Economy News

- The Finance Minister has announced an interest subsidy of 1% for one year on housing loans of up to Rs.1mn for properties worth less than Rs.2mn, a move that has been widely welcomed by realtors and home loan companies. The measure is expected to cost the exchequer Rs.10bn. Mukherjee also allowed developers of housing projects a tax holiday under section 80 IB(10) of the Income Tax Act on profits from projects approved between April 1, 2007 and March 31, 2008, provided the projects are completed on or before March 31, 2012. The FM asked developers to pass on the benefits of this tax break to consumers. (BS)
- The sunset clause for industrial parks has been extended for the next two years, till March 31, 2011. Mr. Pranab Mukherjee said tax breaks would be offered to all food processing units, especially perishable items like meat and dairy products. A tax holiday has been extended for commercial production of natural gas in blocks licensed under the fourth round of bidding for exploration of coal-bed methane.
- The FM has announced that, deduction on interest paid on education loans for pursuing higher studies would now be available to the legal guardian of the student. For persons with severe disability, the tax deduction rate has been increased from Rs 75,000 to Rs.100,000. The finance minister exempted repairs and maintenance of roads from service tax with immediate effect. Also, the service tax on new services proposed in Budget would come into effect from September 1. (BS)

Corporate News

- **Cairn India** may be allowed to market the unallocated portion of crude oil to be produced from its Rajasthan fields. The Petroleum Ministry is considering a proposal to let Cairn sell to other refiners, including the private sector, the output that IOC, HPCL and MRPL cannot absorb. (BL)
- **Gas Authority of India Ltd (Gail),** the country's largest gas marketing company, would invest Rs.80bn to expand its pipeline network. Of this, Rs.76bn would be invested in constructing a 2,050-km pipeline from Jagdishpur to Haldia, company Chairman U D Choubey said today. So far, this is the single largest investment in any pipeline by Gail (BS)
- **Tata Motors** clocked a 58% rise in net profit for the June quarter, on the back of share sales in a sister concern and new accounting norms that offset forex losses. The company said its standalone profit for its first quarter of the year rose to Rs.5.14bn from Rs.3.26bn a year ago, even as revenues dipped 8% to Rs.64bn because of weaker sales of its mainstay heavy trucks. Of this, Rs.3.18bn came from the sale of 11-million shares of Tata Steel to parent Tata Sons. Under the new norms, the company's notional exchange loss in the first quarter fell to Rs.55mn, compared with Rs.1.62bn in the previous year. (ET)
- **Glenmark's** consolidated revenue for the quarter rose 18% to Rs.5.44bn against Rs.4.61bn in the year ago period even as forex losses and high interest costs led to a drop in net profit for the quarter ended June 30, 2009. The company's consolidated net profit for the first quarter was at Rs.534mn compared with Rs.1.15bn for the previous corresponding quarter. (ET)
- A sharp rise in operating expenses and squeeze in net interest margin (NIM) - the difference between interest earned and interest paid - resulted in **Bank of India** recording only a 4% year-on-year growth in net profit for the first quarter. Net profit for the three months ended June 2009 stood at Rs.5.84bn, compared with Rs.5.62bn in the year-ago period. This is the second straight quarter in which the bank has deviated from a trend of a 70-80% growth in bottomline. (ET)

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

Equity

	27 July 09	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	15,375	(0.0)	4.1	39.8
NIFTY Index	4,572	0.1	4.5	36.0
BANKEX Index	8,329	(0.1)	0.2	53.1
BSET Index	3,802	0.6	12.6	49.8
BSETCG INDEX	12,666	0.7	(3.3)	63.7
BSEOIL INDEX	9,299	(3.1)	(1.0)	18.3
CNXMcap Index	5,840	1.2	6.0	53.5
BSESMCAP INDEX	6,143	1.5	5.9	58.0
World Indices				
Dow Jones	9,109	0.2	7.9	13.6
Nasdaq	1,968	0.1	7.1	17.6
FTSE	4,586	0.2	8.1	12.0
Nikkei	10,089	1.4	1.9	18.5
Hangseng	20,252	1.3	8.2	38.2

Value traded (Rs cr)

	27 July 09	% Chg - Day
Cash BSE	5,937	(11.6)
Cash NSE	19,164	(6.7)
Derivatives	50,488	(30.4)

Net inflows (Rs cr)

	24 July 09	% Chg	MTD	YTD
FII	1,051	48	7,280	32,168
Mutual Fund	166	(158)	1,573	4,102

FII open interest (Rs cr)

	24 July 09	% Chg
FII Index Futures	11,464	3.5
FII Index Options	28,010	0.6
FII Stock Futures	22,066	0.3
FII Stock Options	971	0.1

Advances / Declines (BSE)

27 July 09	A	B	S	Total	% total
Advances	129	859	223	1,211	61
Declines	75	508	130	713	36
Unchanged	-	40	13	53	3

Commodity

		27 July 09	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US$/BBL)	68.0	(0.6)	(1.7)	36.2
Gold	(US$/OZ)	953.8	0.3	1.4	6.6
Silver	(US$/OZ)	14.0	0.9	(0.3)	12.5

Debt / forex market

	27 July 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.08	7.08	6.99	6.44
Re/US$	48.16	48.23	48.11	50.26

Sensex

RESULT UPDATE

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BHARAT ELECTRONICS

PRICE: RS.1470 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1625 **FY10E P/E: 8.1x**

- **Results are vastly ahead of expectations. Revenue higher due to slip-page of revenues from Q4.**
- **Operating margins expanded as a result of operating leverage and cost rationalisation**
- **MOU (with Defence Ministry) based revenue target for FY10 has been set at Rs 49 bn.**
- **We maintain ACCUMULATE with a price target of Rs 1625 (Rs 1100 ear-lier).**

Summary table

(Rs mn)	FY08	FY09	FY10E
Sales	38,104	46,112	52,106
Growth (%)	-2.2	21.0	13.0
EBITDA	10,133	11,411	12,864
EBITDA margin (%)	26.6	24.7	24.7
Net profit	8,267	8,085	9,268
Net cash (debt)	24,521	27,900	34,294
EPS (Rs) (cons)	103.3	101.1	115.9
Growth (%)	15.1	-2.2	14.6
CEPS	114.9	114.1	128.7
DPS (Rs)	18.0	20.7	20.7
ROE (%)	29	23	22
ROCE (%)	39	34	32
EV/Sales (x)	2.4	1.9	1.6
EV/EBITDA (x)	9.2	7.9	6.5
P/E (x)	14.2	14.5	12.7
P/Cash Earnings	12.8	12.9	11.4
P/BV (x)	3.8	3.1	2.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY10	Q1FY09	% YoY
Sales Turnover	**9106**	**3839**	**137**
Other income	437	613	-29
Expenditure	8189	4165	97
Raw Material costs	6039	2023	198
Staff costs	1704	1592	7
Other costs	445	550	-19
Operating profit	**917**	**-326**	
Interest	1	0	
Gross Profit	1353	286	373
Depreciation	280	240	16
PBT	**1073.0**	**45.8**	**2245**
Tax	346	20.4	1593
Adjusted PAT	727.3	25.3	2770
EBITDA (%)	**10.1**	**-8.5**	
Raw Material costs to sales (%)	66.3	52.7	
Staff costs to sales (%)	18.7	41.5	
Other exp to sales (%)	4.9	14.3	
Tax rate (%)	32	45	
EPS Rs	**9.1**	**0.3**	

Source : Company

Higher WIP at the end of Q4 drives revenue for the quarter:

- BEL reported 137% yoy growth in revenues for the first quarter.
- Revenue growth is driven by translation of finished goods inventory pertaining to previous quarter.
- The fourth quarter has the highest revenue booking (accounting for 60% of revenues), and correspondingly the first quarter has the lowest revenue booking of 8%. Hence the impact has appears magnified.
- There is little change in velocity of business for the company in terms of new order inflows.

Revenue target for MOU set at Rs 49 bn

At the beginning of the fiscal, BEL signs an MOU with the Minsutry of Defence wherein ratings are assigned for achieving target revenues. Accordingly, BEL had been achieving 'Excellent Performance' rating under the MoU since the past several years. The company managed to meet its target of Rs 46.5 bn in FY09 to achieve a "Very Good" rating.

For the year FY10, the company has set a MOU based target of Rs 49 bn for achieving "Very Good" rating. The revenue target implies a 6.5% growth over FY09 revenues.

Margins expanded as a result of higher turnover:

- During the quarter, the company has been able to expand its margins to 10.1% as against -8.5% in the corresponding quarter of the previous year.
- Material costs have risen faster than the revenue, and may indicate change in product mix towards margin dilutive orders in the coming quarters
- Other expenditure has declined 19% and was mainly responsible for margin expansion.

While the order backlog is strong, bureaucracy in defence matters poses the risk of execution taking longer period

The order book as on April 01, 2009 is estimated to be around Rs 100 bn, which is up 5.8%. Order backlog provides a revenue visibility of 26 months. However, for the year we estimate order inflows to have grown by 10% in FY09.

Strategic tie-ups with global defence majors

BEL is looking for new growth opportunities through organic or inorganic growth. In this direction, BEL is discussing with reputed foreign and Indian players for forming joint venture companies in India, in the areas of defence electronics, namely electro optics, airborne electronic warfare, missile electronics and guidance systems, microwave super components, etc. The company has also appointed KPMG to identify future growth opportunities for the company.

