MORNING INSIGHT

kotak® Kotak Securities

PRIVATE CLIENT RESEARCH

AUGUST 2, 2010

Economy News

- The slower pace of growth in net sales, a marginal rise in input cost and decline in operating margins due to pricing pressure has hurt manufacturing and services sectors (excluding oil & gas) in the quarter ended June. The rise in sales was 18% and in net profit, about 10.5%. The 975 companies for which results are available with Capitaline had done much better in the preceding two quarters, with robust growth in net profit (see chart). Operating margins for the June quarter, though down 40bps year on year, were up 23bps over preceding quarters. (BS)
- A year after the Securities and Exchange Board of India (Sebi) decided to ban entry load, the mutual fund industry's equity assets are down by Rs80bn (net outflows), according to data from the Association of Mutual Funds in India (Amfi). This, despite the equity diversified funds outperforming the indices significantly. The annualised returns from the Bombay Stock Exchange's benchmark equity index, the Sensex, have been 16.12%. The equity diversified category returned 27.9%. (BS)

Corporate News

- In what could be its biggest acquisition, **Crompton Greaves** has offered $400 million (Rs 18.6bn) for the transformer division of the US-based Emerson Electric Company, three investment bankers familiar with the development said. Missouri-based Emerson Electric is a diversified global technology company with a $37.3 billion market capitalisation. Its industrial automation business has a division for power transmission solutions, which it wants to divest. Crompton Greaves is one of the companies that have made a bid for this division. The names of the other bidders could not be ascertained. (BS)
- Increased dispatches of the Nano and improved demand for its new launches pushed overall sales of **Tata Motors,** India's largest automobile company (by revenue), in July. The company reported sales growth of 62% to 27,864 units, highest ever for it in a month, as against 17,191 units reported in the same month a year earlier. (BS)
- **TVS** has announced a 35% increase in two-wheeler sales to 1,63,106 units in July, 2010, driven by a 54% surge in exports. The company sold 1,20,944 two-wheeler units in July, 2009, it said in a statement. (ET)
- **Punjab National Bank** and **Union Bank of India** have revised their BPLRs. PNB has upped its rate to 11.75% from 11% with effect from August 1. Union Bank has increased it to 12.25% from 11.75% with effect from August 4. Other banks are likely to follow suit. One of the reasons for this upward revision in BPLR is ostensibly to account for the rising cost of deposits and to protect their margins. Banks may also want to move existing borrowers to the base rate-linked lending regime by increasing the costs for BPLR-linked borrowers, say some bankers. (BL)
- **Tata Power, Deepak Fertilisers,** Maharashtra State Electricity Board (MSEB) and Mahanagar Gas Ltd are among the companies that will get ONGC's western offshore gas at $5.25/mBtu (at landfall point). This follows an empowered group of ministers' (EGoM) decision to divert ONGC gas to Reliance Industries Ltd (RIL) operated D6 block customers in the Uran region. (BL)

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

Equity

	30 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,868	(0.7)	2.3	1.8
NIFTY Index	5,368	(0.8)	2.5	1.7
BANKEX Index	11,540	(0.1)	8.2	3.4
BSET Index	5,475	(1.1)	4.5	2.2
BSETCG INDEX	14,592	(1.1)	0.7	4.0
BSEOIL INDEX	10,166	(0.2)	(5.1)	2.4
CNXMcap Index	8,415	0.4	4.0	4.4
BSESMCAP INDEX	9,349	0.2	2.7	1.5
World Indices				
Dow Jones	10,466	(0.0)	8.0	(4.9)
Nasdaq	2,255	0.1	7.8	(8.4)
FTSE	5,258	(1.1)	8.7	(5.3)
Nikkei	9,537	(1.6)	4.9	(12.7)
Hangseng	21,030	(0.3)	6.7	0.6

Value traded (Rs cr)

	30 Jul 10	% Chg - Day
Cash BSE	4,225	(1.1)
Cash NSE	13,359	(20.1)
Derivatives	68,419.9	(53.2)

Net inflows (Rs cr)

	29 Jul 10	% Chg	MTD	YTD
FII	4,438	579.4	16,617	46,862
Mutual Fund	(636)	10.1	(2,417)	(10,544)

FII open interest (Rs cr)

	29 Jul 10	% Chg
FII Index Futures	14,898	(2.8)
FII Index Options	44,265	8.9
FII Stock Futures	32,611	1.5
FII Stock Options	597	77.2

Advances / Declines (BSE)

30 Jul 10	A	B	S	Total	% total
Advances	96	842	191	1,129	43
Declines	104	1021	238	1,363	52
Unchanged	5	86	17	108	4

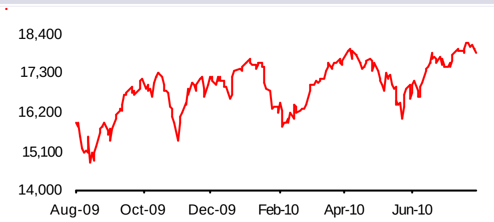
Commodity

	30 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	79	0.4	9.9	(8.0)
Gold (US$/OZ)	1,181	1.1	(2.4)	0.3
Silver (US$/OZ)	18	2.3	1.1	(3.1)

Debt / forex market

	30 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	NA	NA	NA
Re/US$	46.41	46.54	46.45	44.37

Sensex



RESULT UPDATE

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

ABB LTD

PRICE: RS.815 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.725 **CY11 P/E: 33.7X**

- **Reflecting the still unfavourable industry scenario for T&D equipments, ABB's reported numbers are lower on the revenue as well as profit fronts. Apart from competitive pressure, EBITDA margins have been hit by forex losses. The company is lagging behind peers on order intake as well. Margins continue to be under pressure due to a combination of capacity buildup in the industry and lackluster market growth. Competition from domestic and international players has increased over the past one year thereby forcing MNCs to accept price cuts. T&D spending at the state-utility levels have not increased meaningfully. Prefer Siemens over ABB.**
- **ABB AG has recently completed a successful open offer, which was at a 36% premium to the market price before the announcement. With this the parent's stake in the Indian operations has increased to 75%. However, quite contrary to expectations the stock has been resilient even after the completion of the offer and poor quarterly performance. It is likely that the stock price is building expectations of a follow-on offer for delisting.**
- **We maintain Reduce with a price target of Rs 725 (Rs 710 earlier) based on 30x CY11 earnings.**

Summary table

(Rs mn)	CY09	CY10E	CY11E
Sales	62372	63384	79338
Growth (%)	-8.8	1.6	25.2
EBITDA	5830	4312	8227
EBITDA margin (%)	9.3	6.8	10.4
Net profit	3508	2521	5129
Net cash (debt)	7621	7127	8502
EPS (Rs)	16.6	11.9	24.2
Growth (%)	-34.3	-28.1	103.5
CEPS	19.3	14.6	27.2
DPS (Rs)	2.3	2.3	2.3
ROE (%)	15.6	10.0	17.9
ROCE (%)	23.0	15.1	25.7
EV/Sales (x)	2.6	2.6	2.1
EV/EBITDA (x)	28.3	38.4	20.0
P/E (x)	49.2	68.5	33.7
P/Cash Earnings	42.2	55.8	30.0
P/BV (x)	7.1	6.6	5.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2CY10	Q2CY09	YoY (%)	H1CY10	H1CY09	YoY (%)
Sales	**14,466**	**15,050**	**(4)**	**29,024**	**28,982**	**0**
Other operating income	165	98.30	68	359	227	58
Raw material costs	9,917	10,011	(1)	19,786	19,154	3
purchase of traded goods	474	648	(27)	1,387	1,267	10
Personnel expenses	1,230	1,085	13	2,403	1,971	22
Other exp	2,118	2,025	5	3,861	3,798	2
exchange loss/(gain)	227	-		1,050	239	
Operating expenses	13,965	13,769	1	28,488	26,429	8
Operating profit	**665**	**1,281**	**(48)**	**895**	**2,682**	**(67)**
Other income	55	110	(50)	73	124	(41)
PBDIT	**720**	**1,391**	**(48)**	**969**	**2,806**	**(65)**
Interest	43	80	(47)	80	184	(56)
Depreciation	122	125	(2)	250	234	7
PBT	**555**	**1,186**	**(53)**	**638**	**2,389**	**(73)**
Tax	172	448.00	(62)	189	867	(78)
PAT reported	**383**	**738**	**(48)**	**449**	**1,522**	**(70)**
EPS	**1.81**	**3.48**		**2.12**	**7.18**	
OPM (%)	4.6	8.5		3.1	9.3	
RM to sales (%)	71.8	70.8		72.9	70.5	
Staff costs to sales (%)	8.5	7.2		8.3	6.8	
other exp to sales (%)	14.6	13.5		13.3	13.1	
Tax rate (%)	31.0	37.8		29.6	36.3	

Source: Company

Growth falters across most divisions

- ABB reported a degrowth in revenue of 4% yoy in the second quarter of CY10.
- Decline in revenues has been mainly driven by lower execution in the power systems division (24% of revenues). Power Systems deliverables include network management, utility communication, transmission and distribution substations, Flexible Alternating Current Transmission Systems (FACTS), High-Voltage Direct Current (HVDC) systems and automation and electrical solutions for power plants. This division also offers automation, control and protection systems and related services for power transmission and distribution networks, power plants and water pumping stations.
- Based on feedback from industry peers, the power transmission business is currently seeing strong competition from Chinese and Korean players. This has resulted in significant price erosion.
- The power products business also reflected the business scenario in power systems business. ABB's decision of not participating in the rural electrification business could have also impacted revenue growth.
- By and large, the expansion of power T&D market has slowed down in H1CY10 as compared to an average growth of 20% earlier. PGCIL's ordering has also been sluggish. However, we believe this is not a reflection of future potential as the Indian T&D sector is likely to double the investments in the XIIth plan (2012-17) as compared to the ongoing XIth plan (2007-12). We remain optimistic about the market potential however there could be near-term pains reflecting in cost and competitive pressures.
- Large established players (Areva and Siemens) have added significant capacity in the sector, which has added to the pricing pressure.
- Process automation division reported 23% yoy decline in revenues. This division includes industry-specific solutions for plant automation and electrification, energy management, process and asset optimization, analytical measurement and telecommunication. Major industries served include oil and gas, metals and minerals, pulp and paper, chemicals and pharmaceuticals

Segment revenues

(Rs mn)	Q2 CY10	Q2 CY09	% YoY
Power Products	4441	4643	4643
Power Systems	4173	5017	5017
Discrete automation products	3649	4043	4043
Process Automation	2259	2922	2922
LV products	1034	191	191
Total	**15556**	**16816**	**16816**

Source: Company

Peer comparison

ABB has underperformed in terms of revenue growth among T&D companies

Revenues

(Rs mn)	Jan-Mar 10	Jan-Mar 09	% YoY
ABB	14,466	15,050	(4)
Siemens	22349	19096	17
Areva	8855	7883	12

Source: Companies

Margins declined as a result of loss at Power Systems division

- For the quarter, EBITDA margins declined sharply to 390 bps primarily due to forex loss of Rs 227 mn, which shaved off 1.5% from EBITDA. Apart from this, underabsorption of fixed expenses (staff costs) and general price erosion in products resulted in margin.
- Loss in power systems division could be pertaining to forex losses arising out of decline in Euro. (Areva has reported forex losses as well)
- There has been a 15-20% fall in prices in transformers (mainly in the high KV range) attributed purely to competition from domestic as well as imports.
- Margins decline could also be due to increase in share of projects revenue at the cost of standard products business.

Segment Margins

(%)	Q2CY10	Q2CY09	Q1CY10
Power Products	6.4	14.6	8.3
Power Systems	-5.1	2.7	-12.7
Discrete Automation and motion	12.6	5.5	2.7
Process Automation	9.2	10.2	10.6
LV products	-0.3	13.3	-0.8

Source: Company

Peer Comparison

T&D equipment companies have reported sharp erosion in margins

EBITDA

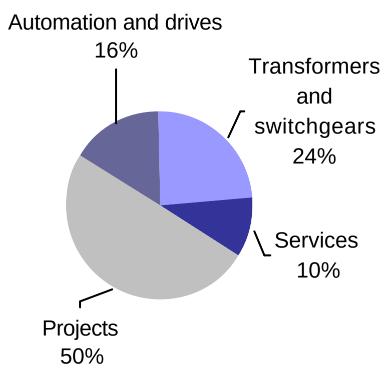
(%)	Apr-June 2010	Apr-June 2009
ABB	7.3	10.1
Siemens	10.8	14.6
Areva	9.2	13.6

Source: Companies

ABB falters in order intake as well

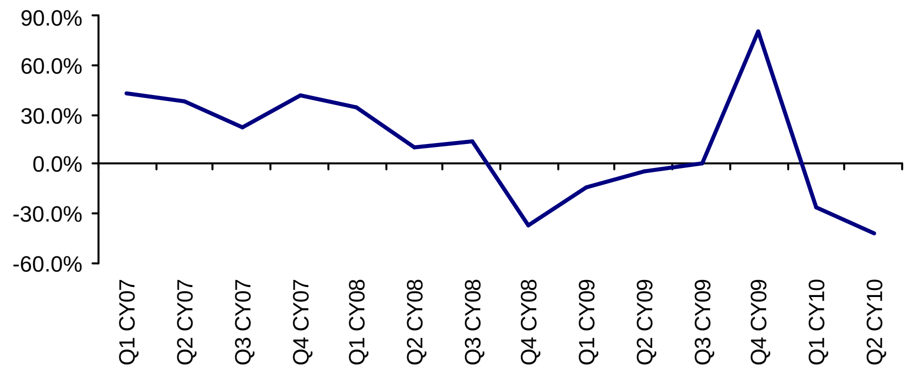
- During the quarter, order booking declined to Rs 12.3 bn, down 41.5% yoy (Siemens reported 13% decline while Areva's order intake rose 33% yoy). On a sequential basis, order intake is flat%.
- Order intake for ABB has slowed down considerably in recent quarters. For CY09, growth in order intake remained sedate at 6.6% as against a CAGR of 42% between CY03 and CY08.
- Order backlog is 11.9% yoy to Rs 85.3 bn, thus yielding a revenue visibility of 16.4 months of trailing four quarters revenues.
- Key drivers for power products and systems is the T&D investment by power utilities and for automation division it is the investment in core sector industries like cement, steel, pulp and paper etc.
- We estimate Utilities (PGCIL, Generating companies and SEBs) to contribute between 50-60% of the orders while the rest is contributed by industrial sector and services.
- Based on recent interactions, though PGCIL needs to place orders worth over Rs 250 bn in FY11-12 to meet its targeted investment plan in XIth plan. This is likely to generate brisk order intake for the industry however, since the generation projects are witnessing a slippage in completion deadline, PGCIL is also delaying its capex.
- Orders from the industrial sector should improve in the coming quarters as the IIP growth has been signaling recovery in industrial production.

