investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Deepak Fertiliser	17-Mar-05	51	**87**	126
HCL Tech	30-Dec-03	103	**338**	395
JP Associates	30-Dec-03	125	**627**	850
Madras Cement	17-Nov-05	1,498	**2,918**	4,000
Tata Elxsi	14-Dec-06	232	**325**	385

Sharekhan Ltd
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

Esab India

Vulture's Pick

Stock Update

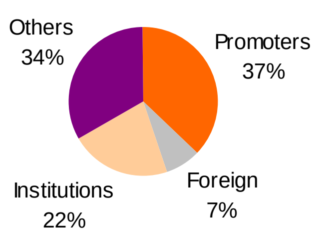
Beating expectations

Buy; CMP: Rs378

Company details

Price target:	Rs575
Market cap:	Rs582 cr
52 week high/low:	Rs467/237
NSE volume: (No of shares)	16,230
BSE code:	500133
NSE code:	ESABINDIA
Sharekhan code:	ESAB
Free float: (No of shares)	1.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	24.2	-1.9	-7.3	-16.3
Relative to Sensex	11.3	0.1	-13.9	-28.0

Result highlights

- Esab India's Q1CY2007 results are ahead of our expectations. Its top line grew by 29% to Rs81.2 crore and bottom line grew by a strong 38% to Rs12.3 crore during the quarter.
- The higher top line growth was aided by the company's new facility as Chennai, which on a fully operational basis can contribute additional Rs60 crore to the top line. The revenues for the quarter recorded an impressive 29% growth as the equipment division's revenue increased by 31.7% and the consumable division's revenue grew by 28.1%.
- The operating profit for the quarter grew by 44% to Rs19.6 crore as operating profit margin (OPM) improved by 250 basis points to 24.1%. The improvement in the OPM was on account of better profitability of both the divisions. The earnings before interest and tax (EBIT) margin of the equipment division improved by 396 basis points to 16.5% and that of the consumable division improved by 282 basis points to 27.7%.
- The depreciation for the quarter increased by 24% as the company has commissioned its new plant at Chennai.
- The interest cost was negligible as the company has repaid its entire debt and become a debt-free company.

Esab India's Q1CY2007 results are ahead of our expectations; it had expanded its product range and product capacities in CY2006. The new plant for manufacturing welding and cutting equipment at Irungattukottai and the new MIG line at Khardah went into commercial production during the quarter. The company is also setting up a production capacity at Irungattukottai for Flux Cored Wires for which it has entered into technology transfer agreements with other Esab group companies. This project and the additional capacities in some of the existing lines are scheduled to go on stream in CY2007.

Result table Rs (cr)

Particulars	Q1CY07	Q1CY06	% yoy chg
Net sales	**81.2**	**62.9**	**29.0**
Total expenditure	61.6	49.3	24.9
Operating profit	19.6	13.6	44.0
Other income	0.7	1.2	-37.8
EBIDTA	20.3	14.8	37.4
Interest	0.2	0.1	53.8
Depreciation	1.3	1.1	24.3
PBT	18.8	13.6	38.3
Tax	6.5	4.7	38.2
PAT	**12.3**	**8.9**	**38.3**
Extra-ordinary Items	0.0	0.0	-
Reported PAT	12.3	8.9	38.3
EPS	8.0	5.8	38.3
Margins			
OPM (%)	24.1	21.6	
PATM (%)	15.2	14.2	

Going forward, the hectic activity in India's core infrastructure sectors, like roads, ports, airports, construction and the other industrial sectors, are expected to drive volumes for the welding industry and Esab India being the market leader is expected to make the most of it. We maintain our Buy recommendation on the stock with a price target of Rs575.

Net sales up 29% during the quarter

The 29% growth in the net sales of Esab India during the first quarter was ahead of our expectations. The higher top line growth was aided by the company's new facility as Chennai, which on a fully operational basis can contribute additional Rs60 crore to the top line. The revenues for the quarter recorded an impressive 29% growth as the equipment division's revenue increased by 31.7% and consumable division's revenue grew by 28.1%.

