



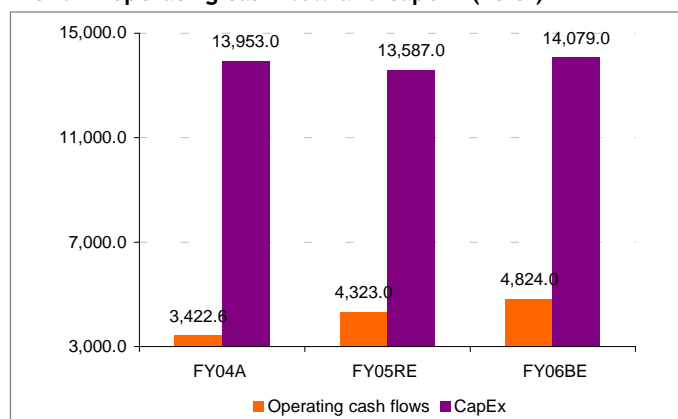
## Ticket to ride—Indian Railways

### A turnaround in performance

Indian Railways (IR) has seen a turnaround in its performance in the last three years. Till FY2002, the stagnant revenues and overrunning costs resulted in negative or negligible operating cash flows and negligible power to commit capital expenditure of any size. However, the FY2002-05RE period saw a remarkable turnaround in terms of the revenue growth and the operating efficiency. We expect the momentum to continue...

- Over FY2003-06BE, the revenues are expected to grow at a compounded annual growth rate (CAGR) of 7% on the back of a strong growth in the freight as well as passenger traffic.
- The operating leverage should help IR to improve the operating efficiencies and push up the operating ratio from 7.7% to 9.2% over FY2003-06BE.
- With the strong earnings (passenger and freight) growth and the operating leverage coming into play the operating cash flows are expected to grow at a CAGR of 16.6% over FY003-06BE.
- We expect the robust improvement in the operating cash flows to result in a healthy pick-up in the capital expenditure by IR.

### Trend in operating cash flow and capex\* (Rs cr)



Source: Railway budget documents RE: Revised; BE: Budgeted; A: Actuals  
\*Only productive assets

(Considered the FY2006BE numbers in light of the 9-month performance in line with the budget for calculating the growth. The implementation of the capex plans in FY2006 will spill over to FY2007 on account of Bihar state elections).

The changing face of Indian Railways with its improving financial health is a positive sign for all stakeholders—especially the suppliers of capital equipment and services.

Thus, with the improvement in the financial health and the continued momentum going forward on the back of the industrial upsurge in the Indian economy, we expect a strong growth in the operating cash flows and thereby increased capital expenditure by IR. The higher capital expenditure is expected to flow towards the acquisition of rolling stock ie locomotives, coaches and wagons (to support the freight traffic momentum), telecommunication and signaling projects (safety being a thrust area) and better infrastructure (to facilitate better, wider and faster connectivity).

Finally, who will be the likely winners in the stock market? So, the obvious winners will be large-sized companies like Alstom Projects, BHEL, Crompton Greaves and Siemens. But, there are also mid-sized companies that have substantial exposure to Indian Railways and have high operating leverage. We have short-listed nine such companies that we believe will be the key beneficiaries along with the above companies.

### Key beneficiaries

Company Name	Price (Rs)	Trailing 12 month			Impact on net profit (%) @
		EPS (Rs)	PER (x)	Mcap to Sales (x)	
BEML	1,479	60.1	24.5	2.6	4.8
Gabriel India	25	1.8	13.2	0.4	3.9
Hind Rectifiers	584	40.7	14.4	1.4	39.0
Integra Hindustan	259	11.2	23.8	2.2	79.8
Kalindee Rail	132	6.7	19.9	1.0	96.8
Kernex Micro*	264	10.9	22.5	6.4	43.1
Simplex Casting	46	4.0	11.6	0.2	64.1
Stone India	156	5.1	29.6	2.4	90.8
Texmaco	602	18.5	32.3	2.2	55.3

Source: Sharekhan Research, Capitaline

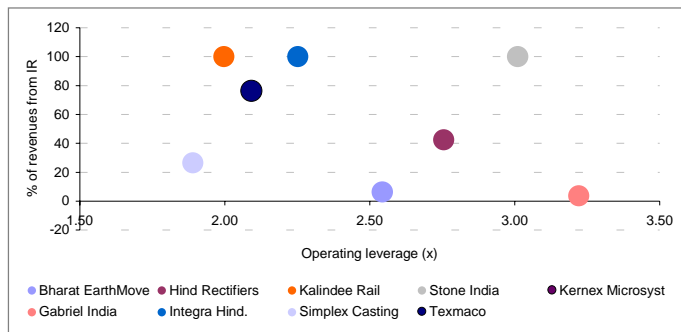
@ With 30% improvement in IR Capex

\*9 months annualized figures

*We believe that companies like Hind Rectifiers, Integra Hindustan, Simplex Casting, Stone India and Texmaco could show healthy growth in their earnings on the back of the growth in Indian Railways' capital expenditure as they have a substantial portion of their revenues coming from IR, coupled with higher operating leverage (based on a hypothetical example of a 30% surge in the IR capex). And as an icing on the cake these stocks are trading at attractive valuations based on a trailing 12-month (TTM) price earnings multiple (PER).*

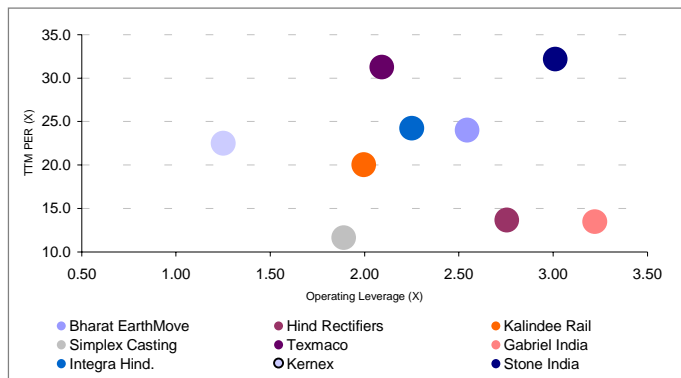
However, the benefits flowing to these companies will depend on the allocation of funds by IR to different categories of capital expenditure (Capex). For eg, Kernex Micro and Integra Hindustan will be the key beneficiaries of higher allocation towards expenditure on the safety equipments, whereas, Texmaco, Stone India and Hind Rectifiers will be the key beneficiaries of the allocation towards expenditure on rolling stock.

