MOSt 3x3

MOTILAL OSWAL

24 October 2009

Large Cap

Large Cap	CMP
Cipla	Rs.285
Sesa Goa (*)	Rs.324
SBI	Rs.2354

1 TRADING PICK FROM 3

1 TRADING PICK FROM 3	CMP
SBI	Rs.2354

Mid Cap

Mid Cap	CMP
Birla Corp(*)	Rs.301
Dena Bank	Rs.76
GVK Power(*)	Rs.52

1 TRADING PICK FROM 3

1 TRADING PICK FROM 3	CMP
Dena Bank	Rs.76

(*): New -entry

" Since Largre & Mid Cap shares are available at reasonable valuation , we have not recommended any stock from Small Cap segment. "

CMP: Current Market Price MBP: Maximum Buying Price

MOTILAL OSWAL

IDFC

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,811	IDFC IN
	REUTERS CODE
S&P CNX: 4,997	IDFC.BO

Equity Shares (m)	1,295.3
52-Week Range	163/44
1,6,12 Rel.Perf.(%)	11/64/128
M.Cap. (Rs b)	208.1
M.Cap. (US$ b)	4.5

23 October 2009

Neutral

Previous Recommendation: Neutral Rs161

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROA (%)
3/08A	13,236	7,422	5.7	28.1	28.0	3.7	17.4	3.2
3/09A	15,556	7,498	5.8	1.0	27.8	3.4	12.7	2.6
3/10E	19,144	10,617	8.2	41.6	19.6	3.0	16.1	3.3
3/11E	22,101	12,268	9.5	15.6	17.0	2.6	16.4	3.3

IDFC's 2QFY10 results were impressive marked by continued spread expansion, a strong surge in approvals and an 80% QoQ growth in SSKI revenue. Key highlights are:

- Sanctions are up 2.3x QoQ and disbursements are up 3.2x QoQ. Borrowings and infrastructure loans are up ~4% QoQ. However, asset pipeline decreased 13% QoQ to Rs83.6b due to aggressive cancellations of previous approvals.
- Positive surprises came from (1) strong improvement in spreads by 20bp QoQ and 50bp YoY to 2.6% resulting in strong 37% NII growth (2) 25% growth in non-interest income backed by 80% in increase in broking and IB revenue.
- IDFC has further built up liquidity (treasury investments up 5% QoQ, accounting for 22% of total assets). Spread expansion despite build up of such a large liquidity hints at the possibility of further upward movement in spreads.

Earnings to accelerate but valuations rich; maintain Neutral

We upgrade earnings by 10-11% for FY10-11 to factor in (a) better spreads and (b) higher SSKI revenues. We model in RoA to expand to 3.3% in FY10-11 from 2.6% in FY09. We expect EPS of Rs9.5 and consolidated BV of Rs62 in FY11. The stock trades at 2.5x FY11E AP/ABV. While core operations are expected to improve significantly, valuations discount the expected improvement. We maintain **Neutral** and our SOTP-based target price is Rs153.

QUARTERLY PERFORMANCE (RS MILLION)

	FY09				FY10		FY09
	1Q	2Q	3Q	4Q	1Q	2Q	
NII	**2,160**	**2,028**	**2,583**	**2,561**	**2,475**	**2,770**	**9,332**
% Change (Y-o-Y)	*61*	*3*	*51*	*32*	*15*	*37*	*34*
- Infra Loans	1,770	1,790	2,070	1,950	2,190	2,520	7,580
- Treasury	390	238	513	611	285	250	1,752
Fees	**1,010**	**1,358**	**723**	**1,301**	**1,535**	**1,698**	**4,392**
- Asset management	180	590	480	780	720	690	2,030
- SSKI	370	350	130	300	350	630	1,150
- Loan related/others	460	418	113	221	465	378	1,212
Principal investments	**640**	**890**	**10**	**300**	**680**	**610**	**1,840**
Other Income	**19**	**68**	**33**	**(16)**	**23**	**145**	**104**
Net Income	**3,828**	**4,343**	**3,350**	**4,146**	**4,714**	**5,223**	**15,563**
% Change (Y-o-Y)	*28*	*33*	*(8)*	*24*	*23*	*20*	*17*
Operating Expenses	769	929	663	1,305	1,026	1,097	3,665
Operating profit	**3,059**	**3,414**	**2,687**	**2,842**	**3,688**	**4,126**	**11,898**
% Change (Y-o-Y)	*23*	*23*	*(11)*	*16*	*21*	*21*	*11*
Provisions	199	148	34	1,151	(66)	242	1,532
PBT	**2,861**	**3,266**	**2,653**	**1,690**	**3,754**	**3,884**	**10,471**
Tax	685	833	810	454	973	973	2,782
PAT	**2,176**	**2,434**	**1,843**	**1,237**	**2,780**	**2,910**	**7,689**
Consol Adjustments	9	111	(3)	74	56	10	191
Consol PAT	**2,167**	**2,323**	**1,846**	**1,162**	**2,724**	**2,900**	**7,498**
% Change (Y-o-Y)	*20*	*19*	*(15)*	*(24)*	*26*	*25*	*1*

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Asset growth likely to pick up

With a QoQ surge in 2QFY10 sanctions and disbursements; risk appetite seems to be returning. In 2QFY10 disbursements grew 74% YoY and sanctions grew ~90% YoY. In 1HFY10 sanctions grew 34% YoY to Rs99b and disbursements grew 5% YoY to Rs49b. Management has also guided loan growth will comfortably exceed the earlier guidance of 15% in FY10. While 1HFY10 loan growth looks muted at 4% YoY, we expect loan growth to be 20%+ by March 2010. Build up in borrowings, liquid assets and reduced risk aversion in 1HFY10 reflect intent to grow the loan book subsequently.

Spread expansion convincing

As expected, IDFC has benefited from the decline in wholesale funding costs during the quarter. While overall NII growth is 37% YoY, NII from infrastructure operations grew 41% YoY (despite just a 4% YoY growth in loans). NII from treasury increased 5% YoY due to lower trading opportunities in the fixed income segment. The overall spread has improved from 2.1% in September 2008 (12m trailing) and 2.3% in FY09 to 2.6% in September 2009 (12m trailing). As treasury assets convert into loans, spreads can further improve, in our view.

Non interest income (excl equity gains) grows 25%

Strong growth in brokerage and Investment banking fees (80% YoY and QoQ) and 17% YoY growth in asset management fees led to 25% growth in non-interest income. Loans and related income declined 10% YoY and 20% QoQ to Rs378m. The management clarified that strong growth in SSKI is due to a strong contribution from investment banking business and improved market share in the brokerage business.

Earnings to accelerate but valuations rich; maintain Neutral

We upgrade earnings by 10-11% for FY10-11 to factor in a) better spreads and b) higher SSKI revenues. We expect earnings CAGR of 28% over FY09-11 led by 15% total asset CAGR. We expect RoA to expand to 3.3% in FY10-11 from 2.6% in FY09. RoE will however remain ~16% given poor profitability of the MF business and lower leverage of 5x.

We expect EPS of Rs8.2 in FY10 and Rs9.5 in FY11. Consolidated BV will be Rs54 in FY10 and Rs62 in FY11. BV adjusted for goodwill, investment in subsidiaries and NPA is expected to be Rs44 in FY10 and Rs52 in FY11. The stock trades at 2.5x FY11E AP/ABV. While core operations are expected to improve significantly, valuations discount expected improvement. We maintain **Neutral** and our SOTP-based target price is Rs153.

CALCULATION OF FY11 ADJUSTED BOOK VALUE

	(RS B)	(US$B)	PER SHARE (RS)
FY11E Stand alone Net Worth	75.7	1.6	58.4
Less: Investments in			
a) SSKI	4.3	0.1	3.3
b) Mutual Fund	8.2	0.2	6.3
c) NSE	0.9	0.0	0.7
Core Net Worth	**62.3**	**1.3**	**48.1**

Source: Company/MOSL

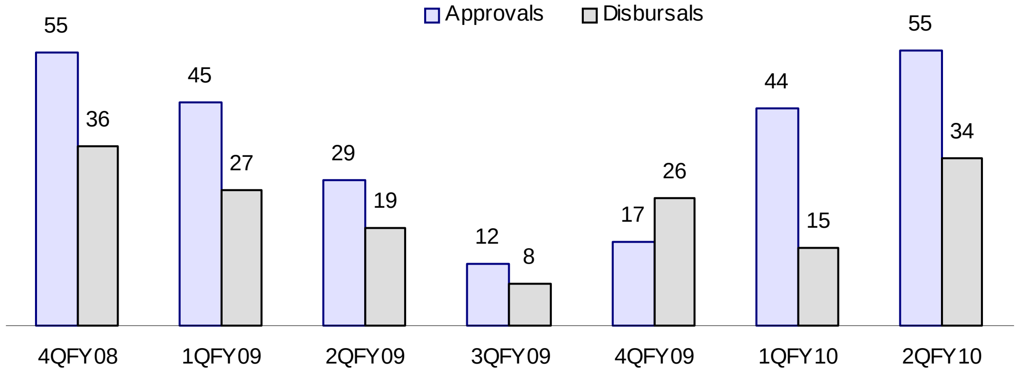
SOTP FY11 BASED

	(RS B)	US$ B	PER SHARE (RS)	VALUATION RATIONALE
Financing/Investment Business	124.6	2.6	120.2	2.5x FY11 stand alone core NW.
Alternative Assets Management	10.8	0.2	8.3	11% of AUM of USD2.35b
NSE Stake	10.0	0.2	7.7	8% stake, base price of last deal
IDFC SSKI	10.4	0.2	8.0	15x FY11E PAT, 67% CAGR in PAT over FY09-11E
Mutual Fund Business	11.0	0.2	8.5	2.6% of AUM FY11E
Total Value	**166.8**	**3.5**	**152.8**	
CMP (Rs)			160.7	
Upside (%)			*-4.9*	

Source: MOSL

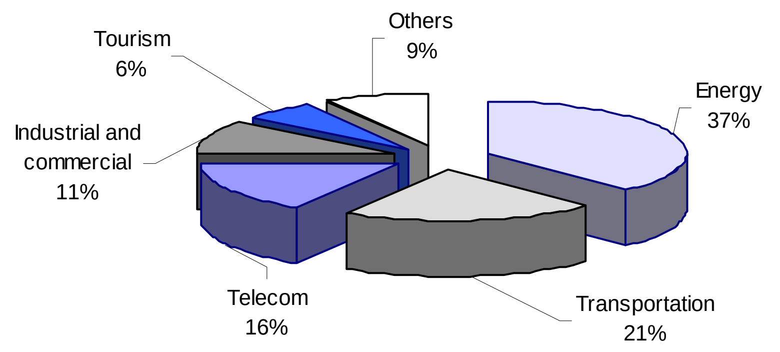
Approvals and disbursements improved QoQ

QOQ APPROVALS, DISBURSEMENTS



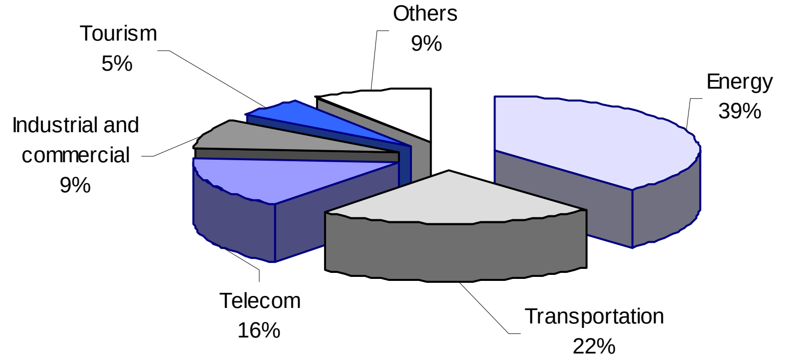
Energy and transportation segments dominate outstanding disbursement book

OUTSTANDING DISBURSEMENTS AT RS231B



Focus on transport, energy and telecom to grow loan book

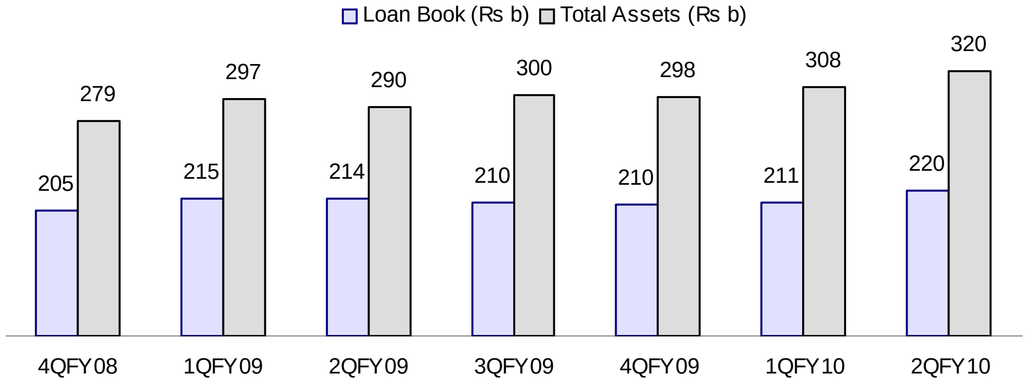
OUTSTANDING EXPOSURE AT RS324B



Source: Company/MOSL

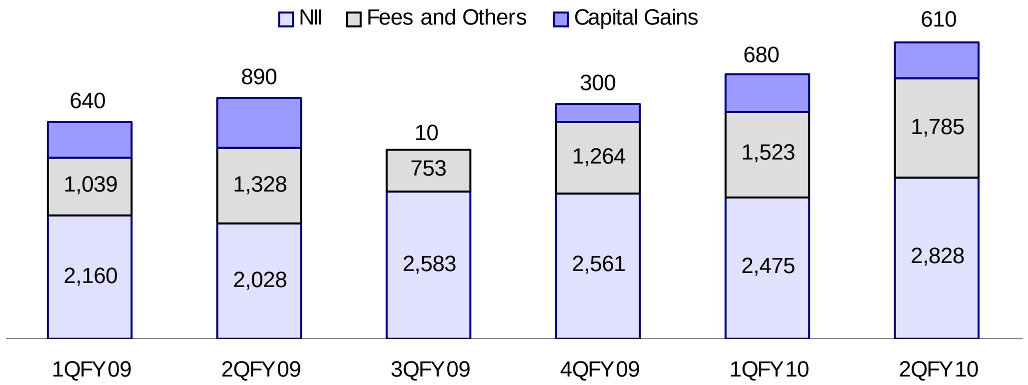
Management expects loan growth of 15%+ in FY10

BALANCE SHEET AND LOANS GREW ~4% QOQ

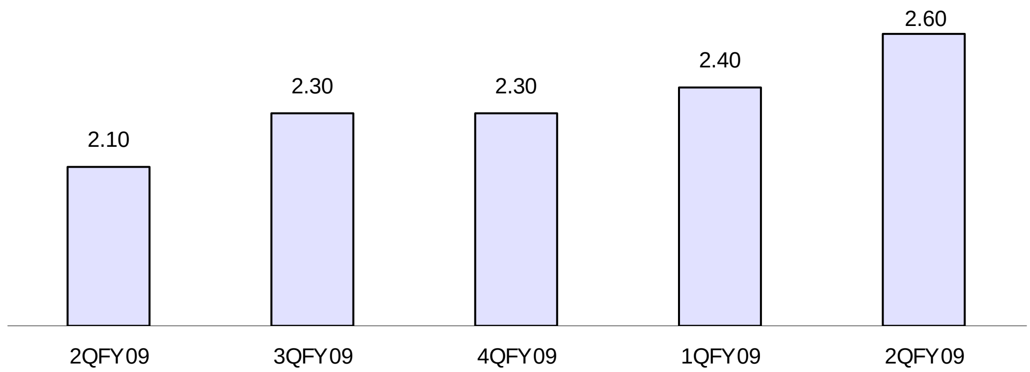


Strong core operating performance

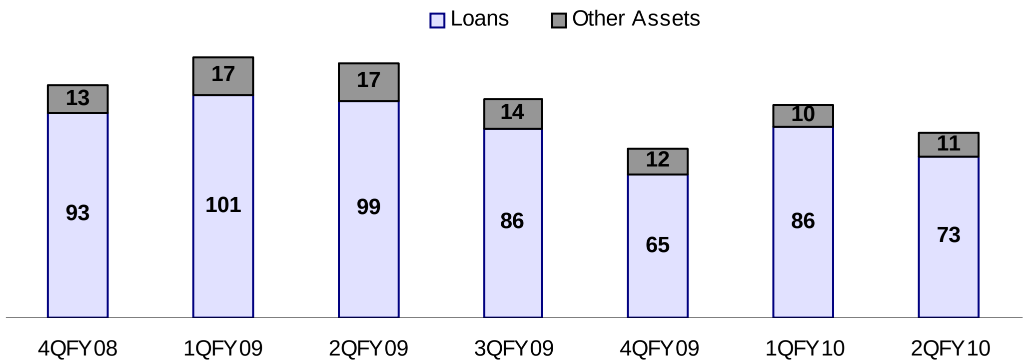
INCOME COMPOSITION



SPREADS % (REPORTED 12 MONTHS ROLLING BASIS)



ASSET PIPELINE (RS B)



Source: Company/MOSL

ASSET BOOK PIPELINE OF RS84B BY ASSET CLASS (RS B)

	TOTAL EXPOSURE	DISB. AND O/S	PIPELINE
Loans and Debentures	291.8	218.7	73.1
- Project Loans	158.6	115.2	43.4
- Corporate Loans	110.9	86.4	24.5
- LAS	22.3	17.1	5.1
Mezzanine Products	7.2	6.1	1.1
Equity	21.0	13.0	8.0
Non Funded	4.4	3.0	1.4
Total	**324.4**	**240.8**	**83.6**

Source: Company/MOSL

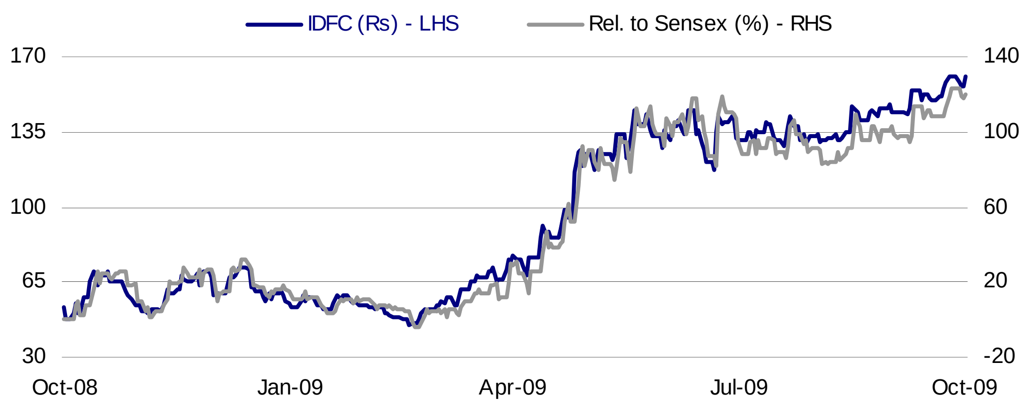
Strong improvement in spreads and higher fee-based contribution leading to improved RoA