Segmental results

Particulars	Q4CY06	Q4CY05	% yoy chg
Segment revenue			
Consumables	59.38	46.37	28.1
Equipment	21.79	16.54	31.7
PBIT			
Consumables	16.44	11.53	42.6
Equipment	3.59	2.07	73.4
PBIT margin (%)			
Consumables	27.69	24.87	
Equipment	16.48	12.52	

New plant at Irungattukottai, Chennai went into commercial production

The new plant for manufacturing welding and cutting equipment at Irungattukottai and the new MIG line at Khardah went into commercial production during the quarter. The company is also setting up a production capacity at Irungattukottai for Flux Cored Wires for which it has entered into technology transfer agreements with the other Esab group companies. This project and the additional capacities in some of the existing lines are scheduled to go on stream in CY2007.

Improvement in the EBIT margin

As mentioned in our earlier update, the commissioning of the new equipment plant as well as the introduction of new products with technological help from the parent would help the company to register a decent top line growth and an improvement in the margin. The EBIT margin of the equipment division improved by 396 basis points to 16.5% and that of the consumable division improved by 282 basis points to 27.7%.

Valuation and view

The continuing thrust on infrastructure and growth in the other-steel based segments of the industry will continue to drive the volume growth for the company's products. At the current market price of Rs378, the stock is discounting its CY2007 earnings by 11.2x. On an enterprise value/ earnings before interest, depreciation, tax and amortisation (EBIDTA) basis the stock is trading at 6.2x its CY2007 EBIDTA. We maintain our Buy recommendation on the stock with a price target of Rs575.

Earnings table Rs (cr)

Particulars	CY03	CY04	CY05	CY06	CY07E
Net sales (Rs cr)	135.1	187.1	238.2	287.2	325.6
Net profit (Rs cr)	0.7	20.4	35.2	42.6	52.1
% y-o-y growth	*-106*	*2807*	*73*	*21*	*22*
Shares in issue (cr)	1.54	1.54	1.54	1.54	1.54
EPS (Rs)	0.5	13.2	22.8	27.7	33.9
% y-o-y growth	*-106*	*2807*	*73*	*21*	*22*
PER (x)	792.0	27.2	15.8	13.0	10.6
Book value (Rs)	12.8	26.0	22.2	49.9	83.7
P/BV (Rs)	28.1	26.0	11.2	7.2	4.3
EV/EBIDTA (x)	123.9	16.7	9.4	8.2	5.9
EV/Sales (x)	4.2	2.9	2.1	1.9	1.4
RoCE (%)	6.4	74.6	113.9	108.1	74.4
RoNW (%)	3.6	50.8	103.1	55.5	40.4

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

Nucleus Software Exports

Emerging Star

Stock Update

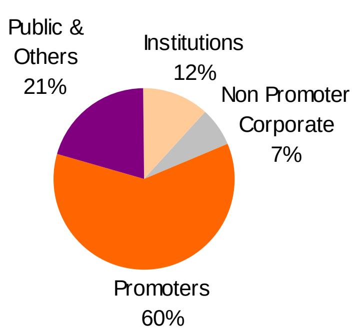
Put on Hold

Hold; CMP: Rs1,010

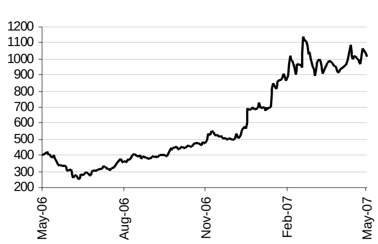
Company details

Price target:	1,020
Market cap:	Rs1,626 cr
52 week high/low:	Rs1,198/245
NSE volume: (No of shares)	35,110
BSE code:	531209
NSE code:	NUCLEUS
Sharekhan code:	NUCSEX
Free float: (No of shares)	0.64 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.9	20.1	119.0	165.1
Relative to Sensex	1.2	22.5	103.4	128.1

