Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bharat Bijlee	29-Nov-04	192	**1,380**	1,730
BEL	25-Sep-06	1,108	**1,365**	1,525
Ceat	28-Nov-06	122	**141**	190
F-M Goetze	18-Jan-07	385	**375**	559
NDTV	10-Feb-05	181	**316**	348

Sharekhan Ltd
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Pulse Track

Ratings upgrade by S&P to be positive for India

International rating agency Standard and Poor's (S&P) on January 30, 2007 upgraded India's sovereign rating from speculative (BB+/B) to investment grade (BBB-/A-3) with a stable outlook. This comes 16 years after the agency downgraded the country in 1991. The other international ratings agencies that have already upgraded India to investment grade are Moody's Investor Service in 2004 followed by Fitch Rating in 2006.

Strong economic prospects leads to ratings upgrade

India's strong economic prospects with the gross domestic product (GDP) growth trend likely to average at more than 7.5% in the medium term.

The external balance sheet is strong and supports a weak but improving fiscal position. These strengths are likely to continue, despite the current account deficits, on the expectation of strong capital inflows.

The fiscal consolidation commitment seems to be back on track to rein in the budget deficit for the current year at 3.8% of the GDP due to strong revenue collection and expenditure control.

However constraints on rating remain

The ratings on India remain constrained by its weak fiscal profile, especially its high government debt burden and deficit, which are still the worst among all the rated sovereigns. The consolidated debt of India's central and state (general) governments is projected at 85% of the 2007 GDP, while interest payments are likely to consume about 30% of the general government revenue. India's contingent liabilities are also high. Government-guaranteed debt alone amounts to 10% of the 2007 GDP.

The ratings are also constrained by the low per capita income of the country, reflecting the challenges of poverty alleviation. Infrastructure needs remain high in both the huge agricultural sector and the industrial sector.

Positive impact of the ratings upgrade

More global investors would now consider India as an investment destination as the lower rating profile prevented them from investing in Indian papers.

Overseas borrowing costs for corporate and banks could improve marginally after the rating upgrade, as more investors would be interested in the issues leading to better pricing for the borrowers.

The Indian currency could strengthen with an increase in the overseas borrowings by Indian corporates and investments in Indian papers by global investors.

Keeping in mind the huge investment requirement in the infrastructure sector in the coming years, the rating upgrade would help to rope in more investors who would have earlier avoided investment in Indian papers due to the lower than investment rating by S&P.

Outlook

The stable outlook balances India's strong external liquidity and growth prospects, and its weak fiscal flexibility. The outlook also reflects the country's ongoing efforts at fiscal consolidation, which are important to keep interest rates down and facilitate growth in the longer term. Further rating improvements will depend on sustained prudent fiscal policy, which could lead to a decline in the government debt and interest burden, and further reforms, which could lift the country's growth prospects and income levels. An inappropriate policy mix that may increase the vulnerability of India's still weak fiscal flexibility and erode its external strengths could lead to downward pressures on the rating.

Sharekhan Special

Monetary policy review

The Reserve Bank of India (RBI) has raised the repo rate by 25 basis points to 7.5% in the third quarter review of its Monetary Policy for 2006-07 in line with the market expectations. The RBI has maintained its inflation target stating that the current high inflation levels may be transitional. Overall the RBI continues to remain vigilant. While the rate hike was on expected lines the prudential measures on standard assets provisioning announced by the RBI reaffirms its focus on the quality of assets in the system.

The salient features of the third quarter review are as follows.

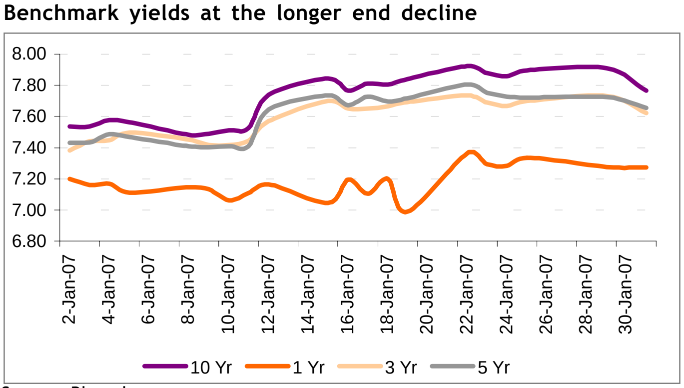
Particulars	Measure	Prevailing/new rate
Repo rate	25 basis points hike	From 7.25% to 7.5%
Reverse repo rate, bank rate and CRR*	Kept unchanged	6%, 6% and 5.5% respectively
FY2007 GDP	Revised upwards	to 8.5-9% compared to 8% projected in the Mid-Term Review of October 2006 and 7.5-8% in the annual policy review of April 2006
Inflation	Target range remains unchanged	5-5.5%

* Hiked in December 2006 by 50 basis points in two phases.

Bond yields drop after policy announcement

The 10-year bond yield closed at 7.76%, which is 15 basis points down from its previous close of 7.91%. However, the 1-year yield ended almost flat at 7.27% compared to its previous closing of 7.28%. The bond yield showing a dip reflects that the market expects the inflation to moderate going forward and believes in the RBI's approach to keep the inflation within the targeted levels.

Benchmark yields at the longer end decline



Source: Bloomberg

The RBI expects the overheating to be transitional...

Improvement in supply side visible: The improvement in the aggregate supply conditions have been driven by the double-digit growth in manufacturing and services. The industrial activity has gathered momentum on the back of the manufacturing activity, supported by mining and electricity generation. The lead indicators point to the sustained strength of the growth in the services sector. Agricultural performance, however, remains weak. But below trend agricultural production has created supply side pressures particularly in the commodities due to the decline in the production of rice, coarse cereals, oilseeds, pulses etc.

Demand side firming up: The pick-up in the investment intentions and the high growth of the capital goods production and capital goods imports suggest that the investment demand is strengthening further. The corporates are also reporting sustained business optimism and raising capital expenditure. Second, there is buoyancy in the consumer demand. Third, the demand for bank credit remains high with concerns on the asset quality and growth in the money supply. Fourth, there is a widening trade deficit. Fifth, there are infrastructure bottlenecks. Sixth, there are also wage cost pressures. And lastly there are the elevated asset prices.

There is evidence of substantial investment taking place, accompanied by the overall productivity increases, which should add to the potential output. Furthermore, there has been an upward shift in the gross domestic saving and investment rates, which could provide the base for a higher level of the structural component of growth. Thus, it becomes important to recognise that the signs of overheating could be transitional in nature as the capacity additions are underway but the realisation could be constrained over the next two years.

