# Economy News

- Gems and jewellery exports have fallen into the negative zone, down 15% year-on-year, to $3 billion in December due to poor demand from Europe and the US. (BS)
- Tea Board has recommended schemes worth Rs 30 bn for implementation during the 12th Plan beginning April 1 2012. (BL)
- With reviving demand, especially in the northern and western markets, the Indian cement industry is back on a double-digit growth trajectory posting 14 per cent growth (year-on-year) in dispatches in December 2011. (BS)
- The Union Ministry plans to set up a new body that will oversee telecom and cyber security to avoid overlap between various ministries and intelligence agencies that are currently handling this issue. (ET)
- India targets to increase trade with ASEAN (Association of Southeast Asian Nations) countries to $70 billion in 2012 from $50 bn in 2011. (ET)

# Corporate News

- **NTPC Ltd** is planning to take up another mega project in South along with the 4,000-MW Kudgi project in Karnataka, during the XII Plan itself instead of the XIII Plan. (BL)
- **Ramky Infrastructure Ltd.** through a step down subsidiary has signed a concession agreement with the National Highways Authority of India (NHAI) for Rs 1.03 bn road project (a toll way) in Karnataka. (BL)
- **Reliance Industries (RIL)** would begin work on development of four satellite fields-D-2, D-6, D-19 and D-22-in India's largest gas field, block D6 in the Krishna-Godavari basin, or KG-D6. (BS)
- **Larsen and Toubro (L&T)** is expecting a 10% growth in sales from its electrical and automation business in the next financial year. (BS)
- **Essar group** plans to ship coal from one of its mines in Indonesia which has an estimated reserves of 64 million tonnes (MT) to fuel its power projects in India. (BS)
- **Tata Power** is in talks to pick about 15% stake in MEC Coal, the Dubai-registered company that owns more than two billion tonnes of coal reserves in Indonesia. (ET)
- **Coal India** has decided to reduce prices of certain coal categories consumed mainly by power generators, cement and fertiliser units. (ET)
- **Godrej Consumer Ltd** had decided to sell a 4.9% stake to Baytree Investments, an arm of Singapore-based investment firm Temasek, to raise Rs 6.85 bn for acquisitions and reduce debts. (ET)
- **Videocon group** would sell a minority stake in Bharat Broadcasting Corporation which provides Direct to Home (DTH) television service under the Videocon D2H brand. (FE)
- With P&G getting set to launch either its Crest or Oral-B toothpaste brand in India, rivals **Colgate-Palmolive India**, the largest player with a 52% market share and **Hindustan Unilever (HUL)** are bracing up with new marketing and promotion plans. (FE)

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

## Equity

| | | % Chg | | |
|---|---|---|---|---|
| | 20 Jan 12 | 1 Day | 1 Mth | 3 Mths |
| **Indian Indices** | | | | |
| SENSEX Index | 16,739 | 0.6 | 6.4 | (0.3) |
| NIFTY Index | 5,049 | 0.6 | 7.1 | (0.0) |
| BANKEX Index | 10,912 | 3.5 | 14.5 | (1.6) |
| BSET Index | 5,500 | 0.1 | (3.1) | (0.5) |
| BSETCG INDEX | 9,807 | 0.7 | 20.2 | (7.1) |
| BSEOIL INDEX | 8,325 | 1.0 | 5.0 | (3.8) |
| CNXMcap Index | 6,803 | 0.8 | 9.9 | (2.9) |
| BSESMCAP INDEX | 6,277 | 0.1 | 11.8 | (8.0) |
| **World Indices** | | | | |
| Dow Jones | 12,720 | 0.8 | 3.5 | 7.7 |
| Nasdaq | 2,787 | (0.1) | 6.4 | 5.7 |
| FTSE | 5,729 | (0.2) | 3.9 | 4.4 |
| NIKKEI | 8,766 | 1.5 | 4.6 | 1.1 |
| HANGSENG | 19,943 | 1.3 | 8.0 | 11.6 |

## Value traded (Rs cr)

| | 20 Jan 12 | % Chg - Day |
|---|---|---|
| Cash BSE | 2,913 | 17.9 |
| Cash NSE | 13,694 | 17.7 |
| Derivatives | 146,944 | 28.6 |

## Net inflows (Rs cr)

| | 19 Jan 12 | % Chg | MTD | YTD |
|---|---|---|---|---|
| FII | 698 | (27.4) | 6,094 | 6,094 |
| Mutual Fund | 10 | (106.2) | (731) | (731) |

## FII open interest (Rs cr)

| | 19 Jan 12 | % Chg |
|---|---|---|
| FII Index Futures | 17,039 | 17.3 |
| FII Index Options | 40,135 | 4.0 |
| FII Stock Futures | 29,719 | 4.4 |
| FII Stock Options | 1,738 | 2.6 |

## Advances / Declines (BSE)

| 20 Jan 12 | A | B | S | Total | % total |
|---|---|---|---|---|---|
| Advances | 101 | 983 | 278 | 1,362 | 46 |
| Declines | 104 | 1,066 | 310 | 1,480 | 50 |
| Unchanged | 0 | 72 | 40 | 112 | 4 |

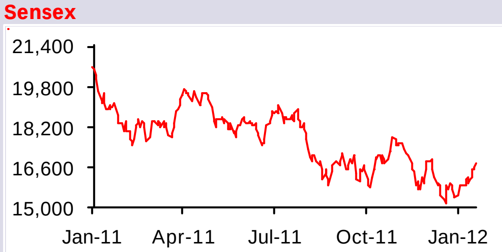
## Commodity

| | | % Chg | | |
|---|---|---|---|---|
| | 20 Jan 12 | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US$/BBL) | 98.0 | (0.4) | (1.7) | 12.1 |
| Gold (US$/OZ) | 1,663.3 | 0.6 | 3.9 | 1.9 |
| Silver (US$/OZ) | 31.5 | 3.4 | 10.7 | 3.7 |

## Debt / forex market

| | 20 Jan 12 | 1 Day | 1 Mth | 3 Mths |
|---|---|---|---|---|
| 10 yr G-Sec yield % | NA | NA | NA | NA |
| Re/US$ | 50.3 | 50.2 | 52.9 | 49.8 |

## Sensex



RESULT UPDATE

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# WIPRO TECHNOLOGIES

**PRICE: RS.413** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.438** **FY13E P/E: 13.7X**

**Wipro's 3QFY11 results were in line with expectations. The volume growth of 1.8% QoQ, was below our assumed levels. It was made up by the improvement in average realisations. The realisations improved by about 4% QoQ on the back of improved efficiencies in the fixed priced projects. In the previous quarter, realisations were lower due to lower efficiencies in FP projects. The revenue growth guidance for 4Q at 1% - 3% in USD terms is better than that given by Infosys. Wipro's volume growth has lagged peers in the recent past likely due to lower success in account mining. The recent organizational restructuring is complete and initial results are visible. We understand that, the same will yield results over the future quarters.**

**Broader management commentary suggests comfort with respect to CY12 budgets and increase in outsourcing / off-shoring. Discretionary spends are under stress in some sectors, we understand.**

