## Economy News

- Finance Minister P Chidambaram has asked the Reserve Bank of India (RBI) to start working towards issuing the final guidelines for new banking licences and receiving applications from interested entities. The development comes even as the central bank insists on amending the Banking Regulation Act before such a move. (BS)
- Bucking the global trend, gold demand in India increased nine per cent in the September quarter to 223 tonnes (205 tonnes). In value term it was up 27 per cent to Rs 653. 7 bn, largely due to the rupee depreciation against the dollar, according to the World Gold Council (WGC) data released on Thursday. (BL)
- Public sector oil marketing companies (OMCs) announced about Re 1/litre cut in petrol prices at the retail end effective tonight. "It has been decided to revise petrol prices downward by 95 paise a litre (excluding State levies) with effect from November 16," an Indian Oil Corporation (IndianOil) statement said. (BL)
- The government has decided to offer discount on coal blocks' prices being offered to power companies in the auction set to begin in a few months, coal secretary S K Srivastava said. The coal ministry is, however, yet to decide the rate at which discount will be offered and is holding consultations with state governments that will get the entire auction money. Srivastava said the decision has been taken to ensure low electricity tariffs and all stakeholders including state governments have agreed to it. (ET)

## Corporate News

- **GMR Infrastructure's** operations in the power sector have been facing several challenges, said GMR's Group Chief Financial Officer A. Subba Rao. Addressing a post-quarterly results conference, Rao said: "The infrastructure sector, and particularly the power sector, is going through the toughest of times now. I have never seen such a situation in the sector in the last 13 years." (BL)
- Upstream oil regulator Directorate General of Hydrocarbons (DGH) has given nod to **Reliance Industries** to drill a well as part of the $1.529 billion plan to develop four satellite gas fields around the now flagging main fields in the eastern offshore KG-D6 block. The DGH on November 2 wrote to the joint secretary (exploration) in the ministry of petroleum and natural gas that one development well KG-D6-G2 in the Dhirubhai-19 or D-19 field may be agreed. D-19 is one of the four satellite gas field whose optimised field development plan (OFDP) was approved in January this year, the DGH wrote. (TOI)
- **Tata Motors'** global vehicle sales, including that of subsidiary Jaguar Land Rover, rose 6 per cent in October from a year earlier. The company sold a total of 1,00,660 units to dealers (wholesales) during the month. The cumulative wholesales (April to October) for the fiscal rose 7 per cent to 6,79,051 units from the corresponding period in 2011-12, Tata Motors said in a statement. (ET)
- **Sintex Industries** today said it plans to raise up to $150 million (over Rs 8.2 bn) through issue of convertible bonds from overseas markets. "The company's board at its meeting held earlier today launched an issue of up to $150 million step down foreign currency convertible bonds (FCCBs) due 2017," Sintex said in a filing to the BSE. (ET)

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

### Equity

| | 15 Nov 12 | % Chg 1 Day | % Chg 1 Mth | % Chg 3 Mths |
|---|---|---|---|---|
| **Indian Indices** | | | | |
| SENSEX Index | 18,471 | (0.8) | (0.6) | 4.6 |
| NIFTY Index | 5,631 | (0.6) | (0.3) | 5.0 |
| BANKEX Index | 13,233 | (0.2) | 1.6 | 10.5 |
| BSET Index | 5,645 | (1.8) | (0.6) | 1.7 |
| BSETCG INDEX | 10,791 | (0.2) | (1.7) | 6.5 |
| BSEOIL INDEX | 8,132 | (0.7) | (4.6) | (4.6) |
| CNXMcap Index | 7,940 | (0.3) | 0.2 | 8.9 |
| BSESMCAP INDEX | 7,192 | 0.3 | 1.2 | 9.3 |
| **World Indices** | | | | |
| Dow Jones | 12,542 | (0.2) | (7.4) | (5.3) |
| Nasdaq | 2,837 | (0.3) | (8.5) | (7.4) |
| FTSE | 5,678 | (0.8) | (3.3) | (2.7) |
| NIKKEI | 8,830 | 1.9 | 3.3 | (1.2) |
| HANGSENG | 21,109 | (1.6) | (0.2) | 6.0 |

### Value traded (Rs cr)

| | 15 Nov 12 | % Chg - Day |
|---|---|---|
| Cash BSE | 2,483 | 163.3 |
| Cash NSE | 13,234 | 348.5 |
| Derivatives | 113,527 | 326.87 |

### Net inflows (Rs cr)

| | 12 Nov 12 | % Chg | MTD | YTD |
|---|---|---|---|---|
| FII | 292 | (1,351.1) | 3,165 | 97,217 |
| Mutual Fund | 3 | (101.4) | (601) | (15,103) |

### FII open interest (Rs cr)

| | 12 Nov 12 | % Chg |
|---|---|---|
| FII Index Futures | 9,166 | (14.9) |
| FII Index Options | 52,458 | (0.1) |
| FII Stock Futures | 29,878 | 0.6 |
| FII Stock Options | 2,566 | 0.2 |

### Advances / Declines (BSE)

| 15 Nov 12 | A | B | T | Total | % total |
|---|---|---|---|---|---|
| Advances | 72 | 823 | 297 | 1,192 | 41 |
| Declines | 127 | 1,215 | 275 | 1,617 | 56 |
| Unchanged | 3 | 63 | 29 | 95 | 3 |

