Economy News

- India's infrastructure sector output grew 2.5 per cent in September from a year earlier, slower than the upwardly revised annual growth of 3.9 per cent in August, government data showed on Thursday. In the first half of the current financial year, output rose 4.0 per cent compared with 4.5 per cent a year ago. The infrastructure sector accounts for 26.7 per cent of India's industrial output. India's industrial output growth dropped to 5.6 per cent in August from a year earlier. (ET)
- Food inflation, based on the annual Wholesale Price Index, eased sharply in mid-October, even as it continues to remain high to exert pressure on the RBI to hike interest rates further. The Food Price index increased 13.75 per cent in the week ended October 16, lower that the previous week's annual rise of 15.53 per cent, mainly as vegetables continued to exert downward pressure on account of a base effect. (BL)
- Yields on three-month commercial papers have shot up to a near 20-month high, hurting borrowers as tight liquidity conditions in the market may push up the rates further on soaring demand for loans and rising inflationary expectations. Yields on the three-month paper closed at 8.22% on Thursday, up more than 70 basis points in October. (ET)
- The government clarified the policy concerning the transfer of used capital goods into special economic zones (SEZ) from outside of the enclaves, stating that a company can shift the equipment to set up units into the SEZs. However, the value of such second-hand goods should not exceed (20 per cent) to avail of the tax benefits. (BS)

Corporate News

- Sumitomo Metal Industries, part of Japanese trading giant Sumitomo Group, has decided to pick up a 5.88% in **Steel Strips Wheels (SSWL).** The Steel Strips Wheels board on Thursday agreed to issue and allot 0.85 mn equity shares to Sumitomo Metal at Rs 520 a share on a preferential allotment basis. After the issue, the paid-up share capital of the company shall increase from Rs 136.1 mn to Rs 144.6 mn. (ET)
- **Atlas Copco India Ltd,** a manufacturer of compressors, construction and mining tools, on Thursday said its promoters have decided to seek voluntary delisting of the company from the Bombay and Pune Stock Exchanges. The company has received a letter dated October 28 from its promoter and parent firm, Atlas Copco AB, in this regard, Atlas Copco India said in a filing to the Bombay Stock Exchange. At present, the promoters of the company hold 83.77 per cent of the paid up equity of the firm. (ET)
- **Reliance Power** on Thursday announced that it has given a $8.3-billion contract to Shanghai Electric Group Co Ltd (SEC) for supply of 36 coal-fired thermal power generation units, spare parts and related services over a 10-year period. This takes the total deal size between Reliance Power and the Chinese power equipment maker over the past couple of years to $10 billion. (BL)
- Construction firm **Ramky Infrastructure** on Thursday said that its joint venture with Chinese firm Jiangsu Provincial Transportation Engineering Group has bagged a Rs 11 bn NHAI contract for four laning of Srinagar-Banihal national highway 1A in Jammu and Kashmir. The estimated cost of the project as per the client is Rs 11 bn and the semi-annual annuity for the project is Rs 1.35bn. (ET)
- **Petronet LNG** plans to set up a 1,200-MW gas-based power plant linked to its Dahej terminal and will seek the approval of its board in a month, said AK Balyan, managing director and chief executive officer. The power unit will be set up for around Rs 42bn and would be commissioned in phases over 28-30 months. About 50 hectares of land have been acquired for the project. (ET)

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

Equity

	28 Oct 10	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	19,941	(0.3)	(0.1)	10.8
NIFTY Index	5,988	(0.4)	(0.1)	10.7
BANKEX Index	13,807	(0.6)	(0.8)	19.5
BSET Index	6,019	(0.4)	1.5	8.7
BSETCG INDEX	15,844	(0.5)	(0.9)	7.3
BSEOIL INDEX	10,873	(0.5)	2.9	6.7
CNXMcap Index	9,389	(0.7)	2.0	12.0
BSESMCAP INDEX	10,759	(0.5)	5.1	15.3
World Indices				
Dow Jones	11,114	(0.1)	2.6	6.2
Nasdaq	2,507	0.2	5.5	11.4
FTSE	5,678	0.6	2.0	6.8
Nikkei	9,366	(0.2)	(3.7)	(5.0)
Hangseng	23,211	0.2	3.6	9.9

Value traded (Rs cr)

	28 Oct 10	% Chg - Day
Cash BSE	4,999	(9.4)
Cash NSE	24,832	47.6
Derivatives	252,505	22.2

Net inflows (Rs cr)

	27 Oct 10	% Chg	MTD	YTD
FII	98	(86.0)	24,365	112,649
Mutual Fund	(376)	9.4	(5,738)	(28,494)

FII open interest (Rs cr)

	27 Oct 10	% Chg
FII Index Futures	15,899	(21.4)
FII Index Options	42,602	(33.3)
FII Stock Futures	38,880	(14.3)
FII Stock Options	211	(83.0)

Advances / Declines (BSE)

28 Oct 10	A	B	S	Total	% total
Advances	63	712	164	939	37
Declines	139	1119	234	1,492	59
Unchanged	1	98	17	116	5

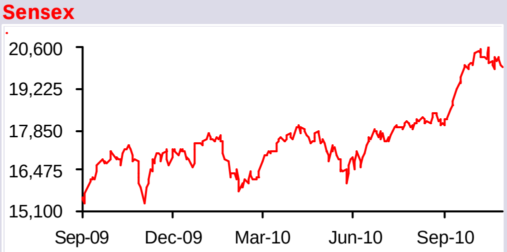
Commodity

	28 Oct 10	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	81.9	(0.3)	5.2	4.5
Gold (US$/OZ)	1,340.9	1.4	2.4	15.1
Silver (US$/OZ)	23.9	1.7	9.4	36.7

Debt / forex market

	28 Oct 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.13	8.13	7.85	7.75
Re/US$	44.53	44.46	45.16	46.77

Sensex



RESULT UPDATE

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BGR ENERGY SYSTEMS

PRICE: RS.767 **RECOMMENDATION: BUY**
TARGET PRICE: RS.890 **FY12E P/E: 14.7X**

- **Revenue of the company for Q2FY11 grew by 143% YoY led by strong execution from EPC projects as well as robust order book. Revenue growth was ahead of our estimates.**
- **Operating margins for Q2FY11 stood at 11.5% vis-à-vis 12.3% in Q2FY10. Operating margins are better than our estimates.**
- **Net profit growth for Q2FY11 stood at 154% YoY led by excellent revenue growth.**
- **We maintain our estimates and expect revenues to grow at a CAGR of 40% and net profits to grow at a CAGR of 37% between FY10-FY12. BGR is currently trading at 18.3x and 14.7x P/E on FY11 and FY12 estimates respectively. We roll forward our price target on FY12 and arrive at a revised price target of Rs 890 (Rs 785 earlier). We continue to maintain our positive bias for the company and upgrade the stock to BUY from ACCUMULATE earlier.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	30,734	48,107	59,946
% change YoY	59.2	56.5	24.6
EBITDA	3,442	5,292	6,594
% change YoY	64.8	53.8	24.6
Other Income	250	160	100
Depreciation	103	147	205
EBIT	3,589	5,305	6,489
% change YoY	54.0	47.8	22.3
Net interest	538	727	787
Profit before tax	3,051	4,578	5,702
% change YoY	74.2	50.0	24.6
Tax	1,037	1,556	1,939
as % of PBT	34.0	34.0	34.0
Profit after tax	2,015	3,021	3,763
% change YoY	74.3	49.9	24.6
Shares outstanding (m)	72.0	72.0	72.0
EPS (reported) (Rs)	28.0	42.0	52.3
P/E(x)	27.4	18.3	14.7
EV/EBITDA(x)	16.2	11.0	8.9
RoE(%)	30.7	33.9	31.0
RoCE(%)	24.9	29.5	29.5

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Net Sales	**11,337**	**4,660**	**143**
Expenditure	10,033	4,086	
Inc/Dec in stock	1	2	
Raw material	9,282	3,746	
As a % of net sales	82	80	
Staff cost	337	238	
As a % of net sales	3	5	
Other exp	412	100	
As a % of net sales	4	2	
EBITDA	**1,305**	**574**	**127**
EBITDA margin (%)	11.5	12.3	
Depreciation	33	23	
EBIT	**1,272**	**551**	**131**
Interest	138	164	
EBT (exc other income)	1,134	387	
Other Income	45	76	
EBT	**1,178**	**463**	**154**
Tax	400	157	
Tax (%)	34.0	34.0	
PAT	**778**	**306**	**154**
NPM (%)	6.9	6.6	
Equity Capital	721.1	720	
EPS (Rs)	**10.8**	**4.2**	**154**