Result highlights

- Nucleus Software Exports (Nucleus) has announced a growth of 7.1% quarter on quarter (qoq) and 42.9% year on year to Rs60.2 crore. The product revenues have grown at a robust rate of 12.3% sequentially whereas the project and service business remained flat sequentially during the fourth quarter.
- The operating profit margin (OPM) improved by 60 basis points sequentially to 28.5%, in spite of the 230-basis-point increase in the selling, general and administration expenses as a percentage of the sales (up from 15.7% to 18% in Q4). The OPM was boosted by a 290-basis-point improvement in the gross margin due to a favourable revenue mix (even after accounting for Rs1.8 crore of a one-time expense due to the penalty related to the delay in project execution).
- However, the earnings were largely flat at Rs13.9 crore (sequentially) due to a lower other income, higher depreciation cost and tax rate during the quarter. The same are lower than our expectations of around Rs15.5 crore.
- The order backlog of Rs330 crore continues to be healthy (up from Rs131 crore as on March 2006). Moreover, the expected execution of the ACOM order (around $35 million) is likely to boost the overall revenue growth in the coming quarters.
- Along with the results, the company has rewarded the shareholders with a bonus issue of 1:1 and dividend payout of 35% (Rs3.5 per share).
- In addition to the subdued performance in the past two quarters (a flat growth for two consecutive quarters), the scrip has appreciated by over 100% since our Buy recommendation on December 12, 2007 (@Rs497) and appears fairly valued

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	Q3FY07	% yoy	% qoq
Net sales	60.2	42.1	56.2	42.9	7.1
Software development expenditure	32.2	21.8	31.7	47.4	1.6
Gross profit	28.0	20.3	24.5	38.1	14.2
Selling & marketing expenses	5.2	3.0	5.5	70.0	-6.6
General & administration expenses	5.6	3.7	3.3	51.1	71.3
EBIDTA	17.2	13.5	15.7	27.3	9.5
Other income	0.9	0.5	1.6	82.0	-46.6
Depreciation	2.1	1.2	1.7	66.7	20.9
PBT	15.9	12.7	15.6	25.4	2.5
Tax	2.0	2.0	1.6	2.4	23.5
RPAT	13.9	10.8	13.9	29.6	0.1
Extra-ordinary items	0.0	-0.2	0.0	-	-
APAT	13.9	10.9	13.9	27.9	0.1
Equity Capital	16.1	16.1	16.1		
EPS	8.7	6.8	8.7		
Margins (%)					
GPM	46.5	48.1	43.6		
OPM	28.5	32.0	27.9		
NPM	22.9	25.6	24.1		

at around 14.8x FY2009 earnings estimate (introduced in the note). Consequently, we are downgrading the stock to Hold recommendation and would review our estimates if the ramp up in the business is much faster than our expectations.

Product revenues continues to be the key growth driver

The company's overall revenue growth continues to be driven by the product business that grew by 12.3% sequentially to Rs35.7 crore. This is the seventh consecutive quarter of a double-digit sequential growth in the product revenues.

On the other hand, the revenue from the relatively low-margin project and service business was flat sequentially (after a 9.3% sequential decline in Q3FY2007). The company has taken a conscious decision to exit some low-margin software service contracts so that the required manpower is available to execute its pending order book.

Revenue break-up

Particulars	Q4FY07	Q4FY06	Q3FY07	% yoy	% qoq
Product	35.7	18.6	31.8	92.2	12.3
Project and services business	24.5	23.5	24.4	4.1	0.3

Order book remains healthy

The order backlog of Rs330 crore is higher by 152% as compared to Rs131 as on March 2006. The company bagged orders for 74 modules of FinnOne suite across 22 product orders in FY2007. In addition to the multi-million dollar order from the Japanese consumer finance company, ACOM, the company bagged some contracts that involve the roll-out of its products in multiple geographies. For instance, it has secured an order from a European financial company for the implementation of its products in 16 countries. No wonder, the FinnOne suite was ranked as the largest (No 1) selling retail lending software by the reputed IBS Publishing, London recently.

Margins likely to look up

The company's decision to exit some of the low-margin software service business and the expected ramp-up of revenues in the high-margin product business (on the back of a huge pending order book) would result in a favourable shift in the revenue mix towards the high-margin product business. This, in turn, is expected to boost the overall profitability over the coming quarters. We estimate that the product business would contribute around 65% of revenues in FY2008, up from 54.1% in FY2007 and 38.4% in FY2006.

Other highlights

The employee base stood at 1,532 people, implying net addition of 103 employees in Q4 and 464 employees in FY2007. The company has commissioned additional block at its facilities in Noida with a seating capacity of around 800 employees.

The receivable days has jumped to 91.2 days in FY2007, up sharply from 58.7 days in FY2006.

The cash & cash equivalent situation was comfortable at Rs81.9 crore as on March 31, 2006.

