The Front Page

January 30, 2009

What's Inside: BHEL (BUY), Tata Power (REDUCE), Maruti Suzuki (REDUCE), Bank of Baroda (ADD), Britannia (BUY), Ashok Leyland (REDUCE), Thermax (REDUCE), Dishman Pharma (ADD), Events calendar

Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	9,236	(0.2)	(4.3)
Nifty	2,824	(0.9)	(4.6)
BSE Smallcap	3,303	(0.0)	(10.3)
CNX Midcap	3,331	(0.6)	(10.8)
Nasdaq	1,508	(3.2)	(4.4)
DJIA	8,149	(2.7)	(7.1)
IBOV	39,638	(1.5)	5.6
FTSE	4,190	(2.4)	(5.5)
CAC	3,010	(2.2)	(6.5)

Turnover		US$m	% Chg
BSE		769	5.5
NSE		2,372	19.0
Derivatives (NSE)		10,564	26.2

FII F&O (US$m)		Index	Stocks
Net buying		155	63
Open interest		3,381	2,175
Chg in open int.		(1,528)	(484)

Equity Flows (US$m)	Latest	MTD	YTD
FII (28/1)	6	(1,118)	(1,118)
DII (29/1)	119	678	678
MF (27/1)	6	(492)	(492)

ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	58.8	(6.1)	4.0
Reliance	52.0	(1.0)	0.3
Infosys	27.5	(2.1)	2.7
Satyam	1.9	(9.6)	(7.3)
Wipro	7.0	(4.4)	50.9
ICICI Bank	16.4	(6.3)	(2.3)
SBI	46.5	(2.1)	3.6
Sterlite	5.2	(4.4)	(4.5)
Tata Motors	4.2	(4.6)	33.7

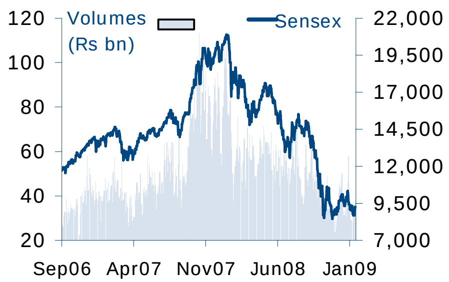
Commodities	Latest	%Chg	%YTD
Gold (US$/ounce)	904	(0.5)	2.5
Crude (US$/bl)	41	(1.7)	(7.1)
Aluminium (US$/MT)	1,366	0.0	(11.3)
Copper (US$/MT)	3,230	(3.0)	5.2

Forex Rates	Closing	% Chg	%YTD
Rs/US$	48.9	0.0	0.9
Rs/EUR	64.1	(0.7)	(6.0)
Rs/GBP	69.1	(0.6)	(1.3)

Bond Markets		Closing	bps Chg
10 yr bond		6.2	16.0
Interbank call		4.2	(10.0)

Charts Front Page

Sensex price volume



Sensex intraday

Corporate Front Page

- **Spice Group** keen to acquire 51% stake in **Satyam** (BL)
- **L&T** has appointed Mr Jagjeet Bindra, President of Chevron Global Manufacturing, on its Board as independent non-executive director (BL)
- **TCS** is leading the race for Sony's US$100mn outsourcing deal. (ET)
- **Tata Steel** has signed a deal with Marcegaglia and South Korea's Dongkuk to sell majority stake in Teesside Casts Products business. (ET)
- **Crisil** downgrades its ratings on **DLF's** debt and bank facilities to "AA-/Stable" from "AA/Stable". (FE)
- **Tata Motors** has won a Rs22bn order from Delhi Transport Corporation. (ET)
- **HCL Tech** enters into multi-year, multi-regional, end-to-end global helpdesk and desktop management outsourcing services agreement with Nokia (BL)
- **GAIL** to raise US$134mn from US agency next fiscal to fund part of its capex of Rs55bn. (ET)
- An acute shortage of coal may force **NTPC** to shut down some units temporarily. (ET)
- **Unitech Wireless** is all set to sign the infrastructure sharing agreement with Tata Teleservices' tower arm WTTIL. (FE)
- **L&T** seeks management control of **Satyam** (BS)
- Aditya Birla Telecom Ltd, a wholly owned subsidiary of **Idea Cellular** has scaled down its US$640mn deal with US-based private equity major, Providence Equity Partners. (BS)
- Israel's Supreme Court directs **Sun Pharma** and Taro Pharma to renegotiate the takeover dispute. (BS)
- The fuel price revision is likely to wipe out the Rs11bn net revenue earned by **IOC**, **BPCL** and **HPCL** in the last one month. (BS)
- **MTNL** to offer 3G services from February 5th, 2009 (BL)
- No fuel on credit for **Kingfisher Airlines** from oil companies (BL)
- **Bharat Forge** and Areva sign an MoU to build a manufacturing facility for heavy forgings in India (BL)
- **CavinKare** ties-up with Coty to market Adidas range of personal care products (BL)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Jindal Stainless	39	16.6	9.9	Cummins India	171	-13.9	-22.8
Oriental Bank	140	8.6	-8.9	Amtek Auto	50	-11.0	-26.0
Bharat Forge	86	7.8	2.6	Satyam Compute	50	-10.2	-70.8
Sun TV Network	162	7.5	-10.0	Orchid Chemicals	73	-9.0	-20.8
Jaiprakash Assoc	70	5.2	-16.0	Max India	114	-8.3	-1.0

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Cummins India	171	693	2,571	367	601
Oriental Bank	140	719	13,500	2,087	547
Andhra Bank	55	547	2,214	347	538
MTNL	73	937	3,023	596	407
Asian Paints	750	1,470	727	168	333
Lupin	562	951	302	71	324
Kalpataru Power	280	152	199	51	289
Glenmark Pharma	138	705	16,424	4,672	252
Jindal Stainless	39	130	466	134	249
Madras Cements	64	310	304	92	230

FII - FII trades

Scrip	28/1/2009			29/1/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Sbi	351	1,097	0.20	37	1,136	-
Union bank	141	147.0	0.5	29	149.0	-
Bank of barora	111	245	0.4	916	251	1.5
Pnb	424	395	0.5	439	397	0.5
Iob	-	-	-	2,449	62	0.8
Pantaloon	-	-	-	95	164	1.0

Corporate Front Page

- **Bharati Shipyard's** promoters had placed around 5.45% stake in the company as collateral with SBI against the working capital requirements of the company. (BS)
- **Shoppers Stop** exits catalogue retailing through Argos (BL)
- **Kalpataru Power** wins an order worth US$250mn for building transmission lines in Kuwait. (ET)
- **Dena Bank** seeks Rs5bn from the government to bolster its capital base. (BS)
- **Fortis Healthcare** buys 29% stake in Mauritian hospital for US$3.5mn. (ET)

Economy Front Page

- Inflation for week-ended January 17th rises marginally to 5.64% against 5.6% in the preceding week (BL)
- Moody's has changed the fundamental credit outlook for the Indian banking system to negative from stable. (FE)
- The government has proposed to do away with the ceiling on portfolio investments by FII and instead prescribe a composite foreign investment cap. (ET)
- Rail freight on foodgrains to increase by 8% (BL)
- Wheat support price hiked to Rs1080/quintal (BL)
- NCAER cuts GDP forecast to 6.7% for the current fiscal, down from 7.6% estimated earlier. (ET)
- Government defers decision to change sugar import norms. (ET)
- Government clears infra projects worth Rs340bn. (BS)
- CCEA gave its nod for the upwards revised cost and concession periods of nine stretches of national highways (BL)
- Centre relaxes fiscal deficit target and borrowing ceilings for states (BL)

Results Front Page

Rs m	Revenues	% YoY	PAT	% YoY
Allied Digital	953	20.2	186	53.9
Andhra Bank	13,824	29.8	2127	33.7
Bajaj Hindustan	3,600	4.7	(559)	-
Ballarpur Industries	6,463	(6.6)	501	(31.5)
Bank of Baroda	41,080	36.8	7084	41.4
Bharat Bijlee	1,401	25.5	133	8.1
BHEL	60,222	21.3	7906	2.4
BPCL	319,080	10.3	7998	389.5
Cairn India	2,108	(21.0)	2364	-
Dabur Ltd	7,862	19.4	1074	15.8
Dhanlaxmi bank	1,118	47.0	169	205.6
GAIL	58,116	35.2	2534	(59.2)
Glodyne Technoserve	1,294	57.3	195	75.7
GMDC	2,575	0.1	747	(19.9)
IDFC	8,620	12.9	1846	(15.0)
Jindal Steel & Power	17,800	27.8	3252	1.9
Kansai Nerolac	3,164	(8.4)	213	(29.7)
Karur Vysya Bank	3,751	26.9	593	27.6
Lupin	9,719	31.7	1165	(35.6)
Madras Cements	6,092	19.5	627	(43.3)
Maruti Suzuki	45,126	(3.0)	2136	(54.3)
Mcleod Russel	2,436	22.8	486	61.5
Mercator Lines	5,308	40.4	308	(47.5)
Monnet Ispat & Energy	4,001	38.8	335	(0.5)
Neyveli Lignite	6,620	(1.9)	2243	9.7
ONGC	124,364	(17.8)	24748	(43.3)
Shoppers Stop	3,305	8.4	(205)	-
Shree Cements	6,653	25.6	1239	253.8
Tata Power	17,769	25.2	942	(52.3)
Themax Ltd	7,880	(5.6)	723	(3.7)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
ICSA (India) Ltd	G Bala Reddy	23/01/2009	Buy	104,489	81.0	8	0.2	16.7
Parekh Aluminex Ltd	Amitabh Arun Parekh (AAP Inv)	24/01/2009	Buy	380,000	47.5	18	2.9	9.2

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Chambal Fertilizers Ltd	Citigroup Global Markets Mauritius Pvt. Ltd.	29/01/2009	Buy	2,462,169	37.2	92
Geometric Ltd	Godrej Investments Pvt Ltd	29/01/2009	Buy	600,000	18.5	11
Geometric Ltd	Hdfc Midcap Opp Fund	29/01/2009	Sell	658,000	18.5	12
Kewal Kiran	Goldman Sachs Investments Mauritius I Ltd	29/01/2009	Sell	81,406	110.0	9
Kewal Kiran Clothing Ltd	Goldman Sachs Investments Mauritius I Ltd	29/01/2009	Sell	85,000	110.0	9
Oriental Bk	Icici Prudential Life Insurance Company Ltd	29/01/2009	Buy	8,000,000	129.0	1,032
Oriental Bk	The Childrens Invt Fd Mgnt Uk Llp The Children Invt Master Fd	29/01/2009	Sell	10,786,598	129.0	1,392
Suzlon Energy Ltd	Fidelity Invt Mgmt (Hk) Ltd A/C Fid Fund (Mauritius) Ltd	29/01/2009	Sell	11,736,666	46.0	540

Quick Take

BHEL - BUY

Capital Goods

30 Jan 2009

Profits in line but revenue growth disappoints

BHEL's 3QFY09 profit, at Rs7.91bn, came in line with our estimate of Rs7.85bn. However, net revenues grew by 21% YoY, below our estimate of 27% growth. Unlike other E&C companies, revenue visibility is not an issue with BHEL. 50% YoY order inflow growth in Q3 means order coverage ratio is at an all-time high at 4.96x. BHEL is trading at 21.4x FY09ii and 14.0x FY10ii earnings. We will revise our earnings post the analyst meet, due today. Execution slippages might make it difficult to sustain premium valuations. On the other hand, the strong coverage ratio and the consequent earnings visibility would limit the downside.

- BHEL's 9MFY09 revenues imply that the company would need to clock 26% gross revenue growth in 4Q if it is to meet its MOU targets signed with the Government under excellent rating. This looks a tough proposition. BHEL has seldom missed its MOU targets. Yearly incentive pay-outs are linked to target achievements.
- Lower-than-expected revenues indicate that execution issues have not been fully resolved yet. This is at variance to management commentary post mid-year order book review.
- Raw-material costs as proportion of sales stood at 58.2%. The 220bps contraction in gross margin was lower than our estimate. We had assumed that lower input costs would start reflecting in margins fully by 4QFY09. The gross margin for 3QFY09 indicates that input price pressures have started to ease off.
- Employee expenses, at Rs9.2bn, came in lower than our estimate of Rs10.4bn. The company is apportioning the Rs13.13bn salary revision provisions across the quarters in proportion to revenues booked. Provisions totaling Rs8.39bn have been made during 9MFY09. Equal provisions across the four quarters would have translated into provisions of Rs9.85bn during the period.
- **Importantly, the proportional provisions made during 9MFY09 mean that BHEL is internally estimating FY09 gross revenues at Rs265.34bn—lower than its MOU target and our estimate.**

CMP	**Rs1358**
Market cap (US$ m)	**13,573**
Bloomberg	**BHEL IN**
52Wk High/Low (Rs)	2366/981
Diluted o/s shares (m)	490
Daily volume (US$ m)	59.3
Dividend yield FY09ii (%)	1.3
Free float (%)	32.3

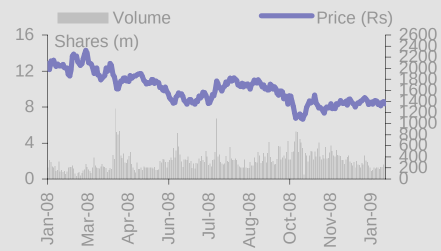
Shareholding pattern (%)

Promoters	67.7
FIIs	16.6
Domestic MFs/Insurance cos	9.7
Others	6.0

Price performance (%)

	1M	3M	1Y
BHEL	0.9	15.5	-33.8
Rel. to Sensex	4.0	13.3	15.2
L&T	-10.9	-13.0	-65.0
Alstom	-4.8	-1.4	-70.9
Thermax	-11.5	-49.5	-76.5

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	171,431	192,632	252,016	337,656	388,867
EBITDA margins (%)	19.4	17.7	15.5	19.2	19.2
Reported PAT (Rs m)	24,147	26,092	30,999	47,415	53,261
EPS (Rs)	49.3	53.3	63.3	96.9	108.8
Growth (%)	43.8	8.1	18.8	53.0	12.3
PER (x)	**27.5**	**25.5**	**21.4**	**14.0**	**12.5**
ROE (%)	30.0	26.7	26.4	32.9	29.5
EV/EBITDA (x)	18.3	17.0	15.2	9.2	7.9
Price/Book (x)	**7.6**	**6.2**	**5.2**	**4.1**	**3.3**

Source: Company, IIFL Research. Price as on 29 January 2009

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- EBITDA margin, at 16.9%, contracted 315bps YoY, resulting in 2.3% YoY growth in EBITDA—a tad higher than our estimate.
- 3Q order inflow increased 49.8% YoY to Rs155bn. Order book increased 45.5% YoY to Rs1,135bn translating into an order coverage of 4.96x. This strong coverage ratio and the consequent earnings visibility could lend support to valuations.

