investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Balaji Tele	9-July-07	231	**252**	303
Crompton	19-Aug-05	88	**292**	280
HDFC Bank	23-Dec-03	358	**1,199**	1355
Ranbaxy	24-Dec-03	533	**390**	558
Maruti	23-Dec-03	360	**843**	921

Sharekhan Special

Monetary policy review

In the first quarter review of the annual monetary policy, the Reserve Bank of India (RBI) has kept the policy rates unchanged as per expectations but hiked the cash reserve ratio (CRR) by another 50 basis points to 7%, which has come as a surprise. Higher money supply and reserve money growth coupled with risks from higher commodity and oil prices to price stability and inflation are likely to have forced the RBI to take the rather pre-emptive step. In addition to price stability the RBI has added maintenance of financial stability in the policy stance.

The markets (bond, equity and currency) reacted sharply to the hike. Bond yields moved up by 12 basis points after the increase in CRR and closed eight basis points higher at 7.84%. The equity markets dipped sharply but later recovered to close in the green (Sensex up 290 points). The rupee also appreciated by 0.5% to close at Rs40.34 per US dollar.

Liquidity management to receive higher priority

The RBI has assigned highest priority to liquidity management under the current economic scenario. To achieve this end it has undertaken certain measures mentioned in the table below.

Impact of CRR hike on the banking sector

The unexpected CRR hike initially took the markets down but we witnessed a smart recovery after the sharp intra-day dip. Banks are currently not receiving any interest on CRR and the 50-basis-point hike in the CRR would impact the banks' net interest margins by four to six basis points and their FY2008 earnings by 1.6-2.8%. However, the removal of the ceiling of Rs3,000 crore on the reverse repo would realign call money rates to 6-7.75% from below 1% and allow large liquidity surplus banks like State Bank of

Measures announced	Impact
Removed the Rs3000 crore reverse repo cap,but retained the discretion to re-impose the cap No second reverse repo or repo auctions Has the option to conduct liquidity affected facility (LAF) at fixed and variable rates	The removal of the reverse repo cap provides the RBI greater flexibility to absorb higher amount of liquidity from the system. This could in turn mean that the RBI's participation in the foreign exchange market would increase leading to a higher liquidity in the system (liquidity increases when RBI buys dollars and releases rupees into the system), which the central bank wants to suck up via the reverse repo window. But the policy could act like a double-edged sword where in on one hand the RBI supports the rupee but on the other had due to the carry trade arbitrage (borrowing in Yen which attracts lower interest rates, converting them into rupees and deploying it in the domestic market at much higher rates) the rupee continues to appreciate.

Impact on bank's FY2008E earnings

Banks	Deposits as on March 07	Yield on funds (%)	Idle funds due to CRR hike	Impact on PAT-post tax	% of PAT08E PAT
Allahabad Bank	59544	8.0	297.7	16.7	2.03
Andhra Bank	41454	8.0	207.3	11.6	2.10
BOB	124916	8.0	624.6	35.0	2.75
BOI	119882	8.0	599.4	33.6	2.47
Canara Bank	142381	8.0	711.9	39.9	2.64
Corporation Bank	42357	8.0	211.8	11.9	1.90
Punjab National Bank	139860	8.0	699.3	39.2	2.13
State Bank of India	435521	8.0	2,177.6	121.9	2.42
Union Bank of India	85180	8.0	425.9	23.9	2.26
HDFC Bank	68298	10.0	341.5	23.9	1.62
ICICI Bank	230510	9.0	1,152.6	72.6	1.84
UTI Bank	58786	8.5	293.9	17.5	2.04

Figures in Rs crore unless mentioned

India, Punjab National Bank and Bank of Baroda to earn higher interest in the call and repo markets. Hence the effective impact of the hike on the FY2008E earnings of large banks would be marginal.

Banks would hold back lending rate cuts; revision in earning estimates likely

The rising defaults and slowdown in credit growth currently don't make a conducive environment for another round of lending rate hikes. Rather we feel banks would try to mitigate the increased costs by lowering the deposit rates and delay the expected cut in the lending rates. In the current liquidity surplus situation the CRR mop up would not impact the banks' ability to lend. The average liquidity in the system is in the range of Rs50,000-60,000 crore, while the CRR would reduce it by Rs15,000-16,000 crore. The deposit rates have already started to decline and the delay in lending rate cuts would result in higher incremental spreads (despite the CRR hike) which we feel is not factored into the earnings for banks and provide a scope for upward revision in earnings.

