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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Bajaj Auto	15-Nov-05	1,873	2,534	3,500
♦ BHEL	11-Nov-05	1,203	1,827	2,650
♦ Infosys	30-Dec-03	1,378	2,762	3,324
♦ Ranbaxy	23-Dec-03	534	365	600
♦ TV18	23-May-05	280	512	704

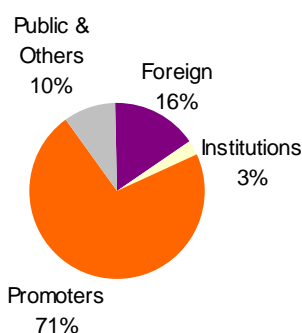
Sun Pharmaceutical Industries

Ugly Duckling
Stock Update
Strong performance
Buy; CMP: Rs706

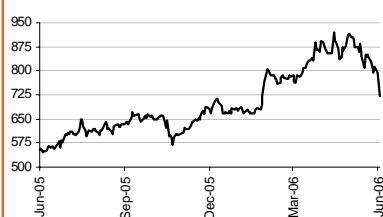
Company details

Price target:	Rs810
Market cap:	Rs1,4657 cr
52 week high/low:	Rs947/538
NSE volume: (No of shares)	1.2 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Sharekhan code:	SUNPHARM
Free float: (No of shares)	5.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.7	26.7	46.3	73.4
Relative to Sensex	-5.9	5.4	-5.4	-9.5

Result highlights

- ◆ Sun Pharmaceuticals' net sales for Q4FY2006 increased by 40.5% year on year (yoy) to Rs405.4 crore due to the strong performance of the formulation segment in both the domestic and export markets.
- ◆ The operating profit margin (OPM) declined by 680 basis points yoy to 23.9% due to continued pricing pressure in the various markets, increased research and development (R&D) expense and consolidation effects. The earnings before, interest, tax, depreciation and research (EBITDR) margin stood at 36.5% as against 40.6% in Q4FY2005.
- ◆ The earnings before interest, tax, depreciation and amortisation (EBITDA) saw an increase of 49.3% yoy to Rs170.9 crore due to a higher other income.
- ◆ The company had a net one-time income of Rs10 crore during the quarter. On an adjusted basis, the profit after tax (PAT) showed an increase of 28.5% yoy and stood at Rs132.8 crore.
- ◆ At the current market price of Rs706 the stock is trading at 17.5x FY2008 earnings estimate. We maintain our Buy recommendation on Sun Pharma with the price target of Rs810.

Net sales up 40.5% yoy led by formulation growth

The net sales showed an increase of 40.5% yoy to Rs405.4 crore led by a good growth in the formulation business. The domestic formulation sales increased by 52% yoy, partly due to a lower base as a result of de-stocking related to the value-added tax

Result table (consolidated)

Particulars	4QFY06	4QFY05	% yoy chg	FY06	FY05	% yoy chg
Net sales	405.4	288.5	40.5	1,635.5	1,185.3	38.0
Pre R&D expenditure	257.6	171.3	50.3	935.2	624.6	49.7
EBIDTR	147.8	117.2	26.1	700.3	560.7	24.9
EBIDTR margin (%)	36.5	40.6		42.8	47.3	
R&D expenditure	50.9	28.7	77.4	202.8	144.0	40.9
Total expenditure	308.5	200.0	54.2	1,138.0	768.6	48.1
Operating income	96.9	88.5	9.5	497.4	416.7	19.4
OPM (%)	23.9	30.7		30.4	35.2	
Other income	74.0	26.0	184.7	176.8	57.7	206.3
EBIDTA	170.9	114.5	49.3	674.2	474.5	42.1
EBIDTA margin (%)	35.7	36.4		37.2	38.2	
Interest	4.4	-3.3		15.6	12.9	
Depreciation	18.9	11.9	59.1	61.4	40.6	51.4
PBT	147.7	105.9	39.4	597.2	420.9	41.9
Total tax	11.3	8.9	27.3	23.9	20.5	16.8
PAT	142.8	103.4	38.1	573.6	396.2	44.8
One-time income	10.0			10.0		
Adjusted PAT	132.8	103.4	28.5	563.6	396.2	42.2

(VAT) in Q4FY2005 and the new method of classification used in FY2006. The company expects this segment to grow at 15-20% (for the normalised business). The export formulation sales also increased by 48% yoy led by the inclusion of the sales of the key subsidiaries like Caraco and the recent acquisitions like Able Labs. The overall bulk drug sales however saw a decline of 9% yoy for Q4FY2006.

