investors eye

Index

HCL Technologies

Apple Green

Stock Update

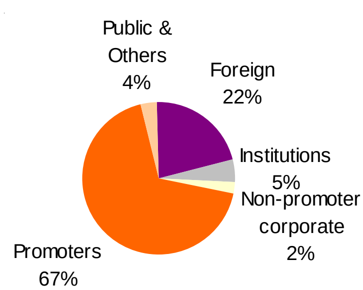
Wins new deals; momentum continues in IMS space

Buy; CMP: Rs384

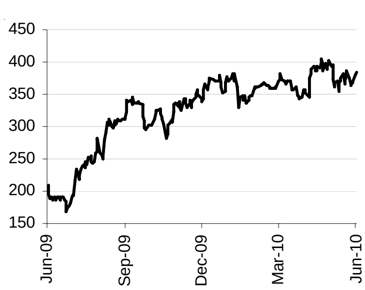
Company details

Price target:	Rs419
Market cap:	Rs25,963 cr
52 week high/low:	Rs449/163
NSE volume: (No of shares)	10.1 lakh
BSE code:	532281
NSE code:	HCLTECH
Sharekhan code:	HCLTECH
Free float: (No of shares)	21.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	5.8	11.7	95.6
Relative to Sensex	-8.4	4.1	9.3	69.3

- **Wins new deals in IMS space:** HCL Technologies (HCL Tech) has announced a couple of deals in the last two months and that too in the fast-growing infrastructure management services (IMS) space. The company has bagged deals from Merck & Co. (MSD) and Singapore Exchange (SGX). The USD500 million deal with MSD is broader in terms of services and include software-led IT solutions, remote infrastructure management, engineering and business and knowledge process outsourcing services whereas the deal from SGX worth USD110 million purely focuses on providing infrastructure management services.

- **Impressive CQGR in IMS segment; HCL continues its efforts to strengthen its position:** We highlight in this note that HCL Tech's IMS segment has recorded an impressive compounded quarterly growth rate (CQGR) of 16.5% for the last four quarters and the segment's revenue contribution to the company's total revenues at 22% is much higher than that of its peers (Infosys Techologies-7.2% and Tata Consultancy Services- 8.4% and almost at par with Wipro-21.6%). In its latest effort to strengthen its position in the IMS space, the company has announced to set up a multilingual service desk facility to support its global and local customers in Brazil.

- **IMS space to witness strong traction:** We believe that the traction for new deals in the IMS space is likely to remain strong as the companies are increasingly focusing on reducing their infrastructure cost. With stronger position in the IMS space vis-à-vis its peers, we believe HCL Tech is well placed to grab the opportunities (worth USD40 billion of contracts are due for renegotiations as per TPI) going forward.

- **No impact from Europe crisis as yet:** As of now we do not see the European crisis impacting HCL Tech's demand scenario in a major way. The company's deal pipeline seems quite strong and has a greater focus on the US and the Asia Pacific.

- **Maintain Buy:** We maintain our Buy recommendation on the stock with a price target of Rs419. HCL Tech looks attractive on the valuation front on the back of widened valuation gap compared to its peers (the stock is trading around 23% discount to its peers). At the current market price, the stock is trading at 15.7x FY2011 earnings estimate and 14.1x FY2012 earnings estimate.

Valuaton table

Particulars	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net sales (Rs cr)	7566.9	10591.0	12345.4	13878.5	15385.1
Net profit (Rs cr)	1036.4	1200.9	1261.0	1672.4	1878.6
No. of equity shares (cr)	68.3	67.0	67.7	68.3	69.0
EPS (Rs)	15.2	17.9	18.6	24.5	27.2
% yoy chg	*-17.5*	*18.1*	*4.0*	*31.3*	*11.2*
PER	25.3	21.4	20.6	15.7	14.1
EV/EBITDA	14.6	11.6	9.9	8.3	6.7
OPM (%)	21.4	21.8	20.9	21.0	22.0
Dividend (Rs)	9	7	4	4	5
Dividend yield (%)	2.3	1.8	1.0	1.0	1.3

Table 1: Recent deals/collaborations announced by HCL Tech

Date of announcement	Deal details	Deal size	Duration
04-May-2010	HCL Tech has entered into strategic engagement with MSD to provide services that include software-led IT solutions, remote infrastructure management, engineering and business and knowledge process outsourcing.	USD500 million	5 years
10-June-2010	HCL Tech has entered into strategic partnership with Callatay & Wouter, a leading provider of innovative IT solutions and services to retail, private, and direct banks.		
14-June-2010	SGX and HCL Tech have signed a pact with the latter providing SGX with infrastructure support and management services.	USD110 million	5 years