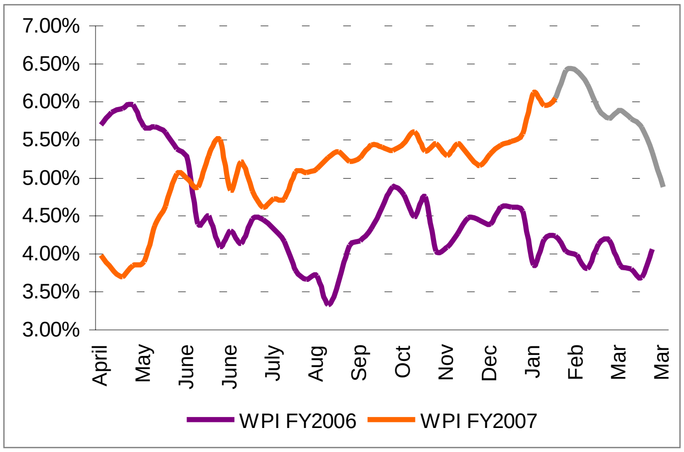
Maintains target inflation range of 5-5.5%

The RBI hopes that the policy measures being undertaken at the current juncture would curb inflation as close as possible to the targeted levels of 5% to 5.5% at the earliest, while continuing to pursue the medium term goal of a ceiling on the inflation at 5%.

Inflation expected to moderate by end-March 2007

The RBI has been mentioning that it's a transitional phase caused due to the lagged supply and demand side effects. Currently the demand is firming up and the supply is expected to catch up once the capacity additions start contributing. The *rabi* season is also expected to be better and ease the pressure on the commodity prices. We expect that the impact of recent duty cuts, absence of a lower base effect and an improved supply side would help inflation moderate to below the RBI's comfort zone by end-March 2007. Again the bond yields coming down also indicate the market factoring in lower inflation going forward.

Inflation expected to moderate from end-March



GDP growth revised upwards to 8.5-9%

The real gross domestic product (GDP) growth originating from the agricultural and allied activities has been somewhat lower-than-expected in the first half of 2006-07, based on the likely production in the *kharif* season. However, a clearer assessment of the *kharif* crop performance is pending and a revision in the growth rates may happen. Again taking into account the favourable water storage conditions that should augur well for the *rabi* season, the RBI feels it is reasonable to expect that agriculture will maintain its trend growth of 3% as anticipated in the Annual Policy Statement of April 2006 and the Mid-Term Review of October 2006. On the other hand, the momentum of growth has been sustained in the industrial and services sectors and the outlook remains bright. Accordingly, the real GDP growth for 2006-07 is currently expected to be in the range of 8.5-9% compared to 8% projected in the Mid-Term Review of October 2006 and 7.5-8% in the Annual Policy Statement of April 2006.

Overall growth outlook remains upbeat

The RBI's outlook survey points to optimism on the growth outlook. The business expectations index for October-December, 2006 was higher than in the preceding quarter but marginally lower than in the corresponding quarter a year ago. The expectations index for January-March, 2007 is higher than in the preceding quarter as also in the corresponding quarter a year ago. A positive outlook for the demand conditions continues with the increased optimism reflected in the order books, production, employment and profit margins. The assessment about the growth of exports and imports indicates a marginally lower level of confidence. Expectations of an increase in the selling prices have moderated somewhat in relation to the preceding quarter.

Standard asset provisioning norms increased

The RBI is concerned with the high credit growth in the real estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans. Furthermore, the data reveals higher default rates in regard to the credit card receivables and personal loans. Thus the RBI feels it is imperative to increase the provisioning norms in respect of the standard assets in the aforesaid four categories of loans and advances (excluding residential housing loans).

Provision for standard assets	Earlier (%)	Revised (%)
Real estate sector, outstanding credit card receivables, loans and advances qualifying as capital market exposure and personal loans	1	2
Banks exposure to NBFCs*	0.40	2

*Further risk weights also increased from 100% to 125%, not applicable to asset finance companies. Source: RBI

Impact of increased standard asset provisioning

The increased provisioning norms would reduce the banks' profits at the current lending rates for these products. Hence, the lending rates may see an upward revision in these categories. The private banks like HDFC Bank and ICICI Bank will be impacted most, which we feel should pass on the increased cost to the borrowers by increasing their lending rates in these categories. Non-banking finance companies (NBFCs) not involved in asset finance, could also see their borrowing costs moving up as the dual impact of the higher provisioning norms and higher risk weights does make it inevitable for the banks to hike the lending rates for NBFCs not engaged in the asset finance business. Normally, the RBI releases detailed guidelines on the items mentioned in its policy review in due course of time, and the same is expected on the increased standard asset provisioning norms.

NRI deposit rates revised

A sizeable increase in non-resident (external) rupee account [NR(E)RA] and foreign currency non-resident (banks) [FCNR(B)] deposits has been observed in 2006-07 so far.

The RBI has felt it appropriate to reduce the interest rate ceilings on [NR(E)RA] and [FCNR(B)] deposits by 50 basis points and 25 basis points, respectively to discourage NRI deposits and curb asset price inflation. A lot of money is routed through the NRE deposits into the country and finds its way into real estate and capital markets.

Policy stance expected going forward

The liquidity management will receive priority in the policy hierarchy for the remaining part of the year. The RBI would use all policy instruments, including the CRR, to ensure the appropriate modulation of the liquidity in responding to the evolving situation. This would make the market more vigilant to capital flows and the overall liquidity conditions.

The RBI has reinforced the emphasis on price stability while continuing to ensure an environment to maintain the growth momentum. Overall the RBI continues to remain vigilant on the domestic and global developments. It has kept its options open to respond swiftly with all possible measures appropriate to the evolving global and domestic situation impinging on the inflation expectations and the growth momentum. However, if the inflation moderates on expected lines, money supply and the credit growth slows down to a comfortable zone then we may not see further rate hikes. However other prudential measures are expected from time to time to keep the quality of assets in the system healthy.

