MORNING INSIGHT

Kotak Securities

PRIVATE CLIENT RESEARCH

JULY 27, 2010

Economy News

- The Reserve Bank of India today indicated that the trend of rising interest rates would continue until inflation and inflationary expectations were contained, even as it stressed the need to improve supplies to bring down prices.(BS)
- Life Insurance Corporation's (LIC) on the market only got cemented this quarter further with the state-run behemoth cornering nearly three-fourths of the new premiums in the first quarter with Rs 187bn business. LIC clocked a more than two-fold growth in new business in the June quarter over Rs 90.3bn it garnered in the same period last fiscal. In other words, LIC cornered Rs 187.4bn of the Rs 255bn overall business this the quarter to June period. (BS)
- A new series of consumer price index (CPI) will be rolled out in January next year, the Chief Statistician of India, Mr T. C. A. Anant, has said. This will be in addition to the CPI series that are already being released. The new CPI series will not target any particular group, but will reflect the basket of commodities captured under the National Sample Survey, Mr Anant told reporters on the sidelines of an event here. He also said that the new Index of Industrial Production (IIP) series would soon be released. (BL)

Corporate News

- **Fortis Healthcare** has abandoned its bid to acquire Parkway after Malaysian sovereign fund Khazanah offered to buy the Singapore based healthcare firm for Singapore $3.5 billion. Khazanah has offered to buy the remaining shares of Parkway at S$3.95 a share, topping the S$3.80 a share offered by Fortis. The Indian firm also decided to divest the 25.3% stake it holds in Parkway to Khazanah for about Rs 38bn, thus exiting the Singapore firm completely. Therefore, the company stands to make a profit of nearly Rs3.5bn once the transaction with Khazanah is completed. (BS)
- **Dabur India Ltd** has announced the acquisition of Hobi Kozmetik Group, a Turkish personal care products company, for Rs3.24bn. Its overseas subsidiary, Dabur International Ltd, acquired 100% stake in three Hobi Group firms — Hobi Kozmetik, Zeki Plastik and Ra Pazarlama. Hobi Kozmetik is the market leader in the hair gel category with 35% share, and markets a wide range of hair care and skin care products under the 'Hobby' and 'New Era' brands. Its products are sold across 35 countries. (BS)
- **Dena Bank** expects an infusion of Rs.6bn from the government in FY11, D.L. Rawal, chairman and managing director, told reporters. The bank has sought Rs.13bn of capital from the federal government over the next 3 years to meet loan growth targets. (ET)
- **Ultratech Cement** has said that, it has received the nod of the Bombay High Court and Gujarat High Court for the merger of Samruddhi Cement with itself. Under the scheme of amalgamation, Samruddhi Cement shareholders will get four Ultratech shares of Rs 10 face value for every seven equities of Rs 5 face value held in Samruddhi. The company has fixed August 1, 2010, as the effective date for the scheme of amalgamation. (ET)

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

Equity

	26 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,020	(0.6)	2.5	1.9
NIFTY Index	5,419	(0.6)	2.8	2.1
BANKEX Index	11,400	(0.8)	6.0	3.3
BSET Index	5,506	0.6	3.4	1.8
BSETCG INDEX	15,216	(0.7)	5.1	7.8
BSEOIL INDEX	10,458	(0.7)	(1.4)	4.5
CNXMcap Index	8,353	(0.8)	3.6	4.4
BSESMCAP INDEX	9,363	(0.8)	4.2	1.3
World Indices				
Dow Jones	10,525	1.0	3.8	(4.2)
Nasdaq	2,296	1.2	3.3	(7.1)
FTSE	5,351	0.7	6.0	(4.5)
Nikkei	9,504	0.8	(2.3)	(15.1)
Hangseng	20,840	0.1	1.0	(1.7)

Value traded (Rs cr)

	26 Jul 10	% Chg - Day
Cash BSE	3,277	(22.9)
Cash NSE	11,856	(18.8)
Derivatives	96,915.7	(7.4)

Net inflows (Rs cr)

	23 Jul 10	% Chg	MTD	YTD
FII	845	348.7	10,972	41,216
Mutual Fund	(140)	(53.0)	(2,417)	(10,544)

FII open interest (Rs cr)

	23 Jul 10	% Chg
FII Index Futures	16,426	(7.1)
FII Index Options	61,203	2.7
FII Stock Futures	35,160	(0.3)
FII Stock Options	1,658	2.1

Advances / Declines (BSE)

26 Jul 10	A	B	S	Total	% total
Advances	60	663	161	884	34
Declines	142	1210	280	1,632	63
Unchanged	2	65	7	74	3

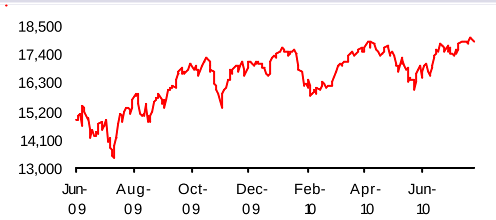
Commodity

		26 Jul 10	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US$/BBL)	79	0.0	0.2	(4.2)
Gold	(US$/OZ)	1,184	(0.5)	(5.6)	1.5
Silver	(US$/OZ)	18	0.3	(4.7)	0.1

Debt / forex market

	26 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	NA	NA	NA
Re/US$	47.01	46.95	46.21	44.40

Sensex



RESULT UPDATE

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REDINGTON (INDIA) LTD

PRICE: RS.376 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.350 **CONS. FY11E P/E: 12.9X**

- **Redington reported good set of Q1FY11 results which are marginally above our estimates both on revenues and profitability front**
- **Remain positive on medium to long term growth prospects due to increase share of high margin non IT business like mobile phones and consumer durables**
- **However stock is fairly valued at 12.9x FY11E EPS of Rs.29.0**
- **Due to 6% downside potential we continue to recommend REDUCE on Redington with unchanged price target of Rs.350**

Cons. Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	126,683	137,578	155,793
Growth (%)	16.5	8.6	13.2
EBITDA	3,147	3,448	4,141
EBITDA margin (%)	2.5	2.5	2.7
Net profit	1,597	1,843	2,287
Net debt	4,556	5,660	6,802
EPS (Rs)	20.5	23.4	29.0
Growth (%)	17.3	15.5	24.1
DPS (Rs)	4.0	5.0	6.0
ROE (%)	15.9	17.1	19.7
ROCE (%)	16.0	15.4	18.6
EV/Sales (x)	0.3	0.3	0.2
EV/EBITDA (x)	10.8	10.2	8.8
P/E (x)	18.3	16.0	12.9
P/CEPS (x)	16.9	14.2	11.8
P/BV (x)	3.0	2.7	2.4

