investor's eye

Visit us at www.sharekhan.com May 25, 2006

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
3i Infotech	06-Oct-05	132	**173**	244
Elder Pharma	26-Apr-06	298	**316**	410
Subros	26-Apr-06	206	**216**	370
TVS Motor	03-Apr-06	140	**123**	210
WS Industries	02-Dec-05	51	**60**	112

Sharekhan Ltd
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

ICI India

Ugly Duckling

Stock Update

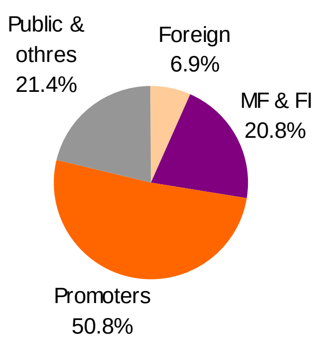
Colours shine bright

Buy; CMP: Rs335

Company details

Price target:	Rs420
Market cap:	Rs1,374 cr
52 week high/low:	Rs421/240
NSE volume: (No of shares)	10,739
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float: (No of shares)	2.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-11.5	-20.5	6.6	21.5
Relative to Sensex	-0.3	-23.4	-12.1	-25.7

Result highlights

- ICI India Ltd (IIL) has reported a strong set of numbers for both Q4FY2006 and FY2006.
- The net revenues adjusted for the discontinued rubber chemical business grew by 20.7% year on year (yoy).
- The operating profit grew by 30% yoy as the operating profit margin (OPM) expanded by 214 basis points. While the transfer of the rubber chemical business to a joint venture aided part of the OPM expansion, operational efficiencies also contributed to the same.
- The profit before tax (PBT) and extraordinary items grew by 32.6% to Rs15.7 crore.
- For FY2006, IIL's consolidated revenues grew by a 17% yoy. The operating profit grew by 46% yoy as the OPM expanded by 250 basis points. The profit after tax (PAT; adjusted for extraordinary items) grew by 23% yoy to Rs61.2 crore.
- IIL has a right to acquire the balance 49% stake in its subsidiary, Quest International, at any time after April 2006. Though IIL has not exercised the right yet, but the company plans to acquire the same in the future.
- At the current market price of Rs335, the stock trades at 14.1x its FY2008E earnings per share (EPS) and 6.7x FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on the stock with the price target of Rs420.

Result table Rs (cr)

Particulars	FY2006*	FY2005*	% yoy chg	Q4FY2006	Q4FY2005	% yoy chg
Net sales	1,009.3	862.1	17.0	190.9	184.6	3.5
Other income	17.3	30.8	-43.4	2.1	3.6	-43.4
Total income	1,026.6	892.9	15.0	193.0	188.2	2.6
Total expenditure	882.5	775.5	13.8	170.9	169.1	1.0
Operating profit	126.8	86.7	46.2	20.1	15.4	29.9
Interest	3.5	3.5	-	1.0	2.0	-49.0
Depreciation	35.6	33.9	5.0	5.4	5.2	3.5
PBT and extraordinary	105.0	80.1	31.1	15.7	11.8	32.6
Extraordinary items	11.2	-15.2	-173.7	0.0	-12.8	
Profit before tax	116.2	64.9	79.0	15.7	-1.0	-1,719.6
Total tax	40.7	19.3	110.9	5.1	0.1	
Profit after tax	75.5	45.6	65.6	10.6	-1.0	
Profit after extraordinary	61.2	49.8	22.9	10.6	7.9	33.1
OPM (%)	12.6	10.1		10.5	8.4	214.0

* Consolidated numbers

Net sales grow by 20.7% (adjusted for discontinued business)

IIL's reported net revenues for Q4FY2006 grew by 3.5% yoy to Rs191 crore. However, during Q3FY2006 IIL had sold off its rubber chemical business to a joint venture with the US-based PMC Group International (see our report "*Sale of rubber chemicals business*" dated November 09, 2006). Adjusted for the same, the net sales grew by 20.7% yoy.

