

Equity indices	% Chg			
	16-July	1-day	1-mth	3-mth
<b>India</b>				
Sensex	15,311	0.3	8.1	12.5
Nifty	4,512	0.2	8.2	13.2
<b>Global/Regional markets</b>				
Dow Jones	13,951	0.3	2.3	9.2
Nasdaq	2,697	(0.4)	2.7	7.2
FTSE	6,698	(0.3)	(0.5)	3.1
Nikkei	18,193	(0.3)	1.2	3.2
Hang Seng	23,014	0.3	9.5	10.7

Value traded (Rs bn)	BSE	NSE
Cash	53.9	113.9
Derivatives	8.7	388.8
Total	62.6	502.7

Net inflows (Rs bn)	Recent trends (days)			
	13-July	-7d	-15d	-30d
FII	23.5	94.6	160.1	175.8
MF	2.9	(0.6)	(3.2)	(3.0)

Forex / Crude	% Chg			
	16-July	1day	1mth	3mth
Rs/US\$	40.4	0.0	0.8	4.1
Euro/US\$	1.4	0.1	2.7	1.6
Crude(\$/bbl)	74.2	0.0	9.1	17.5

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
<b>Top gainers</b>			
Wire and Wireless	76.1	63.4	19.9
Mastek	330.2	285.0	15.8
Power Finance	195.8	175.2	11.8
<b>Top losers</b>			
CMC	1,219.2	1,298.9	(6.1)
Mphasis	282.5	300.0	(5.8)
Sintex Industries	274.3	290.0	(5.4)

## In focus

### TCS – Results Update

Performance in line; hedging to the rescue CMP: Rs 1,128 Target: Rs 1,415 BUY

### Bihar Tubes - Results Update

Value-added products aid margin expansion CMP: Rs 151 Target: Rs 172 HOLD

**Today's top picks** IDFC, India Cements, Bank of India, Andhra Bank, Cummins

## News track

- ❖ Reliance Communications has acquired US-based Ethernet player Yipes Holdings in an all-cash deal worth US\$ 300mn, its largest acquisition to date. (FE)
- ❖ L&T has secured contracts worth US\$ 177.8mn for different hydrocarbon projects in the Gulf region. (BL)
- ❖ Mastek has acquired a 90% stake in US-based Vector Insurance Services for nearly US\$ 9mn. (ET)
- ❖ Venus Remedies has signed a deal with China-based Jiangsu Provincial Institute of Microbiology to sell the Chinese company's patented amino-glycoside formulation in India for 10 years. The product is scheduled to hit the markets in Q3FY08 and has an addressable market of Rs 6bn growing at 8% p.a. (ET)
- ❖ Reliance Petroleum (RPL) has completed 65% of the project work for its refinery complex, which was commenced 19 months ago. The company expects to start production in December 2008, as per schedule. (BL)
- ❖ Subex Azure will be deploying its Fraud Management bureau for Melita Cable, Malta's primary cable television and internet service provider. Melita is the first 'triple-play' (internet, TV and telephony) operator in Malta, providing services to more than 100,000 subscribers. (ET)
- ❖ Larsen and Toubro's consortium with Germany's Outotec has bagged two orders worth Rs 10.7bn from Tata Steel for construction-related works at the Kalinganagar plant in Orissa. (BL)
- ❖ Real estate major Parsvanath Developers said that it has received government approval for setting up a Rs 4bn SEZ in Andhra Pradesh. (BL)

Source: BL: Business Line, BS: Business Standard, ET: Economic Times, FE: Financial Express

### Volume shockers

(No of shares)	16-July	2-mth avg	Chg (x)
Mastek	545,427	22,991	23.7
Amtek Auto	2,375,234	179,117	13.3
EID Parry India	343,343	27,173	12.6

### Delivery toppers

	Del (%)	Total Vol	Cons Days Up
EID Parry India	87.6	707,901	3
Gujarat State	84.7	1,170,487	4
Sona Koyo	83.9	198,034	4

# Tata Consultancy Services

CMP: Rs 1,128

Target: Rs 1,415 ↓

BUY

<b>Anurag Purohit</b> (91-22) 6612 4795 anurag.purohit@religare.in	<b>Hitesh Punjabi</b> (91-22) 6612 4769 hitesh.punjabi@religare.in
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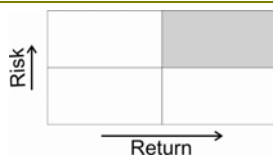
## Company data

Particulars	
Market cap (Rs bn / US\$ bn)	1,103.9 / 27.3
Outstanding equity shares (mn)	978.6
52-week high/low (Rs)	1,399 / 867
2-month average daily volume	314,606

## Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs bn)	186.3	224.8	277.7
Growth (%)	40.6	20.6	23.5
Adj net profit (Rs bn)	41.3	50.1	60.2
Growth (%)	42.6	21.4	20.1
FDEPS (Rs)	43.1	51.2	61.5
Growth (%)	42.0	19.0	20.1
P/E (x)	26.2	22.0	18.3
RoE (%)	46.1	39.6	33.8

## Risk-return profile



## Shareholding pattern

(%)	Jun-07	Mar-07
Promoters	80.1	81.7
FIs	7.7	7.1
Banks & FIs	5.6	4.8
Public	6.6	6.4

## Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
TCS	1,128	(4.8)	(9.7)	(13.6)
Sensex	15,311	8.1	12.5	8.3
BSE IT	4,848	3.0	(3.5)	(9.8)

## Operational performance in line; hedging to the rescue

TCS's Q1FY08 operational performance was in line with our expectations. Net profit, however, was higher than estimated, primarily due to a tax write-back of Rs 252.8mn and higher other income from forex hedges. The EBITDA margin for the quarter came in at 25.5% against our expectation of 24.5%, as the company benefited from productivity gains and efficiencies on SG&A costs.

We are raising our revenue and EPS estimates for FY08 and FY09 to factor in the strong demand environment. We are also factoring in a strong rupee scenario at Rs 40.5/US\$. We expect the valuations of IT companies to remain under pressure in the near term. Accordingly, we are lowering our target multiple for TCS from 24x to 23x on FY09E, a ~5% discount to Infosys's target multiple. We maintain our Buy recommendation with a March 2008 target price of Rs 1,415.

