



Economy News

- ▶ The strong rupee vis-à-vis the dollar in the last financial year and rise in input costs triggered a sharp fall in the country's auto parts export growth rate. The strengthening of the currency had shrunk their export margins. At the same time, global vehicle companies balked from giving price increase on raw material to domestic component companies in long-term contracts. (BL)
- ▶ The Union Food Ministry has started work on a plan to do away with reservation of sugarcane area for mills. At present, sugarcane farmers can sell only to that mill in whose area their fields are located. An amendment to the Sugarcane Control (Order) will take away from state governments the power to reserve sugarcane areas. (BS)
- ▶ Cement dispatches of frontline companies improving in the first quarter of 2008-09, steep rise in input cost is expected to exert pressure on the bottomlines. Interestingly, the dispatches have improved across companies in June, which is considered a dull period due to the onset of monsoon. (BL)
- ▶ Government is mulling relaxing external commercial borrowing norms, especially for infrastructure companies a senior finance ministry official said. (DNA Money)

Corporate News

- ▶ **Dr Reddy's Laboratories** has decided to buy back the shares of Perlecan Pharma, its demerged arm, for \$18 million (about Rs 72 crore) from ICICI Ventures and Citigroup. It posted a PAT of Rs 134.6 crore for the quarter, 26 per cent down when compared with Rs 182.5 crore posted in the corresponding previous year quarter. (BS)
- ▶ **Tata Power** has picked up 26 per cent stake in the Royal Government of Bhutan (RGoB) promoted 114 mega watt hydro electric power project over river Dagachhu through Druk Green Power Corporation (DGPC) (BS)
- ▶ **IVRCL Infrastructures and Projects** has received new orders worth Rs 351.21 crore. These include Rs 243.01-crore orders from the Andhra Pradesh Industrial Infrastructure Corporation, Bangalore Metropolitan Transport Corporation and Bangalore-based Pride Malls. (BS)
- ▶ **Tata Motors'** Singur factory has swung into high gear. The first batch of 25 Nanos, internally called the 'pilot batch' by the Tatas, will be ready by September 15—precisely a fortnight before the Rs 1-lakh car is scheduled to hit the road. (ET)
- ▶ **SAIL** posted a Net profit of Rs 1,835 crore for the quarter as against Rs 1,525 crore last year while net sales rose over 37 per cent to Rs 11,029 crore. (BS)
- ▶ The Supreme Court on Monday stayed a Gujarat high court order directing **GAIL (India) Ltd** to pay the erstwhile IPCL about Rs 2000mn over a gas transportation charge dispute, a GAIL official said. (DNA Money)

Equity

	21 July 08	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	13,850	1.6	(5.0)	(17.5)
Nifty	4,160	1.6	(4.3)	(17.6)
BSE Banking	6,429	3.9	(5.5)	(26.2)
BSE IT	3,580	(0.0)	(14.8)	(8.9)
BSE Capital Goods	11,063	(0.8)	(3.0)	(20.6)
BSE Oil & Gas	9,309	0.8	(1.2)	(18.9)
NSE Midcap	5,173	0.5	(12.2)	(24.7)
BSE Small-cap	6,438	(0.3)	(13.0)	(26.8)
World Indices				
Dow Jones	11,467	(0.3)	(3.2)	(9.9)
Nasdaq	2,280	(0.1)	(5.3)	(4.1)
FTSE	5,404	0.5	(3.9)	(10.4)
Nikkei	12,804	(0.7)	(6.8)	(5.1)
Hangseng	22,533	3.0	(1.1)	(9.8)

Value traded (Rs cr)

	21 July 08	% Chg - Day
Cash BSE	4,340	(17.0)
Cash NSE	10,640	(17.4)
Derivatives	43,942	(16.8)

Net inflows (Rs cr)

	18 July 08	% Chg	MTD	YTD
FII	589	10	(1,419)	(27,910)
Mutual Fund	(130)	(1,269)	438	9,587

FII open interest (Rs cr)

	18 July 08	% Chg
FII Index Futures	18,135	6.9
FII Index Options	21,414	2.0
FII Stock Futures	16,816	1.2
FII Stock Options	1,011	2.0

Advances / Declines (BSE)

	21 July 08	A	B	S	Total	% total
Advances	112	763	190	1,065	45	
Declines	90	935	230	1,255	52	
Unchanged	2	54	16	72	3	

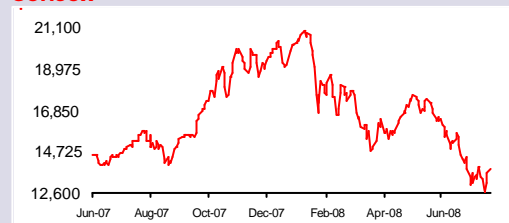
Commodity

	21 July 08	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	130.6	(0.4)	(3.0)	9.4
Gold (US\$/OZ)	965.6	1.1	7.3	5.7
Silver (US\$/OZ)	18.4	1.6	6.5	4.7

Debt / forex market

	21 July 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.30	9.30	8.57	8.20
Re/US\$	42.67	42.52	43.04	39.88

Sensex



RESULT UPDATE

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PETRONET LNG LTD.

PRICE: Rs.55

TARGET PRICE: Rs.90

RECOMMENDATION: BUY

FY09E P/E: 8.3x

- ❑ Q1FY09 results slightly below estimates on profitability front
- ❑ Maintain FY09 earning estimates
- ❑ However we factor in higher beta and cost of capital
- ❑ Petronet LNG stock has corrected sharply and thus is attractive at current levels
- ❑ Recommend BUY with revised price target of Rs.90 (Rs.96 earlier)
- ❑ 64% upside potential form current level
- Net sales for Q1FY09 were at Rs.16.5 bn up by 6.1% on YoY basis. However the revenues are down 6.1% on sequential basis. This is primarily due to lower handling of spot cargoes during the quarter and due to the fact that the company is operating at above 100% capacity utilization levels.
- During the Q1FY09, PLNG sold 78.8 TBTU of re-gasified LNG which is flat on YoY basis. This is due to the fact that there was mechanical failure in one of the high pressure pumps which is likely to be rectified by August 2008.
- The average realizations improved by 5.8% to Rs.209 mn per TBTU during Q1FY09 over the corresponding period last year.

