Economy News

- The Centre has proposed a three-rate structure for GST, in line with the recommendations of the empowered committee of state finance ministers, under which goods will attract a levy of 20%, services 16% and essential items a concessional rate of 12%. The levy is proposed to be split evenly between the states and the Centre. Finance minister Pranab Mukherjee also told the empowered panel that the GST should eventually move to a single-rate 16% (8% plus 8%) structure in the third year of its operation. In the second year, the rates are proposed to be lowered to 12% for essential goods, 18% for others and 16% for services. (ET)
- The Union Cabinet is to take up shortly the iron ore export curb issue, though any decision on it is unlikely to be firmed up soon due to the intense lobbying by opposing forces — the Commerce Ministry representing the traders' lobby against the curb and the Steel Ministry representing steel producers supporting it. The arguments against the curb are many. (BL)
- Making out a strong case for tax parity between cotton and man-made fibre,the textile ministry will soon take the draft national fibre policy to the Cabinet,a top official said. While cotton is exempted from excise duty,MMF attracts 8% levy.The differential treatment is also visible further in the value chain.MMF textiles attract an excise of 8%,but cotton textiles have an optional duty of 4%. (ET)

Corporate News

- With BP Plc likely to exit its hydrocarbon business in Vietnam, Indian public sector companies — **ONGC, GAIL (India), Indian Oil Corporation, and Oil India** — have combined forces to acquire the British firm's stake in Nam Con Son gas project. The project cost is estimated to be close to $1.3 billion. An Indian delegation led by the Petroleum Minister, Mr Murli Deora, is in Hanoi to make a claim on BP's stake in two offshore gas fields. (BL)
- The country's leading low-cost air carriers (LCCs) — IndiGo, **SpiceJet** and GoAir — are set to nearly double their fleet capacity over the next 17 months. This addition by LCCs is set to increase the number of low-cost seats in the domestic network to 80% of the total. Currently, Indian air carriers offer 115,000 domestic seats in a day and 70% of this is low-cost. (BS)
- In the largest qualified institutional placement this year, **Adani Enterprises'** share sale today received huge response, almost twice as much as the original fund raising plan. The response has enabled it to raise as much as Rs 40bn, while the plan was to raise Rs 28bn. The QIP, which opened yesterday, has received offers amounting to as much as Rs 55bn. (BS)
- **DLF,** the country's largest property developer, today announced plans to dilute majority stake in its wholly-owned retail management subsidiary, DLF Brands, probably to a promoter group company. It Will take a call at its board meeting on July 28. (BS)
- **BHEL** and a unit of GE have signed a 10-year licensing pact to manufacture oil and gas compressors. GE's range of centrifugal compressors will be manufactured under license at BHEL's production site in Hyderabad, for sale in India and South Asia. (BL)
- The Cabinet is likely to take up the follow-on public offer (FPO) from transmission utility **PowerGrid Corporation** to raise up to Rs.30bn on Thursday. The company is planning to raise 10% fresh equity, while the government is likely to offload 10% of its 86.36% stake in PowerGrid. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	21 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,977	0.6	1.3	2.3
NIFTY Index	5,399	0.6	1.6	2.5
BANKEX Index	11,379	0.0	3.3	4.5
BSET Index	5,464	0.6	1.8	1.6
BSETCG INDEX	15,151	0.7	3.1	8.7
BSEOIL INDEX	10,522	0.7	1.3	4.9
CNXMcap Index	8,428	0.5	4.8	5.7
BSESMCAP INDEX	9,466	0.4	5.6	3.4
World Indices				
Dow Jones	10,121	(1.1)	(1.7)	(9.1)
Nasdaq	2,187	(1.6)	(3.3)	(13.2)
FTSE	5,215	1.5	(0.6)	(8.0)
Nikkei	9,279	(0.2)	(8.9)	(15.8)
Hangseng	20,487	1.1	(1.9)	(4.8)

Value traded (Rs cr)

	21 Jul 10	% Chg - Day
Cash BSE	4,181	24.1
Cash NSE	12,558	15.9
Derivatives	91,901.9	21.2

Net inflows (Rs cr)

	20 Jul 10	% Chg	MTD	YTD
FII	372	82.6	9,619	39,864
Mutual Fund	(147)	(14.6)	(1,778)	(9,904)

FII open interest (Rs cr)

	20 Jul 10	% Chg
FII Index Futures	18,256	3.1
FII Index Options	58,410	5.6
FII Stock Futures	34,182	2.2
FII Stock Options	1,582	(0.5)

Advances / Declines (BSE)

21 Jul 10	A	B	S	Total	% total
Advances	135	1,005	224	1,364	51
Declines	69	899	218	1,186	45
Unchanged	1	90	16	107	4

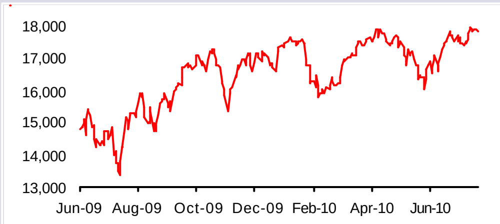
Commodity

		21 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US$/BBL)	76	(0.1)	(1.0)	(8.6)
Gold	(US$/OZ)	1,185	(0.6)	(4.3)	3.9
Silver	(US$/OZ)	18	(0.2)	(6.1)	(1.7)

Debt / forex market

	21 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.69	7.66	7.57	N/A
Re/US$	47.23	47.36	45.75	44.56

Sensex



RESULT UPDATE

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NIIT LTD (NIIT)