**We modify earnings to account for the 3QFY12 results - expect FY12E EPS at Rs.22.9 (Rs.22.7). FY13E EPS is expected to be Rs.27 (Rs.25.7 earlier) helped by the recent rupee depreciation. We recommend ACCUMULATE (BUY earlier) rating with a price target of Rs.438 based on FY13E earnings (Rs.422 earlier). We prefer TCS and Infosys over Wipro and our exit multiple for Wipro is at a discount to peers. Higher success in driving incremental growth from large accounts, stability in average realisations and sustained higher margins may make us more positive on the company. Higher-than-expected appreciation in the INR and a slower-than-anticipated recovery in user economies pose downside risks to our estimates.**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 310,528 | 381,133 | 440,538 |
| Growth (%) | 14.5 | 22.7 | 15.6 |
| EBITDA | 65,835 | 75,809 | 87,956 |
| EBITDA margin (%) | 21.2 | 19.9 | 20.0 |
| PBT | 62,457 | 69,529 | 82,556 |
| Net profit | 52,743 | 55,881 | 65,632 |
| EPS (Rs) | 21.6 | 22.9 | 27.0 |
| Growth (%) | 15.2 | 5.8 | 17.9 |
| CEPS (Rs) | 25.0 | 27.0 | 31.6 |
| BV (Rs/share) | 97.7 | 114.1 | 134.1 |
| Dividend / share (Rs) | 4.0 | 5.0 | 6.0 |
| ROE (%) | 24.3 | 21.6 | 21.7 |
| ROCE (%) | 25.2 | 24.0 | 24.6 |
| Net cash (debt) | 82,962 | 139,068 | 199,300 |
| NW Capital (Days) | 83.8 | 90.2 | 85.8 |
| P/E (x) | 17.0 | 16.1 | 13.7 |
| P/BV (x) | 3.8 | 3.2 | 2.7 |
| EV/Sales (x) | 2.6 | 2.0 | 1.6 |
| EV/EBITDA (x) | 12.5 | 10.1 | 8.0 |

*Source: Company, Kotak Securities - Private Client Research*

**3QFY12 results**

| | 2QFY12 | 3QFY12 | QoQ (%) | 3QFY11 | YoY (%) |
|---|---|---|---|---|---|
| Turnover | 90,945 | 100,318 | 10.3 | 78,293 | 28.1 |
| Expenditure | 73,546 | 80,475 | | 61,860 | |
| **EBDITA** | **17,399** | **19,843** | **14.0** | **16,433** | **27.7** |
| Depreciation | 2,520 | 2,604 | | 2,078 | |
| **EBIT** | **14,879** | **17,239** | **15.9** | **14,355** | **20.1** |
| Interest | -863 | -1,132 | | -1,395 | |
| **PBT** | **15,742** | **18,371** | **16.7** | **15,750** | **16.6** |
| Tax | 2,841 | 3810 | | 2,582 | |
| **PAT** | **12,901** | **14,561** | **12.9** | **13,168** | **10.6** |
| Share of profit | 99 | 117 | | 160 | |
| EO Items | 0 | 0 | | 0 | |
| Minority interest | -10 | -114 | | -71 | |
| **Adjusted PAT** | **12,990** | **14,564** | **12.1** | **13,257** | **9.9** |
| **EPS (Rs)** | **5.29** | **5.93** | | **5.40** | |
| **Margins** | | | | | |
| EBIDTA(%) | 19.1 | 19.8 | | 21.0 | |
| EBIT (%) | 16.4 | 17.2 | | 18.3 | |
| Net Profit (%) | 14.2 | 14.5 | | 16.8 | |

*Source : Company*

## IT services

### Volume growth at 1.8%

- Wipro's IT Services revenues reported a 12% rise in INR terms. A large part of the growth came from the rupee depreciation. Revenues grew by 2.8% in USD terms.
- Volumes grew by about 1.8% QoQ. The volume growth was lower when compared to Infosys and TCS.
- The company has indicated that, it focused on improving efficiencies of the fixed priced projects. In 2Q, the company had deployed additional employees on FP projects which were getting completed. This had resulted in lower efficiency and higher volumes on these projects.
- This inefficiency was likely reversed in 3Q, in turn leading the lower growth.
- Wipro had been reporting lower growth in volumes vis-à-vis industry peers over the past few quarters.
- Wipro's volume growth in 2Q was either similar to or lower than the growth of its larger peers. For 3Q, Wipro's volume growth is lower than that of the larger peers.
- We believe that, the recent changes to the management and execution team had resulted in this relatively lower growth rate. However, we opine that, the initial benefits are reflecting on the numbers.
- The US geography continued to report traction and grew by 4% on a CC basis.

**Revenue break-up - Geography - wise**

| (Rs mn) | 2QFY12 | 3QFY12 | QoQ (%) | 3QFY11 | YoY (%) |
|---|---|---|---|---|---|
| USA | 33944.35 | 35307.97 | 4.02 | 32125.95 | 9.90 |
| Europe | 18317.14 | 19668.66 | 7.38 | 15229.65 | 29.15 |
| Japan | 704.51 | 887.82 | 26.02 | 862.06 | 2.99 |
| India & ME | 5764.13 | 6351.34 | 10.19 | 5114.86 | 24.17 |
| ROW | 5315.81 | 6078.16 | 14.34 | 4137.87 | 46.89 |

*Source : Company*

- Finance solutions vertical continued to report good growth with a 4.6% rise during 3Q. Focus verticals of healthcare and retail also reported health growth of 6.9% and 5.4%, respectively.
- While the company has witnessed some stress in the Investment Banking business, the overall spending trends in Insurance / Retail banking are strong. Regulatory space is also witnessing good traction.
- The telecom vertical, which has been reporting muted growth all across vendors, reported a 5% CC growth in 3Q (Media & Telecom vertical).
- The OEM space is challenged but the service providers space is seeing more spends in newer areas like cloud and mobility.

**Revenue break-up - Vertical - wise**

| (Rs mn) | 2QFY12 | 3QFY12 | QoQ (%) | 3QFY11 | YoY (%) |
|---|---|---|---|---|---|
| Global Media / Telecom | 10759.72 | 10722.15 | -0.35 | 9712.50 | 10.40 |
| Finance Solns | 17100.27 | 18507.66 | 8.23 | 15459.54 | 19.72 |
| Maft & Hitech | 12617.05 | 12975.85 | 2.84 | 12011.31 | 8.03 |
| Hcare, Life S, Sers | 6532.69 | 6692.81 | 2.45 | 6264.27 | 6.84 |
| Retail & Trans | 9606.89 | 10039.21 | 4.50 | 8907.91 | 12.70 |
| Energy & Util | 7429.33 | 9356.27 | 25.94 | 5114.86 | 82.92 |

*Source : Company*

- Volumes grew on the back of increased traction in the Top accounts. Revenues from the Top client grew by about 18% in INR terms and the Top 10 clients grew by 11% QoQ.
- We understand that, the account mining and execution focus on Wipro has started reflecting in these increased revenues from the Top accounts of the company. In 2Q, the Top 10 clients had reported 10% growth.
- Wipro has been increasingly focusing on its existing accounts and has re-aligned its sales teams to the focus verticals to effectively service large accounts.
- Wipro is witnessing higher traction in new service areas like business analytics, cloud and mobility. These form part of the focus themes for Wipro.

**Services mix**

| (Rs mn) | 2QFY12 | 3QFY12 | QoQ (%) | 3QFY11 | YoY (%) |
|---|---|---|---|---|---|
| Technology Infra Sers | 13897.97 | 15092.96 | 8.60 | 12126.25 | 24.47 |
| Analytics, Inf Mgt | 4098.94 | 4507.40 | 9.97 | 3333.28 | 35.22 |
| Busi Appli Sers | 19469.97 | 20829.65 | 6.98 | 17413.53 | 19.62 |
| BPO | 5956.27 | 6009.87 | 0.90 | 5632.10 | 6.71 |
| Product Engg &Mobi | 5315.81 | 5736.69 | 7.92 | 4999.92 | 14.74 |
| ADM | 15306.98 | 16117.37 | 5.29 | 13965.31 | 15.41 |

*Source : Company*

### Realisations up QoQ

- The average realizations were up by about 4% on a CC basis. This is a reversal from the steep fall witnessed in the previous quarter (down by 3.5% off-shore). 2Q was the second successive quarter of realization falls for Wipro.
- The management has indicated this to one-off factors. It has indicated that, the focus was more on improving the efficiencies of FP projects.
- In 2Q, the company had deployed more people in FP projects (as they were getting completed). This led to lower average realisations.
- In 3Q, the inefficiencies have been removed with effort optimization in FP projects and this has led to improvement in realisations.
- Like-to-like realisations have remained flat. We will watch the price - volume balance closely in the future quarters.
- Non-linear revenues at about 11% of overall revenues, are expected to provide some cushion to overall pricing in the future.

