



## Economy News

- According to Reuters poll the annual inflation rate is expected to have risen for the third consecutive week in late April, because of a sustained increase in food, mineral and manufacturing prices. (FE)
- With the anti-outsourcing sentiment in the US touching all-time high owing to large-scale job-cuts, Nasscom, the apex body that represents the Indian IT outsourcing industry, has decided to change its strategy on the proposed H1-B, L1 visa legislation in the US Senate.

## Corporate News

- DBS Bank**, which holds close to 2.73% stake in HDFC Bank is expected to enter into a block deal with foreign institutional investor to sell its stake today. DBS is the third largest investor in the bank. (ET)
- DLF Ltd**, may have to pay an additional Rs. 3-4bn in relation to an income-tax matter pertaining to financial year 2005-06. The Tax Department has passed an order adding close to Rs 12bn as taxable income to DLF for FY06, the company plans to challenge the order. (BL)
- Tata Motors** is in the process of raising Rs 50 bn through a bond issue to refinance the remaining \$2 billion (Rs 100bn) bridge loan it took to acquire Jaguar and Land Rover. (BS)
- Bharti Shipyard** has acquired a sizeable stake in Great Offshore. The transaction, involving the transfer of ownership of 14.89% shares pledged by Great Offshore promoter Vijay Sheth, is a precursor to Bharati taking management control. (ET)
- DLF promoters**- K P Singh and family are in advanced stages of discussions with leading foreign institutional investors (FIIs) to sell 6 to 7% in India's largest realtor to raise Rs 20bn to Rs 25bn. (BS)
- Oil and Natural Gas Corporation (ONGC)** has sought permission from the government to relinquish its 30% stake in the Cairn India's Barmer block. ONGC wants to exit the block saying the cess and royalty it would have to bear would make its investment economically unviable. (BS)
- Tata Steel's** sales volume surged by 31% to 4.52 lakh tonnes in April on the back of robust demand from auto and construction sectors. In the corresponding month last year, the company's sales stood at 3.43 lakh tonnes. (FE)

### Equity

		% Chg			
		7 May 09	1 Day	1 Mth	3 Mths
<b>Indian Indices</b>					
SENSEX Index	12,117	1.4	12.8	30.3	
NIFTY Index	3,684	1.6	10.2	29.6	
BANKEX Index	6,206	1.9	26.3	30.3	
BSET Index	2,785	0.1	11.5	26.4	
BSETCG INDEX	8,574	1.6	17.8	41.3	
BSEOIL INDEX	8,534	1.5	6.7	34.7	
CNXMcap Index	4,070	2.0	11.2	21.9	
BSESMCAP INDEX	4,264	2.7	15.0	30.0	
<b>World Indices</b>					
Dow Jones	8,410	(1.2)	7.3	1.6	
Nasdaq	1,716	(2.4)	7.9	7.8	
FTSE	4,399	0.0	12.1	2.5	
Nikkei	9,386	4.5	9.1	16.2	
Hangseng	17,218	2.3	17.7	24.7	

### Value traded (Rs cr)

	7 May 09	% Chg - Day
Cash BSE	4,604	(19.4)
Cash NSE	14,874	(20.2)
Derivatives	48,471	(15.9)

### Net inflows (Rs cr)

	6 May 09	% Chg	MTD	YTD
FII	688	(1)	2,874	3,587
Mutual Fund	(37)	(110)	342	(260)

### FII open interest (Rs cr)

	6 May 09	% Chg
FII Index Futures	13,070	(0.6)
FII Index Options	26,423	5.6
FII Stock Futures	15,791	2.5
FII Stock Options	711	7.5

### Advances / Declines (BSE)

7 May 09	A	B	S	Total	% total
Advances	162	1,059	248	1,469	67
Declines	38	493	138	669	30
Unchanged	-	50	20	70	3

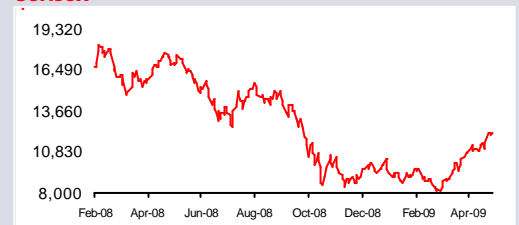
### Commodity

			% Chg			
			7 May 09	1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	57.1	0.8	15.7	42.2	
Gold (US\$/OZ)		910.7	(0.1)	3.7	0.2	
Silver (US\$/OZ)		13.9	0.9	12.9	5.7	

### Debt / forex market

	7 May 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.51	6.48	6.96	6.22
Re/US\$	49.26	49.64	50.06	48.58

### Sensex



**RESULT UPDATE****Apurva Doshi**

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**ALLCARGO GLOBAL LOGISTICS LTD (AGL)****PRICE: Rs.779****TARGET PRICE: Rs.650****RECOMMENDATION: REDUCE****CONS. CY09E PE : 13.4X**

- ❑ **ALLCARGO reported good set of Q1CY09 which are marginally above our estimates on the profitability side**
- ❑ **However the revenues are below our estimates due to decline in Eculine revenues and lower CFS volumes**
- ❑ **Maintain CY09E EPS of Rs.58.0**
- ❑ **We maintain REDUCE recommendation on ALLCARGO due to near term growth concerns in economy which would impact its global and Indian operations.**

**Summary table - Consolidated**

(Rs mn)	CY07	CY08	CY09E
Sales	16,135	22,488	22,858
Growth (%)	80.2	39.4	1.6
EBITDA	1,422	2,318	2,491
EBITDA margin (%)	8.8	10.3	10.9
Net profit	766	1,238	1,297
Net debt	631	1,502	1,071
EPS (Rs)	37.8	55.3	58.0
Growth (%)	26.9	61.7	4.8
DPS (Rs)	5.0	5.0	6.0
ROE (%)	16.2	23.4	20.2
ROCE (%)	20.5	27.6	25.0
EV/Sales (x)	1.1	0.8	0.8
EV/EBITDA (x)	12.7	8.2	7.4
P/E (x)	20.6	14.1	13.4
P/BV (x)	3.7	3.0	2.5

