MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

JANUARY 24, 2012

Economy News

- Tighter adherence to fiscal rules is necessary as increasing dependence on market borrowings is worrisome, the RBI said in its macroeconomic and monetary developments review released on the eve of monetary policy announcement. The Centre has twice revised its borrowings target in the H2 of FY12, leading to over Rs 920 Bn of excess borrowings over and above the budgeted Rs 4.2 Tn. This has put a severe strain on the budgeted fiscal deficit estimate of 4.6% with even the Finance Minister admitting that meeting the target will be difficult. (BS)
- India is making "best efforts" to make payments for crude oil it imports from Iran as it will abide by only UN sanctions and not those imposed by any individual or a regional block, Oil Minister S Jaipal Reddy said. (BS)
- The commerce ministry will announce rules to simplify and rationalize procedures to revive special economic zones, hoping to draw investors to these enclaves once touted as centres of export excellence. (ET)

Corporate News

- **Reliance Industries (RIL)** may see natural gas output from its eastern offshore KG-D6 fields drop further this fiscal as all oil and gas fields see natural decline, oil regulator Directorate General of Hydrocarbons (DGH) said. RIL is currently producing between 38 and 39 mmscmd. (BS)
- **RIL** has proposed to appoint former Chief Justice of India SP Bharucha as its arbitrator against the government to resolve the issue of cost recovery from KG-D6 gas block. (BS)
- **RIL** assured the Supreme Court that it would start paying Value Added Tax (VAT) to Uttar Pradesh government on sale of gas in the state from February one till a decision by the Allahabad High Court on its plea against the tax imposition. (BS)
- State-run **Gail India** has opposed the government's move to regulate marketing margin for imported liquefied natural gas but accepted its control on domestically produced gas. (ET)
- **Essar Oil** said that the verified in-place gas reserves at its Raniganj CBM block have more than doubled to 55 billion cubic feet. (ET)
- **Jet Airways,** the country's largest private sector air carrier, said it would complete the merger of its two low-cost models - Jet Lite and Jet Konnect - under a single brand by May'12. Out of our 100 aircraft fleet, 40 is owned and 60 is on lease. (BS)
- Disinvestment in **MMTC** may not be possible in the immediate future, as stock market conditions are not appropriate for fixing the price band of the thinly traded shares of the company, a top Commerce Ministry official said. The central government, which holds 99.33% stake in the trading firm, has plans to divest 10% of its shares. MMTC has received EGM approval for splitting each share of face value of Rs 10 into 10 scrips of Re 1 each and issuing one-to-one bonus shares. (BS)
- City-based infrastructure firm **IVRCL** said it has bagged orders worth Rs 7.0 Bn for water and building projects. While water and irrigation division bagged orders worth Rs 5.95 Bn, the buildings division got orders valued at Rs 1.06 Bn. (ET)
- **NMDC Ltd,** India's largest iron ore producer and exporter in public sector, resumed iron ore supplies from its key mines in Chhattisgarh, a company official said. (ET)
- State-run power major **NTPC** joined the chorus of voices opposed to CIL's new coal pricing mechanism, asserting that it could lead to an increase in its generation costs by about 40%. (ET)

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

Equity

	23 Jan 12	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,752	0.1	6.4	(1.1)
NIFTY Index	5,046	(0.0)	7.0	(1.0)
BANKEX Index	10,935	0.2	14.7	(1.0)
BSET Index	5,521	0.4	(2.7)	(2.0)
BSETCG INDEX	9,882	0.8	21.1	(4.7)
BSEOIL INDEX	8,186	(1.7)	3.3	(6.9)
CNXMcap Index	6,834	0.5	10.4	(2.1)
BSESMCAP INDEX	6,294	0.3	12.1	(7.5)
World Indices				
Dow Jones	12,709	(0.1)	3.4	6.7
Nasdaq	2,784	(0.1)	6.3	3.1
FTSE	5,783	0.9	4.9	4.2
NIKKEI	8,766	(0.0)	4.8	(0.5)
HANGSENG	19,943	1.3	8.0	11.6

Value traded (Rs cr)

	23 Jan 12	% Chg - Day
Cash BSE	2,120	(27.2)
Cash NSE	10,155	(25.8)
Derivatives	111,828	(23.9)

Net inflows (Rs cr)

	20 Jan 12	% Chg	MTD	YTD
FII	997	42.9	7,091	7,091
Mutual Fund	10	(106.2)	(731)	(731)

FII open interest (Rs cr)

	20 Jan 12	% Chg
FII Index Futures	17,745	4.1
FII Index Options	40,861	1.8
FII Stock Futures	30,346	2.1
FII Stock Options	1,722	(0.9)

Advances / Declines (BSE)

23 Jan 12	A	B	S	Total	% total
Advances	103	1,041	306	1,450	50
Declines	96	970	268	1,334	46
Unchanged	5	89	35	129	4

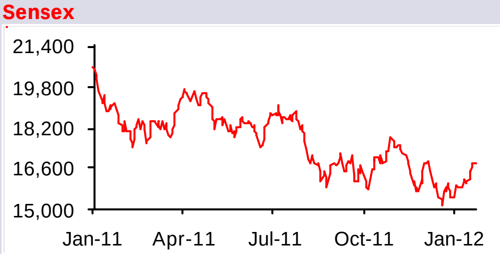
Commodity

	23 Jan 12	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	99.6	(0.0)	(0.1)	9.1
Gold (US$/OZ)	1,675.5	0.7	4.4	1.6
Silver (US$/OZ)	32.1	2.0	11.1	2.5

Debt / forex market

	23 Jan 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	NA	NA	NA	NA
Re/US$	50.1	50.3	53.0	49.8

Sensex



Result Update

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Geometric Limited

Price: Rs.66 **Recommendation: BUY**
Target Price: Rs.80 **FY13E P/E: 5.0x**

- **Geometric's 3QFY12 results were better than expected.**
- **Volumes grew by about 4%, which was higher than our assumed levels. Average realisations were almost flat QoQ. EBIDTA margins improved beyond our estimates due to the rupee depreciation, pyramid impact and better operating efficiencies.**
- **However, the amount of new orders booked fell to about $3.4mn during the quarter ($8mn in 2Q). This is of concern to us and we will watch this number closely. The company is investing more in business generation activities, and will continue to do so, we believe.**
- **Geometric has been focusing on verticalised services and solutions to increase relevance to customers. Value engineering and cost reduction for clients are the focus areas.**
- **It has identified manufacturing engineering, PLM capabilities and IP creation as its inherent strengths on which it will concentrate.**
- **More focus on complete solutions has led to creation of 9 offerings by combining the earlier diverse offerings.**
- **The management has also indicated greater focus on improving margins through levers like utilization rates and G&A leverage along with better utilization of the employee pyramid.**
- **Consultancy charges may partly set off any margin improvement over the next 1 - 2 quarters. Company has retained a consulting firm to restructure business operations.**
- **We have adjusted earnings estimates to accommodate for 3QFY12 results. Our earnings estimates stand at Rs.11 (Rs.9.4) and Rs. 13.2 (Rs.10.7), respectively for FY12 and FY13, respectively. The increase in estimates is partly due to rupee depreciation.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	6,206	8,089	9,521
Growth (%)	21.3	30.3	17.7
EBITDA	748	1,253	1,528
EBITDA margin (%)	12.1	15.5	16.0
PBT	702	1,170	1,334
Net profit	574	692	824
EPS (Rs)	9.2	11.0	13.2
Growth (%)	19.9	20.1	19.1
CEPS (Rs)	13.3	15.5	17.9
BV (Rs/share)	34.9	44.8	56.9
Dividend / share (Rs)	1.0	1.0	1.0
ROE (%)	28.4	27.8	25.9
ROCE (%)	28.2	34.6	29.4
Net cash (debt)	203	565	888
NW Capital (Days)	69.6	79.0	78.6
P/E (x)	7.2	6.0	5.0
P/BV (x)	1.9	1.5	1.2
EV/Sales (x)	0.6	0.4	0.3
EV/EBITDA (x)	5.3	2.8	2.1

Source: Company, Kotak Securities - Private Client Research

3QFY12 results - above expectations

(Rs.mn)	2QFY12	3QFY12	QoQ (%)	3QFY11	YoY (%)
Income	**1912.3**	**2190.4**	**14.5**	**1632.0**	**34.2**
Expenditure	1636.5	1790.8		1431.3	
Operating profit	**275.8**	**399.6**	**44.9**	**200.7**	**99.1**
Depreciation	73.8	68.9		64.7	
EBIT	**202.1**	**330.7**	**63.7**	**136.0**	**143.1**
Interest	1.2	9.4		2.9	
Other inc	117.3	2.6		51.2	
E.O items	67.0	-0.2		0.0	
PBT	**251.1**	**324.1**	**29.1**	**184.3**	**75.9**
Tax	84.7	67.7		1.4	
PAT	**166.4**	**256.3**		**182.8**	
Minority Interest	32.5	43.3		30.1	
PAT after M I	133.9	213.0	59.1	152.7	39.5
EPS (Rs)	**2.1**	**3.4**		**2.4**	
Margins (%)					
Operating Profit	14.4	18.2		12.3	
EBIT	10.6	15.1		8.3	
Net Profit	8.7	11.7		11.2	

Source : Company

- **Our DCF - based price target works out to Rs.80 (Rs.61 earlier), based on FY13E earnings. We maintain BUY based on improved margins during the quarter.**
- **Further signs of stability and sustainability in the revenue profile and in the margin profile of Geometric will make us more bullish on the stock. Our exit multiple works out to 6x FY13E EPS.**

- Revenues during the quarter were higher by 14.5% QoQ. In USD terms, the growth was 2.9%.
- The growth was brought about largely by volumes, which rose by about 4% (3.5% in 2Q). Average realisations were almost flat, we understand. The company had a cross-currency impact of about 1%, we believe.
- Volumes have likely grown on the back of higher wallet share from existing accounts. Revenues from Geometric's largest client grew by 15% QoQ in INR terms.
- Of late, most of the revenue stability has come about on account of increasing traction in accounts like Ford and Goodyear (largely on-site) and Caterpillar and Volvo (off-site).
- Management commentary indicates a degree of stability in top clients and certain accounts which were sharply impacted by client ramp downs and pricing pressure in the earlier quarters.
- During the quarter, Geometric added $3.5mn ($8mn in 2Q) worth of orders. This low level of order bookings is of concern and we will watch this number closely in future quarters.
- While the company has seen good scale up in the Top clients in the past few quarters, it expects the remaining accounts to contribute to growth in future quarters.
- We understand that, Geometric has become the Tier 1 vendor for a large aeroplane manufacturer and revenues have started flowing and should improve over the next few quarters.
- Within geographies, US revenues rose QoQ by 15%, whereas Europe revenues grew by 4% QoQ in INR terms. There was a negative cross-currency impact on these revenues due to the INR-Euro movement.
- The overall realizations were almost flat after having moved up by about 0.8% in 2Q.