### Non-IT businesses

- Within the non-IT businesses, the revenues in Wipro Consumer Care and Lightning grew at about 26% YoY to Rs.8.8bn, while the IT products business reported a 2% rise.

## EBITDA margins - lower than expected

- EBITDA margins in 3QFY12 were higher on a sequential basis by about 50bps in IT services business, we believe.
- The company benefitted from currency depreciation. The benefit was only about 70bps despite a sharp depreciation of rupee. The company accounts for the hedging gains / losses in the revenues. Excluding these, gains would have been about 270bps QoQ.
- The company added 5,004 employees on a net basis during the quarter.
- The DSOs for the IT services business have improved further to 71 v/s 76 QoQ. The ratio has improved over two quarters after deteriorating over the past few quarters and is also much higher as compared to most industry peers.

## Guidance for 4QFY12 - better than Infosys

- Wipro has guided to a 1% - 3% sequential rise in USD revenues in IT services, largely on higher revenues. A part of this would account for the lower number of working hours in 3QFY12.
- However, the growth rate is higher than the guidance provided by Infosys.

## Valuations and recommendations

- We have made suitable changes to our earnings estimates to take into account the 3QFY12 results. For FY12, We expect and EPS of Rs.22.9.
- For FY13E, We expect IT services revenues to grow by about 15%. We have assumed rupee to average Rs.49 / USD for FY13E.
- Margins are expected to be largely flat as the impact of salary increments is expected to be set off by better utilization rates and cost optimization.

**We recommend ACCUMULATE on Wipro Technologies with a price target of Rs.438**

- We have assumed tax at 20.5% for FY13E. Consequently, PAT is expected to rise by 18% to Rs.65.6bn. EPS works out to Rs.27.
- We have accorded a discount to Wipro as compared to the valuations accorded to Infosys and TCS, noting the relatively lower margins, reduction in average realisations and a relatively subdued revenue growth profile.
- Noting the limited upside to our target price for Wipro based on FY13E earnings, we recommend ACCUMULATE with a price target of Rs.438 (Rs.422).
- Our exit multiple works out to 16.2x FY13E EPS.

## Risks and concerns

- A delayed recovery in major user economies and a sharper-than-expected appreciation of rupee remain the key risks for earnings.

RESULT UPDATE

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# NIIT LTD (NIIT)

**PRICE: RS.44** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.56** **FY13E P/E: 6.9X**

- **NIIT's 3QFY12 results were below expectations. Revenue growth in ILS and SLS were lower than our assumed levels. Also, margins in both these businesses fell sharply, which surprised us negatively. Investments towards cloud campus and 1-NIIT impacted profitability in ILS whereas, slower revenue growth impacted SLS profitability. In fact, this is the sixth successive quarter of disappointment in margins. Over the past few quarters, margins have been impacted by investments in new delivery models (ILS), in transitioning new projects (CLS) and in restructuring (SLS), we understand.**
- **Within businesses, the slowdown in IT services exports impacted ILS enrollments. On the other hand, discontinuance of some Government schools projects had an impact on SLS revenue growth. The management had indicated high growth in this business in 2HFY12.**
- **In CLS, NIIT has sold off its Element K business for $110mn. The net realization has been utilized for repaying about $62mn of debt. This has improved the balance sheet strength. NIIT has now identified four growth drivers in Cloud Campus (ILS), Managed Training Services (MTS), N Guru (SLS) and Skill Building Solutions. The company is also focused on improving the return ratios, which have been unimpressive till date.**
- **NIIT's performance has been below par for several quarters now. The fall in margins has been more disappointing. To that extent, we have moderated our margins expectations for FY13. An increased demand for learning should support future growth of NIIT in the medium-to-long term, we opine. However, we will closely watch the margin performance in FY13. On the other hand, the company has focused on improving the balance sheet strength and the return rations. The company has net cash of Rs.700mn now. After incorporating 3QFY12 earnings, our FY12 EPS estimate stands at Rs.6.6 (including one-off gains from EK sale) and FY13 EPS at Rs.6.4. We maintain BUY but with a reduced PT of Rs.56 (v/s Rs.63 earlier), which will discount our FY13E EPS by 9x. A slower-than-expected global recovery and a sharper-than-expected rupee appreciation may impact growth rates.**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 12,481 | 12,267 | 12,081 |
| Growth (%) | 4.1 | -1.7 | -1.5 |
| EBITDA | 1,594 | 1,474 | 1,716 |
| EBITDA margin (%) | 12.8 | 12.0 | 14.2 |
| PBT | 558 | 2,108 | 636 |
| Net profit | 922 | 1,109 | 1,062 |
| EPS (Rs) | 5.6 | 6.6 | 6.4 |
| Growth (%) | 30.9 | 18.9 | (4.2) |
| CEPS (Rs) | 10.8 | 12.0 | 13.4 |
| Book value (Rs/share) | 34.3 | 38.3 | 42.6 |
| Dividend per share (Rs) | 1.6 | 2.0 | 2.0 |
| ROE (%) | 17.2 | 18.4 | 15.7 |
| ROCE (%) | 9.6 | 27.8 | 9.4 |
| Net cash (debt) | (2,649) | 730 | 2,573 |
| NW Capital (Days) | 42.9 | 43.4 | 39.6 |
| P/E (x) | 7.9 | 6.6 | 6.9 |
| P/BV (x) | 1.3 | 1.1 | 1.0 |
| EV/Sales (x) | 0.8 | 0.5 | 0.4 |
| EV/EBITDA (x) | 6.3 | 4.5 | 2.8 |

*Source: Company, Kotak Securities - Private Client Research*

**3QFY12 results**

| (Rs.mn) | 2QFY12 | 3QFY12 | QoQ (%) | 3QFY11 | YoY (%) |
|---|---|---|---|---|---|
| **Income** | **3838** | **2501** | **-34.8** | **3007** | **-16.8** |
| Expenditure | 3278 | 2250 | | 2637 | |
| **EBIDTA** | **560** | **251** | **-55.2** | **370** | **-32.2** |
| Depreciation | 250 | 200 | | 222 | |
| **EBIT** | **310** | **51** | **-83.5** | **148** | **-65.5** |
| Interest | 81 | 0 | | 90 | |
| Other Income | -11 | 1652 | | 7 | |
| **PBT** | **218** | **1703** | **681.2** | **65** | **2520.0** |
| Tax | 21 | 1450 | | 41 | |
| **PAT** | **197** | **253** | | **24** | |
| Share of profit | 105 | 154 | | 105 | |
| **Adjusted PAT** | **302** | **407** | **34.8** | **129** | **215.5** |
| Shares (mns) | 167.0 | 167.0 | | 165.1 | |
| **EPS (Rs)** | **1.8** | **2.4** | | **0.8** | |
| EBIDTA (%) | 14.6 | 10.0 | | 12.3 | |
| EBIT (%) | 8.1 | 2.0 | | 4.9 | |
| Net Profit (%) | 5.1 | 10.1 | | 0.8 | |

*Source : Company*

## ILS

- ILS revenues grew by 11%, which was below our estimates.
- According to the company, the slowdown in the IT services exports industry impacted the YoY growth. The hiring demand from the IT services company has come off and this impacted sentiments, we understand. The enrollments were relatively lower, which were also impacted by the seasonality of the quarter.
- The adoption of the One NIIT model and cloud campus had impacted revenue growth for the quarter, we believe.

