Economy News

- The country's top drug price regulator has reworked the prices of 184 bulk drugs, thus making 77 medicines more affordable, and brought in another 71 under its purview. NPPA, which fixes the prices of bulk drugs that go into the making of essential medicines to ensure that they stay within the reach of the common man, also hiked the prices of 36 medicines. (ET)
- A cut in corporate travel, both domestic and international has resulted in occupancies in hotels being down by more than 30% in all major cities, such as Mumbai, Chennai, Pune, Ahmedabad, Gurgaon and Hyderabad during April and May, said industry executives and people connected with the travel industry. With occupancies falling sharply, hotels were forced to reduce room rates by more than 10-15% in the recent past. (ET)
- Communications minister A Raja and Finance Minister Pranab Mukherjee met twice on Tuesday, but were unable to reach a consensus on key issues related to 3G auctions As a fallout, the telecom ministry has decided that it will take a call on all issues related with second-generation spectrum only after the upcoming auctions of third generation spectrum, the official said on condition of anonymity. (ET)
- The continued rally in international oil prices has turned diesel margins red. Oil companies are losing Rs.2.96 on sale of every litre of diesel sold in the fortnight beginning June 16. Diesel accounts for 39% of total petroleum product consumption in the country. The under-recoveries on petrol, kerosene and LPG have also risen sharply, to Rs.6.08 a litre, Rs.12.65 a litre and Rs.69.49 a cylinder, respectively, said an Indian Oil executive. (BS)

Corporate News

- With the Insurance Laws (Amendment) Bill awaiting Parliamentary approval, **Max India** has started discussions on divesting 23% out of its 74% shareholding in Max New York Life Insurance to its foreign partner. Max India may mop up around Rs.30bn from this divestment, sources said. (BS)
- The merger of Catholic Syrian bank with **Federal Bank** is expected to be through in a month. According to reliable sources, the Board of Directors of both the banks will meet in a month's time to give their consent. The acquisition price will be fixed then (BL)
- First Data Corporation is understood to have emerged as the successful bidder for **ICICI Bank's** point of sale (PoS) terminals. The deal is likely to be valued at around Rs.3.5bn and may be signed within a couple of weeks. (ET)
- **Titan Industries** has set a goal of crossing the USD 1-billion turnover in the current fiscal. "Nearly 65 per cent of the target is expected to come from gold ornaments," Tata Group said highlighting the Innovation and Innovativeness of the company. Titan had recorded Rs.38.5bn revenue in 2008-09. (ET)
- **Essar Oil** has hiked prices of petrol and diesel by Rs.1 – Rs.2.50 a litre and Rs.1- Rs.2 a litre respectively as international crude oil prices have risen to a seven-month high of USD 71 a barrel. (ET)

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

Equity

		% Chg		
	16 Jun 09	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	14,958	0.6	22.9	68.8
NIFTY Index	4,518	0.8	23.0	63.8
BANKEX Index	8,202	2.3	28.7	104.8
BSET Index	3,261	0.6	14.4	50.9
BSETCG INDEX	12,678	1.3	46.1	115.0
BSEOIL INDEX	9,937	(1.0)	16.8	60.1
CNXMcap Index	5,540	1.1	33.7	75.1
BSESMCAP INDEX	6,011	2.1	40.5	99.7
World Indices				
Dow Jones	8,505	(1.2)	2.9	15.0
Nasdaq	1,796	(1.1)	6.9	22.8
FTSE	4,329	0.1	(0.4)	12.2
Nikkei	9,753	(2.9)	5.7	23.2
Hangseng	18,166	(1.8)	6.7	39.2

Value traded (Rs cr)

	16 Jun 09	% Chg - Day
Cash BSE	6,752	(3.5)
Cash NSE	21,181	2.0
Derivatives	68,738	(0.6)

Net inflows (Rs cr)

	15 Jun 09	% Chg	MTD	YTD
FII	(213)	(141)	5,901	27,565
Mutual Fund	(482)	293	(1,076)	614

FII open interest (Rs cr)

	15 Jun 09	% Chg
FII Index Futures	15,568	10.1
FII Index Options	27,659	2.5
FII Stock Futures	22,018	2.5
FII Stock Options	722	(1.3)

Advances / Declines (BSE)

16 Jun 09	A	B	S	Total	% total
Advances	160	909	236	1,305	64
Declines	43	501	135	679	33
Unchanged	-	38	5	43	2

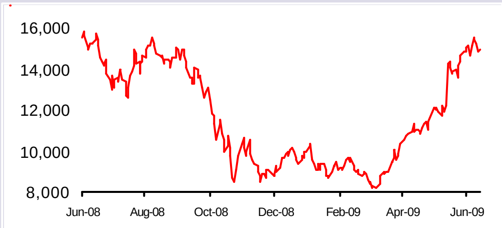
Commodity

		% Chg		
	16 Jun 09	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	70.3	(0.2)	24.8	43.0
Gold (US$/OZ)	934.8	0.7	0.2	2.0
Silver (US$/OZ)	14.2	0.9	1.0	10.9

Debt / forex market

	16 Jun 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.05	7.03	6.62	6.81
Re/US$	47.75	47.75	47.92	51.40

Sensex



RESULT UPDATE

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JAGRAN PRAKASHAN LTD (JPL)

PRICE: RS.78 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.82 **FY10E: EV/EBITDA: 12X; P/E:19X**

JPL- a decent quarter; cost rationalization and lower NP price lead to outperformance vis-a-vis peers. JPL better positioned than peers to lever margin growth as newsprint prices ease; retain ACCUMULATE.

