investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Cadila Healthcare	21-Mar-06	297	**357**	425
Ceat	28-Nov-06	122	**128**	190
India Cements	28-Sep-06	220	**233**	315
Indo Tech Trans	28-Nov-06	199	**265**	280
Lupin	06-Jan-06	403	**602**	670

Sharekhan Special

Q3FY2007 auto earnings preview

Auto volumes remained robust in Q3FY2007 led by the festive season and strong economic activity. As in the past few quarters, the four-wheeler sector has continued to outpace the growth witnessed in two-wheelers. The growth in the commercial vehicle segment continued unabated in Q3FY2007 and we expect the segment to report a strong growth in Q4FY2007 despite the high base. The passenger car segment sales were quite buoyant with various new models being launched in the period coupled with the incentives offered by all the auto majors. Looking at the heavyweights, Bajaj Auto's sales grew by 22.9% in Q3FY2007, while Hero Honda reported a rise of 12.4% in its motorcycle sales. Maruti's car sales grew by 18.7%, Mahindra & Mahindra's (M&M) overall sales were up by 17.7% and Tata Motors' commercial vehicle sales (including exports) grew by 38%.

The strong volume growth during the quarter with stable raw material prices should lead to a margin expansion on a quarter-on-quarter (q-o-q) basis. However, we expect the margin pressure to continue in the two-wheeler segment due to the intensified competition and various sales promotion activities undertaken by the major players.

We expect Ceat, Apollo Tyres, M&M, Ashok Leyland and Tata Motors to be among the leaders in performance in the sector for Q3FY2007.

Bajaj Auto

Bajaj Auto Ltd (BAL) reported a strong growth in its sales for Q3FY2007. The motorcycle sales were up 27.6% and the three-wheeler sales witnessed a strong growth of 48.8%. *Platina* recorded a good volume growth during the quarter, fueled by a price cut in September. After its initial success, the prices of *Platina* have been hiked by about 1.5%-2%. BAL launched the new *Pulsar* with added features and a new design and raised the prices of the same by Rs2,000 per unit. The company also resorted to a price hike of about 1-1.5% in three-wheelers. Led by a strong volume growth, the sales for the quarter are projected to grow by 25.4%, the earnings before interest, tax, depreciation and amortisation (EBITDA) margins are likely to fall by 300 basis points year on year (yoy) and the the profit after tax (PAT) is projected to grow by 7.1%.

Sales performance

Particulars	Q3FY07	Q3FY06	% growth
Other two-wheelers	173	32,146	-99.5
Motorcycles	652,406	511,106	27.6
Total two-wheelers	**652,579**	**543,252**	**20.1**
Three-wheelers	85,640	57,572	48.8
Grand total	**738,219**	**600,824**	**22.9**

Quarterly estimates

(Rs crore)	Net sales			Profit after tax		
	Q3FY07E	Q3FY06	% change	Q3FY07E	Q3FY06	% change
Bajaj Auto	2,509.9	2,000.9	25.4	311.4	290.8	7.1
TVS Motor Company	934.6	871.4	7.3	20.7	31.1	-33.3
Maruti Udyog	3,713.9	3,114.2	19.3	396.6	339.0	17.0
Mahindra & Mahindra	**2,726.1**	**2,207.2**	**23.5**	**274.2**	**186.5**	**47.0**
Tata Motors	**6,673.7**	**5,074.0**	**31.5**	**427.3**	**312.8**	**36.6**
Ashok Leyland	**1,715.8**	**1,202.4**	**42.7**	**82.9**	**56.6**	**46.5**
Omax Auto	182.7	164.6	11.0	6.2	5.0	25.1
Sundaram Clayton	207.1	158.1	31.0	18.8	20.4	-8.0
Subros	161.1	133.2	21.0	8.1	6.6	22.6
Ahmednagar Forgings*	135.0	102.6	31.6	15.0	10.6	41.5
Ceat	**554.7**	**454.7**	**22.0**	**6.3**	**1.5**	**311.7**
Apollo Tyres	**810.2**	**678.8**	**19.4**	**28.6**	**16.4**	**73.7**

*Q2 for Ahmednagar Forgings since it is a June ending co

TVS Motors

TVS Motors delivered a disappointing quarter, as the volume growth was pretty benign at 1.4% for Q3FY2007. Higher competition in the entry-level segment affected the sales of *Star City* during the quarter. However, since some of the sales pertaining to the festive season were recorded in the previous months, the growth during the quarter appeared less. The motorcycle sales growth during the quarter declined by 3.3% while the sales of mopeds improved by 18.6%. *Apache* continued to be the number 2 brand in the premium bike category though the volumes declined towards the end of the quarter. Low volumes coupled with the pressure on the margins would adversely affect the company's quarterly performance. Hence, we expect TVS to report a marginal top line growth of 7.3%. The margins are expected to remain under pressure, and are expected to be 4.9% while the PAT is expected to decline by 33% yoy to Rs20.7 crore.

