MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

MAY 16, 2012

Economy News

- The Department of Pharmaceuticals has mooted a proposal to allow the country's foreign investment approving body to continue clearing stake purchases by foreign firms in Indian drug companies, as it seeks to end the uncertainty that has stalled the investment plans of MNCs and foreign investors in the sector. (ET)
- The southwest monsoon is likely to hit the Kerala coast around June 1, well within its normal date of arrival, the India Meteorological Department (IMD) said. (BS)
- The government will bring the Direct Taxes Code (DTC) Bill in the monsoon session of Parliament and has indicated that most of the recommendations of the standing committee will be accepted, raising hope that the legislation that seeks to overhaul the 50-year old income-tax law may be passed quickly. (ET)
- World bank has said that it has no plan to trim lending to India. The international funding agency takes a long-term view on its commitments and the poverty data released on Monday will not have any bearing on that commitments, World Bank Country Head N Roberto Zagha said. (BS)

Corporate News

- Indian power producers have asked the oil ministry to ensure stability in natural gas prices so that plants generating electricity from the fuel remain viable. The Association of Power Producers, which represents top companies including **Tata Power** and **Reliance Power**, has taken up the issue with Petroleum Minister Jaipal Reddy and argued that gas prices have already soared because of the rupee's depreciation as gas is priced in dollars. (ET)
- Telecom major **Bharti Airtel Ltd** is being investigated under the provisions of Prevention of Money Laundering Act, 2002 (PMLA). Meanwhile, Bharti Airtel issued a statement saying it maintains the highest standards of corporate governance and regulatory compliance and has always complied with all norms. (BL)
- Engineering and construction conglomerate **Larsen & Toubro** may merge its property development and real-estate units as part of a business realignment strategy. (ET)
- **Coal India** will henceforth have to pay the reserve price, as any other bidder, for acquiring blocks in fresh auction rounds. This will be so even for blocks offered to the public sector entity on nomination basis. (BL)
- The Rs32 bn **Adani Group** is gearing up to bid for power transmission line development projects, a segment so far dominated by two private sector companies that have bagged most of the projects. (ET)
- The board of **Chettinad Cement** has approved the delisting plans. Promoters of the company have set the floor price for delisting at Rs 540 a share. (BL)
- Irrigation and agriculture firm **Jain Irrigation Systems Ltd** said it has signed an agreement with Israel based Kibbutz Naan, to acquire the remaining 50% of the irrigation solutions company NaanDanJain Irrigation Ltd, which up till now was jointly owned by Jain and Kibbutz Naan. (Mint)

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

Equity

		% Chg		
	15 May 12	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,328	0.7	(4.8)	(10.1)
NIFTY Index	4,943	0.7	(5.4)	(10.5)
BANKEX Index	10,744	0.8	(10.7)	(14.5)
BSET Index	5,590	1.6	4.0	(9.5)
BSETCG INDEX	9,110	3.1	(9.0)	(16.7)
BSEOIL INDEX	7,425	0.1	(6.7)	(13.8)
CNXMcap Index	6,962	0.6	(8.4)	(11.6)
BSESMCAP INDEX	6,335	0.3	(7.3)	(11.2)
World Indices				
Dow Jones	12,632	(0.5)	(2.2)	(2.1)
Nasdaq	2,894	(0.3)	(3.2)	(2.2)
FTSE	5,438	(0.5)	(4.0)	(7.6)
NIKKEI	8,901	(0.8)	(6.8)	(4.5)
HANGSENG	19,894	0.8	(5.7)	(8.6)

Value traded (Rs cr)

	15 May 12	% Chg - Day
Cash BSE	1,776	(0.6)
Cash NSE	9,728	8.6
Derivatives	101,978	42.4

Net inflows (Rs cr)

	14 May 12	% Chg	MTD	YTD
FII	404	129.3	451	43,921
Mutual Fund	54	(137.7)	(458)	(6,415)

FII open interest (Rs cr)

	14 May 12	% Chg
FII Index Futures	11,389	0.9
FII Index Options	40,213	2.8
FII Stock Futures	21,013	1.6
FII Stock Options	1,247	11.2

Advances / Declines (BSE)

15 May 12	A	B	T	Total	% total
Advances	124	998	243	1,365	48
Declines	79	963	286	1,328	47
Unchanged	1	94	35	130	5

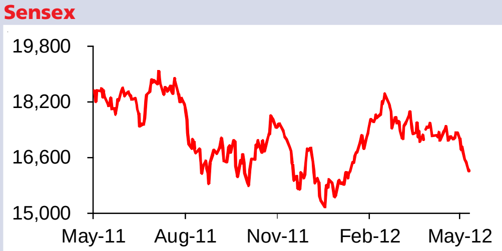
Commodity

		% Chg		
	15 May 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	93.0	(1.0)	(9.6)	(9.1)
Gold (US$/OZ)	1,558.8	(0.2)	(6.6)	(10.6)
Silver (US$/OZ)	28.1	(0.8)	(12.2)	(17.3)

Debt / forex market

	15 May 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.50	8.52	8.47	8.29
Re/US$	53.8	54.0	51.7	49.3

Sensex



RESULT UPDATE

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HIND-DORR OLIVER

PRICE: RS.35 **RECOMMENDATION: REDUCE**

TARGET PRICE: RS.35 **FY13E (ANNUALIZED) P/E: 15.3x**

- **HDO's Q4FY12 numbers are ahead of our estimates on the revenue and profit front. However, the business environment remains challenging for the company. Balance sheet remains leveraged at 1.4x due to high working capital.**
- **HDO's order backlog at the end of Q4 FY12 stood at Rs 19 bn (including L1 orders of Rs 6.0 bn). Out of the present order backlog, the overseas order of Rs 4.2 bn in Zambia for Konkola Copper Mines is yet to start. Thus essentially, the company has ongoing orders of around Rs 10 bn only, which implies weak revenue booking in the near-term. We have forecast revenue to decline in FY13.**
- **The company has extended its fiscal FY12 by three months to end on June 30, 2012. Accordingly, we have made adjustments to our forecasts. However, to provide a like-to-like comparison, annualized FY13 earnings (April 2012-Mar 2013) works out to Rs 2.3 per share. Accordingly, the stock is trading at 15.3x FY13 Ann earnings. Maintain Reduce on stressed balance sheet and close to fair valuations.**

Summary table

(Rs mn)	FY11	FY12E (15M)	FY13E (9M)
Sales	9445	10345	5583
Growth (%)	9.4	9.5	-46.0
EBITDA	899	1084	569
EBITDA margin (%)	9.5	10.5	10.2
PBT	675	510	181
Net profit	433	412	127
EPS (Rs)	6.0	5.8	1.8
Growth (%)	-22.0	-4.8	-69.3
CEPS (Rs)	7.0	7.2	3.0
BV (Rs/share)	35.6	40.4	41.3
Dividend / share (Rs)	0.8	0.8	0.8
ROE (%)	17.5	14.4	4.1
ROCE (%)	16.9	17.4	7.6
Net cash (debt)	-1966	-2395	-2608
NW Capital (Days)	145.3	158.9	298.2
EV/Sales (x)	0.5	0.5	0.9
EV/EBITDA (x)	5.0	4.5	9.0
P/E (x)	5.8	6.1	19.8
P/Cash Earnings	5.0	4.9	11.8
P/BV (x)	1.0	0.9	0.8

