MORNING INSIGHT

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Kotak Securities

PRIVATE CLIENT RESEARCH

AUGUST 3, 2010

Economy News

- The capital market regulator has asked key Anil Dhirubhai Ambani (ADA) Group executives, including chairman Anil Ambani, to appear before it on September 3, after they failed to respond to show-cause notices issued to them. (ET)
- The SC has asked the high courts not to interfere with the debt recovery proceedings initiated against defaulters, upholding the right of lenders to recover their dues. All alternatives available to the borrowers should be exercised before the high courts exercise their discretion to interfere with recovery proceedings. (ET)
- India's manufacturing grew at a strong rate in July, helped by a pick-up in new orders and better export demand, a private survey showed, but there was no commensurate increase in hiring in the month. (ET)

Corporate News

- **Power Finance Corporation** is likely to ask the government not to sell stake in the company,and instead allow it to raise fresh equity to meet the regulatory capital requirements of its fast-expanding business. The public sector power financier may write a letter to the power ministry to seek a relaxation on grounds that divestment by government could affect its own equity raising plans. (ET)
- **Tata Steel** is negotiating with Thailands Sahaviriya Steel Industries to sell its UK-based Teesside plant. The talks are based on the advise of Citigroup, but a deal is not a certainty. (ET)
- Citibank International, a company incorporated in the UK, had invested $150 million in convertible securities issued by Emmar MGF three years ago. In the past one month Citibank India officials have approached banks with real estate exposure, including mortgage giant **HDFC**, for offloading the papers at a discount, said two bankers who were sounded out by Citi. (ET)
- Saudi Arabia-based Saudi BinLadin Group (SBG) on Monday said it has acquired a 20% stake in infrastructure firm **Maytas Infra** for Rs 3 bn. SBG purchased a 20% stake in Maytas Infra at Rs 196.1 a share, a discount of Rs 10 on the current market price of the scrip. (ET)
- **Bilcare** said it is buying the plastic film-making unit of petrochemical company INEOS for Rs 6.0 bn.The acquired business has revenue of Rs 14.6 bn, but its operating margin will be disclosed only later. (ET)
- **Uflex** is exiting the solid waste processing business by selling 70% stake in AKC Developers to its joint venture partner Hanjer Biotech for Rs 980 mn, a top company executive said. (ET)
- **Larsen and Toubro (L&T)** today announced its biggest order of the financial year — a Rs 65 bn order from Jaiprakash Power Ventures. L&T's power equipment division bagged this order to supply boiler, turbine and generator package, and commission Jaiprakash's 1,980-Mw power project in Karchana district, Uttar Pradesh. (ET)

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

Equity

	2 Aug 10	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	18,081	1.2	3.6	4.0
NIFTY Index	5,432	1.2	3.7	4.0
BANKEX Index	11,817	2.4	10.8	6.6
BSET Index	5,489	0.3	4.8	3.5
BSETCG INDEX	14,689	0.7	1.3	6.0
BSEOIL INDEX	10,265	1.0	(4.2)	3.9
CNXMcap Index	8,499	1.0	5.0	5.6
BSESMCAP INDEX	9,435	0.9	3.6	2.9
World Indices				
Dow Jones	10,674	2.0	10.2	(4.3)
Nasdaq	2,295	1.8	9.7	(8.1)
FTSE	5,397	2.6	11.6	(2.8)
Nikkei	9,570	0.3	5.3	(12.4)
Hangseng	21,413	1.8	8.2	3.5

Value traded (Rs cr)

	2 Aug 10	% Chg - Day
Cash BSE	3,637	(13.9)
Cash NSE	11,690	(12.5)
Derivatives	61,661.9	(9.9)

Net inflows (Rs cr)

	30 Jul 10	% Chg	MTD	YTD
FII	1,040	(76.6)	17,658	47,902
Mutual Fund	(636)	10.1	(2,417)	(10,544)

FII open interest (Rs cr)

	30 Jul 10	% Chg
FII Index Futures	15,337	2.9
FII Index Options	46,312	4.6
FII Stock Futures	33,489	2.7
FII Stock Options	639	7.1

Advances / Declines (BSE)

2 Aug 10	A	B	S	Total	% total
Advances	158	1,112	265	1,535	59
Declines	45	753	169	967	37
Unchanged	0	90	15	105	4

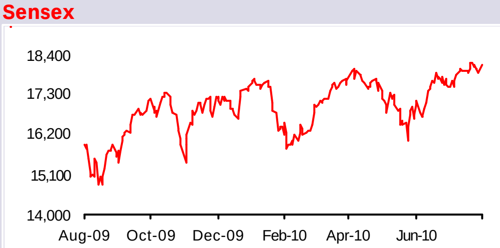
Commodity

	2 Aug 10	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	81	0.1	12.9	(5.5)
Gold (US$/OZ)	1,183	0.2	(2.3)	0.1
Silver (US$/OZ)	18	2.0	2.9	(2.2)

Debt / forex market

	2 Aug 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.86	7.80	7.56	7.74
Re/US$	46.25	46.41	46.79	44.53

Sensex



RESULT UPDATE

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GRASIM INDUSTRIES

PRICE: RS.1856 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.2141 **FY11E P/E: 6.7X**

Consolidated result highlights

- **Revenues of the company for Q1FY11 remained flattish on YoY basis, inline with our estimates. This was due to decline in cement realizations but compensated to some extent by improvement in VSF realizations as well as volume expansion in cement division on YoY basis.**
- **Operating margins stood at 25.8% for Q1FY11, inline with our expectations.**
- **Net profit declined by 47% for Q1FY11 led by decline in operating margins, higher depreciation charges as well as no extraordinary income as against Rs 3.5 bn in Q1FY10 on sale of sponge iron division.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Revenues	184,039	199,337	206,186
% change YoY	8.4	8.3	3.4
EBITDA	43,296	57,870	52,585
% change YoY	(12.7)	33.7	(9.1)
Other Income	4,532	5,356	5,200
Depreciation	8,658	9,947	11,231
EBIT	39,170	53,279	46,554
% change YoY	(17.6)	36.0	(12.6)
Net interest	3,105	3,346	3,150
Surplus on sales tax loan	-	-	-
Profit before tax	36,066	49,933	43,404
Tax	9,914	15,705	13,651
as % of PBT	27.5	31.5	31.5
Profit after tax	26,152	34,228	29,753
Minority Interest	4,445	7,141	4,432
Profit on sale of subsidiary shares	159	3,872	-
Net income	21,867	30,959	25,321
% change YoY	(24.4)	41.6	(18.2)
Shares OS (m)	91.7	91.7	91.7
EPS (adjusted) (Rs)	238.5	295.4	276.2
P/E(x)	7.8	6.3	6.7
EV/EBITDA(x)	4.8	3.3	3.4
RoE(%)	21.7	25.0	17.1
RoCE(%)	24.0	28.2	22.2

Source: Company, Kotak Securities - Private Client Research

Consolidated financials

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net sales	**50,552**	**50,803**	**-0.5**
Expenditure	37,514	34,987	7.2
Dec/(Inc) in stock	-1,400	568	
Raw material consumed	10,040	9,391	
As a % of sales	19.9	18.5	
Purchase of finished goods	290	300	
As a % of sales	0.6	0.6	
Staff cost	2,748	2,582	
As a % of sales	5.4	5.1	
Power and fuel	10,224	8,545	
As a % of sales	20.2	16.8	
Freight, handling and other expense	7,893	6,679	
As a % of sales	15.6	13.1	
Other expenditure	7,719	6,922	
As a % of sales	15.3	13.6	
Operating profit	13,038	15,816	-17.6
Operating margin	25.8%	31.1%	
Depreciation	2672	2,400	
EBIT	**10,366**	**13,416**	**-22.7**
Interest	912	823	
EBT(exc other income)	9,454	12,593	-24.9
Other income	1,598	991	
Write back of provisions			
EBT	**11,052**	**13,584**	**-18.6**
Tax	3199	4,409	
Tax%	28.9%	32.5%	
PAT	**7,853**	**9,175**	**-14.4**
- Minority share	2,215	1,902	
+ Share of profit/(loss) of associate	112	3,527	
Net profit	**5,750**	**10,800**	**-46.8**
Equity capital	916.9	916.9	
EPS (Rs)	**62.7**	**117.8**	

Source: Company

- **At current market price of Rs 1856, stock is trading at 6.7x P/E and 3.4x EV/EBITDA for FY11. Though cement prices are under pressure but VSF prices have stabilized. VSF realizations are expected to remain stable in near to medium term. Overall cost pressures are likely to increase for both VSF and cement divisions but our estimates already factor in corresponding decline in the overall margins for FY11.**
- **We thus continue to maintain our estimates as well as recommendation on the stock. We recommend ACCUMULATE with a price target of Rs 2141 as against Rs 2214 earlier on FY11 estimates.**

Revenue growth inline with our estimates

- Revenues of the company for Q1FY11 remained flattish on YoY basis, inline with our estimates. This was impacted by decline in cement realizations but compensated to some extent by improvement in VSF realizations as well as volume expansion in cement division on YoY basis.
- Segment wise performance of the company is shown below -
  - **Cement** - For Q1FY11, cement volumes for Grasim (Samruddhi) registered 10.6% increase as against Q1FY10 while for Ultratech Cements, volumes registered an increase of 7.2% as against Q1FY10. Consolidated cement volumes including clinker stood at 9.85 MT for Q1FY11. Blended cement realizations in Q1FY11 have witnessed an improvement sequentially but on YoY basis, blended realizations stood at Rs 3500 per tonne in Q1FY11 as against Rs 3564 per tonne in Q1FY10. White cement volumes have witnessed an increase of 24.5% and realizations remained almost flattish in Q1FY11 as against Q1FY10. On a sequential basis, white cement realizations have witnessed a decline. Wall Care putty segment has witnessed a sharp improvement in demand and volumes registered an increase of 40% YoY.

    Overall cement division continues to contribute a significant proportion of total revenues and is currently at 78% of the total revenues. Company is also venturing into international business by acquisition of ETA Star Cement through Ultratech Cement. It also plans to start brownfield expansion of 9.2MT by Q4FY11 after understanding the market scenario in order to maintain its market share.
  - **VSF** - VSF volumes have witnessed an increase in Q1FY11 primarily due to overall improvement in demand from emerging markets as against last year. VSF realizations have also improved sequentially and stood at Rs 118 per kg. VSF prices seem to have stabilized now in this range but with increase in inventory build up and continued uncertainty from European region may restrict further improvement in VSF prices going forward. Overall margins in VSF segment are likely to decline from the current levels due to increase in pulp and sulphur prices going forward.
  - **Chemicals** - Chemicals' division volumes registered an increase of 9% and average realizations declined by 11% YoY for Q1FY11. Sequentially there is an improvement in chemical prices due to increase in chlorine and HCL prices. Chemical prices are recovering due to improvement in global markets. Chemicals and VSF division together contribute 22% of the total revenues.

Segmental revenue breakup

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Fibre and Pulp	9676	8063	20.0
Cement	39737	40505	-1.9
Sponge iron	0	1108	-100.0
Chemicals	1186	1202	-1.3
Textiles	934	726	28.6
Others	2	2	-4.3
Total	**51536**	**51605**	**-0.1**
(Less) intersegmental revenue	349.5	377.5	
Net sales	**51186**	**51228**	**-0.1**

Source: Company

Division wise comparision

	Q1FY11	Q1FY10	YoY (%)
Cement division details			
Grey Cement			
Sales Volumes(MT)	5.33	4.82	10.6
Realisations(Rs/tonne)	3,378	3,448	-2.0
Ultratech Cement Sales volumes(MT)	5.04	4.7	7.2
Realisations(Rs/tonne)	3,332	3,533	-5.7
White Cement sales volume(MT)	133,052	106,898	24.5
Realisations(Rs/tonne)	8,172	8,137	0.4
VSF division details			
VSF volumes(MT)	67,302	67,418	-0.2
VSF realisations(Rs/tonne)	117,910	97,543	20.9
Chemical division details			
Sales volumes(MT)	54,386	49,845	9.1
Realisation(Rs/Tonne)	18,455	20,753	-11.1

Source: Company

- Company will commence the work on brownfield expansion of 9.2MT at Chattisgarh and Karnataka by Q4FY11 at an outlay of Rs 56 bn. Capex on Vilayat plant for expanding overall VSF capacity is on track and commercial production is expected to commence in FY13.
- We continue to maintain our estimates for revenues going forward and expect company to post revenues of Rs 206 bn for FY11.

