investor's eye

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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bank of Baroda	25-Aug-06	239	**369**	500
Crompton Greaves	19-Aug-05	88	**408**	464
Ranbaxy	24-Dec-03	533	**427**	500
Shiv-Vani Oil	05-Oct-07	370	**378**	480
SKF India	23-Dec-04	141	**402**	500

Shiv-Vani Oil & Gas Exploration Services

Ugly Duckling

Stock Update

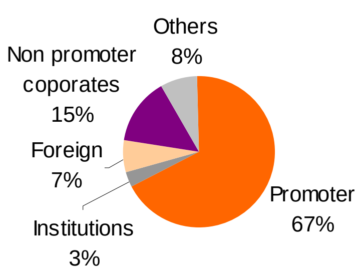
Results ahead of expectations

Buy; CMP: Rs380

Company details

Price target:	Rs480
Market cap:	Rs1,672 cr
52 week high/low:	Rs418/200
BSE volume: (No of shares)	39,021
BSE code:	522175
NSE code:	SHIV-VANI
Sharekhan code:	SHIVVANI
Free float: (No of shares)	1.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	6.3	15.4	16.6	69.4
Relative to Sensex	-2.6	-11.5	-16.9	13.9

Result highlights

- Shiv-Vani Oil & Gas Exploration (SOGEL) reported a healthy growth of 63.3% in its consolidated revenues to Rs97.4 crore in Q3CY2007. The drilling operations and seismic survey business contributed around 45% each to the total turnover, with about 10% coming from the other related services during the quarter.
- The operating profit margin (OPM) improved by 220 basis points to 37.6% primarily due to the improvement in realisations. The positive impact of the higher realisations is clearly reflected in the 190-basis-point decline in the drilling expenses as a percentage of the sales. The operating profit grew by 73.3% to Rs36.6 crore.
- The decline in the depreciation charges as a percentage of the sales and the lower effective tax rate enabled the company to report a relatively higher growth of 165.8% in its earnings to Rs19.8 crore. This is an exceptionally strong performance in a seasonally weak quarter.
- For the first nine months, revenues and earnings have grown by 32.8% and 74.4% respectively. The OPM has improved by 190 basis points to 37% during the period.
- In terms of operational highlights, the company further increased its asset base by adding two new onshore rigs in Q3. The order inflow was also healthy as the company has received orders of around Rs400 crore over the last three months and the order backlog has grown to over Rs3,000 crore. The outlook for Q4 is encouraging with the commencement of the much-awaited Rs650-crore coal bed methane (CBM) project awarded by Oil & Natural Gas Corporation (ONGC).
- To factor in the higher than expected Q3 results and robust outlook for Q4, we are revising upwards the earnings estimate for CY2007 by 15.3% to Rs14.6 per share. The earnings estimates for CY2008 and CY2009 are being upgraded by

Result table Rs (cr)

Particulars	Q3CY2007	Q3CY2006	% yoy	YTDCY07	YTDCY06	% yoy
Net sales	97.3	59.6	63.3	268.6	202.3	32.8
Total expenditure	60.7	38.5	57.8	169.2	131.2	28.9
Operating income	36.6	21.1	73.3	99.5	71.1	39.9
Other income	1.4	1.7	-16.4	5.7	6.2	-8.2
Interest	7.7	6.3	21.9	23.2	19.1	21.4
Depreciation	6.3	6.3	-0.3	18.9	18.7	1.3
PBT	24.1	10.2	135.9	63.0	39.4	59.7
Tax	4.3	2.8	55.1	14.0	11.3	23.1
PAT	19.8	7.4	165.8	49.0	28.1	74.4
Diluted EPS (Rs)	4.5	1.7		11.2	6.4	
Margins (%)						
OPM	37.6	35.4		37.0	35.1	
PBT	24.7	17.1		23.5	19.5	
PAT	20.3	12.5		18.3	13.9	

4.4% and 1.1% respectively. At the current market price the stock trades at 11.1x CY2008 and 8.7x CY2009 estimated earnings. We maintain our Buy call on the stock with a price target of Rs480.

