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Kotak Securities

PRIVATE CLIENT RESEARCH

JANUARY 29, 2009

Economy News

- The Government has slashed retail prices of petrol by Rs.5 per litre, diesel by Rs.2 per litre and cooking gas by Rs.25 per 14.2kg cylinder WEF 29th January 09. While this is expected to help control inflation, it will also lead to reduced margins for oil marketing companies. (ET)
- In USA, the Federal Reserve has left the benchmark interest rate target range at 0% - 0.25% and said tha, it is prepared to purchase long term Treasury securities to resuscitate lending and the economy. (ET)
- Drug price regulator National Pharmaceutical Pricing Authority (NPPA) has revised the price of 174 formulation packs and three bulk drugs. These drugs include popular medicines such as insulin, pain killer ibuprofen in various combinations, chloroquine and multivitamin suspensions in bottles. (BL)
- According to a study, Investments announced in the infrastructure sector have plunged by 85% during October-December this fiscal, against the same period last year, due to the global liquidity crisis. (Mint)

Corporate News

- **Reliance Power** has bagged its third 4,000 Mw Ultra Mega Power Project (UMPP), at Tilaiya, in Jharkhand. The Reliance bid for the project was Rs 1.77 per unit. (BS)
- **Tata Consultancy Services Ltd** has won $ 100 million multi-year managed IT services deal from British telecom and financial services firm 4U Group Ltd. (Mint)
- **Reliance Industries** is expected to start gas production from the D-6 block of the KG basin on February 1, according to an affidavit filed with the Mumbai High Court (ET)
- Jaguar Land Rover may get around GBP1bn out of the total of GBP2.3bn aid package of the British Government for the British auto industry. (ET)
- **DLF Assets Ltd,** which plans to raise over Rs. 20bn from private equity investors, is likely to finalise the deal in the next one month. It would utilise the funds to make part-payment to DLF. At present, it owes about Rs.48bn to DLF. (Mint)
- SEBI is likely to consider **L&T's** proposal on the pricing of a possible open offer to Satyam shareholders at its board meeting on February 2. (ET)
- **Bharat Heavy Electricals Ltd (BHEL)** has chalked out a Rs.10bn two-year expansion programme, focusing on valve production, advanced technology products and coal research, among other things. (ET)
- **HCL Infosystems** announced setting up a joint venture with Nokia Corporation to sell mobile value added services and entertainment content directly to consumers. (BS)
- **Tata Steel** has posted a net profit of Rs 4.66 Bn for the quarter ended December 31, 2008 as compared to Rs 10.68 Bn for the quarter ended December 31, 2007. (BL)
- **JSW Steel** reported a net loss of Rs 1.28bn for the third quarter ended December 2008, while it had a net profit of Rs 3.28bn in the corresponding period last fiscal. (BL)

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

Equity

	28 Jan 09	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	9,257	2.8	(2.9)	2.4
NIFTY Index	2,850	2.8	(2.5)	5.7
BANKEX Index	4,790	3.8	(11.4)	2.5
BSET Index	2,206	2.5	1.5	(18.5)
BSETCG INDEX	6,274	3.0	(6.1)	(6.1)
BSEOIL INDEX	6,089	3.8	0.2	7.2
CNXMcap Index	3,350	0.9	(7.6)	(1.1)
BSESMCAP INDEX	3,305	1.2	(7.5)	(10.1)
World Indices				
Dow Jones	8,375	2.5	(1.3)	(6.8)
Nasdaq	1,558	3.6	3.2	(6.0)
FTSE	4,295	2.4	(0.6)	1.2
Nikkei	8,106	0.6	(5.8)	0.3
Hangseng	12,579	(0.6)	(6.1)	5.5

Value traded (Rs cr)

	28 Jan 09	% Chg - Day
Cash BSE	3,570	17.2
Cash NSE	9,764	17.7
Derivatives	40,894.2	(4.6)

Net inflows (Rs cr)

	27 Jan 09	% Chg	MTD	YTD
FII	(240)	(30)	(4,534)	(4,534)
Mutual Fund	27	(113)	(2,404)	(2,404)

FII open interest (Rs cr)

	27 Jan 09	% Chg
FII Index Futures	10,339	(5.8)
FII Index Options	13,652	4.8
FII Stock Futures	11,994	(0.4)
FII Stock Options	999	5.7

Advances / Declines (BSE)

28 Jan 09	A	B	S	Total	% total
Advances	159	879	219	1,257	55
Declines	43	706	174	923	41
Unchanged	2	67	18	87	4

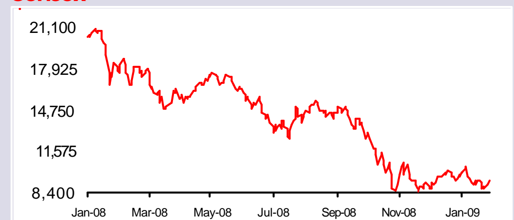
Commodity

		28 Jan 09	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX)	(US$/BBL)	42.0	(0.3)	5.0	(37.7)
Gold	(US$/OZ)	887.6	(1.3)	0.5	17.2
Silver	(US$/OZ)	12.0	(0.7)	9.3	20.7

Debt / forex market

	28 Jan 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	5.98	5.84	5.64	7.61
Re/US$	48.93	48.93	48.42	49.87

Sensex



RESULT UPDATE

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INDIA CEMENTS

PRICE: RS.106 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.109 **FY10E P/E: 6.8x**

Result highlights

- **Revenues for the current quarter Q3FY09 are lower than our estimates registering a growth of only 2% YoY for Q3FY09 as compared to Q3FY08. This was led by a decline of 7% in dispatches in the current quarter on account of extended shutdown in two plants. Revenue growth was boosted to some extent by freight earnings to the tune of Rs 164mn, wind mill earnings to the tune of Rs 7.8mn and IPL earnings to the tune of Rs100 mn in Q3FY09.**
- **Operating margins for Q3FY09 registered a decline of 930 basis points and stood at 23.9%, lower than our estimates. This was due to higher power and fuel and other expenditure as compared to Q3FY08.**
- **Net profits registered a decline of 51% due to poor revenue growth, lower operating margins, losses on exchange rate fluctuations as well as higher tax rate as compared to Q3FY08.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	30,455	34,248	35,561
% change YoY	35.0	12.5	3.8
EBITDA	10,721	10,719	10,145
% change YoY	46	(0)	(5)
Other Income	615	(500)	300
Depreciation	1,281	1,922	2,242
EBIT	10,055	8,296	8,203
% change YoY	56.7	(17.5)	(1.1)
Net interest	1,099	960	1,647
Profit before tax	8,956	7,336	6,556
% change YoY	82	(18)	(11)
Tax	2,073	2,421	2,163
as % of PBT	23.1	33.0	33.0
Profit after tax	6,883	4,915	4,392
Net extra-ord income	(469)	-	-
Net income	6,415	4,915	4,392
% change YoY	34	(23.4)	(10.6)
Shares (m)	281.2	281.2	281.2
EPS (reported) (Rs)	22.8	17.5	15.6
P/E(x)	4.6	6.1	6.8
EV/EBITDA(x)	4.0	4.4	4.7
ROE(%)	22.8	13.5	10.8
ROCE(%)	21.1	14.8	13.4

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY09	Q3FY08	YoY (%)
Net Sales	**7,529**	**7,379**	**2**
Expenditure	5,728	4,930	
Inc/Dec in trade	-188	-111	
RM	825	776	
As a % of net sales	11.0	10.5	
Staff cost	507	508	
As a % of net sales	6.7	6.9	
Power and fuel	2,339	1,758	
As a % of net sales	31.1	23.8	
Transportation & Handling	1,090	1,191	
As a % of net sales	14.5	16.1	
Other expenditure	1,156	807	
As a % of net sales	15.4	10.9	
Operating Profit	**1,801**	**2,449**	**-26**
Operating Profit Margin	23.9%	33.2%	-930 bps
Depreciation	513	311	
EBIT	**1,289**	**2,138**	**-40**
Interest	293	273	
EBT(exc other income)	996	1,865	
Other Income	141	30	
Exceptional items	132		
EBT	**1,004**	**1,895**	**-47**
Tax	385	624	
Tax Rate (%)	38.3	32.9	
PAT	**619**	**1,271**	
Net Profit	**619**	**1,271**	**-51**
NPM (%)	8.2	17.2	
Equity Capital	2,823.7	2,818.7	
EPS (Rs)	**2.2**	**4.5**	

