Economy News

- The infrastructure sector, accounting for a fourth of India's industrial output, grew 6.5% in June from a year earlier, compared to 2.8% in the previous month, showing signs of an economic revival. Output of six infrastructure sectors-- coal, cement, crude oil, electricity, finished steel and petroleum refinery products--had risen 5.1% in the same month last year. Official data released by the ministry of commerce and industry showed on Thursday that six sectors grew 4.8% in the first quarter of the current fiscal ending June as compared to 3.5% a year earlier. Coal output recorded an impressive growth rate of 14.7% in June, while Cement production rose by 12.8% in June. (ET)
- Inflation was at (-) 1.17% for the week ended July 11 compared to (-) 1.21% in the previous week as food articles such as pulses, cereals, fruits and vegetables turned expensive. (BL)
- The government on Thursday imposed a three-year lock-in clause on stake sales by the owners of telecom companies, which were granted telecom licences last year. The move is aimed at preventing the promoters of companies that acquired telecom licences and spectrum in early 2008 at throwaway rates from making windfall profits by selling stakes to foreign companies. The move will impact promoters of companies like Swan (Etisalat DB), Sistema Shyam, Datacom, STel, Loop and Unitech, which acquired licences in early 2008. But the lock-in will not impact the agreements already entered into by companies such as Swan, STel and Unitech. (ET)

Corporate News

- **Apollo Tyres** expects a 11pc growth in domestic sales in 2009/10, helped by reviving demand from increased economic activity, and sees margins maintained at current levels, its finance chief said. "Demand growth remains reasonably strong, so we're quite upbeat on that front. Raw materials will put some pressure," Chief Finance Officer Sunam Sarkar said over the telephone. (ET)
- **MRPL** will buy 2 lakh tonnes of crude oil from the Barmer district oilfields of Cairn in the remaining part of the current fiscal. The volume will double next fiscal. (BS)
- **Shriram Transport Finance (STFC)** is entering the capital market after a long gap to raise Rs.10bn through the issue of non-convertible debentures promising a yield on redemption upto 11.50%. The issue, opening for subscription on July 27 is to close on August 14 with an option to close earlier. It plans to raise Rs.5bn with an option to retain over subscription upto Rs.5bn. (ET)
- **Maruti Suzuki** reported an unexpected 25% rise in quarterly net profit as it rode on higher sales, new product launches and a drop in raw material prices. Maruti said net profit rose to Rs.5.84bn from Rs.4.66bn reported a year ago. (ET)
- Hit by volatile crude oil prices, **Oil and Natural Gas Corporation (ONGC),** the country's largest oil exploration and production company, today reported a 26.94% dip in its net profit for the quarter ended June 30. Net profit for the quarter was Rs 48.5bn as against Rs 66bn last year. The company's turnover during the quarter slipped 25.84% to Rs 149bn. (BS)
- **ITC Ltd** said its net profit rose by 17.36% to Rs.8.78bn for the first quarter ended June 30, 2009, over the same period last year. The company had a net profit of Rs.7.49bn in the same period last year, ITC Ltd said in a filing to the BSE. Net income rose to Rs.41.3bn in the latest quarter, against Rs.39bn in the same period last fiscal. (BS)

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

Equity

	23 July 09	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	15,231	2.6	5.6	34.4
NIFTY Index	4,524	2.8	5.4	30.0
BANKEX Index	8,409	1.7	5.9	50.4
BSET Index	3,707	2.0	13.4	45.0
BSETCG INDEX	12,394	2.1	(1.4)	56.0
BSEOIL INDEX	9,590	2.4	2.9	18.5
CNXMcap Index	5,676	1.5	4.7	43.3
BSESMCAP INDEX	5,943	2.2	3.9	46.1
World Indices				
Dow Jones	9,069	2.1	9.3	12.3
Nasdaq	1,974	2.5	10.1	16.5
FTSE	4,560	1.5	6.5	9.7
Nikkei	9,793	0.7	3.7	14.2
Hangseng	19,818	3.0	10.4	29.5

Value traded (Rs cr)

	23 July 09	% Chg - Day
Cash BSE	7,950	21.9
Cash NSE	19,068	(10.8)
Derivatives	74,886	(18.3)

Net inflows (Rs cr)

	22 July 09	% Chg	MTD	YTD
FII	146	190	6,570	31,458
Mutual Fund	(285)	(373)	1,407	3,936

FII open interest (Rs cr)

	22 July 09	% Chg
FII Index Futures	10,518	18.1
FII Index Options	27,325	5.3
FII Stock Futures	21,559	4.5
FII Stock Options	964	2.8

Advances / Declines (BSE)

23 July 09	A	B	S	Total	% total
Advances	176	966	253	1,395	70
Declines	28	426	102	556	28
Unchanged	1	34	13	48	2

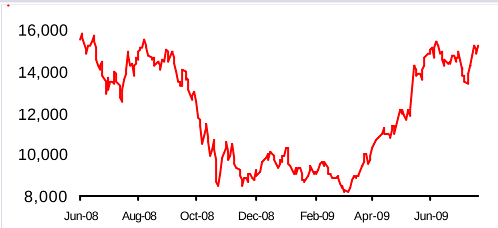
Commodity

	23 July 09	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	66.6	(0.8)	(3.0)	29.3
Gold (US$/OZ)	949.2	(0.2)	1.9	3.9
Silver (US$/OZ)	13.7	0.2	(1.2)	6.3

Debt / forex market

	23 July 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.08	7.09	7.05	6.39
Re/US$	48.45	48.52	48.56	49.93

Sensex



RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6621 6308

NUMERIC POWER SYSTEMS LTD (NPSL)

PRICE: RS.390 **RECOMMENDATION: BUY**
TARGET PRICE: RS.500 **CONS. FY10E P/E: 4.9X**

- **Numeric reported good set of Q1FY10 results which are above our estimates on the profitability front**
- **Stock attractively valued at 4.9x FY10E EPS of Rs.80.0**
- **Due to 28% upside potential we continue to recommend BUY on NPSL with unchanged price target of Rs.500**

Summary table - Consolidated

(Rs mn)	FY08	FY09	FY10E
Sales	4,260	4,434	5,035
Growth (%)	46.7	4.1	13.6
EBITDA	533	493	547
EBITDA margin (%)	12.5	11.1	10.9
Net profit	424	385	404
Net debt (cash)	(20)	24	53
EPS (Rs)	83.9	76.1	80.0
Growth (%)	107.0	(9.2)	5.1
DPS (Rs)	5.0	5.0	5.0
ROE (%)	28.8	22.5	21.3
ROCE (%)	33.0	31.5	29.7
EV/Sales (x)	0.5	0.4	0.4
EV/EBITDA (x)	3.7	4.0	3.7
P/E (x)	4.7	5.1	4.9
P/BV (x)	1.3	1.2	0.9

Source: Company, Kotak Securities - Private Client Research

Numeric Power standalone financials

(Rs mn)	Q1FY10	Q1FY09	YoY (%)	Q4FY09	QoQ (%)
Net Sales	**911**	**894**	**2.0**	**1,133**	**(19.6)**
Inc/dec in stock	(42)	16	(361.9)	(21)	97.8
Raw materials	449	331	36.0	653	(31.1)
Pur. Of traded goods	201	227	(11.5)	134	50.5
Staff cost	89	75	18.6	120	(26.4)
Other exp.	90	134	(33.2)	86	4.5
Total exp.	787	783	0.5	971	(19.0)
EBIDTA	**125**	**111**	**12.7**	**162**	**(23.1)**
Other income	3	3	1	11	(69.4)
Depreciation	11	9	27.0	10	8.0
EBIT	**117**	**105**	**11.1**	**163**	**(28.1)**
Interest	6	12	(48.4)	13	(51.7)
PBT	**111**	**94**	**18.6**	**151**	**(26.2)**
Ext loss/ (gain)	-	(64)	-	-	-
Tax & def tax	31	29	4.0	48	(35.8)
PAT	81	129	(37.4)	103	(21.7)
Adj. PAT	**81**	**64**	**25.3**	**103**	**(21.7)**
Equity shares o/s (mn)	5.1	5.1		5.1	
Ratios					
EBIDTA (%)	13.7	12.4	+130 bps	14.3	-50 bps
R M / Sales (%)	66.8	64.3		67.5	
Staff cost / Sales (%)	9.7	8.4		10.6	
Oth Exp. / Sales (%)	9.8	15.0		7.6	
Tax / PBT (%)	27.5	31.3		31.6	
EPS (Rs)	**16.0**	**25.5**		**20.4**	
CEPS (Rs)	18.1	27.2		22.4	

Source: Company

- For Q1FY10 the company reported net sales of Rs.911 mn thereby registering growth of 2.0% on YoY basis. This was primarily due to higher sales of Uninterrupted Power Supply Systems (UPS). The company has not witnessed any slowdown in the UPS sales and in fact the demand has increased due to delay in monsoons and rising peak power deficit.
- The EBIDTA margin during Q1FY10 was up by 130 bps on YoY basis to 13.7% primarily due to the fact that the company increased the prices of its products in the previous quarter to mitigate the impact of the sharp rise in the cost of imported raw materials primarily on account of rupee depreciation. Also the other expenditure has reduced sharply by 33% on YoY basis which helped to improve the operating margins.
- EBIDTA for Q1FY10 was up 12.7% on YoY basis to Rs.125 mn and PBT for Q1FY10 was up by 18.6% on YoY basis to Rs.111 mn.