Source: Company, Kotak Securities - Private Client Research

Consolidated Results update - Redington

(Rs mn)	Q1FY11	Q1FY10	YoY (%)	Q4FY10	QoQ (%)
Net Sales	**35,274**	**29,221**	**20.7**	**38593**	**(8.6)**
COGS	33,348	27,615	20.8	36475	(8.6)
Staff Cost	456	409	11.5	385	18.5
other expenditure	564	511	10.6	537	5.0
Total exp.	34,368	28,534	20.4	37397	(8.1)
EBIDTA	**905**	**687**	**31.9**	**1196**	**(24.3)**
Other income	39	64	(38.9)	49	(20.9)
Depreciation	53	32	63.4	123	(57.4)
EBIT	**892**	**718**	**24.2**	**1122**	**(20.5)**
Interest	167	164	2.1	185	(9.4)
PBT	**724**	**554**	**30.7**	**937**	**(22.7)**
Tax & deferred tax	178	120	48.1	241	(26.2)
PAT	**547**	**434**	**25.9**	**697**	**(21.5)**
less Minority int	69	61	13.8	82	(15.5)
NPAT	**478**	**374**	**27.9**	**615**	**(22.3)**
Equity shares o/s (mn)	79	78		79	
Ratios					
Operting profit margin (%)	2.6	2.3	+30 bps	3.1	-50 bps
COGS / Sales (%)	94.5	94.5		94.5	
Staff cost / Sales (%)	1.3	1.4		1.0	
Other Exp. / Sales (%)	1.6	1.7		1.4	
EPS (Rs)	**6.0**	**4.8**		**7.8**	
CEPS (Rs)	6.7	5.2		9.3	
Tax / PBT (%)	24.5	21.6		25.7	

Source: Company

Segmental Table

	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ%
Revenue (Rs mn)					
India	17,644	13,539	30.3	18995	(7.1)
Overseas	17,669	15,795	11.9	19663	(10.1)
PBIT (Rs mn)					
India	567	427	32.8	740	(23.3)
Overseas	325	291	11.6	382	(15.1)
PBIT Margin (%)					
India	3.2	3.2	1.9	3.9	(17.5)
Overseas	1.8	1.8	(0.2)	1.9	(5.5)

Source: Company

- Net Sales for Q1FY11 was at Rs.35.2 bn which is up 20.7% on YoY basis. The Indian business recorded growth of 30.3% on YoY basis and the overseas business recoded growth of 11.9% on YoY basis. This was primarily due to expansion in the Middle East and African business.
- EBIDTA margin in Q1FY11 was at 2.6% up 30 bps on YoY basis due to increased contribution of the high margin services and non-IT business of the company like Nokia and Blackberry mobile phones and consumer durables business for LG.
- EBIDTA for Q1FY11 was at Rs.905 mn up by 31.9% on YoY basis.
- The depreciation is up sharply 63.4% on YoY basis to Rs.53 mn as the company has changed the policy in terms of useful life of the asset.
- PBT for Q1FY11 was at Rs.724 mn up 30.7% on YoY basis.
- PAT for Q1FY11 was up by 27.9% on YoY basis to Rs.478 mn thereby translating into quarterly EPS of Rs.6.0 and CEPS of Rs.6.7.

Stock split

The shareholders of the company have approved the stock split form FV Rs.10 to FV Rs.2 per share. However the record date has not been announced.

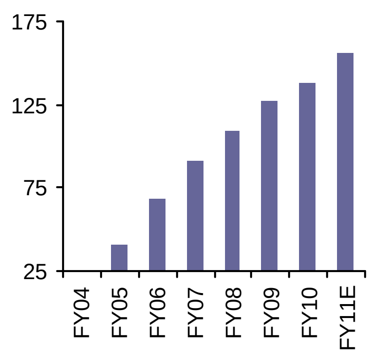
Valuation & recommendation

- At the current market price of Rs.376, the stock ifs fairly valued at 2.4x P/BV, 12.9x earnings and 11.8x cash earnings based on consolidated FY11E earnings estimates.

We recommend REDUCE on Redington India with a price target of Rs.350

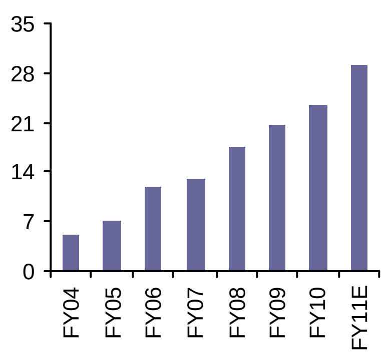
- We continue to remain positive on the long term growth prospects of Redington as we feel that Redington is poised to handle a greater share of the business in supply chain solution space with its unique business model, proven execution capabilities and its presence in potential markets.
- However due to fair valuations we recommend investors to look for buying opportunities at lower levels for medium to long term gains.
- Due to 6% downside potential from current levels we continue to recommend **REDUCE** on Redington with unchanged price target of Rs.350.

Cons. Revenues (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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GATEWAY DISTRIPARKS LTD

PRICE: RS.112 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.122 **CONS. FY11E P/E: 13.4X**

- **GDL reported disappointing set of Q1FY11 results which are below our estimates on the profitability front**
- **CFS business affected by fire at Punjab Conware facility at JNPT**
- **Revise FY11E EPS to Rs.8.4 (Rs.9.1 earlier)**
- **Due to 9% upside potential we continue to recommend ACCUMULATE on GDL with revised price target of Rs.122**

Summary table - Consolidated

(Rs mn)	FY09	FY10	FY11E
Sales	4,629	5,266	6,583
Growth (%)	70.6	13.8	25.0
EBITDA	1,580	1,433	1,804
EBITDA margin (%)	34.1	27.2	27.4
Net profit	796	790	901
Net debt	1,417	1,329	1,872
EPS (Rs)	7.4	7.3	8.4
Growth (%)	8.2	-0.7	14.0
DPS (Rs)	3.5	3.5	3.5
ROE (%)	12.8	12.2	13.4
ROCE (%)	13.7	10.9	14.7
EV/Sales (x)	2.9	2.5	2.1
EV/EBITDA (x)	8.5	9.4	7.7
P/E (x)	15.2	15.3	13.4
P/CEPS (x)	9.7	9.4	8.5
P/BV (x)	1.9	1.9	1.7

Source: Company, Kotak Securities - Private Client Research

Consolidated Financials

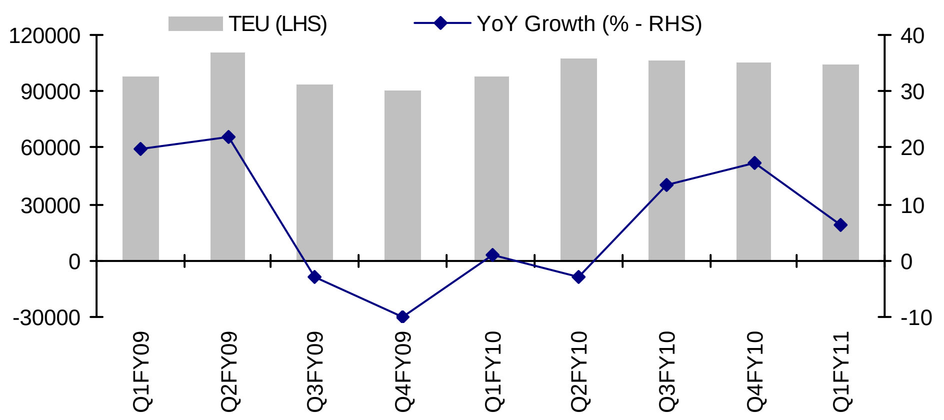
(Rs mn)	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ%
Revenues	**1301**	**1255**	**3.7**	**1388**	**(6.2)**
EBIDTA	**318**	**340**	**(6.6)**	**391**	**(18.8)**
EBIDTA (%)	24.4	27.1	(9.9)	28.2	(13.4)
PAT	**140**	**166**	**(15.5)**	**253**	**(44.5)**
TEU (Nos)	104225	98109	6.2	105460	(1.2)
Avg. Realization (Rs./ TEU)	12485	12794	(2.4)	13161	(5.1)
Equity (Rs. mn)	1077	1077	-	1077	-
EPS (Rs.)	**1.3**	**1.5**	**(15.5)**	**2.3**	**(44.5)**

Source: Company

Consolidated financials

- On consolidated basis the company handled 1.05 lakh TEU`s in Q1FY11 thereby registering 6.2% YoY growth.
- For Q1FY11 GDL reported revenues of Rs.1.3 bn, up 3.7% on YoY basis. The operating profit stood at Rs.318 mn which is down 6.6% YoY basis primarily due to lower profitability in the CFS business on account of fire at it Punjab Conware facility at JNPT.
- GDL reported cons. PAT of Rs.140 mn in Q1FY11, down 15.5% on YoY basis. This is primarily due to lower profitability in the CFS and Rail business. The estimated loss of business from the fire at Punjab Conware CFS at JNPT is Rs.30 mn. However cold chain business has turned around and reported profits.

