investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aurobindo	28-May-07	684	**698**	914
BASF	18-Sep-06	220	**268**	300
Grasim	30-Aug-04	1,119	**2,520**	2,975
Infosys	30-Dec-03	689	**1,940**	2,440
JP Associates	30-Dec-03	125	**698**	850

Crompton Greaves

Apple Green

Stock Update

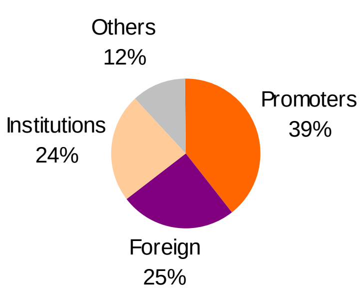
Price target revised to Rs280

Buy; CMP: Rs250

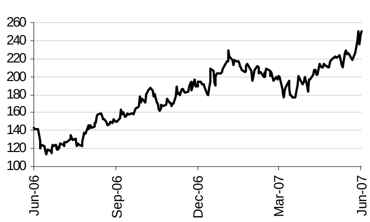
Company details

Price target:	Rs280
Market cap:	Rs9,165 cr
52 week high/low:	Rs253/103
NSE volume: (No of shares)	6.1 lakh
BSE code:	500093
NSE code:	CROMPGREAVE
Sharekhan code:	CROMPTON
Free float: (No of shares)	22.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.1	25.1	31.2	71.6
Relative to Sensex	6.9	11.0	23.0	21.0

Result highlights

- Crompton Greaves Ltd's (CGL) revenues grew by 25% year on year (yoy) in Q4FY2007 to Rs990.0 crore. The revenues were slightly below our expectations. The top line of the power system division grew by 37.1% to Rs560.1 crore. The revenues of the consumer product division grew by 9.3% to Rs276.7 crore while that of the industrial system division rose by 22.2% to Rs240.8 crore.
- The operating profit margin (OPM) of CGL improved by 80 basis points to 11.5% from 10.7% in Q4FY2006. The raw material cost/sales ratio rose by 40 basis points to 71.4 % in Q4FY2007 from 71.0% in Q4FY2006. However, lower employee and other expenses helped in the overall improvement in the OPM. The operating profit grew by 34.2% to Rs114.3 crore.
- The profit before interest and tax (PBIT) margin of the power system division improved by 450 basis points to 13.9%. The consumer product division's PBIT margin improved by 50 basis points and the industrial system division's PBIT margin improved by 450 basis points on a year-on-year (y-o-y) basis.
- Consequently, the profit before tax (PBT) increased by a strong 36.5% to Rs106.3 crore.
- CGL provided for full tax rate in Q4FY2007 as against the minimum alternate tax (MAT) rate in Q4FY2006. The increased tax provisioning led to a lower bottom line growth of 24.7% to Rs69.9 crore.
- The stand-alone order book grew by 40% to Rs2,300 crore. The consolidated order book stood at Rs4,400 crore out of which Rs2,100 crore came from Pauwels and Ganz Transelektro Villamossagi Zrt (GTV).

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Net sales	990.0	798.3	24.0	3367.6	2520.6	33.6
Total expenditure	875.7	723.1	21.1	3025.8	2288.0	32.2
Operating profit	**114.3**	**75.2**	**52.0**	**341.8**	**232.6**	**47.0**
Other income	13.3	11.9	11.6	34.9	32.7	6.5
EBIDTA	127.6	87.1	46.5	376.7	265.4	42.0
Interest	10.1	6.4	57.5	30.4	26.4	15.1
Depreciation	11.3	12.9	-12.2	39.4	44.2	-10.8
PBT	**106.3**	**67.8**	**56.6**	**307.0**	**194.8**	**57.6**
Tax	36.3	11.8	208.7	114.6	31.8	261.0
PAT	**69.9**	**56.1**	**24.7**	**192.3**	**163.1**	**18.0**
Extraordinary items	0.0	0.0	-	0.0	0.0	-
Reported PAT	69.9	56.1	24.7	192.3	163.1	18.0
EPS	1.9	1.5	24.7	5.2	4.4	18.0
Margins						
OPM (%)	11.5	9.4		10.2	9.2	
PATM (%)	7.1	7.0		5.7	6.5	

- In view of the robust top line growth, expansion in margins, continued good performance of Pauwels and the expected stabilisation in the operations of GTV in FY2008, we are maintaining our FY2008 estimates. At the current market price, the stock is trading at 23.9x its FY2008E consolidated earnings and 13.6x its FY2008 EV/earnings before interest, depreciation, tax and amortisation (EBIDTA). We believe that these valuations are attractive because of (a) the robust operating performance of the stand-alone company; (b) higher geographical reach and product depth of its subsidiaries; and (c) its management's expertise in turning around loss-making subsidiaries. We maintain our Buy recommendation on the stock with a revised price target of Rs280.