- Adjusted PAT for Q1FY10 stood at Rs.81 mn, up 25.3% on YoY basis thereby translating into quarterly EPS of Rs.16.0 and CEPS of Rs.18.1.
- PAT has been adjusted as the previous quarter includes one time gain of Rs.64.4 mn on account of sale of shares in the joint venture to the other partner i.e. Socomec SA of France for terminating the JV.

Tax free dividend yield of 1.3% (Rs.5 per share)

Numeric has declared dividend of 50% i.e. Rs.5 per share and the record date for dividend is 17th August 2009. At the current market price of Rs.390 this translates into tax free dividend yield of 1.3%.

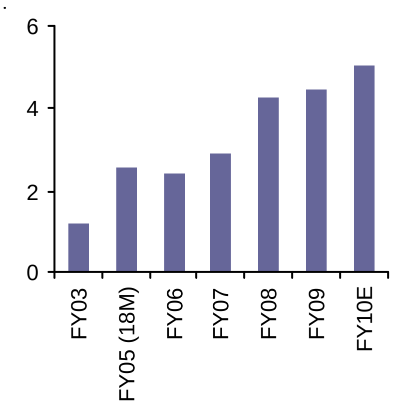
Valuation and recommendation

- We maintain our earning estimates and expect Numeric to report Cons. EPS of Rs.80.0 for FY10E.
- The current market price of Rs.390 discounts FY10E earnings at 4.9x. We believe this is attractive considering its market leadership position in the growing UPS Industry in India and successful foray into solar power area.
- We remain positive on the medium to long term growth prospects of Numeric.

We continue to recommend BUY on NPSL with a price target of Rs.500

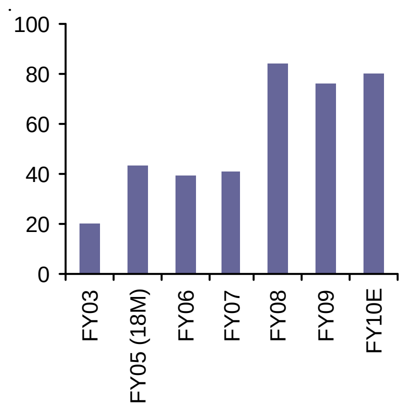
- Due to 28% upside potential form current levels we continue to recommend **BUY** on Numeric Power Systems with unchanged price target of Rs.500.

Cons. Revenues (Rsbn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Apurva Doshi
doshi.apurva@kotak.com
+91 22 6621 6308

GUJARAT STATE PETRONET LTD (GSPL)

PRICE: RS.63 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.70 **FY10E P/CEPS: 7.7X**

- **GSPL reported excellent set of Q1FY10 results which are above our estimates both on revenues and profitability front**
- **This was due to increased tariffs and non provision of 30% of PBT toward social welfare**
- **Revise FY10 EPS estimate to Rs.3.8 (Rs.3.0 earlier)**
- **Remain positive on medium to long term growth prospects due to increasing gas supply**
- **Due to 11% upside potential form the current levels we continue to recommend ACCUMULATE on GSPL with revised price target of Rs.70 (Rs.55 earlier)**

Summary table

(Rs mn)	FY08	FY09	FY10E
Sales	4,179	4,875	8,596
Growth (%)	31.6	16.7	76.3
EBITDA	3,645	4,245	7,756
EBITDA margin (%)	87.2	87.1	90.2
Net profit	999	1,234	2,138
Growth (%)	11.7	23.6	73.2
Net debt	7,091	10,530	10,271
EPS (Rs)	1.8	2.2	3.8
Growth (%)	7.9	23.6	73.2
CEPS (Rs)	4.7	5.2	8.1
DPS (Rs)	0.5	0.5	0.5
ROE (%)	9.5	10.8	17.3
RoIC (%)	9.5	9.9	18.9
EV/Sales (x)	10.2	9.4	5.3
EV/EBITDA (x)	11.7	10.8	5.9
P/E (x)	35.5	28.7	16.6
P/BV (x)	3.1	3.1	2.7
P/CEPS (x)	13.5	12.0	7.7

Source: Company, Kotak Securities - Private Client Research

Q1FY10 performance - GSPL

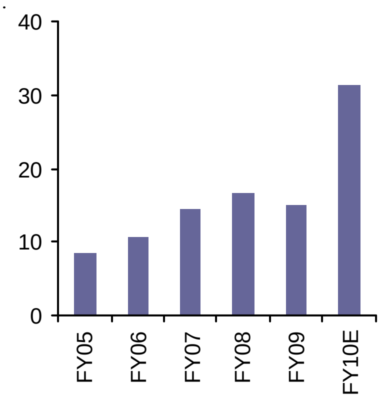
(Rs mn)	Q1FY10	Q1FY09	YoY%	Q4FY09	QoQ (%)
Net Sales	**2,108**	**1,195**	**76.4**	**1,320**	**59.7**
Gas Transport Charges	4	-	-	17	(78.1)
Connectivity Charges	-	32	(100.0)	(0)	(100.0)
Staff cost	28	19	47.4	47	(41.1)
O& M	60	32	86.8	78	(23.2)
Admin & Other	36	36	0.9	49	(25.8)
Total exp.	128	119	7.3	191	(32.9)
EBIDTA	**1,980**	**1,076**	**84.1**	**1,129**	**75.4**
Other income	35	68	(48.5)	44	(20.8)
Depreciation	550	415	32.7	439	25.4
EBIT	**1,465**	**729**	**101.0**	**734**	**99.5**
Interest	245	218	12.4	199	23.1
PBT	**1,220**	**511**	**138.8**	**535**	**127.9**
Extraordinary loss/ (gain)	-	-	-	-	-
Tax & deferred tax	415	185	124.9	188	121.1
PAT	**805**	**326**	**146.6**	**348**	**131.6**
Equity shares o/s (mn)	562.1	562.0		562.1	
Ratios					
Operting profit margin (%)	93.9	90.0	up 390 bps	85.5	up 840 bps
Gas Transport / Sales (%)	0.2	-		1.3	
Connectivity / Sales (%)	-	2.7		(0.0)	
Staff cost / Sales (%)	1.3	1.6		3.6	
O & M / sales (%)	2.9	2.7		5.9	
Admin / Sales (%)	1.7	3.0		3.7	
Tax / PBT (%)	34.0	36.1		35.1	
EPS (Rs)	**1.4**	**0.6**		**0.6**	
CEPS (Rs)	2.4	1.3		1.4	

	Q1FY10	Q1FY09	YoY%	Q4FY09	QoQ (%)
Gas Volumes - MMSCM	2304	1639	40.6	1155	99.6
Avg. Realisations per TCM	915	729	25.5	1,143	(20.0)
Gas Volumes - MMSCMD	25.6	18.2	40.6	12.8	99.6
Gas transm. charges Rs/cu m	0.91	0.73	25.5	1.14	(20.0)