Sales performance

Particulars	Q3FY07	Q3FY06	% growth
Motorcycle	214,958	222,309	-3.3
Scooters	61,243	62,481	-2.0
Mopeds	87,469	73,769	18.6
TOTAL	**363,670**	**358,559**	**1.4**

Mahindra & Mahindra (M&M)

M&M rendered a good performance in Q3FY2007 with the utility vehicle (UV) sales rising by 12.6% backed by good sales of UVs other than *Scorpio* such as *Bolero Pikup* and *Maxx Pikup*. The light commercial vehicle (LCV) and three-wheeler sales were extremely good as the company's products like *Alfa* performed well in the market. The growth rate in the tractor segment is tapering off with the segment reporting a growth of 17.1%. The strong product mix in the automobile segment and the launch of new products like *Shaan* in the tractor segment should aid M&M to sustain the strong growth going forward. The consolidated results are expected to be better led by the strong performance of its subsidiaries, particularly Tech Mahindra.

Sales performance

Particulars	Q3FY07	Q3FY06	% growth
Utility vehicles	33,313	29,594	12.6
Scorpio	8,702	7,955	9.4
UVs w/o Scorpio	24,611	21,639	13.7
LCVs	2,166	1,541	40.6
Three-wheelers	8,408	6,260	34.3
Total automotive	**43,887**	**37,395**	**17.4**
Exports	1,954	1,432	36.5
Tractors	28,130	24,018	17.1
Total	**73,971**	**62,845**	**17.7**

Maruti Udyog

Maruti continued its strong performance into the third quarter. The volumes in the A2 segment comprising of *Alto*, *Zen*, *Wagon R* and *Swift* marked a growth of 30.2% in the quarter, led by the strong performance of the *Wagon R Duo*, which was launched towards the end of last quarter. The sales of *Omni* and *Versa* were also good in Q3 marking a growth of 31.7% yoy, while the sales of *Baleno* and *Esteem* declined by 13.1%. The exports grew by 15.1% yoy to 9,073 units. We expect the realisations to rise marginally, due to the better product-mix, as the sales of *Swift* and *Wagon R Duo* were higher during the period under review. In December, the company also launched the new *Zen Estilo*, and *Alto Xfu*n, which should help sustain the strong growth seen in the A2 segment. The same shall be further boosted with the launch of the diesel *Swift* in Q4FY2007.

Sales performance

Particulars	Q3FY07	Q3FY06	% growth
M-800	19,683	23,736	-17.1
Omni, Versa	21,426	16,264	31.7
Alto, Zen, Wagon-R, Swift	114,461	87,917	30.2
Baleno, Esteem	6,910	7,954	-13.1
Total passenger cars	**162,480**	**135,871**	**19.6**
MUV	628	1,256	-50.0
Domestic	**163,108**	**137,127**	**18.9**
Export	9,073	7,886	15.1
Total sales	**172,181**	**145,013**	**18.7**

Tata Motors

Tata Motors delivered a very strong performance in Q3FY2007 with an overall growth of 27.3%. The light commercial vehicle (LCV) segment continued on its high growth path recording a growth of 43.9% as *Ace* continued to do well. The buoyant growth in the medium and heavy commercial vehicle (M&HCV) segment continued during the quarter marking a growth of 33.7%. The UV segment has recovered due to the successful re-launch of *Safari* at a lower price point. The launch of the new *Indica V2 Xeta* boosted the car volumes; however the volumes were slightly constrained due to a fire in the company's Pune plant during the festive season. The company undertook a minor price increase during the quarter, however the margins would remain flat year on year. The PAT for the quarter is expected to increase by 37% to Rs427.3 crore.

