MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

APRIL 23, 2009

Economy News

- The Reserve Bank of India may be near the end of a rate-cutting spree, but commercial bank lending rates look set to fall further as pressure grows to respond to abundant liquidity and near-zero inflation to stimulate credit and shore up economic growth. (FE)
- Office space across the top cities in India got even cheaper this quarter as supply far outstripped demand and rentals declined. According to a new Cushman & Wakefield Office report, rentals in NCR saw a significant decline, the worst hit being Gurgaon and the central business district of CP, which saw decline of 19% and 17%, respectively. (ET)
- The board of approval (BoA) for special economic zones (SEZs) has entrusted its chairman, commerce secretary GK Pillai to give more time to cash-strapped developers of SEZ projects beyond the three-year deadline to start work so that their projects do not lapse. (ET)
- The Centre has flooded the market with so much sugar that the next Government may have very little stocks to play with. While the policy of aggressively releasing sugar into the market has helped check price rise in this politically sensitive commodity, it could prove to be only a temporary sweetener and there may not be enough stocks left for the coming festival season. (BL)

Corporate News

- **Gail India** has proposed to invest Rs. 80.bn in laying a gas pipeline from Vijaywada in Andhra Pradesh to Vijaipur in Madhya Pradesh for transporting gas from the east coast to consumers in central and north India. (BL)
- **Shree Cement** will invest Rs 10.bn over the next 12 months to expand its cement with in two grinding units and two power plants of 50MW capacity at its Rajasthan and Uttaranchal facility at Bangur city. (BS)
- Credit rating agency ICRA has assigned the highest credit rating to the Rs.3.5bn long-term debt programme of **Tata Sons,** the Tata Group's holding company. (BL)
- Delhi-based **Amtek Auto** group, promoted by Arvind Dham, is in advanced negotiations to acquire OCL Iron and Steel Ltd (OISL) controlled by Raghu Hari Dalmia. The transaction would value the company at around Rs.3.5 bn. (BS)
- **GSPC** now estimates to limit the development cost of its KG field to a little lower than $1 billion. The company previously expected costs to hover between $1-1.5 billion. GSPC expects to submit the development plan before the Directorate General of Hydrocarbons (DGH) next month. (BL)

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

Equity

	22 Apr 09	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	10,818	(0.7)	14.8	24.7
NIFTY Index	3,330	(1.0)	13.3	24.3
BANKEX Index	5,274	(0.8)	21.9	17.6
BSET Index	2,423	0.1	6.7	17.1
BSETCG INDEX	7,573	(2.8)	27.5	26.3
BSEOIL INDEX	7,823	(0.4)	15.5	37.8
CNXMcap Index	3,845	(1.1)	16.6	15.7
BSESMCAP INDEX	3,963	(1.6)	24.7	21.7
World Indices				
Dow Jones	7,887	(1.0)	1.4	(2.4)
Nasdaq	1,646	0.1	5.8	11.4
FTSE	4,031	1.1	2.0	(0.5)
Nikkei	8,727	0.2	5.7	12.2
Hangseng	14,878	(2.7)	11.3	19.0

Value traded (Rs cr)

	22 Apr 09	% Chg - Day
Cash BSE	4,890	(1.7)
Cash NSE	13,577	(10.4)
Derivatives	70,645.9	(2.9)

Net inflows (Rs cr)

	21 Apr 09	% Chg	MTD	YTD
FII	(63)	(119)	4,547	(2,125)
Mutual Fund (17 Apr)	422	(152)	128	(513)

FII open interest (Rs cr)

	21 Apr 09	% Chg
FII Index Futures	11,861	(2.4)
FII Index Options	32,043	1.1
FII Stock Futures	17,246	(0.8)
FII Stock Options	1,281	1.3

Advances / Declines (BSE)

22 Apr 09	A	B	S	Total	% total
Advances	51	708	162	921	41
Declines	148	890	226	1,264	56
Unchanged	-	52	23	75	3

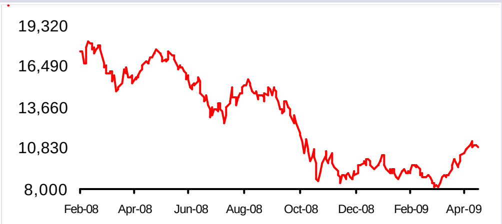
Commodity

	22 Apr 09	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	48.5	(0.8)	(9.9)	4.3
Gold (US$/OZ)	889.8	0.7	(4.9)	(0.7)
Silver (US$/OZ)	12.3	2.2	(9.2)	3.8

Debt / forex market

	22 Apr 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.32	6.46	6.90	5.76
Re/US$	50.34	50.45	50.45	49.16

Sensex



RESULT UPDATE

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HCL TECHNOLOGIES LTD (HCLT)

PRICE: RS.126 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.149 **FY09E P/E: 7.7X**

3QFY09 results below expectations, mainly due to higher-than-expected forex loss; marginally lower EBIDTA as compared to expectations. Organic IT services revenues de-grew QoQ; average realizations down by 2.2% in core IT business. Existing clients continue to be the concern areas; one large account contracted QoQ. However, new wins making up for these. PAT before forex losses down 15% post full-quarter consolidation of Axon. Management optimistic on more outsourcing from Tier II companies and those not efficient, the area of its focus. We maintain cautious stance on sector in the backdrop of uncertain economic scenario, globally. Expect stock performance to be subdued post the recent run-up due to the above factors and despite cheap valuations. Maintain Accumulate despite decent upside and undemanding valuations with a price target of Rs.149 (v/s Rs.171 earlier).

Summary table

(Rs mn)	FY08	FY09E*	FY10E
Revenues	76,394	105,503	114,372
Growth (%)	26.6	38.1	8.4
EBITDA	16,960	23,026	24,325
EBITDA margin (%)	22.2	21.8	21.3
Net profit	10,372	11,610	11,659
Net cash (debt)	3,839	-29,179	-24,500
EPS (Rs)	15.3	16.8	16.6
Growth (%)	-22.1	9.7	-1.5
CEPS	19.8	23.8	24.8
DPS (Rs)	8.0	7.0	8.0
ROE (%)	20.3	26.7	21.9
ROCE (%)	24.5	26.9	20.7
M Cap/Sales (x)	1.1	0.8	0.8
EV/EBITDA (x)	5.0	4.8	4.7
P/E (x)	8.4	7.6	7.7
P/Cash Earnings	6.5	5.4	5.2
P/BV (x)	1.7	1.4	1.2

Source: Company, Kotak Securities - Private Client Research;
** - Axon financials consolidated WEF 16/12/08*