**Rail revenues to leverage**



Source: Sharekhan Research

**Leverage to TTM PER multiple**



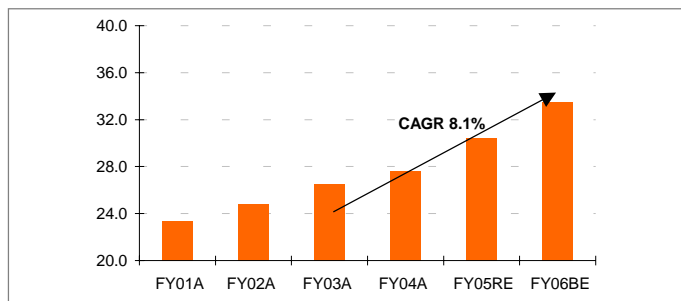
Source: Sharekhan Research

**Indian Railways on a strong footing**

**Buoyant economy will result in strong freight earnings**

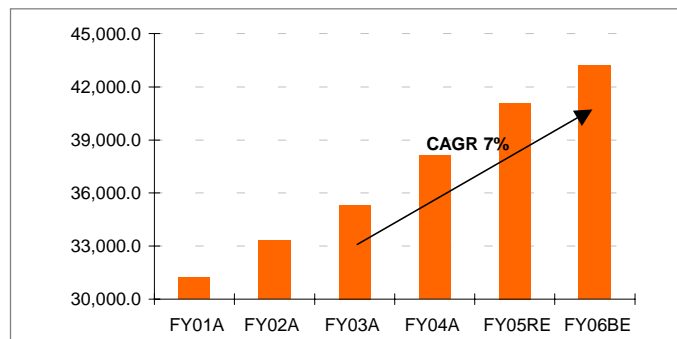
A strong 7.5%+ growth in India's gross domestic product (GDP) over FY2004-06E will result in a strong growth in the freight earnings for IR. The freight earnings are expected to grow by 8.1% over FY2003-06BE. In volume terms the freight carried by IR is expected to grow by a strong 7% over the same period.

**Growth in freight earnings (Rs '000 crore)**



Source: Railway budget documents

**Growth in freight tonne kms**

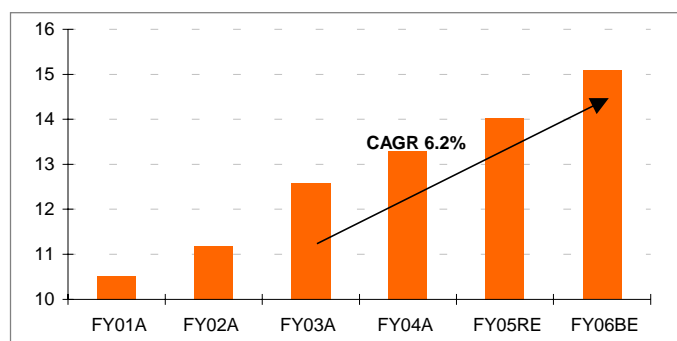


Source: Railway budget documents

**Stable fares will result in healthy passenger earnings**

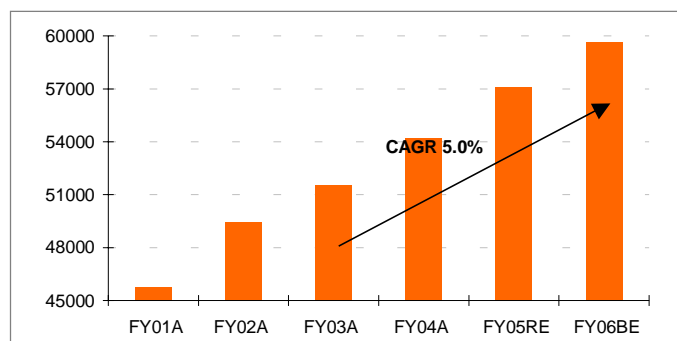
A fairly stable passenger fare regime (passenger fares are expected to grow by only 1.2% over FY2003-06E) will result in a healthy growth in passenger traffic. The passenger traffic earnings are expected to grow by 6.2% over FY2003-06BE. In volume terms the passenger traffic carried by IR is expected to grow by a strong 5.0% over the same period.

**Growth in passenger earnings (Rs '000 crore)**



Source: Railway budget documents

**Growth in passenger kms**

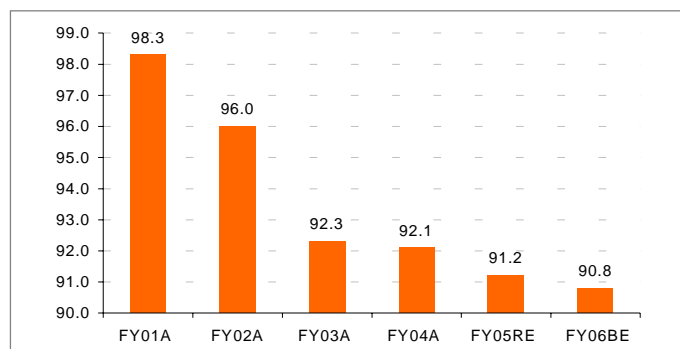


Source: Railway budget documents

**Operating leverage comes into play**

With the strong operating revenues and controlled expenditure the operating cash flows of IR are likely to touch nearly Rs5,000 crore by FY2006BE. The operating cash flows are likely to grow at a faster CAGR of 16.6% over FY2003-06BE.

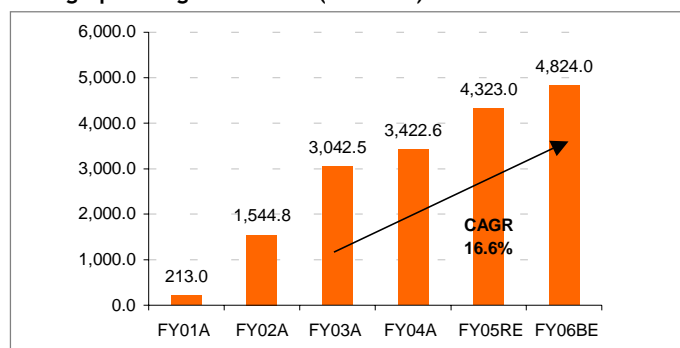
### Operating expenses as % of revenues



Source: Railway budget documents, Sharekhan Research

Note: Operating expenses include ordinary working expenses, appropriation to the depreciation reserve fund and appropriation to the pension fund.

