



Economy News

- ▶ After brainstorming with top world leaders in Beijing on the raging financial turmoil, Prime Minister Manmohan Singh cautioned that India's economy was also bound to feel the pain "sooner or later" as "we are not in complete control". (BS)
- ▶ Foreign institutional investors (FIIs) continue to lend stocks to overseas investors despite a warning issued by the Securities and Exchange Board of India (Sebi) and Finance Minister P Chidambaram against such transactions. (BS)
- ▶ The recent drop in crude oil prices has brought down the freight rates of goods exported from India to the US and Europe by 30 to 40 per cent.(BS)
- ▶ The revamped Index of Industrial Production (IIP), which seeks to capture the trend in industrial production more accurately, will be released in coming January. (ET)
- ▶ Call rates ended in their comfortable range of 6-6.10%, as liquidity finally improved considerably for the range of monetary tools used by the Reserve Bank of India (RBI). (ET)
- ▶ Gold sales have picked up phenomenally after a fall in its prices to 12,000-level following consistent steep fall in equity markets which has boosted the demand for the metal as a safe investment option. (ET)

Corporate News

- ▶ **Chola DBS CEO may step down due to pressure** - Atul Pande, CEO and MD of Cholamandalam DBS Finance one of the biggest non-banking finance companies (NBFCs) in India - is believed to be stepping down following mounting pressure from the board. (ET)
- ▶ **Grasim** cuts VSF production by 30% from the current level. These production cuts will come at its Nagda (MP) and Kharach (Gujarat) plants. (BS)
- ▶ **State Bank of India (SBI)** signed a joint venture (JV) agreement with Macquarie and IFC, the World Bank's private sector lending arm, to set up an infrastructure private equity fund. (BS)
- ▶ **Jet Airways** has posted a net loss of Rs 384.50 crore for the quarter ended September 30, 2008 as compared to net profit of Rs 28.30 crore for the quarter ended September 30, 2007. (BS)
- ▶ **Shipping Corporation of India (SCI)** net profit for the second quarter ended September 30, increased by 50.77 per cent to Rs 274.88 crore over the corresponding period a year ago. (ET)
- ▶ **Tata Communications**, formerly known as VSNL, net profit for the second quarter ended September 30 fell by 62.77 per cent at Rs 32.64 crore over the corresponding period a year ago. (ET)

Equity

		% Chg			
	24 Oct 08	1 Day	1 Mth	3 Mths	
Indian Indices					
BSE Sensex	8,701	(11.0)	(33.6)	(39.0)	
Nifty	2,584	(12.2)	(35.2)	(40.1)	
BSE Banking	4,650	(12.6)	(29.2)	(31.1)	
BSE IT	2,598	(5.2)	(19.7)	(28.0)	
BSE Capital Goods	6,611	(8.8)	(38.8)	(43.7)	
BSE Oil & Gas	5,152	(15.0)	(43.3)	(45.8)	
NSE Midcap	3,412	(8.1)	(32.0)	(38.7)	
BSE Small-cap	3,662	(7.7)	(37.5)	(46.0)	
World Indices					
Dow Jones	8,379	(3.6)	(24.8)	(26.3)	
Nasdaq	1,552	(3.2)	(28.9)	(32.8)	
FTSE	3,883	(5.0)	(23.7)	(27.4)	
Nikkei	7,649	(9.6)	(35.3)	(42.3)	
Hangseng	12,618	(8.3)	(33.8)	(45.6)	

Value traded (Rs cr)

	24 Oct 08	% Chg - Day
Cash BSE	4,204	13.5
Cash NSE	11,162	5.8
Derivatives	52,477	(2.1)

Net inflows (Rs cr)

	23 Oct 08	% Chg	MTD	YTD
FII	(347)	27	(12,168)	(49,674)
Mutual Fund	(81)	(561)	872	13,356

FII open interest (Rs cr)

	23 Oct 08	% Chg
FII Index Futures	11,847	(8.8)
FII Index Options	17,019	(11.3)
FII Stock Futures	11,910	(16.4)
FII Stock Options	521	(16.1)

Advances / Declines (BSE)

	24 Oct 08	A	B	S	Total	% total
Advances	2	166	51	219	9	
Declines	205	1485	385	2,075	89	
Unchanged	-	30	6	36	2	

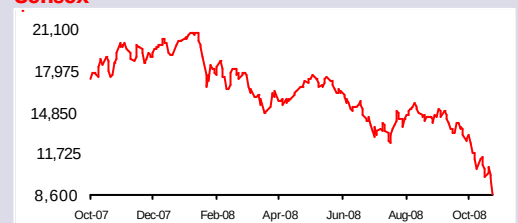
Commodity

			% Chg			
	24 Oct 08	1 Day	1 Mth	3 Mths		
Crude (NYMEX)	(US\$/BBL)	64.4	0.4	(39.8)	(47.8)	
Gold	(US\$/OZ)	734.8	1.8	(16.0)	(20.6)	
Silver	(US\$/OZ)	9.4	(3.3)	(29.1)	(45.9)	

Debt / forex market

	24 Oct 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.80	7.68	8.55	9.27
Re/US\$	49.98	49.82	45.95	42.13

Sensex



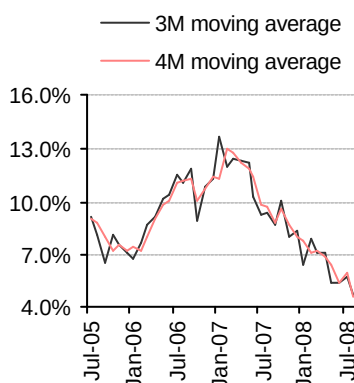
ECONOMY UPDATE**Saday Sinha**saday.sinha@kotak.com
+91 22 6621 6312**MID-TERM REVIEW OF ANNUAL POLICY: 2008-09****No surprises: Status quo maintained by the RBI**

The RBI's stance in the mid-term review of annual policy statement for 2008-09 is in line with our expectations. The central bank left all key policy rates unchanged.

With the softening in international commodity prices, domestic headline inflation (read WPI) is also moving southwards. In our view, banks would wait for some more time for liquidity situation to ease out, before cutting their lending rates for borrowers.

Key Highlights:

- ❑ Bank rate has been kept unchanged at 6.0%
- ❑ Repo rate under the LAF window has been kept unchanged at 8.0%
- ❑ Reverse Repo rate under the LAF has been kept unchanged at 6.0%.
- ❑ Cash Reserve Ratio (CRR) left unchanged at 6.5% of net demand and time liabilities (NDTL).
- ❑ Left statutory lending rates (SLR) unchanged at 25.0%.
- ❑ Lowered economic growth projections for 2008-09 to 7.5-8.0%.
- ❑ The RBI kept the inflation projection unchanged at 7.0% by the end of FY09, on the back of cooling global commodity and oil prices.
- ❑ M3 (broad money) expansion to be contained at around 17.0% during 2008-09.
- ❑ Aggregate deposits projected to grow by 17.5% during 2008-09.
- ❑ Adjusted non-food credit projected to increase by 20% during 2008-09.

3M & 4M Moving Average of IIP

Source: Ministry of Statistics and Program Implementation

RBI has maintained the status quo by not changing any policy rates in the mid-term review of Annual policy: 2008-09. Recently, the central bank took a host of policy measures to infuse confidence by augmenting both domestic and foreign exchange liquidity. In order to tide over the knock-on effect of global financial turmoil on domestic financial markets, it had cut the CRR by 250 bps, Repo rate by 100 bps and SLR (indirect cut) by 150 bps. Along with change in the policy rates, a series of other measures like hiking the interest ceiling on FCNR & NRE deposits & hiking the borrowing limits by banks from their overseas branches were taken.

The 250 bps cut in the CRR released around Rs.1000 bn of liquidity into the banking system. Now, the liquidity scenario in money market has improved and it can be visible from over Rs.400 bn parked with the RBI @6% under reverse repo window (Rs.411 bn on October 22, 2008 & Rs.437 bn on October 23, 2008)

RBI has reduced the economic growth projection for 2008-09 to 7.5-8.0% from 8.0% earlier (Q1FY09 Annual policy review). The recent global and domestic developments have increased the downside risks associated with this projection. This is also visible from recent IIP (index of industrial production) numbers declared by CSO in recent months. The chart showing 3M & 4M moving average of IIP numbers indicates perceptible slowdown in the economy.

RBI has pointed to the current challenge of striking an optimal balance between preserving financial stability, maintaining price stability, anchoring inflation expectations and sustaining the growth momentum. It further emphasized that to manage this challenge, it would continue to deploy both conventional as well as unconventional tools.

Non-food credit has posted a growth of 29.3% on a year-on-year basis as of October 10, 2008, which is well beyond the projection of 20% for FY09. This higher rate of credit growth is also on back of constraints in sourcing external credit. The inflated credit growth also accounts large scale borrowings by OMCs (Oil Marketing Companies) and fertilizer companies and drying up of other source of resource mobilization by the corporate.

The central bank also emphasized that inflation continues to be a matter of concern requiring constant "vigil". The headline inflation (read WPI) has been coming down in recent weeks (thanks to global commodity prices!!). The latest WPI reported for the week ended October 11, 2008 was 11.07%. The falling inflation is likely to provide more comfort to the central bank in cutting repo rate to enthruse the slowing economy.

RBI also indicated that it is committed to deepening and expanding reforms in the financial sector so that efficient and competitive financial intermediation evolves to secure sustained growth with stability.

This policy has also focused on issues such as development of various segments of financial markets and strengthening the financial market infrastructure, further liberalization of forex transactions and relaxation of interest rate ceilings of NRI deposits.

We believe, banks would wait for some more time before cutting their lending rates. In recent times (since mid of September, 2008), banks have been facing liquidity crunch in the money market. However, they did not increase the lending rates for borrowers on back of rise in their funding cost. Now, they would wait for cost of funds to come down before cutting the lending rates for borrowers.

RESULT UPDATE**Dipen Shah**

dipen.shah@kotak.com

+91 22 6621 6301

R SYSTEMS INTERNATIONAL LTD (RS)**PRICE: Rs.44****TARGET PRICE: Rs.92****RECOMMENDATION: ACCUMULATE****CY08 P/E: 2.3x**

3QFY08 operational results below estimates. Company hit by project cancellation by one client and project closures in another account. Sento revenues also lower QoQ. Macro headwinds to impact growth rates going forward. Net cash of Rs.35 per share may act as cushion. Buy back expected to start by end of month. Downgrade to ACCUMULATE. To become more positive post improvement in macro-scenario. Continue to prefer large caps

- ❑ Results for 3QCY08 lower than expected.
- ❑ Revenue growth flat QoQ - impacted by scale down in one account in UK and also lower revenues in the recently acquired Sento
- ❑ Margins down on a QoQ basis due to salary hikes to balance employees and also hedging losses accounted as part of Opex.
- ❑ Company has witnessed cautiousness from its banking clients due to the overall macro scenario, leading to longer sales cycle. Near term growth rate expected to be challenged.
- ❑ Large customers like GE, Phillips, Nokia Siemens, Motorola, Open Solutions, TMA Resources, Barclays, Society General, etc expected to lend some stability. However, we remain concerned because of the client profile of RS, which includes early stage companies also.
- ❑ Make changes to our estimates for CY08. Consolidated revenues expected to grow to Rs.3.55bn, with PAT expected to rise to Rs.242mn (Rs.256mn earlier).
- ❑ Rupee assumed to end CY08 at Rs.45 per USD (Rs.40 earlier). Made changes to cost of capital assumptions. DCF - based price target at Rs.92 (Rs.132 earlier) will discount our CY08E earnings by about 5x. Downgrade to ACCUMULATE purely because of the net cash of about Rs.35 per share. Continue to prefer large caps.
- ❑ A prolonged recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are the primary risks to our call.

Summary table

(Rs mn)	CY06	CY07	CY08E*
Revenues	2039.5	2470.6	3551.2
Growth (%)	29.6	21.1	43.7
EBITDA	224.1	233.2	397.6
EBITDA margin (%)	11.0	9.4	11.2
Net profit	142.4	174.4	242.9
Net cash (debt)	485.1	495.2	441.1
EPS (Rs)	10.5	12.9	18.0
Growth (%) *	117.1	22.5	39.3
CEPS	14.9	18.1	26.6
DPS (Rs)	1.2	1.8	2.0
ROE (%)	15.0	12.9	15.9
ROCE (%)	20.3	15.9	17.7
EV/Sales (x)	0.3	0.2	0.2
EV/EBITDA (x)	2.7	2.5	1.6
P/E (x)	4.0	3.3	2.3
P/Cash Earnings	2.8	2.3	1.6
P/BV (x)	0.4	0.4	0.3

Source: Company, Kotak Securities - Private Client Research

* Sento's financials consolidated WEF February 08

3QCY08 results

(Rs mn)	3QCY08	2QCY08	QoQ (%)	3QCY07	YoY (%)
Income	921.1	905.6	1.7	641.0	43.7
Expenditure	832.2	795.1		564.4	
EBDITA	88.9	110.6	-19.6	76.6	16.0
Depreciation	30.3	28.1		18.5	
EBIT	58.7	82.5		58.2	
Interest	1.4	1.4		1.2	
Other income	16.2	-31.7	-	13.9	16.5
PBT	73.6	49.4	48.9	70.9	3.8
Tax	8.0	3.0		10.8	
PAT	65.5	46.5	41.1	60.1	9.1
Shares (mns)	13.5	13.5		13.5	
EPS (Rs)	4.9	3.4		4.4	
Margins (%)					
EBDITA	9.7	12.2		12.0	
EBIT	6.4	9.1		9.1	
PAT	7.1	5.1		9.4	

Source : Company

Revenues

- Revenues grew by 1.7% QoQ in INR terms. In USD terms, revenues de-grew over the previous period.
- Revenues growth was impacted by the scale down in one of the larger accounts in UK.
- The client was expecting some orders from European banks which did not materialize and in turn, scaled down the project with RS Systems.
- Sento, which the company recently acquired, also reported lower revenues on a sequential basis and this also led to the overall revenue shortfall.

Top clients de-grew

- The company added 9 new accounts during the current quarter across businesses.
- However, revenues from the Top accounts de-grew on a sequential basis, which is of concern.
- The top client, GE, saw revenues fall by about 9% QoQ. In USD terms, the fall was larger. Some projects in Switzerland and France came to an end and there was a delay in starting of new accounts..
- The management has indicated that, the near term macro headwinds would impact growth rates in the near term.
- We expect the impact to continue over the next few quarters and have accordingly reduced growth rates for CY09 in our DCF model.

Products business initiated new projects

- In the products business, Indus and EcNet saw good client additions and started implementations in new accounts.
- However, the overall turmoil in the BFSI segment and across other sectors also, will likely impact growth in these product lines, in our opinion.
- We note that, the revenues from the multi-year Global License and Services agreement with AIG Consumer Finance Group had started flowing in recently. With AIG witnessing significant restructuring, we expect impact on R Systems also.

Margins suffered....

- EBIDTA margins fell by about 260bps partly despite the rupee depreciation during the quarter.

...due to salary increases

- The margins were impacted due to the average salary increases of about 11% - 12%, which the company gave to the balance employees during the quarter.
- In 2QCY08, the company had given unscheduled salary increases to few employees. In our opinion, the company had to increase salaries to be nearer to the industry average.
- The company also provided for Rs.15mn of forex losses as part of the operational expenditure, further impacting the profitability.

One-time income

- RS wrote back past provisions and also received an IT refund which form part of the other income component.
- These totaled to about Rs.9.7mn and are non-repetitive in nature.

Future prospects

- We have made changes to our earnings estimates post the 3QFCY08 results.
- We expect revenues for CY08 to grow to Rs.3.55bn with net profit expected to grow to Rs.243mn.
- EBIDTA margins are expected to be higher v/s CY07 mainly because of the rupee depreciation and better resource utilization.
- This leads us to an EPS of Rs.18 for CY08. We have arrived at a price target of Rs.92 based on the DCF analysis, at which levels our CY08 earnings will be discounted by about 5x.
- We have assumed a more challenging demand scenario in the medium term, which has led to a reduction in the price target.

Cash per share and buy - back

- R Systems had a net cash balance of about Rs.470mn as at September 2008. This works out to about Rs.35 per share.
- The Board has approved a program to buy back a maximum of 1.3mn shares at a price not exceeding rs.150 per share. This is expected to start by the end of the month.
- We see the cash in the balance sheet as a cushion against any significant fall in the price from the current levels.

Concerns

- Rupee appreciation beyond our assumed levels in CY08 could provide a downward bias to our earnings estimates.
- A prolonged recession in major global economies could impact revenue growth of Indian vendors, including R Systems.

**We recommend ACCUMULATE
on R Systems with a price target
of Rs.92**

RESULT UPDATE**Apurva Doshi**doshi.apurva@kotak.com
+91 22 6621 6308**INDRAPRASTHA GAS (IGL)****PRICE: Rs.99****TARGET PRICE: Rs.135****RECOMMENDATION: ACCUMULATE****FY09E P/E: 7.5x**

- ❑ IGL reported excellent Q2FY09 results, which are in line with our estimates
- ❑ Revise FY09 EPS downwards by 4%.
- ❑ Revise price target to Rs.135 (Rs.150 earlier)
- ❑ Due to near term concerns of slowing economy and likely regulation in the business we revise the rating from BUY to ACCUMULATE.

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	6,141	7,060	8,457
Growth (%)	17.9	15.0	19.8
EBIDTA	2,552	3,000	3,341
EBIDTA margin (%)	41.6	42.5	39.5
Net profit	1,380	1,745	1,841
EPS (Rs)	9.9	12.5	13.2
Growth (%)	29.98	26.45	5.54
CEPS (Rs)	14.1	16.9	18.6
DPS (Rs)	2.5	2.5	4.0
ROE (%)	32.6	33.4	28.9
ROCE (%)	48.0	49.4	43.6
EV/Sales (x)	2.2	2.0	1.6
EV/EBIDTA (x)	5.4	4.6	4.1
P/E (x)	10.0	7.9	7.5
P/BV (x)	3.0	2.4	2.0
P/CEPS (x)	7.0	5.8	5.3

Source: Company, Kotak Securities - Private Client Research

IGL - Q2FY09 Results

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	H1FY09
Net Sales	2,152	1,741	23.6	1,907	12.8	4,059.21
Increase / decrease in stock	(0)	-	-	(0)	-	(0.18)
Raw materials	959	746	28.6	844	13.6	1,803.32
Staff cost	54	35	54.7	54	0.2	107.34
Other exp.	288	211	36.9	254	13.3	542.57
Total exp.	1,301	991	31.3	1,152	12.9	2,453
EBIDTA	851	750	13.4	755	12.7	1,606
Other income	69	47	44.8	63	9.9	131.32
Depreciation	169	158	6.5	164	3.1	332.07
EBIT	751	639	17.5	654	14.8	1,405
PBT	751	639	17.5	654	14.8	1,405
Tax & deferred tax	249	211	18.3	218	14.6	466.84
PAT	502	428	17.1	437	14.9	939
Equity shares o/s (mn)	140	140		140		140
Ratios						
Operating profit margin (%)	39.5	43.1	-360 bps	39.6	-10 bps	39.6
EPS (Rs)	3.6	3.1		3.1		6.7
CEPS (Rs)	4.8	4.2		4.3		9.1
Raw Materials / Sales (%)	44.6	42.8		44.3		44.4
Staff cost / sales	2.5	2.0		2.8		2.6
Other exp / sales	13.4	12.1		13.3		13.4
Tax / PBT	33.2	33.0		33.2		33.2

Source: Company

- Net sales for Q2FY09 were at Rs.2.1 bn up by 23.6% YoY and up 12.8% on sequential basis. Higher sales were a result of increase in volumes of both CNG and PNG.
- During the Q2FY09, IGL sold 117.2 mn kg of CNG as against 95.5 mn kg of CNG in the same period last year registering a YoY growth of 22.7% and sequential growth of 12.7%.
- IGL sold 13.3 mn SCM of PNG in Q2FY09 as against 10.5 mn SCM of PNG during the same period last year showing an impressive YoY growth of 26.7% and sequential growth of 14.7%.
- In Q2FY09 operational profit grew by 13.4% on YoY basis to Rs.851 mn. The company recorded lower EBIDTA margin of 39.5%, which is down 360 bps on YoY basis and down 10 bps on sequential basis. This is primarily due to higher raw materials to sales ratio at 44.6% in Q2FY09 as against 42.8% in the same quarter last year.

- The other expenditure as a percentage of revenues increased from 12.1% in Q2FY08 to 13.4% in Q2FY09. Also the staff cost as a percentage of revenues increased from 2.0% in Q2FY08 to 2.5% in Q2FY09.
- PBT for Q2FY09 was at Rs.751 mn up 17.5% on YoY basis.
- PAT for Q2FY09 was at Rs.502 mn up 17.1% on YoY basis thereby translating into quarterly EPS of Rs.3.6 and CEPS of Rs.4.8.

Segmental

	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	H1FY09
Volume performance						
CNG mn kg	117.2	95.5	22.7	104.0	12.7	221.2
PNG mn scm	13.3	10.5	26.7	11.6	14.7	24.9
Value (Rs. mn)						
CNG	2196.3	1815.5	21.0	1948.3	12.7	4,144.6
PNG	234.7	184.9	26.9	206.8	13.5	441.5
Average Realisations						
CNG Rs. per Kg	18.74	19.01	(1.4)	18.73	0.0	18.74
PNG Rs. per SCM	17.65	17.61	0.2	17.83	(1.0)	17.73

Source: Company

New city expansions and city gas distribution

- IGL's expansion plans for setting up CNG stations in the adjoining areas of Delhi are going on according to schedule and are expected to meaningfully contribute from the H2FY10E.
- IGL's foray into the adjoining areas of Delhi like Noida, Greater Noida, Ghaziabad, Sonapat & Panipat would help maintain the 12-15% growth rate in CNG volumes of the company. Also, the expansion into various city gas distribution projects would help to continue robust growth (more than 25%) in the PNG volumes of the company.
- Some of the triggers for the growing CNG markets are large scale conversion of petrol driven private vehicles, introduction of Radio Taxis and high capacity buses on CNG and increase of CNG variant models by car manufactures and also introduction of 2-wheelers on CNG. Piped Natural Gas (PNG) has become a preferred kitchen fuel to replace LPG cylinders.

Demand for excess charges

In Q2FY09 the company has received a demand of Rs.64.7 mn towards charges pertaining to excess drawl of natural gas. However the company is of the view that this amount is not payable as per the contractual terms and thus it has not provided for the same.

