MORNING INSIGHT

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Kotak Securities

PRIVATE CLIENT RESEARCH

MAY 17, 2011

Economy News

- The finance ministry will meet regulators tomorrow to decide the structure for the proposed Infrastructure Debt Fund to finance the core sector to sustain high economic growth. The government is expected to come out with guidelines on the Fund by June-end and broad indications say it may take the form of a company, as well as a Trust. (BS)
- Headline inflation, based on the annual Wholesale Price Index, surged 8.66 per cent in April, lower than the 9.04 per cent year-on-year rise reported in March. The data released by the Ministry of Commerce and Industry on Monday has another warning signal in terms of a sharp revision in February's final inflation estimate to 9.54 per cent, up from the 8.31 per cent reported provisionally. (BL)
- India's policy-makers are considering putting a cap or ceiling of between $5 and $10 billion on investment by foreign investors in Indian mutual funds to possibly limit the impact of any surge in inflows once this route is opened up soon. (ET)
- The Ministry of Communication is looking to give more teeth to the Telecom Regulatory Authority of India. At present, the TRAI does not have any means to ensure that operators comply with its diktat. Once the amended Act is in place, the regulator will be able to levy a penalty of up to Rs 500mn for each offence. (BL)

Corporate News

- **Glenmark Pharmaceuticals** has licensed a new biotech drug to France's Sanofi which has the potential to generate revenues of $613 million. Glenmark will receive $50 million or 8% of the potential deal value as an upfront payment in the next three months, chairman Glenn Saldanha said. (ET)
- **3i Infotech** will sell its US-based global billing and payments unit to private equity firm Cerberus Capital Management for $137 million. The deal allows 3i Infotech to exit from the sluggish transactions-processing market in the US and reduce its overall debt by about Rs 7bn, said Mr V. Srinivasan, Managing Director and Global Chief Executive. (BL)
- State-owned **Coal India** is in negotiations to pick 15 per cent stake in a joint venture with US-based coal firm Peabody Energy's USD 600 million mining project in Australia, says a government official. Both the companies are mulling to form a joint venture company (JVC) to begin the project - Wilkie Creek coal mine, in Queensland, Australia, owned by the Peabody, a Coal Ministry official said. (ET)
- **Larsen & Toubro** has been awarded an 'engineering, procurement, construction' contract, worth Rs 35bn from PPN Power Generating Company, which intends to put up three gas-based power plants of 360 MW each. (BL)
- **Atul Auto Ltd,** a leading three-wheeler manufacturer, has entered Bangladesh with the launch of its product Atul Gem, a rear-engine model with a six-seater capacity. For this, the Rajkot-based Atul Auto has tied up with the Bangladesh-based Atul Autos Bangladesh Ltd (AABL), which, in turn, has roped in Bangladesh Machine Tools Factory Ltd (BMTFL) for assembling the vehicle. (BL)

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

Equity

		% Chg		
	16 May 11	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,345	(1.0)	(5.4)	0.2
NIFTY Index	5,499	(0.8)	(5.6)	0.3
BANKEX Index	12,442	(1.2)	(7.0)	(0.1)
BSET Index	5,994	(0.8)	(4.2)	(4.3)
BSETCG INDEX	12,627	(0.5)	(9.7)	(3.9)
BSEOIL INDEX	9,674	(1.0)	(3.6)	2.0
CNXMcap Index	7,978	(0.7)	(4.1)	3.0
BSESMCAP INDEX	8,307	(0.7)	(5.7)	0.7
World Indices				
Dow Jones	12,548	(0.4)	1.7	1.9
Nasdaq	2,782	(1.6)	0.6	(1.7)
FTSE	5,924	(0.0)	(1.2)	(2.7)
Nikkei	9,558	(0.9)	(0.8)	(12.2)
Hangseng	22,961	(1.4)	(4.9)	(2.0)

Value traded (Rs cr)

	16 May 11	% Chg - Day
Cash BSE	2,073	(26.0)
Cash NSE	8,387	(21.1)
Derivatives	99,272.2	(37.7)

Net inflows (Rs cr)

	13 May 11	% Chg	MTD	YTD
FII	(3,706)	322.8	(6,909)	(3,008)
Mutual Fund	15	(116.7)	450	2,039

FII open interest (Rs cr)

	13 May 11	% Chg
FII Index Futures	20,865	2.3
FII Index Options	48,819	(0.4)
FII Stock Futures	30,390	(0.1)
FII Stock Options	552	2.2

Advances / Declines (BSE)

16 May 11	A	B	S	Total	% total
Advances	52	755	242	1,049	40
Declines	151	1,268	291	1,419	55
Unchanged	2	99	33	134	5

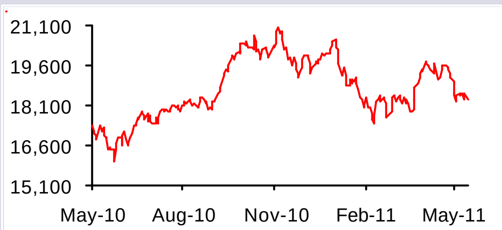
Commodity

		% Chg		
	16 May 11	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	97.0	(0.4)	(11.5)	12.3
Gold (US$/OZ)	1,493.1	0.1	0.4	7.9
Silver (US$/OZ)	34.2	(1.3)	(20.9)	7.3

Debt / forex market

	16 May 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	NA	8.07	8.10
Re/US$	45.16	44.87	44.46	45.52

Sensex



INITIATING COVERAGE

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ITC LTD

PRICE: RS.186 **RECOMMENDATION: BUY**
TARGET PRICE: RS.223 **FY12E P/E: 23.7X**

We initiate coverage on ITC Ltd, with a positive stance and BUY recommendation. Key investment positives: a/ Despite regulatory hurdles, core business (cigarettes) is attractive from cash generation and earnings visibility perspective, given addictive nature of product, dominating competitive position and concentrated markets , b/ Long-term drivers of cigarette consumption are strong in India. In a future where poor penetration meets improving incomes and affordability, there is ample scope for upgrades within the cigarette space as well as up-trading from other tobacco products, c/ Non-FMCG/ Non-cigarette businesses are broadly value generative, and have a bearing on long-term competencies of the company in terms of greater value appropriation and reduction in earnings volatility, d/FMCG businesses of the company, although low in earnings visibility, are closing in on threshold market shares that portend profitability towards FY13-end, and e/ We forecast an earnings growth of 16%/17% in FY12E/ FY13E, and believe the current multiple (23x-24x PER FY12E) leaves sufficient scope for upside over the next twelve months. We set a FY12E price target of Rs 223/ share, based on sum-of-parts valuation.