Segmental sales Rs (cr)

	FY06*	FY05*	% yoy chg	Q4FY06	Q4FY05	% yoy chg
Reported sales (gross)	1,010.2	867.2	16.5	214.0	205.2	4.3
Discontinued business	0.0	27.9		0.0	27.9	
Adj sales	1,010.2	839.3	20.4	214.0	177.3	20.7
Of which						
Paints	674.5	556.7	21.2	153.1	126.6	20.9
Chemicals	337.9	285.3	18.4	61.6	51.9	18.6

* Non-consolidated numbers

Operating profit grows by 30% yoy

The operating profit for the quarter grew by 30% yoy to Rs20.1 crore. The OPM expanded by 214 basis points for the quarter under review. The margin expansion was partly aided by the transfer of the rubber chemical business to the joint venture which is estimated to have added 50 basis points to the OPM. The PBT and exceptional items grew by 32.6% to Rs15.7 crore.

In the paint business, the profit before interest and tax (PBIT) margin expanded by 110 basis points. However, the PBIT margin in the chemical business contracted by 150 basis points. The company has been facing pricing pressure in this business. While in Q3FY2006, IIL had lost some sales trying to conserve its margins, in Q4FY2006 the margins were hurt despite the sales growth.

FY2006 consolidated results

- The consolidated revenues for FY2006 grew by 15.5% yoy Rs1,009.3 crore. The revenues of IIL's 51% subsidiary, Quest International, was at Rs116 crore, 10% lower than our estimate.
- For FY2006, the consolidated operating profit grew by 46% yoy to Rs127 crore.
- The net profit adjusted for the extraordinary items was up by 23% yoy to Rs61.2 crore due to a lower other income.

Quest International

IIL currently holds a 51% stake in Quest International with Hindustan Lever Ltd (HLL) holding the balance stake. IIL has the right to acquire HLL's stake any time after April 2006. While IIL has not exercised the right yet, it plans to do so any time in the future.

Valuations

At the current market price of Rs335, the stock trades at 14.1x its FY2008E EPS and 6.7x FY2008E EV/EBIDTA. We maintain our Buy recommendation on the stock with the price target of Rs420.

Valuation table (Consolidated numbers)

Year ended March 31	2005	2006P	2007E	2008E
EPS (Rs)	12.2	15.0	20.6	23.7
EPS Growth (%)	2.9	22.8	33.3	18.9
PER (x)	27.5	22.4	16.8	14.1
PER adj for investments (x)	21.2	17.6	12.9	10.3
Book Value (x)	142.9	151.2	165.6	185.2
P/BV (x)	2.4	2.3	2.1	1.9
EV/Sales (x)	1.3	1.1	1.1	0.9
EV/EBITDA (x)	13.1	9.1	7.9	6.7
RoCE (%)	8.7	10.2	13.0	14.7
RoNW (%)	8.6	14.4	15.0	17.7

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

Lupin

Apple Green

Stock Update

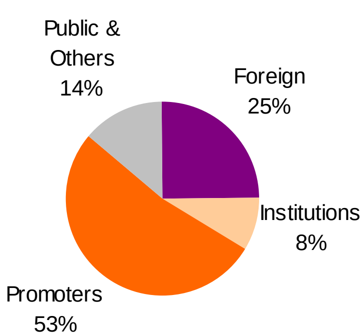
On growth track

Buy; CMP: Rs1,042

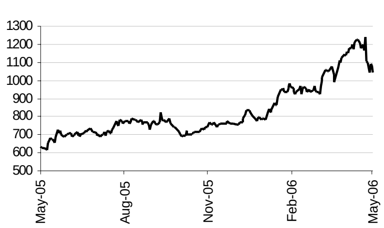
Company details

Price target:	Rs1,130
Market cap:	Rs4,182 cr
52 week high/low:	Rs1,270/527
NSE volume: (No of shares)	33,315
BSE code:	500257
NSE code:	LUPIN
Sharekhan code:	LUPLTD
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.9	12.6	46.2	73.0
Relative to Sensex	7.1	8.5	20.6	5.8

Event

- Lupin has announced that the US Food and Drug Administration has approved the company's abbreviated new drug application (ANDA) for Cefdinir capsules 300mg.
- Lupin has announced that it has signed a memorandum of understanding (MoU) to acquire a 51% equity stake in Artifex Finance CVA, Belgium, and its subsidiaries including Dafra Pharma, a Belgian pharmaceutical company focused on anti-malarials.

