investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Loyd	03-Mar-05	330	**983**	1,760
BHEL	11-Nov-05	1,203	**2,045**	2,650
ICICI Bank	23-Dec-03	284	**554**	750
Infosys	30-Dec-03	689	**1,654**	1,865
Orient Paper	30-Aug-05	214	**389**	675

Bharat Heavy Electricals

Apple Green

Stock Update

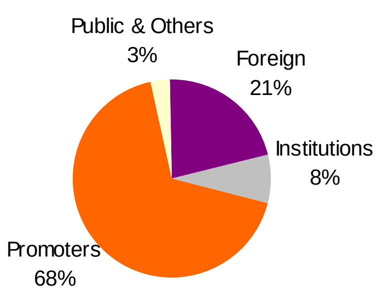
Powering ahead

Buy; CMP: Rs1,968

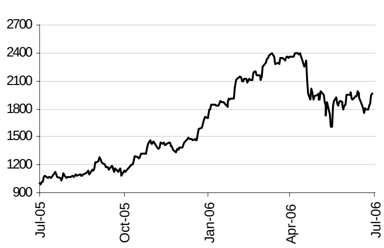
Company details

Price target:	Rs2,650
Market cap:	Rs48,169 cr
52 week high/low:	Rs2,465/971
NSE volume: (No of shares)	3.9 lakh
BSE code:	500103
NSE code:	BHEL
Sharekhan code:	BHEL
Free float: (No of shares)	7.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	-16.1	15.1	101.2
Relative to Sensex	1.6	-7.8	5.3	40.1

Result highlights

- At Rs236 crore, the Q1FY2007 net profit of Bharat Heavy Electricals Limited (BHEL) is ahead of our expectations, primarily because of a higher-than-expected improvement in the operating profit margins (OPMs).
- The revenues for the quarter grew by a smart 37% year on year (yoy) to Rs2,656.4 crore driven by the order backlog of Rs39,300 crore.
- The OPMs for the quarter grew by 310 basis points to 12%, as all the cost heads as a percentage of sales declined.
- The smart revenue growth of 37% brought BHEL's operating leverage into play and consequently resulted in an operating profit growth of 85% for the quarter.
- The other income increased by 29% to Rs120 crore mainly on account of the huge cash reserves of close to Rs3,500 crore with the company. The interest earned went up from Rs40 crore to Rs62 crore as the interest on short-term debt instruments went up, because of the hardening interest rates. Similarly the interest paid also went up by 7%.
- The growth in the operating profit percolated down to the net levels and the net profit also grew by 85% yoy to Rs236.7 crore.
- The order backlog during the quarter grew by a very impressive 28% yoy to Rs39,300 crore, due to order inflows of Rs4,687 crore.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Net sales	**2,656.4**	**1,936.6**	**37**
Total expenditure	2,338.2	1,765.0	32
Raw material consumed	1,550.4	1,140.8	
as % of sales	*58.4*	*58.9*	
Stock adjustment	-4.9	-66.9	
as % of sales	*-0.2*	*-3.5*	
Employee expenses	470.9	411.4	
as % of sales	*17.7*	*21.2*	
Other expenses	321.8	279.7	
as % of sales	*12.1*	*14.4*	
Total expenditure	2,338.2	1,765.04	
Operating profit	**318.2**	**171.6**	**85**
Other income	120.1	93.1	29
PBIDT	438.3	264.6	66
Interest	13.1	12.3	7
Depreciation	63.9	57.6	11
PBT	**361.3**	**194.7**	**86**
Tax	124.6	66.8	86
Reported profit after tax	236.7	127.9	85
EPS (Rs)	9.7	5.2	
Margin			
OPM (%)	12.0	8.9	
PBIDTM (%)	16.5	13.7	
PBT (%)	13.6	10.1	
PATM (%)	8.9	6.6	

BHEL's Q1FY2007 results are ahead of our expectation primarily because of a higher-than-expected improvement in the OPMs and a higher-than-expected order booking. Going forward, the huge orders from the power generation companies like NTPC and Reliance Energy would drive the company's order book and earnings. Further due to the government's increasing thrust on ultra mega power projects, the company's order book could receive a tremendous boost, as each of the 4,000MW projects would be worth Rs16,000 crore.

In order to scale up the pace of the setting up of new power projects, the government is mulling of setting up another organisation like BHEL for upcoming power projects. We believe upgrading BHEL's technological ability for supercritical boilers and turbines and enhancing its nuclear power capabilities can achieve this objective of the government within BHEL itself. We believe the setting up of a vertically integrated entity like BHEL would take at least five years. Hence we see no immediate concern that could stifle BHEL's growth prospects. Even the management in the conference call said that they have not received any such news from the government.

At the current market price (CMP) of Rs1,968, the stock is trading at 15.7x its FY2008 E earnings and 9.4x its FY2008 E earnings before interest, depreciation, tax and amortisation (EBIDTA). Given the expectations of a continued growth in its order book and the resultant strong earnings growth of a compounded annual growth rate (CAGR) of 35%, we believe the valuations are attractive. Even on a comparative basis the stock is trading at a huge discount to its peers like Siemens and ABB. We maintain our Buy recommendation on the stock with a price target of Rs2,650.

Revenues grew by 37% yoy to Rs2,656.4 crore

BHEL's Q1FY2007 revenues grew by 37% to Rs.2656.4 crore driven by the strong order backlog of Rs39,300 crore. The revenues for both the power and industry divisions grew at a extremely healthy pace of +30%. The power segment, which accounts for almost 75% of the company's revenues, grew by 36% whereas the industrial division grew by 33%. Going forward, with a huge order backlog of Rs39,300 crore, which is almost 2.7x the company's FY2006 revenues, the revenue booking is expected to maintain its growth momentum.

Operating profit soars 85% yoy, OPMs improve by 310 basis points

The smart revenue growth of 37% brought BHEL's operating leverage into play and consequently resulted in an operating profit growth of 85% yoy to Rs318.2 crore for the quarter. The OPMs for the quarter grew by 310 basis points to 12% primarily because of an improvement in the raw material cost and a strict control on the other cost heads. The raw material cost as a percentage of sales declined by 250 basis points to 58.5%.

Segment results

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Revenue	**2,953.3**	**2,186.1**	
Power	2,182.8	1,608.7	36.0
Industry	770.6	577.4	33.0
EBIT	**445.1**	**260.3**	
Power	408.9	216.3	89.0
Industry	36.2	44.0	-18.0
EBIT (%)	**15.1**	**11.9**	
Power (%)	18.7	13.4	
Industry (%)	4.7	7.6	

The earnings before interest and tax (EBIT) margins for the power division improved by a huge 320 basis points to 18.7%, whereas the EBIT margins for the industrial division declined by 293 basis points to 4.7% as the orders executed during the quarter were low value orders. We expect the margins to come back to normal levels going forward.

Huge cash reserves yielding fruits

BHEL has always been a cash rich company as is evident by the huge Rs3,500 crore plus cash pile on its balance sheet as of March 31, 2006. This in effect has resulted in a smart 29% growth in its other income to Rs120 crore. The interest earned went up from Rs40 crore to Rs62 crore as the interest on short-term debt instruments went up, because of the hardening interest rates. Similarly the interest paid also went up by 7%. The depreciation cost increased by 11%. The growth in the operating profit percolated down to the net levels and the net profit also grew by 85% yoy to Rs236.7 crore.

Order book soars to Rs39,300 crore—a growth of 28% yoy

The order backlog during the quarter grew by 28% yoy to Rs39,300 crore driven by the inflow of orders worth Rs4,687 crore during the quarter under review. The impressive thing is that the order backlog on a quarter-on-quarter (q-o-q) basis has also improved by 5% driven by the huge order inflow of 556% on a year-on-year basis. With the power capacity addition of 64,000MW for the 11th Plan, we expect BHEL's order backlog to maintain its momentum going forward. Further given the government's increasing thrust on ultra mega power projects, the company's order book could receive a tremendous boost, as each of the 4,000MW projects would be worth Rs16,000 crore.

Order book details

Rs crore	Q1FY2007	Q1FY2006	% yoy chg
Orders at the beginning of the quarter	37,500	32,000	17
Order inflows	4,687	714	556
Revenue booked	2,887	2,114	37
Order backlog at the end of the quarter	39,300	30,600	28

Govternment's intention of setting up another company like BHEL unlikely to materialise immediately

In order to scale up the pace of the setting up of new power projects, the government is mulling about setting up of another organisation like BHEL for the upcoming power projects. We feel that this objective of the government can be achieved within BHEL itself by upgrading BHEL's technological ability for supercritical boilers and turbines and enhancing its nuclear power capabilities. We believe the setting up of a vertically integrated entity like BHEL would take at least five years. Hence we see no immediate concern that could stifle BHEL's growth prospects. Even the management in the conference call said that they have not received any such news from the government.

Valuation and view

BHEL's Q1FY2007 results are ahead of our expectation primarily because of a higher-than-expected improvement in the OPMs. Going forward the huge orders from the power generation companies like NTPC and Reliance Energy would drive the company's order book and earnings. Further due to the government's increasing thrust on ultra mega power projects, the company's order book could receive a tremendous boost, as each of the 4,000MW projects would be worth Rs16,000 crore.

At CMP of Rs1,968, the stock is trading at 15.7x its FY2008 E earnings and 9.4x its FY2008 E EBIDTA. Given the expectations of a continued growth in its order book and the resultant strong earnings growth of a CAGR of 35%, we believe the valuations are attractive. Even on a comparative basis the stock is trading at a huge discount to its peers like Siemens and ABB. We maintain our Buy recommendation on the stock with a price target of Rs2,650.

Earnings table

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	658.1	953.4	1,679.1	2,416.8	3,066.0
% y-o-y growth	*6.0*	*22.0*	*74.0*	*44.0*	*27.0*
Shares in issue (cr)	24.5	24.5	24.5	24.5	24.5
EPS (Rs)	26.9	38.9	68.6	98.7	125.2
PER (x)	73.2	50.5	28.7	19.9	15.7
P/BV (Rs)	9.1	7.8	6.7	5.5	4.5
EV/EBIDTA (x)	51.0	31.8	19.2	12.7	9.4
RoCE (%)	19.2	26.5	36.3	44.1	47.9
RoNW (%)	12.4	15.5	23.3	27.5	28.5

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

Cadila Healthcare

Emerging Star

Stock Update

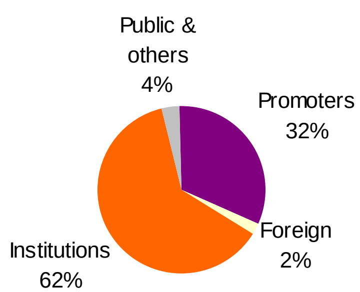
Results sharply ahead of expectations

Buy; CMP: Rs570

Company details

Price target:	Rs850
Market cap:	Rs3,580 cr
52 week high/low:	Rs800/435
NSE volume: (No of shares)	93,159
BSE code:	532321
NSE code:	CADILAHC
Sharekhan code:	CADILAHEAL
Free float: (No of shares)	1.7 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.4	-20.4	10.8	3.5
Relative to Sensex	-0.4	-12.4	1.4	-28.0

