Economy News

- Finance Minister Pranab Mukherjee today announced several tax exemptions and sops before putting the Finance Bill, 2010, to vote in the Lok Sabha. The bill was cleared by the House, amid a walk-out by the main opposition Bharatiya Janata Party, signalling approval for the Union Budget 2010-11. The minister stuck to the excise and customs duty increase on petroleum products. (BS)
- The food price index rose 16.61 percent in the 12 months to April 17, lower than an annual rise of 17.65 percent in the previous week, government data showed on Thursday. The fuel price index rose an annual 12.69 percent, marginally higher than the previous week's reading of 12.45 percent. The RBI has forecast the headline inflation to ease to 5.5 percent at end-March 2011 on normal monsoon. (ET)
- The government said inflation in essential items is likely to decline further and pegged economic growth at 8.5 per cent this fiscal. "The outlook is further brightened by the fact that a normal monsoon is predicted this year...Indications of softening of food inflation are clearly visible...inflation in essential commodities also declined...It is expected that this decline will continue in the coming months uninterruptedly," Finance Minister Pranab Mukherjee said in the Lok Sabha.
- Telecom Minister A Raja on Thursday said everything was transparent in the ongoing 3G spectrum auction, which is likely to be completed in a day or two. Nine mobile telephony firms including Bharti, Vodafone, Reliance and Tatas are in the fray for 3-4 slots of 3G spectrum. (FE)

Corporate News

- **UltraTech Cement Ltd,** owned by the $24.5 billion (Rs1.09 trillion) conglomerate Aditya Birla Group, said on Thursday that it will acquire Dubai-based ETA Star Cement Co. Llc. The purchase will be made through the United Arab Emirates (UAE)-based subsidiary UltraTech Cement Middle East Investments Ltd for an enterprise value of Rs17 bn. “We will use a judicious mix of internal accrual and borrowings for funding this acquisition,” said K.C. Birla, chief financial officer at UltraTech Cement. (Mint)
- **Great Offshore Ltd** has won shareholders’ approval to hand control of its day-to-day affairs, management and policy decisions to Bharati Shipyard Ltd without the need for a fresh open offer, by inducting two nominees of the shipbuilder as executive directors on its board. (Mint)
- Power projects contractor **KEC International** expects revenue to cross $1 billion in FY11, its top official told Reuters. "This year we have crossed Rs 39 bn .next year we are atleast over $1 billion," Ramesh Chandak, Managing Director and Chief Executive Officer told Reuters. (ET)
- **MindTree** outbid larger rivals Tata Consultancy Services (TCS), Infosys, Wipro apart from top multinational firms, to win Rs 300mn contract from India’s Unique Identification Authority (UIDAI), senior government officials and persons familiar with the project told ET on Thursday. (ET)
- IT services firm **Patni Computer Systems** is evaluating two to three companies in Europe and Asia Pacific for acquisitions, its chief financial officer said on Thursday. "There are 2-3 companies we are evaluating at this point in time. There were two companies we evaluated last quarter, did not like the fit and so passed on," Surjeet Singh said. (FE)

Equity

	29 Apr 10	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	17,503	0.7	(0.1)	7.0
NIFTY Index	5,254	0.7	0.1	7.6
BANKEX Index	11,094	1.6	4.1	14.9
BSET Index	5,313	(0.3)	1.4	6.7
BSETCG INDEX	13,954	0.3	(1.5)	7.3
BSEOIL INDEX	9,840	1.1	(3.1)	(1.0)
CNXMcap Index	7,944	0.5	3.1	10.3
BSESMCAP INDEX	9,172	1.3	7.9	11.4
World Indices				
Dow Jones	11,167	1.1	2.9	10.9
Nasdaq	2,512	1.6	4.8	17.0
FTSE	5,618	0.6	(1.1)	8.3
Nikkei	10,925	(2.6)	0.8	8.6
Hangseng	20,779	(0.8)	(1.1)	4.4

Value traded (Rs cr)

	29 Apr 10	% Chg - Day
Cash BSE	4,031	(11.3)
Cash NSE	14,968	6.9
Derivatives	125,436	(14.5)

Net inflows (Rs cr)

	28 Apr 10	% Chg	MTD	YTD
FII	(31)	(120)	8,571	28,383
Mutual Fund	(398)	(1,716)	(2,074)	(7,910)

FII open interest (Rs cr)

	28 Apr 10	% Chg
FII Index Futures	12,871	(18.1)
FII Index Options	31,194	(31.8)
FII Stock Futures	28,764	(11.0)
FII Stock Options	497	(67.9)

Advances / Declines (BSE)

29 Apr 10	A	B	S	Total	% total
Advances	121	1,167	283	1,571	65
Declines	82	556	128	766	32
Unchanged	1	58	12	71	3

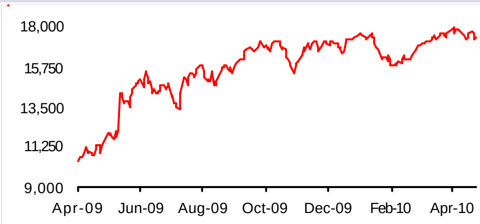
Commodity

		29 Apr 10	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX)	(US$/BBL)	85	0.4	2.0	17.3
Gold	(US$/OZ)	1,167	0.1	5.4	8.5
Silver	(US$/OZ)	18	2.2	6.2	14.6

Debt / forex market

	29 Apr 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.80	7.80	7.60	7.60
Re/US$	44.5	44.6	45.0	46.2

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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SUBEX LIMITED

PRICE: RS.64 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.70 **FY11 PE - 9.5X**

Subex's operating performance for 4QFY10 were below our estimates. It was only because of a higher forex gain on liabilities re-statement, that PAT came in above estimates. Product revenues fell QoQ and came in below estimates. However, what was most surprising was the near 50% fall in "other expenditure" QoQ. The management indicated this was due to the absence of some one-time expenses provided in the previous quarter. While Subex's cost base is falling, the quarterly variations have been sharp and surprising. Order intake was lower QoQ at about $16mn v/s $17mn in 3QFY10. Company plans to increase annuity revenues from the current 40% of revenues to about 50% over the fiscal. We expect revenues to grow QoQ, leading to higher margins as costs remain under tight control. We have also assumed full conversion of the restructured FCCBs. Subex has also written off goodwill of Rs.5bn during the fiscal. We change our FY11 earnings estimates to Rs.7.9 per share (Rs.9.5 earlier). We downgrade the stock to REDUCE with a revised price target of Rs.70 (Rs.90 earlier). We have assumed FCCBs to be converted into shares (conversion price about Rs.80), which may increase liquidity in the stock. Uncertainty over the same may keep the stock range bound.

Summary table

(Rs mn)	FY09	FY10E	FY11E
Sales	5,585	4,631	5,078
Growth %	15.1	(17.1)	9.7
EBITDA	717	769	1,408
EBITDA margin %	12.8	16.6	27.7
Net profit (excl EO)	45.9	208.2	773.5
Net cash (debt)	(10,706)	(6,269)	(1,444)
EPS (Rs) *	1.3	3.6	7.9
Growth %	-	353.8	271.4
CEPS	7.9	6.4	10.1
DPS (Rs)	0	0	0
ROE %	0.7	4.9	13.7
ROCE %	5.1	6.1	12.7
EV/Sales (x)	2.3	2.2	1.6
EV/EBITDA (x)	18.3	13.1	5.7
P/E (x)	48.6	17.8	8.1
P/Cash Earnings	8.1	10.0	6.3
P/BV (x)	0.4	1.1	0.8

Source: Company, Kotak Securities - Private Client Research

4QFY10 results

(Rs mn)	3QFY10	4QFY10	% QoQ	4QFY09	% YoY
Revenues	**1210.4**	**1147.2**	**5.5**	**1197.9**	**1.0**
Expenditure	978.5	868.4		1131.7	
EBDITA	**232.0**	**278.7**	**-16.8**	**66.2**	**250.3**
Depreciation	35.4	30.3		52.2	
EBIT	**196.6**	**248.5**	**-20.9**	**14.0**	**1302.1**
Interest	117.2	109.9		115.6	
Other Income	55.3	0.0		275.3	
Provisions	0.0	0.0		145.5	
PBT	**134.7**	**138.5**	**-2.8**	**28.2**	**377.3**
Tax	20.9	54.8		121.0	
PAT	**113.8**	**83.7**	**-**	**-92.8**	**-**
EO items	304.9	181.3		-269.6	
PAT after EO items	418.7	265.0		-362.4	
Shares (mns)	58.0	58.0		34.8	
EPS (Rs.)	**2.0**	**1.4**		**-2.7**	
Margins					
OPM (%)	19.2	24.3		5.5	
GPM (%)	16.2	21.7		1.2	
NPM (%)	9.4	7.3		-7.7	

Source : Company

Product revenues

- Product revenues were down by 5% on a sequential basis.
- According to the management, the fall was largely due to the exchange fluctuations and on USD basis, revenues were marginally higher QoQ.
- License revenues were lower during the quarter and contributed about 57% of the overall revenues.
- While support services contributed about 27% to the revenues, customization (about 6%) and managed services (about 9%) contributed the rest.

