

Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	17,834	1.0	(0.1)	2.4
Nifty	5,352	1.0	0.2	2.7
Dow	10,198	0.6	(7.3)	(4.0)
Nikkei	9,592	0.1	(14.8)	(11.8)
Hang Seng	20,472	0.5	(7.5)	(8.3)
Brasil Bovespa	63,476	0.3	(11.1)	(9.7)
Mexico Bolsa	32,004	0.1	(5.5)	(2.4)

Turnover

Value Traded (Rs bn)	9 July 2010	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	42.6	9.0	94.0	29.3
Cash NSE	136.5	20.4	241.6	18.2
Total	179.1			
Del.(%)	39.9			
F&O	716.1	3.7	1661.9	425.6
Total Trade	895.2			

Fund Activity

Net Inflows				
(Rs bn)	Purch	Sales	Net	YTD
8 July 2010				
FII's	15.2	(14.9)	0.4	233.4
Domestic Funds	4.2	(4.2)	0.0	98.8
9 July 2010				
Cash Provisional			(1.3)	
F&O - Index	50.2	(39.1)	11.1	(27.6)
F&O - Stock	15.7	(10.5)	5.2	(11.6)

Advances/declines BSECash

9 July 2010	A	B1	B2	Total
Advance	142	1025	239	1,406
Decline	61	888	204	1,153

Commodity Prices

Commodity	12 July 2010	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	74.7	0.2	(11.5)	(4.4)
Copper(usd/t)	6,760	2.2	(14.7)	(9.4)
Aluminum H.G.(usd/t)	2,004	0.8	(16.7)	(12.3)
Zinc(usd/t)	1,904	2.6	(21.2)	(24.5)

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	46.67	0.4	(5.1)	(2.8)
10 yr Gsec Yield	7.65	0.8	(3.1)	(0.3)

Contents

Research Update included

Jubilant Organosys Event Update; APP business de-merger; re-rating on cards

Southwest Monsoon Economy Update; Gathers momentum

Blue Star Management Meet Update; Strong growth ahead, Retain BUY

Technical Comments

Results Today

News clippings

- HCL Technologies** has signed a "mega" outsourcing agreement with Saudi Arabia's Al Majdouie Group to provide end to end services for a period of seven years for an undisclosed sum. The scope of the deal includes developing infrastructure, implementing Oracle's e-Business suite with over 70 modules and managing and running them; and commissioning and managing a data centre and disaster recovery services.
- Tata Motors** has kickstarted a move to jointly develop engines and vehicles with its UK subsidiary, Jaguar Land Rover, over two years after its \$2.3 billion acquisition of the British marques. Initiatives have been taken on joint development programmes for engines, vehicles and platforms, which would leverage skills of the company (Tata Motors) and Jaguar Land Rover -- resulting in synergies in operations of the company and its subsidiary.
- Talcher urea unit in Orissa will start once again, with state-owned **RCF, GAIL** and CIL having agreed to revive the facility, which may entail an investment of around Rs 8,000 crore.
- The Fertiliser Ministry has turned down state-owned **SAIL's** Rs 70,000-crore project for setting up a steel plant and an urea manufacturing unit in the premises of a sick Jharkhand PSU.
- The National Highways Authority will award five mega road projects involving an investment of over Rs 25,000 crore during the current financial year.
- According to a survey tariff wars ate into the revenues of telecom operators in 2009-10, with the industry logging only a modest 2.5 percent growth, having grown even in the year of the financial crisis at 20 per cent.

July 9, 2010

BUY

Price	Target Price
Rs 378	Rs 455
Sensex	17,652

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	8	13	126
Rel. to Sensex	2	10	13	77

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	JUBO.BO
Bloomberg	JOL@IN
Equity Capital (Rs mn)	159
Face Value (Rs)	1
No of shares o/s (mn)	159
52 Week H/L (Rs)	413/155
Market Cap (Rs bn/USD mn)	60/1,281
Daily Avg Vol (No of shares)	419173
Daily Avg Turnover (US\$ mn)	3.1

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	47.3	50.8	50.8
FII/NRI	28.6	26.0	25.4
Institutions	4.7	2.0	2.5
Private Corp	7.8	8.3	8.2
Public	11.6	12.9	13.1

- **The de-merger of APP business will sharpen focus on high growth high margin Pharma and life science space**
- **The shareholding pattern of both the company will be mirror image. Jubilant Organosys shareholders will get one share of Jubilant Industries for every 20 shares of Jubilant Organosys.**
- **The fair value of Jubilant Industries works out to be Rs18/share.**
- **We believe that de-merger of APP business will trigger re-rating of Pharma and life sciences business. Re-iterate buy with a price target of Rs455.**

APP business de-merger; re-rating on cards

Jubilant Organosys announced de-merge of its APP business (c11% of FY10 revenue) into a separate entity "Jubilant Industries Ltd" in order to have better focus in each of the business entities. Jubilant Organosys will be renamed as Jubilant Life Sciences and will focus on Custom manufacturing and services business.

The shareholding pattern of both the company will be a mirror image and shareholders will get one share of Jubilant Industry (Face value- Rs10) for every 20 shares (Face value-Rs1) held in Jubilant Organosys. Jubilant Industries will be listed as a separate entity (exp. Listing by January'11). Jubilant Organosys is also transferring gross block and net debt of Rs90cr each to Jubilant Industries. The capital employed in APP business is Rs335cr. The implied market cap of Jubilant Industries works out to be Rs300cr.

Jubilant Industries will be listed as a separate entity

Post-demerger, Jubilant Industries will be listed as separate entity in January' 2011. The share capital of the company will be Rs79.38mn (7.938mn shares). Jubilant Industries is expected to attain revenue of Rs4.8bn and EBIDTA of Rs580mn in FY11E. The EPS of Jubilant Industries is likely to be Rs73 for FY11E. Even if one ascribe 5x one year forward multiple, the fair value of Jubilant Industries works out to be Rs18/share for Jubilant Organosys.