TEU handled quarterly and YoY Growth



Source: Company

CFS Business Financials

(Rs mn)	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ%
Revenues	**477**	**477**	**(0.1)**	**517**	**(7.8)**
EBIDTA	**211**	**238**	**(11.2)**	**268**	**(21.2)**
EBIDTA (%)	44.3	49.8	(11.1)	51.8	(14.5)
PAT	**175**	**204**	**(14.2)**	**257**	**(31.7)**
PAT (%)	36.8	42.8	(14.0)	49.6	(25.9)
TEU (Nos)	75769	73826	2.6	73750	2.7
Avg. Realization (Rs./ TEU)	6291	6465	(2.7)	7014	(10.3)

Source: Company

GDL - CFS TEU

	Q1FY11	Q1FY10	Shift %
Mumbai	51488	55094	-6.5
Chennai	17845	13698	30.3
Vizag	6436	5034	27.9
Total	**75769**	**73826**	**2.6**

Source: Company

CFS business financials

- For Q1FY11, the CFS volumes are up 2.6% on YoY basis to 75769 TEUs. However the revenues were at Rs.477 mn down 0.1% on YoY basis. The average realizations were lower by 2.7% YoY to Rs.6291 per TEU. This was on back increase in volumes from Chennai CFS (up 30.3% YoY) and Vizag & Kochi CFS (up 27.9% YoY) which typically enjoy lower average realization then JNPT. The volumes at Mumbai CFS were down 6.5% YoY due to fire at its Punjab Conware facility at JNPT.
- However going forward we expect the CFS volumes to pick up due to revival in EXIM trade and increase in port volumes going forward.
- EBIDTA for the Q1FY11 was at Rs.211 mn down 11.2% on YoY basis.
- PAT for Q1FY11 was at Rs.175 mn, down 14.2% on YoY basis. This was due to fire at its Punjab Conware CFS at JNPT in the month of February 2010 which impacted the operations and resulted into estimated loss of Rs.30 mn.

Rail Business Financials

(Rs mn)	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ%
Revenues	**720**	**700**	**2.8**	**777**	**(7.3)**
EBIDTA	**83**	**84**	**(1.1)**	**112**	**(25.3)**
EBIDTA (%)	11.6	12.0	(3.8)	14.4	(19.4)
PAT	**(43)**	**(37)**	**(14.8)**	**(12)**	**(254.8)**
TEU (Nos)	28456	24283	17.2	31712	(10.3)
Avg. Realization (Rs./ TEU)	25288	28814	(12.2)	24488	3.3

Source: Company

Rail business financials

- In Q1FY11, the volumes of the rail business were up strong 17.2% on YoY basis to 28456 TEU. However the revenues were at Rs.720 mn up 2.8% on YoY basis as the average realization were down 12.2% YoY to Rs.25288 per TEU. This was on back of increasing business form EXIM business which typically has shorter lead distances. The ratio of EXIM business to total business has been increased from 35% in Q1FY10 to 65% in Q1FY11.

- The average rake availability has gone up form 17 in Q4FY10 to 18 in Q1FY11. Going forward three more rakes is expected to be commissioned and we expect the total number of rakes to be 21 by September 2010. GRFL had fill factor of 84% in Q1FY11.
- The EBIDTA has remained flattish on YoY basis to Rs.83 mn. This was due to lower import cargo of steel and related products into its ICD.
- For Q1FY11 the rail business reported loss of Rs.43 mn. This was on account of increased depreciation, interest and amortization of rail license fees.
- ICD at Garhi (near Delhi) and ICD at Sanehwal in Ludhiana are ramping up their operations and they are now an integral part of the cargo being moved by rail form that region.
- The rail linked ICD at Faridabad is under construction and is expected to be operational by December 2010. Going forward it is looking to set up rail linked ICD at Chennai, Bhubaneshwar and one ICD in Gujarat.
- The money from Blackstone (Rs.3.0 bn) has not yet been received as it is awaiting certain Government approvals. The three year vision of the management is to have 40 rakes, four mega terminals and 400 trailers which would require a capex of ~Rs.7.5 bn.

Cold Chain Business Financials

(Rs mn)	Q1FY11	Q1FY10	YoY%	Q4FY10	QoQ%
Revenues	**105**	**78**	**34.3**	**94**	**11.6**
EBIDTA	**23**	**18**	**28.7**	**12**	**97.7**
EBIDTA (%)	22.2	23.1	(4.1)	12.5	77.1
PAT	**8**	**(1)**	**-**	**8**	**(7.2)**

Source: Company

Cold chain business financials

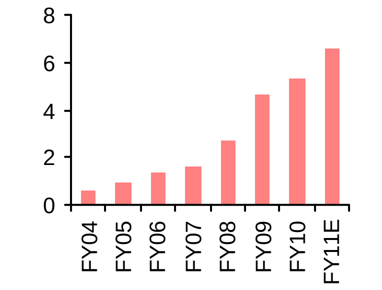
- The net sales for Q1FY11 were at Rs.105 mn up strong 34.3% on YoY basis. This was primarily on account of expansion of Chennai facility and improved business environment. The total capacity has been increased by 33.3% to 12000 pallets. Going forward it is expected to be further ramped up to 20000 MT by March 2011.
- It recorded EBIDTA of Rs.23 mn which is up 28.7% on YoY basis. It has successfully turned around its operations and has reported net profit of Rs.8 mn in Q1FY11 as against net loss of Rs.1 mn in Q1FY10.

CFS Financials - FY11E

(Rs mn)	Old	Revised	% shift
Lakh TEU	3.3	3.3	-
Sales	2,250	2,250	-
EBIDTA	1,182	1,088	(8.0)
EBIDTA (%)	52.5	48.3	(8.0)
NPAT	912	828	(9.3)

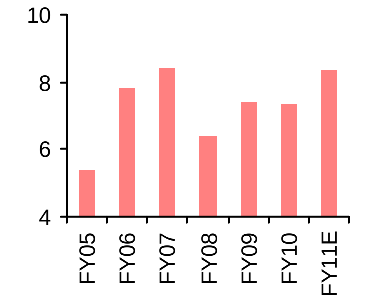
Source: Kotak Securities - Private Client Research

Cons. Net sales (Rs. bn)



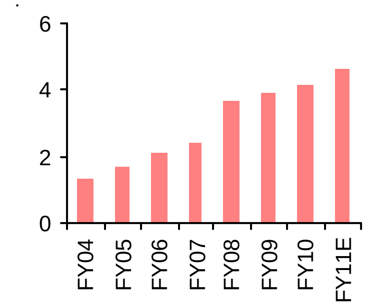
Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.)