Background

Cefdinir is a third-generation cephalosporin administered orally to treat a wide variety of bacterial infections. It is currently off patent and being marketed by only the innovator company, Abbot Laboratories, under the brand name Omnicef. We believe that the Omnicef's dosages cumulatively have a market size of US$634 million in the USA. Out of this, we believe, the oral capsules have a market of US$345 million.

What does this mean for Lupin?

Lupin is the only company till date to have received the generic approval for the manufacture of Cefdinir. We estimate competition from at least two other players in the next couple of months in the Cefdinir market in the USA. However we expect the early entry of Lupin to result in the company gaining a significant share in the genericised market. We base our estimates on the assumption that there will be in all five players in the market including Abbot laboratories. We estimate a share of 40% of the estimated generic market for Lupin and a price erosion of 85% for generic Cefdinir. As a result we expect Cefdinir sales in the USA to contribute Rs37.3 crore and Rs40.8 crore to the top line of Lupin in FY2007 and FY2008 respectively. Also the sales are expected to contribute Rs13 crore and Rs10.2 crore to the bottom line in FY2007 and FY2008 respectively.

Strong development in the US market

Lupin is increasing the number of its products in the US market. It launched a total of seven products in the USA in FY2006. Quite a few of these launches have come post-November 2005. As a result the sales of the products are yet to peak in the US market. The company intends to launch close to seven other products in FY2007. During the year FY2006 Lupin filed 18 ANDAs, taking the total number of filings to 35. This shows the increased focus of the company towards regulated markets.

Acquisition of Dafra

Lupin has signed an MoU to acquire a 51% stake in Artifex Finance CVA, Belgium, along with its subsidiaries including Dafra Pharma. Dafra is a Belgium-based company that markets anti-malarial drugs, namely Artemisinin-based combination therapy (the most prescribed mode of treatment for malaria). It has close to 100 people that market its products to Central and East Asia, Africa and Latin America. We believe that Lupin intends to take advantage of this established network of Dafra in the developing markets to promote its range of products. Lupin is the leader in anti-TB segment, which has a market primarily in South East Asia, Africa and Latin America, and hence Lupin's acquisition of Dafra makes perfect synergy. Although we seek greater clarity about the cost of the acquisition, we see this as an opportunity for Lupin to achieve a greater penetration in African and Latin American countries for its wide range of products.

On a transitional phase

The last 12 months have seen quite a few changes in the company. Primary amongst these are the increased focus on regulated markets and the move towards being an innovation-driven company. The company has taken concrete steps like internalising the sales force of Cornerstone and greater spend on research and development (R&D). The R&D expenditure increased from Rs79.8 crore in FY2005 to Rs102.9 crore in FY2006. We expect the R&D expense to be higher this year driven by new product filings and as three of Lupin's new chemical entities move further in different stages of the clinical trials. The company will be making substantial investments to improve the marketing infrastructure and develop its research skills, and these are expected to yield results in the long term.

Outlook

Overall, the company has grown in FY2006. The domestic sales have improved due to the launch of new molecules and the sales in the regulated markets have received a major boost. The company is on the lookout for acquisitions in the regulated markets to further consolidate its position. Lupin's new chemical entities also hold good out-licensing potential. Taking into consideration this growth phase we are revising our estimates. We estimate Lupin to earn Rs75.6 per share in FY2008. We have not taken the benefits and costs of the Dafra acquisition in our estimates as we await clarity on the nature of the acquisition. At the current market price of Rs1,042, the stock is trading at 13.8x FY2008 earnings estimate. We believe the company is on growth track and should yield good results in the future. Hence we maintain our Buy recommendation on Lupin with the price target of Rs1,130.