Operating margins impacted by higher costs in cement and VSF division

- Operating margins stood at 25.8% for Q1FY11, inline with our expectations Operating margins in Q1FY11 are impacted by increase in costs in the cement as well as VSF division. Cement division has witnessed increase in imported as well as domestic coal prices which resulted in increasing power and fuel cost. Higher diesel prices also resulted in higher freight costs which impacted margins adversely. In VSF division, prices of pulp and sulphur have witnessed a jump.
- Along with this, cement division realizations have also gone down due to moderation in cement demand and higher supplies in the market.
- However, improvement in VSF prices helped offset cost increases.
- Our estimates already factor in cost pressures in the cement and VSF division and we thus continue to maintain our estimates and expect margins to be 25.5% for FY11.

Net profit growth impacted by decline in operating margins

- Net profit declined by 47% for Q1FY11 led by decline in operating margins, higher depreciation charges as well as no extraordinary income as against Rs 3.5 bn in Q1FY10 on sale of sponge iron division.
- We continue to maintain our estimates and expect net profits to be around Rs 25.3bn for FY11.

Restructuring update

Grasim shareholders have received shares of Samruddhi Cements in the ratio of 1:1 as a part of the demerger process. Post amalgamation scheme, shareholders of Samruddhi Cements will receive 4 shares of Ultratech for every 7 shares held. Thus, post merger with Samruddhi Cements and completion of acquisition of ETA Star, Ultratech would emerge as key player in cement sector with an overall capacity of nearly 52 MT and a pan India presence.

Valuation and recommendation

- At current market price of Rs 1856, stock is trading at 6.7x P/E and 3.4x EV/ EBITDA for FY11.

We recommend ACCUMULATE on Grasim Industries with a price target of Rs.2141

- Though cement prices are under pressure and are likely to remain subdued for next 6-8 quarters but VSF prices have stabilized. VSF realizations are expected to remain stable in near to medium term. Overall cost pressures are likely to increase for both VSF and cement divisions but our estimates already factor in corresponding decline in the overall margins for FY11.
- We thus continue to maintain our estimates as well as recommendation on the stock. We recommend ACCUMULATE with a revised price target of Rs 2141 as against Rs 2214 on FY11 estimates. Our price target is changed due to change in the market price of Ultratech Cements and Idea Cellular.

Sum of the parts valuation based on FY11 estimates

Division	EBITDA (Rs mn)	EV/EBITDA (x)	EV (Rs mn)	Rationale
Valuation of VSF division	9,942	4.5	44,740	Based on relative valuations
Valuation of chemical division	1,026	4	4,102	Based on relative valuations
Total				
Valuation of 60.3% holding in merged entity			113,673	At 20% discount to current price of Rs.860
Investments			9,713	At 20% discount to current market price of Rs 71
Net debt			24,078	
Total valuation			**196,306**	
Value per share (Rs)			2141	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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INDIA CEMENTS

PRICE: RS.105 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.95 **FY11E P/E: 11.6X**

- **Revenues for Q1FY11 declined by 8% YoY, which was inline with our estimates. Revenues were impacted by lower cement realizations but were boosted to some extent by freight earnings to the tune of Rs 114 mn, wind mill earnings to the tune of Rs 25 mn and IPL earnings to the tune of Rs 129 mn in Q1FY11.**
- **Operating margins of the company stood at 11.4% for Q1FY11 as against 30% for Q1FY10. Margins have been impacted by decline in cement prices and increase in power and fuel, raw material and freight expenses.**
- **Net profits for Q1FY11 declined by 83% YoY, primarily impacted by lower cement realizations as well as increase in costs.**
- **We reduce our margin estimates for the company going forward due to the above mentioned factors.**
- **At current market price of Rs 105, stock is trading at 11.6x P/E and 6.1x EV/EBITDA multiples for FY11 respectively. We arrive at a revised price target of Rs 95 based on average of 6x EV/EBITDA and 9.5x PE for FY11. Maintain REDUCE**

Summary table

(Rs mn)	FY09	FY10	FY11E
Revenues	34,268	37,713	40,926
% change YoY	12.5	10.1	8.5
EBITDA	9,962	8,266	7,746
% change YoY	(7)	(17)	(6)
Other Income	(325)	805	400
Depreciation	2,033	2,331	2,529
EBIT	7,604	6,740	5,617
% change YoY	(24.4)	(11.4)	(16.7)
Net interest	1,122	1,426	1,456
Profit before tax	6,483	5,313	4,161
% change YoY	(28)	(18)	(22)
Tax	2,161	1,770	1,373
as % of PBT	33.3	33.3	33.0
Profit after tax	4,322	3,543	2,788
Net extra-ordinary income	-	-	-
Net income	4,322	3,543	2,788
% change YoY	(32.6)	(18.0)	(21.3)
Shares outstanding (m)	281.9	307.0	307.0
EPS (reported) (Rs)	15.3	11.5	9.1
P/E(x)	6.8	9.1	11.6
EV/EBITDA(x)	4.7	5.5	6.1
RoE(%)	12.4	9.0	6.5
RoCE(%)	14.1	11.3	8.6

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net Sales	**8,807**	**9,535**	**-8**
Expenditure	7,806	6,671	
Inc/Dec in trade	-224	-279	
RM	1,387	1,123	
As a % of net sales	15.7	11.8	
Staff cost	630	516	
As a % of net sales	7.1	5.4	
Power and fuel	2,751	2,438	
As a % of net sales	31.2	25.6	
Transportation & Handling	1,838	1,308	
As a % of net sales	20.9	13.7	
Other expenditure	1,424	1,566	
As a % of net sales	16.2	16.4	
Operating Profit	1,001	2,863	-65
Operating Profit Margin (%)	11.4	30.0	
Depreciation	599	571	
EBIT	**402**	**2,293**	**-82**
Interest	298	385	
EBT(exc other income)	105	1,908	
Other Income	285	68	
Exceptional gains	-116	210	
EBT	**274**	**2,186**	**-87**
Tax	24	743	
Tax Rate (%)	8.8%	34.0%	
PAT	**250**	**1,443**	
Net Profit	250	1,443	-83
NPM (%)	2.8%	15.1%	
Equity Capital	3,071.7	2,824.4	
EPS (Rs)	**0.8**	**5.1**	

Source: Company

Revenues impacted by steep decline in cement realizations

- Revenues for Q1FY11 declined by 8% YoY, which was inline with our estimates.
- Revenues were impacted by lower cement realizations but were boosted to some extent by freight earnings to the tune of Rs 114 mn, wind mill earnings to the tune of Rs 25 mn and IPL earnings to the tune of Rs 129 mn in Q1FY11.
- Cement dispatches (including clinker) in Q1FY11 stood at 2.749 MT (up 11.7% YoY) while adjusted cement realizations stood at Rs 3106 per tonne (down 16% YoY). Cement volumes are impacted by stoppage of work at Chilamkur for upgrading the facility and unscheduled maintenance at Dalavoi plant.
- During Q1FY11, upgradation of Chilamkur plant was completed and cement plant at Banswara, Rajasthan being put up by Indo Zinc Ltd will commence commercial production by Sep, 2010.Work is also on schedule on coal based power plants in Tamil Nadu and Andhra Pradesh. Power plant at TN is expected to commission by Q1FY12 and AP plant by Q4FY12.
- Cement realizations remained sluggish in Q1FY11 on a sequential basis because increases witnessed between Feb-Mar, 2010 were negated by declines seen between May-Jun, 2010. Thus, on an average, cement realizations improved marginally by Rs 5 per bag. Going forward also, due to bunching up of capacities in southern india, we expect prices to continue to remain under pressure. This would have an adverse impact on overall revenues for the company going forward.
- Demand supply scenario is also unfavorable in southern India. During Q1FY11, south has registered almost a nil growth. Within south, Karnataka registered a growth of over 10%, Tamil Nadu grew by 3% while there was a negative growth of 5% in Andhra Pradesh and Kerala. This resulted in almost nil growth in southern markets in Q1FY11. This coupled with incremental supplies resulted in over supply in the market, thereby impacting prices adversely. We expect that cement prices may not recover in near to medium term especially in the southern region due to bunching up of capacities.
- India Cements plans to change the market mix by reducing the exposure to AP and increasing focus in TN and Karnataka where realizations are much better than AP. Thus, overall cement realizations of company on a sequential basis may witness an improvement in next quarter. We continue to maintain our estimates for the company and expect dispatches of 12MT, translating into revenues of Rs 41bn for FY11.

Operating margins impacted by rise in costs and fall in realizations

- Operating margins of the company stood at 11.4% for Q1FY11 as against 30% for Q1FY10. Margins have been impacted by decline in cement prices and increase in power and fuel, raw material and freight expenses.
- Company has made EBITDA of Rs 57.2mn on shipping while a loss of Rs 800 mn for IPL during Q1FY11.
- Overall costs for the company have seen an increase as compared to last year as well as sequentially due to increase in the following heads -
  - Raw material costs have witnessed an increase due to increase in the fly ash cost as well as increase in duty on limestone.
  - Freight costs have been witnessing an increase in line with increase in the petrol and diesel prices. Along with this, overall lead distance for the company has also increase since the company is transporting cement to eastern and north eastern markets due to lower realizations seen in the southern markets from past few quarters. This is expected to remain high till price differential between eastern and southern region remains huge.
  - Power and fuel cost per tonne have remained high inline with the increase in coal prices.

Cost per tonne analysis

	Q1FY11	Q1FY10
Despatches(mn tonne)	**2.749**	**2.461**
Adj cem realisation/tonne	3106	3677
YoY(%)	-15.5%	
Cost Per tonne		
Raw material	423	343
Staff cost	229	210
Power and fuel	1001	991
Transporation &Handling	669	532
Other expenditure	518	636
Total cost per tonne	**2840**	**2711**
EBITDA per tonne	**266**	**966**

Source: Company

- We thus reduce our margin estimates going forward to factor in higher power and fuel and freight expenses going forward. We now expect operating margins to be 18.9% for FY11. Our margin estimates are still better than Q1FY11 due to change in the market mix towards TN and Karnataka which may improve realizations going forward as compared to Q1FY11.
- Key risks to our estimates would be further decline in cement prices from current levels. Further decline of Rs 10-15 per bag in cement prices may result in loss at the EBITDA level for the company going forward.

Net profits registered a de-growth, inline with our expectations

- Net profits for Q1FY11 declined by 83% YoY, primarily impacted by lower cement realizations as well as decline in the operating margins.
- Post revising our margin estimates downwards, we expect net profits to be Rs 2.8 bn for FY11.

Valuation and recommendation

- At current market price of Rs 105, stock is trading at 11.6x P/E and 6.1x EV/EBITDA multiples for FY11 respectively.
- Southern region is worst impacted by the cement price declines due to bunching up of capacities. Thus in order to maintain dispatch growth, cement companies in southern India dispatched to the eastern and western regions also due to huge price differential between these regions. But with oversupply expected in the western region also, prices have started correcting. Going forward also, we expect demand supply gap to widen all over the country with commissioning of new capacities.

We recommend REDUCE on India Cements with a price target of Rs.95

- Pricing pressures are also coupled with rising costs such as higher raw material, freight as well as power and fuel expenses. Thus we expect margins to decline sharply going forward for the cement companies due to lack of pricing power in the hands of manufacturers. This would have an adverse impact on overall profitability of cement companies, especially in southern India where price declines have been very steep.
- We thus continue to maintain negative stance on the cement sector and a REDUCE recommendation on the stock.
- We arrive at a revised price target of Rs 95 based on average of 6x EV/EBITDA and 9.5x PE for FY11. Maintain **REDUCE.**

RESULT UPDATE

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INDIAN OVERSEAS BANK (IOB)

PRICE: RS.116 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.100 **FY11E P/E: 8.8X; P/ABV: 1.3X**

Q1FY11 results slightly better than our expectations; higher NPAs likely to remain as an overhang to the stock performance, in our view. We maintain REDUCE with TP of Rs.100 (Rs.90 earlier).