Summary table

Rs mn	FY07	FY08	FY09E
Sales	55.1	65.6	71.4
Growth (%)	43.6	19.0	8.9
EBITDA	6.5	8.7	9.6
EBITDA margin (%)	11.8	13.2	13.4
Net profit	3.1	4.7	5.0
Net cash (debt)	(10.4)	(12.2)	(16.4)
EPS (Rs)	4.2	6.3	6.7
Growth (%)	60.7	51.5	5.2
DPS (Rs)	-	1.25	1.50
ROE (%)	26.7	32.8	27.7
RoIC (%)	19.8	31.0	28.3
EV/Sales (x)	1.0	0.8	0.8
EV/EBITDA (x)	8.1	6.3	6.1
P/E (x)	13.4	8.8	8.4
P/BV (x)	10.1	7.3	6.5
P/CEPS (x)	3.3	2.6	2.1

Source: Company, Kotak Securities - Private Client Research

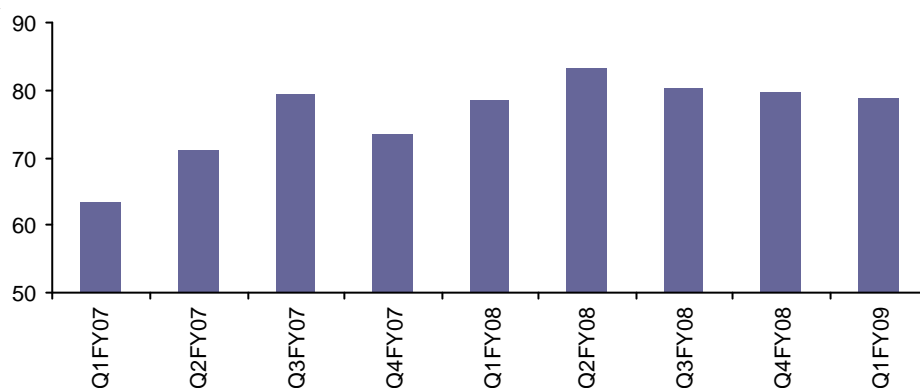
Quarterly performance - PLNG

(Rs mn)	Q1FY09	Q1FY08	YoY (%)	Q4FY08	QoQ (%)
Net Sales	16,459	15,510	6.1	17,527	(6.1)
Raw Material	14,231	13,154	8.2	15,019	(5.2)
Staff cost	39	57	(32.3)	73	(47.2)
Other exp.	271	250	8.6	286	(5.2)
Total exp.	14,541	13,461	8.0	15,378	(5.4)
EBITDA	1,918	2,049	(6.4)	2,148	(10.7)
Other income	167	116	43.7	179	(6.9)
Depreciation	255	254	0.5	254	0.7
EBIT	1,829	1,911	(4.3)	2,074	(11.8)
Interest	251	257	(2.3)	250	0.3
PBT	1,578	1,654	(4.6)	1,824	(13.5)
Tax & deferred tax	522	574	(9.1)	623	(16.3)
PAT	1,056	1,080	(2.2)	1,200	(12.0)
Equity shares o/s (mn)	750.0	750.0		750.0	
Ratios					
Operating profit margin (%)	11.7	13.2	-150 bps	12.3	-60 bps
RM / Sales (%)	86.5	84.8		85.7	
Staff cost / Sales (%)	0.2	0.4		0.4	
Other exp. / Sales (%)	1.6	1.6		1.6	
Tax / PBT (%)	33.0	34.7		34.2	
EPS (Rs)	1.4	1.4		1.6	
CEPS (Rs)	1.7	1.8		1.9	
Sales Volumes - TBTU	78.8	78.6	0.3	79.9	(1.3)
Avg. Realiz - Rs mn per TBTU	209	197	5.8	219	(4.9)
Regasification charges Rs mn per BTU	28.3	30.0	(5.7)	31.4	(10.0)

Source: Company

- For Q1FY09, the operational profit declined by 6.4% on YoY basis to Rs.1.9 bn. The company recorded lower EBITDA margin of 11.7%, which is down 150 bps on YoY basis and down 60 bps on sequential basis. This is due to lower handling of spot cargoes during the quarter. This resulted into higher raw material to sales ratio at 86.5% in Q1FY09 as against 84.8% in Q1FY08.
- Staff cost has declined from Rs.57 mn in Q1FY08 to Rs.39 mn in Q1FY09. This is primarily due to the fact that previous year had provisions of Rs.22 mn for bonus.
- PBT for Q1FY09 was at Rs.1.6 bn down 4.6% on YoY basis.
- PAT for Q1FY09 was at Rs.1.0 bn down 2.2% on YoY basis thereby translating into quarterly EPS of Rs.1.4 and CEPS of Rs.1.7.
- PAT is actually lower by 12.0% on sequential basis as the company handled less spot cargoes which typically have higher operating margins than its regular contracts. The company handled less spot cargoes, as due to nuclear plant shutdown in Japan, majority of the spot cargoes were bought by Japan to make up for the loss of power.

Quarterly sale volume - TBTU



Source: Company, Kotak Securities - Private Client Research

Expansions on schedule

The company is on schedule to expand the Dahej LNG terminal facility from the current 5 MMTPA to 10 MMTPA by December 2008. Further it would be ramped upto 12.5 MMTPA by December 2010. The Kochi LNG terminal with capacity of 2.5 MMTPA, is expected to be operational by December 2011. The company is on track to expand the capacity 3.5x from 5 MMTPA to 17.5 MMTPA by December 2012. The solid cargo port at Dahej, in JV with Adani group is also on track and is expected to commence operations by September 2009.

Excess capacity, if any, post expansion would be leased to companies like GSPC. This would ensure optimum capacity utilization and increase overall profitability for the company.