Source: Company, Kotak Securities - Private Client Research

**ALLCARGO Q1CY09 Results - Standalone**

(Rs mn)	Q1CY09	Q1CY08	YoY (%)	Q4CY08	QoQ (%)
<b>Net Sales</b>	<b>1,280</b>	<b>959</b>	<b>33.5</b>	<b>1,413</b>	<b>(9.4)</b>
Operating exp.	746	596	25.2	791	(5.7)
Staff cost	86	50	72.4	151	(43.3)
Other exp.	92	62	49.2	117	(21.8)
Total exp.	924	707	30.6	1,060	(12.9)
<b>EBIDTA</b>	<b>357</b>	<b>252</b>	<b>41.6</b>	<b>353</b>	<b>1.1</b>
Other income	40	9	362.4	35	15.8
Depreciation	84	37	125.5	84	0.4
<b>EBIT</b>	<b>313</b>	<b>223</b>	<b>40.1</b>	<b>304</b>	<b>3.0</b>
Interest	43	7	565.6	46	(6.7)
<b>PBT</b>	<b>270</b>	<b>217</b>	<b>24.3</b>	<b>257</b>	<b>4.8</b>
Extraordinary gain / (loss)	-	-	-	74	-
Tax & deferred tax	53	54	(1.8)	24	115.8
<b>PAT</b>	<b>217</b>	<b>163</b>	<b>32.9</b>	<b>306</b>	<b>(29.2)</b>
Equity Rs. mn	224	203		224	
<b>Ratios</b>					
Operating profit margin (%)	27.9	26.3	+160 bps	25.0	+290 bps
Operating exp / Sales (%)	58.3	62.1		56.0	
Staff cost / Sales (%)	6.7	5.2		10.7	
Other Exp. / Sales (%)	7.2	6.4		8.3	
Tax / PBT (%)	19.5	24.8		9.5	
<b>EPS (Rs)</b>	<b>9.7</b>	<b>8.1</b>		<b>13.7</b>	
CEPS (Rs)	13.4	9.9		17.4	
TEU's handled - CFS	39,915	44,266	(9.8)	39,145	2.0
Avg. realisations Rs / TEU	8,749	6,805	28.6	10,598	(17.4)
MTO handled	5,861	7,116	(17.6)	6,838	(14.3)
Avg. realisations Rs / MTO	138,321	92,469	49.6	131,463	5.2

Source: Company, Kotak Securities - Private Client Research

- Net Sales for Q1CY09 was at Rs.1.3 bn, up 33.5% on YoY basis. The growth in sales is primarily due to 23.2% YoY growth in the MMTO business and 15.9% YoY growth in the CFS business of the company. Also the equipment hiring business contributed Rs.160 mn in revenues.
- CFS volumes have declined from 44266 TEU's in Q1CY08 to 39915 TEUs in Q1CY09 thereby registering a YoY volume de-growth of 9.8%. However the volumes are up 2.0% on sequential basis thereby indicating some pickup in volumes.

**Segmental Results**

	Q1CY09	Q1CY08	YoY (%)	Q4CY08	QoQ (%)
<b>Revenues (Rs mn)</b>					
MMTO	811	658	23.2	899	(9.8)
CFS	349	301	15.9	415	(15.8)
Equipment Hiring	160	-	-	145	10.2
<b>PBIT (Rs mn)</b>					
MMTO	101	96	5.4	106	(5.2)
CFS	174	167	4.2	247	(29.6)
Equipment Hiring	59	-	-	42	41.2
<b>PBIT (%)</b>					
MMTO	12.4	14.5	(14.5)	11.8	5.1
CFS	49.7	55.3	(10.1)	59.4	(16.3)
Equipment Hiring	37.2	-	-	29.0	-

Source: Company

**CFS TEUs**

	Q1CY09	Q1CY08	YoY (%)	Q4CY08	QoQ (%)
JNPT	25,088	30,003	(16.4)	27,097	(7.4)
Chennai	10,633	9,815	8.3	9,626	10.5
Mundra	4,194	4,450	(5.8)	2,422	73.2
<b>Total</b>	<b>39,915</b>	<b>44,268</b>	<b>(9.8)</b>	<b>39,145</b>	<b>2.0</b>

Source: Company

- The average realizations per TEU have gone up by 28.6% on YoY basis to Rs.8749 per TEU. However it has declined by 17.4% on sequential basis as the importers have started clearing their containers leading to decline in average dwell time at its CFS facilities. The average dwell time has fallen from peak of ~16 days to ~11 days currently.
- MTO volumes have de-grown by 17.6% YoY and 14.3% on sequential basis to 5861 TEU's in Q1CY09. This is primarily due to lower FCL (full container load) cargo on account of global economic downturn and decline in trade volumes. However due to increase in LCL (less then container load) activities the average realizations have improved by 49.6% YoY and 5.2% on sequential basis to Rs. 138321 per TEU in Q1CY09.
- EBIDTA margin during Q1CY09 was up 160 bps on YoY basis to 27.9% due to increased margins in its equipment hiring business. This led to decrease in operating expenditure as a percentage of sales from 62.1% in Q1CY08 to 58.3% in Q1CY09.
- EBIDTA for the Q1CY09 was at Rs.357 mn up 41.6% YoY and up 1.1% on sequential basis.
- The other income of the company is up sharply to Rs.40 mn in Q1CY09 primarily on account of income on surplus cash of ~Rs.500 mn and dividend income from subsidiaries.
- Depreciation expense of the company increased significantly to Rs.84 mn due to purchase of cranes and handling equipments.
- PBT for the Q1CY09 was up by 24.3% YoY and up 4.8% on sequential basis to Rs.270 mn.
- PAT for the Q1CY09 was at Rs.217 mn up 32.9% YoY and down 29.2% on sequential basis as previous quarter was aided by exceptional income of Rs.74 mn. This translates into quarterly EPS of Rs.9.7 and CEPS of Rs.13.4.

**ALLCARGO Q1CY09 Results - Consolidated**

(Rs mn)	Q1CY09	Q1CY08	YoY (%)	Q4CY08	QoQ (%)
<b>Net Sales</b>	<b>4,806</b>	<b>4,265</b>	<b>12.7</b>	<b>6,382</b>	<b>(24.7)</b>
Operating exp.	2,982	2,725	9.4	4,260	(30.0)
Staff cost	844	674	25.3	957	(11.7)
Other exp.	423	437	(3.1)	590	(28.3)
Total exp.	4,249	3,836	10.8	5,807	(26.8)
<b>EBIDTA</b>	<b>557</b>	<b>429</b>	<b>29.8</b>	<b>575</b>	<b>(3.1)</b>
Other income	40	9	346.6	25	59.3
Depreciation	117	67	74.8	110	6.3
<b>EBIT</b>	<b>480</b>	<b>371</b>	<b>29.4</b>	<b>490</b>	<b>(2.0)</b>
Interest	53	19	183.7	75	(29.9)
<b>PBT</b>	<b>428</b>	<b>353</b>	<b>21.3</b>	<b>415</b>	<b>3.0</b>
Extraordinary gain / (loss)			-	(28)	-
Tax & deferred tax	112	91	22.7	67	68.5
<b>PAT</b>	<b>315</b>	<b>261</b>	<b>20.8</b>	<b>320</b>	<b>(1.6)</b>
Less Minority Int.	39	32	22.7	50	(22.4)
<b>NPAT</b>	<b>276</b>	<b>229</b>	<b>20.5</b>	<b>270</b>	<b>2.3</b>
Equity Rs. mn	224	203		224	
<b>Ratios</b>					
Operating profit margin (%)	11.6	10.1	+150 bps	9.0	+260 bps
Operating exp / Sales (%)	62.0	63.9		66.8	
Staff cost / Sales (%)	17.6	15.8		15.0	
Other Exp. / Sales (%)	8.8	10.2		9.3	
Tax / PBT (%)	26.2	25.9		16.0	
<b>EPS (Rs)</b>	<b>12.4</b>	<b>11.3</b>		<b>12.1</b>	
CEPS (Rs)	17.6	14.6		17.0	

