MORNING INSIGHT

Kotak Securities

PRIVATE CLIENT RESEARCH

NOVEMBER 1, 2010

Economy News

- The Reserve Bank of India (RBI) will try to strike a balance between the need for growth and the necessity to contain inflation at its monetary policy review next week, Finance Minister Pranab Mukherjee said. He said although food inflation was coming down, the government would wait for some more time before taking any policy measure. (ET)
- The new consumer price indices set to debut in January will be compilations of indices for states that reflect the price trends prevailing in the country accurately, helping policy formulation and targeted intervention. Each state will have two consumer price indices, one for rural and another for urban areas. These CPI rural and urban will be added up to arrive at urban and rural retail indices at the national level. (ET)

Corporate News

- Electrical equipment maker **Havells India** has turned around operations of its loss-making European subsidiary Havells Sylvania, three years after acquiring the world's fourth-largest lighting equipment company, a top company executive said. The restructuring that got completed early this year has improved operational efficiency and now the next task is to resume growth, said Anil Gupta, joint managing director of Havells India. (ET)
- **Hindustan Unilever (HUL),** is set to counter Procter & Gamble's (P&G's) anti-ageing cream, Olay, by launching more than half-a-dozen premium products from the Ponds Gold Radiance portfolio as the war in the rapidly growing anti-ageing cream and lotion segments intensifies. Olay with a 36.7% share tops the anti-ageing category, which accounts for 10% of the total skin care market, but is the fastest growing sub-segment. (ET)
- Chennai-based **Paramount Airways** could soon take to the skies again. The Aircraft Acquisition Committee of the Ministry of Civil Aviation is likely to take up the airline's proposal to import 13 aircraft at its next meeting scheduled for the first fortnight of November. Paramount's scheduled operator licence was suspended due to the downgrading of requirements of a scheduled airline as it did not have the required number of aircraft in its fleet. (BL)
- State-run **Rural Electrification Corporation (REC)** may raise an additional $750 million from markets abroad this financial year, apart from the planned $1 billion. "We have permission to raise another $750 mn by December, apart from the planned $1 bn. But we might get an extension for this and raise it via external commercial borrowings (ECB) by the end of the current fiscal," said a senior REC official. The company had already raised $470 mn earlier this year via overseas bonds and has planned to raise another $500 mn by the end of December.(BS)
- Utility vehicle major **Mahindra & Mahindra** said it will sign a definitive agreement with Korean automotive brand Ssangyong next month, and complete the buy-out process of the ailing company by March. Pawan Goenka, president (automotive sector), M&M, said, "We expect that by the end of February or March next year, fresh issue of shares will be made to us and by early March we should be able to acquire the company". (BS)
- **GAIL (India)** has signed a three-year deal with Japanese trader Marubeni to buy 500,000 million tonnes of liquefied natural gas, GAIL's chairman said. The supplies would begin from 2011, B C Tripathi told reporters on the sidelines of energy conference Petrotech. (BS)

Equity

	29 Oct 10	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,032	0.5	(2.0)	12.1
NIFTY Index	6,018	0.5	(2.0)	12.1
BANKEX Index	14,016	1.5	(1.7)	21.5
BSET Index	5,993	(0.4)	(1.8)	9.5
BSETCG INDEX	15,819	(0.2)	(3.7)	8.4
BSEOIL INDEX	10,949	0.7	3.3	7.7
CNXMcap Index	9,361	(0.3)	0.4	11.2
BSESMCAP INDEX	10,598	(1.5)	1.9	13.4
World Indices				
Dow Jones	11,118	0.0	2.7	6.2
Nasdaq	2,507	0.0	5.8	11.2
FTSE	5,675	(0.0)	1.5	7.9
Nikkei	9,202	(1.7)	(2.3)	(3.7)
Hangseng	23,096	(0.5)	5.1	11.8

Value traded (Rs cr)

	29 Oct 10	% Chg - Day
Cash BSE	4,703	(5.9)
Cash NSE	16,742	(32.6)
Derivatives	118,782	(53.0)

Net inflows (Rs cr)

	28 Oct 10	% Chg	MTD	YTD
FII	(558)	(670.8)	24,365	112,649
Mutual Fund	(80)	(78.6)	(5,738)	(28,494)

FII open interest (Rs cr)

	28 Oct 10	% Chg
FII Index Futures	16,381	3.0
FII Index Options	45,475	6.7
FII Stock Futures	38,914	0.1
FII Stock Options	503	138.5

Advances / Declines (BSE)

29 Oct 10	A	B	S	Total	% total
Advances	71	482	93	646	26
Declines	130	1358	309	1,797	71
Unchanged	4	56	12	72	3

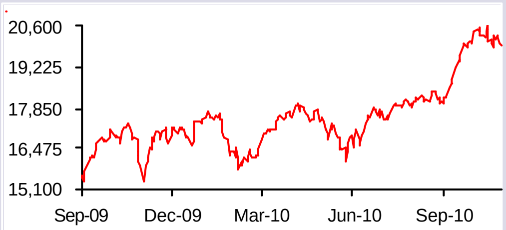
Commodity

	29 Oct 10	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	81.8	0.5	0.3	3.6
Gold (US$/OZ)	1,357.8	1.3	3.3	15.1
Silver (US$/OZ)	24.5	2.5	12.8	37.4

Debt / forex market

	29 Oct 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	8.14	NA	7.80
Re/US$	44.43	44.52	44.95	46.54

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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J KUMAR INFRAPROJECTS LTD

PRICE: RS.245 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.278 **FY12E P/E: 6.6X**

- **J Kumar Infraprojects revenues reported 20% growth for Q2FY11 vis-à-vis same period last year. This was lower than our expectations and was impacted by monsoons in Q2FY11.**
- **Operating margin performance was better than our estimates and margins stood at 15.9% for Q2FY11.**
- **Net profits reported a decline of 33% for Q2FY11 as against same period last year. But net profits of Q2FY11 are not exactly comparable with Q2FY10 since last year financials include Rs 146mn as additional income declared by the company during course of search carried out by Income Tax department.**
- **Based on lower than expected order inflow seen in H1FY11, we revise our order inflow estimates downwards for the full year. However, we expect inflow to jump up significantly in FY12. We thus expect revenues to grow at a CAGR of 31% and net profits to grow at a CAGR of 21% between FY10-FY12.**
- **At current price of Rs 245, stock is trading at 8.2x and 6.6x P/E multiples for FY11 and FY12 respectively. We roll forward our target valuations on FY12 and arrive at a revised price target of Rs 278 (Rs 260 earlier) based on 7.5x one year forward estimated earnings. We thus continue to maintain ACCUMULATE rating on the stock and advise investors to buy stock on dips. Company may get re-rated on further order announcements.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	7,643	10,165	13,113
% change YoY	88	33	29
EBITDA	1,285	1,576	1,967
% change YoY	113	23	25
Other Income	59	50	50
Depreciation	145	170	204
EBIT	1,199	1,455	1,813
% change YoY	111	21	25
Net interest	148	209	266
Profit before tax	1,051	1,247	1,548
% change YoY	103	19	24
Tax	351	416	517
as % of PBT	33	33	33
Profit after tax	700	830	1,031
% change YoY	95	19	24
Shares OS (m)	27.8	27.8	27.8
EPS (reported) (Rs)	25.2	29.9	37.1
P/E(x)	9.7	8.2	6.6
EV/EBITDA(x)	5.1	4.2	3.4
RoE(%)	30.3	23.8	23.7
RoCE(%)	42.3	34.2	34.1

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Net Sales	**1,699**	**1,414**	**20**
Expenditure	1,429	1,068	34
EBITDA	**270**	**346**	**-22**
EBITDA margin (%)	15.9	24.5	
Depreciation	38	36	
EBIT	**232**	**310**	**-25**
Interest	59	19	
PBT(exc other income)	173	291	-41
Other Income	18	9	
PBT	**191**	**300**	**-37**
Tax	59	102	
Tax (%)	30.8	34.0	
PAT	**132**	**198**	**-33**
NPM (%)	7.8	14.0	
Equity Capital	278	247	
EPS (Rs)	**4.7**	**8.0**	

Source: Company

Revenue growth lower than our estimates

- J Kumar Infraprojects revenues reported 20% growth for Q2FY11 vis-à-vis same period last year. This was lower than our expectations and was impacted by monsoons in Q2FY11.
- Current order book of the company stands at Rs 14bn and is diversified across transportation (86%), civil (5%), irrigation (7%) and piling (2%) and provides visibility for next 1.5 years
- Order inflow had remained muted during H1FY11 while in Q3FY11, company has till now announced two project awards. First project involves construction of phase II of BRTS corridors for Ahmedabad worth Rs 1.16 bn and piling works worth Rs 200 mn. Along with this, JKIL has also received work enhancement order from MCGM by Rs 560 mn for construction of ROB a Jogeshwari, Mumbai. Company is L1 in projects worth Rs 4bn. Along with this, company has also placed bids for road BOT projects in Rajasthan which are likely to be awarded by Nov-Dec, 2010.
- JKIL is also in talks with several players for forming a JV for road BOT projects where it will participate equally in the equity stake and would also be carrying out EPC of the project.
- Revenues for the current quarter came primarily from transportation segment (96%) and other segments such as piling contributed 4% of the total revenues. Revenues from transportation segment were diversified across roads (18%), flyovers (58%), skywalks (13%) and others (6%).
- Based on lower than expected order inflow witnessed during H1FY11, we reduce our order inflow estimates for FY11. We now expect order inflows of Rs 9 bn and Rs 17 bn for FY11 and FY12 respectively.
- Our revenue estimates for the company gets revised correspondingly and we expect revenues to grow at a CAGR of 31% between FY10-FY12.

Operating margins better than estimates

- Operating margin performance was better than our estimates and margins stood at 15.9% for Q2FY11.
- Operating margins in Q2FY11 are not exactly comparable with Q2FY10 since in Q2FY10, company included an additional income of Rs 146mn as obtained during course of search carried out by Income Tax department
- JKIL would continue to maintain margins at the current levels due to large fleet of equipments being owned by the company along with no subcontracting.
- We revise our margin estimates for FY11 upwards to 15.5% and expect operating margins to be 15% for FY12 and going forward.

Net profits not comparable with last year

- Net profits reported a decline of 33% for Q2FY11 as against same period last year Post revising our estimates, we now expect net profits to grow at a CAGR of 21% between FY10-FY12.

Valuation and recommendation

- At current price of Rs 245, stock is trading at 8.2x and 6.6x P/E multiples for FY11 and FY12 respectively.

We recommend ACCUMULATE on J Kumar Infrasprojects with a price target of Rs.278

- We roll forward our target valuations on FY12 and arrive at a revised price target of Rs 278 (Rs 260 earlier) based on 7.5x one year forward estimated earnings.
- We thus continue to maintain **ACCUMULATE** rating on the stock and advise investors to buy stock on dips.
- Company may get re-rated on further order announcements.

RESULT UPDATE

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MADHUCON PROJECTS LTD (MPL)

PRICE: RS.147 **RECOMMENDATION: BUY**
TARGET PRICE: RS.191 **FY11E P/E: 16.3X**

- **Madhucon Projects Ltd reported 38% YoY growth in revenues for Q2FY11 which was inline with our estimates.**
- **Operating margins stood at 9.7% for Q2FY11, lower than our estimates. This was due to increase in raw material costs witnessed in few fixed price contracts. However, company expects to maintain margins in the range of 11% for the full year.**
- **Net profits declined by 44% YoY and are impacted by decline in margins and higher interest outgo in comparison with last year.**
- **At current price of Rs 147, stock is trading at 16.3x and 14x P/E for FY11 and FY12 respectively. Adjusted with BOT assets valuations, stock is trading at 6.8x and 5.8x P/E for FY11and FY12 respectively.**
- **We take into account delays in coal mining and revise our valuations from coal mining downwards. We roll forward our price target to FY12 and arrive at a revised price target of Rs 191. We continue to maintain BUY on Madhucon Projects.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Revenues	13,076	16,800	20,160
% change YoY	33.0	28.5	20.0
EBITDA	1,342	1,848	2,218
% change YoY	8.3	37.7	20.0
Other Income	46	100	40
Depreciation	449	515	584
EBIT	940	1,433	1,674
% change YoY	(5.8)	52.4	16.8
Net interest	258	381	445
Profit before tax	682	1,052	1,229
% change YoY	(6.8)	54.3	16.8
Tax	249	352	412
as % of PBT	36.5	33.5	33.5
Net income	432	699	817
% change YoY	(7.9)	61.7	16.8
Shares OS (m)	77.7	77.7	77.7
EPS (rep& diluted) (Rs)	5.6	9.0	10.5
P/E (x)	26.4	16.3	14.0
EV/EBITDA (x)	6.0	4.5	3.9
RoE (%)	7.8	11.5	12.0
RoCE (%)	11.4	15.0	15.9

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Net Sales	**3516**	**2547**	**38**
Expenditure	-3176	-2261	
EBITDA	**340**	**286**	**19**
EBITDA margin	9.67	11.23	
Depreciation	(118)	(113)	
EBIT	**222**	**173**	**29**
Interest	(116)	(45)	
EBT(exc other income)	106	128	
Other Income	7	53	
EBT	**113**	**181**	**-37**
Tax	(46)	(61)	
Tax (%)	41.03	33.69	
Net profit	**67**	**120**	**-44**
NPM (%)	1.90%	4.70%	
Equity Capital	73.79	73.79	
EPS (Rs)	**0.9**	**1.6**	

Source: Company

Revenue growth led by strong order book

- Madhucon Projects Ltd reported 38% YoY growth in revenues for Q2FY11 which was inline with our estimates.
- Current order book of company stands at Rs 46 bn diversified across road segment worth Rs 12 bn, irrigation projects worth Rs 13 bn, power projects worth Rs 16 bn, and remaining Rs 5 bn is from building and mining segment.
- MPL would commence on construction work for 4 laning of Chhapra-Hazipur Section of NH-19 in the state of Bihar by Q4FY11 after achieving financial closure.
- Execution on the power project is progressing inline with expectations and phase 1 of power project by Simhapuri Energy Pvt Ltd is likely to get completed by March, 2011.
- MPL has already achieved financial closure for the phase II and piling work has also commenced.
- Based on strong order book, we continue to maintain our revenue estimates for the company going forward and expect revenues to grow at a CAGR of 24% between FY10-FY12.

Progress on key projects

- Road projects - Toll collections have increased in Q2FY11 from MPL's two road BOT projects while remaining two BOT projects in Tuticorin and Trichy are awaiting toll notification to commence tolling. Madhucon Agra-Jaipur expressway and TN Expressway have collected toll of Rs 9.4lakh/day and Rs 7.2lakh/day respectively during Q2FY11. For Chhapra-Hazipur project, MPL would require an equity commitment of Rs 2 bn to be invested over next 2.5 years. Madhucon projects expects to raise this amount from NCD's.
- Power projects - EPC work on Phase 1 of 300MW on power project by Simhapuri Energy Pvt Ltd is likely to get over by March, 2011. MPL has already infused equity to the tune of Rs 2.5 bn in the first phase and remaining nearly Rs 600-700 mn is expected to be infused in few quarters. While construction on phase II has commenced with piling work going on, equity investments in Phase II are expected to be Rs 2 bn, which have been arranged through NCD's.
- By Aug 2011, company plans to file for an IPO for Madhucon Infra which is executing these road BOT's, power and coal mining project.

Operating margins impacted by increase in raw material cost

- Operating margins stood at 9.7% for Q2FY11, lower than our estimates. This was due to increase in raw material cost in some of its fixed price contracts. Company expects to maintain margins in the range of 11% for the full year.
- We maintain our estimates and expect margins to be 11% going forward.

Net profit registered de-growth due to decline in margins

- Net profits declined by 44% YoY and are impacted by decline in margins and higher interest outgo in comparison with last year.
- Interest outgo has increased due to increase in short term loans availed by the company during FY11.
- We maintain our estimates and expect net profits to grow at a CAGR of 37% between FY10-12.

Valuation and recommendation

We recommend BUY on Madhucon Projects with a revised price target of Rs.191

- At current price of Rs 147, stock is trading at 16.3x and 14x P/E for FY11 and FY12 respectively.
- Adjusted with BOT assets valuations, stock is trading at 6.8x and 5.8x P/E for FY11and FY12 respectively.
- We take into account delays in coal mining and revise our valuations from coal mining downwards.
- We roll forward our price target to FY12 and arrive at a revised price target of Rs.191. We continue to maintain BUY on Madhucon Projects (Rs.186 earlier).

Sum of the parts valuation(FY12)

	Rs per share	
Core business	105	10 times FY12 earnings
Road projects		
Rajasthan BOT	7	Expected Equity IRR of 16%
Tamil Nadu BOT	8	Expected Equity IRR of 16%
Tuticorin BOT	17	Expected Equity IRR of 15.5%
Trichi BOT	13	Expected Equity IRR of 15.5%
Power project	24	P/BV of 0.75x for equity investment of
		Rs 2.5bn invested till date
Land value	5	9.2acres bought at Rs 45mn per acre
Coal mining venture	12	NPV discounted by 50%
Total	**191**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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ABB LTD

PRICE: RS.822 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.690 **CY11E P/E: 35.6X**

- **Reflecting the still unfavourable industry scenario for T&D equipments, ABB's reported numbers are lower on the revenue as well as profit fronts. Margins continue to be under pressure due to a combination of capacity buildup in the industry and lackluster market growth. Competition from domestic and international players has increased over the past one year thereby forcing MNCs to accept price cuts. T&D spending at the state-utility levels have not increased meaningfully. Prefer Siemens over ABB.**
- **In view of rich valuations and adverse sector profitability, we maintain REDUCE with an price target of Rs.690 based on 30x CY11 earnings (Rs 710 earlier).**

Summary table

(Rs mn)	CY09	CY10E	CY11E
Sales	62372	62284	82078
Growth (%)	-8.8	-0.1	31.8
EBITDA	5830	2436	7872
EBITDA margin (%)	9.3	3.9	9.6
Net profit	3508	1262	4895
Net cash (debt)	7621	7103	8477
EPS (Rs)	16.6	6.0	23.1
Growth (%)	-34.3	-64.0	288.0
CEPS	19.3	8.6	26.1
DPS (Rs)	2.3	2.3	2.3
ROE (%)	15.6	5.1	18.0
ROCE (%)	23.0	15.1	25.7
EV/Sales (x)	2.6	2.6	2.1
EV/EBITDA (x)	28.3	38.4	20.0
P/E (x)	49.7	138.1	35.6
P/Cash Earnings	42.5	95.2	31.5
P/BV (x)	7.2	7.0	5.9

Source: Company, Kotak Securities - Private Client Research

Financial performance

(Rs mn)	Q3 CY10	Q3 CY09	YoY (%)	9MCY10	9M CY09	YoY (%)
Sales	**13,340**	**14,538**	**-8**	**42,365**	**43,618**	**-3**
Other operating income	150	151	-1	508	280	81
Raw material costs	9,295	9,981	-7	29,080	29,135	0
purchase of traded goods	812	648	25	2,199	1,914	15
Personnel expenses	1,229	1,039	18	3,632	3,009	21
Other exp	2,289	1,739	32	6,150	5,537	11
exchange loss/(gain)	(478)	(91)	425	572	148	286
Operating expenses	13,145	13,315	-1	41,633	39,744	5
Operating profit	**344**	**1,375**	**-75**	**1,240**	**4,155**	**-70**
Other income	34	8	352	107	132	-19
PBDIT	**378**	**1,382**	**-73**	**1,347**	**4,286**	**-69**
Interest	45	44	3	125	227	-45
Depreciation	126	127	-1	375	360	4
PBT	**208**	**1,212**	**-83**	**846**	**3,699**	**-77**
Tax	93	381	-76	282	1,248	-77
PAT reported	**115**	**831**	**-86**	**565**	**2,451**	**-77**
EPS (Rs)	**0.5**	**3.9**		**2.7**	**11.6**	
OPM (%)	2.6	9.5		2.9	9.5	
RM to sales (%)	75.8	72.4		73.8	71.2	
Staff costs to sales (%)	9.2	7.1		8.6	6.9	
other exp to sales (%)	17.2	12.0		14.5	12.7	
Tax rate (%)	44.5	31.4		33.3	33.7	

Source: Company

Growth falters across most divisions

- ABB reported a degrowth in revenue of 8% yoy in the third quarter of CY10.
- Decline in revenues has been mainly driven by lower execution in the discrete automation products segment.
- Based on feedback from industry peers, the power transmission business is currently seeing strong competition from Chinese and Korean players. This has resulted in significant price erosion.
- The power products business also reflected the business scenario in power systems business. ABB's decision of not participating in the rural electrification business could have also impacted revenue growth.

- By and large, the expansion of power T&D market has slowed down in 9MCY10 as compared to an average growth of 20% earlier. PGCIL's ordering has also been sluggish. However, we believe this is not a reflection of future potential as the Indian T&D sector is likely to double the investments in the XIIth plan (2012-17) as compared to the ongoing XIth plan (2007-12). We remain optimistic about the market potential however there could be near-term pains reflecting in cost and competitive pressures.
- Large established players (Areva and Siemens) have added significant capacity in the sector, which has added to the pricing pressure.

Segment revenues

(Rs mn)	Q3CY10	Q3CY09	YoY (%)
Power Products	3,992	4,734	-15.7
Power Systems	3,919	3,813	2.8
Discrete automation products	3,445	4,478	-23.1
Process Automation	2,180	2,402	-9.2
LV products	1,038	103	908.0
Total	**14,574**	**15,530**	**-6.2**

Source: Company

Margins declined as a result of severe competitive pressure

- For the quarter, EBITDA margins declined sharply to 450 bps primarily due lower execution during the quarter resulting in underabsorption of overhead costs. Competitive pressure on margins also added to margin erosion.
- The company reported marginal in power products and systems business, which is basically a reflection of price erosion in transformers and substations orders.
- There has been a 15-20% fall in prices in transformers (mainly in the high KV range) attributed purely to competition from domestic as well as imports.

Segment Margins

(%)	Q3CY10	Q3CY09	Q2CY10
Power Products	-0.7	11.9	6.4
Power Systems	-0.7	1.2	-5.1
Discrete Automation and motion	14.0	13.5	12.6
Process Automation	-1.9	7.0	9.2
LV products	3.9	2.3	-0.3

Source: Company

Silver lining has been revival in order intake

- During the quarter, order booking at Rs 20.3 bn rose 7.3% yoy and 64% qoq.
- Order intake for ABB had slowed down considerably in recent quarters. For CY09, growth in order intake remained sedate at 6.6% as against a CAGR of 42% between CY03 and CY08.
- Order backlog is 14% yoy to Rs 91.8 bn, thus yielding a revenue visibility of 18 months of trailing four quarters revenues.
- Key drivers for power products and systems is the T&D investment by power utilities and for automation division it is the investment in core sector industries like cement, steel, pulp and paper etc.
- We estimate Utilities (PGCIL, Generating companies and SEBs) to contribute between 50-60% of the orders while the rest is contributed by industrial sector and services.

