Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Axis Bank	24-Feb-05	229	**680**	901
Bharti Airtel	08-Jan-07	625	**819**	1,100
India Cement	28-Sec-06	220	**146**	260
Lupin	06-Jan-06	403	**741**	840
Opto Circuits	13-May-08	338	**321**	460

Tata Chemicals

Ugly Duckling

Stock Update

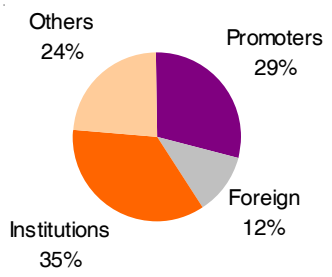
Performance boosted by new fertiliser policy

Buy; CMP: Rs330

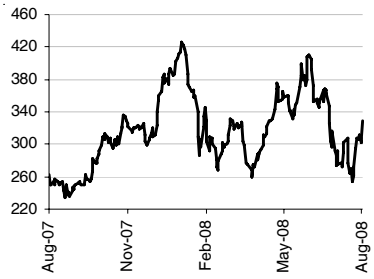
Company details

Price target:	Rs515
Market cap:	Rs7,754 cr
52 week high/low:	Rs440/231
NSE volume: (No of shares)	6.3 lakh
BSE code:	500770
NSE code:	TATACHEM
Sharekhan code:	TATACHEM
Free float: (No of shares)	16.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.3	-7.8	7.8	25.8
Relative to Sensex	7.7	10.2	31.3	34.6

Result highlights

- The Q1FY2009 results of Tata Chemicals Ltd (TCL) have been above our expectations. The consolidated revenues during the quarter registered a growth of 94.1% year on year (yoy) to Rs2,192.4 crore on account of spectacular performance of the fertiliser segment. However the results are not strictly comparable with the same quarter last year due to acquisition of GCIP in Q4FY2008.
- The consolidated operating profit increased by 96% yoy from Rs257.9 crore to Rs505.3 crore with the operating margins expanding by 20 basis points to 23% in Q1FY2009. The consolidated profit after tax (PAT) increased by 116.8% to Rs235.9 crore with the margins expanding by 250 basis points to 12.1%. The depreciation and interest costs increased significantly to Rs99 crore and Rs84.4 crore respectively due to GCIP acquisition.
- On a segmental basis:

  Fertilisers: The revenues from the fertiliser segment increased by 166.3% yoy to Rs932 crore while the segmental profit improved more than four fold to Rs187.2 crore. The profit before interest and tax (PBIT) margin for the segment jumped up to 20.1% yoy from 13.2% in Q1FY2008, as import parity pricing for phosphate fertilisers resulted in higher realisations.

Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	2192.4	1129.4	94.1
Total expenditure	1687.1	871.5	93.6
Raw material consumed	748.3	407.4	
Stock adjustment	-783.4	-138.8	
Purchase of finished goods	743.8	29.5	
Employee expenses	209.2	92.6	
Other expenses	769.2	480.8	
Operating profit	505.3	257.9	96.0
Other income	29.8	12.1	146.9
EBITDA	535.1	269.9	98.2
Interest	84.4	25.6	230.3
Depreciation	99.0	76.7	29.2
PBT	351.7	167.7	109.7
Tax	87.3	58.9	48.1
PAT	264.4	108.8	143.0
Minority interest	28.5		
PAT after MI	235.9	108.8	116.8
Extraordinary items	128.9	-28.6	
Reported PAT	107.0	137.4	-22.1
Basic EPS	4.6	6.4	-28.6
Adj. EPS	10.0	5.1	98.7
OPM (%)	23.0	22.8	
Adj PATM (%)	12.1	9.6	

Chemicals: The revenues from the chemical segment increased by 62.5% yoy to Rs1,271.0 crore, the segmental profits improved by 54.4% yoy to Rs213.9 crore, while the PBIT margin declined from 17.7% to 16.8%. The growth in the chemical segment is attributed to GCIP acquisition.

- Improved prices of phosphoric acid combined with better availability of rock phosphate and sulphur considerably improved the performance of Indo Maroc Phosphore S.A. (IMACID) while sharp increase in energy costs continued to hurt the profitability of Brunner Mond (BMGL) in Europe.
- De-bottlenecking of the urea capacity to expand its Babrala capacity to 1.3 million metric tonne per annum (mmtpa) is progressing well and the same would be operational by October 2008. The company's new business initiatives like Fresh Produce and Biofuel are also shaping well.
- In view of the firm soda ash prices in mid term, we continue to remain positive on the stock. We have fine-tuned our earnings estimates for the company after incorporating the impact of its recently acquired company GCIP. We have revised our earnings estimates from Rs23.9 to Rs26.7 for FY2009 and from Rs32.2 to Rs35.8 for FY2010. At the current market price of Rs330, the stock is trading at 9.2x its FY2010E diluted earnings per share (EPS) and enterprise value (EV)/ earnings before interest, depreciation, tax and amortisaion (EBIDTA) of 5.5x. We maintain our Buy recommendation on the stock with price target of Rs515.

Top line increases by 94.1% yoy

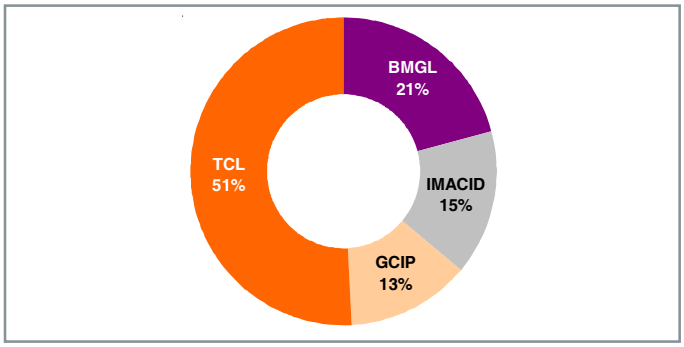
During Q1FY2009 the company witnessed a 94.1% increase in the net sales to Rs2,192.4 crore on the back of spectacular performance of the fertiliser division. The fertiliser segment revenues increased by 166.3% to Rs932 crore primarily on account of better realisations and higher sales volumes. Urea sales volumes jumped by 33% to 266,000 tonne while di-ammonium phosphate (DAP) and complex fertilisers witnessed volume growth of 29.5% to 79,000 tonne. Import parity pricing for DAP and nutrient based policy resulted in higher realisations for DAP and complex fertilisers.

Net sales for the chemical division increased by 62.5% to Rs1,271 crore. Newly acquired GCIP contributed Rs309 crore to the division's revenue during the quarter. TCL continues to be the market leader in the domestic edible salt market with a 53% market share. The company increased salt prices by Re1/kg to offset the impact of rising freight and packaging cost. The demand for other products of the company like STPP, sodium bicarbonate, bromine and cement also remained firm during the quarter.

Segmental result Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% yoy
Revenues			
Inorganic chemicals	1271.0	782.1	62.5
Fertilisers	932.0	350.0	166.3
Total (less inter segment sales)	2192.4	1129.4	94.1
PBIT			
Inorganic chemicals	213.9	138.5	54.4
Fertilisers	187.2	46.1	306.3
Total	401.1	184.6	117.3
PBIT Margins (%)			
Inorganic chemicals	16.8	17.7	
Fertilisers	20.1	13.2	

Q1FY09 sales break-up



OPM expanded by 20 basis points

The consolidated operating profit for the quarter increased by 96% yoy from Rs257.9 crore to Rs505.3 crore, while the OPM expanded by 20 basis points yoy to 23% as against 22.8% in the same quarter last year. The segmental PBIT for the chemical division increased by 54.4% to Rs213.9 crore with the margins declining from 17.7% to 16.8%, while the PBIT for the fertiliser division increased by 306.3% to Rs187.2 crore with the margins improving substantially by 690 basis points to 20.1%.

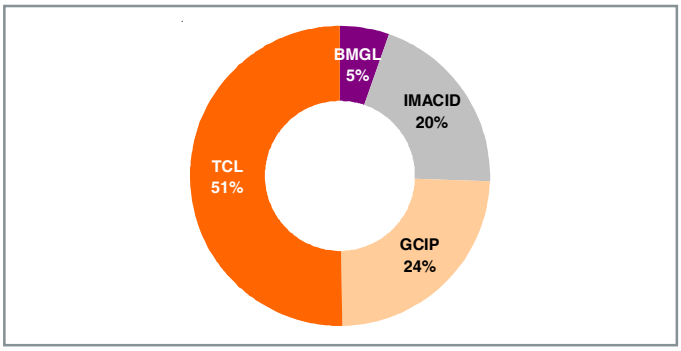
The remarkable performance of the fertiliser division is attributed to the new fertiliser policy as well as the seasonality of the business. Import parity pricing for phosphate fertilisers has resulted in higher sales realisations in line with international prices. Furthermore lower cost of procurement for phosphoric acid and rock phosphate during Q4FY2008 resulted in higher profitability.

Firm international prices of phosphoric acid along with better availability of rock phosphate and sulphur during the quarter has helped IMACID to maintain its profitability. Since October 2007 the price of phosphoric acid has increased from $566.25 per tonne to $1,985 per tonne pushing di-ammonium phosphate (DAP) prices over $1,300 per tonne.

BMGL Europe continued to pull down the profitability of the chemical division as it failed to pass on the rising energy costs. The company has finally hiked prices in Europe to prevent any more losses. The growth in the segmental profits during the quarter was primarily on account of GCIP operations, which contributed Rs130 crore to the operating profits with margins of over 40%. In view of the recent price hikes in Europe and India we expect the division's profitability to improve in the coming quarters.

Particulars	BMGL			IMACID		
	Q3 FY08	Q4 FY08	Q1 FY09	Q3 FY08	Q4 FY08	Q1 FY09
Sales	426	490.78	496	90	36.51	364
Operating Profit	35	-161	28	15	17.74	109
OPM (%)	8.2	-32.8	5.6	16.7	48.6	29.9

Q1FY09 operating profit breakup



Adjusted PAT increased by 116.8% to Rs235.9 crore

The consolidated PAT during the quarter increased by 116.8% to Rs235.9 crore. The depreciation and interest costs increased by 29.2% and 230.3% yoy to Rs99 crore and Rs84.4 crore respectively due to GCIP acquisition.

Expansion plans on schedule

De-bottlenecking of the urea capacity to expand its Babrala capacity to 1.3mmtpa is progressing well and would be operational by October 2008. However its benefits would accrue largely in FY2010 as it will lose one-two months urea production in the process. The company's new business initiatives like Fresh Produce and Biofuel are also shaping well. The first distribution centre of Fresh Produce became operational in May 2008 in Ludhiana while the second centre is coming up at Kalyan near Mumbai. Ethanol plant work at Nanded is on schedule and is expected to commission during Q3FY2009.

Outlook and valuation

In view of the recent price hikes across different markets, the chemical division is likely to exhibit better performance in future. Soda ash prices in spot market remain firm at $350-400 per tonne. In addition, increased contribution of natural soda ash in the product mix would lead to higher profitability. The fertiliser division is also expected to benefit from better pricing under the new fertiliser policy and de-bottlenecking of the urea capacity. New initiatives undertaken by the company like Fresh Produce and bio-ethanol production also offer tremendous growth potential.

