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Take Five

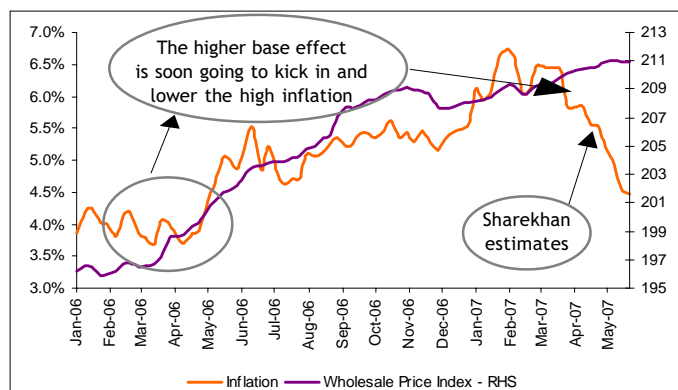
Scrip	Reco Date	Reco Price	CMP	Target
♦ Deepak Fertilisers	17-Mar-05	50	83	126
♦ HLL	24-Nov-05	172	200	280
♦ ICICI Bank	23-Dec-03	284	834	1,240
♦ IndoTech Trans	28-Nov-06	199	267	335
♦ Infosys	30-Dec-03	689	1,992	2,670

Pulse Track

Inflation above market estimates

The inflation data for the week ended March 24, 2007 stood at 6.39%, much above the market and our estimates of 6.25% and 6.17% respectively. Again the inflation data for the week ended January 27, 2007 has been finally revised upwards by 11 basis points to 6.69% on account of higher manufacturing and primary article inflation. After three weeks where the inflation hovered around the 6.46% level the latest 7-basis-point decline is mainly due to a higher base effect. We expect the inflation to decline further as the base becomes higher and higher from the current levels going forward. However, the inflation in the food articles and manufacturing segments does warrant some caution, as the government's measures so far have not provided the desired results.

Inflation should moderate to RBI's comfort zone by end May 2007



Primary articles and manufacturing keep inflation higher

The prices of primary articles continue to remain firm with the prices of food articles and non-food articles contributing to the higher inflation from this segment. Among the food articles mention may be made of the pulses, fruits and vegetables while in the non-food articles it is mainly the prices of oil seeds and minerals that have shot up.

The fuel and power index has remained stable while the manufacturing index, which has a 63.75% weightage, has shown a persistent increase and contributed to the higher inflation. Among the manufactured products food products edible oils and grain mills oil cakes top the chart in terms of the price increases. The basic metal steel has shown a 15% increase in the prices, which has spread across to other products as steel in some form or the other is used as a raw material for many manufacturing industries. To prevent further contribution to the inflation from the steel prices the government has asked the steel companies to hold back the price increases.

Outlook

The increase in the prices of food articles is mainly due to the supply constraint pressures that cannot be resolved overnight. The large scale imports of wheat and the pulses could be a temporary solution but for a more durable solution we need to increase our agricultural produce, for which measures have already been announced in this year's

budget. The Reserve Bank of India (RBI) has also played its part by sucking out liquidity from the market to the tune of almost Rs42,500 crore by increasing the cash reserve ratio three times (50 basis points each time) in a span of three months. Since the demand push factors are in full swing to contribute to the higher inflation the RBI has made sure that less and less cash is available in the system to

fuel this demand until the new supply hits the market. We feel the higher base effect will provide the leeway for the inflation to slowly but surely head downwards and settle below the RBI's comfort zone of 5-5.5% assuming that the current inflation trend continues. Our inflation estimate for the week ended March 31, 2007 is at 5.83%.