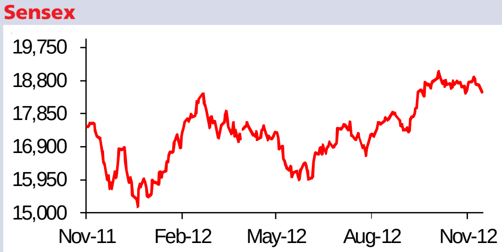
### Commodity

| | 15 Nov 12 | % Chg 1 Day | % Chg 1 Mth | % Chg 3 Mths |
|---|---|---|---|---|
| Crude (NYMEX) (US$/BBL) | 85.5 | 0.0 | (7.2) | (10.6) |
| Gold (US$/OZ) | 1,712.9 | (1.0) | (1.8) | 6.0 |
| Silver (US$/OZ) | 32.5 | (0.7) | (1.2) | 15.4 |

### Debt / forex market

| | 15 Nov 12 | 1 Day | 1 Mth | 3 Mths |
|---|---|---|---|---|
| 10 yr G-Sec yield % | 8.3 | N/A | 8.3 | N/A |
| Re/US$ | 54.8 | 54.9 | 53.0 | 55.7 |

### Sensex



RESULT UPDATE

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# JAIPRAKASH ASSOCIATES LTD

**PRICE: RS.91** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.98** **FY14E P/E: 24.8x**

- **Revenues of the company in Q2FY13 came in line with our estimates, led by better than expected revenues from the construction and real estate divisions. Company has demerged the south and west cement plants and transferred it to Jaypee Cement Corporation Ltd; so correspondingly it has restated financials of Q2FY12.**
- **Operating margins in Q2FY13 stood strong at 26.5% and primarily led by strong margins in construction and real estate division.**
- **Net profit for the quarter was slightly ahead of our estimates led by better than expected operating margins.**
- **At current price of Rs 91, stock is trading at 27.7x and 24.8x earnings and 12.0x and 11.9x EV/EBITDA on FY13 and FY14 estimates respectively. We maintain our FY13 estimates and also introduce FY14 estimates. We had upgraded the stock to BUY in our last recommendation at Rs 68. Owing to limited upside from the current levels, we now downgrade the stock to ACCUMULATE with a revised price target of Rs 98 on FY14 estimates (Rs 87 earlier).**

**Summary table**

| (Rs mn) | FY12 | FY13E | FY14E |
|---|---|---|---|
| Sales | 127,429 | 136,636 | 143,112 |
| Growth (%) | -2 | 7 | 5 |
| EBITDA | 33,294 | 33,400 | 34,142 |
| EBITDA margin (%) | 26.1 | 24.4 | 23.9 |
| PBT | 13,143 | 10,566 | 11,813 |
| Adj net profit | 10,264 | 6,974 | 7,797 |
| EPS (Rs) | 4.8 | 3.3 | 3.7 |
| Growth (%) | 57.4 | (32.1) | 11.8 |
| CEPS (Rs) | 7.7 | 6.6 | 7.3 |
| BV per share (Rs) | 57.9 | 60.6 | 63.6 |
| Dividend / share (Rs) | 0.5 | 0.5 | 0.5 |
| ROE (%) | 9.5 | 5.5 | 5.9 |
| ROCE (%) | 9.6 | 8.6 | 8.4 |
| Net cash /(debt) | (200,165) | (208,666) | (213,033) |
| NW capital (days) | 142.2 | 165.0 | 155.0 |
| P/E (x) | 18.9 | 27.7 | 24.8 |
| EV/EBITDA (x) | 11.8 | 12.0 | 11.9 |
| EV/Sales (x) | 3.1 | 2.9 | 2.8 |
| P/BV (x) | 1.6 | 1.5 | 1.4 |

*Source: Company, Kotak Securities - Private Client Research*

**Holding- Dipen Shah-150 shares**

**Financial highlights**

| (Rs mn) | Q2FY13 | Q2FY12(Restated) | YoY (%) |
|---|---|---|---|
| **Net sales** | **29,825** | **28,672** | **4** |
| Expenditure | 21,915 | 21,125 | 4 |
| **EBITDA** | **7,911** | **7,547** | **5** |
| EBITDA margin (%) | 26.5 | 26.3 | |
| Depreciation | 1,778 | 1,441 | |
| **EBIT** | **6,133** | **6,107** | **0** |
| Interest | 4,644 | 3,766 | |
| EBT(exc other income) | 1,490 | 2,340 | |
| Other income | 448 | 1,148 | |
| Prior period adjustment | 33 | -3 | |
| **EBT** | **1,970** | **3,484** | **-43** |
| Tax | 690 | 997 | |
| Tax (%) | 35.0% | 28.6% | |
| **Profit after tax** | **1,280** | **2,487** | **-49** |
| Core business PAT | 1,280 | 2,487 | -49 |
| Equity capital | 4,252.9 | 4,252.9 | |
| Core EPS | 0.6 | 1.2 | |

*Source: Company*

## Revenues in line with our estimates

- Revenues of the company in Q2FY13 came in line with our estimates, led by better than expected revenues from the construction and real estate divisions. Company has demerged the south and west cement plants and transferred it to Jaypee Cement Corporation Ltd so correspondingly it has restated financials of Q2FY12. Thus on restated financials, revenues reported a growth of 4%.