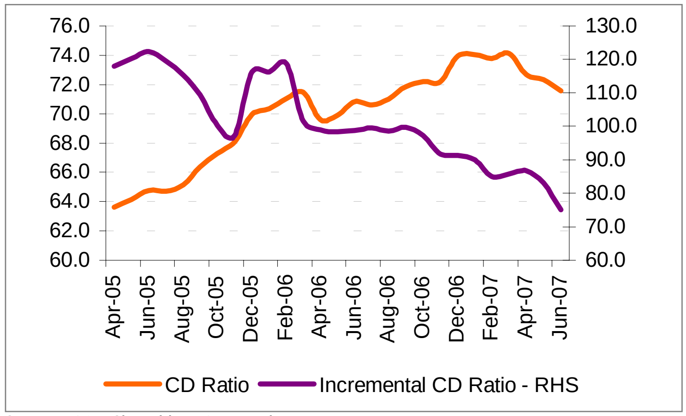
Interest rates and rupee likely to remain firm

With most banks having run out of excess statutory liquidity ration (SLR) holdings the gap in the credit and deposit growth is slowly going to close as we are witnessing in the current growth rates. The incremental credit deposit (CD) ratio has steadily declined from 120% levels to 75% at present. Hence, the incremental loan growth has to be funded largely out of fresh deposits (unless RBI reduces SLR holding requirements which is unlikely in a liquidity surplus situation). The first half of any financial year witnesses a slack in credit demand and after the CRR hike, the lending rate cut which banks were mulling would be deferred. Going forward if credit growth picks up in the second half then interest rates would continue to remain firm and this could start impacting the overall economic growth. The high domestic interest rates would continue to keep the rupee strong however significant appreciation is not expected as the RBI is expected to play a much active part going forward.

RBI remains hawkish despite the decline in headline inflation

The RBI states that the heartening feature of recent macro-economic developments has been the decline in headline inflation which the RBI attributes to the pass-through effects of monetary, fiscal and supply-side measures in conjunction with seasonal factors, especially the moderation of food prices with the arrival of the rabi harvest. However, the recent surge in global prices of several agricultural commodities and crude pose a risk to inflation. The elevated levels of asset prices and the re-emergence of pricing power among producers are potential threats to inflation expectations. RBI's outlook for FY2008 inflation remains unchanged at 5% and the medium term target remains at 4-4.5%.

CD ratio and incremental CD ratio



Source: RBI, Sharekhan Research

Exchange rate management not getting the deserved attention

The RBI has kept its exchange rate management policy unchanged contrary to the market's and our expectations. The RBI's exchange rate policy in recent years has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene, if and when necessary. We expect the rupee to remain firm. The market was expecting some curb on foreign inflows via the overseas borrowing route. Absence of any such measure also supported the rupee and it closed 0.5% up at Rs40.34 per US dollar.

Other key takeaways from the policy

- The GDP forecast for FY2008 is retained at 8.5% and the prospects of growth remain positive led by industry and services sectors.
- On the agricultural front, the outlook is somewhat unclear and would depend on the spread and intensity of the southwest monsoon. From June 1 to July 25, 2007, the rainfall has been 4 per cent above the long period average, according to the Indian Meteorological Department .
- Demand pressures are still visible in the consumer non-durables, although signs of some moderation have begin to set in in the commercial vehicles and auto parts segments.
- The export demand continues to remain strong, except in some industries like textiles, which are facing capacity constraints and rising cost conditions.

- The monetary and banking aggregates continue to rise at persistently high rates, while there is a moderate slackening of non-food bank credit growth.
- The RBI has stated that growth in the emerging market economies will be affected by developments such as upward movement in oil prices, adverse developments in the US housing market and large leveraged positions in financial markets.

Conclusion

The RBI has surprised the markets again with an unexpected CRR hike and sounded hawkish on inflation expectations too. A lot was expected from the policy with regard to exchange rate management. The policy, however, is found wanting in this regard. Although the RBI sounds rather confident regarding economic growth, some of the surveys that it conducts regularly has given a mixed response especially for the export-oriented sector. Our calculations suggest that a significant contribution to the manufacturing led industrial growth currently comes from the sugar cane production and wood products. But due to the seasonality of these sectors and a slowdown in automobiles production industrial growth will remain moderate going forward. Firm interest rates and a strong currency could impact the overall growth story hence we feel the RBI has overlooked the importance of growth and has rather focused more on inflation control.

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

Madras Cement

Cannonball

Stock Update

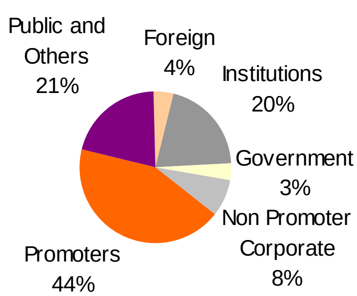
Price target revised to Rs3,700

Buy; CMP: Rs3,328

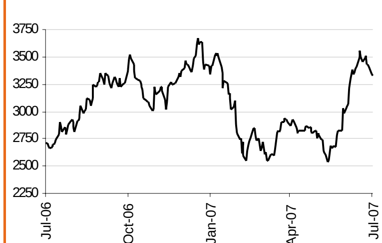
Company details

Price target:	Rs3,700
Market cap:	Rs4,027 cr
52 week high/low:	Rs3,698/2,371
NSE volume: (No of shares)	6,489
BSE code:	500260
NSE code:	MADRASCEM
Sharekhan code:	MADCEM
Free float: (No of shares)	0.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.3	16.5	-1.8	24.1
Relative to Sensex	7.7	5.4	-9.3	-14.2

