



Economy News

- ▶ The government is expecting "significant participation" from existing and new telecom operators in the spectrum auction scheduled to start from November 12, 2012. The government has fixed base price of Rs 139.99 bn for 5 Mhz of pan-India spectrum in 1,800 Mhz band and Rs 136.49 bn for 3.75 Mhz of 800 Mhz spectrum. (ET)
- ▶ The controversial Land Acquisition Bill was referred to a Group of Ministers (GoM) after some ministers raised reservations on certain provisions of the proposed legislation and said their suggestions were not heard adequately. (BS)
- ▶ The Reserve Bank of India (RBI) may relax some of the priority sector target for banks on a case-to-case basis but has asked the lenders to ensure the funds are reaching the beneficiaries. (BS)

Corporate News

- ▶ State-run power utility West Bengal State Electricity Distribution Company Ltd has mandated **IL&FS Engineering & Construction Company** to build three rural power projects worth Rs 3.31 bn in the state. (ET)
- ▶ **Tata Steel** has raised its stake in associate firm Tata Sponge Iron to 51% following purchase of 11.26% stake or 17.34 lakh shares through a voluntary open offer. Tata Steel had launched a voluntary open offer on July 27 at a price of Rs 375 per share. The offer closed on August 9. (BS)
- ▶ **JSW Steel** has dropped plans to raise up to USD 275 million through overseas borrowings as it did not get necessary regulatory clearances, the company said. The money was supposed to be utilised for buyback of outstanding foreign currency convertible bonds (FCCBs), on redemption of outstanding FCCBs and capital expenditure. (ET)
- ▶ Drug maker **Sun Pharmaceutical Industries** has received a reprieve on regulatory issues facing Caraco, its wholly-owned subsidiary in the US. The US Food and Drug Authority (USFDA) has said that Caraco could resume operations at its manufacturing facility and packaging sites in Detroit and Wixom, Michigan, Sun said. (BL)
- ▶ The Comptroller and Auditor General (CAG) has pulled up state-owned **Oil & Natural Gas Corp (ONGC)** for not placing desired emphasis on discovering oil and gas and being tardy in monetizing its discoveries. (BS)
- ▶ Tractor maker **Escorts Ltd** announced a 2-3 per cent hike in tractor prices with effect from September 1. The increase in prices is due to rising input costs, especially that of the raw materials like steel, the company said in a statement. (ET)
- ▶ **Jindal Steel and Power's** deal to acquire Canada's CIC Energy for about 116 million Canadian dollars (over Rs 600 crore) has been approved by the shareholders of Canadian firm. CIC Energy holds 2.6 bn tonne of high thermal coal in Botswana. In a filing to the Toronto Stock Exchange (TSX), CIC said the deal was "approved by the shareholders of CIC Energy at the special meeting of shareholders held on August 27. (BS)
- ▶ In a bid to lighten its debt burden and infuse more liquidity in operations, energy-to-infrastructure major GMR Group is planning to bring down stake in its holding company, **GMR Infrastructure**, from 72 per cent. The Bangalore-based group is also going to sell up to 49 per cent stake in GMR Highways, one of the three infrastructure holding companies, besides GMR Airports and GMR Energy. (ET)
- ▶ **Bharat forge** founders are in talks with private equity firms to sell a \$ 300 mn stake in their wind energy firm Kenersys, two sources familiar with the matter said. (BL)

Equity

	28 Aug 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,632	(0.3)	4.7	7.3
NIFTY Index	5,335	(0.3)	4.6	6.9
BANKEX Index	11,544	(1.0)	(0.8)	3.3
BSET Index	5,798	0.9	11.0	3.1
BSETCG INDEX	9,607	(1.7)	3.3	6.6
BSEOIL INDEX	8,403	(0.3)	6.2	10.4
CNXMcap Index	7,083	(1.0)	0.8	1.2
BSESMCAP INDEX	6,419	(1.4)	1.0	0.5
World Indices				
Dow Jones	13,103	(0.2)	0.2	4.2
Nasdaq	3,077	0.1	4.0	7.2
FTSE	5,776	(0.0)	2.6	7.1
NIKKEI	9,033	(0.6)	5.8	4.7
HANGSENG	19,812	0.1	2.8	4.0

