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October 22, 2010

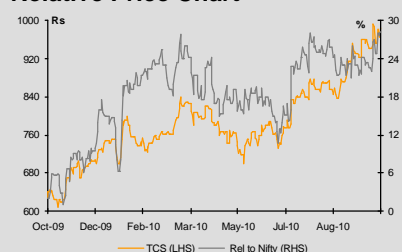
<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs984	Rs1,075
EPS change FY11E/12E (%)	2/7
Target Price change (%)	21
Nifty	20,161
Sensex	6,102

### Price Performance

(%)	1M	3M	6M	12M
Absolute	3	17	25	55
Rel. to Nifty	2	4	8	29

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	TCS@IN
Equity Capital (Rs mn)	1957
Face Value(Rs)	1
No of shares o/s (mn)	1957
52 Week H/L	1,010/595
Market Cap (Rs bn/USD mn)	1,926/43,415
Daily Avg Volume (No of sh)	1742300
Daily Avg Turnover (US\$m)	35.1

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	74.0	74.1	74.1
FII/NRI	12.4	12.2	12.4
Institutions	8.1	8.0	7.8
Private Corp	0.6	0.7	0.7
Public	4.8	5.0	5.0

Source: Capitaline

- **Revenues at US\$ 2,004 mn (+11.7% QoQ, +30.3% YoY) beat estimates significantly, propelled by ~10.4% QoQ growth in Int business and ~26% QoQ growth in India business**
- **Incredible mgn performance yet again with margins improving further by ~70 bps QoQ to 30%, highest ever. Non manpower expenses % is now the lowest ever in co's history**
- **Broad based growth across service lines/vertical wise. Europe/UK grow by ~14%/13%. Nearly all verticals record a double digit QoQ increase for the 1<sup>st</sup> time ever**
- **Despite higher currency reset, up FY11/12E EPS by 2%/7% to Rs 42.4/47.5 as we build in rev gwth at 28%/21% for FY11/12(V/s 22%/19% earlier). ACCUM, revise TP of Rs 1,075**

### A much 'stronger beat' this time around

TCS continues to belie street expectations with another blockbuster performance. While revenues at US\$ 2,004 mn (+11.7% QoQ, +30.3% YoY) were ~US\$ 80 mn more than estimates(+4%), operating margins expanded yet again by ~70 bps to 30%, highest ever in the co's reporting history( note that street was expecting ~60-70 bps sequential margin decline, while we expected a more modest 10 bps gain QoQ). Profits at Rs 21.1 bn (+14% QoQ, +30%YoY) also came in ahead of est driven by revenue/margin beat. Volume growth during the quarter was 11.2%, helped by ~26% sequential increase in the lumpy India business while International business QoQ growth was ~10.4%. Revenues from Europe/UK were up by ~14%/13% sequentially while nearly all verticals posted a double digit sequential increase. Onsite revenues grew by 11% sequentially, marking the 1<sup>st</sup> quarter since Dec'06 of double digit QoQ increase for Onsite revenues.

### Positive surprise on margins continues, difficult for an encore in our view

TCS's splendid show on operating margins has extended into the Sep'10 quarter with co's operating margins expanding by ~70 bps QoQ to 30%, highest ever in co's history (V/s a more modest expectations of 10 bps gain QoQ). **We note that tight cost controls over non manpower expenses have accounted for ~340 bps of the 380 bps margins expansion for the company for the past 6 quarters ( non manpower expenses at ~13.5% in Sep'10 quarter, lowest ever in co's history)** and would rule out any encore on margin front going forward driven by supply and currency headwinds.

### Retain ACCUMULATE with a raised TP of Rs 1075

We raise our FY11/12E revenues to US\$8.1 bn/9.9 bn(+28%/21% YoY growth V/s 22%/19% earlier) driving a 2.2%/6.7% increase in our FY11E/12E earnings to Rs 42.4/Rs 47.5 despite a higher US\$/INR reset to Rs 44/\$ (V/s Rs 46/\$ earlier). We retain ACCUMULATE with a revised March'12 target price of Rs 1075(V/s Rs 890 earlier).

### Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	300,289	86,843	28.9	68,694	35.1	37.6	28.0	22.1	9.2
FY11E	366,724	107,365	29.3	82,982	42.4	36.5	23.2	17.7	7.8
FY12E	434,460	123,880	28.5	92,974	47.5	34.9	20.7	15.2	6.7
FY13E	508,246	137,995	27.2	105,924	54.1	33.7	18.2	13.4	5.6

## Quarterly performance

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>74,351</b>	<b>76,503</b>	<b>77,365</b>	<b>82,172</b>	<b>92,864</b>	<b>24.9</b>	<b>13.0</b>	<b>1,75,036</b>	<b>1,46,421</b>	19.5
<b>Operating Expenditure</b>	<b>53,009</b>	<b>53,786</b>	<b>54,200</b>	<b>58,085</b>	<b>64,970</b>	<b>22.6</b>	<b>11.9</b>	<b>1,23,055</b>	<b>1,05,460</b>	16.7
Cost of revenues	39,215	39,841	39,936	43,978	49,448	26.1	12.4	93,426	77,423	20.7
as % of sales	52.7	52.1	51.6	53.5	53.2			53.4	52.9	
SG&A expenses	13,794	13,945	14,264	14,107	15,522	12.5	10.0	29,629	28,037	5.7
as % of sales	18.6	18.2	18.4	17.2	16.7			16.9	19.1	
<b>EBITDA</b>	<b>21,342</b>	<b>22,717</b>	<b>23,165</b>	<b>24,087</b>	<b>27,894</b>	<b>30.7</b>	<b>15.8</b>	<b>51,981</b>	<b>40,961</b>	26.9
Depreciation	1,811	1,829	1,924	1,781	1,886	4.1	5.9	3,667	3,538	3.6
<b>EBIT</b>	<b>19,531</b>	<b>20,888</b>	<b>21,241</b>	<b>22,306</b>	<b>26,008</b>	<b>33.2</b>	<b>16.6</b>	<b>48,314</b>	<b>37,423</b>	29.1
Other Income	(144)	569	1,636	829	337	(334.3)	(59.3)	1,166	50	
<b>PBT</b>	<b>19,387</b>	<b>21,457</b>	<b>22,877</b>	<b>23,135</b>	<b>26,345</b>	<b>35.9</b>	<b>13.9</b>	<b>49,480</b>	<b>37,473</b>	32.0
Total Tax	2,909	3,241	3,284	4,423	4,992	71.6	12.9	9,415	5,564	69.2
<b>Adjusted PAT</b>	<b>16,478</b>	<b>18,216</b>	<b>19,593</b>	<b>18,712</b>	<b>21,353</b>	<b>29.6</b>	<b>14.1</b>	<b>40,065</b>	<b>31,909</b>	25.6
(Profit)/loss from JV's/Ass/MI	-239	-237	-320	-269	-288			-557	-467	
<b>APAT after MI</b>	<b>16,239</b>	<b>17,979</b>	<b>19,273</b>	<b>18,443</b>	<b>21,065</b>	<b>29.7</b>	<b>14.2</b>	<b>39,508</b>	<b>31,442</b>	25.7
Extra ordinary items	0	0	0	0	0			0		
<b>Reported PAT</b>	<b>16,239</b>	<b>17,979</b>	<b>19,273</b>	<b>18,443</b>	<b>21,065</b>	<b>29.7</b>	<b>14.2</b>	<b>39,508</b>	<b>31,442</b>	25.7
<b>Reported EPS</b>	<b>8.3</b>	<b>9.2</b>	<b>9.8</b>	<b>9.4</b>	<b>10.8</b>	<b>29.7</b>	<b>14.2</b>	20.2	16.1	25.7

## Margins (%)

						(bps)	(bps)			(bps)
EBIDTA										
EBIT	28.7	29.7	29.9	29.3	30.0	133	72	29.7	28.0	172
EBT	26.3	27.3	27.5	27.1	28.0	174	86	27.6	25.6	204
PAT	26.1	28.0	29.6	28.2	28.4	229	22	28.3	25.6	268
Effective Tax rate	21.8	23.5	24.9	22.4	22.7	84	24	22.6	21.5	110

Source: Company, Emkay Research

TCS's splendid margin improvement has been led mainly by rationalization of non employee expenses. See limited room for further squeeze here

	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
EBITDA margins , %	26.2	27.2	28.7	29.7	29.9	29.3	30.0
Non Employee Expenses, % of Sales	16.9	16.5	14.5	14.5	15.2	13.8	13.5
Manpower Expenses, % of Sales	56.9	56.2	56.8	55.8	54.8	56.9	56.4

Source: Company, Emkay Research

TCS has continued to deliver ahead of Infosys for nearly 5 quarters now.

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
<b>Rev gwth(YoY)(US\$ mn)</b>									
Infosys	19.0	8.1	-1.8	-2.8	-5.1	5.2	15.6	21.0	29.6
TCS	11.2	-1.3	-5.5	-2.9	-2.3	10.2	17.7	21.2	30.3
<b>EBITDA gwth(YoY)</b>									
Infosys	39.7	45.9	27.9	26.3	7.7	0.4	6.9	4.9	19.8
TCS	22.8	23.3	24.3	22.6	17.3	16.7	23.0	22.8	30.7
<b>Profits gwth (YoY)</b>									
Infosys	14.2	33.3	29.1	17.3	7.5	-3.5	0.2	-2.6	12.8
TCS	1.3	1.6	19.2	22.2	28.6	32.9	46.9	21.3	29.7

Source: Companies, Emkay Research

*FY1E1/FY12E earnings getting upped by ~2%/7% despite higher currency reset on a/c of higher revenue growth assumptions*

(in Rs mn, except EPS)	FY11E			FY12E			FY13E
	Old	New	change	Old	New	change	
Revenues(US\$ mn)	7,720	8,155	5.6%	9,150	9,874	7.9%	11,551
Revenues	354,702	366,724	3.4%	420,908	434,460	3.2%	508,246
EBITDA	102,737	107,365	4.5%	116,949	123,880	5.9%	137,995
Net Profits	81,216	82,982	2.2%	87,122	92,974	6.7%	105,924
EPS	41.5	42.4	2.2%	44.5	47.5	6.7%	54.1

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	278,129	300,289	366,724	434,460
Growth (%)		8	22	18
<b>Total Expenditure</b>	(206,348)	(213,446)	(259,359)	(310,580)
Growth (%)		3	22	20
<b>EBIDTA</b>	71,781	86,843	107,365	123,880
Growth (%)		21	24	15
<b>EBIDTA %</b>	25.8	28.9	29.3	28.5
Other Income	(4,673)	2,255	4,056	6,750
Depreciation	(5,766)	(7,291)	(7,539)	(8,348)
<b>EBIT</b>	<b>61,342</b>	<b>81,807</b>	<b>103,882</b>	<b>122,283</b>
Interest	-	-	-	-
<b>EBT</b>	<b>61,342</b>	<b>81,807</b>	<b>103,882</b>	<b>122,283</b>
Tax	(9,012)	(12,089)	(19,751)	(28,125)
<b>EAT</b>	<b>51,732</b>	<b>68,694</b>	<b>82,982</b>	<b>92,974</b>
Growth (%)		33	21	12
EAT (%)	18.6	22.9	22.6	21.4

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	1,957	1,957	1,957	1,957
Reserves & surplus	153,588	207,427	243,636	285,257
Minority Interest	4,098	4,055	4,055	4,055
<b>Networth</b>	<b>159,644</b>	<b>213,438</b>	<b>249,647</b>	<b>291,269</b>
Secured Loans	7,913	2,418	2,418	2,418
Unsecured Loans				
<b>Loan Funds</b>	<b>7,913</b>	<b>2,418</b>	<b>2,418</b>	<b>2,418</b>
<b>Total Liabilities</b>	<b>167,557</b>	<b>215,856</b>	<b>252,066</b>	<b>293,687</b>
Goodwill				
Gross Block	93,942	103,716	125,716	143,716
Less: Depreciation	22,303	29,594	37,133	45,481
<b>Net block</b>	<b>71,639</b>	<b>74,121</b>	<b>88,582</b>	<b>98,235</b>
<b>Capital WIP</b>	-	-	-	-
<b>Investment</b>	<b>17,271</b>	<b>37,816</b>	<b>37,816</b>	<b>37,816</b>
<b>Current Assets</b>	<b>137,949</b>	<b>162,608</b>	<b>205,036</b>	<b>253,860</b>
Inventories	-	178	178	-
Sundry debtors	60,463	58,098	75,354	84,036
Cash & bank balance	13,441	10,249	24,008	44,843
Loans & advances	28,194	22,488	30,142	35,709
Other current assets	35,851	71,595	75,354	89,273
<b>Current Liab &amp; Prov</b>	<b>59,302</b>	<b>57,689</b>	<b>78,368</b>	<b>95,224</b>
Current liabilities	56,558	50,962	78,368	95,224
Provisions	2,744	6,727	-	-
<b>Net current assets</b>	<b>78,647</b>	<b>104,919</b>	<b>126,667</b>	<b>158,636</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax</b>	-	-	-	-
<b>Total Assets</b>	<b>167,557</b>	<b>216,857</b>	<b>253,066</b>	<b>294,688</b>

Cash Flow	FY09	FY10	FY11E	FY12E
Net Profit after Tax	51,732	68,694	82,982	92,974
Add : Depreciation	5,766	7,291	7,539	8,348
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>(17,496)</b>	<b>1,613</b>	<b>(20,680)</b>	<b>(16,856)</b>
<b>Operational Cash Flows</b>	<b>44,301</b>	<b>47,545</b>	<b>83,680</b>	<b>91,371</b>
<b>Capital expenditure</b>	<b>(32,422)</b>	<b>(9,773)</b>	<b>(22,000)</b>	<b>(18,000)</b>
Investments	-	-	-	-
<b>Investing Cash Flows</b>	<b>(32,422)</b>	<b>(9,773)</b>	<b>(22,000)</b>	<b>(18,000)</b>
<b>Borrowings</b>	815	(4,496)	-	-
dividend paid	(32,049)	(45,801)	(45,784)	(50,358)
Issue of shares	26,139	(1,015)	-	-
Share Premium	27	44	-	-
<b>Financing Cash Flows</b>	<b>(3,902)</b>	<b>(41,002)</b>	<b>(47,922)</b>	<b>(29,135)</b>
changes in cash	<b>7,976</b>	<b>(3,231)</b>	<b>13,759</b>	<b>44,236</b>
Opening balance	<b>10,353</b>	<b>13,441</b>	<b>10,249</b>	<b>24,008</b>
<b>Closing balance</b>	<b>13,441</b>	<b>10,249</b>	<b>24,008</b>	<b>44,843</b>

Key ratios	FY09	FY10	FY11E	FY12E
EPS (Rs)	26.4	35.1	42.4	47.5
CEPS (Rs)	29.4	38.8	46.3	51.8
Book Value Per Share (Rs)	79.5	107.0	125.5	146.7
Dividend Per Share (Rs)	14.0	20.0	20.0	22.0
<b>Valuations Ratios (x)</b>				
PER	37.2	28.0	23.2	20.7
P/CEPS	33.5	25.3	21.3	19.0
P/BV	12.4	9.2	7.8	6.7
EV/EBIDTA	24.1	19.1	16.3	14.4
EV/Sales	5.7	5.2	4.2	3.5
M-Cap/sales	3.2	2.9	2.4	2.0
<b>Profitability Ratios (%)</b>				
RoCE	43.9	41.4	42.5	42.2
RoNW	37.0	37.6	36.5	34.9
EBITDA Margin	25.8	28.9	29.3	28.5
EBIT Margins	23.7	26.5	27.2	26.6
Net Profit Margin	18.6	22.9	22.6	21.4

**Recommendation History: Tata Consultancy Services – TCS IN**

Date	Reports	Reco	CMP	Target
16/07/2010	<a href="#">TCS Q1FY11 Result Update</a>	Accumulate	780	890
20/04/2010	<a href="#">TCS Q4FY10 Result Update</a>	Accumulate	815	860
18/01/2010	<a href="#">TCS Q3FY10 Result Update</a>	Accumulate	791	860
20/10/2009	<a href="#">TCS Q2FY10 Result Update</a>	Accumulate	608	655

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
21/10/2010	<a href="#">HCL Technologies Q1FY11 Result Update</a>	Hold	426	430
15/10/2010	<a href="#">Infosys Q2FY11 Result Update</a>	Accumulate	3,080	3,300
11/10/2010	<a href="#">Mahindra Satyam Re-Initiating Coverage</a>	Reduce	86	81
26/08/2010	<a href="#">Mphasis Result Update</a>	Hold	626	630

October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs735	Rs860
EPS change FY11E/12E (%)	NA
Target Price change (%)	13
Nifty	6,102
Sensex	20,261

### Price Performance

(%)	1M	3M	6M	12M
Absolute	6	28	47	62
Rel. to Nifty	4	14	27	34

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Banks
Bloomberg	CRPBK@IN
Equity Capital (Rs mn)	1,434
Face Value(Rs)	10
No of shares o/s (mn)	143
52 Week H/L	747/402
Market Cap (Rs bn/USD mn)	105/2,367
Daily Avg Volume (No of sh)	137,688
Daily Avg Turnover (US\$m)	2.0

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	57.2	57.2	57.2
FII/NRI	4.6	4.3	4.5
Institutions	33.0	33.2	33.7
Private Corp	2.0	2.1	1.9
Public	3.3	3.2	2.8

Source: Capitaline

- **CRPBK's Q2FY11 NII/PAT at Rs7.2bn/Rs3.5bn better than expected driven by 33% yoy growth in advances and 38bps yoy expansion in NIMs to 2.6%.**
- **Though slippages at 1.0% annualized higher than 0.8% in FY10, still better than industry average.**
- **The reported provision cover improved by 150bps to 63.6%, PCR as per RBI norms at 79%**
- **Valuations not unreasonable at 1.4x FY12E ABV. With maintain our BUY recommendation on stock with TP of Rs860 (1.6x FY12E ABV)**

### Strong NII growth with NIM expansion...

CRPBK's NII for Q2FY11 has grown by 42.1% yoy to Rs7.2bn. The strong growth in NII was driven by 32% yoy growth in advances and 38bps yoy improvement in NIM's at 2.6% for the quarter. **However, on sequential basis, the NII has grown by just 2.5% despite 6% balance sheet growth and stable NIMs. We believe that this could be because of the rear ended balance sheet growth in the quarter.**

### Yield analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on assets*	7.7	7.5	7.2	7.2	7.4	-26	19
Cost of funds*	5.5	5.1	4.8	4.7	4.9	-53	21
NIM*	2.2	2.4	2.4	2.5	2.5	27	-3
NIM#	2.3	2.3	2.5	2.6	2.6	38	2

Source: Company, Emkay Research Note:\* Calculated on basis of average quarterly balances # reported

### Advances growth remain robust

The advances grew by a robust 32.7%yoy to Rs6bn during the quarter. The strong growth during the quarter was driven by growth in corporate and SME segments.

