MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

AUGUST 1, 2008

Economy News

- Inflation rose to 11.98% for the week ended July 19 as some food and manufactured products turned dearer, justifying the harsh monetary stance of the RBI. (BS)
- International Atomic Energy Agency (IAEA) is holding meeting in Vienna on Friday. The agency will consider the India-specific nuclear safeguards for the operationalisation of the Indo-US civil nuclear agreement. (BS)
- Oil marketing companies have increased the price of the jet fuel by almost 2.8%. This would mean that the ATF would now cost Rs 71,028.26 per kiloliter, while in Mumbai the cost will be Rs73,673.56 per kiloliter. Leading Airlines; Jet Airways and Kingfisher have hiked the basic fair by 10% effective from Friday morning. (ET)
- The Centre on Thursday approved an allocation Rs 170.33mn for revamping a power sector reforms programme under Accelerated Power Development and Reforms Programme (APDRP), aimed at cutting commercial and other losses of state utilities. (FE)

Corporate News

- **Reliance Infrastructure** in collaboration with China South Railway, is among the six bidders for a new Rs 1,400-crore Rail Coach Factory at Rae Bareli, Uttar Pradesh. The other bidders are: L&T-China North Railway, Texmaco-Kawasaki-Mitsubishi, Jessops-Siemens, CAF of Spain and Bombardier. (BL)
- Riding on subscriber additions of more than 5 million, integrated telecom player **Reliance Communications (RCom)** posted a 23.9 per cent rise in net profit at Rs 1,512 crore, much in line with street expectations. (ET)
- **Tata Steel Ltd** has posted a 21.78 % rise in its standalone net profit at Rs 1,488.40 crore against Rs 1,222.11 crore logged in the same period of last year. This is despite a Rs 303.42-crore loss accounted for on the foreign exchange front (BL)
- **Suzlon** registered consolidated sales revenue of Rs 2,760 crore in Q1 FY09 as compared to Rs 1,944-crore in the Q1 FY08. Its order book position stands at Rs 16,500 crore. (BS)
- **JSW** group plans to spend around $40 billion (around Rs 1,60,000 crore) to increase its steel capacity to 32 million tonnes from the current 4.8 million tonnes, while JSW Energy will build 15,000-mw thermal power capacity. These projects will be completed by 2020 said Sajjan Jindal. (BS)
- Daiichi Sankyo has delayed its open offer to acquire an additional 20% stake in **Ranbaxy** as it is yet to get a nod from market regulator Securities and Exchange Board of India (Sebi). Both Ranbaxy and Daiichi said this was a procedural delay and there will be no change in the terms and conditions of the open offer. (ET)

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

Equity

		% Chg		
	31 July 08	1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	14,356	0.5	10.8	(17.0)
Nifty	4,333	0.4	11.2	(16.1)
BSE Banking	6,516	(0.1)	16.7	(26.1)
BSE IT	3,690	(0.9)	(6.6)	(13.4)
BSE Capital Goods	11,684	0.5	19.9	(16.1)
BSE Oil & Gas	9,729	1.3	11.4	(15.4)
NSE Midcap	5,537	(0.5)	10.9	(21.0)
BSE Small-cap	6,913	(0.2)	8.3	(21.2)
World Indices				
Dow Jones	11,378	(1.8)	(0.0)	(12.5)
Nasdaq	2,326	(0.2)	0.9	(6.3)
FTSE	5,412	(0.2)	(1.2)	(11.1)
Nikkei	13,377	0.1	(2.8)	(5.0)
Hangseng	22,731	0.2	1.0	(13.3)

Value traded (Rs cr)

	31 July 08	% Chg - Day
Cash BSE	4,980	(3.9)
Cash NSE	15,387	20.8
Derivatives	64,640.3	10.4

Net inflows (Rs cr)

	30 July 08	% Chg	MTD	YTD
FII	(392)	18	(1,610)	(28,101)
Mutual Fund	690	(377)	1,223	10,372

FII open interest (Rs cr)

	30 July 08	% Chg
FII Index Futures	14,151	(30.5)
FII Index Options	14,979	(40.3)
FII Stock Futures	14,674	(17.9)
FII Stock Options	270	(78.6)

Advances / Declines (BSE)

31 July 08	A	B	S	Total	% total
Advances	95	856	201	1,152	47
Declines	109	866	235	1,210	50
Unchanged	1	53	10	64	3

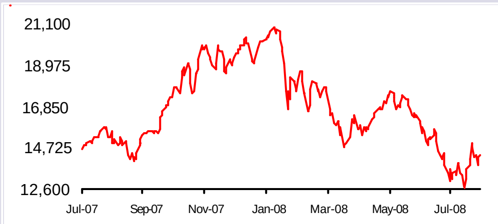
Commodity

		% Chg		
	31 July 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	123.3	(0.6)	(12.5)	9.6
Gold (US$/OZ)	914.1	0.9	(3.1)	6.8
Silver (US$/OZ)	17.8	1.5	(2.6)	9.0

Debt / forex market

	31 July 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.41	9.39	9.08	7.95
Re/US$	42.52	42.39	43.06	40.59

Sensex



RESULT UPDATE

Awadhesh Garg
awadhesh.garg@kotak.com
+91 22 6621 6304

HOTEL LEELA VENTURE LTD (HLV)

PRICE: RS.32 **RECOMMENDATION: BUY**
REVISED TARGET PRICE: RS.52 **FY09E P/E: 9.1x**

In-line results; reduce target price; maintain BUY

- HLV has registered a revenue growth of 23.8% at Rs.1.24bn in Q1FY09 as compared to Rs.1.0bn in Q1FY08. The growth in revenue was driven by continued buoyancy in the Mumbai market, room additions and steady growth in F&B business across the key markets;
- We believe HLV has achieved a satisfactory growth during the quarter given the fact that hotel rooms are selling at lower room rates as monsoon is the lean season and continuing economic slowdown in global as well as domestic market;
- However, EBITDA grew with lower pace at 11.2% to Rs.545mn against Rs.490mn. The lower growth in EBITDA was due to decline in operating margin. Operating margin declined 500bps to 43.9% verses 48.9% in Q1FY08 mainly due to higher staff and operating costs;
- Net profit for the quarter grew 10.8% to Rs.334mn as compared to Rs.302mn in Q1FY08. The lower growth at net level was mainly due to decline in operating margin. Net profit margin dipped 350bps to 26.9%;
- The stock has underperformed significantly in the past six months mainly due to significant correction in the overall capital market and global and domestic economic slowdown, which perceived to be correlated directly to luxury hotels segments.
- We have fine-tuned our revenue and earning estimates slightly. We expect fully diluted EPS of Rs3.5 each in FY09 and FY10, respectively.
- We also make slight changes in our cost of equity assumptions in our DCF model on the back of rise in general interest rate and higher risk perception.
- We reduce our target price to Rs.52 (from Rs.70 earlier) mainly due to increased risk perception (one year adjusted beta is now at 1.07 verses 0.75 earlier) and increase in cost of equity due to sharp rise in interest rates. The valuations have also corrected due to rising interest rate.
- We maintain BUY with revised target price Rs.52 for one year time horizon.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	5,146	6,195	6,835
Growth (%)	23.8	16.5	10.0
EBITDA	2,281	2,808	3,142
EBITDA margin (%)	44.3	46.8	47.6
Net profit	1486	1538	1755
Net Margin (%)	28.9	25.7	26.6
EPS diluted (Rs)	3.9	3.5	3.5
Growth (%)	15.0	(10.5)	0.6
DPS (Rs)	0.5	0.5	0.5
RoE (%)	16.3	13.6	10.8
RoCE (%)	10.6	8.1	8.6
EV/Sales (x)	7.4	4.8	4.1
EV/EBITDA (x)	16.8	10.5	9.0
P/E (x)	8.1	9.1	9.0
P/BV (x)	2.3	1.0	0.8

Source: Company, Kotak Securities - Private Client Research

Financial Performance Highlights

(Rs mn)	Q1FY09	Q1FY08	YoY (%)	Q4FY08	QoQ (%)	FY08	FY07	YoY (%)
Sales & Operating Income	**1,241**	**1,002**	**23.8**	**1,547**	**(19.8)**	**5,146**	**3,809**	**35.1**
Expenditure	696	512		998		2,865	1,986	
EBIDTA	**545**	**490**	**11.2**	**548**	**(0.6)**	**2,281**	**1,823**	**25.1**
Depreciation	112	87		159		453	338	
EBIT	**433**	**403**	**7.5**	**389**	**11.2**	**1,827**	**1,485**	**23.1**
Interest	76	77		89		356	302	
Other Income	37	33		477		746	715	
PBT	**394**	**359**	**9.8**	**778**	**(49.3)**	**2,217**	**1,899**	**16.8**
Tax	60	58		499		732	633	
PAT	**334**	**302**	**10.8**	**280**	**19.5**	**1,486**	**1,266**	**17.3**
Equity Shares (Mn)	378	370		378		378	370	
EPS (Rs)	**0.9**	**0.8**	**8.6**	**0.7**	**19.5**	**3.9**	**3.4**	**15.0**
EBIDTA Margin (%)	43.9	48.9		35.4		44.3	47.9	
PAT Margin (%)	26.9	30.1		18.1		28.9	33.2	

Source: Company

Casino income and room refurbishment/expansion to drive growth in FY09

With Mumbai refurbishments (90 rooms) and, room expansion (105 rooms) at Bangalore available starting Q4FY07, we believe additional rooms and sustained high ARRs, particularly in Mumbai and Goa will drive growth in FY09. Goa had witnessed a dip in revenue in H1FY08 due to the withdrawal of 30 rooms for refurbishment. We believe these rooms are on stream and add to revenues in FY09. Further, Casino in Goa that comes up during the quarter will likely to contribute around Rs.200mn to net profits in FY09.

Room addition at Goa property to contribute in FY09

Hotel Leela planned an expansion of 29 new rooms and refurbishment of 30 existing rooms at its Goa property in view of rising demand for rooms during peak season (October-February) which attracts foreign and domestic tourists. After the expansion, room inventory will go up to 181 from existing 152 rooms. We expect the refurbishment to be complete by this season and expansion by next season. We expect revenue contribution from room addition in FY09.