Macro scene conducive

- The management has indicated that, it is not witnessing any project cancellations or deferrals.
- Within verticals, automotive is doing well in terms of demand as companies are looking at innovative ways of reducing costs for their solutions. The company is witnessing more demand for solution-orientation.
- In aerospace, companies have very long order cycles of upto 5 - 7 years. This cushions the impact of any economic slowdown on demand for IT companies. Thus, Geometric has not seen any impact on its business from these companies.
- However, the major aircraft programs are coming to an end and if no new designs come up over the next few quarters, demand for Geometric may come down.
- On the industrial equipment side also, the company is seeing no impact of the current uncertain macro scene.

Margins improved QoQ

- EBITDA margins improved by about 382bps QoQ (447bps QoQ in 2Q). This was due to the currency impact (280bps), utilization of the pyramid more effectively and also improved efficiencies.
- This was the second successive quarter where margin improvement was better than expected.
- The improvement came is despite a Rs.17mn provision for doubtful debts and Rs.22mn expense towards consultant fees. The consultant fees are expected to continue and increase over the next two quarters.
- While the significant volatility makes it difficult to forecast margins, we believe that, revenue growth will be the major lever for the company to improve and sustain margins. The company is looking at other levers like utilization rates, the pyramid effect, increasing off-shore content, G&A leverage, billing rate increases and non-linearity to protect and improve margins.
- Currently, Geometric has high utilization rates, we believe.
- The company is taking services of a consultancy firm to restructure the various processes of the company. These charges are expected to set off a part of any potential improvement in margins in the next two quarters.

Other income and EO tax provision

- The company had a lower revaluation gain of about Rs.36mn (Rs.62mn in 2Q) during the quarter.
- Geometric had hedge position as on 30th September 2011 of about $188mn at an average rate of Rs.49.1 / USD.

Focusing more on solutions

- Geometric has identified the following strengths on which it plans to build further competencies in the future : Manufacturing engineering, PLM capability and Ability to create Intellectual Property
- While the Indian unit has expertise in PLM, the US subsidiary is strong in manufacturing engineering. The company plans to consolidate these services into solutions and cross sell these to clients.
- Geometric has identified 9 offerings, each with a relevant business model and engagement model, with a view to provide better services and also reduce the time to penetrate into new markets.

Financial prospects

- While still cautious on future prospects, most companies have indicated confidence on volume growth for the current fiscal, based on their client interactions.
- We believe Geometric should see higher volumes. However, there may be volatility in the near term in case the delays in decision making persist.
- We have incorporated a USD revenue growth of 25% for FY12 (including Delmia) and 18% for FY13. Rupee is expected to be at about Rs.49 per USD in FY13.
- Margins are expected to improve in FY13 on the back of improved efficiencies, rupee depreciation and benefits from the restructuring currently underway in the company.
- PAT is expected to grow by 19% in FY13, leading to an EPS of Rs.13.2.

Valuations

We recommend BUY on Geometric with a price target of Rs.80

- Our DCF - based price target for Geometric stands at Rs.80. At our TP, our FY13E earnings will be discounted by 6x, which we believe is fair.
- With more solutions approach being demanded by clients, Geometric is restructuring its offerings. It needs to develop the consulting capability and also blend it with its software & engineering services.
- We maintain **BUY** on the back of better - than - expected profitability. We will wait for more stability and sustainability in the revenue profile and in the margin profile of Geometric before according higher valuations to the stock.
- INR appreciation beyond our assumed levels and slower revival in user economies pose downside risks to our recommendation.

RESULT UPDATE

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PATEL ENGINEERING LTD (PEL)

PRICE: RS.97 **RECOMMENDATION: SELL**
TARGET PRICE: RS.83 **FY13E P/E: 12X**

Standalone Result highlights

- **Revenue growth was lower than our estimates and stood at 16% YoY for Q3FY12.**
- **Operating margins stood inline with our expectations at 17.3% due to higher margin projects executed during Q3FY12.**
- **High working capital and borrowings resulted in higher interest outgo and net profit registered a decline of 55% QoQ. However, on yearly basis, profits registered a growth of 76% primarily on account of low base.**
- **Revenue visibility continues to remain low and profitability is under pressure due to low margin international projects. Along with this, lack of order inflow and delays in financial closure of its power projects are also weighing on the performance of the company.**
- **Due to lack of order inflows in hydro power segment and uncertainty regarding financial closure of its power projects, we remain skeptical about future growth in the revenues. We reduce our revenue estimates based on poor performance seen during Q3FY12 and downgrade the stock to SELL from REDUCE earlier. We believe that stock would continue to underperform till the time order inflow ramps up or interest rates comes down. Based on above mentioned concerns, we close our call on Patel Engineering and would look for improvement in hydro power segment order inflows as well as company's execution to re-enter the stock.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	25,545	22,480	24,728
Growth (%)	9	-12	10
EBITDA	3,509	3,147	3,215
EBITDA margin (%)	13.7	14.0	13.0
PBT	1,317	983	857
Net profit	1,001	649	566
EPS (Rs)	14.3	9.3	8.1
Growth (%)	-24	-35	-13
CEPS (Rs)	21.9	17.0	16.6
BV (Rs/share)	191.0	199.3	206.4
Dividend/share (Rs)	1.0	1.0	1.0
ROE (%)	7.6	4.8	4.0
ROCE (%)	8.3	8.0	7.3
Net cash (debt)	(17,907)	(14,903)	(17,069)
NW Capital (Days)	320.0	341.5	341.5
P/E (x)	6.8	10.4	12.0
P/BV (x)	0.5	0.5	0.5
EV/Sales (x)	0.9	0.9	0.9
EV/EBITDA (x)	6.8	6.6	7.1

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY12	Q3FY11	YoY (%)
Net Sales	**4,286**	**3,707**	**16**
Expenditure	3,545	2,657	
Operating Profit	**742**	**1,050**	**-29**
Operating Profit Margin (%)	17.3	28.3	
Depreciation	128	133	
EBIT	**613**	**917**	**-33**
Interest	438	814	
EBT (exc other income)	175	103	
Other Income	25	5	
EBT	**201**	**108**	**85**
Tax	65	31	
Tax Rate (%)	32.4	29.0	
PAT	**136**	**77**	**76**
Net profit	136	77	76
NPM (%)	3.2	2.1	
Equity Capital	69.8	69.8	
EPS (Rs)	**1.9**	**1.1**	

Source: Company

Revenue growth lower than our estimates

- Revenue growth was lower than our estimates and stood at 16% YoY for Q3FY12.
- Order book of the company stands at nearly Rs 90 bn on a consolidated basis including L1 of Rs 20 bn worth of orders. Order book has remained stagnant with L1 status also remaining at similar levels since past few quarters. We continue to remain concerned on revenue growth going forward due to lack of order inflows for the company and a large proportion of orders from order book in non-moving stage (Rs 33 bn). Current executable order book stands at Rs 37 bn over next two years.

- Revenue growth on a consolidated basis during Q3FY12 is also led by improvement in revenue recognition from real estate projects. Revenue recognition Bangalore project stood at Rs 777 mn on a consolidated basis.
- Financial closure of Phase 1 of 1200 MW thermal power project in Tamil Nadu is still delayed due to pending clearances as well as issues related to coal. Financial closure of hydro power project in Arunachal Pradesh is also not achieved. These delays can impact the order inflow as well as revenue execution going forward for the company.
- We reduce our revenue estimates based on poor performance seen during Q3FY12. We expect revenues to decline by 12% in FY12 and improve by nearly 10% in FY13.

Operating margins stayed strong

- Operating margins stood inline with our expectations at 17.3% due to higher margin projects executed during Q3FY12.
- On consolidated basis, margins improved to 17.9% in Q3FY12 from 11.7% in Q3FY11.
- We tweak our estimates and expect margins to be 14% and 13% for FY12 and FY13 for the company on a standalone basis.

Net profit growth lower than our estimates

- High working capital and borrowings resulted in higher interest outgo and net profit registered a decline of 55% QoQ. However, on yearly basis, profits registered a growth of 76% primarily on account of low base.
- Working capital is expected to come down once revenue recognition from Bangalore real estate project starts increasing. Along with this, receivables pertaining to Lohari Nagpala project are still due from NTPC.
- We reduce our estimates and expect net profits to be Rs 648 mn and Rs 566 mn for FY12 and FY13 respectively as against our earlier estimate of Rs 759 mn and Rs 665 mn for FY12 and FY13 respectively.

Valuation and recommendation

- At current price of Rs 97, stock is trading at 10.4x and 12x P/E and 6.6x and 7.1x EV/EBITDA multiples for FY12 and FY13 respectively.
- We reduce our estimates and downgrade the stock to SELL from REDUCE earlier. We believe that stock would continue to underperform till the time order inflow ramps up or interest rates comes down. Based on above mentioned concerns, we close our call on Patel Engineering and would look for improvement in hydro power segment order inflows as well as company's execution to re-enter the stock.
- We believe that stock would continue to underperform till the time order inflow ramps up or interest rates comes down.