Change in earning estimates

Earning Estimates - FY09E

(Rs mn)	Old	Revised
Net Sales	8457	8457
EBIDTA (%)	41.0	39.5
PAT	1910	1841
EPS (Rs.)	13.6	13.2
CEPS	19.1	18.6
Target Price	150	135

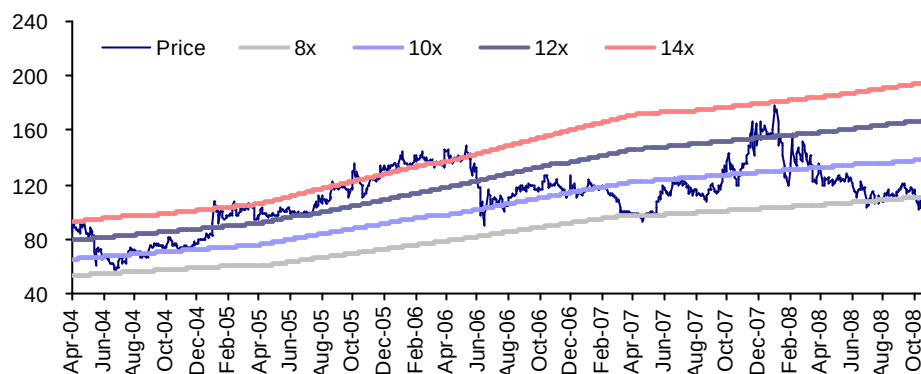
Source: Kotak Securities - Private Client Research

- We have revised the earning estimate for IGL to account for lower then expected operating margins. Also we have accounted for the higher then expected other income on account of increase in the interest rates as the company is debt free and has surplus cash on its books.
- We expect the company to report lower operating margin of 39.5% as against our earlier estimate of 41.0%. This is on account of higher then expected staff cost and other expenditure.
- We now expect the company to report lower PAT of Rs.1.8 bn as against our earlier estimate of Rs.1.9 bn.
- Accordingly we expect the company to report lower EPS of Rs.13.2 as against our earlier estimate of Rs.13.6.

Recommendation and Valuation

- On the basis of our estimates, the stock at current market price of Rs.99 is trading at 4.1x EV/EBIDTA and 7.5x earnings and 5.3x cash earnings based on FY09E.
- We have also done a one-year forward rolling band analysis for IGL, which revealed that currently the stock is trading below the traditional band of 8x-14x one year forward earning estimates.

One year forward rolling P/E band - IGL

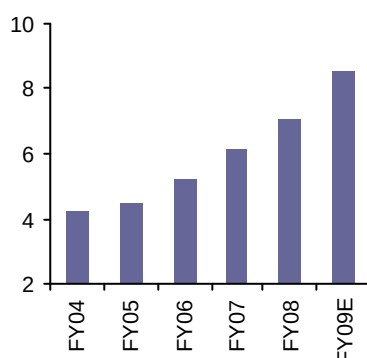


Source: Capitaline, Kotak Securities - Private Client Research

We recommend ACCUMULATE on Indraprastha Gas with a revised price target of Rs.135

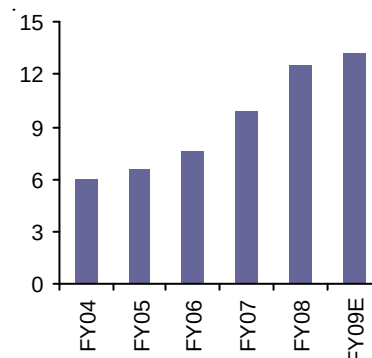
- On account of changes in the earning estimates and higher beta the DCF based price target is revised to Rs.135 (Rs.150 earlier).
- We remain positive on the long term growth prospects of the company.
- However due to near term concern of slowdown in economy and likely regulation and competition in the CNG and PNG distribution business we revise the rating from BUY to **ACCUMULATE** with revised price target of Rs.135.

Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Apurva Doshi

doshi.apurva@kotak.com

+91 22 6621 6308

GUJARAT STATE PETRONET LTD (GSPL)

PRICE: Rs.33

TARGET PRICE: Rs.50

RECOMMENDATION: ACCUMULATE

FY09E P/CEPS: 6.0x

- ❑ GSPL reported its Q2FY09 results which are marginally below our estimates on the profitability front
- ❑ Maintain FY09 earning estimates.
- ❑ However due to near term concerns of slowdown in economy and payment of 30% of PBT to Gujarat government we revise the rating form BUY to ACCUMULATE
- ❑ The price target is revised to Rs.50 (Rs.60 earlier)

Summary table

(Rs mn)	FY07	FY08	FY09E
Sales	3,176	4,179	6,024
Growth (%)	20.5%	31.6%	44.2%
EBITDA	2,677	3,645	5,259
EBITDA margin (%)	84.3	87.2	87.3
Net profit	894	999	1005
Net debt	6,827	7,091	9,477
EPS (Rs)	1.6	1.8	1.8
Growth (%)	91.3	7.9	0.6
CEPS (Rs)	3.5	4.7	5.5
DPS (Rs)	50.0	50.0	50.0
ROE (%)	9.5	9.5	8.6
RoIC (%)	0.1	0.1	0.1
EV/Sales (x)	7.8	6.1	4.7
EV/EBITDA (x)	9.2	7.0	5.3
P/E (x)	20.0	18.6	18.5
P/BV (x)	1.9	1.6	1.5
P/CEPS (x)	9.3	7.0	6.0

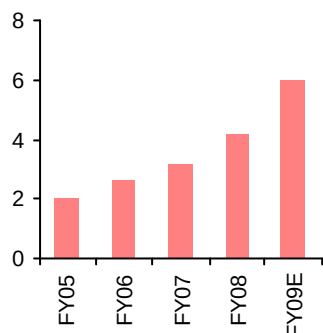
Source: Company, Kotak Securities - Private Client Research

Q2FY09 performance - GSPL

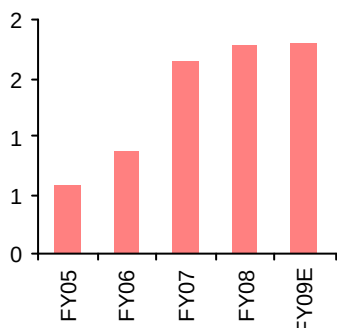
(Rs mn)	Q2FY09	Q2FY08	YoY%	Q1FY09	QoQ (%)	H1FY09
Net Sales	1,186	954	24.4	1,195	(0.8)	2,381
Gas Transport Charges	19	6	200.1	-	-	19
Connectivity Charges	30	29	5.5	32	(5.1)	63
Staff cost	20	15	31.8	19	5.2	39
O & M	54	52	2.7	32	65.8	86
Admin & Other	39	42	(7.0)	36	7.3	75
Total exp.	162	144	12.3	119	35.5	281
EBIDTA	1,024	810	26.5	1,076	(4.8)	2,100
Other income	72	56	28.3	68	6.4	140
Depreciation	423	407	3.9	415	2.0	837
EBIT	674	459	46.8	729	(7.6)	1,403
Interest	231	207	11.8	218	5.8	449
PBT	443	253	75.5	511	(13.3)	954
Tax & deferred tax	159	90	77.5	185	(13.7)	344
PAT	284	162.8	74.3	326	(13.0)	610
Equity shares o/s (mn)	562.0	542.9		562.0		562.0
Ratios						
Operating profit margin (%)	86.4	84.9	+150 bps	90.0	-360 bps	88.2
Gas Transport / Sales (%)	1.6	0.7		-		0.8
Connectivity / Sales (%)	2.6	3.0		2.7		2.6
Staff cost / Sales (%)	1.7	1.6		1.6		1.6
O & M / sales (%)	4.5	5.5		2.7		3.6
Admin / Sales (%)	3.3	4.4		3.0		3.1
Tax / PBT (%)	35.9	35.5		36.1		36.0
EPS (Rs)	0.5	0.3		0.6		1.1
CEPS (Rs)	1.3	1.0		1.3		2.6
Gas Volumes - MMSCM	1431	1372	4.3	1639	(12.7)	3069
Avg. Realisations per TCM	829	695	19.3	729	13.7	776
Gas Volumes - MMSCMD	15.9	15.2	4.3	18.2	(12.7)	17.1

Source: Company

- Net sales for Q2FY09 were at Rs.1.2 bn up by 24.4% on YoY basis and flattish on sequential basis. This was primarily due to expansion in its pipeline network in the previous quarters.
- In Q2FY09 the company transported 15.9 MMSCMD of gas thereby recording volume growth of 4.3% on YoY basis. However there has been sequential volume de-growth of 12.7% as the company received lower gas from Petronet LNG due to mechanical failure in one of its high pressure pumps. However the problem has been solved and thus we expect higher volumes going forward.

Net sales (Rs bn)

Source: Company, Kotak Securities - Private Client Research

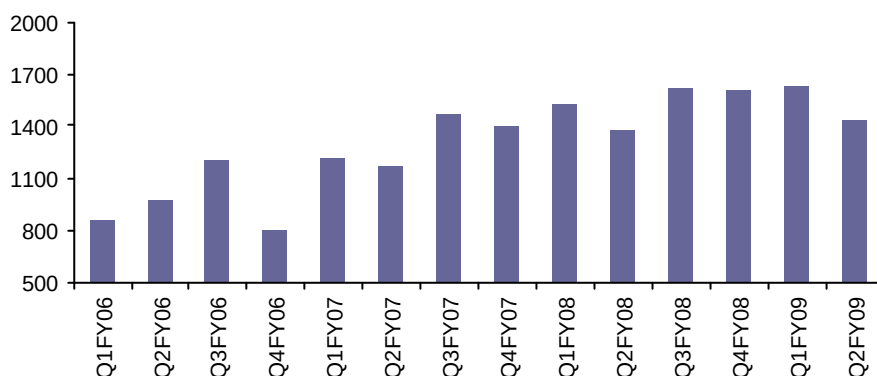
EPS (Rs)

Source: Company, Kotak Securities - Private Client Research

- The average tariffs were Rs.829 per TCM in Q2FY09 that recorded an improvement of 19.3% YoY and up 13.7% on sequential basis.
- In Q2FY09 operational profit grew by 26.5% on YoY basis to Rs.1.0 bn. The company recorded EBIDTA margin of 86.4%, which is up 150 bps on YoY basis. This is primarily due to lower connectivity charges to sales ratio at 2.6% in Q2FY09 as against 3.0% in the same quarter last year. Also the admin and other expenses are lower in absolute terms on YoY basis.
- However the operating margins are down 360 bps on sequential basis as the company had to pay gas transportation charges and also there were higher operating and maintenance charges in Q2FY09.
- PBT for Q2FY09 was at Rs.443 up 75.5% YoY and down 13.3 % on sequential basis.
- PAT for Q2FY09 was at Rs.284 mn up 74.3% on YoY basis thereby translating into quarterly EPS of Rs.0.5 and CEPS of Rs.1.3.
- However PAT is down 13.0% on sequential basis due to lower volumes on account of lower gas supply from Petronet LNG.

Volumes to increase significantly post Reliance gas

- We expect the gas from KG basin of Reliance to start flowing from December 2008. This would led to next level of growth in the volumes transported as the company has already signed long term gas transmission agreements with Reliance, Essar and Torrent.
- As per CRISIL report, the natural gas demand in the Gujarat State is expected to increase from 54.1 MMSCMD in 2005 to 94.5 MMSCMD by 2010. This is mainly due to the fact that many industries are switching over to gas for their fuel and feedstock requirements. We expect further gas to flow to Gujarat in future which would mean more business to GSPL.

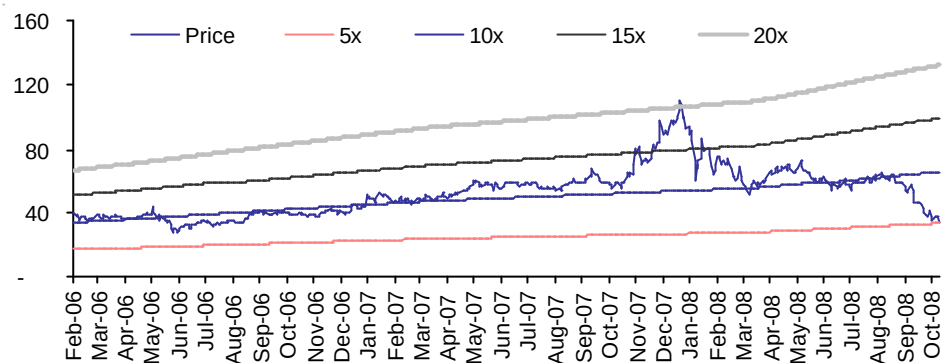
Quarterly gas volumes transported (MMSCM)

Source: Company

Recommendation and Valuation

- We maintain our earnings estimates and expect GSPL to report EPS of Rs.1.8 and CEPS of Rs.5.5 in FY09E.
- On the basis of our estimates, the stock at current market price of Rs.33, is trading at 5.3 x EV/EBIDTA, 18.5x P/E and 6.0x cash earnings on the basis of FY09E.
- We feel that GSPL should be looked on P/CEPS basis rather than P/E basis as GSPL depreciates its pipeline in 12 years as against its economic life of 30 years. Thus we feel that CEPS is more representative of its true earnings per share.
- We have also done a one-year forward rolling band analysis for GSPL, which revealed that currently the stock is trading below the traditional band of 5x-20x one year forward cash earning estimates.

One year forward rolling P/CEPS band - GSPL



Source: Capitaline, Kotak Securities - Private Client Research

We recommend ACCUMULATE on GSPL with a revised price target of Rs.50

- We have also accounted for increased WACC of 12.4% on the back of increase in beta and higher interest rates. Also we have reduced the terminal growth rate from 4.0% to 3.0%. Thus the price target is revised to Rs.50 (Rs.60 earlier).
- Due to near term concerns of slowing economic growth and expected negative news flow regarding payment of 30% of PBT to the Gujarat government for the social welfare purposes we have revised the rating from BUY to **ACCUMULATE** with revised price target of Rs.50.

RESULT UPDATE**Apurva Doshi**

doshi.apurva@kotak.com

+91 22 6621 6308

JBF INDUSTRIES LTD. (JBF)**PRICE: Rs.47****TARGET PRICE: Rs.100****RECOMMENDATION: BUY****CONS. FY09E PER: 2.4x**❑ **Q2FY09 results of JBF are below estimates on the profitability front**❑ **Revise consolidated FY09 EPS downwards by 17%**❑ **Maintain BUY with revised price target of Rs.100 (Rs.150 earlier)****Summary table - Consolidated**

	FY08	FY09E
Revenues	27413	34026
EBIDTA	2589	3735
EBIDTA %	9.4	11.0
PAT	1,184	1,628
Minority Interest	(35)	153
NPAT	1,219	1,475
Equity - diluted	755.6	755.6
EPS - Rs.	16.1	19.5
Price	47.0	47.0
P/E	2.9	2.4

Source: Company, Kotak Securities - Private Client Research

Standalone Q2FY09 Results - JBF

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	H1FY09
Net Sales	5,865	5,317	10.3	6,040	(2.9)	11,905
Inc/dec in stock	(312)	(176)	77.4	64	(587.6)	(248)
raw materials	4,876	4,299	13.4	4,668	4.4	9,544
staff cost	56	46	24.0	47	20.0	103
other exp.	502	415	21.1	588	(14.6)	1,090
total exp.	5,122	4,583	11.8	5,367	(4.6)	10,489
EBIDTA	743	734	1.2	673	10.4	1,415
Other income	45	29	56.1	31	42.7	76
Depreciation	111	110	1.4	111	0.3	222
EBIT	676	653	3.6	593	14.0	1,269
Interest	107	90	19.2	102	5.7	209
PBT	569	563	1.1	492	15.7	1,060
Extra loss/ (gain)	295	(8)	-	-	-	295
Tax & def tax	96	162	(40.9)	175	(45.1)	271
PAT	178	409	(56.4)	317	(43.7)	495
PAT without exchange difference	473	401	18.1	317	49.3	790
Equity shares o/s (mn)	62.1	59.6		62.1		62.1
Fully Diluted Equity	75.6	75.6		75.6		75.6
Ratios						
Operating profit margin (%)	12.7	13.8	-110 bps	11.1	+160 bps	11.9
Raw Materials / Sales (%)	77.8	77.5		78.4		78.1
Other Exp. / Sales (%)	8.6	7.8		9.7		9.2
Tax / PBT (%)	16.9	28.8		35.6		25.5
EPS without exchange dif (Rs)	6.3	5.3		4.2		10.4
EPS (Rs) - Diluted	2.4	5.4		4.2		6.5
CEPS (Rs)	3.8	6.9		5.7		9.5

Source: Company

- Net Sales for Q2FY09 was at Rs.5.8 bn up by 10.3% YoY and down 2.9% on sequential basis. This is largely due capacity addition in the current year.
- EBIDTA margin during Q2FY09 was down by 110 bps at 12.7% on YoY basis. However it is up 160 bps on sequential basis. This was primarily due to lower raw materials to sales ratio at 77.8% in Q2FY09 as against 78.4% in Q1FY09. On a sequential basis the other expenditure as a percentage of revenues has declined from 9.7% in Q1FY09 to 8.6% in Q2FY09.
- EBIDTA for the Q2FY09 was at Rs.743 mn up by 1.2% YoY and up 10.4% on sequential basis
- PBT for the Q2FY09 was at Rs.569 mn up 1.1% YoY and up 15.7% on sequential basis.

- PAT for the Q2FY09 was down by 56.4% YoY and down 43.7% on sequential basis to Rs.178 mn. However this is primarily due to mark to market foreign exchange loss of Rs. 295 mn.
- If we were to exclude the notional forex loss then PAT for Q2FY09 would be Rs.473 mn which is up 18.1% YoY and up 49.3% on sequential basis.
- The company has capitalized the foreign currency exchange loss of Rs.36 mn as this is the amount borrowed for acquisition of fixed assets. Had this been recorded in the P&L then the profits would have been lower by Rs.36 mn.

Consolidated Q1FY09 Results - JBF

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	H1FY09
Revenues	11,399	5,975	90.8	11,147	2.3	22,546
PBT	648	418	55.1	587	10.5	1,235
NPAT	368	212	73.4	364	1.2	732
EPS (Rs.)	4.9	2.8		4.8	1.2	9.7

Source: Company

Consolidated results

On consolidated basis, i.e. including the numbers of the RAK unit, for Q2FY09 the revenues of the company have grown by robust 90.8% on YoY basis to Rs.11.4 bn. PAT for Q2FY09 stood at Rs.368 mn, up strong 73.4% on YoY basis thereby translating into quarterly EPS of Rs.4.9 on diluted basis.

Expansions on track

JBFs 216000 TPA chips manufacturing plant at Sarigam, Gujarat adjacent to its existing plant of 216000 TPA is on schedule and it is expected to commence commercial production in the current quarter. The PET grade chips unit of RAK has stabilized its operations and the management is confident of operating it at peak capacities by March 2009. The polyester films manufacturing unit of RAK plant is also operational and it is expected to stabilize its operations in the current quarter.

Change in earning estimates - Consolidated

Accommodating for lower than expected results, expected slowdown in economy and reduction in product prices on account of fall in the crude oil prices we have revised the earning estimates for JBF.

Change in Earning estimates - Consolidated (FY09E)

(Rs mn)	Old	Revised
Revenues	37,471	34,026
EBIDTA	4,204	3,735
EBIDTA %	11.2	11.0
PAT	2,065	1,628
Minority Interest	289	153
NPAT	1,776	1,475
Equity - diluted	756	756
EPS - Rs.	23.5	19.5
Price	47	47
P/E	2.0	2.4
Price Target	150	100

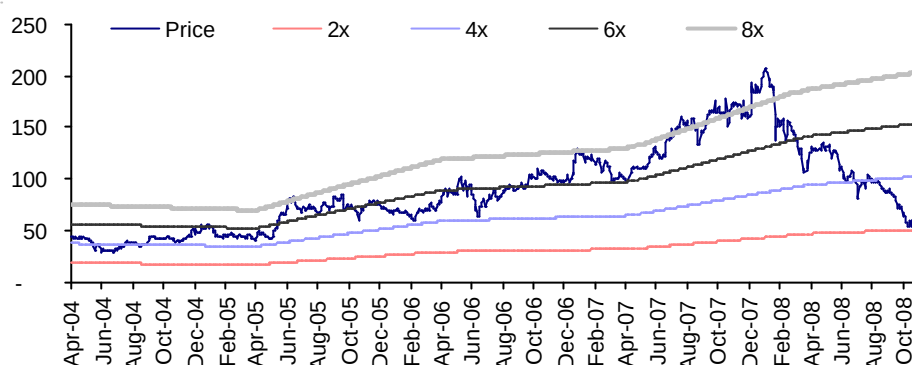
Source: Kotak Securities - Private Client Research

- For FY09E, we now expect JBF to report revenues of Rs.34.0 bn (down 9%, EBITDA margin of 11.0% (as against 11.2%) and PAT of Rs.1.5 bn (down 17%).
- Accordingly we expect JBF to report lower consolidated EPS of Rs.19.5 in FY09E as against our earlier estimate of Rs.23.5.

Valuation & Recommendation

- At Rs.47, the stock trades at attractive valuations of 2.4x FY09E consolidated earnings estimate of Rs.19.5.
- We have also done a one-year forward rolling band analysis for JBF, which revealed that currently the stock is trading at the lower end of the band of 2x- 8x one year forward earning estimates which makes it attractive at current levels.

One year forward rolling PE band - JBF

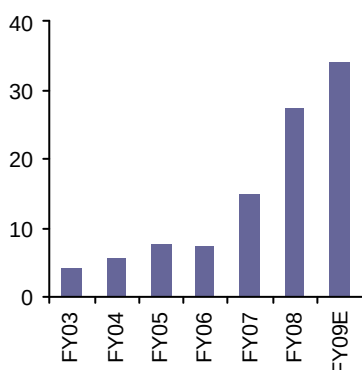


Source: Capitaline, Kotak Securities - Private Client Research

We recommend BUY on JBF Industries with a revised price target of Rs.100

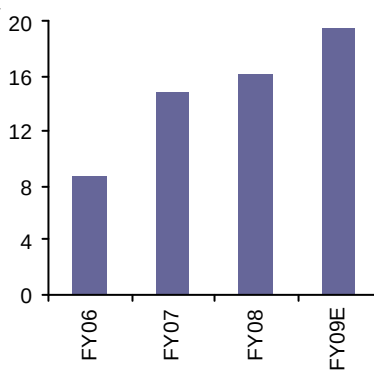
- We remain positive and maintain our BUY recommendation on JBF with revised price target of Rs.100 (Rs.150 earlier).
- The target price is derived as the sum of DCF method of valuation of Rs.85 for the Indian business (13.2% WACC, 3.0% terminal growth rate) and at a P/E multiple of 5x EPS of Rs.3.0 i.e. Rs.15 for the RAK project.
- We continue to recommend **BUY** on JBF.

