



Economy News

- ▶ Broadcast regulator Telecom Regulatory Authority of India (Trai) has requested the Supreme Court to allow it to notify its proposed Tariff Order, fixing a cap of Rs 250 monthly cable charges in the country, except pockets where Conditional Access System (CAS) is implemented. (BS)
- ▶ The Cabinet Committee on Economic Affairs (CCEA) is slated to consider a proposal tomorrow to increase the total fund sanction for modernisation of the textiles industry in the XI Five-Year Plan to Rs 150 Bn. (BS)
- ▶ After a 20 per cent rally in crude oil prices from November, biodiesel prices have also started rising globally. Biodiesel prices in Europe rose over 15 per cent, owing to a revival in demand. Indian producers, who mainly rely on export markets in Europe and the United States, are planning to increase exports. (BS)
- ▶ Reserve Bank of India Governor D Subbarao said the central bank considered 50 basis point hike in policy rates but settled for 25 basis point increase to address inflationary concerns without hurting growth. (ET)

Corporate News

- ▶ **Lakshmi Machine Works Ltd** is on an expansion mode. The company is set to expand its machine tool manufacturing capacity by 25-30 per cent to 150 machines per month from March this year to meet the growing demand. (BS)
- ▶ The technical arm of the oil ministry has certified that Anil Agarwal-controlled **Vedanta Resources** has sufficient technical capabilities to operate country's oil and gas blocks held by **Cairn India**, brightening prospects of the \$9.6-billion deal. (ET)
- ▶ **PowerGrid** plans to set up its first office abroad soon, in Oman, to provide consultancy services. The company is planning to more than double its international revenues from consultancy services to Rs 250 Mn a year over the next two years, from Rs 120 Mn currently. (BS)
- ▶ **Sesa Goa** has secured a stay order from the Delhi High Court against Industrial Financial Corporation of India's (IFCI) decision on the Bellary Steel sell-off, in which JSW Steel was declared the highest bidder. (BS)
- ▶ **GMR Infrastructure** is understood to be closing in on its second coal mine acquisition in Indonesia. The mine is expected to cost close to \$150 million and has reserves of close to 200 million tonne. In 2009, GMR had acquired Indonesian coal company PT Barasentosa Lestari for around \$80 million with coal reserves of 110 mt. (BS)
- ▶ Chinese credit is following Chinese equipment into India's power sector. After **Reliance Power** struck a deal for \$1.1 bn in loans from three Chinese banks last December, private sector **Lanco Infratech** seeks to tie up around \$2.64 bn from Chinese lenders. The Company expects to clinch the loans by Sep'11. (BS)
- ▶ Three companies from Andhra Pradesh — **GVK Power and Infrastructure Limited**, Surana group and Sanghi — have signed memoranda of understanding at the recently held Vibrant Gujarat Summit 2011 for various projects in Gujarat. (BS)

Equity

	25 Jan 11	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,969	(0.9)	(5.5)	(6.2)
NIFTY Index	5,687	(1.0)	(5.4)	(6.5)
BANKEX Index	12,350	(2.3)	(5.1)	(12.2)
BSET Index	6,606	(0.6)	(1.3)	8.2
BSETCG INDEX	13,707	0.3	(9.8)	(14.8)
BSEOIL INDEX	9,685	(0.4)	(8.9)	(12.1)
CNXMcap Index	8,243	(0.5)	(5.2)	(13.2)
BSESMCAP INDEX	8,985	(0.3)	(3.9)	(17.2)
World Indices				
Dow Jones	11,985	0.1	3.6	7.3
Nasdaq	2,740	0.7	2.8	9.7
FTSE	5,969	0.9	(0.7)	4.6
Nikkei	10,402	(0.6)	0.7	11.1
Hangseng	23,843	0.2	4.1	2.6

Value traded (Rs cr)

	25 Jan 11	% Chg - Day
Cash BSE	3,287	20.0
Cash NSE	13,064	13.1
Derivatives	206,028	54.5

Net inflows (Rs cr)

	24 Jan 11	% Chg	MTD	YTD
FII	195	418.4	(3,868)	(3,868)
Mutual Fund	263	269.1	950	950

FII open interest (Rs cr)

	24 Jan 11	% Chg
FII Index Futures	14,714	(1.9)
FII Index Options	52,868	2.3
FII Stock Futures	33,523	(3.0)
FII Stock Options	647	(6.0)

Advances / Declines (BSE)

	25 Jan 11	A	B	S	Total	% total
Advances	71	717	177	965	43	
Declines	132	1,054	226	1,186	52	
Unchanged	2	84	30	116	5	

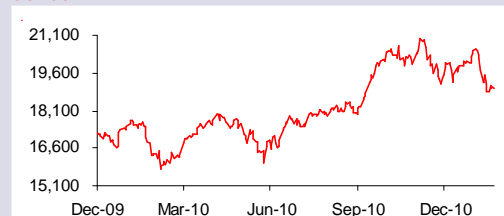
Commodity

	25 Jan 11	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	87.5	0.2	(3.8)	6.8
Gold (US\$/OZ)	1,330.7	(0.2)	(2.7)	1.5
Silver (US\$/OZ)	27.0	0.5	(5.2)	17.6

Debt / forex market

	25 Jan 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.15	8.15	7.90	8.18
Re/US\$	45.71	45.68	45.24	44.36

Sensex



ECONOMY UPDATE

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RBI'S MONETARY POLICY - FIGHTING A LOST BATTLE?

The Reserve Bank of India (RBI) increased the repo and reverse repo rates by 25 basis points (bps) each. Accordingly, the repo rate stands at 6.5% and the reverse repo rate at 5.5%; leaves CRR unchanged at 6%.

Since mid-March 2010, the RBI has cumulatively increased the repo rate by 175 bps and the reverse repo rate by 225 bps. Additionally, the CRR was increased by 100 bps. However, point to note is though monthly inflation numbers have come down from 10.23% in March to 8.43% in December is mainly due to base effects.

The current stance of monetary policy is intended to contain the spill-over of high food and fuel inflation into generalized inflation and anchor inflationary expectations.

RBI has also raised its forecast of year end inflation from 5.5% to 7%. If we have to bring inflation in comfortable zone, we ought to increase rates further by at least 75-100 bps. We continue to expect that RBI would continue with its monetary tightening stance over the course of next fiscal year as well.

Policy measures announced

- ❑ Increases repo and reverse repo rates by 25 bps
- ❑ Retains CRR and SLR unchanged
- ❑ Additional liquidity support of 1% extended further till 8th April 2011

Other factors

- Retains projection of real GDP growth at 8.5 per cent but with an upside bias
- Raised projection of WPI inflation for March 2011 from 5.5% to 7.0%.

The current stance of monetary policy is intended to

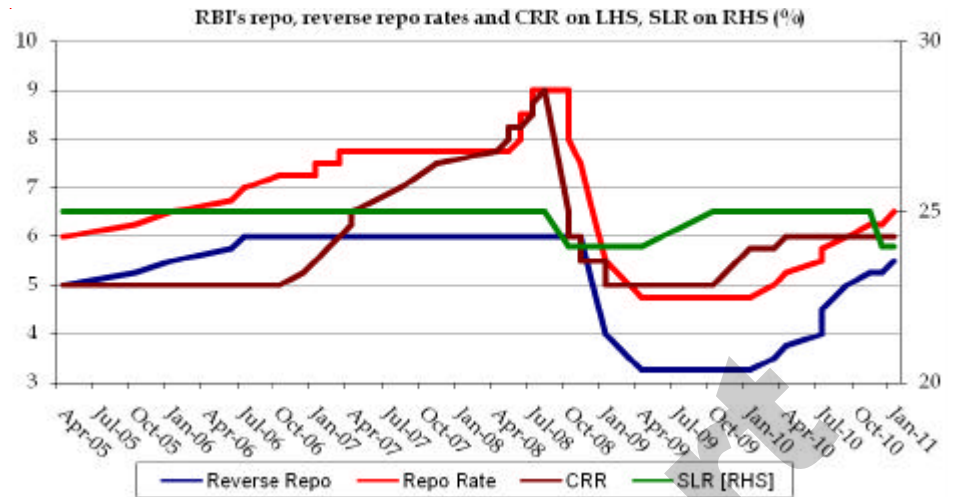
- Contain the spill-over of high food and fuel inflation into generalized inflation and anchor inflationary expectations, while being prepared to respond to any further build-up of inflationary pressures.
- Maintain an interest rate regime consistent with price, output and financial stability.
- Manage liquidity to ensure that it remains broadly in balance, with neither a surplus diluting monetary transmission nor a deficit choking off fund flows.