Figure 1: 3QFY09 result snapshot

Rs m	3QFY08	2QFY09	3QFY09	%YoY
Gross Sales	55,289	57,983	64,533	16.7
Excise Duty	5,647	4,557	4,310	-23.7
Net Sales	**49,641**	**53,426**	**60,223**	21.3
Expenditure	39,666	46,319	50,016	26.1
Inc/Dec stock in trade	(687)	(4,400)	(5,537)	705.8
Raw materials	28,510	36,212	40,586	42.4
Employees expenses	7,464	8,898	9,202	23.3
Other expenses	4,380	5,609	5,764	31.6
EBIDTA	**9,976**	**7,107**	**10,207**	2.3
EBITDA margin	*20.1*	*13.3*	*16.9*	***-315 bps***
Depreciation	762	744	865	13.6
Interest	98	22	179	83.0
Other income	2,649	3,072	3,063	15.6
PBT	**11,765**	**9,414**	**12,226**	3.9
Tax	4,046	3,256	4,321	6.8
Tax rate	*34.4*	*34.6*	*35.3*	
PAT	**7,719**	**6,158**	**7,906**	2.4
PAT margin	*15.5*	*11.5*	*13.1*	***-242 bps***
Extraordinary income	**2,501**	**-**	**-**	
Reported PAT	**10,220**	**6,158**	**7,906**	**-22.6**
EPS (Rs)	**15.8**	**12.6**	**16.15**	**2.4**
Order book	780,000	1,040,000	1,135,000	45.5
Order inflow	103,641	143,426	155,223	49.8

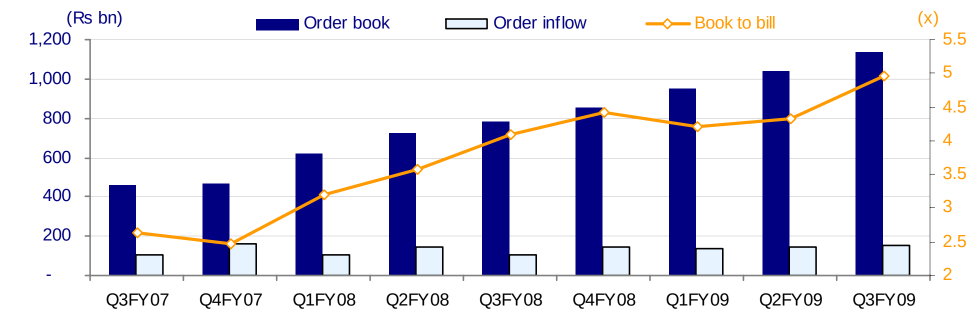
Source: IIFL Research

Figure 2: 3QFY09 segment performance

	3QFY08	2QFY09	3Q`FY09	%YoY
Power				
Gross revenue (Rs m)	42,046	44,090	48,188	14.6
EBIT (Rs m)	8,612	760	7,125	-17.3
EBIT margin (%)	*20.5*	*1.7*	*14.8*	***-570 bps***
Industry				
Gross revenue (Rs m)	14,354	14,961	17,522	22.1
EBIT (Rs m)	2,469	2,259	2,234	-9.5
EBIT margin (%)	*17.2*	*15.1*	*12.7*	***-446 bps***

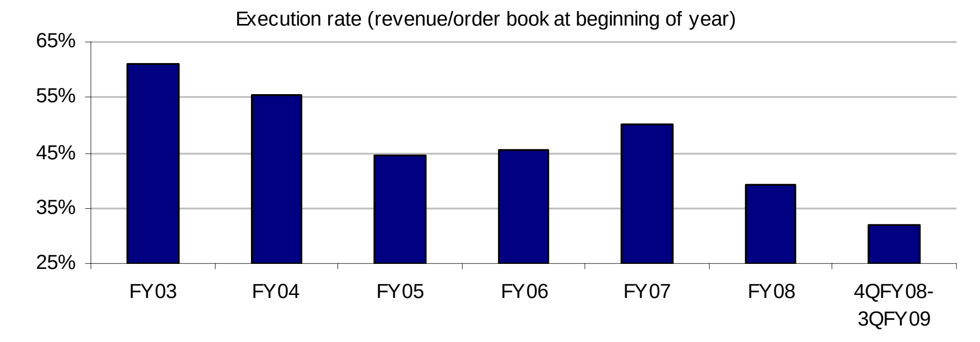
Source: IIFL Research

Figure 3: Order book provides strong growth visibility



Source: Company, IIFL Research

Figure 4: However, execution rates have slowed down



Source: Company, IIFL Research

Tata Power – REDUCE

TPWR IN	Rs762	Utilities	30 Jan 2009	3QFY09 results update

Interest costs weigh on profits

TPC's 3QFY09 net profit came in below our expectation, mainly because of non-pass-through interest on loans of almost Rs12bn taken in the quarter to fund the equity in project SPVs. Excluding this, the quarter's operating profit came in almost flat YoY. During the conference call, management said it expects to sell almost 1.2BU in FY10 on merchant basis, after commissioning of the Haldia and Trombay units. Our earnings estimates factor in contribution from the Haldia unit, but we await regulatory clarity on the sale of power from the Trombay unit. In our view, TPC's valuation is close to its fair value, but in the short term, we see a rise in its risk profile due to increasing funding constraints. We maintain REDUCE.

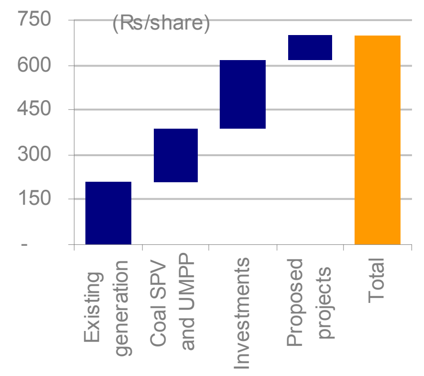
PAT below expectations: TPC's 3QFY09 PAT is not YoY comparable, owing to changes in accounting policy. Adjusting for these changes, PAT was up 13% YoY in 3QFY09. During the quarter, the company incurred Rs325m in additional interest cost on the ~Rs12bn that it has borrowed to fund the equity in project SPVs, and higher depreciation charges. TPC subsidiaries NDPL and Powerlinks Transmission performed well during the quarter, registering PAT growth of 40% YoY each, in line with our expectation.

Generation up 5% YoY: Although generation by TPC's Mumbai licence area was flat YoY, generation from IPPs outside Mumbai (Belgaum in particular) grew by 17% YoY, and improved the overall generation by 5% YoY during the quarter. The average realisation for 3QFY09 was Rs4.7/unit as compared to Rs3.9/unit in the year-ago period, as the share of liquid fuels in overall generation increased YoY.

Projects progressing well: As expected, Tata Sons has not exercised its 10m warrants convertible at Rs1,351/share. This has led to an equity funding gap for the two key projects—the 4GW Mundra UMPP and 1GW Maithon project. TPC, meanwhile, has borrowed from domestic institutions, to fund the equity in these SPVs. This has clearly increased TPC's risk profile in the short run. However, these projects are progressing well, and TPC expects to commission them on schedule.

Trading near fair value: TPC's current valuation is reasonable, in our view, and the stock is trading close to its fair value. There is scope for an increase in the overall valuation if TPC is allowed to sell 100MW power from the newly commissioned Unit 8 at Trombay, where some clarity is expected over the next quarter or so.

Target price of Rs700/share



Source: IIFL Research

Financial summary (standalone)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	46,163	57,973	63,597	76,808	80,945
EBITDA Margins (%)	13.6	14.1	16.0	16.3	16.1
Pre-Exceptional PAT (Rs m)	4,495	4,052	6,175	7,513	7,770
Reported PAT (Rs m)	6,740	8,113	7,241	7,513	7,770
Standalone EPS (Rs)	22.7	18.4	28.0	33.8	34.9
Growth (%)	11.0	-19.2	52.4	20.8	3.4
PER (x)	**33.5**	**41.5**	**27.2**	**22.5**	**21.8**
Consol EPS (Rs)	38.4	28.4	80.4	80.6	80.5
Consol PER (x)	**19.8**	**26.8**	**9.5**	**9.5**	**9.5**
EV/EBITDA (x)	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**
Price/Book (x)	2.5	2.1	2.0	1.9	1.8

Source: IIFL Research; Price as at close of business on 29 January 2009

12-mth Target price (Rs) 700 (-8%)

Market cap (US$ m)	**3,443**
52Wk High/Low (Rs)	1511/530
Diluted o/s shares (m)	221
Daily volume (US$ m)	13.1
Dividend yield FY09ii (%)	3.7
Free float (%)	66.7

Shareholding pattern (%)

Promoters	33.3
FIIs	19.1
Domestic MFs/Insurance cos	28.6
Others	19.1

Price performance (%)

	1M	3M	1Y
Tata Power	3.0	24.3	-42.1
Rel. to Sensex	6.1	22.2	6.8
NTPC	4.8	42.0	-5.6
Reliance Infra	-5.0	29.6	-72.1
CESC	-1.6	29.6	-54.7

Stock movement

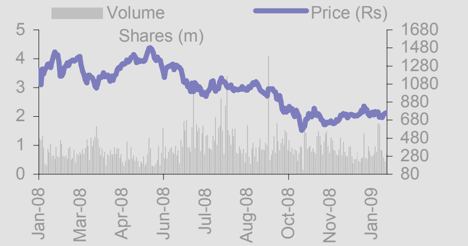


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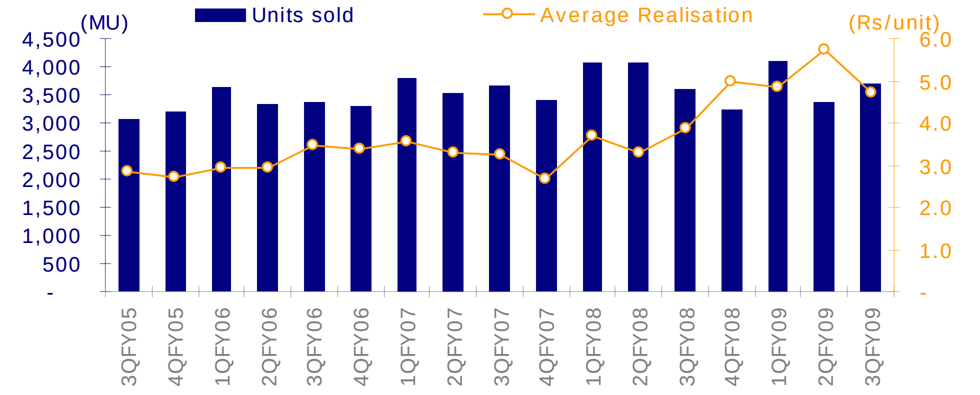
Figure 1: Quarterly performance

(Rs. m)	3QFY08	2QFY09	3QFY09	% YoY	% QoQ
Generation (MU)	**3,672**	**3,459**	**3,847**	5%	11%
Sales (MU)	**3,614**	**3,377**	**3,711**	3%	10%
Realisation (Rs/unit)	**3.9**	**5.7**	**4.7**	21%	-17%
Net Sales	**14,194**	**19,589**	**17,769**	25%	-9%
Material costs	10,242	15,144	13,315	30%	-12%
Personnel Costs	401	749	690	72%	-8%
Other overheads	869	1,049	1,203	38%	15%
EBIDTA	**2,682**	**2,647**	**2,560**	-5%	-3%
EBIDTA Margin	**19%**	**14%**	**14%**		
Depreciation	705	763	809	15%	6%
Interest	386	681	952	147%	40%
Other income	368	1,117	460	25%	-59%
PBT	**1,960**	**2,320**	**1,260**	-36%	-46%
Tax	294	468	109	-63%	-77%
Adjusted PAT	**1,666**	**1,852**	**1,151**	-31%	-38%
Adj. PAT Margin	**12%**	**9%**	6%		
Extra ordinary expense/(income)	(307)	(677)	140		
Reported PAT	**1,973**	**2,529**	**1,011**	-49%	-60%