Valuation

In addition to the subdued performance in the past two quarters, the scrip has appreciated by over 100% since our Buy recommendation on December 12, 2007 (@Rs497) and appears fairly valued at around 14.8x FY2009 earnings estimate (introduced in the note). Consequently, we are downgrading the stock to Hold recommendation and would review our estimates based on the performance in the coming couple of quarters.

Earnings table

Particulars	FY06	FY07	FY08E	FY09E
Net sales (Rs cr)	148.2	221.2	322.6	441.4
Net profit (Rs cr)	37.0	55.2	81.0	110.7
No of shares (cr)	1.7	1.7	1.6	1.6
EPS (Rs)	21.8	32.6	49.7	68.0
% y-o-y change	*242.1*	*49.5*	*52.4*	*36.7*
PER (x)	44.1	29.8	20.3	14.8
Price/BV (x)	14.2	9.9	6.9	4.8
EV/EBIDTA(x)	33.2	23.4	15.7	11.3
Dividend yield (%)	0.3	0.3	0.3	0.3
RoCE (%)	37.7	37.4	39.1	37.1
RoNW (%)	32.1	33.2	34.0	32.1

Orchid Chemicals & Pharmaceuticals

Emerging Star

Stock Update

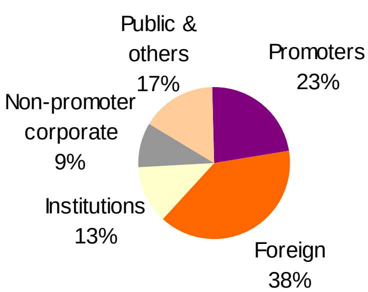
Q4FY2007 results—first-cut analysis

Buy; CMP: Rs263

Company details

Price target:	Rs390
Market cap:	Rs1,731 cr
52 week high/low:	Rs347/142
NSE volume: (No of shares)	4.5 lakh
BSE code:	524372
NSE code:	ORCHIDCHEM
Sharekhan code:	ORCHID
Free float: (No of shares)	5.1 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.9	3.6	29.4	-20.4
Relative to Sensex	-6.9	5.7	20.2	-31.5

Result highlights

- Orchid Chemicals & Pharmaceuticals (Orchid) reported a 3.4% increase year on year (yoy) in its net sales to Rs248.0 crore in Q4FY2007. The sales growth was above our expectations. The growth in the sales was marginal due to the absence of any significant new launches in the US market during the quarter.
- The company maintained its performance in its major market, the USA. Its key products—Ceftriaoxne and Cefproxil—continued to maintain a healthy market share in excess of 20-25%. Further, being the sole generic supplier of Cefoxitin and Cefazolin in the USA, Orchid continues to maintain its high market share for these products.
- Orchid's operating profit margin (OPM) improved by 190 basis points to 30.7% in the quarter. The improvement in the margin was driven by a 14.5% decline in the company's material cost on account of an improved product and geographical mix. The resultant improvement in the margin has caused the company's operating profit to grow by 10.2% to Rs76.1 crore in Q3FY2007.
- For FY2007, Orchid's stand-alone revenues grew by 5.1% to Rs934.2 crore. The revenue growth was below our estimates. Despite higher interest cost and tax outgo, the net profit grew by an appreciable 16.6% to Rs96.6 crore. The net profit reported by the company was higher than our estimate of Rs92.3 crore.
- On a consolidated basis, Orchid's revenues rose by 3.5% to Rs985.1 crore in FY2007. The company's consolidated profits grew by an impressive 37.2% to Rs78.6 crore. The consolidated profits were higher than our estimate of Rs75.3 crore.
- At the current market price of Rs263, Orchid is quoting at 9.3x its estimated FY2008E earnings. The valuation is very attractive given the strong growth potential for FY2008 and FY2009 in view of some forthcoming big launches in the USA and an entry into Canada and Europe. Hence, we maintain our Buy call on the company with a price target of Rs390.