Cons. Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Apurva Doshi

doshi.apurva@kotak.com

+91 22 6621 6308

MUNDRA PORT & SEZ (MPSEZ)

PRICE: Rs.375

TARGET PRICE: Rs.525

RECOMMENDATION: ACCUMULATE

CONS. FY10E P/E: 25.2x

- ❑ MPSEZ reported excellent Q2FY09 results which are marginally below our estimates on the on the profitability side
- ❑ Maintain FY09 and FY10 earning estimates
- ❑ Revise SOTP based price target to Rs.525 (Rs.716 earlier)
- ❑ However due to near term concerns of slowdown in economy and slowing manufacturing growth we revise the rating from BUY to ACCUMULATE

Summary table - Consolidated

	FY08	FY09E	FY10E
Sales	8,170	13,576	17,748
Growth (%)	40.6	66.2	30.7
EBITDA	5,358	8,702	11,383
EBITDA margin (%)	65.6	64.1	64.1
Net profit	2,104	3,971	5,973
Net debt	11,651	14,558	10,056
EPS (Rs)	5.3	9.9	14.9
Growth (%)	12.4	88.7	50.4
DPS (Rs)	1.5	2.0	2.5
ROE (%)	8.0	14.3	18.9
ROCE (%)	10.1	14.5	20.5
EV/Sales (x)	19.8	12.1	9.0
EV/EBITDA (x)	30.2	18.9	14.1
P/E (x)	71.4	37.8	25.2
P/CEPS (x)	48.1	24.7	18.1
P/BV (x)	5.7	5.1	4.4

Source: Company, Kotak Securities - Private Client Research

MPSEZ - Q2FY09 Results

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	H1FY09
Net Sales	2,949	1,602	84.1	2,537	16.2	5,486
Operating	641	389	64.8	456	40.3	1,097
Staff cost	87	56	56.5	86	1.4	173
Other exp	176	119	48.0	224	(21.3)	400
Total Exp.	904	564	60.4	766	17.9	1,670
EBIDTA	2,045	1,038	97.0	1,771	15.5	3,816
Other income	89	12	652.1	200	(55.8)	289
Depreciation	322	238	35.1	312	3.3	633
EBIT	1,812	812	123.2	1,660	9.2	3,472
Interest	552	248	122.8	396	39.3	948
PBT	1,260	564	123.3	1,264	(0.3)	2,524
Tax & deferred tax	137	137	0.1	296	(53.5)	433
Net Profit	1,123	427	162.9	968	16.0	2,091
Equity shares o/s (mn)	400.7	360.4		400.7		400.7
Ratios						
Operating profit margin (%)						
excluding other income	69.3	64.8	+450 bps	69.8	-50 bps	69.6
Op. exp. / Sales (%)	21.7	24.3		18.0		20.0
Staff cost / sales (%)	3.0	3.5		3.4		3.2
Other Exp. / Sales (%)	6.0	7.4		8.8		7.3
Tax / PBT (%)	10.9	24.3		23.4		17.2
EPS (Rs)	2.8	1.2	136.5	2.4	16.0	5.2
CEPS (Rs)	3.6	1.8		3.2		6.8
Cargo Handled (MMT)	9.25	6.6	40.2	8.0	15.9	8.5
Avg Realizations / MT	318.8	242.7	31.4	318.0	0.3	645.5

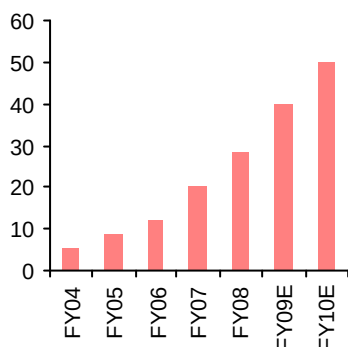
Source: Company

Cargo handled (MMT)

	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	H1FY09
Bulk	5.1	2.8	81.3	3.4	51.8	8.51
Crude	1.6	1.8	(7.4)	2.0	(18.5)	3.63
Container	2.5	2.0	23.9	2.6	(4.2)	5.09
Total	9.3	6.6	40.2	8.0	15.9	17.2

Source: Company

Cargo handled at Mundra Port (MMT)



Source: Company, Kotak Securities - Private Client Research

- Net Sales for Q2FY09 was at Rs.3.0 bn up 84.1% YoY and up 16.2% on sequential basis. Almost 91% of the revenue is from the port operations and balance 9% is out of SEZ related business.
- MPSEZ handled 9.25 MMT of cargo in Q2FY09, up 40.2% on YoY and up 15.9% on sequential basis. The average realizations per MT also improved by 31.4% on YoY basis to Rs.319 per MT.
- Bulk cargo handling increased by 81.3% on YOY basis to 5.1 MMT. Crude cargo handling was down by 7.4% on YOY basis to 1.6 MMT. Container cargo handling increased by 23.9% on YOY basis to 2.5 MMT.
- EBIDTA margin during Q2FY09 was up by 450 bps on YoY basis to 69.3%. This is primarily due to reduction in operating expenditure as a percentage of sales from 24.3% in Q2FY08 to 21.7% in Q2FY09. Also other expenditure as a percentage of sales has come down from 7.4% in Q2FY08 to 6.0% in Q2FY09.
- EBIDTA for the Q2FY09 was at Rs.2.0 bn up 97.0% on YoY and up 15.5% on sequential basis.
- The other income of the company went up significantly from Rs.12mn in Q2FY08 to Rs.89 mn in Q2FY09 as the money raised from IPO is invested in short term fund pending deployment in business.
- The interest cost of the company has gone up significantly on YoY basis to Rs.552 mn as it includes foreign exchange fluctuation loss of Rs.292.2 mn.
- PBT for the Q2FY09 was up by 123.3% on YoY basis to Rs.1.3 bn.
- NPAT for Q2FY09 is up 162.9% on YoY basis and up 16.0% on sequential basis to Rs.1.1 bn. This translates into quarterly EPS of Rs.2.8 and quarterly CEPS of Rs.3.6.

SOTP Valuation per share (Rs.)

Business	Old	Revised
Mundra Port	458	360
SEZ	170	113
Dahej Port	58	22
Adani Logistics	8	8
Inland Container	22	22
Target Price	716	525

Source: Kotak Securities - Private Client Research

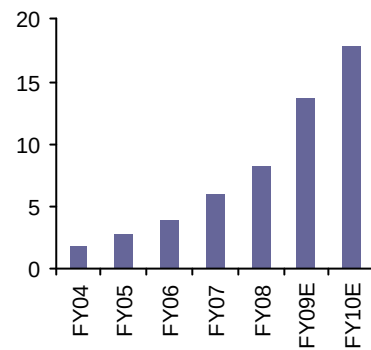
- **Core port:** Due to higher interest rates we have increased the WACC from 12.0% to 13.0%. Also we have reduced the terminal growth rate from 4.0% to 3.0% to account for the slowdown in the economy. Thus the valuation of the core port is revised to Rs.360 per share (Rs.458 earlier).
- **SEZ:** Due to near term concerns of higher interest rates and slowing manufacturing growth we have increased the discount on the SEZ business from 25% to 50%. Thus the valuation of the SEZ business is revised to Rs.113 per share (Rs.170 earlier).
- **Dahej Port:** since the first phase of the port is expected to be operational by September 2009 we have valued the port at 1x investment as against earlier valuation of 50% discount to the valuation of the core Mundra port. Thus the valuation of the Dahej Port is revised to Rs.22 per share (Rs.58 earlier).
- We continue to value the container train running and Inland container business at 1x investments.
- Thus the SOTP based price target is revised downwards by 26.7% from Rs.716 to Rs.525 per share.

Recommendation and Valuation

- We maintain our earning estimates and expect MPSEZ to report consolidated EPS of Rs.9.9 for FY09E moving upto Rs. 14.9 in FY10E.
- At Rs.375, the stock trades at 4.4x book value, 25.2x earnings and 18.1x cash earnings based on FY09E.
- Over next two years i.e. from FY08 to FY10E, we expect the consolidated revenues of MPSEZ to record CAGR of 47.4% and net profits, a CAGR of 68.5%.
- However due to near term concerns of slowdown in economy, slowing manufacturing growth and higher interest rates we revise the rating from BUY to **ACCUMULATE** with revised price target of Rs.525.

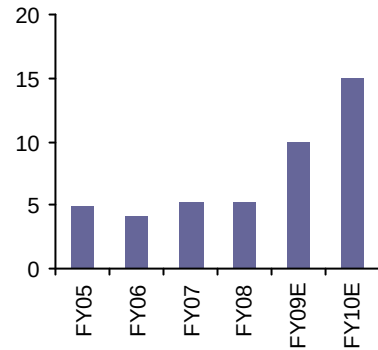
**We recommend ACCUMULATE
on Mundra Port with a price
target of Rs.525**

Cons. Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE**Apurva Doshi**

doshi.apurva@kotak.com

+91 22 6621 6308

NITIN FIRE PROTECTION LTD**PRICE: Rs.137****TARGET PRICE: Rs.300****RECOMMENDATION: BUY****CONS. FY09E P/E: 4.1x**

❑ **NFPIL reported excellent Q2FY09 results which are slightly below our estimates**

❑ **Revise consolidated FY09 EPS downwards by 11%**

❑ **Maintain BUY with revised price target of Rs.300 (Rs.500 earlier)**

Cons. Summary table

	FY07	FY08	FY09E
Sales	1,005	1,324	2,694
Growth (%)	46.9	31.7	103.5
EBITDA	168	254	569
EBITDA margin (%)	16.7	19.2	21.1
Net profit	100	194	416
Net debt	57	332	733
EPS (Rs)	11.3	15.4	33.0
Growth (%)	53.3	94.0	114.5
DPS (Rs)	-	2.0	2.0
ROE (%)	40.1	25.9	28.6
ROCE (%)	48.9	25.1	28.6
EV/Sales (x)	1.8	1.6	0.9
EV/EBITDA (x)	10.6	8.1	4.3
P/E (x)	12.2	8.9	4.1
P/BV (x)	5.1	1.5	1.2

Source: Company, Kotak Securities - Private Client Research

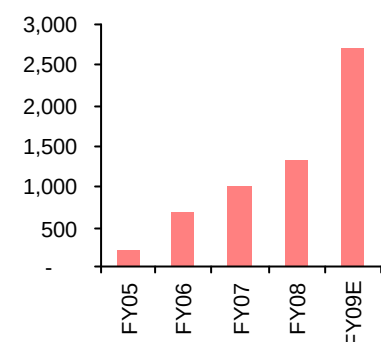
Consolidated Q2FY09 results table - Nitin Fire Protection

(Rs mn)	Q2FY09	Q2FY08	YOY (%)	Q1FY09	QoQ (%)	H1FY09
Net Sales	665	347	91.9	571	16.4	1,237
Incr. / dec. in stock	4	(30)	(112.3)	(74)	(105)	(70)
Raw materials	324	94	245.2	229	42	553
Pur. of traded goods	105	180	(41.3)	192	-	297
Staff cost	29	11	161.5	14	114	42
Other exp.	68	23	194.8	92	(26)	160
Total exp.	530	278	90.9	452	17	982
EBIDTA	135	69	96.2	120	12.8	255
Other income	28	11	155.3	7	324	34
Depreciation	12	3	254.4	9	24	21
EBIT	151	76	97.9	117	29	268
Interest	17	1	1,398.3	14	20	31
PBT	134	75	78.2	103	30.8	237
Tax & def tax	33	16	105.2	19	76	52
PAT	101	59	70.9	84	21	185
Share of Profit in Associate co.	10.1	-	-	-	-	10
NPAT	111	59	88.0	84	32.7	195
Equity sh. o/s (mn)	12.6	12.6	-	12.6	-	12.6
Ratios						
Operating profit margin (%)	20.3	19.8	+50 bps	20.9	-60 bps	20.6
Raw Materials / Sales (%)	65.2	70.3	-	60.7	-	63.1
Staff cost / Sales (%)	4.3	3.2	-	2.4	-	3.4
Other Exp. / Sales (%)	10.2	6.7	-	16.0	-	12.9
Tax / PBT (%)	24.6	21.3	-	18.2	-	21.8
EPS (Rs)	8.8	4.7	-	6.7	-	15.5
CEPS (Rs)	9.7	5.0	-	7.4	-	17.1

Source: Company

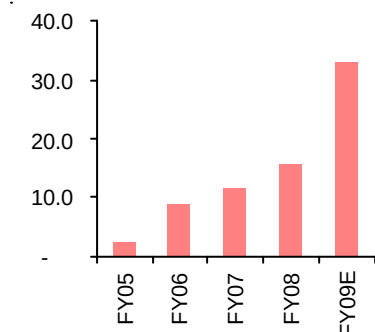
- For Q2FY09 the company reported net sales of Rs.665 mn, up 91.9% YoY and up 16.4% on sequential basis.
- The fire protection business contributed 62% of the revenues, cylinder trading business contributed 20% and balance 18% was out CNG cylinders manufacturing plant at Vizag.
- The revenues of the fire protection business grew by 58.5% on YoY basis to Rs.412 mn, while the cylinder trading business grew 52.9% on YoY basis to Rs.133 mn. CNG cylinders plant at Vizag recorded revenues of Rs.120 mn. It produced around 24000 cylinders in Q2FY09 which is up 71.5% on sequential basis.

Cons. Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research

- The company reported higher EBIDTA margin of 20.3% in Q2FY09, up 50 bps on YoY basis. This is primarily due to commencement of the CNG cylinders plant at Vizag. Manufacturing of cylinders business typically has higher operating margins than fire protection and cylinder trading business thereby improving the overall operating margins.
- However the operating margins are down 60 bps on sequential basis due to hike in raw material prices and significant hike in staff cost on account of operations of the CNG cylinders manufacturing plant at Vizag.
- For Q2FY09, the company reported EBIDTA of Rs.135 mn, up 96.2% YoY and up 12.8% on sequential basis.
- The depreciation provision in Q2FY09 has gone up significantly to Rs.12 mn on account of commissioning of the CNG cylinders manufacturing plant at Vizag during the previous quarter.
- The interest cost of the company has gone up significant to Rs.17 mn on account of increased working capital requirements due to ramping up of the manufacturing of CNG cylinders and higher interest rates scenario.
- PBT for Q2FY09 stood at Rs.134 mn up 78.2% YoY and up 30.8% on sequential basis.
- PAT for Q2FY09 stood at Rs.111 mn up 88.0% YoY and up 32.7% on sequential basis thereby translating into quarterly EPS of Rs.8.8 and CEPS of Rs.9.7.

Change in earning estimates - Consolidated

- Accommodating for expected slowdown in economy, lower than expected operating margins, higher depreciation and interest rates we have revised the earning estimates for NFPIIL.

Change in Estimates (FY09E)

(Rs mn)	Old	Revised
Revenues	2,796	2,694
EBIDTA (%)	21.9	21.1
Net Profit	465	416
EPS (Rs.)	36.9	33.0
CEPS (Rs.)	40.1	37.3
Target	500	300

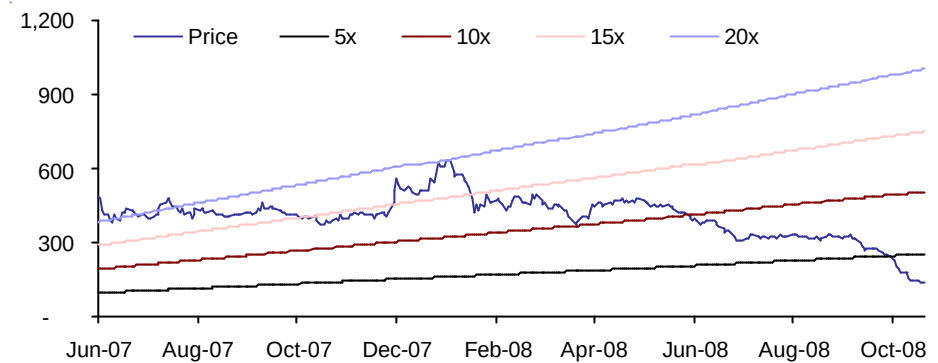
Source: Kotak Securities - Private Client Research

- For FY09E, we now expect NFPIIL to report revenues of Rs.2.7 bn (down 4%, EBIDTA margin of 21.1% (as against 21.9%) and PAT of Rs.416 mn (down 11%).
- Accordingly we expect NFPIIL to report lower consolidated EPS of Rs.33.0 in FY09E as against our earlier estimate of Rs.36.9.

Valuation & Recommendation

- At Rs.137, the stock trades at attractive valuations of 4.1x FY09E earnings, 3.7x cash earnings and 1.2x book value based on FY09E.
- We have also done a one-year forward rolling band analysis for NFPIIL which revealed that currently the stock is trading below the traditional band of 5x- 20x one year forward earning estimates which makes it very attractive at current levels.

One year forward rolling PE band - NFPIIL



Source: Capitaline, Kotak Securities - Private Client Research

We recommend BUY on Nitin Fire Protection with a price target of Rs.300

- We believe the current valuations are attractive considering the clear growth prospects of the company, going forward. This is due to the strong order book for its CNG cylinders business. This would lead to 63.7% CAGR in revenues and 104.0% CAGR in net profits from FY07 to FY09E.
- However due to temporary slowdown in the economy we have revised our growth assumption going forward post FY09 in our earnings model. We have also provided for higher interest rates and have revised the terminal growth rate from 4.0% to 3.0%. This has negatively impacted the valuation of NFPIIL with DCF method of valuation. (13.1% WACC and 3.0% terminal growth rate).
- We remain positive and maintain our **BUY** recommendation on NFPIIL with revised price target of Rs.300.

RESULT UPDATE**Awadhesh Garg**

awadhesh.garg@kotak.com

+91 22 6621 6304

TORRENT PHARMACEUTICALS LTD (TPL)**PRICE: Rs.122****TARGET PRICE: Rs.222****RECOMMENDATION: ACCUMULATE****FY09E P/E: 5.5x****Strong operating performance in Q2FY09; Recommend ACCUMULATE**

- ❑ Consolidated revenue in Q2FY09 grew 16% to Rs.4.03bn as compared to Rs.3.47bn during the same quarter of last year. The good growth in revenue was mainly driven by strong growth in international sales;
- ❑ International sales for the quarter grew strongly 45% to Rs.2.05bn against Rs.1.42bn on the back of strong performance in Brazil, Europe (excluding German) and Russian operations;
- ❑ Brazilian operations continued to post a strong sales growth of 82% with sales to Rs.850mn as compared to Rs.470mn. The European operations (other than Heumann) registered a sales growth of 22% to Rs.210mn, led by new products introductions;
- ❑ Revenue from German operations (Heumann) grew 15% to Rs.560mn as compared to Rs.490mn, despite continued pricing pressures. Manufacturing of products constituting a significant part of Heumann sales have been successfully transferred to India and is expected to reap benefits of lower costs from Q3FY09;
- ❑ Domestic branded formulation clocked marginal 2.7% growth to 1.58bn while contract manufacturing business reported 16% de-growth to Rs.370mn, and is below our expectation;
- ❑ The consolidated revenue in H1FY09 grew 16.4% to Rs.7.93bn as compared to Rs.6.81bn while operating profit during the same period grew 46.8% to Rs.1.33bn. Improved profitability in international operations along with higher volume was the key growth driver;
- ❑ During the quarter, TPL has recorded modest sales in the US market mainly from single product. At the end of Q2, the company has filed 16 ANDAs and 10 DMFs with the USFDA as part of its US operations. Approvals for 5 products have been received so far. The company continues to invest significantly in product development for the US & EU markets. R&D expense for the quarter was 6.9% of the consolidated revenues;
- ❑ EBITDA during the quarter grew impressively 41.1% to Rs.648mn as compared to Rs.459mn mainly due to higher international sales coupled with improved operating margins;
- ❑ The better realization supported by favorable exchange rates and improved product mix led the improvement in margins. EBITDA margin in Q2 expanded by 290bps to 16.1% vs. 13.2%;
- ❑ Net profit after tax grew strongly 84.3% to Rs.483mn against Rs.262mn due to margin expansion and lower tax charge;
- ❑ We have fine-tuned our revenue and earning estimates slightly mainly due to better performance in H1FY09. We expect 15.1% and 25.3% revenue and earning CAGR over FY08-10E. We expect EPS of Rs.22.2 for FY09E and Rs.25 for FY10E;
- ❑ At the current market price of Rs.122, the stock is trading at 5.5x FY09 and 4.9x FY10 earning estimates;

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	13,548	16,010	17,958
Growth (%)	4.3	18.2	12.2
EBITDA	2,028	2,663	3,121
Growth (%)	30.2	31.3	17.2
EBITDA margin (%)	15.0	16.6	17.4
Net profit	1,347	1,875	2,114
Growth (%)	44.0	39.2	12.8
Net Margin (%)	9.9	11.7	11.8
EPS (Rs)	15.9	22.2	25.0
Growth (%)	44.0	39.2	12.8
DPS (Rs)	3.5	3.5	3.5
RoE (%)	29.3	32.0	28.2
RoCE (%)	19.9	23.0	23.1
EV/Sales (x)	1.3	0.8	0.6
EV/EBITDA (x)	9.0	4.8	3.6
P/E (x)	7.7	5.5	4.9
P/BV (x)	3.2	1.6	1.2

Source: Company, Kotak Securities - Private Client Research

- ❑ We believe there has been significant contraction in the valuations due to increased risk perception, sharp correction in capital market and macro economic slowdown;
- ❑ We reduce our target price to Rs.222 (earlier Rs.283) attaching 10x price-to-earning multiple to its FY09 earnings;
- ❑ We recommend **ACCUMULATE** with target price Rs.222. At our target price, the stock will be valued at 10x FY09E and 8.9 FY10E price-to-earning multiple and 2.8x FY09E EV/EBIDTA multiple.

