Emkay Research

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Morning meeting notes

16 October 2008

Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	10,809	(5.9)	(14.0)	(33.5)
Nifty	3,338	(5.1)	(12.5)	(31.7)
Dow	8,578	(7.9)	(23.7)	(32.0)
Nikkei	8,636	(9.6)	(32.3)	(34.3)
Hang Seng	14,939	(6.6)	(29.6)	(37.4)
Brasil Bovespa	36,833	(11.4)	(40.6)	(42.6)
Mexico Bolsa	21,135	(5.0)	(24.4)	(33.8)

Turnover

Value Traded (Rs bn)	15 Oct 2008	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	35.8	(15.8)	118.7	32.6
Cash NSE	97.5	(17.7)	284.8	74.9
Total	**133.3**			
Del.(%)	38.5			
F&O	440.0	(6.9)	1105.6	143.8
Total Trade	**573.3**			

Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
14 Oct 2008				
FII's	37.9	(39.8)	(1.9)	233.3
Domestic Funds	5.4	(8.0)	(2.6)	102.3
15 Oct 2008				
Cash Provisional			(2.7)	
F&O - Index	23.7	(24.5)	(0.8)	(27.6)
F&O - Stock	8.9	(7.8)	1.1	(11.6)

Advances/declines BSECash

15 Oct 2008	A	B1	B2	Total
Advance	26	308	85	419
Decline	178	1364	354	1896

Commodity Prices

Commodity	16 Oct 2008	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	73.3	(1.7)	(45.6)	(36.3)
Copper(usd/t)	4,920	(7.2)	(39.6)	(41.6)
Aluminum H.G.(usd/t)	2,170	(4.9)	(32.5)	(27.6)
Zinc(usd/t)	1,315	(6.7)	(28.5)	(42.9)

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	48.53	0.0	(12.6)	(21.5)
10 yr Gsec Yield	7.93	0.4	(16.3)	(1.6)

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News clippings

- **Bharti Airtel** has entered into an innovation and technology partnership with **Infosys Technologies** to deliver superior customer experience to the customers of Airtel digital TV, its direct to home (DTH) TV service.
- ONGC Videsh (OVL), the overseas investment arm of **Oil and Natural Gas Corporation (ONGC),** is likely to bid for the eight oil and gas blocks that are being auctioned by Iraq, the country with the world's second largest proven oil reserves.
- **Punj Lloyd Ltd** had entered into a Joint Venture with Swissport International Ltd to develop projects in the Indian cargo and ground handling sector in June 2006. Punj Lloyd and swissport have amicably decided not to pursue the ground handling opportunities in India and have mutually agreed to terminate the Joint Venture.
- The Reserve Bank of India (RBI) will give Rs250bn to lending institutions immediately towards the farm loan waiver programme. The move is in line with the recent steps taken by the Government and financial regulators - RBI and SEBI - to ease the severe liquidity crunch in the domestic banking system.
- The fertiliser ministry has requested the finance ministry to provide it about Rs 65,000 crore in supplementary grants for disbursal of subsidies to the manufacturing companies.
- The Centre for Monitoring Indian Economy (CMIE) has revised the real GDP growth forecast for the current fiscal from 9.4 per cent to 8.7 per cent.

Research views

RALLIS INDIA

Reco	CMP	TP
Not Rated	336	540

Y/e Mar	Q2FY08	Q2FY09E	CY08E
Net Sales	2468	3250	31.7%
EBITDA	428	536	25.2%
EBITDA %	17.4	16.5	-85 Bps
PAT	265	338	27.4%
EPS	20.6	26.6	29.5%

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Rallis Q2FY09 preview

- Q2 is always the best quarter for pesticide industry and we expect Rallis to show 31% growth in sales on the back of increased efforts in the domestic market and better strategies in exports.
- The local initiative DISHA (for operational efficiency) and APOLLO (international business strategy) have started showing positive results.
- We expect EBITDA margins to contract by 85 bps to 16.5% on the back of higher raw material cost.. EBITDA and PAT to show growth of 25.2% and % 27.4% respectively yoy.
- Key factors to watch: new product launches, raw material management strategies and export growth.
- At CMP of Rs377 The stock is valued at. 7XFY10 earnings of Rs54.1

JK PAPER

Reco	CMP	TP
REDUCE	22	55

Y/e Mar	Q2FY08	Q2FY09E	% YoY
Net Sales (Rsm)	1792	2684	49.8
EBITDA (Rsm)	382	497	30.1
EBITDA %	21.3	18.5	-280 bps
APAT (Rsm)	110	99	-10.3
EPS (Rs)	1.4	1.3	-10.3

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JK Paper Q2FY09 results expectations: Net sales Rs 2.7 bn, PAT Rs 99 mn

JK Paper is expected to post its Q2FY09 results on 17th October'2008, Friday. During the year company has increased its capacity through completion of packaging paper facility and hence results are not comparable with previous year. We expect company to post 49.8% YoY / 2% QoQ growth in net sales to Rs 2.7 bn. We expect EBITDA margins to decline by 280 bps YoY to 18.5% on account of higher pulp and energy prices. EBITDA for the quarter is expected to increase by 30% YoY to Rs 497 mn. Due to sharp rise in depreciation and increase, PAT is expected to decline by 10.3% YoY / 4.1% QoQ, resulting in an AEPS of Rs 1.3 as against Rs 1.4 in Q2FY08.

Valuations & Recommendations

We expect JK Paper to report net revenues of Rs 10.1 bn and PAT of Rs 443 mn in FY09E and net revenues of Rs 10.6 bn and PAT of Rs 492 mn in FY10E. EPS works out at Rs 5.7 for FY09E and Rs 6.3 for FY10E. At present, the stock trades at 3.9x and 3.5x FY09E and FY10E earnings, respectively. It is also trading at approximately 60% discount to its FY09E book value of Rs 57. Due to recent underperformance of the stock and attractive valuations, **we are likely to revise our recommendation from Reduce to Hold.**

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Research views

HCL Technologies Q1FY09 Result Update: Below par performance on subdued expectations

Patchy Q1FY09 Results; pointer to further weakness?

HCL Tech reported ***sub 20% YoY growth in U$ revenues*** to US$ 505 mn (+0.2% QoQ), Rs 23.7 bn (+9.2% QoQ, +38.6% YoY), lower than expectations despite inorganic revenue contribution of ~US$ 7 mn during the quarter ***(sequential decline on an organic basis)***. Operating margins declined by 70 bps QoQ V/s our expectations of ~30 bps to 21.6%. Net profits (adjusted for ESOP charge) came in ahead of estimates at Rs 3.3 bn (+186% QoQ, +18.1% YoY) driven by lower forex losses and higher other income. Co reported a headcount increase of 1973 during the quarter (net addition of 880 in Core S/W, 1244 in IMS and a decline of 151 in BPO). Revenues from ***top 5/top 10 clients declined by ~2% QoQ***. Onsite Software revenue productivity was down by ~4.5%sequentially (though cross currency movements also played truant here).