- **Cement division performance:** Cement volumes for Q2FY13 stood flat at 3.2MT which was same as restated volumes of 3.2MT for Q2FY12. Sequentially volumes are impacted by monsoons and are expected to grow going forward. Cement realizations stand at Rs 4287 per tonne as against Rs 3490 per tonne in Q2FY12. Increase in realizations is on account of improvement in cement prices witnessed during Q1FY13 and Q2FY13. Company plans to commission another 2.75MT in North India by Q3FY13, thereby taking its total capacity to nearly 35.6 MT. Post demerger of cement assets, cement capacity in standalone company would be 25MT approximately. We maintain our cement volumes estimates and expect it to be 17 MT and 18 MT for FY13 and FY14 respectively.
- **Construction division performance:** Construction division revenues during Q2FY13 were better than our estimates led by execution of power projects as well as Noida land parcel. Construction revenue growth from now on would be led mainly by execution of Bina, Nigrei and Bara thermal power project and execution of hydro-electric project related work in Bhutan. First phase of Bina thermal power project has already commissioned and we expect second phase of Bina thermal power project to commission by Q3FY13 and Nigrei Thermal power plant to commission by H1FY14. We expect construction division revenues to remain largely flattish at Rs 55 bn for FY13 and decline to Rs 51 bn for FY14.
- Real estate division revenues grew by 33% YoY for Q2FY13 due to increased revenue booking from its projects which is ramping up now in line with our expectations. Company has sold nearly 0.5 mn sq ft during Q2FY13. Company has also commissioned Yamuna Expressway during Q2FY13.
- We maintain our estimates and expect revenues to grow at a CAGR of 6% between FY12-FY14.

## Operating margins better than our estimates

- Operating margins in Q2FY13 stood strong at 26.5% and primarily led by strong margins in construction and real estate division.
- EBIT margins in cement division stood at 9.7% translating into EBITDA margin of 14.2% for Q2FY13. Cement EBITDA per tonne declined sequentially and stood at Rs 610 per tonne as against Rs 800 per tonne in Q1FY13. Margins remained under pressure due to sharp increase in overall cost of manufacturing cement. Construction division EBIT margins stood at 34.1% and EBITDA margins stood at 35.4% for Q2FY13. But on a full year basis, we expect construction margins to be around 18% going forward.
- We maintain our estimates and expect operating margins of 24.4% and 23.9% for FY13 and FY14 respectively.

## Net profit growth led by strong margins

- Net profit for the quarter was slightly ahead of our estimates led by better than expected operating margins.
- During the quarter, company fully redeemed outstanding FCCB's worth $354 mn and paid nearly Rs 19.3 bn towards principal amount and Rs 9.2 bn as premium payable on redemption of these bonds. It also raised FCCB worth $150 mn during Sep, 2012 with a coupon rate of 5.75% and a conversion price of Rs 77.5 per share.
- We maintain our FY13 estimates and also introduce FY14 estimates and expect net profits of Rs 6.97 bn and Rs 7.8 bn for Fy13 and FY14 respectively.

## Valuation and recommendation

- At current price of Rs 91, stock is trading at 27.7x and 24.8x earnings and 12.0x and 11.9x EV/EBITDA on FY13 and FY14 estimates respectively.
- We maintain our FY13 estimates and also introduce FY14 estimates. We had upgraded the stock to BUY in our last recommendation at Rs 68. Owing to limited upside from the current levels, we now downgrade the stock to ACCUMULATE and would look for dips in the stock to buy with a long term view.

**We recommend ACCUMULATE on Jaiprakash Associates with a price target of Rs.98**

- We recommend **ACCUMULATE** with a revised price target of Rs 98 on FY14 estimates (Rs 87 earlier).

### Sum of the parts valuation

| SOTP | FY14 | Price per share | Rationale |
|---|---|---|---|
| **Core business** | | | |
| Construction | 54,728 | 26 | At 6x EV/EBITDA |
| Cement | 175,500 | 83 | At $130/tonne for cement, inline with peers |
| Jaypee greens | 9,757 | 5 | NPV of land bank |
| Hotels | 2,213 | 1 | 6x EV/EBITDA at a discount to peers |
| Less net debt (FY14) | 213,033 | 100 | |
| Core business valuation | 29,166 | 14 | |
| JCCL valuation | 42,540 | 20 | At $125/tonne for cement, inline with peers |
| | | | |
| JPVL valuation | 60,172 | 28 | At 10% discount to the market price |
| Karwam Wangtoo valuation (44% stake) | 12,508 | 6 | |
| Power assets valuation | | 34 | |
| Real estate valuation | 48,857 | 23 | At 10% discount to the market price |
| Treasury share | 15,614 | 7 | At 10% discount to the market price |
| **Total** | **93,637** | **98** | |

*Source: Kotak Securities - Private Client Research*

RESULT UPDATE

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# SIMPLEX INFRASTRUCTURES

**PRICE: RS.196** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.181** **FY14E P/E: 9.2x**

**Result Highlights: Results were lower than our expectations with revenue growth impacted by general slowdown in order inflow as well as execution. Lower than expected margins and continued high interest outgo impacted net profits adversely. We revise our rating to REDUCE on the stock due to lack of revival in order inflows and slowdown witnessed in execution and would advise investors to look into declines in the stock to buy.**

- Revenues for Q2FY13 grew by 6% YoY, lower than our estimates impacted by liquidity issues with clients as well as lower execution during monsoons.
- Operating margins stood at 8.4%, lower than our expectations due to high overhead costs and lower execution.
- Net profit was impacted by steep increase in depreciation and interest outgo and declined by 39% YoY. Net profits were also boosted by higher other income during the quarter.
- At current price of Rs 196, stock is trading at 9.2x earnings and 5.1x EV/EBITDA on FY14 estimates. Lower than expected order inflows can impact the execution in FY14 for the company. We thus downgrade the stock to REDUCE from ACCUMULATE earlier with a revised price target of Rs 181 (Rs 219 earlier) on FY14 estimates since we believe that current valuations are already factoring in decent growth in revenues as well as order inflows going forward.