## Actual vs estimated performance

(Rs mn)	Actual	Estimated	% variance
Net sales	52,028.2	52,294.0	(0.5)
EBITDA	13,263.9	12,807.2	3.6
PAT	11,855.1	10,203.4	16.2
EPS (Rs)	12.1	10.4	16.2

Source: Company, Religare Research

## Quarterly results

(Rs mn)	Q1FY08	Q4FY07	% Chg	Q1FY07	% Chg
Revenue	52,028.2	51,463.7	1.1	41,443.3	25.5
Cost of revenue	28,221.2	27,176.5	3.8	23,071.3	22.3
<b>Gross profit</b>	<b>23,807.0</b>	<b>24,287.2</b>	<b>(2.0)</b>	<b>18,372.0</b>	<b>29.6</b>
Gross profit margin (%)	45.8	47.2	-	44.3	-
SG&A Expenses	10,543.1	9,719.6	8.5	8,356.4	26.2
<b>EBITDA</b>	<b>13,263.9</b>	<b>14,567.6</b>	<b>(8.9)</b>	<b>10,015.6</b>	<b>32.4</b>
EBITDA margin (%)	25.5	28.3	-	24.2	-
Depreciation	1,264.6	1,395.1	-	751.1	-
<b>EBIT</b>	<b>11,999.3</b>	<b>13,172.5</b>	<b>(8.9)</b>	<b>9,264.5</b>	<b>29.5</b>
EBIT margin (%)	23.1	25.6	-	22.4	-
Other income	1,516.3	899.3	-	667.7	-
<b>PBT</b>	<b>13,515.6</b>	<b>14,071.8</b>	<b>(4.0)</b>	<b>9,932.3</b>	<b>36.1</b>
Income taxes	1,523.0	2,188.1	-	1,237.6	-
Associate earnings	2.4	3.6	-	15.5	-
Minority interest	140.0	158.2	-	84.6	-
<b>Net income</b>	<b>11,855.1</b>	<b>11,729.1</b>	<b>1.1</b>	<b>8,625.7</b>	<b>37.4</b>
Net profit margin (%)	22.8	22.8	-	20.8	-
<b>EPS (Rs)</b>	<b>12.1</b>	<b>12.0</b>	<b>1.1</b>	<b>8.8</b>	<b>37.4</b>

Source: Company, Religare Research

**Q1FY08 revenue growth**

Parameter	bps
Volume growth	760
Billing rates growth	60
<b>Dollar revenue growth</b>	<b>800</b>
Impact of rupee appreciation	(640)
<b>Rupee revenue growth</b>	<b>160</b>

Source: Company, Religare Research

**Healthy quarter in dollar terms, strong volume growth**

Dollar revenues in Q1FY08 were at US\$ 1,278mn, reflecting a growth of 8% sequentially and 42% YoY. The growth was backed by a 7.6% QoQ increase in volumes in the international IT business and a 0.6% improvement in billing rates. However, the ~7% rupee appreciation against the dollar and other major currencies during the quarter eroded rupee revenue growth by 6.4%; this limited growth in rupee terms to 1.1% QoQ.

**Profit margins decline...**

Rupee appreciation and salary hikes given during the quarter adversely impacted profit margins by 260bps and 208bps respectively. TCS hiked salaries by 12-15% for offshore employees and ~3% for onsite employees. This led to an increase in cost of revenues by 3.8% QoQ as compared to revenue growth of 1.1%. The gross profit margin for Q1FY08 stood at 45.8% as compared to 47.2% in Q4FY07, a decline of 144bps. The EBITDA margin declined by 280bps QoQ to 25.5%, due to an increase in employee costs for support personnel. However, the EBIT margins were cushioned by lower depreciation costs as compared to Q4FY07.

**QoQ margin movement**

(%)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Gross profit margin	44.3	46.7	47.0	47.2	45.8
EBITDA margin	24.2	27.4	28.3	28.3	25.5
EBIT margin	22.4	25.3	26.1	25.6	23.1
Net profit margin	20.8	22.1	22.7	22.8	22.8

Source: Company, Religare Research

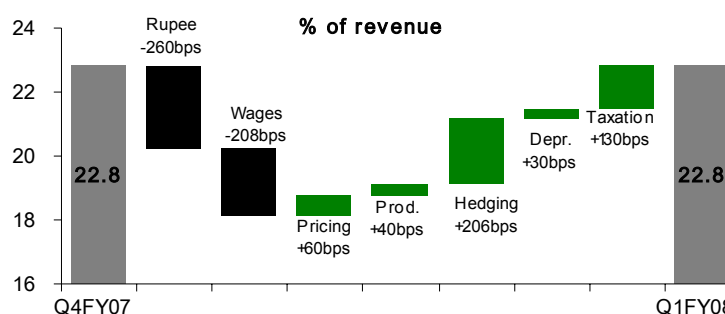
**Lower-than-expected EBITDA margin decline owing to a 2.6% fall in cost of delivery**

We had anticipated a higher margin decline of 380bps QoQ in the quarter due to salary hikes and rupee appreciation. The decline in margins by 144bps and 280bps at gross profit and EBITDA levels is a positive surprise, and is largely owing to a 2.6% fall in cost of delivery (cost per average employee).

**...but higher other income keeps net profit margin stable**

The negative impact of rupee appreciation and salary hikes in Q1FY08 was partially offset by pricing improvement and productivity gains. However, the net profit margin remaining unchanged QoQ at 22.8% of revenues largely due to higher other income from forex hedging gains as well as lower effective taxation due to a tax write-back of Rs 252.8mn. Other income for Q1FY08 was at Rs 1.5bn as compared to Rs 321mn in Q4FY07 (excluding income from Sitel's stake sale of Rs 579mn). Forex gains and lower taxes together contributed 336bps to the net profit margin.