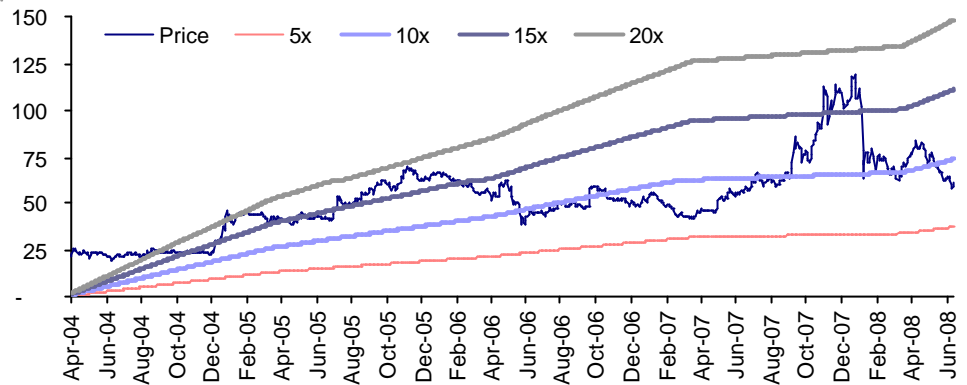
Confident of tying up more LNG

A lot of LNG facilities are being created around the world by March 2009 and thus Petronet is confident of procuring more LNG supply at competitive rates. Currently, the company gets 5 MMTPA from RasGas of Qatar under a long-term LNG deal which will increase to 7.5 MMTPA from 2009 once the Dahej facility doubles its capacity. Also it is looking to increase off-take from Gorgon field in Australia from 2.5 MMTPA to 3.75 MMTPA. Besides this the company is also on aggressive look-out for another 3.5 MMTPA of LNG which the management is confident of securing the deal at competitive rates. Thus the company is fairly secured in terms of LNG supply for its future expansions also.

Valuation & Recommendation

- We maintain our earnings estimates and expect PLNG to report EPS of Rs.6.7 for FY09E.
- On the basis of our estimates, the stock at current market price of Rs.55 is trading at 6.0x EV/EBIDTA, 8.3x P/E and 6.4x P/CEPS on the basis of FY09E earning estimates.
- We have also done a one-year forward rolling band analysis for Petronet, which revealed that currently the stock is trading at the lower end of the band of 5x-20x one year forward earning estimates.

One year forward rolling P/E band - Petronet LNG

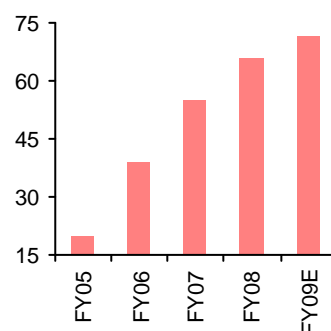


Source: Capitaline, Kotak Securities - Private Client Research

We recommend BUY on Petronet LNG with a revised price target of Rs.90 (64% upside)

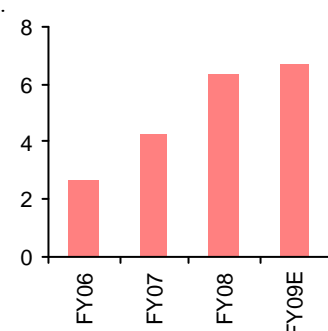
- We are changing our cost of equity assumptions in our valuation model on the back of interest rate hikes and change in risk perception. We now use risk free rate of 8.0% and risk premium of 6.5%, WACC of 12.4% and terminal growth rate of 3.0%. We have also incorporated higher beta for the stock.
- Using revised assumptions and DCF method of valuation we arrive at revised price of Rs.86 (Rs.98 earlier).
- We also value Petronet at 14x FY09 EPS of Rs.6.7 which give P/E based price target of Rs.94 (No change).
- The final price target is based on average of DCF value of Rs.86 and PE based value of Rs.94 that gives average of Rs.90 per share.
- We continue to remain positive and recommend BUY on Petronet LNG with a revised price target of Rs.90 (Rs.96 earlier), which provides 64% upside potential from current levels.
- We recommend **BUY** on Petronet LNG.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Teena Virmani

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+91 22 6621 6302**SHREE CEMENTS****PRICE: Rs.510****TARGET PRICE: Rs.725****RECOMMENDATION: HOLD****FY09E P/E: 5.2x**

Revenue growth driven by volume growth but profitability impacted by steep increase in power cost. Change recommendation to HOLD from REDUCE purely based on valuations. We continue to maintain our negative bias for the sector.

Result highlights**Profit and Loss Statement (Rs m)**

(Year-end March)	FY07	FY08	FY09E
Revenues	13,680	20,659	25,342
% change YoY		51.0	22.7
EBITDA	6,117	8,624	8,090
% change YoY		41.0	(6.2)
Other Income	212	733	700
Depreciation	4,331	4,788	2,985
EBIT	1,998	4,569	5,805
% change YoY		128.7	27.0
Net interest	104	497	916
Pre-operative exp		388.8	
Profit before tax	1,894	3,683	4,889
% change YoY		94.5	32.7
Tax	124	1,079	1,467
as % of PBT	6.6	29.3	30.0
Net income	1,770	2,604	3,422
% change YoY		47.1	31.4
Shares (m)	34.8	34.8	34.8
EPS (reported) (Rs)	50.8	74.7	98.2
CEPS (Rs)	175.1	212.2	183.9
DPS (Rs)	6.00	7.00	8.00
P/E	10.0	6.8	5.2
EV/EBITDA	3.4	2.4	2.7

Source: Company, Kotak Securities - Private Client Research

- Revenues for the current quarter Q1FY09 grew by 44% YoY, which was better than our estimates primarily led by higher clinker sales. Cement sales stood at 1.753MT and clinker sale stood at 0.163MT in Q1FY09. Cement realizations adjusted with clinker sales stood at Rs 3281 per tonne while dispatches in the current quarter were impacted by violence and agitation in Rajasthan due to Gujjar issue.
- Operating margins of the company declined sharply by 850bps in Q1FY09 due to higher power and fuel as well as freight expenses. We reduce our operating margin assumptions going forward due to steep increases in the operating expenses.
- Net profit registered a de-growth of 5% for Q1FY09 on year-on-year basis. However it was boosted by lower depreciation charges as well as lower tax being paid by the company in the current quarter.
- Cement stocks have continuously underperformed the benchmark indices on account of oversupply concerns, lower realizations, rising costs and declining operating margins. We believe that this scenario is almost similar to the last downturn cycle of cement when stocks have traded at the lower end of the valuation band. We value the company at a discount to the valuations of ACC as a benchmark as it had traded during last downturn cycle.
- We reduce our operating margin assumptions for the company going forward based on the poor performance in Q1FY09. We also lower our target valuation multiple for the company in line with the last cement downturn cycle and arrive at a target price of Rs 725 as against Rs 1082 earlier. At our target price, stock would trade at 4x P/CEPS and 3.6x EV/EBITDA multiples for FY09.
- At current price of Rs 510, stock is trading at 5.2x on P/E multiples and 2.7x on EV/EBITDA multiples on FY09 estimates. Stock is trading at historically low valuations as well as below its replacement cost. Current market price factors in almost all the negatives. We thus change our recommendation for the company from **REDUCE** to **HOLD** purely based on the attractive valuations. However we continue to maintain our cautious stance on the sector.