### Advances mix

Rs mn	Q2FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Agriculture	45,820	61,750	67,340	68,830	50.2	2.2
SME	58,010	64,350	66,760	81,300	40.1	21.8
Retail	98,990	116,960	133,630	125,160	26.4	-6.3
Others	322,860	388,970	380,320	422,510	30.9	11.1
<b>Total</b>	<b>525,680</b>	<b>632,030</b>	<b>648,050</b>	<b>697,800</b>	<b>32.7</b>	<b>7.7</b>

Source: Company, Emkay Research

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	27,982	8,928	62.2	298.9	1.2	19.6	11.5	2.4
FY2010E	32,991	11,702	81.6	340.4	1.2	21.9	8.8	2.1
FY2011E	40,201	14,886	103.8	421.5	1.2	23.4	6.9	1.7
FY2012E	47,934	18,464	128.7	528.0	1.3	23.9	5.6	1.4

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	5,035	5,994	6,398	6,976	7,152	42.1	2.5	14,128	9,711	45.5
Other Income	3,028	2,517	2,727	2,661	2,261	-25.3	-15.0	4,922	6,622	-25.7
Fee Income	906	1,041	1,267	1,116	975	7.6	-12.7	2,091	1,722	21.4
Net Income	8,063	8,511	9,124	9,637	9,414	16.7	-2.3	19,051	16,333	16.6
Total Operating Expenses	2,706	3,132	3,674	3,433	3,679	35.9	7.2	7,112	5,793	22.8
As % Of Net Income	33.6	36.8	40.3	35.6	39.1			37.3	35.5	
Employee Expenses	1,153	1,448	2,026	1,708	1,866	61.8	9.3	3,574	2,843	25.7
As % Of Net Income	14.3	17.0	22.2	17.7	19.8			18.8	17.4	
Other Expenses	1,553	1,684	1,648	1,725	1,813	16.7	5.1	3,538	2,950	19.9
As % Of Net Income	19.3	19.8	18.1	17.9	19.3			18.6	18.1	
Operating Profit	5,357	5,379	5,450	6,204	5,735	7.1	-7.6	11,939	10,540	13.3
As % Of Net Income	66.4	63.2	59.7	64.4	60.9			62.7	64.5	
Provisions	940	1,134	1,651	1,266	976	3.9	-22.9	2,242	1,960	14.4
Prov for NPA	847	749	1,256	1,187	884	4.3	-25.6	2,071	1,447	43.1
PBT	4,417	4,246	3,799	4,938	4,759	7.7	-3.6	9,696	8,580	13.0
Total Tax	1,500	1,195	676	1,600	1,241	-17.3	-22.4	2,841	3,050	-6.8
Adjusted PAT	2,917	3,051	3,123	3,338	3,517	20.6	5.4	6,855	5,530	24.0
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	2,917	3,051	3,123	3,338	3,517	20.6	5.4	6,855	5,530	24.0
Reported EPS	20.3	21.3	21.8	23.3	24.5	20.6	5.4	47.8	38.6	24.0

Source: Company, Emkay Research

**Deposit profile witnesses improvement**

The CASA mix improved by 96bps qoq to 25.0% yoy during the quarter as growth in CASA deposit outpaced growth in term deposits. The management has guided to improve it further by 100 bps by March 2011 and 30% over the next couple of years. Corp Bank has launched few new products to mobilize CASA deposits and has also appointed a special general manager who will specifically focus on CASA growth.

**CASA Mix**

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Current Deposits	68	76	135	80	94	39.5	17.1
Saving Deposits	114	120	130	139	149	30.6	7.0
CASA	181	196	265	219	243	33.9	10.7
Term deposits	628	648	663	691	727	15.8	5.1
Total Deposits	809	844	927	910	969	19.8	6.5
CASA (%)	22.4	23.3	28.6	24.1	25.0	263	96

Source: Company, Emkay Research

**Lower treasury hurts other income**

The other income declined by 25.3%yoy to Rs2.3bn, much sharper than what we have expected. The decline was attributable to negligible trading gains and moderate growth in fee income.

**Other income**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	1,516	1,630	2,058	1,621	1,628	7.4	0.4	3,249	2,771	17.3
Trading gains/(losses)	747	368	119	135	45	-94.0	-67.0	180	2,601	-93.1
Forex gains/(losses)	380	200	235	224	171	-54.8	-23.4	395	498	-20.6
Dividend income	31	3	8	5	32	1.3	587.0	36	35	4.6
Recovery	270	225	208	593	306	13.3	-48.3	899	543	65.7
Others	73	99	100	84	80	9.0	-5.0	164	164	0.0
Total	3,018	2,526	2,728	2,661	2,261	-25.1	-15.0	4,922	6,611	-25.5

Source: Company, Emkay Research



### Core operating profit declines by 14% qoq

As the NII and other income growth was moderate on sequential basis with sharp just in operating costs, the core operating profit has declined by 14% qoq.

The operating expenditure increased by 36% to Rs3.7bn led by 62%yoy increase in employee expenses and 16.7%yoy growth in other expenses. The rise came on account of three factors 1) Wage inflation 2) Gratuity provision 3) Expansion of branch network

#### Core operating profit

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	5,357	5,379	5,450	6,204	5,735	7.1	-7.6	11,939	10,540	13.3
Less: Treasury gains	747	368	119	135	45	-94.0	-67.0	180	2,601	-93.1
Add: Excess wage provisions				530				530	0	#DIV/0!
Core operating profit	4,610	5,011	5,331	6,599	5,690	23.4	-13.8	12,289	7,939	54.8

Source: Company, Emkay Research

### Pension not yet provided for

The bank has yet to provide for pension liabilities under new option given to employees. The management indicated a rough estimate of around Rs6bn for the same.

### Provisions remain moderate in line with slippages

The provisions continued to remain moderate in line with moderate slippage as the provisions stood at 65bps (annualised) of advances for the quarter. We expect the provisions expenses to remain moderate in coming quarters too driven by lower slippage profile of the bank.

#### Break up of provisions

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
On NPL	847	749	1,256	1,187	884	4.3	-25.6	2,071	1,447	43.1
As % of advances	0.16	0.13	0.20	0.18	0.13			0.3	0.3	
On Standard Assets	-	270	125	-	-	NA	NA	0	0	-
Investment Depreciation	82	190	59	76	89	9.0	17.2	166	370	-55.3
Others	10	-75	210	3	3	-68.3	17.9	6	142	-95.7
<b>Total</b>	<b>940</b>	<b>1,134</b>	<b>1,651</b>	<b>1,266</b>	<b>976</b>	<b>3.9</b>	<b>-22.9</b>	<b>2,242</b>	<b>1,960</b>	<b>14.4</b>

Source: Company, Emkay Research

### Slippages marginally higher but still better than the industry

During the quarter, the slippages stood at Rs1.7bn, an annualized rate of 1%. The slippage rate, though higher than 0.8% for FY10, was still better than the industry average of 1.2-1.5%. The management indicated that two accounts of Rs500mn slipped during the quarter, resulting in higher slippage. However the bank has fully provided for those NPA's. The provision cover increased by 150bps to 63.6% during the quarter.

#### NPA profile

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	6,269	7,523	6,509	7,268	7,403	18.1	1.9
Net NPA (Rs bn)	1,540	2,579	1,972	2,758	2,696	75.1	-2.3
Gross NPA (%)	1.2	1.3	1.0	1.1	1.1		
Net NPA (%)	0.3	0.5	0.3	0.4	0.4		
Net NPLs/Net worth (%)	2.8	4.5	3.4	4.5	4.2		
Provision cover (%)	75.4	65.7	69.7	62.1	63.6		

Source: Company, Emkay Research

### Valuations and view

The stock is currently quoting at 1.4x FY12E ABV. We believe that the valuations are not unreasonable looking at (1) 24% RoEs and (2) lower than industry slippage rate. We maintain our BUY recommendation on the stock with price target of Rs860 (1.6x FY12E ABV).

**Key Financials****Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Net interest income</b>	16,910	22,103	28,692	35,212
Other income	11,072	10,889	11,509	12,722
Net income	27,982	32,991	40,201	47,934
Operating expenses	10,016	12,600	13,375	15,163
Pre provision profit	17,966	20,392	26,825	32,772
PPP excl treasury	22,391	23,480	29,325	35,272
Provisions	4,104	3,769	4,271	4,796
Profit before tax	13,862	16,622	22,554	27,975
Tax	4,935	4,920	7,668	9,512
<i>Tax rate</i>	36%	30%	34%	34%
Profit after tax	8,928	11,702	14,886	18,464

**Balance Sheet (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Liabilities</b>				
Equity	1,434	1,434	1,434	1,434
Reserves	47,531	56,314	68,179	83,287
Net worth	48,965	57,749	69,614	84,721
Deposits	739,839	927,337	1,090,279	1,265,390
Borrowings	78,044	131,838	144,431	159,075
Total liabilities	866,848	1,116,923	1,304,324	1,509,186
<b>Assets</b>				
Cash and bank	105,397	107,919	98,748	114,608
Investments	238,186	332,562	376,226	423,151
Customer assets	496,313	644,690	805,363	945,563
Others	29,162	31,752	23,987	25,864
Total assets	866,848	1,116,923	1,304,324	1,509,186

**Key Ratios (%)**

Key Ratios (%)	FY09	FY10	FY11E	FY12E
NIM	2.5	2.5	2.6	2.7
Non-Il/avg assets	1.4	1.1	1.0	0.9
Fee income/avg assets	0.3	0.3	0.3	0.3
Opex/avg assets	1.3	1.3	1.1	1.1
Provisions/avg assets	0.4	0.6	0.4	0.4
PBT/avg assets	1.6	1.5	1.7	1.9
Tax/avg assets	0.6	0.4	0.6	0.6
RoA	1.2	1.2	1.2	1.3
RoAE	19.6	21.9	23.4	23.9
GNPA (%)	1.3	1.2	1.1	1.0
NNPA (%)	0.3	0.3	0.3	0.2
NIM	2.5	2.5	2.6	2.7

**Valuations Table**

Valuations Table	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	8,928	11,702	14,886	18,464
Shares in issue (mn)	143	143	143	143
EPS (Rs)	62.2	81.6	103.8	128.7
PER (x)	11.8	9.0	7.1	5.7
FDEPS(Rs)	62.2	81.6	103.8	128.7
FDPER (x)	11.8	9.0	7.1	5.7
Book value (Rs)	308.2	354.1	436.8	542.2
P/BV (x)	2.4	2.1	1.7	1.4
Adj book value (Rs)	298.9	340.4	421.5	528.0
P/ABV (x)	2.5	2.2	1.7	1.4
P/PPP (x)	5.9	5.2	3.9	3.2
Dividend yield (%)	1.7	2.2	2.4	2.7

**Recommendation History: Corporation Bank – CRPBK IN**

Date	Reports	Reco	CMP	Target
29/07/2010	<a href="#">Corporation Bank Q1FY11 Result Update</a>	Accumulate	565	600
26/04/2010	<a href="#">Corporation Bank Q4FY10 Result Update</a>	Hold	499	530
25/01/2010	<a href="#">Corporation Bank Q3FY10 Result Update</a>	Hold	450	430
30/10/2009	<a href="#">Corporation Bank Q2FY10 Result Update</a>	Accumulate	420	430

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
21/10/2010	<a href="#">South Indian Bank Q2FY11 Result Update</a>	Accumulate	28	30
20/10/2010	<a href="#">Yes Bank Q2FY11 Result Update</a>	Reduce	352	300
19/10/2010	<a href="#">CRISIL Q3CY10 Result Update</a>	Accumulate	6,118	7,000
19/10/2010	<a href="#">HDFC Bank Q2FY11 Result Update</a>	Reduce	2,366	2,100

## Upgraded price target and recommendation

October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Buy	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs 370	Rs 530
EPS change FY11E/12E (%)	60 / 44
Target Price change (%)	43
Nifty	6,102
Sensex	20,261

### Price Performance

(%)	1M	3M	6M	12M
Absolute	21	27	44	91
Rel. to Nifty	20	12	24	59

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Agri-input & Chemicals
Bloomberg	GSFC@IN
Equity Capital (Rs mn)	798
Face Value(Rs)	10
No of shares o/s (mn)	80
52 Week H/L	385/160
Market Cap (Rs bn/USD mn)	29/654
Daily Avg Volume (No of sh)	201788
Daily Avg Turnover (US\$m)	1.4

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	37.8	37.8	37.8
FII/NRI	6.9	6.5	7.0
Institutions	28.2	27.9	25.1
Private Corp	10.8	10.6	11.4
Public	16.3	17.1	18.7

Source: Capitaline

- **Q2FY11 PAT growth of 168% to Rs 2.1 bn was ahead of estimates driven by strong results of fertiliser and chemicals**
- **Fertilisers EBIT tripled to Rs 1.8 bn on the back of NBS policy while chemicals EBIT doubled to Rs 1.3 bn due to favourable spread in caprolactum**
- **Upgrade FY11E/FY12E EPS by 60%/44%, price target by 43% to Rs 530 and recommendation from ACCUMULATE to BUY**
- **At our target price, stock trades at FY12E P/BV of 1.4x and EV/EBITDA of 3.8x - a discount of ~50% to other players**

### Strong margins in both the segments drove PAT by 168%

GSFC's Q2FY11 results positively surprised us with PAT growth of 168% to Rs 2.1 bn, ahead of our estimates of Rs 1.1 bn. Both the segments posted strong results with EBIT margins of 19.8% in fertilisers and 32.6% in chemicals against our expectations of 10% and 26%, respectively. With higher margins in both the segments, aggregate EBITDA margins improved by 960 bps yoy to 24.4% and EBITDA increased by 126% yoy to Rs 3.2 bn. Revenue growth of 37% to Rs 13 bn against our expectations of Rs 10 bn also contributed to the quantum jump in PAT.

### Increase in fertiliser contribution to EBIT from 46% to 56% should result in stable earnings

We believe that with the improved profitability of the fertiliser segment, EBIT contribution from fertilisers is likely to increase from 46% in FY10 to 56% by FY12E. We argue that the fertiliser segment margins are more stable (post the introduction of NBS scheme) than chemicals segment due to price volatility and commodity nature of the chemicals business. We also argue that the fertiliser business with strong growth visibility and stable margins should command higher valuations than chemicals and rising contribution of fertiliser segment should trigger re-rating of the stock in near future.

### Upgraded earnings, price target and recommendation to BUY

Sharp jump in fertiliser segment margins post NBS scheme, favourable spread in GSFC's chemicals business and strong H1FY11 results have triggered FY11E EPS upgrades by 60% to Rs 70.4. We also upgrade FY12E EPS by 44% to Rs 66.3.

GSFC's valuations continue to remain compelling at FY11E P/E of 5.3x, EV/EBITDA of 2.5x and P/BV of 1.1x. With strong investment book of Rs 9.5 bn (per share Rs 118), though strategic in nature, we find the stock extremely attractive and upgrade our price target by 43% from Rs 370 to Rs 530 based on 8x FY12 EPS (in line with historical average). However with improved visibility and rising contribution of fertiliser division, we expect stock to re-rate in medium term with further upside on our price target. At our target price, the stock trades at 1.4x FY12E book value and EV/EBITDA of 3.8x which is at significant discount of ~50% to other complex fertiliser companies. Subsequently we change our recommendation from ACCUMULATE to BUY. Inaccessible management and volatile earnings in chemical segment are key risks to our recommendation.