In view of the firm soda ash prices in mid term, we continue to remain positive on the stock. We have fine-tuned our earnings estimates for the company after incorporating the impact of its recently acquired company GCIP. We have revised our earnings estimates from Rs23.9 to Rs26.7 for FY2009 and from Rs32.2 to Rs35.8 for FY2010. At the current market price of Rs330, the stock is trading at 9.2x its FY2010E diluted earnings per share (EPS) and enterprise value (EV)/ earnings before interest, depreciation, tax and amortisaion (EBIDTA) of 5.5x. We maintain our Buy recommendation on the stock with price target of Rs515.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Key financials	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs cr)	4034.4	5809.6	6023.1	9183.4	10155.1
Net profit (Rs cr)	433.0	511.9	476.9	651.1	872.0
No of shares (cr)	24.4	24.4	24.4	24.4	24.4
EPS (Rs)	17.6	20.9	19.6	26.7	35.8
% y-o-y change	-	*19.0*	*-6.0*	*37.0*	*34.0*
PER (x)	18.8	15.8	16.9	12.4	9.2
Price/BV (x)	3.6	3.1	2.2	1.9	1.7
EV/EBIDTA(x)	10.5	8.0	10.5	6.8	5.5
RoCE (%)	14.8	17.5	9.2	15.8	19.4
RoNW (%)	19.4	19.8	12.8	15.1	18.1

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

Patels Airtemp India

Emerging Star

Stock Update

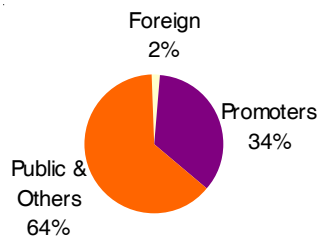
Good performance

Buy; CMP: Rs62

Company details

Price target:	Rs135
Market cap:	Rs31.6 cr
52 week high/low:	Rs146/34
BSE volume: (No of shares)	19,066
BSE code:	517417
Sharekhan code:	PATELAIR
Free float: (No of shares)	0.33 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	9.0	-0.8	-29.1	52.8
Relative to Sensex	1.8	18.6	-13.6	63.5

Result highlights

- Patels Airtemp's Q1FY2009 results are ahead of our expectations on the back of a stronger than expected top line growth. The net sales for the quarter rose by 58.3% to Rs13.2 crore.
- The operating profit margin (OPM) continued to remain strong at 18.8% improving by 200 basis points year on year (yoy). Consequently the operating profit grew by 76.9% to Rs2.49 crore during the quarter. Stable interest and depreciation costs led to a staggering profit growth of 105.4% to Rs1.34 crore.
- Currently the company has an order book of Rs54 crore as compared to Rs50 crore at the end of the previous quarter. The management also hopes to maintain its margins going forward.
- We expect a strong second quarter for the company as the export orders from Iran and Germany are likely to be booked. The order inflows also remain steady for the company so far and the management is pretty confident that the same is likely to be sustained going forward too.
- At the current market price the stock is available at 4.1x FY2009E earnings and 3.5x FY2010E earnings. We maintain our Buy recommendation on the stock with a price target of Rs135 valuing the company at 9x FY2009E earnings.

Stronger than expected top line growth

For Q1FY2009 the company reported an excellent 58.3% growth in its net sales to Rs13.2 crore, ahead of our estimates. Currently the company is sitting on an order book of Rs54 crore. Some of the export orders (orders won from Iran and Germany) are likely to be booked in the second quarter. Consequently we should witness a strong Q2 for the company.

Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	**13.23**	**8.36**	**58.3**
Total expenditure	10.74	6.95	
Operating profits	**2.49**	**1.41**	**76.8**
Other income	0.02	0.02	
EBIDTA	2.52	1.43	
Interest	0.27	0.27	
PBDT	2.25	1.16	
Depreciation	0.28	0.27	
PBT	**1.97**	**0.89**	
Tax	0.64	0.24	
Reported PAT	1.33	0.65	105.2
EPS (Rs)	2.63	1.28	
Margins			
OPM (%)	18.8	16.9	
PATM (%)	10.1	7.8	

Margins stable

The OPM remained stable on sequential comparison but improved by about 200 basis points on year-on-year basis to 18.8% inspite of cost pressures. As a result the operating profit grew by 76.9% to Rs2.49 crore. The company usually books its raw materials on a back-to-back basis for bulk of its orders, which should help the company sustain its margins. However in our estimates we have accounted for some softening in the operating margins considering continued surge in the raw material prices particularly steel.

Valuation and view

We continue to believe that the company would benefit from the ongoing boom in its user industries such as oil and gas, refineries, power, cement and fertilisers. We are also introducing our FY2010 estimates with this note. We expect a top line growth of 16.1% and earnings of Rs17.5 in FY2010. At the current market price the stock discounts its FY2009E earnings by 4.1x and FY2010E earnings by 3.5x. We value the company at 9x FY2009E earnings and believe that the valuations are very attractive at current levels. We maintain our Buy recommendation on the stock with a price target of Rs135.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs cr)	30.0	40.8	54.3	75.0	87.1
Net profit (Rs cr)	1.4	2.5	5.2	7.6	8.9
EPS (Rs)	2.7	5.0	10.3	15.0	17.5
% yoy growth	*24.1*	*82.7*	*105.1*	*46.1*	*250.1*
PER	22.6	12.4	6.0	4.1	3.5
P/B	3.1	2.6	1.9	1.3	1.0
EV/EBIDTA	10.8	6.8	2.9	2.1	1.5
RoCE (%)	18.9	29.6	47.4	51.4	45.4
RoNW (%)	13.5	20.8	30.9	31.9	27.6

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

Jindal Saw

Emerging Star

Stock Update

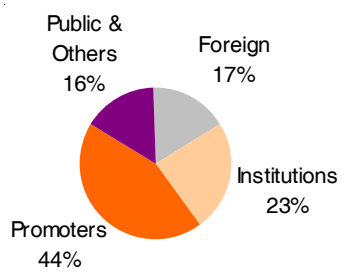
Q2 report card beats expectations

Buy; CMP: Rs550

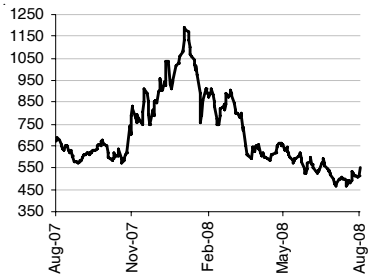
Company details

Price target:	Rs910
Market cap:	Rs3,083 cr
52 week high/low:	Rs1224/450
NSE volume: (No of shares)	1.0 lakh
BSE code:	500378
NSE code:	JINDALSAW
Sharekhan code:	JINDALSAW
Free float: (No of shares)	2.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.2	-21.8	-40.9	-25.0
Relative to Sensex	-4.6	-6.5	-28.0	-19.8

Result highlights

- Jindal Saw's Q2CY2008 numbers are ahead of our expectations on account of a higher top line and a better than expected margin. After the hive-off of the company's US division, the Q2CY2008 results are not strictly comparable with the Q2CY2007 results.
- The revenues from the Indian operations grew by a strong 34.8% year on year (yoy) to Rs1,017.5 crore on the back of a strong growth in the submerged arc welded (SAW) pipe sales. The sales of ductile iron (DI) pipes declined a bit sequentially due to an eight-day shutdown at the company's blast furnace during the quarter.
- On the back of a favourable product mix, greater efficiencies and the hive-off of the US division, the operating profit margin (OPM) continued to improve and reached 16.6% during the quarter (after adjusting for Rs7.2 crore export duty). Consequently, the operating profit grew by 5% to Rs168.5 crore.
- The interest cost was higher on account of a Rs12-crore foreign exchange (forex) loan translation loss and a net settlement of Rs17 crore made towards forward contracts and options. We have treated both the items as "extraordinaries" and adjusting for the same, the profit stood at Rs106.4 crore.
- The company's order book stood at $1.09 billion at the end of the quarter, to be executable by April/May 2009. Of the total orders, $760 million worth of orders

Result table Rs (cr)

Particulars	Q2CY08	Q3FY07	% change
Net sales	1,017.5	1,285.5	-20.8
Sales from Indian operations	1,017.5	755.1	34.8
Total expenditure	849.0	1,124.9	
Raw material consumed	684.0	707.8	
Stock adjustment	-20.3	56.9	
Employee expenses	29.1	26.9	
Other expenses	156.1	333.4	
Operating profits	168.5	160.6	5.0
Other income	2.0	1.5	
EBIDTA	170.6	162.1	5.3
Interest	25.5	25.4	
PBDT	145.1	136.7	6.2
Depreciation	15.5	15.3	
PBT	129.7	121.4	6.8
Taxes	23.3	39.3	
Adjusted PAT	106.4	82.0	29.7
Extraordinaries	-36.2	0.0	
Reported PAT	70.2	82.0	-14.4
OPM (%)	16.6	12.5	
EPS	20.4	17.0	

are for SAW pipes while the remaining orders are for DI and seamless pipes.

- Though the Q2CY2008 results are ahead of expectations, the borrowing costs has risen lately. To factor in the same, we have marginally downgraded our earnings estimate for CY2008 by 4.3% to Rs58.9 and that for CY2009 by 1.3% to Rs89.3. At the current levels, the stock is trading at 6.1x its CY2009E earnings and is available at an enterprise value (EV)/ earnings before interest, depreciation, tax and amortisation (EBIDTA) of 3.2x. We maintain our Buy recommendation on the stock with a price target of Rs910.

Better realisations, volumes boost top line

The revenues of Jindal Saw's Indian operations grew by a strong 34.8% in Q2CY2008 led by the strong sales of DI pipes and SAW pipes. On the volumes front, SAW pipe sales grew by 38.3% yoy to Rs110,800 tonne while DI pipe volumes grew by 36.5% to Rs55,000 tonne. However, the DI and pig iron volumes were lower on a sequential comparison due to an eight-day shutdown at its blast furnace during the quarter.

Volume growth

Segments	Q2 FY07	Q3 FY07	Q4 FY07	Q5 FY07	Q1 CY08	Q2 CY08
Saw pipes & coatings--India	81000	80100	111500	130051	98500	110800
DI pipes	35000	40300	51700	65231	60600	55000
Pig iron	17000	27600	17000	10676	16600	3000
Seamless tubes	18800	17200	16300	16619	15400	17400

Margins improve further

The company continues to improve its margins. In Q2CY2008, its OPM improved by a strong 410 basis points yoy and by 120 basis points sequentially to 16.6% (after adjusting for an export duty of Rs7.2 crore paid during the quarter). The operating profit for the quarter grew by 5% to Rs168.5 crore.

The interest cost includes Rs12 crore of forex loan translation loss and Rs17 crore of net settlement made towards forward contracts and options. We have treated both the items as extraordinaries. Hence, the adjusted profit for the quarter comes to Rs106.4 crore. The company has informed that its Indian operations had accounted for about 70% of its profits in Q2CY2007. By that token, in Q2CY2008, the company's profit grew by about 85% on a year-on-year basis (after adjusting for the extraordinaries). The reported profit after taking into account the translation loss, currency derivative loss and export duty stood at Rs70.2 crore for the quarter.

The company's interest cost has risen substantially in recent times on account of its expansion activities and diversification into newer businesses. Consequently, the adjusted net profit stood at Rs77.4 crore in Q2CY2008. The reported profit stood at Rs70.2 crore in Q2CY2008 as compared with our expectations of Rs63.4 crore.

