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India Morning Meeting Notes

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T O D A Y ' S   S T O R I E S

Company news

Gujarat Ambuja – 4QY06 results update

GAMB maintained the trend of cement sector, by reporting strong operating performance, driven by volumes/prices. Going forward (next two years), we expect GAMB's volume growth to be marginally lower than the industry demand growth, as its capacity ramp up is scheduled for only 2009. We estimate an EPS of Rs9.75/mt in 2007, and we see limited scope for upgrade. GAMB's is relatively more exposed to port-based locations (40% of sales to Gujarat and Maharashtra). While we do not see any impact of the recent import duty cut on pricing, this could be viewed as a potential risk factor by market. The current landed cost to pricing in port cities in the west leaves a gap of 10% (Mumbai) to 17-18% (Gujarat), hence we see no risk to earnings. The stock trades at 14.5x 2007F earnings. Maintain Buy with a target price of Rs153.

GAMP reported 110% EBITDA growth and EBITDA/mt of Rs1,163.

- **Sales**: Growth of 72% yoy, driven volume growth of 20.5% and a realisation growth of 43%. The volumes reflect the merger of Ambuja Eastern Ltd, which now reflects in GAMP's account.

- **EBITDA:** EBITDA growth of 110% to Rs1,163 was better than expected. EBITDA /mt was one of the highest among the larger cement companies, and just a shade lower than the best quarter so far of April-June 2006. Cost/mt at Rs2,063/mt increases from Rs1,958 (September quarter), a 5% rise. However, selling price rose 5.2%.

- **Other income** was higher at Rs4,03m (includes forex gains of Rs165m), hence our PAT numbers were beaten by a wide margin. Tax rate was 26%.
- We estimated a **PAT** of Rs15.4bn (18-month period) vs actual reported of Rs16.6bn (due partly to higher other income).
- We estimate an EPS of Rs9.8 for 2007 and 11.3 for 2008. The stock trades at 14.6x 2007F PE.

Capacity

GAMB is working to increase its capacity from 16mmt to 22mmt by 2009 in phases. This includes a grinding unit in West Bengal (1mmt, likely in April 2007), Rajasthan expansion by 0.5mmt, and a new unit in Himachal Pradesh with grinding units in UP and Haryana (3mmt capacity, expected in June 2009).

Table 1 : Gujarat Ambuja Cements Limited

(Rs m)	2Q007	3Q07	4Q07	4Q06	Growth
Net sales	**11,342.40**	**9,841.40**	**13,291.00**	**7,731.50**	**72%**
Operating expenses	6,909.00	6,285.20	8,500.30	5,453.10	
Change in stocks	28.40	(60.50)	146.70	(15.70)	
Raw materials	690.40	493.00	822.90	423.20	
Staff cost	363.00	408.80	416.20	320.80	
Power and fuel	1,998.40	1,911.80	2,297.70	1,848.50	
Freight & forwarding	2,175.20	1,892.20	2,565.00	1,399.80	
Other expenditure	1,653.60	1,639.90	2,251.80	1,734.40	
Gross profit	**4,433.40**	**3,556.20**	**4,790.70**	**2,278.40**	**110%**
Gross margin (%)	39%	**36.1%**	**36.0%**	**29.5%**	**22%**
Interest	122.90	85.10	44.90	197.20	-77%
Depreciation	496.70	499.50	572.20	501.90	14%
Other income	(99.90)	258.00	402.60	(75.90)	-630%
Pre tax earnings	**3,713.90**	**3,229.60**	**4,576.20**	**1,503.40**	**204%**
Tax	675.00	783.00	1,198.60	366.50	227%
Earnings after tax	**3,038.90**	**2,446.60**	**3,377.60**	**1,136.90**	**197%**
Net earnings	**3,038.90**	**2,446.60**	**3,377.60**	**1,136.90**	**197%**
Provisions				**257.90**	
PAT			**3,377.60**	**879.00**	**284%**
Qty	3.77	3.21	4.12	3.42	
Average realn(gross)	3,008.59	3,066	3226	2261	
Power & fuel cost		596	558	540	
Total cost	1832.626	1958	2063	1594	
EBITDA/mt	1176.0	1,107.85	1162.8	666.2	

Source: ABN AMRO

Ashok Leyland (AL IN; Rs49.10; Buy) – Earnings upgraded on strong volume

Impressive December 2006 results and strong volume momentum prompt us to upgrade our earnings estimates. However, a high capex plan of Rs40bn leads us to cut our DCF-based target price to Rs57 (from Rs60.20), or 16x our FY08F EPS. We reiterate Buy.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	41823.8	52476.6	71576.5	80739.5	88995.3
EBITDA (Rsm)	4228.5	5400.7	7268.0▲	8172.3▲	8956.6
Reported net profit (Rsm)	2714.1	3273.2	4413.6▲	4750.9▲	5124.5
Normalised net profit (Rsm)[1]	2544.9	3056.1	4280.0	4750.9	5124.5
Normalised EPS (Rs)	1.91	2.29	3.21▲	3.56▲	3.84
Dividend per share (Rs)	1.00	1.20	1.30	1.60	1.75
Dividend yield (%)	2.07	2.48	2.69	3.31	3.62
Normalised PE (x)	25.3	21.1	15.1▼	13.6▼	12.6
EV/EBITDA (x)	14.2	11.1	8.18	7.82	7.32
Price/book value (x)	5.52	4.56	3.22	2.89	2.60
ROIC (%)	14.1	18.4	21.9	18.2	14.8

