MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

JANUARY 28, 2009

Economy News

- India's fuel consumption grew by 4.4% in December with diesel sales recording the lowest expansion rate in the current fiscal. Petroleum product consumption rose 11.6 mn tonne in December as against 11.12 mn tonne a year ago. While Diesel, the most consumed fuel in the country, recorded a 1.5% growth at 4.43 mn tonne. (BS)
- Reserve Bank of India lowered the economic growth forecast to 7% (from 7.5%) following the global economic crisis that has hit India, but kept key policy rates and ratio unchanged. RBI also lowered inflation estimates to 3% by March end. (BL)
- Fresh rainfall forecast in the next five days over several parts of north and northwest India and wheat regions, including Eastern UP, by the National Centre for Medium Range Weather Forecasting (NCMRWF), could come as a booster to key Rabi foodgrain, oilseed and pulses crop such as wheat, mustard/rapeseed, moong and chana. (ET)
- The Government has ruled out a steep cut in retail prices of fuels. It has an option of cutting petrol prices by Rs.4 a litre and diesel prices by Re.1 per litre after taking into account the proposed duty changes. (ET)

Corporate News

- **Vishal Retail** has said that, the group is undertaking re-negotiation of rent agreements with property owners for a 25-50% reduction in rentals and also plans to close down, relocate and resize stores to achieve economic viability. (BS)
- UB Group is in final stages of talks for selling up to 14.9% stake in group company **United Spirits Ltd (USL)** to Diageo, the global drinks leader. (BL)
- **Maruti** has hiked the prices of select models by Rs.5,000 – Rs.10,000 and other carmakers are also expected to follow suit (BL)
- The Board of **Satyam** has appointed Goldman Sachs and Avendus Capital as investment bankers, while asserting that, the company will not be sold in parts (BL)
- Telenor SA scrapped the 12- bn krone rights issue that would have helped it muster funds for the $1.6-billion investment in **Unitech** Wireless and it would now raise the money through a combination of cash flow and additional debt. (BL)
- **Emami** has set up its second production facility in Assam. The Rs 500mn manufacturing unit has come up at Abhoypur, Assam to produce creams, lotions and ointments. (BS)
- **JSW** will review the Rs 960mn township project with Maytas Infra, a company run by the family of tainted Satyam founder Ramalinga Raju. (ET)
- **Educomp Solutions** reported a 61.36% jump in net profit at Rs 318.3 Mn for the third quarter ended December 31, 2008, as compared to Rs 197.2 Mn in the corresponding quarter a year ago. (BS)

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

Equity

	27 Jan 09	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	9,004	3.8	(3.5)	(0.0)
NIFTY Index	2,771	3.5	(3.0)	3.2
BANKEX Index	4,615	2.9	(11.4)	(1.9)
BSET Index	2,153	4.0	0.2	(20.1)
BSETCG INDEX	6,089	1.6	(7.7)	(10.2)
BSEOIL INDEX	5,869	3.4	(0.7)	13.9
CNXMcap Index	3,322	(0.0)	(7.5)	(2.6)
BSESMCAP INDEX	3,267	0.3	(7.9)	(10.8)
World Indices				
Dow Jones	8,175	0.7	(4.0)	(9.8)
Nasdaq	1,505	1.0	(1.7)	(8.8)
FTSE	4,194	(0.3)	(0.5)	6.8
Nikkei	8,061	4.9	(8.1)	5.4
Hangseng	12,658	0.6	(11.3)	(0.3)

Value traded (Rs cr)

	27 Jan 09	% Chg - Day
Cash BSE	3,046	(7.2)
Cash NSE	8,297	(1.9)
Derivatives	42,867.0	16.5

Net inflows (Rs cr)

	23 Jan 09	% Chg	MTD	YTD
FII	(344)	37	(4,294)	(4,294)
Mutual Fund	(206)	50	(2,432)	(2,432)

FII open interest (Rs cr)

	23 Jan 09	% Chg
FII Index Futures	10,976	6.0
FII Index Options	13,032	8.1
FII Stock Futures	12,048	3.8
FII Stock Options	945	6.8

Advances / Declines (BSE)

27 Jan 09	A	B	S	Total	% total
Advances	148	760	189	1,097	49
Declines	53	793	200	1,046	47
Unchanged	2	61	20	83	4

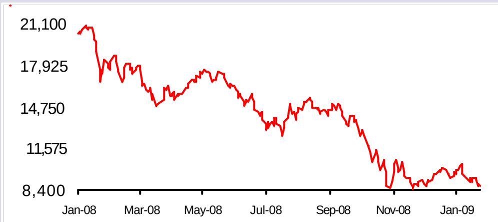
Commodity

		27 Jan 09	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US$/BBL)	42.3	1.6	12.0	(32.6)
Gold (US$/OZ)		899.2	(0.5)	3.4	20.4
Silver (US$/OZ)		12.1	0.2	13.0	31.4

Debt / forex market

	27 Jan 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	5.84	5.78	5.64	7.63
Re/US$	48.93	49.26	48.42	49.87

Sensex



ECONOMY UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 6621 6312

THIRD QUARTER REVIEW OF MONETARY POLICY: 2008-09

No surprises: Status quo maintained by the RBI

- **The RBI left key rates unchanged in the third quarter review of monetary policy: 2008-09, which is in line with our expectations.**
- **The growth forecast for FY09 has been revised downwards from the range of 7.5-8.0% to 7.0% with a downward bias.**
- **The growth projection of adjusted non-food credit for FY09 has been revised upward to 24% from 20% earlier. Similarly, deposit growth target has been revised to 19% for FY09 from 17% earlier.**
- **The policy targets for WPI inflation has been projected to reach below 3% levels (down from 7% levels earlier) by the end of FY09. However, it also mentioned that CPI has not moderated enough along with the sharp fall in WPI, implying RBI is not yet through with the easing process.**
- **Stated policy stance is to remain flexible and respond swiftly & effectively with all possible measures to minimize the impact of global financial crisis on domestic growth as well as financial stability.**

Key Highlights:

- Bank rate has been kept unchanged at 6.0%
- Repo rate under the LAF window has been kept unchanged at 5.5%
- Reverse Repo rate under the LAF has been kept unchanged at 4.0%.
- Cash Reserve Ratio (CRR) left unchanged at 5.0% of net demand and time liabilities (NDTL).
- Left statutory lending rates (SLR) unchanged at 24.0%.
- Lowered economic growth projections for 2008-09 to 7.5% with a downward bias.
- The RBI revised the inflation projection downward to 3.0% by the end of FY09 from 7.0% earlier, on the back of cooling global commodity and oil prices.
- Adjusted non-food credit projected to increase by 24% during FY09, up from 20% earlier.
- Aggregate deposits projected to grow by 19% during FY09, up from 17% earlier.
- The projection of M3 (broad money) growth for FY09 is raised to 19% from 16.5-17.0% earlier.

The RBI has maintained status quo by not changing any policy rates in the third quarter review of monetary policy: 2008-09. In recent months, aggressively cut in repo and reverse repo rates by the central bank were mostly front-loaded. Since October 2008, repo rate and reverse repo rates have been cut by 350 bps and 200 bps, respectively. However, banks have not completely passed the benefits to borrowers.

In our view, RBI is likely to go slow in reducing interest rates further before banks would pass on the benefits to borrowers. The government and central bank are more likely to use moral suasion to induce banks to slash their deposit as well lending rates.

The central bank also left CRR unchanged at 5.0% of NDTL after reducing it by 400 bps since October 08. This move alone infused Rs.1600 bn liquidity into the banking system. Currently, banks are flooded with liquidity which is visible from Rs.410 bn (average daily amount) parked in the reverse repo window during last 25 days of January 09. So, in our view, comfortable liquidity situation did not induce RBI to further cut the CRR, at this moment.

Actual/Potential Release of Primary Liquidity since mid-September 2008

Measure/Facility	Amount (Rs bn)
Cash Reserve Ratio (CRR) Reduction	1600.0
MSS Unwinding	630.5
Term Repo Facility	600.0
Increase in Export Credit Refinance	255.0
Special Refinance Facility for SCBs (Non-RRB)	385.0
Refinance Facility for SIDBI/NHB/EXIM Bank	160.0
Liquidity Facility for NBFCs through SPV	250.0
SLR Reduction	400.0
Total Liquidity	**4280.5**

The U-turn in liquidity scenario has taken place on back of slew of initiatives/measures taken by the RBI. Apart from CRR cut, SLR cut, MSS unwinding, term repo facility, special refinance facility for SCBs and SPV for NBFC etc have resulted in augmentation of actual/potential liquidity of Rs.4280.5 bn.

The RBI has recognized that the outlook on real GDP growth has been further affected and the downside risks to growth have amplified because of slowdown of industrial activity and weakening of external demand. It is also of the view that service sector is likely to further decelerate in the second half of 2008-09. In view of slowdown in industry and services, the growth forecast for FY09 has been revised downwards from the range of 7.5-8.0% to 7.0% with a downward bias.

The growth projection of adjusted non-food credit including investment in bonds/ debentures/shares of public sector undertakings and private corporate sector and CP for FY09 has been revised upward to 24% from 20% earlier. In slowing economic environment, upward revision in projected credit growth indicates that the central bank is recognizing the fact that there is no other source of funds for the commercial sector.

Similarly, deposit growth has been revised to 19% for FY09 from 17% earlier along with upward revision in M3 (broad money) growth to 19% for FY09 from 16.5-17.0% earlier.

The policy targets for WPI inflation has been projected to reach below 3% levels (down from 7% levels earlier) by the end of FY09. Despite, projected decline in WPI inflation, RBI is of the view that CPI inflation is yet to moderate and the decline in inflation expectations has not been commensurate with the sharp fall in WPI inflation. It also recognizes that even within aggregate WPI inflation, the primary articles inflation is still in double digits.

It mentions "Towards its policy endeavour of ensuring price stability with well-anchored inflation expectations, the Reserve Bank will take into account the behavior of all the price indices and their components". This implies that the RBI is not yet through with its easy monetary policy.

Stated policy stance is to remain flexible and respond swiftly & effectively with all possible measures to minimize the impact of global financial crisis on domestic growth as well as financial stability. The central bank would provide comfortable liquidity to meet the required credit growth consistent with the overall projection of economic growth. It would also ensure a monetary and interest rate environment consistent with price stability, well-anchored inflation expectations and orderly conditions in financial markets

In the comfortable liquidity scenario, banks start witnessing easing pressure on their cost of funds. Going forward, banks are likely to cut both their deposit as well as lending rates, in our view.