RBI in its assessment of macroeconomic scenario voices concerns over elevated food inflation for about two years and likelihood of it spilling in general inflation.

RBI is also concerned over high level of current account deficit, expected to be about 3.5% of GDP. As such high level of CAD is not sustainable and more so the risk of financing.

RBI has been voicing its concerns over fiscal prudence and warns against reliance on one off revenue streams like spectrum auctions and disinvestment proceeds. Hopefully Mr. FM would take note of that and we may have some prudent measures towards the fiscal consolidation in the upcoming budget.

RBI hikes policy rates, narrowing LAF window



Source: RBI and Kotak Securities - Private Client Research

To understand the effectiveness of monetary policy we must look at longer period. In last 6 years during Dec-04 to Dec-10, WPI based inflation stand at 43.48% (7.23% annualized). Whereas, reverse repo and repo rates have increased from Apr-05's 5% and 6% levels to 5.5% and 6.5% respectively. Historically real interest rates have been negative on average by 2%.

If we are to bring inflation in comfortable zone, we ought to increase rates further by at least 75-100 bps. We continue to expect that RBI would continue with its monetary tightening stance over the course of next fiscal year as well. The next mid-quarter review of Monetary Policy will be announced on March 17, 2011.

RESULT UPDATE

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INDIAN BANK

PRICE: Rs.229

TARGET PRICE: Rs.320

RECOMMENDATION: BUY

FY12E P/E: 4.6x, P/ABV: 1.1x

- ❑ Q3FY11 Results: Core performance came in line however net profit came above our expectation due to flat opex and lower credit costs. Asset quality improved QoQ due to sale of bad loans to ARCIL. Maintain BUY
- ❑ Bank has delivered good core performance (NII grew 18.9% YoY) on back of robust loan growth (28.6% YoY) and stable margins. Margin was stable on back of improvement in liability mix (CASA: ~33%) and enhancement in C/D ratio (67.8% in Q3FY10 to 73.2% in Q3FY11).
- ❑ Growth in net profit (11.3% YoY) was aided by healthy NII growth, flat operating expenses and lower provisions & contingencies (Rs.0.54 bn in Q3FY11 as against Rs.1.33 bn in Q2FY11).
- ❑ NIM was stable YoY at 3.84% in Q3FY11 as against 3.82% in Q3FY10 and was mainly aided by healthy growth in CASA mix (saving deposits grew 25.4% YoY in Q3FY11). Sequentially, asset quality improved on back of Rs.3.47 bn sale of bad loans to ARCIL.
- ❑ Bank has reported only Rs.2.80 bn deficit on account of 2nd pension option liability, which is lower in comparison with the numbers made public by other banks. Moreover, this is likely to be spread over 5 years, implying lower impact on its earnings.
- ❑ We have slightly raised our earning estimates for FY11E & FY12E and maintain BUY rating on the stock with revised target price of Rs.320 (Rs.308 earlier) based on 1.5x of its FY12E adjusted book value.

Result Performance

(Rs mn)	Q3FY11	Q3FY10	YoY (%)
Interest on advances	18,029.0	14,656.1	23.0
Interest on Investment	5,825.0	5,368.6	8.5
Interest on RBI/ banks' balances	65.0	123.1	-47.2
Other interest	-	-	NM
Total Interest earned	23,919.0	20,147.8	18.7
Interest expenses	13,542.0	11,418.1	18.6
Net interest income	10,376.9	8,729.7	18.9
Other income	2,486.9	2,935.0	-15.3
Net Revenue (NII + Other income)	12,863.8	11,664.7	10.3
Operating Expenses	4,744.8	4,758.0	-0.3
Payments to / Provisions for employees	3,327.9	3,407.9	-2.3
Other operating expenses	1,416.9	1,350.1	4.9
Operating profit	8,119.0	6,906.7	17.6
Provisions & contingencies	535.5	320.4	67.1
Provision for taxes	2,670.5	2,172.4	22.9
Net profit	4912.9	4413.8	11.3
EPS (Rs.)	11.16	10.00	11.6

Source: Company

Healthy core performance, margin remained stable

Bank has delivered good core performance (NII grew 18.9% YoY to Rs.10.38 bn) on back of robust loan growth (28.6% YoY) and stable margins at ~3.8%. Net profit also grew at healthy pace (11.3% YoY) and was aided by healthy NII growth, flat operating expenses and lower provisions & contingencies (Rs.0.54 bn in Q3FY11 as against Rs.1.33 bn in Q2FY11).

Margin remained stable at ~3.8% during Q3FY11 on back of improvement in liability franchise (CASA mix improved to ~33%) and enhancement in C/D ratio (67.8% in Q3FY10 to 73.2% in Q3FY11).

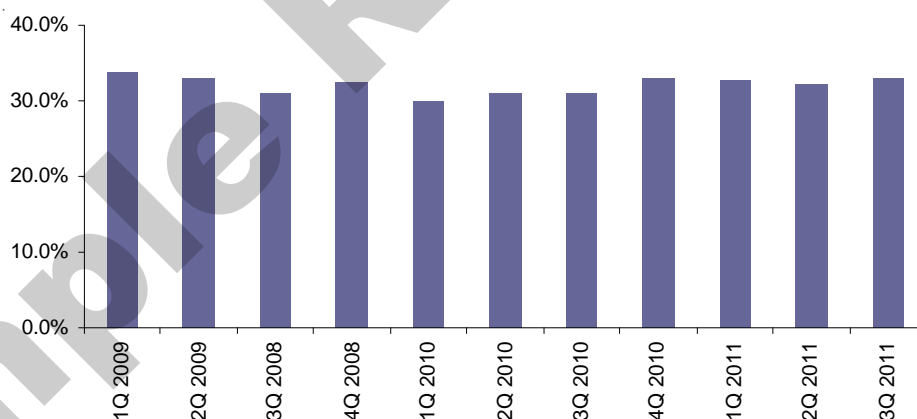
Strong loan growth; focus shifted to large corporate from MSME segment.

Bank witnessed strong loan growth (28.6% YoY; 5.6% QoQ) to Rs.739.2 bn and it was mainly driven by corporate segments (39.8% YoY, 9.3% QoQ), MSME (23.1%) and agriculture segments (22.5% YoY). However, retail segment delivered moderate growth of 7.2% (YoY) during the same period.

During the same period, total deposits of the bank rose moderately (19.2% YoY) to Rs.1010.2 bn, lower than the loan growth and hence led to enhancement in C/D ratio from 67.8% in Q3FY10 to 73.2% in Q3FY11.

The share of CASA mix improved both YoY as well as QoQ to 32.9% at the end of Q3FY11 from 31.1% at the end of Q3FY10 and 32.2% at the end of Q2FY11. This improvement has come on back of robust growth in saving deposits (25.4% YoY) and relatively lower growth in term deposits (17.7% YoY).

Trends in CASA (%)

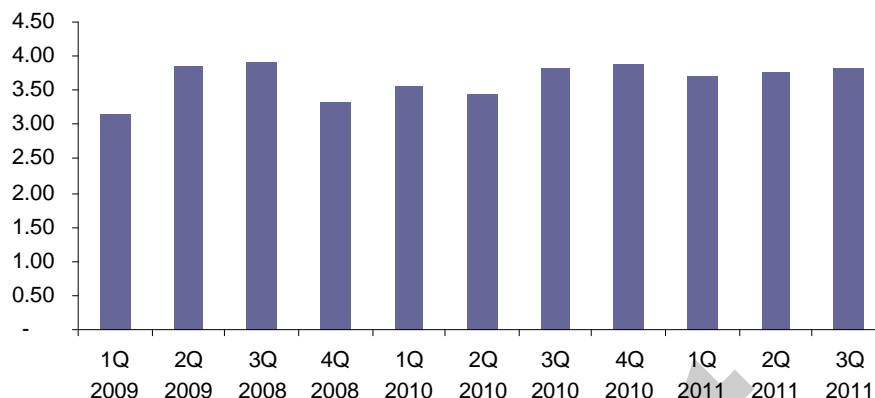


Source: Company

NIM remained stable YoY at 3.8% during Q3FY11; however it improved QoQ.