ROA ANALYSIS

	JUN-07	SEP-07	DEC-07	MAR-08	JUN-08	SEP-08	DEC-08	MAR-09	JUN-09	SEP-09
NII	**2.7**	**2.9**	**2.9**	**2.9**	**2.9**	**2.7**	**2.9**	**3.1**	**3.2**	**3.5**
Infrasturture NII	2.4	2.4	2.3	2.4	2.4	2.3	2.5	2.6	2.7	2.9
Treasury NII	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.6	0.5	0.6
Non Interest Income	**2.2**	**2.3**	**2.6**	**2.6**	**2.3**	**2.5**	**2.0**	**2.1**	**2.2**	**2.2**
Principal Investments	1.0	0.9	1.0	0.9	0.8	0.8	0.6	0.6	0.6	0.5
Asset Management	0.4	0.3	0.2	0.2	0.2	0.4	0.5	0.7	0.9	0.9
Investment Banking	0.2	0.4	0.6	0.8	0.7	0.7	0.5	0.4	0.3	0.4
Loan related & Other Fees	0.6	0.7	0.8	0.7	0.6	0.6	0.4	0.4	0.4	0.4
Miscellanous Income	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Operating Income	**4.9**	**5.2**	**5.5**	**5.6**	**5.3**	**5.3**	**5.0**	**5.2**	**5.5**	**5.8**
Operating Expenses	0.7	0.8	0.9	1.1	1.1	1.1	1.1	1.2	1.3	1.4
Operating Profits	**4.2**	**4.4**	**4.6**	**4.5**	**4.2**	**4.2**	**3.9**	**4.0**	**4.2**	**4.5**
Provisions	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.5	0.4	0.5
PBT	**4.1**	**4.2**	**4.3**	**4.2**	**3.9**	**3.8**	**3.6**	**3.5**	**3.8**	**4.0**
Taxes and Minority Interest	0.9	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.1	1.1
PAT	**3.2**	**3.2**	**3.2**	**3.1**	**2.9**	**2.8**	**2.6**	**2.5**	**2.7**	**2.9**
Profits Sharefrom Asso.	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	**3.3**	**3.3**	**3.2**	**3.1**	**2.9**	**2.8**	**2.6**	**2.5**	**2.7**	**2.9**

Source: Company/MOSL

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)					(RS MILLION)
Y/E MARCH	2007	2008	2009	2010E	2011E
Interest Income*	12,762	21,147	28,753	31,361	37,067
Interest Expended	8,555	14,829	20,812	21,224	25,675
Net Interest Income	**4,208**	**6,318**	**7,941**	**10,138**	**11,392**
Change (%)	*34.1*	*50.2*	*25.7*	*27.7*	*12.4*
Other Income	**2,951**	**6,917**	**7,615**	**9,007**	**10,709**
- Fees Based income	1,239	4,013	4,287	6,057	7,489
- Profit on sale of invt**	1,605	2,885	3,179	2,800	3,000
- Miscellanous Income	108	20	149	150	220
Net Income	**7,158**	**13,236**	**15,556**	**19,144**	**22,101**
Change (%)	*33.6*	*84.9*	*17.5*	*23.1*	*15.4*
Operating Expenses	821	2,532	3,665	4,200	4,736
Operating Income	**6,337**	**10,704**	**11,891**	**14,944**	**17,364**
Change (%)	*31.6*	*68.9*	*11.1*	*25.7*	*16.2*
Other Provisions	175	700	1,532	497	837
PBT	**6,162**	**10,004**	**10,359**	**14,447**	**16,528**
Tax	1,241	2,480	2,782	3,855	4,294
Tax Rate (%)	*20.1*	*24.8*	*26.9*	*26.7*	*26.0*
PAT	**4,921**	**7,523**	**7,577**	**10,592**	**12,233**
Change (%)	*25.9*	*52.9*	*0.7*	*39.8*	*15.5*
(Minority Interest)/Associate profit	-118.3	101.9	79.0	-25.0	-35.0
Consolidated PAT	**5,039**	**7,422**	**7,498**	**10,617**	**12,268**
Change (%)	*29.0*	*47.3*	*1.0*	*41.6*	*15.6*
Proposed Dividend	1,129	1,556	1,555	1,943	2,332

* excludes debt trading gains; ** includes debt trading gains

BALANCE SHEET					(RS MILLION)
Y/E MARCH	2007	2008	2009	2010E	2011E
Capital	11,259	12,943	12,953	12,953	12,953
Reserves & Surplus	18,217	42,990	48,806	57,149	66,690
Net Worth	**29,477**	**55,933**	**61,759**	**70,103**	**79,643**
Minority Interest	0	241	281	0	0
Borrowings	**142,528**	**216,535**	**229,546**	**264,844**	**308,173**
Change (%)	*63.3*	*51.9*	*6.0*	*15.4*	*16.4*
Sub-ordinated Debt	6,500	6,500	6,500	6,500	6,500
Total Liabilities	**178,505**	**279,210**	**298,086**	**341,446**	**394,316**
Cash and bank balance	10,800	18,081	8,255	7,477	7,236
Investments	**23,903**	**52,257**	**65,000**	**67,247**	**71,013**
Change (%)	*84.9*	*118.6*	*24.4*	*3.5*	*5.6*
Loans	**139,184**	**199,051**	**205,962**	**247,102**	**296,522**
Change (%)	*38.0*	*43.0*	*3.5*	*20.0*	*20.0*
Goodwill	**969**	**2,943**	**10,790**	**11,590**	**11,590**
Net Fixed Assets	489	3,850	4,543	4,543	4,543
Deferred Tax Assets	857	972	1,421	1,279	1,151
Net current Assets	2,302	2,056	2,115	2,208	2,261
Total Assets	**178,505**	**279,210**	**298,086**	**341,446**	**394,316**

ASSUMPTIONS					(%)
Borrowings Growth	63.3	51.9	6.0	15.4	16.4
Loans Growth	38.0	43.0	3.5	20.0	20.0
Investments Growth	84.9	118.6	24.4	3.5	5.6
Total Assets/Equity(x)	6.1	5.0	4.8	4.9	5.0
Debt/Equity (x)	4.8	3.9	3.7	3.8	3.9
Dividend	10.0	12.0	12.0	15.0	18.0

E: MOSL Estimates

RATIOS

Y/E MARCH	2007	2008	2009	2010E	2011E
Spreads Analysis (%)					
Avg. Yield - Infrastructure loans	9.4	10.2	11.9	11.8	11.8
Avg. Yield - Earning Assets	8.8	9.7	11.0	10.9	11.1
Avg. Cost-Int. Bear. Liab.	7.1	8.0	9.1	8.3	8.7
Interest Spread	1.8	1.8	1.9	2.7	2.5
Net Interest Margin	2.9	2.9	3.0	3.5	3.4
Profitability Ratios (%)					
RoE	18.3	17.4	12.7	16.1	16.4
RoA	3.4	3.2	2.6	3.3	3.3
Int. Expended/Int.Earned	67.0	70.1	72.4	67.7	69.3
Other Income./Net Income	41.2	52.3	49.0	47.0	48.5
Efficiency Ratios (%)					
Fee income/Net Income	17.3	30.3	27.6	31.6	33.9
Op. Exps./Net Income	11.5	19.1	23.6	21.9	21.4
Empl. Cost/Op. Exps.	58.4	66.2	48.4	50.6	51.7

VALUATION

Book Value (Rs)	26.2	43.2	47.7	54.1	61.5
Price-BV (x)	6.1	3.7	3.4	3.0	2.6
Adjusted BV (Rs)*	25.1	40.6	38.9	44.2	51.6
APrice-ABV (x)					2.5
EPS (Rs)	4.5	5.7	5.8	8.2	9.5
EPS Growth (%)	*28.6*	*28.1*	*1.0*	*41.6*	*15.6*
Price-Earnings (x)	35.9	28.0	27.8	19.6	17.0
OPS (Rs)	5.6	8.3	9.2	11.5	13.4
OPS Growth (%)	*31.2*	*46.9*	*11.0*	*25.7*	*16.2*
Price-OP (x)	28.5	19.4	17.5	13.9	12.0

** Adjusted for Goodwill, Investment in subsidaries and NPA, Prices adjusted for other ventures*

E: MOSL Estimates

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Disclosure of Interest Statement	IDFC
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

MOTILAL OSWAL

2QFY10 Results Update

SECTOR: INFRASTRUCTURE

Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,811	HCC IN
	REUTERS CODE
S&P CNX: 4,997	HCNS.BO

Equity Shares (m)	303.3
52-Week Range	147/29
1,6,12 Rel. Perf. (%)	1/81/148
M.Cap. (Rs b)	40.0
M.Cap. (US$ b)	0.9

23 October 2009

Neutral

Previous Recommendation: Neutral

Rs132

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	30,828	708	2.8	39.7	48.0	3.4	7.4	11.2	1.6	13.6
3/09A	33,137	760	3.0	7.3	44.8	3.4	7.6	11.7	1.7	12.9
3/10E	37,753	1,419	4.7	57.9	28.3	2.6	11.0	10.2	1.4	10.7
3/11E	47,019	2,047	6.7	44.2	19.7	2.3	12.5	12.3	1.2	8.9

- **Above estimated performance on higher operating margins:** During 2QFY10, HCC reported revenues of Rs7.8b (+20.6%YoY), in line with estimates of Rs7.9b. EBITDA margin (adjusted for Rs192.9m capital loss on sale of fixed assets and aircraft) stood at 12.5% (+43bpYoY), higher than our estimates of 11.6%. Management stated that given floods and political uncertainty in Andhra Pradesh, execution of irrigation projects could possibly get delayed. Irrigation projects contribute Rs48b to the order book (31% of OB), of which Andhra Pradesh accounts for Rs38b (25% of OB).
- **Management guidance maintained; implied revenue growth of 40% YoY in 2HFY10:** Management has guided for revenues of Rs45b in FY10 (up 29% YoY). During 1HFY10, revenue growth stood at 14.7% YoY, and thus implied growth stands at 40% YoY in 2HFY10. We believe that this looks challenging, given the possible delays in irrigation projects in Andhra Pradesh. Working capital cycle is expected to improve to 42% of revenues by end FY10, vs 53% in March 2009 (current 48%).
- **Lavasa quasi equity now stands at Rs6.56b, pre-sales of Rs947m in 2QFY10:** For Lavasa Phase I, the funding (Rs20-22b) has been tied up, and till date the company has spent Rs17.5b. During 2QFY10, Lavasa reported revenues of Rs1b and net profits of Rs305m. Also, bookings at Lavasa during 2QFY10 stands at Rs947m, and total bookings now stand at Rs10.4b.
- **Price target of Rs132; maintain Neutral:** The stock trades at reported PER of 28.3x FY10E and 19.7x FY11E. We have a price target of Rs132/sh, comprising of: Core business Rs108/sh (PER 16x FY11), Lavasa Rs26/sh (25% discount to NPV), 247 IT park Rs15/sh, less FCCB outstanding Rs18/sh (zero coupon). Maintain **Neutral**.

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (Excl JV)	**8,659**	**6,489**	**8,194**	**9,795**	**8,725**	**7,825**	**9,546**	**11,657**	**33,137**	**37,753**
Change (%)	*18.8*	*18.3*	*9.3*	*-7.2*	*0.8*	*20.6*	*16.5*	*19.0*	*7.5*	*13.9*
Gross Sales	**8,949**	**6,977**	**8,759**	**10,295**	**9,641**	**8,622**	**10,423**	**13,617**	**34,979**	**42,303**
Change (%)	*23.0*	*27.1*	*17.2*	*-0.8*	*7.7*	*23.6*	*19.0*	*32.3*	*156.9*	*20.9*
EBITDA	**911**	**839**	**1,061**	**1,508**	**1,151**	**881**	**1,223**	**1,803**	**4,318**	**5,058**
Change (%)	*15.2*	*39.5*	*9.5*	*15.5*	*26.3*	*5.0*	*15.3*	*19.6*	*17.8*	*17.1*
As of % Sales	*10.2*	*12.0*	*12.1*	*14.7*	*13.0*	*12.5*	*11.7*	*13.2*	*12.3*	*12.7*
Depreciation	253	296	299	304	301	315	335	375	1,152	1,326
Interest	391	492	573	650	613	499	510	522	2,105	2,144
Other Income	124	268	-46	242	19	28	22	-22	588	47
Extraordinary Items	0	0	0	0	0	0	0	0	3	0
PBT	**392**	**319**	**143**	**796**	**256**	**95**	**400**	**884**	**1,649**	**1,635**
Tax	84	117	-90	281	74	40	132	294	392	540
Effective Tax Rate (%)	*21.3*	*36.8*	*-62.7*	*35.3*	*28.8*	*42.0*	*33.0*	*33.2*	*23.8*	*33.0*
Reported PAT	**308**	**202**	**232**	**515**	**182**	**55**	**268**	**590**	**1,257**	**1,096**
Adj PAT	**195**	**-47**	**300**	**515**	**268**	**280**	**268**	**603**	**964**	**1,419**
Change (%)	*37.4*	-	*52.7*	*43.6*	*37.2*	*NA*	*-10.7*	*17.1*	*36.2*	*47.2*

E: MOSL Estimates; 1QFY10 adustments of Rs50m towards political donation and Rs53m towards Bandra Worli Sealink Inauguration

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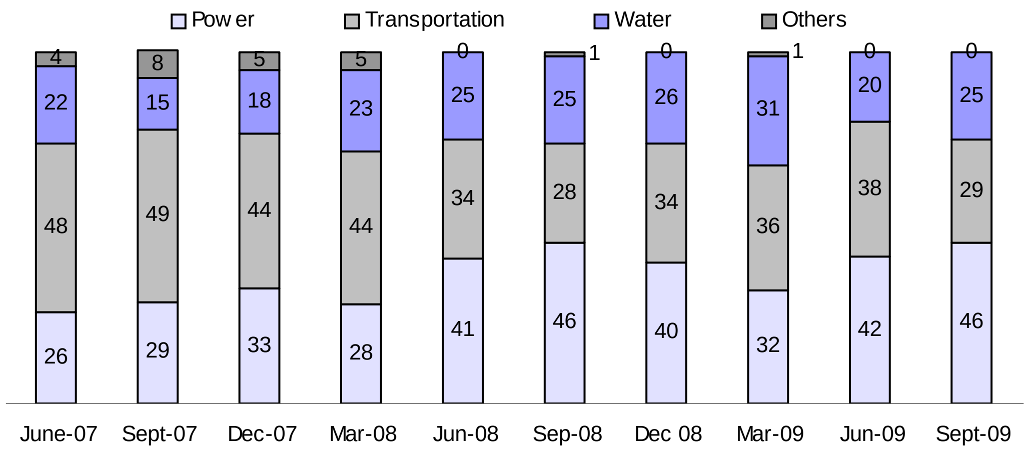
Above estimated performance on higher operating margins

- HCC reported 2QFY10 revenue of Rs7.8b (+20.6% YoY), in line with estimates of Rs7.9b. EBITDA margin (adjusted for Rs192.9m capital loss on sale of fixed assets and aircraft) stood at 12.5% (+43bp YoY), higher than our estimates of 11.6%. Adjusted PAT stood at Rs280m (vs loss of Rs47m in 2QFY09), higher than our estimates of Rs132m.
- Better than estimated performance was mainly driven by higher EBITDA margins, given higher proportion of hydropower in revenue mix at 31% (v/s ~25% in 2QFY09), and stagnant employee cost (operating leverage of 400bp YoY). During 2QFY10, HCC provided for exceptional costs of: (i) Rs192.9m capital loss on sale of fixed assets and aircraft (realization ~Rs300m), and (ii) Rs48.5m forex loss.
- Execution also improved in 2QFY10, as revenue growth stood at 20.6% YoY. However, the management stated that given the floods and political uncertainty in Andhra Pradesh, the execution of irrigation projects could possibly get delayed. Irrigation projects contribute Rs48b to the order book (31% of order book), of which Andhra Pradesh accounts for Rs38b (25% of order book).

Share of transportation in revenues has declined to 29% now, vs 46% in FY07; we expect the contribution to decline further

REVENUE COMPOSITION: EXPECT SHARE OF TRANSPORTATION TO DECLINE (%)



Source: Company/MOSL

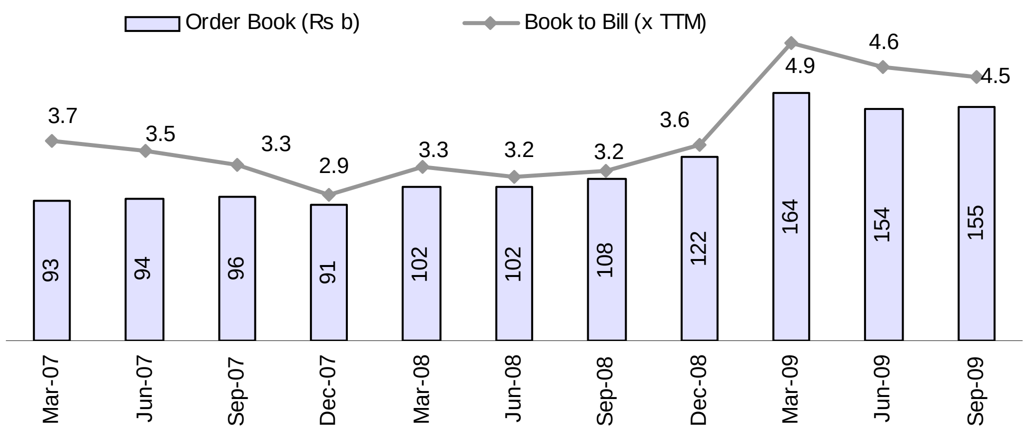
Management guidance maintained; implied revenue growth of 40% YoY in 2HFY10

- Management has guided for revenues of Rs45b in FY10 (up 29% YoY). During 1HFY10, revenue growth stood at 14.7% YoY, and thus implied growth stands at 40% YoY in 2HFY10. We believe this is challenging given the possible delays in irrigation projects in Andhra Pradesh. We have factored in FY10 revenues of Rs42.3b (up 21% YoY), implying revenue growth of 26% YoY in 2HFY10.
- Management also indicated that 2HFY10 profitability would be maintained at higher level than 1HFY10. During FY10, HCC's planned capex is ~Rs2b in construction business. The BOT project investments would be based on equity IRR of 16-18%+.
- Working capital cycle is expected to improve to 42% of revenues by end FY10, vs 53% in March 2009. Also, the current working capital cycle stands at 48%, indicating improvements. This improvement will be driven by recovery of arrears and dues from NHAI and Andhra irrigation projects. We have factored in working capital cycle of 49% in FY10 and 45% in FY11. During FY09, the net working capital for the company stood at 171 days (Rs17.5b), one of the highest in the industry.

Order intake impacted; order book largely stagnant QoQ at Rs155b (up 44% YoY)

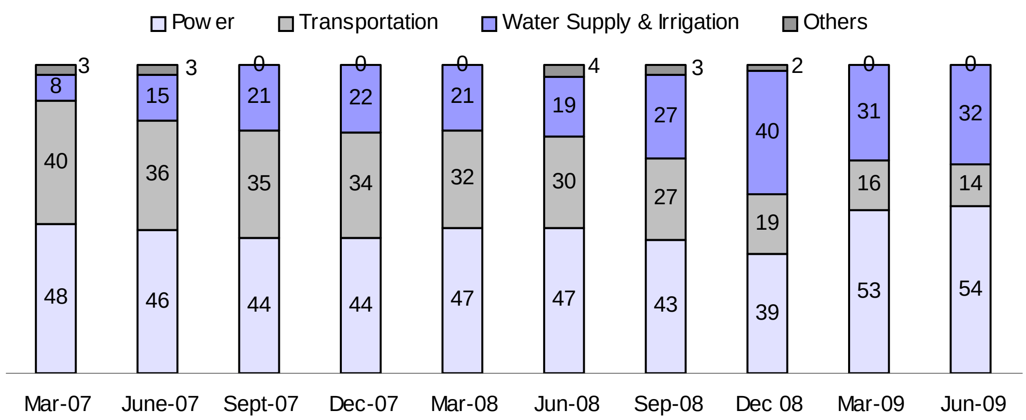
- HCC derives ~90% of its order book from Central/state government. Thus, the order intake during 1QFY10 was impacted due to elections. In 2QFY10 too, order intake was down 19% YoY at Rs9.9b.
- Order book stood at Rs155b (up 44% YoY, -1% QoQ) and book-to-bill ratio at 4.3x TTM revenues. L1 projects stood at Rs9.6b as at Sept 2009.
- We believe that current order book should drive revenue CAGR of 18% during FY09-11E.

