MORNING INSIGHT

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Kotak Securities

PRIVATE CLIENT RESEARCH

OCTOBER 22, 2008

Economy News

- The government and the RBI are looking at easing external commercial borrowings (ECB) guidelines and foreign direct investment (FDI) norms to enhance overseas fund flows. On ECBs, loans up to $500 million for rupee expenditure by Indian infrastructure companies may be put under the automatic approval route. At present, such loans need RBI approval. (BS)
- Many commercial banks are looking at reducing home loan rates for select category of buyers (ET)
- Norway's sovereign wealth fund, the world's second largest, is set to invest $2 billion in Indian stocks. The Norwegian Government said the investments by the Government Pension Fund would take place between this month and January 2009. (BS)
- Petroleum Minister ruled out an immediate reduction in petrol, diesel and domestic LPG prices in step with softening of international oil prices. A price reduction may be considered if crude oil falls to US$ 61 per barrel, he said. The basket of crude oil India buys was at USD 64 per barrel. (ET)
- Concerned over the default in payment of fuel bills by the airlines, Petroleum Minister has called a meeting tomorrow with Civil Aviation Minister, airlines and oil companies to sort out the issue. (BS)

Corporate News

- **Hindalco** may sell stakes in group companies to raise funds to repay a part of the $3-billion bridge loan it obtained to buy Novelis, bankers said. Hindalco may sell a part of its Rs.20bn stake in group companies, including Grasim Industries, Idea Cellular and Aditya Birla Nuvo, to fund the repayment. The Birla group company paid $6 billion for the acquisition. The company has to repay the bridge loan by November 10, 2008, for which it concluded a rights issue worth Rs.50bn recently. (BS)
- **Reliance Petroleum** has said that, it has completed 97% work of its 5,80,000 barrels per day (bpd) refinery, which is coming up next to its existing one in Gujarat. The refinery is likely to be commissioned before December. (BS)
- **Bharat Heavy Electricals** has bagged Rs 6.41bn contract for setting up a 412 MW hydro electric plant from Satluj Jal Vidyut Nigam Ltd. to set up a 412 MW Hydro Electric Project (HEP) in Himachal Pradesh. (ET)
- **Indian Hotels** plans to go ahead with its Rs 5bn investment program over the next two years despite a possible slowdown in the hospitality sector. (ET)
- **Hindustan Construction Company (HCC)** has bagged an order worth Rs 3.6bn from Lanco Infratech for construction-related works at Teesta Hydro Electro Power Project in Sikkim. (BS)
- **Jaiprakash Associates** announced a net profit of Rs 2.03bn for the second quarter ended September 30, a 96.03% growth over the corresponding period a year-ago. (BS)
- **Indiabulls Financial Services Ltd** on consolidated basis has posted a net profit of 1.36bn for the quarter ended September 30, up 21.4% against a profit of Rs 1.12bn for the same period last year. (BS)
- **Hero Honda** posted a better-than-estimated 50% rise in net profit after it boosted sales and increased prices. Net profit climbed to Rs3.06bn ($62.4 million) in the three months ended September 30 from Rs.2.04bn a year earlier. (BS)
- **Mahindra and Mahindra** launched its 'micro-hybrid' technology-equipped variant of sports utility vehicles - Scorpio and Bolero, priced between Rs 6.5 lakh and Rs 6.97 lakh. (BL)

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

Equity

		% Chg		
	21 Oct 08	1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	10,683	4.5	(23.7)	(24.3)
Nifty	3,235	3.6	(23.4)	(23.7)
BSE Banking	5,842	2.6	(17.7)	(11.9)
BSE IT	2,907	6.0	(20.1)	(20.3)
BSE Capital Goods	7,563	5.5	(34.1)	(33.7)
BSE Oil & Gas	6,774	3.9	(27.9)	(27.8)
NSE Midcap	3,979	3.0	(24.6)	(24.6)
BSE Small-cap	4,196	2.0	(32.3)	(35.8)
World Indices				
Dow Jones	9,034	(2.5)	(18.0)	(22.1)
Nasdaq	1,697	(4.1)	(22.1)	(26.4)
FTSE	4,230	(1.2)	(19.2)	(21.1)
Nikkei	9,306	3.3	(25.2)	(31.4)
Hangseng	15,041	(1.8)	(23.6)	(33.4)

Value traded (Rs cr)

	21 Oct 08	% Chg - Day
Cash BSE	3,825	(6.1)
Cash NSE	11,076	10.0
Derivatives	49,845	(2.8)

Net inflows (Rs cr)

	20 Oct 08	% Chg	MTD	YTD
FII	(840)	(3)	(11,662)	(49,167)
Mutual Fund	219	94	333	12,817

FII open interest (Rs cr)

	20 Oct 08	% Chg
FII Index Futures	13,826	17.9
FII Index Options	19,730	9.7
FII Stock Futures	15,044	6.7
FII Stock Options	656	(11.9)

Advances / Declines (BSE)

21 Oct 08	A	B	S	Total	% total
Advances	167	1,080	263	1,510	64
Declines	39	588	161	788	34
Unchanged	-	34	15	49	2

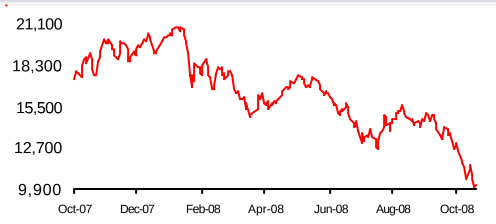
Commodity

		% Chg		
	21 Oct 08	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	71.1	(1.5)	(41.2)	(44.4)
Gold (US$/OZ)	771.7	(3.2)	(14.0)	(18.5)
Silver (US$/OZ)	10.1	3.4	(25.0)	(43.8)

Debt / forex market

	21 Oct 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.63	7.63	8.56	9.33
Re/US$	49.10	49.02	45.45	42.68

Sensex



RESULT UPDATE

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NIIT LTD (NIIT)

PRICE: RS.33 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.80 **FY09E P/E: 6.2x**

Results below expectations. 2HFY09 expected to be softer. Maintain cautious view and our ACCUMULATE recommendation, despite decent upside, due to near term challenges.

- 1QFY09 results below estimates. Corporate learning business continues to disappoint, impacting overall profitability.
- Macro scenario in the IT services business and also in the Banking and Retail segments, expected to impact growth. Margin impact to be also visible in 2HFY09
- Company indicates some impact on ILS because of sedate hiring of engineers by IT services companies. Hiring freeze by banks also to impact NIIT.
- We make changes to FY09 earnings estimates. Revised FY09 EPS at Rs.6.2 v/s Rs.7.4 earlier
- We have not had a very positive view on NIIT because of the evolving demand scenario and concerns on Corporate Learning business.
- We continue to recommend an **ACCUMULATE** with a revised DCF based price target of Rs.80 (Rs.115 earlier).
- We will become more positive on the stock post improvement in Corporate Learning Solutions business. Upsides are possible from potential divestment of NIITT's stake.
- Key risk to our call stems from better-than-expected margins in the Individual Learning business. On the other hand, lower-than-expected margins in this business may impact the company's performance adversely.
- Also, the rupee appreciation and a prolonged recession in major user economies may impact growth adversely.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	7,949	10,068	11,591
Growth (%)	76.4	26.7	15.1
EBITDA	773	1,037	1,413
EBITDA margin (%)	9.7	10.3	12.2
Net profit	572	757	1,020
Net cash (debt)	1,962	1,258	1,295
EPS (Rs)	3.5	4.6	6.2
Growth (%)	39.8	32.3	34.7
CEPS	6.4	7.8	9.7
DPS (Rs)	6.5	1.0	1.5
ROE (%)	19.8	21.2	23.3
ROCE (%)	7.7	8.6	14.5
M Cap/Sales (x)	0.7	0.5	0.5
EV/EBITDA (x)	10.0	7.2	5.9
P/E (x)	9.5	7.2	5.3
P/Cash Earnings	5.2	4.2	3.4
P/BV (x)	1.7	0.3	0.2

Source: Company, Kotak Securities - Private Client Research

1QFY09 results

(Rs mn)	2QFY09	1QFY09	QoQ (%)	2QFY08	YoY (%)
Income	**3095**	**2566**	**20.6**	**2702**	**14.5**
Expenditure	2689	2363		2343	
EBIDTA	**406**	**203**	**100.0**	**359**	**13.1**
Depreciation	146	130		142	
EBIT	**260**	**73**	**256.2**	**217**	**19.8**
Interest	50	55		47	
Other Income	71	47		-2	
PBT	**281**	**65**	**332.3**	**168**	**67.3**
Tax	73	11		41	
PAT	**208**	**54**		**127**	
Share of profit	89	117		84	
Adjusted PAT	297	171	73.7	211	40.8
Shares (mns)	164.7	164.7		164.7	
EPS (Rs)	**1.8**	**1.0**		**1.3**	
EBIDTA (%)	13.1	7.9		13.3	
EBIT (%)	8.4	2.8		8.0	
Net Profit (%)	6.7	2.1		4.7	

Source : Company

Revenues rise by about 15% YoY

- Revenues rose by 15% YoY on the back of a 24% rise in the ILS business and a 32% rise in the SLS business.
- While the new businesses grew by about 37%, it came on the back of a very small base. The growth rate in this business also slackened considerable v/s 1QFY09.
- However, the corporate learning business continued to disappoint with a marginal 3% rise despite the significant rupee depreciation.

Revenue break up

(Rs mn)	1QFY09	2QFY09	2QFY08
Individual	854.00	1224.00	975.00
Institution	252.00	320.00	242.00
Corporate	1400.00	1447.00	1409.00
New initiatives	89.00	104.00	76.00

Source : Company

Individual learning business

- The ILS business saw revenues grow by 25% on the back of an overall 22% rise in enrolments. The growth rate has fallen on a sequential basis as compared to 34%.
- We note that, this is the strongest quarter for the company and view this growth rate with concern.
- While the company has been able to place 47% more students this quarter, the negative sentiment in the major user industries has impacted enrolment growth, in our view.
- The management has indicated increasing stress on the FMS business with the near freeze in recruitment by the Banking industry. As a result of this, the growth in the FMS business is also expected to be lower in 2HFY09 as compared to 1HFY09.
- The company has entered into a tie-up with Reliance Retail to provide financial products training to it s employees who will be providing personal finance solutions to clients.
- The company increased the annual capacity by 14% YoY. However, with demand growth expected to slacken, the company is looking at capacity consolidation by offering multiple streams from the same centres.
- We believe that, any further deterioration in the US economic scenario can have an impact on demand for NIIT and have reduced the growth rates for 2HFY09 and FY10.

Joint venture with Genpact

- The 75:25 JV with Genpact - NIIT Uniqua - has commenced operations during the quarter and is expected to start bringing in revenues from 3QFY09.
- The revenues from this business are expected to amount to about Rs.80mn in 2HFY09.
- The courses are expected to be launched in 7 centres in the first year and will be extended to 200 centres in 3 - 5 years.
- We view this as a big opportunity as ITES segment is expected to grow at a fast pace and several ITES companies would like to take in trained employees rather than train them in-house.

Corporate business

- Overall, the corporate business saw a 3% growth in INR terms on a YoY basis. In USD terms, we believe that, there was almost no growth.
- The growth continued to be impacted by the custom content business which has been witnessing softness due to the cuts in discretionary spends by clients.
- This softness set off the growth in training outsourcing and learning products business.
- We believe the fall was because of extended sales cycles in the custom projects business which contribute 30% of CLS revenues and have continued to face scale-up issues in the past.
- The company has not been able to scale up the business in line with our expectation, consequently impacting the profitability also.
- We will need to see higher business growth before becoming more bullish on this business.
- The overall outsourced training market is expected to grow by 18% (IDC) and NIIT hopes to leverage on its IPRs to gain a higher market share in the future.
- With the macro headwinds in place, we expect this business to report marginal growth going forward with consequent impact on margins.

