Economy News

- HDFC Bank, Lakshmi Vilas Bank and Central Bank set off a round of deposit rate hikes to attract funds to meet accelerating investment and consumption,but lending rates may stay where they are, at least for now, as banks'high profitability provides a cushion. (ET)
- The six core sector industries grew at the slowest pace in eleven months at 3.4% in June from a year ago, generating apprehension on growth sustainability. (ET)
- The central bank could get tough with private banks that still have large promoter holdings as it deliberates norms for new banking licences, which are expected to come with tough riders. The central bank is expected to put out a discussion paper on new licences by the end of this week or early next month. (ET)

Corporate News

- **Unitech,** plans to buy its Londons AIM-listed group firm Unitech Corporate Parks (UCP),in a deal that may cost over Rs 7.5 bn. Unitech has approached and is in discussions with the independent directors of UCP about a possible offer from the Unitech Group. (ET)
- **ABAN Offshore** said on Wednesday that reinsurers have settled a claim worth $235 million for its semi-submersible rig, which sank in the Caribbean sea, sending its shares up as much as 8.9%. Approximately 97% of the claim amount has been received and the balance is likely to be received shortly, the company said in a statement to BSE. (ET)
- **ABB,** a global power and automation technology group, has successfully increased its stake, through an open offer, from 52.11 to 75 per cent in its Indian subsidiary. During the three-week offer period, which closed on Tuesday, shareholders of ABB India tendered approximately 23 per cent of the outstanding shares. ABB will acquire the shares on a proportionate basis since the offer has been oversubscribed by around 1.5 per cent. (BS)
- **Hinduja Foundries Ltd,** part of the Hinduja group, is planning a greenfield facility in Hyderabad at an investment of around Rs 1.7 bn, besides investing around Rs 500 mn in balance of plant and optimisation at its Sriperumbudur plant. The company has said it would look at right time for market to raise money for expansion. (BS)
- **Steel Authority of India Limited (SAIL)** on Monday laid the foundation of a Thermo mechanically Treated (TMT) bar mill of 150,000 tonne per annum (TPA) capacity at Jagdishpur as part of plans to revive the unit of erstwhile Malvika Steel Ltd (MSL). (BS)
- **NTPC Ltd's** plans to sell electricity in the spot market is set to get the Centre's nod shortly. The matter is under consideration of the Government. NTPC has proposed 65 per cent of power generated from Korba and 63 per cent from Farakka to be sold outside long-term PPAs. (BS)

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

Equity

	28 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,957	(0.7)	2.4	2.6
NIFTY Index	5,398	(0.6)	2.7	2.7
BANKEX Index	11,451	(0.2)	7.2	3.2
BSET Index	5,544	0.0	4.1	4.4
BSETCG INDEX	14,797	(0.9)	1.2	6.0
BSEOIL INDEX	10,265	(1.9)	(4.1)	4.3
CNXMcap Index	8,379	0.1	3.5	5.5
BSESMCAP INDEX	9,345	(0.2)	3.5	1.9
World Indices				
Dow Jones	10,498	(0.4)	6.4	(6.0)
Nasdaq	2,265	(1.0)	6.1	(9.8)
FTSE	5,320	(0.9)	8.3	(5.3)
Nikkei	9,753	2.7	1.4	(11.2)
Hangseng	21,091	0.6	3.6	0.9

Value traded (Rs cr)

	28 Jul 10	% Chg - Day
Cash BSE	4,619	27.2
Cash NSE	15,012	12.3
Derivatives	124978	8.8

Net inflows (Rs cr)

	27 Jul 10	% Chg	MTD	YTD
FII	82	(82.8)	11,526	41,770
Mutual Fund	9	(101.6)	(2,417)	(10,544)

FII open interest (Rs cr)

	27 Jul 10	% Chg
FII Index Futures	18,760	5.1
FII Index Options	63,798	2.3
FII Stock Futures	35,156	0.1
FII Stock Options	1,605	(0.5)

Advances / Declines (BSE)

28 Jul 10	A	B	S	Total	% total
Advances	82	730	175	987	38
Declines	120	1122	254	1,496	58
Unchanged	1	89	19	109	4

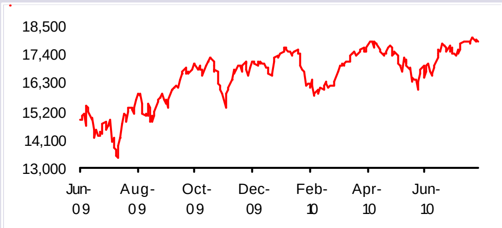
Commodity

		28 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US$/BBL)	77	(0.0)	1.3	(9.6)
Gold	(US$/OZ)	1,164	0.2	(6.1)	(0.1)
Silver	(US$/OZ)	17	(0.9)	(4.9)	(4.9)

Debt / forex market

	28 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	NA	NA	NA
Re/US$	46.79	46.68	46.21	44.65

Sensex



RESULT UPDATE

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PATNI COMPUTER SYSTEMS LTD

PRICE: RS.478 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.528 **CY10E P/E: 10,2X**

- **PCS' Q2CY10 results came in below expectations : Revenues (Rs.7.76bn, flat QQ) were below estimates and margins were impacted more than what we had assumed. PAT was largely in line due to the impact of forex gains. Revenues in USD terms were lower than the guided revenues of $171mn - $172mn.**
- **Management has indicated some delays in revenue recognition due to postponement of one project. Higher knowledge transfer time led to this delay, we understand. Supply constraints also impacted delivery, we believe. Correspondingly, the revenue growth guidance for 3QCY10 is relatively higher at about 5% - 6%. PAT excluding forex and other income is projected to remain at 2QCY10 levels. We have been voicing the need for Patni to improve its account management and delivery initiatives for achieving a consistent revenue growth profile.**
- **However, growth rates are expected to shore up in the coming quarters as company-specific initiatives start contributing and demand environment for the sector gains traction. Recent deal wins are a positive given the need for account management to improve.**
- **Account for H1CY10 results; tweak CY10 EPS estimates to Rs.44 and price target to Rs.528 v/s Rs.580 earlier. Since our ACCUMULATE recommendation, the Patni stock has under-performed the sector. We maintain ACCUMULATE. The company has cash / equivalents of approx. Rs.135 per share. Lower-than-guided revenues for 2QCY10 may keep the stock subdued in the near term. We continue to prefer larger peers over Patni.**
- **A sharper-than-expected appreciation in the rupee and a slower-than-anticipated recovery in user markets are the risks to our call.**