**Summary table**

| (Rs mn) | FY12E | FY13E | FY14E |
|---|---|---|---|
| Sales | 58,706 | 64,344 | 70,778 |
| Growth (%) | 23 | 10 | 10 |
| EBITDA | 5,007 | 5,469 | 6,016 |
| EBITDA margin (%) | 8.5 | 8.5 | 8.5 |
| PBT | 1,333 | 1,211 | 1,578 |
| Net profit | 892 | 812 | 1,057 |
| EPS (Rs) | 18.0 | 16.3 | 21.3 |
| Growth (%) | -28 | -9 | 30 |
| CEPS (Rs) | 54.9 | 56.2 | 61.5 |
| BV (Rs/share) | 232.8 | 246.8 | 265.9 |
| Dividend / share (Rs) | 2.0 | 2.0 | 2.0 |
| ROE (%) | 8.0 | 6.8 | 8.3 |
| ROCE (%) | 12.3 | 12.0 | 12.8 |
| Net cash (debt) | (19,184) | (20,367) | (22,452) |
| NW Capital (Days) | 127.0 | 127.0 | 131.6 |
| P/E (x) | 10.9 | 12.0 | 9.2 |
| P/BV (x) | 0.8 | 0.8 | 0.7 |
| EV/Sales (x) | 0.5 | 0.4 | 0.4 |
| EV/EBITDA (x) | 5.6 | 5.3 | 5.1 |

*Source: Company, Kotak Securities - Private Client Research*

**Financial highlights**

| (Rs mn) | Q2FY13 | Q2FY12 | YoY (%) |
|---|---|---|---|
| **Net Sales** | **13,965** | **13,211** | **6** |
| Expenditure | 12,793 | 12,030 | |
| **EBITDA** | **1,172** | **1,181** | **-1** |
| EBITDA margin (%) | 8.4 | 8.9 | |
| Depreciation | 495 | 442 | |
| **EBIT** | **676** | **740** | **-9** |
| Interest | 693 | 512 | |
| EBT(exc other income) | (16) | 228 | -107 |
| Other Income | 182 | 31 | |
| **EBT** | **166** | **259** | **-36** |
| Extraordinary items | - | - | |
| Tax | 56 | 80 | |
| Tax (%) | 33.8 | 30.9 | |
| **Net profit** | **110** | **179** | **-39** |
| NPM (%) | 0.8% | 1.4% | |
| Equity Capital | 99 | 99 | |
| **EPS (Rs)** | **2.2** | **3.6** | **-39** |

*Source: Company*

## Revenue growth impacted by issues from client side as well as monsoons

- Revenues for Q2FY13 grew by 6% YoY, lower than our estimates impacted by liquidity issues with clients as well as lower execution during monsoons. Company has mentioned that nearly 20% of the order book comprises of slow moving orders mainly from the residential building side which has also contributed to slower than expected execution.

- Current order book of company stands at Rs 152 bn diversified across buildings and housing (26%), bridges (4%), industrial (9%), marine (1%), piling (3%), power (25%), railways (2%), roads (22%), and urban infrastructure (9%). Domestic orders form nearly 92% of the order book while remaining is from overseas. Order inflow during Q2FY13 stood at nearly Rs 11.8 bn while Simplex has current L1 position of Rs 14.8 bn worth of projects. Order inflow during H1FY13 was diversified across building and housing, industrial, marine, piling, power, urban infra and roads segment. Road contributed major proportion of order inflow.
- Revenues during H1FY13 were diversified across buildings and housing (18%), bridges (13%), industrial (11%), marine (1%), piling (8%), power (30%), railways (2%), roads (6%) and urban infrastructure (11%). Revenues from domestic segment stood nearly 86% of the total revenues while 14% is being contributed by overseas.
- During Q1FY13, Simplex Infrastructure had also entered into joint-venture with Gammon Infrastructure projects Ltd for two projects - Vijaywada to Gundugolanu for 6 laning under NHDP Phase 5 and Mahulia to Kharagpur for four laning under NHDP Phase 3. Financial closure for both these projects is already done and Simplex Infrastructure would have 51% stake in Mahulia-Kharagpur project and 49% stake in Vijaywada-Gundugolanu project. It would also be carrying out major proportion of EPC for these two projects which together would be around Rs 20 bn.
- Company has maintained its revenue growth guidance of 10-15% for the current fiscal. We also maintain our estimates and expect revenues to grow at a CAGR of 10% between FY12-14.

## Operating margins impacted by lower execution

- Operating margins stood at 8.4%, lower than our expectations due to high overhead costs and lower execution.
- We revise our margin estimates downwards and expect margins of 8.5% going forward.

## Net profits boosted by higher other income

- Net profit was impacted by steep increase in depreciation and interest outgo and declined by 39% YoY.
- However, profits were also boosted by higher other income during the quarter. Simplex Infrastructure has sold its investment in Joy Mining Services India Pvt Ltd which it had acquired during May, 2012 and has realized a profit of Rs 54 mn which has been included in other income.
- We tweak our estimates and expect net profits of Rs 811 mn and Rs 1057 mn for FY13 and FY14 respectively.