Ahmednagar Forgings

Ugly Duckling

Stock Update

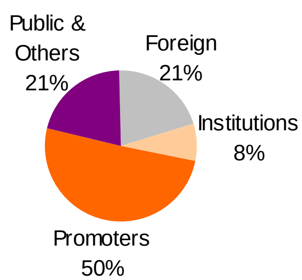
Great show

Buy; CMP: Rs280

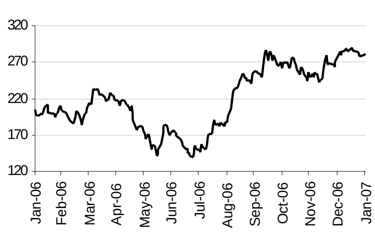
Company details

Price target:	Rs380
Market cap:	Rs930 cr
52 week high/low:	Rs299/133
NSE volume: (No of shares)	35,613
BSE code:	513335
NSE code:	AHMEDFORGE
Sharekhan code:	AHMDFORG
Free float: (No of shares)	1.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.1	5.8	87.2	33.8
Relative to Sensex	0.0	-4.0	40.1	-8.4

Result highlights

- Ahmednagar Forgings has reported a stellar performance for Q2FY2007 and the results are better than our expectations.
- The top line for the quarter grew by 48.5% to Rs152.4 crore. We believe that the utilisation level of even the new capacities improved during the quarter. The company had added 40,000 tonne per annum (tpa) of capacity in June last year. Further, it has raised the capacity by another 40,000tpa in January 2007 as the lines acquired from Anvil International last year were shifted to India. Last year, the company had acquired two forging lines from Anvil International, which is a part of Tyco International, for Rs35 crore. Anvil International Inc is one of the largest manufacturers of pipe fittings and pipe hangers in the world.
- The operating profit margin (OPM) of the company improved by 80 basis points to 20.7% as the operating profit rose by 54.2% year on year (yoy) to Rs31.6 crore. The margin improved despite a rise in the raw material cost from 61.9% to 66.6% as a percentage of sales. The margin improvement was possible as a result of significant savings made in its staff cost and other expenses.
- The interest cost was higher as a result of the higher debt taken to fund its expansion plans. Stable depreciation charge and taxes caused the profit to grow by a brilliant 65.8% to Rs17.5 crore for the quarter.
- We expect a very strong growth in the top line from hereon, triggered by the Rs850-crore order book of the company and the commencement of the forging lines of Anvil. The increased capacity would also start contributing from the next quarter onwards. A higher contribution from the machined product business and higher non-automotive revenues should also trigger a growth in the margins going forward.

Result table Rs (cr)

Particulars	Q2FY07	Q2FY06	% yoy	H1FY07	H1FY06	% yoy
Net sales	**152.4**	**102.6**	**48.5**	**274.4**	**173.4**	**58.3**
Total expenditure	120.8	82.1		219.3	140.3	
Consumption of RM	100.5	65.8		181.5	107.0	
Incr/decr in stock	1.0	-2.3		1.5	0.5	
Employee expenses	4.5	4.0		8.2	7.1	
Other expenses	14.9	14.6		28.1	25.6	
Operating profit	**31.6**	**20.5**	**54.2**	**55.1**	**33.1**	**66.5**
Interest	3.5	1.4		6.1	2.6	
PBDT	28.0	19.1		49.0	30.6	
Depreciation	2.6	3.1		3.8	4.3	
PBT	25.5	16.0	59.2	45.2	26.3	72.1
Tax	7.9	5.4		14.1	8.7	
PAT	**17.5**	**10.6**	**65.8**	**31.0**	**17.6**	**76.3**
EPS	**5.3**	**4.4**		**9.3**	**5.3**	
OPM (%)	20.7	19.9		20.1	19.1	

- At the current market price of Rs280, the stock discounts its FY2008E earnings by 7.3x and trades at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 4x. We believe that the valuations are very attractive and maintain our Buy recommendation on the stock with a price target of Rs380.

Strong top line growth

Ahmednagar Forgings has reported brilliant results for Q2FY2007. The net sales for the quarter grew by 48.5% to Rs152.4 crore. We expect the top line to strengthen further in the coming quarters, as the company is expanding its capacities aggressively to cater to its strong order book of Rs850 crore.

In January 2007 the company further increased its capacity by 40,000tpa as the lines acquired from Anvil International last year were shifted to India. Last year, the company had acquired two forging lines from Anvil International, which is a part of Tyco International, for Rs35 crore. Anvil International Inc is one of the largest manufacturers of pipe fittings and pipe hangers in the world. We expect the benefit of the same to start flowing in from the next quarter.

Margins improve

The OPM improved by 80 basis points to 20.7% as the operating profit rose to Rs31.6 crore, growing by 54.2% yoy. The margin improved despite a rise in the raw material cost from 61.9% to 66.6% as a percentage of sales. However, the company reported significant savings in its staff cost and other expenditures. Going forward, the product mix of the company would be further enriched by the higher contribution of the non-automotive segment and machined products, which have higher margins. Hence, the margin is expected to improve further in the coming two years.

The interest cost was higher as a result of the higher debt taken by the company to fund its expansion plans. Stable depreciation charge and taxes caused the profit to grow by a brilliant 65.8% to Rs17.5 crore for the quarter.

Capex plans

The company has already increased its capacity to 126,000tpa by adding 40,000tpa of capacity in January 2007 by shifting the Anvil lines to India. It further plans to add 35,000tpa of capacity by June 2007, taking the total capacity to 165,000tpa.

Valuation and view

The buoyancy in the auto component division, the strong order book of Rs850 crore in the domestic and export markets, and the acquisition of the two forging lines from Anvil would continue to drive a strong growth in the company's earnings. At the current market price of Rs280, the stock discounts its FY2008E earnings by 7.3x and its EV/EBIDTA by 4x. We believe that the valuations are very attractive and maintain our Buy recommendation on the stock with a price target of Rs380.

Earnings table Rs (cr)

Particulars	FY04	FY05	FY06	FY07	FY08
Net sales	135.1	166.2	375.5	635.0	934.2
Net profit	12.5	20.6	31.1	72.6	126.7
EPS	15.6	25.7	9.4	21.9	38.1
% y-o-y change		*64.6*	*-63.6*	*133.1*	*74.5*
PER	17.8	10.8	29.8	12.8	7.3
P/B	4.1	2.9	3.5	2.8	2.0
EV/EBIDTA	-36.4	-263.1	13.8	6.9	4.0
ROCE (%)	25.9	31.0	22.2	29.8	38.6
RONW (%)	22.8	27.2	11.8	21.9	28.0

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

Subros

Ugly Duckling

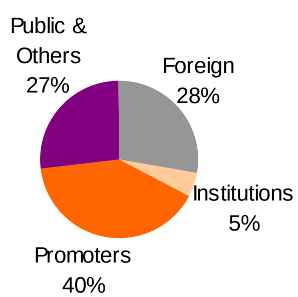
Stock Update

Results in line with expectations

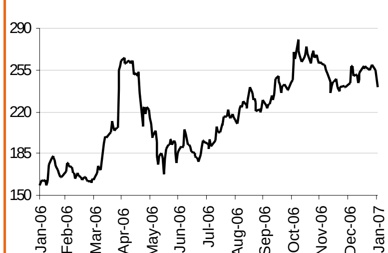
Buy; CMP: Rs248

Company details	
Price target:	Rs370
Market cap:	Rs298 cr
52 week high/low:	Rs285/150
NSE volume: (No of shares)	9,570
BSE code:	517168
NSE code:	SUBROS
Sharekhan code:	SUBROS
Free float: (No of shares)	0.72 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	6.9	33.4	62.4
Relative to Sensex	2.5	-3.1	-0.2	11.2