Source: Company, Kotak Securities - Private Client Research

Financial performance

(Rs mn)	Q4 FY12	Q4 FY11	YoY (%)
Gross sales	**3183.5**	**2004.5**	**58.8**
Excise duty	54.3	52.3	3.8
Other operating income	11	11.4	-3.5
Net Sales	**3140**	**1964**	**59.9**
Raw material	2,662.0	1,665.7	59.8
Staff costs	122.5	124.5	-1.6
Other expenditure	57.3	72.4	-20.9
Total Expenditure	2841.8	1862.6	52.6
PBIDT	**298**	**101**	**195.4**
Depreciation	23.1	18.0	28.3
Other Income	2.9	18.1	-84.0
EBIT	**278**	**101**	**175.2**
Interest	153.7	73.9	108.0
PBT	**124.5**	**27.2**	**357.7**
Tax	31.0	2.1	1376.2
Reported Profit After Tax	93.5	25.1	272.5
EPS (Rs)	**1.3**	**0.4**	
Raw material cost to sales (%)	79.5%	84.8%	
Staff costs to sales (%)	3.9%	6.3%	
Other expediture to sales (%)	1.8%	3.7%	
PBDIT (%)	9.5%	5.1%	
Excise (%)	1.7%	2.6%	
Tax rate (%)	24.9%	7.7%	
Interest to revenues (%)	4.9%	3.8%	

Source: Company

Robust quarter but strong headwinds ahead

- Revenue for the quarter was up 59% yoy as the company was able to execute few large projects in the period.
- Revenue mix consisted of Minerals and Metals (Rs 1.9 bn), Water (Rs 3.75 bn), Manufacturing (Rs 1.4 bn) and Miscellaneous (Rs 1.0).

- Given stagnant order backlog, we project revenue to decline by 8% in FY13.
- Operating margins stood at 9.5% up 440 bps yoy, albeit on a low base. EBITDA margins in the fourth quarter of previous fiscal were impacted by some cost-overruns in Bhatinda Refinery project.
- EBITDA margins are likely to remain subdued in view of weak revenue booking.
- Sharp rise in interest expenses was on account of doubling in gross borrowings over past twelve months.

Project Segments

(%)	Indicative Margins
Environmental Engineering projects	8-12
Mineral beneficiation	15-18
Fertilisers	20
Manufacturing	20

Source: Company

Order intake remains weak

- HDO's order backlog at the end of Q4 FY12 stood at Rs 19 bn (including L1 orders of Rs 6.0 bn). Out of the present order backlog, the overseas order of Rs 4.2 bn in Zambia for Konkola Copper Mines is yet to start. Thus essentially, the company has ongoing orders of around Rs 10 bn only, which implies weak revenue booking in the near-term.
- We estimate order intake of ~ Rs 2.1 bn in the quarter, in line with quarterly run-rate of past few quarters.
- The company is L1 for a repeat order from UCIL worth Rs 3.5 bn. This order has been delayed for the last six months for requisite environment clearances. Apart from this, the company is L1 in a project by NMDC valued at Rs 2.0 bn
- Order mix is Water - Rs 1.4 bn, Minerals - Rs 8.0 bn and Manufacturing -Rs 2.0 bn and miscellaneous projects.

Stressed balance sheet

- Gross borrowings at the end of Q4 FY12 have increased further to Rs 4.0 bn from Rs 3.25 bn in Q3FY12.
- The debtors stand at Rs 2.7 bn vs Rs 2.9 bn at the end of FY11. The debtors are mainly from Vedanta (Lanjigarh refinery) and HPCL-Mittal Bhatinda refinery, together accounting for Rs 1.5 bn of the total outstanding.

Demerger of Manufacturing business

The company has decided to demerge its manufacturing facility into a separate subsidiary, which will provide more focus to the segment. The company even plans to bring in a strategic partner into the demerged manufacturing company.

Maintain Reduce on

- Weak near-term earnings on subdued order backlog, weak macro environment and higher interest burden. Balance sheet quality has also weakened considerably.

We maintain REDUCE recommendation on Hind-Dorr Oliver with a price target of Rs.35

- Subdued order intake due to unfavourable business environment.
- The stock is trading at 15.3x and 9x FY13 annualized earnings and EV/EBITDA respectively.
- We maintain **REDUCE** with a target price of Rs 35 per share (same earlier) based on DCF.

RESULT UPDATE

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SHREE CEMENTS LTD

PRICE: RS.2657 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.2886 **FY13E (P/CEPS)x : 8.2x**

- Company's revenues during Q4FY12 reported a growth of 38% YoY led by improvement in cement dispatches as well as cement prices.
- Operating margin performance was in line with our estimates. Despite decline in cement realizations on sequential basis, EBITDA margins for cement remained strong led by decline in pet coke prices
- Net profit growth for Q4FY12 was boosted by higher other income which includes Rs 370 mn of provisions made earlier years which are no longer required.
- Company has changed its financial year end to June and thus FY12 financial would be for 15 months. We have thus revised our estimates for FY12 (15 months) and FY13 (12 months).
- Stock has corrected by nearly 10% since our last update. At current market price of Rs2657, stock is trading at 8.2x P/CEPS and 6.4x EV/EBITDA for FY13. Our revised price target stands at Rs 2886 (Rs 2746 earlier). Pet coke prices have come down and company expects power sale to jump significantly going forward. We thus change our recommendation to ACCUMULATE on the company from REDUCE earlier.

Summary table

(Rs mn)	FY11	FY12E*	FY13E
Sales	35,119	59,968	54,541
Growth (%)	-3.3	70.8	-9.0
EBITDA	8,856	14,925	13,681
EBITDA margin (%)	25.2	24.9	25.1
PBT	1,104	3,970	5,665
Net profit	2,097	3,332	4,645
EPS (Rs)	60.2	95.6	133.3
Growth (%)	(69.0)	58.9	39.4
CEPS (Rs)	254.2	383.0	325.9
BV (Rs/share)	570.1	654.2	779.5
Dividend / share (Rs)	8.0	8.0	8.0
ROE (%)	11.0	15.6	18.6
ROCE (%)	6.5	15.1	16.6
Net cash (debt)	(3,127)	(3,063)	4,437
NW Capital (Days)	90.5	70.1	70.1
P/E (x)	44.1	27.8	19.9
P/BV (x)	4.7	4.1	3.4
EV/Sales (x)	2.7	1.6	1.6
EV/EBITDA (x)	10.8	6.4	6.4
P/CEPS(x)	10.5	6.9	8.2

*Source: Company, Kotak Securities - Private Client Research; *FY12 would now be 15 month Financial year; FY13: July12-Jun13*

Financial highlights

(Rs mn)	Q4FY12	Q4FY11	YoY (%)
Net Sales	**14,779**	**10,701**	**38**
Expenditure	11,048	7,742	
Inc/Dec in trade	12	-175	
RM	2,474	1,135	
As a % of net sales	16.7	10.6	
Staff cost	605	537	
As a % of net sales	4.1	5.0	
Power and fuel	3,611	3,020	
As a % of net sales	24.4	28.2	
Transportation & Handling	2,460	2,313	
As a % of net sales	16.6	21.6	
Other expenditure	1,887	912	
As a % of net sales	12.8	8.5	
Operating Profit	3,730	2,959	26
Operating Profit Margin	25.2	27.7	
Depreciation	2,346	2,650	
EBIT	**1,384**	**309**	**348**
Interest	411	336	
EBT(exc other income)	974	-26	
Other Income	774	25	
Exceptional items	28	343	
EBT	**1,719**	**-344**	**0**
Tax	576	-1,001	
Tax Rate (%)	33.5	291.3	
PAT	**1,143**	**657**	**74**
Net Profit	1,143	657	74
NPM (%)	7.7	6.1	
Equity Capital	348.4	348.4	
EPS (Rs)	**32.8**	**18.9**	
Cash EPS	100	95	

