Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bharat Bijlee	29-Nov-04	192	**1481**	1,730
BEL	25-Sep-06	1,108	**1,409**	1,525
Ceat	28-Nov-06	122	**146**	190
F-M Goetze	18-Jan-07	385	**364**	559
NDTV	10-Feb-05	181	**323**	348

WS Industries India

Vulture's Pick

Stock Update

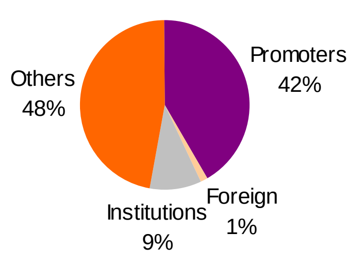
Price target revised to Rs87

Buy; CMP: Rs54

Company details

Price target:	Rs87
Market cap:	Rs114 cr
52 week high/low:	Rs85/39
BSE volume: (No of shares)	75,736
BSE code:	504220
Sharekhan code:	WSIND
Free float: (No of shares)	1.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	10.6	2.5	19.5	-2.4
Relative to Sensex	7.0	-6.9	-10.2	-34.3

Result highlights

- The Q3FY2007 results of WS industries (WSI) are in line with our expectations.
- The revenues for the quarter grew by 8.5% to Rs40.1 crore while the net profit grew by 125% to Rs2.2 crore on the back of the company's high operating leverage and lower interest expense.
- The operating profit for the quarter grew by 30% year on year (yoy) to Rs4.9 crore as the operating profit margin (OPM) expanded by 200 basis points to 12.2%. The OPM expanded because of lower raw material and power & fuel costs. The raw material cost increased by just 2% and the power and fuel cost rose by 5%. The company has benefited from the falling crude oil prices. Going forward we expect the company to maintain its OPM in the range of 12-12.5%.
- The interest cost declined by 12% while the depreciation increased by 17.4% on account of a 20% expansion in its hollow core insulator manufacturing capacity.
- Consequently the net profit grew by 125% to Rs2.2 crore.
- The order book at the end of December 2006 stood at Rs190 crore.

The Q3FY2007 results of WSI are in line with our estimates, however the revenues from the project business are not kicking in as expected. The company has registered project revenues of Rs8 crore in M9FY2007 against our expectations of Rs15 crore. Although the company has good project business in hand--it has bagged a Rs28-crore order from Dakshin Haryana Vidyut Nigam for setting up of a sub-station--yet this order will contribute revenues from FY2008 only.

In view of the above, we are lowering our earnings per share (EPS) estimates for FY2007 and FY2008. Our EPS estimates for FY2007 and FY2008 now stand at Rs4 and Rs5.8, lower by 13% and 17.5% respectively.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	9MFY07	9MFY06	% yoy
Net sales	**40.1**	**37.0**	**8.5**	**120.6**	**108.4**	**11.2**
Total expenditure	35.2	33.2	6.1	106.1	97.4	9.0
Operating profit	4.9	3.8	29.5	14.5	11.0	31.1
Other income	0.2	0.0	1900.0	0.3	0.0	534.0
EBIDTA	5.1	3.8	34.4	14.7	11.1	32.9
Interest	1.7	1.9	-12.0	5.3	4.9	9.5
Depreciation	1.0	0.8	17.4	2.9	2.4	17.9
PBT	2.5	1.1	125.6	6.6	3.8	72.5
Tax	0.3	0.2	126.7	0.9	0.5	73.6
PAT	2.2	1.0	125.4	5.7	3.3	72.4
Extraordinary items	0.0	0.0	-	0.0	0.0	-
Reported PAT	**2.2**	**1.0**	**125.4**	**5.7**	**3.3**	**72.4**
EPS	1.0	0.5	125.4	2.7	1.6	72.4
Margins						
OPM (%)	12.2	10.2		12.0	10.2	
PATM (%)	5.4	2.6		4.7	3.0	

We have valued WSI using the sum-of-the-parts (SOTP) method, wherein we have valued WSI's core insulator business at 10x its FY2008E EPS. This gives a fair value Rs58 per share. Further we have valued WSI's realty subsidiary at the current realisable value of Rs3,500 per square feet. Taking WSI's current 59% stake in the realty venture, we arrive at a value of Rs29 per share. This gives us a fair value of Rs87 per share of WSI. From the current levels this offers almost a 61% upside.

Net sales up by 8.5%—operating profit up by 29.5%

WSI's revenue for the quarter grew by 8.5% to Rs40.1 crore while its operating profit grew by 30% yoy to Rs4.9 crore, as the OPM expanded by 200 basis points to 12.2%. The OPM expanded because of lower raw material and power & fuel costs. The raw material cost increased by just 2% and the power & fuel cost rose by 5%. The raw material cost as a percentage of sales declined by 250 basis points while the power & fuel cost as a percentage of sales dropped by 60 basis points. The company has benefited from the falling crude oil prices. Going forward we expect the company to maintain its OPM in the range of 12-12.5%.