Source: Company

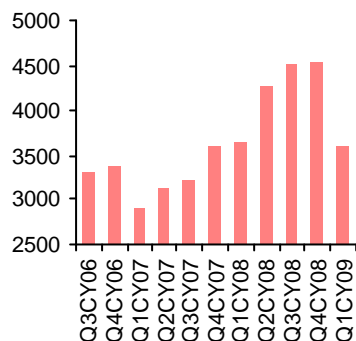
- On a consolidated basis, the company reported net sales of Rs.4.8 bn, up 12.7% YoY and down 24.7% on sequential basis. This was primarily due to 20.5% sequential de-growth in the revenues of Eculine business. The company has passed on the lower freight rates to its customers thereby impacting the revenues.
- On YoY basis while the revenues of Eculine are down 1.6% in rupee basis it is actually down 9.8% in euro terms as balance are the currency translation gains. However the profitability has been better as the EBIDTA is up 2.8% YoY and up 1.8% QoQ and the PAT is up 29.0% YoY and up 63.3% on QoQ basis in Euro terms.

**Eculine Financials**

(mn Euro)	Q1CY09	Q1CY08	YoY %	Q4CY08	QoQ %
Revenues	55.0	61.0	(9.8)	69.0	(20.3)
EBIDTA	3.4	2.8	23.0	3.4	1.8
PAT	1.3	1.0	29.0	0.8	63.3
EBIDTA (%)	6.2	4.6		4.9	
PAT (%)	2.3	1.6		1.1	

Source: Company

## ECU line revenues (Rs mn)



Source: Company

- For Q1CY09, Eculine recorded revenues of Rs.3.6 bn (down 1.6% YoY and down 20.5% QoQ), EBIDTA of Rs.218.5 mn (up 31.9% YoY and down 0.9% QoQ) and PAT of Rs.85.8 mn.
- On consolidated basis the operating margins are up 150 bps YoY and up 260 bps on sequential basis to 11.6%. This primarily due to increased margin in the less then container load business, equipment hiring business and efficiency gains from back-end outsourcing.
- The interest cost have fallen sharply by 29.9% on sequential basis to Rs.53 mn in Q1CY09 as it has reduced the debt from Rs.2.5 bn in previous quarter to ~Rs.2.0 bn in current quarter and also the interest rates have fallen considerably.
- Consolidated PAT was up by 20.5% YoY and up 2.3% on sequential basis to Rs.276 mn, thereby translating into quarterly EPS of Rs.12.4 and CEPS of Rs.17.6.

## Equipment hiring business

In Q1CY09 the equipment hiring business of the company reported revenues of Rs.160 mn (up 10.2% on sequential basis) with PBIT of Rs.59 mn which translates into PBIT margins of 37.2%. The company has 60 cranes (54 in India and 6 in Middle East) as on date and they have been bought at a capex of ~Rs.1.1 bn. During the quarter it bought 10 trailers, 18 forklifts and one crane.

## Hindustan Cargo Financials

(Rs mn)	Q1CY09	Q1CY08	YoY %	Q4CY08	QoQ %
Revenues	235	146	61.4	433	(45.6)
EBIDTA	17	12	39.6	13	27.7
PAT	8	7	27.3	0.1	6,900.0
EBIDTA (%)	7.1	8.2		3.0	
PAT (%)	3.6	4.5		0.0	

Source: Company

## Hindustan cargo Financials

In Q1CY09 the revenues of Hindustan Cargo have declined by 45.6% on sequential basis to Rs.235 mn on account of fall in freight rates which have been passed on to the customers. The operating profit is up 39.6% YoY and up 27.7% on sequential basis to Rs.17 mn. PAT is up 27.3% on YoY basis and up significantly on sequential basis as previous quarter had one time provisions for debtor receivables.

## Project Cargo Financials

(Rs mn)	Q1CY09	Q1CY08	YoY %	Q4CY08	QoQ %
Revenues	304	101	201.0	269	13.0
EBIDTA	53	16	231.3	39	35.9
PBT	50	16	212.5	35	42.9
EBIDTA (%)	17.4	15.8		14.5	
PBT (%)	16.4	15.8		13.0	

Source: Company

## Project cargo division doing well

The project cargo division reported revenues of Rs.304 mn in Q1CY09 as against Rs.101 mn in the same period last year. The operational profit is up 231.3% YoY and up 35.9% on sequential basis to Rs.53 mn. PBT has moved up by 212.5% YoY and up 42.9 on sequential basis to Rs.50 mn. Going ahead this division has good visibility as it has order backlog of Rs.1.5 bn to be executed in next 15 months.

### Acquired 5.97% equity stake in Gateway Distriparks Ltd (GDL)

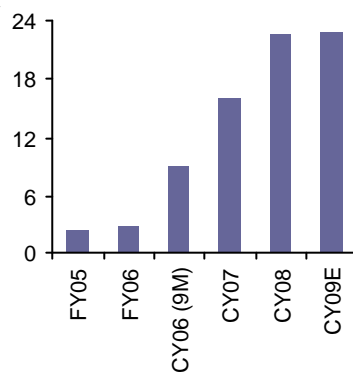
Allcargo has acquired 6,095,223 equity shares of GDL constituting 5.97% of the total paid up capital from the open market through M/s. Sealand Terminals Pvt. Ltd., which is the wholly owned subsidiary of Allcargo. It paid ~Rs.283 mn for this stake. The management of Allcargo has reiterated that it is purely a treasury investment and has clearly declined any synergy with GDL. In fact it has also sold 2.3% of the stake in GDL subsequently thereby clearly indicating that it is a pure treasury investment. It currently holds 3.67% stake in GDL.