Weight	Particulars	3-Mar-07	10-Mar-07	17-Mar-07	24-Mar-07
100.00	WPI of all commodities	6.46	6.46	6.46	6.39
22.03	WPI of primary articles	11.97	11.73	12.03	11.38
15.40	WPI of food articles	10.85	10.84	10.80	9.45
5.01	WPI of food grains	8.74	8.50	8.33	8.43
0.60	WPI of pulses	16.84	14.33	15.42	12.54
2.92	WPI of fruits & vegetables	19.08	17.20	15.50	12.02
2.21	WPI of eggs, meat & fish	8.27	10.44	11.72	9.79
6.14	WPI of non-food articles	13.19	12.64	13.90	15.98
2.67	WPI of oil seeds	31.24	29.61	29.87	29.74
0.48	WPI of minerals	21.62	21.62	22.09	17.00
14.23	WPI of fuel, power, light & lubricant	1.53	1.53	1.01	1.01
63.75	WPI of manufactured products	6.40	6.46	6.57	6.69
11.54	WPI of food products	4.19	4.59	5.68	6.26
1.03	WPI of grain mill products	18.00	18.00	18.00	18.00
2.76	WPI of edible oils	13.81	14.36	15.00	14.45
1.42	WPI of oil cakes	18.65	19.40	27.03	31.45
0.97	WPI of tea & coffee processing	13.04	13.65	13.65	13.65
2.39	WPI of rubber & plastic products	7.83	8.14	8.14	8.14
8.34	WPI of basic metals alloys & metals products	16.37	16.38	16.58	16.42
3.64	WPI of iron & steel	15.34	15.34	15.39	15.39
1.47	WPI of non-ferrous metals	32.14	31.90	31.31	30.40
0.85	WPI of aluminium	21.62	21.62	21.62	21.62
8.36	WPI of machinery & machine tools	8.70	8.49	8.23	8.29
4.99	WPI of electrical machinery	13.17	12.60	12.60	12.60
1.08	WPI of wires & cables	36.07	34.08	34.08	34.08

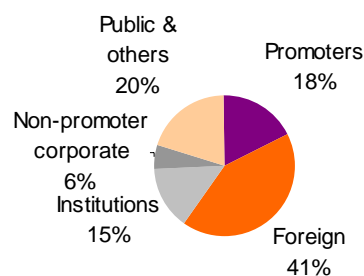
Orchid Chemicals & Pharmaceuticals

Emerging Star
Stock Update
Orchid enters Canada
Buy; CMP: Rs265

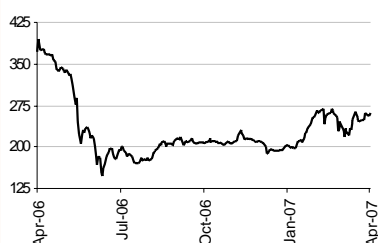
Company details

Price target:	Rs390
Market cap:	Rs1,744 cr
52 week high/low:	Rs399/142
NSE volume: (No of shares)	6.5 lakh
BSE code:	524372
NSE code:	ORCHIDCHEM
Sharekhan code:	ORCHID
Free float: (No of shares)	5.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.6	28.1	26.4	-29.0
Relative to Sensex	6.2	38.6	20.1	-36.4

Key points

- Orchid Chemicals & Pharmaceuticals (Orchid) has received the approval from the Canadian Therapeutic Product Directorate for two of its abbreviated new drug submission (ANDS)—Cefoxitin and Ceftriaxone.
- These approvals mark Orchid's foray into the Canadian formulation market.
- Both Cefoxitin and Ceftriaxone are niche injectable products and have been generic for a couple of years. The size of the Canadian market for Cefoxitin is \$5 million and that for Ceftriaxone is \$30 million.
- As per company sources, Ceftriaxone has five competitors (Roche, Mayne Pharma, Sandoz, Nova Pharma and Pharmaceutical Partners of Canada Inc) while there is no generic competition for Cefoxitin.
- As per our back-of-the-envelop calculation, the product approval would add Rs0.4 per share to the FY2008 earnings.
- At the current market price of Rs265, Orchid is trading at 10.2x its FY2008E earnings. In view of the company's strong fundamentals and an improving balance sheet we remain positive on the stock and maintain our Buy call with a price target of Rs390.