Improving macro

- Subex has maintained that, there is a revival in sentiment among clients. The management indicated increase in number of contracts being placed by clients.
- It also indicated that, they were looking at costs and hence, vendors are forced to provide better value or immediate cost reduction benefits to customers.
- With most of the larger peers indicating some revival, we are more optimistic but would remain cautious on Subex because of the concentrated nature of the market (few players dominate the same) and the lumpy nature of revenues.

Order bookings and order pipeline

- In terms of order bookings and pipeline, the order intake was at about $16mn, which was marginally lower than the $17mn reported for the previous quarter.
- In our opinion, while this can be a quarterly phenomenon, the marginal de-growth in order flows is a reflection of the challenges being faced by telcos around the world, which have initiated cost control initiatives.
- We will watch this figure closely over the next few quarters.
- The company had a consolidated pipeline (including Syndesis) of $379mn ($363mn).
- Subex had normally enjoyed a conversion rate of 40%. However, it now expects the same to be about 20%, indicating real challenges and increased competition.
- The existing order pipeline, new lines of revenues like managed services and the company's premier positioning in the area of operations are expected to lead to revenue growth in the next few quarters.
- However, the critical factor is whether the company is able to convert this order book into revenues and the pipeline into orders.
- The current order backlog to be executed in FY11 is about $49mn.

Margins

- The company had EBIDTA margins of about 24% as against 19% in the previous quarter.
- The margins were higher because of the reduction in expenses. The 'other expenses" reduced by about 50% to Rs.155mn. According to the management, this was due to the absence of some one-time expenses included in the previous quarter. We were surprised by this reduction.
- In the previous update we had indicated surprise on the near 90% increase in "other expenses".
- The company has controlled and reduced costs significantly. However, we understand that, costs have fallen to sustainable levels and further improvement in margins will come in only from increased revenues.
- In the previous quarter, the staff costs fell from Rs.804mn in 2QFY10 to Rs.664mn in 3QFY10. We believe that, this was due to the absence of certain one-time payments and provisions made in the previous quarter.
- There was no other income in 4QFY10. 3QFY10 had an other income of Rs. 55mn. According to the management, this was due to the absence of any write back of previous provisions and due to a loss on translation.

Conversion / restructuring of FCCBs, Preferential placement

- Subex had restructured about $141mn of FCCBs (out of a total of $180mn). The company has issued new FCCBs of $98.7mn against the cancellation of these older FCCBs. The new FCCBs carry a coupon of 5% and are convertible into shares at a price of Rs.80 per share (Rs.656 per share earlier).
- While the company has already reduced its liability by about $42.3mn, we expect the conversion of FCCBs to happen over the fiscal as the conversion price is very near to the current market price.
- Already, about $$32mn worth of FCCBs have been converted into shares.
- The promoters have taken up 4mn shares on a preferential basis at a price of Rs.80 per share.
- We have assumed the consequent dilution in equity at Rs.979.6mn as against the current Rs.579.8mn.
- The increased liquidity may keep the price range bound in the near term.

Future prospects

We make changes to our FY11 estimates.

We recommend REDUCE on Subex with a revised price target of Rs.70

- We expect Subex to report revenues of Rs.5.08bn in FY11. Product revenues are expected to be lower at Rs.4.34bn.
- EBIDTA margins are expected to improve to about 27.7% in FY11, on the back of higher product revenues and cost control initiatives.
- We arrive at a PAT of Rs.774mn and an EPS of Rs.7.9 for FY11 on the enhanced equity.
- We have neither considered the MTM gains / losses on the FCCBs nor the other forex gains / losses in line with the company policy, which treats them as extraordinary items.

Risks

- A delayed recovery in major user economies may impact our projections.
- A sharp acceleration in rupee from the current levels may impact our earnings estimates for the company.
- Delays in receipt and execution of orders may make earnings volatile in future quarters while likely impacting the overall revenue and profit growth of the company.

Result Update

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Patni Computer Systems Ltd

Price: Rs.535 **Recommendation: ACCUMULATE**

Target Price: Rs.580 **CY10E P/E: 11x**

- **PCS' Q1CY10: Revenues (Rs.7.74bn, down 2% QQ) lower than estimates; EBITDA margins surprise (20.6%, up 30bps QQ) even as PAT (Rs.1.5bn, down QQ) is largely in line. Margins have grown with higher proportion of fixed price projects, greater offshore, higher utilization and cost containment.**
- **Guidance for Q2CY10 is subdued, and implies a flat quarter in INR/USD terms, at upper end of guidance range. While growth rates are expected to shore up as company specific initiatives start contributing and demand environment for the sector gains traction, the subdued near term growth rate guidance is a dampener.**
- **Recent deal wins are a positive given the need for account management to improve; while BFSI has bounced, other sectors like telecom, manufacturing likely to pick up with a lag**
- **Account for Q1CY10 results; tweak price target and estimates modestly. The Patni stock has been a preferred pick and a strong out-performer gaining c16% since our previous update (15/2/2010).**
- **Move to ACCUMULATE (BUY previously) noting upside to price target of Rs.580 (Rs.540 earlier), based on CY10E estimates. A quarter with no positive surprises is likely to keep the stock sideways in the near term; accretive acquisitions/ large deal announcements likely stock catalysts.**
- **More effective account management, margin sustainability and visible benefits on management initiatives to shore up growth rates required for the Patni stock to command a higher multiple.**

Summary table

(Rs mn)	CY09	CY10E	CY11E
Sales	31620	32718	35990
Growth (%)	-1.2	3.5	10.0
EBITDA	6090	6620	7306
EBITDA margin (%)	19.3	20.2	20.3
Net profit	5724	6123	6457
Net debt	-5722	-8315	-11338
EPS (Rs)*	43.0	46.0	48.5
Growth (%)	25.9	7.0	5.5
DPS (Rs)	7.5	7.5	7.5
ROE (%)	18.9	18.0	16.9
ROCE (%)	19.7	21.9	21.3
EV/Sales (x)	2.1	1.9	1.7
EV/EBITDA (x)	10.7	9.5	8.2
P/E (x)	12.4	11.6	11.0
P/BV (x)	2.2	2.0	1.8

*Source: Company, Kotak Securities - Private Client Research - *- stripped of extraordinary item in Q3CY08*

Result Highlights- revenues lower, margins higher. Wage inflation, INR, higher SG&A to likely check margin gains

- Patni's 1QCY10 results were a mixed bag with revenues at Rs.7.74bn (down 2% QoQ) disappointing while EBITDA margins came in 30bps higher QQ at 20.6%. The PAT was largely in line at Rs.1.49bn aided by forex gains.
- PCS guidance for Q2CY10E points to revenues of $171-172mn and profits (excluding forex) of $27-28mn; pointing to a flattish quarter given Q1CY10 revenues of $172.3mn. We find this outlook on near term growth rates subdued, and lagging peers. We point out that new initiatives of the management will likely start contributing to growth over the medium term; recent deal wins are an indicator, in our opinion.
- At the same time we opine meaningfully better account management to be imperative to drive growth. Patni's client metrics have remained sideways over the recent quarters- >$10mn accounts have increased to 19 from 17 in Q1CY09.
- Within sectors recent deal wins have come through in healthcare while BFSI has bounced; in our opinion, a trickle down to other troubled segments like manufacturing, telecom is likely to be gradual and accompany the expected global recovery, with a lag.
- We revise our price target and estimates modestly to account for the Q1CY10 results and lower losses in the other income that are reflected in our DCF model. We expect a volume led recovery in CY10E, and margins to remain steady at current levels on benefits of higher FP, greater offshore & leverage even as we assume the INR to appreciate over the period.
- Estimate an EPS of Rs.46.5 (Rs.46.0 previously) for CY10E; in CY10E, we expect volume growth to return (13% YY); an assumed INR is however likely to limit INR growth to 4%.

- Move to ACCUMULATE (BUY previously) noting upside to price target of Rs.580 (Rs.540 earlier), based on CY10E estimates; exit multiple works out to 12.5x CY10E EPS. Consistent scale up of accounts, margin gains and visible benefits of a new management strategy could increase the scope for a sustained stock re-rating.