Valuations Rs (cr)

Particulars	FY2004	FY2005	FY06E	FY07E	FY08E
Net Sales	1304.2	1321.6	1769.5	1972.3	2200.5
PAT	152.2	88.1	176.0	239.0	303.5
EPS	37.9	22.0	43.8	59.6	75.6
PE	27.5	47.5	23.8	17.5	13.8
EV/EBIDTA	16.2	31.5	15.4	11.5	9.4
BV/share	111.6	124.7	168.6	228.1	303.7
P/BV	9.3	8.4	6.2	4.6	3.4
cash EPS	45.2	30.2	53.9	70.2	87.1
Cash PE	23.1	34.5	19.3	14.8	12.0

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

Crompton Greaves

Apple Green

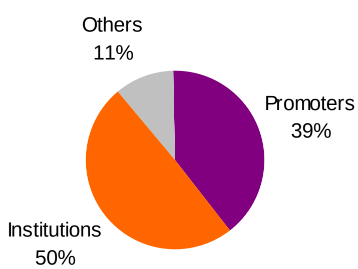
Stock Update

Price target revised to Rs1,144

Buy; CMP: Rs1,049

Company details	
Price target:	Rs1,144
Market cap:	Rs5,493 cr
52 week high/low:	Rs1,225/434
NSE volume: (No of shares)	44,605
BSE code:	500093
NSE code:	CROMPGREAV
Sharekhan code:	CROMPTON
Free float: (No of shares)	3.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-7.7	10.1	45.2	103.7
Relative to Sensex	3.9	6.1	19.8	24.5

Result highlights

- Crompton Greaves' stand-alone revenues grew by 27.8% in Q4FY2006 to Rs798.3 crore backed by the strong performance of all its three divisions: power systems (revenue up 31.2%), consumer products (revenue up 27.0%) and industrial systems (revenue up 20.3%).
- The stand-alone operating profit margin (OPM) improved by 290 basis points year on year (yoy) in the quarter to 10.7%, driven by strong order booking, stable material costs and the leverage effect that came into play during the quarter.
- For Q4FY2006 the profit before interest and tax (PBIT) margin of the power system division grew by ten basis points to 9.4%. That of the consumer product division grew by 130 basis points to 10.9%. The industrial system division's PBIT margin grew by 80 basis points to 12.2%.
- The stand-alone net profit (before extraordinary items) grew by 85.1% to Rs66.1 crore, driven partly by the strong performance of its three segments and partly by the 85.4% year-on-year jump in the other income to Rs11.9 crore.
- Pauwel posted a net profit (before extraordinary) of Rs63.0 crore on sales of Rs1,606 crore for FY2006. It saw a smart turn-around, as the company was making losses when it was acquired in May last year. Pauwel's results were better than expected, generating a positive surprise on the consolidated net profit front.
- The consolidated order backlog for Crompton Greaves stood at Rs2,950 crore at the end of FY2006 (including Rs1,450 crore of Pauwel) which is 0.7x FY2006 consolidated revenues.
- Pauwel has shown a remarkable turn-around in performance, reporting a profit after tax (PAT) of Rs63.0 crore, way ahead of estimates. We believe this is just the beginning and expect Pauwel to report a smart improvement in its margins and boost the consolidated performance of Crompton Greaves. We maintain a Buy on the stock with a revised price target of Rs1,144, discounting its FY2008E consolidated earnings by 18x.

Result table (stand-alone) Rs (cr)

Particulars	Q4FY2006	Q4FY2005	% yoy chg
Net sales	798.3	624.5	27.8
Expenditure	713.1	575.9	23.8
Operating profit	85.2	48.6	75.4
Other income	11.9	6.4	85.4
PBIDT	97.1	55.0	76.5
Interest	6.4	4.8	32.5
Depreciation	12.9	11.1	15.5
PBT	77.8	39.0	99.4
Tax	11.8	3.3	252.4
PAT	66.1	35.7	85.1
EPS (Rs/Share)	12.6	6.8	85.1
OPM (%)	10.7	7.8	290 bps
PBTM (%)	9.8	6.3	350 bps
PATM (%)	8.3	5.7	260 bps

Revenue growth in line with our expectations

Crompton Greaves' top line grew by 27.8% in Q4FY2006 on the back of the robust performance of all the three business segments. The power system division's revenue grew by 31.2% to Rs408.5 crore, aided by strong order booking. The revenue from the consumer product and industrial system divisions grew by 27.0% and 20.3% to Rs253.1 crore and Rs197.0 crore respectively. Such high growth rates across business segments were in keeping with the trend of the previous few quarters.