PRICE: RS.70 **RECOMMENDATION: BUY**
TARGET PRICE: RS.85 **FY11E P/E: 10.3x**

NIIT's results for 1QFY11 reflect investments made in people and infrastructure to capture the growth expected due to strong order bookings during the quarter. While revenues for the quarter were almost in line (except ILS, which disappointed), margins were impacted by currency movements, employee additions and lease costs. All businesses have reported decent enrolments (ILS / new businesses) and order bookings (CLS / SLS), which should lead to higher revenue growth in future quarters. Enrolment growth in ILS was 14% in India. On the other hand, order bookings in CLS and SLS were in excess of Rs.1.5bn each. SLS added 218 (101) non-Government schools. In CLS, the on-line learning products and training outsourcing businesses continued to witness growth, An improving macro scene and increased demand for learning should support future growth of NIIT, we opine. After incorporating 1QFY11 earnings, our FY11 EPS estimate stands at Rs.6.8 (Rs.7). The 10% - 12% growth guidance in ILS is slightly disappointing. The stock currently trades at 10x FY11E earnings. We maintain a BUY with a 20% upside from current levels. Our price target remains at Rs.85. A slower-than-expected global recovery and a sharper-than-expected rupee appreciation may impact growth rates.

Summary table

(Rs mn)	FY09	FY10E	FY11E
Sales	11487	11993	13002
Growth (%)	14.1	4.4	8.4
EBITDA	1186	1568	1990
EBITDA margin (%)	10.3	13.1	15.3
Net profit	697	704	1117
Net cash (debt)	2734	1765	984
EPS (Rs)	4.2	4.3	6.8
Growth (%)	-8.0	1.1	58.6
CEPS	8.2	8.8	11.7
DPS (Rs)	1.6	1.6	1.6
ROE (%)	15.9	14.2	20.0
ROCE (%)	9.9	9.8	13.3
M Cap/Sales (x)	1.0	1.0	0.9
EV/EBITDA (x)	12.9	9.6	7.6
P/E (x)	16.6	16.4	10.3
P/Cash Earnings	8.6	7.9	6.0
P/BV (x)	2.4	2.2	1.9

Source: Company, Kotak Securities - Private Client Research

1QFY11 results

(Rs mn)	4QFY10	1QFY11	QoQ (%)	1QFY10	YoY (%)
Income	**2950**	**2780**	**-5.8**	**2610**	**6.5**
Expenditure	2474	2493		2324	
EBIDTA	**476**	**287**	**-39.7**	**286**	**0.3**
Depreciation	195	203		168	
EBIT	**281**	**84**	**-70.1**	**118**	**-28.8**
Interest	90	90		73	
Other Income	33	16		-28	
PBT	**224**	**10**	**-95.5**	**17**	**-41.2**
Tax	80	-15		-26	
PAT	**144**	**25**		**43**	
Share of profit	104	105		56	
Adjusted PAT	248	130	-47.6	99	31.3
Shares (mns)	165.1	165.1		165.1	
EPS (Rs)	**1.5**	**0.8**		**0.6**	
Margins					
EBIDTA (%)	16.1	10.3		11.0	
EBIT (%)	9.5	3.0		4.5	
Net Profit (%)	4.9	0.9		1.6	

Source : Company

Revenues grew by 6.5% YoY; growth across segments

- All the businesses reported growth on a YoY basis, indicating improved sentiments and traction.
- CLS business reported growth despite the significant currency impact.

Revenue break up

(Rs mn)	1QFY11	4QFY10	1QFY10
Individual	908.40	1144.00	856.00
Schools	384.00	321.00	359.00
Corporate	1377.00	1393.00	1345.00
New initiatives	110.00	92.00	50.00

Source : Company

Corporate business - revenues rose by 11% YoY and 2% QoQ in CC terms

- CLS revenues grew by 2% YoY though on a sequential basis, they were marginally lower.
- According to the management, revenues grew by 11% YoY in CC terms on the back of increased traction in the training out-sourcing business and learning products businesses.
- Training out-sourcing business saw revenues rise by 37% YoY whereas on-line learning products revenues grew by 16% YoY.
- CLS has three streams of revenues - Learning products (further broken down into on-line products and print / publishing), training outsourcing and custom content development.
- On-line products contribute about 33% to revenues, Print/publishing accounts for about 30%, training outsourcing 18% and custom development, the balance 19%.
- The custom content business has been witnessing softness due to the cuts in discretionary spends by clients. The print and publishing business of Element K has also been impacted.
- This softness set off the growth in training outsourcing and on-line learning products business.
- We believe custom projects business has faced extended sales cycles and scale-up issues in the past.
- The company has received two orders (including 1 in 2QFY11) in the training outsourcing segment from European clients, which are expected to scale up in the future quarters.
- We will need to see higher business growth before becoming more bullish on this business.
- With the macro headwinds in place, we expect this business to report marginal growth going forward.
- The EBIDTA margins improved during the quarter to 7.8% v/s 7.6% YoY, despite the rupee appreciation. The improvement came on the back of the mix change in favour of on-line products and cost management.
- The management has indicated that, with costs having been re-aligned, these margins are sustainable and may rise with increase in revenues. However, potential rupee appreciation will be a head-wind for margin improvement.

ILS - sequential growth of more than 6%; however the velocity has reduced

- The Individual learning solutions (ILS) business reported a 6% YoY growth in revenues. This was lower than expectations. Also, this was a scale down from the >10% growth seen in previous two quarters.
- According to the management, the relatively lower opening order book (due to lower enrolments last fiscal) impacted growth rates.
- We also understand that, delays in marketing programs (like scholarships) in other emerging markets also impacted growth.
- The India business reported a 14% enrolment growth, which was along expected lines. However, international business reported a significantly lower growth, in our opinion. Exact details are not available.
- The company increased fees in select long-term courses (GNIIT) by about 14% WEF April 2010 and this will be applicable to new enrolments.
- According to the management this had an impact of 100bps on 1QFY11 growth rate and for FY11, it is expected to have a 200bps impact.