Various projects under implementation are progressing well

Hotel Leela plans to add six new luxury hotels (including one management contract) at Udaipur, Chennai, Hyderabad, Pune, New Delhi and Gurgaon. It plans to add over 1500 rooms to its current inventory of 1086 rooms by FY11-12. However, except the addition of 29 rooms in Goa in FY09, we do not expect any significant room addition in the next two years, which may limit revenue and earnings growth potential in the short term.

In FY10, Leela will add the 81-room hotel in Udaipur and 409-room hotel-cum-service apartment in Gurgaon (which is under management contract). In FY11, it will open hotels in Chennai (380 rooms), Hyderabad (250 rooms) and Pune (200 rooms). Further, in FY12, it plans to open a 205-room super luxury hotel in New Delhi. We expect that over the next three to four years, almost every city will see significant capacity addition and the risk of declining in occupancies and tariffs.

Huge capex plan to spur growth from 2010

Hotel Leela is on a huge expansion spree and has slated a US$500 mn capex plan over the next three to four years, mainly for developing four new properties, and renovating and upgrading existing properties. So far, the company has already spent US$254 mn (including land acquisition in New Delhi) and plans to spend around US$300 mn over the next three to four years. The financing is likely to be through a mix of FCCB proceeds, internal cash flows from operations and money deposited with Hudco. We believe benefit of this capex to fructify by 2010.

We expect 15.3% and 8.7% revenue and earning CAGR over FY08-10E

We expect 15.3% and 8.7% compounded growth in revenues and earnings over the next two years. For FY09, we expect revenue growth of 16.5% to Rs.6.2bn and net profit growth of 3.6% to Rs.1.54bn. We believe the Mumbai and Goa properties will be key growth drivers in FY09 led by strong ARRs and occupancy. We also expect Rs.200mn income from Casino (Goa) and Rs200mn rental from IT Park in FY09. In FY10, revenues are likely to grow by 10% to Rs.6.84bn and net profit is expected to grow by 14% to Rs.1.75bn. We believe that new properties in Udaipur and Gurgaon which are expected to open in Oct-2008 and Jan-2009 will contribute to the revenue for little part of the financial year.

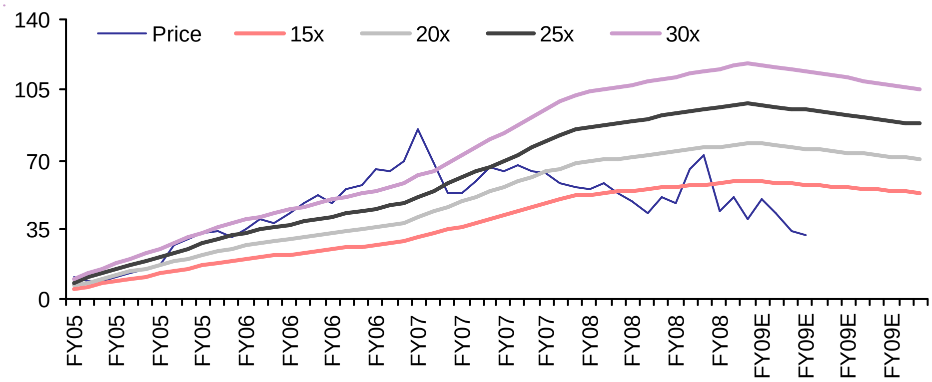
Valuations & recommendation

- We have fine-tuned our revenue and earning estimates slightly. We expect fully diluted EPS of Rs3.5 each in FY09 and FY10, respectively.
- In our estimates, we have also taken equity dilution due to potential conversion of first FCCB issue of €60mn at Rs.47/share in FY09 and second FCCB issue of US$110mn at Rs.72/share in FY10.
- The stock has underperformed significantly in the past six months mainly due to significant correction in the overall capital market and global and domestic economic slowdown, which perceived to be correlated directly to luxury hotels segments.
- The valuations have also corrected due to rising interest rate.
- Post the correction in stock price, at Rs.32, the stock is trading at 9.1x FY09 and 9.0x FY10 price to earning multiple 9x FY10 EV/EBIDTA.

We maintain BUY on Hotel Leela Venture with revised price target of Rs.52

- We believe this rising interest rate and inflationary situation will force the new hotel project to put on hold to an indefinite time period, which is positive for the existing players.
- We also make slight changes in our cost of equity assumptions in our DCF model on the back of rise in general interest rate and higher risk perception.
- We reduce our target price to Rs.52 (from Rs.70 earlier) mainly due to increased risk perception (one year adjusted beta is now at 1.07 verses 0.75 earlier) and increase in cost of equity due to sharp rise in interest rates.
- We maintain **BUY** with revised target price Rs.52 for one year time horizon.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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

IVRCL INFRASTRUCTURES LTD

PRICE: RS.300 **RECOMMENDATION: BUY**
TARGET PRICE: RS.474 **FY10E P/E: 13.4X**

Result Highlights

- Company posted excellent set of numbers for Q1FY09 with revenues for the current quarter registering 37% growth YoY, inline with our expectations.
- Operating margins for Q1FY09 stood at 8.8% which is slightly lower than our estimates. This was due to higher sub contracting charges in the current quarter.
- Company still claims the benefits under Section 80IA, resulting in lower tax paid as against our expectations. Net profit for the current quarter registered a growth of 15% YoY, resulting in net profit margins of 4.7%.
- With a robust order book of Rs 150bn, we expect company's revenues to grow at a CAGR of 31% between FY08-FY10 and profits to grow at a CAGR of 20% between FY08-FY10. At current price of Rs 300, stock is trading at 16.3x and 13.4x its P/E multiples on FY09 and FY10 estimates respectively. Net of BOT valuations, stock is trading at very attractive valuations of 11.3x and 9.3x its P/E multiples on FY09 and FY10 estimates respectively. We maintain BUY with a price target of Rs.474 (Rs.533 earlier)

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	36,606	49,216	62,375
% change YoY		34.4	26.7
EBITDA	3,615	4,922	6,237
% change YoY		36.2	26.7
Other Income	45	80	20
Depreciation	328	447	545
EBIT	3,332	4,554	5,712
% change YoY		36.7	25.4
Net interest	478	805	1,136
Profit before tax	2,854	3,749	4,576
% change YoY		31.4	22.1
Tax	749	1,275	1,556
as % of PBT	26.2	34.0	34.0
Net income	2,105	2,475	3,020
% change YoY		17.6	22.1
Shares (m)	134.5	134.5	134.5
EPS (reported) (Rs)	15.7	18.4	22.5
P/E(x)	19.2	16.3	13.4
EV/EBITDA(x)	11.1	7.8	6.3

Source: Company, Kotak Securities - Private Client Research

Financial Highlights

(Rs mn)	Q1FY09	Q1FY08	YoY (%)
Net sales	**9284**	**6773**	**37**
Expenditure	8464	6173	
Construction,Stores,Spares	3721	2958	
As a % of net sales	40.1	43.7	
Sub-contractors	2283	1310	
As a % of net sales	24.6	19.3	
Masonry and other works	1492.5	1284	
As a % of net sales	16.1	19.0	
Staff cost	423	318	
As a % of net sales	4.6	4.7	
Other expenditure	545	303	
As a % of net sales	5.9	4.5	
EBITDA	**820**	**600**	**37**
EBITDA margin (%)	8.8	8.9	
Depreciation	102	66	
EBIT	**718**	**534**	**34**
Interest	194	56.8	
EBT(exc other income)	524	478	10
Other income	26	10.4	
EBT	**550**	**488**	**13**
Tax	115	108	
Tax (%)	20.9	22.1	
PAT	**435**	**380**	**15**
NPM (%)	4.7	5.6	
Capital	267	259	
EPS (Rs)	**3.3**	**2.9**	

Source: Company

- We maintain our estimates for revenues going forward. Inline with increase in borrowings for the company, we have increased our interest outgo charges going forward, thereby changing our profit estimates. In lieu of rising interest rate scenario, we also factor in a higher discounting factor the company which results in reducing our core business valuation. We also take into account the decline in the investment values in IVR Prime Urban developers and Hindustan Dorr Oliver. Correspondingly our price target based on sum-of-the-parts valuation stands at Rs 474 as against Rs 533 earlier. We believe that company is set to benefit from increased investments in the infrastructure segment as well as has a healthy order book which provides revenue visibility for next 2.5 years.

Revenue growth inline with our estimates

- Revenues for the current quarter have grown by 37%, on an year-on-year basis. This was inline with our expectations.
- Revenue growth was led by the robust order book of Rs 150bn. Current order book is diversified across water(Rs 98bn),building(Rs 31bn),power(Rs 10bn) and transportation(Rs 9bn). Order inflow in the current quarter was also very strong and was approximately around Rs 29 bn. Current order book of Rs 150bn contains L1 orders worth Rs 24bn.
- Management is quite confident about the future growth in the order inflows. With a robust order book and expected order inflows, we maintain our revenue estimates and expect revenues to grow at a CAGR of 31% between FY08-FY10.

Operating margins impacted by higher subcontracting charges

- Operating margins for Q1FY09 stood at 8.8%, lower by 10 basis points in comparison with Q1FY08. Operating margins in a particular quarter depends upon the projects executed in the corresponding period. However on a full year basis, we expect operating margins to be around 10% going forward.
- Significant proportion of order book of IVRCL is hedged with inbuilt escalation clauses so on a full year basis, company also expects to maintain operating margins in the range of 10% going forward.

Net profit growth inline with our estimates but boosted by lower tax rate

- Net profit for the current quarter registered a growth of 15% YoY, resulting in net profit margins of 4.7%.
- IVRCL still claims benefits under Section 80IA, hence the effective tax rate for the current quarter stood at 21% as against our estimate of 34%.
- Inline with increase in borrowings for the company, we have increased our interest outgo charges going forward, thereby changing our profit estimates.
- We assume full tax rate in our future estimates and expect net profits to grow at a CAGR of 20% between FY08-FY10.

Valuation and recommendation

At current price of Rs 300, stock is trading at 16.3x and 13.4x its P/E multiples on FY09 and FY10 estimates respectively. Net of BOT valuations, stock is trading at very attractive valuations of 11.3x and 9.3x its P/E multiples on FY09 and FY10 estimates respectively.

