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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aditya Birla Nuvo	06-Dec-05	714	1,137	1,280
♦ Ceat	28-Nov-06	122	128	190
♦ India Cements	28-Sep-06	220	239	315
♦ Lupin	06-Jan-06	403	555	565
♦ Thermax	14-Jun-05	124	390	425

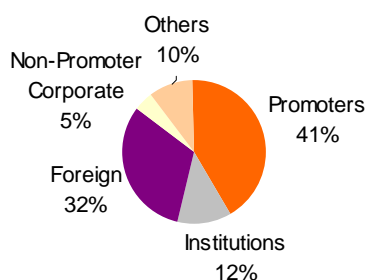
Welspun Gujarat Stahl Rohren

Emerging Star
Stock Update
Book profit
Book Profit: CMP: Rs92

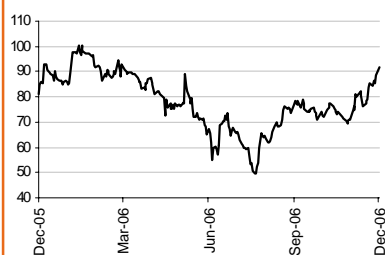
Company details

Market cap:	Rs1,221 cr
52 week high/low:	Rs104/47
NSE volume: (No of shares)	4.1 lakh
BSE code:	532144
NSE code:	WELGUJ
Sharekhan code:	WELSPUNGUJ
Free float: (No of shares)	7.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	26.6	21.4	31.2	0.7
Relative to Sensex	19.1	3.1	-5.4	-35.9

We had recommended a Buy on Welspun Gujarat Stahl Rohren on April 1, 2004 at a price of Rs31.7 per share and set a revised price target of Rs84. Since then the stock has appreciated by 190% and well surpassed our price target. We recommend investors to book profit in the same.

Recommended at (Rs)	Recommended on date	Booked at (Rs)	Appreciation (%)
31.7	April 01, 2004	92.0	190.0

Earnings table

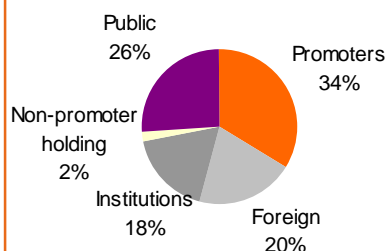
Paticulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	33.8	61.3	102.1	142.3
Shares in issue (cr)	10.7	16.9	16.9	16.9
EPS (Rs)	3.2	3.6	6.0	8.4
% y-o-y change	24.1	14.7	66.6	39.4
PE (x)	29.1	25.4	15.2	10.9
BV (Rs)	27.4	57.5	63.6	72.0
P/BV	3.4	1.6	1.4	1.3
EV/EBIDTA	16.4	10.0	7.9	5.8

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

Ranbaxy Laboratories

Apple Green
Stock Update
Be-Tabs to be earnings accretive
Buy; CMP: Rs384
Company details

Price target:	Rs558
Market cap:	Rs14,308 cr
52 week high/low:	Rs530/317
NSE volume: (No of shares)	11.7 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	-3.1	-7.2	-2.9	-1.3
Relative to Sensex	-8.8	-21.1	-30.0	-37.2

Key points

- ◆ Ranbaxy Laboratories Limited (Ranbaxy) has acquired a 100% stake in Be-Tabs Pharmaceuticals Limited (Be-Tabs) of South Africa, for a total consideration of \$70 million (500 million ZAR).
- ◆ Be-Tabs is the fifth largest generic company in South Africa. It is the largest manufacturer of penicillin formulations and markets and manufactures a portfolio of ethical and over-the-counter (OTC) solid-oral and liquid formulations in South Africa. Be-Tabs has annual sales of approximately \$30 million, with earnings before interest, tax, depreciation and amortisation (EBITDA) margin of about 13%.
- ◆ The acquisition of Be-tabs will complement Ranbaxy's existing business in South Africa. Ranbaxy currently derives \$20-25 million of revenues from South Africa. The acquisition of Be-tabs will double Ranbaxy's South African business. With a combined turnover of \$50-55 million, Ranbaxy will now enjoy a market share of 1.6% in South Africa.
- ◆ At \$70 million, the deal is valued at 2.2x sales and 7.7x EBIDTA. Even though the deal appears cheap when compared to other acquisitions, the price seems fair when viewed in light of the relatively lower EBIDTA margin and growth rate of Be-Tabs.
- ◆ Based on the back-of-the-envelope calculations, we believe that Be-Tabs would add \$2.4 million (approximately Rs11 crore) to Ranbaxy's bottom line in CY2007E. Due to Ranbaxy's large equity base, we believe that the impact on the earnings per share would be marginal.
- ◆ At the current market price of Rs384, Ranbaxy is quoting at 20.8x its CY2007E estimated earnings, on a fully diluted basis. We maintain our Buy recommendation on Ranbaxy with a price target of Rs558.