Source: Company, Kotak Securities - Private Client Research

TEU graph annual



Source: Company, Kotak Securities - Private Client Research

We recommend ACCUMULATE on GDL with a revised price target of Rs.122

Change in earning estimates - Cons. FY11E

(Rs mn)	Old	Revised	% shift
TEU	4.6	4.6	-
Sales	6,583	6,583	-
EBIDTA	**1,898**	**1,804**	**(5.0)**
EBIDTA (%)	28.8	27.4	(5.0)
Net Profits	986	901	(8.6)
Equity	1,079	1,079	-
EPS (Rs.)	**9.1**	**8.4**	**(8.6)**
CEPS (Rs.)	13.9	13.1	(5.6)
WACC (%)	13.1	13.1	-
Terminal Growth (%)	4.0	4.0	-
Price Target (Rs.)	**132**	**122**	**(7.5)**

Source: Kotak Securities - Private Client Research

Change in CFS and consolidated earning estimates and price target

- We have revised the CFS business financials to account for slower then expected recovery from fire at Punjab Conware CFS at JNPT and increased competition at all its CFS facilities.
- On a consolidated basis for FY11E we now expect GDL to report cons. revenues of Rs.6.5 bn (no change), lower operating margin of 27.4% (down 140 bps) and PAT of Rs.901 mn (down 8.6%).
- Accordingly we expect GDL to report cons. EPS of Rs.8.4 and CEPS of Rs.13.1 for FY11E as against our earlier estimate of Rs.9.1 and Rs.13.9 respectively.
- We have valued GDL on DCF method of valuation with 13.1% WACC and 4.0% terminal growth rate (no change). Due to downward revision in earning estimates the price target is also revised downwards to Rs.122 as against Rs.132 earlier.

Further issue of shares

The board of directors of GDL has approved issue of equity shares to raise up to Rs.2.5 bn to augment the long term resources of the company. The money raised would used for the expansion, development and acquisition in its existing businesses. We await further details from the management regarding the same.

Valuation & Recommendation

- At the current market price of Rs.112, the stock trades at 1.7x book value, 13.4x earnings and 8.5x cash earnings based on FY11E.
- We continue to remain positive on the long term growth prospects of the company due to increasing containerization, export import trade and company's presence at all the major ports, rail linked ICD, running of private container trains and expansion in booming cold chain business would keep its position stronger in the future as well.
- Due to 9% upside potential from the current levels, we recommend investors to **ACCUMULATE** the stock of GDL for medium to long term gains with revised price target of Rs.122.

RESULT UPDATE

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BLUE STAR LTD

PRICE: RS.435 **RECOMMENDATION: BUY**
TARGET PRICE: RS.470 **FY11E P/E: 17.2x**

Numbers are lower than expectations as cost pressures and project mix changes pull down margins. All the three business segments (Projects, Cooling products and professional electronics) came out with healthy revenue growth but margins have shrunk across segments. However, we believe that the Q1FY11 EBITDA margins may not truly reflect the full year margins and we expect margins to rise in the subsequent quarters.

We by and large remain positive on the company in view of strong entrenched position in the domestic market and positive macros. High ROE is another positive. Key to stock performance would be order intake in the coming quarters. Maintain a BUY with a target price of Rs 470.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	25,494	30,277	36,337
Growth (%)	-0.1	18.8	20.0
EBITDA	2,992	3,386	4,195
EBITDA margin (%)	11.7	11.2	11.5
Net profit (adj)	1,976	2,276	2,856
Net cash (debt)	1130	1,295	2,494
EPS (Rs)	22.0	25.3	31.8
Growth (%)	7.9	15.2	25.5
CEPS	25.8	29.1	35.9
DPS (Rs)	7.0	7.0	7.0
ROE (%)	45	39	37
ROCE (%)	59	51	50
EV/Sales (x)	1.5	1.2	1.0
EV/EBITDA (x)	12.7	11.2	8.7
P/E (x)	19.8	17.2	13.7
P/Cash Earnings	16.8	14.9	12.1
P/BV (x)	7.8	5.9	4.5

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY11	Q1 FY10	YoY (%)
Net Sales	**6598**	**5385**	**23**
Commission	50	13	294
Raw material costs	4464	3645	22
Staff costs	473	464	2
traded items	579	304	90
Other expenditure	523	360	45
Total Expenditure	6040	4773	27
PBDIT	**609**	**625**	**-3**
Other income	4	4	-7
Interest	20	4	376
Depreciation	76	82	-8
PBT	**517**	**543**	**-5**
Tax	150	131	14
PAT	**367**	**412**	**-11**
PBDIT (%)	9.2	11.6	
Tax rate (%)	29.0	24.2	
Raw material cost to sales (%)	76.4	73.3	
Other expenditure to sales (%)	7.9	6.7	
Staff costs to sales (%)	7.2	8.6	
EPS Rs per share	**4.1**	**4.6**	

Source: Company

Revenue growth sustains momentum but changes in revenue mix may be hurting profitability

- For the first quarter, net sales posted a growth of 23% yoy to Rs 6.5 bn. There has been strong growth across all the three segments.
- The Central Airconditioning (CAC) segment registered a growth of 16% yoy after several quarters of sub-optimal growth. This line of business comprises the central airconditioning, packaged airconditioning and electrical contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems.
- This segment is project based and continuing slackness in commercial real estate development is reflecting in moderation in execution momentum. In view of the existing oversupply, user segments like Offices and IT developers have either deferred or slowed down their plans to increase capacity. To put in per-

spective, office space leased out by JLLM was 32 mn sq ft in 2007, which was the peak year. In subsequent years ie 2008 and 2009, demand for office space has declined to 28 msf and 21 msf respectively. However, in 2010, demand is expected to improve to 28-30 msf aided by industries such as Pharma, Telecom and Infrastructure.

- The commercial (office) market is dominated by the IT/ITES sector that accounts for approximately 80% of the total commercial space absorption in India. Outlook has improved in recent times thanks to recovery in the US economy.
- The IT/ITES sector is expected to log in healthy growth in terms of employee addition in the current fiscal. However, since there is surplus office space available in the system, near-term increase in demand for commercial real estate would be easily absorbed. Translation of demand into creation of fresh commercial real estate activity is likely to happen by end of 2010.
- As the traditional lines of user segments like IT and Retail have slowed down, Blue Star has enhanced its exposure to territories infrastructure, healthcare, hospitality and education segments. The Company is receiving orders from power project companies such as Siemens and ABB for their airconditioning requirements.
- The cooling products business comprises room airconditioners and refrigeration products and systems. This segment grew 33% yoy in the first quarter, which was expected as the consumer durables industry has been expanding at a fast pace. The growth has been aided by early onset of the Summer season in the West and South.
- The cooling products segment also includes the cold chain equipment, which has vast growth potential considering the sheer magnitude of agri-produce that is wasted due to lack of proper storage facilities. Blue Star is working with various industry bodies to improve the viability of cold chain. It is expected that to handle 15% of fruits and vegetables in a time span of 3-4 years an investment of Rs 150 bn would be required.
- Fresh impetus to the cooling segment has been provided by enhanced demand from the education institutions in the Southern states.
- The professional electronics business posted a growth of 31 yoy. This is a product cum project business catering to the requirement of the industrial sector.
- Over the years, the Company has changed its business model from merely being a distributor of leading global manufacturers to that of a system integrator and value added reseller, thereby moving up the value chain. The Company executes several turnkey engineered projects in the areas of manufacturing, telecom, healthcare, defence, pharmaceuticals, banking and R&D. It is currently executing a compressed air plant order worth Rs 450 mn for SAIL, Burnpur

Segment revenues

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Central AC	3742	3230	16
Cooling products	2534	1909	33
Professional electronics	323	247	31

Source: Company

Margins declined on cost preassure and business mix changes

- EBITDA margins declined 240 bps to 9.2% from 11.6% in Q1 FY10. Change in the business mix and escalation in input costs were mainly responsible for the decline.
- Steel prices have been higher on a yoy basis in the quarter. The FM had increased the excise duty by 200 bps in Union budget 2010-11, which may have also contributed to increase in imported components.

