investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**3,494**	5,420
HUL	24-Nov-05	172	**251**	280
Infosys	30-Dec-03	689	**1,751**	2,135
L&T	18-Feb-08	3,536	**3,007**	4,044
Tata Chem	31-Dec-07	411	**364**	535

Pulse Track

Monetary policy review

CRR hiked by 25 basis points, interest rates remain unchanged

The Reserve Bank of India (RBI) has kept key interest rates like the reverse repo rate, the repo rate and the bank rate unchanged in the annual monetary policy review for the year 2008-09. The cash reserve ratio (CRR) has been hiked by 25 basis points to 8.25%. The policy focuses on maintaining price stability and controlling inflation, while sustaining the growth momentum. The salient features of the monetary policy are as follows:

- The repo rate and the reverse repo rate have been kept unchanged at 7.75% and 6% respectively.
- The bank rate has been kept unchanged at 6%
- The CRR has been hiked from 8% to 8.25%. This will suck out an additional Rs 9,250 crore from the banking system. The earlier CRR hike announced on April 17, 2008 had raised the CRR to 8% in two stages—a 25-basis point rise on April 26, 2008 followed by a 25-basis point hike on May 10, 2008. The CRR hike announced today will be effective on May 24, 2008 and proposed a 25-basis point hike.

Inflation target set at 5.5%

Inflation stood at 7.4% at the end of March 2008 compared with 5.9% an year ago. After declining to 3.1% in mid-October 2007, the inflation rate firmed up from mid-February. This rise in the inflation rate was mainly due to supply side pressures, such as the increase in the domestic fuel prices to partially offset the rising crude oil prices, the rising oilseed prices and the adjustment in steel prices due to the surge in international steel prices.

Assuming supply management to be conducive, RBI's policy is to bring down the inflation rate from the current high level of above 7% to around 5-5.5% as soon as possible. Any further monetary tightening steps would be taken based on the impact of the recent CRR hikes and that of the monsoon on the inflationary trend.

Moreover, liquidity management would remain the top priority. The target for the growth in money supply (M3) has been moderated to 16.5%-17% during 2008-09. This is keeping in view of a strong growth of over 20% in M3 during the past few years.

GDP growth projection of 8-8.5% for 2008-09

The gross domestic product (GDP) growth rate is pegged at 8-8.5% for 2008-09, against the expectations of a 8.7% growth rate in 2007-08. This is against the backdrop of the global GDP growth, which is expected to slow down from 4.9% in 2007 to 3.7% in 2008. Accordingly, the non-food credit growth projection has been lowered to 20% in 2008-09 against 22.3% in 2007-08. The bank deposits are projected to increase by around 17% in 2008-09 against 22.2% in 2007-08. The RBI has moderated these parameters considering the outlook on growth and inflation.

Impact analysis for banks

Below, we present our take on the likely impact of the measures spelled out in the monetary policy on banks.

CRR hike to hurt bottom line, but to a limited extent

The RBI has announced a 25-basis point hike in CRR, which is likely to mop up liquidity to the tune of Rs9,250 crore. This implies a loss of opportunity for banks, as they would be able to deploy lesser portion of their deposits in high-yielding products. Our estimates indicate a possible decline of around two basis points in NIM for most of the banks from the additional hike of 25 basis points. Consequently, the bottom line of banks could be adversely impacted in the range of 0.75-1.5%.

Considering the 50-basis point hike announced previously along with the 25-basis point hike announced in the monetary policy, nearly Rs27,750 crore will be sucked out from the banking system. Cumulatively, the 75-basis point hike in CRR is estimated to pressurise NIMs by 5-6 basis points and adversely impact the bottom lines of banks by 2.5-4.5%. However, the eventual impact on the bottom lines may be limited depending on how the following factors play out in the future.

- *Lower deposit rates:* Deposit rates continue to remain at their peak levels. Moreover, the recent prime lending rate reduction by major public sector banks may prompt them to lower their deposit rates considering the approaching slack season. Any reduction in the cost of funds by way of lower deposit rates or retirement/ repricing of bulk deposit rates would help banks limit the impact of the CRR hike on their profitability.

- *Hike in lending rates:* Another distinct possibility is hike in lending rates, as the banks would increase efforts to protect their margins. However, the scope of increasing the lending rates any further is capped due to already peak lending rate levels and moderating credit growth.