Result highlights

- The net sales of Cadila Healthcare increased by 19.5% year on year (yoy) to Rs445.8 crore in Q1FY2007, due to a 131% growth in the formulation exports and a 24% rise in the exports of active pharmaceutical ingredients (APIs). The improved performance of the French and US businesses also aided the robust sales growth.
- The operating profit margin (OPM) expanded by 220 basis points to 20.6% in the quarter. The margin improvement was on account of an improved product mix (a higher share of formulations and exports in the overall sales mix). Consequently, the operating profit (OP) of the company rose by 33.2% to Rs89.8 crore in the quarter.
- The reported profit after tax (PAT) of the company grew by a whopping 70.8% to Rs58.4 crore in Q1FY2007. However, this staggering growth was on account of a Rs4.9-crore extraordinary expense reported by the company in Q1FY2006. Adjusting for this exceptional item, the PAT grew by 56.7% yoy.
- Going forward, we expect a ramp-up in the sales of generics in the US market and strong revenues from the contract manufacturing business to drive Cadila's growth. At the current market price of Rs570, the company is quoting at 12.2x its FY2008E estimated earnings. We maintain our Buy recommendation on the company, with a price target of Rs850.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Net sales	436.1	366.3	19.1
Other operating income	9.7	6.9	40.6
Total operating income	445.8	373.2	19.5
Expenditure	356.0	305.8	16.4
Operating profit	89.8	67.4	33.2
Other income	4.9	0.0	-
EBIDTA	94.7	67.4	40.5
Interest	5.6	5.6	0.0
Forex losses	1.3	-0.5	-360.0
Depreciation	19.7	17.9	10.1
PBT	68.1	44.4	53.4
Taxes	7.6	5.8	31.0
PAT	60.5	38.6	56.7
Minority interest	2.1	-0.5	-520.0
PAT (before extraordinary)	58.4	39.1	49.4
Extraordinary items	0.0	-4.9	-100.0
PAT (after extraordinary)	58.4	34.2	70.8
EPS (Rs)	9.3	6.2	49.4
OPM (%)	20.6	18.4	
EBIDTA margin (%)	21.7	18.4	

Exports push net sales by 19.5%; lacklustre performance in domestic market

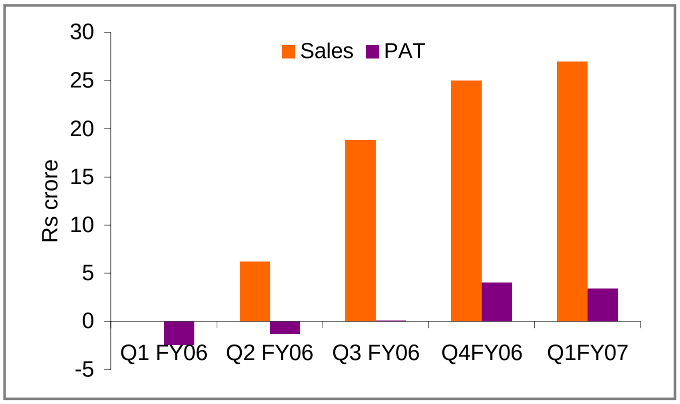
Cadila's net sales increased by 19.5% yoy to Rs445.8 crore on a consolidated basis. The sales growth was strong on account of the significant push provided by the exports. The exports of formulations grew by a staggering 131% to Rs73.9 crore, while that of APIs surged by 24% to Rs50.4 crore.

However, Cadila's sales in the domestic market were subdued, which dragged down the overall sales growth of the company. The sales of the domestic formulations grew by a meagre 4% yoy to Rs276.4 crore. This was partly on account of the high base of Q2FY2005 due to the spill-over of sales after the implementation of the value-added tax. Additionally, the company undertook certain restructuring initiatives in its sales force which reduced its sales in the domestic markets. However, the company expects the performance in the domestic market to receive a strong boost in the upcoming quarters as the restructuring efforts bring about an increase in the productivity of its sales force.

US operations gaining momentum

Cadila's US subsidiary posted sales of Rs27 crore and a profit of Rs3.4 crore in Q1FY2007. The company launched two new products in the quarter, Warfarin and Meloxicam, in the US market. These products have received a good response and have already garnered a 10% share of the market since their launch. Cadila plans to increase its presence in the US market by expanding its product basket and through its tie-up with Mallinkrodt (the seventh largest generic player in the USA). The company has also received tentative approval from the US Food and Drug Administration to market Pravastatin in the US market upon patent expiry. We expect Cadila's US operations to contribute significantly to its total sales going forward.

US revenues on the rise

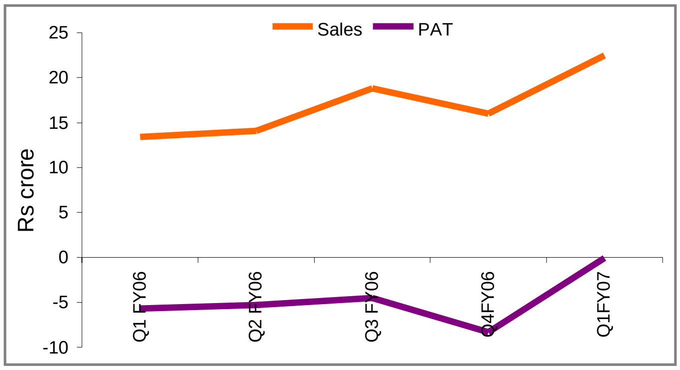


Source: Sharekhan Research

French subsidiary to turn around by FY2008

Cadila's French subsidiary's sales were up by 68% yoy to Rs22.5 crore in the quarter. Zydus France currently markets 80 generic presentations in the French market. After entering into a marketing tie-up with France's second largest distribution channel, Evolupharm, Cadila is in a transition phase wherein it is gradually transferring the marketing of its products in France from its own sales force to Evolupharm. The company expects this transfer to be completed by January 2007, after which it will realise the true benefit of savings in selling, general and administrative costs. Cadila expects its French operations to turn profitable in the second half of FY2008, on account of a huge scale-up in volumes, higher penetration of the market and significant cost savings through its deal with Evolupharm. The company also plans to shift its manufacturing to India, which will provide it with added cost advantages. It has filed for two additional site transfer applications with the French regulatory authorities and received one site transfer approval in Q1FY2007.

Performance of Zydus France



Source: Sharekhan Research

Altana JV, contract manufacturing to drive growth

Cadila's joint venture (JV) with Altana for the manufacture of Panteprazole intermediates continues to add to the company's consolidated performance. The JV contributed Rs22.2 crore to the company's top line and added Rs18.2 crore to the bottom line in the quarter, yielding margins of around 80%. The company expects this JV to contribute Rs55-60 crore to its bottom line on an annual basis until 2010, when the patent for Panteprazole expires. However, the company has already prepared to make up for the decline in the contribution from the Altana JV by setting up a new JV with Mayne Pharma for eight oncology products. The new 50:50 JV is setting up an integrated cytotoxic facility in Ahmedabad, which is expected to go on stream in FY2008 and compensate for the reduced contribution from the Altana JV.

Further, the company has signed three new contracts for contract manufacturing this quarter with international companies, taking the cumulative number of contracts to 14, with peak revenue potential of $24.2 million. This would further aid the company in reducing its dependence on the Altana JV. Cadila expects its contract manufacturing business to contribute Rs20 crore (excluding the revenues from the Altana JV) to its FY2007 revenues.

Improved product mix improves OPM by 220 basis points

Cadila's OP increased by 33.2% to Rs89.8 crore in Q1FY2007 as the OPM expanded by 220 basis points to 20.6%. The expansion in the margins was on account of the improved product mix, leaning more towards high-margin formulation exports, which led to a decline in the raw material (RM) cost. The shifting of the manufacturing process to its own plant at Baddi also led to a savings in the RM cost, which constituted 34.9% of sales in Q1FY2007 as compared with 38.3% of sales in the corresponding quarter of the previous year. The margins were also aided by a decline in the staff cost (as the company reduced its own sales force in France), which stood at 10.9% of sales in Q1FY2007 as compared with 12.3% in Q1FY2006. Going forward, the company expects to see a further reduction in its costs as it continues to streamline and restructure its operations.

Cost break-up

Particulars	Q1FY07	Q1 FY06	% change
Consumption of materials	184.4	138.9	32.8
Stock adjustment	-32.2	1.5	-2246.7
Adjusted material cost	152.2	140.4	8.4
% of net sales	*34.9*	*38.3*	
Employee expenses	47.7	45.2	5.5
% of net sales	*10.9*	*12.3*	
Other expenses	156.1	120.2	29.9
% of net sales	*35.8*	*32.8*	

Source: Sharekhan Research

PAT grows by 70.8% to Rs58.4 crore

The reported PAT of the company grew by a whopping 70.8% to Rs58.4 crore in Q1FY2007. However, this staggering growth was on account of a Rs4.9-crore extraordinary expense reported by the company in Q1FY2006. Adjusting for this exceptional item, the PAT grew by 56.7% yoy. The robust growth in the PAT was aided by an other income of Rs4.9 crore recorded in the quarter.

R&D initiatives on track

Cadila has filed three abbreviated new drug applications (ANDAs) this quarter, taking the cumulative filings to 39. It has already received 16 product approvals, while the remaining 23 are pending approval. The company also has a robust R&D pipeline, with four molecules in different stages of clinical trials. Recently, the company's anti-diabetes molecule ZYH2 received approval for Phase-II clinical trials.

Outlook

Cadila has staged a reasonably good show in Q1FY2007, with a 19.5% growth in its sales and a 70.8% improvement in its net profit. Further, the performance of its major subsidiaries has also been encouraging. With a strong momentum in the US generic market, a ramp-up in the contract manufacturing business and the turn-around of the French business, we believe Cadila has a bright future. Further, an increase in its export volumes, the shift of its manufacturing processes to Baddi and its cost-cutting initiatives will enable Cadila to improve its margins. The outlook for the domestic business seems positive with several new product launches, strong brand building and improved field force productivity. The API business of the company has also begun its upward trend and is expected to grow further.

At the current market price of Rs570, the company is trading at 12.2x its FY2008 estimated earnings. With all the growth drivers in place and on track, we reiterate our Buy recommendation on Cadila, with a price target of Rs850.