### Financial Snapshot

Rs Mn

YE-Mar	Net	EBITDA		EPS		RoE		EV/		
	Sales	(Core)	(%)	PAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	58,808	8,509	14.5	4,994	62.7	114.2	29.3	5.9	3.1	1.5
FY10	40,192	4,477	11.1	2,545	31.9	(49.0)	12.5	11.6	7.0	1.4
FY11E	46,034	9,188	20.0	5,611	70.4	120.5	23.5	5.3	2.5	1.1
FY12E	49,220	8,928	18.1	5,285	66.3	(5.8)	18.4	5.6	2.3	1.0

## Key Financials – Quarterly

Rs mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>9,522</b>	<b>11,413</b>	<b>7,825</b>	<b>10,668</b>	<b>13,007</b>	<b>36.6</b>	<b>21.9</b>	<b>23,674</b>	<b>20,953</b>	<b>13.0</b>
<b>Expenditure</b>	<b>8116</b>	<b>9513</b>	<b>6261</b>	<b>8831</b>	<b>9834</b>	<b>21.2</b>	<b>11.4</b>	<b>18666</b>	<b>19022</b>	<b>(1.9)</b>
<i>as % of sales</i>	<i>85.2</i>	<i>83.3</i>	<i>80.0</i>	<i>82.8</i>	<i>75.6</i>			<i>78.8</i>	<i>90.8</i>	
Consumption of RM	5,616	6,855	4,530	6,223	7,366	31.2	18.4	13,589	14,037	(3.2)
<i>as % of sales</i>	<i>59.0</i>	<i>60.1</i>	<i>57.9</i>	<i>58.3</i>	<i>56.6</i>			<i>57.4</i>	<i>67.0</i>	
Power & Fuel	765	785	678	818	792	3.4	(3.2)	1,609	1,555	3.5
<i>as % of sales</i>	<i>8.0</i>	<i>6.9</i>	<i>8.7</i>	<i>7.7</i>	<i>6.1</i>			<i>6.8</i>	<i>7.4</i>	
Employee Cost	627	785	853	625	772	23.1	23.6	1,397	1,265	10.5
<i>as % of sales</i>	<i>6.6</i>	<i>6.9</i>	<i>10.9</i>	<i>5.9</i>	<i>5.9</i>			<i>5.9</i>	<i>6.0</i>	
Other expenditure	1,107	1,087	200	1,165	905	(18.3)	(22.4)	2,070	2,165	(4.4)
<i>as % of sales</i>	<i>11.6</i>	<i>9.5</i>	<i>2.6</i>	<i>10.9</i>	<i>7.0</i>			<i>8.7</i>	<i>10.3</i>	
<b>EBITDA</b>	<b>1,407</b>	<b>1,901</b>	<b>1,564</b>	<b>1,836</b>	<b>3,172</b>	<b>125.5</b>	<b>72.8</b>	<b>5,009</b>	<b>1,931</b>	<b>159.4</b>
Depreciation	356	356	352	343	358	0.6	4.3	701	702	(0.0)
<b>EBIT</b>	<b>1,051</b>	<b>1,545</b>	<b>1,212</b>	<b>1,493</b>	<b>2,814</b>	<b>167.8</b>	<b>88.5</b>	<b>4,307</b>	<b>1,229</b>	<b>250.3</b>
Other Income	212	256	365	146	438	107.0	200.2	584	509	14.8
Interest	85	71	56	41	41	(52.5)	-	81	180	(54.8)
<b>PBT</b>	<b>1,177</b>	<b>1,731</b>	<b>1,521</b>	<b>1,598</b>	<b>3,212</b>	<b>172.8</b>	<b>101.0</b>	<b>4,810</b>	<b>1,559</b>	<b>208.6</b>
Total Tax	406	592	233	512	1,142	181.5	122.9	1,654	521	217.2
<b>Adjusted PAT</b>	<b>772</b>	<b>1,139</b>	<b>1,288</b>	<b>1,086</b>	<b>2,070</b>	<b>168.3</b>	<b>90.6</b>	<b>3,156</b>	<b>1,037</b>	<b>204.3</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
<b>APAT after MI</b>	<b>772</b>	<b>1,139</b>	<b>1,288</b>	<b>1,086</b>	<b>2,070</b>	<b>168.3</b>	<b>90.6</b>	<b>3,156</b>	<b>1,037</b>	<b>204.3</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>-920</b>	<b>0</b>	<b>0</b>			<b>0</b>	<b>0</b>	
<b>Reported PAT</b>	<b>772</b>	<b>1,139</b>	<b>368</b>	<b>1,086</b>	<b>2,070</b>	<b>168.3</b>	<b>90.6</b>	<b>3,156</b>	<b>1,037</b>	<b>204.3</b>
<b>Reported EPS</b>	<b>9.7</b>	<b>14.3</b>	<b>4.6</b>	<b>13.6</b>	<b>26.0</b>	<b>168.3</b>	<b>90.6</b>	<b>39.6</b>	<b>13.0</b>	<b>204.3</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	14.8	16.7	20.0	17.2	24.4	962	718	21.2	9.2	1,194
EBIT	11.0	13.5	15.5	14.0	21.6	1,060	764	18.2	5.9	1,233
EBT	10.1	12.9	14.8	13.6	21.3	1,118	771	17.9	5.0	1,284
PAT	8.1	10.0	16.5	10.2	15.9	781	574	13.3	5.0	838
Effective Tax rate	34.5	34.2	15.3	32.0	35.6	109	350	34.4	33.5	93

Source: Company, Emkay Research

## Revision Table

Rs mn	FY11E			FY12E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	40867	46034	12.6%	41487	49220	18.6%
EBITDA	6173	9188	48.8%	6507	8928	37.2%
EBITDA %	15.1%	20.0%	485	15.7%	18.1%	245
PAT	3502	5611	60.2%	3663	5285	44.3%
EPS	43.9	70.4	60.4%	46.0	66.3	44.2%

## Fertiliser segment benefited from NBS scheme

Fertiliser segment EBIT increased by 198% to Rs 1.8 bn (ahead of estimates Rs 735 mn). Complex fertilisers industry has benefited from the recently introduced (Apr '10) Nutrient Based Subsidy (NBS) scheme which has helped efficient players in improving their margins. GSFC enjoys benefits of captive ammonia plant as a result of which its EBIT margins in fertiliser segment improved from 6.7% in FY10 to 16.8% in H1FY11. During the quarter fertiliser revenues increased by 39% yoy to Rs 9.1 bn. Urea fertiliser sales volumes for GSFC declined by 22% (to 60 thousand mt) while complex fertiliser sales increased by 16% (to 349 thousand mt).

*EBIT margins in fertiliser segment improved from 6.7% in FY10 to 16.8% in H1FY11.*

## Chemicals segment posted higher margins on increased realisations

Chemicals EBIT increased sharply by 95% yoy to Rs 1.3 bn against expected Rs 847 mn. During the quarter, we expect that company's caprolactum business (contributes ~50% to chemical revenues) has benefited from higher prices resulting into improved spread and margins. Chemicals segment revenues also increased by 31% yoy to Rs 3.9 bn.

*Caprolactum business has benefited from higher prices resulting into improved spread*

## Segmental results

Y/E Mar	Q2FY10	Q1FY11	Q2FY11	% YoY	% QoQ
<b>Revenues</b>					
Fertilisers	6560	7853	9133	39.2	16.3
Chemicals	2962	2814	3873	30.8	37.6
<b>Total</b>	<b>9522</b>	<b>10668</b>	<b>13007</b>	<b>36.6</b>	<b>21.9</b>
<b>Earnings</b>					
Fertilisers	606	1049	1808	198.2	72.4
Chemicals	648	610	1264	95.2	107.1
<b>Total</b>	<b>1254</b>	<b>1659</b>	<b>3072</b>	<b>145.0</b>	<b>85.2</b>
<b>Segment margins (%)</b>				<b>(chng bps)</b>	<b>(chng bps)</b>
Fertilisers	9.2	13.4	19.8	1055	644
Chemicals	21.9	21.7	32.6	1077	1094
<b>Total</b>	<b>13.2</b>	<b>15.6</b>	<b>23.6</b>	<b>1045</b>	<b>807</b>

Source: Company, Emkay Research

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>58,808</b>	<b>40,192</b>	<b>46,034</b>	<b>49,220</b>
Growth (%)	65.4	(31.7)	14.5	6.9
<b>Expenditure</b>	<b>50,299</b>	<b>35,715</b>	<b>36,845</b>	<b>40,292</b>
Materials Consumed	38,193	25,422	28,403	30,565
Power & Fuel	3,069	3,019	3,222	3,199
Employee Cost	3,890	2,902	3,222	3,445
Other Exp	5,148	4,372	1,998	3,082
<b>EBITDA</b>	<b>8,509</b>	<b>4,477</b>	<b>9,188</b>	<b>8,928</b>
Growth (%)	79.4	(47.4)	105.3	(2.8)
<b>EBITDA margin (%)</b>	<b>14.5</b>	<b>11.1</b>	<b>20.0</b>	<b>18.1</b>
Depreciation	1,430	1,409	1,417	1,600
<b>EBIT</b>	<b>7,078</b>	<b>3,067</b>	<b>7,771</b>	<b>7,328</b>
<b>EBIT margin (%)</b>	<b>12.0</b>	<b>7.6</b>	<b>16.9</b>	<b>14.9</b>
Other Income	713	1,130	984	800
Interest expenses	392	306	281	240
<b>PBT</b>	<b>7,400</b>	<b>3,891</b>	<b>8,474</b>	<b>7,888</b>
<b>Tax</b>	<b>2,406</b>	<b>1,346</b>	<b>2,863</b>	<b>2,603</b>
Effective tax rate (%)	32.5	34.6	33.8	33.0
<b>Adjusted PAT</b>	<b>4,994</b>	<b>2,545</b>	<b>5,611</b>	<b>5,285</b>
Growth (%)	114.1	(49.0)	120.5	(5.8)
<b>Net Margin (%)</b>	<b>8.5</b>	<b>6.3</b>	<b>12.2</b>	<b>10.7</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>4,994</b>	<b>2,545</b>	<b>5,611</b>	<b>5,285</b>
E/O items	-	-	-	-
<b>Reported PAT</b>	<b>4,994</b>	<b>2,545</b>	<b>5,611</b>	<b>5,285</b>
<b>PAT after MI</b>	<b>4,994</b>	<b>2,545</b>	<b>5,611</b>	<b>5,285</b>
Growth (%)	114.1	(49.0)	120.5	(5.8)

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>6,687</b>	<b>2,761</b>	<b>7,490</b>	<b>7,088</b>
Depreciation	1,430	1,409	1,417	1,600
Interest Provided	392	306	281	240
Other Non-Cash items	688	(692)	(294)	(95)
Chg in working cap	241	(6,658)	4,899	(783)
Tax paid	-2,406	-1,346	-2,863	-2,603
<b>Operating Cashflow</b>	<b>7,032</b>	<b>-4,220</b>	<b>10,930</b>	<b>5,446</b>
Capital expenditure	(1,230)	(1,472)	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>5,802</b>	<b>-5,692</b>	<b>7,930</b>	<b>2,446</b>
Other income	713	1,130	984	800
Investments	(3,847)	1,811	-	-
<b>Investing Cashflow</b>	<b>-3,134</b>	<b>2,941</b>	<b>984</b>	<b>800</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(2,355)	3,636	-	-
Interest Paid	(392)	(306)	(281)	(240)
Dividend paid (incl tax)	(359)	(359)	(359)	(558)
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-3,105</b>	<b>2,971</b>	<b>-640</b>	<b>-798</b>
<b>Net chg in cash</b>	<b>-438</b>	<b>220</b>	<b>8,275</b>	<b>2,449</b>
Opening cash position	819	381	601	8,876
<b>Closing cash position</b>	<b>381</b>	<b>601</b>	<b>8,876</b>	<b>11,325</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	797	797	797	797
Reserves & surplus	18,518	20,644	25,602	30,234
<b>Net worth</b>	<b>19,315</b>	<b>21,441</b>	<b>26,399</b>	<b>31,031</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	1,548	1,748	1,748	1,748
Unsecured Loans	1,692	5,128	5,128	5,128
<b>Loan Funds</b>	<b>3,240</b>	<b>6,876</b>	<b>6,876</b>	<b>6,876</b>
Net deferred liabilities	1,716	1,497	1,497	1,497
<b>Total Liabilities</b>	<b>24,271</b>	<b>29,814</b>	<b>34,772</b>	<b>39,404</b>
Gross Block	32,153	32,316	34,135	37,135
Less: Depreciation	20,130	21,501	22,919	24,519
<b>Net block</b>	<b>12,023</b>	<b>10,815</b>	<b>11,216</b>	<b>12,616</b>
Capital work in progress	509	1,819	3,000	3,000
<b>Investments</b>	<b>6,061</b>	<b>4,250</b>	<b>4,250</b>	<b>4,250</b>
<b>Current Assets</b>	<b>14,631</b>	<b>21,037</b>	<b>27,762</b>	<b>31,518</b>
Inventories	7,456	6,111	6,937	7,417
Sundry debtors	4,807	6,216	5,045	5,394
Cash & bank balance	381	601	8,876	11,325
Loans & advances	1,987	8,109	6,905	7,383
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>8,954</b>	<b>8,107</b>	<b>11,457</b>	<b>11,980</b>
Current liabilities	4,690	4,217	7,567	8,091
Provisions	4,264	3,889	3,889	3,889
<b>Net current assets</b>	<b>5,677</b>	<b>12,930</b>	<b>16,306</b>	<b>19,538</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>24,271</b>	<b>29,814</b>	<b>34,772</b>	<b>39,404</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	14.5	11.1	20.0	18.1
Net Margin	8.5	6.3	12.2	10.7
ROCE	33.0	15.5	27.1	21.9
ROE	29.3	12.5	23.5	18.4
RoIC	38.1	15.2	37.2	37.1
<b>Per Share Data (Rs)</b>				
EPS	62.7	31.9	70.4	66.3
CEPS	80.6	49.6	88.2	86.4
BVPS	242.4	269.0	331.3	389.4
DPS	4.5	4.5	5.0	7.0
<b>Valuations (x)</b>				
PER	5.9	11.6	5.3	5.6
P/CEPS	4.6	7.5	4.2	4.3
P/BV	1.5	1.4	1.1	1.0
EV / Sales	0.4	0.8	0.5	0.4
EV / EBITDA	3.1	7.0	2.5	2.3
Dividend Yield (%)	1.2	1.2	1.9	1.9
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-16.6	9.4	-23.7	-28.0
Net Debt/EBITDA	-0.4	0.5	-0.7	-1.0
Working Cap Cycle (days)	47.0	73.6	35.0	35.0

**Recommendation History: Gujarat Sate Fertilisers – GSFC IN**

Date	Reports	Reco	CMP	Target
03/08/2010	<a href="#">Gujarat Sate Fertilisers Q1FY11 Result Update</a>	Accumulate	312	368
25/01/2010	<a href="#">Gujarat Sate Fertilisers Q3FY10 Result Update</a>	Hold	214	254
03/11/2009	<a href="#">Gujarat Sate Fertilisers Q2FY10 Result Update</a>	Hold	164	188
04/02/2009	<a href="#">Gujarat Sate Fertilisers Q3FY09 Result Update</a>	Hold	86	107

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
15/10/2010	<a href="#">Rallis India Q2FY11 Result Update</a>	Buy	1,416	1,800
12/10/2010	<a href="#">Kajaria Ceramics Q2FY11 Result Update</a>	Buy	80	91
03/08/2010	<a href="#">Tata Chemicals Q1FY11 Result Update</a>	Accumulate	349	393
03/08/2010	<a href="#">GNFC Q1FY11 Result Update</a>	Buy	115	157



## A 'below par' show, retain REDUCE

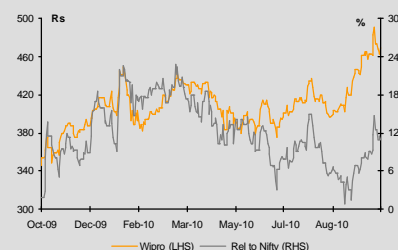
October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Reduce	Reduce
<b>CMP</b>	<b>Target Price</b>
Rs 450	Rs 420
EPS change FY11E/12E (%)	(2)/(1)
Target Price change (%)	N.A.
Sensex	20,161
Nifty	6,102

<b>Price Performance (%)</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	8	13	11	33
Rel. to Nifty	6	0	(4)	11

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	WPRO@IN
Equity Capital (Rs mn)	4904
Face Value(Rs)	2
No of shares o/s (mn)	2452
52 Week H/L	500/321
Market Cap (Rs bn/USD mn)	1,152/25,968
Daily Avg Volume (No of sh)	1470756
Daily Avg Turnover (US\$m)	14.3

### Shareholding Pattern (%)

	<b>S'10</b>	<b>J'10</b>	<b>M'10</b>
Promoters	79.5	79.5	79.6
FII/NRI	8.6	9.8	9.7
Institutions	2.6	1.7	2.0
Private Corp	3.0	2.8	2.6
Public	6.3	6.2	6.2

Source: Capitaline

- **Revenues at US\$ 1,273 mn (+5.8% QoQ) missed expectations (closer to lower end of co's revenue guidance), pales in comparison to strong revenue show from Tier 1 peers**
- **Wipro's credible margin show in the recent past also face pressure both on a/c of lower growth and supply strains (attrition at 23.5% is the highest amongst peers)**
- **Wipro's below par revenue performance in our view on a/c of Wipro's inherent client mining woes( refer section/table below) despite attempts for course correction here**
- **Cut FY11E/FY12E EPS by 2%/1% to Rs 21.1/23.1 as we tweak US\$ revenues marginally/reset currency assumptions. Retain REDUCE with an unchanged price target of Rs 420**

### 'Below par' performance yet again

Wipro's sequential revenue growth at ~5.8% appears anemic as compared to the strong double digit show at other Tier I peers. After a credible show on margin defense through H2FY09 and through FY10, Wipro's margins also see pressure driven by (1) supply side pressures (Wipro has hiked salaries twice now in CY10, yet sees no respite on attrition which has jumped up by ~1300 bps over the past 4 quarters V/s ~600 bps/300 bps increase for Infosys/TCS) and (2) relatively lower revenues growth. Wipro's employee turnover continues to be a cause of concern in our view, though co management noted that it had been coming off month over month in Sep'10 quarter.