Order book maintained at $1.09 billion

Jindal Saw's order book was maintained at $1.09 billion at the end of the quarter. Of the total order book, $760 million worth of orders are for SAW pipes, $170 million worth of orders are for DI pipes and $160 million worth of orders are for seamless pipes. This order book is executable by April/May 2009.

Capacity expansion plans on schedule

The company's expansion plans are being implemented as per schedule. The additional 200,000 million tonne per annum (MTPA) of longitudinal SAW (LSAW) pipe capacity and the 350,000MTPA of horizontal SAW (HSAW) pipe capacity are slated for completion by September/October 2008. The installation of a PQF mill and other equipment in the seamless plant is expected to get completed by September 2008. The total capital expenditure for the above mentioned activities is estimated at $200 million.

Valuation and view

We still maintain our optimism regarding the company's core business. However, we have not factored in our estimates the impact of the new initiatives on account of a lack of clarity regarding the same. On the other hand, our estimates factor in the impact of the increase in the borrowing costs. Hence, we have marginally downgraded our earnings estimates for CY2008 and CY2009 by 4.3% and 1.3% to Rs58.9 and to Rs89.3 respectively. At the current levels, the stock is trading at 6.1x its CY2009E earnings and is available at an EV/EBIDTA of 3.2x. We maintain our Buy recommendation on the stock with a price target of Rs910.

Valuation table

Particulars	FY05	FY06	FY07E (15 mth)	CY08E	CY09E
Net sales (Rs cr)	2,313.6	3,855.7	6,787.8	4,293.3	5,474.5
Net profit (Rs cr)	99.1	169.1	280.3	330.6	500.8
EPS (annualised)	17.7	30.1	40.0	58.9	89.3
% yoy growth	*73.6*	*70.6*	*32.6*	*47.4*	*51.5*
PER	30.8	18.0	10.9	9.2	6.1
P/B	3.6	3.0	1.5	1.1	1.0
EV/EBIDTA	14.2	9.6	5.1	4.5	3.2
RoCE (%)	17.8	18.9	22.2	16.7	20.7
RoNW (%)	11.7	16.6	11.3	12.1	16.0

KSB Pumps

Emerging Star

Stock Update

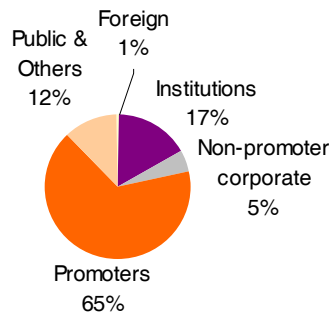
Strong quarter

Buy; CMP: Rs331

Company details

Price target:	Rs451
Market cap:	Rs576 cr
52 week high/low:	Rs560/221
NSE volume: (No of shares)	5,313
BSE code:	500249
NSE code:	KSBPUMPS
Sharekhan code:	KSBPUMPS
Free float: (No of shares)	0.6 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	26.7	-6.8	-10.8	-43.6
Relative to Sensex	18.4	11.4	8.7	-39.6

Result highlights

- KSB Pumps' Q2CY2008 results are better than our expectations owing to a stronger than expected top line and higher margin. For pump makers, the second quarter is traditionally the best quarter, both in terms of sales and margin, because of higher pump sales for agricultural purposes during the period.
- In Q2CY2008, the company's top line improved smartly by 32.6% to Rs149 crore while its margin increased by 630 basis points year on year (yoy) and by 220 basis points sequentially to 18.3%. KSB Pumps' performance in the corresponding quarter of the last year, both in terms of top line and margin, was significantly suppressed on account of a lower contribution of the project business and certain operational difficulties faced by the company back then.
- Looking at the Q2CY2008 results of the segments separately, the pump division has reported a strong performance for the quarter. Its revenues grew by 37.2% to Rs118.8 crore. The valve division's revenues grew by 20% to Rs30.3 crore. The profit before interest and tax (PBIT) margin of all the divisions too improved both yoy and sequentially.
- Consequently, the overall operating profit of the company grew by 102.5% to Rs27.3 crore. A higher other income helped the net profit to grow by a good 113.9% to Rs17.1 crore.
- Though the Q2CY2008 numbers are better than our expectations, looking at the seasonal nature of the business, we do not expect similar results in the coming quarters. As highlighted in our previous notes, we do not expect the margins to reach the previous levels. We expect the operating profit margin (OPM) to sustain in the region of 16%. We upgrade our CY2008 earnings estimate by 8.5% to Rs32.4 in view of the excellent performance in the second quarter. We also upgrade our CY2009 earnings estimate by 2.3% to Rs34.9.

Result table Rs (cr)

Particulars	Q2CY08	Q2CY07	% yoy	H1CY08	H1CY07	% yoy
Net sales	**149.0**	**112.4**	**32.6**	**281.1**	**222.0**	**26.6**
Total expenditure	121.7	98.9	23.0	232.5	191.1	21.7
Operating profits	**27.3**	**13.5**	**102.5**	**48.6**	**30.9**	**57.3**
Other income	2.9	1.4	104.3	4.7	4.6	2.4
EBIDTA	30.2	14.9	102.7	53.3	35.5	50.2
Interest	0.4	0.1		0.7	0.2	
PBDT	29.8	14.8	101.6	52.6	35.3	49.1
Depreciation	3.1	2.6		6.0	5.0	
PBT	**26.7**	**12.2**		**46.6**	**30.3**	
Tax	9.6	4.2		16.6	9.8	
Profit after tax	**17.1**	**8.0**	**113.9**	**30.0**	**20.5**	**46.3**
EPS (Rs)	9.83	4.60		17.24	11.78	
Margins (%)						
OPM (%)	18.3	12.0		17.3	13.9	
PATM (%)	11.5	7.1		10.7	9.2	

- Pump makers would benefit directly from the expansion plans of their user industries, particularly the refinery and power sectors. Hence, we maintain our positive outlook on KSB Pumps. At the current market price, the stock is trading at 9.5x its CY2009E earnings and is available at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 5.6x. We maintain our Buy recommendation on the stock with a price target of Rs451.

Strong top line growth

KSB Pumps has reported a strong top line growth of 32.6% to Rs149 crore for Q2CY2008. Traditionally, the second quarter is the best quarter for the company, both in terms of top line and margin, on account of higher agricultural pump sales during the period. Though the Q2CY2008 numbers are better than our expectations, keeping in mind the seasonal nature of KSB Pumps' business, we do not expect similar results in the coming quarters.

Segmental performance

Looking at the results of the segments separately, the revenues of the pump division recorded an excellent growth of 37.4%, mainly on account of seasonal factors. The revenues of the valve division grew by 20% yoy. The margins too improved significantly across segments with the pump division recording a PBIT margin of 18.4% (a growth of 600 basis points yoy and of 300 basis points sequentially). The PBIT margin of the valve division stood at 26.9% (a growth of 1,100 basis points yoy and of 270 basis points sequentially).

Segmental results Rs (cr)

Particulars	Q2 CY08	Q2 CY07	% yoy	H1 CY08	H1 CY07	% yoy
Revenues	**159.9**	**119.2**	**34.1**	**298.8**	**236.1**	**26.6**
Pumps	118.8	86.6	37.2	220.9	165.5	33.5
Valves	30.3	25.2	20.0	60.3	55.3	9.1
Others	10.8	7.4	46.4	17.6	15.3	15.0
PBIT	**26.6**	**12.5**	**113.1**	**46.6**	**29.1**	**60.0**
Pumps	18.35	8.2	123.8	30.98	17.2	80.1
Valves	8.13	4	103.3	15.4	11.7	31.6
Others	0.16	0.3	-46.7	0.18	0.2	-10.0
PBIT margins (%)						
Pumps	15.4	9.5		14.0	10.4	
Valves	26.9	15.9		25.5	21.2	
Other	1.5	4.1		1.0	1.3	

Margins improve

The company's profitability further improved during the quarter, on the back of higher sales and price hikes undertaken. The OPM improved to 18.3%. We had highlighted in our previous notes that the company's margins are unlikely to reach the previous levels, but we believe that margins of about 16-17% are sustainable for the company.

Upgrading estimates

In view of the company's better than expected performance of Q2CY2008 and a better than expected improvement in its margins during the quarter, we are raising our earnings estimate for CY2008 by 8.5% to Rs32.4 and that for CY2009 by 2.3% to Rs34.9.

Outlook and valuation

The growth of the pump industry would be driven by the heavy investments being made in the user industries, such as power and petrochemicals. To cash in on this opportunity, KSB Pumps plans to spend close to Rs200 crore in the next four years towards capacity expansion and new product development. At the current market price, the stock discounts its CY2009E earnings by 9.5x and is available at an EV/EBIDTA of 5.6x. We maintain our Buy recommendation on the stock with a price target of Rs451.

Valuation table

Particulars	CY05	CY06	CY07	CY08E	CY09E
Net sales (Rs cr)	359.6	406.4	465.4	551.8	613.5
Net profit (Rs cr)	37.9	51.7	45.0	56.5	60.7
% y-o-y growth	*26*	*36*	*-13*	*25*	*18*
Shares in issue (cr)	1.74	1.74	1.74	1.74	1.74
EPS (Rs)	21.8	29.7	25.9	32.4	34.9
% y-o-y growth	*26*	*36*	*-13*	*25*	*18*
PER (x)	15.2	11.1	12.5	10.2	9.5
Book value (Rs)	93.3	116.0	136.6	161.9	189.1
P/BV (Rs)	3.5	2.9	2.4	2.0	1.7
EV/EBIDTA (x)	8.6	6.2	7.9	6.1	5.6
Dividend Yield (%)	1.36	1.66	1.66	2.16	2.32
RoCE (%)	44.1	45.3	32.7	35.9	34.8
RoNW (%)	23.3	25.6	18.9	20.0	18.5

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

Sanghvi Movers

Ugly Duckling

Stock Update

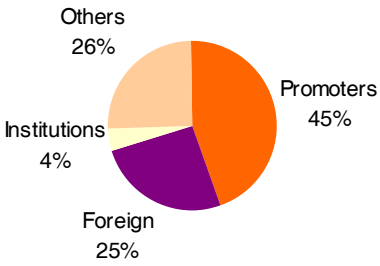
Another quarter of excellent performance

Buy; CMP: Rs224

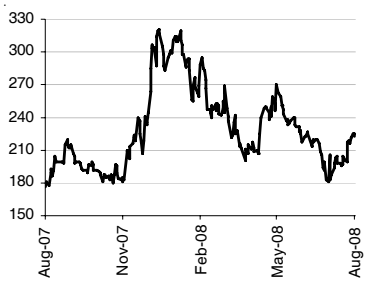
Company details

Price target:	Rs298
Market cap:	Rs970 cr
52 week high/low:	Rs337/174
NSE volume: (No of shares)	12,213
BSE code:	530073
NSE code:	SANGHVIMOV
Sharekhan code:	SANGMOVE
Free float: (No of shares)	2.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	25.4	-13.8	-22.0	24.6
Relative to Sensex	17.1	2.9	-4.9	33.3

Result highlights

- Sanghvi Movers Ltd (SML) has reported an excellent performance for Q1FY2009 and its results are ahead of our expectations on both revenue growth and profitability fronts.
- The revenues of the company grew by 48.5% to Rs78.7 crore in Q1FY2009. The power sector was the largest contributor to the top line, accounting for 33.8% of the net revenues.
- The operating profit of the company grew by 45.1% to Rs58.9 crore. On a high base of last year the operating profit margin (OPM) declined by 340 basis points to 73.2%. The increase in the operating expenses as a percentage of sales also contributed to the decline in the OPM.
- The other income stood at Rs1.3 crore, as the company sold two cranes for a total sum of Rs1.2 crore during the quarter.
- The interest cost and the depreciation charge rose by 37.4% and 32.4% year on year (yoy) to Rs10.1 crore and Rs14.7 crore respectively. Consequently, the net profit grew by 56.7% to Rs22.7 crore as against our estimate of Rs15.7 crore.
- The company added 19 new cranes during the quarter for a total capital expenditure (capex) of Rs66 crore. SML's total fleet size now stands at 295 cranes.
- We have fine-tuned our FY2009 and FY2010 earnings estimates to Rs19.8 and Rs24.7 per share respectively. This change is mainly to factor in the company's performance in Q1FY2009, the increase in its borrowing cost and taking the key inputs from its latest annual report. At the current market price the stock discounts our FY2009E and FY2010E earnings by 11.3x and 9.1x respectively.
- We reiterate our Buy call on SML with price target of Rs298 on the stock.