ORDER BOOK (RS B) AND BOOK TO BILL (X)



ORDER BOOK COMPOSITION: SHARE OF TRANSPORTATION HAS DECLINED (%)

Share of transportation in order book has declined from 40% in FY07 to 14% now; while share of irrigation / water has increased to 33% vs 8% in FY07



Source: Company/MOSL

QIP used to repay debt; QoQ interest cost declines

- During 1QFY10, HCC raised Rs4.8b through QIP, which has been used to repay existing debt. The outstanding debt now stands at Rs22b v/s Rs23.2b in Mar-09. Interest cost during 2QFY10 declined ~19% QoQ to Rs499m. The annual interest cost post the QIP is likely to remain stable during FY10 at Rs2.1b (v/s pre-QIP amount of Rs2.4b).
- Post QIP HCC's debt-equity has declined from 2.3x in FY09 to ~1.5x now.

Additional Rs2b of investments in BOT; Lavasa quasi equity now stands at Rs6.56b

- HCC has BOT road portfolio of three projects where it has already invested ~Rs1.5b and an additional investments of Rs2-2.3b would be required during next 18-24 months.

- One project, Nirmal BOT in Andhra Pradesh has already been completed ahead of schedule (3 months) and bonus of Rs133m is expected on the project for early completion.

HCC: BOT PORTFOLIO (RS M)

	PROJECT COST	EQUITY	EQUITY STAKE %	HCC'S EQUITY
Niramal BOT (Andhra Pradesh)	3,150	600	100	600
Badarpur elevated expressway	5,720	1,720	100	1,720
Dhule - Maharashtra / MP road project	14,150	4,000	37	1,480
Total	**23,020**	**6,320**		**3,800**

Source: Company/MOSL

- For Lavasa Phase I, the funding of Rs20-22b has been tied up: equity Rs3b (including Rs2b from HCC), Rs6.6b as quasi-equity by various banks and rest as bank debt / customer advances.
- During 2QFY10, Lavasa reported revenues of Rs1b and net profit of Rs305m. Also, bookings at Lavasa during 2QFY10 stands at Rs947m, and total bookings now stand at Rs10.4b.
- HCC has advanced development plans for next Phase at Lavasa, and has initiated marketing for business sales (non-polluting industries) comprising R&D centres, training centers, corporate facilities, etc. In 2QFY10, the company was successful in tying up with: I Dreams studio (to develop film studio in association with Pinewood UK), IT Training centre (5 acres), Times of India Training Centre, AIPL Bruno Petronis (Italy) and Nurus (Turkey) for 0.1msf furniture assembly unit and showroom, etc.

LAVASA - BRIEF FINANCIALS (RS M)

	FY09	1QFY10	2QFY10
Revenues	**2,120**	**933**	**1,029**
Expenditure	770	533	570
PBT	1,350	400	459
PBT (%)	64	43	45
Tax	120	136	154
Tax (%)	9	34	34
PAT	**1,230**	**264**	**305**

Source: Company/MOSL

LAVASA CUMULATIVE BOOKINGS (RS M)

	FY09	NO. OF UNIT	1QFY10	2QFY10
Land Sales				
Institutional land sales	550	174 acres	540	850
Residential land sales	200	131 plots	530	199
SPV land sales	1,000	279 acres	1,710	1,051
Sub-total land sales (A)	**1,750**		**2,780**	**2,100**
Build Space Sales				
Apartment	1,620	420	1,680	1,904
Villas	3,780	395	4,000	4,325
Retail	920	0.18msf	940	916
Affordable Rental Housing				400
Hostel				691
Sub-Build space sales (B)	**6,320**		**6,620**	**8,236**
Project management consultancy (C)				
Club membership	10	36	10	21
Total(A+B+C)	**8,080**		**9,410**	**10,357**

Source: Company/MOSL

247 Park completes 65% leasing

- Leasing for 65% of the area has been completed at 247 IT Park (vs 53% of area in March 2009), Vikhroli at average rentals of Rs75/sq ft/month. The average rentals are lower than the initial expectations of Rs90/sq ft/month.
- The management indicated that the market has now improved, and it expects to complete 100% of the leasing by Dec-09 / Jan-10.

Valuation and view

- We expect HCC to report EPS of Rs4.7/sh in FY10 (up 26% YoY) and Rs6.7/sh in FY11 (up 23% YoY). At CMP, the stock trades at reported PER of 28.3x FY10E and 19.7x FY11E.
- We have a price target of Rs132/sh, comprising of: Core business Rs108/sh (PER 16xFY11), Lavasa Rs26/sh (25% discount to NPV), 247 IT park Rs15/sh, less FCCB outstanding Rs18/sh (zero coupon). Maintain **Neutral**.

HCC: SUM OF PARTS

	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
HCC Standalone	FY11E PER (x)	16	32,753	108	Premium to industry average, given expected robust earnings growth
Real Estate					
Lavasa	NPV, WACC 17%		7,794	26	Based on 25% discount to NPV of expected cash flows
247 IT Park	NPV, Cap Rate 10%		4,512	15	Based on NPV of expected rentals from office space; 25% discount to NAV
BOT Investments					
Andhra Road	Book Value		315	1	Book value of Investments as at Mar 09
Less: FCCB Outstanding	Book Value		-5,390	-18	We assume FCCBs will not be converted; Conversion price Rs248, YTM 6.5%
Total			**39,985**	**132**	

Source: MOSL

Hindustan Construction: an investment profile

Company description

Established in 1926 by the Walchand Hirachand group, HCC is one of the oldest and largest construction companies in India with pre-qualification skills and proven execution capabilities across sectors like power, roads, bridges, ports, water irrigation and supply, urban infrastructure and pipelines. HCC specializes in the construction of technologically complex and long-gestation period projects. The company has successfully and gradually transformed from a civil engineering contractor to an integrated infrastructure player. Recently it has increased its focus on the BOT space and has plan to increase projects in hydro power, transportation, ports and water transmission. HCC has also forayed into real estate space with developable area of 186msf under its portfolio of Hill station (Lavasa), IT park (Vikroli), SEZ etc. The Lavasa is an ambitious project near Pune to develop a new hill station.

Key investment arguments

- Possesses pre-qualifications and proven execution capabilities across sectors; will benefit from large ticket sized orders in hydro and nuclear sectors
- Focus on emerging as an integrated infrastructure player with presence across the sectors like roads, power, ports, airports and water transmission space.
- Has the youngest fleet of specialized equipments, skilled manpower, in-house fabrication facility and EPC execution capabilities

Key investment risks

- Focus on key large projects increases the project specific risks
- Retention of experienced manpower is a challenge
- Significant investments in the RE/BOT subsidiaries

Recent developments

- Raised Rs4.8b through QIP issue in June 2009.
- Lavasa quasi equity now stands at Rs6.56b, pre-sales of Rs947m in 2QFY10. Total bookings now stand at Rs10.4b.

Valuations and view

- We expect HCC to report EPS of Rs4.7/sh in FY10 (up 26% YoY) and Rs6.7/sh in FY11 (up 23% YoY).
- At CMP, the stock trades at reported PER of 28.3x FY10E and 19.7x FY11E. Maintain **Neutral**.

Sector view

- Increased government commitment towards infrastructure projects in adverse macro environment will help HCC due to its position in the sector.
- Investments in BOT/Real estate projects have adversely impacted the core balance sheet. This will continue to have negative impact on the core business till the SPV's in real estate and BOT start generating cash.

COMPARATIVE VALUATIONS

		HIND.CON.	NCC	IVRCL
P/E (x)	FY10E	28.3	14.1	20.5
	FY11E	19.7	10.7	17.3
P/BV (x)	FY10E	2.6	1.5	2.8
	FY11E	2.3	1.4	2.3
EV/Sales (x)	FY10E	1.4	1.0	1.1
	FY11E	1.2	0.8	0.9
EV/EBITDA (x)	FY10E	10.7	10.2	11.8
	FY11E	8.9	8.8	10.0

SHAREHOLDING PATTERN (%)

	SEP-09	JUN-09	SEP-08
Promoter	39.9	47.2	47.2
Domestic Inst	14.8	16.4	19.9
Foreign	26.8	10.8	8.1
Others	18.5	25.7	24.9

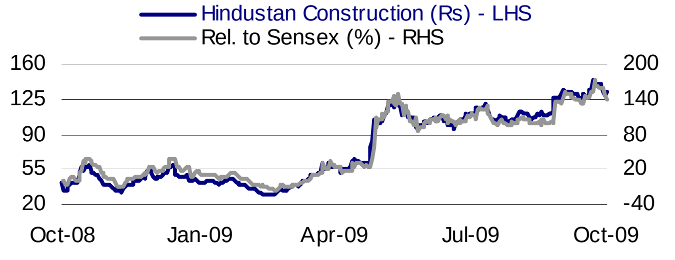
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	4.7	4.1	13.7
FY11	6.7	5.8	15.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
132	132	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (Rs Million)

Y/E MARCH	2007	2008	2009	2010E	2011E
Net Sales	**23,576**	**30,828**	**33,137**	**37,753**	**47,019**
Change (%)	*18.7*	*30.8*	*7.5*	*13.9*	*24.5*
Construction Exps.	18,370	23,049	23,901	26,855	33,572
Staff Cost	2,087	2,972	3,749	4,686	5,858
Office and Site Establish. Ex	967	1,140	1,173	1,290	1,419
EBITDA	**2,153**	**3,667**	**4,314**	**4,922**	**6,171**
% of Net Sales	9.1	11.9	13.0	13.0	13.1
Depreciation	797	962	1,152	1,326	1,433
Interest	620	1,524	2,105	2,144	2,000
Other Income	199	387	588	47	12
Share of turnover in JV	244	-7	1	137	164
PBT	**1,179**	**1,561**	**1,646**	**1,635**	**2,914**
Tax	386	472	392	540	961
Rate (%)	*32.8*	*30.3*	*23.8*	*33.0*	*33.0*
Reported PAT	**793**	**1,088**	**1,254**	**1,096**	**1,952**
EO Income (net of expense:	229	380	494	-324	-95
Adjusted PAT	**564**	**708**	**760**	**1,419**	**2,047**
Change (%)	*-33.1*	*25.5*	*7.3*	*86.8*	*44.2*

BALANCE SHEET (Rs Million)

Y/E MARCH	2007	2008	2009	2010E	2011E
Share Capital	256	256	256	303	303
Reserves	8,785	9,784	9,792	15,358	16,867
Net Worth	**9,041**	**10,041**	**10,049**	**15,661**	**17,170**
Loans	15,511	18,449	23,218	20,417	21,917
Deffered Tax Liability	855	1,133	1,132	1,132	1,132
Capital Employed	**25,407**	**29,622**	**34,398**	**37,210**	**40,218**
Gross Fixed Assets	11,012	14,097	16,828	18,543	20,043
Less: Depreciation	3,550	4,566	5,547	6,872	8,305
Net Fixed Assets	**7,462**	**9,531**	**11,282**	**11,670**	**11,737**
Capital WIP	1,513	675	464	250	250
Investments	2,286	2,955	3,655	5,032	6,114
Curr. Assets	**23,062**	**27,101**	**34,674**	**36,624**	**42,164**
Inventory	17,386	21,439	27,766	29,478	34,782
Debtors	5	45	47	54	67
Cash & Bank Balance	2,084	2,644	1,539	1,560	980
Loans & Advances	3,476	2,954	5,284	5,494	6,297
Other Current Assets	111	20	38	38	38
Current Liab. & Prov.	**8,916**	**10,640**	**15,677**	**16,366**	**20,046**
Creditors	6,796	7,660	10,373	11,036	13,797
Other Liabilities	1,643	2,515	3,653	3,679	4,599
Provisions	477	466	1,651	1,651	1,651
Net Current Assets	**14,146**	**16,461**	**18,997**	**20,258**	**22,118**
Application of Funds	**25,407**	**29,622**	**34,398**	**37,210**	**40,218**

E: MOSL Estimates

RATIOS

Y/E MARCH	2007	2008	2009	2010E	2011E
Basic (Rs)					
Adjusted EPS	**2.0**	**2.8**	**3.0**	**4.7**	**6.7**
Growth (%)	*-39.9*	*39.7*	*7.3*	*57.9*	*44.2*
Cash EPS	5.1	6.5	7.5	9.1	11.5
Book Value	35.3	39.2	39.2	51.6	56.6
DPS	0.7	0.8	0.8	0.8	1.3
Payout (incl. Div. Tax.)	28.4	22.0	19.1	25.9	22.7
Valuation (x)					
P/E (standalone)		48.0	44.8	28.3	19.7
Cash P/E		20.4	17.8	14.7	11.6
EV/EBITDA		13.6	12.9	10.7	8.9
EV/Sales		1.6	1.7	1.4	1.2
Price/Book Value		3.4	3.4	2.6	2.3
Dividend Yield (%)		0.6	0.6	0.6	0.9
Profitability Ratios (%)					
RoE	5.7	7.4	7.6	11.0	12.5
RoCE	6.6	11.2	11.7	10.2	12.3
Turnover Ratios					
Debtors (Days)	0	1	1	1	1
Inventory (Days)	269	254	306	285	270
Creditors. (Days)	135	121	158	150	150
Asset Turnover (x)	1.0	1.1	1.0	1.1	1.2
Leverage Ratio					
Debt/Equity (x)	1.7	1.8	2.3	1.3	1.3

CASH FLOW STATEMENT (Rs Million)

Y/E MARCH	2007	2008	2009	2010E	2011E
PBT before Extraordinary It	**1,179**	**1,561**	**1,646**	**1,635**	**2,914**
Add : Depreciation	797	962	1,152	1,326	1,433
Interest	620	1,524	2,105	2,144	2,000
Less : Direct Taxes Paid	386	472	392	540	961
(Inc)/Dec in WC	-7,847	-1,755	-3,641	-1,240	-2,439
CF from Operations	**-5,638**	**1,820**	**870**	**3,326**	**2,945**
(Inc)/Dec in FA	-3,776	-2,194	-2,692	-1,500	-1,500
(Pur)/Sale of Investments	-1,022	-669	-700	-1,377	-1,082
CF from Investments	**-4,798**	**-2,863**	**-3,392**	**-2,877**	**-2,582**
(Inc)/Dec in Networth	-247	429	-1,007	4,801	0
(Inc)/Dec in Debt	3,551	2,938	4,769	-2,801	1,500
Less : Interest Paid	620	1,524	2,105	2,144	2,000
Dividend Paid	225	240	240	284	444
CF from Fin. Activity	**2,460**	**1,603**	**1,418**	**-428**	**-943**
Inc/Dec of Cash	**-7,976**	**560**	**-1,105**	**21**	**-580**
Add: Beginning Balance	10,060	2,084	2,644	1,539	1,560
Closing Balance	**2,084**	**2,644**	**1,539**	**1,560**	**980**

E: MOSt Estimates

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Disclosure of Interest Statement	Hindustan Construction
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

MOTILAL OSWAL

BHEL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,811	BHEL IN
S&P CNX: 4,997	REUTERS CODE BHEL.BO

Equity Shares (m)	489.5
52-Week Range	2,550/984
1,6,12 Rel. Perf. (%)	4/-3/32
M.Cap. (Rs b)	1,167.4
M.Cap. (US$ b)	24.3

23 October 2009

Neutral

Previous Recommendation: Neutral Rs2,384

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	197,652	25,095	51.3	3.9	46.5	10.8	25.7	51.1	5.6	29.0
03/09A	267,880	35,594	72.7	41.8	32.8	9.0	30.0	46.9	4.1	25.3
03/10E	325,861	42,280	86.4	18.8	27.6	7.4	29.4	51.6	3.4	17.7
03/11E	406,073	54,858	112.1	29.8	21.3	6.0	31.1	53.3	2.8	13.2

- **Robust 2QFY10 earnings:** For 2QFY10, BHEL reported net revenues of Rs66b (+24% YoY), adj EBITDA margins at 17% (+200bp YoY), and Net profit at Rs8.6b (+27% YoY). Power segment revenues for 2QFY10 stood at Rs54.3b (up 23.1% YoY) while industrial segment revenues stood at Rs15.9b (up 6.6% YoY). Capital employed in power business during 2QFY10 increased to negative Rs10.4b v/s negative Rs13.5b in 1QFY10 given lower customer advances as order intake was poor.
- **Raw material cost declines 230bp YoY:** Raw material cost during 2QFY10 stood at 57.3% (down 230bp YoY), largely due to decline in commodity prices as benefits from lower cost inventory procured post September 2008 has started coming in. Also, the management maintained raw material cost savings of 200bp in FY10.
- **Order intake of Rs80b, down 46% YoY; recent order receipt of Rs56b from Jaiprakash:** BHEL's order book as at September 2009 stood at Rs1,258b (+11%YoY, +1%QoQ). Power sector order book is up by 8% YoY, and industrial up 48% YoY. As at September 2009, power sector contributed 82% to order book, vs 84% YoY. In 1HFY10, 79% of the order intake is from the private sector for BHEL.
- **Valuation and view:** We expect BHEL to report EPS of Rs86.4 in FY10 (up 18.8% YoY) and Rs112.1 in FY11 (up 29.8% YoY). At CMP, it quotes at PER of 27.6x FY10E and 21.3x FY11E. Maintain **Neutral** with target price of Rs2,465 (22x FY11E, upside of 3.4%).

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (Net)	**43,292**	**53,426**	**60,223**	**105,401**	**55,957**	**66,252**	**73,243**	**124,509**	**262,342**	**319,960**
Change (%)	*33.9*	*34.7*	*21.3*	*46.4*	*29.3*	*24.0*	*21.6*	*18.1*	*35.5*	*22.0*
EBITDA	**3,737**	**7,107**	**10,207**	**16,963**	**5,162**	**11,295**	**13,756**	**26,045**	**38,014**	**56,259**
Change (%)	*20.3*	*2.2*	*2.3*	*24.4*	*38.1*	*58.9*	*34.8*	*53.5*	*12.9*	*48.0*
As a % Sales	*8.6*	*13.3*	*16.9*	*16.1*	*9.2*	*17.0*	*18.8*	*20.9*	*14.5*	*17.6*
Adjusted EBITDA	**4,560**	**8,061**	**11,280**	**20,711**	**5,162**	**11,295**	**13,756**	**26,045**	**44,612**	**56,259**
Change (%)	*119.2*	*36.0*	26.0	43.4	*13.2*	*40.1*	*21.9*	*25.8*	*33.6*	*26.1*
As a % Sales	*10.5*	*15.1*	*18.7*	*19.6*	*9.2*	*17.0*	*18.8*	*20.9*	*17.0*	*17.6*
Interest	26	22	179	81	43	45	65	202	307	355
Depreciation	726	744	865	1,009	961	934	981	1,288	3,343	4,164
Other Income	2,917	3,072	3,063	5,072	3,029	2,978	3,094	4,205	14,124	13,306
PBT	**5,903**	**9,414**	**12,226**	**20,945**	**7,187**	**13,294**	**15,804**	**28,761**	**48,488**	**65,046**
Tax	2,059	3,256	4,321	7,470	2,481	4,715	5,531	10,038	17,106	22,766
Effective Tax Rate (%)	*34.9*	*34.6*	*35.3*	*35.7*	*34.5*	*35.5*	*35.0*	*34.9*	*35.3*	*35.0*
Reported PAT	**3,844**	**6,158**	**7,906**	**13,475**	**4,706**	**8,579**	**10,273**	**18,722**	**31,382**	**42,280**
Change (%)	*33.0*	*-10.5*	*2.4*	*21.3*	*22.4*	*39.3*	*29.9*	*38.9*	*9.8*	*34.7*
Adj. PAT	**4,379**	**6,777**	**8,603**	**15,911**	**4,706**	**8,579**	**10,273**	**18,722**	**35,671**	**42,280**
Change (%)	*97.1*	*9.1*	*22.0*	*36.7*	*7.5*	*26.6*	*19.4*	*17.7*	*31.5*	*18.5*

E: MOSL Estimates

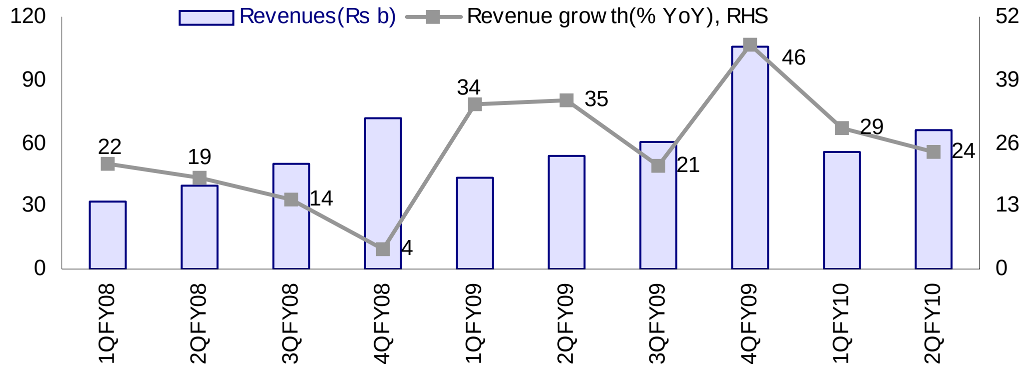
Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 3982 5410

BHEL: 2QFY10 earnings above estimates driven by RM savings; Order intake down 46% YoY; Maintain Neutral

- For 2QFY10, BHEL reported net revenues of Rs66b (+24% YoY), in line with estimates.
- Reported EBITDA margins at 17% (+375bp YoY), were higher than our estimates of 14.6%. 2QFY09 EBITDA numbers include Sixth Pay provisions of Rs2.8b including Rs953m of arrears; thus, adjusted margins in 2QFY10 are up 200bp.
- Net profit at Rs8.6b (+26.6% YoY) is higher than our estimates of Rs7.6b.
- FY10 guidance: Revenues of Rs320b (up 14% YoY), net profit growth 30% YoY and order intake of Rs550b (vs Rs600b in FY09). We have factored in revenue growth of 22% YoY, net profit growth of 35% YoY and order intake of Rs502b (down 16% YoY).