### Recommendation and Valuation:

**We maintain REDUCE recommendation on ALLCARGO with a price target of Rs.650**

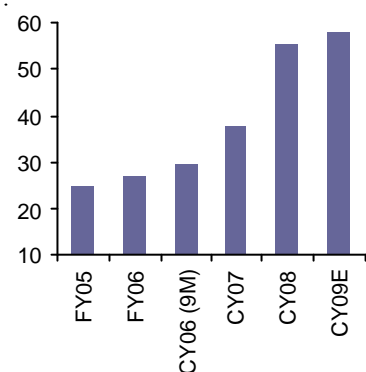
- We maintain our earning estimates and expect Allcargo to report Cons. EPS of Rs.58.0 in CY09E.
- We are negative on the medium term growth prospects of ALLCARGO due to concerns like slowdown in the world economy, lower manufacturing growth, EXIM de-growth and decline in port volumes.
- On the back of these concerns we feel that CY09 could be challenging year for the company. Thus at the current market price of Rs.779 it is fairly valued at 13.4x CY09E EPS of Rs.58.0.
- We continue to recommend **REDUCE** on ALLCARGO with unchanged price target of Rs.650.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

## EVENT UPDATE

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## GUJARAT STATE PETRONET LTD (GSPL)

PRICE: Rs.49

TARGET PRICE: Rs.50

RECOMMENDATION: REDUCE

FY10E P/CEPS: 6.6x

- ❑ GSPL not to provide for 30% payment of PBT to GSEDs in FY09E
- ❑ Revise FY09E EPS upwards from Rs.1.6 to Rs.2.2.
- ❑ Likely to ink additional deal with Reliance for transporting cheaper re-gasified LNG
- ❑ Reliance gas to flow through GSPL pipelines in current quarter
- ❑ Value unlocking expected in Sabarmati Gas Ltd
- ❑ Revise FY10E EPS upwards from Rs.2.2 to Rs.3.0.
- ❑ Price target revised to Rs.50 (Rs.40 earlier)
- ❑ Downgrade to REDUCE on account of recent sharp run up and limited upside potential from current levels.

## Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	4,179	4,738	7,727
Growth (%)	31.6	13.4	63.1
EBITDA	3,645	4,143	6,887
EBITDA margin (%)	87.2	87.5	89.1
Net profit	998.7	1,250.2	1,673.6
Growth (%)	11.7	25.2	33.9
Net debt	7,091	10,085	7,999
EPS (Rs)	1.8	2.2	3.0
Growth (%)	7.9	25.2	33.9
CEPS (Rs)	4.7	5.3	7.5
DPS (Rs)	0.5	0.5	0.5
ROE (%)	9.5	10.5	13.0
RoIC (%)	9.5	10.2	15.2
EV/Sales (x)	8.3	7.9	4.6
EV/EBITDA (x)	9.5	9.1	5.2
P/E (x)	27.6	22.0	16.5
P/BV (x)	2.4	2.2	2.0
P/CEPS (x)	10.5	9.3	6.6

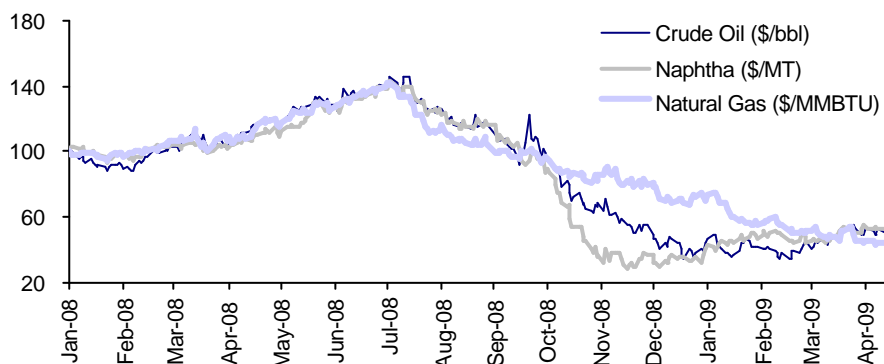
Source: Company, Kotak Securities - Private Client Research

We recently spoke with the management of GSPL and following are our key takeaways:

## Naphtha prices continue to rise - positive of GSPL

- In November 2008, due to significant fall in crude prices the naphtha prices had also crashed. Also there was stock liquidation of naphtha by few refineries which led to temporary oversupply of naphtha which further brought down the naphtha prices. The consumers with dual fuel capability had actually shifted from gas to naphtha as it was cheaper. This has led to lower volumes of gas being transported through GSPL's pipelines in Q3FY09.
- However the naphtha prices have started going up since end of January 2009 and thus the consumers have started shifting back to natural gas. The crude oil prices have also started going up thereby indicating further rise in naphtha prices. We expect this trend to continue going forward and this would help GSPL to transport increased volume of gas in the following quarters.

## Comparative price trend



Source: Bloomberg



## Spot LNG prices have crashed recently - additional opportunity for GSPL

- The spot LNG prices have crashed recently to the level of domestic gas prices. As per industry sources the price of re-gasified LNG has come down by ~35% from \$8.5 / MMBTU in early March to \$5.5 / MMBTU currently. Re-gasified LNG is now available in the Gujarat market at around \$5.5 / MMBTU comparable to the price of natural gas sourced from Panna-Mukta-Tapti joint venture at \$5.7 / MMBTU and the price of Reliance D6 gas which is expected to be delivered at Gujarat at \$5.5 / MMBTU which includes transportation charges and marketing margin.
- Going forward the price of re-gasified spot LNG in India is expected to slide further to the levels of the Europe (\$4.2 / MMBTU) and US (\$3.5 / MMBTU). This is positive for GSPL as more LNG would be imported by Petronet LNG which is connected with GSPL's pipelines.
- Gujarat has the ability to absorb the supply of gas as Gujarat is the country's most industrialized state and is the largest consumer of natural gas i.e. ~one third of India's consumption. As per the industry sources the demand for natural gas in Gujarat is expected to increase from ~60 MMSCMD currently to 100 MMSCMD by 2010.

## Greater visibility on Reliance gas

We expect the KG basin gas of Reliance Industries to start flowing into GSPL pipelines in the current quarter. The high court has allowed Reliance to start selling gas @ \$4.2 / MMBTU. However it would be as per the directions given by the Empowered Group of Ministers. Gas would be sold as per the priority of sectors like fertilizers, city gas distribution, power etc. Thus due to above factor there is greater visibility on the sale of KG basin gas from Reliance Industries. This is positive for GSPL as has already signed long term contract with Reliance for transporting 11 MMSCMD of gas.

## Not to provide for payment of 30% of PBT to GSED in FY09

The board and shareholders of GSPL have approved payment of 30% of their Profit Before Tax to Gujarat Socio-Economic Development Society (GSEDS). This money would be used for the socio economic development of the state. However the management has said that GSPL would not provide for the same in FY09 as the eligible projects have not yet been identified and the process of income tax exemption under section 35AC is not completed by GSEDS. The management is of the opinion that till any project is identified and given to GSPL it would not provide for the same. It would follow cash principle and would record it in P&L as and when disbursements happen for it. No disbursements have been made till date and thus it would not be provided for in FY09.

