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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aban Offshore	03-Mar-05	330	3,503	4,829
♦ Infosys	30-Dec-03	689	1,870	2,013
♦ Lupin	06-Jan-06	403	671	840
♦ Opto Circuits	13-May-08	338	319	460
♦ Tata Chem	31-Dec-07	411	353	535

Pulse Track

♦ Government hikes oil prices

The Cabinet Committee on Political Affairs (CCPA) has finally hiked the domestic oil prices amidst soaring crude prices globally and rising losses of state-owned oil marketing companies. The government has hiked petrol and diesel prices by Rs5 per litre and Rs3 per litre respectively and that of liquefied petroleum gas (LPG) by Rs50 per cylinder. It has however kept the kerosene prices unchanged. The price hike would be effective from midnight tonight.

In addition to the fuel price hike, the government has announced reduction in duties on oil products. It has reduced the excise duty on high-speed diesel (HSD) and petrol by Re1. Customs duty on crude has been reduced to nil from 5%, while customs duty on diesel and petrol has been slashed to 2.5% from 7.5% earlier and for other petro products the customs duty has been reduced to 5% from 10% earlier. The duty cuts (excise and customs duty) would reduce the government's cash inflow by Rs22,660 crore.

Oil under-recoveries to decline

As a direct impact of the oil price hike, the mounting oil under-recoveries of the state-owned oil marketing companies (OMCs) will fall by ~Rs21,000 crore. In addition, the lower custom duties will help save another Rs22,600 crore for the OMCs. Cumulatively, the total oil under-recoveries will get reduced by 17-18%. Of the remaining burden, upstream companies (such as ONGC) would contribute Rs60,000 crore through discounts to the state-owned oil refiners and marketing companies.

Oil bonds issuance of Rs95K crore

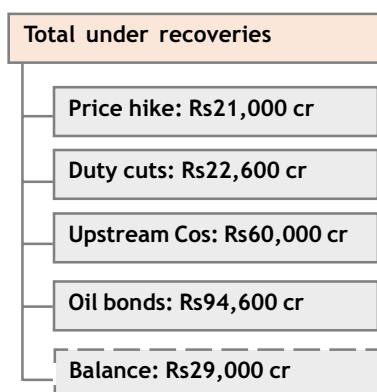
Besides the price hike and duty cuts, the government has decided to take a burden of Rs94,601 crore for which it will issue oil bonds. In all likelihood, the government will eventually share the unrecovered balance of Rs29,000 crore through oil bonds.

Impact on inflation

Petrol, HSD and LPG have a combined weightage of 4.75% in the wholesale price index (WPI). Considering the weightage and the increase in fuel prices, we believe that the fuel price hike will have a direct impact of 60-65 basis points on inflation. In addition, the price hike is expected to have an indirect impact of ~30 basis points on the inflation, but with a lag of two-three months as higher fuel costs get passed on after the current inventory runs-off. Consequently, we believe that the inflation rate is likely to cross 9% level in the weeks to come.

Oil product	WPI weight	Price change (Rs)	Price change (%)	Impact on inflation
Petrol	0.89%	5	11	10 bps
Diesel	2.02%	3	9	19 bps
Kerosene	0.69%	-	-	-
LPG	1.84%	50	19	34 bps
				63 bps

Burden sharing arrangement



Wipro

Apple Green

Stock Update

Reorganising structure for better growth

Buy; CMP: Rs497

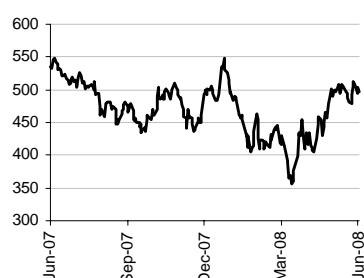
Company details

Price target:	Rs535
Market cap:	Rs72,680 cr
52 week high/low:	Rs555/325
NSE volume: (No of shares)	9.2 lakh
BSE code:	507685
NSE code:	WIPRO
Sharekhan code:	WIPRO
Free float: (No of shares)	30.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.6	19.9	2.7	-6.6
Relative to Sensex	10.6	24.8	25.5	-15.7

We attended the analyst meet of Wipro held in Mumbai. Some of the key high lights of analyst meet are presented below.