3QFY09 results

(Rs mn)	3QFY09	2QFY09^	QoQ (%)	3QFY08	YoY (%)
Turnover	**28,614.9**	**24,909.0**	**14.9**	**19,448.4**	**47.1**
Expenditure	22,512.0	19,307.0		15,118.0	
Operating Profit	**6,102.9**	**5,602.0**	**8.9**	**4,330.4**	**40.9**
Depreciation	1,417.0	971.0		773.0	
Gross Profit	4,685.9	4,631.0	1.2	3,557.4	31.7
Interest	-	17.0		-	
Other Income	(2,040.0)	(196.0)		228.0	
PBT	**2,645.9**	**4,418.0**	**(40.1)**	**3,785.4**	**(30.1)**
Tax	485.0	684.0		368.0	
PAT	**2,160.9**	**3,734.0**	**(42.1)**	**3,417.4**	**(36.8)**
Share of income	17.0	-		-	
ESOP charge	183.0	186.0		219.0	
Minority interest	-	-		(7.0)	
Adj. PAT	**1,994.9**	**3,548.0**	**(43.8)**	**3,205.4**	**(37.8)**
Shares (mns)	677.0	690.5		677.0	
EPS (Rs) *	**5.1**	**6.0**		**4.7**	
Margins (%)					
OPM	21.3	22.5		22.3	
GPM	16.4	18.6		18.3	
NPM	7.6	15.0		17.6	

*Source : Company; * - on diluted equity; ^ - Included Axon financials WEF 16/12/08*

Revenues came in below estimates

- Revenues for the quarter were 15% higher QoQ in INR terms. This was on the back of Axon, which was consolidated for the full quarter as against only 15 days in the previous quarter.
- Excluding Axon, revenues for the quarter de-grew on a sequential basis, we believe. In USD terms, revenues were lower by about 4.5%, in our opinion.
- Excluding Enterprise Application Services (EAS) into which Axon was consolidated, USD revenues fell by about 3.6%. This was due to IT services (2/3rd) and BPO (1/3rd).
- According to the management, in constant currency terms, ex-EAS revenues fell by 2% of which, 0.7% was contributed by volumes.

IT services business revenues down

- We believe that, excluding Axon, revenues in the core IT services business fell by 3.4% on a sequential basis.
- This came on the back of lower pricing (2.2% impact) and exchange fluctuations (1% impact). Volumes were down marginally QoQ.
- Engineering, R&D services and custom application businesses disappointed with flat growth QoQ in INR terms.
- In terms of verticals, financial services and telecom verticals witnessed pressure with INR revenues falling by 2% and 12% QoQ, respectively.

BPO revenues fell QoQ, while IM revenues were almost flat

- BPO revenues disappointed and fell by 10.5% sequentially in USD terms.
- Business was impacted by the company's continued focus on reducing the non-core voice business. Organic voice-based revenues fell to 6.5% of the overall BPO revenues. Including the acquisition, these were 10% of BPO revenues.
- On the other hand, platform-based revenues rose to 3.5% of BPO revenues.
- Infrastructure services saw revenues grow by 1% QoQ in USD terms.

Deal flow continued, but existing clients are a concern

- The company has won 11 deals during the quarter including names like Xerox, UTi, Nasdaq, OMX, Shoprite and Moduslink.
- The company also won large deals worth $250mn during the quarter in addition to $1bn in 2QFY09 and $270mn in 1QFY09. Thus, during the first nine months, the company has won large deals worth $1.5bn.
- HCLT has been focusing on the Tier II accounts and also first time outsourcers and may face some client specific issues in the back drop of the current turmoil in developed markets.
- On the other hand, existing clients continued to be an area of concern with one large account contracting during the quarter and impacting revenues by 2.5% in constant currency terms.
- According to the management, the existing clients continue to be an area of concern with visibility lower on that front.
- The visibility is lower because of the issues faced by the clients with a majority of the clients facing negative top-line themselves, according to the management.

Macro scene challenging, company's focus client set to likely increase outsourcing

- The management continued to indicate likely pressure on budgets and delays in decision- making, from most existing and target clients.
- In fact, the deal making during the quarter fell by about 40% on a QoQ basis for the industry as a whole, we believe.
- The companies which are more vulnerable are the ones which are facing lower profits and are already efficient. They are the ones which have been putting more pressure on HCLT in terms of pricing pressures and reduced volumes.
- On the other hand, companies which are still not efficient continue to look for alternatives to become more efficient. These set of companies are the ones which HCLT is focusing on and are more likely to increase out-sourcing and off-shoring.
- According to the management, these companies are providing more business in the EAS and total outsourcing spaces.

Employee additions below estimates

- The total man-power reduced by about 992 during the quarter to 54026 employees.
- Employee numbers in the core IT services business and BPO business continued to fall on a sequential basis. While IT services saw employees fall by 396, BPO witnessed reduction of 1324 employees.
- The company cited just-in-time hiring as the reason for employee reductions despite good revenue visibility.
- However, the second consecutive quarter of reduction in number of employees is of concern to us and indicates lower revenue visibility in the near term in these businesses.
- Infrastructure Services added more than 700 employees to take the total strength to9 9698.

Margins lower

- EBIDTA margins were lower by about 120bps pre-dominantly because of a fall in the profitability of the core IT services business.
- We believe that, margins in the core IT services were impacted by the Axon consolidation which, in our opinion, operates at relatively lower margins.
- Even excluding Axon, margins in the IT services business were lower, in our opinion, because of a fall in revenues and pressure on billing rates.
- BPO and IM businesses reported higher margins as these businesses controlled costs and reduced employee strength (BPO). The rupee depreciation also helped improve margins.

Forex loss

- The company reported a significant forex loss of about Rs.2.01bn (Rs.1.41bn in 2QFY09) during the quarter, which was beyond our estimates. This was the main reason for the variance between our profit estimates and the actual profits.
- The company continued to incur forex loss on its hedges. The MTM on cash-flow hedges was about Rs.1.25bn while other forex losses on translation and hedging were at Rs.761mn.
- As at the quarter end, the company had total hedges of $1.3bn ($1.55bn), covering the next seven quarters. Of these, about $1.08bn ($1.34bn in 2QFY09) were cash-flow hedges which led to a MTM loss during the quarter.
- The extensive hedges taken by the company has not allowed and will not allow the company to benefit from any kind of rupee depreciation over the next seven quarters.

Future prospects

- We have suitably modified our FY09 and FY10 earnings estimates to accommodate the 3QFY09 numbers and our changed currency assumptions. We have also brought in more caution on the demand side.
- We expect the company to report an EPS of Rs.16.8 (Rs.20.5) in FY09 and maintain the same in FY10 at Rs.16.6 (Rs.20.8 earlier).
- This is after assuming a further equity dilution in FY09 due to ESOPs.
- We have assumed the rupee to appreciate to Rs.46 per USD by 4QFY10.

Valuations

We maintain ACCUMULATE on HCLT with a revised price target of Rs.149 (Rs/171 earlier)

- We arrive at a price target of Rs.149 (Rs.171 earlier) for HCL Tech based on a suitable discount to Infosys.
- We believe the discount is justified because of the differences in growth rates and margins.
- However, the disclosures made by HCLT since 2QFY09 have been significantly higher as compared to previous quarters.
- We rate the stock an **ACCUMULATE.** We prefer Infosys over HCLT.

Concerns

- A prolonged recession in major user economies may impact our projections.
- A sharp acceleration in the rupee from our assumed levels may impact our earnings estimates for the company.