- **Agreement with Northrop Grumman:** India is one of the largest defence equipment importers in the world. This is attracting several global defence majors to India. The U.S. defence manufacturer Northrop Grumman has recently entered into an agreement with Bharat Electronics Limited to manufacture components of the F-16 fire control radar. As part of a comprehensive co-production programme, Northrop Grumman engineers will work side-by-side with engineering teams from BEL to provide training and support to ensure a smooth transition to production. Initial radar component deliveries from BEL will begin by the first half of next fiscal.
- **Pact with Boeing to establish a facility in India to test military products:** Boeing co of US has recently announced that it has signed an pact with BEL to set up a facility for analysis and experimentation of military products and equipments. Boeing has similar centers in Australia and the U.K., the statement said.

Valuation

We maintain ACCUMULATE on Bharat Electronics with a price target of Rs.1625

- At the current price, BEL is trading at 12.7x FY10E earnings.
- BEL has traditionally moved in a price band of 8-16x
- In view of this, we maintain **ACCUMULATE**.
- BEL tends to outperform the market during period of economic instability and remains a market performed during bull market phase.
- The company remains a defensive bet given limited challenges to business in the near-term and likely continuation of preference from defence agencies in view of its status as a PSU.
- The company remains cash rich and we estimate cash per share of Rs 350 per share.

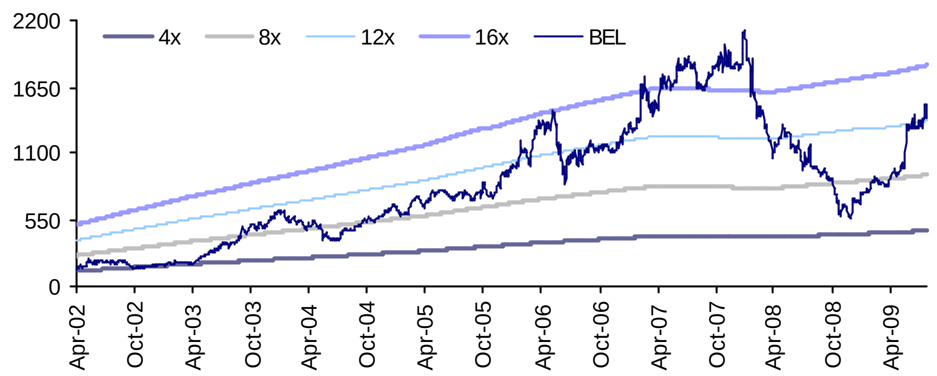
Concerns

- Potential loss of market share to private players is the main challenge admits annual report
- The management admits in annual report that DPP 2008, which has further opened up the defence market to private players and foreign competition has posed a major challenge to the company in retaining its Defence market share.
- The defence sector has been opened for private Indian companies since the year 2001 and upto 26% FDI is permitted. It is expected that the government may increase the FDI share of 26% for foreign companies.
- Our discussion with the management indicates, that private sector has started to compete with BEL, however, any serious dent on market share may happen only in the long-term.

Lumpiness in quarterly earnings

BEL's earnings are characterized by lumpiness in earnings. The fourth quarter in FY09 accounted for 69% of the annual profits.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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BLUE STAR LTD

PRICE: RS.372 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.400 **FY10E P/E: 16.1x**

- **Revenue declines 14% yoy. Revenue degrows across segments.**
- **Despite fall in revenues, margins have expanded 250 bps, thus shoring up the profits**
- **Blue Star is our preferred stock within the engineering mid-cap universe given relatively attractive valuations. However, in view of reduced upside, we maintain ACCUMULATE with target price of Rs 400 (Rs 318 earlier).**

Summary table

(Rs mn)	FY09	FY10E	FY11E
Sales	25,523	28,444	36,868
Growth (%)	14.9	11.4	29.6
EBITDA	2,559	3,024	4,176
EBITDA margin (%)	10	10.6	11.3
Net profit (adjusted)	1,832	2,076	2,978
Net cash (debt)	(180)	338	1,243
EPS (Rs)	20.4	23.1	33.1
Growth (%)	22.3	13.3	43.5
CEPS	23.3	26.2	36.2
DPS (Rs)	7.0	7.0	7.0
ROE (%)	58.0	49.0	54.0
ROCE (%)	73.0	62.0	67.0
EV/Sales (x)	1.3	1.2	0.9
EV/EBITDA (x)	13.1	10.9	7.7
P/E (x)	18.3	16.1	11.2
P/Cash Earnings	16.0	14.2	10.3
P/BV (x)	9.1	7.0	5.3

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY10	Q1 FY09	YoY (%)
Net Sales	**5385**	**6298**	**(14)**
Commission	13	12	3
Raw material costs	3645	4630	(21)
Staff costs	464	479	(3)
traded items	304	151	102
Other expenditure	360	479	(25)
Total Expenditure	4773	5738	(17)
PBDIT	**625**	**572**	**9**
Other income	4	17	(75)
Interest	4	20	(79)
Depreciation	82	57	45
PBT	**543**	**512**	**6**
Tax	131	146	(10)
PAT	**412**	**366**	**13**
PBDIT (%)	11.6	9.1	
Tax rate (%)	24.2	28.6	
Raw material cost to sales (%)	67.7	73.5	
Other expenditure to sales (%)	6.7	7.6	
Staff costs to sales (%)	8.6	7.6	
EPS (Rs)	**4.6**	**4.1**	

Source: Company

Deceleration in revenues continues

Revenue growth for the quarter came at -14% mainly due decline in revenues across all segments.

The company had been going slow on billing given liquidity issues faced by clients. This could have contributed to degrowth in revenues. Order execution has also been taking longer as clients have been delaying completion in view of slack demand conditions.

Cooling Products growth is driven by increased sales of split airconditioners, as well as enhanced demand for refrigeration products and cold chain systems. Revenue growth in this segment has been driven by increased offtake in the residential segment.

The professional electronics segment declined 29% yoy. The Professional Electronics and Industrial Systems business' business model is 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)	Q1 FY10	Q1 FY09	% change
Central AC (CAC)	3230	3800	-15
Cooling products	1909	2159	-12
Professional electronics	247	350	-29

Source: company

Margins rebound on lower commodity prices

- EBITDA margins expanded 250 bps to 11.6% in Q1 FY10
- During the quarter, the company was able to take advantage of cooling in commodity prices (steel and aluminum). Cost rationalization efforts also helped.
- The company had taken price hikes in earlier quarters to pass on the high commodity prices.
- Blue Star is a net importer and the stable currency aided margin expansion.
- Other expenditure posted a decline of 25% to Rs 360 mn.

Segment margins

(%)	Q1 FY10	Q1 FY09	Q4 FY09
Central AC	10.5	11.3	14.9
Cooling products	17.3	12.8	14.0
Professional electronics	28.2	15.2	21.2

Source: Company

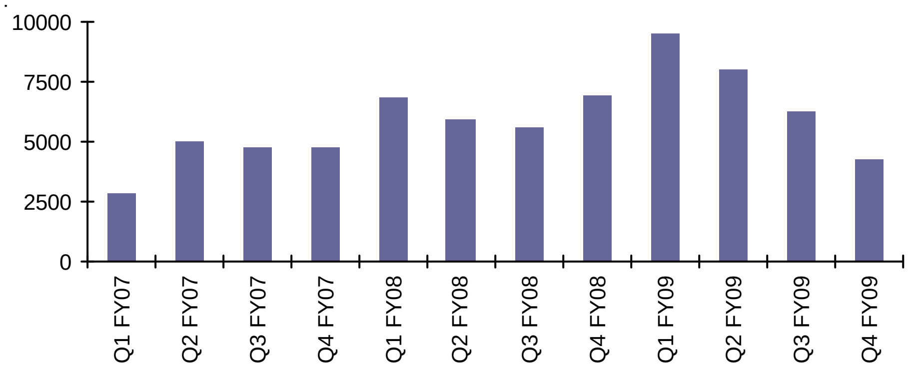
Order inflows gaining traction

- Order backlog is up 22% yoy to Rs 17.2 bn. On a sequential basis, order backlog is up 28%.
- Order inflows during the quarter is estimated to be flat on a yoy basis. However, on a sequential basis, we expect order inflows to gained momentum in the quarter. We estimate order inflows to have grown 117% on a sequential basis.
- We expect to see uptick in order inflows in the coming quarters due to overall rebound of the economy. Investment in infrastructure is expected to generate sizeable business for the company.
- The company had indicated that it expects to finalise 4-5 large orders worth Rs 4.0 bn which have been in discussion since FY09 but have been delayed this far. We expect some positive development on these orders could have benefited the order inflows.
- 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), which would mean revenue growth could be affected.

Order inflows expected to gain further traction from H2 FY10

- For FY09, order inflows slowed down to 12.3% compared to 39% in FY08.
- Management has said that a good number of projects that were delayed or deferred in FY09 due to liquidity crunch/economic recession are showing signs of reviving. However, the order size has reduced as the project size has been curtailed in view of the changed economic growth outlook.

Order inflows (Rs mn)



Source: company

Change in order mix towards non-IT/ITES

IT/ITES had been one of the prime driver of Central Air Conditioning demand for the company. However, the ongoing slowdown in IT outsourcing has taken its toll on creation of new software development centres. As a result, share of IT/ITES has declined from 30% in Q2 FY09 to 15% in Q4 FY09. Also, the order mix has become more broad-based with several government projects now accounting for 26% of orders. The space thus vacated has been taken by offices/Hospitals/Govt and Infrastructure projects. Execution period for order backlog of Rs 17.2 bn is of 9-11 months.

Margins expected to be maintained

For the year, the management has guided for a stable margin scenario.

Bulk of the orders are fixed price. The company expects the situation on material price front is manageable as it does not foresee a similar runaway increase in steel price.