Source: Company, IIFL Research

Figure 2: Average realisation has improved owing to higher fuel costs



Source: Company, IIFL Research

Figure 3: Expansion projects on track

Project	Comment	Expected date of completion
Mundra UMPP	• Civil work, boiler structure erection in progress. • Received first disbursement of loans • Project at 13% completion	First unit by September 2011
Maithon	• Civil works under progress. Most orders placed • PPA for 450MW in place. 300MW PPA under discussion • Project at 21% completion	-
Trombay expansion	• Unit 8 synchronised with the grid • Expect commissioning in 4-6 weeks	4QFY09
Haldia	• Unit 1 and 2 commissioned • Synchronisation of Unit 3 expected by end Feb-09	-
Wind	• 21.6MW commissioned in Gujarat and Karnataka in 3QFY09	-
Tata Steel captive plants	• Synchronisation of 120MW power house 6 at Jamshedpur expected by Feb-09 and commissioning by Mar-09 • 120MW Unit 5 at Jojobera to commission in FY10	-

Source: Company, IIFL Research

Figure 4: Power revenues have grown 25% YoY

(Rs. m)	3QFY08	2QFY09	3QFY09	% YoY	% QoQ
Power Business	14,051	19,296	17,507	25%	-9%
Others	143	293	262		
Total	**14,194**	**19,589**	**17,769**		

Source: Company, IIFL Research

Figure 5: …though PBIT has dropped 15% YoY given higher depreciation costs

(Rs. m)	3QFY08	2QFY09	3QFY09	% YoY	% QoQ
Power Business	2,121	1,873	1,797	-15%	-4%
Others	(3)	36	47		
Total	**2,118**	**1,908**	**1,844**		
Interest	(386)	(681)	(952)		
Unalloc income (net)	227	1,860	367		
Total PBT	**1,960**	**3,087**	**1,260**		

Source: Company, IIFL Research

Key highlights from the conference call

- **Unit 8 at Trombay synchronised:** TPC has synchronised the 250MW unit at Trombay (Unit 8) and expects commercial sales to start in 3-4 weeks. For power evacuation, it has already signed two PPAs—100MW with BEST and 50MW with Tata Power Distribution Company. It plans to sell the rest—100MW—on merchant basis, through its trading arm. However, Reliance Infrastructure has challenged TPC's initiative to sell power on merchant basis and it has demanded firm allocation of power. The matter is pending with the Appellate Tribunal, whose ruling is expected over the next month or so. Separately, we await the judgment of the Supreme Court on the dispute over the principle of capacity allocation. If the Supreme Court allows the state regulator (MERC) to supervise capacity allocation, TPC may not be allowed to sell power on merchant basis. On the other hand, if the Supreme Court *does not* allow MERC to supervise capacity allocation, it would technically mean that TPC would be free to sell almost 500MW on merchant basis in the Mumbai licence area.

- **Haldia expansion progressing well:** TPC has till date commissioned 90MW capacity at Haldia (2x45MW), and expects to commission the third (30MW) unit in February 2009. Although it has signed a PPA for 30MW power, it plans to sell the balance through merchant route. Since the unit would be fuelled by flue gases from Tata Steel's units, which would charge TPC a nominal Rs0.8/unit towards fuel charges, we reckon this 120MW unit at Haldia could earn an attractive RoE (in the region of 40%-45%).

- **Received ~US$220m cash received from coal mines in FY09:** TPC has received US$220m cash till date from coal mines. The company has used this money primarily for loan repayment. Loans amounting to ~US$100m have been repaid and the loan on SPV books currently stands at US$850m. On the impact of Indonesian mining law, the management is awaiting further clarity on the implementing regulations, which could alter coal exports from Indonesia.

- **Going ahead with ship-chartering plans:** By 2017, TPC would need nine ships to transport its coal import requirement. It has formed an SPV in Singapore and has already procured access to five ships (orders placed for two ships to a Korean shipyard, while three ships have already been chartered). The company is evaluating its ship chartering plans in view of the fall in freight rates.

- **Developing coal-based plant in JV with IOC:** TPC has formed a 74:26 JV with IOC Limited to set up a coal-based captive power plant in Orissa for IOC's Paradip refinery complex. IOC has applied for coal linkage/ captive coal mines for this project. Additionally, TPC has signed MoUs with the government of Gujarat to explore the possibility of setting up a 5MW geothermal plant and a 5MW solar power plant in Gujarat.

Financial summary (standalone)

Forex gains of Rs320m considered extraordinary in nature

Statutory appropriations related to the power business

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	46,163	57,973	63,597	76,808	80,945
EBITDA	6,271	8,181	10,206	12,504	13,048
EBIT	**3,352**	**5,276**	**7,092**	**8,990**	**9,209**
Interest income	4,037	2,424	2,831	2,907	2,953
Interest expense	1,895	1,739	2,602	2,984	2,966
Exceptional items	2,245	4,062	1,066	0	0
Profit before tax	**7,739**	**10,023**	**8,387**	**8,913**	**9,196**
Taxes	771	1,324	1,146	1,399	1,426
Minorities and other	-228	-586	0	0	0
Net profit	**6,740**	**8,113**	**7,241**	**7,513**	**7,770**

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit before tax	5,494	5,961	7,321	8,913	9,196
Depr. & amortization	2,919	2,905	3,115	3,514	3,839
Tax paid	552	1,176	1,146	1,399	1,426
Working capital Δ	-2,460	1,975	-5,368	-8,854	-5,772
Other operating items	1,798	3,328	1,066	0	0
Operating cashflow	7,199	12,993	4,988	2,173	5,837
Capital expenditure	-8,885	-11,664	7,755	-8,282	-2,712
Free cash flow	**-1,686**	**1,329**	**12,743**	**-6,110**	**3,126**
Equity raised	0	13,064	0	0	0
Investments	-1,580	-21,420	-10,493	0	0
Debt financing/disposal	8,784	-5,961	478	8,518	368
Dividends paid	2,202	2,683	2,729	3,378	3,493
Other items	-3,949	-3,087	-5,458	-5,786	-6,987
Net change in cash	**3,772**	**-13,391**	**0**	**0**	**0**

Source: Company data, IIFL Research

Substantial investments in group companies

Standalone D/E appears reasonable

RoE to remain muted, owing to capex and investment portfolio

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & equivalents	13,677	286	286	286	286
Sundry debtors	14,782	14,145	17,069	22,676	26,288
Inventories - trade	3,964	4,736	5,196	6,275	6,613
Other current assets	7,994	6,767	7,423	8,965	9,448
Fixed assets	**38,114**	**46,872**	**36,002**	**40,771**	**39,644**
Other term assets	35,702	57,121	67,614	67,614	67,614
Total assets	**114,233**	**129,927**	**133,590**	**146,587**	**149,892**
Sundry creditors	11,257	12,539	11,285	10,156	9,141
Other current liabs	6,254	5,854	5,780	6,283	5,959
Long-term debt/CBs	36,334	30,373	30,851	39,369	39,737
Net worth	**60,388**	**81,162**	**85,674**	**90,779**	**95,056**
Total liabs & equity	**114,233**	**129,927**	**133,590**	**146,587**	**149,892**

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue growth (%)	2.6	25.6	9.7	20.8	5.4
Op Ebitda growth (%)	-21.7	30.4	24.8	22.5	4.4
Op Ebit growth (%)	-35.9	57.4	34.4	26.8	2.4
Op Ebitda margin (%)	13.6	14.1	16.0	16.3	16.1
Op Ebit margin (%)	7.3	9.1	11.2	11.7	11.4
Net profit margin (%)	9.7	7.0	9.7	9.8	9.6
Dividend payout (%)	49.0	63.9	39.3	40.0	40.0
Tax rate (%)	10.0	13.2	13.7	15.7	15.5
Net debt/equity (%)	37.5	37.1	35.7	43.1	41.5
Return on equity (%)	11.2	10.0	8.5	8.3	8.2
Return on assets (%)	3.9	3.1	4.6	5.1	5.2

Source: Company data, IIFL Research

Maruti Suzuki – REDUCE

MSIL IN	Rs538	Auto	30 Jan 2009	3QFY09 Results update

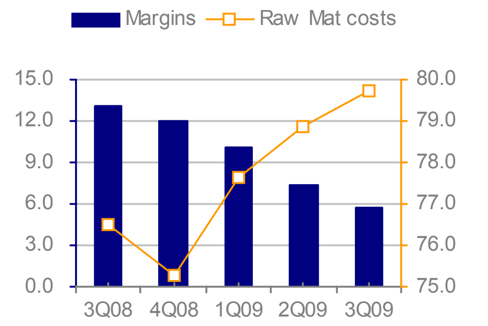
Stuck in low gear

Maruti's reported PAT was higher than our estimate on account of an income tax refund of Rs568m. Operational results, however, were below our estimates. Revenues declined by 2% YoY, compared to a 14% YoY decline in volumes, aided by higher realisations and higher spare-parts sales. EBITDA margin collapsed to 5.7% (down 740bps YoY) adjusting for the one-time dealer payout on account of reduction in excise duty. We expect margins to improve in the quarters ahead, as cost savings from lower commodity prices kick in. However, we believe volumes would remain weak, given the macro environment. We maintain REDUCE.

Sharp contraction in margins: Maruti's EBITDA margin declined 740bps YoY and 160bps QoQ. We have adjusted our EBITDA numbers for a one-time payout to dealers on account of reduction in excise duty on stocks held by them. The margin decline was largely due to an increase in raw-material costs as proportion of sales (up 320bps YoY), higher selling and distribution expenses (up 160bps) and higher royalty and fuel costs. In its post-2QFY09 call, Maruti's management had mentioned about Nippon Steel's demand for a 20% increase in prices of steel supplies. The company said it successfully negotiated for prices to be kept flat for 3Q. Raw-material costs still went up QoQ on account of yen appreciation, as the company imports 60% of its steel requirement. The 40% YoY appreciation of the yen against the rupee added Rs610m to material costs and also led to a 33% YoY increase in royalty costs.

Margins to improve going forward: Maruti previously used to enter six-month contracts for its steel requirements, but it has now entered into a three-month contract. This would help the company gain from the decline in steel prices with effect from 4QFY09. With the inventory of high-cost domestic steel and aluminium prices declining, benefits on that front should also accrue from 4QFY09. We expect a 150bps YoY margin improvement in FY10. However, given the high competitive intensity in the space, the company may not be able to retain the entire benefit. In 3QFY09, even in an increasing raw-material environment, the company had to give increased discounts, which contributed to 80bps of the 740bps YoY decline in EBITDA margin. Given the macro environment, we maintain our outlook for weak volume growth, and retain our REDUCE rating on the stock.

Margins continue to decline



Source: IIFL Research

Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	146,539	179,362	195,404	195,926	216,166
EBITDA Margins (%)	13.6	12.8	7.7	9.1	10.2
Pre-Exceptional PAT (Rs m)	15,620	17,308	13,266	14,740	17,072
Reported PAT (Rs m)	15,620	17,308	13,248	14,740	17,072
EPS (Rs)	54.0	59.9	45.8	51.0	59.1
Growth (%)	31.4	10.8	-23.5	11.3	15.8
PER (x)	10.1	9.1	11.9	10.7	9.2
ROE (%)	22.8	20.6	13.9	13.7	13.9
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
EV/EBITDA (x)	5.8	5.0	7.6	5.7	4.0
Price/Book (x)	2.3	1.9	1.6	1.5	1.3

Price as at close of business on 29 January 2008

12-mth Target price (Rs) 510 (-6%)

Market cap (US$ m)	**3,212**
52Wk High/Low (Rs)	946/428
Diluted o/s shares (m)	289
Daily volume (US$ m)	15.5
Dividend yield FY09ii (%)	0.9
Free float (%)	45.8

Shareholding pattern (%)

Promoters	54.2
FIIs	14.4
Domestic MFs/Insurance cos	25.0
Others	6.4

Price performance (%)

	1M	3M	1Y
Maruti	9.1	0.3	-36.9
Rel. to Sensex	12.2	-1.8	12.0
Mahindra & Mahindra	15.1	-2.5	-58.0
Tata Motors	2.1	-4.9	-78.1

Stock movement

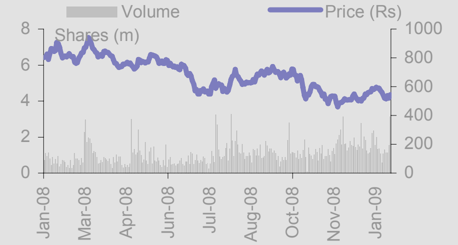


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Figure 1: Disappointing operational performance