We recommend BUY on IVRCL Infrastructure with revised price target of Rs.474

We believe that company is set to benefit from increased investments in the infrastructure segment along with a healthy order book which provides revenue visibility for next 2.5 years. Thus we remain positive on the company and maintain our estimates for revenues going forward. However in lieu of rising interest rate scenario, we factor in a higher discounting factor as well as lower target valuation multiples for the company which results in reducing our core business valuation. We also take into account the decline in the investment values in IVR Prime Urban developers and Hindustan Dorr Oliver. Correspondingly our price target based on sum-of-the-parts valuation stands at Rs 474 as against Rs 533 earlier. We maintain **BUY** on the stock.

Sum of the parts valuation

Valuation - based on FY10	Rs per share	Parameter
Core business valuation	382	Based on 17x FY10 estimated earnings
Value for Chennai Desalination project	8	Investments valued at P/BV of 1.2
Value for Jalandhar Amritsar BOT	5	Investments valued at P/BV of 1.5
Value for Tamilnadu BOT	21	Investments valued at P/BV of 1.5
Value for IVR Prime Urban developers	46	Holding company discount of 15%
Value for Hindustan Dorr Oliver stake	12	Holding company discount of 15%
Value per share	**474**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

NAGARJUNA CONSTRUCTION COMPANY (NCC)

PRICE: RS.130 **RECOMMENDATION: BUY**
TARGET PRICE: RS.190 **FY10E P/E: 13.8X**

Result Highlights

- **Revenues of the company for the current quarter were ahead of our expectations, registering 27% growth in Q1FY09 vis-à-vis Q1FY08.**
- **Operating margins for Q1FY09 stood at 9.4%, slightly lower than our estimates. This was impacted by higher raw material prices.**
- **Net profit for the current quarter registered a marginal increase of 3% due to steep increase in the interest charges as well as lower operating margins.**
- **We change our estimates based on higher borrowings as well as higher interest outgo for the company going forward. Given higher working capital requirements funded by debt for the company, NCC is expected to be impacted by higher interest rates going forward. We also introduce FY10 estimates for the company based on the robust order book of Rs 122bn and strong revenue visibility. We expect revenues to grow at a CAGR of 26% between FY08-FY10 and profits to grow at a CAGR of 17% between FY08-FY10.**
- **At current price of Rs 130, stock is trading at 16.9x and 13.8x on P/E multiples and 7.4x and 6.4x on EV/EBITDA multiples on FY09 and FY10 estimates respectively. Adjusted with BOT valuations, it is trading at 10.5x and 8.6x on P/E multiples on FY09 and FY10 estimates.**
- **To factor in the increasing interest rate scenario and lower than expected growth in profitability going forward, we lower our target valuation multiples for the company going forward. We arrive at a price target of Rs 190 on sum-of-the-parts methodology based on FY10 estimates as against Rs 265 earlier.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	34,729	44,454	55,567
% change YoY		28.0	25.0
EBITDA	3,598	4,223	5,279
% change YoY		17.4	25.0
Other Income	56	30	30
Depreciation	482	573	692
EBIT	3,171	3,680	4,617
% change YoY		16.0	25.5
Net interest	719	903	1,232
Profit before tax	2,452	2,777	3,385
% change YoY		13.2	21.9
Tax	833	944	1,151
as % of PBT	34.0	34.0	34.0
Net income	1,620	1,833	2,234
% change YoY		13.2	21.9
Shares (m)	237.9	237.9	237.9
EPS (reported) (Rs)	6.8	7.7	9.4
P/E(x)	19.1	16.9	13.8
EV/EBITDA(x)	8.3	7.4	6.4

Source: Company, Kotak Securities - Private Client Research

Financial Highlights

Rs million	Q1FY09	Q1FY08	YoY%
Net Sales	**9709**	**7622**	**27**
Expenditure	8794	6829	
Inc/Dec in stock	-701	381	
Raw material	3608	2177	
As a % of net sales	37.2%	28.6%	
Other const exp	4197	3144	
As a % of net sales	43.2%	41.2%	
Labour	961	662	
As a % of net sales	9.9%	8.7%	
Staff cost	501	303	
As a % of net sales	5.2%	4.0%	
Other exp	229	162	
As a % of net sales	2.4%	2.1%	
EBITDA	**916**	**794**	**15**
EBITDA margin	9.4%	10.4%	
Depreciation	142	104	
EBIT	**774**	**689**	**12**
Interest	239	145	
EBT(exc other income)	535	544	
Other Income	9	4	
EBT	**544**	**548**	**-0.7**
Tax	173	187	
Tax%	31.8%	34.2%	
PAT	**371**	**360**	**3**
NPM%	3.8%	4.7%	
Equity Capital	457.7	417	
EPS (Rs)	**1.6**	**1.7**	

Source: Company

Revenue growth ahead of our estimates

- Revenues of the company for the current quarter were ahead of our expectations, registering 27% in Q1FY09 vis-a-vis Q1FY08.
- Order inflow in the current quarter is fairly robust with company receiving around Rs 18bn, thereby enhancing the order book to Rs 122bn. This provides a revenue visibility for next 2 years. NCC's order book is diversified across roads(13%), water(15%), buildings(19%), irrigation(7%), electricals(2%), oil and gas(10%), metals(10%), international(24%) and power(1%).
- Management is quite confident of order inflow momentum going forward and expects an order inflow of Rs 65bn for the current fiscal.
- We introduce FY10 estimates for the company based on the robust order book of Rs 122 bn and strong revenue visibility. We expect revenues to grow at a CAGR of 26% between FY08-FY10.

Operating margins impacted by higher raw material prices

- Operating margins for Q1FY09 stood at 9.4%, marginally lower than our estimates. In comparison with Q1FY08, margins have witnessed a decline of 100 basis points.
- Out of the total order book, 70% of the contracts have price escalation clauses. Out of this, 25% are star rated contracts, 25% are linked to price index of respective commodities and 20% are linked to WPI.
- We reduce our operating margin assumptions for the company going forward to factor in relatively higher proportion of fixed price contracts as compared to peers and higher raw material prices going forward. We now expect margins in the range of 9.5% going forward as against 10% assumed earlier.

Net profit growth inline with our estimates

- Net profit for the current quarter registered a growth of 3% YoY, resulting in net profit margins of 3.8%. This was exactly inline with our estimates.
- Flattish growth in the net profits is on account of step increase in the interest charges as compared to corresponding quarter last year.
- We increase the average cost of borrowings for the company going forward and correspondingly out interest outgo is increased for FY09 and FY10. Thus reduction in operating margins and increase in interest payments reduces our net profit estimates for FY09 from Rs 2.2bn to Rs 1.8bn. We expect net profits to grow at a CAGR of 17% between FY08-FY10.

Valuation and recommendation

At current price of Rs 130, stock is trading at 16.9x and 13.8x on P/E multiples and 7.4x and 6.4x on EV/EBITDA multiples on FY09 and FY10 estimates respectively. Adjusted with BOT valuations, it is trading at 10.5x and 8.6x on P/E multiples on FY09 and FY10 estimates.

We recommend BUY on NCC with a price target of Rs.190

We introduce FY10 estimates for the company based on the robust order book of Rs 122 bn and strong revenue visibility. We expect revenues to grow at a CAGR of 26% between FY08-FY10 and profits to grow at a CAGR of 17% between FY08-FY10. To factor in the increasing interest rate scenario and lower than expected growth in profitability going forward, we lower our one year forward target valuation multiples for the company going forward. We roll forward our target price calculation on FY10 estimates arrive at a price target of Rs 190 on sum-of-the-parts methodology as against Rs 265 earlier. We continue to maintain our **BUY** recommendation on the stock.

Sum of the parts valuation

(FY10)	Per share	Rationale
Core business valuation	**141**	Based on 15x one year forward P/E multiple
BOT projects	**15**	Based on NPV and P/BV methodology
Bangalore mysore project	2	
Meerut Muzaffpur project	3	
Bangalore elevated corridor	5	
Orai Bhognipur project	6	
Power projects	**4**	Based on P/BV methodology
Himachal Sorang	2	
Gautami power	2	
Real estate	**30**	Based on NPV methodology
Land bank development	8	
Vizag development	2	
Jubilee hills,Hyd	2	
Tishman Speyer,Hyd	14	
National games, Ranchi	4	
Total value per share	**190**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

MADHUCON PROJECTS LTD (MPL)

PRICE: RS.294 **RECOMMENDATION: BUY**
TARGET PRICE: RS.564 **FY10E P/E: 14.9X**

Result Highlights

- **Madhucon Projects Ltd reported excellent revenue growth for Q1FY09 with revenues registering a 67% YoY growth as against Q1FY08. This was ahead of our expectations.**
- **Operating margins stood at 14% for the current quarter. This was ahead of our expectations. This dip as compared to last year is due to the impact of higher commodity prices.**
- **Healthy growth in revenues and decent set of margins has led to 62% YoY growth in the net profits for Q1FY09 as compared to last year.**
- **Company is also in the process of raising money at the SPV level for its subsidiary executing BOT projects, power project as well as coal mining. This process has been delayed from last two quarters.**
- **At current market price of Rs 294, stock is trading at 19.2x and 14.9x its P/E multiples on FY09 and FY10 estimates and 9.5x and 7.8x its EV/ EBITDA multiples on FY09 and FY10 estimates respectively.**
- **We modify our estimates to factor in margin decline due to fixed price contracts. Along with this, we also incorporate higher discounting factor for valuing the coal mining business due to higher interest rate scenario as well as delay witnessed in the fund raising plan for the company. We arrive at a price target of Rs 564 based on sum-of-the-parts methodology as against Rs 748 earlier. Based on the upside from current stock price, we continue to recommend BUY.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	7,380	10,848	14,103
% change YoY		47.0	30.0
EBITDA	1,074	1,465	1,904
% change YoY		36.4	30.0
Other Income	121	40	40
Depreciation	334	420	502
EBIT	861	1,085	1,442
% change YoY		26.0	32.9
Net interest	163	260	376
Profit before tax	698	825	1,066
% change YoY		18.3	29.1
Tax	158	231	298
as % of PBT	22.7	28	28
Net income	540	594	767
% change YoY		10.1	29.1
Shares (m)	38.9	38.9	38.9
EPS (rep& diluted) (Rs)	13.9	15.3	19.8
P/E(x)	21.2	19.2	14.9
EV/EBITDA(x)	11.8	9.5	7.8

