investor's eye

Index

Bank of India

Apple Green

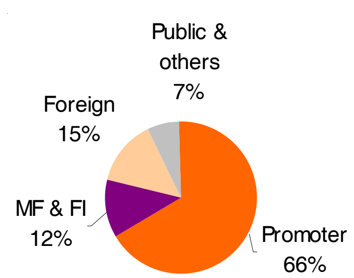
Stock Update

Slippages continue to be sore point

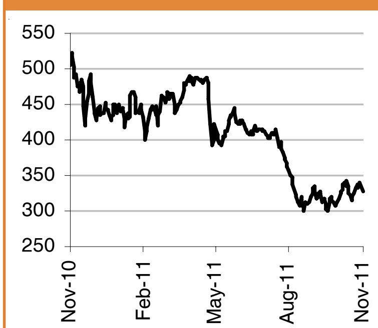
Reduce; CMP: Rs328

Company details	
Price target:	Rs305
Market cap:	Rs22,144 cr
52 week high/low:	Rs563/290
NSE volume: (No of shares)	7.9 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BANKINDIA
Free float: (No of shares)	18.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.7	-6.8	-11.3	-32.2
Relative to Sensex	0.8	-6.4	-7.9	-20.5

Result highlights

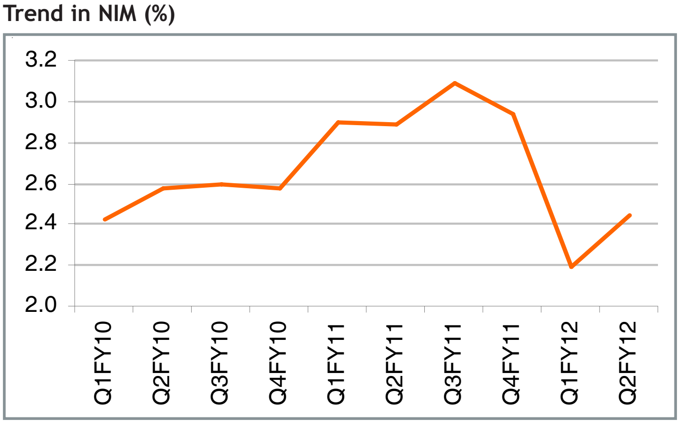
- Bank of India (BOI)'s Q2FY2012 results were significantly below our estimates as net profits declined by 20.3% year on year (YoY) to Rs491 crore. This was on account of a sharp rise in slippages (5.2% of opening advances) largely contributed by system based non performing asset (NPA) classification leading to a 119% year-on-year (Y-o-Y) jump in provision expenses. Consequently, the gross and net NPAs increased to 3.02% and 1.98% respectively compared to 2.69% and 1.27% in Q1FY2012. The net interest income (NII) growth was in line with our estimates as it grew 7.2% YoY and 3.4% quarter on quarter (QoQ) while margins expanded sequentially by 25 basis points (bps) to 2.44%. During the quarter the tax provisions were significantly lower due to the write back of tax provisions and higher write offs (~Rs1,600 crore in Q2FY2012). The bank's return on equity (RoE) and return on assets (RoA) have taken a beating due to a sharp rise in slippages and weak growth in core earnings. We believe the slower growth in earnings and a rise in provisions will constrain improvement in key ratios over the next two quarters. We maintain our Reduce rating on BOI with a price target of Rs305.
- **NII growth in line with estimates:** BOI's NII continues to grow at a subdued rate as it grew by 7.2% YoY. Apart from the slower advances growth (18% YoY and -0.3% QoQ), the reversal of about Rs100 crore of interest on NPAs contributed to a subdued growth in the NII. During the quarter, overseas advances grew at 49% YoY while domestic advances expanded at 9.1% YoY. Within the domestic segment small and medium enterprise (SME) advances declined by 7% YoY (partly due to a change in classification of SME advances) while agriculture advances showed a nominal growth of 2% YoY.

Result table Rs (cr)

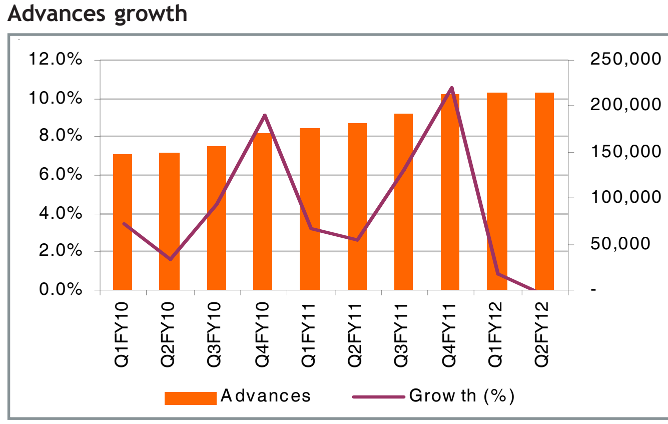
Particulars	Q2FY12	Q2FY11	% YoY	Q1FY12	% QoQ
Interest earned	6,886.4	5,155.2	33.6	6,633.6	3.8
Interest expense	4,982.5	3,379.5	47.4	4,792.6	4.0
Net Interest income	**1,903.9**	**1,775.7**	**7.2**	**1,841.0**	**3.4**
Other income	841.8	584.5	44.0	660.1	27.5
Total income	2,745.7	2,360.2	16.3	2,501.1	9.8
Operating expenses	1,194.2	981.0	21.7	1,105.1	8.1
- Employee cost	727.5	603.1	20.6	700.0	3.9
- Other costs	466.7	377.9	23.5	405.2	15.2
Operating profit (PPP)	**1,551.5**	**1,379.2**	**12.5**	**1,395.9**	**11.1**
Prov for contingencies	1,154.4	527.4	118.9	567.2	103.5
PBT	397.2	851.9	-53.4	828.7	-52.1
TAX	(94.0)	235.5	-139.9	311.2	-130.2
PAT	**491.1**	**616.4**	**-20.3**	**517.5**	**-5.1**