Client specific woes playing truant

HCL Tech reported a muted 1% QoQ volume growth in Core S/w ***(marking the lowest sequential growth in volumes ever)***. Revenues in Core S/w declining by 0.7% QoQ despite ramp up in a recently awarded telecom deal. Although the company ruled out any incremental project cancellations/customer warnings in any top clients (we note that HCLT is afflicted by budget freezes/cuts at 2 key BFSI clients, one of which has got acquired recently, ***however are negatively surprised by the extent of dip in volume growth).*** HCL Tech reported revenues of US$ 57.2 from BPO business (+1.2% QoQ), with inorganic contribution of ~US$ 7 mn from recently acquired Liberata Financial Solutions and Control Point Solutions. (Company lost another client in BPO during the quarter) Operating margins in BPO declined by ~940 bps sequentially on account of consolidation. IMS revenues grew by 3.7% QoQ to US$ 79 mn

Co maintains deal pipeline is strong; though conversion remains tough

HCL Tech management during the investor/analyst call highlighted that it was pursuing deals with a TCV of ~US$ 2 bn + which could get awarded over the next quarter. The company indicated that ~45% of these deals being negotiated were from manufacturing clients with remaining being split between financial services and media/entertainment. The company also announced that it has bagged US$ 270 mn worth of contracts during September'08 (coming on the back of US$ 310 mn announced during June'08 quarter). Although we have appreciated HCLT's track record of bagging large deals, we note that any delay in decision making ***(we believe that it's near stall in final awarding of deals driven by worsening news flow) could continue to hamper HCLT's financial performance (as also evident from September'08 performance where spend cuts/freezes at top clients have brought growth to a near halt)***

Cut FY09E/FY10E revenues by 6.7% / 2.7%, TP to Rs 201

We have reduced our US$ FY09E and FY10E revenue growth estimates to 14.6% (V/s 21.3% earlier) and 11.7% (V/s14.4% earlier) respectively *(INR estimates based at Rs 46/$ for FY09 and Rs 45/$ for FY10 now V/s Rs 42/41 for FY09 and FY10 earlier)* despite expectations of ~5% revenue growth from acquisitions alone during FY09. We highlight that the sharp cut in estimates emanates from macro/client specific worries that continue to dog HCLT's Core Software and BPO business. **Our earnings estimates stand reduced by ~3% and ~7.4% for FY09 and FY10 to Rs 21.2 and Rs 22.3 respectively. (*Expect a much higher cut in consensus estimates, FY09/FY10 consensus estimates higher than our initial estimates by ~4.6/5% respectively)*.** We reduce our TP to Rs 201, based on 9x FY10 earnings though expect stock to remain under pressure with the only support in the form of ~7.5% dividend yield.

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Emkay Research

Cement Sector Survey

Optimism still prevails

Sector Survey

15th October 2008

We recently conducted a survey of cement manufacturers in India, wherein a total of 10 cement companies controlling 60% of capacity participated in the survey. Our survey reveals that even in the backdrop of moderating housing demand and slowdown in industrial activity, the cement industry is optimistic on consumption growth of 9%+ over next 2-3 years. The cement supply however is expected to increase at a CAGR of 13%, thereby resulting in cement surplus. However the relative low cement surplus of 4 million tonne is expected to result in firm cement prices is H2FY2009. The survey reveals no consensus on direction of cement prices in FY2010. Hence everything now hinges upon demand growth for the sector, where a couple of percentage points of swing in either direction would be the determining factor for direction of cement prices. We believe that the manufacturer's consensus expectation of 9.3% growth in consumption is on a higher side as we believe that the full impact of high interest rate on demand for housing and investment in infrastructure sector is yet to play out. Any slippages in the demand growth, coupled with impending oversupply can lead to significant softening in cement prices. We maintain our NEUTRAL stance on the sector.

Cement manufacturers optimistic on consumption growth of 9%+

The survey results reveal that despite the back drop of a slowdown in economic growth and moderate housing demand, the industry is optimistic and expects cement consumption to grow between 9-10% over the next 2-3 years.

Industry to add 95 million tonnes of new capacity by end of FY2011

Our survey revealed that, industry expects 95 million tonnes of new capacities to be added by the end of FY2011, representing an increase of 15% CAGR. However on account of delays in commissioning and commercial production from new capacities the industry expects net cement supply to increase at a CAGR of 13% over FY2008-11E. Our survey reveals that that on an aggregate basis, the industry is expected to witness a small surplus of 4 million tonnes (2.2% as % of demand) in FY2009. However the same figure is expected to jump to 17.6 million tonnes (8.7% of demand) in FY2010.

No consensus on direction of cement prices

There seems to be no consensus amongst cement producers as far as the direction of cement price is concerned. 50% respondents said they cannot comment on direction of cement prices. 50% of the respondents who did reply to this query expect cement prices to improve 5-10% in H2FY2009. However, the same set of respondents expects cement prices to stay flat or possibly moderate in FY2010.

Cost pressure - worst may be behind us

The cement industry over the past 3-4 quarter had been witnessing steep increase in its cost of production. However, with the recent sharp fall in the price of international coal as well as crude oil prices, there is a bit of relief expected on the cost front. In fact, a lot of respondents to our survey have said that the cost pressures are unlikely to increase further and the industry could have already passed the worst phase of cost increase.

Demand growth critical factor for cement prices

Some respondents to our survey said that even though they expect cement surplus scenario in the next 2-3 years, the same is not expected to lead to a cement price war. The prime reason for this argument is that, as the industry is expecting cement consumption to grow at a CAGR of 8-9% over next 2-3 years, producers would typically hold the fort for that consumption to materialise. **Hence, we believe that demand growth now remains the most critical factor, which would determine the direction of cement prices.**

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Indian Cement Sector - Manufacturers Survey

In order to appraise investors of the recent issues grappling the cement industry and to provide them a consensus view on these issues, we recently conducted a survey of cement manufacturers in India. A total of 10 cement companies with total installed capacity of 120 million tonnes participated in this survey. The survey includes the manufacturer's expectation of demand growth, capacity addition, cost pressures and overall outlook. We provide below the detailed survey observations

Cement manufacturers optimistic about a 9.3% consumption growth

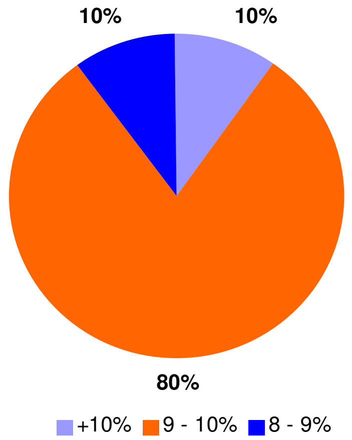
After a 4 years of rollicking growth ride, the Indian economy is currently facing some speed breakers as is evident by slowdown in Q1GDP growth and tepid IIP numbers. The growth in core infrastructure sector and the housing demand is facing some headwinds owing to a high interest rate scenario. However even in the backdrop of these facts our survey results of Indian cement manufacturers indicate that an overwhelming 80% of the respondents are optimistic on cement consumption and expect all India cement consumption to grow between 9-10% over the next two years. Some 10% of the respondents even believe that growth will be more than 10%. This clearly brings out the optimism amongst cement players about the cement demand growth, with a total of 90% of the respondents expecting growth of 9%+ in the next two years. While only 10% of the respondents expressed concerns about demand growth and pegged it between 8 to 9% over the next two years. **On an average, the survey observes that the cement consumption in India is expected to grow at a CAGR of 9.3% over the next 2-3 years.**

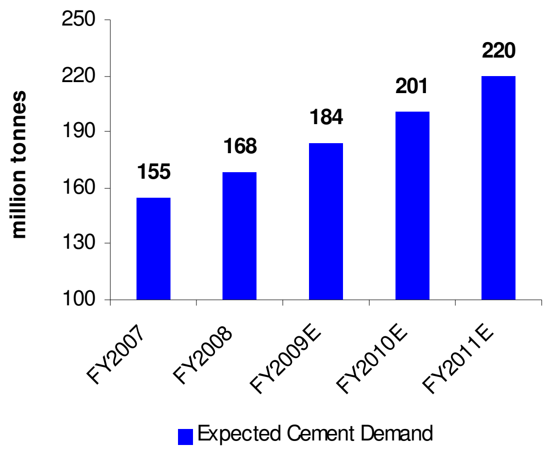
Cement demand expected to cross 200 mn tonne by FY2010E

On the back of strong 9%+ cement consumption growth (domestic demand + exports) over the last two years, the total cement demand stood at 168 million tonnes in FY2008. **Based on the consensus expectation of 9.3% growth, the total cement demand is expected to cross 200 million tones, at 201 mn tonnes in FY2010 and 220 mn tonnes in FY2011.**

Question: The Indian economy has witnessed a bit of slowdown in last 4-6 months as signaled by IPP and core infrastructure numbers. Also, the high interest rates are posing threat to industrial and infrastructure investment already announced. Needless to say, that high home loan rates also pose a threat to housing demand. In such a scenario, what is your estimate of cement demand growth in India for the next 2 years?