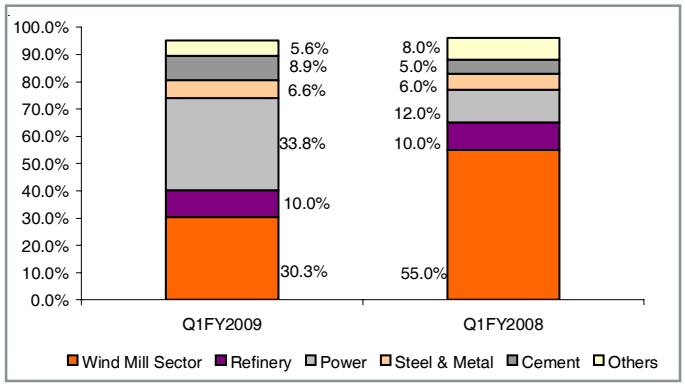
Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	**78.7**	**53.0**	**48.5**
Total expenditure	21.1	12.4	70.2
Operating profit	**57.6**	**40.6**	**41.9**
Other income	1.3	0.0	-
EBIDTA	58.9	40.6	45.1
Interest	10.1	7.4	37.4
Depreciation	14.7	11.1	32.4
PBT	**34.1**	**22.1**	**54.0**
Tax	11.4	7.7	49.0
PAT	**22.7**	**14.5**	**56.7**
Extraordinary items	0.0	0.0	
Reported PAT	22.7	14.5	56.7
Margins			
OPM (%)	73.2	76.6	341.1
PATM (%)	28.8	27.3	

Revenue growth robust on the back of strong yields

SML continued its growth stint in Q1FY2009 by registering a robust growth of 48.5% in its revenues to Rs78.7 crore. The windmill sector contributed 30.3% to the revenues. We would like to highlight the drop in the sector's contribution to the total top line from 55% in Q1FY2008 to 30.3% now. The decline is in line with the company's strategy to reduce its dependency on the windmill sector and focus on the power sector. Incidentally, in Q1FY2009, the power sector contributed the maximum to the top line of the company.

Revenue break up (Industry wise)



OPM contracts on a high base

The operating profit of the company grew by 41.9% to Rs57.6 crore. This implies an OPM of 73.2%, which is down 340 basis points yoy. The high base of the last year and the increase in the operating cost led to the decline in the OPM. The operating expenses as a percentage of sales increased by 315 basis points to 18.8%.

Cost analysis (%)

% of sales	Q1FY2009	Q1FY2008	Change (bps)
Operating cost	18.8	15.6	315
Staff cost	3.7	3.4	25
Other expenses	4.3	4.3	0
Total cost	**26.8**	**23.4**	**340**

Net profit beats expectations

The other income jumped to Rs1.3 crore in the quarter. The interest charge was up 37.4% to Rs10.1 crore while the depreciation charge rose by 32.4% to Rs14.7 crore. Consequently, the net profit grew by 56.7% to Rs22.7 crore, against our estimate of Rs15.7 crore.

19 cranes added to fleet in Q1

SML has embarked on a Rs250-crore capex to add more cranes to its fleet. During Q1FY2009, the company already completed capex of Rs66 crore by adding 19 cranes. Out of these, nine cranes are used and the balance ten are new cranes. In FY2009, the company would be able to fund its capex through internal accruals and borrowings. However, in FY2010, the company may have to go for equity dilution.

Valuation and view

SML continues to deliver a robust and strong performance. The management is very upbeat about the business going forward on account of the boom in the country's infrastructure space, particularly power generation plants. Therefore, the company has chalked out an aggressive capex plan for FY2009 and FY2010.

We have fine-tuned our earnings estimates for FY2009 and FY2010 mainly to factor in the strong revenue growth in Q1FY2009, the rising interest cost of the company and taking the key inputs from its latest annual report. However, we have not changed our earnings estimates significantly and our fully diluted earnings per share (EPS) estimates for FY2009 and FY2010 now stand at Rs19.8 and Rs24.7 respectively.

We maintain our bullish stance on the company and reiterate our Buy call on the stock with a price target of Rs298. At the current market price the stock is discounting its FY2009E and FY2010E earnings by 11.3x and 9.1x respectively.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs cr)	149.0	178.6	254.3	338.1	403.8
Net profit (Rs cr)	31.9	47.1	72.8	85.8	106.9
Share in issue (cr)	3.6	4.1	4.3	4.3	4.3
EPS (Rs)	8.9	11.5	16.8	19.8	24.7
% yoy growth	*133.6*	*29.2*	*46.2*	*18.0*	*24.5*
PER (x)	25.2	19.5	13.3	11.3	9.1
Book value (Rs)	22.5	51.3	70.1	86.9	108.6
P/BV (x)	10.0	4.4	3.2	2.6	2.1
EV/EBIDTA (x)	10.5	9.1	7.2	6.0	5.2
Dividend yield (%)	4.5	5.6	1.3	1.3	1.3
RoCE (%)	26.4	24.1	24.4	24.4	23.1
RoNW (%)	39.6	22.4	24.0	22.8	22.7

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

BL Kashyap & Sons

Emerging Star

Stock Update

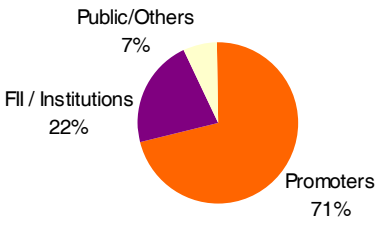
Results in line with expectation

Buy; CMP: Rs1,040

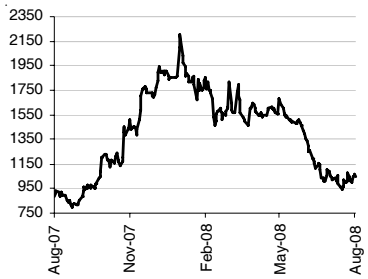
Company details

Price target:	Rs1,356
Market cap:	Rs2,137 cr
52 week high/low:	Rs2,300/494
NSE volume: (No of shares)	4,302
BSE code:	532719
NSE code:	BLKASHYAP
Sharekhan code:	BLKASHYAP
Free float: (No of shares)	0.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.8	-37.7	-42.9	18.4
Relative to Sensex	-12.9	-25.5	-30.4	26.7

Result highlights

- BL Kashyap & Sons' (BLK) top line grew by 36.9% year on year (yoy) to Rs414.1 crore in Q1FY2009. The Q1FY2009 revenues include revenues worth Rs29 crore from construction work for Soul Space Projects, BLK's real estate subsidiary.
- The operating profit margin (OPM) improved by 25 basis points to 11.9% during the quarter. Consequently, the company's operating profit grew by 39.8% yoy to Rs49.2 crore.
- During the quarter the company liquidated fixed maturity plans worth Rs85 crore and generated a profit of Rs7.3 crore, which led to higher other income of Rs10.3 crore during the quarter. Consequently the net income grew by 30.4% yoy to Rs36.2 crore in line with our expectation of Rs35.3 crore.
- For BPTP order aggregating to Rs1,040 crore, construction work has been delayed as approvals from the local authority is pending and BLK now expects the construction to start in December 2008. For FY2009, the company now expects the revenues to be in the range of Rs2,100-2,300 crore (this factors in Rs100 crore from construction of Soul Space Projects and only Rs40-50 crore from BPTP order).
- The order inflow remained healthy during the quarter. The company witnessed order inflow of Rs415 crore in Q1FY2009 and its current order book now stands at Rs3,070 crore. The company expects the order book to reach Rs3,500 crore by the end of August 2008.
- We have revised our FY2009 earnings estimate downward by 4.5% due to delay in BPTP project execution. We now expect the company's top line and bottom line

Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	**414.1**	**302.5**	**36.9**
Total expenditure	364.9	267.3	36.5
Operating profit	**49.2**	**35.2**	**39.8**
Other income	10.3	10.2	1.0
PBIDT	59.6	45.4	31.1
Interest expenses	4.5	3.4	32.5
Depreciation	4.5	3.1	48.4
PBT	**50.5**	**38.9**	**29.6**
Tax	14.3	11.2	27.6
Reported PAT	36.2	27.8	30.4
Net profit	**36.2**	**27.8**	**30.4**
Equity	20.5	20.5	
EPS (Rs)	17.6	13.5	
Margins (%)			
OPM	11.9	11.6	
NPM	8.7	9.2	

to grow at a compounded annual growth rate (CAGR) of 40.3% and 35.4% respectively during the period FY2008-2010 on the back of a healthy order book.

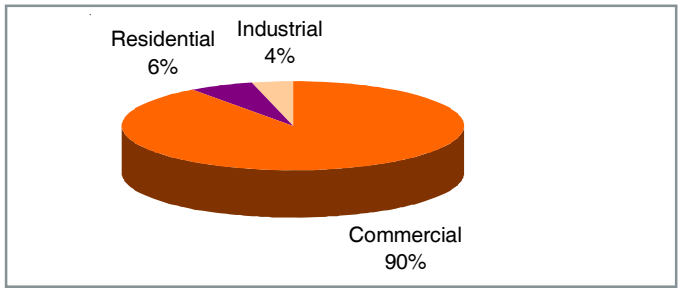
- At the current market price the stock is trading at 12.6x FY2009 earning estimates and 8.9x FY2010 earning estimates after adjusting for the valuation of Soul Space Projects. We maintain our Buy recommendation on the stock with price target of Rs1,356.

Strong order book, 1.9x FY2008 revenues

BLK's order backlog stood at Rs3,070 crore, 1.9x of its FY2008 revenues. In terms of break up, the commercial vertical contributed 90% to the revenues, while the residential and industrial verticals contributed 6% and 4% respectively. The order inflow remained healthy during the quarter at Rs415 crore.

Furthermore the company expects its order book to reach Rs3,500 crore by the end of August 2008. More than 50% of the incremental order book would be from the residential vertical. The company is tying up for the residential construction of 10 million square feet.

Order book break-up



Construction activity at BPTP order got delayed further

As highlighted in the last update BLK has bagged order worth Rs1,040 crore from BPTP for the construction of special economic zone. The construction on this project was expected to start in June 2008, however it has been delayed as BPTP is yet to get approval from the local authority. BLK now expects this project to start in December 2008. Consequently BLK expects its revenues to reach Rs2,100-Rs2,300 crore in FY2009. This includes Rs100-crore construction work from Soul Space Projects and Rs40-50 crore from BPTP.