Source: Company

Results better than our estimates

Revenue growth led by robust order book and strong execution

- Revenue of the company for Q2FY11 grew by 143% YoY led by strong execution from EPC projects as well as robust order book. Revenue growth was ahead of our estimates.
- Order book of the company currently stands at Rs 105 bn and provides revenue visibility for next 1.5-2 years. Power segment continued to form a significant proportion of the order book as well as revenues.
- Power segment revenues for Q2FY11 stood at Rs 10.79 bn, diversified across Kothagudem BOP(Rs 360 mn), Kaperkheda BOP(Rs 320 mn), Mettur EPC(Rs 3350 mn), Kalisindh EPC(Rs 5700 mn), Chandrapur BOP (Rs 710 mn) and Marwa BOP (Rs 280 mn). Remaining revenues to the tune of Rs 546 mn is being contributed by other divisions.
- We expect Mettur and Kalisindh EPC projects to get over in FY12 and revenue execution is expected to jump significantly from Chandrapur and Marwa BOP project in FY12. Along with this, projects to be awarded in FY11 are likely to add to the overall execution in FY12 and going forward.
- Order inflow has been muted for the company till Q2FY11 but has now started picking up with company bagging Rs 2.16bn BOP project for 2X660 MW coal based super critical thermal power project in AP. This project was awarded by Thermal Powertech Corporation India Ltd promoted by Gayatri projects and Semcorp, Singapore. We expect execution for this project to commence from FY12 onwards.
- Along with this, company continues to expect order inflows of around Rs 120 - 150 bn for FY11. BGR has already submitted bids for the following projects -

Key bids submitted by the company

Key projects	State	Client	Configuration
Suratgarh	Rajasthan	RRUVNL	2X660MW
Chhabra	Rajasthan	RRUVNL	2X660MW
Wanakbori	Gujarat	GSECL	800MW
Salboni	WB	JSW	2X800MW
NTPC bulk tender		NTPC	9X800MW
Jindal power bulk tender		Jindal power	10X660MW
DB Power EPC		Dainik Bhaskar	2X600MW

Source: Company

- We expect order inflow for the company to jump from November onwards when bids for RRUVNL are likely to be finalized. Along with this, BGR energy is also pre-qualified to bid for NTPC bulk tendering in few months. Company is confident of bagging orders in that segment also. Coupled with these, it is also targeting two more BOP projects from IPPs.

Operating margin performance was better than our estimates

- Operating margins were better than our estimates and stood at 11.5% vis-à-vis 12.3% in Q2FY10. Though H1FY11 operating margin performance was better than our estimates but due to higher proportion of EPC projects execution, we don't expect margins to improve significantly from hereon. We thus continue to maintain our estimates for margins and expect margins to be around 11% going forward.

Net profit growth led by strong execution and decline in interest outgo

- Net profit growth for Q2FY11 stood at 154% YoY led by excellent revenue growth. Along with this, interest outgo has also witnessed a decline in Q2FY11. This boosted net profit growth.

Equipment JV with Hitachi

BGR energy has formed a JV with Hitachi for manufacturing super critical steam turbine and generator as well as boilers. The manufacturing company being set up by the JV will have a capacity to manufacture 5 units per annum of 660MW, 800MW and 1000MW. Following are the details of the JV -

Joint venture with Hitachi

BGR Turbines Company Pvt Ltd

Cost of manufacturing facility(Rs bn)	30
Shareholding	BGR Energy 74%, Hitachi Ltd 26%
Debt:Equity	70:30
Capacity per annum	5 units of 660MW, 800MW and 1000MW
Expected equity inv from BGR(Rs bn)	6.7

Source: Company, Kotak Securities - Private Client Research Estimates

BGR Boilers Private Ltd

Cost of manufacturing facility(Rs bn)	14
Shareholding	BGR Energy 74%, Hitachi Ltd 26%
Debt:Equity	70:30
Capacity per annum	5 units of 660MW, 800MW and 1000MW
Expected equity inv from BGR	3.1

Source: Company, Kotak Securities - Private Client Research Estimates

We expect overall equity investment of Rs 9.8bn from BGR Energy for this JV and this amount is expected to be invested over next two-three years. Formation of this JV has enabled the company to foray into manufacturing of supercritical BTG equipments and would enable company participate in the bulk tendering bids from NTPC. We expect production to commence in three years and it would further take one-two years for indigenization of the units. We have currently not factored in any valuations from this JV into our estimates.

Future outlook

- We continue to maintain our estimates and expect revenues to grow at a CAGR of 40% between FY10-FY12.
- We expect operating margins to range near 11% going forward due to higher proportion of EPC project execution as compared to BOP projects.
- Net profits are expected to grow at a CAGR of 37% between FY10-FY12.

Valuation and recommendation

We now recommend BUY on BGR Energy Systems with a revised price target of Rs.890

- BGR is currently trading at 18.3x and 14.7x on FY11 and FY12 estimates respectively.
- We roll forward our price target on FY12 and arrive at a revised price target of Rs 890 (Rs 785 earlier). We value the company at a discount to its competitors in EPC space such as BHEL, Thermax etc and give a target multiple of 17x one-yr forward.
- We continue to maintain our positive bias for the company and upgrade the stock to **BUY** from ACCUMULATE earlier.
- Key risk to our recommendation would come from delay in award of large sized projects which would impact overall execution going forward.

RESULT UPDATE

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GRASIM INDUSTRIES

PRICE: RS.2282 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.2533 **FY12E P/E: 9.6X**

Consolidated result highlights

- **Revenues of the company for Q2FY11 declined by 5% on YoY basis, inline with our estimates. This was impacted by decline in cement realizations on both sequential as well as yearly basis as well as muted growth in VSF volumes.**
- **Operating margins stood at 16.2% for Q2FY11, lower than our expectations. Operating margins were impacted by fall in cement realizations as well as increased expenses in cement and VSF division.**
- **Net profit declined by 59% for Q2FY11 led by decline in operating margins, higher depreciation and interest outgo. However net profit is not comparable with last year due to change in percentage holding in Ultratech post merger of Samruddhi cements.**
- **At current market price of Rs 2282, stock is trading at 10.1x and 9.6x P/E and 4.4x and 3.7x EV/EBITDA for FY11 and FY12 respectively. We fine tune our estimates and roll forward our price target on FY12 estimates. We thus arrive at a revised price target of Rs 2533 on FY12 estimates and continue to maintain ACCUMULATE on the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	1,99,548	2,06,170	2,37,095
% change YoY	8.8	3.3	15.0
EBITDA	57,867	45,269	52,089
% change YoY	33.6	(21.8)	15.1
Other Income	5,356	6,000	6,000
Depreciation	9,947	11,347	12,972
EBIT	53,276	39,922	45,117
% change YoY	36.1	(25.1)	13.0
Net interest	3,346	3,360	3,240
Surplus on sales tax loan	-	-	-
Profit before tax	49,930	36,563	41,877
Tax	15,705	11,501	13,172
as % of PBT	31.5	31.5	31.5
Profit after tax	34,225	25,062	28,705
Minority Interest	7,141	4,298	6,812
Profit on sale of subsidiary shares	3,871	-	-
Net income	30,955	20,764	21,893
% change YoY	41.6	(32.9)	5.4
Shares outstanding (m)	91.7	91.7	91.7
EPS (adjusted) (Rs)	295.3	226.4	238.7
P/E(x)	7.7	10.1	9.6
EV/EBITDA(x)	3.4	4.4	3.7
RoE(%)	25.7	15.5	14.4
RoCE(%)	30.0	21.0	21.9

Source: Company, Kotak Securities - Private Client Research

Consolidated Financial highlights

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Net sales	**44,390**	**46,823**	**-5.2**
Expenditure	37,179	31,975	16.3
Dec/(Inc) in stock	-231	-1,157	
Raw material consumed	9,526	8,112	
As a % of sales	21.5	17.3	
Purchase of finished goods	357	417	
As a % of sales	0.8	0.9	
Staff cost	3,099	2,530	
As a % of sales	7.0	5.4	
Power and fuel	9,813	8,205	
As a % of sales	22.1	17.5	
Freight, handling and other expense	6,847	6,559	
As a % of sales	15.4	14.0	
Other expenditure	7,767	7,309	
As a % of sales	17.5	15.6	
Operating profit	7211	14,848	-51.4
Operating margin	16.2	31.7	
Depreciation	2,727	2,424	
EBIT	**4,484**	**12,424**	**-63.9**
Interest	974	831	
EBT(exc other income)	3,510	11,593	-69.7
Other income	1,625	1,455	
Write back of provisions			
EBT	**5,134**	**13,048**	**-60.7**
Tax	1,508	4,231	
Tax (%)	29.4	32.4	
PAT	**3,627**	**8,817**	**-58.9**
- Minority share	468	1,117	
+ Share of profit/(loss) of associate	75	107	
Net profit	**3,234**	**7,806**	**-58.6**
Equity capital	916.9	916.9	
EPS (Rs)	35.3	85.1	

Source: Company

Revenues impacted by fall in cement prices

- Revenues of the company for Q2FY11 declined by 5% on YoY basis, inline with our estimates. This was impacted by decline in cement realizations on both sequential as well as yearly basis as well as muted growth in VSF volumes.
- Segment wise performance of the company is shown below -
  - Cement - Cement volumes on a consolidated basis stood at 9.2MT as against 9.52MT in Q2FY10. Blended cement realizations witnessed a decline sequentially as well as on yearly basis and stood at Rs 3283 per tonne. This was led by sharp decline seen in grey cement realizations to Rs 2983 per tonne in Q2FY11 as against Rs 3500 per tonne in Q1FY11 and Rs 3533 per tonne in Q2FY10. White cement realizations have improved on sequential as well as yearly basis. Wall care putty segment has witnessed an improvement in terms of demand as well as volumes.