NPA classification norms for infrastructure financing relaxed

In response to requests by many banks, the regulator has relaxed norms pertaining to the classification of infrastructure related non-performing assets (NPAs). According to the new norms, if the date of completion of infrastructure project is delayed beyond two years (as against the current norm of one year), the account should be treated as sub-standard. This should help the banks engaged in infrastructure financing, as they would be able to improve their asset quality and reduce provisioning. The earlier norms were leading to an increase in the NPAs, as the banks were forced to classify an account as a NPA, if the commercial production was delayed by a year even if the customer was servicing the interest requirement.

Expanded limit for lower risk weights on housing loans

The monetary policy has increased the limit of housing loans from Rs20 lakh to Rs30 lakh for applicability of reduced risk weights at 50%. We believe the step is taken with a view to increase housing affordability and home ownership. The measure is likely to spur demand for housing loans provided the benefit is passed on to the end-consumer.

Moderation in credit growth

The monetary policy has set out a targeted non-food credit growth of ~20% for the current fiscal. The 20% growth target is lower compared to the 24-25% target set for the last fiscal. The lower targeted credit growth implies RBI's intention to check inflation and inflationary expectations at the cost of moderating the economic growth. The resulting moderation in the credit growth is likely to intensify competition among banks. We believe private sector banks would be less impacted vis-à-vis public sector banks.

Review of norms on off-balance sheet items on anvil

Against the backdrop of ongoing turmoil in credit markets worldwide, especially in the USA, the RBI has expressed its plans to review the current norms relating to conversion factors, risk weights and provisioning requirements for specific off-balance sheet exposures of banks. The regulator plans to release the new norms by May 15, 2008.

Priority lending bracket tinkered

The monetary policy will allow banks to classify 100% of their outstanding credit under General Credit Card from 50% earlier. Also, the policy will allow them to classify overdrafts up to Rs25,000 against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under the priority sector.

Hindustan Unilever

Apple Green

Stock Update

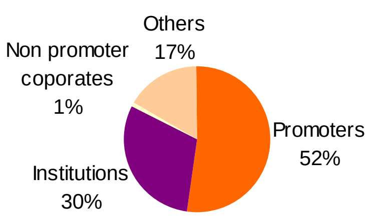
Core to the fore

Buy; CMP: Rs251

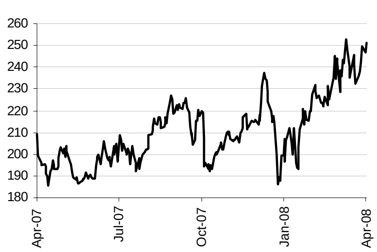
Company details

Price target:	Rs280
Market cap:	Rs54,667 cr
52 week high/low:	Rs256/170
NSE volume: (No of shares)	23.0 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HLL
Free float: (No of shares)	104.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	25.4	16.8	22.5
Relative to Sensex	-1.8	33.6	31.9	-0.8

Result highlights

- Hindustan Unilever Ltd's (HUL) top line growth was above our estimates, however the profitability was below our expectations. The net sales grew by 19.1% year on year (yoy) to Rs3,793.9 crore. The sales growth was driven by a stupendous performance of the home and personal care (HPC) segment, which grew by 21.2% yoy. The foods segment that contributed 16.1% to the revenues grew by 15.6% yoy, pulling down the overall sales growth.
- The soaps and detergent business put up a strong show with sales growth of 19.9% yoy to Rs1,738.2 crore and the profit before interest and tax (PBIT) margin of 13.4% (up by 144 basis points yoy). Personal care product business outperformed our expectations with a handsome growth of 23.5% yoy. We believe extended winter, contribution from new launches under the brands *Dove* and *Ponds*, and price hikes contributed to the strong growth in the revenues of the segment. The PBIT margin for the segment stood at 24.7% (up by 25 basis points yoy).
- Beverages, processed foods and ice creams segments posted sales growth of 15.8%, 15.5% and 14.1% respectively, however the performance was bad on margin front with the PBIT margin at 11.6% (down 324 bps yoy), 1.1% (down 439 bps yoy) and -7.8% (against 3.8% in Q1CY2007) respectively.
- The operating profit margin (OPM) as a whole declined by 70 basis points to 10.75% yoy, mainly due to the increase in the other expenses by 28.3% yoy to Rs663.5 crore. The raw material cost as a percentage to sales showed a decline of 78 basis points to 54.7%. Hence the operating profit increased by 11.9% yoy to Rs407.8 crore.
- The other income increased by 126.2% yoy to Rs77.3 crore leading the earnings before interest, depreciation, tax and amortisation (EBIDTA) to increase by 21.7% to Rs485.1 crore.