- **NIMs up 25bps QoQ to 2.44% on higher yields:** The net interest margin (NIM) expanded by 25bps QoQ to 2.44% (domestic) mainly on account of increase in yield on advances and yield on investments. During Q2FY2012, the yield on advances increased to 9.41% (up 52bps QoQ) driven by re-pricng of domestic advances. The investment yields expanded by 45bps QoQ to 7.82% while the cost of deposits increased marginally Q-o-Q to 6.1%. The current account-savings account (CASA) ratio at the end of Q2FY2012 was stable at 31.3%.
- **Sharp rise in slippages:** During Q2FY2012 the slippages rose sharply to Rs2,822 crore (5.2% of the opening advances), mainly contributed by accounts below Rs10 lakh, as the bank completed its system based NPA classification. The bank has written off about Rs1,600 crore of loans in Q2FY2012 while recoveries/ upgradations were to the tune of Rs440 crore. Despite that the gross NPAs increased to 3.02% from 2.69% in Q1FY2012. Though the management expects healthy recoveries in the coming quarters, we expect NPA pressures will remain due to adverse macro economic environment.
- **.....lead to a jump in provision expenses:** Led by a sharp rise in slippages the provision expenses increased by 119% YoY and 104% QoQ. The NPA provision (Rs824 crore) was significantly higher compared to the previous quarter leading to a significant de-growth in profits. However, the income tax provisions were lower due to write back of tax provisions for earlier years and higher write offs.
- **Higher treasury profits drive non interest income growth:** The non interest income increased by 44% YoY and 27.5% QoQ mainly supported by treasury income. During Q2FY2012 the bank earned a treasury profit of Rs154 crore compared to Rs36 crore in Q2FY2011 (Rs110 crore in Q1FY2012). The fee income growth showed some recovery as it increased by 8% YoY and 19% QoQ.
- **Valuation:** BOI's Q2FY2012 results were disappointing as slippages continued to climb up while core income growth remained subdued. While the management expects healthy recoveries to improve asset quality, we expect the asset quality concerns to persist due to an adverse macro environment. In addition, subdued margins and slower business growth will continue to impact the RoE and RoA. We have valued BOI at a 15% discount to FY2013E book value on higher NPAs and weak earnings growth. We maintain our Reduce rating on the stock with a target price of Rs305.

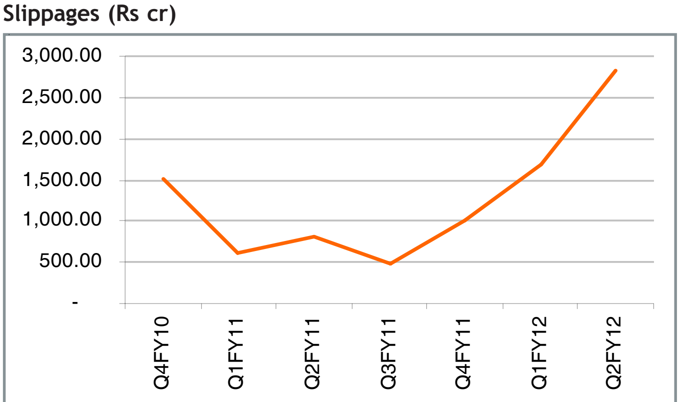
Trend in NIM (%)



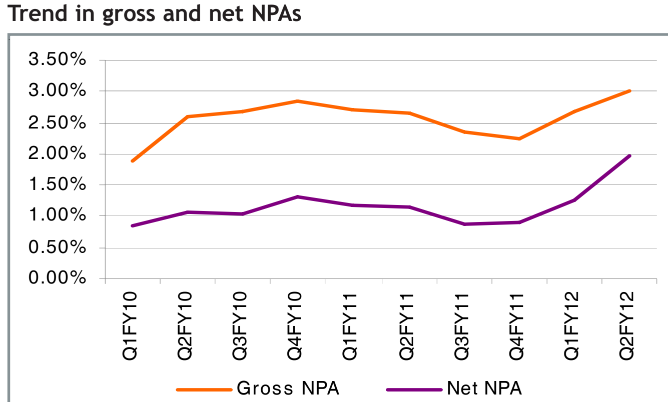
Advances growth



Slippages (Rs cr)



Trend in gross and net NPAs



Financials

Profit & Loss statement

(Rs cr)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net interest income	5,499	5,756	7,811	8,125	9,760
Non-interest income	3,052	2,617	2,642	3,029	3,548
Net total income	8,551	8,373	10,452	11,154	13,309
Operating expenses	3,094	3,668	5,068	5,223	6,187
Pre-provisioning profit	5,457	4,705	5,384	5,930	7,121
Provision & contingency	1,292	2,211	1,889	2,615	2,532
PBT	4,164	2,494	3,495	3,315	4,589
Tax	1,157	753	1,007	995	1,459
PAT	3,007	1,741	2,489	2,321	3,130

Balance sheet

(Rs cr)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Networth	13,494	14,229	17,291	19,068	21,466
Deposits	189,708	229,762	298,886	349,696	414,390
Borrowings	9,487	14,079	12,862	16,611	19,684
Other liabilities & provisions	12,811	16,896	22,134	20,384	20,902
Total liabilities	225,502	274,966	351,173	405,759	476,441
Assets					
Cash & balances with RBI	8,915	15,603	21,782	23,779	28,179
Balances with banks & money at call	12,846	15,628	15,528	19,233	20,720
Investments	52,607	67,080	85,872	99,812	115,203
Advances	142,909	168,491	213,096	248,257	295,426
Fixed assets	2,532	2,352	2,481	2,778	3,112
Other assets	5,692	5,814	12,413	11,899	13,802
Total assets	225,502	274,966	351,173	405,759	476,441

Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
Per share Data					
EPS (Fully diluted)	57.2	33.2	45.5	42.4	57.2
DPS	4.8	6.8	8.1	8.5	11.4
BV	224.1	243.7	291.8	324.3	368.2
ABV	203.5	192.7	244.6	245.6	285.7
Spreads (%)					
Yield on advances	9.8	8.4	8.1	8.3	8.3
Cost of deposits	5.8	5.2	4.6	5.1	5.1
Net interest margins	3.0	2.6	2.9	2.5	2.6
Operating ratios (%)					
Credit to deposit	75.3	73.3	71.3	71.0	71.3
Cost to income	36.2	43.8	48.5	46.8	46.5
CASA	31.8	32.5	30.0	30.4	30.8
Non interest income / Total income	36.0	31.0	25.0	27.0	27.0
Return ratios (%)					
RoE	25.0	12.6	15.8	12.8	15.4
RoA	1.5	0.7	0.8	0.6	0.7
Assets/Equity	16.8	18.1	19.9	20.8	21.8
Gross NPA	1.7	2.9	2.2	3.0	2.9
Net NPA	1.0	1.3	0.9	1.7	1.5
Growth ratios (%)					
Net interest income	30.0	4.7	35.7	4.0	20.1
PPP	47.4	(13.8)	14.4	10.1	20.1
PAT	49.7	(42.1)	42.9	(6.8)	34.9
Advances	25.9	17.9	26.5	16.5	19.0
Deposits	26.5	21.1	30.1	17.0	18.5
Valuation ratios (%)					
P/E	5.7	9.9	7.2	7.7	5.7
P/BV	1.5	1.3	1.1	1.0	0.9
P/ABV	1.6	1.7	1.3	1.3	1.1

The author doesn't hold any investment in any of the companies mentioned in the article.