    Grasim holds 60.3% in the merged entity of Ultratech and Samruddhi. Total cement capacity of Ultratech post merger of Samruddhi Cements and acquisition of ETA Star Cement stands at 51MT.

    Company has outlined a capex of Rs 56bn for setting up additional clinker units at Chattisgarh and Karnataka and bulk packaging terminals across various states. Along with the ongoing capex of Rs 26bn, company would also be upgrading and modernizing existing units. Thus total estimated capex for the cement division would stand at nearly Rs 100 bn.
  - VSF - VSF volumes have remained flattish in Q2FY11 due to extended shutdown of Nagda plant for 25 days in Q2FY11 as against 8 days in Q2FY10. Though volumes have remained flattish but realizations have witnessed an improvement after seeing initial signs of weakness. VSF realizations stood at Rs 117 per kg as against Rs 98 per kg in Q2FY10. Global shortage of cotton as well as floods in Pakistan have resulted in improving pricing scenario for VSF. VSF prices also rose by Rs 3/kg from 1st week of October. Overall costs continued to remain high with higher pulp and sulphur prices. However, pulp JV performance has improved in Q2FY11while performance of Chinese JV is likely to improve in coming quarters.

    Thus, inline with increasing demand of VSF, company has revised the capex plan upwards for VSF division. Revised capex would include setting up of a Greenfield plant of 1,20,000 tons at Vilayat at a total cost of Rs 17bn and browfield expansion of Harihar plant and plant upgradation at a total cost of Rs 4.5bn.
  - Chemicals - Chemicals' division volumes registered an increase of 4% and average realizations declined by 7% YoY for Q2FY11. Sequentially there is an improvement in chemical prices due to increase in chlorine and HCL prices. Chemical prices are recovering due to increased offtake from Aluminium industry. Grasim plans to build 182,500 tonnes caustic capacity at Vilayat for its captive use along with the VSF facilities.

Segmental revenue breakup

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Fibre and Pulp	10,176	9,312	9.3
Cement	32,845	36,213	-9.3
Chemicals	1,200	1,313	-8.6
Textiles	1,179	1,017	15.9
Others	3	2	13.6
Total	**45,403**	**47,857**	**-5.1**
(Less) intersegmental revenue	3,68.5	424.2	
Net sales	45,034	47,433	-5.1

Source: Company

Division wise comparision

Cement division details	Q2FY11	Q2FY10	YoY (%)
Ultratech Cement Sales volumes(MT)	9.2	9.52	-3.3
Realisations(Rs/tonne)	2,983	3,533	-15.6
White Cement sales volume(MT)	123,496	106,898	15.5
Realisations(Rs/tonne)	8,590	8,137	5.6
VSF division details			
VSF volumes(MT)	67,488	67,418	0.1
VSF realisations(Rs/tonne)	116,465	97,543	19.4
Chemical division details			
Sales volumes(MT)	51,590	49,845	3.5
Realisation(Rs/Tonne)	19,403	20,753	-6.5

Source: Company

Operating margins lower than our estimates

- Operating margins stood at 16.2% for Q2FY11, lower than our expectations. Operating margins were impacted by fall in cement realizations as well as increased expenses.
- EBIT margins in the cement and VSF division stood at 7% and 28% respectively for Q2FY11. Cement margins were impacted by fall in cement prices as well as higher raw material and power expenses, while for VSF division, pulp and sulphur prices were higher in comparison with last year.
- We fine tune our estimates for FY11 and also introduce FY12 estimates. We expect margins to be 22% going forward for FY11 and FY12 for the company.

Net profits impacted by decline in margins

- Net profit declined by 59% for Q2FY11 led by decline in operating margins, higher depreciation and interest outgo.
- Post revising our estimates for FY11 and introduction of FY12 estimates, we expect net profits to be Rs 20.7 bn and Rs 21.9bn for FY11 and FY12 respectively.

Valuation and recommendation

We recommend ACCUMULATE on Grasim Industries with a revised price target of Rs.2533

- At current market price of Rs 2282, stock is trading at 10.1x and 9.6x P/E and 4.4x and 3.7x EV/EBITDA for FY11 and FY12 respectively.
- We fine tune our estimates and roll forward our price target on FY12 estimates. We thus arrive at a revised price target of Rs 2533 on FY12 estimates (Rs.2141 earlier on FY11 estimates)
- Upward revision in our target price is on account of increase in Ultratech's holding as well as market capitalization. We believe that stock is currently factoring in a huge discount of 40% due to its holding structure which we believe is not justified. We thus continue to maintain ACCUMULATE on the stock and would advise investors to buy the stock on dips.

Sum of the parts valuation based on FY12 estimates

Division	EBITDA(Rs mn)	EV/EBITDA(x)	EV(Rs mn)	Rationale
Valuation of VSF division	12,775	4.5	57,489	Based on relative valuations
Valuation of chemical division	1,265	4	5,060	Based on relative valuations
Total				
Valuation of 60.3% holding in merged entity			144,470	At 20% discount to current price of Rs 1093
Investments			9,302	At 20% discount to current market price of Rs 68
Net debt/ (cash)			(15,979)	
Total valuation			**232,301**	
Value per share(Rs)			**2,533**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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SHRI LAKSHMI COTSYN LTD (SLC)

PRICE: RS.156 **RECOMMENDATION: BUY**
TARGET PRICE: RS.220 **CONS. FY12E P/E:3.3X**

- **SLC (year end June) reported good set of Q1FY11 results which are marginally above our estimates**
- **Strong growth in revenues on the back of pick up in Indian economy and global demand from bulk buyers like IKEA**
- **Terry Towel expansion to be operational next week - All other expansions are on schedule**
- **Approved issue of 7.0 mn warrants to promoter and promoter group @ Rs.156**
- **Delivered four protected armored vehicles - expect large order going forward**
- **Maintain earning estimates with diluted EPS of Rs.35.5 in FY11E moving upto Rs.46.6 in FY12E**
- **Due to 41% upside potential from the current levels we continue to recommend BUY on SLC with unchanged price target of 220.**

Cons. Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	15,355	17,513	22,432
Growth (%)	32.6	14.1	28.1
EBITDA	1,944	2,340	3,146
EBITDA margin (%)	12.7	13.4	14.0
Net profit	917	1,080	1,419
Net debt	10,967	13,246	17,851
EPS (Rs)	45.9	35.5	46.6
Growth (%)	45.6	17.8	31.4
DPS (Rs)	2.0	2.0	2.0
ROE (%)	19.3	18.1	18.1
ROCE (%)	11.1	11.9	11.9
EV/Sales (x)	1.0	1.0	1.0
EV/EBITDA (x)	8.1	7.7	7.2
P/E (x)	3.4	4.4	3.3
P/CEPS (x)	2.6	3.4	2.5
P/BV (x)	1.0	0.7	0.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance - Shri Lakshmi Cotsyn - June end

(Rs mn)	Q1FY11	Q1FY10	YoY (%)	Q4FY10	QoQ (%)
Net Sales	**4,160**	**3,562**	**16.8**	**4,239**	**(1.9)**
Inc/dec in stock	(238)	(299)	(20.3)	(21)	-
Raw materials	3,553	3,121	13.8	3,520	0.9
Staff cost	98	61	59.2	139	(29.6)
Other exp.	236	183	29.0	97	144.9
Total exp.	3,649	3,067	19.0	3,735	(2.3)
EBIDTA	**510**	**495**	**3.0**	**504**	**1.3**
Other income	27	19	38.3	1	1,953.8
Depreciation	70	70	-	54	28.6
EBIT	**467**	**445**	**5.1**	**451**	**3.6**
Interest	204	221	(7.9)	180	13.2
PBT	**263**	**224**	**17.9**	**271**	**(2.8)**
Tax & deferred tax	31	23	33.6	40	(22.9)
NPAT	**232**	**200**	**16.0**	**231**	**0.7**
Equity Capital (Rs mn)	202	156	29.3	202	-
Diluted Equity shares o/s (mn)	30.4	30.4	-	30.4	
Ratios					
Operating profit margin (%)	12.3	13.9	-160 bps	11.9	+40 bps
Raw Materials / Sales (%)	79.7	79.2		82.6	
Staff cost / Sales (%)	2.3	1.7		3.3	
Other Exp. / Sales (%)	5.7	5.1		2.3	
Reported EPS	**11.5**	**12.9**		**11.5**	
Diluted EPS (Rs)	7.6	6.6	16.0	7.6	0.7
Diluted CEPS (Rs)	9.9	8.9		9.4	
Tax / PBT (%)	11.8	10.4		14.8	
Diluted EPS (Rs)	7.6	6.6		7.6	

