Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bajaj Auto	15-Nov-05	1,873	**2,234**	3,500
BHEL	11-Nov-05	1,203	**1,609**	2,650
Infosys	30-Dec-03	1,378	**2,641**	3,324
Ranbaxy	23-Dec-03	534	**356**	600
TV18	23-May-05	280	**390**	704

Sharekhan Ltd
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Sharekhan Special

Make money, come bull or bear

Time and again Sharekhan has apprised you of the benefits of investing in high dividend-yield stocks (refer to the annexure). In a falling market like this (the BSE Sensex, the bellwether index, has corrected by more than 25% from its all-time high of 12,671) it becomes all the more beneficial to invest in such stocks as the downside to their price is limited by the dividend yield.

We would again like to draw your attention to such stocks.

The stocks listed below have their book closure falling after June 13, 2006. We have screened all the companies listed on the Bombay Stock Exchange (including those that are not under our coverage) and selected only those that provide a dividend yield of approximately 5% or more, based on the dividends declared by them in the last financial year. To ensure that their dividend yield is sustainable, we have also discounted any special dividends and one-time dividends declared by them. This has been done as a check to see that the dividend is sustained.

Company	CMP (Rs)	Dividend per share (Rs)	Dividend yield (%)	Book closure starts from
Bank of Maharashtra	19.2	1.4	7.3	19-Jun-06
XPRO India	28.4	2.0	7.0	16-Jul-06
Valson Industries*	35.8	2.5	7.0	
Indian CardCloth*	186.0	12.5	6.7	
Samkrg Pistons*	75.5	5.0	6.6	
Infomedia India*	121.0	8.0	6.6	
Salora International	69.8	4.5	6.5	4-Jul-06
N G Industries*	39.4	2.5	6.3	
Chambal Fertilisers & Chemicals	29.0	1.8	6.2	19-Jul-06
Ultramarin Pigment	37.5	2.2	5.9	27-Jun-06
Banco Products*	130.5	7.5	5.7	
Sirpur Paper	63.0	3.5	5.6	21-Jul-06
Mercator Lines*	33.6	1.8	5.4	
Tamilnadu Newsprint & Papers	88.0	4.3	4.8	18-Aug-06
Tata Sponge Iron	94.5	4.0	4.2	11-Jul-06

* The estimates for these companies are based on their FY2005 numbers. The book closure date has not been announced yet for these stocks.

Annexure

Sharekhan special reports on dividend yield stocks

Report title	Dated
Have your cake and eat it too	July 20, 2004
Feeling of déjà vu	February 8, 2005
Spring season returns	June 3, 2005
Dividend yield stocks	August 26, 2005

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

Sharekhan Special

The vulnerables

The Indian bourses have seen a meltdown of sorts, as foreign institutional investors (FIIs) have been net sellers of the Indian equities for a major portion of the current financial year. The bellwether BSE Sensex has corrected by over 25% from its top of 12,671 as FIIs have sold Indian equities worth over $1.2 billion since the beginning of this financial year. While the FII inflows were positive ($222 million) in April 2006, they sold Indian equities worth $1.8 billion in May 2006. June 2006 has seen net buying of $369 million till date by FIIs.

Although we are a firm believer of the great Indian growth story (much about which has already been said and written by us as well as by others) and we believe that the good times for India have just started, we would also like to be a little cautious in such volatile times. We have screened a few stocks (in the BSE 500 Index), which have not corrected as much as the BSE Sensex over the last one month and in which FIIs have substantially hiked their stake over the last six months. The growth story in many of these stocks must be kicking and alive, but they may fall prey to the selling by FIIs, in case the next round comes!!

Company	Price as on		% change	FII holding
	June 12, 2006	May 10, 2006		(%)
Asian Paints	573.0	662.6	-13.5	22.2
Strides Arcolab	281.2	325.8	-13.7	66.5
Ruchi Soya Industries	290.2	338.8	-14.3	49.7
Kpit Cummins Infosystems	372.4	442.8	-15.9	37.4
MPhasis BFL	166.7	200.2	-16.7	32.7
GAIL (India)	239.3	287.5	-16.8	23.6
Amtek Auto	293.0	352.8	-16.9	43.0
IPCL	241.8	294.3	-17.8	14.4
Moser Baer (I)	186.7	227.5	-17.9	77.6
NIIT	313.5	384.3	-18.4	30.4
Aztec Software	160.3	196.7	-18.5	23.3
Patni Computer	313.2	385.0	-18.6	51.5
CCL Products	398.5	492.2	-19.0	43.7
Centurion Bank of Punjab	21.9	27.2	-19.3	70.3
Hexaware	119.9	150.0	-20.0	47.1
KEI Industries	326.9	409.2	-20.1	24.6
M&M	557.1	702.4	-20.7	41.9
Geodesic Information Systems	157.3	200.2	-21.4	55.0
HCL Infosystems	130.1	166.0	-21.6	26.8
United Phosphorus	239.1	306.0	-21.9	40.7
Man Industries	172.2	221.5	-22.3	30.2
Gateway Distripark	194.7	252.3	-22.8	38.3
IDFC	54.3	72.0	-24.5	44.7
Sensex	**9476.2**	**12612.4**	**-25.0**	