Source: Company, Kotak Securities - Private Client Research

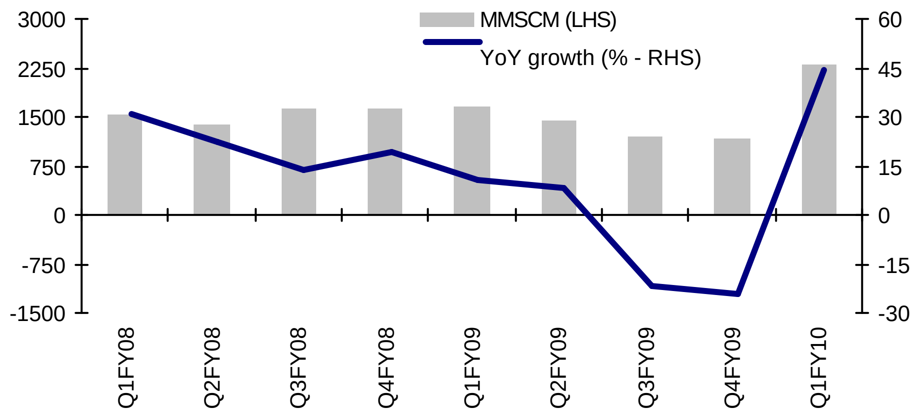
- In Q1FY10 the company transported 25.6 MMSCMD of gas thereby recording robust volume growth of 40.6% YoY and 99.6% on sequential basis. This was due to increased gas supply form the Reliance KG basin. Also the lower global LNG prices led to large imports of LNG by Petronet LNG and Shell LNG which was transported through its pipelines.
- Net sales for Q1FY10 were at Rs.2.1 bn up by 76.4% YoY and up 59.7% on sequential basis. The average tariffs were Rs.915 per TCM in Q1FY10 that recorded an improvement of 25.5% on YoY basis. This is primarily due to tariff revision that the company had undertaken to comply with the zonal tariffs as proposed by the Petroleum and Natural Gas Regulatory Board (PNGRB).
- The company recorded higher EBIDTA margin of 93.9%, which is up 390 bps YoY and up 840 bps on sequential basis. This is primarily due increased volumes with similar level of expenditure thereby leading to increased margins as a percentage of revenues. This is well supported by the fact that admin expenses to sales ratio has declined sharply from 3.6% in Q4FY09 to 1.3% in Q1FY10. The staff cost is lower on sequential basis as Q4FY09 includes provision for arrears on account of salary revision.
- In Q1FY10 operational profit grew by 84.1% YoY and up 75.4% on sequential basis to Rs.2.0 bn.
- PBT for Q1FY10 was at Rs.1.2 mn up 138.8% YoY and up 127.9% on sequential basis.
- PAT for Q1FY10 was at Rs.805 mn up 146.6% YoY and up 131.6% on sequential basis thereby translating into quarterly EPS of Rs.1.4 and CEPS of Rs.2.4.

Annual gas volumes transported (MMSCMD)



Source: Company, Kotak Securities - Private Client Research

Quarterly gas volumes transported (MMSCM) & YoY growth (%)

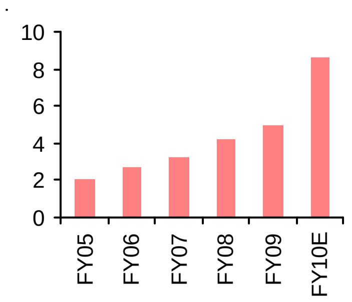


Source: Company

No provision for 30% of PBT for social welfare

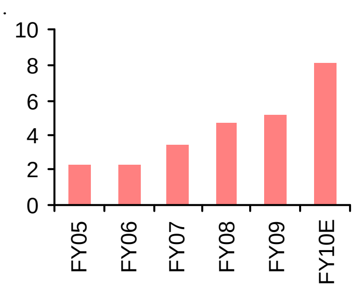
It is important to note that GSPL has not made provision of 30% of PBT for the social welfare purposes as the eligible projects have not yet been identified and the process of income tax exemption under section 35AC is not completed by GSEDS. The management is of the opinion that till any project is identified and given to GSPL it would not provide for the same. It would follow cash principle and would record it in P&L as and when disbursements happen for it. No disbursements have been made till date and thus it has not made any provisions. However going forward as and when such projects are given to GSPL it would have to pay 30% of its PBT and thus we have continued to provide for it in our earning estimates.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Increasing gas supply to be positive for GSPL

- The KG basin gas of Reliance Industries has already started flowing into GSPL pipelines in Q1FY10. Thus there is greater visibility on the sale of KG basin gas from Reliance Industries. This is positive for GSPL as has already signed long term contract with Reliance for transporting 11 MMSCMD of gas.
- The company has also commenced supplies to Torrent Power which is expected to be scaled up by December 2009.
- The company is getting to transport additional gas volumes from Shell LNG and Petronet LNG due to significant fall in the LNG prices and doubling of capacity of Petronet LNG.
- The management has been optimistic and has guided that GSPL is likely to transport 30 to 35 MMSCMD of gas in FY10E.

Revision in FY10 earning estimates and price target

- We have revised our earning estimates for FY10E to account for tariff increases.
- For FY10E we now expect GSPL to transport 31.4 MMSCMD (no change) of gas with the average realizations of Rs.750 per TCM (up 11.2%). This is primarily due to tariffs revision that the company has undertaken to comply with the zonal tariff as proposed by the (PNGRB).
- Thus for FY10E, we expect GSPL to report revenues of Rs.8.6 bn (up 11.2%), EBIDTA margin of 90.2% as against 89.1% and PAT of Rs.2.1 bn (up 27.7%).
- Accordingly, for FY10E, we expect GSPL to report higher EPS of Rs.3.8 and CEPS of Rs.8.1 as against our earlier estimate of Rs.3.0 and Rs.7.5 respectively.
- We have valued GSPL on DCF method of valuation with 12.6% WACC (no change) and 4.0% terminal growth rate (no change). Thus the price target is revised upwards to Rs.70 as against Rs.55 earlier.

Recommendation and Valuation

- The stock is up sharply 31% since our last recommendation at Rs.48 on 1st July 2009 in a short span of less than one month.
- On the basis of our estimates, the stock at current market price of Rs.63, is trading at 5.9x EV/EBIDTA, 16.6x P/E and 7.7x P/cash earnings on the basis of FY10E.

We continue to recommend ACCUMULATE on GSPL with a revised price target of Rs.70

- We reiterate that GSPL should be looked on P/CEPS basis rather then P/E basis as GSPL depreciates its pipeline in 12 years as against its economic life of 30 years. Thus we feel that CEPS is more representative of its true earnings per share.
- We continue to remain positive on the medium to long term growth prospects of GSPL due to rising gas availability which is expected to be transported through its pipelines.
- Due to 11% upside potential from the current levels we continue to recommend **ACCUMULATE** on GSPL with revised price target of Rs.70.

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6621 6302

ACC

PRICE: RS.855 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.735 **CY09E P/E: 10X**

Result Highlights

- **Revenues for Q2CY09 grew by 17% as compared to Q2CY08 led by 2% improvement in dispatches and 14.4% improvement in realizations as against same period last year.**
- **Operating margins for ACC in Q2CY09 stood at 35.3%, much ahead of our expectations. This was primarily due to improvement in realizations as well as reduction in the power and fuel and other expenditure.**
- **Net profits registered a healthy growth of 79% in Q2CY09 vis-à-vis Q2CY08 led by steep improvement in operating margins. This was ahead of our expectations.**

Summary table

(Rs mn)	CY08	CY09E	CY10E
Revenues	72,532	83,627	84,690
% change YoY	5.5	15.3	1.3
EBITDA	16,778	25,515	21,881
% change YoY	(12.5)	52.1	(14.2)
Other Income	2,887	1,700	1,500
Depreciation	2,942	3,378	3,955
EBIT	16,723	23,837	19,426
Net interest	400	578	482
Exceptional items	1,042	-	-
Profit before tax	17,366	23,259	18,944
% change YoY	(10)	33.9	(18.5)
Tax	5,238	7,210	5,873
as % of PBT	30.2	31.0	31.0
Profit after tax	12,128	16,049	13,072
% change YoY	(0.2)	0.3	(0.2)
Shares (m)	188	188	188
EPS (reported) (Rs)	64.6	85.4	69.6
P/E(x)	13.2	10.0	12.3
EV/EBITDA(x)	8.9	5.9	6.7
RoE(%)	26.7	29.1	20.0
RoCE(%)	33.9	39.7	27.7

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q2CY09	Q2CY08	YoY (%)
Net Sales	**20,813**	**17,858**	**17**
Expenditure	13,475	13,721	
Inc/Dec in trade	-48	-538	
RM	2,282	2,412	
As a % of net sales	11.0	13.5	
Staff cost	968	979	
As a % of net sales	4.7	5.5	
Power and fuel	3,738	4,005	
As a % of net sales	18.0	22.4	
Transportation & Handling	2,547	2,605	
As a % of net sales	12.2	14.6	
Purchase of traded cement	247	218	
As a % of net sales	1.2	1.2	
Other expenditure	3,741	4,041	
As a % of net sales	18.0	22.6	
Operating Profit	**7,337**	**4136**	**77**
Operating Profit Margin (%)	**35.3**	**23.2**	
Depreciation	784	724	
EBIT	**6,553**	**3412**	**92**
Interest	160	108	
EBT(exc other income)	6,394	3304	
Other Income	570	473	
Sales tax benefits	0	0	
Extraordinary Items	0	122.8	
EBT	**6,963**	**3,900**	**79**
Tax	2,107	1185	
Tax Rate (%)	30.3	30.4	
Net Profit	**4,856**	**2715**	**79**
NPM (%)	23.3	15.2	
Equity Capital	1,878.9	1878.3	
EPS (Rs)	**25.8**	**14.5**	

