Economy News

- The interest rates on certificates of deposits (CDs) in one-year segment may rise above 10% this week. Last week, they were at 9.40-9.90%. The liquidity is expected to ease only after March 2011, when government starts spending in the first week of the new financial year. (BS)
- Conglomerates eyeing banking licences may have to wait a little longer. The government is of the view that corporate houses should be allowed to open new banks in the country only after the banking laws are amended to empower sector regulator RBI to monitor the parent or subsidiary companies of a bank, a senior finance ministry official told. (ET)
- The government may earn about Rs 500bn from the new telecom spectrum policy, which seeks to delink licences from spectrum, if it decides to fix the price based on the figure discovered through last year's 3G auction.(BS)
- The government may advance by a year the roll out of some of the income tax measures proposed in the Direct Taxes Code (DTC) to provide relief to inflation-hit households. (ET)

Corporate News

- **ITC** on Sunday said it will invest up to Rs 30bn to set up a paper manufacturing unit in Andhra Pradesh as part of plans to double capacity over the next five years. It's part of its plan to touch 1 mn tonnes capacity in the next five years from the present levels of 0.55mn tonnes. (BL)
- Ashok Soota, has announced his decision to move out of **MindTree** and resign from his role as executive chairman. Soota is starting a new venture and has asked the board to release him by March 31. The departure of someone of Soota's stature as well as the uncharacterisitic manner in which it was announced- through a personal mail from Soota than a company announcement-has also raised questions about MindTree's flagging performance in recent times. (ET)
- **ONGC** has asked the government not to approve Vedanta Resources $9.6-billion acquisition of Cairn India until the issue of excess royalty it pays on Rajasthan crude oil is sorted out. The ONGC board's resolution will be added to the preconditions that the oil ministry has imposed for approving the Cairn-Vedanta deal. (ET)
- **HPCL** may turn its Mumbai refinery into a national lubricant blending facility after a new refinery at Ratnagiri, coastal Maharashtra, takes shape. HPCL's Mumbai refinery has the highest lubricant production capacity in India. (BS)
- **Dhanlaxmi Bank** may sell shares or global depositary receipts to private funds and mutual funds to raise. Rs.11bn to improve its capital position. It plans to raise money simultaneously through all three routes by the month of May. (ET)

Equity

	28 Jan 11	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,396	(1.5)	(8.1)	(7.7)
NIFTY Index	5,512	(1.6)	(8.1)	(7.9)
BANKEX Index	11,987	(1.1)	(7.6)	(13.2)
BSET Index	6,466	(1.0)	(3.9)	7.4
BSETCG INDEX	13,099	(3.1)	(13.5)	(17.3)
BSEOIL INDEX	9,368	(1.7)	(11.0)	(13.8)
CNXMcap Index	7,881	(2.3)	(8.9)	(16.1)
BSESMCAP INDEX	8,546	(3.6)	(9.1)	(20.6)
World Indices				
Dow Jones	11,824	(1.4)	2.1	6.3
Nasdaq	2,687	(2.5)	1.3	7.2
FTSE	5,881	(1.4)	(0.3)	3.6
Nikkei	10,360	(1.1)	0.1	11.2
Hangseng	23,617	(0.7)	1.4	1.1

Value traded (Rs cr)

	28 Jan 11	% Chg - Day
Cash BSE	3,675	20.6
Cash NSE	15,048	(8.5)
Derivatives	124,310	(41.2)

Net inflows (Rs cr)

	27 Jan 11	% Chg	MTD	YTD
FII	(1,397)	(426.3)	(4,838)	(4,838)
Mutual Fund	(308)	497.5	591	591

FII open interest (Rs cr)

	27 Jan 11	% Chg
FII Index Futures	11,226	6.2
FII Index Options	42,502	14.9
FII Stock Futures	27,758	(1.5)
FII Stock Options	291	120.6

Advances / Declines (BSE)

28 Jan 11	A	B	S	Total	% total
Advances	29	278	53	360	17
Declines	174	1,523	357	1,697	79
Unchanged	2	67	22	91	4

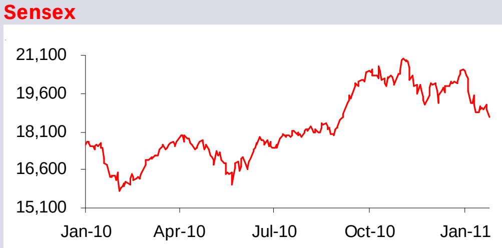
Commodity

	28 Jan 11	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	90.2	0.9	(1.3)	10.7
Gold (US$/OZ)	1,343.1	1.6	(5.6)	(1.4)
Silver (US$/OZ)	28.0	3.1	(9.0)	14.8

Debt / forex market

	28 Jan 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.13	8.14	7.91	8.11
Re/US$	45.76	45.57	45.10	44.52

Sensex



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

RESULT UPDATE

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THERMAX LTD

PRICE: RS.664 **RECOMMENDATION: BUY**
TARGET PRICE: RS.784 **FY12E P/E: 16.2X**

- **Thermax's numbers are ahead of expectations on the revenue as well profit front. However in the absence of any large utility order win, the company reported lower order intake during the quarter. The company has cited longer order finalization cycle as the main reason for lower order intake.**
- **The management indicated that enquiries have been healthy. However, a significant section of the company's client segment is comprised of mid and small companies. These corporates may rethink/slow their investment plans if interest rates inch up further. Outside India, the economic situation is improving.**
- **Stock has corrected 27% from its highs thus bringing valuations close to our comfort levels. We upgrade the stock to BUY with a revised price target of Rs 784 (Rs 866 earlier), thus valuing the stock at 19x FY12 earnings.**
- **The company has a strong balance sheet, clean corporate governance track record and robust cash generation.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	33,703	49,893	60,353
Growth (%)	-3	48	21
EBITDA	3,947	6,102	7,328
EBITDA margin (%)	11.7	12.2	12.1
Net profit	2,647	4,056	4,883
EPS (Rs)	22.2	34.1	41.0
Growth (%)	-8.4	53.2	20.4
CEPS	16.3	38.1	45.6
Book value (Rs/share)	90.6	118.8	154.0
DPS (Rs)	5.0	5.0	5.0
ROE (%)	13.7	31.3	29.3
ROCE (%)	33.0	44.2	41.2
Net cash (debt)	10327	7856	11543
EV/Sales (x)	2.1	1.4	1.1
EV/EBITDA (x)	18.3	11.7	9.2
P/E (x)	29.9	19.5	16.2
P/Cash Earnings	40.7	17.4	14.6
P/BV (x)	7.3	5.6	4.3

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	9MFY11	9MFY10	YoY (%)
Net Sales	**12,161**	**7,263**	**67**	**30,427**	**19,169**	**59**
other income from operations	250	220	14	797	493	62
Total Expenditure +	10,947	6,589	66	27,516	17,286	59
Raw Matl costs	8,178	4,461	83	20,278	11,680	74
Purchase of trading goods	468	399	17	1,072	784	37
Staff costs	975	720	35	2,697	1,979	36
Other costs	1,327	1,009	32	3,469	2,844	22
PBIDT	**1,464**	**894**	**64**	**3,707**	**2,376**	**56**
Other Income	117	74	59	390	319	22
Depreciation	106	104	2	316	303	4
EBIT	**1,476**	**864**	**71**	**3,781**	**2,391**	**58**
Interest	2	6	(67)	12	12	1
PBT	**1,474**	**858**	**72**	**3,769**	**2,379**	**58**
Tax	471	293	61	1,212	808	50
Adj Profit After Tax	1,002	565	77	2,557	1,571	63
EPS (Rs)	**8.4**	**4.7**	**77**	**21**	**13**	**63**
Raw Matl costs to sales (%)	67	61		67	61	
Other costs to sales (%)	10.9	13.9		11.4	14.8	
PBIDTM (%)	12.0	12.3		12.2	12.4	
Tax rate (%)	32	34		32	34	

Source: Company

Result Highlights

- Revenue for the quarter is up 67% yoy to Rs 12.1 bn, ahead of expectations. Revenue growth has bounced back in the current fiscal as the company began the year with a strong order backlog.
- The energy segment has posted a growth of 77% due to upsurge in corporate capex in industries like Metals, Cement and Refineries.

Segment revenues

(Rs mn)	Q3FY11	Q3FY10	% change
Segment- Energy	9904	5603	77
Segment - Enviro	2943	2031	45

Source: Company

- Operating margins for the quarter remained largely stable on yoy as well as qoq basis.
- Material costs have increased in the quarter possibly due to change in revenue mix towards higher share of project work. Purchase of traded items has declined possibly due higher in-house job-work.
- The management is not very much concerned about the material prices moving up though most of its orders are fixed priced. This is because it has frozen the prices for specialized tubes for upto three months delivery. These tubes form a critical component of boilers. It is well-covered for bulk of the material and component supply except structural steel which typically forms roughly 15-20% of the order book.
- More than material prices, the company is concerned about any signs of demand shrinkage which may then result in severe price competition and may hurt margins. If the demand remains firm, then the margin situation can be manageable even with the recent rise in material prices.

Segment Margins

(%)	Q3FY11	Q3FY10
Segment- Energy	10.8	10.8
Segment - Enviro	13.6	15.0

Source: Company

Order intake continues to slow down in Q3 FY11. Management highlights longer cycle time

- Order backlog is up 21% yoy to Rs 64.0 bn, thus imparting a revenue visibility of 18 months based on trailing four quarters revenues. Revenue visibility has been trending downwards in 9M FY11 as order intake has decelerated.
- Order intake (Standalone) in the quarter stood at Rs 9.9 bn, down 28% yoy and 25% qoq. This was the second consecutive quarter of lower order intake. The company is receiving orders from secondary steel, cement, Power and food processing industries.
- During the quarter, the company has not announced any major order win from the Power Utility segment, which has affected order booking.
- On order outlook, the company has maintained that order inquiries have been better every quarter but order finalization is taking a longer time than before, which is translating into reduced order intake.
- The company indicated that for several small to medium size corporates, current interest rates tend to act as a major hurdle for making fresh investment.
- The company intends to get itself technically prequalified for 9x800 MW bulk tender for boilers. However, it is undecided on whether it will participate in the bidding process.

Actual order intake may most likely fail to reach target flows for the year

At the beginning of the year, the company had indicated target order intake in double digits. However YTD order intake is down 8.5% and hence the company has lowered its outlook. Nevertheless, the company appeared optimistic of meeting previous year's order intake of Rs 58.9 bn.

Update on Thermax's entry in manufacture of supercritical boilers

Thermax will be investing Rs 1.7 bn in FY11-12 towards its equity contribution in the manufacturing facility. The company has already bought land for setting up the manufacturing facility and expects the facility to be ready by September 2012. The company has already received feelers from clients who intend to place main equipment package orders with Thermax and are waiting for them to be ready with their supercritical boiler manufacturing facility.

Future Initiatives - Nuclear and Solar Power

- The company is positioning itself for emerging opportunity in the nuclear power arena and intends to partner with the world leaders (Areva, GE and Toshiba) to co-produce equipments. It also targets the water-treatment business in the nuclear power sector. However, meaningful traction in the nuclear power business will be visible only from FY13 onwards.
- The company has also initiated moves in the solar power sector. Thermax is designing a plant to operate with solar energy, with biomass as support energy source to meet round-the clock energy requirements. This power plant will be designed using air condensers to economise on the water requirements for power generation. Thermax will also manage the operation & maintenance of the solar thermal power plant at Shive village for a period of five years
- The company has also initiated work on geothermal power and has identified a site in Maharashtra to utilize geothermal energy to produce power.

Lower order intake prompts earnings revision

The company's order intake has been much lower than anticipated. This will have negative ramifications for the revenue outlook for FY12. We have accordingly revised our revenue growth for FY12.

Change in Earnings Estimates

(Rs mn)	FY11		FY12	
	Earlier	Revised	Earlier	Revised
Revenue Rs mn	52,123	49,893	69983	60353
EBITDA (%)	11.8	12.2	11.70	11.70
EPS Rs	34.5	34.1	45.8	41.0
% change		-1.2		-10.4

Source: Kotak Securities - Private Client Research

Valuation - Stock correction provides opportunity to BUY

We recommend BUY on Thermax with a price target of Rs.784

- We had been maintaining Accumulate on Thermax on account of rich valuations. However, the recent price correction provides a good opportunity for investors to start buying into the stock.
- We believe stock should trade at a premium valuation in view of the strong expected earnings growth, strong corporate governance image, growth potential from power sector and robust cash generation.
- The strong cash flow from operations supports our DCF based target price of Rs 784 (Rs 866 earlier). At our target price, the stock would trade at 19.1x FY12 earnings.
- We upgrade the stock to **BUY** in view of the strong earnings growth coupled with recent price correction in the stock.

DCF model Summary

	(Rs mn)
WACC (%)	13.5
NPV of cash flows 2011-24	56232
TV	25983
Profit growth between FY11-19 (%)	16

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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BHARAT ELECTRONICS LTD (BEL)

PRICE: RS.1689 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1886 **FY12E P/E: 14.4X**

- **BEL posted disappointing set of numbers for the third quarter as change in project mix resulted in higher bought-out components.**
- **BEL is likely to report sedate earnings growth for the current fiscal, given modest revenue growth guidance and deterioration in profitability in recent quarters (partly due to change in revenue mix in favour of integrated systems).**
- **The company is reported to be in a strong position to win a USD 3.3 bn order for supply of Akash missles to the IAF.**
- **The company enjoys a dominant status in the defence sector and has a steady growth profile. At 14.4x, valuations are not demanding for the high-tech nature of business, high profitability and entrenched position in the sector. We maintain BUY a revised DCF based price target of Rs 1886 (Rs 1945 earlier).**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	50154	57175	65180
Growth (%)	11.4	14.0	14.0
EBITDA	8294	10676	12494
EBITDA margin (%)	16.5	18.7	19.2
Net profit	7204	8183	9376
Net cash (debt)	35230	38174	44566
EPS (Rs)	90.1	102.3	117.2
Growth (%)	-3.4	13.6	14.6
CEPS	108.4	116.5	132.2
DPS (Rs)	20.7	25.0	25.0
ROE (%)	18.5	17.7	17.8
ROCE (%)	18.5	17.6	17.8
EV/Sales (x)	2.0	1.7	1.4
EV/EBITDA (x)	12.1	9.1	7.3
P/E (x)	18.0	16.5	14.4
P/Cash Earnings	15.6	14.5	12.8
P/BV (x)	3.2	2.8	2.4

Source: Company, Kotak Securities - Private Client Research

Qyuarterly performance

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	9MFY11	9MFY10	YoY (%)
SalesTurnover	13730	12405	11	32751	34593	-5
Operating Expenditure	11502	9318	23	28531	27297	5
Raw Material costs	5583	4745	18	12851	15610	-18
Staff costs	2462	2141	15	7542	5767	31
Other expenditure	915	944	-3	2130	1993	7
Traded items	2542	1488	71	6008	3927	53
Operating profit	**2228**	**3087**	**-28**	**4220**	**7296**	**-42**
Depreciation	296	283	4	892	847	5
Other income	460	442	4	1654	1327	25
EBIT	**2393**	**3245**	**-26**	**4981**	**7775**	**-36**
Interest	0	0	13	1	2	-18
PBT	**2392**	**3245**	**-26**	**4980**	**7774**	**-36**
Tax	686	1006	-32	1419	2434	-42
Adjusted PAT	**1706.0**	**2239.1**	**-24**	**3561**	**5340**	**-33**
OPM (%)	16.2	24.9		12.9	21.1	
Raw Matl costs to sales (%)	40.7	38.2		39.2	45.1	
Trading items to sales (%)	18.5	12.0		18.3	11.4	
Staff costs to sales (%)	17.9	17.3		23.0	16.7	
Other exp to sales (%)	6.7	7.6		6.5	5.8	
Tax rate (%)	29	31		28	31	
EPS Rs	**21.32**	**27.99**		**44.51**	**66.75**	

Source: Company

- BEL's revenue were in line with estimates. However, higher share of bought out components in the revenue mix pulled down the margins. This in addition to underabsorption of fixed costs impacted profitability. While the drop in profits appear to be steep, we note that the Q2 & Q3 of FY10 had the high profit booking in the fiscal (normally reported profits are the highest in the fourth quarter).
- The company remains debt free and has cash worth Rs 31 bn equivalent to Rs 387 per share.
- Net working capital parameters have remained under check translating into robust cash of Rs 31 bn.