Bharti Airtel

Apple Green

Stock Update

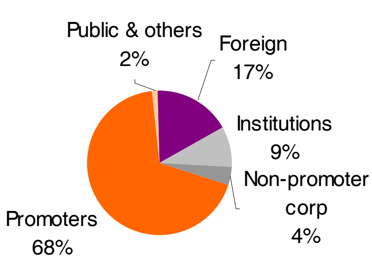
Heightened seasonality hurt operational performance

Buy; CMP: Rs397

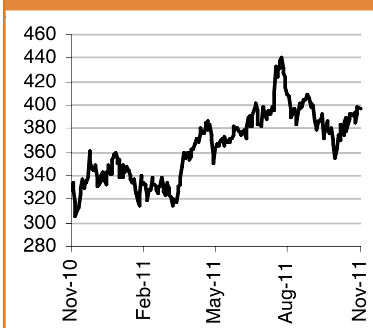
Company details

Price target:	Rs468
Market cap:	Rs150,762cr
52 week high/low:	RsRs444/304
NSE volume: (No of shares)	45.4 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTIARTL
Free float: (No of shares)	120.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.4	-6.1	7.7	22.1
Relative to Sensex	-3.1	-5.6	11.9	43.3

Result highlights

- **Adjusted earnings missed expectation:** Bharti Airtel's adjusted earnings for Q2FY2012 missed our expectation by 18.3% (adjusted net profit at Rs1,189 crore vs our expectation of Rs1,554 crore). The company reported a 15.5% sequential fall in its earnings for the quarter. The dismal performance from the domestic mobile segment both on the revenue (down 0.6% sequentially) and profitability fronts (margin down 50 basis points sequentially) along with a higher interest cost (up 30.8% sequentially) dented its performance.
- **Heightened seasonality affected Asian mobile business:** The domestic mobile business disappointed on revenue and profitability fronts. The revenue declined by 0.6% on a sequential basis, led by a decline in the traffic growth (down 1.6% sequentially) and a 4% drop in the average revenue per user (ARPU; at Rs183 vs Rs190 in Q1FY2012). The deleveraging impact of lower traffic coupled with an increase in the other cost resulted in a 50-basis-point sequential contraction in the EBITDA margin for the segment from 34.2% in Q1FY2012 to 33.7% in the second quarter.
- The silver lining of the quarterly result was the 1% sequential improvement in the average realised rate that increased from 42.8 paise in Q1FY2012 to 43.2 paise in the current quarter. We believe that the sequential enhancement in the tariff was owing to two factors: the third generation (3G) roaming *pact*

Result table (Consolidated) Rs (cr)

Particulars	Q2FY12	Q1FY12	% QoQ
Revenue	**17,276.4**	**16,983.0**	**1.7**
Access charges	2,331.1	2,216.0	5.2
% sales	*13.5*	*13.0*	
Licence fees & other charges	1,450.7	1,494.0	-2.9
% sales	*8.4*	*8.8*	
Network operations costs	3,803.8	3,731.0	2.0
% sales	*22.0*	*22.0*	
Employee costs	869.1	925.0	-6.0
% sales	*5.0*	*5.4*	
Selling, & admin expenses	3,006.6	2,912.0	3.3
% sales	*17.4*	*17.1*	
Operating profit	**5,815.0**	**5,706.0**	**1.9**
Operating profit margin (%)	**33.7**	**33.6**	
Depreciation & amortization	3,183.9	3,131.0	1.7
Net finance cost	1,118.6	855.0	30.8
PBT	1,512.5	1,720.0	-12.1
Tax	490.0	514.1	-4.7
Effective tax rate (%)	32.4	29.9	
Reported profit	1,027.0	1,215.0	-15.5
Forex loss	239.0	-	
Forex loss (net of taxes)	161.6	-	
Adjusted profit	**1,188.6**	**1,215.0**	**2.2**

revenues built in the minutes coupled with some impact of the hike in tariff rates announced in July this year.

The share of value-added services in the total revenue increased by 20 basis points quarter on quarter (QoQ) from 16.2% to 16.4%.

- **African performance robust:** The African business' performance was robust with a sequential revenue growth of 7.4% and a 110-basis-point margin expansion from 25.2% in Q1FY2012 to 26.4% in the present quarter. A robust traffic growth (up 9.9% QoQ) with enhanced ARPU led the performance.
- **Other businesses:** All the other businesses showed a good growth in the revenue and EBITDA, and from this quarter onwards the company has started reporting its direct-to-home (DTH) performance. It has overall 6.3 million subscribers with an ARPU of Rs163 and the DTH business is profitable at the EBITDA level.

What were management's comments?

Attributed sequential traffic decline to heightened seasonality

The management in the conference call cited heightened seasonality during the July-September period as the reason for a sequential decline in the traffic. In line with Idea Cellular's results, where traffic decline was seen, Bharti Airtel's traffic growth too registered a 1.6% sequential decline, the first sequential decline in the traffic on the network.

Increase in finance cost also includes upfront charges booked

A sharp increase in the interest and finance cost (up 30.8% QoQ) was the result of (a) foreign exchange (forex) losses to the tune of Rs239 crore and (b) the booking for certain upfront one-time charges (the management did not quantify the charges).

Views TRAI's new guidelines as pragmatic and positive

The management views the progress in the regulatory environment as pragmatic and positive, like the new draft telecommunications (telecom) policy, the recent recommendations of the Telecom Regulatory Authority of India (TRAI) that allow for spectrum sharing and relaxation of merger and acquisition (M&A) norms. Thus we believe consolidation in the sector is imminent and will pave the way for a conductive competitive environment.

What have we done to our estimatess?

Operating performance in line and maintained: We believe that the impact of seasonality seen in Q2FY2012 would get reversed from H2FY2012 onwards. With the volume growth returning in the Asian business and the African venture delivering a strong performance we are keeping our FY2012 and FY2013 operating profit estimates largely in line. We expect Bharti Airtel's operating profit to grow at a compounded annual growth rate (CAGR) of 21% over FY2011-13.