RESULT UPDATE

Dipen Shah
dipen.shah@kotak.com
+91 22 6621 6301

ORACLE FINANCIAL SERVICES (OFSL)

PRICE: RS.561 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.887 **FY09E P/E: 7x**

Results above expectations, Maintain ACCUMULATE

Results for 3QFY09 significantly are above our estimates. While revenues out-performed expectations, direct expenses surprisingly fell steeply QoQ. Management attributes this to the man-power reduction and cost rationalisation. Sustainability of growth rates and margins is critical, in our opinion. We note that, quarterly revenues and profits have been very volatile in past, a common trait of product companies. We note valuations are attractive and there can be potential gains from Oracle's offer, if any, to buy-back shares and de-list the company. We maintain ACCUMULATE due to the weak macro environment and potential impact on the BFSI segment. Price target is at Rs.887 v/s Rs.845 earlier.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	20,382	23,990	29,055
Growth (%)	37.4	17.7	21.1
EBITDA	3,586	4,704	6,800
EBITDA margin (%)	17.6	19.6	23.4
Net profit	2,770	4,210	7,084
Net cash (debt)	7,172	8,977	14,263
EPS (Rs)	33.3	50.3	84.6
Growth (%)	15.8	51.2	68.3
CEPS	43.1	59.6	92.0
DPS (Rs)	4.5	5.0	6.0
ROE (%)	12.9	16.7	23.0
ROCE (%)	14.5	18.4	25.6
M Cap/Sales (x)	2.5	2.1	1.7
EV/EBITDA (x)	13.9	10.7	7.4
P/E (x)	18.0	11.9	7.1
P/Cash Earnings	13.9	10.1	6.5
P/BV (x)	2.2	1.8	1.5

Source: Company, Kotak Securities - Private Client Research

3QFY09 results

(Rs mn)	3QFY09	2QFY09	% QoQ	3QFY08	% YoY
Revenues	**8,012**	**7,074**	**13.3**	**6,196**	**29.3**
Expenditure	5,283	5,878		4,867	
EBIDTA	**2,729**	**1,196**	**128.2**	**1,330**	**105.2**
Depreciation	145	138		191	
EBIT	**2,584**	**1,058**	**144.2**	**1,139**	**126.9**
Other inc	270	440		59	
PBT	**2,853**	**1,498**	**90.4**	**1,198**	**138.2**
Tax	203	91		129	
PAT	**2,650**	**1,407**	**88.3**	**1,069**	**147.9**
Share of Pft / (loss)	-14	-5		-2	
Adjusted PAT	2,635	1,402	88.0	1,067	147.0
E.O items	0	-469		0	
EPS (Rs)	**31.5**	**16.7**		**12.7**	
Margins					
OPM (%)	34.1	16.9		21.5	
GPM(%)	32.2	15.0		18.4	
NPM(%)	32.9	19.8		17.2	

Source : Company

- Product revenues grew QoQ by 10% on the back of a 22% rise in implementation revenues. License revenues fell by 10% sequentially after rising 34% in 2QFY09.
- On a YoY basis, license revenues were flat. Implementation and AMC revenues rose by 39% and 68%, respectively.
- The company continued to win large accounts during the quarter and added 11 new customers during the quarter.
- However, the new new license signings were $20mn for the quarter v/s $27mn for the previous quarter.
- The services business saw revenues growing by 18% QoQ, which was way beyond estimates. Revenues had de-grown by 2% on a sequential basis in 2QFY09 despite the fact that the rupee depreciated significantly in 2QFY09.
- While the revenue growth has been partly aided by the depreciating rupee, we continue to be surprised by the fluctuating revenues in the services business.
- The management has indicated cautiousness as far as US markets are concerned. This is reflected by the 4% fall in number of employees.
- In fact, this is the fourth straight quarter where the number of employees have reduced in this business.

- While detailed information is not available, we understand that, the capacity utilization has moved up over this period and there may not be any significant leverage available for further improving this.
- The KPO revenues also fell by 26% QoQ (after falling by 2% in 2QFY09). We note that, this is an insignificant part of the overall revenues. .

EBIDTA margins were higher QoQ, significantly above expectations

- On an overall basis, margins were higher QoQ at 34% (16.9% in 2QFY09). They came in significantly beyond expectations.
- The total operating expenses fell by about 10% QoQ, while revenues grew by 13%.
- The improvement in margins came in partly because of the depreciating rupee and the reduction in number of employees QoQ. The company also changed the variable compensation policies which led to an Rs.200mn adjustment in the quarter, according to the management.
- Also, the company initiated several cost rationalization measures, leading to a reduction in overall expenses.
- We opine that, the reduction in cost is significant and would monitor the same closely in future quarters.
- Margins in all businesses improved wit the services business witnessing an improvement from 5% to 29% QoQ. In our opinion, this reflects the projects-based nature of the services revenues.

Financials and Recommendation

- We have revisited our earnings estimates after the 3QFY09 results and have made relevant changes to our future earnings estimates.
- We expect the company to report revenues of Rs.29.05bn in FY09 with EBIDTA margins at 23%.
- We expect a PAT of Rs.6.62bn in FY09 9without considering one time provision made in 2QFY09), resulting into an EPS of Rs.85.

Recommendation

- We see the Oracle relationship as a key differentiator for OFSL and believe this could open up significant business opportunities for the company in addition to having endowed it with an MNC parentage.
- However, with total dependence on the banking and financial services industry, we believe that, the company will face headwinds in the medium term, in the backdrop of the crisis in the financial services market globally.
- We have thus been cautious on valuations and have accorded the stock a discount compared to larger and diversified peers.
- Consequently, we value the stock at 10.5x FY09 earnings leading to a price target of Rs. 887 (Rs.724 earlier). The price target is higher in line with the revised earnings estimates.

We recommend ACCUMULATE on Oracle Financial Services with a price target of Rs.887

- Over the past few quarters, the stock has been accommodating expectations of a revised open offer by Oracle, with a view to increase its stake further and delist the stock from the bourses.
- We see this as a potential trigger for further upside and continue to recommend an **ACCUMULATE** on the stock.

Concerns

- A prolonged recession in major user economies may impact our projections.
- A sharp acceleration in the rupee beyond our estimates may impact our earnings estimates for the company.

RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6621 6308

CONTAINER CORPORATION OF INDIA

PRICE: RS.669 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.750 **FY09E P/E: 10.5**

- **The Q3FY09 results of CONCOR were inline with our estimates.**
- **However we factor in slowdown in economy, exports de-growth and decline in port volumes**
- **Revise FY09 EPS downwards by 2.6% to Rs.63.5**
- **We continue to recommend ACCUMULATE on CONCOR with revised price target of Rs.750 (Rs.900 earlier)**

- For Q3FY09, EXIM business reported volume de-growth of 11.5% YoY and 14.7% on sequential basis. This was primarily due to decline in port volumes on account of exports de-growth. The port volumes have declined by ~16% in the Q3FY09. The volumes at JNPT, India premier port, have also declined ~15%. Also CONOCR which used to run ~18 trains per day on Delhi - JNPT route is currently running around 14 trains. We expect the above trend to continue for H1FY10 and thus we have revised our volume assumptions going forward.
- The domestic business also reported volume de-growth of 5.6% on YoY basis. This was on account overall slowdown in the economy leading to lower transportation of goods within the country. However the domestic volumes were up 4.8% on sequential basis as during the quarter the Indian Railways had reduced the haulage charges by 10% on the domestic transportation of containers through railways.
- Net Sales for Q3FY09 was at Rs.8.5 bn, which is flat YoY and down 6.4% on sequential basis. This was due to 8.2% sequential de-growth in the revenues of the EXIM business. The domestic business recorded de-growth of 6.4% on YoY basis.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	30,373	33,473	33,767
Growth (%)	24.8	10.2	0.9
EBITDA	8,912	8,904	9,750
EBITDA margin (%)	29.3	26.6	28.9
Net profit	7,038	7,522	8,250
Net debt	(10,626)	(15,215)	(16,342)
EPS (Rs)	54.1	57.9	63.5
Growth (%)	33.9	6.9	9.7
DPS (Rs)	22.0	18.5	20.0
ROE (%)	26.8	23.6	23.9
ROCE (%)	33.5	29.8	30.8
EV/Sales (x)	2.5	2.1	2.1
EV/EBITDA (x)	8.5	8.0	7.2
P/E (x)	12.3	11.5	10.5
P/BV (x)	3.3	2.7	2.3

Source: Company, Kotak Securities - Private Client Research

CONCOR - Q3FY09 Results

(Rs mn)	Q3FY09	Q3FY08	YoY (%)	Q2FY09	QoQ (%)	9MFY09	9MFY08	YoY (%)
Net Sales	**8,459**	**8,432**	**0.3**	**9,034**	**(6.4)**	**25,721**	**24,379**	**5.5**
Staff cost	167	142	17.8	156	7.4	474	362	30.9
Rail expenditure	4,639	4,880	(4.9)	4,983	(6.9)	14,107	14,222	(0.8)
Other exp	1,211	1,110	9.1	1,207	0.3	3,621	3,090	17.2
Total Exp.	6,017	6,131	(1.9)	6,346	(5.2)	18,202	17,674	3.0
EBIDTA	**2,442**	**2,301**	**6.1**	**2,688**	**(9.1)**	**7,520**	**6,705**	**12.1**
Other income	506	417	21.4	478	5.7	1,438	1,092	31.8
Depreciation	283	275	2.9	275	3.0	833	794	4.9
EBIT	**2,665**	**2,442**	**9.1**	**2,891**	**(7.8)**	**8,125**	**7,003**	**16.0**
PBT	**2,665**	**2,442**	**9.1**	**2,891**	**(7.8)**	**8,125**	**7,003**	**16.0**
Tax & deferred tax	602	513	17.3	654	(8.1)	1,807	1,462	23.6
Net Profit	**2,063**	**1,929**	**6.9**	**2,237**	**(7.8)**	**6,318**	**5,541**	**14.0**
Equity shares o/s (mn)	130.0	130.0		130.0		130.0	130.0	
Ratios								
Operting profit margin (%)								
excluding other income	28.9	27.3	+160 bps	29.8	+90 bps	29.2	27.5	+170 bps
Staff cost / sales (%)	2.0	1.7		1.7		1.8	1.5	
Rail / sales (%)	54.8	57.9		55.2		54.8	58.3	
Other Exp. / Sales (%)	14.3	13.2		13.4		14.1	12.7	
Tax % of PBT	22.6	21.0		22.6		22.2	20.9	
EPS (Rs)	15.9	14.8	6.9	17.2	(7.8)	48.6	42.6	14.0
CEPS (Rs)	18.0	17.0	6.4	19.3	(6.6)	55.0	48.7	12.9

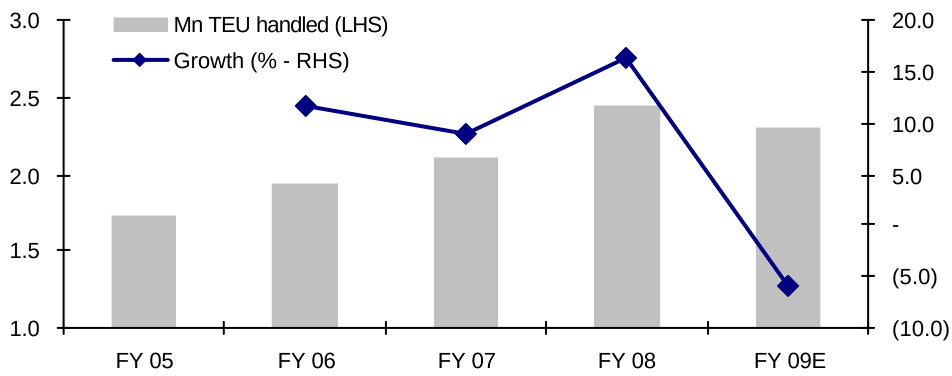
Source: Company

Segmental

(Rs mn)	Q3FY09	Q3FY08	YoY (%)	Q2FY09	QoQ (%)	9MFY09	9MFY08	YoY (%)
Segmental Revenue								
EXIM	6,816	6,677	2.1	7,427	(8.2)	20,887	19,339	8.0
Domestic	1,643	1,756	(6.4)	1,607	2.3	4,833	5,041	(4.1)
TEU (lakh nos.)								
EXIM	4.4	5.0	(11.5)	5.2	(14.7)	14.4	14.5	(0.3)
Domestic	1.1	1.2	(5.6)	1.0	4.8	3.2	3.5	(7.0)
Revenue per TEU								
EXIM	15,350	13,308	15.3	14,266	7.6	14,456	13,341	8.4
Domestic	15,097	15,237	(0.9)	15,469	(2.4)	15,029	14,578	3.1
Segmental Results - PBIT (Rs mn)								
EXIM	2,068	1,909	8.4	2,324	(11.0)	6,368	5,460	16.6
Domestic	162	245	(34.1)	226	(28.4)	629	748	(15.9)
Segmental Margins (%)								
EXIM	30.3	28.6	6.1	31.3	(3.1)	30.5	28.2	8.0
Domestic	9.8	14.0	(29.6)	14.1	(30.0)	13.0	14.8	(12.3)