Source: Company

- The revenues for Q1FY11 were at Rs.4.1 bn, up 16.8% on YoY basis. The growth is led by sustained pick up in the Indian economy which is leading to strong demand for the products of the company like technical textiles, fusible interlining, denim fabric, home furnishing and terry towels. Also the company is seeing increased demand for direct and indirect exports form global bulk buyers like IKEA.
- The revenues are down 1.9% on sequential basis as the operations were affected due to heavy monsoon witnessed during the quarter. However we expect the revenues to rise on sequential basis going forward.
- However the operating margins during Q1FY11 were down 160 bps on YoY basis to 12.3%. This was due to sharp rise in cotton prices which increased the yarn prices which is a key raw material for SLC. However the company has now passed the hike and thus we expect the operating margins to improve on sequential basis. This is well supported by the fact that operating margins are up 40 bps on sequential basis.
- The operating profit for Q1FY11 was at Rs.510 mn, up 3.0% YoY and up 1.3% on QoQ basis.
- The interest cost is down 7.9% on YoY basis to Rs.204 mn as it includes interest subsidy received under TUF scheme.
- PBT for Q1FY11 stands at Rs.263 mn up 17.9% on YoY basis.
- PAT for Q1FY11 stands at Rs.232 mn which is up 16.0% on YoY basis.
- Q1FY11 reported EPS stands at Rs.11.5 and the diluted EPS after considering conversion of warrants stands at Rs.7.6.

Delivered four protected armored vehicles - expect large order going forward

Shri Lakshmi Defense Solution Ltd. (SLDS) i.e. 100% subsidiary of SLC has successfully delivered four protected armored vehicles to UN mission in Nepal for ~Rs.42 mn. With success of this order the company is eligible and has bid for several large protected armored vehicles orders and it is hopeful of getting few orders by December 2010.

Expansions on schedule

- Terry towel facility expansion by 5x to 15000 MT with 15 MW captive power plant is complete and is expected to be operational next week. This would lead to next level of growth for the company going forward.
- The expansion of wider width sheeting capacity by 150% to 30 mn mtrs per annum and expansion of the denim fabric capacity by 100% to 40 mn mtrs per annum are on schedule and are expected to be fully operational by September 2011.
- The technical textiles project to manufacture fusible interlining, flex fabric, IRR fabric, Black out fabric and Nuclear Bio-chemical fabric is also on schedule and is expected to be fully operational by September 2011. The capacity would be doubled to 25 mn meters per annum.

Warrants to promoters @ Rs.156

The board has approved issue of 7.0 mn warrants to promoter and promoter group that can be converted into equal number of equity shares @ Rs.156 each within next 18 months. However it is important to note that as against mandatory requirement of 25% the promoters have already brought in ~55% of the warrant amount. Thus we are confident these would be converted into equity shares and thus we have taken full dilution in our earning estimates.

Maintain earning estimates and price target

- We maintain earning estimates and expect SLC to report diluted EPS of Rs.35.5 in FY11E moving upto Rs.46.6 in FY12E.
- Over FY10 to FY12E, while revenues are expected to grow at CAGR of 20.9% the profits are expected to grow at CAGR of 24.4%. This is primarily due to expansion of high margin technical textiles business and focus of the company on the higher margin defense solutions business.
- We continue to value SLC on DCF method of valuation with a 12.6% WACC and 4.0% terminal growth rate (no change). Thus the price target remains unchanged at Rs.220.

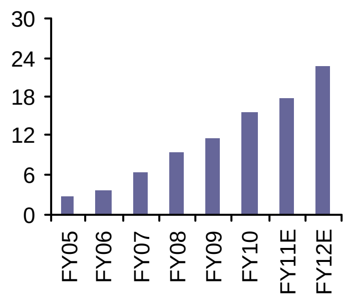
Valuation & Recommendation

- At the current market price of Rs.156, the stock trades at very attractive valuation of 0.6x P/BV, 3.3x P/E and 2.5x P/CEPS based on FY12E.

We continue to recommend BUY on Shri Lakshmi Cotsyn with an unchanged price target of Rs.220

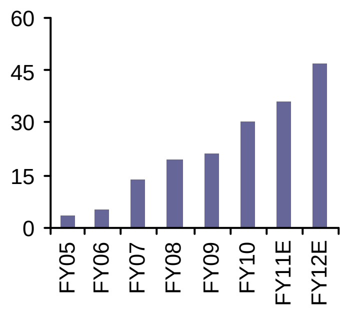
- We are positive on the medium to long term growth prospects of SLC as we expect the contribution of high margin technical textiles business to go up from 21.6% in FY10 to 27.7% of total revenues by FY12E. Also we see promising future potential in the higher margin defense solutions business.
- Due to 41% upside potential from the current level we continue to recommend **BUY** on SLC with unchanged price target of 220.

Cons. revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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HT MEDIA

PRICE: RS.164 **RECOMMENDATION: BUY**
TARGET PRICE: RS.200 **FY11E P/E: 20.4X**

- **HT Media results confirm continued traction in metro markets, as well as rising take-up of Hindustan by the media buyer. HT English advertising revenues have grown 14%, while Hindustan's advertising revenues have grown 30% during the quarter. While circulation revenues have declined substantially, we view the same favorably, as rising circulation is bound to bring in stronger readership, in turn bringing in advertising revenues.**
- **Newsprint expenses at the company have risen substantially on the back of higher circulation (up ~20% y/y), greater pagination, and higher consumption on account of HT Burda. We factor in continued strength in these variables.**
- **Changes in Estimates: We make changes to our estimates to reflect higher revenues (on the back of stronger advertising revenues, as well as HT-Burda), and higher newsprint expenses (higher circulation, pagination, and newsprint prices). We estimate FY11/ FY12 EPS at Rs 8.0/ Rs 11.0. Our fresh FY11 estimate implies an upgrade of 10%.**
- **Long-term outlook on the stock has improved with readership surveys indicating strength in new market initiatives taken by HT Media. HT Media is inching closer to the #2 position in Mumbai (HT, English), and Uttar Pradesh (Hindustan, Hindi) - the two largest markets in the respective categories.**
- **We see DCF value of HT Media at Rs 200. We upgrade the stock to BUY, with a target price of Rs 200.**

Financials

Rs.mn	FY09	FY10	FY11E	FY12E
Sales	13591	14129	17772	20636
Growth (%)	13.0	4.0	25.8	16.1
EBITDA	1005	2554	3391	4372
EBITDA margin (%)	7.4	18.1	19.1	21.2
Net profit*	199	1424	1884	2605
Net Debt	3001	2038	-174	-2778
EPS (Rs)	1.4	6.0	8.0	11.0
Growth (%)	-68.0	333.7	32.4	38.1
CEPS	4.3	9.0	11.1	14.3
DPS (Rs)	0.4	0.4	0.4	0.4
ROE (%)	3.8	15.4	17.3	19.9
ROCE (%)	3.5	12.6	14.5	17.2
EV/Sales (x)	3.0	2.8	2.1	1.7
EV/EBITDA (x)	41.0	15.7	11.2	8.1
P/E (x)	117.2	27.0	20.4	14.8
P/Cash Earnings	37.7	18.0	14.6	11.4
P/BV (x)	4.5	3.8	3.3	2.7

Source: Company

Discussion on Results

HT Media's 2QFY11 results were above our expectations on the topline and in line with our expectations on profit metrics. The company has reported 27% growth in revenues, led by advertising revenue growth of 17%, growth in radio operations (+44%,y/y), and incomes from HT-Burda (new revenue stream, Rs 280mn). Circulation revenues declined 13% on the back of: 1/ cover price war in Jharkhand (involving Hindustan),2/ entry level papers launched by the company (with negative realization), and 3/ rising circulation in Mumbai (negative realization).

Newsprint expenses, up 34% y/y are a reflection of: rising newsprint prices, higher consumption on HT Burda, and higher circulation from the company across newspapers.

The company's gross margins have reduced 1.8 ppt (y/y) to 63%. EBITDA margins have improved (y/y) to 18% on account of greater scale.

The company has reported 2QFY11 EPS of Rs 1.65, and 1HFY11 EPS of Rs 3.4.

Standalone results of the company (English newspapers) show strong traction in metro markets. On a standalone level, revenues grew ~ 12% (advertising revenue growth of 14%), while EBITDA margin came in at 25%. The company's Hindi business (held under subsidiary Hindustan Media Ventures Limited) has shown substantial growth in advertising revenues (30%), although margins have contracted on account of lower circulation revenues and higher newsprint expenses.