- **The bank's net interest income (NII) increased 17.9% to Rs.9.06 bn in Q1FY11 on back of better funding costs with 388 bps (YoY) improvements in CASA mix, despite moderate growth in loan book (7.9%) and deterioration in C/D ratio from 76.2% at the end of Q1FY10 to 75.8% at the end of Q1FY11.**
- **Its net profit declined 33.6% in Q1FY11 on account of higher provisions & contingencies (Rs.768 mn in Q1FY11 as against write-back of Rs.167in Q1FY10), 6.8% decline in non-interest income and Rs.822 mn expense (extraordinary item) during the quarter.**
- **Although NPAs have stabilized sequentially, it remains at the elevated levels, which is a cause of concern, in our view. Gross NPA and net NPA stands at 4.30% and 2.21%, respectively, at the end of Q1FY11, higher than its peers.**
- **We are slightly tweaking earning estimates for FY11E & FY12E and maintain REDUCE rating on the stock with the target price of Rs.100 (earlier Rs.90) based on P/ABV of 1.1x its FY11E adjusted book value.**
- **Currently, stock is trading at a cheap valuation vis-à-vis its peers. However, in our view, higher NPAs are likely to remain as an overhang to the stock performance. Therefore, we would advice our clients to look for better entry points.**

Result Performance

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Interest on advances	19,438	19,581	-0.7
Interest on Investment	6,677	5,680	17.6
Interest on RBI/ banks' balances	559	518	8.1
Other interest	-	-	NM
Total Interest earned	**26,675**	**25,779**	**3.5**
Interest expenses	17,613	18,094	-2.7
Net interest income	**9,063**	**7,684**	**17.9**
Other income	2,149	2,307	-6.8
Net Revenue (NII + Other income)	11,211	9,991	12.2
Operating Expenses	6,572	5,705	15.2
Payments to / Provisions for employees	4,745	4,075	16.4
Other operating expenses	1,828	1,629	12.2
Operating profit	**4,639**	**4,286**	**8.2**
Provisions & contingencies	768	(167)	-558.9
Provision for taxes	1,045	1,436	-27.3
Extraordinary Items	822	-	NM
Net profit	**2,004**	**3,018**	**-33.6**
EPS (Rs.)	**3.68**	**5.54**	**-33.6**

Source: Company

Earnings slightly better than our estimates

The bank's net interest income (NII) increased 17.9% to Rs.9.06 bn in Q1FY11 from Rs.7.68 bn in Q1FY10 on back of better funding costs with 388 bps (YoY) improvements in CASA mix, despite moderate growth in loan book (7.9%) and deterioration in C/D ratio from 76.2% at the end of Q1FY10 to 75.8% at the end of Q1FY11.

Its net profit declined 33.6% in Q1FY11 to Rs.2.00 bn in Q1FY11 from Rs.3.02 bn in Q1FY10 on account of higher provisions & contingencies (Rs.768 mn in Q1FY11 as against write-back of Rs.167in Q1FY10), 6.8% decline in non-interest income and Rs.822 mn expense (extraordinary item) during the quarter.

IOB has absorbed 1/3 of excess liabilities to assets during Q1FY11 which it had acquired earlier amounting to Rs.2.47 bn. The balance Rs.822 mn would be absorbed by FY12.

Subdued business growth

The bank witnessed subdued business growth which rose by only 8.3% to Rs.1924.1 bn at the end of Q1FY11 from Rs.1776.7 bn at the end of Q1FY10.

- Total deposits of the bank rose 8.6% YoY to Rs.1094.6 bn at the end of Q1FY11 from Rs.1008.1 bn at the end of Q1FY10. Its CASA mix improved from 29.2% at the end of Q1FY10 to 33.1% at the end of Q1FY11 due to slower growth in term deposits, which increased by only 2.6% (YoY) as compared to 23.0% YoY growth in CASA mix.
- Loan growth was also subdued at 7.9% to Rs.829.5 bn at the end of Q1FY11 from Rs.768.6 bn at the end of Q1FY10. Lower loan growth compared to deposit growth led to decline in C/D ratio from 76.2% at the end of Q1FY10 to 75.8% at the end of Q1FY11.

NPAs stabilized QoQ; however remains at the elevated levels, a cause of concern, in our view.

Although NPAs have stabilized sequentially, it remains at the elevated levels, which is a cause of concern, in our view. Gross NPA and net NPA stood at 4.30% and 2.21%, respectively, at the end of Q1FY11.

In absolute terms, gross NPA and net NPA increased 52.8% (YoY) and 49.3% (YoY), respectively, at the end of Q1FY11. However, sequentially both came down by 1.1% and 8.0%, respectively.

In percentage terms, gross NPA improved from 4.47% at the end of Q4FY10 to 4.30% at the end of Q1FY11. However, it deteriorated from 3.04% at the end of Q1FY10. Similarly, net NPA improved to 2.21% at the end of Q1FY11 from 2.52% at the end of Q4FY10, however, deteriorated from 1.59% at the end of Q1FY10.

Trend in NPAs

(Rs bn)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Gross NPA	10.99	17.25	17.18	19.23	23.37	26.85	32.18	36.11	35.71
Gross (%)	1.73	2.47	2.40	2.54	3.04	3.42	4.05	4.47	4.30
Net NPA	4.73	9.97	9.20	9.99	12.02	12.24	16.90	19.50	17.94
Net (%)	0.75	1.44	1.30	1.33	1.59	1.59	2.17	2.52	2.21

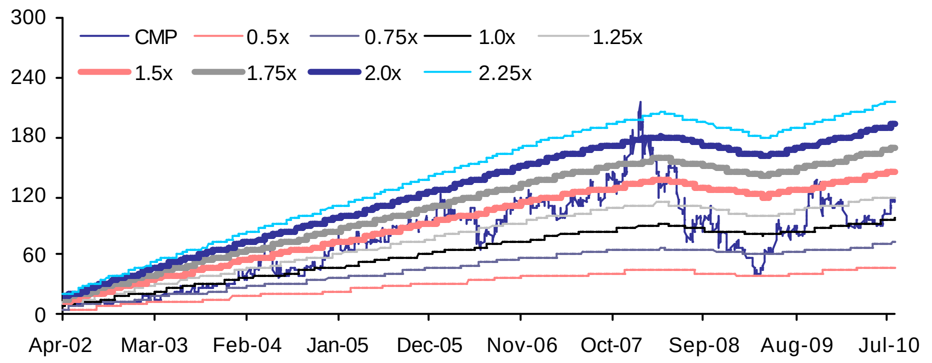
Source: Company

Its provision coverage ratio stands at 57.9% at the end of Q1FY11. To meet the RBI guidelines of 70% provision coverage by September 2010, it has to provide additional Rs.7.23 bn (~102% of FY10 profit). Here, we are not including the cumulative technical write-offs to reach the guideline of 70% PCR, which if included would require lower provisions (due to non-availability of data). In our view, its low provision coverage remains a significant risk to its earnings, going forward.

Valuations

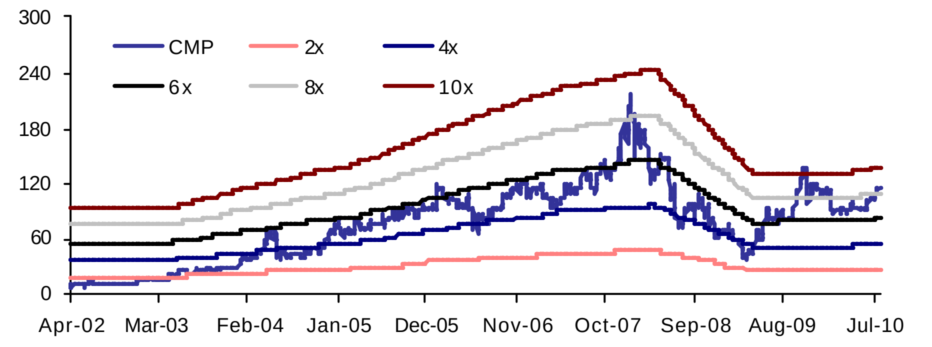
We are slightly tweaked earning estimates for FY11E and FY12E now expect net profit for FY11E and FY12E to be Rs.7.16 bn and Rs.8.31 bn, respectively. This would result into an EPS of Rs.13.1 and Rs.15.3 for FY11E and FY12E, respectively. The ABV is forecast at Rs.92.2 and Rs.104.5 respectively for FY11E & FY12E.

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

Key data

(Rs bn)	2008	2009	2010E	2011E
Interest income	77.39	96.41	102.46	109.12
Interest expense	52.89	67.72	70.78	74.25
Net interest income	24.50	28.70	31.68	34.88
Other income	10.37	15.96	11.43	11.06
Gross profit	20.02	25.24	18.45	18.42
Net profit	**12.02**	**13.26**	**7.07**	**7.16**
Gross NPA (%)	1.6	2.6	4.6	4.0
Net NPA (%)	0.6	1.3	2.5	2.1
Net int. margin (%)	3.0	2.9	2.8	2.9
RoE (%)	27.9	24.8	11.5	10.9
RoAA (%)	1.3	1.2	0.6	0.5
Dividend Yield (%)	3.2	4.5	3.0	3.4
EPS (Rs)	**22.1**	**24.3**	**13.0**	**13.1**
Adjusted BVPS (Rs)	**80.6**	**90.7**	**79.9**	**92.2**
P/E (x)	5.3	4.8	8.9	8.8
P/ABV (x)	1.4	1.3	1.5	1.3

Source: Company, Kotak Securities - Private Client Research

At the current market price of Rs.116, the stock is trading at 8.8x its FY11E earnings and 1.3x its FY11E ABV.

We maintain REDUCE on Indian Overseas Bank with a revised price target of Rs.100

We maintain **REDUCE** rating on the stock with the target price of Rs.100 (earlier Rs.90) based on P/ABV of 1.1x its FY11E adjusted book value.

Currently, stock is trading at a cheap valuation vis-à-vis its peers. However, in our view, higher NPAs are likely to remain as an overhang to the stock performance. Therefore, we would advice our clients to look for better entry points.

RESULT UPDATE

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JAMMU & KASHMIR BANK

PRICE: RS.816 **RECOMMENDATION: BUY**
TARGET PRICE: RS.989 **FY11E P/E: 7.1X; P/ABV: 1.2X**

Q1FY11 results: Core performance better than our expectations; Improvement in asset quality is a big positive for the stock, in our view...

- **J&K bank's NII (net interest income) grew 40.1% (YoY) on back of sharp improvement in NIM from 3.04% in Q1FY10 to 3.70% in Q1FY11 along with moderate growth in loan book (11.7% YoY). Margin improved due to 91 bps decline in cost of deposits vis-à-vis only 69 bps decline in yield on advances.**
- **Net profit rose 23.0% mainly aided by strong NII growth (40.1% YoY) and decline in provisions for bad debts (Rs.440 mn in Q1FY11 as against Rs.800 mn in Q1FY10), despite 23.0% decline in non-interest income.**
- **CASA mix improved to 37.8% at the end of Q1FY11 from 36.2% at the end of Q1FY10. Re-pricing of deposits along with improvement in CASA mix has helped the bank in improving its NIM from 3.04% in Q1FY10 to 3.70% in Q1FY11.**
- **Improvement in asset quality is a big positive for the stock. Its gross NPA declined 12.0% YoY (2.6% QoQ) and now stands at 1.92% (Q1FY11) as against 2.44% (Q1FY10) and 1.97% (4FY10). The decline in net NPA is even sharper at 95.0% YoY (87.5% QoQ). Bank has enhanced its provision coverage ratio from 68.8% at the end of Q1FY10 to 98.2% at the end of Q1FY11.**
- **We have slightly revised our earning estimates upward for FY11E and maintain BUY rating on the stock with the revised target price of Rs.989 (earlier Rs.880) based on P/ABV of 1.4x its FY11E adjusted book value.**

Result Performance

(Rs mn)	Q1FY11	Q1FY10	% (YOY)
Int. on advances	6259.6	5999.3	4.3
Int. on investments	2364.1	1656.1	42.8
Int. on RBI/Other balances	33.3	59.7	-44.2
Total interest earned	**8657.0**	**7715.1**	**12.2**
Interest expenses	4999.2	5103.6	-2.0
Net interest income	**3657.8**	**2611.5**	**40.1**
Other income	936.9	1216.1	-23.0
Net Revenue (NII + Other Income)	**4594.7**	**3827.6**	**20.0**
Operating Expenses	1711.8	1251.5	36.8
Employee cost	1197.4	804.1	48.9
Other operating exp	514.4	447.4	15.0
Operating profit	**2882.9**	**2576.1**	**11.9**
Provisions	700.7	802.9	-12.7
Taxes	728.7	591.8	23.1
Net profit	**1453.5**	**1181.4**	**23.0**
EPS (Rs.)	**29.98**	**24.15**	**24.1**

Source: Company

Earning growth better than our expectations

J&K bank's NII (net interest income) grew 40.1% to Rs.3.66 bn in Q1FY11 from Rs.2.61 bn in Q1FY10 on back of sharp improvement in NIM from 3.04% in Q1FY10 to 3.70% in Q1FY11 along with moderate growth in loan book (11.7% YoY). Margin improved due to 91 bps decline in cost of deposits vis-à-vis only 69 bps decline in yield on advances.