Higher realisations boost margins

Despite the cost pressures (in terms of a steep rise in the staff cost and the other operational expenses) the company has been able to report a healthy improvement in its margins on the back of a steep improvement in the blended realisations. The management indicated that the average realisation has grown by around 35% in the drilling operations which has more than mitigated the impact of the severe cost pressures. Going ahead, the company expects the better utilisation of its assets to further boost the margins (some of the rigs were not operational in the past few months due to a delay in the commencement of some large contracts including the CBM project).

Break-up of expenses as a percentage of the sales (%)

	Q3CY07	Q3CY06	YTDCY07	YTDCY06
Drilling and other operational expenses	41.5	43.4	43.4	44.7
Staff cost	15.4	14.2	13.9	13.7
Overhead cost	5.5	7.0	5.7	6.5

CBM project to bring in incremental revenues from Q4

The work on the much-awaited integrated project to develop ONGC's CBM block has commenced finally and the initial civil work is underway. This would be followed by drilling operations (well spudding) in the next couple of weeks. The management expects the project to bring in incremental revenues of around Rs40 crore in Q4CY2007 and around Rs250 crore in CY2008.

Revision in earnings

With the commencement of the CBM project and addition of two new rigs in Q3, the outlook for Q4 is encouraging. To factor in the higher than expected Q3 results and the robust outlook for Q4, we are revising upwards the earnings estimate for CY2007 by 15.3% to Rs14.6 per share. The earnings estimates for CY2008 and CY2009 are being upgraded by 4.4% and 1.1% respectively.

Valuation

At the current market price the stock trades at 11.1x CY2008 and 8.7x CY2009 estimated earnings. We maintain our Buy call on the stock with a price target of Rs480.

Valuation table

Particulars	CY2006	CY2007E	CY2008E	CY2009E
Net sales (Rs cr)	276.8	390.3	891.7	1139.8
Net profit (Rs cr)	37.1	64.2	150.7	193.2
No of shares (crore)	4.4	4.4	4.4	4.4
EPS (Rs)	8.4	14.6	34.3	43.9
% y-o-y change	*47.4*	*73.1*	*134.7*	*28.2*
PER (x)	45.3	26.2	11.1	8.7
Price/BV (x)	7.6	5.8	3.8	2.6
EV/EBIDTA(x)	19.7	15.7	7.9	6.4
RoCE (%)	18.1	25.2	40.9	35.5
RoNW (%)	10.4	12.2	19.0	19.1

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

Mahindra and Mahindra

Apple Green

Stock Update

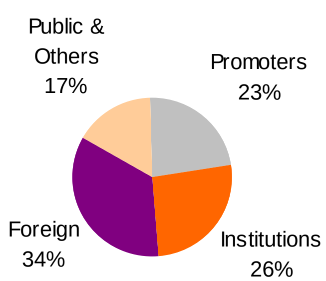
Year of consolidation

Buy; CMP: Rs760

Company details

Price target:	Rs900
Market cap:	Rs18,144 cr
52 week high/low:	Rs1,001/592
BSE volume: (No of shares)	8.2 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	18.3 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	9.0	-5.7	-1.7
Relative to Sensex	-9.7	-16.4	-32.7	-33.9

