rs150-200 per tonne once the CPPs get fully commissioned. In our calculations, we are assuming a savings of Rs150 per tonne for the entire fiscal year FY2009.

Green field Karnataka plant in progress

The company is setting up a 3.5 million metric tonne greenfield cement plant at Karnataka along with a 50MW pet coke based CPP. The company placed the order for the equipments in August 2006 and the deliveries are expected to start from October this year. The company will be incurring a capital expenditure (capex) of Rs1,050 crore of which Rs525 crore will be raised through debt and the remaining would come from internal accruals. The greenfield facility at Karnataka will diversify the company's market presence, which is currently concentrated in the North, giving it an entry in the lucrative markets of the South.

Outlook

The company will be able to get the full benefit of the savings from the power plants in the fiscal FY2009, which will augur well for the company in the wake of a fall in the pricing power. We are maintaining our EPS estimates of Rs30.2 per share for FY2008 and Rs25.8 per share for FY2009. At the current market price of Rs161, the stock is trading 5.3x its FY2007 earnings and 6.2x its FY2009E EPS. We maintain our buy recommendation on the stock with a price target of Rs200.

Earnings table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net profit (Rs cr)	6.5	32.5	178.6	210.0	180.0
% y-o-y growth		*400.0*	*449.0*	*18.0*	*-14.0*
Shares in issue (Cr)	5.0	5.0	7.0	7.0	7.0
EPS (Rs)	1.3	6.5	25.5	30.0	25.7
PER (x)	126.7	25.3	6.5	5.4	6.3
EV/EBIDTA (x)	44.9	11.0	4.6	3.9	3.9
RoCE (%)	6.8	9.6	23.2	24.7	19.0
RoNW (%)	1.7	4.8	21.6	20.8	15.4

Source : Sharekhan

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

Saregama India

Ugly Duckling

Stock Update

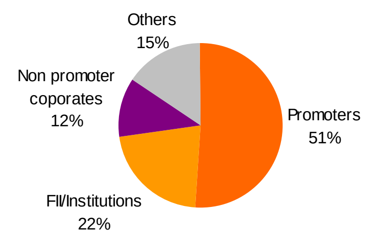
Results not upto the mark

Buy; CMP: Rs281

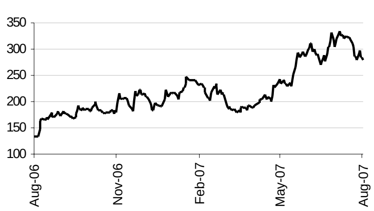
Company details

Price target:	Rs375
Market cap:	Rs412 cr
52 week high/low:	Rs344/131
NSE volume: (No of shares)	15,306
BSE code:	532163
NSE code:	SAREGAMA
Sharekhan code:	GRAMCO
Free float: (No of shares)	72 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.7	20.9	22.6	102.3
Relative to Sensex	-12.7	11.4	16.9	45.0

Result highlights

- Q1FY2008 results of Saregama India Ltd (SIL) are slightly below our expectations. Our preview estimates for the quarter were based on the expectation that the management of the company would include the film business in the stand-alone numbers post its amalgamation with the parent. However, SIL has indicated that it would possibly report such numbers from Q2FY2008.
- The revenues of the company were down 14.9% year on year (yoy) to Rs28.7crore due to a sharp 32.2% decline in the physical sales to Rs16.2 crore. The physical sales were down as there were no major audio, video or movie releases during the quarter and due to continuing trend of decline in the physical sales. On the positive side the non-physical sales (license fees) increased by 27.1% yoy to Rs12.5crore.
- Despite lower than expected costs the operating profit margin (OPM) of the company in Q1FY2008 stood at 13.5% as against 16.8% in Q1FY2007. Thus the operating profits were down 31.8% yoy to Rs3.9crore.
- A much higher tax rate of 14.7% during the quarter as against 2.2% in the corresponding quarter last year led the adjusted profit after tax (PAT) decline to Rs3crore compared with Rs5.4crore for the corresponding period last year.
- In Q1FY2007, SIL had written off Rs2.6crore worth of inventory and debts, thus the reported net profit stood at Rs3crore in Q1FY2008 as against Rs2.8 crore in Q1FY2007.
- We believe SIL stands in a sweet spot with its vast repertoire of music content experiencing strong growth in demand from radio and telecom industries and other opportunities available in the digital music space. However, the growth in demand is going to be counterbalanced by declining sales in the physical format. With margins being much better in the non-physical format, the profit growth will outpace growth in top line in the coming years.
- We realign our estimates for FY2008 taking into account a sharper than expected de-growth in physical sales and also introduce our FY2009 estimates through this update.