Summary table

(Rs mn)	CY09	CY10E	CY11E
Sales	31620	32318	35550
Growth (%)	-1.2	2.2	10.0
EBITDA	6090	6256	7217
EBITDA margin (%)	19.3	19.4	20.3
Net profit	5724	5701	6287
Net debt	-5736	-5852	-8282
EPS (Rs)*	44.1	43.9	48.4
Growth (%)	28.9	-0.4	10.3
DPS (Rs)	7.5	7.5	7.5
ROE (%)	18.9	16.8	16.6
ROCE (%)	19.7	20.5	21.0
EV/Sales (x)	1.8	1.7	1.5
EV/EBITDA (x)	9.3	9.0	7.5
P/E (x)	10.8	10.9	9.9
P/BV (x)	1.9	1.7	1.6

Source: Company, Kotak Securities - Private Client Research

2QCY10 results - below expectations

(Rs mn)	1QCY10	2QCY10	% chg	2QCY09	% chg
Revenues	**7745**	**7776**	**0.4**	**7729**	**0.6**
Expenditure	6151	6315		6180	
EBDITA	**1594**	**1461**	**-8.3**	**1549**	**-5.7**
Depreciation	182	197		194	
EBIT	**1413**	**1264**	**-10.5**	**1356**	**-6.8**
Interest	0	0		0	
Other Income	413	520		339	
PBT	**1825**	**1784**	**-2.3**	**1694**	**5.3**
Tax	328	311		326	
PAT*	**1497**	**1473**	**-1.6**	**1369**	**7.6**
Minority Int	0	0		0	
PAT after EO items	1497	1473		1369	7.6
Shares (mns)	130	130		130	
EPS (Rs)	**10.8**	**11.5**		**10.5**	
Margins					
OPM (%)	20.6	18.8		20.0	
GPM (%)	18.2	16.3		17.5	
NPM (%)	19.3	18.9		17.7	

Source : Company

Account mining to be vital if revenue growth is to gain traction, we believe

- Patni's revenues de-grew by 2.8% QoQ and came in below the guidance given by the company in the previous quarter. Revenues fell by 2.3% in CC terms.
- Volumes fell by 2.3% whereas average realizations were flat in CC terms.
- The flat growth in INR revenues on a sequential basis was because of the convenience translation method followed by the company; Patni's revenues being translated at INR 46.51/$ (44.95/$).
- The management indicated delays in ramp up of one account as the knowledge transfer took more time. This led to a postponement of revenue recognition and this was the main reason for the shortfall, according to the management.
- Supply constraints in select competencies also impacted delivery, we understand.
- This, once again, reflects the need for better account management and delivery initiatives, so as to ensure consistent revenue growth.
- The management has indicated better traction in the market and the company is participating in a larger number of large deals in the range of $30mn - $50mn.
- Geographically, revenues from EMEA grew by 12% QoQ, despite the currency headwinds from Europe.
- On the other hand, Americas saw revenues de-grow by 1% on q QoQ basis. We believe that, delays in scale ups likely led to the revenue impact.
- While BFSI saw a 3% QoQ growth, manufacturing and relatively new verticals like communications and media, reported a sequential decline.
- The communications vertical and has been facing head-winds over the past few quarters because of client issues in the Virtual Network Operator segment.
- Patni's client metrics have remained sideways over the recent quarters - In fact, during 2QCY10, clients in the >$10mn and >$5mn brackets have declined QoQ.
- We believe Patni's top accounts management has to scale up meaningfully to drive growth over the medium term. We believe this also largely explains the difference in growth rates between Patni and larger names in the sector.

EBITDA margins down on salary hikes, lower utilisation

- EBIDTA margins were down by about 180bps and fell short of our expectations.
- The company gave salary hikes to employees (11.7% off-shore), which impacted margins by 230bps. Moreover, the utilization levels fell by nearly 500bps to 75%, impacting margins by another 130bps.
- S&M expenses were lower QoQ due to changes in period expenses, according to the management. This helped restrict the impact on margins.

Headcount increase to ease supply constraints

- The company's net headcount increased by 937 on a net basis after a lower than estimated addition of 33 in Q1CY10.
- In our opinion, the company will be having a need to recruit at a faster pace if is to create some bench to take advantage of large projects it hopes will come through, at a later point.

- The management has indicated that, it will continue hiring at a fast pace to meet potential business requirements, though this may impact margins in the short term.
- Forex gains came in at Rs.197mn and these were higher than our estimates of about Rs.100mn. INR movement led to the revaluation and gains, according to the management. These helped PAT reach up to our estimates levels, despite lower than estimated revenues.

Acquisition of CHCS and IP; Patni looking at non-linear initiatives

- During June 2010, Patni completed the acquisition of CHCS services Inc, a fully owned subsidiary of Universal American , for a consideration of USD 6mn. Patni has recently bagged a five year multi-million dollar deal to provide end-to-end policy administration services to Universal American, a US health insurance company.
- This transaction is expected to create a new centre for Patni in Pensacola, Florida and also a new business vertical in the healthcare insurance space, as a third-party administrator. In our opinion, it enhances Patni's existing BPO capabilities to deliver end to- end platform-based solutions and TPA services to insurance providers' back office transactions.
- Patni has also acquired for about $13mn, a platform in the manufacturing vertical, from one of its UK based clients. The strategic partnership will see Patni continuing to deliver services to the client and also enhance the platform to provide services to various other clients.
- We believe that, these initiatives will allow Patni to increase the proportion of non-linear revenues, though the impact may be negligible, initially.
- The management has also stated that it is on the lookout for acquisitions (sizes ranging from $30-200mn) to fill product/geography gaps in its bouquet of offerings. We expect these acquisitions to be funded via cash on balance sheet (c$467mn, Rs.135 per share) and/or accruals.

