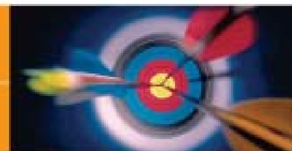
investor's eye



Index

- Pulse Track >> IIP growth at 8.8% YoY for June 2011
- Stock Update >> Eros International Media
- Stock Update >> Provogue India
- Stock Update >> India Cements
- Stock Update >> Gayatri Projects
- Stock Update >> Genus Power Infrastructures
- Stock Update >> Ratnamani Metals and Tubes

For Private Circulation only

Sharekhan
Your guide to the financial jungle

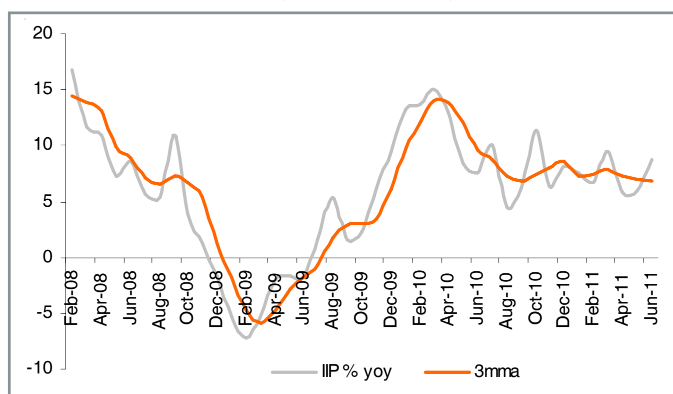
Sharekhan Ltd, Regd Add: 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400 042, Maharashtra. Tel: 022 - 61150000. BSE Cash-INB011073351; F&O-INF011073351; NSE – INB/INF231073330; CD - INE231073330; MCX Stock Exchange: CD - INE261073330 DP: NSDL-IN-DP-NSDL-233-2003; CDSL-IN-DP-CDSL-271-2004; PMS INP000000662; Mutual Fund: ARN 20669. Sharekhan Commodities Pvt. Ltd.: MCX-10080; (MCX/TCM/CORP/0425); NCDEX -00132; (NCDEX/TCM/CORP/0142)

Pulse Track

IIP growth at 8.8% YoY for June 2011

- The growth of the Index of Industrial Production (IIP) for June 2011 came in at 8.8%, which was higher than the 5.6% year-on-year (Y-o-Y) growth recorded in May 2011. The growth was stronger in June mainly due to a strong growth in the manufacturing and capital goods sectors. For the year till date (YTD) FY2012, the IIP growth stands at 6.8% as against 9.6% in YTD FY2011.
- On an absolute basis, the June 2011 IIP reading under the new series was 170.3 as compared to 165.8 in the previous month. This was mainly contributed by a sequential growth of 4.5% in the manufacturing segment and a 30% month-on-month (M-o-M) growth in the capital goods segment.
- The capital goods output saw a sharp increase of 37.7% year on year (YoY) as compared to a 6.1% Y-o-Y increase in May 2011. Consumer goods grew by 1.6%, which was lower than the 6.6% Y-o-Y growth recorded in May 2011. Consumer durables grew by 1.0% YoY against a 5.2% growth recorded in the previous month and consumer non-durables grew by 2.1% YoY as compared to the 7.9% growth seen in the previous month.
- The other sectors like mining and electricity grew by 0.6% YoY and 7.9% YoY respectively. The manufacturing sector reported a strong growth of 10% YoY compared to the 6.1% Y-o-Y increase in the previous month.
- Though the IIP growth for June 2011 was above estimate at 8.8%, the sharp increase in interest rates coupled with the rising input cost is likely to lower the IIP growth in the near future. The positive surprise in the IIP growth is mainly due to the sharp increase of 37.7% YoY in the capital goods growth, which tends to be lumpy in nature. Although the three-month moving average seems reasonable at 6.8%, yet industrial growth could be further affected by the cumulative effect of the Reserve Bank of India (RBI)'s tightening in FY2012. Notwithstanding the global turmoil, the high food inflation and the strong IIP figures have substantially increased the probability of further interest rate hikes in the forthcoming policy review meet.

Trend in IIP growth YoY (the new series)



Source: Sharekhan Research, Bloomberg

In % YoY chg	Jun-11	Jun-10	May-11	YTD FY12	YTD FY11
IIP	**8.8**	**7.5**	**5.9**	**6.8**	**9.6**
Basic	7.5	3.8	7.3	7.2	5.5
Intermediate	1.8	8.6	0.3	2.2	10.7
General					
Manufacturing	10.0	7.9	6.1	7.5	10.4
Mining	0.6	7.0	1.3	1.1	8.0
Electricity	7.9	3.6	10.3	8.2	5.4
Use based					
Capital goods	37.7	3.7	6.1	16.8	17.2
Consumer goods	1.6	13.3	6.6	4.2	11.5
- Durables	1.0	21.3	5.2	3.3	19.7
- Non-durables	2.1	7.5	7.9	4.9	5.4

Source: CSO, Sharekhan Research

Manufacturing sector growth strong

The manufacturing sector showed a robust growth of 10% YoY as against a growth of 6.1% seen in May 2011. In absolute numbers, the manufacturing sector index was reported at 182.1 as against 174.2 in the earlier month. However, the mining sector growth was flat at 0.6% as against 1.3% in May 2011 and the electricity sector witnessed a growth of 7.9% as against a 10.3% increase in May 2011.

In terms of industries, 13 out of the 22 industry groups showed a decline during June 2011 as compared to eight out of 22 in May 2011. The wood and wood products industry showed the maximum decline during June 2011, registering a drop of 4.6% month on month (MoM). Among the gainers, electric machinery and apparatus segment increased by 72.7% MoM followed by office, accounting and computing machinery which grew by 31.9% MoM.

IIP for May 2011 revised downwards

The IIP growth for May 2011 was revised upwards to 5.9% from the provisional figure of 5.6%. From a segmental perspective, the manufacturing growth was revised downwards to 5.6% from the provisional figure of 6.1% and the consumer goods growth was revised downwards from 6.6% to 5.4%.

Revision in IIP

Particulars	Quick estimate May-11	Revised estimate May-11
IIP	**5.6**	**5.9**
- Basic	7.3	7.3
- Intermediate	1.0	0.3
General		
Manufacturing	5.6	6.1
Mining	1.4	1.3
Electricity	10.3	10.3
Use based		
Capital goods	5.9	6.1
Consumer goods	5.4	6.6
- Durables	5.2	5.2
- Non-durables	5.6	7.9

Outlook

Though the IIP growth for June 2011 was higher than estimated at 8.8%, the sharp increase in interest rates coupled with the rising input cost is likely to lower the IIP growth in the near future. The positive surprise in the IIP growth is mainly due to the sharp increase of 37.7% YoY in the capital goods growth, which is significantly higher than the growth seen in the segment in the past one year. Although the three-month moving average seems reasonable at 6.8%, yet industrial growth could be further affected by the cumulative effect of the RBI's tightening in FY2012. Notwithstanding the global turmoil, the high food inflation and the strong IIP figures have substantially increased the probability of further interest rate hikes in the forthcoming policy review meet.