Table 2: Valuation of front-line IT companies under our coverage

Company	CMP	EPS (Rs)		P/E (x)	
	(Rs)	FY2011E	FY2012E	FY2011E	FY2012E
Infosys	2,736	119.2	138.3	22.9	19.8
TCS	766	38.7	43.9	19.8	17.5
Wipro	409	21.6	23.2	18.9	17.6
HCL Tech	384	24.5	27.2	15.7	14.1

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

IDBI Bank

Cannonball

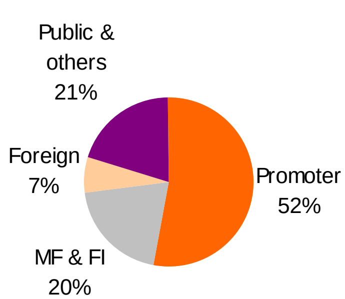
Stock Update

Capital infusion to fund growth

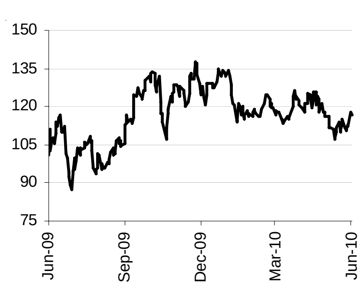
Buy; CMP: Rs117

Company details	
Price target:	Rs169
Market cap:	Rs8,495 cr
52 week high/low:	Rs140/85
NSE volume: (No of shares)	33.1 lakh
BSE code:	500116
NSE code:	IDBI
Sharekhan code:	IDBI
Free float: (No of shares)	34.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.9	-1.4	-8.8	21.3
Relative to Sensex	-1.6	-3.0	-10.8	4.9

According to media reports, the government has approved the infusion of Rs6,211 crore worth of funds into five public sector banks including IDBI Bank. Of the total funds, media reports state that IDBI Bank could receive around Rs3,100 crore through preferential placement of equity. The price at which the capital will be infused as well as when it will be received however is not yet known. We recently interacted with the management of IDBI Bank with regard to the same and the key highlights of the discussion are presented below.

Capital adequacy to increase

IDBI's tier I capital adequacy ratio (CAR) as on March 2010 stood at 6.24% and this is below the government's comfort level of 8%. However, post the capital infusion, the bank's tier I CAR will improve to about 8%. The increase in tier 1 capital will in turn allow the bank an additional headroom to raise around Rs3,458 crore from tier II and other sources.

Fund infusion to allow meeting of credit growth targets

The management of IDBI Bank had guided towards a credit growth of ~25% for FY2011. The announced fund infusion will help the bank meet its growth targets.

Cost of deposits to improve

Due to capital infusion and the completion of significant repayment of the borrowings, the rate of growth of the bank's deposits is expected to slow down considerably from that in the earlier years. For FY2011, the management has guided towards a deposit growth of around 22% year on year (yoy) as compared to 49.2% yoy in FY2010. Additionally, the capital infusion will reduce the dependence of the bank on high-cost deposits to fund the credit growth thereby leading to around 25 to 30-basis-point improvement in the cost of deposits.

Government's stake to increase

Post infusion of capital, the government's stake in IDBI Bank will increase from the current 52.67%. However, as the price at which the capital will be infused is currently

Valuaton table

Particulars	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net profit (Rs cr)	763.1	858.5	1031.1	1201.3	1500.6
Shares in issue (cr)	72.5	72.5	72.5	72.5	72.5
EPS (Rs)	10.5	11.8	14.2	16.6	20.7
EPS growth (%)	21.0	12.5	20.1	16.5	24.9
PE (x)	11.2	9.9	8.3	7.7	6.1
P/PPP (x)	6.4	6.2	3.1	2.8	2.3
Book value (Rs/share)	93.8	102.7	119.5	133.3	149.7
P/BV (x)	1.3	1.1	1.0	1.0	0.8
Adj. book value (Rs/share)	78.9	89.6	100.1	109.5	126.8
P/ABV (x)	1.5	1.3	1.2	1.2	1.0
RONW (%)	11.7	12.1	12.8	13.1	14.6

not known, the expanded capital base and the exact stake that the government will hold post infusion cannot be calculated.

We expect the equity infusion to take place at a price higher than 1x FY2010 book value per share, which is at ~Rs120. Assuming a price of Rs120 the equity dilution would be around 35.9%.

Additionally the increased government stake will allow the bank to opt for a follow-on public offer (FPO) while maintaining the mandatory government stake in the bank. The management has stated that the timing of the FPO would depend on the market's conditions as well as internal requirements and could take place in the current year or the next.

Outlook and valuation

The much-needed capital infusion comes as a relief to the bank and will help it achieve its credit growth targets while reducing its dependence on high-cost deposits, subsequently leading to an improvement in the cost of deposits. We continue to remain optimistic on the future prospects of the bank on the back of its improving operational efficiency and robust business growth. At the current market price of Rs117, the bank trades at 6.1x its FY12E earnings per share (EPS) and 1x its FY12E adjusted book value. We maintain our Buy recommendation on the stock with a price target of Rs169.