Result highlights

- The Q2FY2008 results of Mahindra & Mahindra (M&M) are in line with our expectations. The stand-alone net sales of the company have reported a growth of 10.6% to Rs2,709.51 crore in the quarter. This growth was led by an overall volume growth of 8.3%. The automotive segment recorded a volume growth of 15.95%; the sales volume of the farm equipment (FE) segment declined by 5.5%.
- On a segmental basis, the automotive revenues rose by 13% to Rs1,709 crore (adjusting for octroi refund) whereas the FE division reported a revenue growth of 3.7%. The profit before interest and tax (PBIT) margin in the automotive segment declined by 40 basis points to 14.9% during the quarter. The PBIT margin of the FE division witnessed a higher drop of 180 basis points to 12.5%. The overall operating profit margin (OPM) declined by 260 basis points to 10.8%, leading to a decline of 11.2% in the operating profit to Rs292.47 crore.
- On account of higher other income, interest expenditure and depreciation, the adjusted net profit declined by 8.6% to Rs225.88 crore. After taking into account the extraordinary items (octroi refund, voluntary retirement scheme [VRS] expenses, special dividend income and profit on the sale of stake in Tech Mahindra), the reported profit after tax (PAT) declined by 26% to Rs285.94 crore.
- On a consolidated basis, the total income (including the other income) grew by 40.4% yoy to Rs6,482 crore led by the strong performance of the company's key subsidiaries. The consolidated PBT (before exceptional items and tax) grew by 12.8% yoy to Rs696 crore and the consolidated net profit (post-minority) before exceptional items grew by 10.0% yoy to Rs392 crore.
- We expect FY2008 to be the year of consolidation for the company as new product launches would take place only in FY2009. M&M's core business continues to remain under pressure due to sluggishness in tractor sales and the company's huge capital expenditure (capex) plans, which will lead to higher interest and depreciation charges. Segments other than automotive and FE contribute ~43% of the consolidated revenues and ~53% of the operating profits of the company. Thus,

Result table Rs (cr)

Particulars	Q2FY08	Q2FY07	% yoy	1HFY08	1HFY07	% yoy
Net sales	2709.5	2450.1	10.6	5322.3	4667.4	14.0
Total expenditure	2417.0	2120.9	14.0	4752.7	4086.9	16.3
Operating profit	292.5	329.2	-11.2	569.6	580.4	-1.9
Interest	8.2	-15.5		3.0	-30.0	
Depreciation	57.7	50.1		115.0	96.0	19.0
Other income	69.2	47.8	44.7	101.0	68.0	48.3
PBT	295.7	342.4	-13.6	552.7	582.3	-5.1
Tax	69.8	95.2		134.0	168.0	
Adjusted PAT	225.9	247.2	-8.6	418.3	414.6	0.9
Extraordinary items	60.1	139.3		59.02	176.0	-66.5
Reported PAT	285.9	386.5	-26.0	477.3	590.7	-19.2
OPM (%)	10.8	13.4		10.7	12.4	

we believe M&M is more a play on its value accretive subsidiaries than on its core business.

- At the current market price of Rs760, the stock quotes at 10.9x its FY2009E consolidated earnings. We continue to value M&M on a sum-of-the-parts basis. In view of the higher interest and depreciation charges, and the reduction in the value of the subsidiaries, we maintain our Buy recommendation with a price target of Rs900.

Automotive segment—volumes grow, margins decline

M&M's Q2FY2008 net sales grew by 10.6% to Rs2,709.51 crore. The revenues of the automotive division have grown by 12.7%, whereas the FE division's revenues grew by 3.7%.

During Q2FY2008, the automotive division's sales volumes have grown by 15.9%. The company sold 38,069 utility vehicles (UVs) in Q2F2008 against 32,210 units in the same period of the previous year. The market share improved to 52.6% as compared with 45.7% in the same period of the previous year.

The *all new Scorpio* witnessed a volume growth of 8.3% in Q2F2008 as compared with that of the last year. The *Bolero* brand grew its volumes by 26.5% in the current quarter as compared with Q2F2007.

In the large three-wheeler segment, the industry's sales volumes declined by 27% to 2,745 vehicles in Q2FY2008 with a market share of 27.1%.

FE segment—declining trend

The decline in the tractor segment continued in Q2FY2008. The industry volumes declined by 10.7%, while M&M's domestic sales registered a decline of 5.4%, leading to a market share improvement to 30.6% in the current quarter as against 28.9% in Q2FY2007.