Muted revenue guidance of Rs 57 bn in FY11 but targeting Rs 100 bn by 2012-13

For the current fiscal, the company is targeting a revenue of Rs 57 bn, up 6.1% over FY10. On a longer-term basis, the company is targeting revenue of Rs 100 bn by 2013. The company expects segments like radar, communications and electronic warfare will drive the Company's growth. BEL is considering foray into new business areas like nuclear power instrumentation, railway instrumentation, solar/clean energy solutions and homeland security. The company is targeting Rs 5.0 bn of revenue from these segments by 2013.

BEL in the fray for Rs 100 bn order for Tactical Communication Systems

The Indian Army has approached six private sector IT majors to develop a high-tech communications backbone network for it. The army has sent out "Expressions of Interest", or EoI, for developing a Tactical Communications System (TCS), which will provide a robust, snoop-proof, mobile, cellular network for the Indian Army's voice and data communications during battle. The EoI has gone out to at least five private companies: Tata Power (Strategic Electronics Division); HCL Infosystems; Wipro Technologies; Rolta India; and L&T. In addition, three public sector undertakings - Bharat Electronics Ltd (BEL); Electronics Corporation of India Ltd (ECIL); and ITI Ltd - have also received the EoI. The overall opportunity is much larger at about Rs 300-400 bn worth of defence electronics systems in the pipeline.

Currently, BEL is the sole manufacturer of radar systems in India, which is also the prime product for the company. Additionally, Defence Communication equipment and systems will continue to be the other major business segment. Command and control systems, electronic warfare and electro-optics are expected to grow in a significant way in the coming years.

The company is reported to be in a strong position to win a USD 3.3 bn order for supply of Akash missles to the IAF.

Earnings Revision (FY11)

	Earlier	Revised
Revenue	57175	57175.4
EBITDA (%)	20.7	18.7
EPS	112	102
		-8.7%

Source: Kotak Securities -Private Client Research

Valuation

We recommend BUY on BEL with a price target of Rs.1886

At the current price, BEL is trading at 14.4x FY11E earnings. On a FY11 EV/EBITDA basis, the company trades at 7.3x. We maintain **BUY** with a reduced DCF based price target of Rs 1886 (Rs 1945 earlier)

RESULT UPDATE

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SIEMENS INDIA LTD

PRICE: RS.727 **RECOMMENDATION: BUY**
TARGET PRICE: RS.825 **FY11E P/E: 24.6X**

- **Siemens Q1 numbers are higher than estimates on account of traction in revenue growth. Margins are also higher than historical levels on improved share of products revenues. Order intake though down on a yoy basis but the corresponding quarter of the previous year had two large order wins from Qatar. Adjusted for that, order intake is healthy and is up 30% sequentially.**
- **We prefer Siemens over Areva and ABB on account of superior order book position, higher margin and strong cash position. We recommend a BUY with a target price of Rs 825. However, investors should note that today Siemens has announced an open offer for acquisition of 20% public holding at a price of Rs 930 per share. We expect the stock to open with a gap-up today. In case the stock price trades above significantly about our target price of Rs 825, investors should reduced their positions.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	84585	94001	119090
Growth (%)	1.2	11.1	26.7
EBITDA	10232	12932	15383
EBITDA margin (%)	12.1	13.8	12.9
PBT	14319	12588	15102
Net profit	6160	8272	9967
EPS (Rs) (standalone)	18.6	24.5	29.6
Growth (%)	31.4	31.9	20.5
CEPS (Rs)	21.0	27.6	32.6
Book value (Rs/share)	88.1	105.4	129.3
Dividend/share (Rs)	5.1	5.0	5.0
ROE (%)	41.9	25.6	25.2
ROCE (%)	24.9	25.6	25.2
Net cash (debt)	14449	17664	24006
NW Capital (Days)	6.5	10.6	13.0
P/E (x)	39.1	29.6	24.6
EV/EBITDA	22.1	17.6	14.4

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	YoY (%)
Net sales	**25254**	**18340**	**38**
Other operating income	127	326	-61
Raw Material costs	14182	9069	56
Purchase of trading goods	3958	3378	17
Staff costs	2040	1290	58
Other costs	1554	1297	20
Total expenditure	21734	15034	45
PBDIT	**3647**	**3632**	**0**
Interest income	290	157	84
Depreciation	286	212	35
PBT	**3651**	**3578**	**2**
Tax	1213	1214	0
Adjusted PAT	2438	2364	3
EPS	**7.4**	**7.1**	**3**
RM costs to sales (%)	56.2%	49.4%	
Trading costs to sales (%)	15.7%	18.4%	
Other costs to sales (%)	6.2%	7.1%	
OPM (%)	14.4%	19.8%	
Tax rate (%)	34%	34%	
Equity shares mn	337.00	337.00	

Source: Company

Revenue growth higher than expectations

- Revenue for the quarter rose 38% yoy ahead of expectations.
- The revenues were mainly driven by the Power sector even as the industrial sector group lost steam. The moderation in industry sector revenues was quite contrary to the expectations as this segment (comprising of short-cycle orders) was reporting a strong rebound in demand in earlier quarters.

- The drive technologies division includes motors is a play on Greenfield industrial capex as well as replacement demand. This division is largely short-cycle product business and traction in economic growth is reflected immediately in numbers. The loss in momentum could be attributed to customers delaying taking deliveries of equipments (there has been an increase in stock in trade). The recent weakness in IIP growth notwithstanding, the outlook for the industry group may have taken a beating following moderation in IIP data.
- Aided by robust order backlog, the power transmission business has reported healthy revenue growth. The energy business revenues (Generation and T&D) were strong but this segment is primarily project oriented and hence quarterly numbers can be lumpy.

Segment revenues

(Rs mn)	Q1 FY11	Q1 FY10	YoY (%)
Automation tech	1897	1459	30.0
Drive technologies	3090	3169	-2.5
Building Tech	1596	986	61.8
Industry Soln	2917	2366	23.3
Mobility	2672	3126	-14.5
Total Industry Group	**12171**	**11106**	**9.6**
Fossil Fuel	571	283	101.6
O&G	3241	1556	108.2
Power Transmission	6952	4728	47.0
Power Distribution	2740	1909	43.6
Total Energy Group	**13503**	**8476**	**59.3**
Healthcare	1438	1319	9.0
Real Estate	125	159	-21.5

Source: Company

Margins lower on a yoy basis but higher than expectations

EBITDA margins for the quarter stood at 14.4% compared to 19.8% in Q1 FY10. The corresponding quarter of the previous year had several writebacks related to projects costs, which had boosted margins. EBITDA margins in Q1 FY11 are higher than those traditionally enjoyed by the company. Margins are also sensitive to mix between projects and products. The management has highlighted that revenue growth has been driven by higher product business which typically yields better margins than projects business.

Segment margin

(%)	Q1FY11	Q1FY10
Automation tech	9.5	11.7
Drive technologies	6.5	15.1
Building Tech	1.3	3.4
Industry Soln	7.3	7.4
Mobility	26.3	8.5
Total Industry Group	**10.9**	**10.1**
Fossil Fuel	19.2	45.1
O&G	12.6	17.9
Power Transmission	18.5	27.8
Power Distribution	7.6	8.5
Total Energy Group	**14.9**	**22.2**
Healthcare	1.2	4.7
Real Estate	6.3	219.3

Source: Company

Order intake posts a strong growth sequentially

As has been the case with several other capital goods companies, the order intake in the quarter has been lower. During the first quarter, order intake is down 23% yoy to Rs 39.9 bn. However, the corresponding quarter of the previous year included two large orders from Qatar worth Rs 10 bn, which had boosted the order intake. Sequentially, order intake has registered a smart growth of 30% qoq. This indicates that order intake from short-cycle orders was strong (the only major order booked by the company in the quarter was DGEN)

Order book stood at Rs 151.3 bn, up 11% yoy providing a revenue visibility of 18 months, which is healthy in our view.

Long-term plans of Siemens AG

Siemens has chalked out its investment plans for the Indian operations. The company plans to spend Rs 16 bn mainly into renewable energy market products. The company plans to spend Rs 5.0 in building high-end technology wind turbines for the Indian market. Siemens plans to make India a hub for value priced products for catering to the Indian as well as global markets. The objective is to generate revenues of Rs 65 bn from these value priced products. Four of the six hubs will be "Centres of Competence" for the products such as Railway signaling systems, steam turbines over 45 MW, Ring main units and Steel making plants. The other two "Centres of Competence" will be for wind turbines and power plant EPC.

- The company has inaugurated a state of the art bogie factory (undercarriage of a wagon) in Aurangabad, which will serve the Indian and Asian markets. The investment in this factory was Rs 2.0 bn. The company plans to amalgamate this division into the company.
- As part of its commitment to increase share of renewable energy, the company is exploring investment in solar power.
- In healthcare, the company plans to expand the product portfolio.
- The company plans to spend Rs 2.0 for expanding its Automation and Medium Voltage products capacity. This expansion is part of the Rs 16 bn expansion plan over the next few years.

Valuation and Recommendation

We recommend BUY on Siemens India with a price target of Rs.825

- We have been cautious on the stock and the MNC Electrical Equipment sector due to intense competitive scenario coupled with stock valuations running ahead of earnings growth.
- However, we prefer to Siemens over the other MNC peers on account of higher order backlog, robust cash flow and relative valuation discount.
- In view of this, we upgrade stock to BUY with a revised DCF based price target of Rs 825.

RESULT UPDATE

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IRB INFRASTRUCTURE

PRICE: RS.201 **RECOMMENDATION: BUY**
TARGET PRICE: RS.291 **FY12E P/E: 13.4X**

- **Revenues of the company during Q3FY11 increased by 54% YoY led by 98% growth in the EPC division and 3.7% growth in the toll revenues as against last year.**
- **Operating margins were in line with our estimates but declined in comparison with last year due to higher proportion of EPC revenues as compared to BOT segment.**
- **Interest and depreciation charges have increased in Q3FY11 as compared to Q3FY10 in line with work commencement on new projects as well as increase in amortization cost of existing projects.**
- **Net profit growth of 45% YoY was better than our estimates.**
- **At current price of Rs 201, stock is trading at 16.0x and 13.4x P/E and 9.1x and 7.8x EV/EBITDA on FY11 and FY12 estimates. We marginally tweak our estimates to factor in delays seen in Goa-Karnataka project and revise our price target to Rs 291 on FY12 estimates as against Rs 304 earlier. We continue to maintain BUY on the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	17,539	24,141	38,496
Growth (%)	76.8	38.0	59.0
EBITDA	8,480	11,118	15,161
EBITDA margin (%)	48.3	46.1	39.4
PBT	4,167	5,916	7,263
Net profit	3,854	4,180	4,978
EPS (Rs)	11.6	12.6	15.0
Growth (%)	119.1	8.5	19.1
CEPS(Rs)	17.1	19.1	27.1
Book value(Rs/share)	61.4	71.5	84.0
DPS (Rs)	2.0	2.0	2.0
ROE (%)	20.4	18.9	19.3
ROCE (%)	14.5	16.2	15.1
Net debt	23,600	34,626	51,835
P/E (x)	17.3	16.0	13.4
P/BV (x)	3.3	2.8	2.4
EV/Sales (x)	5.2	4.2	3.1
EV/EBITDA (x)	10.7	9.1	7.8

Source: Company, Kotak Securities - Private Client Research

Financial highlights

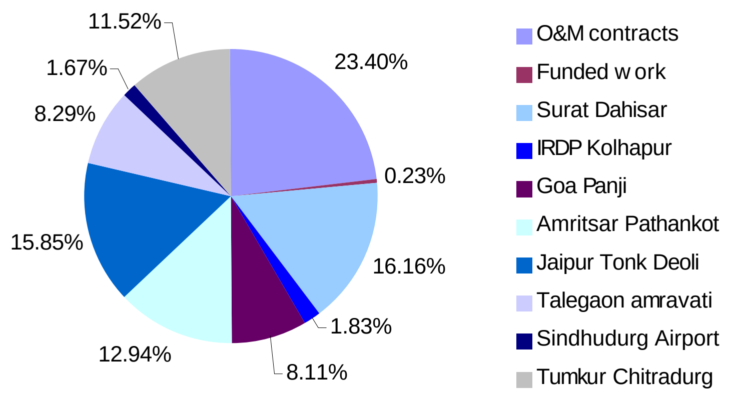
	Q3FY11			Q3FY10		
(Rs mn)	EPC	BOT	Total	EPC	BOT	Total
Revenues	**4665**	**2140**	**6805**	**2354**	**2064**	**4418**
YoY (%)	98.2	3.7	54.0			
EBITDA	**1161**	**1892**	**3053**	**505**	**1853**	**2358**
EBITDA (%)	24.9	88.4	44.9	21.5	89.8	53.4
Depreciation	147	438	585	126	404	530
EBIT	**1014**	**1454**	**2467**	**379**	**1449**	**1828**
Interest	162	658	820	55	681	736
EBT	**852**	**796**	**1648**	**325**	**768**	**1093**
YoY (%)	162.5	3.6	50.8			
Tax	275	13.14	288	67	73	140
Tax (%)	32.3	1.7	17.5	20.6	9.5	12.8
PAT	**577**	**783**	**1360**	**258**	**695**	**953**
Minority interest	0	29.6	29.6		36	36
Net profit	577	753	1330	258	659	917
YoY (%)	124.1	14.3	45.1			
Net profit w/o MAT credit	577	607	1184	258	659	917
Shares(mn)	332.4	332.4	332.4	332.4	332.4	332.4
EPS (Rs)	**1.7**	**2.3**	**4.0**	**0.8**	**2.0**	**2.8**

Source: Company

Revenue growth led by excellent ramp up in EPC business

- Revenues of the company during Q3FY11 increased by 54% YoY led by 98% growth in the EPC division and 3.7% growth in the toll revenues as against last year.
- EPC division has an order book of Rs 89.8 bn provides a revenue visibility for next 2.5 years. EPC revenues are likely to remain strong going ahead due to ramping up construction activity in Amritsar-Pathankot, Talegaon-Amravati and Jaipur-Deoli project as well as commissioning of construction on Goa-Karnataka as well as Tumkur-Chitradurg projects.

Current order book - Q3FY11



Source: Company

- Construction revenues from Amritsar-Pathankot and Jaipur-Deoli project stood at Rs 860 mn for the quarter while it has also begun for Talegaon-Amravati. Goa-Karnataka project is still awaiting date appointment notification from NHAI and also land is also yet to be handed over by the government. Thus EPC work on this project has been postponed and we expect it to commence from Q1FY12 or Q2FY12. Surat Dahisar project is expected to be completed by Aug, 2011 while Kolhapur IRDP project is expected to be complete by FY11 end.
- For Tumkur-Chitradurg project, financial closure is expected to be completed by Feb, 2011 and work is expected to commence from Q1FY12.
- BOT revenues have grown by 3.7% in Q3FY11 as compared to Q3FY10. Mumbai-Pune expressway has shown a sedate YoY growth of just 4.9% while Bharuch Surat project has also shown a 7.3% YoY growth in toll collections. Traffic growth in Surat-Dahisar was lower than our estimates. Other projects such as Pune-Nashik, Thane-Bhiwandi and Pune Sholapur have reported toll collections in line with our estimates.
- Toll rate hike of 5% was seen in Surat-Dahisar project in Sep,2010 while in Bharuch-Surat project, hike of 5% was observed in July, 2010. Thane-Bhiwandi project toll rates have gone up by 6% from 1st Jan, 2011 while for Mumbai-Pune project, toll rates are likely to go up by 18% from 1st Apr, 2011.
- Thus, with expected increase in toll rates coupled with improvement in traffic volumes, toll revenues are likely to increase going forward.
- Company is quite confident of the order inflows going forward post change in the key ministry levels. It is pre-qualified for orders worth Rs 490 bn and financial bids for these projects are likely to be called in next 3-4 months. Along with this, company expects that NHAI may be able to maintain their guidance of 9000km of project awards during FY12 due to spill over of projects from FY11 to FY12.
- Due to delays seen land acquisition for Goa-Karnataka project, we factor in delayed commencement of construction work as well as commissioning of this project and correspondingly tweak our estimates.
- Thus we expect consolidated revenues to grow at a CAGR of 48% between FY10-FY12.