Earnings Revised downwards - Industry continues to reel under pricing pressure and subdued market growth

Order mix

	(%)
Projects	50
Transformers and switchgears	24
automation and drives	16
Services	10

Source: Company

Earnings estimates (CY10E)

(Rs mn)	Earlier	Revised
Revenues	63384	62284
EBITDA (%)	6.8	3.9
EPS (Rs)	11.9	6.0
% change		-50.0%

Source: Kotak Securities - Private Client Research

Valuation and Target Price

- ABB's earnings grew at a CAGR of 53% between CY05-07. During this period, the stock has traded in a PE band of 16x-40x.
- Since CY08, the earnings growth has slowed down to sub 10% levels with the company reporting a 35% degrowth in CY09. Despite this, the stock has enjoys rich valuations and is trading in a band of 25-30x one year forward earnings.

We maintain REDUCE rating on ABB with a price target of Rs.690

- The order intake has also lagged that of peers. However, macro data indicates that an industrial recovery is gaining steam, which should translate into acceleration in order intake. We have built in this favourable emerging scenario in our profit forecasts.
- Despite building a recovery in CY11, the stock is trading at 35.6x CY11E earnings. The stock has tended to peak at above 30x one year forward earnings in the previous three corrections. The average forward PE for the stock has been at 27x.
- Based on an average PE of 30x CY11 earnings, we revise price target to Rs.690 (Rs 710 earlier).

Stock Outlook

ABB AG has recently completed a successful open offer, which was at a 36% premium to the market price before the announcement. With this the parent's stake in the Indian operations has increased to 75%. However, quite contrary to expectations the stock has been resilient even after the completion of the offer and poor quarterly performance. It is likely that the stock price is building expectations of a follow-on offer for delisting.

RESULT UPDATE

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BHEL

PRICE: RS.2442 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.2632 **FY11E P/E: 20.5X**

- **BHEL second quarter numbers are ahead of our expectations. Growth driven by order execution as well as ramping up of expanded capacity.**
- **While the order backlog is strong at Rs 1537 bn, its revenue visibility has been trending downwards as revenue growth is outpacing rise in order intake.**
- **Stock's underperformance partly explained by investor skepticism on growth beyond 2012-13 (as order intake is showing signs of plateauing) and vulnerability of margins due to product mix changes and higher competition. The discount to peers like L&T and Thermax has widened in recent months.**
- **We maintain ACCUMULATE with the revised price target of Rs 2632 (Rs 2600 earlier)**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	333,549	405,241	482,876
Growth (%)	24.8	21.5	19.2
EBITDA	49,859	81,117	100,021
EBITDA margin (%)	14.9	20.0	20.7
Net profit	43,104	58,356	70,959
Net cash (debt)	96,624	100,612	149,388
EPS (Rs)	88.1	119.2	145.0
Growth (%)	37.3	35.4	21.6
CEPS	97.4	129.9	157.8
DPS (Rs)	17.0	17.0	17.0
ROE (%)	27.1	28.1	26.4
ROCE (%)	35.4	42.3	39.8
EV/Sales (x)	3.3	2.7	2.2
EV/EBITDA (x)	22.0	13.5	10.5
P/E (x)	27.7	20.5	16.8
P/BV (x)	7.5	5.8	4.4

Source: Company, Kotak Securities - Private Client Research

Financial performance

(Rs mn)	Q2FY11	Q2FY10	YoY (%)	H1FY11	H1FY10	YoY (%)
Sales Turnover	**83,284**	**66,252**	**25.7**	**148,081**	**122,208**	**21.2**
Other operating income	1622	1023	58.6	2,836	1,781	59.3
Total Operating Exp	**68,583**	**54,957**	**24.8**	**124,943**	**105,751**	**18.1**
RM costs	49,641	37,933	30.9	87,734	73,385	19.6
Staff cost	12,641	10,690	18.3	26,018	21,826	19.2
Other costs	6,301	6,335	-0.5	11,190	10,540	6.2
Operating Profit	**16324**	**12318**	**32.5**	**25,974**	**18,238**	**42.4**
Depreciation	1,341	934	43.6	2,610	1,895	37.7
Other Income	1,620	1,955	-17.1	3,254	4,226	-23.0
EBIT	**16,603**	**13,339**	**24.5**	**26,619**	**20,569**	**29.4**
Interest	59	45	31	98	88	10.9
PBT	**16,544**	**13,294**	**24.4**	**26,521**	**20,481**	**29.5**
Tax	5,121	4,715	8.6	8,422	7,196	17.0
Reported PAT	**11423**	**8579**	**33.2**	**18,099**	**13,285**	**36.2**
EPS (Rs)	**23.3**	**17.5**		**37.0**	**27.1**	
OPM (%)	19.6	18.6		17.5	14.9	
RM costs to sales (%)	59.0	57.3		59.0	60.0	
Staff costs to sales (%)	15.2	16.1		17.6	17.9	
Other costs to sales (%)	7.6	9.6		7.6	8.6	
Current tax rate (%)	34.0	35.5		34.0	35.1	

Source: Company

Momentum in execution progress maintained

- Revenues for the quarter rose 25.7% yoy to Rs 83.2 bn mainly driven by higher execution of power sector orders. The company had received large orders in FY08 and FY09, which have crossed critical milestones for revenue booking and hence the robust revenue growth.
- Revenue growth is line with the revenue target based on MOU signed by the company with the government.

- Impetus to revenue growth is also coming from the expanded capacity to 15000 MW. The company plans to deliver 16-17000 MW of power project in the current fiscal.
- For the current fiscal, the company plans to deliver power sector orders worth 16000 MW as against 11000 MW in the previous fiscal.
- The industry sector segment mainly constitutes captive power projects, T&D equipments and railways business. The execution cycle in this segment is shorter compared to the power segment. A significant share of industrial sector's order book is contributed by the private sector for captive power projects.

Segment Revenues

(Rs mn)	Q2FY11	Q2FY10	YoY change %
Power	69,860	54,283	28.7
Industry	18,679	15,954	17.1

Source: Company

Margins expansion primarily led by fixed costs absorption

EBITDA margins expanded 100 bps to 19.6% mainly aided by fixed costs absorption. Employee costs have grown 18.3% yoy, ahead of our expectation. In the previous quarter, the management had indicated that arrears related to wage revision provision have been completely provided in FY10. Hence wage increases were expected to fall to the normalized rate of 8-10% pa. However, it seems that the higher than expected wage cost could be due to recruitment of manpower as the volume of work has increased significantly.

For the fiscal, the management indicated that employee costs are estimated to be in the range of Rs 52-53 bn, which is line with our estimate.

Visibility remains strong but order intake appears to have plateaued

- Order backlog at Rs 1537 bn is highest ever and translates into a revenue visibility of 52 months of trailing four quarter revenues.
- Order intake for Q2 FY11 and H1 FY11 stood at Rs 135 bn and Rs 243 bn, up 70% yoy and 19% respectively. Major orders won included DB Power 2x600MW, Visa Power 2x600 MW, Raichur 2x800MW and Bellary 1x700 MW. Company expects to win roughly 16000 MW of thermal power orders. The company expects to win couple of orders from JVs it has signed with state utilities. BHEL is also reported to be the second assured of 5-6 sets of 660 MW when NTPC opens the tender for bulk ordering of supercritical sets in the second half of FY11.
- The company categorically indicated that it does not see any peaking of annual order intake in the foreseeable future.
- BHEL has emerged L2 in the bulk tender for supply of Turbine Generators comprising of 11 units of 660 MW each. BHEL gets to supply 4 units provided it is able to match the L1 price.
- Management is confident of maintaining order intake in the range of Rs 550-600 bn in FY11.
- New growth verticals that the company is targeting are HV T&D equipments, Rail locos-including metro, nuclear and gas based power, solar power, wind power, flue gas desulphurization systems and water desalination.

Stock Outlook: Stock has been a market performer on potential loss in order intake momentum in FY11 and beyond

Order intake grew from a level of Rs 187 bn in FY06 to Rs 600 bn in FY10 and has been the key rerating driver for the stock. However, we see order intake settling at a moderate growth trajectory going forward on account of 1) bulk of 12th plan order intake has been ordered 2) increased competition from private sector and Chinese players. Taking this into cognizance, the company's valuation multiples have contracted vis-à-vis other engineering company.

We maintain ACCUMULATE rating on BHEL with a revised price target of Rs.2632

We also need to monitor the likely impact on margins as more of supercritical orders (higher import content) are converted into revenues. We do believe there could be downside to margins.

Valuation and Target Price: BHEL is currently trading at 20.5x and 16.8x FY11 and FY12 earnings respectively. We maintain **ACCUMULATE** with a DCF based target price of Rs 2632 (Rs 2600 earlier).

RESULT UPDATE

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DIAMOND POWER INFRASTRUCTURE LTD

PRICE: RS.235 **RECOMMENDATION: BUY**
TARGET PRICE: RS.319 **FY11E P/E: 8.0x**

- **Numbers are ahead of expectations on the revenue as well as profit front. Revenue growth has been mainly driven by the Power EPC and Cables segment. The cables business has grown on account of commissioning of HT cables facility in Q4 FY10.**
- **The company has recently commissioned its transmission towers plant and expects to complete its EHV cables plant by January 2011.**
- **The stock is trading at attractive valuations. We maintain BUY with a target price of Rs319.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	8477	14817	19448
Growth (%)	21.5	74.8	31.3
EBITDA	1150	2054	2592
EBITDA margin (%)	13.6	13.9	13.3
Net profit	601.4	1100.2	1347.1
Net cash (debt)	-2930	-3940	-4596
EPS (Rs) (cons)	28.6	29.5	36.2
Growth (%)	6.5	83.0	22.4
CEPS	31.9	32.5	42.0
DPS (Rs)	0.0	0.0	0.0
ROE (%)	24.3	31.8	24.2
ROCE (%)	20.8	24.8	22.2
EV/Sales (x)	1.4	0.9	0.7
EV/EBITDA (x)	10.2	6.2	5.1
P/E (x)	8.2	8.0	6.5
P/Cash Earnings	7.4	7.2	5.6
P/BV (x)	1.7	1.5	1.2

Source: Company, Kotak Securities - Private Client Research

Financial performance

(Rs mn)	Q2FY11	Q2FY10	YoY (%)	H1FY11	H1FY10	YoY (%)
Sales Turnover	3501	1726	103	7317	3425	114
Expenditure	3005	1446	108	6275	2891	117
Raw Material costs	2896	1043	178	6065	2086	191
Purchase of traded goods	0	336	-100	0	671	-100
Staff costs	41	17	143	72	34	114
Other costs	67	50	35	138	100	38
Operating profit	**496**	**281**	**77**	**1042**	**534**	**95**
Depreciation	13	14	-4	29	28	4
Other income	3	4	-17	12	7	69
EBIT	**486**	**270**	**80**	**1025**	**513**	**100**
Interest	63	59	7	135	118	14
PBT	**423**	**211**	**100**	**890**	**395**	**125**
Tax	-145	-44	230	-300	-88	241
Adjusted PAT	**278**	**167**	**66**	**590**	**307**	**92**
Margins						
OPM (%)	14.2	16.3		14.2	15.6	
Raw Mat costs to sales (%)	82.7	60.4		82.9	60.9	
Other exp to sales (%)	1.9	2.9		1.9	2.9	
Tax rate (%)	-34	-21		-34	-22	
EPS (Rs)	**7.5**	**4.5**		**15.8**	**8.2**	

Source: Company

- Revenue for Q2FY11 grew 103% yoy mainly driven by the Power EPC and Power Cables segment.
- DPTL has raised its LT cables capacity from 8800 kms to 33000 kms and HT cables capacity from 2800 kms to 5600 kms in Q4 FY10. The ramping up of the expanded capacity is driving revenues for the Cables segment.
- Conductor revenue posted a degrowth in the quarter, which was mainly due to monsoons resulting in lower offtake in the quarter. The conductors revenues in the corresponding quarter of the previous year included cables as well conductors hence on a yoy basis, there is a degrowth.
- The EPC business has degrown on a qoq basis, but this is understandable as the site work could not progress due to monsoons. The company expects this situation to get rectified in the Q3 FY11.
- We understand that PGCIL has not released fresh orders for conductors in the past several months. However ordering for conductors and transmission towers should start from Q4 FY11.

Segment Revenues

(Rs mn)	Q2FY011	Q2FY10	Q1FY11	QoQ (%)	YoY (%)
Conductors	1,032	1,278	1,223	-15.6	-19.2
Power EPC	1,074	690	1,272	-15.6	55.5
Power cables	990	0	1,173	-15.6	
Transformers	572	242	482	18.7	136.7
Total	3,667	2,210	4,150	-11.6	66.0
Inter-segment	-167	-483	-334		
Net Revenues	3,501	1,726	3,816	-8.3	102.8

Source: Company

Margins maintained on a sequential basis

EBITDA margins for the quarter declined on a yoy basis mainly due to product mix changes and pricing pressure in the transformers business. Across the industry, the transformer makers have reported severe margin contraction.

Segment margins

(%)	Q2FY011	Q2FY10	Q1FY11
Conductors	13.7	11.1	14.1
Power EPC	13.1	10.4	13.4
Power cables	14.0	na	13.6
Transformers	8.2	9.0	16.5
Total	**3667**	**2210**	**4150**

Source: Company

Capital employed higher on account of higher inventory and on-going expansion

Capital employed has increased a across various divisions due to increase in volume of work handled as well as higher material prices inflating inventory value. The EPC division reported significant increase in inventory as while the materials and equipment were assembled at the site but work could not proceed on account of monsoons.

Segment Capital Employed

(Rs mn)	Q2FY011	Q2FY10	Q1FY11
Conductors	1,379	1,214	1,228
Power EPC	1,849	759	1,260
Power cables	1,967	-	596
Transformers	494	260	228
Total	**5,689**	**2,233**	**3,312**

Source: Company

Order book position is healthy

At the end of September 2010, Order book position stood at Rs 17 bn up from Rs 14.5 bn in Q1 FY11.

Other developments

- During the quarter, the company commissioned its 50000 tpa transmission towers plant at its existing location. Commercial production is expected shortly.
- The EHV cables plant is expected to be commissioned by January 2011.
- The company also signed an tie-up with SKODA Power for undertaking power transmission and distribution projects in the 400 KV range.

Valuation and Recommendation

We maintain BUY rating on Diamond Power Infrastructure with a price target of Rs.319

DPIL is trading at 8x and 6.5x FY11 and FY12 earnings respectively. On an FY11 EV/EBITDA basis, the stock is trading at 6.2x.

We maintain **BUY** on DPIL with an unchanged price target of Rs 319.

RESULT UPDATE

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VOLTAMP LTD

PRICE: RS.875 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.954 **FY11E P/E: 14.6x**

Voltamp's second quarter numbers are below expectations as EBITDA margin has come under severe pressure. While the management had been guiding margin pressure for quite some time, the magnitude of margin decline has come as a significant negative surprise. Moreover, the company has indicated that margin pressure may not be a one-quarter aberration but may last longer. We have thus aligned our earnings in line with the current scenario.

We rate Voltamp as our preferred stock within the midcap transformer space in view of debt-free, cash surplus of Rs 147 per share and superior management quality. Thus, despite the poor numbers we prefer not being overly negative on the stock and would recommend investors to "ACCUMULATE" the stock on declines.

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	6431	5420	6926
Growth (%)	16	-16	28
EBITDA	1511	1058	789
EBITDA margin (%)	24	20	11
PBT	1689	1223	925
Growth (%)	36	-28	-24
Net profit	1148	823	603
Net cash (debt)	60	43	341
EPS (Rs)	114	81	60
Growth %	44	(28)	(27)
CEPS	118	87	67
DPS (Rs)	13	13	13
ROE %	53.0	27.6	17.0
ROCE %	79.0	41.2	26.3
EV/Sales (x)	1.2	1.4	1.0
EV/EBITDA (x)	4.9	7.0	9.0
P/E (x)	7.7	10.7	14.6
P/Cash Earnings	7.4	10.0	13.0
P/BV (x)	3.5	2.7	2.4
CEPS (Rs)	118.1	87.4	67.3
Op cash flow	894.0	183.1	417.4
NW capital (days)	51.4	92.9	75.4

Source: Company, Kotak Securities - Private Client Research

Financial performance

	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
Net Sales / Income from Opns	**1243**	**1112**	**11.8**	**1193**	**4.2**
Other Income	46	65	-29.9	46	-0.2
Total Income	**1289**	**1177**	**9.5**	**1239**	**4.0**
Consumption of Raw Materials	1045	821	27.4	996	4.9
Manufacturing expenses	0	40		0	
Staff Cost	41	34	22.0	41	1.1
Other Expenditure	32	19	70.2	26	21.2
Operating Expenditures	1118	913	22.5	1063	5.2
PBDIT	**125**	**199**	**-37.1**	**130**	**-3.8**
Interest & Finance Charges	2	1	48.6	2	-14.6
Depreciation	16	11	50.5	18	-7.9
Profit / (Loss) before tax	**152**	**251**	**-39.5**	**155**	**-2.2**
Tax provision	59	80	-26.8	53	11.3
Profit / (Loss) after tax	**93**	**171**	**-45.5**	**103**	**-9.1**
EPS (Rs)	**9**	**17**	**-45.5**	**10**	**-9.1**
OPM (%)	10	16		10	
Raw material cost to sales (%)	84	74		83	
Other exp to sales (%)	3	2		2	
Tax rate (%)	39	32		34	

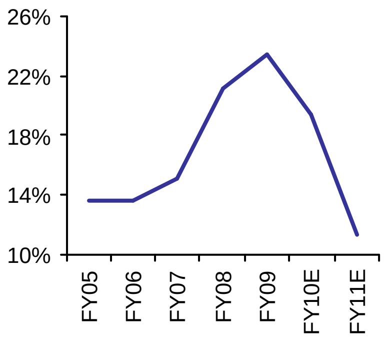
Source: Company

Numbers marred by severe margin pressure

Net sales grew 3% YoY as the company has preferred to go slow on taking orders in view of the adverse market conditions for transformer makers.

- While there has been revival in industrial production, it is yet to translate into improved offtake for Transformer companies. The sector has added capacity in anticipation of demand potential, however actual T&D spending by utilities has been sluggish. This is resulting in price undercutting by corporates with a view to utilize their expanded capacities.
- Other income for the company is less than our estimates and is reported at Rs.46 mn vis-à-vis Rs. 72 mn in Q1FY11.

EBITDA margins (%)



Source: Company, Kotak Securities - Private Client Research

- The company managed to keep its overheads under control but could not contain the sharp decline in margins. The management has indicated that in a bid to garner market share, players are resorting to severe price cuts.
- It is likely that the company may have accepted orders at low margins. For the T&D equipment industry it has been a difficult quarter with (except Crompton Greaves) several leading producers reporting sharp margin contraction.
- Cash and investment stands at Rs 1.6 bn.

Balance Sheet - Deterioration in working capital ratios

Investments stood at Rs 1.47 bn comprising mainly MF units and bonds. The company continued to maintain zero debt.

Table

(Rs mn)	Q2FY11	Q2FY10
Inventory	1095.6	837.3
Debtors	1097.3	761.4
Cash	13.1	20.6
Loans and Advances	110.9	190.4
Other current assets	4.2	0
Total current assets	2321.1	1809.7
Liabilities	633.9	540.5
Provisions	113.6	118.8
Net working capital	1573.6	1150.4

Source: Company

Transformer Industry Scenario

- Demand is increasing with slower pace for transformers. PGCIL spending has remained sluggish in H1CY10.
- Currently industry is operating at 70-75% capacity utilization.
- Competition is intensifying between various players leading to margins compression. Chinese and Korean manufacturers are also tightening their grip especially in 765 KV segment.
- Industry observed significant capacity addition in last two years with Areva doubling its capacity to and Siemens carrying out of Greenfield expansion in 765 KV segment.

Earnings Revision: Margin loss prompts earnings downgrade

Earnings estimate (FY11)

	Earlier	Revised
Revenuen (Rs mn)	7124	6926
EBITDA (%)	15%	11%
EPS (Rs)	76.4	59.7
% change		-22%

Source: Kotak Securities - Private Client Research

Stock Outlook

The stock has underperformed the peers in view of the poor sector fundamentals. We believe that the pains that the industry is going through may be temporary and fundamentals should improve once momentum in T&D spends by utilities gain steam. T&D spending is currently lagging the generation capacity growth and the situation should correct in the future. Within the midcap transformer industry, Voltamp is a quality stock with strong balance sheet. Hence we do not see significant downside from these levels.

Valuation

We maintain ACCUMULATE rating on Voltamp with a price target of Rs.954

Following the earnings downgrade, Voltamp is currently trading at 14.6x FY11 earnings.

We maintain **ACCUMULATE** on the stock with a target price based on DCF works out to Rs 954 (Rs 1026 earlier).

DCF Summary (Rs mn)

FCF in FY11	565
NPV of cash flows	4020
TV	3029.5
PAT growth CAGR between FY11-16	12.0%
WACC	7049
Surplus Cash	1412
PV of FCF	8461
Fair Value	838
1 Yr forward fair price	954

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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KALPATARU POWER TRANSMISSION LTD (KPTL)

PRICE: RS.173 **RECOMMENDATION: BUY**
TARGET PRICE: RS.262 **FY11E P/E: 13.3X**

- **KPTL reported decent set of nos. for Q2FY11. Numbers are in line with our expectations with revenue at Rs. 6.3 bn up 14% YoY and PAT at Rs 414 mn up 12% YoY due to superior order execution.**
- **We opine that continued momentum in investment in transmission towers by state utilities and order flows from PGCIL would remain a key variable to monitor going ahead.**
- **Stock has been underperforming the broader market through past two quarters. We believe that company's fund raising in last fiscal has met with skepticism and is the primary reason for this.**
- **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**
- **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)	FY09	FY10	FY11E
Sales	18,825	25,974	29,884
Growth (%)	8.3	38.0	15.1
EBITDA	2,227	3,048	3,604
EBITDA margin (%)	11.8	11.7	12.1
Net profit (Adj)	944	1,705	2,000
Net cash (debt)	-6,102	-5,675	-1,312
EPS (Rs)	6.0	11.1	13.0
EPS (Rs) (Cons)	7.2	12.2	14.5
Growth (%)	-38.0	86.6	17.3
CEPS	7.9	13.6	16.0
DPS (Rs)	1.3	7.5	7.5
ROE (%)	14.3	18.7	19.6
ROCE (%)	15.0	17.1	18.7
EV/Sales (x)	1.7	1.2	0.9
EV/EBITDA (x)	14.7	10.6	7.7
P/E (x)	28.1	15.6	13.3
P/Cash Earnings	21.8	12.7	10.8
P/BV (x)	3.3	2.8	2.6

Source: Company, Kotak Securities - Private Client Research

Standalone Result

(Rs mn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
Net Sales / Income from Opns	6315	5525	14	4873	30
Other Income	138	98	41	64	115
Total Income	**6453**	**5623**	**15**	**4937**	**31**
Consumption of Raw Materials	2985	2,440	22	1,972	51
Staff Cost	474	455	4	323	47
Job Charges	1591	1,332	19	1,492	7
Other Expenditure	533	582	-8	502	6
Operating Expenditures	5583	4809	16	4289	30
PBDIT	**732**	**717**	**2**	**584**	**25**
Interest & Finance Charges	186	239	-22	140	33
Depreciation	113	85	33	82	38
Profit / (Loss) before tax	**570**	**490**	**16**	**426**	**34**
Tax provision	156	120	30	106	48
Profit / (Loss) after tax	**414**	**370**	**12**	**320**	**29**
Reported PAT	413.70	370.20	12	320.30	29
EPS (Rs)	**2.70**	**2.41**	**12**	**2.09**	**29**
Ratios					
OPM %	12	13		12	
Raw material cost to sales %	47	44		40	
Tax rate %	27	24		25	

Source: Company

Result Highlights

- Revenue grew by 14% in Q2FY11 mainly driven by transmission line division, which grew 22% yoy.
- EBITDA margins declined by 140bps YoY to 12% due to increase in raw material prices and higher job charges for the company. Management foresees labour as a key cost determinant going ahead for the industry.

