Index

Sharekhan Ltd
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BASF India

Ugly Duckling

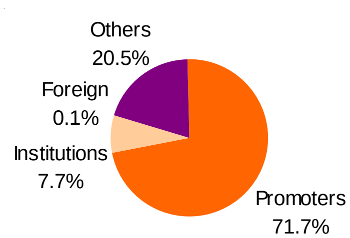
Stock Update

Price target revised to Rs501

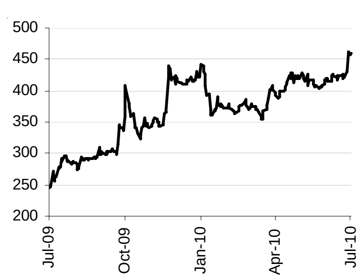
Hold; CMP: Rs460

Company details	
Price target:	Rs501
Market cap:	Rs1,875 cr
52 week high/low:	Rs489/243
NSE volume: (No of shares)	35,505
BSE code:	500042
NSE code:	BASF
Sharekhan code:	BASF
Free float: (No of shares)	1.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.2	14.6	3.9	94.7
Relative to Sensex	6.9	12.0	0.9	52.7

Result highlights

- BASF India's stand-alone Q1FY2011 net profit came in at Rs48.9 crore, up 19% year on year (yoy). However the results are not strictly comparable due to consolidation of the financials of Ciba India.
- The net sales for the quarter were up by 72.7% yoy to Rs659.84 crore, driven by a 1.6x year-on-year (y-o-y) rise in the revenue from the performance products business. The robust growth in the performance products business was largely due to the merger with Ciba India. The plastic division also logged in a good show with the revenue up by 60% yoy.
- The operating profit grew at a slower pace than the top line, expanding by15.6% yoy to Rs79 crore in the quarter, due to around 590-basis-point contraction in the operating profit margin (OPM) to 12%. The OPM contraction was as a result of the amalgamation with Ciba India, which has lower margins than BASF India, as well as decline in the margins for the agricultural solutions business.
- The interest charges remained largely flat on a y-o-y basis whereas the depreciation charges witnessed an uptick to Rs8.94 crore in the quarter as compared to Rs6.87 crore in the same quarter of the last year.
- BASF India has reported a strong set of numbers for Q1FY2011 on the back of a healthy traction in demand across all its businesses. The OPM, however, witnessed some pressure as a result of the amalgamation of Ciba India with itself and lower margins for the agricultural solutions business. We have tweaked our earnings estimates for FY2011 and FY2012 to factor in the Q1FY2011 performance and our revised earnings per share (EPS) now stands at Rs31.7 for FY2011 and Rs41.8 for FY2012. At the current market price of Rs460, the stock trade at 11x its FY12E EPS and 2.9x FY12E book value (BV). We maintain our Hold recommendation on the stock with a revised price target of Rs501.

Result table (stand-alone) Rs (cr)

Particulars	Q1FY2011	Q1FY2010	% yoy	% qoq
Total income	**663.6**	**384.2**	**72.7**	**90.0**
Total expenditure	581.0	314.0	85.1	81.6
PBIDTA	83.0	70.0	17.7	181.0
Less: Depreciation	8.9	6.9	30.1	5.1
PBIT	74.0	63.0	16.4	252.7
Less: Interest	0.2	0.2.0	-13.6	-5.0
PBT	**74.0**	**63.0**	**16.5**	**255.1**
Less: Tax	25.0	22.1	11.7	141.6
RPAT	**48.9**	**41.1**	**19.0**	**365.8**
Margins (%)				
OPM (%)	12.0	17.9		
NPM (%)	7.4	10.7		
Tax Rate (%)	34.0	35.0		

Strong top line growth led by Ciba India's amalgamation

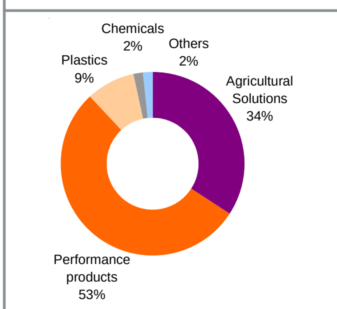
BASF India's quarterly net sales were up by 72.7% yoy to Rs659.84 crore, driven by a 1.6x y-o-y growth in the revenue from the performance products business. The robust growth in performance products was largely due to the merger with Ciba India. The plastic division too posted a strong show, with the quarterly revenue up by 60% yoy.

Segmental revenue Rs (cr)

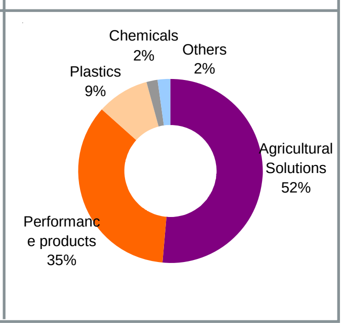
Particulars	Q1FY2011	Q1FY2010	% yoy
Agricultural solution	226.3	196.5	15
Performance products	354.8	134.4	164
Plastics	57.2	35.7	60
Chemicals	10.0	6.8	47
Others	11.6	8.8	32
Total	**659.8**	**382.2**	**73**

Revenue break-up

Q1FY2011



Q1FY2010



Operating profit growth slower than top line

The operating profit grew at a slower pace than the top line, expanding by15.6% yoy to Rs79 crore in the quarter. This was due to around 590-basis-point deterioration in the OPM to 12% due to the amalgamation with Ciba India, which has lower margins than BASF India, as well as a decline in the margins for the agricultural solutions business. The agricultural solutions business witnessed a steep decline in its profit before interest and tax (PBIT) margin to 15.3% in Q1FY2011 from 25% in Q1FY2010. Meanwhile, the chemicals business saw a robust improvement in its margins to 42.6% from 26% in the year-ago quarter.