**Growth in ILS revenues**

| | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | 1QFY12 | 2QFY12 | 3QFY12 |
|---|---|---|---|---|---|---|---|
| Revenues (Rs mns) | 1018.40 | 1611.00 | 1198.00 | 1338.43 | 1178.00 | 1802.00 | 1327.00 |
| YoY growth (%) | 12.41 | 17.25 | 13.55 | 8.29 | 15.67 | 11.86 | 10.77 |

*Source : Company*

- NIIT is now focusing on the One NIIT model and sees Cloud Campus as the next growth area for this business. The company has invested significantly in building the Cloud infrastructure which also impacted margins during the quarter.
- The Cloud Campus program has been rolled out in more than 190 centres and already has more than 11000 enrollments.
- NIIT 1-world has been rolled out in 40 centres already, which are now providing all courses.

## CLS

- CLS volumes fell by 44% YoY, but that was due to the divestiture of the EK business. On a continuing business, revenues grew by 34% YoY.
- The company was positively impacted by the currency fluctuations, which gave additional benefit of Rs.69mn during the quarter.
- NIIT has transferred Element K business to SkillSoft, with which it already has had business relationship. This is with a view to focus more on Managed Training Services.
- NIIT will now cater to the outsourcing needs of SkillSoft, we understand.
- The subsidiary has been sold off at $110mn. It had revenues of $86mn in FY11 with a marginal PAT of about $2.86mn, we believe.
- The company made a post-tax profit of about $34.5mn on the deal. Tax was $23.9mn.
- The company has repaid debt of $62mn from the proceeds and now has net cash of Rs.700mn. The repayment of debt has imparted strength to the balance sheet.
- After transferring the Element K business, the company has been left with about 1/3rd of the overall revenues in CLS. Of this, more than 60% is contributed by Managed Training Services (MTS), which is once again growing at a very fast pace.

## SLS

- SLS reported flat YoY growth for the quarter. On a QoQ basis, revenues fell by about 9%.
- Some of the Government schools contracts ended during the quarter and this impacted the growth rates for the quarter.
- The company has been focusing on the private schools and added about 123 non-Government schools during the quarter. YTD, the company has added 429 private schools. .
- The non-Government schools business contributed about 47% of the SLS business during the quarter.
- The company witnessed continuing momentum in IP based orders. N Guru, the company's offering in the private schools business is gaining increasing acceptance, as is reflected in the additional schools bookings.
- The company now has pending order book of Rs.4.55bn, of which 30% is executable in the next 12 months.

## Margins lower

- Margins for the quarter were lower by about 227bps on a YoY basis. This was disappointing. In fact, NIIT's margins have disappointed us for the past six quarters.
- This fall was largely due to the ILS business. Margins in ILS fell due to the additional investment made in Cloud Campus and in the 1-NIIT program. The company is setting up the infrastructure for providing Cloud Campus facilities across its centres, which will allow it to implement the One NIIT program across centres. These investments are expected to keep margins subdued in the near term.
- Relatively lower enrollments also impacted margins.
- Margins were also impacted by investments in the skills building initiative, which the company has started with the joint venture - NIIT Yuva Jyoti Ltd - with National Skills Development Council (NSDC). NSDC will hold 10% equity in NYJL, which aims to train 7 million students in 1,500 centres across 1,000 cities over 10 years
- Margins in SLS also were lower as some schools contracts ended.
- CLS margins were positively impacted by the rupee depreciation.

## Future prospects

- We expect the growth in individual learning business (including new businesses) to be at about 13% in FY13.
- CLS business is expected to de-grow by about 24% in FY13, largely due to the discontinuance of the EK business.
- SLS is expected to report an 11% growth on the back of the scale up in private schools business.
- We have assumed margins to improve (YoY basis) on the back of better capacity utilization, higher volumes and better leverage on costs. Improved margins in the CLS business post EK should also help improve margins.
- However, salary increments and currency impact may set off a part of this impact.
- After accounting for its 25.7% share in NIIT Technologies' profits, we expect the net profit to be at Rs.1.06n in FY13E.

## Valuations

- We maintain our BUY with a PT of Rs.56, which will discount our FY13E earnings by 9x. We have reduced target valuations because of disappointing margin performance.
- We will accord higher valuations to the stock after we see signs of improvement in margins.
- The company now has net cash of Rs.700mn in the balance sheet.

## Concerns

**We maintain BUY rating on NIIT with a revised price target of Rs.56**

- A slower-than-expected recovery in the global economy could impact revenue growth of NIIT.
- Steep rupee appreciation v/s major global currencies may impact the financials of NIIT.

RESULT UPDATE

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# ULTRATECH CEMENTS

**PRICE: RS.1211** | **RECOMMENDATION: ACCUMULATE**

**TARGET PRICE: RS.1241** | **FY13E P/E: 15.1X**

**Result overview: Revenue growth of the company was boosted by improvement in cement prices as well as volume growth on a sequential basis. Costs remained high during the quarter but higher cement prices led to margin improvement on sequential and yearly basis. We tweak our estimates slightly and continue to maintain ACCUMULATE on the stock with a revised price target of Rs 1241 on FY13 estimates (Rs 1174 earlier).**

- **Company's revenues for Q3FY12 were marginally better than our estimates. Revenues improved by 17% QoQ basis and 23% YoY led by improvement in cement realizations.**
- **Operating margin for Q3FY12 also witnessed an improvement due to higher prices. Margins stood at 21.1% for Q3FY12 as compared to 19.1% seen during Q3FY11 and 14.9% seen during Q2FY12.**
- **Net profit performance was boosted by better than expected revenue growth and higher other income due to subsidy payment related to earlier years in terms of State Investment Promotion Scheme.**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 132,099 | 175,223 | 201,297 |
| Growth (%) | 87 | 33 | 15 |
| EBITDA | 25,424 | 35,323 | 42,740 |
| EBITDA margin (%) | 19.2 | 20.2 | 21.2 |
| PBT | 17,862 | 26,381 | 30,949 |
| Net profit | 14,042 | 18,730 | 21,974 |
| EPS (Rs) | 51.2 | 68.3 | 80.2 |
| Growth (%) | | 33 | 17 |
| CEPS(Rs) | 79.2 | 101.4 | 117.6 |
| BV (Rs/share) | 389.2 | 450.6 | 523.8 |
| Dividend / share(Rs) | 6.0 | 6.0 | 6.0 |
| ROE (%) | 18.4 | 16.3 | 16.5 |
| ROCE (%) | 19.6 | 18.7 | 19.4 |
| Net cash (debt) | (2,695) | (1,725) | 871 |
| NW Capital (Days) | 24.2 | 24.2 | 24.2 |
| EV/Sales (x) | 2.5 | 1.9 | 1.8 |
| EV/EBITDA (x) | 13.2 | 9.4 | 8.4 |
| P/E (x) | 23.6 | 17.7 | 15.1 |
| P/BV (x) | 3.1 | 2.7 | 2.3 |

