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## Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Deepak Fertilisers	17-Mar-05	50	83	126
♦ HLL	24-Nov-05	172	199	280
♦ ICICI Bank	23-Dec-03	284	804	1,240
♦ IndoTech Trans	28-Nov-06	199	270	335
♦ Infosys	30-Dec-03	689	1,964	2,670

# Ranbaxy Laboratories

Apple Green

## Stock Update

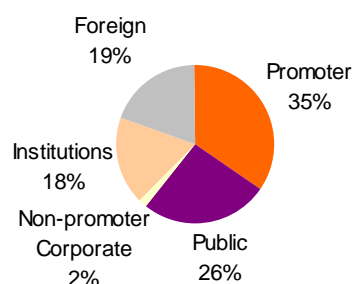
GSK alliance strengthens discovery R&D focus

Buy; CMP: Rs344

### Company details

Price target:	Rs558
Market cap:	Rs12,820 cr
52 week high/low:	Rs530/305
NSE volume: (No of shares)	5.7 lakh
BSE code:	500359
NSE code:	RANBAXY
Sharekhan code:	RANBAXY
Free float: (No of shares)	14.8 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	-14.3	-21.9	-19.1
Relative to Sensex	1.4	-4.4	-22.3	-27.9

The new drug discovery research team of Ranbaxy Laboratories Limited (Ranbaxy) has achieved a significant milestone in its collaboration with GlaxoSmithKline (GSK). The steering committee, consisting of senior members from GSK's Center of Excellence for External Drug Discovery and Ranbaxy, has approved the candidate selection of a compound for respiratory inflammation.

### Background

Ranbaxy had entered into an alliance with GlaxoSmithKline in 2003 to discover and develop novel therapies in Ranbaxy's four focus therapeutic areas. As per the initial agreement, Ranbaxy would conduct the optimisation chemistry required to progress drug leads to the stage of candidate selection. In February 2003, Ranbaxy extended its alliance with GSK, wherein Ranbaxy would also advance leads beyond candidate selection to the completion of clinical proof of concept. GSK thereafter would be conducting further clinical development for each programme and take the resulting products through the regulatory approval process to final commercialisation.

### Implication for Ranbaxy

With GSK and Ranbaxy having selected a compound for respiratory inflammation, Ranbaxy will now further profile this drug through the pre-clinical studies needed to support an investigational new drug (IND) application. Ranbaxy would also conduct the Phase-I and Phase-II clinical studies through proof of concept studies, after which GSK will have the option to conduct further development through to the final commercialisation. As part of the deal, Ranbaxy would receive milestone payments of up to \$100 million upon completion of various stages of development. Upon successful commercialisation, Ranbaxy would also receive double-digit royalties on worldwide sales of the commercial product.

### Valuation and view

Ranbaxy is among the pioneers in discovery research and development (R&D) with early successes like out-licencing of Cipro OD to Bayer and the BPH molecule to Schwarz. However, there has been a distinct withdrawal of focus on discovery R&D in the past two years. Ranbaxy's current discovery pipeline consists of 2 new chemical entities (NCEs) in clinical stages and another 6-7 molecules in the pre-clinical stages of development.

The above development is a positive step undertaken by the company towards strengthening and increasing its focus towards discovery R&D. Going forward, we expect to hear more such positive news flows about the progress of the company's discovery R&D efforts.

At the current market price of Rs344, the stock is trading at 16.5x its estimated CY2007E earnings. In view of the growth potential of the company on account of its broad and aggressive business model comprising generics, marketing & supply alliances, in-licencing deals and strong inorganic initiatives, we maintain our Buy recommendation on the stock with a price target of Rs558.