Result highlights

- The Q3FY2007 results of Subros, adjusted for extraordinary expenses, are in line with our expectations.
- The top line grew by 17.8% year on year (yoy) to Rs182.7 crore led by a volume growth of 12.6% and a realisation growth of 4.5%.
- The operating margins grew by 50 basis points to 11.1% as the operating profits grew by 24.1% to Rs20.3 crore. This is after adjusting for an extraordinary item of Rs1.5 crore relating to the voluntary retirement scheme (VRS) expenditure during the quarter. The raw material cost as a percentage of sales has come down by 40 basis points to 69.4% while the staff cost has risen slightly.
- Both the interest cost and depreciation rose considerably due to the high capital expenditure of the company. Its Gurgaon facility has begun its operations and the benefits of the same should start rolling in from the next quarter.
- The profit after tax (PAT) for the quarter marked a growth of 23.1% to Rs8.1 crore. The PAT after extraordinary items was flat yoy at Rs6.6 crore.
- At the current market price of Rs248 the stock is trading at compelling valuations of 6.1x FY2007E earnings per share (EPS) and 3.1x FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). The valuations are at a huge discount to the valuations commanded by its peers. We maintain our Buy recommendation on the stock with a price target of Rs370.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	9MFY07	9MFY06	% yoy
Net sales	**156.7**	**133.2**	**17.7**	**464.1**	**396.3**	**17.1**
Expenditure	136.4	116.8	16.8	262.7	356.1	-26.2
Incr/decr in stock	0.5	-0.8		0.1	0.0	
Consumption of RM	108.3	93.7		227.5	188.5	
Staff cost	9.6	7.9	22.4	27.2	21.7	25.3
Other exp	18.0	16.0	12.7	54.2	45.9	18.0
Operating profit	**20.3**	**16.4**	**24.1**	**53.9**	**40.2**	**34.0**
Other income	0.4	0.3	32.1	1.0	1.2	-17.2
EBIDTA	**20.7**	**16.7**	**24.2**	**54.8**	**41.4**	**32.5**
Interest	2.3	0.9	155.7	5.3	2.5	110.8
PBDT	18.5	15.8	16.9	49.5	38.9	27.5
Depreciation	7.3	6.2	17.6	19.0	17.2	10.8
PBT	11.2	9.6	16.5	30.5	21.7	40.7
Tax	3.0	3.0	2.0	8.7	6.5	34.0
PAT	**8.1**	**6.6**	**23.1**	**21.8**	**15.2**	**43.6**
Extraordinary items	1.5	0.0		1.5	0.0	
PAT after extraordinary	**6.6**	**6.6**	**0.3**	**20.3**	**15.2**	**33.7**
EPS	6.8	5.5		18.2	12.7	
OPM (%)	11.1	10.6		11.6	10.1	

Net sales rise 18% led by a 12.8% volume growth

The net sales for the quarter under review marked a growth of 17.7% to Rs156.7 crore, which was mainly led by a volume growth of 12.8%. A better product mix towards the high-end vehicles also led to a realisation improvement of 4.5%.

Margins improve further

The operating margins for the quarter improved to 11.1%, rising by 50 basis points yoy, and by 10 basis points quarter on quarter (qoq). This is after adjusting for an extraordinary item of Rs1.5 crore relating to the VRS expenses written off. The margin expansion has come on the back of the savings in the raw material cost, which as a percentage of sales has come down to 69.4% as against 69.8%. The other expenditures have also come down for the company, implying better operating efficiencies. With the continued thrust on indigenisation and continuing strong volume growth, we believe that there is further scope for margin growth. Consequently, the operating profits grew by 24.1% to Rs20.3 crore.

The interest and depreciation costs have risen substantially due to the high capital expenditure incurred by the company. Consequently, the net profit for the quarter grew by 23.1% to Rs8.1 crore, in line with our expectations. The PAT after extraordinary was flat at Rs6.6 crore.

Gurgaon plant commissioned

During the quarter, Subros commenced production at its new 2.5-lakh unit Gurgaon plant from December 2006, which has taken the manufacturing capacity to 7.5 lakh units from 5 lakh units. In all, the company plans to spend Rs70 crore in FY2007, out of which Rs60 crore have already been spent. The company expects to make substantial savings on the logistics cost as a result of the commissioning of the new plant at Gurgaon, which is near Maruti Udyog Ltd's (MUL) plant. In the second phase of capital expenditure (capex), the company plans to spend Rs30 crore in FY2008, wherein the capacity will be expanded to 10 lakh units.

Outlook

Going forward, we expect Subros to be a huge beneficiary of the strong volume growth for two of its major clients, MUL and Tata Motors (TAMO). Subros has increased its penetration levels in both of its clients MUL and TAMO to about 65% and 60% respectively. Subros is supplying for all the popular brands like *Alto*, *Wagon R*, *Swift* and *Indica*. It would also be supplying for the recently launched diesel *Swift* and M&M's much-awaited *Logan*.

Considering all this, we maintain our positive outlook on the company, and expect the company to ride on the strong volume growth. Increasing indigenisation of automotive air-conditioning system (AAS) components would help the company expand its margins. At the current market price of Rs248 the stock is trading at compelling valuations of 6.1x FY2007E EPS and 3.1x FY2008E EV/EBIDTA. The valuations are at a huge discount to the valuations commanded by its peers. We maintain our Buy recommendation on the stock with a price target of Rs370.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	21.2	24.3	33.8	48.6
% y-o-y growth	*44.0*	*19.0*	*38.9*	*43.8*
Shares in issue (cr)	1.2	1.2	1.2	1.2
EPS (Rs)	17.7	20.3	28.1	40.5
% y-o-y growth	*44.0*	*19.0*	*38.9*	*43.8*
PER (x)	14.6	12.2	8.8	6.1
Book value (Rs)	91.1	107.4	138.4	183.1
P/BV (Rs)	2.7	2.3	1.8	1.4
EV/EBIDTA (x)	6.5	6.1	4.4	3.0
Dividend yield (%)	1.2	1.0	1.4	2.0
RoCE (%)	21.2	20.6	23.1	26.1
RoNW (%)	18.7	18.9	20.3	22.1

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

Tata Elxsi

Emerging Star

Stock Update

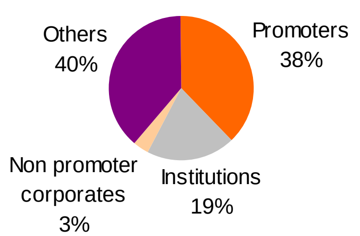
Price target revised to Rs356

Buy; CMP: Rs309

Company details

Price target:	Rs356
Market cap:	Rs961 cr
52 week high/low:	Rs320/147
NSE volume: (No of shares)	90,902
BSE code:	500408
NSE code:	TATAELXSI
Sharekhan code:	TATAELX
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	14.2	27.6	72.8	58.7
Relative to Sensex	10.7	15.7	29.3	8.6