Schools business

- The non-Government schools business grew by about 36% YoY on the back of commencement of the AP and Maharashtra schools orders.
- In the previous quarter, the company had bagged one of the largest orders from the Andhra Pradesh Government for 2005 schools.
- Non - Government schools contributed about 32% of revenues
- The company has started re-focusing on the Government schools business with better payment terms. It has also improved its collections mechanism with regard to these schools.
- However, the DSOs have gone up during the quarter because of higher revenues from these projects. We expect these to come down in the near future.

EBIDTA margins

	1QFY09	2QFY09	2QFY08
Individual	17.68	25.57	23.90
Institution	13.89	13.75	14.46
Corporate	0.21	2.97	6.39
New initiatives	2.25	5.77	1.32

Source : Company

- EBIDTA margins rose on a QoQ basis but were flat on a YoY basis.
- On a YoY basis, margins improved in the ILS business with better capacity utilization at 67%.
- The new initiatives also saw margin improvement albeit on a low base.
- On the other hand, margins were impacted because of the CLS business which spent on new products and sales force expansion. We note that margins fell despite the depreciation in the rupee on a YoY basis.

Future prospects

We have made changes to our FY09 earnings estimates.

Revenue break up

(Rs mn)	FY06	FY07	FY08	FY09E
Individual	1670.00	2473.03	3242.00	4111.38
Institution	1175.00	846.00	1010.00	1262.30
Corporate	1661.00	4560.00	5508.01	5753.96
New initiatives	0.00	71.00	308.00	463.00
Total	4506.00	7950.03	10068.01	11590.64

Source: Company, Kotak Securities - Private Client Research

- We expect the individual learning business to witness a slowdown in growth rate sin 2HFY09 to about 25%.
- New initiatives are expected to gather steam over the quarters with higher acceptance of the courses. However, incremental growth is expected to be lower.
- We expect muted growth in corporate learning business in the back drop of a deterioration in the US economy and scale up issues faced by the company.
- We have assumed margins to improve in all businesses (YoY basis) on the back of better capacity utilization, higher volumes and better leverage on costs.

EBIDTA margins (%)

	FY06	FY07	FY08	FY09E
Individual	7.66	17.47	20.51	22.99
Institution	18.21	11.58	12.97	14.81
Corporate	15.65	7.81	4.83	4.34
New initiatives	0.00	-154.93	-8.44	7.56
Total	13.41	9.72	10.30	12.19

Source: Company, Kotak Securities - Private Client Research

We recommend ACCUMULATE on NIIT Ltd with a price target of Rs.80

- After accounting for its 25% share in NIIT Technologies' profits, we expect the net profit to go up to Rs.1.02bn in FY09 (Rs.1.22bn earlier), translating into an EPS of Rs.6.2.

Concerns

- A prolonged recession in major global economies could impact revenue growth of NIIT.
- Steep rupee appreciation v/s major global currencies may impact the financials of NIIT.

RESULT UPDATE

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KPIT CUMMINS

PRICE: RS.32 **RECOMMENDATION: BUY**
TARGET PRICE: RS.56 **FY09E P/E: 4X**

KPIT's Q2FY09: Revenues, EBITDA and net profits come in ahead of estimates. Traction in manufacturing, automotive verticals help revenue growth. Margins favorably impacted by higher utilization and INR.

We modify estimates to account for Q2FY09 results; adjust our DCF based price target to account for higher WACC and lower growth rates in medium term given the uncertain demand environment.

Valuations at 4x FY09E EPS are cheap; continue to rate the stock a BUY from a 9-12m perspective with a price target of Rs.56. However we continue to prefer large-caps over smaller industry peers on account of their ability to counter a challenging macro environment more effectively, in our opinion.

- KPIT Cummins' 2QFY09 results were ahead of our estimates on the revenue front (Rs.1.95bn, up 12%QoQ & 31% YoY). Margins (14.6%, up 160bps QoQ) were also better than estimates helped by higher utilization rates - on site and offshore.
- We had estimated revenues of Rs.1.87bn, EBITDA margins of 14% and PAT of Rs.157mn for the quarter.
- We have made relevant changes to account for the 2QFY09 results and the management commentary. For FY09, we estimate a 23% growth in profits to Rs.629mn; an EPS of Rs.7.9 (Rs.7.6 earlier). We estimate revenue growth of 29% YoY for FY09 accompanied by lower EBITDA margins (due to higher G&A expenses) in comparison to FY08.
- We have marginally upped our FY09E EPS estimate to account for the favorable INR and decent operational performance in the quarter.
- Management has stated that it is yet to experience client specific ramp-downs; however it has noted that given the macro-uncertainty it is cautious on its own business prospects. For FY09 the company had guided for revenues of Rs.7.4-7.6bn (up 23-26%) and a PAT of Rs.650-670mn (up 27-31%).
- We note that our estimates are lower than company's guidance on the net profit line. We believe caution is prudent on this front given the uncertainty in demand environment reflected in delayed decision making cycles on the client s' end.
- On the forex contracts front, management has said that one of the three derivative contracts worth $12mn was knocked out in Q3FY09. It also indicated that the MTM loss on its forex positions was Rs.350mn, down from Rs.910mn at the end of Q1FY09, after the knock out of the derivative contract.
- Our DCF-based price target works out to Rs.56 (Rs.78 earlier). At our price target of Rs.56, our FY09E earnings will be discounted by 7x.
- We continue to recommend a **BUY** based on valuations from a 9-12m perspective. At the same time we are cognizant of the challenging macro environment for smaller players and retain our preference for large-caps to weather the uncertain demand environment.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	4,637	6,006	7,734
Growth (%)	45.7	29.5	28.8
EBITDA	715	923	1,079
EBITDA margin (%)	15.4	15.4	13.9
Net profit	503	526	634
Net debt	598	125	(487)
EPS (Rs)	6.7	6.6	8
Growth (%)	55	1.5	23.2
CEPS	8.4	9.7	11.9
DPS (Rs)	0.7	0.7	1.0
ROE (%)	29.6	22.3	19.9
ROCE (%)	21.7	20.1	18.9
EV/Sales (x)	0.6	0.4	0.3
EV/EBITDA (x)	4.2	2.9	1.9
P/E (x)	4.7	4.9	4.0
P/Cash Earnings	3.8	3.3	2.7
P/BV (x)	1.2	1.0	0.7

Source: Company, Kotak Securities - Private Client Research

2QFY09 results

(Rs mn)	1QFY09	2QFY09	QoQ (%)	2QFY08	YoY (%)
Turnover	**1736.8**	**1947.2**	**12.1**	**1492.4**	**30.5**
Expenditure	1510.7	1662.8		1257.6	
EBDITA	**226.2**	**284.4**	**25.8**	**234.9**	**21.1**
Depreciation	66.1	76.0		57.2	
EBIT	**160.0**	**208.4**	**30.2**	**177.7**	**17.3**
Interest	10.3	10.1		18.8	
Other Income	-0.6	0.9		0.4	
PBT	**149.2**	**199.2**	**33.5**	**159.3**	**25.0**
Tax	20.4	30.9		18.5	
PAT	**128.9**	**168.3**	**30.6**	**140.8**	**19.5**
Minority Int	-0.8	1.3		0.1	
Adjusted PAT	129.7	167.0	28.8	140.7	18.7
EPS (Rs)	**1.6**	**2.1**		**1.8**	
OPM (%)	13.0	14.6		15.7	
GPM (%)	9.2	10.7		11.9	
NPM (%)	7.4	8.6		9.4	

Source: Company

Revenues

- Revenues grew by a healthy 12.1% QoQ and 31% YoY to Rs.1.94bn, aided by higher business volumes and a favorable INR.
- Within customers, Cummins saw revenues grew by about 8.2% QoQ and 35% YoY and contributed c40.5% of total revenues. Non Cummins Star customers grew 9% QoQ and contributed c43% of revenues. We note that both these metrics grew at lower than company rates.
- KPIT has an impressive client roster with eight out of the top-10 auto OEMs in the world and five out of the top 10 semiconductor companies as its customers.
- The total employee strength of KPIT stood at 4761(4802) as at 2QFY09 end, a net reduction of 41 employees over the end of 1QFY09.
- The following table analyses the revenue break up of KPIT during Q1FY09- across verticals, geographies and LoB's. Manufacturing vertical, auto line of business and the Europe geography grew at rates higher than company during the 1QFY09.

Revenue break up

(Rs mn)	2QFY09	1QFY09	% chg	2QFY08	% chg
Manufacturing	1730.49	1528.41	13.22	1230.50	40.63
BFSI	98.92	104.04	-4.92	125.21	-21.00
Others	117.81	104.38	12.86	136.86	-13.92
USA	1049.16	979.05	7.16	844.71	24.20
Europe	709.96	608.07	16.76	484.59	46.51
RoW	188.10	149.72	25.64	163.12	15.31
Manufacturing	997.17	939.80	6.10	854.26	16.73
Auto Electronics	569.17	453.14	25.61	318.93	78.46
Semi Conductor	143.32	126.27	13.50	130.29	10.00
Financial Services	99.70	91.53	8.92	104.77	-4.84
Global Business Solutions	137.86	125.92	9.48	84.02	64.08

Source: Company

EBITDA Margins -up QoQ on account of higher utilization rates

- EBITDA margins for the quarter have increased by 160bps to 14.6% from the 13% reported in the previous quarter. We believe this improvement in margins has been on account of higher utilization rates- onsite and offshore.
- On site utilization rates have increased to 93.9% (91.3%), offshore utilization has also increased to 71.4% (70.5%).
- KPIT also benefited from a favorable INR- that stood at INR 41.6/$ versus INR 40.8/$ in the previous quarter. KPIT accounts for its forex losses in the revenue line itself which explains its lower INR realized rate versus peers.
- The management has also said that a provision has been created in the BS for MTM of plain vanilla forward covers, an amount of Rs.410mn. No provision has been created yet on its complex currency derivatives.

Future prospects-macro remains critical, has worsened of late. Valuations remain the cushion right now.

- We have made changes to our earnings estimates, to accommodate the 2QFY09 results and accompanying management commentary.

We recommend BUY on KPIT Cummins with a price target of Rs.56

- For FY09, we estimate a 29% growth in revenues to Rs.7.73bn on the back of a favorable INR and still existent traction in its business segments. In FY09E we estimate KPIT's margins will drop c140bps to 13.9% on account of cost pressures on the G&A front, increased wage costs and investments towards S&M.
- We expect KPIT to report profits of Rs.638mn, a YoY growth of 24% and an EPS of Rs.8.0 (Rs.7.6 earlier) for the fiscal.

Concerns- a negative macro translating into low growth rates in the medium term

- An accelerated slowdown / recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are pronounced risks for KPIT Cummins.

