HDFC securities

Institutional Research

Morning Note

July 23, 2010

Indices	Last Close	% Chg 1-d	% Chg mtd
Sensex	18,113	0.8	2.3
Nifty	5,442	0.8	2.4
CNX 500	4,529	0.7	2.4
BSE Bank	11,460	0.7	6.5
BSE IT	5,457	(0.1)	2.6
BSE Oil & Gas	10,575	0.5	(2.8)
Dow Jones	10,322	2.0	5.6
Nasdaq	2,246	2.7	6.5
FTSE	5,314	1.9	8.1
DAX	6,142	2.5	3.0

Mkt Breadth	Advance	Decline	Unchanged
Nifty	41	9	0
Sensex	25	5	0

Turnover	INR Bn	% Chg
BSE Cash	44	-5.6
NSE Cash	134	6.6
NSE F&O	1,029	12.0
Total	1,207	

Fund Flows	US $ mn	MTD	YTD
FII Equity	67	2,123	8,823
DIIs	(64)	(647)	1,855

Forex/Bond	Last Close	Chg 1-d	Chg mtd
INR/USD	46.96	(0.22)	0.50
USD/EUR	1.289	0.01	0.07
YEN/USD	87.0	(0.10)	(1.49)
10 yr G-Sec	7.68	0.00	0.13

Commodities	Last Close	% Chg 1-d	% Chg MTD
Brent ($/bbl)	77.8	3.3	3.4
Gold ($/oz)	1,195	0.8	(3.8)
Copper ($/mt)	7,010	2.2	1.0
Aluminium ($/mt)	2,044	1.8	0.0

Most Traded

Scrip	Last Close	% chg	Value*
Tata Steel	541	1.9	7.2
JSW Steel	1,201	2.1	4.5
Reliance Inds.	1,059	0.1	4.4
Bajaj Auto	2,491	3.2	4.3
SBI	2,476	1.6	3.8

* INR Bn.

ADR GDR

Scrip	Last Close*	% chg	% Prem.
Dr Reddy's	28.1	(4.4)	(4.4)
HDFC Bank	152.8	3.0	16.3
ICICI Bank	39.0	3.2	0.7
ITC	6.3	1.8	(0.4)
Infosys	60.0	3.4	2.2
Satyam	5.0	0.6	30.4
Ranbaxy	10.0	4.1	2.7
Reliance	45.1	0.2	0.0
Wipro	13.3	4.9	50.1
SBI	105.8	2.2	0.3
Tata Motors	18.8	4.2	5.7

* US$

Contents

From the Blogosphere

Safe Haven: Quadrillion Dollar Debt: 'Day of Reckoning' Looms (Source)

What Will Happen as $1,000,000,000,000,000 in Global Debt Winds Down? The biggest balloon in the world is deflating. This balloon had been inflated with a quadrillion dollars, which is to say: This balloon was filled not with air but with debt from around the globe. What will happen as this global debt winds down? In two words: Deflationary Depression -- the likes of which could be unprecedented in history. A thousand trillion in debt can't be wished away or swept under the rug. No one can "forgive" the debt. The consequences of unwinding this debt could be as massive as the dollar figure itself. We've heard plenty about the debt problems of Greece, Spain, Portugal and Italy. But how about the world's second largest economy? Consider this fact reported in the Japan Times (July 8): "Japan's government debts are the highest the world has ever seen, at 219 percent of gross domestic product, according to the International Monetary Fund." Then there's the world's sixth largest national economy. Remember, Japan and Great Britain are major world economies. Imagine what the debt totals would look like in a line-item analysis of other nations, regions, states, provinces and municipalities around the world, including the U.S. De-leveraging will likely lead to a deflationary crash -- a "day of reckoning." How can you prepare for a deflationary crash? To start with, keep your money safe. As Bob Prechter mentions in the June 2010 Elliott Wave Theorist: "Investors should be primarily in greenback cash and Treasury bills."

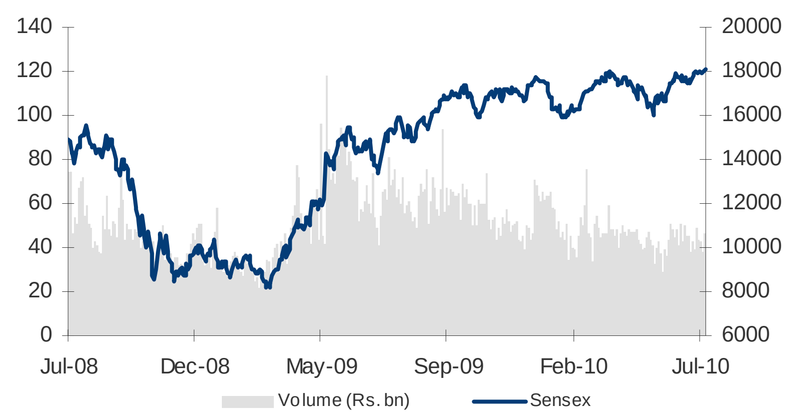
The Money Game: And Now, Suddenly, The Market's Technicals Are Looking Way Better (Source)