Result highlights

- Tata Elxsi Ltd (TEL) announced a revenue growth of 7.3% quarter on quarter (qoq) and 39.1% year on year (yoy) to Rs80.5 crore. The revenue growth was largely contributed by a growth of 8.3% qoq and of 51% yoy in the software service business to Rs69 crore. On the other hand, the system integration business remained largely stagnant at Rs11.6 crore, down 5.9% yoy and up 2% on a sequential basis.
- The operating profit margin (OPM) improved by 190 basis points sequentially and by 420 basis points yoy to 22.7%, which is one of the highest reported in the past 12 quarters. The company continues to show an improving trend in its margin due to the shift in the revenue mix towards the high-margin software service business. The software service business contributed 86.4% of the revenues in the first nine month of FY2007 as compared with 80% in FY2006 and 78% in FY2005. Moreover, the margin in the software service business itself has improved over the past few quarters due to the efforts taken to focus on the high-end business.
- Consequently, the earnings grew at a robust rate of 17.4% qoq and 83.1% yoy to Rs14 crore during the quarter, way ahead of expectations. This is the second consecutive quarter of over 15% sequential growth in the earnings.
- In terms of operational highlights, the management continues to be confident about the growth visibility of the software service business. It is reflected in the efforts taken to expand the existing development facilities, and set up new offshore centres in Kerala and a near-shore development facility in Japan.
- To factor in the robust performance of the third quarter, we have revised upwards the earnings estimates by 6.1% for FY2007 and by 4.2% for FY2008. At the current market price the stock trades at 19x FY2007 and 14.8x FY2008 estimated earnings. We maintain our Buy call on the stock with a revised target price of Rs356.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	Q2FY07	% yoy	% qoq
Net sales	80.5	57.8	75.0	39.1	7.3
Total expenditure	62.2	47.1	59.4	32.0	4.7
Operating profit	18.3	10.7	15.6	70.5	17.2
Other income	0.0	0.1	0.2	-64.9	-77.3
Interest	0.2	0.1	0.1	188.6	49.0
Depreciation	2.2	1.7	2.0	26.2	9.4
PBT	16.0	9.0	13.7	76.7	17.0
Tax	2.0	1.4	1.8	42.6	14.2
Profit after tax	**14.0**	**7.6**	**11.9**	**83.0**	**17.4**
Equity	31.1	31.1	31.1		
EPS (Rs)	4.5	2.5	3.8		
Margins (%)					
OPM	22.7	18.5	20.8		
NPM	17.4	13.2	15.9		

Continued growth momentum in software service business

The software service business has grown at a healthy rate of 8.3% on a sequential basis. What's more, the growth has been accompanied by an improvement of 60 basis points in the segmental margin. The company has been able to maintain the margin in the narrow band of 23.5-24.5% for the past three quarters, as against the 21.4% reported in FY2006. The margin in the software service business has improved due to the cumulative impact of the better employee utilisation and higher proportion of revenues from the high-end service business.

On the other hand, the performance of the system integration business continues to remain volatile. The revenues from the business remained flattish at Rs11.6 crore on a sequential basis. However, the segmental margin almost doubled to 13.7% in Q3FY2007. The fourth quarter is generally a seasonally strong quarter for the system integration business.

Segmental performance

Particulars	Q3FY07	Q3FY06	Q2FY07	% yoy	% qoq
Revenues					
- System integration	11.6	12.3	11.3	-5.9	2.0
- Software services	69.0	45.7	63.7	51.0	8.3
Segment profits (PBIT)					
- System integration	1.6	1.6	0.7	-0.4	137.8
- Software services	16.8	9.0	15.1	87.0	11.2
PBIT margins					
- System integration	13.7	12.9	5.9		
- Software services	24.3	19.6	23.7		

Other highlights

During the quarter, the company completed one of its largest projects for the Indian film industry. It was involved in pre-visualisation of action scenes, virtual set creation and character animation in the blockbuster movie *Dhoom 2*. The successful completion of such a complex project is expected to further strengthen its position in the special effects arena for motion pictures.

The company has further strengthened its embedded software and design service business by becoming the first company to join the software specialist programme of the ARM Approved Design Center program. The programme would enable the company to use the advanced designer tool to perform fast modeling, simulation and debugging of complex system-on-chip designs in a virtual environment.

In addition to the on-going expansion of its facilities in Thiruvananthapuram, the company is close to finalising its plans to set up development centres in some of the other cities in Kerala. The company expects to add two new offshore development centres over the next five to six quarters. It is also contemplating setting up a near-shore centre in Japan.

Revision of earning estimates

To factor in the robust performance of the third quarter, we have revised upward the earnings estimates for FY2007 and FY2008 by 6.1% and 4.2% respectively.

Valuation

At the current market price the stock trades at 19x FY2007 and 14.8x FY2008 estimated earnings. We maintain our Buy call on the stock with a revised target price of Rs356.

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	185.8	235.6	303.9	390.5
Net profit (Rs cr)	26.4	34.5	51.0	65.6
No of shares (crore)	3.1	3.1	3.1	3.1
EPS (Rs)	8.4	11.0	16.2	20.8
% y-o-y change	-	*30.6*	*47.2*	*28.4*
PER (x)	36.6	28.0	19.0	14.8
Price/BV (x)	17.6	14.6	10.5	7.4
EV/EBIDTA(x)	26.5	20.3	14.2	10.9
Dividend yield (%)	1.8	2.1	2.3	2.4
RoCE (%)	54.0	57.5	60.5	55.6
RoNW (%)	111.6	98.6	83.5	65.7

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

Sun Pharmaceutical Industries

Ugly Duckling

Stock Update

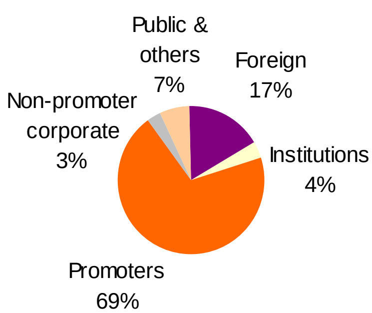
Results beat expectations; upgrading earnings

Buy; CMP: Rs1,028

Company details

Price target:	Rs1,341
Market cap:	Rs19,538 cr
52 week high/low:	Rs1,080/637
NSE volume: (No of shares)	2.6 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Sharekhan code:	SUNPHARM
Free float: (No of shares)	5.7 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	4.4	12.5	24.8	50.8
Relative to Sensex	1.3	2.0	-6.6	3.3