## Valuation and recommendation

- At current price of Rs 196, stock is trading at 9.2x earnings and 5.1x EV/EBITDA on FY14 estimates.

**We recommend REDUCE on Simplex Infrastructures with a price target of Rs.181**

- Lower than expected order inflows can impact the execution in FY14 for the company. We thus downgrade the stock to **REDUCE** from ACCUMULATE earlier with a revised price target of Rs 181 (Rs 219 earlier) on FY14 estimates since we believe that current valuations are already factoring in decent growth in revenues as well as order inflows going forward.
- Key risk to our estimates would come from better than expected order inflows and sharp ramp up in execution for the company.

RESULT UPDATE

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# ALSTOM T&D INDIA LTD

**PRICE: RS.203** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.187** **FY14E P/E: 29.8x**

**Profits missed our expectations by a wide mark. The company clarified that revenues have slowed down as clients especially private utilities are facing issues like land acquisition and cash crunch. The company is responding by controlling its despatches to such projects lest having cash stuck in slow-moving projects. While order intake has been healthy, the business outlook is yet to improve materially. Pricing continues to be under pressure. We maintain Reduce on the stock.**

**The company had announced an open offer for the balance 26% public share outstanding at a price of Rs 187. Due to certain technicalities, the tendering date has been postponed. Due to the ongoing open offer proceedings, the stock may remain range-bound and move depending upon the announcements related to the open offer.**

**Summary table**

| (Rs mn) | FY12 | FY13E | FY14E |
|---|---|---|---|
| Sales | 41510 | 31672 | 38113 |
| Growth (%) | 3.3 | -23.7 | 20.3 |
| EBITDA | 3897 | 3147 | 3888 |
| EBITDA margin (%) | 9.4 | 9.9 | 10.2 |
| PBT | 2,376 | 1,640 | 2,465 |
| Net profit | 1436 | 1141 | 1627 |
| EPS (Rs) | 6.0 | 4.8 | 6.8 |
| Growth (%) | -17.0 | -20.5 | 42.6 |
| CEPS (Rs) | 11.0 | 8.4 | 10.6 |
| Book value (Rs/share) | 34.7 | 37.3 | 42.0 |
| Dividend per share (Rs) | 1.8 | 1.8 | 1.8 |
| ROE (%) | 15.3 | 12.6 | 16.3 |
| ROCE (%) | 17.0 | 15.3 | 19.1 |
| Net cash (debt) | -5605.6 | -7145.0 | -5541.9 |
| NW Capital (Days) | 67.6 | 113.0 | 92.2 |
| EV/Sales (x) | 1.3 | 1.8 | 1.4 |
| EV/EBITDA (x) | 13.9 | 17.7 | 13.9 |
| P/E (x) | 33.8 | 42.5 | 29.8 |
| P/Cash Earnings | 18.4 | 24.2 | 19.2 |
| P/BV (x) | 5.9 | 5.4 | 4.8 |

*Source: Company, Kotak Securities - Private Client Research*

**Financial performance**

| (Rs mn) | Q2FY12 | Q3CY11 | YoY (%) |
|---|---|---|---|
| **Net Sales** | **6,780** | **7,401** | **(8)** |
| Other operating income | 50 | 77 | (35) |
| Total Income | 6,780 | 7,401 | (8) |
| Raw Material costs | 4,370 | 4,895 | (11) |
| Staff costs | 796 | 599 | 33 |
| Other exp | 1,066 | 1,098 | (3) |
| Total Expenditure | 6,233 | 6,593 | (5) |
| **EBITDA** | **597** | **886** | **(33)** |
| Depreciation | 197 | 184 | 7 |
| **EBIT** | **400** | **702** | **(43)** |
| Interest | 217 | 116 | 87 |
| **PBT** | **183** | **586** | **(69)** |
| Tax | 21 | 188 | (89) |
| **Adj Profit After Tax** | **163** | **398** | **(59)** |
| Extra-ordinary Items | (143) | - | |
| **Reported PAT** | **(20)** | **398** | |
| EBITDA (%) | 8.8 | 12.0 | |
| Raw material cost to sales (%) | 64.5 | 66.1 | |
| Staff cost to sales (%) | 11.7 | 8.1 | |
| Other expenditure to sales (%) | 15.7 | 14.8 | |
| Tax rate (%) | 11.2 | 32.1 | |
| **EPS (Rs)** | **(0.1)** | **1.7** | |

*Source:*

## Revenue contracted by 7% yoy

The management attributed the decline in revenue to

1) Cash crunch faced clients mainly in the power generation sector due to issues related to land acquisition, fuel tie-up and delayed payments from the end-buyer ie SEBs.

2) In a couple of projects, the company itself has not been given clearance by the utilities to commence work.

Consequently, despite having adequate capacity and orders, the company faltered on the revenue front due to issues outside its control.

## EBITDA margins contracted sharply

The sharp contraction in EBITDA margin was attributed to

1) Lower revenue booking because of which fixed costs could not be absorbed completely.
2) Competitive pressure has not abated and product prices continue to remain at depressed levels

## Extraordinary items

Recognising those receivables that remained outstanding for over 60 days and where the chances of recovery had diminished considerably, the company took a hit of Rs 300 mn.

During the quarter, the company also sold its land in Chennai which fetched Rs 157 mn and booked gains of Rs 121 mn on the sale.

## Order Intake boosted by large order in HVDC

During the quarter, order intake at Rs 17.46 bn is up 42% and 61% yoy and sequentially.