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

Simplex Infrastructures

Viewpoint

Not as simple as it appears

CMP: Rs1,492

Simplex Infrastructures Ltd (SIL) was incorporated in Kolkata in 1924 by a British engineer who had pioneered the cost-effective and efficient practice of piling in India. The current promoters, the Mundra family, took over the company in 1947 and have been running it for the past sixty years. We attended the analyst meet of SIL and present below the key takeaways from the meet.

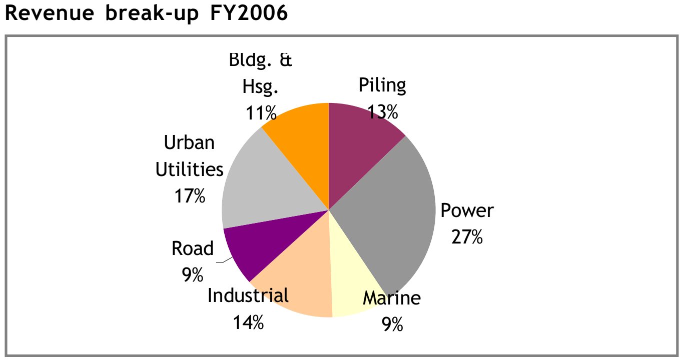
Key takeaways

- SIL operates in broadly seven segments, namely (1) marine construction, (2) power plants, (3) piling and ground engineering, (4) industrial construction, (5) roads, (6) urban utilities, and (7) building & housing. The revenues are evenly spread across all segments with the power segment being the major contributor (28%) followed by the urban development (17%) and industrial construction (14%).
- For FY2006, the company's top line grew by 34.6% year on year (yoy) to Rs1,344.6 crore driven by a strong performance across business verticals. The operating profit grew by 43.8% to Rs118.1 crore on the back of a 70-basis-point margin expansion to 8.8% for FY2006. The profit after tax (PAT) grew by 65% yoy to Rs41.6 crore; the growth could have been higher but for losses in its international operations, higher tax outgo, depreciation and interest expenses.
- The company's order backlog stands at Rs4,253 crore, which is 3.2x its FY2006 revenues and provides a strong visibility to its earnings for the coming years. The order backlog has grown at a strong compounded annual growth rate (CAGR) of 67.8% in the FY2003-06 period from Rs900 crore to Rs4,253 crore.
- SIL is entering new verticals to maintain the growth momentum. It plans to take up the construction of hydroelectric plants within the power vertical. Plans are also afoot to expand the industry vertical by taking projects in the oil & gas and mining sectors.
- The company is aiming to double its international business over the next two years. In this regard it has made some headway in countries like Bahrain, Qatar and Dubai. In FY2007 the revenue of the international business is expected to grow to 20% as a percentage of sales compared with 8.6% in FY2006 and 4.3% in FY2005. Currently the international business is running at losses but the same is expected to turn profitable in FY2007.
- SIL has a positive outlook on its business given the rising spends on infrastructure in India and the Middle-East. It expects the business environment to be supportive and encouraging for the next five years, translating into regular orders for the company. SIL expects to maintain its revenue growth momentum and grow its revenue at 35-40% in the FY2006-08 period. On the earnings before interest, depreciation, tax and amortisation (EBIDTA) margin front, there exists some room for expansion driven by an improved revenue mix and better realisations.
- Based on back-of-envelope calculations, SIL is expected to double its profit after tax (PAT) in the FY2006-08 period from Rs41.6 crore in FY2006 to Rs93.1 crore in FY2008E. The stock trades at 13.8x FY2008E earnings, and its valuation are expensive as compared to Larsen & Toubro, a Rs25,000 crore market cap company, which trades at just 15.8x FY2008E consolidated earnings. Even, its peer group companies (of similar size) like Nagarjuna Construction (7.8x), Hindustan Construction Company (12.5x) and IVRCL (8.2x) are available at cheaper valuation compared with SIL with similar earnings growth.

Strong performance in FY2006

For FY2006, the top line grew by 34.6% yoy to Rs1,344.6 crore aided mainly by a strong performance across the business verticals. The operating profit grew by 43.8% to Rs118.1 crore owing to cost management and better realisation in the verticals. The raw material cost as a percentage of the net sales was at 48.2% compared with 52.4% in FY2004 whereas the other expenses as a percentage of the net sales was at 11.1% compared with 11.8% in FY2004. The PAT grew by 65% yoy to Rs41.6 crore; the growth could have been higher but for losses in its international business, higher tax outgo, depreciation and interest expenses.