Growth in ILS revenues

	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Revenues (Rs mns)	870.36	1035.00	856.00	1311.00	964.00	1144.00	908.40
YoY growth (%)	19.55	15.00	0.23	7.11	10.76	10.53	6.12

Source : Company

- We are seeing the impact of a stabilizing global economy on the sentiments. Positive comments being made by IT services companies about future recruitment is also helping bring back confidence in retail segment.
- We expect this to get translated into higher enrolments in India over the next few quarters.
- The management has slightly moderated the FY11 growth guidance to 10% - 12% (10%-15%). We have assumed a sub-12% YoY growth in FY11.
- We find this disappointing especially as it comes on the back of a rise in fees also.
- The company operated at a 200bps lower utilization on a YoY basis (54% v/s 56%).
- While a relatively lower growth in a seasonally weaker quarter may not impact annual growth rates significantly, we will watch this space more carefully in 2QFY11.

Schools learning business

- The business reported a 7% rise in revenues YoY.
- The highlight of the quarter was the strong growth in the non-Government schools business which grew by 22% and contributed 34% of revenues.
- 218 (101) non-Government schools were added this quarter. 33 private schools were added in 3QFY10 and 82 in 2QFY10. The eGuru program is gaining increased acceptance. We believe that, NIIT now has about 1726 (1508) private schools.
- The order booking during the quarter was about Rs.1.59bn and this included a Rs.1.27bn order for 1013 schools from Government of Maharashtra.
- The total number of schools serviced by NIIT has risen to beyond 16000, we believe.
- The company also initiated a Teachers' training program during 2QFY10 and already had orders to train 25,500 teachers.

New businesses - revenues rise but margins fall

- Revenues rose during the quarter by 122% as the company executed the order from various for about 1500 bankers.
- There has been a revival in demand form from various private sector banks.
- FMT business reported a 125% rise in enrolments, indicating the release of pent-up demand from customer segments.
- The company has signed up four other banks as its clients in the IFBI business, taking the total to 28.
- With corporate sentiment improving, management and BPO courses are expected to see some momentum.
- While revenues rose, the margins fell on the back of higher spending on new course development and salary increments.
- The management has indicated that, the IFBI business is near break even and the remaining businesses (Management, BPO, etc) should reach that stage during FY11. Finance and Management training contribute about 70 -75% of revenues.

EBIDTA margins

- Margins fell slightly on a YoY basis. All businesses except CLS reported a fall in margins.
- This was largely due to the significant currency appreciation and also the salary hikes given during the quarter.
- Currency impacted revenues by Rs.125mn and EBIDTA by Rs.85mn.
- During FY10, a part of the salaries were made variable and were not paid because of lower revenues. During 1QFy11, these were paid and also a raise was given WEF 1QFY11, the impact of which has been reflected in the results.
- We have been bullish on NIIT's prospects because of an expected improvement in profitability across businesses. However, we have marginally reduced our margin expectations post the 1QFY11 results.

EBIDTA margins (%)

	1QFY11	4QFY10	1QFY10
Individual	16.61	24.65	18.69
Schools	16.93	23.05	18.38
Corporate	7.84	10.12	7.58
New initiatives	-33.64	-23.91	-84.00

Source : Company

Future prospects

We have made changes to our FY11 earnings estimates

Revenue break up

(Rs mn)	FY07	FY08	FY09	FY10	FY11E
Individual	2473.0	3242.0	3983.4	4275.0	4770.3
Schools	846.0	1010.0	1384.0	2000.0	1931.2
Corporate	4560.0	5508.0	5789.0	5422.0	5790.1
New initiatives	71.0	308.0	330.0	296.0	510.0
Total	**7950.0**	**10068.0**	**11486.4**	**11993.0**	**13001.5**

Source : Company, Kotak Securities - Private Client research

- We expect the growth in individual learning business to be at about 12% in FY11.
- SLS is expected to maintain high growth (excluding the high hardware component in 2QFY10) on the back of the Government's initiatives on education and scale up in private schools business.
- New initiatives are expected to scale up in FY11 on the back of higher banking and management training revenues.
- Improving sentiment in developed economies is expected to help CLS report better numbers in FY11.
- We have assumed margins to improve (YoY basis) on the back of better capacity utilization, higher volumes and better leverage on costs.
- However, salary increments and currency impact mat set off a part of this impact.

EBIDTA margins

(%)	FY07	FY08	FY09	FY10	FY11E
Individual	17.47	20.51	21.75	23.06	23.81
Schools	11.58	12.97	15.46	14.80	18.93
Corporate	7.81	4.83	3.18	8.06	9.51
New initiatives	-154.93	-8.44	-22.45	-51.35	-12.16
Total	**9.72**	**10.30**	**10.32**	**13.07**	**15.31**

Source : Company, Kotak Securities - Private Client research

- After accounting for its 25% share in NIIT Technologies' profits, we expect the net profit to go up to Rs.1.12bn (Rs.1.16bn) in FY11, translating into an EPS of Rs.6.8 (Rs.7).

Valuations

We maintain BUY on NIIT with a price target of Rs.85

- We maintain our fair price target at Rs.85 based on our DCF model.
- At our target price, FY11E earnings will be discounted by 12x.

Concerns

- A delayed recovery in the global economy could impact revenue growth of NIIT.
- Steep rupee appreciation v/s major global currencies may impact the financials of NIIT.