Financial highlights

(Rs mn)	Q1FY09	Q1FY08	YoY (%)
Net Sales	6,143	4,258	44%
Expenditure	4,038	2,435	
Inc/Dec in trade	-62	-75	
RM	591	517	
As a % of net sales	9.6	12.1	
Staff cost	251	154	
As a % of net sales	4.1%	3.6%	
Power and fuel	1,515	823	
As a % of net sales	24.7	19.3	
Transportation & Handling	1,183	620	
As a % of net sales	19.3	14.6	
Other expenditure	561	396	
As a % of net sales	9.1	9.3	
Operating Profit	2,105	1,823	15%
Operating Profit Margin	34.3	42.8	
Depreciation	461	358	
EBIT	1,645	1,465	12%
Interest	171	39	
EBT(exc other income)	1,474	1,426	
Other Income	118	126	
Extraordinary Items	76	0	
EBT	1,516	1,552	-2%
Tax	407	383	
Tax Rate (%)	26.9	24.7	
PAT	1,109	1,169	-5%
Extraordinary Items	0	0	
Net Profit	1,109	1,169	-5%
NPM%	18.1	27.5	
Equity Capital	348.4	348.4	
EPS (Rs)	31.8	33.6	

Source: Company

Revenues better than our estimates

- Revenues for the company have registered a YoY growth of 44% for Q1FY09, driven by 24% increase in the volumes and 9% increase in the cement prices as compared to Q1FY08 respectively.
- Cement sales stood at 1.753MT and clinker sale stood at 0.163MT in Q1FY09. Cement realizations adjusted with clinker sales stood at Rs 3281 per tonne while dispatches in the current quarter were impacted by violence and agitation in Rajasthan due to Gujjar issue.
- Shree Cements has commenced operations of its new clinkerisation and grinding units at Bangur and Khushkhera respectively. Overall capacity for the company now stands at 9MT. Management has given a dispatches guidance of 7.5-8MT for the current fiscal.
- In lieu of the increasing supplies primarily in the northern region, we expect capacity utilizations to witness a decline. We thus expect dispatches of 8MT, resulting in revenues of Rs 25.3bn for FY09.

Operating margins witnessed a steep decline due to higher power cost

- Operating margins of the company have shown a decline of 850bps as compared to Q1FY08, despite increase in the cement prices. This is primarily due to steep increase in pet coke prices which has increased the power & fuel cost. Increase in petrol and diesel prices have resulted in increasing the freight expenses.
- We reduce our operating margin assumptions for the company going forward due to steep increase witnessed in the power and fuel cost in the current quarter. Pet coke prices have shown an increase of 65% sequentially. We expect operating margins to be around 31.9% going forward due to higher power and fuel as well as freight expenses.

Cost per tonne analysis

	Q1FY09	Q1FY08	Q4FY08
Despatches (mn tonne)	1.753	1.41	1.983
Net Realisation/tonne*	3281	3020	3278
YoY increase (%)	9		
QoQ increase (%)	0		
Per tonne analysis			
Raw material	301	313	454
Staff cost	143	109	110
Power and fuel	864	584	541
Transportation & Handling	675	439	649
Other expenditure	320	281	244
*Adjusted with clinker sales			

Source: Kotak Securities - Private Client Research

Net profit growth higher than our estimates due to lower depreciation and lower tax in Q1FY09

- Net profits of the company for Q1FY09 have shown a de-growth of 5% as compared to last year due to higher operating expenses as well as higher interest charges. However depreciation charges were much below our estimates. Management has also downgraded the guidance for depreciation to be charged for the current fiscal.
- Due to withdrawal of the subsidy benefits related to sales tax, interest and wages, we expect the interest outgo for the company to increase going forward. We modify our estimates to factor in the higher interest charges.
- Thus with change in the operating margin assumptions, coupled with higher interest outgo and lower depreciation charges, we expect net profits to be around Rs 3.42bn as against Rs 4bn estimated earlier.

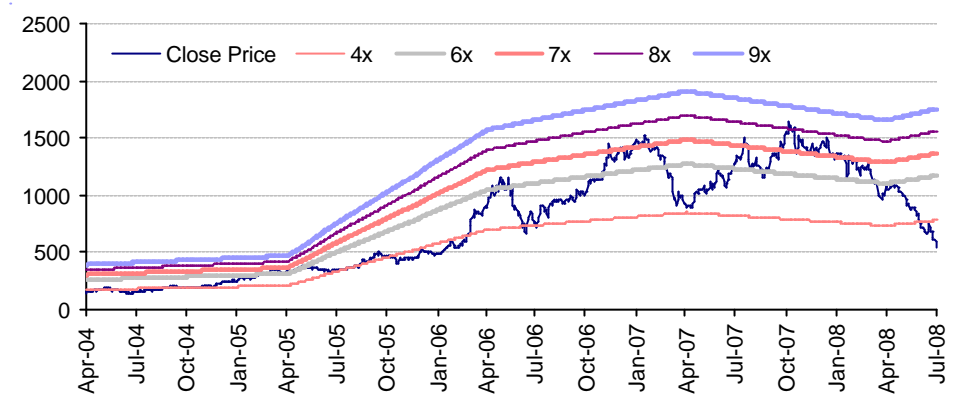
Valuation and recommendation

- At current price of Rs 510, stock is trading at 5.2x on P/E multiples and 2.7x on EV/EBITDA multiples on FY09 estimates. Though stock is trading at historically low valuations as well as below its replacement cost, but we believe that stock should trade at the lower end of its historical trading band till the time company regains the pricing power as well as improve their margins.
- We change our estimates for operating margins to factor in higher power and freight expenses. We thus expect operating margins to be around 32% as against our earlier estimate of 37.6% for FY09.