### Strong operating cash flows (Rs crore)



Source: Railway budget documents, Sharekhan Research

### Stable capex over the year

The capex (considered productive assets only) has been quiescent with a marginal improvement from Rs13,953 crore in FY2004R to Rs14,079 crore in FY2006BE. But this is set to rise in the coming years.

Plan heads (In Rs crore)	FY2004R	FY2005R	FY2006B
New lines and restoration	1,005	1,644	658
Gauge conversion	733	1,073	690
Doubling	443	434	509
Traffic facilities	238	329	487
Rolling stock	3,795	4,683	2,009
Computerisation	144	181	160
Road safety works	3433	401	3,819
Track renewal	2,605	2,993	3,409
Bridge works	302	424	761
Signaling & telecom works	689	953	1,195
Electrification projects	123	142	103
Metropolitan transport projects	443	330	276
Capex (productive assets)	13,953	13,587	14,079

Source: Railway budget documents, Sharekhan Research

### Likely winners- of IR Capex surge

With Indian Railways expected to be in the pink of health going forward with; 1) an industrial upsurge in the Indian economy; and 2) the achievement of a threshold level of operations—(here onwards the leverage effect is likely to drive performance), we expect a strong growth in the operating cash flows and thereby increased capital expenditure by IR. The higher capital expenditure is expected to flow in acquisition of rolling stock (to support the freight traffic momentum), telecommunication and signaling projects (safety being a thrust area) and better infrastructure (to facilitate better, wider and faster connectivity).

We have short-listed nine mid-sized companies that have substantial exposure to Indian Railways and have high operating leverage, which we believe will be the key beneficiaries of the upsurge in the capex of IR. The detail of the companies are given below.

In a hypothetical environment of a likely surge in the capex of IR in the 10%-50% range, we have analysed the impact of the surge in the railway business coupled with the leverage effect on the net profit of these companies.

### Impact on net profit

Company Name	Growth in NP considering rise in capex (%)				
	10%	20%	30%	40%	50%
Bharat Earth Mover	1.2	3.0	4.8	6.6	8.4
Gabriel India	0.9	2.4	3.9	5.4	6.9
Hind Rectifiers	9.4	24.2	39.0	53.8	68.6
Integra Hind.	20.4	50.1	79.8	109.5	139.2
Kalindee Rail	25.5	61.2	96.8	132.4	168.0
Kernex Microsyst	13.2	28.1	43.1	58.0	72.9
Simplex Casting	17.2	40.7	64.1	87.6	111.0
Stone India	21.5	56.2	90.8	125.5	160.1
Texmaco	14.4	34.9	55.3	75.8	96.2

Source: Sharekhan Research, Capitaline

Note: The leverage is calculated as  $1 + \text{fixed cost} / \text{operating profit}$ . It signifies the impact of the incremental sales on the net profit. Typically companies with higher leverage will show greater growth in their net profits.

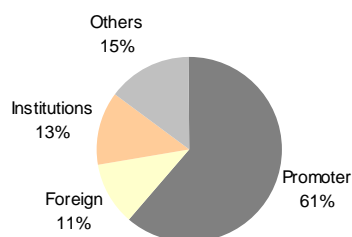
# Bharat Earth Movers

CMP: Rs1,479

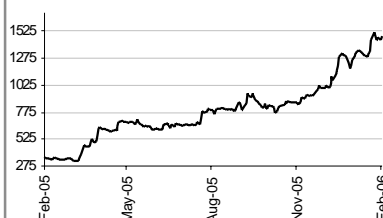
## Company details

Market cap:	Rs5,419 cr
52 week high/low:	Rs1,571/315
NSE volume: (No of shares)	64,335
BSE code:	500048
NSE code:	BEML
Sharekhan code:	BEML
Free float: (No of shares)	142.5 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	13.9	67.3	84.5	305.6
Relative to Sensex	7.6	44.0	42.0	160.7

Bharat Earth Movers (BEML) is a public sector undertaking with a government holding of 61.2%. It is the second largest manufacturer of earthmoving equipment in Asia. BEML has a predominant interest in heavy earthmoving equipment (63.4% of the total sales), defence (30.3% of the total sales) and the railway products segment (6.3% of the total sales). The company has manufacturing units at Kolar, Bangalore and Mysore. A four-decade-old multi-locational and multi-product company, BEML has interests in diverse sectors of the economy such as coal, mining, steel, cement, power, irrigation, construction, road building and railway.

### Railway business is expected to be key revenue driver

In recent years, BEML has begun to look beyond defence supplies and the earthmoving business and has started exploring avenues in the rail products, which traditionally has been a loss making division. The company supplies electronic multiple units, wagons and passenger coaches to the Indian Railways (IR). It also has a technology arrangement with South Korea's Rotem for the manufacture and supply of stainless steel coaches for the metro railway. With this tie-up, the company is all set to take on the challenges of high-speed trains (Indian Railways). With the demand for coaches set to explode (passenger coaches and metro coaches), BEML will be amongst the major beneficiaries.

### New states to introduce mass rail transport--BEML to be the primary beneficiary

With the states of Karnataka, Maharashtra and Andhra Pradesh indicating the need to introduce mass rail transport systems (either metro rail or conventional) to ease the congestion in the metros and given the fact that the required facilities are established by BEML, there appears to be a strong growth potential in the railway segment going forward.

### Strong order book at Rs2,150 crore

The order book position for FY2006 is around Rs2,150 crore (for all divisions), which is expected to increase further in the coming quarters. Overall the management expects the order book to touch Rs4,000-4,500 crore by the end of the current fiscal.