90% respondents expect cement demand to be over 9% over next two years

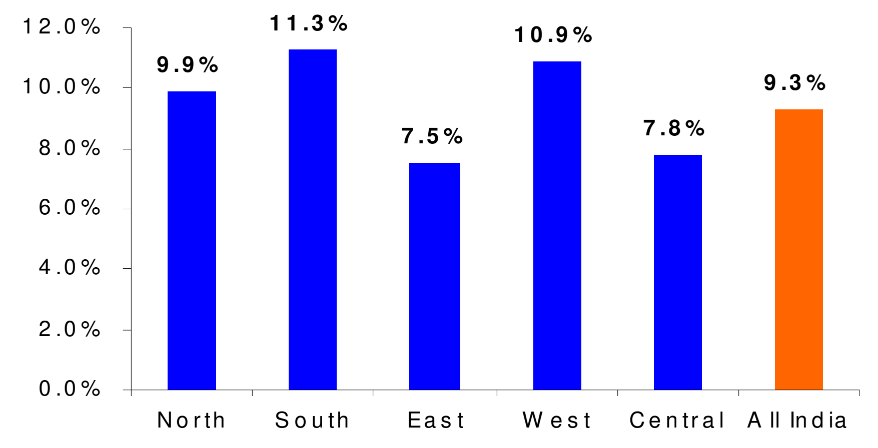




<u>Emkay's View: We believe that the cement manufacturer's consensus expectation of 9.3% growth in cement consumption is on a high side as we believe that the full impact of high interest rate on demand for housing and investment in infrastructure sector is yet to play out.</u> Also with current credit crunch likely to dry up liquidity, the impact on infrastructure projects particularly on funding these projects is expected to lead to some delays in execution. Consequently cement consumption growth is expected to moderate a bit. The cement consumption growth of 7% for H12009 already is showing signs of moderation. We expect cement consumption to grow at rate of 8% over next two years.

South & West to lead growth charts

The survey results indicate that manufacturers are upbeat about cement consumption growth in Western and Southern Region, followed by Northern India. Cement consumption in the Western region is expected to grow at a CAGR of 10-11%, on account of hectic infrastructure activity and healthy housing demand buoyed by massive investment lined up in the state of Gujarat. Similarly the Southern region which has been the best performing region over the last two years is expected to grow at a CAGR of 10-12%, on the back of robust industrial and infrastructure activity. Northern region also is expected to witness robust cement consumption growth of close to 10% over next 2-3 year. Delhi's hosting of 2010 commonwealth games is expected to add fuel to cement consumption growth in the region. However, the survey results point to moderate cement consumption growth in the central and eastern regions of the country, with expected cement consumption growth of 7% over the next 2 years. The eastern region is expected to see slower growth, on account of recent stalemate on industrial and SEZ investments in the region. The Singur and Nandigram issues have proved to be a dampener for investment. Consequently, these two regions are expected to trail the overall cement consumption growth of 9-10%.

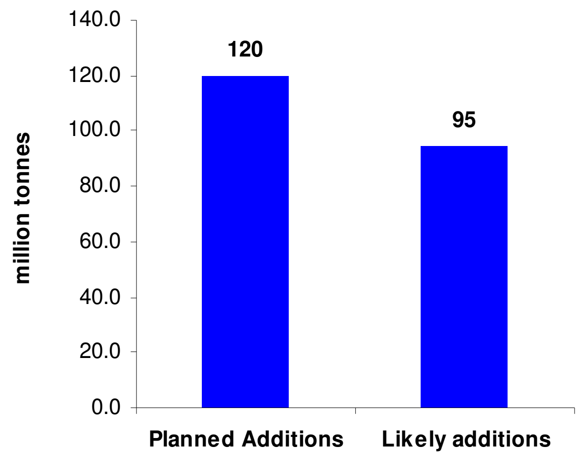


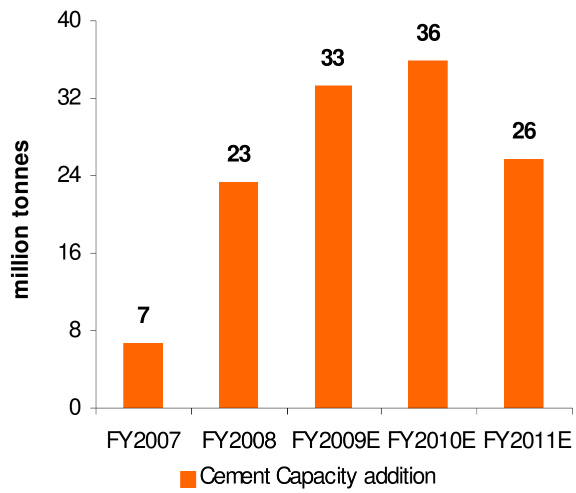
120 million tonne of planned capacity addition - 95 million tonnes to actually materialise

Our survey revealed that close to 120 million tonnes of new cement capacity is planned to be added over FY2009-FY2011. However, there can be some delays on account of difficulties regarding acquisition of limestone mines and land requires for the cement plant. Also, lead time equipment supply has increased from 18 months to 24 months now. Consequently, there are visible delays in capacities coming on stream. **The survey revealed that on an average, the industry expects 95 million tonnes of new capacities to be added over the next three years.** However, the survey has brought out the varying extent of capacity addition on a yearly basis. For example, the highest expectation of capacity addition in FY2009 is 41 million tonne whereas the lowest one is 26 million tonne. Similarly, the highest expectation of capacity addition in FY2010 is 44 million tonne whereas the lowest one is 30 million tonne. Following exhibit shows average year-wise expected new capacity addition.

Question: There has been a lot of announcement of cement capacity addition. However, there are visible delays in capacity additions. We would like to know- What is your estimate of total planned cement capacity addition in India? How much capacity addition do you think is likely to materialise over FY2009-11?

Cement industry to add 95 million tonnes of new capacities over FY2009-11



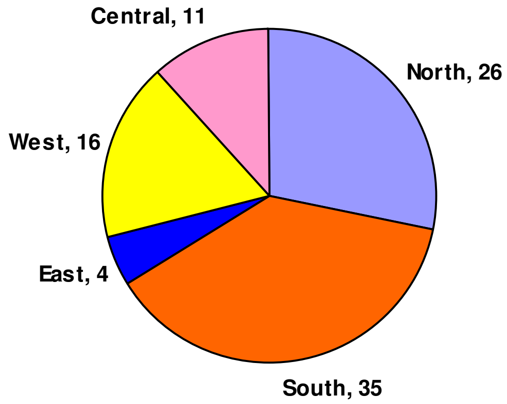


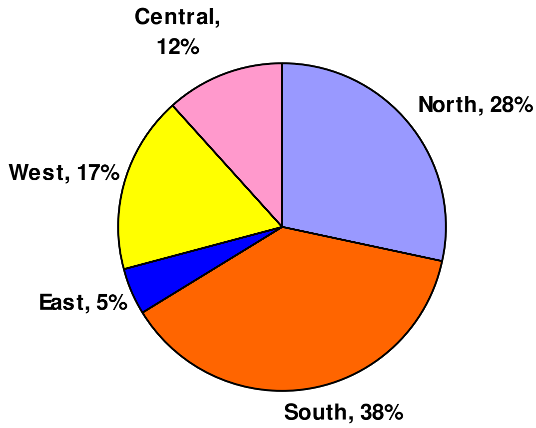
Emkay's View: We agree with industry's expectation that a total of 95 million tonne is most likely to be added over next 3 years. However we expect a higher amount of addition in FY2009 (38 million tonne) and FY2010 (45 million tonne).