Order mix



Source: Company

Growth in quarterly order inflows



Source: Company

The Power T&D sector

- Due to under-investment/poor infrastructure in T&D Sector, T&D losses continue to be on the higher side. (approx 27%)
- The present investment in Generation and T &D Sector is 1:0.5 as against the desired ratio of 1:1.
- With a desire to speed up the augmentation of transmission infrastructure in the country, the government has invited pvt sector participation through BOO (Build Operate and Own) projects. Total investment size is of Rs 155 bn.
- Investment in transmission sector has been driven by need to augment transmission capacity in view of massive addition of generating capacity and upgradation of existing infrastructure. State transmission utilities invested Rs 68 bn in FY09 and plan to invest Rs 85 bn in FY10.
- The transformer production in FY09 grew by 9% in MVA terms and achieved a capacity utilization of 79%. There has been some pricing pressure felt by manufacturers due to sudden addition of mfg capacities and slowdown in demand especially from industrial sector.
- Opportunities for T&D equipment are also emerging from Rural electrification, replacement of outdated equipment and exports. However, ABB has stayed out of the rural electrification business due to safety issues.
- In a major thrust to private power generation capacity, Power Grid Corporation of India Ltd has recently signed long-term transmission pacts with 37 private developers, entailing a gross generation capacity of over 42,000 MW. The signing of the pacts would help PGCIL to go ahead with the implementation of the seven proposed high-capacity transmission corridors for wheeling power from a bevy of private projects coming up in the eastern and southern States. The move, entailing investments of about Rs 480 bn, is aimed at facilitating transfer of electricity to the power-starved northern and western regions of the country

Earnings Revised downwards - Industry continues to reel under pricing pressure and subdued market growth

Earnings

	CY10E		CY11E	
	Earlier	Revised	Earlier	Revised
Revenues (Rs mn)	71175	63384	93395	79338
EBITDA (%)	8.7	6.8	10.4	9.4
EPS (Rs)	18.8	11.9	28.2	21
% change		-36.7		-24.9

Source: Kotak Securities - Private Client Research

Valuation and Target Price

- ABB's earnings grew at a CAGR of 53% between CY05-07. During this period, the stock has traded in a PE band of 16x-40x.
- Since CY08, the earnings growth has slowed down to sub 10% levels with the company reporting a 35% degrowth in CY09. Despite this, the stock has enjoys rich valuations and is trading in a band of 25-30x one year forward earnings.
- The order intake has also lagged that of peers. However, macro data indicates that an industrial recovery is gaining steam, which should translate into acceleration in order intake. We have built in this favourable emerging scenario in our profit forecasts.
- Despite building a recovery in CY10, the stock is trading at 68.5x and 38.5x CY10E and CY11E earnings. The stock has tended to peak at above 30x one year forward earnings in the previous three corrections. The average forward PE for the stock has been at 27x.
- Based on an average PE of 25x CY11 earnings, we maintain price target of Rs 710 (unchanged).
- In view of rich valuations, we revert back to our pre-open offer target price of Rs 710.

Stock Outlook

We recommend REDUCE on ABB with a revised price target of Rs.725

ABB AG has recently completed a successful open offer, which was at a 36% premium to the market price before the announcement. With this the parent's stake in the Indian operations has increased to 75%. However, quite contrary to expectations the stock has been resilient even after the completion of the offer and poor quarterly performance. It is likely that the stock price is building expectations of a follow-on offer for delisting.

RESULT UPDATE

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

BHARAT ELECTRONICS LTD (BEL)

PRICE: RS.1809 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.1945 **FY11E P/E: 14.9X**

- **BEL has reported sedate numbers for the Q1 FY11 numbers. Profits have been shored up by higher other income that the company has generated on its cash surplus.**
- **Order book at Rs 113.5 bn indicates moderate revenue outlook for FY11.**
- **Maintain Reduce with price target of Rs 1945 (Unchanged)**

Summary table

(Rs mn)	FY09	FY10E	FY11E
Sales	45031	52337	60188
Growth %	18.2	16.2	15.0
EBITDA	10653	10031	12926
EBITDA margin %	23.7	19.2	21.5
Net profit	7457	7337	9722
Net cash (debt)	26407	32383	39334
EPS (Rs)	93.2	91.7	121.5
Growth %	-9.8	-1.6	32.5
CEPS	116.1	106.0	135.5
DPS (Rs)	20.7	20.7	20.7
ROE %	24%	18%	21%
ROCE %	34%	26%	30%
EV/Sales (x)	2.6	2.1	1.8
EV/EBITDA (x)	11.1	11.2	8.2
P/E (x)	17.6	19.7	14.9
P/Cash Earnings	15.6	17.1	13.3
P/BV (x)	3.9	3.4	2.9

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY11	Q1 FY10	YoY (%)
SalesTurnover	9242	9106	1
Other income	515	437	18
Expenditure	8324	8189	2
RM costs	3348	5040	-34
Staff costs	2393	1704	40
Other costs	573	445	29
trading costs	2011	999	101
Operating profit	**917**	**916**	**0**
Interest	0	1	-47
Gross Profit	1431	1353	6
Depreciation	298	280	6
PBT	**1134.0**	**1072.8**	**6**
Tax	320	346	-8
Adjusted PAT	**814.4**	**727.1**	**12**
OPM (%)	9.9%	10.1%	
Raw Matl costs to sales (%)	36.2%	55.4%	
Trading to sales (%)	21.8%	11.0%	
Staff costs to sales (%)	25.9%	18.7%	
Other exp to sales (%)	6.2%	4.9%	
Tax rate (%)	28%	32%	
EPS Rs	**10.2**	**9.1**	

Source: Company

- Revenues were flat for the quarter as the company ended with FY10 with a moderate increase in order book. Also, the dispatches of the company's products are dependent on approvals from several defence agencies which tend to make quarterly numbers lumpy. Revenue booking is concentrated in the Q4 but the company has been working on correcting this skewed profile.
- Staff cost was the main reason for sharp decline in EBITDA margins for the quarter. Staff costs shaved off close to 1200 bps from the EBITDA margins.
- Staff costs is higher due to implementation of pay revision for executives and provision for wage revision for employees.
- Other expenditure is higher by 29% yoy to Rs 573 mn.
- EBITDA margins have been largely maintained due to a reduction in raw material costs.

Moderate revenue growth in line with order backlog

The order book as on April 01, 2009 is estimated to be around Rs 113.5 bn, which is up 12.4%. Order backlog provides a revenue visibility of 26 months.

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, micro-wave super components, etc. The company has also appointed KPMG to identify future growth opportunities for the company.

Long-term target is to reach Rs 100 bn in turnover by FY12

- BEL has set a challenging target of reaching Rs 100 bn in turnover by FY12.
- This implies a CAGR of 24% between FY10-13. We believe the target is challenging in view of the fact that BEL's revenues have grown at a CAGR of 12% between FY04-10.
- The company is expecting its strategic business units at Ghaziabad and Bangalore to start contributing significantly to growth. These units are well equipped to deliver the requisite growth.
- The company expects to grow its traditional line of business ie defence at 15% while new product lines would contribute the remaining turnover.
- The company expects to rampup exports from the current level of Rs 850 mn to Rs 5.0 bn in the next three years. Offset business should also deliver in the long-term as and when the government finalises the foreign vendors for large orders.
- The company expects to do contract manufacturing for foreign manufacturers. It has upgraded its factories to handle such orders. As of now, the company has received some orders, which are currently under test. Some of these orders are for making a design and prototypes using inhouse R&D and rapid prototyping facility. Other areas for contract manufacturing include complex multilayered printed circuit boards and specific components for which BEL has a large facility in our Bangalore complex.
- The company is also entering into fields like avionics and airborne systems, which has significant potential. BEL is trying to become the preferred partner for overseas companies. As a preparation, it has upgraded its seven SBUs to AS 9100, an aerospace specification which is a prequalification. The idea is to outsource manufacturing from the foreign vendors which will enable it to deliver the product at a lower cost.

New Initiatives:

BEL has appointed KPMG, a global consulting firm to help identify future market opportunities for growth. The consulting firm has recommended the following areas to venture into

- Infrastructure - Railways, Ports and Airports
- Homeland Security
- Nuclear Power Instrumentation
- Energy Efficiency Solutions
- E-Governance Solutions

BEL is discussing with several reputed foreign suppliers for forming JVs in the area of defence electronics. Some of the JVs are likely to fructify in the coming months.

BEL has signed Memorandum of Understanding (MOU) with BHEL for to explore formation of a JV for solar photovoltaic business.

MOU signed with Astra Microwave Products Ltd, Hyderabad for setting up of a JV for microwave components.

Earnings revision

We are maintaining our earnings estimates. Moreover, the Q1 is not a true reflection of the full year numbers.

Valuation

The stock has underperformed since our previous "Reduce" recommendation.

- At the current price, BEL is trading at 14.9x FY11E earnings. On a forward EV/E basis, the company trades at 8.2x.
- On a P/BV, the stock is trading at 2.9x FY11 earnings.

We recommend REDUCE on BEL with a price target of Rs.1945

- 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 491 per share.
- BEL has traditionally moved in a price band of 8-16x with the average PE of 12x. We maintain our target price of Rs 1945 (Unchanged) based on 16x FY11 earnings.

Concerns

- Potential loss of market share to private players is the main challenge admits annual report
- The management has indicated 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.

RESULT UPDATE

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

ICICI BANK

PRICE: RS.904 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1132 **FY11E P/E: 22.2X; P/ABV: 2.0X**

Core performance in line with our expectations; consistently showing prowess in improving funding mix and containing slippages, positive for the stock, in our view...

- **Net interest income (NII) was flat (growth of 0.3%) despite 10 bps improvement in NIM from 2.4% in Q1FY10 to 2.5% in Q1FY11 on back of 6.9% decline in loan book along with decline in global C/D ratio from 94.2% at the end of Q1FY10 to 91.8% at the end of Q1FY11.**
- **Net profit grew 16.8% on back of 39.7% decline in provisions & contingencies along with 4.0% decline in operating expenses. This has come despite flat NII growth (0.3% YoY) and muted non-interest income, which declined 19.6% YoY.**
- **Bank has sustained growth in CASA which improved from 30.4% at the end of Q1FY10 to 42.1% at the end of Q1FY11 on back of strong growth in current (44.1% YoY) as well as saving deposits (27.1% YoY) along with conscious strategy of running down the term deposits (decline of 20.5%).**
- **Slippages continued to decline for the bank; Q1FY11 saw Rs.3.5 bn of slippage, out of which retail constitute less than Rs.2 bn. We have witnessed absolute decline in slippages in last couple of quarters, which corroborates our view that retail NPL cycle has peaked.**
- **We have slightly tweaked earning estimates for FY11E and FY12E and maintain BUY rating on the stock with the unchanged TP of Rs.1132 based on SOTP methodology, where the value of its standalone business comes to Rs.920 (2.0x FY11E ABV) and the value of subsidiaries at Rs.212 (holding company discount: 20% to the fair value of its subsidiaries at Rs.265).**

Result Performance

(Rs mn)	Q1FY11	Q1FY10	% Change
Int. on advances	37785	50866	-25.7
Int. on investments	16586	15761	5.2
Int. on RBI/Other balances	981	2007	-51.1
Other Interest	2774	2701	2.7
Total Interest earned	**58125**	**71334**	**-18.5**
Interest expenses	38215	51482	-25.8
Net interest income	**19911**	**19853**	**0.3**
Other income	16805	20899	-19.6
Net Revenue (NII + Other income)	**36716**	**40751**	**-9.9**
Total operating expense	14835	15460	-4.0
Employee cost	5756	4665	23.4
Direct marketing agency expenses	358	275	30.2
Other operating exp	8721	10520	-17.1
Operating profit	**21881**	**25291**	**-13.5**
Provisions	7978	13237	-39.7
Provision for Taxes	5151	3931	31.1
Deferred tax	-1508	-658	NM
Net profit	**10260**	**8782**	**16.8**
EPS, Rs	**9.20**	**7.89**	**16.6**

Source: Company

Core earnings in line with our expectations

Net interest income (NII) was flat (growth of 0.3%) at Rs.19.91 bn in Q1FY11, despite 10 bps improvement in NIM from 2.4% in Q1FY10 to 2.5% in Q1FY11 on back of 6.9% decline in loan book along with decline in global C/D ratio from 94.2% at the end of Q1FY10 to 91.8% at the end of Q1FY11.

