India Research

Initiating Coverage

Infrastructure / Construction Equipment (IE)

Infrastructure & Construction Equipment : The "ICE" Age

Head of Institutional Equities: Sanju Verma
sanju.verma@hdfcsec.com
91-22-6661 1859

Mukesh Agarwal
mukesh.agarwal@hdfcsec.com
91-22-6661 1753

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Companies

Executive Summary

Action Construction	
CMP	Rs. 194
Target	Rs. 292
Recommendation	BUY

TRF	
CMP	Rs. 516
Target	Rs. 908
Recommendation	BUY

Elecon Engineering	
CMP	Rs. 390
Target	Rs. 537
Recommendation	BUY

Sanghvi Movers	
CMP	Rs. 646
Target	Rs. 1073
Recommendation	BUY

McNally Bharat	
CMP	Rs. 135
Target	Rs. 199
Recommendation	BUY

BEML	
CMP	Rs. 1077
Target	Rs. 1352
Recommendation	BUY

IE is one of the key segment of the any manufacturing sector. The industry size is estimated to be around US$ 2.25 bn in 2006, a fraction of the global market of over US$ 75 bn. But the global industry is growing at a measly 5% per annum, whereas in India growth averages around 30% annually. The industry has evolved over last four decades from primarily catering to the army's requirement in to a stage where it spans all major equipment categories such as Earthmoving and Road Construction Equipment, Concrete Equipment, Material Handling Equipment etc. The industry is poised for a growth trend inorder to realize India's growth momentum with sustained competitiveness.

The Indian government over the past has been focusing on infrastructure development, as this has been recognized as a key driver for the economy as a whole. Construction spending as a percentage of GDP has been increasing steadily over last 4-5 years and is expected to grow significantly in the coming years as well.

Our top picks in this space are Action Construction Equipment (ACE), Elecon Engineering, TRF, Sanghvi Movers (SML) and Mcnally Bharat Engineering (MBE) considering the fact that all these companies are poised are robust growth given the healthy order book position and with various capex plans to get into new businesses.

We also like BEML for its leadership position in the sector and its various tie-ups to enter into contract mining and metro coaches in a big way.

IE stocks have corrected significantly in the recent past and have come to very compelling valuations. We feel that going forward the sector at large is poised for healthy growth given the sustained demand from infrastructure space and also from industrials.

Evolution of Indian IE industry

Time Frame	1960 & 1970s	1980s	1990s	2000s	Future
Market	Small/Non-Existent Government as producer and buyer	Growth of market from mining/infrastructure activities	Opening of economy. Increase in construction activities (5%+ of GDP)	Rapid increase in infrastructure investment	Government incentives to strengthen the industry
Industry Trends	PSU player created by Government (BEML)	Serious private sector participation (L&T, Telcon)	Advent of global players via JV's. Import substitution	Capacity enhancements to meet demand	Consolidation of players, exports led growth, leadership in R&D etc
Products	Dozers, Dumpers, Mechanical excavators etc	Hydraulic Excavators, Mining equipment etc	Specialises equipments (e.g. pavers, skid steer, loaders etc)	Advent of large equipments with latest technology	Design/develop products for global markets

Source:CII, KPMG

Companies	EV/EBIDTA (x)		EPS Rs.		EPS CAGR	PER (x)		Recomm
	FY08E	FY07E	FY08E	FY09E	FY06-09E	FY08E	FY09E	
Action Construction	7.5	10.2	14.6	19.5	27.1%	13.3	10.0	Buy
TRF	7.1	30.9	47.0	60.6	65.3%	11.0	8.5	Buy
Elecon Engineering	8.9	17.8	27.3	35.8	48.1%	14.3	10.9	Buy
Sanghvi Movers	4.9	55.9	74.9	89.4	25.9%	8.6	7.2	Buy
Mcnally Bharat	8.6	6.2	8.9	13.2	88.3%	15.2	10.2	Buy
BEML	10.2	58.1	73.2	90.1	21.0%	14.7	12.0	Buy

Source:Company, HDFC Sec.Research.

EARNINGS WATCH - Infrastructure Equipment

	ACE	TRF	EEL	SML	MBE	BEML
Share Price (Rs.)	194	516	390	646	135	1,077
No.of Shares (Mn.)	17.98	5.50	30.65	7.18	26.46	36.74
Mkt Cap. (Rs Bn.)	3.6	2.8	12.0	4.6	3.6	39.6
Mkt Cap. (US $ Mn.)	79.1	63.1	265.7	103.0	79.4	879.4
52 Week H/L (Rs.)	407/163	640/240	477/144	913/563	195/67	1780/723
Free Float %	34.8	58.3	57.5	52.8	65.8	38.8
SALES (Rs. Mn.)						
FY05	878	2,001	2,777	754	2,881	17,328
FY06	1,657	2,166	4,425	1,490	3,327	20,595
FY07E	2,409	3,304	7,269	1,801	5,503	24,361
FY08E	3,368	4,835	10,200	2,323	7,405	29,188
FY09E	4,340	5,808	12,859	2,668	9,126	34,978
EBITDA (Rs. Mn.)						
FY05	73.2	108.2	379.0	455.3	112.4	2,378.9
FY06	204.0	172.8	596.5	986.1	168.7	2,328.6
FY07E	278.3	279.2	1,122.6	1,280.0	327.5	2,671.1
FY08E	421.9	420.7	1,626.5	1,660.9	555.4	3,537.1
FY09E	559.8	534.3	2,051.5	1,911.8	769.6	4,434.7
NET PROFITS (Rs. Mn.)						
FY05	43.8	43.0	160.9	137.0	26.2	1,743.9
FY06	126.9	73.7	314.4	321.8	52.5	1,868.0
FY07E	182.7	170.1	551.0	450.0	166.7	2,134.1
FY08E	262.4	258.5	845.5	603.2	275.7	2,689.1
FY09E	349.9	333.3	1,108.4	720.5	411.8	3,310.6
EPS (Rs.)						
FY05	26.1	7.8	5.7	19.1	1.3	47.5
FY06	9.5	13.4	11.0	44.8	2.0	50.8
FY07E	10.2	30.9	17.8	55.9	6.2	58.1
FY08E	14.6	47.0	27.3	74.9	8.9	73.2
FY09E	19.5	60.6	35.8	89.4	13.2	90.1
EV/EBITDA (X)						
FY05	4.8	31.5	31.4	12.4	27.6	15.3
FY06	12.7	18.7	21.7	7.1	25.0	15.5
FY07E	11.7	10.6	12.4	5.9	13.9	13.5
FY08E	7.5	7.1	8.9	4.9	8.6	10.2
FY09E	5.3	5.3	7.0	4.2	6.2	8.0
DPS (Rs.)						
FY05	0.0	2.5	0.5	5.0	0.3	10.0
FY06	4.0	4.0	1.0	10.0	0.5	10.0
FY07E	1.0	5.0	1.5	10.0	1.0	10.0
FY08E	1.5	6.0	2.0	11.0	1.5	11.0
FY09E	2.0	7.0	2.5	11.0	2.0	11.0
DIVIDEND YIELD (%)						
FY05	0.0	0.6	0.1	0.8	0.2	0.9
FY06	2.1	0.9	0.3	1.8	0.4	1.1
FY07E	0.5	1.0	0.4	1.5	0.9	1.0
FY08E	0.8	1.2	0.6	1.7	1.3	1.2
FY09E	1.0	1.4	0.7	1.7	1.7	1.2
P/E (X)						
FY06	20.4	38.5	35.4	14.4	68.0	21.2
FY07E	19.1	16.7	21.9	11.6	21.7	18.5
FY08E	13.3	11.0	14.3	8.6	15.2	14.7
FY09E	10.0	8.5	10.9	7.2	10.2	12.0

Source:HDFC Sec.Research.

SWOT Analysis

S W O T A N A L Y S I S

Strengths

Large and growing domestic market

The Indian IE market is smaller (US$ 2.25 bn) than that of developed countries like USA (US$ 19.2 bn) or developing economies like China (US$ 12.5 bn). There is a huge potential for growth for the sector, as the economy grows over the long-term.

Availability of skilled labour

India's labour cost per hour is among the lowest, compared to other developed and developing countries. Moreover, the country's outlook on the future availability of productive manpower is positive, as the growth of employable people is expected to continue for at least 20 years.

Weaknesses

Low investment in R&D

Indian IE industry's focus on R&D is low, compared to global players. Barring a few exceptions, most players have preferred to import technology from their global partners or parent companies, rather than develop indigenous technology.

Lack of organized market for used IE

Currently, the used IE market is unorganized. A strong, organized market is necessary for the industry to grow fast, because it offers substantial benefits. It will allow customers to upgrade to newer, more sophisticated equipment faster, and also help players to retain customers. For example, many OEMs have established organized used car exchange programs, which have helped them to tap and retain customers.

Opportunities

Presence of major MNCs

Most global players in the IE industry have their presence in India, including Caterpillar, JCB, Ingersoll Rand, Komatsu etc. These companies have brought in world-class technology, processes and systems, but at a steep cost. Indian companies have the potential to manufacture similar equipment with adequate R&D, at a much lower cost.

Strong IE financing

Most IE equipments sold in India to the private sector is financed. Availability and ease of financing is an advantage IE players enjoy, to scale up their businesses and cater to the increased demand.

Threats

Presence of unorganized players

The unorganized segment in the overall IE industry, is estimated at about 15-18%. The size varies across different equipment categories. However, unorganized players do not pose a big threat, as critical equipments are manufactured by organized players, with large R&D facilities.

Lack of adequate infrastructure to support growth

Though the government has taken up infrastructure development as a priority, the poor quality of existing infrastructure, soaks up significant resources for maintenance and repairs. The slow pace of implementation of new infrastructure projects, also hampers the IE industry's growth.

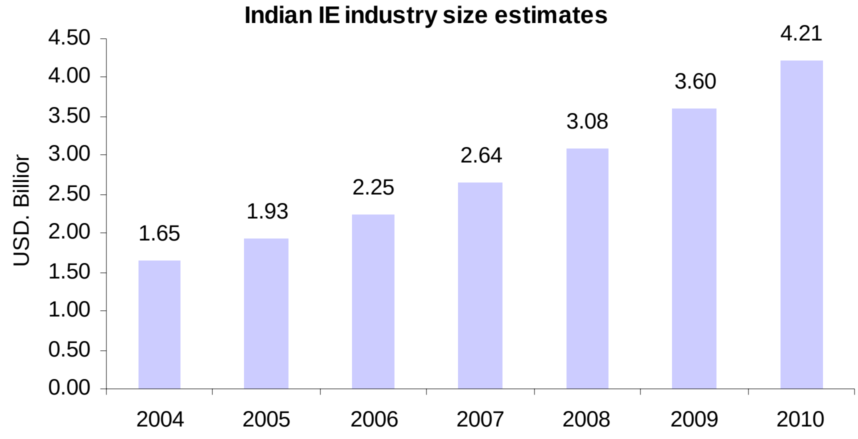
Investment Summary

Infrastructure Equipment (IE) industry to touch USD 4.2 bn by 2010

The IE industry is likely to touch USD 4.2 bn by 2010 (CII, KPMG Research) from USD 2.25 bn at present (FY06). These estimates are projected using various approaches, which include:

- Estimating the overall APAC IE industry size and India's share in it.
- Correlating IE market growth to GDP in key countries, and then using this to estimate India's IE market size, based on GDP projections.
- Individual projections made for each IE category by industry players.
- Projected infrastructure investments in India and the resultant demand for IE.

Based on this, the overall projection for India's IE sector size in 2010, is estimated at USD 4.2 bn. This trend in growth is likely to accelerate, once fresh infrastructure investments, as per 11th plan, materializes.

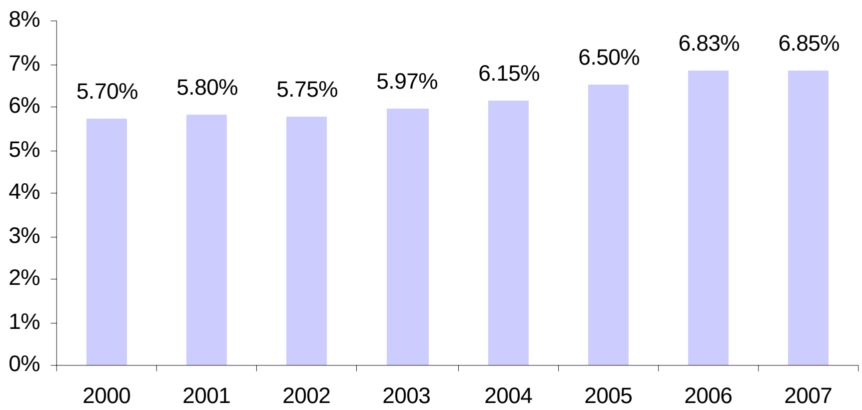


Source:CII, KPMG

Infrastructure investments expected to drive domestic growth

The Indian government's focus on infrastructure development is a key driver of economic growth. Spending on construction as a percentage of GDP, has grown steadily over the last 4-5 years and is expected to continue, in the coming years. Between 2006-2012E, infrastructure investments of over USD 300 bn have been planned.

Construction spend as % of GDP



Source:CSO

Infrastructure development drives construction activities. Construction, as a component of total infrastructural investments for 2006-2012E, is estimated at USD 235 bn. Its growth, in turn, expands the market for infrastructure equipments. It offers a significant opportunity for Indian IE players to grow at a sustained pace, in the years to come.

Equipment Cost

Particulars	Construction Equipment Cost as a % of Construction Cost
Building	4.5%
Roads	21-23%
Bridges	16-18%
Dams	21-23%
Power	21-24%
Railway	6-8%
Mineral Plant	20-22%
Medium Industry	7-9%
Transmission	5-7%

Source:Industry

Key Infrastructure Investments

Industry	Plan of action	Funding requirement
Roads	National Highway Development Program (NHDP) extended to 7 phases (from 2 earlier), of which 4 have been approved. In addition to the NHDP, village road projects (PMGSY) and rural road upgrades could cost another Rs 1,300bn.	Rs 1,520 bn till NHDP IIIB (till FY12).
Ports	National Maritime Development Programme envisages the creation of additional 528MT of port handling capacity (from 390MT currently), by FY14 at 11 major ports, in addition to deepening of channels, upgradation of port equipments etc.	Total project cost is Rs. 800 bn, of which Rs 115bn is to come from budgetary support, Rs 51bn from the port's internal resources, and the rest from the private sector (till FY12).
Railways	National Rail Vikas Yojana, aims to remove capacity bottlenecks at critical sections of the railway network. Notable initiatives are (1) strengthening the Golden Quadrilateral to enable the railways to run more long distance express / freight trains, at higher speeds of 100 kmph (cost Rs 80bn), (2) Strengthening of rail connectivity to ports and development of multi-modal corridors to the hinterland (cost Rs30bn), (3) construction of 4 major bridges (cost Rs35bn).	Rs1, 100bn till FY12.
Airports	Construction of new airports at Hyderabad and Bangalore underway. Tenders floated for and preliminary bids received for privatization of Mumbai and Delhi airports. The third stage, is modernization of Kolkata and Chennai airports.	The extended program of 30 airports, envisages capex of Rs700-1,000bn (till FY12).
Water	No Specific central government plan. Entirely up to individual states to implement the plan. At present, there is a big gap between the cost of supply and tariffs, as in the case of power. But, the water issue has not yet been sensitized. AP has initiated Rs450bn Jal Yagna project. Desalination projects could be pursued by cities, and new power plants.	Urban water infra requirement of Rs535bn in Xth Plan. Irrigation investments of Rs1.5tn. Expect these to increase. State of AP has a total capex plan of Rs450bn. Desalination project pipeline is of Rs50-75bn (till FY12).

Source: Planning Commission,Industry

Exports expected to grow at about 30% CAGR

Exports currently constitute 2-3% of India's IE market. Many factors contributed to the low level of exports, including a lack of complete product range, the need to avoid competition with JV partners and relatively low levels of technology & quality. But now, exports are expected to grow rapidly. Increased outsourcing of manufacturing to low-cost countries and improvements in technology and product range are expected to boost IE exports from India.

Engineering design services an emerging outsourcing opportunity

The high quality of engineering talent gives India a comparative advantage. Software development and IT have also emerged as areas where India is globally competitive. Many MNCs and Indian players, who source engineering services, including design and testing from India, are leveraging these advantages effectively.

It is estimated that a company with USD 1 bn turnover, can outsource designs of nearly USD 5 mn (based on an R&D spend of 4-5% of the turnover). This is a huge opportunity, which Indian IE players can explore, as it is not part of the many bottlenecks plaguing the industry.

Indian IE players like Telco Construction Equipment Co (TELCO) and L&T have already made an entry into product designing, with their e-Engineering solutions. L&T's e-Engineering, focuses on providing services in CAD in different verticals, such as construction equipment, industrial products, automotive, aerospace and ship designs.

Background

Domestic production of IE began in 1964, with the manufacture of bulldozers, dumpers, graders and scrapers, among others, by Bharat Earth Movers Ltd. (BEML), a PSU unit under the Ministry of Defence. It produced them under licence from LeTorneau, Westinghouse, USA, and Komatsu, Japan. In the private sector, the Hindustan Motors established its Earthmoving Equipment Division in 1969 at Tiruvallur, near Chennai, with technical collaboration from Terex, UK, for making wheel loaders, dozers and dumpers. This factory has since been taken over by Caterpillar. The machines manufactured here are marketed by TIL and GMMCO. In 1974, L&T began to manufacture hydraulic excavators under license from Poclain, France. In 1980, Telcon began production of hydraulic excavators under license from Hitachi, Japan and in 1981, Escorts JCB started production of backhoe loaders under license from JCB, UK. Escorts JCB was taken over by JC Bamford Excavators Ltd. U.K. in 2003 and is now called JCB India Ltd. Volvo and Terex Vectra, are the newest entrants to the market. Volvo has set up their manufacturing unit in Bangalore.

Industry Profile

India's infrastructure equipment consists of the following key categories:

Earthmoving and Road Construction Equipment

This is the largest segment of the IE industry and includes backhoe loaders, excavators, loaders, bulldozers, skid-steer loaders, wheeled loading shovels and dumpers, among others.

Concrete Equipment

Key equipments under this category are concrete breakers, paver finishers, concrete pumps, concrete mixers and hot mix plants.

Material Handling Equipment

This includes telescopic handlers, crawler cranes, mobile cranes, truck cranes, pick and carry cranes, slew cranes, tower cranes and conveyors.

Tunneling and Drilling Equipment

These are primarily used for mining, irrigation, construction (road, ports, airports, railways etc), and for the development of urban infrastructure and pipeline laying, apart from boring and demolitions.

Key Equipments and Players

Hydraulic Excavators	Dozers & Dumpers	Wheel Loaders	Backhoe Loaders	Road Compactors	Cranes	Forklifts
Telcon (Hitachi)	BEML	Caterpillar India	JCB India	Ingersoll Rand	TIL	Escorts CEL
L&T Komatsu	Caterpillar India	BEML	Caterpillar India	Escorts CEL	Telcon	Voltas
BEML	Tatra	Telcon	Telcon (John Deere)	L&T Case	Escorts CEL	Ingersoll Rand
JCB India	Voltas	JCB India	L&T Case	Greaves Ltd (Bomag)	Voltas	TIL
Caterpillar India		Volvo	BEML	Gujarat Apollo Equipment	ACE Ltd	Mcnally Engg
Volvo			Volvo	Writgen India Pvt Ltd		

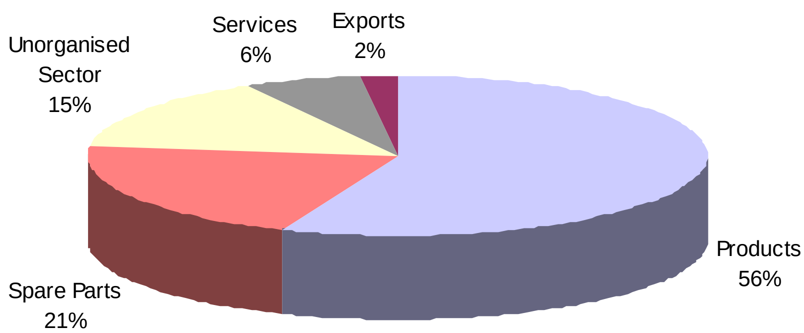
Source:Industry

Industry Statistics

The Indian IE industry was estimated at USD 2.25 bn in 2006

Indian IE industry comprises primarily of products from the organized sector. Other key segments include spare parts, products from the unorganized sector and sales of imported, used IE equipment, services and exports. The industry size was estimated at USD 2.25 bn in 2006. The estimated breakup of size across key segments is as follows:

Estimated IE Industry



Source:CII, KPMG

Spare Parts – The revenue from spare parts as a percentage of total sales ranges between 20% to 29%. Companies involved in tunneling and drilling are the biggest consumers, due to the high wear and tear of the equipment used.

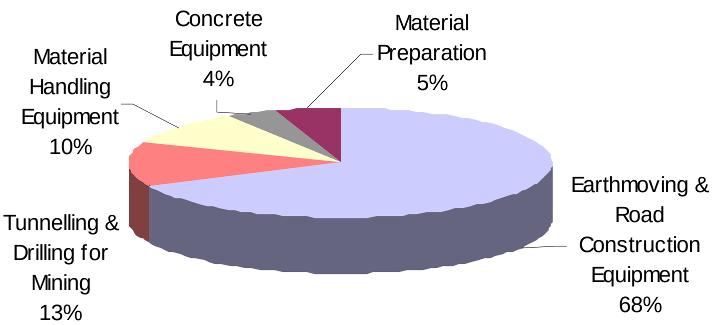
Services –Revenue from service, as a percentage of total sales, is between 2 and 8 percent. For global players, it is in the range of 11% to 20%, indicating the potential Indian players have, to grow in this area.