Event

Orchid Chemicals & Pharmaceuticals (Orchid) has received the approval from the Canadian Therapeutic Product Directorate for two of its abbreviated new drug submission (ANDS) applications. These approvals correspond to two generic formulations, Cefoxitin and Ceftriaxone. These products are covered under the exclusive marketing arrangement that the company has with the leading Canadian generic major, Apotex. These approvals mark Orchid's foray into the Canadian market.

About the products

Both Cefoxitin and Ceftriaxone are niche injectable products and have been generic for a couple of years. The size of the Canadian market for Cefoxitin is \$5 million and that for Ceftriaxone is \$30 million. Due to the complex nature of the products, the competition is also limited. As per company sources, Ceftriaxone has five competitors (Roche, Mayne Pharma, Sandoz, Nova Pharma and Pharmaceutical Partners of Canada Inc) while there is no generic competition for Cefoxitin. The company would immediately launch the products in the Canadian market.

Valuation table (standalone)

Rs crore

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Net sales	680.8	638.4	821.5	907.4	1181.1
Net profit	31.0	31.0	82.9	92.3	248.3
Shares in issue (cr)	3.2	3.4	6.5	6.9	9.2
EPS (Rs)	9.6	9.1	12.8	13.3	26.1
PER (x)	27.7	29.2	20.7	19.9	10.2

Valuation and view

With the approval of Cefoxitin and Ceftriaxone, Orchid would foray into the Canadian formulation market. The important aspect to be noted here is that Apotex, the leading generic player in the hospital segment in the USA and Canada, will be marketing these products under the exclusive marketing arrangement and could grab a handsome market share. The profit sharing arrangement between Orchid and Apotex is in the ratio of 60:40.

As per our back-of-the-envelope calculation, the product approval would add Rs0.4 per share to the FY2008 earnings. As the products are niche injectables with limited competition, we have assumed marginal 10% price erosion. Apotex with its flair in the hospitals can grab 20% and 40% market share for Ceftriaxone and Cefoxitin respectively. Though the impact of the said products on the earnings would be modest, Orchid would enhance its market presence further in Canada by launching the other generic formulations in the Cephalosporin and other product categories. It has already filed ANDS for Cefazolin and Tazobactam-piperacillin.

However, Orchid has been investing steadily in building its product pipeline to expand its presence in the regulated markets of the USA and Europe. Going forward, especially

from FY2008 onwards, we believe the company will grow by leaps and bounds, with its big launches in the USA and entry into Europe and Canada. Further, the company is in the process of cleaning up its balance sheet (paid \$140 million out of total debt of \$300 million), which was a cause for huge concern for investors in the past.

At the current market price of Rs265, Orchid is trading at 10.2x its FY2008E earnings. In view of the company's strong fundamentals and an improving balance sheet we remain positive on the stock and maintain our Buy call with a price target of Rs390.

Earning impact of products

	Ceftriaxone	Cefoxitin
Market size (\$m)	30	5
No of players	6	2
Price erosion	10%	10%
Market share	20%	40%
Orchid's share	60%	60%
Orchid's revenues (\$m)	3	1.1
Margin	20%	20%
Orchid's profit (\$m)	0.6	0.2
Orchid's profit (Rs cr)	2.6	1
Incremental EPS (Rs)	0.3	0.1

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

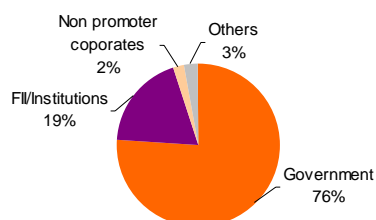
Bharat Electronics

Apple Green
Stock Update
Exceeding expectations
Buy; CMP: Rs1,650

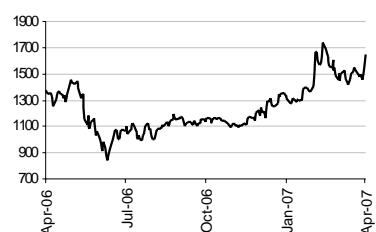
Company details

Price target:	Rs1,715
Market cap:	Rs13,200 cr
52 week high/low:	Rs1,794/815
NSE volume: (No of shares)	1.5 lakh
BSE code:	500049
NSE code:	BEL
Sharekhan code:	BEL
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.3	19.0	40.4	19.1
Relative to Sensex	6.9	28.7	33.4	6.6