Capital engagement higher mainly due to Professional electronics business:

The capital employed in Central Airconditioning and Cooling Products segments has remained stable except in the professional electronics segment. We believe it could be due to bunching of inventory which will get translated into revenue in the coming quarters.

Cap employed

(Rs mn)	Q1 FY10	Q1 FY09	Q4 FY09
Central AC	3793.7	2663.3	3161.3
Cooling products	1030.5	1564.4	1167.5
Professional electronics	3423.3	306.8	308
Residual	-497.3	-392	-723.3
Total	**7750.2**	**4142.5**	**3913.5**

Source: Company

Change in earnings

- Minor decrease in earnings in FY10 compensated by growth in FY11
- Based on traction in order inflows, we have raised our revenue estimates for FY11

Change in target price mainly due to

- Increased traction in new order inflows in Q1 FY10. This has positive implications for our revenue growth assumptions in FY11.
- Overall improvement in business confidence and return of liquidity which should provide a boost to projects that had been deferred/delayed due to lack of funds.
- Our revised price target works out to Rs 400 (Rs 320 earlier)
- At our target price, the stock trades at 17x FY10 earnings.

Valuation

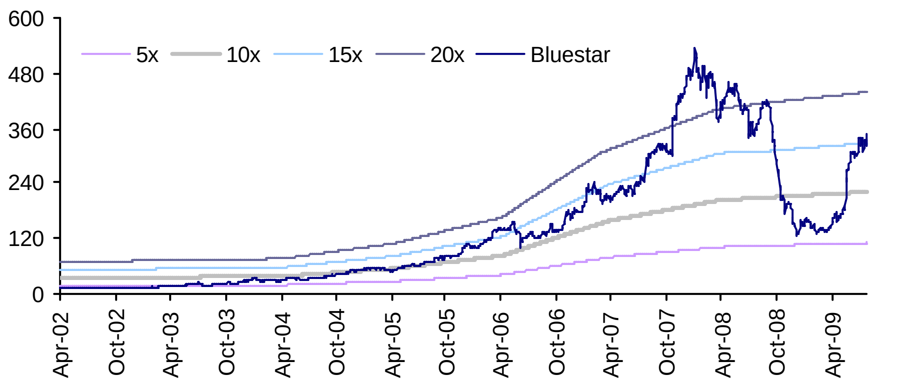
The stock is currently trading at 16.1x and 11.2x FY10 and FY11 earnings. On an EV/EBITDA basis, the stock is trading at 10.9x FY10.

Recommendation and Rationale

We maintain our ACCUMULATE recommendation on Blue Star with a revised price target of Rs.400

Blue Star remains one of our favoured picks in the engineering madcap sector. However, in view of the reduced upside from these levels, we recommend **ACCUMULATE** with a revised price target of Rs 400 (earlier Rs 318).

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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AREVA T&D

PRICE: RS.338 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.295 **CY09 P/E: 28.6X**

- **Numbers are lower than our estimates (forecast of Rs 610 mn for Q2) mainly due to decline in operating margins.**
- **Order backlog remains healthy at Rs 42.2 bn, equivalent to 16 months of four quarter revenues.**
- **At the current price, the stock is trading 28.6x CY09 earnings. We maintain Reduce with a DCF based price target of Rs 295 (Rs 225 earlier)**

Summary table

(Rs mn)	CY07	CY08	CY09E
Sales	20,063	26,412	36,011
Growth %	24.9	31.6	36.3
EBITDA	3,575	4,251	5,223
EBITDA margin %	17.8%	16.1%	14.5%
Net profit (Adj)	2,199	2,649	2,821
EPS (Rs)	9.2	11.1	11.8
Growth %	69.3	20.4	6.5
CEPS	10.0	10.9	13.5
ROE %	47.2	41.6	33.9
ROCE %	64.5	42.4	32.8
EV/Sales (x)	4.1	3.2	2.5
EV/EBITDA (x)	22.8	20.0	17.0
P/E (x)	36.7	30.5	28.6
P/Cash Earnings	33.7	31.0	25.0
P/BV (x)	16.1	11.9	9.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2 CY09	Q2 CY08	YoY %	H1 CY09	H1 CY08	YoY %
Net Sales	**7,883**	**6,218**	**26.8**	**16,333**	**11,247**	**14.8**
Other Income	-	17	-100.0	4	52	-32.3
Total Income	7,883	6,234	26.4	16,337	11,298	14.6
				-	-	
RM costs	5,106	3,633	40.5	11,196	6,836	21.5
Staff costs	700	514	36.3	1,351	996	18.7
Other exp	1,005	970	3.7	1,627	1,522	2.4
Total Expenditure	6,812	5,116	33.1	14,174	9,353	18.1
PBIDT	**1,071**	**1,101**	**-2.8**	**2,159**	**1,893**	**-1.6**
Interest	163	40	304.2	285	69	176.7
PBDT	**908**	**1,078**	**-15.7**	**1,878**	**1,876**	**-9.0**
Depreciation	115	96	20.1	195	155	12.4
PBT	**794**	**982**	**-19.2**	**1,683**	**1,721**	**-11.0**
Tax	257	348	-26.2	545	629	-14.5
Adj Profit After Tax	537	635	-15.4	1,138	1,093	-8.9
Extra-ordinary Items	(35.80)	12.00		(118)	95	
Reported PAT	**501**	**647**		**1,019**	**1,188**	
OPM (%)	13.6	17.7		13.2	16.8	
tax rate (%)	32.3	35.4		32.4	36.5	
other expenditure to sales (%)	12.8	15.6		10.0	13.5	
Raw material cost to sales (%)	64.8	58.4		68.5	60.8	
Staff cost to sales (%)	8.9	8.3		8.3	8.9	
EPS (Rs)	**2.1**	**2.7**		**4.3**	**5.0**	

Source: Company

Revenue lower than expectations

Revenues for the quarter have grown 27% yoy in Q2 CY09 driven by robust demand from the power T&D utilities (60% of the orders) as well as the industrial sector.

Margins declined 410 bps to 13.6%- Project revenues rises in revenue mix

Areva's product portfolio is mainly oriented towards the higher end of T&D equipment, thus the above industry average EBITDA margins. However, during the quarter, EBITDA margins declined 410 bps to 13.6%. We believe decline in operating margins is mainly due to higher share of subcontracting expenses in the revenues. Margins can fluctuate in a quarter depending upon the share of projects revenue (lower margins).

Increase in interest costs slows down profit growth

Areva inaugurated eight manufacturing facilities in April. The actual capex incurred was Rs 9.5 bn higher than Rs 7.0 bn envisaged. This capex has been financed through a mix of internal accruals and debt. Outstanding debt at the end of the year has increased to Rs 4.7 bn as compared to Rs 1.0 bn in CY07.

Order backlog up 7% to Rs 42.2 bn: Areva reported 7% increase in order backlog to Rs 42.2 bn.

We estimate order inflows to have degrown 44% yoy during the quarter. On a sequential basis, estimated order inflows are down 15%.

Capacity addition in April 2009

The company has set up plants at three locations. The Vadodora (Baroda) factory will make Power transformers up to 765 kV and later upto l,200 KV range. The company has a large site at Vadodara which will take care of further expansion needs. This will be Areva's second plant for transformers in India. Total capex envisaged is Rs 5 bn for the site. The unit will cater to both domestic and international market.

At Hosur, the company will manufacture Instrument transformers up to 765 kV with ability to expand to 1200 kV range. Total capex planned is Rs 1 bn for the site.

The third site is at Padapparai which will manufacture Switchgear upto 765 KV. This site will also make the Gas-Insulated switchgear (probably the first company to make GIS switchgear in India), which find use in metro location because of its limited space requirements. This plant will result in doubling of switchgear capacity.

The Hosur and Vadodara have already started commercial production, while Padappai is currently in the trial production stage and is expected to go for commercial production by June 2009

Product-portfolio well geared to meet the emerging HV and Ultra HV demand scenario

PGCIL has plans to spend Rs 550 bn in the XIth plan period.

In the current year, going by the spending plans of PGCIL, significant orders for transmission equipment are likely to be placed.

Areva could be one of the main beneficiary given that in the high-end segment, the competition is low. Areva expects significant orders for substations and transformers in the 765 KV from PGCIL in CY09.

PGCIL Capex

	Rs bn
FY08	66
FY09	80.9
FY10E	115
FY11E	150
FY12E	150

Source: Company

CKM

	10th plan	11th plan	% change
765 KV	1704	7132	319
HVDC	6034	11240	86
400 KV	75722	125000	65
230/220 KV	114629	150000	31

Source: CEA

Substations MVA

	10th plan	11th plan	% change
765 KV	2000	53000	2550
HVDC	8200	14200	73
400 KV	92942	145000	56
230/220 KV	156497	230000	47

Source: CEA

Maintain Reduce

Valuations have traded firm at 28.6x and 23.0x CY09E and CY10E earnings. We maintain Reduce with a DCF based price target of Rs 295 (Rs 225 earlier).

Rationale for Recommendation

While orders from utilities (60% of order book) are likely to sustain in CY09, we expect degrowth in orders from the industrial customers. Thus order inflows are expected to slow down in CY09.

We recommend REDUCE on Areva T&D with a price target of Rs.295

Higher interest costs as a result of high capex will restrict earnings growth in CY09 to 7% in CY09.

As against this, the stock is trading at 28.6x CY09 earnings. We maintain our **REDUCE** recommendation on the company.

However, we raise target price upwards mainly due to ......

- The MNC electrical equipment sector has been rerated on strong indications that the economy is on the rebound, which would translate into higher order inflows in CY10 onwards.
- Cost of capital has reduced.
- Areva has in the past bull phase traded in a price band of 12-30x one year forward.