- Cement industry is fraught with several concerns such as impending oversupply, restricted increases in cement realizations, declining operating margins and de-growth in profitability. We expect that by Q2FY09, oversupply will start putting pressure on the cement prices which will make it difficult for the cement companies to pass on the increase in costs to the end users. We believe that this scenario is almost similar to the last downturn cycle of cement when stocks have traded at the lower end of the valuation band.
- We value company at a discount to the valuations of ACC as a benchmark as it had traded during last downturn cycle. We also lower our target valuation multiple for the company in line with the last cement downturn cycle and arrive at a target price of Rs 725 as against Rs 1082 earlier. At our target price, stock would trade at 4x P/CEPS and 3.6x EV/EBITDA multiples for FY09.
- Current market price factors in almost all the negatives. We thus change our recommendation for the company from **REDUCE** to **HOLD** purely based on the attractive valuations. However we continue to maintain our cautious stance on the sector.

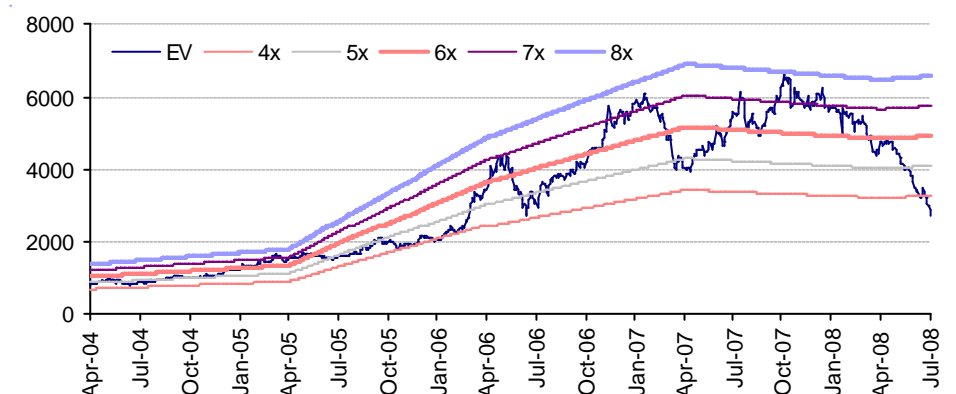
**We now recommend to HOLD
on Shree Cements with a
price target of Rs.725**

Forward P/CEPS



Source: Capitaline, Kotak Securities - Private Client Research

Forward EV/EBITDA



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

Sarika Lohra

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+91 22 6621 6313**LIC HOUSING FINANCE (LICHF)****PRICE: Rs.257****TARGET PRICE: Rs.377****RECOMMENDATION: BUY****FY09E P/ABV: 1.1x**

LICHF's Q1FY09 results were significantly above our expectation of a 45%yoy growth in Net profit to a 124%yoy growth. The robust earnings growth is mainly on account of a strong growth in disbursements. Firm net interest margins also supported the earnings growth.

- ❑ Rapid growth in business, loan book jumped by 25% yoy to Rs 227.57bn from Rs 181.85bn.
- ❑ Net interest income (NII) grew by 44% yoy to Rs.1,500 mn as against Rs1042mn in Q1FY08.
- ❑ Net profit grew by 124% yoy to Rs.1,046 mn as against Rs.467 mn during Q1FY08.

Strong core earnings growth drives bottomline

LICHF reported a strong growth in the core earnings during Q1FY09. NII for the Q1FY09 has improved by 44%yoy to Rs.1,500 mn from Rs.1,042 mn in Q1FY08. This mainly on account of higher growth in loan book and firm NIMs.

Interest income during Q1FY09 has gone up by 34% yoy to Rs.5,930 mn, while the interest expenses during the same period has increased by Rs.4431mn.

Net profit grew materially higher than our expectation of a 45% yoy growth. A lower cost/income ratio of 15% also supported the higher growth in profitability. Net profit has gone up by 124% yoy to Rs.1,046 mn. Effective tax rate for the quarter remained at 27% (25%).

Summary table

(Rs bn)	FY07	FY08	FY09E
Interest Income	15.0	20.4	25.1
Interest expenses	11.0	14.7	18.5
NII	4.0	5.6	6.7
Non-Int Income	0.8	1.3	1.6
Total Income	4.8	6.9	8.2
Optg Profit	3.7	5.6	6.7
PAT	2.8	3.9	4.6
Gross NPA (%)	2.6	1.7	1.4
Net NPA (%)	1.3	0.6	0.4
NIMs (%)	2.5	2.8	2.7
RoA (%)	1.7	1.9	1.9
RoE (%)	19.3	22.9	23.0
Divi. Payout (%)	26.1	27.3	25.1
EPS (Rs)	32.9	45.5	54.2
BV (Rs)	181.6	215.7	256.3
Adj. BV (Rs)	154.5	199.1	243.3
P/E (x)	7.8	5.6	4.7
P/ABV (x)	1.7	1.3	1.1

Source: Company, Kotak Securities - Private Client Research

Quarterly Performance

	Q1FY08	Q4FY08	Q1FY09
Interest Income	4,529	5,896	6,054
Income from housing loans	4,420	5,720	5,930
Other income on housing loans	109	176	124
Interest Expenses	3,378	4,053	4,431
Net Interest Income	1,042	1,667	1,499
Other Income	106	397	166
Income from Operations	1,258	2,240	1,789
Employee Expenses	97	113	84
Other Expenses	183	327	172
Depreciation	8	11	11
Operating expenditure	288	450	267
Provision on Loans	346	(9)	97
Profit before Tax	624	1,798	1,426
Provision for taxes	157	617	379
Profit After Tax	467	1,181	1,046
EPS (Rs)	54.9	138.9	123.1
Effective tax rate	251	343	266
Cost to income	229	201	149
Sanctions	11,560	29,120	17,870
Disbursements	12,220	25,980	15,200

Source: Company

NIMs remained firm

NIMs of the company remained firm during the quarter at 2.7% up by 36bps yoy. The margins are sequentially lower by 15bps. However with revision in lending rate in the beginning of Q2FY09, the margins are likely remain strong in the next quarter.