Y-o-Y growth rate trends of the last five quarters	Q4 FY05	Q1 FY06	Q2 FY06	Q3 FY06	Q4 FY06
Power systems (%)	21.7	39.6	24.8	60.6	31.2
Consumer products (%)	13.3	14.5	23.7	21.5	27.0
Industrial system (%)	18.1	22.5	20.8	17.5	20.3

Robust OPM expansion of 290 basis points

The OPM expanded by 290 basis points in Q4FY2006 to 10.7%. This was due to strong order booking, stable material cost and the leverage effect that came into play during the quarter (due to a reduction in the employee cost and the other costs as a percentage of sales). The other cost as a percentage of sales came down to 13.2% in the current quarter compared with 15.0% in the corresponding quarter of the previous year. The employee expenses as a percentage of sales came down to 5.1% from 5.9% in the same period last year.

Particulars	Q4FY2006	Q4FY2005
Material cost	71.0	71.3
Employee cost	5.1	5.9
Other cost	13.2	15.0
OPM	10.7	7.8

Strong performance across business segments

During Q4FY2006 the power system division saw a robust top line growth of 31.2% year on year (yoy) to Rs408.5 crore. The consumer product and industrial system divisions also reported a growth of over 20% each. The PBIT margin for the consumer product division expanded by a robust 130 basis points to 10.9% and that for the industrial system division expanded by 80 basis points to 12.2%. The power system division's PBIT margin grew by ten basis points to 9.4%.

Earnings grow at 85.1% in the quarter--above our estimates

Crompton Greaves' net profit before exceptional items grew by 85.1% yoy to Rs66.1 crore in Q4FY2006. The growth was on the back of a robust growth in the key business segments and margin expansion. The growth could have been higher but for the income tax, which grew by 252.4% due to the exhaustion of the MAT credit. Going forward, the tax outgo will be at the full rate due to the exhaustion of the MAT credit and we have factored the same in our estimates.

FY2006 stand-alone numbers—above our estimates

For FY2006 the net sales were up 27.2% to Rs2,520.6 crore. The operating profit grew by 55.4% to Rs254.2 crore and the PAT (before extraordinary items) rose by 68.2% to Rs184.6 crore. The earnings stood at Rs33.3 per share, above our estimates.

Consolidated results were a surprise package

On the consolidated basis, the net revenue, operating profit and PAT stood at Rs4126.5 crore, Rs335.8 crore and Rs237.5 crore respectively. These figures are not comparable with those of last year as the acquisition of Pauwel was completed in May 2005. But the consolidated numbers were way ahead of estimates, triggered by the smart turn-around in Pauwel's performance.

The performance of Pauwel improved significantly this year. It achieved a turnover of Rs1,605.9 crore with operating profit of Rs91.6 crore, PBT of Rs76.5 crore and PAT of Rs63.0 crores. Till last year, it was a loss-making firm

Segment results

Particulars	Q4FY2006	Q4FY2005	% yoy chg	FY2006	FY2005	% yoy chg
Revenues (Rs crore)						
Power systems	408.5	311.4	31.2	1216.8	881.8	38.0
Consumer products	253.1	199.4	27.0	817.1	671.5	21.7
Industrial system	197.0	163.8	20.3	685.6	570.6	20.1
PBIT (Rs crore)						
Power systems	38.5	28.9	33.1	107.8	66.0	63.3
Consumer products	27.6	19.2	43.4	77.7	58.0	33.9
Industrial system	24.1	18.6	29.4	93.0	76.7	21.2
PBIT (%)						
Power systems	9.4	9.3	10 bps	8.9	7.5	140 bps
Consumer products	10.9	9.6	130 bps	9.5	8.6	90 bps
Industrial system	12.2	11.4	80 bps	13.6	13.4	20 bps

with a loss of Rs12 crore and margins of 4.2%. Aggressive cost-cutting and synergetic benefits improved the margin by 150 basis points to 5.7% and turned the business profitable.