Source: Company

- **We revise our estimates upwards based on better than expected realizations as well as improvement in the operating margins and also introduce CY10 estimates. We expect revenues to grow at a CAGR of 8% between CY08-CY10.**
- **At current price of Rs 855, stock is trading at 10x and 12.3x P/E multiples and 5.9x and 6.7x EV/EBITDA multiples on CY09 and CY10 estimates. We roll forward our price target on CY10 and arrive at a price target of 735 based on average of 10x P/E and 6x EV/EBITDA for CY10 estimates. We believe that the best scenario of higher prices and lowest costs is already factored in the price and going forward, overall costs are likely to increase along with decline in the cement realizations. Thus we continue to maintain REDUCE on stock with a price target of Rs 735(Rs 605 earlier)**

Revenue growth led by improvement in realizations

- Revenues for the Q2CY09 grew by 17% as compared to Q2CY08 led by 2% improvement in dispatches and 14.4% improvement in realizations as against same period last year.
- Dispatches for the current quarter stood at 5.42MT and net realizations witnessed a 14.4% YoY increase and stood at Rs 3840 per tonne. This increase was primarily witnessed in the northern and eastern region due to strong construction demand in Q2CY09.
- ACC's capacity expansion plan is progressing on schedule. Bargarh facility along with a 30MW captive power plant is expected to get operational by mid-CY09 while expansion at Wadi facility will be commissioned in two phases - first phase getting operational by August, 2009 while second phase by March, 2010. Facility at Chanda is likely to commission in mid-2010. Total expanded capacity is expected to be nearly 27MT by CY10.
- We revise our revenue estimates upwards due to higher than expected cement price realizations witnessed in the current quarter. We also introduce CY10 estimates going forward. We expect cement prices to start correcting in H2FY10 due to incremental supplies kicking in. Price declines have also been witnessed in the western and the southern markets while northern and eastern region prices are still ruling firm. We expect prices to decline by Rs 10 a bag by December, 2009 and expect prices to further correct by 4% in CY10. We thus expect revenues to grow to Rs 83.6bn and Rs 84.7bn for CY09 and CY10 respectively.

Operating margin improvement led by better realization as well as reduction in power and fuel and other expenditure

- Operating margins for ACC in Q2CY09 stood at 35.3%, much ahead of our expectations. This translated into higher ever EBITDA/tonne of Rs 1354 for the company. This was primarily led by steep improvement in cement realizations as well as reduction in the power and fuel cost and other expenditure for the company.
- Higher operational efficiencies and better productivity across its power plants led to the reduction in the power and fuel costs. Management believes that these costs are likely to go up in future with increase in the coal and other raw material prices.
- With upward revision in cement realizations, our operating margin assumptions are revised to 30.5% and 25.8% for CY09 and CY10 respectively.

Cost per tonne analysis

(Rs)	Q2CY09	Q2CY08	Q1CY09
Despatches (mn tonne)	5.42	5.32	5.73
Net Realisation/tonne	**3840**	**3357**	**3587**
YoY growth (%)	14.4		
QoQ growth (%)	7.1		
Costs per tonne			
Raw material	412	352	453
Staff cost	179	184	139
Power and fuel	690	753	718
Transporation &Handling	470	490	485
Purchase of traded cement	46	41	44
Other expenditure	690	760	619
EBITDA per tonne	**1354**	**778**	**1130**

Source: Company

Net profit growth led by improved realizations and cost control measures

- Net profits registered a healthy growth of 79% in Q2CY09 vis-à-vis Q2CY08 led by steep improvement in realizations as well as cost control measures. This was ahead of our expectations.
- We expect net profits to be around Rs 16bn and Rs 13bn for CY09 and CY10 respectively.

Valuation and recommendation

- At current price of Rs 855, stock is trading at 10x and 12.3x P/E multiples and 5.9x and 6.7x EV/EBITDA multiples on CY09 and CY10 estimates.
- We roll forward our price target on CY10 and arrive at a price target of 735 based on average of 10x P/E and 6x EV/EBITDA for CY10 estimates.

We continue to maintain REDUCE recommendation on ACC with a price target of Rs.735

- Cement prices are currently ruling firm in northern and eastern markets. Prices have however started correcting in southern and the western markets. We do not expect significant upward movement in the cement prices due to prevailing monsoons as well as incrementing supplies. Along with this, we expect overall costs to witness an increase going forward. We thus believe that the best scenario of higher prices and lowest costs is already factored in the price.
- We thus continue to maintain **REDUCE** recommendation on the stock with a price target of Rs 735 on CY10 estimates.

RESULT UPDATE

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

ZEE NEWS LTD (ZNL)

PRICE: RS.42 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.47 **FY10E: EV/EBITDA: 10x; P/E:18x**

ZNL- revenues inline; EBITDA and profits better than estimates, aided by cost management. Regional market opportunity and improving bouquet positioning bode well for the longer term.

- **ZNL has reported a decent set of numbers - revenue growth of 25% YoY, aided by 27% advertising revenue growth and 25% subscription revenue growth. Profitability too grew 25% YoY, aided by a 200bps expansion in margins, YoY. Cost management, with a 5% decline in operating expenses QoQ helped margins.**
- **We believe that the advertising environment is likely to pick up 2HFY10 onwards; traditional media like TV broadcasting are likely to be early beneficiaries. Improving positioning of new properties and stability in established ones make ZNL best positioned to capture the opportunity in regional markets, which are likely to enjoy higher growth rates.**
- **Subscription revenues are also now getting meaningful; sustained accelerated growth in this stream will provide a counter cyclical growth opportunity. Ahead of industry growth rates and decent financial results in a challenging macro validate ZNL being a preferred pick in the segment.**
- **Modify earnings to account for Q1FY10 results; raise FY10 EPS by 7-8% to account for assumed sustainability in costs. Valuations of 18x FY10E EPS, 10x EBITDA and modest upsides to our fair value preclude a recommendation change. Maintain our ACCUMULATE rating with a revised price target of Rs.47 (Rs.42).**
- **Growth (28% EPS CAGR over FY09-11E), reasonable financial discipline and its strong bouquet keep ZNL our preferred pick, over the longer term. Belying of hopes of an accelerated recovery in corporate earnings and/or loss in ratings remain key risks to our call.**

Summary table

(Rs mn)	FY09E	FY10E	FY11E
Sales	5,187	5,831	6,860
Growth %	41.1	12.4	17.7
EBITDA	892	1,141	1,395
EBITDA margin %	17.2	19.6	20.3
Net profit	449	573	734
Net debt (cash)	857	830	662
EPS (Rs)	1.9	2.4	3.1
Growth %	21	27.8	28.1
CEPS	2.3	3.0	3.7
DPS (Rs)	0.4	0.4	0.4
ROE %	20.2	22.2	23.8
ROCE %	26.3	24.1	26.1
EV/Sales (x)	2.1	1.9	1.6
EV/EBITDA (x)	12.4	9.7	7.8
P/E (x)	22.8	17.8	13.9
P/Cash Earnings	18.9	14.4	11.6
P/BV (x)	4.3	3.7	3.0

Source: Company, Kotak Securities - Private Client Research

Result Highlights- Revenues and profits grow 25% YoY. Advertising revenue growth helped by contribution from recent launches, and elections favoring the news genre in Q1FY10.

- For the quarter ZNL grew its advertising revenues by a decent 27% YoY to Rs.1.1bn. Subscription growth on the other hand grew 25% YoY to Rs.275mn. 'Other' services came in at Rs.18mn. Put together revenues were Rs.1.37bn for the quarter, up 25% YoY.
- For ZNL existing channel revenues were flat YoY at Rs.989mn, while new channels grew from a small base to Rs.385mn. ZNL's new channels include its recent launches- Telugu, Kannada, 24 Taas, Tamil and Talkies.
- We note that advertising revenues in Q1 were helped by election-related spends on news channels, which helped in an otherwise challenging macro environment. We believe these spends contributed meaningfully and helped the company post growth in advertising revenues.
- While larger peers like ZEEL saw a 29% decline in advertising revenues in Q1FY10 and reflect the challenged marketplace; ZNL managed to register growth. We attribute this growth in advertising also to relative resilience of regional markets and the strong competitive positioning of ZNL's well diversified bouquet.