Murli Industries

Viewpoint

Building on cement business

CMP: Rs95

We attended the analyst meet of Murli Industries to know the recent developments and future plans of the company and the key highlights of the same are presented below.

Company background

A Nagpur based company Murli Industries was established around 19 years back in 1991. Launching its operations with a solvent extraction plant, the company, as part of business strategy, diversified into paper manufacturing and cement business. The current cement production capacity stands at 3 million tonne per annum (MTPA), which company plans to scale up to 9MTPA by 2013.

Key developments

Cement division

- In February 2010 the company set up a 3MTPA greenfield cement plant in Chandrapur district of Maharashtra. To meet the cement plant's power need the company has already set up a 50MW captive power plant. The cost of the project including the captive power plant has been worked out at Rs814 crore.
- The company has been allotted a coal block at Lohara (East) with open cast potential having reserves of 11.96 million tonne of coal for its Chandrapur cement and power plant. This will cater to the company's coal requirement for a period of 40 years and would result in substantial saving on fuel cost front.
- Further, in order to provide for the future growth, the company has started working on capacity addition. As per the plan, the company's cement capacity is likely to reach 9MTPA by July 2013 from 3MTPA currently. The likely capacity addition of 6MTPA includes 3MTPA capacity in Karnataka and another 3MTPA in Rajasthan. Moreover the company is also setting up 50MW captive power plants at both Karnataka and Rajasthan cement facilities. The capital expenditure for 6MTPA cement capacity and 100MW captive power plants is pegged around Rs2,300 crore.
- As per the management the funding of the project (Rs2,300 crore) will be met through debt of around Rs1,700 crore (of which 60% has been already tied up) whereas the balance will be coming through expected internal accruals.
- At present the Chandrapur plant is operating at 30% utilisation and the company is selling cement at a discount of Rs5-10 per bag to the other players. As a result, in Q4FY2010, the cement division of the company posted a loss at the earnings before interest, depreciation, tax and amortisation (EBDITA) level. However, going ahead, with the improvement in utilisation, we believe the cement division will become profitable.

Solvent extraction and refinery

- The first business of the company, the division manufactures soy de-oiled cake and refined oil. De-oiled cake is mainly used as cattle and poultry feed. With increasing demand for poultry and dairy products, the demand for high protein food for cattle and poultry is also rising. The company exports soy de-oiled cake to various South East Asian countries like Philippines, Indonesia, Vietnam, etc. At domestic front, soya de-oiled cake is being sold to various consumers in Andhra Pradesh, Karnataka, West Bengal, Maharashtra, Jharkhand, Orissa and Tamil Nadu.

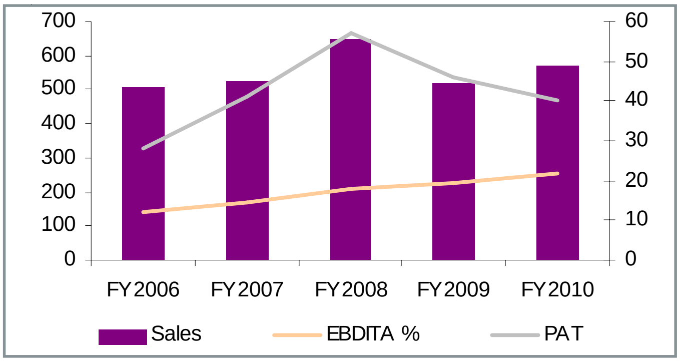
Paper and paper board

- The paper division manufacures a variety of products that includes duplex paper board, newsprint, printing paper and writing paper; the company also owns a pulp mill.
- The company has introduced solid bleach sulphate board (SBS board) and the current production capacity stands at 225TPD. We expect SBS board business to play an important role in the growth of the business in the coming years. Further the company has also enhanced its newsprint capacity to 140TPD from 80TPD. The company incurred a capital expenditure of Rs136 crore on SBS Board and capacity addition in newsprint, which has been funded through a mix of debt (Rs95 crore) and internal accruals (Rs41 crore).

Financial background

As evident from the chart overleaf in spite of consistent expansion in the operating profit margin (to 21.6% in FY2010 from 12.1% in FY2006), the company has failed to post strong bottom line growth over FY2006-10. This is mainly on account of a muted top line growth and a sharp increase in interest and depreciation charges.

Financial performance



Valuation

With the commissioning of the cement plant and the likely improvement in the utilisation level (to expected 75% from 30%), the company will be able to post a healthy growth in its top line. However, the margin contraction due to overcapacity scenario in the cement industry and a high level of debt (with the present debt/equity at 2.9) is a key concern for the company. At the current market price the stock is trading at a price/earnings of 12.6x discounting its FY2010 earnings.

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

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HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

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Apollo Tyres
Bajaj Auto
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Bajaj Holdings & Investment
Bank of Baroda
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Tata Chemicals