Consolidated Financials

(Rs mn - FY Ends Mar)	2QFY11	2QFY10	YoY % chg	1QFY11	QoQ % chg.
Revenues	**4,455**	**3,500**	**27**	**4,049**	**10**
Raw Materials Costs	1,649	1,234	34	1,303	27
Gross Margin (%)	63	65	-1.8 ppt	68	-4.8 ppt
Employee costs	734	622	18	750	-2
Advertising and Sales Promotion	322	342	-6	286	13
Other expenditure (incl: indirect tax)	959	720	33	905	6
EBITDA	**791**	**582**	**36**	**805**	**-2**
EBITDA Margin %	18	17	1.1 ppt	20	-2.1 ppt
Depreciation	211	186	13	194	9
EBIT	**580**	**396**	**46**	**611**	**-5**
Interest	55	74	-26	64	-14
EBT	**525**	**322**	**63**	**547**	**-4**
Other Income	61	29	110	50	22
PBT (Before Exceptional)	586	351	67	597	-2
Exceptional Items					
PBT (Post Expectional)	586	351		597	
Tax	165	44		198	
Effective Tax Rate	28	13			
PAT	**421**	**307**	**37**	**399**	**5.5**
Minority Interest	33	-4		-13	
PAT After Minority Interests	388	311	37	412	-5.8
Paid Up Equity Capital	470	470		470	
EPS (Rs)	**1.65**	**1.32**		**1.75**	

Source: Company

Outlook and Estimates

2HFY11 is expected to be well stronger than 1HFY11, on account of festival season as well as elections in Bihar. We note that Hindustan is the largest read newspaper in Bihar and enjoys a monopoly status in the state (readership share of 73%). HT Media's results show strong traction in metro as well as non-metro markets. We model for advertising growth of 23% and 16% in FY11/FY12 respectively. Circulation revenues are expected to remain weak, with 10% decline in FY11 and 2% decline in FY12.

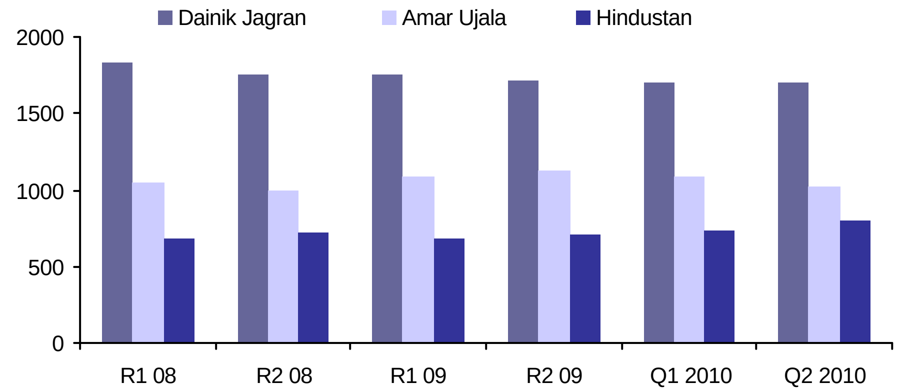
Newsprint prices are expected to stay strong. Along with rising circulation in key territories, this will mean that raw material expenditures will stay strong. We model for a 64% gross margin through FY11, and 65% through FY12. We believe other expenses shall largely be in line with 1HFY11. Accordingly, we model for 19% EBITDA margin in FY2011 and 21% EBITDA margin in FY2012. We estimate FY11 EPS at Rs 8.0 and FY12 EPS at Rs 11.0.

Newsprint prices have risen significantly in the recent quarters, from multi-year bottom of $450/ tonne, and are currently trading at $650-$700/ tonne. Industry players believe newsprint prices are unlikely to rise significantly from these levels, as the rise is primarily led by rise in costs of key input pulp - which in turn has risen on account of capacity constraints caused by earthquake in Chile. As these capacities come on board, pulp prices are likely to fall back to normal levels. Recent trends show a stagnation/ decline in pulp prices.

HT Media has aggressively raised circulation across regions, and current circulation of the company's newspapers stands at 37 lakhs, as compared with 31 lakhs last year (2QFY11/2QFY10). The company has introduced certain entry level newspapers to grow its franchise in Delhi. The net realization on these newspapers is negative, which implies that every newspaper sold adds negatively (following commissions to agents) to the circulation revenues topline. Similarly, the company has raised its circulation in Mumbai, where a large number of additions are subscription-based (which, given low subscription rates, add negatively to circulation revenues).

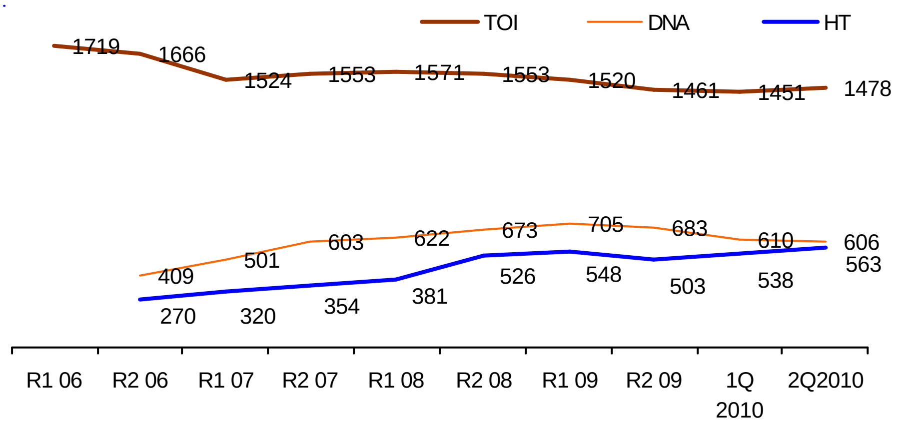
Although such actions are upsetting to margin estimates, we believe these are reasonable actions, and a necessity for a player like HT Media, which has made substantial investments in new markets and must build on these initiatives to drive competitive strength and long-term profitability. We note that HT Media's newspapers are, in key markets, making a strong bid for the #2 position, which will significantly raise yields realizable from these markets.

Hindustan - Consistent Growth Towards #2 (AIR, '000)



Source: IRS, Company

HT Mumbai - Challenging DNA for #2 Position (AIR, '000)



Source: IRS, Company

Our investment thesis on HT Media (BUY) is summation of the following:

- HT Media owns some of the strongest brands in the Indian newspaper space, with #2 English newspaper, #3 Hindi newspaper, and #2 business newspaper.
- The opportunity size for HT Media is large, as the company is yet to capitalize on recent initiatives for expansion (Mumbai as well as UP/ Uttarakhand markets).
- The company has consistently shown strong trends in readership in these markets, and is set to take up a #2 position in Mumbai - India's largest advertising market. Hindustan, the company's Hindi daily, is similarly inching to the #2 position in Uttar Pradesh, the largest Hindi print market. We note that # 2 position can have a strong positive impact on yields, advertising revenues, and margins.
- Improving advertising environment, as shown by recent results: Results of HT Media as well as DB Corp point to an ongoing recovery in the advertising markets. HT Media's results show that advertising is gaining momentum in metro markets as well. In 2QFY11, HT Media's standalone advertising revenues grew 13-14%.
- Being present in two of the largest metro markets, HT Media stands to gain from the resurgence in metro cities' consumer confidence and growth.
- Improving Competitive Position of Newspapers: As IRS 2010 Q2 results show, HT Media's newspapers continue to perform. We believe HT Media is reaching a threshold point, especially in Mumbai, where from revenues could see significant traction.
- Print Media valuations comfortable, reflect discounting for newsprint expenses: We believe consensus estimates factor in continued strength in newsprint expenses. As such, risks from newsprint prices are mitigated to a large extent.

Valuation

We continue to recommend BUY on HT Media with a price target of Rs.200

We value HT Media using a DCF approach, and arrive at valuation of Rs 200/ share, implying 22% upside from CMP, and 25.5xPER FY11E. We upgrade the stock to **BUY.**

RESULT UPDATE

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BANK OF BARODA (BOB)

PRICE: RS.1011 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1155 **FY12E P/E: 7.7X; P/B: 1.8X**

Q2FY11 results: BoB continues to deliver consistent performance on core operating front; stable asset quality supported by lower incremental slippage is very heartening and another positive facet. BoB remains one of our preferred picks in the banking space...