Jubilant Organosys wil become a pure Pharma and life science play

We are of the view that de-merger of non-core business into a separate entity will enable Jubilant Organosys to sharpen its focus in the high growth high margin pharmaceutical and life science business. Moreover, Despite largest CRAMS player in India, Jubilant Organosys used to trade at a discount to peers because of the cyclical nature of the APP business. We are of the view that this discount will be narrowed going forward and company will command the multiple in-line with Dishman Pharma (Jubilant is currently trading at 20% discount to Dishman Pharma).

YE-Mar	Sales (Rs mn)	EBITDA (Core)	(%)	APAT (Rs mn)	EPS (Rs)	ROE (%)	P/E (x)	EV/ EBITDA	P/BV (x)	Div. Yield (%)
FY2009	35,180	5,723	16.3	3,239	22.0	25	15.4	15.6	3.8	0.4
FY2010	38,039	8,102	21.3	4,402	27.7	28	12.2	10.6	2.6	0.4
FY2011E	42,627	9,080	21.3	5,657	35.6	24	9.5	8.7	2.1	0.4
FY2012E	47,630	10,240	21.5	6,586	41.5	22	8.1	7.5	1.7	0.4

Re-iterate buy rating with a price target of Rs455

In our consolidate earnings, we have assumed 4% contribution of APP business in FY11E and FY12E. Adjusting to APP business, the EPS of Jubilant Life Sciences (Jubilant Organosys) works out to be Rs34.2 and Rs39.7. We have valued the CRAMS business in-line with other CRAMS players such as Dishman (11.2x FY12E) and arrived at a fair value of Rs437 for Jubilant Life Sciences. The fair value of APP business is Rs18/share. We continue to hold our positive stance and re-iterate buy rating with a price target of Rs455.

Peer Comparison

Rs mn	CMP Rs	EPS		P/E		P/BV		EV/Sales		EV/EBIDTA		P/E 5 yrs fwd		EV/EBIDTA 5 yrs fwd		RoE		RoCE	
		FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	Max	Avg	Max	Avg	FY12E	FY12E		
Jubilant	378	34.7	40.2	10.9	9.4	2.2	1.8	2.0	1.7	9.4	8.1	23.8	13.0	16.2	9.0	23.4	17.2		
Dishman	210	14.5	18.7	14.5	11.2	1.9	1.6	2.1	1.8	9.0	7.4	26.3	16.5	19.4	12.7	16.2	14.1		
Divis	769	32.1	40.6	23.9	19.0	5.2	4.2	8.1	6.4	19.1	15.1	31.4	18.2	26.9	15.0	22.7	22.4		
Piramal	506	27.0	34.6	18.7	14.6	5.2	4.1	2.6	2.3	12.9	11.2	32.0	15.7	21.5	11.4	30.5	27.3		
CRAMS				17.0	13.5	3.6	2.9	3.7	3.1	12.6	10.4	28.4	15.9	21.0	12.0				

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
Net Sales	35180	38039	42627	47630
<i>Growth (%)</i>	41	8	12	12
Expenses	29457	29937	33547	37390
<i>Growth (%)</i>	45	2	12	11
Raw Materials	13502	14341	16070	17909
<i>% of sales</i>	38	38	38	38
Employee cost	6575	7037	7886	8812
<i>% of sales</i>	19	19	19	19
Manufacturing exps	4958	5135	5755	6430
<i>% of sales</i>	14	14	14	14
Selling & Dist exps	4422	3424	3836	4239
<i>% of sales</i>	13	9	9	9
EBIDTA	5723	8102	9080	10240
<i>Growth (%)</i>	24	42	12	13
<i>EBIDTA %</i>	16.3	21.3	21.3	21.5
Other income	425	328	238	178
Interest	1070	1566	1169	1205
Depreciation	1632	1357	1650	1710
Non recu. Expenses / (Income)	479	1375	1375	0
PBT	2966	5508	6498	7503
Total Tax	267	991	975	1050
Effective tax rate (%)	9	18	15	14
PAT (Before E/O items)	2698	4516	5523	6453
<i>Minority Interest (loss)</i>	133	133	133	133
Exceptional items	0	0	-1375	0
RPAT	2832	3274	4282	6586
Adjusted PAT	3239	4402	5657	6586
<i>Growth (%)</i>	6	36	29	16
<i>Net Margin (%)</i>	9.2%	11.6%	13.3%	13.8%

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
Equity share capital	148	159	159	159
Share Premium	3858	7180	6374	6374
Other Reserves	8670	13031	18409	24716
Net worth	12675	20370	24941	31249
Deferred tax liability	1151	1151	1151	1151
Minority Interest	320	320	320	320
Secured Loans	27097	19547	15547	20747
Unsecured Loans	1943	1943	1943	1943
FCCB	9741	9741	7100	0
Loan Funds	39101	31551	24909	23009
Total Liabilities	52927	53071	51002	55409
Gross Block	46483	54014	56014	58014
Less: Depreciation	9033	10389	12040	13750
Net block	37450	43624	43974	44264
Capital work in progress	5031	0	0	0
Investment	2714	2714	2714	2714
Current Assets	19672	18681	17312	19782
Inventories	5956	5868	6453	7168
Sundry debtors	5044	5389	6039	6549
Cash & bank balance	3817	3317	216	921
Loans & advances	4855	4108	4604	5144
Other assets	0	0	0	0
Current liabilities	11943	11951	13001	11354
Current liabilities	7365	7563	8506	9449
Provisions	2236	1522	1705	1905
Prov. For FCCB	2342	2867	2790	0
Net current assets	7729	6730	4311	8428
Miscellaneous expenditure	3	3	3	3
Total Assets	52927	53071	51002	55410