Valuation table	CY2004	CY2005	CY2006	CY2007E
Net sales (Rs cr)	5451.2	5281.6	6021.6	6932.9
% y-o-y change		-3.1	14.0	15.1
PAT (Rs cr)	698.6	261.7	515.1	831.9
Shares in issue (cr)	37.2	37.2	37.3	40.0
EPS (Rs)	18.8	7.0	13.8	20.8
PER (x)	18.3	49.0	24.9	16.5

# Indian Hotels Company

Apple Green

Stock Update

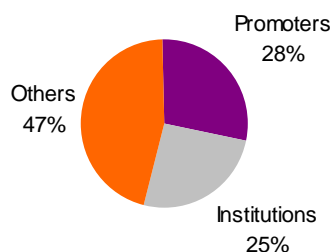
Another acquisition

Buy; CMP: Rs139

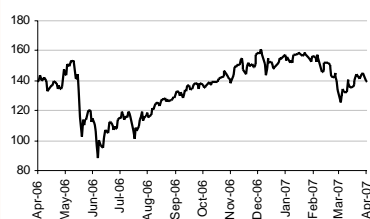
## Company details

Price target:	Rs175
Market cap:	Rs8,154 cr
52 week high/low:	Rs158/121
NSE volume: (No of shares)	3.8 lakh
BSE code:	500850
NSE code:	INDHOTEL
Sharekhan code:	INDNHOT
Free float: (No of shares)	42.1 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	4.8	-10.9	1.2	4.4
Relative to Sensex	8.2	-0.5	0.7	-7.0

## Key points

- Indian Hotels Company Ltd has acquired Hotel Campton Place, San Francisco through its 100% US subsidiary company. The acquisition would be made at a cost of US\$60 million (including estimated transaction costs).
- Indian Hotels will acquire Hotel Campton Place in partnership with financial investors. The sale purchase agreement was signed on April 02, 2007 and the transaction closure is scheduled for April 30, 2007. The structure of the deal is yet to be disclosed.
- At the current market price of Rs139 Indian Hotels is quoting at a price/earnings ratio (PER) of 22.5x FY2007E consolidated earnings per share (EPS) of Rs6.2. We maintain our Buy recommendation on the stock with a price target of Rs175.

## About Campton Place

Hotel Campton Place is a 110-room (including nine spacious suites) luxury boutique hotel situated in Union Square in the heart of San Francisco, on the west coast of the USA and is within walking distance from one of the country's prime retail areas and San Francisco's financial district. The average room rate (ARR) ranges from \$300-\$450 with suites ranging between \$675 and \$2000.

Hotel Campton Place has been named as one of "The World's Best Places to Stay" by Condé Nast Traveler's 2007 Gold List, one of "The Top 20 US City Hotels" for 2006 by Andrew Harper's Hideaway Report and one of "The World's Best 500 Hotels" for 2007 by Travel + Leisure.

	Hotel Leela	Taj Gvk	IHCL Standalone	Campton Place	Ritz Carlton, Boston
EV	2835.00	1252.00	6761.00	264.00	748.00
Rooms	1058.00	678.00	3041.00	110.00	273.00
EV/room	2.68	1.85	2.22	2.40	2.74
Ebitda	190.00	110.00		10.60	25.25
EV/Ebitda	14.92	11.38	15.20	24.91	29.62

\*ARR for Campton and Ritz assumed at \$400

## Valuation table

Particulars	FY2005	FY2006	FY2007E	FY2008E
<b>Stand-alone</b>				
Net profit (Rs cr)	83.1	181.2	267.1	297.4
Share in issue (cr)	50.2	58.4	58.7	58.7
EPS (Rs)	1.7	3.1	4.6	5.1
PER (x)	84.1	44.8	30.5	27.4
P/BV (x)	6.2	4.7	4.2	3.8
EV/Ebitda (x)	32.4	22.3	16.0	14.0
RoCE (%)	7.5	14.0	18.4	18.8
RoNW (%)	7.3	10.6	13.9	13.9
<b>Consolidated</b>				
Net profit (Rs cr)	126.0	246.7	363.1	424.5
EPS (Rs)	2.5	4.2	6.2	7.2
PER (x)	55.4	32.9	22.5	19.2

Assuming \$60 million to be the enterprise value (EV) per room works out to be Rs2.4 crore which seems to be comparable to Indian Hotels' last acquisition of Ritz Carlton.