NIM was stable YoY at 3.84% in Q3FY11 as against 3.82% in Q3FY10 and was mainly aided by healthy growth in CASA mix (saving deposits grew 25.4% YoY in Q3FY11) and improvement in C/D ratio from 67.8% in Q3FY10 to 73.2% in Q3FY11.

Trends in NIM (%)



Source: Company

NPAs declined QoQ on back of sell down of bad loans to ARCIL

During Q3FY11, reported NPA numbers improved on back of Rs.3.47 bn sell down of bad loans to ARCIL. Now, both gross NPA and net NPA declined QoQ by 16.8% and 17.5%, respectively.

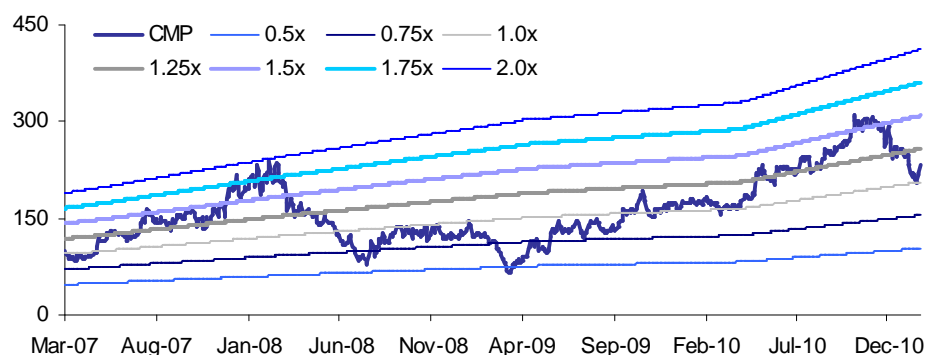
Similarly, in percentage terms, both gross NPA as well as net NPA improved QoQ. Gross NPA as a proportion of gross advances improved to 1.02% at the end of Q3FY11 as compared to 1.29% at the end of Q2FY11. Similarly, net NPA as a proportion of net advances improved to 0.57% at the end of Q3FY11 as compared 0.73% at the end of Q2FY11.

Bank had reported sharp spike in NPAs during Q1FY11, when it migrated to system based NPA recognition method. Now, this system is helping them in tracking distress accounts on day to day basis.

Valuations

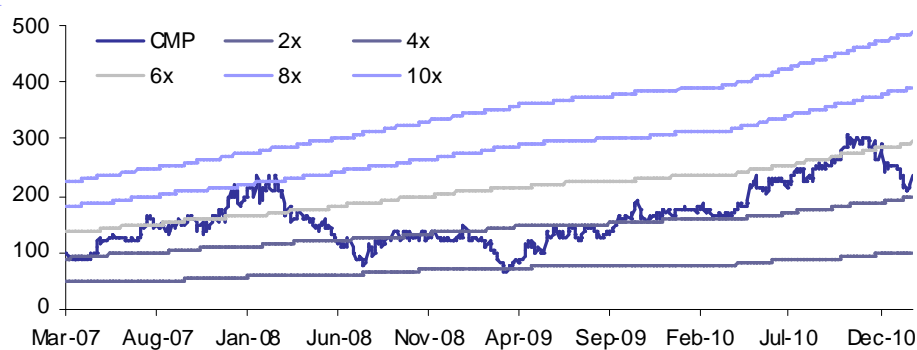
At the current market price of Rs.229, the stock is trading at 4.6x its FY12E earnings and 1.1x its FY12E ABV. We have slightly raised our earning estimates for FY11E & FY12E and now expect net profit for FY11E and FY12E to be 16.97 bn and Rs.21.39 bn. This would result into an EPS of Rs.39.5 and Rs.49.8 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.165.1 and Rs.214.3, respectively.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

We recommend BUY on Indian Bank with a revised price target of Rs.320

We maintain **BUY** rating on the stock with a revised target price of Rs.320 (Rs.308 earlier) based on 1.5x of its FY12E adjusted book value.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	68.30	78.57	92.78	114.75
Interest expense	42.22	45.53	52.83	66.14
Net interest income	26.09	33.04	39.95	48.61
Growth (%)	28.5	26.7	20.9	21.7
Other income	10.35	11.74	11.77	14.14
Gross profit	20.56	27.47	31.87	40.12
Net profit	12.45	15.55	16.97	21.39
Growth (%)	26.4	24.9	9.1	26.1
Gross NPA (%)	0.9	0.8	1.2	1.1
Net NPA (%)	0.2	0.2	1.0	0.7
Net interest margin (%)	3.5	3.7	3.7	3.7
CAR (%)	14.0	12.7	13.0	13.0
RoE (%)	25.6	25.6	23.4	24.2
RoA (%)	1.6	1.7	1.5	1.6
Dividend per share (Rs)	5.0	6.5	7.5	7.5
EPS (Rs)	29.0	36.2	39.5	49.8
Adjusted BVPS (Rs)	125.3	151.3	165.1	214.3
P/E (x)	7.9	6.3	5.8	4.6
P/ABV (x)	1.8	1.5	1.4	1.1

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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GEOMETRIC LIMITED**PRICE: Rs.79****RECOMMENDATION: ACCUMULATE****TARGET PRICE: Rs.87****FY12E P/E: 7.6x**

- ❑ 3QFY11 results of Geometric were a mixed bag for us. While revenues came in above expectations, margins disappointed.
- ❑ Volumes grew by 8.9%, which was impressive; more so as it came after a 7% QoQ rise in 2Q. This likely indicates improving demand scenario and better execution.
- ❑ EBIDTA margins fell on a sequential basis by 143bps. Margins disappointed even after considering a one-time impact.
- ❑ Mid-term salary hikes, variable pay and higher training costs impacted margins, validating our concerns over lack of margin levers.
- ❑ The management has indicated that, more discretionary budgets are being released and there is demand from both, OEMs and industrial customers.
- ❑ The amount of new orders booked increased to \$9.42mn (\$8.3mn) after declining for two quarters. The company has invested more in business generation activities, and will continue to do so, we believe.
- ❑ Geometric is now focusing on verticalised services and solutions to increase relevance to customers. Value engineering and cost reduction for clients are the focus areas.
- ❑ We have adjusted earnings estimates to accommodate for 3QFY11 results. For FY11E we expect a revival in volumes to drive a c19% PAT growth. For FY12, higher tax rates may restrict PAT growth to 14%.
- ❑ We have been indicating that, maintaining margins will be a challenge for Geometric due to the high capacity utilization ratio (about 90%) and need to invest in S&M. Consequently, we have assumed margins to move in a narrow band.
- ❑ We expect an EPS of Rs.9.1, which is expected to move up to Rs.10.4 in FY12.
- ❑ Our DCF - based price target works out to Rs.87, based on FY12E earnings. We maintain ACCUMULATE. Our exit multiple works out to 8x FY12E EPS.
- Revenues during the quarter were higher by 7.4% QoQ. In USD terms, the growth was even better at 10.5%.
- This growth came on the back of an 8.9% rise in volumes. Pricing was up by 1% and cross currency impact was 0.2%.
- Volume growth has been strong for Geometric in FY11 (5.9% rise in 1Q, 7% rise in 2Q and 8.9% in 3Q).
- Volumes grew on the back of higher wallet share from existing accounts. While Geometric's top client gave 7% more revenues QoQ, the top 5 accounts grew by a solid 11% QoQ (32% in 2Q).
- Management commentary indicates a degree of stability in top clients and certain accounts which were sharply impacted by client ramp downs and pricing pressure in the earlier quarters.
- Of late, most of the revenue stability has come about on account of increasing traction in accounts like Ford and Goodyear (largely on-site). Offsite revenues too have grown in USD terms as auto client accounts like Caterpillar and Volvo grew.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	5,116	6,214	7,619
Growth (%)	-14.5	21.5	22.6
EBITDA	878	760	986
EBITDA margin (%)	17.2	12.2	12.9
PBT	599	686	895
Net profit	468	555	633
EPS (Rs)	7.7	9.1	10.4
Growth (%)	14,267.9	18.8	14.1
CEPS (Rs)	11.9	13.2	14.8
BV (Rs/share)	30.5	38.5	47.9
Dividend/share (Rs)	1.1	1.0	1.0
ROE (%)	21.9	26.4	24.0
ROCE (%)	21.9	26.0	27.9
Net cash (debt)	(27)	(4)	268
NW Capital (Days)	66.0	72.5	71.4
P/E (x)	10.3	8.7	7.6
P/BV (x)	2.6	2.0	1.6
EV/Sales (x)	0.9	0.8	0.6
EV/EBITDA (x)	5.5	6.3	4.6