- **Cigarette business to remain the 'immovable mover':** Despite the arbitrary and differential taxes levied on the cigarette business from time to time, ITC has maintained a strong revenue and profit growth in the space , utilizing its pricing power, as well as improving product mix by affecting consumer upgrades. ITC has 80% market share of cigarette industry, which makes it the most enduring cash cow in the consumer space in India. ITC has used this cash to further entry barriers, reduce earnings volatility, and create new avenues of growth.

- **Long-Term Drivers of cigarette volumes strong:** Less than 4.7% of the adult Indian population smokes cigarettes, while less than 16% indulges in smoking tobacco (cigarettes/ bidis). We believe India's cigarette consumption is low largely on account of affordability, which is affected due to heavy taxation on cigarettes, relative to other forms of tobacco. For this reason, we believe long-term volume growth will be robust on the back of improving incomes.

- **Attractive opportunity/opportunity size in non-cigarette FMCG:** Tobacco accounts for only 15% of total FMCG spends in India, and a wider reach in the FMCG space can meaningfully affect returns to shareholders. Being a late, aggressive entrant and targeting penetrated categories, ITC has faced the obvious implication of medium-term losses in its new FMCG businesses. ITC's core business generates sufficient profit to enable pursuit of multiple opportunities and incubation of businesses with long-term potential. The company's strategy is sound, in our opinion, and market share trends are positive across most FMCG categories.

- **Other businesses continue to be top-of-class, are self-sustaining:** ITC has leading positions in hotels, paper and paperboards, and marketing of agricultural products. Near-term prospects of the businesses remain strong, with improving industry scenario in hotels, strength in paper and paperboards business. ITC appears to have been successful in reducing margin risk in the agri-business due to a prudent choice of commodities, and earnings are likely to be stable in the business. We expect 15% - 25% CAGR in operating profits from these businesses over FY10-FY13E.

Stock details

BSE code	: 500875
NSE code	: ITC
Market cap (Rs.mn)	: 1,439,268
Free float (%)	: 100
52-wk Hi/Lo (Rs)	: 195/129
Avg. Daily Volume ('000)	: 6881.2 (BSE+NSE)
Shares o/s (mn)	: 7738

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	181,532	213,483	244,991
Growth (%)	16.3	17.6	14.8
EBITDA	60,740	76,978	89,349
EBITDA margin (%)	33.5	36.1	36.5
PBT	60,153	76,257	89,168
Net profit	40,610	52,084	60,634
EPS (Rs)	5.3	6.7	7.8
Growth (%)	22.9	26.6	16.4
CEPS (Rs)	6.1	7.6	8.8
Book value (Rs/share)	18.4	21.5	24.7
Dividend/share (Rs)	5.0	3.4	3.9
ROE (%)	29.2	34.0	33.9
ROCE (%)	22.4	26.4	28.5
Net cash (debt)	11,263	7,603	22,849
NW Capital (Days)	69	73	73
P/E (x)	35.0	27.6	23.7
P/BV (x)	10.1	8.7	7.5
EV/Sales (x)	7.8	6.7	5.8
EV/EBITDA (x)	23.2	18.6	15.9

Source: Company, Kotak Securities - Private Client Research

- **Improving performance of FMCG businesses, higher dividend payouts to be key triggers:** With over Rs 234 Bn in operating cash generation in the next three years, and capex plan of Rs 50 Bn, we believe that a higher dividend payout may be in the offing, specially considering that the company is unlikely to add major categories to its portfolio in the coming years. With FMCG losses having hit a bottom, and strong trends in market share, there is a possibility of the company outperforming our estimates in the FMCG space, which could be a further trigger for re-rating.

We initiate coverage on ITC with BUY recommendation with a price target of Rs.223

- **Valuations sustainable, earnings risks contained:** We expect 20% CAGR over FY10-FY13E, and forecast FY12E/FY13E EPS at Rs 7.8/Rs 9.2. Based on a sum-of-the parts approach, we value ITC at Rs 223/ share. Our chosen value is an 15% premium to the company's average next 12 months (NTM) PER over the past five years, which we believe is justified given attractiveness of the company in the current environment, due to greater visibility in ITC's growth. We initiate coverage on ITC Ltd with a **BUY** recommendation.

- **Key risks to our estimates/ investment view include:** a/ regulation, including but not limited to higher excise/ VAT duties, b/ higher losses in FMCG businesses than expected, c/ macroeconomic risks affecting consumption of discretionary items.

RESULT UPDATE

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PATEL ENGINEERING LTD (PEL)

PRICE: RS.151 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.186 **FY12E P/E: 10.1X**

- **Revenue growth led by strong order book as well as other short duration private contracts**
- **Operating margins impacted by low margin projects executed in the current quarter**
- **Net profit growth was impacted by low margins, higher interest outgo but boosted by lower tax outgo**
- **We tweak our estimates to factor in better than expected revenue booking during Q4FY11. However, outlook in terms of order inflow still remain subdued and future sustainability of revenue growth would be dependent upon order inflows going forward.**
- **We arrive at a revised price target of Rs 186 (Rs 211 earlier) based on sum of the parts methodology and continue to maintain ACCUMULATE on the stock. We believe that stock will continue to underperform in the near term till order inflow and project execution ramps up.**

Summary table

(Rs mn)	FY10	FY11	FY12E
Sales	23,526	25,545	28,100
Growth (%)	32	9	10
EBITDA	3,506	3,509	3,512
EBITDA margin (%)	14.9	13.7	12.5
PBT	2,002	1,317	1,581
Net profit	1,322	1,001	1,044
EPS (Rs)	18.9	14.3	14.9
Growth (%)	-35	-24	4
CEPS (Rs)	26.0	21.9	23.8
BV (Rs/share)	185.1	198.4	212.4
Dividend / share (Rs)	1.0	1.0	1.0
ROE (%)	11.6	7.5	7.3
ROCE (%)	14.0	10.2	11.0
Net cash (debt)	(6,963)	(7,991)	(9,527)
NW Capital (Days)	227.0	227.0	227.0
P/E (x)	8.0	10.5	10.1
P/BV (x)	0.8	0.8	0.7
EV/Sales (x)	0.7	0.7	0.7
EV/EBITDA (x)	4.6	4.8	5.3