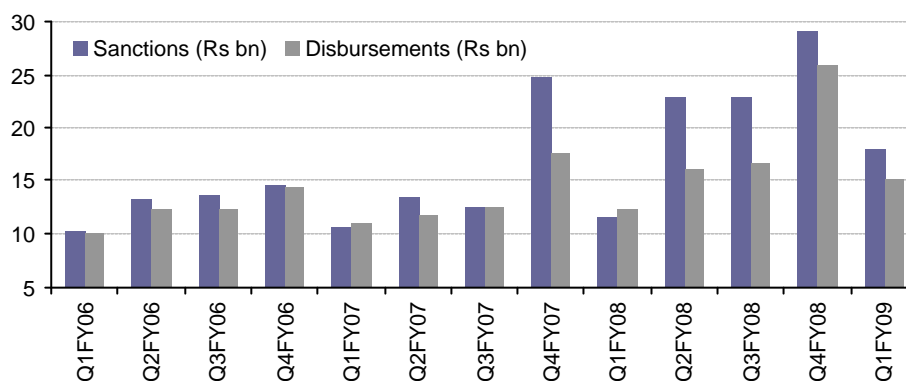
LICHF revised its lending rate by 25bps during Q1FY09. It further increased the lending rate by 50bps in the beginning of second quarter.

Robust business growth

Mortgage loan book growth remained strong during the quarter. The outstanding loan book grew by 25% to Rs 227.57bn in Q1FY09, as compared to Rs 181.85bn in the Q1FY08.

- Sanction during Q1FY09 grew by 55% to Rs 17.92bn as compared to Rs 11.56bn in Q1FY08
- Disbursements for Q1FY09 improved by 24% to Rs 15.15bn as against Rs 12.22bn in Q1FY08.

Sanctions and disbursements



Source: Company

Asset quality remains healthy

LICHF's asset quality remained healthy during the quarter, barring the seasonality factor seen during the first quarter. The Gross NPA, improved by 64bps to 2.2% while Net NPA ratio improved by 54bps yoy to 1.1%.

Financials

- We continue to maintain our 22% growth estimates for LICHF's mortgage loan portfolio over FY09, to Rs 267.62bn from Rs 219.36bn in FY08.
- We a NIM of around 2.7% for FY09. Net profit growth for FY09 is expected at 20% yoy to Rs 4.61bn.
- Capital adequacy ratio stood at 15% for the Q1FY09, of which Tier I is 10%. The company had called off its equity raising plans; instead, LICHF has raised Tier-II bonds to meet its additional capital adequacy requirements. The new capital adequacy ratio does not apply to a housing finance company.

Valuation and Recommendation

We recommend BUY LIC Housing Finance with a price target of Rs.377

We are highly positive on LICHF's business growth outlook. We expect a strong growth in its loan book and profitability. At the current market price, the stock is trading at 4.7x its FY09E EPS of Rs54.2 and 1.1x its FY09E adjusted book value of Rs243. We reiterate our **BUY** on the stock with a price target of Rs.377.

RESULT UPDATE

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BHEL

PRICE: Rs.1506

TARGET PRICE: Rs.1900

RECOMMENDATION: BUY

FY09E P/E: 21.8x

- ❑ BHEL's first quarter results are ahead of expectations
- ❑ Revenue growth of 34% yoy possibly indicates acceleration in project execution. The company has been derated over the two quarters on issues relating to execution challenges.
- ❑ Margin decline of 100 bps mainly due to wage provisions related to sixth pay commission.
- ❑ The company was able to contain raw material to sales ratio despite challenging cost environment and continued component supply bottle-necks.
- ❑ We forecast margin improvement in the year on the back of operating leverage.

Build in higher cost of capital in our model and arrive at a target price Rs 1900 (Rs 2150 earlier). Maintain BUY.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	176,143	197,775	252,151
Growth (%)	29	12.3	27.5
EBITDA	37,486	37,372	47,471
EBITDA margin (%)	21.3	18.9	18.8
Net profit	24,147	28,177	33,793
Net cash (debt)	57,195	50,027	61,504
EPS (Rs)	49.3	57.6	69.1
Growth (%)	42.0	16.7	19.9
CEPS	54.9	63.6	75.7
DPS (Rs)	12.3	12.3	12.3
ROE (%)	27.5	25.8	24.8
ROCE (%)	44.5	39.8	37.7
EV/Sales (x)	3.9	3.5	2.7
EV/EBITDA (x)	18.1	18.4	14.2
P/E (x)	30.5	26.2	21.8
P/BV (x)	8.4	6.7	5.4

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

	Q1FY09	Q1FY08	% change
Sales Turnover	43,292	32,339	34.0
Other Income	2,917	2,063	41.0
Expenditure	39,555	29,233	35.0
RM costs	25,323	19,151	32.0
Staff cost	8,953	6,039	48.0
Other costs	5,280	4,042	31.0
Operating Profit	3,737	3,107	20.0
Interest	26	22	19.0
Gross Profit	6,629	5,148	29.0
Depreciation	726	689	5.0
PBT	5,903	4,459	32.0
Tax	2,059	1,570	31.0
Reported PAT	3,844	2,889	33.0
RM costs to sales (%)	61.0	59.2	
Current tax rate (%)	35.0	35.2	
Staff costs to sales (%)	20.7	18.7	
Other costs to sales (%)	12.5	12.5	
OPM (%)	8.6	9.6	

Source: Company

Execution gathers momentum

Revenues for the quarter rose 34% to Rs 43.3 bn mainly driven by power as well as industry sector. The industry sector segment mainly constitutes captive power projects, T&D equipments and railways business. The execution cycle in this segment is shorter as compared to the power segment which mainly deals with utility projects. Revenue growth came in ahead of expectations despite execution bottlenecks at component (forgings and Castings) and subcontractor level.

Segment revenues

(Rs mn)	Q1FY09	Q1FY08	YoY chg (%)
Power	35087	27362	28.2
Industry	12851	9198	39.7

Source: Company

Segment Margins (%)

	Q1FY09	Q1FY08
Power	18.7	19.4
Industry	14.1	3.7

Source: Company

Margins declined due to higher staff costs

Operating margins declined due to higher staff costs. Employee costs are up as the company has made provisions for sixth pay commission related wage hikes. As a result, employee costs rose faster than revenues resulting in margin erosion. Even other expenditure has been kept under control.

Visibility remains strong and improving

Order backlog at Rs 950 bn is highest ever and translates into a revenue visibility of fifty three months based on FY08 revenues. Estimated order inflows of Rs 143 bn is up 34.8% yoy and flat on a sequential basis. Strong order inflows to some extent has mitigated our concerns of order inflows peaking out in FY08.