South & North to see maximum capacity addition

The survey results brought out that South and North has the highest share in capacity addition, with share of southern region in the new capacities at 38% while that of North at 28%. Consequently these regions over a period of three year are expected to witness a capacity increase of close to 20% CAGR. However the increase in available capacity i.e. effective supply is likely to be significantly lower on account of commissioning and production delays. Also both these regions are expected to have a demand growth of 10%-11% which in turn shall help is absorbing a lot of this fresh supply. But still these regions are expected to witness surplus.

South has close to 38% share in new capacities, North at 28%





Capacity addition estimates not consistent across players

Our survey observation reveals that estimates of new cement capacity addition, over the next two years are not consistent across industry players. As mentioned earlier the highest estimate of capacity addition for FY2009 stands at 40 million tonne whereas the lowest one stands at 26 million tonnes. Similarly, the highest estimate of capacity addition for FY2010 stands at 50 million tonnes whereas the lowest one stands at 30 million tonnes. Since the difference in the highest and the lowest estimate is significant, it hampers an accurate estimate of possible supply situation over next year. The accurate estimate of possible supply is very important since this would be the determining factor for pricing power and pricing behavior among cement manufacturers in India.

69% of the respondents expect 30-35 million of new capacities to get added in FY2009 and FY2010

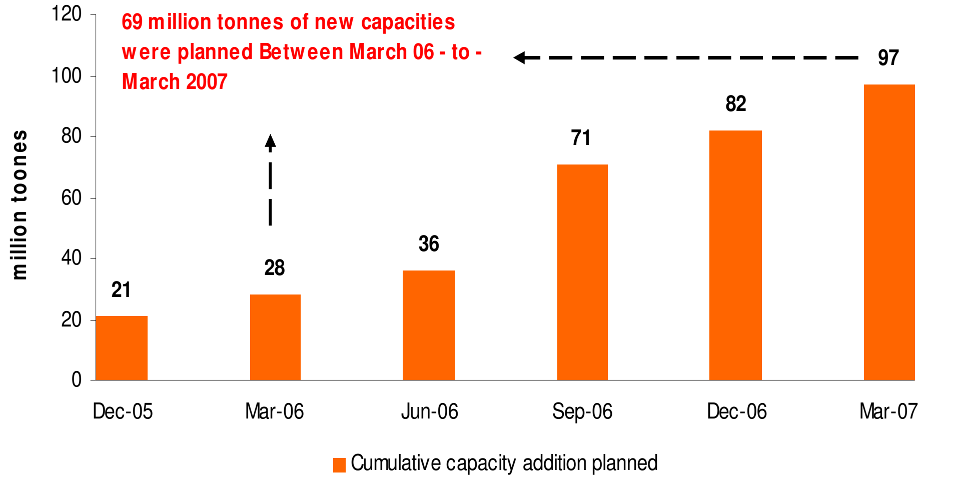
	FY2009E	FY2010E	FY2011E
Highest	40	50	30
Average	33	35	27
Lowest	26	30	25

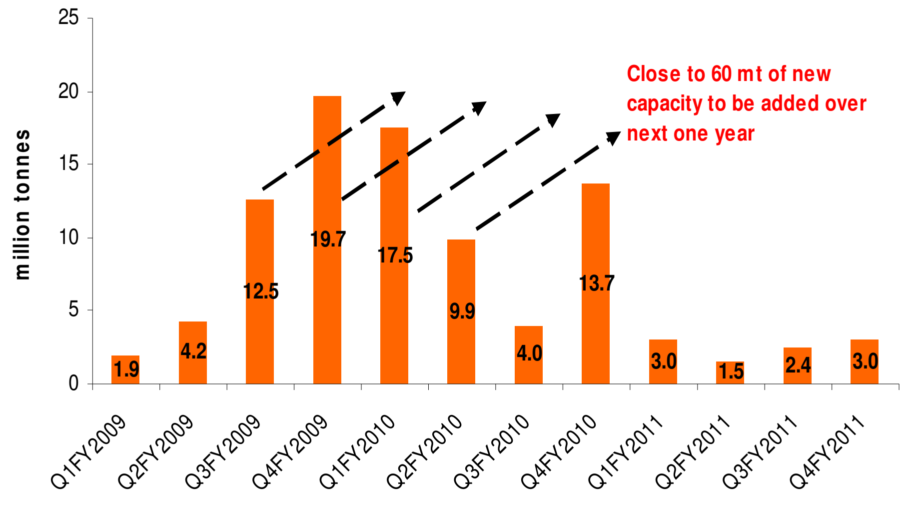
	FY2009E	FY2010E	FY2011E
25-30 mt	12.5%	0.0%	62.5%
30-35 mt	75.0%	62.5%	37.5%
35-40 mt	12.5%	12.5%	0.0%
40 mt+	0.0%	25.0%	0.0%

Commissioning schedules could lead to bunching up new capacities over next one year

A large chunk of 69 mn tonnes of cement capacity addition was planned between March 2006 and March 2007. As it takes close to 30-36 months for setting up a new cement plant, it is highly likely that these capacities will come on stream simultaneously in Q3FY2009-Q2FY2010, leading to bunching up of capacities at that time. On an annual basis, even though the supply CAGR is 15% over FY2008-11E, **the cement capacity addition of 60 mn tonne in the 12 months period of Q3FY2009-Q2FY2010 alone is a huge 29.5% increase over current installed capacity of 203 million tonne.** This is likely to unsettle the demand supply equation during the period and could result in a significant supply overhang.

Bunching up new capacities could put pressure on cement prices

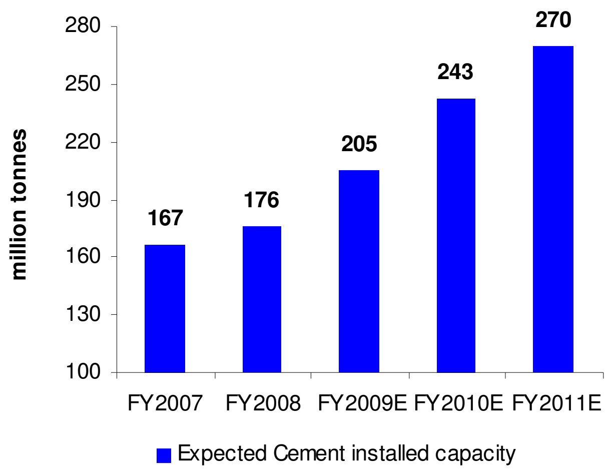




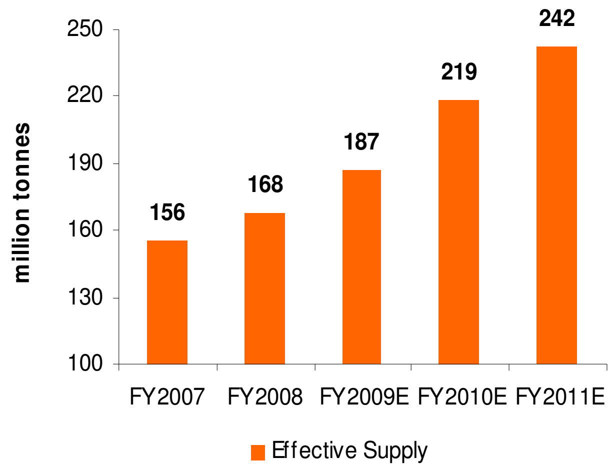
Cement installed capacity expected to cross 240 million tonne by FY2010

With total of 95 million tones of new capacities to come over next three year the installed capacity is set to cross 240 million tonne by FY2010 and 270 million tonne by FY2011. Our survey results observe average installed capacity to stand at 243 million tonnes in FY2010 and 270 million tonne by FY2011. This increase from 175.7 million tonnes in FY2008 to 270 million tonne in FY2011E represents an increase of 15% CAGR over the same period.