Source: Company, Kotak Securities - Private Client Research

Financial highlights - Standalone

(Rs mn)	Q4FY11	Q4FY10	YoY (%)	FY11	FY10	YoY (%)
Net Sales	**11,557**	**10,560**	**9**	**25,545**	**23,526**	**9**
Expenditure	10,657	9,291		22,036	20,020	
Operating Profit	**901**	**1,269**	**-29**	**3,509**	**3,506**	**0**
Operating Profit Margin	7.8	12.0		13.7	14.9	
Depreciation	131	133		530	498	
EBIT	**770**	**1,136**	**-32**	**2,979**	**3,008**	**-1**
Interest	390	390		1,232	1,095	
EBT(exc other income)	380	746		1,747	1,914	
Other Income	20	33		-431	88	
EBT	**400**	**779**	**-49**	**1,317**	**2,002**	**-34**
Tax	29	267		315	680	
Tax Rate (%)	7.1	34.3		24.0	34.0	
PAT	**372**	**512**	**-27**	**1,001**	**1,322**	**-24**
Minority interest	0	0		0	0	
Net profit	**372**	**512**	**-27**	**1,001**	**1,322**	**-24**
NPM (%)	3.2	4.8		3.9	5.6	
Equity Capital	69.8	69.8		69.8	69.8	
EPS (Rs)	**5.3**	**7.3**		**14.3**	**18.9**	

Source: Company

Revenue growth led by strong order book as well as private works carried out by the company during Q4FY11

- Revenues reported a growth of 9% for both Q4FY11 as well as FY11 led by strong order book.
- Patel engineering also executed private works related to open excavations which led to a jump in revenues during Q4FY11, much ahead of our estimates. Company also mentioned that work has commenced in Teesta and Parbati hydro projects which were hit by torrential rains during Q3FY11.
- Claims worth Rs 2 bn which were submitted to NTPC for cancellation of Lohari Nagpala project are still due and company expects to recover these claims only when NTPC recovers it from the government.
- Current order book of company stands at Rs.95 bn on a consolidated basis including L1 orders. International order book stands at nearly $75 mn while Michigan order book stands at nearly Rs 4 bn. After excluding L1 project and projects in Andhra Pradesh which are currently not being executed, order book provides a revenue visibility for next 2.5 years. Order book is diversified across hydro power (35%), irrigation (40%) and others (25%).
- Financial closure of Phase 1 of 1200 MW thermal power project in Tamil Nadu has further delayed. Clearances are still pending due to elections but now company expects to get final clearances by end of Q1FY12. Financial closure of hydro power project in Arunachal Pradesh is expected by July, 2011.
- Order inflow has not picked up for the company especially in the hydro power segment. Along with this, projects such as Teesta and Parbati are progressing at a slower pace while Pranahita Chevvalla lift irrigation project has not yet commenced. We thus expect company to take more private works in lieu of these reasons and therefore we tweak our estimates for FY12. We expect revenues to grow by 10% during FY12 based on current order book as well as new short duration private works.

Operating margins impacted by low margin projects executed in Q4FY11

- Operating margins stood at 7.8% and 13.7% respectively for Q4FY11 and FY11, which was lower than our estimates.
- Fall in operating margins on a sequential basis was due to low margin private works worth Rs 3-3.5 bn executed during Q4FY11. Due to cancellation of Lohari Nagpala project, equipments and labor were deployed for these private works which resulted in increasing the revenues but due to low margins witnessed in these projects, company witnessed a fall in overall operating margins.
- We have factored in execution of short duration private works going forward also. This may impact the operating margins of the company going forward.
- We thus reduce our operating margin assumptions and expect margins to be 12.5% for the company going ahead on a standalone basis.

Net profits impacted by fall in margins as well as increase in borrowings

- Net profits reported a decline of 27% and 24% respectively for Q4FY11 and FY11. This was due to fall in operating margins as well as increase in interest outgo
- Overall borrowings of the company have witnessed an increase inline with the increase in construction activity as well as working capital requirements.
- Post tweaking our estimates, we expect net profits of Rs 1.04 bn for FY12 as against our earlier estimate of Rs 1.06 bn.

Valuation and recommendation

- At current price of Rs 151, stock is trading at 10.1x P/E and 5.3x EV/EBITDA multiples for FY12.
- Post downgrading our estimates, we arrive at a revised price target of Rs 186 (Rs 211 earlier) based on sum-of-the-parts methodology on FY12 estimates. We have also revised our real estate valuations downwards to factor in higher interest rates and higher cost of capital.

We maintain ACCUMULATE on Patel Engineering with a revised price target of Rs.186

- We continue to maintain **ACCUMULATE** on the stock. We believe that stock will continue to underperform in the near term till order inflow and project execution ramps up.

Sum of the parts valuation based on FY12 estimates

Valuation	Rs per share	Parameter
Core business valuation	120	8x one yr forward P/E multiple
Subsidiary valuation	18	Relative valuation
Land valuation	49	NPV and land bank valuation
Total	**186**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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JAIPRAKASH ASSOCIATES LTD

PRICE: RS.85 **RECOMMENDATION: BUY**
TARGET PRICE: RS.117 **FY12E P/E: 19.2X**

- **Revenues of the company in Q4FY11 and FY11 registered a growth of 17% and 29% YoY respectively, better than our estimates. There was excellent revenue booking seen in cement, construction and real estate division.**
- **Operating margins in Q4FY11 and FY11 stood at 19.8% and 22.3% as against 25.5% and 26% in Q4FY10 and FY10 respectively. Margins were lower than our estimates due to sharp fall in construction division margins.**
- **Net profits for the quarter and full year FY11 were impacted by higher interest and depreciation outgo.**
- **At current price of Rs 85, stock is trading at 19.2x P/E and 9.2 EV/EBITDA on FY12 estimates respectively. We tweak our estimates to factor in delays seen in completion of Yamuna Expressway and maintain BUY with a revised price target of Rs 117 (Rs 130 earlier).**

