Private Client Research

Daily Morning Brief

January 17, 2008

FOR PRIVATE CIRCULATION

Equity

	16 Jan 08	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
Sensex	19,868	(1.9)	3.2	6.2
Nifty	5,936	(2.3)	2.7	6.8
Banking	12,164	(0.8)	11.4	26.6
IT	3,567	(1.6)	(3.7)	(11.8)
Healthcare	4,125	(1.0)	(1.7)	9.1
FMCG	2,306	(2.0)	4.3	9.8
PSU	10,072	(2.3)	5.9	14.6
CNX Midcap	8,827	(1.6)	3.0	26.9
World indices				
Nasdaq	2,395	(1.0)	(7.0)	(14.3)
Nikkei	13,505	(3.4)	(10.4)	(19.5)
Hangseng	24,451	(5.4)	(8.0)	(16.5)

Value traded (Rs cr)

	16 Jan 08	% Chg - 1 Day
Cash BSE	7,549	(2.2)
Cash NSE	21,424	11.6
Derivatives	80,606	22.9

Net inflows (Rs cr)

	15 Jan 08	% Chg	MTD	YTD
FII	226	29	2,262	2,262
Mutual Fund	(520)	(6)	(50)	(50)

FII open interest (Rs cr)

	15 Jan 08	% chg
FII Index Futures	27,966	7.6
FII Index Options	11,266	1.0
FII Stock Futures	57,668	(0.1)
FII Stock Options	232	1.6

Advances/Declines (BSE)

16 Jan 08	A	B1	B2	Total	% Total
Advances	37	109	165	311	20
Declines	179	550	472	1,201	79
Unchanged	2	2	3	7	0

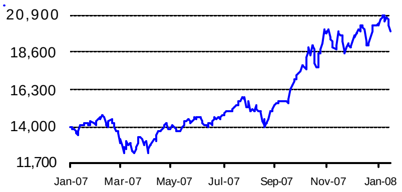
Commodity

	16 Jan 08	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	91.0	0.1	0.4	4.1
Gold (US$/OZ)	877.0	(1.2)	11.1	16.7
Silver (US$/OZ)	15.8	(0.8)	14.4	16.2

Debt/forex market

	16 Jan 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.58	7.56	7.88	7.91
Re/US$	39.29	39.27	39.55	39.35

Sensex



Source: Bloomberg

ECONOMY NEWS

- The economy is likely to grow at 8.5% in 2008/09 but the Government should take steps to spur consumer durables demand by moderating indirect taxes, the chief of the Prime Minister's economic panel has said. (ET)
- The group of ministers on pricing of essential commodities is unlikely to recommend a fuel price hike on Thursday, sources said. (ET)
- The Civil Aviation Minister has asked the Finance Ministry to rationalize the tax structure in the aviation industry including levies on aviation turbine fuel in Budget 2008-09. (BS)

CORPORATE NEWS

- **Tata Steel** has entered into a JV agreement with Oman-based Al Bahja Group for the development of the Uyun limestone deposits at Salalah in the Sultanate of Oman. (BS)
- **Reliance Petroleum,** which is building a 580,000 barrel per day refinery, has completed 82% of the work by December 31, the company has said. (BL)
- The Communication and IT Minister's plans for getting **BSNL** listed on the bourses may go awry, with the employees union threatening to go on an indefinite strike. (BL)
- Infosys BPO, a subsidiary of **Infosys**, has said the company expects to bag around four outsourcing deals worth $50-150 mn across various sectors in the next three to six months. (ET)
- **HPCL** has raised Rs.1.7 bn through the sale of oil bonds issued to the company by the Government. (BL)
- **MRPL** has posted a 193% growth in net profit at Rs.3.47 bn for Q3FY08, when compared with Rs.1.18 bn in Q3FY07. Its total income increased 10% to Rs.81.69 bn in Q3FY08 from Rs.73.97 bn in Q3FY07. (BS)
- **JSW Steel,** through its Netherlands based wholly-owned subsidiary, has acquired eight greenfield mining concessions in the Atacama region in North Chile for a total consideration of $52 mn. (BS)
- **Allahabad Bank** has reported a net profit of Rs.3.65 bn during Q3FY08 as compared to Rs.2.86 bn shown in Q3FY07. Total revenues for the quarter increased to Rs.19.56 bn from Rs.14.02 bn in the year-ago quarter. (BL)
- **Welspun-Gujarat Stahl Rohren** has posted a net profit of Rs.974 mn for Q3FY08 as compared to Rs.412 mn shown during Q3FY07. Total revenues for the quarter increased to Rs.10.389 bn from Rs.7.46 bn in the same period last year. (BL)
- **Chambal Fertilisers & Chemicals** has recorded a net profit of Rs.633.5 mn for Q3FY08 as compared to Rs.701.3 mn shown in Q3FY07. Total income for Q3FY08 has increased to Rs.8.23 bn from Rs.7.99 bn in the year-ago period. (BL)
- **Nagarjuna Construction Co** has bagged six new orders valued at Rs.5.02 bn. (BL)
- **Federal Bank** has raised Rs.21.25 bn through a 1:1 rights issue. (BS)
- **Apollo Tyres** has said it plans to set up a manufacturing facility in Hungary at an investment of €200 mn.
- **PTC India** has raised Rs.12 bn via the QIP route. (BS)
- **GoAir** has been approached by E&Y on behalf of its clients for picking up around 28% equity stake in the airline. (BS)

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

FROM OUR RESEARCH TEAM

RESULT UPDATE

Dipen Shah
dipen.shah@kotak.com
+91 22 66341376

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 66341273

INFOTECH ENTERPRISES LTD (IEL)

PRICE : RS.265 **RECOMMENDATION : BUY**

TARGET PRICE : RS.338 **FY09E PE : 13.4X**

- Infotech Enterprises' (IEL's) operational results for Q3FY08 were in line with our estimates
- Revenues grew by a strong 11% in US dollar terms on a sequential basis
- EBIDTA margins were maintained at Q2FY08 levels despite the rupee appreciation
- A lower-than-expected other income component and lower profits from IASI had an impact on net profits.
- No impact of the US economic slowdown has been seen, till date. Strong OBP and pipeline gives revenue visibility. There were 7% price increases from Top Two clients
- JV with HAL is expected to bring in revenues from Q4FY08. The 'offset clause' can bring in potentially large business in defense and aerospace areas in the long-term
- The company enjoys a cash-rich status, post the recent private placement. Strategic acquisitions are possible in the near term, according to Infotech.
- We are making a marginal change in our earnings estimates. FY09E EPS at Rs.20.