**Net margin movement QoQ**



Source: Religare Research

## Q1FY08 Performance highlights

Parameters	Comments
<b>Volume growth</b>	Volume growth in the international IT services business was at 7.6% QoQ, which was higher than the 6.4% growth witnessed in Q4FY07.
<b>Pricing</b>	Blended pricing improved by 0.6%; we see a positive bias on pricing going ahead with new deals coming in at a 5% premium to existing rates and existing deals being renegotiated at 3-5% premium.
<b>Onsite – GDC – Offshore mix</b>	The revenue mix from each of these development centres remained unchanged during the quarter. The revenue contribution from onsite projects rose 70bps QoQ to 54.8% with the contribution from GDC and Offshore declining by 50bps and 20bps respectively.
<b>Employee addition</b>	8,706 employees were added at the gross level of which 2,898 were trainees and 4,795 were lateral recruits. The company plans to add more than 11,000 employees in Q2FY08 and its full-year target remains unchanged at 30,000+ additions. At the end of Q1FY08, the employee strength stood at 94,902 employees.
<b>Attrition rate</b>	Attrition rates increased marginally by 20bps to 11.5% on LTM basis as compared to 11.3% in Q4FY07. The increase in attrition is due to a higher churn in the BPO business at 16.7% as compared to 11% in the IT services business.
<b>Salary hikes</b>	Salaries of offshore employees were increased by 12-15% whereas onsite salaries were hiked by ~3%. Salary hikes resulted in a decline of 208bps at the EBITDA level over Q4FY07.
<b>Clients metrics</b>	Momentum in client additions continues; the company added 54 clients during the quarter. TCS now has six clients contributing more than US\$ 100mn in annual revenues. The number of clients contributing more than US\$ 50mn in annual revenues increased from 39 to 45, while those contributing over US\$ 20mn rose from 75 to 85 as compared to Q4FY07.
<b>Geographical mix</b>	Europe continued to grow faster than other geographies. The revenue contribution from Europe stood at 29.3% as compared to 29% in the last quarter. The contribution from the US was at 55.1%.
<b>Utilisation levels</b>	Utilisation including trainees was at 76%, an increase of 130bps over Q4FY07. However, the net utilisation (excluding trainees) was down by 54bps QoQ at 79.1%.
<b>Client growth</b>	Growth was witnessed across all clients in dollar terms. However, the top 10 clients grew faster than the company at 4.3% rupee terms. The other clients recorded a flat trend in rupee terms with a marginal decline of 20bps QoQ.
<b>Services metrics</b>	No major trend change was seen across the service lines with contribution from individual services remaining largely unchanged QoQ. Asset leveraged solutions gained momentum on the back of large deals won in FY07 and contributed 3.3% of overall revenues.
<b>Vertical metrics</b>	Growth in the BFSI segment was back on track; this vertical clocked the strongest growth at 5.5% QoQ. The other verticals witnessed a flattish to marginal de-growth QoQ.

Source: Company, Religare Research

## Future outlook

### Raising FY08 and FY09 revenue and EPS estimates

We are marginally increasing our dollar revenue estimates for FY08 and FY09 by 1.7% and 1.9% respectively to factor in the strong demand environment and positive pricing scenario. We now expect the dollar revenues to be US\$ 5,544mn in FY08 and US\$ 6,857mn in FY09, signifying YoY growth of 33.3% and 23.7% respectively.

#### Revenue in dollar terms

	FY06	FY07	FY08E	FY09E
Revenue (US\$ mn)	2,970.5	4,157.8	5,543.9	6,856.7
Growth (%)	-	40.0	33.3	23.7

Source: Company, Religare Research

We are also adjusting our rupee-dollar exchange rate for FY08 and FY09 to Rs 40.5/US\$ as against Rs 41/US\$ earlier.

#### TCS – revised estimates

(Rs mn)	FY08E			FY09E		
	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)
Revenue	223,737.2	224,798.3	0.5	275,899.7	277,694.5	0.7
EBITDA	60,326.7	60,244.5	(0.1)	73,732.6	74,169.1	0.6
Net profit	49,644.9	50,147.1	1.0	59,010.2	60,217.5	2.0
EPS (Rs)	50.7	51.2	1.0	60.3	61.5	2.0

Source: Religare Research

We have adjusted our forex rate assumption for FY08 and FY09 to Rs 40.5/US\$ from Rs 41/US\$

In the table below we provide the sensitivity of our EPS estimates and target price to various rupee-dollar exchange rates.

#### EPS sensitivity to exchange rates

Avg. exchange rate (Rs/US\$)	FY08 EPS (Rs)	FY09 EPS (Rs)	Target price (Rs)
41.0	52.1	63.4	1,395
40.5	51.2	61.5	1,354
40.0	50.4	60.0	1,320
39.0	48.6	57.0	1,254
38.0	46.8	54.0	1,188

Source: Religare Research

### Margins to inch up

With wage hikes undertaken in Q1FY08, we expect the EBITDA margin to inch up in coming quarters of FY08. We do not expect the rupee to appreciate as sharply as it did in Q1FY08. We estimate that the FY08 EBITDA margin would be 40bps lower than FY07 at 26.8%.

The benefit of forex hedges would continue for the next couple of quarters, though the quantum of other income due to forex gains is expected to come down as the current hedges are at around Rs 41/US\$. TCS has already increased its forex hedges to US\$ 2.5bn during the quarter. The management has taken a more than one-year view on its forex hedges and has factored in a forex rate of ~Rs 40/US\$. We expect the net profit margin to remain flat YoY at 22.3%.

### Sequential growth to get back on track from Q2

A stable rupee would allow the QoQ growth to regain momentum from Q2FY08 onwards. We expect the forex hedges to continue to provide a certain level of insulation to net profit in case of further rupee appreciation. To achieve our EPS estimate of Rs 51.2 for FY08, TCS would have to grow at a CQGR of 3.8% over Q2-Q4FY08.

#### FY08 – QoQ expectations

(Rs mn)	Q1FY08	Q2FY08E	Q3FY08E	Q4FY08E
Revenue	52,028.2	55,247.2	57,883.9	59,639.0
EBITDA	13,263.9	14,509.1	15,713.3	16,758.3
Net profit	11,855.1	11,743.1	12,835.4	13,713.6

Source: Company, Religare Research

## Valuation

### Rupee appreciation till Rs 40/US\$ factored into price

At the current price of Rs 1,128 TCS is trading at 22x and 18.3x its FY08 and FY09 expected EPS of Rs 51.2 and Rs 61.5 respectively. In the past, the company has traded in a P/E range of 18-26x its one year forward earnings. On EV/EBITDA basis, the stock is trading at 18.2x and 14.8x on FY08E and FY09E respectively. At current valuations, we believe that rupee appreciation till Rs 40/US\$ has been factored into the price.