Strong order book position

The company has a strong order book position of Rs190 crore for its insulator business. It also has an order of Rs28 crore from Dakshin Haryana Vidyut Nigam in hand for setting up a sub-station. Going forward, the strong investment pipeline in the transmission and distribution (T&D) sector will drive the order book of WSI. The company has expanded capacity at its existing Chennai location. It is also setting up a new greenfield hollow core insulator plant and focusing on the development of its 15-lakh-square-feet information technology park, the first phase of which is expected to commence in October FY2007.

Net earnings up by 125%

Helped by a lower interest expense and the improvement in the OPM, the net profit at Rs2.2 crore grew by 125% yoy.

Revision of estimates

As mentioned earlier, the Q3FY2007 results of WSI are in line with our estimates. However the revenues from the project business are not kicking in as expected. The company has registered project revenues of Rs8 crore in M9FY2007 against our expectations of Rs15 crore. Although the company has good project business in hand (it has a Rs28-crore order from Dakshin Haryana Vidyut Nigam), yet the same will contribute revenues from FY2008 only.

In view of the above we are lowering our EPS estimates for FY2007 and FY2008. Our EPS estimates for FY2007 and FY2008 now stand at Rs4 and Rs5.8, lower by 13% and 17.5% respectively.

Particulars	FY2007	FY2008
Earlier	4.6	7.0
Current	4.0	5.8
% change	-13.0	-17.5

Valuation and view

We have valued WSI using the SOTP method, wherein we have valued WSI's core insulator business at 10x its FY2008E EPS. This gives a fair value Rs58 per share. Further we have valued WSI's realty subsidiary at the current realisable value of Rs3,500 per square feet. Taking WSI's current 59% stake in the realty venture, we arrive at a value of Rs29 per share. This gives us a fair value of Rs87 per share of WSI. From the current levels this offers almost a 61% upside.

WSI's SOTP price target: Rs87

Value of realty venture	
Total area	300000
Rate / sq ft	3500
Realisable value Rs crore	105
WSI's stake in the realty venture	59%
Value attributable to WSI	62
Equity	2.12
Fair value	29.1
Value of core business	
PER	10
EPS	5.8
Value	57.7
Total value	**87**

Earnings table

Particulars	FY04	FY05	FY06E	FY07E	FY08E
Net sales (Rs cr)	103.7	120.0	147.1	166.0	200.5
Net profit (Rs cr)	5.5	2.1	4.3	8.5	12.2
Shares in issue (cr)	2.1	2.1	1.8	1.8	1.8
EPS (Rs)	3.1	1.2	2.4	4.0	5.8
% y-o-y growth	*2.6*	*-61.6*	*104.3*	*96.7*	*44.3*
PER (x)	17.7	46.0	22.5	13.5	9.4
Book value (Rs)	19.3	20.3	22.6	33.4	39.1
P/BV (Rs)	2.8	2.7	2.4	1.6	1.4
EV/EBIDTA (x)	9.9	10.9	9.4	8.0	8.5
RoCE (%)	14.4	10.1	13.0	15.2	13.4
RoNW (%)	15.9	5.8	10.6	12.0	14.8

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

Allahabad Bank

Cannonball

Stock Update

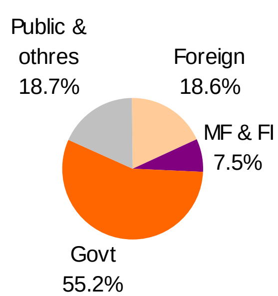
Prior-period income inflates numbers

Buy; CMP: Rs90

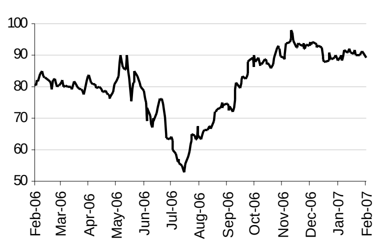
Company details

Price target:	Rs106
Market cap:	Rs4,020 cr
52 week high/low:	Rs99/53
NSE volume: (No of shares)	8.0 lakh
BSE code:	532480
NSE code:	ALBK
Sharekhan code:	ALLBANK
Free float: (No of shares)	20.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	-1.1	43.4	16.8
Relative to Sensex	-1.3	-10.2	7.8	-21.3