Consolidated order book at Rs2,950 crore—0.7x FY2006 consolidated revenues

The consolidated order backlog for Crompton Greaves stood at Rs2,950 crore at the end of FY2006 (including Rs1,450 crore of Pauwel) which is 0.7x FY2006 consolidated revenues. Given the positive outlook in the segments that Crompton Greaves operates and its strong position in these industries, the order backlog is all set to increase. This, we believe, imparts a strong visibility to the company's earnings

Stream-lined FY2007E and FY2008E estimates—factoring in Pauwel's magnificent performance

We have fine-tuned our FY2007 and FY2008 estimates after viewing the fine performance of Pauwel. Also, the exhaustion of the MAT credit w.e.f Q4FY2006 (stand-alone) will entail a higher tax outgo and the same has been factored in our estimates. Our stand-alone earnings estimates for FY2007 and FY2008 stand at Rs36.7 per share and Rs43.0 per share respectively. On the consolidated front, our earnings estimates stand at Rs54.3 per share and Rs63.6 per share for FY2007 and FY2008 respectively.

Valuations

Pauwel has shown a remarkable turn-around in its performance, reporting a PAT of Rs63 crore, way ahead of estimates. We believe this is just the beginning and expect Pauwel to report a smart improvement in its margins and pep up the consolidated performance of Crompton Greaves. We also expect a sustained growth in Crompton Greaves' main businesses of power systems, industrial systems and consumer products in view of the sound market outlook. The order book of Rs1,500 crore, equivalent to 0.6x FY2006 stand-alone revenues, supports this argument.

The stock is currently trading at 16.5x FY2008E consolidated earnings. Historically, Crompton Greaves has traded at a discount to industry peers due to its limited product range, which lacked high-voltage products. But, with Pauwel's acquisition, it has successfully plugged the gaps in its product portfolio. Access to a wider product range would differentiate it in the domestic market and enable it to compete effectively with the other MNCs such as ABB, Siemens and Areva. Moreover, the strong compounded annual growth of 18.4% in the company's consolidated earnings during the FY2006-08 period, the strong visibility of its earnings and the company's improving financial conditions make the stock all the more attractive. We maintain a Buy on the stock with a revised price target of Rs1,144, discounting its FY2008E consolidated earnings by 18x, in line with the large and strong product portfolio of the company.

Earnings table

Particulars	FY04	FY05	FY06	FY07E	FY08E
Standalone					
Net profit (Rs cr)	62.6	115.8	174.6	192.1	224.9
Share in issue (cr)	5.2	5.2	5.2	5.2	5.2
EPS (Rs)	11.9	22.1	33.3	36.7	43.0
% yoy growth	*232.3*	*85.0*	*50.8*	*10.0*	*17.1*
PER (x)	87.8	47.4	31.5	28.6	24.4
Book value (Rs)	65.0	78.1	101.7	130.9	166.3
P/BV (x)	16.1	13.4	10.3	8.0	6.3
EV/Ebidta (x)	34.4	27.3	22.7	17.6	14.2
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7
ROCE (%)	15.1	21.3	30.9	34.5	34.8
RONW (%)	18.4	28.3	32.8	28.0	25.8
Consolidated					
Net profit (Rs cr)	62.6	115.8	237.6	284.3	333.0
Share in issue (cr)	5.2	5.2	5.2	5.2	5.2
EPS (Rs)	11.9	22.1	45.4	54.3	63.6
% yoy growth	*232.3*	*85.0*	*105.2*	*19.6*	*17.1*
PER (x)	87.8	47.4	23.1	19.3	16.5

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

Ashok Leyland

Ugly Duckling

Stock Update

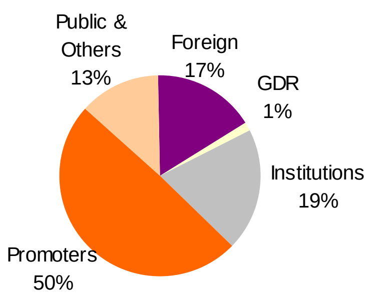
Margins may expand

Buy; CMP: Rs38

Company details

Price target:	Rs53
Market cap:	Rs4,782 cr
52 week high/low:	Rs54/23
NSE volume: (No of shares)	79 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float: (No of shares)	60.1 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-9.2	4.3	24.6	73.0
Relative to Sensex	2.2	0.6	2.8	5.7

We recently attended the analyst meet of Ashok Leyland Ltd (ALL). The key takeaways from the same are mentioned below.