### Wipro's inherent client mining woes driving below peer revenue growth

Wipro has trailed other Tier 1 peers on revenue growth since FY04 albeit for FY09 on account of it's inherent inability to drive aggressive client mining within existing Fortune 500 clients despite having all the needed ingredients in the form of scale, competitive/delivery capabilities. Although company has taken several steps in the form of 'mega/gamma account focus' strategy, 'service line led sales' strategy, efforts on this side are still to yield fruits in any meaningful manner. **To cite, while Wipro has similar number of US\$ 20 mn+ client a/c's as peers Infosys/TCS; it just has 2 US\$ 100 mn+ accounts V/s ~10/8 for Infosys/TCS. In the recent past, Wipro's non top client revenue growth has also started trailing peers driving further gap on revenue growth V/s peers ( refer table below)**

### Retain REDUCE with an unchanged TP of Rs 420

We tweak our earnings model for marginally higher US\$ revenue estimates ( note that we build in ~19%/18.4% YoY revenue growth for FY11/12 V/s 28%/23% for Infosys and 29%/21% for TCS) and reset currency assumptions resulting in marginal 2%/1% cut in our earnings estimates to Rs 21.1 and Rs 23.1 for FY11E/FY12E. Wipro's recent underperformance V/s peers appears justified in the back drop of financial performance trailing peers. Retain REDUCE with an unchanged TP of Rs 420.

### Consolidated Financial Snapshot

Year end Mar (in Rs mn)	Net Sales	EBIT	EBIT %	PAT	EPS (Rs)	ROE %	P/E (x)	Rs Mn		
								EV/ EBITDA (x)	P/B (x)	P/E (x)
FY09	255,337	43,802	17.2	37,710	15.5	27.3	28.9	21.3	7.4	28.9
FY10	271,957	52,158	19.2	45,443	18.5	26.4	24.2	17.8	5.6	24.2
FY11E	311,282	58,474	18.8	51,880	21.1	25.8	21.2	15.7	5.3	21.2
FY12E	360,392	67,551	18.7	56,775	23.1	24.2	19.4	13.1	4.2	19.4

## Quarterly performance

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2 FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>63,868</b>	<b>68,937</b>	<b>69,380</b>	<b>69,772</b>	<b>71,906</b>	<b>77,719</b>	<b>12.7</b>	<b>8.1</b>	<b>149,625</b>	<b>132,805</b>	<b>12.7</b>
<b>Operating Expenditure</b>	<b>51,038</b>	<b>56,058</b>	<b>56,238</b>	<b>56,465</b>	<b>57,872</b>	<b>63,272</b>	<b>13.4</b>	<b>9.3</b>	<b>121,144</b>	<b>107,096</b>	<b>13.1</b>
Cost of revenues	43,247	47,522	47,766	47,764	48,647	53,270	12.1	9.5	101,917	90,769	12.3
as % of sales	67.7	68.9	68.8	68.5	67.7	68.5			81.0	80.6	
SG&A expenses	7,791	8,536	8,472	8,701	9,225	10,002	17.2	8.4	19,227	16,327	17.8
as % of sales	12.2	12.4	12.2	12.5	12.8	12.9			12.9	12.3	
<b>EBIT</b>	<b>12,830</b>	<b>12,879</b>	<b>13,142</b>	<b>13,307</b>	<b>14,034</b>	<b>14,447</b>	<b>12.2</b>	<b>2.9</b>	<b>28,481</b>	<b>25,709</b>	<b>10.8</b>
Other Income	(1,051)	499	1,115	1,669	1,570	733			2,303	-552	na
<b>PBT</b>	<b>11,779</b>	<b>13,378</b>	<b>14,257</b>	<b>14,976</b>	<b>15,604</b>	<b>15,180</b>	<b>13.5</b>	<b>(2.7)</b>	<b>30,784</b>	<b>25,157</b>	<b>22.4</b>
Total Tax	1,740	2,217	2,321	3,015	2,345	2,183	(1.5)	(6.9)	4,528	3,957	14.4
<b>Adjusted PAT</b>	<b>10,039</b>	<b>11,161</b>	<b>11,936</b>	<b>11,961</b>	<b>13,259</b>	<b>12,997</b>	<b>16.5</b>	<b>(2.0)</b>	<b>26,256</b>	<b>21,200</b>	<b>23.8</b>
(Profit)/loss from JV's/Ass/MI	114	112	128	176	157	192			349	226	54.4
<b>APAT after MI</b>	<b>10,153</b>	<b>11,273</b>	<b>12,064</b>	<b>12,137</b>	<b>13,416</b>	<b>13,189</b>	<b>17.0</b>	<b>(1.7)</b>	<b>26,605</b>	<b>21,426</b>	<b>24.2</b>
Extra ordinary items	0	0	0	0	0	0			0	0	na
<b>Reported PAT</b>	<b>10,104</b>	<b>11,707</b>	<b>12,033</b>	<b>12,091</b>	<b>13,192</b>	<b>12,849</b>	<b>9.8</b>	<b>(2.6)</b>	<b>26,041</b>	<b>21,811</b>	<b>19.4</b>
<b>Reported EPS</b>	<b>4.2</b>	<b>4.8</b>	<b>4.9</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>9.8</b>	<b>(2.2)</b>	<b>10.6</b>	<b>8.9</b>	<b>18.9</b>

Margins (%)							(bps)	(bps)				(bps)
EBIT	20.1	18.7	18.9	19.1	19.5	18.6	(9)	(93)	19.0	19.4	(0.3)	
EBT	18.4	19.4	20.5	21.5	21.7	19.5	13	(217)	20.6	18.9	1.6	
PAT	15.8	17.0	17.3	17.3	18.3	16.5	(45)	(181)	17.4	16.4	1.0	
Effective Tax rate	14.8	16.6	16.3	20.1	15.0	14.4	(219)	(65)	14.7	15.7	(1.0)	

Source: Company, Emkay Research

All fig in US\$ mn except %	Dec'08	March'09	June'09	Sep'09	Dec'09	March'10	June'10	Sep'10
<b>Revenues</b>								
Infosys	1171	1121	1122	1154	1232	1296	1358	1496
TCS	1483	1433	1481	1538	1635	1686	1794	2004
Wipro	1100	1046	1033	1065	1127	1166	1204	1273
<b>Infosys-Wipro</b>	<b>71</b>	<b>75</b>	<b>89</b>	<b>89</b>	<b>105</b>	<b>130</b>	<b>154</b>	<b>223</b>
<b>Rev Growth QoQ</b>								
Infosys	-3.7%	-4.3%	0.1%	2.9%	6.8%	5.2%	4.8%	10.2%
TCS	-5.8%	-3.4%	3.3%	3.9%	6.3%	3.1%	6.4%	11.7%
Wipro	-0.9%	-4.9%	-1.3%	3.2%	5.8%	3.5%	3.2%	5.8%
<b>Top 10 client rev</b>								
Infosys	319	300	289	302	339	334	354	399
TCS	390	385	415	444	489	509	547	603
Wipro	222	206	213	210	220	225	238	244
<b>Infosys- Wipro</b>	<b>96</b>	<b>94</b>	<b>77</b>	<b>93</b>	<b>119</b>	<b>109</b>	<b>116</b>	<b>155</b>
<b>Non Top client rev</b>								
Infosys	853	821	833	852	893	962	1004	1097
TCS	1093	1048	1066	1094	1146	1177	1247	1401
Wipro	878	840	820	855	907	941	965	1029
<b>Infosys- Wipro</b>	<b>-25</b>	<b>-19</b>	<b>13</b>	<b>-4</b>	<b>-14</b>	<b>21</b>	<b>38</b>	<b>68</b>

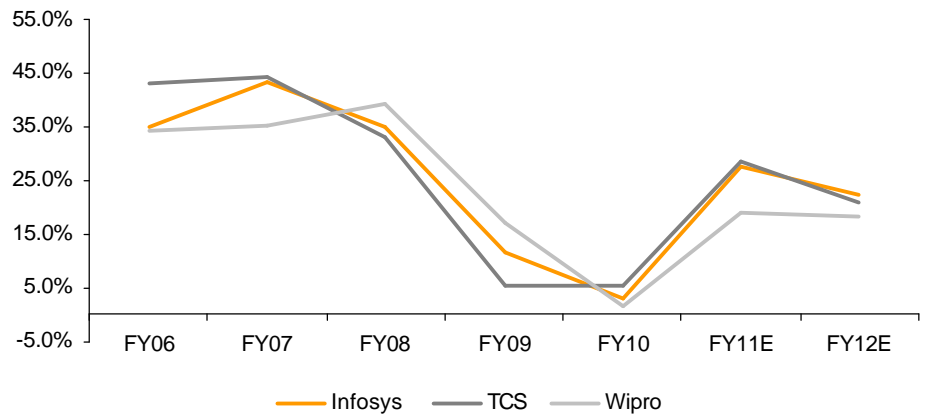
Source: Companies, Emkay Research

	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10
<b>No of US\$ 20 mn+</b>								
Infosys	58	59	61	59	60	59	60	66
TCS	59	62	59	62	61	63	65	66
Wipro	52	53	53	51	53	56	58	64
<b>No of US\$ 50 mn+</b>								
Infosys	20	20	19	21	22	26	26	27
TCS	23	24	23	23	23	23	24	25
Wipro	16	17	17	16	16	16	17	20
<b>No of US\$ 100 mn+</b>								
Infosys	4	4	4	5	6	6	8	10
TCS	7	7	6	6	6	7	7	8
Wipro	0	1	1	1	2	2	2	1

Despite having a similar number of US\$ 20 mn+ client accounts as Infosys and TCS, Wipro has just 2 US\$ 200 mn+ accounts V/s 8/10 for TCS/Infosys respectively.

Source: Companies, Emkay Research

#### Wipro continues to trail peers on revenue growth albeit for FY09



Source: Companies, Emkay Research

FY11/12E earnings cut marginally by ~2%/1% to Rs 21.1/23.1 driven by currency reset to Rs 44/\$

(in Rs mn, except EPS)	FY11E			FY12E			FY13E
	Old	New	change	Old	New	change	
Revenues(US\$ mn)	5,220	5,224	0.1	6,149	6,184	0.6	7,212
Revenues	316,967	311,282	-1.8	364,202	360,392	-1.0	416,895
EBIT	61,109	58,474	-4.3	68,264	67,551	-1.0	76,964
Net Profits	52,948	51,880	-2.0	57,373	56,775	-1.0	65,070
EPS	21.6	21.1	-2.0	23.4	23.1	-1.0	26

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	255,337	271,957	311,282	360,392
Growth (%)		7	14	16
<b>Total Expenditure</b>	(211,535)	(219,799)	(252,809)	(292,841)
Growth (%)		4	15	16
<b>EBIDTA</b>	43,802	52,158	58,474	67,551
Growth (%)		19	12	16
<b>EBIDTA %</b>	17.2	19.2	18.8	18.7
Other Income	42	3,894	5,591	8,310
Depreciation	-	-	-	-
<b>EBIT</b>	<b>43,802</b>	<b>52,158</b>	<b>58,474</b>	<b>67,551</b>
Interest				
<b>EBT</b>	<b>43,844</b>	<b>56,052</b>	<b>64,064</b>	<b>75,861</b>
Tax	(6,035)	(9,293)	(10,025)	(17,018)
<b>EAT</b>	<b>37,809</b>	<b>46,759</b>	<b>54,039</b>	<b>58,843</b>
Growth (%)		24	16	9
<b>EAT (%)</b>	14.8	17.2	17.4	16.3
Minority Interest	-	-	-	-
<b>Net Profit after MI</b>	<b>37,710</b>	<b>45,443</b>	<b>51,880</b>	<b>56,775</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	2,930	2,936	2,936	2,936
Reserves & surplus	144,214	193,176	233,705	290,479
Minority Interest	237	437	437	437
<b>Networth</b>	<b>147,381</b>	<b>196,549</b>	<b>237,078</b>	<b>293,852</b>
Secured Loans	19,681	18,107	24,932	24,932
Unsecured Loans	37,210	44,403	30,693	30,693
<b>Loan Funds</b>	<b>56,891</b>	<b>62,510</b>	<b>55,625</b>	<b>55,625</b>
<b>Deferred Tax Liability</b>	<b>474</b>	<b>380</b>	<b>649</b>	<b>649</b>
<b>Total Liabilities</b>	<b>204,746</b>	<b>259,440</b>	<b>293,352</b>	<b>350,126</b>
Goodwill	59636	57813	58444	58444
Gross Block	63,837	89,583	104,583	120,583
Less: Depreciation	(28,501)	(36,125)	(43,938)	(52,451)
<b>Net block</b>	<b>35,336</b>	<b>53,458</b>	<b>60,645</b>	<b>68,132</b>
<b>Capital WIP</b>	<b>14,458</b>	-	-	-
<b>Investment</b>	<b>18,213</b>	<b>32,765</b>	<b>53,967</b>	<b>53,967</b>
<b>Current Assets</b>	<b>142,488</b>	<b>174,146</b>	<b>193,832</b>	<b>261,512</b>
Inventories	7,587	7,926	8,391	10,861
Sundry debtors	62,760	67,636	80,166	92,813
Cash & bank balance	49,117	64,878	64,340	107,481
Loans & advances	8,083	9,112	12,792	14,811
Other current assets	14,941	24,594	28,143	35,545
<b>Current Liab &amp; Prov</b>	<b>79,580</b>	<b>70,488</b>	<b>85,283</b>	<b>103,674</b>
Current liabilities	72,009	63,171	76,755	91,826
Provisions	7,571	7,317	8,528	11,848
Deferred Tax Assets	14,196	11,746	11,746	11,746
<b>Net current assets</b>	<b>62,908</b>	<b>103,658</b>	<b>108,549</b>	<b>157,837</b>
<b>Total Assets</b>	<b>204,747</b>	<b>259,440</b>	<b>293,352</b>	<b>350,126</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Profit before Tax	43,844	54,920	62,260	73,993
Add : Depreciation	6,942	7,624	7,813	8,513
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>3,849</b>	<b>(40,750)</b>	<b>(4,891)</b>	<b>(49,288)</b>
<b>Operational Cash Flows</b>	<b>34,648</b>	<b>51,505</b>	<b>41,176</b>	<b>59,342</b>
<b>Capital expenditure</b>	<b>(24,183)</b>	<b>(37,611)</b>	<b>(15,205)</b>	<b>(15,969)</b>
Investments	-	-	-	-
<b>Investing Cash Flows</b>	<b>(24,183)</b>	<b>(37,611)</b>	<b>(15,205)</b>	<b>(15,969)</b>
<b>Borrowings</b>	<b>4,753</b>	<b>(1,574)</b>	<b>6,825</b>	<b>-</b>
dividend paid	(6,856)	(17,230)	(12,139)	(13,284)
Issue of shares	(7,790)	10,367	(30,153)	-
Share Premium	27,280	1,908	-	-
<b>Financing Cash Flows</b>	<b>17,387</b>	<b>(6,529)</b>	<b>(35,467)</b>	<b>(13,284)</b>
changes in cash	27,853	7,365	(9,496)	30,089
Opening balance	39,270	49,117	64,878	64,340
<b>Closing balance</b>	<b>49,117</b>	<b>64,878</b>	<b>64,340</b>	<b>107,481</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
EPS (Rs)	15.5	18.5	21.1	23.1
CEPS (Rs)	18.4	21.6	24.3	26.6
Book Value Per Share (Rs)	60.5	80.1	84.0	107.2
Dividend Per Share (Rs)	2.4	6.0	4.2	4.6
<b>Valuations Ratios (x)</b>				
PER	28.9	24.2	21.2	19.4
P/CEPS	24.5	20.8	18.5	16.9
P/BV	7.4	5.6	5.3	4.2
EV/EBIDTA	21.3	17.8	15.7	13.1
EV/Sales	4.2	3.9	3.3	2.8
M-Cap/sales	4.2	4.0	3.5	3.0
<b>Profitability Ratios (%)</b>				
RoCE	23.1	22.4	22.4	23.2
RoNW	27.3	26.4	25.8	24.2
EBITA Margin	17.2	19.2	18.8	18.7
EBIT Margins	17.2	19.2	18.8	18.7
Net Profit Margin	14.8	16.7	16.7	15.8