We recommend a BUY on Infotech Enterprises with a price target of Rs.338

- We maintain **BUY** with a price target of Rs.338. We rate Infotech as our favored mid-cap pick given strong potential in its differentiated business verticals and the company's execution abilities.
- An accelerated slowdown/recession in major user economies and a sharper-than-expected appreciation in the rupee v/s major currencies are pronounced risks for every IT services player. Infotech is no different.

3QFY08 results

(Rs mn)	3QFY08	2QFY08	QoQ (%)	3QFY07	YoY (%)
Income	**1,768.5**	**1,610.8**	**9.8**	**1,430.4**	**23.6**
Expenditure	1,448.1	1,317.5		1,107.8	
EBDITA	**320.4**	**293.3**	**9.2**	**322.6**	**-0.7**
Depreciation	99.1	87.8		65.8	
EBIT	**221.3**	**205.5**	**7.7**	**256.8**	
Interest	12.5	9.5		4.8	
Other income	54.6	109.1		0.2	
PBT	**263.4**	**305.1**	**-13.7**	**252.2**	**4.5**
Tax	62.4	75.0		52.2	
PAT	**201.0**	**230.1**	**-12.7**	**200.0**	**0.5**
Sh of profit	12.5	22.7		-12.3	
Adj PAT	213.5	252.8	-15.6	187.7	13.7
EPS (Rs)	**3.92**	**4.64**		**3.45**	
Margins (%)					
EBDITA	18.1	18.2		22.6	
EBIT	12.5	12.8		18.0	
PAT	11.4	14.3		14.0	

Source : Company

Revenues grow at 10% QoQ

- Revenues for the quarter were up about 10% on a sequential basis, despite an appreciating rupee.
- While volumes grew 10%, realizations contributed 1% to the growth. Volumes grew on the back of a scale up in existing accounts and contributions from new engagements.
- UTG witnessed faster revenue growth of 18% QoQ and was in line with the employee additions made in Q2FY08. EMI revenues grew 6% QoQ.
- Lower number of billing days for two large customers towards the end of the quarter impacted EMI revenues.

Deeper relationships with existing customers in EMI...

- Infotech has managed to deepen client engagement for clients like SP AusNet, P&W, Bombardier, Tele Atlas and Swisscom.
- The company has renewed its agreement with its largest client. The same has been re-negotiated at 7% higher billing rates.
- In the EMI vertical, projects from P&W Canada in the avionics segment are scaling up at the Bangalore facility. Infotech had also got projects from other P&W repair locations like Norway, Singapore and New Zealand.
- In Q2FY08, Infotech has been recognized as a 'Gold Site' by P&W. The company hoped to capitalize on P&W's designation as a vendor to Mitsubishi that is looking to develop new light weight aircraft engines for carriers. The project was delayed but has started in Q4FY08.
- Also, Infotech has entered into a strategic partnership with CDG, a subsidiary of the Boeing Company. We believe these recognitions are indicative of Infotech's domain expertise and bode well for deeper client penetration in segments with strong potential.
- Infotech executed projects in the marine and avionics segments. In avionics, the company was involved in a prestigious project for the largest flying aircraft. Both these verticals contributed revenues of $1 mn each in Q3FY08.

... and UTG verticals

- Tele Atlas, one of the major clients of the company (revenues of about $1 mn per month) has been recently acquired by TomTom, a navigation device manufacturer.
- However, we understand from the management that the contracts with Tele Atlas will be renewed without any changes in the scope. The company also expects to get price increases in line with the increased costs of Infotech.
- Moreover, TomTom has approached Infotech to give further business to the latter.
- Projects in Europe are also progressing as expected with projects from GE Energy (for Swisscom), British Telecom and KPN scaling up according to plan. In our opinion, this explains the healthy ramp up witnessed in the Europe geography over the last two quarters.
- Also, Infotech bagged eight new accounts during the quarter comprising three in the EMI vertical and five in the UTG vertical.
- The contracts include two multi-million engagements from telecom companies in India and Australia

No impact of US economic slowdown, as yet

- As of now, Infotech does not have any significant exposure to companies in the BFSI segment. The company does not have any revenues coming from clients belonging to the US mortgage industry.
- Thus, till date, there has been no direct or indirect impact of the turmoil in the US sub-prime mortgage market on the company.
- However, in our opinion, the company may be impacted indirectly in the future in terms of reduced work flow from clients impacted by the general economic conditions in developed countries.

Price re-negotiations to higher levels

- According to the management, it has been successful in getting higher realizations from its new as well as existing accounts.
- The company has recently renewed its contract with its largest client at 7% higher rates for all offshore work.
- Infotech has been able to get a 7% rise in prices from its second largest customer also, in Q3FY08.

Offset opportunity

- Infotech has large clients in the aerospace vertical with clients like Boeing, Bombardier and P&W.
- The offset clause imposed by the Government provides for outsourcing of materials and services from India by foreign companies, which are awarded contracts in various fields.
- In our opinion, this provides a big opportunity for companies like Infotech. The company is already in a dialogue with large players like Boeing, Lockheed Martin, Rothschild, etc.