Incorporating high interest and tax expenses, earnings pared downwards

Despite maintaining an in-line operating performance, a higher interest cost booked during the quarter (on account of forex losses, upfront booking of certain charges) and an increase in the depreciation charge (owing to the enhanced capex announced for the African venture) we are paring down our FY2012 and FY2013 earnings estimates by 16% and 10% respectively. Our revised earnings per share (EPS) estimates for FY2012 and FY2013 are Rs16.8 (vs previous estimate of Rs20.0) and Rs25.4 (vs previous estimate of Rs28) respectively.

Segmental performance Rs (cr)

Particulars	Q2FY12	Q1FY12	% QoQ
Revenue			
India mobile	9,783	9,840	-0.6
Tele media	953	946	0.8
Digital TV services	314	293	6.9
Enterprise services	1,104	1,041	6.1
Passive infrastructure	2,377	2,277	4.4
Others	86	79	8.6
Africa	4,703	4,378	7.4
Gross revenue	19,319	18,855	
Inter-segmental revenue	2,049	1,872	
Consolidated net revenue	**17,270**	**16,983**	**1.7**
EBITDA			
India mobile	3,293	3,361	-2
Tele media	421	430	-2.1
Digital TV services	12	5	132.9
Enterprise services	237	230	3
Passive infrastructure	890	859	3.7
Others	-197	-207	-4.7
Africa	1,240	1,105	12.2
Consolidated EBITDA	**5,815**	**5,706**	**1.9**
EBITDA margin			
India mobile	33.7	34.2	-0.5
Tele media	44.2	45.5	-1.3
Digital TV services	3.7	1.7	2
Enterprise services	21.5	22.1	-0.7
Passive infrastructure	37.5	37.7	-0.3
Others	-229.2	-261.2	32
Africa	26.4	25.2	1.1
Consolidated EBITDA margin (%)	**33.7**	**33.6**	

What is our view?

Positive regulatory announcements on radar: We believe that the recent regulatory news flow on the sector, like the new telecom draft paper, the recent TRAI guidelines that propose spectrum sharing and relaxed M&A norms, are positive and going forward point to a favourable competitive environment with limited players and enhanced profitability,

Maintain Buy with price target of Rs468: The Indian telecom sector has been struggling for the last eight quarters with irrational competitive intensity. The profitability of the incumbents has been under pressure with a decline in the EBITDA margin for quite some time now (Bharti Airtel and Idea Cellular have witnessed margin erosion of over 300 basis points each over the last 18 months). The ebbing of competition, the likeliness of a favourable regulatory environment (in the form of new telecom policy to be unveiled as early as in October), return of pricing power and discipline, and strong data opportunity waiting in the wings would bring investors back to the sector leading to a price/earnings (PE) re-rating. We value the company at 8.1x its EV/EBITDA to arrive at our price target of Rs468, maintaining our Buy rating on the stock.

Valuation table (Consolidated)

Particulars	FY10	FY11A	FY12E	FY13E
Revenue (Rs cr)	39,615	59,467	72,539	80,130
% growth		*50.1*	*22.0*	*10.5*
EBITDA (Rs cr)	16,027	19,961	24,760	29,153
% growth		*24.5*	*24.0*	*17.7*
EBITs(Rs cr)	24.5	15.4	16.8	25.4
% growth		*-36.9*	*8.9*	*51.4*
PER (x)	16.2	25.7	23.6	15.6
EV/EBITDA (x)	13.0	10.5	8.4	7.2

The author doesn't hold any investment in any of the companies mentioned in the article.

Punj Lloyd

Apple Green

Stock Update

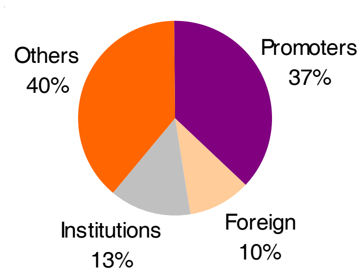
Stable operating performance but debt burden looms large

Reduce; CMP: Rs59

Company details

Price target:	Under review
Market cap:	Rs1,958 cr
52 week high/low:	Rs135/52
NSE volume: (No of shares)	48.4 lakh
BSE code:	532693
NSE code:	PUNJLLOYD
Sharekhan code:	PUNJLLOYD
Free float: (No of shares)	20.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	10.4	-12.9	-8.6	-53.5
Relative to Sensex	-0.4	-12.5	-5.0	-45.5

Result highlights

- **Stable operating performance:** The Q2FY2012 revenue for Punj Lloyd was up 21% year on year (YoY; marginally better than estimates) to Rs2,376.9 crore on account of strong execution and robust order inflow over the last few quarters. The infrastructure and pipeline segments continued to dominate in terms of contribution to the top line with a combined 54% share. Geography wise South Asia contributed nearly 49% to the top line followed by Asia Pacific at 36%. Further the operating profit margin (OPM) expanded by 10 basis points (bps) YoY and 50bps quarter on quarter (QoQ) to 7.9%. Thus the EBITDA was up 21.5% YoY. We are seeing the margins stabilising at this level over the last two-three quarters, which is a positive sign.
- **PAT driven by forex gain:** The profit after tax (PAT) before minority interest and share of profit of associates is up 38% YoY to Rs30 crore, aided by a high other income on account of foreign exchange (forex) gain during the quarter. However, the PAT after adjusting for minority and associate profit was up just 3.4% due to a higher share of losses of associates. The other income reported during the quarter stood at Rs82 crore vs Rs33 crore in Q2FY2011 and Rs18 crore in Q1FY2012. This gain was nullified to an extent by a high interest cost which was up 41% due to an increase in debt by around Rs600 crore since FY2011. Further, depreciation has seen a surge of 27% on account of capital expenditure (capex) done in H1FY2012 of nearly Rs400 crore. Also a few loss making subsidiaries generated profits during the quarter thereby attracting

Result table Rs (cr)

Particulars	Q2FY12	Q2FY11	YoY %	Q1FY12	QoQ %
Revenue	**2,376.9**	**1,958.0**	**21.4**	**2,248.3**	**5.7**
Total Expenditure	2,190.2	1,804.3	21.4	2,082.5	5.2
EBITDA	**186.8**	**153.7**	**21.5**	**165.9**	**12.6**
Depreciation	78.1	67.9	15.0	61.7	26.6
EBIT	108.7	85.8	26.6	104.2	4.3
Other Income	82.5	32.8	151.8	18.1	356.2
Interest	129.9	92.4	40.6	113.3	14.6
PBT	**61.3**	**26.2**	**133.8**	**8.9**	**585.6**
Tax	31.6	4.7	566.7	21.6	46.3
PAT	29.7	21.5	38.2	(12.7)	
PAT after minority interest and share of profit of Associates/JVs	**24.7**	**23.9**	**3.4**	**(12.3)**	
Reported PAT	24.7	23.9	3.4	(12.3)	
Adj EPS	0.7	0.7	3.4	(0.4)	
Margins (%)					
OPM	7.9	7.8		7.4	
NPM	1.0	1.2		-0.5	

minimum alternate tax (MAT) rate, resulting in the overall tax liability of the company going up considerably.