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY09	Q1FY08	YoY (%)
Net Sales	**2397**	**1434**	**67**
Expenditure	(2061)	(1225)	
EBITDA	**336**	**208**	**61**
EBITDA margin (%)	14.00	14.54	
Depreciation	(98)	(89)	
EBIT	**238**	**120**	**98**
Interest	(48)	(21)	
EBT(exc other income)	**189**	**99**	
Other Income	9	22	
EBT	**198**	**121**	**63**
Tax	(49)	(30)	
Tax (%)	24.95	24.30	
Net profit	**148.6**	**91.9**	**62**
NPM (%)	6.20	6.41	
Equity Capital	73.79	73.79	
EPS (Rs)	**4.0**	**2.5**	

Source: Company

Revenue growth ahead of our estimates

- Revenues for the current quarter have shown a healthy growth of 67% YoY. This was ahead of our expectations and led by strong order book.
- Current order book stands at Rs 47bn and order inflow was also very strong in the current fiscal for the company. MPL has won two key orders in the power segment. It has bagged an EPC contract worth Rs 9.9bn for setting up a thermal power plant of 2X135MW at Nellore district in Andhra Pradesh. It has also signed MoU for two hydel power projects for setting up 165MW and 150MW in Etabu and Elango in Arunachal Pradesh. It has also entered into MoU with Jharkhand State government for setting up a 1000MW thermal power plant at a total cost of Rs 48bn. These orders strengthen its presence in the large sized EPC contracts as well as setting up of power plants after their first venture into power segment with Mahalaxmi group for setting up a coal based power plant in AP.
- With a strong order book of Rs 47bn, we expect revenues to grow at a CAGR of 38% between FY08-FY10.

Operating margins impacted by higher raw material prices

- Operating margins for Q1FY09 stood at 14%, ahead of our estimates. In comparison with Q1FY08, margins have witnessed a decline of 54 basis points
- The company is hedged in most of its contracts (apart from contracts from BOT projects) in its current order book against rise in the steel and cement prices. However the civil contracts from the road BOT projects are expected to be impacted by higher raw material prices going forward.
- Hence we expect operating margins to decline from our earlier assumptions of 14.5% to 13.5% going forward.

Net profit growth ahead of our estimates

- Healthy growth in revenues and decent set of margins has led to 62% YoY growth in the net profits for Q1FY09 as compared to last year.
- However net profit growth of the company in current quarter was also boosted by lower tax provisions.
- After fine tuning our estimates for lower operating margins, we expect net profits to grow at a CAGR of 19% between FY08-FY10.

Subsidiary performance

- **Road BOT projects:** MPL is executing four road BOT projects. Construction work is under progress and company expects to complete construction of these projects well on time. Since these projects are currently under construction phase, we have valued these projects on P/B value methodology based on the expected returns from these projects. In the rising interest rate scenario we expect equity IRRs of these projects to witness a decline. Thus our valuations of the road projects stands reduced.
- **Coal miningproject:** MPL has formed a separate company to carry out the coal mining business, where MPL has a 95% stake. Based on the total reserves of 250MT with a mining lease of 30 years, we have valued this division based on DCF methodology. Based on the grade of coal, we expect coal prices to be in the range of $40-43 per tonne and expect the prices to increase by 5% every year. Due to delays witnessed in the funds raising for this project as well as delay in supply of crushers, coal escavation in the current fiscal is expected to be around 6 lakh tones as against our earlier estimate of 1MT. Post FY09, we expect 1.5MT of coal excavation in FY10. Thus we correspondingly attach a higher discounting factor to arrive at the NPV from this project and expect value per share to be around Rs 225 as against Rs375 calculated earlier.

Valuation and recommendation

At current market price of Rs 294, stock is trading at 19.2x and 14.9x its P/E multiples on FY09 and FY10 estimates and 9.5x and 7.8x its EV/EBITDA multiples on FY09 and FY10 estimates respectively.

We recommend BUY on Madhucon Projects with a price target of Rs.564

MPL had transferred the road BOT, power and coal mining related activities in a separate SPV, where it was in the process of raising funds. There has been a considerable delay witnessed in the fund raising activity for the SPV which may impact the capex plans for various projects in the SPV or may increase the borrowings in the project. Large capex is required in coal mining as well as power project. We thus reduce our valuations for the coal mining business using a higher discounting factor as well as to factor in the higher interest rate scenario going forward. We also expect equity IRR's to go down marginally due to higher interest rate scenario going forward. We thus arrive at a price target of Rs 564 based on the sum-of-the-parts methodology. We remain positive on the company due to healthy order book, better than industry margins, as well as venture into other growing areas such as coal mining, power projects. We maintain our **BUY** recommendation on the stock.

Sum of the parts valuation

	Rs per share	
Core business	237	12 times FY10 earnings
Road projects		
Rajasthan BOT	15	Expected Equity IRR of 16.5%
Tamil Nadu BOT	17	Expected Equity IRR of 16.5%
Tuticorin BOT	36	Expected Equity IRR of 15%
Trichi BOT	28	Expected Equity IRR of 15%
Land value	6	Based on 80% stake of MPL
Indonesian coal mines	225	Based on DCF
Total	**564**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

AIA ENGINEERING LTD.

PRICE: RS.1274 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1870 **CONS. FY09E P/E: 13.0X**

AIA reported excellent Q1FY09 results which are in line with our estimates both on the revenues and profitability front. Maintain FY09 earning estimates. Recommend BUY with unchanged price target of Rs.1870 (47% upside Potential).

- On consolidated basis the company produced 23987 MT in Q1FY09 against 17482 MT in Q1FY08 registering YoY growth of 37.2%. This was primarily due to additional contribution from the expanded capacities.
- AIA sold 21200 MT in Q1FY09, up 13.2% on YoY basis. The average realizations have also improved by 28.9% YoY and up 5.2% on sequential basis to Rs.94.3 per kg.
- Sales volume growth has been lower then the production growth as the company has built up some inventory and it would be sold in the following quarters.

Summary table - Consolidated

(Rs mn)	FY07	FY08E	FY09E
Sales	5,230	6,912	9,985
Growth (%)	28.5	32.1	44.5
EBITDA	1,244	1,638	2,454
EBITDA margin (%)	23.8	23.7	24.6
Net profit	943	1,333	1,844
Net debt	(284)	(819)	(1,769)
EPS (Rs)	50.2	70.9	98.1
Growth (%)	80.1	41.3	38.3
DPS (Rs)	3.5	4.0	5.0
ROE (%)	19.2	24.0	26.1
ROCE (%)	26.1	32.0	34.0
EV/Sales (x)	4.5	3.3	2.2
EV/EBITDA (x)	19.0	14.1	9.0
P/E (x)	25.4	18.0	13.0
P/BV (x)	4.9	3.9	3.0

Source: Company, Kotak Securities - Private Client Research

Consolidated quarterly performance - AIA

(Rs mn)	Q1FY09	Q1FY08	YoY%	Q4FY08	QoQ (%)
Net Sales	**1,999**	**1,371**	**45.8**	**2,036**	**(1.8)**
Inc/dec in stock	(331)	24	-	19	-
Raw materials	1,231	695	77.0	927	32.8
Staff cost	103	72	43.3	72	44.1
Other exp.	462	308	50.0	539	(14.3)
Total exp.	1,464	1,099	33.2	1,556	(5.9)
EBIDTA	**535**	**272**	**96.6**	**480**	**11.4**
Other income	74	49	50.5	137	(46.2)
Depreciation	44	22	104.6	45	(1.4)
EBIT	**565**	**299**	**88.5**	**573**	**(1.4)**
Interest	5	5	1.6	4	3.8
PBT	**560**	**295**	**89.9**	**568**	**(1.4)**
Tax & deferred tax	161	76	112.0	125	29.3
PAT	**398.6**	**219**	**82.2**	**443.3**	**(10.1)**
Minority Interest	0.6	2	(74.1)	2.8	(77.4)
NPAT	398	216	83.9	441	(9.7)
Equity shares o/s (mn)	18.8	18.8		18.8	
Ratios					
Operating profit margin (%)	26.8	19.8	+ 700 bps	23.6	+ 320 bps
Raw Materials / Sales (%)	45.0	52.5		46.4	
Staff cost / Sales (%)	5.2	5.2		3.5	
Other Exp. / Sales (%)	23.1	22.4		26.5	
EPS (Rs)	**21.2**	**11.5**		**23.4**	
CEPS (Rs)	23.5	12.7		25.8	
Tax / PBT (%)	28.8	25.8		22.0	
Qty Produced MT	23987	17482	37.2	24343	(1.5)
Qty Sold MT	21200	18735	13.2	22714	(6.7)
Avg. Realisations (Rs/kg)	94.3	73.2	28.9	89.6	5.2

Source: Company

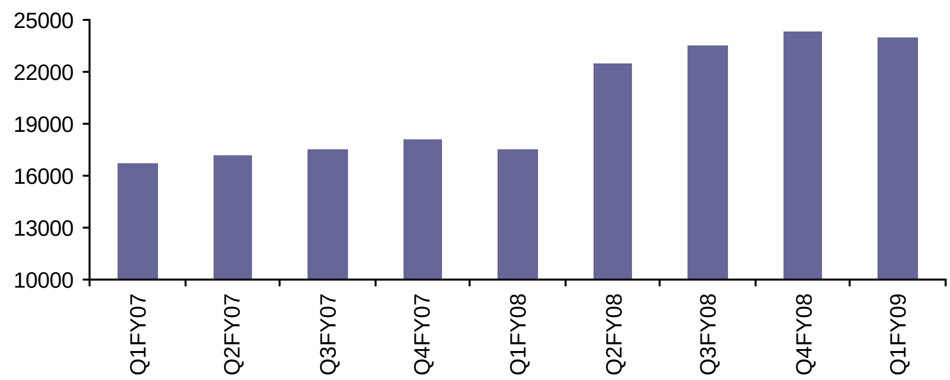
- For Q1FY09 the company reported net sales of Rs.2.0 bn, up 45.8% YoY and down 1.8% sequential basis.
- For Q1FY09, the segmental breakup of the sales of mill internals within India is 71% for Cement, 22% for utilities and 7% for the mining industry.