Planning to expand its operation overseas

BLK is also planning to expand its operations in the Middle East. The company is planning to set up a new wholly-owned subsidiary for the same, which is expected to be operational at the end of this fiscal year. The revenue contribution from the subsidiary is expected to come in FY2010.

Valuation and view

We have revised FY2009 earnings estimate downward by 4.5% due to delay in BPTP project execution. We now expect the company's top line and bottom line to grow at a CAGR of 40.3% and 35.4% respectively during the period FY2008-2010 on the back of a healthy order book. At the current market price the stock is trading at 12.6x FY2009 earning estimates and 8.9x FY2010 earning estimates after adjusting for the valuation of Soul Space Projects. We maintain our Buy recommendation on the stock with price target of Rs1,356.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs cr)	465.5	808.1	1542.7	2142.0	3036.0
Net profit (Rs cr)	28.2	55.6	115.4	150.1	211.5
No of shares (crs)	2.1	2.1	2.1	2.1	2.1
EPS (Rs)	13.7	27.0	56.2	73.1	103.0
YoY change (%)	-	*96.7*	*107.7*	*30.1*	*40.9*
PER* (x)	66.9	34.0	16.4	12.6	8.9
Price/BV* (x)	7.7	6.4	4.6	3.4	2.5
EV/EBIDTA* (x)	38.8	20.1	10.6	7.2	4.8
Dividend yield* (%)	1.63	1.90	2.12	2.18	2.18
RoCE (%)	30.7	27.5	42.4	38.5	37.0
RoNW (%)	21.7	20.6	32.9	31.4	32.3

*After adjusting for real estate subsidiary valuation

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

HCL Technologies

Apple Green

Stock Update

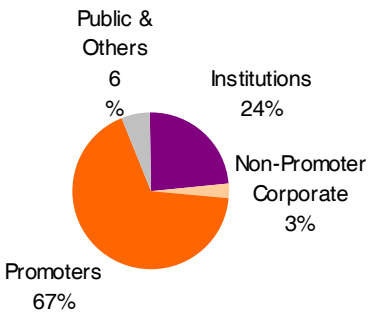
Q4FY2008 results: First-cut analysis

Hold; CMP: Rs207

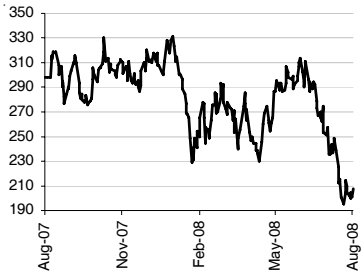
Company details

Price target:	Under review
Market cap:	Rs14,150 cr
52 week high/low:	Rs336/180
NSE volume: (No of shares)	9.4 lakh
BSE code:	532281
NSE code:	HCLTECH
Sharekhan code:	HCLTECH
Free float: (No of shares)	10.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-20.7	-30.5	-16.5	-34.2
Relative to Sensex	-25.9	-17.0	1.7	-29.6

Result highlights

- HCL Technologies has reported a revenue growth of 11.5% quarter on quarter (qoq) and 34.5% year on year (yoy) to Rs2,168.9 crore for Q4FY2008 boosed by depreciation of rupee. In dollar terms the revenues grew by 3.9% qoq to US$503.9 million driven by volume growth (4.1%), realisation growth (0.6%), one-time revenues (0.7%) and change in service mix (0.3%). However this was partially offset by the loss in material revenues (-0.8%) and cash flow hedge accounting (-1.1%).
- The earnings before interest and tax (EBIT) margin improved by 123 basis points to 19.5% due to favourable currency impact (191 basis points), higher utilisation (85 basis points), higher realisation (14 basis points) and grants offered in northern Ireland (43 basis points). However this was partially offset by higher SG&A expenses (108 basis points), cash flow hedge accounting (82 basis points), depreciation (10 basis points), change in service mix (10 basis points). Consequently the company's EBIT grew by 19% qoq to Rs423.5 crore during the quarter.
- The company reported foreign exchange (forex) losses of Rs299.9 crore on its hedge position during the quarter. Consequently the company's net income grew by 58.8% qoq to Rs141.1 crore.

Result table Rs (cr)

Result table	Q4FY08	Q4FY07	Q3FY08	% yoy	% qoq
Revenue ($ mln)	503.9	395.7	484.9	27.4	3.9
Derived exchange rate (Rs/USD)	43.0	40.7	40.1	5.6	7.3
Net sales	2168.9	1612.0	1944.8	34.5	11.5
Direct costs	1291.0	1003.9	1194.5	28.6	8.1
Gross profit	877.9	608.1	750.3	44.4	17.0
SG&A	369.4	260.7	317.2	41.7	16.5
EBITDA	508.5	347.4	433.1	46.4	17.4
Depreciation & amortisation	85.0	69.3	77.3	22.7	10.0
EBIT	423.5	278.1	355.8	52.3	19.0
Forex gain/(loss)	-299.9	250.4	-27.1	-	-
Other income	35.5	36.9	49.9	-3.8	-28.9
PBT	159.1	565.4	378.6	-71.9	-58.0
Tax Provision	20.3	77.7	36.8	-73.9	-44.8
PAT	138.8	487.7	341.8	-71.5	-59.4
Share from equity investment/ of minority interest	2.3	-1.0	0.7	-330.0	228.6
Net profit	141.1	486.7	342.5	-71.0	-58.8
Equity capital	136.5	137.4	135.8		
EPS (Rs)	2.1	7.1	5.0		
Margin (%)					
GPM	40.5	37.7	38.6		
OPM	23.4	21.6	22.3		
NPM	6.5	30.2	17.6		

- The company announced a 150% dividend (Rs3 per share) during the quarter compared to a 100% dividend in the previous quarters. If the dividend payout is maintained at the current quarter level, the stock offers healthy dividend yield of 5.8% at the current level.
- Aggressive hedging policy and taking directional view on currency backfired in FY2008 (forex loss of US$71.3 million). Further the company's unrecognised loss of US$140 million will be transferred to the balance sheet under the other comprehensive income. Such an inconsistent forex practice raises the concern for the company's future earning growth.
- The management highlighted that the revenues in the banking, financial services and insurance (BFSI) vertical remained flat largely on account of flat budget of two of its top clients. The management further mentioned that the condition of one of these two clients has worsened further and it now expects the revenues from the BFSI vertical to remain flat or negative in short term.
- We will review our FY2009 and FY2010 earnings estimates and price target in a detailed note. At the current market price the stock is trading at 9.4x FY2009 earnings estimate and 8.1x FY2010 earnings estimate.

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

BASF India

Ugly Duckling

Stock Update

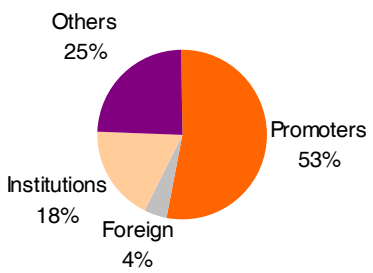
Revenues driven by agro products

Buy; CMP: Rs282

Company details

Price target:	Rs330
Market cap:	Rs794 cr
52 week high/low:	Rs334/164
NSE volume: (No of shares)	65,718
BSE code:	500042
NSE code:	BASF
Sharekhan code:	BASF
Free float: (No of shares)	1.3 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.3	31.0	15.8	-1.2
Relative to Sensex	-1.6	56.5	41.0	5.7

Result highlights

- BASF India (BASF) delivered a strong performance in Q1FY2009 well above our expectations. During the quarter the net sales increased by 61.4% year on year (yoy) to Rs380.8 crore as compared to Rs236.0 crore in the corresponding quarter last year. The sales growth was mainly driven by a strong 134.2% year-on-year (y-o-y) growth in the sales of agricultural products and nutrition segment followed by the performance-products segment (up 28.0% yoy).
- The operating profit margin (OPM) during the quarter improved by 90 basis points to 15.1% on a y-o-y basis. Consequently the operating profit grew by a healthy 71.8% to Rs57.4 crore. Segmental margins for the chemical segment improved significantly to 35.8% as compared to 29.4% in Q1FY2008 while the margins declined in the rest of the segments.
- The net profit for the quarter stood at Rs36.6 crore indicating a strong growth of 84.4% yoy.
- We expect the consumption boom in the company's user industries (white goods, home furnishings, paper, construction and automobiles) to continue and hence we remain optimistic on the company's growth prospects. At the current market price of Rs281 the stock is trading at 9.2x FY2009E consolidated earnings and an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 5.3x. We maintain our Buy recommendation on the stock with a price target of Rs330.

Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	**380.8**	**236.0**	**61.4**
Total expenditure	323.4	202.6	59.6
Raw material consumed	190.3	131.8	
Stock adjustment	-9.7	3.3	
Purchase of finished goods	69.6	15.6	
Employee expenses	25.3	19.7	
Other expenses	48.0	32.2	
Operating profit	**57.4**	**33.4**	**71.8**
Other income	2.9	0.8	247.6
EBITDA	60.3	34.3	76.1
Interest	0.2	0.2	-4.5
Depreciation	3.5	3.3	7.7
PBT	56.6	30.8	83.9
Tax	20.0	10.9	82.9
PAT	**36.6**	**19.9**	**84.4**
EPS	13.0	7.0	84.4
Adj. EPS	13.0	7.0	84.4
Margins (%)			
OPM	15.1	14.2	0.9
PATM	9.6	8.4	

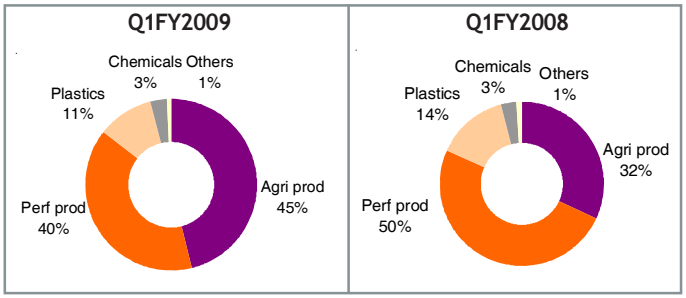
Top line grows by robust 61.4% yoy

During Q1FY2009 the company witnessed a strong growth of 61.4% yoy in the net sales to Rs380.8 crore. The sales growth was mainly driven by a strong 134.2% y-o-y growth in the sales of agricultural products and nutrition segment followed by performance-products segment (up 28.0% yoy), which are the major contributors to the company's revenues. The plastics segment registered a growth of 20.7% yoy while the chemical segment registered a growth of 40.6% yoy.

Segmental analysis Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% yoy
Revenue			
Agri products and nutrition	175.9	75.1	134.2
Performance products	150.4	117.5	28.0
Plastics	40.1	33.3	20.7
Chemicals	11.1	7.9	40.6
Others	3.3	2.3	43.0
Total	**380.8**	**236.0**	**61.4**

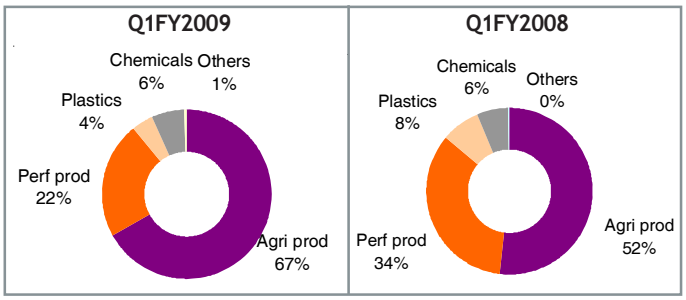
Revenue break-up



OPM increases by 90 basis points to 15.1%

The operating profit for the quarter increased by 71.8% yoy to Rs57.4 crore primarily due to a 61.4% growth in the revenues coupled with a 90-basis-point improvement in the operating margin. On a segmental basis the margins for the chemical segment increased by a whopping 640 basis points on the back of rising prices of chemicals globally resulting in higher realisations. However all other segments registered a decline in the margins. The company's net profit grew by 84.4% to Rs36.6 crore during the quarter.

