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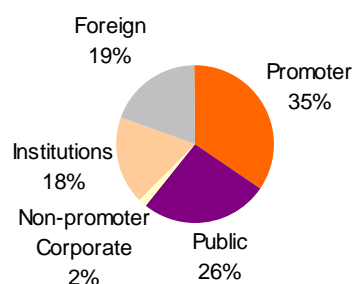
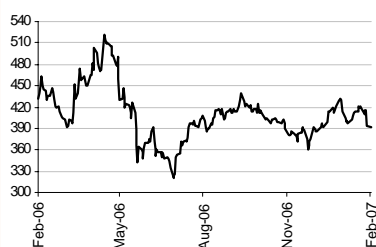
### Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ F-M Goetze	18-Jan-07	385	335	559
♦ HCL Tech	30-Dec-03	206	693	720
♦ HLL	24-Nov-05	172	205	280
♦ India Cements	28-Sep-06	220	200	315
♦ SKF	23-Dec-04	141	297	406

# Ranbaxy Laboratories

**Apple Green**
**Stock Update**
**Ranbaxy's US offices face surprise raid**
**Buy; CMP: Rs392**
**Company details**

<b>Price target:</b>	Rs558
<b>Market cap:</b>	Rs14,609 cr
<b>52 week high/low:</b>	Rs530/317
<b>NSE volume:</b> (No of shares)	10.3 lakh
<b>BSE code:</b>	500359
<b>NSE code:</b>	RANBAXY
<b>Sharekhan code:</b>	RANBAXY
<b>Free float:</b> (No of shares)	14.8 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	-8.6	-2.5	0.9	-9.9
Relative to Sensex	-10.1	-8.6	-20.8	-37.4

On February 14, 2007, US federal office of criminal investigation, USFDA conducted a surprise search of Ranbaxy Laboratories' US corporate offices and a manufacturing facility in New Jersey. The manufacturing facility belongs to Ohm Laboratories (a 100% subsidiary of the pharma major). Paper and electronic documents were seized in the raids.

**Reasons for the search still not known**

The federal prosecutors have not yet revealed the reasons for the raids. Nor is the company aware of the purpose of the investigations. Also, the US Federal Drug Authority (USFDA) is not confirming or denying its involvement in the raids which makes the case very unpredictable. With the USFDA remaining mum on the issue, it is difficult to ascertain if the raids were triggered by activities related to manufacture of inferior quality products.

**US operations running smoothly**

As per the CY2006 financials of Ranbaxy Laboratories, the company generated sales of \$390 million from the USA, which accounts for 29% of its total sales and is its second largest manufacturing hub for solid oral dosages. The company has already suffered a delay in launching a couple of products in the US market, as its facility at Paonta Sahib, Uttaranchal, has received a USFDA warning on quality standards. So any negative outcome (like a plant shutdown or quality related issues) of the raids by the federal prosecutor and/or USFDA may affect the company's business adversely in the short term.

Earlier in February 2007, the USFDA had inspected the Paonta Sahib facility and Ranbaxy Laboratories is waiting its approval. So the subsequent search at the US facility could be related to the Paonta Sahib plant and any adverse finding therein may cause a delay in obtaining approval for the plant and its products. However, the company has indicated that despite the raid its US operations are running smoothly.

**View & valuation**

We are awaiting clarity on the raids and remain neutral on the issue. We remain confident about the performance of the company, in view of the visible triggers in the form of the launch of Lipitor in Canada and the other markets, the introduction of Valtrex and Augmentien-60 in the USA, and the registration of 43 products by AOK. AOK is the largest insurance player in Germany and the total expenditure volume for the said 43 medicines amounts to 1.7 billion euros per annum for AOK nationwide. At the current market price, Ranbaxy Laboratories is trading at 18.8x its CY2007E earnings. We maintain our one-year price target for the stock at Rs558.