Result table Rs (cr)

Particulars	Q1CY2008	Q1CY2007	% yoy chg
Net sales	**3793.9**	**3184.3**	**19.1**
Total expenditure	3386.1	2819.8	20.1
Operating profit	**407.8**	**364.5**	**11.9**
Other income	77.3	34.2	126.0
EBIDTA	485.1	398.7	21.7
Interest	-20.1	-35.9	-44.1
PBDT	505.2	434.6	16.2
Depreciation	36.3	32.9	10.3
PBT	**468.9**	**401.7**	**16.7**
Tax	90.5	77.5	16.7
Adjusted PAT	378.4	324.2	16.7
Extra-ordinary items	2.5	68.7	-
Reported PAT	**380.9**	**392.9**	**-3.1**
OPM (%)	10.8	11.5	

- As the interest income (net of interest expenses) was lower by 44.1% at Rs20.1 crore, the increase in adjusted net profit was lesser and stood at 16.7% to Rs378.4 crore, which is below our estimate of Rs397.7 crore.
- We are enthused by the performance of HUL's HPC business and pleased by the fact that the company is exploring ways to maintain the growth in the segment by expanding its presence in premium personal care products. At the current market price of Rs251 the stock trades at 26.8x and 22.9x its CY2008E and CY2009E earnings per share (EPS) of Rs9.4 and Rs10.9 respectively. We maintain our Buy recommendation on the stock with target price of Rs280.

Net sales grew by robust 19.1%—ahead of estimates

The net sales grew by 19.1% yoy to Rs3,793.9 crore, led by a strong 10.2% overall volume growth. The HPC segment pulled up a stupendous performance, growing by 21.2% on a year-on-year (y-o-y) basis, however the growth in the foods segment was subdued at 15.6%. The overall OPM declined by 70 basis points to 10.75% yoy, mainly due to an increase in the other expenses by 28.3% yoy to Rs663.5 crore. The other expenses were led by spend on SAP and IT infrastructure which was charged off as other expenditure. The advertising and promotion spend increased by 21.4% yoy to Rs432.5 crore on account of advertising for new launches and on existing portfolio for maintaining the market share. The raw material cost as percentage to sales showed a decline of 78 basis points to 54.7% despite a hefty cost inflation primarily on account of price hikes taken by the company. Hence the operating profit grew by 11.9% to Rs407.8 crore. Other income increased by 126.2% yoy to Rs77.3 crore leading the EBIDTA to increase by 21.7% to Rs485.1 crore. Lower interest income (net of interest expense) led the adjusted net profit grow slower at 16.7% yoy to Rs378.4 crore during the quarter.

Segment performance Rs (cr)

Particulars	Q1CY2008	Q1CY2007	% yoy
Revenue			
Soaps and detergents	1738.2	1449.9	19.9
Personal products	1018.9	825.2	23.5
Beverages	431.0	372.1	15.8
Processed foods	152.0	131.6	15.5
Ice creams	37.0	32.4	14.1
Exports	398.9	353.3	12.9
Others (includes chemicals, plantations etc)	75.5	51.0	48.1
Total	3851.4	3215.6	19.8

HPC segment

The HPC business of the company contributed around 72% to the total turnover for the quarter. HPC revenues grew by 21.2% yoy to Rs2,757.1crore, with a stupendous growth in both soaps and detergents and personal products segments. The soaps and detergents segment registered a robust growth of 18.3% yoy to Rs1,689 crore, on the back of impressive performances by *Lifebuoy* in personal wash segment and a double digit growth by *Surf*, *Rin* and *Wheel* in the laundry segment. The soaps and detergents segment posted an improvement of 144 basis points in the PBIT margin to 13.4%yoy. This was largely because of lower advertising spends in this segment.

The personal care product business continued with the robust growth seen in Q4CY2007. The business outperformed with a hefty growth of 23.5% yoy to Rs1,018.9 crore, which was above our expectations. Skin care category performed well with a significant contribution by *Fair* and *Lovely*. Ponds top end range, which was launched last year had another successful quarter. We believe an extended winter increased the contribution from the new launches under the brands *Dove* and *Ponds*, and the price hikes contributed to the strong growth in the revenues of the segment. The PBIT margin for the segment stood at 24.7%, up by 25 basis points yoy.