- **Net interest income (NII) grew whopping 46.8% in Q2FY11 (10% ahead of our expectations) on back of strong loan growth (29.6% YoY, 4.0% QoQ) and sharp improvement in global NIM (39 bps YoY) from 2.63% in Q2FY10 to 3.02% in Q2FY11.**
- **Its net profit grew 60.7% on back of strong NII growth (46.8% YoY), marginal growth in opex (11.6% YoY) along with a moderate rise in non-interest income (14.4% YoY).**
- **Another positive facet has been its asset quality. Its incremental slippage came at 0.66% during Q2FY11, even lower than 1.52% reported during Q1FY11 (~1.16% in FY10). In percentage terms, both gross NPA (1.39%) as well as net NPA (0.38%) are at comfortable level. Rs.1.49 bn asset was restructured during Q2FY11 taking cumulative restructured book to Rs.54.3 bn (~2.8% of advances), which remains lower than the industry average.**
- **We are revising our earning estimate upward for FY11E & FY12E and are also rolling over target price to FY12E estimates. We maintain BUY rating on the stock with the target price of Rs.1155 (Rs.900 earlier).**
- **With continuous improvement in return profile (RoA: ~1.3%, RoE: ~23% during FY12E), the stock has been a re-rating candidate, in our view. At the TP, the stock would trade at 2.1x its FY12E adjusted book value. BOB remains one of our preferred pick in the banking sector space.**

Result Performance

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Interest on advances	38,382.8	31,013.5	23.8
Interest on Investment	11,565.4	9,275.3	24.7
Interest on RBI/ banks' balances	1,469.2	1,012.3	45.1
Other interest	169.2	53.1	218.6
Total Interest earned	**51,586.6**	**41,354.2**	**24.7**
Interest expenses	31,205.2	27,468.2	13.6
Net interest income	**20381.4**	**13886.0**	**46.8**
Other income	6,813.0	5,953.3	14.4
Net Revenue (NII + Other income)	**27,194.4**	**19,839.3**	**37.1**
Operating Expenses	10,627.0	9,523.4	11.6
Payments to / Provisions for employees	6,561.6	5,957.5	10.1
Other operating expenses	4,065.4	3,565.9	14.0
Operating profit	**16,567.4**	**10,315.9**	**60.6**
Provisions & contingencies	1,854.9	1,163.3	59.5
Provision for taxes	4,519.5	2,810.8	60.8
Net profit	**10,193.0**	**6,341.8**	**60.7**
EPS, Rs	**27.98**	**17.41**	**60.7**

Source: Company

Core earnings better than our expectations

Net interest income (NII) grew whopping 46.8% in Q2FY11 (10% ahead of our expectations) to Rs.20.38 bn in Q2FY11 from Rs.13.89 bn in Q2FY10 on back of strong loan growth (29.6% YoY, 4.0% QoQ) and sharp improvement in global NIM (39 bps YoY) from 2.63% in Q2FY10 to 3.02% in Q2FY11.

Its net profit grew 60.7% to Rs.10.19 bn in Q2FY11 from Rs.6.34 bn in Q2FY10 on back of strong NII growth (46.8% YoY), marginal growth in opex (11.6% YoY) along with a moderate rise in non-interest income (14.4% YoY).

Strong business growth; growth higher than the system

BOB witnessed stronger business growth which rose to Rs.4626.2 bn at the end of Q2FY11 from Rs.3562.7 bn at the end of Q2FY10, a growth of 29.8%.

Total deposits of the bank rose 30.0% YoY (5.9% QoQ) to Rs.2696.6 bn at the end of Q2FY11 from Rs.2073.5 bn at the end of Q2FY10. This strong growth has come on the back of strong traction in both domestic as well as overseas market which rose 28.3% and 36.2%, respectively.

Its strong liability franchise has helped in slight improvement in CASA mix (QoQ) which improved from 35.2% at the end of Q1FY11 to 35.9% at the end of Q2FY11. Bank has been able to maintain the share of domestic CASA mix at ~36% of total deposits in last couple of quarters. We believe, this has helped them in well managing the cost of funds.

Advances witnessed healthy growth of 29.3% YoY (4.0% QoQ). Here also, overseas book grew at a faster pace (30.4%) as compared to the 29.3% growth witnessed by the domestic book. Foreign book now constitutes ~27% of total loan book.

- Retail book increased 27.0% (YoY) to Rs.271.9 bn at the end of Q2FY11. Out of this, Home loan saw the growth of 21.0% (YoY) and now stands at Rs.113.2 bn.
- SME loan book improved by 41.0% to 235.1 bn at the end of Q2FY11.
- Agriculture loan increased 21.5% to Rs.215.6 bn at the end of Q2FY11 from Rs.177.4 bn at the end of Q2FY10.

Strong liability franchise - helping in sustaining margin

BoB has maintained a healthy CASA mix (domestic) in last couple of quarters. The strong traction in CASA deposits over a period of time has helped in containing the cost of funds.

Trend in yields, cost of deposits & NIM

Yields (%)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011
Advances	8.72	8.71	8.60	8.23	8.17	8.40
Investments	6.83	6.69	6.65	6.51	6.66	7.06
Cost of Deposits	5.41	5.15	4.69	4.42	4.39	4.5
NIM (%) [Reported] - Domestic	2.57	2.89	3.40	3.50	3.43	3.62
NIM (%) [Reported] - Global	2.37	2.63	2.95	2.97	2.90	3.02

Source: Company

Bank has well managed its liability franchise, visible from decline in cost of deposits from 5.15% during Q2FY10 to 4.50% during Q2FY11.The sharp decline in domestic cost of deposits from 5.87% in Q2FY10 to 5.27% in Q2FY11 along with only moderate fall in yields on domestic advances from 10.23% during Q2FY10 to 10.17% during Q2FY11, has led to NIM improvement.

Domestic as well global NIM improved YoY. Domestic NIM improved from 2.89% in Q2FY10 to 3.62% in Q2FY11.

Moderate growth in non-interest income on back of lower treasury gains

Non-interest income saw moderate growth of 14.4% (YoY) on back of lower treasury profit which declined by 8.6% YoY. Core fee-income saw healthy growth of 29.3% in line with the business growth.

Other Income

(Rs bn)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	YoY (%)	QoQ (%)
Fee Income	3.00	3.24	3.56	4.17	3.12	4.02	24.1	29.0
Profit on sale of Investments	2.57	1.21	1.39	1.25	1.28	1.10	-8.6	-13.9
Profit on Exchange Transactions	0.96	0.84	0.99	1.07	1.22	1.00	18.7	-17.8
Recovery from PWO (w/o a/c)	0.50	0.67	0.66	1.18	0.56	0.69	3.8	23.2
Total non-interest income	7.03	5.95	6.60	7.67	6.17	6.81	14.4	10.4

Source: Company

Comfortable asset quality; decline in incremental delinquencies is key positive for the stock

Bank has reported stable asset quality during Q2FY11 against the system which saw some spike in the reported NPAs. In absolute terms, both gross NPA as well as net NPA rose by only 2.5% (QoQ) and 1.9% (QoQ), respectively.

In percentage terms, gross NPA improved QoQ to 1.39% at the end of Q2FY11 from 1.41% at the end of Q1FY11. However, it deteriorated YoY from 1.30% at the end of Q2FY10. Similarly, net NPA improved to 0.38% at the end of Q2FY11 from 0.39% at the end of Q2FY10.

It coverage ratio stands at 85.56% (including technical write-off) at the end of Q2FY11, a way ahead of regulatory requirement of 70%.

Trend in NPAs

Rs. bn)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	YoY (%)	YoY (%)
Gross NPA	20.68	19.57	22.60	24.01	26.55	27.20	39.0	2.5
Gross (%)	1.44	1.30	1.43	1.36	1.41	1.39		
Net NPA	3.79	4.05	4.88	6.02	7.17	7.31	80.4	1.9
Net (%)	0.27	0.27	0.31	0.34	0.39	0.38		

Source: Company

Its incremental slippage came at 0.66% during Q2FY11, even lower than 1.52% reported during Q1FY11 (~1.16% in FY10). Rs.1.49 bn asset was restructured during Q2FY11 taking cumulative restructured book to Rs.54.3 bn (~2.8% of advances), which remains lower than the industry average.

Break-up of restructured book

(Rs bn)	Q4FY10	Share (%)	Q1FY11	Share (%)	Q2FY11	Share (%)
Large Corporate	26.82	52.5	27.96	52.9	28.45	52.9
SME	12.73	24.9	12.97	24.5	13.46	24.5
Retail	5.58	10.9	5.60	10.6	5.66	10.6
Agriculture	6.01	11.8	6.31	11.9	6.76	11.9
Total Restructured Loan	**51.14**	**100.0**	**52.83**	**100.0**	**54.33**	**100.0**

Source: Company

Leveraging Overseas operations

During H1FY11, BoB's overseas operations contributed 24.8% in total business and 16.9% in total gross profit. Overseas operations also contributed to the robust growth in core fee based income (31.6% to total fee-based income).

Having lower Cost / Income ratio (~19% in H1FY11) as compared to ~41.5% in domestic operations, contribution to operating profit is even higher.

On asset quality front also, its overseas operations perform better. Its gross NPA stands at only 0.58% as compared to 1.68% for domestic operations at the end of H1FY11.