We recommend SELL on Patel Engineering with a reevised price target of Rs.83 (earlier Rs.92)

Sum of the parts valuation

FY13 valuations	Rs per share	Parameter
Core business valuation	49	6x one yr forward P/E multiple
Subsidiary valuation	10	Relative valuation
Land valuation	25	50% discount to NPV
Total	**83**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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SHREE CEMENTS LTD

PRICE: RS.2227
TARGET PRICE: RS.2038

RECOMMENDATION: REDUCE
FY13E (P/CEPS): 8.0X

Result highlights

- **Company's revenues during Q3FY12 reported a growth of 61% YoY led by improvement in cement dispatches as well as cement prices. On a sequential basis, increase in cement prices has resulted in 47% QoQ growth in revenues.**
- **Operating margins improved on both sequential and yearly basis due to improvement in cement prices on yearly basis.**
- **During the quarter, company has been able to sell 256 mn units of merchant power since it had entered into short term PPAs.**
- **Net profits of the company fell short of our expectations due to higher depreciation on commissioning of power plant.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	35,119	42,405	49,440
Growth (%)	-3.3	20.7	16.6
EBITDA	8,856	11,184	11,400
EBITDA margin (%)	25.2	26.4	23.1
PBT	1,104	2,056	3,107
Net profit	2,097	1,686	2,548
EPS (Rs)	60.2	48.4	73.1
Growth (%)	(69.0)	(19.6)	51.1
CEPS (Rs)	254.2	277.5	279.4
BV (Rs/share)	570.1	610.5	675.6
Dividend /share (Rs)	8.0	8.0	8.0
ROE (%)	11.0	8.2	11.4
ROCE (%)	6.5	8.1	10.1
Net cash (debt)	(15,092)	(15,475)	(12,180)
NW Capital (Days)	90.5	70.1	70.1
P/E (x)	37.0	46.0	30.5
P/BV (x)	3.9	3.6	3.3
EV/Sales (x)	2.3	1.9	1.6
EV/EBITDA (x)	9.1	7.3	6.8
P/CEPS(x)	8.8	8.0	8.0

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY12	Q3FY11	YoY (%)
Net Sales	**12,586**	**7,804**	**61**
Expenditure	9,261	6,221	
Inc/Dec in trade	-154	-49	
RM	1,718	930	
As a % of net sales	13.6	11.9	
Staff cost	638	479	
As a % of net sales	5.1	6.1	
Power and fuel	3,254	2,068	
As a % of net sales	25.9	26.5	
Transportation & Handling	2,655	2,016	
As a % of net sales	21.1	25.8	
Other expenditure	1,149	777	
As a % of net sales	9.1	10.0	
Operating Profit	**3,324**	**1,583**	**110**
Operating Profit Margin	26.4	20.3	
Depreciation	2,351	1,314	
EBIT	**974**	**270**	**261**
Interest	370	204	
EBT(exc other income)	604	66	
Other Income	18	11	
Exceptional items	0	59	
EBT	**622**	**18**	**3356**
Tax	30	-257	
Tax Rate (%)	4.9	-1427.8	
PAT	**592**	**275**	**115**
Extraordinary Items	0	0	
Net Profit	**592**	**275**	**115**
NPM (%)	4.7	3.5	
Equity Capital	348.4	348.4	
EPS (Rs)	**17.0**	**7.9**	
Cash EPS	84	46	

Source: Company

- **Cement prices remained strong during two months of Q3FY12 and after that have remained weak due to extreme winters in the northern region. Though demand has started witnessing improvement, we do not expect sharp increases in cement prices from here on.**
- **Though company has commissioned 300MW of power plants but we remain concerned over outlook of the power sector due to poor state of state electricity boards. Along with this, company has also not tied up long term PPAs which poses a concern over power segment sales going forward. We tweak our estimates to factor in slightly improved cement prices and higher depreciation and arrive at a revised price target of Rs2038(Rs 1918 earlier) and continue to maintain REDUCE recommendation on the stock.**

Revenue growth led by improvement in cement prices

- Company's revenues during Q3FY12 reported a growth of 61% YoY led by improvement in cement dispatches as well as cement prices. On a sequential basis, increase in cement prices has resulted in 47% QoQ growth in revenues.
- Cement dispatches including clinker stood at 2.848MT for Q3FY12, better than our estimates. Cement realizations during Q3FY12 improvedsequentially by 11% and stood at Rs3797 per tonne as against Rs 3412 per tonne seen during Q2FY12.
- Sales in the power segment had suffered in H1FY12 but company had signed short term PPAs for 225MW from Oct, 2011 to June, 2012 at an average rate of Rs 4.3 per unit. This has resulted in improving sales from power division. Company sold nearly 256mn units during Q3FY12
- First phase of thermal power plant of 150MW has commissioned in Oct, 2011 and second phase of 150MW has commissionedin Dec, 2011. Earlier company was dependent upon imported coal for these power plants but has now shifted back to pet coke for these power plants due to decline witnessed in average pet coke prices. However, company has not tied up for any long term PPAs for sale of power from these new units. Thus, due to subdued outlook for power sector and state electricity boards along with issues related to coal availability, we remain concerned over medium term outlook for company's power division.
- Cement prices remained strong during two months of Q3FY12 and after that have remained weak due to extreme winters in the northern region. Though demand has started witnessing improvement, we do not expect sharp increases in cement prices from here on.
- We tweak our estimates slightly and expect cement volumes of 10.8 MT and 12 MT for the company for FY12 and FY13 respectively. We expect company to sell 750 mn units in FY12 and 1.2 bn units in FY13. Thus, our revised estimates now stand at Rs42.4bn and Rs 49.4bn respectively for FY12 and FY13.

Operating margins improved due to higher cement prices and decline in pet coke prices

- Operating margins improved on both sequential and yearly basis due to improvement in cement prices on yearly basis and decline in power and fuel cost on a sequential basis.
- Margins stood at 26.41% for Q3FY12 vs20.3% during Q3FY11. However, costs per tonne have moved up from Rs 2377 per tonne during Q3FY11 to Rs 3252 per tonne during Q3FY12. On a sequential basis, costs have moved up from Rs 2633 per tonne during Q2FY12 to Rs 3252 per tonne during Q3FY12 mainly due to higher power produced during the quarter and higher freight expenses.

  EBITDA per tonne for cement division stood at Rs.1120 per tonne and power division EBITDA stood at Rs.0.6 per unit.

Per tonne analysis

	Q3FY12	Q3FY11
Dispatches(mntonne)	2.848	2.617
CemRealisation/tonne	**3797**	**2851**
Cost Per tonne		
Inc/Dec in trade	-54	-19
Raw material	603	355
Staff cost	224	183
Power and fuel	1143	790
Transporation&Handling	932	770
Other expenditure	404	297
Total costs	**3252**	**2377**

Source: Company

- We tweak our estimates and expect operating margins to be 26% and 23% for FY12 and FY13 respectively.

Net profit growth impacted by higher depreciation charges

- Net profit growth of the company during the quarter is impacted by higher depreciation charges due to commissioning of second phase of 150MW power project.
- Net profit growth also got boosted by low tax rate. However, we have factored in average tax rate of 18% in our estimates.
- We incorporate higher depreciation charges in our estimates as guided by the company and expect depreciation charges to move up to Rs 7.98 bn and Rs 7.2bn for FY12 and FY13 respectively.
- Our net profit estimates thus get marginally changed to Rs 1.7 bn and Rs 2.5 bn for FY12 and FY13 respectively.

Valuation and recommendation

- At current market price of Rs 2227, stock is trading at 8x and 8x P/CEPS and 7.3x and 6.8x EV/EBITDA for FY12 and FY13 respectively.

We recommend REDUCE on Shree Cements with a price target of Rs.2038

- We value the company based on the average of 7x P/CEPS and 6.5x EV/EBITDA on FY13 estimates and arrive at a revised price target of Rs 2038 (Rs 1918 earlier).
- Though company has commissioned 300MW of power plants but we remain concerned over outlook of the power sector due to poor state of state electricity boards. Along with this, company has also not tied up long term PPAs which poses a concern over power segment sales going forward.
- We thus continue to maintain **REDUCE** recommendation on the stock.

RESULT UPDATE

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LARSEN & TOUBRO LTD (L&T)

PRICE: RS.1278 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1469 **FY13E P/E: 14.9X**

- **L&T came out with numbers that were ahead of expectations on the revenue and profit front. However, EBITDA margins were significantly lower and it was the significant increase in other income which boosted the PAT. The operating expenses included Rs 4.0 bn of MTM charges due to INR-USD fluctuation.**
- **Contrary to our expectations, the guidance for growth in order intake in FY12 was maintained at 5% though the management accepted that meeting the target would be a challenging task. We remain apprehensive of the management guidance and have forecast 7% decline in order intake in FY12. In FY13,we have projected 5% growth in order intake.**

Summary table: (Consolidated)

(Rs mn)	FY11	FY12E	FY13E
Sales	519,534	616,381	712,841
Growth (%)	18.2	18.6	15.6
EBITDA	75,553	82,976	93,142
EBITDA margin (%)	14.5	13.5	13.1
PBT	68031	72519	78582
Net profit	44,562	47,515	51,669
EPS (Rs)	69.9	78.9	85.8
Growth (%)	15.1	12.8	8.7
CEPS (Rs)	84.3	96.1	109.9
BV (Rs/share)	409.1	471.0	539.7
Dividend / share (Rs)	14.7	14.7	14.7
ROE (%)	18.6	17.9	17.0
ROCE (%)	9.7	8.7	8.6
Net cash (debt)	-291,831	-346,501	-430,611
NW Capital (Days)	37.5	51.3	49.4
EV/Sales (x)	1.9	1.7	1.6
EV/EBITDA (x)	12.8	12.5	12.1
P/E (x)	18.3	16.2	14.9
P/BV (x)	3.1	2.7	2.4

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

Rs mn (Standalone)	Q3 FY12	Q3 FY11	YoY (%)
Gross Sales	**141,555**	**114,924**	**23**
excise duty	1,569	966	62
Net sales	**139,986**	**113,958**	**23**
Total op expenses	126,555	101,693	24
Raw material	35,382	28,800	23
Sun-contracting charges	29,210	27,987	4
Construction materials	30,230	20,873	45
purchase of trading goods	4,860	4,796	1
Other operating expenses	10,559	7,224	46
sales and admin exp	7,446	5,170	44
Personnel	8,868	6,842	30
Operating Profit	**13,431**	**12,264**	**10**
Other income	4,487	2,508	79
Depreciation	1,803	1,281	41
EBIT	**16,115**	**13,491**	**19**
Interest	1,907	1,678	14
PBT	**14,208**	**11,813**	**20**
current Tax	3,928	3,654	7
deferred tax	364	106	243
Adjusted PAT	**9,916**	**8,052**	**23**
Extraordinary gains	0	353	(100)
Reported PAT	9,916	8,405	18
EPS (Rs)	**16.9**	**13.8**	**23**
Ratios (%)			
EBITDA (%)	9.6	10.8	
Raw Matl costs to sales (%)	25.3	25.3	
Sub-contracting costs to sales (%)	20.9	24.6	
construction materials costs to sales (%)	21.6	18.3	
Purchase of trading goods costs to sales (%)	3.5	4.2	
Total material and contracting expenses	71.2	72.4	
Other op expenses costs to sales (%)	7.5	6.3	
sales and admin costs to sales (%)	5.3	4.5	
Personnel costs to sales (%)	6.3	6.0	
Current tax rate (%)	30.0	32.0	

Source: Company

- **The stock has rebounded strongly in the past few weeks. We do not see major upside in price from these levels. The stock's premium to BHEL may restrict significant outperformance from these levels.**
- **Stock performance would be contingent on news-flow on large order wins, commodity price trends and general economic and policy datapoints (interest rate cuts and mining and power sector reforms), we opine.**
- **In view of the weak capex cycle, decelerating industrial growth and moderate upside to our target price, we maintain Accumulate on L&T and recommend buying on declines.**
- **Risks - Weak capex cycle and policy bottlenecks coupled with rising capital engagement in business.**

Segment revenue

(Rs mn)	Q3FY12	Q3FY11	YoY (%)
Engg and Construction	124,654	99,833	25
Electrical and Electronics	8,426	7,968	6
Machinery and Industrial products	7,198	6,809	6
Others	2,670	1,696	57
Total	**142,948**	**116,306**	**23**

Source: Company

Strong execution in the quarter

E&C Segment

- During the quarter, the E&C segment reported 25% yoy growth in revenue. For the fiscal, the company has guided for 25% growth in revenues. Hence, the revenue growth has been largely in line with the guidance though it was ahead of our as well as the street estimates. Execution has been well managed.
- During the past few years, the company has significantly upgraded its execution capability with the addition of equipments and fabrication yards in Oman and Katupalli.
- In addition to this, the company has also upgraded its headcount to execute the massive order backlog.