RESULT UPDATE

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NTPC

PRICE: RS.215 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.245 **FY10E P/E: 19.3X**

- **Numbers are ahead of our estimates aided by 11% growth in volumes**
- **PLF in gas stations rose from 67% to 80% due to greater availability of feedstock**
- **Progress on capacity addition remains a concern, which could likely impact our revenue assumptions.**
- **Maintain Accumulate with a price target of Rs 245 (Rs 215 earlier)**

Summary table

(Rs bn)	FY09	FY10E	FY11E
Sales	419.2	501.1	525.9
Growth (%)	13.0	19.5	4.9
EBITDA	121.8	155.2	163.6
EBITDA margin (%)	29.1	31.0	31.1
Net profit	82.0	92.0	96.1
EPS (Rs)	9.9	11.2	11.7
Growth (%)	10.6	12.2	4.5
CEPS	12.8	14.1	14.9
DPS (Rs)	4.0	4.5	5.0
ROE (%)	15.0	15.5	14.9
ROCE (%)	13.2	15.0	14.0
EV/EBITDA (x)	13.7	11.5	11.6
P/E (x)	21.6	19.3	18.4
P/Cash Earnings	16.8	15.2	14.4
P/BV (x)	3.1	2.9	2.7

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY10	Q1 FY09	% YoY
Net sales	**120027**	**95395**	**26**
Other op income	5,253	-	
Expenditure	88270	71177	24
-Fuel Cost	77427	61386	26
-Staff Cost	5904	5779	2
-Others	4939	4012	23
Operating profit	**37010**	**24218**	**53**
Depreciation	6128	5524	11
Gross profit	**30882**	**18693**	**65**
Interest	4447	4219	5
Other income	2510	7172	-65
PBT	**28945**	**21647**	**34**
Tax	7009	4382	60
PAT	**21936**	**17265**	**27**
Ratios			
Fuel cost/Net sales	64.5%	64.3%	
Staff cost/Net sales	4.9%	6.1%	
Other expenditure to sales %	4.1%	4.2%	
EBITDA/Sales	30.8%	25.4%	
Net profit margin (%)	**18.3**	**18.1**	
No.of Shares outstanding	8246	8246	
EPS (Rs)	**2.7**	**2.1**	

Source: Company

- Revenue growth for the quarter came at 26% yoy aided mainly by higher volumes from commercialization of 2000 MW capacity during the year.
- Gross generation increased 11% yoy to 52.1 bn units. NTPC declared the second unit of 500 MW at Sipat commercial wef from January 01, 2009.
- Average PLF for the quarter for coal stations (24395 MW of coal based capacity) was up to 92.8% from 91.1% yoy. For the gas stations (3605 Mw of gas based capacity), there has been a quantum increase in PLF from 67.2% to 79.8%.
- On coal supply position, the management clarified that most of the company's stations are pit-head and hence a depleted coal stock can replenished in short notice.
- Employee costs remained under control and grew 2% yoy.
- Interest cost for Q1 was up 5% yoy to Rs 4.4 bn.

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. As per our assessment, the company may be able to add upto 16550 MW as against its target of 22430 MW for the XIth plan.

Earnings and Valuation:

We recommend ACCUMULATE on NTPC with a price target of Rs.245

- Maintain earnings with a revised price target of Rs 245. Maintain our Accumulate call on NTPC.
- NTPC is currently trading at 19x and 18.4x FY10 and FY11 earnings respectively. On a P/BV basis, the stock trades at 2.9x.
- We maintain our **ACCUMULATE** call on the company given limited upside from current levels.
- Raise target price to Rs 245 (Rs 215 earlier).

RESULT UPDATE

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GEOMETRIC LTD

PRICE: RS.35 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.40 **FY10E P/E: 6X**

- **1QFY10 results of Geometric saw a 9% QoQ contraction in revenues, sharply impacted by client ramp downs and pricing pressure. Voluntary discontinuation of low profitability projects, higher offshore and cost containment however helped operating margins that rebounded sharply QoQ. Lower losses on other income line also helped the company report net profits ahead of our estimates.**
- **For Q1FY10 revenues plunged by 9% QoQ to Rs.1.29bn; EBITDA margins rebounded sharply by 780bps QoQ to 18.4%, and as a result company reported a net profit of Rs.83.5mn for Q1FY10. This compares to the Rs.210mn loss reported in Q4FY09.**
- **Geometrics financial performance over the recent quarters has suffered on account of the headwinds of an uncertain demand environment in the US for Geometrics key target verticals- auto OEM's and manufacturing. The current quarter too has reflected the pain in certain accounts with ramp downs and pricing pressure leading to the contraction in revenues.**
- **While the company has faced no impact of sub-prime as it has no exposure to the BFSI segment, its focus area of operation (manufacturing, auto and allied industries) continues to face a challenging macro environment.**
- **The management in its interaction has said that the demand environment is better than 2Q ago and believes the outlook for IT spends has stabilized with the likelihood of a recovery in 2HFY10. It also believes that the value of new business added at $3.94mn, will likely start contributing to revenues only towards 2HFY10.**
- **While still cautious on prospects of smaller players, we believe the broader trend for demand has seen upward traction with stability having returned in major user markets, to an extent. Companies that underwent M&A (BFSI, auto, IMS) are now looking at IT spends afresh in the backdrop of a more stable external environment.**
- **We adjust earnings estimates to accommodate for Q1FY10 results. FY10E is expected to remain weak with revenues declining 13% YoY; EBITDA is however expected to grow on the back of well-directed cost containment and pruning of low profitability accounts. The management has asserted that it will look to focus on profitability through FY10 and expects the current quarter cost base to sustain.**
- **While we believe cutting back on investments may compromise future growth prospects, we do believe Geometrics' earlier cost structures had built in good amount of slack with costs higher in comp to peers. We however see a calibrated cost rationalization initiative as positive and helping towards generating operating cash flow.**
- **In FY10, we expect an EPS of Rs.5.6 (Rs.4.1 earlier) for FY10E assuming lower losses in the other income line given our INR appreciation assumption and estimated beneficial impact of cost containment measures.**
- **Noting the upside to our target price and improved outlook on spends picking up in 2HFY10 we move the stock to an ACCUMULATE (REDUCE earlier) with price target of Rs.40 (Rs.30). Sustained improvements in financial performance and/or enhanced visibility will act as likely stock triggers.**

Summary table

(Rs mn)	2008	2009E	2010E
Sales	4858.5	5980.8	5184.4
Growth (%)	26.8	23.1	-13.3
EBITDA	505.9	782.2	919.5
EBITDA margin (%)	10.4	13.1	17.7
Net profit	322.0	3.3	345.9
Net debt (cash)	380.9	584.1	473.2
EPS (Rs)*	5.3	0.1	5.7
CEPS	8.7	3.7	9.5
DPS (Rs)	0.8	0.8	1.0
ROE (%)	15.2	3.6	16.1
ROCE (%)	13.7	0.1	13.7
EV/Sales (x)	0.4	0.4	0.4
EV/EBITDA (x)	5.3	3.7	3.0
P/E (x)	6.6	-	6.2
P/Cash Earnings	4.0	9.4	3.7
P/BV (x)	0.9	0.9	0.8

Source: Company, Kotak Securities - Private Client Research

1QFY10 results: Revenues contract, ramp downs and pricing pressure impact

Quarterly performance

(Rs mn)	1QFY10	4QFY09	QoQ (%)	1QFY09	YoY (%)
Income	1,293.2	1,419.7	-8.9	1,404.4	1.1
Expenditure	1,054.7	1,268.1		1,274.8	
Operating profit	**238.6**	**151.5**	**57.4**	**129.6**	**16.9**
Depreciation	55.4	74.5		49.3	
EBIT	183.2	77.1	137.8	80.3	-4.0
Interest	12.2	15.6		9.5	
Other inc	-52.0	-245.2		14.1	
E.O items	0.0	0.0		-124.2	
PBT	**119.1**	**-183.8**	**-**	**209.1**	**-**
Tax	10.5	26.1		14.5	
PAT	**108.6**	**-209.9**		**194.7**	
Minority Interest	23.3	0.0		32.8	
PAT after M I	85.2	-209.9	-	161.9	-
EPS (Rs)	**1.4**	**-3.4**		**2.7**	
Margins (%)					
Operating Profit	18.4	10.7		9.2	
EBIT	14.2	5.4		5.7	
Net Profit	8.4	-14.8		13.9	

Source: Company

- 1QFY10 results of Geometric saw a 9% QoQ contraction in revenues, to Rs.1.29bn sharply impacted by client ramp downs and pricing pressure. In US$ terms revenues contracted 5.4% QoQ; the management attributed good part of this to pricing cuts and the remaining to client ramp downs (US engineering) it witnessed.
- Total order closure for Q1 was USD 3.94 MM as compared to USD 4.56 MM in Q4 09. The company believes that the value of new business added at $3.94mn, will likely start contributing to revenues only towards 2HFY10.
- Revenue traction within service lines was poor in Software OEM's that de-grew 7% QoQ and contributed c49 of quarter's revenues. Revenues from ISV on the other hand lost stream with a contraction of 4.5%. On a geographical basis, US revenues contracted 11% QoQ. Consequently contribution of US fell to 63.5% in Q4FY09 from 65% in the previous quarter.
- Some OEMs, which have had management changes, are in the process of re-assigning work flow to vendors like Modern. Some of the delays are from the auto OEM customers in USA, which are experiencing a lean patch given the recessionary trends in the US economy. In the US geography engineering revenues contracted by 13% QoQ as the company voluntarily discontinued number of low profitability projects. We believe most of these would likely pertain to the Modern acquisition.
- The receivables cycle for its auto clients (involved in bankruptcy proceedings) has improved from a previous 75 days. We believe given the adverse conditions that face US auto makers; this segment of Geometrics' business is likely to see challenging times. The situation though has materially improved with regards to exposure and collection of receivables, according to the company.

