MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

MAY 15, 2012

Economy News

- The headline inflation for April hit 7.23%, much higher than 6.89% recorded last month. Food Inflation came in at 10.49% and finance minister has said that is a "matter of concern".(BL)
- Moody's on Monday downgraded the rating of top three private sector lenders - ICICI Bank, HDFC Bank and Axis Bank and LIC, reflecting the alignment of their fortunes with government's deteriorating finances. (ET)
- The Telecom commission will meet on May 24 to discuss the sector regulator recommendations on spectrum auction. The recommendations are not binding but cannot be rejected outright, the telecom secretary said. (ET)
- The group of ministers (GoM) on the National Pharmaceutical Pricing Policy, which met on Monday to seek feedback from various industry associations, is likely to meet again on Friday to listen to more stakeholders, before finalising a mechanism to cap the prices of essential medicines. (BS)

Corporate News

- The coal ministry has asked **Coal India** to sign the new format fuel supply agreements with power units coming up between January 2012 and March 2015. According to the ministry, about 40,000 MW of power generation capacities would be commissioned between January 2012 and March 2015. (ET)
- Credit ratings agency Moody's has downgraded **RIL** as 'credit negative' on account of cut in the estimates in proven reserves in its Krishna-Godavari block by 6.7% to 3.67 TCF. The 12.8 bn cubic metre reduction in proven reserves will reduce total cash flows of the company from the project by approximately $1.7 bn, based on an existing gas price of $4.2/mmbtu. (BS)
- Spirits major **Radico Khaitan**, the manufacturers of 8 PM whisky and Magic Moments vodka, has acquired the Royal Lancer and Elkays whisky brands from the staples of the Mysore based Yezdi group. The whisky brands, which sell over half a million cases, are largely sold in Karnataka and Andhra Pradesh. (ET)
- **Gujarat NRE Coke** said its board has approved the plan to issues 50mn warrants to promoters on preferential basis and raising capital of up to $150mn. The fund raising will be done in one or more tranches. (ET)
- **Jain Irrigation Systems** has announced acquisition of 100% stake in the joint venture firm NaanDanJain. At present, Jain Irrigation has 50% stake in NaanDanJain and holds the option of buying out remaining stake in the joint venture company. (BS)
- India's largest sugar firm **Bajaj Hindusthan** said its shareholders have approved the company's proposal to furnish investments and corporate gurantees worth up to Rs12.4 bn for its power projects. (ET)
- Ruia family-promoted **Essar Ports** is likely to sign a stake sale deal with Port of Antwerp, one of the largest ports in Europe, in the next two months, said Essar Ports MD. The company, which operates four port facilities at Hazira, Salaya,Vadinar and Paradip, will also increase its presence in container terminal business in India as it looks to expand. (ET)
- **Indian Oil Corporation** has told UP CM Mr. Akhilesh Yadav that it will be forced to raise fuel price in the state unless the entry tax, which has put a burden of Rs.86 bn on the cash-strapped firm, is withdrawn. (ET)
- At least 11 companies, including **GAIL (India)** and **Oil India**, have expressed interest to buy stake in Mukesh Ambani's privately owned firm Reliance Gas Transportation Infrastructure (RGTIL). (BS)

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

Equity

	14 May 12	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,216	(0.5)	(5.1)	(10.9)
NIFTY Index	4,908	(0.4)	(5.8)	(11.3)
BANKEX Index	10,662	(1.6)	(10.3)	(15.1)
BSET Index	5,505	0.4	1.9	(10.5)
BSETCG INDEX	8,839	0.3	(10.7)	(18.7)
BSEOIL INDEX	7,420	(1.7)	(7.0)	(15.2)
CNXMcap Index	6,923	(0.9)	(8.7)	(11.2)
BSESMCAP INDEX	6,315	(1.3)	(7.1)	(10.6)
World Indices				
Dow Jones	12,695	(1.0)	(1.2)	(0.7)
Nasdaq	2,903	(1.1)	(3.6)	(0.5)
FTSE	5,466	(2.0)	(3.3)	(7.2)
NIKKEI	8,974	0.2	(7.8)	(4.1)
HANGSENG	19,735	(1.1)	(4.7)	(7.7)

Value traded (Rs cr)

	14 May 12	% Chg - Day
Cash BSE	1,786	(4.7)
Cash NSE	8,961	(3.3)
Derivatives	71,596	(42.1)

Net inflows (Rs cr)

	11 May 12	% Chg	MTD	YTD
FII	176	(48.5)	47	43,516
Mutual Fund	-	(100.0)	(474)	(6,431)

FII open interest (Rs cr)

	11 May 12	% Chg
FII Index Futures	11,285	3.1
FII Index Options	39,101	(0.5)
FII Stock Futures	20,680	(0.4)
FII Stock Options	1,121	5.2

Advances / Declines (BSE)

12 May 12	A	B	T	Total	% total
Advances	71	736	239	1,046	37
Declines	133	1,241	283	1,657	59
Unchanged	0	79	37	116	4

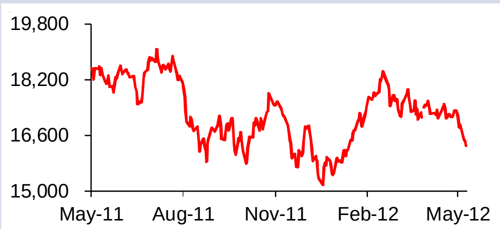
Commodity

	12 May 12	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	94.3	(0.5)	(8.3)	(7.4)
Gold (US$/OZ)	1,561.3	(1.6)	(6.7)	(10.0)
Silver (US$/OZ)	28.3	(2.4)	(11.1)	(15.8)

Debt / forex market

	12 May 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.52	8.56	8.47	8.26
Re/US$	53.8	53.6	51.7	49.4

Sensex



RESULT UPDATE

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THERMAX LTD

PRICE: RS.421 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.450 **FY13E P/E: 14x**

- The deceleration in the revenue growth of Thermax was largely expected as the order backlog has been on a declining trend.
- Order backlog (Standalone) is down 25% yoy to Rs 42.3 bn, thus imparting a revenue visibility of 10 months based on trailing four quarters revenues.
- In view of the weak order intake in FY12, we project revenue and earnings to decline in FY13 by 7% and 11% respectively.
- We had previously recommended "Reduce at Rs 522" on the stock. Since then the stock price has corrected significantly. Valuations are still not supportive at current levels and there is scope for further contraction. We maintain Reduce with a target price of Rs 450.

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	53371	60913	56929
Growth (%)	58	14	-7
EBITDA	5746	5939	5369
EBITDA margin (%)	10.8	9.8	9.4
PBT	5743.6	5964.0	5410.2
Net profit	3777	4035	3576
EPS (Rs)	31.7	33.9	30.1
Growth (%)	46.0	6.8	-11.4
CEPS (Rs)	36.7	38.8	35.2
BV (Rs/share)	110.5	133.9	153.4
Dividend / share (Rs)	9.0	9.0	9.0
ROE (%)	24.5	20.9	16.4
ROCE (%)	39.2	31.8	24.5
Net cash (debt)	8433	6305	7352
NW Capital (Days)	-18.3	1.9	4.5
EV/Sales (x)	0.8	0.7	0.8
EV/EBITDA (x)	7.3	7.4	8.0
P/E (x)	13.3	12.4	14.0
P/Cash Earnings	11.5	10.9	12.0
P/BV (x)	3.8	3.1	2.7