Breakup Within IE Industry

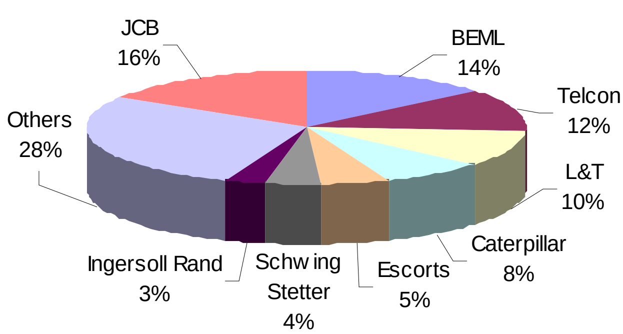
The biggest segment in the organized sector (USD 1.92 bn) is earthmoving and road construction equipment, with a share of 68% (USD 1.30 bn). The market for tunneling and drilling equipment used for mining, is estimated at about USD 250 mn. It comprises 13% of the organized IE segment.

The material handling equipment market is estimated at USD 190 mn, or 10% of the sector turnover. Cranes accounted for more than 60% of this segment, followed by forklifts. Concreting and material preparation equipment together, account for about 9% of the organized market.

Sector Breakup



Share of Key Players



Source:CII, KPMG

Growth Drivers for the Industry

Prospects for the Indian IE industry is directly linked to the Indian economy, which is set to grow, well into future. The government's emphasis on infrastructure development too, holds a lot of promise. The core sector, including the mineral and mining industry, civil construction and real estate, has made significant progress lately. This sector has adopted heavy mechanization, to maximize output and reduce lead-time. An overview of important user segments is as follows:

Mining

- Mining industry accounts for 3% of the country's GDP.
- Currently, public sector accounts for 85% of India's mining activity. This will increasingly be taken over by the private sector, as 100% FDI is allowed in the exploration and mining of most materials, in non-strategic sectors.
- 85 plus billion tones of India's mineral reserves remain unexploited.
- Foreign investment of US$ 1 bn plus, in India's mineral sector has been approved.

Investments in Mines & Minerals	(Rs.bn)
1. Steel	
SAIL	440
POSCO	160
Mittal Group	80
TISCO	70
Others	70
Total	**820**
2. Bauxite/Aluminium/Zinc/Copper	
NALCO	36
HINDALCO	94
Sterlite	55
Jindal	36
Total	**221**
3. Coal & lignite	
Coal India Limited	80
Neyveli Lignite Corporation	20
Total	**100**
4. Other Mining	
Iron ore Mining	32
Limestone Mining	13
Total	**45**
Grand Total (1,2,3 &4)	**1,186**

Source:Industry

Coal India (CIL) carried out a capex of Rs. 109.75 bn during the 10th plan and has earmarked another Rs. 140.85 bn for the 11th plan. This will result in business opportunity of Rs. 80 bn from Coal India itself for the IE players engaged in mining equipment. CIL plans to increase production by 40% during the 11th plan period, though it may be difficult to do so single-handedly. The coal sector may need further opening up. With mining companies offering excavation work to private contractors, a new segment is emerging in the sector. The government too is actively considering the privatization of the coal-mining sector, to boost power generation. This will stimulate demand for mining machinery.

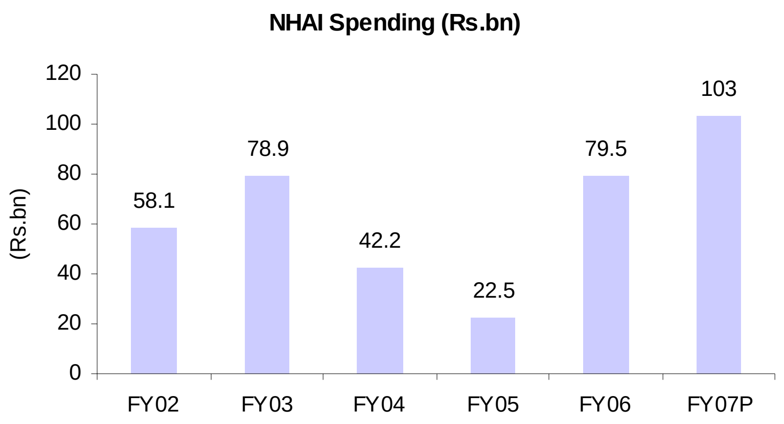
Roads

- The Golden Quadrilateral and the NSEW highway programmes are estimated to cost Rs. 580 bn.
- Prime Minister's road development programme, which aims to provide 160,000 Km of road connectivity to rural locations, is estimated to cost Rs. 600 bn.
- The Ministry of Road Transport & Highways (MORT&H) is developing 10,000 km of national highways (non – NHDP) in the next 4-5 years. The base construction cost for most sections will be Rs. 30-40 mn per Km, resulting in an investment of Rs. 300 – 400 bn.

NHDP Phase	Length (Kms)	Cost (Rs.bn)
NHDP-I (balance work)	1,738	88
NHDP-II (balnce work)	6,736	436
NHDP-III	10,000	652
NHDP-IV	20,000	278
NHDP-V	6,500	412
NHDP-VI	1,000	167
NHDP-VII	0	167
Total	**45,974**	**2,200**

Source:Industry

Post elections, in mid-2004, there was a slowdown in spending as the new government reviewed existing policies and programmes. After the review, project announcements have accelerated and the scale of many projects is being enhanced.



Source:Industry

Power

- The government's 'Power for all by 2012' programme aims to close the gap between demand and supply, with a capacity addition of 100,000 MW during the period (10th and 11th plan).
- The new Electricity Act allows private sector participation in transmission and distribution sectors (T&D) and de-licenses the generation of power.
- There is a Tripartite Agreement (TPA) between SEBs, the Central Government and the RBI, for a one-time settlement of SEB's dues to central utilities.
- Due to these reforms, the power sector is poised to get fresh investments of about Rs. 3800 bn in the next 6-7 years.

Planned expenditure in power sector

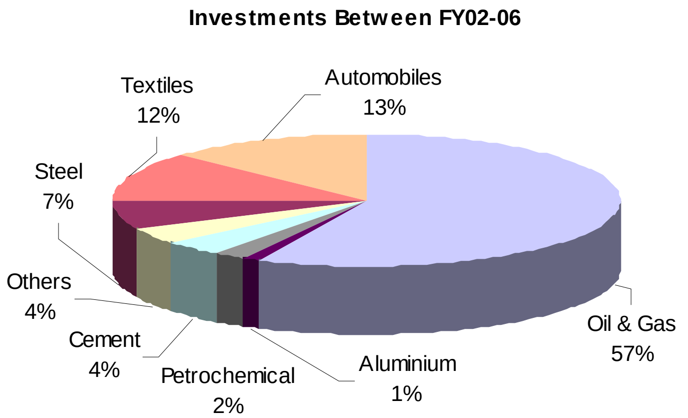
Expenditure Plan	US$.Bn	Expansion Target
Genaration - Coal	19	20,000 MW of capacity addition between 2007-12
Genaration - Gas	7	9,000 MW addition in the 11th plan
Generation - Hydel	11	8,600 MW addition in the 11th plan
Genaration - Nuclear	4	3,000 MW addition in the 11th plan
Total outlay for generation in 11th Plan	41	
Transmission and Distribution	45	US$ 15 bn on integrated transmission and US$ 30 bn on intra state T&D
Total	**86**	

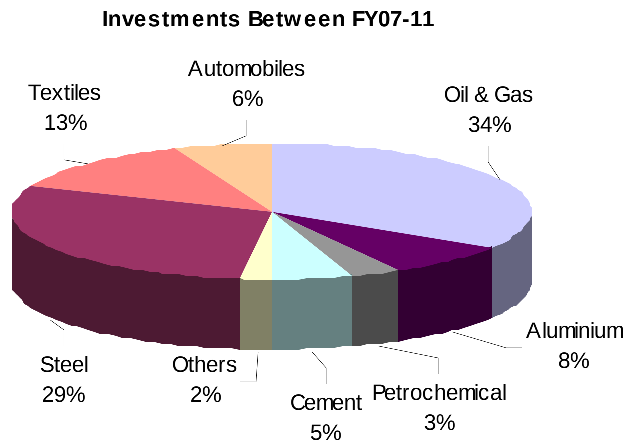
Source:Industry

Industrial Investments

The total investment in key segments of the manufacturing sector, is projected to increase from Rs 2,111 billion (from 2001-02 to 2005-06) to Rs 6,952 billion, in the next 5 years (2006-07 to 2010-11). This will be propelled by investments in oil and gas, metals and textiles. Other industries such as automobiles, petrochemicals, cement, paper and fertilisers are also expected to record healthy investments from 2006-07 to 2010-11.

The drivers influencing investment at present, are quite different from those of the mid-nineties. There have been few changes at the policy level. The current scenario is due to high levels of capacity utilization, spurred by buoyant domestic and external demand. This has created conditions for fresh capacity additions, to ease supply side constraints. Industrial construction investments are expected to grow at a CAGR of 27 per cent in the next 5 years.





Source:Industry

Steel & aluminium to witness robust investments

The steel industry has been on a recovery trail in the last 3 years. An upsurge in global steel demand has led to a spurt in investment announcements in the domestic steel sector. About Rs 2,018 billion will be invested in the next 5 years (14 times the domestic investments in steel industry in the last 5 years). As the above graph shows, steel and aluminum sectors put together, are expected to garner the highest level of investment in the next 5 years, superceding the oil and gas segment, which got the highest total industrial investment in the past 5 years.

Key investments in steel & aluminium

The world's fifth largest steel maker POSCO, has entered into a pact with the Orissa government for setting up a steel plant in the state, with an investment of $12 billion. Steel Authority of India Ltd (SAIL) and Tata Iron and Steel Company Ltd (TISCO), have also planned investments worth Rs 250 billion and Rs 230 billion, respectively.

Some of the major projects to be executed in aluminium over the next 5 years are:

- Hindalco's alumina capacity at Muri to be expanded from 110,000 tpa to 500,000 tpa (Rs 76.5 billion).
- Balco's expansion plan at Corba (Rs 40.5 billion).
- Vedanta is currently setting up a 140,000 tonne per annum alumina refinery in Orissa.
- Vedanta is also setting up a 500,000 tpa aluminium smelter and captive power plant in Orissa.

The share of metals (steel and aluminium) will increase from 8 per cent (the last 5 years) to 37 per cent (in the next 5 years) of the total investments in key manufacturing sectors.

Oil and gas investments

Investments worth Rs 2,407 bn are expected, in the oil and gas sectors, in the next 5 years, compared to Rs 1,189 billion, in the past 5 years. A substantial part of additional investments of about Rs 1,287 billion, will be in the refining and marketing (downstream) segments. Oil and gas exploration and development (E&D) will garner substantial investments, mainly due to the New Exploration and Licensing Policy (NELP), aimed at increasing the domestic supply of crude oil and natural gas. Accordingly, NELP, I, II, III and IV have been announced, which will generate an estimated investment of Rs 147.5 bn. We maintain the outlook, going forward.

Some of the key refining projects to be executed in the next 5 years are:

- Eastern India Refinery, Paradip (Rs 83 billion).
- Reliance, Jamnagar (Rs 150 billion).
- Central India Refinery, Bina (Rs 75 billion).
- IOC, Gujarat (Rs 39 billion).
- HPCL, Bhatinda (Rs 65-85 billion), proposed.

Ports

- Privatization of ports has gathered momentum. Huge investments are likely in the sector to handle increased traffic.
- This sector is likely to attract investment of Rs. 500 bn plus, from domestic and foreign majors in the next 5-6 years.

Key breakup of investments in ports

Activity	No of Projects	Investment (Rs.bn)
Berth Construction	76	326
Channel Deepening	25	63
Equipment	52	26
Connectivity	45	60
Others	78	83
Total	**276**	**558**

Source:Industry

NMDP (Sagar Mala)

- This project aims at setting up ports, modernising existing ones and connecting all major ports with the Golden Quadrilateral and NSEW road corridors.
- The total estimated cost is Rs. 1,000 bn, spread over the next 10 years.

Airports

- The growth in India's GDP has led to a rapid growth in air traffic.
- The ministry of civil aviation has estimated that Rs. 290 bn would be needed for modernization of existing airports and their development.
- Tenders have been floated and bids received for privatization of Mumbai and Delhi airports. Chennai and Kolkata airports are next in line.

Major Investments in Airports

Project	Nature	Private Partners	Investment (Rs. Bn)	Status
Mumbai International Airport	Modernisation (Operation, Management and Development agreement)	GVK – South African airports	61.3	Agreement signed
Delhi International Airport	Modernisation (Operation, Management and Development agreement)	GMR – Fraport (Germany)	79.6	Agreement signed
Bangalore International Airport	Greenfield (BOOT Basis)	Siemens (Germany), Unique Zurich (Switzerland) and L&T	14.0	
Hyderabad International Airport	Greenfield (BOOT Basis)	GMR Malaysian Airports Holding Berhard (MAHB)	17.6	
Thiruvananthapuram International Airport	Construction of new International terminal building	-	2.5	Govt. approval pending
Kolkata-Chennai International Airport	Modernization	-	70.0	Proposed
Navi Mumbai International Airport	Greenfield Project	- -	NA	Proposed
35 Non-metros Airports	Upgrading and modernizing		46.6	Proposed

Source:Industry

Railways

- Investments in the railways have remained minuscule in the past 50 years and there is a need to improve the infrastructure.
- Major investment is expected in laying new tracks and improving the existing network.
- The government has sought private participation in railway projects and is likely to invest Rs. 1,495 bn between FY06-12.

Major Rail capex (FY06-12)

Projects	Rs bn
Rail Safety	300
Freight corridor	600
RVNL	445
other projects	150
Total	**1,495.00**

Source:Industry

Urban Infrastructure

- The government has also sought private participation in urban infrastructure development. It has waived taxes and duties, laid down transparent guidelines and offered other incentives.
- The Delhi Metro Rail project is estimated to cost Rs. 105 bn.
- The Mumbai Urban Transportation Project (MUTP) has planned to allocate Rs. 45 bn to upgrade the suburban rail system and build new roads and pedestrian subways.

Pipelines

- The outlook for pipeline infrastructure has improved, with recent offshore gas discoveries. Pipelines will have to be laid, to transport gas.
- About 15000 Km of domestic oil & gas pipeline network will be laid over next 4-5 years.
- Major drivers of demand will be the Central India Product Pipeline (part of the national grid) and Reliance's gas pipelines in East and West coasts.

Project	Length (Kms)	Investment (Rs.bn)
National Gas Grid	8,020	214
Product Pipes	4,400	117
Others	2,580	69
Total	**15,000**	**400**

Source:Industry

Increased penetration through rentals

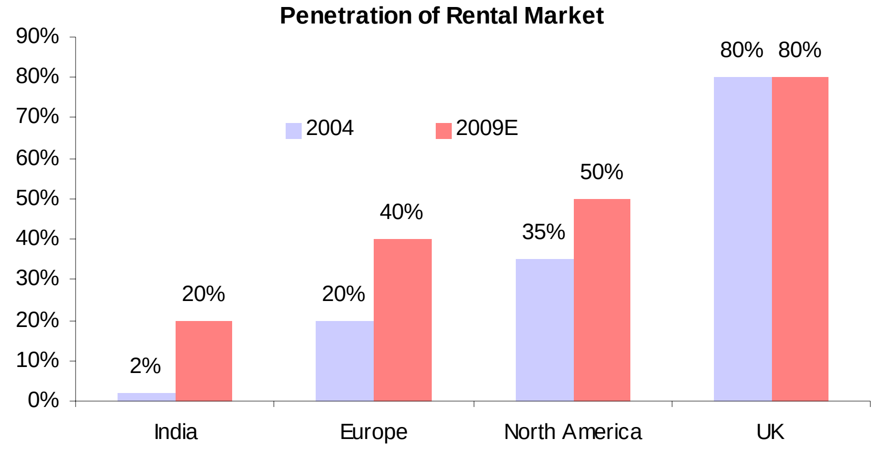
Renting of IE is becoming a preferred model globally, as it offers multiple benefits to end users. It helps avoid large capital expenditure, offers access to a broad selection of equipment and cuts storage and maintenance costs. In addition, renting allows users to select the best equipment for the job and test it, before opting to buy.

Global rental model scenario

Globally, renting equipment is preferred to owning them. The US rental market grew from US$ 1.1 bn in 1984, to US$ 25 bn in 2004. The penetration of rentals has gone up from 5% in 1993, to 35% in 2005 and is expected to touch 50% by 2010. In UK, the rental penetration is as high as 80%. Globally, major equipment manufacturers place rentals as a top market segment.

Rentals have remained small in scale in India, due to following reasons.

- The market has not yet matured and new machines are often not available on rent.
- Contractors are often reluctant to pay higher rentals for the latest equipment, even if available.
- The absence of organized renting, makes access to infrastructure equipments expensive.
- Lack of operator training impedes growth of rentals, as rental players need to be satisfied that the equipment would be used properly.



Source:CII, KPMG

New machines drive the rental market. Rental companies sell off used machines, as soon as they get the price to recover their investments. This keeps the fleet young, ensuring higher uptime and lower requirement of parts. It also adds to productivity. Penetration of rentals in the IE industry in India, has been low. In the case of cranes, rental penetration is estimated to be higher (around 60%); but overall, it was 2% in 2004.

Renting has a strong potential in India, particularly for smaller equipment. It is already becoming the preferred option for small and medium sized contracting firms. Penetration of rentals could go up to 20-25% by 2010. A 20% penetration in a USD 4.25 bn industry, would put the rental market at USD 800 mn plus by 2010.

BUY

CMP	Rs. 194
Target	Rs. 292
Stock Return	51%
Capital Appreciation	50.5%
Dividend Yield	0.5%

Nifty	3861
Sensex	13286

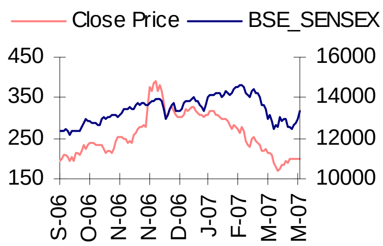
Key Stock Data	
Reuters Code	-
BLOOMBERG Code	ACCE IN
No. of Shares (mn)	17.98
Market Cap (Rs bn)	3.5
Market Cap ($ mn)	78
Avg. 6m Vol.	770700

Stock Performance (%)		
52 - Week high / low	Rs. 407/163	
	3M	6M
Absolute (%)	-35	2
Relative (%)	-34	-6

Shareholding Pattern	(%)
Indian Promoters	65.2
FIs & Local MFs	2.7
FIIs	1.7
Free Float (Others)	30.4

Source : BSE

Sensex and Stock Movement



Action Construction Ltd

Investment Summary

Dominant position in crane segment

The company is the leading mobile cranes, tower cranes and construction equipment manufacturer in the country, with a market share of 50% in some products. It sells its equipment to leading private and government companies, including Reliance, ABG, L&T (ECC), BSES, BHEL, Punj Lloyd, Essar, Gammon India, Nagarjuna Construction, Gujarat Ambuja, IISCO, Simplex Concrete, Coal India, BSNL, Gannon Dunkerley, Bhushan Steel, PSL, ISPAT, IVRCL, Aditya Birla Group etc.

Improving Margins

We expect ACE's EBIDTA margins to improve from 11.4% in 9M07 to 12.9% in FY09E. The margins in the first nine months declined, due to discounts given to retain market share in the existing crane business. However, going forward, we expect this to rationalize, once the market strength is stabilized and higher value orders arrive from its new facility (loaders). Higher economies of scale, bigger contracts and stable raw material prices, will also aid the company's margins.

Scaling up Overseas Business

ACE plans to expand to overseas markets. It is looking at the Middle East, Asia, Africa and Europe for its two new products, backhoe loaders, launched in January 2007 and forklift cranes. It has also joined hands with players abroad, for the latest technology and machines, including Autogru PM-Italy, Zoomlion-China, Maber-Italy and TIGIEFEE SRL-Italy. The company hopes to earn around 12-15% from overseas markets by FY08E.

Expanding Product Basket

The company is setting up an additional unit to manufacture back hoe loaders, fixed tower cranes and other construction equipment. We expect this facility to contribute Rs. 1.12 bn in FY08E and Rs. 1.48 bn in FY09E, which is around 33% to its overall revenues.

At the CMP of Rs. 194, the stock is trading at 13.3x FY2008E EPS and 10.0x its FY2009E EPS. Thus, with a target P/E of 15x FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 292 (an upside of 51%).

Year to March (Rs.mn)	2005	2006	2007E	2008E	2009E
Net Sales	878	1,657	2,409	3,368	4,340
% Chg YoY		89	45	40	29
EBIDTA	73	204	278	422	560
% Chg YoY		179	36	52	33
Net Income	44	127	183	262	350
% Chg YoY		190	44	44	33
EPS (Rs)	26.1	9.5	10.2	14.6	19.5
% Chg YoY		-64	7	44	33
P/E (x)	7.4	20.4	19.1	13.3	10.0
EV/E (x)	4.7	12.5	11.5	7.3	5.2
RoCE (%)	41.2	46.2	22.7	20.0	21.9
RoE (%)	58.2	49.5	23.2	20.3	22.4

Source:Company, HDFC Sec.Research.

Background

The company was promoted by Vijay Agarwal and his wife Mona Agarwal in 1995, as a Private Limited Company. On October 4, 2005, it became a Public Limited Company. It is a decade old enterprise, with a full-fledged production facility in Faridabad. It started off with the manufacture of hydraulic mobile cranes of different capacities, under the brand name of "ACE". Today, the company is a leading manufacturer of hydraulic mobile cranes, mobile tower cranes and construction equipment and has a presence in major Infrastructure, construction, heavy engineering and industrial projects. The company provides the latest technology construction equipment and offers efficient sales & service.

Business Overview

ACE is a leading mobile crane, tower crane and construction equipment manufacturer in the country. It designs, manufactures, sells and provides product support as mentioned below:

- Hydraulic mobile cranes
- Mobile tower cranes
- Tower cranes in tie-up with Zoomlion-China
- Loaders & backhoe loaders
- Lorry loader cranes, in tie-up with PM-Italy
- Mast climbing platform and construction elevators in tie-up with Maber-Italy
- Aerial access platforms in tie-up with Tigiefee SRL-Italy

Hydraulic Mobile Cranes

Hydraulic mobile cranes are used throughout the engineering, construction and infrastructure industry. These machines are rough terrain, pick and carry type, used for loading, unloading, moving, shifting and erecting materials. The company currently manufactures these cranes of 3 tons to 16-ton capacity. It is developing a 20-ton capacity crane.