Segmental PBIT Rs (cr)

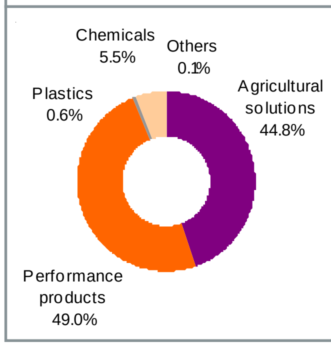
Particulars	Q1FY2011	Q1FY2010	% yoy
Agricultural solutions	34.72	48.6	-29
Performance products	38.01	14.54	161
Plastics	0.48	1.73	-72
Chemicals	4.24	1.75	142
Others	0.07	0.63	-89
Total	**77.52**	**67.25**	**15**

Segmental PBIT (%)

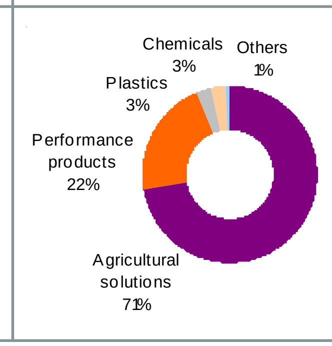
Particulars	Q1FY2011	Q1FY2010	yoy bps
Agricultural solutions	15.3	25	-939
Performance products	10.7	11	-11
Plastics	0.8	5	-400
Chemicals	42.6	26	1676
Others	0.6	7	-656
Total	**11.7**	**18**	**-585**

PBIT break-up

Q1FY2011



Q1FY2010



Outlook and valuation

BASF India has reported a strong set of numbers for Q1FY2011 on the back of a healthy traction in demand across all its businesses. The OPM, however, witnessed some pressure as a result of the amalgamation of Ciba India coupled with lower margins for the agricultural solutions business. We have tweaked our earnings estimates for FY2011 and FY2012 to factor in the Q1FY2011 performance and our revised EPS now stands at Rs31.7 for FY2011 and Rs41.8 for FY2012. At the current market price of Rs460, the stock trade at 11x its FY2012E EPS and 2.9x FY12E BV. We maintain our Hold recommendation on the stock with a revised price target of Rs501.

Valuation table (consolidated)

Particulars	FY08	FY09	FY10E	FY11E	FY12E
Net sales (Rs cr)	1,055.7	1,316.1	1,627.0	2,577.7	3,023.5
Net profit (Rs cr)	57.5	48.6	96.1	129.4	170.3
Shares in issue (cr)	2.8	2.8	4.1	4.1	4.1
EPS (Rs)	20.4	17.2	23.6	31.7	41.8
% y-o-y change	*14.8*	*-15.4*	*36.7*	*34.7*	*31.6*
PER (x)	22.6	26.7	19.5	14.5	11.0
Book value (Rs)	119.8	128.8	106.4	128.7	161.1
P/BV (x)	3.8	3.6	4.3	3.6	2.9
EV/EBIDTA (x)	12.1	11.9	10.6	8.5	6.4
EV/Sales (x)	1.3	1.0	1.2	0.7	0.6
Dividend yield (%)	1.5	1.5	1.7	1.7	1.7
RoCE (%)	26.4	23.2	33.8	34.7	39.7
RoNW (%)	17.9	13.9	24.1	27.0	28.8

The author doesn't hold any investment in any of the companies mentioned in the article.

Tata Consultancy Services

Evergreen

Stock Update

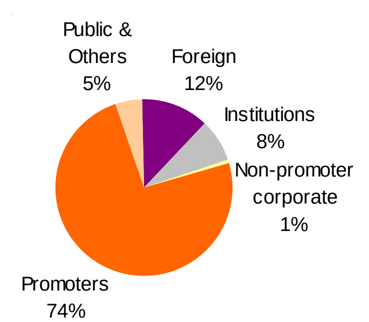
Price target revised to Rs920

Hold; CMP: Rs832

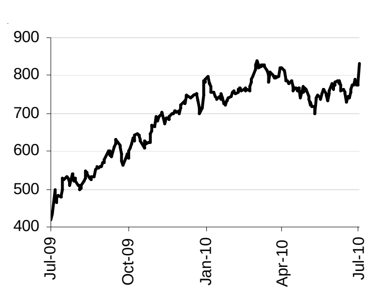
Company details

Price target:	Rs920
Market cap:	Rs162,919 cr
52 week high/low:	Rs844/413
NSE volume: (No of shares)	18 lakh
BSE code:	532540
NSE code:	TCS
Sharekhan code:	TCSCONS
Free float: (No of shares)	50.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	-3.1	0.9	90.1
Relative to Sensex	-0.9	-5.3	-2.0	49.2

Result highlights

- Tata Consultancy Services (TCS)' Q1FY2011 results were above the Street's and our expectations. The company has positively surprised us by reporting a strong 6.4% sequential growth in its dollar-term revenues, supported primarily by a strong 8.1% sequential growth in volumes. Moreover, in spite of a wage hike and currency fluctuations during the quarter, the company has reported only a marginal 36-basis-point drop in the earnings before interest and tax (EBIT) margin for the quarter. The company is confident of sustaining its EBIT margin at 27% in FY2011.