Sales performance

Particulars	Q3FY07	Q3FY06	% growth
M&HCV	44,911	33,603	33.7
LCV	32,415	22,521	43.9
UV	11,427	9,335	22.4
Cars	41,289	34,033	21.3
Domestic sales	**130,042**	**99,492**	**30.7**
Exports	11,351	11,607	-2.2
Total sales	**141,393**	**111,099**	**27.3**

Ashok Leyland

Ashok Leyland gave a stellar performance in Q3FY2007, marking a volume growth of 53.9%. The goods carrier segment, contributing about 77% of the total sales, led the growth with a brilliant 80.9% increase yoy. However, the sales of the passenger carrier segment were almost flat rising by just 5.9% to 4,452 units, as Tata Motors gained considerable market share in this segment. The company launched *Comet 1611* during the quarter and plans further new launches in the remaining part of the year. We expect Ashok Leyland to post a strong sales growth of 42.7%; however the margins are expected to decline on a year-on-year comparison due to the higher share of truck sales to the overall mix. The net profits for the quarter are projected to grow by 46.5% to Rs82.9 crore.

Sales performance

Particulars	Q3FY07	Q3FY06	% growth
MDV passenger	4,452	4,203	5.9
MDV goods	15,545	8,591	80.9
LCV	71	244	-70.9
Total sales	**20,068**	**13,038**	**53.9**

Omax Auto

We expect the revenues of Omax Auto to mark a rise of 11% yoy during the quarter. The operating margins are expected to improve to 10.4% due to higher operating efficiencies, commencement of operations of Omax Steel and stable raw material prices. The net profit for the quarter is expected to mark a growth of 25.1% to Rs6.2 crore. We expect higher export revenues from the current quarter as some of the contracts had got delayed. The exports are expected to pick up from the second half of the fiscal.

Ahmednagar Forgings

We expect Ahmednagar Forgings to post good results in Q2FY2007 with added momentum as a result of higher outsourcing to Anvil. The company has commissioned additional capacity to cater to its outsourcing orders, which should trigger a higher top line growth in the subsequent quarters. For the quarter, we expect the company to post a top line growth of 31.6% and a bottom line growth of 41.5%.

Sundaram Clayton

The buoyant climate in the CV segment should trigger a strong growth for Sundaram Clayton. However, the other income is expected to be lower on account of higher dividend income accounted for in the same quarter last year. We expect both the die-casting and the brakes divisions to perform well during the quarter and expect a sales growth of 31% for Q3 and the net profit (excluding the dividend income to make the comparison like-to-like) to rise by 38%.

Subros

Strong growth in the passenger car segment should translate into a strong growth for Subros. Two of its main clients, Maruti Udyog and Tata Motors reported brilliant numbers for the quarter. The sales for the quarter are projected to grow by 21%. The EBITDA margins are expected to be lower in comparison to the last year, but are expected to remain firm on a sequential basis at 12%. The PAT is projected to rise by 22.6% to Rs8.1 crore.

Ceat

The strong growth in the automobile industry is expected to translate into strong gains for the tyre companies as well. We expect Ceat to report strong results with a top line growth of 20%. Increasing efficiencies, higher tyre prices and stable rubber prices in the previous quarter should help the company to improve its margins, which we expect would reach 6%. The PAT is expected to rise by 311% to Rs6.3 crore.

Apollo Tyres

The strong growth in the automobile segment is trigerring a good growth in the tyre companies in the OEM as well as the replacement market. Apollo Tyres is the leader in the commercial vehicle tyre segment and is expected to post strong Q3FY2007 results. We expect the top line to grow by 19.4% to Rs810.2 crore while the operating margins are expected to improve to 9% as against 7.9% last year. The net profit for the quarter is expected to improve by 73.7% to Rs28.6 crore.

Valuation table-Sharekhan auto universe

Particulars	CMP	EPS		PER		EV/EBIDTA	
	(RS)	FY07	FY08	FY07	FY08	FY07	FY08
Ahmednagar Forgings	285	21.9	38.1	13.0	7.5	7.1	4.2
Apollo Tyres	350	20.1	31.3	17.4	11.2	7.5	5.1
Ashok Leyland	45.2	3.1	3.8	14.8	12.0	8.3	6.7
Bajaj Auto	2,619	125.1	151.6	20.9	17.3	14.1	10.7
Ceat Ltd	127	6.1	15.6	20.8	8.2	6.9	4.2
Maruti Udyog	938	52.4	65.2	17.9	14.4	12.7	9.5
M&M	956	57.8	66.5	16.5	14.4	8.4	7.0
Omax Auto	90	11.5	14.9	7.8	6.0	4.3	3.6
Subros	248	28.1	40.5	8.8	6.1	4.4	3.0
Sundaram Clayton	1,344	52.8	77.2	21.2	14.5	17.5	11.7
Tata Motors	934	53.9	67.4	17.3	13.9	10.5	9.2
TVS Motor	82	4.8	8.7	17.1	9.4	9.8	5.4