Driven by robust Book to Bill ratio of 4.2x and easing of execution constraints, BHEL has been reporting robust revenue CAGR

ROBUST EXECUTION: REVENUE (RS B) AND REVENUE GROWTH (% YOY)



Source: Company

Power division drives revenue growth; industrials witness volume/margin pressure

- Power segment revenues for 2QFY10 stood at Rs54.3b (up 23.1% YoY) while industrial segment revenues stood at Rs15.9b (up 6.6% YoY). Power division contributed 77% to total revenues while industrial division contributed 23%. Both divisions reported EBIT margin expansion, with power at +340bp YoY; and industrials at +190bp YoY.
- Capital employed in power business during 2QFY10 increased to negative Rs10.4b v/s negative Rs13.5b in 1QFY10 given lower customer advances as order intake was poor.

SEGMENT DETAILS (RS M)

	FY09				FY10			FY09	
	1Q	2Q	3Q	4Q	1Q	2Q	% YOY	FY09	% YOY
Revenues									
Power	35,087	44,090	48,188	86,079	45,688	54,283	23.1	213,443	34.1
Growth (%)	*28.2*	*33.4*	*14.6*	*51.7*	*30.2*	*23.1*			
Industry	12,851	14,961	17,522	27,161	13,325	15,954	6.6	72,496	20.6
Growth (%)	*39.7*	*20.4*	*22.1*	*12.6*	*3.7*	*6.6*			
EBIT									
Power	6,575	7,610	7,125	17,308	8,281	11,219	47.4	38,618	-1.8
Growth (%)	*24*	*(0.4)*	*(17)*	*(2.4)*	*26*	*47.4*			
Industry	1,810	2,259	2,234	5,844	1,620	2,706	19.8	12,146	11.8
Growth (%)	*429*	*29*	*-10*	*-7*	*-11*	*19.8*			
EBIT margin (%)									
Power	18.7	17.3	14.8	20.1	18.1	20.7	3.4	18.1	-6.6
Industry	14.1	15.1	12.7	21.5	12.2	17.0	1.9	16.8	-1.3

Source: Company

Raw material cost declines 230bp YoY, adj EBIDTA margin expansion of 200bp

- Raw material cost during 2QFY10 stood at 57.3% (down 230bp YoY). Management indicated that the decline in raw material costs is largely due to decline in commodity prices as benefits from lower cost inventory procured post September 2008 has started coming in. Also, the management maintained raw material cost savings of 200bp in FY10.
- During 2QFY10, the excise rate stood at 4.2% as against 7.9% during 2QFY09 due to decline in excise rates and higher share of EPC business. During FY09, the EPC business contributed ~20% to revenues and 30% of order intake.
- Staff cost stood at Rs10.7b (up 16% YoY), given the provision for wage arrears and 3% YoY increase in employees. Provisions for wage arrears stood at Rs3.6b in 2QFY10 (similar amount also in 1QFY10), and thus the staff cost in FY10 is expected at Rs45b (up 10% YoY). This entails a 154bp operating leverage in FY10, given that we expect revenue growth of 22% YoY.

COST ANALYSIS (% REVENUES)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10
RM Cost	58.5	59.5	58.2	64.0	63.4	57.3
Staff Cost	20.7	16.7	15.3	13.4	19.9	16.1
Other Cost	12.2	10.5	9.6	6.5	7.5	9.6

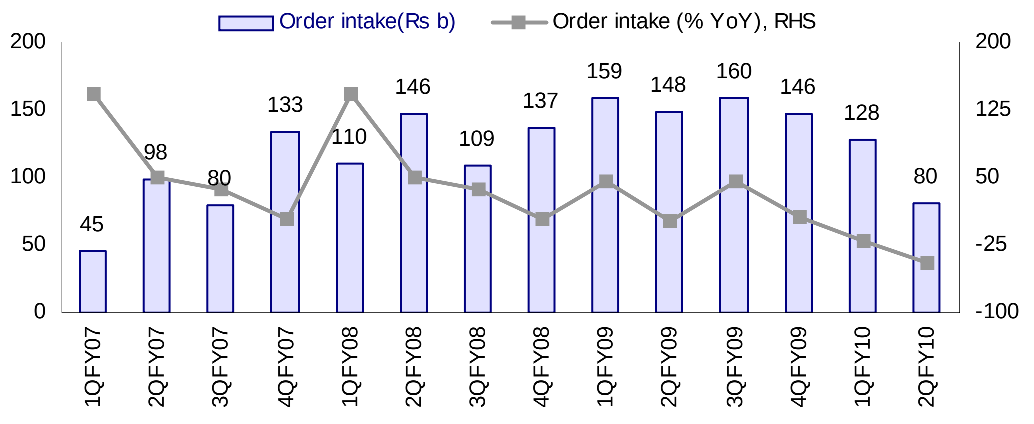
Source: Company

Order intake of Rs80b, down 46% YoY; recent order receipt of Rs56b from Jaiprakash

- BHEL's order book as at September 2009 stood at Rs1,258b (+11%YoY, +1%QoQ). Power sector order book is up by 8% YoY, and industrial up 48% YoY. As at September 2009, power sector contributed 82% to order book, vs 84% YoY.
- During 2QFY10, BHEL announced orders of Rs80b; 1HFY10 order intake stands at Rs208b (-32% YoY). Thus, the implied order intake for 2HFY10 based on management's full year guidance of Rs550b stands at Rs342b, up 12% YoY.
- Also, BHEL has received an order of Rs56b for 1,980MW supercritical (3 units of 660MW each) from Jaiprakash Power Ventures for Barh project, Uttar Pradesh. The project scope includes BTG and electrical supplies.

Implied order intake for 2HFY10 based on management's guidance of Rs550b for FY10 stands at Rs342b, up 12% YoY

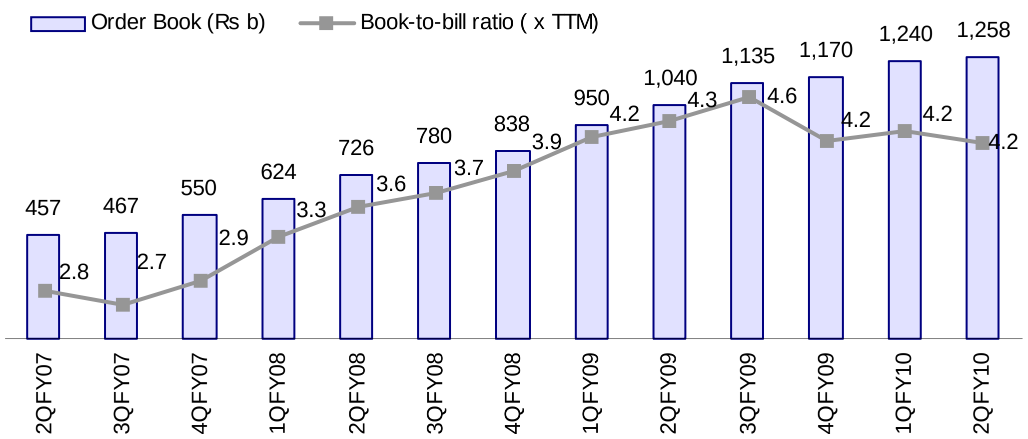
ORDER INTAKE TREND (RS B)



Source: Company

ROBUST ORDER BOOK, BTB RATIO TO DRIVE EXECUTION

BHEL's order book as at September 2009 stood at Rs1,258b (+11%YoY, +1%QoQ)



Source: Company

Other takeaways from results concall

- Initial few sets (2-3) of super critical projects will have lower margins given higher import content. However, the management indicated a fairly aggressive indigenization programme, and expects margins to improve.
- New private competition may not lead to margin pressure for BHEL, given its scale economies and quantum of indigenization. BHEL has over the years absorbed technologies for manufacturing auxiliaries of boiler, turbines, etc and also other components like control equipment.
- Capacity addition to 15GW by Dec-09 is largely on track, and should be available from March 2010. Also, the capacity expansion to 20GW by Dec-11 is being taken on fast track basis, and a large part of the ordering for equipment like machine tools should be completed by end Mar-10.

Valuation and view

We expect BHEL to report EPS of Rs86.4 in FY10 (up 18.8% YoY) and Rs112.1 in FY11 (up 29.8% YoY). At CMP, it quotes at PER of 27.6x FY10E and 21.3x FY11E. Maintain **Neutral** with target price of Rs2,465 (22x FY11E, upside of 3.4%).

BHEL: an investment profile

Company description

BHEL is India's dominant producer of power and industrial machinery and a leading EPC company, established in the late 1950s as the government's wholly-owned subsidiary. Post divestment, the government currently has an equity stake of 67.7%. The company has 14 manufacturing divisions, 8 service centers, 4 power sector regional centers besides project sites spread across all over India and abroad. It has an annual installed capacity of 6,000MW. It has formed a tie-up with Alstom and an alliance with Siemens for the manufacture of super-critical 800MW boilers and turbines respectively.

Key investment arguments

- Order backlog at the end of 2QFY10 stands at Rs1,258b, a book to bill ratio of 4.2x TTM.
- Expect adj EBITDA margins to improve by 110bp during FY10, driven by operating leverage.
- Post capacity expansion to 20GW till 2012, BHEL will control ~10% of global thermal BTG capacity; providing sizeable scale economics.

Key investment risks

- The key challenge is to meet execution deadlines and improve cost efficiencies
- Intensified competition from Chinese, Korean and private Indian players (L&T).

Recent developments

- Capacity expansion to 20GW by Dec-11 is being taken on fast track basis, and a large part of the ordering for equipment like machine tools should be completed by end Mar-10.
- 79% of order intake in 1HFY10 is from private sector.

Valuation and view

- We expect BHEL to report EPS of Rs86.4 in FY10 (up 18.8% YoY) and Rs112.1 in FY11 (up 29.8% YoY). At CMP, it quotes at PER of 27.6x FY10E and 21.3x FY11E. Maintain **Neutral** with target price of Rs2,465 (22x FY11E, upside of 3.4%).

Sector view

- Free cash flow generation will decline for the sector due to increased working capital requirements, lower customer advances, higher capex requirements etc.
- We maintain our neutral view on the sector.

COMPARATIVE VALUATIONS

		BHEL	L&T	CROMPTON
P/E (x)	FY10E	27.6	27.2	18.8
	FY11E	21.3	22.7	16.9
P/BV (x)	FY10E	7.4	5.4	7.3
	FY11E	6.0	4.7	5.9
EV/Sales (x)	FY10E	3.4	2.5	2.2
	FY11E	2.8	2.0	1.8
EV/EBITDA (x)	FY10E	17.7	20.8	15.9
	FY11E	13.2	17.5	13.9

SHAREHOLDING PATTERN (%)

	SEP-09	JUN-09	SEP-08
Promoter	67.7	67.7	67.7
Domestic Inst	9.8	9.2	9.7
Foreign	16.2	17.2	16.8
Others	6.3	6.0	5.8

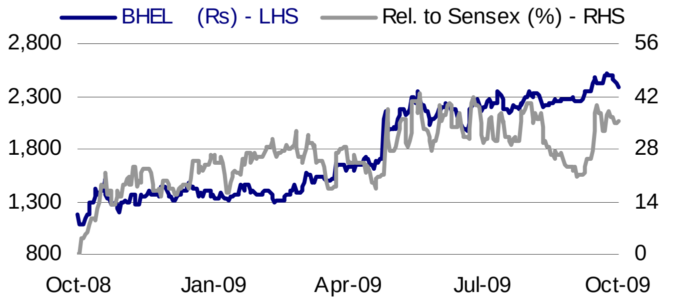
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10E	86.4	82.9	4.1
FY11E	112.1	103.8	8.0

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
2,384	2,465	3.4	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				(Rs Million)
Y/E MARCH	2008	2009	2010E	2011E
Total Income	**197,652**	**267,880**	**325,861**	**406,073**
Change	*12.0*	*35.8*	*22.1*	*24.7*
Staff Cost	31,197	41,127	45,239	50,481
Mfg. Expenses	98,465	147,777	170,498	207,586
Selling Expenses	30,576	36,785	47,964	63,100
EBITDA	**37,414**	**42,190**	**62,159**	**84,906**
Change	*3.8*	*12.8*	*47.3*	*36.6*
% of Net Sales	*18.9*	*15.7*	*19.1*	*20.9*
Depreciation	2,972	3,343	4,164	5,448
Interest	354	307	355	550
Other Income	10,225	9,829	7,405	5,489
Extra-ord. Items (net)	-9	119	0	0
PBT	**44,304**	**48,489**	**65,046**	**84,397**
Tax	15,711	17,106	22,766	29,539
Rate (%)	*35.5*	*35.3*	*35.0*	*35.0*
Reported PAT	**28,593**	**31,383**	**42,280**	**54,858**
Adjusted PAT	**25,095**	**35,594**	**42,280**	**54,858**
Change	*3.9*	*41.8*	*18.8*	*29.8*

BALANCE SHEET				(Rs Million)
Y/E MARCH	2008E	2009	2010E	2011E
Share Capital	4,895	4,895	4,895	4,895
Reserves	102,846	124,493	152,922	189,808
Net Worth	**107,742**	**129,388**	**157,817**	**194,704**
Loans	952	1,494	1,500	1,500
Differed Tax Liability	-13,379	-18,403	-18,403	-18,403
Capital Employed	**95,314**	**112,479**	**140,914**	**177,801**
Gross Fixed Assets	44,435	52,249	71,539	93,329
Less: Depreciation	34,622	37,545	41,797	47,244
Net Fixed Assets	**9,813**	**14,704**	**29,742**	**46,084**
Capital WIP	6,580	11,570	10,000	10,000
Investments	83	523	773	1,023
Curr. Assets	**277,047**	**369,011**	**368,771**	**429,458**
Inventory	57,364	78,370	91,698	113,244
Debtors	119,749	159,755	186,460	227,969
Cash & Bank Balance	83,860	103,147	65,583	52,247
Loans & Advances	11,863	24,237	21,529	32,496
Other Current Assets	4,211	3,502	3,502	3,502
Curr. Liab. & Prov.	**198,208**	**283,329**	**268,373**	**308,765**
Creditors	44,240	58,529	65,397	79,622
Other Liabilities	121,525	175,045	159,797	178,475
Provisions	32,444	49,756	43,180	50,669
Net Current Assets	**78,838**	**85,682**	**100,398**	**120,693**
Appli. of Funds	**95,314**	**112,479**	**140,914**	**177,801**

E: MOSL Estimates

RATIOS				
Y/E MARCH	2008	2009	2010E	2011E
Basic (Rs)				
EPS	**51.3**	**72.7**	**86.4**	**112.1**
Change (%)	*3.9*	*41.8*	*18.8*	*29.8*
Cash EPS	57.3	79.5	94.9	123.2
Book Value	220.1	264.3	322.4	397.7
DPS	15.3	17.0	24.2	31.4
Payout (incl. Div. Tax.)	29.7	26.5	28.0	28.0
Valuation (x)				
P/E	46.5	32.8	27.6	21.3
Cash P/E	41.6	30.0	25.1	19.4
EV/EBITDA	29.0	25.3	17.7	13.2
EV/Sales	5.6	4.1	3.4	2.8
Price/Book Value	10.8	9.0	7.4	6.0
Dividend Yield (%)	0.6	0.7	1.0	1.3
Return Ratio				
RoE	25.7	30.0	29.4	31.1
RoCE	51.1	46.9	51.6	53.3
Turnover Ratios				
Debtors (Days)	239	236	234	232
Inventory (Days)	115	115	115	115
Creditors. (Days)	88	94	82	81
Asset Turnover (x)	19.7	17.8	10.8	8.7
Leverage Ratio				
Debt/Equity (x)	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT				(Rs Million)
Y/E MARCH	2008	2009	2010E	2011E
PBT bef. EO Items	**44,313**	**48,370**	**65,046**	**84,397**
Add : Depreciation	2,972	3,343	4,164	5,448
Interest	354	307	355	550
Less : Direct taxes paid	15,711	17,106	22,766	29,539
(Inc)/Dec in WC	13,361	12,443	-52,281	-33,630
CF from Operations	**45,290**	**47,356**	**-5,482**	**27,226**
EO Income	-9	119	0	0
CF from Operations i	**45,281**	**47,475**	**-5,482**	**27,226**
(Inc)/dec in FA	-6,452	-13,223	-17,633	-21,790
CF from Investments	**-6,452**	**-13,664**	**-17,883**	**-22,040**
(Inc)/Dec in Networth	-4,028	-5,024	0	0
(Inc)/Dec in Debt	59	542	6	0
Less : Interest Paid	354	307	355	550
Dividend Paid	8,734	9,736	13,851	17,972
CF from Fin. Activity	**-13,058**	**-14,525**	**-14,199**	**-18,522**
Inc/Dec of Cash	**25,771**	**19,286**	**-37,564**	**-13,336**
Add: Beginning Balance	58,089	83,860	103,147	65,583
Closing Balance	**83,860**	**103,147**	**65,583**	**52,247**

N O T E S

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Disclosure of Interest Statement	BHEL
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOSt reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOSt is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,811	BCORP IN
	REUTERS CODE
S&P CNX: 4,997	BRLC. BO

23 October 2009

Buy

Previous Recommendation: Buy

Rs301

Equity Shares (m)	77.0
52-Week Range	330/71
1,6,12 Rel. Perf. (%)	6/3/167
M.Cap. (Rs b)	23.2
M.Cap. (US$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	17,248	3,936	51.1	20.6	5.9	2.3	39.2	42.6	1.1	3.3
03/09A	17,907	3,235	42.0	-17.8	7.2	1.8	25.1	27.9	1.0	4.0
03/10E	21,691	5,574	72.4	72.3	4.2	1.3	31.0	36.4	0.7	2.1
03/11E	22,679	4,684	60.8	-16.0	4.9	1.0	21.1	26.8	0.5	1.7

Birla Corp's 2QFY10 operational performance was better our estimates, with EBITDA of Rs1.93b (v/s est 1.78b) and PAT of Rs1.52b (v/s est Rs1.19b). Key highlights include:

- Volume growth of 10% YoY (flat QoQ) to 1.22mt. Realizations were higher by 23.7% YoY (~2.6% QoQ) at Rs3,813/ton, benefiting from upward trend in prices in its key markets in 1st half of the quarter.
- Higher realizations and stable cost led to highest ever EBITDA margins at 38.3% (730bp YoY & 250bp QoQ improvement).
- Higher income from power sales resulted in lower tax provisioning at 23.3% (v/s 25.4% in 1QFY10 v/s est 30.2%)
- Announced interim dividend of Rs2.5/share

Our estimates are marginally upgraded, despite significantly better results, as we now factor in for Rs10/bag QoQ decline in 3QFY10 to factor in the price decline in its key markets.