## Revision in FY09 earning estimates

We have revised our earning estimates for FY09E, to account for non-payment of 30% of PBT to GSEDS. Thus for FY09E, we expect GSPL to report revenues of Rs.6.5 bn, EBIDTA margin of 87.5% and PAT of Rs.1.2 bn. Accordingly, for FY09E, we expect GSPL to report EPS of Rs.2.2 and CEPS of Rs.5.3 as against our earlier estimate of Rs.1.6 and Rs.4.6 respectively.

## Additional contract likely with Reliance

The company is likely to sign additional contract with Reliance to transport gas to its refinery in Jamnagar. Due to significant fall in the LNG prices and doubling of capacity of Petronet LNG, Reliance is likely to sign contract to import the LNG and then re-gasified LNG would be transported through GSPL's pipelines. This means additional business of GSPL. Also the management has been optimistic and has guided that GSPL would transport 30 to 35 MMSCMD of gas in FY10E.

### Change in Estimates - FY09E

(Rs mn)	Old	Revised
Revenues	4,738	4,738
EBIDTA (%)	87.5	87.5
PBT	1,326	1,894
Profit	875	1,250
EPS (Rs.)	1.6	2.2
CEPS (Rs.)	4.6	5.3
Volumes (MMSCMD)	15.3	15.3
Avg Realizations (Rs / TCM)	850	850

Source: Kotak Securities - Private Client Research



**Change in Estimates - FY10E**

(Rs mn)	Old	Revised	% shift
Revenues	6,497	7,727	18.9
EBIDTA (%)	87.1	89.1	2.4
PBT	2,642	3,622	37.1
Profit	1,221	1,674	37.1
EPS (Rs.)	2.2	3.0	37.1
CEPS (Rs.)	6.2	7.5	20.2
Price Target (Rs.)	40	50	25.3
Volumes (MMSCMD)	26.4	31.4	18.9
Average Realizations (Rs / TCM)	674	674	(0.0)

Source: Kotak Securities - Private Client Research

**Revision in FY10 earning estimates and price target**

- We have revised our earning estimates for FY10E, to account for increased volumes of gas to be transported through its pipelines.
- For FY10E we now expect GSPL to transport 31.4 MMSCMD (up 18.9%) of gas with the average realizations of 674 per TCM (no change). The ramp in volumes is on account of low LNG prices and long term contracts with Reliance and Torrent Power.
- Thus for FY10E, we expect GSPL to report revenues of Rs.7.7 bn (up18.9%), EBIDTA margin of 89.1% as against 87.1% and PAT of Rs.1.7 bn (up 37.1%). Accordingly, for FY10E, we expect GSPL to report EPS of Rs.3.0 and CEPS of Rs.7.5 as against our earlier estimate of Rs.2.2 and Rs.6.2 respectively.
- We have valued GSPL on DCF method of valuation with 12.6% WACC (13.1% earlier) and 3% terminal growth rate. Thus the price target is revised upwards to Rs.50 as against Rs.40 earlier.

**Expected shareholding pattern of Sabarmati Gas Ltd.**

	(%)
GSPC + GSPL	25.0
BPCL	25.0
IFCI Venture Capital	16.6
UTI	16.6
IDFC Project Equity	16.6
12 Individuals	0.1
Total	100.0

Source: Company

**Value unlocking in Sabarmati Gas Ltd. (SGL)**

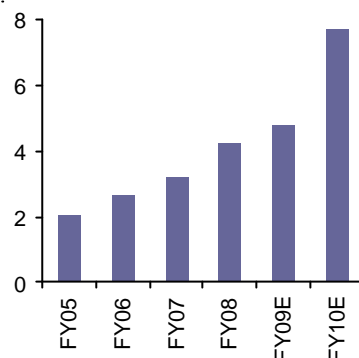
- SGL, jointly promoted by GSPC group and BPCL, distributes gas in Gandhinagar, Mehsana and Sabarkantha districts of Gujarat. It supplies CNG to households and automobiles. SGL is also supplying natural gas to various industrial units in Santej, Karoli, Khatraj, Vadsar and Bhat areas of Gandhinagar district. These industrial units manufacture ceramics, paper, polyplast bags and aluminium conductors. It has also set up a dedicated CNG Filling Station for GSRTC (Gujarat State Road Transport Corporation) Buses at bus depot in Gandhinagar.
- SGL is a profit-making venture as for FY08 it has recorded a turnover of Rs.968 mn and PAT of Rs.47.3 mn. Currently it is supplying ~0.7 MMSCMD of gas.
- SGL board has approved allotment of 49.86% stake to the three investors i.e. IFCI Venture Capital Fund, UTI and IDFC Project Equity Co at Rs.80 per share including premium of Rs.70 per share. The total value of the deal is estimated at Rs.800 mn.
- Post the deal, the two promoters, i.e. GSPC group and BPCL, will hold 25% stake each in the company, 49.86% by the new financial partners and the rest 0.126% would be held by 12 individuals. GSPC and GSPL combined would have 25% stake in SGL.
- GSPL has already invested Rs.330 mn as share application money in SGL. However the final structure is not yet finalized and thus we await further details from the management regarding the same.

### Valuation & Recommendation

**We downgrade to REDUCE on GSPL with a price target of Rs.50**

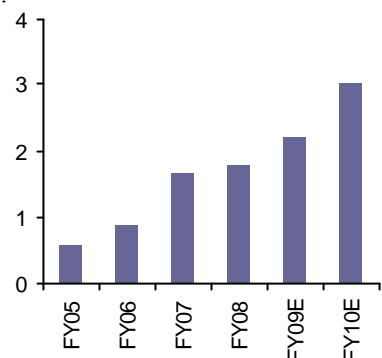
- At the current market price of Rs.49, the stock trades fair valuations of 2.0x book value, 16.5x earnings and 6.6x cash earnings based on FY10E.
- We had recommended investors to ACCUMULATE the stock of GSPL on 25th February 2009 at Rs.32 per share. Since then the stock has appreciated sharply by ~53% and price target of Rs.40 achieved.
- We are downgrading the stock of GSPL to **REDUCE** on account of fair valuations, recent sharp run up and limited upside potential from current levels with revised price target of Rs.50.
- We recommend investors to look for better entry point at lower levels.