- We opine that the company has been adopting selective bidding strategy and would not substantially shed margins due to competition mainly from fringe and other unorganized players.
- Depreciation expense increased by 33% YoY to Rs 113 mn in Q1FY11 from Rs. 85 mn last year. Company incurred capex in infrastructure division for buying new pipe laying machinery thus resulting gross block to go up.
- Company reported a de-growth in the energy and infrastructure space with revenues of Rs 745 mn in the infrastructure segment. Energy segment reported a de-growth mainly on account of temporary shut down of second biomass plant in Rajasthan. This resumed operations in the middle of the current quarter.
- Company has commendably maintained its margins across segments despite increasing raw material and labour prices.

Segment reporting

	Q1FY11	Q1FY10	YoY (%)	Q1FY10	QoQ (%)
Standalone Revenues (Rs mn)					
T& Dist business	5472	4502	22	3799	44
Real Estate Division	0	0	0	0	50
Energy	97	127	-24	125	-23
Infrastructure	745	896	-17	949	-21
Total	6315	5525		4873	30
PBIT (Rs mn)					
T& Dist business	581	562	3	401	45
Real Estate Division	0	0	0	0	50
Energy	5	37	-87	42	-89
Infrastructure	63	54	17	75	-15
Total	649	653		518	25
PBIT (%)					
T& Dist business	11	12		11	
Real Estate Division	100	100		100	
Energy	5	29		34	
Infrastructure	8	6		8	

Source: Company

Order book at 1.7x FY11E 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 53 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 1.7x FY11E 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, was sluggish in allotting new orders in FY10 and 1HYFY11. 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.

Business outlook remains positive

- Order backlog stands over Rs.53 bn currently excluding L1. Management has indicated that the company is L1 on several orders. Management has highlighted that order inflow should remain positive in FY11 with renewed emphasis on BOOT orders and government thrust on speeding up of UMPPs and power generation plans with SEBs.
- Company is favorably poised to benefit from spending in T&D with its fully operational capacity that now stands at 138000 MT per annum with 3000 MT addition at Raipur plant.
- Over the next three months, there are projects worth Rs 70 bn which are at bidding stage and out of which Rs 28 bn are from PGCIL. PGCIL is the central transmission utility and accounts for roughly 45% of the nationwide power transmission flow. PGCIL accounts for roughly 20-30% of the company's current order backlog.
- As per PGCIL's annual report, the transmission utility plans to significantly step up its capital investment in FY10 to Rs 115 bn from Rs 80.4 bn in FY09. However, the company has been slow to award orders due to revision in process of bidder finalization from a one envelope to a two envelope basis (consisting of first technical bids opening followed by financial bids). Also, there have been consistent delays in commissioning of power generation projects. In view of this, the company is moving slow on such generation-linked transmission projects.
- Lately there has been unhealthy competition from several fringe players who have bagged projects at low margins with an aim to gain foothold in the industry. However we opine that selective project bidding, efficient cost control initiatives and superior execution capabilities would help KPTL preventing meaningful margins deterioration.

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 FY11

- We expects 15% revenue growth in FY11 for the company with margins stable at current levels of 12% EBITDA.
- Significant improvement in JMC's numbers is expected in FY11 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 Kalpataru Power Transmission 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.173, the stock trades at 7.7x EV/EBITDA and 13.3x based on FY11 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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BHARAT ELECTRONICS LTD (BEL)

PRICE: RS.1632 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1945 **FY11E P/E: 14.6X**

- **BEL posted disappointing set of numbers for the second quarter on the revenue as well as profit front.**
- **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).**
- **While the management has provided healthy outlook for the orders as well as revenue growth, we remain concerned on adverse change in revenue mix and deteriorating earnings quality (50% profits from other income in FY10). Protecting margins in the long run as private sector competition intensifies remain the key challenge for the company.**
- **In view of the correction in stock price since our previous update (Reduce at Rs 1878) we upgrade the stock to BUY with DCF based price target of Rs 1945 (Unchanged).**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	45031	50154	57175
Growth (%)	18.2	11.4	14.0
EBITDA	10653	8294	11820
EBITDA margin (%)	23.7	16.5	20.7
Net profit	7457	7204	8961
Net cash (debt)	26407	35777	39948
EPS (Rs)	93.2	90.1	112.0
Growth (%)	-9.8	-3.4	24.4
CEPS	116.1	108.4	126.2
DPS (Rs)	20.7	20.7	19.2
ROE (%)	24	19	19
ROCE (%)	34	26	28
EV/Sales (x)	2.7	1.9	1.6
EV/EBITDA (x)	11.6	11.4	7.7
P/E (x)	18.3	17.4	14.6
P/Cash Earnings	16.2	15.0	12.9
P/BV (x)	4.1	3.1	2.6

Source: Company, Kotak Securities - Private Client Research

Financial performance

(Rs mn)	Q2 FY11	Q2 FY10	YoY (%)
SalesTurnover	9779	13082	-25
Other income	248	447	-44
Expenditure	8704	9790	-11
RM costs	3920	5825	-33
Staff costs	2687	1922	40
Other costs	642	604	6
trading costs	1455	1440	1
Operating profit	**1075**	**3292**	**-67**
Interest	1	1	9
Gross Profit	**1323**	**3739**	**-65**
Depreciation	299	283	6
PBT	**1023**	**3456**	**-70**
Tax	413	1082	-62
Adjusted PAT	**611**	**2374**	**-74**
OPM (%)	11.0	25.2	
Raw Matl costs to sales (%)	40.1	44.5	
Trading to sales (%)	14.9	11.0	
Staff costs to sales (%)	27.5	14.7	
Other exp to sales (%)	6.6	4.6	
Tax rate (%)	40	31	
EPS Rs	**7.6**	**29.7**	

Source: Company

- BEL's revenue were lower than estimates. This in addition to underabsorption of fixed costs resulted in sharp deterioration in profitability. While the drop in profits appear to be steep, we note that the Q2 of FY10 had the highest profits 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.

Strong guidance for order booking in current fiscal

BEL started the year with an order backlog of Rs 113.5 bn up 12.4%. In the current fiscal, the company has received order intake of Rs 27 bn, thus taking the overall order backlog to Rs 127 bn. In H2 FY11, the company is expecting to add Rs 70 bn further orders, which will provide a significant boost to the order backlog of the company as it ends FY11. Based on target revenues, we estimate the company to end the current fiscal with an order backlog of Rs 149 bn, up 32%.

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.

Strategic tie-ups with global defence majors:

BEL is looking for new growth opportunities through organic or inorganic growth. In this direction, BEL is discussing with reputed foreign and Indian players for forming joint venture companies in India, in the areas of defence electronics, namely electro optics, airborne electronic warfare, missile electronics and guidance systems, microwave super components, etc. The company has also appointed KPMG to identify future growth opportunities for the company.

The company expects to do contract manufacturing for foreign manufacturers. It has upgraded its factories to handle such orders. As of now, the company has received some orders, which are currently under test. Some of these orders are for making a design and prototypes using inhouse R&D and rapid prototyping facility. Other areas for contract manufacturing include complex multilayered printed circuit boards and specific components for which BEL has a large facility in our Bangalore complex.

The company is also entering into fields like avionics and airborne systems, which has significant potential. BEL is trying to become the preferred partner for overseas companies. As a preparation, it has upgraded its seven SBUs to AS 9100, an aerospace specification which is a prequalification. The idea is to outsource manufacturing from the foreign vendors which will enable it to deliver the product at a lower cost.

Valuation

The stock has underperformed since our previous "Reduce" recommendation. At the current price, BEL is trading at 16.8x FY11E earnings. On a forward EV/E basis, the company trades at 7.7x. BEL has traditionally moved in a price band of 8-16x with the average PE of 12x.

We recommend BUY on BEL with a price target of Rs.1945

In view of the correction in stock price, we upgrade the stock to BUY. The company remains a defensive bet given limited challenges to business in the near-term and likely continuation of preference from defence agencies in view of its status as a PSU. The company remains cash rich and we estimate cash per share of Rs 387 per share.

RESULT UPDATE

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SUZLON ENERGY LTD

PRICE: RS.55 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.56 **FY11E P/E: 70.5X**

- **Suzlon reported Q2FY11 nos. in line with our estimates on revenue front. Significant reduction in other expenditure and de-growth in employee cost resulted in higher EBITDA vis-à-vis our estimates.**
- **Success on international order intake remains elusive and moreover with the prevailing crisis in Eurozone, we see further increase in competitive intensity among wind turbine players.**
- **Management opines that prevailing under capacity in the renewable energy space in India with changing regulatory guidelines could lead to significant capacity addition for the same in domestic market.**
- **While we would be monitoring the domestic orders inflow trend in next two quarters, we are concerned about bleak business visibility reflected by subdued order bookings in the recent past by the company.**
- **We estimate the company to break even at 1900 MW whereas current order backlog stands close to 1550 MW. Given these concerns, we expect the stock to under perform the broader market.**
- **We maintain our 'REDUCE' rating on the stock with one year price target of Rs 56.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	260,817	207,792	200,936
Growth (%)	90.7	-20.3	-3.3
EBITDA	27,916	9,431	16,718
EBITDA margin (%)	10.7	4.5	8.3
Net profit (Adj)	4,705	-11,945	1,214
Net cash (debt)	-117,994	-87,496	-75,257
EPS (Rs)	3.1	-7.7	0.8
Growth (%)	-60.4	-344.8	-110.2
CEPS	4.8	-2.1	3.7
ROE (%)	5.7	(15.8)	1.8
ROCE (%)	9.7	1.2	6.2
EV/Sales (x)	0.8	0.8	0.8
EV/EBITDA (x)	7.2	18.4	9.6
P/E (x)	17.5	-7.2	70.5
P/BV (x)	1.0	1.4	1.3

Source: Company, Kotak Securities - Private Client Research

Consolidated Financials

	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
Income from operations	37716	47933		23987	
other operating income	478	419		58	
Total income	**38193**	**48352**	**(21.0)**	**24044**	**58.8**
other income	197	202	(2.7)	235	(16.3)
(Inc)/ dec in stock in trade	(3776)	(2323)	62.6	551	(785.7)
Raw materials	29127	34409	(15.4)	17216	69.2
Purchase of traded goods	19	119	(83.7)	2	972.2
Employees Cost	4080	5881	(30.6)	3976	2.6
Forex loss/(gain)	(122)	(950)	(87.2)	1463	(108.3)
Other expenditure	7383	10004	(26.2)	6297	17.2
Total Expenditure	36711	47140	(22.1)	29504	24.4
EBITDA	**1482**	**1213**	**22.2**	**(5460)**	**(127.1)**
Depreciation	1373	1880	(27.0)	1265	8.5
Interest	2671	2926	(8.7)	2611	2.3
Profit after inerest but before exceptional items	**(2365)**	**(3391)**	**(30.3)**	**(9101)**	**(74.0)**
Loss on restructuring and refinancing		(4)		373	
Forex loss on convertible bonds		207			
Total exceptional items	0			373	
Profit from ord act before tax	(2365)	(3391)		(9473)	
Tax expense	1323	18		(237)	
Net profit	**(3688)**	**(3409)**		**(9236)**	
Add: Share in associate after tax	(94)			(69)	
Add: Minority share in losses	90	57		182	
Net profit after minority int	(3692)	(3352)		(9123)	
EPS (Rs)	**(2.1)**	**(2.1)**		**(5.9)**	
EBITDA%	3.9	2.5		(22.7)	
RM/Sales	76.3	71.2		71.6	

Source: Company

Wind Business

	Q2FY11	Q2FY10	YoY%	Q1FY11	QoQ%
Income from operations	10680	6160	73.4	5034	
other operating income	16	113	(86.2)	11	
Total income	**10695**	**6273**	**70.5**	**5045**	**112.0**
other income	1065	523	103.6	667	59.6
Expenditure					
(Inc)/ dec in stock in trade	(157)	983		(199)	(21.1)
Raw materials	7154	3433	108.4	4003	78.7
Purchase of traded goods	80	86	(6.9)	36	124.2
Employees Cost	549	370	48.2	494	11.0
Forex loss/(gain)	528	(565)	21.4	513	453.1
Other expenditure	2834	2335	65.4	2629	317.9
Total Expenditure	**10988**	**6642**	**65.4**	**7476**	**47.0**
EBITDA	**(293)**	**(369)**		**(2431)**	**(88.0)**
Depreciation	373	189	97.1	342	9.1
Interest	1290	1705	(24.4)	1598	(19.3)
Profit after inerest but before					
exceptional items	(891)	(1741)		(3704)	
Loss on restructuring and refinancing		(94)		373	
Forex loss on convertible bonds		207			
Profit on sale of stake subsidiary					
Total exceptional items		113		373	
Profit from ordinary act before tax	(891)	(1854)		(4076)	
Tax expense		(5)			
Net profit	(891)	(1849)		(4076)	
EPS	(0.52)	(1.20)		(26.20)	
Volumes (MW)	361	283	27.6	208.00	73.6
RM/Sales%	66.9	54.7		79.3	
Staff cost/Sales	5.1	5.9		9.8	
Other expenses/sales	26.5	37.2		52.1	

Source: Company

Result Highlights

- Suzlon reported volume pick up of 27%YoY at 361 MW in Q2 FY11. The company has been missing on its order and revenue guidance in the past few quarters. In Q2FY11, order book grew to 1550 MW on back of growth in Indian wind energy market. However growth in order book from overseas has remained elusive in the current quarter as well.
- On sequential basis, volumes have grown by 73% but this is mainly due to the seasonality affect where Q2 tends to be higher than Q1 and thus is not inductive of demand trend.
- Order book reported a marginal uptick and currently stands at 1550 vis-à-vis 1458 MW in Q1FY11.We believe that this is significantly lower than our estimate of break even order book level of 1900 MW. Company's order book has been significantly lower than the 3454 MW order backlog levels in Q4 FY08 that formed the peak.
- Company reported consolidated EBITDA% of 3.8% for the quarter. We believe that ongoing cost rationalizing drive would curtail employee cost as well as other overheads going ahead.

- Employee expense has been reduced to 408 mn in the quarter against 589 mn in the same quarter previous year on account of various cost rationalizing measures undertaken by the management. We believe that this is also accounted by company continuous effort to avoid duplication of resources by streamlining the operations between REpower and Suzlon.
- EBITDA% for the wind business were impacted by higher material and fixed costs and we see significant risks to cash flow generation in the current year due to losses at the operating level.
- Interest cost on a consolidated level is reported at Rs 2671 mn. Interest costs have been largely contained over the past three quarters due to the company's ongoing efforts on debt restructuring.
- The company has cash worth Rs 28 bn vis-à-vis 27 bn in Q2FY10. Net Operating Working Capital stood at Rs 60 bn as compared to Rs 57 bn at the end of Q2FY10. Net D/E at the end of the quarter is reduced to 1.48 post rights issue vis-à-vis 1.97 last year.
- REpower's revenue growth was lower by 8%yoY during the quarter at EUR 286 mn against EUR 308 mn last year due to the credit crisis in EROZONE. However REpower reported EBIT of EUR 32.8 mn vs EUR 20.6 in Q2FY10.

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

- Company's current order book stands close to 1550MW offering 12-14 months of revenue visibility. The current order book includes 857 MW of international orders and highest ever domestic order backlog of 693MW. Average realization of the order book stands at Rs 60.2 mn/MW.
- We opine that the current order book is inadequate vis-à-vis capital goods peers including BHEL and L&T, which boast of revenue visibility of 30-45 months.

Overseas Business environment remains challenging; financial crisis in Eurozone and falling gas prices in US lead to bleak demand for wind power

- In the US, gas prices has declined substantially increasing the viability gap for wind power which is dearer mean of producing power over the conventional means like coal and gas. This combined with overall lower demand for electricity has resulted delays in securing firm PPAs.
- Project financing has been adversely affected in Eurozone due to the prevailing debt crisis making environment challenging for the capital intensive and interest rate sensitive wind power industry.
- We do not rule out the possibility of fiscal deficit tightening that might result in the rollback of subsidies offered to wind power. This could impair the prospects regarding wind power development and hinder the overseas business growth of the company.

Company expects meaningful demand in the domestic business in 2HYFY11E due to emphasis on green power generation by the regulator; domestic revenues flows becomes an important variable to monitor

- The central power regulator has made it mandatory for all power utilities to purchase 6% green power of the total installed capacity in a year.
- The sources include solar, wind, mini and micro-hydro projects, along with electricity generated by using bagasse and biomass.
- The option given to power utilities, in case of a failure to procure green electricity, is to buy 'Renewable Energy Certificates' (REC). Designed on the lines of carbon credits, these certificates can be bought from utilities that generate green power.

- According to Ministry of New and Renewable Energy, India added 2.33GW (1.57GW wind) of grid-connected renewable power capacity during the year FY10. While country's total installed capacity of renewable energy currently stands at 16.8GW, we still perceive it as sub-optimal levels.
- Unlike international peers, company has marked its presence in the EPC business and provides turnkey solutions to its customers. We believe that that provides a competitive edge to the company in the domestic market where it currently enjoys 50% market share.
- While we expect that domestic market could record traction, working capital could increase with increasing share of the domestic pie going ahead. In the current year company has recorded orders to the tune of 101 MW YTD from the domestic market including 25.5 MW order from HPCL and 37.8 MW from Serum institute to set up and maintain the project at Jaibhim in Dhule-Nandurbar wind park in Maharashtra.

Company continues to restructure debt though various ongoing initiatives; expected to raise a sum of close to Rs 10 bn through the rights issue

- The company has been able to contain increase in gross debt despite the pressure on cash flow. It has received two year moratorium of debt repayment as part of the debt refinance.
- Following the refinancing, the overall cost of debt has increased. The company expects interest cost to average close to Rs 11 bn in FY11.
- Company had also approved the rights issue and raised Rs 11.3 bn recently. Post rights issue, promoter loan of Rs 11.7 bn is converted into equity.

Stock outlook and Recommendation

- In recent quarters, the stock has been sensitive to corporate developments focused mainly on debt restructuring measures and balance sheet repair. This has made the stock movement highly volatile and speculative in nature.
- Lack of visibility in terms of orders has made assessment of future profitability highly difficult with the company likely to remain in the red in FY11 as well.
- Going forward, the company needs to deliver in terms of order accretion in absence of which we expect that the stock could continue to remain range bound.

We maintain REDUCE rating on Suzlon Energy with a price target of Rs.56

- We have been cautious on Suzlon given the reduced level of visibility from order backlog point of view. Liquidity related concerns and debt repayments are likely to make company vulnerable to bear economic crisis in US and Eurozone.
- We maintain our **REDUCE** rating on the stock with a SOTP based price target based on Rs 56.

SOTP

	(Rs mn)
EV/EBITDA (x)	12.7
Wind Business EBITDA FY11	8,368
EV	106,275
Value of Hansen stake	10,606
Value of Repower stake	55,234
Value of investments (Hansen+Repower)	65,840
Net consolidated debt	87,496
Mkt value	84,619
Per share (Rs)	56

Source: Kotak Securities - Private Client Research

Result Update

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SAIL

Price: Rs.194 **Recommendation: REDUCE**
Target Price: Rs.183 **FY12E EV/EBITDA: 8.3x; P/E: 12.5x**

Q2 performance bad but in line with our estimates - weak season behind - upgraded to Reduce with higher TP of Rs. 183

SAIL Q2 net sales rose by impressive 18.3%Q/Q and 6.1%Y/Y to Rs 108bn driven by 30% Q/Q and 1%Y/Y jump in sales volume to 3.03mn tonnes. But EBITDA fell 8%Q/Q and 29%Y/Y to Rs.16.9bn as margins got squeezed by sharp fall in realizations and increase in raw material costs both iron ore (royalty) and coking coal. As inventory levels (down to 1.23mn tonnes vs. 1.36mn tonnes at end of Q1FY11) were high at both company and domestic steel industry levels, sales discounts were aggressive to push up the sales.

Volumes during H2FY11 will be better than H1FY11 due to seasonal demand increase and inventory liquidation. Our assumption for FY11 and FY12 stands at 12.5 mt and 13.75 mt, respectively. Sales realizations are likely to remain subdued but better than Q2 while coking coal costs is likely to fall, leading to better margins in coming quarters.