Valuation and view: The stock trades at extremely attractive valuations of 4.9x FY11E EPS, 1.7x FY11E EV/EBITDA and at EV/ton of US$31 (on expanded capacity of 7.5MT), which is at a significant discount to its comparable peers. Maintain **Buy** with target price of Rs384 (~3x FY10E EV/EBITDA).

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY09				FY10				FY09	FY10
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	1.19	1.11	1.40	1.60	1.21	1.22	1.43	1.64	5.29	5.50
YoY Change (%)	*-7.1*	*-7.2*	*5.3*	*8.2*	*1.8*	*9.9*	*1.8*	*2.8*	*0.1*	*4.0*
Cement Realization	3,096	3,083	2,931	3,259	3,717	3,813	3,613	3,613	3,105	3,680
YoY Change (%)	*4.2*	*0.6*	*-2.8*	*10.0*	*20.0*	*23.7*	*23.3*	*10.9*	*3.5*	*18.5*
QoQ Change (%)	*4.5*	*-0.4*	*-4.9*	*11.2*	*14.0*	*2.6*	*-5.2*	*0.0*		
Net Sales	**3,959**	**3,718**	**4,521**	**5,708**	**4,904**	**5,057**	**5,539**	**6,191**	**17,907**	**21,691**
YoY Change (%)	*-3.3*	*-5.6*	*4.5*	*16.8*	*23.9*	*36.0*	*22.5*	*8.5*	*3.8*	*21.1*
Total Expenditure	2,816	2,938	3,503	4,392	3,148	3,122	3,790	4,367	13,649	14,428
EBITDA	**1,143**	**780**	**1,019**	**1,316**	**1,756**	**1,935**	**1,749**	**1,823**	**4,258**	**7,263**
Margins (%)	*28.9*	*21.0*	*22.5*	*23.1*	*35.8*	*38.3*	*31.6*	*29.5*	*23.8*	*33.5*
Depreciation	98	100	110	126	133	137	140	157	434	567
Interest	50	40	56	78	60	64	75	86	221	284
Other Income	235	121	191	215	519	249	135	142	761	1,045
Profit before Tax	**1,230**	**760**	**1,044**	**1,328**	**2,082**	**1,983**	**1,669**	**1,723**	**4,365**	**7,456**
Tax	311	163	230	425	528	463	442	449	1,130	1,883
Rate (%)	*25.3*	*21.5*	*22.1*	*32.0*	*25.4*	*23.3*	*26.5*	*26.1*	*25.9*	*25.3*
Adjusted PAT	**918**	**597**	**814**	**903**	**1,553**	**1,521**	**1,227**	**1,273**	**3,235**	**5,574**
Margins (%)	*23.2*	*16.1*	*18.0*	*15.8*	*31.7*	*30.1*	*22.1*	*20.6*	*18.1*	*25.7*
YoY Change (%)	*-5.8*	*-42.1*	*-23.6*	*4.3*	*69.2*	*154.7*	*50.7*	*41.0*	*-17.8*	*72.3*

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com); Tel: +91 22 3982 5416

Higher realization drives revenue growth…

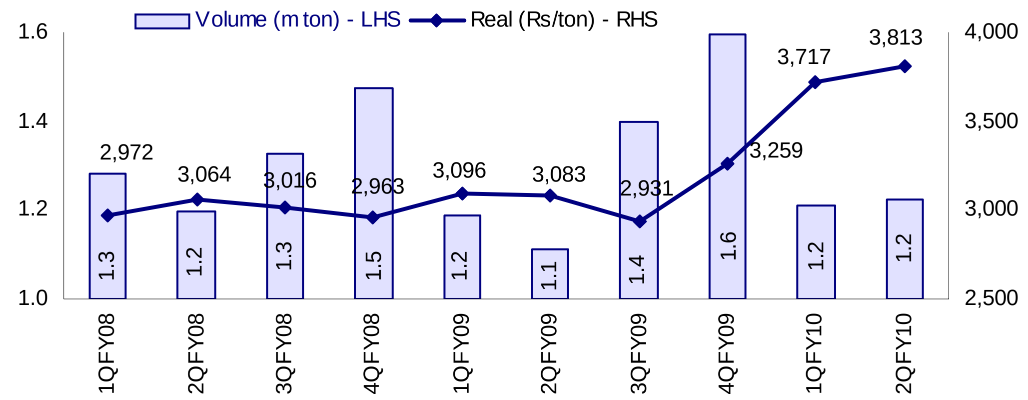
Net sales grew by 36% to Rs5.05b (v/s est Rs5.3b), driven by 23.7% YoY (~2.6% QoQ) improvement in realizations to Rs3,813/ton and 10% YoY growth in volumes to 1.22MT. Realizations improvement was driven by significant improvement in cement prices in its key market of Central, Eastern and Northern markets, in 1st half of the quarter.

REVENUE MIX (RS M)

	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)
Cement	5,241	3,881	35.1	4,902	6.9
Contribution (%)	*92.9*	*93.0*		*93.5*	
Jute	366	239	53.2	297	23.2
Contribution (%)	*6.5*	*5.7*		*5.7*	
Others	34	54	-35.8	45	-22.7
Contribution (%)	*0.6*	*1.3*		*0.8*	
Sales	**5,641**	**4,173**	**35.2**	**5,243**	**7.6**
Less: Inter Segment	584	455		339	
Net Sales	**5,057**	**3,718**	**36.0**	**4,904**	**3.1**

Source:Company/MOSL

TREND IN CEMENT VOLUMES (M TON) AND REALIZATION (RS/TON)

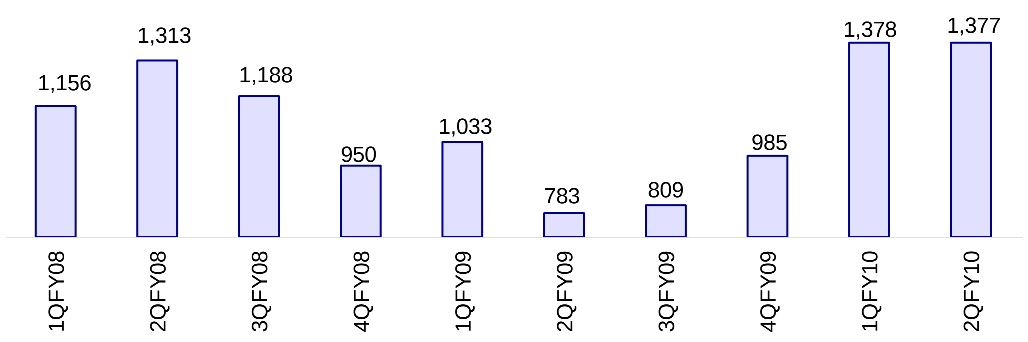


Source: Company/MOSL

…coupled with stable cost drive EBITDA margins

EBITDA grew by 148% YoY (~10% QoQ) to Rs1.94b, translating into EBITDA margins expansion of 730bp YoY (~250bp QoQ) to 38.3%. Improvement in margin was primarily driven by higher realizations (~Rs730/ton YoY & Rs100/ton QoQ improvement) and stable cost QoQ. Cement business performance was better than estimate with stable EBITDA/ ton QoQ to Rs1,377/ton, due to higher realizations and stable cost.

TREND IN CEMENT BUSINESS EBITDA (RS/TON)



Source: Company/MOSL

After including power sales (marginal external sales) into cement business, PBIT/ton has improved by Rs150/ton QoQ to Rs1,578/ton. Higher income from power sales (exempt u/s 80IA) resulted in lower tax provisioning at 23.3% (v/s 25.4% in 1QFY10 v/s est 30.2%), translating into 155% YoY growth in PAT to Rs1.52b.

PBIT MIX (RS M)

	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)
Cement	1,925	780	146.7	1,729	11.3
Contribution (%)	*100.0*	*100.9*		*100.2*	
Jute	12	-5	-316.7	2	515.8
Contribution (%)	*0.6*	*-0.7*		*0.1*	
Others	-11	-2	478.9	-2	478.9
Contribution (%)	*-0.6*	*-0.2*		*-0.1*	
Total	**1,925**	**773**	**149.1**	**1,725**	**11.6**

Source: Company/MOSL

Aggressive capex plans to invest Rs20b over next 3 years

The company has announced further capex plans with total investment of 20b, taking total capacity to 12.3mt by FY12-13. This is the most aggressive capex undertaken by the company in last few years. Apart from on-going brownfield expansion of 1.75mt at Rajasthan (completed) and MP, it has further announced following capex plans:

- 1.2mt brownfield expansion at Chanderia, with commissioning by Mar-11
- 0.6mt brownfield expansion at Durgapur, with 17.5MW CPP.
- 3mt brownfield plant at Satna; orders would be placed upon resolution of dispute over allotment of mining leases
- 0.5mt coal washery at Satna
- 35MW CPP each at Satna and Chanderia

It would be funding its capex plans largely through internal accruals, as it had net cash of Rs7.3b (June 2009) and would generate cash flow from operations of Rs2.5b-3b per annum at least.

Strong balance sheet to finance future growth

During FY09-11E, BCORP is expected to generate cash flow from operations (pre-capex) of Rs15.5b, and free cash flow of Rs10.2b. Also, it has free cash (net of debt) of around Rs6b in FY09 (~Rs77/share) and is estimated to grow to Rs7.75b (~Rs101/share) by FY10. The company is well placed to fund its future capex from internal accruals and raise debt, if necessary.

Valuation and view

We are marginally upgrading our EPS estimates for FY10 to Rs72.4 (~2% upgrade) and Rs60.8 for FY11 (~1% upgrade). It has very strong balance sheet with net cash of Rs65/share in FY09 and Rs100/share in FY10E (~33% of market cap) for FY10E. The stock trades at extremely attractive valuations of 4.9x FY11E EPS, 1.7x FY11E EV/EBITDA and at EV/ton of US$31 (on expanded capacity of 7.5MT), which is at a significant discount to its comparable peers. We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are extremely attractive. Maintain **Buy** with target price of Rs384 (~3x FY10E EV/EBITDA).

Birla Corporation: an investment profile

Company description

Birla Corp, established in 1919, is a part of the MP Birla group. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement constitutes about 85% of its revenues. It has cement plants at Rajasthan, MP, UP and West Bengal.

Key investment arguments

- Among the top-10 cement producers in India with a capacity of 5.8m ton in the lucrative markets of north and central India.
- Strong balance sheet, with zero net debt, provides good platform to grow organically as well as inorganically.
- New capacity of 1.7mt to drive volume growth in FY10 onwards.

Key investment risks

- Delay in capacity expansion would result in time and cost overrun, as well as muted volumes growth.
- Increase in energy cost would impact over profitability.

Recent development

- Announced interim dividend of Rs2.5/share

Valuation and view

- The stock trades at extremely attractive valuations of 4.9x FY11E EPS, 1.7x FY11E EV/EBITDA and at EV/ ton of US$31 (on expanded capacity of 7.5MT)
- Maintain **Buy** with target price of Rs384 (~3x FY10E EV/EBITDA).

Sector view

- Presence of sustainable demand drivers, augurs well for cement demand growth.
- Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HCY10.
- Cost savings, if form of lower energy cost, would dilute impact of lower prices.

COMPARATIVE VALUATIONS

		BIRLA CORP	SHREE CEMENT	ULTRATECH
P/E (x)	FY10E	4.2	6.2	7.2
	FY11E	4.9	6.1	8.6
P/BV (x)	FY10E	1.3	2.6	2.0
	FY11E	1.0	1.9	1.6
EV/Sales (x)	FY10E	0.7	1.3	87.4
	FY11E	0.5	1.0	83.8
EV/EBITDA (x)	FY10E	2.1	3.2	3.9
	FY11E	1.7	2.8	4.4

SHAREHOLDING PATTERN (%)

	JUN-09	MAR-09	JUN-08
Promoter	62.9	62.9	62.9
Domestic Inst	8.6	9.0	12.0
Foreign	9.5	9.1	11.4
Others	19.0	19.1	13.7

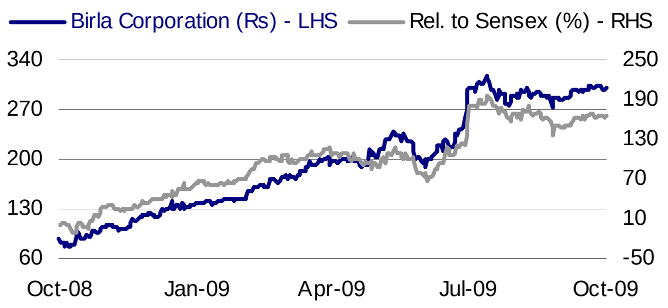
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	72.4	63.1	14.7
FY11	60.8	59.7	1.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
301	384	27.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					(Rs Million)
Y/E MARCH	2007	2008	2009	2010E	2011E
Net Sales	**15,669**	**17,248**	**17,907**	**21,691**	**22,679**
Change (%)	*28.9*	*10.1*	*3.8*	*21.1*	*4.6*
Total Expenditure	10,735	11,481	13,649	14,428	16,372
EBITDA	**4,934**	**5,767**	**4,258**	**7,263**	**6,307**
Margin (%)	*31.5*	*33.4*	*23.8*	*33.5*	*27.8*
Depreciation	397	414	434	567	702
EBIT	**4,538**	**5,353**	**3,824**	**6,695**	**5,605**
Int. and Finance Charges	185	217	221	284	225
Other Income - Rec.	265	376	761	1,045	1,080
PBT	**4,617**	**5,512**	**4,365**	**7,456**	**6,460**
Change (%)	*81.1*	*19.4*	*-20.8*	*70.8*	*-13.4*
Tax	1,355	1,576	1,130	1,883	1,777
Tax Rate (%)	*29.3*	*28.6*	*25.9*	*25.3*	*27.5*
PAT	**3,262**	**3,936**	**3,235**	**5,574**	**4,684**
Extra Ordinary Expenses	0	0	0	0	0
PAT Adj for EO Items	**3,262**	**3,936**	**3,235**	**5,574**	**4,684**
Change (%)	*37.9*	*20.6*	*-17.8*	*72.3*	*-16.0*
Margin (%)	*20.8*	*22.8*	*18.1*	*25.7*	*20.7*

BALANCE SHEET					(Rs Million)
Y/E MARCH	2007	2008	2009	2010E	2011E
Equity Share Capital	770	770	770	770	770
Reserves	5,888	9,280	12,107	17,230	21,463
Net Worth	**6,658**	**10,050**	**12,877**	**18,000**	**22,233**
Loans	2,826	2,723	2,764	2,500	2,000
Deferred Liabilities	747	667	772	772	675
Capital Employed	**10,231**	**13,439**	**16,414**	**21,272**	**24,909**
Gross Block	11544	11734	13542	17542	17542
Less: Accum. Deprn.	6352	6726	6942	7509	8211
Net Fixed Assets	**5,191**	**5,008**	**6,600**	**10,033**	**9,331**
Capital WIP	72	1267	888	250	250
Investments	4201	6340	5523	7500	7500
Curr. Assets	**5,095**	**4,247**	**7,367**	**9,035**	**13,547**
Inventory	1426	2004	1929	2603	2721
Account Receivables	272	317	200	434	454
Cash and Bank Balance	344	315	3197	2745	6970
Others	3053	1610	2041	3254	3402
Curr. Liability & Prov.	**4,331**	**3,422**	**3,965**	**5,546**	**5,719**
Account Payables	2,409	2,717	3,296	3,904	4,082
Provisions	1,922	705	669	1,642	1,637
Net Current Assets	**764**	**825**	**3,402**	**3,489**	**7,827**
Misc Expenditure	4	0	0	0	0
Appl. of Funds	**10,231**	**13,439**	**16,414**	**21,272**	**24,909**

E: MOSL Estimates

RATIOS					
Y/E MARCH	2007	2008	2009	2010E	2011E
Basic (Rs)					
EPS	**42.4**	**51.1**	**42.0**	**72.4**	**60.8**
Cash EPS	47.5	56.5	47.6	79.7	69.9
BV/Share	86.4	130.5	167.2	233.7	288.7
DPS	3.5	4.0	4.5	5.0	5.0
Payout (%)	9.7	9.2	12.5	8.1	9.6
Valuation (x)					
P/E	7.1	5.9	7.2	4.2	4.9
Cash P/E	6.3	5.3	6.3	3.8	4.3
P/BV	3.5	2.3	1.8	1.3	1.0
EV/Sales	1.4	1.1	1.0	0.7	0.5
EV/EBITDA	4.3	3.3	4.0	2.1	1.7
EV/Ton - Cap (US$)	80	71	64	44	31
Dividend Yield (%)	1.2	1.3	1.5	1.7	1.7
Return Ratios (%)					
RoE	49.0	39.2	25.1	31.0	21.1
RoCE	46.9	42.6	27.9	36.4	26.8
Working Capital Ratios					
Inventory (Days)	33	42	39	44	44
Debtor (Days)	6	7	4	7	7
Working Capital Turnover (I	1.5	1.3	1.1	1.0	0.9
Leverage Ratio					
Current ratio	1.2	1.2	1.9	1.6	2.4
Debt/Equity (x)	0.4	0.3	0.2	0.1	0.1

CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	2007	2008	2009	2010E	2011E
Op.Profit/(Loss) before Ta	5,044	5,860	4,482	7,263	6,307
Interest/Dividends Recd.	136	187	223	1,045	1,080
Direct Taxes Paid	-1,401	-1,480	-1,045	-1,883	-1,873
(Inc)/Dec in WC	-684	-439	611	-539	-113
CF from Operations	**3,095**	**4,128**	**4,270**	**5,886**	**5,400**
EO Expenses	0	0	0	0	0
CF from Oper. incl EO	**3,095**	**4,128**	**4,270**	**5,886**	**5,400**
(inc)/dec in FA	-634	-1,447	-1,947	-3,362	0
(Pur)/Sale of Investments	-2,422	-2,084	1,109	-1,977	0
CF from Investments	**-3,056**	**-3,531**	**-838**	**-5,339**	**0**
Issue of Shares	0	0	0	0	0
(Inc)/Dec in Debt	109	-97	46	-264	-500
Interest Paid	-199	-215	-236	-284	-225
Dividend Paid	-197	-314	-360	-451	-451
CF from Fin. Activity	**-262**	**-627**	**-550**	**-999**	**-1,176**
Inc/Dec of Cash	**-222**	**-30**	**2,882**	**-452**	**4,225**
Add: Beginning Balance	592	344	315	3,197	2,745
Closing Balance	**370**	**314**	**3,197**	**2,745**	**6,970**

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Disclosure of Interest Statement	Birla Corporation
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

MOTILAL OSWAL

2QFY10 Results Update

SECTOR: FMCG-PAINTS

Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,811	APNT IN
	REUTERS CODE
S&P CNX: 4,997	ASPN.BO

Equity Shares (m)	95.9
52-Week Range	1,707/681
1,6,12 Rel. Perf. (%)	23/38/-1
M.Cap. (Rs b)	160.8
M.Cap. (US$ b)	3.5

23 October 2009

Neutral

Previous Recommendation: Neutral

Rs1,676

YEAR END	NET SALES (RS M)	Adj.PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	44,072	4,176	43.5	45.7	38.5	16.4	42.5	57.6	3.6	24.2
3/09A	54,632	4,014	41.8	-3.9	40.1	13.4	33.4	48.5	2.9	24.0
3/10E	62,360	6,849	71.4	70.7	23.5	10.3	43.7	59.5	2.6	14.8
3/11E	72,336	7,686	80.1	12.2	20.9	8.1	38.9	56.7	2.2	12.9

Asian Paints' 2QFY10 consolidated net sales were Rs17.2b, up 16.9% YoY (estimate Rs17.1b) while consolidated adjusted reported PAT grew 55% YoY to Rs2.07b. Gross margins expanded 425bp due to low-cost inventories (and a low base effect). EBITDA margins expanded 450bp to 18.7% (v/s our estimate of 16.4%). Standalone net sales were Rs13.9b (up 18.6% YoY) and adjusted PAT grew 51.6% to Rs1.85b.