1QCY10 results

(Rs mn)	1QCY10	4QCY09	% chg	1QCY09	% chg
Revenues	**7745**	**7896**	**-1.9**	**7955**	**-2.6**
Expenditure	6151	6295		6620	
EBDITA	**1594**	**1601**	**-0.4**	**1335**	**19.4**
Depreciation	182	204		192	
EBIT	**1413**	**1397**	**1.1**	**1143**	**23.6**
Interest	0	0		0	
Other Income	413	346		-202	
PBT	**1825**	**1743**	**4.7**	**942**	**93.8**
Tax	328	-136		180	
PAT	**1497**	**1878**	**-20.3**	**761**	**96.6**
Shares (mn)	139	139		139	
EPS (Rs)	**10.8**	**14.7**		**5.9**	
Margins					
OPM (%)	20.6	20.3		16.8	
GPM (%)	18.2	17.7		14.4	
NPM (%)	19.3	23.8		9.6	

Source: Company

Revenues: de-grow 2% QoQ. Account mining to vital if revenue growth is to gain traction; growth in PES, manufacturing verticals- positive for discretionary spend trends

- INR revenues de-grew by about 2% on a sequential basis, Patni's revenues being translated at INR 44.95/$. The active client list stood at 260, down from the 272 at the end of Q4CY09, as the company continued to focus on rationalizing client engagements and focus on farming the larger accounts more effectively.
- Revenues from the Manufacturing, Retail and Distribution vertical contracted less than the company (-0.3%QQ) even as Product Engineering Services grew 8% QQ, on the back of scale up in FP accounts in the vertical.
- The Insurance vertical remained weak and declined 6.7% QoQ (Q4CY09 also saw the vertical decline 4%QQ), The Communications vertical declined 2.7% QQ after declining 11% QoQ in Q4CY09. This particular vertical and has been facing head-winds over the past few quarters because of client issues in the Virtual Network Operator segment.
- Other client metrics like number of clients in $1mn and $10mn buckets have remained flat QoQ, even as the total number of clients declined for the third quarter running. We opine this could be on account of the rationalization exercise the company embarked upon in CY09.
- Patni's client metrics have remained sideways over the recent quarters- >$10mn accounts have increased to 19 from 17 in Q1CY09. We believe Patni's top account management has to scale up meaningfully to drive growth over the medium term. We believe this also largely explains the difference in growth rates between Patni and larger names in the sector.
- We believe the macro environment for demand has stabilized though there is no meaningful improvement yet in the demand take off. We believe there have been signs of stabilization in verticals like BFSI and IMS and expect a pick up in IT spends 2HCY10 onwards, on hopes of a stable economic environment and a gradual recovery.

EBITDA margins- up QoQ, aided by higher utilization and greater offshore. Expect a flattish margin trend over the medium term

- Reported EBIDTA margins were up 30bps QoQ at 20.36, helped by higher utilization at 79.9% (77.4%), higher FP projects (43.6% of revenues in Q1CY10 v/s 42.4% in Q4CY09), continued cost containment and, increase in offshore delivery by that helped the company grow margins, despite a 2% decline in revenues.
- Forex gains, in the other income line of Rs.214mn were on account of the INR movement that led to the revaluation and gains, according to the management. These were higher than our estimates for the quarter, and helped the PAT, despite lower than estimated revenues.
- The company's net headcount increased by a lower than estimated 33 in Q1CY10, on a net basis taking the billable employee base to 12,544. On an overall basis, including support the total headcount surprisingly declined 13959 v/s 13995 in Q4CY09.
- In our opinion, the company will be having a need to recruit at a faster pace if is to create some bench to take advantage of large projects it hopes will come through, at a later point.
- The management believes hiring will pick up to brace for an improving demand environment. It claims to have made close to 1200 offers (10% of headcount) at the end of Q3CY09- indicating its improved outlook on business picking up over CY10E.
- On the margin front we believe the company will be able to sustain margins at the 19-20% levels (20.6% in Q1CY10). With utilization at company high levels, we believe levers for margins may be higher FP contracts, SG&A cost discipline and a broader than before employee pyramid.
- We also believe the company may likely have to ramp up SG&A investments to grow business as the demand environment improves; the same may limit margin gains even as volume growth may begin to pick up.

Recent deal win signals an entry in the healthcare insurance business for Patni; cash on balance sheet to be used for future acquisitions

- Patni has recently bagged a five year multi-million dollar deal to provide end-to-end policy administration services to Universal American, a US health insurance company. Further, as part of the deal, Patni will acquire CHCS Services, a wholly owned subsidiary of UA with technologies in the healthcare insurance segment.
- Further, as part of the deal, Patni will acquire CHCS Services, a wholly owned subsidiary of UA with technologies in the healthcare insurance segment. The company has not disclosed any financial details on the transaction but has stated that it is in final stages of negotiating two large deals of TCV upwards of $200mn.
- This transaction is expected to create a new centre for Patni in Pensacola, Florida and also a new business vertical in the healthcare insurance space, as a third-party administrator. In our opinion, it enhances Patni's existing BPO capabilities to deliver end to- end platform-based solutions and TPA services to insurance providers' back office transactions.
- The management has also stated that it is on the lookout for acquisitions (sizes ranging from $30-200mn) to fill product/geography gaps in its bouquet of offerings. We expect these acquisitions to be funded via cash on balance sheet (c$450mn, Rs.133 per share) and/or accruals.

Macro for business segments likely better; may reflect on volumes with a lag. Fears of a double-dip in major user economies remain the key risk to demand outlook

- Markedly better news from the US economy mid CY09 onwards (unemployment numbers, retail sales, housing prices) have led to hopes of a revival in the global economy of which the US is the major contributor.
- While individual companies like Patni believe that the outlook on client spends is materially better than 2Q ago, velocity of business still remains sober and is expected to pick up gradually over the succeeding quarters.
- The company hopes to return to a stable QoQ growth trajectory Q1CY10 onwards; it also believes that given its renewed approach to business it will be able to comfortably match the industry growth rates.
- Going forward Patni intends to focus on its five to six key verticals and aims to specialize in some sub verticals (e.g., billing systems in the telecom vertical, industrial automation in product engineering). It is also working on geographical diversification with the setting up of focused regional set ups in the US, EMEA, APAC and SAARC geographies.

ACCUMULATE on declines; consistent scale up of accounts could increase the scope for a higher multiple.

We recommend ACCUMULATE on Patni Computer Systems with a revised price target of Rs.580

- We revise our price target and estimates modestly to account for the Q1CY10 results and lower losses in the other income that are reflected in our DCF model. We expect a volume led recovery in CY10-FY11E, and margins to remain steady at current levels on benefits of operating leverage even as we assume the INR to appreciate over the period.
- Estimate an EPS of Rs.46 (Rs.46.5 previously) for CY10E; in CY10E, we expect volume growth to return, and estimate a 4% rise in revenues.
- Maintain our valuation discount for Patni vis-à-vis industry peers; opine sustained execution could increase the scope for a re-rating as PCS still trades at 12x CY10E EPS (40-45% discount to larger names).

RESULT UPDATE

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ULTRATECH CEMENTS

PRICE: RS.1015 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.980 **FY11E (PE)x : 13x**

Result highlights

- **Revenues for the current quarter Q4FY10 and full year FY10 grew by 2.6% and 10.4% YoY respectively, lower than our estimates. This was due to lower than expected dispatch growth and cement realizations.**
- **Operating margins stood at 21.1% and 28% for Q4FY10 and full year FY10 respectively, lower than our estimates led by increase in raw material, freight and other expenditure.**
- **Net profit registered de-growth of 26% for the current quarter but registered a growth of 12%YoY for the full year. Net profit growth is impacted by lower than expected revenues as well as higher operational costs.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Revenues	63,831	70,497	73,028
YoY (%)	15.9	10.4	3.6
EBITDA	17,064	19,711	18,291
YoY (%)	(0.8)	15.5	(7.2)
Other Income	1,036	1,227	1,250
Depreciation	3,230	3,881	4,387
EBIT	14,870	17,057	15,155
YoY (%)	(6.0)	14.7	(11.2)
Net interest	1,255	1,175	1,100
Profit before tax	13,615	15,882	14,055
YoY (%)	(9.7)	16.7	(11.5)
Tax	3,844	4,949	4,357
as % of PBT	28.2	31.2	31.0
Net income	9,770	10,932	9,698
YoY (%)	(3.0)	11.9	(11.3)
Shares OS (m)	124.5	124.5	124.5
EPS (reported) (Rs)	78.5	87.8	77.9
P/E(x)	12.9	11.6	13.0
EV/EBITDA(x)	8.0	6.6	6.8
RoE (%)	31.0	26.6	19.1
RoCE (%)	29.2	27.9	22.4

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q4FY10	Q4FY09	YoY (%)	FY10	FY09	YoY (%)
Net Sales	**19,094**	**18,601**	**2.6**	**70,497**	**63,831**	**10.4**
Expenditure	15,067	13,271		50,786	46,767	
Inc/Dec in trade	739	593		23	-888	
RM	2,583	1,852		9,606	6,850	
As a % of net sales	13.5	10.0		13.6	10.7	
Purchase of finished goods	292	114		637	195	
As a % of net sales	1.5	0.6		0.9	0.3	
Staff cost	660	566		2,506	2,177	
As a % of net sales	3.5	3.0		3.6	3.4	
Power and fuel	3,651	4,053		14,309	17,130	
As a % of net sales	19.1	21.8		20.3	26.8	
Transportation & Handling	3,485	3,109		12,288	10,711	
As a % of net sales	18.3	16.7		17.4	16.8	
Other expenditure	3,657	2,984		11,417	10,592	
As a % of net sales	19.2	16.0		16.2	16.6	
Operating Profit	4,026	5,331	-24	19,711	17,064	16
Operating Profit Margin	21.1	28.7		28.0	26.7	
Depreciation	993	906		3,881	3,230	
EBIT	**3,033**	**4,425**	**-31**	**15,830**	**13,834**	**14**
Interest	285	340		1,175	1,255	
EBT (exc other income)	2,748	4,085		14,655	12,579	
Other Income	258	287		1,227	1,036	
EBT	**3,007**	**4,372**	**-31**	**15,882**	**13,615**	**17**
Tax	721	1,277		4,949	3,844	
Tax Rate (%)	24.0%	29.2%		31.2%	28.2%	
PAT	**2,285**	**3,095**		**10,932**	**9,770**	
Extraordinary Items	0	0		0	0	
Net Profit	**2,285**	**3,095**	**-26**	**10,932**	**9,770**	**12**
NPM (%)	12.0	16.6		15.5	15.3	
Equity Capital	1,244.9	1,244.9		1,244.9	1,244.9	
EPS (Rs)	**18.4**	**24.9**		**87.8**	**78.5**	