- ♦ **Reorganisation of structure to enhance focus:** In addition to appointing two joint chief operating officers, Wipro has aligned its structure based on industry verticals to improve its operational efficiencies and provide better positioning for large transformational deals. Inorganic initiatives will also continue to be an important strategy in building the competitive edge over the peers for large transformational deals.
- ♦ **India and Middle East to be major growth driver:** The Indian and Middle East market has grown by a compounded annual growth rate (CAGR) of 35% in the last five years, and is regarded as an important market apart from the USA and Europe by Wipro. Last year Wipro won three mega deals—a \$600 million deal from Aircel, a \$100 million worth deal from Saudia Airlines and a deal from Future Group.
- ♦ **Pricing environment remains stable:** Wipro has indicated that the pricing environment has remained stable. It has been able to renegotiate higher billing rates in most contracts renewed in the past few months. The demand environment is expected to improve in the second half of the year and the management continues to indicate back-ended growth this fiscal.
- ♦ **Margin drivers:** The management expects meaningful moderation in offshore wage hikes this year, which is expected to be down to 10-12% as compared to 14-15% in the past couple of years. Moreover, Wipro has significant leverage in its employee utilisation rate and tightening up of performance on fixed rate contracts.

Key concerns

Further deterioration in the US economy is a key risk to the expected ramp up in the second half of this fiscal. However, the relatively lower exposure to financial services vertical as compared to peers should cushion the downside.

Earnings table

Particulars	FY2007	FY2008	FY2009E	FY2010E
Net sales (Rs cr)	14943	19743	25164	29899
Net profit (Rs cr)	2917	3224	4001	4570
No of shares (cr)	143	143.0	144	145
EPS (Rs)	20.4	22.5	27.8	31.6
% yoy change	43.7	10.3	23.2	13.8
PER (x)	24.3	22.1	17.9	15.7
Price/BV (x)	7.0	5.5	4.6	3.8
EV/EBIDTA(x)	22.3	19.5	15.5	13.5
Dividend yield (%)	2.0	1.2	2.0	2.0
RoCE (%)	22.4	16.2	16.9	16.2
RoNW (%)	28.7	24.9	25.5	24.2

The company holds around US\$3 billion of forex hedges and will incur market-to-market losses in profit and loss account, as some of these hedges get matured during the year. This will somewhat dampen the operating margin gains due to expected depreciation of rupee against the US dollar during FY2009.

Valuation and view

At the current market price, the stock trades at 17.9x its FY2009 estimated earnings and 15.7x FY2010 estimated earnings. We continue to maintain our Buy recommendation with a price target of Rs535. Among the frontline stocks, we prefer Satyam Computer Services and Tata Consultancy Services.

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

Tata Tea

Apple Green

Stock Update

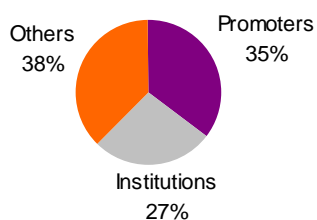
Domestic volumes—sipping hot

Buy; CMP: Rs779

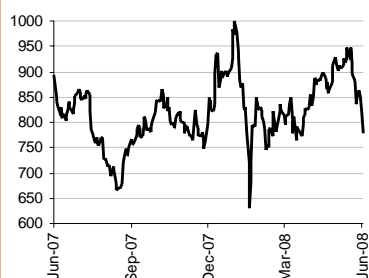
Company details

Price target:	Rs970
Market cap:	Rs48,034 cr
52 week high/low:	Rs1014/586
NSE volume: (No of shares)	1.6 lakh
BSE code:	500800
NSE code:	TATATEA
Sharekhan code:	TATATEA
Free float: (No of shares)	40.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.1	0.3	3.1	-12.3
Relative to Sensex	-3.3	4.4	26.1	-20.9