Source: Company

- **At current market price of Rs 106, stock is trading at 6.1x and 6.8x its P/E multiples on FY09 and FY10 estimates respectively. With downward revision in our estimates, our price target is reduced to Rs 109 as against Rs 128 earlier based on FY10 estimates. However on account of limited upside from the current levels, expected decline in cement realizations going forward, concerns regarding translation losses on outstanding FCCBs as well as ongoing down cycle of cement sector, we change our recommendation to REDUCE from ACCUMULATE earlier.**

Revenues lower than our estimates

- Revenues for the company have registered an YoY growth of just 2% for Q3FY09, impacted by 7% YoY and 16% QoQ de-growth in volumes. Volume growth was lower due to extended un-scheduled shutdown in two plants-Chilamkur and Vishnupuram, causing lower clinker production. Along with this, monsoons in Tamil Nadu region and flooding in South Arcot and Perambalur resulted in extended shutdown of the Dalavoi unit for 5-6 more number of days in addition to its normal routine maintenance shutdown.

- Revenue growth was boosted to some extent by freight earnings to the tune of Rs 164mn, wind mills earnings to the tune of Rs 7.8mn and IPL earnings to the tune of Rs 100 mn in Q3FY09. Adjusted with freight earnings from the ships as well as earnings from IPL venture and wind mill, cement realizations stood at Rs 3575 per tonne and grew by 5.7% as compared to Q3FY08.

- India cements has achieved completion of 1MT grinding unit at Chennai while upgradation at other unit at Vishnupuram, addition of 1.2 MT capacity in Malkapur and an additional one MT grinding unit at Parli in Maharashtra are delayed and are now expected to get operational by Q4FY09 as against Q3FY09. Company has also initiated the work for setting up a 1.5MT capacity in north India while due to demand slowing down, setting up of a second unit has been delayed for time being.

- With slowdown witnessed in the real estate as well as with upcoming capacities in south India from various players, we expect cement pricing to remain under pressure from now onwards. Due to lower volumes in 9MFY09, we reduce our volume growth assumptions for the current fiscal and revise our revenue estimates downwards. We also incorporate further decline in the cement prices in FY10 and reduce the revenue estimates going forward also. We expect revenues to be around Rs 34.2bn and Rs 35.5bn in FY09 and FY10 respectively as against Rs 37bn and Rs 36.6bn for FY09 and FY10 estimated earlier.

Operating margins impacted by high power and fuel costs

- Operating margins of the company have witnessed a decline of 930 bps for Q3FY09 as compared to Q3FY08 despite rise in the cement prices on account of following heads-

  - Higher power and fuel cost - In the current quarter, company had used its existing high cost inventory of coal, which has resulted in steep increase in the power and fuel cost. Along with this, corresponding depreciation of currency also contributed towards increasing the imported coal cost for the company. Company expects power cost to come down from Q4FY09 onwards.

  - Higher other expenditure - Other expenditure was higher due to plant shutdown for extended periods as well as dry docking and IPL related expenses to the tune of Rs 180mn.

  - However freight expenses per tonne have witnessed a decline due to decline in the volumes for the company for current quarter.

Per tonne analysis

	Q3FY09	Q3FY08	Q2FY09
Despatches (mn tonne)	2.03	2.182	2.428
Adjusted net Realisation/tonne	3575	3382	3607
YoY increase (%)	5.7		
QoQ increase (%)	-0.9		
Per tonne analysis			
Raw material	314	305	442
Staff cost	250	233	171
Power and fuel	1152	806	932
Transporation &Handling	537	546	526
Other expenditure	569	370	628

Source: Company

- Thus operating margins for the current quarter stood at 23.9% as against 33.2% in Q3FY08.
- We fine tune our estimates for higher power and fuel and other expenditure and expect EBITDA/tonne to be around Rs 1045 per tonne and Rs970 per tonne for FY09 and FY10 respectively.

Profits de-grew by 51% YoY

- Net profits de-grew by 51% as compared to Q3FY08, much lower than our estimates.
- Profit growth is impacted by poor revenue growth, lower operating margins as well as translation losses due to exchange rate fluctuations on outstanding FCCB's in the current quarter. In the current quarter, India Cements has booked a foreign exchange translation loss of Rs 132 million on its outstanding FCCBs. Company may look at repurchasing the FCCB's but has not taken any final decision on this front.
- With downward revision in revenue estimates, we now expect net profits to be around Rs 4.9bn and Rs 4.4bn for FY09 and FY10 estimates as against Rs 5.6bn and Rs 5.0bn for FY09 and FY10 estimates respectively.

Valuation and recommendation

We recommend REDUCE on India Cements with a price target of Rs.109

At current market price of Rs 106, stock is trading at 6.1x and 6.8x its P/E multiples on FY09 and FY10 estimates respectively. With downward revision in our estimates, our price target is reduced to Rs 109 as against Rs 128 earlier based on FY10 estimates. However on account of limited upside from the current levels, expected decline in cement realizations going forward, concerns regarding translation losses on outstanding FCCBs as well as ongoing down cycle of cement sector, we change our recommendation to **REDUCE** from ACCUMULATE earlier.

RESULT UPDATE

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BGR ENERGY SYSTEMS

PRICE: RS.146 **RECOMMENDATION: BUY**
TARGET PRICE: RS.282 **FY10E P/E: 7.5x**

Result highlights

- **Revenue of the company for the current quarter grew by 23.4% YoY led by strong order book. However, it was lower than our estimates due to delay witnessed in execution of certain orders in capital goods segment.**
- **Operating margins for Q3FY09 stood at 10.5% vis-à-vis 10.2% in Q3FY08. Operating margins are expected to improve going forward due to decline in the commodity prices as well as CENVAT reduction.**
- **Net profit growth stood at 25% YoY led by strong order book, healthy revenue growth as well as stable margins. However, it was impacted by higher interest outgo.**
- **We revise our revenue estimates downwards to factor in delays in execution of certain projects. We also revise our operating margin assumptions upwards to factor in the decline in the commodity prices as well as reduction in cenvat rates for the company going forward. With a robust order book of Rs 102bn, we expect company's revenues to grow at a CAGR of 42% between FY08-FY10 and profits to grow at a CAGR of 26% between FY08-FY10.**
- **At the current price of Rs.146, the stock is trading at attractive valuations. It is available at 9.0x and 7.5x its FY09 and FY10 earnings, respectively. We maintain our positive bias for the company based on its strong order book as well as capability to bag new orders. We continue to maintain BUY recommendation on the stock with a revised price target of Rs 282 as against Rs 310 based on FY10 estimates on DCF methodology.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	15,205	20,527	30,791
% change YoY	93.3	35.0	50.0
EBITDA	1,554	2,114	2,925
% change YoY	75.7	36.1	38.3
Other Income	52	250	20
Depreciation	55	96	134
EBIT	1,550	2,268	2,811
% change YoY	94.2	46.3	24.0
Net interest	254	502	682
Profit before tax	1,296	1,766	2,129
% change YoY	109.5	36	20.6
Tax	411	600	724
as % of PBT	31.7	34.0	34.0
Profit after tax	885	1,165	1,405
% change YoY	116.8	31.7	20.6
Shares (m)	72.0	72.0	72.0
EPS (reported) (Rs)	12.3	16.2	19.5
P/E(x)	11.9	9.0	7.5
EV/EBITDA(x)	7.1	4.7	4.6
RoE(%)	31.8	22.2	22.1
RoCE(%)	23.7	19.7	19.5