(Rs m)	3QFY08	2QFY09	3QFY09	% YoY	% QoQ	IIFL Comments
Volumes	201,629	189,451	173,495	(14.0)	(8.4)	Weak economic scenario led to a decline in volume sales.
Net Sales	**46,741**	**48,303**	**45,921**	**(1.8)**	**(4.9)**	Revenue decline was less steep than the volume decline, because of higher spare parts sales and better per-vehicle realisation.
Vehicle sales	43,689	44,746	41,653	(4.7)	(6.9)	
Spare parts sales	2,851	3,316	4,024	41.1	21.3	
Income from services	201	240	245	21.8	2.0	
Realisation per vehicle	**216,680**	**236,190**	**240,081**	**10.8**	**1.6**	Product mix shifted towards higher-priced *Swift* and *Dzire* from entry-level models like *Alto*, *WagonR* and *Zen*. Export realisation was also higher by Rs482m YoY owing to dollar appreciation.
Raw Material	35,763	38,100	36,617	2.4	(3.9)	QoQ impact was largely on account of appreciation of yen. YoY, other factors like product mix, higher steel prices and higher invoice discounts also contributed.
Raw Mat/Sales (%)	**76.5**	**78.9**	**79.7**	**323 bps**	**86 bps**	
Employee costs	968	1,165	1,104	14.1	(5.2)	Number of employees increased YoY from 6,903 to 7,755.
Other Expenditure	3,879	5,514	5,569	43.6	1.0	
Power costs	365	531	542	48.6	2.0	Increase in production at Manesar and increase in price of diesel YoY. The recent reduction in price of diesel should help, going forward.
Royalty costs	1,215	1,642	1,621	33.4	(1.3)	Increase in number of models on which royalty is paid and appreciation of yen against the rupee.
Selling and distribution expenses	972	1,980	1,694	74.3	(14.4)	*A-Star* launch and higher ocean freight. Will increase going forward, with *A-Star* exports.
Other manufacturing overheads	1,326	1,360	1,712	29.1	25.9	Includes Rs412m of MTM forex loss (Rs300m in 2QFY09).
EBIDTA	**6,133**	**3,524**	**2,631**	**(57.1)**	**(25.3)**	Margins collapsed during the quarter and will start looking up from 4QFY09. However, given the competitive intensity in the space company will be able to retain only a part of it.
EBIDTA Margin	**13.1**	**7.3**	**5.7**	**-739 bps**	**-157 bps**	
Depreciation	867	1,658	1,775	104.6	7.0	There was an additional depreciation of Rs585m due to the change in depreciation policy.
Interest	144	208	45	(68.6)	(78.3)	
Other income	1,707	2,597	2,095	22.8	(19.3)	Operational other income stood at Rs1,777m (85% of total other income)
Extra ordinary expense/(income)	0	0	(18)			Includes income tax refund of Rs568m, and a Rs550m excise duty payout to dealers.
PBT	**6,828**	**4,255**	**2,925**	**(57.2)**	**(31.3)**	
Tax	2,151	1,290	789	(63.3)	(38.8)	
Reported PAT	**4,677**	**2,965**	**2,136**	**(54.3)**	**(28.0)**	
PAT Margin	**10.0**	**6.1**	**4.7**	**-536 bps**	**-149 bps**	

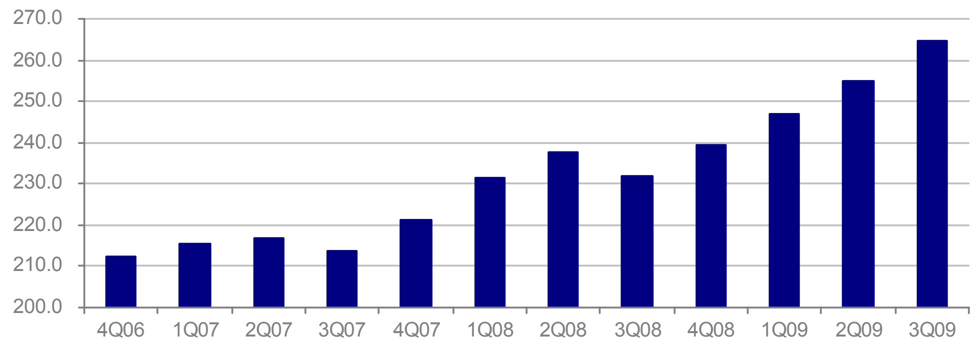
Source: Company, IIFL Research

Figure 2: The higher-end *Swift* family is contributing to improved realisations

Car model	3QFY08	2QFY09	3QFY09	%YoY	%QoQ
800	17,320	12,137	8,521	-50.8%	-29.8%
Alto	62,082	49,326	48,329	-22.2%	-2.0%
Wagon R	34,347	30,461	25,920	-24.5%	-14.9%
Estilo	16,192	9,331	5,144	-68.2%	-44.9%
Swift	21,672	28,965	27,042	24.8%	-6.6%
Dzire	-	15,382	16,026	-	4.2%
SX4	8,689	3,467	1,885	-78.3%	-45.6%
Domestic car volumes	160,302	149,069	132,867	-17.1%	-10.9%

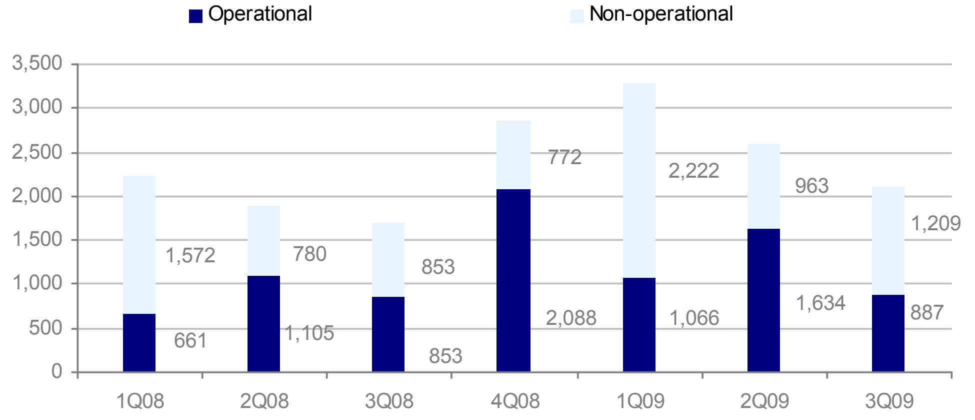
Source: CRISIL, IIFL Research

Figure 4: Average realisation improved on account of increased sales of higher-end cars



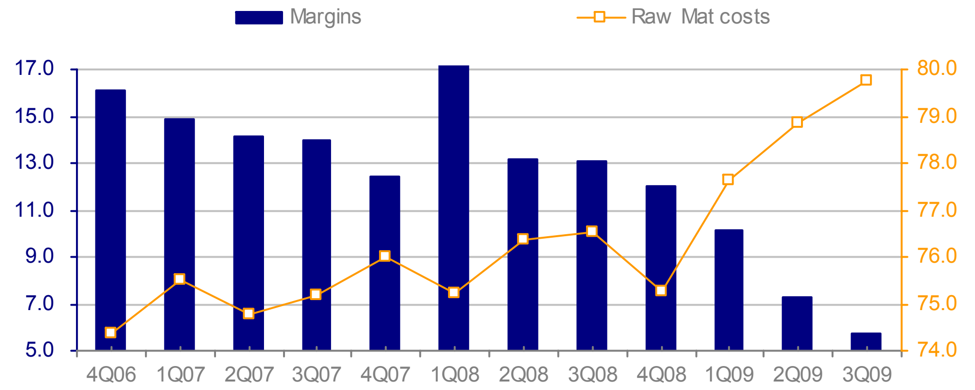
Source: Company, IIFL Research

Figure 3: Non-operational income was higher on account of improved bond yields



Source: Company, IIFL Research

Figure 5: Lower volumes and higher raw material costs led to a 740bps margin decline



Source: Company, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	146,539	179,362	195,404	195,926	216,166
EBITDA	19,998	22,937	15,040	17,877	22,122
EBIT	**17,284**	**17,255**	**8,159**	**10,256**	**13,427**
Interest income	1,109	1,408	839	923	1,016
Interest expense	470	596	528	320	154
Others	4,875	6,963	10,197	9,901	10,101
Profit before tax	**22,798**	**25,030**	**18,685**	**20,760**	**24,389**
Taxes	7,178	7,722	5,419	6,020	7,317
Net profit	**15,620**	**17,308**	**13,266**	**14,740**	**17,072**

Cashflow summary (Rs m)

New depreciation policy will result in significantly higher depreciation going forward

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit before tax	22,798	25,030	18,685	20,760	24,389
Depr. & amortization	2,714	5,682	6,881	7,621	8,695
Tax paid	-6,281	-7,696	-5,419	-6,020	-7,317
Working capital Δ	4,406	-266	-654	4,835	-3,400
Other operating items	-89	-69	0	0	0
Operating cashflow	23,548	22,681	19,493	27,196	22,367
Capital expenditure	-13,828	-17,024	-16,747	-13,610	-6,710
Free cash flow	**9,720**	**5,657**	**2,746**	**13,586**	**15,657**
Investments	-176	-1,716	0	0	0
Debt financing/disposal	5,590	2,695	-1,001	-4,002	0
Dividends paid	-1,519	-1,625	-1,950	-2,275	-2,438
Net change in cash	**13,615**	**5,011**	**-206**	**7,309**	**13,219**

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & equivalents	46,885	51,896	51,690	58,998	72,217
Sundry debtors	7,474	6,555	8,360	6,450	9,879
Inventories - trade	7,132	10,380	13,214	8,905	15,309
Other current assets	9,625	10,734	10,877	11,024	11,173
Fixed assets	**28,986**	**40,328**	**50,194**	**56,184**	**54,199**
Other term assets	1,435	3,151	3,151	3,151	3,151
Total assets	**101,537**	**123,044**	**137,487**	**144,712**	**165,929**
Sundry creditors	20,110	24,492	28,086	26,465	32,822
Other current liabs	4,905	3,695	4,229	4,612	4,838
Long-term debt/CBs	6,307	9,002	8,001	3,999	3,999
Other long-term liabs	1,676	1,701	1,701	1,701	1,701
Net worth	**68,539**	**84,154**	**95,470**	**107,934**	**122,569**
Total liabs & equity	**101,537**	**123,044**	**137,487**	**144,712**	**165,929**

Ratio analysis

EBITDA margins will improve on account of lower raw material costs

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue growth (%)	21.6	22.4	8.9	0.3	10.3
Op Ebitda growth (%)	20.0	14.7	-34.4	18.9	23.7
Op Ebit growth (%)	25.1	-0.2	-52.7	25.7	30.9
Op Ebitda margin (%)	13.6	12.8	7.7	9.1	10.2
Op Ebit margin (%)	11.8	9.6	4.2	5.2	6.2
Net profit margin (%)	10.7	9.6	6.8	7.5	7.9
Dividend payout (%)	9.7	9.4	14.7	15.4	14.3
Tax rate (%)	31.5	30.9	29.0	29.0	30.0
Net debt/equity (%)	-59.2	-51.0	-45.8	-51.0	-55.7
Return on equity (%)	22.8	20.6	13.9	13.7	13.9
Return on assets (%)	15.4	14.1	9.6	10.2	10.3

Source: Company data, IIFL Research

Bank of Baroda – ADD

BOB IN	Rs255	Banking	30 January 2009	Results Update

Core business going strong

Bank of Baroda reported operating net profit of Rs6,624m, up 32% YoY, ahead of our and street estimates (reported PAT was up 41%YoY to Rs7,048m, including exceptional gains). All operating metrics were healthy, net interest income grew 47% YoY, non-interest income was up 37% YoY, NIM was at a healthy 3.3% and loans grew 33% YoY. Gross NPLs declined to 1.5% and NPL coverage improved to 75%. We are upgrading our FY09 and FY10 net profit estimates by 11% and 5% respectively on the back of expansion in margins and better operating efficiency. The stock is currently trading at an attractive valuation of 0.8x FY10ii PB, with ROE of 17%. We maintain ADD.

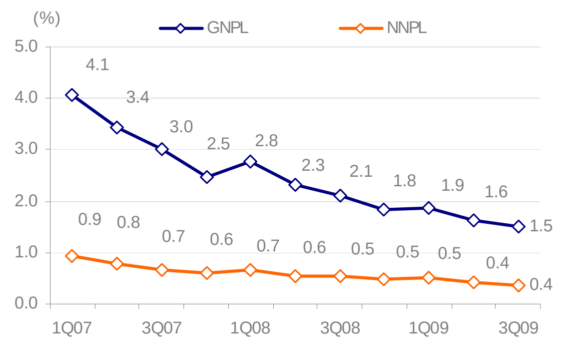
Margin expansion commendable: Domestic loan book expanded by 31% YoY and overseas loan book by 39% YoY. The domestic loan mix remained unchanged, with retail loans comprising 19% and SME accounting for 14%. NIMs expanded 30bps YoY and 50bps QoQ on account of retirement of high-cost deposits coupled with better loan pricing, resulting in a 41% YoY jump in net interest income. The bank has been aggressively retiring high-cost deposits and would continue to focus on CASA expansion.

Non-interest income increases, core fee income growth healthy: Non-interest income increased by 37% YoY, aided by treasury income (up 114% YoY) and exchange transactions (up 116% YoY). Core fee income growth remained healthy at 26% YoY. While treasury gains may be one-off and difficult to repeat, the healthy growth in core fee income is a very positive indicator.

Provision for investment depreciation increases: The bank provided Rs2.3bn in 3QFY09 towards provision for depreciation of investments, primarily to account for MTM losses on its Rs8bn equity investments. Further provision may be required in future quarters.

Exceptional gains boost reported PAT: The bank had a pre-tax exceptional gain of Rs691m during the quarter, due to the winding up of its 100% subsidiary Bank of Baroda (Hong Kong) Ltd. Including this exceptional gain, the reported PAT was up 41% YoY. However, operating PAT growth (after excluding exceptional gain) was also strong at 32% YoY.

Comfortable asset quality



Source: Company, IIFL Research

Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Op income (Rs m)	49,593	59,628	73,425	81,987	94,354
Net profit (Rs m)	10,265	14,355	17,050	19,632	23,097
EPS (Rs)	28.1	39.3	46.6	53.7	63.2
Growth (%)	24.1	39.8	18.8	15.1	17.7
PER (x)	9.1	6.5	5.5	4.7	4.0
Dividend yield (%)	2.3	3.1	3.3	3.5	3.6
Price/Book (x)	1.1	1.0	0.9	0.8	0.7
ROA (%)	0.8	0.9	0.9	0.9	0.9
ROE (%)	13.1	16.4	17.2	17.2	17.6
CAR (%)	11.8	12.9	13.4	13.0	12.4

Price as at close of business on 29th January 2009.