Source: Company, Kotak Securities - Private Client Research

3QFY11 results - mixed bag

(Rs.mn)	2QFY11	3QFY11	QoQ (%)	3QFY10	YoY (%)
Income	1519.3	1632.0	7.4	1268.7	28.6
Expenditure	1312.3	1431.3		1045.8	
Operating profit	207.0	200.7	-3.0	222.9	-9.9
Depreciation	65.0	64.7		68.1	
EBIT	142.0	136.0	-4.2	154.8	-12.1
Interest	2.2	2.9		8.0	
Other inc	20.2	51.2		55.2	
PBT	160.0	184.3	15.2	202.0	-8.8
Tax	3.5	1.4		-1.7	
PAT	156.5	182.8		203.6	
Minority Interest	20.1	30.1		40.4	
PAT after M I	136.4	152.7	12.0	163.3	-6.5
EPS (Rs)	2.2	2.5		2.7	
Margins (%)					
Operating Profit	13.6	12.3		17.6	
EBIT	9.3	8.3		12.2	
Net Profit	10.3	11.2		16.1	

Source : Company

- Some OEMs, which have had management changes, are in the process of re-assigning work flow to vendors like Modern.
- Revenue traction was strong in Industrial customers, which gave 10% higher revenues QoQ (14%).
- This is in line with the company's focus on industrial accounts. The company has been de-focusing the ISVs.
- On a geographical basis, US revenues (73% of revenues) rose 7% QoQ, while Europe grew by a faster 10%. This is the second quarter of growth in Europe after a 15% rise in 2Q. This is encouraging keeping in mind the sustainability of the growth rate in the medium to long term
- Engineering services revenues are seeing traction as clients seek cost reductions. We note that, the US subsidiary reported profits of \$426,000 (\$3,40,000) during the quarter.

Margins down QoQ

- Continuing with the significant volatility, EBITDA margins were lower QoQ by 133bps. This was disappointing
- There was a one off G&A expense of Rs.12.1mn, which impacted the profitability. However, even after considering this, margins came below expectations.
- We had anticipated an improvement in margins. The management had also guided to an improvement of about 200bps in 2H over the 2Q margins.
- The company did mid-term increments, gave variable pay and paid for training of employees, with a view to control attrition which was at 19.8%
- While the significant volatility makes it difficult to forecast margins, we believe that, revenue growth will be the only major lever for the company to improve and sustain margins.
- Currently, Geometric has high utilization rates and also faces pressures from salary increases / rupee appreciation.

Financial prospects - make marginal changes

- While still cautious on future prospects, most companies have indicated confidence on volume growth for the current fiscal, based on their client interactions.
- With discretionary spends likely up, we believe Geometric should see higher volumes.
- The management in its interaction has said that the demand environment is better than 2Q ago and believes the outlook for IT spends has improved.
- Thus, we have incorporated a revenue growth of 21% for FY11 and 23% for FY12. Rupee is expected to remain strong at about 45 per USD in FY12E.
- Because of the factors mentioned above, we have assumed marginal improvement in margins over FY12E despite the low base.
- We have also assumed higher tax rates of about 20% in FY12 and consequently, net profit is expected to go up to 633mn, a growth of about 14%. Earnings are expected to be at Rs.10.4 per share in FY12E.

Valuations

We maintain ACCUMULATE rating on Geometric Ltd with a price target of Rs.87

- Our FY12E DCF - based price target for Geometric stands at Rs.87. At our TP, our FY12E earnings will be discounted by 8x, which we believe is fair.
- Thus, we maintain ACCUMULATE and will look at an improvement in the margin profile of Geometric, to become more bullish on the stock.
- INR appreciation beyond our assumed levels and slower revival in user economies pose downside risks to our recommendation.

RESULT UPDATE

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J KUMAR INFRAPROJECTS LTD**PRICE: Rs.145****TARGET PRICE: Rs.210****RECOMMENDATION: BUY****FY12E P/E: 4.5x**

- ❑ J Kumar Infraprojects revenues reported 24% growth for Q3FY11 vis-à-vis same period last year. This was lower than our expectations and was impacted by lower than expected order inflow in 9MFY11.
- ❑ Operating margin performance was marginally lower than our estimates and margins stood at 14.2% for Q3FY11. This was due to commencement of work on recently won projects in Ahmedabad where work has not reached revenue recognition stage while costs have been incurred.
- ❑ Net profits reported a growth of 8% for Q3FY11 as against same period last year. This was impacted by higher interest expenses.
- ❑ We had expected a revival in order inflow from Q3FY11 onwards for the company but that has not happened for the entire sector due to issues related to delays in award activity from NHAI, lower funds availability with the state government departments as well as changes at key ministry levels. However, we do expect order inflow to witness an improvement in FY12 in comparison with FY11. Based on lower than expected order inflow seen in 9MFY11, we revise our order inflow estimates for the company downwards for the full year. This results in downward revision in our estimates for revenues and profits. We thus expect revenues to grow at a CAGR of 25% and net profits to grow at a CAGR of 13% between FY10-FY12.
- ❑ At current price of Rs 145, stock is trading at 5.4x and 4.5x P/E multiples for FY11 and FY12 respectively. Post revising our estimates, we arrive at a revised price target of Rs 210 based on 6.5x one year forward P/E multiple (Rs 278 earlier). We reduce our valuation multiple for the company to factor in lower order inflows seen till date in FY11. However based on decent upside from the current levels, we upgrade the stock to BUY from ACCUMULATE earlier. Company may get re-rated on further order announcements.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	7,643	9,246	12,015
Growth (%)	88.0	21.0	30.0
EBITDA	1,285	1,433	1,802
EBITDA margin (%)	16.8	15.5	15.0
PBT	1,051	1,111	1,343
Net profit	700	740	895
EPS (Rs)	25.2	26.6	32.2
Growth (%)	45.0	6.0	21.0
CEPS (Rs)	30.4	32.7	39.5
BVPS (Rs)	112.1	136.1	165.6
DPS (Rs)	2.3	2.3	2.3
ROE (%)	30.3	21.4	21.3
ROCE (%)	42.3	31.2	30.8
Net debt	(221.2)	(336.4)	72.8
Optng cash flow	(298.4)	477.1	(46.7)
NW capital (Days)	91.6	116.3	126.3
P/E (x)	5.8	5.4	4.5
P/BV (x)	1.3	1.1	0.9
EV/Sales (x)	0.5	0.4	0.3
EV/EBITDA (x)	3.0	2.6	2.3

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY11	Q3FY10	YoY (%)
Net Sales	2,501	2,018	24
Expenditure	2,145	1,714	25
EBITDA	356	304	17
EBITDA margin (%)	14.2	15.1	
Depreciation	40	36	
EBIT	316	268	18
Interest	65	30	
PBT(exc other income)	252	238	6
Other Income	18	14	
PBT	270	252	7
Tax	90	86	
Tax (%)	33.4	34.0	
PAT	180	166	8
NPM (%)	7.2	8.2	
Equity Capital	278	278	
EPS (Rs)	6.5	6.0	

Source: Company

Revenues lower than our estimates

- J Kumar Infraprojects revenues reported 24% growth for Q3FY11 vis-à-vis same period last year. This was lower than our expectations and was impacted by lower than expected order inflow in 9MFY11.
- Current order book of the company stands at Rs.13.11 bn and is diversified across transportation (86%), civil (5%), irrigation (8%) and piling (1%) and provides visibility for next 1.5 years. Order inflow during Q3FY11 stood at Rs 2.4 bn while for FY11 till date, it stood at nearly Rs 4 bn.
- Revenues in Q3FY11 came primarily from transportation segment (95%) and other segments such as piling contributed 5% of the total revenues.
- JKIL is also prequalified for a large number of projects and has submitted RFQ's for various projects from PWD-Govt of Rajasthan, MPRDC - Bhopal, NHAI, PWD -Govt of Maharashtra etc in joint venture with players like PBA, Supreme Infra, Kakade Infra as well as independently.
- Company had also placed bids for road BOT projects in Rajasthan while decision is still awaited from these projects.
- We had expected a revival in order inflow from Q3FY11 onwards for the company but that has not happened for the entire sector due to issues related to delays in award activity from NHAI, lower funds availability with the state government departments as well as changes at key ministry levels. We thus reduce our order inflow estimates and correspondingly revise our revenue estimates downwards.
- Going ahead, company expects order inflow to witness an improvement primarily from the state governments as well as from NHAI.
- We thus expect order inflow of Rs 7 bn and Rs 15 bn for FY11 and FY12 respectively and expect revenues to grow at a CAGR of 25% between FY10-FY12.