Result highlights

- In Q3FY2007 Allahabad Bank's net profit grew by 27.6% year on year (yoy), much above our expectation of Rs207.5 crore. The growth was higher than expected mainly due to a one-time interest income of Rs62 crore during the quarter.
- During the quarter the bank's net interest income (NII) grew by 23.8% yoy and 24.3% quarter on quarter (qoq) to Rs484.7 crore mainly due to a one-time interest income of Rs62 crore related to prior period. However, adjusting for the same the NII grew by 8% yoy and 8.4% qoq. The net interest margin (NIM) adjusted for the one-time item increased by five basis points on a sequential basis.
- The non-interest income decreased by 16.3% yoy to Rs125.5 crore despite a 49% year-on-year (y-o-y) growth in the treasury income. That was mainly because a sundry amount of Rs28.1 crore that was included in Q3FY2006 was absent in the Q3FY2007 numbers. Adjusted for the same the non-interest income remained flat on a y-o-y basis. On a sequential basis the non-interest income grew by 2.7%.
- The operating expenses declined 6.7% on a y-o-y basis but showed a 6.3% sequential increase. The operating profit was up 9.7% yoy and 7.7% qoq while the core operating profit (excluding the treasury & others) increased by 28.4% on a y-o-y basis but showed a marginal decline of 0.7% on a sequential basis.
- Provisions and contingencies including the amortisation expenses (Allahabad Bank reports its amortisation on held-to-maturity securities under "Other operating expenses", we have adjusted the operating expenses and provisions accordingly) decreased by 70.2% on a y-o-y basis mainly due to higher minimum alternative tax (MAT) credit.
- The Q3FY2007 numbers are much above expectations mainly due to the one-time interest income of Rs62 crore related to the prior years. Hence, we have revised our FY2007 profit after tax (PAT) numbers upwards by 9.7% to Rs770 crore to factor in the one-time income.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	% qoq	9MFY07	9MFY06	% yoy
Net interest income adjusted for one time	422.7	391.4	8.0	8.4	1,265.5	1,118.7	13.1
Non-interest income	125.5	150.0	-16.3	2.7	329.0	434.3	-24.2
Treasury	42.8	28.7	49.0	67.8	54.7	99.4	-45.0
Net income	548.2	541.4	1.2	7.1	1,594.6	1,553.1	2.7
Operating expenses	259.1	277.9	-6.7	6.3	817.8	863.1	-5.3
Operating profit	289.0	263.5	9.7	7.7	776.8	690.0	12.6
Core operating profit (excluding treasury & others)	229.4	178.7	28.4	-0.7	674.2	460.9	46.3
Provisions & contingencies	16.6	55.9	-70.2	216.1	134.3	99.2	35.4
PBT	334.4	232.7	43.7	27.1	642.5	590.8	8.8
Provision for taxes	48.3	8.4	476.2	-8.8	18.0	35.2	-48.9
Net profit	286.1	224.3	27.6	36.2	624.5	555.6	12.4

Note: We have adjusted the Q3FY2007 NII, net income, operating profit and core operating figures for the one-time interest income of Rs62 crore. Nine-month figures are not adjusted for one-time items.

- At the current market price of Rs90, the stock is quoting at 4.8x its FY2008E earnings per share (EPS), 2.9x pre-provision profits (PPP) and 1x book value (BV). The bank is available at attractive valuations given its low price-to-book multiple compared with its peers. We maintain our Buy call on the stock with a price target of Rs106.

NII growth adjusted for one-time item at 8% yoy

During the quarter the bank's NII grew by 8% yoy and 8.4% qoq. The average assets for the bank increased by 6.3% qoq and a five-basis-point sequential improvement in the NIM helped the bank to report an 8% sequential growth in its NII.

Yield analysis (%)

Particulars	Q3FY2007	Q3FY2006	Q2FY2007
Yield on funds	7.81*	7.72	7.64
Cost of funds	5.16	4.53	5.04
NIM	2.65	3.19	2.60

*adjusted for one time item of Rs 62 crore

Source: Company

Aggressive credit growth continues

The bank's advances grew by 39% yoy and 8.8% qoq to Rs38,713 crore while deposits grew by 26.6% yoy and 4.7% qoq. It has sold its investments to fund the credit growth as investments were down 1% yoy and 6.7% qoq. The current and savings account deposit base of the bank remained stable at 37.7% on a sequential basis; however it declined by 173 basis points on a y-o-y basis. The NIM showed a sequential improvement of five basis points, however such aggressive growth could put further pressure on the NIM if the bank is unable to mobilise low-cost deposits and relies only on term deposits. The bank's business (deposits plus advances) grew by 31.6% yoy to Rs95,237 crore.

Non-interest down 16.3% yoy

The non-interest income decreased by 16.3% yoy to Rs125.5 crore mainly due to the absence of a sundry income of Rs28.1 crore adjusted for which the growth remains flat. On a sequential basis, the fee income declined by 22.2% mainly due to losses suffered in the foreign exchange operations.

Non-interest income (Rs crore)

Particulars	Q3FY2007	Q3FY2006	% yoy	% qoq
Treasury income	42.8	28.7	49.0	67.8
Fee income	65.9	65.1	1.2	-22.2
Others	16.9	56.2	-70.0	42.0
Total	125.5	150.0	-16.3	2.7

Source: Company, Sharekhan Research

Operating profit up 9.7% yoy

The bank's operating expenses declined 6.7% on a y-o-y basis but showed a 6.3% sequential increase. The y-o-y decline is mainly due to lower staff expenses while the sequential increase is mainly on account of a Rs20-crore prudential provision for AS-15 guidelines (the same was absent in Q2FY2007). The operating profit was up 9.7% yoy and 7.7% qoq while the core operating profit (excluding treasury & others) increased by 28.4% on a y-o-y basis but showed a marginal decline of 0.7% on a sequential basis.