Net profit rose 23.0% to Rs.1.45 bn in Q1FY11 from Rs.1.18 bn in Q1FY10 mainly aided by strong NII growth (40.1% YoY) and decline in provisions for bad debts (Rs.440 mn in Q1FY11 as against Rs.800 mn in Q1FY10), despite 23.0% decline in non-interest income.

Muted non-interest income due to lower treasury gains

Non-interest income declined 23.0% YoY to Rs.0.94 bn during Q1FY11 as compared to Rs.1.22 bn during Q1FY10 on back of lower trading profit which contracted to Rs.336.3 mn in Q1FY11 as against Rs.724.3 mn in Q1FY10 (decline of 53.6% YoY). However, during the same period, C/E/B income witnessed robust growth of 48.7% YoY (12.6% QoQ). Similarly, insurance income also rose 37.6% YoY to Rs.64.4 mn.

Trend in non-interest income

(Rs mn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	Gth % (YoY)
Other Income	**1,216.1**	**1,011.9**	**958.1**	**1,016.9**	**936.9**	**-23.0**
Commission/ Exchange	238.0	299.0	331.5	314.4	353.9	48.7
Trading Income (Net of Amortization)	724.3	506.8	408.4	135.7	336.3	-53.6
Insurance Income	46.8	57.3	74.4	127.5	64.4	37.6
Misc. Income	206.9	148.8	143.8	439.3	182.3	-11.9

Source: Company

Business grew at moderate pace

Bank has been focusing on the effective balance sheet management which is now paying dividend. Total business of the bank rose moderately by 16.6% to Rs.606.6 bn at the end of Q1FY11 from Rs.520.3 bn in Q1FY10.

- Total deposits of the bank rose 19.8% to Rs.376.3 bn at the end of Q1FY11 from Rs.314.1 bn at the end of Q1FY10. CASA mix improved to 37.8% at the end of Q1FY11 from 36.2% at the end of Q1FY10. Re-pricing of deposits along with improvement in CASA mix has helped the bank in improving its NIM from 3.04% in Q1FY10 to 3.70% in Q1FY11.
- Advances of the bank grew moderately at 11.7% (YoY) to Rs.230.4 bn at the end of Q1FY11 from Rs.206.2 bn at the end of Q1FY10. The slower growth in advances vis-à-vis deposit growth (YoY) led to decline in C/D ratio from 65.6% at the end of Q1FY10 to 61.2% at the end of Q1FY11.

NIM improved both YoY as well as QoQ

Net interest margin (NIM) improved to 3.70% in Q1FY11 as compared to 3.04% in Q1FY10 and 3.27% in Q4FY10 due to improvement in liability franchise and re-pricing of deposits at lower rates. The sequential improvement in margin is against the industry trend where other banks have witnessed some pressure on their NIM due to higher interest outgo on their saving deposits (interest is calculated on daily basis since April 1, 2010).

Bank has well managed its liability mix which is visible from 91 bps decline in cost of deposits vis-à-vis only 69 bps decline in yield on advances. In our view, re-pricing of deposits along with improvement in CASA mix has helped the bank in improving its NIM. We are factoring in 3.27% NIM for FY11 as against 3.04% achieved during FY10.

Improvement in asset quality is a big positive; coverage ratio improved to 98.2%

Improvement in asset quality is a big positive for the stock. Its gross NPA declined 12.0% YoY (2.6% QoQ) and now stands at 1.92% (Q1FY11) as against 2.44% (Q1FY10) and 1.97% (4FY10). The decline in net NPA is even sharper at 95.0% YoY (87.5% QoQ).

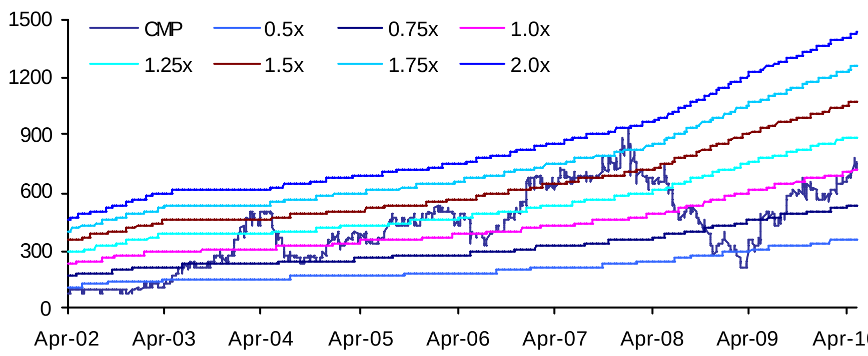
Bank has enhanced its provision coverage ratio from 68.8% at the end of Q1FY10 to 98.2% at the end of Q1FY11. Including technical write-offs, PCR would further improve to 98.72% at the end Q1FY11, which would be best in the industry by any means.

Lower net NPA in our forecast on back of its commendable performance on the asset quality front has led to rise in adjusted book value, a key factor for raising our target price.

Valuation & recommendation

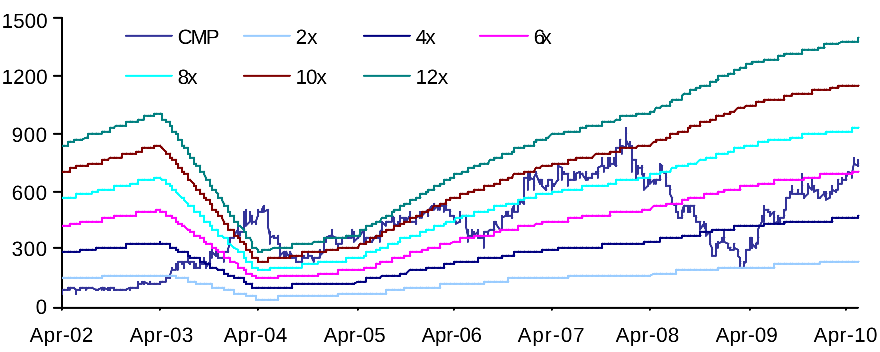
At the current market price of Rs.816, the stock is trading at 7.1x its FY11E earnings and 1.2x its FY11E ABV. We have slightly revised our earning estimates upward for FY11E and now expect full year profits of Rs.5.60 bn resulting into an EPS of Rs.115.4 and ABV (adjusted book value) at Rs.706.2.

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 maintain BUY on J&K Bank with a revised price target of Rs.989

We maintain **BUY** rating on the stock with the revised target price of Rs.989 (earlier Rs.880) based on P/ABV of 1.4x its FY11E adjusted book value.

Key Financials:

(Rs bn)	FY09	FY10	FY11E	FY12E
Interest income	29.88	30.57	35.34	40.20
Interest expense	19.88	19.38	21.73	24.68
Net interest income	**10.00**	**11.19**	**13.61**	**15.52**
Other income	2.45	4.16	4.09	4.52
Gross profit	7.74	9.58	10.82	12.26
Net profit	**4.10**	**5.12**	**5.60**	**6.46**
Gross NPA (%)	2.6	2.0	1.9	1.9
Net NPA (%)	1.4	0.3	0.1	0.1
Net int. margin (%)	3.2	3.0	3.3	3.3
RoE (%)	16.7	18.2	17.3	17.5
RoAA (%)	1.2	1.3	1.2	1.3
Dividend Yield (%)	2.1	2.7	2.8	3.1
EPS (Rs)	**84.5**	**105.7**	**115.4**	**133.3**
Adjusted BVPS (Rs)	**481.6**	**607.7**	**706.2**	**810.3**
P/E (x)	9.7	7.7	7.1	6.1
P/ABV (x)	1.7	1.3	1.2	1.0

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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VOLTAMP LTD

PRICE: RS.933 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1026 **FY11E P/E: 12.2X**

- **Voltamp's first quarter numbers are well below expectations as EBITDA margin has come under severe pressure. While the management had been guiding margin pressure for quite some time, the magnitude of margin decline has come as a significant negative surprise. Moreover, the company has indicated that margin pressure may not be a one-quarter aberration but may last longer. We have thus aligned our earnings in line with the current scenario.**
- **Industry scenario remains unfavourable as of now for T&D equipment makers with leading companies reporting significant margin loss in Q1 FY11.**
- **We had downgraded the stock to "Reduce at Rs 1045" in our previous update citing inadequate upside. The stock has corrected since our previous update, hence we upgrade the stock to Accumulate.**
- **We rate Voltamp as our preferred stock within the midcap transformer space in view of debt-free, cash surplus of Rs 141 per share and management quality. Thus, despite the poor numbers we prefer not being overly negative on the stock and would recommend investors to "Accumulate" the stock on declines.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	6431	5420	7124
Growth %	16	-16	31
EBITDA	1511	1058	1034
EBITDA margin %	24	20	15
PBT	1689	1223	1169
Growth %	36	-28	-4
Net profit	1148	823	771
Net cash (debt)	60	43	543
EPS (Rs)	114	81	76
Growth %	44	(28)	(6)
CEPS	118	87	84
DPS (Rs)	13	13	13
ROE %	53	27.6	21.2
ROCE %	79	41.2	32.4
EV/Sales (x)	1.2	1.5	1.1
EV/EBITDA (x)	5.3	7.5	7.3
P/E (x)	8.2	11.5	12.2
P/Cash Earnings	7.9	10.7	11.0
P/BV (x)	3.7	2.9	2.5
CEPS (Rs)	118.1	87.4	84.5
Operng cash flow	894.0	183.1	541.7
Net work cap (days)	51.4	92.9	75.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Gross sales	**1341**	**1142**	**17**
Excise	147	100	47
Net Sales / Income from Operations	1193	1042	15
Other Income	46	72	-37
Total Income	**1239**	**1114**	**11**
(Increase) / decrease in Stock			
Consumption of Raw Materials	996	804	24
Staff Cost	41	44	-8
Other Expenditure	26	31	-15
Operating Expenditures	1063	879	21
PBDIT	**130**	**163**	**-20**
Interest & Finance Charges	2.4	1.8	33
Depreciation	18	10	78
Profit / (Loss) before tax	**155**	**223**	**-30**
Tax provision	48	74	-35
Profit / (Loss) after tax	**107**	**149**	**-28**
EPS (Rs)	10.6	14.8	-28
Volume MVA	1908	1590	20
Gross revenues per MVA	702621	718428	-2
EBITDA/MVA	68,108	102,516	
Raw Matl cost per MVA	522170	505660	
Excise rate (%)	11.0	8.8	
OPM (%)	10.9	15.6	
Raw material cost to sales (%)	83.5	77.2	
Other exp to sales (%)	2.2	3.0	
Tax rate (%)	31.1	33.2	

Source: Company

Improved volumes but severe margin pressure

- Net sales grew 15% YoY primarily driven by 20% increase in volumes. The company sold transformers of 1980 MVA during the quarter. Sales to SEBs formed 60 MVA of the total volumes.
- Order backlog stands at Rs 4.2 bn (6985 MVA), which is healthy as the company tends to maintain six months of revenue visibility.
- While there has been revival in industrial production, it is yet to translate into improved offtake for Transformer companies. The sector has added capacity in anticipation of demand potential, however actual T&D spending by utilities has been sluggish. This is resulting in price undercutting by corporates with a view to utilize their expanded capacities.
- Other income for the company is less than our estimates and is reported Rs.46 mn vis-à-vis Rs. 72 mn in Q1FY11.
- The company managed to keep its overheads under control but could not contain the sharp decline in margins. The management has indicated that in a bid to garner market share, players are resorting to severe price cuts.
- It is likely that the company may have accepted orders at low margins. For the T&D equipment industry it has been a difficult quarter with (except Crompton Greaves) several leading producers reporting sharp margin contraction.
- Cash and investment stands at Rs 1.6 bn.

Transformer Industry Scenario

- Demand is increasing with slower pace for transformers. PGCIL spending has remained sluggish in H1CY10.
- Currently industry is operating at 70-75% capacity utilization.
- Competition is intensifying between various players leading to margins compression. Chinese and Korean manufacturers are also tightening their grip especially in 765 KV segment.
- Industry observed significant capacity addition in last two years with Areva doubling its capacity to and Siemens carrying out of Greenfield expansion in 765 KV segment.