BOT revenue trend

	FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11
Surat Dahisar	**336**	**778**	**780**	**873**	**907**	**3337**	**882**	**828**	**955**
QoQ inc			0.3%	11.9%	3.9%		-2.8%	-6.1%	15.3%
YoY inc								6.1%	9.4%
Mumbai Pune	**2879**	**764**	**767**	**771**	**761**	**3063**	**802**	**803**	**809**
QoQ inc		7.6%	0.4%	0.5%	-1.3%		5.4%	0.1%	0.7%
YoY inc	22.5%	6.0%	5.6%	6.8%	7.2%	6.4%	5.0%	4.7%	4.9%
Thane Bhiwandi	**404**	**112**	**112**	**118**	**130**	**472**	**133**	**122**	**138**
QoQ inc		10.9%	0.0%	5.4%	10.2%		2.3%	-8.3%	13.1%
YoY inc	20.6%	2.8%	14.3%	22.9%	28.7%	16.8%	18.8%	8.9%	17.0%
Thane Ghodbunder	**265**	**69**	**67**	**72**	**70**	**277**	**72**	**65**	**73**
QoQ inc		4.5%	-2.9%	7.5%	-2.8%		2.9%	-9.7%	12.0%
YoY inc	-1.9%	1.5%	4.7%	7.5%	6.1%	4.5%	4.3%	-3.0%	1.1%
Pune-Nashik	**164**	**42**	**43.4**	**47.3**	**48**	**181**	**48**	**53**	**55**
QoQ inc			3.3%	9.0%	1.5%		0.0%	10.4%	4.6%
YoY inc	2.5%	5.0%	3.1%	16.5%	17.1%	10.4%	14.3%	22.1%	17.3%
Pune-Sholapur	**128**	**36**	**31**	**32**	**35**	**133**	**36**	**31**	**35**
QoQ inc			-13.9%	3.2%	9.4%		2.9%	-13.9%	14.1%
YoY inc	-5.9%	-2.7%	0.0%	6.7%	16.7%	3.9%	0.0%	0.0%	10.5%
NKT	**114**	**29**	**34**	**35**	**36**	**135**	**38**	**35**	**36**
QoQ inc			17.2%	2.9%	2.9%		5.6%	-7.9%	2.7%
YoY inc	3.6%	-6.5%	17.2%	29.6%	33.3%	18.4%	31.0%	2.9%	2.7%
MMK	**66**	**17**	**18**	**14**	**14**	**63**	**17**	**20**	**19**
QoQ inc			5.9%	-22.2%	0.0%		21.4%	17.6%	-5.1%
YoY inc	6.5%	-5.6%	5.9%	-6.7%	-12.5%	-4.5%	0.0%	11.1%	35.6%
Kharpada bridge	**70**	**18**	**15**	**16**	**18**	**67**	**19**	**15**	**19**
QoQ inc			-16.7%	6.7%	12.5%		5.6%	-21.1%	28.4%
YoY inc	-6.7%	-10.0%	-11.8%	0.0%	5.9%	-4.3%	5.6%	0.0%	20.4%
Bharuch surat			**21**	**324**	**317**	**663**	**298**	**305**	**348**
QoQ inc							-6.0%	2.3%	14.0%
YoY inc								1352%	7.3%

Source: Company

Operating margins in line with our estimates

- Operating margins were in line with our estimates but declined in comparison with last year due to higher proportion of EPC revenues as compared to BOT segment.
- Along with this, company has also factored in increase in commodity prices in its EPC contracts from SPV.
- We expect margins to be around 46.1% for FY11 and 39.4% for FY12. Margins are expected to decline going forward due to higher proportion of revenues from the EPC segment.

Net profit growth led by excellent revenues

- Net profit growth of 45% YoY was better than our estimates.
- Interest and depreciation charges have increased in Q3FY11 as compared to Q3FY10 in line with work commencement on new projects as well as increase in amortization cost of existing projects.
- Along with this, company has also taken some short term loans in their EPC division (@8.5%-9%) and delayed the draw down of long term funds (@10.5%) for SPV to save interest cost for the BOT subsidiary. This resulted in increasing the interest outgo for the construction arm while saving costs for the BOT arm. However, these borrowings would be retired by the company in short term.
- Thus, post marginally tweaking our estimates to factor in delays in goa-Karnataka project, we expect net profits to grow at a CAGR of 14% between FY10-FY12.

Valuation and recommendation

- At current price of Rs 201, stock is trading at 16.0x and 13.4x P/E and 9.1x and 7.8x EV/EBITDA on FY11 and FY12 estimates.

We continue to maintain BUY on IRB Infrastructure with a revised price target of Rs.291

- We marginally tweak our estimates to factor in delays seen in Goa-Karnataka project. This results in changing our construction division revenue estimates as well as valuation of Goa-Karnataka project in sum-of-the-parts valuation.
- We thus arrive at a revised price target to Rs 291 on FY12 estimates as against Rs 304 earlier. We continue to maintain **BUY** on the stock.

Sum of the parts valuation

	EBITDA (FY12E)	Multiple	EV (Rs mn)	Value per share
Core construction division	6086	6	36,517	110
BOT projects(March 2011E)	**Cost of equity (%)**			
Bharuch Surat	12%		2,601	8
Thane Ghodbunder	12%		2,274	7
Surat Dahisar	12%		3,292	10
Mumbai Pune	11%		16,115	49
Pune-Sholapur	12%		890	3
KHP	12%		319	1
Thane bhiwandi	12%		2,614	8
Pune Nashik	12%		1,682	5
NKT	12%		367	1
MMK	12%		441	1
Kolhapur IRDP	12.3%		4,396	13
Talegaon Amravati	12.3%		2,926	9
Jaipur-Deoli	12.3%		6,274	19
Amritsar-Pathankot	12.3%		4,131	12
Goa-Karnataka	12.3%		1,234	4
Tumkur Chitradurg	12.3%		1,901	6
Real estate investment valuations	**1250 acres**	**1**	**1,300**	**4**
Value of upcoming projects				21
Cash and investments			451	1
Total				**291**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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JAIPRAKASH ASSOCIATES LTD

PRICE: RS.87 **RECOMMENDATION: BUY**
TARGET PRICE: RS.130 **FY12E P/E: 16.6X**

- **Revenues of the company in Q3FY11 registered a growth of just 1% YoY, lower than our estimates. This was primarily due to obstruction of construction work of Yamuna Expressway on account of agitation.**
- **Operating margins in Q3FY11 stood at 27.4% as against 27.2% in Q3FY10. Margins were better than our estimates due to excellent sales booked in real estate division as well as higher execution of power projects.**
- **Net profits registered a decline of 26% vs Q3FY10 due to lower revenue growth as well as higher interest and depreciation outgo.**
- **At current price of Rs 87, stock is trading at 22.5x and 16.6x P/E on FY11 and FY12 estimates respectively. We revise our estimates downwards to factor in lower execution from Yamuna Expressway and thus arrive at a revised price target of Rs 130 (Rs 163 earlier). We continue to maintain BUY on the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	1,00,889	1,28,610	1,70,658
Growth (%)	69	27	33
EBITDA	26,249	30,744	38,460
EBITDA margin (%)	26.0	23.9	22.5
PBT	13,796	12,852	17,403
Adjusted net profit	9,105	8,482	11,486
EPS (Rs)	4.1	3.9	5.2
Growth (%)	(34.1)	(6.8)	35.4
CEPS (Rs)	9.9	8.7	8.3
BV/per share (Rs)	44.0	48.9	53.2
Dividend/share (Rs)	0.9	0.9	0.9
ROE (%)	20.9	12.6	10.2
ROCE (%)	11.4	10.8	12.3
Net cash /(debt)	-93619	-116191	-188148
NW capital (days)	90.0	90.0	90.0
P/E (x)	21.0	22.5	16.6
EV/EBITDA (x)	10.8	10.0	8.7
EV/Sales (x)	2.8	2.4	2.0
P/BV (x)	2.0	1.8	1.6

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY11	Q3FY10	YoY (%)
Net sales	**28,937**	**28,524**	**1**
Expenditure	21,022	20,777	1
EBITDA	**7,915**	**7,747**	**2**
EBITDA margin	27.4%	27.2%	
Depreciation	1,542	1,109	
EBIT	**6,373**	**6,638**	**-4**
Interest	3,382	2,762	
EBT (exc other income)	2,991	3,876	
Other income	588	1,153	
Prior period adjustment	-9		
EBT	**3,571**	**5,029**	**-29**
Tax	1,245	1,879	
Tax (%)	35	37	
Profit after tax	**2,326**	**3,149**	**-26**
Equity capital	4,253	4,244	
Core EPS	1.09	1.56	

Source: Company

Revenue growth impacted by lower construction revenues

- Revenues of the company in Q3FY11 registered a growth of just 1% YoY, lower than our estimates. This was primarily due to obstruction of construction work of Yamuna Expressway on account of agitation.
- Revenues growth was primarily led by 31% YoY growth in cement revenues and 23% jump in real estate revenues but was impacted by 23% decline in the construction revenues.
- **Cement division performance:** Growth in cement division is primarily on account of significant jump in cement volumes as compared to last year. Cement volumes for Q3FY11 stood at 3.78MT as against 2.864MT for Q3FY10. Cement realizations have witnessed a decline inline with pricing pressures witnessed across country during FY11. Blended realizations for the company stood at Rs 3274 per tonne as against Rs 3528 per tonne in Q2FY11 and Rs 3311 per tonne in Q3FY10. Cement realizations have declined due to fall in cement prices seen in north, central and eastern regions.

- Company expects to enhance its total cement capacity to 33MT by FY12 from its current capacity of nearly 23 MT including 2.2MT capacity in joint venture with SAIL. We have factored in cement dispatches of 15MT and 19MT for FY11 and FY12 respectively in our estimates.
- **Construction division performance:** Growth in construction division revenues is primarily on account of excellent execution on Karcham Wangtoo project but work was obstructed on Yamuna Expressway. This resulted in decline in construction revenues from Yamuna Expressway.
- **Real estate division performance:** Revenues for real estate segment had been better than our estimates and reported a growth of 23% YoY. During Q3FY11, company sold nearly 3.03 mn sq ft. Along with this, for Jaypee Infratech, company reported excellent revenues of Rs 7554 mn for Q3FY11. Revenue growth was primarily led by completion of construction of certain projects.
- We revise our estimates downwards due to execution delays seen in Yamuna Expressway project and expect revenues to grow at a CAGR of 30% between FY10-FY12.

Operating margins impacted by decline in cement realizations

- Operating margins in Q3FY11 stood at 27.4% as against 27.2% in Q3FY10. Margins were better than our estimates due to excellent sales books in real estate division as well as higher execution of power projects.
- EBIT margins in cement division stood at 11.5% while for the construction division, it stood at 21.4% for Q3FY11. EBITDA per tonne for cement division has declined to Rs 543 per tonne as against Rs 748 per tonne in Q2FY11 and Rs 1001 per tonne in Q3FY10. Cement division has witnessed margin pressure due to fall in cement prices, increase in power and fuel as well as freight expenses. Construction division EBIT margins stood at 21.4% and EBITDA margins stood at 22.6%. We believe that company will continue to maintain margins at these levels for construction division.
- Post revising our revenue estimates in the construction division downwards, we now expect operating margins to be 23.9% and 22.5% for FY11 and FY12.

Net profit growth lower than our estimates

- Net profits registered a decline of 26% over Q3FY10 due to lower revenue growth as well as higher interest and depreciation outgo.
- We revise our revenue estimates downwards and also marginally tweak interest and depreciation outgo to factor in higher interest rates as well as higher capex.
- We thus expect adjusted net profits to grow to Rs 8.5 bn and Rs 11.5 bn for FY11 and FY12 respectively.

Valuation and recommendation

We continue to maintain BUY on Jaiprakash Associates with a revised price target of Rs.130

- At current price of Rs 87, stock is trading at 22.5x and 16.6x P/E on FY11 and FY12 estimates respectively.
- We revise our estimates downwards to factor in lower execution from Yamuna Expressway and thus arrive at a revised price target of Rs 130 (Rs 163 earlier).
- We continue to maintain **BUY** on the stock.

Sum of the parts valuation

SOTP	FY12	Price per share	Rationale
Core business			
Construction	1,28,072	58	At 8x EV/EBITDA inline with peers
Cement	1,53,242	70	At $110/tonne for cement, inline with peers
Jaypee greens	11,007	5	NPV of land bank
Hotels	2,602	1	6x EV/EBITDA at a discount to peers
Less net debt(FY12)	1,88,148	86	Debt adjusted with FCCB proceeds
Core business valuation	**1,06,776**	**49**	
	-		
JPVL valuation	82,653	38	At 10% discount to the market price
Karwam Wangtoo valuation(44%stake)	12,508	6	
Power assets valuation		**43**	
Real estate valuation	**69,023**	**31**	At 10% discount to the market price
Treasury share	15,333	7	At 10% discount to the market price
Total	**1,91,132**	**130**	

Source: Kotak Securities - Private Client Research

Holding- Dipen Shah-150 shares of Jaiprakash Associates Ltd

RESULT UPDATE

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CROMPTON GREAVES

PRICE: RS.272 **RECOMMENDATION: BUY**
TARGET PRICE: RS.322 **FY12E P/E: 16.5X**

- **Crompton Greaves results for Q3FY11 are broadly in line with our estimates. Power systems division reported muted growth for the quarter. Consumer and Industrial segment recorded meaningful traction.**
- **Company maintained operating margins at 14.2% for the quarter. Other income of Rs 120 mn aided PAT that stood at Rs 2.3 bn.**
- **Overseas subsidiaries revenues are up by 4% QoQ. Company reported sustained margins in the overseas business.**
- **Recently, CGL stock (along with the other stocks in the peer group) has underperformed the broader market. We believe that this has been mainly due to 1) concerns regarding the delays in order outflows in the T&D space and 2) slowdown in the real estate activity.**
- **We believe that with various power generation capacities coming on stream in next few years, spending in T&D space is bound to increase in the next few quarters.**
- **We therefore change our rating to 'BUY' (from reduce earlier) in view of the recent correction in the stock price and maintain price target of Rs 322 on the company's stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	91,409	102,465	119,165
Growth (%)	4.6	12.1	16.3
EBITDA	12,770	14,140	16,263
EBITDA margin (%)	14.0	13.8	13.6
PBT	11,891	13,389	15,519
Net profit	8,241	9,104	10,553
EPS (Rs)	12.8	14.2	16.4
Growth (%)	47.2	10.5	15.9
CEPS (Rs)	15.3	16.7	19.1
BV (Rs/share)	40.3	53.4	68.8
Dividend/share (Rs)	1.3	1.3	2.3
ROE (%)	32.3	26.8	24.1
ROCE (%)	42.9	38.4	35.4
Net cash (debt)	2,567	9,964	18,270
NW Capital (Days)	30.1	30.3	30.8
EV/Sales (x)	1.9	1.6	1.3
EV/EBITDA (x)	13.5	11.6	9.6
P/E (x)	21.2	19.2	16.5
P/Cash Earnings	17.8	16.3	14.2
P/BV (x)	6.7	5.1	4.0

Source: Company, Kotak Securities - Private Client Research

Quarterly performance Standalone financials

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)	9MFY11
Gross sales	14,762	12,751	15.8	15,291	(3.5)	44,208
excise duty	776	514	51.1	844	(8.0)	2,345
Net Sales	**13,986**	**12,238**	**14.3**	**14,448**	**(3.2)**	**41,863**
RM costs	6,939	5,760	20.5	7,478	(7.2)	20,477
Purchase of traded goods	2,479	2,077	19.4	2,380	4.2	7,902
Staff costs	773	623	24.1	741	4.3	2,240
Other costs	1,513	1,742	(13.1)	1,540	(1.7)	4,558
Total Expenditure	11,705	10,202	14.7	12,139	(3.6)	35,178
PBIDT	**2,281**	**2,036**	**12.0**	**2,309**	**(1.2)**	**6,685**
Interest	23	11		(7)		16
Other Income	221	167	32.4	193	14.7	568
PBDT	**2,479**	**2,192**	**13.1**	**2,323**	**6.7**	**7,237**
Depreciation	211	132	59.8	195	8.2	578
PBT	**2,268**	**2,060**	**10.1**	**2,321**	**(2.3)**	**6,659**
Tax	507	705	(28.1)	729	(30.4)	1,891
PAT	**1,760**	**1,354**	**30.0**	**1,592**	**10.6**	**4,768**
EPS (Rs)	**2.7**	**2.1**		**2.5**		**7.4**
Excise rate (%)	5.3	4.0		5.7		15.9
RM costs to sale (%)	47.0	45.2		50.7		138.7
staff costs (%)	5.2	4.9		5.0		15.2
other costs (%)	10.3	13.7		10.4		30.9
OPM (%)	15.4	16.0		15.6		45.3
Total tax rate (%)	22.4	34.2		31.4		28.4