### Performance

In 9MFY2006 the net sales were up 23.4% year on year (yoy) to Rs1,341.5 crore and the operating profit and the profit after tax (PAT) ballooned by 87.7% yoy to Rs126.4 crore and 98.7% yoy to Rs97.3 crore respectively. This has been due to the significant increase in its operating margins; its margins have expanded by 323 basis points to 9.4%. The stock is trading at a trailing twelve-month (TTM) price earnings ratio (PER) of 24.5x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	1,356.0	1,567.9	1,667.4	1,729.7
Net profit (Rs cr)	5.6	26.0	24.2	175.4
Shares in issue (cr)	3.7	3.7	3.7	3.7
EPS (Rs)	1.5	7.1	6.6	47.7
% y-o-y growth		366.3	-7.1	625.8
PER (x)	971.2	208.3	224.2	30.9
Book value (Rs)	161.8	158.7	163.1	199.3
P/BV	9.1	9.3	9.0	7.4
EV/EBIDTA	88.5	81.5	67.9	17.0
ROCE (%)	4.6	6.4	9.3	40.5
RONW (%)	0.9	4.4	4.1	26.2

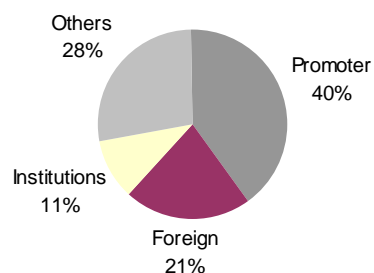
# Gabriel India

CMP: Rs25

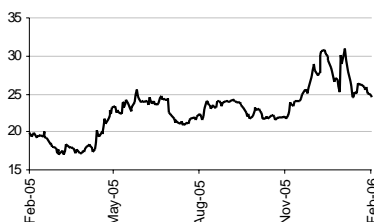
## Company details

Market cap:	Rs176 cr
52 week high/low:	Rs32/16
NSE volume: (No of shares)	51,946
BSE code:	505714
NSE code:	GABRIEL
Sharekhan code:	GABRIEL
Free float: (No of shares)	431.0 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-13.5	14.5	14.9	33.0
Relative to Sensex	-18.3	-1.4	-11.6	-14.6

Gabriel India (Gabriel) is a part of the Anand group of companies with a promoter holding of 39.9%. It was established in 1961 and is the leading manufacturer of ride control products and engine bearings with a total manufacturing capacity of over 10 million shock absorbers, struts and front forks. The company has nine plants located across six states of the country. The company is a key supplier of shock absorbers to IR to be fitted in rolling stock and commands a dominant share of 55%. IR contributes around 3.6% of the total revenues.

### Dominant market share of Rs27.8 crore

Gabriel India is a market leader in the Rs27.8-crore shock absorber market for IR with a share of 55% of the total pie. The shock absorbers supplied to the railways are used in locomotives and coaches. It is amongst a handful of companies that is Research Design and Standards Organisation (RDSO) certified for supplying shock absorbers to IR.

### Shock absorber market to explode--Rs378 crore market

IR plans of migration from the traditional coaches to LHB coaches (manufactured under technology from LHB GmbH at RCF Kapurtala) will result in the expansion of the market. Against 4 shock absorbers used in traditional coaches, 18 numbers are used in LHB coaches for greater convenience, safety and smooth riding. Even the price differential between the shock absorbers is substantial at 80-90%. With the total of 30,000 coaches (to be migrated to LHB coaches) and an average realisation of Rs 7,000 per shock absorber, we expect this market to expand to Rs378 crore. IR has planned the migration to LHB coaches to be spread over the next 5 years, starting from FY2006 onwards. Gabriel is the only shock absorber manufacturer in India to receive the RDSO approval for new designs and has already started supplying to RCF Kapurtala.

**Caveat:** Currently, Gabriel India's supply to IR forms only 3.6% of the company's total sales turnover.

### Performance

In 9MFY2006 Gabriel has shown a revenue growth of 16.3% yoy to Rs357 crore. But, the operating profit dropped by 28.8% yoy to Rs19.3 crore for the same period. The operating profit margin (OPM) saw a drop of 344 basis points to 5.4%. The PAT saw a drop of 40.5% to Rs6.7 crore. Gabriel is trading at a TTM PER of 13.2x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	267.4	325.1	364.5	413.3
Net profit (Rs cr)	4.0	12.3	17.3	17.9
Shares in issue (cr)	7.1	7.1	7.2	7.2
EPS (Rs)	0.6	1.7	2.4	2.5
% y-o-y growth		204.0	39.7	3.6
PER (x)	43.2	14.2	10.2	9.8
Book value (Rs)	105.0	101.3	117.1	134.0
P/BV	0.2	0.2	0.2	0.2
EV/EBIDTA	8.0	5.8	5.5	5.1
ROCE (%)	11.7	17.9	19.5	18.3
RONW (%)	4.8	15.9	21.3	19.8

\*Adjusted for split

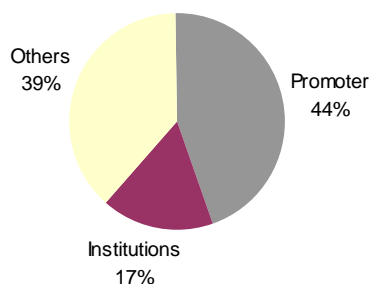
# Hind Rectifiers

CMP: Rs584

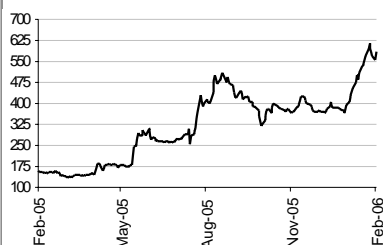
## Company details

Market cap:	Rs88.3 cr
52 week high/low:	Rs637/131
BSE volume: (No of shares)	3,380
BSE code:	504036
Sharekhan code:	HINDRECT
Free float: (No of shares)	8.4 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	41.7	47.3	38.5	258.2
Relative to Sensex	33.8	26.7	6.6	130.2

Hindustan Rectifiers also known as Hirect was founded in 1958, in technical collaboration with Westinghouse, Brake & Signal, UK. The promoters hold a 44.4% stake in the company. It is a leading manufacturer of rectifier equipment and semi-conductor devices. It also manufactures a wide range of electric components used by the railways in AC electric locomotives and AC electrical multiple units. The company's plants are located at Mumbai & Nashik. It has a capacity of 239,850 (numbers) rectifier stacks/apparatus, 120,000 (Kw) silicon rectifier apparatus and 310,000 semi-conductor devices. The revenues from the railways account for 45% of the annual revenues.