Earnings Revision: Margin loss prompts earnings downgrade

The Q1 margin posted by the company has been the lowest in FY07 and we believe margins can bounce back in the future.

Earnings estimate (FY11)

	Earlier	Revised
Revenue (Rs mn)	6483	7124
EBITDA (%)	19	15
EPS (Rs)	96.0	76.4
% change		-20

Source: Kotak Securities - Private Client Research

Stock Outlook

The stock has reacted to the poor numbers with a 9% fall in a single day. We believe that the pains that the industry is going through may be temporary and fundamentals should improve once momentum in T&D spends by utilities gain steam. T&D spending is currently lagging the generation capacity growth and the situation should correct in the future. Within the madcap transformer industry, Voltamp is a quality stock with strong balance sheet. Hence we do not see significant downside from these levels.

Valuation

Following the earnings downgrade, Voltamp is currently trading at 12.2x FY11 earnings.

We now recommend to ACCUMULATE on Voltamp with a price target of Rs.1026

We upgrade the stock to **ACCUMULATE** from Reduce earlier. Target price based on DCF works out to Rs 1026 (Rs 1050 earlier). At our target price, the stock would trade at 15.3x FY11 earnings.

DCF Summary (Rs mn)

FCF in FY11	694
NPV of cash flows	4583
TV	4365
PAT growth CAGR between FY11-16 (%)	11
WACC (%)	13.9
Surplus Cash	1412
PV of FCF	8948
Fair Value	**1026**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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JAGRAN PRAKASHAN LTD (JPL)

PRICE: RS.123 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.130 **FY11E EV/EBITDA: 11.1x; PE: 18.2x**

- **JPL reported robust Q1FY11 results, inline with our estimates; revenues up 16.36% YoY at Rs 2.7 bn mainly driven by meaningful growth in advertising revenues.**
- **Benign NP prices and efficient cost control measures across the board resulted in EBITDA margins by 300 bps to 33.4%; PAT as a result grows 12% YY. Going forward we expect NP prices to firm up, and stabilize at higher levels over FY11E.**
- **We believe that JPL's strong franchise, positioning in key markets; a large market opportunity and a reasonable management team remain strengths.**
- **Valuations remain expensive in our opinion and we maintain 'ACCUMULATE' rating with a target price of Rs.130 for the stock.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	8,234	9,419	10,692
Growth (%)	9.8	14.4	13.5
EBITDA	1,567	2,823	3,326
EBITDA margin (%)	19.0	30.0	31.1
Net profit	858	1759	2,038
Net cash (debt)	-981	-1,563	-2,158
EPS (Rs)	2.9	5.8	6.8
Growth (%)	-12.5	104.9	15.9
CEPS	4.3	7.5	8.5
DPS (Rs)	2.0	3.5	3.0
ROE (%)	15.6	30.0	30.8
ROCE (%)	21.4	37.0	40.9
EV/Sales (x)	4.6	4.0	3.4
EV/EBITDA (x)	24.0	13.3	11.1
P/E (x)	43.2	21.1	18.2
P/Cash Earnings	28.5	16.3	14.5
P/BV (x)	6.6	6.0	5.2

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	YoY (%)	Q4FY10	QoQ (%)
Net sales	**2698.16**	**2318.73**	**16**	**2362.68**	**14**
Expenditure	1796.46	1613.44		1730.21	
PBIDT	**901.70**	**705.30**	**28**	**632.48**	**43**
Depreciation	124.90	123.66		134.90	
PBIT	**776.80**	**581.64**	**34**	**497.58**	**56**
Net Interest	12.27	13.70		23.90	
Other Income	57.46	156.60		66.00	
PBT	**821.99**	**724.54**	**13**	**539.68**	**52**
Tax	266.00	229.30		175.90	
Profit After Tax	555.98	495.24	12	363.78	53
EPS	**1.85**	**1.64**		**1.21**	
NPM (%)	21	21		15	
EBITDA (%)	33	30		27	

Source: Company

Result Highlights- Advertising revenues grow 21% YY; while circulation remains flattish. PAT in line with estimates

- JPL's 1QFY11 results inline with our estimates; revenues came in at Rs.2.7bn (up 16.36% YoY), EBITDA and PAT were up YoY at Rs 901 mn and Rs 556 mn.
- While we attribute the revenue growth of JPL in Q1FY11 to the relative resilience of regional advertising, strength of JPL's franchise and also readership gains in key new geographies has been relevant for the overall business growth. EBITDA margins for the quarter stood at 33% up 300 bps YoY
- During the quarter RM costs (28% of revenues, Rs.755.7 mn) increased by 7.7% YoY. We also highlight that the low cost inventory has benefited the company and would increase going forward on account of increase in NP prices and also companies expansion in newer geographies.
- For FY11E, we expect NP prices to firm up from the current levels ($610-620/MT) and believe that NP prices have likely made their low in FY10. We note NP prices have declined from the levels of $800/MT seen in early 2008 to lows of close to $540/MT. Our revised assumptions for NP build in an increase of nearly 10-11% in NP price cost head for FY11E.

- While other income fell sharply YoY due to forex gain of 40 mn and treasury gain of 70 mn in Q1FY10, PAT grew by 12% YoY on back of higher operating income and flat depreciation and interest expense.
- Reiterating that going forward for FY11E, we expect buoyant advertising markets in lieu of stable economic growth. We expect the advertising market to grow 13-15% with market leaders and established mediums (print, broadcasting) likely leading this revival.

Competitive intensity to climb in Bihar & Jharkhand; we believe it will only grow the markets as penetration levels remain low

- With the announcement of DB Corp's plans to enter the Bihar & Jharkhand markets over 2HFY11-1HFY12E the competitive intensity is set to increase for JPL.
- While cover prices dropped in these areas in response to the competition, an estimated combined Rs.2.3bn these advertising markets are currently penetrated at much lower levels than other regional markets.
- According to industry sources, the current ad markets size of Bihar & Jharkhand markets are growing at a higher than industry average growth. We believe future growth for players would be driven by an expansion in the market itself owing to increasing penetration (DB Corp management estimates penetration of only 18-20%) and robust advertising market growth (Bihar has been witnessing higher GDP growth rates compared to national avg. in the recent past).
- While the recent GDP numbers emanating from Bihar are of a low base and mask the years of sub-par growth given a host of factors, we believe even a steady growth of closer to the national average (7.5-8.5%) is enough to attract meaningful private sector advertiser interest. According to the JPL management close to 60-70% of the Bihar advertising market (Rs.1.7-1.8bn) is made up by Government advertising, significantly higher than other markets.
- We believe JPL may be reasonably placed to tackle emerging competition in Uttar Pradesh and Uttaranchal given its leadership position and attempts at broad-basing its portfolio through the launch of a flanking youth targeted brand, I-Next.
- Also JPL could consider expanding its core 'Dainik Jagran' brand with greater number of local editions in emerging cities of the Uttar Pradesh market.

Mid-Day acquisition is likely get accomplished by Q4FY11E; expect earnings neutral and estimates does not reflect financial impact from the transaction

- As per the scheme of arrangement between JPL and MML, print business of MML which is run by its 100% subsidiary MIL will be de-merged and, then transferred to JPL. The print business comprises publication brands Mid-Day, Sunday Mid-Day, Gujarati Mid-Day and 'Inquilab'.
- The radio business of MML, operated via its subsidiary Radio Mid-Day, will stay with the present shareholders of MML. As part of the transaction, JPL will issue two shares of itself for every seven shares held in MML and will assume debt of Rs.200mn, implying deal value of Rs1.95bn. The deal also involves acquisition of a printing facility with daily capacity of 300,000 copies.
- The share-swap deal will dilute JPL's equity by close to 5%, but valuations were reasonable at 2x EV/sales. However, we are concerned by management's strategic shift to focus on newer opportunities in the Mumbai market and English print. In our opinion both are hyper competitive and market-share gain may be difficult.

- We believe this transaction will entail a 4.8% equity dilution for JPL share holders; estimated accretive earnings from the acquired business is likely to offset the above making the MML deal EPS neutral in FY11E.
- Our financial estimates for FY11E have not incorporated the financial impact of the MML transaction as we await greater details on the consolidated balance sheet.

Rich valuations at 18.2x FY11E earnings; maintain accumulate with price target of Rs 130

We recommend ACCUMULATE on Jagran Prakashan with a price target of Rs.130

- At the CMP, the stock trades at 18.2x FY11E EPS and 11.1x EV/EBITDA. Historically the JPL stock has traded at c20-21x fwd EPS; our current price target of Rs.130 is based on FY11E estimates.
- We believe that the stock is fairly priced at the current price and thus maintain '**ACCUMULATE**' rating on the stock with a price target of Rs 130

RESULT UPDATE

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EDELWEISS CAPITAL (ECL)

PRICE: RS.489 **RECOMMENDATION: ACCUMULATE**

TARGET PRICE: RS.525 **FY11E P/E: 12.6X; P/ABV:1.5X**

- **ECL's Q1FY11 results better than our expectation. Its topline grew by 25% yoy to Rs.2793mn; PAT grew by 18% qoq and 8% yoy to Rs. 623mn as compared to Rs 525mn in Q4FY10.**
- **Core brokerage fee income remained muted during Q1FY11, however strong growth in arbitrage and treasury related business and strong growth in interest was the key driver for the top-line growth.**
- **Margins were under pressure due to increase in operating and interest costs; stood at 31.8% (28.6% in Q4FY10) PAT margin stood at 22.3% (20.2% in Q4FY10)**
- **At the current market price, ECL trades at P/E of 12.6x its FY11 earnings estimates. We maintain our positive outlook on Edelweiss capital. Decline in the stock should be used as an opportunity to ACCUMULATE the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Income from opns	9,690	12,710	14,679
Other income	88	95	105
Total income	9,778	12,805	14,784
EBITDA	5,306	7,879	9,504
PAT	2,205	2,816	3,307
Oprt margin (%)	34.3	36.4	36.9
PAT margin (%)	23.7	22.9	23.2
Op Exp/ Total Inc (%)	59.2	57.1	56.7
Emp Cost/Total Inc (%)	8.5	7.1	6.4
EPS (Rs)	30.6	38.9	45.5
Book Value (Rs)	301.2	325.4	356.3
RoE (%)	10.5	12.4	13.4
RoA (%)	5.8	5.5	5.6
P/E(x)	16.0	12.6	10.7
P/BV(x)	1.6	1.5	1.4

Source: Company, Kotak Securities - Private Client Research

Result Highlights

(Rs mn)	Q1FY10	Q4FY10	Q1FY11	% qoq	% yoy
Fee and commission income	671	1172	934	-20.3	39.2
Tradition and arbitrage income	790	339.4	562	65.6	-28.8
Investment and dividend income	83	1	40	3920.0	-51.6
Interest income	**682**	**1082.5**	**1257**	**16.1**	**84.3**
Total income from operations	2226	2595	2793	7.6	25.5
Other income	20	29.3	47	59.4	133.5
Total income	**2246**	**2624**	**2840**	**8.2**	**26.4**
Employee cost	391	462.7	498	7.7	27.5
Operating and other expenses	**652**	**803.5**	**627**	**-22.0**	**-3.8**
Financial expenses	311	569.4	776	36.2	149.4
Depreciation	28	39.3	37	-6.6	31.1
Total Expenses	1382	1874.9	1938	3.3	40.2
PBT	**864**	**749**	**902**	**20.4**	**4.4**
Provision for Tax expenses	249	184	238	29.1	-4.6
PAT	**615**	**565**	**665**	**17.6**	**8.1**
Share of minority interests in profits	32	40.7	41	1.5	29.1
PAT after minority interest	**583**	**525**	**623**		
% chg qoq	43	-2	19		
% chg yoy	-9	28	7		
EPS (Rs)	**7.78**	**7.00**	**8**	**18.8**	**6.9**
PBT margin (%)	38.47	28.55	31.77		
PAT margin (%)	27.6	20.2	22.3		
Cost/Income ratio (%)	61.5	71.4	68.2		

Source: Company

ECL's Q1FY11 results better than our expectation. Its topline grew by 25% yoy to Rs.2793mn; PAT grew by 19% qoq and 7% yoy to Rs. 623mn as compared to Rs 525mn in Q4FY10

- ECL's reported a revenue growth of 25% yoy and 7.6% qoq to Rs.2793mn from Rs.2595mn in Q4FY10. We opine that diversification into related business has aided a healthy top-line growth for ECL. Its revenues growth was mainly driven by a strong growth in financing and investment businesses. Interest income grew by 84% yoy and 16% qoq to Rs 1257mn, while income arbitrage business grew by and 65% qoq. The core brokerage fee and commission income grew by 39% yoy, while it de-grew by 20% qoq to Rs 934mn (includes income from investment banking business).
- Edelweiss Capital remains more focused on wholesale financing and investment banking businesses, which have registered significant growth. It continued to scale up financing business, with its loan book size increased to Rs 25.6bn (Rs 20bn in Q4FY10) in Q1FY11.
- An uptick in the short term deposit rates which forms part of ECL's interest income has also added a healthy growth in its interest income during Q1FY11. Scaling up of financing book will aid strong growth in ECLs financing income.

