



stockrecos

Tata Tea Ltd

CURRENT PRICE

₹ 952

TARGET PRICE

₹ 1,006

DAMELINA

LIMITED UPSIDE

Tata Tea's Q3FY10 results are not exactly comparable on a year-on-year (y-o-y) basis due to the consolidation of the Russian beverage company, Grand (Tata Tea recently acquired a 51% stake in Grand) in Q2Y10.

In Q3FY10, the consolidated net sales grew 20.7% y-o-y to ₹1,549.2 crore, driven by price increases across key markets, a strong volume growth in the Eight O'Clock Coffee Co. sales and revenue of around ₹120 crore contributed by the recent acquisition, Grand. On a comparable basis, the revenue grew 11.9% y-o-y to ₹1,429.23 crore in Q3FY10.

The higher y-o-y raw tea prices in the domestic and international markets resulted in an increase of 273 basis points (bps) y-o-y in the raw material cost as a percentage of sales. Consequently, the company's operating profit margin declined by 115 bps y-o-y to 11.6% in Q3FY10. Thus, operating profit grew by 16.8% y-o-y to ₹185.5 crore during the quarter.

We believe the company's focus on expansion would help it in the long term. The huge pile of cash (net cash per share of ₹70) along with the management's intention to look for strategic acquisitions could be an additional trigger.

We broadly maintain our estimates for FY10 and FY11. However, with a limited upside from the current level, we maintain our hold recommendation on the stock.

Thermax Ltd

CURRENT PRICE

₹ 648

TARGET PRICE

₹ 750

NITESH SETHI

EARNINGS GROWTH

Thermax Ltd reported numbers, which are lower than our estimates on account of the sluggish overall project execution, affecting revenue translation.

The order intake is gaining momentum. The company had guided for a ₹1,750 crore order intake in H2FY10. Against this, it was orders worth ₹1,370 crore in the third quarter itself. The management indicated that the macro environment has improved and order enquiries have picked up.

Revenue growth expected to accelerate from FY11 as we project the company to close the year with an order backlog of ₹1,440 crore, up 10%. We upgrade to buy in view of likely robust earnings growth over FY10-13.

Reliance Communications Ltd

CURRENT PRICE

₹ 171

ANAND BATH

WEAKER THAN EXPECTED

We have slashed our consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) estimates by 9.1% on the back of Reliance Communications' weaker-than-expected Q3FY10 results. However, our target price is up marginally from ₹165, due to sharply lower (2G) capital expenditure forecasts, based on a revised guidance from the management. We continue to set our target price at 18% discount to sum of the parts value in view of poor growth visibility and 3G risks. Further, the company faces greater margin downside (against other telecom companies) if the government decides to levy a uniform spectrum/license fee.

Titan Industries Ltd

CURRENT PRICE

₹ 1,731

NITESH SETHI

SHARP RECOVERY

Titan Industries' Q3FY10 results were above estimates as net sales grew 35.3% to ₹1,330 crore, while adjusted profit after tax was up 86% at ₹28.4 crore. Gross margins expanded by 59 basis points (bps) due to better product mix in watches but was partly neutralized by higher sales of low-margin gold jewellery. Lower staff costs and ad spends drove earnings before interest, taxes, depreciation and amortisation (EBITDA) margin expansion of 150 bps to 8%. EBITDA grew 60% year-on-year to ₹190 crore. Q3FY10 watch sales increased 14.5% to ₹430 crore and earnings before interest and taxes (EBIT) grew 51% to ₹134 crore. EBIT margins expanded 260 bps to 14.7%. In Q3FY10, Titan volumes increased 20%, Sonata volumes increased 11% and Fastrack volumes increased 33%. Titan's jewellery business reported a 33.7% increase in sales to ₹1,850 crore. Unit increased 38% to ₹24.2 crore as margins expanded 10 bps. Jewellery volumes increased 1% and gold prices rose nearly 30%.

We are upgrading earnings per share estimates due to recovery in consumer demand. There proved a sharp recovery in volumes in the core businesses of watches and jewellery.