- ALL expects the commercial vehicle (CV) industry to perform well in the coming two years and grow at the rate of approximately 10% over the period. A strong economy, infrastructure developments and the Supreme Court's recent decision to ban overloading of trucks are expected to work in favour of the company. Taking cognisance of these factors, ALL is targeting sales of 75,000 vehicles for FY2007.

- The company expects the margins to improve by around 300 basis points in the next two years. The margin improvement will be mainly on account of two reasons. One, the company expects to raise the prices across its products in the next two or three months. Two, the company aims to reduce its raw material cost by attaining various cost efficiencies, focusing on value engineering and e-sourcing materials.

- The capital expenditure (capex) plans of the company remain the same. ALL would raise its capacity from 77,000 units to 100,000 units by April 2008. The company would incur a total capex of Rs600 crore over the next two years.

- The company plans to introduce a number of products in the next two years. Among them are *Inter Century-Luxura* buses, the *NEWGEN* range of trucks and a new *HMV* defence truck.

- At the current market price of Rs38, the stock quotes at 10.4x its FY2008E earnings and 5.8x its FY2008 enterprise value/earnings before interest, depreciation, tax and amortisation. We believe that the valuations are very reasonable and the stock is available at a discount to some of the other automobile stocks. We maintain our Buy recommendation on the stock with the price target of Rs53.

Earnings table

Year ended March 31	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	281.0	305.6	406.7	503.5
% y-o-y growth		*9.0*	*33.0*	*24.0*
Shares in issue (cr)	118.9	122.2	133.2	133.2
EPS (Rs)	2.4	2.5	3.1	3.8
% y-o-y growth		*9.0*	*33.0*	*24.0*
PER (x)	16.6	15.6	12.8	10.4
Book value (Rs)	9.6	11.4	15.0	15.6
P/BV (Rs)	4.1	3.4	2.6	2.5
EV/EBIDTA (x)	11.2	8.7	7.2	5.8
Dividend yield (%)	2.55	3.07	3.07	3.07
RoCE (%)	20.7	22.1	26.3	28.8
RoNW (%)	23.7	23.6	20.4	24.2

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
- Balrampur Chini Mills
- Bharat Bijlee
- Bharat Heavy Electricals
- Corporation Bank
- Crompton Greaves
- Godrej Consumer Products
- Elder Pharmaceuticals
- Grasim Industries
- Hindustan Lever
- Hyderabad Industries
- ICICI Bank
- Indian Hotel Company
- ITC
- Mahindra & Mahindra
- Marico Industries
- Maruti Udyog
- MRO-TEK
- Lupin
- Nicholas Piramal India
- Omax Auto
- Ranbaxy Laboratories
- Satyam Computer Services
- Sintex Industries
- SKF India
- State Bank of India
- Sundaram Clayton
- Tata Motors
- Tata Tea
- Unichem Laboratories

Cannonball

- Cipla
- Gateway Distriparks
- International Combustion (India)
- JK Cements
- Madras Cement
- Shree Cement
- Transport Corporation of India

Emerging Star

- 3i Infotech
- Aarvee Denim and Exports
- Aban Loyd Chiles Offshore
- Alok Textile Industries
- Alphageo India
- Cadila Healthcare
- KSB Pumps
- Marksans Pharma
- Navneet Publications (India)
- New Delhi Television
- Orchid Chemicals & Pharmaceuticals
- ORG Informatics
- Solectron Centum Electronics
- Television Eighteen India
- Thermax
- Tube Investments of India
- 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
- Nelco
- NIIT Technologies
- Punjab National Bank
- Ratnamani Metals and Tubes
- Sanghvi Movers
- Saregama India
- Selan Exploration Technology
- 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

Home