HPC segment performance Rs (cr)

Particulars	Q1CY2008	Q1CY2007	% yoy
Revenue			
Soaps and detergents	1738.2	1449.9	19.9
Personal products	1018.9	825.2	23.5
Total	2757.1	2275.1	21.2
PBIT			
Soaps and detergents	232.5	173.1	34.3
Personal products	251.7	201.8	24.7
Total	484.2	374.9	29.2
PBIT margins (%)			
Soaps and detergents	13.4	11.9	1.4
Personal products	24.7	24.5	0.3
Total	17.6	16.5	

Food business

The revenues from the food business grew by just 15.6% yoy to Rs619.6 crore. The sales of processed food segment grew by 15.5% with *Knorr* and *Kissan* products continuing their decent performance, as new launches under *knorr* gained momentum. During the quarter the company launched and test marketed *Amaze* brain food in Karnataka and Tamil Nadu, and the company is expected to launch it soon across the country.

The beverages segment posted a growth of 15.8% on the back of good performance by *Red Label* and *Bru*.

The PBIT margin for the food business on an overall basis declined by 400 basis points to 7.8% yoy. While the margin in the processed food business declined by 439 basis points to 1.1% on account of launch of *Amaze* and higher marketing spends, the profitability of ice cream business continued to decline on account of higher overhead cost. The PBIT margin for the beverages segment declined by 324 basis points to 11.6% on account of increasing input cost and heavy advertising spends to maintain the current market share.

Food business segment performance

Particulars	Q1CY2008	Q1CY2007	% yoy
Revenues (Rs cr)			
Processed foods	152.0	131.6	15.5
Ice creams	37.0	32.4	14.1
Beverages	431.0	372.1	15.8
Total	619.9	536.2	15.6
PBIT (Rs cr)			
Processed foods	1.7	7.3	-76.2
Ice creams	-2.9	1.2	-337.7
Beverages	49.8	55.1	-9.5
Total	48.6	63.6	-23.5
PBIT margins (%)			
Processed foods	1.1	5.5	-4.4
Ice creams	-7.8	3.8	-11.6
Beverages	11.6	14.8	-3.2
Total	7.8	11.9	-4.0

Cost as % to sales

Particulars	Q1CY2008	Q1CY2007	% yoy
Raw material cost	54.7	55.5	-0.8
Employee expenses	5.6	5.6	0.0
Advertising and promotion	11.4	11.2	0.2
Other expenses	17.5	16.2	1.2
Total cost	89.3	88.6	0.7

Valuation and view

We are enthused by the performance of HUL's HPC business and pleased by the fact that the company is exploring ways to maintain the growth in the segment by expanding its presence in premium personal care products. At the current market price of Rs251, the stock trades at 26.8x and 22.9x its CY2008E and CY2009E EPS of Rs9.4 and Rs10.9 respectively. We maintain our Buy recommendation on the stock with target price of Rs280.

Key financial Rs (cr)

Particulars	CY05	CY06	CY07	CY08E	CY09E
Net profit (Rs cr)	1310.7	1539.7	1769.1	2038.8	2382.6
% y-o-y growth	*10.8*	*17.5*	*14.9*	*15.2*	*16.9*
No of shares (cr)	220.1	220.7	217.7	217.7	217.7
EPS (Rs)	6.0	7.0	8.1	9.4	10.9
PER (x)	42.2	36.0	30.9	26.8	22.9
Book value (Rs)	10.5	12.3	6.6	10.0	14.9
P/BV (Rs)	24.0	20.3	38.0	25.2	16.8
EV/EBIDTA (x)	36.7	31.9	28.2	24.0	20.4
RoCE (%)	54.8	72.6	102.2	134.4	107.5
RoNW (%)	59.6	61.2	85.0	112.9	87.9

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

Marico

Apple Green

Stock Update

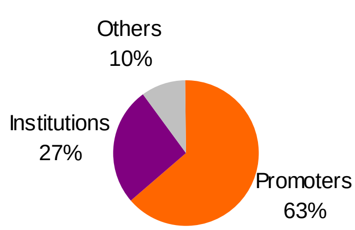
Price target revised to Rs77

Buy; CMP: Rs68

Company details

Price target:	Rs77
Market cap:	Rs4,114 cr
52 week high/low:	Rs83/47
NSE volume: (No of shares)	4.1 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	22.3 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.4	2.2	7.6	21.6
Relative to Sensex	-4.2	8.9	21.5	-1.5