Result table (standalone) Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Total operating income	248.0	239.8	3.4	934.2	888.8	5.1
Expenditure	171.9	170.7	0.7	644.4	629.5	2.4
Operating profit	76.1	69.1	10.2	289.8	259.3	11.8
Other income	0.3	1.0	-70.7	1.6	1.3	17.5
EBITDA	76.4	70.1	9.0	291.4	260.6	11.8
Interest expense	24.2	20.0	21.0	98.3	87.0	13.0
Depreciation	22.7	26.1	-13.1	82.5	83.0	-0.6
PBT	29.5	24.0	23.0	110.6	90.6	22.0
Taxes	5.3	4.6	13.9	14.0	7.7	81.1
Net profit	24.3	19.4	25.2	96.6	82.9	16.6
EPS (Rs)	3.7	3.0	22.9	14.7	12.8	14.4
OPM (%)	30.7	28.8		31.0	29.2	
EBIDTA margin (%)	30.8	29.2		31.2	29.3	
Net profit margin (%)	9.8	8.1		10.3	9.3	

Apollo Tyres

Apple Green

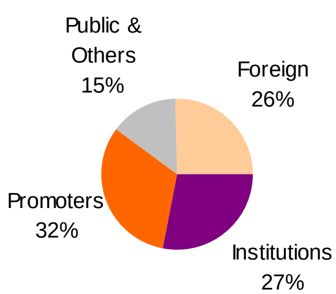
Stock Update

Strong performance

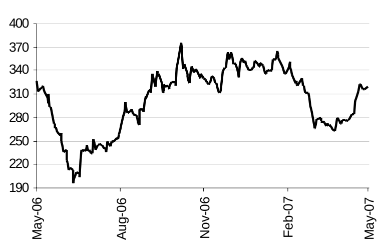
Buy; CMP: Rs318

Company details	
Price target:	Rs425
Market cap:	Rs1,473 cr
52 week high/low:	Rs386/194
NSE volume: (No of shares)	55,158
BSE code:	500877
NSE code:	APOLLOTYRE
Sharekhan code:	APOLLOTYR
Free float: (No of shares)	3.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17.1	-3.3	-1.7	1.0
Relative to Sensex	5.0	-1.3	-8.7	-13.1

Result highlights

- Apollo Tyres' Q4 results are ahead of our expectations, on both the top line and the margin front.
- The net sales for the quarter saw a strong growth of 22% year on year (yoy) to Rs910.2 crore. The growth was achieved on the back of a 7% growth in the volumes and about a 14.6% growth in the realisation yoy.
- On the back of numerous price hikes undertaken by the industry, softening rubber prices and improved operating efficiencies the margins also improved. The operating profit margin (OPM) expanded by 340 basis points yoy to 11% as the operating profit increased by 78% to Rs100.4 crore.
- Stable interest and depreciation charges helped the company to post a brilliant net profit growth of 141.4% to Rs42.7 crore. The reported profit is up by 62% due to an extraordinary item last year.
- At the current market price of Rs318, the stock discounts its FY2008E earnings by 10.1x and quotes at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 4.5x. We maintain our Buy recommendation on the stock with a price target of Rs425.

Strong top line growth led by tonnage and realisation growth

The net sales for the quarter exceeded our expectations, growing at 22.6% to Rs1,043.1 crore. The sales growth was backed by a strong volume growth of about 7% for the quarter and a realisation growth of 14.6%. For FY2007, the volumes have grown at 9% while the sales have grown at 25.4%.

Result table Rs (cr)

Particulars	Q4 FY07	Q4FY06	% yoy	FY07	FY06	% yoy
Net sales	**910.2**	**745.9**	**22.0**	**3292.3**	**2625.5**	**25.4**
Expenditure	809.8	689.5		2983.0	2402.8	
RM consumed	576.8	512.0		2258.0	1844.2	
Change in stock	34.0	4.9		-31.4	-76.8	
Staff cost	50.5	41.0		199.4	163.5	
Other expenses	148.5	131.6		556.9	471.9	
Operating profit	**100.4**	**56.4**	**78.1**	**309.3**	**222.7**	**38.9**
Other income	2.6	0.3		3.0	1.7	
EBIDTA	103.0	56.7	81.6	312.3	224.5	39.1
Interest	13.3	13.4		52.7	50.6	
PBDT	89.7	43.3	106.9	259.6	173.9	49.3
Depreciation	19.0	20.5		74.2	72.8	
PBT	70.7	22.8	209.4	185.4	101.1	83.4
Tax	28.0	5.1		72.0	28.2	
Profit after tax	**42.7**	**17.7**	**141.4**	**113.4**	**72.9**	**55.5**
Extraordinary items	0.0	8.7		0.0	5.3	
Net profit	42.7	26.4	61.9	113.4	78.2	45.1
EPS	9.2	6.9	33.8	24.4	16.8	45.1
OPM (%)	11.0	7.6			9.4	8.5
PATM (%)	4.7	2.4			3.4	2.8