Segment margins

(%)	Q1 FY11	Q1 FY10	FY10	FY09
Central AC	9.1	10.5	11.9	12.6
Cooling products	13.9	17.3	14.3	12.6
Professional electronics	16.9	28.2	30.9	22.3

Source: Company

Order booking yet to pick-up meaningfully

- The Central Airconditioning projects business is a play on the domestic commercial real estate activity in the country. Order booking in FY09-10 was affected by the slowdown in construction, retail and infotech segments. As a result, growth in order booking declined to 10.6% and 4.9% in FY09 and FY10 respectively from 41% in FY08.
- On a quarterly basis, estimated order intake is flat but up 27% sequentially. While the order pipeline is promising, there has been delay in order finalization which is reflecting in moderation in pace of order intake.
- Order backlog at Rs.19.1 bn is up 15% and 14% yoy and qoq. Revenue visibility is adequate at 9 months of trailing four quarter revenues considering that the execution cycle of orders is 12 months.

Capital engagement in CAC has remained high

The capital employed in Central Airconditioning has remained high on a yoy basis as well as sequential basis. The company has been grappling with rising payment cycle in the projects business as developers are going slow on project execution.

Cap employed

(Rs mn)	Q1 FY11	Q1 FY10	Q4 FY10
Central AC	4970.9	3793.7	4038.2
Cooling products	1005.2	1030.5	1033.7
Professional electronics	533.8	3423.3	527.4

Source: Company

Blue Star has announced its intention to acquire D S Gupta Construction for Rs 800 mn

- D S Gupta Construction (DSGC) is headquartered in Mumbai with a turnover of Rs 1.3 bn in FY10 and order book of Rs 3.0 bn. Established over two decades ago, it has pan India operations and is reputed for its quality of work and timely execution. It has a large pool of skilled manpower coupled with long standing relationships and impressive credentials in segments such as hotels, hospitals, educational institutions, commercial buildings, IT/ITES parks and residential complexes. Some of the notable projects executed by the company include Rajiv Gandhi International Airport, Hyderabad; Kokilaben Dhirubhai Ambani Hospital, Mumbai; Wipro, Gurgaon; The Leela, Mumbai, Gurgaon & Udaipur; NSE, Mumbai; ISB, Hyderabad and UB City, Bengaluru amongst others.
- With this acquisition, not only will the Company be in a position to aggressively pursue integrated MEP business, but will also bid for stand alone plumbing and fire fighting contracting projects by cross-selling its services to its existing airconditioning and electrical contracting customers. Blue Star has a first-hand experience of the capabilities of D S Gupta as it has partnered the company on several occasions.

Blue Star's strategy is to expand its services portfolio to tap a higher share of revenue from the same client

Over the years, Blue Star has continued to focus on the commercial AC business and added new competencies including Electrical, Plumbing and Fire Fighting to tap a higher share of the customer's wallet. Taking cue from the way the MEP business has evolved in India, Blue Star foresees that in years to come, the customer would be looking at a single vendor to provide entire services also covering maintenance of buildings systems (including systems like security, elevator etc) , in addition to traditional MEP.

Industry Structure

In 2009-10, the estimated total market size for airconditioning in India was around Rs. 107.5 bn (a growth of 5% over FY09). Of this, the market for central airconditioning, including central plants, packaged/ducted systems and VRF systems was about Rs. 52.5 bn (a drop of close to 9%), while the market for room airconditioners comprised the balance Rs. 55 bn. The commercial airconditioning segment catering to corporate and commercial customers is around Rs. 80 bn. During the previous fiscal, the after-effects of economic slowdown coupled existing inventory of commercial space resulted in fewer business opportunities. However, the airconditioning market witnessed significant growth in segments such as hospitality, healthcare and education. In addition, infrastructure segments such as airports, power plants and metro rail were unaffected by the economic downturn and project plans were on track. In the central airconditioning systems, Blue Star and Voltas remain the market leaders in India sharing close to 60% of the market.

Stock Outlook and Valuation

We recommend BUY on Blue Star with a price target of Rs.470

- The stock has been a market performer over the past quarter. However, the business outlook for the company is expected to improve following the healthy growth outlook provided by the IT sector.
- We have minor changes to earnings to build in lower than expected Q1 numbers. However in view of the improving scenario for the company's key user segments, maintain our positive view on the stock and maintain BUY with an unchanged target price to Rs 470.
- The stock is currently trading at 17.2x and 13.7 FY11 and FY12 earnings respectively.
- On an EV/EBITDA basis, the stock is trading at forward multiple of 11.2x.
- Maintain **BUY** with a target price of Rs 470.

Peer Valuations

(x)	PE FY10	PE FY11	EV/E
CRG	24	20	10.9
Voltas	21	16	11.2
Thermax	35	24	15.2
Cummins	24	21	12.5
Greaves Cotton	14	12	6.5
Blue Star	20	18	11.2
KPTL	16	13	10.0
BEL	20	15	8.3
HDO	17	13	8.5

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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NTPC

PRICE: RS.201 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.216 **FY11E P/E: 17.1X**

- **Sedate power generation during accompanied by rise in overheads has led to decline in profits.**
- **Progress in capacity addition is the major value driver for utility stocks like NTPC. Herein, capacity addition has continued to lag, thereby affecting growth in earnings.**
- **Despite the underperformance over the past quarter, the stock trades at close to the higher end of its trading multiples. We recommend investors to utilize further declines in the stock to buy from a long-term point of view. The company remains a defensive bet.**
- **Maintain accumulate with price target of Rs 216 (Unchanged)**

Summary table

(Rs bn)	FY10	FY11E	FY12E
Sales	463.2	505.0	580.9
Growth %	10.3	9.0	15.0
EBITDA	143.2	165.4	187.2
EBITDA margin %	30.9	32.8	31.5
Net profit	87.3	97.0	105.9
EPS (Rs)	10.6	11.8	12.8
Growth %	6.4	11.1	9.2
CEPS	13.8	15.0	16.1
DPS (Rs)	3.7	4.1	4.5
ROE %	14.6	14.8	14.8
ROCE %	12.6	13.1	13.3
EV/EBITDA (x)	13.0	12.0	12.1
P/E (x)	19.0	17.1	15.7
P/Cash Earnings	14.6	13.4	12.5
P/BV (x)	2.6	2.4	2.2