Ashok Leyland

Ugly Duckling

Stock Update

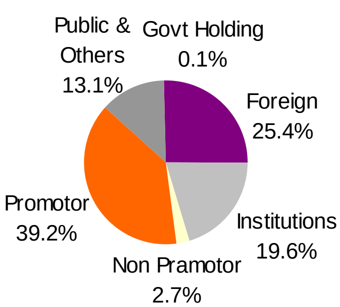
VAT caps growth

Buy; CMP: Rs45

Company details

Price target:	Rs53
Market cap:	Rs5,975 cr
52 week high/low:	Rs54/29
NSE volume: (No of shares)	5.1 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	79.6 cr

Shareholding pattern



Price chart

Price performance

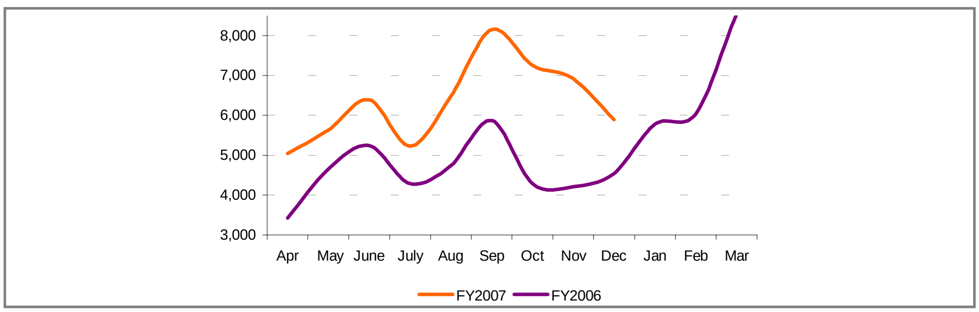
(%)	1m	3m	6m	12m
Absolute	3.7	-5.6	18.8	42.9
Relative to Sensex	4.3	-15.7	-6.4	-0.9

December sales highlights

- Ashok Leyland reported good numbers for December with an overall growth of 29.6%. However, the growth was lower on a month-on-month basis.
- The growth was affected by the implementation of the value-added tax (VAT) in Tamil Nadu, as most of the sales from the state got deferred to January 2007. Tamil Nadu contributes around 18% of the company's sales volumes.
- The truck segment continued to witness buoyancy, recording a growth of 43% with sales of 4,418 units in December 2006.
- The bus segment recorded a growth of 6.3% during the month, after recording a consistent decline in the earlier months. The light commercial vehicle sales declined by 76% to 22 units.
- The domestic sales for the month grew by 48% to 5,413 units while the exports declined by 46% in December.
- At the current market price of Rs45.2, the stock discounts its FY2008E earnings by 12x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 6.7x. We maintain our Buy recommendation on the stock with a price target of Rs53.

	Dec-06	Dec-05	% yoy	% mom	YTD-07	YTD-06	% yoy
MDV passenger	1,450	1,364	6.3	-0.9	10,407	11,633	-10.5
MDV goods	4,418	3,089	43.0	-18.8	46,340	29,024	59.7
LCV	22	91	-75.8	4.8	257	596	-56.9
Total sales	5,890	4,544	29.6	-14.9	57,004	41,253	38.2

Sales numbers



Key financials

Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	4,182.4	5,247.7	6,415.9	7,644.9
Net profit (Rs cr)	281.0	305.6	406.7	503.5
Shares in issue (cr)	118.9	122.2	133.2	133.2
EPS (Rs)	2.4	2.5	3.1	3.8
% y-o-y growth		*9.0*	*33.0*	*24.0*
PER (x)	19.1	18.1	14.8	12.0
Book value (Rs)	9.6	11.4	15.0	15.6
P/BV (Rs)	4.7	4.0	3.0	2.9
EV/EBIDTA (x)	12.9	10.4	8.3	6.7
Dividend yield (%)	2.2	2.9	2.7	2.7
RoCE (%)	20.7	21.8	25.9	28.8
RoNW (%)	23.7	23.6	20.4	24.2

Allsec Technologies

Viewpoint

All set to grow

CMP: Rs310

Allsec, a Chennai-based business process outsourcing (BPO) company, started operations in mid-2000 with a 100-seat facility. Currently, the company has staff strength of 2,700 employees spread over three delivery centres (two in Chennai and one in Bangalore) with a combined capacity of 2,300 seats. It includes a 600-seat capacity acquired by the take-over of B2K Corporation in December 2005.