- **Order inflow remained strong during the quarter:** Punj Lloyd's order book grew by a good 11.5% QoQ to Rs26,690 crore (of which Rs3,900 crore are Libyan orders) on the back of strong order inflow. It received orders worth Rs10,286 crore in H1FY2012, more than the order inflow of Rs9,978 crore in the full FY2011. The orders are spread across varied sectors like pipelines, process facilities, nuclear power, thermal power, railways, oil and gas, civil and construction. Going ahead the management would focus more on the international market given the more opportunities out there, especially in the Middle East. The order book-to-sales ratio (ex Libyan orders) currently stands at 2.9x its FY2011 revenue which provides revenue visibility. Further the Libyan government and the project awarding authorities have agreed to honour their commitment with respect to the orders awarded to various companies. Once the situation stabilises in the country over the next three - four months, the execution will kick off. Hence we expect some traction in FY2013 on the Libyan order front.

- **Debt rises further; focus to shift on debt management:** The debt for Punj Lloyd has been increasing (denting earnings growth) on account of high working capital needs. The debt to equity (D/E) now stands at 1.5 which is on the higher side. Thus to address this, the management plans to restructure debt and also reduce it by way of quick release of mobilisation advance from the clients in new projects won recently.

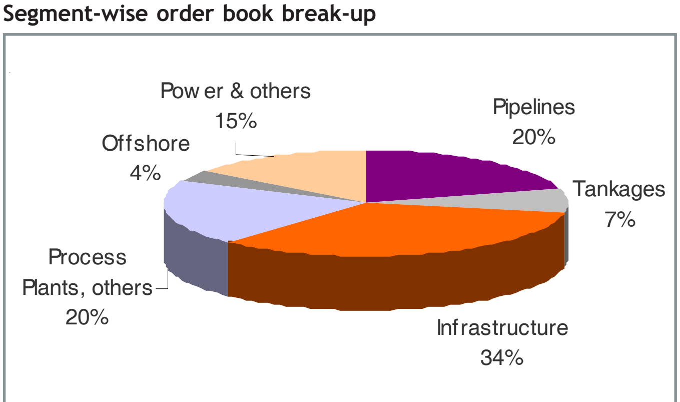
- **Retain our Reduce rating:** We have revised our revenue estimates upwards by 5.5% and 4% for FY2012 and FY2013 respectively on account of better execution and strong order inflow. Further given the stable margins being delivered by the company over the last two - three quarters we have raised our EBTDA margins by 50bps to 8% and 8.5% for FY2012 and FY2013 respectively. We are also factoring in higher other income for FY2012 and hence our earnings estimate for FY2012 now stands at Rs51.8 crore. However for FY2013 we retain our earlier estimate due to higher interest burden.

  At the current market price, the stock is trading at 11.3x FY2013E earnings per share (EPS). Since the company has been reporting stable performance at the operating level over the last two to three quarters, we are turning positive on the company. However its earnings continue to be under pressure on the back of high debt and working capital requirement. Further, though the situation has improved in Libya, the execution is yet to take off. It would take another one to two quarters for the same. Hence we retain our Reduce rating on the stock and keep our price target under review. Any quick revival in Libya or successful restructuring of debt will act as a positive catalyst.

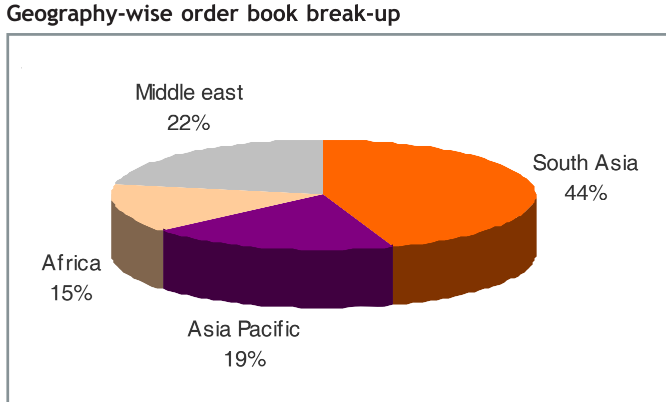
Valuation table

Particulars	FY09	FY10	FY11	FY12	FY13
Revenue (Rs cr)	11,876	10,448	7,850	9,749	12,441
% Y-o-Y growth		*-12.0*	*-24.9*	*24.2*	*27.6*
EBITDA (Rs cr)	593.8	451.1	344.6	779.9	1,057.5
% Y-o-Y growth		*-24.0*	*-23.6*	*126.3*	*35.6*
PAT	76.9	(114.9)	(159.3)	59.8	181.5
% Y-o-Y growth	*-249.3*	*38.7*	*-137.5*	*203.6*	
PAT after MI					
Int and share of					
profit of Assciate/JVs	76.3	(107.0)	(160.0)	51.8	173.5
% Y-o-Y growth		*-240.2*	*49.5*	*-132.4*	*235.1*
Adj EPS (Rs)	2.5	(3.2)	(4.8)	1.6	5.2
PER (x)	23.4	-18.3	-12.2	37.8	11.3
P/B (x)	0.7	0.6	0.7	0.6	0.6
EV/EBITDA (x)	6.5	12.0	14.2	7.6	6.6
RoCE (%)	10.0	4.8	3.5	8.1	9.6
RoNW (%)	3.1	-3.5	-5.4	1.7	5.4

