Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**1,208**	1,760
Aditya Birla Nuvo	06-Dec-05	714	**1,156**	1,280
Ceat	28-Nov-06	122	**118**	190
Lupin	06-Jan-06	403	**592**	670
Thermax	14-Jun-05	124	**367**	425

Pulse Track

Export growth back on track

The trade deficit remained stable at $6.2 billion in November 2006 month on month compared with October 2006 but was up 60.4% year on year (yoy) from $3.9 billion in November 2005. The growth in merchandise exports improved to 33.7% yoy in November 2006 from a lacklustre 11.4% yoy reported in October 2006. Imports increased by 43% yoy during November 2006 led by a strong demand for oil.

Export growth recovers after the seasonal decline in October

We had mentioned in our previous update on foreign trade (please refer to our Investor Eye dated November 29, 2006) that the export growth rates generally show a decline in October and recover going forward. We have witnessed the same this year, as our exports have grown by 33.7% in November 2006 compared with an 11.4% year-on-year growth reported in October 2006.

Imports up on oil demand

Imports increased by 43% yoy to $15.9 billion, marginally up from the last month's figure of $15.8 billion. Oil imports, which constitute almost one-third of the country's total imports, rose by 48.3% in November 2006 and non-oil imports rose by 40.5%.

Cumulative numbers remain on track to achieve target

For the first eight months of FY2007, exports and imports have grown by 24% each. The oil imports have grown at 39.9% whereas the non-oil imports have grown at 17.3% in the same period. The trade deficit for the period April-October 2006 stood at $36.1 billion compared with $29.1 billion in the same period last year.

The government aims to achieve a merchandise export target of $125 billion for FY2007, which is 22% higher than the actual exports of $102.7 billion achieved in FY2006. With exports up by 24% yoy for the first eight months, the target seems achievable.

Merchandise trade growth adjusted for oil remains stable

We normally focus on the crude oil imports; however, an increase in the refining capacity of our country has also increased our oil exports by more than 100% to $8 billion for the first five months of FY2007 (April-August 2006). If we adjust the oil component present in our export and import figures for the first five months of FY2007, we would notice that the growth in our adjusted exports (up 17.7%) and imports (up 11.3%) has been stable compared with the data for the first four months of FY2007.

Merchandise trade data adjusted for oil

US$ billion	Apr-July FY2007	% yoy chg	Apr-Aug FY2007	% yoy chg
Imports	55.6	21.9	70.3	21.2
- Petroleum & crude	19.0	47.1	24.6	45.4
Exports	39.4	26.8	50.2	26.5
- Petroleum & crude	6.3	116.6	8.0	109.0
Adjusted imports	36.6	11.9	45.8	11.3
Adjusted exports	33.1	17.5	42.2	17.7

Capital goods continue to lead commodity-wise imports

Commodity-wise data available for the first five months of FY2007 suggests that the underlying investment theme continues to be strong. The capital goods segment reported a strong growth of 41% during this period followed by chemicals and related products, which grew at 22.4%.

Commodity-wise imports

US$ billion	Apr-Jul FY2007	% yoy chg	Apr-Aug FY2007	% yoy chg
Food & related items	1.2	17.4	1.4	0.1
Textile yarn fabrics, made-up articles	0.7	9.9	0.9	7.5
Chemicals and related products	4.2	24.6	5.4	22.4
Capital goods	7.7	43.9	9.7	41.0
Other non-POL items	20.9	1.5	26.1	2.6
Other commodities	2.0	21.4	2.4	14.8

Merchandise trade data

US$ billion	Oct-06	% yoy chg	Nov-06	Nov-05	% yoy chg	Apr- Nov FY2007	Apr- Nov FY2006	% yoy chg
Exports	9.6	11.4	9.7	7.2	33.7	79.5	64.1	24.0
Imports	15.8	36.8	15.9	11.1	43.0	115.6	93.2	24.0
Oil	5.3	55.4	4.9	3.3	48.3	38.9	27.8	39.9
Non-oil	10.5	26.1	11.0	7.8	40.5	76.7	65.4	17.3
Trade deficit	6.2	111.8	6.2	3.9	60.4	36.1	29.1	24.1