Net sales (Rs bn)



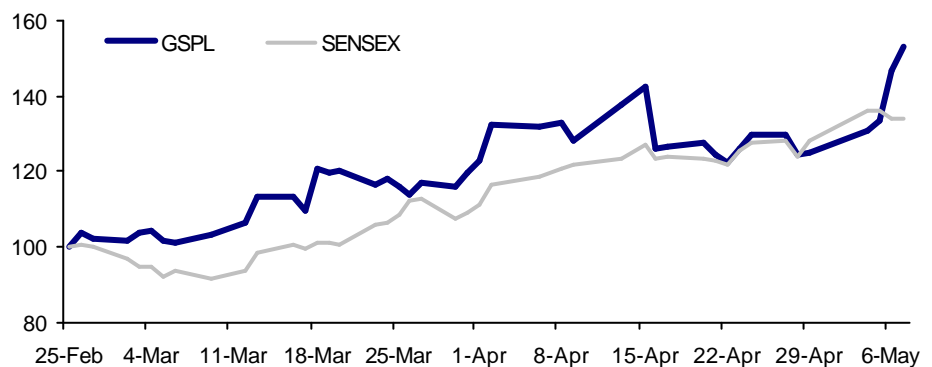
Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

### Price comparison



Source: Bloomberg

## RESULT UPDATE

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## UNION BANK OF INDIA

PRICE: Rs.159

TARGET PRICE: Rs.192

RECOMMENDATION: BUY

FY10E PE: 4.3x; P/B: 1.0x

- ❑ Q4FY09 Results: Slightly below our Expectations
- ❑ The bank's net interest income (NII) grew 20.1% on back of strong loan growth (29.5% YoY) in spite of some softness in its NIM (YoY) and decline in CASA as well as C/D ratio.
- ❑ Its net profit declined 10.3% YoY due to sharp increase in operating expenses (126.1%) as well as tax provisions (Rs.1.63 bn in Q4FY09 vs. 0.44 bn in Q4FY08).
- ❑ Non-interest income saw strong traction (49.8%) during Q4FY09 on strong growth in profit on sale of Investments and healthy growth in core income.
- ❑ In absolute term, both gross as well as net NPA's increased QoQ and YoY. Slippage ratio increased to 1.59% during FY09, slightly higher than our expectations. We are now assuming slightly higher slippage during FY10E leading to reduction in adjusted book value for FY10E.
- ❑ We are slightly tweaking our earning estimates for FY10E and maintaining a BUY rating on the stock with the revised target price of Rs.192 (earlier Rs.196). At the target price, the stock would trade at 1.19x its FY10E adjusted book value.

## Result Performance (Rs mn)

	Q4FY09	Q4FY08	YoY (%)	FY09	FY08	YoY (%)
Interest on advances	24464.1	18134.9	34.9	88933.6	67309.8	32.1
Interest on Investment	7754.0	6207.5	24.9	28308.6	22832.5	24.0
Interest on RBI/ banks' balances	185.9	104.2	78.4	680.1	608.1	11.8
Other interest	493.0	953.3	-48.3	971.5	1395.9	-30.4
<b>Total Interest earned</b>	<b>32897.0</b>	<b>25399.9</b>	<b>29.5</b>	<b>118893.8</b>	<b>92146.3</b>	<b>29.0</b>
Interest expenses	23633.2	17685.2	33.6	80758.1	63609.5	27.0
<b>Net interest income</b>	<b>9263.8</b>	<b>7714.7</b>	<b>20.1</b>	<b>38135.7</b>	<b>28536.8</b>	<b>33.6</b>
Other income	5590.3	3731.1	49.8	14825.5	13196.4	12.3
Net Revenue (NII + Other income)	14854.1	11445.8	29.8	52961.2	41733.2	26.9
Operating Expenses	5739.5	2539.0	126.1	22141.2	15929.8	39.0
Payments to / Provisions for employees	3130.7	570.9	448.4	11518.8	8452.8	36.3
Other operating expenses	2608.8	1968.1	32.6	10622.4	7477.0	42.1
<b>Operating profit</b>	<b>9114.6</b>	<b>8906.8</b>	<b>2.33</b>	<b>30820.0</b>	<b>25803.4</b>	<b>19.4</b>
Provisions & contingencies	2834.0	3651.8	-22.4	7374.5	7289.4	1.2
Provision for taxes	1630.0	43.7	3630.0	6180.0	4643.7	33.1
<b>Net profit</b>	<b>4650.6</b>	<b>5211.3</b>	<b>-10.8</b>	<b>17265.5</b>	<b>13870.3</b>	<b>24.5</b>
<b>EPS, Rs</b>	<b>9.21</b>	<b>10.32</b>	<b>-10.8</b>	<b>34.18</b>	<b>27.46</b>	<b>24.5</b>

Source: Company

## KEY HIGHLIGHTS

### Earnings slightly below our expectations

The bank's net interest income (NII) grew 20.1% to Rs.9.26 bn in Q4FY09 from Rs.7.71 bn in Q4FY08 on back of strong loan growth (29.5% YoY) in spite of some softness in its NIM (YoY) and decline in CASA (from 34.9% at the end of FY08 to 30.1% at the end of FY09) as well as C/D ratio (from 73.1% at the end of FY08 to 70.8% at the end of FY09).

During Q4FY09, interest income witnessed 29.5% growth as compared to 33.6% growth in total interest expenses.

Its net profit declined 10.3% (YoY) to Rs.4.65 bn in Q4FY09 from Rs.5.21bn in Q4FY08 due to sharp increase in operating expenses (126.1%) as well as tax provisions (Rs.1.63 bn in Q4FY09 vs. 0.44 bn in Q4FY08). Last year, Q4FY08 had employee benefit write-backs of Rs.1.42 bn as against an additional provision of Rs.0.9 bn in Q4FY09.

### Strong non-interest income (YoY)

Non-interest income saw strong growth (49.8% YoY) to Rs.5.59 bn in Q4FY09 from Rs.3.73 bn in Q4FY08. This came mainly on back of robust growth (239%) in treasury profit from Rs.0.67 bn during Q4FY08 to Rs.2.27bn during Q4FY09 and 22.1% growth in core income from Rs.2.44 bn during Q4FY08 to Rs.2.98 bn during Q4FY09.

#### Trend in Non-interest income

(Rs bn)	4Q 2008	4Q 2009	YoY (%)
Profit on sale of Investments	0.67	2.27	238.8
Recovery from W/O accounts	0.62	0.35	-43.5
Core Income	2.44	2.98	22.1
Total non-interest income	3.73	5.59	49.8

Source: Company

### Healthy business growth

Total business of the bank rose 31.8% to Rs.2369.7 bn in Q4FY09 from Rs.1797.4 bn in Q4FY08.

- Total deposits of the bank rose 33.5% (YoY) to Rs.1387.0 bn in Q4FY09 from Rs.1038.6 bn in Q4FY08. CASA (low cost deposits) came down to 30.1% at the end of Q4FY09 from 34.9% at the end of Q4FY08, a decline of 480 bps YoY.

#### Deposit Mix

	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009	YoY (%)
CASA (Current & Savings accounts)	289	308	328	362	373	384	394	417	15.2
CASA (%)	33.3	32.5	33.1	34.9	34.8	33.1	30.4	30.1	
Term Deposits	581	640	664	677	700	776	903	970	43.4
Bulk Deposits (%) - Wholesale	191	181	190	181	165	193	190	146	-19.4
Bulk Deposits (%)	21.9	19.1	19.1	17.4	15.4	16.6	14.7	10.5	
Total Deposits (Rs bn)	869.8	948.0	992.3	1038.6	1072.5	1159.4	1296.5	1387.0	33.5

Source: Company

Retail term deposits (total deposits minus bulk deposits) increased 44.7% to Rs.1241.0 bn at the end of Q4FY09 and thus reducing the contribution of bulk deposits to total deposits to 10.5% at the end of Q4FY09 (vs. 17.4% a year ago).