We expect SAIL's EPS of Rs.14.9 in FY11e and Rs.15.6 in FY12e. We are rolling over our valuation to FY12e vs. FY11e. We value SAIL on 7.5x EV/EBITDA for FY12e vs. 7.5x EV/EBITDA for FY11e earlier. Pending FPO offering SAIL is likely to trade at a premium and stock is still little overvalued on operational parameters, trading at 8.3x EV/EBITDA for FY12e and 12.5x P/E for FY12e respectively. We believe weak quarterly performance is behind us so upgrade the stock from SELL to REDUCE with a revised TP of Rs.183 (vs. Rs.167 earlier)

Q2 results and Conference Call Highlights - Not much surprise

Summary table

(Rs mn)	FY10	FY11e	FY12e
Sales (Rs. mn)	417,612	472,834	510,608
Growth (%)	-3.2	13.2	8.0
EBITDA (Rs. mn)	99,369	93,528	109,420
EBITDA Margins (%)	23.8	19.8	21.4
Net Profit (Rs. mn)	67449	64616	70700
EPS (Rs.)	16.3	14.9	15.6
Growth (%)	9.2	-8.8	4.4
ROE (%)	20.3	15.3	14.7
ROAE(%)	22.1	17.1	15.7
EV/Sales (x)	1.8	1.7	1.8
EV/ EBITDA (x)	7.4	8.7	8.3
P/E (x)	11.9	13.0	12.5
P/B (x)	2.4	2.0	1.8
BVPS (Rs)	80.4	97.5	105.6

Source: Company, Kotak Securities - Private Client Research

P&L Comparative

(Rs mn)	Q2FY11	Q1FY11	Q/Q (%)	Q2FY10	Y/Y (%)
Net Sales	**108,062**	**91,333**	**18.3**	**101,855**	**6.1**
Total expenditure	91,114	72,905	25.0	77,972	16.9
Stock moves	2,877	(16,789)	-117.1	3,952	-27.2
Consumption of RM	48,794	47,035	3.7	38,811	25.7
Staff cost	17,004	20,117	-15.5	11,278	50.8
Power	8,766	8,784	-0.2	8,770	0.0
Stores and Spares	6,076	5,734	6.0	7,093	-14.3
Other expenditure	7,597	8,024	-5.3	8,067	-5.8
EBITDA	**16,948**	**18,429**	**-8.0**	**23,884**	**-29.0**
EBITDA Margin (%)	0	0	(450bps)	0	(770bps)
EBITDA/t (Rs.)	5,649	7,679	-26.4	7,988	-29.3
Other Income	3,754	3,862	-2.8	5,362	-30.0
Depreciation	3,688	3,505	5.2	3,322	11.0
Interest	1,090	1,296	-15.9	735	48.4
PBT	**15,923**	**17,489**	**-9.0**	**25,189**	**-36.8**
Tax	5,023	5,723	-12.2	8,554	-41.3
PAT	**10,900**	**11,767**	**-7.4**	**16,635**	**-34.5**
Net margins	10.1%	12.9%	(280bps)	16.3%	(620bps)
Tax rate	31.5%	32.7%	(120bps)	34.0%	(250bps)
EPS (Rs)	**2.64**	**2.85**	**-7.4**	**4.03**	**-34.5**

Source: Company

- SAIL Q2 net sales rose by impressive 18.3%Q/Q and 6.1%Y/Y to Rs 108bn
- Sales volume jumped by 30% Q/Q and 1%Y/Y to 3.03mn tonnes.
- EBITDA fell 8%Q/Q and 29%Y/Y to Rs.16.9bn.
- PAT fell 7.4%Q/Q and 34.5%Y/Y to Rs.10.9bn.
- Q2 EPS at Rs.2.64 vs Rs.2.85 in Q1FY11 and Rs.4.03 Q2FY10.
- Q2 end inventory levels down to 1.23mn tonnes vs. 1.36mn tonnes at end of Q1FY11. Still 40 days inventory levels and are on higher side.
- Margins got squeezed by sharp fall in realizations and increase in raw material costs for both iron ore royalty (>Rs.200/t in Q2 vs. ~ Rs.160/t in Q1) and imported coking coal (US$225/t in Q2 vs. 200/t in Q1). Average coking coal cost in the quarter stood at ~ Rs.13k/t against Rs. 12.2k/t in Q1FY11. SAIL utilised ~0.7 mt of carry forward high cost coking coal inventory during the quarter (@ USD 300/t), leading to higher costs.
- Value-added sales were 38% of the total sales i.e. 1.1mn tonnes flat Q/Q.
- Sales mix constituted ~5%, 34% and 61% of semi finished, longs and flats, respectively, in Q2FY11.
- Employee cost was lower ~15.5% Q/Q to Rs.17bn as Q1FY11 also consisted of performance based incentives. Management has guided for staff costs of Rs. 72-74bn for FY11e and we have assumed Rs.76bn for FY11e.
- Capacity utilisation continues to be robust as SAIL achieved utilisation levels of 110% and 104% for saleable steel and hot metal, respectively.
- Net worth has risen by Rs.10.9bn to Rs. 355.8bn as on Sep end 2010.
- Q2FY11 capital expenditure was Rs. 25.1bn vs. Rs. 28.1 bn in Q1FY11.
- Debt has reduced from Rs. 178 bn at end of Q1FY11 to Rs. 135 bn at end of Q2FY11. There was a debt repayment, leading cash levels to decline from Rs. 207 bn in Q1FY11 to Rs.140 bn in Q2FY11. Debt equity ratio has come down from 0.5 in Q1 to 0.38 as on Sep end 2010.
- Carry forward coking coal inventory utilised in FY11 is expected to be 2.6-2.7 mt (1mt in Q1FY11, 0.68 mt in Q2FY11 and 0.5 mt each in Q3FY11 and Q4FY11). For FY12, management has guided for ~1.7 mt of high cost coking coal. The carry forward inventory will cost ~USD 300/t FOB.

We recommend REDUCE on SAIL with a price target of Rs.183

- Of the total capex of Rs. 590 bn, orders worth ~Rs 480 bn have been placed.
- During H1FY11, the company capitalised ~Rs. 14 bn. Of this, Rs. 10 bn was due to the Bokaro blast furnace upgradation.
- Trial runs are currently on at the 175 ktpa Salem steel plant, and SAIL expects the plant to be commissioned during Q3FY11.
- IISCO steel plant (2 mtpa capacity) is delayed further by a quarter and is now expected to be commissioned by December 2011.

Plant wise comparative

	Q2FY11	Q1FY11	Q/Q (%)	Q2FY10	Y/Y (%)	FY10	FY09	Y/Y (%)
Sales Volume (mn tonnes)								
Bhilai	1	0.9	11.1	1.1	-9.1	4.20	4.0	6.3
Bokaro	0.8	0.6	33.3	0.8	0.0	3.40	3.2	6.3
Rourkela	0.5	0.4	25.0	0.55	-9.1	2.05	2.1	0.0
Durgapur	0.5	0.4	25.0	0.44	13.6	1.84	1.6	15.0
Sales (Rs. mn)								
Bhilai	41586.5	37340.5	11.4	39144	6.2	156374	170696	-8.4
Bokaro	27251.8	20856.4	30.7	26093	4.4	108370	110558	-2.0
Rourkela	18666.4	14417.8	29.5	16600	12.4	66314	69692	-4.8
Durgapur	15195.3	13391.5	13.5	12836	18.4	55959	60095	-6.9
Realisations (Rs./tonne)								
Bhilai	41587	41489	0.2	35585	16.9	37232	43214	-13.8
Bokaro	34065	34761	-2.0	32616	4.4	31873	34549	-7.7
Rourkela	37333	36045	3.6	30182	23.7	32348	33996	-4.8
Durgapur	30391	33479	-9.2	29173	4.2	30413	37560	-19.0
EBIT (Rs. mn)								
Bhilai	8449	8961.4	-5.7	11222	-24.7	44034.90	50304	-12.5
Bokaro	1982	3347.7	-40.8	4678	-57.6	21666.50	13456	61.0
Rourkela	2202	2021.7	8.9	3506	-37.2	14431.10	10997	31.2
Durgapur	1102	1356.2	-18.7	1569.2	-29.8	6935.40	7836	-11.5
EBIT/Tonne (Rs.)								
Bhilai	8449	9957	-15.1	10201	-17.2	10485	12735	-17.7
Bokaro	2477	5580	-55.6	5848	-57.6	6373	4205	51.6
Rourkela	4405	5054	-12.8	6375	-30.9	7040	5365	31.2
Durgapur	2204	3391	-35.0	3566	-38.2	3769	4898	-23.0
EBIT Margin (%)								
Bhilai	20.3%	24.0%	(370bps)	28.7%	(840bps)	28.2%	29.5%	(130bps)
Bokaro	7.3%	16.1%	(880bps)	17.9%	(1060bps)	20.0%	12.2%	780bps
Rourkela	11.8%	14.0%	(220bps)	21.1%	(930bps)	21.8%	15.8%	600bps
Durgapur	7.3%	10.1%	(280bps)	12.2%	(490bps)	12.4%	13.0%	(60bps)

Source: Company

Target Price based on FY12e earnings

	EBITDA (Rs mn)	Multiple (x)	Valuation (Rs mn)	Value (Rs/Share)
Enterprise Value	109,420	7.50	820651	189.2
Add: Net Cash (at end of FY12e)			-28492	-6.6
Target Market Capitalization			792159	182.7
Target Price				**183**

Source: Kotak Securities - Private Client Research

Financials: SAIL

Profit and Loss Statement (Rs mn)

(Year-end March)	FY10	FY11e	FY12e
Net Sales (Rs. mn)	**417,612**	**472,834**	**510,608**
% Change YoY	-3.2%	13.2%	8.0%
Operating expenditure (Rs. mn)	318,244	379,306	401,188
EBITDA (Rs. mn)	**99,369**	**93,528**	**109,420**
% Change YoY	18.1%	-5.9%	17.0%
EBITDA Margin (%)	23.8%	19.8%	21.4%
Other Income (Rs. mn)	19,300	23,642	25,530
Depreciation (Rs. mn)	13,365	14,526	16,998
Interest (Rs. mn)	4,088	7,414	13,756
Profit before Tax (Rs. mn)	101,215	95,229	104,196
Tax (Rs. mn)	33,767	30,614	33,496
Profit after Tax (Rs. mn)	**67,449**	**64,616**	**70,700**
Shares Outstanding	4130.4	4336.92	4543.44
EPS (Rs.)	**16.3**	**14.9**	**15.6**

Source: Company, Kotak Securities - Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY10	FY11e	FY12e
LIABILITIES			
Equity Share Capital	41,304	43,369	45,434
Reserves & Surplus	290,581	379,678	434,231
Net Worth	331,885	423,047	479,666
Short Term Loans	0	0	0
Long Term Loans	165,110	215,110	285,110
Deferred Tax Liabilities	10,738	8,307	5,647
Total Liabilities	**507,733**	**646,465**	**770,423**
ASSETS			
Gross Block	348,488	385,988	473,488
Less Depreciation	217,964	232,490	249,488
Net Block	130,524	153,499	224,000
CWIP	150,242	237,742	275,242
Investments	6,527	6,527	6,527
Total Current Assets	384,599	416,343	430,431
Total Current Liabilities	164,160	167,646	165,778
Net Current Assets	220,439	248,697	264,653
Total Assets	**507,733**	**646,465**	**770,423**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY10	FY11e	FY12e
Net Profits	67,449	64,616	70,700
Add Depreciation	13,365	14,526	16,998
Decrease in Working Capital	7	-11,667	-4,767
Increase in Deferred Tax	-2,584	-2,431	-2,660
Cash flow from Operations	**78,237**	**65,043**	**80,271**
Capital Expenditure	-106,001	-125,000	-125,000
Increase in Investments	0	0	0
Increase in Loans and advances	0	0	0
Other items	0	0	0
Cash flow from investing	**-106001**	**-125000**	**-125000**
Increase in Equity	0	41,304	2,065
Increase in Borrowings	89,722	50,000	70,000
Dividend Payment	-15,404	-14,757	-16,147
Cash flow from financing	**74,318**	**76,547**	**55,918**
Total Cash Flow	46,553	16,590	11,189
Opening Cash in Hand	182,285	228,838	245,429
Closing Cash in Hand	228,838	245,429	256,618
Change in Cash Balance	46,553	16,590	11,189

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Year-end March)	FY10	FY11e	FY12e
EBITDA Margins (%)	23.8	19.8	21.4
NPM Margins (%)	16.2	13.7	13.8
ROE on yr-end equity (%)	20.3	15.3	14.7
ROAE (%)	22.1	17.1	15.7
ROCE (%)	16.9	12.2	12.0
EPS growth (%)	9.2	-8.8	4.4
P/E (x)	11.9	13.0	12.5
EV/sales (x)	1.8	1.7	1.8
EV/EBITDA (x)	7.4	8.7	8.3
P/B (x)	2.4	2.0	1.8

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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HERO HONDA MOTORS

PRICE: RS.1865 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.1812 **FY12E P/E: 15.4X**

- **Hero Honda (HH) reported mixed set of results with revenues in line but operating margins and PAT below estimates.**
- **Operating margins at 13.4% were a major disappointment. Higher than anticipated raw material cost led to lower than expected margins.**
- **PAT at Rs5,056mn was 9.4% lower then estimates.**
- **HH's volume growth has significantly slowed down to 9.5% during 1HFY11 as against 23.6% growth in volumes in FY10.**
- **In our FY11E estimates, we have factored in 12.2% volume growth which leaves a residual growth of 15% YoY growth rate for the company in 2HFY11.**
- **We are introducing FY12E estimates and rolling over our target price based on FY12E earnings.**
- **Margins are expected to remain under pressure given firm raw material prices and intensifying competition.**
- **We are lowering our target price marginally from Rs1,820 to Rs1,812 and changing our rating on the stock from ACCUMULATE to REDUCE.**
- **Our revised price target is based on FY12 earnings as against our earlier target price that was based on FY11E earnings. Given the earnings down-grade we are lowering the PE multiple from 16x to 15x.**
- **Our price target does not factor in any impact of rumors regarding exit of Honda from the JV.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	158,312	181,013	209,691
Growth (%)	28	14	16
EBITDA	27,350	24,868	29,264
EBITDA margin (%)	17.3	13.7	14.0
Net Profit	22,318	20,525	24,129
Debt	660	327	277
EPS (Rs)	111.8	102.8	120.8
DPS (Rs)	100.0	20.0	21.0
RoE (%)	61.4	49.5	41.6
RoCE (%)	76.5	60.6	52.6
EV/Sales (x)	2.0	1.8	1.5
EV/EBITDA (x)	11.6	13.2	10.6
P/E (x)	16.7	18.1	15.4
P/BV (x)	10.7	7.7	5.5

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

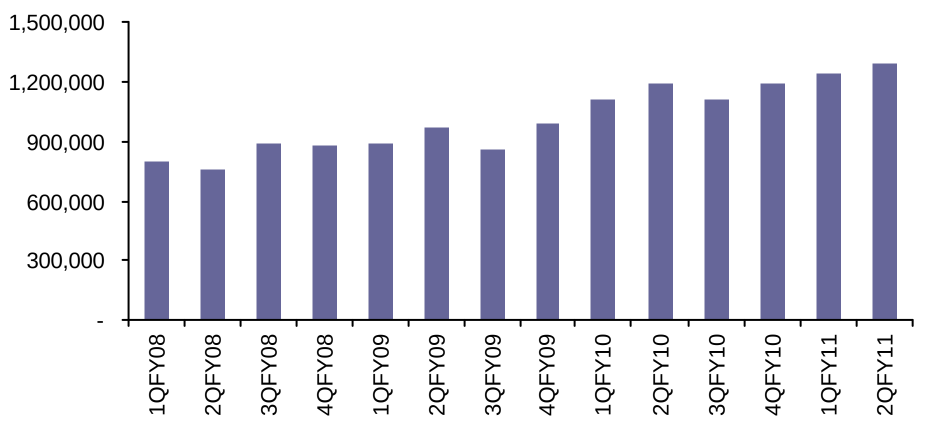
(Rs mn)	2QFY11	2QFY10	YoY (%)	1QFY11	QoQ (%)
Revenues	**45,520**	**40,594**	**12.1**	**42,966**	**5.9**
Total expenditure	39,440	33,153	19.0	36,941	6.8
RM consumed	33,100	27,636	19.8	30,594	8.2
Employee cost	1,498	1,387	8.0	1,450	3.3
Other expenses	4,842	4,130	17.2	4,897	(1.1)
EBITDA	**6,079**	**7,442**	**(18.3)**	**6,025**	**0.9**
EBITDA margin (%)	13.4	18.3	-	14.0	-
Depreciation	608	503	20.7	483	25.8
Interest cost	(21)	(61)	(66.1)	(27)	(22.2)
Other Income	784	687	14.0	534	46.7
PBT	**6,276**	**7,686**	**(18.3)**	**6,103**	**2.8**
PBT margins (%)	13.8	18.9		14.2	
Tax	1,220	1,715	(28.9)	1,187	2.8
Tax rate (%)	19.4	22.3	-	19.4	-
Reported PAT	**5,056**	**5,971**	**(15.3)**	**4,917**	**2.8**
PAT margins (%)	11.1	14.7	-	11.4	-
Reported EPS (Rs)	**25.3**	**29.9**	**(15.3)**	**24.6**	**2.8**
Volumes (nos)	1,285,944	1,183,235	8.7	1,234,039	4.2
Net Realization (Rs)	35,082	34,145	2.7	34,558	1.5
RM cost per vehicle (Rs)	25,740	23,357	10.2	24,791	3.8

Source: Company

Revenue grow in line with estimates

- HH's 2QFY11 revenues grew at 12.1% YoY to Rs45,520mn and was in line with our expectation of Rs45,675mn.
- Volume growth of 8.7% was the major driver for YoY revenue increase.
- Sequentially revenues were up by 6% helped by 4% higher volumes.
- Realizations improved by 2.7% YOY because of price hikes taken by the company.
- With 9.5% volume growth during 1HFY11, HH has significantly underperformed the industry growth rate of 28%. We expect the company's volumes in 2HFY11 to grow by 15% taking the FY11 growth number to 12.2%.
- For FY12E, we have factored in 12.5% rise in volumes and 3% higher realizations taking our revenue growth estimates to 16%.
- We do not see any drastic downfall in the company's market share from the current levels.

NH volumes



Source:Company

Major disappointment on the operating margin front

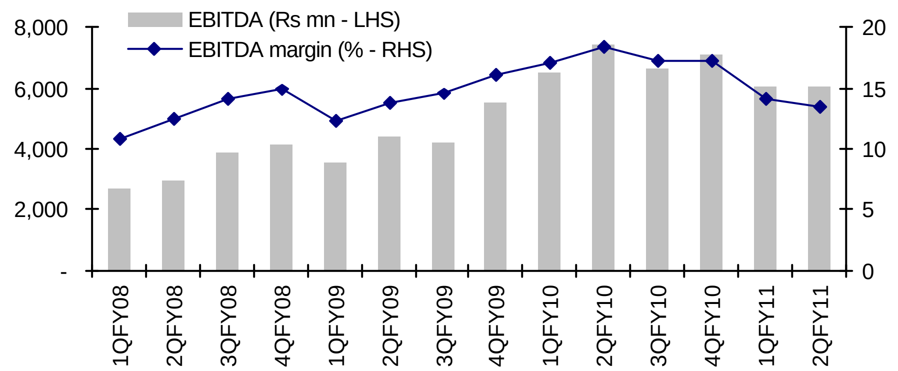
- HH's EBITDA margin of 13.4% was a major disappointment to our expectation of sequential improvement in margins.
- EBITDA for the quarter at Rs6,079mn was down 18.3% YoY despite 12% higher revenues. Sequentially too, EBITDA was almost flat as against 6% rise in revenues.
- 2QFY10 was one of the best quarter for the company with margins as high as 18.3%. However since then margins have been on a declining trend and were down to 13.4% in 2QFY11.
- Apart from firm commodity prices, competitive pressure is playing a key role on the company's dismal operating performance.
- Net realization rose 2.7% YoY as against 10.2% rise in raw material cost per vehicle. On QoQ, 1.5% increase in realization was insufficient to cover up the 3.8% jump raw material cost per vehicle.
- On one hand competition in the motorcycle segment is getting intensified and on the other raw material prices shows no signs of weakening. In such a scenario it would be difficult for the company to show significant improvement in margins in near future.

Per vehicle data

(Rs)	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Realization	34,145	34,322	34,492	34,558	35,082
Raw material	23,357	23,526	23,332	24,791	25,740
Employee cost	1,172	1,234	1,230	1,175	1,165
Other cost	3,490	3,728	4,182	3,968	3,765
EBITDA	6,126	5,833	5,748	4,623	4,411

Source: Company

HH - Margins under pressure



Source: Company

PAT down 15.3% YoY

- On back of the sharp fall in operating margins, PAT for the company was down by 15.3% to Rs5,056mn. PAT was 9.4% lower then our estimates.
- Depreciation for the quarter rose substantially by 20.7% YoY and 25.8% QoQ to Rs608mn. However 14% YoY and 46.7% QoQ jump in other income more than compensated for the sharp rise in depreciation.
- Effective tax rate for the quarter was at 19.4% as against 22.3% in 2QY10.
- HH reported EPS of Rs25.3 for the quarter thereby taking its 1HFY11 EPS to Rs49.9.
- Cash and investible surplus at the end of 1HFY11 stood at Rs41bn.

Revision in earnings and valuations

- Given the company's lower then expected performance during 2QFY11 and taking into account the margin pressure ahead, we are lowering our FY11E earnings.
- For FY11E, we are marginally increasing are volume estimates by 2% while keeping our revenue estimates almost flat. We are significantly reducing our margin estimates from 15.7% to 13.7%. Our revised PAT and EPS estimates now stands at Rs20,525mn (10% lower) and Rs102.8 respectively.

We now recommend to REDUCE on Hero Honda Motors with a price target of Rs.1812

- We are introducing FY12 estimates wherein we have assumed 12.5% volume growth for the company. We have factored in 14% margins and that takes us to our net profit estimate of Rs24,129mn. For FY12E we expect the company to report EPS of Rs120.8.
- Given the downgrade in the earnings estimate we are lowering are PE multiple from 16x to 15x but rolling over our target price based FY12 earnings as against FY11 earnings earlier.
- We are lowering our target price marginally from Rs1,820 to Rs1,812 and changing our rating on the stock from ACCUMULATE to **REDUCE**.