PBIT break-up



Segmental analysis Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% yoy
PBIT			
Agri products and nutrition	43.8	20.3	116.1
Performance products	14.5	13.4	8.0
Plastics	2.7	3.0	-9.4
Chemicals	4.0	2.3	71.4
Others	0.4	0.2	131.3
Total	65.3	39.1	66.9
PBIT margins (%)			**(bps)**
Agri products and nutrition	24.9	27.0	-210
Performance products	9.6	11.4	-180
Plastics	6.7	8.9	-220
Chemicals	35.8	29.4	640
Others	11.2	7.0	420

Outlook and valuations

BASF is building a new engineering plastics compounding plant with a capacity of 9,000 tonne per annum at its existing Thane facility primarily catering to automotive, electrical and electronics industries. The company has also planned to triple its automotive catalyst capacity at its Chennai-based facility by 2009. BASF is likely to benefit from new capacity additions as it would cater to growing demand from the company's user industries such as automobiles, construction, white goods, home furnishings and paper. Further the company also has access to the wide product portfolio of its parent company.

At the current market price of Rs281 the stock is trading at 9.2x FY2009E consolidated earnings and an EV/EBIDTA of 5.3x. We maintain our Buy recommendation on the stock with a price target of Rs330.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net sales (Rs crore)	683.0	846.6	1,053.6	1,217.4	1,379.9
Net profit (Rs crore)	45.4	50.1	57.5	86.0	98.5
Shares in issue (crore)	2.8	2.8	2.8	2.8	2.8
EPS (Rs)	16.1	17.8	20.4	30.5	34.6
% y-o-y change	*19.6*	*10.2*	*14.8*	*49.7*	*13.3*
PER (x)	17.5	15.9	13.8	9.2	8.1
Book value (Rs)	98.0	107.6	119.8	141.1	155.5
P/BV (x)	2.9	2.6	2.4	2.0	1.8
EV/EBIDTA (x)	8.9	9.2	7.7	5.3	4.7
EV/Sales (x)	1.2	1.0	0.8	0.7	0.6
Dividend yield (%)	2.5	2.5	2.5	2.8	6.4
RoCE (%)	24.8	25.7	26.4	34.9	38.8
RoNW (%)	17.1	17.3	17.9	23.4	23.5

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

Navneet Publications (India)

Emerging Star

Stock Update

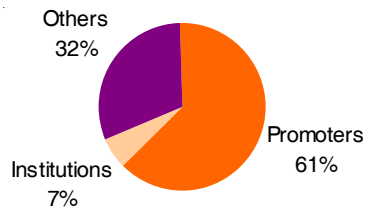
Higher tax outgo affects bottom line

Buy; CMP: Rs70

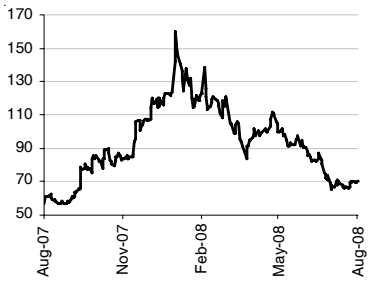
Company details

Price target:	Rs80
Market cap:	Rs665 cr
52 week high/low:	Rs166/55
NSE volume: (No of shares)	76,539
BSE code:	508989
NSE code:	NAVNETPUBL
Sharekhan code:	NAVNEET
Free float: (No of shares)	3.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.7	-29.9	-42.4	21.6
Relative to Sensex	-5.0	-16.2	-29.9	30.1

Result highlights

- Navneet Publications Ltd (NPL) posted a robust revenue growth of 22.1% to Rs242.5 crore in Q1FY2009 on the back of its stationery business, which grew by 58.8% year on year (yoy). The top line was ahead of our expectation of Rs229.6 crore for the quarter.
- The core publication business registered a growth of only 7.1% yoy to Rs153.1crore, which is below our expectation of 12.0% for the quarter. The profit before interest and tax (PBIT) margin of the business improved by 103 basis points to 37.4% in Q1FY2009.
- The operating profit margin (OPM) declined by 233 basis points yoy to 27.2% on account of higher raw material cost and advertising & sales promotion activities in Q1FY2009. NPL is continuously spending on brand building and promotional activities for its stationery business, which has resulted in a steep increase in the other expenses. Thus the operating profit grew by only 12.4% to Rs65.9 crore during the quarter.
- Higher interest charges coupled with higher incidence of tax led to a 4.7% decline in the adjusted net profit to Rs40.2 crore in Q1FY2009. The company had invested in windmills in FY2008 because of which the company got tax benefits leading to lower incidence of tax in FY2008.
- Though NPL's core publishing business registered a subdued growth during Q1FY2009, we expect the company to achieve our FY2009 revenue and earnings estimates. The stationery business of the company is gaining good momentum in the domestic as well as the international market and going forward it could be major revenue driver for the company.
- At the current market price of Rs70 the stock trades at 11.1X its FY2009 earnings per share (EPS) of Rs6.3 and 9.2X EPS of Rs7.6. We maintain our Buy recommendation on the stock with a price target of Rs80.

Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	242.5	198.7	22.1
Total expenditure	176.6	140.0	26.1
Operating profit	**65.9**	**58.6**	**12.4**
Other Income	-0.8	1.2	-169.4
PBIDT	65.1	59.8	8.8
Interest	1.7	1.0	63.1
PBDT	63.4	58.8	7.8
Depreciation	2.8	1.9	49.5
PBT	**60.6**	**56.9**	**6.4**
Tax	20.4	14.7	38.3
Adjusted PAT	40.2	42.2	-4.7
Exceptional items	0.0	0.0	-
Reported PAT	**40.2**	**42.2**	**-4.7**
OPM (%)	27.2	29.5	233 bps

Q1FY2009 operating performance

The net sales for Q1FY2009 grew by a robust 22.1% yoy to Rs242.5 crore on account of hefty growth in the stationery segment. The OPM for the quarter declined by 233 basis points to 27.2% on account of higher raw material cost as well as higher other expenses. The raw material cost as a percentage to sales increased by 109 basis points yoy to 57.7% on account of change in the product mix, as the cost of paper in the stationery business is higher than that in the publications business. The advertising and sales promotion expenses, which are included in other expenses, grew by 52.1% to Rs7.9 crore. Higher expenses were on account of brand building activities towards the newly launched non-paper stationery products and existing stationery product portfolio for which huge demand exists in domestic as well international market. Thus the other expenses as a percentage to sales increased by 157.0 basis points yoy to 11.6% during Q1FY2009. Consequently the operating profit grew by only 12.4% yoy to Rs65.9 crore, which was not in proportion to the robust growth in the top line.

The company posted a loss of Rs1.6 crore on account of translation of foreign currency loans and other financial instruments as against the gain of Rs0.7 crore in Q1FY2008. Higher interest charges coupled with higher incidence of tax led to a 4.7% decline in the adjusted net profit to Rs40.2 crore in Q1FY2009 as against Rs42.2 crore in Q1FY2008. The company had invested in windmills in FY2008 because of which the company got tax benefits leading to lower incidence of tax in FY2008.

Q1FY2009 segmental performance Rs (cr)

Particulars	Q1FY09	Q1FY08	% yoy
Revenues			
Publishing	153.1	142.9	7.1
Stationary	87.9	55.4	58.8
PBIT			
Publishing	57.3	52.0	10.2
Stationary	10.9	4.6	138.3
PBIT %			
Publishing	37.4	36.4	103.3
Stationary	12.4	8.3	413.3

During Q1FY2009, the publication business posted a subdued performance with a revenue growth of only 7.1% yoy to Rs153.1 crore. The PBIT margins also improved by 103 basis points to 37.4% during the quarter. On the other hand, the stationery business posted a stupendous performance with the revenues growing by a robust 58.8% to Rs87.9 crore and the PBIT margin improving by 413 basis points to 12.4% during the quarter. The margins in the stationery business is expected to improve going forward on account of higher revenues and no major doubtful debt. The stationery business witnessed a remarkable growth mainly due to aggressive market efforts for its paper and non-paper stationery products in the domestic market. The international stationery business also posted a strong performance with the revenues increasing by 434% yoy due to reduced competition from neighbouring countries.

Other key highlights

- NPL's e-learning initiative, which got huge recognition in the Gujarat and Maharashtra, recorded revenues of Rs25 lakh during Q1FY2009. Currently 54 schools in Maharashtra and 70 schools in Gujarat are using the product. The company is targeting 1,000 schools by FY2009 (600-700 schools in Maharashtra and 400-500 schools in Gujarat).
- The six windmills, which were operational from September 2007, have registered revenues of Rs1.35 crore from power generation during the quarter.
- Grafalco's (NPL's Spanish acquisition) revenues for H1CY2008 remain flat at Rs4.7 crore (Euro 0.71 million) due to slowdown in the Spanish market impacting the seasonal nature of Grafalco's business.
- The Urdu publication is getting huge acceptance in Maharashtra with the revenues growing by a robust 40% yoy during Q1FY2009.

Outlook and valuation

NPL's core publishing business registered a subdued growth during Q1FY2009. However we expect the company to achieve our FY2009 revenue and earnings estimates. The stationery business is gaining good momentum in domestic as well international market and going forward it could be a major revenue driver for the company. NPL's e-learning initiative is in a nascent stage and getting good acceptance in Gujarat and Maharashtra. However the real growth from this business would be achieved with the development of retail initiative in India.