RESULT UPDATE

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J KUMAR INFRAPROJECTS LTD

PRICE: RS.202 **RECOMMENDATION: BUY**
TARGET PRICE: RS.260 **FY11E P/E: 5.9X**

- **J Kumar Infraprojects reported 31% growth in revenues for Q1FY11 vis-à-vis same period last year. This was inline with our expectations and led by strong order book of nearly Rs 14 bn.**
- **Operating margin performance was better than our estimates and margins stood at 15.4% for Q1FY11.**
- **Net profits reported a sharp increase of 28% for Q1FY11 as against same period last year. Net profit growth was boosted by healthy revenue growth and a strong order book.**
- **We maintain our estimates and expect revenues to grow at a CAGR of 38% and net profits to grow at a CAGR of 32% between FY10-FY12.**
- **At current price of Rs 202, stock is trading at 5.9x and 4.6x P/E multiples for FY11 and FY12 respectively. We value the core business of the company at 8x FY11 P/E multiples and maintain our price target of Rs 260 on FY11 estimates. We continue to maintain BUY recommendation on the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	7,643	11,524	14,635
% change YoY	88	51	27
EBITDA	1,285	1,729	2,195
% change YoY	113	35	27
Other Income	59	50	50
Depreciation	145	182	216
EBIT	1,199	1,596	2,029
% change YoY	111	33	27
Net interest	148	165	186
Profit before tax	1,051	1,431	1,843
% change YoY	115	36	29
Tax	351	487	627
as % of PBT	33	34	34
Net income	700	945	1,217
% change YoY	113	35	29
Shares OS (m)	27.8	27.8	27.8
EPS (reported) (Rs)	25.2	34.0	43.8
P/E(x)	8.0	5.9	4.6
EV/EBITDA(x)	4.0	2.9	2.2
RoE(%)	31.5	28.0	27.7
RoCE(%)	42.7	38.4	38.4

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net Sales	**2,003**	**1,527**	**31**
Expenditure	1,695	1,291	31
EBITDA	**308**	**235**	**31**
EBITDA margin	15.4	15.4	
Depreciation	37	35	
EBIT	**271**	**200**	**35**
Interest	56	26	
PBT(exc other income)	215	174	23
Other Income	12	13	
PBT	**228**	**187**	**21**
Tax	69	64	
Tax (%)	30.3	34.0	
PAT	**159**	**124**	**28**
NPM (%)	7.9	8.1	
Equity Capital	278	207	
EPS (Rs)	**5.7**	**6.0**	

Source: Company

Revenue growth led by strong order book

- J Kumar Infraprojects reported 31% growth in revenues for Q1FY11 vis-à-vis same period last year. This was inline with our expectations and led by strong order book of nearly Rs 14 bn.
- Current order book of the company is diversified across transportation (86%), civil (5%), irrigation (7%) and piling (2%) and provides visibility for next 1.5 years. In Q1FY11, company received nearly Rs 1-1.5bn worth of orders related to extension of scope of work in existing projects.

- Order inflow pipeline for the company is also very strong. JKIL is L1 in Rs 5 bn worth of orders. Out of the L1 orders, Rs 2 bn are from Gujarat Bus Rapid Transit System and remaining Rs 3 bn from the road segment in Delhi and Ahmadabad region. Orders in the buildings segment are also likely to come to the company from reputed clients. Along with this, company is also pre-qualified for three road BOT projects worth Rs 15 bn in joint venture with other players. Company expects to win atleast one-two road BOT projects in this financial year. Thus, we believe that with strong order inflow, company should be able to maintain its revenue growth momentum going forward.
- Revenues for the current quarter came primarily from transportation segment (96%) and other segments such as piling contributed 4% of the total revenues. Revenues from transportation segment were diversified across roads (25%), flyovers (48%) and skywalks (23%).
- We maintain our estimates and expect revenues to grow at a CAGR of 38% between FY10-FY12.

Operating margins likely to be maintained going forward

- Operating margin performance was better than our estimates and margins stood at 15.4% for Q1FY11.
- JKIL expects to maintain margins at the current levels due to large fleet of equipments being owned by the company along with no subcontracting.
- We continue to maintain our estimates and expect operating margins to be 15% going forward.

Net profit growth led by healthy revenue growth and strong operating margins

- Net profits reported a sharp increase of 28% for Q1FY11 as against same period last year. Net profit growth was boosted by healthy revenue growth, strong order book as well as excellent margins.
- We continue to maintain our future estimates and expect net profits to grow at a CAGR of 32% between FY10-12.

Valuation and recommendation

We maintain BUY on J Kumar Infraprojects with a price target of Rs.260

- At current price of Rs 202, stock is trading at 5.9x and 4.6x P/E multiples for FY11 and FY12 respectively.
- We value the core business of the company at 8x FY11 P/E multiples and maintain our price target of Rs 260 on FY11 estimates.
- We continue to maintain **BUY** recommendation on the stock.

RESULT UPDATE

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THERMAX LTD

PRICE: RS.792 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.828 **FY11E P/E: 24X**

Thermax's first quarter numbers confirm our belief of a return to higher growth trajectory after two years of stagnation. The order intake has been strong in FY10, thereby putting the company in an enviable position to target higher growth in FY11 and onwards. The company's cost optimisation efforts should keep margins intact despite the increase in EPC business. We expect some large order wins in the current year in the power EPC business, a key stock price driver.

Anticipating the growth potential, the stock has been trading firm and has outperformed the broad market as well as peers. The stock trades at 24.7x FY11 earnings given expectations of higher growth levels than the peers and robust cash generation.

We remain positive on the stock but are constrained by the rich valuations leading us move rating to Reduce with a price target of Rs 828 (Rs.780 earlier).