Electrical and Electronics Segment

- In this segment, L&T makes medium and low voltage switchgears. The Segment revenue contracted by 5% yoy during the quarter.
- The company indicated that it has been a challenging year for the electrical industry as the T&D market has contracted during the fiscal.

MIP (Machinery and Industrial Products)

- The MIP segment posted a modest rise of 6% yoy in revenue in Q3 FY12 on slack demand from the construction and industrial segment. The management indicated that policy uncertainty resulted in stalling of investment in the mining sector, which resulted in lower offtake.
- "Others" segment include Technology Services division, e-Engineering solutions and embedded systems. This segment posted robust growth of 57% yoy on strong demand from the US geography.

Margins under pressure in major segments of E&C and Electrical products

- EBITDA margins for the quarter stood at 9.6% down 120 bps on a yoy basis. Margins appear to be under pressure across major segments mainly due to competition and material price pressure (steel prices were higher yoy).
- The company had to bear the brunt of high cost material inventory, which got executed in the third quarter.
- Employee costs rose 30% yoy due to addition of around 5300 personnel at its various locations including Hazira, Coimbatore and Sohar. In addition to normal accretion in headcount, the company had granted increments during the year which resulted in a significant rise in costs. Employee costs accounted for 30 bps reduction in EBITDA margins.
- Sales and Administration expenses were higher due to MTM charges on forex transactions. The management indicated that MTM charges were to the tune of Rs 4.0 bn, purely due to rupee-USD fluctuation.
- Electrical and Electronics segment margins remained muted due to high input costs coupled with stiff competition that resulted in higher discounts in the market place.
- The other segment (includes technology outsourcing) should have benefited from rupee depreciation, we believe.

Segment margins

(%)	Q3 FY12	Q3 FY11	Q2 FY12
Engg and Construction	10.3	10.6	10.6
Electrical and Electronics	8.5	10.9	8.4
Machinery and Industrial products	18.1	18.9	16.0
Others	25.4	12.7	21.5

Source: Company

Other income boosted PAT growth

Other income was led by higher dividends from L&T Infocity and L&T Infotech.

Details of other income

	Q3 FY11	Q3 FY12
Interest income	930	1320
Dividend from S&A companies	460	2190
Dividend/income from investments	410	30
Profit on sale investments	40	240
Misc income	670	710
Total	**2510**	**4490**

Source: Company

Order intake flat sequentially. Management maintains its guidance of 5% order intake in FY12

- Order backlog for L&T is up 26.9% yoy to Rs 1458 bn, equivalent to revenue visibility of 35 months based on trailing four quarters revenues. We note that revenue visibility has begun to peak out since Q1 FY12.
- Order inflows for Q3FY12 came in at Rs 171 bn, up 28.6% yoy but flat sequentially. Order intake in 9M FY12 is flat at Rs 494 bn. The company cited continued deferrals in projects as the prime reason for sluggish order intake.
- The company maintained its guidance of 5% growth in order intake in FY12. The company appears to be counting on couple of large hydro-power projects getting ordered out in the near future. Apart from this, hydrocarbons segment is also vibrant in the domestic and international market.
- Competition has been very severe in hydrocarbons and roads, which has resulted in the company losing out on large orders.
- In the power sector, investor interest has waned significantly for want of coal linkages. There has been some improvement in terms of releasing of the coal blocks that were earlier under restricted zones.

Increase in Capital Employed remains a concern to be monitored

Working has increased across segments and more so in E&C and Machinery and Industrial products. In M&I products, the rise is very steep possibly due to accumulation of inventory as demand may not have shaped up as anticipated.

Capital employed

(Rs mn)	Q3FY12	Q3FY11
Engg and Construction	104,379	70,293
Electrical and Electronics	13,440	12,040
Machinery and Industrial products	6,820	3,278
Others	6,771	2,100
Total capital employed in segments	**131,410**	**87,712**

Source: Company

Future Outlook -Few green shoots visible as government appears to be addressing policy stalemate.

- Management has indicated that it does not anticipate major execution related issues in the foreseeable future and is well positioned to deliver 20-25% growth in revenues in FY12.
- While the company maintained its guidance of 5% yoy in order in take, it declined to throw more light on the order pipeline. However the company indicated that meeting the target is challenging but achievable and there are couple of big-ticket orders which could make a difference to the order intake.
- We assess that for meeting its order intake guidance, the company would have to win orders worth Rs 343 bn vs Rs 493 bn won during 9MFY12, indicating that the target is challenging.
- On incorporating the 9M FY12 numbers, we have revised our earnings estimate for FY12 and FY13.
- The management indicated that policy paralysis at government level that had marred several projects appears to be reversing, which is a positive tailwind.
- L&T Infotech continues to report robust profit at Rs 1.17 bn, at 67% yoy in Q3FY12.

Stock outlook

- The stock has rebounded strongly in the past few weeks. We do not see major upside in price from these levels. The stock's premium to BHEL may restrict significant outperformance from these levels.
- Stock performance would be contingent on newsflow on larger order wins, commodity price trends and general economic and policy datapoints (interest rate cuts and mining and power sector reforms), we opine.

Earnings

	FY12		FY13	
(Rs mn)	Earlier	Revised	Earlier	Revised
Revenue	614074	616380.7	739908	712841.3
EBITDA (%)	13.8	13.5	13.0	13.1
EPS (Rs)	80.5	78.9	92.4	85.8
% change		-2.0%		-7.1%

Source: Kotak Securities - Private Client Research

Valuation and Rating: Maintain Accumulate with a revised target price of Rs 1469 (Rs 1500 earlier)

- On a FY13 basis, L&T is trading at 14.9x and 12.1x PE and EV/EBITDA respectively. In view of the weak capex cycle, decelerating industrial growth and moderate upside to our target price, we maintain Accumulate on L&T and recommend buying on declines.

We recommend ACCUMULATE on Larsen & Toubro with a price target of Rs.1469

- We revise target for the company in view of earnings revision triggered by moderation in order intake and margin pressure.
- In view of the weak macro environment, we see possibility of the company revising its order intake guidance further downwards.
- In our DCF valuation, we have factored in a CAGR of 14% in revenue growth between FY12-16. We work out price target of Rs 1469, thus valuing the stock at 17x FY13 earnings (Rs1500 earlier).

DCF valuation

(Rs mn)	Parameter	Fair Value	Per share
L&T Infotech	15x FY11 earnings	48,000	82
L&T Finance Holdings	10% disc to mkt value	44,565	76
L&T IDPL	2x BV	32,376	54
L&T Standalone	DCF	736,196	1257
Total			**1,469**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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MARUTI SUZUKI INDIA LIMITED (MSIL)

PRICE: RS.1161 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.1142 **FY13E P/E: 14.2X**

- **MSIL 3QFY12 results came in below estimates. EBITDA margin at 3.3% were below our expectation of 3.8% primarily on account of adverse forex movement during the quarter. Accordingly PAT at Rs2,056mn was lower than expectation of Rs2,277mn.**
- **3QFY12 was an abnormal quarter for the company where the operations were interrupted by labor strike at the Manesar plant and the same leading to drastic YoY drop in revenues and profits. Going into 4QFY12, we expect sequential improvement in the company's performance.**
- **Management has indicated that demand outlook for petrol cars continue to remain bleak with no visible signs of revival in the near term. On the other hand, diesel car demand remains robust with waiting period at abnormally high levels.**
- **Going into FY13, despite poor outlook on demand for petrol car, we expect MSIL volumes to grow by 19.3% on account of 1.Increased availability of diesel engines 2.New product launches and 3.Poor FY12 base (due to strike).**
- **However, adverse currency rates is expected to keep the operating margins under pressure in the near to medium term and margins are expected to remain well below the historical levels.**
- **We are changing our FY12 and FY13 estimates to factor in lower than expected results and recent developments surrounding MSIL. As against our earlier estimates, our revised FY12 earnings stands lower by 8.3% and FY13 earnings higher by 4.5%.**
- **We revise our target price upward to Rs1,142 (earlier Rs1,014) on account of increase in FY13 earnings estimate and assigned PE multiple. We have revised our PE multiple upward from 13x and 14x on positive news flow surrounding the company that includes hedging of vendor imports and signing of agreement with Fiat for sourcing additional diesel engines. Recent sharp run-up in the stock provides with no upside opportunity and hence we retain our REDUCE rating on the stock.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	362,997	327,426	417,310
Growth (%)	24.7	(9.8)	27.5
EBITDA	30,579	17,413	30,286
EBITDA margin (%)	8.4	5.3	7.3
PBT	31,088	19,362	32,279
Net profit	22,886	14,328	23,563
EPS (Rs)	79.2	49.6	81.6
Growth (%)	(8.4)	(37.4)	64.5
CEPS (Rs)	114.3	87.8	123.8
BV (Rs/share)	480.0	523.7	599.4
Dividend / share (Rs)	7.5	5.0	5.0
ROE (%)	17.8	9.9	14.5
ROCE (%)	23.3	13.3	19.8
Net cash (debt)	69,209	63,483	67,667
NW Capital (Days)	(6.2)	(3.9)	(5.6)
P/E (x)	14.7	23.4	14.2
P/BV (x)	2.4	2.2	1.9
EV/Sales (x)	0.7	0.8	0.6
EV/EBITDA (x)	8.7	15.6	8.8

Source: Company, Kotak Securities - Private Client Research

Revenues decline on labour unrest and weak demand

- MSIL's revenues in 3QFY12 declined by 17.2% YoY from Rs93,261mn in 3QFY11 to Rs77,179mn for the quarter under review.
- Volumes during the same period were lower by 27.6% primarily on account of labor strike at the Manesar plant and weak car demand. Company claims to have lost 40,000 units in 3QFY12 on account of labor unrest.
- Realizations increased on a strong note on the back of sharp jump in export realization. While blended realization increased by 14.1% YoY, export realization during the same period was up by 26%. Shift in geographical mix led to reduction in euro revenues in favor of dollar denominated sales. Further with dollar strengthening against the rupee the company saw sharp uptick in export realization. QoQ export realization was up by 14%.
- Going into Q4FY12, realization is expected to remain at similar levels. Recent strengthening of rupee will more or less offset the increase in realizations on account of rising share of diesel car sales.
- On the volumes front, the company has indicated that the demand for petrol car continues to remain subdued but waiting list for diesel cars at abnormally high levels.