Source: Company

- **Company will also be acquiring a majority stake Dubai based company ETA Star Cement with a capacity of 3MT. EV/tonne for the deal works out to be approximately $125/tonne.**
- **At current price of Rs 1015, stock is trading at 13x P/E and 6.8x EV/ EBITDA multiple for FY10 and FY11 respectively.**
- **We fine tune our estimates based on marginally lower cement realizations, lower depreciation charges while higher other income for FY11. Correspondingly our price target gets modified to Rs 980 as against Rs 919 earlier. Though we expect company to emerge as a leader in the cement industry with maximum capacity post the merger of Samruddhi Cements and ETA Star Cement with itself, current valuations don't leave much upside and hence we continue to recommend REDUCE on the stock with a price target of Rs 980 on FY11 estimates.**

Revenue growth impacted by lower dispatches and realizations

- Revenues for the current quarter Q4FY10 and full year FY10 grew by 2.6% and 10.4% YoY respectively, lower than our estimates. This was due to lower than expected dispatch growth and cement realizations.
- Full year dispatches for the company stood at 20.2MT with 17.8MT in the domestic market while remaining 2.4MT in exports. Overall dispatches have improved by 10% for FY10. Overall blended realizations for the company stood at Rs 3344 per tonne and Rs 3486 per tonne for Q4FY10 and FY10 as against Rs 3457 per tonne and Rs 3507 per tonne for Q4FY09 and FY09 respectively. Thus, on a full year basis, realizations have remained almost flat witnessing an increase in first half of the fiscal while declining in the second half of the fiscal.
- Along with this, sequentially also, cement realizations have not seen a significant improvement despite price hikes witnessed in key southern markets. Clinker realizations have also further witnessed a decline to $30 per tonne from $32 per tonne in Q3FY10 due to lower demand from the export markets.
- Adjusted with clinker sales and cement exports, cement realizations in domestic markets for Ultratech in Q4FY10 stood at Rs 3587 per tonne as against Rs 3538 per tonne in Q3FY10. For the full year, cement realizations in domestic markets stood at Rs 3734 per tonne in FY10 as against Rs 3667 per tonne in FY09, showing a marginal improvement of 2% YoY.
- We marginally tweak our revenue estimates and expect revenues to be Rs 73bn for FY11 as against earlier estimate of Rs 73.6bn. However, post completion of the merger with Samruddhi cements, estimates for volume and revenues for the company in FY11 are likely to change.

Operating margins impacted by lower cement realizations as well as higher costs

- Operating margins stood at 21.1% and 28% for Q4FY10 and full year FY10 respectively, lower than our estimates led by increase in raw material, freight and other expenditure.
- EBITDA/tonne in Q4FY10 has declined on a sequential as well as yearly basis to Rs 705 (Rs 761 in Q3FY10 and Rs 991 in Q4FY09). This was impacted by increase in raw material costs, other expenditure primarily led by higher packaging and repair and maintenance costs as well as higher freight costs.
- For FY11, we expect EBITDA margins to witness pressure and expect margins to be 25% as against 28% seen in FY10.

Per tonne analysis

	Q4FY10	Q4FY09	FY10	FY09
Despatches(mn tonne)	5.71	5.38	20.22	18.20
Net Realisation/tonne	3344	3457	3486	3507
YoY (%)	-3		-0.6	
Cost per tonne				
Raw material	582	454	476	328
Finished goods	51	21	32	11
Staff cost	116	105	124	120
Power and fuel	639	753	708	941
Transporation &Handling	610	578	608	589
Other expenditure	640	555	565	582
EBITDA per tonne	705	991	975	938

Source: Company

Net profit growth impacted by lower than expected revenues and higher operational costs

- Net profits registered de-growth of 26% for the current quarter but registered a growth of 12%YoY for the full year. Net profit growth is impacted by lower than expected revenues as well as higher operational costs.
- We fine tune our estimates based on marginally lower cement realizations, lower depreciation charges, lower tax rate while higher other income for FY11. Correspondingly, we expect net profits to be Rs 9.7bn for FY11 as against our earlier estimate of Rs 9.6bn.

Acquisition of ETA Star Cement by Q1FY11

Ultratech Cements is also planning to tap middle-east market by acquiring a controlling stake in ETA Star Cement Company, Dubai together with its cement operations in UAE, Bahrain and Bangladesh. ETA Star Cement's facilities include 2.3MT clinker unit and 2.1MT cement grinding unit in UAE, 0.4MT and 0.5MT cement grinding unit in Bahrain and Bangladesh respectively. The expected enterprise value is nearly Rs 17bn, which translates into EV/Tonne($) valuation of nearly $125. Further details regarding this acquisition are still awaited and this process is expected to get over by Q1FY11.

We believe that this valuation is slightly on the higher side as against prevailing valuation on cement companies in India. Cement and clinker realizations are also quite low in the Middle East markets as compared to Indian markets and demand is also not increasing due to slowdown in the realty market. However, in the long run, it would be positive for the company. Overall funding for this acquisition is expected to be from a mix of debt and internal accruals.

Restructuring plan

Ultratech Cements is in the process of merging Samruddhi Cements with itself. We expect this merger to be quite positive for Ultratech since post the merger, Ultratech would emerge as the largest player in the cement industry with a capacity of 48.8MT across 22 plans and would have a market share of 19%. Along with this, company is also acquiring controlling stake in ETA Star Cement ltd which will take its total capacity to 52MT. Significant volume expansion in future is likely to offset the expected decline in cement prices in FY11. Along with this, company would also have 504MW of captive power facility which would cater to almost 80% of its power consumption requirement. We would await the merger process to get over by July, 2010 to incorporate our revised future estimates based on expanded capacity and equity capital.

Valuation and recommendation

- At current price of Rs 1015, stock is trading at 13x P/E and 6.8x EV/EBITDA multiple for FY11.
- We tweak our estimates marginally and correspondingly our price target gets modified to Rs 980 as against Rs 919 earlier.

We recommend REDUCE on Ultratech Cements with a price target of Rs.980

- Though we expect company to emerge as a leader in the cement industry with maximum capacity post the merger of Samruddhi Cements and ETA Star Cement with itself, current valuations don't leave much upside and hence we continue to recommend **REDUCE** on the stock with a price target of Rs 980 on FY11 estimates.

RESULT UPDATE

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BALAJI TELEFILMS LTD

PRICE: RS.60 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.64 **FY11E P/E: 21.1X**

- **Lower realizations and volumes in the commissioned and sponsored segments lead to 33.2% slump in like-to-like revenues, YoY. Operational loss in the Q, only 'other income' and write-back of a prior provision leads to a reported PAT**
- **Results likely mirror the changed business environment for BTL marked by high competitive intensity, falling realizations and need for investments to diversify across formats/genres.**
- **Adjust earnings and price target to account for Q4YFY10 results; we cut our projected revenues while assuming benefits of cost containment to help an EBITDA breakeven in FY11E. High other income is expected to make up for weak operational contribution**
- **Noting the limited upside and a challenging outlook for its core business, we maintain our REDUCE rating with a price target of Rs.64 (Rs.67 earlier).**
- **Deteriorated business economics and inability to scale up meaningfully remain concerns. Improvement in outlook for its core content business will remain the key to any change in our outlook.**

Summary table

(Rs mn)	FY09	FY10	FY11E
Sales	3,375	1,704	1,976
Growth %	(10.8)	(49.5)	15.9
EBITDA	163.0	17.5	206.7
EBITDA margin %	49.6	1.0	10.5
Net profit	8.2	63.0	182.0
Net debt (cash)	(2,275)	(2,141)	(2,101)
EPS (Rs)	11.1	1.0	2.8
Growth %	(3.5)	670.2	189.0
CEPS	12.0	2.6	4.5
DPS (Rs)	0.3	0.3	0.3
ROE %	53.9	1.7	4.8
ROCE %	85.1	3.6	6.4
EV/Sales (x)	1.6	2.2	1.9
EV/EBITDA (x)	3.3	97.4	8.5
P/E (x)	5.3	61.1	21.1
P/Cash Earnings	4.9	23.1	13.1
P/BV (x)	2.9	1.0	1.0

Source: Company, Kotak Securities - Private Client Research

Result Highlights - Lower realizations and volumes in the commissioned and sponsored segments lead to 33.2% slump in like-to-like revenues, YoY. Operational loss in the Q, only 'other income' and a prior write-back leads to a reported PAT