Order intake has been boosted by a major order worth Rs 10.8 bn for 800 KV HVDC transmission link between Krukshetra-Champa. This order was won jointly in consortium with Alstom (France). Given the greater reliability of HVDC network against grid collapse, the company expects HVDC to gain preference in transmission system planning.

The company has also won orders in the areas like "static VAR compensators", which is a high-end technology available with only few players globally.

Order backlog is up 34% yoy to Rs 61 bn providing a revenue visibility of 24 months of trailing four quarter revenues.

Around 50-55% of orders are of the nature of systems and the rest are basically product supplies.

Around 40% of order backlog is private sector and the company estimates that half of the private sector orders are running behind schedules.

## Business Outlook remains cautiosly optimistic

While acknowledging the growing presence of Chinese companies setting manufacturing infrastructure in India, the company remains concerned on the competitive scenario.

However, the management sounded positive on PGCIL's spending plan for the 12th plan and believes that Alstom is well-positioned to tap opportunities in the 765 kv segment.

Majority of the inter-state transmission system coming up in the 12th plan is based on 765 kv voltage (as compared to the existing 440 KV class). This may in turn spur state transmission utilities to move up from the traditional 220 KV class to 440 KV class, the company believes. This could create additional market opportunities for equipment players.

## Balance Sheet Analysis

Post the demerger of the distribution business, the company's borrowings has reduced to to Rs 5.2 bn vs Rs 5.9 bn yoy. Cost of borrowings is lower than 10%.

Receivables have remained at high level at 220 days vs 177 days

## Rich valuations amidst subdued business outlook, we maintain Reduce

**We maintain REDUCE on Alstom T&D India with a price target of Rs.187**

Valuations are rich at 42.5x and 29.8x FY13E and FY14E earnings respectively. We value the company at 27x FY14 in line to the trading multiples for Siemens and ABB. Thus target price works out to Rs 187 (Rs 171 earlier).

**RESULT UPDATE**

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# SUN TV NETWORK

**PRICE: RS.369** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.385** **FY14E P/E: 19.4x**

**Sun TV reported disappointing financials in 2QFY13; advertising revenues continued to be lacklustre, and expenses, including expenses on content rose significantly, resulting in an 8% disappointment in operating income. Greater likelihood of DAS implementation is a positive for the stock in the longer-term; near-term risks to earnings have risen on account of weakening margins, and addition of IPL franchise (worst-case impact of Rs 300 mn on FY14 profits, as per management). We believe, however, that the sentiment around the stock is set to improve on account of: 1/ on time implementation of DAS in Metros and rising possibility of phase II implementation, 2/ favourable media reports on status of investigations against the promoter, 3/ doubts regarding the grant of license to Arasu Cable. We raise our rating to ACCUMULATE with a price target of Rs 385.**

- **Weak 2QFY13 results, unimpressive guidance:** Advertising revenues continued to be weak (4%, y/y), while subscription revenues rose in line with our expectations. Expenses rose significantly across the board, with cost of revenues rising 50% y/y, other expenses up 26% y/y, and D&A up 22% q/q (in 1QFY13, the company had seen reduction in these expenses). EBIT came in at Rs.2152 mn, 8% below our estimates. We believe the guidance for 2HFY13 advertising revenues is unimpressive, given negative base.

- **Short-Term likely carries negative earnings surprises, but possible significant re-rating: :** We have held the view that Sun TV is facing significant competitive pressure in Tamil Nadu, which is likely to impact the company negatively going forward. The purchase of Hyderabad franchise of the IPL is a further negative on this count (management has guided for the worst-case loss of Rs 300 mn in FY14, not factored in our estimates as of now) for short-term earnings. However, valuation is likely to remain on a higher trajectory over what we think will be viewed as positive media reports on the status of CBI investigation against the promoter, as well as a recent report that says that MIB may not provide Arasu a license.

- **Greater certainty of DAS implementation a positive:** While we agree that Sun TV may benefit from DAS implementation, the extent of the same, especially in comparison with other broadcasters, is doubtful. Extraction of subscription revenues is ultimately a function of bargaining power. Due to government's support to Arasu Cable, the copmany's bargaining power in Tamil Nadu has weakened; other markets are seeing greater competition over time. We believe, however, that the likelihood of improvement in the long-term earnings of the company may significantly rise, if bargaining power of Arasu in the DAS regime were to be lowered.

- **Raise to ACCUMULATE, on stronger valuations:** We believe the confidence in near-term earnings of Sun TV Network's core operations shall decline following 2QFY13 results; and further think that losses from IPL franchise could further impact the view on the company's earnings. However, there are various sentimental positives, which, along with reasonable valuations (if one were to eliminate the two key overhangs , i.e. investigation against promoter and Arasu Cable's containment of Sun TV subscription revenues), make a case for accumulating the stock.

- **Risks to our view:** On going investigations against the promoter remains the largest risk faced by Sun TV. Other risks include non realization of estimated subscription revenues due to hurdles laid by Arasu.