We are decreasing our target P/E multiple for TCS from 24x to 23x its two-year forward earnings. This is in line with the decrease in our target P/E multiple for Infosys. Historically, the discount between TCS and Infosys valuation has ranged between 2% to 12%. At 23x the discount to our Infosys's target P/E multiple would be ~5%.

### Buy with a target of Rs 1,415

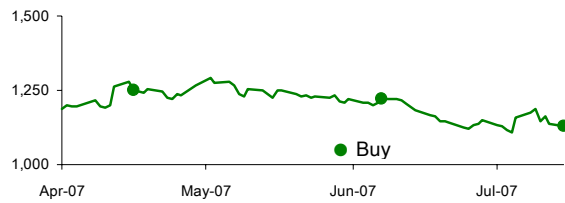
At 23x the FY09 expected earnings of Rs 61.5, the March 2008 target price comes to Rs 1,415 which is lower by 2.3% as compared to our earlier target of Rs 1,448. We maintain our positive outlook on the sector and recommend a Buy on the stock.

## Recommendation history

Date	Report type	Comments	Stock price (Rs)	Target (Rs)	Reco
17-Apr-07	Results Update	Another milestone achieved: Quarterly results in line, management buoyant about FY08	1,280	1,530	Buy
9-Jul-07	Sector Update	Revision of estimates: Maintain positive outlook	1,159	1,448	Buy
17-Jul-07	Results Update	Operational performance in line; hedging to the rescue	1,128	1,415	Buy

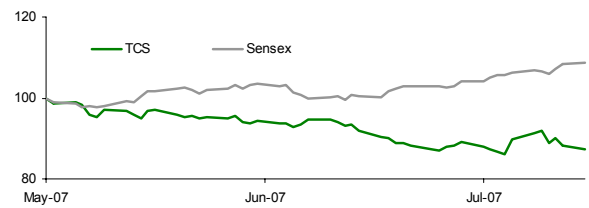
Source: Religare Research

### Recommendation performance



Source: Religare Research

### TCS vs Sensex



Source: Company, Religare Research

## Financials

### Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Revenues	132.6	186.3	224.8	277.7
Growth (%)	36.3	40.6	20.6	23.5
EBITDA	37.0	50.6	60.2	74.2
Growth (%)	29.8	36.8	19.0	23.1
Depreciation	2.8	4.2	5.7	6.6
EBIT	34.2	46.4	54.5	67.6
Growth (%)	27.0	35.8	17.4	24.0
Interest	0.3	1.9	3.8	3.1
Other income	34.5	48.4	58.3	70.7
EBT	5.0	6.7	7.8	10.1
Growth (%)	14.5	13.8	13.4	14.3
Tax	0.3	0.4	0.4	0.4
Effective tax rate	0.2	0.0	0.0	0.0
Adj net income	29.0	41.3	50.1	60.2
Growth (%)	41.2	42.6	21.4	20.1
Shares outstanding (mn)	489.3	978.6	978.6	978.6
FDEPS (Rs)	30.3	43.1	51.2	61.5
DPS (Rs)	16.3	11.5	12.0	13.0
CEPS (Rs)	64.9	46.5	57.1	68.2

Source: Company, Religare Research

### Cash flow statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Net income	29.0	41.3	50.1	60.2
Depreciation	2.8	4.2	5.7	6.6
Other adjustments	-	-	-	-
Changes in WC	(6.8)	(8.1)	(4.6)	(6.4)
Operating cash flow	25.0	37.4	51.3	60.4
Capital expenditure	(5.9)	(16.2)	(11.7)	(11.0)
Investments	-	-	-	-
Other investing inc/(exp)	(8.7)	(5.4)	(6.4)	(9.5)
Investing cash flow	(14.6)	(21.7)	(18.1)	(20.5)
Free cash flow	10.4	15.8	33.2	39.8
Issue of equity	0.1	-	-	-
Issue/repay debt	(1.2)	4.1	-	-
Dividends paid	(8.0)	(12.7)	(13.2)	(14.3)
Others	-	-	-	-
Financing cash flow	(9.1)	(8.6)	(13.2)	(14.3)
Beg. cash & cash eq	2.6	4.0	11.1	31.1
Chg in cash & cash eq	1.3	7.2	20.0	25.5
Closing cash & cash eq	4.0	11.1	31.1	56.6

Source: Company, Religare Research

### Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	4.0	11.1	31.1	56.6
Accounts receivable	37.5	50.9	60.4	73.0
Inventories	0.8	1.0	1.2	1.5
Others current assets	7.3	10.6	12.8	15.3
Current assets	49.6	73.7	105.4	146.5
LT investments	7.3	12.7	19.1	28.6
Net fixed assets	19.1	37.1	42.8	53.0
CWIP	9.6	7.1	7.1	7.1
Total assets	85.6	130.6	174.4	235.2
Payables	17.4	23.9	29.6	36.5
Others	5.3	7.7	9.2	11.4
Current liabilities	22.7	31.6	38.8	47.9
LT debt	1.0	5.0	5.0	5.0
Other liabilities	3.5	4.3	4.3	4.3
Equity capital	0.5	1.0	1.0	1.0
Reserves	57.9	88.7	125.6	171.5
Net Worth	58.4	89.7	126.6	178.4
Total liabilities	85.6	130.6	174.4	235.2
BVPS (Rs)	175.0	133.4	178.2	240.4