- Going into FY13, despite poor outlook on demand for petrol car, we expect MSIL volumes to grow by 19.3% on account of 1.Increased availability of diesel engines 2.New product launches and 3.Poor FY12 base (due to strike).
- Enhanced availability of diesel engine is expected to give boost to sales in FY13. Huge cost arbitrage in diesel run car and petrol driven car has led to robust demand in favor of diesel engine cars. MSIL has increased its diesel engine capacity from 240,000 units pa to 290,000 units pa. Further the company has also entered into a contract with Fiat to source 100,000 diesel engines annually over the next three years. Accordingly company will be able to increase supply of diesel cars and bring down the waiting period on its key models.
- Company is expected to launch 2 new models over the next couple of months which should provide further support to FY13 growth rate. Ertiga (MPV) showcased at the recent Delhi Auto Expo is expected to come into production in March/April 2012. For MSIL, this is a completely new segment and we therefore do not expect sales cannibalization with existing models. MSIL is also expected to launch the new Dzire. While fair bit of cannibalization is expected, we believe the same to make net volume additions to the Swift/Dzire family.
- MSIL has lost a significant sales volume in FY12 on account of labor unrest thereby lowering FY12 base. With normal production levels expected in FY13, we believe the growth rate in FY13 to receive aid from the current year's lower base.

Quarterly performance

(Rs mn)	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ (%)
Total Revenues	**77,179**	**93,261**	**(17.2)**	**75,754**	**1.9**
Total expenditure	74,652	85,927	(13.1)	73,374	1.7
RM consumed	62,433	74,455	(16.1)	61,566	1.4
Employee cost	2,090	2,325	(10.1)	1,995	4.8
Other expenses	10,129	9,147	10.7	9,814	3.2
EBITDA	**2,527**	**7,335**	**(65.6)**	**2,380**	**6.2**
EBITDA margin (%)	3.3	7.9	-	3.1	-
Depreciation	2,989	2,369	26.2	2,664	12.2
Interest cost	174	4	4,719	109	59
Other operating income	1,645	1,683	(2.3)	2,562	(35.8)
Other Income	1,604	1,283	25.0	1,177	36.2
Extraordinary income/ (loss)			-	-	-
PBT	**2,613**	**7,928**	**(67.0)**	**3,346**	**(21.9)**
PBT margins (%)	3.4	8.5		4.4	
Tax	557	2,276	(75.5)	942	(40.9)
Tax rate (%)	21.3	28.7	-	28.1	-
Reported PAT	**2,056**	**5,652**	**(63.6)**	**2,404**	**(14.5)**
PAT margins (%)	2.7	6.1	-	3.2	-
Reported EPS (Rs)	7.1	19.6	(63.6)	8.3	(14.5)
Volume data					
Domestic	211,803	299,527	(29.3)	222,406	(4.8)
Exports	27,725	31,160	(11.0)	29,901	(7.3)
Total Volumes	239,528	330,687	(27.6)	252,307	(5.1)
Net Realization (Rs)	319,948	280,529	14.1	298,741	7.1
RM cost per vehicle (Rs)	260,648	225,152	15.8	244,010	6.8

Source: Company

Operating margins expected to remain weak in the near term

- MSIL's EBITDA during the quarter dropped by 66% YoY from Rs7,335mn in 3QFY11 to Rs2,527mn during 3QFY12. Revenue drop of 17% coupled with significant margin erosion led to steep fall in EBITDA.
- EBITDA margins for the quarter came down from 7.9% in 3QFY11 to 3.3% for the quarter under review. Lower operating leverage on account of labor strike, higher discounts and adverse currency movement were the key reason for YoY margin erosion.
- Company lost ~40,000 units due to labor unrest and that led to higher fixed cost per unit.
- Discount during the quarter at Rs12,200 per vehicle remained higher YoY on account of weak demand scenario. However, QoQ discounts were a bit lower probably on account of change in product mix.
- Adverse forex currency continued to hit the company margin for yet another quarter. MSIL suffered Rs780mn loss on account of forex transaction. Of that Rs190mn pertained to royalty paid during November 2011. Further Rs210 mn pertained towards MTM for outstanding liability (notional in nature). Royalty for the quarter increased from 5.2% of net sales in 3QFY11 to 5.9% of net sales in 3QFY12 on account of strong yen and product mix change. Further full impact of indirect imports will come into play during 4QFY12.
- For Q4FY12, the company is fully hedged (direct imports and royalty part) on its dollar-yen and dollar-exposure. However dollar-rupee exposure for 4QFY12 stands unhedged. For FY13, the company has kept all their currency exposure open which raises the risk on next year's operating margin.
- On the raw material front the company is yet to see any benefit from the global softening witnessed in commodity prices.
- MSIL has secured RBI approval and related documentation work processed for undertaking hedges on behalf of its vendors. Company is waiting for the right opportunity to take forward cover on indirect imports. We believe this initiative to provide stability to the company's operating margin and thereby mitigate risk on the earnings to some extent.

Weak operating profit percolates down to PAT

- Company's weak performance at the operating level were reflected in the bottom line. MSIL's PAT dropped by 63.6% from Rs5,652mn in 3QFY11 to Rs2,056mn in 3QFY12.
- Full depreciation impact of the new line commissioned at the Manesar plant in September 2011 came in during the quarter and as a result depreciation increased from 2,664mn in 2QFY12 to Rs2,989mn in 3QFY12.Interest cost further climbed during the quarter to Rs174mn from Rs109mn in 2QFY12.
- Other operating income declined by 2.3% YoY to Rs1,645mn. On the other hand, better yields and capital gains led to 25% YoY and 36% QoQ jump in other income.
- Tax rate for the quarter at 21.3% remained on the lower side but the management indicated that it would return to normal levels in 4QFY12. For FY13, the company guided for 27% tax rate.

Change in estimates

- On the back of lower than expected results and recent developments we are changing of FY12 and FY13 estimates.
- For FY12, we are marginally increasing our revenues estimates on account of strong export realization. Given continued dull demand for petrol cars and full impact of indirect imports, we are lowering our EBITDA margin estimates from 5.8% to 5.3%. Accordingly our FY12 earnings estimate stand revised downwards by 8.3% to Rs14,328mn.
- For FY13, on account of expected increase in diesel car proportion in sales, we are raising our realization leading to 6.5% jump in revenues from our earlier estimates. We are marginally lowering our EBITDA margin estimate (by 10bps) for FY13. Our revised FY13 earnings stands at Rs23,563mn, higher by 4.5% over our earlier estimates.

Change in estimates

	FY12			FY13		
(Rs mn)	Old	New	% chg	Old	New	% chg
Revenues	324,426	327,426	0.9	391,734	417,310	6.5
EBITDA	18,902	17,413	-7.9	28,892	30,286	4.8
PAT	15,620	14,328	-8.3	22,543	23,563	4.5

Source: Kotak Securities - Private Client Research

Valuation

We recommend REDUCE on Maruti Suzuki India with a revised price target of Rs.1142

- We revise our target price upward to Rs1,142 (earlier Rs1,014) on account of increase in FY13 earnings estimate and assigned PE multiple.
- We have revised our PE multiple upward from 13x and 14x on positive news flow surrounding the company that includes hedging of vendor imports and signing of agreement with Fiat for sourcing additional diesel engines.
- Recent sharp run-up in the stock provides with no upside opportunity and hence we retain our **REDUCE** rating on the stock.

RESULT UPDATE

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HT MEDIA

PRICE: RS.125 | **RECOMMENDATION: BUY**
TARGET PRICE: RS.200 | **FY13E P/E: 11.3X**

- **HT Media reported the following financials for 3QFY12: Revenues Rs 5.3Bn, EBITDA Rs 777 mn, and PAT Rs 482 mn. Profits reported are weak on account of significant provisions (Rs 175mn) on forex losses and provisions for losses in the company's private treaties division, as also strong growth in employee expenses on account of incentive payments. We cut our EPS estimates 15%/5% for FY12E/FY13E as we raise estimates for expenses on the back of higher provisions (Forex, Private treaties).**
- **Industry Outperformance on Advertising revenues, Continued Strength in new editions: The Company reported 11% growth in advertising revenues, which we believe is above industry growth rates. HT Media's new editions, namely HT-Mumbai and Mint, registered growth of 18-20% in the quarter - which is indicative of the monetization potential in HT Media.**
- **Lack of Visibility in Adex Turnaround: Advertising environment has been weak due to softness in economy growth. As recent results indicate, there is softness in adex growth across mediums and markets (Metros/ Tier-2 cities). While there is some relief from recent appreciation from lows, rupee weakness, along with continued strength in newsprint prices is a matter of continued concern for newspaper publishers.**
- **Long-Term Prospects of HT Media are Bright: HT Media has registered strength in readership across all key newspapers of the company, which we think is a long-term positive. We maintain that readership gains would result in advertising yield and margin improvements, benefiting HT Media disproportionately relative to print peers. We believe long-term margins of HT Media shall converge with peers - leading to superior value creation.**
- **Newsprint Prices may be near peak: As per management, there is a minor correction in newsprint prices, led by weakened consumption trends. We also note that pulp prices have corrected significantly in the recent past (18% down from peak, as of January 2012), which provide further hope for a correction in international newsprint prices.**
- **Maintain BUY on cheap valuations: On our revised estimates, HT Media trades at 11.3x PER FY13. We believe absorption of a high base in newsprint expenses, turnaround in industry adex shall be the key trigger in closing the price value gap. Further weakening in advertising environment, continued weakness in the rupee and further strengthening of newsprint prices are the key risks, for now. Maintain BUY, with a price target of Rs 200 (unchanged).**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	17,861	20,291	22,447
Growth (%)	26.4	13.6	10.6
EBITDA	3,358	3,368	4,426
EBITDA margin (%)	18.8	16.6	19.7
PBT	2,571	2,780	3,936
Net profit	1,809	1,859	2,593
EPS (Rs)	7.7	7.9	11.1
Growth (%)	28.0	2.7	39.5
CEPS (Rs)	11.3	11.6	14.9
BV (Rs/share)	61.1	68.8	79.6
Dividend /share (Rs)	0.4	0.4	0.4
ROE (%)	14.9	12.2	14.9
ROCE (%)	13.1	11.3	13.9
Net cash (debt)	(1,971)	2,458	5,766
NW Capital (Days)	7	30	30
P/E (x)	16.2	15.8	11.3
P/BV (x)	2.0	1.8	1.6
EV/Sales (x)	1.8	1.6	1.4
EV/EBITDA (x)	9.6	9.6	7.3

Source: Company, Kotak Securities - Private Client Research

- HT Media reported an expectedly weak set of financials for 3QFY12. Key financials: revenues Rs 5.3Bn, EBITDA Rs 777mn, and PAT Rs 481mn. Advertising revenues grew 10.5%, while circulation revenues grew 7% y/y. Revenue growth was strong in the English newspapers: HT-Delhi grew 9% y/y, while HT-Mumbai and Mint revenues grew 18% and 21% respectively. Revenue growth was soft in the Hindi newspapers, with advertising growth of 9%, partly on account of a high base (3QFY11 carried benefits of assembly elections in Bihar). Circulation revenues grew 6.8% y/y.