The last area of the day we would like to highlight are the technicals. For the past couple of months, the market has been widely influenced by the technical picture. The simple fact is that from a technical perspective, things have been pretty ugly. The only technical factor flashing a buy signal was sentiment, and that is because it was so poor. Finally, there are several technicals showing positive signs. First, the latest AAII posted a reading of 41.66% bullish, just above the buy threshold of 40%. It is not a buy signal in and of itself, but it is a good sign. The S&P 500 appears to have formed a small Head & Shoulders bottom with the 1100 resistance level as the neckline. One only needs to look at the trading action since May to realize how important 1100 is. In addition, several S&P 500 sectors are creating the similar Head & Shoulders bottoms patterns, although some are further along than others. Industrials and Materials are the furthest along, but Financials and Health Care also have potential. Additionally, keep an eye on the Energy sector. Crude has held the $70 level for the past year and now Energy equities are oversold as the problems in the Gulf move closer to resolution and Commodities appear to be heating up. We like to watch the Continuous Commodity Index (the old CRB) because it is equally weighted and thus a better measure of broad Commodity action. The CCI appears to be in breakout mode above the 480 resistance level, where it has been capped for 6 months. This is notable because this is occurring in an environment where deflation fears are elevated and the 10 year treasury yield is below 3%. This divergence should not last too long and either bonds or commodities should sell off. Seeing who wins the tug of war should provide a dynamic view on the markets perceptions of the double dip – recovery debate.

Headlines

- The Telecom Regulatory Authority of India has opposed the cap on number of channels that can uplink or downlink in India. (DNA Money)
- RBI eases the External Commercial Borrowing norms for Infrastructure companies by allowing them to avail take-out financing through forex loans. (DNA Money)
- The Union Cabinet has approved a 20% share sale in Power Grid Corporation. The sale would consist of fresh equity issue of 10% and a 10% stake sale by the Government of India. The company expects to raise up to Rs 42bn using this stake sale. (DNA Money)
- Bharti Airtel's cost of acquiring Zain may reportedly go up by US$ 300mn, as it needs to make a mandatory open offer for the remaining shares in the Zambia operations. (Mint)
- The Telecom Regulatory Authority of India has reportedly asked the Department of Telecommunications not to extend the number portability deadline any further. (Mint)
- Honda Siel Cars India plans to invest Rs 3bn in its second plant at Tapukara, Rajasthan to make engine and transmission components. (ET)
- Infosys is investing Rs 25bn to set up its seventh Special Economic Zone (SEZ) near Bangalore. This SEZ will start operations in 2011. (ET)
- JSW Steel is reportedly planning a 14% stake to a strategic investor for Rs 40bn. (ET)
- ITC's net profit for 1QFY11 up 22% YoY to Rs 10.7bn. (DNA Money)
- ACC's net profit for the April-June quarter down 26% YoY to Rs 3.6bn. (DNA Money)
- Ambuja Cements' net profit for the April-June quarter up 20.5% YoY to Rs 3.9bn. (DNA Money)
- Vijaya Bank's net profit for 1QFY11 up 21% YoY to Rs 1.7bn. (DNA Money)
- Bajaj Auto's net profit for 1QFY11 up 200% YoY to Rs 5.9bn. (Mint)
- Idea Cellular's net profit for 1QFY11 down 24.5% QoQ to Rs 2bn. (Mint)
- Power Finance's net income for 1QFY11 up 17.5% YoY to Rs 6.5bn. (Mint)
- Dr Reddy's consolidated net profit for 1QFY11 down 14% YoY to Rs 2.1bn. (FE)
- Punjab National Bank's net profit for 1QFY11 up 28% YoY to Rs 10.7bn. (FE)
- IDBI Bank's net profit for 1QFY11 up 46% YoY to Rs 2.5bn. (FE)
- Dish TV's net profit for 1QFY11 down 8.7% YoY to Rs 632mn. (ET)

Sensex



Institutional Research

HDFC securities

Banking

Punjab Natl. Bank

Q1FY11 Results Review

July 23, 2010

Recommendation	**BUY**
CMP	**Rs.1059**
Target	**Rs.1231**
Stock Return	**16%**

Nifty	5,442
Sensex	18,113

Key Stock Data	
Sector	Banking
Reuters Code	PNBK.BO
BLOOMBERG Code	PNB IN
No. of Shares (mn)	315.3
Market Cap (Rs bn)	333.8
Market Cap ($ mn)	7082.5
6m Avg. traded Val. (Rs mn)	375

Stock Performance (%)

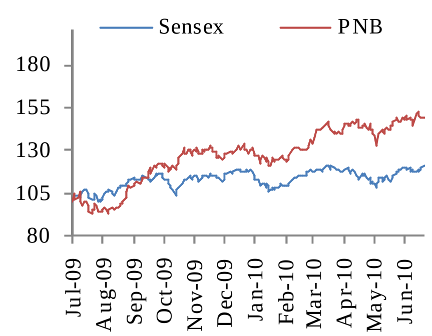
52 - Week high / low Rs 1145/648

	3M	6M	12M
Absolute (%)	2.6	17.7	43.5
Relative (%)	0.2	10.3	24.6

Shareholding Pattern	**(%)**
Govt. of India	57.80
FIs & Local MFs	18.18
FIIs	19.08
Public & Others	4.94

Source : Company

Sensex and Stock Movement



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In its 1QFY11 results, PNB disappointed on asset quality as gross NPLs increased 38.6% YoY and 12.4% QoQ to 1.82%, even as reported coverage ratio also declined by 497bps QoQ to 64.5%. While net profit grew 28% YoY, in line with our estimates, but declined QoQ mainly due to higher employee expenses and higher loan loss provisioning. Margins continue to remain the highest within PSU banks at 3.94%, though moderated as compared to 3.99% in 4Q due to impact of higher interest on savings deposits. Cost/income ratio (ex treasury) went up on account of higher employee expenses which grew 10% YoY and 52% QoQ. Given a robust low cost deposit franchise, PNB is well positioned in a rising interest rate environment. We upgrade our target price to Rs1,231/share as we move to value the stock at FY12 adjusted book. BUY.