- Growth in advances was robust at 29.5% (YoY) to Rs.982.7 bn in Q4FY09 from Rs.758.8 bn in Q4FY08 mainly driven by SME and retail (personal) segments, which grew 31.9% and 28.8%, respectively.
  - SME loan book improved by 31.9% to 161.5 bn in Q4FY09 from Rs.122.4 bn in Q4FY08.
  - Retail (personal) segment increased 28.8% (YoY) to Rs.100.9 bn in Q4FY09 from Rs.78.4 bn in Q4FY08.
  - Agriculture loan increased 17.8 % to Rs.135.2 bn during Q4FY09 from Rs.114.7 bn during Q4FY08.

### Margins declined

Net interest margin (NIM) declined to 2.8% in Q4FY09 as compared to 3.68% in Q3FY09 and 3.52% in Q2FY09. This decline in the NIM has come on back of 200 bps reduction in its PLR during Q4FY09, which is in line with the falling rates in the system.

### Trend in yields, costs & NIM

(%)	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Yields on Advances	10.13	11.16	11.53	11.06
Yields on Investments	7.37	7.52	7.51	7.24
Yield from Assets	8.16	8.75	9.31	8.84
Cost of Deposits	6.06	6.25	6.54	NA
Cost of Funds	5.60	5.74	6.10	6.35
NIM (%)	2.92	3.52	3.68	2.80

Source: Company

As loans are re-priced immediately whereas deposit re-pricing seeps into the system with a lag, bank expects to benefit from the re-pricing of its deposits after Q1FY10.

### Increase in NPAs

The bank's gross NPA increased 23.0% qoq and net NPA increased 155.7% qoq to Rs.19.23 bn and Rs.3.26 bn, respectively. In percentage terms, gross NPA declined to 1.96% in Q4FY09 from 2.18% in Q4FY08. During the same period, net NPA increased to 0.34% from 0.17%. Loan loss coverage of NPA declined sequentially to 83.1% at the end of Q4FY09 from 91.9% at the end of Q3FY09.

### Trend in NPAs

NPA (Rs bn)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	YoY (%)
Gross NPA	17.69	16.59	15.61	16.57	15.75	16.75	15.64	19.23	16.1
Gross (%)	2.78	2.42	2.10	2.18	2.08	1.93	1.68	1.96	
Net NPA	4.86	4.37	2.56	1.26	1.09	1.16	1.28	3.26	158.0
Net (%)	0.78	0.65	0.35	0.17	0.15	0.14	0.14	0.34	

Source: Company

The Bank restructured Rs.29.6 bn of loans, which constitutes around 3% of its loan book. Out of this 55% of loans belong to larger accounts and rest is to accounts with less than Rs10 mn of exposure. The pending proposals as stated by the management are just Rs1.4 bn worth of loans.

The management has also guided us that slippages would be contained at 1.25% of loans in FY2010E and they expects gross NPL ratio to remain below 1.5%.

## Comfortable on Capital adequacy front

Capital adequacy ratio (CAR) stands at 13.27% (Basel-II) at the end of Q4FY09 as against 12.51% a year ago. According to Basel-II, it stands at 13.41% at the end of Q3FY09.

### Trend in Capital adequacy ratio (CAR)

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
CAR (%)	12.66	11.55	13.03	12.51	11.28	12.53	12.32	13.27
Tier-I	7.95	7.36	7.75	7.45	6.93	7.61	7.50	8.19
Tier-II	4.71	4.19	5.28	5.06	4.35	4.92	4.82	5.08

Source: Company

Tier-I capital funds have increased by 27.65% from Rs.61.06 bn at the end of FY08 to Rs.77.94 bn at the end of FY09. The bank raised Rs.3.4 bn worth of perpetual bond during FY09 and at the end of FY09, it stands at Rs.8.4 bn.

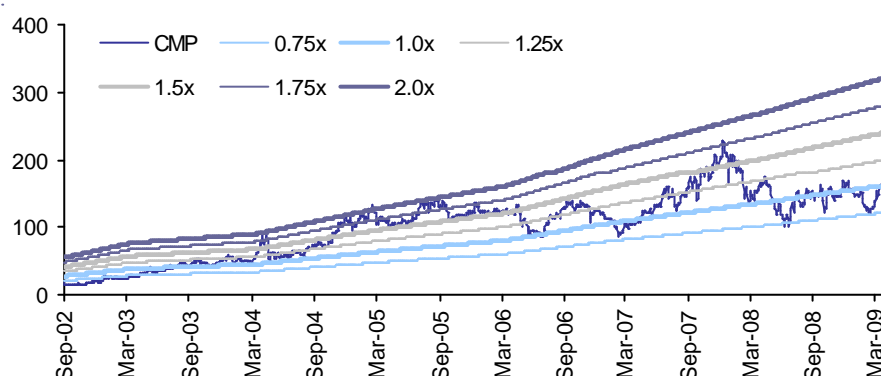
## Valuation & recommendation

We have slightly tweaked our earning estimates for FY10E and now expect earnings to grow at 7.8% and balance sheet size at 18.4% during FY10. We expect RoA to remain high at around 1.1% and RoE at 23.8% in FY10, one of the highest in the industry.

We now expect net profit for FY10E to be Rs.18.61 bn, which would result into an EPS of Rs.36.9 for FY10E. The ABV for FY10E is forecast at Rs.160.4.

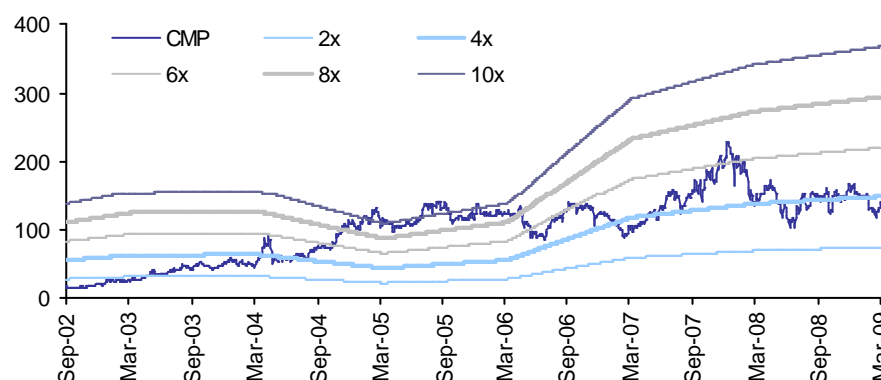
At the current market price of Rs.159, the stock is trading at 4.3x its FY10E earnings and 1.0x its FY10E ABV.

### Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

### Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

At a RoE of 23.8% in FY10E, cost of equity of 15.1% and perpetual growth rate of 4%, the theoretical fair value stands at 1.78x its adjusted book value. Historically, the stock has been trading in the range of 0.5x - 2.0x ABV with the average around 1.0x.

We are assigning 75:25 weights to historical multiple and fair multiple (based on single-stage Gordon Growth Model), respectively. We have, thus, arrived at a fair multiple of 1.19x.

**We maintain BUY on Union Bank of India with a price target of Rs.192**

We are maintaining a **BUY** rating on the stock with a revised target price of Rs.192 (earlier Rs.196) based on 1.19x its FY10E adjusted book value, which could provide 21% upside from current levels over a 12-months horizon.

#### Key data

(Rs bn)	FY06	FY07	FY08	FY09E	FY10E
Interest income	57.33	72.27	93.02	118.89	146.07
Interest expense	34.89	45.92	63.61	80.76	101.28
<b>Net interest income</b>	<b>22.44</b>	<b>26.35</b>	<b>29.41</b>	<b>38.14</b>	<b>44.79</b>
Other income	4.94	6.87	13.20	14.83	15.20
Gross profit	13.35	18.46	26.68	30.82	35.23
<b>Net profit</b>	<b>5.44</b>	<b>6.91</b>	<b>14.75</b>	<b>17.27</b>	<b>18.61</b>
Gross NPA (%)	3.8	2.9	2.2	2.0	2.0
Net NPA (%)	1.6	1.0	0.2	0.3	0.4
Net int. margin (%)	3.0	3.1	2.9	3.2	2.6
RoE (%)	15.0	15.6	28.5	27.3	23.8
RoAA (%)	0.7	0.7	1.3	1.2	1.1
Dividend Yield (%)	2.2	2.2	2.5	3.1	3.1
<b>EPS (Rs)</b>	<b>10.8</b>	<b>13.7</b>	<b>29.2</b>	<b>34.2</b>	<b>36.9</b>
Adjusted BVPS (Rs)	63.6	79.8	108.8	133.2	160.4
<b>P/E (x)</b>	<b>14.8</b>	<b>11.6</b>	<b>5.4</b>	<b>4.6</b>	<b>4.3</b>
P/ABV (x)	2.5	2.0	1.5	1.2	1.0

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)
7-May	A K Capital	Firststrand (Ireland) Pub Ltd Co	S	40,000	165.07
7-May	Arow Coat Pr	Epcot Secirities Pvt Ltd	B	40,000	10.81
7-May	Arow Coat Pr	Jasmeen Kaur	S	40,000	10.81
7-May	Asian Hotels	Birla Sunlife Insurance Company Ltd.	B	400,276	222.71
7-May	Asian Hotels	Indea Long Term Opo Master Fund	S	500,345	222.53
7-May	Aurionpro So	Nitadhirenkothary	B	90,000	80.40
7-May	Aurionpro So	Nitiket Investment Private Limited	B	83,306	80.40
7-May	Aurionpro So	Arisaig India Fund Ltd (AIF)	S	338,512	80.44
7-May	Axon Infotec	Tripti Vyapaar Private Limited	B	4,756	11.10
7-May	Bafna Pharma	Reneka M	B	105,233	25.22
7-May	Bafna Pharma	Sasikalabafna	S	100,000	25.22
7-May	Brushman Ind	Amit Business Pvt Ltd	B	70,000	19.80
7-May	Brushman Ind	Ivory Consultants Pvt Ltd	S	70,000	19.80
7-May	CCL Produts	Citigroup Global Mkts Mauritius Pvt Ltd	B	409,453	89.00
7-May	CCL Produts	TheMastertrustbankofjapanltda/ Cnomura India Invt.Fundmotherfund	S	409,453	89.00
7-May	Dazzel Confi	Priti V Mehta	B	61,940	2.89
7-May	Dazzel Confi	Hasti Chhajer	S	60,557	2.89
7-May	Infotrek Sys	Sarita Anandkumar Gupta	B	20,000	12.27
7-May	Infotrek Sys	Magna Umbrella Fund Plc	S	21,100	12.27
7-May	Jumbo Bag Lt	Rushab Ravji Patel	S	38,481	28.38
7-May	Kiran Prin P	Yash Management And Satelite Ltd	B	50,000	11.80
7-May	Kiran Prin P	Rohyl Consultancy Private Limited	S	61,600	11.87
7-May	Koff Br Pict	Parimaljashwantraimehta	B	370,000	3.00
7-May	Netwo St Bro	Albula Investment Fund Ltd	B	725,000	30.00
7-May	Netwo St Bro	Kvprakash	S	304,900	30.00
7-May	Netwo St Bro	Trinity Capital	S	325,040	30.01
7-May	Roselabs Ltd	Singhal Overseas Limited	S	71,485	10.06
7-May	Sanguine Md	Dhirajlal V Sanghvi Huf	S	93,628	2.38
7-May	Sellaiids Pub	Virendrasevantilalshah	S	30,000	2.60
7-May	Splash Media	Sangeeta mantri mantri	B	15,000	50.35
7-May	Splash Media	Sunitaagarwal	B	15,000	50.35
7-May	Splash Media	Ashajain	B	15,000	50.35
7-May	Splash Media	Kirit V Dave	B	10,000	50.15
7-May	Splash Media	Hitesh Babubhaidobariya	S	38,494	50.35
7-May	Splash Media	Bhanumati Dharamrajgiri	S	6,506	50.35
7-May	Splash Media	Gandhi Manisha Navneetlal	S	12,500	50.23
7-May	Symp Com Sys	Jonaki Achal bakeri	B	43,161	45.75
7-May	Symp Com Sys	Rowenta Networks Pvt. Ltd.	S	41,320	45.72
7-May	Zenu Infotec	Vidya M Chalke	S	65,000	6.22

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Ind	1,916	1.8	8.5	3.7
Bharti Airtel	783	3.3	7.6	4.5
Sterlite Ind	517	13.3	6.8	7.1
<b>Losers</b>				
NTPC Ltd	192	(1.1)	(2.8)	3.9
Infosys Tech	1,553	(1.3)	(1.9)	1.8
Hindustan Unilever	231	(1.7)	(1.4)	5.1

Source: Bloomberg

## Forthcoming events

### Company/Market

Date	Event
8-May	GE Shipping, Andhra Bank, Alembic, Novartis India, UCO Bank earnings expected
9-May	State Bank of India, Sintex Industries earnings expected
10-May	Hindustan Unilever earnings expected
11-May	Tata Teleservices earnings expected

Source: Bloomberg

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