**Summary table**

| (Rs mn) | FY12 | FY13E | FY14E |
|---|---|---|---|
| Sales | 18,472 | 19,335 | 22,586 |
| Growth (%) | -8.3 | 4.7 | 16.8 |
| EBITDA | 14,144 | 14,454 | 16,700 |
| EBITDA margin (%) | 76.6 | 74.8 | 73.9 |
| PBT | 10,224 | 9,588 | 11,296 |
| Net profit | 6,929 | 6,399 | 7,491 |
| EPS (Rs) | 17.6 | 16.2 | 19.0 |
| Growth (%) | (10.0) | (7.6) | 17.1 |
| CEPS (Rs) | 29.6 | 29.4 | 34.0 |
| Book value (Rs/share) | 65.1 | 70.3 | 78.2 |
| Dividend per share (Rs) | 9.5 | 9.5 | 9.5 |
| ROE (%) | 28.4 | 24.0 | 25.6 |
| ROCE (%) | 26.6 | 22.9 | 25.0 |
| Net cash (debt) | 2,519 | 5,346 | 7,872 |
| NW Capital (Days) | 193 | 190 | 186 |
| P/E (x) | 21.0 | 22.7 | 19.4 |
| P/BV (x) | 5.7 | 5.3 | 4.7 |
| EV/Sales (x) | 7.8 | 7.3 | 6.1 |
| EV/EBITDA (x) | 10.1 | 9.7 | 8.3 |

*Source: Company, Kotak Securities - Private Client Research*

**2QFY13 Results Summary**

| SA, Rs mn, FY Ends Mar | 2QFY13 | 2QFY12 | % y/y | 1QFY13 | % q/q |
|---|---|---|---|---|---|
| **Revenues** | **4333** | **4513** | **-4.0** | **4258** | **1.8** |
| - Advertising | 2440 | 2350 | 3.8 | 2430 | 0.4 |
| - Slot Sales | 370 | 390 | -5.1 | 370 | 0.0 |
| - Analogue Subscription | 340 | 470 | -27.7 | 300 | 13.3 |
| - DTH | 900 | 790 | 13.9 | 890 | 1.1 |
| -International Revenues | 260 | 180 | 44.4 | 260 | 0.0 |
| -Other | 123 | 333 | -62.9 | 8 | 1545.3 |
| **Cost of Revenues** | **338** | **225** | **50.1** | **401** | **-15.8** |
| Employee Expenses | 429 | 414 | 3.6 | 422 | 1.7 |
| Other Expenses | 277 | 219 | 26.2 | 205 | 34.9 |
| Depreciation and Amortization | 1138 | 1176 | -3.2 | 933 | 22.1 |
| **EBIT** | **2152** | **2478** | **-13.2** | **2297** | **-6.3** |
| EBIT Margin (%) | 49.7 | 54.9 | -5.3ppt | 54.0 | -4.3ppt |
| Interest Expenses | 5 | 8 | -34.2 | 2 | 150.0 |
| Other Income | 96 | 185 | -48.1 | 132 | -27.4 |
| **PBT** | **2243** | **2656** | **-15.6** | **2427** | **-7.6** |
| Provision for Tax | 726 | 856 | -15.1 | 784 | -7.4 |
| **PAT** | **1517** | **1800** | **-15.8** | **1643** | **-7.7** |
| Equity Capital | 1970 | 1970 | 0.0 | 1970 | 0.0 |
| Shares O/S | 394 | 394 | 0.0 | 394 | 0.0 |
| **EPS (Rs)** | **3.8** | **4.6** | **-15.8** | **4.2** | **-7.7** |

*Source: Company Reports*

- Sun TV reported a weak set of 2QFY13 results. Advertising revenues continued to be subdued in the quarter (-.4%, y/y), and were the key source of disappointment on the revenues line. Subscription revenues were largely in line with our expectations, with analogue subscription revenues rising 13% q/q on account of the recently-signed deal with Arasu Cable. Revenues reported were 1.5% below our expectations.
- In the quarter, the company saw a significant rise in expenses. Cost of revenues rose 50% y/y, and the company also saw significant rise in other expenses. Factors that have contributed to growth in expenses include a change in satellite, higher cost of power, and rise in provisioning for debtors.
- The company recorded 22% rise in depreciation and amortization on account of higher expenses on movies (amortized fully on the first showing). On account of lower revenues as well as lower margins, the company's reported EBIT is 8% below our expectations. On account of lower than expected other income (-27%, q/q), reported PAT is 15% below our expectations.

## Outlook

- The company has said that it expects a double-digit growth in advertising revenues in 2HFY13. We note that the company has a weak base to beat in 2HFY13, as advertising revenues had declined in 1HFY12.
- With regard to DAS implementation, the following deserve note: 1/ Chennai HC has set Nov 19th as the final deadline for DAS implementation in Chennai, 2/ The central government has held its ground in so far as implementation of Phase - 1 of DAS is concerned. As per media a report, the government is also keen on rolling out Phase -2 of DAS. To the extent that this enhances transparency in the value chain, this is a long-term positive for Sun TV Network.

- The management also commented on recent purchase of the Hyderabad franchise of the Indian Premier League. As per management, the company shall likely not incur any losses in FY13 (the season starts towards the end of FY13), and shall at worst bring in losses of Rs 300 mn in FY14. The company believes that the losses shall decline meaningfully in the very next year (FY15 onward). After the first five years, the company thinks that the franchise shall consistently bring in profits of Rs 600 mn/ year. At this point, the company has not shared the details of its expected revenues and expenses.
- Sun TV Network stock has been, for the past two years, been affected by an ongoing probe against the promoter's brother. Recent media reports indicate that while progress on the investigation has been slow as significant international co-operation is needed, the matter continues to be investigated by the CBI. We are in no position to make a call on the extent of risk that Sun TV Network faces on this count; however, recent media reports suggest that the risk on this count may be reduced.
- We raise our long-term forecasts for Sun TV, as we build in expectations for significant benefits from Phase - 2 of DAS implementation. For now, our assumptions have the impact of raising recurring EBIT by ~Rs 200mn/ year FY15 onward. We also: 1/roll forward our price target to FY14E, 2/eliminate the discount to our fair value estimate on account of ongoing investigations in 2-G spectrum allocation (earlier 20%), 3/on account of likelihood of Arasu not being granted license we raise our long term growth projections. As a result of these changes, our price target stands revised to Rs 385/ share.