RESULT UPDATE

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INDIAN HOTELS COMPANY LTD (IHCL)

PRICE: RS.60 **RECOMMENDATION: BUY**
TARGET PRICE: RS.113 **FY09E P/E: 9.6X**

Q2FY08 results satisfactory; Concerns overplayed; Maintain BUY

- Standalone revenues during the quarter grew 8% at Rs.3.68bn as compared to Rs.3.41bn in Q2FY08. We view revenue growth satisfactory given the seasonality factor in business (H1 remain weaker than H2), unfavorable market conditions and negative sentiments;
- During the quarter, IHCL has witnessed marginal dip in occupancy ratio at 64% as compared to 66%. However, ARRs and RevPARs have increased by 11.8% and 7.6% to Rs.9763 and Rs.6247 room per day. The growth in revenues was driven by higher room sales and firm ARRs and steady growth in F&B business across the key markets;
- For the H1FY09, standalone revenue grew 8.5% to Rs.7.45bn against Rs.6.86bn. In H1FY09, room sales, F&B and other operating income grew 10%, 8.1% and 1.6% to Rs.3.99bn, Rs.2.58bn and Rs.876mn, respectively;
- Standalone EBITDA for the quarter declined 9.1% to Rs.899mn mainly due to drop in EBIDTA margins. The EBIDTA margin declined 460bps to 24.4% against 29%. The drop in margins was due to expenses charge related to launch of Gateway brand, higher staff costs and renovation expenditures;
- Standalone net profit after exceptional items declined -4.8% to Rs.507mn as compared to Rs.532mn in Q2FY08. Net profit margin contracted by 180bps to 13.8%;
- During the quarter, IHCL has provided Rs.94mn towards foreign exchange marked-to-market translation loss on outstanding foreign currency debt. Hence, on a like-to-like basis net profit actually grew 13% to Rs.601mn against Rs.532mn;
- During the quarter, IHCL has unveiled new brand "The Gateway Hotel" to target upscale segment. Currently 18 properties are operational under The Gateway brand and 11 properties are under construction;
- The Gateway brand is a contemporary brand for the modern traveler and upscale segment. The idea behind launching this brand is to fill the gap between premium and budget segment;
- During the quarter, IHCL has commissioned a new hotel, Taj Residency at Trivandrum and two new Ginger hotels at Delhi and Goa;
- IHCL will launch two luxury hotels ITPL, Bangalore and Taj Mount Road, Chennai in Q3FY09;
- We have fine-tuned our revenue and earning estimate for FY09 and FY10. We expect 12.6% and 31.8% consolidated revenue and earning CAGR over FY08-10E. We expect consolidated EPS of Rs.6.2 and Rs.7.5 in FY09E and FY10E, respectively;
- The stock has corrected significantly in recent time mainly due to the concerns over expected earnings slowdown in hotel industry led by economic slowdown and huge anticipated supply in key markets, which we believe were over played;
- We reduce our target price to Rs.113 (earlier Rs.171) attaching 15x price-to-earning multiple to FY10E earnings. We believe that valuations have contracted significantly due to expected slowdown in earnings, higher capital costs and significant correction in capital markets;
- At current markets price Rs.60, the stock is trading at 9.6x FY09 and 8x FY10 earning estimates. We maintain **BUY**.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	29,660	32,691	37,594
Growth (%)	16.8	10.2	15.0
EBITDA	9,393	9,153	11,278
EBITDA margin (%)	31.7	28.0	30.0
Net profit	4,633	4,634	6,041
Net Margin (%)	12.0	14.2	16.1
EPS diluted (Rs)	6.8	6.2	7.5
Growth (%)	7.5	(8.0)	20.6
DPS (Rs)	1.9	1.5	1.5
RoE (%)	21.2	16.2	14.7
RoCE (%)	16.2	12.1	12.5
EV/Sales (x)	3.5	1.7	1.2
EV/EBITDA (x)	11.1	5.9	4.0
P/E (x)	8.8	9.6	8.0
P/BV (x)	3.9	1.3	1.0

Source: Company, Kotak Securities - Private Client Research

Financial Performance (Standalone)

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	FY08	FY07	YoY (%)
Sales & Operating Income	**3,678**	**3,406**	**8.0**	**3,769**	**(2.4)**	**17,645**	**15,407**	**14.5**
Expenditure	2,779	2,417		2,602		10,629	9,793	
EBIDTA	**899**	**989**	**(9.1)**	**1,167**	**(23.0)**	**7,016**	**5,615**	**24.9**
Depreciation	226	207		203		854	914	
EBIT	**673**	**782**	**(14.0)**	**964**	**(30.2)**	**6,161**	**4,701**	**31.1**
Interest	225	257		235		943	719	
Other Income	316	193		211		415	765	
Extra-ordinary Items	(94)	59		(60)		171	-	
PBT	**670**	**777**	**(13.8)**	**880**	**(23.9)**	**5,805**	**4,746**	**22.3**
Tax	163	245		268		2,030	1,523	
Net Profit	**507**	**532**	**(4.8)**	**613**	**(17.3)**	**3,775**	**3,224**	**17.1**
Equity Shares (Mn)	723	603		723		603	587	
EPS (Rs)	**0.7**	**0.9**	**(20.7)**	**0.8**	**(17.3)**	**6.3**	**5.5**	**13.9**
EBIDTA Margin (%)	24.4	29.0		31.0		39.8	36.4	
PAT Margin (%)	13.8	15.6		16.3		21.4	20.9	

Source: Company

Revenue Break-up

(Rs mn)	H1FY09	H1FY08	YoY (%)	FY08
Room Sales	**3,994**	**3,633**	**9.9**	**9,787**
% Sales	53.6	52.8		55.5
F&B	**2,577**	**2,384**	**8.1**	**5,853**
% Sales	34.6	34.7		33.2
Other Operating Income	**876**	**862**	**1.6**	**2,005**
% Sales	11.8	12.5		11.4
Total...	**7,447**	**6,879**	**8.3**	**17,645**

Source: Company

Occupancy & ARR

	Q2FY09	Q2FY08	FY08
Occupancy (%)	64%	66%	73%
ARR (Rs.)	9763	8736	10674
% ARR Growth	11.8	15.2	15.6
RevPar (Rs.)	6247	5807	7842
% RevPARGrowth	7.6	16.2	15.6

Source: Company

Unveiled "The Gateway Hotel" brand to target upscale segment

During the quarter, IHCL has unveiled new brand "The Gateway Hotel" to target upscale segment. The idea behind launching this brand is to fill the gap between premium and budget segment because there is huge gap exist between premium/ luxury and budget segment. The management believes that in certain of their properties "The Taj" brand was getting impaired; hence they converted those properties into "The Gateway". The new brand is a contemporary brand for the modern travelers/upscale segment. IHCL expect to get first mover advantage in this segment. Currently 18 properties are operational under "The Gateway" brand and 11 properties are under construction. The ARRs for The Gateway will be between Rs.3500-8000/per room nights.

Focus on asset-light strategy and brand building for future growth

IHCL is leveraging its brand and service quality record for securing franchises and management contracts with a view to expand presence without much investment. At present, the company operates about 15% of total room inventory (10291 rooms) through management contracts. IHCL plans to add around 6000 rooms inventory in the next three years of which around 40% will be through management contracts. We believe the company will be able to leverage its international presence to win more management contracts, which should enable it to become asset-light. Further, the company explains its approach of making investment in overseas markets like US to become a serious player in the market and establish and promote Taj brand to get the new management contracts.

Signed two management contract to enter into China

During the quarter, IHCL has signed management contract for two luxury hotels in Beijing and Hainan Island, China. The company has signed a management deal with Cuiting Hotspring Hotel Management Company of China (Zhong Qi Group) as part of its expansion plans in selective global markets. As per the management contract agreement, IHCL will operate the Temple of Heaven Park property in Beijing and the Hainan Hotel project.

Aggressive scale-up plans for budget hotels

IHCL sees strong growth opportunities in the 'budget hotel' segment, and has aggressive plans to set up 30 such hotels in Tier-II and Tier-III cities across the country under the 'Ginger' brand over the next three years. These hotels would target the economy and mid-market segment in business and religious destinations, which we see as a significant growth opportunity in India, given the lack of a large organized 'budget' hotel chain. The theme of budget hotels is to build standard 100-rooms hotels with no frills and self-service concept but better service quality and luxury feel priced between Rs.1000-1500 per room/night. At present, the company is running around 15 Ginger hotels with room inventory of 1500 rooms. We view 'Ginger' as a positive move for the company and expect this business to break-even by FY09.

Overseas properties likely to break-even by FY09-10

IHCL's subsidiary companies registered revenues growth of 22.4% to Rs.11.38bn in FY08 as compared to Rs.9.31bn in FY07. The subsidiaries constitute around 38% of consolidated revenues. However, the profitability of these companies is under strain mainly due to properties in the USA, which incurred losses. IHMS Inc. (the US subsidiary), which contributed 34% of subsidiary revenues, recorded losses in FY08 to the tune of Rs.1.28bn while its UK property St James Court (18% of FY08 subsidiary revenue) posted lower growth in profitability. We believe that overseas properties in combined should break-even by FY09-10.

IHCL had completely shut down its New York property The Pierre for renovation from January 1, 2008. It will spend about US$80mn of the renovation of Pierre and will be re-opened on March 1, 2009. Consequent to the closure of rooms for renovation, the company had incurred an expenditure of Rs.541mn as employee severance cost during the year. After the renovation, IHCL expect sharp improvement in occupancy and ARRs to US$850-900/per room night from current US$550-600/per room night. Further, the company has started running global loyalty program to attract the customers. We believe any improvement in the financial performance of these international properties could boost overall profitability.

We expect 12.6% and 31.8% revenue and earning CAGR over FY08-10E

We remain confident about the strong industry trends over the next 2-3 years, given increasing tourist inflow and continuing demand-supply mismatch in hotel rooms, albeit economic slowdown. IHCL is expected to open 16 new hotels (in all formats) in FY09 with the room inventory of around 2100.

We have fine-tuned our revenue and earning estimate for FY09 and FY10. We expect 12.6% and 31.8% consolidated revenue and earning CAGR over FY08-10E. In FY09, we expect revenue growth of 10.2% to Rs.32.69bn and net profit growth of 30.5% to Rs.4.63bn while in FY10 we expect revenue growth of 15% to Rs.37.59bn and net profit growth of 30.4% to Rs.6.04bn. We expect consolidated EPS of Rs.6.2 and Rs.7.5 in FY09E and FY10E, respectively. We believe that growth in ensuing quarters should come from capacity additions and firm ARRs. However, declining occupancies should limit the growth.

Rollout of New Capacity

Properties	Opening	Rooms
IHCL		
Taj ITPL, Bangalore	Nov-08	199
Taj Lands End, Mumbai (Expansion)	Dec-08	142
Taj Residency, Bangalore	March-09	350
2 Ginger properties	Launched	200
3 Ginger properties	By March-09	300
Taj Group Companies		
Taj Mount Road, Chennai	Dec-08	215
Nadesar Palace, Varanasi	Aug-08	10
Fisherman's Cove Expansion	Dec-08	64
Management Contracts		
Gateway, Vijayawada	Launched	108
Taj Tashi, Thimpu	Launched	66
Taj Residency, Trivandrum	Launched in Q2	134
Taj Residency, Panjim	Feb-09	164
Total Rooms		**1952**

Source - Company Presentation

Valuations & recommendation

- We believe industry trends will remain strong in the 2-3 years with growth in revenue per available room (RevPAR) being driven by growth in ARRs. Further, risk of potential new supply by other industry players and real estate developers has diminished significantly due to unfavorable economic environment. Hence, the demand-supply mismatch in several markets will continue for at least next three-five years.
- We have fine-tuned our revenue and earning estimate for FY09 and FY10. We expect 12.6% and 31.8% consolidated revenue and earning CAGR over FY08-10E. We expect consolidated EPS of Rs.6.2 and Rs.7.5 in FY09E and FY10E, respectively. In our EPS calculation we have considered the rights issues which the company has completed recently.
- The stock has corrected significantly in recent time mainly due to the concerns over expected earnings slowdown in hotel industry led by economic slowdown and huge anticipated supply in key markets, which we believe were over played.

- We reduce our target price to Rs.113 (earlier Rs.171) attaching 15x price-to-earning multiple to FY10E earnings. We believe that valuations have contracted significantly due to expected slowdown in earnings, higher capital costs and significant correction in capital markets.

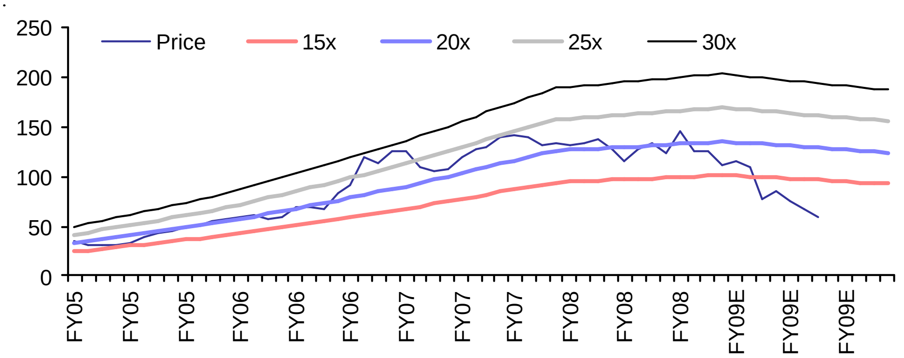
We recommend BUY on Indian Hotels with a price target of Rs.113

- At current markets price Rs.60, the stock is trading at 9.6x FY09 and 8x FY10 earning estimates. IHCL remains our preferred pick from hotel industry. We maintain **BUY.**

Key risks and concerns

- Prolonged economic slowdown may adversely impact occupancy and ARRs growth
- Any delay in execution of its new hotels in Chennai, Pune, and Hyderabad, which would push back growth estimates and dampen sentiment on the stock
- Any delay in the roll-out of 'Ginger' hotels and planned room increases
- Lengthening pay-back period beyond our estimates as the company is overpaying for hotel acquisitions in international markets given management's push to expand its brand franchise in global markets.