Net profit grew 16.8% to Rs.10.26 bn in Q1FY11 from Rs.8.78 bn in Q1FY10 on back of 39.7% decline in provisions & contingencies along with 4.0% decline in operating expenses. This has come despite flat NII growth (0.3% YoY) and muted non-interest income, which declined 19.6% YoY.

Balance sheet growth was flat at Rs.3.64 tn at the end of Q1FY11; magnitude of decline in advances reduced to 6.9% in Q1FY11 as against 17% in FY10

The bank's balance sheet witnessed marginal de-growth of 0.9% YoY from Rs.3674 bn at the end of Q1FY10 to Rs.3640 bn at the end of Q1FY11. It was also flat QoQ with marginal growth of 0.2% QoQ from Rs.3634 bn at the end of Q4FY10.

Loan book declined 6.9% (YoY) to Rs.1843.8 bn at the end of Q1FY11 from Rs.1981.0 bn at the end of Q1FY10 mainly due to contraction in retail and international books by 20.5% and 12.4%, respectively. However, other segments like corporate & project finance and agriculture witnessed traction of 31.4% YoY and 4.7% YoY, respectively.

The bank had rightly followed the strategy of conserving its capital during economic downturn. Its loan book contracted 17.0% during FY10; however the magnitude of decline reduced to 6.9% in Q1FY11. The decline has been mainly due to running down of retail portfolio (20.5% in Q1FY11; 25.6% in FY10; 19.3% in FY09) whose share came down from 58.4% at the end of FY08 to 41.0% at the end of Q1FY11.

Trend in advance Mix

(%)	FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Retail including CV	58.4	58.9	55.2	53.9	49.0	48.5	45.0	45.0	43.0	41.0
Corporate & Project Finance	12.9	10.1	12.4	16.0	16.0	17.0	22.0	22.0	22.0	24.0
Agriculture	7.5	5.8	6.1	4.0	10.0	8.0	6.0	7.0	10.0	9.0
International	21.2	25.3	26.4	26.0	25.0	26.0	27.0	26.0	25.0	26.0

Source: Company

Although retail segment saw disbursement of Rs.55 bn during Q1FY11, decline of Rs.27 bn has been mainly due to loan book closures. During Q1FY11, corporate book and international book also witnessed disbursal of Rs.40 bn and Rs.20 bn, respectively. However, in international book, half of the growth has come on back of the rupee depreciation.

Total deposits also declined by 4.4% (YoY) to Rs.2009.1 bn at the end of Q1FY11 from Rs.2102.4 bn at the end of Q1FY10. During the same period, CASA mix grew at a robust pace of 32.3% (YoY) whereas term deposits declined by 20.5% (YoY). This has led to an improvement in CASA by 1169 bps (YoY) and 43 bps (QoQ) to 42.1% at the end of Q1FY11.

Trend in Deposit growth

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YOY (%)	QoQ (%)
Total deposits (bn)	2,102.4	1,978.3	1,976.5	2,020.2	2,009.1	-4.4	-0.5
Saving deposits	444.6	493.2	510.5	532.2	565.0	27.1	6.2
Current deposits	195.2	236.1	271.9	310.0	281.2	44.1	-9.3
CASA (Low Cost Deposits)	**639.8**	**729.3**	**782.5**	**842.2**	**846.2**	**32.3**	**0.5**
Term deposits	1,462.6	1,249.0	1,194.1	1,178.0	1,163	-20.5	-1.3
CASA (%)	**30.4**	**36.9**	**39.6**	**41.7**	**42.1**		

Source: Company

Muted non-interest income due to lower treasury profit; moderate growth in fee-income mainly impacted by lower credit card business

Non-interest income declined 19.6% YoY on back of 85.4% decline in treasury profit from Rs.7.14 bn in Q1FY10 to Rs.1.04 bn in Q1FY11.

- Fee income witnessed moderate growth of 7.1% YoY to Rs.14.13 bn in Q1FY11 from Rs.13.19 bn in Q1FY10. Out of this, corporate fees (contributes ~60% of total fee-income) rose 20% YoY, whereas retail fees (~40%) was down 10% on back of lower business from the credit card segments.
- Treasury profit declined from Rs.7.14 bn in Q1FY10 to Rs.1.04 bn in Q1FY11.
- Other non-interest income grew 186% from Rs.0.57 bn in Q1FY10 to Rs.1.63 bn in Q1FY11.

Declining slippages in last couple of quarters corroborate our view that retail NPL cycle has peaked

Slippages continued to decline for the bank. Q1FY11 saw Rs.3.5 bn of slippage, out of which retail constitute less than Rs.2 bn. Its NPA addition has consistently declined from Rs.13.0 bn in Q1FY10, Rs.11.0 bn in Q2FY10, Rs.7.5 bn in Q3FY10 and Rs.7.0 bn in Q4FY10 to only Rs.3.5 bn in Q1FY11. The declining slippages in last couple of quarters corroborate our view that retail NPL cycle has peaked.

In absolute terms, gross NPA increased marginally 2.9% YoY and 3.6% QoQ. However, net NPA declined sharply by 24.7% YoY and 9.9% QoQ, as bank improved its coverage ratio to 64.8% at the end of Q1FY11 as against 51.1% and 59.5% at the end of Q1FY10 and Q4FY10, respectively.

In percentage terms, net NPA improved to 1.62% at the end of Q1FY11 from 2.19% at the end of Q1FY10 and 1.87% at the end of Q4FY10.

NIM improved marginally; future margin expansion is unlikely to expand materially, in our view

NIM improved by 10 bps from 2.4% during Q1FY10 to 2.5% during Q1FY11; however, it came down slightly from 2.6% during Q4FY10. Although CASA mix improved from 30.4% at the end of Q1FY10 to 42.1% at the end of Q1FY11, it's NIM expanded by only 10 bps. The improvement in NIM was moderate despite improvement in funding costs due to shift in its strategy from high margin unsecured loan book to relatively low margin secured loan book along with higher interest payment on saving deposits since the beginning of Q1FY11.

We believe, NIM for the bank is unlikely to expand materially in FY11-12E due to its strategy of focusing on corporate segment along with increasing the share of secured loan portfolio. Other factors which can limit any material NIM expansion going forward are higher interest outgo on saving deposits due to daily interest payment on saving deposits and low yields on international book.

Capital adequacy

The bank's capital adequacy at the end of Q1FY11 was 20.2% (including Tier-I of 14.0%) as against the regulatory requirement of 9.0%.

Valuation and recommendation

With all the 4Cs (CASA, Operating costs, Credit quality and Capital conversation) already in the place, we expect bank to switch to the growth phase. We expect, domestic loan book to grow in line with the system. However, due to conscious strategy of curtailing growth in the International book (single digit growth expected), overall growth is expected to be 15.5% and 18.7% in FY11E and FY12E, respectively.

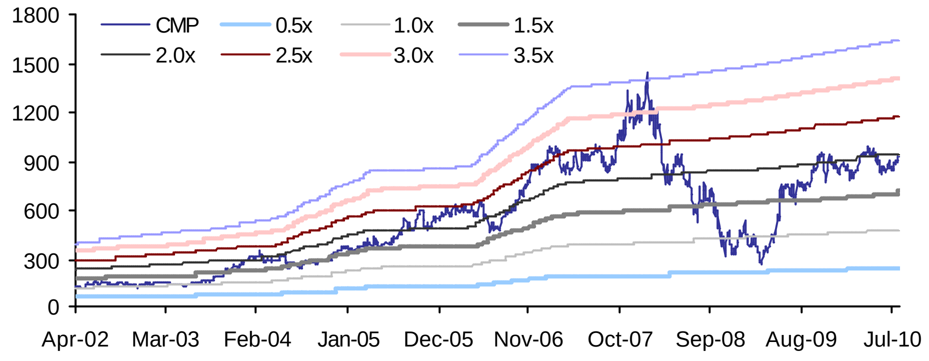
At the current market price of Rs.904, the stock is trading at 22.2x its FY11E earnings and 2.0x its FY11E ABV. We have slightly tweaked earning estimates for FY11E and FY12E and now expect net profit for FY11E and FY12E to be Rs.45.52 bn and 56.64 bn, respectively. This would result into an EPS of Rs.40.8 and Rs.50.8 for FY11E and FY12E, respectively. The ABV is forecast at Rs.460.0 and Rs.498.3 respectively for FY11E & FY12E.

Sum of Parts Valuation

	Basis	Multiple	Year	Value / Share
Core Banking Business (standalone)	ABV	2.00	FY11	920
Overseas Banking Subsidiaries	ABV	2.00	FY11	57
Life Insurance Business	NBAP	16	FY11	142
ICICI Securities	PAT	12	FY11	13
Asset Management	AUM	5%	FY11	22
Private Equity	AUM	10%	FY11	18
Non Life Insurance	PAT	12	FY11	13
Total Value of subsidiaries				**265**
20% discounted value				212
Total Value				**1,132**

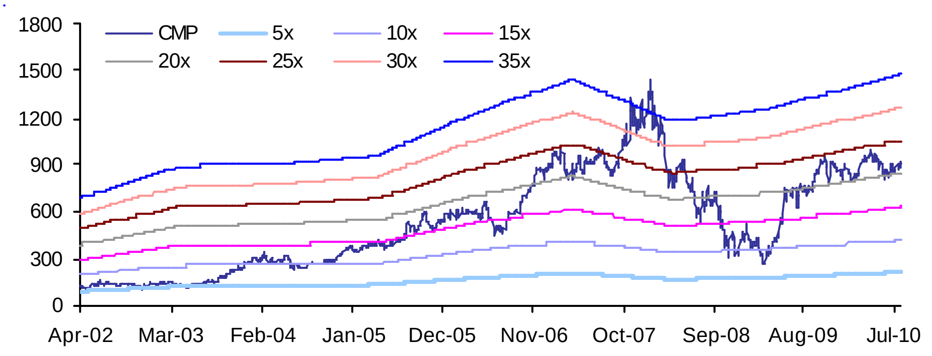
Source: Kotak Securities - Private Client Research

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 maintain BUY on ICICI Bank with a price target of Rs.1132

On basis of SOTP, we maintain **BUY** rating on the stock with the unchanged target price of Rs.1132, where the value of its standalone business comes to Rs.920 (2.0x FY11E ABV) and the value of subsidiaries at Rs.212 (holding company discount: 20% to the fair value of its subsidiaries at Rs.265).

Key data

(Rs bn)	FY09	FY10	FY11E	FY12E
Interest income	310.93	257.07	253.48	287.67
Interest expense	227.26	175.93	167.25	191.36
Net interest income	**83.67**	**81.14**	**86.23**	**96.31**
Other income	76.04	74.78	79.78	92.67
Gross profit	89.25	97.32	101.12	116.66
Net profit	**37.58**	**40.25**	**45.52**	**56.64**
Gross NPA (%)	4.4	5.2	4.6	4.0
Net NPA (%)	2.1	2.1	1.7	1.5
Net interest margin (%)	2.5	2.5	2.6	2.6
RoE (%)	7.8	8.0	8.5	9.9
RoAA (%)	1.0	1.1	1.1	1.1
Dividend Yield (%)	1.2	1.3	1.4	1.5
EPS (Rs)	**33.8**	**36.1**	**40.8**	**50.8**
Adjusted BVPS (Rs)	404.0	428.5	460.0	498.3
P/E (x)	26.8	25.0	22.2	17.8
P/ABV (x)	2.2	2.1	2.0	1.8

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

ANDHRA BANK

PRICE: RS.143 **RECOMMENDATION: BUY**

TARGET PRICE: RS.163 **FY11E P/E: 5.7X; P/ABV: 1.4X**

Q1FY11 numbers better than our expectations; asset quality still at a comfortable level albeit deteriorated during Q1FY11...

- **The bank's net interest income (NII) grew 66.8% on back of strong loan growth (27.2%) and improvement in NIM from 2.85% in Q1FY10 to 3.72% in Q1FY11 due to sharper decline in cost of deposits (128 bps) vis-à-vis decline in yield on advances (31 bps).**
- **Its net profit grew 25.1% due to strong growth in NII (66.8% YoY), despite 35.8% increase in employee expense, 12.6% decline in non-interest income and higher provisions & contingencies during Q1FY11 (Rs.520 mn in Q1FY11 as against write-back of Rs.32 mn in Q1FY10)**
- **Total business of the bank witnessed robust growth of 24.6% to Rs.1318.4 bn at the end of Q1FY11 from Rs.1058.2 bn at the end of Q1FY10. The strong growth in loan book vis-à-vis deposit growth has led to an improvement in the C/D ratio from 73.7% at the end of Q1FY10 to 76.5% at the end of Q1FY11.**
- **NIM improved both YoY as well as QoQ to 3.72% in Q1FY11 from 2.85% in Q1FY10 and 3.44% in Q4FY10. This has come on back of sharper decline in cost of deposits (128 bps YoY; 10 bps QoQ) vis-à-vis decline in yield on advances (31 bps YoY; 30 bps improvement QoQ).**
- **In absolute terms, asset quality saw sharp deterioration. Gross NPA rose 61.3% YoY and 18.7% QoQ. Similarly, net NPA also rose 70.4% YoY and 77.4% QoQ. However, it is still at comfortable level, if seen in terms of percentage of advances. At the end of Q1FY11, gross NPA and net NPA stand at 1.01% and 0.30%, respectively, still one of the best in the industry. Its coverage ratio at ~86% is again one of the highest in the industry and provides cushion against any significant risk to its earnings.**
- **We have slightly tweaked our earning estimate for FY11E and FY12E and maintain BUY on the stock with the revised target price of Rs.163 (earlier Rs.155) based on P/ABV of 1.6x its FY11E adjusted book value.**

Quarterly Performance

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Interest on advances	14,991.9	12,178.3	23.1
Interest on Investment	3,570.4	2,809.4	27.1
Interest on RBI/ banks' balances	75.8	58.5	29.6
Other interest	12.4	-	NM
Total Interest earned	**18,650.5**	**15,046.3**	**24.0**
Interest expenses	11,288.0	10,632.6	6.2
Net interest income (NII)	**7362.4**	**4413.7**	**66.8**
Other income	2,081.9	2,380.7	-12.6
Net Revenue (NII + Other income)	9,444.3	6,794.5	39.0
Operating Expenses	4340.3	3314.5	31.0
Payments to / Provisions for employees	2,869.8	2,113.9	35.8
Other operating expenses	1,470.5	1,200.6	22.5
Operating profit	**5,104.0**	**3,480.0**	**46.7**
Provisions & contingencies	519.9	(32.2)	NM
Provision for taxes	1,380.0	950.0	45.3
Total Provisions	1,899.9	917.8	107.0
Net profit	**3,204.1**	**2,562.2**	**25.1**
EPS, Rs	**6.61**	**5.28**	**25.1**

Source: Company

Delivered strong growth in earnings

The bank's net interest income (NII) grew 66.8% to Rs.7.36 bn in Q1FY11 from Rs.4.41 bn in Q1FY10 on back of strong loan growth (27.2%) and improvement in NIM from 2.85% in Q1FY10 to 3.72% in Q1FY11 due to sharper decline in cost of deposits (128 bps) vis-à-vis decline in yield on advances (31 bps).