Investment banking business remained healthy during Q1FY11, muted capital market volumes and pressure on brokerage yield impacted the core brokerage fee income

- Despite a dull quarter from investment banking prospective, ECL's investment banking business witnessed healthy growth during Q1FY11, it conclude close to 10 deals (including ECM, Advisory & DCM). The management has indicated that its deal pipelines remains strong.
- We are of the view that its strong relations with large corporate as well as emerging and mid market companies has helped in maintaining traction in its investment banking fee income.
- Equity broking business witnessed muted earning growth during Q1FY11, following subdued capital market volumes and pressure on brokerage yields. ECL's average daily volumes (ADV) stood at Rs. 40.8bn (lower from Rs. 47bn in Q4FY10 and Rs. 43.5bn in Q1FY10). ECL's ADV also includes volumes in its arbitrage business.
- ECL's brokerage remained under pressure during Q1FY11 and stood at 4.6bps as compared to 5.7bn in Q4FY10 and 5.5bps in Q1FY10. This has been mainly due to increase in share of low brokerage yield F&O segment and increasing competition.
- ECL has not consolidated the recently acquired retail broking business - Anagram Capital in Q1FY11. Consolidated will become effective from Q2FY11. Anagram added 139 owned offices and 122 franchisee led offices with over 2.7lakh customers.
- New business initiative- ECL is venturing into mortgage finance business with Edelweiss Housing Finance Limited, which has received NHB approval. This is with a view to diversify its financing business.

Margins were under pressure due to increase in operating and interest costs; stood at 31.8% (28.6% in Q4FY10) PAT margin stood at 22.3% (20.2% in Q4FY10)

- ECL's operating cost increased by 8.5% yoy, this was mainly due to 7.7% qoq and 27.5% yoy increase in its employee cost.
- Further, with a swift ramp up in the financing book, which grew by 39% qoq to Rs.25.6bn, interest cost has also increased in the wake of increased borrowings.
- This has impacted ECL's operating (PBT level) and net profit margins during Q1FY11. Its PBT margins stood at 31.8% (as compared to 28.6% in Q4FY10 and 38.5% in Q1FY10), while its net profit margin stood at 22.3% (as compared to 20.2% in Q4FY10 and 27.6% in Q1FY10).

Valuation and recommendation

We recommend ACCUMULATE on Edelweiss Capital with a price target of Rs.525

- We maintain our positive outlook on Edelweiss capital and maintain our earnings estimates for FY11 and FY12 at Rs. 2.8bn and Rs.3.3bn respectively. Our earnings estimates factor in consolidation of Anagram Capital.
- At current market price the stock is trading at P/E of 12.6x 10.7x its FY11 and FY12 earnings estimates. We opine that ECL is well placed in the capital market intermediary space and recommend investors to accumulating on declines. We maintain our price target of Rs. 525, (7.5% upside from current levels).

AUTO INDUSTRY UPDATE

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AUTO INDUSTRY VOLUME UPDATE - JULY 2010

Auto players reported volumes for the month of July 2010 did not see any major deviation from our expectations. While volumes increased over July 2009 volumes, the same remained flat as against June 2010 volumes. Volumes generally tend to be on the lower side in the monsoon period and therefore majority of the players reported flat sequential growth. We expect volumes to remain more or less the same in the month of August 2010 as compared to July 2010. Auto volumes were once again plagued by component shortage but we expect the situation to start improving from September onwards. We continue to adopt an optimistic view for the auto volumes over the next 3-4 months post which high base effect will come into picture.

Summary - July 2010 volumes

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
Hero Honda								
2W	366,808	426,454	427,686	17	0	1,485,795	1,661,725	12
Bajaj Auto								
Motorcycles	168,163	282,808	279,781	66	(1)	650,890	1,108,172	70
Total 2W	168,731	282,808	279,781	66	(1)	653,151	1,108,199	70
3W	24,104	32,614	38,634	60	18	87,346	138,552	59
Total 2W+3W	192,835	315,422	318,415	65	1	740,497	1,246,751	68
Exports out of the above	73,170	114,024	106,794	46	(6)	251,465	430,693	71
TVS Motor								
Scooters	27,582	36,742	40,357	46	10	94,752	135,843	43
Motorcycles	42,998	66,452	61,051	42	(8)	195,776	261,409	34
Mopeds	50,364	53,491	61,698	23	15	177,557	221,895	25
Total sales	120,944	156,685	163,106	35	4	468,085	619,147	32
Exports	13,061	16,780	20,067	54	20	44,417	74,111	67
Maruti Suzuki								
A1 (M800)	2,796	2,090	1,680	(40)	(20)	9,915	8,586	(13)
A2	48,115	51,418	64,079	33	25	194,848	234,592	20
A3 (SX4, D'zire)	9,101	8,081	10,352	14	28	29,048	39,310	35
MUV (Grand Vitara, Gypsy)	214	1,309	386	80	(71)	1,597	3,375	111
C (OMNI, Eeco)	7,302	9,914	13,617	86	37	29,535	47,138	60
Total Domestic	67,528	72,812	90,114	33	24	264,943	333,001	26
Export	10,546	15,279	10,743	2	(30)	39,860	51,180	28
Total Sales	78,074	88,091	100,857	29	14	304,803	384,181	26
M&M								
UV	16,688	17,010	16,720	0	(2)	65,408	70,668	8
3W/Gio/Maxximo	3,806	7,559	7,824	106	4	12,838	27,900	117
LCV	1,019	1,111	1,007	(1)	(9)	3,513	3,985	13
Car (Logan)	444	563	752	69	34	1,922	2,068	8
Total Domestic	21,957	26,243	26,303	20	0	83,681	104,621	25
Export	606	1,319	1,746	188	32	1,751	5,521	215
Total Sales	22,563	27,562	28,049	24	2	85,432	110,142	29
Tractors	12,850	16,590	14,592	14	(12)	56,235	64,740	15
Tata Motors								
M&HCV	10,658	15,139	15,256	43	1	37,284	57,412	54
LCV	17,750	19,652	20,438	15	4	63,180	75,511	20
Utility	2,654	3,602	3,251	22	(10)	10,719	12,901	20
Cars	14,537	24,209	24,613	69	2	52,309	87,202	67
Total Domestic	45,599	62,602	63,558	39	2	163,492	233,026	43
Export	2,455	5,128	4,241	73	(17)	7,675	16,484	115
Total Sales	48,054	67,730	67,799	41	0	171,167	249,510	46

Source: Companies

HERO HONDA (HH)

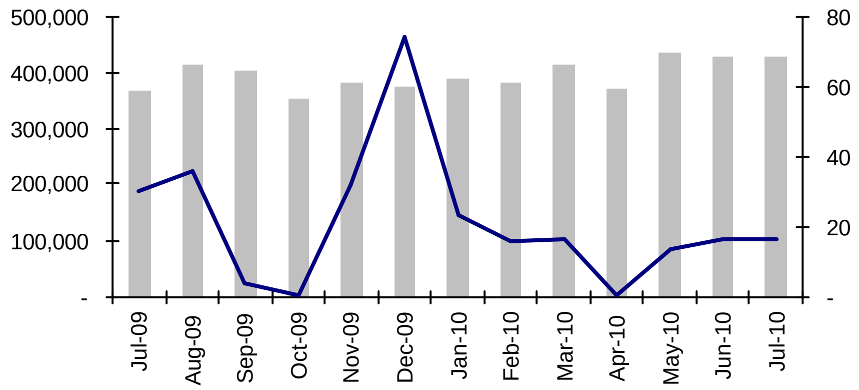
HH - 2W sales volume

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
2W	366,808	426,454	427,686	16.6	0.3	1,485,795	1,661,725	11.8

Source: Company

- HHML reported another month of strong 2W volumes of 427,686 units. The company reported 16% YoY growth despite its high base. MoM volumes remained flat.
- Company is witnessing growth in all the segments. Scooter segment grew by more than 60% YoY in July 2010.
- FY11 YTD monthly run-rate of the company stands at 415,431 units as against our FY11 estimated monthly run-rate of ~421,000 unit.
- HHML have a series of new launches that should help the company encash in the upcoming festive season.
- HHML have lost significant market share in the past one year and we expect the trend will continue in FY11. Despite loss in market share we expect the company's volumes in FY11 to grow by 10%.

HHML - 2W sales volume



Source: Company

Bajaj Auto Limited (BAL)

BAL - sales volume

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
Motorcycles	168,163	282,808	279,781	66.4	(1.1)	650,890	1,108,172	70.3
Total 2W	168,731	282,808	279,781	65.8	(1.1)	653,151	1,108,199	69.7
3W	24,104	32,614	38,634	60.3	18.5	87,346	138,552	58.6
Total 2W+3W	**192,835**	**315,422**	**318,415**	**65.1**	**0.9**	**740,497**	**1,246,751**	**68.4**
Exports out of the above	73,170	114,024	106,794	46.0	(6.3)	251,465	430,693	71.3

Source: Company

- Bajaj Auto posted their highest monthly volumes of 318,415 units in the month of July 2010. Strong 3W volumes was the main highlight for July 2010 volumes. Overall volumes grew by 65% YoY with domestic volumes growing by 77% and exports rising by 46%. Volumes continued to be impacted by production constraints.
- In the motorcycle space, the company sold 279,781 units, 66% higher than July 2009 2W sales of 168,731 units. Discover and Pulsar continues to fuel the motorcycle growth for the company. On sequential basis, motorcycle sales were down marginally.

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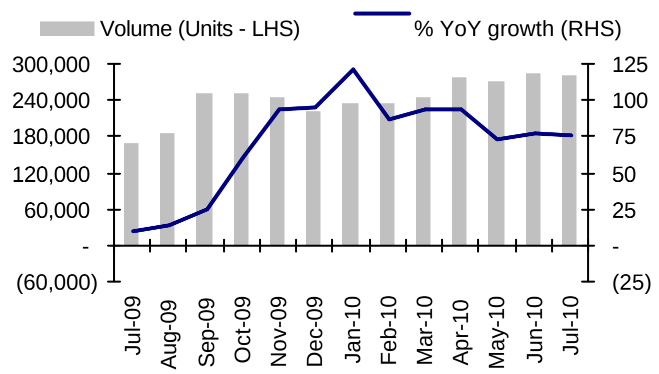
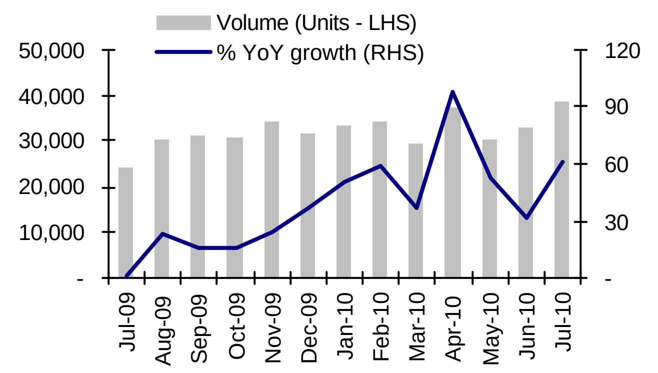
2W sales volume trend



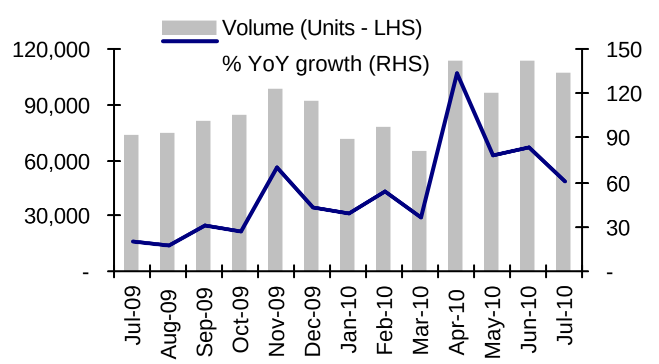
Source: Company

3W sales volume trend



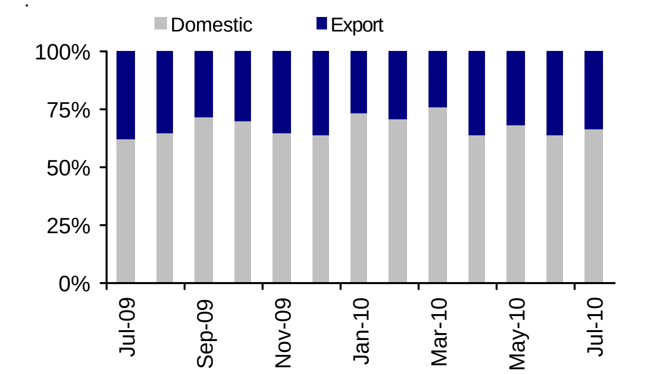
Source: Company

Export volume trend



Source: Company

Market Mix



Source: Company

- Company remains confident of hitting the 300,000 motorcycles sales mark by September 2010. Additional volumes are expected to come from "Discover 150" that was launched in May 2010. Company expects to sell around 40,000-45,000 units of Discover 150 in the next few months as against current sale of ~25,000 units per month.
- In the 3W segment, the company reported its highest ever monthly sales of 38,634 units on the back of strong 3W demand from both the domestic and the export market. Additional demand in the domestic market because of removal of permit system from Tamil Nadu is expected to keep the 3W volumes strong over the next couple of months.
- BAL exported 106,794 units in July 2010, 46% more than July 2009 export volume of 73,170 units. In FY11, the company has witnessed considerable improvement in exports and we expect the company to cross sales of more than a million units in exports in FY11.
- We expect monthly volumes to touch the 350,000 units by September - October 2010. Company remains confident of selling 4mn units in FY11. We remain positive on the volume growth prospects of the company in FY11.