JV with HAL

- Infotech's 50:50 JV with Hindustan Aeronautics Ltd is expected to target engineering design services for aero engines, technical publications and the offset program for aerospace sales.
- The JV expects to start generating revenues from Q4FY08 with significant revenues coming in from Q1FY09.
- We have not assumed any upsides from the JV in our projections.

Employee additions

- Infotech added 469 (768 in Q2FY08) engineers on a net basis during the quarter. Of these, 368 are in UTG and 79 in EMI.
- The employee additions are indicative of the visibility the company enjoys. It expects these new accounts to ramp up in the medium term and deliver healthy growth. It expects the ramp up to take place post the lead time attributable to such new accounts.

EBIDTA margins - maintained

- EBITDA margins for the quarter were marginally lower QoQ at 18.12%. The EBITDA performance was broadly in line with our estimates.
- The company was able to mitigate the impact of an appreciating rupee through improved productivity, higher billing rates and cost efficiencies.

Forex losses/share of profit impact net profit

- Infotech reported other income of Rs.55 mn, which included forex losses of about Rs.17 mn. The company reported losses despite the rupee appreciation because of the translation losses.
- Infotech is cash rich post the recent placement that led to interest/dividend income of Rs.50 mn.
- The company has also hedged its US dollar exposure for close to $113 mn at an average rate of Rs.40.9/US dollar. Infotech also has Euro hedges of $15 mn and GB pound hedges of $7 mn. The company has market-to-market the outstanding hedges at the Q3FY08 end rate.
- IASI also earned lower-than-expected profits, which impacted the overall net profit.

Future prospects

(Rs mn)	FY07	FY08E	YoY (%)	FY09E	YoY (%)
Income	**5425.4**	**6736.1**	**24.2**	**8615.7**	**27.9**
Expenditure	4291.7	5507.8		7073.2	
EBDITA	**1133.7**	**1228.3**	**8.3**	**1542.5**	**25.6**
Depreciation	256.0	363.8		426.0	
EBIT	**877.7**	**864.5**		**1116.5**	
Interest	13.9	39.0		50.0	
Other income	66.8	175.8		210.0	
PBT	**930.6**	**1001.3**	**7.6**	**1276.5**	**27.5**
Tax	186.5	229.9		287.2	
PAT	**744.1**	**771.4**		**989.3**	
Share of Profit	92.5	77.2		83.0	
Adj PAT	836.6	848.6	1.4	1072.3	26.4
Shares (mns)	46.2	54.5		54.5	
EPS (Rs)	**18.1**	**15.6**		**19.7**	
Margins (%)					
EBDITA	20.9	18.2		17.9	
EBIT	16.2	12.8		13.0	
PAT	15.4	12.6		12.4	

Source : Company, Kotak Securities - Private Client Research

- We believe the revenue growth will remain healthy in FY08 and FY09, led by the EMI vertical.
- We expect EMI to form about 63% of FY09 revenues.
- We believe there may be an impact on profitability in FY08 and FY09 due to:
  - Expected rupee appreciation and
  - Sustained investments in sales and support functions (mainly on recruitments).
- Consequently, we expect margins to settle at 17.9% in FY09, down from 20.9% in FY07. Higher realizations and cost rationalization initiatives are expected to partly set off the impact of the above-mentioned factors.
- We expect profits to grow to Rs.1.07 bn in FY09, translating into an EPS of Rs.19.7. The reduction v/s our earlier estimate is on the back of lower other income and higher depreciation charge.

Concerns

- A sharp acceleration in the rupee from our assumed levels (Rs.38.5 by FY09 end) will impact earnings estimates for the company.
- A steep deceleration/recession in major global economies could impact revenue growth of Infotech.

RESULT UPDATE

Dipen Shah
dipen.shah@kotak.com
+91 22 66341376

TATA CONSULTANCY SERVICES

PRICE : RS.945 **RECOMMENDATION : BUY**
TARGET PRICE : RS.1178 **FY09E PE : 15.5X**

Highlights

- TCS' Q3FY08 results were marginally better-than-estimates, with revenue growth of 5% and a 37 bps improvement in EBIDTA margins. We had assumed a revenue growth of 4.25%. EBIDTA margins are in-line with our expectations
- Several margin levers were deployed to protect margins. Also, several levers are available to restrict the margin impact due to rupee appreciation and rising salaries, in the future
- Global Network Delivery Model (GNDM) and full-services provisioning are key differentiators. Contribution of the non-ADM business was up to about 52.3% of Q3FY08 revenues
- There was no impact of the US sub-prime crisis on the business, as yet. The management has re-iterated its positive outlook on volume growth and billing rates post client interactions. However, the management indicates caution because of the deteriorating macro scenario in the US.
- We largely maintain our earnings estimates and expect an EPS growth of 24% YoY for FY08 at Rs.52. FY09 EPS is estimated at Rs.61, a growth of about 17%. The rupee has been assumed to be Rs.38.50 per US dollar by FY09 end.

We recommend a BUY on TCS with a price target of Rs.1178

- We maintain **BUY** on TCS with a price target of Rs.1178. We note that the stock may continue to under-perform in the medium term, in line with the news on the US economy.
- A sharp appreciation in the rupee beyond our assumed levels and a sustained slowdown/recession in major user economies are key risks to our call.