- The growth during the quarter was broad based with all the verticals registering a healthy growth. The major growth drivers were: telecommunications (telecom; a growth of 10.8% quarter on quarter [qoq]), retail (a growth of 7.4% qoq), life sciences & healthcare (a growth of 6.4% qoq), energy & utilities (a growth of 17.0% qoq), hi-tech (a growth of 11.2% qoq), and media and entertainment (a growth of 12.3% qoq). The management has said that the outlook for the banking, financial services and insurance (BFSI) vertical (a growth of 4.3% qoq) is positive with the majority of the new deals that the company is pursuing being from this vertical.

Result table (consolidated US GAAP) Rs (cr)

Particulars	Q1FY11	Q1FY10	Q4FY10*	% yoy	% qoq
Revenue	**8217**	**7207**	**7737**	**14.0**	**6.2**
Development cost	4398	3821	3998	15.1	10.0
Gross profit	3819	3386	3739	12.8	2.2
SG&A expenses	1411	1424	1426	(1.0)	(1.1)
Operating profit	**2409**	**1962**	**2312**	**22.8**	**4.2**
Depreciation	178	173	184	3.1	(3.3)
EBIT	2231	1789	2128	24.7	4.8
Other income	83	19	163		(49)
Profit before tax	**2314**	**1809**	**2291**	**27.9**	**1.0**
Tax	442	266	340	66.6	30.2
PAT	1871	1543	1951	21.3	(4.1)
Minority interest	27	23	3	20.5	
RPAT	**1844**	**1520**	**1948**	**21.3**	**(5.3)**
Equity capital	195.7	195.7	195.7		
EPS(Rs)	9.4	7.8	10.0		
Margin (%)					
GPM	46.5	47.0	48.3		
OPM	29.3	27.2	29.9		
EBIT	27.1	24.8	27.5		
NPM	22.2	21.0	24.7		

* Q4FY2010 numbers restated by the company.

- The consolidated revenue (as per US GAAP) grew by a strong 6.2% sequentially to Rs8,217 crore, which is ahead of our estimate of Rs8,070 crore. The revenue growth was driven by an 8.1% growth in the volumes, which was partially offset by the pricing impact (-0.32%), effort mix (-0.48%) and exchange fluctuations (-1.09%). The revenue in dollar terms grew by 6.4% sequentially to USD1,794 million, which is above our estimate of USD1,767 million.

- The EBIT margin dropped marginally by 36 basis points sequentially to 27.1% (ahead of our expectation of 26.5% for the quarter). The company was largely able to mitigate the negative impact of the wage hike (-215 basis points) and currency fluctuation (-32 basis points) through selling general and administrative (SG&A) efficiencies (+139 basis points), better offshore shift (+15 basis points) and productivity gains (+57 basis points).

- The net income was down by 5.3% sequentially to Rs1,844 crore in the quarter, ahead of our expectation of Rs1,798 crore. The decline in the net income was mainly due to an increase in the effective income tax rate to 19.1% in the quarter from 14.8% in the previous quarter. The net income was also hit by a lower other income of Rs83 crore in the quarter (versus Rs163 crore in the previous quarter). The other income includes a foreign exchange (forex) loss of Rs47.2 crore in Q1FY2011 versus a forex gain of around Rs42 crore in Q4FY2010.

- The management commentary was optimistic in terms of the demand environment and highlighted that TCS is pursuing 15 new deals (out of which five are from the discretionary spend area). The robust deal pipeline hints towards a strong demand environment and validates the company's optimism regarding the volume growth going forward. In terms of pricing, the company does not expect any decline in the pricing and with the strong demand it in fact expects the pricing to improve by the last quarter of FY2011. The company has mentioned that although the UK and Europe witnessed growth in Q1FY2011, yet it is concerned about the macro-economic situation in the region.

- TCS outperformed the market expectation during the quarter and surpassed its peers in terms of volume growth (8.1% qoq for TCS versus 7.6% qoq for Infosys Technologies [Infosys]) and the performance of the earnings before interest, tax, depreciation and amortisation (EBITDA) margin (a marginal 57-basis-point sequential decline for TCS versus a 236-basis-point sequential decline for Infosys). The broad-based growth, the wining of ten new deals and a robust deal pipeline are better than that of Infosys.

- We have increased our revenue estimates in view of the assumption of a higher volume growth and a revision in our exchange rate assumption for FY2011 to Rs45.5 and that for FY2012 to Rs45. We now assume a higher income tax rate of 22% for FY2012 (versus our previous assumption of 21% for the year). After incorporating the above changes, we have increased our earnings per share (EPS) estimate to Rs39.7 for FY2011 and that to Rs45.8 for FY2012. We maintain our Hold recommendation on the stock with a revised price target of Rs920. At the current market price, the stock trades at 21x its FY2011 and 18.2x its FY2012 earnings estimates.

Hiring target of 40,000 employees (gross) in FY2011 points to optimism towards volume growth

TCS (consolidated) hired record 10,849 employees on a gross basis (3,271 on a net basis) in Q1FY2011. The company has increased its gross hiring target for FY2011 by 33% to 40,000. The strong hiring indicates the management's optimism in regard to the volume growth going forward.

Broad-based growth; management optimistic about demand environment

The growth during the quarter was broad based with all the verticals registering a healthy growth. The major growth drivers were telecom (a growth of 10.8% qoq), retail (a growth of 7.4% qoq), life sciences & healthcare (a growth of 6.4% qoq), energy & utilities (a growth of 17.0% qoq), hi-tech (a growth of 11.2% qoq), and media and entertainment (a growth of 12.3% qoq). The management has said that the outlook for the BFSI vertical (a growth of 4.3%) is positive with the majority of the new deals that the company is pursuing being from this vertical. The company has mentioned that it does not expect any decline in the pricing and with the strong demand it in fact expects the pricing to improve by the last quarter of FY2011. Although both the UK and Europe witnessed a growth in Q1FY2011, yet the company seems concerned about the macro-economic situation in the region.