The data for November 2006 is provisional. The data for the previous months has been revised wherever applicable.
Source: DGCI&S

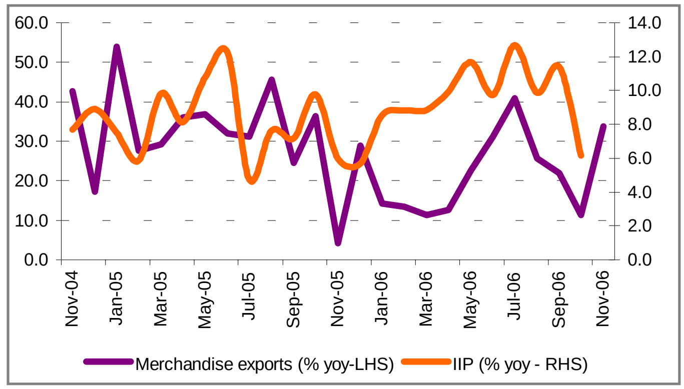
Export of manufactured goods up 19%

The entire manufacturing sector reported a strong double-digit export growth barring the leather and other manufacturing sectors. Engineering goods were up 46%, chemicals and related products grew by 24.5%, textiles rose by 11.4% and ready-made garments grew by 11.6%.

IIP numbers expected to recover going forward

The Index of Industrial Production (IIP) grew by 6.2% yoy for October 2006, which could have been an aberration (influenced by festival demand). The improved export growth figures for November 2006 could lead to a pick-up in the forthcoming IIP numbers.

YoY change in merchandise exports and Index of Industrial Production



Source: CMIE

Commodity-wise exports

US$ billion	Apr-July FY2007	% yoy change	Apr-Aug FY2007	% yoy change
Agricultural & allied products	3.6	19.4	4.5	19.4
Ores & minerals	2.0	9.9	2.4	7.1
Manufactured goods	26.6	19.0	34.0	19.1
Leather & leather manufactures	0.8	-5.6	1.1	-2.9
Chemicals & related products	3.7	23.1	4.7	24.5
Engineering goods	9.5	43.2	12.3	46.0
Textiles	2.6	11.8	3.4	11.4
Ready-made garments	3.0	14.4	3.7	11.6
Other manufactured goods	6.8	1.0	8.8	-0.6
Other commodities	1.1	7.4	1.4	11.7

Mahindra and Mahindra

Apple Green

Stock Update

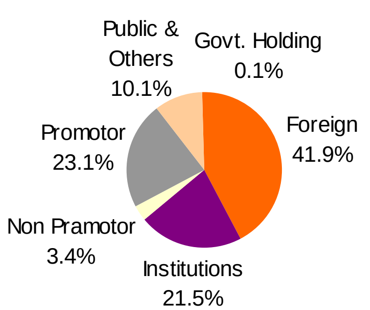
Price target revised to Rs1,050

Buy; CMP: Rs848

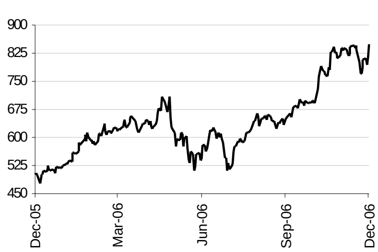
Company details

Price target:	Rs1,050
Market cap:	Rs20,741 cr
52 week high/low:	Rs867/474
NSE volume: (No of shares)	7.5 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	18.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	30.6	56.9	69.1
Relative to Sensex	2.9	19.7	17.7	18.0

Key points

- We are revising our price target for Mahindra and Mahindra (M&M) from Rs870 to Rs1,050 considering the continuing strong growth in its core businesses (mainly tractor) and the recent run-up in the prices of its subsidiaries, particularly Tech Mahindra.
- The growth in M&M's core business continues and shall be further fuelled by new launches like *Ingenio* and *Shaan*. Further, the launch of its new passenger car *Logan* next year, is not only a positive for its domestic business, but also opens further export possibilities.
- M&M's subsidiaries have been performing splendidly in the recent times. Tech Mahindra delivered a strong performance in the last quarter. Its robust order book should further drive up valuations. The plans for Systech are also on track with the management planning to make it a US$1 billion company by FY2009.
- We maintain our Buy recommendation on the stock with a revised price target of Rs1,050. At the current market price of Rs848, the stock quotes at 12.7x its FY2008E consolidated earnings.