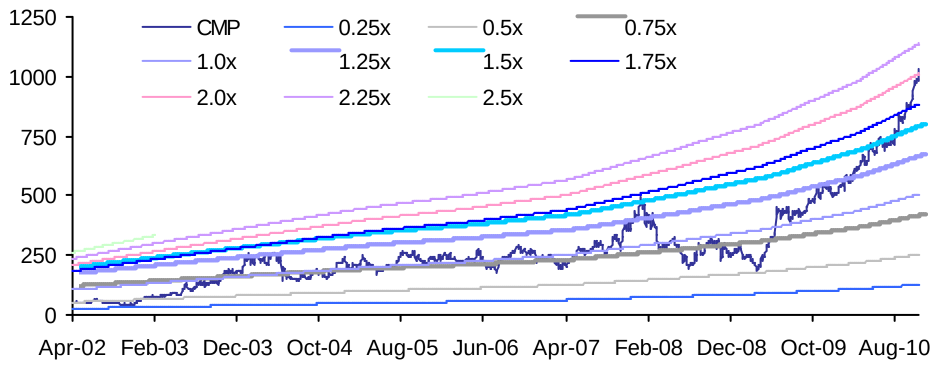
Valuation & recommendation

At the current market price of Rs.1011, the stock is trading at 7.7x its FY12E earnings and 1.8x its FY12E ABV. We are revising our earning estimate upward for FY11E & FY12E and now expect net profit for FY11E and FY12E to be Rs.37.67 bn and Rs.48.08 bn.

We maintain BUY rating on Bank of Baroda with a revised price target of Rs.1155

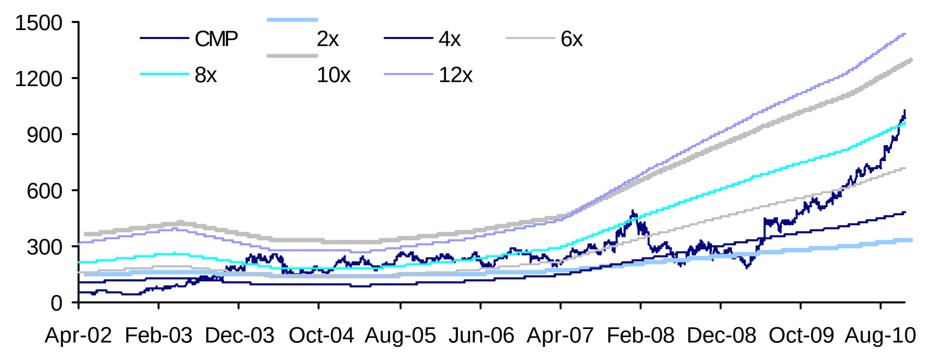
This would result into an EPS of Rs.103.1 and Rs.131.5 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.440.6 and Rs.550.2, respectively

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

We are rolling over target price to FY12E estimates and maintain BUY rating on the stock with the target price of Rs.1155 (Rs.900 earlier).

With continuous improvement in return profile (RoA: ~1.3%, RoE: ~23% during FY12E), the stock has been a re-rating candidate, in our view. At the TP, the stock would trade at 2.1x its FY12E adjusted book value. BOB remains one of our preferred pick in the banking sector space.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	150.92	166.98	205.04	248.70
Interest expense	99.68	107.59	126.75	154.29
Net interest income	**51.23**	**59.39**	**78.29**	**94.41**
Other income	27.58	28.06	28.10	32.05
Gross profit	43.05	49.35	62.69	77.64
Net profit	**22.27**	**30.58**	**37.67**	**48.08**
Gross NPA (%)	1.3	1.4	1.4	1.5
Net NPA (%)	0.3	0.3	0.3	0.3
Net interest margin (%)	2.9	2.7	3.0	3.0
RoE (%)	19.4	22.3	22.4	23.0
RoAA (%)	1.1	1.2	1.2	1.3
Dividend Yield (%)	1.0	1.5	1.6	1.6
EPS (Rs)	**60.9**	**83.7**	**103.1**	**131.5**
Adjusted BVPS (Rs)	302.4	359.1	440.6	550.2
P/E (x)	**16.6**	**12.1**	**9.8**	**7.7**
P/ABV (x)	3.3	2.8	2.3	1.8

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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SHRIRAM TRANSPORT FINANCE CO LTD (STFC)

PRICE: RS.843 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.885 **FY12 P/E: 14.4x; P/ABV:3.4x**

- **Advances growth remained moderate during Q2FY11; up trend in the economic cycle key growth driver for new CVs book, disbursement growth to remain strong following healthy monsoon and festival season**
- **Core interest income remained steady following improved NIM; Net profit grew by 45% yoy to Rs.2.9bn, marginally lower than our expectation following higher than expected increase in operating cost and loan loss provision**
- **Asset quality remained largely stable with gross NPAs at 2.54% and net NPA stood at 0.5% with a coverage ratio of 81.3%**
- **We are tweaking our earnings estimates for STFC to factor in steady NIM at 11.1% for FY11 and 10.95% for FY12. We are rolling over our valuations to FY12 and accordingly revising our price target to Rs. 885 (Rs.710 earlier) and upgrading our stock recommendation to ACCUMULATE from reduce earlier.**

Quarterly Performance

(Rs mn)	Q2FY11	Q1FY11	Q2FY10	QoQ %	YoY %	H1FY11	H1FY10	% chg
Income from operations	13,058	12,335	10,629	5.9	22.8	25,393	20,865	21.7
Interest expense	5,850	5,568	5,248	5.1	11.5	11,418	10,633	7.4
Net Interest Income	**7,208**	**6,767**	**5,381**	**6.5**	**33.9**	**13,975**	**10,233**	**36.6**
Other income	371	534	32			906	92	
Operating expense	1,854	1,675	1,230	10.7	50.8	3,529	2,723	29.6
Operating profit	5,725	5,626	4,183	1.8	36.9	11,351	7,601	49.3
Provision for bad laons	1,264	1,281	1,122	-1.3	12.7	2,545	2,071	22.9
PBT	**4,461**	**4,345**	**3,062**	**2.7**	**45.7**	**8,806**	**5,531**	**59.2**
Provision for taxes	1,472	1,456	998	1.1	47.4	2,927	1,823	60.5
PAT	**2,990**	**2,889**	**2,063**	**3.5**	**44.9**	**5,879**	**3,707**	**58.6**
EPS	**13.3**	**12.8**	**10.1**	**3.5**	**30.7**	**26**	**18**	**43.1**
Cost/Income (%)	26	25	23			25	27	
Effective Tax rate	33	34	33			33	33	
Disbursements	45,648	39,736	35,762	14.9	27.6	149,171	85,384	29.0
Securitisation	25,464	-	12,084	-	110.7	87,568	31,249	180.2
Loan book outstanding	-	203,228	203,568	-100.0	-100.0	179,650	203,568	-11.7
Gross NPA (%)	2.5	2.5	2.3			2.5	2.3	
Net NPA (%)	**0.5**	**0.4**	**0.7**			**0.5**	**0.7**	

Source: Company

Summary table

(Rs bn)	FY10	FY11E	FY12E
Interest Income	44.4	49.2	55.2
Interest expenses	22.5	22.8	25.4
NII	21.9	26.5	29.8
Other Income	0.6	1.3	1.5
Total Income	22.5	27.7	31.3
Optg Profit	17.5	22.1	25.0
PAT	8.7	12.1	14.1
Gross NPA (%)	2.0	1.5	1.5
Net NPA (%)	0.7	0.7	0.7
NIM (%)	9.6	9.5	9.5
RoA (%)	3.8	3.8	4.0
RoE (%)	28.4	29.7	28.7
Divi. Payout Ratio (%)	0.8	1.2	1.4
EPS (Rs)	38.7	50.8	58.7
BV (Rs)	170.4	210.6	257.4
Adj. BV (Rs)	165.2	204.2	249.4
P/E (x)	21.8	16.6	14.4
P/ABV(x)	5.1	4.1	3.4

Source: Company, Kotak Securities - Private Client Research

Advances growth remained moderate during Q2FY11; up trend in the economic cycle key growth driver for new CVs book, disbursement growth to remain strong following healthy monsoon and festival season

STFC reported disbursement growth of 27.6% yoy and 14.9% qoq to Rs. 45.6mn during Q2FY11, aided by a strong growth of 55% yoy in the new CVs to Rs. 11.0bn forming 24% of the disbursements. Total assets under management witnessed a moderate growth of 4.8% to Rs 317.07bn; growth in the old CV portfolio remained flat while the new CV AUM grew by 103% yoy. Inspite of a healthy growth in disbursement, STFC's outstanding loan book growth remained flat at Rs.203.4bn, the company securitized loans amounting Rs.25.5bn during Q2FY11. We expect the advances growth to gain momentum during H2FY11 following steady demand for CV post a healthy monsoon and festive season in India, and maintain our earnings growth estimate at 25% yoy to Rs.224.6bn for FY11 and Rs.275bn for FY12.