Mobile/Fixed Tower Cranes

Mobile tower cranes are used for civil construction. These are self erecting/self-folding machines. Thy have a provision for built-in generators to provide for the electricity needed to operate the machine. The company currently manufactures cranes, which can work from 6 to 12 storeyed buildings. Fixed tower cranes are also used in civil construction, but they are larger. These cranes on offer, are imported from Zoomlion, China, and have a maximum lifting height of 240 meters and a working radius of 70 meters.

Loader/Backhoe Loader

Front end loader has a front loading bucket, while a back hoe loader has an excavating bucket at the rear too. These machines are used in the construction and infrastructure sector for digging, moving, grading and loading earth and other loose aggregates.

Lorry Loader Cranes

Currently, the company imports these machines from AUTOGRU PM, Italy and mount them on Indian truck chasses. These machines are widely used in Europe, America and other developed countries. It can lift loads and transport it on its own chassis, and unload at the desired destination. These are available from 2 ton / meter to 80 ton / meter.

Mast Climbing Platforms / Construction Elevators

Mast climbing platforms and construction lifts are used in the construction and infrastructure industry. It is a safe substitute for scaffolding. The company imports these lifts from Maber, Italy. The machines on offer can go up to 150 meters.

List of Competitors

Name of product	Major Competitors
Hydraulic Mobile Cranes	Escorts Construction Equipment Ltd and TIL
Mobile Tower Cranes	Shrike and Bhai
Back Hoe Leaders	JCB, L&T, Terex, CAT and BEML
Lorry Loader Cranes	TIL, Escorts Construction Equipment Ltd and Imports
Mast Climbing Platforms / Lifts	Imports
Tower Cranes	Shrike, Bhai and Imports
Aerial Access Platforms	Imports

Source:ACE

The Company sells its equipment to leading private and government sector companies in India including Reliance, ABG, L&T (ECC), BSES, BHEL, Punj Lloyd, Essar, Gammon India, Nagarjuna Construction, Gujarat Ambuja, IISCO, Simplex Concrete, Coal India, BSNL, Gannon Dunkerley, Bhushan Steel, PSL, ISPAT,IVRCL, Indian Railways, Adani Port, NTPC,IOCL, Shapoorji Pallonji, Alstom, NHPC, UB, ACC, Tata, Kalpataru, KEC, Krupp, Airport Authority of India, Ministry of Defence, HPCL, IPCL, Unitech, Welspun, Aditya Birla Group etc. The products of the Company are exported to U.A.E., Qatar, Sultanate of Oman, Kuwait, South Africa, Kenya, Nigeria, Mauritius, Sri Lanka, Nepal, Bhutan, Bangladesh, Singapore and Portugal.

The company has expanded its product portfolio with back hoe loaders and higher capacity tower cranes etc. Its marketing headquarters is in New Delhi and the product support division in Faridabad. The company has also set up dealerships in the Middle East, Asia, Bangladesh and South Africa and is in the process of opening more dealerships in Asia, Africa and South America.

Investment Arguments

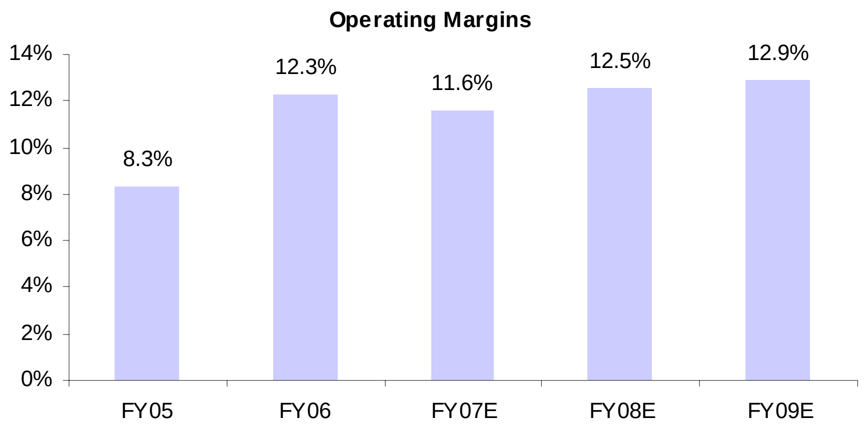
Expanding Product Basket

The company is setting up an additional unit to manufacture back hoe loaders, fixed tower cranes and other construction equipment. The new manufacturing plant will be completed in two phases. In the first phase, which started functioning from January 2007, 50 back hoe loaders and five fixed tower cranes were produced. In the second phase expected to begin in July 2007, the total capacity will be increased to 100 units.

We expect this new facility to contribute Rs. 1.12 bn in FY08E and Rs. 1.48 bn in FY09E, representing around 33% to the overall revenues of the company.

Improving Operating Margins

We expect ACE's EBIDTA margins to improve from 11.4% in 9M07 to 12.9% in FY09E. The margins in the first nine months declined due to discounts given to retain market share in the existing crane business. However, going forward, we expect this to rationalize, once market strength stabilizes and higher value orders arrive from its new facility (loaders). Higher economies of scale, bigger contracts and stable raw material prices, will also aid the company's margins.



Source:Company, HDFC Sec.Research.

Scaling up Overseas Business

ACE is looking at expanding its base to Middle East, Asia, Africa and Europe, in a bid to sell its products, including backhoe loaders and forklift cranes.

In Africa too there is a demand for the kind of machines made by ACE, as they are cheaper than European and US ones. It has joined hands with Autogru PM-Italy, Zoomlion-China, Maber-Italy and TIGIEFEE SRL-Italy for some of its products. The company hopes to earn 12-15% from overseas markets by FY08E.

Romanian Acquisition

To cater to the burgeoning European market, ACE's wholly owned subsidiary (WOS) Frested, Cyprus has acquired 73.9% stake in a Romanian company, SC FORMA SA-Romania, for $ 2.15 million. SC FORMA SA-Romania is a 58 year-old company, listed on RASDAQ stock exchange in Bucharest (Romania). The company intends to manufacture cranes, loaders; forklifts etc, and enter the European market. The company also intends to acquire a further stake in this company, by way of open offer, through WOS, Frested, Cyprus. However, we have not factored in any revenues from this acquisition, as clarity on the scope of revenues is still awaited. However, the market for the company's products in these regions could be huge, due to cost competitiveness.

Financial Highlights

Quarterly Analysis

Year End March 31 (Rs.mn)	9M07	9M06	Y-o-Y	Q307	Q306	Y-o-Y
Net Sales	1,618	1,204.1	34.4%	606.1	429.2	41.2%
Other Income	16.5	1.6	931.3%	13.8	0.5	2,660.0%
Total Income	1,634.5	1,205.7	35.6%	619.9	429.7	44.3%
Total Expenditure	1434	1,056.2	35.8%	550.6	380	44.9%
Raw Material Consumed	1,230.8	914.1	34.6%	464.6	319.4	45.5%
Employee Expenses	41.9	37.5	11.7%	17.5	13.8	26.8%
Selling & Administrative Expenses	61.1	54.1	12.9%	34.1	26.8	27.2%
Other Expenses	100.2	50.5	98.4%	34.4	20	72.0%
Operating Profit	184	147.9	24.4%	55.5	49.2	12.8%
EBIDTA	200.5	149.5	34.1%	69.3	49.7	39.4%
Interest	2.4	1.2	100.0%	0.9	0.7	28.6%
PBDT	198.1	148.3	33.6%	68.4	49	39.6%
Depreciation	8.7	4.7	85.1%	3.3	1.9	73.7%
PBT	189.4	143.6	31.9%	65.1	47.1	38.2%
Profit after Extra-ordinary items	129.1	94.5	36.6%	47.1	30.5	54.4%
Equity (FV = 10)	179.8	123.8		179.8	123.8	
Ratios						
OPM (excl.Other Income)	11.4%	12.3%	-91.1	9.2%	11.50%	-230.6
OPM (incl.Other Income)	12.3%	12.4%	-13.3	11.2%	11.60%	-38.7
Tax / PBT	31.8%	34.2%	-235.5	27.6%	35.20%	-759.4
NPM (Before Extra-ordinary Items)	7.9%	7.8%	6.1	7.6%	7.10%	50
Cash EPS	7.7	8	-4.4%	2.8	2.6	7.10%
EPS	7.2	7.6	-5.9%	2.6	2.5	6.30%
Cost analysis						
RM/Sales	76.1%	75.9%	15.4	76.7%	74.40%	223.6
Employees costs/net sales	2.6%	3.1%	-52.5	2.9%	3.20%	-32.8
Selling & Admn/net sales	3.8%	4.5%	-71.7	5.6%	6.20%	-61.8
Others/net sales	6.2%	4.2%	199.9	5.7%	4.70%	101.6

Source:Company, HDFC Sec.Research.

- ACE reported a strong performance in Q3FY07 and 9MFY07, with net sales improving by 41.2% and 34.4% during the same period. Operating profit grew at a slower pace of 12.8% and 24.4% in Q3FY07 and 9MFY07 respectively, followed by growth in PAT by 54.4% and 36.6% during the same period. These financials could have been better, had the company not given huge discounts to retain its market share vis-à-vis its main competitor, Escorts Construction Equipment Ltd.
- The company's performance in FY07E and FY08E is likely to be robust on the back of sustained margin expansion and considerable increase in revenues due to the huge outstanding order book position and incremental revenues from new businesses.
- Between FY06-09E, we expect the company to report a revenue growth of 37.8% CAGR on a YoY basis, to Rs. 4.34 bn, from Rs. 1.66 bn in FY06. We expect this growth on account of incremental revenues from the new facility for manufacturing loaders.
- The operating margins on account of increasing revenues are expected to improve by 60 bps to 12.9% in FY09E. Thus, the operating profit is expected to improve by 40% CAGR, between FY06-09E to Rs. 560 mn. The net profit is expected to be Rs. 350 mn by FY09E, registering a CAGR of 40.2% between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 14.6 and Rs. 19.4 on a diluted equity of Rs. 180 mn.

Outlook and Valuation

The company is a leading player in the domestic hydraulic mobile cranes, tower cranes and construction equipment sector. The current thrust on infrastructure and increased manufacturing output have resulted in a surge in demand for various material handling and construction equipment, including mobile cranes, tower cranes, loaders and construction platforms. Huge spending on infrastructure projects and construction would further fuel the demand for such equipment. The company caters to a wide client base and its growing demands. At the CMP of Rs. 194, the stock is trading at 13.3x FY2008E EPS and 10.0x its FY2009E EPS. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 292 (an upside of 51%).

Action Construction

Income Statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Gross Sales	1,060.9	1,997	2,789	4,040	5,213
Less: Excise Duty	182.9	340	380	672	873
Net Sales	**878**	**1,657**	**2,409**	**3,368**	**4,340**
of which Export Sales	*6*	*43*	*60*	*80*	*100*
of which Domestic Sales	872	1,614	2,349	3,288	4,240
Total Operating Income	**878**	**1,657**	**2,409**	**3,368**	**4,340**
Less:					
Consn of Raw Mat	693.4	1,238	1,809	2,497	3,202
Staff Cost	27.5	49	72	101	130
Total Manufacturing Expenses	36.7	74	109	152	196
Administration & Other exp	25.1	30	43	61	78
Selling & Distribution Expenses	22.2	61	96	135	174
Total Operating Expenses	**805**	**1,453**	**2,130**	**2,946**	**3,780**
EBITDA	**73**	**204**	**278**	**422**	**560**
% margin	8.3%	12.3%	11.6%	12.5%	12.9%
Depreciation & Amortisation	5.1	7.15	14	22	25
Other Income	1.3	3.1	18.0	5.0	5.0
EBIT	**69**	**200**	**282**	**405**	**540**
Less: Gross Interest	2.00	1.4	4	5	6
Recurring Pre-tax Income	**67**	**199**	**279**	**401**	**534**
Less: Taxation	24	72	96	138	184
Net Income (Reported)	43.8	126.9	183	262	350
Recurring Net Income	44	127	183	262	350

Source:Company, HDFC Sec.Research.

Balance Sheet

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Total Current Assets	**183**	**577**	**1128**	**1434**	**1822**
Total Current Liabilities and Provisions	**93**	**284**	**266**	**369**	**475**
Net Current Assets	**89**	**294**	**863**	**1064**	**1348**
Fixed Assets					
Gross Block	64	152	386	436	501
Less Accumulated Depreciation	21	27	41	63	88
Net Block	44	125	345	373	413
Add: Capital Work in Progress	**0**	**2**	**0**	**15**	**16**
Net Fixed Assets	**44**	**127**	**345**	**388**	**429**
Total Assets	**133**	**421**	**1,207**	**1,452**	**1,777**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Secured Loans	26	15	35	45	55
Unsecured Loans	0	0	0	0	0
Total Borrowings	**26**	**15**	**35**	**45**	**55**
Deferred Tax Liability	**1**	**(0)**	**0**	**0**	**0**
Share Capital					
Paid up Equity Share Capital	17	134	180	180	180
Reserves & Surplus					
Share Premium					
Reserves & Surplus	90	275	993	1,228	1,542
Net Worth	**107**	**406**	**1,172**	**1,408**	**1,722**
Total Liabilities & Shareholders' Equity	**133**	**421**	**1,207**	**1,453**	**1,777**

Source:Company, HDFC Sec.Research.

Cash Flow statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Operating Cash Flow before WC. ch.	71	201	100	288	379
Changes in Working Capital					
Working Capital Inflow / (Outflow)	(65)	(217)	(224)	(103)	(103)
Net Cash flow from Operating Activities	7	(17)	(123)	185	276
Cash Inflow/(outflow) from Investing activities	(9)	(90)	(232)	(65)	(66)
Free Cash flow after capital commitments	(3)	(106)	(355)	120	210
Net Cash flow from Investing Activites	1	3	18	5	5
Net Cash flow from Financing Activites	4	162	604	(17)	(26)
Total Increase / (Decrease) in Cash	2.5	59	267	108	189
Opening Cash and Bank balance	6	8	67	334	442
Closing Cash and Bank balance	8	67	334	442	631
Increase/(Decrease) in Cash and Bank balance	2.3	59	267	108	189

Source:Company, HDFC Sec.Research.

Ratios

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Earnings per share	26.1	9.5	10.2	14.6	19.5
Cash Earnings per share	29.2	10.0	10.9	15.8	20.9
Reported Book Value (BV)	63.7	30.3	65.2	78.3	95.8
Dividend per share	-	4.2	1.0	1.5	2.0
Valuation Ratios (x)					
Diluted Price Earning Ratio	7.4	20.4	19.1	13.3	10.0
Price to Book Value	3.0	6.4	3.0	2.5	2.0
EV / EBITDA	4.7	12.5	11.5	7.3	5.2
EV / Total Operating Income	0.4	1.5	1.3	0.9	0.7
Dividend Yield (%)	0.0	2.2	0.5	0.8	1.0
Operating Ratios (%)					
EBITDA Margins	8%	12%	12%	12.5%	12.9%
EBIT Margins	8%	12%	12%	12%	12%
Recurring Pre-tax Income Margins	8%	12%	11%	12%	12%
Recurring Net Income Margins	5%	8%	8%	8%	8%
Effective Tax Rate	35.1%	36.1%	34.5%	34.5%	34.4%
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)	41.2	46.2	22.7	20.0	21.9
Return on Net Worth (RoNW)	58.2	49.5	23.2	20.3	22.4
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	25%	4%	3%	3%	3%
Current Ratio	1.37	1.34	2.75	2.74	2.87
Cash and cash equivalents / Total Assets	6%	16%	28%	30%	35%
Turnover Ratios					
Inventory Turnover Ratio (x)	6.51	9.30	10.33	10.15	10.63
Assets Turover Ratio (x)	8.04	5.99	2.98	2.54	2.69
Working Capital Cycle (days)	22.69	20.54	51.46	71.91	76.21
Average Collection Period (days)	21.98	27.39	33.21	32.17	33.27
Average Payment Period (days)	25.46	32.14	37.29	36.55	37.69

Source:Company, HDFC Sec.Research.

BUY

CMP	**Rs. 516**
Target	**Rs. 908**
Stock Return	**77%**
Capital Appreciation	76%
Dividend Yield	1.0%

Nifty	3861
Sensex	13286

Key Stock Data	
Reuters Code	TTRO.BO
BLOOMBERG Code	TRF IN
No. of Shares (mn)	5.50
Market Cap (Rs bn)	2.8
Market Cap ($ mn)	63
Avg. 6m Vol.	13,382

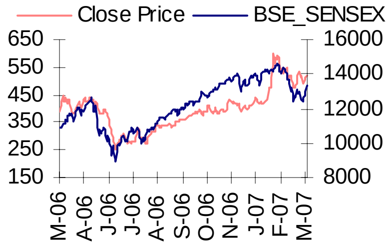
Stock Performance (%)

52 - Week high / low	Rs. 640/240		
	3M	6M	12M
Absolute (%)	29	43	33
Relative (%)	30	34	11

Shareholding Pattern	**(%)**
Indian Promoters	41.6
FIs & Local MFs	11.9
FIIs	4.7
Free Float (Others)	41.8

Source : BSE

Sensex and Stock Movement



TRF Ltd

Investment Summary

UMPP's Consortium Partner

Tata Robinson Fraser (TRF) is part of a consortium including TATA Power which will set up an Ultra Mega Power Project (UMPP) plant at Mundra. The total investment for the 4000 MW plant is around Rs. 180 bn, of which 10% will be MHE's share. TRF is targeting a majority share in MHE, which could be a Rs. 9 bn opportunity for it.

Healthy margin improvement

We expect TRF's EBIDTA margins to improve from 7.98% in FY06, to 9.2% in FY09E, due to higher value added orders, aided by higher economies of scale, bigger contracts and stable raw material prices. Earlier, the company suffered due to low margin contracts that affected its performance, compared to high margins enjoyed by its competitors (Elecon etc).

Efficient working capital management

TRF has managed its working capital requirements efficiently during the current year and has brought down its debtors levels significantly to 140 days (FY07E), compared to 240 days in FY06. The company has reported 49.8% growth in revenues in 9MFY07. This is despite a drastic fall of more than 42% in capital employed, during the same period. This reflects better utilization of assets by the company during the year by outsourcing most of the work to improve efficiency.

Strong growth in financials

Between FY06-09E, we expect the company to report a revenue growth of 38.9% CAGR, on a YoY basis to Rs. 5.8 bn from Rs. 2.16 bn in FY06. We expect this growth on account of increase in orders from the MHE segment. The net profit is expected to be at Rs. 333 mn by FY09E, registering a CAGR of 65.3% between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 47 and Rs. 60.6 on equity of Rs. 55 mn.

In the last few years, the stock has got significantly re-rated on the back of robust growth. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 908 (an upside of 77%).

Year to March (Rs.mn)	2005	2006	2007E	2008E	2009E
Net Sales	2,001	2,166	3,304	4,835	5,808
% Chg YoY		8	53	46	20
EBIDTA	108	173	279	421	534
% Chg YoY		60	62	51	27
Net Income	43	74	170	259	333
% Chg YoY		71	131	52	29
EPS (Rs)	7.8	13.4	30.9	47.0	60.6
% Chg YoY		71	131	52	29
P/E (x)	66.0	38.5	16.7	11.0	8.5
EV/E (x)	31.5	18.7	10.6	7.1	5.3
RoCE (%)	7.5	10.7	22.5	30.0	29.6
RoE (%)	12.1	18.5	34.3	37.9	35.4

Source:Company, HDFC Sec.Research.

Background

Tata Robinson Fraser (TRF) was formed in 1962 and in 1999-2000, Tata Material Handling Systems Ltd (TMHS) and Tata Technodyne (TTL) amalgamated with TRF. It services core industries like power, mining, coal, fertilisers, cement, ports, etc. Since its inception, TRF has specialised in the manufacture of advanced systems for conveying, stacking, blending, reclaiming and processing of bulk raw materials. TRF also undertakes turnkey contracts for total systems — bulk material handling plants.

Tata Material Handling Systems obtained its design and technologies from its associates, MAN-GHH of Germany, for stockyard equipment, cranes, unloaders, ship loaders and special purpose cranes - all custom-engineered for installation and use at ports, harbours, metallurgical and processes industries. Tata Technodyne, was promoted by Tata Steel as its subsidiary to serve emerging customer needs for EPC (Engineering, Procurement and Construction) contracts in the areas of infrastructure, captive power generation, ferrous and non-ferrous metals, hydrocarbons and coal washeries. With the combined strengths of its constituent companies, TRF has become an even stronger player.

Business Overview

Products

The key products manufactured by the company includes idler rollers, vibratory screens, wagon tipplers, stacker reclaimers, ship loaders, coal/ore handling plants, loaders, coal washeries etc. The company faces competition from various domestic players like Elecon Engineering, L&T, TII, McNally Bharat, FFEE Minerals and Sandvik.

Divisions

TRF operates two divisions:

- Projects and services (68%)
- Products and services (32%).

The project division includes site fabrication activities, comprising bulk material handling systems and plant-handling systems, while the product and service segment includes, bulk material handling, coke oven and port and yard equipment.

TRF has signed an agreement with Kocks Krane, Germany, for the supply of shipyard and container cranes. The company has identified shipyards and ports as its clients and is in negotiation with them for the supply of such cranes. The entire work of engineering, procurement and construction (EPC) of these cranes will be handled by the company.