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY09	Q3FY08	YoY (%)
Net Sales	**4724.2**	**3827.5**	**23.4**
Expenditure	4229	3435	23.1
Inc/Dec in stock	-59.5	67.8	
Raw material	3932.1	3176	
As a % of net sales	83.2%	83.0%	
Staff cost	218.2	97.3	
As a % of net sales	4.6%	2.5%	
Other exp	138.1	94.2	
As a % of net sales	2.9%	2.5%	
EBITDA	**495**	**392**	**26.3**
EBITDA margin	10.5%	10.2%	
Depreciation	19	13	
EBIT	**477**	**380**	**25.6**
Interest	166	62	
EBT (exc other income)	311	318	-2.0
Other Income	104	3	
EBT	**415**	**320**	**29.5**
Tax	143	102	
Tax (%)	34.4%	31.9%	
PAT	**272**	**218**	**24.7**
NPM (%)	5.8%	5.7%	
Equity Capital	720	720	
EPS (Rs)	**3.8**	**3.0**	

Source: Company

Revenue growth lower than estimates due to delays in capital good division execution

- Revenue of the company for the current quarter grew by 23.4% YoY led by strong order book of Rs 102bn.
- Power projects contribute a significant proportion of the order book to the tune of 93%. Though company has not received any new order in Q3FY09, current order book provides revenue visibility for next 3 years. Order inflow in the other segments such as air fin coolers, oil and gas as well as captive power division has also been impacted adversely due to the credit crunch situation as well as slowdown in the middle-east geographies.
- Current quarter revenue growth is impacted by lower than expected growth in revenues from the other divisions such as oil and gas and air fin coolers. Projects to the tune of Rs 600mn from Essar Refineries are put on hold while in oil and gas division, projects to the tune of $76mn are facing local problems from the client side and have been put on hold currently. This has impacted the revenue growth in the current quarter.
- We believe power segment to remain a key contributor to the revenues going forward and with most of the power segment projects coming from state electricity boards, BGR Energy doesn't foresee any risks pertaining to cancellation in these projects going forward. Company expects 5% of the total contract values from EPC projects in Tamil Nadu and Rajasthan to be booked in the current fiscal revenues. It has already booked Rs 2bn worth of work in revenues of Q3FY09.
- However due to delays in execution in other divisions, we lower our revenue growth assumptions for FY09 and FY10. We now expect revenues to grow at a CAGR of 42% between FY08-FY10.

Operating margins set to improve in future

- Operating margins for the current quarter stood at 10.5% for Q3FY09 vis-à-vis 10.2% for Q3FY08. Commodity prices have witnessed a correction in past few months, impact of which is expected to be felt from Q4FY09. We expect operating margins to remain stable in the current fiscal.
- Decline in commodity prices as well as 4% reduction in CENVAT rates is expected to be positive for the company going forward. Based on strong operating margins in 9MFY09, we increase our estimates to 10.3% as against estimate of 10% earlier for FY09. We also marginally increase our OPM% estimates to 9.5% for FY10 as against 9% for FY10 earlier.

Net profit growth impacted by high interest cost

- Net profit growth stood at 25% YoY led by strong order book, healthy revenue growth as well as stable margins. This was almost inline with our estimates.
- However it is impacted by high interest cost as compared to Q3FY08.
- Higher other income in the current quarter on account of interest income on IPO deposits also boosted the net profit growth. We correspondingly increase our other income estimates for the current fiscal.
- After revising the revenue estimates downwards and operating margins upwards, we now expect net profits to grow at a CAGR of 26% between FY08-FY10 as against earlier estimate of 30% between FY08-FY10.

Valuation and recommendation

We recommend BUY on BGR Energy Systems with a price target of Rs.282

At the current price of Rs.146, the stock is trading at quite attractive valuations. It is available at 9.0x and 7.5x its FY09 and FY10 P/E multiples, respectively. We maintain our positive bias for the company based on its strong order book as well as capability to bag new orders. We continue to maintain **BUY** recommendation on the stock with a revised price target of Rs 282 as against Rs 310 based on FY10 estimates on DCF methodology.

RESULT UPDATE

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JAGRAN PRAKASHAN LTD (JPL)

PRICE: RS.45 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.55 **FY10E EV/EBITDA: 8x; P/E: 13x,**

JPL- a weak quarter; maintain cautious outlook on segment stocks. JPL likely better off; retain ACCUMULATE.

- **Q3FY09: Revenues come in at a weak 4% growth YoY as advertising revenue feels the impact of an adverse macro; margins down on account of higher NP prices. Profits as a result dip 40% YoY.**
- **We maintain our cautious outlook on print stocks (zero BUYs in coverage universe) and will continue to focus on NP prices and advertising revenue trends, which we opine will remain earnings and share price catalysts over the medium term. JPL, in our opinion is better off given spend trends in regional markets, its strong franchise and better financial discipline.**
- **We adjust our price target to account for modified earnings post the Q3FY09 numbers and our expectation of weak advertising revenue outlook over the medium term. Cut earnings by 7-9%; maintain ACCUMULATE rating with a price target of Rs.55 (Rs.66 earlier).**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	7496.3	8278.3	9066.2
Growth (%)	25.3	10.4	9.5
EBITDA	1637.2	1505.1	1733.5
EBITDA margin (%)	21.8	18.2	19.1
Net profit	946.4	868.4	1019.5
Net cash (debt)	-1374.0	-953.4	-1024.4
EPS (Rs)	3.1	2.9	3.4
Growth (%)	24.2	-8.2	17.4
CEPS	4.3	4.1	4.7
DPS (Rs)	2.0	2.0	2.0
ROE (%)	18.1	15.9	17.6
ROCE (%)	24.6	21.5	24.8
EV/Sales (x)	1.9	1.7	1.6
EV/EBITDA (x)	8.6	9.6	8.3
P/E (x)	14.3	15.6	13.3
P/Cash Earnings	10.6	10.9	9.6
P/BV (x)	2.5	2.4	2.3

Source: Company, Kotak Securities - Private Client Research

Result Highlights- weak revenue growth as macro impacts adversely; margins and profitability feel impact of elevated NP prices and insipid revenue growth

- JPL's 3QFY09 results were below estimates on the revenue front at Rs.2.07bn (up 4% YoY). Profits (Rs.154mn, down 40% YoY) were also below estimates on account of weak revenue growth and elevated NP prices which impacted margins adversely.
- Margins were down 720bps YoY inhibited on account of losses from new initiatives like I-Next' and 'City Plus' and more so from elevated NP prices. EBITDA margins stood at 14.5% for Q2FY09; down 370bps QoQ too.
- During the quarter RM costs (42.5% of revenues) increased 22% YoY, impacting margins negatively. While NP costs have corrected recently, we expect the financial benefit to accrue only Q4FY09E onwards on account of carrying higher cost inventories.
- On the cost side the company also accounted for Rs26mn as MTM loss of its $12mn ECB in the 'other expenditure' head that impacted profitability negatively too. Higher than estimated depreciation also impacted the PAT, that was down 40% YoY at Rs.154.7mn.
- As anticipated advertising revenue growth tumbled to a weak c.5% YoY on account of the deteriorated macro environment that saw ad volumes come under pressure, especially in national markets. The growth was nevertheless below our estimate of 8.5% ad revenue growth.
- Our take remains that the current challenging macro and cautious advertiser sentiment will reflect on advertising spend trends with a lag. This quarter (Q3FY09) has shown evidence of the same. We expect medium term growth to be anemic; the same which underpins our cautious stance on the segment/sector for the last three quarters.
- However we also opine that on account of JPL's positioning in its target markets and also the incipient growth rates in JPL's markets, its full year ad growth rates will remain higher than industry. Also growing advertiser sentiment to get the maximum mileage for the advertising dollar may bode well for strong incumbents and impact marginal players negatively, in a challenging macro environment.