Event

Ranbaxy has acquired a 100% stake in Be-Tabs of South Africa, for a total consideration of \$70 million (500 million ZAR). The transaction, subject to the requisite approvals from South Africa's Competition Council authority, is expected to be completed in the first quarter of 2007. Be-Tabs is Ranbaxy's fourth major overseas acquisition this year.

Valuation table

Particulars	Rs (cr)			
	CY2004	CY2005	CY2006E	CY2007E
Net sales (Rs cr)	5451.2	5281.6	6028.6	6932.9
PAT (Rs cr)	698.6	261.7	650.0	831.9
Shares in issue (cr)	37.2	37.2	40.0	40.0
EPS (Rs)	18.8	7.0	16.3	20.8
PER (x)	20.4	54.6	23.6	18.4
Book value (Rs/share)	62.8	68.6	86.2	110.1
Price/BV (x)	6.1	5.6	4.5	3.5

Background

Established in 1974 in Johannesburg, South Africa, Be-Tabs is the fifth largest generic company in South Africa and one of the most profitable companies in the market. It is the largest manufacturer of penicillin formulations in South Africa and markets and manufactures a portfolio of ethical and over-the-counter (OTC) solid-oral and liquid formulations. The company actively participates in local and export tenders in the African continent. Be-Tabs has considerable strength across therapeutic segments and is very strong in areas such as pain management and vitamins.

Be-Tabs has annual sales of approximately \$30 million, with an EBITDA margin of about 13%.

Synergies with Ranbaxy

- ♦ The acquisition of Be-Tabs will strengthen Ranbaxy's presence in the rapidly growing \$2 billion South African pharmaceutical market. It places the company amongst the top 5 generic players in the market.
- ♦ The acquisition of Be-Tabs will complement Ranbaxy's existing business in South Africa. Ranbaxy currently derives \$20-25 million of revenues from South Africa. The acquisition of Be-Tabs will double Ranbaxy's South African business. With a combined turnover of \$50-55 million, Ranbaxy will now enjoy a market share of 1.6% in South Africa.
- ♦ Except amoxicillin, none of the products currently marketed by Ranbaxy and Be-Tabs overlap. This will result in considerable synergies and will enable Ranbaxy to offer a more complete product range in the South African market.
- ♦ With its strong brand equity and track record, Be-Tabs will enable Ranbaxy to market its existing products in South Africa to the customers of Be-Tabs and vice versa.

Acquisition seems reasonably priced

Ranbaxy has paid \$70 million for Be-Tabs. The deal is valued at a price/sales ratio of 2.2x, which seems cheap when compared to the high valuations paid previously for Terapia (4.2x sales). The deal seems cheap even when compared to the acquisitions made by the other companies such as Dr Reddy's Laboratories' acquisition of Germany's Beta Pharm at 2.9x sales. Even on the basis of enterprise value (EV)/EBITDA, Be-Tabs' valuation at 7.7x seems to be the lowest when compared with the other acquired companies that have valuations in the 11.5-12.5x range. However, it should be noted that Be-Tabs has significantly lower EBITDA margins and growth rates as compared to Terapia, Betapharm and Pinewood. Taking an overall perspective, we believe that the price paid by Ranbaxy for Be-Tabs is reasonable.

Acquisition to be marginally earnings accretive

We have performed a back-of-the-envelope analysis of the impact of Be-Tabs' acquisition on Ranbaxy's earnings. Below are the key assumptions we have made for our calculations.

- ♦ The revenues of Be-Tabs will grow by 12% in CY2007.
- ♦ Be-Tabs will continue to maintain EBITDA margins of around 13% in CY2007E.
- ♦ We have assumed a depreciation/sales ratio of 2.8% for Be-Tabs (as per industry approximation).
- ♦ We have assumed a corporate tax rate of 29% for Be-Tabs (as per South African norms).
- ♦ We have assumed a fully diluted equity for CY2007E.

Based on the above assumptions, we expect Be-Tabs to add \$2.4 million (approximately Rs11 crore) to Ranbaxy's bottom line. However, due to Ranbaxy's large equity base, the incremental earnings per share will be marginal.