RESULT UPDATE

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WIPRO TECHNOLOGIES

PRICE: RS.281 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.305 **FY10E P/E: 11X**

- **Wipro's Q4FY09: IT Services revenues meet guidance while being down QoQ; margins in IT services grown QoQ given better utilization and higher offshore.**
- **Consolidated revenues and PAT come in below estimates, both down QoQ. Q1FY10E guidance and management commentary suggests likely relative comfort with respect to demand.**
- **Impressive stock run (c30% since last update) may have however priced in business outlook. Expect flattish FY10E EPS; better than other peers.**
- **Maintain ACCUMULATE rating with a price target of Rs.305 (Rs.280); expect reasonable upsides only on a meaningful revival in the demand environment. Sustained better growth and margin management may warrant a lower discount to Infosys; current valuations work out to a 15% discount at target price.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	199,925	256,383	265,833
Growth (%)	34.2	28.2	3.7
EBITDA	40,548	50,122	51,949
EBITDA margin (%)	20.3	19.5	19.5
Net profit	32,523	37,707	38,556
Net debt	5,580	-30,436	-60,353
EPS (Rs)	22.4	25.9	26.4
Growth (%)	13.9	15.6	1.8
CEPS	26.1	30.5	31.4
DPS (Rs)	6.0	6.5	7.0
ROE (%)	30.8	31.4	28.0
ROCE (%)	28.3	28.7	28.7
EV/Sales (x)	2.1	1.5	1.3
EV/EBITDA (x)	10.3	7.6	6.8
P/E (x)	12.5	10.8	10.7
P/Cash Earnings	10.8	9.2	9.0
P/BV (x)	3.5	3.3	2.7

Source: Company, Kotak Securities - Private Client Research

Result Highlights

- Wipro's results for 4QFY09 were below estimates in terms of reported revenue and net profits. Consolidated revenues were down 1% QoQ while profits declined 9% QoQ. Consolidated EBITDA margins hold given better margin gain in IT services despite a decline in revenues.
- Global IT services revenues meet guidance of $1.04bn; in constant currency terms it is marginally higher than the guidance.
- In USD terms there was a 4.9% sequential decline in IT services revenues while they grew 1.4% YoY.
- EBIDTA margins in the Global IT business grew on a QoQ basis, aided by higher utilization, more offshore and also a favorable INR. At the overall company level, margins were down marginally QoQ at 19.25%.
- Management expects current uncertainties relating to budget allocations to keep near-term growth muted; its guidance of $1.01-1.02bn revenues (incl. the acquired CTS business) for Q1FY10E points to QoQ decline.
- We nevertheless note that quantum of decline is lower than other peers that likely indicates Wipro's relative optimism towards client spends and its own account management. The management too has struck a positive note with respect to the demand environment picking up towards 2HFY10 and indicating that client spend looks better than Q3.
- We modify estimates marginally to account for Q4 results and accompanying management commentary. We expect an EPS of about Rs.26.4 (Rs.27 earlier) in FY10E. In FY10E, we expect the challenging macro to adversely impact IT spends and are expecting a weak revenue growth of 3% whereas EPS is estimated to grow by c2%.
- We value the stock using a DCF-based methodology - adjusted for the Q4'09 results and expected better growth rates. Our target price stands at Rs.300-given assumed quicker recovery in growth rates post FY10E.
- Maintain ACCUMULATE rating based on relatively inexpensive valuations, our target price works out to an exit multiple of 11.5x FY10E EPS. Impressive stock run (c30% since last update) may have however priced in business outlook.
- Expect reasonable upsides only on a meaningful revival in the demand environment. Sustained better growth and margin management may warrant a lower discount to Infosys; current valuations work out to a 15% discount at target price.

4QFY09 results

(Rs mn)	4QFY09	3QFY09	QoQ %	4QFY08	YoY %
Turnover	**65,460**	**66,183**	**-1.1**	**57,003**	**14.8**
Expenditure	52,859	53,179		45,562	
EBDITA	**12,601**	**13,004**	**-3.1**	**11,441**	**10.1**
Depreciation	1,753	1,753		1,508	
EBIT	**10,848**	**11,251**	**-3.6**	**9,933**	**9.2**
Interest	379	-295		-182	
PBT	**10,469**	**11,546**	**-9.3**	**10,115**	**3.5**
Tax	1,382	1,605		1,399	
PAT	**9,087**	**9,941**	**-8.6**	**8,716**	**4.3**
Share of profit	35	114		100	
Minority interest	-49	-16		-16	
Adjusted PAT	9,073	10,039	-9.6	8,800	3.1
EPS (Rs)	**6.19**	**6.85**		**6.03**	
Margins (%)					
EBIDTA	19.2	19.6		20.1	
EBIT	16.6	17.0		17.4	
Net Profit	13.9	15.0		15.3	

Source: Company

Revenues- mixed bag; while overall numbers are marginally below estimated, IT services delivers on guided lines

IT Services and Products

- Wipro's IT Services business has grown 31% YoY for FY09, while in Q4 the IT services business grew 20% YoY. Revenue growth was also aided by a favorable INR.
- According to the company, pricing also saw a marginal up tick (1%) in constant currency terms given some initial benefits of the non-linear approach Wipro has been pursuing over the last few quarters. However, in reported terms, we note that, onsite and offshore pricing remained broadly flattish, excepting a 1% growth onsite.
- Going forward, the company is cautious on the pricing environment given the uncertain macro environment and client turbulence. The company has also increased quantum of fixed price work and also offshore content, to an extent.
- We note that, the significant difference in Wipro's outlook may be on account of better prospects of its BFSI clientele. It de-grew in line with overall revenue mix following up on the 6% QoQ growth in the last quarter.
- Within verticals on a like to like basis the Retail and TMT displayed higher-than-company growth rate of 1% and 4% respectively.
- Given the deteriorating macro, the Financial Services vertical carries the most concerns in the backdrop of the USA economic turmoil.
- Within the Services composition as provided by the company, BPO and Package Implementation grew at healthy rates, with 4% and 6% growth QoQ.
- ADM, which contributed close to 41% of revenues, remained soft declining c8% QoQ.
- Importantly in client metrics the top client has de-grown 3% QoQ while the Top 5 also de-grew at 3% QoQ.

Wipro Consumer care

- Within the non-IT businesses, the revenues in Wipro Consumer Care and Lightning revenues grew at about 32% YoY to Rs.19.27bn. The margins improved QoQ to 15.2% from 13.7%.

Employee additions

- Wipro increased headcount by 845 on an overall basis during the quarter. While in Global IT the headcount went up by 591, the BPO head count rose by 1246 for the quarter.

EBIT margins- marginally lower overall. Grow in IT services given benefits of utilization, pricing, offshore etc.

- The EBIT margins in 4QFY09 were lower by about 40bps to 19.25%. In IT services margins grew 50bps QoQ; Wipro has utilized the levers of favorable INR, off shoring and higher productivity in FP projects to build margins, which grew at a lower clip than peers.
- We note that the company has more than $1.3bn of hedges (down $500mn), contracted around levels of INR39.5-40 levels as at 4QFY09 end. This is as compared to $2.1bn worth of hedges as at Q2FY09 end and lower than the $2.6bn it had at end of 1QFY09.