TVS MOTORS

TVS Motors - sales volume

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
Scooters	27,582	36,742	40,357	46.3	9.8	94,752	135,843	43.4
Motorcycles	42,998	66,452	61,051	42.0	(8.1)	195,776	261,409	33.5
Mopeds	50,364	53,491	61,698	22.5	15.3	177,557	221,895	25.0
Total sales	**120,944**	**156,685**	**163,106**	**34.9**	**4.1**	**468,085**	**619,147**	**32.3**
Exports	13,061	16,780	20,067	53.6	19.6	44,417	74,111	66.9

Source: Company

- 2W sales for the company increased from 120,944 units in July 2009 to 163,106 units in July 2010. Volumes for July 2010 were higher by 4% over June 2010 volumes. The company is showing increase in sequential volumes from April 2010 on back of healthy performance from its new launches.
- TVSM has significantly improved its scooters sales in the past few months. TVS has received tremendous response for Wego and the same are been reflected in the monthly scooter numbers. TVSM sold 40,357 scooters in July 2010 as against 27,582 units sold in July 2009. Scooters jumped by 10% over June 2010 volumes of 36,742 units. Scooter demand have increased considerably and therefore despite new products been launched in the markets, the existing products continue to do well. Company is expecting to sell 480,000 scooters in FY11E translating into 40,000 units per month.

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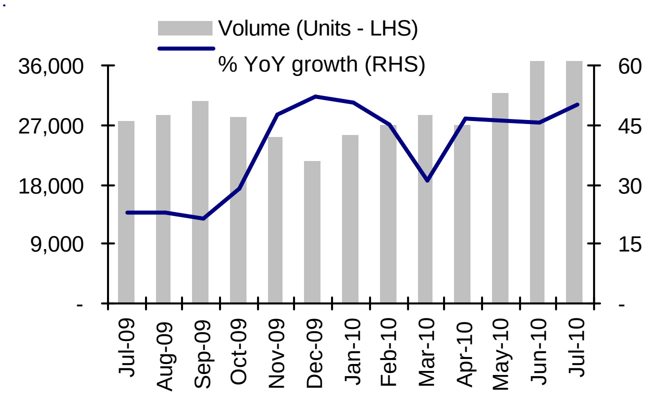
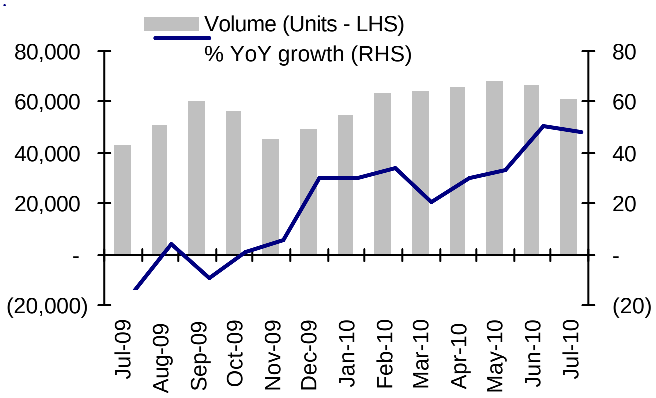
Scooters sales volume trend



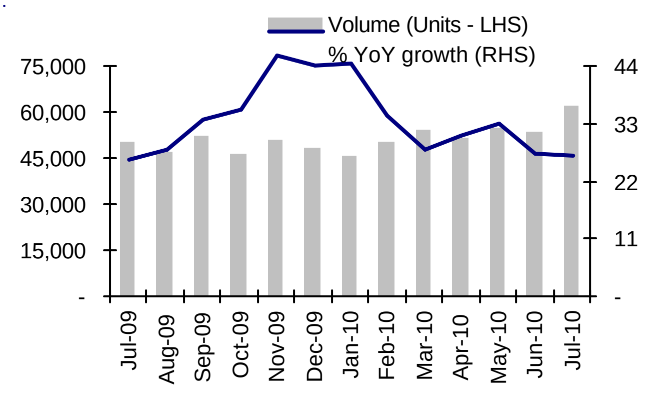
Source: Company

Motorcycles sales volume trend



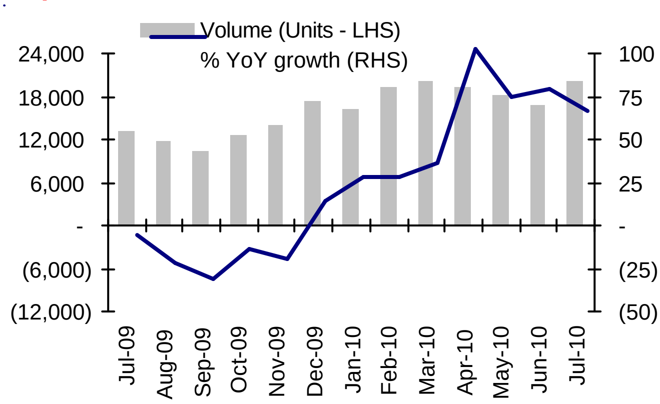
Source: Company

Mopeds sales volume trend



Source: Company

Exports sales volume trend



Source: Company

- Motorcycle sales for the month were a bit disappointing despite 42% YoY jump. Company sold 61,051 motorcycles, the lowest in the past seven months. Company's motorcycle sales had improved over the past few months because of their new launch Jive and overall strong demand momentum. Lower motorcycle sales will lead to detoriation in the company's product mix.
- TVS posted its highest ever moped sales of 61,698 units as against July 2009 and June 2010 sales of 50,364 units and 53,491 units respectively. Increased moped share in the overall volumes will impact the company's margin negatively.
- Exports for the month saw a good improvement both on YoY and MoM. Exports for the month at 20,067 units increased by 54% YoY and 20% MoM.
- TVSM sold 3,108 3W's in the month of July 2010 as against 1,026 sold during corresponding period previous year. Volumes were marginally higher than June 2010 volumes of 3,003 units. With Tamil Nadu doing away with the permit system, we expect the company to continue its 3000+ units sales during 2QFY10.
- We expect the company to perform well on the volumes front with strong performance from the scooter segments and export markets.

MARUTI SUZUKI LTD (MSIL)

MSIL - sales volume

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
A1 (M800)	2,796	2,090	1,680	(39.9)	(19.6)	9,915	8,586	(13.4)
A2	48,115	51,418	64,079	33.2	24.6	194,848	234,592	20.4
A3 (SX4, D'zire)	9,101	8,081	10,352	13.7	28.1	29,048	39,310	35.3
MUV (Grand Vitara, Gypsy)	214	1,309	386	80.4	(70.5)	1,597	3,375	111.3
C (OMNI, Eeco)	7,302	9,914	13,617	86.5	37.4	29,535	47,138	59.6
Total Domestic	**67,528**	**72,812**	**90,114**	**33.4**	**23.8**	**264,943**	**333,001**	**25.7**
Export	10,546	15,279	10,743	1.9	(29.7)	39,860	51,180	28.4
Total Sales	**78,074**	**88,091**	**100,857**	**29.2**	**14.5**	**304,803**	**384,181**	**26.0**

Source: Company

- After the maintenance shut down in June 2010, the company returned to normalcy with volumes of 100,857 units for the month of July 2010. Sequential comparison is not logical as the company's June 2010 volumes were impacted by plant shut down.
- MSIL July 2010 sales of 100,857 were higher by 29% over July 2009 sales of 78,074 units. Domestic volumes grew by 33% and exports increased marginally by 2%.

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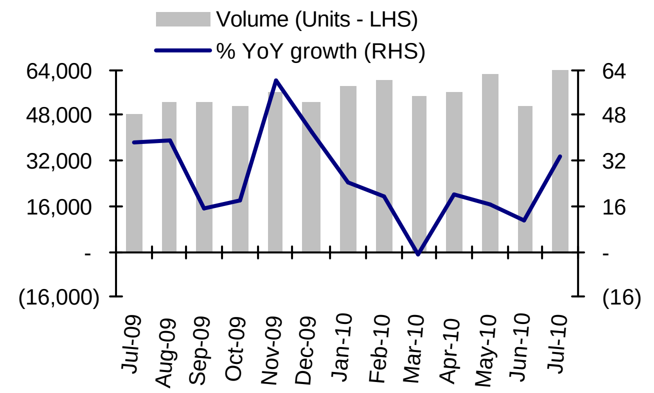
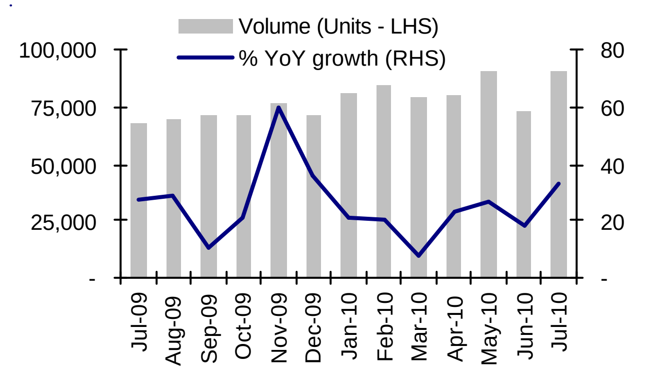
A2 segment domestic volume trend



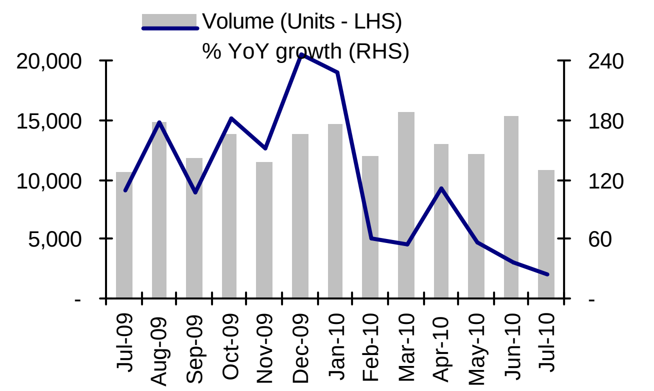
Source: Company

Domestic sales volume trend



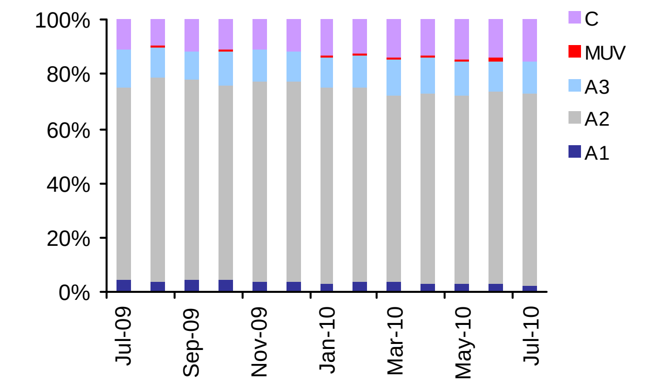
Source: Company

Export volume trend



Source: Company

Business Mix (Domestic)



Source: Company

- Domestic A2 segment sales increased by 33% (YoY) to 64,079 units and the domestic A3 segment was higher by 14% (YoY).
- Launch of Ecco has substantially boosted the company's sales in the C segment from 7,302 units in July 2009 to 13,617 units in July 2010.
- MSIL's export volumes of 10,743 units are its lowest in the past 12 months. Exports were expected to slowdown and moving ahead we expect export volumes to show YoY de-growth.
- Despite competition concerns the company continues to post good growth in the domestic market. With slowdown in export sales, the company will be able to bring the waiting period down in some of its models in the domestic market and the same will help the company improve its market share.
- MSIL will be launching a new Alto with K-series engine and CNG variants of few of its exiting models. We expect these new launches to help the company in defending its market share. We expect the company's FY11E volumes to grow by 13% to 1.15mn units.