Source: Company

Consolidated Quarterly financials

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)	9MFY11
Gross sales	**24749**	**22982**	**7.7**	**24826**	**(0.3)**	**73325**
excise duty	779	518		847		2355
Net Sales	**23970**	**22464**	**6.7**	**23979**		**70971**
RM costs	12407	11117	11.6	12202	1.7	35688
Purchase of traded goods	2490	2066	20.5	2434	2.3	8028
Staff costs	3005	2817	6.7	3093	(2.8)	9092
Other costs	2667	3265	(18.3)	2917	(8.6)	8455
Total Expenditure	20568	19265	6.8	20646	(0.4)	61263
PBIDT	**3402**	**3200**	**6.3**	**3333**	**2.1**	**9708**
Interest	39	49		49		137
Other Income	120	215	(44.1)	228	(47.2)	531
PBDT	**3483**	**3366**	**3.5**	**3512**	**(0.8)**	**10102**
Depreciation	467	395	18.2	458	1.9	1340
PBT	**3017**	**2971**	**1.5**	**3055**	**(1.2)**	**8762**
Tax	703	968	(27.4)	920	(23.5)	2416
Reported PAT	2313	2003	15.5	2135	8.3	6346
EPS (Rs)	**3.6**	**3.1**		**3.3**		**9.9**
Excise rate (%)	3.1	2.3		3.4		3.2
RM costs to sale (%)	51.8	49.5		50.9		50.3
staff costs (%)	12.5	12.5		12.9		12.8
other costs (%)	11.1	14.5		12.2		11.9
OPM (%)	14.2	14.2		13.9		13.7
Total tax rate (%)	23.3	32.6		30.1		27.6

Source: Company

Result Highlights

- Standalone revenues grew by 15.8%yoy mainly driven by impressive growth in consumer and industrial business.
- Power systems division posted flat growth a Rs 5.8 bn for the quarter. We believe that muted order flows from Powergrid since past few quarters accounted for this. Going forward, we believe that order bookings from powergrid would be the key variable to monitor.
- Power system division has remained muted as customers have delayed taking deliveries. The situation should correct in the coming quarters. Management believes this is a temporary phenomenon as the demand growth as reflected by order intake is robust.

Segment revenue (Consolidated)

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)
Power	15451.8	15595.7	-0.9	15778.1	-2.1
Consumer	4751.3	3647.3	30.3	4534.3	4.8
Industrial	3809.1	3100.4	22.9	3606.1	5.6

Source: Company

- Consumer Product division sales grew by 30% YoY. Company plans to expand in rural areas for sustaining growth momentum in this segment.
- Industrial division observed 23% YoY revenue growth at Rs. 3.8 bn driven by upsurge in demand for motors and drives in the international markets.
- On a consolidated basis revenue grew by 7.7% mainly on back of domestic business. However international subsidiaries operations have shown signs of stability with revenues up by 4%QoQ.

- Company's overseas operations have been reporting revenue de-growth since past several quarters due to ongoing subdued demand scenario in Euro zone and the US. Earlier management has highlighted that the wind business in international geographies is not taking off.
- Revenues from international subsidiaries remained muted in the quarter. We believe that this is partly due to the currency movements. We highlight that for FY11, EURO has traded at an average of Rs 59 vis-à-vis Rs 66 in FY10.
- On a standalone basis operating margins for the Quarter remained almost flat at 15.4% vis-à-vis 16% in Q2FY10. On consolidated basis margins remained unchanged a 14%.

Segment PBIT (Consolidated)

(%)	Q3FY11	Q3FY10	Q2FY11
Power	13.0	12.9	12.3
Consumer	14.0	14.4	14.8
Industrial	18.2	20.7	19.5

Source: Company

- We believe that the increasing contributions from Consumer and industrial segments along with the effect of operating leverage coming into play would help sustaining the overall margins. Going forward we expect company to sustain margins at 13.8% for FY11E on the consolidated basis.
- In the near past few quarters, management has been making acquisitions and forming JVs that offer complimentary propositions. Company has taken advantage of its strong balance sheet and superior execution skills of the management to fulfill the gaps in the offerings.
- Management eyes meaningful opportunity in the international power distribution space and would contemplate the strategy of growing inorganically by means of acquisition that offer either technology or market accessibility. Company would be looking out for the strategic fitment and unlike in past, target size would not be the restraint to this.
- In the quarter, company has entered into a JV with ZIV Aplicaciones of Spain for manufacturing substation automation systems in India. Company has also entered into a MOU with Saudi's EIC group for exploring EPC business in the Middle East.

Some of the key acquisitions company has made in last two years are highlighted below.

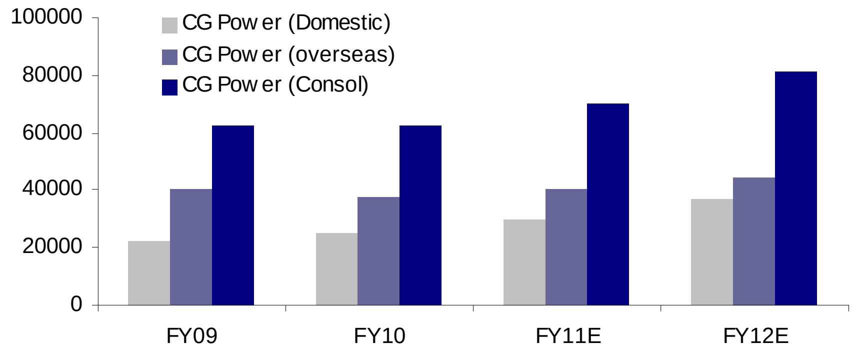
Company	Year	Operating Country	Areas of work
Pauwels	2005	Belgium	Power and distribution transformers
Ganz	2006	Hungary	Power transformers, GIS switchgear and rotating machines, as well as in the supporting areas of design, erection and commissioning.
Microsol	2007	Ireland, USA, UK	sub-station automation for MV and HV substations
Sonomatra	2008	France	Power transformers and on-load tap changers, oil analysis, oil treatment and retro-filling.
MSE	2008	USA	Engineering, procurement and construction (EPC) of electric power applications in renewable energy segment
Power Technology Solutions Ltd	2010	UK	Consulting as well as technical and engineering support to regional electricity companies
Three businesses of Nelco Ltd - traction electronics, SCADA and industrial drives	2010	India	Railways and drives

Source: Company, Kotak Securities - Private Client Research

Business Outlook

- We believe that the current slowdown in the real estate activity in India and continuous delays from power grid would remain a matter of concern for the company and the peer group in the short term.
- However we believe that this is a temporary phenomenon and expect company's domestic power business to grow by over 23% CAGR between FY10-12E.
- The prime transmission utility has outlined its capex guideline worth Rs 400 bn involving 19 no of substations with transformation capacity of 52565 MVA in 11th five year plan.
- In addition to the 11th five year plan investment, PGCIL proposes to set up seven transmission corridors at an investment of about INR 500 bn over the next five years. These corridors will act as pooling points for transfer of over 55,000 MW from a number of private generation projects coming up in the eastern and southern states. The move is aimed at facilitating transfer of electricity to the power-starved northern and western regions of the country.
- Currently company enjoys the leadership position in India along with growing presence in other Asian countries manufacturing high quality power transformers, distribution transformers, extra high voltage (EHV) and medium voltage (MV) circuit breakers and gas insulated switchgear (GIS).

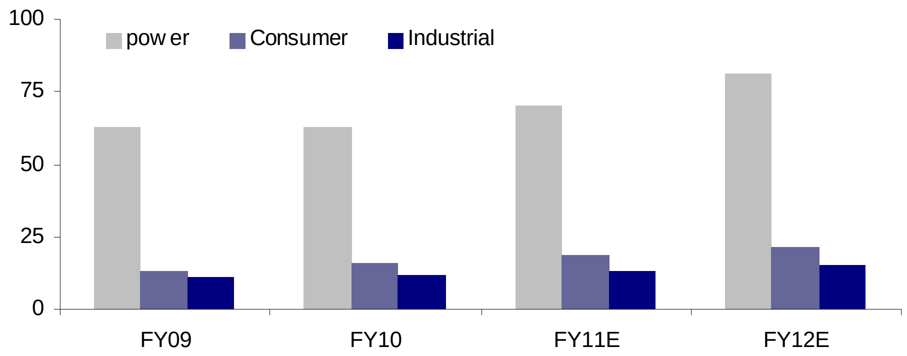
Power segment revenue breakup (Rs mn)



Source: Company, Kotak Securities - Private Client Research

- While we expect the industrial systems segment to grow at a CAGR of 15% YoY between FY10-12E, we build 17% YoY growth in consumer product business in the same period given the up turn in industrial capex and real infrastructure projects in the domestic market. We also opine that the company shall maintain margins across the segments.

Revenue breakup (Rs bn)

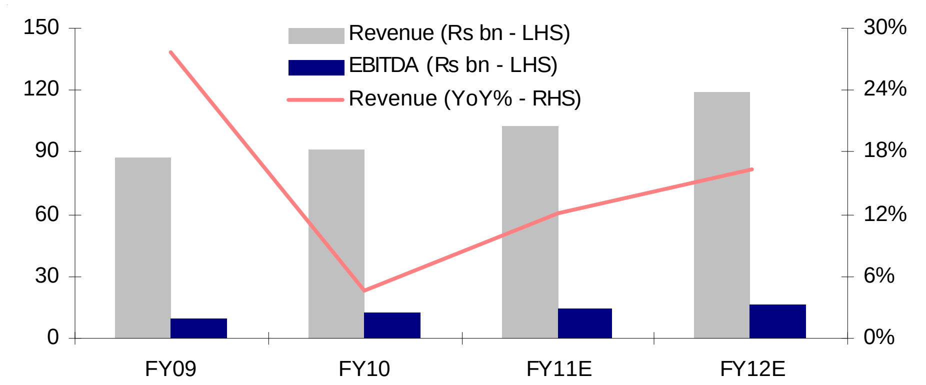


Source: Company, Kotak Securities - Private Client Research

Financial outlook; we expect that the company would generate strong free cash flow amidst stiff competition

- We expect company's revenues to grow at 14% CAGR between FY10-12E given higher growth across all the segments viz. power systems led by meaningful demand in power transformers, industrial systems and consumer products.

Revenue trend



Source: Company, Kotak Securities - Private Client Research

- We believe that the company would maintain its margins on back of increase in volumes even in increasing raw material prices scenario going ahead. We build EBITDA% of 13.8% and 13.6% in FY11E and FY12E respectively.
- Given the lower working capital for the company for having limited presence in project business compare to peer group, we expect that the company would generate significant free cash flows to fund its growth.

Listing of Avantha Power could be a possible trigger in the short term

- Near-term triggers to watch out for the stock would be the progress on listing of Avantha Power, in which the company has a 32% stake.
- Management has stated the red hearing filing of its 32% holding company-Avantha power and Infrastructure limited (APIL) with SEBI for a public issue.
- Company has invested a sum of Rs 2.27 bn in APIL at Rs 10 per share for the stake. APIL is an established power generation company with 191 MW of operational thermal power capacity; 2,400 MW of generating capacity under various stages of implementation; and 1,320 MW of generating capacity under planning spread across India.
- Once all the projects under implementation and development have achieved commercial operation, the company is expected to have a total installed capacity of 3,911 MW.

Valuation & Recommendation

- Recently, CGL stock (along with the other stocks in the peer group) has underperformed the broader market.
- We believe that this has been mainly due to the concerns regarding the delays in order outflows in the T&D space and partly due to the slowdown in the real estate activity.
- We opine that the current thrust in the infrastructure space (particularly power in sector) might get delayed in the short run but is likely to sustain in the long term. We believe that with various power plants coming on stream in next few years, off take in T&D infrastructure is inevitable.

We recommend BUY on Crompton Greaves with a price target of Rs.322

- With increased capabilities in various domains acquired through JVs and acquisitions we believe that the company is well integrated and well poised to benefit from 1) spending in T&D space in India 2) up tick in industrial capex 3) revival of overseas markets.
- We therefore continue to assign a 19x P/E multiple to the core FY12E earnings. We value company's stake in Avantha power at Rs 10 and arrive at the one year price target of Rs 322 for the company's stock.
- Currently CGL is attractively trading at 16.5 FY12E consolidated earnings. On an EV/EBITDA basis, the stock is trading at 9.6x FY12E numbers.
- We maintain price target of Rs 322 on the stock. Change our rating to '**BUY**' in view of the recent correction in the stock price.

RESULT UPDATE

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KALPATARU POWER TRANSMISSION LTD (KPTL)

PRICE: RS.135 **RECOMMENDATION: BUY**
TARGET PRICE: RS.262 **FY12E P/E: 8.8X**

- **KPTL reported decent set of nos. for Q3FY11. Numbers are in line with our expectations on revenue front and slightly lower on net profit front.**
- **Stock has been underperforming the broader market through past two quarters. Muted order book growth and company's fund raising in this fiscal that has met with skepticism are the primary reasons for this.**
- **Continued momentum in investment in transmission towers by state utilities and order flows from PGCIL would likely remain a key variable for order book growth of the company and also for the peer group.**
- **Company is favorably poised in terms of capacity and execution, to benefit from thrust in T&D spending in India. Significant contributions from company's key subsidiaries are also expected to add to the free cash flow generation for the company.**
- **We maintain our BUY rating on the company's stock in view of adequate upside to our DCF based target price of Rs.262.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	25,974	29,451	35,228
Growth (%)	38.0	13.4	19.6
EBITDA	3,048	3,517	4,239
EBITDA margin (%)	11.7	11.9	12.0
PBT	2,276	2,691	3,273
Net profit (Adj)	1,705	1,937	2,357
EPS (Rs)	11.1	12.6	15.4
Growth (%)	86.6	13.7	21.6
CEPS (Rs)	13.6	15.5	18.9
BV (Rs/share)	62.6	73.7	87.6
Dividend/share (Rs)	1.5	1.3	1.3
ROE (%)	18.7	18.0	18.6
ROCE (%)	17.1	17.6	18.7
Net cash (debt)	(5,675)	(10)	(1,021)
NW Capital (Days)	122	122	123
EV/Sales (x)	1.0	0.7	0.6
EV/EBITDA (x)	8.7	5.9	5.1
P/E (x)	12.2	10.7	8.8
P/Cash Earnings (x)	9.9	8.7	7.2
P/BV (x)	2.2	1.8	1.5

Source: Company, Kotak Securities - Private Client Research

Standalone Result

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)	9MFY11
Net Sales	**7930**	**7192**	**10.3**	**6315**	**25.6**	**19623**
Other Income	116	7		138	(16.3)	337
Total Income	**8046**	**7199**		**6452.80**	**24.7**	**19960**
Raw Material	3814	3174	20.2	2985	27.8	8946
Staff costs	427	416	2.5	474	(10.0)	1359
job charges	1995	0		1591	25.4	5168
Other expenditure	768	2780		533	44.1	1774
Total Expenditure	7004	6371	9.9	5,583	25.5	17246
PBIDT	**926**	**822**	**12.7**	**732**	**26.6**	**2377**
Interest	222	109		186	18.8	598
PBDT	**821**	**720**	**13.9**	**683**	**20.1**	**2116**
Depreciation	118	107	10.8	113	4.1	342
PBT	**703**	**614**	**14.5**	**570**	**23.2**	**1774**
Tax	195	173	12.5	156	24.6	486
PAT	**508**	**441**	**15.2**	**413.70**	**22.7**	**1288**
EPS (Rs)	**3.3**	**2.9**	**15.2**	**2.7**	**22.7**	**8.4**
PBDIT (%)	11.7	11.4		11.6		12.1
Raw material costs to sales (%)	48.1	44.1		47.3		45.6
Staff costs to sales (%)	5.4	5.8		7.5		6.9
job charges to sales (%)	25.2	0.0		25.2		26.3
Other expenditure to sales (%)	9.7	38.7		8.4		9.0
Tax rate (%)	27.7	28.2		27.4		27.4

Source: Company

Result Highlights

- Revenue grew by 10.3% YoY at Rs 7.9 bn in Q3FY11 mainly driven by transmission line division, which grew 13% yoy.
- Company maintained EBITDA% at 12% for the quarter on account of steady cost management and proficient execution skills.
- Increases in input prices are likely to have a slightly negative impact on the international business margins. Overseas projects as largely of fixed price in nature. Recently company has won few large orders in overseas markets which include setting up of 400KV-279 Kms DC transmission line in Congo on turnkey basis.
- We reiterate that the company has been adopting selective bidding strategy and is likely to maintain margins amidst competition originating from fringe and other unorganized players.