*Source: Company, Kotak Securities - Private Client Research*

**Financial highlights**

| (Rs mn) | Q3FY12 | Q3FY11 | YoY (%) |
|---|---|---|---|
| **Net Sales** | **45,719** | **37,152** | **23.1** |
| Expenditure | 36,069 | 30,074 | |
| Inc/Dec in trade | -215 | -174 | |
| RM | 6,080 | 5,037 | |
| As a % of net sales | 13.3 | 13.6 | |
| Purchase of finished goods | 448 | 279 | |
| As a % of net sales | 1.0 | 0.8 | |
| Staff cost | 2,226 | 1,876 | |
| As a % of net sales | 4.9 | 5.0 | |
| Power and fuel | 11,186 | 8,959 | |
| As a % of net sales | 24.5 | 24.1 | |
| Transportation & Handling | 8,403 | 7,285 | |
| As a % of net sales | 18.4 | 19.6 | |
| Other expenditure | 7,942 | 6,813 | |
| As a % of net sales | 17.4 | 18.3 | |
| Operating Profit | 9,649 | 7,078 | 36 |
| Operating Profit Margin | 21.1 | 19.1 | |
| Depreciation | 2,236 | 2,191 | |
| **EBIT** | **7,413** | **4,887** | **52** |
| Interest | 295 | 818 | |
| EBT(exc other income) | 7,118 | 4,069 | |
| Other Income | 1,554 | 606 | |
| **EBT** | **8,672** | **4,675** | **85** |
| Tax | 2,503 | 1,486 | |
| Tax Rate (%) | 28.9 | 31.8 | |
| **PAT** | **6,169** | **3,190** | |
| Net Profit | 6,169 | 3,190 | 93 |
| NPM (%) | 13.5% | 8.6% | |
| Equity Capital | 2,740.5 | 2,740.2 | |
| **EPS (Rs)** | **22.5** | **11.6** | |

*Source: Company*

- **After correcting sharply during Q2FY12, cement prices improved significantly during Oct-Nov, 2011 but started witnessing correction from Dec, 2011 onwards. Price hikes planned during January, 2012 by cement producers have not been passed through to the end users, thus average realizations for Q4FY12 may be lower than Q3FY12.**
- **Stock is currently trading at 15.1x P/E and 8.4x EV/EBITDA on FY13 estimates. We tweak our estimates slightly and continue to maintain ACCUMULATE on the stock with a revised price target of Rs 1241 on FY13 estimates (Rs 1174 earlier).**

## Revenue growth led by improvement in cement prices

- Company's revenues for Q3FY12 were marginally better than our estimates. Revenues improved by 17% QoQ basis and 23% YoY led by improvement in cement realizations.
- Domestic grey cement and clinker sales volume stood at 9.72MT during Q3FY12 as against 8.94MT during Q2FY12. Export cement volumes stood at 0.17MT (@ $55 per tonne) and clinker export volumes stood at approximately 0.22MT (@ $45 per tonne).
- Including white cement, wall care putty and RMC revenues, cement realizations for the company stood at Rs 4703 per tonne during Q3FY12 as against Rs 4373 per tonne during Q2FY12. Adjusted grey cement realizations stood at Rs 4476 per tonne and pure domestic grey cement realizations would stand at approximately Rs 4370 per tonne during Q3FY12.
- Cement prices had witnessed a sharp improvement during Oct and Nov 2011 while prices started correcting in Dec, 2011. During Jan, 2012, prices continue to stay weak in northern region due to extreme winters while remained largely stable in southern, eastern and western regions. Dealers are finding it quite difficult to pass the planned price hikes during Jan, 2012. We thus expect average cement realizations during Q4FY12 to remain lower than Q3FY12.
- Company has a capital outlay for Rs 110 bn to be spent over next three years which would be spent on clinkerisation plants at Chattisgarh and Karnataka along with additional grinding units, waste heat recovery systems and setting up bulk packaging terminals. These new capacities are likely to get operational by Q1FY14. This will increase company's capacity by nearly 9.2 MT, taking it to a total capacity of 59MT.
- We expect cement dispatches of 41.2 MT and 45.6MT for FY12 and FY13 respectively for the company. We marginally tweak our realization assumption upwards for the full year FY12. Correspondingly, we expect revenues to be Rs 175 bn and Rs 201 bn for FY12 and FY13 respectively.

## Operating margins better than our expectations

- Operating margin for Q3FY12 witnessed an improvement due to better realizations. Margins stood at 21.1% for Q3FY12 as compared to 19.1% seen during Q3FY11 and 14.9% seen during Q2FY12
- Overall costs per tonne have remained largely stable on a sequential basis. Freight cost and power and fuel cost continue to stay high. Imported coal prices witnessed a correction during Q3FY12. However, corresponding rupee depreciation set off the decline in the coal prices. Going forward, company expects power and fuel cost to rise up further if change in pricing mechanism by Coal India from Useful Heat Value(UHV) to Gross Calorific Value(GCV) is implemented.
- We tweak our estimates for realizations and expect EBITDA/tonne of Rs 893 and Rs 991 for FY12 and FY13 respectively.

### Net profit growth led by improvement in operational performance and higher other income

- Net profit performance was boosted by better than expected revenue growth and higher other income.
- Other operating income jumped up during Q3FY12 due to subsidy payment related to earlier years in terms of State Investment Promotion Scheme to the tune of Rs 666 mn. Interest outgo also witnessed a decline during Q3FY12 since it is net of the subsidy of Rs 384 mn (for Q3FY12) in terms of State Investment Promotion Scheme
- We tweak our estimates and expect net profits to be Rs 18.7 bn and Rs 21.9 bn for FY12 and FY13 respectively.

**We continue to maintain ACCUMULATE on Ultratech Cements with a revised price target of Rs.1241**

### Valuation and recommendation

- Stock is currently trading at 15.1x P/E and 8.4x EV/EBITDA on FY13 estimates.
- We tweak our estimates slightly and continue to maintain **ACCUMULATE** on the stock with a revised price target of Rs 1241 on FY13 estimates (Rs 1174 earlier).

RESULT UPDATE

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# BAJAJ AUTO LIMITED (BAL)

**PRICE: RS.1561** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.1632** **FY13E P/E: 13X**

- **BAL 3QFY12 results remained ahead of estimates. Strong export realizations helped the company post 21% EBITDA margin which was better than anticipated. Adjusted for MTM losses, company net profit remained healthy.**
- **During the quarter, the company gained from the sharp rupee depreciation and the same was visible in the robust EBITDA margin posted by the company.**
- **Company expects the domestic motorcycle demand to remain soft in the near term but is extremely confident on the export and 3W sales. Strong export and 3W volumes should more than compensate the slackening domestic 2W demand.**
- **BAL has planned for three new motorcycle launches over the next few months which we believe will give some impetus to domestic sales in FY13.**
- **Given subdued domestic 2W demand, we are slightly lowering our FY12 and FY13 volume estimates. On the other hand, in view of weak rupee we are increasing our EBITDA margin estimates. Our revised net profit estimates stands lower by 2% for FY13 and almost similar for FY12 as against our earlier estimates.**
- **Due to 2% lowering of FY13 earnings estimate, we lower our price target to Rs1,632 (earlier Rs1,666) and continue to maintain our ACCUMULATE rating for the stock.**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 166,089 | 198,809 | 224,294 |
| Growth (%) | 39.3 | 19.7 | 12.8 |
| EBITDA | 33,849 | 40,058 | 44,288 |
| EBITDA margin (%) | 20.4 | 20.1 | 19.7 |
| PBT | 43,508 | 40,169 | 45,594 |
| Net profit | 26,152 | 30,990 | 33,740 |
| Adjusted EPS (Rs) | 90 | 107 | 117 |
| Growth (%) | 43.3 | 18.5 | 8.9 |
| CEPS (Rs) | 120 | 108 | 122 |
| Book value (Rs/share) | 170 | 250 | 343 |
| Dividend per share (Rs) | 40 | 20 | 20 |
| ROE (%) | 66.7 | 51.1 | 39.3 |
| ROCE (%) | 93.0 | 65.0 | 51.7 |
| Net cash (debt) | 39,700 | 55,069 | 75,588 |
| NW Capital (Days) | (18) | (15) | (15) |
| P/E (x) | 17.3 | 14.6 | 13.4 |
| P/BV (x) | 9.2 | 6.2 | 4.6 |
| EV/Sales (x) | 2.5 | 2.0 | 1.7 |
| EV/EBITDA (x) | 12.2 | 9.9 | 8.5 |