Result table Rs (cr)

Particulars	Q1FY08	Q1FY07	% yoy chg	Q4FY07	% yoy chg
Total sales	28.7	33.8	-14.9	29.3	-1.9
Total expenditure	24.9	28.1	-11.5	26.3	-5.5
Operating profit	3.9	5.7	-31.8	3.0	29.3
Other income	0.7	0.6	12.9	0.2	250.0
Interest	0.3	0.2	68.8	0.1	170.0
Depreciation	0.8	0.7	25.8	0.8	3.7
Profit before tax	3.5	5.5	-36.6	2.2	58.2
Tax	0.5	0.1	325.0	0.6	-15.0
Pre-exceptional profit after tax	3.0	5.4	-44.7	1.6	85.6
Extraordinary (exp)/ income	0.0	-2.6	-100.0	2.7	-100.0
Reported profit after tax	3.0	2.8	7.2	4.3	-30.9

- At the current market price of Rs281, the stock is trading at 14.7x its FY2009E earnings per share (EPS) of Rs19.1 and an enterprise value (EV)/ earnings before interest, depreciation, tax and amortisation (EBIDTA) of 11.5x. We maintain our Buy recommendation on the stock with a price target of Rs375.

Revenue break-up Rs cr

Particulars	Q1FY08	Q1FY07	% chg	Q4FY07	% chg
License fees	12.5	9.9	27.1	9.5	31.5
Home video	6.0	7.8	-23.2	8.0	-24.8
Sales of cassettes/ CDs	10.2	16.1	-36.7	11.1	-8.1
Events	0.0	0.0	-	0.6	-100.0
Total	**28.7**	**33.8**	**-14.9**	**29.3**	**-1.8**

Lower physical sales dampen top line

In Q1FY2008, SIL's top line declined by 14.9% yoy to Rs28.7crore. The physical sales (sales of cassettes & CD's and home video) for the quarter showed a de-growth of 32.2% yoy to Rs16.2crore. While the trend on the sales of cassettes and CD's continue to be downward as consumer preference is changing to non-physical formats such as radio and TV, the absence of any major releases during the quarter led to a sharper decline of 36.7% yoy to Rs10.2crore. Similarly the sales in home video business for the quarter declined 23.2% yoy to Rs6crore in the absence of any major releases during the quarter.

However, we expect SIL to report better physical sales in Q2FY2008 by monetising the release of 'Awaraapan' (released on June 29, 2007) and other major releases such as 'Dhoka' from the Bhatts and 'Fear' in which Himesh Reshamiya scores the music. Further films like 'Apna Asmaan' and 'Victoria no.203' are also due for release in the second quarter of the year.

License fees shows good growth on a higher base

For Q1FY2008 the license fees income grew 27.1% yoy to Rs12.5crore (after a growth of 117% in FY2007) on the back of the strong growth in the number of telecom subscribers and increasing penetration of value added services like ring tones, caller tunes etc. The higher number of operative radio stations also contributed to year-on-year (y-o-y) increase in license fees. With about 90 stations of the 245 licenses granted under the FM Phase II policy already operational and the remaining stations expected to be operational by October 2007, SIL will witness an incremental growth in its license fees in the coming quarters.

Subdued profitability—reflection of top line

The total cost of the company for the quarter declined by 11.5% yoy to Rs24.9crore basically on account of a 45% decline in raw material cost to Rs4.1crore mirroring lower physical sales. However the staff cost rose by 26.3% yoy to Rs4.6crore on account of normal annual increments coupled with the staffing of business units to address the changing business model of the company and gearing it up for future growth. Thus the OPM stood at 13.5% in Q1FY2008 as against 16.8% in Q1FY2007 and the operating profits declined 31.8% to Rs3.9crore reflecting high operating leverage of SIL. Consequently on account of a higher tax rate of 14.7% against 2.2% in the corresponding quarter of the previous year the net profit pre extraordinary items declined to Rs3crore against Rs5.4crore. In Q1FY07 SIL had written off inventory and debts worth Rs2.6crore (included in other expenses). Thus the Reported net profit showed a growth of 7.2% yoy.