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	34603	34062	45996
Growth (%)	-1	-2	35
EBITDA	4219	3981	5664
EBITDA margin (%)	12.2	11.7	12.3
Net profit	2889	2666	3817
Net cash (debt)	5100	7134	8345
EPS (Rs)	24.3	22.4	32.1
Growth (%)	0.5	-7.7	43.2
CEPS	27.2	16.5	36.0
DPS (Rs)	5.0	5.0	5.0
ROE (%)	31.8	14.2	30.3
ROCE (%)	43.4	33.7	41.7
EV/Sales (x)	2.6	2.6	1.9
EV/EBITDA (x)	21.3	22.2	15.2
P/E (x)	32.6	35.3	24.7
P/Cash Earnings	29.1	48.1	22.0
P/BV (x)	9.5	8.8	6.8

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY11	Q1 FY10	YoY (%)
Net Sales	**7,788**	**5,228**	**49**
other income from operations	110	148	(26)
Total Expenditure +	**6,938**	**4,687**	**48**
Raw Matl costs	4,924	3,199	54
Purchase of trading goods	326	137	138
Staff costs	753	522	44
Other costs	936	829	13
PBIDT	**960**	**689**	**39**
Other Income	140	103	36
Interest	6	5	19
PBDT	**1,094**	**787**	**39**
Depreciation	106	96	11
PBT	**988**	**692**	**43**
Tax	326	227	44
Adj Profit After Tax	**662**	**465**	**42**
EPS Rs per share	5.6	3.9	
Raw Material costs to sales (%)	63	61	
Other costs to sales (%)	12.0	15.9	
PBIDTM (%)	12.3	13.2	
Tax rate (%)	33	33	

Source: Company

Result Highlights

- Revenue for the quarter is up 49% yoy to Rs 7.8 bn. Revenue growth has come higher than expectations.
- For FY10, revenues were down 4% mainly due to subdued order intake in FY09. Instances of clients going slow on project execution were also responsible for fall in revenues. However, the situation has turned around and the company has begun the year with a good order backlog, which should drive revenues for FY11 and FY12
- The energy segment has posted a growth of 45% due to upsurge in corporate capex in industries like Metals, Cement and Refineries. However, we believe the growth rates are likely to moderate as Q1 FY10 had a low base.

Segment revenues

(Rs mn)	Q1 FY11	Q1 FY10	% change
Segment- Energy	6066	4194	45
Segment - Enviro	2221	1252	77

Source: Company

- Operating margins for the quarter declined primarily due to revenue mix changes wherein a higher share of outsourced work is indicated.
- Material costs have increased in the quarter possibly due to change in revenue mix towards higher share of project work.
- Staff costs also rose higher than expected as the company may have recruited people in view of the increased quantum of work to be executed in the current year.
- The management has indicated that the company had booked orders under stiff competition in the previous year which are also responsible for downward pressure on margins in Q1 FY11. However, recent orders are at desirable margins, which should put upward thrust on margins in FY11.

Segment Margins

(%)	Q1 FY11	Q1 FY10
Segment- Energy	11.2	12.4
Segment - Enviro	12.1	11.9

Source: Company

Strong upsurge in order book - up 96% yoy

- Order backlog is up 96% yoy to Rs 63.3 bn, thus imparting a revenue visibility of 23 months based on trailing four quarters revenues.
- We estimates robust order intake in the quarter in the range of Rs 17 bn, up 73% yoy and 18% qoq.
- During the quarter, the company received a Rs 5.8 bn order for a 72 MW gas based combined cycle power plant.
- EPC orders from the Power sector constitute roughly 46% of the order backlog and the average execution period of the same is close to 20-24 months higher than the execution period of the total order backlog (between 15-20 months).
- On order outlook, the company has maintained that order inquiries have been better every quarter. The company expects to win some large orders in the power sector business as it has started bidding for 300 MW power projects.
- The company intends to secure higher order intake in the current year as the business confidence as also the balance sheets of the corporate sector is in a better shape.

Update on Thermax's entry in manufacture of supercritical boilers

In Q4 Fy10, Thermax Ltd and Babcock & Wilcox power generation group announced the formation of a JV to engineer, manufacture and supply supercritical boilers for the Indian power sector. The JV will manufacture boilers for size above 300 MW in subcritical and 660 MW plus in supercritical technology. Thermax will own 51% of the venture with an annual capacity of 3000 MW in the first phase. There will be a phased indigenization programme for technology absorption.

Thermax has had a long association with the B&W group for over 20 years. In 2008, Thermax had signed an agreement for technology transfer for subcritical boilers with B&W.

Entry into super-critical technology based boilers was important for the company as the power generation market is shifting towards more efficient and enviro friendly equipments. This is where supercritical technology scores over the conventional thermal power projects.

Thermax will be investing Rs 1.7 bn in FY11-12 towards its equity contribution in the manufacturing facility.

The company has been in talks with the government for land for setting up the manufacturing facility. It is eligible for bidding in bulk order from NTPC-DVC for 800 MW units, which will be announced in the next few months.

MW

	Subcritical	Supercritical			Total
	sub-500 MW	660 MW	800 MW	Total	Addition
Xth plan	9620	0	0	0	9620
Xith plan	44490	9	2	7540	52030
XIIth plan	30473	54	10	43640	74113

Source: CEA

Future Initiatives - Nuclear and Solar Power

- The company is positioning itself for emerging opportunity in the nuclear power arena and intends to partner with the world leaders (Areva, GE and Toshiba) to co-produce equipments. It also targets the water-treatment business in the nuclear power sector. However, meaningful traction in the nuclear power business will be visible only from FY13 onwards.
- The company has also initiated moves in the solar power sector. Thermax is designing the plant to operate with solar energy, with biomass as support energy source to meet round-the clock energy requirements. This power plant will be designed using air condensers to economise on the water requirements for power generation. Thermax will also manage the operation & maintenance of the solar thermal power plant at Shive village for a period of five years

Earnings Outlook - Revenue growth forecast to gain momentum in FY11 onwards

- We expect pace of project execution to accelerate in FY11. This coupled with advantage of beginning the year on a higher order backlog should translate into robust revenue growth.
- We project 35% and 43% increase in revenue and profits in FY11 respectively.
- Margins are expected to be maintained. If material prices stay soft, then there is potential for margin expansion as as the new orders have come at a much better margins.
- The company has cash worth Rs 9.1 bn equivalent to Rs 77 per share.

DCF model Summary

	(Rs mn)
WACC	13.0
NPV of cash flows 2011-19	35294
TV	44824
FCF in FY11	3895
Profit growth between FY11-19	14.6

Source: Company, Kotak Securities - Private Client Research

Valuation - Stock has outperformed since Q4 FY10 on strong growth potential but valuations look fairly priced in near-term

Thermax is trading at 24.7x FY11 earnings and a EV/EBITDA of 15.2x.