- **Volume growth of 17.5% in domestic decorative paints:** Net sales growth of 16.9% was led by 17.5% volume growth in the domestic decorative paints business. Sales grew strongly despite a 2.25% price cut in July. Early Diwali and demand recovery in metros helped volume growth. The results highlight the return of pricing power as Asian Paints has been able to retain the benefit of raw material cost deflation without an adverse impact on volume growth.
- **Gross margin expansion indicates strong pricing power:** Gross margin expansion of 425bp was led by lower prices of key raw materials like titanium dioxide, MTO and monomer. EBITDA margins expanded 450bp to 18.7% YoY (20% in the standalone business). We believe the EBITDA margin trend highlights a change in the company's margin profile, led largely by increased pricing power. Our estimates factor in a stable pricing proposition in subsequent quarters, helping Asian Paints to report an estimated EBITDA margin of 17.5% (v/s FY02-09 average of 14%).
- **Revising estimates, maintain Neutral:** The management is cautious about its sales growth outlook in subsequent quarters due to the base effect (maximum impact of price reductions to be felt in 3QFY10) and demand uncertainty, given the sub-normal monsoons. But we believe demand recovery in metros is a strong positive and high growth in the enamel range will continue to improve the sales mix. We are upgrading our EPS estimates (to factor in higher volume growth and pricing power) for FY10 by 21% to Rs71.4 (Rs58.9 earlier) and for FY11 by 20% to Rs80.1 (earlier Rs66.6).We believe the stock offers limited upside potential at 21x FY11E EPS after the recent sharp run up. Maintain **Neutral**.

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volume Growth %*	**20.0**	**19.0**	**0.0**	**13.0**	**11.5**	**17.5**	**15.0**	**12.0**	**13.4**	**14.0**
Net Sales	**12,420**	**14,753**	**13,210**	**14,249**	**14,602**	**17,239**	**14,399**	**16,120**	**54,632**	**62,360**
Change (%)	*29.3*	*30.2*	*12.2*	*25.8*	*17.6*	*16.9*	*9.0*	*13.1*	*24.0*	*14.1*
EBITDA	**1,722**	**2,088**	**1,093**	**1,791**	**2,758**	**3,228**	**2,405**	**2,509**	**6,694**	**10,900**
Margin (%)	*13.9*	*14.2*	*8.3*	*12.6*	*18.9*	*18.7*	*16.7*	*15.6*	*12.3*	*17.5*
Change (%)	*27.2*	*15.0*	*-35.3*	*25.3*	*36.2*	*32.3*	*120.0*	*40.1*	*1.3*	*62.8*
Interest	55	68	66	75	72	64	80	113	263	329
Depreciation	154	186	202	201	198	200	215	284	744	897
Other Income	103	179	122	114	156	247	120	130	517	654
PBT	**1,616**	**2,014**	**946**	**1,629**	**2,645**	**3,211**	**2,230**	**2,242**	**6,204**	**10,327**
Tax	519	634	291	530	844	1,065	702	611	1,974	3,222
Effective Tax Rate (%)	*32.1*	*31.5*	*30.7*	*32.5*	*31.9*	*33.2*	*31.5*	*27.3*	*31.8*	*31.2*
PAT before Minority	1,096	1,379	656	1,099	1,801	2,146	1,527	1,631	4,230	7,105
Minority Interest	29	55	60	73	40	89	65	62	216	256
Adjusted PAT	**1,068**	**1,324**	**596**	**1,026**	**1,761**	**2,057**	**1,462**	**1,569**	**4,014**	**6,849**
Change (%)	*27.4*	*9.4*	*-42.3*	*17.6*	*64.9*	*55.4*	*145.2*	*52.9*	*-3.9*	*70.7*
Exceptional / Prior Period items	6	9	6	15	1	-627	0	0	-35	-626
Reported PAT	**1,062**	**1,315**	**590**	**1,011**	**1,760**	**2,684**	**1,462**	**1,569**	**3,978**	**7,475**

*E: MOSL Estimates; * Domestic Decotrative Paints*

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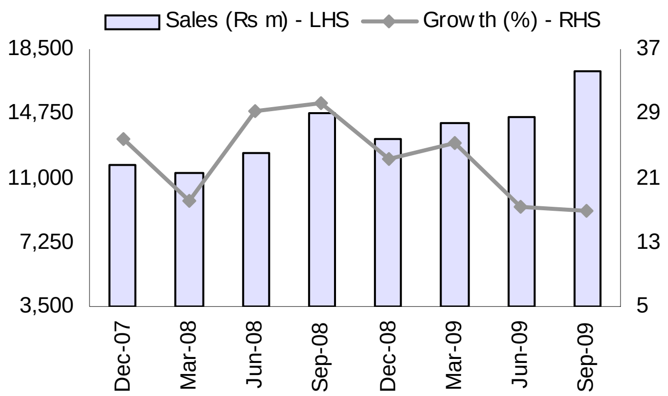
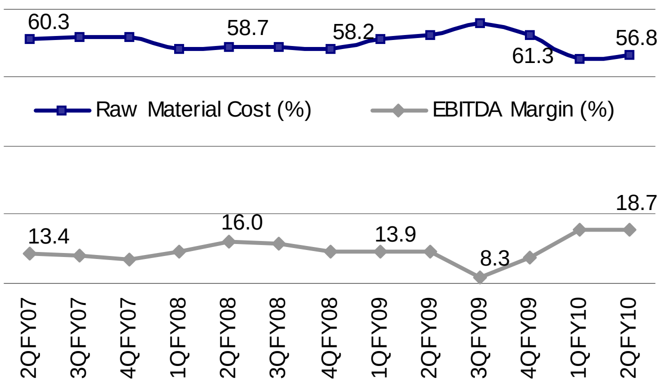
Consolidated net sales growth of 16.9% (backed by volume growth of 17.5%) to Rs17.2b were in line with our estimate of Rs17.1b. Gross margins expanded 425bp due to low cost inventories (and a low base effect) despite a 2.25% price reduction taken by the company in July. EBITDA margins expanded 450bp to 18.7% (v/s our estimate of 16.4%) enabling the company to report adjusted PAT growth of 55% YoY at Rs2.07b; reported PAT growth of 104% was higher due to profit from the sale of a long-term investment, of Rs627m (4% stake sale in ICI).

STRONG TRACTION IN REVENUE GROWTH, LED BY VOLUMES



BENIGN INPUT COSTS ENABLE EBITDA MARGIN EXPANSION



Source: Company/MOSL

CONSOLIDATED SALES (RS M)

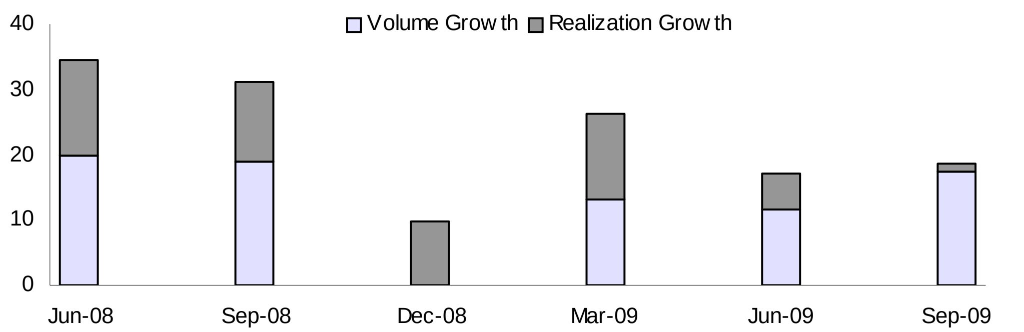
	1H FY09	1H FY10	GROWTH (%)	% TO TOTAL SALES 1HFY09	1HFY10	CHG (BP)
APL -Paints	21,118	25,038	18.6	77.7	78.6	95
Chemicals	487	428	-12.0	1.8	1.3	-45
APPG + APICL	1,324	1,386	4.7	4.9	4.4	-52
International	4,257	4,989	17.2	15.7	15.7	1
Total	**27,186**	**31,842**	**17.1**	**100.0**	**100.0**	

**50% sales of APPG are included* *Source: Company/MOSL*

Domestic decorative volumes up 17.5%; pricing power surprises positively

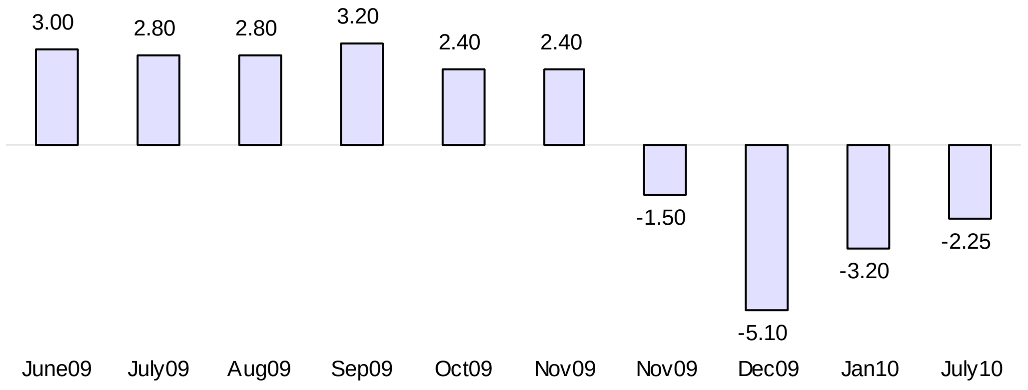
Standalone net sales reported growth of 18.6% YoY, backed by sustained volume growth of ~17.5%. The management indicated demand conditions improved with the up-tick in consumption sentiment especially in metros. However, off-take has not been uniform across India. Performance in east India has been particularly encouraging (though on a small base). Net sales grew strongly despite a 2.25% price reduction from July.

VOLUME-REALIZATION GROWTH



Source: Company/MOSL

PRICE INCREASES/DECREASES BY THE COMPANY IN PAST 18 MONTHS



Source: Company/MOSL

The paints business reported growth of 20.4% (likely volume growth of 17.5%), while the chemicals business continued to de-grow (12% fall in 1HFY10). Sales growth in the quarter was also helped by the impact of an earlier Diwali (trade inventory of ~20 days plus the painting period of one week), due to which much of Diwali sales were recorded in 2QFY10 (Diwali this year was on 17 October against 28 October last year). Besides the marginal impact of Diwali, the results highlight the return of pricing power as Asian Paints could retain the benefit of raw material cost deflation without having an adverse impact on volume growth. A comparative analysis of competitors' sales (ICI, Berger and Nerolac) leads us to believe Asian Paints gained market share from organized players. We are upgrading FY10 volume growth estimates from 13% to 14%.

SEGMENTAL PERFORMANCE

	2QFY10	2QFY09	% GROWTH	1HFY10	1HFY09	% GROWTH
Segment Revenue (Rs m)						
Paints	13,816	11,472	20.4	25,299	21,300	18.8
Others	451	515	-12.5	898	945	-5.0
Segment PBIT (Rs m)						
Paints	2,829	1,847	53.2	5,359	3,395	57.9
Others	74	85	-12.7	102	118	-13.2
Margins (%)						
Paints	20.5	16.1		21.2	15.9	
Others	16.4	16.5		11.4	12.5	

Source: Company/MOSL

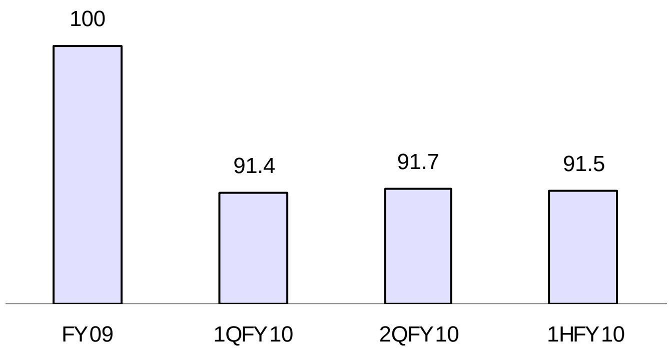
Growth in industrial, automotive paints a challenge

The management indicated that growth in automotive and industrial paints continued to be a challenge. Deferral of capex plans affected offtake in industrial paints and powder coating. In the automobile JV (APPG), the company is expected to report better performance in coming quarters due to improved automobile demand and a robust performance in the refinish business.

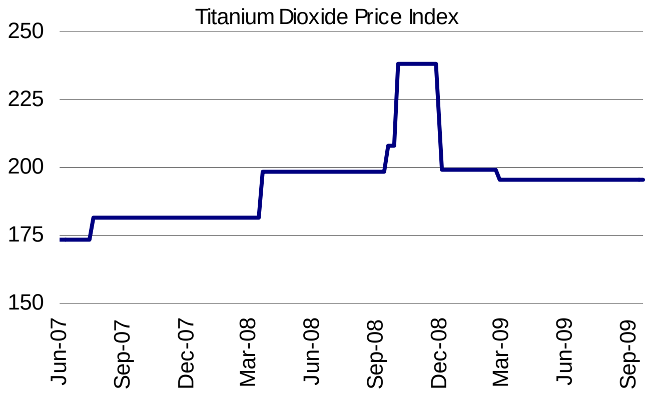
Benign raw material prices expand margins by 425bp

Gross margins expanded 425bp to 43.2% as the company benefited from a low cost inventory of raw material. We note that the margin expansion has been despite a 2.25% price reduction taken by the company from July. Major input costs like titanium dioxide, mineral turpentine oil and other crude-linked inputs remained lower on a YoY basis. The raw material price index hovered at 91.7 (FY09 average=100) during 2QFY10 and 91.5 in 1HFY10. Despite being crude linked, raw material prices have not increased substantially, though there are signs of up-tick in 3QFY10. The management expects raw material pressures to increase marginally as most inputs are crude based and are expected to increase in line with crude prices, though with a lag.

RAW MATERIAL INDEX: ~8% LOWER V/S FY09 AVERAGE



FLAT TITANIUM DIOXIDE PRICES



Source: Company/MOSL

EBITDA margins expanded 450bp to 18.7% (20% in the standalone business) v/s the FY02-09 average of 14%. We believe the EBITDA margin trend highlights a change in Asian Paints' margin profile, largely led by an improved sales mix, pricing power, margin improvement in international business and sustained volume traction. Media reports suggest Asian Paints continues to gain market share from other organized players, signaling its price leadership and the rational pricing environment in the industry.

Our estimates factor in a stable pricing proposition in 2HFY10, which would help Asian Paints report estimated EBITDA margins of 17.5% for FY10.

Middle East, South Asia boost international business; margins improve 280bp

International operations grew 16.4% in 1HFY10, with a marginal volume growth of 2%. Growth was helped by a favorable exchange rate, adjusted for which growth was 5%. The company reported strong growth in the Middle East (up 26% YoY) and South Asia (up 31% YoY). EBIT for international operations grew by 59% YoY (35.5% adjusted for the exchange rate), resulting in margin expansion of 280bp (140bp adjusted for exchange rate). The management is focusing on consolidating the portfolio by divesting non-profitable subsidiaries, thereby helping EBITDA margins. It has already divested from its Hong Kong subsidiary and divestment from its Malaysia and China subsidiaries are underway.

PERFORMANCE OF INTERNATIONAL BUSINESS: 280BP IMPROVEMENT IN MARGINS

PAINTS	CY09	CY08	CHANGE
Revenue (Rs m)	**4,674**	**4,016**	**16.4**
Caribbean	676	643	5.1
Middle East	2579	2,051	25.7
South Asia	672	515	30.5
Southeast Asia	454	537	-15.5
South Pacific	293	270	8.5
EBIT (Rs m)	**483**	**304**	**58.9**
Carribbean	12	-8	-250.0
Middle East	434	253	71.5
South Asia	66	45	47
South East Asia	-56	-7	700
South Pacific	27	21	28.6
EBIT Margin (%)	**10.3**	**7.6**	**2.8**
Carribbean	1.8	-1.2	3.0
Middle East	16.8	12.3	4.5
South Asia	9.8	8.7	1.1
South East Asia	-12.3	-1.3	-11.0
South Pacific	9.2	7.8	1.4

Source: Company/MOSL

Capacity expansion on track; supply chain initiatives to fuel growth

The greenfield capacity build-up at the Rohtak plant (capacity: 150,000kl) is likely to be commissioned by April 2010. The company has finalized land for its seventh plant, to be set up in Maharashtra. Capacity ramp-up in the next few years indicates that the management is confident of sustained volume growth. Besides, the company continues to upgrade its dealership network by increasing the number of its dealers with Color World installations (tinting machines). Color World has been installed in 60-65% of dealers and we expect this number to increase substantially in subsequent years. Notably dealers with Color World installations have a better mix of sales (enamel and emulsion). The company plans to increase its Color Ideas stores to five from two currently.

Valuation and view

The management is cautious on its sales growth outlook in subsequent quarters due to a base effect (maximum impact of price reductions to be felt in 3QFY10) and demand uncertainty, given the sub-normal monsoons. However, we believe demand recovery in metros is a strong positive and high growth in the enamel range will continue to improve the sales mix. We are upgrading our EPS estimates (to factor in higher volume growth and pricing power) for FY10 by 21% to Rs71.4 (Rs58.9 earlier) and for FY11 by 20% to Rs80.1 (earlier Rs66.6). We believe the stock offers limited upside potential at 21.3xFY11E EPS after the recent sharp run up. A sharp increase in input costs can be a risk to our margin forecast for FY11. Maintain **Neutral**.

REVISING ESTIMATES 20-21%

	FY10			FY11		
	OLD	NEW	% CHG.	OLD	NEW	% CHG.
Net Sales	61,708	62,360	1	72,010	72,337	0
Sales Growth (%)	*13.0*	*14.1*		*16.7*	*16.0*	
EBITDA	9,399	10,900	16	10,608	12,224	15
EBITDA Margin (%)	*15.2*	*17.5*		*14.7*	*16.9*	
PAT	5,652	6,849	21	6,389	7,686	20
PAT Growth (%)	*40.8*	*70.7*		*13.0*	*12.2*	

Source: Company/MOSL

Asian Paints: an investment profile

Company description

Asian Paints is India's largest paint manufacturer and marketer with a dominant share in the decoratives segment. For the industrials and automotive segment, it has a JV with PPG of the US. Asian Paints acquired Berger International of Singapore to expand its operations in other markets in Asia, the Middle East and the Caribbean.

Key investment arguments

- Expansion in housing and construction will drive demand for decorative paints over the next 3-5 years.
- International operations, which have turned around, will contribute to the company's earnings.

Key investment risks

- High spread and geographical diversification increases risk of execution.
- Other players in the decorative segment are becoming more aggressive.

Recent developments

- Asian Paints has taken a price reduction of ~2.26% since July 2009.
- Asian Paints' expansion is on track with the Rohtak facility to be operational by April 2010.

Valuation and view

- We are upgrading our EPS estimates (to factor in higher volume growth and pricing power) for FY10 by 21% to Rs71.4 (Rs58.9 earlier) and for FY11 by 20% to Rs80.1 (earlier Rs66.6).
- The stock is trading at 23.5x FY10E EPS and 20.9x FY11E. Maintain **Neutral**.

Sector view

- We are positive on the long-term demand potential in the sector. Near term concerns notwithstanding, Asian Paints has displayed strong resilience in volume growth.
- Longer-term prospects bright, given rising incomes and low penetration and booming construction and infrastructure development.