RESULT UPDATE

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MARUTI SUZUKI INDIA LTD

PRICE: RS.1545 | **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.1497 | **FY12E PE - 15.5X**

- **MSIL reported results that were broadly in line with our estimates. While revenues grew by 26.8% YoY, lower margins led to a mere 5% increase in PAT.**
- **Margins for the quarter stood at 8.8% and were lower than our expectation of 9.4%.**
- **As expected, YoY margins remained under pressure due to firm commodity prices and adverse forex movement. YoY margins were also impacted because of increase in royalty payment.**
- **On back of company's debottlenecking process and management's intention of early completion of new capacities, we are increasing our FY11E and FY12E volume estimates for the company by 5.5% and 10% respectively. Our revised EPS estimates stands at Rs81.8 and Rs99.7 for FY11E and FY12E respectively.**
- **We are revising our target price upwards to Rs1,497 (from Rs1,224 earlier). We now value the stock on FY12E earnings as against our earlier target price that was based on FY11E earnings.**
- **Moving ahead, while volumes are expected to grow at a robust pace, firm commodity prices, adverse forex movement and competitive pressures will keep margins under pressure. We continue to retain our REDUCE rating on the stock.**

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	290,989	363,943	425,065
Growth (%)	42.3	25.1	16.8
EBITDA	34,398	33,041	40,362
EBITDA margin (%)	12	9	9
Net Profit	24,976	23,624	28,800
Debt	8,214	6,047	6,000
EPS (Rs)	86.4	81.8	99.7
DPS (Rs)	6.0	5.0	5.0
RoE (%)	23.6	18.3	18.7
RoCE (%)	31.8	24.9	26.0
EV/Sales (x)	1.3	1.1	0.9
EV/EBITDA (x)	11.2	11.8	9.3
P/E (x)	17.9	18.9	15.5
P/BV (x)	3.8	3.2	2.7

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

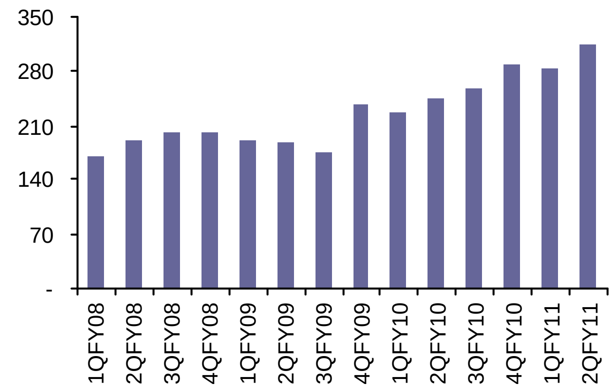
(Rs mn)	2QFY11	2QFY10	YoY%	1QFY11	QoQ%
Total Revenues	**89,774**	**70,807**	**26.8**	**80,904**	**11.0**
Total expenditure	81,870	62,865	30.2	74,390	10.1
RM consumed	70,756	54,555	29.7	64,102	10.4
Employee cost	1,568	1,263	24.2	1,610	(2.6)
Other expenses	9,545	7,047	35.5	8,678	10.0
EBITDA	**7,904**	**7,942**	**(0.5)**	**6,514**	**21.3**
EBITDA margin (%)	8.8	11.2	-	8.1	-
Depreciation	2,381	2,031	17.2	2,417	(1.5)
Interest cost	97	60	62.8	80	21.8
Other operating income	1,699	1,219	39.3	1,411	20.4
Other Income	1,340	1,100	21.8	1,002	33.7
PBT	**8,465**	**8,171**	**3.6**	**6,430**	**31.6**
PBT margins (%)	9.4	11.5		7.9	
Tax	2,481	2,471	0.4	1,777	39.7
Tax rate (%)	29.3	30.2	-	27.6	-
Reported PAT	**5,983**	**5,700**	**5.0**	**4,654**	**28.6**
PAT margins (%)	**6.7**	**8.1**	**-**	**5.8**	**-**
Reported EPS (Rs)	20.7	19.7	5.0	16.1	28.6
Volume data					
Domestic	277,936	209,083	32.9	242,887	14.4
Exports	35,718	37,105	(3.7)	40,437	(11.7)
Total Volumes	313,654	246,188	27.4	283,324	10.7
Net Realization (Rs)	284,935	286,349	(0.5)	284,151	0.3
RM cost per vehicle (Rs)	225,587	221,601	1.8	226,251	(0.3)

Source: Company

Volumes continues to aid revenue growth

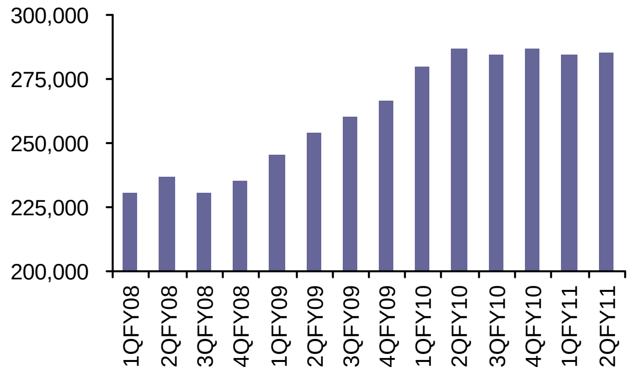
- Revenues for the quarter stood at Rs89,774mn as against revenues of Rs70,807mn reported during 2QFY10 translating into growth of 26.8%.
- Volumes increased by 27.4% YoY driven by overall strong demand and new launches like Eeco and Alto with K series engine.
- Sequentially too the revenues were up by 11% due to 10.7% volume growth.
- Despite various rounds of price hikes taken by the company in the previous few quarters, the realizations were down by 0.5% YoY. This is primarily due to pressure on export realizations. Sequentially realizations were marginally up by 0.3%.
- Moving ahead, we expect revenues will continue to be driven by volumes as no major change in realizations is expected.

Steady build-up in volumesVolumes ('000 units)



Source: Company

No major change in product mix have stablized realizations (Rs)

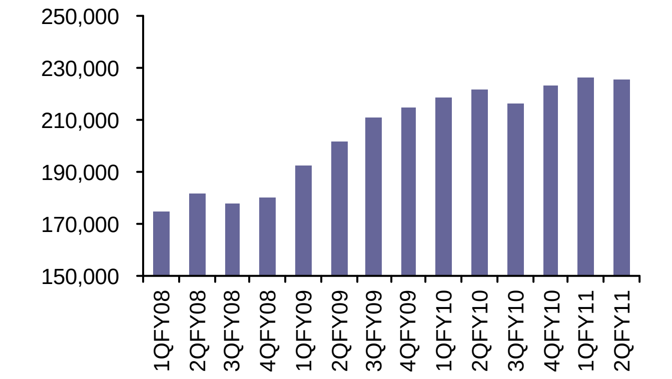


Source: Company, Kotak Securities - Private Client Research

Adverse forex movements keep margins under pressure

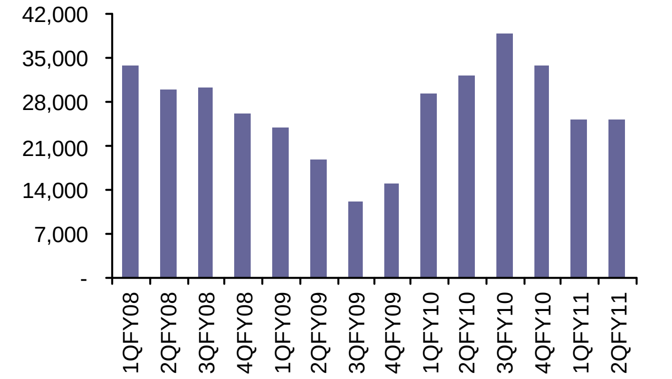
- MSIL reported EBITDA of Rs7,904mn during 2QFY11, 0.5% lower than 2QFY10 EBITDA of Rs7,942mn.
- Sequentially EBITDA improved by 10.3% over 1QFY11 adjusted EBITDA of Rs7,166mn.
- EBITDA margin declined YoY from 11.2% to 8.8%.
- Reasons for YoY decline in margins were increase in royalty charges, higher input cost and adverse currency movement.
- YoY margins were primarily impacted because of increase in royalty charges from 3.7% in 2QFY10 to 5.3% for the quarter under review. During 1QFY11 the company increased the cap on royalty outgo to the parent company. QoQ royalty per vehicle increased by 4.4% due to adverse yen movement and change in product mix.
- Input cost too has had a negative impact on the company's operating margins. Commodity prices like steel and aluminum have increased in the range of 15-20% in the past 1 year.
- RM cost per vehicle moved up by 1.8% YoY despite 0.5% drop in realizations thereby giving an indication that the price hikes taken during the year were not sufficient enough to cover the increase in input cost.
- During the quarter the company gave hike to vendors (for steel) with effect from April 2010 and accordingly raw material cost was overstated to that extent. (~0.5% of net sales).

RM cost per vehicle have increased in past 2 quarters (Rs)



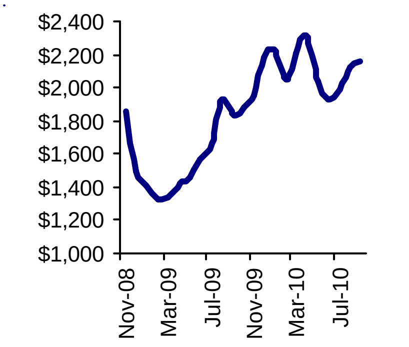
Source: Company

EBITDA per vehicle has come down due to cost pressures (Rs)



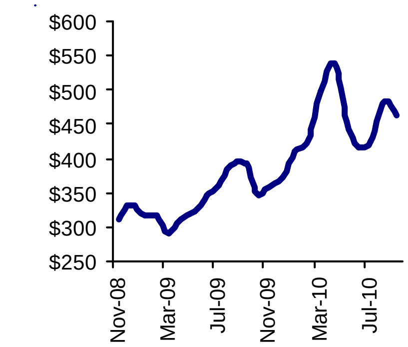
Source: Company

Alumium price movement - LME



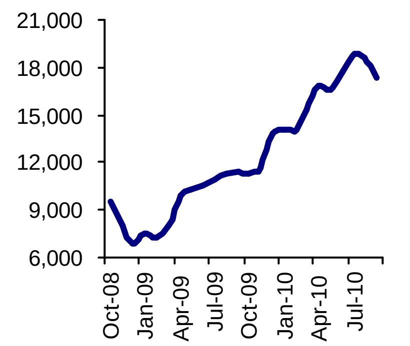
Source: LME

Steel Price Movement - LME (per ton)



Source: LME

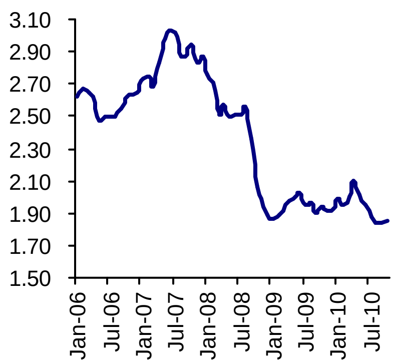
Rubber Price (per100 kg)



Source: LME

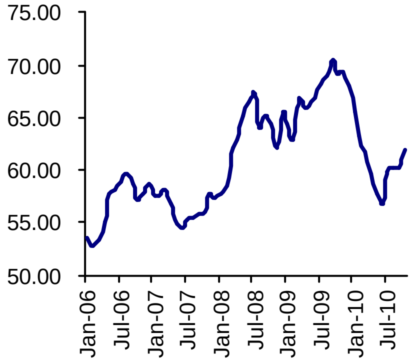
- Further more negative currency movement too has been a major cause of concern for the company.
- MSIL benefits from yen depreciation and Euro and Dollar appreciation vis-à-vis Rupee. Yen have appreciated by 5% YoY and 9% QoQ. Euro and Dollar on the other hand have depreciated by 13% and 4% respectively on YoY basis.
- On the exports side the company has hedged around 80% of their next 6 months exports but the exchange rate remains unfavorable as compared to last year. Exports realizations during 1HFY11 are down by 7% over 1HFY10.
- Imports (direct and indirect) accounts for 28% of the company's net sales and of this around 80% exposure are related to yen. MSIL has hedged only around 25% of its 2HFY11 exposure on the import side and the rest remains open. Given such a high uncovered exposure towards yen remains the biggest worry for the company over the next few quarters.

Japanese Yen to 1 INR



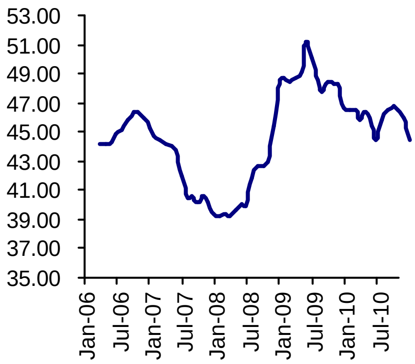
Source: X-rates.com

Indian Rupees to 1 EUR



Source: X-rates.com

Indian Rupees to 1USD



Source: X-rates.com

PAT grows by a mere 5% on back of margin pressures

- MSIL reported PAT of Rs5,983mn which was a mere 5% higher then 2QFY10 PAT of Rs5,700mn. Drop in operating margins led to subdued performance for the company at the net profit level.
- Higher other operating income and other income helped the company post YoY growth in PAT. Other operating income grew by 39% YoY and 20% QoQ on account of higher scrap sale, forex gain (Rs100mn) and increase in cash discounts.
- Tax rate for the quarter was at 29.3% versus 30.2% during corresponding quarter previous year.
- EPS for the company during 2QFY11 stood at Rs20.7.

Capacity expansion plans

- MSIL will be adding 0.5mn units at Manesar to take their effective capacity to more than 1.7mn annually.
- Given the company's car production in excess of 1lakh units monthly, the current capacity stands in excess of 1.2mn units.
- MSIL have plans to add another line capable of producing 250,000 units in Manesar and the company expects to begin production by around 3QFY12.
- The company is planning to add one more line of 250,000 units and the same is expected to get competed by FY13.
- The company would be spending in excess of Rs60bn over the next 3 years towards capacity expansion and building up an engine plant and a R&D unit and all the projects will be funded from internal accrual.
- Company's cash and cash equivalents position in FY10 stood at ~Rs79bn.
- We expect the company to generate cash in excess of Rs30bn annually over the next 3 years. Accordingly the company is well funded to finance its future capex plans.

Change in estimates and price target

We maintain REDUCE rating on Maruti Suzuki India with a price target of Rs.1497

- On back of company's debottlenecking process and management's intention of early completion of new capacities, we are increasing our volume estimates for the company by 5.5% to 1.27mn for FY11E and by 10% to 1.45mn for FY12E.
- We now expect the company to report revenues of Rs364bn (increased by 5.6%) and Rs425bn (increased by 10.3%) for FY11E and FY12E respectively.
- Given the firm commodity prices and strong yen we have lowered our margin estimates by 80bps for FY11E to 9.1% and by 50bps for FY12E to 9.5%.
- Our revised EPS estimates now stands at Rs81.8 for FY11E (earlier Rs81.6) and Rs99.7 for FY12E (earlier Rs93.1).
- We value the stock at 15x its FY12E EPS of Rs99.8 to arrive at a price target of Rs1,497 (earlier price target of Rs1,224 based on 15x FY11E earnings).
- We believe that factors such as adverse forex movement, hardening commodity prices and increased competitive pressure will keep margins under pressure in the near to medium term. We therefore continue to maintain our **REDUCE** rating on the stock.

RESULT UPDATE

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TRANSPORT CORPORATION OF INDIA (TCI)

PRICE: RS.123 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.134 **CONS. FY12E P/E: 13.6X**

- **TCI reported excellent set of Q2FY11 results which are marginally above our estimates on the profitability front**
- **Real estate and warehousing division demerged as on 21st October 2010**
- **SCS business to continue to grow at 30%-35% CAGR**
- **To focus on high margin integrated logistics solution business**
- **Maintain FY11 earning estimates with EPS of Rs.7.5**
- **Introduce FY12 earning estimates on increased earning visibility with EPS of Rs.9.0**
- **Positive on medium to long term growth prospects on account of pick up in economy and expected introduction of GST next year**
- **Due to 9% upside potential we upgrade TCI to ACCUMULATE with increased price target of Rs.134 (Rs.122 earlier)**

Cons. summary table: FV Rs.2

(Rs mn)	FY10	FY11E	FY12E
Sales	15,216	17,232	19,404
Growth (%)	12.6	13.3	12.6
EBITDA	1,138	1,361	1,574
EBITDA margin (%)	7.5	7.9	8.1
Net profit	413	546	655
Net debt	2,467	2,455	2,449
EPS (Rs)	5.7	7.5	9.0
Growth (%)	23.9	32.3	20.0
DPS (Rs)	0.8	1.0	1.5
ROE (%)	12.3	15.3	16.1
ROCE (%)	13.6	16.6	18.6
EV/Sales (x)	0.7	0.7	0.6
EV/EBITDA (x)	10.0	8.4	7.2
P/E (x)	21.6	16.3	13.6
P/CEPS (x)	12.6	10.2	8.8
P/BV (x)	2.7	2.3	2.1

Source: Company, Kotak Securities - Private Client Research

- Revenues for Q2FY11 were Rs.4.4 bn, which is up 23.8% YoY and up 12.4% on QoQ basis. This was primarily due to sustained pick up in the Indian economy during the quarter which led to increased volumes. The growth is on account of stabilizing market and strong demand coming in from the automobile sector.
- The revenues of the Supply chain solutions division improved sharply by 70.3% on YoY basis to Rs.986 mn. The revenues of the XPS courier division improved by strong 24.6% on YoY basis to Rs.1.2 bn. The revenues of the shipping division were up 7.6% YoY to Rs.179 mn and revenues of the transport division were up 12.3% YoY to Rs.2.0 bn.
- The company recorded higher operating margin of 8.0% for Q2FY11, which is flat on YoY basis and up 80 bps on QoQ basis.
- There was sharp increase in profitability of SCS division as its PBIT margin increased from 5.4% in Q2FY10 to 7.9% in Q2FY11. The profitability of freight division also increased from 3.4% in Q2FY10 to 4.0% in Q2FY11.
- The shipping business was drag on the profitability as it reported PBIT of Rs.17 mn, down 48.6% YoY and down 38.8% on QoQ basis.
- The Global division reported PBIT loss of Rs.5 mn as it is in middle of expanding its operations. It would turn profitable in the current year once it reaches a particular scale.
- For Q2FY11, EBIDTA stood at Rs.352 mn up 23.9% YoY and up 24.1% on QoQ basis.
- PBT for Q2FY11 stood at Rs.209 mn which is up 31.6% YoY and up 21.1% on QoQ basis.
- PAT for Q2FY11 is up 35.0% YoY and up 18.9% on QoQ basis to Rs.145 mn thereby translating into a quarterly EPS of Rs.2.0 and CEPS of Rs.3.1.
- For H1FY11 EPS stood at Rs.3.7 and CEPS stood at Rs.5.7

TCI - Results Table - Standalone

(Rs mn)	Q2FY11	Q2FY10	YoY (%)	Q1FY10	QoQ (%)	H1FY11
Net Sales	**4,421**	**3,570**	**23.8**	**3,934**	**12.4**	**8,355**
Inc/dec in stock	-	1	-	-	-	-
Purchases	-	48	-	-	-	-
Operating exp.	3,593	2,846	26.3	3,237	11.0	6,830
Staff cost	195	177	10.7	203	(4.0)	399
Other exp.	280	215	30.3	211	32.8	490
Total exp.	4,068	3,286	23.8	3,651	11.4	7,719
EBIDTA	**352**	**284**	**23.9**	**284**	**24.1**	**636**
Other income	1	(15)	(106.6)	8	-	9
Depreciation	79	64	24.5	69	15.6	148
EBIT	**274**	**206**	**33.3**	**223**	**23.0**	**497**
Interest	65	47	39.1	50	29.7	115
PBT	**209**	**159**	**31.6**	**173**	**21.1**	**382**
Tax & def tax	65	52	24.5	51	26.5	116
PAT	**145**	**107**	**35.0**	**122**	**18.9**	**267**
Mn shares (Fv Rs. 2)	72.5	72.5		72.5		72.5
Ratios						
EBIDTA (%)	8.0	8.0	flat	7.2	+80 bps	7.6
Purchase / Sales (%)	-	1.4		-		-
Operating exp / Sales (%)	81.3	79.7		82.3		81.7
Staff cost / Sales (%)	4.4	4.9		5.2		4.8
Oth Exp. / Sales (%)	6.3	6.0		5.4		5.9
Tax / PBT (%)	30.8	32.6		29.5		30.2
EPS (Rs)	**2.0**	**1.5**		**1.7**		**3.7**
CEPS (Rs)	3.1	2.4		2.6		5.7

Source: Company

Segmental table

	Q2FY11	Q2FY10	YoY (%)	Q1FY10	QoQ (%)	H1FY11
Revenue (Rs mn)						
Freight	2,013	1,793	12.3	1,856	8.5	3,870
XPS	1,174	942	24.6	1,062	10.6	2,236
SCS	986	579	70.3	773	27.5	1,759
Trading	-	50	-	-	-	-
TCI Seaways	179	167	7.6	190	(5.4)	369
Global	61	21	190.9	54	12.6	115
Energy	24	35	(31.0)	22	12.0	46
Real estate	-	0	-	-	-	-
PBIT (Rs mn)						
Freight	80	62	30.0	41	96.8	121
XPS	90	68	31.1	87	3.5	176
SCS	78	32	146.0	56	37.9	134
Trading	-	1	-	-	-	-
TCI Seaways	17	33	(48.6)	28	(38.8)	45
Global	(5)	(2)	-	(4)	35.0	(9)
Energy	15	26	(42.2)	12	27.6	26
Real estate		(1)	(100.0)	(1)	(100.0)	(1)
PBIT (%)						
Freight	4.0	3.4	15.8	2.2	81.5	3.1
XPS	7.6	7.3	5.3	8.2	(6.4)	7.9
SCS	7.9	5.4	44.5	7.3	8.2	7.6
Trading	-	-	-	-	-	-
TCI Seaways	9.5	19.9	(52.2)	14.7	(35.4)	12.1
Global	(8.9)	(9.1)	-	(7.4)	(19.9)	(8.2)
Energy	60.9	72.7	(16.3)	53.5	13.9	57.4

Source: Company

Real estate and warehousing division demerged as on 21st October 2010

- The Board of Directors of TCI had approved the Scheme of Arrangement relating to the de-merger of Real Estate & Warehousing division of the Company with effect from April 01, 2010. The scheme has also been approved by its creditors, shareholders and Hon'ble High Court of Andhra Pradesh, Hyderabad.
- As per the scheme, the existing shareholders of TCI are allotted one equity share having face value of Rs.10/- each in the transferee company i.e. TCI Developers Ltd. (TDL) against every 20 equity shares having face value of Rs.2/- each held by them in TCI. The demerger is already completed and the shares of TCI developers have been allotted to the shareholders as on 21st October 2010,
- It is planning to build five large warehouses and balance would be prime residential and commercial properties. It is also looking to build multimodal logistics park, truck terminal and Free Trade Warehousing Zone.

SCS business to continue to grow at 30%-35% CAGR

In Q2FY11 the revenues of the SCS business was up 70.3% YoY to Rs.986 mn and its PBIT were up 146% YoY to Rs.78 mn. Based on its experience out of the JV, TCI has been able to replicate the model and deliver efficient supply chain solutions (SCS) to other industries like FMCG, retail, white goods and automobiles. It is able to generate new customers due to its efficient solutions and thus the supply chains solution business of TCI is expected to continue to grow at 30%-35% CAGR going forward.

Revenue breakup (%)

	FY09	FY10	FY11E	FY12E
Transport	51	48	44	41
Logistics	41	47	51	54
Shipping & others	8	5	5	5
Total	**100**	**100**	**100**	**100**

Source: Company, Kotak Securities - Private Client Research

Focus on high margin integrated logistics solution

The business of TCI is provided by its five divisions, TCI Freight, TCI XPS (courier), TCI Supply Chain Solution, TCI Seaways (coast-to-coast shipping) and TCI Global. The company has formed a strategy in place to cross sell its services and thereby each division acts as a business development manager for others thereby enhancing cross marketing and providing single point logistics solutions to its clients. This is expected to lead to increased Logistics business like SCS, XPS and Global business for TCI going forward. Thus we expect the share of Logistics business in total revenues to go up from 47% in FY10 to 54% in FY12E.