Q3FY08 results

(Rs. mn)	Q3FY08	Q2FY08	QoQ %	Q3FY07	YoY %
Turnover	59241	56398	5.0	48605	21.9
Expenditure	43452	41578		34852	
EBIDTA	**15788**	**14821**	**6.5**	**13753**	**14.8**
Depreciation	1475	1381		1080	
EBIT	**14313**	**13439**		**12673**	
Other Income	1048	1105		300	
PBT	**15361**	**14544**	**5.6**	**12972**	**18.4**
Tax	1947	2037		1828	
PAT	**13414**	**12507**	**7.3**	**11144**	**20.4**
Minority interest	110	42		115	
Share of profit	3	4		17	
Adjusted PAT	13308	12469	6.7	11047	20.5
Shares (mn)	979	979		979	
EPS (Rs)	**13.6**	**12.7**		**11.3**	
EBIDTA (%)	26.7	26.3		28.3	
Net Profit (%)	22.6	22.2		22.9	

Source : Company

Volume growth of 5.3%

- TCS reported volume growth of 5.3% on a sequential basis. This rise is larger than our estimates.
- The growth came about on the back of new services like consulting, BPO and assurance services, which grew sequentially by 18%, 10% and 10.6%, respectively in INR terms.
- Consequently, ADM revenues contributed about 47.7% of Q3FY08 revenues v/s 48.6% in Q2FY08.

Services growth

Rs mn	Q2FY08	Q3FY08	QoQ (%)	Q3FY07	YoY (%)
ADM	27409.6	28257.8	3.1	26003.6	8.7
BI	5470.6	5687.1	4.0	4617.5	23.2
Engg & Ind	2989.1	3139.8	5.0	2624.7	19.6
Infrastructure	3891.5	3969.1	2.0	2673.3	48.5
Enterprise Soln	7219.0	7819.8	8.3	5735.4	36.3
Consulting	1861.1	2191.9	17.8	1652.6	32.6
Asset Leveraged Soln	1917.5	1954.9	2.0	1360.9	43.6
Assurance Ser	2143.1	2369.6	10.6	1117.9	112.0
BPO	3496.7	3850.6	10.1	2819.1	36.6

Source : Company

- Geographically, the growth was led by higher volumes in Europe and India. Revenues from these geographies grew 23% and 20%, respectively. In Europe, the company initiated several new projects, which, in turn, led to a faster rise in on-site revenues QoQ.
- In India, the company's dominant position in systems integration and implementation projects drove growth during the quarter.
- Americas and the UK witnessed flattish/marginal growth in revenues on a sequential basis, mainly due to lower number of working days during the quarter.

Growth in various geographies

Rs mn	Q2FY08	Q3FY08	QoQ (%)	2QFY07	YoY (%)
North America	29439.9	29324.1	-0.4	25225.9	16.2
Europe	4737.5	5805.6	22.5	4131.4	40.5
UK	11223.3	11492.7	2.4	9769.6	17.6
India	4624.7	5568.6	20.4	3839.8	45.0
A-PAC	2932.7	3258.2	11.1	2721.9	19.7
Ibero America	2368.7	2784.3	17.5	2235.8	24.5
MEA	1071.6	1007.1	-6.0	680.5	48.0

Source : Company

- Ibero America saw revenues grow about 17.5% on the back of a 20% rise in the previous quarter. This indicates the success of the company's Global Network Delivery Model (GNDM).

No impact of US sub-prime issues, as yet

- The BFSI vertical continued to witness steady growth (7% in INR terms, QoQ) despite the sub-prime issues in the US.
- According to the management, in its client interactions, it has not come across any project deferrals or cancellations till date.
- The management has indicated that, its order backlog as well as the pipeline is strong. During the quarter, TCS won nine large deals, each in excess of US$50 mn including the $1.2 bn deal with Nielsen. The company is pursuing 25 more deals, currently.
- The company has seen success with its full service offering and expects the new deals to involve work across its newer offerings like consulting, assurance services etc. This is expected to lead to continued growth, going forward, for the company.
- However, the company has indicated some caution because of the deteriorating economic situation in the US. Any sharper fall/recession in the US economy may alter the plans of its clients.
- According to the management, in case of such a scenario the ADM, IM and BPO businesses would continue to witness increased offshoring whereas, the transformational deals may be impacted.

Higher average realizations

- Higher average realizations contributed about 53 bps to revenues for the quarter.
- According to the management, it is getting higher realizations from new as well as existing accounts.
- TCS has not countered any demands of pricing cuts during the quarter.
- We believe this is an important lever for the company as it allows the company to restrict the impact of salary increases and rupee appreciation.
- In line with the accounting policy followed by TCS, the company has recognized about Rs.450 mn of exchange gains in revenues for the quarter.

Higher EBIDTA margins

- Despite the rupee appreciation (92 bps impact due to forex), TCS' margins improved over Q2FY08.
- According to the management, this improvement came on the back of higher realizations, improved productivity, and leverage on SG&A expenses (125 bps altogether).
- We note that margins were impacted negatively by staff promotions to the extent of 117 bps.

Higher other income and lower taxation

- TCS earned other income of Rs.1.05 bn, which was in line with our estimates. Of these, about Rs.660 mn came from exchange gains.
- The company has forex hedges of $3.1 bn ($2.5 bn in Q2FY08) as at the end of the quarter and the covers extend to the next fiscal.
- The company provided for tax at 12.7% of PBT, which was lower than our estimates.

Preferential allotment of redeemable preference shares to promoters

- The board of directors has approved the allotment of redeemable preference shares worth Rs.1 bn to Tata Sons.
- This is with a view to comply with certain fiscal regulations outside India related to the shareholding of the company.

Future prospects

(Rs mn)	FY07	FY08E	YoY %	FY09E	YoY %
Turnover	186333	229105	23.0	284598	24.2
Expenditure	135703	168669		211187	
EBIDTA	**50630**	**60435**	**19.4**	**73411**	**21.5**
Depreciation	4184	5721		6700	
EBIT	**46446**	**54714**		**66711**	
Other Income	1943	4811		4650	
PBT	**48389**	**59525**	**23.0**	**71361**	**19.9**
Tax	6700	8083		11061	
PAT	**41688**	**51442**	**23.4**	**60300**	**17.2**
Minority interest	417	442		730	
Share of profit	44	14		30	
Adjusted PAT	41315	51015	23.5	59600	16.8
Shares (mn)	979	979		979	
EPS (Rs)	**42.2**	**52.1**		**60.9**	
EBIDTA (%)	27.2	26.4		25.8	
Net Profit (%)	22.4	22.5		21.2	

Source : Company, Kotak Securities - Private Client Research

- We have made marginal changes to our earnings estimates in view of the Q3FY08 numbers.
- We have maintained our assumption of the rupee appreciating to Rs.39 per US dollar by FY08 end and further to Rs.38.50 per US dollar by FY09 end.
- We have assumed an impact on margins in FY09 because of the expected salary hikes and appreciation in the rupee v/s the US dollar. The several levers available to the company should allow the company to restrict impact on margins.
- Based on the existing share capital, we arrive at an EPS of Rs.52 for FY08 and Rs.61 for FY09.