Result highlights

- In Q1FY2008, Madras Cements' top line grew by 37.7% year on year (yoy) to Rs469 crore on the back of a 5.8% growth in volumes and a 30% rise in realisations. The rise in realisation was because of a Rs10-15 increase in the price per bag of cement in May and June in the south.
- The operating expenditure rose sharply by 40% yoy to Rs286.6 crore on account of higher freight cost and higher employee expenditure. The costs per tonne grew by 32% yoy to Rs1,976 because of a 26% increase in the variable costs.
- The operating profit margin on a year-on-year (y-o-y) basis was lower by 100 basis points at 39.5% whereas on a sequential basis, it was higher by 830 basis points on account of a higher realisation growth. The higher realisations also helped the earnings before interest, tax, depreciation and amortisation (EBITDA) per tonne to grow by 26% yoy to Rs1,260.
- During the quarter, the interest cost doubled to Rs8 crore, thanks to higher borrowings, whereas the depreciation provision grew by 37.4% yoy to Rs23.9 crore.
- Consequently, the profit after tax (PAT) grew by 27.5% yoy to Rs100.5 crore, which was in line with our expectations.
- The company is incurring a capital expenditure (capex) of Rs1,474 crore to expand its capacity by 4 million metric tonne (MMT) in the next one year. The 2MMT expansion at Jayantipuram (including a 1MMT grinding unit at Kolkata) will be commissioned by the third quarter of FY2008, whereas the remaining 2MMT capacity at Ariyalur including an additional 56 megawatt (MW) wind power plant will be commissioned by the second quarter of FY2009.
- Taking cognisance of the higher volume growth and the improved pricing scenario after the price freeze, we are upgrading our FY2008 earnings per share (EPS) estimate by 18% to Rs368 per share and FY2009 EPS estimate by 23% to Rs443.
- The higher capacities will drive the volume growth of the company going forward whereas the improved pricing scenario will improve its profits. The captive power

Result table Rs (cr)

Particulars	Q1FY08	Q1FY07	% yoy	FY07	FY06	% yoy
Net sales	469.3	340.9	37.7	1574.1	1008.4	56.1
Total expenditure	286.6	204.5	40.1	1018.4	798.5	27.5
Operating profits	182.7	136.4	34.0	555.7	209.9	164.7
Other income	2.02	2.9	-30.3	7.5	3.3	128.2
EBIDTA	184.7	139.3	32.6	563.3	214.8	162.2
Interest	8.06	4.2	91.9	22.8	34.4	-33.5
PBDT	176.6	135.1	30.8	540.4	180.5	199.5
Depreciation	23.9	17.4	37.4	71.9	65.2	10.3
PBT	152.7	117.7	29.8	468.5	115.3	306.4
Tax	52.2	38.8	34.4	160.1	32.8	387.9
Reported profit after tax	100.5	78.9	27.5	308.5	79.1	289.9

plants (CPPs) will help lower the power & fuel cost. The company will be able to save income tax in FY2009 to the extent of the accelerated depreciation available on wind power plants, which will positively increase the cash flows of the company. At the current market price (CMP) of Rs3,328,the stock is trading at a valuation of 7.5x its FY2009 earnings which almost captures the near-term opportunity. Thus we maintain our Buy recommendation with a revised price target of Rs3,700.

Higher than expected realisation growth boosts top line by 37.7% yoy

The volumes for the quarter grew by 16.1% yoy to 1.45MMT. The realisations grew by a healthy 19% yoy to Rs3,236,thanks to the cement price hike in the south in May and June. The realisation growth on a sequential basis was higher than the expected 12%. Consequently, the top line grew by a robust a 37.7% yoy to Rs469 crore, ahead of our expectations.

Particulars	Q1FY08	Q1FY07	% yoy	Q4FY07	% qoq
Volumes	1450000	1250000	16.1	1465000	-3
Realisations	3236.6	2729	19.0	2900	12

Source: Company

Operating profit grows by 34% yoy; EBITDA per tonne jumps by 18% yoy

The operating expenditure jumped by 40% yoy to Rs286.6 crore on the back of the employee cost, which grew sharply to 49% yoy, and the other operating expenditure, which rose by 21% yoy. The employee cost and the other operating expenditure also caused the operating profit to grow slower by 34% yoy to Rs82.7 crore. The variable cost per tonne grew by 15% yoy mainly on account of a 34% y-o-y increase in the freight cost. However, the variable cost per tonne on a sequential basis declined by 1%, thanks to the lower freight cost in the quarter as the company had incurred higher expenses in the previous quarter to dispatch cement from Tamil Nadu to Orissa. On the back of a higher realisation growth, the EBITDA per tonne grew by 15% yoy and 41.6% quarter on quarter (qoq) to Rs1,260 per tonne.