Projected financials- we expect revenue growth rates to feel the strain of a slowing economy; tough times ahead

- We have factored in lower advertising revenue growth rates over the medium term given our cautiousness on the same in an adverse macro environment. We expect ad spends to grow at a slower pace in remainder FY09E and also FY10E, given the backdrop of a slowing economy and weak advertiser sentiment.
- We believe this is logical given the high co-relation that exists between ad spend trends and corporate profit growth rates (a factor of economic growth trajectory) - a fact we have outlined consistently.
- We note that while advertiser segments like real estate and autos have been muted for the last 12m, a general slowdown in services segment of the economy will crunch revenue growth rates in a more pronounced manner over the succeeding quarters.
- On the costs side, we have also assumed NP prices at $750/ton with an INR assumption of Rs.45/$ over FY10E.
- We estimate that JPL will post a 10% CAGR in revenues and a weak EPS CAGR of 4% over FY08-10E. Elevated NP prices, in our opinion will inhibit PAT growth in FY09E; the adverse macro is set to impact revenue growth in FY10E.
- We estimate an EBITDA margin of 18.2% in FY09E and 19.1% in FY10E for the company. We estimate an EPS of Rs.2.9 (Rs.3.3 earlier) in FY09E and Rs.3.5 (Rs.4.0 earlier) in FY10E, up from the Rs.3.1 in FY08.

Recommendation- On balance, medium term outlook remains hazy for advertising revenues given the macro headwinds. JPL better placed than peers to negotiate the challenging macro, in our opinion

- While easing in NP prices is welcome for publishers we also note that near term financials are likely to remain under pressure given investments towards new businesses (HT and DCHL), INR depreciation (all) and moderating ad revenue growth trends (all).
- We maintain our cautious outlook on print stocks (zero BUYs in coverage universe) and will continue to focus on NP prices and advertising revenue trends, which we opine will remain earnings and share price catalysts over the medium term.
- We adjust our price targets to account for modified earnings post the Q3FY09 numbers and our expectation of weak advertising revenue outlook over the medium term. Cut earnings by 6-8%; maintain ACCUMULATE rating with a price target of Rs.55 (Rs.66 earlier).
- At the current price JPL is trading at 16x & 13x FY09E and FY10E EPS. It is also trading at and 10x and 8x FY09E & FY10E EBITDA.
- Within, the segment we retain JPL as a preferred play on our perceived traction and resilience in regional markets. JPL's strong regional franchise, conservative management and margin levers place it in a better position to navigate the challenging macro, in our opinion.
- Easing of newsprint prices and future outlook on ad spend trends will be the key variables to watch for future share price performance, in our opinion.

Revenues: Weak ad revenue growth at 4.5% YoY for Q3FY09; reflects challenging macro for client spends. Expect growth rates to remain under pressure given our expectation of a slowing economy impacting corporate spend trends.

Quarterly performance

(Rs mn)	Q3FY09	Q3FY08	% chg	Q2FY09	% chg
Revenues	**2,070.1**	**1,990.3**	**4.0**	**2,086.3**	**-0.8**
Expenditure	1,769.4	1,557.6		1,706.3	
EBDITA	**300.6**	**432.7**	**-30.5**	**379.9**	**-20.9**
Depreciation	98.3	89.0		88.7	
EBIT	**202.3**	**343.7**	**-41.1**	**291.2**	**-30.5**
Net Interest	17.9	14.3		11.5	
Other Income	45.0	56.4		54.8	
PBT	**229.4**	**385.8**	**-40.5**	**334.5**	**-31.4**
Tax	74.7	126.8		107.5	
PAT	**154.7**	**259.0**		**227.0**	
PAT after EO items	154.7	259.0	-40.3	227.0	-31.8
EPS (Rs.)	**0.5**	**0.9**		**0.8**	
OPM (%)	14.5	21.7		18.2	
GPM (%)	9.8	17.3		14.0	
NPM (%)	7.5	13.0		10.9	

Source: Company

- The weak 4% YoY revenue growth for JPL in Q3 FY09 was on account of weak client spends that were a fall- out of the deteriorated macro environment for advertising spends. Ad revenues for the quarter stood at Rs.1.38bn, up 4.5% on a YoY basis.
- JPL's advertising revenue growth mirrors the trends exhibited by other majors like HT (5% growth YoY) and ZEEL (ad revenue growth of 2% YoY).
- Since Q3FY09 there has been a broader collapse in corporate sentiment impacting adversely spends on advertising, more so for relatively high priced mature print franchises in well penetrated metros.
- As pointed out in our earlier note (15-12-08) advertising volumes on print have plunged during periods of Q3FY09:
- "Figures from AdEX show that in the last two months (November 2008 over October 2008), print media advertising volumes have dropped sharply by 45%. In Nov. 2008 print advertising has registered a 20% decline in volume over the same period last year."
- "While this AdEx data does not monitor advertising spends in value terms numbers nevertheless offer insights into how different product categories have curtailed their advertising, in the deteriorated macro environment."
- We opine if there is a sustained slowdown in the growth trajectory, its impact will likely be felt with a lag on ad spend trends. Consequently we have built in more caution in ad growth trends over Q4FY09E and 1HFY10E.
- Going forward in FY10E we expect slower economic growth rates to impact advertiser segments, more so consumer discretionary segments like autos, FMCG, real estate. We opine if there is a sustained slowdown in the growth trajectory, its impact will likely be felt with a lag on ad spend trends.
- Our interactions with the company and sector channel checks point to a growing preference for regional media given its reach, cost effectiveness and also saturation in certain urban markets. We believe these will be longer term enablers for revenue growth sustenance in the regional media space.

EBITDA margins- down sharply YoY & QoQ; weak revenue growth amplifies impact of elevated NP costs

- For Q3FY09 EBITDA margins stood at 14.5% down YoY and QoQ. This dip in margins YoY was on account of elevated NP prices, investments in the new businesses - I Next and OoH and also higher SG&A.
- RM costs for JPL at Rs.879mn were up 22% YoY. Employee costs were up 16% YoY to Rs.280mn in Q3FY09. Further the company also accounted for Rs26mn as MTM loss on its $12mn ECB in the 'other expenditure' head that impacted profitability negatively too
- Going forward we believe FY10E will be a challenging year, given the weak limited visibility for advertising revenue growth at the current point. Nevertheless easing NP prices are a positive and may help JPL grow margins even in an adverse environment.
- NP prices account for 42-43% of revenues and have corrected by nearly 15-20% in dollar terms recently. The impact of the same is likely to come through Q4FY09E onwards. Cost optimization, better G&A control and management inclination to rationalize new business investments (like unproductive sites in OoH) will also help, in our opinion.

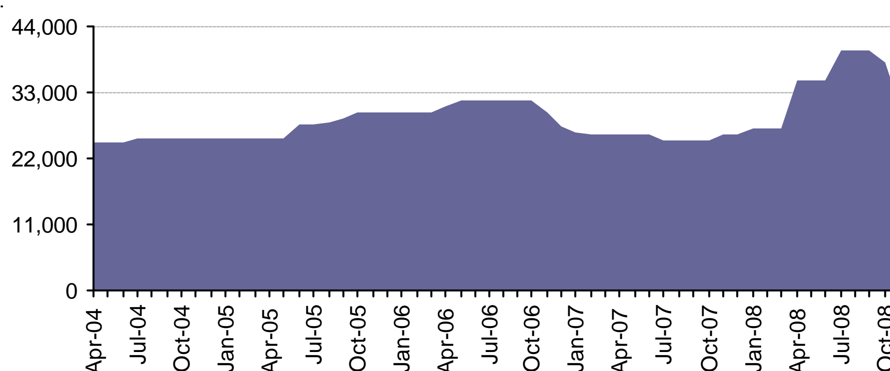
Key concerns

- Higher than estimated newsprint costs: Any uptrend in newsprint prices ahead of our estimates, could impact estimated earnings negatively.

We recommend ACCUMULATE on JAL with a price target of Rs.55

- Any slowdown in economic activity in India leading to a slowdown of GDP growth would lead to an overall decline in advertising industry revenues, thus impacting JPL's revenues and profitability negatively.
- High competition in the existing print markets.
- Any delays in breakeven of OoH properties and/or loss making editions ahead of our estimates will impact our earnings estimates for the company negatively.