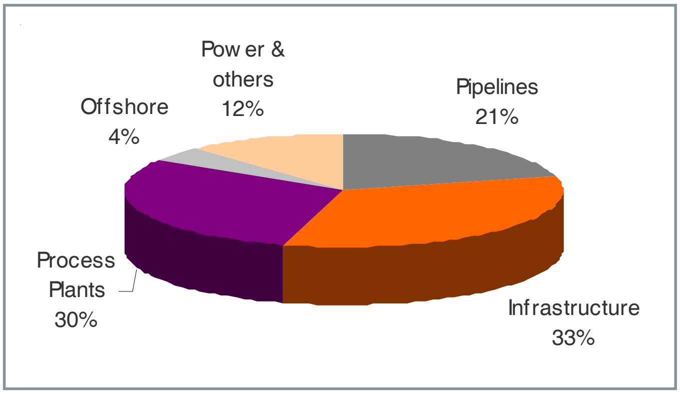
Segment-wise order book break-up



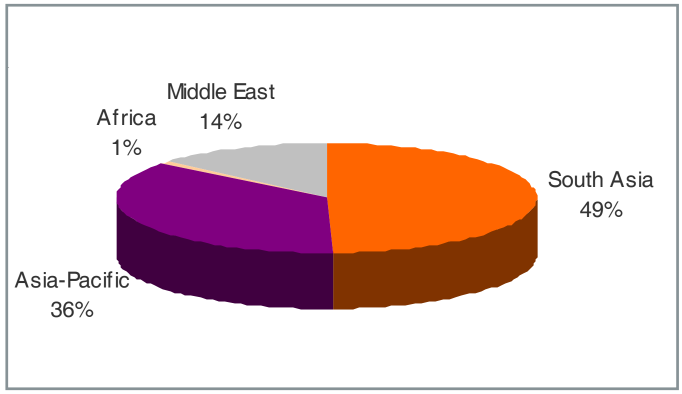
Geography-wise order book break-up



Segment-wise revenue break-up



Geography-wise revenue break-up



The author doesn't hold any investment in any of the companies mentioned in the article.

Pratibha Industries

Ugly Duckling

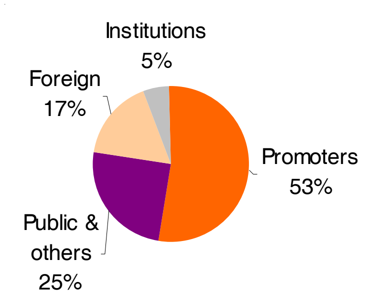
Stock Update

Robust result

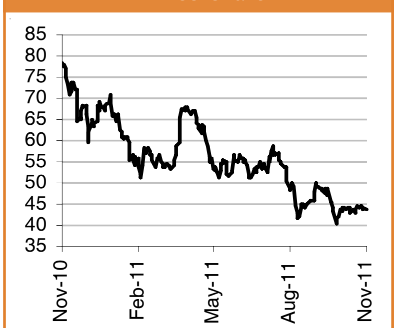
Buy; CMP: Rs43

Company details	
Price target:	Rs61
Market cap:	Rs432.5 cr
52 week high/low:	Rs81/40
NSE volume: (No of shares)	1.0 lakh
BSE code:	532718
NSE code:	PRATIBHA
Sharekhan code:	PRATIBHA
Free float: (No of shares)	4.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.3	-17.3	-20.7	-43.4
Relative to Sensex	-5.0	-16.9	-17.6	-33.5

Result highlights

- **Earnings ahead of estimate:** In Q2FY2012, Pratibha Industries (Pratibha)'s net profit grew by 19.8% year on year (YoY) to Rs16.3 crore, which was well ahead of our as well as the Street's estimate mainly on account of higher than expected revenue growth and lower than expected interest cost and tax outgo. However, the operating profit margin was in line with our estimates at 13%.
- **Robust revenue growth; driven by infrastructure division:** In Q2FY2012 Pratibha registered a 30.4% year-on-year (Y-o-Y) growth in its net sales to Rs336.2 crore, which was well ahead of our estimate. The revenue growth was largely supported by the infrastructure division which has posted a 22.8% YoY revenue growth. A better execution of the ongoing projects and revenue recognition from some of the newer projects bagged over last two - three quarters resulted in a strong performance of the infrastructure division. On the other hand the company's pipe manufacturing division has continued to disappoint with a de-growth in revenue by 14.8% YoY. This division caters largely to internal orders as the competitive scenario in the external market is very aggressive.
- **OPM contracts YoY; in line with estimates:** The operating profit margin (OPM) contracted by around 135 basis points (bps) YoY and by 23 basis points quarter on quarter (QoQ) to 13.01%. However, the same is in line with our estimates. The contraction in the OPM was largely on account of an increase in the employee cost and other expense on account of execution of newer projects having started. Segment wise, the profit before interest and tax (PBIT) margin of the infrastructure division has contracted by 21bps to 12.2%. Further, the

Result table Rs (cr)

Particulars	Q2FY12	Q2FY11	Y-o-Y %	H1FY12	H1FY11	Y-o-Y %
Net sales	**336.2**	**257.8**	**30.4**	**696.4**	**585.2**	**19.0**
Total operating expenses	292.4	220.8	32.5	604.9	507.1	19.3
Operating profit	**43.7**	**37.0**	**18.1**	**91.4**	**78.2**	**17.0**
Other income	2.4	1.8	31.3	3.7	3.0	24.5
Depreciation	5.4	4.2	27.0	9.7	8.3	17.3
Interest	19.4	14.9	29.9	38.7	30.5	27.0
PBT	**21.4**	**19.7**	**8.5**	**46.7**	**42.4**	**10.2**
Taxes	5.1	6.1	-16.7	11.8	12.6	-6.0
APAT	**16.3**	**13.6**	**19.8**	**34.9**	**29.9**	**17.0**
Adjusted EPS	**0.2**	**0.2**	**0.5**	**0.4**	**0.4**	**-1.8**
No of Shares	99.4	83.4	19.2	99.4	83.4	
Margin (%)						
OPM	13.0	14.4		13.1	13.4	
NPM	4.8	5.3		5.0	5.1	
Effective tax rate	23.7	30.9		25.3	29.6	

manufacturing division has reported a 340bps contraction in the PBIT margin. Hence the growth at the operating level was limited to 18.1% YoY as compared to a 30.4% growth displayed in revenues. However, the management is confident of maintaining its margins at 13.5-14%.

- **PAT up 20% YoY:** The net profit during the quarter grew by 20% YoY to Rs16.3 crore despite high depreciation and interest cost, which were offset by higher other income and lower tax outgo. The depreciation grew by 27% YoY due to Rs120 crore of capital expenditure (capex) incurred in H1FY2012 on account of large orders won recently. Further, the interest cost went up by 30% YoY as Rs330 crore was raised in H1FY2012 to fund the capex and working capital requirements.
- **Healthy order book provides strong visibility:** Pratibha won a few large orders in the first half of FY2012 taking the total inflow till date to Rs2,622 crore. Thus, the order book now stands at Rs5,840 crore, 4.6x its FY2011 revenue. This provides strong revenue visibility for the company over the next two years. Further the company is the lowest bidder for orders worth Rs800 crore particularly in the water and building segment. Hence the momentum in the order intake is likely to continue in the coming couple of quarters.
- **Maintain Buy with price target of Rs61:** We have maintained our earnings estimates for FY2012 and FY2013. We continue to like the company given its presence in the high-margin water segment, its backward integration into pipe manufacturing and better than industry OPM. Under the current gloomy industry scenario, the recent large order wins by Pratibha with a better margin reinforce our confidence in the company. However, rising working capital requirement resulting in higher debt burden on account of these new projects is a matter of concern. Though we have factored this in our estimates, any further detoriation will pose a risk to our estimates. The stock currently trades at 5.3x and 4.3x its FY2012E and FY2013E earnings respectively and offers a good upside from the current levels. Hence we maintain our Buy recommendation on the stock with a revised price target of Rs61.