Per tonne cost analysis

Particulars	Q1FY08	Q1FY07	% yoy	Q4FY07	% qoq
Raw material	390.6	361.7	8	427.7	-8.7
Stock adjustment	21.1	43.61		54.7	
Employee	131.6	102.4	28	127.4	3.3
Power and fuel	592.1	544.9	8	582.8	1.6
Freight	466.3	349.2	34	498.4	-6.4
Other expenses	375.0	359.8	4	429.4	-12.7
Realisation	3236.6	2729.3	19	2979.6	8.6
Total cost per tonne	1976.7	1637.5	21	2065.7	-4.3
EBIDTA per tonne	1259.9	1091.8	15	913.9	37.9

Per tonne analysis

Particulars	Q1FY08	Q1FY07	% yoy	Q4FY07	% yoy
Realisation	3236.6	2729.3	18.6	2979.6	8.6
Total cost	1976.7	1637.5	20.7	2065.7	-4.3
EBIDTA	1259.9	1091.8	15.4	913.9	37.9

Source: Sharekhan

Net profit grows by 27.5% yoy

On the back of higher borrowings to fund its capex, the company's interest cost doubled to Rs8.06 crore, whereas the depreciation provision increased by 37.4% yoy to Rs23.9 crore as the company commissioned the first phase of its CPP. Consequently, the net profit grew at a slower rate of 27.5% yoy to Rs100.5 crore, in line with our expectations.

Capacity augmentation in progress

As mentioned in our earlier reports, the company is expanding its capacity by 4.5MMT in the next one year by incurring a capex of Rs1,474 crore. At the end of the year the total capacity will stand at 10MMT. The company is also putting up an additional 56MW wind power plant at Ariyalur.

Details of the capex

Location	Details	Timeline	Amount in crore
Jayanthipuram	1.3MMT clinker unit along with 36MW CPP	Q3FY08	
Kolkata	1MMT grinding unit	Q3FY08	
Cumulative			507
Ariyalur	2MMT cement unit	Q2FY09	
	56MW CPP	Q2FY09	
Cumulative			967
Total			1,474

Source: Company

Upgrading earnings

Contrary to our expectations, cement prices have already increased by Rs10-15 per bag in the south in May and June this year. This has improved the realisations of the company by 12% qoq. Consequently, taking cognisance of the higher realisations coupled with an assumption of a price rise of Rs5 per bag for the rest of the year and a volume growth of 9% yoy, we are upgrading our FY2008 EPS estimate by 1% to Rs368 per share. For FY2009 we expect a volume growth of 33%, thanks to the higher capacities. However, we predict cement price could drop by Rs5 per bag in FY2009. As a result, we upgrade our EPS estimate for FY2009 by 23% to Rs443 per share.

Earnings revision

Particulars	FY08E	FY09E
Earlier	313	359
Current	368	443
Upgrade (%)	18	23

Source: Sharekhan

Outlook

The higher capacities will drive the volume growth of the company going forward whereas the improved pricing will add to the company's profit. The CPPs will help to lower the power & fuel cost. The company will be able to save income tax in FY2009 to the extent of the accelerated depreciation available on wind power plants, which will positively add to the cash flows of the company. At the CMP of Rs3,328,the stock is trading at a valuation of 7.5x its FY2009E earnings. Considering the positive outlook for the company, we maintain a Buy recommendation on the stock with a revised price target of Rs3,700.

Earnings table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net profit (Rs cr)	55.7	79.9	308.5	445.4	536.4
% y-o-y growth	*67*	*44*	*286*	*44.4*	*17.8*
Shares in issue (cr)	1.21	1.21	1.21	1.21	1.21
EPS (Rs)	46.1	66.2	255.4	368.7	443.0
% y-o-y growth	*67*	*44*	*286*	*44*	*18*
PER (x)	72.4	50.5	13.1	9.1	6.4
Book value (Rs)	277.2	325.5	551.6	883.5	1272.2
P/BV (Rs)	12.0	10.3	6.1	3.8	2.6
EV/EBIDTA (x)	29.3	21.1	8.1	5.5	4.8
Dividend yield (%)	0.3	0.5	0.7	1.1	1.3
RoCE (%)	10.0	14.9	42.0	42.2	36.4
RoNW (%)	16.6	20.3	46.3	41.7	34.1