- BTL's results for the Q4 of FY10 continued to reflect the deteriorated business economics in the content business given the competition from smaller players; additionally, an inability to build sustainable scale clouds the outlook for players, in our opinion.
- Reported revenues declined c10% YY in Q4FY10 to Rs.447mn on the back of a decline in volumes and realizations across both the content formats - commissioned and sponsored. We note that this revenue in Q4FY10 includes Rs.111.9mn of write back on account of a settlement of prior dues with the 9X network.
- Stripped of the same revenues would have declined 33.2% YY, with commissioned program revenues dropping 34% YoY (Rs.280mn) & sponsored revenues declining 20% YY (Rs.55.2mn). The loss of higher realization legacy programs has led to a re-set for BTL's volume realizations (down 23% YY in the commissioned format to Rs.1.7mn), impacting revenues and profitability adversely.
- Post the Star disengagement BTL's realizations are now closer to industry averages and reflect the fragmented and competitive nature of the content segment, in our opinion. While recent ratings data shows the sustained performance of BTL's launch on ZEEL, we opine realizations for the program would be much closer to the industry averages.
- Further, given the nature of industry - price competition and presence of smaller players in a largely unorganized market, a meaningful rise in realizations looks difficult for standalone players (like BTL).
- Q4FY10 also saw a decrease in volumes across both the segments; while commissioned programming volume declined 15% YY to 164 hrs, and from 216hrs in Q3FY10. The quarter also saw sponsored segment volumes declining 22%YY & 15%QQ to 144hrs, a result of shows being taken off air.

- On the back of the write back of a prior provision due to the settlement of dues with the 9X network (Rs.111.9mn) the company reported an EBITDA of Rs.98mn. Stripped of this write-back there would have been an EBITDA loss for the quarter. As a result of the above, BTL reported a PAT of Rs.33.9mn for the quarter.
- For the full year FY10 BTL reported standalone PAT of Rs.152mn (Rs.2.3 EPS) and a consolidated PAT of Rs.63mn (Rs.1 EPS). Stripped of the write-back BTL would have reported a stand-alone PAT of Rs.40mn.
- BTL's consolidated revenues reflect the operations of its films & new media businesses. Both these segments are nascent, with the films division BMP having only one release in FY10, and reporting a loss of Rs.88.9mn for the year. We opine this loss has been on account of lower realizations on sale of satellite rights & extensive SG&A investments towards a new release, the revenues of which will accrue to BMP in FY11E.
- The new media business which did not have a meaningful impact on financials is involved in creating a digital entertainment business and has started work on creating and mobile and internet based entertainment business.
- While the company has plans of ramping up both its new businesses over a period of time, we believe over the medium term the prospects of its core business will remain the crucial variable for BTL's financial performance.

Quarterly Results Rs.Mn

(Rs mn)	4QFY10	4QFY09	% chg	3QFY10	% chg
Revenues*	447.2	494.2	-9.5	392.7	13.9
Expenditure	348.4	667.7		395.2	
EBDITA	**98.8**	**-173.6**	**-156.9**	**-2.5**	**-4036.3**
Depreciation	24.3	125.1		26.6	
EBIT	**74.5**	**-298.7**		**-29.1**	
Net Interest	0.0	0.0		0.0	
Other Income	33.9	61.1		30.4	
PBT	**108.4**	**-237.5**		**1.3**	
Tax	74.5	-94.7		-16.8	
Deferred tax	0.0	3.5		0.0	
PAT	**33.9**	**-146.3**		**18.1**	
PAT after M I	33.9	-146.3		18.1	
PAT after EO items	33.9	-146.3	-123.2	18.1	87.0
EPS (Rs)*	**0.5**	**-2.2**		**0.3**	
Margins					
OPM (%)	22.1	-35.1		-0.6	
GPM (%)	16.7	-60.4		-7.4	
NPM (%)	7.6	-29.6		4.6	

*Source: Company, * includes Rs.111.9mn of write-back of past dues from 9X network*

Program on Zee TV has met with meaningful success; however ability to scale and diversify content remain the challenges

- Over the period of 2HFY09 the launch of high decibel and disruptive programming on 'Colors' and the success of these formats, had led to Hindi GEC incumbents looking at alternate genres of programming. This translated into a consequent loss in demand for BTL's traditional content, further aggravated by the loss of its high margin engagements with the Star network.
- We believe a meaningful revival in business outlook and sustained execution from a revamped management team remains the most critical variables to monitor.
- We point out that the discontinuation of high margin programs (on Star), foray into new high budget programming, lack of scale in business, waning popularity of its content have been key challenges and our concerns on the stock's outlook.
- BTL's recent launch on Zee TV -'Pavitra Rishta' has met with a favourable response and has climbed to be one of the more watched programs on the network. Recent program ratings have pointed it to being the most watched show in the GEC format for close to three weeks, and reasonably successful in weathering the impact of IPL.
- While encouraging, we opine consistent performance, diversifying across genres/platforms and ability to scale will be the key variables to monitor.

Projected financials- Revenues to decline at a 24% CAGR over FY09-11E. High other income to make up for weak operational contribution.

- Structurally, we do not expect the return ratios of standalone content players to improve meaningfully over the medium term. We believe the factors of price competition by smaller players and improved bargaining power of the larger broadcasters is likely to limit programming realizations.
- Our negative bias for the last three quarters on BTL's core content business has been on account of the deteriorating macro for Balaji's business which is likely to cap any realization upsides across both its content formats.
- We have modified our estimates to account for the Q4FY10 results- we have cut our projected revenues by 10-12% while assuming benefits of cost containment to aid an EBITDA breakeven, in the succeeding quarters of FY11E.
- We now estimate that consolidated revenues will decline 24% over FY09-11E while EBITDA will grow from FY09's small base. We expect EBITDA margins to rise from 3.5% in FY10 to 10.5% in FY11E.
- We believe our estimates to be generous; building in a 15% &12% growth over the Q4 run rate in the commissioned and sponsored formats respectively. We expect most of this to be volume led and are assuming pricing to remain stable at the current levels.
- Further we build in continued cost optimization though investments are likely to rise as BTL plans new formats and launches. We have assumed greater contribution from its films business as revenues from an earlier release accrue in FY11E, and also its investments in the new media business start contributing to the revenue line.
- As a result consolidated EPS is expected to grow from Rs. 1.0 in FY10 to Rs.2.8 (Rs.4.1 earlier) in FY11E. We however note most of this growth is likely to be dominated by meaningful other income- >66% of PAT in FY11E.

Cash flow generation to be stressed by worsening working capital cycle; cash of Rs.30 per share as on FY10 end

- We also note that BTL's cash flow generation will also be impacted by increasing debtor days (100 days in FY10 v/s 60 days in FY09) and also higher loans and advances to related parties.
- Loans and advances have increased from Rs.230mn to Rs.749mn as on March 31, 2010 as compared to the previous fiscal, FY09. The company's principal loans and advances comprised, a) Loan to the Subsidiary Balaji Motion Pictures Ltd. (Rs.360mn), b) Loan to the Balaji Employees foundation (Rs.100mn), & c) Lease deposits for offices / studios and advances to subsidiaries (Rs.101mn).
- BTL as of end of Q4FY10 had Rs.2.1bn of reported cash- of which Rs.300mn is in the form of investments in subsidiary Balaji Motion Pictures. In our workings we have assumed interest accruing only from the balance Rs.1.8bn.
- We note that BTL had made an investment of Rs.307.5mn in land on the outskirts of Mumbai towards the creation of a new facility/studio for its content/ films business. According to the company it plans to utilize this land for the purpose of its ongoing business, towards the creation of facilities for its extant and emerging businesses only.
- BTL according its intimation to the exchanges was made a party in the dispute between the original owner of this land, and another buyer. The interim application by the buyer was dismissed by the Bombay High Court and further in Q4FY10 the company has reported that the special leave petition filed by the buyer against these dismissals in the SC have been withdrawn.

Improvement in outlook for its core content business to be the key. Competitive intensity, deteriorated business economics and to scale up challenges remain concerns.

- After modifying our estimates and accounting for weak growth rates in the medium term, we arrive at a price target of Rs.64 for the BTL stock (Rs.67 earlier). We attribute a 10x to the core FY11E EPS, and add the reported cash per share to arrive at our price target. BTL has estimated net cash of close to Rs.30 per share as of FY10.

We recommend REDUCE on Balaji Telefilms with a price target of Rs.64

- Noting the limited upside and still challenging outlook for its core business, we maintain our REDUCE rating. Improvement in outlook for its core content business and/or favorable risk reward will remain the key to any change in our outlook.