Downgrade earnings estimates for CY10

- Markedly better news from the US economy mid CY09 onwards (unemployment numbers, retail sales, housing prices) have led to hopes of a revival in the global economy of which the US is the major contributor.
- For Patni, velocity of business still remains sober and is expected to pick up gradually. We once again reiterate the need for better account management and execution.
- The company hopes to return to a stable QoQ growth trajectory in the near future; it also believes that given its renewed approach to business it will be able to comfortably match the industry growth rates though with inorganic initiatives.
- Going forward Patni intends to focus on its five to six key verticals and aims to specialize in some sub verticals (e.g., billing systems in the telecom vertical, industrial automation in product engineering). It is also working on geographical diversification with the setting up of focused regional set ups in the US, EMEA, APAC and SAARC geographies.
- We have moderated our growth projections for FY11 on the back of 1HCY10 results.
- We now expect revenues to grow by 2% YoY in CY10, despite a sharp uptrend assumed by us in 2HCY10.
- Margins are expected to be flat YoY as the company improves on the 2QCY10 margins through higher efficiencies.
- PAT is expected to be marginally changed with EPS expected to be at Rs.43.9

Maintain ACCUMULATE. Company has net cash of Rs.135 per share. Prefer larger peers, though.

We maintain ACCUMULATE on Patni Computer Systems with a price target of Rs.528

- We maintain our valuation discount for Patni vis-à-vis industry peers.
- We are of the opinion that, sustained execution could increase the scope for a re-rating as PCS still trades at 11x CY10E EPS (40-50% discount to larger names).
- We revise our price target to Rs.528 v/s Rs.580 earlier to reflect moderated earnings estimates.
- We maintain **ACCUMULATE** on the stock. The company has cash of about Rs.135 per share.
- However, we prefer larger peers over Patni, currently

RESULT UPDATE

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VOLTAS LTD

PRICE: RS.207 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.210 **FY11E P/E: 18.3X**

- **Numbers are in line with our expectations. Expectedly, revenue growth has been driven by the unitary cooling business even as the Electromechanical projects and Engg services business posted muted growth.**
- **Margin maintained on a yoy basis aided by higher profitability in the engg services segment. (LMW has reported 79% yoy increase in revenues in Q1 FY11).**
- **Order book up 7% yoy to Rs 50 bn.**
- **Maintain Reduce in view of sedate earnings growth in near-term. Price target of Rs.210 (Rs.200 earlier).**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	43,617	48,236	55,252
Growth (%)	36.2	10.6	14.5
EBITDA	3,189	4,769	5,249
EBITDA margin (%)	7.3	9.9	9.5
Net profit (adj)	2,253	3,560	3,738
Net cash (debt)	2,756	6,068	8,167
EPS (Rs)	6.8	10.8	11.3
Growth (%)	-	58.0	5.0
CEPS	7.5	11.4	12.0
DPS (Rs)	1.6	1.6	1.6
ROE (%)	33.0	37.4	29.5
ROCE (%)	36.8	37.5	30.6
EV/Sales (x)	1.5	1.3	1.1
EV/EBITDA (x)	20.6	13.1	11.5
P/E (x)	30.4	19.2	18.3
P/Cash Earnings	27.8	18.1	17.3
P/BV (x)	9.0	6.3	4.9

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY11	Q1 FY10	YoY (%)
Sales Turnover	**14031**	**12419**	**13**
Operating other income	53	92	-43
Expenditure	12807	11393	12
Raw Material costs	7178	6524	10
Purchase of traded goods	2928	2052	43
Staff costs	1347	1308	3
Other expenditure	1354	1510	-10
Operating profit	**1276**	**1117**	**14**
Interest	53	10	427
Other income	**200**	**97**	**107**
Gross Profit	1424	1204	18
Depreciation	50	49	2
PBT	**1374**	**1155**	**19**
Tax	429	387	11
Adjusted PAT	**945**	**768**	**23**
extraordinary items	-7	28	-126
minority interest	-5	-7	-27
Reported PAT	**932**	**789**	**18**
EPS (Rs)	**2.86**	**2.32**	**23**
OPM (%)	9.1	9.0	
Raw material to sales (%)	51.2	52.5	
Other expenditure (%)	9.6	12.2	
Staff costs (%)	9.6	10.5	
Tax rate (%)	31.2	33.5	
Electromechanical projects	6926	7001	-1
Engg products and services	1203	1139	6
unitary cooling	5868	4154	41
others	38	127	-70
intersegmnt	4	-3	-236
Total	**14038**	**12419**	**13**

Source: Company

Electromechanical Projects Segment

- Electromechanical Projects and Services is the core business of the Company and comprises 65% of the annual turnover. About 70-75% of the segment turnover comes from International Operations mainly the Middle East. Revenues were flat for the quarter due to slower project implementation by some of the clients. Also, the company ended FY10 with a modest increase in order backlog.
- Even in the domestic market, the commercial real estate activity remains sluggish.
- With a view to neutralize the impact of sluggish business activity, the company initiated aggressive steps to undertake more electro-mechanical projects in the industrial and infrastructure segments.
- Following the slowdown in Dubai commercial real estate market, Voltas is looking at the unexplored markets of Saudi Arabia, Kuwait and South Africa. The company has formed JV with a local Saudi Arabian company for MEP projects in the country. This is likely to lead to a breakthrough for the company in the Saudi Arabian market.
- The company has intends to take similar JV route to enter new geographies including Oman and Hong Kong. It normally takes 6-8 months for orders to materialize after the JV is formed.

Engineering Products Business

- The engineering products business posted muted growth of 6% yoy during the quarter. This segment includes commission income on sale of textile machinery for LMW and material handling equipments like forklifts, dumptrucks etc.
- These business segment are on a recovery path following previous year's severe demand downturn and hence are not at their potential growth rates.

Unitary Cooling Business

- The unitary cooling revenue was up 40% yoy and has being mainly driven by the Split Air Conditioners and commercial coolers. Voltas has been consolidating its market share in the room AC business.

EBITDA margins maintained primarily due to margin expansion in engg services business

- Margins expanded 10 bps in Q1 FY11 to 9.1%. Margins were driven by the Engg products and services business even as the other two segment reported declines.
- The engineering services business margins are a function of revenue mix between the commission business and the manufacturing business. We believe there may have been sizeable increase in commission income during the quarter, which may have driven by the margin expansion. LMW, (Voltas' prime Principal) has reported a 79% increase in revenues for the quarter.
- The consumer durables (unitary cooling) business margins remained stable, helped by large volumes. There has been an increase in excise duty as well rise in material costs during the quarter, which may have put pressure on margins.