Future prospects - macro remains hazy; we maintain caution despite sanguine management commentary

We maintain ACCUMULATE rating on Wipro Technologies with a revosed price target of Rs.305 (Rs.280 earlier)

- We have made suitable changes in our earnings estimates to take into account the 4QFY09 results, uncertain demand environment and management commentary.
- In FY10E we expect the challenging macro to adversely impact IT spends and are expecting a weak revenue growth of 3% whereas EPS is estimated to grow by c2% to Rs.26.4.
- A prolonged recession in major user economies and/or a sharp acceleration in INR v/s major currencies will adversely impact estimates.

RESULT UPDATE

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ACC

PRICE: RS.646 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.605 **CY09E P/E: 10x**

Result Highlights

- **Revenues for the Q1CY09 grew by 16% as compared to Q1CY08 led by 6.1% improvement in dispatches and 9.6% improvement in realizations as against same period last year.**
- **Operating margins for ACC in Q1CY09 stood at 31.5%, much ahead of our expectations. This was primarily due to improvement in realizations as well as reduction in the power and fuel and other expenditure.**
- **Net profits grew by 13% in Q1CY09 vis-à-vis Q1CY08 led by steep improvement in operating margins. This was ahead of our expectations.**

Summary table - Year end Mar

(Rs mn)	CY07	CY08	CY09E
Revenues	68,780	72,532	80,219
% change YoY	18.5	5.5	10.6
EBITDA	19,174	16,778	19,963
% change YoY	18.1	(12.5)	19.0
Other Income	1,288	2,887	1,300
Depreciation	3,051	2,942	3,508
EBIT	17,411	16,723	17,756
Net interest	239	400	229
Exceptional items	2,131	1,042	-
Profit before tax	19,303	17,366	17,527
% change YoY	19.2	(10)	0.9
Tax	4,917	5,238	5,433
as % of PBT	25.5	30.2	31.0
Profit after tax	14,386	12,128	12,093
% change YoY	0.2	(0.2)	(0.0)
Shares (m)	188	188	188
EPS (reported) (Rs)	76.6	64.6	64.4
P/E (x)	8.4	10.0	10.0
EV/EBITDA (x)	5.7	6.5	5.7
RoE (%)	39.4	26.7	22.7
RoCE (%)	40.9	33.9	31.1

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q1CY09	Q1CY08	YoY (%)
Net Sales	**20,551**	**17,663**	**16**
Expenditure	14,077	12,958	
Inc/Dec in trade	534	489	
RM	2,060	1,966	
As a % of net sales	10.0	11.1	
Staff cost	794	793	
As a % of net sales	3.9	4.5	
Power and fuel	4,114	3,287	
As a % of net sales	20.0	18.6	
Transportation & Handling	2,778	2,435	
As a % of net sales	13.5	13.8	
Purchase of traded cement	253	276	
As a % of net sales	1.2	1.6	
Other expenditure	3,545	3,712	
As a % of net sales	17.2	21.0	
Operating Profit	**6,474**	**4706**	**38**
Operating Profit Margin	31.5%	26.6%	
Depreciation	789	714	
EBIT	**5,685**	**3992**	**42**
Interest	368	56	
EBT (exc other income)	5,317	3936	
Other Income	508	656	
Extraordinary Items	0	365.7	
EBT	**5,825**	**4,958**	**17**
Tax	1,777	1383	
Tax Rate (%)	30.5%	27.9%	
PAT	**4,048**	**3575**	
Net Profit	**4,048**	**3575**	**13**
NPM (%)	19.7%	20.2%	
Equity Capital	1,878.8	1878.3	
EPS (Rs)	21.5	19.0	

Source: Company

- **We revise our assumptions for cement realizations upwards and reduce our power and fuel cost estimates going forward.**
- **At current price of Rs 646, stock is trading at 10x P/E multiples and 5.7x EV/EBITDA multiples on CY09 estimates. We believe that most of the positives related to near term price hikes have already been factored in the price. We continue to maintain our cautious stance on the sector due to expected increase in supplies as well as moderation in demand growth going forward. We value company using average of 10x P/E and 5x EV/EBITDA on CY09 estimates. We continue to maintain REDUCE recommendation for the stock with a revised price target of Rs 605 on CY09 estimates as against Rs 504 earlier. At our target price, stock would trade at 9.4x its estimated earnings for CY09 and 5.4x its EV/EBITDA multiples.**

Revenue growth led by better realizations as well as improvement in dispatches

- Revenues for the Q1CY09 grew by 16% as compared to Q1CY08 led by 6.1% improvement in dispatches and 9.6% improvement in realizations as against same period last year.
- Dispatches for the current quarter stood at 5.73MT and net realizations witnessed an increase and stood at Rs 3587 per tonne.
- Capacity expansion at various locations like Bargarh, Wadi and Chanda is progressing well. Bargarh facility along with a 30MW captive power plant is expected to get operational by mid-CY09 while expansion at Wadi facility will be commissioned in two phases - first phase getting operational by August, 2009 while second phase by March, 2010. Facility at Chanda is likely to commission in mid-2010.
- We revise our realization assumptions upwards to factor in the recent price hikes witnessed across regions. Our full year realization assumptions also take into account the reduction in cement prices post monsoons due to increased supplies as well as demand moderation. We maintain our volume assumptions of 22.6MT for CY09 and expect revenues to grow to Rs80.2bn for CY09 as against Rs 75bn estimated earlier.

Operating margins much ahead of our estimates

- Operating margins for Q1CY09 stood at 31.5%, translating into EBITDA/tonne of Rs 1130. This was much ahead of our estimates. Improvement in operating margins on a sequential basis has been primarily due to better realizations as well as savings in power and fuel cost and other expenditure.
- Decline in the power and fuel costs have been witnessed in the current quarter. This decline is primarily due to better operational efficiencies. Company's dependence on imported coal is only to the extent of 15% of coal requirements. Thus reduction in power and fuel costs is primarily due to higher operational efficiencies.
- Other expenditure has witnessed a steep decline of 10% on yearly basis and decline of 24% on sequential basis due to reduction in consulting charges as well as overall cost cutting efforts of the company..
- Based on upward revision in cement realizations as well as reduction in power and fuel costs, we expect operating margins to be around 25% for CY09 as against 22% estimated earlier.

Per tonne analysis

	Q1CY09	Q1CY08	Q4CY08
Despatches (mn tonne)	5.73	5.4	5.43
Net Realisation/tonne	3587	3271	3595
YoY growth	9.6%		
Costs per tonne			
Raw material	453	454	415
Staff cost	139	147	268
Power and fuel	718	609	830
Transporation &Handling	485	451	481
Purchase of traded cement	44	51	33
Other expenditure	619	687	811
EBITDA per tonne	1130	871	757

Source: Company

Net profit growth boosted by steep improvement in operating margins

- Net profits grew by 13% in Q1CY09 vis-à-vis Q1CY08 led by steep improvement in operating margins. This was ahead of our expectations. However, net profit growth is impacted by increase in interest and depreciation charges as against last year.
- Our net profit estimates stands revised at Rs 12bn as against Rs 9.8bn led by upward revision in revenues as well as improvement in operating margins.