Valuation table (consolidated) Rs (cr)

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net sales	1196.2	1243.0	1445.3	1729.4	2029.7
PAT	130.2	117.9	152.4	226.8	293.8
Shares in issue (cr)	6.3	6.3	6.3	6.3	6.3
EPS (Rs)	20.7	18.8	24.3	36.1	46.8
PER (X)	27.5	30.4	23.5	15.8	12.2
Cash EPS (Rs)	32.1	30.2	36.7	50.7	62.8
Cash PER (x)	17.8	18.9	15.5	11.2	9.1
Book value (Rs/share)	85.4	94.5	120.7	156.9	203.6
Price/BV	6.7	6.0	4.7	3.6	2.8
EV/EBITDA	15.5	16.5	13.3	10.2	8.4

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

Genus Overseas Electronics

Ugly Duckling

Stock Update

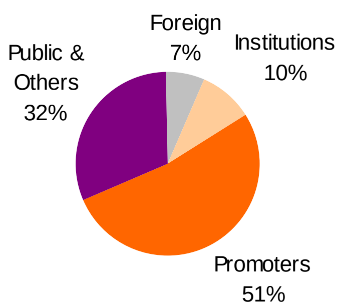
Profit meter rolls

Buy; CMP: Rs162

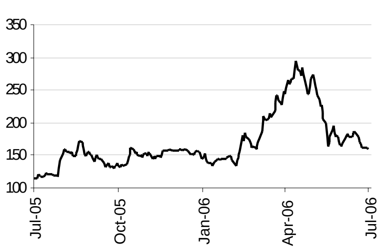
Company details

Price target:	Rs270
Market cap:	Rs176 cr
52 week high/low:	Rs309/110
NSE volume: (No of shares)	30,373
BSE code:	530343
NSE code:	GENUSOVERE
Sharekhan code:	GENUOVER
Free float: (No of shares)	53 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.1	-34.5	10.4	32.4
Relative to Sensex	-9.4	-27.9	1.0	-7.8

Result highlights

- At Rs3.7 crore the Q1FY2007 net profit of Genus Overseas (Genus) is in line with our estimate.
- As a result of the healthy revenue booking, the company's net sales for the quarter grew by a smart 36% year on year (yoy) to Rs56.2 crore and the net earnings grew by 75%.
- The operating profit for the quarter grew by 105% to Rs7.9 crore, as the operating profit margin (OPM) for the quarter improved by a huge 520 basis points to 15.5%.
- The interest expenses for the quarter rose by 181% as the company had to avail of large working capital loans to execute project orders. Consequently the net profit for the quarter grew by 75% yoy to Rs3.7 crore.
- The order book for the quarter jumped significantly by 350% as the company now has started taking metering orders on EPC basis as against pure metering basis.

Going forward, the company's earnings would be driven by the government's aim of providing power to all by 2012 as well as the focus on 100% metering and replacement of old mechanical meters with electronic energy meters (EEMs). This opportunity coupled with an order backlog of Rs455 crore (more than 2x the company's FY2006 revenue) provides a strong visibility to the company's earnings. During the quarter, Genus issued foreign currency convertible bonds (FCCBs) and raised USD7.5 million or approximately Rs33 crore. The funds will be utilised to finance the company's capital expenditure (capex) (it is setting up a new meter plant at Uttaranchal) and working capital. The conversion price will be Rs240 per share. The equity after conversion would stand at 12.2 crore. However on account of the fund mobilisation, we expect Genus to save on its interest cost. Adjusting for the same our earnings per share (EPS) estimates for Genus now stand at Rs16.2 for FY2007 and Rs24.6 for FY2008, ie lower by 10% for both the years.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% y-o-y chg
Gross sales	56.2	41.5	35.0
Excise duty	5.2	4.1	27.0
Net sales	51.0	37.4	36.0
Total expenditure	43.1	33.6	28.0
Operating profit	7.9	3.9	105.0
Other income	0.2	0.1	69.0
EBIDTA	8.1	4.0	104.0
Interest	2.6	0.9	181.0
EBDT	5.5	3.1	80.0
Depreciation	1.2	0.5	137.0
EBT	4.3	2.5	69.0
Tax	0.6	0.4	36.0
EAT	3.7	2.1	75.0
Margins			
OPM (%)	15.5	10.3	5.2
PBIDTM (%)	15.9	10.7	
PATM (%)	7.2	5.6	

At the current market price of Rs162, Genus is discounting its FY2007E earnings by 9.5x and its FY2008E earnings by 6.2x. We maintain our Buy recommendation on the stock with a revised price target of Rs270, keeping the target multiple of 11x FY2008 earnings constant. The reduction in the price target is purely on account of equity dilution.

Net sales up 36%, operating profit up 105%

Genus' entry into the metering project business in Q4FY2005 was very proactive and timely, given the change in the tendering process of the state electricity boards (SEBs). The SEBs have clearly shifted to EPC-based contracts and hence the size of their orders has grown substantially. As a result, the net sales of Genus for the quarter grew by 36% to Rs51 crore. Following the significant growth in the revenues, the operating profit for the quarter grew by 105% to Rs7.9 crore, as the OPM for the quarter improved by 520 basis points to 15.5%. The OPM expanded as all the cost heads as a percentage of revenues declined, as shown in the following exhibit.

Expenditure as % of sales	Q1FY07	Q1FY06
Raw material	32.0	23.8
As a % sales	*62.8*	*63.6*
Employee cost	2.3	2.1
As a % sales	*4.6*	*5.6*
Other exp	8.8	7.7
As a % sales	*17.2*	*20.4*
Total exp	43.1	33.6

181% increase in interest charges restricts net profit growth to 74%

The interest expenses for the quarter were up 181% as the company had to avail of large working capital loans during the period to execute project orders. Consequently the net profit for the quarter jumped by 75% to Rs3.7 crore.

Order book up 350% to Rs455 crore after entry into project business

As is evident form the order backlog, Genus has been able to secure some big-ticket orders in the quarter. With its entry into the metering project business, the order book for the business has zoomed by a staggering 350% yoy with an order backlog of Rs455 crore. At more than 2x its FY2006 revenue of Rs229 crore, the order book provides a strong visibility to its earnings.

Order backlog registers a sharp increase

Order book details	Q1FY07	Q1FY06	% yoy chg
Order at the beginning of the quarter	460	77	497
Order inflow	57	66	-12
Revenue booked	62	42	50
Order backlog at the end of the Q	455	101	350

FCCB issue dilutes earnings by 7-9%

During the quarter, Genus issued foreign currency convertible bonds (FCCBs) and raised USD7.5 million or approximately Rs33 crore. The funds will be utilised to finance the company's capital expenditure (capex) (it is setting up a new meter plant at Uttaranchal) and working capital. The conversion price will be Rs240 per share. The equity after conversion would stand at 12.2 crore. However on account of the fund mobilisation, we expect Genus to save on its interest cost. Adjusting for the same our earnings per share (EPS) estimates for Genus now stand at Rs16.2 for FY2007 and Rs24.6 for FY2008, ie lower by 10% for both the years.

EPS diluted by 10% on account of FCCB

Particulars	FY2008	FY2007
Earlier	27.5	17.9
Current	24.6	16.2
% change	-10.0	-10.0

Valuation and View

Going forward, the company's earnings would be driven by the government's aim of providing power to all by 2012 as well as focus on 100% metering and replacement of old mechanical meters with EEMs. This opportunity coupled with an order backlog of Rs455 crore (more than 2x the company's FY2006 revenue) provides a strong visibility to its earnings. At the current market price of Rs162, Genus is discounting its FY2007E earnings by 9.5x and its FY2008E earnings by 6.2x. We maintain our Buy recommendation on the stock with a revised price target of Rs270, keeping the target multiple of 11x FY2008 earnings constant. The reduction in the price target is purely on account of equity dilution.

Earnings table

Year ended March 31	FY04	FY05	FY06E	FY07E	FY08E
Net profit (Rs cr)	3.1	7.4	13.6	19.7	30.0
% y-o-y growth	*0.0*	*1.4*	*0.9*	*0.4*	*0.5*
Shares in issue (cr)	1.0	1.0	1.0	1.2	1.2
EPS (Rs)	3.0	7.3	13.5	16.2	24.6
% y-o-y growth	*0.0*	*1.4*	*0.9*	*0.4*	*0.5*
PER (x)	50.5	21.0	11.3	9.5	6.2
Book Value (Rs)	17.5	23.2	45.4	80.6	103.7
P/BV (Rs)	8.8	6.6	3.4	1.9	1.5
EV/EBIDTA (x)	17.9	12.4	7.5	5.9	4.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	0.1	0.1	0.2	0.1	0.2
RoNW (%)	0.2	0.3	0.3	0.2	0.2

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

Wockhardt

Ugly Duckling

Stock Update

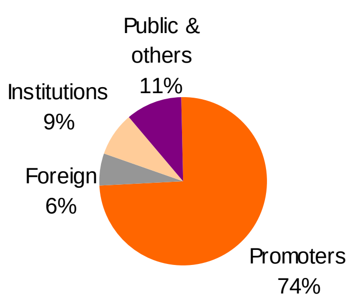
Disappointing performance

Buy; CMP: Rs343

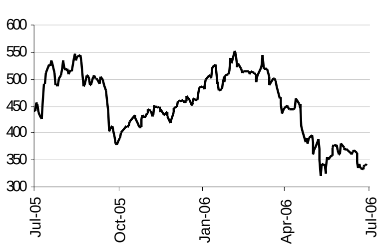
Company details

Price target:	Rs552
Market cap:	Rs3,749 cr
52 week high/low:	Rs562/316
NSE volume: (No of shares)	1.3 lakh
BSE code:	532300
NSE code:	WOCKPHARMA
Sharekhan code:	WOCKLTD
Free float: (No of shares)	2.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.4	-21.6	-28.4	-23.3
Relative to Sensex	-10.6	13.8	-13.8	-34.4

Result highlights

- Wockhardt's net sales increased by 9.4% to Rs412.7 crore in Q2CY2006. The growth came on the back of an 11% growth in the domestic business and an 8% growth in the international business.
- The sales in the European market grew by 16%, whereas those in the US market declined by 6% year on year (yoy). The European sales were buoyed by the strong performance of the UK business. The US business underperformed on account of the restructuring of the US set-up.
- The company's operating profit (OP) declined by 6.5% to Rs89.7 crore in the quarter, as its operating profit margin (OPM) shrank by 370 basis points to 21.6%. The operating performance was poor on account of a 77% rise in the company's research and development (R%D) expenses and a 29% rise in its other expenses.
- The poor show on the operating front along with a lower other income and a higher tax outgo caused Wockhardt's net profit to decline by 18.2% to Rs63.4 crore in Q2CY2006.
- Wockhardt recently acquired Dumex India and two of its products, Protinex and Farex, from Royal Numico NV of The Netherlands. It has also received the approval to market ceftriaxone injections and Clarithromycin in the US market.
- At the current price of Rs343, Wockhardt is quoting at 12.4x its CY2007E estimated earnings, on a fully diluted basis. We reiterate our Buy recommendation on Wockhardt, with a price target of Rs552.

Result table Rs (cr)

Particulars	Q2CY2006	Q2CY2005	% chg	H1FY2006	HIFY2005	% chg
Net sales	412.7	377.1	9.4	763.7	686.7	11.2
Pre-R&D expenditure	295.7	265.8	11.2	554.9	498.8	11.2
EBIDTR	117.0	111.3	5.1	208.8	187.9	11.1
R&D expense	27.3	15.4	77.3	50.2	32.1	56.4
Operating profit	89.7	95.9	-6.5	158.6	155.8	1.8
Other income	1.8	3.3	-45.5	5.1	12.4	-58.9
EBIDTA	91.5	99.2	-7.8	163.7	168.2	-2.7
Interest	-0.6	4.6	-113.0	-8.3	10.4	-179.8
Depreciation	14.0	10.7	30.8	27.7	21.0	31.9
PBT	78.1	83.9	-6.9	144.3	136.8	5.5
Tax	14.7	6.4	129.7	24.2	17.6	37.5
PAT	63.4	77.5	-18.2	120.1	119.2	0.8
Extraordinary items	0.0	0.0	-	-60.4	0.0	-
PAT (after extraordinary)	63.4	77.5	-18.2	59.7	119.2	-49.9
EPS (Rs)	5.8	7.1	-18.2	11.0	10.9	-49.9
EBIDTR margin (%)	28.3	29.5		27.3	27.4	
OPM (%)	21.7	25.4		20.8	22.7	

Wockhardt's net sales grew by 9.4% to Rs412.7 crore in Q2CY2006, led by an 11% growth in its domestic business and an 8% growth in its international business. The sales growth was in line with our expectations. The formulation sales rose by 10.2% whereas the sales of active pharmaceutical ingredients (API) grew by a meagre 2.3%. The growth in the API sales was poor because a greater number of APIs were used for captive consumption. However, the company's profitability was severely affected by a sharp rise in its R&D costs and other expenses. The company reported an operating profit of Rs89.7 crore as compared with Rs95.9 crore in Q2CY2005. A higher tax payment along with a lower other income caused the net profit to decline by 18.2% yoy to Rs63.4 crore.