Source: Company

TEUs handled



Source: Company, Kotak Securities - Private Client Research

- EBIDTA margin during Q3FY09 was up by 160 bps to 28.9% on YoY basis. This was due to significant reduction in rail freight expenses as a percentage of revenues from 57.9% in Q3FY08 to 54.8% in Q3FY09. This was sue to the fact that in the previous quarter the company has increased its terminal handling charges and passed on the cost increases of the haulage charges and the land lease charges.
- Also the company had introduced various cost cutting measures like using own equipments and reduction in running of empty containers. This is well supported by the fact that while the income reduced by Rs.20 mn in Q3FY09, the expenditure declined by Rs.140 mn.
- The dwell time at the ICD increased form ~8 days to currently ~19 days. This helped to improve the realizations as well as margins.
- However PBIT margins of the domestic business are down 420 bps on YoY basis to 9.8% due to increased cost of repositioning of the empty containers.
- EBIDTA for the Q3FY09 was at Rs.2.4 bn up 6.1% on YoY basis.
- The other income of the company went up by 21.4% on YoY basis to Rs.506 mn in Q3FY09 due to strong cash reserves on its books of Rs.17 bn as of December 2008.

- PBT for the Q3FY09 was up by 9.1% YoY basis.
- PAT for Q3FY09 was at Rs.2.1 bn up 6.9% on YoY basis thereby translating into quarterly EPS of Rs.15.9 and quarterly CEPS of Rs.18.0.
- For 9MFY09 the company reported PAT of Rs.6.3 bn, up 14.0% on YoY basis, thereby translating into half yearly EPS of Rs.48.6 and CEPS of Rs.55.0.

Going ahead with aggressive capex plan in rail business

- Despite the current slowdown, the company is looking to invest Rs.50 bn over next five years to create assets in the rail logistics business. The company is debt free and has cash of ~Rs.17 bn on its books and thus is going ahead with its expansion plans. It has already ordered 1650 high speed wagons and is in process of ordering another 600 wagons.
- In 9MFY09, CONCOR has already acquired 24 rakes. It has spent ~Rs.3.0 bn for wagon acquisition. The company has also approved purchase of equipments like reach stackers and is likely to spend Rs.500 mn. It is also building three new terminals at cost of Rs.1.0 bn thereby taking total number of terminal to 64 by March 2009.
- In 9M FY09, CONOR has already incurred capex of Rs.3.6 bn and it is likley to end the year with capex of Rs.5 bn. Going forward the break up of capex is likely to be 80% for the rolling stock, 10% for ICD terminals and balance 10% for handling equipments, IT and others.

JV with Gateway Rail Freight Ltd. terminated

- Its JV with GRFL (subsidiary of Gateway Distriparks) for equal sharing of ICD related revenues and building double stack container terminal is off. However CONCOR would continue to run trains from the ICD for next two years. Out of a total of 10 trains both the parties can run five trains each.
- The matter is still under arbitration and thus we await further details form the management regarding the same. However we feel that CONCOR would now look to set up its own ICD in the nearby area as it hold good growth potential in the long term.

Likely delay for foray into end-to-end logistics services

- CONCOR is evaluating various proposals in terms of domestic and international tie-ups to offer door-to-door delivery using various modes of transport like rail, road, sea and air.
- The company would start air cargo operations from five locations by March 2009. However due to economic downturn there is delay in the shipping and pan India cold chain logistics ventures. The management is waiting for the economy to turnaround before committing these investments.

Change in earning estimates

- We have revised the earning estimate for CONCOR to account for the expected slowdown in the economy, decline in port volumes and de-growth of exports.
- On consolidated basis, in FY09E we now expect the company to report revenues of Rs.33.8 bn (down 6.9%), operating margin 28.9% (27.9% earlier) and PAT of Rs.8.2 bn (down 2.6%).
- Accordingly we expect COCNOR to report lower EPS of Rs.63.5 as against our earlier estimate of Rs.65.1 for FY09E.
- We have valued CONCOR on DCF method of valuation with 14.5% WACC (14.2% earlier) and 3.0% terminal growth rate (4.0% earlier). Thus the price target is revised to Rs.750. (Rs.900 earlier.)

Change in Estimates - FY09E

(Rs mn)	Old	Revised
Net sales	36,256	33,767
EBIDTA (%)	27.9	28.9
PAT	8,468	8,250
EPS (Rs.)	65.1	63.5
CEPS (Rs.)	74.7	72.1
EXIM lakh TEU	20.8	18.7
Domestic lakh TEU	4.7	4.3
Price Target (Rs.)	900	750

Source: Kotak Securities - Private Client Research

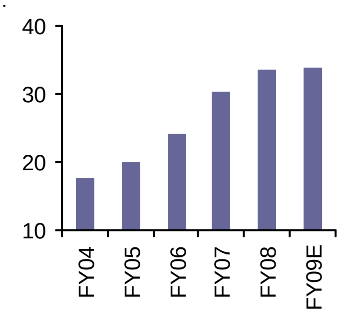
Recommendation and Valuation

- At Rs.669, the stock trades at 2.3x book value, 10.5x earnings and 9.2x cash earnings based on FY09E.
- We remain positive on the long term growth prospects of CONCOR due to its scale of operations consisting of volume of traffic (~90% market share), network of terminals across the country, strong base of low cost assets like hi-speed wagons and containers, which would ensure its No.1 position in India in the visible future for transportation of containers through railways.

We recommend ACCUMULATE on Concor with a price target of Rs.750

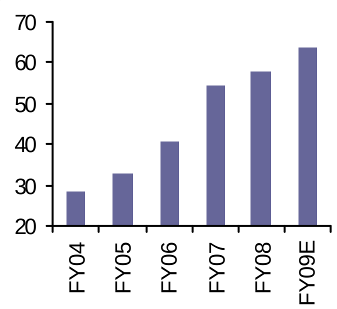
- However due to near term concerns of slowdown in economy, exports de-growth and decline in port volumes we maintain **ACCUMULATE** rating on CONCOR with revised price target of Rs.750.
- We recommend **ACCUMULATE** on CONCOR.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Note: Analyst holding 100 shares

RESULT UPDATE

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

UTV LTD

PRICE: RS.255 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.310 **FY09E P/E: 10x**

- **A below estimate Q3FY09, in our opinion reflected the challenges of continued execution, limited releases in its movie business and losses from its broadcasting venture- pressure points that we have highlighted earlier.**
- **Growth in the interactive business and proactive steps to re-calibrate its broadcasting strategy are however positive, in our opinion. The latter also reflects well on the management's approach to a changed market-place.**
- **Within its business mix, segments like content, broadcasting and gaming are likely to remain in investment phase over the medium term, straining cash flow generation over the medium term.**
- **High investments committed for new and existing verticals will also keep return ratios under pressure and well below industry, over the period.**
- **At 10x forward EPS while valuations may look reasonable relatively and historically, we await better execution in broadcasting, sustained profitable growth in content and significantly better earnings quality to turn positive on UTV's medium term prospects.**
- **While cognizant of the stock's under-performance since our previous downgrade; we do believe downside risks to FY10E earnings remain. We see challenges from- a challenging macro given consumer oriented nature of businesses, broadcasting losses and also sustained execution across all verticals.**
- **The same keep us cautious and precludes a more favorable near term outlook; maintain our REDUCE rating with a price target of Rs.310 (Rs.350 earlier) and await better risk-reward.**

Summary table - Consolidated

(Rs mn)	FY08	FY09E	FY10E
Sales	4341.5	6321.0	8634.3
Growth (%)	148.2	45.6	36.6
EBITDA	647.2	-64.3	1032.9
EBITDA margin (%)	14.9	-1.0	12.0
Net profit*	576.5	903.0	1001.6
Net cash	1981.8	1209.5	-1484.7
EPS (Rs)	14.5	22.7	25.2
Growth (%)	-28.2	56.6	10.9
CEPS	15.5	24.4	27.2
DPS (Rs)	0.9	1.0	1.0
ROE (%)	18.1	9.9	6.3
ROCE (%)	12.3	4.4	7.1
EV/Sales (x)	2.7	1.8	1.0
EV/EBITDA (x)	18.4	-173.2	8.2
P/E (x)	17.2	11.0	9.9
P/Cash Earnings	16.1	10.2	9.2
P/BV (x)	2.2	0.7	0.5

Source: Company, Kotak Securities - Private Client Research

**- For FY09E includes tax write-backs in Q2FY09*

Q3 FY09, Revenues below estimate at 10% growth YoY, operational loss again on account of new investments. Reported profits on account of high 'other' and 'interest' incomes

- UTV's consolidated revenue for the quarter grew by 9.5% YoY to Rs.1.35bn. Revenues de-grew sequentially as the movie business contribution was lower given lack of releases during the quarter.
- Consolidation of broadcasting business during the quarter led to operating losses of Rs.148mn for the overall company. The company reported a profit of Rs.293mn for the quarter, aided purely by high other income (Rs.274mn) and interest income (Rs.196mn).
- Within verticals the film business reported revenue of Rs.321mn (Rs.634mn in Q2FY09), contributing to 24% of total revenue for the quarter. The quarter was lean in terms of releases with only two movies getting released- 'Fashion' and 'Oye Lucky'.
- The segment reported a higher than estimated EBIT margin of 67% for the quarter. This was on account of spillovers from previous releases and also the recognition of non theatrical exploitation revenues from its release slate.
- In Q2FY09 the segment reported relatively lower operating profits (13% margin) as large part of the revenues came only from theatrical exploitation of movies released during the quarter.

- During the quarter, television business reported revenue of Rs.356m, contributing 26% of company's total revenue for the quarter. Investments towards new shows launched during the quarter resulted in EBIT margins of 5.5% (2.8% in Q2FY09 and 20% in Q3FY08).
- The gaming content (Interactive) segment was the bright spot with strong revenue growth, 3x YoY and 60% QoQ. It reported revenues of Rs.346mn, contributing 26% of the total revenue for the quarter.
- In the quarter 'Ignition' published four new games that helped revenue growth. 'Indiagames' too reported around 20% growth QoQ as it launched new games (five) that gained traction in the high in the Indian mobile content market.
- Profitability in the segment came through after two quarters of operating losses, given the healthy revenue growth. The segment has high seasonality with most releases/publishing remaining back ended towards 2H of the fiscal.