Valuation table

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net sales (Rs cr)	805.8	1,007.2	1,268.1	1,555.0	1,902.4
% YoY growth	*42.6*	*25.0*	*25.9*	*22.6*	*22.3*
EBITDA (Rs cr)	91.6	136.6	172.1	209.9	256.8
Margin (%)	11.4	13.6	13.6	13.5	13.5
Adj. PAT (Rs cr)	44.7	56.5	71.5	82.5	102.4
% YoY growth	*30.5*	*26.4*	*26.4*	*15.4*	*24.2*
Shares in issue (cr)	8.3	8.3	9.9	10.1	10.1
EPS (Rs)	5.4	6.8	7.2	8.2	10.1
% YoY growth	*30.5*	*26.4*	*6.1*	*13.5*	*24.2*
PER (x)	8.1	6.4	6.1	5.3	4.3
Book Value (Rs)	26.9	33.0	48.6	55.3	64.7
P/BV (Rs)	1.6	1.3	0.9	0.8	0.7
EV/EBIDTA (x)	5.9	5.3	4.3	4.8	4.2
RoCE (%)	24.1	22.3	20.7	18.7	18.1
RoNW (%)	21.9	22.6	18.8	15.8	16.9

Orient Paper and Industries

Vulture's Pick

Stock Update

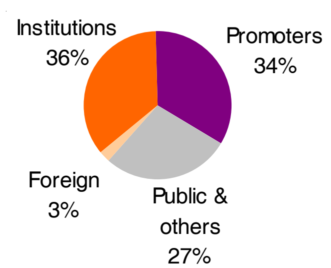
Cement division drives Q2 performance

Buy; CMP: Rs59

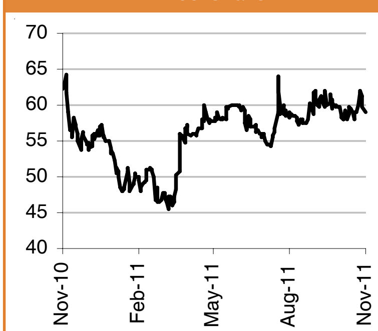
Company details

Price target:	Rs70
Market cap:	Rs1,137 cr
52 week high/low:	Rs66/44
NSE volume: (No of shares)	1.2 lakh
BSE code:	502420
NSE code:	ORIENTPPR
Sharekhan code:	ORIENTPPR
Free float: (No of shares)	12.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	2.5	6.3	-2.4
Relative to Sensex	-9.5	2.9	10.5	14.5

Result highlights

- **Revenue in line with estimate; PAT much below expectation:** In Q2FY2012 Orient Paper & Industries Ltd (OPIL) posted a 32.3% year-on-year (Y-o-Y) growth in its revenue to Rs506.6 crore, which was largely in line with our estimate. However, on account of severe cost pressure in the cement and electrical divisions and continued loss in the paper division the profit after tax (PAT) of the company came much below our and the Street's estimates at Rs24.1 crore (against Rs0.5 crore in Q2FY2011).
- **Cement division drives overall revenue growth:** The top line growth of 32.3% was driven by the cement division, which posted a revenue growth of 57.3% year on year (YoY). The revenue growth of the cement division was driven by a sharp increase in the average realisation. The demand environment in one of its key market areas continues to be sluggish. Hence the volume growth in the coming couple of quarters will remain under pressure. The paper division and the electrical division delivered a revenue growth of 10.9% and 7% respectively.
- **Margin expanded in spite of overall cost inflation and loss in the paper business, but fell short of expectation:** On the margin front, the operating profit margin (OPM) expanded by 608 basis points YoY to 10.9% but remained below our estimate. The increase in the profitability of the cement division due to increased average realisation expanded the overall OPM of the company. However, the paper division continued to disappoint with a loss to the tune of Rs14.9 crore at the EBIT level. In addition to the loss in the paper division, the electrical division of the company witnessed severe margin pressure and posted

Result table Rs (cr)

Particulars	Q2FY12	Q2FY11	% YoY	% QoQ
Net sales	**506.6**	**382.9**	**32.3**	**-5.1**
Total expenditure	450.9	364.1	23.8	4.7
Operating profits	**55.6**	**18.8**	**196.2**	**-46.2**
Other income	9.4	9.8	-3.5	-35.2
EBIDTA	65.0	28.5	127.9	-44.9
Interest	9.1	7.6	19.4	-2.4
PBDT	56.0	20.9	167.2	-48.5
Depreciation	21.8	20.0	8.7	2.1
PBT	34.2	0.9		-60.8
Tax	10.2	0.4		-63.7
Reported PAT	**24.1**	**0.5**		**-59.5**
Adjusted PAT	24.1	0.5		-59.5
Margins (%)				
OPM	10.98	4.90		
PAT	4.8	0.1		
Tax rate	29.7	46.2		

an EBIT margin of just 1.9%, which was the lowest in three years. Consequently, the operating profit increased to Rs55.6 crore from Rs18.8 crore in the corresponding quarter of the previous year.

- **Incorporated new subsidiary, Orient Cement, to demerge cement business:** During the quarter the company incorporated a new subsidiary named Orient Cement. The board of directors of OPIL has decided to demerge the cement undertaking of the company by transferring the same to the newly formed subsidiary, Orient Cement. The appointed date for the demerger is April 2012. We believe the development is a positive move for the company as it will unlock value for the shareholders through direct exposure to a pure cement player.
- **Huge outstanding water tax, OPIL applied for waiver as per agreement:** As per the auditor's report, no provision against the water tax amounting to Rs193.3 crore has been made by the company since the company's application for waiver thereof is under consideration by the state government of Madhya Pradesh.
- **Planning to introduce a new range of products in electrical division:** The company is in the process of diversifying the range of its consumer electrical products by adding household appliances such as mixers, geysers, coolers and room heaters to the existing products, namely fans and lighting products. Initially the company will trade in the aforesaid new products and the activity is expected to start from Q3FY2012.
- **Downgrading earnings estimates for FY2012 and FY2013:** We are downgrading our earnings estimates for FY2012 and FY2013 mainly to factor the higher than expected loss in the paper division and a much lower than expected profit of the electrical division. Consequently, our revised earnings per share (EPS) estimates now stand at Rs9.1 and Rs11.1 for FY2012 and FY2013 respectively.
- **Maintain Buy with price target of Rs70:** Due to the supply discipline followed by the manufacturers in the southern region, the company is benefited in terms of a strong growth in the realisation but going ahead we believe cement prices would come under pressure with the likely increase in the supply. However, the company's efficient cost structure gives an advantage over the other players. Further, the company is in the process of introducing a new range of products in the electrical division which could lead to strong revenue growth in electrical division. Besides the strong balance sheet and attractive valuation, the demerger of the cement division will act as re-rating trigger for the stock. Hence, we maintain our Buy recommendation on the stock with a price target of Rs70. At the current market price the stock trades at price/earnings (PE) of 6.5x and enterprise value (EV)/ EBIDTA of 4.6x, discounting its FY2012 earnings estimate.