Other highlights

- The company added 36 new clients and won ten large deals in the quarter (similar to the number of deals won in Q4FY2010). The company won two deals each from manufacturing and hi-tech verticals whereas the remaining deals were spread across the other verticals.
- Apart from the above deal wins, the company is pursuing 15 large deals out of which five deals are coming from discretionary spending as compared to the previous quarters where the majority of the deals were non-discretionary in nature. Further, the majority of the deals the company is targeting are from the BFSI vertical.
- The utilisation rate (including trainees) declined by 0.5 percentage points to 74.8% during the quarter.

Valuation and view

TCS outperformed the market expectations during the quarter and surpassed its peers in terms of volume growth (8.1% qoq for TCS versus 7.6% qoq for Infosys) and the performance of the EBITDA margin (a marginal 57-basis-point sequential decline for TCS versus a 236-basis-point sequential decline for Infosys). The broad-based growth, the wining of ten new deals and a robust deal pipeline are better than that of Infosys. Moreover, the company's management is confident of sustaining its margins at 27% in FY2011.

We have increased our revenue estimates in view of the assumption of a higher volume growth and a revision in our exchange rate assumption for FY2011 to Rs45.5 and that for FY2012 to Rs45. We now assume a higher income tax rate of 22% for FY2012 (versus our previous assumption of 21% for the year). After incorporating the above changes, we have increased our EPS estimate to Rs39.7 for FY2011 and that to Rs45.8 for FY2012. We maintain our Hold recommendation on the stock with a revised price target of Rs920. At the current market price, the stock trades at 21x its FY2011 and 18.2x its FY2012 earnings estimates.

Valuation table

Particulars	FY09	FY10	FY11E	FY12E
Net revenue (Rs cr)	27813	30029	34818	41607
Net profit (Rs cr)	5172	6873	7763	8967
Number of shares (cr)	195.7	195.7	195.7	195.7
EPS(Rs)	26.4	35.1	39.7	45.8
% yoy chg	*3.0*	*32.9*	*12.9*	*15.5*
PER (x)	31.5	23.7	21.0	18.2
OPM (%)	23.7	26.5	26.9	27.0
RoNW (%)	33.0	32.8	30.7	29.3
RoCE (%)	27.0	29.8	29.6	29.7

The author doesn't hold any investment in any of the companies mentioned in the article.

Axis Bank

Emerging Star

Stock Update

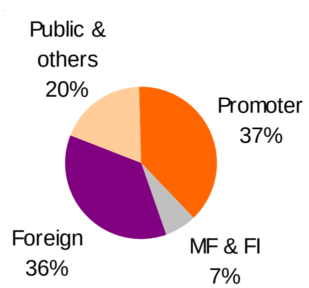
Price target revised to Rs1,560

Buy; CMP: Rs1,359

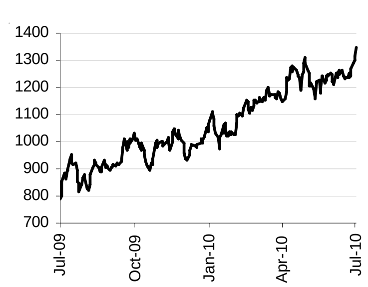
Company details

Price target:	Rs1,560
Market cap:	Rs55,371 cr
52 week high/low:	Rs1,367/784
NSE volume: (No of shares)	19.4 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (No of shares)	25.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.4	18.8	26.5	72.9
Relative to Sensex	5.3	16.0	22.9	35.7

Result highlights

- For Q1Y2011 Axis Bank has reported a net profit of Rs741.9 crore, an increase of 32% year on year (yoy). The reported profit was in line with our estimate of Rs728 crore. The top line too was in line with our estimate and was driven largely by a surge in the balance sheet's growth rate.
- The net interest income (NII) grew by a strong 44.8% yoy to Rs1,513.8 crore. The growth was on account of a strong 39.1% year-on-year (y-o-y) growth in the advances (well above expectations) which overshadowed the sequential contraction in the calculated net interest margin (NIM). Though the blended yields were largely stable at 7.2% on a sequential basis, the cost of funds rose by 26 basis points to 4.5% leading to a contraction in the NIM (down 26 basis points quarter on quarter [qoq] to 3.27%).
- The non-interest income during the quarter grew by a moderate 4.4% yoy to Rs1,000.8 crore on account of a 40% y-o-y drop in the treasury gains. Meanwhile, the core fee income growth was healthy at 18.5% yoy. The operating expenses grew by 28.6% yoy and by 5.4% qoq, and translated into a cost-income ratio of 42.3% (stable qoq).
- The provisioning expenses were largely stable at Rs333 crore (up 6% yoy but higher sharply on a sequential basis as the bank continued to make higher provisions on loan loss that came in at Rs304 crore. Also, there was provision for investment depreciation as against the write-back in Q1FY2010 which increased the overall provisions for the bank. The provision coverage ratio, including the technical write-off, currently stands at 76.62%.