Core interest income remained steady following improved NIM; Net profit grew by 45% yoy to Rs.2.9bn, marginally lower than our expectation following higher than expected increase in operating cost and loan loss provision

NII surged by 42.93% to Rs. 7.53bn as against Rs. 5.27in Q2FY10. The profit after tax rose by 44.11% to Rs. 2.98bn as against Rs. 2.07bn recorded in the same period previous year. Provisions and write-offs increased by 12.7% yoy to Rs 1.26bn, as against Rs 1.1bn in Q2FY10. Operating cost increased by 50.8% yoy and 10.7% qoq, higher than our expectation, as the company accounted for expenses pertaining to debt issue. STFC has demonstrated a significant improvement in its net interest margins with its higher thrust on retail borrowings, which carry relatively lower interest rate. Its cost of fund declined during Q2FY11 to 7.93% from 8% in Q1FY11. The share of retail borrowing in total borrowings increased from 18.1% in Q1FY11 to 19.1% in Q2FY11. STFC reported NIM of 6.24% as compared to 5.49% in Q1FY11. Other income which includes income from liquid investments and CV trading fee stood at Rs.371mn.

Asset quality remained largely stable

Gross non-performing assets (NPAs) as a percentage of gross advances were flat at 2.54%, as against 2.50% in Q2FY10. Its net NPA stood at 0.5% with a coverage ratio of 81.3%

Valuation and recommendation

We recommend ACCUMULATE on STFC with a price target of Rs.885

We are tweaking our earnings estimates for STFC to factor in steady NIM at 11.1% for FY11 and 10.95% for FY12. We expect a net profit of Rs.12.1bn, growth of 39% yoy and Rs.14.12bn, growth of 16% yoy for FY12. We are rolling over our valuations to FY12 and accordingly revising our price target to Rs. 885.

At current market price the stock is trading at 14.4x its FY12 P/E and 3.4x its FY12 P/ABV. We are upgrading our recommendation to **ACCUMULATE** from reduce earlier.

RESULT UPDATE

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INDIA INFOLINE LTD (IIFL)

PRICE: RS.113 **RECOMMENDATION: BUY**
TARGET PRICE: RS.140 **FY12 P/E: 10.3; P/BV:1.6X**

- **Net profit grew by 25.6% yoy to Rs.542mn, higher than our expectation of Rs. 484mn following higher cash volumes and distribution income**
- **Brokerage and related business income growth remained strong following improved capital market volumes; brokerage yield remains under pressure.**
- **Financing book growth remained strong, up by 28% yoy to Rs. 25bn, future outlook remain positive**
- **Operating performance improved, PBT margin stood at 24% net profit margin at 15.9%**
- **We are tweaking our earnings estimates and continue to maintain our volumes growth estimates for overall capital market at 13.5% for FY11 and 19% for FY12. We are revising our price target to Rs.140 (Rs.120 earlier) (P/E x of 13.0x its FY12 EPS) and maintain BUY recommendation.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Income from opns	11,229	12,969	14,779
Other income	10	11	12
Total income	11,239	12,979	14,790
EBITDA	4,373	4,994	5,789
PAT	2,320	2,637	3,117
EBIDTA Margins (%)	38.9	38.5	39.1
PAT Margins (%)	20.6	20.3	21.1
Operating Expenses/ Total Income	61.1	61.5	60.9
Employee Cost/ Total Income	28.3	28.3	28.3
EPS (Rs)	8.1	9.2	10.9
Book Value (Rs)	56	63	69
RoE (x)	14.7	15.5	16.6
RoA (x)	9.2	7.8	8.1
P/E (x)	13.9	12.2	10.3
P/BV (x)	2.0	1.8	1.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2FY11	Q1FY11	Q2FY10	% yoy	% qoq
Income from operations	3,393	3,058	3,134	8	11.0
Equity brokerage and related	1,634	1,543	1,936	-16	5.9
Financing and investing income	1,252	1,098	727	72	14.0
Distribution and marketing income	507	417	107	375	21.6
Others	5	111	(48)	-111	-95.1
Total Income	**3,398**	**3,060**	**3,136**	**8**	**11.1**
Direct cost	445	477	636	-30	-6.9
Employee cost	986	920	736	34	7.2
Administration Expenses	610	573	507	20	6.6
Total optg expenses	2,041	1,970	1,879	9	3.6
EBITDA	**1,358**	**1,090**	**1,257**	**8**	**24.5**
Interest	385	283	156	147	36.1
Depreciation & Amortisation	155	154	132	18	0.7
Profit/Loss before tax	818	653	970	-16	25.2
Provision for tax/FBT	268	213	327	-18	25.7
Minority interest	8	9	63	-87	-10.0
Net profit	**542**	**431**	**580**	**-7**	**25.6**
EPS (Rs)	**1.5**	**1.5**	**2.0**	**-26**	**0.0**
EBITDA (%)	40.0	35.6	40.1		
Net profit (%)	15.9	14.1	18.5		
Market share	3.9	4.0	3.6	7	-2.5
Avg Daily Volume	46.0	43.5	33.4	38	5.8

Source: Company

Net profit grew by 25.6% yoy to Rs.542mn, higher than our expectation of Rs. 484mn following higher cash volumes and distribution income

IIFL has reported a healthy growth of 25.6% yoy growth in net profit to Rs. 541mn in Q2FY11. The healthy growth in earnings was seen on the back of improved core brokerage revenue and life insurance distribution business. IIFL's topline grew by 8% yoy and 11% qoq to Rs.3.4bn. Improved brokerage volumes and stable share aided core income growth. During Q2FY11 IIFL's insurance business witnessed strong growth, its first premium mobilization stood at around ` 660 mn, up 61.5% yoy.

Brokerage and related business income growth remained strong following improved capital market volumes; brokerage yield remains under pressure.

IIFL has reported a 5.9% qoq growth in its brokerage revenue to Rs.1.6bn. Steady improvement in capital market volumes, particularly cash volumes has aided brokerage revenue growth. Increase in branch network from 2500 in Q1FY11 to 2700 in Q2FY11 also aided the core income growth. IIFL reported a 6% growth in its average volumes to Rs. 46bn, while the market share declined marginally to 3.9% from 4% in Q1FY11.

Financing book growth remained strong, up by 28% yoy to Rs. 25bn, future outlook remain positive

Loan growth during Q2FY11 remained strong with a growth of 28% qoq to Rs.25bn from Rs. 20bn in Q1FY11. Mortgage loans and margins funding continues to form significant part of the total loan book. The company has indicated that close to 98% of the loan book is against collateral of mortgages and securities. The company maintain a collateral of 2.5x-3x on its loan book. Asset quality remained healthy with NPA of less than 1%. Income from financing business remained strong following buoyant IPO market (IPO financing), Interest income grew by 72% yoy and 14% qoq to Rs.1.2bn in Q2FY11.

Operating performance improved, PBT margin stood at 24% net profit margin at 15.9%

IIFL has witnessed improvement in its operating performance during Q2FY11 following a healthy growth in the operating revenue. Its PBT margins improved to 24% from 21% in Q1FY11 and net profit margin improved to 15.9% from 14.
1% in Q1FY11. We opine that improved operating efficiency is aided by steady growth in the fee based businesses particularly life insurance distribution business. We are also of the view that IIFL increased thrust on cheaper source of funds for its financing business which helped improvement in net profit margins.

Revising our earnings estimates, maintain buy with a revised price target of Rs.140

We recommend BUY on IIFL with a revised price target of Rs.140

We are tweaking our earnings estimates and continue to maintain our volumes growth estimates for overall capital market at 13.5% for FY11 and 19% for FY12. We expect net profit of Rs.2.6bn, up by 14% for FY11 and Rs. 3.1bn, growth of 18% for FY12. We are revising our price target to Rs.140 (P/E x of 13.0x its FY12 EPS) and maintain BUY recommendation.

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC	692	2.1	6.2	5.9
Bharti Airtel	331	2.7	3.6	11.2
Hero Honda Motors	1,908	2.6	1.6	0.8
Losers				
ICICI Bank	1,089	(1.6)	(6.9)	9.1
Reliance Ind	1,082	(1.0)	(6.2)	8.3
Tata Steel	604	(1.8)	(2.3)	7.8

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
29-Oct	ABB, BEL, BHEL, Blue Star, Federal Bank, Hero Honda, Hindustan Cons, ICICI Bank IOB, ITC, M&M, Moser Baer, Nestle India, Nirma, Silverline Tech, Syndicate Bank, Tata Chem, Uco Bank earnings expected
30-Oct	Aditya Birla Nuv, Areva T&D, GVK Power, Kalpataru Power, KSK Energy, Maruti Suzuki, Morepen Lab, Nalco, Reliance Media, RIL, Sun Pharma, Suzlon Energy, Earnings expected

Source: BSE

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