Segment reporting

	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)
Standalone Revenues (Rs mn)					
T& Dist business	6,892	6,123	13	5,472	26
Real Estate Division	0.3	4	-	0.3	0
Energy	132	131	1	97	37
Infrastructure	906	934	(3)	745	21
Total	**7,930**	**7,192**		**6,315**	**26**
PBIT Rs mn					
T& Dist business	688	645	7	581	19
Real Estate Division	0.3	4	(92)	0.3	
Energy	25	31	(18)	5	440
Infrastructure	80	64	25	63	27
Total	**794**	**743**		**649**	**22**
PBIT (%)					
T& Dist business	10	11		11	
Real Estate Division	100	93		100	
Energy	19	24		5	
Infrastructure	9	7		8	

Source: Company

- Company has been experiencing a hold up in the order book growth. This is likely due to 1) Powergrid has slowed down in awarding new T&D projects 2) Competition has increased in the recent past between the established players and also from the unorganized sector
- Depreciation expense increased by 11% YoY to Rs 118 mn in Q3FY11 vis-à-vis Rs. 107 mn last year. Company incurred capex in infrastructure division for buying new pipe laying machinery thus resulting gross block to go up.
- Company reported muted growth in the energy and infrastructure space with revenues of Rs 906 mn in the infrastructure segment.

Order book at 1.4x FY12E sales offers strong visibility; muted fresh order flows from Powergrid remains a concern for the industry

- KPTL current standalone order book stands at over Rs 50 bn. The order book break up comprises 90% of transmission, 5% of distribution and 5% of orders from infrastructure space.
- We opine that the current order book at 1.4x FY12E sales provides visibility for next two years. However we believe that delays in fresh order flows from Powergrid is a matter of concern for the overall growth of industry.
- KPTL participated in more than 22 tenders in this fiscal, the results of which are expected shortly. PGCIL, which is the central transmission utility and accounts for roughly 45% of the nationwide power transmission flow, has been sluggish in allotting new orders in FY11
- Our interaction with key players in the power transmission industry confirms that PGCIL should be speeding up with the bidding process in next two years obviating the risk of missing targets set for 11th five year plan.
- We opine that orders flows from PGCIL are critical at this point and KPTL with its comprehensive domain expertise coupled with timely execution capability will enormously benefit by securing high-quality power transmission projects in future.

Shree Shubham Logistics (SSLL) to substantially improve profitability in FY11

- SSLL has entered into a memorandum of understanding (MoU) with Rajasthan State Warehousing Corporation (RSWC) in Q4FY10 for managing 38 warehouses of the later with storage capacity of around 405000 MT.
- We believe that this opens a new avenue for Shubham to earn profits with relatively lower capex outlay for owning infrastructure.
- Management has guided for Rs 1700 mn revenue in FY11 against Rs. 900 mn in FY10. Margins should also improve from current 5% levels, going ahead.

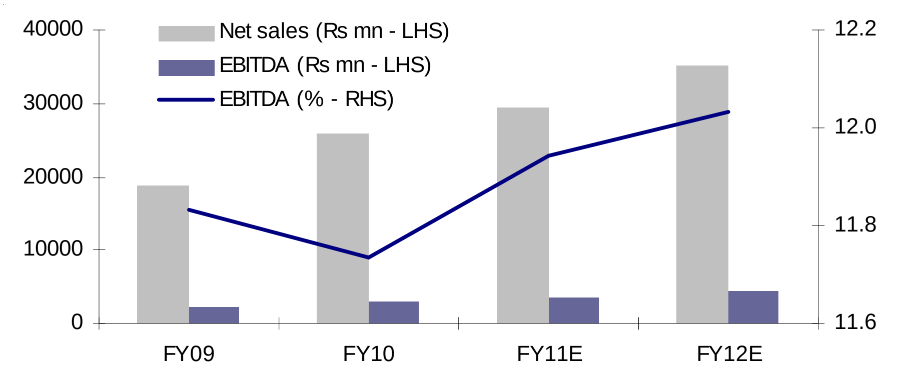
JMC Projects (52% stake of KPTL) - Revenues to accelerate

- The company has a healthy order backlog of Rs 31 bn, which should grow in the future as bidding for road projects gains momentum in the current quarter. For FY11, the company has guided for a 20-25% rise in revenues along with margin expansion.
- Currently company operates at low margins to the tune of 3-4%. The company is also L1 in a few orders which will be announced in the next few weeks.
- JMC secured its first road BOOT project from NHAI in consortium with SREI infra to construct a four-lane highway between Rohtak and Bawal in Haryana. This project to the tune of Rs 10 bn will be executed on a design, build, finance, operate and transfer (toll) basis with a concession period of 27-years, including the construction period.
- We opine that the Government's focus on expediting road projects augurs well for the subsidiary, offering opportunity in other road projects, both on EPC contracting and BOOT.

Earnings Outlook - robust growth to continue in FY12

- We expect revenues to grow by 16.5% CAGR between FY10-12E. Also, we believe that the company is likely to maintain its margins at current levels of 12%.

Standalone revenue (Rs mn)



Source: Company, Kotak Securities - Private Client Research

- Significant improvement in JMC's numbers is expected in FY12 in view of the improved margins of its order backlog.
- The net raised sum of Rs 4.2 bn in last fiscal has been utilized in working capital to the tune of Rs 1.04 bn and remaining is invested in debt funds. Company intends to utilize the remainder in ramping up its BOOT and JMC operations.

Valuation & Recommendation

- We believe that company's fund raising of Rs 4.2 bn has met with skepticism and is the primary reason for stock under performance vis-à-vis broader market.

We maintain BUY rating on KPTL with a price target of Rs.262

- However, we believe that the company is favorably poised in terms of capacity and execution, to benefit from recent thrust in T&D spending in India. Significant contribution from company's key subsidiaries are likely add to cash flow generation over FY11-12E
- At CMP of Rs.135, the stock trades at 5.1x EV/EBITDA and 8.8x based on FY12E earnings.
- We maintain our **BUY** rating on the stock given adequate upside to our DCF based target price of Rs.262.

RESULT UPDATE

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HAVELLS INDIA LTD (HIL)

PRICE: RS.350 **RECOMMENDATION: BUY**
TARGET PRICE: RS.450 **FY12E P/E: 12.1X**

- **HIL reported decent set of nos. for Q3FY11. Numbers are in line with our expectations on revenue front and net profit front.**
- **Robust growth in domestic business across all verticals and meaningful recovery in Sylvania helped in sustaining margins.**
- **We maintain our BUY rating on the company's stock in view of adequate upside to our DCF based target price of Rs.450.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	55,028	59,045	66,068
Growth (%)	(2.0)	7.3	11.9
EBITDA	3,320	5,054	6,118
EBITDA margin (%)	6.1	8.8	9.6
PBT	1628	3659	4960
Net profit	696	2,561	3,472
EPS (Rs)	5.8	21.3	28.9
Growth (%)		268.0	35.6
CEPS (Rs)	12.7	29.0	36.8
BV (Rs/share)	55.0	74.8	102.0
DPS (Rs)	1.3	1.3	1.4
ROE (%)	10.9	32.8	32.6
ROCE (%)	8.1	17.3	20.0
Net cash (debt)	(8,777)	(6,982)	(4,250)
NW Capital (Days)	18.3	19.6	20.9
EV/Sales (x)	0.9	0.9	0.8
EV/EBITDA (x)	15.3	10.1	8.3
P/E (x)	60.5	16.4	12.1
P/Cash Earnings (x)	27.5	12.1	9.5
P/BV (x)	6.4	4.7	3.4

Source: Company, Kotak Securities - Private Client Research

Standalone Result

(Rs mn)	3QFY11	3Q FY10	YoY (%)	2QFY11	QoQ (%)	9MFY11
Net Income	**7279**	**5913**	**23.1**	**6966**	**4.5**	**21415**
Decrease/ (Increase) in stock	(131)	(214)	(38.9)	(421)	(68.9)	(848)
Raw Material consumed	4486	3604	24.5	4505	(0.4)	13543
Employee expenses	253	188	34.3	243	4.1	725
Other expenses	1757	1534	14.5	1801	(2.5)	5448
Total expenditure	6365	5113	24.5	6128	3.9	18868
EBITDA	**914**	**800**	**14.2**	**838**	**9.0**	**2547**
Other income	1	1		1		4
Depreciation	75	59	28.5	72	4.2	215
EBIT	**840**	**742**	**13.1**	**767**	**9.5**	**2336**
Net Interest	52	13		13		103
PBT	**788**	**730**	**8.0**	**754**	**4.5**	**2233**
Tax	177	141	25.4	175		516
PAT	**611**	**589**	**3.8**	**579**	**5.6**	**1717**
Add: Extraordinary income (net of taxes)				7		
Reported PAT	**611**	**589**	**3.8**	**586**	**4.3**	**1724**
EPS (Rs)	**5.1**	**4.9**	**3.8**	**4.8**	**5.6**	**4.3**
EBITDA (%)	12.6	13.5		12.0		11.9
PAT (%)	8.4	10.0		8.3		8.0
RM/Sales (x)	61.6	61.0		64.7		63.2
Tax Rate (%)	22.4	19.3		23.3		23.1

Source: Company

Consolidated

(Rs mn)	Q3FY11	Q3FY10	YoY (%)	9MFY11
Revenues	14970	14000	6.9	42694
EBITDA	1150	350	228.6	3502
PAT	850	(1570)		1902

Source: Company

Result Highlights

- Revenue grew by 23.1% YoY at Rs 7.2 bn in Q3FY11 mainly driven by consumer durable business that grew 54% yoy.
- Company maintained EBITDA margins at 12.6% for the quarter on account of steady cost management across the board and higher contribution from switchgear division.

- Exports from standalone entity dropped due to closure of OEM contract with a UK client. Company is planning to launch switchgears in the international market and expects to maintain same margins in these areas.
- Company has launched water storage heater in this quarter and has observed impressive traction in this space. It has reported net revenue of Rs164 mn in the reported nos.
- Growth in Wire & Cable division is mainly driven by increase in input prices which resulted in the increase of product prices. Electrical Consumer Durables further strengthened with the successful launch of new product. Fan segment on stand-alone basis grew by 32% in the quarter.

Segment reporting (Standalone)

	Q3FY11	Q3FY10	YoY (%)	9MFY11
Standalone Revenues (Rs mn)				
Switchgear	1843	1690	9.0	5627
Cable and Wires	3102	2485	24.8	8922
Lighting and fixtures - India	1190	937	27.1	3346
Electrical consumer durables	1086	702	54.7	3382
Others	0	94		17
Total	**7221**	**5908**		**21294**
PBIT (Rs mn)				
Switchgear	651	640	1.7	2020
Cable and Wires	267	213	25.7	738
Lighting and fixtures - India	239	200	19.3	594
Electrical consumer durables	277	221	25.6	882
Others	0	23		6
Total	**1435**	**1297**		**4241**
PBIT (%)				
Switchgear	35.3	37.9		35.9
Cable and Wires	8.6	8.6		8.3
Lighting and fixtures - India	20.1	21.4		17.8
Electrical consumer durables	25.5	31.4		26.1

Source: Company

- Company reported strong operating cash flows for the 9MFY11 a Rs 1960 mn. Company has utilized Rs 1072 mn for capex and invested Rs 1841 mn in Sylvania in the same period in repayment of acquisition date.
- Working capital increased mainly on account of increase in inventory days from 75 days in 9MFY10 to 85 days currently. Creditor days also fell from 73 days last year to 65 days in 9MFY11.
- Sylvania performance improved meaningfully in Q3FY11. The operating profit margins have improved to 5.3% due to higher sales and improved operational efficiencies. The revenue in Euro terms had grown by 9% in the current quarter. Since Euro has declined by nearly 12% in FY11, revenues in rupee terms appear muted.
- Sylvania recorded meaningful growth in the emerging economies mainly Latin America and Asia. It also reported stable business in developed economies mainly European region where its main focus lies in stabilizing and increasing margins.

International presence offers geographical diversification to take advantage of the upsurge in consumer appliances market in Asian and African markets

- Company (including Sylvania) is present in nearly 50 countries across Europe and Asia. Moreover it has been witnessing enormous potential in the emerging markets like Africa where housing and real estate market is picking up.
- With an aim to establish itself as a prominent player in these markets, company is planning to strengthen its dealer franchise in these regions. It would be offering its diverse range of products within the parent brand Havells and the acquired brand Sylvania to the overseas customers.
- Going ahead, the company expects substantial amount of revenues through exports on account of revival of the European economy giving a boost to the legacy market of Sylvania coupled with new market development in Asia and Africa regions.

Financials to improve; consistent growth in domestic market, export growth in new geographies and successful restructuring of Sylvania would result in value accretion

- We project 10% CAGR growth in consolidated revenues between FY10-12E from Rs. 55 bn in FY10 to Rs. 66 bn in FY12E. Within the revenue streams, we expect domestic sales to grow by 17% in FY11E and by 19% in FY12E mainly driven by switchgears, wires & cables and consumer appliances segment.
- We also expect exports demand to improve by FY12E on account of expected recovery in European region, growth in Latin America and new geography additions in African and Asian region.
- We opine that the company would continue to prudently manage its overheads and Sylvania restructuring would boost company's margins. In our projected financials we build 5% EBITDA margins for Sylvania in FY11E.
- We expect firming up of raw material prices between FY11E & FY12E from the current levels. However this should get obviated with achieved economies of scale in future. In our projected financials we build 9.6% EBITDA margins at consolidated level for FY12E.
- In our projections we build 3% CAGR revenue growth between FY10-12E for Sylvania (on constant currency basis) on back of continuing economic concerns in its key markets. Early recovery in these geographies poses an upside risk to our earning estimates.
- While we believe that the Sylvania would maintain muted revenue growth in FY11E, EBITDA margins would increase on back of substantial cost savings achieved through successful accomplishment of on going restructuring plans.

Valuation & Recommendation

- At current price of Rs.350, stock is trading at 16.4x and 12.1x P/E and 10.1x and 8.3x EV/EBITDA multiples for FY11E and FY12E respectively.

We recommend BUY on Havells India with a price target of Rs.450

- In our earning projections we build meaningful margin expansion in FY11-12E on account of cost restructuring at Sylvania. We also believe that post FY12, the company would expand its operations in other emerging markets leveraging on favourable synergies between Havells and Sylvania. This is likely to result in substantial revenue growth in future.
- We value the company using DCF valuation methodology that derives a price target of Rs.450 per share. We maintain our **'BUY'** recommendation due to significant upside from the current levels.

RESULT UPDATE

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INDIAN OVERSEAS BANK (IOB)

PRICE: RS.127 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.140 **FY12E P/E: 6.1X, P/ABV: 1.1X**

Q3FY11: Reported earnings better than our expectations; asset quality also improved QoQ. We revise our earning estimates upward for FY11 & FY12 and upgrade the stock to ACCUMULATE from REDUCE earlier.