Q4FY09: Revenues grow 6% YoY as advertising revenue feels the impact of an adverse macro; margins rebound on lower raw material costs, cover price hikes and cost rationalization measures. Profits as a result are up 40% YoY & QoQ.

Cautious optimism in industry regarding a revival in advertising revenue trends on the back of anticipated policy action leading to a recovery in economic growth and corporate earnings. Macro-environment is nevertheless materially better than 2Q ago; we reiterate that traditional media (print, TV broadcasting) will be the early beneficiaries of a pick-up.

JPL, in our opinion is better off given spend trends in regional markets, its strong franchise and better financial discipline. Stock has been our favored pick in the print space and has gained sharply over the last 3m.

JPL's current valuations (FY10E: EV/EBITDA: 12x; P/E:19x) look to be pricing in a significant up tick in revenue trends; we await more visibility on a sustainable advertising revenue revival. We adjust our price targets to account for modified earnings post the Q4FY09 numbers. Raise earnings by 3-5%; maintain ACCUMULATE rating with a price target of Rs.82 (Rs.75 earlier). Noting the near term valuations and limited upside to our fair value; we recommend accumulating the stock on dips.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	7,496	8,234	8,973
Growth (%)	25.3	9.8	9.0
EBITDA	1,637	1,567	2,082
EBITDA margin (%)	21.8	19.0	23.2
Net profit	946	917	1,248
Net cash (debt)	(1,374)	(1,023)	(1,346)
EPS (Rs)	3.1	3	4.1
Growth (%)	24.2	-3.2	36.2
CEPS	4.3	4.3	5.5
DPS (Rs)	2.0	2.0	2.0
ROE (%)	18.1	16.7	21
ROCE (%)	24.6	22.3	28.3
EV/Sales (x)	3.3	3.0	2.7
EV/EBITDA (x)	15.0	15.9	11.8
P/E (x)	25.5	26.3	19.3
P/Cash Earnings	18.8	18.5	14.6
P/BV (x)	4.5	4.3	3.9

Source: Company, Kotak Securities - Private Client Research

Result Highlights- decent revenue growth given adverse macro; advertising grows 4.3% YoY. Margins and profitability benefited by lower NP prices and cost rationalization measures.

- JPL's 3QFY09 results were in line with estimates on the revenue front at Rs.2.01bn (up 6% YoY). Profits (Rs.201mn, up 40% YoY) were however above below estimates on account of lower raw material costs and cost rationalization measures.
- Within the revenue mix, advertising revenues were up 4.5% YoY to Rs.1.3bn while circulation revenues stood at Rs.550mn. The balance was attributable to its OoH and SMS/Event Management businesses.
- Margins for the quarter were up 360bps YoY on account of above factors despite losses from new initiatives like I-Next' and 'City Plus'. EBITDA margins stood at 19.4% for Q4FY09; up 490bps QoQ too.
- During the quarter RM costs (35.2% of revenues, Rs.709mn) remained flat YoY and declined by 20% QoQ, impacting margins positively. We were expecting the benefit of easing NP costs to come through Q4FY09 onwards; the quantum of savings though has surprised us on the positive side.
- The company also accounted for Rs.26mn as MTM loss on its $12mn ECB in the 'other expenditure' head that impacted profitability negatively.
- We note that domestic newsprint prices have declined more sharply than imported NP which has likely benefited JPL more since a greater portion of its requirements are catered to by domestic NP.

- On the cost side the company also benefited from employee costs (Rs.263.4mn; flat YoY and down 6% QoQ) as well as cutting back on investments towards its OoH vertical. We note that direct costs for this vertical have declined 30% QoQ and more sharply YoY to Rs.107mn, as company has weeded out unproductive sites from its OoH portfolio.
- For the full year, advertising revenues grew Rs.5.52bn up by 10.7% YoY; while circulation revenues grew 7.5% to Rs.1.9bn. Its newer businesses (OoH, events and SMS) however grew at a slower 4.5% for FY09; given the cutback in unproductive properties and also the adverse macro that has impacted newer media forms more sharply.
- NP costs have corrected further recently, as detailed in our sector note on 28-5-09. We expect the financial benefit to accrue with a lag given companies carrying higher cost inventories. We expect this raw material cost easing to be a buffer for margins and given continued resilience of advertising revenues in regional markets, we see scope for margin gains over FY10-11E.
- We continue to opine that on account of JPL's positioning in its target markets and also the incipient growth rates in JPL's markets, its full year ad growth rates will remain higher than industry. Also growing advertiser sentiment to get the maximum mileage for the advertising dollar may bode well for strong incumbents and impact marginal players negatively, in the current macro environment.
- The company has a conference call on 17-6-09; we will revisit our recommendation/price target given any material changes in our outlook, if any, post the management interaction.