We believe stock should trade at a premium valuation in view of the strong expected earnings growth, growth potential from power sector and robust cash generation.

We recommend REDUCE on Thermax with a revised price target of Rs.828

The strong cash flow from operations supports our DCF based target price of Rs 828 (Rs 780 earlier). At our target price, the stock would trade at 26x FY11 earnings.

Sector Valuation multiples

	PE FY10	PE FY11	EV/E
ABB	45	30	26.9
Siemens	31	25	17.0
Areva	34	20	15.2
BHEL	27	20	12.1
L&T	33	27	15.1
CRG	24	20	10.9
Voltas	21	16	7.5
Thermax	35	24	15.2
Cummins	24	21	12.5
Greaves Cotton	14	12	6.5
Blue Star	20	17	9.9
KPTL	16	13	10.0
BEL	20	15	8.3
HDO	17	13	8.5

Source: Companies

RESULT UPDATE

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TVS MOTOR

PRICE: RS.129 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.125 **FY11E P/E: 15.4x**

- **TVS Motors 1QFY11 results were broadly in line with our estimates. Revenues were slightly higher than our expectation but net profit was as expected.**
- **Sharp volume growth coupled with increased blended realization led to significant jump in revenues.**
- **As expected, raw material cost saw a substantial jump and accordingly margins declined sequentially.**
- **TVS reported EPS of Rs1.7 for the quarter as against Rs0.8 reported during 1QFY10.**
- **TVS Motors announced issue of bonus shares in the ratio of 1:1. The company also announced second interim dividend of Rs0.5 for FY10.**
- **We are revising our estimates and price target upwards to factor in the robust volume outlook.**
- **We maintain ACCUMULATE rating on the stock with revised price target of Rs125.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	37,367	44,240	60,321
Growth (%)	14	18	36
EBITDA	1,863	3,260	4,576
EBITDA margin (%)	5.0	7.4	7.6
Adjusted Net Profit	310	1,320	1,986
Debt	9,060	10,033	8,711
AdjustedEPS (Rs)	1.3	5.6	8.4
DPS (Rs)	0.7	0.7	0.7
RoE (%)	4.1	16.8	22.0
RoCE (%)	4.8	8.5	15.0
EV/Sales (x)	1.0	0.8	0.6
EV/EBITDA (x)	20.5	11.4	8.2
P/E (x)	98.3	35.3	15.4
P/BV (x)	4.1	3.7	3.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	1QFY11	1QFY10	YoY (%)	4QFY10	QoQ (%)
Total Revenues	**13,930**	**9,887**	**40.9**	**12,160**	**14.6**
Total expenditure	12,893	9,261	39.2	11,143	15.7
RM consumed	10,138	7,156	41.7	8,347	21.5
Employee cost	729	523	39.3	700	4.2
Other expenses	2,025	1,581	28.1	2,096	(3.4)
EBITDA	**1,037**	**626**	**65.6**	**1,017**	**2.0**
EBITDA margin (%)	7.4	6.3	-	8.4	-
Depreciation	266	254	4.6	263	1.2
Amortisation	139	-	-	155	(10.2)
Forex gain/(loss)	1	(3)	-	11	(87.0)
Interest cost (net of income)	170	171	(1.0)	123	37.9
Other Income	41	3	1,224.0	33	24.2
Extraordinary income/ (loss)	-	-	-	(455)	-
PBT	**505**	**200**	**151.8**	**65**	**674.8**
PBT margins (%)	3.6	2.0		0.5	
Tax	101	19	425.5	(138)	-
Tax rate (%)	20.0	9.6	-	(211.6)	-
Reported PAT	**404**	**181**	**122.8**	**203**	**99.0**
PAT margins (%)	2.9	1.8	-	1.7	-
Reported EPS (Rs)	**1.7**	**0.8**	**122.8**	**0.9**	**99.0**
Domestic Volumes	407,919	317,795	28.4	362,881	12.4
Export Volumes	55,921	31,471	77.7	55,971	(0.1)
Total Volumes	463,840	349,266	32.8	418,852	10.7
Net Realization	29,527	27,934	5.7	28,469	3.7

Source: Company

Revenues ride on volume and realization

- TVS Motors reported revenues of Rs13,930mn, a significant 41% jump over 1QFY10 revenues of Rs9887mn. Revenues were better than our estimate on account of better than expected blended realization and higher than anticipated operating income. On sequential basis revenues grew by 14.6%.
- Revenue grew on account of higher volumes and increased blended realization. 1QFY11 saw huge 32.8% jump in volumes over 1QFY10. Even on sequential basis, volumes were higher by 10.7%. New launches by the company in the scooter and the motorcycle segment coupled with overall robust retail demand for 2W's helped the company post huge growth in volumes.
- New launches (Wego and Jive) led to a smart improvement in the product-mix in favour of higher value models. Furthermore, increased 3W volumes also contributed towards improved realizations. Realization for the quarter increased from Rs27,934 in 1QFY10 to Rs29,527 during 1QFY11. QoQ blended realization improved by 3.7% that was partially due to price hike taken during 1QFY11. For the remaining part of FY11, we expect marginal improvement in realization on account of product mix.

High input cost impacts operating margin

- TVS Motors reported EBITDA margin of 7.4% for the quarter that was marginally lower by 20bps over our expected margin of 7.6%.Sequentially, EBITDA margins for the quarter saw sharp 100bps fall despite higher volumes and better realizations.
- Sharp increase in input cost was the prime reason for lower margins. Raw material cost as a % of sales increased from 70% in 4QFY10 to 74% during the quarter. 40% jump in volumes helped the company lower its fixed cost per unit and the same led to YoY improvement in margins.
- Net profit for the quarter more than doubled from Rs181mn in 1QFY10 to Rs404mn for the quarter under review. Tax rate for the quarter stood at 20% as against 9.6% tax provision made during 1QFY10.