- Subscription revenues of Rs.265mn (up 25% YoY) were below our estimate and we believe reflect likely MG agreements entered into with DTH platforms that may not reflect in full the rising DTH penetration. The management attributed the QoQ decline in this stream to a higher base in Q409, on account of bunched up payments accrued in that quarter.
- Property wise details shared by the management show that the existing properties generated a strong 41.9% (35.2% in Q1FY09) EBITDA margin whereas the new properties, in investment mode reported a negative EBITDA of Rs.169mn. For the quarter ZNL reported a PAT of Rs.119.1mn, up 24% YoY, helped by lower interest outgo as the company entered into more favorable debt tie-ups.
- EBITDA margins at 18% were up 200bps YoY and 300bps QoQ. We see this as a result of a conscious effort to rationalize costs, across the group. We note that operating expenses have declined 5% QoQ, impacted positively also by the closure of Zee Gujarati, starting June 2009. Cost rationalization has been more pronounced in existing channels where operating costs declined 16% QoQ and 9% YoY.
- New launches however continued to see increased investments with the launch of news channels in UP and AP. These increased the distribution costs to Rs.270mn which were up 38% YoY and 14% QoQ.
- While we believe the pruning of cost base as seen in Q1 may not be linearly sustainable we have accounted for some optimization of variable expenses, which is likely to help margins grow in FY10E. Going forward we also expect growth in domestic subscription revenues, especially rising DTH collections to be a buffer for margins, given their low associated costs.
- Change in FY10E EPS estimates, up 7-8% is largely on account of this. We have also worked with lower advertising revenue assumptions, as we expect Q2 to remain weak and build for a pick up in 2HFY10.

Quarterly Results - Q1FY10

(Rs mn)	1QFY10	1QFY09	% chg	4QFY09	% chg
Revenues	**1374.1**	**1095.9**	**25.4**	**1384.4**	**-0.7**
Expenditure	1126.3	921.1		1177.4	
EBDITA	**247.8**	**174.8**	**41.8**	**207.0**	**19.7**
Depreciation	30.6	19.3		28.6	
EBIT	**217.3**	**155.5**	**39.7**	**178.4**	**21.8**
Net Interest	77.3	3.2		89.2	
Other Income	41.2	3.0		48.5	
PBT	**181.2**	**155.3**	**16.6**	**137.7**	**31.5**
Tax	64.8	59.8		51.2	
Deferred tax	-2.7	0.0		-2.8	
PAT after MI	119.1	95.5	24.7	87.9	35.5
EPS (Rs)	**0.5**	**0.3**		**0.6**	
Margins					
OPM (%)	18.0	16.0		15.0	
GPM (%)	15.8	14.2		12.9	
NPM (%)	8.7	8.7		6.3	

Source: Company

New launches and investments towards Tamil will weigh on cost structures; recent launches like Telugu and Kannada have gained in ratings and added to the bouquet.

- The company has launched two more channels in the current quarter. While we are not too enthused by new launches in a tough environment; successful execution and financial discipline may offer longer term growth given the nascent market segments.
- We expect ZNL to continue following a rational and calibrated strategy that pursues growth with acceptable levels of risk. Within the new businesses - 'Zee Telugu' enjoyed 8% GRP growth during the quarter and has emerged as a steady No. 2 amongst Telugu GECs. 'Zee Kannada' also strengthened its position and generated average weekly GRP's of 165 during the quarter. Another new launch 'Zee 24 Taas' continued gaining traction in viewership and revenue share.
- We believe these launches have in some measure added to the bouquet's positioning. We also believe execution needs to remain strong for these new launches more so Tamil which is a key market for the company.
- Tamil regional TV advertising market is worth Rs.6.9bn, according to estimates and ZNL remains confident of garnering a decent share of the market in the next two years. Management expects Zee Tamil to break even in 36-48 months, which will likely happen on achieving 180 GRPs weekly. Zee Tamil currently logs 30-35 GRPs a week and enjoys a No.3 position in the Tamil GEC market.
- There have been issues at the distribution end in the Bengal territory; the management attributed the recent rating drop for its Bangla channel to the same and expects to resolve it soon. We believe the problem exists in other geographies like TN and Karnataka too and would require timely redress to optimize the bouquet's reach.

Zee News- well diversified bouquet, traditional media will be early beneficiaries of a pick up in the advertising environment.

- ZNL has three driver channels - Zee Marathi, Zee Bangla and Zee News - making up close to 70% of its total advertising revenues. We believe this reduces the risk of overdependence on one property and ensures a well diversified revenue stream, unlike other competitors in broadcasting.
- Further, the composition of ZNL's advertising revenue is well balanced between the two genres of regional entertainment and news: regional genre contributes c60% while news channels contribute c40% of advertising revenues.
- Consensus view for the Indian advertising market growth has been between 5% and 10% for FY10. On a wider basis expectations have been of around 6-8% for the overall advertising market, for CY09E. This estimate of around 8% growth for the advertising market, we note, would be the lowest since 2001.
- Industry expectations have been of c8%YoY growth in the advertising market to be led by double digit growth in FMCG, telecom and nascent categories like DTH.
- In recent times there have been renewed expectations of decisive policy action that is expected to lead to a faster recovery in economic growth and also corporate earnings.
- If the same do materialize we see a swift recovery in corporate sentiment to invest and consequently an up tick in advertising revenue trends. While it may be too early to re-calibrate industry growth outlook for CY09, we do believe the macro has seen material improvement and expect a revenue pickup 2HFY10E onwards.
- We also believe the early beneficiaries of this revival to be the more traditional and established forms of media- print and TV broadcasting. We also expect spends in metros to gain traction as advertisers return in the backdrop of an improved macro environment.

Projected financials- advertising spend to pick up in 2H, according to industry. ZNL bouquet's positioning and regional media markets will help ZNL outpace industry growth

- In our projections, we expect advertising revenues to grow at a CAGR of 15% over FY09-11E, lower than its earlier growth rates as we expect a challenging macro and new investments to impact. We expect the existing channels (79% of FY10E ad revenues) to grow at a reasonable 16% CAGR. The new channels are expected to contribute incrementally to revenues, from a smaller base and grow at a 50% CAGR over the period.
- We expect new channels to contribute to 11% of FY10E ad revenues from their 7% contribution in FY08.
- For FY10E we are factoring in a modest 14% growth in overall ad revenues, a significant slowing from the 43% ad revenue growth of FY09, and 27% in Q1FY10.

Subscription revenues- we expect an 18% CAGR over FY09-11E. Pay revenues- expect domestic subscriptions to grow led by increasing DTH penetration

- Going forward over FY09-11E we expect subscription revenues to grow at a 18% CAGR. We believe pay revenues will likely be a strong growth driver for ZNL financials along with ad revenue contributions from existing channels slowing in a challenging macro that we expect will persist till 2HFY10.
- This growth is expected to be driven by a revamp of the domestic cable distribution business and strong growth in the DTH subscriber base. We also believe ZNL's international subscription revenues are likely to benefit from the recent INR depreciation.
- While initial CAS off-take has been muted, the opportunity in our opinion will be led by a strong traction in DTH services, which is expected to have 21mn subscribers by FY11E, up from the c13mn currently. We expect DTH collections to rise at a 62% CAGR over the period- aided by strong growth in the DTH sub count and relatively strong positioning of the ZNL bouquet.

Margins- to grow on back of cost containment and increasing subscription revenues

- Earnings growth for ZNL, over FY09-11E, in our opinion is likely to be driven by revenue momentum due to stable ratings for its assets and also currently loss-making businesses contributing to the bottom line.
- Gains from these though would be offset by start up losses in new channels (Tamil, Telugu news, UP channel and Bengali movies), in our opinion. While we believe the pruning of cost base as seen in Q1 may not be linearly sustainable we have accounted for some optimization of variable expenses, which is likely to help margins grow in FY10E.
- Going forward we also expect growth in domestic subscription revenues, especially rising DTH collections to be a buffer for margins, given their low associated costs. On the back of the above we expect EBITDA to grow at a CAGR of 25% over FY09-11E.
- We estimate a strong and above peer EPS CAGR of 28% over FY09-11E; an EPS of Rs.2.4 (Rs.2.2) in FY10E and Rs.3.1 in FY11E.

Near term valuations and modest upside to fair value preclude rating change; maintain ACCUMULATE

- At 18x FY10E EPS ZNL is trading at fair valuations with respect to the growth on offer (29% EPS CAGR over FY09-11E). We also opine the stock's premium to peers is on account of the same, in addition to its better visibility and reasonable financial discipline.