Better liability management helped the bank in delivering good performance on core operating front. During Q1FY11, interest income witnessed 24.0% growth as compared to moderate growth of 6.2% in total interest expenses.

Its net profit grew 25.1% to Rs.3.20 bn in Q1FY11 from Rs.2.56 bn in Q1FY10 due to strong growth in NII (66.8% YoY), despite 35.8% increase in employee expense, 12.6% decline in non-interest income and higher provisions & contingencies during Q1FY11 (Rs.520 mn in Q1FY11 as against write-back of Rs.32 mn in Q1FY10)

Non-interest income declined due to lower treasury gains

Non-interest income declined 12.6% to Rs.2.08 bn in Q1FY11 from Rs.2.38 bn in Q1FY10 on back of lower treasury gains. Treasury income declined 63.0% to Rs.0.48 bn in Q1FY11 from Rs.1.29 bn in Q1FY10.

However, non-interest income (excluding trading profit) witnessed strong traction of 46.8% to Rs.1.61 bn in Q1FY11 from Rs.1.09 bn in Q1FY10.

Business growth was robust

Total business of the bank witnessed robust growth of 24.6% to Rs.1318.4 bn at the end of Q1FY11 from Rs.1058.2 bn at the end of Q1FY10.

- Total deposits of the bank rose 22.6% YoY to Rs.747.0 bn at the end of Q1FY11 from Rs.609.1 bn at the end of Q1FY10. Its CASA mix declined marginally from 30.6% at the end of Q1FY10 to 29.6% at the end of Q1FY11. However, it saw 20 bps QoQ improvements in CASA from 29.4% at the end of Q4FY10.

Trend in deposit growth

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	YoY (%)	QoQ (%)
Total Deposits (Rs. bn)	**609.1**	**622.8**	**665.5**	**776.9**	**747.0**	**22.6**	**-3.8**
CASA	186.5	201.4	199.7	228.6	220.9	18.5	-3.4
CASA (%)	**30.6**	**32.3**	**30.0**	**29.4**	**29.6**		
Term Deposits	422.6	421.4	465.7	548.2	526.1	24.5	-4.0

Source: Company

- Advances of the bank increased 27.2% YoY to Rs.571.4 bn at the end of Q1FY11 from Rs.449.1 bn at the end of Q1FY10. This has come on the back of strong growth in MSME (46.6% YoY), retail (36.7% YoY) and agriculture (28.4% YoY) segments.
- The strong growth in loan book vis-à-vis deposit growth has led to an improvement in the C/D ratio from 73.7% at the end of Q1FY10 to 76.5% at the end of Q1FY11. This improvement in C/D ratio is sharp due to sequential decline in deposits during Q1FY11.

NIM improved both YoY as well as QoQ

NIM improved both YoY as well as QoQ to 3.72% in Q1FY11 from 2.85% in Q1FY10 and 3.44% in Q4FY10. This has come on back of sharper decline in cost of deposits (128 bps YoY; 10 bps QoQ) vis-à-vis decline in yield on advances (31 bps YoY; 30 bps improvement QoQ).

NIM has been improving since Q4FY09 when it touched the 2.6% levels. Since then, the decline in cost of deposits has been sharper (200 bps) as against only 62 bps decline in yield on advances. The sharp fall in cost of deposits has occurred on back of rundown of bulk deposits (16.7% at the end of Q3FY09 to 2.6% at the end of Q4FY10) along with re-pricing of deposits at lower rate.

Asset quality at the comfortable level despite sharp deterioration during Q1FY11; its provision coverage ratio is also one of the best in the industry

In absolute terms, asset quality saw sharp deterioration. Gross NPA rose 61.3% YoY and 18.7% QoQ. Similarly, net NPA also rose 70.4% YoY and 77.4% QoQ. However, it is still at comfortable level, if seen in terms of percentage of advances. At the end of Q1FY11, gross NPA and net NPA stand at 1.01% and 0.30%, respectively, still one of the best in the industry.

Its coverage ratio at ~86% is one of the highest in the industry and provides cushion against any significant risk to its earnings.

Trend in NPAs

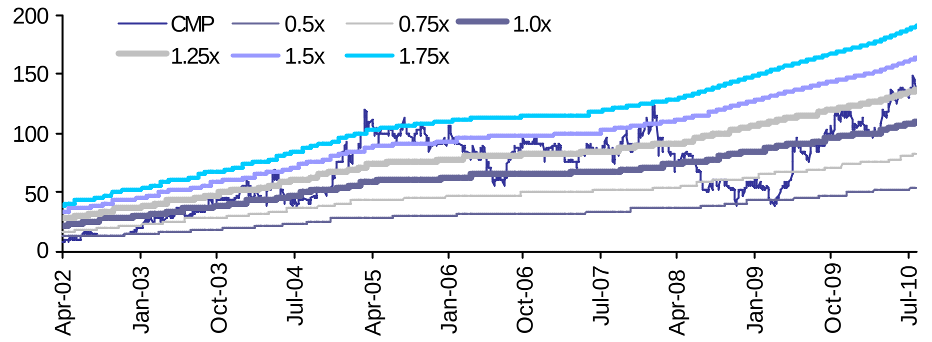
(Rs bn)	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4QFY10	4QFY10
Gross NPA	3.93	3.74	3.73	3.68	3.59	3.98	4.47	4.88	5.79
Gross (%)	1.15	1.03	0.89	0.83	0.80	0.83	0.87	0.86	1.01
Net NPA	0.35	0.87	0.86	0.79	1.00	0.75	0.88	0.96	1.70
Net (%)	0.10	0.24	0.21	0.18	0.22	0.16	0.17	0.17	0.30

Source: Company

Valuations

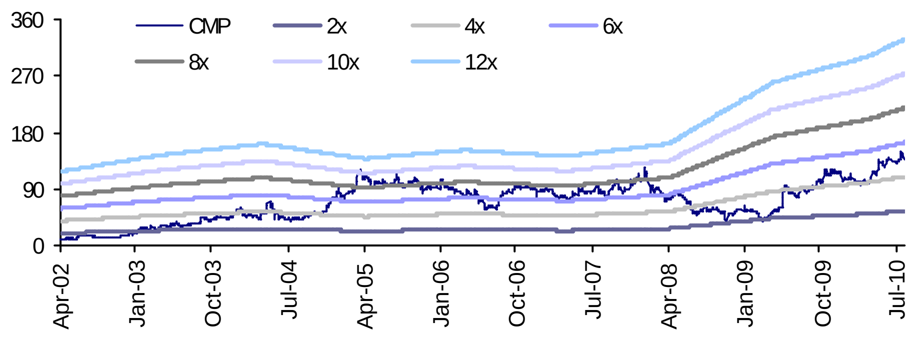
We have slightly tweaked earning estimates for FY11E and FY12E and now expect net profit for FY11E and FY12E to be Rs.12.25 bn and 15.26 bn, respectively. This would result into an EPS of Rs.25.3 and Rs.31.5 for FY11E and FY12E, respectively. The ABV is forecast at Rs.102.3 and Rs.122.2 respectively for FY11E & FY12E.

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

At the current market price of Rs.143, the stock is trading at 5.7x its FY11E earnings and 1.4x its FY11E ABV. We maintain **BUY** on the stock with the revised target price of Rs.163 (earlier Rs.155) based on P/ABV of 1.6x its FY11E adjusted book value.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	53.75	63.73	78.59	96.11
Interest expense	37.48	41.78	51.68	63.91
Net interest income	**16.27**	**21.95**	**26.91**	**32.20**
Other income	7.65	9.65	9.51	11.52
Gross profit	12.88	18.10	21.01	25.63
Net profit	**6.53**	**10.46**	**12.25**	**15.26**
Gross NPA (%)	0.8	0.9	1.0	1.0
Net NPA (%)	0.2	0.2	0.3	0.3
Net int. margin (%)	3.0	3.2	3.2	3.1
RoE (%)	18.9	26.0	25.6	26.9
RoAA (%)	1.0	1.3	1.2	1.3
Dividend Yield (%)	3.1	3.5	3.5	3.5
EPS (Rs)	**13.5**	**21.6**	**25.3**	**31.5**
Adjusted BVPS (Rs)	73.6	88.9	102.3	122.2
P/E (x)	10.6	6.6	5.7	4.5
P/ABV (x)	1.9	1.6	1.4	1.2

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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

MADHUCON PROJECTS LTD (MPL)

PRICE: RS.153 **RECOMMENDATION: BUY**
TARGET PRICE: RS.186 **FY11E P/E: 17X**

- **Madhucon Projects Ltd reported 43% YoY growth in revenues for Q1FY11 which was better than our estimates. This was led by strong order book.**
- **Operating margins stood at 10.68% for Q1FY11, marginally lower than our estimates. Company expects to maintain margins in the range of 11% for the full year.**
- **Net profits registered a growth of 3% YoY and are impacted by decline in margins in comparison with last year.**
- **At current price of Rs 153, stock is trading at 17x and 14.6x P/E for FY11 and FY12 respectively. Adjusted with BOT assets valuations, stock is trading at 6.3x and 5.4x P/E for FY11and FY12 respectively.**
- **We continue to maintain BUY recommendation on the stock with a price target of Rs 186 on sum of the parts methodology on FY11 estimates.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	13,076	16,800	20,160
% change YoY	33.0	28.5	20.0
EBITDA	1,342	1,848	2,218
% change YoY	8.3	37.7	20.0
Other Income	46	100	40
Depreciation	449	515	584
EBIT	940	1,433	1,674
% change YoY	(5.8)	52.4	16.8
Net interest	258	381	445
Profit before tax	682	1,052	1,229
% change YoY	(6.8)	54.3	16.8
Tax	249	352	412
as % of PBT	36.5	33.5	33.5
Net income	432	699	817
% change YoY	(7.9)	61.7	16.8
Shares OS (m)	77.7	77.7	77.7
EPS (Rs)	5.6	9.0	10.5
P/E(x)	27.5	17.0	14.6
EV/EBITDA(x)	6.2	4.7	4.0
RoE (%)	7.8	11.5	12.0
RoCE (%)	11.4	15.0	15.9

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net Sales	**4,074**	**2,848**	**43**
Expenditure	-3,639	-2,492	
EBITDA	**435**	**356**	**22**
EBITDA margin (%)	10.68	12.51	
Depreciation	(120)	(102)	
EBIT	**316**	**254**	**24**
Interest	(103)	(67)	
EBT(exc other income)	213	187	
Other Income	3	18	
EBT	**215**	**205**	**5**
Tax	(81)	(74)	
Tax (%)	37.51	35.97	
Net profit	**135**	**131**	**3**
NPM (%)	3.30	4.61	
Equity Capital	73.79	73.79	
EPS (Rs)	**1.8**	**1.8**	

Source: Company

Revenue growth led by strong order book

- Madhucon Projects Ltd reported 43% YoY growth in revenues for Q1FY11 which was better than our estimates. This was led by strong order book.
- Current order book of company stands at Rs 52 bn diversified across road projects worth Rs 13 bn, irrigation projects worth Rs 13 bn, power projects worth Rs 17 bn, hydel power project of Rs 4.5 bn and remaining Rs 4.5 bn is from building and mining segment.

- Madhucon projects has recently bagged an annuity project in Bihar worth approximately Rs 8.2 bn. This project is for 4 laning of Chhapra-Hazipur Section of NH-19 in the state of Bihar under NHDP Phase III. Project has a concession period of 15 years and company will get semi-annual annuity of Rs 654 mn upon completion of construction period of 2.5 years. This project is expected to be funded through a mix of debt and equity of 75:25. Financial closure is expected to be completed by mid Aug, 2010. Company has already signed the concession agreement and for equity investment funding, company would be looking out raising funds through NCD's in Madhucon Infra.
- Management mentioned that irrigation projects in AP have commenced but company is going slow on these projects.
- MPL's two road BOT projects namely Madhucon Agra-Jaipur expressway and TN Expressway have collected toll of Rs 69.6 mn and Rs 59.7 mn respectively for Q1FY11.Remaining two BOT projects in Tuticorin and Trichy are awaiting toll notification to commence tolling.
- Execution from power projects is in line with expectations. EPC for first phase of power project being executed by Madhucon Projects for Simhapuri is already under progress and likely to get over by March, 2011. Financial closure of second phase of the power project by Simhapuri Energy Pvt Ltd has been delayed and is expected by mid of Aug, 2010 as against May, 2010 expected earlier.
- Based on better than expected revenue growth, we revise our revenue estimates upwards and expect revenues to grow at a CAGR of 24% between FY10-FY12.