12-mth Target price (Rs) 326 (28%)

Market cap (US$ m)	**1,892**
52Wk High/Low (Rs)	450/188
Diluted o/s shares (m)	364
Daily volume (US$ m)	6.4
Dividend yield FY09ii (%)	3.3
Free float (%)	46.2

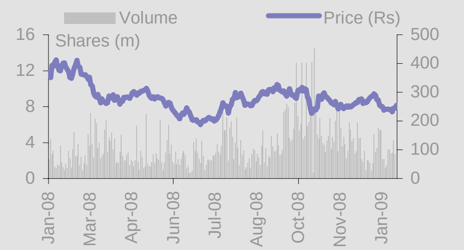
Shareholding pattern (%)

GOI	53.8
FIIs	18.0
Domestic MFs/Insurance cos	21.8
Others	6.4

Price performance (%)

	1M	3M	1Y
Bank of Baroda	-4.5	5.2	-37.6
Rel. to Sensex	-1.4	3.0	11.4
Bank of India	-16.8	8.3	-36.9
PNB	-23.9	-2.8	-41.4
Union Bank	-9.0	15.3	-27.3

Stock movement



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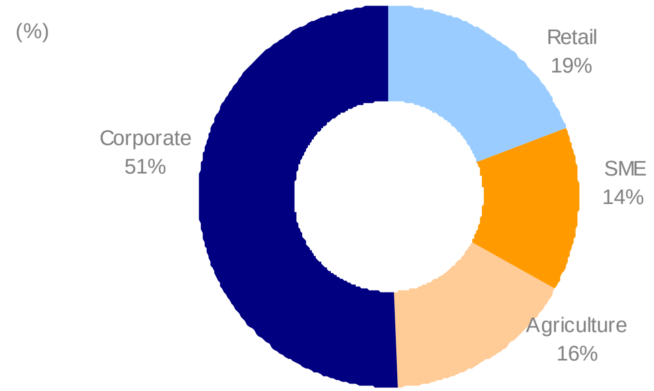
Core business going strong

Cost-to-income ratios remain low: Cost-to-income improved significantly to 41.7% for the quarter, compared to 47.5% in 2QFY09 and 42.3% in 3QFY08. The bank made a provision of Rs3.85bn towards wage negotiations and employee benefits under AS-15 for the 9-month period.

Figure 1: Loan mix as at 9MFY09



Source: Company, IIFL Research

Figure 2: Results at a glance

Rs m	3QFY08	2QFY09	3QFY09	QoQ (%)	YoY (%)
Interest Income	30,022	35,510	41,080	15.7	36.8
Interest expenses	20,047	24,172	26,462	9.5	32.0
Net interest income	**9,975**	**11,338**	**14,618**	**28.9**	**46.6**
Other Income	6,180	4,759	8,465	77.9	37.0
Total Income	**16,155**	**16,097**	**23,083**	**43.4**	**42.9**
Other expenses+Dep	6,831	7,641	9,627	26.0	40.9
Pre-provision profit	**9,324**	**8,456**	**13,456**	**59.1**	**44.3**
Provisions	1,570	2,419	3,501	44.7	123.1
Profit before tax	**7,754**	**6,037**	**10,646**	**76.3**	**37.3**
Taxation	2,744	2,084	3,562	70.9	29.8
Net Profit	**5,011**	**3,953**	**7,084**	**79.2**	**41.4**
Exceptional items (pre tax)	0	0	691		
PAT (excluding exceptional)	**5,011**	**3,953**	**6,624**	**67.6**	**32.2**
Business parameters (Rs bn)					
Loans	955	1,195	1,272	6.5	33.2
Deposits	1,369	1,611	1,686	4.7	23.2
CASA (%)	37.3	35.9	36.1	0.3	(1.2)
LDR (%)	69.8	74.2	75.4	1.3	5.7
P&L ratios (%)					
Net interest margin (%)	3.0	2.8	3.3	0.5	0.3
Cost/Tot Inc (%)	42.3	47.5	41.7	(5.8)	(0.6)
Non int inc/ Tot Inc (%)	38.3	29.6	36.7	7.1	(1.6)
Asset quality (Rs m)					
GNPLs	20,403	19,544	19,214	(1.7)	(5.8)
GNPL (%)	2.1	1.6	1.5	(0.1)	(0.6)
NNPLs	5,172	5,092	4,726	(7.2)	(8.6)
NNPLs (%)	0.5	0.4	0.4	(0.1)	(0.2)
NPL coverage (%)	74.6	73.9	75.4	1.5	0.8
Capital adequacy (%)					
CAR	13.5	12.9	13.2	0.3	(0.3)

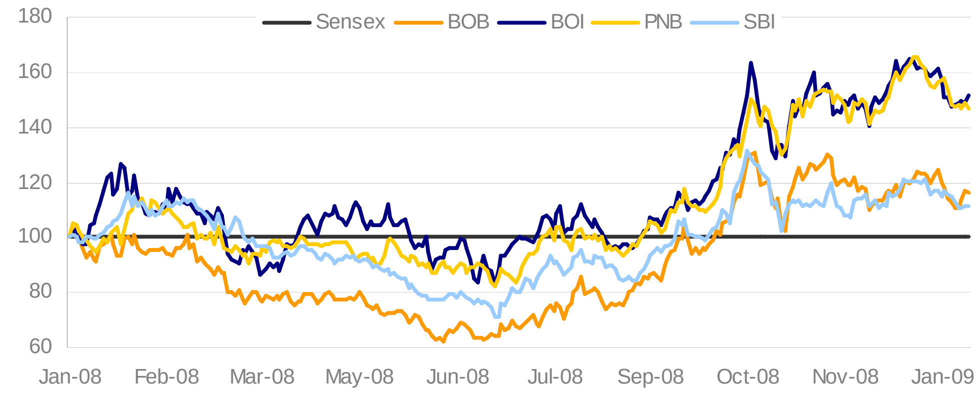
Source: Company, IIFL Research

Figure 3: Bank of Baroda - 3QFY09 results vis-à-vis peers

	BOB	BOI	UBI	SBI
Loan growth (%) - YoY	33.2	31.3	25.2	28.9
Deposit growth (%) - YoY	23.2	26.4	30.7	35.8
LDR (%)	75.4	79.3	71.7	73.6
Net profit growth (%)	41.4	70.4	84.0	37.0
NIM (%)	3.3	3.4	3.2	3.2
NIM change (bps) - YoY	0.3	0.3	0.4	0.1
GNPL growth (%) - YoY	(5.8)	12.4	0.2	25.1
GNPL (%)	1.5	1.6	1.7	2.6
NNPL (%)	0.4	0.5	0.1	1.4
CASA (%)	36.1	31.4	30.4	34.2
Tier 1 (%)	8.5	8.9	7.5	9.4
Annualized RoA (%)	1.0	1.7	1.9	1.0
Annualized RoE (%)	17.9	33.6	39.2	14.1

Source: Companies, IIFL Research

Figure 5: Relative performance – Bank of Baroda vis-à-vis peers



Source: Bloomberg, IIFL Research

Figure 4: Revised earnings estimates

	FY09ii	FY10ii	FY11ii
Net Profit (Rs m) - Old	15,352	18,682	21,874
Net Profit (Rs m) - New	17,050	19,632	23,097
% Change	11.1	5.1	5.6
EPS (Rs) - Old	42.0	51.1	59.8
EPS (Rs) - New	46.6	53.7	63.2
% Change	11.1	5.1	5.6
ROE (%) - Old	15.6	16.7	17.1
ROE (%) - New	17.2	17.2	17.6
Change (bps)	1.6	0.5	0.5

Source: IIFL Research

Financial summary

Net profit CAGR of 16% over FY09-11ii

Loan CAGR of 19% over FY09-11ii

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Interest income	90,041	118,135	147,854	171,619	200,449
Interest expense	54,266	79,017	97,968	114,386	133,731
Net interest income	**35,775**	**39,118**	**49,886**	**57,233**	**66,719**
Fee Income	7,121	8,190	12,807	15,314	18,377
Portfolio gains	1,362	5,322	6,386	5,428	5,428
Others	5,335	6,999	4,345	4,011	3,830
Non-interest income	**13,818**	**20,510**	**23,539**	**24,754**	**27,635**
Total op income	**49,593**	**59,628**	**73,425**	**81,987**	**94,354**
Employee cost	16,441	18,038	21,826	24,554	27,623
Other operating expenses	9,003	11,305	12,140	14,203	16,660
Total op expenses	**25,443**	**29,343**	**33,966**	**38,756**	**44,283**
Op profit pre prov	**24,150**	**30,286**	**39,459**	**43,230**	**50,071**
Provisions for loan losses	2,272	4,360	7,042	8,374	9,972
Other provisions	5,336	3,854	6,185	5,111	5,367
Profit before tax	**16,543**	**22,072**	**26,231**	**29,745**	**34,732**
Taxes	6,278	7,716	9,181	10,113	11,635
Net profit	**10,265**	**14,355**	**17,050**	**19,632**	**23,097**

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Net loans & advances	836,209	1,067,013	1,280,416	1,510,891	1,813,069
Placements to other banks	118,668	129,296	142,225	156,448	172,092
Cash & equivalents	64,135	93,697	131,531	152,416	182,284
Other int-earning assets	349,436	438,701	486,627	556,345	627,750
Total int-earning assets	**1,368,449**	**1,728,707**	**2,040,799**	**2,376,100**	**2,795,195**
Fixed assets	10,888	24,270	27,182	30,444	31,967
Other assets	52,125	43,018	45,169	49,686	50,680
Total assets	**1,431,462**	**1,795,995**	**2,113,151**	**2,456,230**	**2,877,841**
Customer deposits	1,249,160	1,520,341	1,801,604	2,107,877	2,487,295
Other int-bearing liabs	38,617	93,498	103,406	113,115	122,754
Total int-bearing liabs	**1,287,776**	**1,613,839**	**1,905,011**	**2,220,993**	**2,610,049**
Other non-int-bearing liabs	57,186	71,717	86,060	98,969	113,815
Total liabilities	**1,344,962**	**1,685,556**	**1,991,071**	**2,319,962**	**2,723,864**
Net worth	**86,499**	**110,439**	**122,080**	**136,268**	**153,977**
Total liabs & equity	**1,431,462**	**1,795,995**	**2,113,151**	**2,456,230**	**2,877,841**

Source: Company data, IIFL Research

Net interest margins to remain stable

Tier-I ratio remains comfortable

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	66.9	70.2	71.1	71.7	72.9
Loan Growth	39.6	27.6	20.0	18.0	20.0
Growth in Deposits	33.4	21.7	18.5	17.0	18.0
Growth in Total Assets	26.2	25.5	17.7	16.2	17.2
Profitability Ratios (%)					
Net Interest Margin	2.9	2.5	2.6	2.6	2.6
Return on Average Assets	0.8	0.9	0.9	0.9	0.9
Return on Average Equity	13.1	16.4	17.2	17.2	17.6
Non-Int Inc as % of Tot Inc	27.9	34.4	32.1	30.2	29.3
Net Profit Growth	24.1	39.8	18.8	15.1	17.7
FDEPS Growth	24.1	39.8	18.8	15.1	17.7
Efficiency Ratios (%)					
Cost to Income Ratio	51.3	49.2	46.3	47.3	46.9
Salaries as % of Non-Int Costs	64.6	61.5	64.3	63.4	62.4
Credit Quality Ratios (%)					
Gross NPLs as % of loans	2.5	1.9	2.0	2.3	2.2
NPL coverage ratio	76.0	75.1	71.6	72.6	73.4
Total prov as % avg loans	0.6	0.6	0.7	0.6	0.6
Net NPLs as % of net loans	0.6	0.5	0.6	0.6	0.6
Capital Adequacy Ratios (%)					
Total CAR	11.8	12.9	13.4	13.0	12.4
Tier I capital ratio	8.7	7.6	8.2	8.1	8.0
Key earnings drivers (%)					
Loan growth	39.6	27.6	20.0	18.0	20.0
Net interest margin	2.9	2.5	2.6	2.6	2.6
Net int income growth	12.7	9.3	27.5	14.7	16.6
Core fee income growth	32.1	15.0	56.4	19.6	20.0
Non-int inc as % of total	27.9	34.4	32.1	30.2	29.3
Operating costs growth	6.7	15.3	15.8	14.1	14.3
Cost/income ratio	51.3	49.2	46.3	47.3	46.9
Gross NPAs as % of loans	2.5	1.9	2.0	2.3	2.2
Total prov as % of loans	0.6	0.6	0.7	0.6	0.6
Tax rate	37.9	35.0	35.0	34.0	33.5

Source: Company data, IIFL Research

Quick Take

Britannia – BUY

FMCG | **30 Jan 2009**

Sales growth momentum sustained

Britannia's 3QFY09 pre-exceptional PAT grew 8% YoY below our estimated growth of 16%, with the key variance arising out of lower other income. Sales growth continued to be robust at 25% in line with our estimate with an underlying volume growth of 12%. EBITDA margin decline was arrested to 72bps as the 323bps rise in raw-material costs was largely offset by a reduction in employee, advertising and other expenses. Higher raw-material costs were on account of older high-priced inventory of agri-commodities, which was booked during the quarter. The EBITDA growth of 14% YoY didn't translate entirely into earnings growth due to lower-than-expected other income, higher interest cost and tax rate. With a decline in commodity prices however, we expect the raw-material pressures to abate going forward, leading to margin expansion. We reiterate BUY.