Segment Margins

(%)	Q1FY11	Q1 FY10
Electromechanical projects	8.5	8.7
Engg products and services	22.9	13.8
Unitary cooling	9.3	9.4
Total	**10.0**	**9.4**

Source: Company

Other income provides boost to profits

Other income grew 107% yoy to Rs 200 mn mainly aided by the interest income on surplus cash of Rs 8.0 bn plus. Adjusted for other income, profit growth would have been muted.

Capital engagement has increased significantly in Electromechanical projects.

On account of the substantial client advances, Voltas's electromechanical projects business has been working on a very lean working capital. However, capital employed has increased substantially in the Electromechanical projects business despite no increase in volume of work. There may be some slow moving accounts in the debtors.

Capital Employed

(Rs mn)	Q1 FY11	Q1 FY10	Q4 FY10
Electromechanical projects	2461.4	1304.5	2085.5
Engg products and services	987.1	1302	959.7
Unitary cooling	485.6	1222	1414.4

Source: Company

Declining trend in order backlog arrested

- Order backlog at Rs 50 bn is up a modest 7% yoy as well as sequentially. Order book provides revenue visibility of around 18 months of FY10 Projects segment revenues. Average execution period is around 20 months.
- Management has been indicating that the order enquiries have been strong delay in order finalization is leading to sluggish order intake.
- The management indicated that Middle East would continue to remain a large market. It is now making inroads into the Saudi Arabian region, which is the largest market in the Middle East.

Future Prospects

- The company sees a healthy project pipeline from the Middle East market and volume of new enquiries has increased and so has been the fresh orders that have been booked in the first quarter.
- We believe that the Electromechanical segment would continued to be subdued in the current fiscal while we expect growth momentum to accelerate in the Engineering services business. The Unitary cooling segment should grow at a healthy clip in the current year. Thus, we have built in a 15% rise in revenue in FY11.
- We have built in 40 bps reduction in EBITDA margins in FY11. However, the management has indicated that there is scope to bring in cost efficiencies to expand margins. We forecast a modest growth in profits in FY11.

Valuation

We maintain REDUCE on Voltas with a revised price target of Rs.210

- Voltas is currently trading at 18.3x FY11 earnings and a forward EV/EBITDA of 11.5x.
- Based on WACC of 14% and terminal growth rate of 4%, we arrive at a DCF value of Rs 210 (Rs 200 earlier) based on FY11 numbers.

Maintain Reduce on

Sedate earnings in the near-term and stock outperformance in the recent weeks.

Risk to Recommendation

Large order wins in the international markets, which may significantly upgrade the earnings growth outlook in FY12 and beyond.

RESULT UPDATE

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EVEREST KANTO CYLINDERS LTD (EKC)

PRICE: RS.120 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.130 **CONS. FY11E P/E:16.1X**

- **EKC has reported disappointing set of Q1FY11 results which are below our estimates both on revenues and profitability front due to pressure on volumes and prices**
- **US and China operations report losses**
- **Provided for forex loss of Rs.112 mn**
- **Volumes up 20.3% YoY**
- **Revise FY11E Cons. EPS to Rs.7.5 (Rs.8.8 earlier)**
- **Good long term potential on account of increasing gas availability, various CGD projects and de-regulation of petrol prices**
- **Due to 8% upside potential from current levels we continue to recommend ACCUMULATE on EKC with revised price target of Rs.130 (Rs.146 earlier)**

Cons. summary table (FV Rs. 2)

(Rs mn)	FY09	FY10	FY11E
Sales	8,566	6,497	8,014
Growth (%)	62.0	(24.2)	23.4
EBITDA	2,661	556	1,603
EBITDA margin (%)	31.1	8.6	20.0
Net profit	1,375	415	801
Net cash (debt)	(5,828)	(4,416)	(4,061)
EPS (Rs)	13.6	4.1	7.5
Growth (%)	31.9	(69.8)	92.9
CEPS	20.4	9.7	13.7
DPS (Rs)	1.0	1.2	1.2
ROE (%)	0.2	0.1	0.1
ROCE (%)	0.1	0.1	0.1
EV/Sales (x)	2.1	2.5	2.1
EV/EBITDA (x)	6.8	29.8	10.6
P/E (x)	8.8	29.2	16.1
P/CEPS	5.9	12.4	8.7
P/BV (x)	2.0	2.0	1.6

Source: Company, Kotak Securities - Private Client Research

EKC Q1FY11 Result update - Consolidated

(Rs mn)	Q1FY11	Q1FY10	YoY (%)	Q4FY10	QoQ (%)
Net Sales	**1,381**	**1,530**	**(9.8)**	**1,823**	**(24.3)**
Increase / decrease in stock	47	(30)	(254.1)	343	(86.4)
raw materials	789	820	(3.8)	1,143	(31.0)
staff cost	182	175	3.7	194	(6.5)
other exp.	287	233	23.2	292	(1.9)
total exp.	1,304	1,198	8.9	1,973	(33.9)
EBIDTA	**77**	**332**	**(77.0)**	**(149)**	**(151.3)**
Depreciation	159	11	1,401.9	(18)	(989.4)
EBIT	**(83)**	**186**	**(144.4)**	**(131)**	**(37.0)**
Interest	30	157	(80.6)	19	59.2
Other income	14	37	(61.5)	45	(67.7)
Extraordinary loss/ (gain)	112	119	-	(390)	-
PBT	**(211)**	**(95)**	**121.3**	**284**	**(174.3)**
Tax & deferred tax	(96)	48	(302.3)	(2)	4,476.2
PAT	**(115)**	**167**	**(168.8)**	**286**	**(140.2)**
Adj. PAT	(3)	72	(103.6)	(104)	(97.5)
Equity Rs. mn	214.30	202.3	5.9	202.3	
sh. Mn FV Rs. 2	107.15	101.2		101.2	
Ratios					
Operting profit margin (%)	5.5	21.7		(8.2)	
Raw Materials / Sales (%)	60.5	51.6		81.5	
Staff Exp / Sales (%)	13.2	11.5		10.7	
Other Exp / sales (%)	20.8	15.2		16.0	
Tax / PBT (%)	45.5	(49.8)		(0.7)	
EPS (Rs.)	**(1.1)**	**1.7**		**2.8**	
CEPS (Rs)	0.4	1.8		2.7	
Cylinders Sold (Lakh)	1.8	1.5	20.3	2.0	(9.7)
Avg. Realizations (Rs./cylinder)	7,534	10,044	(25.0)	8,983	(16.1)