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

Subros

Ugly Duckling

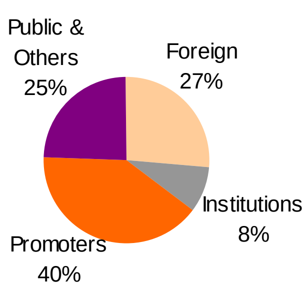
Stock Update

Strong performance

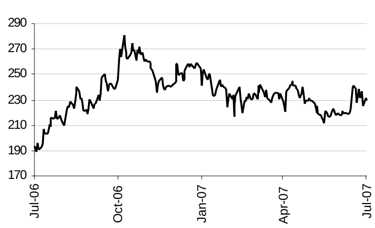
Buy; CMP: Rs238

Company details	
Price target:	Rs340
Market cap:	Rs286 cr
52 week high/low:	Rs285/185
NSE volume: (No of shares)	6,309
BSE code:	517168
NSE code:	SUBROS
Sharekhan code:	SUBROS
Free float: (No of shares)	0.72 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	1.0	-9.7	20.5
Relative to Sensex	0.7	-8.7	-16.6	-16.7

Result highlights

- Subros' Q1FY2008 results are above our expectations, thanks to a strong improvement in its profitability. The net sales of the company grew by 11.4% to Rs157.7 crore in the quarter led by a volume growth of 17%. The strong performance of one of its key customers, Maruti Suzuki India, particularly contributed to Subros' impressive performance.
- The operating profit margin (OPM) improved by a good 150 basis points to 12.2% during the quarter due to rising efficiencies and savings in logistic cost as a result of better operations from its newly commissioned Gurgaon plant. Consequently, the operating profit for the quarter grew by 26.1% to Rs19.2 crore.
- Both interest and depreciation charges were higher due to the capital expenditure (capex) incurred by the company for the new plant and efforts to raise its capacity further. Consequently, the company reported a 10.1% growth in its net profit to Rs6.6 crore.
- We maintain our positive outlook on Subros. We also understand that the company has recently bagged a huge order from Suzuki for the export vehicle that shall be manufactured from the Japanese company's Manesar plant. Also, the company shall be supplying to Mahindra and Mahindra for the latter's yet to be launched *Ingenio* range.
- At the current levels, the stock is available at attractive valuations of 5.3x FY2009E earnings and an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 2.5x. We maintain our Buy recommendation on the stock with a price target of Rs340.

Result table Rs (cr)

Particulars	Q1FY2008	Q1FY2007	% yoy chg
Net sales	**157.7**	**141.6**	**11.4**
Expenditure	138.5	126.4	9.6
Consumption of RM	111.1	101.5	
Stock adjustment	-0.4	-0.1	
Staff cost	10.5	8.0	
Other exp	17.3	17.0	
Operating profit	19.2	15.2	26.1
Other income	0.2	0.31	-35.5
EBIDTA	19.4	15.5	24.9
Interest	2.7	1.31	103.1
PBDT	16.7	14.2	17.7
Depreciation	7.4	5.6	31.3
PBT	9.3	8.6	8.7
Tax	2.8	2.6	5.7
PAT	**6.6**	**5.9**	**10.1**
EPS	5.5	5.0	
OPM (%)	12.2	10.7	
EBIDTAM (%)	12.3	11.0	
PATM (%)	4.2	4.2	

Strong top line growth

Subros' top line saw an impressive growth in Q1FY2008 on the back of the strong performance of one of its key clients, Maruti Suzuki India. The net sales of Subros grew by 11.4% to Rs157.7 crore, in line with our estimates, mainly on account of a volume growth of 17% during the quarter.

Rising efficiencies lead to margin growth

The OPM of the company improved by 150 basis points year on year (yoy) to 12.2%. This margin improvement was due to higher efficiencies resulting from better utilisation of its new plant at Gurgaon and savings in the logistic cost (the new plant is located closer to Maruti Suzuki India's plant). Consequently, the operating profit grew by 26.1% to Rs19.2 crore for the quarter.

Both interest and depreciation charges rose during the quarter due to the capex incurred in recent times to commission the plant at Gurgaon and the efforts to raise its capacity further. As a result, the net profit for the quarter declined by 10.1% yoy to Rs6.6 crore.

Entering second phase of capex

The company plans to spend about Rs20-22 crore in FY2008 when it aims to raise its capacity to 10 lakh units. In the first phase, the company had raised its capacity from 5 lakh units to about 7.5 lakh units with the commissioning of its Gurgaon plant. The company has also bagged big orders from some of the major original equipment players like Suzuki, and Mahindra and Mahindra. Subros would be supplying air conditioning systems for Suzuki's new export vehicle to be developed at the Japanese company's Manesar plant. We expect this to trigger a strong growth in Subros' volumes from mid-FY2009. The company would also be supplying for Mahindra and Mahindra's new model Ingenio.

Outlook

We maintain our positive view on the company considering the impressive growth rates being recorded by some of its top clients. Subros is likely to benefit from a flurry of new launches taking place in the passenger car segment. The recent order win from Suzuki to cater to the Japanese company's export vehicle reinforces our faith in Subros' product quality and the trust that it enjoys in the market. Considering the new orders, we are raising our FY2009 earnings estimate by 6.8% to Rs42.8.

We believe that the company is trading at very attractive valuations and hence maintain our bullish stance on the stock. At the current levels, the stock is discounting its FY2009E earnings by 5.3x and is available at an EV/EBIDTA of 2.5x. We maintain our Buy recommendation on the stock with a price target of Rs340.