Result highlights

- For Q4FY2008, Marico has posted a 17.8% growth in its net sales to Rs467.5 crore as against our expectation of Rs484 crore.
- The operating profit margin (OPM) declined by 35 basis points year on year (yoy) to 9.7% on account of a hefty increase of 115% in the staff cost and a higher advertisement & sales promotion expenditure. Hence the operating profit increased by 13.6% to Rs45.47 crore.
- Input costs continued to show an increasing trend as the cost of some of the key inputs such as copra, kardi oil and sun flower oil were up by 7.1%, 45.9% and 45.3% yoy respectively. Despite the rise in the input costs, the company was able to maintain the raw material cost as percentage to sales ratio at 50.8% during the quarter as compared to 52.0% in Q4FY2007, as the company hiked the prices of its edible oil brands *Saffola* and *Sweekar* by more than 20% during the quarter.
- Decline in deprecation charges and lower tax incidence resulted in a 14.8% growth in the adjusted net profit to Rs32.3 crore. During the quarter Marico sold its non-focus brand *Sil* to Scandia Food India resulting in a pre-tax profit of Rs10.61 crore (Post-tax profit of Rs8.49 crore). Thus the reported net profit grew by hefty 45.0% to Rs40.8 crore in Q4FY2008.
- For FY2008, the net sales increased by 22.5% yoy to Rs1,906.7 crore, comprising of 17% organic and 5% inorganic growth. The operating profit increased by 18.6% to Rs246.4 crore. Lower depreciation charges and lower tax incidence resulted in a hefty growth of 49.8% in the reported net profit to Rs169.1 crore.
- We like Marico's three pronged growth strategy of enhancing the existing products, introducing new products and achieving inorganic growth through acquisitions, which gives us comfort of a sustained growth going forward. At the current market price of Rs68, the stock trades at 21.8x and 17.5x its FY2009E and FY2010E earnings per share (EPS) of Rs3.1 and Rs3.9 respectively. We value Marico at 20x its FY2010E earnings and maintain our Buy recommendation on the stock, upgrading our price target to Rs77.

Result table Rs (cr)

Particulars	Q4FY2008	Q4FY2007	% yoy	FY2008	FY2007	% yoy
Net sales	467.5	397.0	17.8	1906.7	1556.8	22.5
Expenditure	422.0	356.9	18.2	1660.3	1363.0	21.8
Operating profit	45.6	40.1	13.6	246.4	193.8	27.1
Interest	7.3	4.7	55.1	27.7	19.1	44.8
Depreciation	7.9	11.5	-31.1	30.9	52.1	-40.7
PBT	34.1	32.6	4.5	158.0	136.0	16.2
Tax	1.8	4.5	-60.4	33.8	34.0	-0.4
Adjusted PAT	32.3	28.1	14.8	160.6	102.0	57.3
Extraordinary items	-8.5	0.0	-	8.5	10.8	-
Reported PAT	40.8	28.1	45.0	169.1	112.9	49.8
EPS	0.5	0.5	14.8	2.07	1.37	51.0
OPM (%)	9.7	10.1		13.5	14.4	

Q4FY2008—below par performance

For Q4FY2008, Marico posted a revenue growth of 17.8% yoy to Rs467.5 crore aided by a strong volume growth of 12.0%. The top line was however below our estimates of Rs484 crore. The OPM declined by 35 basis points yoy to 9.7% on account of a hefty increase in the staff cost and a higher advertisement & sales promotion expenditure. The staff cost jumped by 115% yoy to Rs36.3 crore due to annual increments, higher incentives and increase in head count for new Kaya Skin clinics and Kaya Life centers. Price hikes during the quarter in edible oil brands of *Saffola* and *Sweekar* aided Marico to combat input cost pressures, thus maintaining the raw material cost as percentage to sales ratio at 50.8% during the quarter as compared to 52.0% in Q4FY2007. Hence the operating profit grew by 16.4% to Rs64.2 crore. Decline in depreciation charges and lower tax incidence resulted in a 14.8% growth in the adjusted net profit to Rs32.3 crore. Sale of *Sil* brand resulted in a pre-tax profit of Rs10.61 crore (Post-tax profit of Rs8.49 crore) leading to a hefty growth of 45.0% in the reported net profit to Rs40.8 crore in Q4FY2008.

Consumer product business

While Marico's flagship brand *Parachute* grew by just 4.4% (much lower than the annual volume growth of 11%), its hair care portfolio, which includes *Parachute Jasmine*, *Parachute Advansed*, *Shanti Amla Badam*, *Nihar Naturals* and *Hair & Care*, grew by 15% in volume terms during Q4FY2008. To plug the gap in its hair oil portfolio, the company has recently launched *Maha Thanda* oil embarking an entry into cooling oil market of India. The market for the category is estimated at around Rs400 crore and is growing at a rate of 20% yoy. Price hike of above 20% in *Saffola*'s oil basket has not impacted its volumes, as the brand registered a volume growth of around 20% during the quarter. The company has recently launched Saffola active, a blend of rice bran and soya bean oil to expand its edible oil basket.