Source: Company, Religare Research

### Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	27.9	27.2	26.8	26.7
EBIT margin (%)	25.8	24.9	24.3	24.3
Net profit margin (%)	21.9	22.2	22.3	21.7
FDEPS growth (%)	36.6	42.0	19.0	20.1
Receivables (days)	103.3	99.8	98.0	96.0
Inventory (days)	2.2	2.0	2.0	2.0
Payables (days)	47.9	48.0	48.0	48.0
Current ratio (x)	2.2	2.3	2.7	3.1
Interest coverage (x)	-	-	-	-
Debt/equity ratio (x)	0.0	0.1	0.0	0.0
ROE (%)	49.6	46.1	39.6	33.8
ROCE (%)	54.4	46.9	40.2	36.1
ROAE (%)	39.9	35.6	31.3	28.7
EV/Sales (x)	8.3	5.9	4.9	4.0
EV/EBITDA (x)	29.7	21.7	18.2	14.8
P/E (x)	37.2	26.2	22.0	18.3
P/BV (x)	6.4	8.5	6.3	4.7
P/CEPS (x)	17.4	24.3	19.8	16.5

Source: Company, Religare Research



## Bihar Tubes

## Results Update

CMP: Rs 151

Target: Rs 172

HOLD ↓

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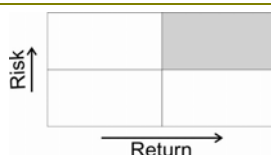
## Company data

Particulars	
Market cap (Rs mn / US\$ mn)	989.1/24.7
Outstanding equity shares (mn)	6.4
52-week high/low (Rs)	157/23
2-month average daily volume	117,660

## Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	2,065.1	3,592.8	7,626.3
Growth (%)	41.1	74.0	112.3
Adj net profit (Rs mn)	70.1	148.8	354.1
Growth (%)	401.4	112.3	138.0
FDEPS (Rs)	5.5	11.6	27.7
Growth (%)	-	110.0	138.0
P/E (x)	27.6	13.0	5.5
RoE (%)	44.9	50.6	30.3

## Risk-return profile



## Shareholding pattern

(%)	Mar-07	Dec-06
Promoters	58.4	58.4
Banks & FIs	2.3	2.3
Public	39.3	39.3

## Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bihar Tubes	151	83.5	115.5	167.0
Sensex	15,311	8.1	12.5	8.3

## Value-added products aid margin expansion

Bihar Tubes (BTL) has clocked 11% YoY revenue growth in Q1FY08 to Rs 554.4mn with a 6-fold increase in PAT to Rs 40.7mn. While revenue growth was lower than expected, higher realisations during the quarter brought net profit in line with our estimates. Aided by the rising realisations and a shift towards the high-margin pre-galvanised pipe segment, the company's EBITDA margin improved significantly to 13.3% in Q1FY08 against 3.1% in Q1FY07.

We expect BTL to perform well in future as it undertakes backward and forward integration, enters into the high-diameter pipe segment, and maintains a greater thrust on sales to the fast-growing infrastructure and agricultural sectors. The stock has appreciated 61% since our Buy recommendation on 18 June 2007; we maintain our target of Rs 172 and now recommend a Hold.

## Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	554.4	630.0	(12.0)
EBIDTA	73.7	75.6	(2.5)
PAT	40.7	40.7	-
EPS (Rs)	6.5	6.5	-

Source: Company, Religare Research

## Quarterly results

(Rs mn)	Q1FY08	Q1FY07	% Chg YoY	Q4FY07	% Chg QoQ
Net Sales	554.4	500.7	10.7	571.5	(3.0)
Other Income	-	-	-	-	-
EBITDA	73.7	15.4	379.4	69.1	6.6
Operating margin (%)	13.3	3.1	332.9	12.1	9.9
Interest	12.8	5.2	146.5	12.4	3.1
Depreciation	2.2	1.6	37.1	2.2	(0.3)
PBT	58.7	8.6	584.0	54.5	7.7
Tax	18.0	2.0	801.3	17.7	1.8
PAT	40.7	6.6	517.9	36.8	10.5
Equity capital (diluted)	124.7	124.7	-	124.7	-

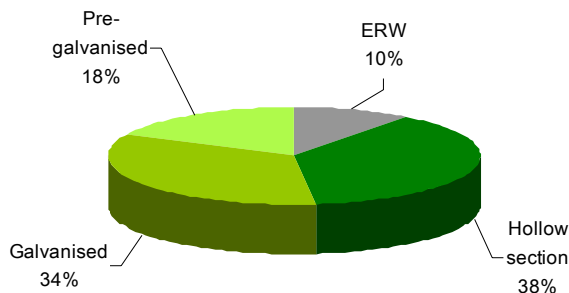
Source: Company, Religare Research

## Pre-galvanised pipe sales drive revenue growth

Sales increased by 11% YoY to Rs 554.4mn in Q1FY08 against Rs 500.7mn in Q1FY07, with a 17% YoY rise in volumes to 14,041mt. Since FY07, the company has begun to place a greater focus on sales of pre-galvanised pipes, which offer higher realisations than its other products. Consequently, this segment has contributed 20% of revenues in Q1FY08 and 18% of volumes vis-à-vis 15% and 13.5% respectively in Q1FY07. The revenue share of galvanised, hollow section and electric resistance welded (ERW) pipes stood at 37%, 34% and 9% respectively during the quarter.

**Greater focus on pre-galvanised pipes has led to strong volume growth from this segment**

### Segmental contribution to volume sales



Source: Company, Religare Research

BTL is witnessing huge demand for pipes catering to the infrastructure and agriculture sectors. We expect this to drive a 92% CAGR in revenues over FY07-FY09.

### Spike in sale realisations across segments

The company's sales realisations have increased significantly across its pipe divisions, with galvanised pipes posting the highest price increase of 36% over the FY07 average.

### Rising realisations

Pipes (Rs/MT)	Q1FY08	FY07 Avg	Increase (%)
Galvanised	44,384.9	32,689.0	35.8
Hollow section	36,496.4	29,737.0	22.7
Pre-galvanised	45,389.8	38,381.0	18.3
ERW	35,443.6	28,683.0	23.6

Source: Company

**Stronger realisations and higher pre-galvanised sales have aided a 1,020bp YoY margin growth**

### Sharp improvement in EBITDA margin

The company's EBITDA margin has expanded 1,020bps to 13.3% in Q1FY08 against 3.1% in Q1FY07 on the strength of better realisations, higher pre-galvanised sales, and a product mix favouring value-added pipes. Further, greater operating efficiency through inventory control, freight cost savings, and cost-effective raw material procurement from its subsidiary, Apollo Metalx, has also strengthened the margin.