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
PBT- Core	3020	5179	6260	7325
Other Income	424.9	328.3	238.3	178.4
Pre-tax profit	3445	5508	6498	7503
Depreciation	1632	1357	1650	1710
Pre-operative exp.	0	0	0	0
Chg in working cap	556	499	(681)	(3413)
Tax paid	(267)	(991)	(975)	(1050)
Operating cash Inflow	5366	6372	6493	4750
Investments	(2257)	0	0	0
Capital expenditure	(20142)	(2500)	(2000)	(2000)
Non recurring exp.	(479)	0	0	0
Free Cash Flow	(17513)	3872	4493	2750
Equity Capital Raised	-112	3324	-806	0
Loans Taken / (Repaid)	17697	-7550	-6536	-2002
Dividend (incl tax)	(257)	(279)	(279)	(279)
Others	-1117	133	28	235
Minority Interest	-106	0	0	0
Increase in Msc Exp	(13)	0	0	0
Net chg in cash	(1421)	(500)	(3100)	704
Opening cash position	5238	3817	3317	216
Closing cash position	3816	3317	216	921

Key ratios

Y/E, Mar	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
DEPS	21.9	27.7	35.6	41.5
FDEPS (Consolidated)	22.0	27.7	35.6	41.5
Cash EPS (x)	33.0	37.8	44.8	50.4
Book Value (x)	88.0	130.3	159.1	198.8
EV (Rs.)	89542	85845	79202	77301
Mkt cap	50761	54613	54613	54613
Valuations				
PER (x) (consolidated)	15.7	12.4	9.7	8.3
Price / CEPS (x)	10.4	9.1	7.7	6.8
Price / BV (x)	3.9	2.6	2.2	1.7
EV / Net Sales (x)	2.5	2.3	1.9	1.6
EV / EBITDA (x)(core Activity)	15.6	10.6	8.7	7.5
DPS (Rs)	1.5	1.5	1.5	1.5
Dividend Yield (%)	0.4	0.4	0.4	0.4
Returns (%)				
RoCE	9.6	13.0	14.6	16.4
RoNW	25.2	27.6	23.8	22.1
Turnover (x) Days				
Debtors T/O	51.6	51.0	51.0	49.5
Inventory T/O	69.0	67.5	66.0	66.0
Working Capital T/O	35.3	31.5	30.0	28.5
Gearing Ratio				
Net debt/ Equity (x)	2.7	1.3	1.0	0.7

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Southwest monsoon gathers momentum

The southwest monsoon advancing further into northwestern India seems to have made a comeback, making up for the earlier lack-luster performance. The rainfall for the week ended July 07, 2010 is 2.4% above its long period average (LPA). The cumulative rainfall till the week ended July 07, 2010 stood at ~10% below its long period average (LPA).

The number of divisions experiencing excess/normal rainfall increased to 25 from 23 of last week while with scanty rainfall dropped to 11 from 13 of last week.

Well irrigated and rain dependent areas receive ample rainfall

For the week ended 07 July, 2010, rainfall in well irrigated areas stood at 10.7% above its LPA and rain dependent areas at 15.3% above its LPA.

Comprising mostly of coastal regions on the east and the west of India, rain-fed areas have received rainfall, 17.6% below their LPA.

East Uttar Pradesh, Bihar and Jharkhand are still to receive sufficient rainfall.

Forecast over next week

East Uttar Pradesh is expected to receive fair amounts of rainfall with Bihar and Jharkhand to receive normal amounts.

Cropped area increase for oilseeds, cotton and sugarcane

Cropped area for oilseeds has increased to 28.86 lakh hectares from 12.96 last year. Acreage for cotton has risen from 29.2 to 43.7 lakh hectares and for sugarcane from 41.8 to 47.4 lakh hectares.

TABLE – I: Advancement of southwest monsoon

% deviation to normal	9-Jun-10	16-Jun-10	23-Jun-10	30-Jun-10	07-Jul-10
Well Irrigated areas	-36.2	-58.4	-69.6	-66.5	-36.9
Adequately Rain-fed areas	-15.6	-5.3	-10.9	-6.3	-8.9
Rain Dependent Areas	-26.2	-4.3	-7.6	-17.5	-7.0
India	-6.0	-5.4	-11.1	-15.9	-9.9

Source: Indian Meteorological Department, Emkay Research

TABLE – II: Distribution of rainfall

No of divisions	9-Jun-10	16-Jun-10	23-Jun-10	30-Jun-10	07-Jul-10
Excess	9	11	9	7	12
Normal	7	10	11	16	13
Deficient/Scanty	20	15	16	13	11

Source: Indian Meteorological Department, Emkay Research

TABLE – III: Cropped area for major crops

Crop	Cropped area as on		
	2-Jul-10	25-Jun-10	2-Jul-09
Rice	46.5	24.1	45.4
Oilseeds	28.9	11.5	13.0
Pulses	5.2	3.1	5.2
Sugarcane	47.4	47.3	41.8
Jute	7.6	7.6	6.9
Cotton	43.7	26.2	29.2