Earnings table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net profit (Rs cr)	21.2	24.3	31.9	33.8	51.4
% y-o-y growth	*44.0*	*19.0*	*31.3*	*6.0*	*51.9*
Shares in issue (cr)	1.2	1.2	1.2	1.2	1.2
EPS (Rs)	17.7	20.3	26.6	28.2	42.8
% y-o-y growth	*44.0*	*19.0*	*31.3*	*6.0*	*51.9*
PER (x)	13.2	11.1	8.5	8.0	5.3
Book value (Rs)	91.1	107.4	136.8	167.9	215.2
P/BV (Rs)	2.5	2.1	1.6	1.3	1.0
EV/EBIDTA (x)	6.0	5.6	4.4	3.7	2.5
Dividend yield (%)	1.3	1.1	1.4	1.5	2.3
RoCE (%)	21.2	20.6	21.7	20.4	25.8
RoNW (%)	18.7	18.9	19.5	16.8	19.9

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

Omax Autos

Apple Green

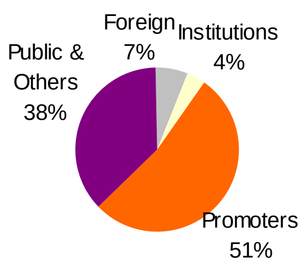
Stock Update

Book out

Book Out; CMP: Rs71.5

Company details	
Market cap:	Rs153 cr
52 week high/low:	Rs112/70
NSE volume: (No of shares)	20,704
BSE code:	520021
NSE code:	OMAXAUTO
Sharekhan code:	OMAX
Free float: (No of shares)	1.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-13.0	-18.3	-24.3	-7.0
Relative to Sensex	-16.5	-26.1	-30.1	-35.7

Result highlights

- Omax Auto's Q1FY2008 results were better than our expectations due to a higher than estimated top line and stable margins during the quarter.
- The net sales of the company grew by a good 7.5% to Rs172.3 crore in the quarter, led by an 8.3% growth in the domestic sales to Rs165 crore. The exports for the quarter were disappointing at Rs7.3 crore against Rs8 crore in the same quarter last year.
- The operating profit margin (OPM) for the quarter declined by 80 basis points year on year (yoy) and was flat sequentially at 9%. Consequently, the operating profit declined by a marginal 0.7% to Rs15.6 crore.
- A higher capital expenditure (capex) led to an increase in both the interest and the depreciation cost. This led to a 29.3% decline in the profit to Rs4 crore.
- Omax Auto has rendered a mixed performance in the past few quarters. Though its margins have improved a bit, the company has fallen short of meeting its export targets. The entry into the business of components for commercial vehicles would de-risk its business model a little. However, we expect the company to face the heat in the domestic market due to a slowdown in the two-wheeler industry. Moreover, the cut-throat competition in the ancillary industry might restrict the margin growth for Omax Auto. We thus expect FY2008 to be weak for Omax Auto, both in terms of top line and bottom line growth.
- We expect the company to report a 27.6% decline in its earnings in FY2008 but recover in FY2009, with better two-wheeler volumes as well as the commencement

Result table Rs (cr)

Particulars	Q1FY2008	Q1FY2007	% yoy chg
Net sales	**172.3**	**160.3**	**7.5**
Total expenditure	156.7	144.6	8.3
Raw material consumed	116.7	109.6	6.4
Change in stock	-0.3	-3.2	
Staff cost	17.6	15.6	12.6
Other expenses	22.7	22.5	0.8
Operating profit	**15.6**	**15.7**	**-0.7**
Other income	3.4	1.9	
EBIDTA	19.0	17.6	8.0
Interest	6.7	3.8	74.5
PBDT	12.3	13.7	
Depreciation	6.1	5.0	21.7
PBT	**6.2**	**8.7**	**-29.0**
Tax	2.2	3.0	
Reported PAT	**4.0**	**5.7**	**-29.3**
EPS (Rs)	1.9	2.7	
OPM (%)	9.0	9.8	
NPM (%)	2.3	3.6	

of supplies to Tata Motors. We expect its earnings per share to reach Rs11.3 in FY2009. At the current market price, the stock is trading at 6.3x its FY2009E earnings and is available at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 4x. Considering the slowdown in domestic market in FY2008, slower offtake in its exports and restricted margins, we are closing our recommendation on the stock. We recommend investors to book out.

Strong top line growth but exports still disappoint

Omax Auto's Q1 results were ahead of our expectations on the top line front because of the strong growth recorded by one of its clients, HMSI. The net sales for the quarter grew by a good 7.5% to Rs172.3 crore, led by an 8.3% growth in the domestic sales to Rs165 crore. The exports for the quarter were disappointing at Rs7.3 crore against Rs8 crore in the same quarter of the last year. The exports growth has consistently been disappointing for Omax Auto. The company expects to improve its exports in the coming quarters and targets export revenues of Rs45-50 crore for the year as it is looking to start deliveries to Delphi and Volvo starting from the next quarter.