Funding requirements in near term

- MPL is developing 1920MW thermal power plant in four phases through its subsidiary Simhapuri Energy Pvt Ltd. EPC for the first phase of 300MW is being carried out by MPL and is expected to be complete by Q4FY11 or Q1FY12. Total project cost for the first phase was Rs 14 bn expected to be funded in a D:E ratio of 75:25. MPL has already infused equity to the tune of Rs 2.48 bn in the first phase and remaining nearly Rs 700-800 mn is expected to be infused in few quarters.
- Financial closure of the second phase of 300MW is likely to be finalized soon. Cost of second phase is expected to be Rs 16 bn and company has raised funds through NCD's to fund the equity commitment for the second phase. Company has already arranged for Rs 2 bn for equity investments for this project.
- Annuity project in Bihar is expected to be funded through a debt:equity ratio of 75:25. Equity component from MPL's side is expected to be Rs 2 bn. We expect this amount to be funded through NCD's.

Operating margins marginally lower than our estimates

- Operating margins stood at 10.68% for Q1FY11, marginally lower than our estimates. Company expects to maintain margins in the range of 11% for the full year.
- Based on lower than expected margins, we revise our margin estimates downwards from 11.5% to 11% for FY11 and going forward.

Net profit impacted by lower margins

- Net profits registered a growth of 3% YoY and are impacted by decline in margins in comparison with last year.
- Post upward revision in revenues and downward revision in margins, our net profit estimates are not changed significantly. We expect net profits to grow at a CAGR of 37% between FY10-FY12.

Valuation and recommendation

We continue to maintain BUY Madhucon Projects with a price target of Rs.186

- At current price of Rs 153, stock is trading at 17x and 14.6x P/E for FY11 and FY12 respectively.
- Adjusted with BOT assets valuations, stock is trading at 6.3x and 5.4x P/E for FY11and FY12 respectively.
- We continue to maintain our price target of Rs 186 on sum of the parts methodology on FY11 estimates.
- We continue to maintain **BUY** recommendation on the stock.

Sum of the parts valuation

(FY11)	Rs per share	
Core business	**90**	**10 times FY11 earnings**
Road projects		
Rajasthan BOT	7	Expected Equity IRR of 16%
Tamil Nadu BOT	8	Expected Equity IRR of 16%
Tuticorin BOT	17	Expected Equity IRR of 15.5%
Trichi BOT	13	Expected Equity IRR of 15.5%
Power project	**23**	**P/BV of 1x for equity investment of Rs 1750mn invested till date**
Land value	**5**	**9.2acres bought at Rs 45mn per acre**
Coal mining venture	**23**	**NPV discounted by 50%**
Total	**186**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

BGR ENERGY SYSTEMS

PRICE: RS.730 | **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.785 | **FY11E P/E:17.4X**

- **Revenue of the company for Q1FY11 grew by 191% YoY led by strong execution from EPC projects as well as robust order book. Revenue growth was ahead of our estimates.**
- **Operating margins for Q1FY11 stood at 11.3% vis-à-vis 13.6% in Q1FY10. Operating margins are in line with our estimates but lower than last year due to higher proportion of EPC project execution in Q1FY11.**
- **Net profit growth for Q1FY11 stood at 199% YoY led by strong order book as well as healthy revenue growth.**
- **We revise our FY11 estimates upwards and also introduce FY12 estimates based on strong order book and expect revenues to grow at a CAGR of 40% between FY10-FY12. BGR is currently trading at 17.4x and 14x P/E on FY11 and FY12 estimates respectively. We continue to maintain our positive bias for the company and continue to maintain ACCUMULATE on the stock with a revised price target of Rs 785 on FY11 estimates.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	30,734	48,107	59,946
% change YoY	59.2	56.5	24.6
EBITDA	3,442	5,292	6,594
% change YoY	64.8	53.8	24.6
Other Income	250	160	100
Depreciation	103	147	205
EBIT	3,589	5,305	6,489
% change YoY	54.0	47.8	22.3
Net interest	538	727	787
Profit before tax	3,051	4,578	5,702
% change YoY	74.2	50.0	24.6
Tax	1,037	1,556	1,939
as % of PBT	34.0	34.0	34.0
Profit after tax	2,015	3,021	3,763
% change YoY	74.3	49.9	24.6
Shares OS (m)	72.0	72.0	72.0
EPS (reported) (Rs)	28.0	42.0	52.3
P/E (x)	26.1	17.4	14.0
EV/EBITDA (x)	15.4	10.5	8.5
RoE (%)	30.7	33.9	31
RoCE (%)	24.9	29.5	29.5

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net Sales	**9,054**	**3,111**	**191**
Expenditure	8,029	2,688	
Inc/Dec in stock	(19)	5	
Raw material	7,378	2,328	
As a % of net sales	81%	75%	
Staff cost	326	217	
As a % of net sales	4%	7%	
Other exp	344	139	
As a % of net sales	4%	4%	
EBITDA	**1,025**	**422**	**143**
EBITDA margin (%)	11.3	13.6	
Depreciation	31	21	
EBIT	**994**	**402**	**148**
Interest	116	163	
EBT (exc other income)	878	239	
Other Income	39	67	
EBT	**917**	**307**	**199**
Tax	312	104	
Tax (%)	34.0%	34.0%	
PAT	**605**	**202**	**199**
NPM (%)	6.7%	6.5%	
Equity Capital	720.5	720	
EPS (Rs)	**8.4**	**2.8**	**199**

Source: Company

Revenue growth led by strong order book

- Revenue of the company for Q1FY11 grew by 191% YoY led by strong execution from EPC projects as well as robust order book. Revenue growth was ahead of our estimates.
- Power segment continued to contribute a significant proportion of the revenues. It contributed 95% of the total revenues in Q1FY11. Order book of company currently stands at Rs 92 bn and power segment contributes nearly Rs 87 bn. Going forward also, company expects order inflow to jump significantly from current levels to more than Rs 120bn for FY11.
- Order pipeline for BGR Energy is very strong and company has already submitted bids for 2X660 MW EPC project in Suratgarh and 2X660 MW EPC project in Chhabra for Rajasthan Rajya Vidyut Utpadan Nigam Ltd. It expects to win at least one order of 2X660MW. Along with this, company had also submitted bids for 3X660MW BOP project in Maharashtra but it has been declared as L2 in that project. So we don't expect this project to be awarded to BGR. Another bid for 350MW EPC project in Gujarat has also been submitted by the company but it may take some time for finalization of this award.
- We believe that revenues in FY11 are likely to be driven by EPC projects in Kalisindh and Mettur as well as BOP projects at Chandrapur and Marwa while BOP projects at Kothagudem and Kaperkheda are likely to get over in FY11. New order wins in FY11 and FY12 are likely to provide further visibility for revenues going forward.
- Based on strong order book and robust order pipeline, we revise our FY11 estimates upwards and also introduce FY12 estimates. We expect revenues to grow at a CAGR of 40% between FY10-FY12.

Progress on tie ups with Hitachi

Company has entered into technical collaboration with Hitachi for manufacturing super critical steam turbine and generator as well as boilers and would now be converting these technical collaborations into joint ventures. Through this JV, company would manufacture super critical BTG equipments on its own in the longer run and would reduce dependence on other players.

We expect the total cost of Rs 30bn for setting up manufacturing units. With a debt: equity ratio expected to be around 70:30 and Hitachi's share of 26% in the JV, we expect total equity investment of Rs 6.5bn from BGR to be invested in next 2-3 years. Thus, every year company may have to invest around Rs 2-2.5bn for setting up these facilities, for which company has sufficient funds in its books. Final production from the manufacturing facilities is likely to commence from 2013. We would factor in these investments into our target valuations post formal joint venture agreement and post equity investments are done by the company.

We expect this JV to be in place by end of August, 2010 and hence we believe that with this JV, company would be able to participate in the bulk tendering of NTPC which is likely to open in Sept-Oct, 2010.

Operating margins in line with our expectations

- Operating margins for Q1FY11 stood at 11.3% vis-à-vis 13.6% in Q1FY10. Operating margins are in line with our estimates but lower than last year due to higher proportion of EPC project execution in Q1FY11.
- We continue to maintain our operating margin assumptions and expect margins to be 11% going forward. Margins may also improve going forward due to increase in proportion of revenues coming in from BOP projects.

Net profit growth led by excellent jump in revenues

- Net profit growth for Q1FY11 stood at 199% YoY led by strong order book as well as healthy revenue growth.
- Post revising our estimates upwards, we expect net profits to grow at a CAGR of 37% between FY10-12.

Valuation and recommendation

- BGR is currently trading at 17.4x and 14x P/E on FY11 and FY12 estimates respectively.

We continue to maintain ACCUMULATE on BGR Energy Systems with a revised price target of Rs.785

- We believe that company will continue to benefit from the upcoming orders in the power EPC and BOP space with its expertise in executing these projects. Along with this, with formation of a joint venture company with Hitachi, it will be able to participate in bulk tendering of NTPC also. Thus, in a longer run, company would emerge as a key player in EPC and BOP space.
- We continue to maintain our positive bias for the company and continue to maintain **ACCUMULATE** on the stock with a revised price target of Rs 785 on FY11 estimates.
- At our target price, stock would trade at 18.7x and 15x P/E on FY11 and FY12 estimates respectively.

RESULT UPDATE

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

UNITY INFRAPROJECTS

PRICE: RS.108 **RECOMMENDATION: BUY**
TARGET PRICE: RS.142 **FY11E P/E: 7.5X**

- **Unity Infraprojects revenues reported 22% growth for Q1FY11 vis-à-vis same period last year. This was led by strong order book.**
- **Operating margin performance was better than our estimates and stood at 13% for Q1FY11.**
- **Net profits reported an increase of 24% YoY for Q1FY11 and was boosted by healthy revenue growth but impacted by higher interest outgo as against last year.**
- **We maintain our estimates and expect revenues to grow at a CAGR of 20% and profits to grow at a CAGR of 17% between FY10-FY12.**
- **At current price of Rs 108, stock is trading at 7.5x and 6.9x P/E multiples for FY11 and FY12 respectively. We value the core business of the company at 9x FY11 P/E multiple and add valuation of investments done in real estate. We continue to maintain our price target of Rs.142 on FY11 estimates. We maintain BUY on the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	14,768	18,502	21,277
% change YoY	31	25	15
EBITDA	1,913	2,313	2,553
% change YoY	34	21	10
Other Income	122	122	122
Depreciation	175	235	298
EBIT	1,861	2,200	2,378
% change YoY	31	18	8
Net interest	584	649	695
Profit before tax	1,277	1,550	1,683
% change YoY	25	21	9
Tax	447	519	563
as % of PBT	35	33	33
Profit after tax	830	1,032	1,120
Share of Profits of JVs	22	40	40
Net income	852	1,072	1,160
% change YoY	22	26	8
Shares OS (m)	74.1	74.1	74.1
EPS (reported) (Rs)	11.5	14.5	15.7
P/E(x)	10.2	7.5	6.9
EV/EBITDA(x)	5.7	5.4	4.8
RoE(%)	17.3	17.6	16.5
RoCE(%)	20.4	19.8	19.2

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net Sales	**3,398**	**2,786**	**22**
Expenditure	(2,955)	(2,406)	
EBITDA	**443**	**380**	**17**
EBITDA margin (%)	13.0	13.6	
Depreciation	(40)	(42)	
EBIT	**404**	**338**	**19**
Interest	(160)	(136)	
EBT (exc other income)	244	203	20
Other income	25	13	
EBT	**268**	**216**	**25**
Tax	(84)	(68)	
Tax (%)	31.2	31.3	
PAT	**185**	**148**	**25**
NPM (%)	5.4	5.3	
Share of Profits of JVs	10	9.8	
Net Profits	**195**	**158**	**24**
Equity Capital	148	134	
EPS (Rs)	**2.6**	**2.4**	

Source: Company

Revenue growth inline with our estimates

- Unity Infraprojects revenues reported 22% growth for Q1FY11 vis-à-vis same period last year. This was led by strong order book of Rs 35.5 bn.
- Current order book is diversified across irrigation (50%), civil (42%) and roads (8%) and provides a revenue visibility for next 2 years. Order inflow in Q1FY11 stood at Rs 4.12 bn especially in the buildings segment.
- Company has also changed the order book mix towards more government related contracts to 71% in Q1FY11 as compared to 45% in Q1FY10. Orders from private sector have correspondingly reduced to 29% in Q1FY11 as against 55% in Q1FY10.

- Unity Infraprojects is planning to increase its focus towards road BOT projects, water treatment and water desalination projects. Company is already prequalified for road projects worth Rs 10bn and expects to bag at least one road BOT project in the current fiscal. Along with this, company also plans to venture into EPC of hydro power projects going forward.
- With strong order book, we continue to maintain our estimates for revenues and expect revenues to grow at a CAGR of 20% between FY10-FY12.