Valuation and recommendation

We continue to maintain REDUCE on ACC with a revised price target of Rs.605 (Rs.504 earlier)

At current price of Rs 646, stock is trading at 10x P/E multiples and 5.7x EV/EBITDA multiples on CY09 estimates. We believe that most of the positives related to near term price hikes have already been factored in the price. We continue to maintain our cautious stance on the sector due to expected increase in supplies as well as moderation in demand growth going forward. We value company using average of 10x P/E and 5x EV/EBITDA on CY09 estimates. We continue to maintain **REDUCE** recommendation for the stock with a revised price target of Rs 605 on CY09 estimates as against Rs 504 earlier. At our target price, stock would trade at 9.4x its estimated earnings for CY09 and 5.4x its EV/EBITDA multiples. Our best case assumption of volume growth and better realization also does not leave any upside from the current level.

RESULT UPDATE

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ZEE ENTERTAINMENT ENTERPRISES LTD (ZEEL)

PRICE: RS.128 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.140 **FY10E EV/EBITDA: 10x; P/E:13x**

ZEEL- broadly inline Q4FY09 results. Deteriorated macro for advertising spends and high competition has driven stock underperformance; advertising revenues down 7% YoY. Potential counter-cyclical subscription revenue growth remains an opportunity.

- **Q4FY09 numbers come in expectedly weak with 2% YoY revenue de-growth (ad revenue de-growth at 7% YoY) validating our concerns on advertising spend trends in a slowing economy.**
- **We envisage ad revenue growth rates to increasingly feel the strain of a hyper-competitive market place and a slowing economy. Expect a 4-6% growth in TV industry ad revenues, ZEEL may match industry. Out-performance depends on sustainable revival in program ratings and the macro environment.**
- **Elevated competitive intensity, the accompanying fragmentation of the Indian TV broadcasting market and a slower ad-revenue growth trajectory given the deteriorated macro may only make things tougher for broadcasters, over the medium term, in our opinion.**
- **The ZEEL stock has underperformed peers and broader market over last 3m, mirroring our concerns. Strong DTH traction (up 35% QoQ and 2x YoY) is the bright spot, accelerated growth could provide ground for a stock re-rating. We remain positive on DTH sub revenue growth while outlook for ad revenues still remains hazy.**
- **Valuations at 13x FY10E EPS, however look ample; await better risk reward before upgrading our outlook. Maintain REDUCE rating with a price target of Rs.140 (Rs.125 earlier), as we make modest changes to earnings.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	18,354	21,729	24,067
Growth (%)	27.4	18.4	10.8
EBITDA	5,423	5,331	5,918
EBITDA margin (%)	29.5	24.5	24.6
Recurring PAT	3,833	3,749	4,292
Net debt (cash)	815	1,307	(3,032)
EPS (Rs)*	8.8	8.6	9.9
Growth (%)	61.6	-2.2	14.5
CEPS	9.4	9.3	10.6
DPS (Rs)	2.0	2.0	2.0
ROE (%)	14	12.5	13
ROCE (%)	19.8	18.7	18.4
EV/Sales (x)	3.1	2.7	2.4
EV/EBITDA (x)	10.6	10.9	9.7
P/E (x)	14.1	14.5	12.6
P/Cash Earnings	13.3	13.4	11.8
P/BV (x)	1.9	1.7	1.6

Source: Company, Kotak Securities - Private Client Research

** Stripped of tax write-backs of Rs.1.42bn in FY09*

Result Highlights- Broadly in-line; revenues de-grow 2% YoY, comparable profits also drop 3% YoY. One-times boost the PAT line.

- For the quarter ZEEL's advertising revenues contracted by 7% YoY to Rs.2.28bn. Subscription growth on the other hand was a better performance with a 13% YoY growth to Rs.2.34bn. 'Other' services came in at Rs.508mn, these include revenues from the movie business (ZES), syndication revenues and ad space selling among others. Put together revenues were Rs.5.14bn for the quarter, down 2% YoY and 6% QoQ.
- Within the subscription revenue stream, international revenues (Rs.1.14bn) continued to disappoint with a 3% growth; domestic pay revenues were up 25% YoY at Rs.1.23bn. DTH collections grew strongly by 2x YoY and 35% QoQ to Rs.381mn for the quarter. While the management has indicated that of this cRs.30mn were one time prior dues; we are heartened by the still robust QoQ growth.
- We attribute the weak advertising revenue growth to the deteriorated macro environment for ad spends and the high competitive intensity that has led to a fragmented market. We also opine that the loss of competitive positioning to 'Colors' may play out more adversely on advertising revenues if Zee TV does not meet with success in its content slate rejuvenation efforts.

- In line EBITDA margins at 23.4% were up 140bps QoQ despite weak revenue growth on account of sharp DTH sub revenue growth that comes with low associated costs. Cost rationalization also helped operating margins meaningfully. Operating costs rose by only 2.3% to Rs. 2.24bn while there was an 8% rise in employee costs and an 8% decline in selling costs, YoY.
- Below the EBITDA line, there were items that boosted the PAT. Other income was higher at Rs.639mn (Rs.386mn in Q3FY09 & Rs.435mn in Q4FY08), boosted by one time accrual of Rs.195mn on account of sale of 100% holding in PAIL, by ATL, a subsidiary company. ZEEL was also hobbled by higher finance expenses (Rs.509mn, up 32% QoQ) that included MTM losses of Rs.103mn.
- Net profits as a result came in at Rs.964.8mn, down 2% YoY. Stripped of write backs (Rs.65mn in Q4FY09) the PAT was Rs.903mn down 14% YoY. Core EPS was Rs.8.7, for ZEEL, in FY09.
- The company has also during FY08 Asia Today Limited (ATL) a subsidiary of the company has (i) divested its 48.44% holding in Broadcast South Asia Limited (BSA)under a buyback arrangement for USD 30.9 mn. and (ii) has increased its 60% shareholding in its subsidiary Asia Business Broadcasting Limited (ABBML) to 100% by an additional investment of USD 56mn.
- The company has rationalized this transaction that is likely have been carried out at valuations higher than ZEEL's (20x forward EPS) noting the consummation of transaction as Q1FY08; a period when ZEEL's valuations and broader markets were in better health.

Financial Performance

(Rs mn)	Q4FY09	Q4FY08	% chg	Q3FY09	% chg
Revenues	**5137.5**	**5259.5**	**-2.3**	**5455.8**	**-5.8**
Expenditure	3935.8	3956.7		4255.6	
EBDITA	**1201.7**	**1302.8**	**-7.8**	**1200.2**	**0.1**
Depreciation	98.9	53.5		83.9	
EBIT	**1102.8**	**1249.3**	**-11.7**	**1116.3**	**-1.2**
Net Interest	508.6	184.3		385.5	
Other Income	638.7	435.3		401.2	
Seperation compensation	0.0	25.8		-25.8	
PBT	**1232.9**	**1474.5**	**-16.4**	**1157.8**	**6.5**
Tax	329.7	430.3		318.1	
PAT	**903.2**	**1044.2**		**839.7**	
Minority Int	3.4	119.9		14.7	
PAT after M I	899.8	924.3	-2.7	825.0	9.1
EO items	-65.0	0.0		0.0	
PAT after EO items	964.8	924.3	4.4	825.0	16.9
EPS (Rs)*	**2.2**	**2.1**		**1.9**	
Margins (%)					
OPM	23.4	24.8		22.0	
GPM	21.5	23.8		20.5	
NPM	18.8	17.6		15.1	