Margins remain stable

The OPM for the quarter remained more or less stable. Though it declined by 80 basis points yoy, the company was able to maintain it on a sequential basis. Consequently, the operating profit declined by a marginal 0.7% to Rs15.6 crore. The company does not see any major benefit accruing from Omax Steel and would be reducing its stake in the company to below 50% in the coming times. A higher capex led to an increase in both the interest and the depreciation cost, thereby leading to a 29.3% fall in the net profit to Rs4 crore during the quarter.

The bulk of the company's revenues accrue from the two-wheeler industry (about 85%). We believe that the continuing slowdown in the two-wheeler industry and the cut-throat competition in the ancillary industry would restrict the margin growth for some of the ancillary companies like Omax Auto.

Capex plans

Going forward too, Omax Auto would be spending on capacity expansions in the existing plants located in Dharuhera, Binola and Bangalore. For FY2008, the company plans to incur a total capex of about Rs100 crore, out of which Rs55 crore would be spent in the first phase to build the manufacturing facility for Tata Motors at Lucknow. The unit is expected to start operations by Q2FY2009 and the initial capacity would be about 48,000 units which shall be later scaled up to 96,000 units.

Valuation and view

Omax Auto has rendered a mix performance in the last few quarters. Though the margins have recorded a slight improvement, the export revenues have continued to disappoint. We expect FY2008 to be a tough year for the company on account of the slowdown in the two-wheeler industry. Further, the margin growth would also be restricted considering the lower volumes and cut-throat competition in the ancillary industry. We expect the sales to pick up in FY2009, due to the revival in the two-wheeler industry and the start of the facility for Tata Motors. In FY2008 we expect the company's EPS to decline by 27.6% to Rs8; while we expect the company to report EPS of Rs11.3 in FY2009. At the current market price, the stock is trading at FY2009 price/earnings ratio of 6.3x and an EV/EBIDTA of 4x. Considering the slowdown in domestic market in FY2008, slower offtake in its exports and restricted margins, we are closing our recommendation on the stock. We recommend investors to book out.

Earnings table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net sales (Rs cr)	505.3	578.0	689.5	729.4	877.2
Net profit (Rs cr)	20.6	18.9	23.6	17.1	24.2
EPS (Rs)	9.0	8.8	11.1	8.0	11.3
% y-o-y change	*9.1*	*-2.3*	*25.1*	*-27.6*	*41.5*
PER	7.9	8.1	6.5	9.0	6.3
P/B	1.6	1.4	1.2	1.1	0.9
EV/EBIDTA	4.6	5.5	3.9	5.0	4.0
RoCE (%)	20.1	15.8	18.1	15.0	17.3
RoNW (%)	20.5	16.7	17.9	11.8	14.7

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

Tata Motors

Apple Green

Stock Update

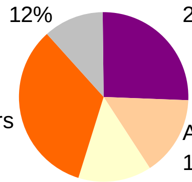
Q1FY2008 results: First-cut analysis

Buy; CMP: Rs699

Company details

Price target:	Rs792
Market cap:	Rs26,938 cr
52 week high/low:	Rs975/635
NSE volume: (No of shares)	15.4 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Sharekhan code:	TELCO
Free float: (No of shares)	19.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.6	-3.9	-19.8	-0.9
Relative to Sensex	1.3	-13.1	-25.9	-31.5

Result highlights

- Tata Motors Q1FY2008 results were below our expectations due to lower than expected margins during the quarter. However, the bottom line was buttressed by a higher foreign exchange (forex) gain on account of the appreciation in the rupee during the quarter.
- The net sales for the quarter grew by 5.3% to Rs6,056.8 crore on the back of a 1.3% volume growth and a 3.9% realisation growth during the quarter.
- However, high raw material cost and lower volumes, particularly in the commercial vehicle segment, adversely affected the margin (excluding the forex gain/loss). The margin declined to 9% from 11.9% in the same quarter of the last year. Hence, the operating profit dropped by 19.9% to Rs546.3 crore.
- A little higher interest and depreciation charges led to a drop of 39.4% in the adjusted net profit to Rs259 crore. After accounting for the forex gain of Rs205.9 crore during the quarter, the net profit grew by 22.4% to Rs466.76 crore.
- On consolidated basis, the company's sales grew by 13.3% to Rs7,631.3 crore while the net profit excluding the forex gain declined by 27.7% to Rs308.2 crore. The profit after extraordinaries and forex adjustments increased by 35.7% to Rs516.1 crore.
- At the current levels, the stock trades at 10.6x its FY2009E consolidated earnings and is available at an enterprise value/earnings before interest, depreciation, tax and amortisation of 5.3x. We maintain our Buy recommendation on the stock with a price target of Rs792.