Margins- rebound QoQ, courtesy cost containment and higher offshore.

- EBITDA margins at 18.45% for the quarter were higher by about 780bps QoQ and were materially ahead of our estimates.
- Margins during the quarter were positively impacted by the aggressive cost rationalization embarked upon by the company with the operating cost base declining 17% QoQ. Sharpest declines being under traveling and 'other' cost heads which declined 40% each QoQ.
- While we believe cutting back on investments may compromise future growth prospects, we do believe Geometrics' earlier cost structures had built in good amount of slack with costs higher in comp to peers. We however see a calibrated cost rationalization initiative as positive and helping towards generating operating cash flow.
- The company's net profit was also impacted positively by lower losses in the other income line that were to the tune of Rs.52mn. As a result PAT came in at Rs.83.5mn v/s a loss of Rs.205mn in Q4FY09.

Financials- macro has stabilized of late; a 2HFY10 recovery likely according to industry

- More critical however is the demand environment- we have seen initial signs of stability in segments like BFSI, manufacturing and IMS. While still cautious on prospects of smaller players, we believe the broader trend for demand has seen upward traction with stability having returned in major user markets, to an extent.
- Companies that underwent M&A (BFSI, auto, IMS) are now looking at IT spends afresh in the backdrop of a more stable external environment. The management in its interaction has said that the demand environment is better than 2Q ago and believes the outlook for IT spends has stabilized with the likelihood of a recovery in 2HFY10.

We now recommend ACCUMULATE on Geometric with a price target of Rs.40

- For FY10E we expect revenues to contract 13% YoY. We expect an EPS of Rs.5.6 for FY10E' assuming lower losses in the other income line given our INR appreciation assumption and estimated beneficial impact of cost containment measures.
- Noting the upside to our target price and improved outlook on spends picking up in 2HFY10 we move the stock to an **ACCUMULATE** (REDUCE earlier) with price target of Rs.40 (Rs.30). At our DCF-based price target of Rs.40 (Rs.30 earlier), our core FY10E earnings will discounted by about 7x.
- Sustained improvements in financial performance and/or enhanced visibility will act as likely stock triggers.

RESULT UPDATE

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HT MEDIA

PRICE: RS.112 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.122 **FY10E EV/EBITDA: 12X; P/E: 22X**

Revenues up modestly YoY, growth in circulation revenues and decent cost management lead to margin expansion, and PAT modestly above estimates

Advertising revenues were down 1% YoY at Rs.2.78bn reflecting the deteriorated macro environment for advertising spends, circulation revenues however surprised positively with a 24% growth YoY

Growth rates may remain under pressure over the medium term given a challenging macro for advertising spends; expect pick up in 2HFY10.

Progress of new investments (internet and radio) that have been a drag on consolidated financials and the macro for advertising, will be the key variables to monitor

Modify estimates marginally for FY10E given lower than estimate Q1 revenues and sustainability of a rationalized cost structure. Arrive at a price target of Rs.122 (Rs.112 earlier).

Maintain ACCUMULATE; favourable risk reward and improved outlook on advertising trends and new business turn-around vital to turn incrementally positive, in the near term. Belied hopes of a recovery in corporate earnings and/or higher NP prices remain key risks to our call.

Summary table - Consolidated

(Rs mn)	FY09E	FY10E	FY11E
Sales	13,466	14,708	16,228
Growth (%)	11.7	9.2	10.3
EBITDA	879	2,357	3,183
EBITDA margin (%)	6.5	16	19.6
Net profit	9	1,157	1,700
Net debt (cash)	381	(841)	(2,666)
EPS (Rs)	0.0	4.9	7.3
CEPS	3.0	8.4	10.8
DPS (Rs)	0.4	0.4	0.4
ROE (%)	0.1	12.9	16.5
ROCE (%)	4.7	17.3	22.4
EV/Sales (x)	2.2	1.9	1.6
EV/EBITDA (x)	33.3	11.9	8.2
P/E (x)	-	22.7	15.4
P/Cash Earnings	37.6	13.3	10.4
P/BV (x)	3.1	2.8	2.4

Source: Company, Kotak Securities - Private Client Research

Result Highlights- Revenues up modestly YoY, growth in circulation revenues and decent cost management lead to margin expansion, and PAT modestly above estimates

- HT Media's 1QFY10 standalone results were below estimates in terms of revenues but surprised positively on the EBITDA and PAT front. Standalone revenues were Rs.3.28bn (up 1% YoY and down 2% QoQ). Profits (Rs.324mn, down 14% YoY and up 38% QoQ) were lower than estimate and are largely attributable to the lower advertising revenues- reflective of a continued challenging environment. We had estimated revenues of Rs.3.5bn and a Pat of Rs.300mn, for the quarter.
- Advertising revenues were down 1% YoY at Rs.2.78bn reflecting the deteriorated macro environment for advertising spends, more so in the saturated print markets in metros which are crucial for HT's print business.
- Circulation revenues however surprised positively with a 24% growth YoY to Rs.444mn. We believe this was on account of its business paper and also gains in 'Hindustan'- the Hindi daily.
- The standalone cost base declined sharply QoQ reflecting not only the marginal benefits of lower NP but in greater measure the cost rationalization carried out during the quarter. Ad and sales promotion (Rs.176mn) declined 34% YY while 'Other' expenses (Rs.686mn) remained flattish YY. QoQ, the cost base declined 9.5%.
- NP prices (Rs.1.23bn, up 3% YY) however do not fully reflect the correction in the underlying commodity due to higher cost inventory varied by HT. We believe the benefits of lower NP will reflect in a more pronounced manner over Q2, for HT's print business.
- EBITDA margins as a result of the cost containment measures and higher proportion of circulation revenues were up by 690bps QoQ and down 150bps YoY to 18.9%.
- The quarter saw exceptional items of Rs.45mn which was a provision for diminution in a long term investment. As a result standalone PAT stood at Rs.324mn for the quarter, EPS of Rs.1.38.

Revenues: Advertising revenues decline 1% YoY. Growth rates may remain under pressure over the medium term given a challenging macro for advertising spends; expect pick up in 2H.

Quarterly performance

(Rs mn)	Q1FY10	Q1FY09	% chg	Q4FY09	% chg
Revenues	**3281.0**	**3247.0**	**1.0**	**3338.2**	**-1.7**
Expenditure	2660.0	2584.2		2936.3	
EBDITA	**621.0**	**662.8**	**-6.3**	**401.9**	**54.5**
Depreciation	163.0	128.6		155.3	
EBIT	**458.0**	**534.2**		**246.6**	
Net Interest	78.0	50.9		91.0	
Other Income	135.0	82.0		100.9	
Extraordinary item	45.0	0.0		60.3	
PBT	**470.0**	**565.3**	**-16.9**	**196.2**	**139.6**
Tax	146.0	188.1		-38.1	
PAT	**324.0**	**377.2**		**234.3**	
PAT after EO items	324.0	377.2	-14.1	234.3	38.3
EPS (Rs)*	**7.8**	**1.6**		**1.0**	
Margins					
OPM (%)	18.9	20.4		12.0	
GPM (%)	14.0	16.5		7.4	
NPM (%)	9.9	11.6		7.0	

*Source: Company, *- Standalone results reported on a quarterly basis*

- Advertising revenues were down 1% YoY at Rs.2.78bn reflecting the deteriorated macro environment for advertising spends, more so in the saturated print markets in metros which are crucial for HT's print business.
- Circulation revenues however surprised positively with a 24% growth YoY to Rs.444mn. We believe this was on account of its business paper and also gains in 'Hindustan'- the Hindi daily.
- Since Q3FY09 there has been a broader collapse in corporate sentiment impacting adversely spends on advertising, more so for relatively high priced mature print franchises in well penetrated metros.
- We continue to expect muted ad growth trends over 1HFY10E, and are estimating a pick up in 2HFY10, given hopes of an accelerated recovery in corporate earnings, sentiment and willingness to spend on advertising.

Progress of new investments (internet and radio) that have been a drag on consolidated financials and the macro for advertising, will be the key variables to monitor

- Consolidated numbers for HT over the last fiscal have been weak with new initiatives contributing to significant losses at the EBITDA level. We have been pointing the same out consistently and have opined that a quicker turn around in these new initiatives may be challenging given the weak macro environment for advertising revenues.
- In FY09, internet (Rs.480mn), radio (Rs.300mn), MetroNow (Rs.150mn) and the Burda JV investment were the burns at the EBIDTA level. These led to significant paring of FY09 standalone EBITDA of Rs.1.85bn.
- Consolidated PAT too was dragged down by these losses and the investment write downs (Rs.189mn, FY09) leading to a paltry Rs.9mn PAT for the year. Standalone EPS stood at Rs.3.6, for FY09.

- We believe a pick up in the performance of HT's new initiatives will be the key for renewed financial performance.
- Also In our opinion, a pick up in corporate ad spend trends will be another variable to monitor given hopes of policy action leading to a quicker recovery in economic growth and corporate earnings. We will monitor the same closely before turning more positive on the near term outlook for advertising revenues.

Projected Financials- revenue growth rates to feel the strain of restrained advertising spend. FY10E likely stronger than FY09.