At the current market price of Rs70 the stock trades at 11.1X its FY2009 EPS of Rs6.3 and 9.2X EPS of Rs7.6. We maintain our Buy recommendation on the stock with a price target of Rs80.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Adj net profit (Rscr)	35.6	42.6	56.6	60.0	72.1
Shares in issue (cr)	9.5	9.5	9.5	9.5	9.5
EPS (Rs)	3.7	4.5	5.9	6.3	7.6
% y-o-y growth	-	*19.6*	*32.8*	*6.0*	*20.3*
PE (x)	18.7	15.6	11.8	11.1	9.2
BV (Rs)	19.3	21.5	24.2	28.3	33.6
P/ BV	3.6	3.2	2.9	2.5	2.1
EV /Ebidta	11.5	9.3	8.3	6.9	5.8
RoCE (%)	15.9	17.0	19.2	18.5	19.2
RoNW (%)	19.4	20.8	24.5	22.2	22.5

Ranbaxy Laboratories

Apple Green

Stock Update

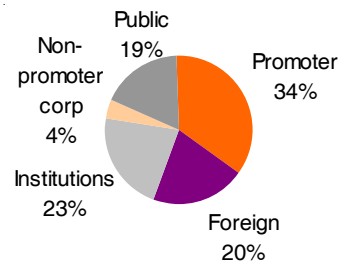
Strong operating performance

Buy; CMP: Rs510

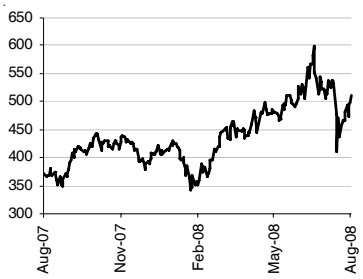
Company details

Price target:	Rs575
Market cap:	Rs19,035 cr
52 week high/low:	Rs614/300
NSE volume: (No of shares)	28.0 lakh
BSE code:	500359
NSE code:	RANBAXY
Sharekhan code:	RANBAXY
Free float: (No of shares)	24.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	5.0	44.8	30.0
Relative to Sensex	-11.1	25.5	76.4	39.0

Result highlights

- Ranbaxy Laboratories (Ranbaxy) has delivered a mixed performance for Q2CY2008. While the revenues and net profit have been below our estimates, the operating performance has been ahead of our expectations.
- The revenues grew by 13% in rupee terms to Rs1,821.2 crore in Q2CY2008 and were marginally below our estimates largely due to the poor performance across the key Western European countries, Africa and India.
- The operating performance was ahead of our expectations in Q2CY2008. Including the other operating income, the operating profit margin (OPM) expanded by 350 basis points to 16.9% causing the operating profit to grow by 44% year on year (yoy) to Rs326.1 crore. The margin improvement was led by an improved gross margin due to a better product and market mix.
- The reported net profit stood at Rs22.9 crore, down by 91.4% yoy and below our estimates. The net profit was dragged down by a higher than expected foreign exchange (forex) translation losses of Rs193.1 crore (against our estimate of Rs148 crore). On adjusting for the forex losses, the net profit of the company stood at Rs160.8 crore.
- The company has however reduced its earnings before interest, tax, depreciation, and amortisation (EBITDA) margin guidance for CY2008 from 17.5-18% earlier to 17% currently due to the cancellation of the new drug discovery research (NDDR) de-merger.

Result table Rs (cr)

Particulars	Q2CY2008	Q2CY2007	% yoy change
Net sales	1821.2	1611.0	13.0
Other operating Income	107.4	74.3	44.5
Total operating income	1928.6	1685.3	14.4
Expenditure	1494.1	1529.2	-2.3
Operating profit	218.7	152.2	43.7
Accrued Interest and other income	9.9	3.7	167.6
EBITDA	336.0	230.2	46.0
Interest	46.5	35.1	32.5
Foreign exchange gain/loss	-193.1	+201.4	-195.9
Depreciation	67.2	56.5	18.9
PBT	29.2	340.0	-91.4
Taxes	6.3	73.8	-91.5
PAT (before extra-ordinary)	22.9	266.2	-91.4
Extra-ordinary items	0.0	0.0	-
PAT (after extra-ordinary)	22.9	266.2	-91.4
EPS (Rs)	3.7	3.5	6.2
OPM (%)	12.0	9.4	
EBITDA margin (%)	18.4	14.3	
Net profit margin (%)	1.3	16.5	

- The launch of the open offer by Daiichi Sankyo pursuant to the receipt of SEBI approval and clarity on the US food and drug administration (US FDA) and the US Department of Justice investigations would drive the stock in the near term, whereas the launch of generic Imitrex in Q4CY2008 and further news flow on monetisation of first to file (FTF) opportunities would act as triggers for the stock in medium to long term.
- At the current market price of Rs510 Ranbaxy is discounting its CY2008E base earnings (excluding the FTF opportunities) by 36.5x and its CY2009E base earnings by 21.7x. We maintain our Buy recommendation on the stock with a sum-of-the-parts price target of Rs575 (Rs470 per share for the base business and Rs105 per share for the FTF opportunities: Imitrex, Valtrex, Nexium, Caduet, Flomax and Lipitor).

Ranbaxy has delivered a mixed performance for Q2CY2008. While the revenues and net profit have been below our estimates, the operating performance has been ahead of our expectations. The revenues grew by 13% in rupee terms to Rs1,821.2 crore in Q2CY2008 and were marginally below our estimate largely due to the poor performance across the key Western European countries, Africa and India.

The reported net profit of Rs22.9 crore was sharply below our estimates largely due to higher-than-expected foreign exchange translation losses (Rs193 crore reported by the company as against our estimate of Rs148 crore). Adjusting for the forex losses the company's net profit stood at Rs160.8 crore.

On the positive side the 350-basis-point jump in the OPM (including other operating income) to 16.9% was ahead of our estimate largely due to a better product and market mix, strong cost containment efforts and a $6-million forex gains on forward covers.

Revenue growth marginally below estimates

Ranbaxy's revenues grew by 11.4% yoy in dollar terms to $440 million, which was marginally below our estimate of $450 million largely due to the poor performance in the key Western European countries (notably the UK and Germany), Africa and India. With the marginal depreciation of the rupee on a year-on-year (y-o-y) basis, the growth in rupee terms stood at 13% to Rs1,821.2 crore. The growth was derived on the back of healthy performance in the USA (up by 12%), Canada (up by 100%), CIS (up by 44%) and Latin America (up by 15%). Overall the developed markets grew by 12% while the emerging markets grew by 9%.

US business maintains momentum

The US business clocked a 12% growth in sales to $106 million during the quarter on the back of strong contribution from new launches and continuing volume growth across the branded, generic and over-the-counter segments.

Ranbaxy's US branded business performed well in Q2CY2008 driven by the strong performance of the company's dermatology brand, Sotret, which retained a strong market share of 53.3% in the US market. The strong performance of BMS' dermatology brands (which were acquired in CY2007) also contributed to the growth of the branded business.

Ranbaxy has a pipeline of ~100 abbreviated new drug applications (ANDAs) representing an innovator market size of $55 billion pending US FDA approval. These are a mix of plain vanilla generics, niche products as well as Para IV ANDA filings with an FTF status. Overall we expect a sustained revenue growth in the US business going forward despite the increasing competition. The growth would be driven by the steady performance in the base business, new launches (either from its own filings or from the

Revenue break-up ($million)

Particulars	Q2CY2008	Q2CY2007	% yoy	H1CY2008	H1CY2007	% yoy
Dosage Forms						
India & Middle East	98	93	6	190	171	11
CIS (Russia & Ukraine Belt)	25	18	44	49	36	36
Rest of Asia Pacific	24	23	3	49	42	18
Europe (including Romania)*	89	86	4	172	179	-4
Africa*	31	31	1	62	55	12
Latin America	20	18	15	36	26	35
North America	120	102	18	230	193	19
Dosage Forms- Total	408	370	10	787	702	12
Active Pharmaceutical Ingredients	32	25	31	62	48	29
Net sales	440	395	11	849	750	13

products developed by the alliance partners like Ipca Laboratories) and the commercial benefits flowing from the FTF opportunities.

FTF opportunities add sheen to the US business

The last few quarters have seen Ranbaxy emerge as a formidable player in the Para IV patent challenge space. Having already lined up exclusivity opportunities every year for the next few years, Ranbaxy has announced two more out-of-court settlements for blockbuster drugs Lipitor and Caduet during Q2CY2008. These out-of-court deals have increased the visibility of upside from the exclusivity opportunities as uncertainty associated with prolonged litigation has been done away with.

The recent Lipitor settlement deal has been a landmark out-of-court settlement for Ranbaxy. As per the deal, Ranbaxy would be able to launch Lipitor in November 2011 with an assured 180-day exclusivity in the USA. Further the deal also provided Ranbaxy with a 180-day exclusivity on Caduet and ability to launch Liptitor in Canada, Australia and other key markets two-three months ahead of the patent expiry. In near term Ranbaxy's management has indicated that it might be able to launch an authorised generic version of Lipitor in Canada subject to Apotex (who is in litigation with Pfizer) receiving a favourable ruling and approval to launch the product in the Canadian market.

Further the company believes it has a pipeline of 14 more Para IV ANDAs with FTF status, which could present further exclusivity opportunities in the years to come. We expect the news flow on Para IV challenges and associated exclusivity opportunities to continue.

Based on our discounted cash flow calculations we believe the FTF opportunities announced so far are collectively valued at Rs4,352crore translating into a per share value of Rs106.

Woes in European market persist

Ranbaxy's sales in Europe grew by a mere 4% to $89 million. While France, Italy, Spain and the Central and Eastern European countries performed well, the UK and German business suffered majorly. Revenues in the UK and Germany declined by 22% and 30% respectively during Q2CY2008. While the UK business suffered due to ongoing pricing pressures in the UK generic market, the German business declined due to a high base of Q2CY2007 during which the Germany sales were boosted significantly due to the inclusion of the sales from the previous AOK contracts. Romania grew by 5% yoy, which was low but nevertheless in line with our estimates. However on a sequential basis the sales in Romania grew by 17%, which is indicative of the improvement of the operations and the positive impact of re-introduction of branded prescriptions in Romania from April 1, 2008.

Overall the management believes that the performance in Europe in the coming quarters should improve leading to a healthy growth in Europe by the end of the year.

Emerging markets—soft quarter

Unlike the strong growth seen in the previous quarters, revenues from the emerging markets grew by a modest 9% in Q2CY2008 contributing 53% to the total revenues. The CIS (up 44%) and Brazil (up 45%) were the primary drivers of the growth in the emerging markets. On the other hand the revenues in Africa were flat at $31 million primarily due to a decline of 5% in South Africa. Ranbaxy expects the performance to improve in the coming quarters.

Domestic business slow down continues

Ranbaxy's domestic formulation business grew by a mere 3% in Q2CY2008, which was lower than our estimates. Despite aggressive new product launches and an enhanced focus on chronic therapies, which have been growing faster than the market, the impact is not yet visible in the numbers. On positive side Ranbaxy has increased its market share to 5.28% from 5.05% a year ago. The company attributes the tepid performance in the domestic market to channel de-stocking and expects this to correct from Q3CY2008 onwards leading to an improved performance.

Ranbaxy's FTF opportunities

Generic name	Brand name	Innovator	Market size ($mn)	Likely launch	Potential revenues ($mn)	Potential profits ($mn)	NPV per share (Rs)
Sumatriptan Succinate	Imitrex	Glaxo Smithkline	985	Dec-08	58	29	2
Valacyclovir	Valtrex	Glaxo Smithkline	1400	late 2009	140	84	6
Tamsulosin	Flomax	Boehringer Ingelheim	1200	Mar-10	37	20	1
Atorvastatin	Lipitor	Pfizer	8500	Nov-11	1388	813	51
Amlodipine + Atorvastatin	Caduet	Pfizer	400	Nov-11	77	39	2
Esomeprazole Magnesium	Nexium	Astra Zeneca	5200	May-14	2652	765	43
Total			**17285**		**4352**	**1750**	**106**

Operating performance ahead of expectations

Ranbaxy's operating performance was ahead of our expectations. Including the other operating income the OPM expanded by 350 basis points to 16.9% causing the operating profit to grow by 44% yoy to Rs326.1 crore. The margin improvement was led by an improved gross margin due to a better product and market mix. The margin expansion was also powered by a 44% jump in the other operating income due to $6 million forex gains on forward covers. On other hand the selling and administrative expenses continued to rise during the quarter and an ability to control the same would be determinant of the profitability in the coming quarters.