Operating margins marginally lower than estimates

- Operating margin performance was marginally lower than our estimates and margins stood at 14.2% for Q3FY11.
- This was due to commencement of work on recently won projects in Ahmedabad where work has not reached revenue recognition stage while costs have been incurred.
- We maintain our estimates and expect margins to remain around 15.5% and 15% for FY11 and FY12 respectively.

Net profit growth impacted by higher interest expense

- Net profits reported a growth of 8% for Q3FY11 as against same period last year. This was impacted by higher interest expenses.
- Interest cost has witnessed an increase due to increase in working capital requirements. JKIL has paid advances to its subsidiary for purchasing an office building in Vile Parle (E) with an area of approx 50000 sq ft. Company has paid Rs 460 mn upfront since it was getting the premises at a rate which was much less than the market rate.
- Post revising our estimates, we expect net profits to grow at a CAGR of 13% between FY10-FY12.

Revised estimates

(Rs mn)	Earlier		Revised	
	FY11E	FY12E	FY11E	FY12E
Revenues	10165	13113	9,246	12,015
Operating margins (%)	15.5	15.0	15.5	15.0
PAT	830	1031	740	895
EPS(Rs)	29.9	37.1	26.61	32.18

Source: Kotak Securities - Private Client Research

Valuation and recommendation

We now recommend to BUY on J Kumar Infraprojects with a price target of Rs.210

- At current price of Rs 145, stock is trading at 5.4x and 4.5x P/E multiples for FY11 and FY12 respectively.
- Post revising our estimates, we arrive at a revised price target of Rs 210 based on 6.5x one year forward P/E multiple (Rs 278 earlier).
- We reduce our valuation multiple for the company to factor in lower order in-flows seen till date in FY11.
- However based on decent upside from the current levels, we upgrade the stock to BUY from ACCUMULATE earlier.
- Company may get re-rated on further order announcements.

Sample Report

RESULT UPDATE

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SESA GOA

PRICE: Rs.326
TARGET PRICE: Rs.416

RECOMMENDATION: BUY
FY12E P/E 5.3x; EV/EBITDA 4.7x

Record Q4FY11e profits likely on strong industry macro -- Reiterate BUY with revised target price of Rs.416 (vs. Rs.332 earlier)

+Positive Triggers

- Management guiding best ever iron ore sales volume of >7.5mn tonnes in Q4
- Iron ore spot FOB prices trading at all time high
- Expect record contracted iron ore prices for Q1FY12e
- Certified accretion in reserves and resources by >20mt within next 6 months
- Management indicated to pursue inorganic growth with vigor post setback in Orissa
- Management expects lower iron ore royalty/tonne based on methodology change
- Lifting of ban on exports of iron ore from Karnataka probable mid Feb 2011 onwards

- Concerns

- Higher tax rate FY12e onwards assumed at 30.25% vs. 20.25% in FY11e
- Any increase in export duty on iron ore fines in Indian union budget for FY12e
- Unexpected collapse (reasonable corrections not a concern) in iron ore prices

Sesa Goa EPS estimates for FY11e and FY12e are revised upwards to Rs. 46.6 (vs. Rs.36.7 earlier) and Rs. 61.8 (vs. Rs. 47.9 earlier) respectively. We have significantly raised our price realization estimates for FY11e and FY12e based on record iron ore prices and strong industry macro which we have discussed in detail in the note later. We have raised our volume estimates for FY11e and FY12e by 0.5mn tonnes each to 19.5mn tonnes and 20.5mn tonnes respectively. Key assumption changes are depicted later in the note. We continue to value Sesa Goa on 6x EV/EBITDA for FY12e and arrive at a revised target price of Rs.416 (vs. Rs. 332 earlier). We see company reporting record profits in Q4 and reiterate BUY on the stock.

Q3 Results/Conference call/ Management interview key takeaways

- Sesa Goa reported Q3FY11 revenue of Rs. 22.5bn (up 19.1% Y/Y), EBITDA of Rs. 12.3bn (up 18.8% Y/Y) and PAT of Rs. 10.65bn (up 28.7% Y/Y).
- Geographical breakup of Q3 iron ore sales volumes of 5.38mt (down 21%Y/Y): Goa ex Dempo - 2.63mt, Dempo - 1.6mt, Karnataka - 0.7mt and Orissa - 0.45mt.
- Domestic iron ore sales in Q3 have shot up to 15% vs. 3% Y/Y and have shot up to 11% vs. 7% Y/Y in YTD FY11.
- Iron ore average price realizations for Q3FY11 was up 58% to \$85.3/t and that helped in more than making up for the loss from fall in sales volume.
- Goa Q3 iron ore sales were down 18% Y/Y due to monsoon/rainfall continued unprecedented into months of Oct, Nov and 1st week of Dec.
- Goa region also had logistical bottlenecks. There has been state directive which has limited road transport to 8am to 6pm with one hour lunch break vs. 24 hours transport permit earlier. Also, iron ore loading/truck has been capped at 10tonnes/truck vs. no such restriction earlier.
- Karnataka Q3 iron ore sales were down 26% Y/Y to 700Kt. This was primarily because of continuance of ban of export of iron ore from the state. With surplus iron ore available domestic sales was difficult and the realizations were \$30-35/t lower than the net export prices.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales (Rs. mn)	58031	84644	94095
Growth (%)	17.8	45.9	11.2
EBITDA (Rs. mn)	31448	49315	59525
EBITDA Margins (%)	53.7	57.9	62.9
PBT	34446	52176	56125
Net Profit (Rs. mn)	26291	41485	54998
EPS (Rs.)	31.6	46.6	61.8
Growth (%)	25	47	33
CEPS (Rs.)	32.3	47.5	62.7
BV (Rs./share)	95.3	154.7	212.7
Dividend per share (Rs.)	3.2	3.2	3.2
ROE (%)	41.6	38.3	33.6
ROCE (%)	26.6	22.1	23.0
Net Cash (debt)	49961	-32341	13085
NW Capital (Days)	133	109	76
EV/Sales (x)	3.8	3.8	2.9
EV/ EBITDA (x)	7.0	6.5	4.7
P/E (x)	10.3	7.0	5.3
P/B (x)	3.4	2.1	1.5

Source: Company, Kotak Securities - Private Client Research

- Orissa Q3 iron ore sales were down 32% Y/Y to 450Kt. Third party iron ore mining at Orissa has ceased since 1 Dec 2010. There is 270kt of inventory left at Orissa which would be sold off in Q4FY11. Overall 1.7-1.8mt of iron ore sales would be booked from Orissa in FY11 which would lapse from FY12 onwards.
- Road transport cost in Goa would be increased by \$1.2/t in Q4 as there has been almost doubling of the freight charges by the transporters.
- Indian ore with 63.5% Fe content has crossed \$190/t CIF to China (highest since record Feb 2008) over last week up almost 10% for the month on back of re-stocking by steelmakers in China along with tight supplies. But the FOB prices are \$170/t which is much more than the \$155/t record of 2008. For Sesa Goa, better benchmark is 58% Fe grade iron ore, whose prices are above \$130/t.
- Sesa Goa expects sales volume to remain flattish in FY11. Even FY12 volume growth would be challenged by 2mtpa sales loss from Orissa and logistical challenges in Goa. It is still aiming for 40mtpa sales volume (highly unlikely) run rate at exit of FY13 given it is able to get timely approvals for mining capacity increase in Goa and Karnataka.
- Management is confident of getting mining capacity enhanced at Karnataka from present 6mtpa to 10mtpa within FY12 as the application is at advanced stage of clearance.
- Capex guided for FY11 is Rs9.5bn. Sustenance capex at Rs2bn and Rs7.5bn for growth capex primarily pig iron, coke and associated facilities. For Q3 and 9M, sustenance capex was Rs0.5bn and 0.8bn respectively and growth capex was Rs2.5bn and Rs4.5bn respectively.
- Management is looking at acquire some mining assets in Goa which is at advanced stage. This would help it in further consolidation of operations at Goa and lead to synergy benefits. It is also pursuing acquisition of mining asset outside India.
- Exploration activity has generated positive results and company is likely to announce enhancement in reserves and resources at FY11end. Quantum is likely to be at least 20mn tonnes. Company had 275mn tonnes reserves and resources from mines at Goa and Karnataka at beginning of FY11.
- On the open offer for acquiring Cairn India shares, Sesa Goa would tap the market and internal accruals to fund the \$3-billion outlay. Sesa Goa needs to raise around \$1 billion to buy the stake in Cairn India as it was around \$2 billion in cash and equivalents. As of 31 Dec 2010, Sesa Goa had cash and cash equivalents of Rs 82.29bn (excluding inter-corporate deposits of Rs 10bn), consisting of Rs 72.5bn in mutual funds and Rs 9.79bn in fixed deposits and cash with banks.
- The Supreme Courts has said that the Karnataka government must come out with their rules and notifications for restricting the legal mining, however, export ban cannot continue. The next date of hearing is on the first week of February. Hence, it is expecting that by first fortnight of February, it should get the positive direction in this regard.
- The pig iron margins have increased by changing our product picks and it is continuously giving reasonable bottom line. Its pig iron business is likely to look bright from the second half of 2011 due to the expanded capacity coming on stream.
- Orissa was contributing 2mn tonne consistently, for the last two to three years, and hence FY11 volume will not have too much of an impact. It would be doing about 1.7-1.8 mn tonne in FY11e, however, FY12e onwards the 2mn tonne capacity goes up. Sesa Goa has some assets in Orissa and it is looking to keep these active. It has a railway siding, two rakes and an allotted port plot at Haldia and Paradip. Moreover, it has a processing plant of our own in Orissa. Therefore, it is looking to keep the assets active by deploying them for others.