Sales break-up

Particulars	Q2CY06	Q2CY05	% yoy chg
Formulations	373.1	338.5	10.2
India formulations	167.0	153.1	9.1
EU formulations	159.3	135.1	17.9
US formulations	27.8	29.7	-6.4
ROW formulations	19.0	20.6	-7.8
API	39.4	38.5	2.3
India API	7.2	3.8	89.5
EU API	5.9	7.4	-20.3
US API	10.2	10.7	-4.7
ROW API	16.1	16.6	-3.0
Total	412.5	377	9.4

Source: Company

Domestic business maintains growth momentum

The domestic sales of Wockhardt increased by 11% to Rs174.2 crore in the quarter. The sales of formulations in the domestic market increased by 9.1% whereas that of APIs grew by a staggering 90%. The overall growth in the domestic business was low as compared with that in Q1CY2006 on account of a high base effect due to the spill-over of sales to Q2CY2005 after the implementation of the value-added tax in Q1CY2006. Wockhardt derives close to 60-70% of its domestic sales from its power brands, which grew by 36% in H1CY2006. The sales of the Proxyvan group of products increased by an impressive 51% yoy. Further, the key business segments of diabetology and nephrology grew by 41% and 46% respectively in H1CY2006. Providing a further boost to the domestic business were the line extension products that were launched during the quarter.

US business stages a disappointing show

Wockhardt's US sales declined by 6% to Rs38 crore in Q2CY2006. This was led by a decline in the sales of formulations and bulk drugs in the US market. The decline was primarily on account of Wockhardt's transition from partner product distribution to its own distribution network. As a result, Wockhardt could not capture the complete revenue potential of the Ceftriaxone injections and Clarithromycin that were launched in the US market in Q2CY2006.

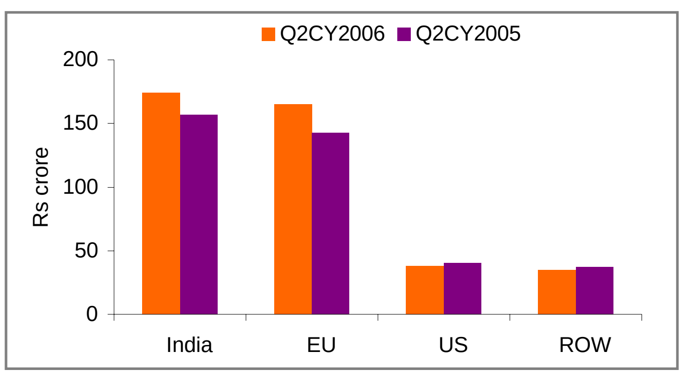
European business grows by 16%, surpasses expectations

Wockhardt has continued its strong performance in the European markets, which account for the largest chunk of its international business. The UK market, which contributes close to 80% of Wockhardt's European sales, contributed largely to the strong sales growth witnessed in the region. The sales in the UK market increased by 19% in Q2CY2006, driven by the Day one launch of Ondanstreron injections, and the launches of four new oncology drugs and one new cardiology product. Despite severe pricing pressures in the pharmacies and retail chain segment of the UK market, Wockhardt continued to perform well as almost 55-60% of its sales in the UK are derived from hospitals and contract manufacturing activities, which are protected from pricing pressures.

The 19% growth in the UK business was partially offset by a 2% decline in the German business, which was adversely affected by pricing pressures arising out of the recently introduced pricing legislation in Germany.

Wockhardt plans to increase the capacity of its UK plant to manufacture Byetta cartridges, an injectable medicine used to control blood sugar in diabetes patients. The expansion project, currently under way, will raise the cartridge manufacturing capacity by four times. Wockhardt expects the new facility to go on stream in September.

Geographical sales break-up



Source: Sharekhan Research

Rising R&D costs, other expenses exert pressure on margins

Wockhardt's OP declined by 6.5% to Rs89.7 in the quarter as the OPM slid by 370 basis points to 21.7%. Despite a

400-basis-point drop in the raw material cost, the margins were hit by the 77.3% rise in the R&D cost as Wockhardt continued its filing spree and strong R&D efforts. Its R&D costs constituted 6.6% of its sales in Q2CY2006 compared with only 4.1% of the same in the corresponding quarter of the previous year.

On excluding the high R&D cost, the company's earnings before interest, tax, depreciation and research (EBITDR) rose by a low 5.1% to Rs117 crore in the quarter. The growth in the EBITDR was affected by a sharp rise of 29.4% in the other expenses because the company's biotech park in Aurangabad began full commercial operations during the quarter.

Cost break-up

Particulars	Q2CY2006	Q2CY2005	% change
Adjusted material cost	157.2	158.8	-1.0
% of net sales	*38.1*	*42.1*	
Employee expenses	56.3	43.5	29.4
% of net sales	*13.6*	*11.5*	
Other expenses	82.2	63.5	29.4
% of net sales	*19.9*	*16.8*	
R&D expense	27.3	15.4	77.3
% of net sales	*6.6*	*4.1*	

Source: Sharekhan Research

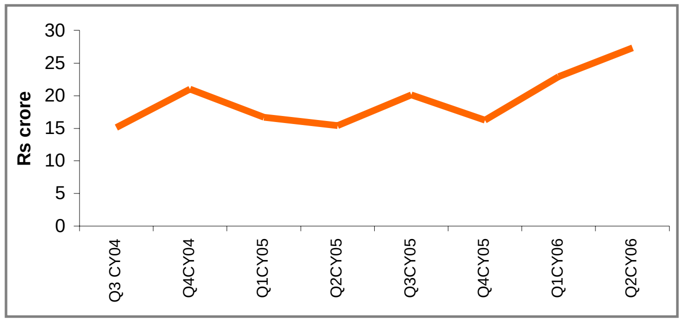
Higher tax outgo, lower other income affect performance at net level

Wockhardt's net profit stood at Rs63.4 crore in the quarter, declining by 18.2% yoy. The poor show on the operating front coupled with the lower other income and the higher tax outgo led to the decline in the net profit. The company incurred a tax rate of 18.8% in the quarter as compared to 7.6% in the corresponding quarter of the previous year due to an increase in the minimum alternative tax rate. The earnings for the quarter stood at Rs5.8 per share.

Strong R&D focus continues

Wockhardt has maintained its focus on R&D by spending Rs27.3 crore in the quarter on R&D activities. The company has filed for 80 new patent applications, 11 abbreviated new drug applications and five drug master files in H1CY2006. The company has also received four product approvals in this period. It currently has a pipeline of 23 applications pending approval in the US market (of which 8-9 are in the injectables category and could witness relatively lower competition). Its new chemical entity (NCE), WCK771, is undergoing Phase-II clinical trials and is progressing well, while NCE WCK2349 is entering the advanced toxicology investigation phase. We believe that Wockhardt's heightened thrust on R&D as well as its continued initiatives and investments will deliver strong results in the years to come.

R&D expenses on the rise...



Source: Sharekhan Research

Biopharmaceutical sales—a big disappointment

Wockhardt's biopharmaceutical sales for the quarter stood at Rs17 crore and for the first half of FY2007 stood at Rs34 crore. This is just 35% of the company's target of Rs90 crore sales for CY2006 from the biopharmaceutical portfolio. The sales are disappointing as the regulatory environment for biopharmaceuticals continues to be challenging across countries, with varying regulatory environments leading to a varying pace of product approvals in different countries.

However, Wockhardt has started stepping up its efforts in this space. It plans to launch Interferon in the domestic market upon receipt of regulatory approval and has started working on its filings for Insulin in the regulated markets of Europe.

Inorganic growth to provide positive trigger

Wockhardt is on the look out for acquisitions in the US and European markets. Having close to Rs200 million in cash, the company has recently received its shareholders' approval to raise another $800 million of equity. Thus, the company is sitting on a huge war chest that can be used to grow inorganically and is aggressively pursuing this growth strategy. We expect Wockhardt to announce a big-ticket acquisition in the near future, which will provide a strong trigger to its lacklustre performance in Q2CY2006.

New developments

- Wockhardt has recently acquired Dumex India along with two of its products, Protinex and Farex, from Royal Numico NV of The Netherlands. With this acquisition, the company is set to double its turnover from nutritional products to Rs120 crore.

- Wockhardt has got the approval from the US Food & Drug Administration for its first novel drug delivery system product, Divalproex Sodium delayed release tablets. The company plans to launch the product on Day one of patent expiry in January 2008. The market size for this product is estimated at $802 million.

- Wockhardt has struck an in-licencing agreement with Life Sciences Investments, a UK-based company, to market Vitix, a patented product for the treatment of vitiligo, a pigmentation disorder. Wockhardt is expected to launch Vitix in India in the last quarter of 2006.

Outlook

Wockhardt's overall performance in Q2CY2006 has been disappointing, mainly on account of the slow momentum in its US sales and the poor show in the biopharmaceutical space. However, with its strong R&D pipeline, new product launches and restructuring efforts, Wockhardt's US business is expected to pick-up in the upcoming quarters. The company has also stepped up its efforts in the biopharmaceuticals, with the planned launch of Interferon in the domestic markets and filings for Insulin in the European markets. A successful launch of the biogenerics in Europe will bring in significant benefits to the company.

The growing synergies in Europe and the new product launches in the European market (the company has a pipeline of 10 new product launches planned in the UK and 6 in Germany) will continue to fuel growth in the European markets. Further, the UK Byetta cartridge business is expected to add to the growth with the expansion of capacities.

On the domestic front, Wockhardt's power brands and its thrust on the chronic lifestyle segments will deliver strong numbers for the company. Further, an increase in the contribution from the Baddi plant would lead to significant excise savings and an overall improvement in margins.

Even as Wockhardt has emerged a strong player in the regulated markets - largely through its European acquisitions, the company yet has to demonstrate its ability to exploit the complete potential of its assets and scale up substantially in the high-margin regulated markets. With its entire infrastructure now in place, we expect the company to perform strongly in the future.

Considering the above, we maintain our estimates for CY2006 and CY2007. At the current market price of Rs343, Wockhardt is quoting at 12.4x its CY2007E estimated earnings, on a fully diluted basis. We maintain our Buy recommendation on Wockhardt, with a price target of Rs552.