- Exports stood at Rs.1.0 bn in Q1FY09, which is 51% of the total revenues. The mill internals for the cement industry contributed nearly 95% of the exports, as the sales from the exports of mill internals for the mining sector would start flowing in from the following quarters.
- EBIDTA margin during Q1FY09 was up by 700 bps on YoY basis to 26.8%. This was primarily due to expansion of capacities resulting into economies of scale. Also there was better product mix with improved focus on value added high chrome mill internals. The raw materials to sales ratio decreased from 52.5% in Q1FY08 to 45.0% in Q1FY09 which improved the margins in Q1FY09.
- EBIDTA for Q1FY09 was at Rs.535 mn up 96.6% YoY and up 11.4% on sequential basis.
- The other income of the company was at Rs.74 mn in Q1FY09 as against Rs.49 mn in Q1FY08. This was primarily due to income from the proceeds of the equity issue which were invested in short term fixed deposits and liquid mutual fund schemes, pending deployment in the business.
- PBT for Q1FY09 was up 89.9% on YoY basis to Rs.560 mn.
- PAT for the Q1FY09 was at Rs.398 mn up 83.9% on YoY basis thereby translating into quarterly EPS of Rs.21.2 and CEPS of Rs.23.5.

Expansion plans are on track

At present, the company has 165,000 TPA capacities on consolidated basis. This includes the expansion of 50,000 TPA which has been commissioned in May 2008. The second expansion of 100000 TPA is expected to be operational by H2FY10. Thus post this expansion the consolidated capacities of the company would go upto 265000 TPA. The expanded capacity would lead to CAGR of 38.1% in revenues and CAGR of 39.8% in the profits of the company from FY07 to FY09E.

Quantity produced - MT



Source: Company

Robust order book - could grow further at rapid pace

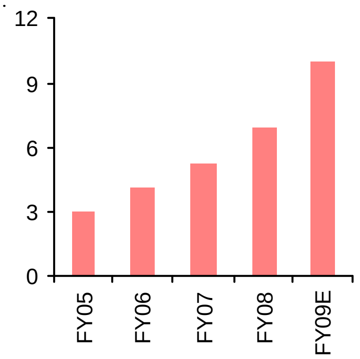
- As of 30th June 2008 the company has a robust order book of Rs.4.0 bn. Out of this order book, nearly 35% is for projects and the balance 65% for replacement. Almost 51% of the order book is for exports.
- The project orders are mainly for the new cement capacities that are being set up India and AIA has won the major contracts to supply the mill internals for the new cement plants.
- The order book is expected shoot up significantly once the expanded capacities stabilizes by September 2008. Then the company would be taking export orders for high chrome mill internal for the mining segment.
- The company has already been approved by various mines abroad, which should immediately translate into orders once the company is in position to guarantee the supplies.

Valuation and recommendation

We recommend BUY on AIA Engineering with a price target of Rs.1870 (47% upside)

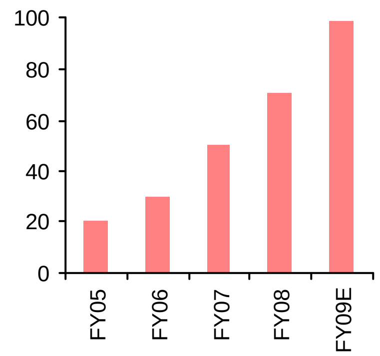
- We maintain our earnings estimates and expect AIA to report consolidated EPS of Rs.98.1 for FY09E.
- At the current market price of Rs.1274, AIA trades at 3.0x book value, 13.0x earnings and 11.8x cash earnings based on FY09E.
- We remain positive on the growth prospects of the company. The ongoing expansion plans would keep its position stronger in the future leading to increased revenues and profitability going forward.
- We continue to recommend BUY on AIA with unchanged price target of Rs.1870 that provides 47% upside potential form current levels.
- We recommend **BUY** on AIA Engineering.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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

SUZLON ENERGY

PRICE: RS.219 **RECOMMENDATION: HOLD**
TARGET PRICE: RS.241 **FY09E P/E: 20.3X**

- **Results ahead of estimates mainly on account of higher volumes leading to fixed cost absorption**
- **Order backlog down sequentially partly due to cancellation of large order of 315 MW**
- **Earnings estimates raised marginally resulting in minor increase in target price**
- **Maintain HOLD with a price target of Rs 241 (earlier Rs 235).**
- **Stock trading at 20.6x and 15.5x FY09 and FY10 earnings respectively. Suzlon's valuation has taken a beating in recent months following negative news on its product quality and order cancellation by a large customer. Despite its global size and presence, it is currently trading at a discount to global peers.**
- **We maintain a cautious stance in view of concerns including lower order accretion, blade cracking issue in the US and potential impact of order wins and execution challenges in managing the component supply chain.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	136,794	190,974	247,993
Growth %	71.3	39.6	29.9
EBITDA	19,245	27,206	35,819
EBITDA margin %	14.1%	14.2%	14.4%
Net profit (Adj)	14,169	14,601	19,941
Net cash (debt)	(22,720)	(62,278)	(50,730)
EPS (Rs)	7.8	10.8	14.4
Growth %	34.7	39	33.5
CEPS	8.2	12.8	16.5
ROE %	30.0	22.9	20.2
ROCE %	12.0	11.8	15.0
EV/Sales (x)	2.6	2.0	1.5
EV/EBITDA (x)	18.3	14.4	10.6
P/E (x)	28.2	20.3	15.2
P/Cash Earnings	26.6	17.2	13.2
P/BV (x)	3.9	3.3	2.8

Source: Company, Kotak Securities - Private Client Research

Q4 FY08 Consolidated earnings

(Rs mn)	Q1 FY09	Q1 FY08	% change
Net Sales	**27,605**	**19446.3**	**42%**
Other Income	741.6	426.4	74%
Raw material costs	15625.1	12366.2	26%
Staff costs	3796.0	2336.7	62%
Other exp	3943.7	3220.7	22%
Total Expenditure	23364.8	17923.6	30%
PBIDT	4239.8	1522.7	178%
Interest	1385.5	1078.9	28%
PBDT	**3595.9**	**870.2**	**313%**
Depreciation	928.8	585.0	59%
PBT	**2667.1**	**285.2**	**835%**
Tax	633.8	39.8	1492%
Net Profit	2033.3	325.0	526%
WTG restoration		-227.7	
Minority interest	-409.4	-11.4	
Share of associates	29.1	0.0	
Forex translation gain (loss)	-1639.5	103.0	
NP after minority interest	13.5	188.9	-93%
PBDIT %	15.4%	7.8%	
Tax rate %	23.8%	14.0%	
Raw material cost to sales %	56.6%	63.6%	
Staff costs to sales %	13.8%	12.0%	
Other expenditure %	14.3%	16.6%	

Source: company

Quarterly performance

(Rs mn)	Q1 FY09	Q1 FY08	% change
Net Sales	**14706**	**8,392**	**75**
Other Income	257	237	8
Total Income	14,963	8,629	73
Raw material costs	8660	4,823.7	80
Staff costs	579	336	72
Other exp	2296	1,781	29
Total Expenditure	11,536	6,941	66
PBIDT	**3,170**	**1,451**	**118**
Interest	382	289	32
PBDT	**3045**	**1399**	**118**
Depreciation	217	177	23
PBT	**2828**	**1222**	**131**
Tax	309.6	5	
extraordinary charges	0.0	(228)	
Loss on forex translation	(1,638)	(96)	
Reported Profit After Tax	880	894	-2
PBDIT %	21.6	17.3	
Tax rate %	10.9	0.4	
Staff cost to sales %	3.94	4.00	
Other costs to sales %	15.6	21.2	
Raw material costs to sales %	58.9	57.5	

Source: Company

Lower volume growth due to reversal of sales

During the quarter the company has reversed sales of 14.7 MW which were booked for an project in South Korea in FY07. In addition to this, installations in China were affected by 124 MW due to cash-flow issues with the customers. There were also delays in dispatches of 74.5 MW to international locations. As a result, volume growth came subdued at 6% yoy with international sales remaining flat.

Sales volumes

(Rs mn)	Q1 FY09	Q1 FY08	% chg
Domestic	146	125	16.8
International	192	192	0
Total	338	317	6.6

Source: Company

Consolidated revenue aided by robust volumes in Hansen

For the quarter, consolidated revenues grew 50% mainly due to strong growth in Hansen and higher realization. During the quarter, average realization came in higher at Rs 61.2 mn/MW as compared to Rs 47 mn per MW.

Segment Revenues

	Q1 FY09	Q1 FY08	% change
Wind generator	20697	14897	39%
Gearbox	8314	4429	88%

Source: Company

Combination of factors result in margin improvement

Improvement in margins was on account of a combination of factors including higher realizations, rupee depreciation, market mix and fixed cost absorption. Raw material expenses and other expenditure was under control. The company has close to 60% of orders with price variation clause while the balance with fixed price are mainly pertaining to India and China.

Segment margins

PBIT %	Q1 FY09	Q1 FY08
Wind Generator	13.8	8.6
Gear Box	8.7	7.0
Others	-17.8	21.7
Total	**12.2**	**8.4**

Source: company

Interest costs under control: Interest cost on a consolidated basis rose 28% yoy as the consolidated net debt has increased from Rs 29.7 bn in Q4 FY08 to Rs 88.8 bn as the company may have raised debt to pay for the acquisition of 33% stake of Areva in Repower.

Tax rate likely to decline in coming quarters: During the quarter, the tax rate on a consolidated basis rose to 23.8% from 14% in Q1 FY08. Higher tax rate is mainly due to forex translation loss of Rs 1.6 bn which has not been deducted for tax calculation. The management expects annual tax rate to range in between 13-14%.

Decline in order book, visibility reduces - a sign of concern

Suzlon's order backlog of Rs 164.9 bn is up 22% over the corresponding quarter of the previous year. However, on a sequential basis, the order backlog has fallen 8% mainly due to cancellation of a large order of 315 MW from Edison Mission Group. As a result, the revenue visibility has also fallen to 18 months of FY08 wing generator revenues. The company has indicated that it is expecting some large deals to be finalized in the coming months. There has been signs of liquidity crunch in China which was partly responsible for reduced order flow. Another concerning factor has been tax credits on wind power has not been extended in the US which may impact wind power development. The management maintains that the US wind power development is driven more by (Renewable Portfolio Standards) than tax credits.