Cost break-up Rs (cr)

Particulars	Q2CY08	Q2CY07	% yoy
Cost of sales	963.3	900.9	6.9
% of sales	*52.9*	*55.9*	
Selling, general & admin expenses	530.8	464.2	14.3
% of sales	*29.1*	*28.8*	
R&D expenditure	108.4	93.7	15.7
% of sales	*7.3*	*6.1*	

Net profit dragged down by forex loss

The reported net profit of the company stood at Rs22.9 crore, down by 91.4% yoy and below our estimates. The net profit was dragged down by a higher than expected forex translation losses of Rs193.1 crore (against our estimate of Rs148 crore) due to ~7% depreciation in rupee against the US Dollar (as compared with forex gains of Rs201.4 crore in Q2CY2007). On adjusting for the forex losses, the net profit of the company stood at Rs160.8 crore.

Aggressive hedging policies

As per AS30 accounting standards Ranbaxy has disclosed its outstanding derivative contracts. As of June 30, the company has recorded a mark-to-market loss on its outstanding hedges to the tune of Rs908.6 crore (post tax). On the other hand, the company has also recorded a mark-to-market gain of Rs1,026.0 crore (post tax) on the fair valuation of the underlying transactions against which the hedges were entered into. This has resulted into a net notional gain of Rs117.4 crore (post-tax). The high magnitude of losses/gains on hedges indicates that the company has been aggressively hedging its future revenues. Ranbaxy is of the view that the rupee will appreciate against the US dollar and has hence chosen to hedge its revenues. In the light of the above hedges entered into by the company, we do not expect it to benefit in a major way from weaker rupee.

Unresolved FDA warnings and Department of Justice investigation to remain as an overhang

After receiving warnings from the US FDA for not maintaining quality standards at its Paonta Sahib plant, Ranbaxy has been probed by the US government in July 2008. The US government has alleged that Ranbaxy has concealed and forged data in order to receive a favourable ruling in the ongoing Paonta Sahib investigation and has used APIs from unapproved sources, which has resulted in the supply of sub-standard drugs in the US market. While Ranbaxy has denied all the above allegations and has been co-operating with the US Department of Justice in providing all the relevant documents, the charges could be pretty serious for Ranbaxy if proved. Daiichi Sankyo's stance of continuing with the acquisition of Ranbaxy at a hefty premium despite the potential implications of the allegations made by the US Government provides support to Ranbaxy's claim that the charges made by the US authorities are invalid. Hence Ranbaxy's ability to obtain a clean chit from the US FDA and the Department of Justice would be a major trigger for the stock.

Daiichi Sankyo deal on track

Ranbaxy has indicated that the Daiichi Sankyo deal is on track and that it has filed for obtaining all the necessary approvals. However given the multiple regulatory clearances required there could be delays in the timeline of the various aspects of the deal. Due to the delay in receiving the SEBI approval, Daiichi has delayed the schedule of the open offer. However both Daiichi and Ranbaxy have maintained that this is just a procedural delay and the deal with all its terms and conditions remains on track.

Maintains guidance of 18-20% growth

The management has maintained its revenue growth guidance for CY2008 at 18-20% in dollar terms. Thus it expects the company's growth to ramp up in the next three quarters driven by new product introductions, benefits from the new partnerships and alliances, and a strong performance from the emerging markets. The company has however reduced its EBITDA margin guidance for CY2008 from 17.5-18% earlier to 17% currently due to the cancellation of the NDDR de-merger.

Valuation and view

Ranbaxy has reported a mixed performance for Q2CY2008 with subdued performance on the revenue and net profit fronts on account of the poor performance in the Western European countries, Africa and India and the higher than expected forex translation losses respectively. However the

operational performance of the company driven by strong cost control and a more profitable product and market mix has been encouraging. The management has re-affirmed that the growth is likely to accelerate in the coming quarters with the first half of the year typically being soft for the company.

We continue to maintain our positive outlook on Ranbaxy and feel that it is among the best placed companies to leverage the global generic opportunity with its extremely diversified business model and a large product portfolio. With a string of acquisitions in the emerging markets, investments in growing segments and a robust base business portfolio, Ranbaxy's business profile has evolved considerably over the past two years. A rising contribution from the high-margin emerging markets, growing revenues from niche business segments like oncology and biopharmaceuticals and a highly progressive alliance-and-collaboration strategy are likely to ensure an improved growth and profitability picture for the company. Further the increasing visibility on the FTF opportunities adds sheen to the company's business model.

The launch of the open offer by Daiichi Sankyo pursuant to the receipt of SEBI approval and clarity on the US FDA and the US Department of Justice investigations would drive the stock in the near term whereas the launch of generic Imitrex in Q4CY2008 and further news flow on monetisation of FTF opportunities would act as triggers for the stock in the medium to long term.

At the current market price of Rs510, Ranbaxy is discounting its CY2008E base earnings (excluding the FTF opportunities) by 36.5x and its CY2009E base earnings by 21.7x. We maintain our Buy recommendation on the stock with a sum-of-the-parts price target of Rs575 (Rs470 per share for the base business and Rs105 per share for the FTF opportunities: Imitrex, Valtrex, Nexium, Caduet, Flomax and Lipitor).

Valuation table(consolidated)

Particulars	CY05	CY06	CY07	CY08E	CY09E
Net sales (Rs cr)	5103.6	6018.3	6648.0	7996.8	9207.4
Net profit (Rs cr)	261.7	510.3	774.5	679.3	1143.6
No of shares (cr)	48.6	48.6	48.6	48.6	48.6
EPS (Rs)	5.4	10.5	15.9	14.0	23.5
PER (x)	94.7	48.6	32.0	36.5	21.7
EV/Ebidta (x)	83.0	30.7	27.1	17.4	11.6
P/BV (x)	10.1	9.6	8.8	2.9	2.2
Mcap/sales	4.9	4.1	3.7	3.1	2.7
RoCE (%)	5.0	11.2	15.7	7.8	11.7
RoNW (%)	10.7	19.7	27.6	7.5	10.2

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

Madras Cement

Cannonball

Stock Update

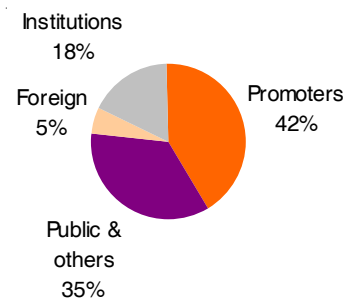
Results above expectations

Buy; CMP: Rs2,614

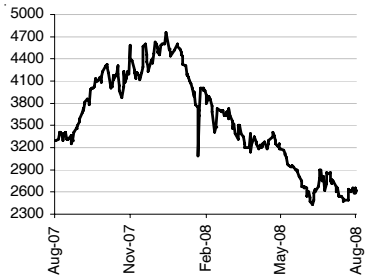
Company details

Price target:	Rs4,000
Market cap:	Rs3,110 cr
52 week high/low:	Rs5040/2301
NSE volume: (No of shares)	3,847
BSE code:	500260
NSE code:	MADRASCEM
Sharekhan code:	MADCEM
Free float: (No of shares)	0.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.3	-18.5	-34.1	-21.4
Relative to Sensex	-15.3	-2.7	-19.7	-15.9

Result highlights

- Madras Cement's Q1FY2009 revenues grew by 31% year on year (yoy) to Rs615 crore. The cement volumes of the company during the quarter increased by 11.1% yoy to 1.6 million tonne. The cement realisation per tonne increased by 14.9% yoy to Rs3,643 per tonne.
- The operating profit margin (OPM) declined by 270 basis points yoy to 36.2%. The drop in the OPM was mainly on account of an overall increase in the cost. Consequently the operating profit reported a growth of 22% to Rs222.9 crore.
- On per tonne basis, the power & fuel cost increased by 32.9% yoy due to higher coal price. The freight cost rose by 16.9% due to increase in diesel prices. The raw material cost increased by 38.9%. The employee cost increased by 4.1% while the other expenses swelled by 9.4%.
- The interest expenses surged by 143.9% to Rs19.7 crore while the depreciation rose by 31.5% to Rs31.5 crore. The increase in the interest and depreciation costs was on account of capacity additions carried out by the company.
- The net profit thus reported a growth of 13.3% to Rs114 crore.
- Going ahead we expect volume growth and cost saving from wind power to shield the company's earnings. Thus we expect the company to post an earnings per share (EPS) of Rs360.3 and Rs418.2 in FY2009 and FY2010 respectively. At the current market price of Rs2,614, the share trades at 7.3X and 6.3X its FY2009 and FY2010 earnings and an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 5.3X and 4.2X for FY2009 and FY2010 respectively. We maintain our Buy recommendation on the stock with a price target of Rs4,000.

Result table Rs (cr)

Particulars	Q1FY2009	Q1FY2008	% change
Net sales	615.0	469.4	31.0
Total expenditure	392.1	286.6	36.8
Operating profit	222.9	182.8	22.0
Other income	1.4	2.0	-31.2
EBIDTA	224.3	184.8	21.4
Interest	19.7	8.1	143.9
PBDT	204.7	176.7	15.8
Depreciation	31.5	23.9	31.5
PBT	173.2	152.8	13.4
Tax	59.2	52.2	13.4
Rep PAT	114.0	100.6	13.3
Margins (%)			
OPM	36.2	38.9	
NPM	18.5	21.4	

Volume and realisation

Particulars	Q1FY09	Q1FY08	% yoy
Volumes (Million tonne)	1.6	1.4	11.1
Realisation per tonne	3643	3172	14.9

Capex plans

In January 2008 Madras Cement commissioned a clinker facility at Jayanthipuram (Andhra Pradesh) by installing a 4,000 tpd kiln. The company is setting up a 2-metric tonne per annum integrated cement plant at Ariyalur (Tamil Nadu), which is expected to come on stream by November 2008.

Apart from this the company will also be setting up grinding units in Chinglepet and Salem in Tamil Nadu and Kolaghat in West Bengal by December 2008.

Valuation and view

Going ahead we expect volumes growth and cost saving from wind power to shield the earnings of the company. Thus we expect the company to post an EPS of Rs360.3 and Rs418.2 in FY2009 and FY2010 respectively. At the current market price of Rs2,614 the share trades at 7.3X and 6.3X its FY2009 and FY2010 earnings and an EV/EBIDTA of 5.3X and 4.2X for FY2009 and FY2010 respectively. We maintain our Buy recommendation on the stock with a price target of Rs4,000.

Valuation table

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs cr)	79.0	308.0	408.3	428.4	497.3
% yoy growth		*289.8*	*32.6*	*4.9*	*16.1*
Shares in issue (cr)	1.21	1.21	1.19	1.19	1.19
EPS (Rs)	65.4	255.0	343.4	360.3	418.2
% yoy growth		*289.8*	*34.7*	*4.9*	*16.1*
PER (x)	40.0	10.3	7.6	7.3	6.3
Book value (Rs)	325.5	551.6	802.2	1137.5	1530.7
P/BV (Rs)	8.0	4.7	3.3	2.3	1.7
EV/EBIDTA (x)	17.3	6.6	6.2	5.3	4.2
RoCE (%)	13.5	35.6	29.6	23.7	24.5
RoNW (%)	20.1	46.2	42.8	31.7	27.3

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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
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Glenmark Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
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ITC
Mahindra & Mahindra
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Maruti Suzuki India
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Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
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Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
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JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

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Orchid Chemicals & Pharmaceuticals
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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
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Vulture's Pick

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