- **IOB delivered superior core earnings; NII grew at 42.3% (YoY) on back of strong loan growth (26.1% YoY) and 58 bps (YoY) improvements in NIM. However, net profit growth was even stronger (127.8% YoY) due to strong traction in non-interest income (35.9% YoY) and moderate growth in operating expenses (4.7% YoY) along with superior performance on core earnings.**
- **Asset quality has stabilized; since Q4FY10, both gross NPA and net NPA are on the downward trajectory, positive in our view. Gross NPA and net NPA stand at 3.26% and 1.51%, respectively, at the end of Q3FY11. Its coverage ratio has reached to 65.4%, an improvement of 540 bps sequentially.**
- **Bank has provided Rs.3.24 bn during 9MFY11 for 2nd pension option liability. Management has also proposed to amortize this pension liability on account of 2nd option given, over 3 yrs period. This is more conservative approach, as other banks are likely to spread this liability over 5 yrs period.**
- **We have revised our earning estimates upward for FY11E and FY12E to take into account better core earnings and lower credit costs. We are also upgrading the stock to ACCUMULATE from REDUCE earlier with unchanged target price of Rs.140 based on P/ABV of 1.2x its FY12E adjusted book value.**

Result Performance

(Rs mn)	Q3FY11	Q3FY10	YoY (%)
Interest on advances	22,736	19,140	18.8
Interest on Investment	7,556	6,064	24.6
Interest on RBI/ banks' balances	725	498	45.7
Other interest	-	-	NM
Total Interest earned	31,016	25,701	20.7
Interest expenses	19,715	17,757	11.0
Net interest income	**11,302**	**7,944**	**42.3**
Other income	3,512	2,585	35.9
Net Revenue (NII + Other income)	14,814	10,529	40.7
Operating Expenses	**6,773**	**6,468**	**4.7**
Payments to / Provisions for employees	4,837	4,681	3.3
Other operating expenses	1,936	1,788	8.3
Operating profit	**8,041**	**4,061**	**98.0**
Provisions & contingencies	3,582	2,187	63.8
Provision for taxes	2,142	857	149.8
Extraordinary Items	-	-	NM
Net profit	**2,317**	**1,017**	**127.8**
EPS (Rs.)	**4.25**	**1.87**	**127.3**

Source: Company

Earnings slightly better than our estimates

IOB delivered superior core earnings; NII grew at 42.3% to Rs.11.30 bn in Q3FY11 from Rs.7.94 bn in Q3FY10 on back of strong loan growth (26.1% YoY) and 58 bps (YoY) improvements in NIM.

However, net profit growth was even stronger at 127.8% to Rs.2.32 bn in Q3FY11 from Rs.1.02 bn in Q3FY10 due to strong traction in non-interest income (35.9% YoY) and moderate growth in operating expenses (4.7% YoY) along with superior performance on core earnings.

Healthy business growth

Bank witnessed healthy business growth by 21.3% YoY to Rs.2251.9 bn (9.2% QoQ) at the end of Q3FY11 from Rs.1856.6 bn at the end of Q3FY10.

Loan growth was robust at 26.1% YoY (13.7% QoQ) to Rs.1001.3 bn at the end of Q3FY11 from Rs.794.1 bn at the end of Q3FY10. During the same period, deposits grew moderately at 17.7% YoY (5.9% QoQ) to Rs.1250.6 bn. Within deposits, CASA deposits grew 21.7% YoY as compared to 16.0% growth in term deposits.

Trend in NPAs

	1Q2010	2Q2010	3Q2010	4Q2010	1Q2011	2Q2011	3Q2011	YoY (%)
Total Deposits (Rs. bn)	**1008.1**	**1094.4**	**1062.5**	**1108.0**	**1094.6**	**1181.4**	**1250.6**	**17.7**
CASA	294.8	337.1	318.2	360.6	362.5	390.9	387.3	21.7
CASA (%)	**29.2**	**30.8**	**30.0**	**32.6**	**33.1**	**33.1**	**31.0**	
Term Deposits	713.3	757.3	744.3	747.3	732.1	790.5	863.3	16.0

Source: Company

Faster loan growth as compared to deposit growth led to improvement in the C/D ratio from 74.7% at the end of Q3FY10 to 80.1% at the end of Q3FY11 (74.5% at the end of Q2FY11).

NPAs stabilized QoQ; coverage ratio also improved 540 bps sequentially.

IOB has witnessed stabilization in its asset quality. Both gross NPA and net NPA are on the downward trajectory since Q4FY10, positive in our view.

In absolute terms, gross NPA rose marginally by 1.4% during Q3FY11, whereas sequentially it declined 1.9%. However, net NPA declined both YoY and QoQ by 12.0% and 15.7%, respectively.

In percentage terms, gross NPA improved to 3.26% at the end of Q3FY11 from 3.78% at the end of Q2FY11 and 4.05% at the end of Q3FY10. Similarly, net NPA improved to 1.51% at the end of Q3FY11 from 2.04% at the end of Q2FY11 and 2.17% at the end of Q3FY10.

Trend in NPAs

(Rs bn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY Gr (%)	QoQ Gr (%)
Gross NPA	23.37	26.85	32.18	36.11	35.71	33.26	32.65		
Gross (%)	3.04	3.42	4.05	4.47	4.30	3.78	3.26	1.4	-1.9
Net NPA	12.02	12.24	16.90	19.50	17.94	17.65	14.88		
Net (%)	1.59	1.59	2.17	2.52	2.21	2.04	1.51	-12.0	-15.7

Source: Company

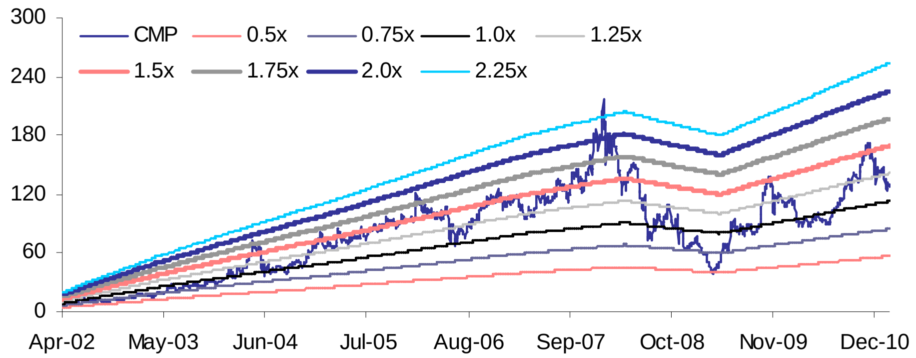
Its provision coverage ratio (PCR) has reached to 65.4%, an improvement of 540 bps sequentially. IOB has also been permitted by RBI to reach the regulatory requirement of 70% mark by the end of FY11.

Bank has provided Rs.3.24 bn during 9MFY11 for 2nd pension option liability. Management has also proposed to amortize this pension liability on account of 2nd option given, over 3 yrs period. This is more conservative approach, as other banks are likely to spread this liability over 5 yrs period.

Valuations

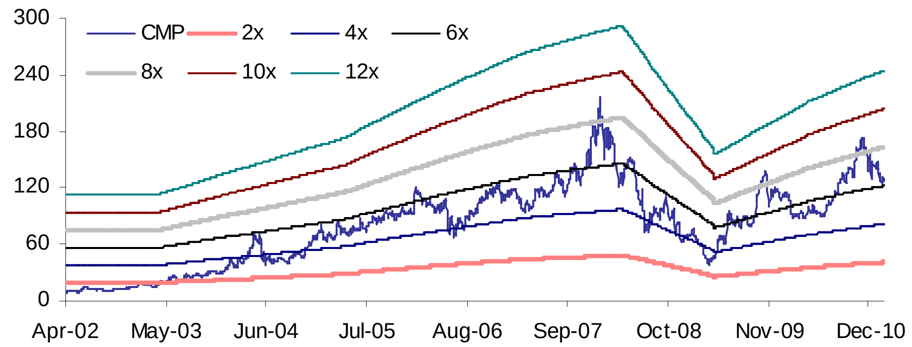
We have revised our earning estimates upward for FY11E and FY12E to take into account better core earnings and lower credit costs. We now expect net profit for FY11E and FY12E to be Rs.9.59 bn and 11.38 bn, respectively. This would result into an EPS of Rs.17.6 and Rs.20.9 for FY11E and FY12E, respectively. The ABV is forecast at Rs.98.2 and Rs.115.6 respectively for FY11E & FY12E.

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 recommend ACCUMULATE on Indian Overseas Bank with a price target of Rs.140

At the current market price of Rs.127, the stock is trading at 6.1x its FY12E earnings and 1.1x its FY12E ABV. We are also upgrading the stock to **ACCUMULATE** from REDUCE earlier with unchanged target price of Rs.140 based on P/ABV of 1.2x its FY12E adjusted book value.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	96.41	102.46	117.34	140.51
Interest expense	67.72	70.78	76.62	93.58
Net interest income	**28.70**	**31.68**	**40.72**	**46.93**
Growth (%)	17.1	10.4	28.5	15.3
Other income	15.96	11.43	11.52	13.01
Gross profit	**25.24**	**18.45**	**25.43**	**29.35**
Net profit	13.26	7.07	9.59	11.38
Growth (%)	10.3	-46.7	35.6	18.7
Gross NPA (%)	2.6	4.6	3.8	3.8
Net NPA (%)	1.3	2.5	1.8	1.6
Net int. margin (%)	**2.9**	**2.8**	**3.2**	**3.0**
CAR (%)	13.2	14.8	15.3	14.2
RoE (%)	24.8	11.5	14.3	15.0
RoAA (%)	1.2	0.6	0.7	0.7
Dividend per share (Rs)	4.5	3.5	4.0	4.0
EPS (Rs)	**24.3**	**13.0**	**17.6**	**20.9**
Adjusted BVPS (Rs)	90.7	79.9	98.2	115.6
P/E (x)	**5.2**	**9.8**	**7.2**	**6.1**
P/ABV (x)	1.4	1.6	1.3	1.1

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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BANK OF BARODA (BOB)

PRICE: RS.835 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1241 **FY12E P/E: 6.2X; P/B: 1.4X**

Q3FY11: BoB continues to deliver consistent performance on core operating front; stable asset quality supported by lower incremental slippage is another positive facet. Reiterate BUY on the stock.

- **Net interest income (NII) grew whopping 43.2% in Q3FY11 (~11% ahead of our expectations) on back of strong loan growth and 25 bps improvement in global NIM. Its net profit growth was also strong at 28.4% on back of strong core earnings, marginal growth in opex despite flat non-interest income.**
- **Another positive facet has been its asset quality. Its incremental slippage during Q3FY11 came at only 0.63% as against the average run rate of 1.14% during last 6 quarters. In percentage terms, both gross NPA (1.32%) as well as net NPA (0.36%) are at comfortable level. Its cumulative restructured book stands at Rs.60.5 bn (~2.9% of advances), which remains lower than the industry average.**
- **We are slightly revising our earning estimate upward for FY11E & FY12E. We are also maintaining BUY rating on the stock with the target price of Rs.1241 (Rs.1226 earlier) based on 2.1x its FY12E adjusted book value. The stock has been a re-rating candidate with the improvement in its return profile (RoA: ~1.3%, RoE: ~23% during FY12E). Hence, BoB remains one of our preferred picks in the banking sector space.**

Result Performance

(Rs. mn)	Q3FY11	Q3FY10	YoY (%)
Interest on advances	42,122.0	31,571.5	33.4
Interest on Investment	12,774.0	9,131.7	39.9
Interest on RBI/ banks' balances	1,146.3	1,020.0	12.4
Other interest	619.2	46.5	1231.6
Total Interest earned	56,661.5	41,769.7	35.7
Interest expenses	33,738.9	25,757.4	31.0
Net interest income	**22922.6**	**16012.3**	**43.2**
Other income	6,761.5	6,596.5	2.5
Net Revenue (NII + Other income)	**29,684.1**	**22,608.8**	**31.3**
Operating Expenses	11,172.1	9,959.3	12.2
Payments to / Provisions for employees	6,941.8	6,291.7	10.3
Other operating expenses	4,230.3	3,667.6	15.3
Operating profit	**18,512.0**	**12,649.5**	**46.3**
Provisions & contingencies	3,040.6	2,424.9	25.4
Provision for taxes	4,782.6	1,899.7	151.8
Net profit	**10,688.8**	**8,324.9**	**28.4**
EPS (Rs.)	**29.34**	**22.85**	**28.4**

Source: Company

Core earnings better than our expectations

Net interest income (NII) grew whopping 43.2% in Q3FY11 (~11% ahead of our expectations) to Rs.22.92 bn in Q3FY11 from Rs.16.01 bn in Q3FY10 on back of strong loan growth (32.7% YoY, 7.4% QoQ) and 25 bps improvement in global NIM from 2.95% in Q3FY10 to 3.20% in Q3FY11.

Its net profit growth was also strong at 28.4% to Rs.10.69 bn in Q3FY11 from Rs.8.33 bn in Q3FY10 on back of strong core earnings (43.2% YoY), marginal growth in opex (12.2% YoY) despite flat non-interest income (2.5% YoY).

Strong business growth; growth higher than the system

BoB witnessed stronger business growth which rose to Rs.4887.2 bn at the end of Q3FY11 from Rs.3712.9 bn at the end of Q3FY10, a growth of 31.6%.

Total deposits of the bank rose 30.9% YoY (4.4% QoQ) to Rs.2815.1 bn at the end of Q3FY11 from Rs.2151.2 bn at the end of Q3FY10. This strong growth has come on the back of strong traction in both domestic as well as overseas market which rose 29.6% and 35.1%, respectively.

Trend in deposits

(Rs bn)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	YoY (%)	QoQ (%)
CASA Deposits	584.8	580.9	613.9	660.2	691.1	739.4	756.3	23.2	2.3
CASA (% of domestic deposits)	35.1	36.2	36.9	35.6	35.2	35.9	35.1		
Term Deposits	1401.3	1492.6	1537.3	1750.2	1855.5	1957.2	2058.8	33.9	5.2
Total Deposits	**1986.1**	**2073.5**	**2151.2**	**2410.5**	**2546.7**	**2696.6**	**2815.1**	**30.9**	**4.4**

Source: Company

Bank has been able to maintain the share of domestic CASA mix at 35-36% of total deposits in last couple of quarters. We believe this has helped them in managing the cost of funds.

Advances witnessed similar robust growth of 32.7% YoY (7.4% QoQ). Here also, overseas book grew at a faster pace (37.3%) as compared to the 31.1% growth witnessed by the domestic book. Foreign book now constitutes ~27% of total loan book.

Trend in advances

(Rs. bn)	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	YoY (%)
Total Advances	**1,561.7**	**1,750.4**	**1,357.1**	**1,417.3**	**1,520.4**	**31.1**
Domestic	**1,160.0**	**1,316.4**	**249.9**	**271.9**	**296.1**	**32.8**
Retail Loans	223.0	242.5	107.8	113.2	119.0	21.3
Home Loans	98.1	103.1	18.4%	19.2%	19.5%	
Retail % of total advances	19.2%	18.4%	215.9	235.1	252.6	24.8
SME	202.3	211.1	210.9	215.6	231.2	22.9
Agriculture	188.0	216.2	1,357.1	1,417.3	1,520.4	31.1
Foreign	**401.7**	**433.9**	**498.8**	**512.3**	**551.7**	**37.3**

Source: Company

Strong liability franchise - helping in sustaining margin

BoB has maintained a healthy CASA mix (domestic) in last couple of quarters. The strong traction in CASA deposits over a period of time has helped in containing the cost of funds.

Trend in yields, cost of deposits & NIM

Yields (%)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011
Advances	8.72	8.71	8.60	8.23	8.17	8.40	8.58
Investments	6.83	6.69	6.65	6.51	6.66	7.06	7.39
Cost of Deposits	5.41	5.15	4.69	4.42	4.39	4.5	4.53
NIM (%) [Reported] - Domestic	2.57	2.89	3.40	3.50	3.43	3.62	3.82
NIM (%) [Reported] - Global	2.37	2.63	2.95	2.97	2.90	3.02	3.20

Source: Company

Bank has well managed its liability franchise, visible from decline in cost of deposits from 4.69% during Q3FY10 to 4.53% during Q3FY11. This has come on back of decline in both domestic as well as overseas cost of deposits - domestic cost of deposits came down from 5.36% in Q3FY10 to 5.27% in Q3FY11; overseas cost of deposits declined from 2.24% to 1.94%, during the same period. However, domestic yields on advances improved from 10.21% during Q3FY10 to 10.34% during Q3FY11.

Both domestic as well global NIM improved YoY & QoQ. Domestic NIM improved from 3.40% in Q3FY10 and 3.62% in Q2FY11 to 3.82% in Q3FY11. Similarly, global NIM improved from 2.95% in Q3FY10 and 3.02% in Q2FY11 to 3.20% in Q3FY11.

Muted non-interest income on back of lower treasury gains

Non-interest income was muted (growth of 2.5% YoY) on back of lower treasury profit which declined by 39.1% YoY. Core fee-income saw moderate growth of 7.5%, lower than the business growth.