Maintain FY11 earning estimates

We maintain our earning estimates and expect TCI to report Consolidated EPS of Rs.7.5 in FY11E.

Cosn. Earning Estimtes

(Rs mn)	FY11E	FY12E	Shift (%)
Revenues	17,232	19,404	12.6
EBIDTA (%)	7.9	8.1	2.7
PAT	546.1	655.2	20.0
EPS (Rs.)	7.5	9.0	20.0
CEPS (Rs.)	12.1	14.0	15.8
WACC (%)	12.4	12.4	-
Terminal growth (%)	4.0	4.0	-
SOTP price Target (Rs.)	122	134	9.9

Source: Kotak Securities - Private Client Research

Introduce FY12 earning estimates

- We are introducing FY12 earning estimates on account of increased earnings visibility. Going forward we expect TCI to focus on the high margin SCS, 3PL and integrated logistics solutions business of the company.
- For FY12E, we expect TCI to report revenues of Rs.19.4 bn (up 12.6% YoY), EBIDTA margin of 8.1% (up 20 bps) and PAT of Rs.655 mn (up 20.0% YoY).
- Accordingly we expect TCI to report cons. EPS of Rs.9.0 and CEPS of Rs.12.4 in FY12E.
- Over FY10 to FY12 we expect revenues of TCI to grow at CAGR of 12.9% and PAT to grow at CAGR of 26.0% due to increasing share of higher margin logistics business like SCS, 3PL and integrated logistics solutions. We expect the share of higher margin logistics business in total revenues to go up from 47% in FY10 to 54% in FY12E.

SOTP based price target

Rs. per share	Old	Revised	% shift
DCF value - Logistics Business	102	126	23.5
Book value- Property Development	20	8	(60.0)
Total value - Price Target	122	134	9.8

Source: Kotak Securities - Private Client Research

Revise price target to Rs.134

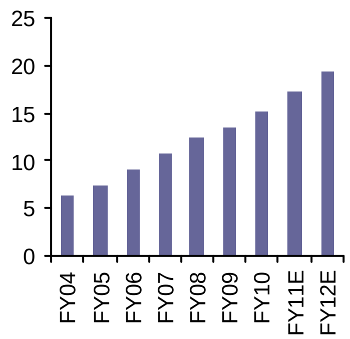
- We have valued the logistics business of TCI on DCF method of valuation with 12.4% WACC (no change) and 4.0% terminal growth rate (no change). We have shifted the valuation base to FY12 and thus the logistics business is valued at Rs.126 per share as against Rs.102 earlier.
- Since part of the property development business has been demerged we have now valued the remaining properties business at its book value i.e. Rs. 600 mn or Rs.8 per share as against Rs.20 earlier.
- Thus the SOTP based price target for TCI is revised upward form Rs.122 to Rs.134.

Recommendation and Valuation

We upgrade TCI to ACCUMULATE with incrased price target of Rs.134

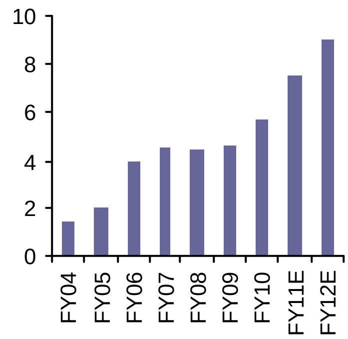
- Earlier we had recommended REDUCE on TCI at Rs.134 on 22nd July 2010 and since the stock is down 8.2% to close at Rs.123 yesterday.
- At the current market price of Rs.123, the stock trades at 2.1x book value, 13.6x earnings and 8.8x cash earnings based on FY12E.
- We are positive on the long term growth prospects of the company due to pick up in economy, focus on integrated logics and supply chain solutions business, expected introduction of GST and balance property development and warehousing business through JV.
- In view of 9% upside potential from the current levels we upgrade the stock of TCI to from REDUCE to **ACCUMULATE** with increased price target of Rs.134.

Cons. Revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.) FV Rs. 2



Source: Company, Kotak Securities - Private Client Research

CONSOLIDATED FINANCIALS: TCI (FV RS.2)

Profit and Loss Statement (Rs mn)

(Year-end March)	FY10	FY11E	FY12E
Revenues	**15,216**	**17,232**	**19,404**
% change YoY	12.6	13.3	12.6
EBITDA	**1,138**	**1,361**	**1,574**
% change YoY	11.3	19.6	15.6
Other Income	2.4	10.0	11.0
Depreciation	296	331	361
EBIT	**844**	**1,040**	**1,224**
% change YoY	12.0	23.3	17.6
Net interest	192	200	200
Profit before tax	**652**	**840**	**1,024**
% change YoY	27.6	28.8	21.8
Tax	239	294	369
as % of EBIT	28.4	28.3	30.1
Net income	**413**	**546**	**655**
% change YoY	23.9	32.3	20.0
Shares outstanding (m)	72.6	72.6	72.6
EPS (reported) (Rs)	**5.7**	**7.5**	**9.0**
CEPS (Rs)	9.8	12.1	14.0
DPS (Rs)	0.80	1.00	1.50

Source: Company, Kotak Securities - Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY10	FY11E	FY12E
Cash and cash equivalents	383	45	51
Accounts receivable	2,637	2,929	3,299
Inventories	11	17	39
Others	1,128	1,292	1,455
Current assets	4,159	4,285	4,844
Misc exp.	(0)	(0)	(0)
LT investments	41	26	26
Net fixed assets	3,511	3,680	3,819
Total assets	**7,710**	**7,990**	**8,689**
Payables	757	862	970
Others	412	474	534
Current liabilities	1,169	1,335	1,504
Debt	2,849	2,500	2,500
Other liabilities(deferred tax)	344	344	344
Equity	145	145	145
Reserves	3,203	3,666	4,196
Total liabilities	**7,710**	**7,990**	**8,689**
BVPS (Rs)	46.2	52.6	59.9

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY10	FY11E	FY12E
EBIT	844	1,040	1,224
Depreciation	296	331	361
Change in working capital	(222)	(194)	(282)
Changs in other net current assets	(312)	(102)	(103)
Operating cash flow	606	1,075	1,199
Interest	(192)	(200)	(200)
Tax	(239)	(294)	(369)
Cash flow from operations	175	581	631
Capex	(394)	(500)	(500)
(Increase)/decrease in investments	(8)	15	-
Dividends	(72)	(83)	(125)
Cash flow from investments	(474)	(569)	(625)
Proceeds from equity issue	-	-	
Increase/(decrease) in debt	350	(349)	-
Deferred tax credit	46	-	-
Cash flow from financing	396	(349)	-
Opening cash	285	383	45
Closing cash	382	45	51

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Year-end March)	FY10	FY11E	FY12E
EBITDA margin (%)	7.5	7.9	8.1
EBIT margin (%)	5.5	6.0	6.3
Net profit margin (%)	2.7	3.2	3.4
Adjusted EPS growth (%)	23.9	32.3	20.0
Receivables (days)	63.3	59.0	58.6
Inventory (days)	0.3	0.3	0.5
Sales/assets (x)	4.3	4.7	5.1
Interest coverage (x)	4.4	5.2	6.1
Debt/equity ratio (x)	0.9	0.7	0.6
ROE (%)	12.3	15.3	16.1
ROCE (%)	13.6	16.6	18.6
EV/ Sales (x)	0.7	0.7	0.6
EV/EBITDA (x)	10.0	8.4	7.2
Price to earnings (x)	21.6	16.3	13.6
Price to book value (x)	2.7	2.3	2.1
Price to Cash Earnings (X)	12.6	10.2	8.8

Source: Company, Kotak Securities - Private Client Research

Result Update

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JBF Industries Ltd (JBF)

Price: Rs.214 **Recommendation: BUY**
Target Price: Rs.300 **Cons. FY12E PER: 3.1x**

- **JBF reported excellent set of Q2FY11 results which are above our estimates on the profitability front due to superior profitability in the polyester films business in RAK**
- **Adjusted NPAT up sharply 3.5x on YoY basis to Rs.1.2 bn**
- **JBF now owns 88.8% of JBF Global which owns 100% of JBF RAK - looking to acquire 100% of JBF global**
- **Looking to expand capacity both in India and RAK**
- **Key concern - mark-to-market forex derivative loss of Rs.2.1 bn as of September 2010**
- **Looking for one time settlement in forex derivate contract - potential trigger for rerating**
- **Revise FY11E EPS to Rs.61.8 (Rs.52.4 earlier) on increased profitability in BOPET and POY / FDY**
- **Introduce FY12 earning estimates with EPS of Rs.70.1 after providing forex loss of Rs.864 mn**
- **We are positive on the medium to long term growth prospects of JBF due to strong demand for its products like Polyester chips, POY, Pet grade chips and BOPET films**
- **Due to attractive valuations and 40% upside potential from the current levels we upgrade JBF to BUY with increased price target of Rs.300 (Rs.210 earlier)**

Cons. summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	49,409	64,260	71,033
Growth (%)	15	30.1	10.5
EBITDA	4,712	9,033	10,473
EBITDA margin (%)	9.5	14.1	14.7
Net profit	1,904	4,391	4,987
Net debt	12,645	13,722	12,506
EPS (Rs)	30.6	61.8	70.1
Growth (%)	(12.8)	128.7	13.5
DPS (Rs)	6.0	7.0	8.0
ROE (%)	21.8	38.7	30.5
ROCE (%)	17.6	27.4	25.3
EV/Sales (x)	0.6	0.5	0.4
EV/EBITDA (x)	5.9	3.2	2.6
P/E (x)	7.0	3.5	3.1
P/BV (x)	1.7	1.1	0.8
P/CEPS (X)	4.3	2.6	2.3

Source: Company, Kotak Securities - Private Client Research

JBF Q2FY11 Consolidated Financials

(Rs mn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)	H1FY11
Net Sales	**14,116**	**12,322**	**14.6**	**14,145**	**(0.2)**	**28,261**
Inc/dec in stock	230	(266)	(186.2)	244	(5.8)	473
raw materials	9,749	9,994	(2.5)	10,641	(8.4)	20,390
staff cost	210	181	15.6	200	5.0	409
other exp.	1,667	1,337	24.7	1,502	10.9	3,169
total exp.	11,855	11,246	5.4	12,586	(5.8)	24,441
EBIDTA	**2,261**	**1,076**	**110.3**	**1,558**	**45.1**	**3,820**
Other income	66	35	88.1	16	309.9	83
Depreciation	328	297	10.4	314	4.6	641
EBIT	**2,000**	**814**	**145.7**	**1,261**	**58.6**	**3,261**
Interest	352	333	5.5	359	(2.0)	710
PBT	**1,648**	**481**	**243.0**	**902**	**82.6**	**2,551**
Extra loss/ (gain)	122	(14)	(974.1)	130	(6.5)	252
Tax & def tax	220	126	74.1	111	98.4	330
Less Minority interest	288	28	945.5	113	154.2	401
NPAT	**1,020**	**341**	**199.2**	**549**	**85.9**	**1,568**
Adj. NPAT	1,141	327	249.1	679	68.2	1,820
Equity shares o/s (mn)	71.1	62.2		62.2		71.1
Ratios						
Operating profit margin (%)	16.0	8.7	+730 bps	11.0	+500 bps	13.5
Raw Materials / Sales (%)	70.7	79.0		77.0		73.8
Staff cost / Sales (%)	1.5	1.5		1.4		1.4
Other Exp. / Sales (%)	11.8	10.8		10.6		11.2
Tax / PBT (%)	13.3	26.2		12.3		12.9
EPS (Rs)	**14.3**	**5.5**	**161.9**	**8.8**		**22.1**
CEPS (Rs)	19.0	10.2	85.0	13.9		31.1

Source: Company

Segmental Results

	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)	H1FY11
Revenues (Rs. mn)						
Domestic	8,692	6,905	25.9	8,519	2.0	17,211
International	6,060	5,838	3.8	5,778	4.9	11,837
PBIT (Rs. mn)						
Domestic	831	521	59.5	610	36.1	1,441
International	1,047	307	241.6	521	101.2	1,568
PBIT (%)						
Domestic	9.6	7.5	26.7	7.2	33.4	8.4
International	17.3	5.3	229.1	9.0	91.8	13.2

Source: Company, Kotak Securities - Private Client Research

- For Q2FY11, on a consolidated basis, the revenues stood at Rs.14.1 bn, up 14.6% on YoY basis primarily due to additional contribution from the pet grade chips and BOPET films from the RAK plant which is valued added and higher margin product.
- The revenues of the Indian business were up 25.9% on YoY basis primarily due to expansion in POY and FDY capacities. The revenues of the RAK business were up 3.8% on YoY basis due to ramp up in the BOPET films business.
- EBIDTA stood at Rs.2.3 bn up sharply 110.3% YoY and up 45.1% on sequential basis. JBF recorded higher operating margin of 16.0% in Q2FY11, up 730 bps on YoY basis primarily due to increased contribution of high margin BOPET films from RAK plant. BOPET films are a value added product and thus it enjoys higher operating margins then polyester chips or POY. This is well supported by the fact that the raw materials as a percentage of revenues has fallen sharply from 79.0% in Q2FY10 to 70.7% in Q2FY11.
- The depreciation and interest cost of the company has increased by 10.4% and 5.5% on YoY basis respectively due to commissioning of new lines of BOPET films in RAK.
- PBT was up 243% YoY and up 82.6% QoQ to Rs.1.6 bn.
- NPAT stood at Rs.1.0 bn, up 199.2% YoY and up 85.9% on QoQ basis thereby translating into Q2FY11 EPS of Rs.14.3 and CEPS of Rs.19.0.
- However adj. NPAT is up sharply by 3.5x YoY and up 68.2% QoQ to Rs.1.2 bn. JBF has incurred a forex loss of Rs.153 mn in Q2FY11 while Q2FY10 had gain of Rs.14 mn. Forex loss is for the derivate loss which the company had to actually pay.
- For H1FY11 EPS stands at Rs.22.1 and CEPS stands at Rs.31.1

Ramp up in high margin BOPET films business in RAK

JBF RAK sells films for various uses like FMCG, food packaging, industrial applications like cables and solar panels and consumer durables like LCD screens and mobile phones. Films is a value addition business and thus it enjoys superior operating margins as compared to the PET chips and this is likely to lead to increased overall profitability for JBF going forward. This is well supported by the fact that in Q2FY11 while the revenues of RAK are up only 3.8%, PBIT is up sharply by 3.4x to Rs.1.0 bn.

Expansions on schedule

- During Q2FY11 JBF has successfully commissioned second phase of 36000 MT of POY capacities in India. Thus now it has 2.4 lakh TPA of POY / FDY capacities in India. This is a high value added yarn which would help to improve the operating margins going forward.
- The company is looking to enhance the bottle grade chips facility at Sarigam, Gujarat, India by de-bottlenecking.
- It is also looking to expand the chips capacity at RAK by 11.1% to more then 4.0 lakh TPA by March 2011.
- The BOPET films unit at RAK with capacity of 72000 TPA is now operating at peak capacities. However looking at the robust demand the company has decided to add one more line of films at RAK unit and this is expected to be operational in H2FY12.

Potential forex loss of Rs.3.0 bn at USD:JPY level of 80

- JBF had entered into a derivative contract to hedge its $40 mn ECB. The derivate contract was entered when USD:JPY was at ~125 levels with break even point of USD:JPY 92.5. However recently yen has appreciated sharply to 15 year high of ~80 and currently it is hovering around 82 levels with intervention from the Japanese government.
- The conditions of the derivatives contract are triggered after 3rd August 2010 and ending on 3rd July 2013. Our calculations reveal loss of Rs.3.0 bn spread over three years at USD:JPY level of 80. Now since the observation date has passed JBF has started paying monthly for the derivative losses. In Q2FY11 it paid Rs.153 mn as forex derivate loss.
- In our estimates we have considered average level of 82 for USD:JPY and at that level JBF would incur pre tax forex loss of Rs.2.6 bn over three years or monthly loss of Rs.72 mn. For FY11E we have accounted for forex derivative loss for Rs.576 mn for eight months i.e. from August 2010 to March 2011 and for FY12E we have accounted for forex derivative loss for Rs.864 mn for twelve months i.e. from April 2011 to march 2012.
- However it is important to note that the company has sought a detailed legal review of the derivate transaction to ascertain the options available to the company to get itself out of the derivate contract. We feel that the company may opt for a one time settlement for the derivate contract and if that happens, it would be very positive for the company as this is a major overhand on the stock as on date.

JBF now owns 88.8% of JBF Global - looking to acquire 100%

- JBF now owns 88.8% of JBF Global which in turn owns 100% of JBF RAK. Recently it acquired 21.41% in JBF Global by paying Rs.2.8 bn.
- Although the agreement to buy the stake was entered on 30th September 2010 the payment was made after 30th September 2010 and thus it had to provide for minority interest for 32.62% in Q2FY11. However now since it is paid and stake acquired it would provide for only 11.21% minority interest going forward.
- Here it is also important to note that the deal is to take effect from 1st April 2010 and hence it would now reverse the excess provision for minority interest in Q3FY11. Had we considered the above effect then NPAT for Q2FY11would be higher by 18.5% to Rs.1.2 bn.
- Going forward JBF is also looking to acquire balance 11.21% in JBF global and thus whenever it happens then JBF Global would become 100% subsidiary of JBF. This is positive as it would lead to better value for the shareholders of JBF.

RAK Financials - FY11E

($mn)	Old	Revised	YoY (%)
Revenues	704	704	-
EBIDTA (%)	15.5	17.5	12.9
EBIDTA	109	123	12.9
PAT	82	96	17.1
PAT (%)	11.7	13.7	17.1
US$ = INR	45.0	45.0	-

Source: Kotak Securities - Private Client Research

Cons. earning estimates - FY11E

(Rs mn)	Old	Revised	YoY (%)
Revenues	64,260	64,260	-
EBIDTA (%)	12.8	14.1	10.0
NPAT	3,729	4,391	17.8
Equity	711	711	-
EPS (Rs.)	52.4	61.8	17.8
CEPS (Rs.)	72.6	81.9	12.8

Source: Kotak Securities - Private Client Research

Revision in FY11 earning estimates

- We have revised our earning estimates to account for increasing realizations and profitability in the BOPET films business of JBF RAK. We have also accounted for increasing profitability in the POY / FDY business with prices picking up on a sustainable basis. Prices are increasing with stable raw material prices i.e. PTA and MEG and thus we feel it would lead to sharp jump in profitability going forward for both JBF India and JBF RAK.
- For FY11E we expect JBF RAK to report revenues of $ 704 mn (no change), EBIDTA margin of 17.5% (up 200 bps) and NPAT of $ 96 mn (up 17.1%).
- On a consolidated basis for FY11E we expect JBF to report revenues of Rs.64.2 bn (no change), EBIDTA margin of 14.1% (up 130 bps) and NPAT of Rs.4.4 bn (up 17.8%). The sharp increase in NPAT is on account of increased profitability in BOPET films. It is important to note that RAK is a tax free zone and thus entire profits at PBT levels are consolidated as PAT for the JBF group.
- Thus we expect JBF to report Cons. EPS of Rs.61.8 and CEPS of Rs.81.9 as against our earlier estimate of Rs.52.4 and Rs.72.6 respectively. We have provided for forex derivative loss of Rs.576 mn in FY11E.

Cons. earning estimates

(Rs mn)	FY11E	FY12E	YoY%
Revenues	64,260	71,033	10.5
EBIDTA (%)	14.1	14.7	4.9
NPAT	4,391	4,987	13.6
Equity	711	711	-
EPS (Rs.)	61.8	70.1	13.6
CEPS (Rs.)	81.9	93.7	14.4
WACC (%)	13.6	13.6	-
Terminal growth (%)	3.0	3.0	-
Price Target (Rs.)	210	300	42.9

Source: Kotak Securities - Private Client Research

Revenues Breakup (%)

	FY09	FY10	FY11E	FY12E
India	55	54	51	49
RAK	45	46	49	51
Total	100	100	100	100

Source: Company, Kotak Securities - Private Client Research

Introduction of FY12 earning estimates

- Due to strong demand for the products of the company and full ramp up of its RAK plant we are seeing increasing visibility for JBF in terms of better growth prospects going forward and thus we are introducing FY12 earning estimates for JBF.
- For Indian operations in FY12, we expect chips production to increase by 6% to 5.2 lakh MT and POY production to increase by 7% to 2.05 lakh MT.
- For FY12E, we expect JBF to report revenues of Rs.71.0 bn (up 10.5% YoY), EBIDTA margin of 14.7% (up 60 bps) and PAT of Rs.5.0 bn (up 13.6% YoY).
- Accordingly we expect JBF to report consolidated EPS of Rs.70.1 and CEPS of Rs.93.7 in FY12E. We have provided for forex derivative loss of Rs.864 mn in FY12E.
- The margins are expected to improve in FY12E as there would be additional contribution from the high margin Polyester films business of the company from it RAK plant. Typically PET grade chips enjoy operating margins ~8% while Polyester films command operating margin of ~20%.
- Also due to increased POY / FDY capacity more chips would be used for conversion to POY which would lead to higher value addition and increase in operating margins for its Indian operations.

RAK Financials

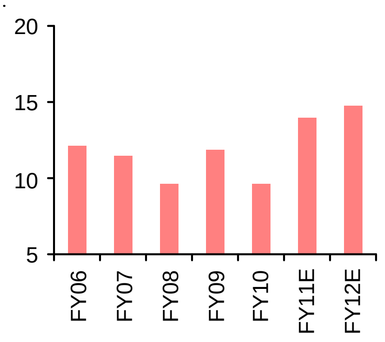
($mn)	FY11E	FY12E	YoY (%)
Revenues	704	821	16.6
EBIDTA (%)	17.5	17.5	-
EBIDTA	123	144	16.6
PAT	96	111	15.1
US$ = INR	45	44	(2.2)

Source: Company, Kotak Securities - Private Client Research

RAK financials

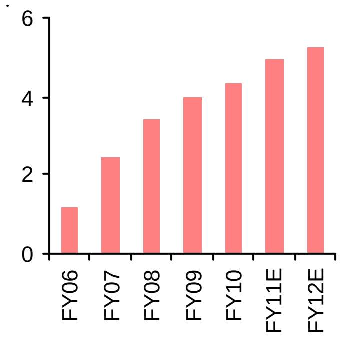
- The PET grade chips and polyester film units of RAK have successfully ramped up their operations. All the unit are now fully operational and going forward the plant is expected to operate at peak levels as it has already entered into long term supply contracts with major beverage leaders like Nestle, Coca Cola, Pepsi and Gulfa among others. RAK enjoys proximity to raw materials (GCC) and key consumer markets i.e. US, Europe.
- In FY12E we expect the Pet grade chips to operate at peak capacity utilization level and produce 4.0 lakh MT (up 11.1% YoY) and we expect the polyester films to operate and 100% capacity utilization level and produce 72000 MT.
- In FY12E, we expect RAK to report revenues of $821 mn (up 16.6% YOY), operating margin of 17.5% (flat) and PAT of $144 mn (up 16.6% YoY).
- The profits are expected to be higher in FY12E primarily due to optimal capacity utilization and increased sale of high margin Polyester films. We expect the demand supply mismatch to remain in FY12 and thus polyester films should continue to enjoy supernormal profitability in FY12 also.