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q4FY12	Q4FY11	YoY (%)
Net Sales	**16,613**	**17,455**	**(5)**
Other income from operations	256	258	(1)
Total Expenditure +	**15,015**	**15,762**	**(5)**
Raw Matl costs	11,492	12,313	(7)
Purchase of trading goods	215	518	(58)
Staff costs	942	969	(3)
Other costs	2,366	1,962	21
PBIDT	**1,853**	**1,951**	**(5)**
Other Income	272	133	105
Depreciation	121	116	4
EBIT	**2,005**	**1,968**	**2**
Interest	34	10	249
PBT	**1,971**	**1,959**	**1**
Tax	672.6	694	(3)
Adj Profit After Tax	1,298	1,265	3
EPS	**10.9**	**10.6**	**3**
PBIDTM (%)	11.2	11.2	
PBDIT % (excluding other op income)	9.6	9.7	
RM costs to sales (%)	70	74	
Other costs to sales (%)	14.2	11.2	
Tax rate (%)	34	35	

Source: Company

Consolidated Numbers

	Q4 FY12	Q4 FY11	YoY (%)
Revenues	18907.9	19267.2	(2)
PBT	1832.6	1839.6	(0)
PAT	1149.2	1172.6	(2)

Source: Company

Result Highlights

- The deceleration in the revenue growth of Thermax was largely expected as the order backlog has been on a declining trend. For the quarter, Thermax reported decline of 5% yoy to Rs 16.6 bn. With large orders hard to come by, the company has been banking on short-cycle orders.
- Revenue visibility has declined to 10 months of trailing four quarter revenues from a high of 23 months in Q1FY11.

Segment revenues

(Rs mn)	Q4 FY12	Q4 FY11	% change
Segment- Energy	13206	14299	-8
Segment - Enviro	4211	3862	9

Source: Company

- EBITDA margin for the quarter has been stable at 11.2% despite reporting lower revenues. The company has taken several cost optimization measures to preserve margins.
- Bulk of the order backlog is fixed priced. The company freezes prices of bulk of the material and components including specialised steel for boilers and bought-outs like valves. The balance material consists of structural steel which is procured on a spot basis. This restricts volatility in margins due to material price fluctuation.
- The company has been working at making its cost structure flexible through higher contract labour and leveraging its long-term relationship with vendors.

Segment Margins

%	Q4 FY12	Q4 FY11
Segment- Energy	10.2%	10.4%
Segment - Enviro	14.0%	12.9%

Source: Company

Consolidated PAT marginally lower than standalone due to losses at Chinese subsidiary

Consolidated PAT for the quarter was marginally lower (than the standalone PAT) due to loss at its Chinese Subsidiary which makes Chillers. The Chinese operations are expected to turnaround in FY13 but the expected slowdown in the country may delay the same.

There are cost-overruns at its project management subsidiary ie Thermax Instrumentation but the magnitude is not significant.

Consolidated Numbers

(Rs mn)	Q4FY12	Q4FY11	YoY (%)	FY12	FY11	YoY (%)
Revenues	14671.8	13716.2	7.0	60912.2	52990	24.6
PBT	1328.8	1540.8	-13.8	5964	5734	6.1
PAT	942.9	1061.6	-11.2	4035	3816	9.2

Source: Company

Order intake sharply lower as projects finalisations dwindles significantly in H2FY12

- Order backlog (Standalone) is down 25% yoy to Rs 42.3 bn, thus imparting a revenue visibility of 10 months based on trailing four quarters revenues. Revenue visibility has been trending downwards since FY11 as order intake has decelerated.
- Order intake (Standalone) of Rs 8.1 bn in the quarter, down 36% yoy but up 37% sequentially.
- The main driver of order intake was metals followed by Power, Textiles and Cement.
- The company indicated that due to elevated interest rates (~13-14%), Eurozone crisis, and policy bottlenecks, finalization of big-ticket projects had dropped to a trickle. This situation was more pronounced in the power sector. As a result, order inquiries were sharply lower in the FY12. Nevertheless, the company indicated that several medium size project enquiries for boilers are available in the market for Thermax.
- The company is hopeful of winning one supercritical size power project in FY13.

Capacity expansion

The capacity expansion initiatives are progressing on schedule. Construction work at the manufacturing facility for supercritical boilers set up by its joint venture (with Babcock Wilcox) is going on and the plant is expected to be commissioned in September 2012. Thermax has indicated that there is informal understanding with Babcock and Wilcox for joint servicing of the Asian power generation market.

Other concall highlights

- Given the sharply lower order backlog, the company expects a drop in revenues in FY13.
- The company expects to largely maintain EBITDA margins at FY12 levels. We have built in a 40 bps reduction in EBITDA margins in FY13.
- The management indicated that it is actively considering atleast one supercritical-size power project order at this stage.
- Given the load shedding in various parts of india (especially Southern India), the company expects interest to revive in Captive power projects. Regarding, coal availability, the company indicated that captive power can be viable even based on imported coal.

Earnings Outlook - Marginal revision in estimates

In view of the weak order intake in FY12, we project revenue and earnings to decline in FY13 by 7% and 11% respectively.

Change in earnings estimates (FY13E)

(Rs mn)	Earlier	Revised
Revenue Rs mn	57177	56929
EBITDA (%)	10.10	9.43
EPS Rs	**30.5**	**30.1**
% change		-1.5

Source: Kotak Securities - Private Client Research

Valuation - Maintain Reduce

We recommend REDUCE on Thermax with a price target of Rs.450

We had previously recommended "Reduce at Rs 522" on the stock. Since then the stock price has corrected significantly. Valuations are still not supportive at current levels and there is scope for further contraction. We maintain **REDUCE** with a target price of Rs 450.

RESULT UPDATE

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LARSEN & TOUBRO LTD

PRICE: RS.1160 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1360 **FY13E P/E: 14.9X**

- **L&T came out with numbers that were ahead of expectations on the revenue and profit front. While the project execution was robust, lower tax and reduced sales and administration expenses helped the company to deliver higher profits.**
- **In line with our expectations, the company missed out on its order intake guidance in FY12. Surprisingly, the company has guided for 15-20% growth in order intake FY13, aggressive in our view.**
- **Revenue growth guidance of 15-20% in FY13 and stable EBITDA margin guidance with variation of +/- 50 bps.**
- **On a FY13 basis, L&T is trading at 13.7x and 12.4x PE and EV/EBITDA respectively. The stock has corrected 9% since our previous update. In view of this, we upgrade the stock to BUY. However, note that near-term outlook for the capital goods sector remains clouded due to sluggish industrial and infrastructure growth. There is also lack of any near-term trigger for the stock.**
- **Risks - Weak capex cycle and policy bottlenecks coupled with rising capital engagement in business.**

Summary table - Consolidated

(Rs mn)	FY11	FY12	FY13E
Sales	519,534	643,131	746,032
Growth (%)	18.2	23.8	16.0
EBITDA	75,553	87,699	99,669
EBITDA margin (%)	14.5	13.6	13.4
PBT	68030.5	69734.8	75755.1
Net profit	44,562	46,937	50,825
EPS (Rs)	69.9	77.0	84.4
Growth (%)	15.1	10.1	9.6
CEPS (Rs)	84.3	103.2	118.0
Book value (Rs/share)	409.1	488.0	555.3
Dividend per share (Rs)	14.7	14.7	14.7
ROE (%)	18.6	17.2	16.2
ROCE (%)	16.9	14.6	15.7
Net cash (debt)	-291831	-435682	-610126
EV/Sales (x)	1.7	1.6	1.7
EV/EBITDA (x)	11.9	12.1	12.4
P/E (x)	16.6	15.1	13.7
P/BV (x)	2.8	2.4	2.1

Source: Company, Kotak Securities - Private Client Research

Strong execution in the quarter

E&C Segment

- During the quarter, the E&C segment reported 22% yoy growth in revenue. For the fiscal, the company delivered 23% yoy revenue growth against its guidance of 25%. Hence, the revenue growth has been largely in line with the guidance.
- Execution has been well managed even as the company continued to face delays due to forest and land clearances.
- Exports were robust during the quarter and year rising by 49% yoy and 26% respectively.
- During the past few years, the company has significantly upgraded its execution capability with the addition of equipments and fabrication yards in Oman and Katupalli.