Industries Served

Industry	Unloading Systems	Handling Systems	Screening Systems	Crushing Systems	Stacking, Reclaiming, Blending Systems	Despatch Loading Systems	Special Facilities
Power	*	*	*	*	*	-	-
Steel	*	*	*	*	*	-	-
Cement	*	*	*	*	*	*	Bag Handling
Ports	*	*	-	-	*	-	-
Metallic - Ferrous Mines	-	*	*	*	*	*	-
Coal Mines	-	*	*	*	*	*	Shiftable/Extensible/ Mobile Conveyors
Dam Construction	-	*	*	*	*	-	-
Road Construction	-	*	*	*	*	-	Mobile Plants
Chemical/Process Industry	*	*	*	*	*	*	-

Source:Company

Investment Arguments

Change in business policy

TRF has changed its business policy. It now makes its clients buy the steel for orders placed for on-site fabrication. Earlier, the company procured the raw material. This insures it from the vagaries of steel prices and gives it a more predictable margin. Operating profit margin (OPM) is expected to improve further, with larger orders and falling staff cost, following the rightsizing efforts of the past few years.

There was a big turnaround in OPM to 8.1% during 9M07, as against -6.8% during the same period last year. This was largely due to the removal of vagaries in steel prices and execution of new contracts in the project and service segment.

UMPP's Consortium Partner

TRF is part of a consortium including TATA Power, which will set up the UMPP power plant at Mundra. The total investment for the 4000 MW plant is around Rs. 180 bn, of which 10% will be for MHE. TRF is targeting a majority share in MHE, which could be a Rs. 9 bn opportunity for it.

TRF is also planning to manufacture stacker reclaimers of upto 3,000 tonnes per hour. Currently, companies in India manufacture stacker reclaimers of upto 2000 tonnes per hour. The company also specializes in the manufacture of conveyors, magon tipplers and other equipments.

Strong order book position

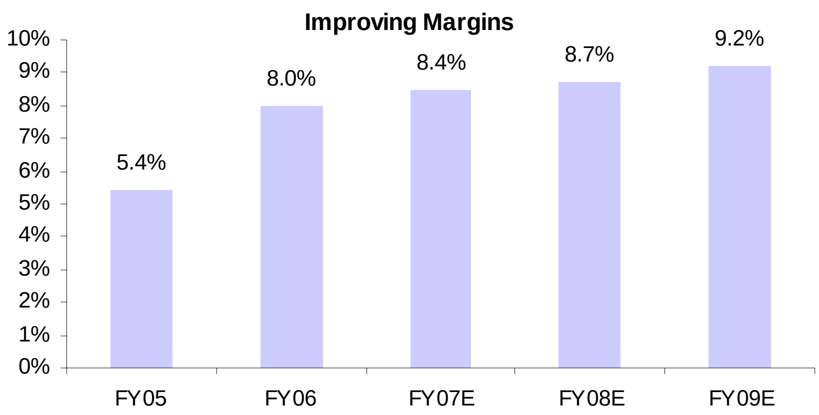
The company has recently bagged some large orders that includes:

- Rs. 810 mn order in Feb 06 from Hoogly Met Coke, for the supply of MHE for their coal handling facilities.
- Rs. 1.53 bn in Mar 06 from Bhilai Electric Supply company, for the supply of coal handling plant equipments.
- Rs. 590 mn order in July 06 from Tata Steel, for the supply of conveyor systems and equipments.

The current order book of TRF is around Rs.4.5-5 bn, which is 1.4x its expected FY07E revenues. We believe, this order book is justified towards the company's target of achieving Rs. 5 bn turnover by FY08E.

Healthy margin improvement

TRF is focusing on executing high margin orders to increase its operating margins, from current levels of low to nil margins. We expect TRF's EBIDTA margins to improve from 7.98% in FY06, to 9.2% in FY09E, due to higher value added orders and higher economies of scale, bigger contracts and stable raw material prices. Earlier, the company suffered due to low margin contracts that affected its performance, compared to high margins enjoyed by its competitors (Elecon etc). Now with low margin projects getting over, we expect the company to gradually report higher EBIDTA margins.



Source:Company, HDFC Sec.Research.

Efficient working capital management

The company has managed its working capital requirements efficiently, during the current year and has brought down its debtors levels significantly to 140 days (FY07E), compared to 240 days in FY06. It has reported 49.8% growth in its revenues in 9MFY07. This is despite a drastic fall in capital employed by more than 42% during the same period. This reflects better utilization of assets by the company during the year, by outsourcing most of the work to improve its efficiency.

The company had high debtors in its books, on account of high retention money pending with SEB's. It has now started addressing these issues seriously by completing all pending jobs and clearing the long overdue receivables from the SEBs.

Financial Highlights

Quarterly Analysis

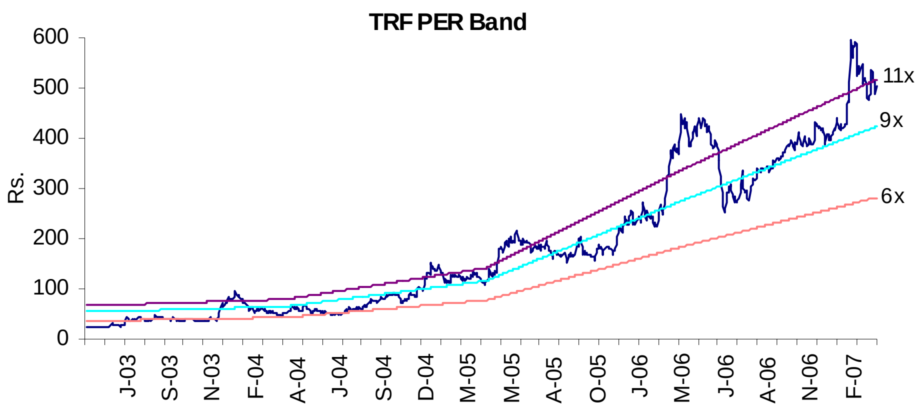
Year End March 31 (Rs mn)	9M07	9M06	Y-o-Y	Q307	Q306	Y-o-Y
Net Sales	2,055.9	1,372.1	49.8%	803.7	401.6	100.1%
Other Income	12.2	1.5	713.3%	9.2	0	
Total Income	2,068.1	1,373.6	50.6%	812.9	401.6	102.4%
Total Expenditure	1,889.5	1,279.4	47.7%	735.2	357	105.9%
(Inc)/Dec in Stock	-189.7	12.7		-172.5	-20.3	
Raw Material Consumed	1,261.1	777.3	62.2%	572.9	208.2	175.2%
Employee Expenses	195	169.5	15.0%	68.3	57.1	19.6%
Selling & Administrative Expenses	224.4	168.2	33.4%	88.6	61.1	45.0%
Payment to sub-contractors	398.7	151.7	162.8%	177.9	50.9	249.5%
Operating Profit	166.4	92.7	79.5%	68.5	44.6	53.6%
EBIDTA	178.6	94.2	89.6%	77.7	44.6	74.2%
Interest	17.6	32.8	-46.3%	3.6	10.3	-65.0%
PBDT	161	61.4	162.2%	74.1	34.3	116.0%
Depreciation	9.9	9.8	1.0%	3.6	3.2	12.5%
PBT	151.1	51.6	192.8%	70.5	31.1	126.7%
Profit after Extra-ordinary items	101.8	31.9	219.1%	49.7	19.9	149.7%
Equity (FV = 10)	55	55		55	55	
Ratios						
OPM (excl.Other Income)	8.1%	6.8%	133.8	8.5%	11.1%	-258.2
OPM (incl.Other Income)	8.6%	6.9%	177.8	9.6%	11.1%	-154.7
Tax / PBT	32.8%	41.5%	-864.7	29.6%	37.3%	-765.4
NPM (Before Extra-ordinary Items)	4.9%	2.2%	270.9	6.1%	4.9%	124.6
Cash EPS	20.3	7.3	178.5%	9.7	4.1	134.4%
EPS	18.5	5.5	236.1%	9	3.5	154.4%
Cost analysis						
RM/Sales	52.1%	57.6%	-546.3	49.80%	46.80%	303.2
Employees costs/net sales	9.5%	12.4%	-286.8	8.50%	14.20%	-572
Selling & Admin. Expenses/net sales	10.9%	12.3%	-134.4	11.00%	15.20%	-419
Payment to sub contractors/net sales	19.4%	11.1%	833.7	22.10%	12.70%	946.1

Source:Company, HDFC Sec.Research.

- TRF reported a strong performance in Q3FY07 and 9MFY07 with net sales improving by 100.1% and 49.8%, during the same period. Operating profit grew by 53.6% and 79.5% in Q3FY07 and 9MFY07, respectively, followed by growth in PAT by 149.7% and 219.1%, during the same period. The strong growth in above financials was seen on the back of improvement in operating margins and a healthy top line growth.
- The company's performance in FY07E and FY08E is likely to be robust on the back of sustained margin expansion and considerable increase in revenues, due to the huge outstanding order book position and incremental revenues from new businesses.
- Between FY06-09E, we expect the company to report a revenue growth of 38.9% CAGR on a YoY basis to Rs. 5.8 bn, from Rs. 2.16 bn in FY06. We expect this growth on account of order addition from the MHE segment.
- The operating margins on account of increasing revenues are expected to improve by 122 bps to 9.2% in FY09E. Thus, the operating profit is expected to improve by 45.7% CAGR, between FY06-09E to Rs. 534 mn. The net profit is expected to be Rs. 333 mn by FY09E, registering a CAGR of 65.3% between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 47 and Rs. 60.6, on equity of Rs. 55 mn.

Outlook and Valuation

TRF is one of the most efficient players in the industry, with a consistent record of growth, profits, high return ratios and high fixed asset turnover ratios. The management's policy is conservative, opting to generate growth through internal accruals, rather than debt. We are also positive on the growing demand from the main user segments like steel plants, ports etc. The stock is currently trading at 11.0x expected FY08E earnings estimates and 8.5x expected FY09E earnings estimates. Over the last few years, the stock has got significantly re-rated on the back of robust growth momentum. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 908 (an upside of 77%).



TRF

Income Statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	**2,000.6**	**2,165.5**	**3,303.6**	**4,835.2**	**5,807.7**
Total Operating Income	**2,000.6**	**2,165.5**	**3,303.6**	**4,835.2**	**5,807.7**
Less:					
Raw Material	1,125.6	1,262.6	1,726.1	2,528.8	3,037.4
Payment to sub contractors	341.7	232.7	631.0	918.7	1,074.4
Employee Exp	207.5	240.0	303.9	435.2	522.7
Administrative, general & Selling exp	217.6	257.5	363.4	531.9	638.9
Total Operating Expenses	**1,892.4**	**1,992.7**	**3,024.4**	**4,414.5**	**5,273.4**
EBITDA	**108.2**	**172.8**	**279.2**	**420.7**	**534.3**
% margin	0.1	0.1	0.1	0.1	0.1
Depreciation & Amortisation	14.0	13.0	13.3	13.7	14.1
Other Income	16.3	2.4	15.0	10.0	10.0
EBIT	**110.5**	**162.2**	**280.8**	**417.0**	**530.2**
Less: Gross Interest	41.1	43.5	23.1	25.3	25.3
Recurring Pre-tax Income	**69.4**	**118.7**	**257.7**	**391.7**	**504.9**
Less: Taxation	26.4	45.0	87.6	133.2	171.7
Net Income (Reported)	39.6	70.7	170.1	258.5	333.3
Recurring Net Income	43.0	73.7	170.1	258.5	333.3

Source:Company, HDFC Sec.Research.

Balance Sheet

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Total Current Assets	**1,814**	**1,895**	**1,622**	**2,071**	**2,387**
Total Current Liabilities and Provisions	**876**	**1,143**	**916**	**1,125**	**1,149**
Net Current Assets	**938**	**751**	**707**	**946**	**1,238**
Total Investments	**4**	**4**	**4**	**4**	**4**
Fixed Assets					
Gross Block	351	343	350	360	370
Less Accumulated Depreciation	261	257	271	284	298
Net Block	89	85	79	76	72
Add: Capital Work in Progress	**0**	**7**	**10**	**10**	**16**
Net Fixed Assets	**89**	**93**	**89**	**86**	**88**
Total Assets	**1,032**	**848**	**800**	**1,036**	**1,330**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Secured Loans	641	363	170	200	220
Unsecured Loans	0	50	50	30	10
Total Borrowings	**641**	**413**	**220**	**230**	**230**
Deferred Tax Liability	**17**	**12**	**10**	**10**	**10**
Share Capital					
Paid up Equity Share Capital	55	55	55	55	55
Reserves & Surplus					
Share Premium					
Reserves & Surplus	327	372	515	740	1,035
Less: Misc. Exp. not written off	7	4	4	4	4
Net Worth	**375**	**423**	**570**	**795**	**1,090**
Total Liabilities & Shareholders' Equity	**1,032**	**848**	**800**	**1,035**	**1,330**

Source:Company, HDFC Sec.Research.

Cash Flow statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Operating Cash Flow before Working Capital change	33	88	172	268	344
Working Capital Inflow / (Outflow)	(224)	122	121	(251)	(158)
Net Cash flow from Operating Activities	(191)	211	293	17	186
Free Cash flow after capital commitments	(203)	211	283	7	170
Net Cash flow from Investing Activites	16	2	15	10	10
Net Cash flow from Financing Activites	190	(250)	(219)	(23)	(40)
Net Extra-ordinary Income	(3)	(3)	0	0	0
Total Increase / (Decrease) in Cash	(0.5)	(40)	80	(6)	141
Opening Cash and Bank balance	68	67	28	108	102
Closing Cash and Bank balance	67	28	108	102	242
Increase/(Decrease) in Cash and Bank balance	(0.5)	(40)	80	(6)	140

Source:Company, HDFC Sec.Research.

Ratios

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Earnings per share	7.2	12.9	30.9	47.0	60.6
Reported Book Value (BV)	68.2	76.9	103.6	144.6	198.1
Dividend per share	3.0	4.6	5.0	6.0	7.0
Valuation Ratios (x)					
Diluted Price Earning Ratio	66.0	38.5	16.7	11.0	8.5
Price to Book Value	7.6	6.7	5.0	3.6	2.6
EV / EBITDA	31.5	18.7	10.6	7.1	5.3
Dividend Yield (%)	0.6	0.9	1.0	1.2	1.4
Operating Ratios (%)					
EBITDA Margins	5%	8.0%	8.4%	8.7%	9.2%
EBIT Margins	6%	7%	9%	9%	9%
Recurring Pre-tax Income Margins	3%	5%	8%	8%	9%
Recurring Net Income Margins	2%	3%	5%	5%	6%
Effective Tax Rate	38.0%	37.9%	34.0%	34.0%	33.9%
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)	7.5	10.7	22.5	30.0	29.6
Return on Net Worth (RoNW)	12.1	18.5	34.3	37.9	35.4
Dividend Payout Ratio	38.4	34.0	16.2	12.8	11.6
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	175%	100%	40%	30%	22%
Current Ratio	1.05	1.11	1.29	1.40	1.58
Cash and cash equivalents / Total Assets	7%	3%	13%	10%	18%
Turnover Ratios					
Inventory Turnover Ratio (x)	6.63	8.45	13.51	23.88	28.95
Assets Turover Ratio (x)	2.20	2.31	4.03	5.28	4.92
Working Capital Cycle (days)	111.78	105.14	56.19	45.73	54.78
Average Collection Period (days)	216.98	227.38	144.75	104.41	104.95
Average Payment Period (days)	105.82	109.76	87.60	74.27	70.55

Source:Company, HDFC Sec.Research.

BUY

CMP	**Rs. 390**
Target	**Rs. 537**
Stock Return	**38%**
Capital Appreciation	37.6%
Dividend Yield	0.4%

Nifty	3861
Sensex	13286

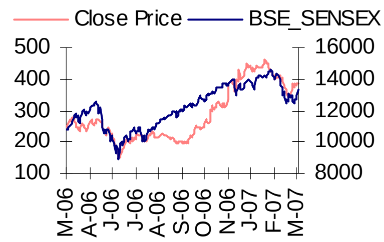
Key Stock Data	
Reuters Code	ELCN.BO
BLOOMBERG Code	ELCN IN
No. of Shares (mn)	30.65
Market Cap (Rs bn)	12.0
Market Cap ($ mn)	266
Avg. 6m Vol.	84202

Stock Performance (%)			
52 - Week high / low	Rs. 477/144		
	3M	6M	12M
Absolute (%)	-6	95	56
Relative (%)	-5	86	34

Shareholding Pattern	(%)
Indian Promoters	42.5
FIs & Local MFs	20.2
FIIs	4.7
Free Float (Others)	32.6

Source : BSE

Sensex and Stock Movement



Elecon Engineering Ltd (EEL)

Investment Summary

Dominant share in gear business

EEL has a dominant position in the industrial gear business, with 26% plus market share in the industry. EEL manufactures the largest gearbox in the country. The smallest gear manufactured by EECL is kg, while the largest is 50 tonnes. EEL's Gear Division is acknowledged in the industry as the most modern in the country. We expect revenues from this division to grow at a CAGR of 18-20% in the next 2-3 years, with high EBIDTA margins of 20% or more.

Strong order pipeline

The company has a strong order backlog of Rs. 5.05 bn and Rs. 1.5 bn in the MHE and TE divisions, respectively. This overall order backlog of Rs. 6.55 bn represents 1.48x its FY06 turnover, giving a clear visibility of growth in the medium to long term. The MHE division can take orders worth Rs. 10 bn on existing capacity, which we feel, will be the future growth driver of EEL.

Shift in the revenue mix

In the past, 'industrial gears' was a major revenue driver for the company, accounting for more than 50% of its top line. However, the company has made its presence felt in MHE by increasing MHE's segmental share to approximately equal industrial gears. Going forward, we expect MHE to be the major revenue driver. Hence, operating margins are expected to improve. We expect MHE's segmental margin to improve with further spread of fixed cost, over larger volumes.

Diversifying into new businesses

Wind Mill Gear Box

The company is planning to manufacture windmill gearboxes for 1-2 MW units. It has secured a technical collaboration with a European windmill gearbox manufacturer. The company is also planning to manufacture windmills of below 600 Kva capacity. This segment could generate revenues of Rs. 1 bn, in the very first year of operations and go up to Rs. 2.5-3 bn. Margins are likely to be better than that of the MHE business.

In the last few years, the stock has got significantly re-rated on the back of the robust growth momentum. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 537 (an upside of 38%).

Year to March (Rs.mn)	2005	2006	2007E	2008E	2009E
Net Sales	2,777	4,425	7,269	10,200	12,859
% Chg YoY		59	64	40	26
EBIDTA	379	597	1,123	1,627	2,052
% Chg YoY		57	88	45	26
Net Income	161	314	551	846	1,108
% Chg YoY		95	75	53	31
EPS (Rs)	5.7	11.0	17.8	27.3	35.8
% Chg YoY		93	62	53	31
P/E (x)	68.4	35.4	21.9	14.3	10.9
EV/E (x)	31.4	21.7	12.4	8.9	7.0
RoCE (%)	14.3	16.7	19.3	21.7	22.0
RoE (%)	25.6	37.2	38.1	37.2	35.0

Source:Company, HDFC Sec.Research.

Background

Elecon Engineering is located in Vallabh Vidyanagar and is a part of the Elecon group. The company manufactures material handling equipment, helical gears, spiral bevel helical gears, Elecon ET series modular gear units, Elecon EP & Epex series, planetary gears, worm gears, couplings, geared motors as well as custom engineered power transmission products for specialized, precision applications. The divisions of the company can be classified into Material Handling Division (MHE) and Transmission Equipment Division (TE), contributing 56% and 44% respectively, to the overall revenues. The company caters to a wide range of industries, including power, mining, steel, cement and aluminium.

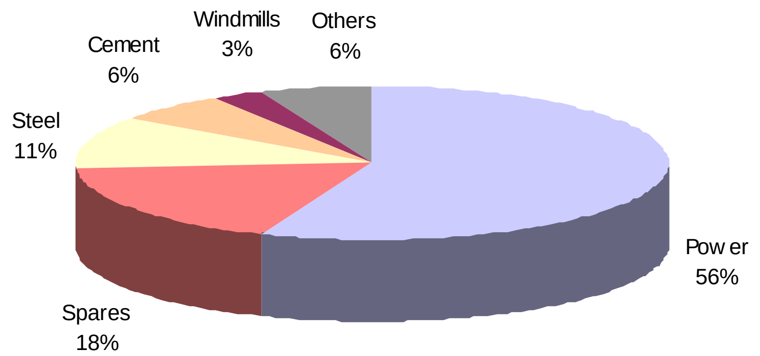
Business Segments

Material Handling Equipment (MHE)

EEL has pioneered the manufacture of material handling equipments in India. These are used in a range of products from elevators, conveyors and gears to material handling plants. For over 5 decades, the company has supplied hi-tech equipment to core sectors such as steel, fertilizer, cement, coal, lignite and iron ore mines, power stations and ports, in India and abroad.

The lack of investments in power and other core sector industries, had negatively impacted the growth of this division. However, the revival of the industry and the upcoming projects are giving a boost to the performance of this division.

Industry Wise Sales (MHE)



Source:EEL

Under this division, the company has an extensive range of products. Crawler mounted tippers, twin boom stackers, ship loaders, rail pusher cars, stacker reclaimers and conveyors are part of the product line-up. The company derives 56% of this segment's revenue from the power sector. The government plans to add 100,000 MW under the of 'Power for All' scheme by 2012. As the company has a proven track record, the surge in investments in the sector will benefit it, going forward. The key activities under this division are:

- Coal handling plants for thermal projects.
- Overburden and coal/lignite handling systems for open cast mines.
- Raw material handling, crushing and blending systems for cement plants.
- Ore handling and stock yard equipment for steel plants.
- Product & bag handling plants.