*Source: Company, Kotak Securities - Private Client Research*

**Quarterly performance**

| Rs mn | 3QFY12 | 3QFY11 | YoY% | 2QFY12 | QoQ% |
|---|---|---|---|---|---|
| **Total Revenues** | **50,632** | **41,771** | **21.2** | **52,673** | **(3.9)** |
| Total expenditure | 40,018 | 33,278 | 20.3 | 42,099 | (4.9) |
| RM consumed | 35,636 | 29,826 | 19.5 | 37,616 | (5.3) |
| Employee cost | 1,320 | 1,066 | 23.9 | 1,311 | 0.7 |
| Other expenses | 3,061 | 2,386 | 28.3 | 3,173 | (3.5) |
| **EBITDA** | **10,614** | **8,493** | **25.0** | **10,574** | **0.4** |
| EBITDA margin (%) | 21.0 | 20.3 | - | 20.1 | - |
| Depreciation | 321 | 310 | 3.6 | 394 | (18.5) |
| Interest cost | 0 | 4 | (94.4) | 202 | (99.9) |
| Other Income | 908 | 995 | (8.7) | 745 | 21.9 |
| Extraordinary income/ (loss) | (589) | | - | (954) | - |
| **PBT** | **10,612** | **9,174** | **15.7** | **9,768** | **8.6** |
| PBT margins (%) | 21.0 | 22.0 | | 18.5 | |
| Tax | 2,660 | 2,503 | 6.3 | 2,510 | 6.0 |
| Tax rate (%) | 25.1 | 27.3 | - | 25.7 | - |
| Reported PAT | 7,952 | 6,671 | 19.2 | 7,258 | 9.6 |
| PAT margins (%) | 15.7 | 16.0 | - | 13.8 | - |
| **Adjusted PAT** | **8,346** | **6,671** | **25.1** | **7,898** | **5.7** |
| Adjusted EPS (Rs) | 28.8 | 23.1 | 25.1 | 27.3 | 5.7 |
| **Volume data** | | | | | |
| 2W | 946,749 | 838,487 | 12.9 | 1,027,357 | (7.8) |
| 3W | 128,692 | 108,363 | 18.8 | 136,780 | (5.9) |
| **Total Volumes** | **1,075,441** | **946,850** | **13.6** | **1,164,137** | **(7.6)** |
| Exports out of the above | 380,912 | 296,644 | 28.4 | 424,134 | (10.2) |
| Net Realization (Rs) | 45,004 | 42,543 | 5.8 | 43,350 | 3.8 |
| RM cost per vehicle (Rs) | 33,136 | 31,500 | 5.2 | 32,312 | 2.6 |

*Source: Company*

## Revenues jump by 21% YoY

- BAL reported a 21% jump in revenues that increased from Rs41,771mn in 3QFY11 to Rs50,632mn for the quarter under consideration.
- Growth in revenue came from 13.6% volume increase and 5.8% higher realization.
- Sequentially revenues declined by 4% on back of 7.6% drop in volumes.
- Sharp 10% QoQ increase in export realization was one of the key highlight of 3QFY12 results and that remained the prime reason for results coming ahead of our estimates.
- Increase in export realization was on account of higher dollar realization and price increase in the export market due to expiry of DEPB scheme. Average dollar rate realized during the quarter stood at Rs49.4 as against Rs47.8 in 2QFY12. Further due to replacement of the DEPB scheme (benefit of 9%) with duty drawback scheme (benefit of 5.5%), the company took a 3.5% price hike in the export markets during the quarter. Further 1% focused market scheme benefit and another 1% special bonus scheme by the government led to significant increase in export realization.
- Realization in the domestic market increased by 1.2% YoY and 0.6% QoQ.
- Company expects domestic industry 2W volumes to slow down to 5-6% in 4QFY12. For FY13, the company expects a gradual increase in demand over the period.
- BAL is planning to launch three new motorcycles over the next few months. Launches are expected from the KTM, Pulsar and the Discover brand. We believe this to help the company motorcycle volumes in the domestic market.
- Company remains extremely bullish on its export volumes and expects that a volume growth rate similar to FY12 can be achieved in FY13. On the 3W market demand, the company expects to clock decent volumes without considering opening of new permits.
- Recent steep increase in petrol prices in Nigeria could pose some concern to the export volumes which happens to be the biggest market for the company's Boxer brand. Recently the government there increased the petrol prices from $1.7 a gallon to $3.5 a gallon which was later rolled back partially to settle at $2.27 a gallon.
- For FY13, we have factored in a 10.8% volume growth for BAL. We believe new launches, strong export and steady 3W volumes to play a crucial role in the otherwise dull domestic 2W demand.

## Weak rupee helps company post strong EBITDA margin

- BAL's EBITDA during the quarter increased from Rs8,493mn in 3QFY11 to Rs10,614mn in 3QFY12, a growth of 25%. Sequentially though EBITDA growth remained almost flat.
- Strong export realization helped the company post 21% EBITDA margin as against EBITDA margin of 20.3% and 20.1% posted during 3QFY11 and 2FY12 respectively.
- Going ahead, given slightly weak domestic demand and strengthening rupee will make it difficult to sustain the current margin level for the company. For FY13, we expect EBITDA margin at 19.7%.

## Adjusted PAT grows at a healthy pace

- BAL reported an adjusted PAT of Rs8,346mn, a strong 25% growth over 3QFY11 profit of Rs6,671mn.
- Sequential drop in depreciation and interest cost coupled with 22% rise in other income led to 5.7% sequential growth in adjusted PAT despite almost flat growth in EBITDA.

## Other highlights

- During the quarter the company posted Rs589mn towards MTM losses on the derivative transaction. FY12 YTD loss on this aspect stands at Rs1,542mn. Company expects the same to reverse over the tenure of the contract.
- In 3QFY12, the company received a show cause notice of Rs779mn on payment of NCCD over sale from its Pantnagar facility. Company has filed a writ petition against the same and has not made any provision relating to the said event.
- Cash and cash equivalents at the end of 3QFY12 stood at Rs47,580mn as against Rs45,160mn as of 2QFY12.

## Change in estimates and valuations

- Given subdued domestic 2W demand we are slightly lowering our FY12 and FY13 volume estimates. On the other hand' in view of weak rupee we are increasing our EBITDA margin estimates. Our revised net profit estimates stands lower by 2% for FY13 and almost similar for FY12 as against our earlier estimates.

**Change in estimates**

| | FY12 | | | FY13 | | |
|---|---|---|---|---|---|---|
| (Rs mn) | Old | New | % chg | Old | New | % chg |
| Volumes | 4.5 | 4.4 | -2.4 | 4.9 | 4.8 | -1.7 |
| Revenues | 200,820 | 198,809 | -1.0 | 222,531 | 224,294 | 0.8 |
| EBITDA margin (%) | 19.4 | 20.1 | - | 19.3 | 19.7 | - |
| Adjusted PAT | 31,077 | 30,990 | -0.3 | 34,442 | 33,740 | -2.0 |

*Source: Kotak Securities - Private Client Research*

**We maintain ACCUMULATE rating on Bajaj Auto with a revised price target of Rs.1632**

- Company's diversified product mix and healthy contribution from exports gives us comfort against the slowing 2W domestic demand.
- Due to 2% lowering of FY13 earnings estimate, we lower our price target to Rs1,632 (earlier Rs1,666) but continue to maintain our **ACCUMULATE** rating for the stock.