Source: Ministry of Agriculture, Emkay Research

TABLE – IV: Distribution of rainfall during southwest monsoon till July 07, 2010

Division	From June 1 to					
	July 7, 2010			July 8, 2009		
	Actual (MM)	Normal (MM)	Deviation (%)	Actual (MM)	Normal (MM)	Deviation (%)
Well Irrigated Areas	73	116	-36.9	42	127	-66.6
East Uttar Pradesh	53	161	-67.0	71	173	-59.0
West Uttar Pradesh	77	114	-32.2	25	126	-80.0
Haryana, Chandigarh And Delhi	92	69	33.7	29	76	-61.8
Punjab	91	75	21.1	24	82	-70.8
Adequately Rain-Fed Areas	649	713	-8.9	536	722	-25.7
Konkan And Goa Region	896	944	-5.1	778	979	-20.6
Coastal Karnataka	1,049	1,183	-11.3	1,150	1,222	-5.8
Kerala	824	886	-7.0	759	910	-16.6
Sub-Himalayan West Bengal And Sikkim	708	631	12.2	533	655	-18.6
Assam & Meghalaya	562	728	-22.8	440	715	-38.5
Nagaland, Manipur, Mizoram And Tripura	459	501	-8.4	275	447	-38.5
Arunachal Pradesh	512	594	-13.8	556	642	-13.4
Uttaranchal	232	243	-4.4	92	258	-64.5
Andaman & Nicobar Islands	636	552	15.2	702	587	19.7
Lakshadweep	419	386	8.7	591	395	49.6
Rain Dependent Areas	164	177	-7.0	111	187	-40.6
Gangetic West Bengal	234	315	-25.7	161	322	-50.0
Orissa	222	287	-22.6	206	297	-30.5
Jharkhand	134	262	-49.1	162	279	-41.8
Bihar	147	243	-39.5	120	260	-53.7
Himachal Pradesh	246	138	78.5	45	145	-68.9
Jammu & Kashmir	109	88	24.4	78	92	-15.5
West Rajasthan	73	46	56.9	36	49	-27.4
East Rajasthan	86	99	-13.2	65	106	-38.5
West Madhya Pradesh	130	170	-23.6	96	180	-46.4
East Madhya Pradesh	130	225	-42.3	121	273	-55.7
Gujarat Region	138	200	-31.0	56	220	-74.6
Saurashtra And Kutch	156	130	19.5	95	136	-30.2
Madhya Maharashtra	234	192	22.1	134	200	-33.0
Marathwada	295	183	61.2	116	186	-37.9
Vidarbha	261	244	7.1	174	255	-31.8
Chattisgarh	173	278	-37.5	138	292	-52.8
Coastal Andhra Pradesh	210	137	53.7	89	141	-36.7
Telangana Region	206	182	13.2	92	189	-51.3
Rayalaseema	117	76	53.5	72	79	-7.8
North Interior Karnataka	157	122	28.6	121	126	-3.7
South Interior Karnataka	177	194	-9.2	186	198	-5.8
Tamil Nadu And Pondicherry	87	56	54.7	49	57	-15.0
India	204	227	-9.9	151	235	-35.7

Excess/Normal/Deficient/Scanty	No of divisions	No of divisions
Excess	12	2
Normal	13	9
Deficient/Scanty	11	25

Source: Indian Meteorological Department, Emkay Research

TABLE – V: Distribution of rainfall during southwest monsoon for the week ended July 07, 2010

Division	July 7, 2010			July 8, 2009		
	Actual (MM)	Normal (MM)	Deviation (%)	Actual (MM)	Normal (MM)	Deviation (%)
Well Irrigated Areas	49.4	44.6	10.7	14.4	47.4	-69.7
East Uttar Pradesh	23.9	57.1	-58.1	31.1	58.8	-47.1
West Uttar Pradesh	65.1	45.6	42.8	6.0	51.5	-88.3
Haryana, Chandigarh And Delhi	71.9	26.5	171.3	5.1	28.4	-82.0
Punjab	56.8	34.6	64.2	2.5	35.8	-93.0
Adequately Rain-Fed Areas	129.3	157.0	-17.6	180.3	153.7	17.2
Konkan And Goa Region	223.7	269.8	-17.1	435.3	263.3	65.3
Coastal Karnataka	287.4	282.0	1.9	615.7	274.6	124.2
Kerala	156.4	206.9	-24.4	253.4	203.5	24.5
Sub-Himalayan West Bengal And Sikkim	149.2	139.0	7.3	149.9	137.3	9.2
Assam & Meghalaya	78.5	132.3	-40.7	110.6	127.7	-13.4
Nagaland, Manipur, Mizoram And Tripura	57.6	82.2	-29.9	63.8	73.8	-13.6
Arunachal Pradesh	58.2	118.2	-50.8	178.6	126.7	41.0
Uttaranchal	123.1	79.6	54.6	17.8	83.8	-78.8
Andaman & Nicobar Islands	200.8	90.2	122.6	16.6	90.4	-81.6
Lakshadweep	99.0	60.0	65.0	163.8	60.8	169.4
Rain Dependent Areas	62.4	54.1	15.3	48.4	54.6	-11.4
Gangetic West Bengal	34.0	76.8	-55.7	67.4	72.1	-6.5
Orissa	67.6	80.0	-15.5	99.3	81.0	22.6
Jharkhand	22.1	75.4	-70.7	70.4	76.6	-8.1
Bihar	32.2	73.0	-55.9	49.8	74.8	-33.4
Himachal Pradesh	120.0	47.9	150.5	3.6	48.6	-92.6
Jammu & Kashmir	18.4	29.9	-38.5	18.3	29.4	-37.8
West Rajasthan	24.3	19.2	26.6	11.8	20.1	-41.3
East Rajasthan	59.1	37.9	55.9	24.8	40.5	-38.8
West Madhya Pradesh	73.5	61.7	19.1	41.8	63.4	-34.1
East Madhya Pradesh	70.8	81.8	-13.4	76.3	83.0	-8.1
Gujarat Region	76.8	81.3	-5.5	38.2	85.7	-55.4
Saurashtra And Kutch	83.1	48.8	70.3	25.5	48.2	-47.1
Madhya Maharashtra	49.6	57.3	-13.4	66.7	57.5	16.0
Marathwada	176.5	38.1	363.3	56.4	36.8	53.3
Vidarbha	116.2	76.7	51.5	85.1	75.4	12.9
Chattisgarh	83.8	89.7	-6.6	83.3	91.3	-8.8
Coastal Andhra Pradesh	71.5	37.0	93.2	29.8	35.8	-16.8
Telangana Region	103.8	47.0	120.9	25.8	47.6	-45.8
Rayalaseema	22.7	16.2	40.1	3.4	16.5	-79.4
North Interior Karnataka	42.5	23.8	78.6	20.8	23.6	-11.9
South Interior Karnataka	41.8	58.9	-29.0	95.5	56.8	68.1
Tamil Nadu And Pondicherry	7.1	14.2	-50.0	12.8	14.5	-11.7
India	64.5	63.0	2.4	58.2	63.5	-8.3