COMPARATIVE VALUATIONS

		ASIAN PAINTS	ITC	HLL
P/E (x)	FY10E	23.5	25.6	27.5
	FY11E	20.9	22.5	24.6
EV/EBITDA (x)	FY10E	14.8	15.5	20.2
	FY11E	12.9	13.6	17.8
EV/Sales (x)	FY10E	2.6	5.4	3.3
	FY11E	2.2	4.6	2.9
P/BV (x)	FY10E	10.3	6.2	25.7
	FY11E	8.1	5.4	22.6

EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	71.4	56.9	25.5
FY11	80.1	67.1	19.4

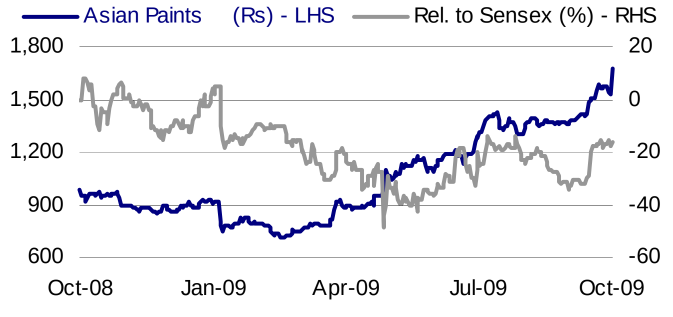
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1.676	-	-	Neutral

SHAREHOLDING PATTERN (%)

	JUN-09	MAR-09	JUN-08
Promoter	50.0	50.0	49.5
Domestic Inst	14.0	14.5	12.0
Foreign	15.9	15.2	17.1
Others	20.1	20.3	21.4

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					(RS MILLION)
Y/E MARCH	FY07	FY08	FY09	FY10E	FY11E
Net Sales	**36,700**	**44,072**	**54,632**	**62,360**	**72,336**
Change (%)	*21.5*	*20.1*	*24.0*	*14.1*	*16.0*
Raw Materials	21994	25776	33706	35766	41765
Gross Profit	**14706**	**18296**	**20926**	**26594**	**30571**
Margin (%)	*40.1*	*41.5*	*38.3*	*42.6*	*42.3*
Operating Expenses	9925	11690	14232	15694	18348
EBITDA	**4,781**	**6,606**	**6,694**	**10,900**	**12,224**
Change (%)	*22.1*	*38.2*	*1.3*	*62.8*	*12.1*
Margin (%)	*13.0*	*15.0*	*12.3*	*17.5*	*16.9*
Depreciation	611	592	744	897	1,040
Int. and Fin. Charges	189	212	263	329	248
Other Income	373	596	517	654	790
Profit before Taxes	**4,353**	**6,399**	**6,204**	**10,327**	**11,727**
Change (%)	*23.8*	*47.0*	*-3.0*	*66.5*	*13.6*
Margin (%)	*11.9*	*14.5*	*11.4*	*16.6*	*16.2*
Tax	1,496	1,928	1,811	2,995	3,518
Deferred Tax	-29	106	163	227	199
Tax Rate (%)	*33.7*	*31.8*	*31.8*	*31.2*	*31.7*
PBT Before Minority	**2886**	**4365**	**4230**	**7105**	**8009**
Minority Interest	21	189	216	256	323
Adjusted PAT	**2,865**	**4,176**	**4,014**	**6,849**	**7,686**
Change (%)	*29.5*	*45.7*	*-3.9*	*70.7*	*12.2*
Margin (%)	*7.8*	*9.5*	*7.3*	*11.0*	*10.6*
Exceptional/Prior Period in	-51	-84	-35	626	0
Reported PAT	**2,814**	**4,092**	**3,978**	**7,475**	**7,686**

RATIOS					
Y/E MARCH	FY07	FY08	FY09	FY10E	FY11E
Basic (Rs)					
EPS	**29.9**	**43.5**	**41.8**	**71.4**	**80.1**
Cash EPS	36.2	49.7	49.6	80.8	91.0
BV/Share	81.1	102.4	125.4	163.3	205.9
DPS	13.0	17.0	17.5	28.6	32.1
Payout %	43.6	39.0	41.8	40.0	40.0
Valuation (x)					
P/E	56.1	38.5	40.1	23.5	20.9
Cash P/E	46.2	33.7	33.8	20.8	18.4
EV/Sales	4.4	3.6	2.9	2.6	2.2
EV/EBITDA	33.6	24.2	24.0	14.8	12.9
P/BV	20.7	16.4	13.4	10.3	8.1
Dividend Yield (%)	0.8	1.0	1.0	1.7	1.9
Return Ratios (%)					
RoE	36.8	42.5	33.4	43.7	38.9
RoCE	49.2	57.6	48.5	59.5	56.7
Working Capital Ratios					
Debtor (Days)	11	10	10	11	11
Asset Turnover (x)	4.0	4.8	3.8	3.9	3.9
Leverage Ratio					
Debt/Equity (x)	0.4	0.3	0.3	0.2	0.1

BALANCE SHEET					(RS MILLION)
Y/E MARCH	FY07	FY08	FY09	FY10E	FY11E
Share Capital	959	959	959	959	959
Reserves	6,819	8,865	11,073	14,703	18,792
Net Worth	**7,778**	**9,824**	**12,032**	**15,662**	**19,752**
Loans	3,062	2,752	3,086	3,500	2,750
Deferred Liability	268	391	533	760	960
Minority Interest	601	574	756	1,012	1,334
Capital Employed	**11,708**	**13,540**	**16,407**	**20,934**	**24,796**
Gross Block	10,831	12,112	14,614	16,614	19,614
Less: Accum. Depn.	6,038	6,337	6,484	7,381	8,421
Net Fixed Assets	**4,794**	**5,776**	**8,130**	**9,233**	**11,194**
Capital WIP	137	1,142	921	2,500	2,000
Investments	1,927	2,767	784	2,029	3,903
Curr. Assets, L&A	**12,913**	**14,936**	**17,987**	**21,256**	**24,643**
Inventory	5,980	7,140	7,690	10,251	11,495
Account Receivables	4,206	4,603	5,719	6,834	7,927
Cash and Bank Balance	1,054	1,107	2,104	1,307	1,898
Others	1,673	2,086	2,475	2,865	3,323
Curr. Liab. and Prov.	**8,532**	**11,523**	**11,921**	**14,590**	**17,449**
Account Payables	4,485	5,720	5,542	6,859	8,582
Other Liabilities	3,385	4,140	4,570	5,124	5,799
Provisions	662	1,664	1,810	2,607	3,068
Net Current Assets	**4,381**	**3,413**	**6,066**	**6,667**	**7,193**
Godwill on Cons.	469	444	506	506	506
Application of Funds	**11,708**	**13,540**	**16,407**	**20,934**	**24,796**

E: MOSL Estimates

CASH FLOW STATEMENT					(RS MILLION)
Y/E MARCH	FY07	FY08	FY09	FY10E	FY11E
OP/(loss) before Tax	4,169	6,014	5,950	10,003	11,184
Int./Div. Received	373	596	517	654	790
Interest Paid	189	212	263	329	248
Direct Taxes Paid	1,467	2,034	1,974	3,222	3,717
(Incr)/Decr in WC	652	-1,021	1,656	1,398	-64
CF from Operations	**2,234**	**5,386**	**2,574**	**5,707**	**8,074**
Incr in FA	866	2,285	2,281	3,579	2,500
Pur of Investments	287	839	-1,983	1,245	1,875
CF from Invest.	**1,153**	**3,124**	**299**	**4,824**	**4,375**
Issue of Shares	0	0	0	0	0
Incr in Debt	449	-310	334	414	-750
Dividend Paid	1,428	1,908	1,967	3,205	3,597
Min Int/ Dt	-72	96	324	483	522
Others	291	-86	31	628	717
CF from Fin. Activity	**-760**	**-2,208**	**-1,278**	**-1,681**	**-3,108**
Incr/Decr of Cash	**321**	**54**	**997**	**-797**	**591**
Add: Opening Balance	734	1,054	1,107	2,104	1,307
Closing Balance	**1,055**	**1,108**	**2,104**	**1,306**	**1,898**

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Disclosure of Interest Statement	Asian Paints
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

2QFY10 Results Update
SECTOR: METALS

MOTILAL OSWAL

JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,811	JSTL IN
	REUTERS CODE
S&P CNX: 4,997	JSTL.BO

Equity Shares (m)	187.1
52-Week Range	882/161
1,6,12 Rel. Perf. (%)	3/102/198
M.Cap. (Rs b)	159.5
M.Cap. (US$ b)	3.4

23 October 2009

Buy

Previous Recommendation: Buy

Rs852

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	123,455	14,929	79.8	8.4	10.7	2.1	19.6	11.5	2.3	8.7
3/09A	159,348	10,173	54.4	-31.9	15.7	2.1	13.5	7.7	2.0	10.8
3/10E	184,028	13,078	69.9	28.5	12.2	2.2	17.8	11.8	1.9	7.6
3/11E	201,126	15,634	83.6	19.5	10.2	1.8	17.6	11.4	1.9	7.0

Consolidated

- Standalone adjusted PAT declined 23% YoY to Rs4.5b (v/s estimate of Rs4.2b). Carbon credits of Rs602m boosted the bottom line.
- Net sales rose 5.9% YoY to Rs45.2b due to strong volume growth of 74% YoY to 1.45m tons. Average blended realization increased 5% QoQ to Rs31,080/ton v/s an expectation of a decline. Prices of flat and semis increased while prices of long products declined sequentially. The share of semis increased QoQ, dragging growth in average realization.
- EBITDA was flat YoY at Rs11b. However margins improved 540bp QoQ to 24.5%. EBITDA per ton increased 35% QoQ to Rs7,613/ton (~US$160/ton) due to higher prices.
- Consolidated EBITDA of Rs10.2b and PAT of Rs3.2b were dragged due to subsidiaries' EBITDA and PAT loss of Rs919m and Rs1.3b respectively. Capacity utilization at US operations improved QoQ though it still remains very low at 20% for plate mill and 12% for pipe mill. EBITDA loss was US$21m due to low capacity utilization and write-off of inventory losses.
- The product mix is expected to improve in FY11 due to the commissioning of a hot strip and blooming mill in January 2010. Raw material cost savings are expected on commissioning of an iron-ore beneficiation plant in 3QFY10. We have upgraded FY10 and FY11 EPS to Rs69.9 (earlier Rs65.1) and Rs83.6 (earlier Rs67.1) respectively to factor in higher prices. Project activities have intensified for expansion of capacity to 10m tons by March 2011. The stock is trading at an EV/EBITDA of 7xFY11E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STAND-ALONE) (RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
STANDALONE	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales ('000 tons)	817	837	711	928	1,321	1,454	1,500	1,600	3,293	5,875
Change (YoY %)	*13.2*	*3.7*	*-18.0*	*-8.1*	*61.7*	*73.7*	*111.0*	*72.4*	*-3.3*	*78.4*
Realization (Rs per ton)	44,938	51,006	39,178	35,871	29,650	31,080	29,383	29,766	42,681	29,967
Change (YoY %)	*36.0*	*52.8*	*21.2*	*1.5*	*-34.0*	*-39.1*	*-25.0*	*-17.0*	*26.9*	*-29.8*
Net Sales	**36,714**	**42,692**	**27,855**	**33,288**	**39,168**	**45,190**	**44,075**	**47,625**	**140,549**	**176,058**
Change (YoY %)	*53.9*	*58.5*	*-0.6*	*-6.7*	*6.7*	*5.9*	*58.2*	*43.1*	*22.7*	*25.3*
EBITDA	**8,593**	**10,904**	**3,915**	**4,061**	**7,467**	**11,070**	**12,055**	**13,760**	**27,472**	**44,352**
Change (YoY %)	*11.0*	*25.8*	*-50.8*	*-49.9*	*-13.1*	*1.5*	*207.9*	*238.8*	*-15.4*	*61.4*
As % of Net Sales	*23.4*	*25.5*	*14.1*	*12.2*	*19.1*	*24.5*	*27.4*	*28.9*	*19.5*	*25.2*
EBITDA (Rs per ton)	**10,518**	**13,027**	**5,506**	**4,376**	**5,652**	**7,613**	**8,037**	**8,600**	**8,343**	**7,549**
Interest	1,531	1,960	2,333	2,149	2,206	2,298	2,528	2,780	7,973	9,812
Depreciation	1,852	1,975	2,141	2,309	2,718	2,805	2,945	3,093	8,277	11,561
Other Income	273	426	420	973	54	615	375	275	2,092	1,319
PBT (after EO Item)	**3,217**	**4,711**	**-1,907**	**755**	**4,957**	**6,582**	**6,957**	**8,162**	**6,775**	**26,657**
Total Tax	1,024	1,536	-632	263	1,556	2,066	2,226	2,612	2,191	8,461
% Tax	*31.8*	*32.6*	*33.1*	*34.9*	*31.0*	*31.4*	*32.0*	*32.0*	*32.3*	*31.7*
Reported PAT	**2,193**	**3,175**	**-1,275**	**492**	**3,400**	**4,515**	**4,731**	**5,550**	**4,584**	**18,197**
Preference Dividend	73	73	73	73	73	73	73	73	291	291
Adjusted PAT	**4,386**	**5,785**	**421**	**241**	**968**	**4,443**	**4,658**	**5,478**	**10,833**	**15,546**
Change (YoY %)	*14.8*	*22.0*	*-87.6*	*-94.1*	*-77.9*	*-23.2*	*N.A*	*2,172.4*	*-30.6*	*43.5*

E: MOSL Estimates

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Strong volume growth of 74%

Net sales increased 5.9% YoY to Rs45.2b due to strong volume growth of 74% YoY at 1.45m tons. The average blended realization increased 5% QoQ to Rs31,080/ton v/s expectations of a decline. Prices of flat and semis increased, while prices of long products declined QoQ. Share of semis increased QoQ dragging the growth in average realization. Sales of semis increased 30% QoQ to 405,000tons and rolled long products increased 16% QoQ to 179,000tons, while flat rolled product remained flat QoQ at 870,000tons.

US mills still a drag on EBITDA due to inventory losses

Consolidated EBITDA of Rs10.2b and PAT of Rs3.2b were dragged due to the company's subsidiaries' EBITDA and PAT loss of Rs919m and Rs1.3b respectively. Capacity utilization at the US operations improved QoQ though it is low at 20% for plate mill and 12% for pipe mill. EBITDA loss of US$21m was due to low capacity utilization and write-off of inventory losses.

US PIPE & PLATE MILL (USD M)

Y/E MARCH	FY09				FY10	
	1Q	2Q	3Q	4Q	1Q	2Q
Operational performance						
Plate Mill						
Production (tons)	143,077	109,066	47,487	44,061	27,727	48,895
Sales (tons)	75,762	59,629	27,660	26,986	14,376	38,689
Pipe Mill						
Production (tons)	66,431	34,931	27,198	9,065	5,432	16,845
Sales (tons)	65,026	35,927	28,550	9,942	4,308	17,822
Capacity Utilization (%)						
Plates	57.9	44.9	19.2	18.2	11.4	20.0
Pipes	48.3	25.5	19.8	6.6	4.0	12.0
Financials (US Operations)						
Revenues	218	165	88	30	18	41
EBITDA (incl. oth inc)	45	30	15	-19	-14	-21
PBT	26	11	-5	-97	-32	-39
PAT	18	10	-3	-61	-21	-25

Source: Company/MOSL

QUARTERLY PERFORMANCE (CONSOLIDATED, RS M)

Y/E MARCH	FY09				FY10		FY08	FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q			
Net Sales	**44,562**	**46,414**	**32,689**	**36,221**	**40,138**	**46,963**	**123,455**	**159,348**	**184,028**
EBITDA	**10,425**	**11,568**	**4,544**	**2,360**	**6,884**	**10,151**	**32,202**	**29,818**	**45,801**
Interest	2,348	2,788	3,302	3,119	2,983	3,019	5,730	11,556	12,710
Depreciation	2,199	2,369	2,588	2,722	3,166	3,255	7,419	9,878	13,257
Other Income	276	454	511	973	2,397	615	3,723	2,717	1,319
Reported PAT	**2,502**	**2,524**	**-1,878**	**-399**	**2,341**	**3,228**	**14,929**	**10,173**	**13,078**

Source: MOSL Estimates

Improved product mix and cost savings ahead, maintain Buy

The product mix is expected to improve in FY11 due to commissioning of a hot strip mill and a blooming mill in January 2010. Raw material cost savings are expected on commissioning of an iron-ore beneficiation plant in 3QFY10. A new captive iron-ore mine in Karnataka may start production in FY11 subject to pending statutory clearances. We have upgraded FY10 and FY11 EPS to Rs69.9 (earlier Rs65.1) and Rs83.6 (earlier Rs67.1) respectively to factor in higher prices. We expect earnings to grow 20% in FY11. Project activities have intensified for expansion of capacity to 10m tons by March 2011. The stock is trading at EV/EBITDA of 7xFY11E. Maintain **Buy**.

JSW Steel: an investment profile

Company description

JSW Steel is India's second largest steel producer with production facilities in Karnataka, Tamil Nadu and Maharashtra. It has investments in iron-ore mining in Karnataka and Chile. Besides, it has plate and pipe mill operations in the US.

Key investment arguments

- Crude steel production is expected to increase 67% YoY to 5.8m tons in FY10 - the best volume growth in the Indian metal space.
- JSW Steel has the lowest conversion cost due to its operational efficiencies.
- The strategic location of its furnaces in the iron-ore rich Bellary-Hospet belt helps in keeping iron-ore purchase costs low because miners primarily export ore due to the absence of significant steel capacities in the region.
- Steel prices have been firm, while input costs have eased.
- Earnings have high sensitivity to steel prices due to high financial and operating leverage.

Key investment risks

- High financial leverage and aggressive capex ahead would need further equity infusion.
- The US operations are highly exposed to economic conditions of the US in general and investments in oil and gas pipelines, in particular.

Recent developments

- In 2QFY10 JSW Steel produced 1.54mt of crude steel depicting 54% growth YoY. Growth in rolled flat and long products was 28% and 216%, respectively.

Valuation and view

- The stock trades at EV/EBITDA of 7x FY11E. Maintain **Buy.**

Sector view

- Indian HRC prices (Rs29,000-31,000/ton excluding excise & VAT) are at a significant premium to import parity prices because international prices have fallen to US$500/ton CFR due to exports from China. Even CIS mills have been offering lower prices due to competition. Indian mills have been lowering prices in line with global producers. Steel demand in India continues to remain strong. We remain positive on domestic steel companies.