3QFY12 Result Highlights

Rs mn, FY Ends Mar	3QFY12	3QFY11	% chg, y/y	2QFY12	% chg, q/q
Revenues	**5266**	**4651**	**13.2**	**4931**	**6.8**
- Advertising revenues	4073	3686	10.5	3705	9.9
- Circulation Revenues	503	471	6.8	507	-0.8
Raw Material Expenses	1874	1649	13.6	1861	0.7
Gross Margin	64.4%	64.5%	-0.1ppt	62.3%	2.2ppt
Employees Cost	936	760	23.1	849	10.2
Other Expenditure	1680	1359	23.6	1508	11.4
Total Expenditure	4489	3768	19.1	4218	6.4
EBITDA	**777**	**883**	**-12.0**	**713**	**8.9**
EBITDA Margin	14.7%	19.0%	-4.2ppt	14.5%	0.3ppt
Depreciation and Amortization	220	217	1.2	233	-5.7
EBIT	**557**	**666**	**-16.4**	**480**	**16.0**
Other Income	168	64	162.5	204	-17.6
Interest Expenses	83	46	81.3	75	11.2
PBT	**642**	**684**	**-6.2**	**609**	**5.3**
Provision for Tax	161	184	-12.6	140	14.9
Effective Tax Rate	25.1	26.9	-1.8ppt	23.0	2.1ppt
PAT	**481**	**500**	**-3.9**	**469**	**2.5**
Minority Interest	-1	22	-104.5	-31	-96.8
PAT after Minority Interest	482	478	0.8	438	10.0
Equity Capital	234	234	0.0	234	0.0
SHOS	235	235	0.0	235	0.0
EPS (Rs)	**2.0**	**2.0**	**0.8**	**1.9**	**10.0**

Source: Company

- HT Media continued to manage newsprint costs well, with only 14% y/y growth. Employee expenses came in stronger than our expectations, on account of wage inflation as well as incentive payments. Other expenditures came in strongly as well, on account of one-off items of Rs 175mn (Rs 100 mn related with forex loss and Rs 75 mn related with provisions for private treaties). Other income grew 162.5%, leading to in-line PAT.
- Change in Estimates: We cut our estimates on HT Media on account of provisions made in the quarter (Rs 175mn in addition to Rs 118mn made in the last quarter). We raise our estimates on expenses by Rs 300mn/ Rs 200mn (FY12E/ FY13E) to account for the same. The changes to our estimates are summarised below:

Changes in Estimates

	Current estimates		Prior Estimates		% chg.	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Revenues	20,291	22,447	20,291	22,447	0	0
EBITDA	3,368	4,426	3,818	4,593	-12	-4
PAT	1,859	2,593	2,187	2,729	-15	-5
EPS (Rs)	7.9	11.1	9.3	11.7	-15	-5

Source: Kotak Securities - Private Client Research

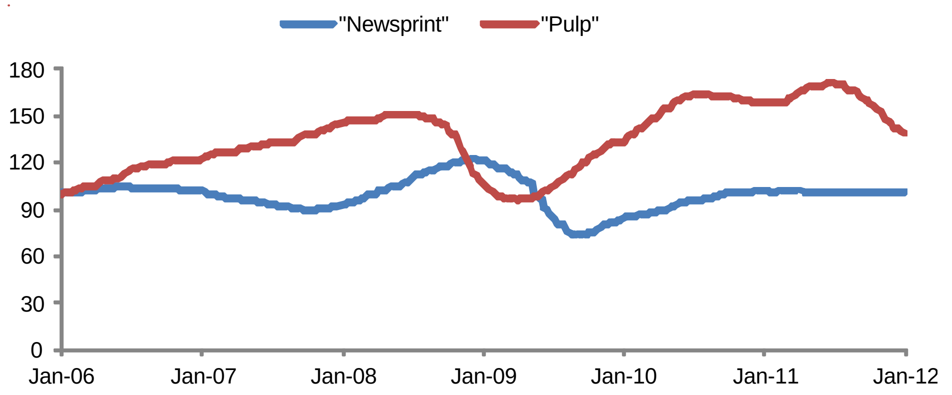
Outlook

The revenue outlook for the near-term (next two quarters, at least, in our opinion) is somewhat weak, considering the higher base as well as likely weakness in advertising markets. English newspapers other than the Delhi edition (which has likely performed in line with the industry) have performed strongly, but Delhi being the key driver of revenues and profits, HT Media shall face an adverse base effect until 2QFY13. Moreover, advertising revenues of the company's Hindi newspaper, Hindustan, have weakened growth expectations, except for the one-off benefits that might accrue to the newspaper from assembly elections in Uttar Pradesh/ Uttarakhand in the coming quarter.

HT Media will likely face higher input costs in 4QFY12 and 1QFY13, on account of continued strength in newsprint prices as well as a weaker rupee. International newsprint prices have, however, begun to cool off, likely on account of weakening pulp prices. We note that pulp is a key raw material in newsprint, and prices of pulp had shot up in FY11, following an earthquake, which disrupted supplies from certain key geographies.

We note that pulp prices have corrected significantly from peaks, and provide reason to believe that newsprint prices shall follow:

Indexed Newsprint and Pulp Prices



Source: Bloomberg

We recommend BUY on HT Media with a price target of Rs.200

Even as earnings of HT Media have been weak, valuations are attractive, perhaps on account of the poor visibility in earnings. Key factor driving down the margins of the company has been the weak profitability of new editions of the company as well as loss-making internet operations. New editions of the company are, however, showing strong readership trends, which bodes well for profitability in the long-term. HT Media remains our preferred pick in the print space. We retain our BUY rating on HT Media, with a price target of Rs 200 (unchanged).

RESULT UPDATE

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GODREJ CONSUMER PRODUCTS LIMITED

PRICE: RS.415 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.446 **FY13E P/E: 19.9X**

- **GCPL's 3QFY12 financials were well ahead of our as well as consensus estimates. The company reported sales growth of 36%. EBITDA, Rs 2721mn, rose 59% y/y. Consolidated PAT came in at Rs 1671mn, up 41% y/y. Domestic revenues grew 20% y/y to Rs 7.8 Bn, and domestic PAT grew 12% y/y to Rs 1180 mn. Key surprise came from international financials which saw revenue growth of 68% y/y (including Darling Group).**
- **Domestic operations have seen strong growth in soaps (+31% y/y) as well as Household Insecticides (+30%, y/y) segments; while growth in hair colour has been weak (+9% y/y). Megasari (Indonesia, accounting for 45% of international revenues) operations grew 35% y/y (20% in local currency terms). African operations of the company, which contribute 33% to the international revenues, registered strong growth on the back of the Darling acquisition, along with strong margins (31% for the quarter). We raise our FY12/FY13 EPS estimates 2%/ 2%, on the back of strong earnings performance in international markets.**
- **Recent performances shall help reduce certain concerns/scepticism: 1/ GCPL-GHPL distribution synergies are likely to gain greater credibility, following industry-beating growth in recent quarters, 2/ International operations have performed in line with assurance of the management, 3/ debt and working capital concerns should ease with reducing working capital requirements (as per 2QFY12 balance sheet) and the equity infusion in the works (see next point).**
- **The company has announced a preferential allotment of 16.7 mn shares to Baytree (dilution of 5%), which will lead to an equity infusion of Rs 6.85 Bn, and help ease concerns on the high debt-equity ratio of the company. GCPL has announced the acquisition of Cosmetica Nacional, a company based in Chile, in line with the company's 3X3 strategy - the transaction price (for a 60% stake) is $38mn. We believe the acquisition can add Re 0.45 to the (post-diluted) EPS of the company (not included in the attached table).**
- **We believe strong results of the company, as well as easing concerns on growth prospects of international operations and high debt-equity ratio (as compared with FMCG peers), shall help the company receive fair valuations. Maintain ACCUMULATE, with a price target of Rs 446.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	36,430	46,181	55,149
Growth (%)	78.5	26.8	19.4
EBITDA	6,438	8,442	10,311
EBITDA margin (%)	17.7	18.3	18.7
PBT	6,118	7,290	9,267
Net profit	4,816	5,485	6,808
EPS (Rs)	14.9	16.9	21.0
Growth (%)	31.3	13.9	24.1
CEPS (Rs)	16.4	18.9	23.2
BV (Rs/share)	53.3	61.1	71.6
Dividend / share (Rs)	6.0	6.9	9.9
ROE (%)	35.9	29.6	31.7
ROCE (%)	21.8	15.1	18.9
Net cash (debt)	(17,785)	(21,104)	(12,539)
NW Capital (Days)	41	28	25
P/E (x)	28.2	24.7	19.9
P/BV (x)	7.9	6.9	5.9
EV/Sales (x)	4.2	3.4	2.7
EV/EBITDA (x)	23.8	18.6	14.4

Source: Company, Kotak Securities - Private Client Research

- GCPL reported the following financials for 3QFY12: Sales Rs 13.4 Bn, EBITDA Rs 2.7Bn, PAT Rs 1.67Bn. The reported financials are well above our estimates.
- Standalone sales grew 20% y/y, led by sales in soaps (31%y/y). Soaps grew well in excess of the category growth witnessed in the quarter (7%, as per company). Household Insecticides too witnessed strong growth (30%,y/y, well ahead of category growth). Hair care (dyes) grew 9% - the weakest category for the company. Standalone EBITDA margin came in at 20.8% - slightly weaker than 3QFY11, despite a considerable drop in A&P spends - which grew merely 4.3% (y/y).