UVs—new launches hold the key

The all-new *Scorpio* has been driving the growth in the utility vehicle (UV) segment this year (year-till-date FY2007 sales up 15%). The other UV models have lost ground to Tata Motors resulting in a lacklustre 2% year-till-date FY2007 volume growth. However, M&M expects to regain some share in the near term on the back of the launch of variants. In the longer term, success of new platforms (in particular, project *Ingenio*, the new passenger UV platform) remains critical for M&M's growth in this business.

Valuation table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Stand-alone				
Net sales (Rs cr)	6,511.0	7,977.2	10,272.0	11,805.0
(%) y-o-y change	*33.6*	*22.5*	*28.8*	*14.9*
Net profit (Rs cr)	499.5	647.9	866.7	1,012.7
Shares in issue (cr)	23.34	23.36	23.36	23.36
EPS (Rs)	21.4	27.7	37.1	43.4
(%) y-o-y change	*54.9*	*29.6*	*33.8*	*16.8*
PER (x)	39.6	30.6	22.9	19.6
Consolidated				
Net profit (Rs cr)	711.0	1,050.0	1,351.2	1,553.9
(%) y-o-y change	*78.5*	*47.7*	*28.7*	*15.0*
Shares in issue (cr)	23.34	23.36	23.36	23.36
EPS (Rs)	30.5	44.9	57.8	66.5
(%) y-o-y change	*78.5*	*47.7*	*28.7*	*15.0*
PER (x)	27.8	18.9	14.7	12.7

Tractors—growth continues

M&M's tractor segment continues to surprise positively (year-till-date FY2007 volumes up 25% year on year) on the back of new product launches, strong rural economy and easy availability of finance. M&M has recently launched *Shaan*, a multi-utility tractor that has evinced a good response.

New product launches on schedule

M&M is all set to see major launches in H2FY2008 with a new SUV—*Ingenio*. The joint venture with Renault in the passenger car segment would also roll-out its mid-sized sedan *Logan*. Another joint venture with Renault to set up a manufacturing unit with a capacity of 500,000 vehicles in India and the possibility of Nissan joining the venture at a later stage further improves the growth visibility for the company in the segment. *Logan* has been a successful vehicle in the European markets. With the company planning to price the vehicle aggressively, we believe that *Logan* could make strong in-roads into the Indian markets.

Systech—strategy on track

The management plans to make the Systech group a US$1 billion business by FY2009. The growth would be fuelled by both organic and inorganic means. Systech has already made a number of overseas acquisitions in the last one-year. We believe that the recent acquisitions, eg Stokes, Jeco and Schoeneweiss, have improved the growth visibility for Systech.

Capex

M&M would be spending Rs600 crore over the next three years to increase the capacity of *Scorpio* and to set up the *Ingenio* platform. The Mahindra-Renault joint venture would entail a capital expenditure of about Rs700 crore while about Rs90 crore would be spent on the joint venture with International Trucks.

Valuations

In view of the continuing growth in its core business, the improving product mix, the de-risked business model and the splendid performance of its subsidiaries, we are revising our price target for M&M to Rs1,050. At the current market price of Rs848, the stock quotes at 12.7x its FY2008E consolidated earnings.