Installed capacity to increase at 15% CAGR



Effective supply to increase at 13% CAGR



Effective supply expected to grow at a slower pace than installed capacity

Apart from the delays witnessed in commissioning of new capacities, there have been visible delays in commercial production. For example, Ultratech's new unit of 3.3 million tonne at Tadipatri commenced operations on 26th March 2008, but the plant still is undergoing trial runs and the commercial production is expected during Q3FY2009. Similar is the case with Grasim's 3.3 million tonne unit at Shambhupura, where the plant became operational in March 2008 but the commercial production is expected only by next quarter.

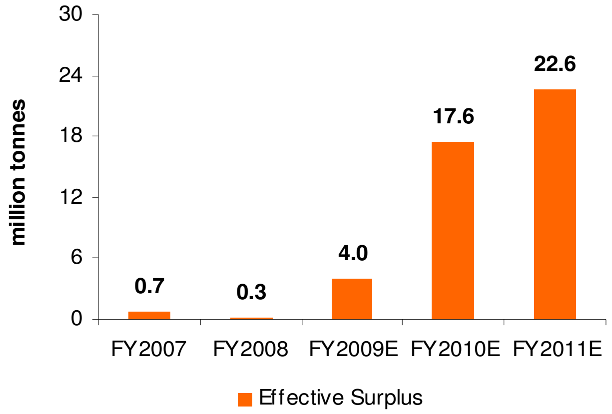
This phenomenon of delayed commercial production was also brought out by the observation of our survey. For example, even though on an average, the installed capacity is expected to be 205 million tonnes by March 2009, the effective supply for the year is just 187 million tonnes, as there are visible delays in commercial production. Also, even after commercial production, the new capacities take some time to operate at 90% + utilisation. **Overall, our survey results indicate that, on an average, the cement industry expects aggregate cement supply to increase at a CAGR of 13% over FY2008-11E,** with FY2010E effective supply pegged at 219 million tonnes (installed capacity of 243 million tonnes) and FY2011E effective supply at 242 million tonnes (installed capacity of 270 million tonnes)

Negligible cement surplus expected in FY2009.FY2010 to see a surplus

The most surprising observation of our survey is that barring a single player, all the respondents said that they do not expect significant surplus in FY2009 with average expected surplus of only 4 million tonnes for the year. However, almost all the respondents unanimously agreed that the cement supply in FY2010 & FY2011 would be greater than cement demand, thereby creating a surplus scenario. The survey observes that on an aggregate basis, the industry is expected to witness an average surplus of 17.6 million tonnes in FY2010 and 22.6 million tonnes in FY2011.

Question: Do you think the cement supply in India is expected to me more than demand creating a cement surplus scenario? If yes, what is your estimate of surplus for FY2009, FY2010 & FY2011?

More than 60% of the respondents expect cement surplus of 15+ million tonne in FY2010

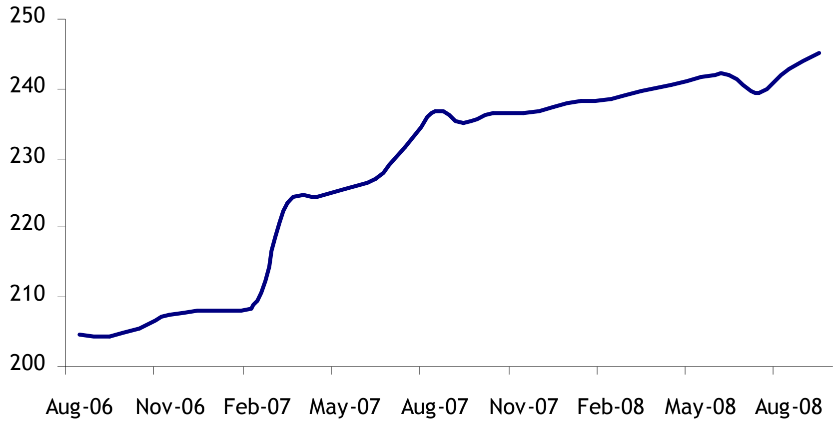


	FY2009E	FY2010E	FY2011E
0-5 mt	50%	0%	0%
5-10 mt	38%	0%	0%
10-15 mt	13%	38%	25%
15-20 mt	0%	25%	13%
20-25 mt	0%	38%	63%

No consensus view on cement prices

The survey responses to outlook on cement prices are a bit hazy and no consensus view emerged from the survey responses. In fact, 50% of the respondents to the survey actually said that they can't say where the cement prices are headed. However, there is no visible concern on cement prices as far as FY2009 is concerned. In fact for FY2009, 50% of the respondents who did reply to this query actually expect cement prices to improve 5-10% in H2FY2009. And the same set of respondents expects cement prices to stay flat or **POSSIBLY** decline in FY2010.

All India Cement Prices



Demand growth critical factor for cement prices

Some respondents to our survey said that even though they expect cement surplus scenario in the next 2-3 years, the same is not expected to lead to a cement price war. The prime reason for this argument is that, as the industry is expecting cement consumption to grow at a CAGR of 8-9% over next 2-3 years, producers would typically hold the fort for that consumption to materialise. This essentially means the producers are not expecting severe cement price cuts, even if they were to sub-optimally utilise their installed capacities, as the expected demand growth would anyways absorb capacity over subsequent 12-18 months. Also, almost all the respondents said that the blending ratio for the industry, which currently stands at 74%, has peaked out. In fact, as the price differential between PPC and OPC is as high as Rs15/bag, the producers expect the blending ratio to come down, which in turn, would restrict supply to market. **Hence, we believe that demand growth now remains the most critical factor, which would determine the extent of softening of cement prices.**

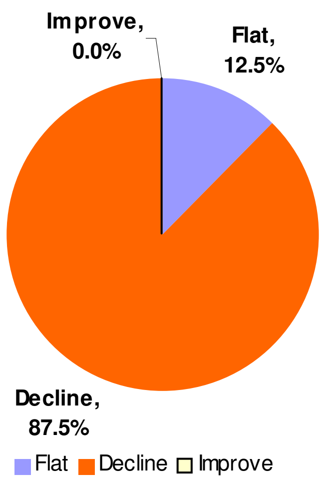
Emkay view: As against industry expectation of improvement of 5-10% in cement prices in H2FY2009, we expect the price to just improve by 2-3% in the wake of slower consumption growth. Also the huge capacity addition of 60 mn Q3FY2009-Q2FY2010 would drag the capacity utlisation close to 80%. In a scenario like that, the pricing power in hands of cement producer is expected to weaken. In a scenario of low utilisation and weakening pricing power, it is highly unlikely that the cement prices would remain firm. We expect cement price to decline by Rs10-15 in FY2010. Further as the capacity addition is expected to continue even in FY2011, we would not be surprise if the downtrend in the cement prices continues even in FY2011.