In line 1QFY11 earnings

PNB reported a healthy net profit growth cf.28% YoY, led by robust topline growth (45% YoY) and lower tax rate. The core operating profit of the bank grew 63.2% YoY but declined 6.4% QoQ on the back of higher employee expenses and higher provisioning charge. The cost/income (ex treasury) ratio went up by 708bps QoQ to 41.3% as employee expenses grew 52.4% QoQ due to the impact of new wage revision. Fee income growth was tad lower at 8.1% YoY even though the loan growth picked up.

Healthy business growth; NIMs remain highest among PSU Banks

Business growth was healthy at 20% YoY and cf.4% QoQ driven by 24.6% YoY growth in advances and deposit growth of 16.6% YoY. Due to excess liquidity in the system and lower interest rates on term deposits, the growth in both current accounts (7.7% QoQ) and savings account (4.8% QoQ) remained strong; the proportion of CASA expanded 10ps QoQ to 40.9%. Despite factoring in a higher interest outgo on saving balances, margins still remains the highest within the PSU Banks at 3.94% (down 5bps QoQ but up 53bps YoY. We believe, given a robust low cost deposit with CASA ratio at 40.9%, PNB is well positioned to capitalize on uptick in credit growth in the system while maintaining profitability.

Asset quality disappointing; coverage ratio continues to decline

Asset quality during the quarter was disappointing as gross NPLs increased by cf.12% QoQ to 1.82% of advances (v/s 1.71% in Q4). The fresh slippage ratio (annualized) during the quarter stood at 2.54%. PNB further restructured loans amounting to Rs8.7bn during the quarter taking the total to Rs127bn, 6.5% of advances. Total stressed assets of the bank stood at 8.3%, one of the highest with the large banks in the country. Despite an increase in loan loss provisioning, the reported coverage ratio dropped 497bps QoQ to 64.5%, however, including technical write offs the coverage ratio is at 77.6%.

Upgrading target price to Rs1,231/share, BUY

We estimate PNB to realize a net profit growth of 12% CAGR over FY10-12E; while the core operating profit growth is estimated at 26%. With an estimated ROE of cf.23% in FY12E, we believe, PNB can trade at 1.8x FY12 adjusted book. We revise price target on the stock to Rs1,231/share as we move to FY12 valuations. BUY.

(Rsm)	FY08	FY09	FY10	FY11E	FY12E
Total net income	75,317	99,505	120,882	139,944	170,860
PAT	20,489	30,909	39,054	41,870	48,569
EPS	65.0	98.0	123.9	132.8	154.0
EPS growth (%)	33.0	50.9	26.4	7.2	16.0
RoAE (%) - ex revaluations	19.6	25.8	26.6	23.5	22.8
RoAA	1.13	1.39	1.44	1.3	1.24
Adj BV (ex reval. & 100% cover)	318	408	484	567	684
PEx	16.3	10.8	8.5	8.0	6.9
P / Adj BV - ex revaluations	3.3	2.6	2.2	1.9	1.5

Source : HDFC Securities Institutional Research

Table 1 : 1QFY11 results summary

Particulars (Rsm)	Q1FY10	4QFY10	1QFY11	YoY growth	QoQ growth
Interest earned	51,466	56,076	59,919	16.4%	6.9%
- on Advances / Bills	*40,258*	*43,300*	*46,947*	16.6%	8.4%
- Income on investments	*10,715*	*12,280*	*12,768*	19.2%	4.0%
- on bal with RBI and other banks	*452*	*308*	*160*	-64.6%	-48.0%
- Others	*41*	*192*	*44*	7.6%	-77.1%
Interest Expended	33,456	31,097	33,733	0.8%	8.5%
Net Interest Income	**18,010**	**24,980**	**26,186**	45.4%	4.8%
Other income	10,309	9,346	8,715	-15.5%	-6.7%
- Treasury Income	3,580	2,195	1,210	-66.2%	-44.9%
Operating income	**28,320**	**34,326**	**34,901**	23.2%	1.7%
Employee expenses	9,076	6,532	9,952	9.6%	52.4%
Other Operating expenses	3,550	4,469	3,967	11.7%	-11.2%
Total Operating expenses	**12,626**	**11,001**	**13,919**	10.2%	26.5%
Operating profit	**15,693**	**23,325**	**20,982**	33.7%	-10.0%
Provisions and contingencies	**3,018**	**6,219**	**5,341**	77.0%	-14.1%
- NPL Provisions	1,470	4,620	5,500	274.1%	19.0%
- Investment Provisions	(500)	(60)	140	-128.0%	-333.3%
PBT	**12,676**	**17,106**	**15,640**	23.4%	-8.6%
Provision for Tax	4,355	5,756	4,958	13.8%	-13.9%
PAT	**8,321**	**11,350**	**10,683**	28.4%	-5.9%
Other details					
Advances	1,579,794	1,866,010	1,968,700	24.6%	5.5%
Deposits	2,189,597	2,493,300	2,553,350	16.6%	2.4%
CASA (Rsm)	839,470	1,018,500	1,040,000	23.9%	2.1%
CASA ratio	38.5%	40.9%	40.9%	6.3%	0.1%
NIM	3.41%	4.0%	3.9%	15.5%	-1.3%
Amount of gross non-performing assets	26,074	32,144	36,138	38.6%	12.4%
Amount of net non-performing assets	2,972	9,817	12,833	331.8%	30.7%
% of gross NPAs	1.80%	1.7%	1.8%	1.1%	6.4%
% of net NPAs	0.19%	0.5%	0.7%	247.4%	24.5%
Coverage ratio	88.60%	69.46%	64.49%	-24.1%	-4.97%