Result highlights

- ◆ Tata Tea registered a growth of only 1.5% in the net sales in Q4FY2008 to Rs1,176.8 crore. Adverse forex translation and transfer of North India Plantation Operations (NIPO) impacted the overall growth.
- ◆ The operating profit margin (OPM) declined by 58 basis points due to higher raw material cost, as raw material cost as percentage to sales increased by 344 basis points to 32.7% in Q4FY2008. However a decrease in the employee cost coupled with lower advertisement expenses aided a marginal decline in the OPM. Thus, the operating profit declined by 2.6% to Rs161.5 crore.
- ◆ The lower interest cost and exceptional income led to a 154.7% increase in the adjusted net profit to Rs78.7 crore during Q4FY2008.
- ◆ On the domestic front, the company on a standalone basis registered a growth of 9.5% year on year (yoy) to Rs275 crore despite the transfer of NIPO and the strong rupee. Better performance in the domestic market was attributed to a more than 15% growth in the branded tea volume during Q4FY2008.
- ◆ The OPM improved by 350 basis points to 9.4% yoy, mainly due to the lower employee cost, which declined by 51.5% to Rs19.7 crore. Thus the adjusted net profit stood at Rs51.3 crore during Q4FY2008.
- ◆ While Tata Tea would continue to deliver stable performance across businesses, which in FY2009 should be aided by weakening of the rupee, the company's hefty cash reserves together with the management's intention to look for acquisitions in the domestic and global non-alcoholic beverage market will ensure inorganic growth for the company in the future.
- ◆ At the current market price of Rs777.3 the stock trades at 10.7x FY2010E earnings per share (EPS) of Rs72.9. We maintain Buy recommendation with the sum-of-the-parts price target of Rs970.

Results table (consolidated)

Particulars	Q4FY2008	Q4FY2008	% yoy	FY2008	FY2007	% yoy
Net sales	1176.8	1159.1	1.5	4392.3	4044.6	8.6
Total expenditure	1015.3	993.3	2.2	3682.1	3312.9	11.1
Operating profit	161.5	165.9	-2.6	710.2	731.7	-2.9
Other income	5.9	3.5	69.1	95.9	93.4	2.7
EBIDTA	167.4	169.3	-1.1	806.1	825.1	-2.3
Interest	15.9	105.7	-85.0	221.4	272.9	-18.9
Depreciation	23.5	24.5	-4.2	91.6	96.7	-5.2
PBT	177	69.3	155.6	2059.3	565.6	264.1
Reported PAT	117.6	59.9	96.2	1905.9	458	316.1
Extraordinary items	48.9	30.1	62.4	1566.2	110.2	1321.6
Adjusted PAT	78.7	30.9	154.7	339.7	354.1	-4.1
OPM (%)	13.7	14.3	58bps	16.2	18.1	-192bps

Operating performance—Growth impacted by adverse forex translation

Group performance

Tata Tea registered a growth of only 1.5% in the net sales in Q4FY2008 to Rs1,176.8 crore as against the net sales of Rs1,159.10 crore during the corresponding quarter of the previous year. Adverse foreign exchange (forex) translation and transfer of NIPO impacted the overall top line growth. The OPM declined by 58 basis points to 13.7% due to higher raw material cost. The interest on loan for the acquisition of Glaceau came down to Rs18.9 crore from Rs76.64 crore, as the company repaid a large chunk of the debt. Thus the net interest expense came down to Rs15.9 crore from Rs105.7 crore. Lower interest cost and higher exceptional item led to a 154.7% increase in the adjusted net profit to Rs78.7 crore during Q4FY2008.

For FY2008, the company achieved a growth of 9.1% to Rs4,392.3 crore as compared to Rs4024.9 crore in FY2007. The sale of investment held in Energy Brand Inc resulted in the exceptional income of Rs1,607.52 crore for FY2008. Consequently, Tata Tea posted a net profit of Rs1,542.6 crore for FY2008 as against Rs443.4 crore in FY2007.

Tata Tea GB Ltd—Subdued performance

Tata Tea GB Ltd achieved flattish revenue of Rs2,304.0 crore during FY2008. This was due to appreciation of the rupee that pulled down the rupee revenues by 6%. Higher spends on advertising and promotional activities and higher distribution and maintenance cost led to a 6% decline in the earnings before interest and tax (EBIT). Otherwise, the EBIT would have been higher by Rs18 crore on constant forex rate.

Domestic performance

On the domestic front, for the quarter, the company registered a growth of 9.5% yoy in the net sales to Rs275 crore despite the transfer of NIPO and the strong rupee. The growth was attributed to strong performance by some of Tata Tea's popular brands, which registered a growth of more than 15% yoy in volume terms. *Tata Tea Agni* in the economy segment posted an excellent growth of 46% yoy in volume terms due to low pricing strategy. *Chakra Gold* tea, which is a number 2 brand in the high quality and high price premium dust tea market in South India, achieved a higher growth compared to that of the last year through consistent thematic support and strong trial generation initiatives. The OPM improved by 350 basis points to 9.4% yoy, mainly due to the lower employee cost, which declined

by 51.5% to Rs19.7 crore. The employee cost was lower due to the sale of NIPO, which was partly offset by the salary increase of the employees. However the raw material cost as percentage to sales increased to 51.7% as against 40.9% in Q4FY2007. Lower employee cost and other expenditure led to a 73.2% growth in the operating profit to Rs25.9 crore. Exceptional items include a pre-tax profit of Rs161.7 crore from the sale of NIPO.

Tata Tea's branded tea market share

Geography	Volume %		Value %	
	Mar'08	Change	Mar'08	Change
GB	30.1	1.2	26.1	-0.1
Australia	18.8	-0.9	12.4	-1.3
Canada	41.3	1.1	36.6	0.8
France	9.1	0.5	9	0.5
USA	7.7	0.4	5.5	-0.1
India	20.2	2.3	20.4	1.8

Tata Coffee (consolidated)

During FY2008, the net sales of consolidated Tata coffee increased by 31% yoy to Rs978 crore. The standalone Tata coffee sales increased by 15% yoy to Rs307 crore mainly due to the increase in the instant coffee exports. *Eight o'clock* coffee posted net sales of Rs676 crore compared to Rs483 crore for the eight months of the previous year. The sales were impacted by adverse forex translation, which led the revenues to be lower by Rs77 crore. The other expenses as proportion to sales declined by 450 basis points leading to a 220-basis point improvement in the OPM to 18.2% during FY2008. Consequently, the operating profit increased by 50.3% to Rs178.7 crore. Higher incidence of tax resulted in a 22% growth in the reported net profit to Rs39.5 crore.

Performance of Tata Tea group

Particulars	Rs (cr)		
	FY2007	FY2008	% yoy
Net sales			
Tata Tea (standalone)	1070.4	1153.4	7.8
Tata Tea GB	2298.0	2304.0	0.3
Tata Coffee (consolidated)	746.3	983.2	31.7
EBIT			
Tata Tea (standalone)	254.9	276.0	8.3
Tata Tea GB	319.0	301.0	-5.6
Tata Coffee (consolidated)	103.0	151.5	47.0
EBIT margins (%)			bps
Tata Tea (standalone)	23.8	23.9	11.5
Tata Tea GB	13.9	13.1	-81.7
Tata Coffee (consolidated)	13.8	15.4	160.0

New initiatives—Water business

Tata Tea launched Himalayan mineral water in Q4FY2008 (a brand of Mount Everest Mineral Water in which Tata Tea has a 31.73% stake) in its new avatar. The bottled water market in India is estimated at over Rs1,500 crore and is growing at a stupendous rate of 25% yoy. The segment is highly fragmented with nearly 200 brands with a wide spectrum of price-value offerings. In FY2008, the brand achieved a turnover of Rs25 crore. However, the profitability was impacted by the costs incurred on building the distribution system to meet the aggressive growth plan.

Valuation and view

While Tata Tea would continue to deliver stable performance across businesses, which in FY2009 should be aided by weakening of the rupee, the company's hefty cash reserves together with the management's intention to look for acquisitions in the domestic as well as global non-alcoholic beverage market will ensure inorganic growth for the company in the future. At the current market price of Rs777.3, the stock trades at 10.7x FY2010E EPS of Rs72.9. We maintain Buy recommendation with the sum-of-the-parts price target of Rs970.