Order Backlog MW

	Q1 FY08	Q2 FY08	Q3 FY08	Q4 FY08	as on 27th july 2008
Domestic	315	368	441	160	267
Export	2567	2882	2916	3294	2772
Total	**2882**	**3,250.0**	**3357**	**3454**	**3039**
Yoy Change (%)	253	125	104	76	5

Source: Company

We have made tweaked our earnings estimates for the company resulting in minor variation. We note that our FY10 estimates could be at risk if the pace of order inflows do not accelerate in the coming months.

Valuation

We highlight that the business environment for renewable energy especially wind remains favourable for growth. Suzlon is the fifth largest player in the wind power equipment business and is well positioned in terms of technology, access of to captive component manufacturing facility and global presence.

We recommend HOLD on Suzlon with a price target of Rs.241

In our previous recommendation (Rs 208, July 10 2008) we had upgraded the stock to a **HOLD** owing to favourable valuations. At the current price, Suzlon is trading at 20.6x and 15.5x FY09 and FY10 earnings respectively. In view of the limited upside from these levels we HOLD recommendation on the stock with a price target of Rs 241 (Rs 235 earlier).

Valuation

Suzlon target EV/EBITDA @ 10% disc to global majors average	13.9
EV	377896
Net Debt	88848.0
Fair price of Suzlon + Hansen per share	192
Add Value of Repower at 10% disc	48
Total	**241**

Source: Kotak Securities - Private client Research

Key Risk

Given the strong order backlog, the company needs to manage its project execution and supply chain well. Given the component short-supply in wind power, delays in supply-chain could result in delayed execution, which could entail penalties.

RESULT UPDATE

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

VOLTAMP TRANSFORMER

PRICE: RS.758 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1350 **FY09E P/E: 8.3X**

- **Voltamp's results are ahead of expectations.**
- **Earnings growth has been mainly driven by higher volumes and margin expansion.**
- **Maintain earnings estimates**
- **Maintain BUY in view of cheap valuations. But revise target price to Rs 1350 (Rs 1600 earlier) due to changes in the long term margin estimates and cost of capital in our DCF model.**
- **Stock trading at 8.3x and 7.6x FY09 and FY10 earnings. Stock corrected sharply on concerns of slowdown in investment momentum on account of deterioration in economic macro-indicators.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	5,554	6,831	7,964
Growth %	36.9	23.0	16.6
EBITDA	1,179	1,320	1,407
EBITDA margin %	21.2	19.3	17.7
Net profit	800	925	1,006
Net cash (debt)	662	1,280	1,757
EPS (Rs) (consolidated)	79.2	91.6	99.6
Growth %	102.2	15.6	8.7
CEPS	82.3	95.4	104.2
DPS (Rs)	8.0	12.5	12.5
ROE %	61.0%	45.0%	35.0%
ROCE %	95.0%	69.0%	53.0%
EV/Sales (x)	1.3	0.9	0.7
EV/EBITDA (x)	5.9	4.8	4.2
P/E (x)	9.6	8.3	7.6
P/Cash Earnings	9.2	7.9	7.3
P/BV (x)	4.9	3.3	2.4

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

	Q1 FY09	Q1 FY08	% change
MVA		1800	
Net Sales / Income from Operations	1701	1293	32
Other Income	31	33	-7
Total Income	**1732**	**1326**	**31**
Consumption of Raw Materials	1227	928	32
Manufacturing expenses	54	34	58
Staff Cost	53	30	78
Other Expenditure	24	60	-60
Operating Expenditures	1357	1052	29
PBDIT	**344**	**241**	**43**
Interest & Finance Charges	0.7	2.0	-67
Depreciation	10	5	76
Profit / (Loss) before tax	**365**	**266**	**37**
Tax provision	133	95	39
Profit / (Loss) after tax	**232**	**171**	**36**
OPM (%)	20.2	18.6	
Raw material cost to sales (%)	72.1	71.8	
Staff cost to sales (%)	3.1	2.3	
Other expenditure to sales (%)	1.4	4.7	
Tax rate (%)	36	36	

Source: Company

Strong revenue growth in Q1. But slowdown likely in the coming quarters

Growth in revenues has been ahead of expectations as the company had healthy order backlog. The company accepted that the previous year was exceptional for the industry in terms of business and margins. However, the emerging scenario is posing challenges for sustaining growth momentum. The company has been seeing some slowdown in order enquiries. The capital goods index has already begun to show signs of moderation. Inflation in material costs and firming up of domestic interest rates are conditions which are not most conducive for investment

Attractive margins driven by premium pricing of orders in the first half of CY08: : Operating margins expanded 160 bps to 20.2% in Q1 FY09. The company is largely neutral to material price increases given it has back-to-back sourcing arrangements with suppliers and active material price hedging for copper. Steel forms less than 15% of the cost of transformer.

Raw material cost mix

(%)	Cost mix
Copper	25.85
CRGO	41
Transformer Oil	4.80
Steel	10.3

Source: company

Current order backlog is healthy

Current order backlog stands at around Rs 4.5 bn, providing a visibility of six months based on FY08 gross revenues. Management's strategy has been to maintain order book of six months revenues. This also allows the company to cover itself against material price movements. During the quarter, the company has won an order for supply of 220 kv 100 mva power transformer from power utility.

To build greenfield transformer plant

Voltamp has approved capex upto Rs 350 mn for creating Greenfield manufacturing facility to relocate the existing operations of manufacturing of oil filled distribution transformers and dry type transformers. On its completion, the total installed capacity to manufacture transformers will increase to 13000 MVA from the present 9000 MVA. This plant is expected to be completed by end of FY09.

We believe margins peaked out in FY08

Voltamp has indicated that the current order book has come at an attractive price. This should ensure sustainablility of high margins in the first half of FY09. However, we have built in margin decline of 190 bps as the management indicated that it would not be realistic to maintain such high margins as FY08 was an exceptional year for the entire capital goods industry. With signs of demand softening, we expect premium realizations charged by the industry to wear off.

Downward revision in target price

Our target price revision from Rs 1600 to Rs 1350 incorporates lower operating margins in the long-term and higher cost of capital in our DCF model. We expect premium pricing enjoyed by transformer makers to wear out in the long-term as demand and supply reaches equilibrium.

Voltamp's operating margins have averaged at 14.2% between FY04-FY07. However, due to very favourable market conditions, Voltamp's margins rose to 21.2% in FY08. Our discussions with the management also point towards moderation in operating margins in the coming years towards the normalized levels of 15-16%. We are building in 190 and 170 bps decline in operating margins in FY09 and FY10 respectively.

Current demand scenario remains healthy but recent concerns on macro-economic front and likely loss of business confidence may jeopardize industrial capex plans. As a result, we have adjusted downwards our revenue growth assumption in our DCF model. We now build 10% revenue CAGR between FY11-15 with a terminal growth of 4%.

Attractive Valuations

We recommend BUY on Voltamp with a price target of Rs.1350

At the current price, the stock is trading at 8.3x and 7.6x FY09 and FY10 earnings respectively. Voltamp is a debt-free and cash surplus company enjoying a high return on Equity of 56% in FY08.

We believe the cash-surplus status should allow the company to increase the dividend payouts in the future.

We maintain **BUY** with a reduced price target of Rs 1350

RESULT UPDATE

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

PVR LTD

PRICE: RS.176 **RECOMMENDATION: BUY**
TARGET PRICE: RS.284 **FY09E P/E: 13x**

Q1FY09; revenues come in around estimates, modestly higher EBITDA margins lead to PAT above estimates. Headline numbers look weak on a YoY basis on account of a weak release pipeline and IPL's impact on retail entertainment formats during the period- both impacted property footfalls.

EBITDA margins at 16.1% while moving up QoQ (from 13% in Q4'08) are down YoY as new properties have added to cost base whereas revenues have been impacted by lower footfalls.

Given the broadly in line numbers we leave earnings estimates and target price broadly unchanged post the 1QFY09 results. Retain our BUY rating with an unchanged price target of Rs.284.

Exhibition segment stocks have faced the impact of a weak movie release pipeline CYTD, trend of rising property rentals and concerns on delay in new property handovers from real estate developers.

We believe occupancy rates will pick up Q2'09 onwards as content quality likely improves and PVR's owned property comes on stream-both being positive for margins. Company profitability will likely be at higher end of peer set, despite the mentioned medium term headwinds; screen expansion plans are on track and new initiatives like movie production and F&B retailing are off to a reasonable start.

In the near term we believe the expected muted Q1FY09 numbers will keep the stock in check.

PVR remains a preferred exposure to the otherwise cluttered exhibition space given reasonable project execution thus far, business diversification and its competitive positioning.

Summary table - Consolidated

(Rs mn)	FY08E	FY09E	FY10E
Sales	2,659	3,522	4,444
Growth %	49.7	32.4	26.2
EBITDA	489	669	895
EBITDA margin %	18.4	19	20.1
Net profit	216	310	416
Growth %	112.2	43.1	34.3
Net cash (debt)	584	808	754
EPS (Rs)	8.9	12.9	17.2
Growth %	101.7	43.1	34.3
CEPS	16	20.7	26.1
DPS (Rs)	0.5	0.5	1.0
ROE %	9.7	11.9	14.1
ROCE %	11.5	14.1	17.4
EV/Sales (x)	2.1	1.6	1.3
EV/EBITDA (x)	11.5	8.2	6.2
P/E (x)	19.7	13.5	10.3
P/Cash Earnings	11	8.3	6.7
P/BV (x)	1.7	1.4	1.4

Source: Company, Kotak Securities - Private Client Research

Q1 FY09 Highlights

- PVR's 1QFY09 results while weak on a YoY basis are broadly in line with our estimates on the revenue front and modestly better in terms of net profit. PVR reported revenues and profits of Rs.602mn and Rs.38.8mn for the quarter. Revenues were up 10% YoY whereas PAT de grew YoY.

- We had estimated core exhibition revenues of Rs.630mn, EBITDA% of 13% and profits of Rs.25mn for Q1FY09.

- Margins while improving QoQ are down YoY as new properties have added to cost base whereas revenues have been impacted by lower footfalls.This revenue shortfall was a result of lower occupancy rates on account of the weak movie release slate and to an extent IPL's impact on retail entertainment formats.

- PVR has recently added to its screen presence with the opening of its four screen property at Chandigarh. This is in addition to the activation of screens in its Mumbai and Gurgaon properties; taking its overall screen count to 101, across 14 cities. PVR had ended FY08 with 84 screens. It added 13 screens in Q1FY09.