Quarterly P&L Comparative

	Q3FY11	Q2FY11	%Q/Q	Q3FY10	%Y/Y
Net Sales	22,373	9,068	146.7%	18667.9	19.8%
Services and Other proceeds	127	115	10.5%	223.6	-43.1%
Total Operating Income	22,501	9,183	145.0%	18,892	19.1%
Raw material consumption	1,494	-517	-389.3%	1696.8	-12.0%
Stores and spares	655	614	6.8%	689.7	-5.0%
Purchase of Ore	1253.6	1,068	17.4%	645.1	94.3%
Freight Charges	2,910	2,677	8.7%	3275.9	-11.2%
Wages and Salaries	496	466	6.5%	515.1	-3.8%
Export Duty	1,167	527	121.5%	175.1	566.6%
Other administrative expenses	2,220	1,315	68.8%	1533.6	44.7%
Total operating expenditure	10195	6150	65.8%	8531	19.5%
EBITDA	12306	3034	305.6%	10360	18.8%
% margin	54.7%	33.0%	2170bps	54.8%	(20bps)
Other Income	1,268	1,004	26.2%	1324.8	-4.3%
Depreciation	208	194	6.9%	224.5	-7.5%
Interest	133.9	140	-4.4%	250.6	-46.6%
MTM Forex Loss(Gains)	-24	-364			
PBT	13,255	4,068	225.8%	11,209.9	18.2%
Taxes	2,573	189	1261.1%	2,906	-11.5%
Current	0.194	0.046	317.7%	2848.6	-100.0%
PAT	10,683	3,879	175.4%	8,304	28.6%
% net margin	47.5%	42.2%	530bps	44.0%	350bps
Minority Interest	30	30	1.4%	29	4.2%
Reported PAT	10,653	3,849	176.7%	8,275	28.7%
EPS (Rs)	12.39	4.48	176.7%	10.09	22.9%

Source: Company

Segmental Comparative

	Q3FY11	Q2FY11	%Q/Q	Q3FY10	%Y/Y
Sales Breakup (Rs.mn)					
Iron Ore	20890.5	7124	193.2%	17078.3	22.3%
Met Coke	1218.8	1315.7	-7.4%	988.29	23.3%
Pig Iron	1597.8	1996.4	-20.0%	1406.9	13.6%
Total	23707	10436	127.2%	19473	21.7%
EBIT Breakup (Rs mn)					
Iron Ore	11548.5	2170.2	432.1%	9815.9	17.7%
Met Coke	221.7	333.3	-33.5%	-3.8	-5934.2%
Pig Iron	345.8	341.6	1.2%	343	0.8%
Total	12116.0	2845.1	325.9%	10155.1	19.3%
EBIT Margin (%)					
Iron Ore	55.3%	30.5%	2480bps	57.5%	(220bps)
Met Coke	18.2%	25.3%	(710bps)	-0.4%	1860bps
Pig Iron	21.6%	17.1%	450bps	24.4%	(270bps)
Total	51.1%	27.3%	2360bps	52.1%	(100bps)
Iron ore price/volume					
Sales volume (mn tonnes)	5.381	2.019	166.5%	6.80	-20.9%
Price realisations (Rs./mt)	3882.3	3528.5	10.0%	2511.5	54.6%
Price realisations (US\$/mt)	85.3	77.5	10.0%	54.0	58.0%

Source: Company

Recent industry developments**Global steel production hits record in 2010, crosses 1.4bn tonnes**

- Global crude steel production touched a new record in 2010, driven by growth in emerging regions and improving manufacturing in the developed world, although the construction sector remained gloomy. Global production rose 15% to 1.414 bn tonnes in 2010 from 1.327 bn in 2008 and 1.229 bn in 2009, according to latest data released by the World Steel Association.
- Production in China, the world's largest steel producer, rose 9.3% Y/Y to 626.7 mn tonnes but its share of global production fell to 44.3% from 46.7% in 2009. China's growth was strong but hampered by electricity cuts in the last four months of 2010.
- Japan, the world's second-largest steel producer, enjoyed 25.2% Y/Y growth in 2010 to 109.6 mn tonnes. EU and U.S. steel production grew rapidly but from a lower base. Production in the European Union grew by 24.6% to 172.9 mn tonnes and in the United States by 38.5% to 80.6 mn tonnes.

World pig iron output topped 1bn tonnes in 2010

- World production of pig iron rose to a record high of 1,031mn tonnes in 2010, according to data from the World Steel Association. This was an increase of 119mt, or 13%, over 2009, and the highest annual production ever.
- Recovering from the crisis-hit years of 2008 and 2009, pig iron production in 2010 rose by almost 40% in North America, by 30% in Europe and by 23% in South America. Other regions showed more modest gains. Asia accounted for some 73% of the world total, and raised its 2010 production by almost 66mt, or 9.5%. China remained the world's largest producer, accounting for 57% of the global total and raising its output by 7% over 2009. Output also increased sharply in Japan, Korea and Taiwan. Pig iron production in the CIS increased by 10%. Output in non-EU Europe rose 12%.

China iron ore imports to rise by 8% in 2011: MMAC

- An official with the Metallurgical Miners' Association of China (MMAC) predicted that China's iron ore imports will rebound in 2011 due to higher steel demand. Lei Pingxi, the MMAC's executive vice-chairman, forecast that China's total demand for iron ore this year will increase by about 72mt, as more demand for steel will be created by real estate projects such as Beijing's plan to build 10m low-income housing units across the country this year. Lei expected China's 2011 crude steel production to reach 670mt up from an estimated 629mt in 2010. Lei predicted 50mt increase in China's iron ore imports or an 8% rise from 2010's 619m t.

China iron ore output rose 22% in 2010

- China's domestic iron ore output in December was 98.2mn tonnes, up by 3% M/M from 95.58mt in November. China's total iron ore production in 2010 was 1.07bn tonnes, an increase of 22% or 190mt Y/Y as per data from China's National Bureau of Statistics (NBS).
- Northern China's Hebei province is China's major iron ore producer and mines more than 40% of the country's entire output. 72% of the province's iron ore production has around 30% Fe content and an average production cost of RMB 600-700/tonne (\$91-106/t), and the remaining 28% is rather low grade iron ore (less than 10%), and costs around RMB 800-900/tonne (\$122-137/t) to produce. Average prices for 66% iron ore concentrate in 2010 were around RMB 1,200/t, and this helped pushed China's domestic mines to run at full capacity last year.