Quarterly performance

(Rs mn)	Q3FY09C	Q3FY08	% chg	Q2FY09C	% chg
Revenues	**1348.9**	**1231.8**	**9.5**	**1544.2**	**-12.6**
Expenditure	1497.0	994.2		1786.9	
EBDITA	**-148.1**	**237.6**		**-242.7**	
Depreciation	18.7	7.8		15.7	
EBIT	**-166.8**	**229.8**		**-258.4**	
Net Interest	-195.9	-0.1		12.7	
Other Income	273.7	12.0		242.0	
PBT	**302.8**	**241.8**		**-3.8**	
Tax	28.6	8.8		6.7	
Deferred tax	-25.0	2.2		-338.3	
PAT	**299.1**	**230.8**		**327.8**	
Minority Interest	5.2	53.9		76.4	
PAT after EO items	293.9	176.9	66.2	251.4	16.9
EPS (Rs)	**7.4**	**4.5**		**6.3**	
OPM (%)	-11.0	19.3		-15.7	
NPM (%)	21.8	14.4		16.3	

Source: Company, not strictly comparable as Q2FY09 is first quarter of consolidated results

Broadcasting bleeds- our concern on new broadcasters' medium term prospects remain intact

- During the quarter UTV consolidated its broadcasting business, which reported revenue of Rs.299mn and an operating loss of Rs.113m. The business has seen cost pressures essentially with rising carriage fees and employee costs. At the same time a challenging macro for ad spends has made things even more difficult for broadcasters.
- Given the challenging macro-environment UTV has turned cautious on plans to deploy any further funds on its broadcasting venture. The company has already spent close to Rs3.6bn on the venture and has curtailed future investment outlays.
- We see this curtailed investment plan to be reflective of our consistent concerns on UTV's broadcasting venture. We continue to opine that the macro for new broadcasters has turned even more challenging over the last quarter. We see positively UTV deploying the saved cash in its more remunerative lines of business.

Earnings quality- remains weak; other income, interest income and deferred tax write backs contribute sizably to 9M FY09 profits

- In the current quarter, the company has recorded Rs.274mn of other income and also an interest income earned, of Rs.196mn. Stripped of these items the net profit would have likely mirrored the loss at the operational level.
- The management has stated that of the Rs.274mn of other income, a significant proportion pertained to foreign exchange translation gains on operations pertaining to the US (distribution) and UK (gaming).
- Also it has stated that the interest income accrued in the quarter (Rs.196mn) is on account of loans extended to its foreign subsidiaries for operations- namely the gaming segment (Ignition).
- Management believes such income would be recurring dependent on the extent of funding- at current point Rs.1.6bn is the amount funded by the parent to its gaming vertical. We have modeled for lower other income in succeeding quarters given the fact that cash balances as of Q3 end are Rs.870mn.
- Greater clarity on the same and its recurring nature would give us more comfort in modeling a higher contribution from the source.
- In the quarter the minority interest was also a low Rs.5.2mn, compared to the Rs.52mn in Q2FY09. Reported PAT for Q3FY09 stood at Rs.293.9mn.
- Earnings quality has been weak for UTV through the current fiscal with exceptional items, other income and write-backs contributing significantly to the reported profits.
- In Q2FY09 also, profits were boosted by an Rs.338mn deferred tax write back. The reported PAT for Q2 stood at Rs.251mn.

Stock performance reflects multiple issues. Valuations while cheap possibly reflect risks to earnings trajectory over the medium term

- We opine the UTV stock's underperformance over the last 4m, reflect the following- concerns on prospects of its broadcasting venture, rising cost structures across verticals, a challenging macro for consumer-oriented businesses and recent financial results that reflect the same.
- We have consistently believed that new BCS ventures are likely to face tough times given challenges thrown up by the competitive intensity, high initial cost structures and more recently a challenging macro that looks set to moderate advertising revenue growth over the medium term, in our opinion.
- We incorporate changes to financials post the Q3FY09 financials. Modify broadcasting, movie and gaming content (Interactive) financials. We arrive at a price target of Rs.310 (Rs.350 earlier). Maintain REDUCE rating on the stock.
- We validate the SoTP value with a DCF based valuation methodology; assumptions being 13% WACC and 4% terminal growth.
- Our exit valuations work out to 13x FY10E EPS, fair in our opinion. They are at a premium to broader market multiples- given UTV's integrated model that is expected to generate higher than peer growth rates, over the medium term.
- Better than estimated performance of motion pictures business and value accretive acquisitions offer upside risks to our recommendation/price target.

Projected Financials-weak Q3FY09 numbers validate our concerns on new venture losses and continued execution.

- On a consolidated basis we expect a 41% & 26% CAGR in consolidated revenues and EBITDA over FY08-10E.
- We estimate consolidated margins to dip in FY09E towards an operational loss on account of losses from broadcasting and new businesses. We expect this to rise again to 12% in FY10E on hopeful stabilization of its new initiatives and successful performance of release pipeline.
- We are thus estimating a consolidated EPS of Rs.22.7 (Rs.19.2) in FY09E and Rs.25.2 (Rs.23.7) in FY10E, which we believe adequately reflect the growth prospects.
- We however do believe significant downside risks to our FY10E earnings remain. We see challenges from- a challenging macro given consumer oriented nature of businesses, broadcasting losses and also sustained execution across all verticals.
- We have incorporated a challenging macro for FY10 reflected in lower growth for movies and continued bleed from broadcasting in addition to a higher tax and minority interest outgo.
- On the balance sheet, we expect return ratios to decline FY09E onwards on the back of significant BCS losses, capital raised (Disney and promoter infusions) and the capital intensive nature of movies and BCS.

Valuations- reflect a deteriorated macro, concerns on broadcasting and newer segments. Risks to earnings remain, in our opinion.

- At the current price levels, the stock is trading at 10x our consolidated FY10E and 11x FY09E earnings respectively.
- Our SoTP price target stands at Rs.310 (Rs.350 earlier), adjusted for our revised valuation matrix and marginally revised earnings estimates. We note that our target price of Rs.310, also backed by our two stage DCF valuation methodology offers a limited upside from current levels.
- At 10x forward EPS while valuations may look reasonable relatively and historically, we await better execution in broadcasting, sustained profitable growth in content and significantly better earnings quality to turn positive on UTV's medium term prospects.

We recommend REDUCE on UTV with a price target of Rs.310

- At the same time we opine risks to earnings remain, from- BCS losses, a challenging macro and sustained execution in the movies business. The same keeps us cautious on UTV's near term prospects and precludes a more favorable near term outlook. Maintain **REDUCE** on the stock.

UTV revenues, segment wise FY08-10E (Rs mn)

	FY08	FY09E	FY10E
Motion Picture, Rs.mn	2,457	2,687	3,495
Television Content, Rs.mn	1,006	1,400	1,649
Interactive, Rs.mn	956	1,207	1,900
Broadcasting (BCS), Rs.mn	0.0	868	1,300
New Media, Rs.mn	0.0	228	365
Total, Rs.mn	**4,375**	**6,322**	**8,634**

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6621 6302

NAGARJUNA CONSTRUCTION COMPANY (NCC)

PRICE: RS.50 **RECOMMENDATION: BUY**
TARGET PRICE: RS.103 **FY10E P/E: 5.7X**

Result highlights

- **Revenues of the company for the current quarter were marginally lower than our expectations, registering 31% YoY growth in Q3FY09 vis-à-vis Q3FY08.**
- **Operating margins for Q3FY09 stood at 8.3%, lower than our estimates of 9.5%. This was on account of higher execution of low margin fixed price road projects, lower turnover on high margin electrical projects as well as inclusion of lease rentals in the expenditure in Q3FY09.**
- **Net profit for the current quarter registered a decline of 9% on YoY basis. This was impacted by lower margins as well as higher interest outgo for the company in Q3FY09 as compared to Q3FY08.**
- **At current price of Rs 50, stock is trading at 7.0x and 5.7x on P/E multiples and 5.3x and 5.0x on EV/EBITDA multiples on FY09 and FY10 estimates respectively. We maintain our estimates as well as price target of Rs 103 on sum-of-the-parts methodology based on FY10 estimates.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	34,729	44,454	55,567
% change YoY	21.0	28.0	25.0
EBITDA	3,598	4,223	5,279
% change YoY	33.4	17.4	25.0
Other Income	56	30	30
Depreciation	482	611	736
EBIT	3,171	3,642	4,573
% change YoY	17.9	14.8	25.6
Net interest	719	1,148	1,506
Profit before tax	2,452	2,494	3,068
% change YoY	12.2	1.7	23.0
Tax	833	848	1,043
as % of PBT	34.0	34.0	34.0
Net income	1,620	1,646	2,025
% change YoY	6.6	1.6	23.0
Shares (m)	228.9	228.9	228.9
EPS (reported) (Rs)	7.1	7.2	8.8
P/E (x)	7.1	7.0	5.7
EV/EBITDA	5.0	5.3	5.0
ROE (%)	12.4	10.0	11.1
ROCE (%)	15.3	13.5	14.3

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY09	Q3FY08	YoY (%)
Net Sales	**10,221**	**7,795**	**31%**
Expenditure	9,367	6,933	
Inc/Dec in stock	-540	-687	
Raw material	4,002	2,639	
As a % of net sales	39.2	33.9	
Other const exp	4,234	3,646	
As a % of net sales	41.4	46.8	
Labour	946	767	
As a % of net sales	9.3	9.8	
Staff cost	458	369	
As a % of net sales	4.5	4.7	
Other exp	267	199	
As a % of net sales	2.6	2.5	
EBITDA	**853**	**862**	**-1%**
EBITDA margin	8.3	11.1	
Depreciation	119	123	
EBIT	**734**	**740**	**-1%**
Interest	238	167	
EBT(exc other income)	497	573	
Other Income	54	11	
EBT	**550**	**584**	**-6%**
Tax	188	187	
Tax (%)	34.1	32.1	
PAT	**363**	**396**	**-9%**
NPM (%)	3.5	5.1	
Equity Capital	457.7	457.5	
EPS (Rs)	**1.6**	**1.7**	

Source: Company

Revenue growth marginally lower than estimates

- Revenues of the company for the current quarter were marginally lower than our expectations, registering 31% in Q3FY09 vis-a-vis Q3FY08. This was also impacted by non inclusion of revenues by joint venture partner Maytas Infra due to non-receipt of financial information. Company expects these revenues to be included once they have information from Maytas Infra. Revenues in Q3FY09 are diversified across roads(18%), water(22%), buildings(28%), irrigation(5%), electricals(5%), oil and gas(3%), metals(3%), international(15%) and power(1%).
- Order inflow in the current quarter is fairly robust with company receiving around Rs 10.1bn, thereby enhancing the order book to Rs 124bn. This provides a revenue visibility for next 2 years. NCC's order book is diversified across roads(9%), water(17%), buildings(24%), irrigation(6%), electricals(5%), oil and gas(9%), metals(9%), international(20%) and power(1%).
- Order inflow till date in the current fiscal has been to the tune of Rs 43.5bn and management is quite confident of order inflow momentum going forward and expects an order inflow of Rs 65bn for the full year FY09.
- We maintain our revenue estimates for future and expect revenues to grow at a CAGR of 26% between FY08-FY10.