- We have left our estimates broadly unchanged excepting building in more caution on new property additions- which impact revenues, on account of delays in handover from the real estate developers. We note the management is more optimistic than us on its margin expectations in the core exhibition business and also screen count, for FY09E.

- After accounting for the above we expect PVR's margins to pick up in FY09E (19% for FY09E v/s 15.4% in FY07) on account of economies of scale coming through. The expected commissioning of the only owned property in its portfolio- at Phoenix Mills in Central Mumbai (1H FY09) will also be a positive for margins in our opinion.

Financials

- We forecast a 74% CAGR over FY07-09E in PVR's PAT to Rs.310mn by FY09E from Rs.102mn in FY07. This is expected to translate into a fully diluted EPS of Rs.13 (unchanged) in FY09E, an EPS CAGR of 70% over FY07-09E. PVR reported a consolidated EPS of Rs.8.9 for FY08.
- The company has scheduled an analyst call for 1-7-08; we will look to revise our earnings/recommendation given any material disclosures forthcoming.

Valuation & Recommendation:

- We retain our conventional DCF based methodology for valuing the stock. We thus arrive at a DCF based price target of Rs.284 (unchanged) for the stock. At current price levels of Rs.176, the stock is currently trading at 13x FY09E and 10x FY10 earnings. On an EV/EBITDA basis the stock is currently trading at 8x and 6x FY09E and FY10E EV/EBITDA. BUY.
- We opine the current valuations backed by an estimated 70% EPS CAGR over FY07-09E offers a reasonable risk reward perspective over a 9-12m horizon. In the near term we believe the expected muted Q1FY09 numbers will keep the stock in check and may offer opportunities for longer term investments.
- PVR remains our preferred pick in the exhibition segment given its on track expansion plans, good project execution, dominant positioning and emerging scale in its new initiatives- movie production and F&B retailing.

Revenues: Q1FY09 revenue growth impacted by lower footfalls and occupancy rates- a result of the muted release pipeline and also IPL's impact.

YoY revenue growth (10% for Q1FY09) aided by higher ATP's and SPH that were the saving grace in an otherwise lackluster quarter.

Expect traction to improve 2QFY09 onwards given likely better content quality which is expected to translate into better occupancies for properties.

Quarterly performance

	Q1FY09	Q1FY08	% chg	4QFY08	% chg
Revenues	**602.2**	**545.6**	**10.4**	**543.0**	**10.9**
Expenditure	505.4	427.4		472.3	
EBDITA	**96.8**	**118.2**	**-18.1**	**70.7**	**36.9**
Depreciation	43.0	34.4		37.2	
EBIT	**53.8**	**83.8**	**-35.8**	**33.5**	**60.5**
Net Interest	23.3	14.2		17.7	
Other Income	23.7	20.2		25.2	
PBT	**54.2**	**89.8**	**-39.7**	**41.0**	**32.1**
Tax	15.4	29.9		12.4	
PAT after EO items	38.8	59.9	-35.3	28.6	35.6
EPS (Rs)*	**1.7**	**2.5**		**1.2**	
OPM (%)	16.1	21.7		13.0	
GPM (%)	8.9	15.4		6.2	
NPM (%)	6.4	11.0		5.3	

Source: Company

- Footfalls, a critical parameter in the business de-grew by 18% YoY at 3.72mn for Q1FY09 v/s 4.5mn reported in Q1FY08. We opine this is a critical data point and reflects the lower occupancy rates which were a result of the weak movie release slate, lower than expected performance of key releases and the impact of IPL.
- Reported occupancy rate stood lower at 32% in Q1 as a result of discussed factors v/s the 41% reported in the Q1 of FY08.
- ATP's however remained resilient and grew 13% YoY to Rs.138 respectively, an indication of PVR's revenue management skills, pricing power and brand positioning, in our opinion.
- For the quarter the more profitable F&B segment contributed revenues of Rs.123.5mn, 21% of overall revenue. Advertising formats made revenues of Rs.90.1mn during Q1'09. This revenue stream has grown more than 37% YoY for PVR.
- PVR has added 2 more properties in 1QFY09- Gurgaon (7 screens) and Mumbai (Goregaon, 6 screens). This has taken its total screen count to 97 screens over the 84 screens in FY08.
- In Q2FY09 4 more screens have come on stream taking the screen count to 101, we expect PVR to add 31 properties over FY09 end taking its screen count to 115.

Important tracking parameters in the multiplex business- footfalls, occupancy and ATP's Q1FY09; movie line up while better than Q4FY08 was still modest, this coupled with popularity of IPL -led to low footfalls and lower occupancy rates, ATP's have however grown YoY.

Operational details

	Q1FY09	Q1FY08	%change	Q4FY08	FY08
Footfalls(mn)	3.72	4.55	-18	3.64	17.9
Occupancy (%)	32	42	-25	36.2	40
ATP, Rs.	138	122	13	116	127
Spend per head, Rs.	38.1	31.4	22	28	32.1

Source: Company, Kotak Securities - Private Client Research

EBITDA margins-up QoQ, slump YoY; expect margins to move up as occupancies increase with a better content pipeline. Economies of scale and relative pricing power may also help

- EBITDA margins came in at 16.1%- up QoQ (13% in Q4FY08) and down YoY. The improvement in margins QoQ was on account of better revenue traction, revenues were up 11% QoQ.
- Margins were also helped by the gradually reducing proportion of e-tax as a % of sales that was down to 12% of gross operating income in Q1FY09 v/s the 13.9% in Q1FY08. Currently out of 101 screens operated by the company 39 enjoy/are eligible for e-tax exemptions.
- Also in the quarter the co. wrote back an excess provision of Rs.15.6mn towards rent that it had taken on the previous quarter. We opine increasing rentals have been a headwind for all exhibition players and have built in a 30% increase in PVR's rental outgo in FY09E.
- Q4FY08 was a muted quarter for PVR in terms of revenue growth given the poor release pipeline during Q4. Q1FY09, while being a better quarter in terms of release pipeline has been impacted by the popularity of the IPL which led to lower footfalls during the period across all retail and entertainment formats.

- We opine the 560bps drop in margins YoY was on account of the revenue growth not making up for increase in fixed cost base on account of new property additions.
- Within cost structures operating costs and employee costs went up by 28-29% YoY, which impacted margins on a YoY basis.
- We estimate consolidated margins to improve over FY09E to 19.2%; helped by economies of scale in the core exhibition business and also a meaningful contribution from the movie production business.
- News reports indicate the Delhi Government's move to reduce the entertainment tax on cinema to 20% from 30% earlier. About 25% of PVR's screens are still located in Delhi, even after a rapid addition of properties.
- Entertainment tax takes away a proportion of gross ticket sales for multiplex operators. Lower entertainment tax incidence, in our opinion, may help boost PVR's operating margins, though we opine the company could likely pass on a part of the benefit to consumers. We have not accounted for the same yet in our financials pending formal notification from the authorities.

Aggressive and selective screen expansion plans are on track

- PVR has aggressive expansion plans and intends to scale up its operations to 150+ screens by FY10E from the current 97 screens. Besides strengthening its dominance in North India, PVR has lined up aggressive expansion plans in the South and West of India as well.
- Recently a tie-up between PVR and Prestige Group has been inked, whereby PVR shall partner with Prestige as an anchor tenant for its next 5 mall developments in South India.
- Our projections factor in a staggered commissioning of properties in addition to the absolute screen count being lower than the expectations of management. We feel building this buffer is prudent given the delays multiplex operators have faced in terms of property handovers initially from real estate developers and then from local civic authorities given the requirement of multiple permissions.
- We opine PVR has a optimal selection of properties (critical for avoiding over crowding), also its strong brand in addition to an established geographical footprint is expected place it an advantage vis-à-vis other players.

Movie subsidiary-off to a reasonable start, expected to ramp up in FY09E

- PVR Pictures' (a 100% sub) first release ('Taare Zameen Par') has met with significant critical acclaim and commercial success. We opine this business is off to a solid start and given PVR management's expectation and execution track record, contribute meaningfully to financials in FY09E.

We recommend BUY on PVR with a price target of Rs.284

- Its latest release 'Jaane tu..' (Co-production with Aamir Khan) according to initial trade reports has also met with an encouraging response.
- In addition to diversifying the revenue model, we opine that PVR's entry into film production through its wholly owned sub- PVR Pictures strengthens its bargaining power given our premise of content providers calling the shots across the value chain.

Key Concerns:

- Project execution delays.
- Big studio bargaining power and content costs.
- Lack of a steady and quality content pipeline.
- Sharp slowdown in economic growth trajectory.
- Adverse entertainment tax modifications.

RESULT UPDATE

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

HT MEDIA

PRICE: RS.110 **RECOMMENDATION: BUY**
TARGET PRICE: RS.138 **FY09E: EV/EBITDA 7x, P/E: 16x**

Q1FY09: Revenues and profits come in line with estimates. EBITDA margins modestly ahead of estimates; gains offset by higher depreciation and lower other income leading to inline profits.

Revenues and PAT are up 19% and 11% YoY. Ad revenues are up 19.6% YoY; rate hikes, favourable base effect and traction in key markets help in Q1FY09.

Tweak estimates and price target modestly to factor in 1Q results, build in lower ad revenue growth given our expectations of a slowing economy impacting ad spends and also sustained elevated newsprint prices.

The stock appreciated post our previous rating change to a BUY (from HOLD) before declining again, in line with the broader market trend. We outline that, easing of newsprint prices (expected in 4QCY08), monetization of new initiatives and future outlook on ad spend trends will be the variables to watch for future share price performance. Retain BUY rating noting 24% upside with a price target of Rs.138 (Rs.145).