Execution still remains critical issue

BHEL continues to face execution constraints on the component and subcontractor level. On the component side, given the firm global demand trend of power generating equipment, there has been shortage of generator forging components, which is imported by BHEL.

Challenging cost environment

BHEL enjoys price variation clause for around 45-50% of its outstanding orders. For the remaining, the company has taken advance procurement action for sourcing critical components. However, these measures may not fully compensate for the rampant increase in commodity prices of steel and copper.

Low Profitability to begin with on Supercritical projects

BHEL would be imported upto 35-40% of components from its collaborator Alstom for the initial supercritical orders. However, owing to capacity constraints, Alstom is finding it difficult to meet BHEL's requirements. Moreover, imported components from Europe cost around 20% more than domestic ones. However, we note than current share of supercritical orders in the order book is very low and not likely to hurt margins over the next two years.

BHEL expects to maintain margins in current year

Management indicated that the company may not see a further dip in margins. Strong revenues of 28% are expected to drive operating cost benefits. Rise in employee costs (16% of net revenues in FY08) is expected to moderate in FY09 on an annual basis. Thus adequate scope for margin protection exists for BHEL even in the current inflationary conditions.

Not effecting any major change in earnings

While earlier we had forecast margin expansion of 50 bps in FY09. Post the Q1 FY09, we are forecasting flat margins in FY09. This has resulted in a minor reduction in EPS estimate.

Valuation: BHEL is currently trading at 21.8x and 16.0x FY09 and FY10 earnings respectively. We maintain **BUY** but with a reduced price target of Rs 1900 (Rs 2150 earlier).

We recommend BUY on BHEL with a revised price target of Rs.1900

RESULT UPDATE**Sanjeev Zarbade**sanjeev.zarbade@kotak.com
+91 22 6621 6305**VOLTAS****PRICE: Rs.122****TARGET PRICE: Rs.168****RECOMMENDATION: BUY****FY09E P/E: 17.5x**

- ❑ Numbers are lower than our estimates both on the revenue as well as profit front
- ❑ Operating profit posted modest growth of 6% yoy for the quarter due to margin contraction mainly in engineering services segment.
- ❑ Order book growth has remained fairly robust. Order backlog is up 183% yoy to Rs 56.7 bn providing 41 months of projects revenue visibility
- ❑ We have reduced earnings downwards by 6% in FY09 in view of the high steel and aluminium prices, which may constrain margin expansion, especially in the engineering services and products segment.
- ❑ We maintain BUY with a target price of Rs 168 (earlier Rs 177)

Summary table

Rs mn	FY08	FY09E	FY10E
Sales	30,445	38,343	48,145
Growth (%)	26.8	25.9	25.6
EBITDA	2,509	3,244	4,640
EBITDA margin (%)	8.2	8.5	9.6
Net profit (adjusted)	1,700	2,341	3,278
Net cash (debt)	2,223	3,499	6,098
EPS (Rs)	5.1	7.1	9.9
Growth (%)	50.9	37.7	40.0
CEPS	5.6	7.6	10.5
DPS (Rs)	1.2	1.6	1.6
ROE (%)	37.0	37.0	38.0
ROCE (%)	63.0	60.0	61.0
EV/Sales (x)	1.3	1.0	0.7
EV/EBITDA (x)	15.5	11.6	7.5
P/E (x)	24.1	17.5	12.5
P/Cash Earnings	22.3	16.3	11.8
P/BV (x)	7.6	5.7	4.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY09	Q1FY08	% change
Sales Turnover	10,067	8,249	22
Other income	289	85	242
Operating Expenditure	9,291	7,514	24
Raw Material costs	3,765	1,760	114
Purchase of traded goods	3,643	4,356	-16
Staff costs	853	629	36
Other costs	1,029	769	34
Operating profit	776	735	6
Interest	-5.4	6.7	-181
Gross Profit	1,070	813	32
Depreciation	41	32	29
PBT	1,030	782	32
Tax	410.5	267.8	53
Adjusted PAT	679.6	513.8	32
assignment of leasehold rights	232.1	7.8	2876
Reported PAT	851.3	521.6	63
OPM (%)	7.7	8.9	
Staff costs to sales (%)	8.5	7.6	
Raw material to sales (%)	37.4	21.3	
tax rate (%)	39.9	34.3	

Source: Company

- Net sales for the Quarter increased by 22% to Rs 10 bn. Revenue booking has been moderate in the projects business as major part of the order buildup has taken place during the second half of the last fiscal. Typically, MEP projects orders tend to have a execution period 20-24 months and hence revenue booking tends to be sluggish in initial period.
- The engineering products and services business posted a negative growth during the quarter on a sequential basis. This segment includes commission income on sale of textile machinery for LMW and material handling equipments like forklifts, dumptrucks etc. Voltas presently manufactures and markets low and medium-priced material handling equipment under its own brand and also distributes high-end equipment imported from Hitachi and BT Industries, a Swedish firm. Material handling Equipment business achieved 39% growth in sales

- The agency business for textile machinery has been impacted by the appreciation in Rupee hurting textile exporters thereby leading to postponement of capex plans.
- The fourth quarter is the strongest for the Unitary Cooling division (household ACs). Growth in this segment is being driven by the Split Air Conditioners. Voltas has been consolidating its market share in the room AC business. However, growth rate during the quarter slackened from 37% in FY08 to 20% in Q1 FY09.

Segment Revenues

(Rs mn)	Q1FY09	Q1FY08	% change	Q4 FY08
Electromechanical projects	4632	3783	22%	4683
Engg products and services	1364	1152	18%	1442
Unitary cooling	4008	3334	20%	2141
Others	105	94	13%	127

Source: Company

Consumer durables business improves margins but projects and engineering services segments report lower margins

Margins contracted from 8.9% in Q1 FY08 to 7.7% in Q1 FY09. The segment margins reflect a mixed picture. While margins expanded in consumer durables business, the projects and engineering services businesses reported margin declines.

The projects segment margins expanded on a sequential basis. However, margins decline on a yoy basis, which was expected as bulk of the company's electromechanical projects are in the initial stages where the profit booking tends to be sluggish. We expect the margins to improve in the coming quarters.

The unitary cooling business has benefited from higher employee productivity and excise-tax benefits.