Cons. Operating margin (%)



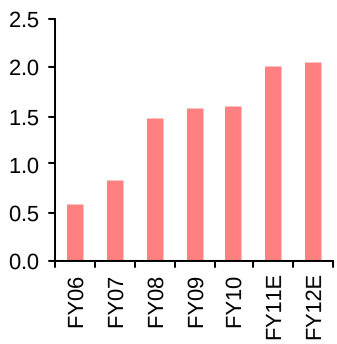
Source: Company, Kotak Securities - Private Client Research

Annual chips production - India (lakh MT)



Source: Company, Kotak Securities - Private Client Research

Annual POY / FDY production - India (lakh MT)



Source: Company, Kotak Securities - Private Client Research

Price target revised to Rs.300

We continue to value JBF on DCF method of valuation with 13.6% WACC and 3.0% terminal growth rate (no change). Due to upward revision in earning estimates and shifting of valuation base to FY12 we have increased the DCF based price target upwards from Rs.210 to Rs.300.

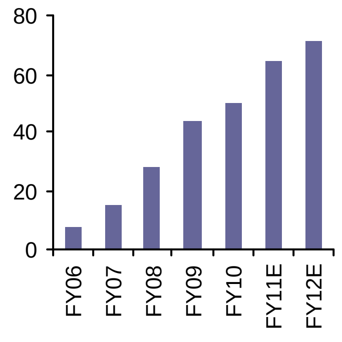
Valuation & Recommendation

- At the current market price of Rs.214, the stock trades at attractive valuations of just 0.8x book value, 3.1x earnings and 2.3x cash earnings based on FY12E.

We upgrade JBF to BUY with increased price target of Rs.300

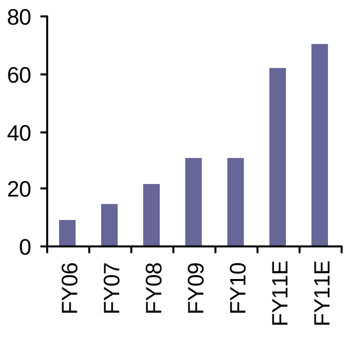
- We remain positive on the medium to long term growth prospects of the company primarily due to its market leadership position in Polyester chips, expansion in value added POY, bottle grade chips, increasing profitability in BOPET films and finally backward integration to set up 1.2 MMTPA PTA plant.
- Due to attractive valuations and 40% upside potential from the current levels we upgrade JBF to **BUY** with increased price target of Rs.300.

Cons. revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs.)



Source: Company, Kotak Securities - Private Client Research

Consolidated Financials: JBF

Profit and Loss Statement (Rs mn)

(Year-end March)	FY10	FY11E	FY12E
Revenues	**49,409**	**64,260**	**71,033**
% change YoY	14.6	30.1	10.5
EBITDA	**4,712**	**9,033**	**10,473**
% change YoY	(7.9)	91.7	15.9
Other Income	403.7	(576.0)	(864.0)
Depreciation	1,173	1,435	1,677
EBIT	**3,943**	**7,023**	**7,932**
% change YoY	1.7	78.1	12.9
Net interest	1,275	1,635	1,800
Profit before tax	**2,668**	**5,388**	**6,132**
% change YoY	(8.0)	101.9	13.8
Tax	540.2	520.3	609.5
as % of PBT	20.2	9.7	9.9
Net income	**2,128**	**4,867**	**5,523**
% change YoY	(12.8)	128.7	13.5
Less Minority interest	224	476	536
Net income adj	1,904	4,391	4,987
Shares outstanding (m)	62.2	71.1	71.1
EPS (reported) (Rs)	**30.6**	**61.8**	**70.1**
CEPS (Rs)	49.4	81.9	93.7
DPS (Rs)	6.00	7.00	8.00

Source: Company, Kotak Securities - Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY08	FY09E	FY10E
Cash and cash equivalents	999	1,278	2,494
Accounts receivable	4,674	6,426	7,814
Inventories	5,132	7,069	8,524
Others	3,023	4,177	4,972
Current assets	13,828	18,949	23,804
Misc exp.	-	-	-
LT investments	1,310	1,500	1,500
Net fixed assets	21,165	24,990	25,813
Total assets	**36,302**	**45,439**	**51,117**
Payables	7,936	10,282	11,010
Others	1,049	1,285	1,421
Current liabilities	8,985	11,567	12,431
Debt	13,644	15,000	15,000
Other liabilities(deferred tax)	4,934	4,934	4,934
Equity	622	711	711
Reserves	8,117	13,227	18,041
Total liabilities	**36,302**	**45,439**	**51,117**
BVPS (Rs)	122.9	196.1	263.8

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY08	FY09E	FY10E
EBIT	3,943	7,023	7,932
Depreciation	1,173	1,435	1,677
Change in working capital	(617)	(1,343)	(2,115)
Changs in other net current assets	(517)	(917)	(660)
Operating cash flow	3,981	6,197	6,834
Interest	(1,275)	(1,635)	(1,800)
Tax	(540)	(520)	(609)
Cash flow from operations	**2,166**	**4,042**	**4,425**
Capex	(1,756)	(5,260)	(2,500)
(Increase)/decrease in investments	(949)	(190)	-
Dividends	(362)	(568)	(649)
Cash flow from investments	**(3,068)**	**(6,019)**	**(3,149)**
Proceeds from equity issue	-	831	
Increase/(decrease) in debt	1,229	1,677	-
Deferred tax credit	(228)	(252)	(59)
Cash flow from financing	**1,002**	**2,256**	**(59)**
Opening cash	899	999	1,278
Closing cash	998	1,278	2,494

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Year-end March)	FY08	FY09E	FY10E
EBITDA margin (%)	9.5	14.1	14.7
EBIT margin (%)	8.0	10.9	11.2
Net profit margin (%)	3.9	6.8	7.0
Adjusted EPS growth (%)	-12.8	128.7	13.5
Receivables (days)	34.5	31.5	36.6
Inventory (days)	37.9	34.6	40.1
Sales/assets (%)	233	278	280
Interest coverage (x)	3.1	4.3	4.4
Debt/equity ratio	1.6	1.1	0.8
ROE (%)	21.8	38.7	30.5
ROCE (%)	17.6	27.4	25.3
EV/ Sales (x)	0.6	0.5	0.4
EV/EBITDA (x)	5.9	3.2	2.6
Price to earnings (x)	7.0	3.5	3.1
Price to book value (x)	1.7	1.1	0.8
Price to Cash Earnings (x)	4.3	2.6	2.3

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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ICICI BANK

PRICE: RS.1163 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1345 **FY12E P/E: 22.9X; P/ABV: 2.4X**

Q2FY11 Results: Earnings better than our expectations; Sequential uptick in advances (partly by e-BOR), margin improvement along with stellar performance on CASA front are the key positives; we maintain BUY on the stock.

- **The bank's net interest income (NII) rose 8.3% in Q2FY11 on back of 10 bps improvement in NIM from 2.5% in Q2FY10 to 2.6% in Q2FY11 along with modest loan growth (5.3% QoQ, 7.2% YTD).**
- **Net profit rose 18.9% mainly due to lower provisions & contingencies to Rs.6.41 bn in Q2FY11 from Rs.10.71 bn in Q2FY10, moderate growth in NII (8.3% YoY) despite muted non-interest income (decline of 13.5%) and moderate rise in operating expenses (10.2%).**
- **NIM improved both QoQ and YoY to 2.6% in Q2FY11 from 2.5% each in Q1FY11 and Q2FY10. We believe, NIM for the bank is unlikely to expand materially from current level due to its strategy of focusing on corporate segment as well as secured loan portfolio, which are relatively low-yielding.**
- **Net NPA declined to 1.37% at the end of Q2FY11 from 2.19% at the end of Q2FY10 and 1.67% at the end of Q1FY11. Slippage in retail NPA almost zero during Q2FY11 along with coverage ratio reaching 69% levels at the end of Q2FY11, are key positives for the stock. The declining slippages in last couple of quarters corroborate our view that retail NPL cycle has peaked.**
- **With easing credit costs, expanding CASA and curtailed operating expenses, RoA has improved to 1.31% in Q2FY11 from 1.17% and 1.15% in Q2FY10 and Q1FY11, respectively. We are factoring lower credit costs (82 bps in FY11 and 69 bps in FY12 as against 1.15% in FY10) during FY11-12 due to decline in delinquencies in last couple of quarters.**
- **We have slightly tweaked our earning estimates upward for FY11-12 and are also rolling over target price to FY12E estimates. We maintain BUY on the stock with the target price of Rs.1345 based on SOTP methodology, where the value of its standalone business comes to Rs.1109 (2.25x FY12E ABV) and the value of subsidiaries at Rs.236 (holding company discount: 20% to the fair value of its subsidiaries at Rs.295).**

Result Performance

(Rs mn)	Q2FY11	Q2FY10	% Change
Int. on advances	39492	44930	-12.1
Int. on investments	19161	16280	17.7
Int. on RBI/Other balances	823	1857	-55.7
Other Interest	3615	3502	3.2
Total Interest earned	**63091**	**66569**	**-5.2**
Interest expenses	41047	46209	-11.2
Net interest income	**22044**	**20361**	**8.3**
Other income	15779	18238	-13.5
Net Revenue (NII + Other income)	37823	38599	-2.0
Total operating expense	15704	14245	10.2
Employee cost	6243	4496	38.9
Direct marketing agency expenses	355	209	69.8
Other operating exp	9106	9541	-4.6
Operating profit	**22119**	**24353**	**-9.2**
Provisions	6411	10713	-40.2
Provision for Taxes	4951	4023	23.1
Deferred tax	-1606	-784	NM
Net profit	**12363**	**10401**	**18.9**
EPS (Rs.)	**10.91**	**9.34**	**16.8**

Source: Company

Earnings better than our expectations

The bank's net interest income (NII) rose 8.3% from Rs.20.36 bn in Q2FY10 to Rs.22.04 bn in Q2FY11 bn on back of 10 bps improvement in NIM from 2.5% in Q2FY10 to 2.6% in Q2FY11 along with modest loan growth (5.3% QoQ, 7.2% YTD).

Net profit rose 18.9% from Rs.10.40 bn in Q2FY10 to Rs.12.36 bn in Q2FY11 bn mainly due to decline in provisions & contingencies from Rs.10.71 bn in Q2FY10 to Rs.6.41 bn in Q2FY11, moderate growth in NII (8.3% YoY) despite muted non-interest income (decline of 13.5%) and moderate rise in operating expenses (10.2%).

Improvement in liability franchise is positive

The bank has been focusing on improving its funding mix by increasing the share of CASA mix (low cost deposits). Its CASA deposits as a percentage of total deposits increased from 28.7% at the end of FY09 to 41.7% at the end of FY10 and further to 44.0% at the end of Q2FY11.

The sharp improvement in CASA mix during Q2FY11 has come on the back of robust growth in saving deposits (28.2% YoY, 11.9% QoQ) and current account floats (47.6% YoY, 24.2% QoQ) along with flat term deposits (0.1% YoY, 7.5% QoQ). Even after excluding e-BOR numbers (Rs.134.83 bn), QoQ growth in deposits is robust at 4.3% at the end of Q2FY11. Similarly, CASA mix grew 34.5% YoY (15.9% QoQ) at the end of Q2FY11, (even after excluding e-BOR numbers, it grew 10.4% QoQ)

Trend in Deposit growth

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1 FY11	Q2FY11	YOY (%)	QoQ (%)
Deposits (bn)	2,102.4	1,978.3	1,976.5	2,020.2	2,009.1	2,230.9	12.8	11.0
Saving deposits	444.6	493.2	510.5	532.2	565.5	632.5	28.2	11.9
Current deposits	195.2	236.1	271.9	310.0	280.7	348.6	47.6	24.2
CASA (Low Cost Deposits)	639.8	729.3	782.5	842.2	846.2	981.1	34.5	15.9
Term deposits	1,462.6	1,249.0	1,194.1	1,178.0	1,163.0	1,249.9	0.1	7.5
CASA (%)	30.4	36.9	39.6	41.7	42.1	44.0	7.14	1.88

Source: Company

ICICI bank has been focusing on branches to become key points of customer acquisition and service. It has expanded branch network from 1419 at the end of FY09 to 1707 at the end of FY10 and further to 2501 branches (including 463 from e-BOR) at the end of Q2FY11. We see a big opportunity for ICICI bank to leverage the existing underutilized branches of BoR, which would be positive for the ICICI bank in the medium to long term.

NIM improved both QoQ and YoY; future margin expansion is unlikely to expand materially, in our view

NIM improved both QoQ and YoY to 2.6% in Q2FY11 from 2.5% each in Q1FY11 and Q2FY10. Although CASA share improved by 714 bps from 36.9% at the end of Q2FY10 to 44.0% at the end of Q2FY11, NIM expanded by only 10 bps. The improvement in NIM was moderate despite improvement in funding costs due to shift in its strategy from high margin unsecured loan book to relatively low margin secured loan book.

We believe, NIM for the bank is unlikely to expand materially from current level due to its strategy of focusing on corporate segment as well as secured loan portfolio, which are relatively low-yielding.

Loan book grew 5.3% QoQ (7.2% YTD growth); loan growth likely to be stronger in H2FY11 on back of low base last year

Q2FY11 is the third consecutive quarters when ICICI Bank has witnessed sequential growth in loan book. Loan book grew 5.3% QoQ (7.2% YTD) however YoY growth was muted at 1.8%. Excluding BOR numbers (Rs.65.28 bn), QoQ growth in loan book would further come down to 1.8%.

Trend in Retail loan

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YOY (%)	QoQ (%)
Retail Loans (Bn)	960.0	864.0	807.0	790.0	763.0	781.0	-9.6	2.4
% of Total Loan Book	49.0	45.0	45.0	43.0	41.0	40.0		
Commercial Vehicles	134.4	121.0	113.0	126.4	114.5	117.2	-3.1	2.4
Housing	534.7	492.5	484.2	474.0	473.1	507.7	3.1	7.3
Auto	115.2	95.0	80.7	79.0	76.3	70.3	-26.0	-7.9
Two Wheelers	9.6	8.6	8.1	7.9	7.6	3.9	-54.8	-48.8
Personal	76.8	60.5	56.5	47.4	38.2	31.2	-48.3	-18.1
Credit Cards	67.2	58.8	48.4	39.5	38.2	31.2	-46.8	-18.1
Others	22.1	19.0	16.1	15.8	15.3	23.4	23.3	53.5

Source: Company

Corporate book continued to grow and its share has increased to 28% at the end of Q2FY11 from 22% at the end of Q2FY10 and 24% at the end of Q1FY11. International book as well as retail book witnessed muted growth. International book grew 7.6% QoQ; however it was down by 5.8% YoY.

However, retail book which has been a drag for last 8-9 quarters on overall loan growth has ceased to decline further during Q2FY11. Although it was down 9.6% YoY, It grew 2.4% QoQ. Within retail segment, bank focused on opportunities in mortgages and vehicle finance, while reducing unsecured retail loans like credit cards and personal loans. Mortgage and CV business grew sequentially by 7.3% and 2.4%, respectively. Unsecured retail book which had witnessed higher credit losses, declined sharply both YoY as well as QoQ.

In our view, consolidation phase is over and going forward we expect ICICI bank to switch to growth phase. We expect domestic book to grow more-or-less in line with the system, however, due to conscious strategy of curtailing growth in the International book, overall growth is expected to be slightly lower than the system. Going forward, loan book is likely to be mainly driven by home loans, car loans, CV loans, project finance and trade finance.

Declining slippages in last couple of quarters corroborate our view that retail NPL cycle has peaked

Slippage in retail NPA has been near zero during Q2FY11 down from ~Rs.5 bn during Q4FY10 and ~Rs.2 bn during Q1FY11. The declining slippages in last couple of quarters corroborate our view that retail NPL cycle has peaked. Even for corporate book net addition was close to zero for ICICI standalone book. However, there was some addition to gross NPA from e-BOR.

Net NPA declined to 1.37% at the end of Q2FY11 from 2.19% at the end of Q2FY10 and 1.67% at the end of Q1FY11. In absolute terms also, it declined 30% YoY and 9.2% QoQ. Its provision coverage ratio has improved to 69% at the end of Q2FY11 from 51.1% and 64.8% at the end of Q2FY10 and Q1FY11, respectively.

BOR merged from August 13, 2010; merger is likely to enhanced the reach of ICICI bank

After receiving approval from RBI, erstwhile BOR (e-BOR) has been merged from August 13, 2010. Q2FY11 number also includes the financial of e-BOR (around 49 days). At NII & PBT levels, impact has been insignificant. However, it has contribution of Rs.0.7 bn at the PAT level on back of tax saved during the quarter.

At the merger date, e-BOR had total assets of Rs.155.96 bn (4.2%), advances of Rs.65.28 bn (7.0%), and deposits of Rs.134.83 bn (6.4%). Networth at the merger date was Rs.3.56 bn as compared to Rs.9.37 bn at the end of FY10 reflecting provisions for employee benefits, move to 70% provision coverage and deferred tax asset reversal in e-BoR books prior to merger.

Merger has substantially enhanced ICICI bank's branch network by ~25% to cross 2500 mark. Concentration of e-BoR's branches in CASA-rich northern states also augurs well for ICICI bank's strategy of improving its liability franchise. As ICICI bank is entering into the growth phase after a consolidation phase of almost two years, access to large branch network is likely to help them in further consolidating its position as a largest private sector bank.

Management has the execution capability to deal with the people issues and strengthening bond with the customers, demonstrated in the past during mergers like Bank of Madura (2001) and Sangli Bank (2008).

We believe, there is a significant scope of improvement in the branch network utilization of BoR, as their productivity in terms of employees/branches varies between 16-65% of that of ICICI bank. We see a big opportunity for ICICI bank to leverage the existing underutilized branches of BoR, which would be positive for the ICICI bank in the medium to long term.

Valuation and Recommendation

After successfully executing the 4Cs strategy (CASA, Cost optimization, Credit quality and Capital conservation), bank has now adopted the 5Cs strategy (Credit growth, CASA, Cost optimization, Credit quality and Customer service).

Now, we believe profitable growth would assume centre-stage for the bank. We expect, domestic loan book to grow in line with the system. However, due to conscious strategy of curtailing growth in the International book, overall growth is expected to be at 16.0% and 19.7% in FY11E and FY12E, respectively.

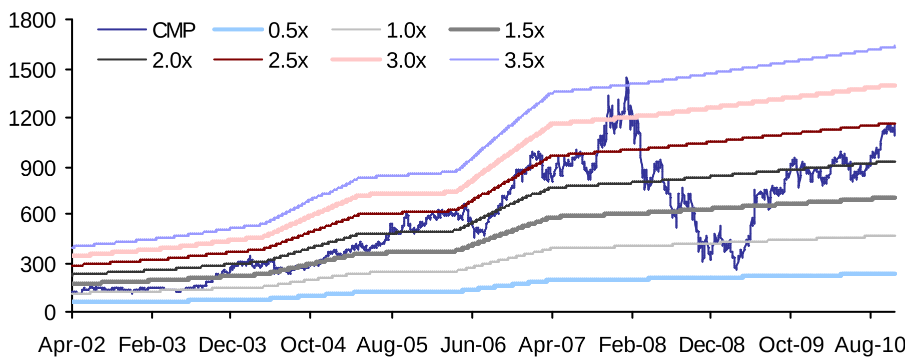
At the current market price of Rs.1163, the stock is trading at 22.9x its FY12E earnings and 2.4x its FY12E ABV. We are revising our earning estimate upward for FY11E & FY12E and now expect net profit for FY11E and FY12E to be 46.27 bn and Rs.58.35 bn. This would result into an EPS of Rs.40.8 and Rs.50.7 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.453.1 and Rs.492.8, respectively

Sum of Parts Valuation

	Basis	Multiple	Year	Value / Share
Core Banking Business (standalone)	ABV	2.25	FY12	1,109
Overseas Banking Subsidiaries	ABV	2.00	FY12	63
Life Insurance Business	NBAP	16	FY12	158
ICICI Securities	PAT	12	FY12	16
Asset Management	AUM	5%	FY12	21
Private Equity	AUM	10%	FY12	22
Non Life Insurance	PAT	12	FY12	15
Total Value of subsidiaries				**295**
20% discounted value				236
Total Value				**1,345**

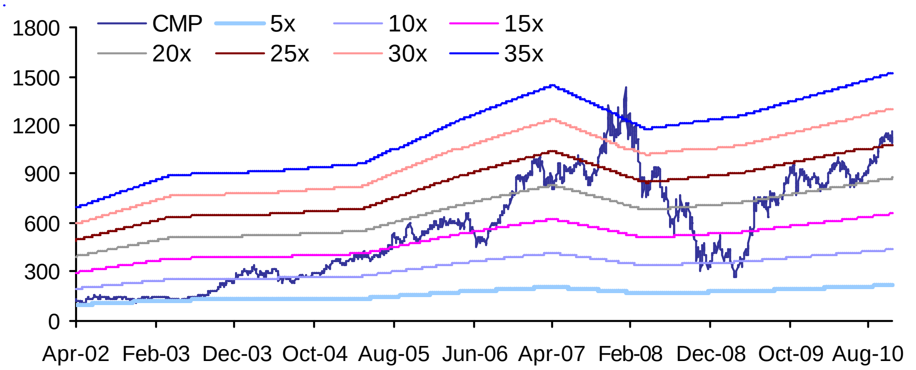
Source: Kotak Securities - Private Client Research

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 ICICI Bank with a price target of Rs.1345

On the basis of SOTP, we maintain **BUY** rating on the stock with the target price of Rs.1345, where the value of its standalone business comes to Rs.1109 (2.25x FY12E ABV) and the value of subsidiaries at Rs.236 (holding company discount: 20% to the fair value of its subsidiaries at Rs.295).