Results table Rs (cr)

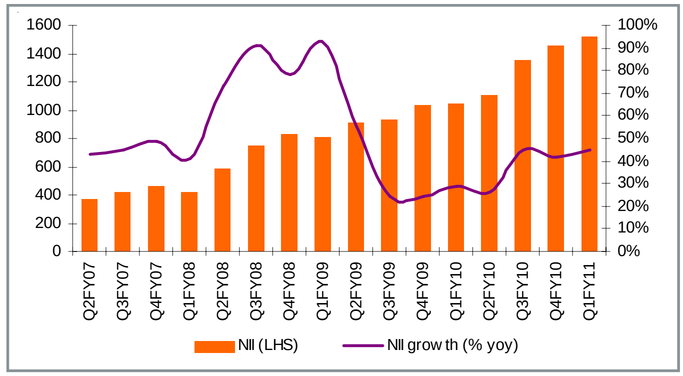
Particulars	Q1FY11	Q1FY10	% yoy	% qoq
Net interest income	**1513.8**	**1045.6**	**44.8**	**3.7**
Non-interest income	1000.8	958.6	4.4	7.2
CEB	*743.0*	*627.0*	*18.5*	*-4.7*
Treasury income	*196.0*	*326.0*	*-39.9*	*90.3*
Miscellaneous income	*61.8*	*5.6*	*1009.2*	*22.3*
Net income	2514.6	2004.2	25.5	5.1
Operating expenses	1064.5	827.8	28.6	5.4
Staff expenses	*416.4*	*309.3*	*34.6*	*24.8*
Other operating expenses	*648.1*	*518.5*	*25.0*	*-4.1*
Operating profit	**1450.1**	**1176.4**	**23.3**	**4.8**
Core operating profit (excluding treasury)	1254.1	850.4	47.5	-2.1
Provisions & contingencies	333.0	315.3	5.6	65.0
PBT	1117.1	861.1	29.7	-5.5
Provision for taxes	375.2	299.0	25.5	-10.0
Net profit	**741.9**	**562.0**	**32.0**	**-3.0**

- The asset quality of the bank was stable on a sequential basis as the gross non-performing assets (NPAs) increased by just 1.7% qoq to Rs1,341 crore during Q1FY2011. In relative terms too, the percentage of gross NPAs was stable at 1.13%. The resulting provisioning coverage improved by about 100 basis points qoq to 69.2% (76.6% including the prudential write-offs).
- During the quarter the bank restructured assets worth Rs30 crore, though the cumulative restructured assets stood reduced to Rs2,151 crore, constituting 1.81% of the gross customer assets. Of these, a total of Rs460 crore or approximately 22% of restructured assets have slipped into the NPA category.
- The business growth picked up during the quarter, as the advances grew by 39.1% yoy to Rs108,609 crore, while the deposits grew by 33.8% yoy to Rs147,479 crore. The loan book growth was supported by all the segments with the "large & mid corporate" segment and agri-advances growth strong at 54.7% and 28.8% yoy respectively. Going ahead, the advances growth is likely to moderate. The demand deposits continued their upward trend showing a growth of 34% yoy with the current account and savings account (CASA) ratio now forming 40.2% of the total deposits.
- The capital adequacy ratio (CAR) of the bank stood at 14.54% (vs 15.8% in Q4FY2010) with the tier-I capital adequacy ratio at 10.32%.
- At the current market price of Rs1,359, the stock trades at 13.3x 2012E earnings per share (EPS), 7.3x 2012E pre-provisioning profit (PPP) and 2.6x 2012E book value (BV). Though we are maintaining our estimates and believe that the positives are largely priced in, the consistency in the bank's earnings performance since the last four quarters may lead to a re-rating of the stock. Essentially, a narrowing in the valuation discount to HDFC Bank is quite likely going forward. We maintain our Buy recommendation on the stock with a revised price target of Rs1,560, valuing the stock at 2.9x FY2012E BV per share (about 20% discount to HDFC Bank).

NII growth (in line)...

For Q1FY2011, Axis Bank reported a 44.8% y-o-y increase in its NII, which stood at Rs1,513.8 crore. The robust top line growth was driven by the strong growth in the advances that overshadowed the sequential contraction in the calculated NIM.

Trend in NII growth



...driven by surge in advances growth

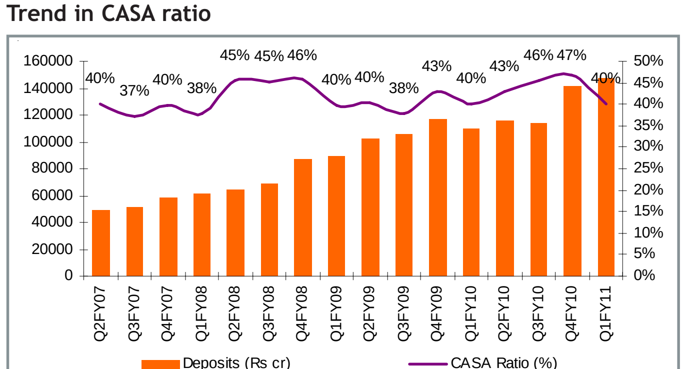
The advances grew by a strong 39.1% yoy to Rs108,609 crore. The loan book growth was supported by all the segments with the "large & mid corporate" segment and the agri-advances growth strong at 54.7% and 28.8% yoy respectively. Within the "large & mid corporate" segment, the telecommunications (telecom) sector contributed significantly to the loan growth. Going ahead, the advances growth is likely to moderate to around 20 to 25% as the low base of the previous year begins to wear off and loans to telecom companies move out of the system.

Advances break-up Rs (crore)

Particulars	Q1FY11	Q1FY10	% yoy	% qoq
Total advances	**108,609**	**78,105**	**39.1**	**4.1**
Retail	21,073	16,780	25.6	1.2
as % of total advances	*19.4*	*21.5*	*-208bps*	*-55bps*
Agricultural	10,587	8,218	28.8	-8.2
SME	16,818	14,232	18.2	-13.7
as % of total advances	*15.5*	*18.2*	*-274bps*	*-319bps*
Large & mid corporates	60,131	38,875	54.7	14.5
Credit-Deposit ratio (%)	73.6	70.8	280bps	-20bps

The deposit growth too remained strong with the deposits expanding by around 34% yoy, which was significantly higher than the industry average of about 14% yoy. Importantly, the demand deposits continued their upward trend showing a growth of 34% yoy with the CASA ratio

Trend in CASA ratio



now forming 40.2% of the total deposits. Going ahead, the bank expects to maintain its CASA ratio at around 40%.