### Expect margins to remain stable with upward bias

BTL is currently the only organised player in the high-margin pre-galvanised segment, pointing to sustained demand. Going ahead, we expect margins to remain stable with a positive bias as pre-galvanised sales move up and the company forays into the high-end auto tube segment. More importantly, it plans to put up an HR skelp mill which will supply captive raw material. Cost reduction through production efficiency as well as regional divergence into western India will also enhance the margin.

### PAT witnesses 6-fold increase

BTL has recorded a 6-fold increase in PAT during the quarter to Rs 40.7mn. We expect profitability to remain strong going ahead. In H2FY09 the company is likely to start repaying debts which will reduce the interest burden and further enhance profits.

### Scouting for acquisitions

In order to meet the rising demand, BTL is looking to expand capacities in existing segments and also enter into higher-specification products (½" to 12") via acquisitions. The acquisition is expected to be in the range of Rs 200mn-250mn. The company is eyeing players in western India for its inorganic growth plans in order to strengthen its marketing and distribution reach in the region and reduce freight cost.

## Valuation

**Stock has appreciated 61% since our Buy call in mid-June; Hold**

### Maintain target of Rs 172...

BTL currently trades at a P/E of 5.5x on FY09E fully diluted EPS. On an EV/EBITDA basis, the stock is trading at 4.5x on FY08E and 3.4x on FY09E. The company is available at a significant discount to Welspun Gujarat which is trading at 15x on FY09E EPS of Rs 15. We believe that BTL deserves a premium to pure steel players since it is catering to sectors like infrastructure, agriculture, and oil & gas which are showing extremely robust growth.

### ...but recommend Hold

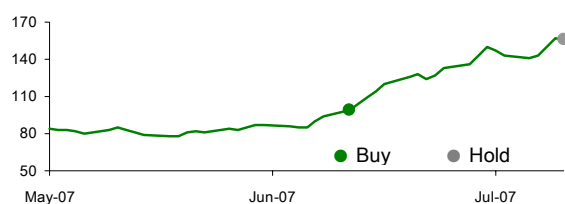
The stock has appreciated 61% since our Buy recommendation on 18 June 2007; we maintain our target of Rs 172 with a Hold rating.

## Recommendation history

Date	Report type	Comments	Stock price (Rs)	Target (Rs)	Reco
18-Jun-07	Initiating Coverage	Piping hot: New product forays and backward integration plans to boost earnings	94	172	Buy
17-Jul-07	Results Update	Q1FY08 results: Value-added products aid margin expansion	151	172	Hold

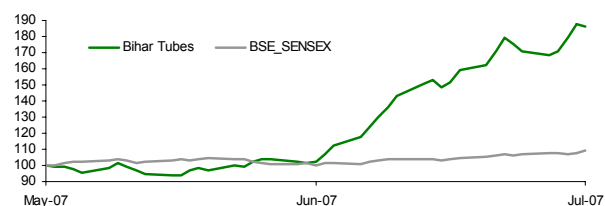
Source: Religare Research

### Recommendation performance



Source: Religare Research

### Bihar Tubes vs Sensex



Source: Company, Religare Research

## Financials

### Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	1,464.0	2,065.1	3,592.8*	7,626.3*
Growth (%)	30.3	41.1	74.0	112.3
EBITDA	52.0	148.3	321.4	684.1
Growth (%)	51.3	185.1	116.7	112.9
Depreciation	5.5	7.5	30.0	70.0
EBIT	46.5	140.8	291.4	614.1
Growth (%)	52.2	202.9	107.0	110.8
Interest	23.9	35.9	74.2	100.0
Other income	-	-	-	-
EBT	22.6	104.9	217.2	514.1
Growth (%)	35.3	364.1	107.1	136.7
Tax	8.3	34.8	68.4	160.0
Effective tax rate	36.8	33.2	31.5	31.1
Adj net income	14.3	70.1	148.8	354.1
Growth (%)	13.1	401.4	112.3	138.0
Shares outstanding (mn)	3.1	3.1	6.2	12.5
FDEPS (Rs)	1.1	5.5	11.6	27.7
DPS (Rs)	-	1.0	1.5	2.0
CEPS (Rs)	6.3	24.9	28.7	34.0

Source: Company, Religare Research \*Excludes inter-segmental transfers

### Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	22.6	104.9	217.2	514.1
Depreciation	5.5	7.5	30.0	70.0
Other adjustments	23.3	27.2	51.3	18.0
Changes in WC	(91.1)	(42.1)	(74.5)	(452.5)
Operating cash flow	(39.7)	97.5	224.0	149.6
Capital expenditure	(13.3)	(65.0)	(346.0)	(433.0)
Investments	-	-	-	-
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(13.3)	(65.0)	(346.0)	(433.0)
Free cash flow	(52.9)	32.5	(122.0)	(283.4)
Issue of equity	-	-	45.0	407.4
Issue/repay debt	62.9	37.0	145.0	15.0
Dividends paid	-	(3.6)	(10.8)	(28.7)
Others	(23.9)	(35.9)	(74.2)	(100.0)
Financing cash flow	39.0	(2.5)	105.0	293.7
Beg. cash & cash eq	(13.9)	30.0	(17.0)	10.3
Chg in cash & cash eq	20.8	6.9	37.0	20.0
Closing cash & cash eq	6.9	37.0	20.0	30.3

Source: Company, Religare Research

### Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	6.9	37.0	20.0	30.3
Accounts receivable	145.6	196.4	401.8	631.4
Inventories	191.7	230.0	400.0	713.0
Others current assets	64.5	75.0	20.0	30.0
Current assets	408.6	538.4	841.8	1,404.7
LT investments	-	-	-	-
Net fixed assets	95.2	152.7	467.7	829.7
CWIP	-	-	-	-
Total assets	503.8	691.1	1,309.5	2,234.4
Payables	112.7	179.5	425.4	525.5
Others	16.2	30.0	68.0	140.0
Current liabilities	128.9	209.5	493.4	665.5
LT debt	270.0	307.0	497.0	467.0
Other liabilities	15.3	18.5	25.0	30.0
Equity capital	31.2	31.2	62.4	124.7
Reserves	58.4	124.9	231.7	947.1
Net Worth	89.5	156.0	294.0	1,071.8
Total liabilities	503.8	691.1	1,309.6	2,234.4
BVPS (Rs)	28.7	50.0	47.2	85.9