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1 FY11	Q1 FY10	% YoY
Comm gen bn units	56	56	0.0
Net sales	**129,445**	**120,027**	**7.8**
Other op income	3,581	5,253	-31.8
Expenditure	99,578	88,270	12.8
-Fuel Cost	87,023	77,427	12.4
-Staff Cost	6,838	5,904	15.8
-Others	5,716	4,939	15.7
Operating profit	**33,448**	**37,010**	**-9.6**
Depreciation	6,827	6,128	11.4
Gross profit	**26,621**	**30,882**	**-13.8**
Interest	5,358	4,447	20.5
Other income	2,269	2,510	-9.6
PBT	**23,532**	**28,945**	**-18.7**
Tax	5,113	7,009	-27.0
-current	4,212	5,819	-27.6
-deferred	901	1,190	-24.2
PAT	18,419	21,936	-16.0
Ratios			
Fuel cost/Net sales (%)	67.2	64.5	
Staff cost/Net sales (%)	5.3	4.9	
Other expenditure to sales (%)	4.4	4.1	
EBITDA/Sales (%)	28.6	35.2	
Net profit margin (%)	14.2	18.3	
Tax rate (%)	21.7	24.2	
Avg tariff rate	2.3	2.2	
Fuel cost per unit	1.6	1.4	
EBITDA per unit	0.60	0.67	
No.of Shares ostdg mn	8246	8246	
EPS (Rs)	**2.2**	**2.7**	

Source: Company

Tardy capacity addition drags down profit growth

- Revenue growth for the quarter came in line with expectations as the company had reported flat generation volumes in the quarter.
- As against a capacity addition target of 3300 MW for FY10 NTPC added 1490 MW of fresh capacity. NTPC has been missing on its scheduled completion of capacities for quite some time. Some of the reasons include, land acquisition, logistical bottlenecks, law and order situation and delays from equipment vendors. For the current fiscal, the target is to add 4150 MW.
- Out of the 17930 MW under construction for XIth plan target, work is under suspension at 2500 MW capacity consisting of 1980 MW project at Barh I and a due to contractual dispute with the Russian equipment supplier. The Hydro power projects are also lagging behind due to environment issues.
- Out of the capacity addition plan for FY11, NTPC has synchronized Unit 6 of 490 MW of National Capital Thermal Power Project, Dadri.

Capacity addition plan for FY11 MW

Sipat stage I	660
Jhajjar unit 1 & 2	1000
Korba stage III	500
NCTPP stage II	490
Simhadri stage II	1000
Farakka stage III	500
Total	4150

Source: Company

Status of XIth plan targets

- NTPC has targets to add 22430 MW during XI plan (2007-12). Out of which, 17830 MW is under construction. For the XIIth plan, the company had targeted installed capacity of 25000 MW. As of now, the company has identified capacity under bidding of 7092 MW while feasibility reports on 15000 MW are under preparation. The company has invited bulk tenders for 5940 MW capacity based on supercritical technology.
- Employee costs have increased as the company paid out wage hike pertaining to the sixth pay commission.
- Interest cost rose 20% yoy on account of higher borrowings as the company is in a midst of massive capacity addition plan.
- The company incurred a capex of Rs 101.4 bn in FY10 and has envisaged a capex of Rs 223.5 bn in FY11.
- Other income for the quarter is down 10% due to lower interest income as a result of decline in bank deposit rates and reduction in government bonds.

Valuation and Recommendation:

- The NTPC stock has underperformed the Sensex over the past two quarters on lackluster performance.
- On a P/BV basis, the trading band has been 2x to 2.5x. At the current price, the stock is trading at the higher end of the trading band.
- Given that capacity additions are lagging, we are projecting 6.3% and 9.2% growth in earnings in FY11 and FY12 respectively.
- NTPC is currently trading at 17.1x and 15.6x FY11 and FY12 earnings respectively. On a P/BV basis, the stock trades at 2.4x FY11 book value. We maintain accumulate with a price target of Rs 216 (Unchanged).

We recommend ACCUMULATE on NTPC with a price target of Rs.216

RESULT UPDATE

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MOTILAL OSWAL FINANCIAL SERVICES (MOFS)

PRICE: RS.167 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.177 **FY11E P/E: 13.1X**

- **Brokerage revenue remained stable; ADV improved sequentially, brokerage yield remained flat at 2.9%**
- **Fee based revenue growth remained healthy, up by 44% yoy; interest income grew by 14% qoq in the wake of uptick in its financing book**
- **Net profit growth was largely in line with our expectation at Rs. 375mn; up by 5% on a yoy basis**
- **Capital market volumes to remain flattish for some more time; stock trading at 13.1x of its FY11 earnings, maintain accumulate recommendation with price target of Rs. 177.**

Summary table

(Rs mn)	FY09	FY10E	FY11E
Income from opns	4,340	6,250	6,837
Other income	321	203	259
Total income	4,661	6,453	7,096
EBITDA	1,486	2,567	2,826
PAT	896	1,704	1,857
EBIDTA Margins (%)	34.2	41.1	41.3
PAT Margins (%)	20.6	27.3	27.2
Operating Expenses/ Total Income	62.1	58.9	58.7
Employee Cost/ Total Income	26.2	21.9	22.5
EPS	6.3	12.0	13.1
Book Value	55.9	65.5	76.0
RoE (%)	11.9	19.8	18.5
RoA (%)	10.8	19.6	18.1
P/E (x)	27.1	14.3	13.1
P/BV (x)	3.1	2.6	2.3

Source: Company, Kotak Securities - Private Client Research

Quarterly Performance

(Rs mn)	Q1FY11	Q4FY10	Q1FY10	YoY (%)	QoQ (%)
Income from operations	**1461.3**	**1581**	**1475**	**-0.9**	**-7.6**
Brokerage income	1112	1035	1157	-3.9	7.4
Investment Banking Fees	129.3	230	96	34.7	-43.8
Fund Based income	143	125	175	-18.3	14.4
Asset Management Fees	77	191	47	63.8	-59.7
Other income	53	85	17	211.8	-37.6
Total income	**1514.3**	**1666**	**1492**	**1.5**	**-9.1**
Operating Expense	900.7	905.0	887.8	1.5	-0.5
Employee cost	388.7	359.5	318.6	22.0	8.1
Administration cost	512	545.5	569.2	-10.0	-6.1
EBITDA	**613.6**	**761.0**	**604.2**	**1.6**	**-19.4**
Interest	15.2	-11.5	25	-39.2	-232.2
Depreciation	31	35.9	33.6	-7.7	-13.6
PBT	**567.4**	**736.6**	**545.6**	**4.0**	**-23.0**
Taxes	184.8	221.1	182.2	1.4	-16.4
Minority interest	-6.8	-13.9	-4.5		
PAT	**375.8**	**501.6**	**358.9**	**4.7**	**-25.1**
EBITDA Margin (%)	40.5	45.7	40.5		
PAT Margin (%)	24.8	30.1	24.1		

Source: Company

Brokerage revenue remained stable; ADV improved sequentially, brokerage yield remained flat at 2.9%

- Capital market volumes during Q1FY11 remained muted following a 10% decline in the cash segment volumes to Rs.175bn. Overall capital market average daily volumes (ADV) has grown by 12% qoq, however it remained skewed towards F&O segments. MOFS's Brokerage revenue grew by 7.4% qoq to Rs.1112mn, while it de-grew by 4%yoy following lower high yield cash segment volumes.
- For Q1FY11, MOFS has reported a flattish sequential trend in market share at 2.9%. MOFS's average daily volumes have increased to Rs.31bn in Q1FY11 from Rs 27bn in Q4FY10, however it marginally remained higher, however it marginally remained higher
- Although MOFS is more active in the cash segment, a sequential rise in average trade volumes and decline in brokerage yields to 5.6bps from 6.3bps in Q4FY10 and 5.9bps in Q1FY10, indicate increasing share of futures and options volumes.