3QFY12 Highlights

Rs mn, FY Ends Mar	Consolidated Financials					Standalone Financials				
	3QFY12	3QFY11	% Chg. (y/y)	2QFY12	% Chg. q/q	3QFY12	3QFY11	% Chg. (y/y)	2QFY12	% Chg. q/q
Net Sales	**13441**	**9888**	**35.9%**	**11860**	**13.3%**	**7655**	**6380**	**20.0%**	**7581**	**1.0%**
Other Op. Income	68	56	21.3%	59	15.3%	138	138	0.0%	130	6.6%
Total Operating Revenues	13509	9944	35.8%	11919	13.3%	7794	6519	19.6%	7711	1.1%
Raw Material Expenses	6244	4613	35.3%	5678	10.0%	3635	2986	21.7%	3869	-6.1%
Gross Profit	**7265**	**5331**	**36.3%**	**6241**	**16.4%**	**4159**	**3532**	**17.7%**	**3842**	**8.2%**
Gross Margin	54.0%	53.9%	0.1 ppt	52.4%	3.2%	54.3%	55.4%	-1.0 ppt	49.8%	9.0%
Employees Expenses	1108	831	33.3%	819	35.3%	447	405	10.5%	305	46.5%
Advertising & Publicity	1121	1106	1.4%	1110	1.0%	588	592	-0.6%	564	4.3%
Other Expenditure	2315	1681	37.7%	2166	6.9%	1528	1198	27.6%	1506	1.5%
EBITDA	**2721**	**1713**	**58.9%**	**2147**	**26.7%**	**1595**	**1339**	**19.2%**	**1467**	**8.7%**
EBITDA Margin	20.2%	17.3%	2.9 ppt	18.1%	11.8%	20.8%	21.0%	-0.1 ppt	19.3%	7.7%
Depreciation	171	121	41.4%	159	7.0%	63	58	9.4%	67	-5.8%
EBIT	**2550**	**1592**	**60.2%**	**1988**	**28.3%**	**1532**	**1281**	**19.6%**	**1400**	**9.4%**
Other Income	180	31	490.2%	161	12.0%	98	32	205.9%	102	-3.8%
Forex gains/ Losses	-55	-17	228.7%	-166	-66.9%	-75	5	-1662.5%	-85	-12.2%
Interest and Financial Exp.	287	133	116.1%	241	19.1%	60	22	173.2%	40	51.4%
PBT	**2388**	**1473**	**62.1%**	**1742**	**37.1%**	**1495**	**1296**	**15.4%**	**1377**	**8.6%**
Provision for Tax	555	285	94.7%	432	28.5%	317	259	22.2%	294	8.0%
Effective Tax Rate	23.2%	19.3%	3.9 ppt	24.8%	-6.3%	21.2%	20.0%	1.2 ppt	21.3%	-0.6%
PAT before MI	1833	1188	54.3%	1310	39.9%	1178	1036	13.7%	1083	8.8%
Minority Interest	-162	0	NA	33	-593.0%		0	NA	0	#DIV/0!
PAT	**1671**	**1188**	**40.7%**	**1277**	**30.8%**	**1178**	**1036**	**13.7%**	**1083**	**8.8%**
EPS	**5.2**	**3.7**	**40.7%**	**3.9**	**30.8%**	**3.6**	**3.2**	**13.7%**	**3.3**	**8.8%**

Source: Company

- International operations were the key surprise of the quarter. On account of acquisitions made, aggregate numbers are not comparable y/y. Among highlights of international operations: 1/ Megasari revenues grew 35%, with EBITDA margin of ~20%, 2/ Africa business registered sales of Rs 1.9Bn, with EBITDA margin of 31%, 3/ Latin America sales grew 29%, with EBITDA margin of 9%. We note that this has been a seasonally strong quarter for Africa operations, while Megasari has benefited from distribution expansion and launch of new products.
- Current quarter performance derives benefits from rupee depreciation as well as seasonal benefits/ other operational benefits which are one-off in nature: Megasari local currency growth is in the range of 20%, and Darling Group operations see some seasonal benefits on account of higher sales in the quarter as well as benefits from lower raw material on account of cheap inventory. The company's UK operations, which registered growth of 43% in sales, also benefited from rupee depreciation in the quarter.

Changes made to our profit model post the earnings release are summarised below:

Change in Estimates

	Revised Estimates		Prior Estimates		% Chg	
	FY12	FY13	FY12	FY13	FY12	FY13
Revenues	46181	55149	45065	53982	2.5%	2.2%
EBITDA	8442	10311	8257	10066	2.2%	2.4%
PAT	5485	6808	5368	6686	2.2%	1.8%
EPS	16.9	21.0	16.6	20.7	2.2%	1.8%

Source: Kotak Securities - Private Client Research

The release of the company also makes two important announcements: 1/ GCPL will issue 16.7mn shares to Baytree Investments (Temasek) on a preferential basis, 2/ the company will acquire Cosmetica Nacional, a Chile-based company.

The preferential allotment is a positive for the company, in our opinion. GCPL stock shall be issued to Baytree at a premium of Rs 409/ share - therefore account for an equity infusion of Rs 6.85Bn. As per 2QFY12 balance sheet, GCPL had a net debt of Rs 2000mn. The infusion can potentially lower (assuming no significant acquisition) the company's debt/ equity ratio. The management has indicated that the transaction shall be completed before March 31, 2012. The same would have a 5% dilutive impact on GCPL.

The acquisition of Cosmetica Nacional is a part of GCPL's acquisition-led strategy to turn into a global FMCG player. GCPL shall acquire a 60% stake in Cosmetica Nacional (CN) for $38mn. CN is a Chile-based company, involved in hair color (60% of revenues) and color cosmetics (24% of revenues). CN had sales of $36mn, with EBITDA margin of 20%, and long-term sales growth of 15%. GCPL shall pay 9X EV/ EBITDA for the acquisition. The acquisition shall add to the company's product and distribution competencies in the Latin American geographies. The management has said that the acquisition shall be EPS acquisitive from year 1. We estimate, with certain assumptions that the acquisition could add ~Re 0.45 to FY13 EPS (post the dilution discussed above, not included in our estimates).

Outlook & Valuation

We have had a positive stance on GCPL on account of the following counts: 1/ strong domestic consumption drivers of low-penetration products in which GHPL has strong market shares, 2/ belief that GCPL-GHPL synergies shall help the company grow in excess of the industry in the coming years, 3/ Opportunities in cross-pollination of products from companies acquired in the course of the company's acquisition -led growth strategy.

We recommend ACCUMULATE on Godrej Consumer Products with a price target of Rs.446

GCPL's recent earning performances, as well as other announcements, we believe have had the following beneficial impact: a/ Scepticism regarding the GCPL-GHPL merger and the distribution synergies therein has been contained to a large degree. Both soaps and Household Insecticides segments have delivered growth so far in excess of the category growth, 2/ Concerns on international operations are likely to ease: Megasari sales have picked up meaningfully in the past two quarters on the back of innovations and improved distribution, and the company has reported strong financials from Africa in this quarter, which will likely help reduce wariness about the operations of the company in Africa and the likely impact on profits, 3/ Two key balance sheet concerns - those relating with high debt and rising working capital, have been addressed. The equity infusion shall, we believe, along with the strong cash flows of the company, help reduce the debt-equity ratio of the company.

We maintain **ACCUMULATE** on GCPL, with a price target of Rs 446 (unchanged).

RESULT UPDATE

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M&M FINANCIAL SERVICES

PRICE: RS.665 **RECOMMENDATION: BUY**
TARGET PRICE: RS.810 **FY13E P/E: 9.6x; P/ABV: 2.0x**

Q3FY12 results: largely in line

- **Reported NII came at Rs.4.18 bn (23.2% YoY) in Q3FY12, well supported by strong loan growth during Q3FY12 (47.7% YoY; 12.6% QoQ). Net profit grew 33.5% YoY to Rs.1.55 bn during Q3FY12 on back of lower credit costs (decline of 9.3% YoY) and stable opex (QoQ).**
- **While gross spread declined from 11.7% in 9MFY11 to 10.2% in 9MFY12 (however, stable QoQ) on back of change in asset mix, net spread declined by only 50 bps to 5.1% during the same period (QoQ improvement by 20bps).**
- **Strong momentum in business growth continued for MMFSL during Q3FY12 - AUM grew 45.1% YoY (10.1% QoQ). Asset mix composition largely remained unchanged with slight up-tick in "CV & Construction Equipments" segments while share of "Auto/utility vehicle (M&M)" segment declined marginally.**
- **Asset quality deteriorated marginally (gross NPA and net NPA rose 10.4% and 14.1%, respectively); however, it remained largely stable QoQ. Its both NPA recognition system as well as provision policy are more conservative than its peers.**
- **We believe that rural market behaviour is still buoyant and driven more by the cash flows and not by the movement in interest rate. With good monsoon during previous two years along with better asset and labour absorption leading to multiple cash flows in the hands of rural populace.**
- **At CMP, stock is trading at 9.6x its FY13E earnings and 2.0x its FY13E ABV and hence we maintain BUY rating on the stock with unchanged TP of Rs.810 based on 2.5x its FY13 ABV.**

Q3FY12 Performance

(Rs. Mn)	Q3FY12	Q2FY12	Q3FY11	YoY (%)	QoQ (%)
Income from operations	**7,328**	**6,491**	**5,203**	**40.8**	**12.9**
Interest Expenses	3,150	2,589	1,813	73.8	21.7
Net Interest Income	**4,178**	**3,902**	**3,391**	**23.2**	**7.1**
Other income	138	159	96		
Total income	4,316	4,061	3,487	23.8	6.3
Operating cost	**1,520**	**1,521**	**1,209**	**25.7**	**-0.1**
Employee cost	469	510	310		
Other operating expenses	1,051	1,011	899		
Operating profit	2,797	2,539	2,278	22.8	10.1
Provision and write offs	494	523	545	-9.3	-5.6
Profit before tax	**2,303**	**2,016**	**1,733**	**32.9**	**14.2**
Provision for taxes	756	661	574		
Net profit	**1,547**	**1,355**	**1,159**	**33.5**	**14.1**
EPS	**15.1**	**13.2**	**12.1**		
Cost to income (%)	35.2	37.5	34.7		
Effective Tax rate (%)	32.8	32.8	33.1		
Advances (Rs bn)	1,78,497	1,58,588	1,20,850	47.7	12.6
Gross NPA	4.1	4.0	5.6		
Net NPA	1.1	1.0	1.1		
Provision coverage (%)	74.4	75.3	81.6		

Source: Company

Core performance largely in line with our expectations; decline in net spread (YoY) is marginal despite sharp decline in gross spread due to change in asset mix.