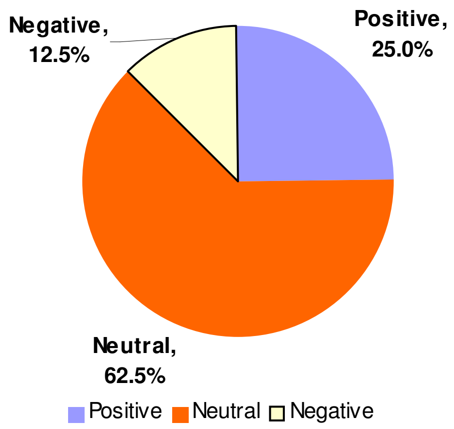
EBITDA margins to decline

With cost of production on a continuous uptrend and cement prices not keeping pace with cost increase, the response to expectation on EBIDTA margins was pretty much unanimous. **A staggering 87.5% of the respondents to our survey expect their EBIDTA margins to decline over the next 2 years.** However, with the recent sharp fall in the price of international coal as well as crude oil prices, there is a bit of relief expected on the cost front. In fact, a lot of respondents to our survey have said that by and large, the cost of production has peaked out.

Question: Given your view on demand supply, cement price and production cost, what you think of your EBIDTA margins? What is the outlook for your cement business for the next 2-3 years?

Producers expect margins to decline - but still share a NEUTRAL outlook





Outlook remains NEUTRAL

Even though the survey respondents expect their EBIDTA margin to remain under, most of them have shared a NEUTRAL outlook. Even though this might look surprising, we believe that the response of a NEUTRAL outlook is possibly because of their view that cost of production has peaked out and their expectations of a 9% growth in cement consumption.

Emkay's View

We had recommended REDUCE/NEUTRAL rating on most of cement stocks as the industry is set to add close to 70 million tonnes of new capacity over the next 18 months (95 million tonne over next 36 months) which we believe will snatch away the pricing power from cement producers. High cost push pressures and inability to pass on the same will severely impact margins of cement companies. Also, with the current credit crunch likely to dry up liquidity, the impact on infrastructure projects particularly on funding arrangements is expected to lead to some delays in execution. Consequently, cement consumption demand from infrastructure sector is expected to moderate a bit. Similar impact can also be expected on housing and industry demand. Hence, there are concerns on expected demand growth of 8-9% for the sector, apart from apprehension of oversupply. We maintain our NEUTRAL stance on the sector. However, we are likely to downgrade our rating and earnings on some cement stocks.

Key Financials of cement companies under our coverage

	Sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs)		PE (x)		EV/EBITDA (x)		ROCE (%)		ROE (%)	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC	74,554	81,891	18,496	16,120	11,601	9,337	61.8	49.7	8.9	11.1	5.2	6.3	27.9	20.0	25.2	17.3
Ambuja Cements	65,040	73,491	18,391	17,973	11,268	10,385	7.4	6.8	8.8	9.5	5.4	5.5	27.8	19.1	18.6	12.9
Grasim Industries	171,052	191,521	49,992	54,177	25,073	28,450	273.5	310.4	5.5	4.8	3.4	2.6	24.9	24.5	21.2	19.6
India Cements	38,178	42,694	12,095	12,111	6,346	6,216	22.5	22.1	4.3	4.4	3.6	3.4	18.8	16.9	17.8	15.2
JK Cements	15,513	22,653	3,398	4,679	1,844	2,260	26.4	32.3	2.8	2.3	4.8	3.0	14.9	16.3	16.3	17.1
Madras Cements	26,458	31,262	8,761	9,143	4,402	4,839	18.5	20.3	5.1	4.7	4.0	3.2	23.7	23.2	38.3	30.9
Orient Paper	13,969	18,204	3,342	4,240	1,913	2,449	9.9	12.7	2.3	1.8	1.9	1.0	41.6	41.4	33.6	31.7
Shree Cements	24,328	26,469	9,847	9,706	4,317	4,589	123.9	131.7	3.9	3.7	1.0	0.1	30.3	30.1	38.8	30.5
Ultratech Cement	64,453	66,767	18,744	17,268	10,196	8,981	81.4	71.7	5.4	6.2	3.5	3.2	33.3	25.0	31.9	21.8

Emkay Research

Result Update

Larsen & Toubro

Quality Performance

October 16, 2008

BUY

Price	Target Price
Rs893	Rs1,050
Sensex	**10,809**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(30)	(22)	(36)	(47)
Rel. to Sensex	(12)	(8)	(4)	(6)

Source: Capitaline

Stock Details

Sector	Eng & Cap Goods
Reuters	LART.BO
Bloomberg	LT@IN
Equity Capital (Rs mn)	1170
Face Value(Rs)	2
No of shares o/s (mn)	585
52 Week H/L	2,335/851
Market Cap (Rs bn/USD mn)	522/10,771
Daily Avg Volume (No of sh)	4081332
Daily Avg Turnover (US$mn)	106.6

Shareholding Pattern (%)

	S'08	J'08	M'08
Promoters	0.0	0.0	0.0
FII/NRI	19.3	19.2	21.6
Institutions	37.5	38.7	37.7
Private Corp	4.9	4.5	3.8
Public	38.3	37.7	36.9

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The adjusted net profit at Rs4.6 bn with growth of 32% yoy was below our estimates. However, quality of performance was good- since E&C report strong performance during the quarter and lower than estimated net profit growth was attributed to (1) margin drop in E&E business and (2) expenses on new business initiatives. L&T management continues to maintain positive outlook on new order inflows and order booking and maintained 30% revenue growth guidance in FY09E. But, we believe that current environment has increased the risk to earnings estimates of FY10E with possibility of slower order execution in FY10E. In lieu of above, we have cut our valuation multiples on core business (valued at Rs750/Share) and subsidiary business (valued at Rs298/Share) in SoTP valuation- but maintain our earnings estimate for FY10E. We maintain our BUY rating with revised SoTP value of Rs1050/Share, downward revision of 31%.

110 bps drop in operating margins and 32% net profit growth….

In Q2FY09, L&T reported strong revenue growth at 39.7% yoy but lower net profit growth of 32.3% yoy. L&T's revenue increased to Rs76.8 bn, above estimates, led by strong order booking in Engineering & Construction (E&C) division – up 40.5% yoy to Rs59.9 bn. Electrical & Electronics (E&E) and Machinery & Industrial Products (M&IP) reported lower growth at 13.2% yoy and 15.7% yoy to Rs7.6 bn and Rs6.8 bn respectively. However, operating margins (adj. for forex loss) declined 110 bps yoy to 9.6%, versus our expectation of 20 bps increase – posing negative surprise. Drop in operating margins and higher interest charge led to lower than estimated net profit growth at 32.3% yoy to Rs4.6 bn. Earnings for the quarter stood at Rs9.6 / share.

….. However, quality of earnings was good

Despite a lower than expected net profit growth, we believe that the quality of earnings, was good. L&T reported higher contribution from E&C division – (1) revenue contribution up 240 bps yoy to 76% and (2) segment margins improved 20 bps yoy to 10.8%. The drop in operating margins was attributed to 1) 410 bps yoy decline in margins of E&E division to 11.1% and (2) higher un-allocable corporate expenses linked new business initiatives.

Strong momentum in order inflows - up 74% yoy to Rs125 bn

Order inflows picked up in Q2 FY09, rising 74% yoy to Rs125 bn. This addressed fears of slowdown witnessed in Q1FY09. Consequently, order book increased 43.2% yoy to Rs630 bn with rising contribution from Process (13% to 17%) and Power (12% to 20%). 57% of current order book is private sector against 43% from Government / PSU. The current order backlog is executable in 25 Months.