COMPARATIVE VALUATIONS

		JSW STEEL	SAIL	TATA STEEL
P/E (x)	FY10E	12.2	13.3	-54.3
	FY11E	10.2	12.4	10.8
P/BV (x)	FY10E	2.2	2.3	7.2
	FY11E	1.8	2.0	6.3
EV/Sales (x)	FY10E	1.9	1.6	1.0
	FY11E	1.9	1.8	1.0
EV/EBITDA (x)	FY10E	7.6	7.0	15.3
	FY11E	7.0	7.7	8.6

SHAREHOLDING PATTERN (%)

	SEP-09	JUN-09	SEP-08
Promoter	45.7	45.7	47.7
Domestic Inst	5.3	5.7	5.2
Foreign	37.0	35.8	34.5
Others	12.1	12.8	12.7

EPS: MOST FORECAST V/S CONSENSUS (RS)

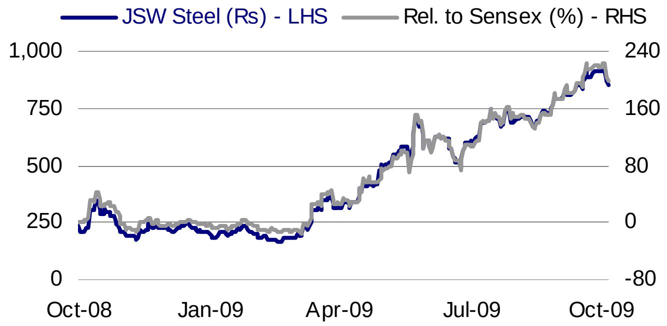
	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	69.9	64.2	8.9
FY11	83.6	98.1	-14.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET * PRICE (RS)	UPSIDE (%)	RECO.
852	985	15.6	Buy

*EV/EBITDA of 7.5xFY11

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)					(RS MILLION)
Y/E MARCH	2007	2008	2009	2010E	2011E
Net sales	**85,944**	**123,455**	**159,348**	**184,028**	**201,126**
Change (%)	*39.1*	*43.6*	*29.1*	*15.5*	*9.3*
Total Expenses	58,751	91,253.0	129,530	138,227	147,487
EBITDA	**27,194**	**32,202**	**29,818**	**45,801**	**53,639**
% of Net Sales	*31.6*	*26.1*	*18.7*	*24.9*	*26.7*
Depn. & Amortization	4,982	7,419	9,878	13,257	15,490
EBIT	**22,211**	**24,783**	**19,941**	**32,543**	**38,149**
Net Interest	3,995	5,730	11,556	12,710	14,701
Other income	489	3,723	2,717	1,319	1,250
PBT before EO	**18,705**	**22,776**	**11,101**	**21,152**	**24,698**
EO income	447	1,384	-7,948	2,360	
PBT after EO	**19,152**	**24,160**	**3,153**	**23,512**	**24,698**
Tax	6,232	7,658	726	7,928	8,847
Rate (%)	*32.5*	*31.7*	*23.0*	*33.7*	*35.8*
Reported PAT	**12,920**	**16,502**	**2,427**	**15,584**	**15,851**
Minority interests		41	-205	-261	-189
Share of Associates	120	-143	117	117	117
Preference dividend	279	291	291	291	290
Adjusted PAT	**12,074**	**14,929**	**10,173**	**13,078**	**15,634**
Change (%)	*104.2*	*23.6*	*-31.9*	*28.5*	*19.5*

BALANCE SHEET					(RS MILLION)
Y/E MARCH	2007	2008	2009	2010E	2011E
Share Capital	1,640	1,871	1,871	1,871	1,871
Reserves	49,562	74,129	73,280	71,747	86,871
Net Worth	**51,202**	**75,999**	**75,150**	**73,618**	**88,741**
Minority Interest		1,919	2,732	2,471	2,282
Total Loans	44,521	124,252	168,392	181,392	219,392
Deferred Tax Liability	10,127	12,517	12,768	19,263	25,321
Capital Employed	**105,849**	**214,687**	**259,042**	**276,743**	**335,735**
Gross Block	105,128	188,883	231,720	267,059	341,352
Less: Accum. Deprn.	23,237	30,743	40,798	55,033	70,523
Net Fixed Assets	**81,891**	**158,140**	**190,923**	**212,025**	**270,828**
Capital WIP	20,029	57,708	95,852	95,852	95,852
Investments	1,929	4,696	3,966	3,966	3,966
Curr. Assets	**24,856**	**41,207**	**50,929**	**38,323**	**54,036**
Inventory	10,114	21,817	29,246	31,033	33,876
Account Receivables	2,452	5,391	3,991	8,372	10,619
Cash and Bank Balanc	3,378	4,715	5,093	-7,268	1,342
Others	8,913	9,284	12,600	6,186	8,199
Curr. Liability & Pr	**22,857**	**47,064**	**82,628**	**73,423**	**88,947**
Account Payables	20,279	42,679	81,799	71,567	85,433
Provisions & Others	2,578	4,385	829	1,857	3,514
Net Current Asset	**1,999**	**-5,857**	**-31,699**	**-35,100**	**-34,911**
Appl. of Funds	**105,849**	**214,687**	**259,042**	**276,743**	**335,735**

E: MOSL Estimates

RATIOS					
Y/E MARCH	2007	2008	2009	2010E	2011E
Basic (Rs)					
EPS	**73.6**	**79.8**	**54.4**	**69.9**	**83.6**
Cash EPS	109.2	127.9	65.8	154.2	167.6
BV/Share	312.2	406.3	401.8	393.6	474.4
DPS	12.5	14.0	1.0	1.0	1.0
Payout (%)	4.8	20.6	23.0	3.6	6.5
Valuation (x)					
P/E	11.6	10.7	15.7	12.2	10.2
Cash P/E	7.8	6.7	13.0	5.5	5.1
P/BV	2.7	2.1	2.1	2.2	1.8
EV/Sales	2.1	2.3	2.0	1.9	1.9
EV/EBITDA	6.7	8.7	10.8	7.6	7.0
Dividend Yield (%)	1.5	1.6	0.1	0.1	0.1
EV/ton	47,615	73,420	47,465	51,194	55,516
Return Ratios (%)					
RoE	23.6	19.6	13.5	17.8	17.6
RoCE	21.0	11.5	7.7	11.8	11.4
Working Capital Ratios					
Fixed Asset Turnover (	0.8	0.7	0.7	0.7	0.6
Asset Turnover (x)	0.8	0.6	0.6	0.7	0.6
Debtor (Days)	10	16	9	17	19
Inventory (Days)	43	65	67	62	61
Creditors(Days)	86	126	187	142	155
Working Capital (Days)	-5.9	-31.3	-84.3	-55.2	-65.8
Leverage Ratio (x)					
Current Ratio	1.1	0.9	0.6	0.5	0.6
Interest Cover Ratio	5.6	4.3	1.7	2.6	2.6
Debt/Equity	0.8	1.6	2.2	2.6	2.5

CASHFLOW STATEMENT					(RS MILLION)
Y/E MARCH	2007	2008	2009	2010E	2011E
Pre-tax Profit	19,152	24,243	3,153	23,512	24,698
Depreciation	4,982	7,419	9,878	13,257	15,490
(Inc)/Dec in Wkg. Cap.	4,643	9,193	26,220	-8,959	8,420
Tax Paid	-6,232	713	-877	-3,601	-2,789
Other operating activiti	3,550	3,547	-2,138	-13,411	306
CF from Op.Activi	**26,096**	**45,115**	**36,236**	**10,798**	**46,125**
(Inc)/Dec in FA +CWIP	-22,854	-121,434	-80,982	-35,338	-74,293
(Pur)/Sale of Invest.	-1,079	-2,766	730		
CF fr. Inv. Activity	**-23,932**	**-124,200**	**-80,252**	**-35,338**	**-74,293**
Equity raised/(repaid)	70	2,176			
Chg in minorities		1,919	813	-261	-189
Debt raised/(repaid)	770	79,731	44,140	13,000	38,000
Dividend (incl. tax)	-614	-3,404	-559	-559	-1,034
CF fr. Fin. Activity	**226**	**80,422**	**44,394**	**12,179**	**36,778**
(Inc)/Dec in Cash	**2,389**	**1,337**	**379**	**-12,361**	**8,610**
Add: Opening Balance	989	3,378	4,715	5,093	-7,268
Closing Balance	**3,378**	**4,715**	**5,093**	**-7,268**	**1,342**

NOTES

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Disclosure of Interest Statement	JSW Steel
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

Cipla

CMP (Rs.)	285
MBP (Rs.)	303
Equity Shares (Mn)	777.2
52-Week Range (H/L)	307 / 145
M.Cap. (Rs b)	222

	FY09E	FY10E	FY11E
EPS (Rs)	10.0	14.2	16.8
P/E (x)	28.5	20.1	17.0

- Cipla is the3rd largest player in the domestic formulations market and has a presence across most therapeutic areas. Company also has robust exports to several markets including US, Europe, South Africa, Australia and the Middle East. It's strategy for regulated markets (Europe and US) exports is built around supply tie-ups with global players.
- Over the past few quarters, global MNC pharmaceutical companies have increased their engagement with India. Given the growth challenges in the developed world, most of these MNCs are targeting emerging economies as the future growth drivers. India features prominently in this strategy both, as an attractive market (growing in double digits) and as a global sourcing base.
- Strong generic pipeline with tie-up for 118 products across 21 partners in the US, No further update on US FDA compliance issues CFC-free inhalers remain long-term triggers but visibility remains poor.
- Over the last 3 years, Cipla has invested around Rs20b in manufacturing assets. The company has made aggressive plans to expand its manufacturing capacities, particularly for the regulated markets and plans to invest another Rs5-6b in setting up new API & R&D facilities during FY10-11, which would support the strong capex on formulation facilities done over the last three years. This capex is likely to be part-funded by equity capital and internal accruals. We note that this is one of the highest capex plan in the company's history
- In the US, Cipla has entered into partnership for 118 products with 21 partners. We note that the number of partners have increased from 17 to 21 over the last 12 months. These partners have filed 64 ANDAs till date and have received 36 approvals, of which, 23 products have been commercialized.
- We continue to believe that Cipla could be an acquisition target given the absence of succession planning at the company. We expect Cipla to record EPS of Rs14.2 for FY10 and Rs16.7 for FY11 resulting in 29% EPS CAGR for FY09-11 on low base (due to forex losses). We maintain Buy.

METALS

24 October 2009

Sesa Goa

CMP (Rs.)	324
MBP (Rs.)	320
Equity Shares (Mn)	820
52-Week Range (H/L)	365/ 60
M.Cap. (Rs b)	265.7

	FY09E	FY10E	FY11E
EPS (Rs)	25.3	22.6	27.9
P/E (x)	12.8	14.3	11.6

- Sesa Goa is India's largest private iron ore miner, with reserves of over 207m ton. It is aggressively ramping up production to capitalize on the rising price trend. Global iron ore prices have been trending up over the last few years. Given the strong demand from China and lagging supplies from the three consolidated global miners, we expect global iron ore prices to continue moving up.
- Chinese pig iron production continues to drive iron ore demand - Iron ore demand continues to be driven by strong growth in pig iron production in China. Pig iron production growth rates have accelarated from 5.5% YoY in May 09 to 23.1% in Aug 09. Sharp rise in pig iron production led to rally in spot iron ore prices because domestic iron ore production was low during Jun-Jul09.

Recent Developments

- The promoters of Sesa Goa have increased stake by 2.11% to 57.12% through open market purchase of 17.37m shares during Sep 10-18. During the period, Sesa Goa has raised US$500m (coupon rate of 5%) through FCCB, the proceeds of which will be used to finance the company's growth plans
- Sesa Goa's consolidated PAT for 2QFY10 declined 49% YoY to Rs1.7b due to a sharp fall in iron-ore prices. The second quarter is usually the weakest quarter for Sesa Goa because shipments from Goa suffer due to the monsoon season.
- Net sales declined 38% YoY to Rs5.4b. Iron-ore revenue declined 39% YoY to Rs4b. Revenue from pig iron declined 34% YoY and revenue from coke declined about 56% YoY. EBITDA declined 63% YoY to Rs1.5b. Segmental EBIT of iron ore declined 60% YoY to Rs1b Met coke EBIT turned from a profit of Rs1.1b to a loss of Rs32m.
- We believe the second quarter is never an indicator of this company's full-year earnings potential. Iron-ore prices are holding firm and demand is strong. Chinese iron-ore imports continue to rise despite softening steel prices.
- During September 2009, iron-ore imports increased about 30% MoM to 64.55m tons. We believe Sesa Goa is likely to benefit from strong prices and volume growth in 2HFY10. The stock has has been re-rated significantly and has run up 19% since our last update a month ago. The stock is trading at EV/EBITDA of 6.6x FY11E and P/E of 11.5x FY11E. We Maintain Buy.

MOSt 3x3

MOTILAL OSWAL

SBI

CMP (Rs.)	2354
MBP (Rs.)	2475
Equity Shares (Mn)	634
52-Week Range (H/L)	2,474 / 892
M.Cap. (Rs b)	1494

	FY09E	FY10E	FY11E
EPS (Rs)	178.4	208.5	252.1
P/E (x)	13.2	11.3	9.3
ABV	1026	1204	1395
P/ABV(X)	2.3	1.9	1.6

- State Bank of India (SBI) is the largest commercial bank in India, with a balance sheet size of over Rs7t. The bank, along with associate banks, has a network of over 14,000 branches across India and controls over 18% of the banking business.
- The government owns 57% of the bank, with FIIs owning 20% (maximum permissible is 20%).Over the last couple of years, SBI has been focusing on drawing significant synergies through an internal consolidation of its associate banks.
- For 1Q Fy10, SBI's 1QFY10 PAT grew 42% (vs est of 16%) to Rs. 23.3 bn. The Positive surprises were: NII growth of 4% YoY/QoQ; b) fee income growth of 45% YoY, and; c) restructured loans contained at 3.8% of loan book.
- For 2Q FY10, we expect margins to increase 5-7bp QoQ from 2.3% in 1QFY10 due to improved yields on overall funds and continued benefit of deposit re-pricing. However, on a YoY basis, margins would decline significantly. We expect NII to decline ~3% YoY.
- We expect strong traction in fee income to continue in 2QFY10. In 1QFY10, fee income grew 45% YoY. Trading profits will remain strong in 2QFY10, but lower than 1QFY10. Overall, we expect non-interest income growth of ~30% YoY. Like the previous three quarters, SBI would have to depend on trading gains to boost its overall earnings
- On the back of strong profitability in 2QFY09 and 1QFY10, SBI had increased NPA provisions. It would have to lower its provisions charge in 2QFY10 to report strong earnings.
- Adjusted for SBI Life's value of Rs100/share, the stock trades at 1.9x FY10E and 1.6x FY11E consolidated ABV. Maintain **Buy**.

Birla Corp

CMP (Rs.)	301
MBP (Rs.)	315
Equity Shares (Mn)	77
52-Week Range (H/L)	326/ 70
M.Cap. (Rs b)	23.2

	FY09E	FY10E	FY11E
EPS (Rs)	42.0	70.9	60.2
P/E (x)	7.2	4.2	5.0

- Birla Corp, established in 1919, is part of the MP Birla group. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement constitutes about 85% of its revenue. It has cement plants in Rajasthan, MP, UP and West Bengal.

Recent developments

- Birla Corp plans to set up 3m tons brown-field capacity at Satna by FY12. However, volume growth would remain muted as its Brownfield expansion (~1.75MT) in Madhya Pradesh and Rajasthan has got delayed to December 2009.
- Cement stocks have underperformed the Sensex in the last three months, and are valued significantly below benchmark valuations despite promising long-term outlook and strong balance sheet.
- For 2QFY10, Birla corp reported revenue of Rs. 5.3 bn (up 38% YoY) and Net profit of Rs. 1.5 bn (up 155% YoY) above estimates of Rs. 1.2 bn. The results are above expectations.
- **Key investment arguments**

  Birla Corp is amongst the top 10 cement producers in India with a capacity of 5.8m tons in lucrative northern and central Indian markets.

  Strong balance sheet, with zero net debt, provides a good platform to grow organically and inorganically.
- We maintain our EPS estimates at Rs70.9 for FY10 and at Rs60.2 for FY11. The stock trades at 4.2x FY10E EPS and 5 x FY11E EPS - at a discount to comparable peers. We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are compelling. We maintain **Buy**.

Dena Bank

CMP (Rs.)	76
MBP (Rs.)	77
Equity Shares (Mn)	286.8
52-Week Range (H/L)	79 / 24
M.Cap. (Rs b)	22.00

	FY09E	FY10E	FY11E
EPS (Rs)	14.8	13.9	16.8
P/E (x)	5.1	5.4	4.5
ABV	68	81	96
P/ABV(X)	1.1	0.9	0.8

- Dena Bank is one of the most prestigious banks of India having a good market share. It aspires to be having PAN India presence in the time to come.
- Dena bank has re-priced Rs1,200-crore-worth deposits in the Q1. In FY 10, it is planning to re price the additional deposits worth Rs. 260 billion, which will improve on the margins. The bank is also looking to grow the fee based income by at least 20 percent
- Dena Bank hopes to offset lower margins by cutting down on costs and focusing on fee based income. Also, it plans to extend bank's network to areas where it does not have a large presence.
- The plans to add 100 branches and 116 ATMs. (32 branches in Punjab, Haryana & Himachal Pradesh and 36 branches in southern India).
- Improving asset quality along with strong recovery, expected improvement in cost to income and stabilized margins would lead to earnings improvement from here on.
- We believe the bank would able to improve RoA of 1.2% and RoE of more than 22%. We maintain **Buy**.

GVK Power

CMP (Rs.)	52
MBP (Rs.)	54
Equity Shares (Mn)	1579
52-Week Range (H/L)	53/ 10
M.Cap. (Rs b)	81.9

	FY09E	FY10E	FY11E
EPS (Rs)	7.0	5.7	9.9
P/E (x)	21.8	26.8	15.5

- GVK group is a diversified business entity with a predominant focus on Infrastructure and Urban Infrastructure projects. It also has a significant presence in the Hospitality, Services and manufacturing sector.
- GVK power is developing various projects that are based on coal, gas and hydel resources. The projects are being developed across several States in the country including Andhra Pradesh, Punjab and Uttarakhand.
- GVK's equity commitment to existing projects is Rs15b, largely towards MIAL, Goindwal Sahib Power Project, Goriganga Hydro and oil and gas exploration.

Recent Developments

- During 2QFY10, GVK Power and Infrastructure (GVK) has witnessed momentum in terms of domestic passenger traffic at Mumbai airport (up 10% YoY), vehicular traffic/revenue growth for Jaipur-Kishangarh Expressway project (Traffic growth of ~13%) and higher operating rates for power projects (at 85%+).
- AP Government has allowed 20% of power sale on merchant basis for 220MW JP-II (100% stake) and 464MW Gautami project (61% stake). This coupled with higher rated capacity of 11MW (JP-II 10MW and Gautami 1MW) would lead to total merchant capacity of 148MW.
- GVK has signed agreement with PTC for sale of power at a minimum average tariff of Rs4.29/unit, and with an option to retain 95% of any higher tariff (5% to be retained by PTC). We expect profit from merchant power at Rs825m in FY10 and Rs1.3b in FY11.
- The financial closure for the Goindwal Sahib project is in final stages, and is expected in November 2009. Project is now expected to be commissioned by Feb-13 (vs 1QFY13 earlier) due to delay in signing of PPA and financial closure. GVK is planning capacity expansion of 1.2GW at existing gas based projects, comprising 800MW at Gautami and 400MW at JP-II. Large part of land for project expansion and major clearances in terms of water, environment, etc are in place. GVK is evaluating equipment supplies and expansion is contingent on fuel sourcing tie-up.
- We expect earnings for GVK to grow at a CAGR of 80% over FY09-11E and expect the company to report consolidated PAT of Rs1.9b in FY10E and Rs3.5b in FY11E driven by contribution from JP-II and Gautami project. We maintain **Buy**.

MOSt 1x3

MOTILAL OSWAL

1 TRADING PICK FROM 3

24 October 2009

Large Cap

SBI	Rs.2354

Mid Cap

Dena Bank	Rs.76

MOSt 1x3

MOTILAL OSWAL

BANKING

24 October 2009

SBI

CMP : 2354

Stop Loss : 2292

Target : 2500

Last week the stock broke its all time high of Rs.2427 and made a high of Rs.2500, after that we witnessed some correction, but it took support at 50% retracement level of the recent rally from Rs.2047 to Rs.2500 and bounced back sharply on Friday. On the daily chart it made a "Piercing" pattern. One can accumulate the stock at current levels with stop-loss of Rs.2292. Now the probability is very high that the stock can again test its recent high of Rs.2500 in the coming days.

MOSt 3x3

MOTILAL OSWAL

BANKING

24 October 2009

Dena Bank

CMP : 76

Stop Loss : 71

Target : 86

We maintain bullish view on Dena Bank. This week, after making a high of Rs.79, it corrected its recent upmove and closed at Rs.75. The stock is still trading above the neckline of "Inverse Head & Shoulder" pattern and making "Higher tops and Higher Bottoms". One can hold the stock or add more long positions at current levels with stop-loss of 71. Upside we maintain target of Rs.86 for short term.

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24 October 2009

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