Summary table - Standalone

(Rs mn)	FY08E	FY09E	FY10E
Sales	11,871	14,099	16,089
Growth %	14.2	18.8	14.1
EBITDA	2,239	2,514	2,972
EBITDA margin %	18.9	17.8	18.5
Net profit	1,450	1,570	1,835
Net debt (cash)	(3,704)	(4,870)	(6,483)
EPS (Rs)	6.2	6.7	7.8
Growth %	26.2	8.3	16.9
CEPS	8.1	8.7	9.9
DPS (Rs)	0.6	0.6	0.7
ROE %	16.9	15.9	16.1
ROCE %	21.7	21.8	22.4
EV/Sales (x)	1.9	1.5	1.2
EV/EBITDA (x)	10.1	8.6	6.7
P/E (x)	17.8	16.4	14.0
P/Cash Earnings	13.6	12.6	11.1
P/BV (x)	2.8	2.4	2.1

Source: Company, Kotak Securities - Private Client Research

Result Highlights

- HT Media's 1QFY09 results were in line with estimates on the revenue front at Rs.3.25bn (up 19% YoY). Profits (Rs.377mn, up 10.5% YoY) were also in line with estimates. EBITDA margins stood at 20.4% for Q1FY09.
- We had estimated revenues of Rs.3.2bn, EBITDA margins of 18.2% and profits of Rs.365mn for the quarter. While margins were ahead of our estimate higher depreciation and lower other income led to an in line PAT for the quarter.
- Ad revenue growth of 19.6% YoY in Q1 FY09 was better than peers and aided by rate hikes, traction in key markets and also a favourable base effect. FY08 ad revenue growth for HT was relatively low at 16% as it grappled with advertiser segments like autos and real estate.
- In our opinion the c19% ad revenue growth was nearly 14% on account of rate hikes with the rest attributable to growth in volumes. We opine the succeeding quarters could see a tempering of growth rates given our expectation of a slowing economy impacting ad spends.
- EBITDA margins including 'Mint' stood at 20.4% for Q1Y09 vis-à-vis the 19.2% reported in Q4FY08 & 24.2% reported in Q1FY08.Adjusted for the investments in 'Mint', EBITDA margins were flattish YoY at 23.8% v/s 24.2% in Q1FY08.
- We opine the company was able to hold margins on account of measures it had taken to control the impact of elevated NP prices- utilization of inventory contracted at lower prices, lower pagination in select editions and other initiatives. HT managed to control RM costs at Rs.1.2bn (up 10% YoY). We believe the same may be difficult to sustain in succeeding quarters of FY09E and are projecting lower full year margins.
- For FY09E we continue to opine that margins will be under pressure for all print companies given elevated NP prices, INR depreciation and possibility of a tempering in revenue growth rates- our estimates reflect the same.
- In addition we opine HT's continued investments towards new initiatives (in print, radio and internet) will be pressure points for near term consolidated financials.

- We had upgraded the stock to a BUY (from a HOLD) in our previous update noting the stock fall and valuations that were then at the lower end of the historical band. The stock has appreciated since then and outperformed peers.
- Given inline Q1 results, we have made marginal changes to estimated earnings and built in lower ad revenue growth rates over FY09-10E; given our expectations of a slowing macro impacting ad spends.
- Our PT now stands Rs.138 (Rs.145); noting the 24% upside from current levels we retain our BUY rating.
- Easing of newsprint prices (expected in 4QCY08), monetization of new initiatives and future outlook on ad spend trends will be the key variables to watch for future share price performance, in our opinion.
- Higher NP prices and a sharp slowdown in economic growth remain the key risks.
- The company is holding an analyst call on 04-8-08 to discuss its financial results; we will look for greater clarity on discussed issues and revisit earnings/target prices/recommendation if there is any material change post the management interaction.

Projected Financials

- We have factored in lower ad revenue growth and sustained higher newsprint prices in our projected financials. We expect ad spends to grow at a slower pace in FY09E and also 1HFY10E, given the backdrop of a slowing economy. We believe this is apt 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 estimate that HTML will post a 16% & 17% CAGR in revenues and EPS CAGR over FY07-09E. Elevated NP prices and investments towards new initiatives, in our opinion will inhibit PAT growth over the period.
- We estimate an EBITDA margin of 17.8% in FY09E down from the 18.9% reported in FY08. We estimate an EPS of Rs.6.7 (Rs.6.6 earlier) in FY09E.

Valuation:

- We have valued HTML's print business using an average of DCF and EV/EBITDA methodologies. We use an 11x FY09E EV/EBITDA multiple for HT's print business.
- Our weighted average price target stands at Rs.130 for HT Media; Rs.122 on DCF and Rs.138 at 11x FY09 EBITDA.
- To this we have added Rs.8, our estimate of fair value accretive to the HT shareholder from 'Fever 104'- HT's radio business to arrive at a price target of Rs.138 (Rs.145 earlier) for the HT stock.
- At the current price HT is trading at 17x & 14x FY09E and FY10E EPS. It is also trading at and 9x and 7x FY09E & FY10E EBITDA.

Revenues: Ad revenue growth at 19.6% YoY; 'Hindustan' grows healthily as ad revenues catch up with circulation

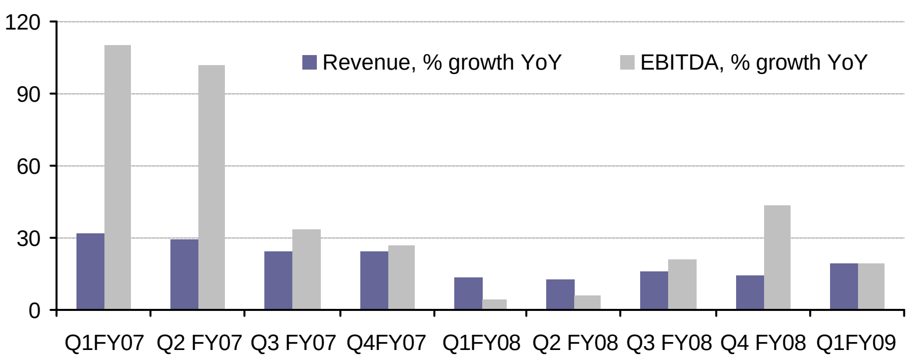
Quarterly performance

(Rs mn)	Q1FY09	Q1FY08	% chg	Q4FY08	% chg
Revenues	**3247.0**	**2733.4**	**18.8**	**3133.5**	**3.6**
Expenditure	2584.1	2177.4		2532.3	
EBDITA	**662.9**	**556.0**	**19.2**	**601.2**	**10.3**
Depreciation	128.6	106.4		117.1	
EBIT	**534.3**	**449.6**		**484.1**	
Net Interest	50.9	41.8		43.2	
Other Income	82.0	103.2		123.1	
PBT	**565.4**	**511.0**	**10.6**	**564.0**	**0.2**
Tax	188.1	169.4		148.1	
PAT after EO items	377.3	341.6	10.4	415.9	-9.3
EPS (Rs)*	**1.6**	**1.5**		**1.8**	
OPM (%)	20.4	20.3		19.2	
GPM (%)	16.5	16.4		15.5	
NPM (%)	11.6	12.5		13.3	

Source: Company

- The 19% YoY revenue growth for HT Media in Q1 FY09 was on the back of a c20% growth in advertising revenues that offset the flattish trend in circulation revenues. Ad revenues for the quarter stood at Rs.2.8bn.
- Ad revenue growth through FY08 was muted on account of challenging industry environment during a part of the fiscal as interest rate sensitive advertiser segments like autos & real estate tightened ad spends.
- We believe the growth in Q1 was aided by rate hikes effected and traction in ad markets in addition to a favorable base effect.
- We will keenly look for any possible cues of ad revenue slowdown in certain segments, given the current macro backdrop, on the scheduled con call. We expect slower economic growth rates to impact advertiser segments, more so consumer discretionary segments like autos, FMCG, BFSI and 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. Consequently we have built in more caution in ad growth trends over FY09E and 1HFY10E- reflected in cutting of our ad revenue growth estimates by 150bps in FY09E- we are now estimating a 17.5% growth for HT's existing editions.

YoY Revenue and EBITDA growth for HT



Source: Company

EBITDA margins - hold YoY and up QoQ

We recommend BUY on HT Media with a price target of Rs.138

- In Q1 FY09 HT Media reported EBITDA margins of 20.4% that were flattish YoY. These margins in Q1'09 include an EBITDA burn of Rs.85mn towards the business paper- Mint, in our opinion.
- We believe HT used the levers of lower pagination, inventory management and rationalizing of free sale copies to control RM prices that were up only 10% YoY. Lower than estimated 'other expenditure' and 'employee costs' also helped.
- NP prices are up c45% CYTD and we believe HT's margins will come under pressure in the succeeding quarters before NP prices start possibly tempering.
- Also continuing investments in different editions and increased ad & sales costs towards the business paper and 'Hindustan' will possibly keep margins in check, over FY09-10E. .

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
31-Jul	Brahmanand	Wilful Finance and Investment	S	153,500	17.39
31-Jul	Broadcast	Consolidated Securities Ltd	B	100,000	34.00
31-Jul	Broadcast	Merrill Lynch Cap Mk Espana S A Svb	S	310,000	34.00
31-Jul	Chevio	Winfin Financial Consultants Pvt. Ltd.	B	24,210	254.75
31-Jul	Chokhani Sec	Vishal Kantilal Jain	B	29,800	16.51
31-Jul	Jaisal Secur	Venugopal Reddy S	B	25,000	36.90
31-Jul	Jaisal Secur	Canos Trading Pvt Ltd.	S	25,000	36.90
31-Jul	Jumbo Bag Lt	Venkateswara Capital Managemen	B	100,028	39.60
31-Jul	Oricon Ent	Ksm Securities and Finance	S	50,000	53.50
31-Jul	Tutis Tech	Sonal Manish Shah	B	150,000	20.18

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	2,208	1.9	10.1	3.3
DLF Ltd	512	4.5	6.2	6.4
SAIL	141	3.5	3.3	11.1
Losers				
Bharti Airtel	799	(1.4)	(3.5)	5.1
Power Grid Corp	95	(3.5)	(2.4)	3.4
Infosys Tech	1,583	(1.2)	(1.8)	2.5

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
1 Aug	HCL Technologies to announce earnings and final dividend; Bharti Airtel holds share holders meeting; Shree Renuka Sugar to consider funds raising plans; Goa Carbon holds meet for companies financial performance

Source: Bloomberg

Research Team

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

Awadhesh Garg
Pharmaceuticals, Hotels
awadhesh.garg@kotak.com
+91 22 6621 6304

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

Siddharth Shah
Telecom
siddharth.s@kotak.com
+91 22 6621 6307

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

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

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

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

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

Saurabh Gurnurkar
IT, Media, Telecom
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

Sarika Lohra
NBFCs
sarika.lohra@kotak.com
+91 22 6621 6313

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

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