Source : HDFC Securities Institutional Research

Institutional Research

Media

Dish TV

Q1FY11 Results Review

July 23, 2010

Recommendation	**HOLD**
CMP	**46**
Target	**46**
Stock Return	**0%**

Nifty	5,442
Sensex	18,113

Key Stock Data	
Sector	MEDIA
Reuters Code	DISH.BO
BLOOMBERG Code	DITV IN
No. of Shares (mn)	1,063.4
Market Cap (Rs bn)	48.8
Market Cap ($ mn)	1034.6
6 mth avg traded val (Rs. mn)	155

Stock Performance (%)

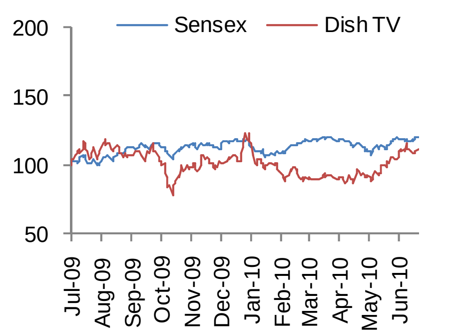
52 - Week high / low Rs 54/31

	3M	**6M**	**12M**
Absolute (%)	23.1	(3.8)	7.5
Relative (%)	20.7	(11.2)	(11.4)

Shareholding Pattern	**(%)**
Promoters	64.8
FIs & Local MFs	6.8
FIIs	5.7
Public & Others	22.7

Source: Company

Sensex and Stock Movement



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Dish TV reported higher than expected subscriber addition and revenue growth (adjusted for HITS operation); but EBITDA declined QoQ on account of closure of HITS operation and higher S&M expenses. We remain positive on digital growth story but find the valuations expensive at 15.6x FY12E EV/EBITDA. We thus downgrade the stock from Buy to Hold, maintaining target price at Rs46. Higher than expected subscriber/ARPU growth may provide additional upside to our target price.

Subscriber addition better than expected but revenue remains flat QoQ

Dish TV reported better than expected subscriber addition of 640k in Q1FY11 against 440k in Q4FY10 and our annualized average expectation of 450k subscriber addition per quarter. However, revenue in Q1FY11 increased marginally by 0.4% QoQ to Rs3,043 mn. Q4FY10 included HITS revenue of Rs217mn. HITS operation were closed down by Dish TV in end Q4FY10 thus resulting in nil revenue during Q1FY11, adjusted for which revenue in Q1FY11 increased 8.1% QoQ. Subscription ARPU on DTH services moved slightly QoQ from Rs138 in Q4FY10 to Rs139 in Q1FY11.

Higher S&M spend pulls down EBITDA

EBITDA declined QoQ by 7.8% on account of higher sales commission (+QoQ 32%) and increased advertising spend (+37% QoQ) on high definition service launch. While HITS operation has been reiterated as EBITDA neutral by Dish management in past, we find the same to be EBITDA positive as reported EBITDA declined by Rs27mn QoQ despite revenue ex-HITS increasing by Rs229mn as against increase of only Rs154mn in S&M expenses.

Management call high-light

1) Management remains confident of adding 2.5mn subscribers with industry addition between 10-11mn and our expectation of Dish TV of 2.2mn in FY11. 2) Content cost remained flat for past three quarters at Rs1bn; however with the annual escalation clause becoming applicable in Q2FY11, the same is expected to move up by 7-10%. 3) Renewal ARPU during the quarter moved up from Rs164 to Rs172.

Revised estimates; downgrade to Hold

We are revising our estimates to adjust for higher than expected subscriber additions and the closure of HITS operation. We remain positive on digital growth story but find the valuations expensive at 15.6x FY12E EV/EBITDA. We maintain our target price at Rs46 but with recent run-up in stock price downgrade it from Buy to Hold. Higher than expected subscriber/ARPU growth may provide additional upside to our target price.

Table 1: Financial Summary

Rs million	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues (Rs m)	4,128	7,381	10,846	14,573	17,601	21,281
Growth (%)	*115.4*	*78.8*	*46.9*	*34.4*	*20.8*	*20.9*
EBITDA (Rs m)	(2,084)	(1,233)	839	2,391	3,524	5,240
Growth (%)	*(22.2)*	*40.8*	-	*184.9*	*47.4*	*48.7*
EBITDA Margin (%)	(50.5)	(16.7)	7.7	16.4	20.0	24.6
Adj. Net Profit (Rs m)	(4,141)	(4,807)	(2,617)	(2,055)	(1,002)	735
EPS (Rs)	(9.7)	(5.1)	(2.5)	(1.9)	(0.9)	0.7
P/E (x)	-	-	-	-	-	59.3
EV/EBITDA (x)	(23.3)	(44.0)	55.3	21.3	14.4	9.5
ROE (%)	(967.1)	(246.0)	(26.3)	(12.5)	(6.1)	4.5

Source : Company, HDFC Securities Institutional Research

Content cost during the quarter declined from 43% to 40% of subscription revenue.