Growth drivers intact

SIL's future growth prospects thrive on the new avenues for music content as analog platform has given way to digital. Its key growth drivers are:

- *Radio*- SIL is expected to benefit greatly from the rampant growth in the radio industry as it gets paid licence fees for its content played on radio stations. With about 90 stations of the 245 licenses granted under the FM Phase II policy already operational and the remaining stations expected to be operational by October 2007, SIL's vast repertoire of over 3 lakh tracks is expected to fetch high demand.

- *Telecom*- SIL derives revenues from the telecom industry for use of its content from three streams: ring tones, caller back tunes and full song downloads. With a rampant growth in the number of telecom subscribers and the growing penetration of the above value-added services provided by the telecom companies, the telecom segment is going to be one of the key growth drivers for SIL.

- *e-portal for music download*- SIL is in the process of digitising its large heritage of music. This would enable music lovers to download their choicest music directly from the portal, presenting SIL with an opportunity to monetise its huge catalogue of songs. This brings up an additional revenue stream for SIL with minimal additional cost. The portal is expected to be launched in Q2FY2008.

- *Investments*- SIL has 5.62 lakh shares in Great Wholesale Club Ltd (GWCL; RPG group retailing arm). Since GWCL is an unlisted company the stake cannot be valued as of now but future listing of GWCL is expected to unlock value for shareholders. Further, SIL also owns nearly 9.7 lakh shares of CESC whose current market value is ~Rs45 crore.

Films and physical sales— a concern

SIL released its first home production 'Chain Kulii ki Main Kuli' in Q1FY2008. The film budgeted at Rs4crore did not fair well at the box office. While the company is confident of recovering costs incurred over the venture, we remain skeptical on its foray in the films business considering the inherent risks involved in the film business coupled with SIL's lesser experience of the business. The company plans releasing 3-4 small to medium budget films a year. Its Indo-US crossover 'Karma Confession and Holy' and the English and Bengali film 'Japanese wife' are scheduled for release in Q3FY2008. Also, it has acquired rights of a small budget movie (acquired for Rs2crore) directed by Rituparno Ghosh slated for release in Q2FY2008.

SIL's sales of pre-recorded cassettes and CD's have shown a sharp decline over the last two quarters. Though the management claims that it is confident of achieving a 5-10% y-o-y growth in sales in this segment for the full year FY2008 through its large format retail stores and large corporate orders, the performance over the last two quarters indicates towards a trend of sharper dip in physical sales.

Realigning FY2008 estimates

We have realigned our FY2008 estimates to factor in the higher than expected dip in sales of cassettes and CD's. As against our earlier estimate of a 10% y-o-y de-growth in music sales under this format we now factor in a 15% de-growth. We also introduce our FY2009 estimates for SIL through this update.

	Old estimates	New estimates	% chg
Revenues	170.8	176.8	-3.4
Adjusted PAT	21.0	24.0	-12.5

Valuation and view

While we remain positive on SIL due to the opportunities provided by the radio and telecom revolution, we are concerned over the shrinking audio sales market. The same further impacted by piracy may counterbalance the growth that SIL would gain from the non physical sales. At current market price of Rs281 SIL trades at 14.7x its FY2009E EPS of Rs19.1 and an EV/ EBITA of 11.5x. We maintain our Buy recommendation on the stock with a price target of Rs375.