**Recommendation History: Wipro Limited – WPRO IN**

Date	Reports	Reco	CMP	Target
23/07/2010	<a href="#">Wipro Q1FY11 Result Update</a>	Reduce	412	420
23/04/2010	<a href="#">Wipro Q4FY10 Result Update</a>	Reduce	693	700
20/01/2010	<a href="#">Wipro Q3FY10 Result Update</a>	Reduce	725	700
27/10/2009	<a href="#">Wipro Q2FY10 Result Update</a>	Reduce	605	580

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
22/10/2010	<a href="#">TCS Q2FY11 Result Update</a>	Accumulate	984	1,075
21/10/2010	<a href="#">eClerx Q2FY11 Result Update</a>	Accumulate	618	670
21/10/2010	<a href="#">HCL Technologies Q1FY11 Result Update</a>	Hold	426	430
15/10/2010	<a href="#">Infosys Q2FY11 Result Update</a>	Accumulate	3,080	3,300

## Slippages continue to remain higher

October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Reduce	Reduce
<b>CMP</b>	<b>Target Price</b>
Rs537	Rs450
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	6,066
Sensex	20,166

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	33	41	20
Rel. to Nifty	5	19	23	(1)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Banks
Bloomberg	BOI@IN
Equity Capital (Rs mn)	5252
Face Value(Rs)	10
No of shares o/s (mn)	525
52 Week H/L	588/309
Market Cap (Rs bn/USD mn)	282/6,325
Daily Avg Volume (No of sh)	1338520
Daily Avg Turnover (US\$mn)	14.5

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	64.5	64.5	64.5
FII/NRI	15.4	14.5	15.6
Institutions	13.3	13.1	12.3
Private Corp	1.1	1.8	1.5
Public	5.7	6.1	6.2

Source: Capitaline

- **BOI's Q2FY11 NII at Rs17.8bn in line with expectations stable NIMs and 4.3% qoq growth in gross advances. PAT at Rs6.2bn on expected lines**
- **Slippages remain high at Rs8.2bn for the quarter; 1.8% annualised vs. 2.5% for FY10. We estimate FY11E slippage at Rs24bn**
- **The NPA profile still remains uncomfortable with net NPAs of 1.1% (13% NNPA/network) and provision cover of 57.5%**
- **Expect to underperform peers with no significant discount in valuation despite lower asset quality. Valuations at 2.1x FY11E/1.7x FY12E ABV. Continue REDUCE rating**

### NII growth in line with expectations

BOI's NII for Q2FY11 has grown by 26% yoy to Rs17.8bn vs our expectations of Rs17.2bn. The growth in NII was driven by 22.7% yoy (4.3% qoq) growth in gross advances.

### Domestic NIMs witness some pressure

The NIMs for the quarter were at 2.5%, flat qoq. However, NIMs in domestic business has seen a 6bps qoq pressure (12bps in spreads) driven by a 28bps rise in cost of funds. BOI has raised its base rate/PLR by 50bps in first week of October which we believe should help to recoup the domestic NIMs.

### Yield analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on advances*	8.9	8.3	8.1	8.1	8.2	-69	8
Yield on investments*	7.1	7.3	6.9	6.9	7.7	62	75
Yield on assets*	7.7	7.4	6.9	7.0	7.3	-41	29
Cost of funds*	5.3	4.9	4.5	4.4	4.8	-50	30
NIM*	2.4	2.4	2.4	2.5	2.5	9	-1
Yield on Advances#	9.0	8.4	8.1	8.4	8.5	-50	9
Yield on Funds#	7.7	7.4	6.9	7.0	7.3	-41	29
Cost of Deposit#	5.6	5.3	4.8	4.8	5.0	-60	20
Cost of funds#	5.3	4.9	4.5	4.5	4.8	-51	30
NIM#	2.4	2.5	2.4	2.5	2.5	10	-1
NIM-Domestic#	2.7	2.7	2.6	2.8	2.7	8	-6
NIM-Foreign#	1.2	1.1	1.2	1.2	1.4	15	21

Source: Company, Emkay Research Note:\* Calculated on basis of average quarterly balances # reported

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	85,508	30,073	57.2	210.2	1.5	29.2	9.6	2.6
FY2010	83,726	17,410	33.1	201.4	0.7	14.2	16.5	2.7
FY2011E	99,195	27,121	51.6	256.0	0.9	19.5	10.6	2.1
FY2012E	115,288	32,955	62.7	319.3	0.9	20.1	8.7	1.7

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Net Interest Income	14,089	14,947	15,521	17,405	17,761	26.1	2.0	35,165	27,096	29.8
Other Income	6,760	5,716	7,230	5,860	5,845	-13.5	-0.3	11,705	13,220	-11.5
Fee Income	2,477	2,520	3,340	2,500	3,007	21.4	20.3	5,507	5,107	7.8
Net Income	20,849	20,663	22,751	23,265	23,606	13.2	1.5	46,870	40,316	16.3
Total Operating Expenses	8,789	9,366	9,995	9,158	9,810	11.6	7.1	18,968	17,318	9.5
<i>As % Of Net Income</i>	<i>42.2</i>	<i>45.3</i>	<i>43.9</i>	<i>39.4</i>	<i>41.6</i>			<i>40.5</i>	<i>43.0</i>	
Employee Expenses	5,448	6,195	5,987	5,738	6,031	10.7	5.1	11,769	10,779	9.2
<i>As % Of Net Income</i>	<i>26.1</i>	<i>30.0</i>	<i>26.3</i>	<i>24.7</i>	<i>25.5</i>			<i>25.1</i>	<i>26.7</i>	
Other Expenses	3,341	3,171	4,008	3,420	3,779	13.1	10.5	7,199	6,538	10.1
<i>As % Of Net Income</i>	<i>16.0</i>	<i>15.3</i>	<i>17.6</i>	<i>14.7</i>	<i>16.0</i>			<i>15.4</i>	<i>16.2</i>	
Operating Profit	12,060	11,298	12,756	14,107	13,796	14.4	-2.2	27,903	22,999	21.3
<i>As % Of Net Income</i>	<i>57.8</i>	<i>54.7</i>	<i>56.1</i>	<i>60.6</i>	<i>58.4</i>			<i>59.5</i>	<i>57.0</i>	
Provisions	6,021	5,764	8,090	3,859	5,274	-12.4	36.7	9,133	8,251	10.7
Prov for NPA	4,698	4,465	6,600	3,078	2,863	-39.1	-7.0	5,941	6,478	-8.3
PBT	6,039	5,534	4,666	10,248	8,522	41.1	-16.8	18,770	14,748	27.3
Total Tax	2,805	1,479	385	2,995	2,355	-16.1	-21.4	5,350	5,664	-5.5
Adjusted PAT	3,234	4,055	4,281	7,252	6,167	90.7	-15.0	13,420	9,084	47.7
Extra Ordinary Items	0	0	0	0	0					
Reported PAT	3,234	4,055	4,281	7,252	6,167	90.7	-15.0	13,420	9,084	47.7
Reported EPS	6.1	7.7	8.1	13.8	11.7	90.7	-14.9	25.5	17.3	47.7

Source: Company, Emkay Research

**Advances growth remains strong**

The gross advances for the quarter have grown by 23% yoy (4.3% qoq). The advances growth for the quarter was propelled by sectors like rubber and plastic (+13.8% qoq), gems and jewelry (+11.1% qoq), construction (+8.6% qoq) and infrastructure (+5.1% qoq). The growth has been flat to negative in SME/ Mid corporate and Retail segment during the quarter. However the management has indicated that going forward the focus will be on SME/ Mid corporate and Retail segments.

**Advances mix**

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Foreign	320	342	361	375	397	24.1	5.9
Mid-corporate/SME	292	265	296	311	273	-6.8	-12.4
Agriculture	164	177	180	178	193	17.4	8.5
Retail	153	192	158	155	153	0.4	-0.8
Others	573	594	718	750	828	44.4	10.3
<b>Total</b>	<b>1,502</b>	<b>1,570</b>	<b>1,713</b>	<b>1,768</b>	<b>1,843</b>	<b>22.7</b>	<b>4.3</b>

Source: Company, Emkay Research

**CASA profile improves marginally**

As the CASA grew in line with the advances growth, the CASA profile has improved marginally at 33.4% of domestic deposits.

**CASA Mix**

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Savings Deposits	112	130	159	142	139	24.2	-2.3
Current Deposits	418	441	481	507	542	29.5	6.9
CASA	530	571	640	649	681	28.4	4.9
Term deposits	1,146	1,168	1,180	1,326	1,358	18.4	2.4
Foreign deposits	290	288	309	332	330	13.6	-0.5
Total Deposits	1,987	2,060	2,298	2,337	2,411	21.3	3.2
CASA (%)	31.6	32.8	35.2	32.9	33.4	177	54

Source: Company, Emkay Research

**Fee income growth offsets lower trading gains**

The fee income surprisingly picked up sharply during the quarter, up 20% qoq, much faster than the advances growth. This has helped the bank to mitigate partially the sharp drop in the trading gains and forex income.

**Other income**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	2,477	2,520	3,340	2,500	3,007	21.4	20.3	5,507	5,107	7.8
Trading gains/(losses)	1,511	1,365	660	1,000	360	-76.2	-64.0	1,360	3,911	-65.2
Forex gains/(losses)	1,317	758	1,280	1,310	1,111	-15.6	-15.2	2,421	1,677	44.4
Recoveries	543	332	930	370	301	-44.6	-18.6	671	873	-23.1
Other non int income	912	741	1,020	680	1,066	16.9	56.8	1,746	1,652	5.7
<b>Total</b>	<b>6,760</b>	<b>5,716</b>	<b>7,230</b>	<b>5,860</b>	<b>5,845</b>	<b>-13.5</b>	<b>-0.3</b>	<b>11,705</b>	<b>13,220</b>	<b>-11.5</b>

Source: Company, Emkay Research

**Operating profit declines by 2.2% qoq**

The operating profit declined by 2.2%qoq led by lower trading gains and higher opex. The opex increased by 7.1%qoq led by 5.1%qoq increase in employee expense and 10.5%qoq increase in other expenses. The bank provided Rs1.2bn towards gratuity and pension liabilities, though the actual liability will be known by the end of this month, which is the deadline for the employees to opt pension.

**Core operating profit**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Reported operating profit	12,060	11,298	12,756	14,107	13,796	14.4	-2.2	27,903	22,999	21.3
Less: Treasury gains	1,511	1,365	660	1,000	360	-76.2	-64.0	1,360	3,911	-65.2
Core operating profit	10,549	9,933	12,096	13,107	13,436	27.4	2.5	26,543	19,088	86.6

Source: Company, Emkay Research

**Provisions lower than needed**

The provisions for NPAs for the quarter were at Rs2.9bn, 16bps of advances (64bps annualised). We believe that this is lower than needed as the bank still has a low provision cover at 57.5% with net NPLs to networth at 13.3%.



### Slippages continue to remain higher

The slippages for the quarter stood at Rs8.2bn significantly higher than 6.2bn in preceding quarter, considering the fact that the preceding quarter also included Agri NPA of Rs1.3bn. The slippage ratio stood at 1.8% annualized higher than 1.4% reported in Q1FY11. Notwithstanding high slippage during the quarter, we are expecting the slippage rate to be 1.2-1.4% with gross and net NPAs of 2.4% and 0.8% for FY11. However, BOI's asset quality would still be a tad lower than many of its peer banks with net NPAs at 0.8% of advances or 9% of net worth.

#### NPA profile

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	39,797	41,866	48,827	47,945	48,696	22.4	1.6
Net NPA (Rs bn)	16,047	15,957	22,075	20,612	20,704	29.0	0.4
Gross NPA (%)	2.6	2.7	2.9	2.7	2.6		
Net NPA (%)	1.1	1.0	1.3	1.2	1.1		
Net NPLs/Net worth (%)	12.8	12.3	15.5	13.8	13.3		
Provision cover (%)	59.7	61.9	54.8	57.0	57.5		

Source: Company, Emkay Research

#### Slippages

Rs bn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Cumulative (Rs mn)	20,074	26,600	41,620	6,180	14,364	-28.4	
Quarterly (Rs mn)	14,134	6,526	15,020	6,180	8,184	-42.1	32.4
Cumulative (%)	1.3	1.7	2.4	0.3	0.8		
Quarterly (%)	0.9	0.4	0.9	0.3	0.4		

Source: Company, Emkay Research

#### Valuations and view

The stock is currently quoting at 2.1x FY11E ABV and 1.7x FY12E ABV. We believe that valuations are unattractive as there is no significant discount to peer banks whose asset quality would look much better than BOI's. We maintain our REDUCE rating on the stock with price target of Rs450.

## Key Financials

## Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Net interest income</b>	54,989	57,560	71,656	84,121
Other income	30,519	26,166	27,539	31,167
Net income	85,508	83,726	99,195	115,288
Operating expenses	30,940	36,678	39,054	43,460
Pre provision profit	54,568	47,048	60,140	71,828
PPP excl treasury	62,029	53,011	64,140	75,828
Provisions	12,924	22,110	21,293	24,624
Profit before tax	41,644	24,938	38,848	47,204
Tax	11,571	7,528	11,726	14,249
Tax rate	28%	30%	30%	30%
Profit after tax	30,073	17,410	27,121	32,955

## Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
<b>Liabilities</b>				
Equity	5,259	5,259	5,259	5,259
Reserves	129,690	137,041	159,240	186,657
Net worth	134,949	142,300	164,499	191,917
Deposits	1,897,085	2,297,619	2,831,796	3,308,811
Borrowings	222,984	309,745	336,478	364,240
Total liabilities	2,255,018	2,749,665	3,332,773	3,864,967
<b>Assets</b>				
Cash and bank	217,613	312,301	384,694	449,496
Investments	497,610	649,440	843,131	976,695
Customer assets	1,457,556	1,706,269	2,011,338	2,330,758
Others	82,240	81,654	93,609	108,017
Total assets	2,255,018	2,749,665	3,332,773	3,864,967

## Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	3.0	2.5	2.6	2.6
Non-Il/avg assets	1.5	1.0	0.9	0.9
Fee income/avg assets	0.5	0.4	0.4	0.4
Opex/avg assets	1.4	1.3	1.2	1.1
Provisions/avg assets	0.5	1.1	1.1	1.1
PBT/avg assets	1.8	0.9	1.2	1.2
Tax/avg assets	0.5	0.3	0.4	0.4
RoA	1.5	0.7	0.9	0.9
RoAE	29.2	14.2	19.5	20.1
GNPA (%)	1.9	3.1	2.9	2.8
NNPA (%)	0.5	1.3	0.8	0.4

## Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	30,073	17,410	27,121	32,955
Shares in issue (mn)	526	526	526	526
EPS (Rs)	57.2	33.1	51.6	62.7
PER (x)	9.6	16.5	10.6	8.7
FDEPS(Rs)	57.2	33.1	51.6	62.7
FDPER (x)	9.6	16.5	10.6	8.7
Book value (Rs)	214.1	233.4	275.6	327.8
P/BV (x)	2.6	2.3	2.0	1.7
Adj book value (Rs)	210.2	201.4	256.0	319.3
P/ABV (x)	2.6	2.7	2.1	1.7
P/PPP (x)	5.3	6.1	4.8	4.0
Dividend yield (%)	1.5	1.3	1.5	1.6

**Recommendation History: Bank of India – BOI IN**

Date	Reports	Reco	CMP	Target
02/08/2010	<a href="#">Bank of India Q1FY11 Result Update</a>	Reduce	410	350
10/05/2010	<a href="#">Bank of India Q4FY10 Result Update</a>	Reduce	348	320
29/01/2010	<a href="#">Bank of India Q3FY10 Result Update</a>	Reduce	371	320
30/10/2009	<a href="#">Bank of India Q2FY10 Result Update</a>	Reduce	358	320

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
22/10/2010	<a href="#">Corporation Bank Q2FY11 Result Update</a>	Buy	735	860
22/10/2010	<a href="#">Allahabad Bank Q2FY11 Result Update</a>	Buy	241	300
21/10/2010	<a href="#">South Indian Bank Q2FY11 Result Update</a>	Accumulate	28	30
20/10/2010	<a href="#">Yes Bank Q2FY11 Result Update</a>	Reduce	352	300

October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs298	Rs336
EPS change FY11E/12E (%)	-
Target Price change (%)	-
Nifty	6,066
Sensex	20,166

### Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(1)	12	84
Rel. to Nifty	1	(11)	(2)	51

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Pharmaceuticals
Bloomberg	IPCA@IN
Equity Capital (Rs mn)	250
Face Value(Rs)	2
No of shares o/s (mn)	125
52 Week H/L	325/160
Market Cap (Rs bn/USD mn)	37/830
Daily Avg Volume (No of sh)	179188
Daily Avg Turnover (US\$m)	1.2

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	46.2	46.2	46.2
FII/NRI	9.0	6.8	5.3
Institutions	23.2	29.0	30.4
Private Corp	9.8	5.8	5.9
Public	11.8	12.1	12.3

Source: Capitaline

- **Despite strong revenue growth operating performance was impacted due to higher staff and other expenses**
- **Strong revenue growth was driven by 29% growth in domestic formulation business and 27% growth in the exports formulations business**
- **Addition in the field force has impacted short term profitability but long term growth visibility remains intact**
- **Maintain earning estimates and Buy rating with a target of Rs336**

### Domestic growth led by uptick in anti-malarial business

Domestic formulation business grew by 29% (ahead of our expectations) to Rs2.6bn on the back of strong growth in branded formulation business. The strong growth in branded formulation was driven by higher contribution from the CVS, Pain management, Anti-Malarial portfolio and cough & cold segments. Strong growth in the anti-malarial segment (up 41% YoY) was mainly because of higher off-take in the anti-malarial products. Even after excluding the higher sales from the anti-malarial segment, domestic formulations grew strongly by 25%, which company should be able to maintain going forward. Company has added ~1000 sales representatives in last 6-9 months and now the total field force in the domestic market is approx. 3800-4000. We believe the ramp-up in sales force will contribute revenues from Q3FY11E onwards.