The integration with Punjab Tractors Ltd (PTL) acquired in July 2007 has commenced. PTL will continue to sell its tractors under its existing distribution network and brand *Swaraj*. However, M&M is expanding PTL's under-utilised foundry division and has started sourcing raw materials and components collectively to reduce costs.

Volume table

	Q2FY2008	Q2FY2007	% yoy chg
Utility vehicles	35309	29449	19.9
Three-wheelers	9117	8887	2.6
LCVs	2745	1990	37.9
Total domestic automotive	47171	40326	16.9
Exports	2760	2761	0
Total automotive	49931	43087	15.9
Tractors (incl exports)	22272	23565	-5.5
Total	72203	66652	8.3

Segmental performance

In the automotive division, against a revenue growth of 12.7% the PBIT grew by only 9.9% to Rs255.37 crore, leading to a decline of 40 basis points in the margin to 14.9%.

The FE division reported a 3.7% increase in revenues to Rs916.42 crore. The PBIT for the quarter declined by 9.2% to Rs114.77 crore as the margin stood at 12.5% as compared with 14.3% in Q2FY2007.

Segmental analysis

	Q2FY08	Q2FY07	% yoy
Revenues			
Automotive	1709.03	1516.11	12.7
Farm equipment	916.42	883.34	3.7
Others	164.98	115.08	43.4
Total	2790.43	2514.53	10.9
PBIT			
Automotive	255.37	232.39	9.9
Farm equipment	114.77	126.36	-9.2
Others	2.31	3.9	-40.8
Total	372.45	362.65	2.7
Margins (%)			
Automotive	14.9	15.3	
Farm equipment	12.5	14.3	
Others	1.4	6.1	

The other income rose by 44.7% to Rs69.16 crore (excluding the special dividend received from Tech Mahindra last year). A higher interest and depreciation charge during the quarter led the adjusted PAT to decline by 8.6% to Rs255.88 crore. The reported PAT declined by 26% to Rs285.94 crore.

Consolidated performance

On a consolidated basis, the total income (including the other income) grew by 40.4% yoy to Rs6,482 crore led by the strong performance of the company's key subsidiaries. The consolidated PBT (before exceptional items and tax) grew by 12.8% yoy to Rs696 crore and the consolidated net profit (post-minority) before exceptional items grew by 10.0% yoy to Rs392 crore.

Valuation and view

We expect FY2008 to be the year of consolidation for the company as new product launches would take place only in FY2009. M&M's core business continues to remain under pressure due to sluggishness in tractor sales and the company's huge capex plans that will lead to higher interest and depreciation charges. Segments other than automotive and FE contribute ~43% of the consolidated revenues and ~53% of the operating profits of the company. Thus, we believe M&M is currently more a play on its value accretive subsidiaries than on its core business.

At the current market price of Rs760, the stock quotes at 10.9x its FY2009E consolidated earnings. We continue to value M&M on the sum-of-the-parts basis. In view of the higher interest and depreciation charges, and the reduction in the value of the subsidiaries, we maintain our Buy call with a price target of Rs900.

Sum-of-the-parts valuation

Particulars	Per share value
Core business (at 11x FY09 earnings)	491.6
Value of subsidiaries	405.7
Fair value	**897.3**

Valuation table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Stand-alone					
Net sales (Rs cr)	6511.0	7977.2	9629.9	10992.1	12658.8
y-o-y change (%)	*33.6*	*22.5*	*20.7*	*14.1*	*15.2*
Net Profit (Rs cr)	507.6	593.5	957.7	898.4	1067.0
EPS (Rs)	21.3	24.9	40.2	37.6	44.7
y-o-y change (%)	*57.6*	*16.9*	*61.4*	*-6.5*	*18.8*
PER (x)	35.6	30.5	18.9	20.2	17.0
Consolidated					
Net profit (Rs cr)	2362.3	1399.7	1606.7	1396.8	1690.8
EPS (Rs)	99.3	53.4	62.3	61.8	69.7
yoy change (%)	*453.9*	*-46.2*	*16.7*	*-0.8*	*12.9*
PER (x)	7.7	14.2	12.2	12.3	10.9