Source: Indian Meteorological Department, Emkay Research

Excess/Normal/Deficient/Scanty	No of divisions	No of divisions
Excess	17	13
Normal	8	10
Deficient/Scanty	11	16

Source: Indian Meteorological Department, Emkay Research

TABLE – VI: Rainfall till date as % of full season

Division	From June 1 to					
	July 7, 2010			July 8, 2009		
	Actual (MM)	Normal (MM)	Deviation (%)	Actual (MM)	Normal (MM)	Deviation (%)
Well Irrigated areas	73	723	10.2	42	723	5.9
East Uttar Pradesh	53	914	5.8	71	914	7.8
West Uttar Pradesh	77	773	10.0	25	773	3.3
Haryana, Chandigarh and Delhi	92	470	19.5	29	470	6.1
Punjab	91	502	18.2	24	502	4.8
Adequately Rain-fed areas	649	1,959	33.1	536	1,959	27.3
Konkan and Goa region	896	2,802	32.0	778	2,802	27.8
coastal Karnataka	1,049	3,174	33.1	1,150	3,174	36.2
Kerala	824	2,143	38.4	759	2,143	35.4
sub-Himalayan West Bengal and Sikkim	708	1,955	36.2	533	1,955	27.3
Assam & Meghalaya	562	1,885	29.8	440	1,885	23.3
Nagaland, Manipur, Mizoram and Tripura	459	1,241	36.9	275	1,241	22.2
Arunachal Pradesh	512	1,835	27.9	556	1,835	30.3
Uttaranchal	232	1,223	19.0	92	1,223	7.5
Andaman & Nicobar Islands	636	1,755	36.2	702	1,755	40.0
Lakshadweep	419	985	42.5	591	985	60.0
Rain Dependent Areas	164	768	21.4	111	768	14.4
Gangetic West Bengal	234	1,136	20.6	161	1,136	14.2
Orissa	222	1,165	19.1	206	1,165	17.7
Jharkhand	134	1,093	12.2	162	1,093	14.8
Bihar	147	1,039	14.1	120	1,039	11.6
Himachal Pradesh	246	774	31.8	45	774	5.8
Jammu & Kashmir	109	514	21.2	78	514	15.1
west Rajasthan	73	263	27.7	36	263	13.6
east Rajasthan	86	624	13.8	65	624	10.5
West Madhya Pradesh	130	904	14.3	96	904	10.6
East Madhya Pradesh	130	1,097	11.8	121	1,097	11.0
Gujarat region	138	934	14.8	56	934	6.0
Saurashtra and Kutch	156	486	32.1	95	486	19.5
madhya Maharashtra	234	700	33.4	134	700	19.1
Marathwada	295	704	41.9	116	704	16.4
Vidarbha	261	976	26.8	174	976	17.8
Chattisgarh	173	1,206	14.4	138	1,206	11.4
coastal Andhra Pradesh	210	575	36.5	89	575	15.5
Telangana region	206	767	26.9	92	767	12.0
Rayalaseema	117	381	30.8	72	381	19.0
north interior Karnataka	157	491	32.0	121	491	24.6
south interior Karnataka	177	659	26.8	186	659	28.2
Tamil Nadu and Pondicherry	87	316	27.6	49	316	15.5
India	204	892	22.9	151	892	16.9

Source: Indian Meteorological Department, Emkay Research

Full season is normal rainfall from June 1 to September 30

July 9, 2010

BUY

Price Rs 441	Target Price Rs 464
Sensex	17,652

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	16	11	31
Rel. to Sensex	4	18	11	2

Source: Bloomberg

Stock Details

Sector	Engineering & Cap Goods
Reuters	BLUS.BO
Bloomberg	BLSTR@IN
Equity Capital (Rs mn)	180
Face Value(Rs)	2
No of shares o/s (mn)	90
52 Week H/L	446/304
Market Cap (Rs bn/USD mn)	40/854
Daily Avg Volume (No of sh)	84399
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	40.1	40.1	40.1
FII/NRI	9.0	7.7	8.2
Institutions	7.6	7.5	7.2
Private Corp	8.7	9.3	9.0
Public	34.6	35.4	35.5

Source: Capitaline

- **Industry progression to MEP inevitable – DS Gupta acquisition to further strengthen BLSR's MEP capabilities**
- **Developing non-commercials as new growth drivers - Commercial sector contribution to fall from 80% to 60%**
- **Uptick in margins over next 3-5 years – drives by structural change in industry, scale benefits and sourcing benefits**
- **With ROE of 46%, valuations are attractive at 17.7X FY11E and 14.9X FY12E earnings. Retain BUY rating**

We had arranged a fund manager's meeting with the management of Blue Star (BLSR). Following are the key highlights of the meeting:

Outlook for Electro-Mechanical Projects & Packaged Air-conditioners (EMP&PAC) has improved