Sequential NIM contraction

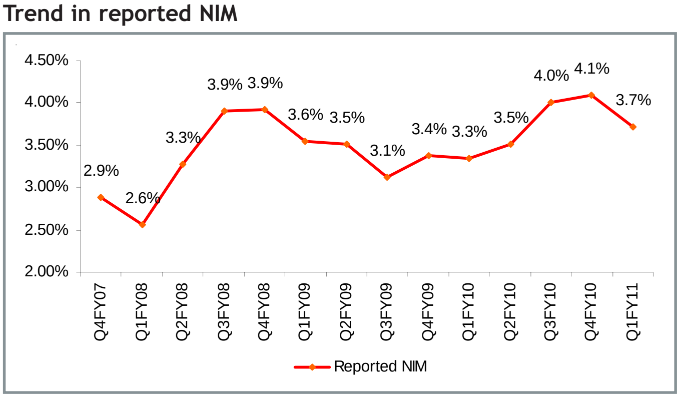
During Q1FY2011 the calculated NIM deteriorated by 26 basis points sequentially to 3.27%. The deterioration in the NIM was due to the increase in the cost of funds while the blended yields remained largely stable at 7.2%. The cost of funds increased by 26 basis points sequentially as (1) the bank moved towards payment of interest on savings account based on the average daily balances; and (2) the growth in term deposits picked up.

Yield analysis (%)

Particulars	Q1FY11	Q1FY10	yoy bps	qoq bps
Yield on advances (C)	8.68	9.89	-121	-10
Yield on assets (C)	7.19	8.05	-86	-3
Cost of funds (C)	4.49	6.12	-163	26
NIM (C)	3.27	2.90	38	-26
NIM (R)	3.71	3.34	37	-38

C-Calculated R-Reported

Trend in reported NIM



Muted non-interest income but core fee income remains healthy

The non-interest income during the quarter grew by a moderate 4.4% yoy to Rs1,000.8 crore on account of a 40% y-o-y drop in the treasury gains. Meanwhile, the core fee income growth was healthy at 18.5% yoy led by the large and mid corporate, and the treasury segments which grew by 42% yoy and 22% yoy respectively. The retail business' contribution to the fee income remains sluggish, but is likely to see some revival in the quarters to come.

Break up of non-interest income Rs (cr)

Particulars	Q1FY11	Q1FY10	% yoy	% qoq
CEB	743.0	627.0	18.5	-4.7
Treasury	196.0	326.0	-39.9	90.3
Others	61.8	5.6	1003.2	22.2
Total	**1000.8**	**958.6**	**4.4**	**7.2**

Provisions surge sequentially

The provisioning expenses at Rs333 crore were up 6% yoy but higher sharply on a sequential basis as the bank continued to make higher provisions on loan loss that came in at Rs304 crore (primarily led by the small and medium enterprises [SME] segment). Also, there was provision for investment depreciation as against the write-back in Q1FY2010 which increased the overall provisions for the bank.

Provision break-up Rs (cr)

Particulars	Q1FY11	Q1FY10	% yoy	% qoq
NPA & Std assets	304.0	336.0	-9.5	71.3
Investment depreciation	35	-48	-	69.9
Others	-6	27.3	-122.0	-262.2
Total	**333.0**	**315.3**	**5.6**	**65.0**

Asset quality stable sequentially

The asset quality of the bank was stable on a sequential basis as the gross NPAs increased by just 1.7% qoq to Rs1,341 crore during Q1FY2011. The bank experienced slippages of Rs421 crore, though due to recoveries and upgradations (of Rs121 crore) and write-offs (of Rs277 crore), the increase in gross NPAs was contained. In relative terms too, the percentage of gross NPAs was stable at 1.13%. The resulting provisioning coverage improved by about 100 basis points qoq to 69.2% (76.6% including the prudential write-offs).

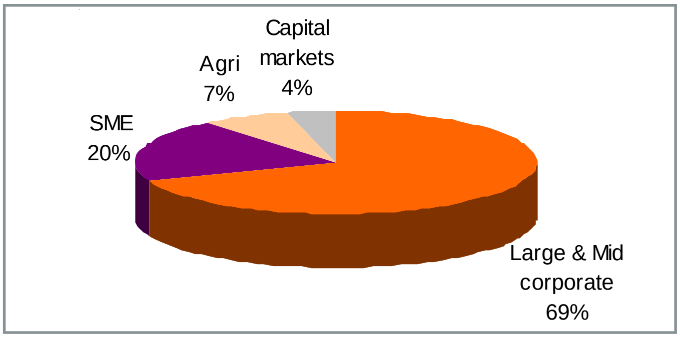
Trend in asset quality Rs (crore)

Particulars	Q1FY11	Q1FY10	% yoy	% qoq
GNPA	1340.9	915.3	46.5	1.7
% GNPA	*1.13*	*1.01*	*12bps*	*0bps*
NNPA	413.4	367.1	12.6	-1.3
% NNPA	*0.35*	*0.41*	*-6bps*	*-1bps*
Provisioning coverage (%)	69.2	59.9	928bps	96bps