Other Income

(Rs. bn)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	YoY (%)	QoQ (%)
Fee Income	3.00	3.24	3.56	4.17	3.12	4.02	3.83	7.5	-4.8
Profit on sale of Investments	2.57	1.21	1.39	1.25	1.28	1.10	0.85	-39.1	-23.0
Profit on Exchange Transactions	0.96	0.84	0.99	1.07	1.22	1.00	1.47	49.0	47.1
Recovery from PWO (w/o a/c)	0.50	0.67	0.66	1.18	0.56	0.69	0.61	-6.2	-11.1
Total non-interest income	**7.03**	**5.95**	**6.60**	**7.67**	**6.17**	**6.81**	**6.76**	**2.5**	**-0.8**

Source: Company

Comfortable asset quality; decline in incremental delinquencies is key positive for the stock

Another positive facet has been its asset quality. Its incremental slippage during Q3FY11 came at only 0.63% as against the average run rate of 1.14% during last 6 quarters. In absolute terms, both gross NPA as well as net NPA rose by only 1.9% (QoQ) and 1.8% (QoQ), respectively.

In percentage terms, both gross NPA (1.32%) as well as net NPA (0.36%) are at comfortable level

It coverage ratio stands at 85.5% (including technical write-off) at the end of Q3FY11, a way ahead of regulatory requirement of 70%.

Trend in NPAs

(Rs bn)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	YoY (%)	YoY (%)
Gross NPA	20.68	19.57	22.60	24.01	26.55	27.20	27.70	22.6	1.9
Gross (%)	1.44	1.30	1.43	1.36	1.41	1.39	1.32		
Net NPA	3.79	4.05	4.88	6.02	7.17	7.31	7.44	52.6	1.8
Net (%)	0.27	0.27	0.31	0.34	0.39	0.38	0.36		

Source: Company

Rs.6.14 bn asset was restructured during Q3FY11 taking cumulative restructured book to Rs.60.5 bn (~2.9% of advances), which remains lower than the industry average.

Leveraging Overseas operations

During 9MFY11, BoB's overseas operations contributed 24.8% in total business and 16.7% in total gross profit. Overseas operations also contributed to the robust growth in core fee based income (32.1% to total fee-based income).

Having lower Cost / Income ratio (19.3% in 9MFY11) as compared to 41.1% in domestic operations, contribution to operating profit is even higher.

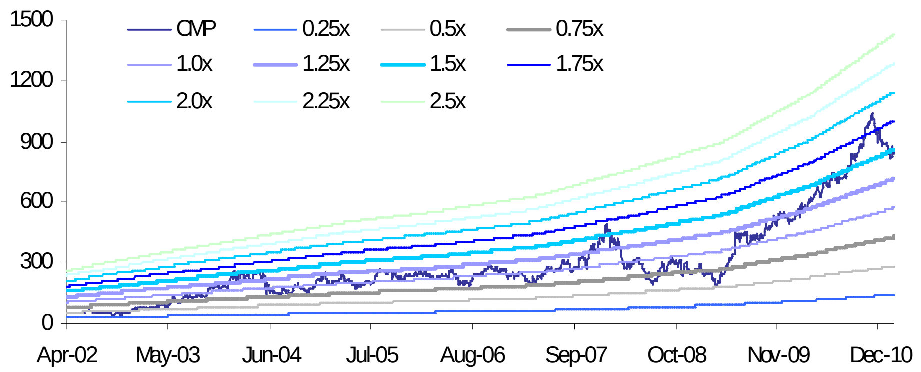
On asset quality front also, its overseas operations perform better. Its gross NPA stands at only 0.55% as compared to 1.60% for domestic operations at the end of Q3FY11.

Valuation & recommendation

At the current market price of Rs.835, the stock is trading at 6.2x its FY12E earnings and 1.4x its FY12E ABV. We are slightly revising our earning estimate upward for FY11E & FY12E and now expect net profit for FY11E and FY12E to be Rs.40.11 bn and Rs.49.43 bn.

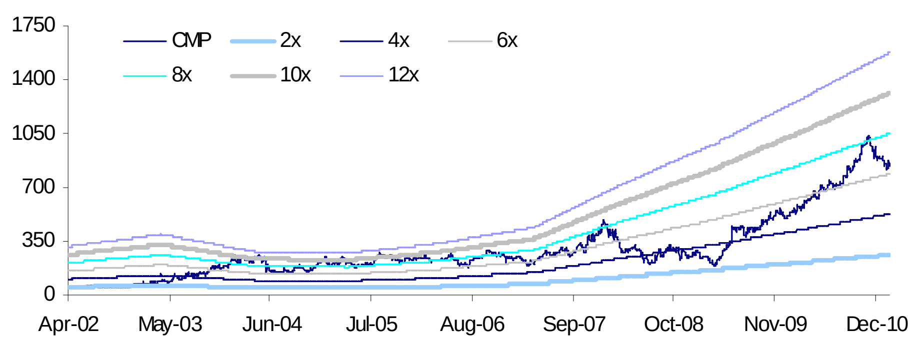
This would result into an EPS of Rs.109.7 and Rs.135.2 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.462.1 and Rs.590.9, respectively

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 continue to maintain BUY rating on BoB with a revised price target of Rs.1241

We are also maintaining **BUY** rating on the stock with the target price of Rs.1241 (Rs.1226 earlier) based on 2.1x its FY12E adjusted book value. The stock has been a re-rating candidate with the improvement in its return profile (RoA: ~1.3%, RoE: ~23% during FY12E). Hence, BoB remains one of our preferred picks in the banking sector space.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	150.92	166.98	213.12	258.18
Interest expense	99.68	107.59	128.14	156.46
Net interest income	**51.23**	**59.39**	**84.98**	**101.72**
Growth (%)	31.0%	15.9%	43.1%	19.7%
Other income	27.58	28.06	26.91	30.00
Gross profit	43.05	49.35	68.63	82.56
Net profit	**22.27**	**30.58**	**40.11**	**49.43**
Growth (%)	66.8%	37.3%	31.1%	23.2%
Gross NPA (%)	1.3	1.4	1.4	1.3
Net NPA (%)	0.3	0.3	0.4	0.4
Net interest margin (%)	**2.9**	**2.7**	**3.2**	**3.1**
CAR (%)	14.1	14.4	14.3	14.7
RoE (%)	18.6	21.9	23.5	23.0
RoAA (%)	1.1	1.2	1.3	1.3
Dividend per share (Rs)	9.0	15.0	16.0	16.0
EPS (Rs)	**60.9**	**83.7**	**109.7**	**135.2**
Adjusted BVPS (Rs)	302.4	359.1	462.1	590.9
P/E (x)	**13.7**	**10.0**	**7.6**	**6.2**
P/ABV (x)	2.8	2.3	1.8	1.4

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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ALLAHABAD BANK

PRICE: RS.202 **RECOMMENDATION: BUY**
TARGET PRICE: RS.260 **FY12E P/E: 4.7X, P/ABV: 1.0X**

Q3FY11: Core earnings came better than our expectations; asset quality stabilized despite slippage at elevated levels (Rs.3.62 bn, 2.0% annualized). We maintain BUY on the stock.

- **Net interest income (NII) grew 55.7% YoY on back of sharp expansion in NIM (47 bps) and strong loan growth (32.2% YoY). However, net profit growth was relatively moderate at 20.4% YoY due to muted non-interest income and higher opex despite robust core earnings growth.**
- **CASA mix declined slightly to 33.3% at the end of Q3FY11 as compared to 35.1% at the end of Q3FY10 and 34.7% at the end of Q2FY11. Expansion in margin has come on the back of 68 bps improvement (YoY) in blended yield on assets along with 6 bps decline (YoY) in cost of funds.**
- **Asset quality has stabilized - gross NPA and net NPA increased (QoQ) marginally at 4.8% and 11.0%, respectively. However, higher slippage (Rs.3.62 bn, 2.0% annualized) during Q3FY11 has been a little dampener.**
- **We have slightly tweaked our earning estimates for FY11E & FY12E and maintain BUY on the stock with unchanged target price Rs.260 based on 1.3x of its FY12E adjusted book value.**

Result Performance

(Rs mn)	Q3FY11	Q3FY10	YoY (%)
Interest on advances	21,309.4	15,955.2	33.6
Interest on Investment	7,117.2	5,047.0	41.0
Interest on RBI / banks' balances	108.3	75.4	43.7
Other interest	19.6	0.0	NM
Total Interest earned	**28,554.5**	**21,077.6**	**35.5**
Interest expenses	18,038.1	14,321.9	25.9
Net interest income	**10516.4**	**6755.7**	**55.7**
Other income	2,576.4	3,395.3	-24.1
Net Revenue (NII + Other income)	**13,092.8**	**10,151.0**	**29.0**
Operating Expenses	5,208.5	3,649.7	42.7
Payments to / Provisions for employees	3,195.9	2,093.5	52.7
Other operating expenses	2,012.6	1,556.2	29.3
Operating profit	**7,884.3**	**6,501.3**	**21.3**
Provisions & contingencies	2,358.8	2,462.8	-4.2
Provision for taxes	1,367.5	584.8	133.9
Net profit	**4,158.0**	**3,453.7**	**20.4**
EPS (Rs.)	**9.31**	**7.73**	**20.4**

Source: Company

NII up 55.7% YoY; 18% ahead of our expectations

Net interest income (NII) grew 55.7% YoY from Rs.6.76 bn in Q3FY10 to Rs.10.52 bn in Q3FY11 on back of sharp expansion in NIM (47 bps) and strong loan growth (32.2% YoY). However, net profit growth was relatively moderate at 20.4% YoY from Rs.3.45 bn in Q3FY10 to Rs.4.16 bn in Q3FY11 due to muted non-interest income (decline of 24.1% YoY) and higher opex (42.7% YoY) despite robust core earnings growth.

Strong business growth; loan book grew 32.2% YoY

The bank's gross loan book grew 32.2% YoY to Rs.868.4 bn at the end of Q3FY11 vis-à-vis the corresponding quarter last year (4.4% QoQ).

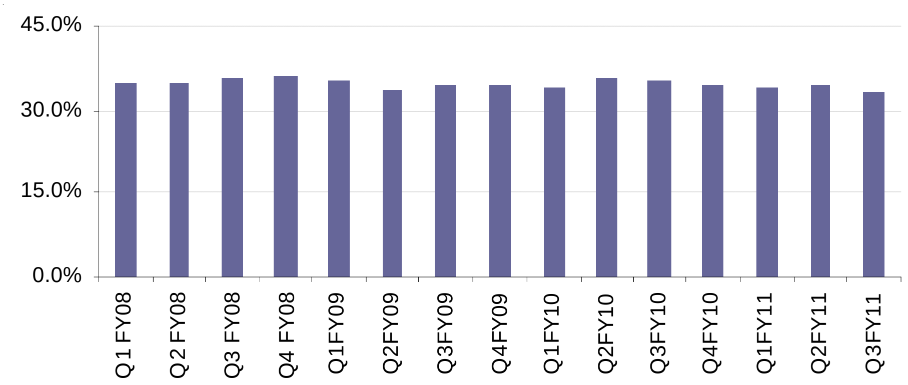
The strong growth momentum in loan book has come on the back of robust growth in MSE (38.5% YoY; 6.6% QoQ) and retail segments (28.3% YoY; 3.0% QoQ). During the same period, agriculture grew moderately at 10.9% YoY.

Deposits grew 28.4% YoY (6.4% QoQ) from Rs.941.6 bn at the end of Q3FY10 to Rs.1209.5 bn at the end of Q3FY11. Strong growth in loan book vis-à-vis deposits led to improvement in the C/D ratio from 69.8% in Q3FY10 to 71.8% in Q3FY11.

CASA mix remained at 33-34%; likely to support the margin in rising rate environment

CASA mix declined slightly to 33.3% at the end of Q3FY11 as compared to 35.1% at the end of Q3FY10 and 34.7% at the end of Q2FY11.

Trend in CASA (%)



Source: Company

We are forecasting CASA share to remain at ~33% levels during FY11-12E and this is likely to help the bank in sustaining healthy NIM, going forward.

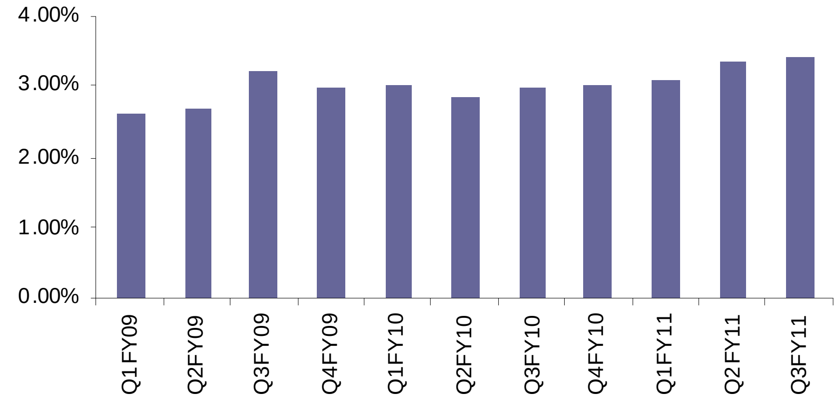
NIM at 3.44% in Q3FY11; improved both QoQ as well as YoY

It reported NIM at 3.44% for Q3FY11, better than our expectations. It expanded 47 bps YoY and 10 bps QoQ on the back of 68 bps improvement (YoY) in blended yield on assets along with 6 bps decline (YoY) in cost of funds.

Blended yield on assets improved sharply from 8.66% in Q3FY10 to 9.34% in Q3FY11 despite moderate rise in yield on advances (10.54% in Q3FY10 to 10.58% in Q3FY11) as well as yield on investments (6.83% in Q3FY10 to 7.14% in Q3FY11) on back of stronger growth in loan book vis-à-vis investment book.

However, during the same period cost of funds declined 6 bps from 5.99% in Q3FY10 to 5.93% in Q3FY11 on back of sharp fall in cost of borrowings (57 bps) as compared to flat cost of deposits (1 bps only).

Trends in NIM (%)



Source: Company

Muted non-interest income on back of lower treasury gains; moderate growth in fee income

Non-interest income declined 24.3% from Rs.3.40 bn in Q3FY10 to Rs.2.58 bn in Q3FY11 on back of lower trading profit which declined 85.0% from Rs.1.33 bn in Q3FY10 to Rs.0.20 bn in Q3FY11.

During the same period, fee income grew moderately at 11.5% to Rs.1.74 bn during Q3FY11 as against Rs.1.56 bn during Q3FY10. However, other component of non-interest income grew 24.8% from Rs.0.51 bn in Q3FY10 to Rs.0.63 bn in Q3FY11.

Trends in Non-interest income

(Rs bn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY (%)	QoQ (%)
Fee Income (CEB & Forex)	1.47	1.82	1.56	2.13	1.70	2.13	1.74	11.5	-18.3
Profit on sale of Investments	2.14	1.68	1.33	0.61	0.90	0.38	0.20	-85.0	-47.4
Others	0.09	0.55	0.51	1.28	0.39	0.94	0.63	24.8	-33.0
Total non-Interest income	**3.70**	**4.05**	**3.40**	**4.02**	**2.99**	**3.45**	**2.57**	**-24.3**	**-25.4**

Source: Company

Asset quality stabilized; however, higher slippage during Q3FY11 has been a little dampener.

Asset quality has stabilized - gross NPA and net NPA increased (QoQ) marginally at 4.8% and 11.0%, respectively. Gross NPA as a proportion of gross advances remained stable at 1.77% at the end of Q3FY11, similar to that in Q3FY10 and Q2FY11.

However, net NPA as a proportion of net advances rose to 0.59% at the end of Q3FY11 as compared 0.56% at the end of Q2FY11 and 0.35% at the end of Q3FY10.

However, higher slippage (Rs.3.62 bn, 2.0% annualized) during Q3FY11 has been a little dampener as against the average run rate of ~Rs.3.0 bn during last six quarters. However, this slippage is down QoQ from Rs.4.54 bn in Q2FY11 which has also led to sequential decline in credit costs - 0.97% during Q3FY11 as against 1.24% in Q2FY11.