### 45% of revenues from IR—highly leveraged to IR capex

The majority of Hirect's railway revenue comes from rectifiers & transformers used in locomotives. Rectifiers have a market size of Rs19 crore where Hirect has a 20-25% market share. Similarly transformers have a market size of Rs96 crore and the company has a similar market share. Besides the company also has a presence in the invertors business, which is a Rs20-crore market. It provides invertors for the AC coaches. With over 45% of the revenues coming from the railways, we believe that Hirect will be a key beneficiary from any increase in Indian Railways capital expenditure (capex).

### New products like recently launched converters to boost top line

Hirect has recently (Q2FY2005) got RDSO approval for supplying converters, which are used in locomotives, which is a Rs75-crore market. Given the big size of the market, we expect, going forward, the revenues from converters shall substantially boost Hirect's top line.

### Performance

In 9MFY2006 the net sales were up 29.9% yoy to Rs49.5 crore and the operating profit and the PAT ballooned by 107.9% yoy to Rs8.9 crore and 133.2% yoy to Rs5.2 crore respectively. This has been due to the significant increase in its operating margins; its margins have expanded by 676 basis points to 18.0%. The stock is trading at a TTM PER of 14.4x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	32.2	33.7	35.2	51.9
Net profit (Rs cr)	0.2	1.1	1.5	3.2
Shares in issue (cr)	0.1	0.1	0.1	0.1
EPS (Rs)	2.2	11.4	14.5	31.6
% y-o-y growth		418.2	27.2	117.9
PER (x)	265.7	51.3	40.3	18.5
Book value (Rs)	62.0	69.6	80.7	108.1
P/BV	9.4	8.4	7.2	5.4
EV/EBIDTA	38.9	29.5	26.9	10.5
ROCE (%)	10.4	17.8	17.8	36.9
RONW (%)	3.6	17.3	19.3	33.5

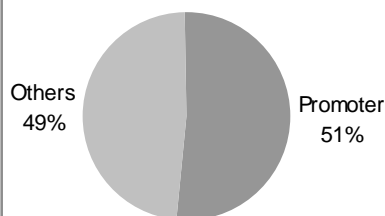
# Integra Hindustan Control

CMP: Rs259

## Company details

Market cap:	Rs29.3 cr
52 week high/low:	Rs359/67
BSE volume: (No of shares)	3,299
BSE code:	517250
Sharekhan code:	INTGRHCL
Free float: (No of shares)	5.4 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-10.7	87.9	49.7	193.8
Relative to Sensex	-15.7	61.7	15.2	88.8

Integra Hindustan Control (Integra) was jointly promoted by ABB and Integra Holding, Switzerland, both holding a 25.5% stake each in the company. The company has manufacturing facilities at Panchmahal district of Gujarat, to manufacture railway signaling products and systems. Its "Route Relay Interlocking" (RRI) systems manufacturing facility is located at Valsad. It also supplies material to Bombardier Transportation of the UK and has started undertaking turnkey projects in signaling (4 stations for the Northern Railways). Considering its supply to Bombardier (which executes railway projects using Integra products), IR is a 100% contributor to the revenues of the company.

### Interlocking System—a big opportunity

Earlier IR used a relay system for controlling the signals, which in turn mandated a high element of human supervision and hence entailed low safety levels. This necessitated the implementation of automated electronic interlocking systems ie RRIs. This is a computerised algorithm-based programme, which significantly reduces the risk levels. IR has decided to upgrade all major stations (around 500 stations) to this system. The installation of RRI at each station costs around Rs46 lakh and hence only major stations are being considered. This upgradation programme started in FY2000 and around 100 stations have already been installed with RRIs while another 100 stations are under implementation.

### Audio Frequency Track Circuit (AFTC)—thrust area for IR

AFTC is primarily a train detection system that helps prevent direct collision between two trains. This project was conceptualised & started in 1993 by Bombardier. Out of the total 63,000 running kilometres (Rkms) only 6,000Rkms have been fitted with AFTC. This presents a huge untapped opportunity as far as AFTCs are concerned. Thus to provide continuous track monitoring on the major routes, AFTC would be a focus area.

The bottom line given the thrust of IR on safety—the Special Railway Safety Fund (SRSF) stands at over Rs5,365 crore—is that both these products are expected to do well and bolster Integra's top line.

### Performance

In 9MFY2006, the net sales were up 9.2% yoy to Rs9.0 crore, whereas the operating profit skyrocketed by 91.8% yoy to Rs1.4 crore. Even the PAT staged a robust growth of 81.6% yoy to Rs0.9 crore. The operating profit margin widened by 667 basis points to 15.5% in 9MFY2006. Integra is trading at a TTM PER of 23.8x.

### Valuation table

Rs (cr)	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	7.2	6.9	9.7	12.6
Net profit (Rs cr)	0.5	0.2	0.2	0.8
Shares in issue (cr)	0.1	0.1	0.1	0.1
EPS (Rs)	4.6	1.5	2.2	7.5
% y-o-y growth		-66.7	41.2	245.8
PER (x)	57.4	172.1	121.9	35.3
Book value (Rs)	27.6	28.4	29.2	35.0
P/BV	9.6	9.4	9.1	7.6
EV/EBIDTA	42.3	74.4	63.2	20.1
ROCE (%)	12.8	8.3	10.8	34.5
RONW (%)	14.9	5.5	7.6	23.5

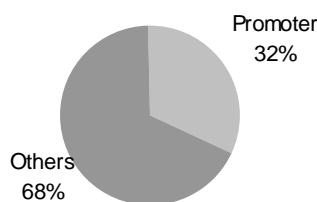
# Kalindee Rail Nirman Engineers

CMP: Rs132

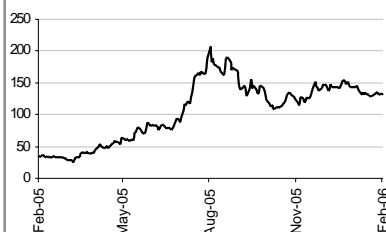
## Company details

Market cap:	Rs65.8 cr
52 week high/low:	Rs223/24
BSE volume: (No of shares)	40,246
BSE code:	522259
Sharekhan code:	KALINENG
Free float: (No of shares)	33.7 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-6.3	3.7	-29.0	265.3
Relative to Sensex	-11.5	-10.8	-45.4	134.7