- We expect ad spends to grow at a slower pace 1HFY10E, before picking up towards 2HFY10, on the back of renewed policy action by the government. Accounting for the Q1 numbers and our own outlook a near term challenges for ad spends we have lowered our full year ad revenue growth estimate by 150bps to 6%.
- We believe this is apt given the high co-relation that exists between ad spend trends and corporate profit growth rates (a factor of economic growth trajectory) - a fact we have outlined consistently.
- We estimate that HTML will post a 9.8% CAGR in consolidated revenues; EPS over FY09-11E is expected to grow sharply given the losses incurred in FY09 due to its new investments. We estimate the EBITDA margin of 6.5% in FY09 to rebound in FY10E to 16%, aided by NP price softening and lower losses from the new investments. We expect margins to move up further to 19.6% in FY11E.
- We estimate a consolidated EPS of Rs.4.9 (unchanged) in FY10E and Rs.7.3 in FY11E, sharply higher than the Rs.0.1in FY09.

Recommendation- Maintain ACCUMULATE; favourable risk reward and improved outlook on advertising trends and new business turn-around vital to upgrade outlook.

- Given the Q1FY10 numbers, we have made changes to estimated earnings and built in lower ad revenue growth rates over FY10E, lower losses from investments and higher interest costs.

We maintain ACCUMULATE on HT Media with a price target of Rs.122

- Our PT now stands marginally modified to Rs.122 (Rs.112); we rate the stock a **ACCUMULATE.** At the current price, in consolidated financials HT Media is trading at 22x FY10E EPS and 12xFY10E EBITDA, ample in our opinion. Also, the HT stock trails at 15x FY10E standalone EPS.
- Belied hopes of a recovery in corporate earnings and/or higher NP prices remain key risks to our call.

RESULT UPDATE

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SHREE CEMENTS

PRICE: RS.1540 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1690 **FY10E P/CEPS: 4.3X**

Result highlights

- **Revenues for the current quarter Q1FY10 grew by 50% YoY, which was ahead of our estimates led by higher dispatches, improved realisations as well as sale of captive power.**
- **Operating margins of the company registered an improvement on account of improvement in realizations as well as higher captive power sales and stood at 46% for Q1FY10 as against 34.3% for Q1FY09.**
- **Healthy revenue growth as well as improvement in operating margins resulted in 163% growth in the net profits in the current quarter as compared to Q1FY09.**
- **We revise our future estimates upwards based on healthy revenue growth as well as improvement in operating margins.**
- **At current market price of Rs 1540, stock is trading at 4.3x P/CEPS and 3.5x EV/EBITDA for FY10. Post revising our estimates upwards, we arrive at the revised price target of Rs 1690 based on average of 4.5x P/CEPS and 4x EV/EBITDA on FY10 estimates. We change our recommendation to ACCUMULATE from REDUCE earlier based on upside from the current levels.**

Summary table

(Rs mn)	FY08	FY09	FY10E
Revenues	20,659	27,150	34,966
% change YoY	51.0	31.4	28.8
EBITDA	8,624	9,508	13,951
% change YoY	41.0	10.2	46.7
Other Income	733	829	1,050
Depreciation	4,788	2,054	5,422
EBIT	4,569	8,283	9,579
% change YoY	128.7	81.3	15.7
Net interest	497	744	888
Pre-operative exp	388.8	309.3	
Profit before tax	3,683	7,229	8,691
% change YoY	94.5	96.3	20.2
Tax	1,079	1,449	1,564
as % of PBT	29.3	20.0	18.0
Net income	2,604	5,780	7,127
% change YoY	47.1	122.0	23.3
Shares (m)	34.8	34.8	34.8
EPS (reported) (Rs)	74.7	165.9	204.6
CEPS (Rs)	212.2	224.8	360.2
P/E(x)	20.6	9.3	7.5
P/CEPS(x)	7.3	6.8	4.3
EV/EBIDTA(x)	6.5	5.4	3.5
RoE(%)	44.3	61	45.6
RoCE(%)	26.6	36.4	33.8

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY10	Q1FY09	YoY (%)
Net Sales	**9,224**	**6,143**	**50**
Expenditure	4,974	4,038	
Inc/Dec in trade	-9	-62	
RM	723	591	
As a % of net sales	7.8	9.6	
Staff cost	352	251	
As a % of net sales	3.8	4.1	
Power and fuel	1,399	1,515	
As a % of net sales	15.2	24.7	
Transportation & Handling	1,842	1,183	
As a % of net sales	20.0	19.3	
Other expenditure	667	561	
As a % of net sales	7.2	9.1	
Operating Profit	**4,250**	**2,105**	**102**
Operating Profit Margin	46.1%	34.3%	
Depreciation	973	461	
EBIT	**3,277**	**1,645**	**99**
Interest	152	171	
EBT(exc other income)	3,125	1,474	
Other Income	473	118	
Extraordinary Items	42	76	
EBT	**3,557**	**1,516**	**135**
Tax	645	407	
Tax Rate (%)	18.1	26.9	
Net Profit	**2,911**	**1,109**	**163**
NPM (%)	31.6%	18.1%	
Equity Capital	348.4	348.4	
EPS (Rs)	**83.6**	**31.8**	

Source: Company

Revenue growth better than estimates

- Revenues for Q1FY10 registered a growth of 50% as against last year led by increase in dispatches, better cement realizations as well as higher captive power sales.
- Cement realizations witnessed an increase of 10% on sequential basis and 9% increase on yearly basis led by strong pricing. Cement and clinker sales for Q1FY10 grew by 33% to 2.548 MT as against 1.92MT in Q1FY09.
- Captive power sales stood at Rs 365mn for Q1FY10 with company having sold 53 mn units at the rate of Rs 6.8 per unit. Company expects to sell approx 220mn units in FY10. Sales from the captive power division should boost from FY11 onwards with commissioning of captive power plants from March, 2010. However, rate of power sales per unit is likely to go down in future.
- Shree Cement has a current capacity of 9MT and with addition of two grinding units, total capacity would get enhanced to 12MT by June, 2010. Company is also ramping up its captive power capacity and is adding captive power plants of approximately 90MW in FY10 and 50MW in FY11. Current captive power capacity is 115MW and is likely to increase to 205MW by end of FY10 and 255MW by end of FY11. Capex for the current fiscal is estimated to be in the range of Rs 8-8.5bn and Rs 4bn for FY11.
- Based on the improvement in cement realizations, we revise our revenue estimates upwards and expect revenues to be around Rs 35bn for FY10 as against Rs 29bn estimated earlier for FY10.

Operating margin improvement led by better realizations and higher captive power sales

- Operating margins of the company registered an improvement and stood at 46% for Q1FY10 as against 34.3% for Q1FY09.
- Improvement in operating margins is led by price hikes, reduction in pet coke prices as well as higher proportion of revenues from captive power sales as against same period last year.
- We revise our operating margin estimates upwards to incorporate better than expected realizations. We expect overall operating margins to be around 40% for FY10. Our estimates include assumptions of increase in raw material and fuel costs going forward as well as decline of Rs 10 per bag in cement realizations by end of FY10.

Per tonne analysis

	Q1FY10	Q1FY09	Q4FY09
Despatches (mn tonne)	2.548	1.919	2.408
Adj Net Realisation/tonne	3477	3195	3164
YoY increase (%)	9		
QoQ increase (%)	10		
Cost per tonne			
Inc/Dec in trade	-3	-32	0
Raw material	284	308	299
Staff cost	138	131	118
Power and fuel	549	789	571
Transporation &Handling	723	616	725
Other expenditure	262	292	118
EBITDA per tonne	**1525**	**1091**	**1331**

Source: Company

Net profit growth led by healthy sales growth and excellent operating margins

- Healthy revenue growth as well as improvement in operating margins resulted in 163% growth in the net profits in the current quarter as compared to Q1FY09.
- Company has also revised its depreciation guidance upwards to Rs 5.45bn for FY10 based on expected commissioning of its grinding units as well as captive power plants.
- Shree Cement gets Section 80IA benefits for its captive power plants, thus effective tax rate of the company stands reduced at 18-20%.
- We expect net profits to be around Rs 7 bn for FY10 post revision in the revenues and operating margin assumptions.

Valuation and recommendation

- At current market price of Rs 1540, stock is trading at 4.3x P/CEPS and 3.5x EV/EBITDA for FY10.
- Post revising our estimates upwards, we arrive at the revised price target of Rs 1690 based on average of 4.5x P/CEPS and 4x EV/EBITDA on FY10 estimates.
- We expect that incremental supplies are likely to put pressure on cement prices. We thus have incorporated a decline of Rs 10 per bag by end of FY10. However, we believe that with increase in the sales of captive power going forward, operating margins of the company are likely to remain strong. Along with this, with commissioning of grinding units, overall clinker sales are expected to go down and blended realizations of the company may witness an increase.

We now recommend ACCUMULATE on Shree Cement with a price target of Rs.1690

- Though we understand that Q1FY10 results factor in the best case scenario of low expenditure as well as higher cement realizations, we don't expect a steep decline in the operating margins since we expect increase in captive power sales going forward. Along with this, company is likely to benefit from increase in overall volumes as against peers. We thus change our recommendation to ACCUMULATE from REDUCE earlier based on the above parameters as well as due to upside from the current levels.
- We thus recommend **ACCUMULATE** with a price target of Rs.1690 on FY10 estimates.

RESULT UPDATE

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ANDHRA BANK

PRICE: RS.90 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.103 **FY10E P/E: 5.9x, P/ABV: 1.1x**

Q1FY10 numbers are above our expectations.

The bank's net interest income (NII) grew 27.5% on back of strong loan growth (31.8%) and improvement in C/D ratio from 69.3% in Q1FY09 to 74.4% in Q1FY10.