Electrical and Electronics Segment

- In this segment, L&T makes medium and low voltage switchgears. The Segment revenue contracted by 14% yoy during the quarter.
- The company indicated that it has been a challenging year for the electrical industry as the T&D market has contracted during the fiscal.
- In addition to this, the SME sector, which is a major market for the segment, was paralysed by liquidity crunch and high interest rates.

MIP (Machinery and Industrial Products)

- The MIP segment posted a modest decline of 6% yoy in revenue in Q4 FY12 on slack demand from the construction and industrial segment. The management indicated that policy uncertainty resulted in stalling of investment in the mining sector, which resulted in lower offtake.
- "Others" segment include Technology Services division, e-Engineering solutions and embedded systems. This segment posted robust growth of 31% yoy on strong demand from the US geography. Moreover, the growth is coming on a low base.

Margins under pressure in major segments of E&C and Electrical products

- EBITDA margins for the quarter stood at 13.9% down 160 bps on a yoy basis. Margins appear to be under pressure across major segments mainly due to competition and material price pressure.
- Employee costs rose 20% yoy due to addition of personnel at its various locations including Hazira, Coimbatore and Sohar.
- Sales and Administration expenses were lower due to MTM gains on forex fluctuation.
- The "others" segment's (includes technology outsourcing) margins were impacted by INR volatility and scale-up costs.

Results performance

(Rs mn)	Q4 FY12	Q4 FY11	YoY (%)
SalesTurnover	**186,458**	**152,127**	**23%**
excise duty	1,849	1,344	38%
Excise rate %	1.0%	0.9%	12%
Net sales	184609	150784	22%
Qtry dist %	35%	34.7%	0%
Other op income		**3,058**	**-100%**
Total op expenses	159,002	130,436	22%
Raw material	34,278	32,421	6%
Sun-contracting charges	39,207	28,197	39%
Construction materials	48,246	38,959	24%
purchase of trading goods	7,620	6,209	23%
Other operating expenses	13,786	8,950	54%
sales and admin exp	6,101	7,547	-19%
Personnel	9,764	8,153	20%
Operating Profit	**25607**	**23407**	**9%**
Other income	3142	3698	-15%
Depreciation	1,804	2,358	-24%
EBIT	**26,946**	**24,747**	**9%**
Interest	1,211	1,362	-11%
PBT	**25735**	**23385**	**10%**
current Tax	7,202	7,319	-2%
deferred tax	(121)	1,474	-108%
Adjusted PAT	**18654**	**14592**	**28%**
Extraordinary gains	550	2267.7	-76%
Reported PAT	**19204**	**16860**	**14%**
EPS (Rs)	**31.85**	**24.91**	
EBITDA (%)	13.9%	15.5%	
Raw Matl costs to sales (%)	18.6%	21.5%	
Sub-contracting costs to sales (%)	21.2%	18.7%	
construction materials costs to sales (%)	26.1%	25.8%	
Purchase of trading goods costs to sales (%)	4.1%	4.1%	
Total material and contracting expenses	70.1%	70.2%	
Other op expenses costs to sales (%)	7.5%	5.9%	
sales and admin costs to sales (%)	3.3%	5.0%	
Personnel costs to sales (%)	5.3%	5.4%	
Current tax rate %	28%	38%	

Source: Company

Segment revenue

(Rs mn)	Q4 FY12	Q4 FY11	YoY (%)
Engg and Construction	167085	136643	22
Electrical and Electronics	11435	10014	14
Machinery and Industrial products	8169	8681	-6
Others	2749	2105	31
Total	**189437**	**157443**	**22**

Source: Company

Segment margins

(%)	Q4 FY12	Q4 FY11	Q3 FY12
Engg and Construction	13.6	14.6	10.3
Electrical and Electronics	13.9	15.2	8.5
Machinery and Industrial products	16.3	20.0	18.1
Others	11.8	21.8	25.4

Source: Company

Order intake flat sequentially. Management maintains its guidance of 5% order intake in FY12

- Order backlog at Rs 1457 bn is up 11.9% yoy but flat sequentially, equivalent to revenue visibility of 33 months based on trailing four quarters revenues. We note that revenue visibility has begun to peak out since Q1 FY12.
- Order inflows for Q4FY12 came in at Rs 212 bn, down 30% yoy. For FY12, order intake was lower by 11% to Rs 706 bn. The company cited continued deferrals in projects as the prime reason for sluggish order intake.
- The company gave a guidance of 15-20% growth in order intake in FY13. While conceding that estimating order wins is a inherently tricky business in India, the management indicated that guidance is based on the premise that large-scale project deferrals do not continue in FY13.
- The company is counting on couple of large projects of the size of Rs 120-150 bn, which got spilled over from FY12. Apart from this, hydrocarbons segment is also vibrant in the domestic and international market. The company also expects to win couple of Supercritical power project orders in the current fiscal.
- The company is targeting a higher pie of the hydrocarbon business from new geographies in the Middle East especially Saudi Arabia.

Increase in Capital Employed remains a concern to be monitored

Working capital has increased across segments and more so in E&C and Machinery and Industrial products. Consequently, the company reported sharp drop in "cash from operations" in FY12.

Capital employed

Rs mn	Q4 FY12	Q4 FY11
Engg and Construction	108073	75465
Electrical and Electronics	13635	11862
Machinery and Industrial products	7010	4702
Others	6000	5425
Total capital employed in segments	134717	97454

Source: Company

Analyst meet highlights

- Management has indicated that it does not anticipate major execution related issues in the foreseeable future and is well positioned to deliver 15-20% growth in revenues in FY13.
- Regarding new verticals (Forgings, Shipping and Power), the company indicated that the Power equipment manufacturing business has enough work for FY13 but would need to win few orders in FY13. The forgings facility has received a set-back following diminishing interest among countries to set up Nuclear Power Plants. The company plans to offer its forgings for the Hydrocarbon, Power and Shipping business. On the Shipyard front, the company has not had major order win due to poor outlook for the shipping sector. The company expects to win couple of Submarine/Defence vessel orders in FY13.
- Revenue growth guidance of 15-20% in FY13 and stable EBITDA margin guidance with variation of +/- 50 bps.
- L&T Infotech reported robust profit at Rs 4.2 bn, up 33% in FY12.

Stock outlook

- Stock performance would be contingent on newsflow on larger order wins, commodity price trends and general economic and policy datapoints (interest rate cuts and mining and power sector reforms), we opine.
- We maintain our FY13 profit estimates.

Valuation and Rating: Upgrade to BUY with a revised target price of Rs 1360 (Rs 1469 earlier)

On a FY13 basis, L&T is trading at 13.7x and 12.4x PE and EV/EBITDA respectively. The stock has corrected 9% since our previous update. In view of this, we upgrade the stock to **BUY**. However, note that near-term outlook for the capital goods sector remains clouded due to sluggish industrial and infrastructure growth. There is also lack of any near-term trigger for the stock.

We recommend BUY on L&T with a price target of Rs.1360

In our DCF valuation, we have factored in a CAGR of 14% in revenue growth between FY12-16. We work out price target of Rs 1360 (Rs 1469 earlier), thus valuing the stock at 16.0x FY13 earnings.