Dividend and Bonus

- The company has recommended the issue of bonus shares in the ratio of 1:1 through capitalization of equivalent amount from its general reserve.
- The company also declared a second interim dividend of Rs0.5 per share taking the total dividend for FY10 to Rs1.2 per share.

Change in our estimates

Volumes during 1QFY11 have been robust for TVS Motors. The company continues to benefit from the new launches in the scooter and motorcycle segment. Company's performance has seen considerable improvement particularly in the scooter segment with the introduction of Wego. Even in the motorcycle segment the company has done well. By July end the company is expected to launch a new motorcycle "Max4R" targeted towards the rural market. The company remains optimistic on the export volumes and expects to export ~250,000 2W's during FY11.

We maintain ACCUMULATE on TVS Motor with a revised price target of Rs.125

We are increasing our volume estimates for FY11 by 9% to 2mn units. Accordingly our revised FY11 revenue and EBITDA estimates stands at Rs60,321mn and Rs4,576mn respectively. We are marginally lowering our EBITDA margin estimates from 7.7% to 7.6%. Our revised net profit for FY11E is Rs1,986mn. Accordingly we are increasing out price target on the stock to Rs125 (earlier Rs112.) We continue to maintain **ACCUMULATE** rating on the stock

RESULT UPDATE

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TRANSPORT CORPORATION OF INDIA (TCI)

PRICE: RS.134 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.122 **CONS. FY11E P/E: 17.8X**

- **TCI reported excellent set of Q1FY11 results which are above our estimates both on the revenues and on the profitability front**
- **Positive on long term growth prospects on account of pick up in economy and introduction of GST next year**
- **De-merger of real estate and warehousing division to lead to value creation**
- **However stock is richly valued at 17.8x FY11E EPS of Rs.7.5**
- **Due to 9% downside potential we downgrade TCI to REDUCE with unchanged price target of Rs.122**

Summary table - Consolidated

(Rs mn)	FY09	FY10	FY11E
Sales	13,513	15,216	17,232
Growth (%)	8.7	12.6	13.3
EBITDA	1,022	1,138	1,361
EBITDA margin (%)	7.6	7.5	7.9
Net profit	333	413	546
Net debt	2,214	2,467	2,455
EPS (Rs)	4.6	5.7	7.5
Growth (%)	1.0	23.9	32.3
DPS (Rs)	0.6	0.8	1.0
ROE (%)	11.1	12.3	15.3
ROCE (%)	13.7	13.6	16.6
EV/Sales (x)	0.9	0.8	0.7
EV/EBITDA (x)	11.7	10.7	8.9
P/E (x)	29.2	23.6	17.8
P/CEPS (x)	15.4	13.7	11.1
P/BV (x)	3.2	2.9	2.5

Source: Company, Kotak Securities - Private Client Research

TCI - Results Table - Standalone

(Rs mn)	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ (%)
Net Sales	**3,934**	**3,110**	**26.5**	**4,014**	**(2.0)**
Inc/dec in stock	-	(0)	(100.0)	1	(100.0)
Purchases	-	50	(100.0)	0	(100.0)
Operating exp.	**3,237**	**2,461**	**31.5**	**3,247**	**(0.3)**
Staff cost	203	172	18.6	194	4.7
Other exp.	211	205	2.6	255	(17.3)
Total exp.	3,651	2,888	26.4	3,697	(1.2)
EBIDTA	**284**	**222**	**27.7**	**318**	**(10.6)**
Other income	8	14	(47.2)	10	-
Depreciation	69	61	11.6	75	(8.1)
EBIT	**223**	**175**	**27.2**	**253**	**(12.1)**
Interest	50	55	(9.1)	52	(4.0)
PBT	**173**	**120**	**43.8**	**201**	**(14.2)**
Tax & def tax	51	41	23.8	76	(32.9)
PAT	**122**	**79**	**54.3**	**125**	**(2.8)**
Mn shares (Fv Rs. 2)	72.5	72.5		72.5	
Ratios					
EBIDTA (%)	7.2	7.1	+10 bps	7.9	-70 bps
Purchase / Sales (%)	-	1.6		0.0	
Operating exp / Sales (%)	82.3	79.1		80.9	
Staff cost / Sales (%)	5.2	5.5		4.8	
Oth Exp. / Sales (%)	5.4	6.6		6.3	
Tax / PBT (%)	29.5	34.3		37.7	
EPS (Rs)	**1.7**	**1.1**		**1.7**	
CEPS (Rs)	2.6	1.9		2.8	

Source: Company, Kotak Securities - Private Client Research

- Net sales for Q1FY11 were Rs.3.9 bn, which is up 26.5% on YoY basis. This was primarily due to pick up in the Indian economy during the quarter which led to increased volumes. The growth is on account of stabilizing market and strong demand coming in from the automobile sector.
- The revenues of the Supply chain solutions division improved sharply by 85.3% on YoY basis to Rs.773 mn. The revenues of the XPS courier division improved by strong 27.9% on YoY basis to Rs.1.0 bn. The revenues of the shipping division were up 11.1% YoY to Rs.190 mn and revenues of the transport division were up 15.3% YoY to Rs.1.8 bn.
- The company recorded higher operating margin of 7.2% for Q1FY11, which is up 10 bps on YoY basis. This is primarily due to increase in profitability of XPS courier division. The shipping business has turned around and reported PBIT of Rs.28 mn. The Global division reported PBIT loss of Rs.4 mn as it is in middle of expanding its operations. It would turn profitable in the current year once it reaches a particular scale.
- For Q1FY11, EBIDTA stood at Rs.284 mn up 27.7% on YoY basis.
- PBT for Q1FY11 stood at Rs.173 mn which is up 43.8% on YoY basis.
- PAT for Q1FY11 is up 54.3% on YoY basis to Rs.122 mn thereby translating into a quarterly EPS of Rs.1.7 and CEPS of Rs.2.6.