L&T reiterates its 30% revenue growth guidance in FY09E

L&T management continues to maintain positive outlook on new order inflows and order booking and maintained 30% revenue growth guidance in FY09E- the confidence stems from quality of order backlog and expectation of continued order inflows from exports and hydrocarbon segment. It also maintains its earlier view of sustained Ebidta margins- especially in key business segment of E&C and E&E. We maintain our consolidated earnings estimates for FY09E at Rs53.6/Share.

Key Consolidated Financials: In Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E (x)
FY07	203,857	27,279	13.4	17,608	31.1	17.5	6.7	0.9	35.4	28.7
FY08	295,611	40,124	13.6	22,980	39.3	14.0	4.5	1.1	24.1	22.7
FY09E	389,597	53,772	13.8	33,113	53.6	10.2	2.8	0.8	27.7	16.7
FY10E	500,965	69,671	13.9	41,715	67.0	8.6	2.4	0.8	19.5	13.3

Current environment has increased risk to FY10E earnings estimates

We believe that current environment has increased the risk to earnings estimates of FY10E (23% of incremental earnings at risk owing to orders from Realty and Process Industry (23% of order backlog))- with possibility of slower order execution in FY10E. In lieu of above, we have cut our valuation multiples on core business and subsidiary business in SoTP valuation- but maintain our earnings estimate for FY10E. We have valued core business at Rs750/Share and subsidiary business at Rs298/Share with SoTP value of Rs1050/Share against Rs1515/Share earlier, downward revision of 31%. We maintain our BUY rating.

Key Standalone Financials

YE Mar (Rs Million)	Q2FY09	Q2FY08	YoY Gr (%)	Q1FY09	QoQ Gr (%)
Net Sales	**76,822**	**54,999**	**39.7**	**69,014**	**11.3**
Expenditure	69,495	49,136	41.4	62,441	11.3
Material Cost	59,535	41,651	42.9	55,139	8.0
Employee Cost	6,063	4,432	36.8	4,097	48.0
Sales, Admin & Others	3,897	3,053	27.6	3,205	21.6
Operating Profit	**7,368**	**5,873**	**25.5**	**6,608**	**11.5**
Other Income	959	224	328.4	1,984	-51.7
PBIDT	8,327	6,096	36.6	8,592	-3.1
Interest	690	132	421.1	382	80.4
PBDT	7,637	5,964	28.1	8,210	-7.0
Depreciation	731	483	51.2	659	10.9
PBT	6,907	5,481	26.0	7,551	-8.5
Tax	2,304	2,001	15.2	2,526	-8.8
Net Profit	**4,603**	**3,480**	**32.3**	**5,024**	**-8.4**
Extraordinary Items	-	-	0.0	-	0.0
Reported Profit	4,603	3,480	32.3	5,024	-8.4
EPS (Rs)	7.8	6.1	29.7	8.6	-8.4
OPM (%)	***9.6***	***10.7***	**-110 bps**	***9.6***	**0 bps**
Net Margins (%)	*6.0*	*6.3*	-30 bps	*7.3*	-130 bps
Net Margins (after EO) (%)	*6.0*	*6.3*	-30 bps	*7.3*	-130 bps

Segment Results

YE Mar (Rs Million)	Q2FY09	Q2FY08	YoY Gr (%)	Q1FY09	QoQ Gr (%)
Segment Revenues					
Engineering & Construction	59,896	42,626	40.5	55,417	8.1
Electrical & Electronics	7,605	6,717	13.2	5,776	31.7
Machinery & Industrial Prod	6,846	5,917	15.7	6,335	8.1
Others	4,021	2,329	72.6	3,760	6.9
Less- Inter-segment Rev	564	1,838	-	1,325	-
Net Revenues	**77,804**	**55,752**	**39.6**	**69,962**	**11.2**
Segment Results					
Engineering & Construction	6,484	4,539	42.9	5,365	20.8
Electrical & Electronics	847	1,021	-17.0	664	27.5
Machinery & Industrial Prod	1,370	864	58.5	1,463	-6.4
Others	218	165	32.5	249	-12.2
Total	**8,918**	**6,588**	**35.4**	**7,740**	**15.2**
Less- Seg. Mgn on Internal Cap.	145	47	-	115	-
Less- Interest Expense	690	132	421.1	382	80.4
Add- Unallocated Inc / (Exp)	(1,176)	(929)	26.7	308	-482.4
PBT	**6,907**	**5,481**	**26.0**	**7,551**	**-8.5**
Segment Margins (%)					
Engineering & Construction	11	11	20 bps	10	110 bps
Electrical & Electronics	11	15	-410 bps	11	-40 bps
Machinery & Industrial Prod	20	15	540 bps	23	-310 bps
Others	5	7	-160 bps	7	-120 bps
Total	**11**	**11**	**-10 bps**	**11**	**50 bps**

Order Backlog

In Rs Bn		Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Process		57.2	59.5	78.8	87.3	107.1
	YoY Growth	55%	52%	78%	91%	87%
Oil & Gas		88.0	99.2	121.2	128.0	126.0
	YoY Growth	19%	39%	73%	40%	43%
Power		52.8	54.6	84.3	110.6	126.0
	YoY Growth	91%	9%	43%	90%	139%
Infrastructure		158.4	183.5	189.6	197.9	214.2
	YoY Growth	39%	32%	32%	32%	35%
Others		83.6	99.2	52.9	58.2	56.7
	YoY Growth	51%	74%	2%	-18%	-32%
Total Order Backlog		**440.0**	**496.0**	**526.8**	**582.0**	**630.0**
	YoY Growth	43%	39%	43%	40%	43%

SoTP Valuation

Business	Valuation Method	Valuation Multiple (X)	Value (Rs Bn)	Value Per Share (Rs/Share)
Core Business Value		11	438.7	750
IT Business	M Cap / Sale	1	23.9	41
Finance Business	PBV	1	11.6	20
Infra & Property Business	SoTP	-	45.1	77
Other Subsidiary Business	PBV	2	25.3	43
Associate Business	PE	12	23.4	40
Other Investments	Market Value	-	46.6	80
SOTP Valuation			**614.8**	**1050**

Company	No. Of Shares (In lacs)	% Change In price
LT	25.4	-11
Sterlite	50	-10
HDFC	25.8	-7
Tata Steel	24.5	-10
HCL Tech	10	-4

Nifty movers

Top Gainers	Price	Index Points
Sun Pharma	1398.55	0.5
BPCL	351.80	0.2
Hero Honda	826.35	0.0
GAIL	255.25	-0.1
Grasim Ind	1493.80	-0.1
Losers		
Reliance Ind	1520.20	-23.9
Bharti Artl	714.85	-160.0
ONGC	838.70	-14.9
Rcom	235.45	-11.0
LT	895.60	-10.4

Index- volatility

Indices	Sensex	Nifty
High	11257	3518
Low	10760	3324
Close	10809	3338
Volatility	497	194
(in %)	4.42	5.51

Dealer Comments

Market Summary: The markets opened the session on a negative note with 240 odd points downward gap reflecting weak cues from the global markets, worries over liquidity conditions in the financial systems and global recession. It was dreadful session for the markets as benchmark indices have given up 70-75% gain which was achieved in last two days. Deep concerns over financial stability in global markets still roost the sentiments negatively despite bailout packages stopping the fall for a short while and fears of large economies expected to slip into recession also hit the markets badly. Unabated selling mainly in Capital Goods, Telecom and Metal saw the indices drift deeper in the red as day progressed and closed the session at almost lowest point of the day. The overall market breadth remained fairly negative as selling was witnessed across the board and was at – 2.3x. On the F&O front Nifty futures continued to witness short build up higher levels alongwith while aggressive short build up seen in index heavy weights alongwith Metal and IT stocks. Even weak trading opening by European markets and Negative Dow Futures further led to selling in the bourses at the close. Finally Sensex closed 674 points or 5.87% lower to settle at 10809 levels while Nifty lost 180 points or 5.12% lower to settle at 3338 levels. Among the sectoral indices all of them ended in the red with Capital Goods, Consumer Durables, Metal, IT, Power, Oil & Gas, Realty and FMCG under performing the most. Among the index heavy weights, which gained the most were Sun Pharma, BPCL, Hero Honda, GAIL and Grasim while Reliance Ind, Bharti Airtel, ONGC, Rel Comm and L&T were weak and ended as losers.