Valuation table (consolidated) Rs (cr)

Particulars	CY2004	CY2005	CY2006E	CY2007E
Net sales	1251.6	1412.1	1578.4	1838.1
Net profit	213.5	257.1	279.7	330.0
Shares in issue (cr)	10.9	10.9	11.9	11.9
EPS (Rs)	19.6	23.5	23.4	27.6
PER (x)	17.5	14.6	14.6	12.4
Cash EPS (Rs)	23.0	27.4	28.0	32.6
Cash PER (x)	14.9	12.5	12.2	10.5
Book value (Rs/share)	56.6	79.9	96.6	124.2
Price/BV (x)	6.1	4.3	3.6	2.8
EV/EBITDA (x)	13.1	11.0	10.3	8.3

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

Hindustan Lever

Apple Green

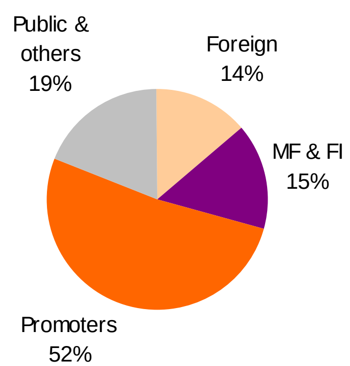
Stock Update

HPC segment drives growth

Buy; CMP: Rs232

Company details	
Price target:	Rs300
Market cap:	Rs51,040 cr
52 week high/low:	Rs296/157
NSE volume: (No of shares)	35.4 lakh
BSE code:	500696
NSE code:	HINDLEVER
Sharekhan code:	HLL
Free float: (No of shares)	107 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	12.0	-16.7	25.3	51.5
Relative to Sensex	5.8	-8.3	14.6	5.5

Result highlights

- Hindustan Lever Ltd's (HLL) Q2CY2006 net profit grew by 26.3% year on year (yoy) to Rs379.4 crore, ahead of our expectations.
- The net revenues grew by 8.7% yoy on the back of a 13.2% year-on-year (y-o-y) growth in the home and personal care (HPC) segment, which comprises of the soaps and detergent and the personal care businesses. Adjusted for *Nihar* (a brand sold by HLL to Marico Industries) the growth in the revenues stood at 9.6%.
- The profit before interest and tax (PBIT) grew by 19.1% yoy as the PBIT margins expanded by 139 basis points yoy to 16.1%. The PBIT margins in the soaps and detergent and the personal care businesses expanded by nearly 100 basis points each.
- The processed food business reported a profit at the PBIT level for the second consecutive quarter with a PBIT of Rs4.2 crore and the PBIT margins of 4.3%.
- A lower effective tax rate led to a 26.3% y-o-y growth in the net profit at Rs379.4 crore.
- As we had anticipated, the volume growth in the fast moving consumer goods (FMCG) sector in the rural areas has been picking up and it has far outpaced the growth in the urban areas over the last three quarters.
- We believe that HLL would be the key beneficiary of this growth in the FMCG sector. At the current market price of Rs232, the stock is quoting at 25.4x its CY2007E earnings per share (EPS) and 23.0x CY2007E enterprise value (EV)/ earnings before interest, depreciation, tax and amortisation (EBIDTA). We reiterate our Buy recommendation on the stock with a price target of Rs300.

Net sales grow by 8.7%

HLL's net sales grew by 8.7% yoy for Q2CY2006 driven by a strong growth in all its businesses, especially the HPC business. Adjusted for the revenues from the *Nihar* brand (which was sold of in Q1CY2006) the total sales grew by 9.6% yoy. The fast moving consumer goods (FMCG) business of the company grew at 11.7% as all the FMCG businesses recorded a high double-digit rates. The exports and the other businesses remained flat.

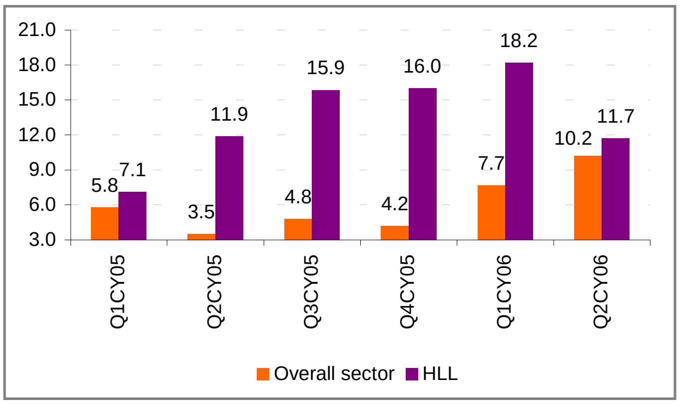
Result table Rs (cr)

Particulars	Q2CY06	Q2CY05	% yoy chg	H2CY06	H2CY05	% yoy chg
Net sales	3,083.3	2,836.3	8.7	5,881.3	5,342.7	10.1
Total expenditure	2,668.6	2,490.6	7.1	5,136.1	4,753.5	8.0
Operating profits	414.7	345.7	20.0	745.2	589.2	26.5
Other income	81.4	79.4		150.8	154.0	
Interest	3.4	5.6		5.5	10.1	
Depreciation	30.1	31.8		63.9	62.8	
Extraordinary items	1.3	18.8		-147.6	-17.9	
Profit before tax	462.6	387.7	19.3	826.6	670.2	23.3
Tax	83.3	87.2		153.3	147.8	
Reported net profit	378.0	281.7	34.2	820.8	540.4	51.9
Adjusted net profit	379.4	300.5	26.3	673.3	522.4	28.9

Segment revenue (Rs crore)

Particulars	Q2CY06	Q2CY05	% yoy chg	H2CY06	H2CY05	% yoy chg
HPC	2,302.6	2,035.0	13.2	4,387.1	3,774.5	16.2
Soaps and detergents	*1,455.9*	*1,287.6*	*13.1*	*2,774.5*	*2,424.4*	*14.4*
Personal products	*846.7*	*747.4*	*13.3*	*1,612.6*	*1,350.1*	*19.4*
Beverages	300.6	312.2	-3.7	618.2	614.6	0.6
Processed foods	97.3	78.3	24.2	185.5	145.7	27.3
Ice creams	50.5	37.6	34.3	77.0	58.0	32.7
Total FMCG	**2751.0**	**2463.2**	**11.7**	**5267.7**	**4592.7**	**14.7**
Exports	328.7	322.5	1.9	604.2	664.6	-9.1
Others (chemicals, plantations etc)	37.9	78.6	-51.8	71.9	149.0	-51.7
Total	**3,117.5**	**2,864.3**	**8.8**	**5,943.8**	**5,406.3**	**9.9**

y-o-y growth in FMCG sales (%)



Source: Company

HPC records strong growth—9.5% in volume terms

The HPC segment achieved a strong revenue growth of 13.2% yoy on the back of a volume growth of 9.5% and selective price increases (see our report 'It is just getting better' dated march 28, 2006). However, adjusted for the sale of the *Nihar* brand (which happened in Q1CY2006), the revenue growth in the HPC segment was at 15.1%.

The strong growth in the volumes in the HPC segment was driven by the growth in the key brands like

- *Lux*—where new variants were launched during the quarter
- *Lifebouy*—where the entire range was re-launched with new positioning
- *Sunsilk*—with the introduction of new variants like *Hairfall Defense* and *Ice Cool*

HLL's market share in the soap segment was at 54.5%, almost the same as last year. However, *Lux* upped its market share by around 280 basis points over the last year. The market share in the personal care segment went up by 2 basis points to 47.7%.

Segmental results—HPC business

Particulars	Q2CY2006	Q2CY2005	% y-o-y chg
Revenues (Rs cr)			
Soaps and detergents	1,455.9	1,287.6	13.1
Personal products	846.7	747.4	13.3
Total	**2,302.6**	**2,035.0**	**13.2**
PBIT (Rs cr)			
Soaps and detergents	208.4	171.2	21.7
Personal products	241.9	207.3	16.7
Total	**450.3**	**378.5**	**19.0**
PBIT margins (%)			
Soaps and detergents	14.3	13.3	
Personal products	28.6	27.7	
Total	**19.6**	**18.8**	

The PBIT in the HPC business grew by 19% yoy as the PBIT margins expanded by 80 basis points to 19.6%. The PBIT margins in the soaps and detergent business expanded by 100 basis points whereas the PBIT margins in the personal products business expanded by 85 basis points.

Food business—revenues and profitability going strong

The food business reported a strong growth of 27.5% yoy for the quarter backed by a strong growth in both the businesses, viz, processed food and ice creams.

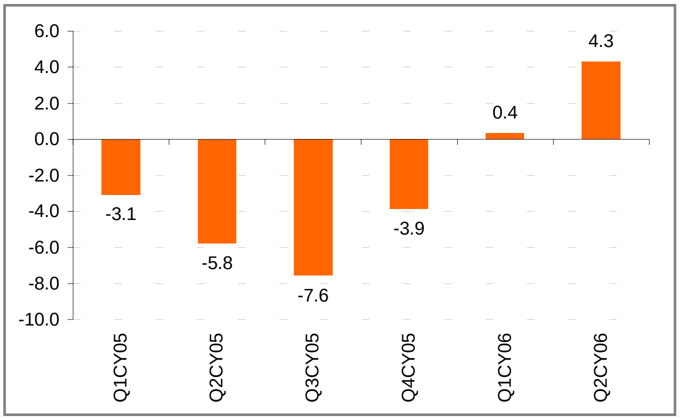
The processed food business recorded a strong growth of 24.2% with all the key brands, viz, *Kissan*, *Annapurn*a and *Knorr* growing strongly during the quarter. The processed food business improved its profitability substantially with a PBIT of Rs4.2 crore compared with a loss of Rs4.5 crore in Q1CY2005.

The ice creams business reported a strong growth of 34.3% yoy. The improving scale helped the company to expand its margins in this business by nearly 800 basis points.

Segmental results--food business

Particulars	Q2CY2006	Q2CY2005	% y-o-y chg
Revenues (Rs cr)			
Processed foods total	97.3	78.3	24.2
Ice creams	50.5	37.6	34.3
Total	**147.8**	**115.9**	**27.5**
PBIT (Rs cr)			
Processed foods total	4.2	-4.5	-192.9
Ice creams	10.9	5.1	115.0
Total	**15.1**	**0.6**	**2,416.7**
PBIT margins (%)			
Processed foods total	4.3	-5.7	1,006.4
Ice creams	21.6	13.6	802.0
Total	**10.2**	**0.5**	**969.9**

PBIT margins in processed foods business (%)



Source: Company, Sharekhan Research

Beverages—tea takes toll

The sales in the beverages segment declined by 3.7% as the revenues from the branded tea business declined. The coffee business grew as the company expanded its market share by 160 basis points to 46.2%.

Segmental results—beverages business

Particulars	Q2CY2006	Q2CY2005	% y-o-y chg
Revenues (Rs crore)	300.6	312.2	-3.7
PBIT (Rs crore)	40.7	53.9	-24.5
PBIT margins (%)	13.5	17.3	

Price increases help mitigate rising crude oil prices without affecting growth

The recent price increases by HLL has helped the company to meet the rising crude oil prices, which increased the raw material, packaging and freight costs. The impact was visible in the higher contribution of the margins, which went up by 330 basis points during the quarter. A part of the savings on the raw material cost was invested in the brand building exercise as the advertisement and promotion expenses went up by nearly 20%.

Cost as % of sales

	Q2CY06	Q2CY05	Chg in bps
Raw material cost	53.3	55.6	-230.0
Employee expenses	5.7	6.1	-40.0
Advertising and promotion	11.2	10.1	110.0
Other expenses	16.3	15.9	40.0
Total cost	86.6	87.8	-120.0

Also the HPC products segment, in which HLL increased the prices, has grown in line with the sector growth, which means that the market absorbed the price increases without affecting the volumes.