Source: Company

Projected financials- expect advertising revenue growth rates to feel the impact of increasing competitive intensity, recent loss in competitive positioning for its Hindi GEC and a slowing economy

- ZEEL's FY08 ad revenues grew at 32% and in H1FY09 it has clocked a growth of 33.3%. We attribute these above industry growth rates to a factor of a favorable macro-environment and its competitive ratings that were on an upswing through FY08 and remained steady in early FY09, despite new GEC launches.
- H2 FY09 however has been a different story with advertising revenues contracting 2% over the period. We opine opine most of the rating gains that ZEEL had registered earlier have been monetized and envisage incremental ad revenue growth rates to increasingly feel the strain of a hyper-competitive market place and a slowing economy.
- Loss in ratings for Zee TV has not helped and we believe this will make things more difficult on the ad revenue front unless there is a meaningful revival in program ratings.
- We now expect advertising revenues to grow at a CAGR of 10.5% over FY08-10E. For FY10E we are factoring in a modest c7% growth in overall ad revenues (down 250bps), and a significant slowing from the 14% ad revenue growth delivered in FY09.

Subscription revenues- we expect a 19% CAGR over FY08-10E. Pay revenues- a counter-cyclical growth opportunity, expect domestic subscriptions to grow led by increasing DTH penetration. DTH may be the game changer

- Going forward over FY08-10E we expect subscription revenues to grow at an 18.5% CAGR. We believe pay revenues will likely become the next enabler/supporter for ZEEL financials as we expect ad revenue growth to tumble over the medium term.
- We expect this counter-cyclical growth to be driven by a revamp of the domestic cable distribution business and strong growth in the DTH subscriber base. We also believe ZEEL's international subscription revenues are likely to benefit from the recent INR depreciation; and expect a 10% CAGR in the same over the period.
- While initial CAS off-take has been muted, the opportunity in our opinion will be led by a strong traction in DTH services, which is expected to have 21mn subscribers by FY11E, up from the c9mn currently. We expect DTH collections to rise at a 74% CAGR over FY08-FY10E, aided by strong growth in the DTH sub count, growing realizations from new operators and still relatively reasonable positioning of the ZEEL bouquet.

Margins- Revenue growth to slow significantly, increasing pay revenue- a buffer for margins given low associated costs

- We opine the future quarters' cost structures point to a likely loosening of purse strings as ZEEL looks to counter strong competition from the incumbent Star network and competitor Colors. While the management has stated its intent to curtail costs, we believe the need to counter competition through content investments will likely keep margins under check.
- On the margin front, we are estimating EBITDA margins to remain stable over FY09-10E as operating leverage from the growing subscription revenue stream that does not have significant associated costs is expected to be a buffer for margins.
- We consequently estimate a EPS CAGR of 6% over FY08-10E; an EPS of Rs.8.7 in FY09A and Rs.9.9 (Rs.9.6 earlier) in FY10E from Rs.8.8 in FY08.

Valuations look fair. Upsides will however depend on defense of competitive positioning and news-flow on viewer ratings, macro-environment. Accelerated domestic DTH collections will likely be positive triggers for the stock.

- At 13x FY10E EPS ZEEL, valuations look ample given the hazy outlook on advertising revenues. Strong domestic subscription growth is something we remain hopeful that has likely been validated in the traction exhibited in Q4FY09. We see sustained performance on this count as a likely re-rating trigger for the stock.
- While relatively inexpensive valuations may offer cushion, we remain cognizant of the fact that a re-rating from current levels will likely only follow revival in viewer ratings, defense of competitive positioning and more encouraging news-flow on the macro and advertising revenue trends.
- Our take remains that the current challenging macro, loss in viewer ratings (for Zee TV) and cautious advertiser sentiment will reflect on advertising spend trends over FY10E.
- The uncertainty though given the current macro and more importantly the rising competitive intensity for ZEEL is more on FY10E growth rates, which underpins our cautiousness on the ZEEL stock.

Recommendation -concerns on competitive intensity, market fragmentation, and a slowing macro for ad spends.

- We arrive at a DCF based price target of Rs.135 (13.5x FY10E earnings) for the ZEEL stock. Our revised target (Rs.125 earlier) reflects modest changes to FY10 estimates and a lower beta.

We maintain REDUCE recommendation on ZEEL with a price target of Rs.140

- Our target multiple is at a discount to ZEEL's five- year average trading multiple. A discount is justified in our opinion after factoring in the increased competitive intensity through new GEC launches, accompanying fragmentation of the Indian TV broadcasting industry and also our expectations of a crashing ad-revenue growth trajectory.
- Await better risk reward before upgrading our outlook. Maintain **REDUCE** rating with a price target of Rs.140 (Rs.125 earlier); we will turn more positive on the stock at c10% lower levels.

Key Concerns:

- A sharp slowdown in the economic growth trajectory, which will impact advertising revenue growth and company financials negatively
- Loss in ratings and competitive positioning
- Hyper-competition impacting player and industry profitability negatively
- Lower than estimated pick-up in the subscription revenue stream

Change in FY10 estimates

	FY09A	FY10E		Change
(Rs mn)		Old	New	(%)
Revenues	21728.5	24268.0	24066.7	-0.8
Advertising revenues	10617.3	11631.1	11360.5	-2.3
Subscription revenues	9013.6	10484.6	10440.8	-0.4
EBITDA	5331.1	5871.0	5918.3	0.8
EBITDA (%)	24.5	24.2	24.6	
PAT	3749.0	4169.4	4291.7	3.1
EPS (Rs)	8.6	9.6	9.9	3.1

Source: Company, Kotak Securities - Private Client Research

Sensitivity of fair value to FY10 advertising revenue growth

Advertising growth, (%)	5%	7%	9%
Advertising revenue (Rs mn)	11148.2	11360.5	11572.9
Total revenue (Rs mn)	23854.4	24066.7	24279.1
EBITDA (%)	23.9	24.6	25.3
EPS (Rs)	9.6	9.9	10.2
Fair value (Rs)	128	137	146

Source: Kotak Securities - Private Client Research

DTH revenue trajectory- heartening; sustained growth will likely be a game changer for the stock

(Rs mn)	FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09	FY10E
DTH revenues	613.0	248.9	271.0	283.0	381.1	1184.0	1848.0
Domestic sub revenues	3487.0	1053.3	1111.0	1130.0	1230.0	4524.3	5682.1
DTH as a % of sub revenues	17.6	23.6	24.4	25.0	31.0	26.2	32.5
Growth YoY (%)		99.1	116.8	61.3	103.3	93.1	56.1

Source: Kotak Securities - Private Client Research

Sensitivity of fair value to FY10 DTH revenue growth

Paying DTH subs, mn	7mn	8mn	10mn
DTH revenues, mn	1,716	1,848	2,112
Total Subscription revenues, Rs.mn	5,631	5,682	5,785
EBITDA %	24.4	24.6	24.9
EPS	9.8	9.9	10.1
Fair value, Rs.	128	137	146

Source: Kotak Securities - Private Client Research

MANAGEMENT MEET UPDATE

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SUZLON ENERGY

PRICE: RS.61 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.81 **FY10E P/E: 7.4x**

We recently met the management of suzlon Energy. Here are the key takeaways.