Its net profit grew whopping 230.1% due to strong traction in non-interest income (100.6%), write-back of AFS provisions (Rs.1.29 bn) and healthy growth in NII (27.5%).

Gross NPA declined both YoY as well as QoQ; however Net NPA increased from Rs.0.79 bn at the end of Q4FY09 to Rs.1.0 bn at the end of Q1FY10 mainly due to implementation of RBI guidelines regarding floating provisions held by the bank.

We are revising our earning estimates upward for FY10E and introducing FY11 numbers. We maintain ACCUMULATE rating on the stock with the revised target price of Rs.103 (earlier Rs.71). At the target price, the stock would trade at 1.3x its FY10E adjusted book value.

Result Performance

(Rs mn)	Q1FY10	Q1FY09	YoY (%)
Interest on advances	12,178.3	8,801.0	38.4
Interest on Investment	2,809.4	2,708.9	3.7
Interest on RBI/ banks' balances	58.5	63.4	-7.7
Other interest	-	0.4	-100.0
Total Interest earned	**15,046.3**	**11,573.6**	**30.0**
Interest expenses	10,632.6	8,111.1	31.1
Net interest income (NII)	4413.7	3462.5	27.5
Other income	2,380.7	1,186.7	100.6
Net Revenue (NII + Other income)	**6,794.5**	**4,649.2**	**46.1**
Operating Expenses	3314.5	2596.5	27.7
Payments to / Provisions for employees	2,113.9	1,406.5	50.3
Other operating expenses	1,200.6	1,190.0	0.9
Operating profit	**3,480.0**	**2,052.7**	**69.5**
Provisions & contingencies	(32.2)	1,226.5	-102.6
Provision for taxes	950.0	50.0	1800.0
Total Provisions	917.8	1,276.5	-28.1
Net profit	**2,562.2**	**776.2**	**230.1**
EPS, Rs	**5.28**	**1.60**	**230.2**

Source: Company

Delivered strong growth in earnings

The bank's net interest income (NII) grew 27.5% to Rs.4.41 bn in Q1FY10 from Rs.3.46 bn in Q1FY09 on back of strong loan growth (31.8%) and improvement in C/D ratio from 69.3% in Q1FY09 to 74.4% in Q1FY10.

During Q1FY10, interest income witnessed 30.0% growth as compared to 31.1% growth in total interest expenses.

Its net profit grew whopping 230.1% to Rs.2.56 bn in Q1FY10 from Rs.0.78 bn in Q1FY09 due to strong traction in non-interest income (100.6%), write-back of AFS provisions (Rs.1.29 bn) and healthy growth in NII (27.5%).

Strong traction in non-interest income

Non-interest income increased 100.6% to Rs.2.38 bn in Q1FY10 from Rs.1.19 bn in Q1FY09 on back of strong treasury gain which increased from a loss of Rs.10 mn in Q1FY09 to a profit of Rs.1.29 bn in Q1FY10.

Trend in Non-interest income

	Q1FY09	Q1FY10	YoY (%)
Other Income (Rs. Cr)	1.19	2.38	100.6
C/E/B	0.50	0.41	-16.6
Forex Income	0.09	0.15	65.9
Trading	-0.01	1.29	NM
Other Income	0.61	0.53	-13.3

Source: Company

The strong growth in other income resulted into a robust growth of net revenues (NII and other income). Net revenues of the bank grew 46.1% to Rs.6.79 bn in Q1FY10 from Rs.4.65 bn in Q1FY09.

Robust business growth

Total business of the bank witnessed robust growth of 26.5% to Rs.1052.8 bn in Q1FY10 from Rs.832.6 bn in Q1FY09.

- Total deposits of the bank rose 22.8% YoY to Rs.603.7 bn in Q1FY10 from Rs.491.8 bn in Q1FY09. CASA declined slightly from 33.2% at the end of Q1FY09 to 30.7% at the end of Q1FY10. However, share of bulk has fallen sharply to 6.3% at the end of Q1FY10 from around 22% at the end of Q1FY09.

Trend in deposit growth

	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009		YoY (%)
Total Deposits (Rs. bn)	407.6	444.3	439.1	494.4	491.8	505.1	538.0	593.9	603.7	22.8
CASA	136.3	142.3	150.0	165.9	163.2	172.4	171.2	186.2	185.3	13.5
CASA (%)	33.4	32.0	34.2	33.6	33.2	34.1	34.1	31.4	30.7	
Term Deposits	271.3	302.0	289.1	328.4	328.6	332.7	366.8	407.7	418.4	27.4

Source: Company

- Advances of the bank increased 31.8% YoY to Rs.449.1 bn in Q1FY10 from Rs.340.8 bn in Q1FY09. This has come on the back of strong growth in SMEs as well as Corporate. Q1FY10 also witnessed an improvement in the C/D ratio from 69.3% at the end of Q1FY09 to 74.4% at the end of Q1FY10.

Return on assets (RoA) improved YoY to 1.48% during Q1FY10 as compared to 0.56% during Q1FY09 and QoQ from 1.22% during Q4FY09.

Capital adequacy ratio (CAR) at the end of Q1FY10 improved to 14.75% (according to Basel-II) from 12.13% (according to Basel-I) at the end of Q1FY09. It also has healthy Tier-I capital at 8.3% at the end of Q1FY10.

The NIM of the bank also improved to 2.85% during Q1FY10 from 2.74% during Q1FY09.

Gross NPA declined both YoY & QoQ; however net NPA increased due to regulatory changes

Gross NPA declined both YoY as well as QoQ by 8.6% and 2.5%, respectively during Q1FY10; however Net NPA increased from Rs.0.79 bn at the end of Q4FY09 to Rs.1.0 bn at the end of Q1FY10 mainly due to implementation of RBI guidelines regarding floating provisions held. The bank was holding Rs.0.5 bn of floating provisions which is not allowed for deduction from gross NPA to arrive at net NPA. It is now allowed to be included in Tier-II capital.

In percentage terms, gross NPA declined to 0.8% at the end of Q1FY10 from 1.15% at the end of Q1FY09 and 0.83% at the end of Q4FY09. During the same period, net NPA increased to 0.22% at the end of Q1FY10 from 0.1% at the end of Q1FY09.

Trend in NPAs

(Rs bn)	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	YoY (%)	QoQ (%)
Gross NPA	4.21	4.12	4.22	3.72	3.93	3.74	3.73	3.68	3.59	-8.6	-2.5
Gross (%)	1.50	1.35	1.35	1.07	1.15	1.03	0.89	0.83	0.80		
Net NPA	0.51	0.57	0.50	0.54	0.35	0.87	0.86	0.79	1.00	183.5	25.7
Net (%)	0.20	0.19	0.16	0.15	0.10	0.24	0.21	0.18	0.22		

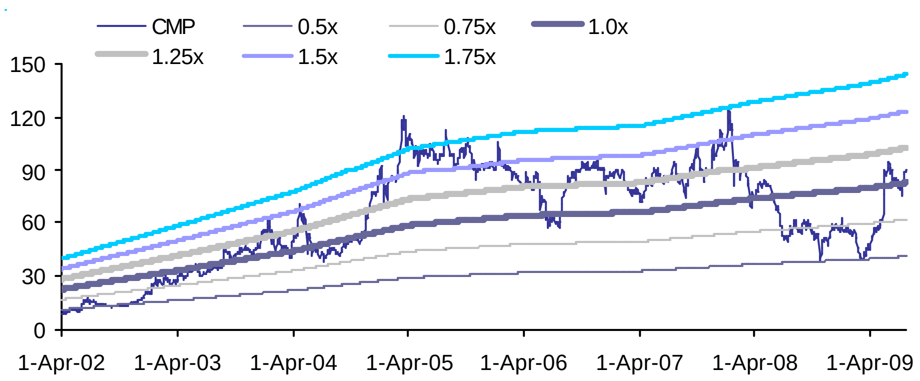
Source: Company

Valuations

At the current market price of Rs.90, the stock is trading at 5.9x its FY10E earnings and 1.1x its FY10E ABV. We are revising our earning estimates upward for FY10E and introducing FY11E numbers.

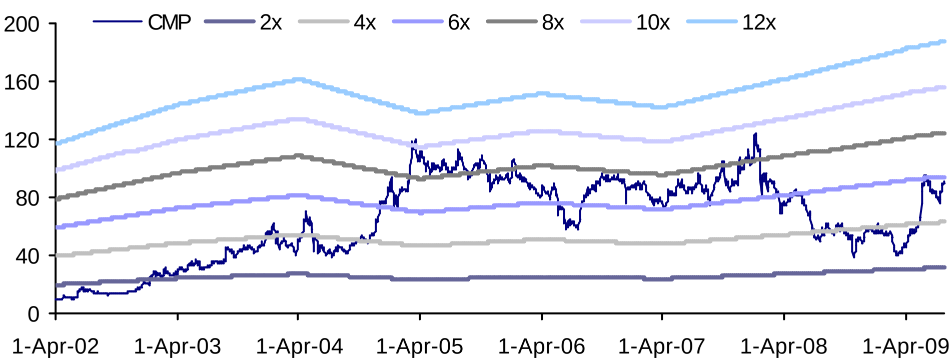
We expect full year profits of Rs.7.39 bn and Rs.8.02 bn for FY10E and FY11E, respectively. This would result into an EPS of Rs.15.2 and Rs.16.5 for FY10E and FY11E, respectively. During the same period, adjusted book value is estimated at Rs.79.6 and Rs.88.5, respectively.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

We recommend ACCUMULATE on Andhra Bank with a price target of Rs.103

We maintain **ACCUMULATE** rating on the stock with the revised target price of Rs.103 (earlier Rs.71). At the target price, the stock would trade at 1.3x its FY10E adjusted book value.