Summary table

(Rs mn)	FY10	FY11	FY12E
Sales	100,889	129,665	155,835
Growth (%)	69	29	20
EBITDA	26,249	28,887	35,792
EBITDA margin (%)	26.0	22.3	23.0
PBT	13,796	12,402	14,735
Adjusted net profit	9,105	6,521	9,725
EPS (Rs)	4.1	3.0	4.4
Growth (%)	(34.1)	(28.4)	49.1
CEPS (Rs)	9.9	8.1	7.5
BV per share (Rs)	44.0	48.4	51.8
Dividend / share (Rs)	0.9	0.9	0.9
ROE (%)	20.9	11.5	8.8
ROCE (%)	11.4	11.0	11.4
Net cash /(debt)	(93,619)	(117,017)	(143,998)
NW capital (days)	90.0	90.0	90.0
P/E (x)	20.5	28.6	19.2
EV/EBITDA (x)	10.7	10.5	9.2
EV/Sales (x)	2.8	2.3	2.1
P/BV (x)	1.9	1.8	1.6

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q4FY11	Q4FY10	YoY (%)	FY11	FY10	YoY (%)
Net sales	**39,053**	**33,452**	**17**	**129,665**	**100,889**	**29**
Expenditure	31,313	24,925	26	100,778	74,640	35
EBITDA	**7,740**	**8,527**	**-9**	**28,887**	**26,249**	**10**
EBITDA margin	19.8%	25.5%		22.3%	26.0%	
Depreciation	1,507	1,334		6,079	4,561	
EBIT	**6,234**	**7,193**	**-13**	**22,808**	**21,688**	**5**
Interest	4,048	2,989		13,942	10,558	
EBT(exc other income)	2,186	4,204		8,865	11,130	
Other income	1,693	132		3,537	2,665	
Excp inc on sale of shares in trust	-3			5140	12140	
EBT	**3,876**	**4,336**	**-11**	**17,542**	**25,936**	**-32**
Tax	857	1,890		5,881	6,733	
Tax (%)	22	44		34	49	
Profit after tax	**3,020**	**2,446**	**23**	**11,661**	**19,203**	**-39**
Exceptional items	-	-		-	2119	
Core business PAT	3,020	2446	23	11,661	17083.6	-32
Equity capital	4,253	4,244		4,253	4244	
Core EPS	1.42	1.15		5.48	8.05	

Source: Company

Revenue growth better than our estimates

- Revenues of the company in Q4FY11 and FY11 registered a growth of 17% and 29% YoY respectively, better than our estimates. There was excellent revenue booking seen in cement and real estate division.
- Revenues growth was primarily led by 37% YoY growth in cement revenues and 162% jump in real estate revenues but was impacted by lower growth of 8.3% in the construction revenues for the full year FY11.

- **Cement division performance:** Cement volumes for Q4FY11 and full year stood at 4.2MT and 15.3MT as against 3.6MT and 10.9MT for Q4FY10 and full year FY10. We had expected company's dispatches to be around 15 MT for FY11. Cement realizations have witnessed an increase during Q4FY11 and average realizations for the company stood at Rs 3734 per tonne as against Rs 3643 per tonne in Q4FY10. Company expects to enhance its capacity to 33 MT by end of FY12 while current capacity stands at 23 MT. We expect cement volumes to jump to 19 MT for FY12.
- **Construction division performance:** Revenue growth in the construction division has been impacted by completion of construction of Karcham Wangtoo project. During Q3FY11, work was also impacted by obstruction of construction work of Yamuna Expressway on account of farmer agitation. Though current agitation happening at Gautambudh nagar has not impacted company's work but due to delays in completion, Yamuna Expressway project is now expected to get completed by July, 2012.
- **Real estate division** has posted robust growth due to higher revenue booking from the projects launched during last two years. Company has sold nearly 3.1mn sq ft during FY11. While power revenues were inline with our estimates.
- We tweak our estimates to factor in delays in completion of Yamuna Expressway project and expect revenues to grow by 20% for FY12.

Operating margins lower than our estimates

- Operating margins in Q4FY11 and FY11 stood at 19.8% and 22.3% as against 25.5% and 26% in Q4FY10 and FY10 respectively. Margins were lower than our estimates due to sharp fall in construction division margins.
- EBIT margins in cement division stood at 14.2% while for the construction division, it stood at 12.3% for Q4FY11. EBITDA per tonne for cement division has improved to Rs 698 per tonne as against Rs 543 per tonne in Q3FY11 due to improvement seen in the cement prices during Q4FY11. Though cement prices have improved but costs continued to remain high such as power and fuel as well as freight expenses. Construction division EBIT margins stood at 12.3% and EBITDA margins stood at 13.1% for Q4FY11. Margins in the construction division were impacted by higher costs.
- Post revising our revenue estimates in the construction division downwards, we now expect operating margins to be 23% for FY12.

Net profits impacted by higher depreciation and interest charges in comparison with last year

- Net profits for the quarter and full year FY11 were impacted by higher interest and depreciation outgo.
- Company expects to reduce overall borrowings going forward post enhancing cement capacity from the cash flows coming from cement division.
- Post revising our estimates, we expect net profits to be Rs 9.7 bn for FY12 as against our earlier estimate of Rs 11.5 bn.

Valuation and recommendation

We maintain BUY on Jaiprakash Associates with a revised price target of Rs.117

- At current price of Rs 85, stock is trading at 19.2x P/E and 9.2 EV/EBITDA on FY12 estimates respectively.
- We tweak our estimates to factor in delays seen in completion of Yamuna Expressway.
- We continue to maintain **BUY** with a revised price target of Rs 117 (Rs 130 earlier).