- **Strong sales growth momentum:** Britannia was able to sustain its high sales growth momentum by delivering 25% sales growth in 3QFY09, taking the 9MFY09 sales growth to 24%. Volume growth was strong at 12%, despite over 10% price hikes across most brands including discount brands like *Tiger* glucose biscuits.
- **Raw-material costs increase, all other expenses scaled back:** Britannia's raw-material costs increased by 323bps, despite a fall in the market prices for many of its key inputs like edible oil and wheat, which form over 50% of the company's raw-material costs. The company had increased raw-material inventory levels in the last two quarters and thus would have used high-priced inventory during the quarter. However, given the softening in prices of these commodities, we expect raw-material cost pressures to ease in the coming quarters. The company was however able to largely offset the impact of the higher raw material costs by containing all other expense heads like employee costs, advertising and other expenses. Overall EBITDA grew by 14.4% YoY.
- **Lower than expected other income, higher interest cost impacted pre-exceptional PAT:** Other income (forms over 20% of PBT) was below expectation, growing by just 17%. In contrast, it had grown by c50% in 1HFY09, thanks to income on the nearly Rs4bn investments on Britannia's books. The trend in other income is not stable at a quarter level and we expect the company to report much higher other income in 4QFY09.

CMP	**Rs1345**
12-mth Target price (Rs)	***1765 (32%)***
Market cap (US$ m)	**654**
Bloomberg	**BRIT IN**
52Wk High/Low (Rs)	1650/980
Diluted o/s shares (m)	24
Daily volume (US$ m)	0.1
Dividend yield FY09 (%)	2.6
Free float (%)	49.1
Shareholding pattern (%)	
Promoters	51.0
FIIs	7.5
Domestic MFs/Insurance cos	22.4
Others	19.2

Price performance (%)

	1M	3M	1Y
Britannia	5.6	17.9	-6.8
Rel. to Sensex	8.7	15.8	42.1
Nestle	3.9	4.6	9.5
GSK Consumer	10.1	5.8	-5.6
ITC	2.5	14.6	-12.8

Stock movement

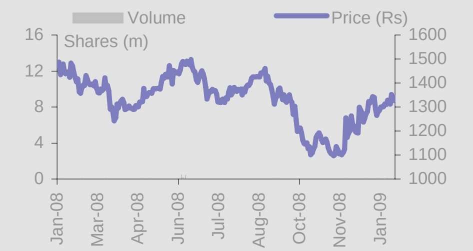


Figure 1: Britannia's 3QFY09 results

Rs m	3QFY08	2QFY09	3QFY09	% YoY	% QoQ
Net sales	**6,563**	**8,385**	**8,183**	**24.7%**	**-2.4%**
Expenditure	-5,989	-7,714	-7,527	25.7%	-2.4%
EBITDA	**574**	**672**	**656**	**14.4%**	**-2.3%**
EBITDA margin (%)	**8.7**	**8.0**	**8.0**	**-72bps**	**1bps**
Interest	-16	-44	-30	89.9%	-32.1%
Depreciation	-73	-82	-86	17.7%	5.3%
Other income	63	167	73	17.4%	-56.1%
PBT	**547**	**713**	**614**	**12.1%**	**-14.0%**
Tax	-61	-116	-88	45.0%	-24.0%
Tax rate (%)	11.1	16.2	14.3	325bps	-189bps
PAT before extraordinaries	**487**	**598**	**526**	**7.99%**	**-12.01%**
Extraordinary Items & Minority Interest	-33	-64	-64	93%	1%
PAT after Extraordinary Items	**453**	**534**	**462**	**1.8%**	**-13.6%**

Source: Company, IIFL Research

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- **Reiterate BUY:** Britannia is trading at a PE of 10.5x on FY10ii, which is at a 40% discount to its 3-year average P/E of 18.6x. We estimate an earnings CAGR of 21% over FY08-11ii compared to the 5.7% earnings CAGR over FY05-08; this is likely to drive a re-rating of the stock. We maintain BUY with a target price of Rs1,765.

Figure 2: Raw-material costs shot up while all other expenses were contained

Rs m	3QFY08	2QFY08	3QFY09	% YoY	% QoQ
Raw Materials	3,902	5,179	5,130	31.5%	-0.9%
% of Sales	*59.5*	*61.8*	*62.7*	*323bps*	*93bps*
Staff Costs	229	241	246	7.4%	2.1%
% of Sales	*3.5*	*2.9*	*3.0*	*-48bps*	*13bps*
Advertisement	509	559	541	6.3%	-3.1%
% of Sales	*7.8*	*6.7*	*6.6*	*-114bps*	*-5bps*
Other Expenses	1,349	1,736	1,610	19.3%	-7.2%
% of Sales	*20.6*	*20.7*	*19.7*	*-88bps*	*-102bps*

Source: Company, IIFL Research

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Ashok Leyland – REDUCE

Auto

30 Jan 2009

3QFY09 aided by accounting adjustments

Ashok Leyland's (ALL) 3QFY09 results were much better than our expectation, largely on account of the accounting adjustments carried out with respect to reversal of MTM forex-losses charge in 1HFY09. Operationally too, results were better than our expectation, aided by the robust performance of the non-automotive businesses (engine and spare parts). Going forward, the demand environment is expected to remain weak and with ALL increasing capacity from the current 80,000 vehicles (50% capacity utilisation currently) to 150,000 vehicles by March 2010, capacity utilisation will remain low for at least the next two-three years. We retain our REDUCE rating on the stock.

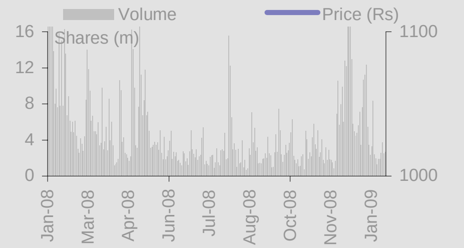
CMP	**Rs14**
Target Price	**Rs12 (-15%)**
Market cap (US$ m)	**382**
Bloomberg	**AL IN**

52Wk High/Low (Rs)	44/12
Diluted o/s shares (m)	1330
Daily volume (US$ m)	1.7
Dividend yield FY09 (%)	3.6
Free float (%)	55.4
Shareholding pattern (%)	
Promoters	38.6
FIIs	8.8
Domestic MFs/Insurance cos	18.8
Others	33.8

Price performance (%)

	1M	3M	1Y
Ashok Leyland	-6.3	-23.4	-60.7
Rel. to Sensex	-1.4	-25.6	-12.7
Tata Motors	-2.7	-4.9	-77.5
Eicher Motors	-7.1	32.5	-25.9

Stock movement



Non-automotive business cushions the decline in revenues

In spite of a 58% decline in CV volumes, revenue decline was contained at 44% as the engines and spare-parts businesses performed much better than expected. These businesses contributed 18% and 12% respectively of the quarter's revenues. The company sold 4,200 engines in the telecom and genset market, up from 2,300 engines in the year-ago period.

Margins were better than expected

- **Raw materials:** Benefits from the decline in commodity prices started during 3QFY09, resulting in the 'raw-material to sales' ratio declining by 200bps QoQ. We believe this will also be a function of the higher spare parts and engine sales, on which the company enjoys better margins. We expect this benefit to increase, going forward.
- **Employee costs:** Staff costs during the quarter were lower by Rs250m YoY as the company has cut 700-800 temporary jobs, executives have taken a 10% voluntary pay cut and with the plant working for only three days a week, employees cannot avail of leave encashment benefits. For the full year, management expects to reduce employee costs by 20% YoY.

Financial summary

Y/e 31 Mar	FY07A	FY08ii	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	71,497	77,291	64,858	65,692	74,843
EBITDA Margins (%)	9.8	10.4	8.7	7.8	8.7
Pre-Exceptional PAT (Rs m)	4,542	4,589	2,351	1,788	2,227
Reported PAT (Rs m)	4,412	4,838	2,267	1,788	2,227
EPS (Rs)	3.4	3.4	1.8	1.3	1.7
Growth (%)	48.8	1.0	-48.8	-23.9	24.5
PER (x)	4.1	4.1	8.0	10.5	8.4
ROE (%)	23.3	22.5	9.5	7.0	8.2
Debt/Equity (x)	0.3	0.4	1.1	1.1	1.2
EV/EBITDA (x)	3.0	2.9	4.7	5.7	4.7
Price/Book (x)	1.0	0.9	0.8	0.7	0.7

Price as at close of business on 29 January 2009

Figure 1: 3QFY09 results were better than expected

(Rs m)	3QFY08	2QFY09	3QFY09	% YoY	% QoQ
Net Sales	**18,001**	**18,664**	**10,008**	**(44.4)**	**(46.4)**
Raw Material	13,590	13,952	7,357	(45.9)	(47.3)
Raw Mat/Sales (%)	75.49	74.75	73.51	**-199 bps**	**-124 bps**
Employee costs	1,478	1,570	1,225	(17.1)	(22.0)
Other Expenditure	1,278	1,603	1,093	(14.5)	(31.8)
EBIDTA	**1,655**	**1,539**	**334**	**(79.8)**	**(78.3)**
EBIDTA Margin	**9.2**	**8.2**	**3.3**	**-586 bps**	**-491 bps**
Depreciation	408	505	358	(12.4)	(29.2)
Interest	152	246	394	158.5	60.4
Other income	107	141	603	463.9	326.8
PBT	**1,201**	**930**	**185**	**(84.6)**	**(80.1)**
Tax	316	236	(26)	(108.1)	(110.9)
Adjusted PAT	26	25	(14)	**(152.5)**	**(154.6)**
Adj. PAT Margin	**885**	**694**	**211**	**(76.2)**	**(69.6)**
Extra ordinary expense/(income)	**4.9**	**3.7**	**2.1**		
Reported PAT	(317)	22	22		

Source: Company, IIFL Research

Other expenditure was much lower on accounting adjustments

The other big contribution to margins came from other expenditure, which declined by Rs1,000m on account of three reasons:

i) The company has decided not to follow AS-11 and has consequently reversed the MTM forex losses charged in the first two quarters. The company is now following a policy of amortising the losses over the period of the loan. This contributed Rs348m. The company also booked a forex gain of Rs150m from its treasury operations. We have adjusted this charge of Rs498m to calculate our EBITDA.

ii) Lower activity levels (lower shifts and only three days a week) resulting in lower consumption of variable expenses like power and tools consumed contributed Rs210m.

iii) The company has also cut discretionary costs in administrative overheads, advertising, travel, etc; this contributed ~Rs200m.

Lower depreciation charge and tax reversals

Depreciation charge during the quarter was lower by Rs150m QoQ as the company operated on only a single-shift basis and that too for only three days a week. The company now expects to pay only MAT this year and has reversed the excess tax provisions made in the first half of the year.

Key takeaways from conference call

Capex plans reduced, but capacity utilisation will still remain low

The company has incurred a capex of Rs8.25bn YTD and may spend another Rs250m on the Uttaranchal plant in 4QFY09. The company will incur a further capex of Rs4bn on the Uttaranchal plant in FY10. However, the total capacity at the Uttaranchal plant has now been slashed to 50,000 vehicles from 70,000 vehicles, resulting in an overall capex reduction of Rs7bn. The Uttaranchal plant will now be commissioned in March 2010 and the company would have incurred a total capex of ~Rs13bn. Given the weak demand environment, the company is in discussions with Nissan on the investments required in the JV.

Demand environment still weak

Whilst availability of finance has improved in the month of January (after the announcement of the fiscal package), freight availability remains weak. Demand from the tractor-trailer segment has collapsed on account of weak exports. Management said that the eastern markets are doing relatively better, with only a 10% decline, whereas the western and the southern market (key for the company) have declined by more than 65%. The passenger segment and export markets are also doing relatively better and the company has an order book of more than 2,000 vehicles each in both these segments.

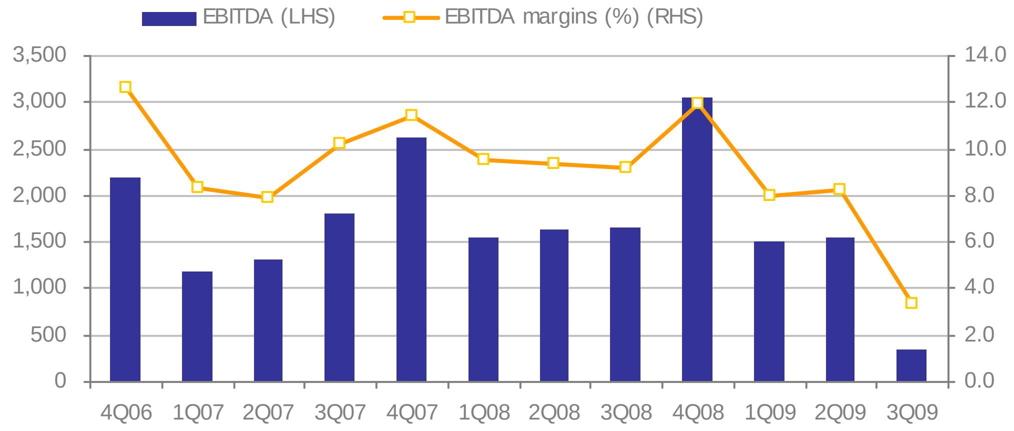
Likely to continue with a three-day week in 4QFY09

The company plans to continue with a three-day week schedule in January and February as well, producing ~1,200 vehicles a month. Management expects demand to remain subdued and is expecting sales of close to 15,000 vehicles in 4QFY09. The company already has an inventory of more than 10,000 vehicles and plans to bring this down to 6,000 vehicles by the end of 4QFY09.