Source: Company

Revenue growth led by improvement in dispatches

- Company's revenues during Q4FY12 reported a growth of 38% YoY led by improvement in cement dispatches as well as cement prices.
- Company has credited government grants/subsidies related to one of its plant in capital reserves. Adjusted with this amount of Rs 650 mn, cement revenues and profits would have been higher by the same amount. Thus adjusted cement realizations stood at Rs 3611 per tonne for Q4FY12 as against Rs 3299 per tonne during Q4FY11.
- However, on a sequential basis cement realizations witness a decline since company focused on volumes during Q4FY12. Cement dispatches including clinker stood at 3.47MT, witnessing a growth of 21% YoY.
- Sales in the power segment improved to Rs 2.89 bn which includes power sale of Rs 1.85 bn and power trading sales at Rs 1.04 bn. Power sales have witnessed an improvement since company has signed short term PPAs for 225MW from Oct, 2011 to June, 2012 at an average rate of Rs 4.3 per unit. Company sold nearly 431 mn units from its own plants and 352.4 mn units through power trading.
- Though company has not tied up for any long term PPAs for sale of power from these new units of 300 MW, but it is in talks with several players and expects power sales to jump up sharply to 2 bn units for FY13.
- It is also expanding its clinker capacity by 1.5MT at a total cost of Rs 5 bn at Ras, Rajasthan. Company has already placed the order for equipment and this incremental capacity is likely to get commissioned by June, 2013 which will lead to improvement in cement dispatches during FY14.
- We thus tweak our estimates to factor in 15 months revenues for FY12 as well as higher power sales during FY13. We thus expect revenues to grow to Rs 59.96 bn and Rs 54.54 bn for FY12 and FY13 respectively.

Operating margins in line with our estimates

- Operating margin performance was in line with our estimates. Despite decline in cement realizations on sequential basis, EBITDA margins for cement remained strong led by decline in pet coke prices.
- Adjusted with Rs 650 mn of grants or subsidies, EBITDA per tonne for the cement division stood at Rs Rs 1190. Power division EBITDA stood at Rs 249 mn.
- On per tonne basis, raw material cost per tonne jumped up due to purchase of power for trading purpose. However, EBITDA on traded power remained very less.
- We tweak our estimates to factor in 15 months for FY12 as well as change in financial year for FY13 and going forward. We expect operating margins of 24.9% and 25.1% for FY12 and FY13 respectively.

Per tonne analysis

	Q4FY12	Q4FY11
Dispatches (mntonne)	3.473	2.881
Blended CemRealisation/tonne	**3611**	**3299**
YoY (%)	9.4	
Cost per tonne		
Inc/Dec in trade	3	-61
Raw material	712	394
Staff cost	174	186
Power and fuel	1040	1048
Transporation&Handling	708	803
Other expenditure	543	316

Source: Company

Net profit growth boosted by higher other income

- Net profit growth for Q4FY12 was boosted by higher other income which includes Rs 370 mn of provisions made earlier years which are no longer required.
- Depreciation for 12MFY12 stood in line with our estimates but we expect depreciation to remain high going forward also since we expect the clinker capacity of 1.5MT being planned at Ras, Rajasthan to commission by June, 2013.
- We thus expect net profits of Rs 3.3 bn and Rs 4.6 bn for FY12 and FY13 respectively.

Valuation and recommendation

We recommend ACCUMULATE on Shree Cements with a price target of Rs.2886

- At current market price of Rs2657, stock is trading at 8.2x P/CEPS and 6.4x EV/EBITDA for FY13.
- Our revised price target stands at Rs 2886 (Rs 2746 earlier) based on 6.5x EV/EBITDA on FY13 estimates for cement division and also attach valuations of power project based on DCF since now projects are operational.
- Pet coke prices have come down and company expects power sale to jump significantly going forward. We thus change our recommendation to **ACCUMULATE** on the company from REDUCE earlier.

RESULT UPDATE

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IVRCL INFRASTRUCTURE LTD

PRICE: RS.46 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.52 **FY13E (ANNUALIZED) P/E: 13.4x**

Results of the company were lower than our estimates on operating profit and net profit front. Net profit performance was impacted by higher interest and tax outgo. Execution has also not ramped up in line with expectations despite healthy order book. We believe that revenue growth going forward would be dependent on financial closure as well as execution ramp up from key road projects. Thus, fund raising by the company via stake sale in various projects is very important to meet equity requirements of various road projects. Though some progress is seen in land monetization by the company but delays in raising funds from road projects would keep revenue growth subdued for the company. We thus remain cautious on the company and continue to maintain ACCUMULATE rating on the stock and would advise investors to look for declines as well as improvement in performance to enter the stock. Any news flow regarding stake purchase by Essel group may turn out to be positive for IVRCL stock.

Summary table

(Rs mn)	FY11	FY12E*	FY13E**
Sales	56,515	61,745	47,000
Growth (%)	2.9	9.3	-23.9
EBITDA	5,147	4,629	3,995
EBITDA margin (%)	9.1	7.5	8.5
PBT	2,327	473	1,227
Net profit	1,580	316	839
EPS (Rs)	5.9	1.2	3.1
Growth (%)	-25.2	-80.0	165.2
CEPS (Rs)	8.8	5.8	5.9
Book value (Rs/share)	74.5	74.9	77.3
Dividend / share (Rs)	0.8	0.8	0.8
ROE (%)	8.2	1.6	4.1
ROCE (%)	11.8	8.7	7.5
Net cash (debt)	(17,094)	(20,647)	(15,993)
NW Capital (Days)	149.4	149.4	149.4
P/E (x)	7.8	38.8	14.6
P/BV (x)	0.6	0.6	0.6
EV/Sales (x)	0.4	0.4	0.5
EV/EBITDA (x)	4.5	5.7	5.5

*Source: Company, Kotak Securities - Private Client Research; * FY12 is 15 month ending June, 12; **FY13 is 9 month ending March, 13*

Financial highlights

(Rs mn)	Q4FY12	Q4FY11	YoY (%)	FY12*	FY11	YoY (%)
Net sales	**15,960**	**20,516**	**-22**	**49,595**	**56,515**	**-12**
Expenditure	14,950	18,741		45,938	51,368	
Construction,Stores,Spares	5,014	6,907		17,251	19,975	
As a % of net sales	31.4	33.7		34.8	35.3	
Sub-contractors	3,643	4,439		8,744	9,918	
As a % of net sales	22.8	21.6		17.6	17.5	
Masonry and other works	4,874	6,234		15,632	17,381	
As a % of net sales	30.5	30.4		31.5	30.8	
Staff cost	647	735		2,599	2,623	
As a % of net sales	4.1	3.6		5.2	4.6	
Other expenditure	773	426		1,713	1,472	
As a % of net sales	4.8	2.1		3.5	2.6	
EBITDA	**1,010**	**1,775**	**-43**	**3,657**	**5,147**	**-29**
EBITDA margin	6.3	8.7		7.4	9.1	
Depreciation	269	217		975	758	
EBIT	**741**	**1,557**	**-52**	**2,683**	**4,389**	**-39**
Interest	661	656		2,620	2,182	
EBT(exc other income)	80	901	-91	63	2,207	-97
Other income	74	49		298	120	
EBT	**154**	**950**	**-84**	**361**	**2,327**	**-85**
Tax	105	308		119	747	
Tax (%)	67.9	32.4		33.1	32.1	
PAT	**50**	**643**	**-92**	**241**	**1,580**	**-85**
NPM (%)	0.3	3.1		0.5	2.8	
Capital	534	534		534	534	
EPS (Rs)	**0.2**	**2.4**		**0.9**	**5.9**	

*Source: Company; * Company has extended the financial year by 3 months and FY12 would consist of 15 months. Current FY12 numbers include 12 months financials.*

Revenue growth impacted by delays in execution

- Revenues reported a decline of 22% for Q4FY12 led by revenue loss in couple of projects.
- Company mentioned that revenues during 12MFY12 were impacted by mainly lower execution from four projects -a) NATRIP - where delays were witnessed from client side due to changes in the project consultants b) NTPC BoP project award got delayed due to arbitration proceedings in Supreme Court c) Delays in Mumbai road project and d) delays in execution from Gujarat based project. Company missed nearly Rs 5 bn - Rs 7 bn worth of revenues from these projects.
- Current order book company stands at Rs 280 bn including L1 projects of Rs 54 bn. Current order book is diversified across water and irrigation (Rs 93 bn), transportation (Rs 98 bn), power (Rs 18 bn), building and industrial (Rs 56 bn) and oil & gas and mining (Rs 14 bn). Revenues in FY12 were primarily dominated by water segment (Rs 17 bn) and building segment (Rs 11.84 bn) while rest is contributed by transportation (Rs 14.5 bn), power (Rs 4 bn) and oil and gas (Rs 1.85 bn).
- Since FY12 would now be for 15 months, we expect FY12 (15 months) revenues of Rs 61.7 bn while FY13 (9 months) revenues are expected to be around Rs 47bn.
- Financials for 9MFY13 are subject to change post the merger process gets over.

Status of key projects

- Revenue collection from three road BOT projects - Kumarapalyam tollways, Jalandhar-Amritsar tollways and Salem Kumarapalyam tollway project has remained range-bound around Rs 29-30lakh per day. For Chennai desalination project, daily revenue collection is Rs 46lakh per day.
- Construction work is going on in various projects such as Baramati-Phaltan (61% EPC complete), Indore Jhabua (74% EPC complete), Chengapalli-Walayar (42% EPC complete), Karanji-Wani-Ghuggus-Chandrapur (27% EPC complete) and IOTL project (67-68% EPC complete). In next 9-12 months, company has to put in Rs 810 mn as equity for these projects. On completion of construction, company expects toll collection of Rs 10-11 lakh per day from Baramati-Phaltan, Rs 52 lakh per day from Indore Jhabua project, Rs 70 lakh per day from Chengapalli Walayar project and Rs 16-17 lakh per day from Karanji-Wani-Ghuggus-Chandrapur project.
- From Noida land monetization, company has already raised nearly Rs 2 bn from 3 land parcels and expects to raise nearly Rs 1 bn from the fourth parcel. This has met some of the equity requirements of it's under construction road BOT projects.
- Financial closure for Sion-Panvel project was done during Q1FY12 and work has commenced. Construction work is expected to complete in 24-30 months for Sion-Panvel project.
- IVRCL group has also won two road BOT projects - Raipur-Bilaspur Highway Project worth Rs 13 bn and Rajasthan border-Narnaul-Mahendragarh-Dadri-Bhiwani-Kharak corridor project in Haryana worth Rs 12 bn. Company expects to put in equity worth Rs 4.5 - 5bn in these projects from FY13 onwards.

- IVRCL has also decided to merge the road assets of IVR A&H with itself and has also declared the swap ratio for merging road assets of IVR Assets and holdings with itself. For every six shares of IVR A&H, shareholders of IVR A&H would get 5 shares of IVRCL. Since IVRCL holds nearly 75.72% in IVR A&H, corresponding shares would get cancelled. Thus IVRCL would have to issue 3.98 cr shares and enhanced outstanding shares would stand at 306.8 mn.
- Company expects the merger process to get completed by June, 12 and hence has decided to come out with the audited numbers for FY12 for 15 months as against 12 months. We expect promoter holding to increase post the merger of IVRCL and IVR Assets and holding along with increased networth of IVRCL.
- Company has mentioned that for under construction projects (Excluding Sion-Panvel project), equity requirement is around Rs 810 mn. For recently awarded projects, equity requirement would be around Rs 4.4 bn. Out of these, nearly Rs 1 bn from Noida land monetization is expected to be finalized soon. Company also plans to raise another Rs 2.5 bn through stake sale in its road BOT projects. Thus, there would be a shortfall in meeting the funding requirements for its recently awarded projects. Further , equity requirements for Sion-Panvel project are also likely to increase the shortfall.
- We believe that fund raising at the SPV level or land monetization is very crucial for execution ramp up from existing projects. Delays seen in fund raising have already impacted revenue growth of the company for FY12 (Sion-Panvel project) and further delays may keep FY13 revenue growth also subdued.

Operating margin performance lower than our estimates

- Operating margins declined and stood at 6.3% for Q4FY12 due to high administrative overheads as well as sub-contracting cost as a percentage of sales.
- It is also due to debtor provisioning of around Rs 500 mn which is booked in other expenses.
- We reduce our estimates and expect margins to be 8.5% going forward.

Net profit declined sharply due to poor execution, decline in margins and increase in borrowings

- Net profit was impacted by poor execution, lower margins and increase in interest outgo. Profits declined by 92% YoY for Q4FY12.
- It was also impacted by higher tax outgo since tax outgo for 9MFY12 stood much below 31%. For full 12MFY12, average tax rate stood at 33.1%, which was in line with our estimates.
- Net profit performance was also boosted by higher other income in the form of dividends from subsidiaries. Surprisingly, other income for 12MFY12 at Rs 297 mn is much higher than core EBT excluding other income which stood at just Rs 63 mn.
- Since FY12 would now be for 15 months, we expect FY12 (15 months) PAT of Rs 316 mn while FY13 (9 months) PAT is expected to be around Rs 787 mn.

Valuation and recommendation

- At current price of Rs 46, stock is trading at 13.4x P/E on FY13 annualized earnings estimates. Adjusted with asset valuations, stock is trading at 7.1x P/E on FY13 annualized earnings estimates.
- We currently don't ascribe increased equity capital on account of merger of IVR A&H till the time it becomes effective.
- We tweak our estimates and arrive at a revised price target of Rs 52 (Rs 61 earlier) based on sum of the parts valuations methodology. Decline in valuations of subsidiaries also contributed to decline in overall valuations.

We maintain ACCUMULATE rating on IVRCL Infra with a price target of Rs.52

- Delays in meeting equity requirements would keep revenue growth subdued for the company. We thus remain cautious on the company and continue to maintain **ACCUMULATE** rating on the stock and would advise investors to look for declines as well as improvement in performance to enter the stock.
- Any news flow regarding stake purchase by Essel group may turn out to be positive for IVRCL stock.

Sum of the parts valuation

Valuation - based on FY13	Rs per share	Parameter
Core business valuation	31	Based on 9x FY13 annualized earnings(12 months)
Value for IVR assets and holdings	17	Holding company discount of 15%
Value for Hindustan Dorr Oliver stake	5	Holding company discount of 15%
Value per share	**52**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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J KUMAR INFRAPROJECTS LTD

PRICE: RS.169 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.180 **FY13E P/E: 5.7x**

Result highlights: Revenue growth for FY12 was lower than our estimates but is expected to improve going forward due to healthy order book. Order inflow for the full year improved significantly for the company and margins also stood in line with our expectations. We maintain ACCUMULATE on the stock.

- **Revenues for Q4FY12 and FY12 reported 11% and 2% YoY decline. This was due to lower than expected order inflows during H1FY12. Growth is likely to improve going forward since order inflows have jumped up significantly during H2FY12.**
- **Margins stood at 15.4% and 15.8% for Q4FY12 and full year FY12, slightly better than our estimates.**
- **At current price of Rs 169, stock is trading at 5.7x P/E and 2.6x EV/EBITDA multiple for FY13. We tweak our estimates and arrive at a revised price target of Rs 180 (Rs 194 earlier) and continue to maintain ACCUMULATE on the stock.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	9,460	9,316	11,738
Growth (%)	24	-2	26
EBITDA	1,411	1,467	1,702
EBITDA margin (%)	14.9	15.8	14.5
PBT	1,046	1,011	1,214
Net profit	715	698	831
EPS(Rs)	25.7	25.1	29.9
Growth(%)	2	-2	19
CEPS(Rs)	31.4	31.9	37.9
BVPS(Rs)	135.2	157.6	184.9
DPS (Rs)	2.3	2.3	2.3
ROE (%)	20.8	17.2	17.4
ROCE (%)	31.5	25.6	25.2
Net cash/(debt)	(191.8)	(477.9)	(189.1)
NW capital(Days)	116.3	126.3	126.3
P/E (x)	6.6	6.7	5.7
P/BV (x)	1.3	1.1	0.9
EV/Sales (x)	0.5	0.5	0.4
EV/EBITDA (x)	3.2	2.9	2.6

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q4FY12	Q4FY11	YoY (%)	FY12	FY11	YoY (%)
Net Sales	**2,901**	**3,257**	**-11**	**9,316**	**9,460**	**-2**
Expenditure	2,455	2,779	-12	7,848	8,049	-2
EBITDA	**446**	**478**	**-7**	**1,467**	**1,411**	**4**
EBITDA margin (%)	15.4	14.7		15.8	14.9	
Depreciation	54	44		188	159	
EBIT	**391**	**435**	**-10**	**1,280**	**1,252**	**2**
Interest	96	98		330	277	
PBT (exc other income)	295	336	-12	950	975	-3
Other Income	23	22		62	70	
PBT	**318**	**358**	**-11**	**1,011**	**1,046**	**-3**
Tax	91	111		313	331	
Tax (%)	28.5	31.0		31.0	31.6	
PAT	**228**	**247**	**-8**	**698**	**715**	**-2**
NPM (%)	7.9	7.6		7.5	7.6	
Equity Capital	278	278		278	278	
EPS (Rs)	**8.2**	**8.9**		**25.1**	**25.7**	

Source: Company

Revenue growth lower than our estimates

- Revenues for Q4FY12 and FY12 reported 11% and 2% YoY decline respectively. This was due to lower than expected order inflows during H1FY12. Growth is likely to improve going forward since order inflows have jumped up significantly during H2FY12.
- Order book of the company stands at approximately Rs 25.3 bn diversified across transportation (70.9%), civil construction (24.5%), irrigation (3.82%) and piling (0.8%). Order inflow during FY12 stood at Rs 17.6 bn which should provide a healthy visibility for FY13 revenues and going forward. Revenues during Q4FY12 are diversified across transportation (88%), civil (5%), piling (2%) and others (4%).

- Company is also diversifying at other locations in order to tap upcoming opportunities in other states. It has already bagged few large sized projects in Rajasthan and is also bidding in other states like Gujarat, Haryana.
- We tweak our estimates and expect revenues to grow by 26% for FY13.

Operating margins better than our estimates

- Margins stood at 15.4% and 15.8% for Q4FY12 and full year FY12, slightly better than our estimates.
- We maintain our estimates and expect margins to be 14.5% for FY13 to factor in higher competition in recently awarded bids.

Net profit growth impacted by higher interest outgo

- Net profits registered a decline of 8% and 2.5% for Q4FY12 and full year FY12 respectively. This was mainly led by flattish revenue growth as well as increase in interest outgo.
- Borrowings have also witnessed an increase during FY12 due to higher working capital requirements as well as increased bidding for several projects which has also led to higher bank guarantees.
- We tweak our estimates and expect net profits to grow by 19% during FY13, translating into an EPS of Rs 29.9 for FY13.

Valuation and recommendation

We continue to maintain ACCUMULATE on J Kumar Infraprojects with a price target of Rs.180

- At current price of Rs 169, stock is trading at 5.7x P/E and 2.6x EV/EBITDA multiple for FY13.
- We tweak our estimates and arrive at a revised price target of Rs 180 (Rs 194 earlier) and continue to maintain **ACCUMULATE** on the stock.
- Key risk to our recommendation would come from lower than expected order inflow or steep increase in working capital requirements going forward.

RESULT UPDATE

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ASHOK LEYLAND (ALL)

PRICE: RS.26 **RECOMMENDATION: BUY**
TARGET PRICE: RS.31 **FY13E P/E: 8.5x**

- ALL's 4QFY12 revenues of Rs43,110mn came in line with our estimate of Rs43,487mn. However, lower staff cost (due to lowering of bonus provision and revision in gratuity/leave encashment charges) led to net profit coming in ahead of our expectation.
- Company expects the M&HCV industry to grow by ~6%. For ALL, the management expects the volume to grow at faster clip. In FY13, the company expects M&HCV volumes of 109,000 units and 32,000 units from their newly launched Dost vehicles.
- On the margin front, the company expects improvement in operating margins from its core M&HCV segment to 11.5%. However margin dilutive "Dost" is expected to negatively impact margins by 100 to 150bps thereby taking the overall operating margin expectation by ALL to 10%.
- Current macro factors are not favorable for the M&HCV segment. We expect the M&HCV demand to pick up gradually over FY13. Expected improvement in domestic economy and reduction in interest rates will kick start recovery in this segment. After underperforming in FY12, we expect ALL to outperform the industry volumes in FY13.
- We revise our FY13 estimates in order to factor 1.Increase in discount levels and 2.Factor in management guidance on the impact of higher contribution from the low margin LCV segment (Dost) in FY13. Based on the above mentioned reasons, we lower our FY13 EBITDA margin estimates from 9.8% to 9.4%. We also increase our interest cost taking into account company's FY13 borrowing plans. Given increase in 4QFY12 depreciation charge, we revise our FY13 depreciation cost upwards. The above mentioned changes has led to lowering of our FY13 net profit estimates by 7.7% to Rs8,156mn.
- We lower our target price to Rs31 (earlier Rs33). Due to adequate upside we change our rating on the stock from ACCUMULATE to BUY.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	111,177	128,420	171,257
Growth (%)	53.5	15.5	33.4
EBITDA	12,176	12,561	16,163
EBITDA margin (%)	11.0	9.8	9.4
PBT	8,018	6,900	9,946
Net profit	6,313	5,660	8,156
EPS (Rs)	2.4	2.1	3.1
Growth (%)	49.0	(10.3)	44.1
CEPS (Rs)	3.4	3.5	4.5
Book value (Rs/share)	14.9	15.8	18.0
Dividend / share (Rs)	1.0	1.0	0.8
ROE (%)	16.6	13.8	18.1
ROCE (%)	14.7	13.1	16.1
Net cash (debt)	(23,887)	(23,626)	(31,837)
NW Capital (Days)	16.7	6.1	1.9
P/E (x)	11.0	12.2	8.5
P/BV (x)	1.7	1.6	1.4
EV/Sales (x)	0.8	0.7	0.6
EV/EBITDA (x)	7.6	7.4	6.2

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

Rs mn	4QFY12	4QFY11	YoY%	3QFY12	QoQ%
Total Revenues	**43,110**	**38,484**	**12.0**	**29,035**	**48.5**
Total expenditure	38,411	33,404	15.0	26,931	42.6
RM consumed	32,091	27,768	15.6	21,487	49.4
Employee cost	2,468	3,018	(18.2)	2,723	(9.4)
Other expenses	3,851	2,617	47.1	2,721	41.6
EBITDA	**4,699**	**5,081**	**(7.5)**	**2,104**	**123.4**
EBITDA margin (%)	10.9	13.2	-	7.2	-
Depreciation	956	772	23.8	866	10.3
Interest cost	724	548	32.0	603	20
Other Income	109	157	(30.5)	86	27.0
Extraordinary income/ (loss)	16	-	-	-	-
PBT	**3,144**	**3,917**	**(19.7)**	**720**	**336.9**
PBT margins (%)	7.3	10.2	-	2.5	-
Tax	557	935	(40.4)	51	1,000.6
Tax rate (%)	17.7	23.9	-	7.0	-
Reported PAT	2,587	2,982	(13.2)	669	286.7
PAT margins (%)	6.0	7.7	-	2.3	-
Reported EPS (Rs)	**1.0**	**1.1**	**(13.2)**	**0.3**	**286.7**

Source: Company

Result highlight

- ALL reported revenues of Rs43,110mn in 4QFY12, a jump of 12% over 4QFY11 revenues of Rs8,484mn. During the quarter the company benefitted from the sales of "Dost" - an LCV from the ALL-Nissan JV.
- Company said that the demand in the key South market revived in certain segment in 4QFY12 and that helped the company gain market share.
- In the power solution (engine) business, the company reported drop in engine sales. In 4QFY12 engine sales stood at 5,900 units versus 6,208 units in 4QFY11. For FY12, the engine sales stood at 16,432 units as against 17,643units in FY11. Company is looking to redefine the business model in this segment by moving its focus away from the telecom segment. Company expects to sell 20,000 engines in FY13.
- In the defense business, the company saw sales of kit supply increase from 2,380 units in FY11 to 2,981 units in FY12. Company also supplied 352 fully built vehicles in FY12 as against 391 units sold in FY11. In 4QFY12 the company could sell only 63 units against 171 units sold in 4QFY11. For FY13, the company has set a target of 2,500-3,000 kit supply sets and 350-400 fully built vehicles.
- On the operating margin front, the numbers came ahead of expectation due to decline in staff cost.
- Staff cost during the quarter stood at Rs2,468mn lower by 18% YoY and 9.4% QoQ. Decline in staff cost was on account of revision in actuarial liability (leave encashment/gratuity) and lowering of bonus provision.
- Raw material cost increased largely in line with growth in revenues.
- Other expenses witnessed a sharp 47% YoY increase. Reason for the same include 1.Increased activity in terms of production and sales 2.One time charge related to a. marketing/brand building b. jump in R&D expenses and c. commission paid to non-executive board members 3.More number of vehicles transported from the Pantnagar plant (North India) to Southern markets and 4.Forex/MTM impact.
- Exceptional items relates to profit on sale of equity shares of subsidiary/associates to group investment company. Going forward, the company plans to continue with the restructuring/consolidation of its holdings. However, the management clarified that the same will not have any major impact on the company's FY13 financials.
- Depreciation cost increased from Rs772mn in 4QFY11 and Rs866mn in 3QFY12 which in our view was due to capitalization of assets.
- Interest cost too increased in the quarter from Rs603mn in 3QFY12 to Rs724mn in 4QFY12.
- Net profit for the quarter came in at Rs2,587mn, as against Rs2,982mn in 4QFY11 and our estimate of Rs2,269mn.

Outlook for FY13

- Company expects the M&HCV industry to grow by 4-6% in FY13 (Bus-5% growth, Truck -6% growth). Freight rates have consolidated in FY12 and are expected to remain stable in FY13. However, high interest rates continue to remain a point of worry.
- Management expects the volume growth for ALL in FY13 to surpass the industry growth rate. Two broad reasons for ALL outpacing industry volume growth in FY13 includes 1.New launches and 2.Poor last year performance.
- In FY13, the company will be launching various new models across product, segment, platform and geography.

- ALL underperformed the industry in FY12 and lost significant market share. Weak demand in the southern region remained one of the prime reason for the company's underperformance in FY12. Company's volumes in Southern market were impacted by 1.Ban on mining activity 2.Elections/political turmoil and 3.Overall sluggish demand. ALL's volumes in FY12 were also impacted by production/logistic issues at the company's Uttaranchal plant.
- Improvement in the Southern market will be a major positive for the M&HCV volumes. Company indicated recovery in demand in the Southern market in 4QFY12. Supreme Court order on partial lifting of ban on iron ore mines will boost demand. Company expects to garner one third incremental volumes in such an event. Election and production/logistic issues were more a one-off event.
- In the M&HCV segment, the company expects to sell 109,000 units (95,000 domestic + 14,000 exports) in FY13 against ~93,300 units sold in FY12. We have assumed volumes of 105,000 units. Apart from this the company is also looking to sell 32,000 units of "Dost" in FY13.
- On the export side, the company expects to continue the good run showcased in FY12. Company entered new market like Russia and Ukraine, revived business with Egypt and the other key market like Bangladesh and Sri Lanka continue to perform strongly.
- Management expects the margins from the M&HCV business to improve in FY13. Reasons for the same include 1.Full benefit of pricing action taking various time points in FY12 2.Increased production from the tax free Pantnagar plant 3.Recent hike in excise duty will provide with additional benefit of ~Rs20,000 per vehicle manufactured from the Pantnagar plant and 4.Rationalization of activities across plants. Company took a 1% price increase in April 2012 but implemented the same from May 2012.
- However the lower margins from the company's trading of "Dost" LCV will lead to margin dilution in FY13. Dost sales in FY12 were 7,593 units (4,395 units sold by JV and 3,198 sold by ALL) and the company plans to sell ~32,000 units in FY13. As per the management, this can lead to 100-150bps impact on the operating margin in FY13. Accordingly the company has pegged their operating margin estimate to ~10% for FY13.
- Company will continue to pay tax under MAT in FY13.
- ALL plans to invest Rs6-6.5bn in capex and Rs5bn in subsidiaries/associates. Company expects its debt levels in FY13 to rise by Rs4-5bn.

Joint venture update

Ashok Leyland - Nissan JV

- Management expects the company to turn cash positive in the next 18 months.
- JV has signed a revised MOU with the Tamil Nadu government for further investments and tax incentives.
- In due course, the JV will shift production from Hosur to the new greenfield plant.
- ALL has already invested Rs5bn in the JV and of the Rs5bn investment planned in JV's for FY13, majority will flow in this JV.

Ashok Leyland - John Deere JV

- Company expects this JV to turn cash positive in two years.
- This JV launched backhoe loader in FY12 and sold 221 units. In FY13, the JV will launch wheel loader.
- ALL has so far invested Rs610mn in this JV.

JV with Alteams

- Ashok Leyland had entered into a 50:50 JV with Alteams called Ashley Alteams India Limited. JV was formed to manufacture aluminum high pressure die-casting.
- JV sold 4,000 tonnes in FY12. Almost 65% of ALL's requirement for aluminum casting has been supplied by this JV.

Hinduja Leyland Finance Limited (HLFL)

- ALL had set-up their captive NBFC arm 'Hinduja Finance Limited' in order to support its sales. Captive financing arm assumes significance as more than 90% of the sales in the M&HCV segment are financed sales.
- HLFL financed 4,300 vehicles in FY12 and the company expects the number of vehicles financed by this arm in FY13 to go to 8,000 vehicles.
- ALL has so far invested Rs3.4bn in this financing arm.

Change in estimates and Valuation

We revise our FY13 estimates in order to factor 1.Increase in discount levels and 2.Factor in management guidance on the impact of higher contribution from the low margin LCV segment (Dost) in FY13. Based on the above mentioned reasons, we lower our FY13 EBITDA margin estimates from 9.8% to 9.4%. We also increase in our interest cost taking into account company's FY13 borrowing plans. Given increase in 4QFY12 depreciation charge, we revise our FY13 depreciation cost upwards. The above mentioned changes has led to lowering of our FY13 net profit estimates by 7.7% to Rs8,156mn.

Change in estimates (FY13)

Rs mn	Old	New	% change
Revenues	171,257	171,257	0.0
EBITDA margin (%)	9.9	9.4	-
PAT	8,840	8,156	(7.7)

Source: Kotak Securities - Private Client Research

We recommend BUY on Ashok Leyland with a revised price target of Rs.31

- Current macro factors are not favorable for the M&HCV segment. We expect the M&HCV demand to pick up gradually over FY13. Expected improvement in domestic economy and reduction in interest rates will kick start recovery in this segment. After underperforming in FY12, we expect ALL to outperform the industry volumes in FY13.
- We lower our target price to Rs31 (earlier Rs33). Due to adequate upside we change our rating on the stock from ACCUMULATE to **BUY**.

RESULT UPDATE

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ADANI PORT AND SPECIAL ECONOMIC ZONE (ADSEZ)

PRICE: RS.115 **RECOMMENDATION: BUY**
TARGET PRICE: RS.164 **FY13E P/E: 16.3X**

Volumes disappoint - operational performance continues to be strong

Q4FY12 standalone volumes for the port were up only a small 7% YoY and down 7% QoQ at 15.53 mn tonnes. This is second consecutive quarter of fall in volumes QoQ for Adani Port. Volumes were disappointing for coal which has fallen more than 20% YoY to 4.07 mn tonnes for the quarter primarily due to structural issues in the coal segment which has led to poor import of coal for power projects in and around Mundra. Infact the entire bulk volumes has reported negative growth of ~10% in the quarter. However, volumes were healthy for containers (+34% YoY) and crude (33% YoY). As a result the company has reported a tad disappointing revenues of Rs 6.4 bn in 4QFY12, recording a strong growth of 24% YoY, but falling 7% QoQ. Disappointing volumes and flat realisation of Rs 413/ tonne (previous quarter = Rs 416 per tonne) led to the fall in revenues. EBITDA margin expanded about 50 bps QoQ (360 bps YoY) to ~71%. PAT was reported at Rs 3.39 bn in 4QFY12, up 1% YoY and 9% QoQ, ahead of our estimates of Rs 3.2 bn (consensus of Rs 3.26 bn). The stock has fallen by 7% in the last one month and 14% in the last one year on the back of negative news flow at the group level and structural issues in the coal sector. We are now lowering the coal volumes for Adani Power and Tata Power UMPP from 22.5 mn tonnes to 15.8 mn tonnes in FY13E and from 31.5 mn tonnes in FY14E to 20.3 mn tonnes as we believe the structural problem of coal sector would continue atleast for another 2 years. Retain BUY with a reduced price target of Rs 164 (earlier Rs 166) on attractive valuations, strong asset base and healthy cash flow generation.

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	20,001	25,818	31,554
Growth (%)	33.7	29.1	22.2
EBITDA	12,994	16,551	20,319
EBITDA margin (%)	65.0	64.1	64.4
PBT	9,980	12,209	15,914
Net profit	8,930	10,833	14,109
EPS (Rs)	4.5	5.4	7.0
Growth (%)	33.9	21.3	30.2
CEPS (Rs)	6.0	7.1	8.9
Book value (Rs/share)	21.9	26.1	31.3
Dividend / share (Rs)	0.8	1.2	1.8
ROE (%)	20.3	20.7	24.2
ROCE (%)	12.3	14.6	17.7
Net cash (debt)	(40,726)	(34,695)	(25,248)
NW Capital (Days)	16.7	7.2	13.0
EV/EBITDA (x)	20.8	16.0	12.6
P/E (x)	25.8	21.3	16.3
P/Cash Earnings	19.2	16.3	13.0
P/BV (x)	5.2	4.4	3.7

Source: Company, Kotak Securities - Private Client Research

Quarterly snapshot (standalone)

(Rs Mn)	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Net Sales	**5,176**	**5,296**	**6,197**	**6,906**	**6,419**
YoY (%)	23.1	27.4	49.9	53.2	24.0
QoQ (%)	14.8	2.3	17.0	11.4	-7.1
OPEX	1,232	1,168	1,497	1,413	1,289
Employee cost	177	206	237	230	217
Admn cost	268	294	358	448	338
EBIDTA	**3,499**	**3,628**	**4,105**	**4,815**	**4,575**
Ebidta %	67.60	68.50	66.24	69.72	71.27
Other Income	386	4	-71	-20	84
Interest inc	103	57	84	98	0
Depreciation	586	587	679	702	767
Gross int	350	407	409	833	297
PBT	**3,052**	**2,695**	**3,030**	**3,358**	**3,595**
Taxes	543	171	296	251	205
Effective tax rate (%)	17.79	6.35	9.77	7.47	5.70
PAT	**2,509**	**2,524**	**2,734**	**3,107**	**3390**
Extraordinary	845	18	0	0	0
Adj PAT	**3,354**	**2,542**	**2,734**	**3,107**	**3,390**
NPM (%)	64.80	48.00	44.12	44.99	52.81
Equity	4,007	4,007	4,007	4,007	4,007
EPS (Rs)	**1.67**	**1.27**	**1.36**	**1.55**	**1.69**

Source: Company, Kotak Securities - Private Client Research

Financial highlights

Subdued volumes

Volumes were sluggish for ADSEZ in the quarter on account of poor coal volumes. It handled 4.07 mn of coal in the quarter (-22% QoQ). This is second quarter for the company for sequential fall in coal volumes. We believe the sequential/YoY fall in coal volumes is primarily due to poor import of coal from policy constrained Indonesia. We believe this a structural problem and may take some time before a solution to coal pricing and power tariffs is arrived at. However, with increasing containersation and lower turnaround time, the port has reported healthy growth in container volumes. (+34% YoY and +8% QoQ). Even the crude volumes for IOC and HPCL were healthy for the company at 2.54 mn tonnes (+37% QoQ and +34% YoY)..

Revenues declines QoQ due to sluggish volumes in bulk category, especially coal

The company has reported standalone revenues of Rs 6.4 bn in 4QFY12, reporting moderate growth of 24% YoY, but declining 7% QoQ. The revenues have fallen on account of slumping volumes at 15.53 mn tonnes (+7% YoY and -7% QoQ) despite healthy realisation of Rs 413/tonne (+16% YoY). Total standalone volumes + Dahej was at ~66 mn tonnes versus our estimate of 72 mn tonnes

EBIDTA margins have improved substantially to 71.3%

EBITDA increased by 4.72% YoY to Rs 4.57bn. EBITDA margins expanded by 60 bps YoY and 400 bps at 71.3% in 4QFY12, on account of lower employee cost and other expenditure. Operating expenses as percentage of sales marginally declined from 20.44% in 4QFY11 to 20.08% in 4QFY12 as compared to 20.47% in 3QFY12.

Interest, depreciation and tax

Depreciation cost increased by 30.8% YoY to Rs 767 mn. Net interest cost remained stable on a YoY basis to Rs 297mn. The company raised USD1.25bn in a nonrecourse funding from Australian and Asian lenders and also raised USD 800 mn at holding company to refinance USD2bn Abbot Point Acquisition loan. The company has made tax provisions as per MAT (Rs 205.3 mn after considering credit of Rs 738.6 mn), though it has filed public interest litigation against levy of MAT on SEZ developer.

Quarterly volumes for ADSEZ

mn tonnes	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Bulk	8.81	8.75	9.69	10.04	7.89
Crude	1.90	2.19	2.71	1.86	2.54
Containers	3.80	4.14	4.40	4.71	5.10
Total cargo	**14.51**	**15.08**	**16.80**	**16.61**	**15.53**
YoY (%)	38.2	19.2	33.5	33.8	7.0
Realisation Per tonne	357	351	369	416	413
EBIDTA Per tonne	241	241	244	290	295
Break up of bulk					
Minerals	0.90	0.85	0.78	1.11	0.70
Coal	5.21	5.04	5.13	4.52	4.07
Fertiliser	0.40	0.71	1.27	1.87	0.65
Steel	0.40	0.47	0.67	0.71	0.69
Food grains	0.00	0.00	0.00	0.00	0.00
POL	1.90	1.68	1.84	1.83	1.78
Total Bulk	**8.81**	**8.75**	**9.69**	**10.04**	**7.89**
YoY (%)	60.2	23.2	47.0	33.7	-10.4

Source: Company, Kotak Securities - Private Client Research

ADSEZ to become one of the top port operators by FY14E

ADSEZ has outlined aggressive plans to emerge as one of the largest private port operators in India. The company is developing port capacity for liquid and bulk cargoes at South and West basin with potential to develop ~16 berths each with deep draft of ~17mtr. It has also drawn plans to utilize North and East basin and port can have more than 200mtpa capacity at single location. MPSEZ is also expanding the port capacity of Dahej, Gujarat and Mormugoa, Goa in India and has recently acquired 50mtpa Abbot Point facility in Australia. Total cargo handled is expected to increase from 54mtpa in FY11 to ~ over 100 mtpa in FY15E (standalone) making it large port in terms of both viz. capacity and cargo handled.

Already ADSEZ is ranked #4 among major ports in India in terms of volumes handled in 4QFY12 behind Kandla, Vizag and JNPT.

Company still looking for opportunities in the East coast

MPSEZ also intends to set up two ports on the East Coast of India including its proposal to develop a mega port in Orissa. Currently the East Coast is being serviced by seven major ports (Government ports - handled 275 mn tonnes of cargo in FY11). Over the past five years, cargo traffic has grown at an 11.3% CAGR for west coast ports vs. 5.2% for east coast.

Standalone volume growth for Mundra

Volumes in million tonnes	FY11	FY12	FY13E	FY14E
Misc. cargo (including other coal)	23.13	26.40	30.63	35.00
Thermal coal (Adani power / Tata UMPP)	0.00	11.25	15.75	20.25
Coal / Bulk	23.13	37.65	46.38	55.25
Crude	6.69	8.25	9.00	10.00
Container terminal	14.91	18.00	21.00	24.00
Total handled	**44.73**	**63.90**	**76.38**	**89.25**
Capacity	127.00	155.00	175.00	200.00
Overall growth (%)	11.3	42.9	19.5	16.9
Growth in Misc cargo (%)	60.1	62.8	23.2	19.1
Growth in Crude (%)	-10.8	23.3	9.1	11.1
Growth in Container volumes (%)	32.5	20.7	16.7	14.3

Source: Kotak, Company

Valuation and recommendation

The stock has fallen by 7% in the last one month and 14% in the last one year on the back of negative news flow at the group level and structural issues in the coal sector. We are now lowering the coal volumes for Adani Power and Tata Power UMPP from 22.5 mn tonnes to 15.8 mn tonnes in FY13E and from 31.5 mn tonnes in FY14E to 20.3 mn tonnes as we believe the structural problem of coal sector would continue atleast for another 2 years. Retain BUY with a reduced price target of Rs 164 (earlier Rs 166) on attractive valuations, strong asset base and healthy cash flow generation. It currently trades at 16.3 times P/E and 3.7 times P/B FY13E. We continue to value the company at net present value of equity cash flows of its existing operations. We believe the company would continue to deliver superior growth (24% CAGR Vs. 10% for global companies), superior ROE (+20% versus ~15% for global companies) in FY13E. Retain BUY with a reduced price target of Rs 164 (earlier Rs 166) on attractive valuations, strong asset base and healthy cash flow generation.

Catalyst:

- Significant improvement in visibility of overseas projects
- Greenfield port materializing on the east-coast.

Downside risk:

- Delays/slowing of the power projects which would lead to lower-than-expected coal volumes
- Weak global economic climate.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
15-May	Action Fin	Somya Traders Pvt Ltd	B	51,000	37.0
15-May	Ekam Leasing	Gajraj Jain	S	57,800	33.0
15-May	Elder Health	M.Prasad & Co Ltd	B	26,221	102.5
15-May	Elder Health	Nirmala Shashikumar Savadekar	S	21,000	101.5
15-May	FGP	Universal Industrial Fund Limited	B	225,000	2.6
15-May	FGP	RPG Cellular Investments & Holdings	S	225,000	2.6
15-May	Finalysis Cred	Dharmendra Harilal Bhojak	B	46,500	58.0
15-May	Global Sec	Nishith Babulal Shah	B	150,000	20.0
15-May	Global Sec	Dharmendra Harilal Bhojak	S	96,500	19.7
15-May	Global Sec	Nitin Shakraji Makwana	S	153,700	20.1
15-May	Jaihind Syn	Nilesh Mansukh Vora	B	25,000	12.7
15-May	Karma Ind	Ceeplast Trading Company Pvt Ltd	S	200,000	42.8
15-May	Kavveri Tele	Affluence Commodities Pvt Ltd	B	107,000	166.7
15-May	Ken Fin Serv	Umashankar Vedprakash Agarwal	B	27,000	52.3
15-May	Ken Fin Serv	Ashish Chaudhary	S	30,000	52.3
15-May	Mahaveer Info	Jitendrakumar Babulal Shah	B	85,000	18.3
15-May	Nivyah Infra	Indu Mahendra Shah	S	111,600	9.1
15-May	Pasupati Fin	Chhayaben Ramanlal Modi	S	50,000	23.3
15-May	Pasupati Fin	Neelesh Kumar	S	84,054	23.2
15-May	Prime Focus	Rakesh Radheyshyam Jhunjhunwala	B	2,550,000	42.1
15-May	Prime Focus	The Royal Bank Of Scotland N.V.	S	2,550,000	42.1
15-May	Raymed Labs	Mudit Agarwal	S	39,601	27.8
15-May	Saboo Sodium	Camus Trades Pvt Ltd	B	100,000	10.1
15-May	Saboo Sodium	Satya Karm Punia	S	100,000	10.1
15-May	Santowin Corp	Kingfisher Properties Pvt Ltd	B	500,000	12.4
15-May	Santowin Corp	Esquire Enclave Private Limited	B	500,000	12.4
15-May	Santowin Corp	Kishore Srichand Vanwari	S	1,000,000	12.4
15-May	SB&T Intl	Kapil Puri	S	95,344	7.0
15-May	Shilpa Medicare	Tano Mauritius India Fvci Ii	B	200,000	245.0
15-May	Shreychem	Arsenal Finstock Services Pvt Ltd	B	57,188	56.7
15-May	Shreychem	Nishil Surendrabhai Marfatia	S	100,000	56.7
15-May	Sterling Hol	Macquarie Bank Limited	B	570,000	74.4
15-May	Sunlake Resorts	Nawal Kumar Bansal	B	50,000	7.4
15-May	Sunlake Resorts	Wealthsmith Share Broking Pvt Ltd	S	50,100	7.4
15-May	Supreme Tex	Julius Baer Multistock Global	S	306,374	1.7
15-May	Suryanagri Fin	Brilliant Credit And Finance Pvt Ltd	B	20,000	47.5
15-May	Suryanagri Fin	Brilliant Developers Pvtltd	B	30,000	47.5
15-May	Suryanagri Fin	Sanjay Chimanlal Agrawal	S	50,000	47.5
15-May	Venus Power	Dhana Energy Private Limited	B	78,376	21.6
15-May	Venus Power	Leha Power Private Limited	S	90,000	21.2
15-May	Vyapar Inds	BJD Securities Pvt. Ltd	S	64,775	23.8

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Ltd	2,415	3.3	11.8	1.3
L&T	1,222	5.4	10.8	5.0
ICICI Bank	817	2.0	6.0	3.5
Losers				
ITC	231	(1.6)	(6.3)	5.1
NTPC	143	(2.8)	(1.7)	2.6
ONGC	249	(1.0)	(1.4)	1.8

Source: Bloomberg

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