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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Cadila Healthcare	21-Mar-06	297	358	425
♦ Ceat	28-Nov-06	122	130	190
♦ India Cements	28-Sep-06	220	234	315
♦ Indo Tech Trans	28-Nov-06	199	266	280
♦ Lupin	06-Jan-06	403	610	670

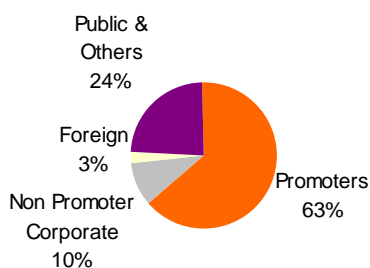
ORG Informatics

Emerging Star
Stock Update
Acquisition of DGIT Solutions
Buy; CMP: Rs174

Company details

Price target:	Rs190
Market cap:	Rs204 cr
52 week high/low:	Rs209/70
BSE volume: (No of shares)	87,168
BSE code:	517195
Sharekhan code:	SARAELE
Free float: (No of shares)	0.43 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.6	40.0	79.0	8.4
Relative to Sensex	-6.8	23.7	35.7	-27.2

ORG Informatics (ORG) has acquired 100% stake in Singapore-based DGIT Solutions Pte Ltd. Earlier, ORG had successfully raised \$10 million through a global depository receipt (GDR) issue in the overseas markets. The issue had been priced at around Rs155 per share and resulted in a dilution of the equity base by 28.6 lakh shares. The company had also considered a preferential issue of 6 lakh warrants to its investors; the same has now been put on the backburner. Instead the company is considering dilution of equity through a fresh issue of shares for its future acquisitions. The additional dilution will be in line with the preferential issue of warrants considered earlier.

Synergies from the acquisition

DGIT Solutions is a Singapore-based company, catering to the enterprise information technology (IT) needs of organisations spread across the Asia-Pacific region. DGIT Solutions has broadly four lines of businesses:

- ♦ IT resource consulting
- ♦ ERP consulting
- ♦ Enterprise management solutions
- ♦ Software development

DGIT Solutions has been acquired for \$1 million and the acquisition has been funded largely with the proceeds of the recent GDR issue. The acquisition would result in synergies for ORG's IT software and consultancy business, and expand its geographical reach mainly into the East-Asian markets of Singapore, Thailand, the Philippines and Malaysia. Also, DGIT Solutions is a profit-making company offering high scalability for growth in its core area of business.

It also has a list of marquee customers, including Computer Associates, Sony Singapore, IBM, SAP Asia Pte and ST Group.

On an acquisition spree

ORG is considering making more acquisitions and is on the look out for a couple of domestic Indian IT companies. It is specifically targeting companies in the software product business with an acquisition size of about 6-7x profit after tax. The company has put on hold its earlier preferential issue of 6 lakh warrants and is considering a fresh issue (share-swap) for funding the upcoming acquisitions.

Valuation

At the current market price ORG trades at 18.3x its FY2007 and 12x FY2008 estimated earnings. We would be revising our numbers on obtaining further clarity on the profiles of ORG's upcoming acquisitions. We maintain our Buy recommendation on the stock with a price target of Rs190.

Key financials

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales	85.5	155.2	328.0	426.2
Net profit (Rs cr)	2.7	8.1	16.4	24.9
No of shares (crore)	1.1	1.4	1.7	1.7
EPS (Rs)	2.4	5.9	9.5	14.5
(%) y-o-y change	33.1	146.2	60.7	52.3
PER (x)	72.4	29.4	18.3	12.0
Price/BV (x)	17.4	7.8	3.0	2.2
EV/EBIDTA(x)	34.9	15.1	9.3	7.2
RoCE (%)	18.7	37.5	35.8	30.4
RoNW (%)	28.3	43.2	25.9	21.3

Cement

Sector Update

Higher base effect subdues dispatch growth

Cumulatively the cement majors have reported a negative growth of 1% year on year (yoy) in the cement dispatches during December to 55.3 lakh tonne. We believe this negative growth can be attributed to the higher base effect as well as the operations of the companies at near capacity levels.