Progress in real estate division

Unity has invested Rs 1.95 bn so far in accumulating land at five places through its subsidiary Unity Realty and Developers Ltd (URDL). Following are the details -

Progress in real estate division

Place	Amt invsted (Rs mn)	Development plan	Value per share(Rs)
Nagpur	360	Retail malls	5
Goa	100	IT Park	1.3
Pune*	350	Hotel	5.3
Kolkata#	750	Residential township	-
Bangalore#	390	Residential township	-

*Source: Company, Kotak estimates; * Stake sold to Kamath Hotels for Rs 450mn; # Will incorporate value once projects get commenced*

Operating margins better than our estimates

- Operating margin performance was better than our estimates and stood at 13% for Q1FY11.
- We expect operating margins to be 12.5% and 12% for FY11 and FY12 respectively since commodity prices have been stable and 90% of company's order book has inbuilt price escalation clause.

Net profit growth led by healthy revenue growth

- Net profits reported an increase of 24% YoY for Q1FY11 and was boosted by healthy revenue growth but impacted by higher interest outgo as against last year.
- We continue to maintain our estimates and expect net profits to grow at a CAGR of 17% between FY10-FY12.

Valuation and recommendation

- At current price of Rs 108, stock is trading at 7.5x and 6.9x P/E multiples for FY11 and FY12 respectively.

We continue to maintain BUY on Unity Infraprojects with a price target of Rs.142

- We value the core business of the company at 9x FY11 P/E multiple and add valuation of investments done in real estate.
- We continue to maintain our price target of Rs 142 on FY11 estimates.
- We maintain **BUY** on the stock.

RESULT UPDATE

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

JBF INDUSTRIES LTD. (JBF)

PRICE: RS.136 | **RECOMMENDATION: BUY**
TARGET PRICE: RS.175 | **CONS. FY11E PER: 3.0X**

- **JBF reported good set of Q1FY11 results which are inline with our estimates**
- **Adjusted NPAT up sharply 126% on YoY basis to Rs.679 mn**
- **Volumes of high margin BOPET films up 122% YoY to 18482 MT**
- **Looking to expand capacity both in India and RAK**
- **Key concern - mark-to-market forex derivative loss of Rs.1.5 bn**
- **We are positive on long term growth prospects of JBF due to strong demand for its products like Polyester chips, POY, Pet grade chips and BOPET films**
- **Due to attractive valuations and 29% upside potential from the current levels we continue to recommend BUY on JBF with unchanged price target of Rs.175**

Summary table - Consolidated

(Rs mn)	FY09	FY10	FY11E
Sales	43,099	49,409	56,057
Growth (%)	54	14.6	13.5
EBITDA	5,116	4,712	6,367
EBITDA margin (%)	11.9	9.5	11.4
Net profit	1,889	1,904	2,803
Net debt	11,516	12,645	14,291
EPS (Rs)	30.3	30.6	45.0
Growth (%)	87.5	(12.8)	42.2
DPS (Rs)	5.0	6.0	7.0
ROE (%)	25.8	21.8	27.9
ROCE (%)	19.6	17.6	21.1
EV/Sales (x)	0.5	0.4	0.4
EV/EBITDA (x)	3.9	4.5	3.6
P/E (x)	4.5	4.4	3.0
P/BV (x)	1.2	1.0	0.7
P/CEPS (X)	3.2	2.8	2.1

Source: Company, Kotak Securities - Private Client Research

Volume details

	Q1FY11	Q1FY10	YoY (%)
Quantity (MT)			
Chips - India & RAK	145,449	172,465	(15.7)
POY - India	42,898	33,796	26.9
BOPET Films - RAK	18,482	8,310	122.4
Average Realizations (Rs./kg)			
Chips - India & RAK	62	53	17.8
POY - India	75	69	8.7
BOPET Films - RAK	102	85	20.5

Source: Company

- JBF sold 1.5 lakh MT of polyester chips in Q1FY11, down 15.7% YoY as the chips are being further processed into POY and BOPET films and thus they are being used for captive consumption. This is well supported by the fact that and it sold 42898 MT of POY in Q1FY11, up 26.9% YoY and it sold 18482 MT of BOPET films in Q1FY11 up sharply 122.4% on YoY basis.
- For Q1FY11, on a consolidated basis, the revenues stood at Rs.14.1 bn, up 15.8% on YoY basis primarily due to additional contribution from the pet grade chips and BOPET films from the RAK plant which is valued added product.
- EBIDTA stood at Rs.1.5 bn up sharply 58.3% on YoY basis. JBF recorded higher operating margin of 10.9% in Q1FY11, up 290 bps on YoY basis primarily due to increased contribution of high margin BOPET films from RAK plant. BOPET films are a value added product and thus it enjoys higher operating margins then polyester chips or POY. This is well supported by the fact that the raw materials as a percentage of revenues has fallen from 80.0% in Q1FY10 to 77.0% in Q1FY11.
- The depreciation and interest cost of the company has increased by 15.0% and 34.6% on YoY basis respectively due to commissioning of new lines of BOPET films in RAK.
- PBT was up 99.4% on YoY basis to Rs.902 mn.
- NPAT stood at Rs.549 mn, up 4.9% on YoY basis thereby translating into Q1FY11 EPS of Rs.8.8 and CEPS of Rs.13.9.
- However adj. NPAT is up sharply by 126.5% on YoY basis to Rs.679 mn. JBF has taken a forex loss of Rs.130 mn in Q1FY11 while Q1FY10 had gain of Rs.224 mn. Out of this Rs.175 mn was in respect of extinguishment of liability on buyback of FCCB.

JBF Q1FY11 Consolidated Financials

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net Sales	**14,133**	**12,209**	**15.8**
Inc/dec in stock	244	(245)	(199.3)
raw materials	10,641	10,019	6.2
staff cost	200	148	35.3
other exp.	1,502	1,312	14.5
total exp.	12,586	11,232	12.1
EBIDTA	**1,547**	**977**	**58.3**
Other income	28	15	90.5
Depreciation	314	273	15.0
EBIT	**1,261**	**719**	**75.4**
Interest	359	267	34.6
PBT	**902**	**453**	**99.4**
Extra loss/ (gain)	130	(224)	(158.1)
Tax & def tax	111	132	(15.8)
Less Minority interest	113	21	428.5
NPAT	**549**	**523**	**4.9**
Adj. NPAT	**679**	**300**	**126.5**
Equity shares o/s (mn)	62.2	62.2	
Ratios			
Operating profit margin (%)	10.9	8.0	up 290 bps
Raw Materials / Sales (%)	77.0	80.0	
Staff cost / Sales (%)	1.4	1.2	
Other Exp. / Sales (%)	10.6	10.7	
Tax / PBT (%)	12.3	29.1	
EPS (Rs)	**8.8**	**8.4**	**4.9**
CEPS (Rs)	13.9	12.8	8.3

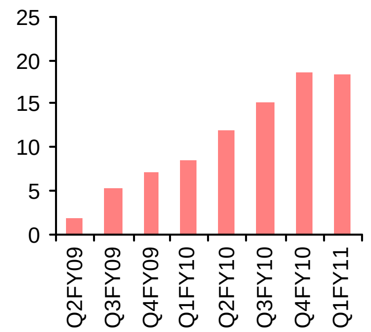
Source: Company, Kotak Securities - Private Client Research

Segmental Results

	Q1FY11	Q1FY10	YoY (%)
Revenues (Rs. mn)			
Domestic	8,519	6,942	22.7
International	5,778	5,510	4.9
PBIT (Rs. mn)			
Domestic	610	793	(23.0)
International	521	150	247.1
PBIT (%)			
Domestic	7.2	11.4	(37.2)
International	9.0	2.7	231.0

Source: Company

BOPET films sold (`000 MT) - RAK

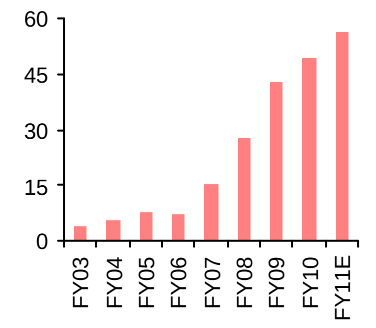


Source: Company

Ramp up in high margin BOPET films business in RAK

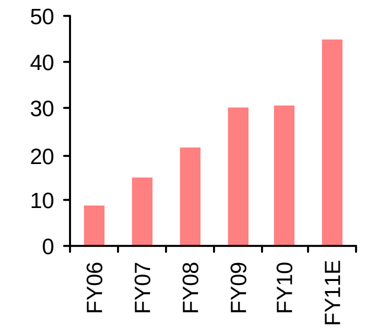
JBF RAK sells films for various uses like FMCG, food packaging, industrial applications like cables and solar panels and consumer durables like LCD screens. The volumes of BOPET films from RAK is up sharply by 122% on YoY basis to 18482 MT. Films is a value addition business and thus it enjoys superior operating margins as compared to the PET chips and this is likely to lead to increased overall profitability for JBF going forward. This is well supported by the fact that in Q1FY11 while the revenues of RAK are up only 4.9%, PBIT is up sharply by 3.5x to Rs.521 mn.

Cons. revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.)



Source: Company, Kotak Securities - Private Client Research

Expansions

- During Q1FY11 JBF has successfully commissioned 36000 MT of POY capacities in India. This is a high value added yarn which would help to improve the operating margins going forward. Going forward the second phase of POY expansion of another 36000 MT in India is expected by September 2010.
- The company is looking to enhance the bottle grade chips facility at Sarigam, Gujarat, India by de-bottlenecking.
- It is also looking to expand the chips capacity at RAK to more then 4.0 lakh TPA by March 2011.
- The BOPET films unit at RAK is now operating at optimal capacities. However looking at the robust demand the company has decided to add one more line of films at RAK unit and this is expected to be operational by March 2011.

Raw material price trend

PTA is the key raw material for JBF. The prices of PTA peaked at $990 / MT in May 2010 and by June the prices corrected to $855 / MT. this was due to Euro zone crisis and falling crude prices. Going forward we expect the prices to be stable however there is concern on timely availability of PTA. In order to find a permanent solution to PTA availability JBF RAK has signed a MOU to set up a 1.2 MMTPA Purified Terephthalic Acid (PTA) plant at Oman in Joint Venture with Oman Oil Company S.A.O.C, Oman. We await further details from the management regarding the same.

Not provided for mark to market derivative loss

The company has not provided for the mark-to-market forex derivative loss of Rs.1.5 bn as of 30th June 2010 as it is of the view that it is notional in nature and may be payable only if the certain conditions are triggered after 3rd August 2010 and ending on 3rd July 2013. The derivative contract was undertaken to hedge its exposure to foreign exchange and interest rates. However going forward the company would be accounting for the losses on actual monthly settlements beginning from August 2010. This remains the key risk to our earning estimates as due to lack of information on the nature of the contract we have not provided for any potential losses out of it in our earning estimates.

Valuation & Recommendation

- We maintain our earning estimates and expect JBF to report Cons. EPS of Rs.45.0 and CEPS of Rs.64.6 for FY11E.
- At the current market price of Rs.136, the stock trades at very attractive valuations of just 0.7x book value, 3.0x earnings and 2.1x cash earnings based on FY11E.

We recommend BUY on JBF Industries with a price target of Rs.175

- We continue to remain positive on the medium to long term growth prospects of the company. This is due to strong demand for the chips and POY and stabilization of the pet grade chips and polyester films plant at RAK and backward integration move to set up a PTA plant.
- Due to attractive valuations and 29% upside potential from the current levels we continue to recommend **BUY** on JBF with unchanged price target of Rs.175.

RESULT UPDATE

Sarika Lohra
sarika.lohra@kotak.com
+91 22 6621 6312

INDIA INFOLINE LTD (IIFL)

PRICE: RS.95 **RECOMMENDATION: BUY**

TARGET PRICE: RS.120 **FY11E P/E: 10.3x; P/BV: 1.5x**

- **Core income growth largely in line with our expectation at Rs. 3060mn,up by 29% yoy; average traded volume grew marginally, financing business and fee - based business income growth remained healthy during Q1FY11**
- **Higher than expected interest cost led to 17% sequential de-growth in bottom-line to Rs. 431mn.**
- **At the current market price the stock is trading at 10.3x its FY11 EPS of Rs.9.2 and 8.7x its FY12 EPS of Rs.10.9. We are tweaking our price target for the stock to Rs. 120 (Rs. 125 earlier). At our price target the stock trades at 13.0x its FY11 earnings estimates.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Income from opns	11,229	12,958	14,760
Other income	10	11	12
Total income	11,239	12,969	14,772
EBITDA	4,373	4,986	5,776
PAT	2,320	2,632	3,109
EBIDTA Margins (%)	38.9	38.4	39.1
PAT Margins (%)	20.6	20.3	21.0
Operating Expenses / Total Income	61.1	61.6	60.9
Employee Cost /Total Income	28.3	28.3	28.3
EPS (Rs)	8.1	9.2	10.9
Book Value	56	63	69
RoE (x)	14.7	15.5	16.5
RoA (x)	9.2	7.8	8.1
P/E (x)	11.7	10.3	8.7
P/BV (x)	1.7	1.5	1.4

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY11	Q4FY10	Q1FY10	% yoy	% qoq
Income from operations	3,058	3,095	2,377	29	-1.2
Equity bokerage and related	1,543	1,647	1,605	-4	-6.3
Financng and investing income	1,098	969	574	91	13.4
Distribution and marketing income	417	479	198	111	-12.9
Others	2	3	1	125	-41.9
Total Income	**3,060**	**3,098**	**2,378**	**29**	**-1.2**
Direct cost	477	505	567	-16	-5.5
Employee cost	920	972	643	43	-5.4
Administration Expenses	573	592	395	45	-3.3
Total optg expenses	**1,970**	**2,069**	**1,605**	**23**	**-4.8**
EBITDA	**1,090**	**1,029**	**773**	**41**	**6.0**
Interest	283	118	7	3829	139.1
Depreciation & Amortisation	154	119	134	15	29.6
Profit/Loss before tax	653	791	631	3	-17.5
Provision for tax/FBT	213	268	270	-21	-20.7
Minority interest	9	1	30	-70	592.3
Net profit	**431**	**522**	**331**	**30**	**-17.3**
EPS (Rs)	**1.5**	**1.8**	**1.2**	**30**	**-17.3**
EBITDA (%)	35.6	33.2	32.5		
Net profit (%)	14.1	16.8	13.9		
Market share	4.0	3.8	3.6	10	5.3
Avg Daily Volume	43.5	35.0	32.3	35	24.2