We maintain ACCUMULATE on Zee News with a price target of Rs.47

- Modify earnings to account for Q1FY10 results; raise FY10 EPS by 7-8% to account for assumed sustainability in costs. We arrive at a DCF based price target of Rs.47 (Rs.42). Our DCF model uses a WACC of 14.2% and terminal growth of 4%.
- Noting the limited upside to our fair value and ample valuations we maintain **ACCUMULATE.** Growth (28% EPS CAGR over FY09-11E), reasonable financial discipline and its strong bouquet keep ZNL our preferred pick, over the longer term.
- Belying of hopes of an accelerated recovery in corporate earnings and/or loss in ratings remain key risks to our call.

Change in estimates

	FY09	FY10E		
		Old	New	Change, %
Revenues, Rs.mn	5186.9	6085.7	5830.8	-4.2
Advertising revenues, Rs.mn	4057.7	4739.7	4609.7	-2.7
Subscription revenues, Rs.mn	968.2	1176.0	1131.0	-3.8
EBITDA, Rs.mn	892.1	1035.7	1140.8	10.1
EBITDA %	17.2	17.0	19.6	260bps
PAT, Rs.mn	448.7	528.7	573.3	8.4
EPS, Rs.	1.9	2.2	2.4	8.7

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 6621 6312

UNION BANK OF INDIA

PRICE: RS.247 **RECOMMENDATION: BUY**
TARGET PRICE: RS.275 **FY10E P/E: 6.7X; P/B: 1.6X**

NII came below our expectations; however net profit was better than our expectations.

- **The bank's net interest income (NII) grew only 1.6% on back of decline in NIM from 2.92% in Q1FY09 to 2.29% in Q1FY10 along with decline in C/D ratio from 70.7% in Q1FY09 to 66.7% in Q1FY10 in spite of strong growth in gross advances (growth of 26.7%).**
- **Its strong net profit growth (93.7% YoY) came on the back of strong growth in non-interest income (118%) and 10.9% decline in total provisions (including tax provisions).**
- **Non-interest income saw strong traction (118%) during Q1FY10 on strong growth in profit on sale of Investments and healthy growth in core income.**
- **In absolute terms, gross NPA declined sequentially, however net NPA increased sharply. This sharp increase is mainly due to floating provisions not being adjusted from the gross NPA, as per the recent RBI's guidelines.**
- **We are slightly tweaking our earning estimates for FY10E and introducing FY11E numbers. We are also maintaining a BUY rating on the stock with the revised target price of Rs.275 (earlier Rs.192). At the target price, the stock would trade at 1.75x its FY10E adjusted book value.**

Quarterly Performance

(Rs mn)	1QFY10	1QFY09	YoY (%)
Interest on advances	23526.0	18414.4	27.8
Interest on Investment	7990.6	6613.5	20.8
Interest on RBI/ banks' balances	193.9	84.1	130.6
Other interest	42.3	11.1	281.1
Total Interest earned	31752.8	25123.1	26.4
Interest expenses	23736.6	17231.9	37.7
Net interest income	**8016.2**	**7891.2**	**1.6**
Other income	5287.2	2425.7	118.0
Net Revenue (NII + Other income)	13303.4	10316.9	28.9
Operating Expenses	**5428.5**	**4156.8**	**30.6**
Payments to / Provisions for employees	3005.4	2246.9	33.8
Other operating expenses	2423.1	1909.9	26.9
Operating profit	**7874.9**	**6160.1**	**27.84**
Provisions & contingencies	1903.0	2957.2	-35.6
Provision for taxes	1550.0	920.0	68.5
Net profit	**4421.9**	**2282.9**	**93.7**
EPS, Rs	**8.75**	**4.52**	**93.7**

Source: Company

NII disappoints; however net profit better than our expectations

The bank's net interest income (NII) grew only 1.6% to Rs.8.02 bn in Q1FY10 from Rs.7.89 bn in Q1FY09 on back of decline in NIM from 2.92% in Q1FY09 to 2.29% in Q1FY10 along with decline in C/D ratio from 70.7% in Q1FY09 to 66.7% in Q1FY10 despite of strong growth in gross advances (growth of 26.7%).

During Q1FY10, interest income witnessed 26.4% growth as compared to 37.7% growth in total interest expenses.

Its strong net profit growth (93.7% YoY) to Rs.4.42 bn in Q1FY10 from Rs.2.28 bn in Q1FY09 came on the back of strong growth in non-interest income (118%) and 10.9% decline in total provisions (including tax provisions).

Strong non-interest income (YoY)

Non-interest income saw whopping growth of 117.7% YoY to Rs.5.29 bn in Q1FY10 from Rs.2.43 bn in Q1FY09. This came mainly on back of robust growth (621%) in treasury profit from Rs.0.29 bn during Q1FY09 to Rs.2.09bn during Q1FY10 and 42.7% growth in core fee income from Rs.1.92 bn during Q1FY09 to Rs.2.74 bn during Q1FY10.

Non-interest income

(Rs bn)	1Q 2009	1Q 2010	YoY (%)
Profit on sale of Investments	0.29	2.09	620.7
Recovery from W/O accounts	0.22	0.46	109.1
Forex income	0.59	0.91	54.2
Other non-interest income	1.33	1.83	37.6
Total non-interest income	**2.43**	**5.29**	**117.7**

Source: Company

Strong business growth

Total business of the bank rose 31.1% to Rs.2399.2 bn in Q1FY10 from Rs.1830.6 bn in Q1FY09.

- Total deposits of the bank rose 34.2% (YoY) to Rs.1438.9 bn in Q1FY10 from Rs.1072.5 bn in Q1FY09. CASA (low cost deposits) came down to 30.4% at the end of Q1FY10 from 34.8% at the end of Q1FY09, a decline of 436 bps YoY.

Deposit Mix

	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	YoY (%)
CASA (Rs. bn)	289	308	328	362	373	384	394	417	437	17.3
Current deposits	83	91	101	118	116	119	NA	132	143	23.4
Saving deposits	206	217	227	244	257	265	NA	285	294	14.6
CASA(%)	33.3	32.5	33.1	34.9	34.8	33.1	30.4	30.1	30.4	
Term Deposits	581	640	664	677	700	776	903	970	1001	43.1
Bulk Deposits (%) - Wholesale	191	181	190	181	165	193	190	146	130	-20.9
Bulk Deposits (%)	21.9	19.1	19.1	17.4	15.4	16.6	14.7	10.5	9.1	
Total Deposits (Rs. bn)	869.8	948.0	992.3	1038.6	1072.5	1159.4	1296.5	1387.0	1438.9	34.2

Source: Company

Bulk deposits declined to less than 10% by the end of Q1FY10.

- Gross advances grew 26.7% (YoY) to Rs.960.3 bn in Q1FY10 from Rs.758.1 bn in Q1FY09 mainly driven by agriculture and retail (personal) segments, which grew 38.2% and 29.1%, respectively.
- SME loan book improved 23% to 155.3 bn in Q1FY10 from Rs.126.3 bn in Q1FY09.
- Retail (personal) segment increased 29.1% (YoY) to Rs.105.7 bn in Q1FY10 from Rs.81.9 bn in Q1FY09.
- Agriculture loan increased 38.2 % to Rs.149.2 bn during Q1FY10 from Rs.108.0 bn during Q1FY09.

Margins declined

Net interest margin (NIM) declined to 2.29% in Q1FY10 as compared to 2.92% in Q1FY09 and 2.80% in Q4FY09. This decline in the NIM has come on the back of reduction in its PLR in recent times in line with the falling rates in the system.

The cut in PLR instantly impacts the yields on assets however deposit re-pricing comes with a lag. The cost of term deposits on the monthly basis (as per the estimate done by the bank) is likely to reduce by 113 bps by December 2009 as compared to July 2009. Accordingly, it is expected that NIM would improve in next two quarters.

Increase in net NPA

In absolute terms, gross NPA increased 19.0% YoY, while it declined sequentially by 2.6%. Net NPA increased sharply (521% YoY and 108% QoQ) on back of recent RBI's guideline stating that banks are not allowed to deduct floating provisions from the gross NPA. Now, banks would consider this to be a part of Tier-II capital.

The bank's gross NPA and net NPA stand at Rs.18.74 bn and Rs.6.77 bn, respectively. In percentage terms, gross NPA declined to 1.95% in Q1FY10 from 2.08% in Q1FY09. During the same period, net NPA increased to 0.72% from 0.15%. Loan loss coverage of NPA declined sequentially to 63.9% at the end of Q1FY10 from 83.1% at the end of FY09.