For FY2008, Marico's consumer product business posted a robust performance, as *Parachute*, hair oil portfolio and premium edible oil brand *Saffola* grew by 10%, 16% and 22%yoy respectively in volume terms.

International business

Good performance across various geographical territories has enabled the international business to achieve a healthy growth of 59% yoy for FY2008 to Rs307 crore. The Egyptian brands, *Fiancée* and *Haircode* performed as per expectation, as they achieved revenue of about Rs88 crore (expected Rs90 crore) during FY2008. The combined market share of both the brands is around 62% in Rs170 crore hair cream and hair gel market. With an aim to consolidate its position in Africa, the company has started exporting the products to neighbouring African nations from Egypt. The company aims to leverage benefits from trade agreements between Egypt and countries in the Middle East, and towards this end it commenced putting up a green field project in Egypt to be completed by December 2008. Marico entered the fast growing South African ethnic hair care and health care market through the acquisition of Enaleni Pharmaceuticals Consumer Division (EPCD), which contributed around Rs10 crore during Q4FY2008. Thus Marico achieved a turnover Rs20 crore in South Africa for FY2008. In Bangladesh, conversions of loose oil users into branded coconut oil have helped Parachute to improve its market share to 71% during FY2008.

Kaya

Kaya now has 65 clinics, including nine in the Middle East, with a target of opening 15 new clinics every year. The company added 10 clinics during Q4FY2008. Opening of new clinics, volume increase from existing clinics and price increase have led to a 34% growth in the revenues to Rs100 crore during FY2008. In Q4FY2008, a face cleanser, Kaya fairness day cream and Kaya fairness night cream were added to its existing product basket, which contributes around 13% to Kaya's revenues.

Kaya expanded beyond skin care solutions by introducing Kaya Life that offers weight loss and wellness solutions. On the back of extensive response from Kaya customers, the company opened two more Kaya Life clinics in Mumbai during Q4FY2008.

Exits non-focus businesses

Marico has defined beauty and wellness as the segments in which it would operate and grow. In line with the strategy, Marico sold its non-focus brand *Sil* to Scandia Food India on slump sale basis, including the manufacturing facility at Saswad, for a profit of Rs10.6 crore during the quarter. *Sil* was contributing around 1% (Rs20 crore) to the company's top line with an OPM of around 20% (Rs4 crore).

With focus on increasing the distribution of brands from its own basket, Marico has ended its distribution alliance with Indo Nissin Foods. Marico's income from the distribution of *Top Ramen* range of products was about Rs3 crore for FY2008.

Revised estimates

We have revised downward our earning estimates for FY2009 by 7.2% to Rs188.6 crore on account of input cost pressures and increase in market spends. We have also introduced our FY2010 earning estimates through this note.

Revised estimates

		FY009E	
	Old	New	% chg
Net sales (Rs cr)	2,147.6	2,264.8	5.5
Net profit (Rs cr)	203.2	188.6	-7.2
EPS (Rs)	3.3	3.1	-6.1

Valuation and view

We like Marico's three pronged growth strategy of enhancing the existing products, introducing new products and achieving inorganic growth through acquisitions, which gives us comfort of a sustained growth going forward. At the current market price of Rs68, the stock trades at 21.8x and 17.5x its FY2009E and FY2010E EPS of Rs3.1 and Rs3.9 respectively. We value Marico at 20x its FY2010E earnings and maintain our Buy recommendation, upgrading our price target to Rs77.

Key financial Rs (cr)

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs cr)	86.3	102.0	166.0	188.6	235.0
Share in issue (cr)	58.0	60.9	60.9	60.9	60.9
EPS (Rs)	1.5	1.7	2.6	3.1	3.9
(%) y-o-y growth	-	*12.7*	*57.3*	*17.5*	*24.6*
PER (x)	45.4	40.3	25.6	21.8	17.5
Book value (Rs)	4.5	3.2	5.3	8.4	12.2
P/BV (x)	15.1	21.4	12.8	8.1	5.5
EV/Ebidta (x)	30.8	22.3	17.4	14.3	11.5
RoCE (%)	26.1	32.9	39.5	36.9	37.6
RoNW (%)	33.2	53.0	49.9	37.0	31.5

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

Grasim Industries

Apple Green

Stock Update

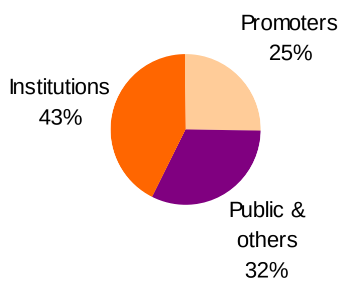
Q4FY08 results below expectation: First-cut analysis