Consolidated Financial Performance

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	FY08	FY07	YoY (%)
Net Sales	4,025	3,471	16.0	3,906	3.0	13,549	12,988	4.3
Expenditure	3,377	3,012		3,227		11,520	11,431	
EBIDTA	648	459	41.1	680	(4.7)	2,028	1,557	30.2
Depreciation	100	91		88		388	329	
EBIT	548	368	49.0	591	(7.3)	1,640	1,229	33.5
Interest	56	49		57		196	162	
Other Income	20	8		9		47	24	
PBT	511	327	56.3	543	(5.8)	1,491	1,090	36.8
Tax	29	65		50		144	155	
Extra-Ordinary Items	-	-		-		-	-	
Profit After Tax	483	262	84.3	493	(2.1)	1,347	935	44.0
Equity Shares (Mn)	85	85		85		85	85	
EPS (Rs)	5.7	3.1	84.3	5.8	(2.1)	15.9	11.1	44.0
EBIDTA Margin (%)	16.1	13.2		17.4		15.0	12.0	
PAT Margin (%)	12.0	7.5		12.6		9.9	7.2	

Source: Company

Consolidated Sales Mix

(Rs mn)	Q1FY09	Q1FY08	YoY (%)	FY08	FY07	YoY (%)
Domestic Formulations	1,722	1,718	0.2	5,873	5,567	5.5
% Gross Sales	44.4	51.9		44.0	43.1	
Contract Manufacturing	373	300	24.3	1,490	1,185	25.8
% Gross Sales	9.6	9.1		11.2	9.2	
Others	4	5	(24.5)	32	17	92.9
% Gross Sales	0.1	0.2		0.2	0.1	
International Sales	1,777	1,287	38.0	5,967	6,148	
% Gross Sales	45.8	38.9		44.7	47.6	(6.2)
Gross Sales	3,876	3,310	17.1	13,363	12,916	3.5

Source: Company

US market to witness strong revenue growth

During the quarter, the company has registered modest sales in the US markets with the launch of one product and recorded sales of approximately Rs.30-40mn. So far, the company has filed 16 ANDAs and 10 DMFs with the US FDA as part of its US product pipeline and has received approval for 5 ANDAs. The company has around 35 ANDA under development pipeline. The company has made considerable investment in product development for the US market and the pipeline is expected to yield significant revenue growth in the coming years. The company so far has invested around Rs.1.0bn in the US market and it expects further investments of US\$3-4 mn in product development. We expect US\$10 mn sales in FY09 from the US market.

Brazilian markets to continue to do well; Mexico to follow

The company has done exceedingly well in Brazil, creating a large business in five years. We expect the growth momentum to continue. This will be led by improved sales force productivity and new product launches. Torrent has completed the investment in setting up its marketing and distribution network and field force rationalization.

The company has a strong product development pipeline. Torrent is planning to launch new products in the coming years which are growing at 20-22%. The company expects to grow at 1.5 times the molecule growth rate. We believe Torrent's product pipeline for the Brazilian market will help the company to maintain 20% and 15% growth in FY09 and FY10, respectively. Under the same country head, and a similar branded strategy, the company is expanding into Mexico. The company expects to launch four products in Mexico in FY09.

Contract manufacturing business to provide constant cash flow

Torrent has entered into a long-term contract manufacturing agreement with the Indian subsidiary of Denmark based Novo Nordisk. According to the agreement, the company will supply insulin to Novo Nordisk. In FY08, revenues from the contract manufacturing segment grew by 25.8% to Rs.1.49 bn, contributing 11% of total sales. The company has increased insulin capacities at an investment of around Rs.400mn. We expect this business to do well and provide constant cash flow to company.

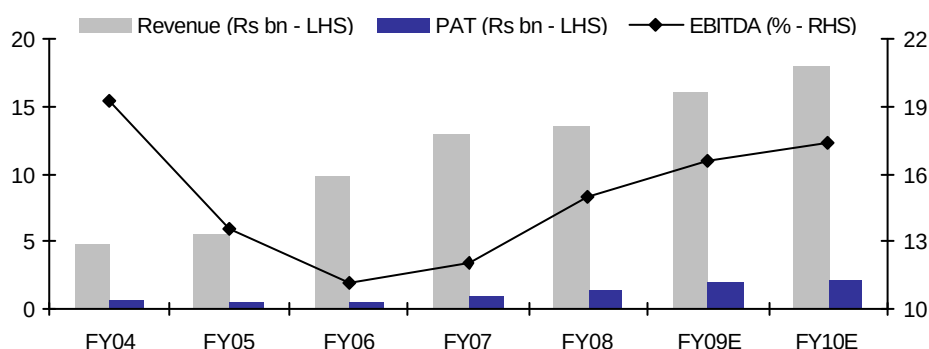
Expanding capacities to fulfill the growing demand

In order to support the strong growth in the domestic and similar markets, the company has undertaken capacity expansion by almost 30% in tablet formulations at the Baddi plant by setting up a new manufacturing unit. The company expects expansion work to complete by the next financial year. Further, the company has initiated process of setting up a new green-field manufacturing facility in Sikkim to support the growth in domestic market. The company will get fiscal benefits in the form of excise and income tax exemption for ten years.

Financial Outlook

We have fine-tuned our revenue and earning estimates slightly mainly due to better performance in H1FY09. We expect 15.1% and 25.3% revenue and earning CAGR over FY08-10E. In FY09, we expect revenue growth of 18.2% to Rs16.01bn and net profit growth of 39.2% to Rs1.87bn while in FY10 we expect revenue and earning growth of 12.2% and 12.8% to Rs.17.96bn and Rs.2.11bn, respectively. We expect operating margin to remain at 16.6% in FY09 and 17.4% in FY10E. We expect EPS of Rs.22.2 for FY09E and Rs.25 for FY10E.

Financial Performance (FY04-10E)



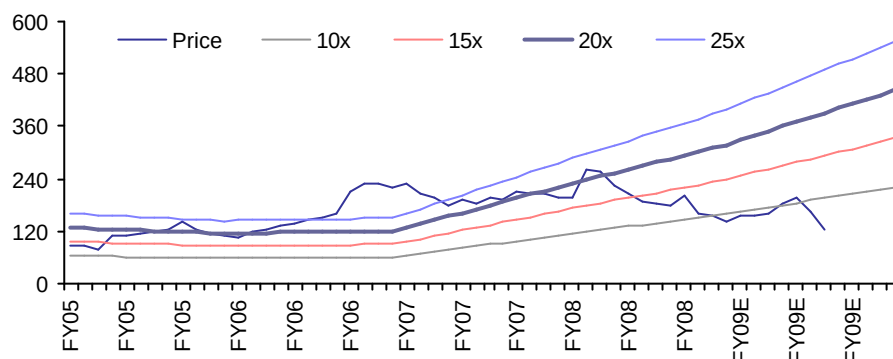
Source: Company, Kotak Securities - Private Client Research

Valuation and recommendation

- We have fine-tuned our revenue and earning estimates slightly mainly due to better performance in H1FY09. We expect 15.1% and 25.3% revenue and earning CAGR over FY08-10E. We expect EPS of Rs.22.2 for FY09E and Rs.25 for FY10E.
- At the current market price of Rs.122, the stock is trading at 5.5x FY09 and 4.9x FY10 earning estimates.
- We believe there has been significant contraction in the valuations due to increased risk perception, sharp correction in capital market and macro economic slowdown.
- We reduce our target price to Rs.222 (earlier Rs.283) attaching 10x price-to-earning multiple to its FY09 earnings.
- We recommend **ACCUMULATE** with target price Rs.222. At our target price, the stock will be valued at 10x FY09E and 8.9 FY10E price-to-earning multiple and 2.8x FY09E EV/EBIDTA multiple.

**We recommend ACCUMULATE
on Torrent Pharmaceuticals with
a price target of Rs.222**

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

Key risks & concerns

- Inability to improve profitability of international operations, mainly in Germany
- International generic pricing pressure and/or loss of market share
- Delay in ANDA filing and/or approval followed by delay in new product launch
- Rupee appreciation against the dollar

RESULT UPDATE**Awadhesh Garg**

awadhesh.garg@kotak.com

+91 22 6621 6304

LUPIN LTD**PRICE: Rs.624****TARGET PRICE: Rs.816****RECOMMENDATION: BUY****FY09E P/E: 12.2x****Strong performance in Q2FY09; Maintain BUY**

- ❑ Lupin has reported strong growth in revenue in Q2FY09. Net sales grew 37.8% to Rs.9.08bn as compared to Rs.6.59bn during the same quarter of last year. The sales growth was led by Kyowa acquisition and strong growth in formulations across the geographies, regulated as well as emerging markets including India;
- ❑ Kyowa (Japan) has contributed Rs.1.01bn revenue during the quarter; thus on a like-to-like basis organic revenue growth was 22.5% to Rs.8.07bn;
- ❑ During the quarter, revenue from International markets (including Kyowa) grew sharply 58.2% to Rs.5.45bn as compared to Rs.3.44bn, contributing 59% of total sales;
- ❑ The US formulation business grew 81.6% to Rs.2.52bn as compared to Rs.1.39bn, mainly due to steady growth in prescriptions and launch of Suprax double strength and Ramipril capsules in earlier quarter;
- ❑ EBITDA grew sharply 35.9% to Rs.1.53bn mainly due to improved exports realizations on account of favorable currency movement and change in product mix;
- ❑ However, EBITDA margin during the quarter declined slightly by 30bps to 16.8% vs. 17.1%, mainly due to higher staff cost which includes one time VRS expenses Rs.298mn;
- ❑ Net profit during the quarter grew 53.7% to Rs.1.16bn as compared to Rs.756mn despite higher depreciation and interest cost. The higher growth in net profit was mainly attributable to improved operating margin and higher sales growth;
- ❑ We have fine-tuned our revenue and earning estimates upward in the light of better performance in H1FY09. We now expect 22% and 37.4% revenue and earning CAGR over FY08-10E. We believe Lupin continues to offer a mix of both growth and value at attractive valuations with high earnings visibility;
- ❑ We expect fully diluted EPS of Rs.53.2 and Rs.63.1, respectively. In our EPS estimates for FY09, we have taken conversion of US\$80mn outstanding FCCB's convertible at Rs.567/share;
- ❑ At the current market price Rs.624, the stock is trading at 11.7x FY09 and 9.9x FY10 fully diluted earnings estimate and 8.8x FY09 EV/EBITDA.
- ❑ We believe there has been significant contraction in the valuations across the industries in view of rising cost of capital, increased risk perception, sharp correction in capital market and global macro economic slowdown;
- ❑ We reduce our DCF-based target price to Rs.816 (earlier Rs.900) by incorporating higher beta and cost of capital for increased risk perception and high interest rate;
- ❑ We maintain **BUY**.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	27,064	34,886	40,290
Growth (%)	34.4	28.9	15.5
EBITDA	4,646	6,338	7,454
EBITDA margin (%)	17.2	18.2	18.5
Net profit	1,830	4,700	5,580
Net Margin (%)	15.1	13.5	13.9
Adjusted EPS (Rs)	36.0	53.2	63.1
Growth (%)	48.9	47.6	18.7
DPS (Rs)	10.1	10.0	10.0
RoE (%)	17.0	28.6	25.0
RoCE (%)	15.8	22.8	23.0
EV/Sales (x)	2.2	1.6	1.3
EV/EBITDA (x)	12.6	8.8	6.9
P/E (x)	17.3	11.7	9.9
P/BV (x)	3.8	2.8	2.2

Source: Company, Kotak Securities - Private Client Research

Financial Performance

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	FY08	FY07	YoY (%)
Revenues	9,084	6,590	37.8	8,623	5.3	27,064	20,137	34.4
Expenditure	7,555	5,464		7,097		22,705	17,215	
EBIDTA	1,529	1,126	35.9	1,527	0.2	4,359	2,922	49.1
Depreciation	201	140		193		647	466	
EBIT	1,328	986	34.8	1,333	(0.4)	3,711	2,456	51.1
Interest	127	80		102		374	372	
Other Income	273	188		202		2,065	1,991	
PBT	1,474	1,094	34.8	1,433	2.8	5,402	4,075	32.6
Tax	312	338		313		1,318	988	
Reported PAT	1,162	756	53.7	1,120	3.7	4,084	3,086	32.3
Equity Shares (Mn)	82	82		82		82	80	
EPS (Rs)	14.1	9.2	53.3	13.6	3.7	49.8	38.4	29.6
EBIDTA Margin (%)	16.8	17.1		17.7		16.1	14.5	
PAT Margin (%)	12.8	11.5		13.0		15.1	15.3	

Source: Company

Detailed Sales Break-up

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	FY08
Domestic	3,767	3,457	9.0	12,236
APIs	734	855	(14.2)	2,740
Formulations	3,033	2,602	16.6	9,496
International	5,454	3,299	65.3	15,493
Regulated Markets	3,942	1,803	118.6	9,745
APIs	210	233	(9.9)	707
Formulations	3,732	1,570	137.7	9,038
- US	2,522	1,389	81.6	6,956
- Europe	197	181	8.8	581
- Japan (Kyowa)	1,013	-		1,501
Non-Regulated Markets	1,512	1,496	1.1	5,748
APIs	1,070	1,260	(15.1)	4,755
Formulations	442	236	87.3	993
Total Sales (A+B)	9,221	6,756	36.5	27,729

Source: Company

Strong revenue growth driven by formulation sales across geographies

- Lupin has reported strong growth in revenue in Q2FY09. Net sales grew 37.8% to Rs.9.08bn as compared to Rs.6.59bn during the same quarter of last year. The sales growth was led by Kyowa acquisition and strong growth in branded and generic formulations across the geographies, regulated as well as emerging markets including India.
- The company had acquired 79% stake in Kyowa, Japan for US\$60mn in October 2007. Kyowa (Japan) has contributed Rs.1.01bn revenue during the quarter; thus on a like-to-like basis organic revenue growth was 22.5% to Rs.8.07bn.

- Revenue from International markets (including Kyowa) grew sharply 58.2% to Rs.5.45bn as compared to Rs.3.44bn, contributing 59% of total sales. Lupin continues to witness strong growth in its branded and generic business in US markets recording sales of Rs.2.52bn reflecting a growth of 82%. It has garnered a steady growth in prescriptions for generics as well as branded formulations during the quarter. The company has achieved market leadership in 7 of the 20 products in the US market including Ramipril (IMS Aug 08). The US Direct to Market business also saw the launch of Divalproex Sodium Delayed-Release Tablets, 125 mg, 250 mg and 500 mg having received the final approval for the Company's ANDA from the USFDA.
- Lupin continued to post strong performance in its domestic formulation business. The domestic formulation sales in Q2FY09 grew 16.5% to Rs.3.03bn as compared to Rs.2.6bn. As per IMS-ORG MAT Sept-08, the company has registered a growth of 23.8% in domestic formulation business, thus outpacing market growth rate of 12.8%. The domestic growth was driven by rural initiatives, addition of new therapies and aggressive new products launches. The cardiovascular, asthma, CNS, Gastro and diabetic segments reflected a good growth. The company expects growth momentum to continue with full impact of neuropsychiatry and entry in new segments of Gynecology and Oncology.
- During the quarter, Lupin has filed 3 ANDAs with USFDA (taking the cumulative ANDA filings to 69) and has received 1 ANDA approval. It has also filed 6 MAAs with the European and Australian regulatory authorities. The cumulative ANDA approvals from USFDA for Lupin now stand at 31 (including 3 tentative approvals) with 38 pending approvals from the USFDA.

Significant improvement seen in EBITDA margin

During the quarter, EBITDA grew sharply 35.9% to Rs.1.53bn mainly due to improved exports realizations on account of favorable currency movement and change in product mix. However, EBITDA margin during the quarter declined slightly by 30bps to 16.8% vs. 17.1%, mainly due to higher staff cost which includes one time VRS expenses Rs.298mn. The company has launch VRS scheme at its Aurangabad plant. The company expect cost saving of around Rs.60mn per annum from the VRS. Excluding the VRS expenses, EBITDA margin expanded significantly to 20% verses 17.1%.

Net profit during the quarter grew 53.7% to Rs.1.16bn as compared to Rs.756mn despite higher depreciation and interest cost. The higher growth in net profit was mainly attributable to improved operating margin and higher sales growth;

Kyowa Pharma (Japan) contributed Rs.1.01bn revenue in Q2FY09

During FY08, Lupin had acquired 79% stake in Japanese generic drug maker Kyowa Pharmaceutical Industry Company Ltd for an estimated sum of US\$60mn. Kyowa develops, manufactures and markets a range of generics products in the Japanese market and ranks 8th generic company in Japan. Kyowa had registered sales of US\$95mn in FY08. The company has a rich product portfolio in the Psychiatry and Neurological therapeutic categories as well as in Cardiovascular, Respiratory & Allergies and Digestive system. The Kyowa had received approvals for 10 products from the Ministry of health & Labour Welfare, Japan in April 2008 and has subsequently launched these products post NHI listing.

Kyowa has posted revenue of Rs.1.01bn during the quarter (Rs.1.93bn in H1FY09), registering a growth of 24% over H1FY08, contributing 11% to Lupin's overall formulation sales. We expect Kyowa to contribute Rs3.9bn to consolidated revenue in FY09.

CRAMS (Novodigm) business progressing well; Reported sales of Rs.160mn in Q2FY09

In FY08, Lupin had acquired Novodigm (erstwhile Rubamin Laboratories) for an undisclosed sum to strengthen its CRAMS capabilities. Rubamin had started its operations as an R&D company a decade ago and progressed further up the value chain of the custom research and manufacturing (CRAMS) model. The company is largely engaged in the manufacture of advanced intermediates for APIs under contract research and manufacturing services (CRAMS) model and has sales in markets across the globe.

We believe that Rubamin's acquisition will enable Lupin to strengthen its initiative in the custom research and manufacturing space. Lupin has proven track record of achieving global position in every therapy that it has entered at intermediate and API level. The CRAMS (Novodigm) business has registered sales of Rs.160mn during the Q2FY09 and Rs.242mn in H1FY09.

Focus on partnership model to enter into new markets

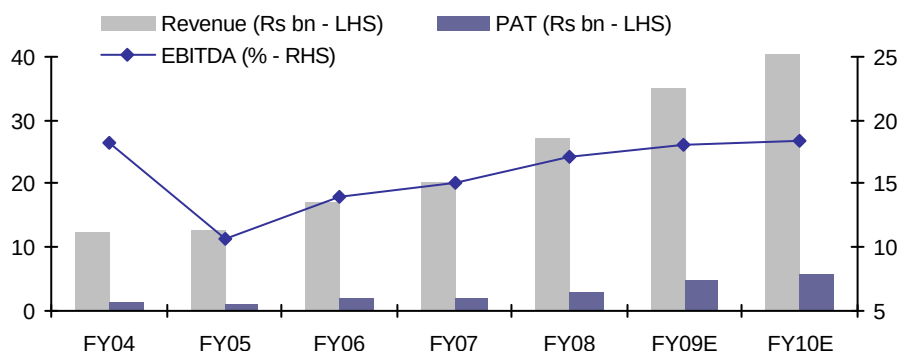
The company is on the look out for partnership (supply agreements) through joint ventures to enter into new markets viz. Europe and Australia to expand its horizon and increase revenues from its existing product portfolio as competition and government price controls at home may impact earnings growth. We view this as a rational move because such type of arrangement not only saves upfront capital cost in setting up infrastructure and distribution network but also helps in mitigating the operational risk.

Financial Outlook

The management has reiterated its vision of achieving US\$1.0bn sales by FY10. Of which, 90% will come through organic route while rest 10% will be through inorganic route. We, however, remain conservative in our estimates and expect 22% and 37.4% revenue and earning CAGR over FY08-10E.

We have fine-tuned our revenue and earning estimates upward in the light of better performance in H1FY09. In FY09, we now expect revenue growth of 28.9% to Rs.34.89bn and net profit growth of 59% to Rs.4.7bn while in FY10 we expect revenue and earning growth of 15.5% and 18.7% to Rs.40.29bn and Rs.5.58bn, respectively. EBITDA margin was 17.2% in FY08, which the company hopes to do better, with improved product flow and capacity utilization and fiscal benefits. Our model assumes EBITDA margin of 18.2% in FY09 and 18.5% in FY10. We expect EPS of Rs.53.2 for FY09E and Rs.63.1 for FY10E.

Financial Performance (FY04-10E)



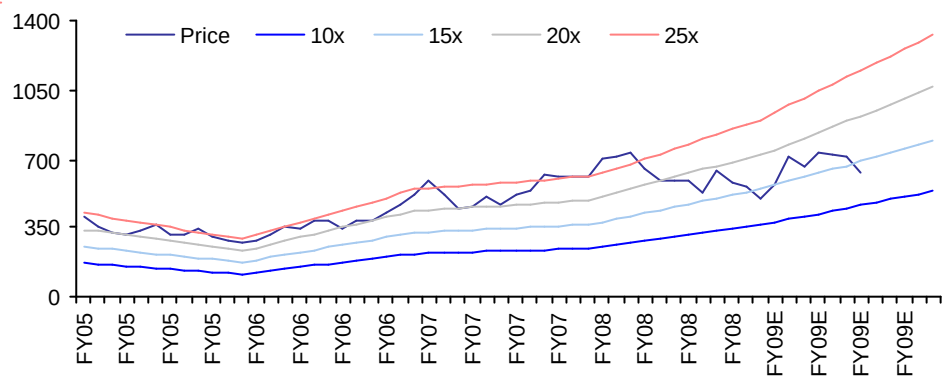
Source: Company, Kotak Securities - Private Client Research

Valuation and recommendation

- We have fine-tuned our revenue and earning estimates upward in the light of better performance in H1FY09. We now expect 22% and 37.4% revenue and earning CAGR over FY08-10E. We believe Lupin continues to offer a mix of both growth and value at attractive valuations with high earnings visibility;
- We expect fully diluted EPS of Rs.53.2 and Rs.63.1, respectively. In our EPS estimates for FY09, we have taken conversion of US\$80mn outstanding FCCB's convertible at Rs.567/share;
- At the current market price Rs.624, the stock is trading at 11.7x FY09 and 9.9x FY10 fully diluted earnings estimate and 8.8x FY09 EV/EBIDTA.
- We believe there has been significant contraction in the valuations across the industries in view of rising cost of capital, increased risk perception, sharp correction in capital market and global macro economic slowdown;
- We reduce our DCF-based target price to Rs.816 (earlier Rs.900) by incorporating higher beta and cost of capital for increased risk perception and high interest rate;
- We maintain **BUY**.