Revenue break-up, commissioned and sponsored

	Q4FY10	Q4FY09	% change	Q3FY10	% change
Commissioned Programs					
Number of hours	164.0	193.5	-15%	216.5	-24%
Average realization (Rs.mn/hr)	1.7	2.2	-23%	1.5	11%
Revenues, Rs.mn	277.2	424.9	-35%	330.3	-16%
Sponsored Programs					
Number of hours	144.0	185.5	-22%	177.0	-19%
Average realization (Rs.mn/hr)	0.4	0.4	3%	0.3	14%
Revenues, Rs.mn	55.2	69.2	-20%	59.3	-7%
Total revenues, Rs.mn	**332.4**	**494.1**	**-33%**	**389.6**	**-15%**

Source: Company

RESULT UPDATE

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SIEMENS INDIA LTD

PRICE: RS.708 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.770 **FY11E P/E: 24.1X**

- **Profit marginally lower than our estimates as revenues came below expectations. Margins have remained resilient so far aided by higher share of short cycle orders and project orders nearing completion (implying higher profit booking)**
- **Management indicated upsurge in short cycle orders (motors and drives), which reflects that industrial demand has revived.**
- **Earnings largely maintained. Maintain Accumulate with a DCF based price target of Rs 770 (Rs 690 earlier).**

Summary table

(Rs mn)	FY09	FY10E	FY11E
Sales	84585	88598	115512
Growth (%)	1.2	4.7	30.4
EBITDA	10232	12262	14969
EBITDA margin (%)	12.1	13.8	13.0
Net profit	6160	7914	9740
Net cash (debt)	14449	17461	23402
EPS (Rs) (standalone)	18.6	23.9	29.4
Growth (%)	31.4	28.5	23.1
ROE (%)	41.9	24.6	24.9
ROCE (%)	37.9	35.4	35.9
P/E (x)	38.0	29.6	24.1
EV/EBITDA	20.5	17.7	14.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2 FY10	Q2 FY09	YoY (%)	H1 FY10	H1 FY09	YoY (%)
Net sales	**22142**	**23682**	**-6.5**	**40482**	**39971**	**1.3**
Other operating income	137	148	-7.7	462	257	79.9
Raw Material costs	12246	15941	-23.2	23047	25662	-10.2
Purchase of trading goods	3720	1289	188.6	7098	4571	55.3
Staff costs	1530	1354	13.0	2820	2485	13.5
Other costs	1951	959	103.5	3248	2113	53.7
inc/dec in project related work	-48	799	-106.0	-1780	208	-955.6
Total expenditure	19400	20342	-4.6	34433	35039	-1.7
PBDIT	**2879**	**3488**	**-17.5**	**6511**	**5189**	**25.5**
Interest income	117	94	24.6	274	259	5.9
Depreciation	237	184	29.0	449	365	23.0
Other income	0	30		0	149	
PBT	**2759**	**3428**	**-19.5**	**6337**	**5232**	**21.1**
Tax	930	1174	-20.8	2143	1787	19.9
Adjusted PAT	1829	2254	-18.9	4193	3445	21.7
extraordinary items	0	0		0	2113	
PAT reported	**1829**	**2254**	**-18.9**	**4193**	**5557**	**-24.6**
RM costs to sales (%)	55.3	67.3		56.9	64.2	
Trading costs to sales (%)	16.8	5.4		17.5	11.4	
Other costs to sales (%)	8.8	4.0		8.0	5.3	
OPM (%)	12.9	14.6		15.9	12.9	
Tax rate (%)	34	34		34	34	
EPS Rs	**5.5**	**6.8**		**12.7**	**10.4**	

Source: Company

Revenue growth lower than expectations

- Revenue for the quarter declined 6.5% yoy contrary to our expectations. Revenues of the corresponding quarter of the previous year included one-off elements pertaining adjustment of prior period costs which had pushed up revenues.
- The revenues were mainly driven by the Drive technologies, Industry Solutions and mobility divisions. Management indicated that there has been a strong rebound in industry sector demand.
- The drive technologies division includes motors, which is a play on Greenfield industrial capex as well as replacement demand. This division is largely short-cycle product business and traction in economic growth is reflected immediately in numbers.

- Mobility includes the railway based transport system wherein the company is executing orders for traction motors, traction electrics and signaling system. This division witnessed a 75% increase in orders in the previous fiscal and has been largely unaffected by the economic slowdown.
- On the other hand, the energy business, which is primarily project oriented has fallen in terms of revenues. The energy business segment is largely dependent on the state-level spending on T&D infrastructure and overall growth in industrial capex. Herein, while there has been a healthy increase in order book, it is yet to translate in revenues.
- Power distribution segment revenues remained flat as the domestic power distribution market has slowed down considerably in the recent quarters. Power transmission business has slowed down as some large value orders of previous year are getting completed.

Segment revenues

(Rs mn)	Q2 FY10	Q2 FY09	% YoY
Automation tech	1701	2221.5	-23.4
Drive technologies	3573	2947.3	21.2
Building Tech	1577	208.1	657.7
Industry Soln	3093	2506.5	23.4
Mobility	2812	2346	19.8
Total Industry Group	**12756**	**10229**	**24.7**
Fossil Fuel	284	839.9	-66.2
O&G	1656	1409.2	17.5
Power Transmission	5902	9758.8	-39.5
Power Distribution	2316	2297.4	0.8
Total Energy Group	**10158**	**14305**	**-29.0**
Healthcare	**1678**	**1223**	**37.3**
Real Estate	**131**	**183**	**-28.7**

Source: Company

Margins have remained at elevated levels

- EBITDA margins for the quarter stood at 12.9% compared to 14.6% in Q2 FY09. The management indicated that the corresponding quarter of the previous year included some adjustments related to prior period costs which had shored up the profits. The company provides for any foreseeable loss in project business and then reverses the provisions if actual loss is lower than provided. This can lead to large writebacks in provisions which boosts the overall margins. This was the case in 2Q FY09.
- Favourable revenue mix in terms of higher share of products (45% of revenues) also contributed to higher level of EBITDA margins compared to historical levels.
- Several projects have reached completion stage during the quarter and have added to the profitability of the company.
- Adverse forex fluctuation as a result of depreciation in Euro resulted in MTM losses in the industry sector segment.

Segment margin

(%)	Q2FY10	Q2FY09	Q1 FY10
Automation tech	4.1	7	11.7
Drive technologies	3.0	7	15.1
Building Tech	3.1	3	3.4
Industry Soln	8.2	10	7.4
Mobility	11.1	-3	8.5
Total Industry Group	**6.2**	**5**	**10.1**
Fossil Fuel	58.2	7	45.1
O&G	8.4	17	17.9
Power Transmission	19.8	21	27.8
Power Distribution	8.2	10	8.5
Total Energy Group	**16.4**	**18**	**22.2**
Healthcare	**4.4**	**9**	**4.7**
Real Estate	**74.7**	**78**	**219.3**

Source: Company

Healthy order backlog

- At the end of the second quarter, order intake is up 20.4% yoy to Rs 22.4 bn.
- Fresh orders were received from the Cement and the Water business.
- The Rs 27 bn order from Qatar commenced work but billings have not started. The entire equipment supply for this project will be manufactured out of India.
- Order backlog stands at Rs 136 bn up 33% yoy.
- The order mix has improved in favour of Energy business (70% of orders), which is primarily project based.

Long-term plans of Siemens AG

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

- The company has inaugurated a state of the art bogie factory (undercarriage of a wagon) in Aurangabad, which will serve the Indian and Asian markets. The investment in this factory was Rs 2.0 bn.
- As part of its commitment to increase share of renewable energy, the company is exploring investment in solar power.
- In healthcare the company plans to expand the product portfolio.

Earnings Outlook

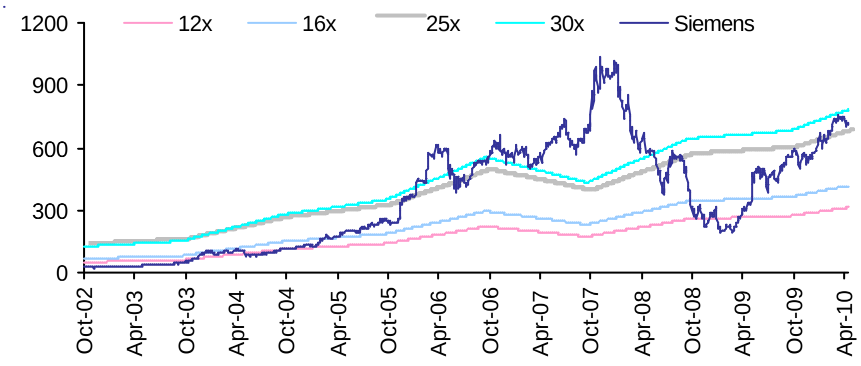
- We have largely maintained our earnings for the company.

Valuation and Recommendation

We recommend ACCUMULATE on Siemens India with a revised price target of Rs.770

- We have been cautious on the stock and the sector at large due to intense competitive scenario coupled with stock valuations running ahead of earnings growth.
- With the increasing evidence of traction in order intake, we have tempered our negative outlook on the stock.
- The company has begun the year with a strong order backlog and if the momentum in order intake remains healthy, then excellent numbers can be expected in FY11.
- In view of this, we maintain Accumulate with a DCF based price target of Rs 770 (Rs 690 earlier). At our target price, the stock would value the FY11 earnings at 26x.