Mahindra and Mahindra (M&M)

M&M - sales volume

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
UV	16,688	17,010	16,720	0.2	(1.7)	65,408	70,668	8.0
3W/Gio/Maxximo	3,806	7,559	7,824	105.6	3.5	12,838	27,900	117.3
LCV	1,019	1,111	1,007	(1.2)	(9.4)	3,513	3,985	13.4
Car (Logan)	444	563	752	69.4	33.6	1,922	2,068	7.6
Total Domestic	21,957	26,243	26,303	19.8	0.2	83,681	104,621	25.0
Export	606	1,319	1,746	188.1	32.4	1,751	5,521	215.3
Total Sales	**22,563**	**27,562**	**28,049**	**24.3**	**1.8**	**85,432**	**110,142**	**28.9**
Tractors	**12,850**	**16,590**	**14,592**	**13.6**	**(12.0)**	**56,235**	**64,740**	**15.1**

Source: Company

- M&M's auto division's domestic volumes increased by 20% primarily driven by Gio and Maxximo sales. Tractor sales grew by 14% YoY.
- Domestic UV sales almost remained flat both on YoY and MoM. FY11 YTD UV sales for the company stand at 17,667 units almost similar to FY10 monthly average of 17,844 units. Even though the UV sales are impacted by component shortages, we believe that lack of new launches in this segment have stagnated the company's sales.

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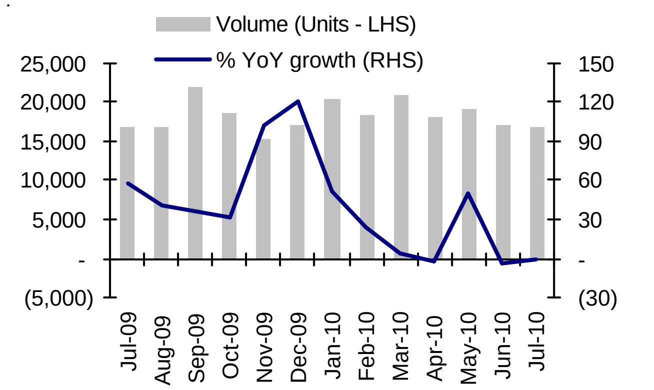
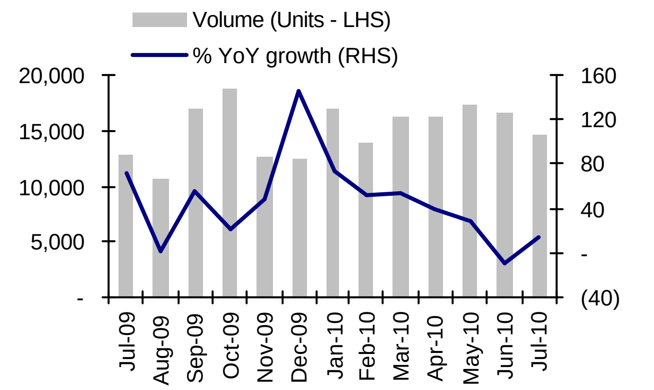
UV - domestic volume trend



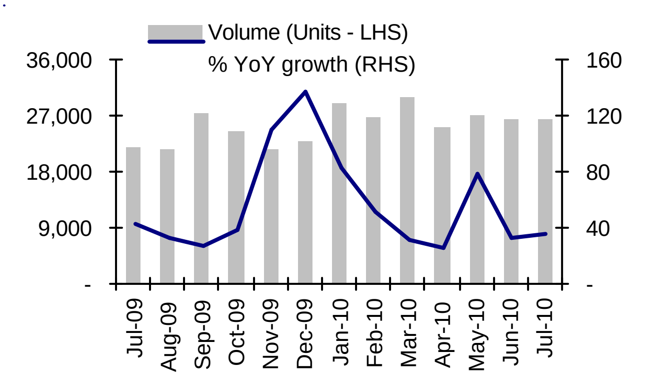
Source: Company

Tractor - volume trend



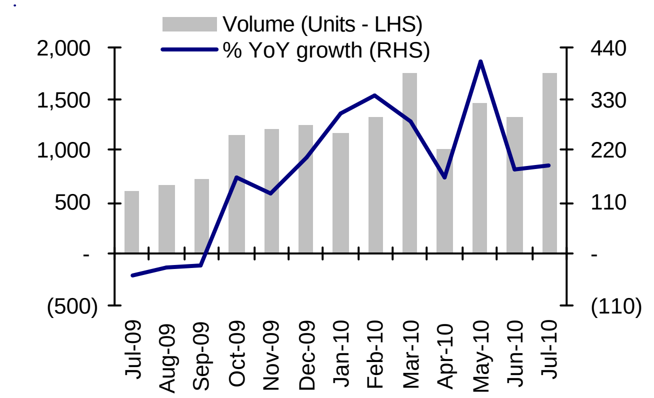
Source: Company

Domestic volume trend (Automotive)



Source: Company

Export volume trend (Automotive)



Source: Company

- 3W/4W LCV sales continues to be the main growth driver for the company for the past many months. 3W/Gio/Maxximo sales increased by 106% from 3,806 units in July 2009 to 7,824 units for the period under consideration. Due to lower base effect, this segment will continue to report strong YoY growth rates for the next few months and will be the key volume growth driver for the company.
- Logan sales for the month stood at 752 units. Exports for the month jumped 188% YoY from 606 units to 1,746 units.
- Tractor sales grew by 14% to 14,592 units in July 2010 from 12,850 units a year ago. Tractor industry volumes in FY11 are expected to grow by 15%.

TATA MOTORS

Tata Motors - sales volume

	July 2009	June 2010	July 2010	YoY gth (%)	MoM gth (%)	YTD FY10	YTD FY11	Growth (%)
M&HCV	10,658	15,139	15,256	43.1	0.8	37,284	57,412	54.0
LCV	17,750	19,652	20,438	15.1	4.0	63,180	75,511	19.5
Utility	2,654	3,602	3,251	22.5	(9.7)	10,719	12,901	20.4
Cars	14,537	24,209	24,613	69.3	1.7	52,309	87,202	66.7
Total Domestic	45,599	62,602	63,558	39.4	1.5	163,492	233,026	42.5
Export	2,455	5,128	4,241	72.7	(17.3)	7,675	16,484	114.8
Total Sales	**48,054**	**67,730**	**67,799**	**41.1**	**0.1**	**171,167**	**249,510**	**45.8**

Source: Company

- Tata Motors reported solid YoY growth rate of 40% for the month of July 2010. The company reported growth in all the segments. However MoM growth remained flat. July 2010 sales for the company stood at 67,799 units.
- In the passenger car category, the company sold 24,613 units, 69% more than July 2009 car sales of 14,537. Nano sales of 9000 units was one of the prime reason for strong growth. Indica sales at 8,606 remained flat YoY and Indigo range sales of 7,007 units grew by 100% YoY. UV sales for the company in the month of July 2010 were higher by 22% YoY at 3,251 units.

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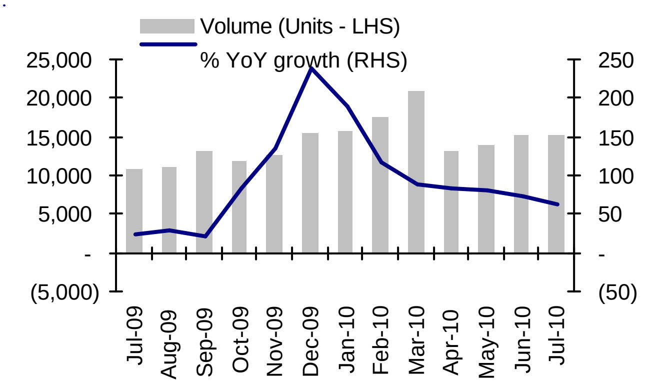
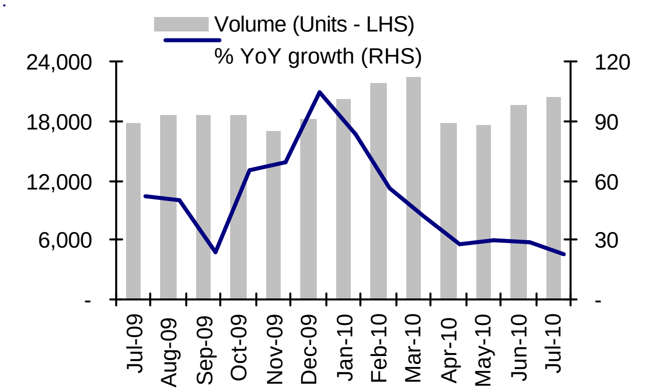
M&HCV - domestic volume trend



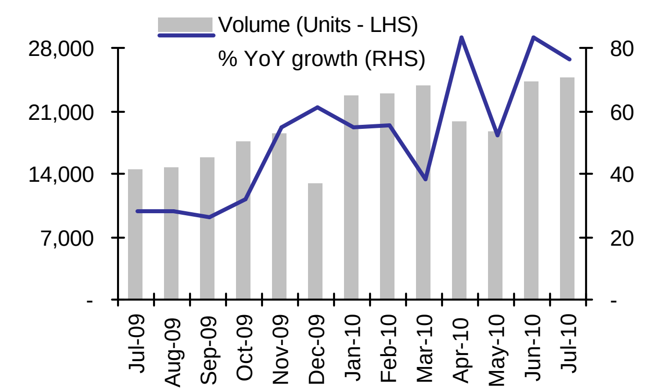
Source: Company

LCV - domestic volume trend



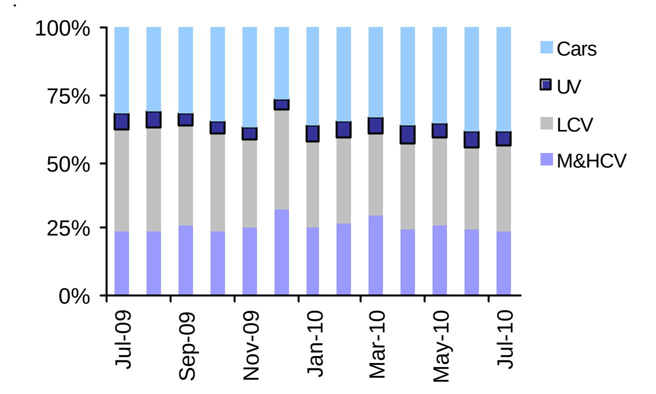
Source: Company

Cars - domestic volume trend



Source: Company

Business Mix (Domestic)



Source: Company

- LCV segment witnessed 15% growth in volumes that increased from 17,750 vehicles in July 2009 units to 20,438 units in July 2010. Competition has intensified in the LCV segment, however due to positive outlook, we expect the company to perform well moving forward.
- M&HCV volumes for July 2010 were 15,256 units, 43% higher YoY and flat sequentially. We expect the company YoY growth during 2QFY11 to remain strong in the M&HCV segment.
- Export volumes increased 73% YoY but declined 17% MoM to 4,241 vehicles.
- Tata Motors is expected to continue its strong volume growth across segments over the next few months, post which growth rates will start tapering off because of high base effect.

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	940	3.8	13.3	6.4
SBI	2,586	3.3	7.4	2.1
Bharti Airtel	318	3.7	4.7	8.2
Losers				
NTPC	198	(0.3)	(0.3)	1.0
ABB	803	(1.0)	(0.3)	0.4
TCS	838	(0.2)	(0.3)	1.41

Source: Bloomberg

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