Sun Pharma sales break-up

	Q4FY06	Q4FY05	% yoy chg	FY06	FY05	% yoy chg
Gross sales break-up						
Domestic	227.8	157.9	44.2	1041.4	771.6	35.0
Formulations	213.1	140.5	51.8	959.6	680.0	41.1
Bulk	14.4	17.4	-17.4	81.5	90.8	-10.2
Exports	201.0	152.8	31.5	694.5	502.7	38.1
Formulations	152.8	103.3	47.9	503.8	368.1	36.9
Bulk	46.4	49.4	-6.1	188.8	134.5	40.4

Sales of US subsidiary: Caraco

Rs cr	Q2FY06	Q3FY06	Q4FY06
Caraco sales	89.1	93.6	111.1

Margins under pressure

The company saw a decline in the OPM because of continuing pricing pressures in different geographies, higher spend on R&D (increase of 77.4% yoy) and a higher other expenditure. The OPM declined by 680 basis points yoy to 23.9%. The consolidation effect of the various subsidiaries and acquisitions also resulted in a further decline in the margins, as some of these subsidiaries have not broken even yet. The EBITDA margin stood at 35.7% as against 36.4% in Q4FY2005 pulled up by the increase in the other income. The other income increased by 184% from Rs26 crore to Rs74 crore due to a higher interest income of the foreign currency convertible bond proceeds and some one-time income. The company had a net one-time income of Rs10 crore. On an adjusted basis, the PAT showed an increase of 28.5% yoy and stood at Rs132.8 crore.

R&D pipeline

The company has de-merged its drug discovery division and the new company is expected to be listed soon. The current shareholders will get one share of the new company for every share of Sun Pharma held. For FY2006, the R&D expenditure was close Rs155 crore, while the total R&D expense stood Rs202.8 crore as against Rs144 crore in FY2005. In FY2007 we expect the de-merger of the Drug Discovery unit to result in a decrease in the drug discovery R&D expense. However the increased pace of filings for generic products is expected to push up the generic R&D expense further. The company expects to file close to 30 abbreviated new drug applications (ANDAs) in FY2007. We expect it to spend close to Rs180 crore on R&D in FY2007. The company already has 44 ANDAs pending approval and has received seven approvals in Q4FY2006.

Outlook

The company has reported a net profit of Rs573.1 crore for FY2006, an increase of 38% yoy. It is in a transitional phase, as it is consolidating the recent acquisitions and the demerger of the Drug Discovery division. The company is increasing its presence in the US markets with over 20 products already being marketed and 44 products pending approval. It expects its top line to grow at 18-23% for FY2007. It has also planned a capital expenditure of close to Rs100 crore. We estimate a net profit of close to Rs837.2 crore for FY2008, yielding earnings per share of Rs40.3. At the current market price of Rs706, the stock is trading at 17.5x FY2008 earnings estimate. We maintain our Buy recommendation on Sun Pharma with the price target of Rs810.

Valuation table

Year to 31 March	FY04	FY05	FY06E	FY07E	FY08E
Net sales	984.6	1202.6	1635.5	2089.6	2409.3
PAT	308.8	390.3	573.1	710.5	837.2
Shares in issue (cr)	20.76	20.76	20.76	20.76	20.76
EPS (Rs)	14.9	18.8	27.6	34.2	40.3
PER (x)	47.5	37.6	25.6	20.6	17.5
Book value/ share	91.2	57.1	84.7	118.9	159.3
P/BV	7.7	12.4	8.3	5.9	4.4