**We recommend BUY on Lupin
with a revised price target of
Rs.816**

PE Band



Source: Capitaline, Kotak Securities - Private Client Research

EVENT UPDATE**Awadhesh Garg**

awadhesh.garg@kotak.com

+91 22 6621 6304

GLENMARK PHARMACEUTICALS LTD (GPL)**PRICE: Rs.324****RECOMMENDATION: ACCUMULATE****TARGET PRICE: Rs.523****FY09E P/E: 10.3x****Eli Lilly suspended further clinical development for GRC 6211**

- ❑ Eli Lilly has suspended further clinical trials in Glenmark's Osteoarthritis pain molecule GRC-6211;
- ❑ We see it as a significant negative development and a setback for Glenmark's NCE research;
- ❑ Glenmark had out-licensed this molecule to Eli Lilly in Oct-07 for a total deal size of US\$350mn and had received US\$45mn upfront milestone at the time of deal;
- ❑ We had taken option value of Rs.104 per share for GRC 6211 into our target price which is under risk;
- ❑ We remove option value of this molecule Rs.104 from our target price
- ❑ We reduce our SOTP-based target price to Rs.523 (earlier Rs.791);
- ❑ Valuation attractive, still many catalyst exist, recommend ACCUMULATE.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	19,340	26,437	35,649
Growth (%)	62.6	36.7	34.8
EBITDA	8,005	10,692	13,942
Growth (%)	87.8	33.6	30.4
EBITDA margin (%)	41.4	40.4	39.1
Net profit	6,321	7,880	10,653
Growth (%)	103.9	24.7	35.2
Net Margin (%)	32.7	29.8	29.9
EPS diluted (Rs)	25.4	31.4	42.0
Growth (%)	96.8	23.5	33.9
DPS (Rs)	0.7	0.5	0.5
RoE (%)	57.4	40.7	36.2
RoCE (%)	36.0	33.4	33.4
EV/Sales (x)	4.3	3.2	2.2
EV/EBITDA (x)	10.5	7.9	5.7
P/E (x)	12.7	10.3	7.7
P/BV (x)	5.0	3.5	2.3

Source: Company, Kotak Securities - Private Client Research

Eli Lilly suspended further clinical trials in Glenmark's Osteoarthritis pain molecule GRC 6211

Glenmark has announced that its partner Eli Lilly has suspended further clinical development for GRC 6211 molecule in Osteoarthritis pain. Glenmark had out-licensed this molecule to Eli Lilly in Oct-07 for a total deal size of US\$350mn and had received US\$45mn upfront milestone at the time of deal. We had taken option value of Rs.104 per share for GRC 6211 into our target price which is under risk.

Glenmark and Lilly are currently in discussions on the way forward. Under the terms of the agreement signed in Oct-07, Lilly had acquired the rights to a portfolio of transient receptor potential vanilloid sub-family 1 (TRPV1) antagonist molecules, including GRC 6211 which was in early clinical Phase-II development at the time. The collaboration between Glenmark and Lilly covers all TRPV1 antagonist molecules discovered by either company.

NCE/NBE pipeline is big with total 13 molecules

Glenmark's NCE/NBE pipeline is getting bigger and valuable with the addition of five new molecules into the drug discovery pipeline. The discovery program continues to investigate new targets and is actively yielding new hits for further development. Presently, the company has a pipeline of 13 NCE and NBE molecules. Five are in clinics, four in pre-clinical and four are in the discovery stage.

In its last R&D deal, GPL has out-licensed its GRC-6211 molecule (pain management) to Eli Lilly for upfront license fees of US\$45mn and total potential milestone payments of US\$350mn. This licensing deal has reduced its dependence on GRC 3886 (asthma/COPD) and GRC 8200 (diabetes) to drive its R&D value and re-enforce confidence in its R&D capabilities.

The company currently has three molecules in phase-II, two in Phase-I, four in pre-clinical while one NCE and three biologics are at the discovery stage and are expected to enter the clinics during FY2010-11.

Glenmark's NCE/NBE Research Pipeline

Compound	Target	Primary Indications	Status	Target launch
GRC 3886 (Oglemilast)	PDE IV	Asthma, COPD	Phase IIb (Forest)	2011
GRC 6211	TRPV 1	Osteoarthritis, Dental Pain, Incontinence, Neuropathic Pain	Phase II	2012
GRC 8200 (Melogliptin)	DPP IV	Diabetes (Type II)	Phase II	2012
GRC 4039	PDE IV + TNF alfa	Rheumatoid Arthritis, Inflammation, Multiple Sclerosis	Phase I	2012
GRC 10693	CB 2	Neuropathic Pain, Osteoarthritis, and Other Inflammatory Pain	Phase I	2013
GRC 9332	SCD 1	Obesity, Dyslipidemia, Metabolic disorders	Pre-clinicals	2013
GRC 17173	TRPV 3	Osteoarthritis, Dental Pain, Neuropathic Pain	Pre-clinicals	2013
GBR 500	VLA2	Acute Multiple Sclerosis; Inflammatory Disorders	Pre-clinicals	2013
GBR 600	Undisclosed	Acute Stroke / Coronary Syndrome; Thrombosis	Pre-clinicals	2014
		Cardiovascular disorders		

Source: Company Presentation April 2008

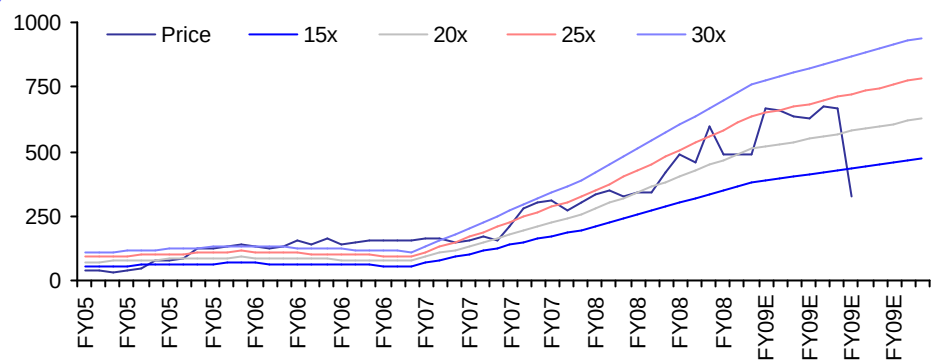
We expect strong revenue and earning growth in FY09 and FY10

We expect strong revenue and earning growth for the next two years on the back of significant traction across the key geographies and increased confidence in NCE/NBE research capabilities. We expect Glenmark to register 35.8% and 29.8% compounded growth in revenue and earnings over FY08-10E, driven by 39.4% compounded growth in core business and potential NCE milestones payments of US\$69mn each in FY09 and FY10, respectively.

Valuation attractive; Still many catalysts exist

- We expect fully diluted EPS of Rs.31.4 and Rs.42 for FY09 and FY10; respectively assuming US\$ 69mn income from NCE out-licensing each in FY09 and FY10, respectively. The EPS from core business is expected to be Rs.23.7 in FY09 and Rs.34.4 in FY10;
- The stock has corrected significantly recently mainly due to sharp correction in market and failure of the molecule. At current market price Rs.324, the stock is trading at 10.3x FY09 and 7.7x FY10 fully diluted earning estimates;
- We use Sum-Of-The-Parts method (SOTP) to value the stock, valuing the R&D deals and the core generic business separately. We believe probability-adjusted DCF is appropriate to calculate the option value from NCE compound as it captures the reducing probability of success as the molecules progress on the clinical path;
- We have valued the core business (excluding R&D income) at Rs.355 (earlier Rs.519) attaching 15x price-to-earning multiple to FY09 fully diluted earning and an option value IP Assets at Rs.168 (earlier Rs.272), for GRC 3886 at Rs.119 and GRC 8200 at Rs.49. We have removed option value Rs.104 for GRC 6211 from our total NCE value. Hence, we arrived at revised target price of Rs.523;
- We believe that valuations are attractive and many potential catalysts still exist in the stock viz., expected milestone payments, potential out-licensing deal for GRC-3886 to European region, and potential acquisition in EU/US countries. We recommend **ACCUMULATE**.

We recommend ACCUMULATE on Glenmark Pharmaceuticals with a price target of Rs.523

PE Band

Source: Capitaline, Kotak Securities - Private Client Research

Key risks

- Greater than anticipated pricing pressure or lower market share in generic or API business
- Any delay in ANDA filings and/or approval and any delay in launch by its global partners would impact the growth and profitability of the company
- Suspension of any key molecules GRC-3886/8200/6211 from phase II clinical trials due to toxicity or in-efficacy
- Regulatory delays to conduct advance clinical studies
- Regulatory risk in domestic market.

ANNEXURE**Transient Receptor Potential Vanilloid sub-family 1 (TRPV1)**

TRPV1 is a member of the TRPV family of ion channel proteins. It is expressed in human pain pathways and in sensory neurons that mediate nociceptive signaling. Research on TRPV1 supports the potential for antagonists of this ion channel to be effective in various pain conditions. The goal of the partnership is to advance GRC 6211 and other promising drug candidates to ultimately provide novel therapies for painful conditions and other diseases and disorders.

RESULT UPDATE**Saurabh Gurnurkar**

saurabh.gurnurkar@kotak.com

+91 22 6621 6310

BALAJI TELEFILMS**PRICE: Rs.78****TARGET PRICE: Rs.100****RECOMMENDATION: REDUCE****FY10E P/E: 7x**

BTL's Q2FY09: a mixed quarter, revenues ahead of estimate are up 33% YoY. Margins squeezed by new show investments and loss of high margin Star program-down sharply YoY & QoQ. Consequently PAT is down 31% YoY, muting revenue gains. Expect EBITDA margins to be under pressure for remainder of FY09E given assumed lower realizations post deterioration in Star relationship and new show investments, realizations for which are lower.

Q2 results, a non-event in our opinion, we focus more on medium term revenue growth and profitability prospects given the worsened business environment for BTL. We have believed for some time that headwinds for the core content business (lower realizations from Star and waning ratings of content slate) will lead to flattish core profit growth in FY09E.

The recent news flow (Balaji's top rated show on Star going off air) has however made the macro more challenging for BTL and we now see meaningful declines in profitability over FY08-10E as BTL combats multiple headwinds.

With growing pressure to add volumes and diversify slate, cost structures are likely to rise and limit potential for profitable growth over FY08-10E. We revise earnings and price target downwards to account for the results and deteriorated business prospects of BTL. We now expect weak 10% revenue CAGR and EPS to de-grow at a 10% CAGR over the period, as margins come off, for BTL. Assign trough valuations to BTL's content business given its challenging prospects, DCF- based fair value stands at Rs.100. Cash on books (Rs.35 per share) and reasonable dividend yield may limit downside. While valuations may look cheap, we remain unenthused by estimated weak growth profile and see no near term upside catalysts. **REDUCE.**

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	3,784	4,456	4,583
Growth (%)	18.2	17.8	2.9
EBITDA	1,349	1,273	1,161
EBITDA margin (%)	35.7	28.6	25.3
Net profit	961	933	776
Net debt (cash)	(2,280)	(2,242)	(2,332)
EPS (Rs)	14.7	14.3	11.9
Growth (%)	20.9	(3.0)	(16.8)
CEPS	15.8	16.9	15.2
DPS (Rs)	3.5	3.5	3.5
ROE (%)	26.6	22.9	16.7
ROCE (%)	41.2	33.5	25.0
EV/Sales (x)	1.3	1.1	1.1
EV/EBITDA (x)	2.1	2.2	2.4
P/E (x)	5.3	5.5	6.6
P/Cash Earnings	4.9	4.6	5.1
P/BV (x)	1.4	1.2	1.0

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	2QFY09	2QFY08	% chg	1QFY09	% chg
Revenues	1,034.5	779.5	32.7	916.0	12.9
Expenditure	803.3	449.0		598.4	
EBDITA	231.2	330.5	-30.1	317.6	-27.2
Depreciation	34.6	30.7		34.1	
EBIT	196.6	299.8	-34.4	283.5	-30.7
Other Income	63.9	64.3		42.8	
PBT	260.5	364.1	-28.5	326.3	-20.2
Tax	79.2	101.2		103.7	
PAT	181.3	262.9		222.6	
PAT after EO items	181.3	262.9	-31.1	222.6	-18.6
EPS (Rs)*	2.8	4.0		3.4	
Margins (%)					
OPM (%)	22.3	42.4	-20.1	34.7	
GPM (%)	19.0	38.5		30.9	
NPM (%)	17.5	33.7		24.3	

Source: Company

Result Highlights: Q2 FY09- decent revenue growth, margins get crunched. We focus more on medium term prospects which look uninspiring for revenue and profit growth.

- The 33% YoY revenue growth for BTL at Rs.1.03bn came about on the back of 34% growth in commissioned programming revenues, which are c94% of revenues and also the more profitable format. Sponsored formats made revenues of Rs.64mn during Q2'09, up 10% YoY.
- Q2FY09 saw an increase in commissioned programming volume to 305hrs from the 207hrs in Q2FY08. QoQ also commissioned program volumes increased from 275 hrs in 1Q09- as BTL added programs with new broadcasters. It also saw a churn in programming slots with a show going off air on Star.
- Value growth of 34% YoY though lagged the 47% YoY rise in commissioned volumes. It was impeded by the discontinuance of its legacy high margin program with Star Plus, over the period.
- For the quarter BTL reported EBITDA margins of 22.3%, down 1240bps QoQ. We believe the drop in margins has been on account of increased costs of production, investments towards new shows and higher G&A expenditure.

Projected financials- weak revenue growth, lower margins as programming investments rise and high margin Star programs are discontinued. Expect meaningful declines in profits over FY08-10E.

- The ratings of the BTL shows on Star have plummeted over the last one year impact Star's competitive positioning and BTL's own bargaining power negatively. Over the period Star has also decided to replace BTL shows with content from other suppliers.
- Recently Star withdrew Balaji's #2 show - Kahani Ghar Ghar Ki and earlier this week decided to pull the plug on Balaji's #1 show - Kyunki Saas Bhi Kabhi Bahu Thi from Nov. 10 2008 v/s contracted March 2009. These shows, in our opinion contributed c30% of FY08 revenues and had above average margins as BTL was paid a premium for its delivered content in lieu of the exclusivity clauses.
- Falling TRP's in our opinion are a result of the changing GEC landscape marked by competition, audience fragmentation (lower absolute GRP's) and changing audience preferences (impact of reality shows & the sports entertainment format).
- We also note that big budget shows of BTL have come up on channels like 9X that have registered unimpressive ratings till date and lag behind the market leaders. Weak channel recall also likely leads to lower profit potential for content makers- more so in higher budget formats.
- Given the deteriorated macro for Balaji's business- poor ratings, viewer fatigue and loss of high margin Star programs we cut our projected financials sharply over FY08-10E.
- We now expect weak 10% revenue CAGR and EPS to de-grow at a 10% CAGR over the period. We expect BTL to report an EPS of Rs.14.3 (Rs.15.7 earlier) in FY09E and Rs.11.9 (Rs.17.7 earlier) in FY10E. We have cut our EPS estimates by 9% and 33%, over FY09 & FY10 respectively, to reflect the deteriorated business environment for BTL.

Recommendation- While valuations may look cheap we remain unenthused by estimated weak growth and see no near term upside catalysts. Cash on balance sheet (cRs.35/share) and reasonable dividend yield likely limit downside.

- BTL is hoping to address the challenges it faces at the current point through different programming formats, expected releases in the near term, outcome of which will be critical for renewed financial performance.
- New programming volumes, with other broadcasters though will come at lower realisations; BTL is paid a premium for its delivered content in lieu of the exclusivity clauses and its programs' then leading TRP's by the Star network.
- Successful launches across channels could revive its slate (and fortunes); less than efficient execution of the opportunity space could hurt future growth prospects.
- We opine FY09-10E will be a challenging year of transition for BTL- amply reflected in expected muted growth rates, lower margins and de-growth in financials.
- BTL has estimated net cash of close to Rs.35 per share in FY08. BTL is also expected to continue with a liberal dividend payout policy. These may limit downside from current levels.
- After a 9-33% cut in EPS over FY09-10E, accounting for weak growth rates in the medium term and a higher WACC in our DCF, we arrive at a price target of Rs.100 for the BTL stock (Rs.210 earlier).
- While current valuations of 7x FY10E EPS, at lower end of trading band, may look cheap we remain unenthused by the estimated weak growth profile and see no near term upside catalysts. **REDUCE.**

We recommend REDUCE on Balaji Telefilms with a revised price target of Rs.100

Revenue break-up, commissioned and sponsored

	Q2FY09	Q2FY08	% change	Q1FY09	% change
Commissioned Programs					
Number of hours	305.5	190.5	60.4	276.5	10.5
Average realization (Rs mn/hr)	3.2	3.8	-16.2	3.1	3.2
Revenues (Rs mn)	969.5	721.7	34.3	850.6	14.0
Sponsored Programs					
Number of hours	106.0	128.5	-17.5	130.0	-18.5
Average realization (Rs mn/hr)	0.6	0.4	33.9	0.5	19.6
Revenues (Rs mn)	63.8	57.8	10.5	65.4	-2.5
Total revenues (Rs mn)	1033.3	779.5	32.6	916.0	12.8

Source: Company

RESULT UPDATE

Saurabh Gurnurkar
 saurabh.gurnurkar@kotak.com
 +91 22 6621 6310

ZEE NEWS LTD

PRICE: Rs.32
TARGET PRICE: Rs.49

RECOMMENDATION: BUY
FY10E EV/EBITDA: 7x; P/E:11x

ZNL reports strong headline numbers- revenue growth of 60% YoY, aided by 61% advertising revenue growth and 56% subscription revenue growth. Profitability grows 2x, positively impacted by margin gains 320bps YoY. Healthy revenue growth and breakeven of new properties (Telugu) help

Recent ratings for ZNL's bouquet point to core business continuing to garner good ratings and enjoying strong competitive positioning. Marathi remains leader, new launches- Telugu, Kannada and increase GRP's. Hindi news channel broadly maintains a leadership position in the metros (Sec A/ B) and other regional channels continue to witness firm viewership shares.

A challenging macro for ad spends is likely to impact ZNL in the near term; accounted for in our lower earnings expectations and target price. We however remain positive on ZNL's longer term prospects given preference for strong franchises in regional markets, which are likely to enjoy higher growth rates. For ZNL the competitive positioning of its bouquet and a systematic scale up across properties while maintaining reasonable financial discipline, which we believe is vital, offer opportunities in the market-place. Earnings growth for ZNL, in our opinion is likely to be driven by revenue momentum due to stable ratings for its assets and also currently loss-making businesses contributing to the bottom line.

At a forward P/E of 11x, ZNL is the least expensive stock in the media broadcast space and amongst the few names in the segment that will see a strong growth momentum. Retain our BUY rating with a DCF based price target of Rs.49 (Rs.59 earlier) - accounting for reduced earnings (cut 5-10% over FY09E and FY10E), a higher WACC and a macro environment that has deteriorated meaningfully over the last month.

Result Highlights- Revenues grow 60% YoY, profits grow 2x YoY as margins expand

- For the quarter ZNL grew its advertising revenues by a visibly good 61% YoY to Rs.1.01bn. Subscription growth on the other hand was a string 56% YoY to Rs.234mn. 'Other' services came in at Rs.30mn. Put together revenues were Rs.1.28bn for the quarter, up 60% YoY.
- For ZNL existing channels grew revenues by 45% YoY to Rs.1.03bn, while new channels grew 4X from a small base to Rs.204mn. ZNL's new channels include its recent launches- Telugu, Kannada, 24 Taas and Talkies.
- Property wise details shared by the management show that the existing properties generated a 31% EBITDA margin whereas the new properties, in investment mode reported a negative EBITDA of Rs.111mn. The management also disclosed that in line with guidance the Telugu property has broken even during the quarter. Kannada is also expected to follow suit in the succeeding quarters.
- EBITDA margins at 16.6% were up 320bps YoY positively impacted by the strong revenue growth and improved performance of its new properties. We opine growth in subscription revenues that come with low associated costs also aided operational leverage. Net profits as a result came in at Rs.114.6mn, up 104% YoY.

Summary table -

(Rs mn)	FY08	FY09E	FY10E
Sales	3,675	4,668	5,822
Growth (%)	52.8	27	24.7
EBITDA	678	876	1,143
EBITDA margin (%)	18.4	18.8	19.6
Net profit	371	513	689
Net debt (cash)	128	213	79
EPS (Rs)	1.5	2.1	2.9
Growth (%)	396.3	38.5	34.2
CEPS	1.9	2.5	3.3
DPS (Rs)	0.4	0.4	0.4
ROE (%)	19.1	22.8	25.5
ROCE (%)	29.6	31.9	35.5
EV/Sales (x)	2.1	1.7	1.3
EV/EBITDA (x)	11.5	9	6.8
P/E (x)	20.7	14.9	11.1
P/Cash Earnings	16.8	12.6	9.7
P/BV (x)	3.7	3.2	2.6

Source: Company, Kotak Securities - Private Client Research

Quarterly Results - Q2FY09

(Rs mn)	2QFY09	2QFY08	% chg	1QFY09	% chg
Revenues	1276.9	776.0	64.5	1095.9	16.5
Expenditure	1065.4	672.0		921.1	
EBDITA	211.5	104.0	103.4	174.8	21.0
Depreciation	22.4	16.0		19.3	
EBIT	189.1	88.0	114.9	155.5	21.6
Net Interest	11.2	1.5		3.2	
Other Income	2.1	3.8		3.0	
PBT	180.0	90.3	99.4	155.3	15.9
Tax	65.0	33.9		59.8	
PAT after MI	114.6	56.4	103.2	95.5	20.0
EPS (Rs)*	0.4	0.3		0.6	
Margins (%)					
OPM (%)	16.6	13.4	3.2	16.0	
GPM (%)	14.8	11.3		14.2	
NPM (%)	9.0	7.3		8.7	

Source: Company

Projected financials- expect advertising revenue growth rates to feel the impact of a slowing economy. ZNL bouquet's strong positioning, stable ratings and positive outlook on regional media likely to help ZNL outpace industry growth

- ZNL has grown its ad revenues strongly over the recent quarters; FY08 ad revenues grew at 69% and in H1FY09 it has clocked a growth of 56%, albeit from a smaller base. We see these above industry growth rates as a factor of a favorable macro-environment and its ratings that have been steadily dominant in their niches.
- The impact of viewership gains in the broadcasting business shows with a lag on revenues, something which explains ZNL's strong ad revenue growth till date. We opine ZNL's currently strong positioning lends reasonable revenue visibility over the succeeding quarters- even in a challenging macro environment.
- With its leadership position in target markets ZNL has recorded higher than industry advertisement revenue growth rates in the recent past. Our interactions with the company point to a growing preference for regional media given its reach, cost effectiveness and also saturation in certain urban markets. We believe these will be longer term enablers for revenue growth sustenance in the regional media space.
- In our projections, we expect advertising revenues to grow at a CAGR of 26.7% over FY08-10E. While this may look aggressive in the current macro, we note that of this, we expect the existing channels (79% of FY10E ad revenues) to grow at a reasonable 17% CAGR.
- The new channels are expected to contribute incrementally to revenues, from a smaller base and grow at a 50% CAGR over the period. We expect new channels to contribute to 11% of FY10E ad revenues from their 7% contribution in FY08.
- For FY10E we are factoring in a modest 15% growth in existing channel ad revenues, a significant slowing from the 19% ad revenue growth we are building for FY09E.
- Still dominant ratings of its properties and a premise of regional media growth outpacing national media lend support to our ad revenue growth estimates, possibly.