PE band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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OPTO CIRCUITS INDIA LTD (OCIL)

PRICE: RS.150 **RECOMMENDATION: BUY**
TARGET PRICE: RS.463 **FY10E P/E: 5.2X**

Strong Q2FY09 results; maintain BUY

- Opto Circuits has announced strong results for Q2FY09. Consolidated revenue grew 75.3% to Rs.2.17bn as compared to Rs.1.24bn in Q2FY08. The strong growth in revenue was also due to integration of Criticare Systems (US), which company acquired in April 2008;
- Revenue from Criticare Systems in Q2 stood at Rs.405mn. Hence, on a like-to-like basis organic revenue growth was at 42.6% to Rs.1.76bn as compared to Rs.1.24bn. Criticare's EBIDTA margin reached at 20% during the quarter and the company expect margin improvement to 30% by Q1FY10;
- In Q2FY09, Invasive segment has registered a growth of around 100% to Rs.494mn while non-invasive segment have registered a growth of around 78% to Rs.1.62bn;
- For H1FY09, revenue grew 79% to Rs.3.94bn as compared to Rs.2.2bn in H1FY08. The net profit grew impressively 64.2% to Rs.1.02bn as compared to Rs.619mn;
- During the quarter, the company has expanded product offerings by introducing Criticare's patient monitoring products in more international markets. Patent expirations in the pulse oximeter industry translated into increased sales for the company;
- The company has launched two new patient monitors from the Criticare's portfolio viz. eQuality and Ncompass, both of which have received USFDA and CE approval for sale in the US and the European Union;
- OCIL has also received DCGI registration on EuroCor's drug (paclitaxel)-eluting balloon, DIOR during the quarter. The device can be safely used in patients with In-Stent Restenosis, Bifurcation Lesions and Lesions in Small Vessels. The company expect to launch DIOR in India by Nov-08;
- On the conference call, the management has categorically said that they are fairly insulated from global economic slowdown because OCIL primarily operates in the critical care industry. A majority of it products are profiled as life-supporting or life-saving, leaving little scope for discretion in usage. Further, the company is getting increasingly aggressive with marketing efforts and steady flow of innovations and regulatory approvals;
- EBIDTA for the quarter grew 89% to Rs.690mn as compared to Rs.365mn in Q2FY08 mainly due to higher sales from invasive segment which has higher margin. The EBIDTA margin improved 230bps to 31.8% against 29.5%;
- Net profit for the quarter grew 66.3% to Rs.567mn as compared to Rs.341mn. The company has posted EPS of Rs.10.8 in H1FY08 which is 54% of our FY09 EPS estimate. We expect EPS of Rs.20.1 and Rs.29 for FY09E and FY10E, respective;
- We maintain our revenue and earning estimates and expect growth momentum to continue on the back of its strong global distribution network, expanded product portfolio/geographies and increasing outsourcing opportunities from global majors;
- The stock has corrected significantly our recommendation. We view this sharp correction unwarranted and investor should use this decline to accumulate the stock;
- At Current market price Rs.150, the stock is trading at 7.5x FY09 and 5.2x FY10 price to earning multiple;
- We maintain **BUY** with target price Rs.463 over a 6-9 months time horizon.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	4,681	8,141	11,489
Growth (%)	87.4	76.5	41.1
EBITDA	1,372	2,361	3,332
Growth (%)	66.2	72.1	41.1
EBITDA margin (%)	29.3	29.0	29.0
Net profit	1,333	1,895	2,728
Growth (%)	79.6	42.2	43.9
Net Margin (%)	27.9	23.3	23.7
EPS (Rs)	14.2	20.1	29.0
Growth (%)	79.6	42.2	43.9
DPS (Rs)	6.5	5.0	5.0
RoE (%)	48.7	47.1	47.1
RoCE (%)	40.6	36.9	34.0
EV/Sales (x)	6.7	2.1	1.5
EV/EBITDA (x)	23.0	7.4	5.2
P/E (x)	10.6	7.5	5.2
P/BV (x)	9.4	3.0	2.1

Source: Company, Kotak Securities - Private Client Research

Financial Performance

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	FY08	FY07	YoY (%)
Sales & Operating Income	**2,170**	**1,238**	**75.3**	**1,774**	**22.4**	**4,681**	**2,516**	**86.1**
Expenditure	1,480	873		1,215		3,309	1,690	
EBIDTA	**690**	**365**	**89.0**	**559**	**23.4**	**1,372**	**826**	**66.2**
Depreciation	24	7		13		63	24	
EBIT	**665**	**357**	**86.1**	**546**	**22.0**	**1,309**	**802**	**63.3**
Interest	126	25		109		109	74	
Other Income	34	12		22		171	37	
Extra-Ordinary Items	(0)	-		(5)		(9)	(10)	
PBT	**573**	**345**	**66.2**	**454**	**26.2**	**1,362**	**755**	**80.5**
Tax	6	4		4		38	22	
Profit After Tax	**567**	**341**	**66.3**	**450**	**26.0**	**1,324**	**733**	**80.7**
Equity Shares (Mn)	94	94		94		94	94	
EPS (Rs)	**6.0**	**3.6**	**66.3**	**4.8**	**26.0**	**14.1**	**7.8**	**80.7**
EBIDTA Margin (%)	31.8	29.5		31.5		29.3	32.8	
PAT Margin (%)	26.1	27.5		25.4		28.3	29.1	

Source: Company

Non-invasive business remain solid and growing

We expect revenues from non-invasive segment to grow at a CAGR of 51.6% over FY08-10E to Rs.7.77bn on the back of Criticare acquisition, rising demand for its sensors and patient monitoring systems, addition of new geographies coupled with an increasing market penetration and new innovative products launch.

We believe OCIL's core business of SpO2 (sensor oxy probe) sensors and monitoring systems would remain solid and growing. The US FDA has approved SpO2 sensors manufactured by OCIL. Further, the patent for pulse oximetry technology offered by Nellcor, the leading manufacturer of SpO2 in the US, has expired. This will open up the huge US market for OCIL. The US accounts for 70% of the over $540 million global market, and OCIL is targeting a 10% market share in coming years from the existing 4-5%. For OCIL as a group, non-invasive equipment account for 65% of its total product portfolio.

Cardiac stents to register healthy growth

We expect growth in invasive business (cardiac stents) would be driven by the increasing acceptance for the stents from the cardiologists due to superior technology and better pricing. Further, the growing revenues from DIOR in Europe and the semi-regulated markets due to limited competition would also fuel the growth of the invasive segment. We expect revenues from invasive segment to grow at a CAGR of 80% over FY08-10E to Rs.3.5bn, thus contributing 30% to the total revenues by FY10.

The global stent market is estimated at US$12bn in 2008 and is growing at around 12% annually. Of this, the US account for US$6bn, Europe account for US$3bn, while rest US$3bn coming from the rest of the world markets. Since Eurocor's products do not have USFDA approval for selling in the US markets, its addressable market is US$6bn.

Criticare provides significant growth opportunities in the US markets

In April 2008, OCIL acquired Criticare Systems for US$70mn. OCIL saw the significant synergies for the US markets and anticipated that it could integrate the company and take it forward. Criticare develops, markets, and distributes a wide range of patient monitoring devices that incorporate technological innovation and cost-containment features.

Criticare has launched some of the products and is in the process of launching few more products (monitors) in September 2008. Criticare currently outsource its production from Taiwan. Going forward, OCIL plans to stop the out-sourcing from Taiwan and to transfer production to its Bangalore facilities by June 2009, which will add an additional 20% to the profitability. It also plans to reduce the design cycle time from three years to nine months, thus adding 25% to the topline. The performance of Criticare has improved significantly over the past few years and the management is expecting overall 30% growth in Criticare revenue in FY08 with significant growth in profitability.

Strong global distribution network

OCIL has strong global distribution network through its subsidiaries. While AMDL takes care of domestic marketing, Mediaid Inc. has worldwide distribution network with major presence is in the US markets. EuroCor (its German arm) has a presence in almost 35 countries through its dedicated distributors. We believe this helps company to sell its products globally in most efficient manner. In FY08, OCIL generated 89% of sales from international markets. Currently, the company has more than 200 distributors worldwide and strength of 80 people in sales and marketing.

Setting up Special Economic Zone

OCIL is setting up a sector specific SEZ for manufacture of electronic hardware near Mysore and Hassan in the state of Karnataka over an area of about 250 acres. The company has received approval from Central Government and waiting for the notification. The company will develop a specialized facility mainly for the health care industry.

Further, OCIL's EOU status (tax holiday) of facilities in Bangalore is expiring in March 2010 so company is planning to shift the production in SEZs to ensure the continuity for fiscal benefits after April 2010. The company intends to use approximately 100000 to 200000 sq. ft. of land for their own use.

Strong revenue and earning growth

We expect OCIL to register a strong 56.7% and 43.7% compounded growth in revenues and earnings, respectively over the next two years. For FY09, we expect revenue growth of 73.9% to Rs.8.1bn and net profit growth of 43.5% to Rs.1.9bn. The key growth drivers for topline would likely to be stents business which is expected to growth at about 80% while non-invasive segment is expected to grow at 77% mainly due to Criticare acquisition.

For FY10, we expect revenue growth of 41.1% to Rs.11.5bn while net profit is expected to grow at 43.9% at Rs.2.7bn. We have assumed EBIDTA margin at 29% levels mainly due to initial pressure from Criticare acquisition. However, management is expecting EBITDA margin in excess of 30%. Net profit margin is likely to decline to 23.8% in FY10 as against 28.3% in FY08 mainly due to higher interest cost. The company has raised US$52mn debt to fund the Criticare acquisition. We expect 43% and 44% growth in EPS in FY09 and FY10, respectively. In FY09, we expect EPS of Rs.20.2 while in FY10 we expect EPS of Rs.29.