Revenue break-up FY2006



Source: Sharekhan Research

Cost structure for SIL

% to Net Sales	FY2006	FY2005	Change in basis points
Employee expenses	31.9	27.5	440.0
Other expenses	11.1	11.8	-70.0
Raw materials	48.2	52.4	-420.0
Operating costs	91.2	91.8	-60.0
Operating profit margins	8.8	8.2	60.0

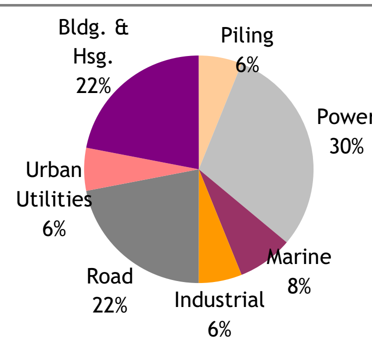
Source:- Company, Sharekhan

Growing order book—Rs4,253 crore, equivalent to 3.2x FY2006 revenues

SIL's order book stood at Rs4,253 crore as on March 31, 2006. It has grown at a CAGR of 67.8% in the FY2003-06 period. The revenues for the same period have grown at a CAGR of 34.9%. The order book/revenue ratio has shot up from 1.6x in FY2003 to 3.2x in FY2006. This imparts higher visibility to the earnings in FY2007 and FY2008.

The major orders in the company's pocket are (1) the EPC project of Nagarjuna Thermal Power Plant (Rs980 crore); (2) the Vedanta Aluminium Project (Rs300 crore); (3) a marine project from Gateway Terminal at Jawaharlal Nehru Port Trust (Rs108 crore); and (4) a Rs208-crore project from Jindal Power. The L1 orders as on date stand at Rs550 crore; the company is optimistic about converting them into confirmed orders going ahead.

Order book - Rs4253 crore



Source: Sharekhan Research

Order book Rs (cr)

Particulars	FY03	FY04	FY05	FY06	CAGR (%)
Order book	900.0	1500.0	3500.0	4253.0	67.8
Revenues	548.1	641.4	999.0	1344.6	34.9
Order book/Revenues (x)	1.6	2.3	3.5	3.2	

Source:- Company, Sharekhan

International business—to boost growth

The international business of the company has climbed to a new growth trajectory. In FY2006, the business increased by 165.8% yoy to Rs115.2 crore. As a percentage of sales, the revenue of the business shot up to 8.6% in FY2006 compared with only 4.3% in FY2005. Earlier SIL used to operate mainly in Bahrain, but this year it has entered Qatar and made some headway in Dubai as well. In spite of a good revenue growth the international division reported a loss as a result of higher-than-expected material costs and one-time establishment costs in Qatar. This is an aberration and the international business is expected to turn around in the coming quarters. The company plans to leverage its rich experience, technology and project execution skills to make a formidable impact on the international scene. In FY2007 the revenue of the international business is expected to grow to 20% as a percentage of sales compared with 8.6% in FY2006 and 4.3% in FY2005.

New verticals—another growth driver

SIL is entering new verticals to maintain its growth momentum. The company wants to leverage its experience and engineering skills to enter new verticals and is planning to undertake the construction of hydroelectric plants within the power vertical. It also plans to expand its industry vertical by taking projects in the oil & gas and mining sectors. Further, the company is toying with the idea of joint-development and co-development of housing projects where the margins are higher (ie a shift from contractor to developer).

A positive outlook on business

A favourable business environment

To achieve the targeted growth of 8% in the country's gross domestic product, the country needs to improve its infrastructure significantly. Around Rs560,900 crore of investment is needed in the sector over the next five years; of this Rs517,000 crore worth of investments are required in the segments that SIL operates in. Investments of such order would no doubt result in regular order flows for construction companies.

Rs crore	Investments
Power	160,300
Roads	246,600
NMDP*	20,100
Railways	31,500
Airports	9,600
SEZ	5,200
Urban Infra	37,800
Total	**560,900**

*National Maritime Development Program

Source:- Sharekhan estimates

Revenue to grow at 35-40% over FY2006-08

The management expects the top line to grow at a CAGR of 35-40% over FY2006-08. The growth will be aided by the company's foray into new verticals and the consolidation of its position in the existing verticals. Within the existing verticals, the power, building & housing and roads verticals will drive the revenue growth. These segments have a strong order book which gives a high visibility to their revenues. Further, the international business will also aid growth and the management expects exports, as a percentage of sales, to grow to 20% in FY2007 and to 25% in FY2008 from 8.6% currently.