New series	Weight	Jun-11	Jun-10	May-11	YTDFY12	FY2011	FY2010
Food products and beverages	9.6	144.0	135.0	146.7	11.8	9.5	6.7
Tobacco products	2.1	105.4	96.2	108.0	3.6	-9.2	2.0
Textiles	8.2	124.5	130.1	124.9	-4.3	-5.9	6.7
Wearing apparel, dressing and dyeing of fur	3.7	136.9	144.8	143.3	0.1	2.7	4.0
Luggage, handbags, saddlery, harness and footwear, tanning and dressing of leather products	0.8	117.6	101.6	117.1	4.9	7.4	8.0
Wood and wood products	1.4	149.8	150.3	157.1	-7.6	-13.5	-2.2
Paper and paper products	1.3	133.8	126	138.3	8.1	13.8	8.5
publishing, printing and reproduction of recorded media	1.4	155.7	140.2	161.1	10.9	12.6	11.3
Coke, refined petroleum products & nuclear fuel	8.9	127.5	122.4	126.1	6.0	6.8	-0.2
Chemicals and chemical products	13.3	123.5	124.7	126.0	3.7	5.0	1.3
Rubber and plastics products	2.7	186.4	187.1	185.6	-2.1	-4.7	10.2
Other non-metallic mineral products	5.7	151.4	146.7	154.0	0.5	-1.7	3.9
Basic metals	15.0	191.0	162.3	188.4	14.8	13.8	8.8
Fabricated metal products, except machinery & equipment	4.1	185.3	165.5	172.1	14.9	22.3	14.7
Machinery and equipment	5.0	232.5	227.4	236.2	-1.6	10.7	29.9
Office, accounting & computing machinery	0.4	179.2	150.4	135.9	29.6	96.5	-6.6
Electrical machinery & apparatus n.e.c.	2.6	666.5	352.8	386.0	24.1	2.9	2.8
Radio, TV and communication equipment & apparatus	1.3	912.0	1014.3	802.1	-3.5	3.0	12.8
Medical, precision & optical instruments, watches and clocks	0.8	106.0	118.2	110.9	8.4	9.5	6.7
Motor vehicles, trailers semi-trailers	5.4	231.6	202.2	240.7	20.2	22.9	30.2
Other transport equipment	2.4	224.7	189.5	219.2	19.0	19.1	22.9
Furniture; manufacturing	4.0	145.2	131.6	150.9	0.1	-15.0	-7.5

Eros International Media

Emerging Star

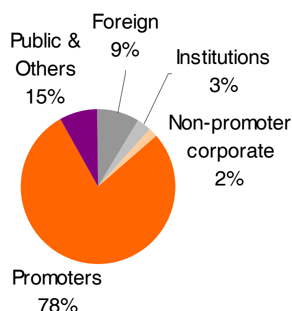
Stock Update

Q1 performance ahead of expectations

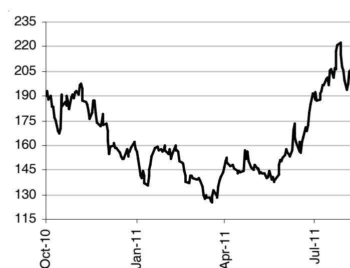
Buy; CMP: Rs209

Company details	
Price target:	Rs247
Market cap:	Rs1,910 cr
52 week high/low:	Rs230/124
NSE volume: (No of shares)	1.9 lakh
BSE code:	533261
NSE code:	EROSMEDIA
Sharekhan code:	EROSMEDIA
Free float: (No of shares)	2.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.9	43.3	32.6	-
Relative to Sensex	20.4	54.8	36.5	-

Result highlights

- **Strong performance:** Despite the June quarter being soft for the film industry with heavy cricketing calendar, Eros International Media Ltd (EIML) reported a strong operating performance for Q1FY2012 with revenue up 21.8% to Rs153.8 crore, which was ahead of our expectation of Rs130.3 crore. The revenue was boosted by the robust box-office collection of "Ready", the biggest hit of 2011, as well as higher booking of satellite rights. As per media reports, "Ready" had a net India box office collection of about Rs121 crore. Overall the company released 19 films in the quarter including seven Hindi films and twelve Tamil films. The EBITDA margin remained stable at 19.4%, up 30 basis points year on year (YoY) and marginally ahead of our expectation of 19%. The margin performance was stable despite the late stage acquisition of global distribution rights of "Ready". The resultant EBITDA grew by 23.7% to Rs29.9 crore.

- **Other income boosts bottom line:** In Q1FY2012 the other income surged to Rs8.4 crore from Rs0.4 crore in the corresponding quarter of the previous year. The other income included a write-back of an employee stock option plan

Result table (Rs cr)

Particulars	Q1FY12	Q1FY11	% YoY	Q4FY11	% QoQ
Net sales	**153.8**	**126.3**	**21.8**	**114.3**	**34.6**
Direct costs	116.2	95.6	21.5	90.5	28.3
Gross profit	**37.7**	**30.7**	**22.5**	**23.8**	**58.4**
SG&A	7.8	6.6	18.3	10.4	-25.4
EBITDA	**29.9**	**24.2**	**23.7**	**13.4**	**123.8**
Depreciation & amortisation	1.4	0.8	78.2	1.0	35.0
EBIT	28.5	23.4	21.9	12.3	131.3
Other income	5.9	0.4	1407.7	0.9	560.7
Forex gain/(loss)	0.0	1.3	-98.4	1.3	-98.5
Interest	3.1	2.1	52.7	1.1	174.6
PBT	**31.3**	**23.0**	**35.9**	**13.4**	**133.8**
Tax provision	10.5	8.5	23.8	-0.4	-2782.1
PAT	**20.8**	**14.6**	**43.0**	**13.8**	**51.2**
Minority interest	1.7	-1.0	-271.9	0.5	243.8
Net profit	**19.2**	**15.5**	**23.5**	**13.3**	**44.2**
EO	2.5	0.0		0.3	
Reported net profit	**21.7**	**15.5**	**39.8**	**13.6**	**59.4**
Equity capital (FV Rs10/-)	91.4	91.4		91.4	
EPS (Rs)	2.1	1.7		1.5	
Margin (%)					
GPM	24.5	24.3		20.8	
EBITDA	19.4	19.1		11.7	
EBIT	18.5	18.5		10.8	
NPM	12.5	12.3		11.6	
Tax rate	33.5	36.7		-2.9	

(ESOP) provisioning of Rs2.5 crore relating to the lapse of ESOPs of the employees exiting the organisation. The higher other income led to a 39.8% rise in the net profit to Rs21.7 crore. Excluding the one-time ESOP write-back, the net profit was up 23.5% to Rs19.2 crore.

- **Strong movie slate on the anvil:** EIML has a strong slate of blockbuster films over the next six to nine months including at least five to six major releases like "Ra.One", "Rockstar", "Desi Boyz" and "Agent Vinod". The company saw a strong performance in July and August 2011 with a strong box office collection from "Murder 2" and even bigger collection from "Zindagi Na Milegi Dobara" (ZNMD), which set the ball rolling for the strongest period for the industry. ZNMD, which was released worldwide on July 15, 2011, has had worldwide gross box-office collection of about Rs145 crore (India box-office collection about Rs110-115 crore and international box-office collection of Rs30-35 crore). The upcoming festival season would see the company cash in on its big releases the main being "Ra.One" as well as on the higher booking of television satellite rights. Alongwith the Hindi film releases, the company has lined up regional films, ie films in Tamil, Telugu, Punjabi and Bengali languages, which would add further colour to the performance. Going forward, for FY2013 the company has already signed up for almost 60% of the film slate.

- **Valuation:** We have marginally increased our revenue estimates for FY2012 and FY2013 by 2.7% and 3.7% respectively on account of the strong outperformance on the revenue front in Q1FY2012 and higher than expected price for satellite rights for the film slate. However, we have broadly maintained our earnings per share (EPS) estimates. The strong box-office performance of the recent releases like ZNMD and "Singham" gives us further confidence with regard to the performance of EIML in the upcoming festival season, which would see big blockbuster releases including "Ra.One". The company has already finalised the satellite rights of all its upcoming films and this will give further cushion to a strong FY2012 performance. Going forward, the company has already finalised 60% of its slate giving predictable visibility for the future revenues flows. On the other hand, the digitisation of content library and the impetus on new media would yield good results and comfort in terms of revenues in the longer term. We remain positive on EIML, which remains one of the best plays on the Indian media sector. At the current market price of Rs209, the stock is trading at 12.5x and 10.1x FY2012 and FY2013 earnings estimates respectively. We maintain our Buy recommendation on EIML with a price target of Rs247.