Subscription revenues- we expect a 23% CAGR over FY08-10E. Pay revenues- a huge opportunity, expect domestic subscriptions to spur growth led by increasing DTH penetration:

- Going forward over FY08-10E we expect subscription revenues to grow at a 23% CAGR. We believe pay revenues will likely be a strong growth driver for ZNL financials along with ad revenue contributions from existing channels.
- This growth is expected to be driven by a revamp of the domestic cable distribution business and strong growth in the DTH subscriber base. We also believe ZNL's international subscription revenues are likely to benefit from the recent INR depreciation. In our estimates we have marginally upped our estimated international pay revenue given the favorable INR equation.
- While initial CAS off-take has been muted, the opportunity in our opinion will be led by a strong traction in DTH services, which is expected to have 21mn subscribers by FY11E, up from the c7mn currently. We expect DTH collections to rise at a 62% CAGR over the period- aided by strong growth in the DTH sub count and relatively strong positioning of the ZNL bouquet.

Margins- to expand over FY08-10E on account of stable ratings and breakeven of new properties. Increasing pay revenue- a positive for margins given low associated costs

- Earnings growth for ZNL, in our opinion is likely to be driven by revenue momentum due to stable ratings for its assets and also currently loss-making businesses contributing to the bottom line. Of the current loss-making ventures, Zee Telugu and Zee Kannada are expected to breakeven in FY09E as per management guidance.
- Gains from this though would be offset by start up losses in new channels (Tamil, Telugu news and Bengali movies), in our opinion. On the back of the above we expect EBITDA to grow at a CAGR of 29% over FY08-10E, aided by an EBITDA margin expansion of 120bps over the period.
- We see the incremental pay revenue stream as a positive for margins and likely offsetting to an extent the general rise in operating costs that we envisage for ZNL over the period. Rising competitive intensity and new properties will likely entail higher programming investments as ZNL looks to grow its positioning and addressable market.
- We consequently estimate an EPS CAGR of 36% over FY08-10E; an EPS of Rs.2.1 (Rs.2.2) in FY09E and Rs.2.9 (Rs.3.2 earlier) in FY10E from Rs.1.5 in FY08.

Valuations: point to a limited downside from a historical perspective, given no further material deterioration in business fundamentals. They also appear favorable vis-à-vis the growth on offer and also on comparison with peers

- At 11x FY10E EPS ZNL is trading at close to bottom of its historical trading band. While this may offer limited downside to current price levels, we remain cognizant of the fact that a re-rating from current levels will likely follow more encouraging news-flow on the macro and advertising revenue trends.
- In terms of relative valuations the stock is trading at a discount to Sun TV (a regional broadcaster) on both the P/E and EV/EBITDA metrics. The ZNL stock also looks attractively valued on a relative basis, more so given the projected growth on offer- a 36% CAGR in EPS over FY08-10E.

Recommendation - retain our BUY rating. Accumulate rating given concerns on competitive intensity, market fragmentation, estimated rising cost structures and a slowing macro for ad spends

- We arrive at a DCF based price target of Rs.49 (Rs.59 earlier) for the ZNL stock. Our DCF model uses a higher WACC of 14.2% and terminal growth of 4%.
- Our revised target reflects our concerns on advertising growth trends in the medium term, reduced earnings and a higher WACC. We have cut FY09 and FY10E EPS by 5-10%, to reflect the same.
- Our exit multiple is at a c5% premium to ZEEL's target multiple. A premium is justified in our opinion after factoring in the relative growth rates, stability in competitive positioning and a strong franchise in niche segments expected to outpace industry growth.

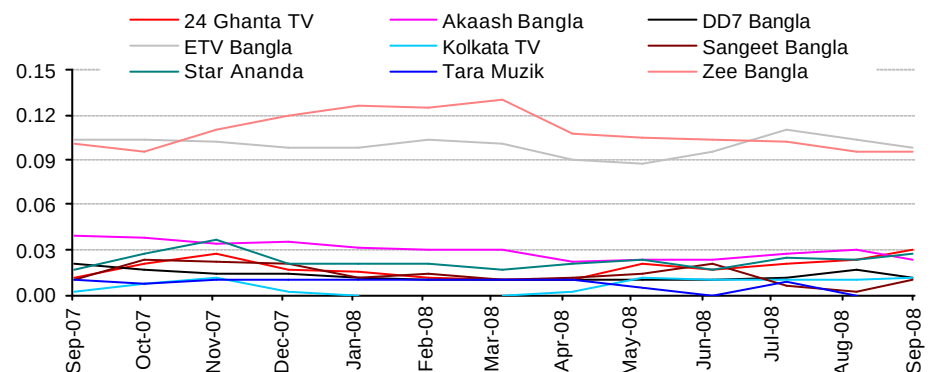
We recommend BUY on Zee News with a price target of Rs.49

Key Concerns:

- A sharp slowdown in the economic growth trajectory, which will impact advertising revenue growth and company financials negatively
- Loss in ratings and competitive positioning
- Hyper-competition impacting player and industry profitability negatively
- Lower than estimated pick-up in the subscription revenue stream
- Higher than estimated losses from new businesses

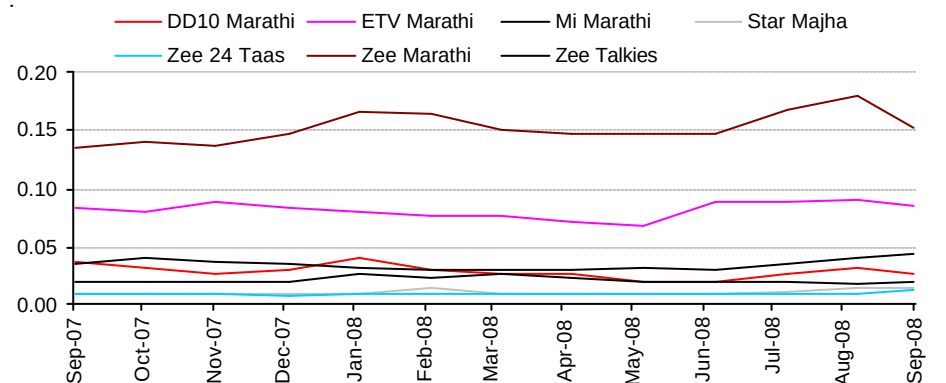
ZNL's flagship regional offerings- Bangla, Marathi remain market leaders

ZNL's Bangla and Marathi remain market leaders



Source: Company, TAM data

ZNL's flagship regional offerings- Bangla, Marathi remain market leaders



Source: Company, TAM data

RESULT UPDATE

Saurabh Gurnurkar
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

PVR LTD

PRICE: Rs.95
TARGET PRICE: Rs.125

RECOMMENDATION: REDUCE
FY09E P/E: 9x

Q2FY09; revenues come in around estimates, lower EBITDA margins lead to core PAT slightly below estimates. Headline numbers continue to look weak on a YoY basis on account of a relatively weak release pipeline, lower footfalls and occupancies.

EBITDA margins at 19% while moving up QoQ (from 16.1% in Q1'09) are down YoY as new properties have added to cost base whereas revenues have been impacted by lower footfalls. We opine margins will struggle in the medium term as operators counter a rising cost base (new properties) and slowing revenues (lower occupancies and potentially lower realisations).

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	2,659	3,407	4,019
Growth (%)	49.7	28.1	18.0
EBITDA	489	596	719
EBITDA margin (%)	18.4	17.5	17.9
Net profit	216	252	290
Growth (%)	112.2	16.6	15
Net cash (debt)	910	1,154	1,366
EPS (Rs)	8.9	10.4	12.0
Growth (%)	101.7	16.6	15.0
CEPS	16.0	18.4	20.5
DPS (Rs)	1.0	1.0	1.5
ROE (%)	10.6	11.5	11.9
ROCE (%)	12.1	13	14.3
EV/Sales (x)	1.4	1.2	1.0
EV/EBITDA (x)	7.2	6.3	5.5
P/E (x)	10.6	9.1	7.9
P/Cash Earnings	5.9	5.2	4.6
P/BV (x)	1.1	1.0	0.9

Source: Company, Kotak Securities - Private Client Research

We retain our cautiousness on the property handover front and realizations front, given the delays from real estate developers and expected turmoil for leveraged developers. Relatively slack pipeline and a weakening macro for consumption, which has deteriorated meaningfully over the last month, will be additional headwinds for property footfalls, in our opinion. Consequently EPS growth is expected to visibly slow over FY08-10E (a 16% CAGR) in comparison the 86% CAGR over FY06-08.

While valuations may look relatively cheap at 9x FY09E EPS; meaningful upsides will depend on macro news flow, stronger release pipeline and timely property handovers.

Downgrade to REDUCE with a price target of Rs.125, given above factors. See no near term catalysts as focus will remain on macro for consumption and timely handovers from real estate developers- both are unlikely to see near term positive news flow.

Q2 FY09 Highlights

- PVR's 2QFY09 results while weak on a YoY basis are broadly in line with our estimates on the revenue front but lower in terms of core net profit. PVR reported revenues and profits of Rs.788mn and Rs.79mn for the quarter. Revenues and reported PAT were up 27% YoY.
- PVR made certain tax provisions for entertainment tax exemptions expected to be received from states that decreased the tax liability by Rs.22mn. Adjusted for that reported PBT was marginally below estimates.
- We had estimated core exhibition revenues of Rs.681mn, EBITDA of 19.5% and profits of Rs.60mn for Q2FY09.
- Margins while improving QoQ are down YoY as new properties have added to cost base whereas revenues have been impacted by lower footfalls. This revenue shortfall was a result of lower occupancy rates on account of the weak movie release slate and to an extent IPL's impact on retail entertainment formats.
- PVR has an overall screen count of 101, across 14 cities. PVR had ended FY08 with 84 screens.

Quarterly performance

(Rs mn)	Q2FY09	Q2FY08	% chg	1QFY09
Revenues	788.4	619.0	27.4	602.2
Expenditure	638.7	491.3		505.4
EBDITA	149.7	127.7	17.2	96.8
Depreciation	48.3	37.5		43.0
EBIT	101.4	90.2	12.4	53.8
Net Interest	30.7	15.0		23.3
Other Income	15.0	20.5		25.2
PBT	85.7	95.7	-10.5	55.7
Tax	6.4	33.1		15.4
PAT	79.3	62.6	26.7	40.3
PAT after EO items	79.3	62.6	26.7	40.3
EPS (Rs)*	3.4	2.6		1.7
Margins (%)				
OPM (%)	19.0	20.6		16.1
GPM (%)	12.9	14.6		8.9
NPM (%)	10.1	10.1		6.7

Source: Company

Weak macro, possible delay in property handovers, rising fixed cost base- negative for medium term growth rates

- We have modified our estimates building in more caution on new property additions- which impact revenues, on account of delays in handover from the real estate developers. We note the management is more optimistic than us on its margin expectations in the core exhibition business and also screen count, for FY09E.
- We have also built in lower occupancies in key properties given the weakening consumer sentiment and also a relatively weak release pipeline for FY09E. We opine FY08 was an exceptional year in terms of successful and high profile movie releases that will be difficult to follow up.
- On the other hand FY09 till date has been a mediocre year for the filmed entertainment business- we expect the whole value chain of studios and exhibitors to be negatively impacted.
- After accounting for the above- a higher cost base and slowing revenue trend we expect PVR's margins to decline over FY08-10E. We expect margins of 17.5% in FY09E & 17.9% in FY10E (18.4% in FY08). The expected commissioning of the only owned property in its portfolio- at Phoenix Mills in Central Mumbai (Q3 FY09) may help margins in our opinion.

Financials

- We forecast a modest 16% CAGR over FY08-10E in PVR's PAT to Rs.290mn by FY10E from Rs.216.2mn in FY08. This is expected to translate into a fully diluted EPS of Rs.10.4 (Rs.12 earlier) in FY09E and Rs.12 in FY10E. PVR reported a consolidated EPS of Rs.8.9 for FY08.
- Growth is expected to visibly slow over FY08-10E (a16% CAGR) in comparison the 86% CAGR over FY06-08. Lower revenue growth rates and negligible margin gains given rising cost structures being the factors, in our opinion.

Valuation & Recommendation

- We retain our conventional DCF based methodology for valuing the stock. We thus arrive at a DCF based price target of Rs.125 (Rs.220 earlier) for the stock. Our revised PT and recommendation reflects our caution on property handovers, potentially softer realisations and expected lower occupancies and lack of sufficient margin levers in a challenging environment.
- Downgrade to REDUCE given above overhangs for the stock with a price target of Rs.125. See no near term catalysts as focus will remain on macro for consumption and timely handovers from real estate developers- both are unlikely to see near term positive news flow.
- At current price levels of Rs.95, the stock is currently trading at 9x FY09E and 8x FY10 earnings. On an EV/EBITDA

Revenues: Q2FY09 revenue growth- positively impacted by higher ATPs and spend per head that offset fall in occupancies. Fall in occupancy rates- a result of the muted release pipeline and weak consumer sentiment.

Occupancies may improve in 3QFY09 given likely better content quality which is expected to translate into better occupancies for properties.

- Footfalls, a critical parameter in the business de-grew by 2% YoY at 4.89mn for Q2FY09 v/s 5mn reported in Q2FY08. Footfalls in comparable properties (3.58mn) were down even more sharply 14% YoY. We opine this is a critical data point and reflects the lower occupancy rates which were a result of the weak movie release slate and weak consumer sentiment.
- Reported occupancy rate stood sharply lower at 37% in Q2 as a result of discussed factors v/s the 45% reported in the Q2 of FY08- a decline of 18% YoY.
- ATP's however remained resilient and grew 13% YoY to Rs.140 respectively, an indication of PVR's revenue management skills, pricing power and brand positioning, in our opinion. We however see lower scope for this to trend up given the expected slowdown in general economy and consumer sentiment.
- For the quarter the more profitable F&B segment contributed revenues of Rs.163.5mn, 21% of overall revenue. Advertising formats made revenues of Rs.101.1mn during Q2'09. This revenue stream has grown more than 71% YoY for PVR.
- In Q2FY09 4 more screens have come on stream taking the screen count to 101, we expect PVR to add 31 properties over FY09 end taking its screen count to 115.

Important tracking parameters in the multiplex business- footfalls, occupancy and ATP's Q2FY09; movie line up while better than Q1FY09 was still modest and led to low footfalls and lower occupancy rates, ATP's have however grown YoY.

Table

	Q2FY09	Q2FY08	% change	Q1FY09	FY08
Footfalls(mn)	4.89	5	-2	3.72	17.9
Occupancy (%)	37	44.8	-18	32	40
ATP, Rs.	140	124	13	138	127
Spend per head, Rs.	39	31	24	38.1	32.1

Source: Company, Kotak Securities - Private Client Research

EBITDA margins-up QoQ, slump YoY. Expect margins to decline over medium term given our negative outlook on medium term occupancies, delay in property handovers and a rising fixed cost base. E-tax exemptions, own property commissioning may be positive for margins, as and when they materialize.

- EBITDA margins came in at 19%- up QoQ (16.1% in Q1FY09) and down YoY. The improvements in margins QoQ was on account of revenue traction from new properties and higher ATPs and spend per heads.
- Margins were also helped by the gradually reducing proportion of e-tax as a % of sales that was down to 11.5% of gross operating income in Q2FY09 v/s the 12.1% in Q2FY08. Currently out of 101 screens operated by the company 39 enjoy/are eligible for e-tax exemptions.
- We opine the 160bps drop in margins YoY was on account of the revenue growth not making up for increase in fixed cost base on account of new property additions. Rental costs were up 48% YoY. We opine increasing rentals have been a headwind for all exhibition players and have built in a 30% increase in PVR's rental outgo in FY09E.
- Within cost structures operating costs and employee costs went up by 35% and 51% YoY, which impacted margins on a YoY basis.
- We estimate consolidated margins to decline given our negative outlook on medium term occupancies, delay in property handovers and a rising fixed cost base. We expect margins of 17.5% in FY09E & 17.9% in FY10E (18.4% in FY08).
- News reports indicate the Delhi Government's move to reduce the entertainment tax on cinema to 20% from 30% earlier. About 25% of PVR's screens are still located in Delhi, even after a rapid addition of properties.
- Entertainment tax takes away a proportion of gross ticket sales for multiplex operators. Lower entertainment tax incidence, in our opinion, may help boost PVR's operating margins, though we opine the company could likely pass on a part of the benefit to consumers. We have not accounted for the same yet in our financials pending formal notification from the authorities.

Aggressive and selective screen expansion plans are on track, as of now. We await more comfort on this front given the widely expected turmoil in real estate development given the credit crunch and elevated interest rates.

We recommend REDUCE on PVR with a price target of Rs.125

- PVR has aggressive expansion plans and intends to scale up its operations to 150+ screens by FY10E from the current 101 screens. Besides strengthening its dominance in North India, PVR has lined up aggressive expansion plans in the South and West of India as well.
- Our projections factor in a staggered commissioning of properties in addition to the absolute screen count being lower than the expectations of management. We feel building this buffer is prudent given the delays multiplex operators have faced in terms of property handovers initially from real estate developers and then from local civic authorities given the requirement of multiple permissions.

Key Concerns:

- Project execution delays.
- Big studio bargaining power and content costs.
- Lack of a steady and quality content pipeline.
- Sharp slowdown in economic growth trajectory.

RESULT UPDATE**Sanjeev Zarbade**

sanjeev.zarbade@kotak.com

+91 22 6621 6305

ABB LTD**PRICE: Rs.482****TARGET PRICE: Rs.430****RECOMMENDATION: REDUCE****CY09E P/E: 14.1x**

- ❑ ABB has disappointed on the revenue as well as earnings front.
- ❑ Automation systems and power systems revenue remain stagnant.
- ❑ Growth in order inflow moderates to 13% yoy for the quarter. Order backlog is around Rs 70 bn.
- ❑ Order flows continue to be healthy from the T&D sector.
- ❑ Moderation in industrial production growth and real estate construction should impact demand for products going forward.
- ❑ We are revising our earnings estimates downwards in view of the lack-luster numbers and overall concerns in the macroeconomy.
- ❑ Our earlier recommendation was a Reduce with a price target price of Rs 900. Since then, the stock's movement has underperformed the market. ABB has been one of the most richly valued stock with the stock universe. We see further scope of derating given decelerating earnings growth and slackening demand scenario.
- ❑ We maintain Reduce with a price target of Rs 430 (Rs 900 earlier).

Summary table

(Rs mn)	CY07	CY08E	CY09E
Sales	59,303	69,669	80,175
Growth (%)	38.8	17.5	15.1
EBITDA	7,246	8,607	10,092
EBITDA margin (%)	12.2	12.4	12.6
Net profit	4,906	5,947	7,038
Net cash (debt)	6,429	9,622	14,179
EPS (Rs)	23.1	28.1	33.2
Growth (%)	37.6	21.2	18.3
CEPS	24.9	30.3	35.8
DPS (Rs)	2.2	2.3	2.3
ROE (%)	34.8	31.3	28.2
ROCE (%)	44.1	39.5	35.2
EV/Sales (x)	1.6	1.3	1.1
EV/EBITDA (x)	13.2	10.7	8.7
P/E (x)	20.8	17.2	14.5
P/Cash Earnings	19.4	15.9	13.5
P/BV (x)	6.3	4.7	3.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3 CY08	Q3 CY07	YoY (%)	9M CY08	9M CY07	YoY (%)
Sales	15,562	13,775	13.0	47,078	40,909	15.1
Raw material costs	10303	9314.75	10.6	30,927	27,883	10.9
purchase of traded goods	807.1	616	31.0	2,749	1,795	53.1
Personnel expenses	1017.2	787.8	29.1	3,002	2,276	31.9
Other exp	1714.6	1332.8	28.6	5,050	4,311	17.1
Operating expenses	13,842	12051	14.9	41,728	36,265	15.1
Operating profit	1,720	1,724	-0.2	5,350	4,643	15.2
Other income	27.9	157.6	-82.3	427	457	-6.6
PBDIT	1,748	1,882	-7.1	5,776	5,100	13.3
Interest	66.8	15.5	331.0	103	48	113.8
Depreciation	92.3	79.3	16.4	264	242	8.8
PBT	1,589	1,787	-11.1	5,409	4,809	12.5
Tax	540.40	630.00	-14.2	1,865	1,701	9.6
PAT reported	1,049	1,157	-9.4	3,544	3,108	14.0
Ratios (%)						
RM to sales	66.2	67.6		65.7	68.2	
Staff costs to sales	6.5	5.7		6.4	5.6	
other exp to sales	11.0	9.7		10.7	10.5	
OPM	11.1	12.5		11.4	11.4	
Tax rate	34.0	35.3		34.5	35.4	

Source: Company

Automation and Power systems growth falters

ABB reported a revenue growth of 13% yoy in the third quarter of CY08.

As in line with the previous quarter, growth in power systems and process automation divisions has remained flat. Power Systems deliverables include network management, utility communication, transmission and distribution substations, Flexible Alternating Current Transmission Systems (FACTS), High-Voltage Direct Current (HVDC) systems and automation and electrical solutions for power plants. This division also offers automation, control and protection systems and related services for power transmission and distribution networks, power plants and water pumping stations.

This division has ended the year CY07 with an order backlog of Rs 23.3 bn, up 47%. However, there appears to be possibility of delays in projects which is delaying translation of orders into revenues.

Process automation division reported flat growth in revenues for the quarter. Process automation includes industry-specific solutions for plant automation and electrification, energy management, process and asset optimization, analytical measurement and telecommunication. Major industries served include oil and gas, metals and minerals, pulp and paper, chemicals and pharmaceuticals.

The process automation division closed the year CY07 with a 57% growth in order backlog. This division has several large orders from major metal manufacturers in the country. It is likely that there could be delays from the clients end given the liquidity crunch with several corporates.

Segment revenues (Rs mn)

	Q2 CY08	Q2 CY07	% change
Power Products	4920.2	3616.5	36.0
Power Systems	5109.2	5134.7	-0.5
Automation Products	4169	3283.4	27.0
Process Automation	2473.5	2495.9	-0.9
Others	218	59	269.9

Source: Company

Margins on account of higher staff and other expenditure

Margins declined 140 bps for the quarter. While raw materials to sales ratio remained stable, there was an increase in staff and other expenditure. However, segment margins across the business segments have declined.

The company is allowed for price escalation on its orders from PGCIL and SEBs. This may explain the margin expansion in power systems business. However, automation products and power products margins declined sharply reflecting material price pressures. ABB is a net importer with net imports of 16% in CY07. The weakness in rupee could have raised costs for the company.