Net profit grows by 26.3%

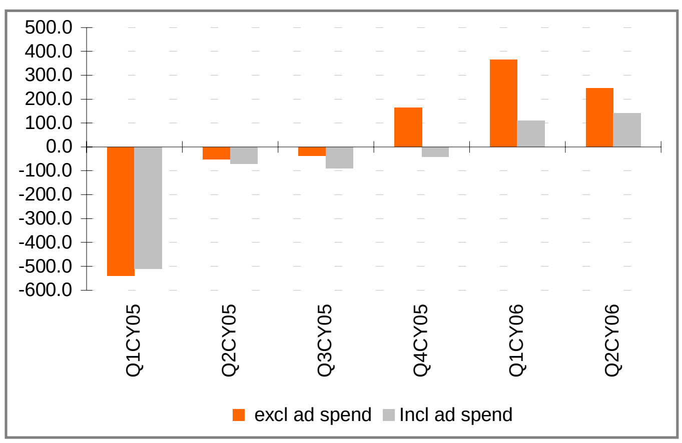
The net profit for the quarter under review grew at a faster pace of 26.3% yoy backed by a strong operating performance as well as a lower tax rate. The effective tax rate for the quarter stood at 18% compared with 22.5% in Q2CY2005 due the higher production from the facilities located in the tax free zones.

Investment in brand building

Over the last couple of quarters HLL has invested heavily in the brand building exercise and the same is visible from the rising proportion of the advertisement spend in the total expenditure. However, this investment has borne fruit over the same period as is visible from the growth in the revenues.

Even in terms of the margins, HLL's PBIT margins excluding the advertisement spending have shown a much sharper improvement over the last couple of quarters.

Change PBIT margins (in basis points)

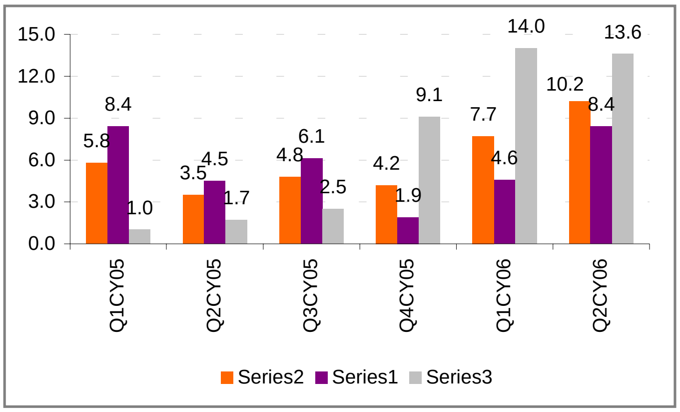


Source: Company

Growth in the FMCG sector continues unabated

In our report initiating coverage on the company (see our report "Wheel of fortune turns in HLL's favour" dated November 24, 2005) we had mentioned that the real potential of the growth in the FMCG sector would come once the growth in the rural markets kick in. We believed that the growth in the rural markets was poised to take a huge leap as the pricing power of the Indian farmers improves and the structural changes in the farm sector (like the changes in the laws and regulations and the corporatisation of Indian agriculture). And that's exactly what has happened. The growth in the FMCG sales in the rural sector has far outpaced the growth in the urban sector over the last three quarter.

FMCG sector growth (%)



Valuations

We believe that HLL is poised to benefit from the continuing growth in the FMCG sector. The recent price increases by the company in select products would also help the company to continue the improvement in the margins. At the current market price of Rs232, the stock is quoting at 25.4x its CY2007E EPS and 23.0x CY2007E EV/EBIDTA. We reiterate our Buy recommendation on the stock with a price target of Rs300.

Valuation table (Rs crore)

Particulars	CY2004	CY2005	CY2006E	CY2007E
Net profit (Rs crore)	1,182.7	1,310.7	1,658.7	2,013.8
% y-o-y growth	*-31.4*	*10.8*	*26.6*	*21.4*
Shares in issue (crore)	220.1	220.1	220.1	220.1
EPS (Rs)	5.4	6.0	7.5	9.1
PER (x)	43.2	39.0	30.8	25.4
Book value (Rs)	9.5	10.5	13.0	17.2
P/BV (Rs)	24.4	22.1	17.8	13.5
EV/EBIDTA (x)	34.6	33.8	28.5	23.0
Dividend yield (%)	2.2	2.2	2.2	2.2
RoCE (%)	45.8	68.7	67.7	62.6
RoNW (%)	56.5	56.8	57.9	53.3

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

Television Eighteen India

Emerging Star

Stock Update

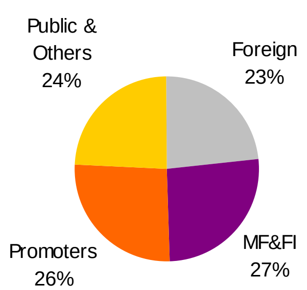
Strong set of numbers

Buy; CMP: Rs617

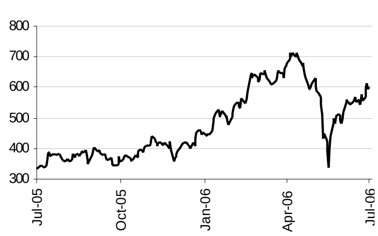
Company details

Price target:	Rs704
Market cap:	Rs1,296 cr
52 week high/low:	Rs750/316
NSE volume: (No of shares)	65,678
BSE code:	532299
NSE code:	TV18
Sharekhan code:	TV18
Free float: (No of shares)	1.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	24.8	-9.7	33.1	73.8
Relative to Sensex	18.0	-0.7	21.8	21.0

Result highlights

- Television Eighteen India Ltd's (TV18) Q1FY2007 net profit at Rs13.8 crore was marginally above our expectations.
- TV18 has reported a strong 56.4% year-on-year (y-o-y) growth in its consolidated revenues for Q1FY2007 to Rs41.6 crore backed by the strong performance of the news, Internet and content operations.
- The operating profit grew by 60.8% year on year (yoy) to Rs20.1 crore as the operating profit margins (OPM) expanded by 184 basis points. The expansion in the OPM was slightly below our expectations; however, the higher revenues more than compensated for the same.
- Stable depreciation and taxes led to a 72.8% y-o-y growth in the net profit to Rs13.8 crore.
- We believe that TV18's business model has become more robust with the inclusion of the channels *Awaaz*, *Channel 7* and *CNN-IBN* in the bouquet. Looking at the robust business model, the stock is attractively quoting at 16.4x its FY2008E earnings per share (EPS) and 9.3x its FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We reiterate our Buy recommendation on the stock with a price target of Rs704.

Revenues show sterling performance

TV18's revenues for the quarter grew by 56.4% yoy to Rs41.6 crore. The strong growth came from both the segments. The news segment grew by 41.7% yoy to Rs36.5 crore whereas the Internet segment grew four-fold to Rs5.2 crore.

The revenues from the Internet and content division of the company have picked up after the launch of its portal www.poweryourtrade.com. TV18 currently manages three web portals—Monwycontrol.com, commoditycontrol.com and poweryourtrade.com. The Internet and content division now contributes nearly 12% of the total revenues.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	Q4FY2006	% y-o-y chg	% q-o-q chg
Total revenue	41.6	26.6	53.5	56.4	-22.2
Total expenditure	21.5	14.1	24.9	52.5	-13.7
Operating profit	20.1	12.5	28.6	60.8	-29.7
Interest	2.0	1.2	0.8	66.7	150.0
depreciation	3.5	3.0	3.6	16.7	-2.8
Extraordinary expense	0.0	0.0	3.4		-
Profit before tax	14.6	8.3	20.8	75.9	-29.8
Taxes	0.8	0.4	4.9	100.0	-83.7
Net profit	13.8	8.0	15.9	72.5	-13.2
Adjusted net profit	13.8	8.0	18.1	72.5	-23.8

Revenue break-up (Rs crore)

	Q1FY07	Q1FY06	% y-o-y growth
Advertisement revenue	27.7	19.0	45.9
Subscription revenue#	8.8	6.8	29.6
Internet and content revenues	5.2	1.2	335.0
Total	41.6	26.6	54.6

Source: Company, Sharekhan Research # estimated

Operating profit grows by 60.8% yoy

TV18's operating profit grew by 60.8% yoy to Rs20.1 crore as the OPM expanded by 184 basis points to 48.4%. The expansion in the OPM was slightly lower than our expectations, but higher sales compensated for the same.

Performance of channel launched in FY2006

CNN-IBN now has the highest share of viewership among all the English news channels while *Awaaz* is now only second to Aaj Tak. These two channels (currently not owned by TV18) will get consolidated post-restructuring. While *Awaaz* has posted a profit before interest and tax, *CNN-IBN* is expected break-even in FY2007.

Entry into new businesses

Hindi general news channel

With the acquisition of a 50% stake in *Channel 7* (at a cost of Rs60 crore), a Hindi News channel owned by the Dainik Jagran group, TV18 has widened its bouquet of channel offerings. The acquisition of *Channel 7* has helped TV18 to complete its channels portfolio offering with its presence expanding to the whole genre of news channels.

Segment	Channel
Business news channels	
English	*CNBC TV18*
Hindi	*Awaaz*
General news channels	
English	*CNN-IBN*
Hindi	*Channel 7*

During June 2006, *Channel 7* was revamped with new looks and content. We believe that *Channel 7* will be a substantial contributor to the TV18 group's overall value with its strong editorial team in place. The management and editorial control of *Channel 7* will be with TV18 and the editor-in-chief of *CNN-IBN*, Mr Rajdeep Sardesai will be the editor-in-chief of *Channel 7*.

Internet ventures—picking up pace

TV18's existing Internet ventures (www.moneycontrol.com, www.commoditiescontrol.com and www.poweryourtrade.com) have done exceedingly well. The revenues from these ventures have increased almost five-fold over Q1FY2006 particularly with the huge success of www.poweryourtrade.com.

To further leverage on the success of these ventures and to increase its presence in this space TV18 has taken the inorganic route and has acquired stakes in various Internet portals.

- It has recently acquired a 50% stake in the Indian arm of Asia's biggest job portal, www.jobstreet.com for Rs8-9 crore.
- TV18, along with Reliance Capital and Norwest Venture Partners has acquired a stake in Yatra Online--a travel and tourism service portal.

Also with the consolidation of its media properties (a process which is underway), TV18 will get a stake in www.ibnlive.com, a news portal that belongs to Global Business News, a TV18 group company.

At a later stage, TV18 will transfer the stakes in its various Internet ventures to one subsidiary and rope in a strategic partner, which would help it unlock the value for its shareholders.

Home shopping network

TV18 has entered into a strategic alliance with SB Asia Infrastructure Fund (SAIF) to launch an integrated home shopping network (HSN) in the Indian market. While SAIF has experience in the sector (it has also invested in China's home shopping business), TV18 brings a strong reach through its brand name and channel platform.

The joint venture will set up the distribution network and back-end support (call centre) and is expected to start functioning by December 2006.

Subscription revenues to follow CAS implementation

CNBC TV18 channel is currently offered to the viewers as part of the Zee-Turner International's (ZTI) bouquet of channels. In our previous note on the company, "Revising price target to Rs704" dated June 01, 2006, we had mentioned that TV18's contract with ZTI was likely to come up for renewal over the next three months.

However, we believe that the revision in the rates would go along with the pace of roll-out of the conditional access system (CAS) throughout the country. The Delhi high court has ordered a speedy roll-out of the CAS throughout the county with the implementation in the three metros, Delhi, Mumbai and Kolkata to be finished by December 2006. We believe that TV18 would like to wait and watch the pace of the implementation of the CAS to get proper rates for its channels.