Upcoming major Hindi films

Name	Star cast	Tentative release
Mausam	Shahid Kapoor, Sonam Kapoor	16-Sep-11
RA.One	Shah Rukh Khan, Kareena Kapoor, Arjun Rampal	26-Oct-11
Rockstar	Ranbir Kapoor	11-Nov-11
Desi Boyz	Akshay Kumar, John Abraham, Deepika Padukone, ChitrangadaSingh	25-Nov-11
Agent Vinod	Saif Ali Khan, Kareena Kapoor	9-Dec-11
Bol	Atif Aslam, Iman Ali	FY2012
Untitled— by Kunal Kohli	Shahid Kapoor, Priyanka Chopra	FY2012
Rana (Hindi, Tamil and Telugu)	Rajnikanth, Deepika Padukone	FY2013
Cocktail	Saif Ali Khan, Deepika Padukone	FY2013

India net box-office collection

Name of film	Amount (Rs cr)
Ready	121.2
Zindagi Na Milegi Dobara	76.3
Murder 2	47.1
Chalo Dilli	9.1

Source: www.boxofficeindia.com up to August 4, 2011

Other highlights

- During the quarter, the company released 19 films: seven films in Hindi and 12 films in Tamil. The releases include "Ready", "Always Kabhi Kabhi" and "Chalo Dilli", and Tamil films "Avan Ivan", "Engeyum Kadhal" and "Ko".

- For the quarter, the subsidiaries reported a strong performance with a strong performance by Ayngaran International (Tamil production and overseas distribution business) in which EIML has a 51% stake. The revenue of all subsidiaries taken together grew 50.9% to Rs14.3 crore with an EBITDA margin of 23.3% and a net profit of Rs2.7 crore (up 265.8%). The strong performance of Ayngaran International has led to a higher share of profits to minority interest of Rs1.7 crore against a share of loss of Rs1 crore in the corresponding quarter of the previous year.

- On the new media side of the business, to cash in on the large catalogue of films, the company has tied up with IP Avenue, a Mumbai-based technology company,

to bring a new revolution in the in-flight entertainment industry. Through this association, the company would provide personalised entertainment to air travelers at a nominal fee through Mint Pod, a 5.3" wireless interactive hand-held TV developed by IP Avenue. The light-weight wireless device would have a host of entertainment programmes such as blockbuster movies, fashion shows, cartoons, travel shows, laughter shows, catering to all age groups. It has over 30 hours of content to keep passengers entertained and occupied during their journey. Mint Pod is currently available in airlines like Go Air where a traveller can conveniently rent them for a nominal fee.

Valuation

We have marginally increased our revenue estimates for FY2012 and FY2013 by 2.7% and 3.7% respectively on account of the strong outperformance on the revenue front in Q1FY2012 and higher than expected price for satellite rights for the film slate. However, we have broadly maintained our earnings per share (EPS) estimates. The strong box-office performance of the recent releases like ZNMD and "Singham" gives us further confidence with regard to the performance of EIML in the upcoming festival season, which would see big blockbuster releases including "Ra.One". The company has already finalised the satellite rights of all its upcoming films and this will give further cushion to a strong FY2012 performance. Going forward, the company has already finalised 60% of its slate giving predictable visibility for the future revenue flows. On the other hand, the digitisation of content library and the impetus on new media would yield good results and comfort in terms of revenues in the longer term. We remain positive on EIML, which remains one of the best plays on the Indian media sector. At the current market price of Rs209, the stock is trading at 12.5x and 10.1x FY2012 and FY2013 earnings estimates respectively. We maintain our Buy recommendation on EIML with a price target of Rs247.

Valuation table

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenues (Rs cr)	626.5	640.9	707.0	891.5	1090.6
Net profit (Rs cr)	73.3	82.3	117.3	152.3	188.8
Y-o-Y growth (%)	*78.3*	*12.2*	*42.9*	*29.5*	*24.0*
EPS (Rs)	8.0	9.0	12.9	16.7	20.7
EV/EBITDA	18.3	18.2	12.5	8.9	6.8
P/E (x)	26.0	23.2	16.2	12.5	10.1
RoE (%)	59.7	40.8	25.6	20.5	21.0
RoCE (%)	35.6	26.6	22.2	23.3	24.6

The author doesn't hold any investment in any of the companies mentioned in the article.

Provogue India

Ugly Duckling

Stock Update

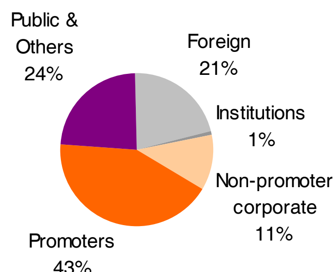
Price target revised to Rs78

Buy; CMP: Rs31

Company details

Price target:	Rs78
Market cap:	Rs353 cr
52 week high/low:	Rs73/39
NSE volume: (No of shares)	3.6 lakh
BSE code:	532647
NSE code:	PROVOGUE
Sharekhan code:	PROVOGUE
Free float: (No of shares)	6.6 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-17.8	-20.3	-22.0	-53.5
Relative to Sensex	-9.9	-13.9	-19.8	-51.5

What happened in the quarter gone by?

Q1FY2012 performance in line

Provogue's Q1FY2012 performance came in line with our expectation on all the key parameters viz- top line, operating profit margin (OPM) and earnings. In line with our expectation Provogue's results lagged behind its other peers in the retail space due to its high export revenue base of last year. Led by slower revenue growth and increased interest charges, the profit after tax declined by 9% on a year on year (YoY) basis.

Muted revenues—export as well as domestic

The total income from operations grew at a mere 4.4% YoY for the quarter to Rs107.9 crore. The domestic revenue for the quarter stood flat at Rs49.4 crore (+1.6% YoY) while exports showed a marginal increase (+6.8% YoY) from Rs54.8 crore in Q1FY2011 to Rs58.5 crore in the quarter under review. The company added a mere 4 stores while the same store sales growth remained flat during the quarter.

Operating profit margin improved on a sequential basis

In Q4FY2011, led by high export sales coupled with the lag impact of product price hike, the OPM had witnessed a setback (came at 5.9% vs an average of 12-14%). This quarter, due to product price hike impact coming to play into financials, the OPM saw a rebound and came at its consistent level of 14.1% (though contracted by 34bps on a YoY basis).

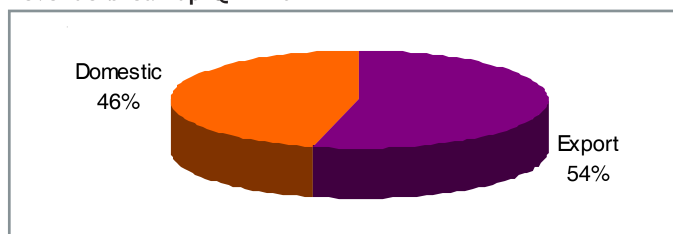
Earnings suffered due to increased interest charges

The operating profit remained flat on a YoY basis (+0.9%), while it increased by 48.8% on a sequential basis. Flat operating profit coupled with an increase in interest charges led to a 9% YoY decline in the net earnings for the quarter.

Result table (Rs cr)

Particulars	Q1FY12	Q1FY11	% YoY	Q4FY11	% QoQ
Net sales	**107.9**	**103.4**	**4.4**	**174.0**	**-38.0**
Total expenditure	92.7	88.3	5.0	163.8	-43.4
Raw material consumption	61.4	63.0	-2.6	131.4	-53.3
Staff cost	4.2	4.0	5.9	4.1	3.1
Other expenditure	27.1	21.3	27.1	28.3	-4.3
Operating profit	**15.2**	**15.1**	**0.9**	**10.2**	**48.8**
PBT	9.1	10.07	-9.5	4.4	108.0
Adjusted PAT	**7.1**	**7.82**	**-9.0**	**6.2**	**14.2**
EPS (Rs)	0.68	0.62		0.6	
Operating margin (%)	14.1	14.6		5.9	
PBT margin (%)	8.4	9.7		2.5	
PAT margin	6.6	7.6		3.6	
Tax/PBT	21.9	22.3			

Revenue break-up Q1FY2012



Board approves corporate restructuring- Prozone to be demerged

The board of directors in the meeting has in principle discussed a proposal of corporate restructuring of the company by way of demerging the real estate assets (Prozone) into a separate company. The management intends to hive off this business and list the same separately on the bourses. The shareholding structure of the newly formed entity would mirror that of the existing Provogue's structure. The demerger process would require time.