The overall traded volumes were quite lower compared to earlier day by almost 10% and were at Rs 573 bn. Delivery-based volumes were at 38.5% the total turnover.

Among the institutional activities FII's were net sellers to the tune of Rs 1.89 bn while Domestic Funds were net sellers to the tune of Rs 2.61 bn respectively in the cash segment on 14th October 2008. While on 15th October 2008 FII's sold shares worth Rs. 10.31 bn in cash segment (provisional) and in the F&O segment bought Futures and Options worth Rs. 0.36 bn whereas Domestic Funds bought shares worth Rs. 6.70 bn (provisional).

Home

Movement of indices

Indices	Previous close	Today's close	% chg
Sensex	11,483	10,809	-5.87
Nifty	3518	3338	-5.12
S&P CNX 500	2685	2553	-4.91
BSE 500	4,254	4,034	-5.17
BSE Mid-Cap	3,892	3,720	-4.41
BSE Small-Cap	4,615	4,393	-4.82
BSE Auto	3,428	3,309	-3.48
BSE Health	3,404	3,328	-2.24
BSE FMCG	1,941	1,870	-3.65
BSE IT	2,939	2,780	-5.43
BSE PSU	5,758	5,555	-3.53
BSE Bankex	6,038	5,841	-3.25
BSE Oil & Gas	7,623	7,230	-5.15
BSE Metal	6,851	6,315	-7.82
BSE Cons Dur	2,330	2,125	-8.79
BSE Cap Good	8,876	8,088	-8.88
BSE Realty	2,804	2,675	-4.61
BSE Power	2,027	1,905	-6.02

Levels to watch

	Sensex	Nifty
Day's High	11257	3518
Day's Low	10760	3324
13 DMA	12103	3652
34 DMA	13087	3936

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Technical Comments

Market Perspective

As expected yesterday Nifty opened on a negative note and it broke the support of 3491 and further continued its southbound journey. It tested our mentioned level of 3370 and further fell sharply and made a low of 3324. Finally Nifty closed at 3338 with a loss of 5.12%. On the sectoral indices front, the BSE Cap Good index (-8.88%) followed by BSE Cons Dur index (-8.79%) and BSE Metal index (-7.82%) were the top-loosers, while all other indices also closed negative. The Advance Decline ratio was almost 1:7.

Yesterday Nifty had retraced 61.80% of the recent bounce back from 3198 to 3648 and made a low of 3324.As Nifty had closed below 61.80% retracement of the above mentioned bounce back, thus in the coming days we may see further weakness in Nifty and in the immediate term nifty can test its recent low of 3198. However still maintain our short-term downside target of 2930.In the immediate term now Nifty is having resistance at 3648 and for short-term Nifty is having resistance at 3750 to 3800.

Today's Strategy:

Hold Short Nifty Oct Future for the target of 3050.00 with a stop-loss 3680.30. For Intra-day Nifty spot is having resistance at 3384 and above that 3460 and it has support at 3272.

Sectoral Speak:

On Tuesday the **BSE Cap Good** index retraced 50% of the recent fall from 10819 to 7824 and made a high of 9365, but thereafter it was unable to sustain on higher levels and yesterday it opened on a negative note and thereby fell sharply. Yesterday this index retraced 61.80% of the recent bounce back from 7824 to 9365 and made a low of 8034. Finally it closed at 8088 with a loss of 8.88%.This index is still looking weak and we maintain our downside target of 7766.

Continuing its southbound journey the **BSE Metal** index yesterday broke its mentioned support of 6425 and further fell sharply and made a low of 6293. Finally this index closed at 6315 with a loss of 7.82%. This index is still looking weak and in the coming days we may see further downside in this index and now it can test our mentioned target of 5364.

Nifty

	14.10.08	15.10.08	Chg	% Chg
Spot	3498.4	3331.4	-167	-4.77
Oct Fut	3511.0	3339	-172	-4.90
Nov Fut	3535.0	3370	-165	-4.67

Nifty Cost of Carry

	14.10.08		15.10.08	
	Basis	COC %	Basis	COC %
Oct Fut	12.6	8.8	7.6	6.0

Nifty open interest

	No of Shares ('000)			
	14.10.08	15.10.08	Chg	%Chg
Oct Fut	33221	33133	-88	-0.26
Nov Fut	2900	3281	381	13.14
Total	36736	37026	290	0.79

Nifty put call ratio

	No of Shares ('000)			
	14.10.08	15.10.08	Chg	%Chg
Call OI	48988	49498	510	1.04
Put OI	37288	36531	-757	-2.03
PCR	0.76	0.74	-0.02	

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Derivative Comments

Today Nifty opened negative, and thereafter it kept on trading with a negative bias throughout the day to finally close at 3338.40 with a loss of 5.12 %.The major Gainers were Havells, Shree Cement, India Cement, Mind Tree and IOC. However, the major losers were Aptech Tech, Essar Oil, NDTV, Orchid Chem and ABAN.

- Nifty Oct futures cost of carry is at 5.95 % Positive against 8.76 % Positive for the previous session.
- Nifty Oct futures traded at nearly 5 - 10 points Premium at the end of trading sessions.
- Total Turnover for NSE F&O Segment was Rs.43996 Crores.

Open Interest Analysis:

Short OI was seen in certain stocks like Essar Oil (42%), Bhel(11%),JSW Steel(10%) and Alok Ind(9%).Hence we would advise clients to avoid going on these stocks.

The Implied Volatility of Nifty increased drastically from 48 - 49 % to 59 - 60 %.We considers this level of IV to be very high and hence we expect highly volatile sessions in the coming days. Yesterday Nifty Futures added 2.89 lac shares (0.79%) in OI.

Put Call Ratio Analysis:

PCR (OI) of Nifty dipped further to 0.74 from 0.76. Nifty Call options adding 5.09 lac shares (1.04%) and Put options shed 7.56 lac shares (2.03%) in OI.

On the call Side 3400 strike calls incrementally added (5.18L) followed by 3500 strike (2.97L).

On the Puts Front significant OI addition was witnessed at 3100 strike which added (6.48L) followed by strike 3200 which added (3.96L).

Cost of Carry (Oct):

Turned Positive : Chambal Fert, ICICI Bank,LT, Reliance Capital and RNRL.

Turned Negative : Bhel, Cairn,IDEA, Satyam and Tech M.

FII's Derivative Statistics for 14.10.08

	Buy		Sell		Open Interest as on 14.10.08		Open Interest as on 13.10.08		Change in FIIs Open Interest	
	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.	No. Of Contracts	Amt in Crs.
Index Futures	160114	2877.37	93342	1669.52	688654	12130.28	608508	10734.39	80146	1395.89
Index Options	39198	712.56	38381	707.31	1153600	20256.91	1158535	20181.14	-4935	75.77
Stock Futures	88646	1195.24	48827	656.91	1124376	15103.64	1101847	14680.99	22529	422.65
Stock Options	0	0.00	323	3.75	54856	833.53	54533	820.85	323	12.68
TOTAL	**287958**	**4785.17**	**180873**	**3037.49**	**3021486**	**48324.36**	**2923423**	**46417.37**	**98063**	**1906.99**

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Peninsula Land

Piramal Life

Rallis India

Sasken Comm.Tech

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