Valuations

- We have valued TCS based on the PE method and its relative valuation to Infosys. We have accorded a valuation of about 20x FY09E earnings, based on the company's ability to drive high revenue growth in US dollar terms on a large base and ability to restrict impact on margins in the backdrop of sharp rupee appreciation and salary increases.
- The price target of Rs.1178 implies an upside of 25% from current levels. We maintain BUY on TCS.

Concerns

- An accelerated slowdown/recession in major user economies may impact our projections.
- A sharp appreciation of rupee beyond our assumed levels may impact our earnings estimates for the company.

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6634 1237

INDIA CEMENTS

PRICE : RS.261 RECOMMENDATION : HOLD

TARGET PRICE : RS.302 FY09E PE : 9.2X

Result Highlights

- Revenues for the current quarter grew 56% YoY. This was slightly lower than our estimates due to lower than expected dispatch growth. This was on account of monsoons in the southern region. However, prices continued to remain stable.
- Cement prices were strong despite monsoons, registering 25.2% YoY and 2.6% QoQ increase.
- Net profits for the current quarter grew 59% YoY. This was significantly lower than our estimates due to higher tax rates as well as lower operating margins.
- India Cement has raised Rs.5.92 bn through a QIP issue of 20.8 mn shares priced at Rs.285 for its capex plans as well as for acquiring second-hand freight ships for importing coal. This has increased the equity capital to Rs.2.81 bn from Rs.2.6 bn earlier.
- We believe the decision of south-based companies to supply cement at subsidized rates for government related projects should not impact the company's revenues significantly due to the very low volumes involved. However, we expect India Cement to benefit from strong demand for the next two quarters. Beyond Q1FY09, further upsides in cement prices may be capped due to new capacities to the tune of 16-17 MT coming up in the southern region. We had revised our price target to Rs.302 post the QIP issue due to equity dilution, higher capex as well as higher other income. We continue to maintain **HOLD** on the stock.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	22,552	30,675	36,749
% change YoY		36.0	19.8
EBITDA	7,343	12,113	14,115
% change YoY		65.0	16.5
Other Income	101	180	300
Depreciation	1,026	1,122	1,250
EBIT	6,418	11,171	13,165
% change YoY		74.1	17.9
Net interest	1,498	1,208	1,260
Profit before tax	4,920	9,963	11,905
% change YoY		103.0	19.5
Tax	131	2,391	3,929
as % of PBT	2.7	24.0	33.0
Profit after tax	4,788	7,572	7,977
% change YoY		58.0	5.3
Shares outstanding (m)	260.4	281.2	281.2
EPS (reported) (Rs)	18.4	26.9	28.4
P/E	14.2	9.7	9.2
EV/EBITDA	12.4	7.0	6.3

Source: Company & Kotak Securities - Private Client Research

Q3FY08 financial highlights

(Rs mn)	Q3FY08	Q3FY07	YoY (%)
Net Sales	**7,379**	**4,724**	**56**
Expenditure	**4,930**	**3,394**	
Inc/Dec in trade	-111	59	
RM	776	542	
As a % of net sales	10.5	11.5	
Staff cost	508	242	
As a % of net sales	6.9	5.1	
Power and fuel	1,758	1,189	
As a % of net sales	23.8	25.2	
Transportation & Handling	1,191	769	
As a % of net sales	16.1	16.3	
Other expenditure	807	594	
As a % of net sales	10.9	12.6	
Operating Profit	**2,449**	**1331**	**84**
Operating Profit Margin	33.2	28.2	
Depreciation	311	198.2	
EBIT	**2,138**	**1132**	**89**
Interest	273	347	
EBT(exc other income)	1,865	786	
Other Income	30	17	
EBT	**1,895**	**803**	**136**
Tax	624	5	
Tax Rate%	32.9	0.6	
PAT	**1,271**	**798**	
Net Profit	1,271	798	59
NPM (%)	17.2	16.9	
Equity Capital	2,818.7	2203.7	
EPS (Rs)	**4.5**	**3.6**	

Source: Company

Lower than expected revenue growth

- Revenues for India Cement have grown 56% YoY for Q3FY08, driven by 25% increase in volumes and 25.2% rise in the cement prices as compared to Q3FY07.
- Cement pricing was strong in the current quarter despite monsoons in the southern region. Cement prices rose 25.2% YoY as well as recording 2.6% QoQ gain in Q3FY08. However, monsoons impacted the dispatch growth in the current quarter.
- India Cement is planning to double its capacity by December 31 2010. The company later plans to diversify across India. India Cement has already started land acquisitions in Jhunjhunu, Rajasthan for its upcoming north-based plants. India Cement will be placing equipment orders by March 2008. With the current expansion plans on track, we expect the company to report dispatches of 9.5 MT in FY08 and 11.5 MT in FY09.