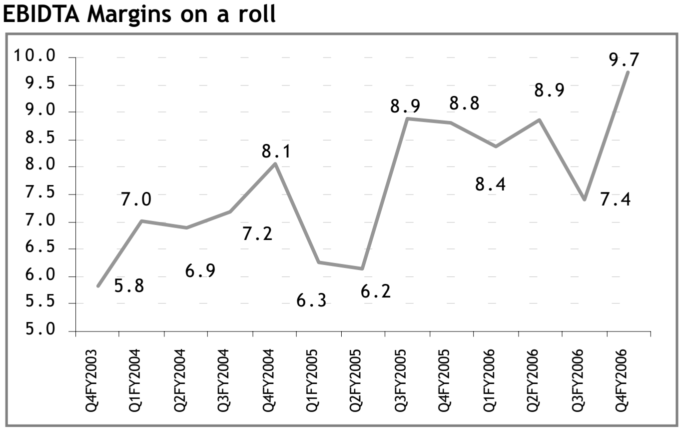
Segments figures in %	Figures in % of sales FY03	FY04	FY05	FY06	Order book (31/3/06)
Piling	13	13	14	13	6
Power	15	11	10	28	30
Marine	1	9	6	9	8
Industrial	16	14	22	14	6
Road	20	26	20	9	22
Urban utilities	21	14	17	17	6
Bldg & Hsg	14	13	11	11	22
Total	100	100	100	100	100
Sales in Rs (crore)	548	641	999	1345	4253
% y-o-y growth	34	17	56	35	

Source: Sharekhan Research

Improving EBIDTA margin

SIL's EBIDTA margin has improved significantly in the recent past. From a mere 5.8% in Q4FY2005 the same has expanded to 9.7 % in Q4FY2006. Better cost management and its entry into high-margin business verticals led to the expansion in the EBIDTA margin. The company expects to continue to improve the margin at this rate. Triggers like the turn-around of the international business and a higher revenue contribution from the high-margin new verticals (especially the housing construction) in the coming years are firmly in place.

EBIDTA Margins on a roll



Source: Company, Sharekhan

PAT to double in FY2006-08 period

Our back-of-envelope calculations suggest that SIL's PAT would double in the FY2006-08 period from Rs41.6 crore in FY2006 to Rs93.1 crore in FY2008E. Accordingly, its earnings will grow to Rs108.1 in FY2008E.

Earnings table (Rs crore)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Revenues	999.0	1344.6	1855.5	2635.4
% y-o-y chg		*34.6*	*38.0*	*42.0*
EBIDTA	86.4	121.4	181.8	271.4
% y-o-y chg		*40.5*	*49.8*	*49.3*
EBIDTA(%)	8.6	9.0	9.8	10.3
PAT	25.2	41.6	62.4	93.1
% y-o-y chg		*65.4*	*49.8*	*49.3*
EPS (Rs)	29.2	48.4	72.4	108.1

Source: Sharekhan Research

Valuations

SIL trades at 13.8x FY2008E earnings, and its valuation are expensive as compared to Larsen & Toubro, a Rs25,000 crore market cap company, which trades at just 15.8x FY2008E consolidated earnings. Even, its peer group companies (similar size) like Nagarjuna Construction (7.8x), Hindustan Construction Company (12.5x) and IVRCL (8.2x) are available at cheaper valuation compared with SIL with similar earnings growth.

Peer comparision

	Price (Rs)	EPS 2006	2007	2008	PE 2006	2007	2008	EPS CAGR (%)
NCC	234.5	12.4	20.4	30.0	18.9	11.5	7.8	56.0
HCC	99.85	3.5	5.1	8.0	28.5	19.6	12.5	51.0
IVRCL	188.9	10.4	16.5	23.0	18.2	11.4	8.2	49.0
L&T	1843.0	74.6	93.2	116.6	24.7	19.8	15.8	25.0
Mahucon	227.7	8.0	14.9	26.0	28.5	15.3	8.8	80.0
SIL	1491.9	48.4	72.4	108.1	30.8	20.6	13.8	49.0

Based on consenses earnings

Source: Sharekhan Research

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
Associated Cement Companies
Bajaj Auto
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Bharat Bijlee
Bharat Heavy Electricals
Corporation Bank
Crompton Greaves
Godrej Consumer Products
Elder Pharmaceuticals
Grasim Industries
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Hyderabad Industries
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Indian Hotel Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
MRO-TEK
Lupin
Nicholas Piramal India
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Sintex Industries
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Emerging Star

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Alok Industries
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TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren
Welspun India

Ugly Duckling

Ashok Leyland
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
Jaiprakash Associates
JM Financial
KEI Industries
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NIIT Technologies
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