Quarterly performance

(Rs mn)	Q4FY09	Q4FY08	% chg	Q3FY09	% chg
Revenues	**2012.5**	**1900.0**	**5.9**	**2070.1**	**-2.8**
Expenditure	1622.5	1600.7		1769.4	
EBDITA	**390.0**	**299.3**	**30.3**	**300.6**	**29.7**
Depreciation	112.6	93.5		98.3	
EBIT	**277.4**	**205.8**	**34.8**	**202.3**	**37.1**
Net Interest	19.7	11.3		17.9	
Other Income	64.5	32.6		45.0	
PBT	**322.1**	**228.4**	**41.0**	**229.4**	**40.4**
Tax	104.0	73.6		74.7	
PAT after MI & EO items	218.1	154.8	40.9	154.7	41.0
EPS (Rs)	**0.7**	**0.5**		**0.5**	
OPM (%)	19.4	15.8		14.5	
GPM (%)	13.8	10.8		9.8	
NPM (%)	10.8	8.1		7.5	

Source: Company

Newsprint prices are meaningfully off peaks, a strong INR too will help; both are positives for publishing companies like JPL

- According to data available and our interactions with leading Indian publishers, newsprint (NP) prices - domestic and imported, have declined meaningfully thus far in the month of May 2009, with the trend persistent currently too. The easing in NP prices has been in line with the expectations of domestic publishers who now expect prices to stabilize at lower levels, in the medium term.
- The decline has likely been more meaningful in the last two months with a decline of c15% in $/tonne costs over the period. Further the INR too has appreciated since the Indian electoral verdict (earlier this month) on expectations of liquidity easing further on the back of foreign inflows. If currency appreciates further, we anticipate likely greater cost saving.

- The downtrend has been sustained with newsprint prices having earlier declined c18% MoM in November 2008 with the ex-factory costs of domestic newsprint dipping to Rs.31000/MT from Rs.38000/MT. Also, the prices of imported newsprint had already eased to US$800/MT levels in January 2009 from the US$900-950/MT highs they hit in CY08.
- Currently newsprint prices are down to US$620 levels from the recent peaks of around US$960.

Stocks factoring in a speedy recovery in advertising revenues; favorable policy action is anticipated which is expected to enable a recovery in corporate earnings outlook and sentiment. Traditional media will be early beneficiaries.

- Consensus view for the Indian advertising market growth has been between 5% and 10% for FY10. On a wider basis expectations have been of around 6-8% for the overall advertising market, for CY09E. This estimate of around 8% growth for the advertising market, we note, would be the lowest since 2001.
- Industry expects c8%YoY growth in the advertising market to be led by double digit growth in FMCG, telecom and nascent categories like DTH. Given the formation of a stable government there now renewed expectations of decisive policy action that is expected to lead to a faster recovery in economic growth and also corporate earnings.
- If the same do materialize we see a swift recovery in corporate sentiment to invest and consequently an up tick in advertising revenue trends. While it may be too early to re-calibrate industry growth outlook for CY09, we do believe the macro has seen material improvement and expect a revenue pickup 2HFY10E onwards.

Media- ad outlook (Rs mn)

Media Segment	2008	2009E	% Change
TV	84000	93530	11.3
Newspaper	100330	107700	7.3
Radio	8800	10560	20.0
Magazine	8030	7220	-10.1
Internet	6300	8500	34.9
Outdoor	16900	16900	0.0
Cinema	800	720	-10.0

Source: BS, GroupM report

- We also believe the early beneficiaries of this revival to be the more traditional and established forms of media- print and TV broadcasting. We also expect spends in metros to gain traction as advertisers return in the backdrop of an improved macro environment. Regional spends, as we have opined have remained much more resilient that has been evidenced in their growth rates, financial performance and stock out-performance of regional players like JPL and Zee News- our favored picks over the last three quarters.

Advertising revenue revival will be the key for stocks to sustain gains; while visibility for FY10E spends may have increased the jury is out on the sustainability of trends. More visibility key for incremental upgrades in revenue outlook.

- We have consistently highlighted the strong correlation between advertising revenue growth and the economic growth trajectory. Our concerns on the economic growth trajectory and corporate earnings outlook were the key factors that have contributed to our cautious outlook on print media. Significant new investments embarked upon by most players, we expected would also mute the earnings profile, more so in an adverse macro environment for advertising spends.