Result highlights

- The consolidated net sales of Sun Pharmaceuticals (Sun Pharma) grew by 27.1% year on year (yoy) to Rs540.0 crore in Q3FY2007. The strong growth was driven by an increase of 36.3% in its exports and a 19.0% growth in its domestic business. The sales growth was ahead of our expectations.
- Its US subsidiary, Caraco Pharma, continued its growth momentum. Caraco Pharma's sales grew by 51% yoy to $31.3 million and its profits expanded by over 15 times to $10.1 million during the quarter.
- A sharp spike of 54.1% in the research and development (R&D) expenses of Sun Pharma led to a decline in its operating profit margin (OPM), which contracted by 40 basis points to 32.1% in Q3FY2007. The margin contraction caused the operating profit (OP) to increase by 25.6% to Rs173.3 crore. Barring the higher R&D cost, the company's margin actually showed an expansion of 190 basis points.
- Sun Pharma's net profit for Q3FY2007 stood at Rs198.9 crore, up 35.8% yoy. The growth in the profit was aided by a 1.5-fold increase in the company's other income to Rs63.6 crore and a deferred tax write-back of Rs4.0 crore.
- In view of the better-than-expected performance in M9FY2007, led by Caraco Pharma's improved profitability, the higher than industry growth in the domestic formulation business, a higher than expected other income and reduced tax rates, we are revising our earnings estimates for FY2007 and FY2008. We are however keeping our revenue estimates intact. We have revised upwards our net profit estimates by 5% for FY2007 to Rs748.6 crore and by 1% for FY2008 to Rs936.5 crore. Our revised earnings estimates stand at Rs38.3 per share for FY2007 and Rs47.9 per share for FY2008.

Result table (consolidated) Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	9MFY07	9MFY06	% yoy
Net sales	540.0	424.7	27.1	1587.9	1230.1	29.1
Pre-R&D expenditure	296.2	240.9	22.9	879.5	725.4	21.2
EBITDR	243.9	183.8	32.7	708.4	504.7	40.4
Recurring R&D expense	70.5	45.8	54.1	183.2	104.2	75.8
Operating profit	173.3	138.0	25.6	525.3	400.5	31.1
Other income	63.6	41.9	51.8	131.1	99.5	31.7
EBITDA	236.9	179.9	31.7	656.4	500.0	31.3
Interest expense	0.0	5.5	-100.0	0.0	8.4	-100.0
Depreciation	21.2	17.7	19.8	61.7	42.6	44.9
PBT	215.7	156.7	37.7	594.7	449.1	32.4
Taxes	-2.9	7.0	-140.8	-4.9	12.6	-138.9
PAT	218.6	149.7	46.0	599.6	436.5	37.4
Minority Interest	19.8	3.3	505.8	37.6	6.2	509.1
Net profit	198.9	146.4	35.8	562.0	430.3	30.6
EBITDR margin	45.2	43.3		44.6	41.0	
OPM (%)	32.1	32.5		33.1	32.6	
EBIDTA margin (%)	43.9	42.4		41.3	40.7	
Net profit margin (%)	36.8	34.5		35.4	35.0	

- At the current market price of Rs1,028, Sun Pharma is valued at 26.9x FY2007E and 21.4x FY2008E fully diluted earnings. The company's future growth prospects, the positive contributions from its past acquisitions and the unlocking of value to take place after the demerger of the R&D division reinforce our positive stance on the company. We maintain our Buy recommendation on the stock with a price target of Rs1,341.

Sun Pharma's Q3FY2007 results were above our expectations. On a consolidated basis, the net sales increased by a robust 27.1% to Rs540.0 crore. The strong growth was driven by an increase of 36.3% in the exports and a 19.0% growth in the domestic business. Higher R&D expenses caused the OPM to contract by 40 basis points to 32.1% in the quarter. On excluding the R&D cost, the margin actually shows an improvement. Consequently, the OP grew by 25.6% to Rs173.3 crore. Despite a higher depreciation charge, the profit after tax (PAT) for the quarter increased by 35.8% to Rs198.9 crore. The PAT growth was aided by a 1.5-fold increase in the other income and a deferred tax write-back of Rs4.0 crore, which reduced the overall tax outgo of the company in Q3FY2007 as compared with that in Q3FY2006.

For M9FY2007, Sun Pharma's net sales saw a growth of 29.1% yoy to Rs1,587.9 crore. The growth was driven by a 15.8% growth in the domestic business and a 46.5% surge in the exports. The company's OPM expanded by 50 basis points to 33.1% in M9FY2007, causing the OP to grow by 31.1% to Rs525.3 crore. The net profit for M9FY2007 stood at Rs562.0 crore, an increase of 30.6% yoy.

Domestic business maintains momentum

Sun Pharma's domestic revenues grew by 19.0% to Rs316.8 crore in Q3FY2007. The domestic performance was driven largely by an 18.5% increase in the sales of domestic formulations to Rs293.5 crore; the sales of the bulk drugs in the domestic markets witnessed a rise of 21.4% to Rs22.7 crore during the same period. Sun Pharma's domestic performance surpassed the industry growth of 15-16% in Q3FY2007. Also, the domestic business saw a good growth in the company's key therapeutic areas of cardiology, diabetology, gastroenterology and psychiatry, which formed close to 72% of its domestic portfolio. The company maintained its pace of launching new products; it launched six new products in the domestic market during the quarter, taking the cumulative number of new launches to 28 in M9FY2007. In an increasingly competitive marketplace, Sun Pharma now holds 3.2% market share, as per the latest IMS ORG report.

Sales break-up

Particulars	Q3FY07	Q3FY06	% chg	9MFY07	9MFY06	% chg
Domestic	316.8	266.2	19.0	942.1	813.6	15.8
- Formulations	293.5	247.6	18.5	868.7	746.4	16.4
- Bulk	22.7	18.7	21.4	72.3	67.1	7.7
- Others	0.6	0.0	-	1.0	0.0	3333.3
Exports	249.0	182.7	36.3	722.7	493.5	46.5
- Formulations	192.7	130.2	48.0	532.4	351.0	51.7
- Bulk	55.6	52.5	5.9	188.3	142.4	32.2
- Others	0.7	0.0	2200.0	2.0	0.0	6600.0
Total	565.8	448.9	26.0	1664.8	1307.1	27.4

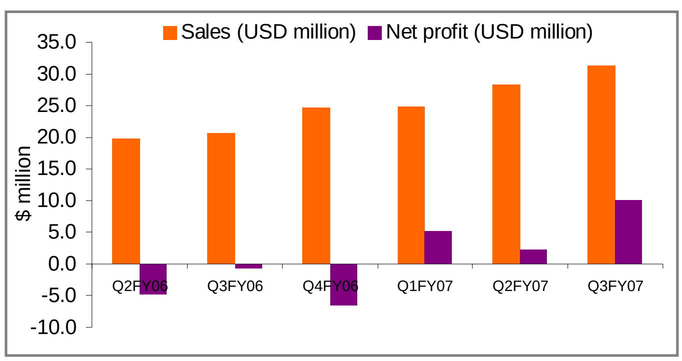
Caraco Pharma's performance—significantly ahead of estimates; to improve going forward

Caraco Pharma, Sun Pharma's US subsidiary, continued with its impressive performance by registering a revenue growth of 51.0% to $31.3 million in the quarter. The strong growth was driven by a robust increase in the sales volumes despite pricing pressures. Caraco Pharma recorded a gross margin of 48.4% in the quarter as compared with 50% in Q3FY2006; this underlines the strong pricing pressures present in the highly competitive US market.