What has management to offer as comments?

Domestic demand environment moderating

Like other retailers, Provogue's management too confirmed of the moderating consumer demand trend but remained bullish on the long term consumption story and confident of Provogue's brand equity strength. It plans to add 40 stores in FY2012, of which 4 stores have been added in this quarter.

New corporate structure aimed at unlocking value for shareholders

The new corporate structure proposed by the management is aimed to create pure retail and real estate plays and bring transparency and enhance value for the shareholders. We believe that this development is strategic and positive in nature, aimed at creating pure retail and pure real estate plays, thereby creating value unlocking opportunity for the shareholders.

Prozone Aurangabad update

For the quarter, Prozone Aurangabad clocked gross rentals of Rs6 crore with 65% occupancy, averaging to a monthly rental at Rs33 per square feet. Satyam Cinemas would get operational by the end of this quarter taking the occupancy level to 80%. The 1,40,000 sq ft commercial space at Aurangabad has been sold off at an average realisation of Rs3,500 per sq ft while the work on the same has not commenced and is awaiting environmental clearance.

Prozone's other properties' update

With regard other properties at Indore, Coimbatore and Nagpur the company is waiting for environmental clearances, post which work would commence.

What have we done to our estimates?

We have reduced core revenue and earnings estimates to factor moderating demand outlook and high interest cost. Thus we have pruned our FY2012 and FY2013 earnings estimate for the core business. Our revised earning per share (EPS) for the company now stands at Rs3.5 and Rs4.1 for FY2012E and FY2013E respectively.

What is our view?

Stock offers deep value, Maintain Buy

We continue to believe that Provogue provides an exciting opportunity to play the domestic consumption space. Its lifestyle brand Provogue's earnings are expected to grow at a compounded annual growth rate (CAGR) of 18.3% over FY2011-13. The company also has an exposure to the retail real estate business through Prozone, which develops mixed-usage retail-centric properties in tier-II cities (with equity funding in place).

We value Provogue on a sum of the parts (SoTP) basis. We value the core retail business on a price earning (PE) basis. The core business is valued at Rs41 (at 10x FY2013E EPS of Rs4.1), while based on net asset value (NAV) the share of the real estate business (Prozone) works out to Rs37. Thus we maintain our Buy recommendation on the stock with a revised price target of Rs78.

Valuation table

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net sales (Rs cr)	359.7	480.7	565.4	616.1	662.3
Net profit (Rs cr)	29.5	28.2	33.4	39.5	46.8
% YoY change	*14.3*	*-4.5*	*18.6*	*18.2*	*18.5*
No of shares (cr)	11.4	11.4	11.4	11.4	11.4
EPS	2.6	2.5	2.9	3.5	4.1
P/E (x)	12.4	13.0	11.0	9.3	7.8
EV/EBITDA (x)	8.0	7.2	5.8	5.1	4.4
RoE (%)	4.3	4.0	4.6	5.1	5.7
RoCE (%)	6.6	6.5	7.9	8.6	9.6

The author doesn't hold any investment in any of the companies mentioned in the article.

India Cements

Ugly Duckling

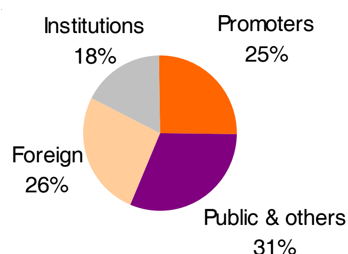
Stock Update

Upgraded to Hold

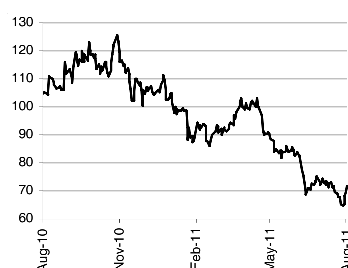
Hold; CMP: Rs72

Company details	
Price target:	Rs80
Market cap:	Rs2,212 cr
52 week high/low:	Rs128/62
NSE volume: (No of shares)	7.6 lakh
BSE code:	530005
NSE code:	INDIACEM
Sharekhan code:	INDIACEM
Free float: (No of shares)	23 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	-22.9	-22.4	-34.3
Relative to Sensex	5.2	-16.7	-20.2	-31.5

Result highlights

- **PAT exceeds estimates due to surge in realisation:** India Cements delivered an impressive performance in Q1FY2012 largely due to a surge in the realisation. The adjusted net profit for the quarter stood at Rs105.1 crore (against Rs10.1 crore in Q1FY2011) which is much ahead of our as well as the street's estimates. A surge in the realisation by 29.2% and lower than expected effective tax rate supported the robust earnings growth.
- **Revenue growth driven by healthy realisation and income from IPL:** The net sales of the company grew by 20% year on year (YoY) to Rs1,056.8 crore which also include revenues from the Indian Premier League (IPL) and wind power and shipping businesses. The revenue from the cement division (which is its core business) improved by 12.4% YoY to Rs959.4 crore, driven by a 29.2% growth in its average cement realisation due to supply discipline followed by the southern players. But on account of a sluggish demand environment, the volume declined by 13% YoY. Further the revenue from the IPL increased to Rs84.8 crore as against Rs12.9 crore in the corresponding quarter previous year.
- **Margin expansion led by surge in realisation, cost pressure continues:** On the margin front the operating profit margin (OPM) expanded sharply by over 11 percentage points YoY to 22.8%. The margin expansion is due to a 29.2% increase in realisations. However on the other hand the cost pressure continues to play its role with an increase in (blended basis) raw material cost by 31.3% on per tonne basis and freight charges increasing by 12.7% YoY on per tonne basis due to an increase in the price of diesel and increase in lead distance.

Result table (Rs cr)

Particulars	Q1FY2012	Q1FY2011	% YoY	% QoQ
Net sales	**1,056.8**	**880.7**	**20.0**	**5.9**
Total expenditure	815.1	780.6	4.4	-0.5
Operating profits	**241.7**	**100.1**	**141.5**	**35.2**
Other income	4.9	28.5	-82.8	96.8
EBIDTA	**246.6**	**128.5**	**91.8**	**36.1**
Interest	58.3	29.8	95.8	34.4
PBDT	188.3	98.8	90.6	36.6
Depreciation	61.9	59.9	3.4	0.6
PBT	126.5	38.9	224.8	65.7
Tax	20.8	2.4	765.8	-5.0
Reported PAT	**102.6**	**25.0**	**310.8**	**90.5**
Extraordinary items	3.0	(14.9)	-120.5	-619.9
Adjusted PAT	**105.1**	**10.1**	**938.5**	**92.1**
Margins (%)				
OPMs	22.9	11.4		
PAT	9.9	1.1		
Tax rate	16.4	6.2		

Hence the increase in cost pressure has partially offset the positive impact of increase in realisation. On blended basis the EBDITA per tonne has increased to Rs624 as compared to Rs275 in Q1FY2011. The operating profit of the company has increased by 141.5% YoY to Rs241.7 crore.

- **Interest cost increased due to increased borrowings to redeem FCCBs:** The interest cost during the quarter increased by 95.8% YoY to Rs58.3 crore on account of an increase in borrowings at a higher rate to redeem the outstanding foreign currency convertible bonds (FCCBs) and to meet working capital requirement. The total borrowings of the company currently stand at Rs2,690 crore as compared to Rs2,133 crore at the end of FY2010. As per the scheduled the company has redeemed FCCBs for $75 million on May 12, 2011.
- **Lower than expected effective tax rate further supported earnings growth:** The effective tax rate during the quarter stood at 16.4% as compared to our estimates of 30%. The lower than expected effective tax rate is due to the adjustment of premium on FCCBs against the profit during the quarter. However for full year FY2012 the management maintains its guidance of full tax rate.
- **Upgrading estimates for FY2012 & FY2013:** We are incorporating better than expected realisation and also lower than expected cement volume. Hence we are upgrading our earnings estimates for FY2012 and FY2013 and the revised earning per share (EPS) now stands at Rs7.1 and Rs8.7 respectively.
- **Upgrade to Hold with revised price target of Rs80:** The cement demand in India Cements' key market area Andhra Pradesh (AP) was very sluggish in FY2011 and Q1FY2012 on account of poor execution of real estate projects in Hyderabad, and also poor execution of irrigation projects and low cost housing scheme which was believed to be the main demand driver in the state. In FY2012 also the demand in AP and Karnataka is expected to remain sluggish and hence delivering growth in the volume would be a challenging task for the company. Further cost pressure in terms of higher imported coal prices and freight costs through increase in lead distance will keep the margin under pressure.