DCF valuation

(Rs mn)	Parameter	Fair Value	Per share
L&T Infotech	12x FY12 earnings	50,280	86
L&T Finance Holdings	10% disc to mkt value	38,876	67
L&T IDPL	2x BV	32,376	54
L&T Standalone	DCF	675363	1153
Total			**1,360**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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MADHUCON PROJECTS LTD

PRICE: RS.45 **RECOMMENDATION: BUY**
TARGET PRICE: RS.82 **FY13E P/E: 10.5x**

- **Revenues of the company during Q4FY12 and full year FY12 was lower than our estimates. Revenues reported a decline of 27% YoY for Q4FY12 and reported a growth of just 6% for the full year.**
- **Operating margins for Q4FY12 and FY12 were better than our estimates due to higher proportion of power projects executed in FY12. Margins stood at 11.8% for Q4FY12 vs 10.56% for Q4FY11.**
- **Net profit was impacted by lower than expected revenue growth, higher interest outgo as well as higher tax rate.**
- **We thus tweak our FY13 estimates and also reduce valuation multiple for the core business since there are a lot of delays witnessed in raising funds at the subsidiary level which would support further investments in Phase-3 of power project as well as road projects. This can impact financial closure of its projects and hence can adversely impact revenue growth.**
- **We arrive at a revised price target of Rs 82 (Rs 105 earlier). We maintain BUY on the stock with a long term view based on decent upside from the current levels but we believe that in near term, fund raising would continue to remain a key overhang on the stock and can impact near term performance adversely.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	17,046	18,025	20,728
Growth (%)	30	6	15
EBITDA	1,850	2,040	2,176
EBITDA margin (%)	10.9	11.3	10.5
PBT	810	611	476
Net profit	510	365	316
EPS (Rs)	6.9	4.9	4.3
Growth (%)	24	-28	-13
CEPS (Rs)	13.3	11.9	11.6
BV (Rs/share)	84.9	89.5	93.4
Dividend / share (Rs)	0.4	0.4	0.4
ROE (%)	8.5	5.7	4.7
ROCE (%)	11.5	11.3	9.9
Net cash (debt)	(6,987)	(8,367)	(10,360)
NW Capital (Days)	65.0	65.0	65.0
P/E (x)	6.5	9.1	10.5
P/BV (x)	0.5	0.5	0.5
EV/Sales (x)	0.5	0.6	0.6
EV/EBITDA (x)	4.7	4.9	5.5

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q4FY12	Q4FY11	YoY (%)	FY12	FY11	YoY (%)
Net Sales	**4323**	**5934**	**-27%**	**18025**	**17046**	**6%**
Expenditure	(3813)	(5308)		(15984)	(15196)	
EBITDA	**510**	**626**	**-19%**	**2040**	**1850**	**10%**
EBITDA margin	11.81%	10.56%		11.32%	10.85%	
Depreciation	(142)	(118)		(512)	(475)	
EBIT	**368**	**508**	**-28%**	**1529**	**1375**	**11%**
Interest	(268)	(245)		(1091)	(618)	
EBT(exc other income)	100	263		438	757	
Other Income	142	34		173	53	
EBT	**242**	**297**	**-18%**	**611**	**810**	**-25%**
Tax	(93)	(104)		(246)	(300)	
Tax%	38.24%	34.92%		40.26%	37.07%	
Net profit	**150**	**193**	**-23%**	**365**	**510**	**-28%**
NPM%	3.46%	3.25%		2.03%	2.99%	
Equity Capital	73.795	73.795		73.795	73.795	
EPS (Rs)	**2.0**	**2.6**		**4.9**	**6.9**	

Source: Company

Revenue growth lower than our estimates

- Revenues of the company during Q4FY12 and full year FY12 was lower than our estimates. Revenues reported a decline of 27% YoY for Q4FY12 and reported a growth of just 6% for the full year due to delays witnessed in completion of Phase-1 of power project.

- Current order book of company stands at nearly Rs 77.3 bn diversified across road segment (Rs 47.3 bn), irrigation projects (Rs 15.3 bn), power projects (Rs 5 bn) and building (Rs 5.5 bn) and mining segment (Rs 4.2 bn). During Q3FY12, company received letter of intent to set up a mine mouth coal fired power plant of 2X150 MW in South Sumatra, Indonesia on BOT basis. On 1st May, 2012, Madhucon Project's subsidiary entered into power purchase agreement with PT PLN of Indonesian government for setting up this power plant at an estimated project cost of $ 410 mn and to supply power to PLN for 25 years.
- Construction work of Phase 1 of power project is complete and has also declared commercial operation with effect from 4th May, 2012. Commencement of Unit 2 is delayed and is now expected to commence by June, 2012. Construction work on Phase 2 is under progress and targeted date of completion is expected to be by Nov-Dec, 2012 as against earlier expectation of Aug, 2012.
- Company has entered into an agreement with PTC where PTC would be supplying the coal for the project and MPL would just charge the conversion charges of Rs 1.45 per unit from Phase 1. 70% of the power would be sold to PTC under this arrangement and for remaining power, it has an option to sell in open market at the merchant power rate. Similarly for Phase 2, arrangement of 50% power to PTC and 50% can be sold in market at the then prevalent merchant rates. Market rates in AP are currently ruling at very high levels of nearly Rs 16 per unit due to high power deficit in the state. Company is confident of selling the power at merchant rates once Phase 2 gets commissioned. Along with this, it also has fuel supply arrangements in place with PTC for both Phase 1 and Phase 2.
- For Phase 3 of power project, company would wait for environmental clearance before going for financial closure.
- MPL has 9 road BOT projects in its portfolio with four of them being operational, three are in the construction phase while 2 have recently been awarded. Toll collections from each of the operational projects are mentioned below -
  - **Madhucon Agra-Jaipur expressway -** Toll collections are on an improving trend and company is collecting toll of nearly Rs 12.24 lakh per day
  - **TN Expressway -** Toll collections per day from TN expressway have improved significantly during Q4FY12 and stood at nearly Rs 10.44 lakh per day as against Rs 8.8 lakh per day during Q3FY12. This was primarily due to allowance of sand mining near Kaveri river belt which has led to increase in traffic volumes mainly for transportation of sand.
  - **Madurai - Tuticorin expressway -** Toll collection is in the range of Rs 17-17.5 lakh per day and is lower than company's expectations due to slippages. This is expected to improve going forward after 2 years on completion of Tuticorin port capacity expansion, port connectivity as well as identification of slippages. Company expects toll collections to improve to Rs 24 lakh per day in a year's time.
  - **Trichy-Thanjavur expressway -** Toll collection is in the range of Rs 6.4 lakh per day under partial tolling.
  - **Chhapra-Hazipur BOT project (annuity)** - Construction work has commenced on Chhapra-Hazipur BOT project and project is now 25% complete.
  - **Barasasat-Krishnagar BOT project and Ranchi-Rargaon-Jamshedpur DBFOT project** - Financial closure for these projects is done with debt of Rs 7.5 bn in Barasasat-Krishnagar and Rs 12 bn in Ranchi project. Debt is currently tied up at 12.25%. Construction work would progress during FY13. Both these projects are annuity based.

- **Vijayawada Machilipatnam Expressway -** Company was also awarded Vijayawada Machilipatnam Expressway in AP under DBFOT basis at a project cost of Rs 7.36 bn. Equity requirement for this project would be around Rs 1 bn. This project is not yet financially closed.
- **Rajauli Bakhtiyarpur Expressways -** This project involves four laning of Rajauli Bakhtiyarpur Expressways in Bihar under DBFOT basis at a total project cost of Rs 11.78 bn. Equity requirement for this project would be around Rs 2.95 bn. This project is also not yet financially closed.