Asset quality and capital adequacy

The asset quality has not shown any signs of deterioration yet, despite such high credit growth with gross non-performing assets (NPAs) in percentage terms at 3.06% as on December 2006 compared with 3.24% in September 2006. In absolute terms, the gross NPAs remained stable. Net NPAs stood at 0.72% as on December 2006 compared with 0.75% on a sequential basis. Its capital adequacy remains comfortable at 12.8% with the Tier-I at 8.63%.

Valuation and view

The Q3FY2007 numbers are much above expectations mainly due to the one-time interest income of Rs62 crore related to the prior years. Hence, we have revised our FY2007 PAT numbers upwards by 9.7% to Rs770 crore to factor in the one-time income. At the current market price of Rs90, the stock is quoting at 4.8x its FY2008E EPS, 2.9x PPP and 1x BV. The bank is available at attractive valuations given its low price-to-book multiple compared with its peers. We maintain our Buy call on the stock with a price target of Rs106.

Earnings table

Particulars	FY04	FY05	FY06E	FY07E	FY08E
Net profit (Rs cr)	463.6	541.9	706.4	770.3	832.8
Shares in issue (cr)	34.7	34.7	44.7	44.7	44.7
EPS (Rs)	13.4	15.6	15.8	17.2	18.6
% y-o-y change	*18.6*	*16.9*	*1.2*	*9.0*	*8.1*
PE (x)	6.7	5.8	5.7	5.2	4.8
P/PPP (x)	3.6	2.9	3.9	3.4	2.9
Book value	38.1	49.8	68.3	80.3	94.5
P/BV (x)	2.4	1.8	1.3	1.1	1.0
Adjusted book value	27.6	42.0	62.8	75.1	88.4
P/ABV (x)	3.3	2.1	1.4	1.2	1.0
RONW (%)	19.7	35.6	26.8	23.2	21.3

Bharti Airtel

Apple Green

Stock Update

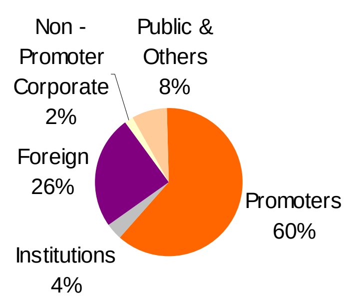
A mixed bag of policy changes

Buy; CMP: Rs780

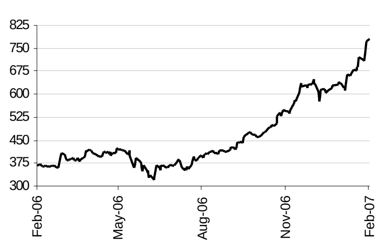
Company details

Price target:	Rs820
Market cap:	Rs147,888 cr
52 week high/low:	Rs797/310
NSE volume: (No of shares)	8.8 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTI
Free float: (No of shares)	74.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.8	110.5	96.0	111.9
Relative to Sensex	17.9	27.5	47.3	42.7

In the past couple of weeks, the Telecom Regulatory Authority of India (TRAI) has announced a number of policy changes and also released consultation papers that would eventually lead to amendments in the prevailing policies for the domestic telecommunication service industry.

Some of the policy initiatives like the reduction in the cap for roaming charges would adversely affect the industry. But the resulting loss would be more than made up by the reduction in the port charges (beneficial for private sector operators) and the proposal to reduce access deficit charge (ADC) going forward. What's more, the big boost would come from the expected reduction in the revenue sharing licence fee in the forthcoming Union Budget. Thus, the net impact of the changes already announced and of those that are expected to materialise in future is likely to be positive for the private sector operators in general and Bharti Airtel in particular.

Policy initiatives

Reduction in roaming charges

The telecom regulator has reduced the cap on the roaming charges by up to 55-56% for the mobile operators. This is estimated to have an adverse impact of Rs800-900 crore on the industry as a whole. The impact on Bharti Airtel is estimated to be in the region of Rs250-300 crore based on its market share.

Reduction in port charges (interconnections)

The lowering of the ceiling was followed by a notification for reduction in the port charges (interconnection charges) which private operators pay to state-owned incumbent operators, Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam, for terminating calls in their networks, by as much as 23% to 29%. The revised port charges will be in the range Rs10,500-Rs39,000 instead of the current Rs14,000-Rs55,000. The move will come into effect from April 1. This is expected to result in savings of around Rs400 crore for the industry. In case of Bharti Airtel, the savings are likely to be in the range of around Rs100-125 crore.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	1497.9	2257.6	4214.0	5894.6
No of shares (cr)	185.3	189.4	189.6	189.8
EPS (Rs)	8.1	11.9	22.2	31.1
% y-o-y change	*195.1*	*47.5*	*86.4*	*39.7*
PER (x)	96.5	65.4	35.1	25.1
Price/BV (x)	23.7	16.1	11.0	7.7
EV/EBIDTA(x)	51.1	35.2	20.5	14.5
Market cap/Sales	18.1	12.7	7.9	5.7
RoCE (%)	24.5	24.6	31.4	30.5
RoNW (%)	17.9	20.7	28.8	31.4

Proposed reduction in ADC

According to news reports, the TRAI is planning to reduce the ADC by as much as 50% for 2007-08. The move is likely to be strongly opposed by the state-owned telecom operator BSNL that utilises the ADC levied on the private sector operators to subsidise fixed-line telephony services in rural areas (that are commercially unviable). The TRAI has introduced a consultation paper to review the ADC last month. As per the roadmap, the ADC is to be phased off over the next two years and BSNL would have to depend purely on the Universal Service Obligation fund to subsidise its rural operations.