Source: Company, Kotak Securities - Private Client Research

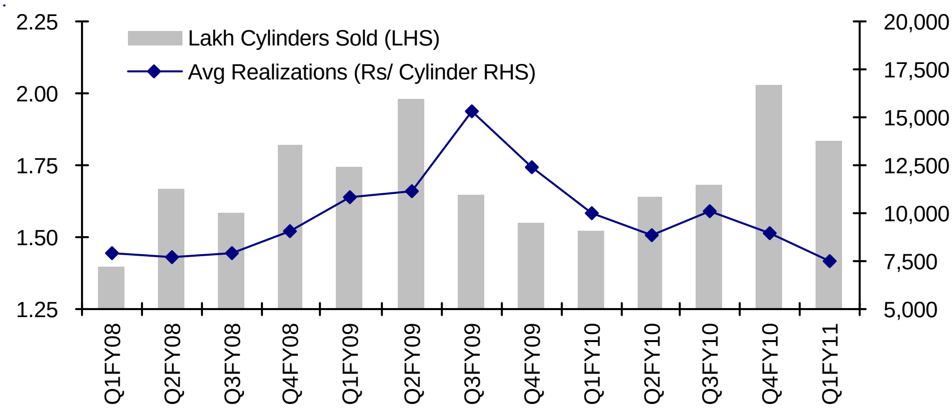
Segmental Results

(Rs mn)	Q1FY11	Q1FY10	YoY (%)	Q4FY10	QoQ (%)
Revenues (Rs. mn)					
India	771	654	17.9	902	(14.5)
Dubai	585	443	32.0	566	3.4
China	23	102	(77.1)	26	(10.7)
USA	86	395	(78.3)	376	(77.2)
PBIT (Rs. mn)					
India	(88)	50	(275.6)	(36)	141.2
Dubai	144	122	18.4	50	189.4
China	(33)	(9)	290.6	(8)	336.8
USA	(98)	(12)	700.0	(96)	1.2
PBIT (%)					
India	(11.4)	7.6	(249.0)	(4.0)	182.1
Dubai	24.7	27.5	(10.3)	8.8	179.9
China	(141.9)	(8.3)	1,602.6	(29.0)	389.1
USA	(113.6)	(3.1)	3,582.4	(25.6)	343.5

Source: Company

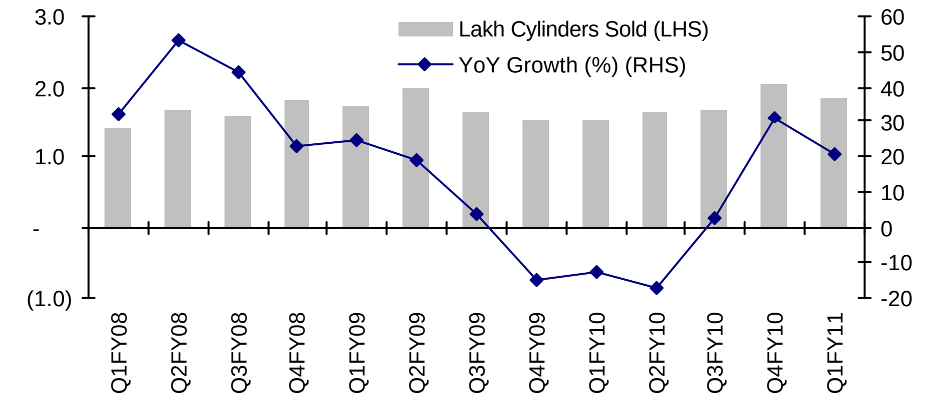
- On a consolidated basis EKC sold 1.8 lakh cylinders in Q1FY11, which is up 20.3% YoY and down 9.7% on sequential basis. The volume growth was impacted due to lower demand from China and US operations.
- In India the OEM like Ashok Leyland and Tata Motors in CV segment have deferred the purchases of ~10000 cylinders due to implementation of Euro IV norms. This is expected to be completed in Q2FY11 and thus going forward we expect strong volume growth.
- The average realization per cylinder is down sharply by 25.0% YoY and down 16.1% on QoQ basis to Rs.7534 per cylinder primarily due to sharp reduction in the prices of its key raw material i.e. seamless steel tube. Also there was liquidation of high priced inventory at discounted rates which impacted average realizations.

Lakh cylinders sold & Average realizations



Source: Company

Lakh cylinders sold & YoY growth



Source: Company

- On a consolidated basis, EKC reported net sales of Rs.1.4 bn in Q1FY11, down 9.8% YoY and down 24.3% on sequential basis. This was primarily due to de-growth in China and US business.
- On YoY basis the revenues of China operations are down 77.1% and US operation is down 78.3%. While Indian business is up17.9% YoY and Dubai is up 32.0% on YoY basis. Dubai unit has picked up due to reemergence of demand from Iran, Pakistan and Bangladesh.
- EKC reported EBIDTA of Rs.76 mn in Q1FY11 down 77.0% on YoY basis primarily due losses in China and US operations. Also it has charged the expenses to the tune of Rs.48 mn to P&L account which are incurred towards synchronization and stabilization processes of machineries of recently commissioned billet piercing plant and tube based plant at Kandla. The revenues from this would be realized from the following quarters.
- However on a sequential basis the revenues of Dubai operations are up 3.4% and PBIT of the Dubai business is up sharply from 8.8% in Q4FY10 to 24.7% in Q1FY11 primarily due to resumption of supplies to Iran market.
- The depreciation cost is up sharply as the previous quarter includes write back on account of change in method of depreciation from WDV to SLM to make more appropriate allocation of depreciation over the expected useful and economic life of the asset.
- The interest cost is down sharply on YoY basis to Rs.30 mn as the company has repaid the high cost loans. The total consolidated debt of the company has been brought down from Rs.5.0 bn in March 2010 to Rs.4.7 bn in June 2010.
- For Q1FY11 EKC reported PBT loss of Rs.211 mn v/s PBT loss of Rs.95 mn.
- For Q1FY11 the company reported net loss of Rs.115 mn v/s net profit of Rs.167 mn, however this includes foreign exchange loss of Rs.112 mn and thus actually it has reported net loss of Rs.2.6 mn in Q1FY11.