Elevated NP prices begin to cool off- positive for print companies



Source: CRIS-INFAC

RESULT UPDATE

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ENIL

PRICE: RS.151 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.170 **FY10E EV/EBITDA: 9x**

ENIL: De-growth in revenues reflects the challenges of a deteriorated macro for advertising revenues; high fixed cost base in OoH does not help. Maintain REDUCE.

- **Q3FY09 results reflect the impact of a slowing macro environment on advertising spends; radio revenues are down 12% YoY while consolidated revenues drop 19% YoY. OoH subsidiary pares profit from radio business translating into losses at the consolidated level.**
- **Quarterly revenue growth trends validate our cautious outlook towards advertising spend trends. A visible slowdown in advertising spends towards alternate media platforms like radio, outdoor (part of ENIL's bouquet) likely to hurt over the challenging medium term.**
- **OoH to remain a drag as the cost base rises with new investments while revenues are yet to gain traction; a weak macro does not help. Incremental margin gains will be difficult given the challenging macro and the high fixed costs that will likely push back new business break-evens.**
- **Adjust earnings to account for the Q3FY09 results; maintain REDUCE rating with a price target of Rs.170 (Rs.185 earlier).**
- **Unfavorable risk reward at current levels, medium term earnings pressure and our cautious approach towards advertising revenue trends, over the medium term, are likely to cap significant near term share upsides.**

Summary table (Consolidated):

(Rs mn)	FY08	FY09E	FY10E
Sales	4134.7	4538.3	5432.9
Growth (%)	75.9	9.8	19.7
EBITDA	321.2	297.7	924.3
EBITDA margin (%)	7.8	6.6	17.0
Net profit	-197.1	-314.2	388.5
Net cash (debt)	1755.5	1282.8	552.7
EPS (Rs)	-4.1	-6.6	8.2
CEPS	0.2	-0.3	15.1
DPS (Rs)	0.0	0.0	0.0
ROE (%)	-4.7	-7.5	9.2
ROCE (%)	-0.1	-3.2	7.3
EV/Sales (x)	2.1	1.8	1.4
EV/EBITDA (x)	25.8	28.3	8.5
P/E (x)	-	-22.0	17.8
P/Cash Earnings	606.5	-564.9	9.6
P/BV (x)	1.6	1.7	1.6

Source: Company, Kotak Securities - Private Client Research

Result Highlights- revenues drop YoY in both radio and OoH. Impact of a deteriorated macro environment for advertising spends is visible, more so for alternate forms of media

- ENIL's 3Q09 stand-alone (radio) results were lower than estimated on the revenue front (down 12% YoY and 3% QoQ). EBITDA too declined 3% YoY as costs grew given new station additions and muted revenue growth. QoQ though standalone margins, EBITDA and profit, helped mainly by cost optimization initiatives. Lower marketing expenses (down 40% QoQ) and employee costs (down 30% QoQ) helped.
- The muted 'value' growth rate for ENIL's radio business in our opinion reflects the competition in radio markets with the entry of new players, loss in competitive position in addition to a challenging macro for advertising spends.
- Consolidated numbers remained a disappointment, given continuing execution issues in the DIAL property and recent new property investments which increased the cost base and depressed the EBITDA line. Consolidated revenue stood at Rs.1.1bn which was down 19% YoY.
- For Q3FY09 within TIMPL (Rs.503mn, down 25% YoY), OoH contributed Rs.403mn (flat QoQ) and events Rs.100mn. Of the Rs.400mn in outdoor, Rs.260mn were from the airports- split equally among DIAL & MIAL.
- Revenue traction in the airports' segment of the portfolio was impacted by the lower passenger traffic airports saw during Q3- an impact of weak consumer sentiment, low footfalls and problems with the DIAL property.
- Profitability in OoH continued to be impacted on account of new investments, weak revenue growth and incomplete revenue exploitation of airport properties on account of delays in DIAL property handover.

- In Q3FY09 TIMPL made a loss of Rs.124mn (loss of Rs.144mn in Q2FY09) at the EBITDA level and the subsidiary's net loss of Rs.186mn (loss of Rs.176mn in Q209) pared the EBITDA of the radio business.
- Consolidated losses thus stood at Rs.137mn in Q3FY09. We believe given multiple headwinds for the airports' portfolio of ENIL, it may likely remain a drag on financials, in the medium term.

Quarterly performance

(Rs mn)	Q3FY09	Q3FY08	% chg	Q2FY09	% chg	Q3FY09C	Q3Y08C	% chg	Q2FY09C	% chg
Revenues	**597.4**	**680.4**	**-12.2**	**612.6**	**-2.5**	**1101.2**	**1352.5**	**-18.6**	**1095.7**	**0.5**
Expenditure	416.2	491.8		530.8		1044.5	1147.7		1158.5	
EBDITA	**181.2**	**188.6**	**-3.9**	**81.8**	**121.6**	**56.7**	**204.7**	**-72.3**	**-62.7**	**-190.4**
Depreciation	44.1	42.9		44.4		76.9	54.7		81.4	
Amortization	56.7	50.2		56.7		56.7	50.2		56.7	
EBIT	**80.4**	**95.5**	**-15.8**	**-19.3**	**-516.9**	**-76.9**	**99.9**	**-176.9**	**-200.8**	**-61.7**
Net Interest	-28.9	-20.1		-27.4		-48.9	-59.2		-38.4	
Other Income	2.6	3.7		5.0		2.7	4.7		6.3	
PBT	**54.1**	**79.1**	**-31.6**	**-41.7**	**-229.8**	**-123.0**	**45.4**	**-370.8**	**-232.8**	**-47.2**
Tax	5.5	6.1		6.0		7.6	7.8		8.6	
Deferred Tax	0.0	-7.6		-14.9		6.9	-4.2		-32.1	
PAT	**48.6**	**80.6**		**-32.8**		**-137.5**	**41.8**		**-209.3**	
Minority Interest	0.0	0.0		0.0		-30.7	0.0		-27.1	
PAT after M I	48.6	80.6	-39.7	-32.8	-248.2	-106.8	41.8	-355.4	-182.2	-41.4
EPS (Rs)	**1.0**	**1.7**		**-0.7**		**-2.2**	**0.9**		**-3.8**	
OPM (%)	30.3	27.7		13.3		5.2	15.1		-5.7	
GPM (%)	13.5	14.0		-3.1		-7.0	7.4		-18.3	
NPM (%)	8.1	11.8		-5.4		-9.7	3.1		-16.6	

Source: Company

Revenues: Alternate forms of media, more so urban focused, feel the impact of weak advertiser sentiment; revenues drop YoY. Tough times to persist over the medium term, in our opinion. Remain negative on stock's prospects.

- Weak revenue trends in radio for Q3FY09 reflected the challenging macro environment for advertising spends. Within advertiser segments that cut spend were real estate, BFSI and automobiles.
- From the business perspective, we believe the outlook is likely to be challenging over the medium term for advertising revenue based business models. Things, we believe are going to be no different for alternate media platforms like OoH, which are a part of ENIL's bouquet.
- We opine that while the radio market has grown with the entry of competition which is reflected in the inventory utilization of the major players, the deteriorated macro environment has impacted alternate forms of media like radio and OoH more severely than the established forms of media.
- The private radio industry was expected to grow to Rs.9.5-10bn at the beginning of the year; the management however expects the industry to now grow only to Rs.8.5-9bn, on account of the slowdown experienced since 2HFY09.
- For the period of Q3FY09, the industry may have de-grown 7-9% YoY as compared to the 12-15% growth witnessed in the earlier quarters, according to the company.

- While disappointing revenues in the medium term are inevitable stronger franchises like Radio Mirchi have the opportunity to consolidate market share as recent entrant with marginal positioning will find it increasingly challenging to survive as advertising revenues come under pressure.
- ENIL currently has 45% in value terms, of the market and in our opinion will clock a market share in excess of 40% in the medium term, factoring in competition.
- A slowing macro, visible cut back in corporate ad spends are set to impact the revenue growth trajectory. A relatively higher fixed cost base is also likely to add to medium term pressure on profitability and return metrics.