Buy; CMP: Rs2,472

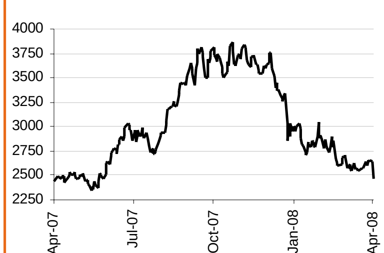
Company details

Price target:	Under review
Market cap:	Rs22,670 cr
52 week high/low:	Rs4074/2335
NSE volume: (No of shares)	93,236
BSE code:	500300
NSE code:	GRASIM
Sharekhan code:	GRASIM
Free float: (No of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.6	-11.0	-30.3	8.7
Relative to Sensex	-6.3	-5.2	-21.3	-12.0

Result highlights

- Grasim Industries (Grasim) Q4FY2008 results were below our estimates. The company reported a top line growth of 10.8% year on year (yoy) to Rs2,742.4 crore against our expectation of Rs2,817.3 crore. The year-on-year (y-o-y) increase in the sales was driven by an increase in the revenue of the cement division by 14.7%. The VSF division reported a revenue growth of 9.6%, while sponge iron and chemicals divisions' revenues during the quarter increased by 14.1% and 7.3% respectively.
- The operating profit margin (OPM) for the quarter declined by 390 basis points yoy to 24.2%, on account of an increase in costs as a percentage to sales across all cost heads and flat cement realisation sequentially. Consequently the operating profit declined by 4.6% to Rs662.3 crore.
- For the quarter ended, PBIT margins were discouraging. The PBIT margin for the VSF division dropped 390 basis points yoy to 23.6%, cement division also reported a drop of 350 basis points in PBIT margin to 25.5%, while sponge iron division reported an increase of 190 basis points in its PBIT margin to 13.7%. The chemical division was the worst performer and its PBIT margin declined by 1,190 basis points to 18.3%.
- The margin of the VSF division declined due to high prices of sulphur and pulp, while the margin of chemical division was affected due to planned partial shutdown of plant and higher maintenance cost. The cement division reported a decline in its PBIT margin on account of an increase in coal prices, which led to an increase in power and fuel cost. The company also did not enjoy any increase in realisation sequentially.

Result table (standalone) Rs (cr)

Particulars	Q4FY2008	Q4FY2007	% yoy	FY2008	FY2007	% yoy
Net sales	2742.4	2474.6	10.8	10278.1	8643.8	18.9
Total expenditure	2080.0	1780.4	16.8	7168.4	6234.5	15.0
Operating profit	662.3	694.2	-4.6	3109.7	2409.4	29.1
Other income	118.7	77.6	53.1	314.8	209.7	50.1
EBIDTA	781.1	771.8	1.2	3424.5	2619.0	30.8
Interest	27.2	36.6	-25.9	107.0	111.8	-4.3
PBDT	753.9	735.2	2.5	3317.5	2507.2	32.3
Depreciation	94.2	87.6	7.6	353.3	317.9	11.1
PBT	659.7	647.6	1.9	2964.2	2189.3	35.4
Tax	204.1	198.7	2.7	948.2	679.0	39.6
Adj profit after tax	455.6	448.9	1.5	2016.1	1510.2	33.5
EO	211.8	25.6		216.5	25.6	
Reported PAT	667.37	474.49	40.65	2232.6	1535.8	45.4
Margins (%)						
OPM	24.2	28.1	3.9	30.3	27.9	

- The adjusted net profit of the company increased by a meagre 1.5% to Rs455.6 crore. The growth in the net profit was mainly due to an increase in other income and a decline in interest expenses.
- During the quarter under review, the company had a profit on sale of subsidiary of Rs180.3 crore. Thus, the reported net profit of the company increased by 40.6% to Rs667.37 crore.
- For the quarter ended March 2008, on a consolidated basis the net sales increased by 15.3% to Rs4,714.66 crore, and the reported PAT stood at Rs880.8 crore, up 51.2%.
- For the year ended March 2008, on a standalone basis the net sales increased by 18.9% to Rs10,278.1 crore, and the adjusted PAT stood at Rs2,016.1crore, up by 33.5%.
- For the year ended March 2008, on a consolidated basis the net sales increased by 20.5% to Rs17,037 crore, up by 18.9% yoy and the reported PAT stood at Rs2,891.44 crore, up by 47%.
- At the current market price of Rs2,472, Grasim is trading at price earning multiple of 9.9X its FY2009E earnings per share. **We would review our earnings estimates and recommendation on the stock in our detailed note that would follow.**