Q1FY11 Details

Segment	Cylinders sold (Nos)	Avg Realization (Rs/cylinder)	Revenues (Rs mn)
India Industrial	61177	3,238	198
India CNG	60133	7,936	477
India Jumbo	56	199,750	11
CNG Dubai	60371	9,686	585
CNG China	1354	17,281	23
USA Jumbo	155	554,019	86
Total	**183246**	**7,534**	**1381**

Source: Company

Forex loss

The company has provided for mark-to-market forex losses to the tune of Rs.112 mn as of 30th June 2010 regarding the derivative contracts to hedge the highly probable forecast transactions. The company has not provided for the premium payable on non conversion of FCCB as these are due in 2012.

High cost inventory fully accounted for

As of 30th June 2010 the company has fully marked down the high cost inventory and thus going forward due rising raw material prices we do not expect any further inventory write downs. The company has also been successful in bringing down the total inventories from Rs.3.4 bn in March 2010 to Rs.3.1 bn in June 2010.

Preferential issue of 6.0 mn equity shares @ Rs.135 per equity share

EKC has made a preferential issue of 6.0 mn equity shares to Reliance Mutual fund. The equity shares have been issued at Rs.135 (FV of Rs.2 and premium of Rs.133). Thus EKC raised Rs.810 mn. Post allotment of 6.0 mn shares the equity capital of the company has gone up by 5.9% to Rs.214.3 mn.

Use of funds

The proceeds of the issue would be used for capital expenditure, working capital and repayment of debt. Rs.300 mn would be used to fund the capex of setting up of 3 lakh CNG cylinders per annum plant at Kandla SEZ through steel plate technology. Rs.250 mn would be used for the increased working capital requirements and balance Rs.260 mn would be used to retire high cost Indian debt.

Expansions update

The two lakh per annum industrial cylinder plant of EKC in Gujarat with billet piercing technology and one lakh per annum CNG cylinder plant at Kandla have commenced commercial production. The three lakh CNG cylinders per annum plant using steel plates in Kandla SEZ is expected to be operational by December 2010.

Change in earning estimates (FY11E)

(Rs mn)	Old	Revised	% shift
Net sales	8,730	8,014	(8.2)
EBIDTA (%)	21.0	20.0	(4.8)
PAT	946	801	(15.3)
Equity	215	214	(0.5)
EPS (Rs.)	8.8	7.5	(14.9)
CEPS (Rs.)	15.0	13.7	(8.5)
Lakh Cylinders Sold	8.3	8.3	-
Avg. Realizations (Rs/cylinder)	10518	9,656	(8.2)
WACC (%)	13.1	13.1	-
Terminal Growth (%)	4.0	4.0	-
Target Price (Rs.)	146	130	(11.0)

Source: Kotak Securities - Private Client Research

Change in FY11 earning estimates and price target

- We have revised our estimates to account for lower then expected realizations and lower then expected profitability due to higher other expenditure and in-ability of the company to push the price hikes. We have also accounted for preferential issue of 6.0 mn equity shares as against our earlier estimate of issue of 6.5 mn equity shares.
- In FY11E we now expect EKC to sell 8.3 lakh cylinders (no change) at an average realization of Rs.9656 per cylinder (down 8.2%).
- We expect EKC to report revenues of Rs.8.0 bn (down 8.2%), EBIDTA margins of 20.0% (down 100 bps) and PAT of Rs.801 mn (down 15.3%) in FY11E.
- Accordingly we expect EKC to report lower EPS of Rs.7.5 and CEPS of Rs.13.7 as against our earlier estimate of Rs.8.8 and Rs.15.0 respectively.
- We have valued the consolidated entity on DCF method of valuation with 13.1% WACC and 4.0% terminal growth rate (no change). Due to revision in earning estimates the price target is revised to Rs.130 as against Rs.146 earlier.

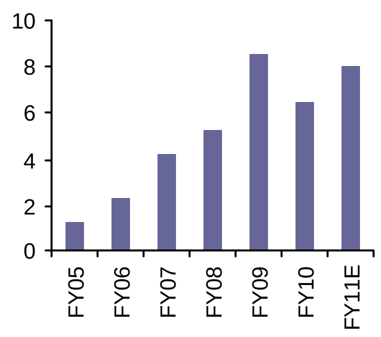
Valuation & Recommendation

- At the current price of Rs.120, EKC is trading at 1.6x book value, 16.1x earnings and 8.7x cash earnings based on FY11E.

We recommend ACCUMULATE on EKC with a revised price target of Rs.130

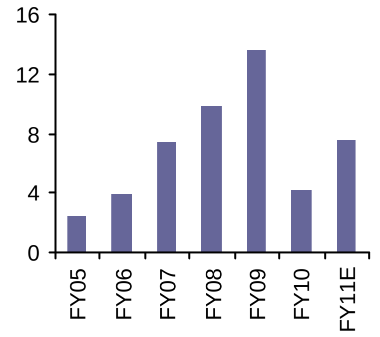
- We remain positive on the medium to long term growth prospects of the company primarily on account of expected huge demand of CNG cylinders for the automobiles in India on account of increasing gas availability, various CGD projects and de-regulation of petrol prices.
- Due to 8% upside potential from the current levels we continue to recommend **ACCUMULATE** on EKC with revised price target of Rs.130.

Cons. Revenues (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (FV Rs.2)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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PIRAMAL GLASS LTD (PGL)

PRICE: RS.111 **RECOMMENDATION: BUY**
TARGET PRICE: RS.128 **CONS. FY11E P/E: 12.0X**

- **PGL has reported excellent set of Q1FY11 results which are above our estimates on the profitability front**
- **Share of high margin C&P business increases by 800 bps to 48% of total revenues in Q1FY11**
- **Acquired new client Coty - worlds second largest C&P player**
- **US and Sri Lanka operations are now profitable**
- **Remain positive on medium to long term growth prospects due to sustained client acquisition in the high margin premium C&P business**
- **Revise FY11E EPS to Rs.9.2 (Rs.8.6 earlier)**
- **Due to 16% upside potential from current levels we continue to recommend BUY on PGL with revised price target of Rs.128 (Rs.115 earlier)**

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	742	1,028
Net debt	9,753	8,699	7,365
EPS (Rs)	0.6	9.2	12.8
Growth (%)	(104)	1,574	39
DPS (Rs)	-	-	-
ROE (%)	1.8	22.1	21.6
ROCE (%)	9.2	14.8	16.6
EV/Sales (x)	1.7	1.4	1.2
EV/EBITDA (x)	7.8	6.1	5.0
P/E (x)	201.6	12.0	8.7
P/CEPS (x)	9.4	5.2	4.4
P/BV (x)	3.6	2.1	1.7