Comfortable on Capital adequacy front

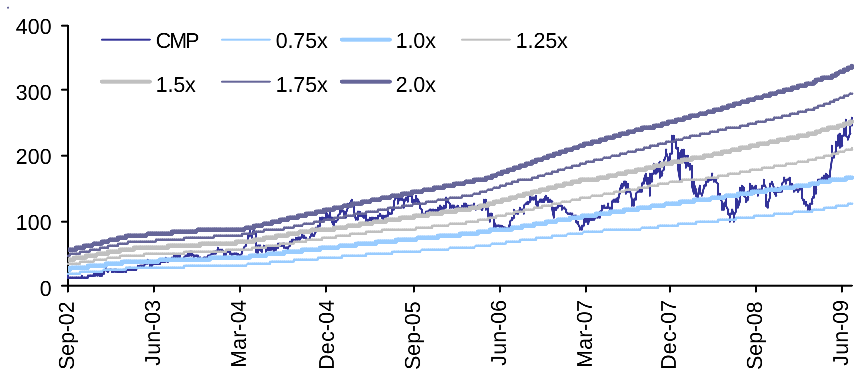
Capital adequacy ratio (CAR) stands at 13.73% (Basel-II) at the end of Q1FY10 as against 11.28% a year ago. Tier-I capital also improved from 6.93% at the end of Q1FY09 to 8.18% at the end of Q1FY10.

Valuation & recommendation

We are slightly tweaking our earning estimates for FY10E and introducing FY11E numbers. We now expect earnings to grow 12.9% CAGR and balance sheet size at 16.5% CAGR during FY09-11E. During FY09-11E, we expect RoA to remain high at around 1.1% and RoE at 22-23%, one of the highest in the industry.

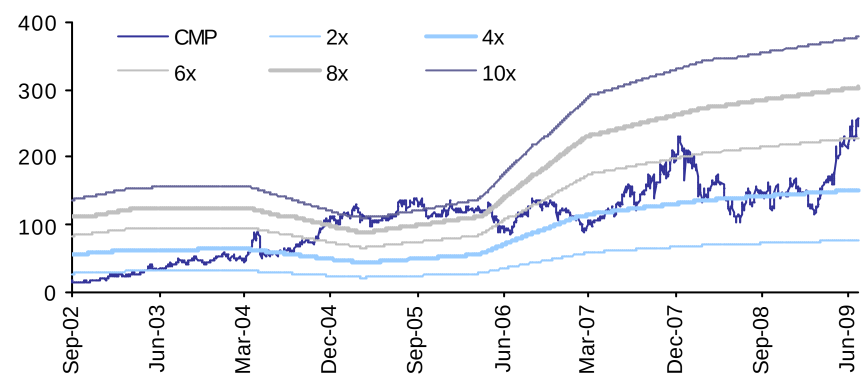
We now expect net profit for FY10E and FY11E to be Rs.18.73 bn and 22.02 bn, respectively. This would result into an EPS of Rs.37.1 and Rs.43.6 for FY10E and FY11E, respectively. The ABV is forecast at Rs.156.5 and Rs.195.7, respectively for FY10E & FY11E.

Rolling 1-year forward P/ABV



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 Union Bank of India with a price target of Rs.275

At the current market price of Rs.247, the stock is trading at 6.7x its FY10E earnings and 1.6x its FY10E ABV.

We are also maintaining a **BUY** rating on the stock with the revised target price of Rs.275 (earlier Rs.192). At the target price, the stock would trade at 1.75x its FY10E adjusted book value.

Key data

(Rs bn)	FY08	FY09	FY10E	FY11E
Interest income	93.02	118.89	139.18	162.87
Interest expense	63.61	80.76	95.55	111.17
Net interest income	**29.41**	**38.14**	**43.63**	**51.70**
Other income	13.20	14.83	16.24	17.71
Gross profit	26.67	30.82	34.77	40.80
Net profit	**14.74**	**17.27**	**18.73**	**22.02**
Gross NPA (%)	2.2	2.0	2.1	2.0
Net NPA (%)	0.2	0.3	0.6	0.4
Net interest margin (%)	2.9	3.2	2.9	2.9
RoE (%)	28.5	27.2	23.9	23.0
RoAA (%)	1.3	1.2	1.1	1.1
Dividend Yield (%)	1.6	2.0	2.0	2.0
EPS (Rs)	**29.2**	**34.2**	**37.1**	**43.6**
Adjusted BVPS (Rs)	108.8	131.9	156.5	195.7
P/E (x)	**8.5**	**7.2**	**6.7**	**5.7**
P/ABV (x)	2.3	1.9	1.6	1.3

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6621 6305

SIEMENS INDIA LTD

PRICE: RS.471 **RECOMMENDATION: REDUCE**

TARGET PRICE: RS.450 **FY10E P/E: 19x**

- **Sedate growth in revenue and profits continues.**
- **Aided by a large order of Rs 7.2 bn, estimated order bookings at Rs 23.5 bn have shown improvement on a sequential basis. Despite this, order backlog remains flat.**
- **Since our previous update (Reduce Rs 465 on 5/21/2009) the company has been a market performer.**
- **Maintain Reduce with a DCF based price target of Rs 450 (Rs 372 earlier).**

Summary table - Sep year end

(Rs mn)	FY08	FY09E	FY10E
Sales	83577	85164	97055
Growth %	7.6	1.9	14.0
EBITDA	7790	11366	12132
EBITDA margin %	9.3	13.3	12.5
Net profit	4687	7600	8122
Net cash (debt)	9131	15990	20633
EPS (Rs) (standalone)	14.2	23.0	24.5
Growth %	-9.6	62.2	6.9
ROE %	32.4	31.6	26.2
ROCE %	39.1	44.5	36.9
P/E (x)	32.8	20.3	19.0

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3 FY09	Q3 FY08	YoY (%)	9M FY09	9M FY08	YoY (%)
Net sales	**19096**	**18097**	**6**	**59067**	**58665**	**1**
Other operating income	81	108	-25	338	280	20
Raw Material costs	11708	12295	-5	38033	40502	-6
Purchase of trading goods	3369	2524	33	7940	7940	0
Staff costs	1428	1196	19	3912	3178	23
Other costs	1468	874	68	3342	2248	49
inc/dec in project related work	-1367	-1339	2	-1583	722	-319
Total expenditure	16606	15550	7	51643	54591	-5
PBDIT	**2571**	**2654**	**-3**	**7761**	**4354**	**78**
Depreciation	150	161	-7	565	461	23
Other income	196	127	55	489	341	43
PBT	**2617**	**2620**	**0**	**7686**	**4235**	**82**
Tax	890	926	-4	2677	1534	74
Adjusted PAT	1727	1694	2	5009	2700	86
Extraordinary items (tax adjusted)	1643	0		3921	981	300
PAT Reported	3370	1694	99	8931	3681	143
EPS (Rs)	**10.2**	**5.1**		**27.0**	**11.1**	
Raw Material costs to sales (%)	61.3	67.9		64.4	69.0	
Trading items to sales (%)	17.6	13.9		13.4	13.5	
Other exp to sales (%)	7.7	4.8		5.7	3.8	
EBITDA (%)	13.5	14.7		13.1	7.4	
Tax rate (%)	34	35		35	36	
Equity shares outstanding mn	331	331		331	331	

Source: Company

Sluggish headline growth in line with expectations

- Revenue growth for the quarter has remained sedate and in line with expectations as the company had begun the quarter with lower order backlog.
- Also general industrial production has been stagnant, which would have affected the offtake of motors and industrial turbines.
- The revenues were mainly driven by the oil and gas, mobility and power transmission divisions.
- The automation and drive technologies divisions reported degrowth in the quarter, which was expected given poor offtake of motors and drives. Peers have also reported decline in motors business.

Segment revenues

(Rs mn)	Q3 FY09	Q3 FY08	% YoY
Automation tech	2143.6	2290	-6
Drive technologies	2359.6	2224	6
Building Tech	204.6	238	-14
Industry Soln	2330.7	2838	-18
Mobility	2741.8	1582	73
Total Industry Group	**9780**	**9172**	**7**
Fossil Fuel	750	153	390
O&G	1294.3	1151	12
Power Transmission	5878.6	5321	10
Power Distribution	1900.6	1801	6
Total Energy Group	**9824**	**8427**	**17**
Healthcare	1137	1504	-24
Real Estate	151	136	11
Less :Inter segment revenue	1796.3	1142	57
Net Sales/Income from operations	**19096**	**18097**	**6**

Source: Company

Margins declined despite lower material costs

- During the quarter, material costs to sales declined significantly aided by lower metal prices. On a yoy basis, copper as well as steel prices are down sharply.
- On the other hand, other expenditure rose significantly during the quarter, which actually offset the entire cost decline due to lower material prices. We believe, other expenditure may include losses on forex hedges.
- Decline in overall margins was mainly due to for the industry group. The energy group managed to keep margins intact.