Sum of the parts valuation (based on FY12 estimates)

	FY12	Price per share	Rationale
Core business			
Construction	106,726	49	At 8x EV/EBITDA inline with peers
Cement	160,208	73	At $110/tonne for cement, inline with peers
Jaypee greens	11,007	5	NPV of land bank
Hotels	4,337	2	6x EV/EBITDA at a discount to peers
Less net debt(FY12)	188,148	86	Debt adjusted with FCCB proceeds
Core business valuation	**94,131**	**43**	-
JPVL valuation	77,694	35	At 10% discount to the market price
Karwam Wangtoo valuation(44%stake)	12,508	6	
Power assets valuation		**41**	
Real estate valuation	57,173	26	At 10% discount to the market price
Treasury share	14,481	7	At 10% discount to the market price
Total	**165,785**	**117**	

Source: Kotak Securities - Private Client Research

Dipen Shah holding 150 shares of Jaiprakash Associates

RESULT UPDATE

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JAMMU & KASHMIR BANK

PRICE: RS.807 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1060 **FY12E P/E: 5.8X; P/ABV: 1.0X**

Q4FY11: Core earnings came better than our expectations; PAT came slightly lower on higher staff costs & provisions. Margin and asset quality remained stable; reiterate BUY as stock is trading at attractive valuation (1.0x FY12E ABV).

- **Core earnings grew at healthy pace - NII grew 34.7% (YoY) mainly aided by sharp improvement in NIM (45 bps YoY) despite moderate loan growth (13.6% YoY). However, net profit rose 15.4% YoY (slightly below expectations) on back of higher staff costs (45.9% YoY) and provisions (93.8% YoY) despite strong core earnings and healthy non-interest income.**
- **NIM has remained stable between 3.6-3.7% during last four quarters; strong liability franchise (CASA mix at 40.5% in Q4FY11) has helped the bank in sustaining margins at higher levels vis-à-vis its peers.**
- **Its asset quality continues to remain amongst the best in class - gross NPA and net NPA stand at 1.95% and 0.20%, respectively, at the end of Q4FY11. Its coverage ratio is also one of the best and now stands at 89.7% (92.7% including technical W/O) at the end of Q4FY11.**
- **We have slightly tweaked our earning estimates for FY12E; we maintain BUY rating on the stock with revised TP of Rs.1060 (Rs.1100 earlier) based on 1.3x of its FY12E adjusted book value.**

Result Performance

(Rs mn)	Q4FY11	Q4FY10	YoY (%)
Int. on advances	7184.4	5766.5	24.6
Int. on investments	2900.6	1949.1	48.8
Int. on RBI/Other balances	53.6	18.9	183.6
Total interest earned	**10138.6**	**7734.5**	**31.1**
Interest expenses	5981.2	4647.5	28.7
Net interest income	**4157.4**	**3087.0**	**34.7**
Other income	1190.2	1016.9	17.0
Net Revenue (NII + Other Income)	**5347.6**	**4103.9**	**30.3**
Operating Expenses	**2388.3**	**1756.6**	**36.0**
Employee cost	1673.3	1147.2	45.9
Other operating exp	715.0	609.4	17.3
Operating profit	**2959.3**	**2347.3**	**26.1**
Provisions	756.0	390.1	93.8
Taxes	817.7	756.8	8.0
Net profit	**1385.6**	**1200.4**	**15.4**
EPS (Rs.)	**28.58**	**24.76**	**15.4**

Source: Company

Core earnings better than our expectations; however PAT came lower on higher staff costs & provisions

J&K bank's core earnings grew at healthy pace - NII grew 34.7% to Rs.5.98 bn in Q4FY11 from Rs.4.65 bn in Q4FY10 mainly aided by sharp improvement in NIM (45 bps YoY) despite moderate loan growth (13.6% YoY).

However, net profit rose 15.4% YoY (slightly below expectations) to Rs.1.39 bn in Q4FY11 from Rs.1.20 bn in Q4FY10 on back of higher staff costs (45.9% YoY) and provisions (93.8% YoY) despite strong core earnings and healthy non-interest income.

Healthy non-interest income aided by strong fee income as well as trading profit

Non-interest income rose 17.0% YoY to Rs.1.19 bn during Q4FY11 as compared to Rs.1.02 bn during Q4FY10 on back of strong fee income (37.7% YoY) as well as trading profit (67.4%).

Trend in non-interest income

(Rs. mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)
Other Income	1,016.9	936.9	744.8	775.6	1,190.2	17.0
Commission/ Exchange	314.4	353.9	330.4	343.0	432.8	37.7
Trading Income (Net of Amortization)	135.7	336.3	181.6	178.7	227.2	67.4
Insurance Income	127.5	64.4	54.5	61.2	81.3	-36.2
Misc. Income	439.3	182.3	178.3	192.7	448.9	2.2

Source: Company

Moderate loan growth (13.6% YoY; 3.3% QoQ); likely to be impacted by RBI guidelines where they wont be lending to J&K state.

Its loan book grew by only 13.6% YoY (3.3% QoQ), even though deposits grew at healthy pace (20.0% YoY; 9.3% QoQ). We believe its loan book has started witnessing impact due to RBI's guidelines where J&K bank would not provide overdraft to J&K state government. RBI would take over this operation from Q1FY12, in line with other states.

Bank has mobilized more deposits vis-à-vis loan book growth leading to decline in C/D ratio from 61.9% at the end of Q4FY10 to 58.6% at the end of Q4FY11. 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.

NIM has remained stable between 3.6-3.7% during last four quarters

NIM has remained stable between 3.6-3.7% during last four quarters. It improved to 3.72% in Q4FY11 as compared to 3.27% in Q4FY10 and 3.70% in Q3FY11. Although yield on investment declined 24 bps, increase in yield on advances (44 bps) more than compensated the rise in cost of funds (24 bps). For FY11, NIM came at 3.62% as compared to 3.04% in FY10. We believe its margin would witness some compression during FY12 as bank might go for higher loan growth outside J&K state, where spread is likely to be lower. Hence, we are modeling NIM at 3.34% for FY12E.

Asset quality continues to remain amongst the best in class; coverage ratio at 92.7% (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 stand at 1.95% and 0.20%, respectively, at the end of Q4FY11. Its coverage ratio is also one of the best and now stands at 89.7% (92.7% including technical W/O) at the end of Q4FY11.