PBIT Margins (%)

	Q2 CY08	Q2 CY07
Power Products	9.2	11.3
Power Systems	10.1	9.6
Automation Products	7.3	14.4
Process Automation	12.2	13.2
Total	9.4	11.7

Source: Company

Pace of Order inflows remains moderate but Visibility strong for CY08

During the quarter, order inflows grew 13% yoy to Rs 22.1 bn.. Order backlog stands around Rs 70 bn, up 43% yoy. Key drivers for power products and systems is the T&D investment by power utilities and for automation division it is the investment in core sector industries like cement, steel, pulp and paper etc.

Transmission capacity addition plan

CKM	10th plan	11th plan	% change
765 KV	1,704	7,132	319
HVDC	6,034	11,240	86
400 KV	75,722	125,000	65
230/220 KV	114,629	150,000	31

Source: Company

Target to double revenues by 2010

During the fourth quarter, ABB announced its growth plan for India. The company sees significant potential in India and has plans to double its business volumes by 2010 (We assume that the base for doubling of revenues would be CY07). We are encouraged by the management's outlook for growth as it is in conformity with our growth expectations.

The Chairman of ABB Group expects Indian operations to play an integral role in strengthening ABB's global footprint. To support its growth plans, ABB India plans to significantly rampup manpower to 10000 from 6000 currently.

India is expected to be among the top five markets for ABB in the coming years and ABB's strong presence, it expects the business volumes for ABB in India to double by 2010.

ABB India has completed its previously announced investment programme of USD 100 mn. It now plans to invest an additional USD 100 million for capacity and range expansion over the next 2-3 years. The upcoming manufacturing units would also be used to cater to the markets in neighbouring countries.

Earnings growth to move to a lower trajectory

ABB's earnings grew at a CAGR of 53% between CY05-07. However, considering the overall macroeconomic conditions and a slowing order book, we expect lower earnings growth in the medium term. We forecast earnings to grow 21% CAGR between CY07-09.

Earnings estimates

(Rs mn)	Earlier		Revised	
	CY08	CY09	CY08	CY09
Revenues	73,084	91,277	69,669	84,400
EBITDA	9,138	11,337	8,607	10,422
EPS (Rs)	29.7	37.2	28	34
% change			-5.5%	-7.9%

Source: Kotak Securities - Private Client Research

**We maintain REDUCE on ABB
with a price target of Rs.430**

Our earlier recommendation was a Reduce with a price target price of Rs 900. Since then, the stock's movement has been as per our expectations.

The latest annual report for the company indicates an expansion in working capital as days of sales. It is likely that moderation in investment momentum in the economy may lead to less favourable payment terms for equipment manufacturers leading to expansion in working capital. This would reduce the return ratios apart from hurting free cash generation. We have accordingly made revisions in our DCF model for this likelihood and reduce our target price to Rs 430.

Stock trading at 17.2x and 14.5x CY08 and CY09 earnings. In view of this, we maintain **REDUCE** with a price target of Rs 430 based on DCF (Rs 900 earlier).

RESULT UPDATE**Sanjeev Zarbade**

sanjeev.zarbade@kotak.com

+91 22 6621 6305

BHEL**PRICE: Rs.1092****TARGET PRICE: Rs.1300****RECOMMENDATION: ACCUMULATE****FY09E P/E: 15.4x**

- ❑ BHEL continues to deliver on its execution front despite component bottlenecks. Raw material price variation clause also helped in booking higher revenues.
- ❑ Material price inflation has impacted margins in the second quarter. But material price scenario is turning benign. Benefits likely to accrue from Q4 FY09
- ❑ We have reduced earnings estimates for FY10 in view of higher than anticipated wage costs.
- ❑ We understand that the ongoing credit crunch in the domestic and global economy is creating problems for project developers. There have been instances of delays in finalization of orders. Order enquiries have also slowed down. While 85% of BHEL's orders are from government entities which are not expected to face fund crunch, the company's vendors and subcontractors may certainly be affected. In addition to this, there has been clear delays in placing of Balance of Plant orders for 11th plan, which may affect BHEL's order completion. In view of these concerns, we are downgrading the stock to Accumulate.
- ❑ The stock is trading at 15.4x and 12.6x FY09 and FY10 earnings respectively. While the company enjoys high revenue visibility, the stock's valuation is at a premium to the broad market.
- ❑ We revise rating from a BUY earlier to ACCUMULATE with a price target of Rs 1300 (Rs 1900 earlier).

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	197,268	251,003	307,748
Growth (%)	12	27.2	22.6
EBITDA	45,187	47,931	61,711
EBITDA margin (%)	22.9	19.1	20.1
Net profit	28,593	34,640	42,306
Net cash (debt)	82,908	69,909	56,123
EPS (Rs)	58.4	70.8	86.4
Growth (%)	18.4	21.1	22.1
CEPS	64.5	77.1	94.5
DPS (Rs)	15.3	16.0	16.0
ROE (%)	26.5	26.0	25.4
ROCE (%)	48.2	39.5	38.6
EV/Sales (x)	3.7	2.9	2.4
EV/EBITDA (x)	16.0	15.3	12.1
P/E (x)	18.7	15.4	12.6
P/BV (x)	5.0	4.0	3.2

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2 FY09	Q2 FY08	YoY (%)	H1 FY09	H1 FY08	YoY (%)
Sales Turnover	53,426	39,654	35	96,719	71,993	34
Total op Expenditure	46,319	32,702	42	85,874	61,934	39
Raw Materials costs	31,812	21,637	47	57,134	40,788	40
Staff cost	8,898	6,296	41	17,851	12,335	45
Other costs	5,609	4,769	18	10,889	8,812	24
Operating Profit	7,107	6,952	2	10,844	10,059	8
Interest	22	193	-89	48	214	-78
Other Income	3,072	5,009	-39	5,990	7,072	-15
Gross Profit	10,157	11,768	-14	16,786	16,917	-1
Depreciation	744	694	7	1,469	1,384	6
PBT	9,414	11,074	-15	15,317	15,533	-1
Tax	3,256	4,197	-22	5,315	5,767	-8
Reported PAT	6,158	6,877	-10	10,002	9,766	2
Adj for refund of tax for earlier years	-	1,659	-100			
Adjusted PAT	6,158	5,219	18			
Ratios (%)						
OPM (%)	13.3	17.5		11.2	14.0	
RM costs to sales (%)	59.5	54.6		56.00	56.7	
Staff costs to sales (%)	16.7	15.9		18.5	17.1	
Other costs to sales (%)	10.5	12.0		11.3	12.2	
Tax rate (%)	34.6	37.9		34.7	37.1	

Source: Company

Momentum in execution progress maintained

Revenues for the quarter rose 35% to Rs 53.4 bn mainly driven by the power sector. The industry sector segment mainly constitutes captive power projects, T&D equipments and railways business. The execution cycle in this segment is shorter compared to the power segment. Revenue growth came in ahead of expectations despite execution bottlenecks at component (forgings and Castings) and subcontractor level.

Part of the increase in revenues can be explained by the fact that the company has price escalation clause on 45-50% of its projects and the company could have passed high steel and copper price increases to the customers.

Segment

	Q2 FY09	Q2 FY08	YoY change %
Power	44090	33039	33.4
Industry	14961	12422	20.4

Source: Company

Margins declined on account of material price inflation and wage provisions: Margins declined as a result of high raw material costs which rose 47% yoy during the quarter. Staff costs also rose 41% yoy but was mainly due to the provision of Rs 2.9 bn towards wage revision. Other expenditure managed remained under control.

Management has guided that growth in employee cost in FY10 should stabilize at around 6-10% pa based on a 5% wage increment and 5% increase in headcount. The management has tentatively indicated the wage cost in FY10 to be in the range of Rs 45 bn. However, this is much higher than our expectations and implies 13% growth in employee costs.

Segment Margins (%)

	Q2 FY09	Q2 FY08
Power	17.3%	23.1%
Industry	15.1%	14.1%

Source: Company

Visibility remains strong

Order backlog at Rs 1040 bn is highest ever and translates into a revenue visibility of 50 months based on FY08 revenues. Estimated order inflows of Rs 143 bn is flat on a yoy and sequential basis. BHEL received Rs 500 bn in order inflows in FY08 on the back of ordering for 11th plan orders. The management expects to maintain its order inflows at FY08 levels despite bulk of 11th plan orders having already placed in FY08.

In recent times, the company has been successful in private sector orders and it appears that the company may have captured some market share from Chinese companies. The depreciation in Rupee coupled with practical problems associated with Chinese equipments has also contributed to renewed interest in BHEL's product.

Cost environment is turning benign

BHEL enjoys price variation clause for around 45-50% of its outstanding orders. For the remaining, the company has taken advance procurement action for sourcing critical components. The softening in prices of steel, copper and CRGO, if sustained, BHEL may see some margin gains from Q4 FY09.

Reducing FY10 estimates to factor in lower than expected revenue growth and higher than expected wage costs

We are building lower revenue growth in view of possible slippage in order execution given credit related issues faced in the economy. Also, the wage cost estimate indicated by the company has been higher than our estimate.

Earnings estimates

(Rs mn)	Earlier		Revised	
	FY09	FY10	FY09	FY10
Revenue	252150	327477	251003	307748
EBITDA	47471	66035	47930	61711
EPS (Rs)	69	94	71	86
% change			2.4	-8.1

Source: Company, Kotak Securities - Private Client Research

Valuation

We recommend ACCUMULATE on BHEL with a revised price target of Rs.1300

BHEL is currently trading at 15.4x and 12.6x FY09 and FY10 earnings respectively. We recommend **ACCUMULATE** but with a reduced price target of Rs 1300 (Rs 1900 earlier) based on DCF.

RESULT UPDATE

Sanjeev Zarbade

sanjeev.zarbade@kotak.com

+91 22 6621 6305

NTPC

PRICE: Rs.130

TARGET PRICE: Rs.138

RECOMMENDATION: REDUCE

FY09E P/E: 13x

- ❑ Revenue growth up 26% yoy, EBITDA up 8% and net profit down up 10%
- ❑ Revenue growth driven by capacity additions and higher tariffs.
- ❑ Net profit shored up by tax refund
- ❑ Progress on capacity addition remains a concern, which could likely impact our revenue assumptions.
- ❑ Being the largest generator of power in India with a strong track record of execution capability, we favour NTPC among power utilities. However, we single out the possibility of projects taking longer to commission as the major risk with NTPC. This is more so in the current environment of credit crunch faced by the corporates. In view of this, we downgrade the stock to a Reduce. Our revised target price works out to Rs 138 (Rs 220 earlier)
- ❑ Stock trading at 13.0x and 12.2x FY09 and FY10 earnings respectively. REDUCE

Summary table

(Rs bn)	FY08	FY09E	FY10E
Sales	371	433	485
Growth (%)	14	17	12
EBITDA	116	133	151
EBITDA margin (%)	31	31	31
Net profit	74	83	88
EPS (Rs)	9	10	11
Growth (%)	8.0	11.5	6.0
CEPS	11.6	12.6	13.5
DPS (Rs)	3.5	4.0	4.5
ROE (%)	14.6	15.1	14.8
ROCE (%)	15.9	16.1	15.7
EV/EBITDA (x)	11.6	10.3	9.4
P/E (x)	14.5	13.0	12.2
P/Cash Earnings	11.2	10.3	9.6
P/BV (x)	2.0	1.9	1.7

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2FY09	Q2FY08	YoY (%)	H1FY09	H1FY08	YoY (%)
Net sales	100,911	80,169	26	196,306	169,866	16
Expenditure	71,138	52,679	35	142,315	115,431	23
-Fuel Cost	59,559	44,203	35	120,944	97,433	24
-Staff Cost	6,047	4,126	47	11,826	10,178	16
-Others	5,533	4,350	27	9,545	7,820	22
Operating profit	29,773	27,490	8	53,991	54,435	-1
Depreciation	5,267	5,134	3	10,791	10,048	7
Gross profit	24,506	22,356	10	43,200	44,387	-3
Interest	5,264	4,964	6	9,483	5,242	81
Other income	3,151	7,323	-57	10,323	14,504	-29
PBT	22,394	24,715	-9	44,041	53,649	-18
Tax	83	5,611	-99	4,638	11,603	-60
-current	1,242	5,422	-77	5,574	10,609	-47
-deferred	-1,207	148	-915	-1,034	900	-215
-fringe	48	41	17	98	94	5
FBT transferred to incidental exp during construc/develop	0	3	-100	0	8	-100
Deferred tax recoverable	-1,207	148	-915	-1,034	900	-215
Provision for tax (net)	1,290	5,460	-76	5,672	10,695	-47
PAT	21,104	19,255	10	38,369	42,954	-11
Ratios						
Fuel cost/Net sales (%)	59.0	55.1		61.6	57.4	
Staff cost/Net sales (%)	6.0	5.1		6.0	6.0	
Other expenditure to sales (%)	5.5	5.4		4.9	4.6	
Adjusted EBITDA margins (%)	29.5	34.3		27.5	32.0	

Source: Company

Revenue growth remained sluggish

Revenue growth for the quarter came at 26% yoy driven by higher generation and increased tariffs.

During the past few months there has been sharp increase in the price of fossil fuels including coal and liquid fuels. Since these are pass-through for calculating tariffs, there has been an increase in tariffs rates during the quarter.

During the quarter the company has declared a 500 MW unit at Kahalgaon as commercial. Another unit at Sipat II of 500 MW size is under synchronisation stage.

The total installed capacity of the company during the first half has increased by 1510 MW consisting of three units of 500 MW size at Sipat II, Kahalgaon II and Vindhyachal. The company has plans to commission Sipat I of 1320 MW in the current fiscal.

Employee costs rose 47% during the quarter mainly due to the wage revision provision. During the quarter, the company provided Rs 1.4 bn towards pay revision for employees

Interest cost rose by 6% yoy to Rs 5.2 bn. Interest costs include forex fluctuation expense of Rs 922 mn on its foreign currency borrowings. NTPC had around 40% of its borrowings denominated in foreign currency. Bulk of the foreign currency borrowing is in USD and Yen. Both the currencies have appreciated in the quarter against the rupee.

Other income is down sharply by 57% yoy to Rs 3.1 bn. Other income pertains mainly to interest on tax free government (OTSS) bonds and cash. The reduction in other income could be due to redemption of OTSS bonds (one time settlement scheme).

Tax provision is down sharply on account of tax refund of Rs 5.3 bn in the quarter. This has shored up the net profits for the quarter.

Slippages likely in achieving XIth Plan target of adding 22 GW:

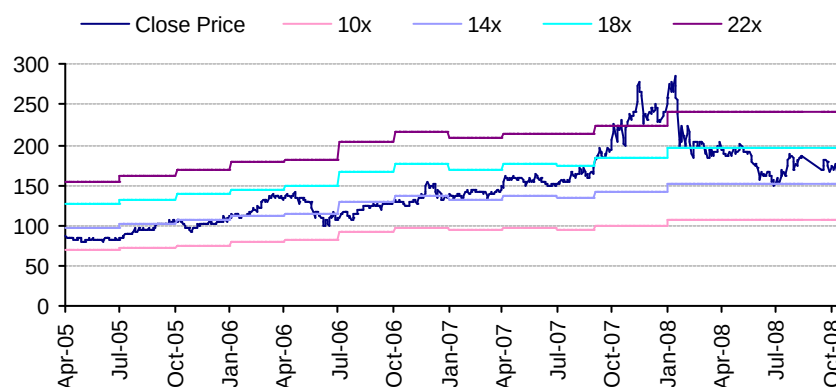
As in the past, project commissioning may see some slippages. We have built in further delays in the company's project commissioning plan for the XIth plan period. NTPC plans to set up 22430 MW of capacity in the XIth plan.

Valuation

We recommend REDUCE on NTPC with a price target of Rs.138

NTPC is currently trading at 13.0x and 12.2x FY09 and FY10 earnings respectively. We have taken more slippages in project commissioning given the fact there have been delays in placing of orders for the BOP equipment, which may push ahead commissioning targets. We see flat growth in the near-term. In view of this recommend Reduce with a target price of Rs 138.

PE band



Source: Capitaline, Kotak Securities - Private Client Research

Risks

Delays in commissioning of capacities remains a key concern which could impact our earnings projections and estimates.

Availability of adequate feedstock for its gas-based projects has remained an concern. Moreover, if coal supplies do not grow in line with capacity additions then it could affect our PLF projections.

Any adverse change in regulations regarding incentives norms could materially affect the ROE for the company.

RESULT UPDATE**Sanjeev Zarbade**

sanjeev.zarbade@kotak.com

+91 22 6621 6305

BHARAT BIJLEE LTD**PRICE: Rs.717****TARGET PRICE: Rs.900****RECOMMENDATION: SELL****FY09E P/E: 6.5x**

- ❑ Results are well below estimates.
- ❑ Margins dip as a result of cost pressures related to capacity expansion in Transformers.
- ❑ Annual Report highlights increasing competitive pressure as a result of capacity expansions
- ❑ In our previous update (Rs 1228, Reduce), we had recommended Reduce citing deteriorating macro-environment and cost pressures as reasons. With the Q2 results coming below expectations, we have revised our earnings downwards. Macroeconomic environment is not inspiring either.
- ❑ We reiterate our negative stance on the company and recommend Sell with a price target of Rs 900 (Earlier Rs 1400). We are closing our call on the company.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Sales	5623.9	6056.6	6756.4
Growth (%)	19.8	7.7	11.6
EBITDA	1156.3	949.0	1056.2
EBITDA margin (%)	20.6	15.7	15.6
Net profit	724.8	618.9	688.2
Net cash (debt)	-107.6	142.3	432.4
EPS (Rs)	128.3	109.5	121.8
Growth (%)	31.6	-14.6	11.2
CEPS	135.2	115.5	128.7
DPS (Rs)	35.1	35.0	35.0
ROE (%)	51	33	29
ROCE (%)	68	44	40
EV/Sales (x)	0.6	0.6	0.5
EV/EBITDA (x)	3.1	3.8	3.4
P/E (x)	5.6	6.5	5.9
P/Cash Earnings	5.3	6.2	5.6
P/BV (x)	2.5	2.0	1.6

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2 FY09	Q2 FY08	YoY (%)	H1 FY09	H1 FY08	YoY (%)
Net Sales	1,509	1,359	11	2,565	2,515	2
Other Income	4	6	-38	8	15	-46
Total Expenditure	1,297	1,100	18	2,220	2,057	8
RM costs	969	872	11	1,654	1,608	3
Purchase of traded goods	26	28	-7	38	45	-16
employee costs	137	100	37	260	196	32
Other expenditure	164	100	64	269	208	29
PBIDT	213	259	-18	345	457	-25
Interest	10	6	85	15	14	4
PBDT	206	260	-21	338	458	-26
Depreciation	13	9	49	25	17	49
PBT	194	251	-23	313	442	-29
Tax	69	88	-21	112	152	-26
Reported Profit After Tax	125	164	-24	201	290	-30
OPM (%)	14.1	19.0		13.4	18.2	
RM costs to sales (%)	64.2	64.1		64.5	63.9	
staff cost to sales (%)	9.1	7.4		10.1	7.8	
Other costs to sales (%)	10.9	7.4		10.5	8.3	
Tax rate (%)	35.5	34.8		35.7	34.4	

Source: Company

Sluggish revenue growth possible due to capacity constraint

Revenue for the quarter rose 11% yoy to Rs 1.5 bn. Moderate growth in revenue growth is possibly due to overall slowdown in offtake of motors and capacity constraints.

Operating margins decline sharply

Operating margins declined as a result of lower volumes as well as expense related to capacity addition (fresh manpower and other expenses). Increase in staff costs is mainly due to wage increments. The company is implementing SAP across the organisation and hence there was higher employee costs associated with manpower working on the project. Bharat Bijlee is expected to complete its capacity expansion in August and it has hired requisite manpower for added capacity, which has also contributed to rise in staff costs.

Commissioning of transformer capacity of 11000 MVA

BBL is expected to commence production at its brownfield capacity expansion of 3000 MVA at its existing location at Kalwa. This is expected to relieve some pressure on the existing capacity. In the motors segment, the company plans to introduce higher end motors upto 500 HP by the year-end.

Annual report highlights increasing competitive pressure in the industry

BBL's FY08 annual report indicates that the transformer industry is expected to grow at 10-12% in the next 2-3 years. However, the market has turned fiercely competitive due to capacity expansion by competitors.

Capacity build-up remains strong in transformer sector

We note that capacity additions have accelerated in recent months. This coupled with current moderation in industrial production may put pressure on pricing. Our earnings estimates build in this scenario. Discussions with management also indicate tempering of margins from FY08 levels.

Capacity

MVA	Capacity FY07	Capacity FY08	Planned expansion
Emco	10000	20000	0
BBL	8000	8000	3000
Voltamp	7200	9000	4000
ABB	12000	12000	0
Areva	9000	15000	50000
Siemens	0	15000	0
Indotech	3450	7450	0
CGL	25970	25970	0
TRIL	7200	7200	16000
Total	79370	112170	73000

Source: Company

Revised earnings downwards

Revenues have grown 2% yoy in the first half of FY09, clearly below our expectations. Hence we are now projecting a 7% growth in revenues in FY09 as compared to 12% earlier. We are factoring transformer production of 8900 MVA in FY09 on a capacity of 11000 MVA.

Earnings estimate

(Rs mn)	Earlier		Revised	
	FY08	FY09E	FY08	FY09E
Revenues	5623	6326	5624	6057
EBITDA	1156	1172	1156	949
EPS Rs	128	135.7	110	138

Source: Kotak Securities - Private Client Research

Valuation

We recommend SELL on Bharat Bijlee with a price target of Rs.900

Bharat Bijlee is cash rich and value of its equity investments is Rs 159 per share. The stock is currently trading at 6.5x and 5.2x FY09 and FY10 earnings respectively. We have been recommending Reduce on the stock since the previous two quarters. In view of the disappointing numbers, we maintain our negative stance on the company. Furthermore, in view of the uncertain macroeconomic conditions, we recommend **SELL**. We are closing the call.

RESULT UPDATE

Teena Virmani

teena.virmani@kotak.com

+91 22 6621 6302

UNITY INFRAPROJECTS

PRICE: Rs.166

TARGET PRICE: Rs.322

RECOMMENDATION: ACCUMULATE

FY10E P/E: 2.8x

Result highlights

- Company posted excellent set of numbers for Q2FY09 with revenues for the current quarter registering 50% growth YoY, inline with our expectations.
- Operating margins for Q2FY09 stood at 12.9% which was better than our estimates. Variable pricing clauses as well as diverse project mix enabled company to register an increase in operating margins as compared to Q1FY09.
- Net profit for the current quarter registered a growth of 44 % YoY, primarily boosted by improvement in operating margins.
- We incorporate higher interest rates in our estimates due to increase in borrowings witnessed on account of high working capital requirements. With a robust order book of Rs 29bn, we expect company's revenues to grow at a CAGR of 30% between FY08-FY10 and profits to grow at a CAGR of 16% between FY08-FY10. At current price of Rs 166, stock is trading at very attractive valuations of 3.3x and 2.8x its P/E multiples on FY09 and FY10 estimates respectively.