- Our outlook on the segment's stocks has been validated by the stressed financials over the last two quarters' and equally the sharp erosion in stock values and their underperformance over the last 6M.
- We now believe the macro environment has materially improved and opine visibility is better on FY10E advertising spends. We however believe it may be too early to call a decisive change in advertising trends and await more visibility on FY11E outlook.
- We nevertheless believe the cost containment measures embarked upon players like JPL will benefit earnings. This coupled with the probability of a faster revival in advertising revenues has the potential to surprise, positively, on the earnings front.
- We also note that if the expectations of policy action and a faster economic recovery are belied then we could see the outlook on a faster revival in advertising spends getting hazier. This would likely translate into extended break evens for new investments, lower than estimated profitability and stock under-performance.
- We will continue to focus on NP prices and advertising revenue trends, which we opine will remain earnings and share price catalysts over the medium term.
- Within, the segment we retain JPL (ACCUMULATE; PT: Rs.82) as a preferred play on our perceived traction and resilience in regional markets. JPL's strong regional franchise, conservative management and margin levers place it in a better position to navigate the challenging macro, in our opinion. The stock has validated our optimism with its absolute gains and out-performance over the last 3M.

Adjust earnings to account for Q4FY09 results; lower NP prices and cost optimization initiatives lead to 3-4% uptick in FY10E earnings

- We had earlier adjusted our revenue estimates upwards for all the print companies, including JPL given the improved macro environment domestically. It is expected that a stable government is likely to embark on fresh policy action aimed at a faster recovery in economic growth and corporate earnings.
- We were in either case expecting a pick up in momentum 2HFY10E onwards; the current environment we believe improves our visibility and expectations on the same.
- We expect advertising revenues to gain traction 2HFY10E onwards and are estimating full year growth of 7.5-9.5% in revenues, across companies-100bps higher than earlier on an average. We are in FY11E estimating a revisit to industry growth trends before this downturn- 11% advertising growth.
- On the costs side, we maintain our assumed NP prices at $650/ton with an INR assumption of Rs.47/$ over FY10E. INR currently trades cRs.48/$ and has appreciated c8% over the last 3M from levels of INR 51.1. If the currency appreciates further, we anticipate likely greater cost saving.
- We estimate that JPL will post a 9.4% CAGR in revenues and a healthy EPS CAGR of 15% over FY08-10E. We estimate the EBITDA margin of 19% in FY09 to grow to 23.2% in FY10E for the company. Lower newsprint prices, better than peer revenue growth, financial discipline and cost containment initiatives are expected to trigger margin gains, better than peers.
- We estimate an EPS of Rs.4.1 (Rs.4.0 earlier) in FY10E, up from the Rs.3.1 in FY08.

Recommendation- Better levered than peers to gain from a macro uptick and lower NP prices. Near term valuations look ample; accumulate on dips

We maintain ACCUMULATE recommendation on JPL with a price target of Rs.82

- We adjust our price targets to account for Q4FY09 results and expected better revenues 2HFY10E onwards. Raise EBITDA and EPS estimates by 3-5%; maintain **ACCUMULATE** rating with a price target of Rs.82 (Rs.75 earlier).
- At the current price JPL is trading at 26x & 19x FY09E and FY10E EPS. It is also trading at and 16x and 12x FY09E & FY10E EBITDA. The stock has justified being our favored pick by registering absolute gains of c60% over the last three months.
- Within, the segment we retain JPL as a preferred play on our perceived traction and resilience in regional markets. JPL's strong regional franchise, conservative management and margin levers place it in a better position to benefit from easing NP prices, in our opinion.
- Easing of newsprint prices and future outlook on ad spend trends will be the key variables to watch for future share price performance, in our opinion.

Key concerns

- Higher than estimated newsprint costs: Any uptrend in newsprint prices ahead of our estimates, could impact estimated earnings negatively.
- Any slowdown in economic activity in India leading to a slowdown of GDP growth would lead to an overall decline in advertising industry revenues, thus impacting JPL's revenues and profitability negatively.
- High competition in the existing print markets.
- Any delays in breakeven of OoH properties and/or loss making editions ahead of our estimates will impact our earnings estimates for the company negatively.

COMPANY UPDATE

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AXIS BANK

PRICE: RS.760 **RECOMMENDATION: BUY**
TARGET PRICE: RS.850 **FY10E P/E: 11.7X, P/ABV: 2.4X**

Annual Report (FY09) Analysis; Introduction of FY11E numbers

Axis Bank is focusing on rebalancing credit risk by moderating loan growth, reducing off-balance sheet exposures and lowering the share of unsecured as well as other risky loans.

We expect moderation in loan growth and fee-income along with rise in NPA provisioning. We have assumed higher slippage of 1.75% during FY09-11E as against 1.5% for FY09. However, some visibility on asset quality improvement along with improvement in economic sentiments bodes well for the bank.

We have slightly revised our earning estimates upward for FY10E and are introducing FY11E numbers. We maintain a BUY rating on the stock with the target price of Rs.850 (revising upward from Rs.620) based on P/ABV of 2.6x its FY10E adjusted book value and P/E of 13x its FY10E earnings.

We retain Axis Bank as one of our preferred pick within Indian private sector banks.

Growth to moderate

The bank's balance sheet size has grown 43.6% CAGR during FY04-09 to Rs.1477.2 bn at the end of Q4FY09. However, going forward, we expect moderation in its balance sheet growth to 17.9% during FY09-11E.

Advances which grew 54.2% CAGR during FY04-09 to Rs.815.6 bn at the end of FY09, is also likely to grow moderately at 23.8% CAGR during FY09-11E.