Cost of debt for Dish TV stands at 10.5% and has gross debt of Rs9.3bn and cash of Rs5.75bn. Yield on mutual fund and other investments stands at 3.5-4% and on GDR money 0.5%

Finance cost increased QoQ due to upfront fees for Letter of Credit facilities on import of set top boxes.

Other income increased during the quarter on account of forex gain and income of redemption of mutual fund units.

Revision in estimates on account of increase in subscriber estimates and to adjust for closure of HITS operation

Table 2: Subscriber matrix

(Rs mn)	Q1FY11	Q4FY10	% Chg QoQ	Q1FY10	% ChgYoY
Subscribers (in mn)					
Gross Subs	7.5	6.9	8.7	5.5	36.1
Active Subs	6.2	5.7	9.2	4.6	21.8
Active Subs %	82.3	82.0		84.2	
ARPU on Active Subs					
Subscription ARPU	139	138	0.7	142	(2.8)
Gross ARPU	172	179	(3.9)	189	(5.3)

Source : Company, HDFC Securities Institutional Research

Table 3: Financial Summary

(Rs mn)	Q1FY11	Q4FY10	% Chg QoQ	Q1FY10	% ChgYoY
Subscription	2,496	2,319	7.6	1,920	30.0
Lease Rental	450	410	9.8	350	28.6
Bandwidth/Others	98	85	14.1	67	45.5
HITS	-	217	(100.0)	130	(100.0)
Total Revenue	**3,043**	**3,031**	**0.4**	**2,467**	**23.3**
Operating exps	1,794	1,869	(4.0)	1,642	9.2
% of revenue	*59.0*	*61.7*	-270 bps	*66.6*	-762 bps
Employee cost	123	110	11.6	101	21.7
% of revenue	*4.0*	*3.6*	40 bps	*4.1*	-6 bps
S&D exps	670	516	29.8	468	43.2
% of revenue	*22.0*	*17.0*	499 bps	*19.0*	305 bps
Admn & Other exps	134	187	(28.4)	110	21.7
% of revenue	*4.4*	*6.2*	-176 bps	*4.5*	-6 bps
Total Cost	**2,721**	**2,683**	**1.4**	**2,322**	**17.2**
% of revenue	*89.4*	*88.5*	93 bps	*94.1*	-468 bps
EBITDA	**322**	**349**	**(7.8)**	**145**	**121.4**
% of revenue	*10.6*	*11.5*	-93 bps	*5.9*	468 bps
Depreciation	889	846	5.1	689	29.0
% of revenue	*29.2*	*27.9*	131 bps	*27.9*	127 bps
EBIT	**(567)**	**(497)**	**14.1**	**(544)**	**4.2**
% of revenue	*(18.6)*	*(16.4)*	-224 bps	*(22.0)*	341 bps
Fin income/(cost) (net)	133	106	25.7	202	(33.9)
% of revenue	*4.4*	*3.5*	88 bps	*8.2*	-380 bps
Other income	69	5	1,202.1	54	26.9
% of revenue	*2.3*	*0.2*	208 bps	*2.2*	6 bps
PBT / PAT	**(632)**	**(598)**	**5.7**	**(692)**	**(8.7)**
% of revenue	*(20.8)*	*(19.7)*	-104 bps	*(28.0)*	728 bps

Source : Company, HDFC Securities Institutional Research

Table 4: Revision in estimates

	FY11			FY12		
	Revised	Earlier	% Chg	Revised	Earlier	% Chg
Subscribers (mn)	9.1	8.7	4.6	10.7	10.3	3.9
Revenue (Rs mn)	14,222	14,573	(2.4)	17,552	17,601	(0.3)
EBITDA (Rs mn)	2,138	2,391	(10.6)	3,652	3,524	3.6
EBITDA margin %	15.0	16.4	-137 bps	20.8	20.0	79 bps
Adj PAT (Rs mn)	(2,458)	(2,055)	(16.4)	(1,176)	(1,002)	(14.9)
Adj PAT margin	(17.3)	(14.1)	-319 bps	(6.7)	(5.7)	-101 bps
O/s shares (mn)	1,063.4	1,063.4	-	1,063.4	1,063.4	-
FDEPS (Rs)	(2.3)	(1.9)	(16.4)	(1.1)	(0.9)	(14.9)

Source : HDFC Securities Institutional Research

Subscriber increase and ARPU enhancement to drive revenue growth and maring expansion

Table 5: Income Statement

FYE March, Rs mn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenues	4,128	7,381	10,846	14,222	17,552	21,253
Growth (%)	*115.4*	*78.8*	*46.9*	*31.1*	*23.4*	*21.1*
EBITDA	(2,084)	(1,233)	839	2,138	3,652	5,333
Growth (%)	*(22.2)*	*40.8*	-	*154.8*	*70.8*	*46.0*
Depreciation & amortisation	1,570	2,289	3,044	3,940	3,896	3,700
EBIT	(3,654)	(3,521)	(2,205)	(1,801)	(244)	1,632
Growth (%)	*(56.9)*	-	-	-	-	-
Interest	513	1,293	485	657	932	945
Other income	34	13	72	-	-	-
EBT	(4,134)	(4,801)	(2,617)	(2,458)	(1,176)	687
Income taxes	7	6	(0)	-	-	117
Effective tax rate (%)	*(0.2)*	*(0.1)*	*0.0*	-	-	*17.0*
Rep./Adj net income	-	-	-	-	-	-
Growth (%)	-	-	-	-	-	-
O/s shares (mn)	(4,141)	(4,807)	(2,617)	(2,458)	(1,176)	570
EPS (Rs)	-	-	-	-	-	-
Growth (%)	(4,141)	(4,807)	(2,617)	(2,458)	(1,176)	570
DPS (Rs)	-	-	-	-	-	-