- **Demand outlook** – Management indicated strong pick up in demand across all sectors barring commercial real estate.
 - Demand from **IT and retail** segments has picked up. It is expected to further strengthen by end FY11E.
 - **Hotels and hospitals** to continue to provide good growth opportunity for the next few years.
 - In the infrastructure sector, construction of **metro rails** will be a key growth-driver. Orders from metro projects in Bangalore, Chennai and Kolkata worth Rs12-13 bn are expected to be finalized over the next 6-9 months. Given its past experience with DMRC, BLSR expects to secure a significant share of the above projects.
 - Demand from **airports** is expected to be lackluster, post the recent finalization of the Mumbai Airport – the last of the major airports.
 - Infrastructure (airport and metro), power (electrification and T&D) and industrials will emerge as the new growth drivers over the next 5 years (Note – power electricals and industrials are currently clubbed by BLSR under the PEIS division). This diversification will enable BLSR to reduce dependency on the cyclical commercial sector. Currently, BLSR's order intake from the above sectors stood at Rs3.0 bn in FY10E. This is expected to double to Rs6.0 bn in FY11E – split as infrastructure (airports, metro) - Rs3.0-3.5 bn, industrials – Rs1.5 bn and power – Rs1.0 bn.
 - With the planned focus on non-commercial sectors, the management expects exposure to the traditional commercial sector (IT/ITES offices and retail) to come down from the current 80% to about 60% over the next 5 years.

Financial Snapshot

Rs Mn

YE-Mar	Net	EBITDA		APAT	AEPS	AEPS	RoE	EV/		
	Sales	(Core)	(%)		(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	25,026	2,823	11.3	1,829	20.3	29.5	58.2	21.7	15.4	10.8
FY10	25,250	2,935	11.6	1,999	22.2	9.3	46.6	19.8	14.5	8.1
FY11E	29,826	3,368	11.3	2,249	25.0	12.5	40.2	17.6	12.3	6.3
FY12E	35,410	3,966	11.2	2,662	29.6	18.4	37.6	14.9	10.1	5.0

- **Industry progression inevitable** – The air-conditioning industry's progression from providing standalone mechanical / HVAC (Heating Ventilation and Air-conditioning) services to providing composite MEP (Mechanical Electrical and Plumbing) services is inevitable (as highlighted by us in our report "Just chill..." dated Apr'10). BLSR has made significant headway in this direction and has metamorphosed into a composite MEP player offering mechanical, electrical and plumbing services under a single roof:
 - BLSR acquired skill sets in electricals through the acquisition of Naseer Electricals in Jan '08
 - It is in the final stages of acquiring DS Gupta Constructions Pvt. Ltd., thereby acquiring skill sets in plumbing.
- **Competition** – The management expects the industry to undergo further consolidation over the next few years with about 4-5 players garnering a 75-80% share (against the current 50-60%) – in line with developed markets. This is likely to have a positive impact on the industry margins, especially of the top 4-5 market players.

Outlook for Unitary Cooling Products (UCP) remains strong

- **Room air-conditioners (RAC)** – Overall, the RAC market will grow at a robust pace led by demand from residential sector. However, BLSR will continue to maintain focus on commercial sales for growth, in line with its policy of retail (residential) sales being a non-focus area for growth. Hence, BLSR will grow at a robust pace, but lower than overall RAC market growth rate.
- **Commercial Refrigeration** – The management has guided for strong growth in the commercial refrigeration over the next 5 years on the back of buoyancy from retail, exports and food processing sectors / industries. The segment is expected to grow at 13-14% CAGR over the next 5 years (Vs ~10% CAGR in the past).

Outlook for Professional Electronics & Industrial Systems (PEIS) – eyeing diversification

- Under this segment, BLSR procures and supplies equipments like medical systems & equipments, testing machines (both destructive and non-destructive), data communication equipment, industrial pumps and valves, etc. With pick-up in capex environment, management expects strong growth potential in the next 5 years.
- Further, BLSR is metamorphosing from a pure equipment supplier to solutions / systems provider and is taking projects on EPC basis. Concurrently, BLSR is bidding for projects ranging from Rs0.1 to 1.0 bn in the industrials (steel, oil & gas) and power (electricals and sub-stations).

Eyeing expansion in operating margins – the buck does not stop here

The management has indicated robust outlook for operating margins ahead - expects uptick in operating margins over the next 5 years. Already BLSR has improved its margins by 560 bps from 6.1% in FY05 to 11.8% in FY10.

- **EMP&PAC** – Management expects improvement in operating margins on the back of (1) industry-wide consolidation enabling top players executing large projects and earning high margins (2) domestic market to graduate along lines of other developed markets – where operating margins average around 15-16% (Vs 10-12% for BLSR) (3) relatively low competition in the large projects space, i.e. +Rs1 bn order size market.
- **UCP** – Improvement in operating margins would be driven by scale in business. The domestic market will witness sustained volume growth, being an extremely under-penetrated market. Hence there is scope for improvement in operating margins led by expansion in volumes, sourcing benefits, etc.

Acquisition of DS Gupta Constructions to enhance plumbing capabilities

BLSR is in the final stages of acquiring DS Gupta Constructions Pvt. Ltd. (DSG) (deal is expected to be closed by mid-July) – amongst the largest independent plumbing and fire fighting contracting company in India. DSG earned revenues of Rs1.3 bn in FY10 and has an order backlog of Rs2.75 bn. The acquisition will plug the gap for BLSR in the composite MEP services.

Eyeing inorganic growth in water, power and oil & gas

BLSR is eyeing diversification into power (largely electrical), water and water treatment systems and oil & gas (mechanical services) sectors over the next 5 years – to reduce dependency on the commercial segment. However, BLSR is extremely focused on maintaining its ROCE, despite plans to venture into new business areas.