Key Customers in MHE

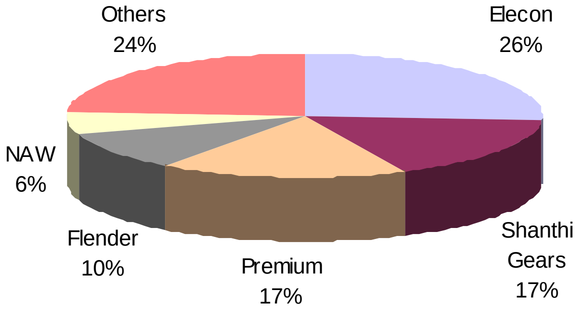
Industry	Customers
Power	REL, NTPC, MSEB, TNEB
Steel	SAIL, IISCO
Railways	Indian Railways
Ports	Chennai Port Trust, Marmagoa Port Trust, Kandla Port
Mining & Coal	Neyveli Lignite Corporation, NMDC
Cement	GACL, ACC, J.K.Cement

Source:EEL

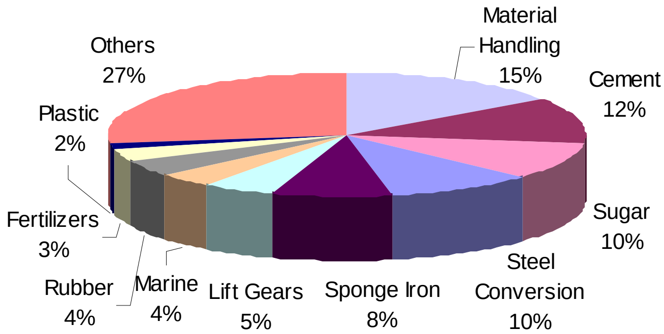
Transmission Equipment (TE)

EEL has a dominant position in the industrial gear business with 26% plus market share. The company designs and manufactures a wide range of worm, parallel shaft and right angle shaft helical and spiral bevel helical gears with horizontal and vertical output shafts in various sizes, from single to quadruple stage reduction. These gears are compact and lightweight, saving space, reducing foundation structure costs and lubricating oil consumption. EEL manufactures the largest gearbox in the country. The smallest gear manufactured by EEL is 1 kg, while the largest weighs 50 tonnes. EEL's Gear Division is acknowledged in the industry as the most modern in the country.

Market Share (Gears)



Sales Industry Wise (Gears)



Source:Industry, EEL

The robust growth in manufacturing space has benefited the gears sector. The gears manufactured by EEL find application in all industries, including sugar, steel, cement and aluminum and the outlook is extremely robust for Elecon, which is the market leader.

Key Customers in Gears

Industry	Customers
Power	NTPC, MSEB
Windmill	NEPC, Pioneer Wincon
Mining	NMDC, Neyveli Lignite
Sugar	Bajaj Hindustan, Harinagar Sugars Ltd
Defence	Indian Navy, Coast Guard
Palm Oil	Felda (Malaysia)
Steel	SAIL, Tisco
Chemical	RCF, Alembic
Sponge Iron	JSPL, Nova Iron & Steel
Cement	GACL, ACC

Source:EEL

Investment Arguments

Diversifying into new businesses

Wind Mill Gear Box

The company is planning to manufacture windmill gearboxes in the 1-2 MW category. It has secured a technical collaboration with a European windmill gearbox manufacturer. The company will target windmill manufacturers. Currently no one in India manufactures windmill boxes in the 1-2 MW category. Initially, most (70%) of the components will be imported. It will be gradually localized, once the company gains expertise.

Margins will be more than from its industrial gear business. The company plans to invest around Rs. 800 mn in this business by September 2007. This division will generate revenues of Rs. 1 bn in the first full year of operation.

Wind Mills & Ship Fabrication

The company is also planning to manufacture windmills of less than 600 Kva. For this it has entered into technical collaboration with Turbowinds, Belgium.

EEL is also planning to enter the ship fabrication business and has been identified as one of the three major players by Pipavav Shipyard Ltd (PSL), Gujarat. EEL will invest Rs. 1 bn in this business in FY08E.

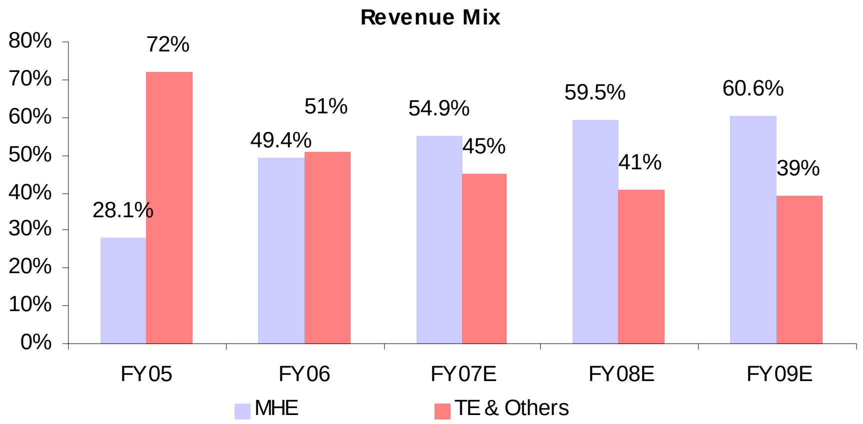
Strong order book position

The company has a strong order backlog of Rs. 5.05 bn and Rs. 1.5 bn in the MHE and TE divisions, respectively. The order period for MHE is around 18-24 months while for TE, it is 3-4 months. This overall order backlog of Rs. 6.55 bn, represents 1.48x its FY06 turnover, giving a clear visibility of growth in the medium to long term.

The MHE division can take orders worth Rs. 10 bn on existing capacity, which we feel will be the future growth driver of EEL. We expect the revenues to grow at a stupendous pace of 54% CAGR between FY06-09E. The TE division is expected to grow at a CAGR of 15-20% for the next 2-3 years, with regular orders worth Rs. 400 mn for defense supplies.

Shift in the revenue mix

In the past, industrial gears were a major revenue driver of the company, accounting for more than 50% of the top line. However, it has increased its MHE segmental share to approximately equal that of industrial gears. Going forward, the company's revenue mix will tilt towards the MHE segment, on the back of major developments in the MHE space. Going forward, we expect MHE to be the major revenue driver and will improve its operating margins. The industrial gear division will maintain 18% to 20% margins. We expect MHE's segmental margin to improve, with further spread of fixed cost, over larger volumes.



Source:Company, HDFC Sec.Research.

Financial Highlights

Quarterly Analysis

Year End March 31 (Rs mn)	9M07	9M06	Y-o-Y	Q307	Q306	Y-o-Y
Net Sales	4,382.7	2,551.1	71.8%	1,682.4	897.5	87.5%
Other Income	42.6	70.3	-39.4%	15.21	56.04	-72.9%
Total Income	4,425.3	2,621.4	68.8%	1,697.6	953.5	78.0%
Total Expenditure	3,666.4	2,222.4	65.0%	1,386.4	787.3	76.1%
(Inc)/Dec in Stock	-330.8	-323.5	2.2%	-100.96	-93.3	8.2%
Raw Material Consumed	3,219.1	2,017.4	59.6%	1,214.19	701.4	73.1%
Employee Expenses	189.2	146.9	28.8%	67.12	55.9	20.0%
Provisions & Write Offs	5.7	5.9	-3.4%	0	0	
Other Expenses	583.1	375.8	55.2%	206.025	123.4	67.0%
Operating Profit	716.3	328.7	118.0%	296	110.2	168.7%
EBIDTA	759	399	90.2%	311.3	166.2	87.3%
Interest	135.9	105.1	29.3%	53.6	37.2	44.1%
PBDT	623.1	293.9	112.0%	257.7	129	99.7%
Depreciation	88.5	69.6	27.2%	32.8	22.9	43.4%
PBT	534.5	224.3	138.3%	224.8	106.1	111.8%
Profit after Extra-ordinary items	371.3	177.5	109.2%	146.7	81.4	80.2%
Equity (FV = 2)	61.3	56.5		61.3	56.5	
Ratios						
OPM (excl.Other Income)	16.3%	12.9%	346.16	17.6%	12.30%	532.21
OPM (incl.Other Income)	17.2%	15.2%	192.95	18.3%	17.40%	90.46
Tax / PBT	30.9%	24.6%	637.94	32.2%	23.30%	892.26
NPM (Before Extra-ordinary Items)	10.1%	7.6%	245.4	11.0%	10.30%	65.4
Cash EPS	14.9	8.5	76.60%	6	3.7	63.70%
EPS	12	6	101.10%	5	2.9	72.60%
Cost analysis						
RM/Sales	65.9%	66.4%	-49.46	66.2%	67.8%	-158.23
Employees costs/net sales	4.3%	5.8%	-144.18	4.0%	6.2%	-224.15
Others/net sales	13.3%	14.7%	-142.4	12.2%	13.7%	-149.83

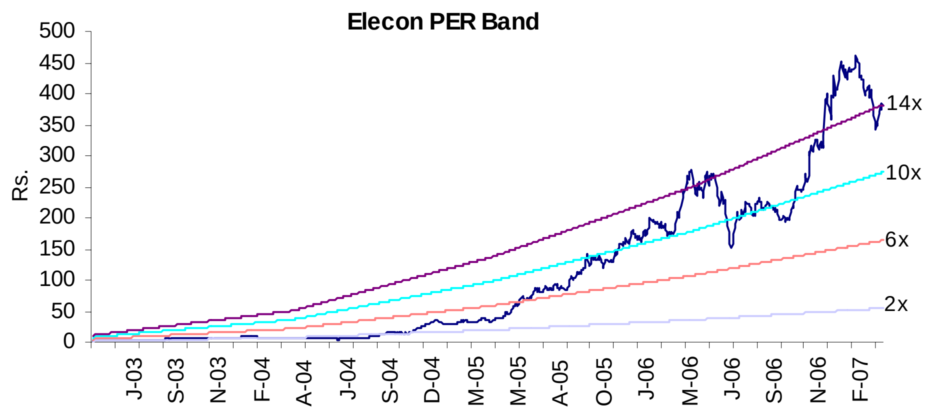
Source:Company, HDFC Sec.Research.

- EEL reported a strong performance in Q3FY07 and 9MFY07, with net sales improving by 87.5% and 71.8% during the same period. Operating profit grew by 168.7% and 118% in Q3FY07 and 9MFY07 respectively, followed by growth in PAT by 80.2% and 109.2% during the same period. The strong growth in above financials was seen on the back of improvement in operating margins and a healthy top line growth.
- The company's performance in FY07E and FY08E is likely to be robust on the back of sustained margin expansion and considerable increase in revenues, due to the huge outstanding order book position and incremental revenues from new businesses.
- Between FY06-09E, we expect the company to report a revenue growth of 43% CAGR on a YoY basis to Rs. 12.86 bn, from Rs. 4.42 bn in FY06. We expect this growth due to an increase in orders from the MHE segment.
- The operating margins on account of increasing revenues are expected to improve by 247 bps to 16% in FY09E. Thus, the operating profit is expected to improve by 51% CAGR between FY06-09E to Rs. 2.5 bn. The net profit is expected to be Rs. 1.1 bn by FY09E, registering a CAGR of 52.2% between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 27.3 and Rs. 35.8, on a diluted equity of Rs. 62 mn.

Outlook and Valuation

The upturn in the economy and rapid industrial growth have been encouraging for the company. The upcoming and ongoing infrastructure projects have created a good opportunity for the material handling equipment division. The company has taken measures to cut cost, increase productivity and reduce manpower to turn more competitive. It is entering windmill production to diversify its business.

Robust capex by Indian corporates across the industry, will create a huge demand for the company's products. Its move to tap the growing windmill gearbox market and windmills will also augment revenue flow. At the CMP of Rs. 390. the stock is trading at 14.3x FY2008E EPS and 10.9x its FY2009E EPS. In the last few years, the stock has got significantly re-rated on the back of robust growth. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 537 (an upside of 38%).



Elecon Engineering Ltd (EEL)

Income Statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Gross Sales	2,710	3,988	6,469	9,200	11,659
Less: Excise Duty	-	-	-	-	-
Net Sales	**2,710**	**3,988**	**6,469**	**9,200**	**11,659**
Other Operating Income	67	437	800	1,000	1,200
Erection & Other charges	67	437	800	1,000	1,200
Total Operating Income	**2,777**	**4,425**	**7,269**	**10,200**	**12,859**
Less:					
(Inc)/dec in stock	(48)	(176)	-	-	-
Consn of Raw Material	1,848	3,168	4,784	6,661	8,396
Power & Fuel	47	50	84	117	148
Employee Exp	121	191	313	439	553
Admnistrative, general & Selling exp	431	595	967	1,357	1,710
Total Operating Expenses	**2,398**	**3,828**	**6,147**	**8,574**	**10,807**
EBITDA	**379**	**597**	**1,123**	**1,627**	**2,052**
% margin	13.6%	13.5%	15.4%	15.9%	16.0%
Depreciation & Amortisation	82	94	132	167	190
Other Income	31	83	35	35	35
EBIT	**327**	**585**	**1,026**	**1,495**	**1,897**
Less: Gross Interest	93	140	227	269	290
Recurring Pre-tax Income	**235**	**445**	**799**	**1,225**	**1,606**
Less: Taxation	74	131	248	380	498
Net Income (Reported)	100.4	279	551	846	1,108
Recurring Net Income	161	314	551	846	1,108

Source:Company, HDFC Sec.Research.

Balance Sheet

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Total Current Assets	**2,678**	**4,334**	**5,757**	**7,418**	**9,279**
Total Current Liabilities and Provisions	**1,584**	**2,167**	**3,259**	**4,277**	**5,230**
Net Current Assets	**1,094**	**2,167**	**2,499**	**3,140**	**4,049**
Total Investments	**57**	**63**	**63**	**63**	**64**
Fixed Assets					
Gross Block	1,725	2,027	2,924	3,624	4,124
Less Accumulated Depreciation	1,112	1,182	1,313	1,480	1,670
Net Block	613	846	1,611	2,144	2,454
Add: Capital Work in Progress	**7**	**107**	**0**	**0**	**0**
Less: Revaluation Reserve					
Net Fixed Assets	**621**	**952**	**1,611**	**2,144**	**2,454**
Total Assets	**1,771**	**3,182**	**4,172**	**5,347**	**6,567**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Secured Loans	670	1,506	2,041	2,441	2,641
Unsecured Loans	292	551	126	126	126
Total Borrowings	**961**	**2,057**	**2,167**	**2,567**	**2,767**
Deferred Tax Liability	**123**	**121**	**120**	**120**	**120**
Share Capital					
Paid up Equity Share Capital	56	57	62	62	62
Reserves & Surplus					
Net Worth	**686**	**1,004**	**1,886**	**2,661**	**3,680**
Total Liabilities & Shareholders' Equity	**1,771**	**3,182**	**4,173**	**5,347**	**6,566**

Source:Company, HDFC Sec.Research.

Cash Flow statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Operating Cash Flow before Working Capital change	257	299	666	995	1281
Working Capital Inflow / (Outflow)	(230)	(911)	(277)	(768)	(737)
Net Cash flow from Operating Activities	27	(612)	389	227	544
Free Cash flow after capital commitments	(202)	(1019)	(401)	(473)	44
Net Cash flow from Investing Activites	31	83	35	35	34
Net Cash flow from Financing Activites	290	1134	440	329	111
Net Extra-ordinary Income	(61)	(36)	0	0	0
Total Increase / (Decrease) in Cash	58.0	162	74	(110)	189
Opening Cash and Bank balance	27	85	247	321	212
Closing Cash and Bank balance	85	247	321	212	401
Increase/(Decrease) in Cash and Bank balance	58.1	162	74	(109)	189

Source:Company, HDFC Sec.Research.

Ratios

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Earnings per share	3.6	9.8	17.8	27.3	35.8
Cash Earnings per share	8.6	14.3	22.1	32.7	41.9
Reported Book Value (BV)	24.3	35.2	60.9	86.0	118.9
Dividend per share	0.5	1.2	1.7	2.3	2.9
Valuation Ratios (x)					
Diluted Price Earning Ratio	68.4	35.4	21.9	14.3	10.9
Price to Book Value	16.0	11.1	6.4	4.5	3.3
EV / EBITDA	31.4	21.7	12.4	8.9	7.0
Dividend Yield (%)	0.1	0.3	0.4	0.6	0.7
Operating Ratios (%)					
EBITDA Margins	14%	13%	15%	15.9%	16.0%
EBIT Margins	12%	13%	14%	15%	15%
Recurring Pre-tax Income Margins	8%	10%	11%	12%	12%
Recurring Net Income Margins	6%	7%	8%	8%	9%
Effective Tax Rate	31.4%	29.4%	31.0%	31.0%	31.0%
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)	14.3	16.7	19.3	21.7	22.0
Return on Net Worth (RoNW)	25.6	37.2	38.1	37.2	35.0
Dividend Payout Ratio	8.8	11.1	9.7	8.4	8.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	158%	217%	121%	101%	78%
Current Ratio	1.08	1.10	1.02	1.05	1.13
Cash and cash equivalents / Total Assets	5%	8%	8%	4%	6%
Turnover Ratios					
Inventory Turnover Ratio (x)	1.48	1.91	1.96	2.30	2.54
Assets Turover Ratio (x)	1.80	1.82	1.99	2.15	2.16
Working Capital Cycle (days)	100.98	111.39	100.67	88.37	92.10
Average Collection Period (days)	126.99	150.17	135.42	125.23	127.21
Average Payment Period (days)	193.55	173.89	157.48	157.03	157.28

Source:Company, HDFC Sec.Research.

BUY

CMP	**Rs. 646**
Target	**Rs. 1073**
Stock Return	**67.5%**
Capital Appreciation	66%
Dividend Yield	1.5%

Nifty	3861
Sensex	13286

Key Stock Data	
Reuters Code	SNGM.BO
BLOOMBERG Code	SGM IN
No. of Shares (mn)	7.18
Market Cap (Rs bn)	4.6
Market Cap ($ mn)	103
Avg. 6m Vol.	5448

Stock Performance (%)

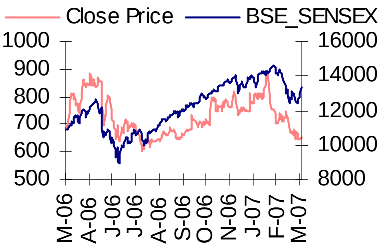
52 - Week high / low Rs. 913/563

	3M	6M	12M
Absolute (%)	-14	-4	-6
Relative (%)	-13	-13	-29

Shareholding Pattern	**(%)**
Indian Promoters	47.2
FIs & Local MFs	0.9
FIIs	32.9
Free Float (Others)	19.0

Source : BSE

Sensex and Stock Movement



Sanghvi Movers (SML)

Investment Summary

Expansion of fleet of cranes

The company is planning to add 7 new cranes during the current financial year. It will take the current fleet of cranes to 250 by FY07E. Going forward, the trend will be to buy new cranes and not second hand ones. The company is also planning to add 11 and 5 new cranes in FY08E and FY09E, respectively because these fetch better realizations.

Robust demand for renting cranes

The mining and construction sectors are becoming conscious of quality, productivity and down time and demand better performance from Indian product suppliers. The suppliers in turn, have risen to the occasion by offering appropriate products. Surveys have identified some of the areas where operational efficiencies need to improve. It was found that sophisticated equipment offered higher quality work, shorter turnaround time, fewer delays due to shorter downtime, lower maintenance and cost overruns.

High Utilization rates

Of the 243 cranes, 210 are currently on site. The current utilisation rate is 85-90%. During the lean period of 1997, the utilisation rate was 55%. The company has had good utilisation rate (or demand) during the last 15 months. It has consequently been able to increase rental charges by 10-15%. The company expects capacity utilization to remain at the current high levels, going forward.

Change in capital structure

The company till now, funded most of its capex requirements using debt. Hence, the debt/ equity ratio in FY06 was as high as 3x. However, the issue of fresh equity by way placement, will bring this ratio down, to a comfortable level of 1.4x in FY07E.

At the CMP of Rs. 646, the stock is trading at 8.6x FY2008E EPS and 7.2x its FY2009E EPS. Thus, with a target P/E of 12X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 1073 (an upside of 67.5%).

Year to March (Rs.mn)	2005	2006	2007E	2008E	2009E
Net Sales	754	1,490	1,801	2,323	2,668
% Chg YoY		98	21	29	15
EBIDTA	455	986	1,280	1,661	1,912
% Chg YoY		117	30	30	15
Net Income	137	322	450	603	720
% Chg YoY		135	40	34	19
EPS (Rs)	19.1	44.8	55.9	74.9	89.4
% Chg YoY		135	25	34	19
P/E (x)	33.8	14.4	11.6	8.6	7.2
EV/E (x)	12.4	7.1	5.9	4.9	4.2
RoCE (%)	12.0	16.0	14.9	14.0	14.4
RoE (%)	26.4	46.8	30.2	24.8	24.0

Source:Company, HDFC Sec.Research.

Background

SML was incorporated in 1989. It was promoted by C P Sanghvi and A P Sanghvi. The company is engaged in material handling for its customers. It provides an entire range of services, which include movement of materials, erection of equipment and assistance in fabrication. It also provides skilled personnel and engineering services. The company's services find application in core-sector projects. Its clients include organisations like Suzlon, ONGC, L&T (ECC group), Reliance Industries, Bechtel International, Essar group, Tata Power and Enercon etc.

Business Overview

The company is into the crane hiring and engineering services business. It is the largest crane hiring company in the domestic market. It is as big as the next ten domestic competitors combined. It is currently ranked 19th, in the global market. Post expansion in FY06, it expects to be ranked among the top 10 in the world. The current market share of the company is around 50-55%. ABG Heavy, is the main competitor among organized players. It has mostly crawler cranes.

Life of a hydraulic crane is 35 yrs, while that of a crawler is 40. Most of the company's cranes are of the 1987-88 batch.

Assets of the company

(A) Cranes

- Hydraulic cranes 180 nos (20T- 800T)
- Crawler cranes 43 nos (75T - 600T)

Methodology for arriving at the Hire Charges

- Old cranes 3.5% to 4% p.m.
- New cranes 2.25% to 2.5% pm

The company has also a fleet of trucks to transport (80-85%) its cranes. This cuts delays, provides efficient service and avoids vagaries of freight rates.