### Generic business in regulated markets continued to drive export growth

Export formulation business during the quarter grew by 27% driven by a) 38% growth in generic formulation and b) 7% growth in branded formulation (company expect the performance to improve in 2HFY11E). This growth is commendable, as during the quarter average \$ realization declined from Rs48.6 to Rs46 and average sterling pound realization declined from Rs77.8 to Rs69.9. Generic formulation growth was driven by 46% growth in US generic market to Rs236mn and 96% growth in tender business (mainly driven by fixed dose combination of Artemether and Lumefantine) to Rs309mn. In the US, Atenelol (45% market share), Metoprolol (9%), Hydroxychloroquine (44%), Flucamide (38%) and Propanol (20%), were the major growth drivers for the company. The API business as a whole de-grew by 7%. The lower growth in API is mainly because of higher captive consumption in the formulation business. Formulation now contributes 77% of overall revenue. Management has indicated that in the US they are currently facing capacity constraints.

### Revenue break-up

	Q2FY11	Q2FY10	Y-o-Y Gr.(%)	H1FY11	H1FY10	Q-o-Q Gr.(%)
<b>Domestic</b>	<b>2628</b>	<b>2093</b>	<b>25.6%</b>	<b>4205</b>	<b>3918</b>	<b>7.3%</b>
Formulation	2219	1715	29.4%	3450	3164	9.0%
API	408	378	8.1%	755	754	0.1%
<b>Exports</b>	<b>2515</b>	<b>2195</b>	<b>14.6%</b>	<b>4222</b>	<b>3947</b>	<b>6.9%</b>
Formulation	1751	1378	27.1%	2356	2324	1.4%
API	764	818	-6.6%	1866	1624	14.9%
<b>Total</b>	<b>5143</b>	<b>4288</b>	<b>19.9%</b>	<b>8427</b>	<b>7866</b>	<b>7.1%</b>

### Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	12,928	2,655	20.5	1,653	13.3	77.6	27.1	23.4	16.3	6.1
FY10	15,596	3,235	20.7	2,092	16.8	26.6	28.0	18.5	13.4	4.5
FY11E	18,872	3,963	21.0	2,487	20.0	18.9	25.7	15.6	10.8	3.6
FY12E	22,506	4,726	21.0	3,050	24.5	22.6	25.4	12.7	8.9	2.9

**High employee and SGA cost impacted operating performance**

Operating margins for the quarter declined by 97bps to 22.8% mainly because of 173bps increase in other expenditures and higher contribution of low margin anti-malarial and tender business. The increase in other expenditures is mainly on account of higher SGA cost (new people addition). Moreover, company is also incurring cost of Rs50mn per quarter on account of Indore SEZ which has yet to contribute in topline (UKMHRA inspection is over; production to commence by Dec'11) Going forward, as the new jointee will start contributing, we expect margins to improve gradually. Company has also guided EBITDA margins of 20-21% for FY11E.

**APAT at Rs730mn is below our expectation**

Despite lower interest cost (down by 36%), APAT was below our expectations at Rs730mn (we expected Rs762mn) because of a) 17% increase in depreciation cost and b) higher tax provision (26% of PBT vs. our assumption of 23.5% of PBT). The company has incurred forex gain of Rs288mn vs. forex loss of Rs6mn in Q2FY10. Going ahead, we believe net profit to grow at 21% CAGR to Rs3050mn over Fy10-12E, clocking an EPS of Rs24.5 in FY12E.

**Maintain buy with a target price of Rs336**

During H1FY11, the company has clocked adjusted EPS of Rs9.3 against our full estimation of Rs20 in FY11E. We continue to maintain our earning estimates of Rs20 and Rs24.5 for FY11E and FY12E respectively. We believe that this quarter performance is encouraging and expect the company to improve its earnings trajectory from next quarter onwards on account of incremental contribution because of field force expansion. Over the last 4 years, company has significantly reduced its dependency on one product or one market and has expanded its reach in key geographies. We are of the view that Ipca provides good visibility in terms of consistent CAGR growth of 20% over next few years on the back of its focus on branded formulations segment, geographical expansions in semi-regulated markets, new product launches in fast growing chronic segment and focus on European and US markets. We re-iterate our Buy rating with a price target of Rs336 (14x FY12E).

## Key Financials – Quarterly

Rs mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>4,303</b>	<b>3,957</b>	<b>3,678</b>	<b>4,145</b>	<b>5,183</b>	20.5	25.0
<b>Expenditure</b>	<b>3,281</b>	<b>3,054</b>	<b>2,992</b>	<b>3,468</b>	<b>4,003</b>	22.0	15.4
<i>as % of sales</i>	76%	77%	81%	84%	77%		
Consumption of RM	1,737	1,604	1,577	1,748	2,044	17.7	16.9
<i>as % of sales</i>	40%	41%	43%	42%	39%		
Employee Cost	574	541	530	658	700	21.8	6.4
<i>as % of sales</i>	13%	14%	14%	16%	14%		
Other expenditure	971	909	885	1,062	1,259	29.7	18.5
<i>as % of sales</i>	23%	23%	24%	26%	24%		
<b>EBITDA</b>	<b>1,021</b>	<b>903</b>	<b>686</b>	<b>678</b>	<b>1,180</b>	15.6	74.2
Depreciation	117	119	117	129	137	16.9	6.2
<b>EBIT</b>	<b>904</b>	<b>784</b>	<b>569</b>	<b>549</b>	<b>1,043</b>	15.4	90.1
Other Income	5	9	-	41	8	43.4	(81.3)
Interest	71	53	59	49	62	(12.2)	27.6
<b>PBT</b>	<b>839</b>	<b>740</b>	<b>510</b>	<b>541</b>	<b>989</b>	17.9	82.9
Total Tax	195	141	152	123	337	73.3	174.0
<b>Adjusted PAT</b>	<b>643</b>	<b>596</b>	<b>358</b>	<b>418</b>	<b>730</b>	13.5	74.7
(Profit)/loss from JV's/Ass/MI							
<b>APAT after MI</b>	<b>643</b>	<b>596</b>	<b>358</b>	<b>418</b>	<b>730</b>	13.5	74.7
<b>Extra ordinary items</b>	<b>-4</b>	<b>-14</b>	<b>18</b>	<b>-29</b>	<b>211</b>		(818.5)
<b>Reported PAT</b>	<b>639</b>	<b>583</b>	<b>376</b>	<b>388</b>	<b>940</b>	47.2	142.1
<b>AEPS</b>	<b>5.1</b>	<b>4.7</b>	<b>2.9</b>	<b>3.3</b>	<b>5.8</b>	13.5	74.7

## Margins (%)

(bps)

(bps)

EBIDTA	23.7	22.8	18.7	16.3	22.8	(97)	642
EBIT	21.0	19.8	15.5	13.2	20.1	(89)	689
EBT	19.5	18.7	13.9	13.0	19.1	(42)	603
PAT	14.9	15.1	9.7	10.1	14.1	(87)	400
Effective Tax rate	23.2	19.1	29.8	22.7	34.1	1,090	1133

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>12,928</b>	<b>15,596</b>	<b>18,872</b>	<b>22,506</b>
Growth (%)	21.4	20.6	21.0	19.3
<b>Expenditure</b>	<b>10,273</b>	<b>12,360</b>	<b>14,909</b>	<b>17,779</b>
Raw Materials	5,073	6,456	7,398	8,822
SGA	3,318	3,697	4,812	5,739
Employee Cost	1,882	2,207	2,699	3,218
Other Exp	0	0	0	0
<b>EBITDA</b>	<b>2,655</b>	<b>3,235</b>	<b>3,963</b>	<b>4,726</b>
Growth (%)	46.0	21.9	22.5	19.3
<b>EBITDA margin (%)</b>	<b>20.5</b>	<b>20.7</b>	<b>21.0</b>	<b>21.0</b>
Depreciation	397	467	559	611
<b>EBIT</b>	<b>2,258</b>	<b>2,768</b>	<b>3,404</b>	<b>4,115</b>
<b>EBIT margin (%)</b>	<b>17.5</b>	<b>17.7</b>	<b>18.0</b>	<b>18.3</b>
Other Income	6	70	30	30
Interest expenses	318	264	286	285
<b>PBT</b>	<b>1,185</b>	<b>2,593</b>	<b>3,149</b>	<b>3,860</b>
Tax	233	627	661	811
Effective tax rate (%)	19.6	20.0	21.0	21.0
<b>Adjusted PAT</b>	<b>1,711</b>	<b>2,110</b>	<b>2,487</b>	<b>3,050</b>
(Profit)/loss from JV's/Ass/MI	57	18	0	0
<b>Adjusted PAT after MI</b>	<b>1,653</b>	<b>2,092</b>	<b>2,487</b>	<b>3,050</b>
Growth (%)	77.6	26.6	18.9	22.6
<b>Net Margin (%)</b>	<b>12.8</b>	<b>13.4</b>	<b>13.2</b>	<b>13.6</b>
E/O items	-762	0	0	0
<b>Reported PAT</b>	<b>1,006</b>	<b>2,092</b>	<b>2,487</b>	<b>3,050</b>
Growth (%)	-26.4	108.0	18.9	22.6

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>1,179</b>	<b>2,504</b>	<b>3,119</b>	<b>3,830</b>
Depreciation	397	467	559	611
Interest Provided	318	264	286	285
Other Non-Cash items	0	0	0	0
Chg in working cap	-736	-1,664	-1,138	-1,518
Tax paid	-233	-485	-661	-811
<b>Operating Cashflow</b>	<b>925</b>	<b>1,087</b>	<b>2,164</b>	<b>2,398</b>
Capital expenditure	-889	-1,317	-617	-750
<b>Free Cash Flow</b>	<b>36</b>	<b>-230</b>	<b>1,546</b>	<b>1,648</b>
Other income	6	88	30	30
Investments	-316	86	0	0
<b>Investing Cashflow</b>	<b>-1,199</b>	<b>-1,142</b>	<b>-587</b>	<b>-720</b>
Equity Capital Raised	42	44	0	0
Loans Taken / (Repaid)	1,069	-54	-300	-900
Interest Paid	-318	-264	-286	-285
Dividend paid (incl tax)	-323	-409	-437	-437
Income from investments	0	0	0	0
Others	-177	662	0	0
<b>Financing Cashflow</b>	<b>293</b>	<b>-21</b>	<b>-1,022</b>	<b>-1,622</b>
<b>Net chg in cash</b>	<b>19</b>	<b>-76</b>	<b>554</b>	<b>56</b>
Opening cash position	94	113	108	662
Closing cash position	113	37	662	718

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	250	250	250	250
Reserves & surplus	6,063	8,398	10,449	13,062
<b>Net worth</b>	<b>6,313</b>	<b>8,649</b>	<b>10,700</b>	<b>13,312</b>
<b>Minority Interest</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	3,408	3,791	3,591	3,091
Unsecured Loans	1,191	754	654	254
<b>Loan Funds</b>	<b>4,599</b>	<b>4,545</b>	<b>4,245</b>	<b>3,345</b>
Net deferred tax liability	651	793	793	793
<b>Total Liabilities</b>	<b>11,560</b>	<b>13,987</b>	<b>15,738</b>	<b>17,451</b>
Gross Block	7,790	8,812	9,812	10,562
Less: Depreciation	2,022	2,433	2,992	3,603
<b>Net block</b>	<b>5,768</b>	<b>6,379</b>	<b>6,820</b>	<b>6,959</b>
Capital work in progress	144	383	0	0
<b>Investment</b>	<b>412</b>	<b>325</b>	<b>325</b>	<b>325</b>
<b>Current Assets</b>	<b>7,398</b>	<b>8,992</b>	<b>11,023</b>	<b>13,058</b>
Inventories	3,062	3,802	4,511	5,364
Sundry debtors	3,391	3,880	4,718	5,626
Cash & bank balance	113	108	662	718
Loans & advances	832	1,201	1,132	1,350
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>2,162</b>	<b>2,097</b>	<b>2,437</b>	<b>2,898</b>
Current liabilities	1,962	1,850	2,191	2,605
Provisions	200	247	245	293
<b>Net current assets</b>	<b>5,236</b>	<b>6,895</b>	<b>8,587</b>	<b>10,160</b>
Misc. exp & Def. Assets	0	0	0	0
<b>Total Assets</b>	<b>11,560</b>	<b>13,981</b>	<b>15,732</b>	<b>17,444</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	20.5	20.7	21.0	21.0
Net Margin	12.8	13.4	13.2	13.6
ROCE	20.9	22.1	22.9	24.8
ROE	27.1	28.0	25.7	25.4
RoIC	23.2	22.9	24.3	26.4
<b>Per Share Data (Rs)</b>				
EPS	13.3	16.8	20.0	24.5
CEPS	22.6	20.6	24.5	29.4
BVPS	50.7	69.5	85.9	106.9
DPS	2.2	2.8	3.0	3.0
<b>Valuations (x)</b>				
PER	23.4	18.5	15.6	12.7
P/CEPS	13.8	15.1	12.7	10.6
P/BV	6.1	4.5	3.6	2.9
EV / Sales	3.4	2.8	2.3	1.9
EV / EBITDA	16.3	13.4	10.8	8.9
Dividend Yield (%)	0.7	0.9	1.0	1.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.7	0.5	0.2	0.1
Net Debt/EBIDTA	1.7	1.3	0.9	0.6
WC Cycle	145.8	159.2	163.8	162.5

**Recommendation History: Ipca Laboratories – IPCA IN**

Date	Reports	Reco	CMP	Target
30/07/2010	<a href="#">Ipca Laboratories Q1FY11 Result Update</a>	Buy	274	336
31/05/2010	<a href="#">Ipca Laboratories Q4FY10 Result Update</a>	Buy	263	336
22/01/2010	<a href="#">Ipca Laboratories Q3FY10 Result Update</a>	Buy	1,183	1,440
17/12/2009	<a href="#">Ipca Laboratories Event Update</a>	Buy	999	1,107

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
20/10/2010	<a href="#">Cadila Healthcare Q2FY11 Result Update</a>	Accumulate	680	720
18/10/2010	<a href="#">Unichem Labs Initiating Coverage</a>	Buy	530	670
08/10/2010	<a href="#">Pfizer Q3CY10 Result Update</a>	Hold	1,093	1,100
05/10/2010	<a href="#">Aurobindo Pharma Visit Note</a>	Buy	1,066	1,242



October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Hold	Hold
<b>CMP</b>	<b>Target Price</b>
Rs 515	Rs 531
EPS change FY11E/12E (%)	-
Target Price change (%)	-
Nifty	6,066
Sensex	20,166

### Price Performance

(%)	1M	3M	6M	12M
Absolute	2	2	1	41
Rel. to Nifty	1	(8)	(12)	16

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Pharmaceuticals
Bloomberg	PIHC@IN
Equity Capital (Rs mn)	418
Face Value(Rs)	2
No of shares o/s (mn)	209
52 Week H/L	600/331
Market Cap (Rs bn/USD mn)	108/2,422
Daily Avg Volume (No of sh)	2479458
Daily Avg Turnover (US\$m)	28.2

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	52.0	52.1	49.2
FII/NRI	21.6	24.1	26.2
Institutions	6.9	6.5	8.8
Private Corp	7.7	6.7	5.7
Public	11.8	10.6	10.1

Source: Capitaline

- **Piramal's Q2FY11 performance was disappointing with a) Revenue of Rs7.5bn (down 25%), and b) EBIDTA loss of Rs128mn**
- **Poor performance was driven by de-growth in the formulations, CRAMS and the critical care business**
- **Company has announced the buyback of 20% equity @Rs600 per share**
- **Utilization of cash will remain a key; maintain Hold**

### Disappointing quarter; company will revise earnings guidance downward going forward

Piramal's revenue for the quarter de-grew by 25% to Rs7.5bn. Management has iterated that concentration of focus on completing the transaction with Abbott and Super Religare Labs led to de-focus on the business areas. This accounted for the subdued performance during the quarter. Key factors that led to overall de-growth in revenues are a) Domestic formulation business (contributed 54% to the overall revenues) de-grew by 22% to Rs4.1bn, b) CRAMS business (contributed 28%) de-grew by 28% to Rs2.1bn, c) Critical Care business (contributed 9%) de-grew 28% to Rs640mn and, d) Diagnostics business (contributed 4%) de-grew 39% to Rs334mn. The CRAMS business declined on account of ~41% YoY de-growth in assets in India and ~15% YoY de-growth in assets outside India.