Business restructuring—Network 18 India Limited to be the holding company

Existing	New	
TV18 India Limited	TV18 India Limited [TV18 (N)]	Network 18 India Limited
• CNBC TV18 - 90% • www.moneycontrol.com - 80% • www.commoditiescontrol.com - 78% • www.poweryourtrade.com - 100%	• CNBC TV18 - 90% • Awaaz - 100% • GBN* - 23% • www.moneycontrol.com - 80% • www.commoditiescontrol.com - 78% • www.poweryourtrade.com - 100% • www.jobstreet.com - 50% • www.yatraonline.in	• TV18 (N) - 51% • GBN* - 51%

* GBN - Global Broadcast News (GBN) is a holding company for CNN-IBN.
Note: Figures on the right denote the respective company's stake in the venture.

Restructuring of the business

In a move to consolidate its various media properties and to comply with the regulations, TV18's board had recommended the restructuring of its businesses. Under the scheme of arrangement TV18 would consolidate its various media properties like television channels and Internet ventures into two companies as given hereunder.

The existing shareholders of TV18 will get 14 shares (of Rs5 each) of TV18 (N) and 12 shares (of Rs5 each) of Network 18 India Ltd for every 10 shares (of Rs10 each) held in TV18. The new shareholding pattern of the two companies will be as follows.

TV18 (N)	No of shares	%
Network 18	26,727,895	51.0
Accelerated ESOP	1,377,972	2.6
Non-Raghav Bahl shareholders of TV18	23,217,700	44.3
To be sold to raise cash	1,084,069	2.1
Total	**52,407,636**	**100.0**

Network 18 India Limited	No of shares	%
Raghav Bahl	25,449,685	51.0
Non-Raghav Bahl shareholders of TV18	19,181,667	38.4
Trust (to be sold later)	5,269,533	10.6
Total	**49,900,885**	**100.0**

TV18 has already received the high court's order approving the scheme of arrangements. We expect the whole process of the formation of the new companies and their listing to get over by September 2006.

To raise Rs300 crore to invest into new ventures

TV18 is planning to raise Rs300 crore to invest into new ventures. TV18 is looking at new investments primarily in the Internet space, which will be mostly through the inorganic route.

Valuations and view

We believe that there are numerous positives lined up for the stock in the near future.

- *Awaaz*, TV18's Hindi business news channel has broken even at the operating profit level during the quarter. We expect the channel's profitability to grow substantially over the next two years.
- TV18 is planning to consolidate all its Internet ventures into one subsidiary and plans to rope in a strategic partner for the same. The probable listing of the company later will unlock the substantial value for TV18's shareholders.
- The implementation of the conditional access system and the entry of new players in the direct-to-home service segment will positively impact the subscription revenues.

We have tried to derive the value of the existing TV18 based on the value of the entities that are going to be demerged from it in the future. We believe that based on the value of the demerged entity, the fair value of the existing TV18 stock works out to Rs704 per share.

Valuations

TV18 (N)

Particulars	Rs crore	Comment
CNBC TV18 and Internet ventures	1,498.4	@20x FY2008E earnings
Awaaz	149.1	@15x FY2008E earnings
GBN	73.6	At 20% discount to stake sale to IL&FS Investment Managers
Total	1,721.2	
Equity (shares in crore)	5.2	
Per share (Rs) (A)	328.4	

Network 18 India Limited

Particulars	Rs crore	Comment
TV18 (N) (51%)	877.8	Based on valuation of TV18 (N)
GBN (51%)	163.2	At 20% discount to stake sale to IL&FS Investment Managers
Total	1,041.8	
Equity (Shares in crore)	5.0	
Per share (Rs) (B)	208.6	

TV18 (Existing)

	Rs per share	Comment
14 shares of TV18 (N) for 10 shares of TV18 existing	459.8	(A)*14/10
12 shares of Network 18 India Limited for 10 shares of TV18 existing	250.3	(B)*12/10
Fair value of TV18 existing	710.1	

Valuation table#

	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	33.0	52.4	65.5	78.9
Shares in issue (crore)	1.7	2.1	2.1	2.1
EPS (Rs)	19.5	25.0	31.2	37.6
% y-o-y growth	180.	28.0	25.0	20.0
PER (x)	*39.3*	*24.7*	*19.8*	*16.4*
Book Value (Rs)	61.2	85.7	125.9	158.9
P/BV x)	10.1	7.2	4.9	3.9
EV/EBITDA (x)	27.1	16.0	11.7	9.3
RoNW (%)	42.2	37.0	29.5	26.4
RoCE (%)	29.2	29.4	25.6	24.1

Estimates for TV18 existing entity which has only one channel as of now viz., CNBC TV18 and the Internet ventures

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

Sanghvi Movers

Ugly Duckling

Stock Update

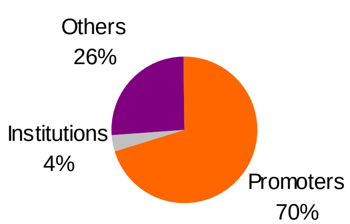
Performance meets expectations

Buy; CMP: Rs647

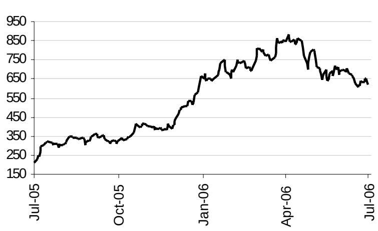
Company details

Price target:	Rs1,150
Market cap:	Rs464 cr
52 week high/low:	Rs913/209
BSE volume: (No of shares)	31,788
BSE code:	530073
Sharekhan code:	SANGMOVE
Free float: (No of shares)	21.5 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.3	-27.2	-7.3	198.9
Relative to Sensex	-15.3	-19.9	-15.2	108.1

Result highlights

- The revenues of Sanghvi Movers Ltd (SML) grew by 45.1% year on year (yoy) to Rs40.2 crore in Q1FY2007. The growth was driven by the utilisation of the assets added during FY2006 and Q1FY2007 and was in line with our estimate.
- Driven by the utilisation of the cranes acquired during FY2006 and Q1FY2007, and the continued operational leverage enjoyed by SML, the operating profit grew by 65.0% yoy to Rs28.5 crore. The operating profit margin (OPM) improved by a robust 860 basis points yoy and by 220 basis points sequentially to 70.8% during the same period. The margin expansion too was ahead of our estimate.
- SML completed a capital expenditure (capex) exercise of Rs64 crore during the quarter and has a capex plan of Rs150 crore for the full year. The asset addition during the quarter was also in line with our estimate.
- Despite the addition of new cranes, depreciation was down 6.8% yoy to Rs7.6 crore, reflecting the effect of the change in the company's accounting policy for depreciation of new assets (bought after April 1, 2005), effected in Q3FY2006 ie shift from written down value (WDV) method to straight-line method (SLM). Also the company has changed the depreciation method for all assets (bought between April 1, 2002 and March 31, 2005) in the current quarter.
- SML has also written back the excess depreciation of Rs17.1 crore on account of the change in its depreciation policy and the same has been shown as an extraordinary income.
- SML's net profit (before extraordinary income) grew by a robust 148.4% yoy to Rs10.6 crore during the quarter. The net profit growth was achieved on the back

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	40.2	27.7	45.1
Expenditure	11.7	10.5	12.2
Operating profit	28.5	17.3	65.0
Other income	0.7	0.1	1029.3
PBIDT	29.1	17.3	68.3
Interest	5.4	2.5	117.9
Depreciation	7.6	8.2	-6.8
PBT	16.1	6.6	143.0
Tax	5.5	2.4	133.4
PAT	10.6	4.3	148.4
EPS (Rs/Share)	14.7	5.9	148.4
OPM (%)	70.8	62.2	860 bps
PBTM (%)	39.9	23.8	1610 bps
PATM (%)	26.3	15.4	1090 bps

of a strong revenue growth, margin expansion and fall in depreciation. The net profit is higher than our estimate because of a Rs3.0 crore decline in depreciation adjusting for which the results would be in line with our estimates.

- SML's net profit is expected to zoom from Rs32.2 crore in FY2006 to Rs62.2 crore in FY2008, at a compounded annual growth rate (CAGR) of 39%. The stock trades at a cash price/earnings ratio (CPER) of 5.3x FY2007E and 4.1x FY2008E cash earnings. We maintain our Buy call on SML with a price target of Rs1,150.

Revenue growth of 45.1% yoy, in line with estimate

SML's revenues grew by 45.1% yoy to Rs40.2 crore in Q1FY2007 and the growth was in line with our estimate. The strong revenue growth was achieved by utilising the assets added during FY2006 and Q1FY2007. The asset utilisation was pegged at 0.36x in the quarter. Upfront, the asset utilisation appears lower, mainly because the first quarter is considered to be lean for engineering companies (SML's main customers). However it is in line with our estimate.

OPM continues to zoom

Driven by the utilisation of the cranes added during FY2006 and Q1FY2007, and the continued operational leverage enjoyed by SML, the operating profit grew by 65.0% yoy to Rs28.5 crore. The OPM improved by a robust 860 basis points yoy and by 220 basis points sequentially to 70.8%. The margin expansion was ahead of our estimates.

Depreciation lower than estimates due to policy changes

Despite the addition of new cranes, depreciation was down 6.8% yoy to Rs7.6 crore, reflecting the effect of the change in the accounting policy for depreciation of new assets (bought after April 1, 2005) effected in Q3FY2006 ie Shift from WDV to SLM.

The company also changed the depreciation method for all assets (bought between April 1, 2002 and March 31, 2005) in the current quarter. It has shifted from the WDV method to the SLM method of depreciation. The current quarter's depreciation is lower by Rs3.0 crore on account of the policy change affected in the quarter under review.

SML has also written back the excess depreciation of Rs17.1 crore on account of the change in the depreciation policy (adjusted for the deferred tax Rs8.6 crore for the same) and the same has been shown as an extraordinary income.

The net profit (before the extraordinary income) grew by 148.4% yoy to Rs10.6 crore, ahead of our estimate.

SML's net profit (before the extraordinary income) grew by a robust 148.4% yoy to Rs10.6 crore. The growth was driven by a strong revenue growth, margin expansion and fall in depreciation. The net profit is higher than our estimate because of a Rs3.0 crore decline in depreciation adjusting for which the results would be in line with our estimates.

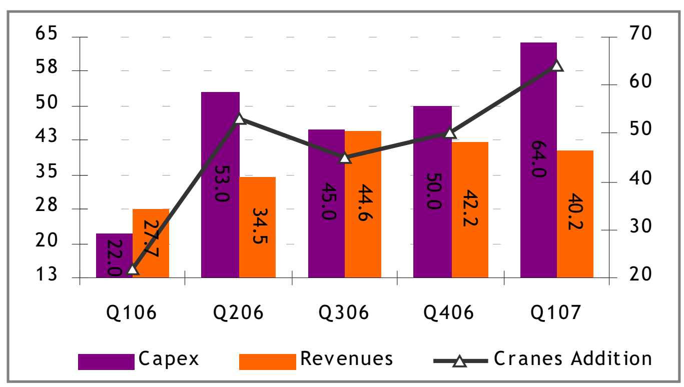
Windmill division turns positive

SML has two windmill power generation plants, one each in Rajasthan and Karnataka, with a combined capacity of 5.5 megawatt. A better plant load factor during the quarter helped the company in posting a profit in this division. The division reported a profit of Rs0.5 crore at the profit before interest and tax level in Q1FY2007 as compared with a loss of Rs0.04 crore in Q1FY2006.