Price hikes in last one year spur margins

The OPM improved by 340 basis points yoy and by 20 basis points sequentially to 11.0%. This was largely due to a fall in the raw material cost. The raw material cost as a percentage of sales declined to 65.8% from 69.1% last year, mainly as the tyre majors were able to pass on the rubber price increase in the last one year. The company also made savings in its staff cost and other expenditures, which have come down as a percentage of sales.

The interest and the depreciation charges remained fairly stable. Consequently, the net profit for the quarter rose by a brilliant 141.4% to Rs42.7 crore. There was an extraordinary item to the tune of Rs8.7 crore last year; hence the reported profit marked an increase of 62%.

Rubber prices expected to be stable

The average cost to the company for the procurement of rubber in Q4 was Rs100 per kilogram. Rubber prices have stabilised in the past two months, at about Rs90-95 per kilogram, and the prices are expected to remain stable going forward. Even if there is any adverse movement in the rubber prices, we believe that the margins of tyre companies would be maintained at the current levels as we believe that the tyre majors have the power to pass on the impact of higher raw material prices. The company would also benefit from the appreciating rupee, as some of the important raw materials like SBR, carbon black and nylon tyre cords are imported.

Consolidated picture improving due to better performance of subsidiary

The performance of Apollo Tyres' subsidiary, Dunlop South Africa, has shown a considerable improvement in the past one year, since its acquisition by Apollo Tyres in April 2006. To illustrate, the profit before depreciation, interest and tax (PBDIT) margin has improved from 7.7% in the first half to 12.4% in the second half of the year. This has been possible due to the better performance of the South African tyre industry, price hikes undertaken over there and higher operating efficiencies in the South African operations.

Dunlop South Africa has also seen some amount of debt restructuring in the past six months, with its high cost debt being replaced by a lower cost one. This coupled with the price hikes and better operating efficiencies has led the growth in the PAT margin to 5% in Q4FY2007. For the full year, the PAT margin of Dunlop South Africa stood at 1.9%.

Capex for FY2008 increased to Rs400 crore

The capital expenditure (capex) for FY2008 is slated to be Rs400 crore. Out of this amount, Rs100 crore would be spent on the capacity expansion for off the road tyres which would be for Bharat Earth Movers' captive use. The bulk of the balance would be spent on setting up of a new greenfield plant at Tamil Nadu for the manufacture of tyres for trucks and bus radials. This plant, with a capacity of about 90 tonne per day, is expected to start operations by the second half of FY2009. Apart from this, the company would also expand its passenger car radial tyre capacity and cross-ply capacity from 10,000 to 12,000 tyres per day at its Baroda plant.

Valuations and view

Considering the strong growth seen in the medium and heavy commercial vehicle segment over the past two years, we expect the replacement demand for tyres to be healthy going forward. Being the segment leader, Apollo Tyres is expected to be one of the prime beneficiaries of the same. The strong growth in the tyre offtake is expected to continue as the company expects a volume growth of 10% in FY2008. The consolidated performance has also started to look good with Dunlop South Africa's better performance and debt restructuring. At the current market price of Rs318, the stock is trading at 10.1x its FY2008E earnings and at an EV/EBIDTA of 4.5x. We maintain our Buy recommendation on the stock with a price target of Rs425.

Earnings table Rs (cr)

Particulars	FY04	FY05	FY06	FY07	FY08E
Net sales (Rs cr)	1910.8	2235.8	2613.6	3292.3	3741.0
Net profit (Rs cr)	70.4	67.6	78.2	113.4	158.0
Shares in issue (cr)	3.8	3.8	3.8	4.6	5.0
EPS (Rs)	18.4	17.6	20.4	24.4	31.3
% y-o-y growth		*-4.0*	*15.6*	*19.8*	*28.3*
PER (x)	17.0	16.8	16.6	13.0	10.1
Book value (Rs)	149.2	150.4	165.4	209.8	247.4
P/BV	2.1	2.1	1.9	1.5	1.3
EV/EBITDA	8.9	13.3	7.7	5.6	4.5
Mcap/Sales	0.6	0.5	0.5	0.4	0.4
ROCE (%)	16.3	13.1	12.7	16.4	17.4
RONW (%)	12.5	12.6	11.6	11.6	12.7