Balance Sheet – 317% increase in ‘Other Current Assets’ temporary

In FY10, BLSR's other current assets increased by 317% from Rs0.9 bn to Rs3.6 bn (despite no traction in revenues). This is largely attributed to implementation of SAP systems on receivables management and invoicing w.e.f. Apr'09. The implementation of the SAP systems resulted in higher lead time for invoicing and also increased the time gap between revenue booking (based on percentage completion method) and invoicing (as based on the modalities of the contract). However, since Jan'10, the management has reverted to the earlier system of customer invoicing and expects the above anomaly to be addressed over the ensuing quarter. As on Mar'10, Rs2 bn was related to debtors arising from delayed invoicing and Rs1.5 bn linked to non-invoiced / unbilled revenues.

We reiterate our BUY recommendation

We reiterate that BLSR, with its dominant share in the domestic market, is well poised to capitalize on the ensuing Rs529 bn opportunity in the domestic MEP industry. Further, BLSR is likely to be a primary beneficiary of the domestic air-conditioning industry's progression from HVAC to integrated MEP play. BLSR has strong order book at Rs17.3 bn (0.7X FY10E revenues) and has witnessed sustained momentum in order inflows (including non-HVAC) – lending comfort to our FY11E earning estimates. Given ROE of 46%, at CMP, BLSR is trading at attractive valuations of 17.4X FY11E and 14.6X FY12E earnings of Rs24.9 and Rs29.6 per share respectively. We retain our BUY rating with a price target of Rs464

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	25,026	25,250	29,826	35,410
Growth (%)	12.7	0.9	18.1	18.7
Expenditure	22,203	22,315	26,458	31,444
Materials Consumed	18,743	18,821	22,470	26,855
Employee Cost	1,828	1,855	2,191	2,601
Manufacturing Exp	101	103	138	163
Other Exp	1,531	1,536	1,659	1,825
EBITDA	2,823	2,935	3,368	3,966
Growth (%)	19.6	3.9	14.8	17.8
EBITDA margin (%)	11.3	11.6	11.3	11.2
Depreciation	259	347	408	459
EBIT	2,565	2,588	2,960	3,507
EBIT margin (%)	10.2	10.2	9.9	9.9
Other Income	16	147	68	68
Interest expenses	173	85	47	47
PBT	2,409	2,650	2,981	3,529
Tax	579	651	733	867
Effective tax rate (%)	45.7	36.6	36.6	36.6
Adjusted PAT	1,829	1,999	2,249	2,662
Growth (%)	29.5	9.3	12.5	18.4
Net Margin (%)	7.3	7.9	7.5	7.5
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	1,829	1,999	2,249	2,662
E/O items	(26)	139	-	-
Reported PAT	1,803	2,138	2,249	2,662
Growth (%)	3.6	18.6	5.2	18.4

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	2,382	2,766	2,981	3,529
Depreciation	259	347	408	459
Interest Provided	173	85	47	47
Other Non-Cash items	143	35	0	0
Chg in working cap	-379	-1,278	1,045	-538
Tax paid	-631	-732	-733	-867
Operating Cashflow	1,947	1,223	3,748	2,629
Capital expenditure	-851	-239	-500	-500
Free Cash Flow	1,096	983	3,248	2,129
Other income	-7	-3	0	0
Investments	-32	62	0	0
Investing Cashflow	-38	59	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-93	-184	0	0
Interest Paid	-172	-85	-47	-47
Dividend paid (incl tax)	-737	-737	-887	-1,067
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-1,001	-1,005	-933	-1,113
Net chg in cash	57	38	2,315	1,015
Opening cash position	27	92	132	2,447
Closing cash position	83	130	2,447	3,462

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	180	180	180	180
Reserves & surplus	3,491	4,737	6,099	7,694
Net worth	3,671	4,917	6,279	7,874
Secured Loans	0	0	0	0
Unsecured Loans	273	89	89	89
Loan Funds	0	0	0	0
Net deferred tax liability	273	89	89	89
Total Liabilities	6	(15)	(15)	(15)
	3,950	4,991	6,353	7,948
Gross Block				
Less: Depreciation	3,325	3,519	4,019	4,519
Net block	1,449	1,542	1,950	2,409
Capital work in progress	1,876	1,977	2,069	2,110
Investment	248	16	16	16
Current Assets	44	42	42	42
Inventories	10,379	13,928	15,445	18,894
Sundry debtors	2,081	2,580	2,753	3,268
Cash & bank balance	6,086	6,282	7,305	8,673
Loans & advances	92	132	2,447	3,462
Other current assets	1,255	1,324	1,524	1,809
Current lia & Prov	865	3,609	1,417	1,682
Current liabilities	8,602	10,971	11,218	13,113
Provisions	7,521	9,811	10,058	11,953
Net current assets	1,081	1,160	1,160	1,160
Misc. exp	1,777	2,957	4,227	5,780
Total Assets	6.0	-	-	-

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	11.3	11.6	11.3	11.2
Net Margin	7.3	7.9	7.5	7.5
ROCE	73.4	57.9	52.2	49.0
ROE	58.2	46.6	40.2	37.6
RoIC	61.5	46.7	51.6	63.9
Per Share Data (Rs)				
EPS	20.3	22.2	25.0	29.6
CEPS	23.4	26.0	29.5	34.7
BVPS	40.8	54.7	69.8	87.5
DPS	7.0	8.0	8.5	10.5
Valuations (x)				
PER	21.7	19.8	17.6	14.9
P/CEPS	18.8	17.0	14.9	12.7
P/BV	10.8	8.1	6.3	5.0
EV / Sales	1.6	1.6	1.3	1.0
EV / EBITDA	15.4	14.5	12.3	10.1
Dividend Yield (%)	1.6	1.8	1.9	2.4
Gearing Ratio (x)				
Net Debt/ Equity	0.0	(0.0)	(0.4)	(0.4)
Net Debt/EBIDTA	0.1	(0.0)	(0.7)	(0.9)
Working Cap Cycle (days)	23.3	34.2	44.0	51.6