Expansion of fleet continues

SML has incurred a capex Rs64.0 crore during the quarter. After adding cranes worth Rs170 crore in FY2006, the company plans to add more cranes worth Rs150 crore in FY2007. We believe the capacity expansion will boost its growth in FY2008 as well. Such an aggressive expansion plan is clearly indicative of the visibility of its growth and the buoyant demand for its cranes.

SML's quarterly capex



Source: Company, Sharekhan

Expansion is partly funded through debt

The expansion has been funded partly through debt and partly through internal accruals. Though the interest cost went up substantially in Q1FY2007, we are not worried, as the interest coverage ratio remains comfortable at 3.6x.

Accounting policy change factored in, no impact on earnings

We have factored the change in the accounting policy in our earnings estimates for FY2007 and FY2008. There is no change in the earnings estimates and the same have been maintained at Rs61.2 and Rs78.8 for FY2007 and FY2008 respectively.

We maintain Buy

We expect SML to expand its capacity by acquiring cranes worth Rs150 crore in FY2007 and FY2008. With the help of an expanded fleet, SML is expected to report revenues of Rs222.6 crore in FY2007 and of Rs282.6 crore in FY2008. Its net profit is expected to increase from Rs32.2 crore in FY2006 to Rs62.2 crore in FY2008. The stock trades at CPER of 5.3x FY2007E and 4.1x FY2008E cash earnings. We maintain Buy on SML with a price target of Rs1,150.

Earnings table

Particulars	FY05	FY06P	FY07E	FY08E
Net profit (Rs cr)	13.7	32.2	48.3	62.2
Share in issue (cr)	0.7	0.7	0.8	0.8
EPS (Rs)	18.7	44.1	61.2	78.8
% y-o-y growth	*111.1*	*135.2*	*38.9*	*28.8*
PER (x)	34.2	14.5	10.5	8.1
CEPS (Rs)	47.9	92.9	121.7	154.5
PCEPS (x)	13.4	6.9	5.3	4.1
Book value (Rs)	77.8	111.8	207.7	276.6
P/BV (x)	8.2	5.7	3.1	2.3
EV/EBIDTA (x)	12.5	7.0	5.2	4.4
Dividend yield (%)	0.4	1.6	1.6	1.6
ROCE (%)	19.7	26.9	26.2	24.3
RONW (%)	24.1	39.4	29.5	28.5

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

Sintex Industries

Apple Green

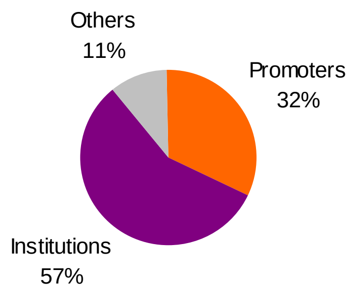
Stock Update

Q1FY2007—first cut results analysis

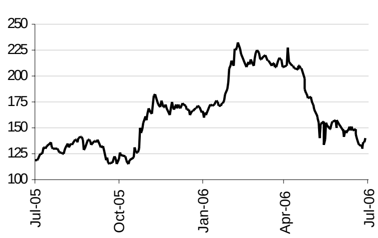
Buy; CMP: Rs138

Company details	
Price target:	Rs192
Market cap:	Rs1,392 cr
52 week high/low:	Rs258/110
NSE volume: (No of shares)	68,351
BSE code:	502742
NSE code:	SINTEX
Sharekhan code:	SINTEX
Free float: (No of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.5	-32.4	-17.2	21.3
Relative to Sensex	-15.4	-25.7	-24.2	-15.6

Result highlights

- The revenue of Sintex Industries Ltd (SIL) grew by a sharp 52.6% year on year (yoy) in Q1FY2007 to Rs223.8 crore, ahead of our estimates.
- The plastic division's revenue grew by 59.2% yoy to Rs160.0 crore. Its profit before interest and tax (PBIT) rose by 67.1% yoy to Rs21.8 crore as the margins expanded by 60 basis points yoy to 13.6%.
- The textile division's revenue increased by 38.2% yoy to Rs65.3 crore. The growth was driven by an 11.3% jump in the volumes and a 9.2% jump in the realisations. Reeling under severe margin pressure the PBIT grew by only 7.1% to Rs7.9 crore.
- The operating profit margin (OPM) of the company grew by only 10 basis points yoy to 17.3%—in line with our estimates. The decrease in the material and employee costs as a percentage of sales were compensated for by the increase in the other expenses.
- The profit before tax (PBT) grew by 100.0% on account of the growth in the top line and a higher other income (up 158.3%).
- In Q1FY2006 SIL had a negative tax (on account of deferred revenue tax) as against a tax provisioning of 25.1% in the current quarter. This led to a lower profit after tax (PAT) growth at 40.9%, in line with our estimates.
- The stock is trading at attractive valuations of a price/earnings ratio of 11.1x FY2008E and enterprise value/earnings before interest, depreciation, tax and amortisation of 6.8x FY2008E. These valuations should be seen in conjunction with the fact that the company's earnings are expected to grow at a healthy compounded annual growth rate of 26% over FY2006-08 and that the inorganic growth trigger is long overdue. We maintain a Buy on Sintex with a price target of Rs192, at which the stock would discount its FY2008E earnings by 15.5x.

Result table Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	223.8	146.7	52.6
Expenditure	185.1	121.4	52.5
Operating profit	38.7	25.3	53.1
Other income	6.5	2.5	158.3
PBIDT	45.2	27.8	62.7
Interest	7.9	6.8	16.1
Depreciation	10.0	7.3	36.6
PBT	27.3	13.6	100.0
Tax	6.9	-0.9	
PAT	20.4	14.5	40.9
EPS (Rs/share)	2.0	1.6	29.2
OPM (%)	17.3	17.2	10 bps
PBIDTM (%)	20.2	19.0	120 bps
PATM (%)	9.1	9.9	-80 bps

Earnings table

Stand-alone	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	50.3	81.1	112.2	149.9
Share in issue (cr)	9.2	9.9	12.0	12.0
EPS (Rs)	5.4	8.2	9.3	12.5
% y-o-y growth	17.8	51.2	13.4	33.6
PER (x)	25.4	16.8	14.8	11.1
Book value (Rs)	35.1	43.8	67.4	79.0
P/BV (x)	3.9	3.2	2.1	1.8
EV/Ebidta (x)	11.9	9.8	9.0	6.8
Dividend yield (%)	0.6	0.6	0.6	0.6
ROCE (%)	12.7	14.0	15.0	17.3
RONW (%)	9.9	18.1	13.5	15.5

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

Aditya Birla Nuvo

Apple Green

Stock Update

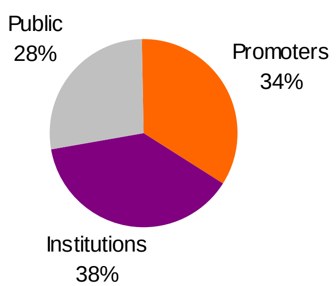
Q1FY2007—first cut results analysis

Buy; CMP: Rs725

Company details

Price target:	Rs1,031
Market cap:	Rs6,051 cr
52 week high/low:	Rs900/403
NSE volume: (No of shares)	25,807
BSE code:	500303
NSE code:	ABIRLANUV
Sharekhan code:	INDRAYON
Free float: (No of shares)	5.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.1	-16.9	-0.1	54.4
Relative to Sensex	-2.6	-8.6	-8.6	7.5

Result highlights

- The consolidated revenues of Aditya Birla Nuvo (ABN) in Q1FY2007 grew by 88.6% to Rs1,459.1 crore, in line with our estimates. The growth was driven by (1) a strong double-digit growth in its value business; (2) addition of the fertiliser and finance businesses due to the merger of Indo Gulf and Birla Global, which was absent last year; (3) higher share in the telecom business at 16.4% during the quarter and a partial effect of the 15% share acquired from the Tatas; and (4) the continued momentum in its growth businesses.
- The share of the high growth businesses (garments, life insurance, business process outsourcing [BPO], software and telecom) improved to 55.2% of the consolidated revenues in Q1FY2007 as compared to 50.8% in the same period last year.
- A sharp margin expansion was witnessed in all the businesses except insurance, BPO and telecom. The margin expansion year on year (yoy) was 360 basis points in the garments business, 850 basis points in the software business, 300 basis points in the carbon black business, 190 basis points in the the insulators business and 130 basis points in the textiles.
- Insurance was an ailing business in FY2006, but has rebounded during the quarter. The new business premium was up 91% yoy to Rs149.8 crore. The revenues grew sharply by 98.7% yoy to Rs358.5 crore. The number of policies sold increased by 66% yoy to 38,000. The loss at the profit before interest and tax (PBIT) levels grew to Rs18.1 crore against a loss of Rs3.8 crore in Q1FY2006.

Result table (consolidated) Rs (cr)

Particulars	Q1FY2007	Q1FY2006	% yoy chg
Net sales	1459.1	773.7	88.6
Expenditure	1259.4	686.3	83.5
Operating profit	199.8	87.3	128.7
Other income	29.3	6.4	360.0
PBIDT	229.1	93.7	144.4
Depreciation	74.4	33.2	124.3
Interest	58.7	12.1	387.5
PBT	95.9	48.5	97.8
Tax	33.5	16.0	109.7
PAT	62.4	32.5	91.9
Minority interest	4.3	1.2	258.3
Share in associate	0.5	0.0	-
PAT (Before extraordinary)	67.1	33.7	99.1
Extraordinary	-0.8	-0.7	-
PAT (After extraordinary)	66.4	33.0	100.9
EPS	8.0	5.6	42.8
OPM (%)	13.7	11.3	240 bps
PBITM (%)	10.6	7.8	280 bps
PATM (%)	4.3	4.2	10 bps

- Though the revenues of the telecom business grew by 582.3% due to an increase of stake in IDEA, the margins shrank by 130 basis points to 17.9%, below our estimates. We believe that the margins will bounce back in the subsequent quarters.
- Driven by the good performance in the key business segments and addition of new businesses, the operating profit margin (OPM) saw an expansion of 240 basis points yoy to 13.7%. Consequently the operating profit grew by a robust 128.7% yoy to Rs199.8 crore, in line with our estimates. Even, the net profit grew by a strong at 99.1% yoy to Rs67.1 crore, in line with our estimates.
- Given the diverse businesses of ABN, the company is best valued using the sum-of-parts method. Based on the sum-of-parts valuation of the merged entity, we estimate the fair value of ABN to be Rs1,031 per share. The stock is available at a 30% discount to its fair value and we maintain a Buy recommendation on ABN with a 12-month price target of Rs1,031.

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

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Associated Cement Companies
Bajaj Auto
Balrampur Chini Mills
Bharat Bijlee
Bharat Heavy Electricals
Corporation Bank
Crompton Greaves
Godrej Consumer Products
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
MRO-TEK
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
Sintex Industries
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Cipla
Gateway Distriparks
International Combustion (India)
JK Cements
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aarvee Denims and Exports
Aban Loyd Chiles Offshore
Alok Industries
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
Tube Investments of India
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren
Welspun India

Ugly Duckling

Ashok Leyland
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

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