  However on the positive side, supply discipline mechanism has worked well in the southern region as the cement prices remained strong in spite of weak demand. The company's stock price has declined by 32% in the last one year and declined by 36% since our Reduce recommendation on the stock. Due to the sharp decline in the stock price and limited downside from the current levels we upgrade our recommendation from Reduce to Hold with a revised price target of Rs80 (valued at enterprise value [EV]/EBITDA of 5x on FY2013E earnings). At the current market price the stock trades at a price earning (PE) of 8.3x discounting its EPS for FY2013 and EV/EBITDA of 4.6x its FY2013 earnings estimates.

The company's dispatch (including clinker sales) during the quarter declined by 13% YoY to 2.31MMT. The de-growth in the volume is on account of delay in the execution of many government infrastructure projects due to political issues in AP. Going forward in FY2012 the cement offtake is unlikely to see any improvement and hence volume is unlikely to support the revenue growth for FY2012. In order to mitigate the impact of poor cement offtake in AP and Karnataka the company is in the process of increasing its market share in nearby states like Maharashtra and Kerala. However, the company has a large exposure in AP which is unlikely to support volume growth for the company. However, the realisation of the company has improved strongly by 29.2% YoY and 8.8% quarter on quarter (QoQ) to Rs4,148 per tonne due to supply discipline by the manufacturers. The management expects supply discipline, particularly in the southern region, to continue in the coming couple of quarters.

Revenue from non-cement division

Although the company is engaged mainly in the business of cement, it also derives revenue from sources like windmills, shipping and the IPL. For Q1FY2012 the revenue from the shipping division declined by 18.5% YoY to Rs9.3 crore. From the IPL tournament the company has booked a robust revenue of Rs84.8 crore (highest quarterly revenue booked so far) as against Rs12.9 crore in the corresponding quarter previous year and the EBDITA from the IPL stood at Rs6.6 crore (compared to a loss of Rs8 crore in Q1FY2011). The windmill division has generated a revenue of Rs3.3 crore.

Volume and realisation

Particulars	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	% YoY	% QoQ
Volume (tones)	2,659,000	2,716,000	2,040,000	2,549,000	2,313,000	-13.0	-9.3
Realisation/tonne	3,211	2,909	3,665	3,812	4,148	29.2	8.8

Cement capacity commissioned, commissioning of power plant delayed

- During the year FY2011 India Cements through its subsidiary company Indo Zinc has commissioned a cement plant with an annual capacity of 1.5mtpa at Banswara, Rajasthan. The plant caters to the market in Gujarat, Rajasthan and Madhya Pradesh. With this the overall cement capacity of the company has enhanced to approximately 16mtpa.
- The company is setting up a 100MW power plant in two phases of 50MW each in Tamil Nadu (TN) and AP and also a 20MW captive power plant (CPP) in Rajasthan. The commissioning of the CPP has been delayed and now the company expects a 50MW power plant in TN to come on stream by October 2011. Further its 50MW power plant in AP has also got delayed and is now expected to come on stream by Q4FY2013. The total capital expenditure (capex) for FY2012 would be Rs600 crore. As per the management the funding of the capital requirement will be through a mix of debt and internal accrual.

FCCB redemption results in increased interest burden

The company has borrowed an additional Rs323 crore during FY2011 and sold an investment worth Rs154 crore mainly to redeem outstanding FCCBs and to meet its working capital requirement. The company has borrowed new debt at a higher interest rate and the average interest rate has increased to 11-11.5%.

Increase in imported coal price to pressure margin

During the quarter coal was procured at an average price of Rs5,970 per tonne. An increase in the price of imported as well as domestic coal is fully reflected in Q1FY2012 results. Hence in the coming quarter the fuel price per tonne basis may not see cost inflation. The company meets approximately 55% of its total coal requirement through imports. During the quarter an increase in the domestic coal price has partially been offset by a correction in the imported coal price by around 4-5%.

Outlook and valuation

The cement demand in India Cements' key market area (AP) was very sluggish in FY2011 and Q1FY2012 on account of poor execution of real estate projects in Hyderabad, and also poor execution of irrigation projects and low cost housing scheme which was believed to be the main demand driver in the state. In FY2012 also the demand in AP and Karnataka is expected to remain sluggish and hence delivering growth in the volume would be a challenging task for the company. Further cost pressure in terms of higher imported coal prices and freight costs through increase in lead distance will keep the margin under pressure. However on the positive side, supply discipline mechanism has worked well in the southern region as the cement prices remained strong in spite of weak demand. The company's stock price has declined by 32% in the last one year and declined by 36% since our Reduce recommendation on the stock. Due to the sharp decline in the stock price and limited downside from the current levels we upgrade our recommendation from Reduce to Hold with a revised price target of Rs80 (valued at EV/EBITDA of 5x on FY2013E earnings). At the current market price the stock trades at a PE of 8.3x discounting its EPS for FY2013 and EV/EBITDA of 4.6x its FY2013 earnings estimates.

Valuation table

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net sales (Rs cr)	3,430	3,774	3,501	4,019	4,199
% YoY chg	*12*	*10*	*-7*	*15*	*4*
EBDITA (Rs cr)	1,058	890	434	769	835
EBDITA margin (%)	31	24	12	19	20
Adj PAT (Rs cr)	512	311	66	219	267
% YoY chg	*-25*	*-39*	*-79*	*234*	*22*
EPS (Rs)	17.2	10.6	2.2	7.1	8.7
PE (x)	4.2	6.8	33.3	10.1	8.3
P/BV (x)	0.6	0.5	0.5	0.5	0.5
EV/EBDITA (x)	3.6	4.5	10.3	5.5	4.6
EV/sales (x)	1.1	1.1	1.3	1.1	0.9
RoE (%)	14	8	2	5	6
RoCE (%)	10	7	3	6	6

The author doesn't hold any investment in any of the companies mentioned in the article.

Gayatri Projects

Ugly Duckling

Stock Update

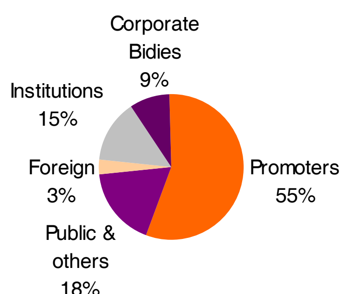
Price target revised to Rs355

Buy; CMP: Rs183

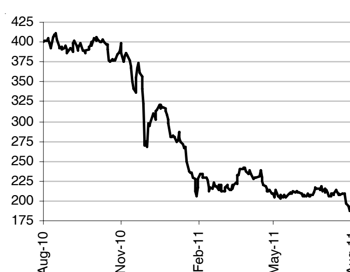
Company details

Price target:	Rs355
Market cap:	Rs220 cr
52 week high/low:	Rs480/181
BSE volume: (No of shares)	19,471
BSE code:	532767
Sharekhan code:	GAYAPROJ
Free float: (No of shares)	54 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.1	-9.7	-16.9	-53.6
Relative to Sensex	-3.7	-2.5	-14.5	-51.6