(B) Trailers

- Volvo 45 nos
- Ashok Leyland & Tata 25 nos

The company undertakes the following activities, apart from renting cranes:

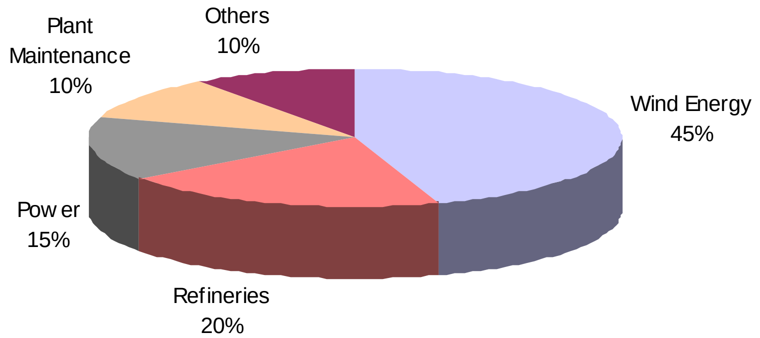
- Implementing turnkey projects, which includes providing well-maintained equipments, expert technical services and skilled manpower.
- Deploys cranes at optimal rates.
- Provides efficient operations.
- Adheres to time schedules.
- Enforces low mobilization time.

The company operates in the higher tonnage segment, where the cost of the asset is an important entry barrier. The expected gross block of the company in FY07E, is Rs 5.5 bn, the replacement value of which is around 1.25x.

75% of the cranes owned by the company are second hand. The company buys in bulk and charters barges to transport them into India, saving cost. Import duty on cranes is 31%, against 37% earlier.

Cranes are needed for plant erection and maintenance. The company's revenue break-up based on its customer profile is as under:

Customer Profile



Source:Company

September and March are peak periods for installing windmills. The company has received 30% of its orders from Suzlon Energy. It has been refusing orders for 5-10 cranes on a daily basis.

Investment Arguments

Robust demand from user segments

The Indian heavy equipment rental industry has evolved due to domestic demand in mining, infrastructure development, building and construction sectors. The mining and construction sectors are becoming conscious of quality, productivity and down time and demand better performance from Indian product suppliers, who have been meeting their expectations. This process is expected to accelerate. Surveys have identified some of the areas where operational efficiencies need to improve. It was found that sophisticated equipment, offers higher quality work, shorter turnaround time, fewer delays due to shorter downtime, lower maintenance and cost overruns.

The Highlights of the Equipment Renting Industry

- The current market size for IE is Rs. 12.5 bn. It is expected to grow at a CAGR of 30% in the next 4-5 years.
- The renting penetration levels are low at 2%; compared to UK with 80% and North America with 35%
- Demand for an effective alternative to owning equipment, outstrips supply
- The investment in construction accounts for 11% of india's GDP and 50% of its GFCF (Gross Fixed Capital Formation).
- The investment in this segment over financial years 2005 to 2010 is estimated at US$ 124.65 billion.
- India is expected to record the highest growth rate of over 10% till 2008.

Expansion of fleet of cranes

The delivery lead-time for new cranes is 12-15 months. The cost differential between old and new cranes is around 5% to 10% only. Hence, the company is now buying new cranes, rather than second hand ones. It is planning to add 7 new cranes in the current financial year, taking the current fleet to 250 cranes by FY07E. Going forward, the trend will be more towards buying new cranes and not second hand ones.

The company is planning to add 11 and 5 new cranes in FY08E and FY09E, respectively.

Capex

The company is planning to do the following capex:

Year End March 31	Amount (Rs.bn)	Addition
FY06	1.7	45 cranes (4 new)
FY07E	1.8	41 cranes (13 new)
FY08E	1.5	11 (mostly new)
FY09E	1	5 (mostly new)

Source:Company, HDFC Sec.Research.

Towards this capex, the company has allotted 8.80 lakh equity shares to Goldpeak, at Rs. 825 per share, aggregating Rs 726 mn. The funds will be utilised towards capital expenditure, and for other businesses. The company has completed its expansion worth Rs 118.84 crore upto December 2006. The capex for FY08E and FY09E will be funded through a mix of debt (50%) and internal accruals.

High Utilization rates

Of the 243 cranes, 210 are currently on site. The current utilisation rate is 85-90%. During the lean period of 1997, the utilisation rate was 55%. The company has had good utilisation rate (or demand) during the last 15 months. It has consequently been able to increase rental charges by 10-15%. The company expects capacity utilization to remain at the current high levels, going forward.

Change in capital structure

The company till now, funded most of its capex requirements using debt. Hence, the debt/ equity ratio in FY06 was as high as 3x. However, the issue of fresh equity by way of placement, will bring this ratio down, to a comfortable level of 1.4x in FY07E. Going forward, we expect the company to meet fresh capex requirements through debt and internal accruals in the ratio of 50:50, thereby not causing any dilution.

Change in depreciation policy

Depreciation on all fixed assets acquired during April 01, 2002 to March 31, 2005 was being provided for Depreciation on WDV basis. In line with the policy of providing for Depreciation on "Straight Line Method" (SLM) basis effective from April 01, 2005, the method of providing Depreciation on fixed assets acquired during April 01, 2002 to March 31, 2005 has been changed from WDV to SLM retrospectively, as required by Accounting Standards 6 Resultantly. To that effect, the company has reversed the changes with retrospective effect and now all the depreciation will be as per SLM basis.

Depreciation:

Old cranes: 3-shift basis	SLM	20%
New cranes: 1 shift basis	SLM	7%

Financial Highlights

Quarterly Analysis

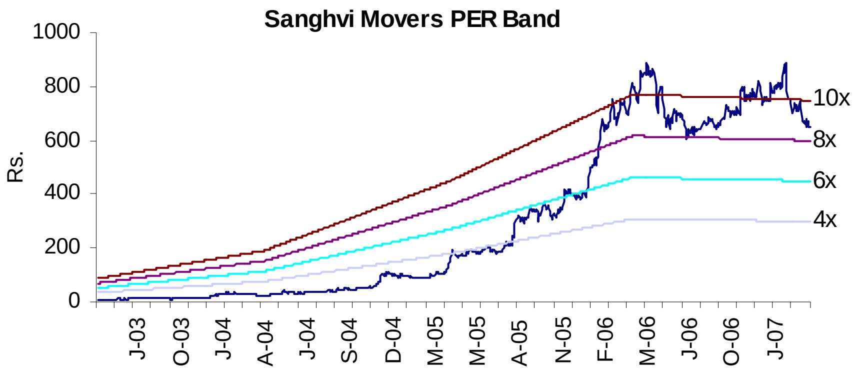
Year End March 31 (Rs mn)	9M07	9M06	Y-o-Y	Q307	Q306	Y-o-Y
Net Sales	1265.1	1068.8	18.40%	389.4	446.3	-12.70%
Other Income	181.5	5.1	3458.80%	2	1.1	81.80%
Total Income	1446.6	1073.9	34.70%	391.4	447.4	-12.50%
Total Expenditure	356.3	372	-4.20%	108.4	147.4	-26.50%
Employee Expenses	46.8	38.6	21.20%	15.4	15.1	2.00%
Other Expenses	309.5	333.4	-7.20%	93	132.3	-29.70%
Operating Profit	908.8	696.8	30.40%	281	298.9	-6.00%
EBIDTA	1090.3	701.9	55.30%	283	300	-5.70%
Interest	182.8	93.1	96.30%	66.6	38.2	74.30%
PBDT	907.5	608.8	49.10%	216.4	261.8	-17.30%
Depreciation	248.6	252.8	-1.70%	87.5	77	13.60%
PBT	658.9	356	85.10%	128.9	184.8	-30.20%
Profit after Extra-ordinary items	320.7	233	37.60%	84	121.5	-30.90%
Equity (FV = 10)	71.8	71.8		71.8	71.8	
Ratios						
OPM (excl.Other Income)	71.8%	65.2%	664.16	72.2%	67.0%	518.94
OPM (incl.Other Income)	75.4%	65.4%	1000.99	72.3%	67.1%	525.05
Tax / PBT	25.3%	34.6%	-920.53	34.8%	34.3%	58
NPM (Before Extra-ordinary Items)	34.0%	21.7%	1230.73	21.5%	27.2%	-569.55
Cash EPS	103.1	67.7	52.40%	23.9	27.6	-13.60%
EPS	68.5	32.5	111.10%	11.7	16.9	-30.90%
Cost analysis						
Employees costs/net sales	3.7%	3.6%	8.78	4.0%	3.4%	57.14
Others/net sales	24.5%	31.2%	-672.94	23.9%	29.6%	-576.08

Source:Company, HDFC Sec.Research.

- SML reported a strong performance during the nine-month period (9MFY07), with net sales improving by 18.4% and operating profit growing by 30.4%, followed by growth in PAT by 37.6%, during the same period. The company showed a decline in Q3FY07 performance, mainly due to the high base of Q3FY06, where there was one time order from RPL of Rs. 200mn due to major maintenance work, which was not there in Q3FY07.
- The company's performance in FY07E and FY08E is likely to be robust, on the back of considerable increase in revenues, due to the addition of a new fleet of cranes, which fetches higher realizations as it has a longer life span, compared to old cranes.
- Between FY06-09E, we expect the company to report a revenue growth of 21.4% CAGR on a YoY basis, to Rs. 2.67 bn from Rs. 1.49 bn in FY06. We expect this growth on account of increasing order from windmills and the addition of higher value added cranes.
- The operating margins on account of increasing revenues are expected to improve by 549 bps to 71.7% in FY09E. Thus, the operating profit is expected to improve by 24.7% CAGR between FY06-09E to Rs. 1.91 bn. The net profit is expected to be at Rs. 720 mn, by FY09E, registering a CAGR of 30.8%, between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 74.9 and Rs. 89.4 on diluted equity of Rs. 80.5 mn.

Outlook and Valuation

We are positive on the company's growth prospects, as there is a huge demand for renting of cranes. The company has won orders worth Rs. 500 mn from RIL, Suzlon, and Enercon in Q4FY07 and this order addition is likely to continue, with the addition of a new fleet of cranes. To meet the increasing demand, Sanghvi is expanding its gross block on a continuous basis. We expect the gross block to increase by Rs. 1.5 to 2.0 bn in FY08E. At the CMP of Rs. 646, the stock is trading at 8.6x FY2008E EPS and 7.2x its FY2009E EPS. Thus, with a target P/E of 12X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 1073 (an upside of 66%).



Sanghvi Movers

Income Statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	**754**	**1,490**	**1,801**	**2,323**	**2,668**
Total Operating Income	**754**	**1,490**	**1,801**	**2,323**	**2,668**
Less:					
Operating Expenses	151	248	243	330	382
Repairs and Maintenance	79	127	135	163	187
Employee cost	26	52	53	54	55
Administrative and other expenses	41	78	90	116	133
Total Operating Expenses	**299**	**504**	**521**	**662**	**756**
EBITDA	**455**	**986**	**1,280**	**1,661**	**1,912**
% margin	60.4%	66.2%	71.1%	71.5%	71.7%
Depreciation & Amortisation	213	356	345	469	563
Other Income	5	6	8	8	8
EBIT	**247**	**636**	**943**	**1,200**	**1,357**
Less: Gross Interest	47	137	261	286	265
Recurring Pre-tax Income	**200.6**	**498.5**	**681.8**	**913.9**	**1,091.6**
Less: Taxation	64	177	232	311	371
Net Income (Reported)	137.0	322	621	603	720
Recurring Net Income	137	322	450	603	720

Source:Company, HDFC Sec.Research.

Balance Sheet

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Total Current Assets	**337**	**648**	**1081**	**741**	**719**
Total Current Liabilities and Provisions	**95**	**284**	**191**	**204**	**204**
Net Current Assets	**242**	**364**	**890**	**537**	**515**
Total Investments	**4**	**0**	**0**	**0**	**0**
Fixed Assets					
Gross Block	2,366	4,056	5,904	7,504	8,504
Less Accumulated Depreciation	842	1,199	1,544	2,013	2,576
Net Block	1,523	2,858	4,360	5,491	5,928
Add: Capital Work in Progress	**18**	**124**	**0**	**0**	**0**
Net Fixed Assets	**1,542**	**2,982**	**4,360**	**5,491**	**5,928**
Total Assets	**1,788**	**3,346**	**5,250**	**6,028**	**6,443**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Secured Loans	1,019	2,342	2,897	3,160	2,944
Unsecured Loans	25	31	30	30	30
Total Borrowings	**1,044**	**2,373**	**2,927**	**3,190**	**2,974**
Deferred Tax Liability	**176**	**165**	**150**	**150**	**150**
Share Capital					
Paid up Equity Share Capital	72	72	81	81	81
Reserves & Surplus					
Reserves & Surplus	496	736	2092	2607	3239
Net Worth	**568**	**808**	**2,173**	**2,687**	**3,319**
Total Liabilities & Shareholders' Equity	**1,788**	**3,346**	**5,250**	**6,028**	**6,443**

Source:Company, HDFC Sec.Research.

Cash Flow statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Operating Cash Flow before WC. change	374	715	792	1077	1276
Working Capital Inflow / (Outflow)	(133)	(171)	41	(75)	(30)
Net Cash flow from Operating Activities	241	544	834	1002	1247
Free Cash flow after capital commitments	(589)	(1248)	(890)	(598)	247
Net Cash flow from Investing Activites	5	6	8	8	8
Net Cash flow from Financing Activites	591	1248	1283	175	(306)
Net Extra-ordinary Income	0	0	171	0	0
Total Increase / (Decrease) in Cash	6.7	5	573	(416)	(52)
Opening Cash and Bank balance	26	33	38	611	195
Closing Cash and Bank balance	33	38	611	195	144
Increase/(Decrease) in Cash and Bank balance	6.7	5	573	(416)	(52)

Source:Company, HDFC Sec.Research.

Ratios

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Earnings per share	19.1	44.8	77.1	74.9	89.4
Reported Book Value (BV)	79.1	112.5	269.7	333.6	412.0
Dividend per share	5.0	11.4	10.0	11.0	11.0
Valuation Ratios (x)					
Diluted Price Earning Ratio	33.8	14.4	11.6	8.6	7.2
Price to Book Value	8.2	5.7	2.4	1.9	1.6
EV / EBITDA	12.4	7.1	5.9	4.9	4.2
Dividend Yield (%)	0.8	1.8	1.5	1.7	1.7
Operating Ratios (%)					
EBITDA Margins	60%	66%	71%	71.5%	71.7%
EBIT Margins	33%	43%	52%	52%	51%
Recurring Pre-tax Income Margins	26%	33%	38%	39%	41%
Recurring Net Income Margins	18%	22%	25%	26%	27%
Effective Tax Rate	31.7%	35.4%	27.2%	34.0%	34.0%
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)	12.0	16.0	14.9	14.0	14.4
Return on Net Worth (RoNW)	26.4	46.8	30.2	24.8	24.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	215%	314%	142%	124%	94%
Current Ratio	0.21	0.14	0.32	0.19	0.20
Cash and cash equivalents / Total Assets	2%	1%	12%	3%	2%
Turnover Ratios					
Assets Turover Ratio (x)	0.54	0.58	0.42	0.41	0.43
Working Capital Cycle (days)	49.57	26.47	88.30	96.38	58.27
Average Collection Period (days)	75.27	64.24	70.68	64.07	62.98
Average Payment Period (days)	31.47	50.70	70.59	44.08	38.60

Source:Company, HDFC Sec.Research.

BUY

CMP	**Rs. 135**
Target	**Rs. 199**
Stock Return	**48.4%**
Capital Appreciation	47.5%
Dividend Yield	0.9%

Nifty	3861
Sensex	13286

Key Stock Data	
Reuters Code	-
BLOOMBERG Code	MCNA IN
No. of Shares (mn)	26.46
Market Cap (Rs bn)	3.6
Market Cap ($ mn)	79
Avg. 6m Vol.	89862

Stock Performance (%)

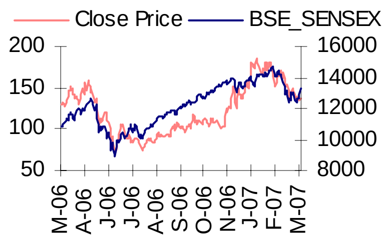
52 - Week high / low Rs. 195/67

	3M	6M	12M
Absolute (%)	-5	41	6
Relative (%)	-4	32	-17

Shareholding Pattern	**(%)**
Indian Promoters	34.2
FIs & Local MFs	18.2
FIIs	23.4
Free Float (Others)	24.2

Source : BSE

Sensex and Stock Movement



McNally Bharat Engineering Company Ltd (MBE).

Investment Summary

Strong order book position

The company has a strong order position of Rs. 12.65 bn, which will be executed over a period of 18-24 months. This is almost 3.8x its FY06 sales and 2.3x its expected FY07E sales. Recently, the company scored a major success in the steel sector, when the MBE-led consortium bagged an order worth Rs. 6.9 bn, from Rashtriya Ispat Nigam Ltd. The value of the order awarded to MBE was Rs 5.55 bn.

JV for coal washeries

The company has entered into a JV with Coal India and some financial institutions to execute projects for the CIL in areas of coal washing on a BOOT basis. This segment could become a driver of MBE's growth. The margins could touch 16%. But, we have not factored in any revenue from this segment for our projections, as it is likely to flow beyond FY09E.

Healthy margin improvement

We expect MBE's EBIDTA margins to improve from 5.07% in FY06 to 8.4% in FY09E, due to higher value added orders, on the back of higher economies of scale on bigger contracts and stable raw material prices. Earlier, the company suffered due to low margin contracts that affected its performance. Now, with those projects getting over, we expect it to gradually report higher EBIDTA margins.

Strong revenue growth

Between FY06-09E, we expect the company to report a revenue growth of 40.2% CAGR on a YoY basis, to Rs. 9.12 bn, from Rs. 3.32 bn in FY06. Operating margins due to increasing revenues are expected to improve by 336 bps to 8.4% in FY09E. Thus, the operating profit is expected to improve by 65.8% CAGR, between FY06-09E to Rs. 770 mn. The net profit is expected to be at Rs. 412 mn by FY09E, registering a CAGR of 98.7% between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 8.9 and Rs. 13.25, on a diluted equity of Rs. 311 mn.

As stated above, the company is poised for robust growth in revenues, and improving its financial performance. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 199 (an upside of 48.4%).

Year to March (Rs.mn)	2005	2006	2007E	2008E	2009E
Net Sales	2,881	3,327	5,503	7,405	9,126
% Chg YoY		16	65	35	23
EBIDTA	112	169	327	555	770
% Chg YoY		50	94	70	39
Net Income	26	53	167	276	412
% Chg YoY		100	217	65	49
EPS (Rs)	1.3	2.0	6.2	8.9	13.2
% Chg YoY		50	213	42	49
P/E (x)	101.8	68.0	21.7	15.2	10.2
EV/E (x)	27.6	25.0	13.9	8.6	6.2
RoCE (%)	7.9	9.0	12.6	12.5	14.8
RoE (%)	7.2	9.1	19.0	19.8	20.8

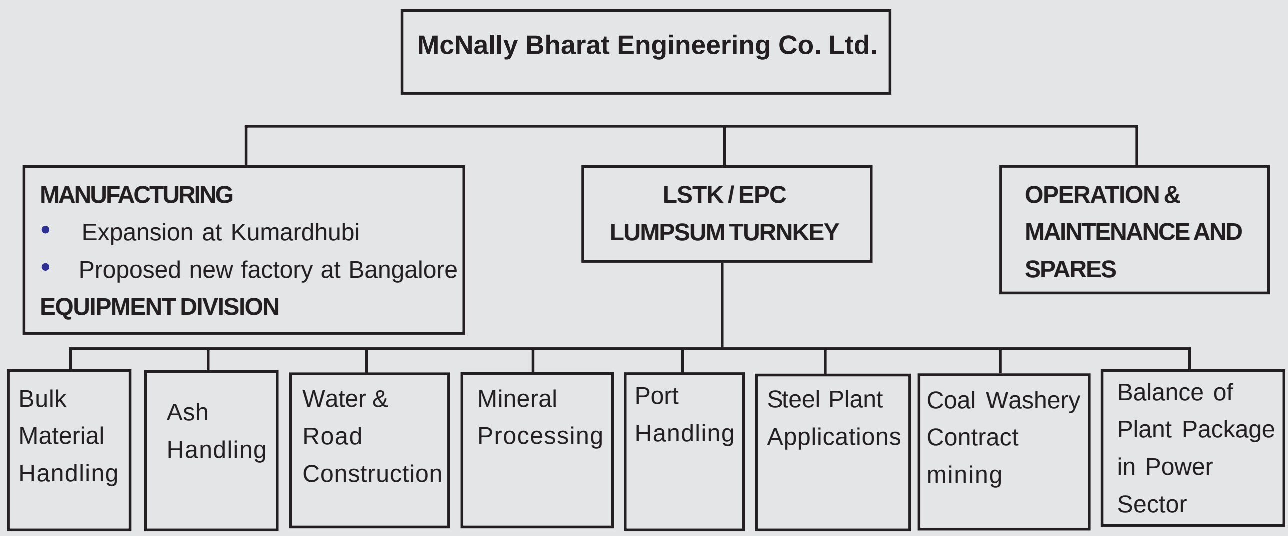
Source:Company, HDFC Sec.Research.

Background

MBE commenced business as McNally Bird Engg. Co. Ltd. in 1961, as a joint venture between McNally Pittsburg, USA and Bird & Co. The name was changed to McNally Bharat Engineering Company Limited in 1972. Its area of operation includes bulk material handling, ash handling, including powdered material handling, port handling systems, including shipyard cranes, bulk and container handling cranes, mineral beneficiation plants for ferrous and non-ferrous equipments, water management, including waste water treatment, supply and distribution, road construction and maintenance, open cast mining machineries, including shiftable conveyor systems, bucket wheel excavators, spreaders etc, It is also involved in structural fabrication, erection, piping and utilities.

MBE also manufactures a wide range of equipments used in construction, mines and metal production, such as heavy duty slurry pumps, impact hammer crushers, dual chain mills, smooth roll crushers, reverse hammer mills, roller screens, ring granulators, grinding mills, rotary brakers, traveling tippers, hydro cyclones and road construction machines. MBE derives its strength from its strong technical tie-ups with international leaders and its strong in-house R&D. It has a highly capable design, drawing and execution team. MBE's manufacturing facilities are at Kumardhubi in Jharkhand and Bangalore.