To rebalance credit risk in an uncertain macroeconomic environment, bank is moderating loan growth, reducing off-balance sheet exposures and lowering the share of unsecured as well as other risky loans.

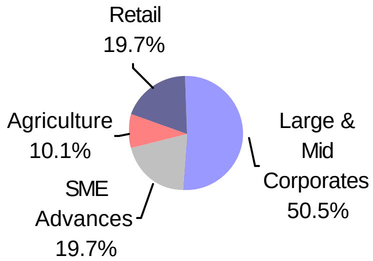
Trend in Advances (Rs bn)

	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	Gth (%)
Large & Mid Corporate	209.1	226.9	239.4	290.3	294.6	338.3	399.7	412.1	42.0
SME Advances	66.2	78.0	90.1	115.4	114.3	131.1	141.5	160.8	39.4
Agriculture	41.0	33.7	36.8	55.1	56.4	51.3	56.0	82.2	49.2
Retail	96.6	108.5	120.1	135.9	146.4	167.8	156.2	160.5	18.1
Total Advances	**412.9**	**447.0**	**486.3**	**596.6**	**611.6**	**688.5**	**753.3**	**815.6**	**36.7**

Source: Company

The loan growth has been strong for segments like Large & Mid corporate, SME and Agriculture. However, the growth in retail segment has been moderate (growth of 18.1% only) which led to decline in its share to 19.7% of total loan book at the end of FY09 from 22.8% of total loan book at the end of FY08.

Breakup of Advances (FY09)



Source: Company

Advances in India

(%)	FY08	FY09
Secured by tangible Assets	80.8	85.3
Covered by Bank/Government guarantees	3.0	1.2
Unsecured	16.2	13.4
Total	**100**	**100**

Source: Company

Contingent Liabilities

(Rs bn)	FY06	FY07	FY08	FY09
Claims not acknowledged as debt	1.8	1.7	2.5	1.6
On account of outstanding forward exchange contracts	326.8	507.4	643.2	829.4
Liability for partly paid investments	0.0	0.0	0.0	0.0
Guarantees given on behalf of Constituents	29.4	43.9	119.7	200.8
Acceptances, Endorsements etc	41.9	54.8	82.5	159.5
Disputed Claims	0.0	0.0	0.0	0.0
Others	585.7	1233.9	1741.0	901.2
Total contingent liability	**985.7**	**1,841.6**	**2,589.0**	**2,092.6**
As % of Total Assets	198	251	236	142
Growth (%)	-98	87	41	-19

Source: Company

These two tables suggest that the management is focusing on reducing the off-balance-sheet exposures along with lowering the share of unsecured and other forms of risky loans.

Focus on liability franchise would be the key

One of the key strength of the bank has been its strong liability franchise. However, in FY09, it witnessed 254 bps erosion in its CASA deposits to 43.1% at the end of FY09. This was in line with the industry trends, partly on the back of tougher macro environments and partly due to increase in interest rate differential between saving rate and card rate.

Total deposits grew 33.9% to Rs.1173.7 bn at the end of FY09 from Rs.876.3 bn at the end of FY08. During the same period, savings and current account (CASA) grew 29.2% and 23.8%, respectively. The share of low cost deposits (CASA) declined YoY from 45.7% at the end of FY08 to 43.1% at the end of FY09. However, it improved sequentially by around 500 bps during Q4FY09.

Deposits (Rs bn)

	Mar-08	Dec-08	Mar-09	Gth (YoY) (%)	Gth (QoQ) (%)
Demand	400.27	401.46	506.44	26.5	26.1
Saving	199.82	218.88	258.22	29.2	18.0
Current	200.45	182.58	248.22	23.8	36.0
Term	475.99	655.70	667.3	40.2	1.8
Total	**876.26**	**1057.16**	**1173.74**	**33.9**	**11.0**

Source: Company

During Q4FY09, term deposits grew only 1.8% (Q-o-Q), whereas saving and current deposits grew 18.0% and 36.0%, respectively. This led to improvement in CASA by 517 bps (Q-o-Q) during Q4FY09.

Contribution of non-interest income to total income to moderate

Non-interest income registered 51.9% growth from Rs.5.56 bn in Q4FY08 to Rs.8.46 bn in Q4FY09. Fee income delivered robust growth of 41.9% YoY, rising to 6.64 bn in Q4FY09 from Rs.4.68 bn in Q4FY08.

Trend in Non-interest Income

(Rs bn)	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	Gth (%)
	3.42	3.83	4.88	5.56	6.25	6.94	7.32	8.46	51.9
Fee Income	2.72	3.28	3.95	4.68	4.84	6.27	6.19	6.64	41.9
Trading Income	0.71	0.63	0.84	0.45	1.11	0.36	1.14	1.66	272.6
Miscellaneous Income	0.00	-0.08	0.08	0.44	0.30	0.31	-0.01	0.15	-65.7

Source: Company

Non-interest income grew 39.8% CAGR during FY04-09 and likely to grow 18.2% CAGR during FY09-11E.