TSI 62% Fe iron ore price average is 13.5% up

- The basis for many index-linked iron ore pricing arrangements for Q2 will be the average of the daily iron ore reference prices from 1 December 2010 to 28 February 2011. The mid-point of this 3-month period was reached last week. With TSI's daily reference prices rising steadily during over the past six weeks, ending above \$180/dry metric tonne CFR Tianjin port, China at the start of the week, the mid-point 3-month average price is currently \$170.13/dmt.
- TSI's average 62% Fe price for September-November was \$149.91/dmt. This means the average-to-date of TSI's prices for the 3-month period to be applied in Q2 is currently 13.5% higher than the previous 3-month average applied in many index-linked iron ore supply arrangements for the January to March 2011 quarter.
- If prices remain steady or average to the same level, the final 3-month average would be over \$175/dmt, 17% above the previous 3-month average. Further gains will drive the basis for Q2 prices even higher.

China steel prices to rise after the holiday -CISA

- China steel prices are expected to rise after the Lunar New Year holidays as demand recovers, but profits for steel mills will be squeezed by surging costs, the China Iron & Steel Association (CISA) said in its monthly report on 25 Jan 2011. "Overall demand for steel products will still remain strong this year as China has planned to raise investments on affordable house projects and water conservancy projects this year," CISA said. China's week-long Lunar New Year holiday begins on Feb.2.
- CISA has however warned that falling fixed asset investments as well as new construction projects will have a large negative impact on demand for construction steel products such as rebar.

Brazil's Vale to increase domestic iron ore prices

- Brazilian iron ore giant Vale will increase its domestic ore prices by around US\$56/tonne in February, as per reports from Steel Business Briefing based on information learned from pig iron producers in the country's northern producing region. According to local producers from Marabá, Pará state, Vale is already increasing its domestic iron ore prices to US\$149/t ex-terminal as of February. The iron makers in the southern and northern pig iron hubs were previously paying around US\$93-103/t, ex-works.

Orissa has intensified crackdown on illegal mines - likely to further limit supply of Indian iron ore

- Orissa halted operations at 23 mines in mid Jan11 and asked the operators to supply documents such as forest clearances, mining leases and surface rights. So far, six mines among 23 have been allowed to restart operations after their operator's submitted documents to show that their mining activities were legal.
- India produces 200 million tons of iron ore annually, and Orissa state is India's largest iron ore producing state with an annual production of 75 million tons.
- Orissa reportedly has some 600 mines and over 50% have been closed for more than a year since the crackdown began in July 2009 following allegations that some mines were operating without licence.
- Orissa is reportedly considering restrictions on iron ore export, allowing miners to export up to 40% of production. The steel and mines department has already drafted a proposal and placed it before state Finance Minister Prafulla Ghadai and Chief Minister Naveen Patnaik for approval. Once it is approved, the government will send a formal proposal to the central government.

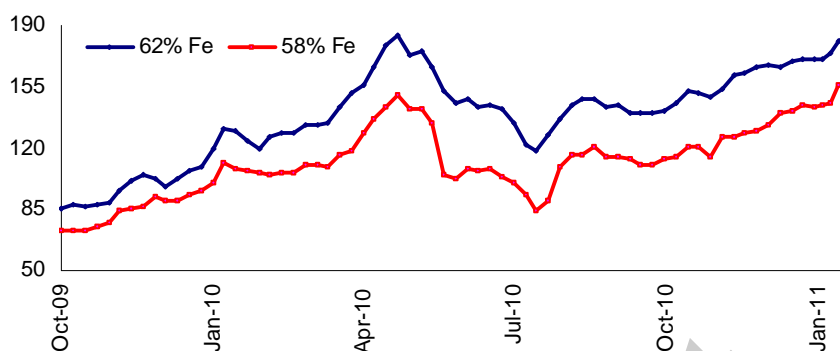
Railways hikes freight charges yet again by \$11/t

- Indian Railways's has raised freight charges for export of iron ore by 50% from 26 Jan 2011, to take advantage of firm global prices, and that might further push up prices. Indian Railways stated in a circular, dated Jan. 25, to increase the distance-based charge - which is a charge on top of the freight rates - for iron ore exports by Rs 500 a tonne to 1,500 rupees (\$32.9) per tonne from 27 Jan 2011. This hike is over and above the higher amounts that the exporters were already paying. For instance, in December 2010, to move one tonne of iron ore for a distance of one kilometre, exporters were already paying 66 per cent higher to the Railways compared with what they paid in December 2009.
- India's commodity markets regulator Forward Markets Commission (FMC) has allowed futures trade in iron ore on 24 Jan 2011.
- India's iron ore exports in Dec'10 have slumped by 24.64% to 9.69mn tonnes, continuing its declining trend for the sixth consecutive month. For nine months ended Dec 2010, iron ore exports fell by 17.02% Y/Y to 64.4 mn tonnes.

Sesa Goa gets stay order from Delhi HC against Bellary Steel sell-off

- It has secured a stay order from the Delhi High Court against the decision taken by IFCI on Bellary Steel sell-off in which JSW Steel was declared the highest bidder. Last month, a consortium of lenders led by IFCI had declared JSW Steel as the highest bidder for acquiring the assets of Bellary Steel and Alloys (BSAL), where Sesa Goa was the only other qualified contender.
- Bellary Steel is one such asset which is having land at its disposal and it has got all the approvals for 0.5 mn tonne capacity. It will be a good opportunity for Sesa Goa to step in as it is already present in Karnataka through our mining operations.

**We recommend BUY on Sesa Goa
with a revised price target of
Rs.416**

China iron ore import price (CIF \$/t)

Source: Bloomberg

Valuation**Assumptions - Key changes**

	Old estimates			New estimates		
	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Sales Volume (mn tonnes)	20.5	19.0	20	20.5	19.5	20.5
Contract Prices (US\$/t)	44.6	82.4	86.5	44.6	84.6	88.0
Spot Prices (US\$/t)	56.0	75.6	79.4	56.0	89.6	94.1
Exchange Rate (US\$/INR)	47.0	45.0	45.0	47.0	45.0	45.0
Realisations in USD/ton	53.7	77	81.2	53.7	88.6	92.6
Realisations in Rs/ton	2524	3463	3653	2524	3987	4166
EBITDA Margins (%)	53.7	53.4	59.1	53.7	57.9	62.9
EPS (Rs.)	31.6	36.7	47.9	31.6	46.6	61.8

Source: Company, Kotak Securities - Private Client Research

Target Price based on FY12e amalgamated earnings

	EBITDA (Rs. mn)	Multiple (x)	Valuation (Rs. mn)	Value (Rs./Share)
Enterprise Value	59525	6.00	357152	401.4
Add: Net Cash (at end of FY12e)			13085	14.7
Target Market Capitalization			370237	416.1
Target Price				416

Source: Company

Financials

Balance Sheet

(Rs mn)	FY10	FY11E	FY12E
LIABILITIES			
Equity Share Capital	831.0	889.7	889.7
Reserves & Surplus	78,346.1	136,765.1	188,379.7
Net Worth	79,177	137,655	189,269
Short Term Loans	0	0	0
Long Term Loans	19,606	50,000	50,000
Deferred Tax Liabilities	750	800	800
Total Liabilities	99,966	188,455	240,069
ASSETS			
Gross Block	27,510	35,798	42,798
Less Depreciation	5,741	6,690	7,869
Net Block	21,770	29,107	34,928
CWIP	787	2,500	1,500
Investments	45,649	137,814	183,240
of which financial investments	45,649	0	45,426
Total Current Assets	44,160	30,892	30,760
Total Current Liabilities	12,400	11,859	10,359
Net Current Assets	31,760	19,034	20,401
Total Assets	99,966	188,455	240,069

Source: Company, Kotak Securities - Private client Research

P&L

(Rs mn)	FY10	FY11E	FY12E
Net Sales	58031	84644	94095
EBITDA	31448	49315	59525
Other Income	3050	5181	1529
Depreciation	745	950	1179
Interest	517	870	3750
PBT	34446	52176	56125
Taxes	8056	10566	16978
PAT	26291	41485	54998
Shares Outstanding mn	831.0	889.7	889.7
EPS (Rs)	31.6	46.6	61.8

Source: Company, Kotak Securities - Private client Research

Key Ratio

	FY10	FY11e	FY12e
EBITDA Margins (%)	53.7	57.9	62.9
NPM Margins (%)	45.0	48.8	41.3
ROE on yr-end equity (%)	33.2	30.1	29.1
ROAE (%)	41.6	38.3	33.6
EPS growth (%)	24.9	47.4	32.6
P/E	10.3	7.0	5.3
EV/sales	3.8	3.8	2.9
EV/EBITDA	7.0	6.5	4.7
P/B	3.4	2.1	1.5
BVPS	95.3	154.7	212.7

Source: Company, Kotak Securities - Private client Research

RESULT UPDATE

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DB CORP**PRICE: Rs.261****TARGET PRICE: Rs.312****RECOMMENDATION: ACCUMULATE****FY12E P/E: 17.9x**

□ DB Corp has reported strong set of financials in its 3QFY11 release. Advertising revenues have grown 29% y/y, leading to revenue growth of 24%. Growth in advertising revenues has offset high raw material expenses, as per our expectations. EBITDA margin has come in at 33% - a decline of 110 bps y/y- strong considering high newsprint prices as well as new launches in Jharkhand. The company reported PAT Rs 659 mn, in line with our expectations.