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

Information Technology

Sector Update

Cognizant's Q4 guidance drags down tech stocks

In Q3CY2007, the revenues of Cognizant Technology Solutions grew by 8.2% quarter on quarter (qoq) and 48% year on year to $558.8 million. Though the performance was in line with expectations, the revenue growth was the lowest sequentially in the past ten quarters and lower than that reported by some of the other offshore peers like Infosys Technologies (Infosys), Satyam Computer Services (Satyam) and Tata Consultancy Services (TCS).

The revenue growth guidance for Q4 is quite low. The company has guided for a growth of 5.6-6.5% qoq to $590-595 million. This is lower than the street expectations of $597 million and steeply down from the usual trend of a healthy double-digit growth seen in the fourth quarter. For instance, the company had reported a sequential growth of 12.4% in its consolidated revenues during Q4CY2006.

Some of the data points are also not encouraging and have added to the overall uncertainty related to a possible softening of the demand environment in the coming quarters. The net addition of 3,300 employees in Q3 and a sequential growth of 7% in the financial services vertical (which is a key industry domain where the growth could be impacted by the sub-prime issue) are below the street expectations.

Some positive indicators are being ignored

Given the focus on the uncertainty related to the demand environment, the market seems to have ignored the positives such as the strong earnings growth of 18.5% qoq to $0.32 per share in Q3CY2007. Moreover, the upward revision of 3.6% in the full year earnings guidance to $1.14 per share is also higher than expectations.

In terms of the demand environment, the company's management has indicated that the information technology budgets would remain flat in CY2008 (and not decline as is the growing concern). It has maintained an employee guidance of 55,000 employees by December 2007, which implies a strong addition of around 6,000 employees in Q4CY2007.

In fact, the employee addition by some of the other offshore players has also been fairly strong and reflects their continued confidence in the demand environment going ahead. The three front-line companies (Satyam, Wipro and TCS; Infosys not included as it had to postpone the intake of freshers due to infrastructure constraints) have cumulatively added 30,655 employees in H1FY2008--that is a growth of 15.5% over the base as in March 2007 and 24% higher than 24,675 employees added in H1FY2007.

Valuation—sentiments to remain weak

Though the tech stocks have corrected considerably in the recent past, the sentiments are likely to remain weak due to continued apprehensions about the demand environment (and the possible impact of the same on pricing). Consequently, the tech stocks could underperform in the near term. However, the fundamentals seem to be intact and the prevailing weakness could be an opportunity to accumulate quality tech stocks for decent returns over the next one year.

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Capital goods

Sector Update

Q2FY2008 results review

At the end of the earning season, we present a review of the earnings of the companies under our capital goods and engineering universe.

- Q2FY2008 results for our coverage universe in the capital goods and engineering space have largely been in line with our expectations. However the revenue growth of frontline stocks like Bharat Heavy Electrical Ltd (BHEL) and Crompton Greaves Ltd (CGL) was sedate.
- The operating profit margin (OPM) was a mixed bag, with some companies reporting an improvement while others a decline in their margins. BHEL and Indo Tech Transformers Ltd (ITTL) posted a positive surprise in their OPMs. BHEL's OPM improved by 380 basis points year on year (yoy) while that of ITTL expanded by 780 basis points yoy. The OPM of these companies improved largely due to better realisations and operational efficiencies.
- Order booking was at a record high for companies like BHEL, which posted a record growth of 59% yoy in its order booking taking its order backlog to Rs72,600. Order booking for all the companies under our coverage has been robust and provides strong visibility to their earnings.
- Driven by investment in the country's infrastructure development, the capital goods and engineering companies have been witnessing robust growth in their revenues and earnings. Further, the demand outlook for the companies remains positive, which is much evident in their bulging order books.
- One of the major concerns for the companies in our coverage has been their ability to execute projects. However, majority of the companies under our coverage are undergoing capacity expansions and are gearing to meet the buoyant demand.
- The companies in the capital goods space have been outperformers in the recent past, as their revenues and earnings continue to grow at a robust pace. On the back of strong H1FY2008 results, in terms of improved margins due to better utilisations and operational efficiencies, we are upgrading our earnings estimates (except Thermax and KEI Industries) and price targets (except KEI Industries) for the companies. We believe with superior fundamentals and strong earning visibility, the companies in the capital goods and engineering space would command higher valuation.