Value traded (Rs cr)

	28 Aug 12	% Chg - Day
Cash BSE	2,280	45.7
Cash NSE	9,501	25.4
Derivatives	173,663	45.5

Net inflows (Rs cr)

	Aug 27	% Chg	MTD	YTD
FII	632	86.4	6,792	60,073
Mutual Fund	(239)	1,534.9	(803)	(8,851)

FII open interest (Rs cr)

	27 Aug 12	% Chg
FII Index Futures	19,818	10.1
FII Index Options	54,264	1.4
FII Stock Futures	27,203	1.0
FII Stock Options	2,162	(4.9)

Advances / Declines (BSE)

	28 Aug 12	A	B	T	Total	% total
Advances	54	601	269	924	32	
Declines	147	1,397	333	1,877	64	
Unchanged	0	76	39	115	4	

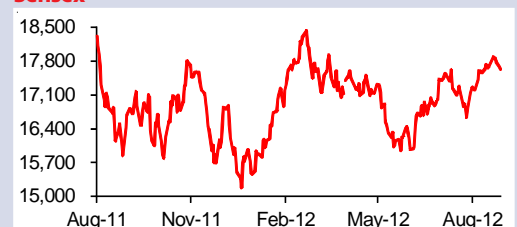
Commodity

	28 Aug 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	95.9	(0.4)	6.4	5.7
Gold (US\$/OZ)	1,669.6	(0.2)	3.1	7.0
Silver (US\$/OZ)	30.9	(0.9)	12.2	10.5

Debt / forex market

	28 Aug 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.4	8.4	8.3	N/A
Re/US\$	55.7	55.7	55.6	55.2

Sensex



MANAGEMENT MEET UPDATE

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THERMAX LTD

PRICE: Rs.495

TARGET PRICE: Rs.450

RECOMMENDATION: REDUCE

FY13E P/E: 16.8x

- ❑ While the project-based revenues have slowed down, the company's standard product orders continues to enjoy healthy demand from sectors like Foods and Pharmaceuticals. The company expects to largely maintain EBITDA margins at FY12 levels, though there is a risk of 100-150 bps loss in EBITDA margins in this fiscal.
- ❑ The company's manufacturing facility for supercritical boilers is running as per schedules and commissioning is expected before the end of CY12. The company has not bagged any order for the supercritical boiler facility though negotiations have been on for some time. The company is hopeful of taking orders in due course.
- ❑ Given the backdrop of weak project investment scenario in the country; valuations are not supportive at current levels and there is scope for correction. We maintain REDUCE with an unchanged target price of Rs 450.

Summary table

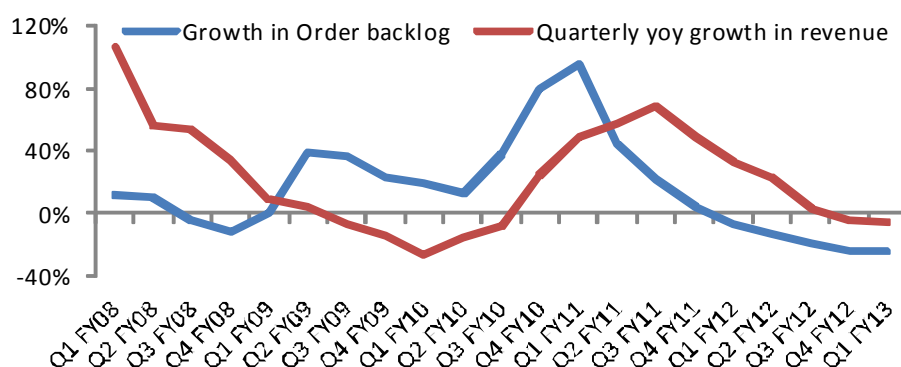
(Rs mn)	FY11	FY12	FY13E
Sales	53307	60912	55453
Growth (%)	58	14	-9
EBITDA	5682	5919	5197
EBITDA margin (%)	10.7	9.7	9.4
PBT	5748	5964	5222
Net profit	3783	3921	3452
EPS (Rs)	31.8	32.9	29.0
Growth (%)	46.2	3.6	-12.0
CEPS (Rs)	36.7	39.5	35.1
BV (Rs/share)	110.5	136.9	160.1
Dividend / share (Rs)	9.0	7.0	5.0
ROE (%)	23.3	17.0	11.8
ROCE (%)	38.0	28.4	19.7
Net cash (debt)	7815	6673	10746
NW Capital (Days)	-24.2	-6.4	-27.4
EV/Sales (x)	1.0	0.9	0.9
EV/EBITDA (x)	9.1	8.9	9.4
P/E (x)	15.6	15.0	16.8
P/Cash Earnings	13.6	12.7	14.2
P/BV (x)	4.5	3.7	3.1