Source : Company, HDFC Securities Institutional Research

Adequately funded for FY11-12

Rights and GDR issue in FY09 & FY10 strengthens the balance sheet

Table 6: Balance sheet

FYE March, Rs mn	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Cash and cash eq	511	805	6,831	1,286	1,324	2,038
Accounts receivable	403	526	552	580	609	639
Inventories	58	32	39	46	46	46
Others current assets	1,876	6,706	6,266	5,674	5,970	5,822
Investments	0	0	-	-	-	-
Gross fixed assets	8,393	13,449	18,207	23,927	17,991	22,652
Net fixed assets	6,307	9,216	11,108	13,029	13,139	14,149
CWIP	2,793	3,734	2,987	2,390	1,195	956
Intangible assets	499	394	254	114	(4)	(54)
Deferred tax assets, net	(8)	(6)	-	-	-	-
Other assets / Misc Expenditure	5,139	9,954	12,531	14,992	16,172	15,606
Total assets	**17,579**	**31,363**	**40,569**	**38,111**	**38,451**	**39,202**
Accounts payable	491	883	1,148	1,492	1,940	2,522
Other current liabilities	11,174	15,428	13,241	10,431	10,313	10,471
Provisions	41	80	88	97	107	118
Debt funds	5,445	11,492	9,663	9,663	9,663	9,663
Other liabilities	-	-	-	-	-	-
Equity capital	428	687	1,063	1,063	1,063	1,063
Reserves & surplus	-	2,792	15,365	15,365	15,365	15,365
Shareholder's funds	428	3,480	16,428	16,428	16,428	16,428
Total liabilities	**17,579**	**31,363**	**40,568**	**38,111**	**38,451**	**39,202**
BVPS (Rs)	(11.0)	(6.8)	3.6	1.3	0.2	0.7

Source : Company, HDFC Securities Institutional Research

Cash flow break even from FY12 as Dish crosses critical subcriber mark of 8mn

Higher than expected subscriber growth and the associated acquistion cost may delay cash flow break-even

Table 7: Cash flow

FYE March, Rs mn	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Net income + Depreciation	(2,571)	(2,518)	427	1,481	2,720	4,271
Non-cash adjustments	460	(81)	-	(0)	-	-
Changes in working capital	2,389	(640)	(1,509)	(1,904)	12	864
Cashflow from operations	278	(3,240)	(1,082)	(423)	2,731	5,135
Capital expenditure	(2,897)	(5,470)	(4,011)	(5,123)	(2,693)	(4,422)
Change in investments	2	(6)	0	-	-	-
Other investing cashflow	11	-	-	-	-	-
Cashflow from investing	(2,883)	(5,476)	(4,011)	(5,123)	(2,693)	(4,422)
Issue of equity	-	3,109	12,948	-	-	-
Issue/repay debt	3,373	5,900	(1,829)	-	-	-
Dividends paid	-	-	-	-	-	-
Other financing cashflow	(384)	-	-	-	-	-
Change in cash & cash eq	384	294	6,026	(5,545)	38	713
Closing cash & cash eq	511	805	6,831	1,286	1,324	2,038

Source : Company, HDFC Securities Institutional Resarch

Table 8: Ratio analysis

FYE March	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Profitability & Return ratios						
EBITDA margin (%)	(50.5)	(16.7)	7.7	15.0	20.8	25.1
EBIt margin (%)	(88.5)	(47.7)	(20.3)	(12.7)	(1.4)	7.7
Net profit margin (%)	(100.3)	(65.1)	(24.1)	(17.3)	(6.7)	2.7
ROE (%)	(967.1)	(246.0)	(26.3)	(15.0)	(7.2)	3.5
ROCE (%)	(88.2)	(33.7)	(10.4)	(6.9)	(0.9)	5.2
Working capital & Liquidity ratios						
Receivables (days)	36	23	18	15	12	11
Inventory (days)	3	10	7	8	8	2
Payables (days)	61	34	34	34	36	38
Current ratio (x)	0.2	0.5	1.0	0.6	0.6	0.7
Quick ratio (x)	0.1	0.1	0.5	0.2	0.2	0.2
Turnover & Leverage ratios						
Gross asset turnover (x)	0.6	0.7	0.7	0.7	0.8	1.0
Total asset turnover (x)	0.3	0.3	0.3	0.4	0.5	0.5
Interest coverage ratio (x)	(7.1)	(2.7)	(4.5)	(2.7)	(0.3)	1.7
Adjusted debt/equity (x)	4.7	3.3	0.6	0.6	0.6	0.6
Valuation ratios						
EV/Sales (x)	13.0	8.1	4.8	4.0	3.3	2.7
EV/EBITDA (x)	(25.8)	(48.2)	61.4	26.7	15.6	10.6
P/E (x)	-	-	-	-	-	85.5
P/BV (x)	-	-	12.6	34.9	219.2	61.5