The move would benefit the private sector operators as they currently pay 1.5% of their annual aggregate gross revenues to BSNL as ADC. Besides, BSNL also earns an ADC of Rs1.6 per minute for all incoming international calls to India and Rs0.8 per minute for every outgoing international call. Though the exact impact of the move is not clear but a 50% reduction in 1.5% of the gross revenue paid as the ADC alone would result in savings of around Rs900-1,000 crore for the industry.

However, given the competitive environment, we expect the telecom operators to pass on part of the benefits from the policy initiatives to the customers. On an overall basis, the policy initiatives are expected to have a positive impact on the private sector telecom operators. Even if the savings are largely passed on to the customers, the lower tariffs would drive the growth in volumes (traffic) over the long-term, which in turn would boost the margins due to economics of scale.

Budget bonanza

The wireless service operators are lobbying for the reduction in the revenue sharing licence fee to a flat 6% of the adjusted gross revenue across the country. Currently, the revenue share licence fee varies in various categories of circles: 10% for metros, 8% for category "A" circles and 6% for category "B" circles. Industry associations are demanding that a uniform licence fee of 6% be levied across the circles in line with the levy on national long distance and international calls.

Valuation

The earnings estimates of Bharti Airtel remain unchanged as we await the finer details and the possible changes that are expected in the Union Budget. Consequently, we maintain our Buy call on the stock with a price target of Rs820.

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

ICI India

Ugly Duckling

Stock Update

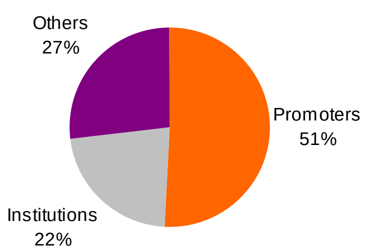
Colours shine bright

Buy; CMP: Rs434

Company details

Price target:	Rs550
Market cap:	Rs1,774 cr
52 week high/low:	Rs474/242
NSE volume: (No of shares)	11,489
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float: (No of shares)	2.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.3	28.2	50.9	23.6
Relative to Sensex	1.9	16.4	13.4	-16.8

Result highlights

- ICI India's Q3FY2007 net profit (adjusted for extraordinary items) at Rs23.5 crore is ahead of our expectations. The net profit grew by 24.3% year on year (yoy).
- The net revenues have shown degrowth of 13% yoy to Rs224 crore due to the discontinuation of the rubber chemical and surfactant businesses (Uniqema).
- The paint business grew by 11.6% yoy to Rs192 crore. The continuing chemical business grew by 14.6% yoy to Rs32 crore.
- The profit before interest and tax (PBIT) in the paint business grew by 41% yoy with a 310-basis-point expansion in the margin. The PBIT in the residual chemical business grew 16% yoy with a 20-basis-point expansion in the margin.
- The overall operating profit (including all businesses) grew by 6% yoy with a 122 basis-point expansion in the operating profit margin (OPM).
- With a higher other income and stable depreciation, the net profit grew by 24.3% yoy to Rs23.5 crore.
- We have revised our earnings per share (EPS) estimates for the stock for FY2008, from Rs24.2 to Rs29 taking into account the selling off of Quest International as well as the higher non-operating income. Taking the cash per share of Rs232 and 17.5X FY2008 core EPS of Rs18 we have revised our price target upward to Rs550.
- At the current market price of Rs434, the stock trades at 15x its FY2008E EPS of Rs29. We maintain our Buy recommendation on the stock with a price target of Rs550.

Sales from continued businesses grow by 27.3%

The net revenues have shown degrowth of 13% yoy to Rs224 crore due to the discontinuation of the rubber chemical and surfactant businesses as well as the exclusion of the Uniqema business. The sales from the continuing businesses (paints and chemicals) have shown a growth of 12%. ICI had sold off the following businesses.