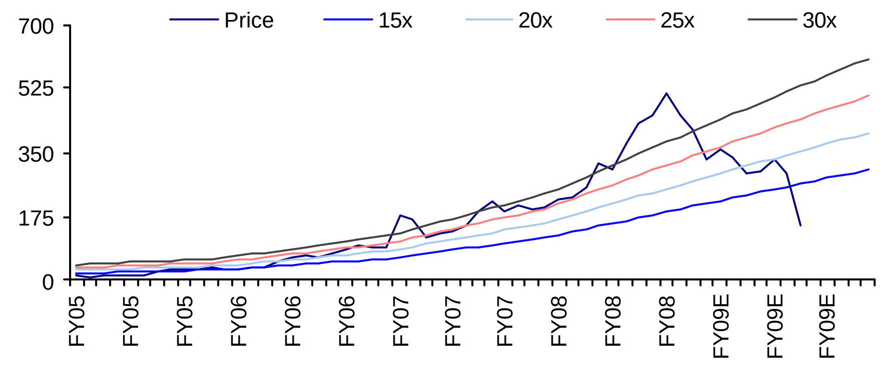
Valuation & Recommendation

- We maintain our revenue and earning estimates and expect growth momentum to continue on the back of its strong global distribution network, expanded product portfolio/geographies and increasing outsourcing opportunities from global majors;
- The stock has corrected significantly our recommendation. We view this sharp correction unwarranted and investor should use this decline to accumulate the stock;

We maintain our BUY recommendation on Opto Circuits with a price target of Rs.463

- We believe valuations are very attractive considering the strong market positioning, potential introduction of new products, front end R&D set up (with the Criticare acquisition) and strong management;
- We expect net profit of Rs.1.9bn in FY09 and Rs.2.7bn in FY10, which implies an EPS of Rs.20.2 and Rs.29, respectively;
- At Current market price Rs.150, the stock is trading at 7.5x FY09 and 5.2x FY10 price to earning multiple;
- We maintain **BUY** recommendation with target price of Rs.463 over a period of 6-9 months time horizon;
- At our target price of Rs.463, the stock will be valued at 15.9x FY10 price to earning multiple and 14.9x FY10 EV/EBIDTA.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

Key risks and concerns

- Risk of further equity dilution to fund the proposed acquisition
- Risk of product recall and delays
- Uncertainly over USFDA approval for DIOR

RESULT UPDATE

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SHREE CEMENTS

PRICE: RS.494 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.627 **FY10E P/CEPS: 3.1X**

Result highlights

- Revenues for the current quarter Q2FY09 grew by 35% YoY, which was better than our estimates led by better dispatch growth, higher clinker sales as well as sale of captive power. Cement sales stood at 1.736MT and clinker sale stood at 0.281MT in Q2FY09. Cement realizations stood at Rs 3119 per tonne.
- Operating margins of the company registered a decline and stood at 29% for Q2FY09 as against 43% for Q2FY08. Margins were impacted by higher raw material, power and fuel, transportation and other expenditure.
- Decline in operating margins and higher interest outgo resulted in only 1% growth in the net profits in the current quarter as compared to Q2FY08.
- At current price of Rs 494, stock is trading at 2.8x and 3.1x on P/CEPS multiples and 2.8x and 2.8x on EV/EBITDA multiples on FY09 and FY10 estimates respectively. We introduce FY10 estimates and roll forward our price target to FY10 and arrive at a price target of Rs 627 based on average of 4x P/CEPS and 3.5x EV/EBITDA on FY10 estimates.
- Though we maintain our cautious stance on the cement sector due to the upcoming oversupply situation, lower realizations and mounting cost pressures, we continue to maintain **ACCUMULATE** rating on Shree Cements due to its extremely low valuations.

Summary table - Year end March

(Rs mn)	FY08	FY09E	FY10E
Revenues	20,659	25,342	25,976
% change YoY		22.7	2.5
EBITDA	8,624	7,333	6,468
% change YoY		(15.0)	(11.8)
Other Income	733	700	700
Depreciation	4,788	2,865	3,285
EBIT	4,569	5,169	3,883
% change YoY		13.1	(24.9)
Net interest	497	916	977
Pre-operative exp	388.8		
Profit before tax	3,683	4,253	2,906
% change YoY		15.5	(31.7)
Tax	1,079	936	639
as % of PBT	29.3	22.0	22.0
Net income	2,604	3,317	2,267
% change YoY		27.4	(31.7)
Shares (m)	34.8	34.8	34.8
EPS (reported) (Rs)	74.7	95.2	65.1
CEPS (Rs)	212.2	177.4	159.3
P/E(x)	6.6	5.2	7.6
P/CEPS(x)	2.3	2.8	3.1
EV/EBITDA(x)	2.3	2.8	2.8

Source: Company, Kotak Securities - Private Client Research

Financial Highlights

(Rs mn)	Q2FY09	Q2FY08	YoY%
Net Sales	**6,292**	**4,664**	**35**
Expenditure	4,464	2,652	
Inc/Dec in trade	142	0	
RM	597	398	
As a % of net sales	9.5	8.5	
Staff cost	247	161	
As a % of net sales	3.9	3.5	
Power and fuel	1,594	884	
As a % of net sales	25.3	18.9	
Transportation & Handling	1,131	706	
As a % of net sales	18.0	15.1	
Other expenditure	754	504	
As a % of net sales	12.0	10.8	
Operating Profit	**1,828**	**2,011**	**-9**
Operating Profit Margin (%)	29.0	43.1	
Depreciation	537	688	
EBIT	**1,291**	**1,324**	**-2**
Interest	167	85	
EBT(exc other income)	1,124	1,239	
Other Income	336	291	
Extraordinary Items	97	0	
EBT	**1,363**	**1,530**	**-11**
Tax	288	468	
Tax Rate (%)	21.1	30.6	
PAT	1,075	1,062	1
Net Profit	**1,075**	**1,062**	**1**
NPM (%)	17.1	22.8	
Equity Capital	348.4	348.4	
EPS (Rs)	**30.9**	**30.5**	

Source: Company

Revenues better than our estimates

- Revenues for the company have registered a YoY growth of 35% for Q2FY09, driven by increase in the volumes and sale of captive power to end users as compared to Q2FY08.
- Cement sales stood at 1.736MT and clinker sale stood at 0.281MT in Q2FY09. Cement realizations adjusted with clinker sales stood at Rs 3119 per tonne.
- Total capacity of Shree Cement currently stands at 9MT. However volumes are impacted to some extent by lower demand from the user segments. Company management also expects capacity overhang by end of FY09. Thus, correspondingly capacity utilizations are expected to go down for the company.
- It is also setting up a split grinding unit (Unit VII) in Suratgarh and a waste heat recovery plant. Targeted capex is expected to be Rs 2.5bn and Rs 3bn for FY09 and FY10.
- We introduce FY10 estimates with dispatches to be around 8.5MT and a decline of 3.5% in net realizations. We expect company's revenues to be around Rs 25.3bn and Rs 26bn for FY09 and FY10 respectively.

Operating margins registered a steep decline as compared to Q2FY08

Operating margins of the company have shown a decline of 1410bps as compared to Q2FY08. This is primarily due to following heads -

- Power and fuel cost - Steep increase in pet coke prices in Q2FY09 has increased power & fuel expenses. Power cost registered an increase of 33% as compared to Q2FY08. Pet coke prices have however started coming down since past few weeks.
- Freight expenses - Increase in the petrol and diesel prices have resulted in increasing the freight expenses in Q2FY09 as compared to Q2FY08.
- Raw material cost - Raw material prices have also witnessed an increase due to increase in gypsum and fly ash prices as well as shift from manufacturing of PPC to OPC.
- Other expenditure was higher on account of repair and maintenance shutdown in the current quarter.

Cost per tonne analysis

	Q2FY09	Q2FY08	Q1FY09
Despatches(mn tonne)	2.017	1.49	1.753
Net Realisation/tonne	3119	3130	3281
YoY increase	0%		
QoQ increase	-5%		
Per tonne analysis			
Raw material	366	267	300
Staff cost	122	108	142
Power and fuel	790	593	864
Transporation &Handling	561	474	675
Other expenditure	374	338	320
EBITDA per tonne	906	1350	980

Source: Kotak Securities - Private Client Research

- We fine tune our estimates for operating margins and expect operating margins to be around 29% for FY09 and register a decline to 25% for FY10 due to decline in the net realizations as well as mounting costs.

Net profits registered a marginal growth of 1% YoY

- Net profits of the company for Q2FY09 have shown a growth of 1% as compared to last year due to decline in operating margins as well as higher interest outgo.
- Income from sale of carbon credits to the tune of Rs 178mn also aided to the net profit growth along with lower tax paid by the company in the current quarter.
- Company get Section 80IA benefits from sale of captive power to the outside users, resulting which full year tax rate is expected to be around 22% going forward.
- We expect net profits to be around Rs 3.2bn and Rs 2.4bn for FY09 and FY10 respectively.

Valuations and recommendation

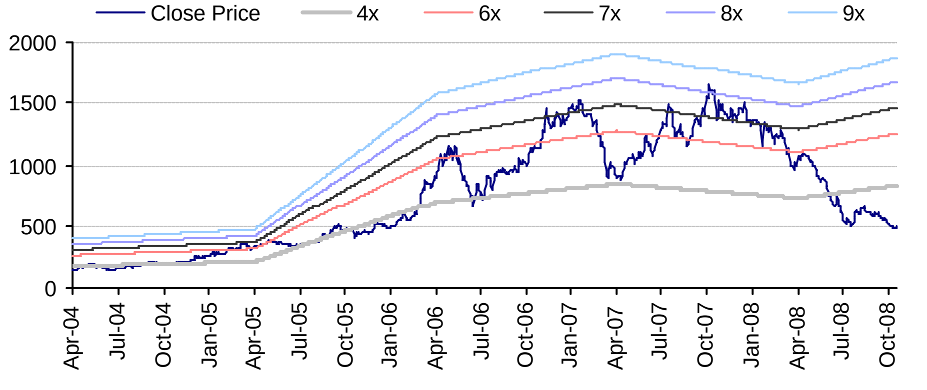
At current price of Rs 494, stock is trading at 2.8x and 3.1x on P/CEPS multiples and 2.8x and 2.8x on EV/EBITDA multiples on FY09 and FY10 estimates respectively. We roll forward our target valuations to FY10 and value the company based on the average of P/CEPS and EV/EBITDA as valuations parameters on FY10 estimates at a discount to the benchmark valuations.

We recommend ACCUMULATE on Shree Cements with a price target of Rs.627

We arrive at a price target of Rs 627 on FY10 estimates as against Rs 725 on FY09 estimates. At our target price, stock would trade at 4x P/CEPS and 3.5x EV/EBITDA multiples respectively for FY10 estimates.

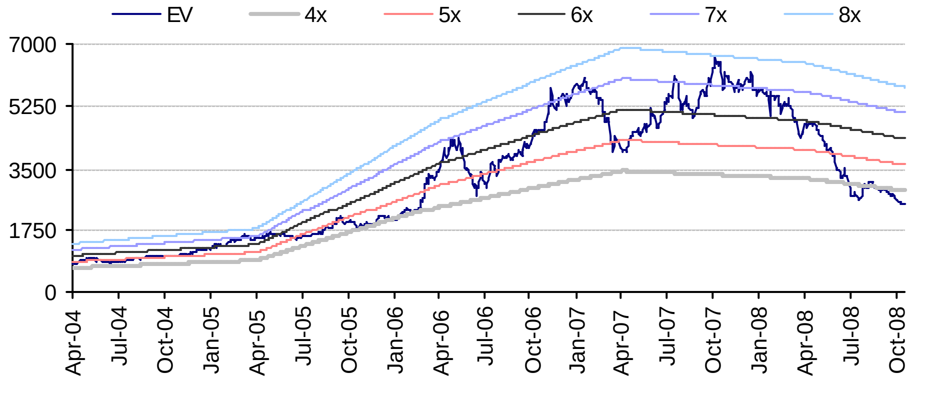
Though we maintain our cautious stance on the cement sector due to the upcoming oversupply situation, lower realizations and mounting cost pressures, we continue to maintain **ACCUMULATE** rating on Shree Cements due to its extremely low valuations.