Company	Figures in lakh tonne			
	Dec-06	% yoy	YTD	% yoy
Gujarat Ambuja	13.8	0.2	**163.2	11.3
ACC	16.5	3.1	**186.2	6.6
AV Birla	25.0	-3.0	191.2	8.0
Cumulative	55.3	-1.0	*.	-

* cumulative growth is not provided as reference periods are different

** the period refers to Jan-Dec 2006

The AV Birla group (which includes Grasim Industries, UltraTech and Shree Digvijay Cement) recorded a negative year-on-year (y-o-y) growth of 3% to 25 lakh tonne whereas Gujarat Ambuja recorded a marginal 0.15% y-o-y growth to 13.8 lakh tonne. ACC recorded the highest growth of 3.1% amongst its peers to 16.5 lakh tonne.

Higher base effect subdues dispatch growth

In November last year, the Supreme Court had imposed a ban on the overloading of trucks. This subsequently led to a rush for trucks and thus the dispatches were affected. The piled up inventory was cleared in December. A look at the whopping sequential growth in December 2005 will substantiate our point.

Sequential growth in December'05

Figures in lakh tonne

Company	Nov-05	Dec-05	% MoM
Gujarat Ambuja	12.0	13.8	15.0
ACC	14.8	16.0	8.0
AV Birla	21.7	25.8	19.0
Cumulative	48.5	55.6	15.0

Combined growth for Nov & Dec

Figures in lakh tonne

Company	Nov-Dec'06	Nov-Dec'05	% yoy
Gujarat Ambuja	2.58	2.69	4.0
ACC	3.07	3.17	3.0
AV Birla	4.75	4.97	5.0
Cumulative	10.40	10.83	4.0

On account of the greater than normal dispatches in December 2005, the growth in December 2006 appears to be subdued on account of the higher base effect. Thus we believe that this is just an aberration and the dispatches in an absolute measure are very strong. (A look at the combined growth for November and December will give a better picture as it normalises the base effect.)

Players operating at full capacities

As the major players have not added any significant capacity in the last one-year, they have been operating at near full capacities. This subsequently has subdued the growth in production as well as dispatches. Thus we believe the fresh capacities will drive the growth rates going ahead.

Company	Price target	PER		EV/EBIDTA		EV/Tonne	
		FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
ACC	1250	18.4	15.3	11.1	8.9	213.7	191.8
Grasim	3350	14.1	11.8	7.0	5.5		
UTCL	1100	18.9	15.5	8.0	6.8	157.0	152.8
JP Associates	800	35.1	24.4	12.9	10.0		
Shree Cement	1700	15.5	11.6	9.3	6.4	245.6	170.6
Madras Cement	4000	13.2	11.2	7.1	6.1	143.0	129.8
JK cement	295	8.7	5.9	5.8	4.4	84.7	79.0
Orient Paper	800	8.9	6.5	5.3	4.0	86.4	66.4
India Cements	315	11.6	8.1	8.0	5.6	137.2	108.3

Cement prices maintain momentum along with cement consumption

The hectic activity in the housing, infrastructure and industrial segments have maintained the upward growth trajectory in the prices of cement. For the first six months the prices rose by 23.2% on a y-o-y basis to stand at Rs200 per bag. The prices of cement are rising unabated all across the country, which can be substantiated with the fact that Maharashtra witnessed an increase of Rs5 per bag in November whereas from December 1, 2006 Rajasthan has witnessed an increase of Rs5 per bag.

Outlook

Going forward we expect the cement dispatches to maintain the momentum on the back of vibrant construction activity

across the country and thus expect the prices to firm up further. The fact that the prices of cement continued to remain firm in the July-September quarter even after witnessing heavy rains across the country confirms our view on the same. This will be extremely positive for the cement companies, as their earnings would receive a tremendous fillip by the double impact of rising volumes and substantially higher cement realisations.

Even though the cement producers have announced big capacity addition plans, the high gestation period for these projects coupled with the continued buoyancy in the cement consumption would mean that the capacity utilisation levels will be comfortably placed even in FY2009. We thus maintain our positive view on the sector and rate ACC, UltraTech and Madras Cement as our top picks in the sector.

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

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
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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
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Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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