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

RESULT UPDATE

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INDIAN OVERSEAS BANK (IOB)

PRICE: RS.95 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.90 **FY11E P/E: 8.2X, P/ABV: 0.9X**

Disappointing Q4FY10 results; deterioration in asset quality continues. Cutting FY11E earnings by 32% and maintaining REDUCE rating on the stock with target price of Rs.90 (reduced from Rs.110 earlier).

- **The bank's net interest income (NII) increased 16.5% to Rs.8.20 bn in Q4FY10 on back of higher CASA (rise of 230 bps YoY during Q4FY10) due to slower growth in term deposits, despite moderate growth in loan book (6.6%) and deterioration in C/D ratio from 75.7% in Q4FY09 to 72.9% in Q4FY10.**
- **Its net profit declined 60.5% in Q4FY10 on account of sharp decline (54.7%) in non-interest income, 65.5% increase in provisions & contingencies and 26.0% growth in operating expenses.**
- **Deterioration of asset quality continues, cause of concern, in our view. In Q4FY10, gross NPA and net NPA increased by 87.7% and 95.2%, respectively.**
- **We are cutting FY11E earning estimate by 32% and maintaining REDUCE rating on the stock with the target price of Rs.90 (earlier Rs.110) based on P/ABV of 0.9x its FY11E adjusted book value.**
- **Currently, stock is trading at cheap valuation vis-à-vis its peers. However, in our view it will continue to trade at a discount with its peers due to sharp deterioration in its asset quality in last couple of quarters. Therefore, we would advice our clients to look for better entry points.**

Result Performance

	Q4FY10	Q4FY09	YoY (%)	FY10	FY09	YoY (%)
Interest on advances	18,636	18,919	-1.5	76,595	72,896	5.1
Interest on Investment	6,233	5,509	13.1	23,816	21,563	10.4
Interest on RBI/ banks' balances	488	553	-11.8	1,926	1,682	14.5
Other interest	121	133	-9.2	121	273	NM
Total Interest earned	**25,478**	**25,115**	**1.4**	**102,458**	**96,414**	**6.3**
Interest expenses	17,274	18,074	-4.4	70,779	67,718	4.5
Net interest income	**8,204**	**7,041**	**16.5**	**31,679**	**28,696**	**10.4**
Other income	2,820	6,227	-54.7	11,433	15,273	-25.1
Net Revenue (NII + Other income)	11,024	13,268	-16.9	43,111	43,969	-2.0
Operating Expenses	6,468	5,134	26.0	24,665	18,732	31.7
Payments to / Provisions for employees	4,327	3,404	27.1	17,347	12,718	36.4
Other operating expenses	2,141	1,730	23.8	7,317	6,013	21.7
Operating profit	**4,556**	**8,134**	**-44.0**	**18,446**	**25,237**	**-26.9**
Provisions & contingencies	4,598	2,778	65.5	7,835	5,694	37.6
Provision for taxes	(1,317)	2,132	-161.8	2,720	6,285	-56.7
Extraordinary Items	-	-		822	-	
Net profit	**1,274**	**3,224**	**-60.5**	**7,070**	**13,258**	**-46.7**
EPS (Rs.)	**2.34**	**5.92**	**-60.5**	**12.98**	**24.34**	**-46.7**

Source: Company

Core performance disappoints

The bank's net interest income (NII) increased 16.5% to Rs.8.20 bn in Q4FY10 from Rs.7.04 bn in Q4FY09 on back of higher CASA (rise of 230 bps YoY during Q4FY10) due to slower growth in term deposits, despite moderate growth in loan book (6.6%) and deterioration in C/D ratio from 75.7% in Q4FY09 to 72.9% in Q4FY10.

Its net profit declined 60.5% in Q4FY10 to Rs.1.27 bn in Q4FY10 from Rs.3.22 bn in Q4FY09 on account of sharp decline (54.7%) in non-interest income, 65.5% increase in provisions & contingencies and 26.0% growth in operating expenses.

Subdued business growth

The bank witnessed subdued business growth which rose by only 8.9% to Rs.1915.8 bn in Q4FY10 from Rs.1759.3 bn in Q4FY09.

- Total deposits of the bank rose 10.7% YoY to Rs.1108.0 bn in Q4FY10 from Rs.1001.2 bn in Q4FY09. Its CASA mix improved from 30.3% at the end of Q4FY09 to 32.6% at the end of Q4FY10 due to slower growth in term deposits, which increased by 7.0% as compared to 19.1% growth in CASA mix.
- Loan growth was subdued at 6.6% to end at Rs.807.8 bn in Q4FY10, below the banking system growth of ~16.8%. Lower loan growth compared to deposit growth led to decline in C/D ratio from 75.7% at the end of FY09 to 72.9% at the end of FY10.

Deterioration of asset quality continues, cause of concern, in our view

Spike in both gross as well as net NPA is a cause of concern. In absolute terms, gross NPA and net NPA increased 87.7% (YoY) and 95.2% (YoY), respectively in Q4FY10.

Sharp increases in gross NPA during last seven consecutive quarters have been a cause of concern, in our view. Its gross NPA increased from Rs.23.37 bn at the end of Q1FY10 to Rs.26.85 bn at the end of Q2FY10 and Rs.32.18 bn in Q3FY10. It further deteriorated to Rs.36.11 bn at the end of Q4FY10.

During Q4FY10, addition in net NPA has been substantial. It increased by 95.2% and 15.4% YoY and QoQ, respectively. At the end of Q4FY10, its gross NPA and net NPA stands at 4.47% and 2.52%, respectively.

Trend in NPAs

(Rs bn)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	YoY (%)	QoQ (%)
Gross NPA	10.99	17.25	17.18	19.23	23.37	26.85	32.18	36.11	87.7	12.2
Gross (%)	1.73	2.47	2.40	2.54	3.04	3.42	4.05	4.47		
Net NPA	4.73	9.97	9.20	9.99	12.02	12.24	16.90	19.50	95.2	15.4
Net (%)	0.75	1.44	1.30	1.33	1.59	1.59	2.17	2.52		

Source: Company

Its provision coverage stands at 54.0% at the end of Q4FY10. To meet the RBI guidelines of 70% provision coverage by September 2010, it has to provide additional Rs.8.67 bn (~122% of FY10 profit) in next two quarters. Here, we are not including the cumulative technical write-offs to reach the guideline of 70% PCR, which if included would require lower provisions (due to non-availability of data). In our view, its low provision coverage remains a significant risk to its earnings, going forward.

Valuations

We are cutting the earnings for FY11E by 32% and now expect net profit for FY11E to be at Rs.6.35 bn. This would result into an EPS of Rs.11.6 and ABV of Rs.100.4 for FY11E.

At the current market price of Rs.95, the stock is trading at 8.2x its FY11E earnings and 0.9x its FY11E ABV.

We recommend REDUCE on IOB with a price target of Rs.90

We maintain REDUCE rating on the stock with the target price of Rs.90 (earlier Rs.110) based on P/ABV of 0.9x its FY11E adjusted book value.

Currently, stock is trading at cheap valuation vis-à-vis its peers. However, in our view it will continue to trade at a discount with its peers due to sharp deterioration in its asset quality in last few quarters. Therefore, we would advice our clients to look for better entry points.

Key data

Rs bn	2008	2009	2010E	2011E
Interest income	77.39	96.41	102.46	109.64
Interest expense	52.89	67.72	70.78	77.24
Net interest income	24.50	28.70	31.68	32.40
Other income	10.37	15.96	11.43	11.60
Gross profit	20.02	25.24	17.62	18.23
Net profit	12.02	13.26	7.07	6.35
Gross NPA (%)	1.6	2.6	4.5	4.5
Net NPA (%)	0.6	1.3	2.4	2.4
Net int. margin (%)	3.1	2.9	2.9	2.7
RoE (%)	27.9	23.4	10.4	8.6
RoAA (%)	1.3	1.2	0.6	0.4
Dividend Yield (%)	3.9	5.5	3.7	3.7
EPS (Rs)	22.1	24.3	13.0	11.6
Adjusted BVPS (Rs)	80.6	102.1	93.5	100.4
P/E (x)	4.3	3.9	7.3	8.2
P/ABV (x)	1.2	0.9	1.0	0.9

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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SHRIRAM TRANSPORT FINANCE COMPANY (STFC)

PRICE: RS.525 | **RECOMMENDATION: BUY**

TARGET PRICE: RS.640 | **FY11E P/E X: 10.4X; P/ABV X: 2.6X**

- **STFC 4QFY10 performance better than our expectation aided by improved securitisation income, which led to NIM (AUM) of 7.8%, NII for 4QFY10 grew by 32% yoy and 9% qoq to Rs.6.3bn.**
- **Net profit grew by a whopping 72% yoy for 4QFY10 to Rs. 2.6bn supported by CV trading income of Rs 81mn, lower operating cost (Cost/Income - 22%) and flattish trend in loan loss provisions**
- **AUM grew by 25% yoy to Rs. 291bn; old CV portfolio grew by 27% yoy while new CVs grew by 18% yoy. STFC's overall advances growth remained flattish for FY10 following higher securitisation during 4QFY10 which also aided NIM improvement.**
- **Asset quality moreover remained steady during 4QFY10, GNPA at Rs. 5.1bn (Rs. 5.2bn in 3QFY10) and NNPA Rs. 1.3 mn (Rs 1.4bn in 3QFY10).**
- **We are tweaking our FY11 earnings estimates for STFC following strong earnings growth for FY10. Superior return ratios- with ROE of ~29% reinforce our confidence in the company. We upgrade the stock to Buy from Accumulate earlier with a revised price target of Rs. 640 (Rs 610 earlier).**