### Strategy

Indian Hotels is expanding its presence in the international markets by growing aggressively through the acquisition route. Its strategy to establish the "Taj" brand in key gateway international locations in the USA, Europe, Australia, South Africa and Dubai and to position itself as a luxury brand in the global markets, similar to the domestic market would help the company in the long run. Following are the recent acquisitions, which the company has done to increase its global footprints.

#### November 2006

The company purchased the Ritz-Carlton, a Boston hotel from its owners, Millennium Partners. It was a \$170 million transaction and the hotel has 273 rooms.

#### December 2005

Indian Hotels entered into an agreement to purchase the "W" Hotel located at Sydney, for Australian \$36 million. The hotel was owned by the Harilela group of Hong Kong and managed by Starwood Pacific Hotels Pty Ltd under its "W" brand.

#### June 2005

The company secured a lease in respect of the Pierre Hotel, New York (NY). A management contract for the operations and management of the Pierre Hotel, New York, was signed and the operations of the Hotel were taken over with effect from July 2005.

### Valuation

At the current market price of Rs139 Indian Hotels is quoting at a PER of 22.0x FY2007E consolidated EPS of Rs6.2. We maintain our Buy recommendation on the stock with a price target of Rs175.

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

# Bharat Heavy Electricals

**Apple Green**

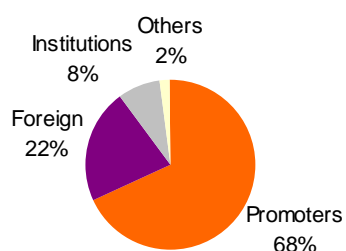
## Stock Update

**Targeting \$10 billion turnover**
**Buy; CMP: Rs2,254**

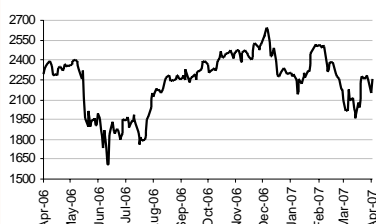
### Company details

Price target:	Rs2,650
Market cap:	Rs55,169 cr
52 week high/low:	Rs2,668/1,531
NSE volume: (No of shares)	5.0 lakh
BSE code:	500103
NSE code:	BHEL
Sharekhan code:	BHEL
Free float: (No of shares)	7.8 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	2.6	-5.8	-9.5	-3.6
Relative to Sensex	5.9	5.2	-9.9	-14.1

### Result highlights

- At Rs2,385 crore the FY2007 net profit of Bharat Heavy Electricals Ltd (BHEL) grew by 42% and the same is in line with our estimates. The turnover for FY2007 grew by 29% to Rs18,702 crore.
- Order inflows during the year grew by a whopping 88% to Rs35,633 crore. In the power business, BHEL secured orders worth Rs27,722 crore and in the industry sector, it secured the highest order ever worth Rs6,008 crore during the year. The order backlog at the end of March 31, 2007 stood at Rs55,000 crore, which is around 3x its FY2007 sales.
- In the international business, BHEL secured export orders of Rs1,903 crore during the year in comparison with an average yearly order book of Rs1,275 crore in the last five years.

BHEL has been battered over the past couple of months on fears of overseas competition and its inability to get the orders for super-critical equipment (in the range of 660-800 megawatt) required for mega power projects. However, we believe these concerns are unwarranted given the facts that the Indian power market is growing at a rapid pace and 84% of the capacity addition of thermal projects during the 11th Five-Year Plan (FY2008-2012) would be of sub-critical thermal units, where BHEL is an undisputed market leader. Hence we believe the company should be able to retain a high market share given its excellent track record and the superior quality of its equipment. The current order backlog of Rs55,000 crore (3x sales) and robust order pipeline provide high earnings visibility. At the current levels, the stock is trading at 18.0x its FY2008E earnings and 10.7x its FY2008E earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on the stock with a price target of Rs2,650.