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

Tata Tea

Apple Green

Stock Update

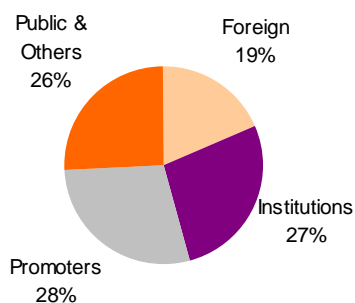
Good set of numbers

Buy; CMP: Rs615

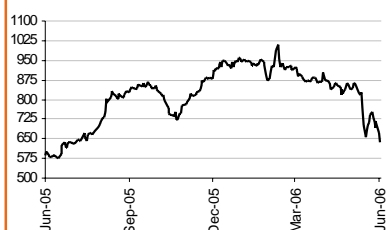
Company details

Price target:	Rs1,040
Market cap:	Rs3,458 cr
52 week high/low:	Rs1,047/572
NSE volume: (No of shares)	268,785
BSE code:	500800
NSE code:	TATATEA
Sharekhan code:	TATATEA
Free float: (No of shares)	4.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-24.3	-31.2	-29.7	9.8
Relative to Sensex	-6.4	-26.2	-38.1	-26.8

Result highlights

- ◆ Tata Tea's (TTL) consolidated sales grew by 3.4% year on year (yoy) for Q4FY2006 to Rs816.7 crore. The domestic operations grew by 12.1% yoy for Q4FY2006. Tetley's sales grew by 5.4% yoy during the same period.
- ◆ The domestic operations managed to post a 300-basis-point expansion in the operating profit margin (OPM) to 5.1% due to lower employee cost. The international operations reported a 140-basis-point expansion in its OPM. As a result the consolidated net profit grew by 19% yoy to Rs121.1 crore.
- ◆ The consolidated net profit adjusted for extraordinary items grew by 50% yoy as the interest cost declined by 16% yoy.
- ◆ For FY2006, the consolidated revenues were at Rs3,123.9 crore, up by 2.7% yoy. The consolidated operating profit grew by 4.2% yoy over the same period. The consolidated net profit adjusted for the extraordinary items was up by 20.7% yoy.
- ◆ The tea prices have seen an upward trend over the last couple of months, both domestically as well as internationally. We expect the international tea prices to remain high over the next couple of months and then soften.
- ◆ We expect the depreciation of the rupee as well as the dollar vis-à-vis the pound to help TTL partly offset the rising raw material prices.
- ◆ At the current market price of Rs615, the stock is quoting at 9.3x its FY2008E earnings per share and 5.6x its FY2008E enterprise value/earnings before interest, depreciation, tax and amortisation. We maintain our Buy recommendation on the stock with the price target of Rs1,040.

Result table

Particulars	FY2006	FY2005	% yoy chg	Q4FY2006	Q4FY2005	% yoy chg
Net sales	3,123.9	3,059.0	2.1	816.7	789.8	3.4
Other income	26.9	17.4	54.8	5.0	3.3	52.8
Total income	3,150.9	3,076.4	2.4	821.7	793.1	3.6
Total expenditure	2,561.5	2,519.4	1.7	695.6	688.1	1.1
Operating profit	562.5	539.6	4.2	121.1	101.7	19.0
Interest	102.4	122.8	-16.6	23.7	28.2	-15.9
Depreciation	75.8	77.9	-2.6	21.0	19.5	7.6
PBT before extraordinary	384.2	339.0	13.3	76.3	54.0	41.4
Extraordinary items	-7.3	42.8		2.4	50.5	
Profit before tax	418.4	313.6	33.4	78.9	6.7	
Taxes	117.9	93.9		24.6	5.7	
Reported profit after tax	300.5	219.7	36.8	54.3	1.0	
Minority interest	-1.4	-6.2		-2.9	-1.0	
Net profit after minority interest	299.2	213.5	40.1	51.5	0.1	
Adjusted PAT	294.1	243.5	20.8	53.2	35.4	50.0

Domestic operations going strong

The reported revenues from the domestic operations declined by 0.6% yoy to Rs219.1 crore. However, adjusted for the revenue loss on account of the sale of the tea estates in the south Indian plantations, the domestic sales are expected to have grown at around 12.5%. The branded tea sales grew by 9% yoy. The drop in the revenues was partly offset by the consolidation of the business of Tetley India during the current quarter.

The international business reported a growth of 5.4% yoy on the back of a good performance of the Tetley brand in the USA, Canada and other countries. The growth in the company's international operations is also attributable to the acquisition of Good Earth Corporation, which TTL acquired in October 2005.

Operating profit grows by 19% yoy

The consolidated operating profit for the quarter under review grew by 19% yoy on account of the savings in the employee cost. TTL has substantially reduced its employee cost after the sale of its south Indian plantations, which has helped the company to improve the OPMs. The OPM for Q4FY2006 expanded by 195 basis points yoy.