Source : Company, HDFC Securities Institutional Research

Table 9: Quarterly trend

FYE March, Rs mn	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenues	1,359	1,645	1,733	1,927	2,081	2,467	2,573	2,775	3,031	3,043
YoY growth (%)	106.3	84.2	129.5	72.0	53.2	50.0	48.5	44.0	45.7	23.3
QoQ growth (%)	21.3	21.0	5.4	11.2	8.0	18.5	4.3	7.8	9.3	0.4
EBITDA	(592)	(666)	(874)	(389)	52	145	229	116	349	322
EBITDA margin (%)	(43.6)	(40.5)	(50.4)	(20.2)	2.5	5.9	8.9	4.2	11.5	10.6
YoY growth (%)									576.1	121.4
QoQ growth (%)						181.7	57.4	(49.3)	200.8	(7.8)
Adjusted net profit	(1,151)	(1,254)	(1,541)	(1,181)	(786)	(692)	(565)	(762)	(598)	(632)
Adjusted NP margin (%)	(84.7)	(76.3)	(88.9)	(61.3)	(37.8)	(28.0)	(22.0)	(27.5)	(19.7)	(20.8)

Source : Company, HDFC Securities Institutional Research

Auto Ancillaries

Automotive Axles

Q3FY10 Results Review

July 23, 2010

Recommendation	**BUY**
CMP	**493**
Target	**617**
Stock Return	**25%**

Nifty	5,442
Sensex	18,113

Key Stock Data	
Sector	Auto Ancillaries
Reuters Code	ATOA.BO
BLOOMBERG Code	ATXL IN
No. of Shares (mn)	15.1
Market Cap (Rs bn)	7.4
Market Cap ($ mn)	158.0
6 mth avg traded val. (Rs. mn)	4

Stock Performance (%)

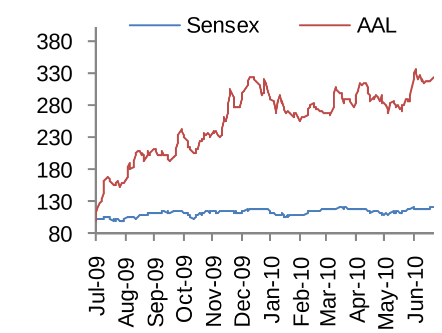
52 - Week high / low Rs519/132

	3M	6M	12M
Absolute (%)	24.4	28.9	237.5
Relative (%)	22.1	21.5	218.6

Shareholding Pattern	**(%)**
Promoters	71.04
FIs & Local MFs	10.68
FIIs	0.18
Public & Others	18.10

Source: Company

Sensex and Stock Movement



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Stronger-than-expected revenue growth was the key reason for AAL results coming significantly ahead of our forecasts. AAL reported a robust 15%QoQ rise in 3Q revenues (as against a 20% QoQ decline in domestic M&HCV industry volumes) driving a 16%QoQ profit growth. Given the rapid momentum in AAL's revenues, we are raising our FY10-12 revenue and profit estimates for AAL by 24-26%.Heavy truck sales are on an upswing led by the strength in industrial demand. Entry of new players (Eicher, Mahindra Navistar) should aid new client acquisition (Man Force, Eicher Volvo) and help AAL to reduce concentration from traditional clients (Ashok Leyland and Tata Motors). AAL stock price is up 42% since we initiated coverage and we maintain our positive stance. Post our earnings upgrade, our target price stands raised to Rs617. Maintain BUY.

3QFY10 results sharply ahead of expectations

Automotive Axles (AAL) reported a stronger-than-expected 15%QoQ rise in 3QFY10 (Sept-end) revenues, which was ahead of our forecasts. During the quarter AAL benefited from the price hikes taken by clients, which resulted in a pass-through for material costs in prices for AAL. Truck makers Ashok Leyland and Tata Motors have raised prices through 1Q and 2Q, which is a key positive for AAL. Operating margins at 14% were broadly in line with estimates and down 60bps QoQ due to lower share of front-axle sales. Interest costs continue to decline and we expect the company to be net cash positive in FY11E.

Surge in demand driving up capacity utilization

AAL's capacity utilization, which had fallen to as low as 22% in the FY09 downturn, is rising rapidly given the surge in domestic M&HCV sales. Demand for trucks remains robust as seen in the rising trend of freight rates even as headline growth rates after Sept-10 will moderate off a high base. Given the stronger-than-expected truck demand, we expect the momentum in AAL's revenue growth to sustain and are raising our FY10-12E revenue and earnings estimates by 24-26%.

Valuations remain compelling

AAL remains as a prime beneficiary of rising truck sales. AAL's scale and product technology are key competitive edges against new players entering the independent axle manufacturing industry. Penetration into new clients (Man Force, Eicher Volvo) should reduce exposure to Ashok Leyland. After our upgrade, the stock trades at 11.5x FY11E (Sept-end) earnings, which is reasonable considering underlying growth. With cashflows surging, any increase in dividend payout will be an added positive and bolster overall capital efficiencies. We maintain BUY with a price target of Rs617 (based on 5-yr historic average of 14.5x – lower than peak cycle mulitples),

Year to 30 Sep (Rsm)	FY08	FY09	FY10E	FY11E	FY12E
Revenues	7,519	2,672	7,145	8,431	9,693
PAT	558	97	500	645	767
EPS (Rs)	36.9	6.4	33.1	42.7	50.7
EPS growth (%)	4.0	(82.7)	418.0	28.9	18.9
P/E (x)	13.4	77.1	14.9	11.6	9.7
EV/Ebitda (x)	7.1	24.0	7.7	6.2	5.0
DPS (Rs)	6.5	2.7	12.0	15.0	18.0
ROAE (%)	32.8	5.5	24.6	26.7	26.8
ROACE (%)	37.0	7.1	32.9	38.6	41.2