1. Post-goodwill amortisation and pre-exceptional items ***year to Mar, fully diluted***
Accounting Standard: GAAP
Source: Company data, ABN AMRO forecasts

Impressive quarterly results on the back of margin expansion

For the December 2006 quarter, Ashok Leyland (AL) reported a 92% jump in normalised PAT to Rs1.08bn on 48% sales growth, as EBITDA margins expanded by 70bp yoy and 250bp qoq to 10.4%. The effect of price increases and improvement in product mix in favour of higher tonnage led the performance. For 9MFY07, due to a weak September 2006 quarter, AL reported a 46% jump in EPS to Rs1.9 on 39% net sales growth to Rs48.8bn despite 10bp EBITDA margin pressure to 9%.

We upgrade our 2007-08 volume forecasts by 17-19%
On the back of strong volume momentum in the M&HCV sector, AL recorded 38% volume growth for 9MFY07 and maintained 27% market share for the quarter, by sacrificing 10bp in EBITDA margins. Considering the continued buoyancy in M&HCV volumes on the back of strong freight availability and easing fuel prices, we upgrade our volume forecasts by 16.8% to 82,215 vehicles for FY07 and by 19% to 90,845 vehicles for FY08.

Volume growth at cost of EBITDA margins
EBITDA margin expansion was curtailed by high commodity prices and increased competition, despite a strong volume surge. As a result, we expect flattish EBITDA margins compared with our earlier projection of margin expansion. Our EPS upgrades are also restricted to Rs3.2 (12.7%) for FY07F and Rs3.6 (9.0%) for FY08F.

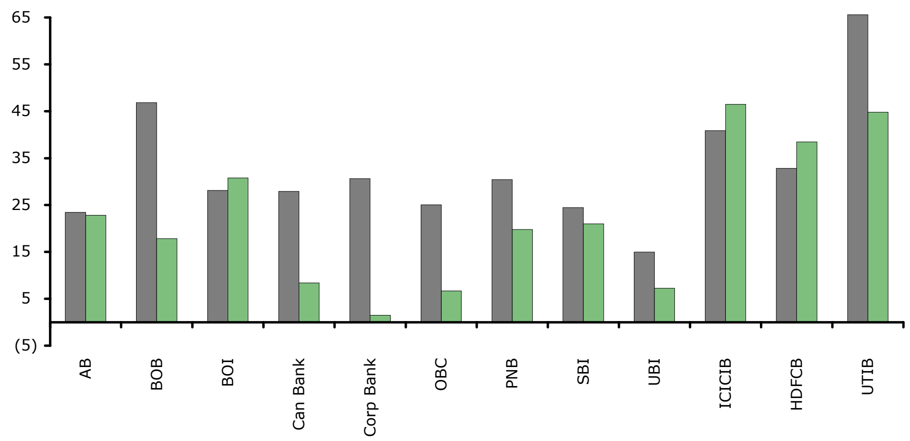
High capex to double capacity affects our target price; Buy, TP Rs57
AL plans Rs40bn capex, spread over the next four years, to double capacity to 200,000 vehicles and for non-organic growth opportunities. We incorporate that expense and our expectations of lower capital output in the initial years of the expanded capacity into our valuation. With that, and despite our earnings upgrade, we reduce our DCF-based target price to Rs57, or 16x our FY08F EPS. We maintain our Buy rating.

Sector

Banks – India – Post-quarterly update (3QFY07)

BOI and Andhra Bank reported the best qualitative operating earnings among public sector banks in our universe while HDFC Bank was the best in our private sector universe. We maintain our Overweight recommendation on the sector.

3QFY07 - Loan growth and net interest income growth (% yoy)



Source: ABN AMRO

Bank of India and Andhra Bank fare the best among public sector banks
Bank of India and Andhra Bank continued to display the best operating parameters among the public sector banks under our coverage. This was partially on the back of moderate loan growth and a focus on operating margins.

HDFC Bank fares the best among private sector banks
Within the private sector, HDFC Bank maintained the best operating parameters among our coverage universe. Moderation of loan growth and the ability to sustain the high proportion of low-cost deposits led to the better-than-peers performance.

RBI increases loan loss provision and risk weighting

In the credit policy announced on 31 January 2007, RBI increased the loan loss provision and capital requirements for specific segments. On our back of the envelope calculations, this should lead to a higher provision charge of 2-5% of pre-provision earnings. However, we believe banks will increase lending rates in these specific segments and hence the impact on earnings should be immaterial.

Maintain Overweight recommendation on the sector

Our top picks in the public sector are Bank of India, Andhra Bank and PNB, while HDFC Bank is our top pick in the private sector.

News headlines

Pharma

- Dr Reddy's readies to join race for Merck sale (BS)
- Max Healthcare looking beyond NCR for expansion (BL)

Energy

- Anil Ambani sets sights on Globaleq's assets (ET)

Property

- Deutsche bank in advanced discussions to invest around 4200m in Emaar-MGF (ET)
- Emaar-MGF may go public in Q3 (ET)

IT, Telecom, ITES

- Bharti moves DOT against BSNL over call termination rights (ET)
- Genpact plans India's largest IPO in the US to raise $500-600m (ET)
- Hindujas commence due diligence on Hutch (BL)
- TCS signs pact with Mumbai International Airport to provide consultancy services (BL)

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