Adjusted net profit grows by 50% yoy

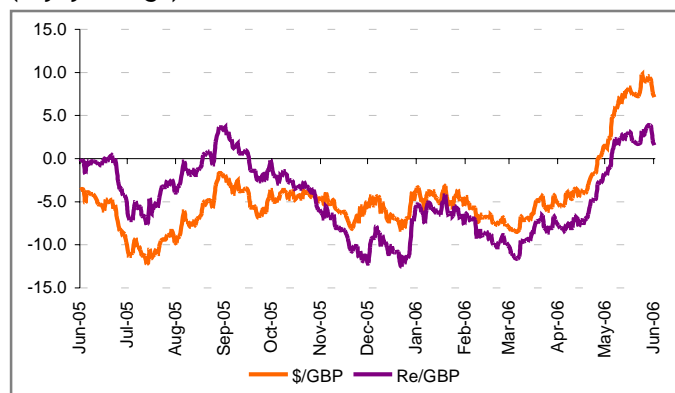
The consolidated net profit (adjusted for extraordinary) for the quarter grew by 50% yoy to Rs53.2 crore due to the lower interest cost and lower effective tax rate.

Currency gains to offset higher tea prices

We expect the tea prices to remain high in the short term for TTL's international operations on the back of a dip in the Kenyan tea production. The tea prices in Kenya (from where Tetley sources its raw material) have gone up substantially over the last few months. The prices in the domestic markets have also firmed up over the last couple of weeks.

However, we expect the higher raw material prices for Tetley to be partly offset by the appreciation of the pound vis-à-vis the dollar. TTL would also benefit from the depreciation of Indian Rupee vis-à-vis the pound as it will result in higher revenues in rupee terms for its international operations.

Appreciating pound vis-à-vis dollar as well as rupee (% yoy change)



Source: Bloomberg

Acquisition of Jemca

Tata Tea (GB) Ltd, a 100% subsidiary of TTL acquired the assets of 'JEMCA', a leading tea company in the Czech Republic. Jemca has a turnover of \$12.5 million with a market share of 26.3% in volume terms in the Czech market.

The Czech tea market is a 3,000 tonne market growing at 4% per annum. Fruit/herbal tea lead the sales in the Czech market contributing 53% of the total retail volume sales, followed by black standard tea with a 28% volume share. Green tea accounted for 10% of the volume sales and black specialty teas held 8% of the market share.

Valuation and view

We expect TTL's revenues to grow at a compounded annual growth rate (CAGR) of 6% over FY2006-08E and the earnings to grow at a CAGR of 12% over the same period. We believe that a substantial improvement in the profitability will come from the restructuring of the north Indian plantations in case TTL demerges it on the lines of its south Indian plantations. However, we have not taken the same in our numbers. TTL also has plans to pursue inorganic growth by acquiring companies across the globe. TTL is looking out for both big as well as small players in various markets and then leverage the target's production and distribution infrastructure to gain size.

At the current market price of Rs615, the stock is quoting at 9.3x its FY2008E earnings per share and 5.6x its FY2008E enterprise value/earnings before interest, depreciation, tax and amortisation. TTL also has investments worth Rs124.5 per share on its book. We maintain our Buy recommendation on the stock with the price target of Rs1,040.

Earnings table

Particulars	FY04	FY05	FY06E	FY07E	FY08E
Net profit (Rs cr)	189.7	245.7	296.7	330.8	372.7
Shares in issue (cr)	5.6	5.6	5.6	5.6	5.6
EPS (Rs)	33.7	43.7	52.8	58.8	66.3
% y-o-y growth	154.1	29.6	20.7	11.5	12.7
PER (x)	18.3	14.1	11.7	10.5	9.3
Book value (Rs)	238.9	270.2	312.5	359.9	414.8
P/BV (x)	2.6	2.3	2.0	1.7	1.5
EV/EBIDTA (x)	10.4	8.7	7.7	6.8	5.6
EV/Sales (x)	1.6	1.5	1.4	1.2	1.0
RoCE (%)	11.9	14.0	15.4	17.0	18.6
RoNW (%)	15.0	17.2	18.1	17.5	17.1

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

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 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

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