**RESULT UPDATE**

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# HERO MOTOCORP (HMC)

**PRICE: RS.1947** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.1900** **FY13E P/E: 14X**

- **HMC's 3QFY12 results came in slightly below expectation. While revenues remained in line, lower than expected EBITDA margin led to 3% deviation in net profits. Profits during the quarter were aided to some extent by lower tax rate.**
- **During the quarter the company dispatched 1.59mn units, their highest ever for any quarter. Realizations remained similar to that achieved during 2QFY12.**
- **EBITDA margin was a bit of disappointment led by significant jump in employee cost coupled with marginal increase in input cost. Further, strong yen led to a higher royalty outflow during the quarter.**
- **Volumes in the domestic 2W space have been bit a subdued over the past couple of months and the same is expected to continue in the near term. On the back of company's strong brands, new launches and increased focus on the export market, we have factored in a 12% volume growth assumption for FY13E.**
- **We are slightly changing our FY12 and FY13 estimates for the company. While we are marginally lowering our volumes estimates; increase in margin assumption and lowering of tax rates will lead towards increase in net profit from our earlier estimates.**
- **On account of increase in our FY13 net profit estimates, we are increasing our target price on the stock to Rs1,900 (earlier Rs1,838). We retain our REDUCE rating on the stock.**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 194,012 | 235,620 | 268,418 |
| Growth (%) | 22.5 | 21.4 | 13.9 |
| EBITDA | 26,164 | 36,412 | 41,149 |
| EBITDA margin (%) | 13.5 | 15.5 | 15.3 |
| PBT | 24,846 | 28,717 | 32,693 |
| Net profit | 20,077 | 24,103 | 27,101 |
| EPS (Rs) | 96.5 | 120.7 | 135.7 |
| Growth (%) | (13.6) | 25.0 | 12.4 |
| CEPS (Rs) | 116.7 | 134.6 | 153.7 |
| BV (Rs/share) | 148.0 | 189.3 | 266.5 |
| Dividend /share (Rs) | 105.0 | 50.0 | 50.0 |
| ROE (%) | 60.0 | 71.6 | 59.5 |
| ROCE (%) | 76.2 | 84.6 | 71.6 |
| Net cash (debt) | 47,903 | 34,438 | 44,562 |
| NW Capital (Days) | (8) | (8) | (8) |
| P/E (x) | 20.2 | 16.1 | 14.3 |
| P/BV (x) | 13.2 | 10.3 | 7.3 |
| EV/Sales (x) | 1.8 | 1.5 | 1.3 |
| EV/EBITDA (x) | 13.0 | 9.7 | 8.4 |

*Source: Company, Kotak Securities - Private Client Research*

**Quarterly performance**

| (Rs mn) | 3QFY12 | 3QFY11 | YoY (%) | 2QFY12 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenues** | **60,315** | **51,617** | **16.9** | **58,293** | **3.5** |
| Total expenditure | 53,145 | 45,851 | 15.9 | 51,176 | 3.8 |
| RM consumed | 43,948 | 38,149 | 15.2 | 42,237 | 4.0 |
| Employee cost | 1,993 | 1,561 | 27.7 | 1,794 | 11.1 |
| Other expenses | 7,203 | 6,141 | 17.3 | 7,145 | 0.8 |
| **EBITDA** | **7,170** | **5,766** | **24.4** | **7,117** | **0.7** |
| EBITDA margin (%) | 11.9 | 11.2 | - | 12.2 | - |
| Depreciation | 727 | 560 | 29.8 | 715 | 1.6 |
| Interest cost | (32) | (52) | (39.1) | (45) | (29.2) |
| Other Income | 763 | 620 | 23.0 | 798 | (4.4) |
| Exceptional item | - | (798) | - | | - |
| **PBT** | **7,238** | **5,080** | **42.5** | **7,245** | **(0.1)** |
| PBT margins (%) | 12.0 | 9.8 | | 12.4 | |
| Tax | 1,108 | 790 | 40.2 | 1,208 | (8.3) |
| Tax rate (%) | 15.3 | 15.6 | - | 16.7 | - |
| **Reported PAT** | **6,130** | **4,290** | **42.9** | **6,036** | **1.6** |
| PAT margins (%) | 10.2 | 8.3 | - | 10.4 | - |
| Reported EPS (Rs) | 30.7 | 21.5 | 42.9 | 30.2 | 1.6 |
| **Volumes (nos)** | **1,589,286** | **1,428,030** | **11.3** | **1,544,315** | **2.9** |
| Net Realization (Rs) | 37,649 | 35,841 | 5.0 | 37,456 | 0.5 |
| RM cost per vehicle (Rs) | 27,653 | 26,714 | 3.5 | 27,350 | 1.1 |

*Source: Company*

## Revenues grow by a healthy 17% during the quarter

- HMC's revenues in 3QFY12 increased from Rs51,617mn in 3QFY11 to Rs60,315mn, a growth of 17%. Volumes during the same period increased from 11.3% whereas blended realizations were up by 5%.
- Sequentially revenues were up by 3.5% led by 3% volume growth and marginal increase of 0.5% in realizations.
- HMC's domestic volumes have been relatively strong during the current financial year easily outperforming the competitors. However with a bit of slowdown setting in the domestic 2W demand, we expect the growth rate to taper off in 4QFY12. Company is expecting a 10-12% industry growth in 4QFY12.
- HMC expects industry growth rate in FY13 to be in double digits. Company plans to launch around 7-8 new products/refreshes every year.
- For FY13, we have factored in 12% volume growth for company on account of new launches, entry into new export markets and strong brands in the domestic markets.
- Company is increasing production capacity to 7mn units by the end of March 2012 sufficient to achieve our 12% volume growth target.

## EBITDA margins comes in below expectations

- HMC's EBITDA margin in 3QFY12 came in below expectation even though it reported improvement over 3QFY11.
- EBITDA margin for the quarter came in at 11.9% as against 11.2% reported during 3QFY11 helped by increase in prices taken over the past 12 months.
- Lower than expected margins during the quarter were on account of increase in employee cost and marginally higher than expected raw material cost.
- Raw material cost per vehicle was higher 1% sequentially as against expectation of marginal decline.
- Employee cost jumped 27.7% YoY and was up by 11.1% QoQ. During August 2011 the company had signed a new wage agreement with the union and the full impact of that came in during the current quarter.
- Strong Yen led to higher royalty amortization during the quarter.
- For HMC, raw material imports form 15-17% (direct and indirect) of the overall raw material cost. While the direct raw material imports (1.5-2%) is dollar denominated, indirect raw material imports (14-15%) are both yen and dollar denominate. HMC compensates the vendors against unfavourable forex movement with a lag of 3-6 months.
- We are increasing our margin estimates to factor in softness visible in raw material prices.

## PAT receives help from lower tax rate

- HMC's net profit for the quarter stood at Rs6,130mn as gainst our expectations of Rs6,317mn.
- HMC' net profits were up by 43% on a lower 3QFY11 base. During 3QFY11 the company provided for Rs.790 mn towards probable claims arising out of litigations and disputes pending with the statutory authorities.
- Tax rate for the quarter stood at 15.3% that was lower than expectations and the management has indicated towards similar tax rate going into 4QFY12.

## Change in estimates and Valuations

- We are revising HMC's volume estimates marginally downwards for FY12 and FY13. However, in view of softening raw material cost, we are increasing our EBITDA margin estimates. Further the company has indicated for tax rate to remain lower going ahead. Accordingly our revised PAT estimates now stands at Rs24,103mn and Rs27,101mn for FY12 and FY13 respectively.