Segemntal Results

	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ (%)
Revenue (Rs. mn)					
Transport	1,856	1,610	15.3	1,981	(6.3)
XPS	1,062	830	27.9	1,067	(0.5)
SCS	773	417	85.3	784	(1.4)
Trading	-	51	-	1	-
TCI Seaways	190	171	11.1	156	21.6
Global	54	22	150.0	26	107.7
Wind Power	22	22	(3.1)	7	214.5
Real estate	-	0	-	1	-
PBIT (Rs. mn)					
Transport	41	40	2.5	118	(65.5)
XPS	87	61	43.3	93	(7.0)
SCS	56	32	76.2	58	(3.6)
Trading	-	1	-	(1)	-
TCI Seaways	28	25	12.6	(3)	(968.8)
Global	(4)	(4)	-	(9)	(55.1)
Wind Power	12	13	(9.4)	(2)	(652.4)
Real estate	(1)	1	(280.0)	1	(250.0)
PBIT (%)					
Transport	2.2	2.5	(11.1)	6.0	(63.2)
XPS	8.2	7.3	12.1	8.7	(6.6)
SCS	7.3	7.6	(4.9)	7.4	(2.3)
Trading	-	-	-	(50.0)	-
TCI Seaways	14.7	14.5	1.3	(2.1)	(814.3)
Global	(7.4)	(19.9)	-	(34.2)	78.4
Wind Power	53.5	57.1	(6.5)	(30.4)	(275.6)

Source: Company, Kotak Securities - Private Client Research

To de-merge real estate and warehousing division

- The Board of Directors of TCI had approved the Scheme of Arrangement relating to the de-merger of Real Estate & Warehousing division of the Company with effect from April 01, 2010. The scheme has also been approved by its creditors an shareholders and now it is awaiting approval of the Hon'ble High Court of Andhra Pradesh, Hyderabad.
- As per the scheme, the existing shareholders of TCI will get one equity share having face value of Rs.10/- each in the transferee company i.e. TCI Developers Ltd. (TDL) against every 20 equity shares having face value of Rs.2/- each held by them in TCI.
- It is planning to build five large warehouses and balance would be prime residential and commercial properties. It is also looking to build multimodal logistics park, truck terminal and Free Trade Warehousing Zone.

SCS business to continue to grow at 30%-35% CAGR

In Q1FY11 the revenues of the SCS business was up 85.3% YoY to Rs.773 mn and its PBIT were up 76.2% YoY to Rs.56 mn. Based on its experience out of the JV, TCI has been able to replicate the model and deliver efficient supply chain solutions (SCS) to other industries like FMCG, retail, white goods and automobiles. It is able to generate new customers due to its efficient solutions and thus the supply chains solution business of TCI is expected to continue to grow at 30%-35% CAGR going forward.

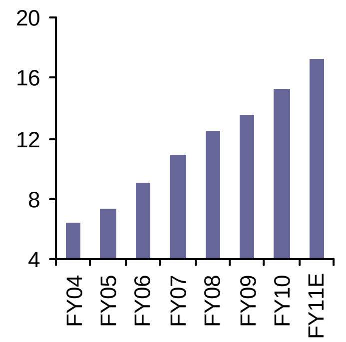
Recommendation and Valuation

- We maintain our earning estimates and expect TCI to report Consolidated EPS of Rs.7.5 in FY11E.

We now recommend to REDUCE on TCI with a price target of Rs.122

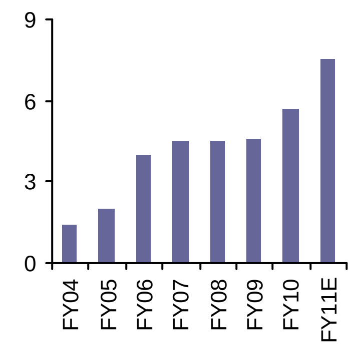
- We are positive on the long term growth prospects of the company due to pick up in economy, focus on integrated logics and supply chain solutions business, introduction of GST and property development and warehousing business.
- However at the current market price of Rs.134, the stock is richly valued at 2.5x book value, 17.8x earnings and 11.1x cash earnings based on FY11E.
- In view of 9% downside potential from the current levels we downgrade the stock of TCI to **REDUCE** with unchanged price target of Rs.122.

Consolidated Revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.) FV Rs. 2



Source: Company, Kotak Securities - Private Client Research

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC	2,970	(1.4)	(3.8)	0.7
Axis Bank	1,347	(1.6)	(1.9)	1.2
HDFC Bank	2,033	(0.6)	(1.4)	0.5
Losers				
ICICI Bank	903	1.8	6.1	2.9
Tata Steel	531	4.2	4.5	11.1
Sterlite Ind	173	4.2	3.8	9.8

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
22-Jul	ACC, Ambuja Cements, Bajaj Auto, Bajaj Holdings, CRISIL, Deepak Fert, Dish TV, DRL, Gujarat Gas, IDBI Bank, Idea Cellular, ITC, Lumax Ind, PNB, Power Finance, Shriram Transport, Vijaya Bank, Wipro, Zee News earnings expected
23-Jul	Allahabad Bank, Areva T&D, BHEL, Geometric, HPCL, IFCI, Indiabulls Sec, Jaiprakash Associates, Jet Air India, JSL, JSW Energy, Praj Ind, SRF, Thomas Cook, TV Today, Uco Bank, Wipro earnings expected
24-Jul	Balrampur Chini, Eicher Motors, Godrej Cons. Hindustan Zinc, Indiabulls Fin, Indian Bank, IOC, Kesoram Ind, Maruti Suzuki, earnings expected

Source: Bloomberg

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