Bharat Electronics (BEL) has announced its provisional results for FY2007. The gross sales have grown by 12% to Rs3,960.4 crore in FY2007, lower than our estimates of Rs4,191 crore. However, the improvement in its margins and a surge in the other income component have resulted in a relatively much higher growth of 21.8% in the profit before tax (PBT) to Rs1,041.6 crore (ahead of our estimates of Rs996 crore) during FY2007. This essentially implies that the PBT has shown a robust growth of 27.8% during the fourth quarter.

Result summary table

(Rs crore)	FY2007P	FY2006	% chg
Gross sales	3960.4	3536	12.0
PBT	1041.6	855.3	21.8

The net profit figures have not been announced yet (but are likely to be higher than our estimates). We are likely to upgrade our estimates for FY2008 and would introduce the FY2009 estimates once the detailed results are published by the company.

Robust growth in order book

The key highlight of the provisional results announced was the impressive jump in the company's pending order book to Rs9,100 crore, a growth of 38% as compared to Rs6,600 crore at the beginning of FY2007. The significant orders received during the year include the artillery combat command & control system, electronic warfare systems, STARS V Mk II—a secure tactical radio in VHF band, and naval systems for P28 and P15A class of ships.

A robust order book position provides a strong growth visibility over the next couple of years. Moreover, the benefits of the recently formed alliances with leading global defence equipment vendors like Northrop Grumman and Elbit Systems would bring in windfall gains for BEL going forward. That's because the alliances give BEL an access to the world's best and leading technologies, result in better utilisation of its huge installed manufacturing capacities and improve its prospect of partnering with the other global players to meet their offset obligations under the defence procurement policy.

Valuation

At the current market price the stock trades at 16.3x FY2007 and 13.3x FY2008 estimated earnings per share (adjusted for estimated cash on the books). We maintain our Buy call on the stock with a target price of Rs1,715.

Key financial	FY2005	FY2006E	FY2007E	FY2008E
Net sales (Rs cr)	3185.4	3502.0	4149.3	4741.4
Net profit (Rs cr)	446.3	583.0	672.6	759.6
No of shares (crs)	8.0	8.0	8.0	8.0
EPS (Rs)	55.8	72.9	84.1	95.0
% y-o-y change	-	30.7	15.4	12.9
Adj PER (x)	26.6	19.5	16.3	13.3
Price/BV (x)	8.3	6.5	4.9	3.8
EV/EBIDTA(x)	18.5	13.4	11.0	9.1
Dividend yield (%)	0.7	0.7	0.7	0.8
RoCE (%)	42.6	41.7	36.7	32.7
RoNW (%)	29.5	29.7	25.6	22.5

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
 Bharti Airtel
 Canara Bank
 Corporation Bank
 Crompton Greaves
 Elder Pharmaceuticals
 Grasim Industries
 Hindustan Lever
 Hyderabad Industries
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Cannonball

Allahabad Bank
 Andhra Bank
 Cipla
 Gateway Distriparks
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 JK Cement
 Madras Cement
 Shree Cement
 Transport Corporation of India

Emerging Star

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 Aban Offshore
 Alphageo India
 Cadila Healthcare
 Federal-Mogul Goetze (India)
 KSB Pumps
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 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 Overseas Electronics
 HCL Technologies
 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
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 South East Asia Marine Engineering & Construction
 Subros
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 Surya Pharmaceuticals
 UltraTech Cement
 Union Bank of India
 Universal Cables
 Wockhardt

Vulture's Pick

Esab India
 Orient Paper and Industries
 WS Industries India

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