□ The management is positive about the advertising environment, and expects robust adex growth to continue in the near future. In terms of expenses, the company seems confident about managing newsprint expenses in the near future (newsprint booked for 4QFY11).

□ New launches are shaping up well. Dainik Bhaskar has established itself strongly in Ranchi, as per management. The company continues to hold a view of a breakeven in the Bihar/ Jharkhand market in 3-4 years, in line with other geographies that the company has launched in the past.

□ As of now, the contribution of Jharkhand editions to revenues is rather small. As such, results indicate that the company continues to enjoy strong growth across geographies.

□ Print media companies thus far have reported strong numbers, and have shown a significant control in the management of newsprint expenses. We believe 3QFY11/ 4QFY11 results shall serve as a guide in the degree of flexibility newspaper companies enjoy in management of newsprint. This, in turn, could lead to a re-rating of print media stocks, as fears on newsprint subsidy and adex environment remains robust. We maintain a positive outlook on the print media space as a whole.

□ We maintain our estimates, as well as our positive outlook on DB Corp following 3QFY11 results. We rate the stock ACCUMULATE, with a price target of Rs 312 (FY12- end).

■ Net sales grew 24%, led by strong growth in advertising revenues (29%, y/y). Excluding election - related billings in 3QFY10, the growth came in even stronger, at 33% y/y. Growth in advertising revenues came from across regions and most categories witnessed high growth, as per management. Growth in advertising revenues was primarily volume -led, with rise in volumes accounting for 70% growth and rise in pricing accounting for 30% growth. 57% of the advertising revenues came in from local advertising (as against 55% in 3QFY10). Circulation revenues were flat y/y, as a result of strong competitive pressures faced by the company as well as launch of Jharkhand editions, which bring down realization per copy.

■ Effective newsprint prices for the company have risen 11% y/y. Due to higher volumes as well as higher circulation (up ~9% y/y, at 42.5 lakh copies for the quarter), newsprint consumption rose 13% in 3QFY11, leading to rise in newsprint expenses of 26%. Due to strength in revenues and improvement in yields, gross margins have declined only 60 bps y/y.

■ Other expenses have risen strongly, we believe, as a cumulative result of new launches as well as higher competition in other geographies of the company. As per the earnings release, the quarter contains one-off items amounting to Rs 37mn on account of pre-launch survey pertaining to the launch of Jamshedpur edition of Dainik Bhaskar.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	10,630	12,548	14,337
Growth (%)	10.6	18.1	14.3
EBITDA	3,429	4,118	4,364
EBITDA margin (%)	32.3	32.8	30.4
PBT	2,806	3,607	3,943
Net profit	1,748	2,417	2,642
EPS (Rs)	10.0	13.3	14.6
Growth (%)	369.6	33.4	9.3
CEPS (Rs)	12.1	15.9	17.3
BV (Rs/share)	36.6	47.0	58.1
Dividend/share (Rs)	1.3	2.5	3.0
ROE (%)	39.3	32.4	27.7
ROCE (%)	20.3	22.5	20.7
Net cash (debt)	(1,257)	238	1,819
NW Capital (Days)	66.3	71.0	71.0
P/E (x)	26.1	19.6	17.9
P/BV (x)	7.1	5.6	4.5
EV/Sales (x)	4.6	3.8	3.2
EV/EBITDA (x)	14.2	11.5	10.5

Source: Company, Kotak Securities - Private Client Research

Highlights - Results and Earnings Release

(Rs mn)	3QFY11	3QFY10	Chg., y/y	2QFY11	Chg., q/q
Revenues:	3482	2814	24%	3010	16%
- o/w Advertising	2810	2175	29%	2359	19%
- o/w Subscription	540	537	1%	532	2%
-o/w Other	132	102	29%	119	11%
Expenses:	2334	1855	26%	2059	13%
-Raw Material Expenses	1065	845	26%	901	18%
(Driver) : NP Prices (Rs/ MT)	27868	25081	11%	26835	4%
(Driver): NP Quantity (MT)	38198	33686	13%	33562	14%
-Personnel Expenses	485	337	44%	459	6%
-Selling and Distribution	194	139	39%	158	23%
-General and Admin. Exp.	205	158	30%	179	15%
-Other Operating Exp.	386	376	3%	363	6%
EBITDA	1148	959	20%	951	21%
Margin	33.0%	34.1%		31.6%	
Depreciation	110	106	4%	107	3%
Interest Expenses	34	89	-62%	38	-9%
Other Income	30	22	39%	32	-6%
PBT	1034	786	32%	839	23%
Provision for Tax	382	297	29%	308	24%
Effective Tax Rate	37%	38%		37%	
PAT (bef. Minority/ Assoc.)	652	489	33%	531	23%
Minority Interests	-7	-17	-56%	-20	-63%
PAT	659	506	30%	551	20%
Shares O/S	182	182		182	
EPS (Rs)	3.6	2.8	30%	3.0	20%

Source: Company

- EBITDA margin has come in at 33% (versus 34.1% in 3QFY10), as a result of the above. EBITDA for the company has grown 20% y/y. As a result of higher net interest income (lower debt), DB Corp has reported PAT growth of 30%, in line with our expectations.
- The company has stated that Dainik Bhaskar has established itself as a strong newspaper in the Ranchi market, with circulation of 1,50,000 copies. DB Corp has also launched the Jamshedpur edition with a circulation of 64,000 copies. DB Corp hopes to establish itself as a strong player in the Jharkhand and Bihar markets in the coming two years.

Investment Thesis Remains Intact, Retain Accumulate

- The results of the company confirm that adex growth in India continues to be robust. We are encouraged by management's belief that there are few near-term threats to growth and that adex growth in broad-based.
- DB Corp remains a prime player in the regional, local advertising space. Low cost per thousand (CPT) of Hindi newspapers relative to English, as well as DB Corp's insistence on, and achievement of, strong competitive position in each market place it in a high growth path in as much as advertising revenues are concerned. We believe that DB Corp shall manage to create a trade-off that compensates the company for lower circulation revenues. Industry participants believe that Hindi adex has grown at ~18%-20% this quarter. DB Corp's growth shows that it continues to be among the leaders in the regional space.

We recommend ACCUMULATE on DB Corp with a price target of Rs.312

- There has been, thus far, confusion in the street over the extent to which higher newsprint prices may affect newspaper companies' margins. HT Media's results, followed by the results of DB Corp, do show that newspaper publishers have considerable flexibility in managing newsprint expenses. This is a positive for the print media space on the whole. We believe that 2HFY11 results of newspaper publishers shall help assuage fear among investors on this account, and, as such, will lead to a re-rating of print media stocks.
- As expected, the losses from new editions have been contained, and margins have been strong (print business EBITDA margins have come in at 33.8%). We believe the company shall continue to be prudent in planning its growth in these regions, and losses shall be contained, with full breakeven in the Bihar/Jharkhand region by FY14E.
- We maintain our estimates for DB Corp, and expect the company to bring in FY11/ FY12E EPS of Rs 13.3/ Rs 14.6. We have a fair value estimate of Rs 312/ share for DB Corp (FY-12 end), which is our price target for March 2012. We maintain an **ACCUMULATE** rating on the stock.

Sample Report

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Gail India	475	3.1	2.2	1.5
Bharti Airtel	338	1.4	1.9	3.5
NTPC	196	1.8	1.5	3.9
Losers				
ICICI Bank	1,038	(4.2)	(17.8)	7.0
HDFC Bank	2,084	(3.0)	(7.7)	1.4
Reliance Ind	959	(1.4)	(7.4)	4.7

Source: Bloomberg

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