Source: Company, Kotak Securities - Private Client Research

Meeting takeaways

- Revenue declined 6% yoy in Q1 FY13 attributed mainly to lower carry-over orders from FY12. The company indicated that while EPC (Captive Power and IPPs) orders have taken the brunt of slowdown in project activity, the demand in company's other product segments (chemicals (40% exports) and industrial heaters) has been quite resilient. The chemicals business has recently entered new segments like construction chemicals and biotechnology. Such base orders continue to form a substantial pie of revenue, the management opined.
- With adequate spare capacity at its disposal, the company is in a position to accelerate execution to drive revenues. However, site readiness and execution capability of vendors also remain key variables. In current economic conditions, the thrust from the client side is not as much on execution as on conserving cash through extracting longer credit periods. The company is accordingly managing its throughput by giving due consideration to key variables involved in project execution.

Order backlog and revenue growth



Source: Company

- With the elevated level of cost of borrowing, "Interest during construction" is making a major dent on project viability for clients. A correction in borrowing cost can make a significant improvement in project investment scenario in the country, the management believes.
- The company's manufacturing facility for supercritical boilers is running as per schedule and commissioning is expected before the end of CY12. Despite the decline in INR vs the USD, the company expects to complete the facility within the envisaged cost of Rs 8.0 bn.

- The company is tapping its existing talent pool within its group as well as from outside for driving the supercritical boiler venture.
- The company has not bagged any order for the supercritical boiler facility though negotiations have been on for some time. The company is hopeful of taking orders in due course. The focus of the company would be mainly the supercritical boilers and boiler-related balance of plant.
- The company believes that having a local presence for servicing requirement during breakdowns is a major advantage for Indian manufacturers, an area where the Chinese are believed to be found wanting.
- The company expects to largely maintain EBITDA margins at FY12 levels, though there is a risk of 100-150 bps loss in EBITDA margins in this fiscal. The bias is towards margin decline.

Performance of major subsidiaries in FY12

- Thermax instrumentation reported a loss of Rs 103 mn vs a profit of Rs 33 mn in FY11. The loss was mainly due to cost overruns/provisions taken on certain contracts.
- **Danstoker A/S:** The company designs and makes boilers and related equipment for burning solid fuels mainly biofuels. The company is having a sizeable order book for execution in the current year.
- **Omnical Kessel (Subsidiary of Danstoker):** The company is into oil and gas boilers. The company reported a loss in 2010-11 period attributed mainly to change in product mix, loss of receivables due to insolvency of a client and cost overruns in couple of projects.

Table

(Rs mn)	FY11	FY12
Thermax instrumentation	33	-103
Danstoker	140.57	175.7
Omnical	0.5	-39.76
Thermax B&W	-91.8	-190.8

Note: FY12 numbers for Danstoker and Omnical is for 18 months period

Q1FY13 numbers

- Thermax reported 6% yoy decline in revenues as order intake has slowed down considerably in FY12. The deceleration in the revenue growth of Thermax was largely expected, though the magnitude of decline was partly cushioned by resilient demand from standard products and exports. EBITDA margin for the first quarter declined to 9.9% mainly due to MTM loss on foreign exchange (loss of Rs 124 mn vs gain of Rs 1.5 mn).
- Consolidated PAT for the quarter was marginally lower (than the standalone PAT) due to loss at its 1) Power generation equipment JV TBW - as working capital expenses were led to losses 2) Losses at its Chinese subsidiary which makes Chillers 3) Loss at Thermax instrumentation which is facing cost over-runs in the final stages of commissioning of Minakshi Power Plant.
- Order intake was down on a yoy basis but was up sequentially by 54%. Going by the sequential recovery in quarterly order intake, it does appear that the worst is behind. However, a meaningful and sustainable growth in order intake would necessitate material improvement in project investment scenario.