Forward P/CEPS



Source: Capitaline, Kotak Securities - Private Client Research

Forward EV/EBITDA



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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PROVOGUE INDIA LTD

PRICE: RS.64 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.104 **FY10E P/E: 16.6X**

Result Highlights

- Revenues for the current quarter Q2FY09 registered a 19% YoY growth over Q2FY08. This growth was led by increase in the number of stores.
- Operating margins for Q2FY09 witnessed a decline and stood at 7.9% as against 12.5% last year. This was due to offseason sale and discount scheme which was running through the second quarter. Company management expects operating margin to remain in the range of 13-14%.
- Net profits registered a YoY growth of 15% for Q2FY09. Net profit growth was boosted by higher than expected other income.
- Company had raised funds to the tune of Rs 9.9bn through stake sale in its step down subsidiary Prozone as well as through convertible warrants and preferential issue. These funds are to be utilized for future expansion as well as for land acquisition for the retail mall projects. Prozone is currently going slow on land acquisition due to the expected correction in the land prices going forward.
- We reduce our estimates for revenues going forward due to almost flattish sales per sq ft observed in last two quarters. We also incorporate higher interest outgo as well as higher tax rate going forward. We also factor in lower valuations for Prozone after incorporating valuations only from projects which are under development stage.
- At current market price of Rs.64, stock is trading at 20.3x and 16.6x P/E multiples on FY09 and FY10 estimates respectively. We have valued the company on sum-of-the-parts methodology taking into core business of Provogue and DCF valuation of Prozone and arrived at a target price of Rs 104 on FY10 estimates. Though we like the business model of the company but in near term concerns still exist regarding slowdown in retail and real estate. We, thus, recommend **ACCUMULATE** on the stock.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Net sales	3,369	4,379	5,342
YoY growth (%)		30	22
Operating profit	482	569	695
OPM (%)	14.0	13.0	13.0
Depreciation	81	94	104
Gross profit	401	475	591
Interest	114	60	75
Other income	42	68	75
PBT	328	483	591
Tax	68	116	142
% to PBT	21.0	24.0	24.0
Extra ordinary items	1.63		
PAT	261	367	449
YoY (%)		41.0	22.0
NPM (%)	7.8	8.4	8.4
Equity Capital	200.0	233.3	233.3
EPS (Rs)	2.6*	3.1	3.8
P/E (x)	24.5	20.3	16.6
EV/EBITDA (x)	14.5	8.9	8.2

*Source: Company, Kotak Securities - Private Client Research; * Adjusted with stock split*

Financial highlights

(Rs mn)	Q2FY09	Q2FY08	YoY (%)
Net sales	**1,113**	**937**	**19**
Operating profit	88	117	-25
% to N sales	7.9	12.5	
Depreciation	17	18	
Gross profit	**71**	**99**	**-29**
Interest	-2	29	
Other income	30	12	
PBT	**102**	**82**	**25**
Tax	24	14	
% to PBT	23.4	16.7	
PAT	**78**	**68**	**15**
% to N sales	0.07	0.07	
Equity Capital	232.80	190.97	
EPS (Rs)	**0.67**	**0.71**	

Source: Company

Performance highlights of Provogue

Provogue has increased the number of stores from 119 stores in FY08 to 124 stores operational currently. It plans to expand number of stores to 140 over an area of 2 lakh sq ft by end of FY09. Company further plans to add up another 20-25 stores and increase the total area under business to 2.5 lakh sq ft. Company aims to operate 0.5mn sq ft of retail space by FY10 which includes Provogue as well as Promart stores. Sales per sq ft for old stores remained sluggish between Rs 10500-11000 per sq ft while for new stores, it stood between Rs 8000-8500 per sq ft.

Due to the flattish sales per sq ft, we reduce our estimates for revenues going forward. We now expect revenues to be around Rs 4.4bn and Rs 5.3bn as against our earlier estimate of Rs 4.7bn and Rs 6.2 bn for FY09 and FY10 respectively. We fine tune our operating margins also to factor in lower than expected operating margins in the current quarter. We now expect operating margins to be around 13% going forward as against 14.5% expected earlier. We also incorporate a higher interest outgo for the company due to increase in working capital requirements as well as borrowings for the company. We thus expect net profits to be around Rs 367mn and Rs 449mn for FY09 and FY10 as against Rs 515mn and Rs 761mn for FY09 and FY10 estimated earlier. To factor in the current macro economic concerns as well as lower than expected growth in profitability, we reduce our target valuation multiple to 12x one year forward P/E multiple as against 15x assumed earlier.

Performance highlights of Prozone

Prozone is currently carrying out development in four cities for first phase of development - Aurangabad, Indore, Jaipur and Nagpur. Construction work is expected to get over by September,2009 in Aurangabad while construction at other places would start post the monsoon season. Development at commercial and hotel projects has currently not started. Company had raised funds to the tune of Rs 9.9bn through stake sale in its step down subsidiary Prozone as well as through convertible warrants and preferential issue. These funds are to be utilized for future expansion as well as for land acquisition for the retail mall projects. Prozone is currently going slow on land acquisition due to the expected correction in the land prices going forward

Due to slowdown witnessed in the realty market, we expect lower rentals from the retail malls of Prozone going forward. We also expect cost of funding to increase sharply due to higher risks associated with this sector. Due to lower offtake witnessed in the entire real estate sector, we expect delays in completion of projects of Prozone. Though the recent deals in Prozone were at much higher valuations, but we currently value only the retail projects where development plans are in place. We would factor in the valuations from commercial and hotel project once complete clarity emerges on the development plan of these projects. We arrive at a total valuation of four retail projects to be around Rs 6.9bn corresponding to Provogue's 75% stake in Prozone. This translates into valuation of Rs 58 per share for Provogue.

Valuation and recommendation

We recommend ACCUMULATE on Provogue India with a price target of Rs.104

At current price of Rs 64, stock is trading at 20.3x and 16.6x P/E multiples on FY09 and FY10 estimates respectively. We have valued the company on the sum-of-the-parts methodology- valuing the retail business at 12x P/E on its FY10 estimated earnings and arrive at a value of Rs 46 for Provogue and valuing Prozone at Rs 58 based on the NPV of its projects. We arrive at a price target of Rs 104 based on FY10 estimates.

Though we like the business model of the company but in near term concerns still exist regarding prevailing macro economic scenario, slowdown in retail and real estate. We, thus, recommend **ACCUMULATE** on the stock.

RESULT UPDATE

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LIC HOUSING FINANCE LTD (LICHF)

PRICE: RS.243 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.338 **FY09E P/E: 4.5x P/ABV:1.0x**

LICHF Q2FY09 results are marginally above our expectations. We continue to maintain our positive outlook

- **Mortgage loan growth remained consistently strong at 26.1% following strong growth in disbursement during the Q2FY09.**
- **Healthy NII growth at 28.5%yoy supported by firm net spreads. Growth in line with our expectation.**
- **Growth in net profit remained healthy, up by 16.1% yoy, which is above our expectation.**

We continue to maintain our positive outlook for LICHF; we maintain Accumulate with the revised price target of Rs.338 (Rs. 377 earlier).

Summary table

(Rs bn)	FY07	FY08	FY09E
Interest Income	15.0	20.4	25.2
Interest expenses	11.0	14.7	18.6
NII	4.0	5.6	6.6
Non-Int Income	0.8	1.3	1.6
Total Income	4.8	6.9	8.2
Optg Profit	3.7	5.6	6.7
PAT	2.8	3.9	4.6
Gross NPA (%)	2.6	1.7	1.4
Net NPA (%)	1.3	0.6	0.4
NIMs (%)	2.5	2.8	2.7
RoA (%)	1.7	1.9	1.9
RoE (%)	19.3	22.9	23.2
Divi. Payout Ratio (%)	27.3	24.9	24.3
EPS (Rs)	32.9	45.6	54.5
BV (Rs)	181.6	215.5	253.9
Adj. BV (Rs)	154.5	198.9	240.8
P/E (x)	7.4	5.3	4.5
P/ABV (x)	1.6	1.2	1.0

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs bn)	Q2FY09	Q2FY08	YoY (%)	H1FY09	H1FY08	YoY (%)
Interest income	**7.04**	**5.13**	**37.4**	**13.1**	**9.7**	**35.6**
Interest expenses	4.95	3.50	41.5	9.4	6.9	36.4
Net Income	2.09	1.63	28.5	3.7	2.8	33.7
Other Income	0.03	0.14	-75.0	0.2	0.2	(18.4)
Total Income	**2.13**	**1.77**	**20.3**	**3.9**	**3.0**	
Operating Expense	0.35	0.34	2.7	0.6	0.6	(1.9)
Operating profit	**1.78**	**1.43**	**24.4**	**3.3**	**2.4**	
Loan loss provision	-0.06	-0.14		0.0	0.2	
Profit before tax	1.85	1.57	17.7	3.3	2.2	49.3
Provisions for taxes	0.49	0.40		0.9	0.6	
Profit after tax	**1.35**	**1.16**	**16.1**	**2.4**	**1.6**	**47.0**
EPS (Rs)	**15.9**	**13.7**		**28.2**	**19.2**	
Cost/Income ratio (%)	16.2	19.0		15.6	20.6	
Effective Tax rate (%)	26.8	25.8		26.7	25.6	
Sanctions	29.5	22.7	30.0	47.34	34.2	38.3
Disbursements	21.6	16.0	35.0	36.79	28.2	30.4
Mortgaged Loan	241.3	191.4	26.1	0.0	0	
GNPA (%)	1.85	2.84		0.0	0	
NNPA (%)	0.87	1.64		0.0	0	

Source: Company, Kotak Securities - Private Client Research

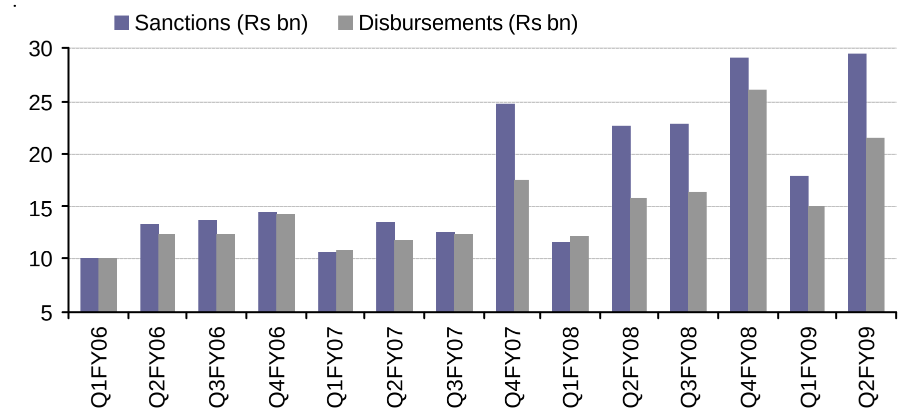
RESULT HIGHLIGHTS

Consistent mortgaged loan growth maintained

Mortgaged loan book grew by 26.1% yoy during Q2FY09, to Rs 241.32bn against Rs191.35bn. The HFC continues to witness strong traction in its disbursements.

- Sanctions grew by 30.0%yoy to Rs. 29.48bn against Rs22.68bn. For H1FY09 sanctions grew by 38.3% to Rs 47.34bn.
- Disbursements during Q2FY09 witnessed a jump of 35.0% to Rs21.59bn as against Rs 15.99bn. Disbursements in the individual loans segment grew by 41% during Q2FY08. Disbursement during H1FY09 grew by 30.4% to Rs36.79bn

Sanction and disbursements



Source: Company

Net Interest Income growth remained strong at 15.2%

Interest income grew by 37.4% yoy to Rs. 7.04bn as compared to Rs 5.1bn. Interest expenses were up by 41.5% yoy to Rs4.95bn. Interest income for the period included Rs. 216.7mn as income from short-term investment of surplus funds in liquid fund schemes of Mutual Funds and in Bank Fixed Deposits, the same was Rs.106.9mn in the previous year.

NII witnessed a healthy growth of 28.5% yoy to Rs2.09bn from Rs 1.63bn in Q2FY08. Yield on advances improved by 100bps yoy and 63bps qoq to 11.3%. Cost of funds has increased by 96bps yoy to 9.5%. LICHF reported Net Interest Margin 2.92% as compared to 2.68%.

During H1FY09 NII has gone up by 33.7% yoy to Rs3.72bn from Rs 2.78bn in previous year.

Net profit growth remains strong; supported by improved margins

Net profit has gone up by 16% yoy to Rs 1.35bn as compared to Rs 1.16bn in previous year. Sequentially net profit grew by 29% qoq from Rs 1.04bn. Earnings growth is supported by better margins and income from surplus fund management activity.

Growth in Net profit during H1FY09 stood at 47% to Rs 2.40bn against Rs 1.63bn in previous year.

- Aggressive bad loan recoveries have supported LICHF's earning. Loan loss provision was a right-back of Rs64mn against a write back of Rs. 136mn in Q2FY08. Improved recoveries in the non-performing loans, GNPA of the HFC declined by 18% yoy and 10.7% qoq to Rs 4.47bn. Gross NPA ratio and Net NPA ratio improves materially to 0.87% (1.64%) and 1.85% (2.84%) respectively during Q2FY09.
- Cost to income ratio for Q2FY09 remained contained at 16.2% as compared to 19% in Q2FY08.
- Effective tax rate for Q2FY09 stood at 26.81% (25.8%).