The company launched one new product—Phenytoin—in the US market during the quarter. Due to limited competition in the Phenytoin market (Mylan, Tarro and Sun Pharma being the only three generic players), Sun Pharma hopes to capture a healthy share of the $180-million market, which has so far been dominated by the innovator company.

Caraco Pharma's net profit increased by over 15 folds to $10.1 million in the quarter. The remarkable growth in the net profit was due to the fact that the US subsidiary did not incur any non-cash R&D cost for technology transfer from its Indian parent during the quarter. With only two products left for technology transfer, we expect Caraco Pharma's profitability to improve further going forward.

Caraco Pharma continues impressive performance



High R&D expenses caused margin to shrink by 40 basis points

Sun Pharma's OPM declined by 40 basis points in the quarter to 32.1%. The contraction in the margin was primarily due to a sharp rise in the R&D expenses. The recurring R&D expenditure rose by 54.1% in Q3FY2007, forming 13.1% of sales in the quarter as compared with 10.8% of sales in the corresponding quarter of the previous fiscal. On excluding the R&D cost, Sun Pharma's margin actually improved by 190 basis points to 45.2% in the quarter.

The declining margin caused the OP to grow by 25.6% to Rs173.3 crore in Q3FY2007. The operating performance of the company was impressive in light of the continued investments (to the tune of $3-4 million per quarter) made to turn around the recently acquired Valeant and Able facilities without deriving proportionate revenues as well as the increased focus on R&D.

Cost break-up Rs crore

Particulars	Q3FY07	Q3FY06	% change
Adjusted RM cost	155.7	113.7	36.9
% of sales	*28.8*	*26.8*	
Staff cost	65.8	48.6	35.5
% of sales	*12.2*	*11.4*	
Other indirect taxes	13.7	10.7	28.9
% of sales	*2.5*	*2.5*	
Other expenditure	61.0	68.0	-10.4
% of sales	*11.3*	*16.0*	
Recurring R&D expense	70.5	45.8	54.1
% of sales	*13.1*	*10.8*	

Higher other income and deferred tax write-back boost net profit

Sun Pharma's net profit for Q3FY2007 stood at Rs198.9.4 crore, up 35.8% yoy. The growth in the profit was aided by a 1.5-fold increase in the company's other income to Rs63.6 crore and a deferred tax write-back of Rs4.0 crore. The other income was higher on account of the foreign exchange gains due to an appreciating rupee. The deferred tax write-back, which reduced the overall tax outgo of the company, was due to the increased R&D expenses of the recently acquired facilities in the USA which caused the business to report losses.

On the other hand, a higher depreciation charge (up by 19.8%) and a higher share of minority interest (at Rs19.8 crore versus Rs3.3 crore in Q3FY2006) as Caraco Pharma turned profitable restricted the net profit growth. The earnings for the quarter stood at Rs10.5 per share.

Filing momentum continues; impressive product pipeline to fuel future growth

Sun Pharma has maintained its filing momentum. Between Sun Pharma and Caraco Pharma, the group has received the approval for three new abbreviated new drug applications (ANDAs), taking the total approvals to 31 as compared with 28 at the end of Q2FY2007. The group has filed a total of eight ANDAs during the quarter, six from Sun Pharma and two from Caraco Pharma, taking the total filings to 22 in the current fiscal. The company seems to be on track to meet its target of 30+ filings in FY2007.

With the filings made during the quarter, the group now has a pipeline of 61 ANDAs pending approval, including seven tentative approvals. This makes Sun Pharma a company that has one of the strongest pipelines of filings in the Indian pharmaceutical industry. The quality of the filings also remains exciting, with a mix of orals and complex formulations such as injectables and nasal sprays, with some of the filings being Para IV first-to-file. We believe that this strong pipeline of products will drive Sun Pharma's performance in the US market through a steady stream of new product launches in the years to come.

R&D demerger to be completed by March 2007

Sun Pharma's management has indicated that the company has received the necessary approvals for the demerger of the innovative research business and the process of demerger will be completed by March 2007. Of the total R&D expenses, one-third is made on innovative research. The company has also announced that its lead new chemical entity--an anti-allergic molecule--is undergoing phase-II trials in the USA.

Valuation and view

Sun Pharma has maintained its consistency in reporting strong results quarter after quarter. The performance of Q3FY2007 has been ahead of our expectations and is particularly commendable in light of the growing R&D cost. Going forward, we expect the ramp-up in the US business and the continued momentum in the domestic formulation business to drive growth. With a strong ANDA pipeline, we are likely to see an accelerated pace of new product launches, which will drive the US business. The outlook for the company's domestic business also remains bright as it operates in nice, high-margin lifestyle segments, which are growing at higher than industry rates. The positive contribution from its acquisitions will add to Sun Pharma's earnings going forward and the impending demerger of the innovative R&D division is expected to act as a trigger for further value unlocking.

In view of the better-than-expected performance in M9FY2007, led by Caraco Pharma's improved profitability, the higher than industry growth in the domestic formulation business, the higher than expected other income and the reduced tax rates, we are revising our earnings estimates for FY2007 and FY2008. We are however keeping the revenue estimates intact. We have revised upwards our net profit estimates by 5% for FY2007 to Rs748.6 crore and by 1% for FY2008 to Rs936.5 crore. Our revised earnings estimates stand at Rs38.3 per share for FY2007 and Rs47.9 per share for FY2008.

At the current market price of Rs1,028, Sun Pharma is valued at 26.9x FY2007 and 21.4x FY2008 fully diluted earnings. The company's future growth prospects, the positive contributions from its past acquisitions and the value unlocking following the demerger of its R&D division reinforce our positive stance on the company. We maintain our Buy recommendation on the stock with a price target of Rs1,341.