Working-capital debt has increased

The increased inventory and delayed payments from its dealers have led to an increase in working capital requirement. Though the company is also delaying payments to its suppliers, working-capital requirement has still gone up from Rs4bn to ~Rs10bn. The total debt on the books now stands at Rs26bn (Rs16bn long-term and Rs10bn short–term).

Figure 2: Adjusted EBITDA margins collapsed to 3.3%



Source: IIFL Research

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Quick Take

Thermax – REDUCE

Capital Goods | **30 Jan 2009**

Bleak demand outlook

Thermax's standalone revenues declined 6% YoY in 3QFY09. Execution rates declined in some projects as clients faced funding issues. The management indicated that execution rates would continue to be low in FY10. Order inflow visibility is dim as demand outlook in some sectors such as cement and metals remains uncertain. FY10 revenue visibility has decreased owing to slower execution, order cancellations and weak order inflows. We cut our FY09 and FY10 revenue estimates by 7% and 16% respectively. Profitability would remain under pressure as well, with increasing competitive intensity. We maintain REDUCE.

Diminishing revenue visibility

- Standalone 3QFY09 revenues declined 6% YoY against our estimate of 6% YoY growth. The decline was driven by the 9% YoY fall in energy segment revenues. Consolidated revenues declined 10.6% YoY, much below our estimate of 8% YoY growth.
- Management indicated that the company had to lower execution rates in some projects to match delivery with clients' paying capability. Additionally, the recent surge in the order book was driven by three large orders, which have a longer execution cycle compared to the company average. Worryingly, the management indicated that execution rates are unlikely to improve in FY10.
- Thermax also witnessed cancellations of orders worth Rs1.2bn in 3Q. This includes one petrochemical sector export order from Canada. Other orders were primarily from domestic sponge-iron players.
- Order inflow outlook remains bleak. 9MFY09 order inflows were driven by the power, metallurgy, refinery and petrochemicals and cement sectors. The management commented that order award activity from metals and cement would be muted going forward. The company is placing its bet on winning utility boiler orders. However, the award cycle can be long, as Thermax would have to establish its credentials in this segment. Also, power projects would not help boost revenues in FY10.

CMP	**Rs157**
12-mth Target price (Rs)	***156 (-1%)***
Market cap (US$ m)	**382**
Bloomberg	**TMX IN**

52Wk High/Low (Rs)	750/150
Diluted o/s shares (m)	119
Daily volume (US$ m)	0.6
Dividend yield FY09ii (%)	5.0
Free float (%)	38.0

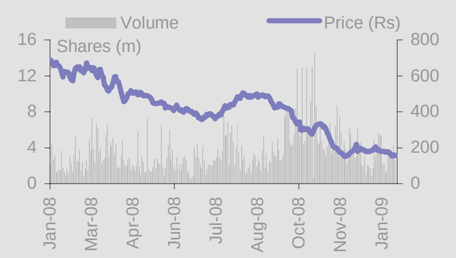
Shareholding pattern (%)

Promoters	62.0
FIIs	7.0
Domestic MFs/Insurance cos	15.3
Others	15.7

Price performance (%)

	1M	3M	1Y
Thermax	-11.5	-49.5	-76.5
Rel. to Sensex	-8.4	-51.6	-27.6
BHEL	0.9	15.5	-33.8
Alstom	-4.8	-1.4	-70.9
Siemens	-27.5	-23.2	-77.8

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	23,267	34,815	35,014	35,045	37,060
EBITDA margins (%)	12.4	12.3	11.9	11.1	10.8
Reported PAT (Rs m)	1,992	2,886	2,762	2,654	2,684
EPS (Rs)	16.7	24.2	23.2	22.3	22.5
Growth (%)	94.3	44.9	-4.3	-3.9	1.1
PER (x)	**9.4**	**6.5**	**6.8**	**7.1**	**7.0**
ROE (%)	38.0	42.8	32.5	25.8	22.3
EV/EBITDA (x)	6.1	4.2	4.0	4.2	3.6
Price/Book (x)	**3.2**	**2.5**	**2.0**	**1.7**	**1.5**

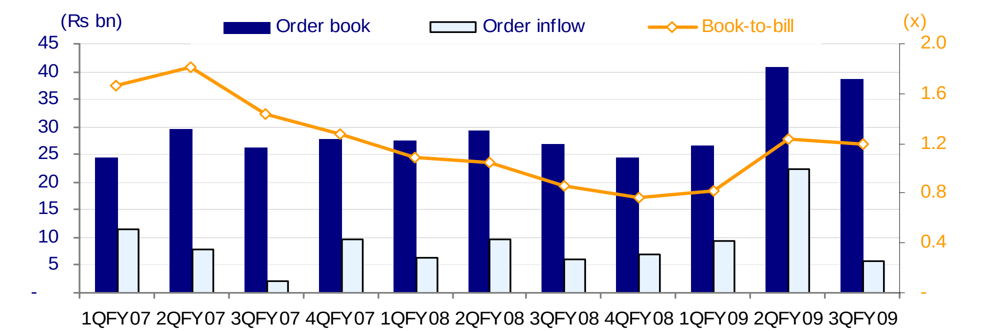
Source: Company, IIFL Research. Price as on 29 January 2009

- End-3QFY09 group order book stands at Rs41bn. This includes three large projects totalling ~Rs16bn which have a long execution cycle. Owing to slower execution rates and low order inflow visibility, we cut revenue estimates by 7% for FY09 and 16% for FY10.

Profitability to remain under pressure

- EBITDA margins contracted 20bps to 12.2%, marginally ahead of our estimate. However, excluding forex loss of Rs106m (included in other expenses) in 3QFY09 vs a forex gain of Rs23.7m (included in other income) during 3QFY08, EBITDA margin expanded 109bps to 13.5%.
- According to the company, margins were helped by higher contribution from the products business and cost savings in operations. Although management aims to maintain margins, this would be tough in an environment where demand from the main sectors—cement, steel and refineries—is slowing down.
- Standalone net profit at Rs723m declined 3.6% YoY. Net profit was hit by a sharp 25% QoQ increase in depreciation expenses. Depreciation costs have increased due to capitalisation of the Baroda facility.
- Consolidated net profit declined 10.6% YoY, as some key subsidiaries made losses during the quarter. These were Thermax Instrumentation, Thermax Inc (USA) and Thermax Zhejiang, its Chinese subsidiary, which started operations in October 2008.

Figure 1: Standalone order book does not provide good revenue visibility



Source: Company, IIFL Research

Figure 2: Standalone 3QFY09 results

Rs m	3QFY08	2QFY09	3QFY09	%YOY
Net sales	**8,454**	**8,041**	**7,951**	**-6.0**
(Inc)/Dec in Stock	351	(127)	5	-98.5
Raw Materials	5,622	5,212	5,210	-7.3
Staff Cost	631	586	704	11.5
Other Expenditure	801	1,063	958	19.6
EBITDA	**1,049**	**1,307**	**1,074**	**2.3**
EBITDA margin	***12.4%***	***16.3%***	***13.5%***	**109 bps**
Foreign exchange loss	-	374	106	
Reported EBITDA	**1,049**	**932**	**968**	**-7.8**
Reported EBITDA margin	***12.4%***	***11.6%***	***12.2%***	**-24 bps**
Depreciation	53	67	84	58.5
Interest	3	8	6	127.2
Other Income	86	80	88	2.2
PBT	**1,080**	**937**	**966**	**-10.5**
Tax	330	368	243	-26.2
Tax Rate	*31%*	*39%*	*25%*	
Reported PAT	**750**	**570**	**723**	**-3.6**
EPS (Rs)	**6.30**	**4.78**	**6.07**	**-3.6**

Source: Company, IIFL Research

Figure 3: Standalone segment results

Rs m	3QFY08	2QFY09	3QFY09	%YOY
Energy				
Sales	6,908	5,785	6,283	-9.0
EBIT	873	675	782	-10.5
EBIT margin	*12.6%*	*11.7%*	*12.4%*	*-20 bps*
Environment				
Sales	1,624	2,450	1,853	14.1
EBIT	199	283	235	18.0
EBIT margin	*12.2%*	*11.5%*	*12.7%*	*42 bps*

Source: Company, IIFL Research

Figure 4: Consolidated 3QFY09 results

Rs m	3QFY08	2QFY09	3QFY09	%YOY
Net sales	**9,335**	**8,399**	**8,348**	**-10.6**
PBT	**1,126**	**902**	**954**	**-15.3**
Tax	329	359	246	-25.2
Tax Rate	*29%*	*40%*	*26%*	
Net profit	**797**	**543**	**707**	**-11.2**
Net profit margin	***8.5%***	***6.5%***	***8.5%***	**-6 bps**
EPS (Rs)	**6.69**	**4.56**	**5.94**	**-11.2**

Source: IIFL Research

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Dishman Pharma – ADD

DISH IN	Rs105	Pharmaceuticals	30 Jan 2009	Earnings update

Great quarter; but full-year numbers to be in line

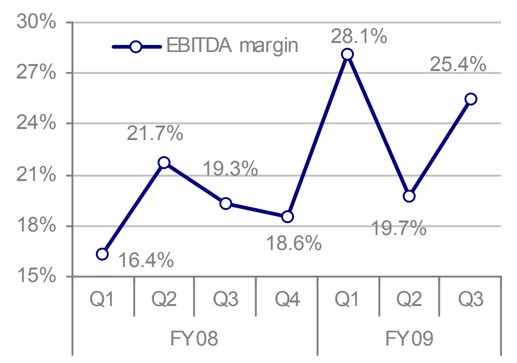
Dishman Pharma's 3QFY09 result was much better than expected, but the company projected a rather weak 4Q. The net result is that full-year FY09 earnings would be in line with our prior estimates and about 20% below the company's original guidance. A marginal positive surprise in revenues and a 570bps QoQ EBITDA margin expansion enabled the company to significantly surpass our expectation and register a near-70% (YoY and QoQ) growth in core earnings in 3QFY09. The margin expansion was aided by rupee depreciation and lower raw-material prices. Inventory reduction in Solvay Pharma, a large client accounting for close to 20% of Dishman's topline, may result in significantly lower profits in 4QFY09. In view of Dishman's relative resilience to global slowdown and the sharp correction in its stock price, we upgrade the stock from SELL to ADD and raise our target price from Rs100 to Rs121.

CRAMS business trend yet to be ascertained: Like in 2QFY09, a significant part of the topline growth in 3QFY09 came from the low-margin business of marketed molecules. Management attributed the 570bps QoQ EBITDA margin expansion to lower raw-material prices and a depreciating rupee. In our view, much of these gains may have to be passed on to end-product customers in the quarters ahead. Furthermore, CRAMS revenues from India have not grown for the last three quarters, indicating that the increase in capacity utilisation has been slower than the company's earlier guidance.

Volatile margins: Dishman's EBITDA margins have been significantly volatile over the quarters—28.1% in 1Q, 19.7% in 2Q and 25.4% in 3QFY09. Hence, we would wait for a couple more quarters to assess sustainability of margins at current levels.

We upgrade stock to ADD: Dishman's stock has fallen by almost 50% since our downgrade to SELL. We feel that there is limited downside to the stock from current levels, given the lower-than-expected impact of the global credit crunch seen in 3QFY09. At the same time, the lower profit expectation for 4QFY09 and the risk of further worsening of the impact of slowdown could be a near-term overhang. We upgrade the stock to ADD and raise our 12-month price target to Rs121 (8x FY10ii core earnings).