Business Segments



Source:MBE

Material Handling Equipments

MBE is a pioneer in Bulk Material Handling Systems and has technical tie-ups with international players for spreaders, bucket wheel excavators, stacker reclaimers etc. It also supplies a large range of equipment, including conveyors, crushers, screens, mills, feeders, stacker - reclaimers, traveling trippers and wagon loading and unloading systems. In short, MBE is the one stop shop for material handling projects and equipment in India. Its activities in this segment include the following:

- Coal Handling systems for thermal power plants, stockyard machines.
- Conveyer system for various industries, including machinery for large open cast mines.

Ash Handling Plants & Management

The company manufactures and supplies equipment for dry ash handling at thermal plants. It acquired state-of-the-art technology for this from EWB Hungary, a world leader in the field of ash and powdered material handling systems. Subsequently, MBE acquired 100% share holding of EWB and now has the expertise in engineering and turnkey execution of all types of ash handling and management systems.

Mineral Beneficiation Plants

MBE builds most of the major mineral beneficiation plants in the country. It caters to various minerals like zinc, lead, copper, uranium, iron, fluorspar etc. The company is associated with some of the world leaders in technology, like Outokumpu of Finland, Eriez of USA, Krebs of USA, Aubema of Germany, Siebtechnic of Germany, Falcon of Canada etc. This gives MBE an edge as it can offer technologically superior plants and after sales support. Its activities in this segment include:

- Beneficiation plants for a wide spectrum of minerals including copper, aluminium, zinc, lead, iron & steel, dolomite, thorium & uranium, with plant capacity as high as 6,000 tpd.
- Coal preparation plant and coal washery.
- Developing processes for upgradation of various minerals. It designs full-scale plants.

Port Handling Equipment

MBE is a prominent player in India for port & shipyard cranes. It provides solutions to bulk and container handling at ports. Its other activities in this segment includes:

- Manufacturing specialized cranes like shipyard cranes, reach stackers, electrical level luffing cranes and gantry type grab unloaders, rail mounted gantry cranes, rubber tyred gantry cranes.
- Conveyer cargo handling solutions.
- Technical tie-up with Kone Cranes VLC, Finland – Cranes; Poltegor Engineering, Poland – Reach Stackers and other global players.

Steel Sector Applications

MBE's activities in the steel sector is being expanded with technology tie-ups with several world leaders, to offer the latest in steel manufacturing technology in the following areas:

- Sintering plants of size 400 Sq.m. and above.
- Coke oven batteries upto 5.5 M height, with stamp charging/ top charging facility.
- Continuous casting machines, both for bloom and billet and also other units in steel melting shops.

Competition Landscape – Project Division

Large Domestic Players

Port Handling	Ash Handling	Mineral Processing	Material Handling	Steel Sector
TRF	Indure Pvt. Ltd.	TRF	TRF	Contrast
Mukund	Mahindra Ashtech Limited	L&T	L&T	L&T
ABG Heavy Engg	United Conveyers Corporation Ltd.	KHD India Pvt Ltd	Elecon Engg Co Ltd	Elecon
TIL	DC Industrial Plant Services Ltd	Hind Dorr Oliver	Hindustan Construction	EPIL Ltd
L&T				Nagarjuna Construction Ltd.

International Players

Port Handling (Container)	Ash Handling	Mineral Processing	Material Handling	Steel Sector
NOEL Germany	100% subsidiary of McNally Bharat – EWB Ltd.	METSO – Finland	KRUPP India Pvt Ltd	POSCO
Doosan Korea		FFE Minerals & Metals		
Hyundai Korea				Danielli
Samsung Korea				Outokumpu
ZPMC China				

Source:MBE

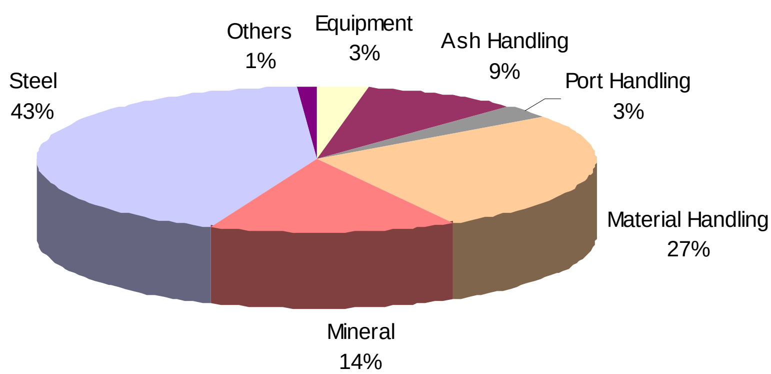
Investment Arguments

Healthy order book position

The company has a strong order position of Rs. 12.65 bn, which will be executed over a period of 18-24 months. This is almost 3.8x its FY06 sales and 2.3x its expected FY07E sales. Recently, the company scored a major success in the steel sector, when the MBE-led consortium bagged an order worth Rs. 6.9 bn from Rashtriya Ispat Nigam Ltd. The value of the order awarded to MBE was Rs 5.55 bn. This order opens up a large opportunity to MBE in steel sector applications, viz, sinter plant, material handling packages in steel plant, coke oven battery plant and caster plant.

We expect this segment to be a major growth driver for the company aiming for a turnover of Rs. 10 bn. Apart from the firm order book in hand, the value of total bids at different stages of decision making, is valued at Rs. 64.40 bn, which includes Steel Sector Applications valued at Rs 42.3 bn. We expect MBE to book orders worth Rs. 15 –20 bn, in the next 3-6 months from this outstanding bid position.

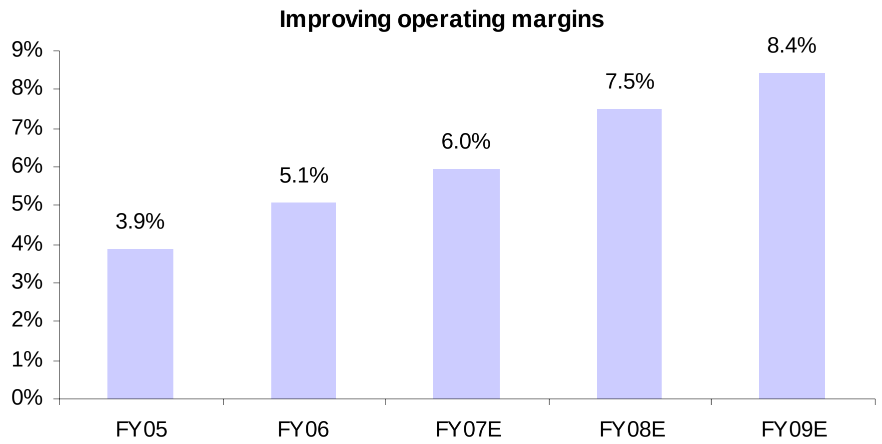
Order Book Break Up



Source:MBE

Improving Operating Margins

MBE is now focused on high margin orders to increase its operating margins. We expect MBE's EBIDTA margins to improve from 5.07% in FY06 to 8.4% in FY09E, due to higher value added orders, on the back of higher economies of scale on bigger contracts and stable raw material prices. Earlier, the company suffered due to low margin contracts that affected its performance, while, its competitors (TRF, Elecon etc) enjoyed high margins. Now, with low margin projects getting over, we expect the company to gradually report higher EBIDTA margins.



Source:Company, HDFC Sec.Research.

Scaling New Businesses

Going forward, the company plans to adopt new business segments, like steel plants (mineral processing), sponge iron plants, coal washeries, baggage handling equipment and industrial gear boxes etc. Opportunities are huge due to massive investments in the infrastructure sector.

Steel sector applications (Mineral processing plant)

MBE is planning to augment its strength in Steel Sector Applications. It is eyeing expansion and refurbishment of SAIL's units. It has tied up with TPE of Russia and Voist ALPINE of Austria to provide solutions to the steel industry in processing and handling ores. This segment could put Rs. 10 bn in MBE's kitty.

Coal Washeries

The company has entered into a JV with Coal India and some financial institutions to execute projects for the CIL in the areas of coal washing on a BOOT basis. This segment could become a driver of MBE's growth. The overall capex for this JV would be around Rs. 800-1000 mn, of which around Rs. 350-500 mn will be contributed by MBE. This 15-year project is renewable. Its expected payback period is about 3 years. The margins could touch 16%. But, we have not factored in any revenue from this segment for our projections, as it is likely to flow beyond FY09E.

Industrial Gear Boxes

MBE is also planning to foray into industrial gearboxes in collaboration with a foreign major. However, nothing has been finalized and it is still in the planning stage.

Sector Wise Business Opportunity for MBE

(Rs.bn)

Segment	Size of Market	Period	Market Size Per Year	McNally Target Share (%)	Yearly Opportunity of McNally
Power Sector	220	FY08-15	27.5	10	2.8
Steel Sector	820	FY08-15	98	10	10
Non-ferrous Sector	221	FY08-15	28	15	4
Port Handling Sector	50	FY07-17	5	20	1
Coal & Mining Sector	145	FY08-15	18	9	1.6
Washed coal & contract minin					0.5
Spares & Service					0.3
Annual Business Potential					**20**

Source:MBE

Financial Highlights

Quarterly Analysis

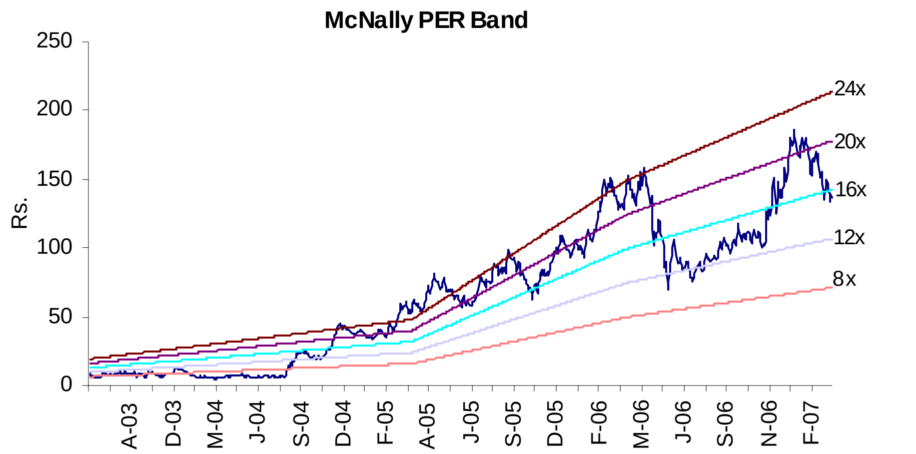
Year End March 31 (Rs mn)	9M07	9M06	Y-o-Y	Q307	Q306	Y-o-Y
Net Sales	3,336.8	1,983.7	68.20%	1,127.2	832.1	35.50%
Other Income	3.9	6.2	-37.10%	1.7	3.2	-46.90%
Total Income	3,340.7	1989.9	67.90%	1,128.9	835.3	35.10%
Total Expenditure	3,138.8	1,879.6	67.00%	1,057.9	794.5	33.20%
(Inc)/Dec in Stock	-38.2	-1.2	3083.30%	-26.1	5.1	-611.80%
Raw Material Consumed	2,264.1	1,118.4	102.40%	692.8	490.5	41.20%
Employee Expenses	167.5	119.4	40.30%	61.7	39.9	54.60%
Other Expenses	745.4	643	15.90%	329.5	259	27.20%
Operating Profit	198	104.1	90.20%	69.3	37.6	84.30%
EBIDTA	201.9	110.3	83.00%	71	40.8	74.00%
Interest	60.3	54.2	11.30%	23.1	16.9	36.70%
PBDT	141.6	56.1	152.40%	47.9	23.9	100.40%
Depreciation	14.4	18.9	-23.80%	3.5	6.8	-48.50%
PBT	127.2	37.2	241.90%	44.4	17.1	159.60%
Profit after Extra-ordinary items	134.3	32.1	318.40%	52.6	15	250.70%
Equity (FV = 10)	264.6	264.6		264.6	264.6	
Ratios						
OPM (excl.Other Income)	5.90%	5.20%	68.6	6.10%	4.50%	162.9
OPM (incl.Other Income)	6.00%	5.50%	50.1	6.30%	4.90%	140.5
Tax / PBT	13.40%	13.70%	-25	13.70%	12.30%	11.90%
NPM (Before Extra-ordinary Items)	3.30%	1.60%	168.6	3.40%	1.80%	159.7
Cash EPS	4.7	1.9	144.30%	1.6	0.8	91.70%
EPS	4.2	1.2	243.30%	1.4	0.6	155.30%
Cost analysis						
RM/Sales	66.7%	56.30%	1038.9	59.1%	59.6%	-41.4
Employees costs/net sales	5.0%	6.0%	-99.9	5.5%	4.8%	67.9
Others/net sales	22.3%	32.4%	-1007.5	29.2%	31.1%	-189.4

Source:Company, HDFC Sec.Research.

- MBE reported a strong performance in Q3FY07 and 9MFY07, with net sales improving by 35.1% and 67.9%, during the same period. Operating profit grew by 84.3% and 90.2% in Q3FY07 and 9MFY07, respectively, followed by growth in PAT by 250.7% and 318.4%, during the same period. The strong growth in the above financials was seen on the back of an improvement in operating margins and a healthy top-line growth.
- The company's performance in FY07E and FY08E is likely to be on the growth trajectory, on the back of sustained margin expansion and considerable increase in revenues, due to the huge outstanding order book position.
- Between FY06-09E, we expect the company to report a revenue growth of 40.2% CAGR on a YoY basis to Rs. 9.12 bn from Rs. 3.32 bn in FY06. We expect this growth on account of increasing order addition from the steel and mining sector.
- The operating margins on account of increasing revenues are expected to improve by 336 bps to 8.4% in FY09E. Thus, the operating profit is expected to improve by 65.8% CAGR between FY06-09E to Rs. 770 mn. The net profit is expected to be at Rs. 412 mn by FY09E, registering a CAGR of 98.7%, between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 8.9 and Rs. 13.25, on a diluted equity of Rs. 311 mn.

Outlook and Valuation

MBE is trading at a P/E of 15.2x and 10.2x its expected FY08E and FY09E earnings. Given the huge investments in the metal and mining industries, MBE is expected to achieve robust growth in the next few years. We expect revenues to register 40.8% CAGR in the next three years, along with margin improvement, with the company increasing its share of revenue from high margin businesses like mineral processing. In view of the above, the company is poised for robust growth in revenues and improved financial performance. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 199 (an upside of 48.4%).



McNally Bharat Engineering Company

Income Statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	**2,865**	**3,302**	**5,478**	**7,379**	**9,101**
Other Operating Income	15	26	26	26	26
Agency Commission	13	10	10	10	10
Sale of scrap	2	15	15	15	15
Total Operating Income	**2,881**	**3,327**	**5,503**	**7,405**	**9,126**
Less:					
(Inc)/dec in stock	34	(20)	-	-	-
Consn of Raw Maerial	1614	1974	3343	4473	5509
Job work Charges	579	631	1002	1296	1533
Employee Expenses	167	169	270	326	402
Other exp	376	398	561	755	913
Advanves/debts/prov w/o	(2)	7	-	-	-
Total Operating Expenses	**2,768**	**3,159**	**5,176**	**6,850**	**8,357**
EBITDA	**112**	**169**	**327**	**555**	**770**
% margin	3.9%	5.07%	6.0%	7.5%	8.4%
Depreciation & Amortisation	23	27	22	27	28
Other Income	3	5	5	5	5
EBIT	**92**	**147**	**311**	**534**	**747**
Less: Gross Interest	58	81	102	122	132
Recurring Pre-tax Income	**34.5**	**66.0**	**208**	**412**	**615**
Less: Taxation	8	13	42	136	203
Net Income (Reported)	26.2	52.5	167	276	412
Recurring Net Income	26	53	167	276	412

Source:Company, HDFC Sec.Research.

Balance Sheet

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Total Current Assets	**2,031**	**2,742**	**3,921**	**5,441**	**6,077**
Total Current Liabilities and Provisions	**1,490**	**1,708**	**2,165**	**2,853**	**3,445**
Net Current Assets	**541**	**1,034**	**1,756**	**2,588**	**2,631**
Total Investments	**12**	**32**	**32**	**32**	**33**
Fixed Assets					
Gross Block	692	838	910	1,090	1,140
Less Accumulated Depreciation	266	311	333	359	387
Net Block	426	527	577	731	753
Add: Capital Work in Progress	**8**	**2**	**0**	**0**	**0**
Net Fixed Assets	**434**	**529**	**577**	**731**	**753**
Total Assets	**987**	**1,595**	**2,365**	**3,350**	**3,417**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Secured Loans	604	795	975	1,164	1,258
Unsecured Loans	10	0	410	368	0
Total Borrowings	**614**	**795**	**1,385**	**1,532**	**1,258**
Deferred Tax Liability	**12**	**11**	**10**	**10**	**10**
Share Capital					
Paid up Equity Share Capital	198	265	268	311	311
Reserves & Surplus					
Share Premium					
Reserves & Surplus	163	524	702	1,498	1,838
Net Worth	**361**	**789**	**970**	**1,809**	**2,149**
Total Liabilities & Shareholders' Equity	**987**	**1,595**	**2,365**	**3,351**	**3,417**

Source:Company, HDFC Sec.Research.

Cash Flow statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Operating Cash Flow before WC. change	79	85	200	322	455
Working Capital Inflow / (Outflow)	(103)	(506)	(455)	(347)	(342)
Net Cash flow from Operating Activities	(24)	(421)	(256)	(25)	112
Free Cash flow after capital commitments	(82)	(582)	(326)	(205)	62
Net Cash flow from Investing Activites	3	5	5	5	4
Net Cash flow from Financing Activites	169	552	603	710	(346)
Net Extra-ordinary Income	0	0	0	0	0
Total Increase / (Decrease) in Cash	89.3	(25)	283	511	(279)
Opening Cash and Bank balance	89	179	154	437	947
Closing Cash and Bank balance	179	154	437	947	668
Increase/(Decrease) in Cash and Bank balance	89.4	(25)	283	510	(279)

Source:Company, HDFC Sec.Research.

Ratios

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Earnings per share	1.3	2.0	6.2	8.9	13.2
Cash Earnings per share	2.5	3.0	7.0	9.7	14.1
Reported Book Value (BV)	18.3	29.8	36.2	58.2	69.1
Dividend per share	0.3	0.6	1.2	1.7	2.3
Valuation Ratios (x)					
Diluted Price Earning Ratio	101.8	68.0	21.7	15.2	10.2
Price to Book Value	7.4	4.5	3.7	2.3	2.0
EV / EBITDA	27.6	25.0	13.9	8.6	6.2
Dividend Yield (%)	0.2	0.4	0.9	1.3	1.7
Operating Ratios (%)					
EBITDA Margins	4%	5%	6%	7.5%	8.4%
EBIT Margins	3%	4%	6%	7%	8%
Recurring Pre-tax Income Margins	1%	2%	4%	6%	7%
Recurring Net Income Margins	1%	2%	3%	4%	5%
Effective Tax Rate	24.0%	20.4%	20.0%	33.0%	33.0%
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)	7.9	9.0	12.6	12.5	14.8
Return on Net Worth (RoNW)	7.2	9.1	19.0	19.8	20.8
Dividend Payout Ratio	18.8	28.7	18.5	19.5	17.4
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	173%	102%	144%	85%	59%
Current Ratio	0.78	0.87	1.07	1.21	1.17
Cash and cash equivalents / Total Assets	18%	10%	18%	28%	20%
Turnover Ratios					
Inventory Turnover Ratio (x)	15.57	22.65	20.22	22.37	23.52
Assets Turover Ratio (x)	3.25	2.58	2.78	2.59	2.70
Working Capital Cycle (days)	5.78	33.05	54.42	78.74	81.40
Average Collection Period (days)	141.90	173.81	149.79	153.36	159.39
Average Payment Period (days)	67.95	91.52	85.50	83.95	84.95

Source:Company, HDFC Sec.Research.

BUY

CMP	**Rs. 1077**
Target	**Rs. 1352**
Stock Return	**26.5%**
Capital Appreciation	25.5%
Dividend Yield	1.0%

Nifty	3861
Sensex	13286

Key Stock Data	
Reuters Code	BEML.BO
BLOOMBERG Code	BEML IN
No. of Shares (mn)	36.74
Market Cap (Rs bn)	39.6
Market Cap ($ mn)	879
Avg. 6m Vol.	38149

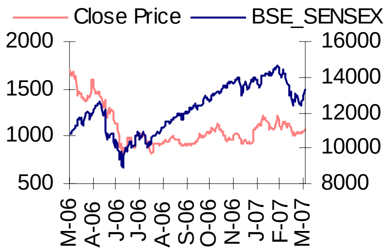
Stock Performance (%)

52 - Week high / low	Rs. 1780/723		
	3M	6M	12M
Absolute (%)	14	17	-37
Relative (%)	15	8	-60

Shareholding Pattern	**(%)**
Indian Promoters	61.2
FIs & Local MFs	16.5
FIIs	7.6
Free Float (Others)	14.7

Source : BSE

Sensex and Stock Movement



Bhart Earth Movers (BEML)

Investment Summary

Huge growth potential from Metro Coaches

The company is modernizing and upgrading its Bangalore unit for the manufacture of metro coaches of international standards. It has entered into a joint venture with Rotem, South Korea, for the manufacture of critical aggregates, like bogie frames. It will also cater to global markets. The key driver would be the order flow from DMRC for its second phase, for which international bids have been sought. The order size could be around Rs. 15 bn for 312 coaches, to be made in two years from the date of the contract.

Healthy order book position

The company has a strong order book position of Rs. 21 bn spread over various segments, of which defence accounts for 55%. Its 'Vision 2013' aims to achieve Rs 50 bn during FY 2013-14, coinciding with its Golden Jubilee Year. We believe, there will be significant addition to the order book position, going forward, to accomplish this goal.