Challenging outlook for advertising spends over the medium term; nascent media segments to face greater pressure.

- As pointed out in earlier notes, ENIL has also pointed towards a challenging environment leading to a visible slowdown in advertising spends observed in the recent past, especially the last 2m.
- Within advertiser segments, BFSI, real estate and automobiles have visibly cut budgets given the headwinds these segments face. Segments like insurance, DTH, media (entertainment channels) though continue to invest given the high competitive intensity prevalent within them.
- We believe the reduced appetite of corporates to invest bears out the high corelation that exists between economic growth rates and the growth trajectory of advertising revenues.
- For ENIL, its two segments radio and OoH are more supplementary in nature to other established media option which possibly makes it more vulnerable to reduced ad budgets in a downturn. However to its credit the company has built reasonably strong franchises in the segments that enjoy a healthy competitive positioning.
- A slowdown in revenue growth rates and medium term headwinds are nevertheless inevitable, in our opinion.
- In radio, the muted 'value' growth rate for ENIL's radio business over the recent quarters reflects the competition in radio markets with the entry of new players, in addition to a challenging macro for ad spends.
- Within the OoH portfolio the company has airports, transit street furniture and bill board properties. While billboard advertising (3-4% contribution) has crashed over the last 2m, airports and street furniture has been relatively better, to date.
- Revenue traction in the airports' segment of the portfolio has been impacted by the lower passenger traffic airports saw during H1FY09- an impact of high crude prices and increased air tariffs. While crude prices have cracked, renewed consumer sentiment is yet to emerge in the backdrop of the economic environment, evidenced in the still slack airport footfalls.

Fixed costs in OoH, deteriorated macro and outlook for advertising revenues will be profit headwinds, over the medium term. Going to get tougher

- Consolidated numbers are expected to be under pressure, given continuing execution issues in the DIAL property (OoH), recent new property investments (OoH) which increased the cost base and depressed the EBITDA line.
- Profitability in OoH has been impacted on account of new investments and incomplete revenue exploitation of airport properties on account of delays in DIAL property handover. According to the management the DIAL contract has been a drag thus far on account of handover issues and muted business pick up.

- We believe given multiple headwinds for the airports' portfolio of ENIL, it may likely remain a drag on financials, in the medium term. ENIL's business segments also involve higher fixed costs and are likely to lead to losses, in the medium term, as revenues slow down in the backdrop of a challenging macro.
- We believe in a slowing macro with advertising spends expected to come under strain, the going may get only tougher more so with new investments taking longer to turn profitable.

Future financials to feel the strain of new investments and a weak macro

- ENIL's consolidated revenues are expected to grow at a CAGR of 15% over FY08-10E. We estimate Rs.4.5bn revenues in FY09E, of which radio contributes close to Rs.2.4bn and the balance being made up by TIMPL.
- Radio EBITDA margins are expected to increase to 27% in FY09E from the 23.2% reported in FY08 on account of operating leverage we estimate in the radio business and contribution from newer stations.
- We expect consolidated operating margins for ENIL to expand to 16.7% in FY10E, from the muted 6.6% estimated in FY09E.
- We thus estimate the FY09E EBITDA at Rs.297mn (Rs.321mn in FY08) to grow to Rs.924mn in FY10E. In FY10E we expect ENIL to make profits of Rs.300mn, aided by deferred tax benefits, after posting significant losses in FY09E.

Recommendation- Remain cautious on medium term prospects pending more effective execution in the OoH segment and improved outlook for advertising revenues.

- We have valued ENIL using relevant EV/EBITDA multiples for the different businesses- radio, OoH & Events. We have validated the same with a DCF based valuation methodology; assumptions being a 14% WACC and 3% terminal growth rate. The same throws up a fair value of Rs.170 (Rs.185) for the stock.

We recommend REDUCE on ENIL with a price target of Rs.170

- We value OoH at Rs.3-4per ENIL share, given our expectation of the airports' portfolio and challenging macro being a likely drag on near term financials. The other businesses, radio and events contribute Rs.165 (radio) and Rs.7 (events) add to our SoTP value.
- Summing the above we arrive at a price target of Rs.170 for the stock, based on FY10E earnings. At current levels, the stock trades at 9x FY10E EV/EBITDA & 18x FY10E EPS.
- Lower than estimated ad revenue momentum, a sharp slowdown in economic growth; margin erosion in radio, given the high competition and execution slippages across different segments could make the near term more challenging for ENIL.

Key concerns- macro for ad spends, competition and execution

- Higher than estimated cost pressures on account of the new station roll out and/or OoH properties could impact our estimates negatively and lead to subdued stock performance.
- Lower than estimated ad revenue momentum, margin erosion in radio, given the high competition and execution slippages across different segments could be key downside risks to our estimates.
- A sharp slowdown in the economic trajectory could lead to a collapse in ad revenues, impacting ENIL's business segments negatively.

RESULT UPDATE

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THERMAX LTD

PRICE: RS.158 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.230 **FY09E P/E: 7.0X**

- Third quarter numbers are in line with our as well as street expectations. The company had started the year with lower order backlog which is resulting in moderate growth.
- EBITDA margins have been maintained.
- Order book declines sequentially reflecting challenging macro environment for capitl goods companies. Sharp drop in sequential order inflows.
- Company admits that large players are on a wait and watch so far as committing major investments is concerned.
- Stock trading at cheap valuations of 7.0x and 6.4x FY09 and FY10 earnings respectively. Dividend yield is attractive at 5%.
- The stock has seen very sharp correction over the previous quarter on fears of significant scaleback of capex plans by Indian Industry.
- At the current price, the stock is to a large extent building in the likely downtrend in order inflows over the coming quarters, in our opinion.
- Even assuming a fairly pessimistic growth scenario over the next couple of years, our DCF based target price works out to Rs 230 (Rs 350 earlier). However, given the subdued near-to-medium term business outlook for capital goods manufacturers, we maintain our cautious stance and recommend "ACCUMULATE".

Summary table - Consolidated

(Rs mn)	FY08	FY09E	FY10E
Sales	34815	35768	40817
Growth (%)	49	3	14
EBITDA	4267	3916	4389
EBITDA margin (%)	12.3	10.9	10.8
Net profit	2865	2678	2944
Net cash (debt)	6182	6784	8676
EPS (Rs)	24.1	22.5	24.7
Growth (%)	36.1	-6.5	9.9
CEPS	26.0	25.0	27.9
DPS (Rs)	8.3	8.5	9.0
ROE (%)	41.2	31.2	28.8
ROCE (%)	59.0	42.9	40.0
EV/Sales (x)	0.4	0.4	0.4
EV/EBITDA (x)	3.4	3.7	3.3
P/E (x)	6.6	7.0	6.4
P/Cash Earnings	6.1	6.3	5.7
P/BV (x)	2.5	2.1	1.7

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY09	Q3FY08	YoY (%)
Net Sales	**7,880**	**8,343**	**-5.56**
other income from operations	71	111	-36.28
Other Income	88	86	2.10
Total Expenditure +	6,983	7,405	-5.70
RM costs	4,939	5,901	-16.30
purchase of trading goods	277	73	281.40
Staff costs	704	631	11.51
Other costs	1,064	801	32.82
PBIDT	**968**	**1,049**	**-7.75**
Interest	6	3	128.00
PBDT	**1,050**	**1,133**	**-7.31**
Depreciation	84	53	58.52
PBT	**966**	**1,080**	**-10.53**
Tax	243	330	-26.24
Deferred Tax	-	-	-
Profit After Tax	723	750	-3.62
RM costs to sales (%)	63	71	
Other costs to sales (%)	13.5	9.6	
PBIDTM (%)	12.3	12.6	
Tax rate (%)	25	31	
EPS Rs per share	6.1	6.3	

Source: Company

Standalone Numbers

- Revenues for the quarter is down 5% yoy to Rs 7.9 bn. On a sequential basis, revenue growth is flat.
- Revenue growth has been in line with expectations given that the company had started the year with order backlog of Rs 24.3 bn, which was lower 12% yoy.
- The energy segment has degrown 9% yoy on slackening in corporate capex in industries like Metals, Cement and Refinerie.s
- We expect exports to have grown well during the quarter as the company has increased its focus on the export market and has received several waste heat orders.