Result table Rs (cr)

Particulars	9MFY07	9MFY06	% yoy	Q3FY07	Q3FY06	% yoy
Net sales	698.2	701.9	-0.5	224.2	257.2	-12.8
Other income	18.2	12.9	41.1	7.7	3.2	137.5
Total income	716.3	714.8	0.2	231.9	260.4	-10.9
Total expenditure	605.7	615.0	-1.5	189.2	220.2	-14.1
Operation profit	110.6	99.8	10.8	42.7	40.2	6.1
Interest	2.2	2.6	-17.3	0.8	0.9	-10.6
Depreciation	17.0	16.4	3.4	5.6	5.6	-1.1
Profit before tax and extraordinary items	91.5	80.8	13.2	36.3	33.7	7.7
Extraordinary items	255.6	-11.0	-	253.6	10.6	-
Profit before tax	347.0	69.8	397.3	290.0	23.1	-
Profit after tax	264.0	39.5	567.8	225.3	8.3	-
Adjusted profit after tax	60.9	50.5	20.5	23.5	18.9	24.3

- The company sold its rubber chemical business to a joint venture with the US-based PMC Group International in Q3FY2006 (see our report "Sale of rubber chemicals business" dated November 09, 2006).
- The company sold its surfactant business to the Croda group, UK with effect from September 02, 2006 (see our report "Exiting surfactant business" dated June 30, 2006).

Segmental sales (gross; Rs crore)

	9M FY07	9M FY06	% yoy chg	Q3 FY07	Q3 FY06	% yoy chg
Paints	549.9	458.7	19.9	192.4	172.2	11.7
Chemicals	92.6	78.9	17.4	31.9	27.8	14.7
Total (continued businesses)	642.5	537.6	19.5	224.2	200.0	12.1
Discontinued business	57.1	166.6	-65.7	-	57.7	-
Total revenues	699.7	704.2	-0.6	224.2	257.7	-13.0

Sales from continued businesses grow 40%

The PBIT from the continued businesses for the quarter under review grew by 40% on the back of an expansion in the PBIT margin of both its businesses. In the paint business, the PBIT margin expanded by a whopping 310 basis points. The PBIT margin in the chemical business expanded by 20 basis points. On a reported basis (including discontinued business), the PBIT grew by 40%.

PBIT (Rs crore)

	9M FY07	9M FY06	% yoy chg	Q3 FY07	Q3 FY06	% yoy chg
Paints	58.8	40.9	44.0	28.4	20.2	53.9
PBIT margins (%)	10.7	8.9		14.8	11.7	
Chemicals	11.5	8.9	29.5	3.9	3.3	51.9
PBIT margins (%)	12.4	11.2		12.2	12.0	
Total (continued businesses)	70.3	49.7	41.4	32.3	23.6	53.5
Discontinued business	11.6	22.1	-47.3	0.0	8.6	-33.1
Total PBIT	81.9	71.8	14.2	32.3	32.2	25.7

The operating profit for the quarter under review grew by 6% yoy. The raw material as a percentage of net sales has come down from 60.8% to 57.4% during the quarter due to the softening of the crude oil prices. The other expenses as a percentage of net sales has gone up from 19.6% to 21.7% due to the higher advertising and marketing costs.

Sale of surfactant business

In Q1FY2007, ICI decided to sell off its surfactant business to the Croda group, a specialty chemical group based in the UK, for a total consideration of Rs280 crore. ICI's decision to sell the business was in line with the strategic decision of ICI Plc (ICI's parent company) to divest its surfactant business. The transfer of the business was completed with effect from September 02, 2006. The company has received a consideration of Rs250 crore after netting off provisions for related costs and existing/ probable obligations of Rs6 crore.

Cash to be utilised to grow inorganically

At the end of March 2006, ICI had Rs350 crore of investments on the book. With an additional cash inflow of Rs250 crore from the sale of the surfactant business, ICI had announced the buy-back of its shares during July 2006 using Rs125 crore. However, no equity shares have been bought back during the quarter under review. Moreover, an additional Rs320 crore is expected as sales consideration from Quest International taking the total cash pile to Rs950 crore.

The company has acquired controlling interest (67%) of Polyinks Pvt Ltd, Hyderabad, a hot melt adhesives manufacturer for a consideration of Rs9 crore. The agreement also provides an option to purchase the balance shares from the present owners in April 2007 at the same price. The new acquisition has a turnover of Rs15-20 crore.

ICI might also look at the inorganic growth option in the paints and starch businesses as it has ample liquid cash on its books and it sees its starch business to be a big opportunity in the future.

Valuations

We have revised our EPS estimates for the stock for FY2008, from Rs24.2 to Rs29 taking into account the selling off of Quest International as well as the higher non-operating income. Taking the cash per share of Rs232 and 17.5X FY2008 core EPS of Rs18 we have revised our price target upward to Rs550.

At the current market price of Rs434, the stock trades at 15x its FY2008E EPS of Rs29. We maintain our Buy recommendation on the stock with a price target of Rs550.