Status of projects in joint venture with Maytas Infra

NCC is executing several projects in JV with Maytas infra in road, irrigation, power, airport and port segment. Company believes that most of these projects are in final stages of completion while for the others, pending equity commitment requirement is very less which can be funded from other consortium partners. Thus risk from delay or cancellation from these projects is very minimal. Progress on the these projects is listed below -

Roads

NCC management believes that Maytas Infra should be able to fulfill these pending equity requirements. However, in case if Maytas is not able to fund those investments, NCC or other players may look at funding that gap by increasing their stake in the project and thereby letting the project run on schedule.

Road project

	Size (Rs mn)	Partners in consortium	Exp. Date of completion	Pending equity from Maytas (Rs mn)
Bangalore Maddur Road Project	2500	NCC, Maytas, KMC	Already completed	Nil
Bangalore Elevated Corridor road project	7640	NCC, Maytas, Soma enterprises	June, 2009	70
Meerut Muzzafarnagar Road Project	5300	NCC, Maytas, Gayatri Projects	June, 2009	50
Pondicherry Tindivaram road project	3600	NCC, Maytas Infra	July, 2010	150

Source: Company

Irrigation

NCC is carrying out irrigation projects worth Rs 27bn in 50:50 joint venture with Maytas Infra. Projects to the tune of Rs 13 bn have already been completed and billed to the client while remaining projects to the tune of Rs 14bn are expected to be completed by both. NCC management believes that NCC has the capability to carry out Maytas' share of projects in case the latter faces funding issues and can submit the bills to the client on its own.

Power

NCC is carrying out two power projects in JV with Maytas Infra and other players. Himachal Sorang Hydro electric project has achieved its financial closure in June, 2007 and is expected to get operational in 2010. Gautami power project is awaiting gas supplies from Reliance. Once the gas supplies are provided, project would start commissioning.

Power project

	Size (Rs mn)	Partners in consortium	Exp. Date of completion	Pending equity from Maytas (Rs mn)
Himachal Sorang power project	6000	NCC, Maytas Infra, SSJV projects	December, 2010	230
Gautami Power project	15000	NCC, Maytas, IJM Malaysia	Already completed; expected to commence from Feb,09	NA

Source: Company

Real estate

NCC is carrying out one real estate project called Jubilee Hills Landmark Pvt Ltd in consortium with ICICI Ventures and Maytas Properties. ICICI venture is holding 60% of equity, NCC is holding 45% of equity and the balance 15% of the equity is held by Maytas Properties. Maytas Properties has already brought in their share of equity and project has also achieved financial closure. Once the building plans are approved, consortium would start with the civil work related to the project.

Airport and port projects

These projects are under very initial stages and DPR is under progress. The respective state government will review the project and if need arises, it may also call for another player in place of Maytas Infra. Since these projects are in the initial stages, we had not factored in any returns from either Machilipatnam port project or the two airport projects in AP.

Airport and port project

	Size (Rs mn)	Partners in consortium	Exp. Date of completion	Pending equity from Maytas (Rs mn)
Machilipatnam port project	15000	NCC, Maytas, SREI Infra	Not financially closed	-
Gulbarga and Shimonga airport project	4000	NCC, Maytas, Vienna airport	Not financially closed	-

Source: Company

Cash contracts from Satyam group companies

NCC is also carrying out three cash contracts to the tune of Rs 1.84bn for Satyam group - Maytas Hill County, Satyam computers, Satyam Info. NCC has already completed work to the tune of Rs 1.04bn and has received bills to the tune of Rs 740mn. Maytas is yet to pay back Rs 260mn to NCC, out of which NCC is already holding Rs 120mn of mobilization advances. For the remaining Rs 840mn worth of order, company has halted the operations currently till further clarity emerges.

Thus, overall if Maytas Infra is not able to fulfill the pending equity requirements, NCC and other consortium partners are expected to fulfill the pending equity requirements to the tune of Rs 500mn, which is not a significant amount and hence these projects stand at very low risks of being delayed or cancelled. Hence, we believe that NCC performance is not expected to be impacted by these projects.

Operating margins lower than estimates

- Operating margins for Q3FY09 stood at 8.3%, lower than our estimates of 9.5%. However, in comparison with Q3FY08, margins have witnessed a decline of 280 basis points due to -
  - Higher proportion of low margin road projects executed in the current quarter. These projects are also fixed price in nature and with bitumen prices still ruling at higher levels, operating margins were impacted negatively
  - Execution on higher margin electrical projects was slow in the current quarter, which has impacted the operating margins adversely
  - NCC has also sold machinery equipments to its international subsidiary for carrying out road projects. Correspondingly NCC has to pay lease rentals to the tune of 12% of the equipment cost to its international subsidiary. These lease rentals have also resulted in reducing the operating margins in Q3FY09.
- However with company focusing on higher margin projects in future, we continue to maintain our estimates for operating margins of 9.5% going forward.

Net profit growth impacted by lower margins as well as higher interest cost

- Net profit for the current quarter declined by 9% on YoY basis, inline with our estimates. This resulted in net profit margins of 3.5%.
- Net profit growth was impacted by higher interest outgo for the company as well as lower operating margins in Q3FY09 as compared to Q3FY08.
- However depreciation and interest charges declined sequentially due to sale of equipment to international subsidiary and correspondingly depreciation and interest charges for that equipment stand reduced in the current quarter.
- Sequential decline in the interest cost is also on account of decline in interest bearing mobilization advances as well as higher interest income from subsidiaries on loans of Rs 2.8bn. Current quarter interest payment stands at Rs 380mn(Rs 1090mn for 9MFy09), bank and LC charges stand at Rs 45mn(Rs 140mn for 9MFY09) and interest received from subsidiaries stands at Rs 180mn(Rs 480mn for 9MFY09), resulting in net interest payment of Rs 240mn(Rs 750mn for 9MFY09).
- We maintain our estimates for net profits and expect net profits to grow at a CAGR of 12% between FY08-FY10.

Sum of the parts valuation (FY10)

	Per share
Core business valuation	80
BOT projects	9
Power projects	2
Real estate	11
Total value per share	103

Source: Kotak Securities - Private Client Research

Valuation and recommendation

We recommend BUY on NCC with a price target of Rs.103

At current price of Rs 50, stock is trading at 7.0x and 5.7x on P/E multiples and 5.3x and 5.0x on EV/EBITDA multiples on FY09 and FY10 estimates respectively. We value the core construction business under stress case assumptions of 9x FY10 estimated earnings and valued the company on sum-of-the-parts methodology. Company is also going very slow on the real estate projects due to prevailing slowdown in the real estate sector. Correspondingly we have taken stress case estimates for the real estate projects. We thus arrive at a price target of Rs 103 based on sum-of-the-parts methodology. We maintain our positive bias for the sector as well as for the company. We continue to maintain **BUY** on NCC.

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6621 6305

NTPC

PRICE: RS.190
TARGET PRICE: RS.150

RECOMMENDATION: REDUCE
FY09E P/E: 18.9X

- **Revenue growth up 21% yoy, EBITDA up 11% and net profit down up 26%**
- **Increase in power generated has been stagnant but higher average tariffs led by increased fuel costs results in 21% yoy rise in revenues.**
- **Profits aided by prior period income of Rs 5.2 bn against Rs 1.1 bn in Q3 FY08.**
- **Adjusted profit growth has been flat after adjusting for additional tax paid in the corresponding quarter of the previous year.**
- **Progress on capacity addition remains a concern, which could likely impact our revenue assumptions.**
- **However, the stock has posted strong outperformance in the third quarter. Stock trading at 18.9x and 17.8x FY09 and FY10 earnings respectively.**
- **Despite muted near-term earnings growth, the stock is trading at a significant premium to broad market. In view of this, we maintain Reduce with a price target of Rs 150 (Rs 145 earlier)**

Summary table

(Rs bn)	FY08	FY09E	FY10E
Sales	371	433	485
Growth (%)	14	17	12
EBITDA	116	133	151
EBITDA margin (%)	31	31	31
Net profit	74	83	88
EPS (Rs)	9	10	11
Growth (%)	8.0	11.6	6.6
CEPS	11.6	12.6	13.6
DPS (Rs)	3.5	4.0	4.5
ROE (%)	14.6	15.1	14.8
ROCE (%)	15.9	16.2	15.7
EV/EBITDA (x)	15.9	14.0	12.7
P/E (x)	21.1	18.9	17.8
P/Cash Earnings	16.4	15.0	14.0
P/BV (x)	3.0	2.7	2.5

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY09	3QFY08E	YoY (%)	9MFY09	9MFY08	YoY (%)
Net sales	**112,771**	**93,308**	**21**	**304,780**	**263,065**	**16**
Other op income	5,860	4,452	32	14,337	12,601	14
Expenditure	80,685	63,617	27	223,000	179,048	25
Fuel Cost	70,004	54,770	28	190,949	152,203	25
Staff Cost	6,603	4,816	37	18,429	14,994	23
Other expenditure	4,077	4,031	1	13,623	11,851	15
Operating profit	**37,946**	**34,143**	**11**	**96,117**	**96,618**	**-1**
Depreciation	5,590	5,266	6	16,381	15,314	7
Gross profit	**32,356**	**28,877**	**12**	**79,736**	**81,304**	**-2**
Interest	5,076	4,665	9	14,558	9,907	47
Other income	2,653	3,172	-16	8,796	9,635	-9
PBT	**29,933**	**27,384**	**9**	**73,973**	**81,033**	**-9**
Provision for tax (net)	7,424	9,586	-23	13,094	20,281	-35
PAT	**22,509**	**17,798**	**26**	**60,880**	**60,752**	**0**
Fuel cost/Net sales (%)	62.1	58.7		62.7	57.9	
Staff cost/Net sales (%)	5.86	5.16		6.05	5.70	
Other expenditure to sales %	3.62	4.32		4.47	4.50	
EBITDA margins (%	33.6	36.6		31.5	36.7	
Tax rate (%)	24.8	35.0		17.7	25.0	
EPS Rs/share	2.7	2.2		7.4	7.4	

Source: Company

Revenue growth aided by higher tariffs

Revenue growth for the quarter came at 21% yoy driven by higher tariffs. Since the fuel costs are allowed to be passed completely to consumers, the increased power tariffs are a reflection of higher fuel costs.

Gross generation increased 3.6% yoy to 52.5 bn units.

NTPC declared the second unit of Kahalgaon stage II commercial wef from December 30, 2008. Sipat stage II started commercial operations from Jan 01, 2009.

Average PLF for the quarter was down to 1.8% yoy. PLF reduced for coal stations due to maintenance activities. On the other hand, gas stations increased their PLF by 5% due to increase usage of spot LNG and naphtha.

Employee costs rose 37% yoy during the quarter mainly due to provision of Rs 1.2 bn related to wage revision.

Interest cost rose by 9% yoy to Rs 5.1 bn. Interest costs include forex fluctuation expense of Rs 178 mn on its foreign currency borrowings. NTPC had around 40% of its borrowings denominated in foreign currency. Bulk of the foreign currency borrowing is in USD and Yen.