Sum of parts valuation

Particulars	Per share value (Rs)
Core business (at 14x FY08 earnings)	607
Value of subsidiaries (at 20% discount to market price)	445
Fair value	1,051

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

Marico

Apple Green

Stock Update

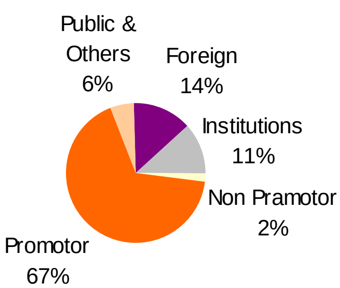
De-coding Egyptian market

Buy; CMP: Rs547

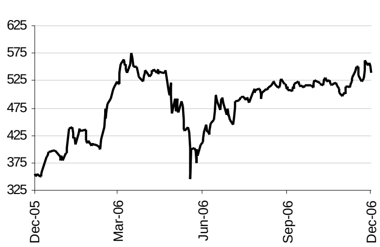
Company details

Price target:	Rs634
Market cap:	Rs3,188 cr
52 week high/low:	Rs586/330
NSE volume: (No of shares)	19,597
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.8	5.2	30.9	52.1
Relative to Sensex	9.7	-3.6	-1.8	6.1

Key points

- Marico has entered into a strategic alliance with Cairo-based Pyramids Group for the latter's Rs40-crore hair care brand, *Hair Code*. The *Hair Code* range includes hair creams, hair gels and gel creams. The brand has a market share of about 23% in the Rs170-crore pre- and post-wash hair care market in Egypt.
- With the acquisition of *Hair Code*, Marico will now have a dominant share (of about 50%) of the hair care market. It already has a strong presence in this market, thanks to its earlier acquisition of *Fiancée*.
- A back-of-the-envelope calculation shows that this deal will be earnings accretive, as it will add Rs0.1 or 0.6% to Marico's FY2007E earnings per share (EPS) and Rs0.5 or 2.2% to its FY2008E EPS.
- The stock is also trading at a price/earnings ratio (PER) of 21.8x FY2008E and enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 12.3x FY2008E. We continue to remain bullish on Marico and reiterate a Buy on the stock with a price target of Rs634.

Marico strikes a strategic alliance for *Hair Code* brand In Egypt

Marico has entered into a strategic alliance with Cairo-based Pyramids Group for the latter's hair care brand, *Hair Code*. The deal size has not been disclosed and involves the acquisition of the brand by Marico besides direct investment. *Hair Code* is a leading brand in the Egyptian hair care market and its range includes hair creams, hair gels and gel creams. The brand has a market share of about 23% in the Rs170-crore pre- and post-wash hair care market in Egypt. It had a turnover of approximately Rs40 crore in the previous year and enjoys better margins than Marico.

The transaction envisages the acquisition of the intellectual property rights related to *Hair Code* as well as shares in Pyramids For Modern Industries (PMI) together with the supply chain comprising manufacturing facilities and distribution infrastructure. The purchase of the shares in PMI will entitle Marico to a tax exemption on profits for a period of ten years.

Valuation table Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	70.1	86.4	112.2	146.1
Share in issue (cr)	5.8	5.8	5.8	5.8
EPS (Rs)	12.1	14.9	19.3	25.1
% y-o-y growth	*-41.1*	*23.2*	*29.2*	*30.1*
PER (x)	45.3	36.7	28.4	21.8
Book value (Rs)	37.1	44.8	96.0	114.9
P/BV (x)	14.7	12.2	5.7	4.8
EV/Ebidta (x)	38.0	25.2	14.9	12.3
Dividend yield (%)	1.0	1.1	1.1	1.1
RoCE (%)	31.3	26.1	28.4	28.2
RoNW (%)	32.6	33.3	20.1	21.8

...to add to the *Fiancée* acquisition

In September 2006, Marico had acquired *Fiancée*, another hair care brand, from the Ready Group. With the acquisition of *Hair Code*, Marico will now have a dominant share of about 50% in the pre- and post-wash hair care segment. The latest acquisition allows Marico to cover a much wider range of consumer preferences in the hair cream and hair gel market. Apart from providing synergies in the supply chain, it also helps the company in leveraging the resources deployed in the country optimally.

Earnings accretive

According to the deal covenant, Marico won't be disclosing the acquisition price. The deal is believed to be around 10-14x the brand's post-tax earnings and in such a scenario the deal size would be around Rs70 crore. Marico has recently raised Rs226 crore through private placement to QIBs and issue of preference shares. It has utilised this amount to repay its earlier short-term debt and raised a fresh short-term loan for the current acquisition. A back-of-the-envelope calculation shows that this deal will be earnings accretive, as it will add Rs0.1 or 0.6% to Marico's FY2007E EPS and Rs0.5 or 2.2% to its FY2008E EPS.