Plants capacity

(MT)	Current capacity	Incremental capacity	Total
Sankaridurg	0.7	0.3	1.0
Sankarnagar	1.6	0.5	2.1
Dalavoi	1.3	0.6	1.9
Chilamkur	1.3	0.2	1.5
Yerraguntla	0.5	0.2	0.7
Raasi	2.3	0.2	2.5
Malkapur	1.4	1.0	2.4
Grinding units		2.2	2.2
Expansion in north		3.5	3.5
Total	**9.1**		**17.8**

Source: Company

- We maintain our pricing and dispatches assumptions for the current fiscal as well as FY09. We expect the company to report revenues of Rs.30.67 bn in FY08 and Rs 36.74 bn in FY09.
- The India Cement management has also mentioned that they have a land bank of 12000-14000 acres across several cities. They may look at developing their land bank in the longer run.

Decline in margins on sequential basis despite increase in cement prices

- Operating margins of India Cement have shown an improvement of 500 bps as compared to Q3FY07 due to 25.2% YoY increase in cement prices. However, it has shown a decline of 720 bps as compared to Q2FY08. The following factors have impacted operating margins
  - Increased staff cost - One-time settlement of Rs.200 mn on account of ESOS schemes as well as bonus-related payments.
  - Raw material cost - Higher prices of gypsum as well as higher blending have resulted in increasing raw material costs as compared to Q2FY08
  - Power and fuel cost - Higher coal prices have raised power and fuel costs by 19% YoY
  - Freight expenses - Due to monsoons in Tamil Nadu in the current quarter, the company has sold cement in other regions of southern India. This, coupled with increased railway freight rates by Rs 30-40 per ton has raised freight expenses.
  - Other expenditure was up due to an increase in consultancy expenses.
- This has resulted in EBITDA per ton of Rs.1122 per ton for Q3FY08 as compared to Rs.761 per ton for Q3FY07.
- We expect net realizations for India Cement to be around Rs.3239 per ton and Rs.3207 per ton, resulting in EBITDA per ton of Rs.1279 per ton and Rs.1231 per ton in FY08 and FY09, respectively.

Cost per tonne analysis			
	Q3FY08	Q3FY07	Q2FY08
Despatches (mn tonne)	2.182	1.749	2.31
Net Realisation/tonne	3382	2701	3295
YoY increase (%)	25.2		
QoQ increase (%)	2.6		
Per tonne analysis			
Raw material	305	344	257
Staff cost	233	138	231
Power and fuel	806	680	718
Transporation & Handling	546	439	431
Other expenditure	370	339	327
EBITDA per tonne	1122	761	1331

Source: Company

Higher tax rate impacts net profit growth

Net profits of the company grew 59% YoY in Q3FY08 as compared to Q3FY07. However, profit growth was impacted by significantly higher tax rates as well as lower operating margins in the current quarter. The tax benefits due to merger of Visaka Cement have already been exhausted. So, the company would pay tax at a higher rate, going forward. We expect the blended tax rate to be around 24% for FY08 and 33% for FY09. Correspondingly, our profit estimates for the current fiscal stands revised. We expect India Cement's net profits to be around Rs.7.57 bn and Rs.7.97 bn for FY08 and FY09, respectively.

Deployment plan of QIP proceeds

India Cement has raised Rs.5.92 bn through a QIP issue of 20.8 mn shares priced at Rs.285 for its capex plans as well as acquiring second hand freight ships for importing coal. The company plans to utilize part of the proceeds for buying two second-hand freight ships and to set up new plant of 3.5 MT as well as captive power plant of 40 MW in North India. India Cement expects cost savings from the two freight ships for importing coal. We expect the returns from the new plant in north India to accrue after two to three years.

Cost for freight ships		
	Ship 1	Ship 2
Size (dwt)	41824	38002
Cost (in US mn $)	31.5	27.25
Payment terms	20% paid in advance Balance on delivery	10% paid in advance Balance on delivery

Source: Company

Valuation & recommendation

We believe the decision of south-based companies to supply cement at subsidized rates for government related projects should not impact the company's revenues significantly due to very low volumes involved. However, we expect the company to benefit from strong demand for the next two quarters. However, increasing costs of coal as well as freight expenses may impact the profitability, going forward, also.

We recommend HOLD on India Cements with a price target of Rs.32

On a fully diluted equity capital of Rs.2.81 bn, the stock is currently trading at 9.7x and 9.2x FY08 and FY09 P/E multiples. On an EV/EBITDA basis, it is trading at 7.0x and 6.3x for FY08 and FY09 estimates, respectively. We continue to recommend **HOLD** on the stock with a price target of Rs.302 since the company is expected to benefit from strong demand during the next two quarters. At our target price, the stock would trade at 10.6x P/E and 7x EV/EBITDA on FY09 estimates.

RESULT UPDATE

Sarika Lohra
sarika.lohra@kotak.com
+91 22 6634 1480

LIC HOUSING FINANCE

PRICE : RS.364 **RECOMMENDATION : BUY**
TARGET PRICE : RS.455 **FY09E PABV : 1.5X**

LIC Housing Finance (LICHF) reported a strong set of number for Q3FY08. Robust business growth and firm NIMs supported the revenue growth of the company. Net interest income (NII) of the company rose 36% YoY to Rs.1.41 bn, while the net profit grew by 37.5% YoY to Rs.1.06 bn. The company reported a 31 bps YoY improvement in its NIMs to 2.87%. The loan book grew 23% YoY to Rs.201.63 bn, following a strong growth in disbursements. The management has guided for strong business growth, going forward, with improving asset quality. Going forward, we believe margins of LICHF will remain strong over FY07. We have revised our estimates for LICHF by 3.5% in FY08 to Rs.3.47 bn and by 2.25% for FY09E to Rs.4.18 bn. We maintain BUY on LICHF with a revised price target of Rs.455 from Rs.450.