- Based on lower than expected revenue growth witnessed in FY12 and also due to delays seen commissioning of power projects, we reduce our revenue estimates for the company and expect revenues to grow by 15% in FY13.

Operating margins better than our estimates

- Operating margins for Q4FY12 and FY12 were better than our estimates due to higher proportion of power projects executed in FY12. Margins stood at 11.8% for Q4FY12 vs 10.56% for Q4FY11.
- We believe that margins may remain under pressure due to construction of low margin road projects - Barasasat Krishnagar and Ranchi-Rargaon-Jamshedpur project going forward vs power projects.
- Hence we maintain our estimates and expect margins to remain near 10.5% for FY13.

Equity commitments and fund raising requirements

Company would have to invest nearly Rs 5.7 bn as equity for its road BOT projects - 3 under construction and 2 recently awarded. Along with this, funds would also be required for the Phase 3 of power project once it gets environmental clearance. Company is in talks with several players for raising funds at the SPV level but delays have been witnessed in finalizing the process. We believe that further delays seen in raising funds at the subsidiary level can impact financial closure of its projects and hence can adversely impact revenue growth.

Net profit growth impacted by lower than expected revenue growth and higher tax outgo

- Net profit was impacted by lower than expected revenue growth, higher interest outgo as well as higher tax rate.
- Tax rate is higher due to higher deferred tax component.
- We tweak our estimates and expect net profits of around Rs 316 mn for FY13.

Valuation and recommendation

- At current price of Rs 45, stock is trading at 10.5x P/E for FY13. Stock is currently factoring in valuations of its investments in road BOT projects and power project at a steep discount to the book value.

We maintain BUY on Madhucon Projects with a price target of Rs.82

- Due to lower than expected revenue growth witnessed in FY12 and also due to delays seen commissioning of power projects, we reduce our revenue estimates for the company. We also reduce valuation multiple for the core business since there are a lot of delays witnessed in raising funds at the subsidiary level which would support further investments in Phase-3 of power project as well as road projects.
- We arrive at a revised price target of Rs 82 (Rs 105 earlier). We maintain **BUY** on the stock with a long term view based on decent upside from the current levels but we believe that in near term, fund raising would continue to remain a key overhang on the stock and can impact near term performance adversely.

Sum of the parts valuation

(FY13)	Rs per share	
Core business	21	5 times FY13 earnings
Road projects		
Agra-Jaipur expressway	11	Expected Equity IRR of 15%
TN Expressway	10	Expected Equity IRR of 15%
Madurai - Tuticorin expressway	10	Expected Equity IRR of 11%
Trichy-Thanjavur expressway	5	Expected Equity IRR of 11%
Power project	25	P/BV of 0.4x for equity investment of Rs 5.2bn invested till date
Total	**82**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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JAMMU & KASHMIR BANK

PRICE: RS.861 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1060 **FY13E P/E: 4.6X, P/ABV: 0.9X**

Q4FY12 Results: Strong Quarter

- **NII came at Rs.5.16 bn (24.1% YoY), ahead of our expectations, on back of strong loan growth (26.3% YoY) and improvement in NIM (14bps YoY). Net income growth was even stronger (50.2% YoY) due to decline in opex (7.6% YoY) along with only moderate rise in provisions & contingencies.**
- **Muted non-interest income (2.7% YoY) at Rs.1.22 bn during Q4FY12 came on the back of lower trading profit (decline of 55.2%) which fell from Rs.227 mn during Q4FY11 to Rs.102 mn during Q4FY12.**
- **Balance sheet grew at healthy pace - loan book and deposits grew at 26.3% and 19.4%, respectively during Q4FY12. Its liability franchise improved marginally both YoY as well as QoQ, unlike the industry trends (CASA mix improved by 50 bps QoQ/20 bps YoY to 40.7% at the end of Q4FY12), positive in our view.**
- **Its asset quality continues to remain amongst the best in class - gross NPA and net NPA improved QoQ to 1.54% and 0.15%, respectively (Q4FY12). Its coverage ratio is also one of the best and now stands at 90.5% (93.8% including technical W/O) providing cushion to its future earnings during rainy days (future deterioration in asset quality).**
- **At the current market price of Rs.861, stock is trading at 4.6x its FY13E earnings and 0.9x its FY13E ABV. We retain BUY rating on the stock with unchanged TP of Rs.1060 based on 1.1x its FY13E ABV.**

Result Performance

(Rs. mn)	Q4 FY12	Q4 FY11	% (YOY)
Int. on advances	9568.3	7184.4	33.2
Int. on investments	3866.3	2900.6	33.3
Int. on RBI/Other balances	140.8	53.6	162.7
Total interest earned	**13575.4**	**10138.6**	**33.9**
Interest expenses	8414.4	5981.2	40.7
Net interest income	**5161.0**	**4157.4**	**24.1**
Other income	1222.7	1190.2	2.7
Net Revenue (NII + Other Income)	**6383.7**	**5347.6**	**19.4**
Operating Expenses	2207.5	2388.3	-7.6
Employee cost	1373.1	1673.3	-17.9
Other operating exp	834.4	715.0	16.7
Operating profit	**4176.2**	**2959.3**	**41.1**
Provisions	842.6	756.0	11.5
Taxes	1252.4	817.7	53.2
Net profit	**2081.2**	**1385.6**	**50.2**
EPS (Rs.)	**42.93**	**28.58**	**50.2**

Source: Company

NII came at Rs.5.16 bn (24.1% YoY), ahead of our expectations; NIM improved both YoY as well as QoQ

J&K bank's core earnings grew at healthy pace - NII came at Rs.5.16 bn (24.1% YoY), ahead of our expectations, on back of strong loan growth (26.3% YoY) and improvement in NIM (14bps YoY).

Net income growth was even stronger (50.2% YoY) due to decline in opex (7.6% YoY) along with only moderate increase in provisions & contingencies.

NIM improved both YoY as well as QoQ to 3.86% during Q4FY12 as against 3.63% in Q3FY12 and 3.72% in Q4FY11. We opine that its margin would witness some compression during FY13 as bank might go for higher loan growth outside J&K state, where spread is likely to be lower. We are modelling NIM at 3.43% for FY13E as against 3.64% reported for FY12.

Healthy balance sheet growth; liability franchise improved marginally both YoY as well as QoQ, unlike the industry trends.

Balance sheet grew at healthy pace - loan book and deposits grew at 26.3% and 19.4%, respectively during Q4FY12. Its liability franchise improved marginally both YoY as well as QoQ, unlike the industry trends (CASA mix improved by 50 bps QoQ/ 20 bps YoY to 40.7% at the end of Q4FY12).

In our view, bank enjoys enough balance sheet liquidity as its C/D ratio has remained at ~62%, far below its peers. We believe, bank is comfortably placed in terms of C/D ratio as compared to its peers and this implies it can easily grow its loan book without mobilizing much of high interest rate bearing bulk deposits.

Muted non-interest income on back of lower trading profit; fee income growth was also subdued

Muted non-interest income (2.7% YoY) at Rs.1.22 bn during Q4FY12 came on the back of lower trading profit (decline of 55.2%) which fell from Rs.227 mn during Q4FY11 to Rs.102 mn during Q4FY12.

Trend in non-interest income

(Rs. mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	% (YoY)%	(QoQ)
Other Income	**936.9**	**744.8**	**775.6**	**1,190.2**	**670.0**	**712.2**	**736.2**	**1222.7**	**2.7**	**66.1**
Commission/ Exchange	353.9	330.4	343.0	432.8	341.5	338.7	387.1	444.2	2.6	14.8
Trading Income (Net of Amortization)	336.3	181.6	178.7	227.2	101.3	84.8	88.0	101.8	-55.2	15.7
Insurance Income	64.4	54.5	61.2	81.3	74.2	58.5	61.1	84.6	4.1	38.5
Misc. Income	182.3	178.3	192.7	448.9	153.0	230.2	200.0	592.1	31.9	196.1

Source: Company

Asset quality continues to remain amongst the best in class; coverage ratio at 93.8% (including technical W/O), one of the best in the industry.

Its asset quality continues to remain amongst the best in class - gross NPA and net NPA improved QoQ to 1.54% and 0.15%, respectively (Q4FY12). Its coverage ratio is also one of the best and now stands at 90.5% (93.8% including technical W/O) providing cushion to its future earnings during rainy days (future deterioration in asset quality).

Trend in asset quality

(Rs. Mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	% (YoY)%	(QoQ)
Gross NPA	4,500.7	5,127.1	5,038.3	5,188.3	5,283.3	5,419.0	5,450.0	5,166.0	8.2	0.6
Gross NPA (%)	1.92	2.17	1.95	1.95	1.97	1.89	1.80	1.54		
Net NPA	80.5	309.1	106.1	532.4	583.5	630.3	489.0	493.0	360.9	-22.4
Net NPA (%)	0.03	0.13	0.04	0.20	0.22	0.22	0.16	0.15		

Source: Company

During FY12, J&K bank added Rs.5.7 bn worth of advances to its restructured portfolio, taking cumulative restructured book to Rs.13.66 bn (4.1% of advances), slightly better than its peers.

Valuation & recommendation

We recommend BUY on Jammu & Kashmir Bank with a price target of Rs.1060

At the current market price of Rs.861, stock is trading at 4.6x its FY13E earnings and 0.9x its FY13E ABV. We are modeling earnings to grow 12.7% during FY13E on a high base (net income growth was 37.2% YoY during FY12); while return profile is also expected to remain healthy (RoA: ~1.4%, RoE: ~20%) during FY13E. We retain **BUY** rating on the stock with unchanged TP of Rs.1060 based on 1.1x its FY13E ABV.

Key data

(Rs. Bn)	FY10	FY11	FY12	FY13E
Interest income	30.57	37.13	48.36	56.55
Interest expense	19.37	21.69	29.97	35.84
Net interest income	**11.20**	**15.44**	**18.38**	**20.71**
Growth (%)	11.9%	37.9%	19.1%	12.7%
Other income	4.16	3.65	3.34	3.43
Gross profit	9.58	11.49	13.70	15.39
Net profit	5.13	5.85	8.03	9.05
Growth (%)	20.3%	14.2%	37.2%	12.7%
Gross NPA (%)	2.0	1.9	1.5	1.5
Net NPA (%)	0.3	0.2	0.1	0.2
Net interest margin (%)	3.0	3.6	3.6	3.4
CAR (%)	15.9	13.7	13.4	13.0
RoE (%)	18.2	18.0	21.1	20.1
RoA (%)	1.3	1.3	1.5	1.4
Dividend per share (Rs)	22.0	26.0	28.0	30.0
EPS (Rs)	**105.7**	**120.7**	**165.6**	**186.7**
Adjusted BVPS (Rs)	**607.6**	**706.4**	**840.9**	**988.2**
P/E (x)	**8.1**	**7.1**	**5.2**	**4.6**
P/ABV (x)	**1.4**	**1.2**	**1.0**	**0.9**

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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INDRAPRASTHA GAS (IGL)

PRICE: RS.207 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.210 **FY13E P/E: 10.9x**

Hanging sword: Delhi high court has adjourned IGL's case against PNGRB to May 22, 2012.

- **IGL has posted better than expected result mainly on account of 1). Better realization in the CNG segment and 2) higher volume growth in PNG segment.**
- **The Delhi High court's hearing on IGL's petition challenging the order of Petroleum Natural Gas Regulatory Board (PNGRB) on the network tariff and compression charge has been further adjourned to 22 May'12.**
- **In Q4FY12, IGL's net revenue has increased by 8.9% QoQ and by 41.4% YoY to Rs. 7203 Mn mainly on account of higher volume growth and increase in realization. Its bottom line has increased by 16.8% QoQ and YoY to Rs. 807.57 Mn.**
- **In March'12, IGL has hiked the prices of CNG gas in Delhi by Rs 1.70/kg and by Rs 1.90/kg in Noida, citing rise in input cost as the factor. The current consumer price of CNG is Rs 35.45 a kg in Delhi and Rs 39.80 a kg in Noida, Greater Noida and Ghaziabad.**
- **Going forward, we believe it will be difficult for IGL to hike the retail fuel prices as PNGRB is planning to cap the same. The matter is pending in the court.**
- **Further, OMCs has not increased retail fuel prices (Diesel, LPG) in spite of higher crude oil price and weak rupee due to higher inflation and political reasons. Thus, it makes further difficult for IGL to hike retail fuel price.**
- **IGL's raw material cost has increased due to 1). Rupee depreciation and 2). Lower supply of cheap domestic gas from KG-D6, forced IGL to import higher qty. of costlier RLNG.**
- **IGL source gas from APM, KG-D6, long term R-LNG and spot R-LNG. The gas is priced in dollars terms and the dollar has appreciated vis-à-vis rupee in Q1 till date FY13. The impact of the same will be reflected in Q1FY13.**

- The Company is trying to enter into long term LNG supply agreement in order to reduce its dependence on costlier spot cargoes. In this regard, IGL is in talks with its promoters GAIL & BPCL and others.
- IGL's revenues are expected to grow with the increase in realization and huge demand of natural gas both in CNG and PNG segment.
- As mandated by Delhi government, LCVs will be converted into CNG which will boost the CNG sales.
- In FY13E, IGL will be investing ~Rs.5 Bn in Delhi and NCR to expand its network.
- The management has guided that in addition to catering to the demand of households, the thrust would be on tapping industrial and commercial customers who have huge demand potential. Also, private vehicles will continue to be a growth driver for CNG sales in the coming years.
- We expect FY13E EPS of Rs. 19.0. The management believes that the strong trends in CNG and PNG segment will continue and IGL is best placed to benefit from rising gas consumption in India.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	19,515	27,905	31,580
Growth (%)	60.9	43.0	13.2
EBIDTA	4,965	6,362	5,506
EBIDTA margin (%)	25.4	22.8	17.4
PBT	3,857	4,512	3,919
Net profit	2598	3072	2655
EPS (Rs)	18.4	21.9	19.0
Growth (%)	20.3	19.2	-13.6
CEPS (Rs)	25.8	32.2	30.3
BV/Share (Rs.)	71.7	87.8	103.5
DPS (Rs)	5.0	5.0	2.8
ROE (%)	27.0%	26.5%	19.5%
ROCE (%)	21.9%	20.2%	12.0%
Net Debt	4,460	7,314	9,735
NW Capital (days)	-19.4	-22.5	-23.6
EV/Sales (x)	1.7	1.2	1.1
EV/EBIDTA (x)	6.8	5.3	6.1
P/E (x)	11.3	9.5	10.9
P/BV (x)	2.9	2.4	2.0
P/CEPS (X)	8.1	6.5	6.9

Source: Company, Kotak Securities - Private Client Research

- Key risk remains in terms of 1). Gas supply, 2). Further rise in gas prices both domestic and LNG, 3). Cost and time run in project execution and 4). Any major regulation by PNGRB on marketing margin. However, we expect IGL to pass on increasing input cost in a phased manner to its customers.
- Based on our estimates, the stock at current market price of Rs.207 is trading at 6.1x EV/EBIDTA and 10.9x P/E on FY13E earnings.
- Based on our DCF valuation model, the fair value of IGL is Rs. 210 (earlier Rs. 223) and we maintain our reduce rating.
- We have assumed ROCE of 18% pre-tax for FY13E and beyond (as per PNGRB's earlier notification). Based on that, we have back calculated gross margins of IGL for FY13E which come to Rs.6.4/Scm as against Rs.8/scm for FY12E (fall of ~19%).
- Since the matter is under litigation, we may review our estimates after getting some more clarifications.

Result Table

In. Rs. Mn	Unit	Q4FY12	Q4FY11	YoY (%)	QoQ (%)
Net Sales	**Rs. Mn**	**7203**	**5093**	**41.4**	**8.9**
Net Sales	Rs/Scm	22.5	18.8	19.6	6.9
Add: Closing Stock	Rs. Mn	1.54	4.14	(62.8)	(49.9)
Less: Raw Material	Rs. Mn	4578	3028	51.2	8.17
Gross Margin	Rs. Mn	2626	2069	26.9	10.1
Gross Margin	Rs./Scm	8.22	7.7	7.3	8.08
Gross Margin	%	36.5	40.6	(4.2)	0.4
Less: Opex	Rs. Mn	941	712	32.0	4.8
Salaries, Wages & Bonus	Rs. Mn	120	90	33.4	12.0
Salaries, Wages & Bonus	Rs./Scm	0.37	0.33	12.8	10.0
Other Mfg Expenses Excl. Excise	Rs. Mn	821	623	31.8	3.8
Other Mfg Expenses	Rs./Scm	2.6	2.3	11.5	2.0
EBIDTA	**Rs. Mn**	**1685**	**1357**	**24.2**	**13.2**
EBIDTA per unit of sales	Rs./Scm	5.27	5.02	5.0	11.2
EBIDTA Margin	%	23.4	26.6	-3.2	0.9
Add: Other Income	Rs. Mn	27.39	23	18.5	(10.8)
Less: Depreciation	Rs. Mn	397	297	33.7	8.0
Less: Depreciation	Rs./Scm	1.2	1.1	13.0	6.1
EBIT	**Rs. Mn**	**1315**	**1082**	**21.5**	**14.2**
EBIT	Rs./Scm	4.1	4.0		
Less: Interest	Rs. Mn	136	70	93.4	0.5
Less: Interest	Rs./Scm	0.43	0.26		
PBT	**Rs. Mn**	**1179**	**1012**	**16.5**	**16.1**
EBT	Rs./Scm	3.7	3.7		
Less: Tax	Rs. Mn	372	320	15.9	14.5
Tax	Rs./Scm	1.2	1.2		
PAT	**Rs. Mn**	**807.57**	**691.6**	**16.8**	**16.8**
PAT	Rs./Scm	2.53	2.6		
PAT	%	11.2	13.6	-2.4	0.8
EPS	**Rs/Share**	**5.8**	**4.9**	**16.8**	**16.8**
PAT	Rs/SCM	2.53	2.56	-1.3	14.7

Source: Company

Expenses Ratio:

Ratio		Q4FY12	Q4FY11	YoY (%)	QoQ (%)
RW/Net Sales (Excise)	%	63.6	59.5	4.1	(0.4)
Staff Cost	%	1.7	1.8	(0.1)	0.0
Other Mfg Expenses Excl Excise	%	11.4	12.2	(0.8)	(0.6)
Cash EPS	Rs/Share	8.6	7.1	21.9	13.7
Other Income/Net Sales %	2.3	2.3	0.0	(0.7)	
Tax rate %		31.5	31.7	(0.2)	(0.4)

Source: Company data and Kotak Securities - Private Client Research

Segment-wise break-up

In. Rs. Mn	Unit	Q4FY12	Q4FY11	YoY (%)	QoQ (%)
A). CNG-Gross Sales	Rs. Mn	6120	4500	36.0	7.4
CNG Gross Sales	Rs/SCM	25.34	21.33	18.8	7.9
CNG Gross Sales	Rs/Kg	33.92	28.56	18.8	7.0
Less: Excise Duty	Rs. Mn	777	571	36.1	7.8
Excise Duty/Net Sales (%)	%	12.64	12.69	-0.1	0.00
CNG-Net Sales - Excise	Rs. Mn	5343	3929	36.0	7.3
CNG-Net Sales - Excise	Rs/SCM	22.1	18.6		
CNG-Net Sales - Excise	Rs/Kg	29.6	24.9		
B). PNG-Sales	Rs. Mn	1860	1164	59.8	13.7
Sales realisation	Rs./Scm	23.1	19.7	17.4	0.3
Sales Volume	MSCM	78	59.2	31.8	9.7
Total Sales Volume	MSCM	320	270	18.3	1.8

Source: Company data and Kotak Securities - Private Client Research

Result Analysis

- **Revenue:** Net revenue for Q4FY12 was at Rs.7.2 Bn up by 41.4% YoY and by 8.9% on sequential basis. Higher revenue was a result of both increases in sales volume and price revision undertaken by IGL.
- **Volume:** During Q4FY12, IGL sold ~180 mn kg of CNG thereby registering a growth of 14.5% YoY and 0.3% sequential. IGL sold 78 mn SCM of PNG in Q4FY12 showing strong 31.8% YoY and 9.7% sequential growth.
- **Segment wise revenue analysis:** IGL has registered a net revenue of Rs.5.3 Bn in CNG business - a 36% YoY and 7.3% sequential growth. However, PNG segment has registered revenue of Rs.1.86 Bn resulting in a 59.8% YoY and 13.7% QoQ growth.
- **Realization:** Blended gross realization is higher by 19.6% YoY and 6.9% QoQ to Rs.22.5/Scm (net of excise). On QoQ basis, the realization improved mainly due to ~7% realization growth in CNG segment.
- **Raw Material Cost:** The raw material cost has increased by 8.17% QoQ and by 51.2% YoY basis to Rs. 4.578 Bn. The raw material cost as a percentage of revenue is up by 411 bps YoY basis but down by 42 bps QoQ basis.
- In order to meet the rising domestic demand of natural gas, IGL not only sources KG-D6 gas and Administered Price Mechanism (APM) gas but also sources higher priced long-term RLNG as well as spot RLNG. Higher proportion of RLNG and rupee depreciation has led to significant increase in raw material cost. We would like to highlight here that the gas supplied by RIL and ONGC is fixed by government in US dollar terms. Hence any rupee depreciation increases the cost for IGL.

- In absolute terms, EBIDTA was at Rs.1.69 Bn up by 24.2% YoY basis and by 13.2% QoQ. Another important factor to monitor is EBIDTA per unit of sales. The same has increased by 11.2% QoQ and 5.0% YoY to Rs. 5.27/SCM.
- **Operating Margins:** In Q4FY12, the EBIDTA margin stood at 23.4%, which is down by 324 bps YoY basis but up by 90 bps on QoQ basis. Margins have increased mainly due to higher realizations.
- PNG segment has witnessed higher growth in volumes as compare to CNG segment.
- The staff cost (as a percentage of sales) has fallen on YoY basis and was flat QoQ basis.
- Other income of the company has increased by 18.5% YoY basis to Rs.27.39 Mn as against a fall by 10.8% QoQ basis due to use of funds for expansion purpose.
- The depreciation cost has gone up by 33.7% on YoY basis and 8.0% QoQ basis to Rs.397 Mn as the company has expanded the number of stations in & around Delhi and capitalized pipelines.
- In Q4FY12, the Company paid an interest of Rs.136 Mn which is higher by 93.4% YoY and 0.5% QoQ basis. Higher interest rate has resulted in higher interest outgo.
- PBT for Q4FY12 was at Rs.1.179 Bn up by 16.5% YoY and 16.1% on a sequential basis.
- Bottom line for Q4FY12 was at Rs.807.6 Mn up by 16.8% YoY and by 16.8% on sequential basis thereby translating into Q4FY12 EPS of Rs.5.8 and CEPS of Rs.8.6.
- In Q4FY12, the PAT margin stood at 11.2%, which is down by 237 bps on YoY basis but up by 76 bps on QoQ.