Valuation

This is Marico's sixth acquisition in 20 months across product categories, including the big-ticket acquisition of *Nihar* from Hindustan Lever. Given its strong core business (hair oil and edible oil) coupled with its intention to play on the broader beauty and health platform (soaps and functional foods) reinforces our faith in its strong growth traction. The stock is also trading at a PER of 21.8x FY2008E and EV/EBIDTA of 12.3x FY2008E. The valuations appear attractive in view of the company's growing risk appetite and ongoing transformation. We continue to remain bullish on Marico and reiterate a Buy on the stock with a price target of Rs634.

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

Information Technology

Sector Update

A technical snag

It is a tough quarter for the domestic information technology (IT) service companies. The performance in the third quarter would be severely dented by the double impact of lower number of working days and the appreciation of the rupee. The same was highlighted in our Sector Update dated October 19, 2006.

Festive season eats into volume growth

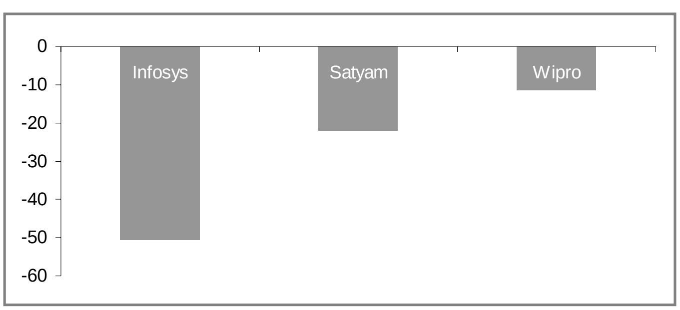
Due to the festive season, the number of working days is lower for both the offshore and the onsite work force for the quarter ended December 2006. This normally tends to shave off 250-300 basis points of growth in volume on a sequential basis.

Rupee appreciation, a bigger concern

The rupee appreciated by 2.7-2.8% as compared with the average exchange rate realisation (US dollar converted into rupee) in the previous quarter. The foreign exchange (forex) fluctuation not only affects the growth in revenues (and consequently the operating profit margins) but also has a substantial impact on the other income component (due to the mark-to-market gain/loss on the forward contracts and translation gains). Especially in case of companies like Infosys Technologies and Satyam Computer Services that follow the "fair value method" of accounting for the forward contracts or hedging done on the forex front.

However, the impact of forex fluctuation would be only marginally negative for a company like Wipro that follows the "cash flow hedging method" to account for the forex cover/contracts.

Estimated forex gain/loss in Q3 (Rs crore)



Margins, performance to vary significantly

Though Wipro is better placed than some of its peers in terms of the net impact of forex fluctuations, it is likely to witness a flat growth in its earnings due to the severe pressure on its margins from the annual salary increments (hikes for 66% of offshore staff in September and for 34% in November). On the other hand, we expect Infosys to limit the decline in the margins to 30 basis points while Satyam Computer Services is expected to show an improvement of 90 basis points in its margins largely due to the improved profitability of its subsidiaries, leverage in the sales, general and administrative cost and better employee utilisation.

Valuation

Overall, the relatively weak performance in the third quarter and the seasonal weakness in Q4 (as the ramp-up in volumes slows down with most clients getting busy finalising the annual budgets) are expected to limit the upside to the valuations over the next few months. Moreover, institutional investors tend to wait for the annual growth guidance (given in February by Cognizant and in April by Infosys) before making fresh allocations for the information technology sector. We continue to prefer Infosys as our top pick in the sector.

Valuation matrix

	EPS (Rs)		P/E	
	FY07	FY08	FY07	FY08
Infosys Technologies	68.2	90.0	31.8	24.1
Wipro	19.1	24.0	29.1	23.1
Satyam Computer	21.0	25.2	21.9	18.3

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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
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
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
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