Financials

- We expect a 22.5% yoy growth in LICHF loan book for FY09 to Rs 268.7bn as compared to Rs 219.3bn in FY08.
- NII is expected to grow by 19% yoy to Rs 8.22bn from Rs 6.91bn in FY09, while net profit is expected to improve by 19.7% to Rs 4.63bn against Rs 3.87bn in FY08

Valuation and Recommendation

We value LICHF on dividend discount methodology. We have revised our fair value estimates for LICHF to Rs. 313 (1.2x its FY09 P/ABV) factoring in a terminal growth rate of 4% (5%) given the unfavorable macro-economic environment. We value LICHF's stake in LIC Mutual Fund at Rs 25 per share.

We recommend ACCUMULATE on LICHF with a price target of Rs.338

At the current market price, the stock trades at 4.5x its FY09 EPS of Rs. 54.5 and 1.0x its FY09E adjusted book value of Rs. 241. We continue to maintain accumulated recommendation on LICHF, with a revised price target of Rs 338 (Rs 377 earlier)

RESULT UPDATE

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ZEE ENTERTAINMENT ENTERPRISES LTD (ZEEL)

PRICE: RS.150 | **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.188 | **FY10E EV/EBITDA: 9X; P/E: 12X**

ZEEL reports strong revenue growth of 43% YoY, aided by 30% advertising revenue growth, 38% subscription revenue growth and top-line contribution from its sports property. Profitability is however dragged down by losses from sports property and increased programming costs. Stripped of tax write-backs net profits grow by a low 7% YoY.

Recent ratings for ZEEL's flagship Hindi GEC point to increased competitive intensity- Zee TV being overtaken by Colors for the No.2 slot. Our opinion of increased competition and a fragmented market place impacting incremental margin gains and profitability looks likely to play out, going forward. We continue to believe rising competition will entail greater investments towards programming and escalate cost structures for existing Hindi GEC players. Accompanying fragmentation of the Indian TV broadcasting market and also our own expectations of a slower ad-revenue growth trajectory given the challenging macro may make things tougher for broadcasters, over the medium term, in our opinion.

The above factors inhibit a rating upgrade for ZEEL, despite a correction in its share price. Maintain an ACCUMULATE rating on the ZEEL stock with a price target of Rs.188. Sustainable revival in ratings for flagship GEC, accelerated pay revenue take-off and better operational execution will likely make us more positive on the stock, in the near term. Accumulate.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	18,354	22,940	26,212
Growth (%)	27.4	25	14.3
EBITDA	5,423	6,667	7,744
EBITDA margin (%)	29.5	29.1	29.5
Recurring PAT	3,833	4,248	5,235
Net debt (cash)	815	(564)	(3,152)
EPS (Rs)*	8.8	9.8	12.1
Growth (%)	61.6	10.8	23.2
CEPS	9.4	10.4	12.7
DPS (Rs)	2.0	2.0	2.0
ROE (%)	14	14.1	15.4
ROCE (%)	19.8	21.6	22.6
EV/Sales (x)	3.7	2.9	2.6
EV/EBITDA (x)	12.6	10.0	8.7
P/E (x)	17.0	15.3	12.4
P/Cash Earnings	16.0	14.4	11.8
P/BV (x)	2.3	2.0	1.8

Source: Company, Kotak Securities - Private Client Research

** Stripped of tax write-backs of Rs.1.36bn in H1FY09*

Result Highlights- Revenues grow 43% YoY, profits lag behind with a 7% growth YoY

- For the quarter ZEEL grew its advertising revenues by a visibly good 30% YoY to Rs.2.85bn. Subscription growth on the other hand was at 38% YoY to Rs.2.24bn. 'Other' services came in at Rs.621mn, these include revenues from the movie business (ZES), syndication revenues and ad space selling among others. Put together revenues were Rs.5.71bn for the quarter, up 43% YoY.
- Within the subscription revenue stream, international revenues (Rs.1.13bn) were up 33% YoY and domestic pay revenues were up 43% YoY at Rs.1.11bn. DTH collections rose strongly by more than 2x to Rs.271mn for the quarter.
- Property wise details shared by the management show a revenue contribution of Rs.1.23bn from its sports business during the quarter. While the sports business added to the top line it was a drag on the bottom line with a negative EBITDA of Rs.85mn.
- EBITDA margins at 26% were down 60bps QoQ impacted by losses in the sports business and a sharp rise in operating costs- a 57% rise in programming costs, 52% rise in employee costs and a 65% rise in selling costs, YoY.
- Net profits as a result came in at Rs.991mn, up 7% YoY. ZEEL enjoyed a tax write back of Rs.789mn related to previous cases resulting in a reported profit of Rs.1.78bn. Stripped of these write backs the quarterly EPS stood at Rs.2.3; with the H1FY09 EPS being Rs.4.7, for ZEEL.

Quarterly performance

(Rs mn)	Q2FY09	Q2FY08	% chg	Q1FY09	% chg
Revenues	**5716.0**	**3986.0**	**43.4**	**5419.5**	**5.5**
Expenditure	4228.0	2665.2		3978.0	
EBDITA	**1488.0**	**1320.8**	**12.7**	**1441.5**	**3.2**
Depreciation	65.0	55.4		55.0	
EBIT	**1423.0**	**1265.4**	**12.5**	**1386.5**	**2.6**
Net Interest	223.0	85.0		214.0	
Other Income	280.0	213.0		278.0	
PBT	**1480.0**	**1393.4**	**6.2**	**1450.5**	**2.0**
Tax	489.0	434.5		417.0	
PAT	**991.0**	**958.9**		**1033.5**	
Minority Interest	0.0	45.6		0.0	
PAT after M I	991.0	913.3	8.5	1033.5	-4.1
EO items	-789.0	0.0		-574.0	
PAT after EO items	1780.0	913.3	94.9	1607.5	10.7
EPS (Rs)*	**2.3**	**2.1**		**3.7**	
OPM (%)	26.0	33.1		26.6	
GPM (%)	24.9	31.7		25.6	
NPM (%)	31.1	22.9		29.7	

*Source: Company. *- Stripped of tax write-backs of Rs.789mn in Q2FY09*

Projected financials- expect advertising revenue growth rates to feel the impact of increasing competitive intensity, recent loss in competitive positioning for its Hindi GEC and a slowing economy

- ZEEL has grown its ad revenues strongly over the recent quarters; FY08 ad revenues grew at 32% and in H1FY09 it has clocked a growth of 33.3%. We see these above industry growth rates as a factor of a favorable macro-environment and its competitive ratings that were on an upswing through FY08 and remained steady in early FY09, despite new GEC launches.
- The impact of viewership gains in the broadcasting business shows with a lag on revenues, something which explains ZEEL's strong ad revenue growth till date. We opine most of the rating gains have been monetized and envisage incremental ad revenue growth rates to increasingly feel the strain of a hyper-competitive market place and a slowing economy.
- We now expect advertising revenues to grow at a CAGR of 18.7% (19% earlier) over FY08-10E. For FY10E we are factoring in a modest c10% (15% earlier) growth in overall ad revenues, a significant slowing from the 28% ad revenue growth we are building for FY09E.

Subscription revenues- we expect a 21% CAGR over FY08-10E. Pay revenues- a huge opportunity, expect domestic subscriptions to spur growth led by increasing DTH penetration:

- Going forward over FY08-10E we expect subscription revenues to grow at a 21% (17% earlier) CAGR. We believe pay revenues will likely become the next growth driver for ZEEL financials with ad revenue growth coming under likely strain over the period.
- This growth is expected to be driven by a revamp of the domestic cable distribution business and strong growth in the DTH subscriber base. We also believe ZEEL's international subscription revenues are likely to benefit from the recent INR depreciation; and expect a 14.6% CAGR in the same over the period.

- In our estimates we have marginally upped our estimated international pay revenue given the favorable INR equation.
- While initial CAS off-take has been muted, the opportunity in our opinion will be led by a strong traction in DTH services, which is expected to have 21mn subscribers by FY11E, up from the c7mn currently. We expect DTH collections to rise at a 78% CAGR over the period- aided by strong growth in the DTH sub count and still relatively reasonable positioning of the ZEEL bouquet.

Margins- rise in operational costs inevitable as ZEEL counters strong competition. Increasing pay revenue- a positive for margins given low associated costs

- We opine the current quarters cost structures while including losses from its sports business also point to a likely loosening of purse strings as ZEEL looks to counter strong competition from the incumbent Star network and competitor Colors.
- On the margin front, we are estimating stable EBITDA margins over FY08-10E as we envisage operating leverage from the growing subscription revenue stream that does not have significant associated costs.
- We see this incremental pay revenue stream as a positive for margins and likely offsetting to an extent the general rise in operating costs that we envisage for ZEEL over the period. Rising competitive intensity will likely entail higher programming investments as ZEEL looks to defend and/or grow its market positioning for its flagship Hindi GEC.
- We consequently estimate an EPS CAGR of 17% over FY08-10E; an EPS of Rs.9.8 (Rs.10.4) in FY09E and Rs.12.1 (Rs.12.8 earlier) in FY10E from Rs.8.8 in FY08.

Valuations: point to a limited downside from a historical perspective, given no further material deterioration in business fundamentals. Upsides will however depend on defense of competitive positioning and news-flow on viewer ratings, macro-environment.

- At 12x FY10E EPS ZEEL is trading at close to bottom of its three-year historical trading band. While this may offer limited downside to current price levels, we remain cognizant of the fact that a re-rating from current levels will likely only follow revival in viewer ratings, defense of competitive positioning and more encouraging news-flow on the macro and advertising revenue trends.
- Our take remains that the current challenging macro, loss in viewer ratings (for Zee TV) and cautious advertiser sentiment will reflect on advertising spend trends with a lag.
- We expect the same to reflect in lower ad growth rates over FY10E, Also, with half of fiscal done with, we opine FY09 numbers will likely come through.
- The uncertainty though given the current macro and more importantly the rising competitive intensity for ZEEL is more on FY10E growth rates, which underpins our cautiousness.

Recommendation - retain our Accumulate rating given concerns on competitive intensity, market fragmentation, estimated rising cost structures and a slowing macro for ad spends

- We arrive at a DCF based price target of Rs.188 (15.5x FY10E earnings) for the ZEEL stock. Our revised target (Rs.250 earlier) reflects our concerns on advertising growth trends in the medium term, rising competitive intensity and a higher WACC.
- We also believe the macro environment for advertising spends has deteriorated possibly meaningfully over the medium term, given the expected lower corporate profit growth rates and an economy that is expected to grow at rates lower than in the immediate past.
- We opine the succeeding quarters could see a tempering of advertising revenue growth rates given our expectation of a slowing economy impacting ad spends.

We maintain our ACCUMULATE rating on ZEEL with a price target of Rs.188

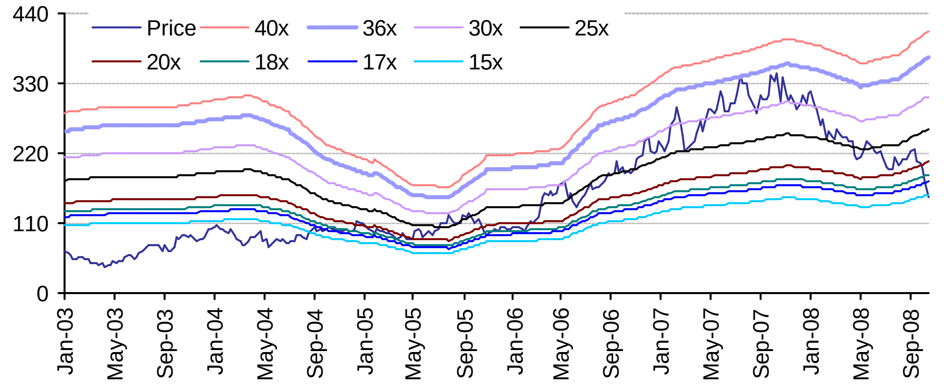
- We note that while advertiser segments like real estate and autos have been muted for the last 12m, a general slowdown in services segment of the economy will likely impact revenue growth rates in a more pronounced manner over the succeeding quarters.
- Our target multiple is at a c25% discount to ZEEL's five- year average trading multiple (20x). A discount is justified in our opinion after factoring in the increased competitive intensity through new GEC launches, accompanying fragmentation of the Indian TV broadcasting industry and also our own expectations of a slower ad-revenue growth trajectory.