Trend in asset quality

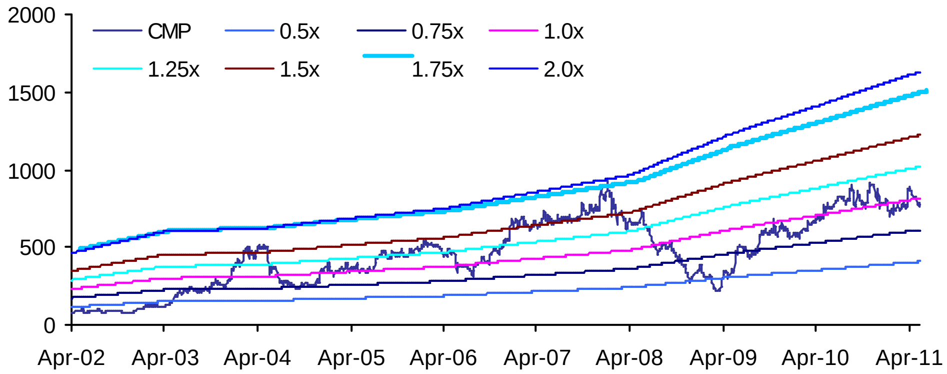
	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Gross-NPAs (cr)	5.11	4.78	4.60	4.62	4.50	5.13	5.04	5.04
Gross-NPAs (%)	2.44	2.23	2.17	1.97	1.92	2.17	1.95	1.95
Net-NPAs (cr)	1.60	1.17	0.79	0.64	0.08	0.31	0.11	0.11
Net-NPAs (%)	0.77	0.55	0.38	0.28	0.03	0.13	0.04	0.04
PCR (%)	68.79	75.55	82.87	86.09	98.21	93.97	97.89	93.71

Source: Company

Valuation & recommendation

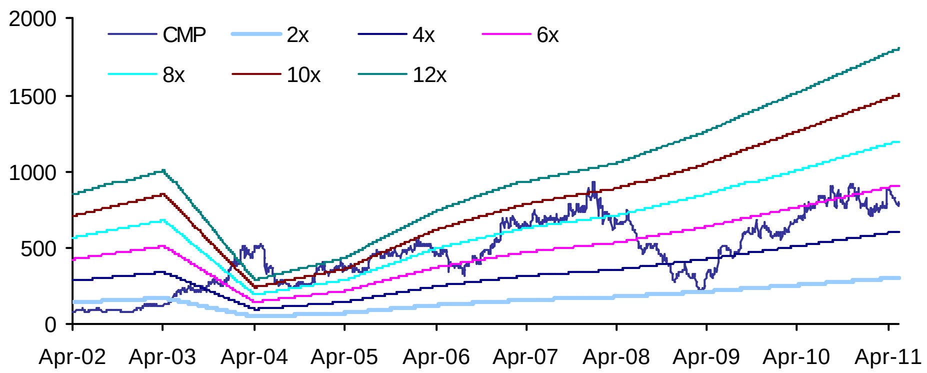
At the current market price of Rs.807, the stock is trading at 5.8x its FY12E earnings and 1.0x its FY12E ABV. We have slightly tweaked our earning estimates for FY12E and now expect net profit for FY12E to be Rs.6.73 bn. This would result into an EPS of Rs.138.85 for FY12E and adjusted book value of Rs.814.1, respectively.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

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

We maintain **BUY** rating on the stock with revised TP of Rs.1060 (Rs.1100 earlier) based on 1.3x of its FY12E adjusted book value.

Key Financials

(Rs bn)	FY09	FY10	FY11	FY12E
Interest income	29.88	30.57	37.13	43.14
Interest expense	19.88	19.37	21.69	26.37
Net interest income	**10.00**	**11.20**	**15.44**	**16.77**
Growth (%)	23.4	11.9	37.9	8.6
Other income	2.61	4.16	3.65	3.73
Gross profit	7.91	9.58	11.49	12.15
Net profit	**4.26**	**5.13**	**6.15**	**6.73**
Growth (%)	12.7	20.3	20.0	9.4
Gross NPA (%)	2.6	2.0	1.9	1.9
Net NPA (%)	1.4	0.3	0.2	0.2
Net int. margin (%)	3.2	3.0	3.6	3.3
CAR (%)	14.5	15.9	14.1	14.3
RoE (%)	17.4	18.2	19.0	18.0
RoA (%)	1.2	1.3	1.3	1.2
Dividend per share (Rs)	16.9	22.0	26.0	26.0
EPS (Rs)	**87.9**	**105.7**	**126.9**	**138.9**
Adjusted BVPS (Rs)	**481.6**	**607.6**	**706.4**	**814.1**
P/E (x)	**9.2**	**7.6**	**6.4**	**5.8**
P/ABV (x)	1.7	1.3	1.1	1.0

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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SUZLON ENERGY LTD

PRICE: RS.53 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.52 **FY11E P/E: 17.5X**

- **Suzlon Energy reported Q4FY11 nos. above our estimates; reduction in other expenditure and stable employee cost resulted in YoY EBITDA growth of 91%.**
- **Margins improved on back of 1) reduction in overheads mainly other income and 2) increase in volumes driving EBITDA as company has higher operating leverage.**
- **Emerging wind markets viz. Brazil, India and China remains on the growth track. Success on international order intake (mainly US) remained elusive.**
- **Company anticipates significant increase in competition among wind turbine players in domestic as well as international markets. However it expects to maintain market share and post meaningful growth in revenues in FY12E.**
- **Prevailing under capacity in the renewable energy space in India with changing regulatory guidelines could lead to meaningful capacity addition in India between FY11-FY15.**
- **Company's order book currently stands at 2231 MW (ex-RE Power) vis-à-vis break even levels of 1900 MW. Company has restructured the entire debt of USD 2.1 bn in FY11. However we continue to remain cautious on the high net debt levels and interest outflow of the company.**
- **We maintain 'REDUCE' rating on company's sock with one year forward revised target price of Rs 52 (Rs 51 earlier).**

Summary table

(Rs mn)	FY10	FY11	FY12E
Sales	207792	180902	244563
Growth (%)	(20.3)	(12.9)	35.2
EBITDA	9431	8081	21827
EBITDA margin (%)	4.5	4.5	8.9
PBT	(8455)	(8783)	5858
Net profit	(11945)	(10591)	4686
EPS (Rs)	(7.7)	(6.8)	3.0
Growth (%)	-	-	-
CEPS (Rs)	(2.1)	(2.8)	6.2
BV (Rs/share)	40.3	33.3	35.1
Dividend/share (Rs)	0.0	0.0	1.0
ROE (%)	(15.8)	(17.5)	8.3
ROCE (%)	1.2	0.8	9.6
Net cash (debt)	(98369)	(100369)	(104336)
NW Capital (Days)	86	55	47
EV/Sales (x)	0.9	1.0	0.7
EV/EBITDA (x)	19.1	-	8.3
P/E (x)	-6.9	-7.8	17.5
P/Cash Earnings	-25.7	-18.7	8.5
P/BV (x)	1.3	1.6	1.5