Volatile margins



Source: Company reports, IIFL Research

Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	5,786	8,031	10,145	11,690	12,988
EBITDA Margins (%)	19.9%	19.0%	22.6%	21.6%	21.4%
Pre-Exceptional PAT (Rs m)	917	1,163	896	1,304	1,429
Reported PAT (Rs m)	917	1,163	896	1,304	1,429
EPS (Rs)	11.3	14.2	11.0	16.0	17.5
Growth (%)		25.4	-22.9	45.6	9.5
PER (x)	9.2	7.4	9.5	6.6	6.0
ROE (%)	28.8	20.3	13.2	16.3	15.3
Debt/Equity (x)	1.8	1.1	1.1	0.9	0.7
EV/EBITDA (x)	11.9	9.7	6.8	6.1	5.3
Price/Book (x)	2.7	1.5	1.3	1.1	0.9

Price as at close of business on 29 January 2009

12-mth Target price (Rs) 121 (16%)

Market cap (US$ m)	**172**
52Wk High/Low (Rs)	350/97
Diluted o/s shares (m)	81
Daily volume (US$ m)	0.3
Dividend yield FY09ii (%)	1.1
Free float (%)	39.3

Shareholding pattern (%)

Promoters	60.7
FIIs	10.4
Domestic MFs/Insurance cos	17.9
Others	11.1

Price performance (%)

	1M	3M	1Y
Dishman Pharma	-24.2	-24.4	-66.3
Rel. to Sensex	-21.1	-26.5	-17.4
Divi's Lab	-33.3	-10.8	-42.2
Jubilant Organosys	2.6	-27.0	-62.5
Biocon	-16.6	7.5	-51.4

Stock movement

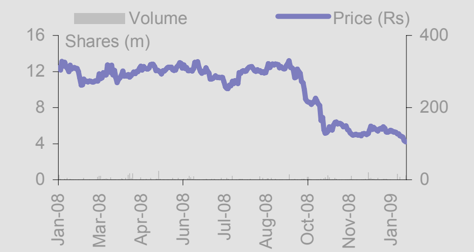


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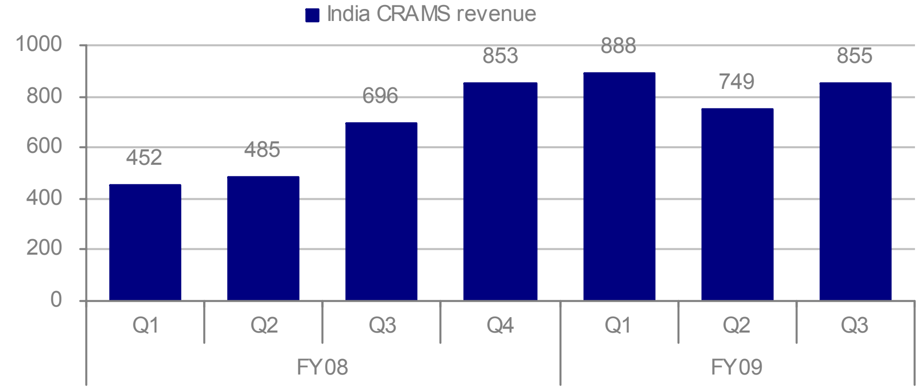
Figure 1: Strong 3QFY09

Rs m	3QFY08	2QFY09	3QFY09	YoY	QoQ
Carbogen Amcis	854	1,026	1,049	22.8%	2.3%
Dishman CRAMS	696	749	855	22.8%	14.0%
Dishman Netherlands	104	255	284	174.3%	11.7%
Marketed molecules - Dishman	326	490	632	94.1%	28.8%
Others	87			-100.0%	NM
Total operating revenue	2,066	2,520	2,820	36.5%	11.9%
Cost of materials / goods & manufacturing exp	771	856	934	21.2%	9.1%
Employee cost	547	646	699	27.7%	8.1%
Administrative, selling & other exp	349	521	469	34.5%	-10.0%
EBITDA	399	496	717	80.0%	44.5%
EBITDA Margin	19.3%	19.7%	25.4%	615bps	575bps
Depreciation	104	139	170	63.1%	22.0%
Operating profit	294	357	547	86.0%	53.3%
Operating margin	14.2%	14.2%	19.4%	517bps	525bps
Other income	125	(235)	51	NM	NM
Interest cost	77	87	101	31.6%	16.0%
PBT	343	35	497	45.2%	1322.2%
Total Provision for tax	22	7	102	362.1%	1276.4%
Net profit	320	28	396	23.7%	1322.1%

Source: Company reports, IIFL Research

Figure 2: India CRAMS revenue has not grown over last three quarters



Source: Company reports, IIFL Research

Financial summary

Large forex losses in FY09

Income statement summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue	5,786	8,031	10,145	11,690	12,988
EBITDA	1,151	1,528	2,292	2,528	2,779
EBIT	**888**	**1,056**	**1,703**	**1,892**	**2,064**
Interest expense	189	305	411	486	517
Others	260	477	-306	80	80
Profit before tax	**959**	**1,227**	**987**	**1,486**	**1,627**
Taxes	43	65	91	178	195
Minorities and other	1	0	0	3	3
Net profit	**917**	**1,163**	**896**	**1,304**	**1,429**

Capital expenditure plans have been scaled back

Expecting to be free-cash-flow positive in FY10

Cashflow summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Profit before tax	960	1,228	987	1,486	1,627
Depr. & amortization	266	472	589	636	715
Tax paid	61	113	91	178	195
Working capital Δ	-841	-1,386	-1,359	-720	-632
Other operating items	103	292	716	406	437
Operating cashflow	427	494	842	1,629	1,952
Capital expenditure	-4,228	-2,567	-1,100	-1,000	-700
Free cash flow	**-3,801**	**-2,073**	**-258**	**629**	**1,252**
Equity raised	30	205	0	0	0
Investments	-24	0	0	0	0
Debt financing/disposal	2,968	2,275	1,158	-98	-661
Dividends paid	-55	-89	-94	-84	-122
Other items	-138	-314	-716	-406	-437
Net change in cash	**-1,020**	**3**	**90**	**41**	**32**

Source: Company data, IIFL Research

Large debt on books, lower cash flow may put the company in risk of default

The EBITDA margin expansion in FY09 may not be sustainable

Balance sheet summary (Rs m)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Cash & equivalents	368	371	461	502	534
Sundry debtors	1,252	2,042	2,435	2,806	3,117
Inventories - trade	2,978	3,047	5,073	5,845	6,494
Other current assets	839	1,127	1,522	1,754	1,948
Fixed assets	**4,676**	**6,820**	**7,331**	**7,695**	**7,680**
Intangible assets	1,354	1,510	1,510	1,510	1,510
Other term assets	143	20	20	20	20
Total assets	**11,609**	**14,936**	**18,350**	**20,131**	**21,303**
Sundry creditors	2,707	2,472	3,927	4,581	5,105
Long-term debt/CBs	5,609	6,580	7,477	7,379	6,718
Other long-term liabs	109	149	149	149	149
Minorities/other equity	0	0	0	3	6
Net worth	**3,183**	**5,735**	**6,797**	**8,018**	**9,324**
Total liabs & equity	**11,609**	**14,936**	**18,350**	**20,131**	**21,303**

Ratio analysis

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenue growth (%)	108.5	38.8	26.3	15.2	11.1
Op Ebitda growth (%)	77.6	32.7	50.0	10.3	9.9
Op Ebit growth (%)	68.3	18.9	61.3	11.1	9.1
Op Ebitda margin (%)	19.9	19.0	22.6	21.6	21.4
Op Ebit margin (%)	15.4	13.1	16.8	16.2	15.9
Net profit margin (%)	15.9	14.5	8.8	11.2	11.0
Dividend payout (%)	9.5	8.0	6.9	8.0	8.0
Tax rate (%)	4.4	5.3	9.2	12.0	12.0
Net debt/equity (%)	164.7	108.3	110.0	92.0	72.0
Net debt/op Ebitda (x)	4.6	4.1	3.3	2.9	2.4
Return on equity (%)	28.8	20.3	13.2	16.3	15.3

Source: Company data, IIFL Research

IIFL

Events calendar – January 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1	2	3
ACC – 5 Feb Ambuja Cement – 6 Feb Patni – 12 Feb			Nov Exports ↓ **10%** Nov Imports ↑ **6%** WPI for 20 Dec ↓ **6.4**%		
5	6	7	8	9	10
				Axis Bank WPI for 27 Dec ↓ **5.9%**	Sintex Inds
12	13	14	15	16	17
Exide Inds November IIP ↑ **2.4%**	Infosys	HDFC Bank, GTL Infra	Infotech Ent, Power Fin, TCS WPI for 3 Jan ↓ **5.2%**	Bajaj Auto, Federal Bk, HCC,	
19	20	21	22	23	24
Apollo Tyre, ITC, KPIT, Mindtree, Ultratech Cement	Alstom Projects, Dr Reddy, Hero Honda, Rel Capital, Rel Pet	Biocon, HDFC, Hind Zinc, India Infoline, Yes Bank, Wipro, Zee, Pantaloon	3i Infotech, Apar Inds, Balkrishna Inds, Bank of India, Bharti, Cipla, IDEA, Kotak Mahindra Bank, Marico, Noida Toll, Ranbaxy, Reliance Ind, Reliance Infra, Reliance Power, United spirits WPI for 10 Jan ↑ **5.6%**	Canara Bank, Concor, Crompton Greaves, Edelweiss, Everest Kanto, HCL Tech, ING Vysya, Karnataka Bk, Punj Lloyd, Rel Comm, Tanla, Tech Mahindra, UBI, Vijaya Bank, PTC India	Divi's Lab, ICICI Bank, Kesoram, NTPC, SBI, Sterlite Inds Hind. Unilever **(25 Jan)**
26	27	28	29	30	31
	GSK Consumer, Genus Power, Glenmark, Jubilant Org, Jyoti Structures, Opto Circuit, Nagarjuna Const, SAIL, Corporation Bank Monetary policy	Ashok Leyland, Bharat Bijlee, CESC, Dabur India, Gammon India, India Cements, J&K Bk, JSW Steel, Lakshmi energy Max India, NALCO, Philips Carbon, PGCIL, Shree Cements, Tata Comm, Tata Steel, Thermax, United Phos, GAIL, HPCL, ONGC	B L Kashyap, Bajaj Hind., BHEL, BoB, Britannia, DCB, Dishman, EMCO, GMR Infra, IDFC, Karur Vysya Bk, Madras Cement, Maruti, Suzlon Energy, Tata Power, Voltamp, BPCL, Cairn India WPI for 17 Jan	Colgate, Gipco, Hindalco, ICSA, IOB, IVRCL, Indiabulls Real Estate, Jain Irrig, Kalpataru Power, KEC Intl, L&T, MTNL, Mundra Port, Nu-tek, OBC, Onmobile, Patel Engg, PNB, Peninsula Land, Puravankar, Siemens, Simplex Infra, Sun Pharma, Tata Motors, Webel Solar, Welspun Guj. IOC	Anant Raj, Bombay Rayon, DLF, Grasim, GVK Power, Mahindra & Mahindra, Sadbhav Engg, Sobha Dev, Unitech

Black: Quarterly results, Blue: Economic data, Red: India Holiday

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Economics / Politics	• RBI's Monetary Policy meeting (end Jan)	• India's national elections • State elections in Andhra Pradesh, Orissa, Sikkim • RBI's Monetary policy meeting (end April)	• RBI's Monetary policy meeting (end July)	• RBI's Monetary policy meeting (end October)	
Auto	• **Tata Motors** - Launch of the eagerly awaited Nano. • **Maruti** – launch of the Splash	• **Tata Motors** – Repayment of the US$3bn bridge loan taken for the JLR acquisition (Jun-09)			• **M&M's** Chakan plant with a capacity of 320,000 vehicles to start operations.
Cement	• **Dalmia Cement's** 2.3mtpa Cuddapah plant to start production • **Kesoram** 1.7 mtpa cement capacity expansion • **OCL's** 2.0 mtpa Orissa plant to start • **India Cements** 1.5 mtpa Malkapur, AP plant to start • **Deccan cements** 1.1 mtpa AP plant to start	• **ACC's** 1.2 mtpa Bargarh plant to start • **JK Cement** 3.5 mtpa Karnataka plant to start • **Orient Cement** 1.6 mtpa Devapur, AP plant to start • **Grasim's** 4.4 mtpa Kotputli expansion to commence prod.	• **Lafarge's** 1.3 mtpa Sonadih plant to start • **Dalmia Cements** 2.3 mtpa Ariyalur plant to start • **Zuari Cements** 2.4 AP mtpa plant to start • **ACC** 3 mtpa Wadi, Kar plant to start • **Ambuja Cement's** 1.5 mtpa Dadri plant to start • **JK Lakshmi Cement** 0.5 mtpa plant to start	• **JP Associates** 3.0 mtpa HP plant to start • **NCL Industries** 1.5 mtpa AP plant to start • **Raghuram Cement** AP 2 mtpa plant to start • **Andhra Cement** 1 mtpa AP plant to start • **Ambuja Cement** 1.5 mtpa Panipat plant to start • **Shree Cement** 1.0 mtpa plant to start	
Infrastructure				• **BHEL** Capacity goes up from 10 GW to 15 GW	

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Metals	• **JSW:** Capacity expansion to 6.8mtpa (Feb-09)				
Oil & Gas	• Commercial production from **RIL** KG D-6 starts • Commercialisation of **RPL** refinery				
Pharma	• **Sun Pharma:** Israeli supreme court decision on acquisition of Taro shares • **Glaxo Pharma:** Launch of Allermist in the domestic market	• **Dr Reddy's:** Full impact of the AOK contracts in the German generic market • **Dr Reddy's:** ANDA filing for generic fondaparinux in US • **Jubilant:** Generic sestamibi approval by USFDA • **Glenmark:** Data from phase II study of melogliptin in diabetes mellitus • **Glaxo Pharma:** Launch of an in-licensed anti-fungal product in the domestic market		• **Max Healthcare:** Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi • **Ranbaxy:** Launch of generic Valaciclovir under exclusivity in US	
Real Estate	• **DLF** – Buy back of shares-upto Rs 11bn & cap price at Rs600/share • **DLF** – Capital raising by DAL • **Unitech** to raise funds via stake sale in hotel projects • **Sobha** – Right issue upto Rs3.5bn • **Puravankara Projects** – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project				

Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
Telecom	• **RCOM** expected to launch GSM services nationwide	• **Idea Spice** merger expected to receive court approval, and get completed • 3G auctions expected to be held			
Utilities	• **Lanco's** 300MW Amarkartak-I unit to start operations • **Tata Power's** 250MW unit at Trombay to begin operations • Bidding for 4000MW Tilaiya UMPP		• **CESC** Budge Budge (250MW) unit operational • **Suzlon** to start production from new facilities		
Others	• **Arshiya International** – Capital raising to fund its FTWZ & Rail business • **EKC** cancels expansion plans in China (300,000 cylinders each in FY10 and FY11)	• 200,000 billet pierced industrial cylinders capacity at Gandhidham comes on stream • 5,000 Jumbo cylinder plant at Gandhidham to start operations		• **EKC's** Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations.	

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.