Valuation table (consolidated) Rs (cr)

Particulars	FY04	FY05	FY06	FY07	FY08
Net sales	983.0	1185.3	1637.2	2145.8	2791.2
PAT	315.6	396.2	573.6	748.6	936.5
Shares in issue (cr)	9.3	18.6	18.6	20.7	20.7
EPS (Rs)	33.9	21.4	30.9	38.3	47.9
PER (x)	30.3	48.1	33.3	26.9	21.4
Cash EPS (Rs)	37.0	23.5	34.2	42.2	52.0
Cash PER (x)	27.8	43.7	30.1	24.4	19.8
EV	9832.2	19255.5	19426.3	19419.6	18670.2
EV/Ebidta (x)	24.8	45.4	39.5	27.4	19.7
Book value	87.9	60.9	85.6	192.4	241.7
P/BV (x)	11.7	16.9	12.0	5.3	4.3
Mcap/sales	9.7	16.1	11.7	9.9	7.6

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

Selan Exploration Technology

Ugly Duckling

Stock Update

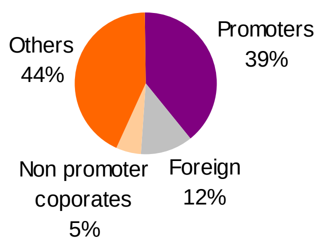
Ramp-up in volumes delayed

Buy; CMP: Rs77

Company details

Price target:	Rs94
Market cap:	Rs111 cr
52 week high/low:	Rs114/50
NSE volume: (No of shares)	49,350
BSE code:	530075
NSE code:	SELAN
Sharekhan code:	SELAEXP
Free float: (No of shares)	0.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-7.0	5.1	27.9	4.9
Relative to Sensex	-9.8	-4.7	-4.3	-28.2

Result highlights

- Selan Exploration Technologies (SETL) reported a revenue growth of 22.6% to Rs5.4 crore. The softening of the crude oil prices globally dented the overall growth in the company's revenues during the quarter.
- The operating profit margins stood at 50.4% (as compared to 62% in Q3FY2006) and were largely impacted due to the higher provisioning for the development of hydrocarbon reserves (provisioning of Rs1 crore as compared to Rs0.3 crore in Q3FY2006).
- However, the jump in the other income to Rs0.7 crore (up from Rs0.2 crore) aided the growth in the company's earnings. Consequently, the earnings grew by 20% to Rs1.9 crore.
- On a nine-month basis, the revenues and earnings have grown by 23.5% to Rs17.7 crore and by 33.2% to Rs7.2 crore respectively. However, after adjusting for the one-time income in the form of arrears of Rs1.44 crore received in Q1FY2006, the revenues and earnings have grown by 37.3% and 56.5% respectively.
- The efforts taken to further develop the oil fields are also yielding results. The commercialisation of two new wells and the work over drilling in some of the old wells have resulted in a volume growth of 16.5% to around 64,000 barrels of oil & oil equivalents (boe) during the first nine months of FY2007.
- The management has reiterated its guidance of 30-40% growth in the volumes during the current fiscal. However, given the lower-than-expected growth in the volumes in the first nine-month period, the company is unlikely to achieve its stated guidance. To factor in the lower-than-expected growth in the volumes, but higher than assumed average realisations, the earnings estimates for FY2007 are revised upwards by over 10% to Rs9.1 crore. On the other hand, we are downgrading the earnings estimates for FY2008 to factor in the lower-than-expected ramp-up in the volumes.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	9MFY07	9MFY06	% yoy
Net sales	**5.4**	**4.4**	**22.6**	**17.7**	**14.3**	**23.5**
Total expenditure	2.7	1.7	59.9	6.8	4.8	43.3
Operating profit	2.7	2.7	-0.4	10.9	9.6	13.6
Other income	0.7	0.3	115.6	1.2	0.6	96.6
Interest	0.2	0.1	-	0.5	0.1	410.0
Depreciation	0.2	0.2	13.3	0.5	0.5	6.5
PBT	3.1	2.8	10.0	11.0	9.6	14.9
Tax	1.2	1.2	-2.4	3.8	4.2	-8.6
Adjusted PAT	**1.9**	**1.6**	**20.0**	**7.2**	**5.4**	**33.2**
Equity cap (Rs cr)	14.4	14.4		14.4	14.4	
EPS (Rs)	1.3	1.1		5.0	3.7	
Margins (%)						
OPM	50.4	62.0		61.4	66.7	
NPM	34.6	35.3		40.6	37.7	

- At the current market price the stock trades at 12.2x FY2007 and 6.8x FY2008 estimated earnings. We maintain our Buy call on the stock with a target price of Rs94.

Volume growth lower than expectations

The revenue growth of 22.6% to Rs5.4 crore in Q3 is below our expectation largely due to the inability of the company to ramp up the volumes. On a nine-month basis, the volumes of crude oil sold have grown by around 16.5% to 64,000 barrels as compared to around 55,000 barrels in the corresponding period last fiscal. The initial teething problems and the unavailability of the required equipment (due to severe shortage from the hectic oil exploration activity in the country) seems to have delayed the ramp-up in the production volumes.

The management has reiterated its guidance of 30-40% growth in the volumes during the current fiscal. However, given the lower-than-expected growth in the volumes in the first nine-month period, the company is unlikely to achieve its stated guidance.

Revision of earning estimates

To factor in the lower-than-expected growth in the volumes but higher than assumed average realisations, the earnings estimates for FY2007 are revised upwards by over 10% to Rs9.1 crore.

On the other hand, we are downgrading the earnings estimates for FY2008 to factor in the lower-than-expected ramp-up in the volumes. The earnings estimates for FY2008 are downgraded by 7.2% to Rs16.3 crore.

Long-term outlook remains positive

Over the long-term, the outlook continues to be encouraging. The initial results from the exploratory wells drilled indicate significant amount of recoverable oil deposits/reserves at the depth of 1,300-1,500 metres at the Bakrol oil field.

The management is investing in detailed analysis of the acquired data and getting it certified and valued by a reputed global company as part of its overall strategy to induct a strategic partner in the company.

Valuation

At the current market price SETL trades at 12.2x FY2007 and 6.8x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs94 (valued at $1.5 per boe).

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit* (Rs cr)	1.2	6.6	9.1	16.3
No of shares (crore)	1.3	1.4	1.4	1.4
EPS (Rs)	0.9	4.6	6.3	11.3
% y-o-y change	*45.0*	*414.7*	*38.3*	*78.4*
PER (x)	86.5	16.8	12.2	6.8
Price/BV (x)	4.4	3.3	2.6	1.9
EV/EBIDTA(x)	35.6	7.8	6.6	3.8
EV/Sales (x)	8.6	5.6	4.6	2.8
RoCE (%)	6.7	26.0	24.4	34.6
RoNW (%)	5.1	19.5	21.2	27.5

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

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

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

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Tata Elxsi
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
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WS Industries India

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