Trend in Non-interest Income

	FY06	FY07	FY08	FY09	FY10E	FY11E
Total Other Income (Rs bn)	7.3	10.1	18.0	29.0	33.3	40.5
Growth (%)	75	38	78	61	15	21

Source: Company, Kotak Securities - Private Client Research

NPA outlook is not so grim

Gross NPA as a proportion of gross customer assets increased to 0.96% at the end of FY09 as compared to 0.72% at the end of FY08. During the same period, net NPA as a proportion of net customer assets declined to 0.35% at the end of FY09 as compared 0.36% at the end of FY08.

In absolute terms, gross NPA increased by Rs.1.1 bn during Q4FY09 from Q3FY09, an increase of 14%. However, net NPA declined sequentially by Rs.148 mn during Q4FY09. This decline in net NPA is due to increase in coverage ratio from 83.4% at the end of Q3FY09 to 85.3% at the end of Q4FY09.

Trend in NPA (Rs bn)

	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009
Gross NPA	4.83	4.87	4.48	4.95	6.38	7.10	7.88	8.98
Gross (%)	1.01	0.95	0.80	0.72	0.92	0.91	0.90	0.96
Net NPA	2.81	2.81	2.34	2.48	3.26	3.37	3.42	3.27
Net (%)	0.59	0.55	0.42	0.36	0.47	0.43	0.39	0.35

Source: Company

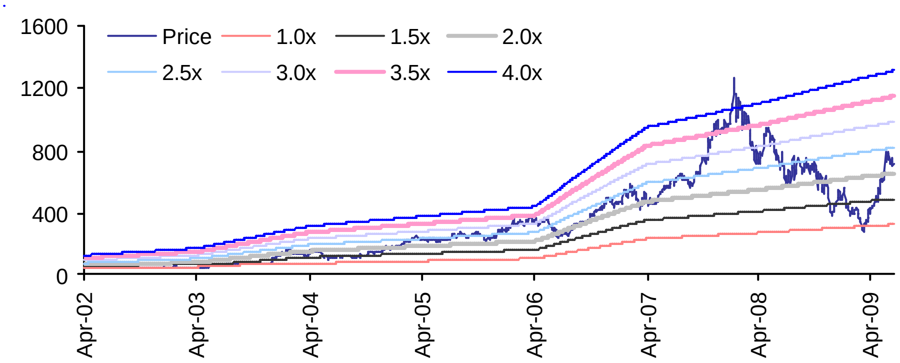
We have assumed higher slippage of 1.75% during FY09-11E as against 1.5% for FY09. However, some visibility on asset quality improvement along with improvement in economic sentiments bode well for the bank.

Valuations & Recommendations

At the current market price of Rs.760, the stock is trading at 11.7x its FY10E earnings and 2.4x its FY10E ABV. We have slightly revised our earning estimates upward for FY10E along with introducing FY11E numbers.

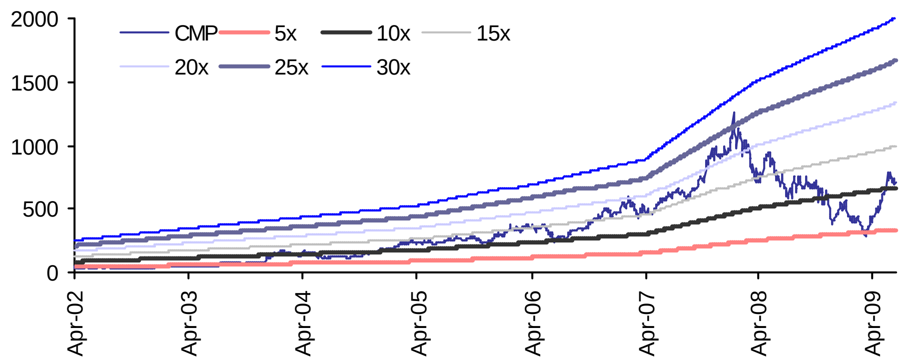
Now, we expect net profit for FY10E and FY11E to be Rs.23.26 bn and 29.36 bn, respectively. This would result into an EPS of Rs.64.8 and Rs.81.8 for FY10E and FY11E, respectively. Adjusted book value for FY10E and FY11E is estimated to be Rs.320.8 and Rs.389.5, respectively

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 recommend BUY on Axis Bank with a price target of Rs.820

We maintain a **BUY** rating on the stock with the target price of Rs.850 (revising upward from Rs.620) based on P/ABV of 2.6x its FY10E adjusted book value and P/E of 13x its FY10E earnings.

We retain Axis Bank as a preferred pick within Indian private sector banks for showing consistency in its earning growth (grown over 30% YoY in 35 out of last 37 quarters and over 60% in last 7 quarters).