Result highlights

- **Earnings above expectation:** Gayatri Projects Ltd (GPL) reported its Q1FY2012 net profit at Rs16.7 crore (growth of 11% year on year [YoY]) which is ahead of our estimates mainly on account of lower than expected interest costs. In fact interest costs have declined by 29% on a sequential basis. The net sales of the company grew by 17.2% YoY to Rs401.4 crore which was in line with our estimates, led by stable execution across projects except the North East road projects where monsoon brought about a bit of a slowdown. Some positive development came in on the Andhra Pradesh (AP) irrigation projects front where progress is slow but better than what the management had expected.
- **Expansion in operating margin:** The operating profit margin (OPM) expanded by 50bps YoY to 13.1% due to the new projects having better margins. Over the past three quarters the company has managed to maintain a healthy margin of more than 13% which is attractive considering the industry it caters to. The management is optimistic of maintaining the same going ahead as the new projects enjoy better margins. The earnings before interest, tax, depreciation and amortization (EBITDA) for the quarter grew 21.9% YoY to Rs52.6 crore which is above our expectation.
- **Lower interest charge supports PAT growth:** The interest outgo during the quarter has decreased significantly by 29% on a sequential basis to Rs22.6 crore which is much lower than our estimates. The sharp decrease in interest cost is due to good cash inflow from Q4FY2011 revenue booking which reduced the

Result table (Rs cr)

Particulars	Q1FY12	Q1FY11	% YoY	Q4FY11	% QoQ
Net sales	**401.4**	**342.6**	**17.2**	**433.7**	**-7.4**
Construction exp	333.3	289.1	15.3	355.4	-6.2
Employee cost	9.5	6.8	38.6	10.2	-7.5
Other expenditure	6.1	3.5	74.8	7.8	-21.5
Total operating exp	348.9	299.5	16.5	373.4	-6.6
Operating profit	**52.6**	**43.2**	**21.9**	**60.3**	**-12.8**
Other income	2.3	0.9	145.2	4.2	-45.8
Depreciation	7.1	5.5	29.3	5.7	24.6
Interest	22.6	15.8	42.8	31.8	-29.0
PBT	**25.2**	**22.8**	**10.6**	**27.0**	**-6.6**
Taxes	8.5	7.7	10.0	10.6	-20.0
PAT	**16.7**	**15.1**	**10.9**	**16.4**	**2.0**
Equity capital	12.0	11.4	5.3	12.0	0.1
EPS (Rs)	13.9	13.2	5.4	13.7	1.9
Margin (%)					
OPM	13.1	12.6		13.9	
NPM	4.2	4.4		3.8	
Effective tax rate	33.7	33.9		39.3	

strain on working capital and lead to lesser availing of the over draft facility. So the near term working capital requirement was largely managed by the cash inflows, thereby reducing the interest charge.

- **Downgrading earnings estimates for FY2012 & FY2013:** We are lowering our revenue estimates by 5% and 8% for FY2012 and FY2013 respectively to factor in a lower guidance by the management which is of the view of achieving a 20% growth going ahead. However due to a lower interest burden we expect the earnings to remain unchanged for FY2012 and expect it to reduce by 4% for FY2013.
- **Maintain Buy with revised target price of Rs355:** The present order book of the company, even excluding the irrigation projects, provides a strong revenue visibility. Further the build operate transfer (BOT) holding company Gayatri Infrastructure Ventures Ltd (GIVL) will no longer depend on the parent company for further investments as three of its seven road BOT projects have become operational and two others are to join the league in Q2FY2012, which could be securitised and the funds raised thereby can be reinvested in new projects. GPL is also scaling up its power portfolio from 1,320MW to 3,300MW. It is looking for private equity (PE) funding in both GIVL and Gayatri Energy Ventures Ltd (GEVL) which will fund future equity requirement in these holding companies. Even the rights issue plan will help the purpose. At the current market price, the stock is trading at 5.7x and 4.0x its FY2012E and FY2013E diluted earnings respectively making the valuations attractive. Hence we maintain our Buy recommendation. However, we are downgrading our target price to Rs355 as we (i) reduce our price earning multiple to factor in the risk in balance sheet if the company fails to close the desired PE deal and (ii) increase the Cost of Equity for the road BOT projects where there is delay in commencement.

Healthy order book plus some movement in AP irrigation projects

The current order book of the company stands at around Rs7,514 crore, 5.2x its FY2011 revenues. Nearly 45% of the order book is exposed to the irrigation projects in AP where the execution is slow. Thus, the order book net of irrigation projects will be approximately Rs4,160 crore, which is 2.9x its FY2011 revenues, which still provides revenue visibility for the coming two years. Further, bookings from the L1 BOT project and the Nelcast power project will boost the revenue.

GIVL, the holding subsidiary of BOT project looking at PE for fund raising

GIVL, the holding company of all the BOT projects of GPL will not require any further investment from the parent company. The company currently has a portfolio of seven road BOT projects. Of these, three have become operational in FY2011. Of the remaining projects UP Tollways is partly operational and is expected to run in full swing by the end of Q2FY2012. Similarly the Indore Dewas asset would be operational in Q2FY2012 as there was a little delay in getting the appointment date. The Hyderabad – Karimnagar project is under construction and work is going as per schedule. The Cyberabad project will be further delayed to December this year as the company has recently received pending clearances for railways over bridges (ROB). Recently the company has emerged as the lowest bidder (L1) in one BOT worth Rs2,200 crore with a 100% stake.

GIVL is looking at exploring the PE option for raising funds to the tune of Rs250 crore via 10-15% equity dilution in the next six-nine months. Funds raised via this route are planned to be invested in the Hyderabad – Karimnagar asset and towards the equity commitment of new projects bagged by the company in future.

Power portfolio, PE deal to take another 6-9 month

The company is looking to raise approximately Rs400 crore at the GEVL level by diluting its 10-15% stake to a PE, which will take another six to nine months to materialise. GEVL, the holding company of power projects of GPL is setting up a 1,320MW power plant in Krishnapatnam, AP. BGR Energy has started the balance-of-plant (BOP) work for the project. Further the first consignment of boiler-turbine-generator (BTG) has been received from Dongfang (a Chinese company). The plant is expected to be operational in three years. In addition to this the company is setting up a 1,320MW power plant in Nellore, AP along with NCC wherein it holds a 45% stake. The financial closure for the project has been recently achieved and work is expected to commence soon. The Jimbuvish power project is slow moving and has got considerably delayed and will take further six months for land acquisition. Similarly the Bhandara project is in the land acquisition stage with 200 acres of land already been acquired while a further six months are expected for the acquisition of the remaining 1,400 acres.

Valuation

The present order book of the company, even excluding the irrigation projects, provides a strong revenue visibility. Further the BOT holding company GIVL will no longer

depend on the parent company for further investments as three of its seven road BOT projects have become operational and two others are to join the league in Q2FY2012, which could be securitised and the funds raised thereby can be reinvested in new projects. GPL is also scaling up its power portfolio from 1,320MW to 3,300MW. It is looking for PE funding in both GIVL and GEVL which will fund future equity requirement in these holding companies. Even the rights issue plan will help the purpose.

At the current market price, the stock is trading at 5.7x and 4.0x its FY2012E and FY2013E diluted earnings respectively making the valuations attractive. Hence we maintain our Buy recommendation. However, we are downgrading our target price to Rs355 as we (i) reduce our price earning multiple to factor in the risk in balance sheet if the company fails to close the desired PE deal and (ii) increase the Cost of Equity for the road BOT projects where there is delay in commencement.

Valuation table

Particulars	FY09	FY10	FY11	FY12E	FY13E
Sales (Rs cr)	1,004.6	1,252.5	1,440.6	1,712.2	2,073.2
% YoY growth	*33.5*	*24.7*	*15.0*	*18.9*	*21.1*
EBITDA (Rs cr)	113.6	152.3	192.1	226.9	274.7
Margins (%)	11.3	12.2	13.3	13.3	13.3
Adj net profit (Rs cr)	41.3	53.3	61.0	68.3	95.9
% YoY growth	*5.1*	*29.1*	*14.4*	*11.9*	*40.4*
Shares in issue (cr)	1.0	1.1	1.2	2.1	2.1
EPS (Rs)	40.9	48.0	50.9	32.4	45.5
% YoY growth	*5.1*	*17.5*	*5.9*	*-36.4*	*40.4*
PER (x)	4.5	3.8	3.6	5.7	4.0
P/BV (Rs)	0.9	0.7	0.6	0.6	0.6
EV/EBIDTA (x)	3.2	3.1	3.2	2.8	2.0
RoCE (%)	18.2	18.2	17.1	15.6	16.6
RoNW (%)	20.9	21.5	19.3	14.2	14.6

The author doesn't hold any investment in any of the companies mentioned in the article.