Kalindee Rail Nirman Engineers (Kalindee), based in New Delhi is a leading domestic engineering & projects company involved in the execution of railway projects in India. Technocrat RD Sharma, who is the chairman and managing director of the company, incorporated the company in 1984. He currently holds 31.9% of the equity capital. Kalindee is engaged in the execution of projects related to signaling and telecommunication, gauge conversion, new railway line construction, modernisation of railway yards, up-gradation of railway sidings, access control systems for metro rail, fibre optic networks etc for IR. The company generates almost 100% of its revenues from execution of railway projects.

### Rich experience in execution of varied railway projects

Kalindee has over 30 years of rich experience in executing turnkey railway projects. Its main forte consists of projects related to the gauge conversion, new railway line construction and signaling and telecommunication. To its credit, the company has rich experience; 370 kilometre (Km) of gauge conversion, 110Km of new line construction, 179 stations interlocking, 182 stations signaling etc.

### Creation of Railway Vikas Nigam will result in speedier execution

In 2005, IR incorporated Railway Vikas Nigam (RVNL) for speedier execution and implementation of railway projects. RVNL will have access to funds from multilateral agencies like the World Bank and the ADB. This will certainly boost the order book in terms of the higher order flow for companies like Kalindee. To substantiate, RVNL awarded projects worth Rs1,000 crore to contractors and invited tenders for 16 other projects in the April-December 2005 period.

### Strong order book at Rs200 crore

Kalindee is resting on a strong order book of Rs200 crore with an execution cycle of 18-24 months. The key projects bagged are: 1) a gauge conversion project valued at Rs46.8 crore for metre gauge to broad gauge conversion from Delhi to Rewari (79Km); and 2) the supply and installation of signaling systems valued at Rs96 crore in the railway line doubling project between Gooty and Pullampt (both these projects have been bagged under a consortium with Kalindee having +50% stake).

### Performance

In 9MFY2006, Kalindee saw a strong revenue growth of 40.7% yoy to Rs50.1 crore. Even the operating profit witnessed a 72.1% yoy surge to Rs5.0 crore and the operating profit margin saw an expansion of 181 basis points to 10.0%. The PAT surged by an impressive 74% yoy to Rs2.6 crore. Kalindee is trading at a TTM PER of 19.9x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	22.8	30.5	37.1	54.1
Net profit (Rs cr)	0.7	1.3	1.3	2.0
Shares in issue (cr)	0.5	0.5	0.5	0.5
EPS (Rs)	1.3	2.5	2.5	4.0
% y-o-y growth		89.4	0.8	57.1
PER (x)	99.8	52.7	52.3	33.3
Book value (Rs)	20.1	22.4	25.0	29.2
P/BV	6.6	5.9	5.3	4.6
EV/EBIDTA	30.9	21.9	20.6	12.9
ROCE (%)	13.7	20.8	17.9	22.1
RONW (%)	6.5	11.9	10.6	14.7



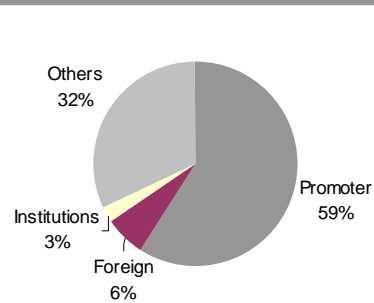
# Kernex Microsystems

CMP: Rs264

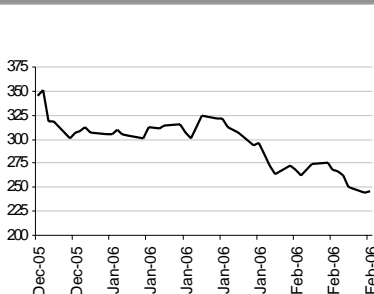
### Company details

<b>Market cap:</b>	Rs279.5 cr
<b>52 week high/low:</b>	Rs399/249
<b>NSE volume:</b> (No of shares)	1.3 lakh
<b>BSE code:</b>	532686
<b>NSE code:</b>	KERNEX
<b>Sharekhan code:</b>	KERNEX
<b>Free float:</b> (No of shares)	46.7 lakh

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	NA	NA	NA	NA
Relative to Sensex	NA	NA	NA	NA

Incorporated in 1991, Kernex Microsystems (Kernex) was promoted by a group of first generation entrepreneurs. Kernex is located in Madhapur and has a promoters' holding of 58.9%. The company has carved out a niche for itself in the area of safety solutions and related products for railways. Kernex jointly developed a product with Konkan Railway Corporation (KRCL) to avoid and reduce accidents on the railway tracks. The product known as Anti Collision Devices (ACDs) has been branded as "Train Shield" by KRCL. ACDs also prevent train accidents arising out of human errors or technical faults in the signaling systems. The company has developed several other products based on the ACD technology like Speed Passing at Danger (SPAD), Train Actuated Warnings Devices (TAWD) etc. The company generates almost 100% of its revenues from IR.

### Kernex enjoys near monopolistic situation

As per the agreement, KRCL holds the intellectual property right (IPR) of the ACD. Kernex is the sole licensee for manufacturing, installation, commissioning and providing maintenance support for all types of ACDs and related equipment in India. This places Kernex in a monopolistic situation.

### Operates in the niche area of safety solutions

Kernex operates in the niche segment of supplying safety solutions to IR. Kernex is amongst a handful of companies, which are RDSO approved suppliers of safety solutions to IR. Considering the thrust of IR on safety issues and the higher allocation under the SRSF year after year, Kernex will be amongst the prime beneficiaries of the higher budgets of IR on safety products.

### Gross under penetration of ACD—plethora of opportunity

ACD is grossly under penetrated and there exists immense opportunity for the company. The IR network spans around 65,000Rkms ie across the length and breadth of the country. Kernex has already implemented ACD on 736Rkms of railway tracks and stations for the Konkan Railway. Another project that the company has completed is the 1,736Rkms of rail tracks from Bihar to Assam in the northeast region. This is hardly 3.8% of the total network of IR, thus there exists a huge untapped market.