Key data

(Rs bn)	2007	2008	2009	2010E	2011E
Interest income	44.62	70.05	108.35	134.28	159.74
Interest expense	29.93	44.20	71.49	87.21	102.57
Net interest income	**14.68**	**25.85**	**36.86**	**47.07**	**57.17**
Other income	10.10	17.95	28.97	33.32	40.46
Gross profit	12.64	22.26	37.25	45.05	54.67
Net profit	**6.59**	**10.71**	**18.15**	**23.26**	**29.36**
Gross NPA (%)	1.0	0.7	1.0	1.5	1.5
Net NPA (%)	**0.6**	**0.4**	**0.4**	**0.6**	**0.5**
Net interest margin (%)	2.7	3.3	3.3	3.3	3.4
RoE (%)	21.0	17.6	19.1	20.8	22.0
RoAA (%)	1.1	1.2	1.41	1.44	1.55
Dividend Yield (%)	0.9	0.8	1.4	1.3	1.3
EPS (Rs)	**23.4**	**29.9**	**50.6**	**64.8**	**81.8**
Adjusted BVPS (Rs)	111.0	238.2	275.4	320.8	389.5
P/E (x)	**30.7**	**24.0**	**14.2**	**11.7**	**9.03**
P/ABV (x)	6.5	3.0	2.6	2.4	2.0

Source: Company, Kotak Securities - Private Client Research

COMPANY UPDATE

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NITIN FIRE PROTECTION LTD (NFPIL)

PRICE: RS.301 **RECOMMENDATION: BUY**
TARGET PRICE: RS.350 **CONS. FY10E P/E:8.6X**

- **Looking to raise upto $50 mn to fund acquisition**
- **Positive on long term growth prospects of CNG cylinders business**
- **Revise WACC to reflect current scenario**
- **Due to 16% upside potential we continue to recommend BUY on NFPIL with revised price target of Rs.350 (Rs.300 earlier)**

Summary table - Consolidated

(Rs mn)	FY08	FY09	FY10E
Sales	1,324	2,460	3,012
Growth (%)	31.7	85.8	22.4
EBITDA	254	495	665
EBITDA margin (%)	19.2	20.1	22.1
Net profit	194	347	441
Net debt	332	663	729
EPS (Rs)	15.4	27.5	35.0
Growth (%)	94.0	78.9	27.2
DPS (Rs)	2.0	2.0	2.0
ROE (%)	25.9	24.4	25.1
ROCE (%)	25.1	25.0	24.6
EV/Sales (x)	3.1	1.8	1.5
EV/EBITDA (x)	16.2	9.0	6.8
P/E (x)	19.5	10.9	8.6
P/BV (x)	3.3	2.6	2.1

Source: Company, Kotak Securities - Private Client Research

Looking to raise upto $50 mn to fund acquisition

NFPIL is looking to raise upto $50 mn or its Indian Rupee equivalent through QIP / FCCB / GDR / Preferential Allotment. The fund raising plan is subject to the approval of the shareholders. The company is actively looking at couple of acquisitions in the fire protection and CNG cylinders manufacturing space. However nothing has been finalized yet but the company wants to be ready with cash as and when such an opportunity comes up.

Looking at various acquisitions

NFPIL is actively looking at acquisitions both in the fire protection and cylinders manufacturing space. Considering the strong expected demand, the company wants to expand aggressively in both these segments and thus is looking for suitable acquisitions. Regarding cylinders it is looking for some manufacturing facility with large diameter cylinders and also some jumbo cylinders as the demand for these is rising due to increasing conversion of automobiles into gas. In fire protection segment it is looking for acquisitions in fire detection, protection, suppression systems and electronic security systems. We feel that the acquisition would lead to the next level of growth for the company.

Rising domestic demand of CNG cylinders - good long term potential

The demand for CNG cylinders in India is picking up due to increasing focus on reducing the environmental pollution and also due to the fact that even after reduction in global oil prices, CNG is still ~55% cheaper then petrol. We believe that the availability of CNG is a prerequisite for increasing penetration of CNG vehicles in India. With the commencement of gas supplies from Reliance's KG basin from April 2009, there will be large scale expansion of CGD projects in various cities. NFPIL, being the second largest CNG cylinder manufacturer in India after EKC, is expected to be beneficiary of rise in demand for CNG cylinders.

Peer Valuation (FY10E)

(Rs mn)	NFPIL	EKC
Lakh cylinders sold	1.8	7.8
Revenues	3012	9933
EBIDTA (%)	22.1	29.1
EPS (Rs.)	35.0	16.0
P/E (x)	8.6	13.2
CMP (Rs,)	301	210
Target (Rs.)	350	225
Recommendation	BUY	ACCUMULATE
Target P/E (x)	10.0	14.1

Source: Kotak Securities - Private Client Research

Peer Valuation

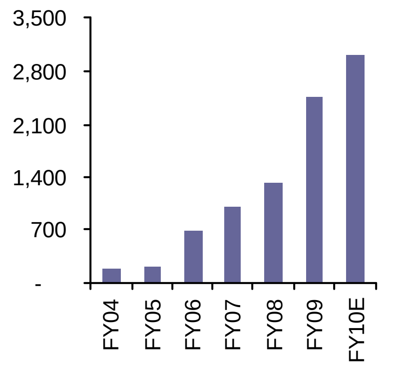
NFPIL can be compared with EKC as it is in the similar line of manufacturing high-pressure seamless CNG cylinders. Although EKC is a market leader with much larger capacity we feel that NFPIL is attractively valued at 8.6x FY10 earning estimates as against 13.2x for EKC.