Valuation table (Consolidated)

Particulars	FY2006	FY2007E	FY2008E
Net profit (Rs crore)	53.7	86.1	118.6
Shares in issue (crore)	4.1	4.1	4.1
EPS (Rs)	13.1	21.1	29.0
EPS growth (%)	-	37.6	27.4
P/E (x)	34.2	21.4	15.5
Book value (Rs)	133.0	195.0	277.0
P/BV (x)	2.6	1.8	1.2
EV/Sales (x)	1.1	1.1	1.1
EV/EBITDA (x)	9.8	9.0	7.9
RoNW (%)	10.0	13.0	12.0
RoCE (%)	11.0	10.0	9.0

Bank of Baroda

Apple Green

Stock Update

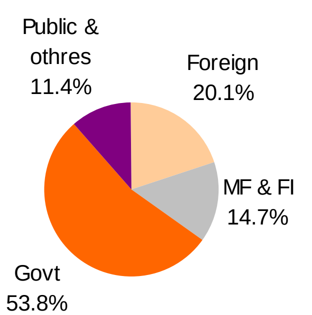
Comparatively a better quarter

Buy; CMP: Rs246

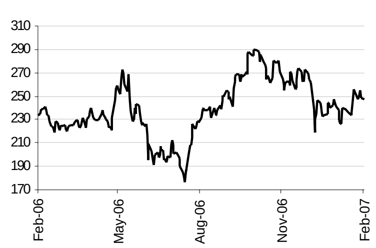
Company details

Price target:	Rs327
Market cap:	Rs9,028 cr
52 week high/low:	Rs296/176
NSE volume: (No of shares)	6.0 lakh
BSE code:	532134
NSE code:	BANKBARODA
Sharekhan code:	BOB
Free float: (No of shares)	16.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.5	-11.6	8.8	9.2
Relative to Sensex	0.9	-19.8	-18.2	-26.5

Result highlights

- Bank of Baroda's Q3FY2007 results are much above expectations with the profit after tax (PAT) reporting a growth of 62.8% to Rs329 crore compared to our estimates of Rs258.9 crore. The higher than expected non-interest income growth driven by higher fee income and other income coupled with the lower than expected provisions resulted in the actual PAT exceeding expectations.
- The net interest income (NII) was up 18.1% to Rs960.8 crore compared to our estimates of Rs921.3 crore. The margins have declined on a year-on-year (y-o-y) basis by 17 basis points but have improved by 3 basis points sequentially to 2.98%.
- The non-interest income increased by 21.6% to Rs333.7 crore with the trading income down 22.7% year on year (yoy) and the core fee income up 47.4% yoy.
- The operating profit was up by 29% yoy and by 6.7% quarter on quarter (qoq) to Rs656.9 crore. However the core operating profit was up 34.2% yoy and 14.4% qoq.
- The provisions declined by 37% to Rs141.7 crore primarily due to the nil NPAs provisions made during the quarter as compared to Rs42.6 crore in Q3FY2006.
- The operating profit growth and a decline in the provisions helped in the PAT reporting a sharp rise of 62.8% to Rs329.1 crore despite the tax provisions rising by 126.9% yoy to Rs186.1 crore.
- The asset quality has improved as the gross NPAs have come down on a y-o-y and q-o-q basis with the net NPAs in percentage terms also down to 0.67% from 1.1% yoy and from 0.77% qoq. The capital adequacy stood at 12.24% as on December 2006 compared to 12.93% on a sequential basis with Tier I at 9.13%.
- The operating numbers are comparatively better for Q3FY2007 on a y-o-y and q-o-q basis than what we had witnessed in Q2FY2007 and based on the higher than expected PAT numbers we have revised our FY2007 PAT upwards by 3.6% to Rs1,015.6 crore. At the current market price of Rs246, the stock is quoting at 7x its FY2008E earnings per share (EPS), 3.4x pre-provision profits (PPP) and 0.9x book value. The bank is available at attractive valuations given its low price-to-book multiple compared to its peers and earnings upside possibilities. We maintain our Buy call on the stock with a price target of Rs327.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	% qoq	9MFY07	9MFY06	% yoy
Net interest income	960.8	813.4	18.1	5.8	2,681.4	2,308.2	16.2
Non-interest income	333.7	274.4	21.6	3.7	932.9	838.3	11.3
Trading	31.2	40.4	-22.7	-56.1	109.0	180.3	-39.5
Fee	126.0	85.5	47.4	16.3	329.3	255.7	28.8
Forex	49.8	51.6	-3.4	47.3	155.8	119.8	30.0
Net income	1,294.4	1,087.7	19.0	5.3	3,614.4	3,146.5	14.9
Operating expenses	637.5	578.5	10.2	3.8	1,785.9	1,635.1	9.2
Operating profit	656.9	509.2	29.0	6.7	1,828.5	1,511.4	21.0
Core operating profit*	499.1	372.0	34.2	14.4	1,395.6	1,059.7	31.7
Provisions & contingencies	141.7	225.1	-37.0	-11.1	606.4	659.1	-8.0
PBT	515.2	284.2	81.3	12.9	1,222.0	852.3	43.4
Provision for taxes	186.1	82.0	126.9	10.8	441.2	234.1	88.5
Net profit	329.1	202.2	62.8	14.1	780.8	618.2	26.3

* core operating profit = operating profit less trading and others of non-interest income

NII growth at 18.1% yoy, sequential improvement in margins

During the quarter the bank's NII grew by 18.1% yoy and by 5.8% qoq to Rs960.8 crore. On a y-o-y basis the net interest margin (NIM) has declined by 17 basis points but has shown a 3-basis-point improvement sequentially to 2.98% for Q3FY2007. The bank had changed its accounting methodology for treating the redemption losses on the available for sale (AFS) securities. Till June 2006 the bank charged the losses to the other operating expenses. However from September 2006 it had reduced the same from the interest on investments. The redemption losses amounted to Rs17 crore and Rs52 crore for Q2FY2007 and Q1FY2007 respectively, and adjusting for the same the NIM shows a 3-basis-point improvement during Q3FY2007 on a sequential basis.