Management has indicated that they will prune down their guidance in the coming quarters. Earlier the management has guided for a 10-15% growth in the CRAMS business. We believe, the performance of residual business will improve on account of gradual up tick in CRAMS business coupled with improvement in the global critical care business. In the GCC business incremental growth from Sevoflurane and monetization of Minrad products in emerging markets will drive growth. We expect management to give further clarity on its residual business post Q3FY11E.

### Revenue break-up

	Q2FY11	Q2FY10	Gr Y-o-Y	H1FY11	H1FY10	Gr Y-o-Y
Domestic formulation	4078	5218	-22%	8691	9615	-10%
CRAMS	2136	2951	-28%	3884	5055	-23%
Domestic Assets	858	1443	-41%	1517	2251	-33%
Assets O/s India	1279	1508	-15%	2367	2804	-16%
PCC	640	885	-28%	1722	1614	7%
Diagnostics	334	548	-39%	871	1032	-16%
Others	331	398	-17%	777	899	-14%

### Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	EPS APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY09	32,479	6,303	19.4	3,582	17.1	(1.7)	26.3	28.9	18.6	7.8
FY10	36,277	6,834	18.8	4,747	22.7	32.5	32.0	21.8	17.1	6.2
FY11E	41,752	8,440	20.2	5,539	26.5	16.7	29.5	18.7	12.8	5.0
FY12E	47,900	9,769	20.4	6,980	33.4	26.0	30.1	14.9	11.0	4.0

### Announced buyback of 20% equity @Rs600per share through tender offer

Piramal Healthcare has announced buy-back of 20% equity (41.8mn share) @Rs600 per share which entails a cash outflow of Rs25.08bn. Promoters will tender the share in proportionate thus limiting the acceptance ratio at 20% level. Piramal has received upfront cash of Rs105.3bn from Abbott and Super Religare (Rs3bn), out of which company has paid Rs35.7bn as tax, Rs3.5bn as non-competing fees to promoters and Rs6.5bn as debt. Adjusting to cash outflow on buy-back, company will have net cash of Rs34.5bn (Rs206/share on 167.2mn shares). This amount will be used to fund the growth of existing businesses (US\$45-50mn annual capex) as well as to scout for opportunities in other sectors. The cash per share of future cash works out to be Rs347 per share, taking total cash value per share to Rs554 on reduced equity. Value per share of residual business on FY10 numbers is Rs110 per share. This takes the fair value of Piramal Healthcare to Rs664 per share. Maintain buy with a target price of Rs336

Cash value per share	Rs mn
Payment Received from Abbott (upfront)	102310
Payment received from Religare	3000
<b>Total upfront payment on the sale of Assets</b>	<b>105310</b>
Transferred to Piramal enterprises	3500
Tax liabilities	35700
Debt repayment	6499
<b>Cash in hand</b>	<b>59611</b>
NPV of future cash flow	58112
<b>Total cash</b>	<b>117723</b>
<b>Cash per share on existing equity</b>	<b>563.3</b>
Buy back @Rs600/share	Rs mn
No. of shares for buy back	41.8
<b>Total cash outflow</b>	<b>25080</b>
No. of shares post buy back	167.2
<b>Cash left out post buy back</b>	<b>34531</b>
<b>Cash per share on reduced equity</b>	<b>206.5</b>
<b>NPV of future cash flow</b>	<b>58112.4</b>
<b>Cash per share of future cash flow</b>	<b>347.6</b>
<b>Cash per share on reduced equity</b>	<b>554.1</b>
Value per share of residual business on reduced equity	110
<b>SOTP based fair value</b>	<b>664.1</b>

### Utilization of cash will remain a key for stock performance; maintain Hold

Deployment of cash still remains an unanswered question for Piramal Healthcare and a big overhang on the stock performance. Management has indicated that they are studying various business proposals and it will take more than 6 months to from a decision. However, they have stated very clearly that they do not see enough opportunities in the healthcare space to deploy such a large amount and are looking non-healthcare segments (no real estate investment in this company). In fact, Management has stated that the business profile of this company (Piramal Healthcare) will change significantly in next two years.

Owing to lack of clarity on the utilization of cash; we continue to retain our Hold rating on the stock with a price target of Rs531. We will revisit our rating once the company announces concrete plans to deploy cash from the deal.

## Key Financials – Quarterly

Rs mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>10,000</b>	<b>9,077</b>	<b>9,418</b>	<b>8,424</b>	<b>7,520</b>	(24.8)	(10.7)
<b>Expenditure</b>	<b>8,226</b>	<b>7,303</b>	<b>7,304</b>	<b>7,134</b>	<b>7,648</b>	(7.0)	7.2
<i>as % of sales</i>	82%	80%	78%	85%	102%		
Consumption of RM	3,931	3,438	3,486	3,278	2,956	(24.8)	(9.8)
<i>as % of sales</i>	39%	38%	37%	39%	39%		
Employee Cost	1,725	1,416	1,352	1,575	1,633	(5.4)	3.7
<i>as % of sales</i>	17%	16%	14%	19%	22%		
Other expenditure	2,570	2,449	2,466	2,282	3,059	19.0	34.1
<i>as % of sales</i>	26%	27%	26%	27%	41%		
<b>EBITDA</b>	<b>1,774</b>	<b>1,774</b>	<b>2,115</b>	<b>1,290</b>	<b>-128</b>	(107.2)	(109.9)
Depreciation	375	434	233	381	318	(15.2)	(16.4)
<b>EBIT</b>	<b>1,399</b>	<b>1,340</b>	<b>1,882</b>	<b>909</b>	<b>-446</b>	(131.9)	(149.0)
Other Income	-	-	-	-	203		
Interest	254	217	192	145	29	(88.6)	(80.2)
<b>PBT</b>	<b>1,145</b>	<b>1,124</b>	<b>1,690</b>	<b>764</b>	<b>(272)</b>	(123.7)	(135.5)
Total Tax	94	(204)	178	27	36,439	38,705.6	136,886.8
<b>Adjusted PAT</b>	<b>1,047</b>	<b>1,331</b>	<b>1,510</b>	<b>737</b>	<b>(36,837)</b>	(3,617.6)	(5,099.5)
(Profit)/loss from JV's/Ass/MI							
<b>APAT after MI</b>	<b>1,047</b>	<b>1,331</b>	<b>1,510</b>	<b>737</b>	<b>(36,837)</b>	(3,617.6)	(5,099.5)
<b>Extra ordinary items</b>	<b>15</b>	<b>31</b>	<b>-15</b>	<b>71</b>	<b>162239</b>		229,732.2
<b>Reported PAT</b>	<b>1,062</b>	<b>1,362</b>	<b>1,495</b>	<b>807</b>	<b>125,403</b>	11,704.8	15,431.7
<b>AEPS</b>	<b>5.0</b>	<b>6.4</b>	<b>7.2</b>	<b>3.5</b>	<b>600.0</b>	11,875.0	16,848.9

## Margins (%)

(bps)

(bps)

Margins (%)						(bps)	(bps)
EBIDTA	17.7	19.5	22.5	15.3	(1.7)	(1,943)	-1701
EBIT	14.0	14.8	20.0	10.8	(5.9)	(1,991)	-1672
EBT	11.4	12.4	17.9	9.1	(3.6)	(1,506)	-1268
PAT	10.5	14.7	16.0	8.7	(489.8)	(50,031)	-49859
Effective Tax rate	8.2	(18.2)	10.5	3.5	-	-	-

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>32,479</b>	<b>36,277</b>	<b>41,752</b>	<b>47,900</b>
Growth (%)	13.9	11.7	15.1	14.7
<b>Expenditure</b>	<b>26,176</b>	<b>29,443</b>	<b>33,312</b>	<b>38,131</b>
Raw Materials	12,365	13,972	15,978	18,346
SGA	6,876	7,781	8,198	9,415
Employee Cost	5,010	5,853	6,508	7,425
Other Exp	1,926	1,837	2,628	2,946
<b>EBITDA</b>	<b>6,303</b>	<b>6,834</b>	<b>8,440</b>	<b>9,769</b>
Growth (%)	21.0	8.4	23.5	15.8
<b>EBITDA margin (%)</b>	<b>19.4</b>	<b>18.8</b>	<b>20.2</b>	<b>20.4</b>
Depreciation	1,196	1,427	1,773	1,889
<b>EBIT</b>	<b>5,107</b>	<b>5,407</b>	<b>6,667</b>	<b>7,880</b>
<b>EBIT margin (%)</b>	<b>15.7</b>	<b>14.9</b>	<b>16.0</b>	<b>16.5</b>
Other Income	730	1,356	264	518
Interest expenses	1,984	1,838	710	558
<b>PBT</b>	<b>3,407</b>	<b>4,998</b>	<b>6,222</b>	<b>7,841</b>
Tax	219	180	684	862
Effective tax rate (%)	6.4	3.6	11.0	11.0
<b>Adjusted PAT</b>	<b>3,556</b>	<b>4,748</b>	<b>5,541</b>	<b>6,981</b>
(Profit)/loss from JV's/Ass/MI	-26	2	2	2
<b>Adjusted PAT after MI</b>	<b>3,582</b>	<b>4,747</b>	<b>5,539</b>	<b>6,980</b>
Growth (%)	-1.7	32.5	16.7	26.0
<b>Net Margin (%)</b>	<b>11.0</b>	<b>13.1</b>	<b>13.3</b>	<b>14.6</b>
E/O items	-446	72	0	0
<b>Reported PAT</b>	<b>3,162</b>	<b>4,819</b>	<b>5,539</b>	<b>6,980</b>
Growth (%)	-5.3	52.4	14.9	26.0

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>2,677</b>	<b>3,642</b>	<b>5,957</b>	<b>7,323</b>
Depreciation	1,196	1,427	1,773	1,889
Interest Provided	1,984	1,838	710	558
Other Non-Cash items	421	71	2	2
Chg in working cap	-501	-2,752	766	-1,175
Tax paid	-391	-338	-624	-766
<b>Operating Cashflow</b>	<b>5,385</b>	<b>3,887</b>	<b>8,584</b>	<b>7,830</b>
Capital expenditure	-9,001	-2,166	-2,560	-2,060
<b>Free Cash Flow</b>	<b>-3,616</b>	<b>1,721</b>	<b>6,024</b>	<b>5,770</b>
Other income	730	1,356	264	518
Investments	374	-47	0	0
<b>Investing Cashflow</b>	<b>-7,897</b>	<b>-857</b>	<b>-2,295</b>	<b>-1,542</b>
Equity Capital Raised	26	-75	1	0
Loans Taken / (Repaid)	6,228	-441	-8,218	-1,015
Interest Paid	-1,984	-1,838	-710	-558
Dividend paid (incl tax)	-1,027	-1,316	-1,738	-1,986
Income from investments	0	0	0	0
Others	-337	106	0	0
<b>Financing Cashflow</b>	<b>2,906</b>	<b>-3,564</b>	<b>-10,665</b>	<b>-3,558</b>
<b>Net chg in cash</b>	<b>395</b>	<b>-534</b>	<b>-4,376</b>	<b>2,729</b>
Opening cash position	551	946	412	-3,965
<b>Closing cash position</b>	<b>946</b>	<b>412</b>	<b>-3,965</b>	<b>-1,236</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	418	418	418	418
Reserves & surplus	12,753	16,431	20,232	25,225
<b>Net worth</b>	<b>13,171</b>	<b>16,849</b>	<b>20,650</b>	<b>25,643</b>
<b>Minority Interest</b>	<b>75</b>	<b>0</b>	<b>1</b>	<b>1</b>
Secured Loans	8,862	7,665	480	480
Unsecured Loans	4,529	5,285	4,252	3,237
<b>Loan Funds</b>	<b>13,391</b>	<b>12,950</b>	<b>4,732</b>	<b>3,717</b>
Net deferred tax liability	726	568	628	725
<b>Total Liabilities</b>	<b>27,362</b>	<b>30,366</b>	<b>26,010</b>	<b>30,086</b>
Gross Block	26,059	27,537	30,537	32,537
Less: Depreciation	6,595	7,763	9,536	11,425
<b>Net block</b>	<b>19,464</b>	<b>19,774</b>	<b>21,001</b>	<b>21,112</b>
Capital work in progress	927	1,357	916	976
<b>Investment</b>	<b>278</b>	<b>326</b>	<b>326</b>	<b>326</b>
<b>Current Assets</b>	<b>14,908</b>	<b>16,221</b>	<b>13,955</b>	<b>19,340</b>
Inventories	4,834	4,695	6,239	7,164
Sundry debtors	4,866	4,530	6,258	7,185
Cash & bank balance	946	412	-3,965	-1,236
Loans & advances	4,262	6,585	5,423	6,227
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>8,215</b>	<b>7,310</b>	<b>10,188</b>	<b>11,668</b>
Current liabilities	6,307	5,745	8,064	9,218
Provisions	1,909	1,566	2,124	2,450
<b>Net current assets</b>	<b>6,692</b>	<b>8,911</b>	<b>3,768</b>	<b>7,672</b>
<b>Total Assets</b>	<b>27,362</b>	<b>30,366</b>	<b>26,010</b>	<b>30,086</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	19.4	18.8	20.2	20.4
Net Margin	11.0	13.1	13.3	14.6
ROCE	26.1	24.0	25.1	30.7
ROE	26.3	32.0	29.5	30.1
RoIC	25.0	20.7	23.9	27.5
<b>Per Share Data (Rs)</b>				
EPS	17.1	22.7	26.5	33.4
CEPS	25.0	29.2	35.0	42.4
BVPS	63.4	80.6	98.8	122.7
DPS	4.2	5.4	7.0	8.0
<b>Valuations (x)</b>				
PER	28.9	21.8	18.7	14.9
P/CEPS	19.8	17.0	14.2	11.7
P/BV	7.8	6.2	5.0	4.0
EV / Sales	3.6	3.2	2.6	2.2
EV / EBITDA	18.6	17.1	12.8	11.0
Dividend Yield (%)	0.8	1.1	1.4	1.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.9	0.7	0.4	0.2
Net Debt/EBIDTA	1.8	1.5	1.0	0.5
Working Cap Cycle (days)	35	48	49	62

**Recommendation History: Piramal Healthcare – PIHC IN**

Date	Reports	Reco	CMP	Target
11/08/2010	<a href="#">Piramal Healthcare Q1FY11 Result Update</a>	Hold	482	531
24/05/2010	<a href="#">Piramal Healthcare Event Update</a>	Hold	502	538
13/05/2010	<a href="#">Piramal Healthcare Q4FY10 Result Update</a>	Hold	490	492
22/01/2010	<a href="#">Piramal Healthcare Q3FY10 Result Update</a>	Hold	355	391

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
20/10/2010	<a href="#">Cadila Healthcare Q2FY11 Result Update</a>	Accumulate	680	720
18/10/2010	<a href="#">Unichem Labs Initiating Coverage</a>	Buy	530	670
08/10/2010	<a href="#">Pfizer Q3CY10 Result Update</a>	Hold	1,093	1,100
05/10/2010	<a href="#">Aurobindo Pharma Visit Note</a>	Buy	1,066	1,242

October 22, 2010

<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs 149	Rs 200
EPS change FY11E/12E (%)	17 / 4
Target Price change (%)	40
Nifty	6,066
Sensex	20,166

### Price Performance

(%)	1M	3M	6M	12M
Absolute	8	22	51	89
Rel. to Nifty	7	10	32	55

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Paper
Bloomberg	TNPN@IN
Equity Capital (Rs mn)	692
Face Value(Rs)	10
No of shares o/s (mn)	69
52 Week H/L	156/71
Market Cap (Rs bn/USD mn)	10/224
Daily Avg Volume (No of sh)	225346
Daily Avg Turnover (US\$m)	0.7

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	35.3	35.3	35.3
FII/NRI	5.3	11.0	10.5
Institutions	31.8	25.9	26.8
Private Corp	8.9	8.2	8.4
Public	18.7	19.6	19.1

Source: Capitaline

- **Q2FY11 results were in line with estimates with revenues of Rs 3 bn (+10%yoy) and APAT of Rs 408mn (+45%yoy)**
- **EBITDA margins improved by 70bps to 31.6% driven by 9% increase in realisation**
- **We upgrade our FY11E/FY12E EPS estimates by 17%/4% on account of higher realisations**
- **Upgrade price target by 40% based on 8x FY12 EPS. At target price stock trades at FY12 P/BV of 1.3x, EV/EBITDA 5.1x**

### Revenues increased by 10%, margins improved by 70 bps...

TNPL's Q2FY11 results were broadly inline with estimates. Revenues increased by 10% yoy to Rs 3.0 bn driven by 1.2% growth in volumes to 62 thousand mt and 9.1% growth in average realisations to Rs 44,791 / mt. EBITDA margins improved by 70 bps yoy and remained at high levels of 31.6% as the company benefited from low cost captive pulp resulting in EBITDA of Rs 940 mn, +12.2% yoy. EBITDA / mt improved to Rs 15,000 / mt from Rs 13,330 / mt previous year and Rs 14,110 / mt in Q1FY11.