### Earnings table

Year ended March 31	FY04	FY05	FY06E	FY07E	FY08E
Net profit (Rs cr)	658.1	955.0	1679.3	2385.0	3066.0
% y-o-y growth	6.2	22.6	74.0	43.9	26.9
Shares in issue (cr)	24.5	24.5	24.5	24.5	24.5
EPS (Rs)	26.9	39.0	68.6	97.4	125.3
% y-o-y growth	6.2	22.6	74.0	43.9	26.9
PER (x)	83.8	57.8	32.9	23.1	18.0
Book value (Rs)	216.4	246.2	298.3	376.3	475.3
P/BV (Rs)	10.4	9.2	7.6	6.0	4.7
EV/EBIDTA (x)	58.8	36.7	20.8	14.7	10.7
Dividend yield (%)	0.3	0.4	0.6	0.9	1.2
RoCE (%)	19.2	26.8	36.4	42.3	44.3
RoNW (%)	12.4	15.8	23.0	26.2	26.4

**Result highlights**

Particulars	FY2007	FY2006	% change
Turnover	18702	14525	29
Profit before tax	3675	2564	43
Net profit	2385	1679	42
Orders inflow	35633	18938	88
Order backlog	55000	37600	46

**Plan to increase turnover to \$10 billion in FY2011-12**

The company has drawn up a strategic plan to achieve a turnover of \$10 billion in FY2011-12 from the current turnover of around \$4 billion by way of focusing on capacity and capability enhancement. The company would also be looking at the merger & acquisition route.

**BHEL to foray into newer segments**

In our previous update we had mentioned that BHEL is planning to produce defence equipment, including weapons. The company is also looking at re-entering the oil rig manufacturing business and has already secured orders worth Rs300 crore from Oil and Natural Gas Corporation for upgradation and refurbishment of land drilling rigs. Oil rigs would be manufactured at its Hyderabad plant that has a capacity to build six to seven rigs in a year.

**Order backlog soars to Rs55,000 crore**

BHEL's order backlog maintained its momentum and grew by a very impressive 46% year on year to Rs55,000 crore on the back of strong order inflows. Order inflows grew by a whopping 88% to Rs35,633 crore.

**84% of thermal capacity addition in 11th Plan would be of sub-critical units**

The Eleventh Five-Year Plan envisages the building of 50,124 megawatt of thermal capacity out of which only 16% would be in super-critical (660/800-megawatt range) thermal category. The balance would be in sub-critical thermal category. We believe this paves the way for a strong order pipeline for BHEL in the coming years, at least till FY2009-2010, as BHEL is a market leader in the sub-critical thermal units. By FY2009-2010, we believe BHEL would be in a better position to address overseas competition as its volume would have doubled--BHEL is expanding its

production capacity from 6 gigawatt to 10 gigawatt and plans to raise the same further to 15 gigawatt. The expansion would result in economies of scale, greater bargaining power with suppliers and better delivery schedules.

**Thermal projects: super and sub-critical class break-up**

	11th Plan	
	No of units	MW
800MW	1	800
660MW	11	7260
500MW	53	26500
210/250/300MW	49	14689
110/125MW	7	875
Total thermal	121	50124

Source: Report of the Working Group on Power for 11th plan

**Capacity addition plan during 11th Plan (FY2007-12)**

Sector	Hydro	Thermal	Nuclear	Total
Central	9685	23810	3160	36655
State	2637	20352	0	22989
Private	3263	5962	0	9225
All-India	15585	50124	3160	68869

Source: Report of the Working Group on Power for 11th plan

**Valuation and view**

BHEL's FY2007 results are in line with our expectations. Going forward, huge orders from power generation companies like National Thermal Power Corporation and Reliance Energy would drive the company's order books and earnings. At the current levels, the stock is trading at 18x its FY2008E earnings and 10.7x its FY2008E EBITDA. Given the expectations of continued growth in its order book and strong growth in its earnings, we believe the valuations are attractive. Even on a comparative basis, the stock is trading at a significant discount to its peers like Siemens, ABB and Areva. We maintain our Buy recommendation on the stock with a price target of Rs2,650.

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

## 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  
Tata Elxsi  
Television Eighteen India  
Thermax  
UTI Bank

## Ugly Duckling

Ahmednagar Forgings  
Ashok Leyland  
BASF India  
Ceat  
Deepak Fertilisers & Petrochemicals Corporation  
Fem Care Pharma  
Genus Overseas Electronics  
HCL Technologies  
Hexaware 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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