Other income is down by 16% yoy to Rs 2.6 bn. Other income pertains mainly to interest on tax free government (OTSS) bonds and cash. The reduction in other income could be due to redemption of OTSS bonds (one time settlement scheme).

Provision for tax is down 23%which shored up the profit growth for Q3 FY09. The corresponding quarter of the previous year had additional tax provision relating to previous year of approximately Rs 2.2 bn. Adjusted for the tax aspect profit after tax is flat on a yoy basis.

Slippages likely in achieving XIth Plan target of adding 22 GW:

As in the past, project commissioning may see some slippages. We have built in further delays in the company's project commissioning plan for the XIth plan period. NTPC plans to set up 22430 MW of capacity in the XIth plan.

New tariff policy is a positive for power utilities

To maintain the attractiveness of the power sector as an investment segment, the CERC has revised upwards the regulated ROE to 15.5% from 14% earlier. However, the CERC has tightened norms on fuel cost savings and has brought incentives under full tax ambit. Incentives will now be earned on the availability of plant as compared to PLF earlier.

Earnings and Valuation

Maintain earnings and target price of 145. Maintain our Reduce call on NTPC.

We recommend REDUCE on NTPC with a price target of Rs.150

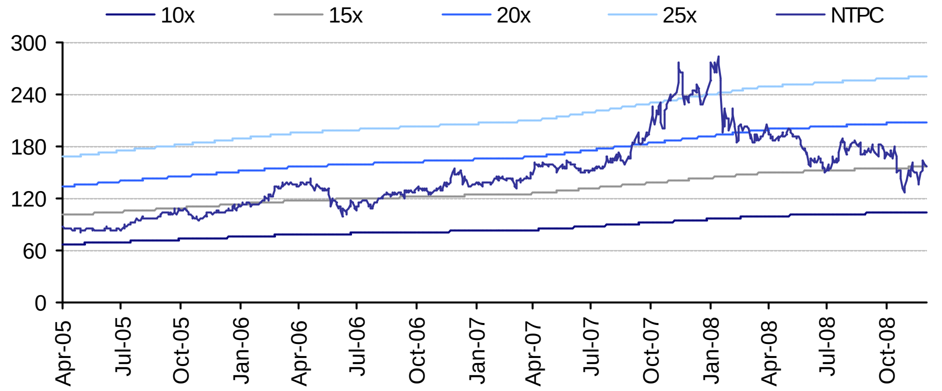
NTPC is currently trading at 18.9x and 17.7x FY09 and FY10 earnings respectively. We see no room for upside in the near-term after the strong outperformance posted by the company. In view of this we recommend **REDUCE** with a target price of Rs 150 (Rs 145 earlier).

Risks

Delays in commissioning of capacities remains a key concern which could impact our earnings projections and estimates.

Availability of adequate feedstock for its gas-based projects has remained an concern. Moreover, if coal supplies do not grow in line with capacity additions then it could affect our PLF projections.

PE band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6621 6305

CUMMINS INDIA LTD

PRICE: RS.195 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.270 **FY09E P/E: 9.4x**

- **Strong numbers for the quarter. Well ahead of expectations.**
- **EBITDA margins likely aided by softening metal prices and decline in rupee against the dollar.**
- **However, growth seen tapering off by fourth quarter**
- **Parent's focus on cost-rationalisation should favour Cummins India as a low-cost sourcing location**
- **Maintain Accumulate with a price target of Rs 270. At current price, the stock is trading at 9.4x and 8.6x FY09 and FY10 earnings respectively.**

Summary table : Consolidated

(Rs mn)	FY08	FY09E	FY10E
Sales	26,555	34,512	37,787
Growth (%)	25	30	9
EBITDA	3,745	4,866	5,366
EBITDA margin (%)	14	14	14
Net profit	3,249	4,117	4,509
Net cash (debt)	1,712	500	500
EPS (Rs)	16.4	20.8	22.8
Growth (%)	21.3	26.7	9.5
CEPS	18.3	22.9	25.2
DPS (Rs)	4.6	4.6	4.6
ROE (%)	28.8	29.7	26.4
ROCE (%)	38.0	38.1	33.0
EV/Sales (x)	1.3	1.0	0.9
EV/EBITDA (x)	7.5	5.9	5.3
P/E (x)	11.9	9.4	8.6
P/Cash Earnings	10.6	8.5	7.7
P/BV (x)	3.1	2.5	2.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

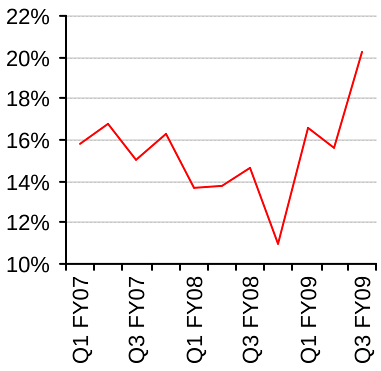
(Rs mn)	Q3FY09	Q3FY08	YoY (%)	9MFY09	9MFY08	YoY (%)
Net Sales	**7709**	**5902**	**31**	**23513**	**16608**	**42**
Purchase of traded goods	145	95	53	706	204	145
Raw material costs	4625	3918	18	14597	11144	4625
Staff costs	498	330	51	1314	991	498
Other exp	922	692	33	2558	1937	922
Total Expenditure +	6190	5035	23	19175	14275	6190
PBIDT	**1519**	**867**	**75**	**4338**	**2333**	**1519**
Interest	0	0	-100	7	3	0
Other Income	128	269	-52	431	763	128
PBDT	**1648**	**1136**	**45**	**4345**	**3093**	**1648**
Depreciation	110	86	27	308	240	110
PBT	**1538**	**1049**	**47**	**4036**	**2854**	**1538**
Tax	495	303	63	1173	803	495
Adjusted Profit After Tax	1042	746	40	2864	2051	1042
Gain from sale of Genset rentals business and provision writeback	291	0		192	0	291
Reported Profit After Extra-ordinary item	1334	746	79	3056	2051	1334
Equity	396.0	396.0		396.0	396.0	396.0
RM cost to sales (%)	60.0	66.4		62.1	67.1	60.0
Other costs to sales (%)	12.0	11.7		10.9	11.7	12.0
PBDIT (%)	19.7	14.7		18.4	14.0	19.7
Tax rate (%)	32.2	28.9		29.1	28.1	32.2
EPS (Rs)	**2.6**	**1.9**		**7.2**	**5.2**	**2.6**

Source: Company

An exceptionally strong third quarter

On the back of capacity addition in the low HP segment and new KVA facility, Cummins has been able to report strong revenue growth in the current fiscal. Revenues grew 50% yoy in the second quarter partly aided by increase in realizations. The management indicated that the company began the quarter with a strong order board and capacities continue to run at high levels of utilization. Cummins has minimal exposure to the automobile sector, which has seen a sharp dip in demand in recent months.

Quarterly margins



Source; Company

Impressive margin gains

EBITDA margins have improved by 500 bps aided decline in raw material prices (pig iron primarily) and depreciation in rupee. We believe the company may have taken lower forex hedging exposure. The company has also continued its ongoing cost-reationalisation measures which should have aided margin expansion.

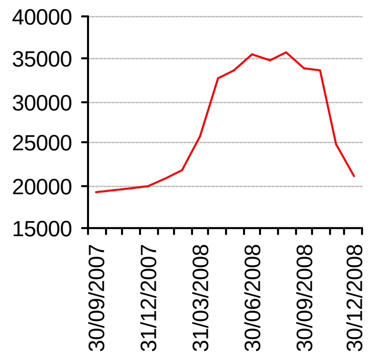
The company has divested its genset rental business during the quarter. As a result, provision of Rs 99.3 mn for maintenance & overhaul expense has been written back under "Other Expenditure" since it was no longer required.

Prices of pig iron has declined

Pig iron is the main input for engine makers and the prices of this commodity has been softening in recent months. We expect this to positively reflect in the company's EBITDA margins in Q3 FY09.

However fourth quarter numbers would reflect impact of economic slowdown

Pig iron price (Rs/ton)



Source; Company

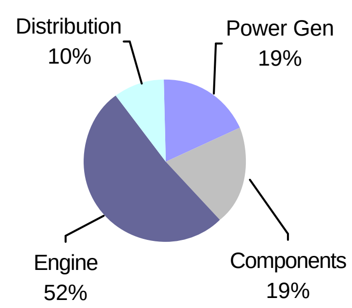
Cummins indicated that order enquiries have begun to slow down. The management indicated that the strong growth in the current fiscal may slacken in the fourth quarter. Demand from the infrastructure and commercial real estate sector has been on a declining trend.

Exports have done well so far but likely to slow down

A large share of Cummins India's exports go to the US markets mainly for Power Generation applications as back-up/auxiliary power. Although exports have grown well thorugh the year, indications are that exports could also slow down by the fourth quarter. Cummins India ltd's parent ie Cummins Inc has revised its outlook for 2008 to the continuing decline in many of its key markets around the world. Cummins Inc now expects 2008 sales to increase by 9% over 2007, compared to its previous guidance of a 12% increase. The major decline in the US market has been in the auto and construction market sector.

Parent's focus on cost-rationalisation should favour Cummins India Ltd

Cons. sales mix of Cummins Inc



Source; Company

Cummins India has long been one of the low-cost sourcing locations for Cummins Inc. With the slowdown in the US and global markets, the parent has been taking several belt-tightening measures including temporary plant shutdowns, eliminating temporary workers and reducing discretionary spends. We see possibility of greater sourcing to be done from India.

Within the Cummins group, China and India have been the main sourcing centres for Cummins group. While China facility specializes in meeting the Heavy Duty engine requirements of the group, the Indian facility has emerged as sourcing location for High HP engine segment.

Cummins India Ltd competes with Cummins' Darlington facility in UK for sourcing of High HP engines. Given that Cummins India has a clear cost-edge over Cummins UK, there is strong possibility of greater sourcing of High HP engines from India.

Adequate capacity in the system

Cummins is not contemplating further capacity additions given subdued demand outlook for domestic and global markets. Its low HP plants at Pirangute is operating at 60-70% capacity utilization leaving scope for meeting FY10 requirement.

Outlook

Despite attractive valuations and adequate upside, we recommend Accumulate. Our reasons …

We expect the revenue growth to taper off from Q4 FY09 reflecting slowdown in order enquiries in the 3Q FY09.

IIP has close to halved during April-Nov 2008 as compared to the corresponding period of previous year. The industrial production trends needs to stabilize for capital goods companies to see sustained demand.

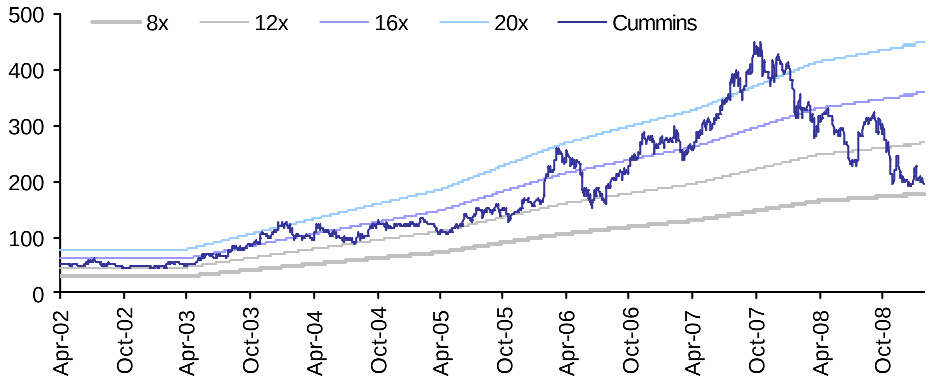
Our outlook and call on the stock would turn positive on visible signs of stabilization in domestic and global economy.