Fee based revenue growth remained healthy, up by 44% yoy; interest income grew by 14% qoq in the wake of uptick in its financing book

- MOFS's fee based revenue growth has remained healthy over Q1FY10 - Investment banking income has grown by 35% yoy to Rs.129mn, Asset management fee has also grown by 63% yoy to Rs.77mn from Rs. 47 in Q1FY10. Fee-based income forms close to 14% of the company's top-line. Asset management fee for Q1FY11 is not comparable with Q4FY10, as MOFS booked its annual PMS performance fee.
- Income from financing book witnessed a de-growth of 18% yoy, which we opine is on the back of decline in yield on advances. However a uptick in the financing book on a sequential basis has led to some traction MOFSs funding income which grew by 14% qoq to Rs.143mn. MOFS's loan book grew by 25% QoQ to Rs.2 bn from Rs.1.6 bn in Q4FY10.

Net profit growth was largely in line with our expectation at Rs. 375mn; up by 5% on a yoy basis

- MOFS has reported a 5% yoy growth in net profit to Rs. 375mn, which is in line with our estimates. However sequentially net profit has de-grown by 25% qoq following muted capital market volumes, which are more skewed to low yielding futures and options segment.
- Adjusting for the extraordinary income in the Q4FY10, which includes Rs.61mn of profit on sale of investment, Interest capitalized (for a real estate property) Rs. 19mn and annual PMS fee of Rs. 73mn, net profit has actually grown degrown by 2% qoq.
- Operating cost has largely remained flattish during Q1FY11. MOFS's operating performance largely remained stable during Q1FY11; EBITDA margin and PAT margin remained flat at 40% and 24% respectively.

Capital market volumes to remain flattish for some more time; stock trading at 13.1x of its FY11 earnings, maintain accumulate recommendation with price target of Rs. 177.

- We opine that the capital market volumes will remain muted for some time; however increased thrust on fee-based income will drive bottom-line growth for capital market intermediaries. Although we expect a flattish growth in capital market volumes in the H1FY11, we maintain our capital market volume growth estimate of ~13% for FY11 and 19% for FY12.

We recommend ACCUMULATE on Motilal Oswal with a price target of Rs.177

- We maintain our earnings estimates for FY11 and FY12; we expect a net profit growth of 9% yoy to Rs.1.8bn for FY11 and 11.5% for FY12 to Rs.2.1bn. At the current market price, the stock is trading at 13.1x its FY11 earnings estimates. We maintain our accumulate recommendation with a price target of Rs 177.

RESULT UPDATE

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INDIAN BANK

PRICE: RS.222
TARGET PRICE: RS.250

RECOMMENDATION: ACCUMULATE
FY11E P/E: 6.7X; P/ABV: 1.3X

NPAs spiked sharply during Q1FY11 due to Rs.8.3 bn slippage (annualized rate of 5.3%); downgrade the stock to ACCUMULATE from BUY earlier

- **Net interest income (NII) and net profit came in line with our expectations. However, sharp deterioration in the asset quality is likely to be overhang on the stock performance in the medium term.**
- **NII grew at 25.6% (YoY) on back of strong growth in loan book (30.9%) along with 15 bps improvement in the margin from 3.56% in Q1FY10 to 3.71% in Q1FY11.**
- **Net profit rose only moderately (11.0% YoY) on back of sharp increase in NPA provisions during Q1FY11 (Rs.4.1 bn in Q1FY11 as against Rs.1.4 bn in Q1FY10) due to higher slippage (Rs.8.3 bn in Q1FY11).**
- **Gross NPA rose 108.4% YoY and 93.8% QoQ, whereas rise in net NPA was rose even sharper at 433.3% (YoY) and 252.9% (QoQ). Cumulative restructured book stands at Rs.52.45 bn (7.7% of advances), slightly higher than the industry average. Provision coverage is down to ~83% (including technical w/o) at the end of Q1FY11 from 93.7% at the end of Q4FY10.**
- **We are assuming higher slippage (1.5% in FY11 vs. 1.1% in FY10) and higher credit costs (100 bps in FY11 vs. 63 bps in FY10) during FY11. We have also tweaked our earning estimates downward for FY11E and now recommend ACCUMULATE on the stock (downgraded from BUY earlier) with the target price of Rs.250 (Rs.264 earlier) based on P/ABV of 1.5x its FY11E adjusted book value.**

Result Performance

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Interest on advances	15,845.8	14,193.5	11.6
Interest on Investment	5,262.3	4,450.4	18.2
Interest on RBI/ banks' balances	109.7	158.5	-30.8
Other interest	0.6	-	NM
Total Interest earned	**21,218.4**	**18,802.4**	**12.8**
Interest expenses	11,951.4	11,425.6	4.6
Net interest income	**9,267.0**	**7,376.7**	**25.6**
Other income	3,554.6	3,501.6	1.5
Net Revenue (NII + Other income)	12,821.6	10,878.3	17.9
Operating Expenses	**4,442.9**	**4,573.4**	**-2.9**
Payments to / Provisions for employees	3,214.9	3,452.3	-6.9
Other operating expenses	1,228.0	1,121.2	9.5
Operating profit	**8,378.8**	**6,304.9**	**32.9**
Provisions & contingencies	3,439.0	1,208.6	NM
Provision for taxes	1,257.7	1,779.7	-29.3
Net profit	**3682.1**	**3316.6**	**11.0**
EPS, Rs	**8.29**	**7.44**	**11.4**

Source: Company

NPAs spiked sharply during Q1FY11; restructured book at 7.7%

NPAs spiked sharply during Q1FY11 due to Rs.8.3 bn slippage (annualized rate of 5.3%). Gross NPA rose 108.4% YoY and 93.8% QoQ. Similarly, net NPA also rose at 433.3% (YoY) and 252.9% (QoQ).

The higher slippage during Q1FY11 has come on the back of Rs.3.6 bn worth of loans slipping from restructured book, Rs.2.2 bn worth of agricultural loan becoming bad along with change in the NPA recognition system which tracks it on daily basis with the help of CBS.

Its provision coverage ratio declined to ~83% (including technical w/o) at the end of Q1FY11 from 93.7% at the end of Q4FY10. The cumulative restructured book stands at Rs.52.45 bn (7.7% of advances), slightly higher than the industry average.

In percentage terms, gross NPA increased to 1.45% at the end of Q1FY11 from 0.91% and 0.81% at the end of Q1FY10 and Q4FY10, respectively. Similarly, its net NPA deteriorated to 0.76% at the end of Q1FY11 from 0.19% at the end of Q1FY10 and 0.23% at the end of Q4FY10.

Trend in NPAs

	1Q 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	YoY (%)	QoQ (%)
Gross NPA	4.74	4.80	5.14	5.10	9.88	11.1%	11.1%
Gross (%)	0.91	0.89	0.89	0.81	1.45		
Net NPA	0.96	0.97	0.90	1.45	5.11	54.5%	54.5%
Net (%)	0.19	0.18	0.16	0.23	0.76		

Source: Company

Core performance in line with our expectations

NII grew at 25.6% to Rs.9.27 bn in Q1FY11 from Rs.7.38 bn in Q1FY10 on back of strong growth in loan book (30.9%) along with 15 bps improvement in the margin from 3.56% in Q1FY10 to 3.71% in Q1FY11.

Net profit rose only moderately at 11.0% to Rs.3.68 bn in Q1FY11 from Rs.3.32 bn in Q1FY10 on back of sharp increase in NPA provisions during Q1FY11 (Rs.4.1 bn in Q1FY11 as against Rs.1.4 bn in Q1FY10) due to higher slippage (Rs.8.3 bn in Q1FY11).