Segment revenues (Rs mn)

	Q3 FY09	Q3 FY08	% change
Segment- Energy	6283	6908	-9
Segment - Enviro	1853	1624	14

Source: Company

- Operating margins for the quarter came in flat at 12.3%.
- Raw material to sales ratio declined 800 bps yoy to 62.7% as the company relied on increased outsourcing. This is reflected in increase in trading expenses.
- Other expenditure increased 33% yoy. It is likely that the other expenditure may include MTM loss on forward cover.
- The company covers its entire forex exposure by entering into forward contracts.

Consolidated profits are only slightly lower than the standalone numbers. It is likely that the company could have made minor losses at its China facility, which was commissioned in the second quarter.

Revenues

(Rs mn)	Q3 FY09	Q3 FY08	YoY (%)
Revenues	8347.9	9335.4	-10.6
PBT	953.8	1126.2	-15.3
PAT	707.3	796.9	-11.2

Source: Company

- Group order backlog is up 40% yoy to Rs 41bn, thus imparting a revenue visibility of 14 months of FY09E revenues. After posting strong growth in Q2 FY09, order inflows have slackened in the third quarter. We believe the liquidity crunch and general economic slowdown has forced corporates to review downwards their capex plans.
- Major players are wary of committing large capex: The sharp deceleration in global and domestic economy is leading to nervousness among corporates regarding viability of projects. There is also risk of order cancellations.

Not making changes to estimates: We are retaining our earnings estimates for the company for FY09 and FY10.

Valuation

At the current price, the stock is trading at 7.0x and 6.4x FY09 and FY10 earnings respectively.

Target Price Revision

In a depressed industrial growth scenario, we expect expansion in working capital cycle accompanied by a loss in pricing power.

Since our previous update, the industrial scenario has further deteriorated.

We have built in period of low industrial growth over the 2011-13 period to reflect likely impact of industrial slowdown. We arrive at a price target of Rs 230. (Rs 350 earlier)

In our DCF model, with a revised price target of Rs 230 (Rs 350 earlier).

Recommendation Rationale: We maintain Accumulate

Thermax is one of the market leaders in the industrial boilers segment and we see limited risk to this position.

We recommend ACCUMULATE on Thermax with a price target of Rs.230

The company also generates significant cash as reflected by its negative working capital of 21 days (cash positive). Cash on books at the end of FY08 was Rs 6.2 bn equivalent to Rs 52 per share. Moreover, the company is debt-free.

Dividend yield at the current price works out to 5%.

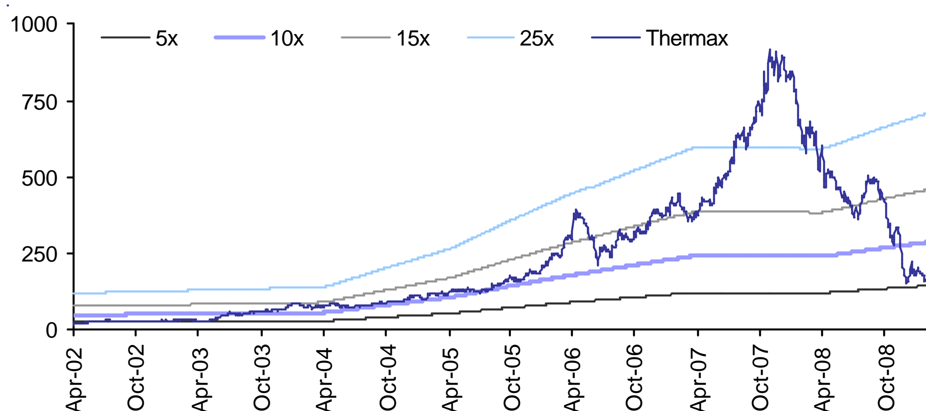
The stock is suitable for long-term investors. However, near-term outlook on the stock remains subdued on deteriorating signs of economic growth. In view of this, we maintain our **ACCUMULATE** rating on the stock.

Risks

Risk of order cancellations especially from small and medium enterprises who have been hit by liquidity crunch.

Sustained uncertainty on economic growth may result in deferment of industrial recovery.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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REDINGTON (INDIA) LTD

PRICE: RS.104 **RECOMMENDATION: BUY**
TARGET PRICE: RS.185 **CONS. FY09E P/E: 5.5x**

- **Redington reported good set of Q3FY09 results which are inline with our estimates**
- **Maintain FY09E EPS of Rs.18.8**
- **We continue to recommend BUY with unchanged price target of Rs.185**

- Net Sales for Q3FY09 was at Rs.31.2 bn up by 20.1% on YoY basis. This was primarily due to 1.2% rise in the Indian business and strong 41.1% rise in the overseas business. However the revenues are down 4.6% on sequential basis which indicates the impact of slowdown.
- EBIDTA margin in Q3FY09 was at 2.5% up 40bps on YoY and up 30 bps on sequential basis. The PBIT margins of the Indian business improved from 2.3% in Q3FY08 to 3.6% in Q3FY09. This was due to increased contribution of the high margin services business of the company. However the PBIT margins of the overseas business came down from 2.0% in Q3FY08 to 1.6% in Q3FY09.
- EBIDTA for Q3FY09 was at Rs.770 mn up by 39.0% YoY and up 9.5% on sequential basis.
- The interest cost of the company went up significantly to Rs.286 mn in Q3FY09 due to the loans taken by the company to fund its expansion plans and general rise in the interest rates.
- PBT for Q3FY09 was at Rs.492 mn up 30.4% on YoY and up 8.2% on sequential basis.
- PAT for Q3FY09 was up by 19.3% on YoY and up 3.6% on sequential basis to Rs.356 mn thereby translating into quarterly EPS of Rs.4.6 and CEPS of Rs.5.0.
- PAT for 9MFY09 is up by 16.8% on YoY basis to Rs.1.0 bn thereby translating into 9MFY09 EPS of Rs.13.3 and CEPS of Rs.14.5.

Summary table - Consolidated

(Rs mn)	FY07	FY08	FY09E
Sales	90,614	108,701	122,982
Growth (%)	33.4	20.0	13.1
EBITDA	1,927	2,453	2,757
EBITDA margin (%)	2.1	2.3	2.2
Net profit	1,017	1,361	1,462
Net debt	4,018	6,010	8,161
EPS (Rs)	13.1	17.5	18.8
Growth (%)	36.8	33.8	7.5
DPS (Rs)	-	2.5	3.0
ROE (%)	16.3	18.9	18.7
ROCE (%)	15.1	16.5	18.2
EV/Sales (x)	0.1	0.1	0.1
EV/EBITDA (x)	6.3	5.8	5.9
P/E (x)	8.0	6.0	5.5
P/BV (x)	1.3	1.1	1.0