Source: Company

Core income growth largely in line with our expectation at Rs. 3060mn,up by 29% yoy; average traded volume grew marginally, financing business and fee - based business growth remained healthy during Q1FY11

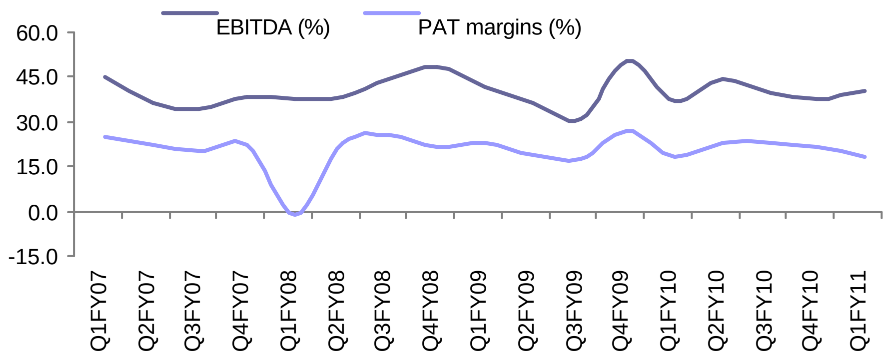
- IIFL's total income grew by 30% yoy and de-grew by 17% qoq to Rs. 3060mn as compare to our expectation of Rs.3111mn. On a sequential basis the growth trend remained largely flattish.
- IIFL reported an average daily volume (ADV) of Rs 43.5 bn for Q1FY11, up by 35% yoy and 18% qoq. Its market share also increased marginally to 4% in Q1FY11 from 3.9% in Q4FY10 and 3.6% in Q1FY10. Importantly its brokerage yield stood at

- Its loan book for Q1FY11 stood at Rs 19.6bn, up by 21.8% qoq, from Rs, 16bn in Q4FY10. The loan book mainly consists of mortgage loans (48%), and Margin funding (34%). Since close to 96% on the loan book is backed by collateral, its Net NPAs remained comfortable at below 1%, reflecting healthy credit quality. During Q1FY11, IIFL has also launched Gold Loans.
- Wealth management business witnessed a sequential growth of 50% yoy in its AUM to Rs. 75bn from Rs.50bn in Q4FY11. The strong growth in its AUM was following the ramping up of its client base and increased global presence.

Higher than expected interest cost led to 17% sequential de-growth in bottom-line to Rs. 431mn.

- IIFL reported a higher than expected interest cost for Q1FY11 following its thrust on expanding it's financing and investment related business. IIFLs interest cost grew by 140%qoq to Rs.282mn following a significant rise in its borrowings. In addition to this, interest on higher borrowings towards the end of Q4FY10 has also impacted IIFL's net profit during Q1FY11.
- Despite at 43% yoy increase in employee cost and 45% yoy increase in administration cost, EBITDA grew by 41% yoy to Rs. 1090mn. On a sequential basis the overall cost has eased by .48%. IIFL's EBITDA margins have improved to 35.6% in Q1FY11 as compared to 33.2% in Q4FY10.
- IIFL has reported de-growth of 17.3% qoq and a growth of 30% yoy in its net profit to Rs.431. The bottom-line was lower than our expectation mainly due to higher interest cost. We are therefore factoring in higher interest expenses in our working and

EBITDA & PAT margins (%)



Source: Company

Valuation and recommnedation

We recommend BUY on India Infoline with a price target of Rs.120

- With IIFL focusing more on expanding its financing and investing business, we are revising our earnings estimates to factor in higher interest cost for FY11 and FY12. We expect a net profit growth of 13% yoy in FY11 to Rs. 2.6bn and 18% yoy in FY12 to Rs.3.1bn.
- At the current market price the stock is trading at 10.3x its FY11 EPS of Rs.9.2 and 8.7x its FY12 EPS of Rs.10.9. We are tweaking our price target for the stock to Rs. 120 (Rs. 125 earlier). At our price target the stock trades at 13.0x its FY11 earnings estimates.

RESULT UPDATE

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

SAIL

PRICE: RS.204 **RECOMMENDATION: SELL**
TARGET PRICE: RS.167 **FY11E EV/EBITDA: 9.2X; P/E: 13.8X**

Poor Q1 performance on expected lines - Maintain SELL with reduced TP of Rs. 167

SAIL, the largest domestic steel player, reported Q1 PAT of Rs.11.77bn which is down 11.6% on Y/Y basis and down 43.6% on Q/Q basis. EBITDA margins are down as much as 510bps on sequential basis to 20.2% while EBITDA/tonne has fallen 20.7% sequentially to Rs.7680/t. Fall in performance came in primarily from poor sales volume in Q1 @ 2.4mn tonnes down 25% on Y/Y basis and 15% on Q/Q basis even as just marginal dip in average sales realisations on sequential basis stemmed further downfall. But it should be noted that the July 2010 average realisations were down 2000/t from Q1FY11 levels, so the impact of that is likely in Q2FY11E results unless in unlikely event of steel prices rising sharply in next few weeks.

Q1FY11 inventory built-up was astonishing high at Rs.16.78bn not far away from the peak of global financial crisis in Q3FY09 when the figure had zoomed to Rs.19.92bn on virtual standstill of sales volumes. This poor performance has come at a time wherein Indian GDP growth and IIP growth has been quite impressive. It is a clear signal of poor steel industry dynamics and supports our negative stance on the sector and the company.

In FY11, only capacity volume growth would come from commissioning (Aug 2010) of (i) facilities in Salem steel plant which would add mere 0.18mn tonnes of high-value stainless/alloy steel products in the SAIL product-mix basket and (ii) upgradation of Blast Furnace-2 completed at Bokaro Steel Plant at a cost of over Rs.8bn which would increase its working volume from 1,758m3 to 2,250m3 for higher productivity level of 2 tonnes/m3/day. Even in FY12, the growth in saleable volume guided by management is just 1mn tonnes. While the volume growth profile would improve somewhat in FY13, the real benefits of ongoing massive expansion are backdated for FY14 and that too subject to project commissioning without much delay. So we opine that the stock doesn't justify valuation premium for the investors with investment horizon of less than 2yrs.

We have revised downwards our earning estimates for FY11 on poor Q1 performance and worsen industry dynamics. Our EPS estimate for FY11E is cut by 12% to Rs.14.8 (vs.Rs.16.8 earlier). We now value the company on 7.5x EV/EBITDA vs. 7x EV/EBITDA on FY11E, just to factor in expectations of pending FPO offering and discount risks of some improvement in global steel industry dynamics. Stock is very richly valued on operational parameters, trading at 9.2x EV/EBITDA for FY11E and 13.8x P/E for FY11E respectively. We maintain SELL with a revised TP of Rs.167 (Vs. Rs.178 earlier)

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales (Rs. mn)	431,501	417,612	476,927
Growth (%)	9.2	-3.2	14.2
EBITDA (Rs. mn)	84,120	99,369	92,765
EBITDA Margins (%)	19.5	23.8	19.5
Net Profit (Rs. mn)	61748	67449	64237
EPS (Rs.)	14.9	16.3	14.8
Growth (%)	-18.0	9.2	-9.3
ROE (%)	22.1	20.3	15.2
ROAE(%)	24.2	22.1	17.0
EV/Sales (x)	1.7	1.9	1.8
EV/ EBITDA (x)	8.7	7.8	9.2
P/E (x)	13.6	12.5	13.8
P/B (x)	3.0	2.5	2.1
BVPS (Rs)	67.8	80.4	97.5

Source: Company, Kotak Securities - Private Client Research

Q1 results and conference call highlights

- Reported Net sales of Rs.91.3bn down 0.3% Y/Y and down 25.3% Q/Q.
- Reported EBITDA of Rs.18.4bn down 2% Y/Y and down massive 40.5% Q/Q.
- Reported Q1 PAT of Rs.11.77bn which is down 11.6% Y/Y and down 43.6% Q/Q.
- EBITDA margins are down as much as 510bps on sequential basis to 20.2% while EBITDA/tonne has fallen 20.7% sequentially to Rs.7680/t.
- Production of crude steel in Q1 was 3.34mn tonnes (up 2% Y/Y) while saleable steel production was 3mn tonnes (down 3% Y/Y).

- Saleable steel sales volumes in Q1 were 2.4mn tonnes down 25% Y/Y and 15% Q/Q. SAIL saleable steel sales volume for Apr, May, June and July 2010 were 0.65 mn tonnes, 0.75 mn tonnes, 1 mn tonnes and 1 mn tonnes respectively.
- Finished steel inventory rose from 0.7mn tonnes to 1.2mn tonnes during Q1. Inventory days have risen to ~40days vs. average of ~27days. Management has indicated that Q2 is unlikely to see any depletion of inventory as demand would remain softened due to monsoon season.
- Q1FY11 inventory built-up was astonishing high at Rs.16.78bn vs. inventory clearance of Rs. 0.92bn in Q1FY10 and Rs. 8.8bn in Q4FY10. This inventory built up is not far away from the peak of global financial crisis in Q3FY09 when the figure had zoomed to Rs.19.92bn on virtual standstill of sales volumes.
- Average steel realisations during Q1 was Rs.35,000/t which have declined to an average of Rs.33,000/t in July 2010. Correction in prices began in May 2010 and as per management primary reasons were inventory de-stocking and sharp jump in imports primarily from China.
- In Q1, SAIL's cost on employees increased due to additional provision of Rs. 2.99 bn towards employee-related benefits, compared to net reversal of Rs. 1.99bn Y/Y towards provision for revision of salaries & wages. Though the management has indicated there is unlikely to be further provisions related to employee benefits, there are likely to some more provisions related to other accounts with employee cost. It has guided total employee cost including all provisioning of ~ Rs.80bn for FY11.
- Adverse impact of increase in prices of inputs such as coal, ferro-alloys, nickel, etc., during Q1 amounted to Rs. 5.6bn (Rs. 3.7bn on account of imported coking coal alone).
- Royalty on iron ore in Q1 increased from Rs. 16/t to Rs. 132/t on Y/Y basis. This had an adverse impact of Rs. 0.53bn on Y/Y basis.
- Forex loss accounted in Q1FY11 as per AS 11 guidelines was Rs.0.94bn vs. Rs 0.75bn gain accounted in Q1FY10.
- Q1 profits were helped on Y/Y basis from better product-mix i.e. higher production of special/value-added steel items to tune of Rs.2.25bn and improvement in raw material efficiency benefits @ Rs. 1bn. SAIL plants produced best-ever 1.18 mn tonees (up 3% Y/Y) of special/value-added products during Q1.
- SAIL would be using 2.5mn tonnes of high cost ($300/t FOB) carry over contracts for high grade coking coal during FY11. Out of this 0.8mn tonnes were used in Q1. In FY12, management has guided usage of 1.7mn tonnes of this high cost coking coal contracts.
- Capex incurred in Q1 was Rs. 28.1bn vs. Rs. 24.7bn Y/Y. Capex planned for FY11 is Rs.122.5bn vs. Rs.106.1bn in FY10. The company is amidst massive Rs.700bn expansion plan to be completed over next three years. Orders for up to Rs.500bn have already been placed till date.
- Total debt for the company has increased from Rs.165.1bn to Rs.178.4bn during Q1. In line with that D/E has increased marginally from 0.5 to 0.52 levels during the quarter.
- Investments (mainly in short term deposits with the bank) declined from Rs.220.2bn to Rs.206.9bn during Q1.
- Net worth of the company increased from Rs.333.1bn to Rs.344.9bn during Q1.
- Salem Steel Plant of SAIL is ready for commissioning and hot trials of the same scheduled in August 2010 itself. The major facilities coming up in this phase here include Electric Arc Furnace, Ladle Furnace, AOD convertor, Slab Caster and a new Sendzimer mill. But rtis will add mere 0.18mn tonnes of high-value stainless/alloy steel products in the SAIL product-mix basket.

We recommend SELL on SAIL with a price target of Rs.167

- During Q1, upgradation of Blast Furnace-2 at Bokaro Steel Plant at a cost of over Rs. 800 crore was completed. This includes increasing its working volume from 1,758m3 to 2,250m3 for higher productivity level of 2 tonnes/m3/day by incorporating state-of-the-art technology.
- Coal production of 0.3mn tonnes from the company's captive mines of SAIL at Chasnalla, Jitpur and Ramnagore registered 18% growth and was the best-ever in Q1. SAIL is taking steps for expansion of existing captive coal mines at Chasnalla, Jitpur and Ramnagore, and development of new mines at Tasra (ramp up to 2.5 mn tonnes) and Sitanala (ramp up to 0.4 mn tonnes) over next 2-3yrs.
- In the coming quarter, SAIL would firm up the modalities of strategic alliance with POSCO for Finex process 1.5 mn tonnes plant at Bokaro. On technology front, alliances with Kobe Steel for nuggets of 0.5 mn tonnes and Nippon for API 80-100 grades production are also expected to make further headway in FY11. But all these projects will not come online at least before 2014.