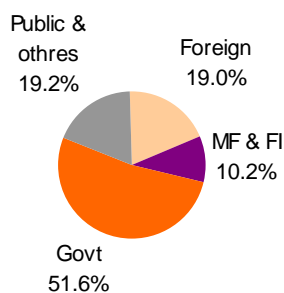
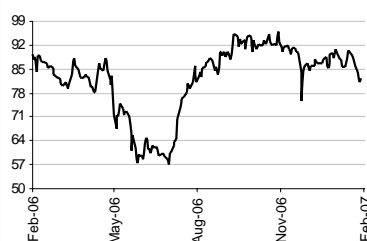
**Valuation table**

Particulars	CY2004	CY2005	CY2006E	CY2007E
Net sales (Rs cr)	5451.2	5281.6	6021.6	6932.9
% y-o-y change		-3.1	14.0	15.1
PAT (Rs cr)	698.6	261.7	515.1	831.9
Shares in issue (cr)	37.2	37.2	40.0	40.0
EPS (Rs)	18.8	7.0	12.9	20.8
PER (x)	20.9	55.8	30.4	18.8
Book value (Rs/share)	62.8	68.6	86.2	110.1
Price/BV (x)	6.2	5.7	4.5	3.6

# Andhra Bank

**Cannonball**
**Stock Update**
**Operating performance shows improvement**
**Buy; CMP: Rs81**
**Company details**

Price target:	Rs109
Market cap:	Rs3,880 cr
52 week high/low:	Rs98/57
NSE volume: (No of shares)	8.7 lakh
BSE code:	532418
NSE code:	ANDEBANK
Sharekhan code:	ANDHRABANK
Free float: (No of shares)	23.5 cr

**Shareholding pattern**

**Price chart**

**Price performance**

(%)	1m	3m	6m	12m
Absolute	-8.1	-13.0	1.3	-4.9
Relative to Sensex	-9.6	-18.5	-20.4	-33.9

**Result highlights**

- For Q3FY2007 Andhra Bank (ANDB) reported a 5.8% year-on-year (y-o-y) growth in its net profit to Rs136.3 crore. The same is in line with our profit after tax (PAT) expectations of Rs138.5 crore.
- During the quarter the bank's net interest income (NII) grew by 22.8% year on year (yoy) and by 9.9% quarter on quarter (qoq) to Rs363.5 crore. ANDB has been one of the few banks which have shown an improvement in their net interest margin (NIM) yoy and maintained the NIM stable on a sequential basis.
- The non-interest income of the bank increased by 11.8% yoy to Rs132.9 crore despite a 21.6% y-o-y decline in the treasury income. The non-interest income excluding the treasury income was up 18.7% yoy and 5.1% qoq.
- The operating profit was up 28.5% yoy and 16.9% qoq while the core-operating profit (excluding the treasury income) increased by 33.8% yoy and 19% qoq.
- Provisions and contingencies showed a significant jump to Rs64.5 crore mainly on account of higher investment depreciation and provisions related to non-performing assets (NPAs).
- The net NPAs increased from 0.1% to 0.44% on a sequential basis while the gross NPAs declined by four basis points to 1.72% qoq. However, in absolute terms, both the net NPAs and the gross NPAs showed an increase. Despite the rise in the NPAs the asset quality of the bank continues to be one of the best in the industry.
- The bank has reported numbers in line with our expectations and also improved on its operating performance. The capital adequacy levels are comfortable at 12.8% with the Tier-I capital at 11.4%. Also, despite some increase during the quarter the asset quality of the bank continues to be among the best in the industry.