Key data

(Rs bn)	FY09	FY10	FY11E	FY12E
Interest income	310.93	257.07	253.96	296.91
Interest expense	227.26	175.93	165.33	195.30
Net interest income	**83.67**	**81.14**	**88.63**	**101.61**
Other income	76.04	74.78	67.15	82.21
Gross profit	89.25	97.32	93.12	112.34
Net profit	**37.59**	**40.26**	**46.27**	**58.35**
Gross NPA (%)	4.4	5.2	4.7	4.2
Net NPA (%)	2.1	2.1	1.5	1.2
Net interest margin (%)	2.5	2.5	2.6	2.6
RoE (%)	7.8	8.0	8.7	10.2
RoAA (%)	1.0	1.1	1.1	1.2
Dividend Yield (%)	0.9	1.0	1.1	1.2
EPS (Rs)	**33.8**	**36.1**	**40.8**	**50.7**
Adjusted BVPS (Rs)	404.0	428.5	453.1	492.9
P/E (x)	**34.4**	**32.2**	**28.5**	**22.9**
P/ABV (x)	2.9	2.7	2.6	2.4

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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ANDHRA BANK

PRICE: RS.178 **RECOMMENDATION: BUY**
TARGET PRICE: RS.200 **FY12E P/E: 5.6x; P/ABV: 1.4x**

Q2FY11 Results: Earnings in line with our expectations; although asset quality deteriorated sharply, still at comfortable level...

- **Net interest income (NII) grew 52.2% YoY in Q2FY11 on back of strong loan growth (26.6%) and sharp improvement in NIM (77 bps) from 3.14% in Q2FY10 to 3.91% in Q2FY11 due to sharper decline in cost of deposits (68 bps) vis-à-vis decline in yield on advances (23 bps).**
- **Its net profit growth was moderate (10.6% YoY) in Q2FY11 due to higher operating expenses (38.9% YoY), muted non-interest income (decline of 18.0%) and sharp spike in provisions & contingencies (Rs.1.20 bn in Q2FY11 as against Rs.0.58 bn in Q2FY10) despite robust growth in NII (52.2% YoY).**
- **NIM improved both YoY as well as QoQ to 3.91% in Q2FY11 from 3.14% in Q2FY10 and 3.72% in Q1FY11. This has come on back of sharper decline in cost of deposits (68 bps decline YoY) vis-à-vis decline in yield on advances (23 bps YoY).**
- **In absolute terms, asset quality saw sharp deterioration. Gross NPA rose 93.3% YoY and 33.0% QoQ. Similarly, net NPA also rose 218.3% YoY and 41% QoQ. However, it is still at comfortable level, if seen in terms of percentage of advances. At the end of Q2FY11, gross NPA and net NPA stand at 1.26% and 0.49%, respectively, still one of the best in the industry. Its coverage ratio at ~79% is one of the highest in the industry and provides cushion against any significant risk to its earnings.**
- **We have slightly tweaked our earning estimate for FY11E and FY12E and are also rolling over target price to FY12E estimates. We maintain BUY on the stock with the revised TP of Rs.200 (Rs.163 earlier) based on P/ABV of 1.6x its FY12E adjusted book value.**

Result Performance

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Interest on advances	15,600.5	12,681.0	23.0
Interest on Investment	3,731.3	2,796.9	33.4
Interest on RBI/ banks' balances	79.8	41.8	90.9
Other interest	-	57.5	NM
Total Interest earned	**19,411.6**	**15,577.3**	**24.6**
Interest expenses	11,578.9	10,430.7	11.0
Net interest income (NII)	**7832.6**	**5146.6**	**52.2**
Other income	1,911.7	2,331.9	-18.0
Net Revenue (NII + Other income)	9,744.3	7,478.5	30.3
Operating Expenses	4098.8	2950.4	38.9
Payments to / Provisions for employees	2,601.0	1,715.1	51.7
Other operating expenses	1,497.8	1,235.4	21.2
Operating profit	**5,645.6**	**4,528.1**	**24.7**
Provisions & contingencies	1,195.8	578.3	106.8
Provision for taxes	1,420.0	1,210.0	17.4
Total Provisions	2,615.8	1,788.3	46.3
Net profit	**3,029.8**	**2,739.7**	**10.6**
EPS, Rs	**6.25**	**5.65**	**10.6**

Source: Company

Delivered earnings in line with our estimates

Net interest income (NII) grew 52.2% YoY to Rs.7.83 bn in Q2FY11 from Rs.5.15 bn in Q2FY10 on back of strong loan growth (26.6%) and sharp improvement in NIM (77 bps) from 3.14% in Q2FY10 to 3.91% in Q2FY11 due to sharper decline in cost of deposits (68 bps) vis-à-vis decline in yield on advances (23 bps).

Better liability management helped the bank in delivering good performance on core operating front. During Q2FY11, interest income witnessed 24.6% growth as compared to moderate growth of 11.0% in total interest expenses.

Its net profit growth was moderate (10.6% YoY) to Rs.3.03 bn in Q2FY11 from Rs.2.74 bn in Q2FY10 due to higher operating expenses (38.9% YoY), muted non-interest income (decline of 18.0%) and sharp spike in provisions & contingencies (Rs.1.20 bn in Q2FY11 as against Rs.0.58 bn in Q2FY10) despite robust growth in NII (52.2% YoY).

Non-interest income declined due to lower treasury gains

Non-interest income declined 18.0% to Rs.1.91 bn in Q2FY11 from Rs.2.33 bn in Q2FY10 on back of lower treasury gains. Treasury income declined 81.5% to Rs.0.18 bn in Q2FY11 from Rs.0.95 bn in Q2FY10.

However, non-interest income (excluding trading profit) grew 25.6% to Rs.1.74 bn in Q2FY11 from Rs.1.38 bn in Q2FY10.

Strong business growth; LDR improved due to stronger growth in loan book vis-à-vis deposit growth

Total business of the bank witnessed robust growth of 26.4% YoY (5.9% QoQ) to Rs.1396.0 bn at the end of Q2FY11 from Rs.1104.6 bn at the end of Q2FY10.

- Total deposits of the bank rose 26.2% YoY to Rs.785.8 bn at the end of Q2FY11 from Rs.622.8 bn at the end of Q2FY10. Its CASA mix declined marginally from 32.3% at the end of Q2FY10 to 30.4% at the end of Q2FY11. However, it saw 80 bps QoQ improvements in CASA from 29.6% at the end of Q1FY11.

Trend in deposit growth

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	Gr (YoY)	Gr (QoQ)
Total Deposits (Rs. bn)	609.1	622.8	665.5	776.9	747.0	785.8	26.20%	5.20%
CASA (Rs bn)	186.5	201.4	199.7	228.6	220.9	238.9	18.60	8.10
CASA (%)	30.60	32.30	30.00	29.40	29.60	30.40		
Term Deposits (Rs bn)	422.6	421.4	465.7	548.2	526.1	547	29.80	4.00

Source: Company

- Gross advances increased 26.6% YoY to Rs.610.2 bn at the end of Q2FY11 from Rs.481.8 bn at the end of Q2FY10. This has come on the back of strong growth in MSME (35.0% YoY), retail (29.2% YoY) and agriculture (24.1% YoY) segments.
- The strong growth in loan book vis-à-vis deposit growth has led to slight improvement in the C/D ratio to 77.6% at the end of Q2FY11 from 77.4% and 76.5% at the end of Q2FY10 and Q1FY11, respectively.

NIM improved both YoY as well as QoQ

NIM improved both YoY as well as QoQ to 3.91% in Q2FY11 from 3.14% in Q2FY10 and 3.72% in Q1FY11. This has come on back of sharper decline in cost of deposits (68 bps decline YoY) vis-à-vis decline in yield on advances (23 bps YoY).

Although yield on advances declined by 53 bps YoY, yield on assets improved by 13 bps YoY and 22 bps QoQ implying improvement in yield on investments. Hence, higher yield on investments along with sharper decline in cost of deposits vis-à-vis yield on advances led to improvement in the margins.

Asset quality at the comfortable level despite sharp deterioration during Q2FY11; its provision coverage ratio remains one of the best in the industry

In absolute terms, asset quality saw sharp deterioration. Gross NPA rose 93.3% YoY and 33.0% QoQ. Similarly, net NPA also rose 218.3% YoY and 41% QoQ. However, it is still at comfortable level, if seen in terms of percentage of advances. At the end of Q2FY11, gross NPA and net NPA stand at 1.26% and 0.49%, respectively, still one of the best in the industry.

Its coverage ratio at ~79% is one of the highest in the industry and provides cushion against any significant risk to its earnings.

Trend in NPAs

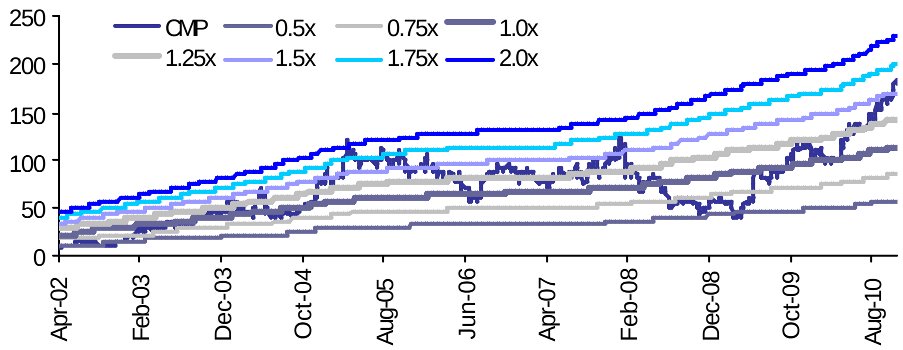
NPA (Rs bn)	1Q2009	2Q2009	3Q2009	4Q2009	1Q2010	2Q2010	3Q2010	4QFY10	1QFY11	2QFY11
Gross NPA	3.93	3.74	3.73	3.68	3.59	3.98	4.47	4.88	5.79	7.70
Gross (%)	1.15	1.03	0.89	0.83	0.80	0.83	0.87	0.86	1.01	1.26
Net NPA	0.35	0.87	0.86	0.79	1.00	0.75	0.88	0.96	1.70	2.39
Net (%)	0.10	0.24	0.21	0.18	0.22	0.16	0.17	0.17	0.30	0.49

Source: Company

Valuations

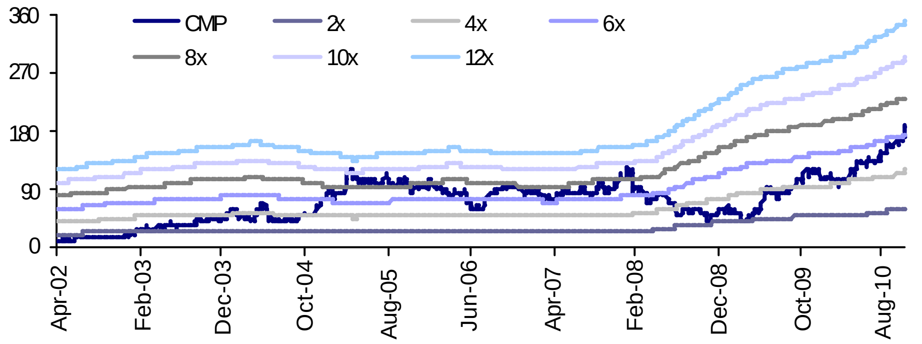
We have slightly tweaked our earning estimates for FY11E and FY12E and now expect net profit for FY11E and FY12E to be Rs.12.19 bn and 15.53 bn, respectively. This would result into an EPS of Rs.25.1 and Rs.32.0 for FY11E and FY12E, respectively. The ABV is forecast at Rs.100.9 and Rs.124.0 respectively 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 BUY on Andhra Bank with a price target of Rs.200

At the current market price of Rs.178, the stock is trading at 5.6x its FY12E earnings and 1.4x its FY12E ABV. We are rolling over target price to FY12E estimates and maintain BUY on the stock with the revised TP of Rs.200 (Rs.163 earlier) based on P/ABV of 1.6x its FY12E adjusted book value.

Key data

(Rs. bn)	2009	2010	2011E	2012E
Interest income	53.75	63.73	78.27	95.98
Interest expense	37.48	41.78	48.12	60.04
Net interest income	**16.27**	**21.95**	**30.15**	**35.94**
Other income	7.65	9.65	8.03	10.02
Gross profit	12.88	18.10	21.38	26.56
Net profit	**6.53**	**10.46**	**12.19**	**15.53**
Gross NPA (%)	0.8	0.9	1.2	1.0
Net NPA (%)	0.2	0.2	0.4	0.2
Net int. margin (%)	3.0	3.2	3.6	3.5
RoE (%)	18.9	26.0	25.5	27.4
RoAA (%)	1.0	1.3	1.2	1.3
Dividend Yield (%)	2.5	2.8	2.8	2.8
EPS (Rs)	**13.5**	**21.6**	**25.1**	**32.0**
Adjusted BVPS (Rs)	73.6	88.9	100.9	124.0
P/E (x)	**13.2**	**8.3**	**7.1**	**5.6**
P/ABV (x)	2.4	2.0	1.8	1.4

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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INDIAN OVERSEAS BANK (IOB)

PRICE: RS.160 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.140 **FY12E P/E: 7.9X, P/ABV: 1.5X**

Q2FY11 results: Reported earnings slightly better than our expectations; higher NPAs likely to remain as an overhang to the stock performance, in our view. We maintain REDUCE with TP of Rs.140.

- **The bank's net interest income (NII) increased 21.9% YoY on back of sharp improvement in NIM from 2.73% in Q2FY10 to 3.02% in Q2FY11 despite moderate growth in loan book (12.3%) and improvement in C/D ratio from 71.7% at the end of Q2FY10 to 74.5% at the end of Q2FY11.**
- **Its net profit grew 17.1% YoY on account of higher provisions & contingencies (Rs.3.05 bn in Q2FY11 as against Rs.1.22 bn in Q2FY10), 26.3% decline in non-interest income.**
- **Although NPAs have stabilized sequentially, it remains at the elevated levels, which is a cause of concern, in our view. Gross NPA and net NPA stands at 3.78% and 2.04%, respectively, at the end of Q2FY11.**
- **We have slightly tweaked our earning estimates for FY11E and FY12E and maintain REDUCE rating on the stock with the target price of Rs.140 (earlier Rs.100) based on P/ABV of 1.3x its FY12E adjusted book value.**

Result Performance

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Interest on advances	20,155	19,238	4.8
Interest on Investment	7,189	5,839	23.1
Interest on RBI/ banks' balances	658	423	55.7
Other interest	-	-	NM
Total Interest earned	**28,002**	**25,500**	**9.8**
Interest expenses	18,439	17,653	4.5
Net interest income	**9,563**	**7,846**	**21.9**
Other income	2,745	3,724	-26.3
Net Revenue (NII + Other income)	**12,308**	**11,570**	**6.4**
Operating Expenses	6,152	6,024	2.1
Payments to / Provisions for employees	4,203	4,264	-1.4
Other operating expenses	1,948	1,760	10.7
Operating profit	**6,157**	**5,546**	**11.0**
Provisions & contingencies	3,051	1,220	150.0
Provision for taxes	1,044	1,744	-40.1
Extraordinary Items	-	822	NM
Net profit	**2,061**	**1,760**	**17.1**
EPS, Rs.	**3.78**	**3.23**	**17.0**

Source: Company

Earnings slightly better than our estimates

The bank's net interest income (NII) increased 21.9% to Rs.9.56 bn in Q2FY11 from Rs.7.85 bn in Q2FY10 on back of sharp improvement in NIM from 2.73% in Q2FY10 to 3.02% in Q2FY11 (partly helped by 229 bps YoY improvements in CASA mix) despite moderate growth in loan book (12.3%) and improvement in C/D ratio from 71.7% at the end of Q2FY10 to 74.5% at the end of Q2FY11.

Its net profit grew 17.1% to Rs.2.06 bn in Q2FY11 from Rs.1.76 bn in Q2FY10 on account of higher provisions & contingencies (Rs.305 mn in Q2FY11 as against Rs.122 in Q2FY10), 26.3% decline in non-interest income.

Subdued business growth

The bank witnessed subdued business growth which rose by only 9.8% YoY to Rs.2062.1 bn at the end of Q2FY11 from Rs.1878.5 bn at the end of Q2FY10. However, sequentially growth was strong at 7.2% from Rs.1924.1 bn at the end of Q2FY10.

- Total deposits of the bank rose 8.0% YoY to Rs.1181.4 bn at the end of Q2FY11 from Rs.1094.4 bn at the end of Q2FY10. Its CASA mix improved from 30.8% at the end of Q2FY10 to 33.1% at the end of Q2FY11 due to slower growth in term deposits, which increased by only 4.4% YoY as compared to 16.0% YoY growth in CASA mix.
- Loan growth was also subdued at 12.3% to Rs.880.7 bn at the end of Q2FY11 from Rs.784.2 bn at the end of Q2FY10. Loan growth slightly higher than deposit growth led to improvement in the C/D ratio from 71.7% at the end of Q2FY10 to 74.5% at the end of Q2FY11.

NPAs stabilized QoQ; however remains at the elevated levels, a cause of concern, in our view.

Although NPAs have stabilized sequentially, it remains at the elevated levels, which is a cause of concern, in our view. Gross NPA and net NPA stands at 3.78% and 2.04%, respectively, at the end of Q2FY11.

In absolute terms, gross NPA and net NPA increased 23.9% (YoY) and 44.2% (YoY), respectively, at the end of Q2FY11. However, sequentially both came down by 6.8% and 1.6%, respectively.

In percentage terms, gross NPA improved from 4.30% at the end of Q1FY11 to 3.78% at the end of Q2FY11. However, it deteriorated from 3.42% at the end of Q2FY10. Similarly, net NPA improved to 2.04% at the end of Q2FY11 from 2.21% at the end of Q1FY11, however, deteriorated from 1.59% at the end of Q2FY10.

Trend in NPAs

(Rs bn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	YoY Gr (%)	QoQ Gr (%)
Gross NPA	23.37	26.85	32.18	36.11	35.71	33.26	23.9	-6.8
Gross (%)	3.04	3.42	4.05	4.47	4.30	3.78		
Net NPA	12.02	12.24	16.90	19.50	17.94	17.65	44.2	-1.6
Net (%)	1.59	1.59	2.17	2.52	2.21	2.04		

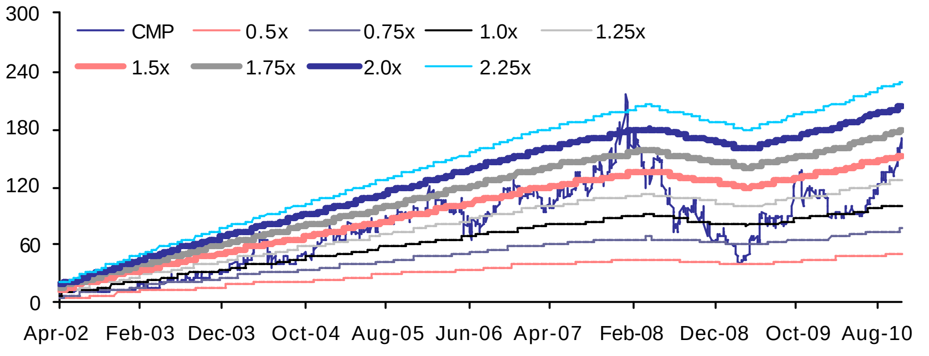
Source: Company

Its provision coverage ratio stands at 60.0% at the end of Q2FY11. However, they have been permitted by RBI to reach the regulatory requirement of 70% mark by FY11. To meet this guideline of 70% provision coverage, it has to provide additional Rs.3.33 bn (~43% of FY10 profit). In our view, its low provision coverage remains a significant risk to its earnings, going forward.

Valuations

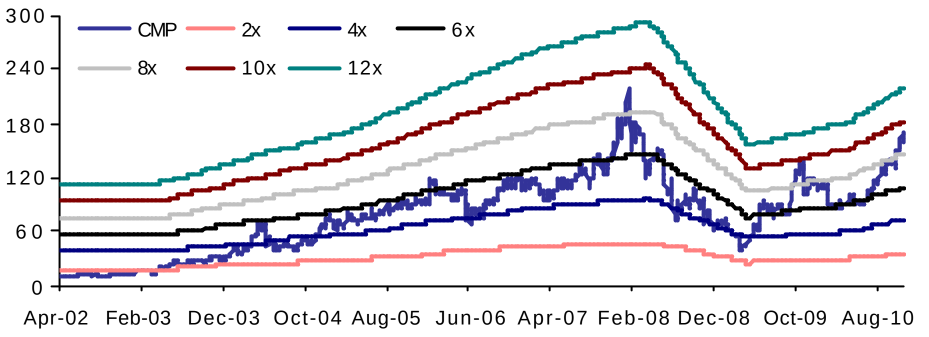
We have slightly tweaked our earning estimates for FY11E and FY12E and now expect net profit for FY11E and FY12E to be Rs.8.20 bn and 11.04 bn, respectively. This would result into an EPS of Rs.15.1 and Rs.20.3 for FY11E and FY12E, respectively. The ABV is forecast at Rs.92.7 and Rs.107.9 respectively 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 REDUCE on IOB with a price target of Rs.140

At the current market price of Rs.160, the stock is trading at 7.9x its FY12E earnings and 1.5x its FY12E ABV. We are rolling over target price to FY12E estimates and recommend **REDUCE** rating on the stock with the target price of Rs.150 (earlier Rs.100) based on P/ABV of 1.3x its FY12E adjusted book value.

We believe, higher NPAs are likely to remain as an overhang to the stock performance. Therefore, we would advice our clients to look for better entry points.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	96.41	102.46	110.78	126.81
Interest expense	67.72	70.78	73.78	84.51
Net interest income	**28.70**	**31.68**	**37.00**	**42.30**
Other income	15.96	11.43	9.84	11.70
Gross profit	25.24	18.45	19.33	23.40
Net profit	**13.26**	**7.07**	**8.20**	**11.04**
Gross NPA (%)	2.6	4.6	3.9	3.9
Net NPA (%)	1.3	2.5	2.1	2.0
Net int. margin (%)	**2.9**	**2.8**	**3.0**	**3.0**
RoE (%)	24.8	11.5	12.4	14.8
RoAA (%)	1.2	0.6	0.6	0.7
Dividend Yield (%)	3.3	2.2	2.5	2.5
EPS (Rs)	**24.3**	**13.0**	**15.1**	**20.3**
Adjusted BVPS (Rs)	90.7	79.9	92.7	107.9
P/E (x)	**6.6**	**12.3**	**10.6**	**7.9**
P/ABV (x)	1.8	2.0	1.7	1.5

Source: Company, Kotak Securities - Private Client Research

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	1,163	6.8	28.7	9.7
Reliance Ind	1,096	1.3	8.2	6.8
ITC	171	2.5	7.4	18.4
Losers				
Tata Motors	1,159	(2.8)	(3.6)	2.1
SBI	3,151	(1.2)	(3.3)	1.0
Tata Steel	589	(2.4)	(3.0)	7.4

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
1-Nov	Century Enka, Century Tex, Emami, Eveready Ind, Gammon Infra, GTL Infra, GMDC, Havells India, Hindustan Motors, JSW Energy, Lupin, Punj Lloyd, PVR, Subros earninges expected

Source: BSE

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