Revenue growth slightly below our expectations

CGL's revenues grew by 25% yoy in Q4FY2007 to Rs990.0 crore, slightly below our expectations. The top line of the power system division grew by 37.1% to Rs560.1 crore; that of the consumer product division and the industrial system division rose by 9.3% and 22.2% to Rs276.7 crore and Rs240.8 crore respectively.

OPM improves by 80 basis points

The OPM improved by 80 basis points to 11.5% from 10.7% on a y-o-y basis. The raw material cost/sales ratio rose by 40 basis points to 71.4 % in Q4FY2007 from 71.0% in Q4FY2006. However, lower employee and other expenses helped in the overall improvement in the OPM. The operating profit grew by 34.2% to Rs114.3 crore. Although we expect the rupee appreciation to affect the margins negatively in FY2008, yet due to the management's efficiency and operating leverage, we believe the company would be able to maintain the margins in FY2008.

Cost analysis—as a percentage of sales

	FY2007	FY2006	Change in basis points
Material cost	73.2	70.2	300
Employee cost	5.2	6.6	-140
Other cost	11.5	13.9	-240
OPM	10.2	9.2	-100

Segment analysis—excellent performance, PBIT up 61% yoy

During Q4FY2007 the revenues of the power system division grew by a strong 37.1% yoy to Rs560 crore. The industrial system division's revenues grew by 22.2% to Rs241 crore. However the revenues of the consumer product division grew at a lower rate of 9.3% primarily because of seasonality in revenues. The PBIT margin of both the power system and the industrial system division improved by impressive 450 basis points to 13.9% and 16.7% respectively. The consumer product division's PBIT margin also improved by 50 basis points in the same period.

Segment results Rs (cr)

	Q4FY07	Q4FY06	% yoy	FY07	FY06	% yoy
Revenue						
Power systems	560.1	408.5	37.1	1782.9	1216.8	46.5
Consumer products	276.7	253.1	9.3	994.0	817.1	21.7
Industrial systems	240.8	197.0	22.2	887.4	685.6	29.4
PBIT						
Power systems	78.1	38.5	103.0	186.9	107.8	73.3
Consumer products	31.4	27.6	14.0	95.5	77.7	22.8
Industrial systems	40.2	24.1	66.9	130.4	93.0	40.2
PBIT margin (%)						
Power systems	13.9	9.4		10.5	8.9	
Consumer products	11.4	10.9		9.6	9.5	
Industrial systems	16.7	12.2		14.7	13.6	

PBT grew by 36.5%, net profit up by 24% led by higher tax rate

The PBT increased by a strong 36.5% to Rs106.3 crore on a y-o-y basis. However, as CGL provided for full tax rate in Q4FY2007 against the MAT rate in Q4FY2006, the net profit grew by 24.7% to Rs69.9 crore.

Pauwels' performance—unabated growth

CGL acquired Pauwels, through its 100% subsidiary CG International B.V. Netherlands, in May 2005. Post-acquisition, Pauwels' performance has improved significantly with the focus of CGL on margin improvement through better working capital management. Pauwels' top line for the full year grew by a strong 40.1% to Rs2,242 crore in FY2007, the PBT grew by 42.5% to Rs103 crore and the net profit grew by a lower 18.8% to Rs69 crore. The net profit growth was lower due to a higher tax rate in this financial year (32.7% against 16.5%) in FY2006.

GTV reports profit of Rs20 crore due to higher other income

CGL acquired GTV, a Hungarian company along with Transverticum kft (TV). The CGL management took over control of GTV on October 18, 2006. The acquisition has been done through CGL's subsidiary, CG International BV, which also acquired Pauwels.

GTV has reported net sales of Rs89 crore for a period of 5.5 months since its acquisition. For the same period it has reported a profit of Rs20 crore led by a higher other income of Rs40 crore on account of foreign exchange gains and social security refunds. However, as GTV's revenues pick up pace over the next year to reach close to 60 million euros and as the restructuring of its balance sheet gets completed, GTV's should break even at the net profit level in FY2008.

Another acquisition—MHL

CGL has announced the acquisition of Microsol Holdings Ltd (MHL), an Ireland-based company with operations in the UK, the USA and Ireland. CGL has acquired a 100% stake in MHL at a cost of 10.5 million euros. The acquisition has been done through CGL's subsidiary, CG International B.V., which also acquired Pauwels and GTV.