Venturing into Contract Mining

As a part of its diversification strategy, the company (45% partner) has tied up with Midwest Granites, India (46%) and Sumber Mitra Jaya, Indonesia (9%) for a contract mining JV. Its strategy is to garner mining work outsourced by CIL, NTPC and others.

Joint Venture in Brazil

BEML will invest Rs 1 bn in a 60:40 manufacturing joint venture in Brazil. It has signed an MoU with CCC (Compagnie Comercio E Construcoes) and plans to take over a factory outside Rio de Janeiro to manufacture rail wagons and coaches, mining & construction equipment and spares. This will help the company penetrate overseas markets. There is a growing demand in Brazilian and other South American markets, where mines are being expanded. There is also a market for wagons there.

At the CMP of Rs. 1077, the stock is trading at 14.7x FY2008E EPS and 12.0x its FY2009E EPS. Thus, with a target P/E of 15x FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 1352 (an upside of 26.5%).

Year to March (Rs.mn)	2005	2006	2007E	2008E	2009E
Net Sales	17,328	20,595	24,361	29,188	34,978
% Chg YoY		19	18	20	20
EBIDTA	2,379	2,329	2,671	3,537	4,435
% Chg YoY		-2	15	32	25
Net Income	1,744	1,868	2,134	2,689	3,311
% Chg YoY		7	14	26	23
EPS (Rs)	47.5	50.8	58.1	73.2	90.1
% Chg YoY		7	14	26	23
P/E (x)	22.7	21.2	18.5	14.7	12.0
EV/E (x)	15.3	15.5	13.5	10.2	8.0
RoCE (%)	25.3	23.0	22.2	22.9	23.0
RoE (%)	27.6	24.1	22.7	23.6	23.8

Source:Company, HDFC Sec.Research.

Background

Bharat Earth Movers Limited (BEML), with a 70% market share in the domestic earthmoving industry, is the second largest manufacturer of such products in Asia. The company manufactures a wide range of heavy earthmoving equipment and parts for the mining Industry, irrigation projects, steel and cement plants and for the infrastructure segment. Defence equipment & aggregates and railway equipment including Metro coaches are other areas of specialization. The coaches are made for the Indian Railways and Metro projects. It has also expanded its product range to cover high-quality hydraulics, heavy-duty diesel engines and welding robots. Its products are exported to over 25 countries in Africa, Europe and the Middle East.

Business Overview

BEML has three broad business segments:

- Construction and Mining Equipment (63% of revenues)
- Defence Equipment (31% of revenues)
- Railway Rolling Stock (6% of revenues)

Construction and Mining Equipment

The earthmoving equipment includes bulldozers, dump trucks, hydraulic excavators, wheel loaders, wheel dozers, tyre handlers, pipe layers, rope shovels, walking draglines, motor graders, scrapers, water sprinklers, aircraft towing tractors and backhoe loaders. It recently introduced road headers and side discharge loaders for underground mining operations. Companies including CIL are its consumers. It also supplies machines for construction and road building.

Defence Equipments

BEML manufactures a wide range of ground support equipment needed by defence forces. It is driven by increased government spending on defence. The huge allocation of Rs. 400 bn plus, will augur well for this division's growth, as about 2% of defence allocations go to BEML. The company plans to increase its contribution to the sector, by supplying heavy duty trucks, trailers, recovery vehicles, mine ploughs, pontoon bridges, etc.

Railway Rolling Stock

BEML manufactures wagons for Indian Railways and assembles coaches for the Mass Rapid Transport System (MRTS). In the railway products segment (which is a major loss making division), efforts made over the years are yielding results. BEML has established a facility for the manufacture of EMUs. The first EMU assembled by the company has passed the tests conducted by Rotem, Korea. With Karnataka and Andhra Pradesh planning to introduce mass rail transport systems to ease congestion in Metros, the potential for growth in this segment is good. The facilities already established, will help the company garner business. Other states too are planning to introduce metro rail services.

Investment Arguments

Huge growth potential from Metro Coaches

BEML is the only company in India, to acquire the technology for making metro rail coaches. It has already built the first batch of 180 metro coaches for the Delhi Metro Rail Corporation (DMRC). It is also modernizing and upgrading its Bangalore unit for the manufacture of Metro coaches of international standards. It is also setting up an independent R&D centre for Metro Rail Systems and related hi-tech products, at Bangalore. The company has entered into a joint venture with Rotem, South Korea, for manufacturing critical aggregates like bogie frames. It will also cater to global markets.

The key driver would be the order flow from the DMRC for its second phase, for which international bids have been sought. The order size could be around Rs. 15 bn for 312 coaches, to be made in two years from the date of the contract. If BEML bags this order, we see major upsides from this division, which till now has been making losses. Metro projects planned by various states, will also help the division grow.

Venturing into Contract Mining

As a part of its diversification strategy, the company (45% partner) has tied up with Midwest Granites, India (46%) and Sumber Mitra Jaya, Indonesia (9%) for a contract mining JV. Its strategy is to garner mining work outsourced by CIL, NTPC and others. The de-licensing of mining in India, opens up huge opportunities to private players. Instead of supplying equipments to these players, BEML will take up the contract for execution through the JV.

Joint Venture in Brazil

BEML will invest Rs 1 bn in a 60:40 manufacturing joint venture in Brazil. It has signed an MoU with CCC (Compagnie Comercio E Construcoes) and plans to take over a factory outside Rio de Janeiro to manufacture rail wagons and coaches, mining & construction equipment and spares.

It plans to make the entire range of mining and construction equipment and spares and roll out 500 wagons and 200 earthmovers annually, from the new facility.

This will help the company penetrate overseas markets. There is a growing demand in Brazilian and other South American markets, where mines are being expanded. There is also a market for wagons there. The JV will help consolidate its leadership in construction, mining and railway equipments in the mineral-rich territory near Rio. Brazil, the largest South American country, is poised for a big growth in rail and road logistics.

Tie up with Terex Corporation, USA

The company has entered into a technological tie-up with Terex Corporation, USA, for producing rear-dump trucks. The payload of these trucks would range between 120 and 360 tonnes. Additional capacity for this will be created at the company's Mysore plant. The assembly line of the existing dumper making plant, is also being expanded to make high-end dumpers. This expansion would cost about Rs 150 mn.

This is a good move, as larger machines will be part of its portfolio. Currently, BEML faces stiff competition from L&T, Komatsu and Tata Telcon.

Healthy order book position

The company has a strong order book position of Rs. 21 bn in various segments of which, defence accounts for 55%. We expect significant order addition in FY08E (growth of around 20-25%), due to the government's thrust on infrastructure, most of which could be implemented in FY08E and FY09E. Its 'Vision 2013' aims to achieve Rs 50 bn during FY 2013-14, coinciding with its Golden Jubilee Year. We believe, there will be significant addition to the order book position, going forward, to accomplish this goal.

Fresh issue to fund expansion

The company will be raising Rs. 5-5.5 bn by issuing fresh shares (4.9 mn), to fund its various capex requirements. Some of the key capex done by the company includes:

- Expansion and modernization of metro coach facility, Rs. 1.5 bn
- JV with CCC, Rs.1 bn
- JV for contract mining, Rs. 0.45 bn
- Other expansions (incl one R&D facility for metros), Rs. 2.5 bn

Financial Highlights

Quarterly Analysis

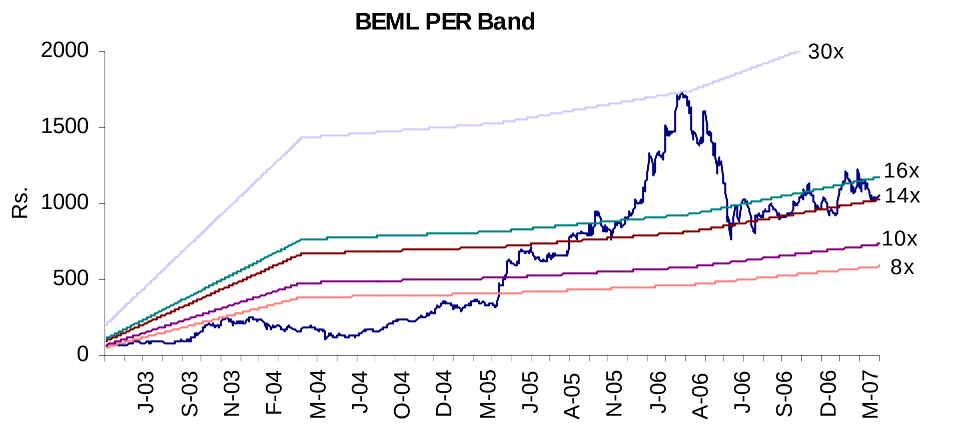
Year End March 31 (Rs mn)	9M07	9M06	Y-o-Y	Q307	Q306	Y-o-Y
Net Sales	14,870	12,517.6	18.8%	5,446.5	5,204.2	4.70%
Other Income	346.5	354.5	-2.3%	144.6	85.2	69.7%
Total Income	15,216.5	12,872.1	18.2%	5,591.1	5,289.4	5.7%
Total Expenditure	13,489.8	11,247.7	19.9%	4,752.4	4,393.1	8.2%
(Inc)/Dec in Stock	(844.1)	(1,176.8)	-28.3%	(467.3)	227.5	-305.4%
Raw Material Consumed	10,469.1	8,852.4	18.3%	3,913.0	3,093.3	26.5%
Employee Expenses	2,521.0	2,507.7	0.5%	845.4	769.9	9.8%
Other Expenses	1,343.8	1,064.4	26.2%	461.3	302.4	52.5%
Operating Profit	1,380.2	1,269.9	8.7%	694.1	811.1	-14.4%
EBIDTA	1,726.7	1,624.4	6.3%	838.7	896.3	-6.4%
Interest	34.9	34.7	0.6%	4.0	15.9	-74.8%
PBDT	1,691.8	1,589.7	6.4%	834.7	880.4	-5.2%
Depreciation	91.7	95.3	-3.8%	27.9	28.8	-3.1%
PBT	1,600.1	1,494.4	7.1%	806.8	851.6	-5.3%
Equity (FV = 10)	367.4	367.4		367.4	367.4	
Ratios						
OPM (excl.Other Income)	9.3%	10.1%	-86.3	12.7%	15.6%	-284.2
OPM (incl.Other Income)	11.3%	12.6%	-127.2	15.0%	16.9%	-194.5
Tax / PBT	34.7%	34.9%	-25	34.3%	34.5%	-15.4
NPM (Before Extra-ordinary Items)	6.9%	7.6%	-68.6	9.5%	10.5%	-107.2
Cash EPS	31	29.1	6.5%	15.2	16	-4.9%
EPS	28.5	26.5	7.5%	14.4	15.2	-5.0%
Cost analysis						
RM/Sales	64.7%	61.3%	340.9	63.3%	63.8%	-54.6
Employees costs/net sales	17.0%	20.0%	-308.0	15.5%	14.8%	72.8
Others/net sales	9.0%	8.5%	53.4	8.5%	5.8%	265.9

Source:Company, HDFC Sec.Research.

- BEML reported a steady performance in Q3FY07 and 9MFY07, with net sales improving by 4.7% and 18.8%, during the same period. Operating profit de-grew by 14.4% during Q3FY07 and grew by 8.7% in 9MFY07, respectively, followed by de-growth in PAT by 5.3% in Q2FY07 and growth of 7.1% in 9MFY07. The results were mainly affected due to its loss making rolling stock division, on the back of inadequate orders from that segment.
- However, the company's performance in FY07E and FY08E is likely to be strong, on the back of sustained margin expansion and considerable increase in revenues, due to the huge outstanding order book position and incremental revenues from new businesses.
- Between FY06-09E, we expect the company to report a revenue growth of 19.3% CAGR on a YoY basis, to Rs. 34.98 bn, from Rs. 20.6 bn in FY06. We expect this growth on account of incremental revenues from the new ventures and strong order addition due to the expansion of its manufacturing facilities.
- The operating margins on account of increasing revenues, are expected to improve by 137 bps to 12.7% in FY09E. Thus, the operating profit is expected to improve by 24% CAGR between FY06-09E, to Rs. 4.43 bn. The net profit is expected to be Rs. 3.3 bn by FY09E, registering a CAGR of 21% between FY06-09E. The EPS for FY08E and FY09E is expected to be Rs. 73.2 and Rs. 90.1.

Outlook and Valuation

BEML is planning to become a truly global company. It recently signed a JV with CCC, Brazil, to manufacture mining and construction equipment and railway products, with an equity participation of around 60%. It expects to generate about Rs. 5 bn, by producing and supplying about 500 rail wagons and 200 units of construction equipment per year, in about 3 years. This will cater to the growing markets in Brazil and other Latin American countries. BEML will invest about Rs 1 bn in this JV and the plant will begin production in the first half of 2007-08. Moreover, contract mining and expansion of its facilities augurs well for its future growth. At the CMP of Rs. 1077, the stock is trading at 14.7x FY2008E EPS and 12.0x its FY2009E EPS. Thus, with a target P/E of 15X FY09E earnings, we are initiating coverage with a '**BUY**' recommendation and a price target of Rs. 1352 (an upside of 26.5%).



BEML

Income Statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Gross Sales	18,560	22,058	26,083	31,251	37,449
Less: Excise Duty	1,232	1,463	1,721	2,063	2,472
Net Sales	**17,328**	**20,595**	**24,361**	**29,188**	**34,978**
of which Export Sales	*390*	*615*	*1,000*	*1,200*	*1,400*
of which Domestic Sales	*16,938*	*19,980*	*23,361*	*27,988*	*33,578*
Total Operating Income	**17,328**	**20,595**	**24,361**	**29,188**	**34,978**
Less:					
Raw Material Consumed	10,351	12,762	15,773	18,926	22,708
(Inc)/Dec in Stock	(436)	118	-	-	-
Personnel Expenses	3,562	3,336	3,400	3,580	3,938
Other Expenses	2,122	2,699	3,167	3,795	4,547
Less: Expenditure other than materials	649	648	650	650	650
Total Operating Expenses	**14,949**	**18,267**	**21,690**	**25,651**	**30,543**
EBITDA	**2,379**	**2,329**	**2,671**	**3,537**	**4,435**
% margin	14%	11.3%	11.0%	12.1%	12.7%
Depreciation & Amortisation	230	141	133	186	214
Other Income	588	712	750	800	850
EBIT	**2,737**	**2,899**	**3,289**	**4,151**	**5,071**
Less: Gross Interest	18	46	55	77	55
Recurring Pre-tax Income	**2,719**	**2,853**	**3,234**	**4,074**	**5,016**
Less: Taxation	975	985	1,099	1,385	1,705
Net Income (Reported)	1,753	1,869	2,134	2,689	3,311
Recurring Net Income	**1,744**	**1,868**	**2,134**	**2,689**	**3,311**

Source:Company, HDFC Sec.Research.

Balance Sheet

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
ASSETS					
Total Current Assets	**18,584**	**19,535**	**21,564**	**24,650**	**28,646**
Total Current Liabilities and Provisions	**12,112**	**12,189**	**12,908**	**14,184**	**15,520**
Net Current Assets	**6,472**	**7,346**	**8,655**	**10,466**	**13,125**
Total Investments	**25**	**25**	**25**	**25**	**25**
Fixed Assets					
Gross Block	5,440	5,651	6,627	7,427	7,627
Less Accumulated Depreciation	4,274	4,399	4,532	4,717	4,931
Net Block	1,166	1,252	2,095	2,710	2,696
Add: Capital Work in Progress	**63**	**176**	**0**	**0**	**0**
Net Fixed Assets	**1,228**	**1,428**	**2,095**	**2,710**	**2,696**
Total Assets	**7,726**	**8,799**	**10,776**	**13,201**	**15,847**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Borrowings					
Secured Loans	755	249	500	700	500
Unsecured Loans	0	0	0	0	0
Total Borrowings	**755**	**249**	**500**	**700**	**500**
Deferred Tax Liability	**26**	**11**	**10**	**10**	**10**
Share Capital					
Paid up Equity Share Capital	367	367	367	367	367
Reserves & Surplus					
Share Premium					
Reserves & Surplus	6,979	8,430	10,149	12,373	15,219
Less: Misc. Exp. not written off	403	258	250	250	250
Net Worth	**6,944**	**8,539**	**10,266**	**12,490**	**15,336**
Total Liabilities & Shareholders' Equity	**7,726**	**8,799**	**10,776**	**13,200**	**15,846**

Source:Company, HDFC Sec.Research.

Cash Flow statement

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E
Operating Cash Flow before Working Capital change	1,434	870	1,608	2,127
Working Capital Inflow / (Outflow)	(3,017)	(646)	(1,309)	(1,574)
Net Cash flow from Operating Activities	(1,584)	223	299	554
Free Cash flow after capital commitments	(1,632)	(102)	(501)	(246)
Net Cash flow from Investing Activites	588	712	750	800
Net Cash flow from Financing Activites	(75)	(781)	(157)	(265)
Net Extra-ordinary Income	9	1	0	0
Total Increase / (Decrease) in Cash	(1,110)	(169)	92	289
Opening Cash and Bank balance	5,079	3,969	3,800	3,892
Closing Cash and Bank balance	3,969	3,800	3,892	4,181
Increase/(Decrease) in Cash and Bank balance	(1,110)	(169)	92	289

Source:Company, HDFC Sec.Research.

Ratios

Year ending March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Per Share Data (Rs)					
Diluted Earnings per share	47.7	50.9	58.1	73.2	90.1
Cash Earnings per share	53.7	54.7	61.7	78.2	95.9
Reported Book Value (BV)	189.0	232.4	279.4	339.9	417.4
Dividend per share	10.2	11.4	11.3	12.7	12.7
Valuation Ratios (x)					
Diluted Price Earning Ratio	22.7	21.2	18.5	14.7	12.0
Price to Book Value	5.7	4.6	3.9	3.2	2.6
EV / EBITDA	15.3	15.5	13.5	10.2	8.0
Dividend Yield (%)	0.9	1.1	1.0	1.2	1.2
Operating Ratios (%)					
EBITDA Margins	14%	11%	11%	12%	13%
EBIT Margins	16%	14%	13%	14%	14%
Recurring Pre-tax Income Margins	15%	13%	13%	14%	14%
Recurring Net Income Margins	10%	8.77%	8.50%	8.97%	9.24%
Effective Tax Rate	35.7%	34.5%	34.0%	34.0%	34.0%
Return / Profitability Ratios (%)					
Return on Capital Employed (RoCE)	25.3	23.0	22.2	22.9	23.0
Return on Net Worth (RoNW)	27.6	24.1	22.7	23.6	23.8
Dividend Payout Ratio	21.5	22.4	19.5	17.3	14.0
Solvency Ratios / Liquidity Ratios (%)					
Debt Equity Ratio (D/E)	11%	3%	5%	6%	3%
Current Ratio	1.27	1.45	1.50	1.56	1.69
Cash and cash equivalents / Total Assets	51%	43%	36%	32%	28%
Turnover Ratios					
Inventory Turnover Ratio (x)	1.77	2.03	2.33	2.49	2.55
Assets Turover Ratio (x)	2.58	2.58	2.57	2.50	2.47
Working Capital Cycle (days)	85.15	90.04	97.57	100.80	107.44
Average Collection Period (days)	103.42	114.04	116.94	115.66	115.66
Average Payment Period (days)	197.68	164.37	152.18	143.36	135.68

Source:Company, HDFC Sec.Research.

NOTES

NOTES

INSTITUTIONAL SALES / DEALING	Tel No.: (022) 2490 4860	Fax: (022) 2490 4899	Contact Nos.
Sanju Verma	Head of Institutional Equities	sanju.verma@hdfcsec.com	91-22-6661 1859
Deepak Sakpal	Sales	deepak.sakpal@hdfcsec.com	91-22-2490 4865
Kartik Broker	Sales	kartik.broker@hdfcsec.com	91-22-2490 4865
Milauni Vibhakar	Sales	milauni.vibhakar@hdfcsec.com	91-22-6661 1808
Brijesh Sanghrajka	Sales Trading / Dealing		91-22-2490 1800
Saurabh Sarang	Sales Trading / Dealing		91-22-2490 1800
Dinesh Mukadam	Sales Trading / Dealing		91-22-2490 1800
EQUITY RESEARCH	**Tel No. (022) 6661 1700**	**Fax: (022) 2496 5066**	**Contact Nos.**
Ajit Dange	Analyst	ajit.dange@hdfcsec.com	91-22-6661 1758
Mukesh Agarwal	Analyst	mukesh.agarwal@hdfcsec.com	91-22-6661 1753
Gauri Vaideeswaran	Analyst	gauri.vaideeswaran@hdfcsec.com	91-22-6661 1714
Navin Sahadeo	Analyst	navin.sahadeo@hdfcsec.com	91-22-6661 1872
Amit Mahawar	Analyst	amit.mahawar@hdfcsec.com	91-22-6661 1820
Jimesh Sanghvi	Analyst	jimesh.sanghvi@hdfcsec.com	91-22-6661 1757
Surjit Singh Arora	Analyst	surjit.arora@hdfcsec.com	91-22-6661 1791
Jonas Bhutta	Analyst	jonas.bhutta@hdfcsec.com	91-22-6661 1731
PRODUCTION & DATABASE	**Tel No.: (022) 6661 1700**	**Fax: (022) 2496 5066**	**Contact Nos.**
Vinod Menon	Editor	vinod.menon@hdfcsec.com	91-22-6661 1768
Mahendra Karande		hdfcsec-research@hdfcsec.com	91-22-6661 1843
Geetanjali Ovalekar		geetanjali.ovalekar@hdfcsec.com	91-22-6661 1731

RATING SYSTEM

BUY = Expected to outperform the BSE Sensex by 15% or more over a 12 months' time frame.

MO = Market Outperformer - Expected to outperform the BSE Sensex by 10% or more over a 12 months' time frame.

MP = Market Performer - Expected to be a neutral performer relative to the BSE Sensex over a 12 months' time frame.

MU = Market Underperformer - Expected to underperform the BSE Sensex by 10% or more over a 12 months' time frame.

SELL = Expected to underperform the BSE Sensex by 15% or more over a 12 months' time frame