Comparative M&A deals

	Ranbaxy-Terapia	Dr Reddy's - Betapharm	Wockhardt-Pinewood	Ranbaxy-BeTabs
Date of acquisition	Mar-06	Feb-06	Oct-06	Dec-06
Cost	324	570	150	70
Sales (\$ million)	77.4	195	70	30
EBITDA (\$ million)	27.9	47.5	15.4	3.9
EBITDA margins	36.0%	24.4%	22.0%	13.0%
Price/sales	4.2	2.9	2.1	2.3
EV/EBITDA	11.6	12.0	9.7	7.7
Geographical market	Romania	Germany	Ireland, UK	South Africa
Expected company growth	20%	13%	15%	12%

Source: Sharekhan Research

Incremental earnings from Be-Tabs acquisition (\$ million)

Particulars	CY2006	CY2007E
Revenues	30	33.6
Sales growth (%)		12.0
EBITDA	3.9	4.4
EBITDA margin (%)	13.0	13.0
Interest	0.0	0.0
Depreciation @ 2.8% of sales	0.8	0.9
PBT	3.1	3.4
Tax @ 29%	0.9	1.0
PAT (assuming 12% margin)	2.2	2.4
PAT margin (%)	7.2	7.2
No of shares (million)		399.6
Incremental EPS (\$)		0.01
Incremental EPS (Rs)		0.03

Valuation & view

Ranbaxy's year-till-date performance has been below expectations primarily due to a slower-than-expected pick-up in its revenues. Given the strong challenges for organic growth due to an absence of definite growth triggers, the company has been aggressively trying to grow inorganically. Ranbaxy has already announced four acquisitions in the current year in order to meet its growth targets. Given the company's comprehensive business model that includes aggressive new launches, in-licencing, strategic partnering, widening geographical presence etc, we maintain our confidence in Ranbaxy.

At the current market price of Rs384, Ranbaxy is quoting at 20.8x its CY2007E estimated earnings, on a fully diluted basis. Our current sales and earnings estimates do not reflect the impact of the Be-Tabs acquisition. We are revising our estimates and will update them shortly. Meanwhile, we reiterate our Buy recommendation on Ranbaxy with a price target of Rs558.

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

Automobiles

Sector Update

The party continues!

Tata Motors

- ♦ Tata Motors has reported better-than-expected sales for November 2006. Its vehicle sales for the month have grown by 43.1% to 49,061 units.
- ♦ The sales of commercial vehicles in the domestic market stood at 25,796 units, up 45.8%. The sales of medium and heavy commercial vehicles stood at 14,453 units, a growth of 31.7% over last November. The sales of light commercial vehicles grew by 68.7% to 11,340 units compared with that in last November.
- ♦ The passenger vehicle division reported sales of 19,475 vehicles in the domestic market in November 2006, an increase of 48.4% over last November. It sold 13,047 units of *Indica*, the highest ever in a month since the launch of the model. That's a growth of 58.1% over November 2005. The surge in *Indica*'s sales can be attributed to the introductory offer of a Rs25,000 discount on the new *Indica V2 Xeta* range. The *Indigo* family registered sales of 2,857 units, an increase of 17.4% over November 2005. The *Sumo* and *Safari* together accounted for sales of 3,571 units, a growth of 46.4% over November 2005. *Safari* sales at 1,143 units grew by nearly three times over those in November 2005.
- ♦ The company exported 3,793 vehicles in November 2006 as compared with 3,462 vehicles in November 2005, an increase of 9.6%. The cumulative exports grew by 12.5% in the month to 34,865 units compared with that in the corresponding month last year.
- ♦ The cumulative sales for the current fiscal (the April-November period) stood at 358,387 units, up 32.6% compared with that in the corresponding period of the last fiscal. The cumulative domestic passenger vehicle sales were up 22.7% to 140,495 units, whereas the sales of domestic commercial vehicles grew by 46.7% to 183,027 units in the same period.

Sales numbers

	Nov-06	Nov-05	% yoy	Oct-06	% mom	YTD-07	YTD-06	% yoy
M&HCV	14,453	10,973	31.7	13,184	9.6	104,539	74,544	40.2
LCV	11,340	6,721	68.7	10,170	11.5	78,488	50,201	56.3
Commercial vehicles	25,793	17,694	45.8	23,354	10.4	183,027	124,745	46.7
UV	3,571	2,439	46.4	4,006	-10.9	27,500	21,613	27.2
Cars	15,904	10,687	48.8	12,720	25.0	112,995	92,862	21.7
Domestic sales	45,268	30,820	46.9	40,080	12.9	323,522	239,220	35.2
Exports	3,793	3,462	9.6	3,690	2.8	34,865	30,986	12.5
Total sales	49,061	34,282	43.1	43,770	12.1	358,387	270,206	32.6

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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 Industries
Maruti Udyog
Lupin
Nicholas Piramal India
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SKF India
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Tata Tea
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Emerging Star

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Thermax
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BASF India
Ceat
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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
Orient Paper and Industries
WS Industries India

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