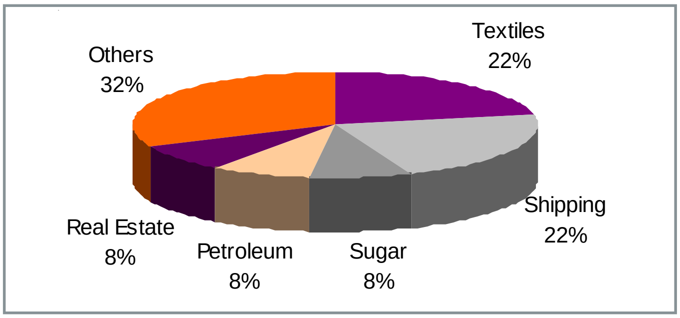
Restructuring takes a breather

During the quarter the bank restructured assets worth Rs30 crore, though the cumulative restructured assets stood reduced to Rs2,151 crore, constituting 1.81% of the gross customer assets. Of these, a total of Rs460 crore or about 22% of restructured assets slipped into the NPA category. However, slippages as a percentage of peak restructured assets were lower at around 14%. The bank continues to be mindful of its restructured assets in the SME category, which forms around 20% of the total.

Segment-wise break-up of restructured loans



Sectorwise break-up of restructured loans



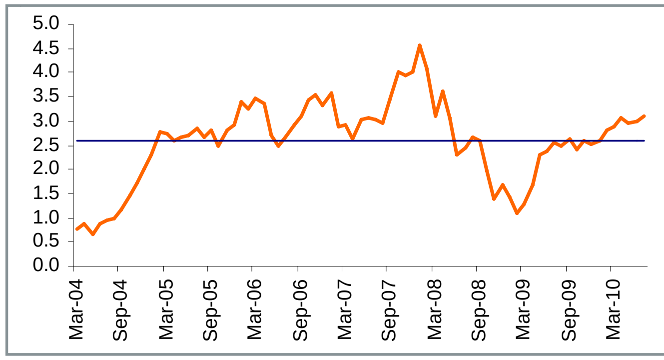
CAR comfortable at 14.5%

The CAR of the bank stood at a comfortable 14.54% (vs 15.8% in Q4FY2010) with the tier-I CAR at 10.32%. The deterioration of the CAR on a sequential basis could partially be attributed to the exclusion of the Q1FY2011 profit in the calculation of CAR based on the Reserve Bank of India circular released on the same. Including the Q1FY2011 profit, the CAR stands at 15.02%.

Valuation and outlook

At the current market price of Rs1,359, the stock trades at 13.3x 2012E EPS, 7.3x 2012E PPP and 2.6x 2012E BV. Though we are maintaining our estimates and believe that the positives are largely priced in, the consistency in the bank's earnings performance since the last four quarters may lead to the re-rating of the stock. Essentially, a narrowing in the valuation discount to HDFC Bank is quite likely going forward. We maintain our Buy recommendation on the stock with a revised price target of Rs1,560, valuing the stock at 2.9x FY2012E BV per share (approximately 20% discount to HDFC Bank).

Trend in PBV (based on 12-month rolling)



Valuation table

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net profit (Rs cr)	1071.0	1815.4	2514.5	3196.4	4131.8
Shares in issue (cr)	35.8	35.9	40.5	40.5	40.5
EPS (Rs)	29.9	50.6	62.1	78.9	102.0
EPS growth (%)	28.0	68.9	22.7	27.1	29.3
PE (x)	45.4	26.9	21.9	17.2	13.3
P/PPP (x)	21.8	13.1	10.5	8.8	7.3
BV (Rs/share)	245.1	284.5	396.1	453.7	525.8
P/BV (x)	5.5	4.8	3.4	3.0	2.6
Adj BV (Rs/share)	238.2	275.4	393.8	444.8	506.8
P/ABV (x)	5.7	4.9	3.5	3.1	2.7
RoNW (%)	16.4	19.1	18.2	18.6	20.8

Telecommunications

Sector Update

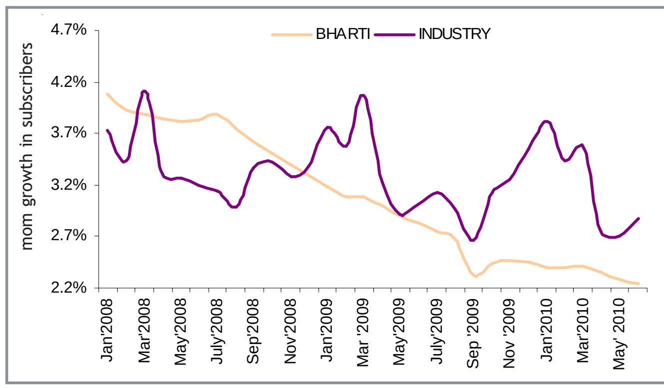
June net additions up 9.2% led by Idea and Uninor

- In June 2010, GSM operators (excluding Reliance Communications and Tata Teleservices which are yet to disclose their numbers for the month) added 12.29 million new subscribers, indicating a robust 9.2% growth over May 2010. This took the total subscriber base to 440 million, 2.87% higher than that in May.
- The incumbents collectively added 10.66 million subscribers in the month, up 9.5% month on month (mom) while on the back of the strong numbers from Uninor and Videocon the new players posted a net addition of 1.66 million subscribers (constituting 13.5% of the overall net additions) for the month. Among the incumbents, Bharti Airtel maintained its consistency and added 3 million subscribers for the fourth month in a row (prior to this its net addition run rate was 2.8 million). Vodafone and Idea Cellular also saw a strong growth in their net subscriber addition for the month, up by 4.7% and 50.1% respectively. During the month Uninor launched its services in five circles and for the month garnered strong 1.01 million subscribers. On the other hand, another new entrant Videocon, which debuted in the market last month, added 0.55 million subscribers (down 72% mom).