Revenue growth largely in line, however margins post a positive surprise

The revenue growth for the coverage universe has been largely in line with our expectations, barring the likes of BHEL and CGL. However, what came in as a surprise is the expansion in the OPM of companies like BHEL, CGL and ITTL. The OPM expansion of these companies were above our estimates. Improved efficiency coupled with higher-than-expected other income led to a robust growth in the profits of these companies.

Q2FY2008 results—a snap shot (Rs crore)

Companies	Sales	% yoy chg	Operating profit	% yoy chg	Operating margin (%)	Expansion in margin (bps)	Net profit	% yoy chg
Bharat Bijlee	135.9	23.4	25.9	84.1	19	630	16.4	87.4
BHEL	3965.4	18.7	695.2	52.4	17.5	380	567	57.5
Crompton Greaves	905.0	9.8	106.8	45.2	11.8	290	74.2	82.5
Genus Power Infra	100.7	29.2	17.1	41.6	16.9	150	9.17	62.8
IndoTech transformers	51.4	58.1	14.78	117	28.8	780	10.24	122.1
KEI Industries	198.4	45.1	27.9	26.8	14.1	-200	11.6	14.7
Ratnamani Metals	209.1	46.1	44.0	38.2	21.5	-121	26.8	59.7
Sanghvi Movers	57.3	20.9	42.9	25.1	75	250	16.8	27.9
Thermax	817	57.1	104.3	40.9	12.8	-150	72.5	34.9

Order inflow strong, high revenue visibility

The order inflow was strong for the capital good companies and the order book was at record highs for many of the companies in our coverage universe. In order to meet the rising demand and to increase the book-to-bill ratio, the companies have been adding capacities. BHEL's capacity would reach 10,000 megawatt (MW) in December 2007. Bharat Bijlee Ltd (BBL) and ITTL have added capacity to manufacture large transformers. Thermax is setting up a plant in China. Larger capacities would lead to faster execution of orders by the companies.

Order book

	Order book	FY2007 revenue	xFY2007 revenue	Order book as on March 2007	% yoy chg
BHEL	72600	17237.5	4.2	55000	32.0
Crompton*	2174	3367.6	0.6	2300	-5.5
Genus Power	400	357.1	1.1	403	-0.7
Indotech Trans	219	155.4	1.4	148	48.0
KEI Industries	300	603.9	0.5	NA	NA
Ratnamani Metals	368	571.4	0.6	500	-26.4
Thermax	3234	2324	1.4	3100	4.3