Key data

(Rs bn)	2008	2009	2010E	2011E
Interest income	42.10	53.75	61.85	70.68
Interest expense	28.70	37.48	43.50	50.10
Net interest income	**13.40**	**16.27**	**18.35**	**20.57**
Other income	6.26	7.65	8.84	9.25
Gross profit	10.57	12.88	14.88	16.07
Net profit	**5.76**	**6.53**	**7.39**	**8.02**
Gross NPA (%)	1.1	0.8	1.1	1.3
Net NPA (%)	0.2	0.2	0.3	0.2
Net int. margin (%)	2.9	2.7	2.5	2.4
RoE (%)	18.4	19.7	20.0	19.3
RoAA (%)	1.1	1.0	1.0	0.9
Dividend Yield (%)	4.4	5.0	5.5	5.5
EPS (Rs)	**11.9**	**13.5**	**15.2**	**16.5**
Adjusted BVPS (Rs)	65.9	73.6	79.6	88.5
P/E (x)	**7.6**	**6.7**	**5.9**	**5.5**
P/ABV (x)	1.4	1.2	1.1	1.0

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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SREI INFRASTRUCTURE FINANCE

PRICE: RS.69 **RECOMMENDATION: BUY**
TARGET PRICE: RS.75 **FY10E P/Ex: 9.0x P/ABVx: 1.0x**

- **SREI consolidated Q1FY10 performance was materially above our expectation at Rs. 390mn following sequential improvement in margins.**
- **SREI's interest income includes MTM forex gains on its foreign currency borrowing.**
- **Disbursement growth has picked up and is expect to be buoyant in the following quarters.**
- **We maintain our positive outlook for SREI infrastructure given the improved macroeconomic scenario which supports advances growth and easing liquidity will also help improve margins.**
- **We still await further details from the management, and hence continue to maintain our Buy recommendation for the stock with a price target of Rs. 75**

Result Highlights

Income statement Consolidated	Q1FY09	Q1FY10	% chg
Income from finance activity	21436	16430	-23.4
Finance charges	11316	8250	-27.1
NII	**10120**	**8180**	**-19.2**
Fee based income	626	501	
Other income	130	97	
Total Income	**10876**	**8778**	
% chg		-19.3	
Operating Expenditure - Legal expenses	1349	476	
Employee Cost	992	1451	
Depreciation	723	1011	
Other administration expenses	851	1036	
Provisions	401	541	
PBT	**6560**	**4263**	**-35.0**
Tax	2249	421	
PAT	**4311**	**3842**	**-10.9**
NIM (%)	8.57	4.81	

Source: Company

Performance improving sequentially, supported by improved margins and pick-up in advances growth

- SREI has reported an improvement in its performance in the wake of improve macroeconomic scenario and easing cost of funds, which supported its margins and advances growth as well.
- On a standalone basis, SREI infrastructure reported a 5.7% yoy growth in net profit to Rs. 340mn as compared to Rs. 321mn.
- SREI's standalone earnings were also impacted by MTM forex gain on its borrowings following the rupee appreciation on sequential basis. MAT credit entitlement during the period under review also supported the bottomline growth.
- Standalone NIM at 7.6% has improved significantly from 1.2% in Q4FY09.
- Earnings growth at the JV level remained depressed; impacted by relatively higher cost of funds. It reported a NIM of 3.8% (4.5% in Q4FY09).

Advances growth gaining momentum; growth trend to improve post monsoon

- SREI's has reported a relative improvement in its performance during the Q1FY10. The company witnessed addition of new business worth Rs.5bn during the period under review. The business growth in Q1FY10 was impacted by general election, which picked up in the month of June.
- Advances growth has gained momentum during the Q1FY10, disbursement at the standalone level stood at Rs. 4.28bn and asset under management at 26.8bn for Q1FY10.
- At the JV, advances growth remained muted, the over all assets under management stood at Rs. 78.9bn and disbursements were at Rs. 11.04bn.

Valuation and recommendation

- In the wake of improving macroeconomic scenario and easing cost of funds, we expect SREI to witness improved performance
- The current quarter results also factor in forex gain on its $50mn borrowings, we are awaiting management's clarification and details on the same.
- We still await details from the management regarding its investments and advances growth. We will further update post our concall with the management once we get all the details.

We maintain BUY on SREI Infrastructure Finance with a price target of Rs.75

- At the current market price stock is trading at P/Ex of 9.7x and P/ABVx of 1.0x of its FY10 earnings estimate. Since, we await details from the management on the current quarter performance and future growth outlook, we continue to maintain our **BUY** Recommendation, with a price target of Rs. 75.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
27-Jul	Aarey Drugs	Nikhil Vinukant Shah	S	29,000	49.16
27-Jul	Abc Paper	Dhirendra Sanghavi	B	59,000	46.00
27-Jul	Abc Paper	Life Insurance Corporation Of India	S	55,301	46.00
27-Jul	Bafna Spinni	Pukhraj Hirachand Bafna	S	222,832	1.65
27-Jul	Bank Of Raj.	Surbhi Inv & Trading Co Pvt Ltd	B	1,512,993	63.24
27-Jul	Dujod Pape C	Multiquip Construction Equipmt Pvt Ltd	B	60,000	7.85
27-Jul	Dujod Pape C	N J Desgin Build	S	60,000	7.85
27-Jul	Eastern Gas	Kamlesh Nahar	B	56,929	56.89
27-Jul	Eastern Gas	SB Liquor Distributors Pvt Ltd.	S	54,626	56.90
27-Jul	Gwalior Chem	Morgan Stanley Mauritius Company Ltd	B	1,000,000	88.20
27-Jul	Gwalior Chem	Goldman Sachs Investmts Mauritius I Ltd	S	1,000,000	88.20
27-Jul	Incap Limite	Challagulla Neelima	B	150,000	12.28
27-Jul	Incap Limite	Nuziveedu Seeds Limited	S	150,000	12.28
27-Jul	Kadamb Const	As Vanijya Private Limited	B	13,670	50.00
27-Jul	Kadamb Const	Dinesh B Somani	S	15,000	50.05
27-Jul	Kale Films	Kiran Suttamchand	B	308,000	1.19
27-Jul	Kale Films	Sohanraj Uttamchand	B	271,752	1.19
27-Jul	Kale Films	Messrs Shreekant Phumbhra	S	350,000	1.19
27-Jul	Kale Films	Vintel Securities Pvt Ltd	S	497,550	1.19
27-Jul	Katare Spg.	Bharatkumar N. Vachhani	S	16,872	10.65
27-Jul	Koff Br Pict	Pathiknayan Bhai Shah	B	600,000	4.26
27-Jul	Liberty Phos	Sadiqua Banu	S	61,574	27.09
27-Jul	Mukat Pipes	Multiquip Construction Equipment Pvt	B	52,000	9.94
27-Jul	Mukat Pipes	N J Desgin Build	S	52,000	9.94
27-Jul	Natraj Fin	Samriddhi Commotrade Private Limited	S	30,000	34.35
27-Jul	Polypro Fibr	David Castelino	S	43,000	23.45
27-Jul	Rollatainers	Wld Investments P.Ltd.	S	100,000	145.10
27-Jul	Samtex Fashi	R.S.Dua HUF	B	143,225	11.37
27-Jul	Samtex Fashi	Rajasthan Global Sec Ltd	S	48,000	11.37
27-Jul	Sel Manuf	Master Trust Ltd	S	100,000	70.00
27-Jul	Spectacle	Suvidha Securities Pvt Ltd	S	380,000	45.67
27-Jul	Spectacle	Bharat G Vaghela	S	416,625	42.98
27-Jul	Steel Exch	Kiran Suttamchand	B	185,000	35.30
27-Jul	Vanta Cor Se	Nirmala Pravingala	B	20,000	19.38
27-Jul	Vanta Cor Se	Pradip Bhimshi Shah	S	18,000	19.38
27-Jul	Veer Energy	Vjpatel Investment	B	10,201	289.90

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Hindustan Unilever	300	6.0	6.5	11.4
ITC	239	2.9	6.3	5.5
Infosys Tech	2,028	1.2	4.3	1.3
Losers				
Reliance Ind	1,941	(3.8)	(20.0)	6.0
HDFC	2,357	(2.4)	(5.2)	1.1
ICICI Bank	758	(1.3)	(4.0)	11.3

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
28-Jul	3i Infotech, Asahi India, Bajaj Hindustan, BPCL, Birla Corp, Dhampur Sugar, Everest Kanto, Gaeway Distriparks, GVK Power, Grasim Industries, GMR Infra, GMDC, Tata Tea, Rural Electrification, Kotak Mahindra Bank, Religare, Hindustan Unilever, National Fertilizers, Neyveli Lignite, SRF, Sundram Fastners, Tata Tea, United Breweries, earnings expected.
29- Jul	Alfa Laval, Alok Industries, Balaji Telefilms, BPL, Cairn India, Cipla, Cummins India, HPCL, IRB Infra, IVRCL Infra, Jindal Steel, Kalpataru Power, Lanco, Lupin, NIIT, NIIT Tech, NMDC, PNB, Reliance Power, Sesa Goa, Shipping Corp, Sun Pharma, Sun TV Network, Tata Steel earnings expected
30-Jul	Amtek Auto, Ansal Infra, Bank of Maharashtra, BEML, Bushan Steel, DLF, Educomp, Essar Shipping, FDC Ltd, GMR Infra, Indian Oil Corp, Ipca Lab, JP Hydropower, Mundra Port, NCC, Patel Engineering, PTC India, SBI, SAIL, Voltas earnings expected.

Source: Bloomberg

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