Source : Company, HDFC Securities Institutional Research

Table 1: Quarterly results

Year to Sep (Rsm)	3QFY10	%YoY	%QoQ	9m10	9m09	%YoY	FY10E	%Achvd
Revenues	1,962	197.7	15.2	5,028	1,718	192.6	7,145	70.4
Expenditure	(1,687)	189.2	16.0	(4,342)	(1,537)	182.4	(6,156)	70.5
Ebitda	275.0	262.7	10.5	685.8	181.0	279.0	989.6	69.3
Margin (%)	14.0	251 bps	-60 bps	13.6	10.5		13.9	
Interest	(6)	(50.7)	(6.0)	(21)	(41)	(47.2)	(27)	79.2
Depreciation	(54)	16.1	0.4	(157)	(141)	11.2	(214)	73.6
Other Income	6	(75.6)	15.5	20	25	(22.0)	27	73.5
PBT	220	453.3	14.0	527	24		776	67.9
Tax	(75)	474.9	11.0	(181)	3		(275)	65.8
Tax Rate (%)	34.0			34.4			35.5	
PAT	145	442.8	15.6	346	27	1,181.8	500	69.1

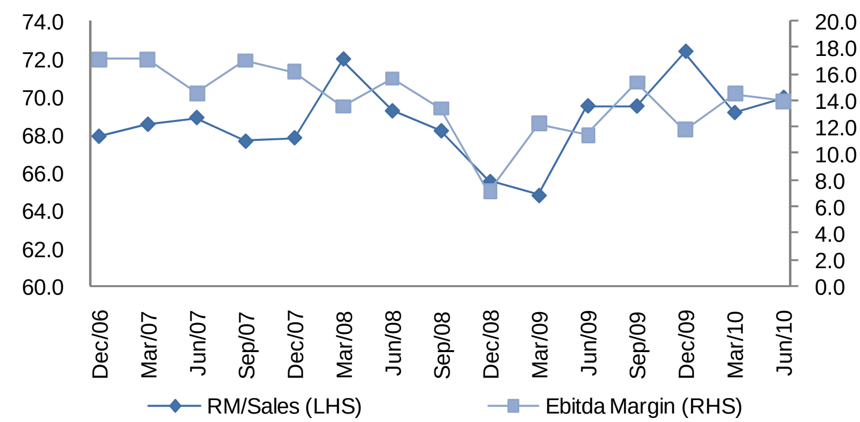
Source : Company, HDFC Securities Institutional Research

Table 2 : Earnings change

	FY10E			FY11E			FY12E		
	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
Revenues	5,763	7,145	24.0	6,793	8,431	24.1	7,801	9,693	24.2
Ebitda	794	990	24.7	958	1,180	23.2	1,100	1,357	23.4
PAT	397	500	26.1	507	645	27.3	606	767	26.5

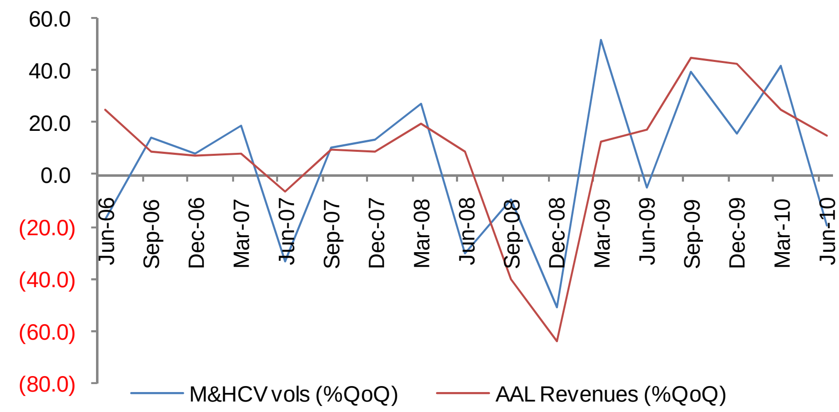
Source : Company, HDFC Securities Institutional Research

Chart 1: AAL raw material v/s ebitda trends (% of sales)



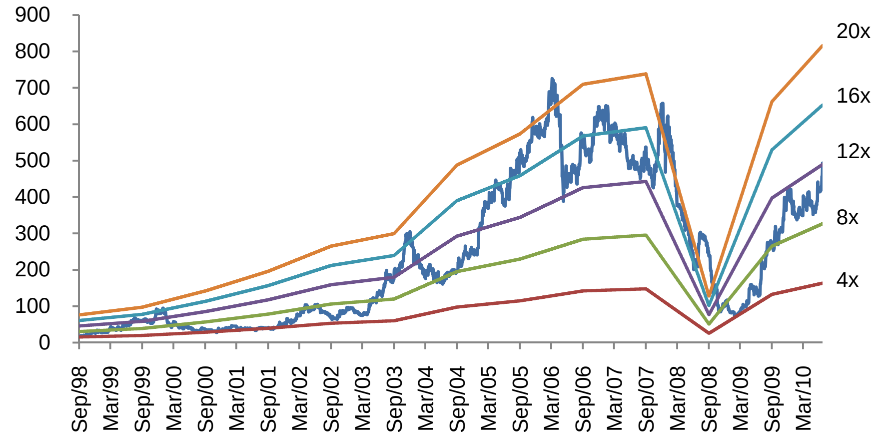
Source : Company

Chart 2 : Domestic truck sales trend v/s AAL revenue trends



Source : Company, HDFC Securities Institutional Research

Chart 3: PE band chart



Source : HDFC Securities Institutional Research