Recent Developments

- Delhi high court has adjourned IGL's case against petroleum and natural gas regulatory board (PNGRB) to May 22, 2012. Currently, IGL has not cut its tariff structure and will wait for court's verdict.
- According to GAIL's management (promoter of IGL - 22.5% stake), Section 22 of the PNGRB Act, 2006 does not empower PNGRB to regulate the transmission tariff of existing city gas distribution (CGD) companies as the same is already approved by MOPNG. They further stated that PNGRB can regulate the tariff of projects which were awarded through competitive bidding process.
- Pricing of IGL's gas consists of 1). Network tariff, 2). CNG compression charge and 3). Marketing margin. PNGRB has tried to put a cap on first two. Though determining marketing margins is out of PNGRB's purview, concerns of a likely cap on marketing margins have emerged due to the recent directive by the Petroleum Ministry to PNGRB to compute gas companies' marketing margins.
- The wide variation in the tariff of PNGRB and IGL is mainly on account of differences in the assumptions regarding volumes, opex and capex. Management indicated that PNGRB has considered lower capex than what IGL has submitted to planning commission.
- PNGRB has asked IGL to disclose the network tariff, compression charges for CNG and charges for the last mile connectivity (if applicable) to the customer. This will bring more transparency.

Our Take:

- We don't expect the order to be implemented with retrospective effect and accordingly IGL will not be required to pay ~Rs.18.3 Bn. If it is directed to pay then it will erode its net worth. Also, it won't be practical to reimburse the amount to IGL's large base of retail customers. However, we do not rule out prospective rationalization of tariffs.
- Further, IGL requires funds to meet its capex plans of Rs. 5 Bn in FY13E and is in the process of raising funds.
- PNGRB has the objective to expand city gas distribution business. With these rules in place we believe the private players would prefer to stay away from the CGD space as margins will become unattractive.
- We have assumed ROCE of 18% pre-tax for FY13E and beyond (as per PNGRB's earlier notification). Based on that, we have back calculated Gross Margins of IGL for FY13E which come to Rs.6.4/Scm.

Earnings estimates

We expect IGL to book CNG gas volume of ~803 Mn Kgs and PNG 394 MSCMPA of natural gas in FY13E. We expect IGL to report EPS of Rs.18.96 and CEPS of Rs.30.3 in FY13E. We have assumed a capex of Rs.5 Bn in FY13E. Out of this around 50% will be invested in CNG and balance in PNG.

Valuation & Recommendation

- Based on our DCF valuation model, the fair value of IGL is Rs. 210 (earlier Rs. 223).

We maintain REDUCE on Indraprastha Gas with a price target of Rs.210

- We have assumed ROCE of 18% pre-tax for FY13E and beyond (as per PNGRB's earlier notification). Based on that, we have back calculated Gross Margins of IGL for FY13E which come to Rs.6.4/Scm as against Rs.8/scm for FY12E (fall of ~19%).
- Since the matter is under litigation, we may review our estimates after getting some more clarifications.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
14-May	Compulearn	Oak Tansiton Management Pvt Ltd.	B	120,000	13.0
14-May	Ekam Leasing	Gajraj Jain	S	34,300	33.4
14-May	Elder Health	M.Prasad & Co Ltd	B	66,228	99.0
14-May	Elder Health	Dipak Kanayalal Shah	S	41,000	100.6
14-May	Fgp	Universal Industrial Fund Limited	B	225,000	2.6
14-May	Fgp	Rpg Cellular Investments & Holdings	S	225,000	2.6
14-May	Geometric	Rakesh Radheyshyam Jhunjhunwala	B	496,000	62.5
14-May	Gujarat Narm Fly	Kishore Kumar Jain	S	38,000	50.4
14-May	Ifl Promoters	Dmc Institute Of Stock Market	B	69,300	5.9
14-May	Ifl Promoters	Trading Account	S	50,000	5.9
14-May	Jaihind Syn	Value Plus Shares N Securities	B	28,000	12.5
14-May	Jaihind Syn	Krupa Chirag Mehta	S	28,000	12.5
14-May	Kabra Drugs	Meena Hemant Sheth	B	26,600	7.5
14-May	Kabra Drugs	Hemant Sheth Sheth	S	26,600	7.5
14-May	Marvel Capital	Ragini Naresh Singh	B	25,000	20.0
14-May	Marvel Capital	Slp Traders (Satish Vasant Ghone)	S	40,310	20.1
14-May	Parichay Invest	Ashlesh Gunvantbhai Shah	B	14,900	101.0
14-May	Parichay Invest	Rajaji Gandaji Parmar	S	6,000	100.9
14-May	Pasupati Fin	Kirti Anil Mistry	B	50,000	23.2
14-May	Pasupati Fin	Anil Jaikishandas Mistry	B	50,000	23.2
14-May	Pasupati Fin	Chhayaben Ramanlal Modi	B	50,000	23.2
14-May	Pasupati Fin	B M Traders	B	36,000	23.2
14-May	Pasupati Fin	Neelesh Kumar	S	190,000	23.2
14-May	Ranklin Sol-$	Panakala Rao Sodisetty	S	26,213	7.6
14-May	Raymed Labs	Shivam Sales Corporation	B	23,999	29.0
14-May	Raymed Labs	Sai Enterprises	B	33,301	29.1
14-May	Santowin Corp	Graceful Tieup Private Limited	B	500,000	13.0
14-May	Santowin Corp	Sanjay Srichand Vanwari	S	500,000	13.0
14-May	Sharp Trading	Mahesh Kumar Kayan	B	3,400	169.5
14-May	Sharp Trading	Usha Kayan	B	8,715	168.7
14-May	Sharp Trading	Rakesh Bhavarlal Bafna	S	6,200	168.5
14-May	Sharp Trading	Kirti Rakesh Bafna	S	5,000	169.5
14-May	Shekhawati Poly	Safal Realty Private Limited	B	731,100	26.9
14-May	Shekhawati Poly	Harsha Rajeshbhai Jhaveri	S	200,000	27.0
14-May	Shekhawati Poly	Jhaveri Trading & Investment Pvt Ltd	S	308,042	27.0
14-May	Shekhawati Poly	Hemil Subhash Shah	S	125,000	26.5
14-May	Shreychem	Arsenal Finstock Services Pvt Ltd	B	37,767	51.4
14-May	Swasti Vinay Syn	Sabiha Shaikh	B	487,000	8.1
14-May	Transcorp Intl	Tekmek Trading Company Pvt Ltd	B	35,000	33.5
14-May		Transcorp IntlHarini Commotrade P LtdS		35,000	33.5
14-May	Unisys Soft	Yuthika Commercial Pvt Ltd	B	250,000	203.5
14-May		Unisys Soft Arti Singal	S	250,000	203.5
14-May	Venus Power Ven	Leha Power Pvt Ltd	B	90,000	23.8

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Ltd	2,339	1.2	4.3	1.0
L&T	1,159	1.9	3.7	6.6
Bajaj Auto	1,587	1.9	1.2	0.8
Losers				
Reliance Ind	681	(2.3)	(8.6)	4.1
HDFC Bank	501	(2.0)	(5.8)	2.7
ICICI BANK L	801	(1.5)	(4.6)	4.7

Source: Bloomberg

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