Segmental performance

Cement division

The cement division, which accounts for around 60% of the total turnover, posted a 57.3% Y-o-Y growth in its revenue to Rs292.6 crore. During the quarter the realisation of the company jumped by 54.4% YoY to Rs3,547 per tonne whereas the volume increased by just 1.9% YoY to 8.25 lakh tonne. The realisation growth was strong mainly on account of the supply discipline followed by the manufacturers in the southern market. In terms of volume, the demand environment in one of its markets, Andhra Pradesh, continued to be sluggish.

The EBIT margin of the division expanded by over 16 percentage points YoY to 19.2% on account of an increase in the average realisation. Consequently, the EBIT of the division increased to Rs56.2 crore as compared to just Rs5.4 crore in the corresponding quarter of the previous year.

Paper division

The paper division of the company continued to display a disappointing performance and posted a loss at the EBIT level to the tune of Rs14.9 crore (a loss of Rs14.45 crore from its Amalai plant and a loss of Rs0.47 crore from its non-operational plant at Brajrajnagar) in Q2FY2012. The key reason behind the loss was a lower plant utilisation level and a sharp increase in the raw material prices which could not be passed on in the form of an increase in the paper realisation. The management is setting up a 55MW power plant to improve the cost efficiency of the paper division. The same is expected to be operational in the near term.

The revenue of the division grew by 10.9% YoY to Rs76.6 crore. Going ahead, the operating performance of the division is expected to improve with the measures undertaken by the company, namely setting up a water reservoir to overcome the water shortage issue.

Electrical division

The division reported a revenue growth of 7% YoY to Rs135.2 crore for the quarter. The company has increased its fan manufacturing capacity to 50 lakh units as compared to 35 lakh units in the corresponding quarter of the previous year. In terms of margin, the EBIT margin of the division contracted sharply to 1.9% in Q2FY2012 as compared to 5.2% in Q2FY2011. The EBIT margin during the quarter was the lowest in last three years. The margin contraction was mainly on account of a sharp increase in the price of key raw material.

Going forward, the division can witness a growth on the back of lighting products (CFL). Further, the company is looking to introduce a new range of household appliances. The activity in household appliance products is expected to start from Q3FY2012.

Segment wise performance Rs (cr)

Particulars	Q2FY12	Q2FY11	% YoY	% QoQ
Net sales				
Cement	292.6	186.1	57.3	-7.6
Paper	76.6	69.1	10.9	51.0
Electricals	135.2	126.4	7.0	-18.0
Others	2.0	1.3	51.9	24.7
Total sales	506.6	382.9	32.3	-5.1
Segment result (PBIT)				
Cement	56.2	5.4	948.0	-48.5
Paper	(14.9)	(3.4)	344.9	-34.8
Electricals	2.5	6.6	-61.9	-79.1
Others	0.1	0.2	-15.6	-
Total PBIT	44.0	8.8	399.4	-55.3
PBIT margin (%)				
Cement	19.2	2.9		
Paper	-	-		
Electricals	1.9	5.2		

Setting up new cement plant in Karnataka

The company is setting up a cement plant of 3-million-tonne-per-annum capacity at Gulburga, Karnataka, with an investment of approximately Rs1,700 crore. The funding will be done through a mix of internal accruals and debt. To ensure a regular supply of power the company is also setting up a 50MW power plant. As per the management, the order for equipment is expected to be placed in the near term and the plant is expected to commence production after FY2014.

Valuations

We are downgrading our earnings estimates for FY2012 and FY2013 mainly to factor the higher than expected loss in the paper division and a much lower than expected profit of the electrical division. Consequently, our revised EPS estimates now stand at Rs9.1 and Rs11.1 for FY2012 and FY2013 respectively.

Due to the supply discipline followed by the manufacturers in the southern region, the company is benefited in terms of a strong growth in the realisation but going ahead we believe cement prices would come under pressure with the likely increase in the supply. However, the company's efficient cost structure gives an advantage over the other players. Further, the company is in the process of introducing a new range of products in the electrical division which could lead to strong revenue growth in electrical division. Besides the strong balance sheet and attractive valuation, the demerger of the cement division will act as re-rating trigger for the stock. Hence, we maintain our Buy recommendation on the stock with a price target of Rs70. At the current market price the stock trades at PE of 6.5x and EV/EBIDTA of 4.6x, discounting its FY2012 earnings estimate.

Valuation table

Valuations	FY09	FY10	FY11	FY12E	FY13E
Net sales (Rs cr)	1,503	1,620	1,959	2,232	2,601
Growth %	*16*	*8*	*21*	*14*	*16*
EBDITA (Rs cr)	391	308	295	358	443
EBDITA margin (%)	26	19	15	16	17
Adjusted PAT (Rs cr)	249	160	143	176	210
Growth %	*21*	*-36*	*-10*	*23*	*20*
EPS diluted (Rs)	12.3	7.9	7.1	9.1	11
PE (x)	4.8	7.5	8.4	6.5	5.4
P/BV (x)	1.8	1.6	1.3	1.1	0.9
EV/EBDITA (x)	4.2	5.3	5.5	4.6	4.0
EV/sales (x)	1.1	1	0.8	0.7	0.7
RoE (%)	43	22	17	18	19
RoCE (%)	28	14	11	12	13

The author doesn't hold any investment in any of the companies mentioned in the article.

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
Cadila Healthcare
Eros International Media
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Max India
Opto Circuits India
Patels Airtemp India
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
Genus Power Infrastructures
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
Kewal Kiran Clothing
NIIT Technologies
Orbit Corporation
Polaris Software Lab
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Raymond
Selan Exploration Technology
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects