investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bharat Bijlee	29-Nov-04	192	**1,448**	1,730
BEL	25-Sep-06	1,108	**1,507**	1,525
Ceat	28-Nov-06	122	**155**	190
F-M Goetze	18-Jan-07	385	**370**	559
NDTV	10-Feb-05	181	**325**	348

ACC

Apple Green

Stock Update

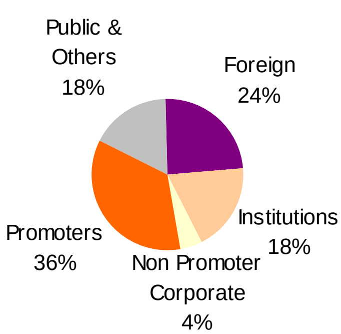
Stupendous quarterly performance

Buy; CMP: Rs1,100

Company details

Price target:	Rs1,250
Market cap:	Rs19,671 cr
52 week high/low:	Rs1,192/572
NSE volume: (No of shares)	7.0 lakh
BSE code:	500410
NSE code:	ACC
Sharekhan code:	ACC
Free float: (No of shares)	12.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	3.3	20.7	81.1
Relative to Sensex	-5.9	-6.6	-10.1	19.8

Result highlights

- ACC put up an excellent performance for the fourth quarter clocking a 250% year-on-year (y-o-y) growth in the profit after tax (PAT) at Rs329 crore, ahead of our estimates.
- The top line grew by a healthy 51% year on year (yoy) to Rs1,619 crore on the back of a 42% y-o-y growth in the realisations and a 7% y-o-y growth in the volumes.
- The operating expenditure grew by 25.8% yoy to Rs1,151 crore driven by a 12.7% y-o-y rise in the power & fuel costs and a 19.7% rise in the freight costs.
- On account of the higher realisation growth, the operating profit witnessed a 197.5% y-o-y growth to Rs468 crore. The operating profit margin expanded by 1,420 basis points yoy and by 230 basis points quarter on quarter (qoq) to 28.9%.
- Consequently, the earnings before interest, tax, depreciation and amortisation (EBITDA) per tonne jumped three-fold to Rs975 per tonne on account of the company's high leverage to the cement prices.
- The interest cost fell by 80.1% yoy to Rs4.1 crore whereas the depreciation provision stood higher at Rs77.1 crore.
- The pre-exceptional profit stood at Rs329 crore translating into a y-o-y growth of 249.9%. Adjusting for the extraordinary items, the PAT was up 86.1% yoy at Rs358 crore.
- The company has declared a dividend of Rs15 per share for the year ending December 2006 implying a dividend payout of 27%.

Result table Rs (cr)

Particulars	CY2006	CY2005	% yoy	Q4CY06	Q4CY05	% yoy
Net sales	5803.5	4334.0	33.9	1619	1072.0	51.0
Total expenditure	4180.3	3625.6	15.3	1151	914.7	25.8
Operating profit	1623.2	708.5	129.1	468	157.3	197.5
Other income	131.5	111.6	17.8	44.38	34.5	28.6
PBIDT	1754.7	820.1	114.0	512.38	191.8	167.1
Interest	52.0	84.1	-38.2	4.11	21.3	-80.7
PBDT	1702.7	736.0	131.3	508.27	170.5	198.1
Depreciation	254.2	212.2	19.8	77.1	60.7	27.1
PBT	1448.4	523.8	176.5	431.17	109.8	292.6
Tax	387.7	113.6	241.4	102.14	15.8	546.5
PAT before extraordinary item	1060.8	410.2	158.6	329.03	94.0	249.9
Extraordinary items	171.1	299.5	-42.9	28.97	98.4	
Adj profit after extraordinary item	1231.8	709.7	73.6	358	192.4	86.1
OPMs (%)	28.0	16.3		28.9	14.7	
EBIDTA (%)	29.6	18.4		30.8	17.3	
EBDT (%)	28.7	16.6		30.6	15.4	
PBT (%)	24.4	11.8		25.9	9.9	
PAT (%)	17.9	9.2		19.8	8.5	

- ACC is adding capacity of 0.9 million metric tonne (MMT) at Lakheri along with the setting up of a 25MW captive power plant (CPP). The company is also expanding the capacities at various other locations post which, its total capacity is expected to increase by 3.19MMT to 23.1MMT by December 2007. The company is also adding 1.18MMT capacity coupled with a 30MW CPP at its Bargah Cement unit (expected to be commissioned in the first quarter of CY2008) and is putting up a fresh 3MMT plant at Wadi, which is expected to be commissioned in the next 24-30 months.
- At the current market price of Rs1,100, the stock is discounting its CY2007E earnings by 15.7x and EBITDA by 9.2x. On an enterprise value (EV) per tonne basis, the stock is trading at USD198 per tonne. We believe the stock is very attractive considering its leverage to the cement prices, better cost structure as well as its improving financials. We thus maintain out Buy recommendation on the stock with a price target of Rs1,250.

High realisations boost top line...

The company's realisations witnessed a 42% y-o-y growth to Rs3,371 per tonne on the back of a tight demand-supply scenario across the country. As we have seen in the last few quarters, the company's excise duty remained lesser at 9% on account of the higher sales from the excise-free unit at Gagal in Himachal Pradesh. The volumes increased by 7% yoy to 4.8MMT on account of the strong demand from the housing and construction sector. Sweetened by the ready mix concrete revenues of Rs77 crore, the cumulative impact of higher prices and volumes led to the net revenues growing by 51% yoy to Rs1,619 crore.

The revenues in this quarter are strictly not comparable to the same quarter last year on account of a) divestment of the refractory business; and b) the amalgamation of Bargah and Damodar Cement.

Operating profit zooms 197.5%

The operating expenditure increased by 25.8% yoy to Rs1,151 crore mainly on the back of a 12.7% y-o-y rise in the power costs on account of higher coal and liquid fuel prices and a 19.7% y-o-y rise in the freight costs. However on account of the robust growth in the realisations, the operating profit witnessed a 197.5% y-o-y growth to Rs468 crore. The operating profit margin expanded by 1,420 basis points yoy and by 230 basis points qoq to 28.9%. The EBITDA per tonne jumped three-fold to Rs975 per tonne on account of the company's high leverage to the cement prices.

Per tonne analysis

Particulars	Q4CY06	Q4CY05	% yoy
Total cost per tonne	2396.92	2032.67	17.9
Realisation	3371.51	2382.22	41.5
EBITDA per tonne	974.59	349.56	178.8

Pre-exceptional profit jumps 249.9%

The interest cost fell by 80.1% yoy to Rs4.1 crore due to the repayment of debt out of the surplus cash from operations and the sale of land and non-core businesses in the previous quarters. The depreciation provision was higher than expected at Rs77.1 crore on account of the commissioning of new capacities in the earlier quarters. The pre-exceptional profit stood at Rs329 crore translating into a y-o-y growth of 249.9%. Adjusting for the extraordinary items, the PAT was up 86.1% yoy at Rs358 crore.

Additional capacities to drive growth going ahead

ACC is adding capacity of 0.9MMT at Lakheri along with the setting up of a 25MW CPP. The company is also expanding the capacities at various other locations (refer table below) post which, its total capacity is expected to increase by 3.19MMT to 23.1MMT by December 2007. The company is also adding 1.18MMT capacity coupled with a 30MW CPP at its Bargah Cement unit (expected to be commissioned in the first quarter of CY2008) and is putting up a fresh 3MMT plant at Wadi, which is expected to be commissioned in the next 24-30 months. These activities will continue to drive the volume growth going ahead as well as improve its cost competitiveness in the industry.

Location	Addition
Lakheri	0.9
Kymore	0.5
Tikaria	0.31
Sindri	0.4
Wadi	1.08
Incremental capacity	3.19

Outlook and valuation

With the demand-supply gap in the industry expected to sustain over the next 1-1.5 years, ACC's outlook remains extremely positive. The company's brownfield expansions will drive the growth in the future. The CPPs will improve the cost structure of the company and thus maintain its competitiveness in the industry. As mentioned in our earlier reports, with the takeover by Holcim, the company has divested its non-core business ie refractory business as well as sold its excess non-core investments like Everest

Industries. It has merged the ready mix concrete business of Tarmac as well as merged the cement business of Damodar Cement and Bargah Cement. The clear focus of the company on the cement business and its efforts to improve its cost structure will ensure a compounded annual growth rate in the earnings of 85% over CY2005-07.

At the current market price of Rs1,100, the stock is discounting its CY2007E earnings by 15.7x and EBITDA by 9.2x. On an EV per tonne basis, the stock is trading at USD198 per tonne. We believe the stock is very attractive considering its leverage to the prices, better cost structure and improving financials. We thus maintain our Buy recommendation on the stock with a price target of Rs1,250.

Earnings table

Particulars	FY04	FY05	CY05	CY06	CY07E
Net profit (Rs cr)	200.2	378.2	310.5	1060.8	1317.9
Share in issue (cr)	17.7	17.9	18.5	18.8	18.8
EPS (Rs)	11.3	21.2	16.8	56.3	70.0
% y-o-y growth	*93.0*	*87.0*	*-21.0*	*235.0*	*24.0*
PER (x)	102.0	52.0	65.4	19.5	15.7
P/BV (x)	14.4	12.3	9.5	6.4	4.7
EV/Ebidta (x)	55.0	33.6	41.8	12.7	9.3
Dividend yield (%)	0.4	0.4	0.7	1.4	0.7
ROCE (%)	12.5	16.8	12.0	27.6	35.3
RONW (%)	14.8	23.7	14.5	32.9	30.0

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

Ashok Leyland

Ugly Duckling

Stock Update

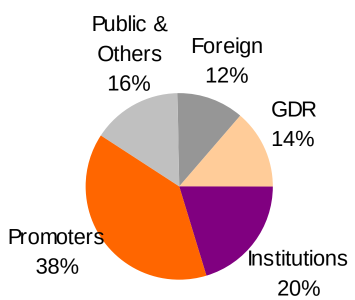
Spillover boosts January numbers

Buy; CMP: Rs49.8

Company details

Price target:	Rs56
Market cap:	Rs6,523 cr
52 week high/low:	Rs54/29
NSE volume: (No of shares)	51.4 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	61.7 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	12.6	34.6	44.7
Relative to Sensex	3.3	1.7	0.3	-4.3

Key points

- Ashok Leyland has reported a magnificent growth in its January numbers. The higher than expected growth was a result of the spillover of sales from the previous month due to the implementation of the value-added tax in Tamil Nadu w.e.f January 1, 2007.
- The company reported an overall growth of 67% year on year (yoy) as its vehicle sales jumped to 9,650 units in the month. Its domestic sales grew by 62% while its exports rose by a whopping 228%.
- The medium-duty vehicle (MDV) goods segment (which accounts for the bulk of the company's sales) turned a brilliant performance, reporting a growth of 69.6% yoy with sales of 7,870 vehicles. The MDV passenger segment, where the company has been losing market share, is beginning to show signs of improvement grew by 56% in January.
- In January the sales of its light commercial vehicles stood at 28 units, marking a growth of 16.7% yoy.
- Looking at the year-till-date numbers, the company has reported an overall growth of 41.7% with the MDV goods segment growing by 61% yoy and the MDV passenger segment marking a decline of 4.7%.
- At the current market price of Rs49.8, the stock quotes at FY2008E PER of 12.4x and at an EV/ EBIDTA of 6.9x. We maintain our Buy recommendation on the stock with a price target of Rs56.

Sales performance

	Jan-07	Jan-06	% yoy	Dec-06	% mom	YTD-07	YTD-06	% yoy
MDV passenger	1,752	1,124	55.9	1,450	20.8	12,159	12,757	-4.7
MDV goods	7,870	4,639	69.6	4,418	78.1	54,210	33,663	61.0
LCV	28	24	16.7	22	27.3	285	620	-54.0
Total sales	9,650	5,787	66.8	5,890	63.8	66,654	47,040	41.7

Earnings table

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net sales (Rs cr)	4182.4	5247.7	7119.3	8386.2
Net profit (Rs cr)	281.0	305.6	431.3	535.8
Shares in issue (cr)	118.90	122.16	133.20	133.20
EPS (Rs)	2.4	2.5	3.2	4.0
% y-o-y growth		*9.0*	*41.0*	*24.0*
PER (x)	21.1	19.9	15.4	12.4
Book value (Rs)	9.6	11.4	15.2	16.0
P/BV (Rs)	5.2	4.4	3.3	3.1
EV/EBIDTA (x)	14.2	11.4	8.9	6.9
Dividend yield (%)	2.0	2.6	2.4	2.4
RoCE (%)	20.7	21.8	27.3	30.8
RoNW (%)	23.7	23.6	21.3	25.1

Sundaram Clayton

Apple Green

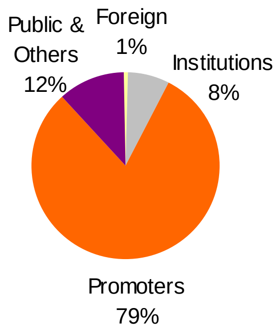
Stock Update

Higher efficiencies improve margins

Buy; CMP: Rs1,202

Company details	
Price target:	Rs1,550
Market cap:	Rs2,280 cr
52 week high/low:	Rs1,410/779
NSE volume: (No of shares)	2,841
BSE code:	520056
NSE code:	SUNDRMCLAY
Sharekhan code:	SUNCLA
Free float: (No of shares)	0.38 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-11.1	-1.4	33.5	36.7
Relative to Sensex	-15.1	-10.9	-0.5	-9.6

Result highlights

- Sundaram Clayton Ltd's (SCL) Q3FY2007 results are in line with our expectations. The net sales for the quarter marked a growth of 29.5% to Rs204.7 crore, in line with our expectations. Both the air brakes and die-casting divisions performed well during the quarter registering revenue growth of 17% and 52% respectively.
- The operating margins have improved by 90 basis points year on year (yoy) to 15.6% because of increasing operating efficiencies. Consequently, the operating profit rose by 37.4% to Rs31.9 crore for the quarter.
- The other income was higher due to the accounting of the dividend income; while the interest cost has also risen due to the higher capital expenditure incurred by the company. Consequently, the profit after tax (PAT) for the quarter was up 17.3% at Rs24 crore.
- Due to a lower dividend income, and higher interest costs in the year-till-date period, we are lowering our FY2007 PAT estimates by 6%. However, we are very positive on the long-term prospects of the company considering the continuing buoyancy in the commercial vehicle (CV) industry, strong outsourcing potential and a huge opportunity in anti-lock braking system (ABS).
- The value of SCL's total investment in the group companies works out to Rs660 per share. While computing SCL's value, we have assumed a 75% discount to the company's total investment. After adjusting for the same, the SCL stock is currently trading at 14.1x its stand-alone FY2008E earnings and at 11.5x its stand-alone FY2008E earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on the stock with a price target of Rs1,550.

Result table Rs (cr)

Particulars	Q3FY07	Q3FY06	% yoy	9MFY07A	9MFY06	% yoy
Net sales	**204.7**	**158.1**	**29.5**	**597.9**	**453.6**	**31.8**
Expenditure	172.8	134.9	28.1	508.6	387.2	31.4
Consumption of RM	108.2	80.1		324.1	229.7	
Incr/decr in stock	-1.0	-2.5		-8.6	-4.3	
Employee expenses	23.0	18.6		68.4	57.7	
Other expenses	42.7	38.7		124.7	104.1	
Operating profit	**31.9**	**23.2**	**37.4**	**89.4**	**66.4**	**34.5**
Other income	15.9	12.5	27.4	36.8	31.4	17.2
EBIDTA	**47.8**	**35.7**	**33.9**	**126.2**	**97.9**	**28.9**
Interest	4.5	1.9	137.1	11.9	5.2	126.6
PBDT	43.3	33.8	28.1	114.3	92.6	23.4
Depreciation	8.2	6.7	22.0	24.0	19.5	23.1
Profit before tax	**35.1**	**27.1**	**29.6**	**90.3**	**73.1**	**23.5**
Tax	11.1	6.6	67.5	25.3	21.0	20.4
Profit after tax	24.0	20.4	17.3	65.0	52.1	24.8
EPS	12.6	10.8	17.3	21.6	16.7	29.6
OPMs (%)	15.6	14.7		14.9	14.6	

Strong top line growth

The net sales grew by 29.5% Rs204.7 crore in Q3FY2007, in line with our expectations. The growth in both the air-brake and die-casting divisions remained strong for the quarter. The revenues from the air-brake division stood at Rs119.8 crore as against Rs102.4 crore in Q3FY2006, marking a growth of 17% yoy. The die-casting division delivered yet another brilliant quarter as its revenues increased by 52.4% to Rs84.9 crore in the quarter. The growth in exports, particularly of die-castings, continued as the total exports for the quarter reached Rs38.2 crore, rising by 70% yoy. SCL has a strong client list with orders from automobile majors like Tata Motors, Ashok Leyland, Honda Siel Cars, Sona Koyo Steering, Tata Holset, Ford India and Visteon.

Better operating efficiencies aid margin growth

The operating profit margin (OPM) rose by 90 basis points yoy, and by 100 basis points sequentially to 15.6%. Better volumes and rising efficiencies led to a margin improvement despite high raw material costs. The raw material cost as a percentage of sales rose from 48.1% to 52.3%, but has come down from 54.4% in Q2FY2007.

The other income at Rs15.9 crore was higher for the quarter compared with Rs12.5 crore a year ago with the dividend income of Rs7.2 crore being accounted for during the quarter. Higher capital expenditure (capex) led to an increase in the interest as well as the depreciation of the company while the net profit rose by 17.3% to Rs24 crore.

	Q3FY07	Q3FY06	% yoy	9MFY07	9MFY06	% yoy
Air brakes						
Domestic	117.9	99.5	18.6	340.4	293.1	16.1
Exports	1.9	3.0	-35.7	7.4	8.2	-9.4
Total	119.8	102.4	17.0	347.8	301.3	15.4
Die-casting						
Domestic	48.6	36.2	34.2	145.3	100.4	44.7
Exports	36.3	19.5	86.3	104.8	51.9	101.9
Total	84.9	55.7	52.4	250.1	152.3	64.2

Looking at the nine-month numbers, the margins have marked an increase of 30 basis points to 14.9% due to savings in the staff costs and the other expenditure. With the company following up with Tata Motors for a price increase, expected higher exports and stable raw material prices, we expect further improvement in the company's margins going forward.

The company would also benefit from the implementation of the value-added tax (VAT) in Tamil Nadu. The company will get the benefits of the set off of the input tax credit from January 1, 2007 and hence this would start getting reflected from the next quarter onwards.

Capacity expansion plans

For FY2007, SCL had lined up a capex plan of Rs125 crore with Rs75 crore for the die-casting division and about Rs50 crore for the air brakes division. Going forward, the company plans to spend about Rs90 crore altogether in FY2008, both for increasing capacities and new product development.

Outlook and valuations

We believe that SCL would benefit from the continued buoyancy in the domestic CV industry. Higher usage of anti-lock braking system in commercial vehicles would trigger a huge replacement demand for brakes, and SCL would be the biggest beneficiary of the same. There also exists a huge outsourcing potential considering that WABCO is looking for a low-cost producer of brakes. Considering all these factors we maintain our positive outlook on the company.

Due to a lower than expected dividend income, and higher interest cost due to the increased capex of the company, we are lowering our FY2007E PAT estimates by 6%.

SCL has a huge investment portfolio with an investment value of Rs660 per share. It holds 56.8% in TVS Motors (8.8% directly and 48% indirectly through its 100% subsidiary Anusha Investments). In valuing the company we have assumed a 75% discount to the total investment value per share. After adjusting for the investments, the stock is currently trading at 14.1x its stand-alone FY2008E earnings. We maintain our Buy recommendation on the stock with a price target of Rs1,550.

Earnings table

Particulars	FY04	FY05	FY06E	FY07E	FY08E
Net sales	417.4	536.3	629.3	822.0	1,035.1
Net profit	46.3	52.5	68.6	96.3	139.2
EPS	24.4	27.7	36.2	50.7	73.4
% y-o-y growth		*13.4*	*30.7*	*40.3*	*44.6*
PER	42.5	37.4	28.6	20.4	14.1
P/B	11.1	9.5	7.9	6.4	5.0
EV/EBIDTA	42.1	29.1	21.1	16.2	11.5
ROCE (%)	30.6	26.7	27.8	29.8	35.9
RONW (%)	22.5	21.9	23.7	27.2	30.6

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
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Sundaram Clayton
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Television Eighteen India
Thermax
UTI Bank

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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
Orient Paper and Industries
WS Industries India

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