Muted non-interest income on lower treasury gains

Bank witnessed muted growth (1.5% YoY) in non-interest income which was almost flat at Rs.3.55 bn in Q1FY11 on back of 44.6% decline in treasury profit.

- Treasury profit declined 44.6% from Rs.1.03 bn in Q1FY10 to Rs.570 mn in Q1FY11.

Strong loan growth with moderate deposit mobilization led to improvement in C/D ratio; higher desposit growth in future to fund its loan book

Total business of the bank increased 23.6% to Rs.1590.3 bn at the end of Q1FY11 from Rs.1287.0 at the end of Q1FY10.

Loan book witnessed strong growth of 30.9% (YoY) to Rs.680.3 bn at the end of Q1FY11 from Rs.519.8 at the end of Q1FY10. Large corporate & MSME grew 39.3% & 32.1%, respectively (YoY) whereas retail segment delivered moderate growth of 10.0% (YoY).

Total deposits of the bank rose at moderate pace of 18.6% (YoY) to Rs.910.0 bn at the end of Q1FY11 from Rs.767.2 at the end of Q1FY10. CASA mix accounts for 32.7% of the total deposits at the end of Q1FY11. Its low cost deposits improved from 29.9% at the end of Q1FY10 to 32.7% at the end of Q1FY11 due to lower growth in term deposits (13.9% YoY).

Trend in Deposit growth

(Rs bn)	June-09	March-10	June-10	Gth (YoY)	Gth (QoQ)
Demand	229.6	280.5	297.5	29.6	6.1
Current	48.3	63.1	63.4	31.4	0.6
Saving	181.3	217.5	234.1	29.1	7.6
Term	537.6	601.8	612.5	13.9	1.8
Total	**767.2**	**882.3**	**910.0**	**18.6**	**3.1**

Source: Company

The faster growth in advances vis-à-vis deposits has led to improvement in the C/D ratio from 67.8% at the end of Q1FY10 to 74.8% at the end of Q1FY11. However, going forward, bank has to mobilize more term deposits to finance its loan growth, as there is a little scope to improve C/D ratio, from hereon.

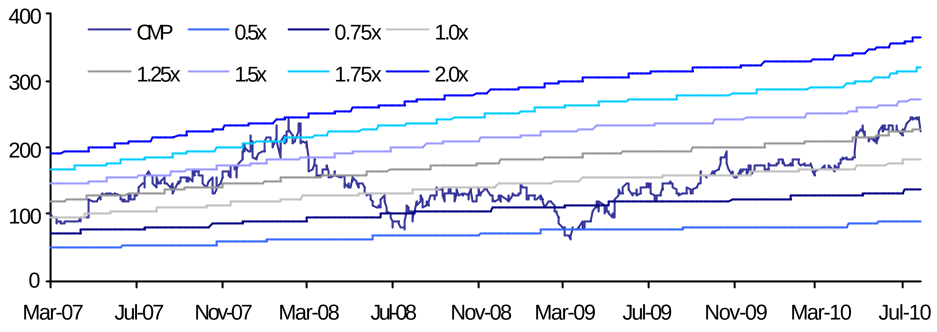
We are expecting NIM to decline to 3.5% level for FY11 due to larger interest payment on back of higher term deposit mobilization.

Valuation & Recommendation

At the current market price of Rs.222, the stock is trading at 6.7x its FY11E earnings and 1.3x its FY11E ABV. We are assuming higher slippage (1.5% in FY11 vs. 1.1% in FY10) and higher credit costs (100 bps in FY11 vs. 63 bps in FY10) during FY11.

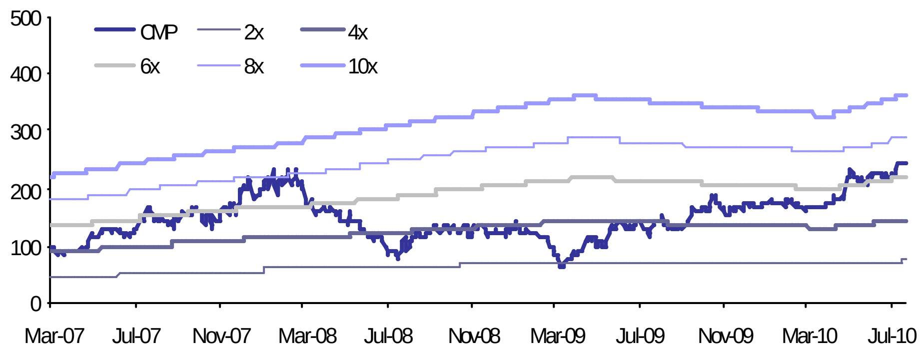
We have tweaked our earning estimates downward for FY11E and now expect net profit for FY11E to be Rs.14.14 bn, which would result into an EPS of Rs.32.9 and ABV of Rs.166.9 for FY11E.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

We recommend ACCUMULATE on Indian Bank with a price target of Rs.250

We recommend **ACCUMULATE** on the stock (downgraded from BUY) with the target price of Rs.250 (Rs.264 earlier) based on P/ABV of 1.5x its FY11E adjusted book value.

Key data

(Rs bn)	2008	2009	2010E	2011E
Interest income	51.51	68.30	78.57	91.90
Interest expense	31.21	42.22	45.53	54.68
Net interest income	**20.30**	**26.09**	**33.04**	**37.22**
Other income	10.06	10.35	11.74	12.45
Gross profit	16.36	20.56	27.47	30.28
Net profit	**9.85**	**12.45**	**15.55**	**14.14**
Gross NPA (%)	1.2	0.9	0.8	1.2
Net NPA (%)	0.2	0.2	0.2	0.5
Net interest margin (%)	3.3	3.5	3.7	3.4
RoE (%)	26.3	25.6	25.6	19.9
RoAA (%)	1.6	1.6	1.7	1.3
Dividend Yield (%)	1.8	2.3	2.9	3.4
EPS (Rs)	**22.9**	**29.0**	**36.2**	**32.9**
Adjusted BVPS (Rs)	96.8	125.3	151.3	166.9
P/E (x)	**9.7**	**7.7**	**6.1**	**6.7**
P/ABV (x)	2.3	1.8	1.5	1.3

Source: Company, Kotak Securities - Private Client Research

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Tech	2,804	0.7	3.0	0.6
Bharti Airtel	320	2.1	2.8	9.4
TCS	849	1.2	1.7	1.4
Losers				
SBI	2,410	(3.5)	(7.7)	1.6
Maruti Suzuki	1,191	(12.3)	(7.6)	6.5
Hero Honda	1,804	(7.5)	(4.5)	1.3

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
27-Jul	Ashok Leyland, Asian Hotels, BPL, Cairn India, Ceat, Glenmark, Godrej Ind, GTL, HCL Tech, Hindustan Unilever, IRB Infra, JSW Steel, Jubilant org, L&T, Kirloskar Bros, RIL, Spicejet, Titan Inds, VIP Ind earnings expected
28-Jul	Alfa Laval, Chennai Petro, Corporation Bank, DLF, EID Parry, Essel Propack, GMDC, Jindal Steel, Kirloskar Oil, M&M, Marico, Merck, Trent, Voltas earnings expected
29-Jul	Aban Offshore, Alok Ind, Apollo Tyres, Arvind, Bank of Maharashtra, Bata India, Band of Baroda, Federal Bank, GSPL, Hero Honda, Kalpataru Power, ONGC, Petronet LNG, SAIL, Siemens, Subex earnings expected

Source: Bloomberg

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