**Caveat:** 1) IPR is held by KRCL and it can withdraw anytime with a notice period of one year. 2) There is always a possibility of global players introducing cheaper products in a short period of time.

### Performance

In 9MFY2006, Kernex reported revenues of Rs32.7 crore, an operating profit of Rs13.5 crore and a PAT of Rs9.3 crore. The OPM stood at 41.4% in 9MFY2006. The figures are not comparable due to unavailability of numbers of corresponding period. Kernex is trading at a nine-month annualised PER of 22.5x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	3.8	7.0	15.4	52.6
Net profit (Rs cr)	0.9	0.6	3.1	9.0
Shares in issue (cr)	1.1	1.1	1.1	1.1
EPS (Rs)	0.7	0.5	2.7	7.9
% y-o-y growth		-30.6	422.0	190.9
PER (x)	328.8	473.7	90.7	31.2
Book value (Rs)	19.9	19.5	21.8	32.8
P/BV	12.4	12.6	11.3	7.5
EV/EBIDTA	162.4	160.3	45.1	16.3
ROCE (%)	9.5	10.2	32.5	70.4
RONW (%)	7.0	4.7	22.3	45.7

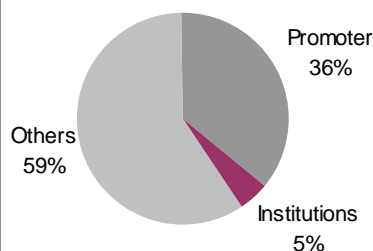
# Simplex Casting

CMP: Rs46

## Company details

Market cap:	Rs27.9 cr
52 week high/low:	Rs69/17
BSE volume: (No of shares)	35,086
BSE code:	513472
Sharekhan code:	SIMCAST
Free float: (No of shares)	38.4 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-21.0	4.3	16.1	147.5
Relative to Sensex	-25.4	-10.2	-10.7	59.1

Simplex Casting (Simplex) is a part of the Simplex group of industries. The promoter holds a 35.7% stake in the company. The company manufactures heavy castings in grey cast iron, alloy cast iron, stainless steel and steel. The products of the company are used primarily in steel plants, power plants, mining and cement plants, defence and the railways. It has a foundry capacity of 20,000 metric tonne (MT) and a steel ingot forging capacity of 5,000MT. The company has manufacturing facilities at Bhilai, Raipur & Rajnandgaon in Madhya Pradesh.

### Regular supplier of castings to IR

The company has been supplying its products to IR for a long time. It provides casnub bogies, coco bogies & bolster assemblies, which are used in railway wagons. Out of the total revenues of Rs100 crore, around 26.5% or Rs26.5 crore are generated from IR. Simplex supplies approximately 4,000-5,000MT of castings every year.

### Beneficiary of increased pace of IR's wagon procurement

During the last few years IR's wagon procurement has been on a slower pace as compared to the growth in its freight revenues. Given the buoyant outlook for India's domestic as well as the export-import (exim) trade, IR will have to necessarily step up the pace of its wagon procurement programme, which in turn augurs well for Simplex.

### No significant capex lined up for next couple of years

Simplex has been operating at close to 75-80% of its 20,000MT capacity, and hence the company has enough headroom to meet the additional demand from IR. This in turn implies that there could be a significant increase in its free cash flows and an improvement in the return ratios.

### Performance

In 9MFY2006 the net sales were up 23.3% yoy to Rs78.7 crore. For the same period the operating profit rose by 75.8% yoy to Rs7.9 crore and the PAT surged by 275% yoy to Rs1.6 crore. The OPM has expanded by 298 basis points to 10.0% in 9MFY2006. Simplex is trading at a TTM PER of 11.6x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	47.2	43.5	74.9	100.1
Net profit (Rs cr)	0.0	0.1	0.7	1.2
Shares in issue (cr)	0.6	0.6	0.6	0.6
EPS (Rs)	-	0.2	1.1	2.1
% y-o-y growth	-	-	411.1	86.4
PER (x)	-	217.6	42.6	22.9
Book value (Rs)	32.8	33.0	34.1	35.2
P/BV	1.4	1.4	1.4	1.3
EV/EBIDTA	7.6	8.5	7.4	6.6
ROCE (%)	9.8	9.2	11.0	12.7
RONW (%)	0.0	0.7	3.3	6.5

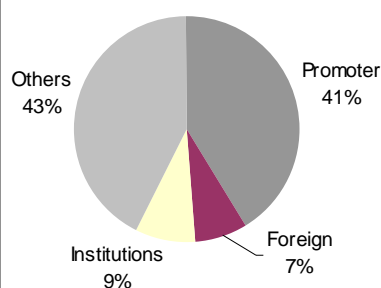
# Stone India

CMP: Rs156

## Company details

Market cap:	Rs115.1 cr
52 week high/low:	Rs194/24
BSE volume: (No of shares)	35,735
BSE code:	522085
Sharekhan code:	STONE
Free float: (No of shares)	44.3 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	18.6	6.1	13.8	510.9
Relative to Sensex	12.0	-8.7	-12.5	292.6

Stone India (Stone), a GP Goenka group company with a promoter stake of 41.1% is engaged in the manufacture of train lighting alternators, pentographs for electric locomotives and electrical multiple units, air & vacuum brake systems, panel mounted brake systems, underslung air conditioning systems and brake regulators for IR. Air brakes for rolling stock are its bread-and-butter product and the company has an installed capacity of 10,000 numbers. Its manufacturing facility is located at Taratalla, Calcutta and the company is in the process of setting up a greenfield unit in Baddi in Himachal Pradesh. The company generates almost 100% of its revenues from IR.

### Air brakes—the mainstay business

Air brakes for rolling stock are the mainstay product for Stone India. The company commands a market share ranging from 27% to 55% for different product categories in the domestic market. The company generates regular business in air brakes from IR, which constitutes almost 50% of the annual revenues. The company is focusing on the wagon air brakes market and is looking at increasing its market share. Further, in wake of the robust growth in the freight traffic, we believe IR will step up wagon procurement in the near future. Stone India with its dominant position should be a key beneficiary.