**Result table**

(Rs crore)

Particulars	Q3FY07	Q3FY06	% yoy	% qoq	9MFY07	9MFY06	% yoy
Net interest income	363.5	295.9	22.8	9.9	1,029.6	858.8	19.9
Non-interest income	132.9	118.9	11.8	3.3	363.4	314.0	15.7
Treasury	16.0	20.4	-21.6	-8.5	39.6	47.2	-16.0
Net Income	496.4	414.8	19.7	8.0	1,393.0	1,172.8	18.8
Operating expenses	235.6	211.8	11.3	-0.3	702.7	609.2	15.3
Operating profit	260.7	203.0	28.5	16.9	690.3	563.6	22.5
Core operating profit (excluding treasury)	244.7	183.0	33.8	19.0	650.7	516.4	26.0
Provisions & contingencies	64.5	29.6	117.7	604.4	120.2	89.2	34.8
PBT	196.3	173.4	13.2	-8.3	570.1	474.4	20.2
Provision for taxes	60.0	44.5	34.8	-11.1	171.0	127.5	34.1
Net profit	136.3	128.9	5.8	-6.9	399.1	346.9	15.1

- At the current market price of Rs81, the stock is quoting at 6.1x its FY2008E earnings per share (EPS), 3.7x pre-provision profits (PPP) and 1.1x book value (BV). The bank is available at attractive valuations, given its low price to book multiple with an average return on equity (RoE) of 18.5% compared with its peers. We maintain our Buy call on the stock with a price target of Rs109.

### NII up 22.8% yoy, NIM shows y-o-y improvement

During the third quarter the bank's NII grew by 22.8% yoy and 9.9% qoq, while its total assets increased by 15.2% yoy and 9.9% qoq. Its NIM for M9FY007 improved by ten basis points on a y-o-y basis to 3.49%. However, on a q-o-q basis the improvement was marginal. The NIM improved on the back of higher yields and controlled costs.

The bank's cost of funds has shown a decline of four basis points for M9FY2007 compared with that in H1FY2007 while the yields have remained stable. However, the bank's low-cost current and savings account (CASA) ratio reported a decline to 37% in December 2006 compared with 39.8% in September 2006. We feel the average balances would have been much higher during the December quarter compared with the September quarter. This may have resulted in a sequential decline in the cost of funds despite a drop in the CASA ratio at the end of the quarter.

#### Yield analysis (%) table

Particulars	M9FY2007	M9FY2006	H1FY2007
Yield on funds	7.95	7.71	7.96
Cost of funds	4.46	4.32	4.50
NIM	3.49	3.39	3.46

Source: Company

### Business growth at comfortable levels

The bank's advances grew by 23.5% yoy and 8.4% qoq to Rs25,579 crore while its deposits grew by 15.3% yoy and 11% qoq to Rs36,109 crore. The deposit and advances growth rates have been below the industry rates; the advance growth rate has however been in line with the management's 25% advances growth target. Not growing the bank's business too aggressively has helped the bank to maintain its margins on a sequential basis and improve the same on a y-o-y basis.

### Non-interest income excluding treasury gains up 18.7% yoy

The non-interest income of the bank increased by 11.8% yoy to Rs132.9 crore despite a 21.6% y-o-y decline in the

treasury income during the quarter. The non-interest income excluding the treasury income was up 18.7% yoy and 5.1% qoq.

#### Non-interest income (Rs crore)

Particulars	Q3FY2007	Q3FY2006	% yoy chng	% qoq chng
Treasury income	16.0	20.4	-21.6	-8.5
Fee & others	116.9	98.5	18.7	5.1
Total	132.9	118.9	11.8	3.3

Source: Company, Sharekhan Research

### Operating profit up 28.5% yoy

With the net income up 19.7% yoy and the operating expenses higher by 11.3%, the bank reported a 28.5% growth in its operating profit. The core operating profit, ie the operating profit excluding the treasury gains, reported a 33.8% y-o-y growth and a 19% quarter-on-quarter (q-o-q) growth. The strong q-o-q growth was helped by a 0.3% sequential decline in the operating expenses due to a 2.7% sequential decline in the staff expenses.