Source: Company, Kotak Securities - Private Client Research

Consolidated Financials

(Rs mn)	Q4FY11	Q4FY10	YoY%	Q3FY11	QoQ%
Income from operations	72,760	60,836	19.6	44,330	64.1
other operating income	961	806	19.2	610	57.5
Total income	**73,721**	**61,642**	**19.6**	**44,940**	**64.0**
other income	295	104	184.7	340	
Raw materials	51,096	38,219	33.7	29,220	74.9
Forex loss	(2,204)	1,099			
Employees Cost	4,563	4,226	8.0	4,140	10.2
Other expenditure	10,028	12,752		8,040	24.7
Total Expenditure	63,482	56,294	12.8	41,400	53.3
EBITDA	**10,239**	**5,349**	**91.4**	**3,540**	**189.2**
Depreciation	2,512	1,451	73.1	1,420	76.9
Interest	3,126	3,002	4.1	2,950	6.0
Profit after int but before exp items	4,897	1,000	389.7	(490)	
Forex loss on convertible bonds		(67)		1720	
Profit on sale of stake subsidiary		(67)			
Total exceptional items	0	(133)		1720	
Profit from ordinary activities before tax	4,897	1,133	332.2	(2,210)	
Tax expense	413	2,953		310	
Net profit	**4,484**	**(1,820)**		**(2,520)**	
Add: Share in associate after tax	(86)			(30)	
Add: Minority share in losses	(82)	-40			
Net profit after minority interest	**4,316**	**(1,860)**		**(2,550)**	
EPS (Rs)	**2.2**	**(1.2)**		**(0.6)**	
EBITDA (%)	13.9	8.7		7.9	
RM/Sales	69.3	62.0		65.0	

Source: Company

Wind Business

	Q4FY11	Q4FY10	YoY (%)	Q3FY11	QoQ (%)
Volumes MW	492	650	(24.3)	461	6.7
Net Sales	**30,370**	**41,500**	**(26.8)**	**25,090**	**21.0**
Other operating income	230	290	(20.7)	90	155.6
Raw material costs	19,530	25,480	(23.4)	16,050	21.7
Staff costs	2,570	2,380	8.0	2,190	17.4
Other exp	6,150	10,130	(39.3)	5,120	20.1
Forex loss/(Gain)	(2,350)			470	(600.0)
Total Expenditure	25,900	37,990	(31.8)	23,830	8.7
PBIDT	**4,700**	**3,800**	**23.7**	**1,350**	**248.1**
Depreciation	1,070	1,060	0.9	880	21.6
Other income	220	0		150	46.7
EBIT	3,850	2,740	40.5	620	521.0
Interest	2,310	2,330	(0.9)	2,120	9.0
PBT	**1,540**	**410**	**275.6**	**(1,500)**	**(202.7)**
Tax	(600)	2,850		(140)	328.6
Net Profit	**2,140**	**-2,440**		**(1,360)**	**(257.4)**
Realisation Rs mn/MW	62	64	(3.3)	54	13.4
EBITDA/MW	9.6	5.8		2.9	
Raw material cost to sales (%)	64.3	61.4		64.0	
Other exp to sales (%)	20.3	24.4		20.4	
Staff costs to sales (%)	8.5	5.7		8.7	
EBITDA %	15.5	9.2		5.4	
Tax rate %	(39.0)	695.1		9.3	

Source: Company

Result Highlights

- Suzlon reported consolidated revenue growth of 20% YoY at Rs 72.7 bn in Q4FY11. On sequential basis, volumes have grown by 6.7% at 491 MW.
- Company reported consolidated EBITDA margin of 13.9% for the quarter. We believe that ongoing cost rationalizing drive and operating leverage is likely to curtail inching up in input prices as well as other overheads going ahead.
- Forex gain of Rs 2.2 bn against loss of Rs 1.1 bn in Q4FY10 have also contributed to the EBITDA margins.
- Realizations improved sequentially to Rs 62 mn/MW as compared to Rs 57 mn/MW in Q3FY11.
- Employee expense has stabilized at Rs 4.5 bn in the quarter against. We believe that this has been a result of company's continuous effort to avoid duplication of resources by streamlining the operations between REpower and Suzlon.
- EBITDA margins for the wind business improved to 15.5% vis-à-vis 9.2% in Q4FY10.despite higher material and fixed costs. This is mainly driven by the higher operating leverage and reduction in other expenses.
- Company has highlighted increasing competition in the industry mainly from international players including Chinese manufacturers. However management has given sanguine outlook for getting orders in FY12.
- Consolidated Interest cost for the quarter stood at Rs 3.2 bn vis-à-vis Rs 3 bn last year. Interest costs have been largely contained over the past three quarters due to the company's ongoing efforts on debt restructuring. However in Q4 it increased sequentially due to increase in interest rates globally.

- We remain concerned about current uptrend in interest rate cycle which is likely to have significant risk to free cash flow generation for the company.
- At the end of the quarter, company reported cash figure of Rs 31 bn vis-à-vis 27 bn in Q4FY10. Net Working Capital stood at Rs 38 bn as compared to Rs 45 bn at the end of Q4FY10. Net D/E at the end of the quarter is reduced to 1.36 post rights issue vis-à-vis 1.97 last year.
- REpower's reported meaningful revenue growth at Rs 42 bn vis-à-vis Rs 19.2 bn last year. Management expects improvement in REpower's margins going ahead.
- Company has acquired 95% stake in REpower in Q4. It has initiated the process of squeezing out of minority shareholders in the later. It has raised USD 175 mn through FCCB for the funding of the same.
- Company has observed muted domestic order flows in the quarter at 116 MW. However, it expects meaningful traction from the Indian wind market.
- Management has given positive outlook for emerging economies. While Europe has given some signs of recovery, US remained lackluster.