Genus Power Infrastructures

Ugly Duckling

Stock Update

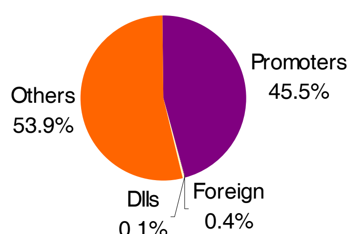
Poor show in Q1

Buy; CMP: Rs15

Company details

Price target:	Rs23
Market cap:	Rs232 cr
52 week high/low:	Rs28/12
NSE volume: (No of shares)	1.1 lakh
BSE code:	530343
NSE code:	GENUSPOWER
Sharekhan code:	GENUSPOWER
Free float: (No of shares)	5.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-18.4	-1.0	-13.2	-32.8
Relative to Sensex	-10.6	7.0	-10.7	-29.9

Result highlights

- **Drop in top line disappoints:** Genus Power Infrastructure Ltd (GPIL)'s Q1FY2012 results were below our expectation on all fronts. On a yearly basis, the net sales fell by 4%, which was much lower than our estimate of a 14% year-on-year (Y-o-Y) growth. The management has indicated that the growth was subdued on account of a lower volume growth in the meter segment and the deferment of order execution from clients. On a sequential basis, the numbers are strictly not comparable.
- **Margin under pressure:** Lower offtake in revenue along with higher employee cost led to a lower operating profit margin (OPM) of 15.1%, which was marginally lower than our expectation of 15.5%. The management has indicated that GPIL would maintain robust 15%+ margins in the coming quarters as well on the back of a robust sales growth in the meter segment, which fetches higher margin.
- **PAT fell by 15% YoY:** The interest cost decreased to Rs7.7 crore on debt restructuring. Led by a higher tax rate and depreciation, the profit after tax (PAT) fell by 15% YoY as against our expectation of a 9% growth.
- **Order book at Rs602 crore:** The current order book of the company stands at Rs602 crore as against Rs545 crore at the end of Q4FY2011. The order inflow was good in the first quarter at Rs212 crore (up 64% YoY). The company has already participated in tenders of Rs2,000 crore and is expecting good orders in the current quarter as well. Nonetheless, the unexecuted orders are equivalent to 0.85x the FY2011 revenues, indicating poor revenue visibility. We feel that the company would need to win some big orders to achieve its yearly revenue growth guidance of 15-20%.

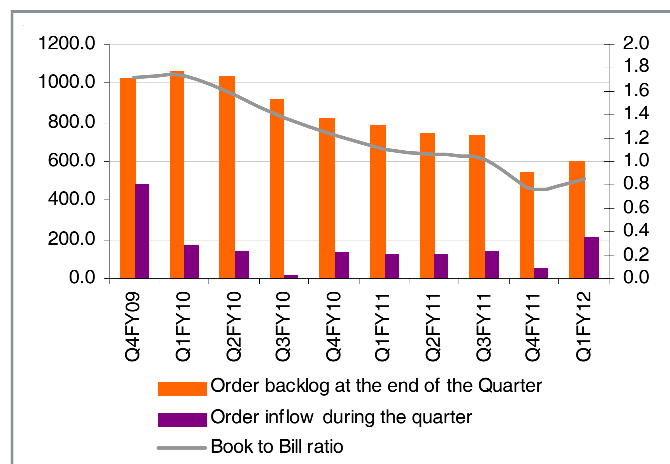
Result table (Rs cr)

Particulars	Q1FY12	Q1FY11	% Y-o-Y
Net sales	**153.0**	**159.8**	**-4.3**
Other operating income	0.1	0.1	-
Total operating income	153.2	159.9	-4.2
Total expenditure	130.0	132.8	-2.1
Operating profit	**23.1**	**27.1**	**-14.6**
Other income	0.0	0.0	-
EBIDTA	**23.1**	**27.1**	**-14.6**
Interest	7.7	9.6	-20.1
EBDT	15.5	17.5	-11.5
Depreciation	1.5	1.3	16.6
PBT	**13.9**	**16.2**	**-13.8**
Tax	2.9	3.2	-10.6
PAT	**11.1**	**12.9**	**-14.6**
Margins (%)			
OPMs (%)	15.1	16.9	
PATM(%)	7.2	8.1	
Tax rate (%)	20.7	20.0	

- **Estimates maintained:** We have maintained our estimates for FY2012 and FY2013 in spite of the good order inflow as we have yet to see a pick-up in execution. We are expecting a compounded annual growth rate (CAGR) of 6% in the bottom line over FY2011-13. We would like to see good order inflow from the company in order to upgrade our estimates and build the company's guidance in them.
- **Cheap on valuations, maintain Buy:** GPIL, a mid-cap company under our coverage, has a leadership position in the Indian meter space with a growing presence in the transmission and distribution space. However in the recent times its order inflow and execution have been lower than expected and failed to meet its guidance. On these concerns, the stock's price has seen a steep fall recently and reached quite an attractive level. At the current market price, the stock's valuation remains attractive at 3.4x FY2013E earnings per share (EPS) while it discounts its historical (FY2011) book value by 0.6x. Hence we maintain our Buy recommendation and the price target of Rs23 (5.5x FY2013E EPS) on the stock. Improved order inflow and profitable execution remain the key positive triggers for the stock in the near term.

The author doesn't hold any investment in any of the companies mentioned in the article.

Order book trend—falling book-to-bill ratio



Valuation table

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net sales (Rs cr)	556.6	653.8	711.8	800.8	923.9
Net profit (Rs cr)	48.6	51.5	50.6	56.6	67.8
% Y-o-Y growth	*1*	*6*	*-2*	*12*	*20*
Shares in issue (cr)	14.8	14.8	15.9	15.9	15.9
Adjusted EPS (Rs)	3.3	3.5	3.2	3.6	4.3
PER (x)	4.4	4.2	4.6	4.1	3.4
Book value (Rs)	18.5	20.5	23.1	26.6	30.7
P/BV (Rs)	0.8	0.7	0.6	0.5	0.5
EV/EBIDTA (x)	5.5	4.8	4.8	4.8	4.6
RoCE (%)	16.6	16	13.7	13.8	14.4
RoNW (%)	17.8	17	13.8	13.4	13.9

Ratnamani Metals and Tubes

Ugly Duckling

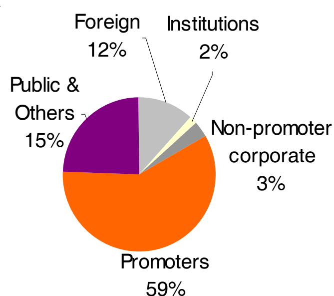
Stock Update

Strong operating performance

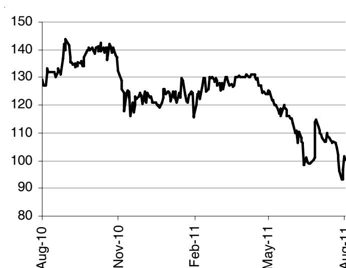
Buy; CMP: Rs100

Company details	
Price target:	Rs148
Market cap:	Rs464 cr
52 week high/low:	Rs150/90
NSE volume: (No of shares)	18,693
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNAMANI
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.3	-17.6	-11.2	-19.6
Relative to Sensex	0.5	-11.0	-8.7	-16.1

Result highlights

- **Strong revenue performance:** For the quarter ended June 2011, Ratnamani Metals & Tubes Ltd (Ratnamani) reported a strong growth in net sales of 32.2% at Rs289.5 crore backed by a 66.6% growth in the stainless steel tubes and pipes (SS pipes) segment and a 24.6% growth in the carbon steel tubes and pipes (CS pipes) segment.
- **OPM improves:** The EBITDA margins improved 120 basis points (bps) to 18.3% mainly on the back of a strong revenue performance. The gross profit margin was down 140bps to 33.1% impacted by higher raw material costs. However, a strong revenue performance led to a 90bps drop in employee cost and a 180bps fall in other expenses as a percentage of sales.
- **Net income grows impressively:** The interest cost for the quarter more than doubled to Rs5.9 crore up 103.7% on the back of increasing cost of debt despite a lower debt. Other income was down 45.5% to Rs1.7 crore. The resultant net profit grew 36.8% to Rs27 crore.
- **Company to add capacity in SS pipes:** The company has increased its capital expenditure (capex) plan for FY2012 and FY2013 wherein it plans to increase its capacity in the SS pipes segment. The company plans to add capacity of 2,000MT in FY2012 with a capital outlay of Rs20 crore and plans to add about 4,000MT in SS pipes in FY2013 with a capital outlay of Rs85 crore. Also, the company plans to refurbish its CS pipes capacity so that it can take up production of higher diameter pipes with a capital outlay of Rs20 crore. The capex would be funded through a combination of debt and internal accruals.