Result table Rs (cr)

Particulars	Q1FY2008	Q1FY2007	% yoy chg
Net sales	**6056.8**	**5749.6**	**5.3**
Total expenditures	5510.5	5067.3	8.7
RM cost	4357.9	4265.1	2.2
Change in stock	-137.3	-385.33	
Staff cost	351.9	302.4	16.3
Other expenditure	938.1	885.2	6.0
Operating profits	**546.3**	**682.2**	**-19.9**
Other income	86.3	85.9	0.5
EBIDTA	**632.6**	**768.1**	**-17.6**
Interest	81.6	72.6	
PBDT	551.1	695.6	-20.8
Depreciation	166.8	151.4	
PBT	384.3	544.2	-29.4
Tax	125.4	116.4	
Adjusted PAT	**258.9**	**427.8**	**-39.5**
Extraordinary item (incl forex gain/loss)	207.9	-46.0	
Reported PAT	**466.8**	**381.9**	**22.2**
EPS (Rs)	12.1	10.0	
OPM (%)	9.0	11.9	
PATM (%)	4.3	7.4	

United Phosphorus

Viewpoint

Focus on Latin American markets for growth

CMP: Rs307

We attended the conference call of United Phosphorus Ltd (UPL) to discuss Q1FY2008 results. We present the key takeaways from the call.

In Q1FY2007, the net revenue of UPL increased by 75.8% year on year (yoy) to Rs842.3 crore largely on the back of the Rs277 crore contributed as revenues by Cerexagri, which has been acquired by the company recently. On a stand-alone basis, the net revenue improved by 16% yoy to Rs336.1 crore.

The operating income of the company for the quarter increased by 39% yoy to Rs167 crore, however the operating profit margin (OPM) declined by 530 basis points to 19.8%. The decline in the OPM is the result of the total operating expenses, which increased by 88% yoy to Rs675.4 crore. The operating expenses also include the expenses of Cerexagri.

After adjusting the interest cost, which grew by 33% year on year (yoy) to Rs32 crore, the net profit of the company in the quarter stood at Rs74 crore. The interest cost includes a foreign exchange gain of Rs9.4 crore, and a tax provision of Rs14 crore and a depreciation of Rs50.5 crore (a 40% year-on-year increase). The profit after tax (PAT) includes a profit of Rs0.44 crore contributed by Advanta. On a stand-alone basis, the net profit stood at Rs29.5 crore.

On geographic basis, North America contributed 35% of the total revenue in Q1FY2008 at Rs299 crore, followed by Europe operations, which contributed 32% of the revenues at Rs267 crore. India contributed 19% to the total revenue at Rs163 crore and the rest of the world 14% to the total revenues at Rs117 crore.

Cerexagri has reported a gross margin of 41% and earnings before interest, tax, depreciation and amortisation (EBITDA) margin at 9.4%. UPL has initiated cost saving efforts for Cerexagri the effect of which would be seen by the end of this financial year.

The company has registered two products in Brazil and is expecting to register two more products there.

Through Cerexagri, the company plans to launch the products in the markets of Africa and Asia where Cerexagri never had any operations. The company also plans to launch Cerexagri's post harvest products in India.

The company through its UK subsidiary bought 100% stake of ICONA and ICONA San Luis S.A. (ICONA), headquartered in Buenos Aires, Argentina. ICONA has two manufacturing facilities in Argentina and has revenues of $13 million and an enterprise value of $10 million. It has a cash of around $3 million, which is reflected in the Enterprise value.

As on June 2007, the debt on the books of the company was around Rs1700 crore, whereas the cash with the company was around Rs100 crore.

The company views Latin America and Asia as two very important markets for its exponential growth in the future. Future consolidation in developing markets can enhance company's market share.

Consolidated results Rs (cr)

Particulars	Q1FY08	Q1FY07	% yoy
Net income	842.3	479.0	75.8
Total operating expenses	675.4	358.9	88.2
Operating income	166.9	120.2	38.9
Other Income	2.8	1.4	103.7
PBIDT	169.7	121.5	39.6
Interest	32.0	24.1	32.7
PBDT	137.7	97.4	41.3
Depreciation	50.5	36.0	40.2
PBT	87.2	61.4	42.0
Provision for taxes	13.9	7.4	88.5
PAT before share of profit	73.3	54.1	35.6
Share of profits in associate company	0.4	0.0	
PAT	73.8	54.1	36.5
EPS	3.9	2.9	
OPM (%)	19.8	25.1	
PATM (%)	8.8	11.3	

Valuation

At the current market price of Rs307, the stock is trading at 20.4x its FY2007 earnings and enterprise value (EV)/ EBITDA multiple of 18.2x of its FY2007 EBITDA. UPL is the fourth largest generic agrochemical companies in the world. The company is well diversified with a strong presence in traditional agrochemical segment and by acquiring Advanta it has entered the seed segment. All these factors combined gives it an edge over its competitors.

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

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Balaji Telefilms
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Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt
Zensar Technologies

Vulture's Pick

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WS Industries India