Plant wise comparative

	Q1FY11	Q4FY10	Q/Q%	Q1FY10	Y/Y (%)	FY10	FY09	Y/Y (%)
Sales Volume (mn tonnes)								
Bhilai	0.9	1.1	-18.2%	0.9	0.0%	4.20	4.0	6.3
Bokaro	0.6	0.9	-33.3%	0.9	-33.3%	3.40	3.2	6.3
Rourkela	0.4	0.6	-33.3%	0.5	-20.0%	2.05	2.1	0.0
Durgapur	0.4	0.5	-20.0%	0.4	0.0%	1.84	1.6	15.0
Sales (Rs. mn)								
Bhilai	37340.5	43692	-14.5%	34134.6	9.4%	156374	170696	-8.4
Bokaro	20856.4	32398	-35.6%	25302.5	-17.6%	108370	110558	-2.0
Rourkela	14417.8	20177	-28.5%	14111.9	2.2%	66314	69692	-4.8
Durgapur	13391.5	17204	-22.2%	12383.6	8.1%	55959	60095	-6.9
Realisations (Rs./tonne)								
Bhilai	41489	39720	4.5%	37927	9.4%	37232	43214	-13.8
Bokaro	34761	35998	-3.4%	28114	23.6%	31873	34549	-7.7
Rourkela	36045	33628	7.2%	28224	27.7%	32348	33996	-4.8
Durgapur	33479	34409	-2.7%	30959	8.1%	30413	37560	-19.0
EBIT (Rs. mn)								
Bhilai	8961.4	11835.9	-24.3%	9278.1	-3.4%	44034.90	50304	-12.5
Bokaro	3347.7	6059.5	-44.8%	3324.7	0.7%	21666.50	**13456**	61.0
Rourkela	2021.7	5326.6	-62.0%	1869.5	8.1%	14431.10	10997	31.2
Durgapur	1356.2	2880.1	-52.9%	1209.7	12.1%	6935.40	7836	-11.5
EBIT/Tonne (Rs.)								
Bhilai	9957	10760	-7.5%	10309	-3.4%	10485	12735	-17.7
Bokaro	5580	6733	-17.1%	3694	51.0%	6373	**4205**	51.6
Rourkela	**5054**	**8878**	**-43.1%**	3739	35.2%	7040	5365	31.2
Durgapur	**3391**	**5760**	**-41.1%**	3024	12.1%	3769	4898	-23.0
EBIT Margin								
Bhilai	24.0%	27.1%	(310bps)	27.2%	(320bps)	28.2%	29.5%	(130bps)
Bokaro	16.1%	18.7%	**(260bps)**	13.1%	**300bps**	20.0%	**12.2%**	780bps
Rourkela	**14.0%**	**26.4%**	**(1240bps)**	13.2%	**80bps**	21.8%	15.8%	600bps
Durgapur	**10.1%**	**16.7%**	**(660bps)**	9.8%	**30bps**	12.4%	13.0%	(60bps)

Source: Company

P&L Comparative

	Q1FY11	Q4FY10	Q/Q (%)	Q1FY10	Y/Y (%)
Net Sales	91333	122297.6	-25.3%	91634.1	-0.3%
Total expenditure	72,905	91,327	-20.2%	72,820	0.1%
Stock moves	-16789	8844.1	-289.8%	921	-1923.1%
Consumption of RM	47035	42730.2	10.1%	40585	15.9%
Staff cost	20117	16380.7	22.8%	10797	86.3%
Power	8784	9493.7	-7.5%	8347	5.2%
Stores and Spares	5734	6220.1	-7.8%	5926	-3.2%
Other expenditure	8024	7658.2	4.8%	6245	28.5%
EBITDA	18,429	30,971	-40.5%	18,814	-2.0%
EBITDA Margin (%)	20.2%	25.3%	(510bps)	20.5%	(30bps)
EBITDA/t (Rs.)	7,679	9,678	-20.7%	6,719	14.3%
Other Income	3862	4429.3	-12.8%	5401.0	-28.5%
Depreciation	3505	3384.4	3.6%	3275.4	7.0%
Interest	1296	1347.1	-3.8%	836.9	54.9%
PBT	17,489	30,668.4	-43.0%	20,102.6	-13.0%
Tax	5,723	9819.4	-41.7%	6798.2	-15.8%
PAT	11,767	20,849.0	-43.6%	13,304	-11.6%
Net margins	12.9%	17.0%	(410bps)	14.5%	(160bps)
Tax rate	32.7%	32.0%	70bps	33.8%	(110bps)
EPS	2.85	5.05	-43.6%	3.22	-11.6%

Source: Company

Target Price based on FY11E earnings

	EBITDA (Rs. mn)	Multiple (x)	Valuation (Rs. mn)	Value (Rs./Share)
Enterprise Value	92,765	7.50	695738	160.4
Add: Net Cash (at end of FY11E)			29773	6.9
Target Market Capitalization			725511	167.3
Target Price				167

Source: Company

Profit and Loss statement

	FY09	FY10	FY11E
Net Sales (Rs. mn)	**431,501**	**417,612**	**476,927**
% Change YoY	9.2%	-3.2%	14.2%
Operating expenditure (Rs. mn)	347,381	318,244	384,162
EBITDA (Rs. mn)	**84,120**	**99,369**	**92,765**
% Change YoY	-23.9%	18.1%	-6.6%
EBITDA Margin (%)	19.5%	23.8%	19.5%
Other Income (Rs. mn)	25,298	19,300	23,846
Depreciation (Rs. mn)	12,851	13,365	14,526
Interest (Rs. mn)	2,532	4,088	7,414
Profit before Tax (Rs. mn)	**94,035**	**101,215**	**94,671**
Tax (Rs. mn)	32,286	33,767	30,434
Profit after Tax (Rs. mn)	**61,748**	**67,449**	**64,237**
Shares Outstanding	4130.4	4130.4	4336.92
EPS (Rs.)	**14.9**	**16.3**	**14.8**

Source: Company, Kotak Securities - Private Client Research

Balance Sheet

Year ending Mar	FY09	FY10	FY11E
LIABILITIES			
Equity Share Capital	41,304	41,304	43,369
Reserves & Surplus	238,537	290,581	379,386
Net Worth	279,841	331,885	422,755
Short Term Loans	0	0	0
Long Term Loans	75,388	165,110	215,110
Deferred Tax Liabilities	13,322	10,738	8,321
Total Liabilities	**368,550**	**507,733**	**646,186**
ASSETS			
Gross Block	327,287	348,488	385,988
Less Depreciation	204,599	217,964	232,490
Net Block	122,688	130,524	153,499
CWIP	65,442	150,242	237,742
Investments	6,527	6,527	6,527
Total Current Assets	345,109	384,599	416,132
Total Current Liabilities	171,216	164,160	167,714
Net Current Assets	173,893	220,439	248,419
Total Assets	**368,550**	**507,733**	**646,186**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement

Year ending Mar	FY09	FY10	FY11E
Net Profits	61,748	67,449	64,237
Add Depreciation	12,851	13,365	14,526
Decrease in Working Capital	-590	7	-11,935
Increase in Deferred Tax	-2,365	-2,584	-2,417
Cash flow from Operations	**71,645**	**78,237**	**64,411**
Capital Expenditure	-59,607	-106,001	-125,000
Increase in Investments	-1,145	0	0
Increase in Loans and advances	2,577	0	0
Other items	-1,163	0	0
Cash flow from investing	**-59337.6**	**-106001.17**	**-125000**
Increase in Equity	0	0	41,304
Increase in Borrowings	44,936	89,722	50,000
Dividend Payment	-12,552	-15,404	-14,671
Cash flow from financing	**32,384**	**74,318**	**76,633**
Total Cash Flow	44,691	46,553	16,044
Opening Cash in Hand	137,594	182,285	228,838
Closing Cash in Hand	182,285	228,838	244,883
Change in Cash Balance	44,691	46,553	16,044

Source: Company, Kotak Securities - Private Client Research

Key Ratios

	FY09	FY10	FY11E
EBITDA Margins (%)	19.5%	23.8%	19.5%
NPM Margins (%)	14.3%	16.2%	13.5%
ROE on yr-end equity (%)	22.1%	20.3%	15.2%
ROAE (%)	24.2%	22.1%	17.0%
ROCE (%)	19.3%	16.9%	12.1%
EPS growth (%)	-18.0%	9.2%	-9.3%
P/E (x)	13.6	12.5	13.8
EV/sales (x)	1.7	1.9	1.8
EV/EBITDA (x)	8.7	7.8	9.2
P/B (x)	3.0	2.5	2.1

Source: Company, Kotak Securities - Private Client Research

EVENT UPDATE

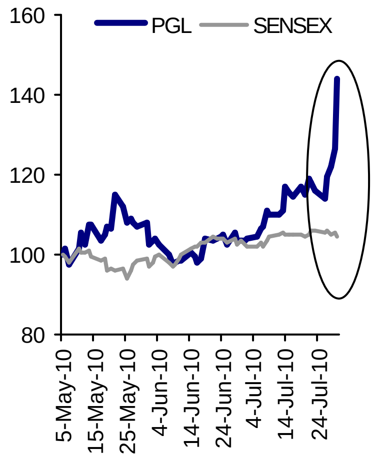
Apurva Doshi
doshi.apurva@kotak.com
+91 22 6621 6308

PIRAMAL GLASS LTD (PGL)

PRICE: RS.129 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.132 **CONS. FY11E P/E: 13.9X**

- **Stock up sharply 44% v/s 5% rise in SENSEX**
- **Marginally revise EPS to Rs.9.3 (Rs.9.2 earlier)**
- **Stock is fairly valued at 13.9x FY11E EPS of Rs.9.3**
- **Remain positive on medium to long term growth prospects due to sustained client acquisition in the high margin premium C&P business**
- **Due to limited upside potential we downgrade PGL to ACCUMULATE with revised price target of Rs.132 (Rs.128 earlier)**

Price performance



Source: Bloomberg

Price target achieved

We had recommended BUY on PGL at Rs.91 on 5th May 2010. Since then the sock has risen sharply by 44% to touch an intraday high of Rs.131 on Friday. Thus our earlier price target of Rs.128 has been achieved. It has significantly outperformed SENSEX as PGL is up 44% while SENSEX is up just 5% during the same period.

Long term positives for PGL

- PGL is one of the niche players in the flacconage i.e. small glass bottles industry which caters to segments like Cosmetic and Perfumery (C&P), Pharmaceuticals and specialty Food and Beverages (SF&B).
- PGL enjoys 5% market share in the $2.0 bn global C&P market and it enjoys market leadership with 26% market share in nail polish bottles.
- Recently PGL has bagged the worlds second largest C&P producer i.e. Coty. This is significant at Coty has annual glass consumption of Euro 100 mn. Thus now 17 of the top 20 customers are now clients of PGL. This is significant as 80% of the global premium C&P business is controlled by top 20 players.
- We expect the company to increase the contribution of high margin premium C&P business from 12% in FY09 to 31% of total revenues by FY12E.
- PGL has successfully turned around the acquisitions of US and Sri Lanka.
- Focus on high margin business; reduction in interest costs due to positive cash flows and no major capex requirement are likely to lead to significant growth in PAT over next few years.

Summary table - Consolidated

(Rs mn)	FY10	FY11E	FY12E
Sales	11,260	12,483	13,401
Growth (%)	11.6	10.9	7.4
EBITDA	2,381	2,900	3,289
EBITDA margin (%)	21.1	23.2	24.5
Net profit	44	749	1,028
Net debt	9,753	8,662	7,328
EPS (Rs)	0.6	9.3	12.8
Growth (%)	(104.3)	1,590.0	37.3
DPS (Rs)	-	-	-
ROE (%)	1.8	22.2	21.5
ROCE (%)	9.2	15.0	16.5
EV/Sales (x)	1.8	1.5	1.3
EV/EBITDA (x)	8.5	6.6	5.4
P/E (x)	234.2	13.9	10.1
P/CEPS (x)	10.9	6.0	5.1
P/BV (x)	4.2	2.4	1.9

Source: Company, Kotak Securities - Private Client Research

Valuation & Recommendation

- We have tweaked our earning estimates and now we expect PGL to report Cons. EPS of Rs.9.3 as against our earlier estimate of Rs.9.2 for FY11E.
- We maintain our FY12 earning estimates and expect PGL to report Cons. EPS of Rs.12.8 for FY12E.
- We remain positive on the medium to long term growth prospects of PGL primarily on account of focus on high margin business; reduction in interest costs due to positive cash flows and no major capex requirement which are likely to lead to significant growth in PAT over next few years.
- However due to recent sharp run up in its stock price we recommend investors to book profits in the stock of PGL and look for buying opportunities at lower levels.
- At the current market price of Rs.129, the stock is fairly valued at 2.4x P/BV, 13.9x P/E and 5.1x P/CEPS based on FY11E.
- Due to limited upside potential from the current level we downgrade PGL to **ACCUMULATE** with revised price target of 132. (Rs.128 earlier)

We recommend ACCUMULATE on with a price target of Rs.132

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC Bank	2,127	1.3	3.2	1.2
SBI	2,503	1.2	2.7	2.7
Mahindra & Mahindra	662	2.7	2.6	2.3
Losers				
ICICI Bank	905	(2.6)	(9.1)	2.4
Infosys Tech	2,788	(1.6)	(7.4)	0.6
L&T	1,794	(1.3)	(4.3)	1.1

Source: Bloomberg

Research Team

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

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

Sarika Lohra
NBFCs
sarika.lohra@kotak.com
+91 22 6621 6301

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6652 9172

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

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

Arun Agarwal
Automobiles
arun.agarwal@kotak.com
+91 22 6621 6143

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

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

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

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448

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

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.