Q3FY08 review

- Interest income grew 35% to Rs.5.22 bn against Rs.3.85 bn, on the back of strong growth in disbursement during the period under review.
- NII of the company grew 36% to Rs.1.41 bn as against Rs.1.04 bn in the corresponding period last year. Strong business growth and improved NIMs were key drivers for growth in the NII. For the nine-month period, NII grew 44% to Rs.3.95 bn from 2.74 bn.
- Operating expenses of the company increased 28%. This is mainly due to an increase in advertisement expenses to attract business. Cost to income ratio of the company remained stable at around 19%.
- Net profit of the company grew 38.5% YoY to Rs.1.06 bn from Rs.766 mn. For the nine-month period net profit of LICHF rose 42% to Rs.2.69 bn from Rs.1.89 bn. EPS for 9MFY08 stood at Rs.31.7 as against Rs.22.3.

Summary table

(Rs bn)	FY07	FY08E	FY09E
Interest Income	15.0	20.3	24.8
Interest expenses	11.0	15.0	18.3
NII	4.0	5.3	6.5
Non-Int Income	0.8	1.0	1.2
Total Income	4.8	6.4	7.7
Optg Profit	3.7	5.1	6.1
PAT	2.8	3.5	4.2
Gross NPA (%)	2.6	2.2	1.8
Net NPA (%)	1.3	1.0	0.7
NIMs (%)	2.5	2.7	2.7
RoA (%)	1.7	1.7	1.7
RoE (%)	19.3	18.0	17.1
Divi. Payout Ratio (%)	26.1	27.3	27.1
EPS (Rs)	32.9	35.1	42.3
BV (Rs)	181.6	232.4	263.3
Adj. BV (Rs)	154.5	211.4	245.6
P/E (x)	11.1	10.4	8.6
P/ABV (x)	2.4	1.7	1.5

Source: Company & Kotak Securities - Private Client Research

H1FY08 Performance Review

(Rs mn)	Q3FY08	Q3FY07	% chg	9MFY08	9MFY07	% chg
Interest Income	5,225	3,853	35.6	14,643	10,730	36.5
Interest Expenses	3,815	2,816	35.5	10,691	7,988	33.8
Net Interest Income	**1,409**	**1,037**	**35.9**	**3,951**	**2,741**	**44.1**
Fee income	119	108	10.2	356	330	7.9
Non- Interest Income	173	80	116.1	419	234	79.1
Total Income	1,701	1,225	38.8	4,726	3,305	43.0
Operating Expenses	325	254	28.1	949	753	26.0
Operating Profit	1,376	971	41.7	3,777	2,552	48.0
Prov. On Loans	42	5	-	252	216	17.0
PBT	**1,334**	**966**	**38.1**	**3,525**	**2,337**	**50.9**
Prov. Tax	273	200	36.4	834	436	91.4
PAT	**1,060**	**766**	**38.5**	**2,691**	**1,901**	**41.6**
EPS (Rs)	13.7	8.9	54.6	31.7	22.3	42.2

Source: Company

NIMs remained firm

- Yield on loans went up marginally by 2 bps QoQ and 115 bps YoY to 10.32% from 9.17% in the corresponding period last year. Re-pricing of loans facilitated strong yields.
- During the quarter, cost of funds of the company increased by 8 bps to 8.63% as against a sequential decline in the cost of funds in the Q2FY08 at 8.55 (from 8.63% in Q1FY08).
- LICHF's NIMs improved by 31 bps YoY to 2.87% as compared to 2.56%. We believe the margins of LICHF will witness some pressure going forward. The same has been factored into our estimates

Strong business growth, likely to continue

- For Q3FY08, disbursements and sanctions of the company have gone up by an impressive 49% and 88% to Rs.16.52 bn and Rs.22.82 bn, respectively.
- For 9MFY08, disbursements and sanctions grew 33% and 57% to Rs.57.07 bn, and Rs.44.73 bn, respectively. The total loan book of the company grew 22.6% to Rs.201.63 bn. The growth in the loan book of the company is likely to remain strong.

Improving asset quality

LICHF reported an improvement in asset quality with its gross NPA ratio declining to 2.77% from 3.56% in Q3FY07, while net NPAs of the company declined to 1.67% from 1.97%.

Revising earnings estimate for FY08 and FY09.

- We have revised our loan book growth expectation to 23% for FY08E to Rs.216.03 bn and 21% for FY09E, to Rs.261.4 bn.
- We have also revised our earnings estimate by 3.5% to Rs.3.47 bn and 2.25% to Rs.4.18 bn for FY08 and FY09, respectively.
- Based on the aforesaid revision in estimates, we have revised our price target for LICHF to Rs.455 from our previous price target of Rs.450.