Valuation & Recommendation

We continue to recommend BUY on Nitin Fire Protection with a price target of Rs.350

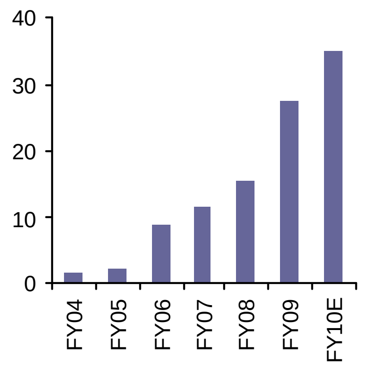
- We maintain our earning estimates and expect NFPIL to report Cons. EPS of Rs.35.0 for FY10E.
- We have valued NFPIL on DCF method of valuation with 13.1% WACC (13.6% earlier) and 4.0% terminal growth rate to reflect the current scenario. Thus the price target is revised to Rs.350 as against Rs.300 earlier.
- At the current market price of Rs.301, it trades at attractive valuations of 2.1x book value, 8.6x earnings and 7.5x cash earnings based on FY10E.
- We are positive on the long term growth prospects of the company primarily due to expected surge in domestic demand for CNG cylinders.
- Due to 16% upside potential form current levels we continue to recommend **BUY** on NFPIL with revised price target of Rs.350.

Cons. Revenues (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
16-Jun	Dollex Indut	Deeptidubey	B	200,000	6.73
16-Jun	Dollex Indut	Maud Estates Pvt Ltd	S	202,631	6.73
16-Jun	Elpro Intern	Faridabad Company Limited	B	25,000	476.00
16-Jun	Elpro Intern	Keynote Capitals (Stock)	S	20,000	476.00
16-Jun	Indage Vin	Hitesh shashikant jhaveri	B	86,186	98.69
16-Jun	Indage Vin	Rajender Soni	S	77,817	98.95
16-Jun	Jupiter Bios	Clsa (Mauritius) Limited	S	166,000	75.07
16-Jun	Kamadgi Synt	Juhi's Idea Mercantile Private Limited	B	138,616	32.00
16-Jun	Kamadgi Synt	Blessings Mercantile Private Limited	B	200,000	32.00
16-Jun	Kamadgi Synt	Abhayjaswant Singhkumar	S	331,000	32.00
16-Jun	Moldtek Tech	Aditya Bangad	S	20,000	61.98
16-Jun	Natraj Fin	Ask Financial Services Pvt. Ltd.	B	159,887	42.15
16-Jun	Natraj Fin	Vikas Babulal Khandelwal	S	74,000	42.15
16-Jun	Natraj Fin	Ashok Babulal Khandelwal	S	84,000	42.15
16-Jun	Natura Hue C	Ayodhyapati Investment Pvt Ltd	B	50,000	10.05
16-Jun	Natura Hue C	Himal Kanchanlal Parikh HUF	B	50,000	10.50
16-Jun	Natura Hue C	Falguniben Mahavirbhai Gohil	S	98,885	10.28
16-Jun	Ocl Iron&St	N C R Buildwell Pvt. Ltd	B	815,791	19.68
16-Jun	Sanguine Md	Anishkumar Bachubhai Shah	B	70,500	5.41
16-Jun	Sanguine Md	Angel Infin Private Limited	B	149,000	5.41
16-Jun	Sanguine Md	Multiplier Share & Stock Advi.	B	75,000	5.41
16-Jun	Sanguine Md	Setu Securities Pvt Ltd	S	356,001	5.41
16-Jun	Sanguine Md	Imtiyaz Ibrahimbhai Desai	S	155,649	5.42
16-Jun	Sanguine Md	Bharat Devchandbhai Patel	S	70,500	5.41
16-Jun	Sanguine Md	Pritesh Pravin Chandra Vora	S	75,000	5.42
16-Jun	Splash Media	Bhanumati Dharamraj Giri	S	27,400	51.00
16-Jun	Strides Arco	Suresh Kanmal Jajoo	B	375,000	130.00
16-Jun	Strides Arco	Dobliss Holdings Limited	S	500,000	130.19
16-Jun	Sunil Hitech	Citigroup Global Mkts Mauritius Pvt Ltd	S	75,000	138.08
16-Jun	Upsurge Invs	New Era Advisors Pvt Ltd	B	100,500	13.63
16-Jun	Venus Vent	Chandra Shekhar Sunil Bhatt	B	26,000	49.08

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
SBI	1,714	4.4	7.3	2.6
NTPC	225	1.8	5.2	5.0
SAIL	167	4.3	4.5	15.5
Losers				
Reliance Ind	2,143	(1.6)	(8.9)	5.1
Sterlite Ind	634	(4.5)	(3.4)	5.0
Bharti Airtel	810	(1.2)	(3.0)	4.8

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
24-Jun	ONGC earnings expected
30-Jun	Hindalco earnings expected

Source: Bloomberg

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