*Stand-alone

Company wise result update

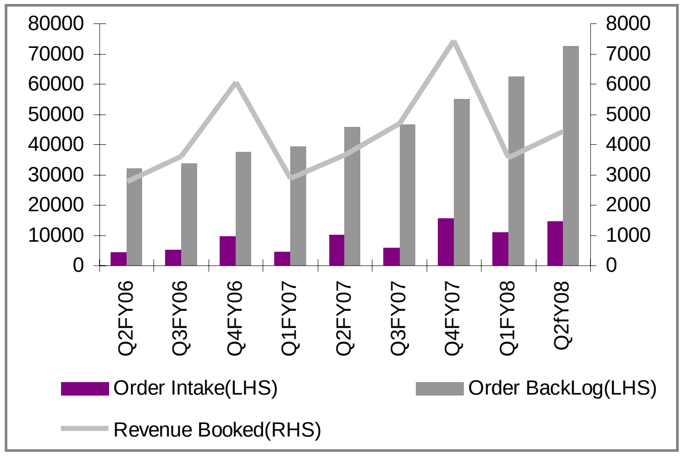
BBL

BBL's Q2FY2008 results were much in line with our expectations. The revenues grew by 23.4% yoy to Rs135.9 crore. The OPM expanded by 630 basis points due to reduced raw material costs. The adjusted profit after tax (PAT) rose by 87.4% yoy to Rs16.3 crore. On the back of better realisations, we have revised our estimates to Rs143.40 per share for FY2008E and Rs194.30 per share for FY2009E. Superior fundamentals and change in the business scenario compel us to raise our target multiple for the company. Hence we are revising our price target to Rs3,715, which offers an 8.4% upside from current levels.

BHEL

BHEL reported a growth of 18.7% in its revenues to Rs3,965.4 crore. The revenue growth was slightly below our expectations, however the OPM with a 380-basis-points expansion came as a positive surprise. Led by better margins, the company reported a PAT (before extraordinary items) of Rs567 crore (+57.5%). The order backlog stood at a staggering Rs72,600 crore. In order to meet the rising demand, the company is expanding is capacity from 6,000MW at present to 10,000MW by December 2007. Further the company would add another 5,000MW by December 2009. We expect BHEL's revenues and earnings to grow at a compounded annual growth rate (CAGR) of 29.1% and 31.1% respectively over FY2007-10E. We are also rolling our target multiple to September 2009 and are revising our price target to Rs2,971.

BHEL's order book and revenue details



Crompton Greaves

The revenue growth for CGL in Q2FY2008 was muted due to a fire in one of its transformer plants. However the OPM expanded by 290 basis points yoy, which led the net profits rise by 82.4% to Rs74.2 crore. In subsequent quarters, the management is confident to catch up the sales loss caused due to the fire. CGL's subsidiary Pauwels reported revenues of Rs570 crore (+10.5% yoy), while another subsidiary Ganz is expected to breakeven at profit before interest and tax (PBIT) level in FY2008. CGL has also bagged power distribution contract for three circles of Nagpur city. We believe acquisition of Pauwels, Ganz, and Microsol has been the right step forward as it will help CGL to plug gaps in its product offering and thereby help it emerge as a complete power solution provider. We expect CGL's consolidated revenues and profits to grow at a CAGR of 22.7% and 39.5% over FY2007-09E. We raise our price target for CGL to Rs464.

Genus Power Infrastructure

The revenues and the profits of Genus Power Infrastructure Ltd (GPIL) in Q2FY2008 grew by 29.2% yoy and 62.8% yoy respectively. The OPM improved by 150 basis points due to lower staff cost and lower other expenses. The company currently has an order backlog of Rs400 crore. The Haridwar plant has started to contribute to the company's revenues from Q1FY2008 and the company would be ramping up the capacity going forward. The joint venture with Mobix would help the company tap the overseas market and the management expects revenues to the tune of Rs60 crore in the first year of operation (FY2009). On the increased revenue guidance from the management, we have revised our earning estimates for GPIL and our fully diluted earnings per share (EPS) now stands at Rs33.4 and Rs53.5 for FY2008E and FY2009E respectively. We have valued the company at 14x FY2009E earnings and have revised our price target to Rs750.

Indo Tech Transformers

ITTL reported spectacular Q2FY2008 results. The OPM of 28.8% (improvement of 780 basis points yoy) was way above our expectations and was led by better realisations and operational efficiencies .On the back of higher-than-expected margins in H1FY2008, we have revised our FY2008 earnings estimate. We however maintain our FY2009 earnings estimate. The company is expanding its capacity from 3,450 mega volt ampere (MVA) at present to 7,450MVA and the plant is expected to be operational by January 2008. Considering the superior earnings and margins of the company, which are one of the best in the industry, we are raising our price-earnings (PE) multiple for the stock to 15.5x FY2009E earnings. Our revised price now stands at Rs725. We reiterate ITTL as our top pick in the midcap space.