- **Wind power continues to be a focus area in the US, which is the largest market for Suzlon**
- **Targeting 600 MW in order inflows in next few months from the EU and South American region**
- **Outlook for Indian market remains subdued.**
- **Near-term trigger includes, asset sale to relieve funds crunch and re-structuring of ZCCBs**
- **Maintain ACCUMULATE with price target of Rs 81.**

Focus on Wind Power remains strong in the US

The US is one of the fastest growing market for wind power with 8358 MW of new installation in 2008. Recognising the investment and employment potential of wind energy, the US President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA) (fiscal package 2009) which, among other things

(a) extends the federal tax credit for the production of electricity from wind facilities (PTC) through December 31, 2012

(b) allows an investor in wind power to claim an investment tax credit (the "ITC") for certain property used in wind energy facilities placed in service in 2009 - 2012. The election of the ITC in lieu of the PTC provision allows a taxpayer to make an irrevocable election to have wind energy facilities placed in service between 2009 and 2012 treated as facilities eligible for the 30% ITC.

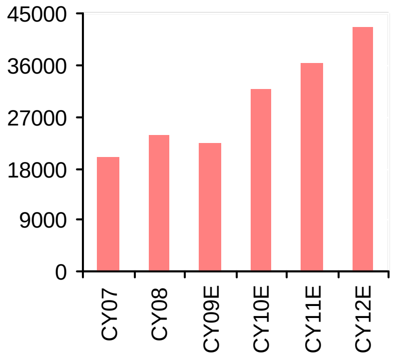
(c) allows projects placed into service in 2009 and 2010, or placed into service after 2010 but before 2013, if construction begins in 2009 or 2010, to apply for a cash grant from the Treasury Department for 30% of the cost of certain property

In addition to the above, the ARRA has assigned USD 6 bn to support loan guarantee of up to USD 60 bn for renewable energy and power transmission projects. Meanwhile, the Renewable Energy Sstandards continue to be a major driver for investing in wind energy. The American Wind Energy Association seeks a national RES that calls for 25% of the nation's electricity to come from renewable energy by 2025.

Elsewhere also governments remain committed to renewable energy

- The EU countries have proposed 20% of energy from renewable sources by 2020
- China more than doubled its wind power capacity in 2008 to 12.8 GW. China's central economic planning body, the National Development and Reform Commission (NDRC), has set a target for 30GW of wind power capacity by 2020. But going by the 2008 growth, it is expected that the target may be achieved much earlier.
- Gujarat announced revised wind power policy mandating increase in share of wind power from 2% to 10% by 2012.

Wind power capacity (MW)



Source: Company, Kotak Securities - Private Client Research

However, CY09 could see a slowdown in wind power installations

While the long-term prospects of wind power continue to be strong, however, there could be a slowdown in new installations in CY09. Make Consulting Global predicts a degrowth in new installations in CY09. The major decline in new installations is expected to be in the US, which is recovering from an acute credit crisis. Over the longer term, it is projected that wind power would grow at a CAGR of 15% between 2008-12.

The EU region is still facing tough financial conditions. The growth prospects of the Indian market are likely to remain lackluster.

Order inflows scenario has started to look up

During FY09, Suzlon witnessed a significant drying of order inflows. For the 9M FY09 period, order inflows declined from 2804 MW in 9M FY08 to a modest 224 MW in 9M FY09. Concerns pertaining to product quality and general contraction in investment activity resulted in sharp fall in new orders. However, management indicated that in recent weeks new enquiries have increased and it expects to bag upto 600 MW of orders in the coming months.

Inventory has been reduced but cash flow position still remains a concern

Suzlon's inventory had increased from Rs 33.2 bn at end of FY08 to Rs 54.1 bn at the end of 9M FY09. This coupled with rise in interest costs and squeeze in margins and lower advances due to paucity of orders resulted in severe cash crunch for the company.

Suzlon expected to ease the situation through inventory liquidation and asset sales. So far, the company has been able to bring down its inventory down to Rs 40 bn. While the cash flow position has not improved much but the situation is expected to resolve by end of May.

Restructuring of ZCCB borrowings

Suzlon has ZCCBs worth USD 500 mn which are listed on the Singapore Exchange. The bonds are currently trading at a substantial discount to the face value. Also the likelihood of conversion is remote given the conversion price of Rs 372. Hence the company has proposed by means of invitation to the bond holders (a) reset the bonds at lower conversion price (b) offer their Bonds for payment of a cash consideration; or (c) receive certain fees (for relaxation of covenant) or a combination of the above.

Other highlights

- Suzlon has repaid 42 mn Euro acquisition related debt in the fourth quarter of FY09. The company is in discussion with Martifer for further deferment of payment for balance stake in Repower.

Funds requirement position of Suzlon

Funds utilization and requirement in Q4 and FY10

	(Rs mn)
Capex in Q4 FY09	2,480
Acquisition debt repayment	2,730
Capex in FY10	500
Payment to Martifer	13,940
Loan repayment in Q4 FY09 and FY10	11,400
Total	**31,050**

Source: Company

- The company has an estimated funds requirement of Rs 31 bn in Q4 and FY10.
- The net debt position stood at Rs 110 bn. There is limited room for raising further debt without breaching the debt covenants.
- The company has the option of selling further stake in its subsidiaries (Hansen) and manufacturing units (SE Forge). At the current price, the company can raise Rs 5.2 bn by divesting 10% stake in Hansen (current holding is 61%).
- A private equity investment in the parent company can not be ruled out.

Valuation

We recommend ACCUMULATE on Suzlon Energy with a price target of Rs.81

- At the current price, Suzlon is trading at 7.4x FY10 consolidated earnings. We have been cautious on Suzlon given the reduced level of visibility from order backlog point of view. There is a risk of revenue growth falling sharply in FY10 and FY11. Moreover there are liquidity related concerns and debt repayments.
- But we prefer to remain cautious until there is a visible improvement in order inflows and a easing in its balance sheet leverage.
- Catalysts include any asset sale that can raise the much needed funds to meet payment to Martifer and also the yearly debt repayment.
- We maintain **ACCUMULATE** with a price target of Rs 81.