Bharti Airtel—maintains consistency

Bharti Airtel added 3 million new subscribers in June, which is in line with the net additions made by the company in the last four months. Over the period the net subscriber addition run rate improved to 3 million subscribers vs 2.8 million subscribers earlier. The company's subscriber base in the month stood at 136.6 million subscribers, a growth of 2.25% over the previous month.

Bharti vs industry



GSM subscriber base (million)*

Particulars	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	mom adds (Jun)
New players								
Uninor	1.21	2.54	3.56	4.26	5.02	5.01	6.02	1.01
STel	0.14	0.51	0.72	1.01	1.11	1.23	1.33	0.10
Etisalat DB	-	-	-	-	-	0.01	0.02	0.01
Videocon	-	-	-	-	-	1.39	1.94	0.55
New players sub base	1.35	3.04	4.27	5.27	6.14	7.65	9.31	1.66
-- mom net additions		1.70	1.23	1.00	0.87	1.51	1.66	
(%) mom net adds	-	-	*-27.6*	*-18.7*	*-13.0*	*73.6*	*10.0*	
Incumbents								
Bharti	118.90	121.70	124.60	127.60	130.60	133.60	136.62	3.02
Vodafone	91.40	94.10	97.20	100.90	103.80	106.30	109.06	2.76
Idea (including Spice)	57.60	59.90	62.10	63.80	65.30	66.70	68.89	2.19
MTNL	4.60	4.60	4.70	4.80	4.80	4.90	4.90	0.00
BSNL	57.20	59.50	61.00	63.50	64.70	65.80	66.89	1.09
Aircel + BPL	33.67	35.74	37.64	39.71	41.36	42.99	44.61	1.62
Incumbent base	363.30	375.50	387.30	400.30	410.60	420.30	430.96	10.66
- mom net additions		12.21	11.78	12.95	10.31	9.74	10.66	
Overall subscriber base	**364.70**	**378.60**	**391.60**	**405.50**	**416.70**	**427.98**	**440.27**	
- mom net additions		13.90	13.01	13.95	11.18	11.26	12.29	

*Excluding Reliance Comm and Tata Teleservices

Vodafone adds 2.71 subscribers

Vodafone added 2.71 million new subscribers in June this year, showing a 4.71% growth mom. The company's total subscriber base in the month stood at 109.06 million. Its share in the monthly net additions increased to 23.2% in June 2010.

Idea back in form with strong net adds for the month

After three months of a lull, in June 2010 Idea Cellular (including Spice) displayed robust monthly net additions by adding 2.16 million subscribers for June 2010, showing a growth of 50.1% over that in May 2010. Its share in the net additions for the month improved to 11.7% from 11% in May 2010.

State run operators too see decent month-on-month growth

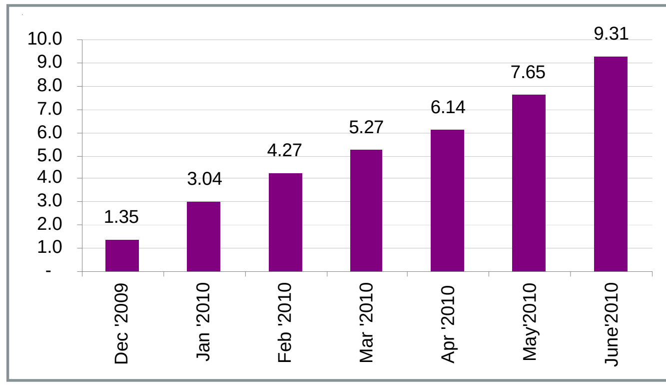
Mahanagar Telecom Nigam Ltd (MTNL) added 44,441 subscribers in June 2010, which is merely 0.4% higher than that the May 2010 figure. On the other hand, Bharat Sanchar Nigam Ltd (BSNL) added 1.1 million subscribers (up 5.2% mom). Its subscriber base at the end of June 2010 stood at 66.9 million, 1.67% higher than that in May.

Despite a head-start in rolling out third generation (3G) mobile services, the state-run operators had a disappointing performance in the month.

New players' net add up 10% mom

New players (Uninor, STel, Etisalat DB and Videocon) together added 1.66 million subscribers, contributing 13.5% to the all-India net subscriber addition for the month. Uninor added five more circles to its network and 1.01 million subscribers during the month.

New players' subscriber base



GSM subscriber base

(in million)	Total subscribers			Net additions		% share in net additions*	
	Jun 2010	May 2010	% growth	Jun 2010	May 2010	Jun 2010	May 2010
Bharti	136.62	133.62	2.25	3.00	3.00	24.42	26.66
Vodafone	109.06	106.35	2.55	2.71	2.59	22.08	23.02
Loop Mobile	2.93	2.91	0.50	0.02	0.02	0.12	0.15
BSNL	66.89	65.79	1.67	1.10	1.05	8.93	9.29
Idea	62.41	60.52	3.13	1.89	1.25	15.39	11.11
MTNL	4.90	4.86	0.91	0.04	0.04	0.36	0.36
Reliance*	16.31	16.31	0.00	0.00	0.00	NA	NA
Spice	6.48	6.21	4.31	0.27	0.19	2.18	1.68
Others	50.99	47.73	6.83	3.26	3.12	26.52	27.74
TOTAL	**456.59**	**444.30**	**2.77**	**12.29**	**11.26**		
Total Ex Rcom and Tata Tele	**440.27**	**427.98**	**2.87**	**12.29**	**11.26**		

The author doesn't hold any investment in any of the companies mentioned in the article.

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
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Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
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BASF India
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Vulture's Pick

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