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

Ashok Leyland

Ugly Duckling

Stock Update

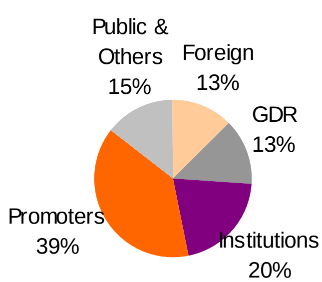
Q4FY2007 results—first-cut analysis

Buy; CMP: Rs39.5

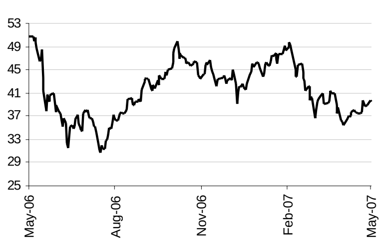
Company details

Price target:	Rs44
Market cap:	Rs5,229 cr
52 week high/low:	Rs52.5/30
NSE volume: (No of shares)	44.7 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	63.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.2	-14.6	-4.8	-14.9
Relative to Sensex	-1.2	-12.9	-11.5	-26.8

Result highlights

- Ashok Leyland has delivered strong results for Q4FY2007 and the same are ahead of our expectations on the margin front. The top line has grown by 32.1% for the quarter driven by a volume growth of 28.4% and a realisation growth of 2.9%.
- We were positively surprised with the operating profit margin, which stood at 11.6% for the current quarter against our expectations of 10.7%. In comparison to last year, the operating profit margin has declined by 100 basis points, mainly due to a higher raw material cost. Consequently, the operating profit for the quarter has grown by 21.1% to Rs264.9 crore.
- Lower interest cost and tax outgo helped the company grow its net profit by 28.8% to Rs174.6 crore.
- For FY2007, the net sales for the company grew by 36.5% led by a volume growth of 35%. The operating profit margin came down slightly by 30 basis points to 9.9% while the profit for the year grew by 46% to Rs436.3 crore.
- We are adopting a cautious outlook on the industry considering the rising interest rates and tightening liquidity in the country which would affect its sales volumes. Consequently, after a dream run in FY2007, we expect the company's growth rates to moderate. We expect a volume growth of 11.9% for FY2008.
- At the current market price of Rs39.5, the stock discounts its revised FY2008E earnings by 11x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 6.4x. We maintain our Buy recommendation on the stock with a price target of Rs44.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY2007	FY2006	% yoy
Net sales	2,291.0	1,734.8	32.1	7,168.2	5,250.6	36.5
Expenditure	2,026.1	1,516.1		6,459.8	4,717.4	
Raw material consumed	1,537.9	1,087.7		5,403.8	3,973.9	
Change in stock	168.0	196.1		-64.7	-204.9	
Staff cost	116.3	81.6		480.7	403.9	
Other exp	203.8	150.8		640.0	544.6	
Operating profit	264.9	218.7	21.1	708.4	533.1	32.9
Op profits excl forex gain/loss	259.6	214.1	21.2	705.4	536.7	31.4
Other income	16.9	11.0		47.0	33.0	
EBIDTA	281.8	229.7	22.7	755.4	566.1	33.4
Interest	1.9	9.8		5.3	16.5	
PBDT	280.0	219.9	27.3	750.0	549.6	36.5
Depreciation	48.1	33.0		150.6	126.0	
PBT	231.8	186.9		599.5	423.6	
Tax	57.3	51.3		163.2	125.0	
PAT	174.6	135.5	28.8	436.3	298.7	46.1
Extraordinary Items	-3.0	-2.1		5.1	21.6	
Net profit	171.5	133.5	28.5	441.3	320.3	37.8
EPS (Rs)	1.3	1.1		3.3	2.3	
OPM (%)	11.6	12.6		9.9	10.2	
OPM-excl forex (%)	11.3	12.3		9.8	10.2	
PATM (%)	7.6	7.8		6.1	5.7	

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 Lever
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
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware 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
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Wockhardt

Vulture's Pick

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