**We upgrade Sun TV to ACCUMULATE with a price target of Rs.385**

- We continue to hold the view that Sun TV's exposure to DAS implementation is small as compared with several broadcasters (example: TV18 Broadcast). This is because: 1/ Sun TV is unlikely to see any benefits on account of carriage fee reductions, which we expect many broadcasters to gain (Sun TV has, in our understanding, never paid any carriage fees), 2/ It appears like Arasu Cable is unwilling to pay Sun TV higher amounts post DAS implementation, 3/markets other than Tamil Nadu are seeing greater competition among broadcasters than was the case earlier, and Sun TV's bargaining power is reducing in certain areas (Andhra Pradesh being the most notable), which will place a cap on the subscription revenues that the company can generate. On account of this, we think that the upside in Sun TV stock is somewhat contained.

# Bulk deals

**Trade details of bulk deals**

| Date | Scrip name | Name of client | Buy/ Sell | Quantity of shares | Avg. price (Rs) |
|---|---|---|---|---|---|
| 15-Nov | Aarey Drugs | Rameshchandra Pranshankar Mehta | S | 75,000 | 55.3 |
| 15-Nov | Aarey Drugs | Ajitkumar Jogendarprasad Singh | S | 76,700 | 55.2 |
| 15-Nov | Aarey Drugs | Royce Ventures Pvt Ltd | B | 125,000 | 55.3 |
| 15-Nov | Acclaim Ind | Hitesh Vinodbhai Bhagat | B | 32,648 | 15.5 |
| 15-Nov | Ankit Metal | Concast Exim Limited | S | 615,000 | 20.6 |
| 15-Nov | Arcadia Merc | Vedawala Sangitaben Pareshkumar | B | 62,421 | 11.7 |
| 15-Nov | Arcadia Merc | Haresh Vala | S | 81,250 | 11.8 |
| 15-Nov | Associated Fin | Zoom Building Materials & Products | B | 40,000 | 38.5 |
| 15-Nov | Associated Fin | Ashok Kumar Aneja | S | 65,600 | 38.2 |
| 15-Nov | Associated Fin | Neeraj Jain | S | 26,500 | 38.5 |
| 15-Nov | Associated Fin | Tidal Securities Private Limited | B | 65,000 | 38.2 |
| 15-Nov | Fact Enterprise | Sukusama Trading & Investments | S | 185,000 | 7.4 |
| 15-Nov | Frontier Info | Jatin Anandji Shah | S | 127,000 | 1.1 |
| 15-Nov | Inducto Steel | Shiv Kumar Tekriwal | S | 28,809 | 36.2 |
| 15-Nov | Inducto Steel | Pratyush Mittal | B | 20,142 | 36.2 |
| 15-Nov | Industrial Invest | RDMK Impex Pvt Ltd | S | 98,900 | 132.5 |
| 15-Nov | Industrial Invest | Pushpak Trading & Consultancy | B | 98,900 | 132.5 |
| 15-Nov | Kanco Tea | Lend Lease Company India Ltd | S | 10,000 | 100.6 |
| 15-Nov | Kemrock Inds | Trust Finstock Pvt Ltd | S | 124,000 | 62.2 |
| 15-Nov | Kemrock Inds | Jhaveri Credits & Capital Ltd Mcx | B | 107,182 | 62.2 |
| 15-Nov | Monarch Health | Sonal Amit Shah | S | 42,000 | 83.5 |
| 15-Nov | Premco Glob-$ | Upsurge Investment & Finance Ltd | S | 18,554 | 37.4 |
| 15-Nov | RCL Retail | Golden Enterprises | S | 70,000 | 9.4 |
| 15-Nov | RCL Retail | Prafull S Pagariya | B | 70,000 | 9.4 |
| 15-Nov | Scope Ind | Decent Technologies Pvt Ltd | B | 160,000 | 21.9 |
| 15-Nov | Shreychem | Vipul Kishor Gohil | S | 39,000 | 78.7 |
| 15-Nov | Take Solutions | Shriram Entrepreneurial Ventures | B | 1,800,000 | 30.7 |
| 15-Nov | Take Solutions | Reliance Mutual Fund | S | 1,800,000 | 30.8 |
| 15-Nov | Visagar Fin Ser | Jayneel Securities Pvt Ltd | B | 92,456 | 18.8 |

*Source: BSE*

## Gainers & Losers

### Nifty Gainers & Losers

| | Price (Rs) | chg (%) | Index points | Volume (mn) |
|---|---|---|---|---|
| **Gainers** | | | | |
| HDFC | 793 | 1.1 | 4.2 | 3.8 |
| Bharti Airtel | 290 | 2.6 | 2.8 | 10.6 |
| Kotak Mahindra Bank | 637 | 3.1 | 2.3 | 0.8 |
| **Losers** | | | | |
| ITC Ltd | 276 | (2.6) | (12.8) | 8.1 |
| Infosys | 2,296 | (1.8) | (6.4) | 1.1 |
| Tata Consultancy | 1,294 | (2.4) | (5.0) | 0.9 |

*Source: Bloomberg*


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