### Air Dryer Systems...in for airy growth

IR has introduced air dryers to avoid malfunctioning of the sensitive air brake equipment in locomotives. The entire 7,000 locomotive populations are slated to be fitted with air dryers. This will generate a substantial demand for the company's products in the coming years. Till date only 2,000 locomotives have been fitted with air dryers resulting in a vast untapped market. Stone India has a technology tie-up with Wabtec USA for air dryers and is amongst a handful of RDSO approved suppliers for air dryers. The company is in a comfortable position to benefit from the Rs125 crore market.

### Augmenting capacity--opportunistic time

Stone India is setting up a greenfield unit in Himachal Pradesh (HP) for manufacturing locomotive air dryers, passenger brake systems & disc brake systems. The unit will have the capacity to produce 3,000 air dryers, 1,200 passenger brake systems, 200 disk brake systems, 1,000 alternators and 800 inverters/converters per year and would enjoy tax advantage on both direct and indirect taxes. This plant is slated to become operational by Q3FY2007.

### Performance

In 9MFY2006, the net sales were up 25.7% yoy to Rs37.6 crore. The operating profit increased by a whopping 80.4% yoy to Rs6.3 crore. During the same period the PAT ballooned by 170.5% yoy to Rs5.2 crore. The OPM saw a phenomenal expansion of 512 basis points to 17.0%. Stone India is trading at a TTM PER of 29.6x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	26.5	29.5	30.0	40.3
Net profit (Rs cr)	-5.0	1.1	-3.3	0.6
Shares in issue (cr)	0.8	0.8	0.8	0.8
EPS (Rs)	-	1.4	-	0.7
% y-o-y growth	-	-	-	-
PER (x)	-	108.5	-	209.2
Book value (Rs)	29.0	30.8	18.9	20.4
P/BV	5.3	5.0	8.1	7.5
EV/EBIDTA	26.5	37.5	-	27.2
ROCE (%)	-	5.7	-	7.7
RONW (%)	-	3.9	-	3.4

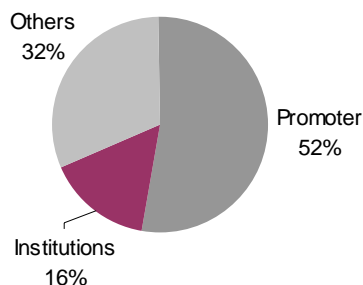
# Texmaco

CMP: Rs602

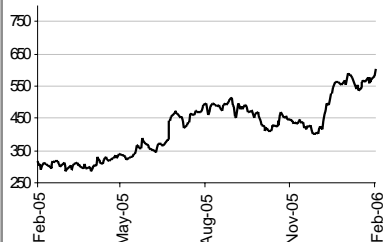
## Company details

Market cap:	Rs619.8 cr
52 week high/low:	Rs609/280
NSE volume: (No of shares)	4,898
BSE code:	505400
NSE code:	TEXMACOLT
Sharekhan code:	TEXMACO
Free float: (No of shares)	49.0 lakh

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	29.4	18.1	77.6
Relative to Sensex	-1.5	11.3	-9.1	14.1

A Birla group company (KK Birla group), Texmaco is a premier engineering company of India with market leadership in the field of hydro-mechanical equipment and freight wagon cars. The promoters hold 52.5% of the equity capital of the company. The business of freight wagon cars is the mainstay of Texmaco and is the main contributor to the company's total revenues, accounting for about 48.3% of its annual sales. Texmaco is the dominant player in the wagon market with a 22-25% market share. Texmaco also has a foundry with a capacity of 9,000 metric tonne per annum and revenues of Rs82.2 crore (FY2005). It manufactures castings like tooth points, lip castings, flanges, anode yokes, bogie bolsters etc used by the railways. Texmaco earned 76.2% of its FY2005 revenues from IR.

### Key supplier of rolling stock to IR

Texmaco with a production capacity of 6,000 numbers (single shift) is a key supplier of wagons to IR in the private sector. The company has a proven track record of execution of orders from IR and suffices almost 23-25% of the yearly requirement of wagons. Considering the robust growth in the freight traffic handled and the near flat procurement of wagons at 20,000 numbers, we believe IR will step up wagon procurement in the near future. Even the backlog of the over-aged wagons stood at 100,000 units as on January 2006 and the same is expected to go up. Since Texmaco's capacity is underutilised, it should be the biggest beneficiary of higher wagon procurement by IR.

### Foundry division on expansion drive--at opportunistic time

The Texmaco foundry division supplies 11,000 metric tonne per annum of steel castings to IR and is operating at peak capacity utilisation. The company supplies ancillary items to wagons like couplers, bogie bolsters etc. With higher procurement of wagons going forward, the demand for castings will rise substantially. Texmaco being amongst a handful of RDSO approved suppliers should be a prime beneficiary. Thus, foreseeing the robust demand, Texmaco has undertaken a capacity expansion plan and is augmenting the capacity to 25,000 metric tonne per year. The new unit is expected to commence production in Q3FY2007.

### Performance

In 9MFY2006, Texmaco reported a revenue growth of 30.5% yoy to Rs145.0 crore. Likewise the operating profit grew by 30.5% to Rs18.9 crore, with the operating profit margins remaining flat during 9MFY2006. The PAT saw a growth of 14.4% yoy to Rs13.0 crore. Texmaco is trading at a TTM PER of 32.3x.

### Valuation table

Particulars	FY2002	FY2003	FY2004	FY2005
Net sales (Rs cr)	96.1	124.6	166.8	294.0
Net profit (Rs cr)	-6.5	0.8	6.5	16.6
Shares in issue (cr)	0.5	0.5	0.5	1.0
EPS (Rs)	-	1.6	12.7	16.0
% y-o-y growth	-	-	697.6	26.6
PER (x)	-	377.6	47.3	37.4
Book value (Rs)	134.4	121.3	156.0	105.8
P/BV	4.5	4.9	3.8	5.7
EV/EBIDTA	171.1	25.0	11.3	22.5
ROCE (%)	-	7.6	11.0	16.1
RONW (%)	-	1.2	9.1	16.5

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

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