Source: Company, Kotak Securities - Private Client Research

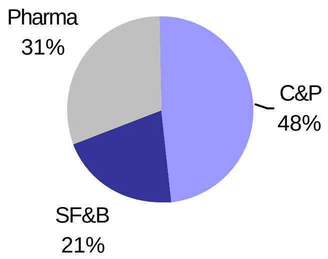
Quarterly performance - Consolidated - PGL

(Rs mn)	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ%
Net Sales	**2,824**	**2,508**	**12.6**	**2,900**	**(2.6)**
Incr / dec in stock	(126)	70	(280.7)	89	(241.0)
Raw materials	647	516	25.4	564	14.6
Cost of traded goods	7	33	(77.7)	11	(33.9)
Staff cost	582	528	10.3	549	5.9
Energy cost	433	395	9.7	429	1.0
Freight cost	195	121	61.3	194	0.4
Other exp.	458	397	15.3	384	19.4
Total exp.	2,197	2,059	6.7	2,220	(1.1)
EBIDTA	**627**	**449**	**39.7**	**679**	**(7.7)**
Other income	-	-	-	-	-
Depreciation	229	230	(0.3)	220	4.0
EBIT	**399**	**219**	**81.6**	**459**	**(13.3)**
Interest	170	366	(53.6)	177	(4.1)
PBT	**229**	**(146)**	**256.4**	**282**	**(19.0)**
Extraordinary gain	(21)	(77)	-	(122)	-
Tax & deferred tax	32	(14)	(322.4)	39	(17.6)
PAT	**176**	**(209)**	**(184.2)**	**122**	**43.9**
minority int	11	(25)	(142.0)	8	40.0
NPAT	165	(184)	(190.0)	115	44.2
Adj. PAT	**186**	**(107)**		**236**	
Equity (Rs. mn)	804	180		804	
Ratios					
Operting profit margin (%)	22.2	17.9	+4.3%	23.4	-1.2%
EPS (Rs)	**2.1**	**(10.2)**		**1.4**	
CEPS (Rs)	4.9	2.6		4.2	
Raw Materials / Sales (%)	18.5	23.3		22.5	
Staff cost / sales (%)	20.6	21.0		18.9	
Energy / sales (%)	15.3	15.7		14.8	
Freight / sales (%)	6.9	4.8		6.7	
Other exp / sales (%)	16.2	15.8		13.2	
TAX / PBT (%)	13.9	9.8		13.7	

Source: Company

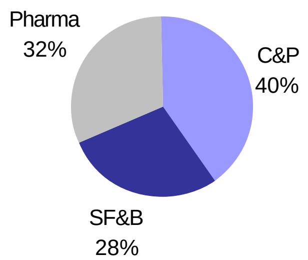
- Net Sales for Q1FY11 was at Rs.2.8 bn, which is up 12.6% on YoY basis. This was due to 19% YOY growth in the revenues of Indian business, 20% YOY growth in the revenues of US business and 9% YOY growth in the revenues of Sri Lankan business.
- The operating margin during Q1FY11 is up sharply by 430 bps to 22.2% on YoY basis on account of increase in share of high margin C& P business to 48% of total revenues as against 40% in Q1FY10.
- Cons. EBIDTA for the Q1FY11 was at Rs.627 mn up 39.7% on YoY basis. US operations EBIDTA increased by 4.2x to Rs.130.6 mn and Sri Lankan business EBIDTA increased by 55% to Rs.95 mn.
- The depreciation cost is flat as there is no major capex program for the company.
- The interest cost is down sharply by 53.6% on YoY basis to Rs.170 mn as the company has now obtained low cost debt for its US subsidiary and also it is using the cash generated from the operations to repay the debt.
- The company reported PBT of Rs.229 mn for the Q1FY11 v/s PBT loss of Rs.146 mn for Q1FY10.
- Similarly PGL reported PAT of Rs.165 mn for the Q1FY11 v/s net loss of Rs.184 mn for Q1FY10, thereby translating into quarterly EPS of Rs.2.1 and quarterly CEPS of Rs.4.9.
- The US and Sri Lankan operation have turned around and reported PAT in Q1FY11 as against net loss in Q1FY10.

Cons. Revenue breakup (%) - Q1FY11



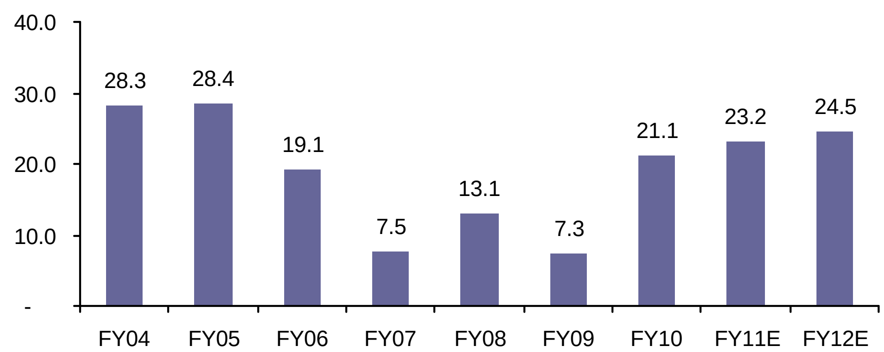
Source: Company

Cons. Revenue breakup (%) - Q1FY10



Source: Company

Cons. EBIDTA (%)



Source: Company, Kotak Securities - Private Client Research

Cosmetic & Perfumery (C&P) revenues grew by 35% to Rs.1.4 bn

- In Q1FY11 the revenues of the C&P business grew sharply by 35% on YoY basis to Rs.1.4 bn. Within C&P business the revenues of premium C&P has increased by 28% YoY and the revenues of mass C&P has increased by 39% YOY.
- The focus of the company to focus on emerging economies like BRIC countries has turned out well as they have contributed 24% of total revenues. It has acquired many new clients with the help of the US acquisition which contributed 43% of C&P revenues.
- PGL is aggressively gaining market share from its competitors in Europe. The clients include multinational companies like Unilever, Revlon, L'Oreal, Avon, P&G, Estee Lauder and LVMH among others.