Result table (Rs cr)

Particulars	Q1FY12	Q1FY11	% YoY	Q4FY11	% QoQ
Net sales	**289.5**	**219.0**	**32.2**	**256.6**	**12.8**
Total expenditure	236.5	181.6	30.2	203.4	16.3
Operating profit	**53.0**	**37.4**	**41.7**	**53.2**	**-0.4**
Other income	1.7	3.1	-45.5	1.0	65.5
EBIDTA	54.7	40.5	35.0	54.2	0.9
Interest	5.9	2.9	103.7	5.2	13.3
Depreciation	10.2	9.6	6.7	10.4	-1.6
PBT	**38.6**	**28.1**	**37.6**	**38.7**	**-0.1**
Tax	11.6	8.3	39.5	11.5	1.4
PAT	**27.0**	**19.7**	**36.8**	**27.2**	**-0.7**
Extra-ordinary Items	0.0	0.0		1.1	
Reported PAT	**27.0**	**19.7**	**36.8**	**28.3**	**-4.5**
EPS (Rs)	5.8	4.3	36.8	6.1	-4.5
Margins (%)					
EBITDAM	18.3	17.1		20.7	
PBTM	13.3	12.8		15.1	
PATM	9.3	9.0		10.6	

- **Fine tuning FY2012 and FY2013 estimates:** We have fine tuned our FY2012 and FY2013 estimates factoring the drop in realisation in the SS pipes segment and improvement in realisations in the carbon steel segment. We have also factored in the increased capex plan of the company.
- **Maintain Buy on attractive valuation:** The quarter gone by saw a strong operating performance by the company. The management commentary remains positive in terms of opportunities in the oil & gas sector on the anvil. Going forward, we expect the company's revenues and profits to grow at a compounded annual growth rate (CAGR) of 25% and 19.5% respectively over FY2011-13. The stock has fallen by almost 30% over the last four months making the valuation even more compelling. At the current market price, the stock is attractively trading at a price/earnings (PE) multiple of 4.8x its FY2012E earnings and 4.0x its FY2013E earnings and on an EV/EBITDA, it is trading at 3.5x on FY2012E EBITDA and 2.9x FY2013E EBITDA. We maintain our Buy rating on the stock with a price target of Rs148 (based on 6x FY2013E earnings).

Cost analysis (% of sales)

Particulars	Q1 FY12	Q1 FY11	Chg bps	Q4 FY11	Chg bps
Net raw material cost	66.9	65.5	136	64.6	224
- Raw material consumed	67.9	66.9	100	78.0	-1015
- Stock adjustment	-1.0	-1.4	36	-13.4	1239
Staff cost	4.7	5.6	-90	5.4	-67
Other expenses	10.0	11.8	-179	8.8	120
Total cost	**81.7**	**82.9**	**4**	**79.3**	**242**

Segmental performance

Stainless steel tubes and pipes

Stainless steel tubes and pipes contributed 43.4% to the total revenues up from 36.5% in the corresponding quarter previous year. The revenue from this product category grew by 66.6% year on year (YoY) to Rs124.9 crore. The growth was primarily driven by a 74.8% Y-o-Y growth in volume whereas realisation was down 4.7% YoY.

Carbon steel pipes

The revenues from carbon steel pipes segment grew 24.6% YoY to Rs162.8 crore. The growth was backed by volume growth of 7.8% YoY. The realisation improved smartly by 15.5% on the back of increased share of high realisation LSAW pipes.

Product wise analysis

Particulars	Q1 FY12	Q1 FY11	% YoY	Q4 FY11	% QoQ
Stainless steel tubes & pipes					
Sales (Rscrore)	124.9	75.0	66.6	126.9	-1.6
Volume (MT)	4137.7	2367.7	74.8	4403.4	-6.0
Realisation (Rs/tonne)	301908.3	316716.9	-4.7	288257.1	4.7
Carbon steel tubes & pipes					
Sales (Rs crore)	162.8	130.7	24.6	142.9	13.9
Volume (MT)	30110.6	27919.9	7.8	34992.2	-14.0
Realisation (Rs/tonne)	54067.4	46801.7	15.5	40829.1	32.4

Order book position

The order book at the end of the quarter stood at Rs604 crore down from Rs650 crore at the end of March 2011. The company added orders worth Rs290 crore in the quarter. About 70-75% of the outstanding order book is constituted by power and oil & gas. The management is seeing good traction in the cross country pipeline, city gas distribution and water management projects. The management believes that the opening up of the fertiliser sector could open another opportunity. Other visible opportunities in the oil & gas sector include Reliance Industries Ltd (RIL)'s Dahej project and Indian Oil Corporation Ltd (IOCL)'s project at Paradip. Hindustan Petroleum Corporation Ltd (HPCL) is also considering a green-field refinery at Ratnagiri. Finally, the management expects good opportunity in the Middle East region.

Order book break-up Rs (cr)

Particulars	Q1 FY12	Q1 FY11	% YoY	Q4 FY11	% QoQ
Carbon steel tubes & pipes	288	138	108.7	375	-23.2
Stainless steel tubes & pipes	316	312	1.3	275	14.9
Total	**604**	**450**	**34.2**	**650**	**-7.1**

Valuation and view

The quarter gone by saw a strong operating performance by the company. The management commentary remains positive in terms of opportunities in the oil & gas sector on the anvil. Going forward, we expect the company's revenues and profits to grow at a CAGR of 25% and 19.5% respectively over FY2011-13. The stock has fallen by almost 30% over the last four months making the valuation even more compelling. At the current market price, the stock is attractively trading at a price/earnings (PE) multiple of 4.8x its FY2012E earnings and 4.0x its FY2013E earnings and on an EV/EBITDA, it is trading at 3.5x on FY2012E EBITDA and 2.9x FY2013E EBITDA. We maintain our Buy rating on the stock with a price target of Rs148 (based on 6x FY2013E earnings).

Valuation table

Particulars	FY2010	FY2011	FY2012E	FY2013E
Net sales (Rs cr)	852.0	812.2	1,090.3	1,269.5
Net profit (Rs cr)	80.9	80.5	97.3	115.1
EPS (Rs)	17.6	17.4	21.0	24.8
PER (x)	5.7	5.8	4.8	4.0
Book value (Rs)	78.7	93.8	113.2	136.4
P/BV (x)	1.3	1.1	0.9	0.7
EV/EBIDTA (x)	4.5	4.3	3.5	2.9
EV/Sales (x)	0.9	0.8	0.6	0.5
Div yield (%)	1.1	2.5	2.5	2.5
RoCE (%)	22.5	16.7	20.9	21.4
RoNW (%)	25.2	20.9	20.3	19.9

The author doesn't hold any investment in any of the companies mentioned in the article.

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
Cadila Healthcare
Eros International Media
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Max India
Opto Circuits India
Patels Airtemp India
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

Ashok Leyland
CESC
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
Genus Power Infrastructures
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
Kewal Kiran Clothing
NIIT Technologies
Orbit Corporation
Polaris Software Lab
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Selan Exploration Technology
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects

To know more about our products and services click here.

Disclaimer

"This document has been prepared by Sharekhan Ltd.(SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone betaken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."