Order backlog grew significantly in the domestic market; international order off take still a concern

- Company's current order book stands close to 2231MW offering 18-20 months of revenue visibility. The current order book includes 877 MW of international orders and highest ever domestic order backlog of 1353MW. Average realization of the order book stands at Rs 56.7 mn/MW.
- We opine that the current order book is still inadequate vis-à-vis capital goods peers including BHEL and L&T, which boast of revenue visibility of 30-45 months.
- Company continues to expect meaningful demand in the domestic business driven by increasing emphasis on green power generation by the regulator. The central power regulator has made it mandatory for all power utilities to purchase 6% green power of the total installed capacity in a year.
- Company has bagged several orders in the domestic market in last few quarters. Successful implementation of REC's (Renewable energy certificate) trading and GBI (generation based incentive) has given the thrust to the domestic demand.

Demand in US and Europe still looks elusive; emerging markets offers momentum

- Overseas business remains challenging mainly due to the prevailing economic crisis in the US region. While the offshore market in Europe has shown some signs of resilience, onshore market has failed to gain traction.
- China is likely to grow on back of recently amended RE laws that targets to generate 15% of electricity from renewable source by the year 2020.
- Brazil has also passed a legislation to reduce carbon emissions substantially by increasing emphasis on green energy. It is expected to add 3GW of capacity by FY13.

Financials

- In recent quarters, the stock has been sensitive to corporate developments focused mainly on debt restructuring measures and balance sheet repair. This has made the stock movement highly volatile and speculative in nature.
- Going forward, the company needs to maintain momentum in terms of order accretion in absence of which we expect that the stock could continue to remain range bound.
- In our projections we build 25% CAGR in domestic wind business over FY10-12E. We expect that the company is likely to benefit from its higher operating leverage. However we opine that liquidity related concerns regarding debt repayments would make it vulnerable in current rising interest rate scenario.
- We expect that the company is likely to continue reducing cost overheads at the consolidated levels mainly by integrating work force at Suzlon and RE Power.
- At consolidated level, we expect that company would post recovery in FY12E driven by higher operating leverage and reduction in cost overheads. We build volume growth of 25% in FY12E and EBITDA margin (consolidated) of 8.9% for FY12E.

Stock outlook and Recommendation

- At current price of Rs 52.5 stock is trading at 17.5x PE and 8.3x EV/EBITDA on FY12E earnings..

We maintain REDUCE on Suzlon Energy with a revised price target of Rs.52

- Current order book position of the company is still far below its peak level of 3400 MW in FY08. We believe that company would under perform the broader market due to high debt levels and insufficient estimated free cash flow generation over next two years.
- We maintain **REDUCE** rating on the stock with a SOTP based one year price target of Rs 52 (Rs 51 earlier).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
16-May	Ankit Metal	Hari Shankar Tibrewala	B	200,000	26.0
16-May	Ankit Metal	Rishabh Stocks Pvt Ltd	S	200,000	26.0
16-May	Arunjyoti Ent	M K Marketing	B	27,274	43.5
16-May	Arunjyoti Ent	Venkata Ravi Kumar Pabbathi	S	26,285	43.5
16-May	Asahi Infra	Indravarun Trade Impex Pvt Ltd	B	249,154	10.9
16-May	Control Print-$	Shailesh Harish Chandak	B	51,000	38.3
16-May	Control Print-$	Harish Bhagirath Chandak	S	50,350	38.3
16-May	CSS Technergy	Dipak Kanayalal Shah	S	44,403	29.3
16-May	Empee Sugars	Clarus Finance And Securities Ltd	B	375,000	33.6
16-May	Foundry Fuel	Pradeep Kumar Kajaria	B	54,250	11.3
16-May	IFL Promoters	Nilesh Kumar Lahoti	S	58,051	6.4
16-May	Kailash Ficom	Varun D Shah	B	200,000	30.6
16-May	Kailash Ficom	Mandvi Dyes And Chemicals Pvt	S	149,518	30.6
16-May	Kailash Ficom	Pareen Nemichand Sanghvi	S	65,126	30.6
16-May	Krishna Deep	Samradha Finstock Pvt Ltd	B	30,000	96.1
16-May	Krishna Deep	Vinaykumar Family Investments Ltd	B	71,850	96.1
16-May	Krishna Deep	Shiv Sharma	S	100,000	96.1
16-May	Mahaveer Info	Ashish V Karia	B	35,000	27.2
16-May	Mahaveer Info	Punit Popat	S	31,000	27.3
16-May	Man Inds-$	Man Steel And Power Ltd	B	403,204	110.0
16-May	Man Inds-$	Reliance Equity Long Term Plan	S	400,000	110.0
16-May	Marg	Leverage Capital Pvt Ltd	B	510,000	98.0
16-May	Marg	Frontpoint Fin Serv Fund Lp A/C Frontpoint Fin. Horizons Fund Lp	S	504,252	97.6
16-May	Polypro Fibrils	Anila Ravindra Shah	B	47,000	12.4
16-May	Polypro Fibrils	Priti Jayesh Shah	S	47,000	12.4
16-May	RT Exports-$	Peninsula Gateways Pvt Ltd	B	50,125	18.0
16-May	RT Exports-$	Kirtikumar Somnath Pandya	S	50,125	18.0
16-May	Shekhawati	Jhaveri Trading & Investment Pvt Ltd	B	165,576	34.6
16-May	Tele Techno	Delight Financial Advisor Pvt Ltd	B	10,049,395	0.4
16-May	Vaghani Tech	B Shahi Trade Pvt Ltd	B	30,000	15.7
16-May	Vaghani Tech	Romi Shailesh Daxini	S	30,502	15.6
16-May	Havells India	Saif Iii Mauritius Company Ltd	S	1,607,235	387.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Hero Honda Motors	1,863	3.6	2.1	0.9
Sun Pharma	440	3.1	1.6	1.2
Ranbaxy Labs	518	5.7	1.4	3.6
Losers				
ICICI Bank	1,058	(1.4)	(5.9)	1.9
ITC Ltd	186	(1.5)	(5.1)	7.7
HDFC	634	(1.7)	(4.6)	2.5

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
17-May	Bajaj Financial Services, Opto Circuits, SBI, TIL Ltd, WPIL earnings expected
18-May	Bajaj Auto, Lloyds Metal, Orchid Chem earnings expected

Source: Bloomberg

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