Recommendations

We recommend a BUY on LICHF with a price target of Rs.455

- Based on our valuation methodology of equal weightage to P/BV multiple and dividend discount model we have valued LICHF at Rs.424.
- Considering the 39.5% holding in LIC MF at Rs.31 (6% of its FY08E AUM), we arrived at a price target of Rs.455 for the company. We maintain a positive outlook on the stock given the strong growth in its loan book and improving asset quality. At a target price of Rs.455, the stock offers a 25% upside current levels. We, therefore, maintain a BUY on the stock.
- The stock at the CMP of Rs.365 trades at 8.6x its FY09E EPS of Rs.42.3, and 1.5x its FY09E ABV of Rs.246.
- The company is soon likely to announce the closure of its Rs.5 bn preferential placement of share, which would be book accretive for the company. However, we have factored in the same in our estimates at Rs.355 (based on Sebi formula - higher of six-month average or two-week average).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy / Sell	Quantity of shares	Avg. Price (Rs)
16-Jan	A V Cottex I	Mauj Saran Maggo	S	33,000	32.15
16-Jan	Anjani Synth	Nisha Jitesh Jadav	S	40,500	55.45
16-Jan	Axon Infotec	Bansal Vinimay Pvt. Ltd.	B	10,000	67.52
16-Jan	Axon Infotec	Agrawal Brokerage	B	10,000	67.50
16-Jan	Axon Infotec	Uniflex Carrying Co.	B	25,000	67.65
16-Jan	Axon Infotec	Nawrupam Mercantile	S	4,000	68.01
16-Jan	Axon Infotec	Anamika Holdings	S	15,000	67.50
16-Jan	Bartronicsin	JP Morgan Mutual Fund	S	105,000	250.06
16-Jan	Cat Technol	Sarfarazkhan Sarvarkhan Pathan	B	158,700	12.11
16-Jan	Devki Leasin	Govind Singh Bhinder	S	19,200	6.52
16-Jan	DMC Inter	Hitech Computech	B	24,500	37.91
16-Jan	DMC Inter	IFL Promoters	B	34,800	38.21
16-Jan	DMC Inter	Hitech Computech	S	18,000	37.91
16-Jan	Gayatri Proj	Merill Lynch Capital Market Espana	B	58,000	634.55
16-Jan	Gulsha Sug C	Binod Kumar Maroti HUF	B	70,000	70.98
16-Jan	Gulsha Sug C	Landmark Capital Markets	S	100,000	66.58
16-Jan	IKF Financ L	Asian Financial Services	B	32,201	18.47
16-Jan	IKF Financ L	Mercy Cyriac	S	53,797	18.13
16-Jan	Ind Inv Trus	Naishadh Jawahar Paleja	S	57,800	105.62
16-Jan	Jumbo Bag Lt	Moss Traders	B	45,000	37.21
16-Jan	Kailash Fico	Tutis Technologies Limited	B	63,500	44.73
16-Jan	Kaman Hsg	Dreamland Buildtech	S	28,320	162.35
16-Jan	Krypton Indu	Nilesh Kumar Lahoti	B	21,912	58.95
16-Jan	Krypton Indu	Chainroop Surajmal Dugar	B	28,497	58.60
16-Jan	Krypton Indu	Nilesh Kumar Lahoti	S	21,912	58.83
16-Jan	Krypton Indu	Chainroop Surajmal Dugar	S	34,348	57.57
16-Jan	Madhucon Pro	BSMA Limited	S	205,522	775.08
16-Jan	Prithvi Info	Deutsche Securities Mauritius	B	122,000	306.76
16-Jan	Sel Manuf	Chitra Jitendra Mayekar	B	128,647	195.42
16-Jan	Shloka Info	Cherukuri Kutumba Rao	B	23,900	28.60
16-Jan	Shloka Info	Cherukuri Sirisha	S	24,000	28.80
16-Jan	Spanc Telesy	Alosha Vanijya	S	100,000	243.00
16-Jan	Sujanatower	Morgan Stanley Mau	S	380,000	205.29
16-Jan	Supreme Infr	Eureka Credit Finance	B	105,000	150.06
16-Jan	Supreme Infr	Lotus Global Investment	B	150,000	149.00
16-Jan	Supreme Infr	The Hexagram Investment	S	266,428	149.35
16-Jan	Sybly Indusr	Alka Sood	B	43,000	10.05
16-Jan	Sybly Indusr	Hans Capital and Leasing	B	35,000	10.99
16-Jan	Tribhvan Hsg	John Vas	B	50,000	31.05

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ICICI Bank	1,368	1.2	3.1	6.7
Bharti Airtel	866	0.9	2.6	8.0
SAIL	246	1.5	2.6	5.6
Losers				
NTPC	258	(5.7)	(22.3)	29.1
Reliance Ind	3,094	(2.3)	(18.2)	5.6
Reliance Com	732	(6.0)	(16.8)	8.9

Source: Bloomberg

Forthcoming events

COMPANY / MARKET

Date	Event
17-Jan	Reliance Industries, Ranbaxy Laboratories, Reliance Energy, Biocon, NDTV, HCL Tech; Orchid Chemicals & Pharmaceuticals, KPIT Cummins Infosystems, Godrej Consumer Products, IDBI, Indiabulls Financial Services, Financial Technologies (India) Ltd, Reliance Natural Resources earnings expected; Kavveri Telecom holds press meet for their latest acquisition; Intel India holds press meet for its latest developments; Kale Consultants holds meet for new initiatives and future plans.
18-Jan	HDFC, Power Finance, ITC, Wipro, Hindustan Construction, Everonn Systems India Ltd, Gujarat Alkalies, BASF India, Nicholas Piramal, IFCI, Wockhrdt earnings expected
19-Jan	ICICI Bank, Idea Cellular, IPCA Laboratories, Ultratech Cement earnings expected
21-Jan	ONGC, Satyam Computer Services, Neyveli Lignite, Glenmark, Titan Industries, Centurian Bank of Punjab, Finolex Industries, HDFC Bank, Jindal Stainless, Canara Bank, Kotak Mahindra Bank, Thomas Cook India, Edelweiss Capital, Religare Enterprises, Bharat Forge earnings expected
22-Jan	Balaji Telefilms, Tech Mahindra, Pidilite Industries, Zandu Pharmaceutical, Tamil Nadu Newsprint & Papers, Bank of India, Lupin, Corporation Bank, Tata Elxsi, United Spirits, Grasim Ind, Punjab Tractors, Asahi India Glass, I-flex Solutions, Sesa Goa earnings expected
23-Jan	Polaris Software, Ballarpur Industries, BRPL, Fortis Healthcare, Sonata Software, Mirc Electronics, Chennai Petroleum Corpn, Bajaj Hindustan, Union Bank of India, D-Link India, Dena Bank earnings expected

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Saurabh Agrawal	Metals, Mining	+91 22 6634 1291	agrawal.saurabh@kotak.com
Saday Sinha	Banking, Economy	+91 22 6634 1440	saday.sinha@kotak.com
Rohit Ledwani	Retail	+91 22 6634 1507	rohit.ledwani@kotak.com
Sarika Lohra	NBFCs	+91 22 6634 1480	sarika.lohra@kotak.com
Chetan Shet	FMCG, Power	+91 22 6634 1382	chetan.shet@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.