Quarterly Performance

(Rs mn)	4QFY10	3QFY10	4QFY09	QoQ %	YoY %	FY10	FY09	% chg
Income from operations	12,034	11,609	10,042	3.7	19.8	44,508	37,228	19.6
Interest expense	5,730	5,828	5,265	-1.7	8.8	22,191	19,777	12.2
Net Interest Income	**6,304**	**5,781**	**4,777**	**9.1**	**32.0**	**22,317**	**17,451**	**27.9**
Other income	258	126	1			476	84	
Operating expense	1,414	1,250	1,293	13.1	9.3	5,387	5,261	2.4
Operating profit	5,149	4,657	3,485	10.6	47.7	17,407	12,273	41.8
Provision for bad laons	1,022	1,014	994	0.9	2.9	4,107	3,057	34.3
PBT	**4,127**	**3,643**	**2,492**	**13.3**	**65.6**	**13,300**	**9,216**	**44.3**
Provision for taxes	1,482	1,219	812	21.6	82.5	4,525	3,092	46.3
PAT	**2,644**	**2,424**	**1,680**	**9.1**	**57.4**	**8,775**	**6,124**	**43.3**
EPS	**12**	**12**	**8**	**-1.6**	**55.1**	**200**	**31**	**555.4**
Cost/Income (%)	22	22	27			24	30	
Effective Tax rate	36	33	33			34	34	
Disbursements	39,029	39,500	27,840	-1.2	40.2	149,171	115,672	29.0
Securitisation	54,945	18,593	17,204	195.5	219.4	87,568	31,249	180.2
Loan book outstanding	179,650	215,520	179,216	-16.6	0.2	179,650	179,216	0.2
Gross NPA (%)	2.8	2.4	2.1			2.8	2.1	
Net NPA (%)	0.7	0.7	0.8			0.7	0.8	

Source: Company

STFC 4QFY10 performance better than our expectation aided by improved securitisation income, which led to NIM (AUM) of 7.8%, NII for 4QFY10 grew by 32% yoy and 9% qoq to Rs.6.3bn.

- STFC witnessed a strong growth in its headline number, attributable to higher securitisation of assets during 4QFY10. NII was up by 32% yoy and 9% qoq to Rs.6.3bn as compared to Rs 4.7bn in 4QFY09. NII for FY10 grew by 28% yoy inclusive of securitisation income which grew by 93% yoy to Rs. 65.3bn.

- Since STFC's primarily lending to individual truck owners (small truck operators and individuals), which is categories as priority sector lending. These assets find high demand by banks. During FY10 STFC has securitised assets amounting to Rs. 87bn (Rs.31.3bn in FY09). The company securitised Rs. 54bn in 4QFY10, which we opine pushed its yield up during the period under review to 17.7% and NIM (AUM) to 7.8%.

Summary table

(Rs bn)	FY09	FY10E	FY11E
Interest Income	37.2	44.4	48.9
Interest expenses	19.8	22.5	22.3
NII	17.5	21.9	26.6
Other Income	0.1	0.6	1.1
Total Income	17.6	22.5	27.7
Optg Profit	12.7	17.5	22.0
PAT	6.1	8.7	11.9
Gross NPA (%)	2.1	2.0	1.5
Net NPA (%)	0.8	0.7	0.7
NIM (%)	8.9	9.6	9.5
RoA (%)	3.1	3.8	3.8
RoE (%)	29.6	28.3	28.1
Divi. Payout Ratio (%)	1.1	1.4	2.3
EPS (Rs)	30.1	38.7	50.5
BV (Rs)	113.8	170.4	208.7
Adj. BV (Rs)	106.8	165.3	202.2
P/E (x)	17.4	13.6	10.4
P/ABV (x)	4.9	3.2	2.6

Source: Company, Kotak Securities - Private Client Research

Net profit grew by a whopping 72% yoy for 4QFY10 to Rs. 2.6bn supported by CV trading income of Rs 81mn, lower operating cost (Cost/Income - 22%) and flattish trend in loan loss provisions

- STFC reported a strong growth in net profit at Rs. 2.6bn, which surpassed our expectation of Rs. 2.4bn, growth of 72% yoy and 12% qoq. The strong growth in the bottom-line numbers was seen at the back of strong traction in the CV loans during FY10.

- STFC's new initiative Shriram Automall (CV trading business), earned a commission income of Rs. 81mn in 4QFY10 and Rs. 305mn for FY10. Its first Automall has become operational at Chennai, and it further plans to set up five more Automalls across India. We expect steady growth in the CV trading income during FY11 and maintain our estimates at Rs 700mn.

- Operating cost remained lower, demonstrating a flattish trend on sequential basis. Its cost to income ratio declined to 22% for 4QFY10 as compared to 30% in previous year, while for FY10 it stood at 24% (30% in FY11).

- On account of improving viability at the truck operator level (steady freight rates and pass through of incremental fuel cost), incremental slippages are receding. This lead to a flattish trend in loan loss provision for 4QFY10.

AUM grew by 25% yoy to Rs. 291bn; old CV portfolio grew by 27% yoy while new CVs grew by 18% yoy. STFC's overall advances growth remained flattish for FY10 following higher securitisation during 4QFY10 which also aided NIM improvement.

- STFC has reported a healthy growth of 25% in its AUM to Rs. 290bn, which is largely in line with our estimates. However, its advances books remain flat yoy to Rs. 179bn. This is mainly on account of higher asset securitisation during 4QFY10 to banks, It securitised loans amounting to Rs. 87bn (Rs.31bn in FY09) for FY10.

- Securitised assets have historically formed close to 20% of its AUM, however, for FY10 it comprised of around 24% of the AUM following higher securitisation. STFC, with its conservative policy, has been amortising its income from securitisation over the life of assets and presently has Rs. 23.7bn of deferred revenue in its books.

- This, we opine, has aided in raising funds at 1-1.5% discounts, which also checks its cost of funds. Nonetheless, to certain extend, it has also helped in mitigating the interest rate risk it was exposed to with 50% of its borrowings at floating rate, while 100% of its lending were at fixed rate.
- The prudent move (higher securitsation) has also helped in preserving its return ratios- RoA of 3.8% and RoE of 29% for FY10 and 3.8% and 28% for FY11. We opine that this will continue to support premium valuations for the stock.

Asset quality moreover remained steady during 4QFY10, GNPA at Rs. 5.1bn (Rs. 5.2bn in 3QFY10) and NNPA Rs. 1.3 mn (Rs 1.4bn in 3QFY10).

- In the backdrop of improving operating conditions at the truck operator level given the steady freight rates and pass through of incremental fuel cost to the customers, STFC has witnessed waning incremental slippages. Its GNPA (in absolute terms) stood at Rs 5.11bn during 4QFY10 as compared to Rs.5.25bn in 3QFY10.
- With its conservative provisioning policy, its provision coverage improved to 75%, and NNPA remain at comfortable 0.72% levels for FY10. We expect the consistent trend in asset quality performance to continue going forward.

Tweaking our FY11 earnings estimates for STFC following strong earnings growth for FY10. Superior return ratios with ROE of ~29% reinforce our confidence in the company. We upgrade the stock to buy from Accumulate earlier with a revised price target of Rs. 640.

- Going forward, we expect that traction in CV financing business is likely to continue, given the improved macroeconomic activity in India. We expect AUM growth of 25% yoy for FY11 to Rs 364bn.

We recommend BUY on Shriram Transport Finance Company with a price target of Rs.640

- We continue to maintain our positive outlook for STFC and therefore tweaking our earnings estimates for STFC in the wake of higher business growth and firm interest margins. Improvement in asset quality and superior return ratios will also support stock valuation.
- At the current market price the stock trades at P/E of 10.4x and P/ABVx of 2.6x its FY11 earnings estimates. We upgrade our stock recommendation to BUY from Accumulate earlier with a revised price target of Rs. 640 (22% upside). We value the company on dividend discount model, and at our price target the stock trades at P/ABVx of 3.1x its FY11 earnings estimates.

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	947	3.0	10.6	4.7
Reliance Ind	1035	1.8	10.4	5.4
SBI	2274	1.9	3.7	2.1
Losers				
ITC	267	(1.0)	(2.5)	3.4
Hindustan Unilever	236	(2.6)	(2.3)	6.7
TCS	760	(1.4)	(1.8)	2.3

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
30-Apr	ABB, Adani Power, Allahabad Bank, Amtek Auto, BEL, Gateway Distr, GVK Power, HCL Infosystems, IDBI Bank, IFCI, India Cements, IRB Infra, NDTV, Reliance Cap, Shyam Telecom, Sintex Ind, Tanla Solutions, Tech Mahindra, Tata Teleservices, Titan Ind, UCO Bank earnings expected

Source: BSE

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