Reported NII came at Rs.4.18 bn (23.2% YoY) in Q3FY12 on back of buoyant rural market behaviour. It was well supported by strong loan growth during Q3FY12 (47.7% YoY; 12.6% QoQ). Net profit grew 33.5% YoY to Rs.1.55 bn during Q3FY12 on back of lower credit costs (decline of 9.3% YoY) and stable opex (QoQ).

While gross spread declined from 11.7% in 9MFY11 to 10.2% in 9MFY12 (however, stable QoQ) on back of change in asset mix, net spread declined by only 50 bps to 5.1% during the same period (QoQ improvement by 20bps).

Spread analysis

(%)	Q1FY11	H1FY11	9MFY11	FY11	Q1FY12	H1FY12	9MFY12
Total Income/Average Assets	16.6	17.0	17.4	17.9	16.2	16.5	16.9
Interest/Average Assets	5.5	5.5	5.7	5.8	6.2	6.3	6.7
Gross spreads	11.1	11.5	11.7	12.1	10.0	10.2	10.2
Overheads/average assets	4.4	4.4	4.3	4.4	4.0	3.9	3.8
Write offs & provisions/Average assets	2.3	1.7	1.8	1.4	1.6	1.4	1.3
Net spreads	4.4	5.4	5.6	6.3	4.4	4.9	5.1

Source: Company

Strong business growth continues; asset mix composition largely remained unchanged.

Strong momentum in business growth continued for MMFSL during Q3FY12 - AUM grew 45.1% YoY (10.1% QoQ) mainly driven by more surplus funds in the hands of rural and semi-urban populace, where MMFSL has a strong presence.

Disbursement during Q3FY12 was also strong at Rs.58.9 bn (38.8% YoY) as compared to Rs.42.4 bn witnessed during Q3FY11. Out of this, ~32% went to Cars, ~27% to Auto/UVs, ~20% to tractors and ~11% to CVs. Management has indicated that Auto & UV (M&M) and Maruti car segments have matured; they are doing between 8500-10300 Maruti cars/month depending on manufacturers monthly numbers. While there is sustained growth in the matured business segments, new product lines are doing well - they are doing 6000-7000 cars/month of other brands like Hyundai, Tata and Toyota.

Asset mix composition largely remained unchanged with slight up-tick in "CV & Construction Equipments" segments while share of "Auto/utility vehicle (M&M)" segment declined marginally.

Segment wise AUM

(%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12E	Q3FY12
Auto/Utility Vehicles (M&M)	33	34	30	31	30	32	30
Tractors (M&M)	23	22	23	23	23	20	20
Cars (Including non M&M vehicles)	30	30	33	31	31	31	31
CV & Construction Equipments	8	8	8	9	10	11	12
Pre-owned & Others	6	6	6	6	6	6	7

Source: Company

Asset quality deteriorated marginally;

Asset quality deteriorated marginally (gross NPA and net NPA rose 10.4% and 14.1%, respectively); however, it remained largely stable QoQ. In percentage terms, gross NPA marginally deteriorated (QoQ) to 4.1% of total assets at the end of Q3FY12 as compared to 4.0% at the end of Q2FY12. Similarly, net NPA as a percentage of total assets also deteriorated to 1.1% at the end of Q3FY12 as against 1.0% at the end of Q2FY12.

Trend in asset quality

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Gross NPA (%)	6.9	5.8	5.6	4.0	4.6	4.0	4.1
Net NPA (%)	1.3	1.1	1.1	0.6	1.0	1.0	1.1
Coverage Ratio	82.4	82.5	81.6	86.4	79.7	75.3	74.4

Source: Company

Management has articulated that higher gross NPA is due to higher vehicle repossessed during November-December 2011 (1200-1300 vehicles /month were repossessed as compared to monthly run-rate of 600-700). As these vehicles have been repossessed recently, it could not be sold due to legal formalities; management has indicated that it would be sold during next few months, leading to improvement in the NPA numbers.

Its provision coverage ratio stands at healthy 74.4% at the end of Q3FY12, slight decline from the previous quarter. However, M&M Finance follows conservative NPA recognition system as well as NPA provision policy.

Management has guided that if NPA recognition system is changed to 90 days as per RBI proposal (existing norm is 180 days), impact on NPA could be in the range of 150-200 bps.

Valuation and recommendations

We believe that rural market behaviour is still buoyant and driven more by the cash flows and not by the movement in interest rate. With good monsoon during previous two years along with better asset and labour absorption leading to multiple cash flows in the hands of rural populace, M&M Finance is better placed with a strong presence (~80% branches) in rural areas. We believe, MMFSL is better placed to deliver superior growth during FY12-13E.

We expect MMFSL to report healthy earnings 23.8% CAGR during FY11-13E and strong return profile (RoA: 4.6%; RoE: 22.1% during FY13E).

We recommend BUY on M&M Financial Services with a price target of Rs.810

At CMP, stock is trading at 9.6x its FY13E earnings and 2.0x its FY13E ABV and hence we maintain **BUY** rating on the stock with unchanged TP of Rs.810 based on 2.5x its FY13 ABV.

Summary Table

(Rs. mn)	FY10	FY11	FY12E	FY13E
Interest Income	**15307.7**	**19739.3**	**27332.3**	**33910.3**
Interest expenses	5017.3	6602.1	11077.6	14264.9
NII	**10290.4**	**13137.2**	**16254.7**	**19645.4**
Growth (%)	20%	28%	24%	21%
Other Income	380.3	386.5	579.7	695.7
Total Income	10670.7	13523.7	16834.4	20341.1
Optg Profit	7420.9	8591.5	10457.7	12698.1
PAT	**3427.0**	**4631.1**	**5779.3**	**7102.9**
Growth (%)	60%	35%	24.8%	22.9%
Gross NPA (%)	6.7	5.0	4.2	3.6
Net NPA (%)	1.0	0.7	0.9	0.7
NIM on Assets (%)	10.6	10.4	9.9	9.5
RoA (%)	4.6	4.9	4.8	4.6
RoE (%)	21.4	21.9	21.2	22.1
Divi. Payout Ratio (%)	7.5	10.0	12.5	15.0
EPS (Rs)	**35.7**	**45.2**	**56.4**	**69.3**
BV (Rs)	180.1	244.4	287.0	339.3
Adj. BV (Rs)	**171.5**	**237.2**	**275.5**	**326.6**
P/E (x)	**18.6**	**14.7**	**11.8**	**9.6**
P/ABV (x)	3.9	2.8	2.4	2.0

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)
23-Jan	Action Fin	Kedia Consultants Pvt Ltd	B	99,007	28.3
23-Jan	Aroma Ent	Bipin Harilal Gandhi	B	28,900	17.0
23-Jan	Arrow Securi	Gautam Resources Ltd	B	50,000	17.3
23-Jan	Arrow Securi	Aanir Shares Services	B	51,500	17.4
23-Jan	Arrow Securi	Premalsinh Punjaji Gol	S	61,500	17.4
23-Jan	Banas Finance	Pondurai Balaselvi	S	516,948	54.6
23-Jan	Capman Fin	Slogan Infotech Pvt Ltd	B	29,000	9.4
23-Jan	Capman Fin	Golden Medows Export Pvt Ltd	B	46,500	9.4
23-Jan	Dhvanil Chem	Ganesh Bhagoji Khaire	B	34,900	33.3
23-Jan	Esaar India	Kemfin Services Pvt Ltd	B	45,000	220.3
23-Jan	GK Consultants	Gulab Chand	B	40,000	14.5
23-Jan	Khodiyar Inds	Joshi Satyam S (HUF)	B	85,000	4.5
23-Jan	Khodiyar Inds	Devesh Shantilal Contractor	S	41,066	4.6
23-Jan	Koutons Retl	IFCI Ltd.	S	204,534	16.2
23-Jan	Krishna Deep	Superline Trading Company Pvt Ltd	B	43,950	67.9
23-Jan	Lumax Auto	India Max Investment Fund Ltd	B	82,441	148.0
23-Jan	Lumax Auto	Ravi Indrakumar Gupta	S	77,441	148.0
23-Jan	Mahaveer Info	Paras Mal Jain (Huf)	B	33,302	12.0
23-Jan	Max India	Reliance Capital Trustee Co A/C Reliance Growth Fund	B	1,749,433	155.0
23-Jan	Max India	Federated Global Investors	S	1,749,433	155.0
23-Jan	Midland Poly	Shree Bahubali International Ltd	B	35,000	47.2
23-Jan	Midland Poly	Meenu Ajmera	S	35,548	46.9
23-Jan	Niraj Cement	Mitaben Ashishbhai Desai	S	60,278	16.5
23-Jan	Pasupati Fin	Vipul Mohan Joshi	B	30,000	28.9
23-Jan	Pasupati Fin	Amit Krishnakant Thakker	S	30,000	28.7
23-Jan	Ranklin Sol-$	Anitha Maradani	S	30,000	11.4
23-Jan	Ranklin Sol-$	Venkatesh Vaddepally	S	31,972	11.4
23-Jan	Ranklin Sol-$	Prathap Reddy Nallagari	S	27,837	12.0
23-Jan	Raymed Labs	Rakesh Kumar Sharma	B	30,000	28.2
23-Jan	Raymed Labs	Fastcon Infrastructure Pvt Ltd	B	30,000	27.9
23-Jan	Saag Rr Infra	Sangam Agro Agencies Pvt Ltd	S	148,826	6.3
23-Jan	Sheetal Diam	Pankaj Vinod Shah	S	37,900	4.3
23-Jan	Vaishnavi	Gopala Krishna Bonam	B	178,399	7.7
23-Jan	Vaishnavi	Dharmendra Harilal Bhojak	S	100,000	7.3
23-Jan	Max India	Federated Kaufmann Fund	S	1,790,066	155.0

Source: BSE

Forthcoming events

Company/Market

Date	Event
24-Jan	Biocon, Ceat, Edelweiss Capital, Grasim Industries, Indiab power, Indiabulls Real Est, Indraprastha Gas, Kirloskar Bros, Lupin, Mangalore Ref, Yes Bank earnings expected
25-Jan	Alstom Proj, Asahi India, BEML, BoB, Deepak Fert, IRB Infra, JB Chemicals, Kirloskar Ind, MIRC Elect, Oracle Fin, Patni Computer, REC, Sesa Goa, Sterlite Tech, Tata Comm, Tata Global, Union Bank, Vijaya Bank earnings expected

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ITC Ltd	205	1.6	5.8	8.8
ICICI Bank	857	1.7	5.4	4.6
Bharti Airtel	352	2.9	3.9	3.0
Losers				
Reliance Ind	772	(2.7)	(11.7)	6.5
HDFC Bank	484	(1.3)	(3.9)	1.9
Sterlite Ind	108	(5.4)	(2.8)	8.2

Source: Bloomberg

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