



Report Date	January 30, 2008.
Company Name	Ciba India Ltd.
Recommendation	BUY

CMP – Rs. 268.80 **Target Price – Rs. 400/-** **Mkt. Cap. Rs. 357.5 crore**

Investment Rationale

- Ciba India, 69.3% subsidiary of 6.3 billion swiss franc Ciba Specialty has reported mediocre performance for Q3 FY2008. Net Sales was up by 12.5% to Rs.126.2 crore led by 15.1% growth in Specialty Chemical business to Rs.109.9 crore. However OPM% declined to 5.9% (7.8%) due to higher trading turnover. There was increase in raw material costs to 81.9% of Net Sales (80.8%) and other expenses to 8.4% (7.3%). Higher sales coupled with higher other income of Rs.2.6 crore (Rs.70 lakh) led to 11% rise in PBT (before extraordinary items) to Rs.8.1 crore. In absence of extraordinary expense (Rs.2.1 crore on account of provision towards write down of capital assets at Goa plant), PBT (after extraordinary items) spurted by 55.8% to Rs.8.1 crore and PAT grew @ 80% to Rs.5.4 crore.
- It should be noted that company has divested its Textile Effects business from June 30, 2006. In view of this, results of Q3 FY08 are not comparable with that of Q3 FY07. In Q3 FY 2008, Net sales from continuing business were up by 8.4% to Rs.313.4 crore and PBIT% of continuing business improved to 8.9% (6.9%).
- Ciba India is a leading player in specialty chemicals. There are vast growth opportunities in existing lines of Plastic additives, Coating chemicals and water treatment chemicals. Moreover, Parent's increased focus on the growing Indian market will translate into increasing outsourcing opportunities for CIBA INDIA.
- Currently, Company's turnover (stand-alone) composition is 80% trading : 20% manufacturing. Going forward, Ciba India aims to change it to 50:50, this will positively impact profitability as manufacturing has higher margins compared to trading. With disposal of textile effects business, most of overheads are gone and hence margins are expected to improve with increase in manufacturing component.
- Company (thru its 100% subsidiary – Diamond Dye-Chem) has set up an EOU for manufacture of Color Formers (paper chemical which has very high security and used in credit cards, bank security papers, etc.) and Thermal Developers at investment of ~ Rs 65 crore. This will give big jump in sales / profits as these products cater to global market. Commercial production started since February / March 2007
- Company's 51% - Virchow Drugs, having manufacturing facility for APIs, will produce high quality Triclosan (anti-microbial ingredient used in consumer products like toothpaste, soap, deodorants, etc.) and will focus on Asia-Pacific region including India. This business has very good profitability too. With this Joint Venture, Ciba India aims to further expand its share of growing cosmetics market in Asia Pacific and improve its position in the region. Both Diamond Dye Chem and Virchow are manufacturing companies and are expected to grow at high rate.

Valuation

- At CMP of Rs.268.8, share is trading at 9.7 times FY 2008 expected consolidated EPS of Rs.27.7 and 7.5 times FY 2009 expected consolidated EPS of Rs.36. Going forward, company is poised for good growth in top-line and bottom-line. We recommend to "BUY" the share at CMP.

Financial Summary

Rs. Crore

	FY 2008	FY 2007	%	FY 2008	FY 2007	%	2007 A
Rs. Crore	Q3		Change	9 months		Change	12 mths
Net Sales	126.20	112.20	12.5%	359.20	410.70	-12.5%	511.00
Total Expenses	118.80	103.50	14.8%	336.00	387.20	-13.2%	478.30
EBITDA	7.40	8.70	-14.9%	23.20	23.50	-1.3%	32.70
EBITDA (%)	5.9%	7.8%		6.5%	5.7%		6.4%
Interest Expenses / (Income)	-	0.20	-100.0%	0.30	0.80	-62.5%	0.90
Depreciation	1.90	1.90	0.0%	5.20	5.60	-7.1%	7.90
Other Income	2.60	0.70	271.4%	7.10	6.70	6.0%	9.90
P.B.T. before Extra Ord. Items	8.10	7.30	11.0%	24.80	23.80	4.2%	33.80
Extra Ordinary Income / (Exp.)	-	(2.10)	-100.0%	-	61.90	-100.0%	60.20
P.B.T. after Extra Ord Items	8.10	5.20	55.8%	24.80	85.70	-71.1%	94.00
Net Profit	5.40	3.00	80.0%	16.40	75.70	-78.3%	81.10
Equity Capital (Rs 10/-)	13.30	13.30		13.30	13.30		13.30
EPS for the period (Rs)	4.06	3.17	28.2%	12.33	15.81	-22.0%	21.93

Disclosures

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