Source: Company, Religare Research

### Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	3.6	7.2	8.9	9.0
EBIT margin (%)	3.2	6.8	8.1	8.1
Net profit margin (%)	1.0	3.4	4.1	4.6
FDEPS growth (%)	13.1	401.4	110.0	138.0
Receivables (days)	36.3	34.7	40.8	30.2
Inventory (days)	41.9	42.6	36.9	30.5
Payables (days)	30.2	31.4	37.4	27.6
Current ratio (x)	3.2	2.6	1.7	2.1
Interest coverage (x)	2.2	4.1	4.3	6.8
Debt/equity ratio (x)	3.0	2.0	1.7	0.4
ROE (%)	15.6	44.9	50.6	33.0
ROCE (%)	14.5	32.0	40.6	44.5
ROAE (%)	2.8	10.1	11.4	15.8
EV/Sales (x)	0.5	0.4	0.4	0.3
EV/EBITDA (x)	14.2	5.2	4.5	3.4
P/E (x)	138.3	27.6	13.0	5.5
P/BV (x)	5.3	3.0	3.2	1.8
P/CEPS (x)	24.1	6.1	5.3	4.4

Source: Company, Religare Research

## Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
5-Jun-07	Omax Auto	Results Update	92	126	BUY
5-Jun-07	Dishman Pharma	Initiating Coverage	265	315	BUY
6-Jun-07	Information Technology	Sector Update	NA	NA	NA
7-Jun-07	Cinemax India	Company Update	162	189	BUY
7-Jun-07	DLF Universal	IPO Note	NA	NA	SUBSCRIBE
11-Jun-07	Biocon	Company Update	438	542	BUY
13-Jun-07	Federal Bank	Initiating Coverage	272	362	BUY
13-Jun-07	Sangam India	Initiating Coverage	67	95	BUY
13-Jun-07	KPIT Cummins Infosystems	Initiating Coverage	144	173	BUY
13-Jun-07	PVR Cinemas	Results Update	216	240	HOLD
14-Jun-07	Ashok Leyland	Company Update	36	48	BUY
15-Jun-07	Greenply Industries	Results Update	139	180	BUY
15-Jun-07	Riddhi Siddhi Gluco Biols	Results Update	276	365	BUY
18-Jun-07	Sasken Communication Technologies	Company Update	505	647	BUY
18-Jun-07	Bihar Tubes	Initiating Coverage	94	172	BUY
19-Jun-07	Aventis Pharma	Company Update	1,360	1,670	BUY
19-Jun-07	ICICI Bank	FPO Note	918	1,080	SUBSCRIBE
21-Jun-07	Cinemax India	Results Update	150	189	BUY
22-Jun-07	Garware Offshore	Company Update	214	272	BUY
25-Jun-07	Sangam India	Company Update	64	95	BUY
25-Jun-07	Spice Communications	IPO Note	41-46	NA	SUBSCRIBE
26-Jun-07	Opto Circuits (India)	Initiating Coverage	376	456	BUY
26-Jun-07	Nava Bharat Ventures	Initiating Coverage	164	268	BUY
27-Jun-07	Mahindra & Mahindra	Visit Note	720	888	BUY
28-Jun-07	Inox Leisure	Results Update	134	120	SELL
29-Jun-07	HDIL	IPO Note	430-500	NA	SUBSCRIBE
29-Jun-07	Petronet LNG	Initiating Coverage	55	73	BUY
2-Jul-07	Allied Digital Services	IPO Note	170-190	NA	NA
3-Jul-07	Indoco Remedies	Visit Note	286	383	BUY
5-Jul-07	Ashok Leyland	Company Update	38	48	BUY
5-Jul-07	Venus Remedies	Initiating Coverage	474	708	BUY
6-Jul-07	Nava Bharat Ventures	Company Update	170	268	BUY
9-Jul-07	IT Services	Sector Update	NA	NA	NA
10-Jul-07	Opto Circuits (India)	Results Update	386	456	BUY
10-Jul-07	Apollo Tyres	Company Update	347	468	BUY
11-Jul-07	Dishman Pharma	Company Update	339	357	HOLD
11-Jul-07	HDFC Bank	Results Update	1,148	1,287	HOLD
12-Jul-07	Infosys Technologies	Results Update	1,930	2,466	BUY
12-Jul-07	South Indian Bank	Initiating Coverage	140	175	BUY
13-Jul-07	Nava Bharat Ventures	Company Update	196	268	BUY
16-Jul-07	Bajaj Auto	Results Update	2,175	2,324	HOLD
16-Jul-07	UTI Bank	Results Update	641	689	HOLD
17-Jul-07	Bihar Tubes	Results Update	151	172	HOLD
17-Jul-07	TCS	Results Update	1,128	1,415	BUY

## Market trends

### BSE sectoral indices

	% Chg				Constituent performance
	16-July	1-day	1-mth	3-mth	
Automobiles	5,081	0.4	8.7	4.4	
Banks	8,387	1.3	12.4	24.5	
Capital Goods	13,007	(0.4)	16.6	34.2	
Comm. & Tech.	3,813	(0.1)	2.4	4.6	
Consumer Durables	4,217	0.9	6.5	10.4	
FMCG	1,846	(1.0)	3.2	2.5	
Healthcare	3,815	(0.9)	0.5	3.0	
IT	4,848	(1.0)	(3.0)	(3.5)	
Metal	12,091	0.8	15.2	28.1	
Oil & Gas	7,870	0.6	5.5	15.3	
Mid-caps	6,835	0.6	10.6	21.6	
Small-caps	8,281	0.8	12.7	20.7	