Source: Company, Kotak Securities - Private Client Research

Consolidated Q3FY09 Results update - Redington

(Rs mn)	Q3FY09	Q3FY08	YoY (%)	Q2FY09	QoQ (%)	9MFY09	9MFY08	YoY (%)
Net Sales	**31,175**	**25,967**	**20.1**	**32,676**	**(4.6)**	**93,114**	**77545.9**	**20.1**
COGS	29,413	24,650	19.3	31,087	(5.4)	88,366	73865.6	19.6
Staff Cost	401	282	42.1	357	12.2	1,115	823	35.5
other expenditure	591	481	22.8	527	12.1	1,544	1221.5	26.4
Total exp.	30,404	25,413	19.6	31,972	(4.9)	91,025	75,910	19.9
EBIDTA	**770**	**554**	**39.0**	**704**	**9.5**	**2,089**	**1,636**	**27.7**
Other income	41	40	1.5	45	(8.9)	104	108	(3.9)
Depreciation	34	30	10.9	31	6.7	91	73	25.4
EBIT	**778**	**564**	**37.9**	**717**	**8.4**	**2,102**	**1,671**	**25.8**
Interest	286	187	52.8	263	8.8	716	542	32.0
PBT	**492**	**377**	**30.4**	**454**	**8.2**	**1,386**	**1,129**	**22.8**
Tax & deferred tax	136	79	72.6	111	22.4	347	239	44.9
PAT	**356**	**298**	**19.3**	**344**	**3.6**	**1,039**	**890 16.8**	
Equity shares o/s (mn)	77.9	77.9		77.9		77.9	77.9	
Ratios								
Operting profit margin (%)	2.5	2.1	up 40 bps	2.2	up 30 bps	2.2	2.1	up 10 bps
COGS / Sales (%)	94.3	94.9		95.1		94.9	95.3	
Staff cost / Sales (%)	1.3	1.1		1.1		1.2	1.1	
Other Exp. / Sales (%)	1.9	1.9		1.6		1.7	1.6	
EPS (Rs)	**4.6**	**3.8**		**4.4**		**13.3**	**11.4**	
CEPS (Rs)	5.0	4.2		4.8		14.5	12.4	
Tax / PBT (%)	27.6	20.8		24.4		25.0	21.2	

Source: Company

Segmental

	Q3FY09	Q3FY08	YoY (%)	Q2FY09	QoQ (%)	9MFY09	9MFY08	YoY (%)
Revenue (Rs. mn)								
India	13,708	13,538	1.2	16,603	(17.4)	45,297	41167	10.0
Overseas	17,546	12,437	41.1	16,142	8.7	48,112	36652	31.3
PBIT (Rs. mn)								
India	499	316	58.0	451	10.6	1,309	961	36.2
Overseas	278	248	12.3	266	4.7	792	710	11.6
PBIT Margin (%)								
India	3.6	2.3	56.0	2.7	34.0	2.9	2.3	23.8
Overseas	1.6	2.0	(20.4)	1.6	(3.6)	1.6	1.9	(15.0)

Source: Company

New distribution tie ups

- Redington has entered into a Distributor Agreement with M/s. Oracle India Pvt. Ltd for distribution of their range of products in India. The product range includes Fusion Middleware Software products. "Oracle" is a well known brand world-wide. This new partnership with Oracle would strengthen Redington's IT distribution in Enterprise space.
- Redington has also entered into a Distributor Agreement with M/s. Research in Motion Singapore Pte. Ltd., Singapore which is the supplier of Blackberry handset. This is for the distribution of their range of products in India that include Blackberry Handsets, Software Licenses and updates. "Blackberry" is a well known brand world-wide. This new partnership with Blackberry would strengthen Redington's initiative to foray into new verticals and business lines.
- The above developments are positive for the long term growth prospects for the company as it would help to increased more revenue streams.
- These are typically high value added and high margin businesses and these have lower or neutral working capital requirements. This is expected to lead to increased revenues and more importantly higher profitability for the company going forward

PE deal values MEA business at $272 mn

- In October 2008, Redington and M/s. Investcorp Gulf Opportunity Fund Company, a private equity investor, have concluded an agreement whereby Investcorp will invest $98 Mn for a 36% stake in the Redington's Middle East and Africa (MEA) business.
- The deal values the company's MEA business at $272 mn and the transaction was successfully executed in November 2008. The first part of $65 mn has already been received and balance $33 mn would be received by June 2009.
- We feel the above step is positive as it would help the company to aggressively grow its MEA business which has good growth prospects. Some part of the money would also be used for acquisitions in the MEA geography.
- In FY 08, Middle East and Africa (MEA) business contributed ~ 43% of the total revenues and ~44% of total PAT of Redington.
- At the current market price of Rs.104 the total market cap of Redington is $162 mn (1$ = Rs.50) as against MEA business valuation of $272 mn. Thus we see good value unlocking in long term for the shareholders of Redington.

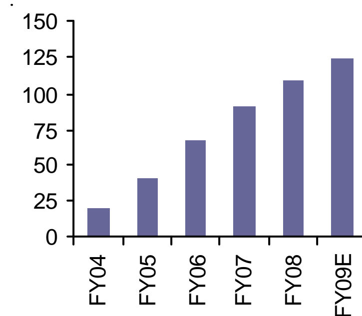
Valuation & recommendation

- We maintain our earning estimates and expect Redington to report consolidated EPS of Rs.18.8 in FY09E.
- At the current market price of Rs.104, the stock trades at 1.0x P/BV, 5.5x earnings and 5.1x cash earnings based on consolidated FY09E earnings estimates.

We recommend BUY on Redington (India) with a price target of Rs.185

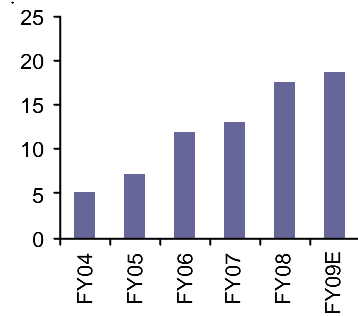
- We continue to remain positive on the long term growth prospects of Redington as we feel that Redington is poised to handle a greater share of the business in supply chain solution space with its unique business model, proven execution capabilities and its presence in potential markets.
- We continue to recommend **BUY** on Redington with unchanged price target of Rs.185.

Cons. Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
28-Jan	Epic Energy	Blueberry Trading Company Pvt Ltd	S	89,381	84.00
28-Jan	Jumbo Bag Lt	Prashant Mahadev Kamble	S	89,000	25.41
28-Jan	Nexxoft Info	Mukesh Hiralal Doctaria	S	25,667	13.33
28-Jan	Om Met Infra	T.C. Kothari and Sons Family Trust	B	1,000,000	6.00
28-Jan	Om Met Infra	Tree Line Asia Master Fund			
		Singapore Pte Limited	S	1,050,199	6.02
28-Jan	Riba Textile	Shailesh Somabhai Patel	B	34,739	35.63
28-Jan	Riba Textile	Nitaben Shaileshbhai Patel	S	62,000	34.10
28-Jan	Well Pack Pa	Gandhi Manisha Navneetlal	B	27,550	49.04
28-Jan	Well Pack Pa	Rameshbhai V Parmar	B	27,020	48.31
28-Jan	Well Pack Pa	Visheshshahra	S	30,000	49.00
28-Jan	Winsome Text	Nitaben Shaileshbhai Patel	S	46,347	35.25

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Reliance Ind	1,274	3.9	12.1	4.6
ONGC	641	3.2	6.9	1.5
ICICI Bank	408	7.1	4.8	11.8
Losers				
Reliance Com	166	(3.0)	(1.7)	13.2
Maruti Suzuki	521	(3.2)	(0.8)	1.2
BPCL	378	(1.6)	(0.4)	0.6

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
29-Jan	BPCL, Tata Power, Neyveli Lignite, Lupin, GMR Infra, BHEL, Cairn India, Infrastructure Development, Bank of Baroda, GMDC, Jindal Steel, Bajaj Hindustan Suzlon Energy, Kilburn Engineering earning expected
30-Jan	L&T, Titan Industries, Balrampur Chini Mills, Siemens, Hindalco Industries, Colgate Palmolive, Adlabs Films, Bharat Gears, Mundra Port, IVRCL Infrastructure, Indian Oil Corp, Essar Shipping, Jain Irrigation, Aban Offshore, Bombay Dyeing, Sun Pharma, Tata Tea, Tata Motors, DCHL, GE Shipping, BEML earnings expected
31-Jan	DLF, Grasim, M&M, GVK Power & Infrastructure, Rashtriya Chemicals, Bhushan Steel, Unitech, Essar Oil, DLF, Jai Corp, Videocon Industries earnings expected

Source: Bloomberg

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