The engineering services reported margin decline partly arising out of product mix shift in favour of manufactured items as also due to higher material prices. Depreciation in rupee should come as relief for this segment due to increased import of low-cost forklifts and other material handling equipment from China.

Segment margins

(%)	Q1FY09	Q1FY08	Q4 FY08
Electromechanical projects	8.1	9.2	5.9
Engg products and services	15.7	22.0	21.7
Unitary cooling	9.2	6.7	6.8
Others	9.3	15.9	3.6
Total	9.6	10.0	8.8

Source: Company

Order backlog up 183% yoy and 23% qoq reflecting strong traction from the middle east construction boom

Order backlog at Rs 56.8 bn is up 183% yoy and 23% on a sequential basis. We estimate that the company has won several big-ticket orders during the quarter. Estimated order inflows rose to Rs 15.0 bn as compared to Rs 1.8 bn in Q1 FY07, indicating continued traction in its target markets. Also we highlight that the company has been consistently winning Rs 10 bn plus of orders on a quarterly basis.

Outlook

- **Committed towards the Voltas growth plan:** Voltas has formulated plan to reach turnover of Rs 100 bn by 2011. Out of which, Rs 70 bn would be contributed organically. This implies a revenue CAGR of 40% over the next four years. The company has plans to acquire businesses in niche areas that would catalyse the growth rate. At the bottomline level, the target is to achieve a net profit margin of 10% as compared to 3.5% in FY07.
- **Focus on profitable growth:** With significant buoyancy in the Middle East as well as Indian markets, the company's emphasis has been on project selection. Towards this, the company has expanded its scope of work and is also looking at new geographies. Company sees further scope for margin improvement and is making efforts to improve margins in projects and unitary cooling business.

Earnings Revision:

Post the Q1 results, we have reduced our revenue estimates for projects and unitary cooling business. We expect 31%, 20% and 22% growth in projects, engineering services and unitary cooling business.

Reduced Operating margins: We have reduced FY09 operating margins forecast by 40 bps to 8.5%. Our margin reduction is mainly on account of margin pressures in the engineering products segment.

Our earnings forecast for FY09 is reduced by 6%.

Valuation

We recommend BUY on Voltas with a price target of Rs.168

We arrive at a fair price of Rs 168 (earlier Rs 177) based on DCF. In view of the attractive upside at current levels, we maintain **BUY** on the company.

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
21-Jul	Allied Comp	Nandit Vipul Raja	S	100,000	19.00
21-Jul	Bihar Tubes	Elara India Opportunities Fund Ltd	B	50,000	159.97
21-Jul	Bihar Tubes	Securocrop Securities India P	B	125,555	159.96
21-Jul	Bihar Tubes	Geomatrix Hk Ltd Ac Dumauritius Capital Ltd	S	150,000	160.00
21-Jul	Ds Kulkarni	Charlemagne Capital Iom Ltd	B	424,294	90.15
21-Jul	Ds Kulkarni	Magna Global Emerging Mkts Fund	S	424,294	90.15
21-Jul	Empee Sug Ch	Empee Holdings Ltd	B	326,143	8.67
21-Jul	Empee Sug Ch	Empee Distilleries Limited	S	285,041	8.66
21-Jul	Everonn Sys	Benoy Developers Private Ltd	B	100,000	427.00
21-Jul	Everonn Sys	Ashokkumar Ruia	S	103,250	426.89
21-Jul	First Win	H.K. Stock Services Pvt Ltd	S	96,850	124.64
21-Jul	Gemstone Inv	Bhavesh Prakash Pabari	S	44,000	21.00
21-Jul	Gtc Industri	L And T Finance Limited	S	105,000	118.35
21-Jul	Jayant Agro	Shashikant A Patel	S	150,000	51.75
21-Jul	Kohinorfoods	Sunstar Overseas Ltd.	B	941,000	117.34
21-Jul	Kohinorfoods	Deutsche Bank Ag London Cb Ac	S	900,000	117.45
21-Jul	Pritishn Com	Artinvest India Pvt. Ltd.	B	74,564	33.25
21-Jul	Pritishn Com	Goldman Sachs Investments Mau	S	79,786	33.30
21-Jul	Punjab Chem	Dhanlaxmi Cotex Ltd	B	50,000	235.47
21-Jul	Punjab Chem	Shripal Shares And Securities	S	25,115	235.34
21-Jul	Punjab Chem	Jitendra Mehta	S	25,000	235.00
21-Jul	Ralli India	Fidelity Trustee Company Pvt Ltd Ac Fidelity Equity Fund	B	200,000	407.00
21-Jul	Ralli India	Prudential I.C.I.C.I. Mf Trust Ltd Discovery Fund	S	200,000	407.00
21-Jul	Sbt Intern	Kapil Puri	B	150,000	13.50
21-Jul	Shrilakshmi	Prarthana Tarunkumar Brahmbhatt	S	136,000	90.36
21-Jul	Walchand In	Olsson Holdings Inc	S	174,500	255.02

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
NTPC	182	4.4	10.5	8.3
Reliance Ind	2,153	1.9	9.5	3.0
SBI	1,353	4.1	5.6	1.5
Losers				
BHEL	1,506	(1.7)	(2.1)	1.7
Satyam Comp	367	(4.2)	(1.8)	10.8
L&T	2,512	(1.4)	(1.7)	2.0

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
22-Jul	Century Textiles, Thermax, Lupin, Asian Paints, IDBI Bank, Siemens, Sesa Goa, Reliance Petroleum, NIIT Technologies, Tata Elxsi, Strides Arcolab, Indraprastha Gas, Alfa Laval, Bank of Rajasthan, Coromandel Fertilizer earnings expected
23-Jul	Crompton Greaves earnings expected
24-Jul	Tata Motors holds shareholders meeting; Reliance Industries, ACC, Bharti Airtel, Exide Industries, Sobha Developers, United Breweries, Cummins India, Idea Cellular, Piramal Healthcare, United Phos, Hindustan Zinc earnings expected
25-Jul	TTK Healthcare to consider buy-back of its shares; HCC, ABB, Grasim, Nagarjuna Fert, Indusind Bank, Engineers India, Alstom Proj, GSPL, Educomp, MRPL, Jindal Steel & Power, Union Bank of India, Reliance Power, RNRL, Ambuja Cements, OBC, Indian Hotels, Andhra Bank, i-flex, Indiabulls earnings expected

Source: Bloomberg

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