Consolidated Earnings snapshot

	FY09	FY10
Sales	241739	258461
EBITDA	26532	29249
EBITDA (%)	11.0%	11.3%
Net profit	2353	12329
EPS (Rs)	1.6	8.2
PE (x)	39.0	7.4

Source: Company, Kotak Securities - Private Client Research

Valuation

	Parameter	Value
Suzlon Standalone	1x BV	44
Value in Hansen	25% disc to MV	17
Value in Repower	25% disc to MV	19
Total		81

Source: Kotak Securities - Private Client Research

EVENT UPDATE

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EVEREST KANTO CYLINDERS LTD

PRICE: RS.145 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.175 **CONS. FY10E P/E: 8.1X**

- **EKC acquires 72.65% in Kolkata based natural gas trading company**
- **It is likely to contribute less then 2% of consolidated EKC revenues**
- **We maintain FY09 & FY10 earning estimates**
- **Maintain ACCUMULATE with unchanged price target of Rs.175**

Summary table - Consolidated

(Rs mn)	FY08	FY09E	FY10E
Sales	5,287	8,958	11,599
Growth (%)	24.4	69.4	29.5
EBITDA	1,527	2,715	3,260
EBITDA margin (%)	28.9	30.3	28.1
Net profit	1,043	1,514	1,820
Net cash (debt)	(1,742)	(4,711)	(4,955)
EPS (Rs)	9.9	15.0	18.0
Growth (%)	45.3	45.2	20.2
CEPS	12.4	21.7	25.9
DPS (Rs)	4.0	1.0	1.5
ROE (%)	21.7	27.7	26.2
ROCE (%)	19.3	22.0	20.5
EV/Sales (x)	3.1	2.2	1.7
EV/EBITDA (x)	10.7	7.1	6.0
P/E (x)	14.1	9.7	8.1
P/Cash Earnings	11.7	6.7	5.6
P/BV (x)	3.2	2.5	1.9

Source: Company, Kotak Securities - Private Client Research

Acquires 72.65% in Kolkata based natural gas trading company

EKC has completed the acquisition of a majority stake i.e. 72.65% in Calcutta Compressions & Liquefaction Engineering Pvt. Ltd (CCL) for a consideration of Rs.24 mn. It is in JV with Positron Energy Pvt. Ltd (PEPL), which provides consulting services regarding safe and efficient use of Natural Gas. CCL is in the business of purchase and sale of natural gas and has an agreement with Oil & Natural Gas Corporation Ltd (ONGC) for purchase of Coal Bed Methane Gas from its gas field located at Parbatpur in Jharkhand.

Planning to enter into city gas distribution

Going forward EKC plans to enter into city gas distribution under CCL. EKC is basically trying to forward integrate its business thereby ensuring demand for its products like jumbo and CNG cylinders. Initially the natural gas would be sold to the industrial consumers in and around Dhanbad and Bokaro region primarily steel and mining companies. The business plan also envisages setting up of CNG stations for automobiles at a later stage.

Capex

The total capex of the venture is ~Rs.400 mn with 1:1 debt to equity ratio. Thus considering 72.65% share of EKC, it is required to invest ~Rs.145 mn into this venture. However the initial capex is Rs.150 mn for distribution of gas to the industrial consumers. Funding should not be a problem as it fairly small as compared to overall size of EKC.

Likely revenue of Rs.180 mn in FY10 with ~25% operating margins

CCL is likely to start receiving gas from the month of June 2009. It has contracted for ~50000 SCM per day which can be increased to 2 lakh SCM per day. Even if we assume 50000 SCM per day for six months in FY10 at an average realization of Rs.20 per SCM (in line with Indraprastha Gas Ltd. realizations) it would result into revenues of Rs.180 mn with operating margins of ~25%. This is less then 2% of consolidated revenues of EKC for FY10E.

Positive for EKC in long term

This is a positive development for EKC in the long term as it ensures steady demand for its products like CNG cylinders, cascades and Jumbo cylinders. However we await further details form the management and thus we have not considered it into our earning estimates at the current point in time.

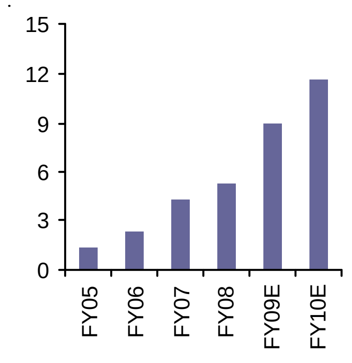
Valuation & Recommendation

- We maintain our earning estimates and expect EKC to report consolidated EPS of Rs.15.0 for FY09E moving upto Rs.18.0 for FY10E.

We maintain ACCUMULATE on EKC with a price target of Rs.175

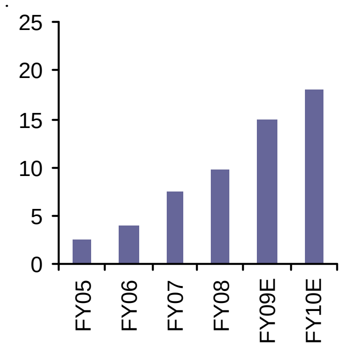
- At the current market price of Rs.145, the stock trades at 1.9x book value, 8.1x earnings and 5.6x cash earnings based on FY10E.
- The stock of EKC has risen sharply by ~73% from a recent low of Rs.84 to current levels of Rs.145 in less then one month. We feel that post the recent sharp run up in stock price; the stock is fairly valued at current levels. However we remain positive on the long term growth prospects of the company.
- We continue to recommend **ACCUMULATE** on EKC with unchanged price target of Rs.175.

Cons. Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
22-Apr	Astral Poly	IDFC Mutual Fund Account Idfc Small and Midcap Equity Smefund	B	258,189	51.92
22-Apr	IB Securitie	Kotak Mahindra UK Ltd Ac Sandstone Capital India Master Fund Ltd	B	5,477,573	27.00
22-Apr	IB Securitie	Orient Global Cinnamon Capital Limited	S	6,226,000	27.06
22-Apr	Jubilant Org	Deutsche Securities Mauritius Limited	B	903,582	120.00
22-Apr	Moth Sumi Sy	Samvardhana Motherson Finance Ltd	B	9,609,909	81.47
22-Apr	Moth Sumi Sy	Motherson	S	7,000,000	80.50
22-Apr	Parekh Alum	Aap Investments	B	300,000	56.14
22-Apr	Parekh Alum	Merrill Lynch Capital Mkts Espana S.A. S.V.	S	347,523	56.03
22-Apr	Sanguine Md	Ankuranilagrawal	S	75,881	2.26
22-Apr	Splash Media	Kirit V Dave	S	10,867	74.30
22-Apr	Yes Bank	Abhi Ambi Financial Services Ltd	B	1,639,934	84.62
22-Apr	Zenu Infotec	Jyoti Deepak Jain	S	40,000	6.30

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Reliance Ind	1,718	0.7	3.0	4.4
Reliance Power	126	5.0	2.3	10.7
Infosys Tech	1,381	1.4	1.7	1.3
Losers				
ONGC	839	(2.8)	(8.1)	1.4
BHEL	1,580	(3.6)	(4.6)	1.2
DLF	227	(4.5)	(2.9)	16.1

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
23-Apr	Reliance Ind, Reliance Infra, Reliance Power, RNRL, RPL, HDFC Bank, Idea Cellular, Bajaj Hindustan, Maharashtra Seamless, LIC Housing Finance, HCL Infosys, Zee News, Binani Cement, Jindal Drilling, MMTC, Rain Commodities earnings expected
24-Apr	Ranbaxy, Cipla, Maruti Suzuki, IDBI Bank, Bharat Electronics, Wockhardt, Sterlite Tech, Corp. Bank, Raymond, 3i Infotech, Coromandel Fertilizer, GlaxoSmithkline Consumer Healthcare, Hindustan Construction, Ballarpur Ind, Strides Arcolab earnings expected
25-Apr	Pantaloon Retail India earnings expected
27-Apr	Castrol India, Bank of Baroda, Tech Mahindra earnings expected
28-Apr	Sterlite, Biocon, Hexaware, Shree Cement, PSL, GlaxoSmithKline Pharma, IDFC, Syndicate Bank, India Infoline earnings expected

Source: Bloomberg

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