Sum-of-the-parts valuation

Particulars	value per share	Comments
Core business value	886	at 12.1X FY2010 earnings
Value of investments	83	50% of fair value
Price target	970	

Key financials

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs cr)	294.0	354.1	339.7	416.8	450.8
Shares in issue (cr)	5.6	5.9	6.2	6.2	6.2
EPS (Rs)	52.5	60.2	55.1	67.4	72.9
<i>% y-o-y change</i>		14.7	-8.5	22.4	8.2
P/E (x)	14.8	12.9	14.1	11.5	10.7
Book value (Rs)	280.1	369.2	594.5	649.1	710.6
P/BV (x)	2.8	2.1	1.3	1.2	1.1
EV/Sales (x)	1.8	2.1	1.0	0.9	0.8
EV/EBITDA (x)	10.0	11.5	6.4	5.7	5.2
RoNW (%)	19.0	18.9	11.6	10.9	10.7
RoCE (%)	13.9	11.7	8.4	8.5	8.8

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Orbit Corporation

Ugly Duckling

Stock Update

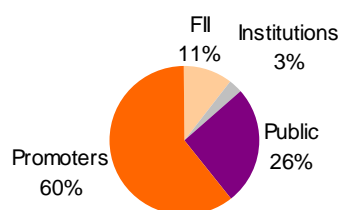
Q4FY2008 results: First-cut analysis

Buy; CMP: Rs471

Company details

Price target:	Rs852
Market cap:	Rs2,139 cr
52 week high/low:	Rs1080/216
NSE volume: (No of shares)	2.4 lakh
BSE code:	532837
NSE code:	ORBITCORP
Sharekhan code:	ORBITCORP
Free float: (No of shares)	1.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.8	-19.5	-36.9	95.9
Relative to Sensex	0.3	-16.2	-22.8	76.8

Result highlights

- Orbit Corporation's Q4FY2008 performance was ahead of our expectations. The consolidated earnings grew by 122.2% sequentially to Rs122.5 crore. Consequently, the consolidated earnings for the full year FY2008 stood at Rs235.8 crore (a growth of 312.1% over FY2007) ahead of our expectations of Rs224.2 crore.
- The operating profit grew by 40.1% to Rs144.9 crore in Q4 and was in line with our expectations. However, the jump in the other income to Rs2.4 crore and the lower effective tax rate resulted in higher-than-expected growth in the earnings during the quarter.
- The company has 653,923 square feet (sq ft) of saleable area from its developable land bank of 1.1 million sq ft at the beginning of the year. This has been done at an average selling price of Rs23,475 per sq ft amounting to a total of Rs1,535 crore. It has also added seven new projects in pipeline totaling to saleable area of 1.81 million sq ft in Mumbai spread over Napean sea road (300,000 sq ft), Parel (900,000 sq ft), Bandra/Kalina (180,000 sq ft) and Santacruz (569,507 sq ft).
- During the year, the company has acquired 100% equity shares of Orbit Shelter Private Ltd and Orbit Highcity, following which it has brought in Rs200 crore of inflow in Orbit Highcity from a leading private equity investor. The funds would be used to develop township projects.
- At the current market price, the stock trades at 8.7x FY2009 and 6x FY2010 estimated earnings. We maintain Buy call with price target of Rs852 and will come out with a detailed update.

Results table (consolidated)

Particulars	Rs (cr)					
	Q4FY2008	Q3FY2008	% qoq	FY2008	FY2007	% yoy
Net sales	320.8	223.6	43.4	705.5	191.5	268.4
Total expenses	175.9	120.3	46.3	417.4	128.4	225.1
Operating profit	144.9	103.4	40.1	288.1	63.1	356.5
Other income	2.4	0.4	445.9	5.2	1.8	192.6
Profit before tax	147.2	76.6	92.3	293.3	64.9	352.0
Taxes	24.8	21.5	15.3	57.5	7.7	649.8
PAT	122.5	55.1	122.2	235.8	57.2	312.1
Diluted EPS (Rs)	27.0	12.1		51.9	12.6	
OPM (%)	45.2	46.2		40.8	33.0	
NPM (%)	38.2	24.6		33.4	29.9	

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

Evergreen

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

Apple Green

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

Cannonball

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Shree Cement
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Emerging Star

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Ugly Duckling

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Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
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