Indices

Indices	Today's close	% chg
Sensex	17,833	2.14
Nifty	5352	2.20
S&P CNX 500	4461	1.80
BSE 500	7,163	1.99
BSE Mid-Cap	7,317	2.80
BSE Small-Cap	9,270	1.83
BSE Auto	8,368	2.25
BSE Health	5,749	0.74
BSE FMCG	3,208	-0.31
BSE IT	5,477	4.56
BSE PSU	9,468	0.24
BSE Bankex	11,060	3.72
BSE Oil & Gas	10,633	-0.77
BSE Metal	14,837	3.16
BSE Cons Dur	4,987	5.39
BSE Cap Good	14,652	1.09
BSE Realty	3,263	4.08
BSE Power	3,129	-0.32

Levels to watch

	Sensex	Nifty
21 EDMA	17466	5249
55 EDMA	17289	5190
Swing High	17919	5366
Swing Low	15960	4786

Trend Tracker

	Up/ Down	Sensex/ Nifty	Sensex/ Nifty
		Target	Reversal
Short Term*	↓	16900/5060	17920/5370
Mid Term*	↓	16200/4900	18050/5400
ST: 0-14 Days		MT: 14-45 Days	

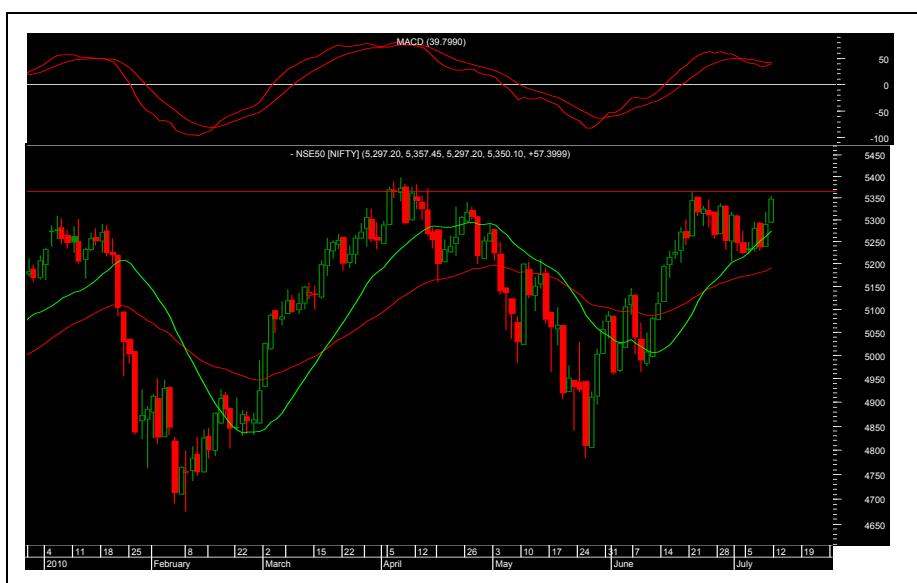
Nifty Intraday levels to watch

	Support	Resistance
Nifty	5,341/5,335	5,366/5,375

TechCheck

Positive weekly close

On w-o-w basis, Nifty has closed with a gain of 100 odd points. Moreover, the “moving average convergence divergence” oscillator has still not turned bullish. In addition to this our previous swing high of 5366 is yet to see a penetration. So until and unless we do not see a close above 5366, we will stick to our negative bias, in anticipation of a double top formation in the coming session. However if 5367 is taken out on closing basis then 5500-5550 would remain next logical targets on the channel.



Sectoral Speak

BSE Metal

Last week BSE Metal outperformed the broader markets and finally closed at 14837 with a gain of 3.16% on w-o-w basis. On the daily chart this index had already retraced 38.20% of the recent fall from 15636 to 14298, thus now going forward this index has resistance at 14967 and 15125 which are 50% and 61.80% retracement level of the above mentioned fall. However downside the level of 14298 will play as a support for this index.



Contd....

BSE Bankex

Last week BSE Bankex index had already retraced 61.80% of the recent fall from 11127 to 10600, thus going forward this index has resistance at 11127 and in the coming days if this index starts trading above the mention level then we will witness sharp upside move.



Technical Recommendations

EPT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
04.06.10	Herohonda	Sell	2002.70	2123.60	1881/1751	2017.00	-0.71	
25.06.10	BOB	Sell	682.00	731.10	636/591	715.55	-4.69	
29.06.10	LIC Housing	Sell	1005.00	1116.10	941/831	996.10	0.89	
29.06.10	Nifty July	Sell	5260.00	5380.00	5000/4875	5353.00	-1.74	
08.07.10	MRPL	Buy	84.50	79.40	94/104	84.70	0.24	
08.07.10	Banco Prod	Buy	111.00	107.40	118/124	113.45	2.21	
09.07.10	Renuka	Buy	71.85	67.40	79/85	71.00	-1.18	
09.07.10	UCO Bank	Buy	81.00	78.00	85.60/90.00	80.65	-0.43	

EMT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	% change	Comment
29.06.10	ICICI Bank	Sell	846.20	882.10	813/795	877.60	-3.58	
30.06.10	LT	Sell	1795.00	1844.00	1740/1690	1821.00	-1.43	
02.07.10	BHEL	Sell	2394.20	2490.10	2300/2247	2400.00	-0.24	
07.07.10	Hindalco	Sell	141.50	146.00	136/132.50	146.00	-3.08	Stop-loss triggered
09.07.10	Tatasteel	Buy	496.50	481.00	512/525	495.40	-0.22	
09.07.10	LILT	Buy	67.65	65.80	69.85/71.50	67.15	-0.74	
09.07.10	Cairn	Buy	302.50	295.00	311.50/319	300.80	-0.56	

Home

Results Today

CMC

Jaypee Infratec.

Moser Baer (I)

Pfizer

Sintex Inds.

Wyeth

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