### NPAs increase during the quarter

Although the gross NPAs declined by four basis points qoq to 1.72% in Q3FY2007, yet the net NPAs rose from 0.1% to 0.44% qoq. The management has stated that on account of a delay in repayments, few of the accounts have been classified as NPAs during the quarter. However, the asset quality of the bank continues to be one of the best in the industry and the management expects the higher NPA recognition to be a one-off case for the December 2006 quarter.

Particulars	Q3FY2007	Q3FY2006	Q2FY2007
Gross NPAs (Rs crore)	439.6	428.3	416.12
Net NPAs (Rs crore)	111.0	56.8	22.59
(%) Gross NPAs	1.72	2.07	1.76
(%) Net NPAs	0.44	0.28	0.10

Provisions and contingencies showed a significant jump to Rs64.5 crore, mainly on account of higher investment depreciation and NPA-related provisions.

(In Rs crore)

Particulars	Q3FY2007	Q3FY2006	Q2FY2007
Total provisions	64.5	29.6	9.2
NPA	18.5	-14.0	-9.2
Investment depreciation	17.0	1.8	-5.0
Amortisation	18.7	16.9	18.6
Others	10.3	25.0	4.7

### Valuation and view

The bank has shown an improvement in its operating performance, its capital adequacy level is comfortable at 12.8% with the Tier-I capital at 11.4%. Also, despite an increase in the NPAs during the quarter, the asset quality continues to remain among the best in the industry. At the current market price of Rs81, the stock is quoting at 6.1x its FY2008E EPS, 3.7x PPP and 1.1x BV. The bank is available at attractive valuations, given its low price to book multiple with an average return on equity (RoE) of 18.5% compared with its peers. We maintain our Buy call on the stock with a price target of Rs109.

### Key financials

Particulars	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	520.1	485.5	546.8	644.2
Shares in issue (cr)	40.0	48.5	48.5	48.5
EPS (Rs)	13.0	10.0	11.3	13.3
<i>% y-o-y change</i>	<i>12.2</i>	<i>-23.0</i>	<i>12.6</i>	<i>17.8</i>
PE (x)	6.2	8.1	7.2	6.1
P/PPP (x)	3.3	5.1	4.1	3.7
Book value (Rs/share)	45.9	59.7	67.0	75.6
P/BV (x)	1.8	1.4	1.2	1.1
Adjusted book value	44.7	58.6	64.9	72.9
P/ABV (x)	1.8	1.4	1.2	1.1
RONW (%)	31.6	19.0	17.8	18.6

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

## Evergreen

HDFC Bank  
 Infosys Technologies  
 Reliance Industries  
 Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
 ACC  
 Apollo Tyres  
 Bajaj Auto  
 Balrampur Chini Mills  
 Bank of Baroda  
 Bank of India  
 Bharat Bijlee  
 Bharat Electronics  
 Bharat Heavy Electricals  
 Bharti Airtel  
 Canara Bank  
 Corporation Bank  
 Crompton Greaves  
 Elder Pharmaceuticals  
 Grasim Industries  
 Hindustan Lever  
 Hyderabad Industries  
 ICICI Bank  
 Indian Hotels Company  
 ITC  
 Mahindra & Mahindra  
 Marico  
 Maruti Udyog  
 Lupin  
 Nicholas Piramal India  
 Omax Autos  
 Ranbaxy Laboratories  
 Satyam Computer Services  
 SKF India  
 State Bank of India  
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 Tata Tea  
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 Wipro

## Cannonball

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

## Emerging Star

3i Infotech  
 Aban Offshore  
 Alphageo India  
 Cadila Healthcare  
 Federal-Mogul Goetze (India)  
 KSB Pumps  
 Marksans Pharma  
 Navneet Publications (India)  
 New Delhi Television  
 Nucleus Software Exports  
 Orchid Chemicals & Pharmaceuticals  
 ORG Informatics  
 Tata Elxsi  
 Television Eighteen India  
 Thermax  
 UTI Bank

## Ugly Duckling

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

## Vulture's Pick

Esab India  
 Orient Paper and Industries  
 WS Industries India

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