KEI

KEI Industries Ltd (KEI) Q2FY2008 results were in line with our expectations in terms of revenue and profit growth. The power cable business grew by 32.3%, while the stainless steel wire division reported a growth of 7.3% in its revenues. The OPM fell by 200 basis points due to the loss in the stainless steel wire segment on account of volatility in nickel prices. The order backlog of the company at the end of Q2FY2008 stood at Rs300 crore. KEI is one of the largest players in the power cable business and is poised to benefit from the expenditure lined up in the power transmission and distribution sector. We maintain our estimates and price target for KEI.

Ratnamani Metals

In Q2FY2008, the revenues of Ratnamani Metals and Tubes Ltd (RMTL) grew by 46.1% yoy to Rs209.1 crore. The OPM fell by 121 basis points mainly due to the change in the product mix and increased raw material costs. The profits rose by 59.7% to Rs26.8 crore. The current order book of the company stands at Rs368 crore and is executable over the next five to six months. RMTL is set to witness a surge in the demand for its product from its key user industries like the oil & gas, power, and sugar, which are implementing massive capital expenditure programs. We are revising our estimates for RMTL by 8.3% and 7% for FY2008E and FY2009E respectively. We are also revising our price target to Rs1,440 (10x FY2009E earnings).

Thermax

The net sales of Thermax grew by a robust 57.1% yoy to Rs817 crore. The operating profit grew by 40.9% yoy to Rs104.3 crore. Higher export sales (which led to lower realisations) and increased outsourcing cost led to a 150-point decline in the OPM. The consolidated order book of the company stood at Rs3,234 crore, which is 1.4x FY2007 revenues, imparts strong visibility to the earnings of the company. The demand outlook for Thermax products remains positive on account of increased capex plans of Indian industry. On management's guidance of a 40% growth, we maintain our earnings estimates for the company.

Outlook: Positive, revising estimates and raising price targets

Stocks in capital goods and engineering space have been outperforming the market. The positive surprises in the earnings have justified their valuations. Order inflows have been robust and we expect the trend to continue on the back of infrastructure investment planned in the country. Most of the companies have reported strong H1FY2008 results on account of better realisations and improved margins. We are revising the earning estimates of our coverage universe barring Thermax and KEI. We are also revising our price target for the coverage universe.

Revised estimates

Company	FY2008			FY2009		
	Old	Revised	% chg	Old	Revised	% chg
BHEL	62.8	65.6	4.5	78.2	86.0	10.0
Bharat Bijlee	135.3	143.4	6.0	182.7	194.3	6.3
Crompton	10.5	11.5	9.5	14.2	15.0	5.6
Genus Power	28.8	33.4	16.0	47.4	53.5	12.9
Indotech Trans	30.2	34.1	12.9	47.0	47.0	0.0
Ratnamani	95.9	103.9	8.3	134.6	144.1	7.0
Sanghvi	14.4	14.4	0.0	17.4	18.3	5.2

Sharekhan universe

Companies	Price target	CMP (Rs)	Potential upside (%)	EPS (Rs) FY08E	EPS (Rs) FY09E	P/E (x) FY08E	P/E (x) FY09E
BHEL	2971	2865	3.7	65.6	86.0	43.7	33.3
Bharat Bijlee	3715	3334	11.4	143.4	194.3	23.2	17.2
Crompton Greaves	464	408	13.7	11.5	15.0	35.5	27.2
Genus Power	750	642	16.8	33.4	53.5	19.2	12.0
Indotech Transformers	725	685	5.8	34.1	47.0	20.1	14.6
KEI Industries*	125	77.3	61.7	6.9	10.4	11.2	7.4
Ratnamani Metals	1440	1190	21.0	103.9	144.1	11.5	8.3
Sanghvi	219	203	7.9	14.4	18.3	14.1	11.1
Thermax	948	885	7.1	25.2	35.1	35.1	25.2

* Maintain old Price target

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 Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India