MHL is an automation solution provider for transmission and distribution (T&D) sub-stations. This acquisition is hugely positive for CGL, as till now CGL was able to provide only up to 93% of a T&D sub-station's work. With this acquisition CGL will become a complete solution provider in the T&D sub-station business. MHL had revenues of 8.8 million euros with an EBIDTA of 1.2 million euros in FY2007. The earnings from MHL are likely to be reflected from Q2FY2008 onwards. However, we have not incorporated MHL's performance in our consolidated earnings estimate.

Order book—grows by 40% yoy

The stand-alone order book grew by 40% to Rs2,300 crore. The consolidated order book stood at Rs4,400 crore out of which Rs2,100 crore was contributed by Pauwels and GTV. The order book is executable over a period of next 10-14 months.

Valuations and view

Historically, CGL has traded at a discount to industry peers due to its limited product range, especially high voltage products. But, with the acquisitions of Pauwels and GTV, CGL has successfully plugged the gaps in its product portfolio while with the acquisition of MHL CGL will become a complete solution provider in the T&D sub-station business. Access to a wider product range would differentiate it in the domestic market and enable it to compete effectively with the other multinationals such as ABB, Siemens and Areva.

In view of the robust top line growth, expansion in margins, continued good performance of Pauwels and the expected stabilisation in the operations of GTV in FY2008, we are maintaining our FY2008 estimates. At the current market price, the stock is trading at 23.9x its FY2008E consolidated earnings and 13.6x its FY2008 EV/ EBIDTA. We believe that these valuations are attractive because of (a) the robust operating performance of the stand-alone company; (b) higher geographical reach and product depth of its subsidiaries; and (c) its management's expertise in turning around loss-making subsidiaries. We maintain our Buy recommendation on the stock with a revised price target of Rs280.

Earnings table

Particulars	FY2005	FY2006	FY2007	FY2008E
Net sales (Rs cr)	2056.2	4131.4	5639.6	7297.7
Net profit (Rs cr)	110.3	227.9	281.7	383.5
Share in issue (cr)	36.7	36.7	36.7	36.7
EPS (Rs)	3.0	6.2	7.7	10.5
% y-o-y chg	*NA*	*106.5*	*23.6*	*36.1*
PER (x)	83.1	40.2	32.5	23.9
Book value (Rs)	10.4	15.7	22.9	32.1
P/BV (x)	23.9	16.0	10.9	7.8
EV/EBIDTA (x)	47.4	25.5	19.3	13.6
Dividend yield (%)	0.6	0.6	0.6	0.6
ROCE (%)	N/A	32.2	36.8	41.2
RONW (%)	N/A	29.4	27.3	28.0

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

Madras Cement

Cannonball

Stock Update

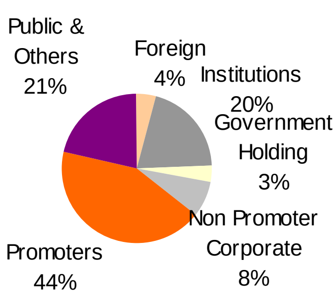
Q4FY2007 results: First-cut analysis

Buy; CMP: Rs2,800

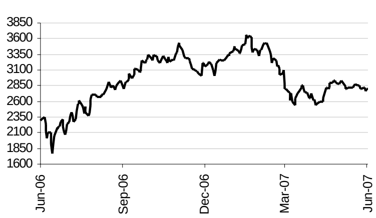
Company details

Price target:	Under review
Market cap:	Rs3,378 cr
52 week high/low:	Rs3698/1731
NSE volume: (No of shares)	6,735
BSE code:	500260
NSE code:	MADRASCEM
Sharekhan code:	MADCEM
Free float: (No of shares)	0.69 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.7	-2.8	-12.8	16.9
Relative to Sensex	-7.2	-13.8	-18.3	-17.6