Reiterate Accumulate with a price target of Rs 270

We recommend ACCUMULATE on Cummins India with a price target of Rs.270

Cummins is trading at 9.4x and 8.6x FY09 and FY10 earnings respectively. On an EV/EBITDA basis, the stock is trading at 5.9x FY09. We maintain Accumulate with a price target of Rs 270 (Rs 280 earlier) based on DCF. At the target price, the stock would be valued at 13x FY09 earnings.

PE band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6621 6305

BLUE STAR

PRICE: RS.141 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.180 **FY09E P/E: 7.8X**

- **Revenue growth has come below expectations**
- **Operating margins down 160 bps on higher raw material costs.**
- **Although order backlog at Rs 16.26 bn is up 52% yoy execution may take longer in view of liquidity issues with several developers.**
- **Valuations are attractive at 7.8x and 6.7x FY09E and FY10E earnings respectively. Blue Star has traditionally been a high dividend payout company and we see the company maintaining its dividend payout in the coming years as well. This would make dividend yield attractive especially in an declining interest rate scenario.**
- **Despite attractive valuations, we remain cautious as we view that in line with the real estate sector the order inflows for Central Air conditioning projects company would start slowing down from Q4 FY09 ie with a lag of 9-12 months.**
- **Maintain Accumulate with target price of Rs 180 (Rs 220 earlier)**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	22216	27169	30586
Growth (%)	39.3	22.3	12.6
EBITDA	2270	2676	3117
EBITDA margin (%)	10.2	9.8	10.2
Net profit (adj)	1439	1625	1888
Net cash (debt)	-339	-1696	-1780
EPS (Rs)	16.0	18.1	21.0
Growth (%)	145.6	12.9	16.2
CEPS	18.4	20.5	23.8
DPS (Rs)	3.0	7.0	7.2
ROE (%)	0.6	0.5	0.5
ROCE (%)	72.0	60.0	50.0
EV/Sales (x)	0.6	0.5	0.5
EV/EBITDA (x)	5.7	5.4	4.6
P/E (x)	8.8	7.8	6.7
P/Cash Earnings	7.6	6.9	5.9
P/BV (x)	4.8	3.6	2.8

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3 FY09	Q3 FY08	YoY (%)	9M FY09	9M FY08	YoY (%)
Net Sales	**5667**	**5149**	**10**	**18442**	**15249**	**21**
Other income	1	1	-9	29	10	187
Raw material costs	4321	3709	16	13732	11239	22
Staff costs	441	413	7	1341	1115	20
traded items	126	116	9	477	326	47
Other expenditure	258	354	-27	1109	948	17
Total Expenditure	5146	4592	12	16660	13629	22
PBDIT	**522**	**557**	**-6**	**1782**	**1620**	**10**
Interest	53	16	234	116	54	116
Depreciation	70	55	26	188	158	19
PBT	**400**	**487**	**-18**	**1507**	**1419**	**6**
Tax	78	133	-41	371	382	-3
PAT	**322**	**354**	**-9**	**1135**	**1037**	**9**
PBDIT (%)	9.2	10.8		9.7	10.6	
Tax rate (%)	19.6	27.3		24.6	26.9	
Raw material cost to sales (%)	76.2	72.0		74.5	73.7	
Other expenditure to sales (%)	4.5	6.9		6.0	6.2	
Staff costs to sales (%)	7.8	8.0		7.3	7.3	
EPS Rs per share	**3.6**	**3.9**		**12.6**	**11.5**	

Source: Company

Revenue growth decelerates on likely slower execution and lack-luster demand

The largest revenue segment ie the Central Airconditioning grew 12%, which was below our expectations. We understand that the ongoing decline in real estate prices and credit crunch faced by developers is resulting delay in project execution and decision making. As a result, there is possibility of delayed translation of orders into revenues.

Cooling Products growth is driven by increased sales of split airconditioners, as well as enhanced demand for refrigeration products and cold chain systems. The room AC segment was reeling under high inventory at the dealer's end on account of early commencement of monsoons in Northern part of India. As a result, the consumer durables segment of the company's competitor (Voltas) had a very lackluster performance in Q2 FY09. However, Blue Star appears to have weathered the slowdown well as we understand that other players have seen a greater drop in revenues.

The professional electronics segment grew 31% yoy. The Professional Electronics and Industrial Systems business has an business model of a system integrator and value added re-seller of niche imported industrial products. The revenue growth for this product segment may be very volatile over quarters. However, we believe subdued level of industrial production may hit revenue growth from this segment.

Segment Revenue Growth

(Rs mn)	Q3 FY09	Q3 FY08	% change
Central AC (CAC)	4223	3768	12
Cooling products	949	1003	-5
Professional electronics	495	377	31

Source: Company

High cost inventory and rupee decline eats into margins

- EBIDTA margin during Q3FY09 declined 160 bps on yoy basis to 9.2%. The dop in margins has been mainly contributed by the projects segment. Segment margins in cooling products and professional electronics segment were also lower.
- Decline in EBITDA margins was mainly on account of higher material costs. Roughly 30% of the raw materials are imported and given the depreciation in rupee and competitive market conditions, the company may not have been able to pass on the cost increases.
- Raw material costs could also have been higher due to drawdown of high cost inventory.
- Other expenditure posted a decline of 27% to Rs 258 mn.

Segment margins

(%)	Q3 FY09	Q3 FY08	Q2 FY09
Central AC	9.1	11.9	11.5
Cooling products	10.4	12.9	11.1
Professional electronics	20.8	22.9	24.5

Source: Company

Order backlog continues to be healthy

- Order backlog is up 52% yoy to Rs 16.3 bn. On a sequential basis, order backlog is up 4.5%. Order inflows during the quarter were up 18% but degrew on a sequential basis.
- Order backlog has been partly higher because of inclusion of Naseer Electricals orders.
- We expect to see slowdown in order inflows in the coming quarters as investment in commercial and residential real estate sector has slackened in the past few months.
- Meanwhile order enquiries have already slowed down.
- The company is focusing on infrastructure segment to compensate for the slowdown in retail and service sector. However, the execution cycle in infrastructure segment is longer (15 plus months against 9-12 normal cycle).

Earnings outlook

We have reduced our earnings forecast for FY09 and FY10 by 12% and 11% respectively. For FY10, we have taken longer execution cycle resulting in lower revenue translation.

Valuation: The stock is currently trading at 7.8x and 6.7x FY09 and FY10 earnings. On a EV/EBITDA basis, the stock is trading at 5.4x FY09.

Recommendation and Rationale: We maintain Accumulate on the stock with a revised price target of Rs 180 (earlier Rs 220).

We recommend ACCUMULATE on Blue Star with a price target of Rs.180

We note that the downside may be limited given that dividend yield at current price works out to 5%. Blue Star has traditionally been a high dividend payout company and may maintain or increase the payouts. This would make the dividend yield even more attractive and could restrict significant downside.

However, despite downside protection we remain cautious as the market scenario for Central Airconditioning equipment may remain subdued until there is a upturn in the real estate and service sector investment. We would turn positive on visible signs of revival in its market segments.

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6621 6305

HINDUSTAN DORR OLIVER

PRICE: RS.25 **RECOMMENDATION: BUY**
TARGET PRICE: RS.50 **FY09E P/E: 2.9x**

- **Results ahead of expectations**
- **Strong margin gains on back of higher execution. Raw material costs under check.**
- **Interest expenses up sharply.**
- **We maintain earnings estimates and revise target price of Rs 50 (earlier Rs 77).**
- **Valuations are cheap at 2.9x and 2.2x FY09 and FY10 earnings respectively. We recommend "BUY".**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	3050.3	4925.8	5982.7
Growth %	46.3	61.5	21.5
EBITDA	337.7	574.2	711.9
EBITDA margin %	11.1	11.7	11.9
Net profit	220.3	308.7	408.1
Net cash (debt)	-34.9	-808.6	-1182.5
EPS (Rs) (consolidated)	6.2	8.6	11.4
Growth %	43.7	40.2	32.2
CEPS	6.8	9.8	13.0
DPS (Rs)	0.5	0.6	0.6
ROE %	16%	19%	21%
ROCE %	23%	26%	24%
EV/Sales (x)	0.3	0.3	0.3
EV/EBITDA (x)	2.8	3.0	2.9
P/E (x)	4.1	2.9	2.2
P/Cash Earnings	3.7	2.5	1.9
P/BV (x)	0.6	0.5	0.4

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

	Q3 FY09	Q3 FY08	YoY (%)	9M FY09	9M FY08
Net Sales	**1247**	**755**	**65**	**3257**	**1995.2**
Raw material	985.5	606.3	63	2556	1603.1
Staff costs	46.5	39.6	17	153	117.0
Other expenditure	68.4	33.6	104	165	85.5
Total Expenditure	1100.4	679.5	62	2874	1805.6
PBIDT	**147**	**75**	**96**	**383**	**189.6**
Interest	41.9	9.4	346	93	19.5
Other Income	25.3	13.7	85	63	44.7
PBDT	**130.4**	**79.4**	**64**	**353**	**214.8**
Depreciation	9.0	6.0	50	24	17.2
PBT	**121.4**	**73.4**	**65**	**330**	**197.6**
Tax	47.4	23.2	104	115	67.1
Reported Profit After Tax	74.0	50	47	215	130.5
EPS (Rs)	**2.1**	**1.4**		**6.0**	**3.6**
Raw material cost to sales (%)	79.0	80.3		78.5	80.3
Staff costs to sales (%)	3.7	5.2		4.7	5.9
Other expediture to sales (%)	5.5	4.5		5.1	4.3
PBDIT (%)	11.8	10.0		11.8	9.5
Tax rate (%)	39.0	31.6		34.8	34.0

Source: Company

Strong order inflows in FY08 leading to robust revenue growth

Revenue growth has been driven by the continued momentum in order execution by the company. In the previous fiscal, the company had won large orders which are getting translated into revenues in the current fiscal.

Margin improvement on higher execution

Operating margins rose 180 bps on a yoy basis. Margin expansion has been on the back of lower material cost to sales ratio and higher execution. Part of HDO's orders have variation clause for steel price fluctuation. Other expenditure has increased 104% yoy. Possibly, there could be higher share of work done through subcontractors which has resulted in high other expenditure. Employee cost to sales ratio has declined indicating enhanced employee productivity.

Steel is the prime commodity for the company and the prices of steel has been softening in international markets. Since the company has price variation clause on steel, it may have to pass on the benefit to customer. However, the bias remains towards margin expansion if steel prices decline.

Sharp increase in interest costs

HDO reported sharp increase of 346% yoy in interest cost during the quarter. Cost of borrowing has clearly moved up over the past twelve months. Part of the increase is also due to bank guarantees given by the company on the advances from customers. The company's borrowings as of Sep 2008 stood at Rs 480 mn indicating a comfortable debt-equity ratio of 0.3:1.