Number of companies:  down 5% down 2-5% down 0-2% up 0-2% up 2-5% up 5%

### Emerging markets

Country	% Chg					
	16-July	1-day	1-mth	3-mth	6-mth	
Brazil	57,374	(0.5)	5.2	17.7	34.3	
Shanghai	3,808	(0.4)	(7.9)	5.4	37.0	
Hong Kong	23,014	0.3	9.5	10.7	14.7	
India	15,311	0.3	8.1	12.5	8.3	
South Korea	1,950	(0.7)	10.0	27.5	41.3	
Taiwan	9,411	(0.1)	9.8	18.2	20.1	

### FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	575.5	1,226.6	1,970.5	7,675.6
South Korea	(705.4)	(705.4)	(634.3)	(325.7)
Taiwan	(258.6)	(258.6)	2,725.7	10,910.4
Thailand	706.4	23.4	943.4	4,122.0

## Events calendar

### Board meetings

July 16		17		18	
	Thirumalai Chemicals Tayo Rolls Eimco Elecon (India)		Foseco India Ucal Fuel Systems Betala Glo S		Accent Tech Four Soft Mafatla Indu
19		20		21	
	Wipro ACC Kirloskar Oil Engines		Satyam Computer Services Cosmo Films Karur Vysya Bank		Sesa Goa Shreyas Shipping & Logistics
22		23		24	
	SUNDAY		Century Textiles & Industries Dabur India M & M Financial Services		JSW steel Balrampur Chini Mills City Union Bank
25		26		27	
	Zuari Industries Steel Authority Of India HDFC		Tata Power co. ABB Maruti Udyog		Colgate Palmolive India Ramco Industries Madras Cements
28		29		30	
	The Andhra Sugars Shipping Corporation Of India XPRO India		SUNDAY		NEPC India Wyeth Aditya Birla NUVO

## Trade data

### Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Amtek Auto	Capital Research And Mgmt Comp	B	2,293,152	406.1
Amtek Auto	Oppenheimer Fund Inc	S	2,293,000	406.1
Ankit Metal	Kmuc Ac Premier Investment Fund	S	232,025	45.2
Emkay Share And Stock Bro	Citigroup Global Markets Mauritius	Se	133,593	116.1
Freshrop Fr	UBS Securities Asia	S	56,007	120.5
Mastek	Morgan Stanley And Co Intl Ac Morgan Stanley	B	355,000	329.3
Mastek	Morgan Stanley Dean Witter Mauritius Co	B	520,000	329.0
Micro Technologies (India	BSMA	S	54,324	261.4
Nitco Tiles	HSBC Financial Services(Middle East)	B	215,000	235.0
Pruden Pharm	Mercury Fund Management	S	55,000	28.4
Sb&T International	BSMA	S	125,981	28.3
Sb&T International	Macquarie Bank	S	92,968	27.5
Srini Sh Pro	UBS Securities Asia	B	26,199	157.0
Sujana Metal	Goldman Sachs Mauritius 1	S	1,900,000	28.7

Source: BSE

### Insider trading

Scrip	Acquirer/Seller	Buy /Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Aarti Industries	Gogri & Sons Investment	B	70,000	0.1	3,741,650	5.1
Aia Engineering	Gita B Shah	S	500	-	14,115	0.1
Birla Capital & Financial Services	Birla International	S	5,945,000	15.2	-	-
Hindustan Composites	Pat Financial Consultants	B	9,244	0.2	198,465	3.6
Hindustan Composites	Ruchit B Patel	B	2,000	-	43,719	0.8
Ismt	A K Jain	B	10,000	1.2	1,707,281	1.2
Karuturi Networks	Mrs Anitha Karuturi	S	300,000	-	130,442	0.5
Magma Leasing	Anup Jatia	B	10,500	-	10,500	-
Magma Leasing	Bengal Tools Limited	B	54,787	-	54,787	-
Magma Leasing	Chitrlekha Todi	B	18,946	-	18,946	-
Magma Leasing	Clt Punched Tape	B	120,979	-	120,979	-
Magma Leasing	Gnb Credit	B	281,888	-	281,888	-
Magma Leasing	Ganesh Chandra Das	B	4,766	-	4,766	-
Magma Leasing	Khaitan Lefin	B	500	-	500	-
Magma Leasing	Martina Financial Services	B	127,958	-	127,958	-
Magma Leasing	Rahul Todi	B	83,855	-	83,855	-
Magma Leasing	Rahul Todi	B	232,566	-	232,566	-
Magma Leasing	Ravi Todi (Huf)	B	87,833	-	87,833	-
Magma Leasing	Ravi Todi	B	35,012	-	35,012	-
Magma Leasing	Ravi Todi	B	52,003	-	52,003	-
Magma Leasing	Sanjeev Agarwal	B	3,342	-	3,342	-
Magma Leasing	Sarika Todi	B	45,393	-	45,393	-
Magma Leasing	Shrawan Kumar Ravi Todi (Huf)	B	94,622	-	94,622	-
Magma Leasing	Shrawan Kumar Todi	B	55,196	-	55,196	-
Magma Leasing	Shrawan Kumar Todi	B	34,153	-	34,153	-
Magma Leasing	Shrawan Kumar Todi	B	48,300	-	48,300	-
Magma Leasing	Shrawan Kumar Todi	B	19,719	-	19,719	-
Magma Leasing	Sujata Todi	B	20,930	-	20,930	-
Magma Leasing	Sunflower Engineering Indus	B	211,491	-	211,491	-
Magma Leasing	Tozai Enterprises	B	23,966	-	23,966	-
Magma Leasing	Tozai Exports	B	4,209	-	4,209	-



Moschip Semiconductor Technology	Gary Kennedy	S	266,000	-	920,989	2.1
Nicholas Piramal India ,	Deepak Kanvinde	S	6,000	-	6,883	-
Prithvi Information Solutions	V Satish Kumar	B	5,000	-	3,716,944	20.6
Uttam Sugar Mills	Lipi Boilers	S	53,109	0.2	3,657,832	14.2
Uttam Sugar Mills	Lipi Boilers	S	85,144	0.3	3,572,688	13.9
Utv Software Communications	Amrita Pandey	B	260	-	-	-
Utv Software Communications	Amrita Pandey	S	110	-	150	-

Source: BSE

**RELIGARE RESEARCH**
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