Result highlights

- The cement volumes of Madras Cement grew at a slower rate of 13% to 1.48 million metric tonne (MMT) in Q4FY2007. The volume growth was lower because the company's plant at Alathiyur was shut down for 15 days on account of maintenance work. The realisation growth was strong at 27% year on year to Rs2,923 per tonne. This resulted in a robust top line growth of 45.1% year on year to Rs435 crore.
- The operating expenditure increased by 29.4% year on year to Rs301.8 crore as the power and fuel cost increased by 25% year on year to Rs85 crore on the back of higher international coal prices and increased freight cost. The freight cost increased by 35% year on year to Rs72.8 crore during the quarter. The employee cost too jumped substantially to Rs18 crore from Rs12 crore in the previous quarter on account of the bonuses given to employees.
- The operating profit doubled year on year to Rs133 crore whereas the operating profit margin improved by 800 basis points year on year to 30%. On a sequential basis, the operating profit margin dropped by 270 basis points.
- The interest cost reduced by Rs3 crore year on year to Rs6 crore, thanks to the repayment of debt in the quarter. The depreciation provision remained more or less flat sequentially at Rs18.2 crore.
- With the tax provision made at a marginal rate, the net profit jumped by 117% year on year to Rs71 crore.
- We will update you with a detailed report on the company's fourth quarter results as and when we get in touch with its management.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Net sales	435.0	299.8	45.1	1574.1	1008.4	56.1
Total expenditure	301.8	233.3	29.4	1018.4	798.5	27.5
Operating profits	133.2	66.5	100.2	555.7	209.9	164.7
Other income	1.4			7.5	3.3	128.2
EBIDTA	134.6	68.1	97.5	563.3	214.8	162.2
Interest	6.0	9.1	-34.3	22.8	34.4	-33.5
PBDT	128.6	59.1	117.8	540.4	180.5	199.5
Depreciation	18.2	14.8	23.2	71.9	65.2	10.3
PBT	110.4	44.3	149.3	468.5	115.3	306.4
Tax	39.4	11.6	240.0	160.1	32.8	387.9
Reported profit after tax	71.0	32.7	117.1	308.5	79.1	289.9

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

SREI Infrastructure Finance

Viewpoint

SREI, BNP Paribas arm in 50:50 JV

CMP: Rs86

SREI Infrastructure Finance (SREI) and BNP Paribas Lease Group (BPLG), the leasing arm of BNP Paribas, have reached an agreement regarding a strategic partnership in equipment finance in India.

Brief background

SREI Infrastructure is a non-banking financial institution with almost Rs5,000 crore of assets under management; it has developed specialised knowledge in the infrastructure finance sector since 1989. It also has interests in insurance broking, project finance, infrastructure advisory services, venture capital finance etc. BPLG is a 100% subsidiary of the French Bank BNP Paribas, which is a market leader in France and Europe in the field of infrastructure leasing services.

JV to be mutually beneficial

The joint venture (JV) would be mutually beneficial, as both the partners will bring in their respective expertise and know-how. The *SREI* brand, local reach and specialised equipment financing skills is what SREI brings to the table while BPLG is expected to share its international expertise and global brand strength, which should also help in raising resources at lower rates.

Steps leading to the formation of the JV

Subject to necessary regulatory approvals and statutory consultation, the alliance will involve a new JV company, equally owned by SREI and BPLG. The steps that would lead to the formation of the JV are mentioned below:

1. Through a slump sale procedure in the High Court, SREI will transfer assets (of its asset finance and insurance broking businesses) worth Rs4,500 crore and corresponding liabilities around Rs4,125 crore to the new JV (the contribution received by the parent company would work out to Rs375 crore). SREI would also infuse capital of Rs25 crore.
2. BPLG will bring in fresh funds of Rs775 crore for its 50% stake in the JV; if we assume Rs25 crore to be the capital contribution, the premium paid by BPLG would be Rs750 crore.
3. After the transfer of the asset finance and insurance broking businesses, SREI will be left with the project finance, advisory service and venture capital businesses as well as its investments in the Russian subsidiary and QUIPO, the infrastructure equipment bank.
4. The net worth of SREI would remain at Rs500 crore and that of the new JV would be Rs800 crore which will help both the businesses to grow separately.
5. Assuming an 8-10x leverage, the combined asset book could increase to Rs12,000-14,000 crore from Rs5,000 crore at present.
6. Management control would remain with SREI.

Fresh funds to help in faster growth of the businesses

The transaction has helped SREI to enhance shareholder value by unlocking value in its asset finance business by selling it at more than 2x its estimated current book value. It has also addressed the continuous need for capital, which would have been a constraint on growth. Its capital adequacy ratio is above 12%, which restricts further growth possibilities without capital dilution.

Conclusion

We feel the deal has been structured well as it addresses the key issue of growth without diluting the equity. It has also been successful in unlocking value for shareholders. The stock has been locked up in the upper circuit for the past two trading sessions after the news hit the markets.

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
ACC
Apollo Tyres
Bajaj Auto
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
HCL Technologies
Hindustan Lever
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
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
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
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware 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
Union Bank of India
Universal Cables
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Vulture's Pick

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