Segmental results (stand-alone) Rs (cr)

Particulars	Q4FY2008	Q4FY2007	% yoy	FY2008	FY2007	% yoy
Revenue						
Fibre & pulp	714.9	652.1	9.6	2998.54	2308.9	29.9
Cement	1678.1	1462.5	14.7	5924.8	5154.9	14.9
Sponge iron	275.2	241.1	14.1	950.09	755.8	25.7
Chemicals	100.4	93.6	7.3	414.73	319.0	30.0
Others	14.0	71.9	-80.5	173.22	271.0	-36.1
Total	2782.6	2521.2	10.4	10461.4	8809.5	18.8
Less: Inter segmental	40.3	46.6	-13.6	183.29	165.7	10.6
Net sales	2742.4	2474.6	10.8	10278.1	8643.8	18.9
PBIT						
Fibre & pulp	168.6	179.1	-5.8	1012.0	638.4	58.5
Cement	427.2	423.9	0.8	1677.6	1448.2	15.8
Sponge iron	37.6	28.3	33.0	125.6	50.4	149.2
Chemicals	18.4	28.3	-35.0	114.0	60.1	89.9
Others	1.0	-1.5	-168.0	-0.7	-4.6	-84.4
Total PBIT	652.9	658.1	-0.8	2928.5	2192.5	33.6
PBIT margins (%)						
Fibre & pulp	23.6	27.5	-3.9	33.8	27.7	
Cement	25.5	29.0	-3.5	28.3	28.1	
Sponge iron	13.7	11.7	1.9	13.2	6.7	
Chemicals	18.3	30.3	-11.9	27.5	18.8	
Others	7.3	-2.1	9.4	-0.4	-1.7	

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

Information Technology

Sector Update

Tax sops for STPIs extended by a year

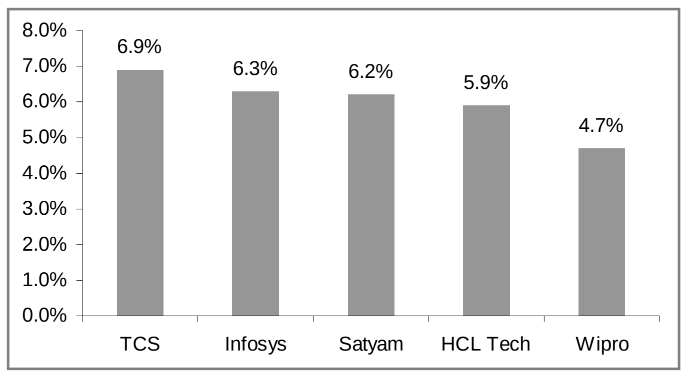
- The information technology (IT) companies finally have something to cheer about. The finance minister has proposed to extend the tax concessions granted under sections 10A and 10B to the Software Technology Parks of India (STPIs) and the export-oriented units by a year. As per the new proposal, the sunset clauses, which were to expire in March 2009, would now expire in March 2010.

- No doubt, the entire sector stands to benefit from the extension of the tax exemptions, but in our view the mid-cap IT companies would benefit the most from the concession. The cost of setting up a special economic zone (SEZ) is very high and companies with a lower scale of operations find it difficult to set up shop in SEZs. The proposal to grant tax exemption to the STPIs will come as a great relief to these companies, especially when they are reeling under a slowdown in the USA and an appreciating local currency.

- For the front-line companies the shift to a higher tax rate would now be delayed by a year, ie their effective tax rate would now increase from FY2011 and not FY2010 as proposed earlier. As per the earlier schedule, the shift to a higher tax rate would have been sudden. However, the effective tax rate would now rise steadily because companies that are shifting more and more of their activities to SEZs from STPIs will now get an additional year to do so. For example, in the case of Infosys Technologies, the effective tax rate now is 13-14% for FY2009 and 20-22% for FY2010. But after the proposal to extend the tax sops by a year, the effective tax rate for Infosys Technologies would be 13-14% for FY2009, 16-17% for FY2010 and 18-19% for FY2011.

- Our estimate shows a likely increase of 5-7% in the FY2010 earnings estimates of the top five IT companies under our coverage. Tata Consultancy Services is likely to benefit the most from the tax concessions. However, we will revisit our estimates and target prices only after the proposals have been approved. At the current valuation, Satyam Computer Services remains our top IT pick.

Impact in FY2010 estimates



Source: Sharekhan estimates

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Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
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 Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Unity Infraprojects
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India