The improvement in the asset yields has helped the bank to improve its margins sequentially despite the pressure on the cost of funds due to a rise in the deposit costs. The management reiterated its intention to maintain the margins, despite growing its balance sheet aggressively.

Yield analysis (%)

Particulars	Q3FY07	Q3FY06	Q2FY07
Yield on funds	7.42	6.87	7.21
Cost of funds	4.44	3.72	4.26
NIM	2.98	3.15	2.95*

* Adjusted for AFS redemption loss of Rs17 crore Source: Company

Strong loan growth continues

The 41.4% y-o-y growth in the domestic advances is much above the industry average of 30%, which is creating pressure on deposit mobilisation for the bank. The global advances are up by 46.8% to Rs77,661 crore.

Bulk deposits and lower CASA adds to deposit costs

The overall deposit growth stood at 31% while the domestic deposits increased by 23.5% yoy to Rs90,421 crore, which is slightly above the industry average of 21%. However, the overseas deposits have gone up by 75% to Rs21,877 crore. The current and savings account (CASA) ratio for the bank has declined to 40.4% from 42% on a y-o-y basis and from 41.8% on a sequential basis as the bank has financed its aggressive credit growth with bulk deposits. This has resulted in the cost of deposits for the nine-month period ended December 2006 increasing by 55 basis points yoy and by 24 basis points over its six-month period ended September 2006 to 4.67%.

Strong loan growth continues

Particulars	As on December 2006	Yoy % chng
Domestic advances	62146	41.4
of which		
Retail	12241	49.2
Agriculture	8896	52.0
Others (Corporate +SME)	41009	37.1
Foreign advances	15514	73.5
Total	77661	46.8

Non-interest income up 21.6% yoy

The other income increased by 21.6 % yoy to Rs333.7 crore, while the core fee income grew by 47.4% to Rs126 crore. However, commendably the other income excluding the treasury income and others grew by a robust 28.3% yoy and by 23.6% qoq.

Non-interest income (Rs crore)

	Q3FY2007	Q3FY2006	% yoy	% qoq
Non-interest income (excluding treasury & others)	175.9	137.1	28.3	23.6
Of which: Fee income	126.0	85.5	47.4	16.3
Forex income	49.8	51.6	-3.4	47.3
Treasury income	31.2	40.4	-22.7	-56.1
Others	126.6	96.9	30.6	16.7
Total	333.7	274.4	21.6	3.7

Source: Company, Sharekhan Research

Core operating profit up 34.2% yoy

The 19% y-o-y net income growth coupled with the relatively flat operating expenses resulted in the operating profits going up by 29% yoy. The core operating profit, ie the operating profit excluding the treasury gains and the others component in the non-interest income reported a growth of 34.2% yoy and a growth of 14.4% qoq.

Capital adequacy remains comfortable

The bank's capital adequacy stood at 12.8% with Tier I at 9.13%. With the management willing to explore hybrid options the capital would not be a constraint for the bank's growth in the medium term.

Valuation and view

The operating numbers are comparatively better for Q3FY2007 on a y-o-y and q-o-q basis than what we had witnessed in Q2FY2007 and based on the higher than expected PAT numbers we have revised our FY2007 PAT upwards by 3.6% to Rs1,015.6 crore. At the current market price of Rs246, the stock is quoting at 7x its FY2008E EPS, 3.4x PPP and 0.9x book value. The bank is available at attractive valuations given its low price-to-book multiple compared to its peers and earnings upside possibilities. We maintain our Buy call on the stock with a price target of Rs327.

Earnings table

Particulars	FY04	FY05	FY06E	FY07E	FY08E
Net profit (Rs cr)	967.0	676.9	827.0	1015.6	1282.5
Shares in issue (cr)	29.5	29.5	36.6	36.6	36.6
EPS (Rs)	32.8	23.0	22.6	27.8	35.1
EPS growth (%)	18.6	-30.0	-1.6	22.8	26.3
PE (x)	7.5	10.7	10.9	8.9	7.0
P/PPP (x)	2.9	3.1	4.4	4.0	3.4
Book value	174.2	191.1	214.6	234.5	259.6
P/BV (x)	1.4	1.3	1.1	1.0	0.9
Adjusted book value	138.8	170.0	200.4	218.3	239.9
P/ABV (x)	1.8	1.4	1.2	1.1	1.0
RONW (%)	20.3	12.6	11.2	12.4	14.2

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

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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
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