### ...Resulting APAT grew by 45%

On account of revenues growth and margin expansion, APAT increased by 45% yoy to Rs 408 mn which was in line with our estimates of Rs 429 mn. The company reported EO income of Rs 123 mn (post tax) from sale of fuel and reported PAT of Rs 531 mn which increased by 88% yoy. AEPS for the quarter stood at Rs 5.9 as against Rs 4.1 previous year.

### Revised FY11E/FY12E estimates by 17%/4%

TNPL's commissioning of paper plant is delayed by one quarter however paper realisations are higher by ~5% than our previous estimates. Following which, we have revised our FY11E EPS estimates by 17% to Rs 22.3 (from Rs 19) and FY12E by 4% to Rs 24.8 (from Rs 23.9).

### Upgrade price target by 40%, maintain BUY

Given the strong H1FY11 results, ongoing capex, ability to captively source its pulp requirement and strong demand outlook for the paper industry, we are revising our target multiple on the company from earlier 6x to 8x. Simultaneously, we are revising our FY11E earnings estimates by 17% from earlier Rs 19 to Rs 22.3 and FY12E earnings estimates by 4% from Rs 23.9 to Rs 24.8. Subsequently, we are upgrading our target price by 40% from 143 to Rs 200 (based on 8x FY12E EPS) and maintain BUY. At our target price, the stock trades at P/BV of 1.3x, EV/EBITDA of 5.1x and EV/Sales of 1.8x. Valuations at current market price continue to remain attractive as the stock trades at PER of 6x FY12E, 1x P/BV, and offers attractive dividend yield of 3.4%.

### Financial Snapshot

Rs Mn

	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY2009	10,968	2,859	26.1	894	12.9	(20.9)	13.7	11.5	6.3	1.6
FY2010	10,687	3,067	28.7	1,200	17.3	34.2	16.3	8.6	7.6	1.3
FY2011E	12,327	3,986	32.3	1,549	22.3	29.1	17.9	6.7	6.1	1.1
FY2012E	15,555	5,456	35.1	1,720	24.8	11.1	17.4	6.0	4.5	1.0

## Earnings revision table

Rs mn	FY11E			FY12E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	12,590	12,327	-2.1%	17,056	15,555	-8.8%
EBITDA	3,981	3,986	0.1%	5,159	5,456	5.8%
EBITDA %	31.6%	32.3%	71	30.2%	35.1%	483
PAT	1,319	1,549	17.4%	1,659	1,720	3.7%
EPS	19.0	22.3	17.5%	23.9	24.8	3.7%

## Quarterly and Annual Results

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>2,709</b>	<b>2,587</b>	<b>3,556</b>	<b>2,972</b>	<b>2,972</b>	9.7	(0.0)	<b>5,944</b>	<b>4,543</b>	<b>30.8</b>
<b>Expenditure</b>	<b>1,872</b>	<b>1,765</b>	<b>2,646</b>	<b>2,074</b>	<b>2,032</b>	<b>8.6</b>	<b>(2.0)</b>	<b>4,106</b>	<b>3,195</b>	<b>28.5</b>
<i>as % of sales</i>	<i>69.1</i>	<i>68.2</i>	<i>74.4</i>	<i>69.8</i>	<i>68.4</i>			<i>69.1</i>	<i>70.3</i>	
Consumption of RM	706	529	1,227	609	810	14.8	32.9	1,419	492	188.7
<i>as % of sales</i>	<i>26.0</i>	<i>20.4</i>	<i>34.5</i>	<i>20.5</i>	<i>27.3</i>			<i>23.9</i>	<i>10.8</i>	
Power & Fuel	490	478	643	703	477	(2.7)	(32.2)	1,179	1,328	(11.2)
<i>as % of sales</i>	<i>18.1</i>	<i>18.5</i>	<i>18.1</i>	<i>23.6</i>	<i>16.0</i>			<i>19.8</i>	<i>29.2</i>	
Employee Cost	213	218	228	271	285	34.0	5.0	556	429	29.6
<i>as % of sales</i>	<i>7.8</i>	<i>8.4</i>	<i>6.4</i>	<i>9.1</i>	<i>9.6</i>			<i>9.4</i>	<i>9.4</i>	
Other expenditure	464	539	548	490	461	(0.7)	(6.0)	951	946	0.5
<i>as % of sales</i>	<i>17.1</i>	<i>20.8</i>	<i>15.4</i>	<i>16.5</i>	<i>15.5</i>			<i>16.0</i>	<i>20.8</i>	
<b>EBITDA</b>	<b>837</b>	<b>823</b>	<b>911</b>	<b>899</b>	<b>940</b>	<b>12.2</b>	<b>4.6</b>	<b>1,838</b>	<b>1,348</b>	<b>36.4</b>
Depreciation	285	281	321	273	291	1.8	6.6	563	554	1.7
<b>EBIT</b>	<b>552</b>	<b>542</b>	<b>589</b>	<b>626</b>	<b>649</b>	<b>17.6</b>	<b>3.7</b>	<b>1,275</b>	<b>795</b>	<b>60.5</b>
Other Income	11	3	33	4	3	(68.8)	(8.1)	7	14	(49.3)
Interest	148	129	63	78	66	(55.4)	(15.5)	144	284	(49.3)
<b>PBT</b>	<b>415</b>	<b>415</b>	<b>560</b>	<b>552</b>	<b>587</b>	<b>41.3</b>	<b>6.3</b>	<b>1,138</b>	<b>524</b>	<b>117.2</b>
Total Tax	133	141	(12)	153	179	34.3	16.8	332	171	94.7
<b>Adjusted PAT</b>	<b>282</b>	<b>274</b>	<b>572</b>	<b>399</b>	<b>408</b>	<b>44.6</b>	<b>2.3</b>	<b>807</b>	<b>354</b>	<b>128.1</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>282</b>	<b>274</b>	<b>572</b>	<b>399</b>	<b>408</b>	<b>44.6</b>	<b>2.3</b>	<b>807</b>	<b>354</b>	<b>128.1</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>36</b>	<b>10</b>	<b>0</b>	<b>123</b>			<b>123</b>	<b>0</b>	
<b>Reported PAT</b>	<b>282</b>	<b>310</b>	<b>582</b>	<b>399</b>	<b>531</b>	<b>88.4</b>	<b>33.2</b>	<b>930</b>	<b>354</b>	<b>163.0</b>
<b>Reported EPS</b>	<b>4.1</b>	<b>4.5</b>	<b>8.4</b>	<b>5.7</b>	<b>-</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>11.6</b>	<b>5.1</b>	<b>128.1</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	30.9	31.8	25.6	30.2	31.6	71	138	30.9	29.7	4.2
EBIT	20.4	20.9	16.6	21.1	21.8	147	78	21.5	17.5	22.7
EBT	14.9	16.0	14.8	18.4	19.6	470	118	19.0	11.2	69.5
PAT	10.4	10.6	16.1	13.4	13.7	331	31	13.6	7.8	74.3
Effective Tax rate	32.1	34.0	(2.2)	27.7	30.5	(158)	274	29.2	32.5	(10.4)

Source: Company, Emkay Research

Segmental Analysis					Rs Mn
Y/E Mar	Q2FY10	Q1FY11	Q2FY11A	% YoY	% QoQ
<b>Revenues</b>					
Paper	2534	2803	2797	10.4	(0.2)
Energy	402	419	469	16.6	11.8
<b>Total</b>	<b>2936</b>	<b>3222</b>	<b>3265</b>	<b>11.2</b>	<b>1.4</b>
Inter segment	400	321	371	(7.4)	15.6
<b>Total net sales</b>	<b>2536</b>	<b>2901</b>	<b>2895</b>	<b>14.2</b>	<b>(0.2)</b>
<b>Segment Results</b>					
Paper	538	614	644	19.8	5.0
Energy	58	52	53	(8.8)	1.5
<b>Total</b>	<b>595</b>	<b>665</b>	<b>697</b>	<b>17.0</b>	<b>4.7</b>
- int	148	78	0	(100.0)	(100.0)
- Other unallocable exp	33	36	0	(100.0)	(100.0)
<b>Total PBT</b>	<b>415</b>	<b>551</b>	<b>697</b>	<b>67.8</b>	<b>26.5</b>
<b>EBIT %</b>				<b>(chng bps)</b>	<b>(chng bps)</b>
Paper	21.2	21.9	23.0	180	113
Energy	14.4	12.4	11.2	(314)	(114)
<b>Total</b>	<b>20.3</b>	<b>20.7</b>	<b>21.3</b>	<b>105</b>	<b>68</b>

Source: Company, Emkay Research



## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>10,968</b>	<b>10,687</b>	<b>12,327</b>	<b>15,555</b>
Growth (%)	16.9	(2.6)	15.3	26.2
<b>Expenditure</b>	<b>8,109</b>	<b>7,620</b>	<b>8,341</b>	<b>10,099</b>
Materials Consumed	2,401	2,248	2,712	3,267
Power & Fuel	2,963	2,449	2,650	3,267
Employee Cost	814	875	1,048	1,322
Other Exp	1,931	2,049	1,931	2,244
<b>EBITDA</b>	<b>2,859</b>	<b>3,067</b>	<b>3,986</b>	<b>5,456</b>
Growth (%)	23.3	7.3	30.0	36.9
<b>EBITDA margin (%)</b>	<b>26.1</b>	<b>28.7</b>	<b>32.3</b>	<b>35.1</b>
Depreciation	1,008	1,156	1,313	1,920
<b>EBIT</b>	<b>1,851</b>	<b>1,911</b>	<b>2,673</b>	<b>3,536</b>
<b>EBIT margin (%)</b>	<b>16.9</b>	<b>17.9</b>	<b>21.7</b>	<b>22.7</b>
Other Income	35	50	13	12
Interest expenses	493	462	487	1,090
<b>PBT</b>	<b>1,393</b>	<b>1,499</b>	<b>2,199</b>	<b>2,458</b>
<b>Tax</b>	<b>500</b>	<b>299</b>	<b>650</b>	<b>737</b>
Effective tax rate (%)	35.9	20.0	29.6	30.0
<b>Adjusted PAT</b>	<b>894</b>	<b>1,200</b>	<b>1,549</b>	<b>1,720</b>
Growth (%)	(20.9)	34.2	29.1	11.1
<b>Net Margin (%)</b>	<b>8.1</b>	<b>11.2</b>	<b>12.6</b>	<b>11.1</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>894</b>	<b>1,200</b>	<b>1,549</b>	<b>1,720</b>
E/O items	180	61	-	-
<b>Reported PAT</b>	<b>1,074</b>	<b>1,261</b>	<b>1,549</b>	<b>1,720</b>
<b>PAT after MI</b>	<b>894</b>	<b>1,200</b>	<b>1,549</b>	<b>1,720</b>
Growth (%)	(20.9)	34.2	29.1	11.1

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>1,358</b>	<b>1,449</b>	<b>2,186</b>	<b>2,446</b>
Depreciation	1,008	1,156	1,313	1,920
Interest Provided	493	462	487	1,090
Other Non-Cash items	99	336	-	-
Chg in working cap	(1,508)	(659)	(320)	(688)
Tax paid	-500	-299	-650	-737
<b>Operating Cashflow</b>	<b>951</b>	<b>2,444</b>	<b>3,016</b>	<b>4,030</b>
Capital expenditure	(2,883)	(7,114)	(3,000)	(2,500)
<b>Free Cash Flow</b>	<b>-1,932</b>	<b>-4,670</b>	<b>16</b>	<b>1,530</b>
Other income	35	50	13	12
Investments	160	(103)	-	-
<b>Investing Cashflow</b>	<b>195</b>	<b>-53</b>	<b>13</b>	<b>12</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	2,540	5,565	1,000	-
Interest Paid	(493)	(462)	(487)	(1,090)
Dividend paid (incl tax)	(364)	(363)	(365)	(406)
Income from investments	-	-	-	-
Others	-	-	-	-
<b>Financing Cashflow</b>	<b>1,683</b>	<b>4,740</b>	<b>148</b>	<b>-1,496</b>
<b>Net chg in cash</b>	<b>-54</b>	<b>17</b>	<b>177</b>	<b>46</b>
Opening cash position	230	177	194	371
<b>Closing cash position</b>	<b>177</b>	<b>194</b>	<b>371</b>	<b>417</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	694	694	694	694
Reserves & surplus	5,949	7,351	8,535	9,849
<b>Net worth</b>	<b>6,643</b>	<b>8,045</b>	<b>9,229</b>	<b>10,543</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	6,850	10,549	10,549	10,549
Unsecured Loans	1,214	3,080	4,080	4,080
<b>Loan Funds</b>	<b>8,065</b>	<b>13,629</b>	<b>14,629</b>	<b>14,629</b>
Net deferred tax liabilities	2,199	2,101	2,101	2,101
<b>Total Liabilities</b>	<b>16,906</b>	<b>23,775</b>	<b>25,959</b>	<b>27,274</b>
Gross Block	21,822	23,084	31,609	34,609
Less: Depreciation	9,559	10,547	11,860	13,780
<b>Net block</b>	<b>12,263</b>	<b>12,537</b>	<b>19,749</b>	<b>20,829</b>
Capital work in progress	2,627	8,525	3,000	2,500
<b>Investments</b>	<b>11</b>	<b>114</b>	<b>114</b>	<b>114</b>
<b>Current Assets</b>	<b>5,047</b>	<b>5,940</b>	<b>6,889</b>	<b>8,331</b>
Inventories	1,914	1,691	2,026	2,557
Sundry debtors	1,697	1,996	2,026	2,557
Cash & bank balance	177	194	371	417
Loans & advances	1,259	2,059	2,465	2,800
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>3,042</b>	<b>3,341</b>	<b>3,793</b>	<b>4,500</b>
Current liabilities	2,033	2,250	2,702	3,409
Provisions	1,009	1,091	1,091	1,091
<b>Net current assets</b>	<b>2,005</b>	<b>2,599</b>	<b>3,096</b>	<b>3,830</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>16,906</b>	<b>23,775</b>	<b>25,959</b>	<b>27,274</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	26.1	28.7	32.3	35.1
Net Margin	8.1	11.2	12.6	11.1
ROCE	12.3	9.6	10.8	13.3
ROE	13.7	16.3	17.9	17.4
RoIC	15.1	13.2	14.3	15.1
<b>Per Share Data (Rs)</b>				
EPS	12.9	17.3	22.3	24.8
CEPS	27.4	33.9	41.3	52.5
BVPS	95.8	116.0	133.0	152.0
DPS	4.5	4.5	4.5	5.0
<b>Valuations (x)</b>				
PER	11.5	8.6	6.7	6.0
P/CEPS	5.4	4.4	3.6	2.8
P/BV	1.6	1.3	1.1	1.0
EV / Sales	1.7	2.2	2.0	1.6
EV / EBITDA	6.3	7.6	6.1	4.5
Dividend Yield (%)	3.0	3.0	3.0	3.4
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.2	1.7	1.5	1.3
Net Debt/EBITDA	2.8	4.3	3.5	2.6
Working Cap Cycle (days)	53	49	40	40

**Recommendation History: Tamilnadu Newsprint – TNNPL IN**

Date	Reports	Reco	CMP	Target
29/07/2010	<a href="#">Tamilnadu Newsprint Q1FY11 Result Update</a>	Buy	122	143
27/05/2010	<a href="#">Tamilnadu Newsprint Q4FY10 Result Update</a>	Buy	102	143
04/02/2010	<a href="#">Tamilnadu Newsprint Q3FY10 Result Update</a>	Hold	84	84
05/11/2009	<a href="#">Tamilnadu Newsprint Q2FY10 Result Update</a>	Hold	72	84

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
22/10/2010	<a href="#">GSFC Q2FY11 Result Update</a>	Buy	370	530
21/10/2010	<a href="#">Coromandel Intl Q2FY11 Result Update</a>	Buy	674	870
21/10/2010	<a href="#">GNFC Q2FY11 Result Update</a>	Buy	127	157
15/10/2010	<a href="#">Rallis India Q2FY11 Result Update</a>	Buy	1,416	1,800

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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