Valuation - Maintain Reduce

- Reiterate REDUCE on (1) high valuations of 16.8X FY2013E P/E, (2) investment cycle continues to remain weak, (3) sequential recovery in order inflows appears to be built in the price and (4) downside risk to margin
- Valuations are not supportive at current levels and there is scope for correction. We maintain **REDUCE** with an unchanged target price of Rs 450.

We maintain REDUCE recommendation on Thermax with an unchanged price target of Rs.450

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
28-Aug	Aarey Drugs	Deepika Jasmin Shah	B	125,510	39.4
28-Aug	Anjani Dham	Nitaben Shaileshbhai Patel	S	50,066	12.0
28-Aug	Clarus Finance	Blue Circle Services Ltd	B	100,000	51.4
28-Aug	Croitre Inds	Pintubhai Kanjibhai Kalavadiya	S	50,000	71.2
28-Aug	Ekam Leasing	Sheetal Jain	B	50,000	6.7
28-Aug	Ekam Leasing	Hemlata Jain	B	50,000	6.7
28-Aug	Federal Bank	Warhol Ltd	B	1,175,000	400.7
28-Aug	Federal Bank	HSBC Iris Investments Mauritius Ltd	S	8,516,310	401.0
28-Aug	Federal Bank	ICICI Prudential MF A/C Dynamic Plan	B	1,043,485	400.4
28-Aug	IFL Promoters	Jitender Kumar Tokas	S	90,000	7.3
28-Aug	IFL Promoters	Bhagwan Sahai Sharma	B	90,000	7.3
28-Aug	Kanchan Intl	Dharmendra Harilal Bhojak	B	24,200	44.0
28-Aug	Kanchan Intl	Raghav Garg	S	30,500	44.0
28-Aug	Kaveri Tele	Amas India Inv Mauritius Ltd	S	112,500	234.0
28-Aug	Ortin Lab-\$	S Srinivasa Kumar	S	25,000	21.6
28-Aug	Ortin Lab-\$	Rajesh Gaurishankar Poddar	B	58,412	21.6
28-Aug	Osian Inds	Rajkumar Shyamnarayan Singh	S	32,000	119.8
28-Aug	Raj Packaging	Madanchand Prasanchand	B	45,371	23.4
28-Aug	Sdfc Finance	Pradipkumar V Patel	S	50,000	22.5
28-Aug	Sdfc Finance	Heminkumar Bimalkumar Navadia	S	59,952	20.7
28-Aug	Shalibhadra Fin	Hinaben Romeshbhai Shah	B	37,151	53.6
28-Aug	Shalibhadra Fin	Shah Anilbhai Naginlal	S	35,613	53.4
28-Aug	Sheetal Bio	Siddharth Dipakkumar Kothari	B	822,500	0.3
28-Aug	Shree Tulsi Online	Jaroli Vincom Pvt Ltd	B	155,000	256.4
28-Aug	Tokyo Plast	Priti Hareesh Shah	B	85,500	14.7
28-Aug	Tokyo Plast	Bhanji Ravji Gada (HUF)	S	84,657	14.7
28-Aug	Vaishnavi	Sai Nithisha Parvathaneni	B	188,252	5.8
28-Aug	Vaishnavi	Pinnamaneni Ramesh Babu	B	152,000	5.6
28-Aug	Vikas Wsp	Bajrang Dass Jindal	B	930,000	72.3
28-Aug	Yash Trading	BCB Finance Ltd	B	6,200	211.7

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
TCS	1,351	2.3	5.0	1.1
ITC Ltd	268	1.1	4.8	3.9
Reliance Ind	790	0.4	1.5	2.0
Losers				
L&T	1,362	(2.5)	(6.0)	1.3
ICICI Bank	922	(1.4)	(4.8)	3.5
ONGC	281	(2.2)	(3.6)	2.5

Source: Bloomberg

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