Order inflows slowed down significantly during the quarter

HDO's order backlog at the end of Q2 FY09 has declined on a sequential basis from Rs 9.75 bn in Q1 FY09 to Rs 8.0 bn in Q2 FY09. During the quarter, the company did not have any major success with order wins. We believe this is a key concern as credit crunch, likelihood of economic slowdown and hardening of interest rates may result in corporates deferring capex plans.

Target to reach Rs 5.0 bn in revenues by FY09

HDO's target is to reach Rs 5.0 bn in FY09 from Rs 3.06 bn in FY08. Given the revenue visibility and order pipeline, we believe the target is achievable.

Investment plans of India Inc has been deferred/curtailed

CMIE has estimated that investment plans worth Rs 1,700 bn were either deferred or shelved by India Inc in the three months ended December 2008 due to the ongoing financial crisis, which led to fall in commodity prices, tighter liquidity and muted demand in domestic as well as overseas markets.

Earnings maintained

We have maintained earnings estimates for the company.

Concerns:

Higher cost of borrowings and credit freeze in global markets may affect the capex plans of the private as well as PSUs, which may lead to slowdown in order inflows.

If the economic environment deteriorates further, then we may see elongated working capital and bad debts.

Outlook and Valuation

We recommend BUY on Hindustan Dorr Oliver with a price target of Rs.50

HDO remains one of our favoured picks within the midcap engineering sector. The stock is trading at 2.9x and 2.2x FY09 and FY10 earnings, respectively. On an EV/EBITDA basis, the stock is trading at 3.0x FY09 financials.

We maintain BUY with a DCF based target price of Rs 50 (Rs 77 earlier). In our DCF models we have made changes to build in the following possibilities

- Increase in working capital as adverse economic environment may lead to working capital elongation
- Likely increase in competitive intensity as a result market slowdown
- Moderation in revenue growth beyond FY10.

RESULT UPDATE

Saurabh Agrawal
agrawal.saurabh@kotak.com
+91 22 6621 6309

SAIL

PRICE: RS.74 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.69 **FY10E: EV/EBITDA 3.8x; P/E 7.4x**

Weak Quarter - on expected lines

- SAIL's net sales declined 6.4% YoY and 26.1% QoQ to Rs.89.2bn
- EBITDA Margins fell 1860 bps YoY and 1230 bps QoQ to mere 12.7%.
- PAT fell 56.4% YoY and 58% QoQ to Rs.8.43bn which results in an EPS of Rs.2.04 for the quarter.
- Provision for wage revision in this quarter stood at only Rs.5.5bn as against Rs.48.3bn provided in last two quarters.
- Sales volumes declined 20% YoY and 8% QoQ to 2.4 million tonne
- Stock in trade increased by huge Rs.19.9bn driven by 0.62 million tonne increase in inventory
- Barring Bhilai plant, all other plants operated at negligible profitability.
- SAIL has declared an interim dividend of Rs.1.3/share and the record date for the same is fixed for Feb 2, 2009.

Conference call of SAIL is likely on Thursday i.e. Jan 29 2009 and we would come with detailed note and our revised estimates post that.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	395,085	437,755	380,415
Growth (%)	16.5	10.8	-13.1
EBITDA	110,635	81,960	66,352
EBITDA Margins (%)	28.0	18.7	17.4
Net Profit	75,368	56,192	40,932
EPS (Rs.)	18.2	13.6	9.9
Growth (%)	21.5	-25.4	-27.2
ROE (%)	32.8	20.6	13.4
ROAE(%)	37.5	22.3	14.2
EV/Sales (x)	0.5	0.5	0.7
EV/ EBITDA (x)	1.8	2.7	3.8
P/E (x)	4.0	5.4	7.4
P/B (x)	1.3	1.1	1.0

Source: Company, Kotak Securities - Private Client Research

We recommend REDUCE on SAIL with a price target of Rs.69

Quarterly performance comparative

(Rs mn)	Q3FY09	Q3FY08	YoY (%)	Q2FY09	QoQ (%)
Net Sales	**89,206**	**95,333**	**-6.4**	**120,662**	**-26.1**
EBITDA	**11,287**	**29,834**	**-62.2**	**30,115**	**-62.5**
EBITDA Margin (%)	12.7%	31.3%	-18.6	25.0%	-12.3
Other Income	5,550	3,143	76.6	4,224	31.4
Interest	1,078	598	80.4	475	126.7
PBT	**12,566**	**29,219**	**-57.0**	**30,670**	**-59.0**
PAT	**8,433**	**19,347**	**-56.4**	**20,096**	**-58.0**
Net margins (%)	8.3	20.3	-12.0	16.7	-8.3
EPS (Rs)	**2.04**	**4.68**	**-56.4**	**4.87**	**-58.0**

Source: Company

RESULT UPDATE

Saurabh Agrawal
agrawal.saurabh@kotak.com
+91 22 6621 6309

SESA GOA

PRICE: RS.73 **RECOMMENDATION: BUY**
TARGET PRICE: RS.123 **FY09E: EV/EBITDA 1x P/E 3.3x**

Strong quarter in tough conditions

- Sesa Goa's net sales increased 11.6% YoY and 55.3% QoQ to Rs.13.6bn.
- EBITDA margins fell by 2100 bps YoY and 690 bps QoQ to 41.2%
- PAT declined 7% YoY and 4.2% QoQ to Rs.4.7bn resulting in an EPS of Rs.5.9 for the quarter.
- Other income increased 243% YoY and 33.7% QoQ to Rs.6bn on account of return on much higher cash equivalents.
- Net cash/investments as on Dec 31 2008 increased to Rs.323bn or Rs41/share.
- Iron ore sales volumes were up 37% YoY to 5.44 million tonnes (highest ever).
- Sales realizations declined sharply to 49$/tonne likely driven by sharp jump in sales in weak spot markets and higher sales of iron ore with low Fe content from Goa.
- MTM forex loss of Rs.75.87bn as on December 31 2009 has been directly recognized in the reserves. It seems the company has provided significant forex losses in P&L in this quarter, under the head 'Other Expenditure' and the unrealized amount is taken to reserves. More clarity would emerge in the conference call today.
- Strong Q3 performance driven by high iron ore volumes and low realizations is likely to lend better visibility and certainty to FY10E estimates and could lead to improvement in valuation multiples for the company going forward.

Conference call of Sesa Goa is scheduled today i.e. Jan 28 2009 and we would come with detailed note and our revised estimates tomorrow.

Summary table

(Rs mn)	FY08A	FY09E	FY10E
Sales	35,516	49,365	51,266
Growth (%)	80.4	39.0	3.9
EBITDA	22,108	27,049	26,988
EBITDA Margins (%)	61.4	54.2	52.1
Net Profit	14,920	19,724	20,107
EPS (Rs.)	19.0	21.9	25.5
Growth (%)	146.0	15.0	17.0
ROE (%)	53.5	40.0	32.9
ROAE(%)	69.4	48.5	38.6
EV/Sales (x)	1.1	0.6	0.3
EV/ EBITDA (x)	1.7	1.0	0.5
P/E (x)	3.8	3.3	2.8
P/B (x)	2.1	1.3	0.9
BVPS (x)	35.5	54.7	77.6

Source: Company, Kotak Securities - Private Client Research

We recommend BUY on Sesa Goa with a price target of Rs.123

Quarterly performance comparative

	Q3FY09	Q3FY08	YoY(%)	Q2FY09	QoQ(%)
Net Sales	**13,599**	**12,182**	**11.6%**	**8,757**	**55.3%**
EBITDA	**5597**	**7569**	**-26.0%**	**4205**	**33.1%**
EBITDA Margin	41.2%	62.1%	-21.0%	48.0%	-6.9%
Other Income	607.6	176.7	243.9%	454.5	33.7%
PBT	**6,069.2**	**7,618.1**	**-20.3%**	**4,542.7**	**33.6%**
PAT	**4,707**	**5,075**	**-7.3%**	**3,398**	**38.5%**
% net margin	34.6%	41.7%	-7.0%	38.8%	-4.2%
EPS (Rs.)	**5.97**	**6.44**	**-7.3%**	**4.31**	**38.5%**

Source: Company

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
27-Jan	Epic Energy	Ashok Kumar	S	48,213	93.38
27-Jan	G.S. Auto	Hardik M Mithani	S	19,519	9.85
27-Jan	Om Met Infra	T C Kothari And Sons Family Trust	B	2,500,000	6.02
27-Jan	Om Met Infra	Tree Line Asia Master Fund Singapore Pte Limited	S	3,030,364	6.00
27-Jan	Ranklin Solu	Mikkilineni Sree Lakshmi	S	44,500	29.90
27-Jan	Riba Textile	Shailesh Somabhai Patel	B	81,888	31.16
27-Jan	Riba Textile	Shah Ekta Ripple	S	82,000	29.91
27-Jan	Splash Media	Rekha Bhandari	B	7,777	44.65

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Reliance Ind	1,226	6.0	17.6	4.5
NTPC Ltd	190	5.7	13.6	7.6
Bharti Airtel	647	5.6	10.4	4.6
Losers				
ONGC	621	-3.9	(8.7)	3.2
Gail India	189	-5.4	(2.2)	3.2
PNB	394	-3.2	(0.6)	3.1

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
28-Jan	ONGC, National Aluminium, Tata Steel, Chambal Fertilizer, Dabur India, NMDC, Max India, Gail India, HPCL, Ashok Leyland, India Cements, Thermax, United Phosp, Housing Development Infrastructure, Power Grid Corp, J&K Bank earnings expected
29-Jan	BPCL, Tata Power, Neyveli Lignite, Lupin, GMR Infra, BHEL, Cairn India, Infrastructure Development, Bank of Baroda, GMDC, Jindal Steel, Bajaj Hindustan Suzlon Energy, Kilburn Engineering earning expected
30-Jan	L&T, Titan Industries, Balrampur Chini Mills, Siemens, Hindalco Industries, Colgate Palmolive, Adlabs Films, Bharat Gears, Mundra Port, IVRCL Infrastructure, Indian Oil Corp, Essar Shipping, Jain Irrigation, Aban Offshore, Bombay Dyeing, Sun Pharma, Tata Tea, Tata Motors, DCHL, GE Shipping, BEML earnings expected
31-Jan	DLF, Grasim, M&M, GVK Power & Infrastructure, Rashtriya Chemicals, Bhushan Steel, Unitech, Essar Oil, DLF, Jai Corp, Videocon Industries earnings expected

Source: Bloomberg

Research Team

Dipen Shah
IT, Media
dipen.shah@kotak.com
+91 22 6621 6301

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Teena Virmani
Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Apurva Doshi
Logistics, Textiles, Mid Cap
doshi.apurva@kotak.com
+91 22 6621 6308

Saurabh Gurnurkar
Media, IT
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

Saurabh Agrawal
Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Saday Sinha
Banking, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Sarika Lohra
NBFCs
sarika.lohra@kotak.com
+91 22 6621 6313

Siddharth Shah
Telecom
siddharth.s@kotak.com
+91 22 6621 6307

Shrikant Chouhan
Technical analyst
shrikant.chouhan@kotak.com
+91 22 6621 6360

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6621 6311