- Going forward we expect C&P to further grow as 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 feel that the growth of C&P industry will be driven by the emerging economies primarily due to a growing young population, working women and their increasing disposable income. The availability of major international brands and setting up of large retail stores across the country will also provide fillip to the demand.

Specialty Food & Beverages (SF&B) business de-grew by 16% to Rs.593 mn

- In Q1FY11 the revenues of the SF&B business de-grew by 16% on YoY basis to Rs.593 mn. This was primarily due to the shift of capacity form low margin Indian SF&B business to high margin C&P business. The domestic markets in Sri Lanka are picking up and US has been stable.
- Going forward, in SF&B space, PGL would continue to focus on high end liquor, wine and food. PGL strengths lie in localization, unique design and decoration. This business is freight intensive and hence PGL has the advantage of multiple locations in India, Sri Lanka and US.
- PGL caters to leading customers UB group, Diageo, Cadbury Schweppes, Smuckers and other niche local liquor manufacturers from its US & Sri Lanka operations.

Pharmaceuticals business grew by 10% to Rs.875 mn

In Q1FY11 the revenues of the Pharma business registered growth of 10% on YoY basis to Rs.875 mn. The growth was primarily on account of exports to US. Exports have grown by 21% and now account for 40% of pharma revenues. However Indian pharma business has de-grown as in India there has been a shift towards PET mainly for oral dosage syrups and formulations. Going forward we expect the demand for injectibles to grow as more and more pharma companies obtain US FDA approval for their injectibles manufacturing facilities in India.

Debt reduction to continue going forward

The company has been successful in bringing down the total debt from Rs.13.6 bn in March 2009 to Rs.9.8 bn in March 2010. This was primarily due rights issue and positive cash generation during the year. Going forward we expect the debt to further come down due to no major capex requirement and positive cash flows which would be used to repay the debt. Also the company has negotiated lower interest rates for current year as compared to last year. The company also has some surplus land in Sri Lanka which can be sold off to repay a part of the debt.

Change in Earning Estimates - FY11E

	Old	Revised	% shift
Revenues	**12,483**	**12,483**	**-**
EBIDTA (%)	22.8	23.2	1.9
Profit	692	742	7.2
EPS	**8.6**	**9.2**	**7.2**
CEPS	20.7	21.3	3.0
WACC (%)	13.6	13.6	-
Terminal Growth (%)	3.0	3.0	-
Price Target (Rs/share)	**115**	**128**	**11.3**

Source: Kotak Securities - Private Client Research

Change in earning estimates and price target

- We have revised the earning estimates to account for higher then expected operating margins in all its businesses. Also we have accounted for faster then expected turnaround in US and Sri Lanka operations.
- Going forward we expect US and Sri Lankan business to report sharp jump in profitability on account of economies of scale and cost reduction. Also shifting of some business of US to low cost Indian operations would lead to sharp jump in overall operating profitability for PGL. This is well supported by the fact that now 21% of US sales are being supplied from India as against 15% on YoY basis.
- On a consolidated basis for FY11E we now expect PGL to report cons. revenues of Rs.12.5 bn (no change), higher operating margin of 23.2% (up 40 bps) and higher PAT of Rs.742 mn (up 7.2%).
- Accordingly we expect PGL to report higher cons. EPS of Rs.9.2 and CEPS of Rs.21.3 for FY11E as against our earlier estimate of Rs.8.6 and Rs.20.7 respectively.
- However we maintain FY12 earning estimates and expect PGL to report Cons. EPS of 12.8 and CEPS of Rs.25.5 for FY12E.
- We have valued PGL on DCF method of valuation with 13.6% WACC and 3.0% terminal growth rate (no change). Due to upward revision in earning estimates the price target is also revised upwards to Rs.128 as against Rs.115 earlier.

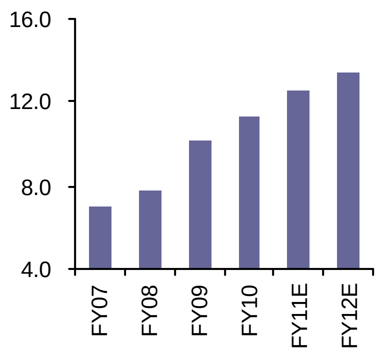
Valuation & Recommendation

- At the current price of Rs.111, PGL is trades at 1.7x book value, 8.7x earnings and 4.4x cash earnings based on FY12E.

We recommend BUY on Piramal Glass with a revised price target of Rs.128

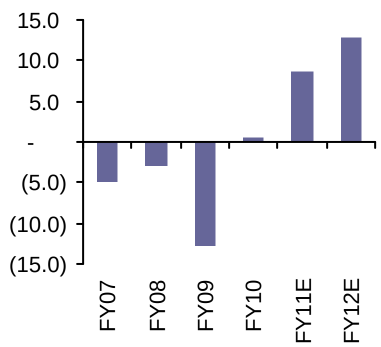
- We remain positive on the medium to long term growth prospects of PGL primarily on account of focus on high margin business; reduction in interest costs due to positive cash flows and no major capex requirement which are likely to lead to significant growth in PAT over next few years.
- Due to 16% upside potential from the current levels we continue to recommend **BUY** on PGL with revised price target of Rs.128.

Cons. Revenues (Rs. Bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS



Source: Company, Kotak Securities - Private Client Research

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
SBI	2,471	1.5	3.2	1.7
ITC Ltd	307	1.0	2.8	3.4
HDFC Bank	2,086	0.9	2.3	0.7
Losers				
Reliance Ind	1,021	(3.1)	(18.8)	12.1
L&T	1,824	(2.2)	(7.3)	1.7
ICICI Bank	909	(1.7)	(5.9)	2.1

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
29-Jul	Aban Offshore, Alok Ind, Apollo Tyres, Arvind, Bank of Maharashtra, Bata India, Bank of Baroda, Federal Bank, GSPL, Hero Honda, Kalpataru Power, ONGC, Petronet LNG, SAIL, Siemens, Subex earnings expected
30-Jul	ABB, Aditya Birla Nuv, Bharat Elect, BPCL, Edelweiss Capital, India Infoline, Indian Hotels, Karnataka Bank, KEC, Max India, Mirc Elect, Numeric Power, Raymond, Reliance Infra, Reliance Nat Res, Reliance Power, Shipping Corp, Shyam Telecom, Silverline Tech, Tata Chemicals, Torrent Pharma, TV Eighteenearnings expected

Source: Bloomberg

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