The company is largely focused on financial services and insurance industry vertical. Currently, it generates around 80% of its revenues from voice-based processes. However, it has continuously improved the revenue contribution from non-voice based services and hopes to maintain the trend.

Decent track record

Allsec has successfully scaled up its business from a 100-seat facility to 2,300 seat operations over the past five years. The growth has only accelerated in the past two years with the setting up of a 1000-seat facility in Chennai and the acquisition of a 600-seat centre in Bangalore in December 2005. The manpower almost doubled to 2,200 employees (including the addition of 170 people from inorganic initiatives during the two-year period FY2004-06). Consequently, the consolidated revenues have grown at an exponential rate of 116.4% to Rs93.9 crore in the same period.

The exponential growth was accompanied by a dramatic improvement in its profitability. As compared with a net loss in FY2004, the company reported a healthy operating profit margin of 27.8% and a net profit margin of 22%, which are among the best in the industry.

Robust outlook

According to estimates of Nasscom, the BPO industry is likely to grow at a compounded annual growth rate (CAGR) of 37% over the four-year period 2006-2010, much higher than the estimated compounded annual growth of 25% in the information technology service segment. Allsec, with its proven track record of successfully scaling up the operations, is well poised to exploit the opportunity.

The company would also gain from the induction of a leading private equity player, First Carlyle Venture Fund (FCVF), as one of its major shareholders. FCVF has invested around Rs79 crore (including the initial part payment for the convertible warrants) into Allsec. It is purely a financial investment and the management control would continue to remain with the current management (which holds 30.3% of the diluted equity base).

Margins appear to be sustainable

Allsec has been able to mitigate the impact of rising employee cost by saving in the connectivity cost, and sales, general and administrative (SG&A) expenses as a percentage of sales. Going forward, the company believes that the efforts taken to improve seat utilisation level would provide a cushion against the cost pressures.

Additional triggers

In addition to the robust organic growth, the company is expected to aggressively scout for inorganic initiatives given the huge cash on its balance sheet. The company is expected to end the year with cash & cash equivalents of over Rs100 crore. The idea is to look for companies that can provide access to newer markets and expand its range of offerings to additional industry verticals.

Concerns

Buy-out option with CompuCredit

Allsec has around 30 active clients across various industry verticals, however the US-based CompuCredit continues to be one of its largest clients with revenue contribution of over 40% in FY2006. CompuCredit, a tier-II leading credit card and micro lending consumer finance company, has the option to buy out the 450-seat facility from Allsec at book value during the period between March 2009 and March 2011. The risk of losing part of its business is one of the key concerns that could considerably affect the performance in future.

Valuation

Allsec is expected to outperform the overall growth in the BPO industry over the next couple of years. However, the scrip appears to be fairly priced at the current discounting of 16.6x FY2007 and 12x FY2008 estimated earnings.

Key financials

Particulars	2005	2006	2007E	2008E
Net sales (Rs cr)	57.6	92.3	136.5	186.5
Net profit (Rs cr)	11.9	21.6	30.2	41.9
No. of shares (cr)	0.9	1.2	1.6	1.6
EPS (Rs)	13.4	17.9	18.7	25.9
% y-o-y change	-	*33.2*	*4.4*	*38.5*
PER (x)	23.1	17.3	16.6	12.0
Price/CEPS (x)	16.3	11.8	8.8	6.4
Price/BV (x)	12.6	5.3	3.0	2.3
EV/EBIDTA (x)	17.5	13.4	10.9	7.3
RoCE (%)	41.1	29.0	16.6	17.6
RoNW (%)	92.6	36.8	19.7	20.3

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
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
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Tata Elxsi
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
HCL 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
Wockhardt

Vulture's Pick

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Orient Paper and Industries
WS Industries India

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