Key Concerns:

- A sharp slowdown in the economic growth trajectory, which will impact advertising revenue growth and company financials negatively
- Loss in ratings and competitive positioning
- Hyper-competition impacting player and industry profitability negatively
- Lower than estimated pick-up in the subscription revenue stream

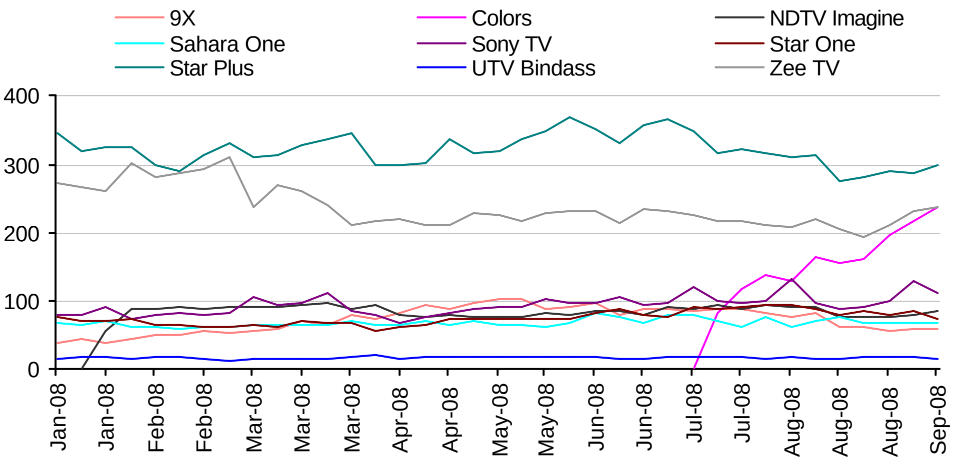
Stock has traded at average of c20x over the last five years. Recent de-rating, while in line with market trend, reflects higher competitive intensity, rating losses and increased market fragmentation for ZEEL's properties.

ZEEL, fwd PE trading band.



Source: Kotak Securities - Private Client Research

Zee TV has strong competition, Colors makes it to No.2 in Hindi GEC



Source: Company, TAM data

Recent ratings point to slippages for Zee TV; Colors has emerged as No.2 in Hindi GEC segment

RESULT UPDATE

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CROMPTON GREAVES LTD

PRICE: RS.178 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.225 **FY09E P/E: 12.6x**

- **Crompton Greaves' second quarter numbers are more or less in line with expectations. Consolidated profits up 31% yoy but flat sequentially.**
- **EBITDA margins expand for Crompton as well as its overseas subsidiaries.**
- **Maintain earnings in view of in-line results**
- **Downgrade to Accumulate from BUY earlier in view of visible signs of slowdown in domestic investment momentum. Target price revised to Rs 225 from Rs 310.**

Summary table - Consolidated

(Rs mn)	FY08	FY09E	FY10E
Sales	68,463	87,573	99,508
Growth (%)	20.7	27.9	13.6
EBITDA	7,579	9,195	10,448
EBITDA margin (%)	11.1	10.5	10.5
Net profit	4,066	5,185	6,034
Net cash (debt)	(5,975)	(4,466)	(5,043)
EPS (Rs)	11.1	14.1	16.5
Growth (%)	44.3	27.5	16.4
ROE (%)	35.8	34.0	29.9
ROCE (%)	34.2	35.0	32.6
EV/Sales (x)	1.0	0.8	0.7
EV/EBITDA (x)	9.4	7.6	6.7
P/E (x)	16.0	12.6	10.8
P/BV (x)	5.0	3.7	2.9

Source: Company, Kotak Securities - Private Client Research

Standalone Results

(Rs mn)	Q2 FY09	Q2 FY08	YOY (%)	H1 FY09	H1 FY08	YoY (%)
Net Sales	**10,896**	**9,050**	**20**	**21,724**	**18,011**	**21**
Other Income	69	185	-63	150	311	-52
Total Income	**10,964**	**9,235**	**19**	**21,874**	**18,322**	**19**
Raw Material costs	5,554	5,215	7	11,007	10,489	5
Purchase of traded goods	1,851	1,196	55	3,957	2,533	56
Staff costs	549	513	7	1,116	1,009	11
Other costs	1,473	1,058	39	2,794	2,084	34
Total Expenditure	9,427	7,982	18	18,875	16,116	17
PBIDT	**1,469**	**1,068**	**38**	**2,849**	**1,895**	**50**
Interest	39	60	-35	61	126	-51
PBDT	**1,499**	**1,194**	**26**	**2,938**	**2,081**	**41**
Depreciation	120	113	6	228	218	5
PBT	**1,379**	**1,081**	**28**	**2,710**	**1,863**	**45**
Tax	453	339	34	896	651	38
Reported Profit After Tax	925	742	25	1,814	1,212	50
Excise rate (%)	8.8	8.8		8.8	8.7	
RM costs to sales (%)	68.0	70.8		68.9	72.3	
staff costs to sales (%)	5.0	5.7		5.1	5.6	
other costs to sales (%)	13.5	11.7		12.9	11.6	
EBITDA (%)	13.5	11.8		13.1	10.5	
Total tax rate(%)	32.9	31.4		33.1	35.0	

Source: Company

CGL's standalone revenues grew 20% during the second quarter:

Revenue growth has been in line with our expectations. The company has been guiding towards a 20% plus growth on domestic as well as international front. Consolidated revenues grew at a faster rate driven mainly by the company's overseas subsidiaries including Pauwels, Ganz and Microsol. Management had guided that revenue growth for Ganz could grow in excess of 50% in FY09.

Consolidated Rs mn

	Q2 FY09	Q2 FY08	% change
Net Sales	**20984**	**15756**	**33**
Other Income	69	105	-34
Total Income	**21053**	**15861**	**33**
RM costs	11441	9088	26
Trading	1851	1196	55
Staff costs	2528	1944	30
Other costs	2790	1931	44
Total Expenditure	18609	14159	31
PBIDT	**2374**	**1596**	**49**
Interest	166	140	19
PBDT	**2277**	**1562**	**46**
Depreciation	343	292	17
PBT	**1934**	**1270**	**52**
Tax	725	349	108
Reported Profit After Tax	1209	920	31
OPM (%)	11.3	10.1	
Raw material cost to sales (%)	54.5	57.7	
Staff cost to sales (%)	12.0	12.3	
Other expenditure to sales (%)	13.3	12.3	
Tax rate (%)	37.5	27.5	

Source: Company

Strong margin gains on better product mix

Standalone operating profit for the quarter rose 38% yoy to Rs 1.46 bn. EBITDA margins on an standalone basis expanded 170 bps to 13.5%. Margin expansion was led by decline in raw material cost to sales.

Margin expansion has been in contrary to management's stance that EBITDA margins would remain stable for the FY09.

Consolidated EBITDA margins improved 120 bps to 11.3% on account of higher employee productivity at its overseas subsidiaries. We also expect improved performance at subsidiary levels of Ganz and Pauwels. Ganz has turned EBITDA positive in the previous quarter.

Interest expenses remained under control

Interest expenses on a standalone basis declined 35% yoy to Rs 39 mn (0.4% of net revenues). CGL trimmed its borrowings from Rs 2.7 bn in FY07 to Rs 0.8 in FY08 which is resulting in decline in interest expenses.

Borrowings on a consolidated basis have also declined in FY08. We believe under-leveraged balance sheet is a major positive in the current scenario of global credit squeeze. Low levels of leverage should also enable the company to tap for attractive acquisition opportunities in the global markets.

Capex stable in view of adequate capacity

CGL incurred Rs 1.5 bn in capex in FY08 on domestic operations. CGL expects to continue with the same quantum of investment in FY09. However, the management has indicated that sufficient capacity exists in the system to take careof demand growth for FY09-10.

Maintain earnings estimates

We forecast consolidated earnings to grow at 27.5% and 16.4% in FY09 and FY10 respectively.

We downgrade the stock to Accumulate . Our reasons

- Global macroeconomic outlook has deteriorated further post the first quarter.
- We temper our optimism on the company's growth in the medium term in view of the expected slowdown in European and US markets (major markets for company's overseas subsidiaries)
- Unlike other engineering companies order book for CGL does not provide adequate visibility partly due to nature of business which is biased towards products than projects.

We recommend ACCUMULATE on Crompton Greaves with a price target of Rs.225

Stock trading at 12.6x and 10.8x FY09 and FY10 earnings respectively. We recommend **ACCUMULATE** with a price target of Rs 225 based on DCF.

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
21-Oct	Anjani Synth	Satyabhama Champalal Agarwal	B	95,000	17.2
21-Oct	Anjani Synth	Pooja Sumit Agarwal	B	95,000	17.2
21-Oct	Anjani Synth	Bluederry Tradind Company Pvt Ltd	S	120,000	17.2
21-Oct	Austral Coke	Ambit Tie Up Private Limited	B	400,000	75.6
21-Oct	Bihar Tubes	APL Infrastructure Pvt. Ltd.	B	359,000	92.4
21-Oct	Bihar Tubes	Mukesh Jain	S	158,500	92.4
21-Oct	Bihar Tubes	Kinsfolk Industries Pvt. Ltd.	S	160,000	92.4
21-Oct	IB Securitie	Orient Global Cinnamon Capital Limited	B	7,871,705	25.5
21-Oct	IB Securitie	F N I L G D R Conversion	S	7,871,705	25.5
21-Oct	IOL Net Com	India Max Investment Fund Ltd.	B	345,000	38.0
21-Oct	IOL Net Com	Krisma Investment Pvt. Ltd.	S	336,000	38.0
21-Oct	Rama Pul Pap	M/S Sewri Land Company Pvt Ltd	S	39,000	6.9
21-Oct	TRF Limited	DSP Merrill Lynch Trustee Co Pvt Ltd Ac DSP Ml Micro Cap Fund	B	75,000	385.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	1,395	5.6	17.5	6.7
TCS	559	13.8	10.8	3.0
Reliance Com	258	11.4	8.9	10.2
Losers				
Idea Cellular	54	(12.8)	(4.0)	13.7
Sun Pharmaceuticals	1,339	(4.1)	(1.9)	0.6
SAIL	105	(2.3)	(1.7)	10.2

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
22-Oct	Wipro, Bajaj Finserv, Century Textils, Neyveli Lignite Corp, SKF India, Coromandal Fert, IDFC, Sesa Goa, Yes Bank, Phoenix Mills, UB Holdings, Cipla, TCS, Oriental Bank of Commerce, Piramal Healthcare, Educomp Solutions earnings expected
23-Oct	Reliance Industries, ACC, Bajaj Auto, Bajaj Holdings, Exide Industries, Aventis Pharma, Wyeth, Grasim Ind, Edelweiss Capital, Patni Computer Systems, Cummins India, Gail India, Spice Communication, Voltas, DRL, Jaiprakash Hydro Power, Sterlite Industries, Punj Lloyd, Praj Industries earnings expected
24-Oct	JSW Steel, Godrej Consumer, Indraprastha Gas, Aditya Birla Nuvo, Hindustan Construction, Dishman Pharmaceuticals, Glaxo Smithkline, Hexaware Technologies, Asian Paints, Colgate Palmolive, Rural Electrification Corp, BHEL, ABB, Bharat Electronics, Tata Steel, Glaxo SmithKline Pharmaceuticals, MRPL, Maruti Suzuki India, Gammon India, Oracle Financial Services Software Earnings expected

Source: Bloomberg

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