Earnings table Rs cr

Particulars	FY06	FY07	FY08E	FY09E
Adjusted Net profit	7.6	17.3	21.0	28.7
Shares in issue (cr)	1.5	1.5	1.5	1.5
EPS (Rs)	4.9	11.4	14.0	19.1
PER (x)	59.8	25.7	20.9	15.3
Book value (Rs)	56.8	65.4	79.1	98.0
P/BV (x)	5.2	4.5	3.7	3.0
EV/Sales (x)	3.2	2.9	2.4	2.0
EV/EBIDTA (x)	38.2	19.1	15.6	11.5
RoCE (%)	8.9	18.0	18.6	21.1
RoE (%)	11.9	20.1	20.5	22.6

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

Gujarat NRE Coke

Viewpoint

Realisation reflects strong coke market

CMP:Rs60

We attended the analyst meet of Gujarat NRE Coke. Following are the key takeaways from the meet:

- The net sales of the company grew by a whopping 130% year on year (yoy) to Rs149 crore mainly driven by a strong rise in coke prices (FOB china), which rose to US$260 in the current quarter from US$150 in June 2006. However the volumes during the quarter were subdued due to increase in the inventory. The company currently has an inventory of ~ 25,000 tonne.
- The Earnings before interest, depreciation, tax and amortisation (EBIDTA) of the company during the quarter grew by 564% yoy to Rs59.2 crore on the back of the increased realisation (a 22% yoy) and the reduced cost of coal to the company. The average cost of coal to the company during the quarter was in the range of $100 per tonne as against landed cost of $170 per tonne, which rose by 14% in last ten months.
- The profit after tax (PAT) of the company during the quarter was Rs43 crore as against the loss of Rs9.7 crore in the corresponding last quarter. The loss was mainly due to the bad coke market and one time deferred tax of Rs10 crore.
- The current market value of the total investment of the company is close to Rs1,157 crore, which on expanded equity comes to Rs34 per share.

About the company

Gujarat NRE Coke is the largest non-captive metallurgical coke producer in India. The current capacity of the company is 1 million tonne and it plans to raise it to 1.33 million tonne by FY2009. The company has 456 million tonne coking coal reserves in its three mines located in Australia. It also has a steel mill of 0.3 million tonne capacity in Gujarat which produces mainly TMT bars.

Key development

Listing of the subsidiaries

During the quarter the company successfully listed its Australian mines and has targeted a coal mining production of 0.7 million tonne in the current year and 1million tonne by next year, which has come down from earlier target of 1.3 million tonne. The fall in the coal production target was mainly because of the recent acquisition of Elloura mine from BHP Billiton, which will take some time to finalise.

Improving coke market

In the last ten years the coke market has been extremely volatile with six bad years, when the company just managed to breakeven. The current dynamics reflects a rising price outlook and we believe the company is best placed to capitalise on it. The company is extremely cautious on increasing its coke capacity , as it understands the flip side of an increased size in a bad market.

Key points

- During the quarter the coal extracted from the Australian mines was 0.102 million tonne which met ~40% of the company's coal requirement.
- The company has coke sales volume target of 0.8 million tonne during the year.
- The company is also setting up a waste heat recovery plant of 45MW, which is expected to commission by FY2009.
- The company has a long-term plan of producing more than 6 million tonne of hard coking coal annually from all the three mines in Australia by 2012.

Outlook

Gujarat NRE Coke has successfully transformed itself into an integrated coking coal company from a coke producer. The stock price performance will be largely driven by the Chinese coke prices and coking coal prices. However the current dynamics suggest the coke market to remain firm for atleast next six months. The successful completion of the recent acquisition of Ellouera mines, which would increase the coking coal mining production, would insulate the company from adverse price movements in coke.

Result table (Stand-alone) Rs (cr)

Particulars	Q1FY2008	Q1FY2007	Q4FY2007	% yoy	% qoq
Net sales	148.9	64.8	179.0	130	-17
Expenditure	89.7	55.9	113.4	61	-21
Operating profit	59.2	8.9	65.7	564	-10
Other income	3.5	1.7	7.7	110	-54
EBIDTA	62.7	10.6	73.3	493	-15
Interest	6.9	5.7	7.3	20	-6
PBDT	55.8	4.9	65.9	-	-15
Depreciation	5.6	4.6	5.5	21	1
PBT	50.2	0.2	60.5	-	-17
Tax	7.4	9.9	9.5	-26	-22
PAT	42.8	-9.7	50.9	-	-16
EPS	1.6	-0.8	2.1	-	-21
OPM (%)	39.8	13.8	36.7	-	-
PATM (%)	29.0	-15.0	28.0	-	-
Coke sales volume	102,000	67,416	125,825	51	-19
Coke realisation per tonne	10,873	8,924	10,523	22	3
Coke EBIT/ tonne	5,085	949	4,919	436	3

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