Summary table

(Rs mn)	FY08	FY09E	FY10E
Revenues	8,496	11,025	14,222
% change YoY		30	29
EBITDA	1,062	1,378	1,778
% change YoY		30	29
Other Income	122	80	80
Depreciation	73	115	157
EBIT	1,111	1,343	1,701
% change YoY		21	27
Net interest	206	329	482
Profit before tax	905	1,014	1,219
% change YoY		12	20
Tax	311	349	419
as % of PBT	34	34	34
Profit after tax	593	665	799
Share of Profits of JVs	7	7	7
Net income	601	672	807
% change YoY		12	20
Shares outstanding (m)	13.4	13.4	13.4
EPS (reported) (Rs)	44.9	50.3	60.3
P/E(x)	3.7	3.3	2.8
EV/EBITDA(x)	3.3	2.7	2.6

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q2FY09	Q2FY08	YoY (%)
Net Sales	2295	1529	50
Expenditure	(2,000)	(1,325)	
(Inc)/Dec in RM	(49)	(6)	
RM	1034	675	
As a % of net sales	45.1%	44.1%	
Staff cost	92	49	
As a % of net sales	4.0%	3.2%	
Construction exp	874	580	
As a % of net sales	38.1%	38.0%	
Other expenditure	48	26	
As a % of net sales	2.1%	1.7%	
EBITDA	295	205	44
EBITDA margin	12.9%	13.4%	
Depreciation	(27)	(17)	
EBIT	268	188	42
Interest	(69)	(55)	
EBT(exc other income)	199	133	50
Other income(inc income from JV)	26	23	
EBT	225	156	44
Tax	(69)	(47)	
Tax %	30.6%	30.5%	
PAT	156	108	44
NPM%	6.8%	7.1%	
Equity Capital	133.7	133.7	
EPS (Rs)	11.7	8.1	

Source: Company

- ❑ Core focus area of the company is civil construction. We believe that with slow-down witnessed in the real estate market, order inflow for the company in the civil segment is also expected to be impacted negatively. We thus reduce our target valuations for the company due to concerns prevailing in the economy as well as high working capital requirements of the company. We now value the core business of the company at 5x its FY10 estimated earnings. We also reduce the valuations of the real estate SPV to factor in the decline in expected rentals.
- ❑ We arrive at a price target of Rs 322 based on FY10 estimates on sum-of-the-parts methodology. We believe that in the near term, stock may not outperform the broader markets. We thus recommend **ACCUMULATE**.

Revenues inline with estimates

- Company posted excellent set of numbers for Q2FY09 with revenues for the current quarter registering 50% growth YoY, inline with our expectations.
- Current order book of the company stands at Rs 29bn with an order inflow to the tune of Rs 1.6bn in the current quarter of this fiscal. Key orders bagged in Q2FY09 are -
 - Order for Construction of Tezpur Medical College at Bihugori, Tezpur, Assam from the PWD, worth Rs 1.36bn. Unity's share in this order is 51%.
 - Order for construction of Nine Residential High-rise buildings at Hinjewadi, Pune from Flagship Infrastructure Pvt Ltd, worth Rs 920mn.
- We expect that with slowdown in the real estate sector across residential, commercial and retail segments, order inflow for the company in the civil contracts may get impacted negatively. However company has been diversifying in other segments to maintain the growth in order book as well as revenues going forward.
- Thus with an order book of Rs 29bn, we expect revenues to grow at a CAGR of 30% between FY08-FY10.

Operating margins better than our estimates

- Operating margins for Q2FY09 stood at 12.9% which is better than our estimates. Company has been able to improve operating margins as compared to Q1FY09 despite higher raw material prices in the current quarter since 90% of its contracts have inbuilt price escalation clauses.
- We maintain our operating margin assumptions going forward and expect operating margins to be around 12.5% FY09 and FY10.

Net profit growth led by better margins

- Net profits for the company grew by 44% for Q2FY09 as compared to Q2FY08, primarily led by excellent revenue growth as well as better margins.
- Company has witnessed an increase in working capital requirements. Correspondingly we expect borrowings to increase, resulting in higher interest outgo for the company going forward. We incorporate higher borrowings and interest payments in our estimates and expect net profits to grow at a CAGR of 16% between FY08-FY10.

Valuation and recommendation

- At current price of Rs 166, stock is trading at very attractive valuations of 3.3x and 2.8x its P/E multiples on FY09 and FY10 estimates respectively.
- We believe that with slowdown witnessed in the real estate market, order inflow for the company in the civil segment is also expected to be impacted negatively. We thus reduce our target valuations for the company due to concerns prevailing in the economy as well as high working capital requirements of the company. We now value the core business of the company at 5x its FY10 estimated earnings. We also reduce the valuations of the real estate SPV to factor in the decline in expected rentals. We currently factor in only those real estate projects where returns are expected in next 1-2 years.
- We arrive at a price target of Rs 322 based on FY10 estimates on sum-of-the-parts methodology. We believe that in the near term, stock may not outperform the broader markets. We thus recommend **ACCUMULATE**.

**We recommend ACCUMULATE
on Unity Infraprojects with a
price target of Rs.322**

Sum of the parts valuation table

Core business valuation	302	Based on 5x FY10 estimates
Nagpur real estate valuation	10	Based on NPV of cash flows
Pune real estate valuation	10	Based on 50% discount to the the recent deal valuation
Total	322	

Source: Kotak Securities - Private Client Research

RESULT UPDATE**Saday Sinha**saday.sinha@kotak.com
+91 22 6621 6312**BANK OF BARODA****PRICE: Rs.245****TARGET PRICE: Rs.336****RECOMMENDATION: BUY****FY10E PE: 4.7x; P/B: 0.7x**

BoB has reported its Q2FY09 numbers, which are overall in line with our expectations. The bank's net interest income (NII) grew 15.5% whereas its net profit grew 20.8%.

Its outstanding CLNs (credit linked notes) in overseas market are worth \$313 mn. Mark-to-mark (MTM) provisions on these CLNs during Q2FY09 were Rs.1.51 bn (MTM provision during H1FY09: Rs.1.84 bn). Total exposure to Lehman is \$10 mn. Out of this 50% has been provided till the end of Q2FY09.

We are maintaining our earning estimates for FY09E and FY10E as well BUY rating on the stock with the target price of Rs.336. At the target price, the stock would trade at 0.92x its FY10E adjusted book value (assigning 75:25 weights to historical multiple and fair multiple based on single-stage Gordon Growth Model, respectively). In the short term the stock may move in line with international trends.

Quarterly Performance (Rs mn)

	Q2FY09	Q2FY08	YoY (%)
Interest on advances	26,891.8	20,524.8	31.0
Interest on Investment	7,264.8	6,774.2	7.2
Interest on RBI/ banks' balances	1,139.9	1,373.4	-17.0
Other interest	213.3	125.3	70.2
Total Interest earned	35,509.8	28,797.7	23.3
Interest expenses	24,172.1	18,983.3	27.3
Net interest income	11,337.7	9,814.4	15.5
Other income	4,759.2	4,540.6	4.8
Net Revenue (NII + Other income)	16,096.9	14,355.0	12.1
Operating Expenses	7,640.6	7,982.6	-4.3
Payments to / Provisions for employees	4,634.6	5,366.9	-13.6
Other operating expenses	3,006.0	2,615.7	14.9
Operating profit	8,456.3	6,372.4	32.7
Provisions & contingencies	2,419.1	980.5	146.7
Provision for taxes	2,084.3	2,120.0	-1.7
Net profit	3,952.9	3,271.9	20.8
EPS, Rs	10.85	8.98	20.8

Source: Company

Healthy growth in earnings

Net profit grew 20.8% to Rs.3.95 bn in Q2FY09 from Rs.3.27 bn in Q2FY08. This came on the back of 15.5% growth in NII and decline in opex (operating expenses) by 4.3%. This was slightly muted vis-à-vis growth in operating profit (32.7%) during Q2FY09 due to higher provisions on account of expected wage revision and write-downs in overseas investments.

NII grew 15.5% to Rs.11.34 bn in Q2FY09 from Rs.9.81 bn in Q2FY08. During Q2FY09, interest income witnessed growth of 23.3% as compared to 27.3% growth in total interest expenses. This number is also looking subdued because of Rs.1.36 bn hit taken on interest income for loss on sale of a security in AFS category.

Other income saw moderate growth of 4.8% to Rs.4.76 bn in Q2FY09 from Rs.4.54 bn in Q2FY08. However, during the same period fee based income (Commission, Exchange and Brokerage) of bank increased to Rs.1.63 bn as compared to Rs.1.22 bn, registering a growth of 34.2%.

Trend in Non-interest income

Other Income (Rs. mn)	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	YoY (%)
Commission, Exchange and Brokerage	1076.6	1216.3	2261	1742	1555.2	1632.3	34.2
Profit on sale of Investments	1302.3	1262.6	1944.3	812.7	889.9	922.6	-26.9
Profit on Exchange Transactions	629	662.4	633	863.6	942.3	550.8	-16.8
Other Misc. Income	840.8	699.9	0	773.9	1193.2	1220.8	74.4
Recovery from PWO (w/o a/c)	394.8	699.4	1342	1132.1	544.8	432.7	-38.1
Total non-interest income	4243.5	4540.6	6180.3	5324.3	5125.4	4759.2	4.8

Source: Company

Healthy business growth

Total business of the bank rose 26.6% to Rs.2805.4 bn in Q2FY09 from Rs.2215.8 bn in Q2FY08.

Total deposits of the bank rose 22.6% (YoY) to Rs.1610.7 bn in Q2FY09 from Rs.1313.7 bn in Q2FY08. CASA (low cost deposits) increased by 18.2% (YOY) and now stands at 35.9% of domestic deposits at the end of Q2FY09.

Growth in advances was robust at 32.4% (YoY) to Rs.1194.8 bn in Q2FY09 from Rs.902.1 bn in Q2FY08. Domestic loan book grew 31.9% to Rs.913.2 bn in Q2FY09 from 692.6 bn in Q2FY08. During same period, overseas loan book saw the growth of 34.4% to Rs.281.6 bn from Rs.209.6 bn.

- Retail book increased 22.7% (YoY) to Rs.177.5 bn. Out of this, Home loan saw the growth of 20.4% (YoY) and now stands at Rs.75.9 bn.
- SME loan book improved by 24.1% to 126.8 bn in Q2FY09 from Rs.102.2 bn in Q2FY08.
- Agriculture loan increased 31.1% to Rs.149.5 bn during Q2FY09 from Rs.114.0 bn during Q2FY08.

Sectoral composition of loan book & gross NPA

	Q1FY09		Q2FY09	
	% of Domestic credit	Gross NPA (%)	% of Domestic credit	Gross NPA (%)
Agriculture	15.9	3.2	16.2	2.4
Large Industries	23.4	1.2	23.8	1.1
SSIs	8.0	3.5	8.1	3.2
Retail	19.6	3.5	19.3	3.2
SME	14.0	3.3	13.8	2.8

Source: Company

Improvement in margins

Net interest margin (NIM) improved sequentially to 2.8% in Q2FY09 as compared to 2.76% in Q1FY09 and 2.73% in Q4FY08. This is inline with our expectations, as improvement in the yield on advances is likely to be higher than the incremental cost of deposits, as loans are re-priced immediately whereas deposit re-pricing seeps into the system with a lag.

Trend in yields, cost of deposits & NIM

(%)	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009
Yields on Advances	9.51	9.61	9.61	9.53	9.08	9.37
Yields on Investments	6.31	6.72	NA	6.55	7.22	6.78
Cost of Deposits	5.42	5.51	5.6	5.69	5.55	5.59
NIM (%) [Rep] - Domestic	3.02	NA	3.23	2.73	2.76	2.80

Source: Company

Management has also guided that deposit rates (and hence cost of funds) would start coming down before we see any lowering of lending rates.

Improving asset quality

The bank's gross NPA declined to 1.62% in Q2FY09 from 2.33% in Q2FY08. During same period, net NPA also declined to 0.43% from 0.55%.

Trend in NPAs

NPA (Rs bn)	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	YoY (%)
Gross NPA	22.07	21.29	20.40	19.81	20.91	19.54	-8.2
Gross (%)	2.78	2.33	2.11	1.84	1.86	1.62	
Net NPA	5.20	4.97	5.17	4.94	5.75	5.09	2.6
Net (%)	0.67	0.55	0.54	0.47	0.52	0.43	

Source: Company

Leveraging Overseas operations

BoB's overseas operations contributed 20.75% in total business and 20.5% in total net profit during H1FY09. Overseas operations also contributing in robust growth of fee based income. Income from C/E/B (commission, exchange and brokerage) from foreign operations contributed 32% of total income from this category. Having lower cost/income ratio (around 20%) as compared to 51% in domestic operations, contribution to operating profit is even higher.

Total overseas investment stands at \$821.85 mn by the end of Q2FY09.

- Credit linked notes (CLNs): \$313.72 mn
- Corporate securities: \$324.85 mn
- Government securities: \$183.28 mn

Mark-to-mark (MTM) provisions on CLNs during Q2FY09 were Rs.1.51 bn (MTM provision during H1FY09: Rs.1.84 bn i.e. Rs.334.7 mn in Q1FY09). The bank's total exposure to Lehman group is \$10 mn. Out of this, \$5 mn (50%) has been provided till the end of Q2FY09. Apart from this, total provisions as on Q2FY09 on overseas investments stand at \$64.22 mn as against the existing overseas investment of \$821.86 mn.

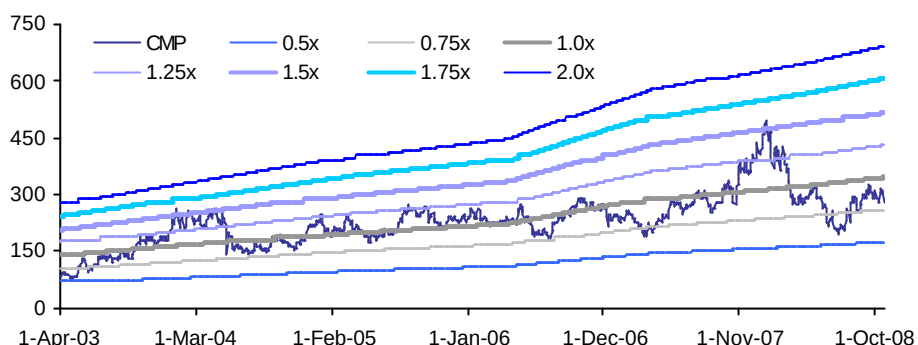
Capital adequacy ratio (CAR) stands at 12.57% (Basel-II) at the end of Q2FY09, whereas according to Basel-I, it stands at 12.86% with Tier-I and Tier-II at 7.75% and 5.11%, respectively.

Valuation & recommendation

At the current market price of Rs.245, the stock is trading at 4.7x its FY10E earnings and 0.7x its FY10E ABV. We have maintained our earning estimates and expect net profit for FY09E and FY10E to be Rs.16.11 bn and Rs.18.90 bn, respectively.

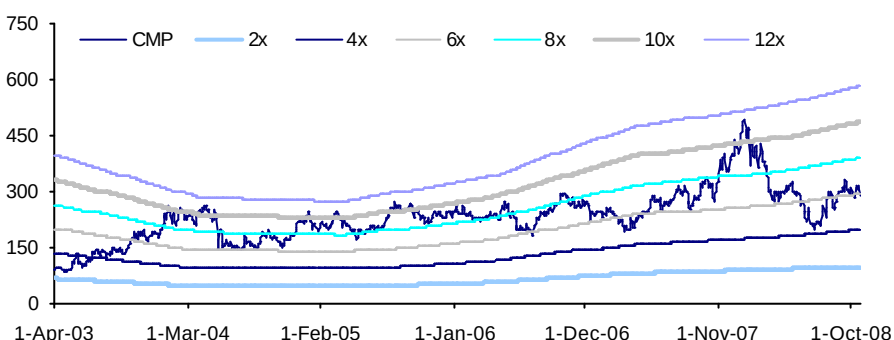
This will result in an EPS of Rs.44.1 and Rs.51.7 for FY09E and FY10E, respectively. The ABV for FY09E and FY10E is forecast at Rs.322.2 and Rs.363.3, respectively.

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

At a RoE of 14.5% in FY10E, cost of equity of 14.5% and perpetual growth rate of 4%, the theoretical fair value stands at 1.0x its adjusted book value. Historically, the stock has been trading in the range of 0.5x-1.5x ABV with the average around 0.9x.

We recommend BUY on Bank of Baroda with a price target of Rs.336

We are assigning 75:25 weights to historical multiple and fair multiple (based on single-stage Gordon Growth Model), respectively. We have, thus, arrived at a fair multiple of 0.92x.

We are maintaining a **BUY** rating on the stock with a target price of Rs.336 based on 0.92x its FY10E adjusted book value (assigning 75:25 weights to historical multiple and fair multiple based on single-stage Gordon Growth Model, respectively) which could provide 36% upside from current levels over a 12-month horizon.

Key data (Rs bn)

	2006	2007	2008	2009E	2010E
Interest income	69.36	90.04	118.13	138.63	158.65
Interest expense	38.75	54.27	79.02	93.50	106.65
Net interest income	30.61	35.78	39.12	45.13	52.00
Other income	12.42	13.82	20.51	18.24	21.00
Gross profit	19.18	24.15	30.29	30.38	35.72
Net profit	8.27	10.26	14.36	16.11	18.90
Gross NPA (%)	4.0	2.5	1.9	1.8	1.8
Net NPA (%)	0.9	0.6	0.5	0.4	0.4
Net int. margin (%)	3.1	3.1	2.9	2.8	2.8
RoE (%)	12.4	12.5	14.7	13.9	14.5
RoAA (%)	0.8	0.8	0.9	0.8	0.9
Dividend Yield (%)	2.0	2.4	3.3	3.3	3.3
EPS (Rs)	22.6	28.1	39.3	44.1	51.7
Adjusted BVPS (Rs)	200.4	222.9	288.6	322.2	363.3
P/E (x)	10.8	8.7	6.2	5.6	4.7
P/ABV (x)	1.2	1.1	0.9	0.8	0.7

Source: Company, Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
24-Oct	Anku Dr Ph	Merrill Lynch Cap Mkts Espana S.A. S.V.	B	1,155,222	120.62
24-Oct	Anku Dr Ph	Deutsche Securities Mauritius Limited	S	105,000	119.59
24-Oct	Anku Dr Ph	ABN Amro Bank N.V London	S	221,009	115.00
24-Oct	Asian Oilfie	Avinashcmachanda	B	108,665	50.06
24-Oct	Asian Oilfie	PR Vyapaar Private Limited	S	100,000	50.05
24-Oct	Aurionpro So	Morgan Stanley Mauritius Co Limited	B	283,227	145.00
24-Oct	Austral Coke	Aap Investments	S	175,000	68.14
24-Oct	Axon Infotec	Aryavrat Financial Services Ltd	S	15,570	9.12
24-Oct	Chemcel	New Planet Trading Co Pvt Ltd	S	330,923	2.95
24-Oct	Garnet Const	Jayshree Jhamatmal Pariyani	B	51,519	17.00
24-Oct	Gtl Limited	Morgan Stanley and Co Int Ltd			
		Ac Dean Witter M	S	684,000	175.82
24-Oct	IFCI Ltd	FID Fund Mauritius Ltd	S	3,957,322	17.67
24-Oct	Ranklin Solu	Arcadia Share And Stock Brokers P L	B	30,000	51.05
24-Oct	Rdb Indust L	CNI Research Ltd	B	55,876	42.50
24-Oct	Rit Pro Ind	Shree Atam Vallabh Poly Plsti	S	63,478	50.14
24-Oct	RTS Power Co	Hetal Rajesh Patel	S	65,071	124.99
24-Oct	Tempt.Foods	Copthall Mauritius Investment Limited	B	1,000,000	194.00
24-Oct	Tempt.Foods	Macquarie Bank Limited	S	999,815	194.00
24-Oct	Uttam Galva	Pankaj Rajkumar Sureka	S	1,060,000	42.48

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ACC	423	(4.3)	(0.6)	0.4
Ambuja Cement	45	(7.6)	(0.9)	5.2
Siemens India	264	(6.4)	(1.0)	0.6
Losers				
Reliance Ind	1,020	(16.3)	(50.4)	9.3
ONGC	658	(15.2)	(40.9)	3.3
Bharti Airtel	537	(12.7)	(23.9)	7.6

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
27-Oct	SBI, iICI Bank, Tata Power, Mahindra & Mahindra Financial Services, Godrej Ind, Areva T&D, GMR Infra, Nagarjuna Construction, Tata Teleservices, MRPL, Blue Star, Glenmark Pharma, Tata Tea, Bombay Dyeing, UTV Software earnings expected
29-Oct	Mahindra & Mahindra, Cairn India, KSK Energy Ventures, Divis Laboratories, Rashtriya Chemicals earnings expected
30-Oct	ONGC, Amara Raja Batteries, Dabur India, BPCL, Tata Chemicals, Nalco, MTNL, Jindal Steel, EIH Ltd, IOB, BGR Energy Systems, CESC, Sun TV Network, Aban Offshore, BEML earnings expected
31-Oct	Bharti Airtel, India Cements, Siemens, PNB, MMTC, IVRCL Infra Projects, GVK Power, HPCL, Hindalco Industries, Kotak Mahindra Bank, Financial Technologies, Parsvnath Developers, Deccan Chronicle, Tata Motors, Unitech, Reliance Communication earnings expected

Source: Bloomberg

Research Team

Dipen Shah

IT, Media
dipen.shah@kotak.com
+91 22 6621 6301

Sanjeev Zarbade

Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Teena Virmani

Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Awadhesh Garg

Pharmaceuticals, Hotels
awadhesh.garg@kotak.com
+91 22 6621 6304

Apurva Doshi

Logistics, Textiles, Mid Cap
doshi.apurva@kotak.com
+91 22 6621 6308

Saurabh Gurnurkar

IT, Media
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

Saurabh Agrawal

Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Saday Sinha

Banking, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Sarika Lohra

NBFCs
sarika.lohra@kotak.com
+91 22 6621 6313

Siddharth Shah

Telecom
siddharth.s@kotak.com
+91 22 6621 6307

Shrikant Chouhan

Technical analyst
shrikant.chouhan@kotak.com
+91 22 6621 6360

K. Kathirvelu

Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.