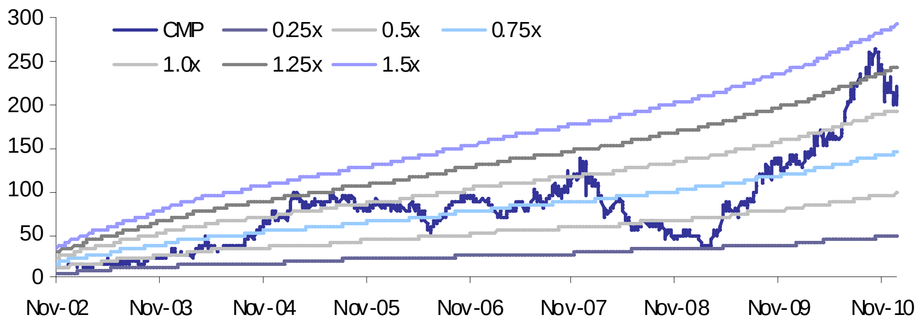
Cumulative restructured book stands at Rs.27.5 bn at the end of Q3FY11 (3.2% of gross advances), which is in line with the industry average. Out of this, Rs.3.91 bn has already slipped into NPA.

Valuations

At the current market price of Rs.202, the stock is trading at 4.7x its FY12E earnings and 1.0x its FY12E ABV. We have slightly tweaked our earning estimates for FY11E & FY12E and now expect net profit for FY11E and FY12E to be 15.62 bn and Rs.19.33 bn.

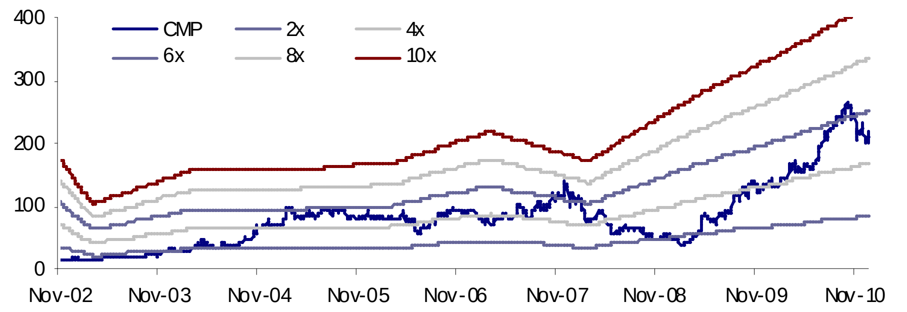
This would result into an EPS of Rs.35.0 and Rs.43.3 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.165.7 and Rs.199.7, respectively.

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 recommend BUY on Allahabad Bank with a price target of Rs.260

We maintain BUY rating on the stock with unchanged price target of Rs.260 based on 1.3x of its FY12E adjusted book value.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	73.65	83.69	108.54	133.08
Interest expense	52.06	57.19	69.23	86.08
Net interest income	**21.59**	**26.50**	**39.31**	**47.00**
Growth (%)	29.1%	22.8%	48.3%	19.6%
Other income	11.42	15.16	11.77	13.53
Gross profit	19.01	25.48	30.64	36.90
Net profit	**7.69**	**12.06**	**15.62**	**19.33**
Growth (%)	-21.1%	56.9%	29.5%	23.7%
Gross NPA (%)	1.8	1.7	1.8	1.6
Net NPA (%)	0.7	0.7	0.6	0.4
Net interest margin (%)	**2.9**	**2.9**	**3.2**	**3.1**
CAR (%)	13.1	13.6	13.2	12.5
RoE (%)	16.5	22.2	24.3	25.0
RoAA (%)	0.9	1.1	1.2	1.2
Dividend per share (Rs)	2.5	5.5	6.0	6.0
EPS (Rs)	**17.2**	**27.0**	**35.0**	**43.3**
Adjusted BVPS (Rs)	121.6	140.6	165.7	199.7
P/E (x)	**11.7**	**7.5**	**5.8**	**4.7**
P/ABV (x)	1.7	1.4	1.2	1.0

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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MARUTI SUZUKI INDIA LTD (MSIL)

PRICE: RS.1228 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1406 **FY12E P/E: 13.1X**

- **MSIL reported results with revenues in line but profit lower then expectation due to sharp increase in staff cost during the quarter. Revenues stood at Rs93,261mn versus our estimate of Rs94,643mn.**
- **Margins during the quarter remained under pressure as anticipated on 3 counts 1. Higher input cost 2. Adverse forex movement 3. Competitive pressures.**
- **During the quarter the company restructured the employee compensation structure and that impacted the margins by around 75bps (including one-time payout).**
- **Moving forward we expect the above mentioned factors will continue to keep margins under pressure. Accordingly we do not expect any significant change in the margins for the company during FY12.**
- **Volumes are expected to grow by 13.7% in FY12 over 24.6% volume growth expected in FY11E. We have lowered our FY12E margin estimates in view of mounting input cost pressures. Accordingly our revised FY12E EPS now stands at Rs93.7 (earlier Rs99.7).**
- **In the past one month the stock has corrected significantly broadly tracking the rising interest rate scenario and increasing commodity prices. Current market price in our view already factors in these negatives. We therefore continue to maintain our ACCUMULATE rating on the stock with revised price target of Rs1,406 (earlier Rs1,497).**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	290,989	360,828	419,303
Growth (%)	42.3	24.0	16.2
EBITDA	34,398	30,152	35,888
EBITDA margin (%)	11.8	8.4	8.6
PBT	35,925	31,903	38,134
Net profit	24,976	22,651	27,075
EPS (Rs)	86.4	78.4	93.7
Growth (%)	104.9	(9.3)	19.5
CEPS (Rs)	115.0	111.6	130.0
BV (Rs/share)	410	482	570
Dividend/share (Rs)	6.0	5.0	5.0
ROE (%)	23.6	17.6	17.8
ROCE (%)	31.8	23.6	24.3
Net cash (debt)	60,809	56,621	65,293
NW Capital (Days)	(13)	(11)	(9)
P/E (x)	14.2	15.7	13.1
P/BV (x)	3.0	2.5	2.2
EV/Sales (x)	1.0	0.8	0.7
EV/EBITDA (x)	8.5	9.9	8.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	3QFY11	3QFY10	YoY (%)	2QFY11	QoQ (%)
Total Revenues	**93,261**	**73,727**	**26.5**	**89,774**	**3.9**
Total expenditure	**85,927**	**63,689**	**34.9**	**81,870**	**5.0**
RM consumed	74,455	55,901	33.2	70,756	5.2
Employee cost	2,325	1,325	75.5	1,568	48.2
Other expenses	9,147	6,464	41.5	9,545	(4.2)
EBITDA	**7,335**	**10,037**	**(26.9)**	**7,904**	**(7.2)**
EBITDA margin (%)	7.9	13.6	-	8.8	-
Depreciation	2,369	2,028	16.8	2,381	(0.5)
Interest cost	4	84	(95.7)	97	(96.3)
Other operating income	1,683	1,302	29.3	1,699	(0.9)
Other Income	1,283	913	40.6	1,340	(4.3)
PBT	**7,928**	**10,140**	**(21.8)**	**8,465**	**(6.3)**
PBT margins (%)	8.5	13.8		9.4	
Tax	2,276	3,265	(30.3)	2,481	(8.3)
Tax rate (%)	28.7	32.2	-	29.3	-
Reported PAT	**5,652**	**6,875**	**(17.8)**	**5,983**	**(5.5)**
PAT margins (%)	6.1	9.3	-	6.7	-
Reported EPS (Rs)	**19.6**	**23.8**	**(17.8)**	**20.7**	**(5.5)**
Volume data					
Domestic	299,527	218,910	36.8	277,936	7.8
Exports	31,160	39,116	(20.3)	35,718	(12.8)
Total Volumes	**330,687**	**258,026**	**28.2**	**313,654**	**5.4**
Net Realization (Rs)	280,529	284,226	(1.3)	284,935	(1.5)
RM cost per vehicle (Rs)	225,152	216,649	3.9	225,587	(0.2)\

Source: Company

Result Highlights

- Revenues for the quarter were up by 26.4% at Rs.93,261 mn and was marginally lower than our expectation of Rs.94,643 mn.
- Volume during the same period jumped by 28.4% and remained the key revenue driver for the company. During 3QFY11, the company clocked its highest ever quarterly volumes of 330,687 units despite December sales being impacted by annual plant maintenance shutdown.
- Realizations on the other hand declined marginally despite numerous price hikes taken by the company in the past one year. Increasing share of lower priced cars like Alto and Eeco and lower realizations on exports (due to impact of exchange rate) were the reasons for dip in realizations.

Price hikes taken by MSIL in 2010/2011

Date	Quantum	Reason
18th Jan 2010	0.2% to 1.9%	Increase in input cost
26th Feb 2010	Rs3000-Rs13000	Increase in excise duty
2nd April 2010	Rs1000 - Rs10000	Increase in input cost and upgrade in emission norms
2nd August 2010	Rs2000 to Rs7500	Increase in input cost
21st Jan 2011	Rs1000 - Rs10000	Increase in input cost

Source: Company

- Revenues were higher by 3.9% QoQ led by 5.4% increase in volumes. However realization slipped by 1.5% due to higher discounts.
- Average discounts for the quarter was at Rs10,700 per unit and was slightly higher than 2QFY10.
- Rural sales during the quarter exceeded 20% of the overall volumes.
- MSIL earned Rs658mn from scrap sales during the quarter.
- 66% of the sales in 3QFY11 happened on financed basis and the same was slightly lower than 3QFY10 financed sales.
- MSIL reported 3QFY11 EBITDA of Rs7,335mn, 27% drop YoY and 7.2% drop QoQ.
- During the quarter the company restructured the employee compensation package and paid one-time amount and that led to sharp 75.5% YoY and 48.2% QoQ jump in staff cost.
- After adjusting for the one-time employee payment of ~Rs510mn, the adjusted EBITDA margin for the quarter stands at 8.4% versus our estimate of 8.8%. Pay increase given to employees during the quarter led to the difference.
- On YoY basis margins were down from 13.6% to 8.4%(adjusted) due to host of reasons that includes increase in royalty (by ~150bps), lower export realization, increase in input and staff cost and adverse product mix.
- Sequentially margins were down due to higher employee cost and increased seasonal discounts.
- Royalty cost for the quarter was down sequentially due to lower exports as exports attract higher royalty rate.
- Interest cost for the quarter was down sharply from Rs84mn in 3QFY11 and Rs97mn in 2QFY11 to Rs4nmn for the quarter under review.
- Tax rate for the quarter stood at 28.7% versus 32.2% and 29.3% during 3QFY10 and 2QFY11 respectively.
- MSIL reported net profit of Rs5,652mn versus Rs6,875mn for 3QFY10.

Conference call takeaways

- Management indicated towards capacity of 1.4mn pa from April 2011. Additional capacity of 250,000 unit pa will come during 2HFY11.
- On the revised employee compensation structure the management indicated the same will be valid until the end of 2012. Furthermore management expects to keep the employee cost between 2.0-2.2% of sales.
- Management confirmed that the car demand at the ground level remains robust.
- On hedging, the management has decided to keep the yen exposure unhedged for FY12 as the company expects the yen to depreciate moving ahead. On the Euro side, the company has decided to hedge their 1HFY12 exposure. MSIL enjoys natural hedge against the dollar and have therefore decided to keep their positions open.
- On the new launches, the company is expected to launch "Kizashi" in Feb 2011 and will continue their flow new models and refreshes at appropriate time points.

Valuations and outlook

- Going forward, we have assumed a volume growth rate of 13.7% in FY12 after growing at 25% CAGR between FY09 and FY11E. Reasons for lower volume growth includes 1. Higher base 2. Rising financing cost and 3.Enhanced competition.

We recommend ACCUMULATE on Maruti Suzuki India with a price target of Rs.1406

- We have lowered our EBIDTA margin estimates for FY11 from 9.1% to 8.4% and for FY12 from 9.5% to 8.6% on back of following reasons 1. Rising commodity prices 2.Revised employee compensation package and 3. Continued strong yen.
- Accordingly our revised EPS estimates now stands at Rs78.4 for FY11E (earlier Rs81.8) and at Rs93.7 for FY12E (earlier Rs99.7).
- In the past one month the stock has corrected significantly broadly tracking the rising interest rate scenario and increasing commodity prices. Current market price in our view already factors in these negatives. We therefore continue to maintain our **ACCUMULATE** rating on the stock with revised price target of Rs.1,406 (earlier Rs1,497).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
28-Jan	Arvind Intl	Mandeep Singh Bhatia	S	44,084	17.4
28-Jan	Ashutosh Paper	Tarini Enterprises Pvt Ltd	B	78,300	130.0
28-Jan	Ashutosh Paper	Pradeep Kumar Aggarwal	S	78,300	130.0
28-Jan	Asia Hr Tech	Telesys Software Ltd	S	50,000	6.4
28-Jan	Bampsl Sec	Surendra Kumar Gupta	B	604,413	3.1
28-Jan	Bgil Films	Enaam Securities	B	40,980	6.2
28-Jan	Capman Fin	Shree Swai Investments	B	22,481	8.8
28-Jan	Capman Fin	Mumbai Stock Brokers Pvt Ltd	S	22,469	8.8
28-Jan	Chandni Tex	Nabh Tradelink Pvt.Ltd	B	200,000	138.0
28-Jan	Chandni Tex	Vijaykumar Ramanlal Sanghavi	B	100,000	138.5
28-Jan	Chandni Tex	Niruben Vitthalbhai Patel	S	105,000	138.5
28-Jan	Gandhimathi	V Murugesachettiar Seshadri	S	116,000	125.5
28-Jan	Greycells Edu	IGFT Pvt Ltd	B	50,000	40.0
28-Jan	Greycells Edu	Padmakshi Financial Services Ltd	S	50,000	40.0
28-Jan	Gujarat Tool	Mukesh Narpatlal Shah	B	35,700	9.1
28-Jan	Gujarat Tool	Blueberry Trading Company Pvt Ltd	S	34,600	9.1
28-Jan	Ion Exchange	Sal Real Estate Pvt Ltd	S	68,483	135.7
28-Jan	Maharashtra Ind	Global Film & Bord Casting Ltd	B	35,000	8.0
28-Jan	Maharashtra Ind	Sonu Singh	S	34,695	8.0
28-Jan	Mazda	India Deep Value Fund	B	23,275	102.3
28-Jan	Mazda	J N J Holding S Pvt Ltd	S	25,000	100.6
28-Jan	Midval Ent	Prakashbhai Ishwarbhai Rana	S	440,000	56.3
28-Jan	Mym Tech	Sravan Veledandi Prabhakar	B	40,000	8.5
28-Jan	Mym Tech	Manasa Lifestyle Product Ltd	S	39,000	8.5
28-Jan	Parichay Invest	Desai Mahesh	S	14,050	215.1
28-Jan	Pasari Spin	Tushar P Shah	B	64,000	27.1
28-Jan	Prism Info	Aap Investments	B	500,000	46.5
28-Jan	Prism Info	Idhasoft Limited	S	500,000	46.5
28-Jan	Priyadarshini Sp	Pradeep Kumar Aggarwal	B	89,916	101.7
28-Jan	Priyadarshini Sp	Tarini Enterprises Pvt Ltd	S	109,344	101.6
28-Jan	Punjab Wool	Kamal Bhupatrai Parekh	S	100,000	13.2
28-Jan	Ravinay Trad	Raj Realestate & Finvest P Ltd	B	37,000	223.7
28-Jan	Shekhawati Poly	Rishabhbhai Piyushkumar Vora	B	125,000	26.3
28-Jan	Shree Ashtavina	Surajholdingltd	S	8,226,069	8.3
28-Jan	Sp Capital	Shraddha Santosh Chitnis	S	34,200	64.0
28-Jan	Splash Media	Heranba Finvest Service Pvt Ltd	B	499,000	110.8
28-Jan	Tgf Media Sy	Manisha Pincha	S	30,000	15.6
28-Jan	Vaishnavi Gold	Sita Ram	S	27,000	19.6
28-Jan	Vax Housing	Vipul Virendrakumar Patel	B	25,000	55.8
28-Jan	Vax Housing	Patel Virendrakumar J	B	25,000	55.6
28-Jan	Vax Housing	Dewang Brahmbhatt	S	27,372	55.6
28-Jan	Vikas Wsp	Goldman Sachs Mauritius I	B	715,000	22.8

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ONGC	1,133	1.7	2.2	1.1
ICICI Bank	1,018	0.4	1.6	4.9
Bharti Airtel	327	0.5	0.7	3.7
Losers				
Reliance Ind	913	(3.2)	(16.9)	7.7
HDFC	645	(3.3)	(9.5)	4.7
L&T	1,607	(2.3)	(6.8)	1.9

Source: Bloomberg

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