Segment margin

	Q3 FY09	Q3 FY08	Q2 FY09
Automation tech	5	8	7
Drive technologies	7	8	7
Building Tech	6	11	3
Industry Soln	7	18	10
Mobility	4	5	-3
Total Industry Group	**6**	**10**	**5**
Fossil Fuel	12	143	7
O&G	18	11	17
Power Transmission	22	14	21
Power Distribution	2	16	10
Total Energy Group	**17**	**17**	**18**
Healthcare	0	3	9
Real Estate	116	62	78
Net Sales/Income from operations	**12**	**14**	**14**

Source: Company

Order backlog remains subdued. Order booking aided by one large HVDC transmission order for Adani Power

- During the quarter, order backlog rose a modest 3% to Rs 101.5 bn.
- Revenue visibility has remained low due to sluggish order inflows in recent quarters. If this trend continues then the growth outlook for FY10 earnings could be impacted significantly.
- We estimate growth in order booking in Q1 at 13% yoy and 26% sequentially.

Order book in Q3FY09

	Rs mn
400 KV substations from PGCIL	1,090
HV Distribution systems for Vedanta	1,120
11 KV AIS switchgear for KAHRAMAA	790
HVDC trnsmission system for Adani	7,200
Total	**10,200**

Source: Company

Other developments

To triple steam turbine manufacturing capacity: Siemens plans to triple its steam turbine manufacturing capacity at Vadodara. The expansion programme is expected to be completed by 2010. The company plans to manufacture steam turbines of upto 100 MW as against 45 MW currently.

Valuation and Recommendation

We recommend REDUCE on Siemens India with a price target of Rs.450

- We have not made any change to our earnings estimates
- At the current price, the stock is trading at 20.3x FY09 and 19.0x FY10 earnings respectively.
- We have been negative on the stock and the sector at large due to reduction in visibility and valuations running ahead of earnings growth.
- Since our previous update (Reduce Rs 465 on 5/21/2009) the company had been a market performer.
- Maintain Reduce with a DCF based price target of Rs 450 (Rs 372 earlier).

Peer valuation

	FY10 PE
Siemens	20x
ABB	25x
Areva	27x
BHEL	24x
L&T	24x
Crompton Greaves	15x

Source: Kotak Securities - Private Client Research

Some considerations on target Price

- Uptick in industrial production which has improved the outlook for order booking.
- Stock is at a discount to peers.

Risk to Recommendation

We note that beginning order book at the start of the year may not provide a reasonably correct indication of likely revenue growth as the company undertakes several low execution period orders. Hence actual revenue growth can surprise on the upside even if the company commences the year with a low order backlog.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
23-Jul	Aarey Drugs	Varsha Ben Navinbhai Soni	B	30,367	43.41
23-Jul	Aarey Drugs	Kaushik Shah Shares & Sec. Ltd	S	150,000	43.45
23-Jul	Anjani Synth	Ayodhyapati Investment Pvt Ltd	B	90,744	48.30
23-Jul	Anjani Synth	Amit Shantilal Mehta	B	56,000	48.21
23-Jul	Asian Tea Ex	Kapish Cacjging Pvt. Ltd	S	75,757	26.59
23-Jul	Automat Axle	M3 Investment Private Limited	B	471,600	135.00
23-Jul	Automat Axle	Reliance Life Insurance Co.Ltd.	S	470,466	135.00
23-Jul	Avance Techn	Jignesh Chandrakant Shah	S	25,000	51.05
23-Jul	Coven Coilom	Mrs Sangeeta	S	77,840	9.89
23-Jul	Decolight Ce	Kiran Suttamchand	B	200,000	10.15
23-Jul	Decolight Ce	Sohan Raj Uttamchand	B	200,000	10.15
23-Jul	Decolight Ce	Mittal Securities Finance Limited	S	400,000	10.15
23-Jul	DMC Inter	Shivcharan Dass Mittal	B	45,000	6.75
23-Jul	DMC Inter	Centenary Software Pvt Ltd	S	26,425	6.83
23-Jul	Gtech Infotr	Chandrakant B Shah	S	1,294,000	0.78
23-Jul	Hasti Financ	Dheeraj K	S	24,000	16.81
23-Jul	Haz Mul Pro	Param Capital	B	297,840	4.80
23-Jul	Haz Mul Pro	Gyanchand Jawarilal Jain	S	300,000	4.80
23-Jul	Indtradeco L	Pleasent Textiles Limited	S	875,000	0.71
23-Jul	Interlink Pe	Kenneth Gerard Pereira	B	224,000	20.00
23-Jul	Interlink Pe	Vijay Misra & Sons	S	224,000	20.00
23-Jul	Jumbo Bag Lt	Sanjeev Burman Jhaveri	B	37,201	65.99
23-Jul	Jumbo Bag Lt	Shvetal K Trivedi	B	80,000	66.93
23-Jul	Kadamb Const	Dinesh B Somani	S	20,000	43.20
23-Jul	Kay Pow Pap	Sunder Dass Agarwal	S	55,000	5.83
23-Jul	Lime Chem	Duke Advisors (P) Ltd	B	235,000	4.27
23-Jul	Lime Chem	Duke Special Opportunities Fund Llc	S	242,550	4.27
23-Jul	Mast Medi Sy*	Premlata Ramesh Saraogi	B	50,000	43.00
23-Jul	Mast Medi Sy*	Jugal Kishore Mmaheshwari	S	41,094	43.02
23-Jul	Netwo St Bro	Ganesh Kumar Singhania	B	100,000	42.64
23-Jul	Netwo St Bro	Salasar Stock Broking Limited	S	100,000	42.63
23-Jul	Prerna Infr	Mani Credit Capital Pvt. Ltd	B	95,500	16.60
23-Jul	Prerna Infr	Farokh Nariman Pavri	S	95,500	16.60
23-Jul	Prranet Indu	Chandrakant B Shah	B	575,000	9.80
23-Jul	Prranet Indu	Esha Securities Limited	S	485,000	9.80
23-Jul	Rishabhdev	Shelendra N Baradia	S	90,000	19.11
23-Jul	Shopper Stop	Relialnce Capital Mutual Fund	B	538,000	162.01
23-Jul	Sturdy Inds	Geeta Jain	B	50,000	29.05
23-Jul	Vanta Cor Se	Bhupendra Shantilal Shah	S	19,595	12.72
23-Jul	Vanta Cor Se	Pradip Bhimshi Shah	S	18,000	13.75
23-Jul	Veer Energy	Kirit Kumar Mohanlal Patel	B	18,545	287.30
23-Jul	Venus Vent	Vipul Hiralal Shah	B	27,705	29.89
23-Jul	Venus Vent	Kanchan Vijaykumar Thakkar	B	31,410	29.91

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Reliance Ind	2,042	3.3	17.2	3.0
ITC	230	5.4	11.1	8.5
L&T	1,490	2.8	8.9	2.0
Losers				
Bharti Airtel	814	(1.1)	(2.0)	7.7
ONGC	1,093	0.1	0.1	1.8
National Alu	296	2.5	0.2	0.2

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
24-Jul	BGR Energy, Bharat Electronics, Bharat Forge, Gail Inda, CESC, Geometric, Hindustan Motors, HCC, Jet Airways, Ranbaxy Lab, Reliance Pet, Shree Cement, Shriram Transport earnings expected
25-Jul	Andhra Bank, Asian Paints, Eicher Motor, ICICI Bank, Ispat Industries, Jaiprakash Associates, Kesoram Industries, Micro Inks, Tata Communication earnings expected

Source: Bloomberg

Research Team

Dipen Shah
IT, Media
dipen.shah@kotak.com
+91 22 6621 6301

Teena Virmani
Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Saurabh Gurnurkar
Media, IT
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

Saday Sinha
Banking, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Shrikant Chouhan
Technical analyst
shrikant.chouhan@kotak.com
+91 22 6621 6360

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Apurva Doshi
Logistics, Textiles, Mid Cap
doshi.apurva@kotak.com
+91 22 6621 6308

Saurabh Agrawal
Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Sarika Lohra
NBFCs
sarika.lohra@kotak.com
+91 22 6621 6313

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.