### Change in estimates

| | FY12 | | | FY13 | | |
|---|---|---|---|---|---|---|
| (Rs mn) | Old | New | % chg | Old | New | % chg |
| Volumes (mn units) | 6.3 | 6.3 | -1.4 | 7.0 | 7.0 | -0.3 |
| Revenues | 237,146 | 235,620 | -0.6 | 269,244 | 268,418 | -0.3 |
| EBITDA | 35,147 | 36,412 | 3.6 | 40,729 | 41,149 | 1.0 |
| PAT | 22,367 | 24,103 | 7.8 | 26,220 | 27,101 | 3.4 |

*Source: Kotak Securities - Private Client Research*

**We retain our REDUCE rating on Hero Motocorp with a revised price target of Rs.1900**

- Current environment for 2W demand remains a bit sluggish. New launches in the next one year will heat up competition in the deluxe motorcycle space. However, on the back of company's strong brands, new launches and increased focus on the export market, we have factored in a 12% volume growth assumption for FY13E. Lack of clarity on R&D activities continues to exist for HMC.
- At the CMP of Rs1,947 the stock is trading at 16.1x and 14.3x its expected FY12 and FY13 earnings respectively. We have raised our target price to Rs1,900 (from Rs1,838) but continue with **REDUCE** rating on the stock.

RESULT UPDATE

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# AXIS BANK

**PRICE: RS.1008** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.1230** **FY13E P/E: 8.7X, P/ABV: 1.6X**

**Q3FY12 results: Core earnings better than expectations. CASA and NIM remained healthy; however, slippage remained at the elevated levels.**

- **Axis bank reported strong net interest income growth (23.5% YoY) on back of healthy loan growth (20.4% YoY) and flat NIM (3.75% in Q3FY12; 3 bps QoQ decline). Its net profit grew 23.7% YoY mainly aided by strong core performance and robust fee income growth (26.3% YoY).**
- **CASA mix remained healthy at ~42% while NIM surprised positively. NIM remained flat at 3.75% during Q3FY12, well above the upper band of guided range of 3.5%. With no sequential uptick in PSL portfolio along with higher yield on investment book, blended yield remained robust. At the same time, funding cost largely remained constant which helped the bank in delivering strong NIM no for Q3FY12.**
- **Core fee income grew at 26.3% YoY (9.1% QoQ) during Q3FY12, indicating revival in the fee income growth (4th quarter in a row after couple of sluggish quarters). Operating expense also seems to have stabilized and is likely to remain at the current levels.**
- **Although asset quality remained stable in percentage terms, slippage came on higher side (Rs.5.35 bn; 150bps annualized slippage ratio). The bank has restructured Rs.2.95 bn during Q3FY12 and now its cumulative restructured book stands at Rs.27.0 bn (~1.9% of net advances).**
- **Slippages inched up during last two quarters on back of stress on its SMEs, mid-corporate and agri portfolio which translated into higher credit costs (79bps: Q2FY12, 94bps: Q3FY12). Management has guided us the credit costs to be in the range of 75-80bps, going forward. We are modeling healthy earnings which is likely to grow at 18.3% CAGR during FY11-13E and strong return ratios (RoE: ~20%, RoA: ~1.5%) during FY12-13E. We are maintaining BUY rating on the stock with unchanged TP of Rs.1230 based on P/ABV of 2.0x its FY13E adjusted book value.**

**Result Performance**

| (Rs mn) | Q3FY12 | Q3FY11 | YoY (%) |
|---|---|---|---|
| Interest on advances | 39,635.6 | 26,005.5 | 52.4 |
| Interest on Investment | 17,752.3 | 11,668.3 | 52.1 |
| Interest on RBI/ banks' balances | 154.7 | 481.8 | -67.9 |
| Other interest | 227.0 | 227.5 | -0.2 |
| **Total interest earned** | **57,769.6** | **38,383.1** | **50.5** |
| Interest expense | 36,366.6 | 21,051.9 | 72.7 |
| **Net interest income** | **21403.0** | **17331.2** | **23.5** |
| Other income | 14,298.1 | 11,477.1 | 24.6 |
| Operating Revenue (NII + Other income) | 35,701.1 | 28,808.3 | 23.9 |
| **Operating Expenses** | **15,109.1** | **12,223.5** | **23.6** |
| Payments to / Provisions for employees | 5,420.4 | 3,961.6 | 36.8 |
| Other operating expenses | 9,688.7 | 8,261.9 | 17.3 |
| Operating Profit Before Prov. & Cont. | 20,592.0 | 16,584.8 | 24.2 |
| Provisions & contingencies | 4,223.3 | 3,138.8 | 34.6 |
| Provision for taxes | 5,346.0 | 4,532.4 | 18.0 |
| **Net profit** | **11,022.7** | **8,913.6** | **23.7** |
| **EPS (Rs)** | **26.72** | **21.44** | **24.6** |

*Source: Company*

## Q3FY12 earnings up 23.7%, better than our expectations; strong fee-income also aided the strong bottom-line growth

Axis bank reported strong net interest income growth (23.5% YoY) to Rs.21.4 bn in Q3FY12 on back of healthy loan growth (20.4% YoY) and flat NIM (3.75% in Q3FY12; 3 bps QoQ decline).

Its net profit grew 23.7% YoY to Rs.11.03 bn in Q3FY12 mainly aided by strong core performance and robust fee income growth (26.3% YoY). Core fee income grew at 26.3% YoY (9.1% QoQ) during Q3FY12, indicating revival in the fee income growth (4th quarter in a row after couple of sluggish quarters). We are modeling fee-based income to grow at a CAGR of 18.8% during FY11-13 as against 51.9% CAGR achieved during FY04-11. Operating expense also seems to have stabilized and is likely to remain at the current levels.

## Business growth moderates; CASA remained healthy while NIM surprised positively

The bank's balance sheet grew 30.3% YoY at the end of Q3FY12 largely on back of faster growth in Investment book (51.4% YoY; 6.2% QoQ) as compared to the loan book (20.4% YoY; 6.2% QoQ).

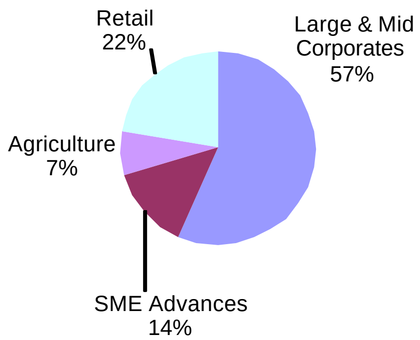
Retail book saw the robust growth (32.0% YoY; 13.4% QoQ); while SMEs and corporate segments grew at 21.3% and 19.2%, respectively. Agri book remained flat (0.8% QoQ); we expect it to pick-up during Q4FY12 to meet the PSL obligation.

**Trend in Advances**

| (Rs bn) | 3Q 2011 | 4Q 2011 | 1Q 2012 | 2Q 2012 | 3Q 2011 | YoY Gr (%) | QoQ Gr (%) |
|---|---|---|---|---|---|---|---|
| Large & Mid Corporate | 705.2 | 759.2 | 703.2 | 793.9 | 840.8 | 19.2% | 5.9% |
| SME Advances | 170.5 | 214.1 | 198.3 | 207.6 | 206.9 | 21.3% | -0.3% |
| Agriculture | 107.8 | 173.2 | 147.2 | 106.2 | 107.0 | -0.7% | 0.8% |
| Retail | 252.0 | 277.6 | 270.2 | 293.3 | 332.6 | 32.0% | 13.4% |
| Total Advances (Rs. Bn) | 1,235.5 | 1,424.1 | 1,319.0 | 1,400.9 | 1,487.4 | 20.4% | 6.2% |

*Source: Company*

**Breakup of Advances (Q3FY12)**



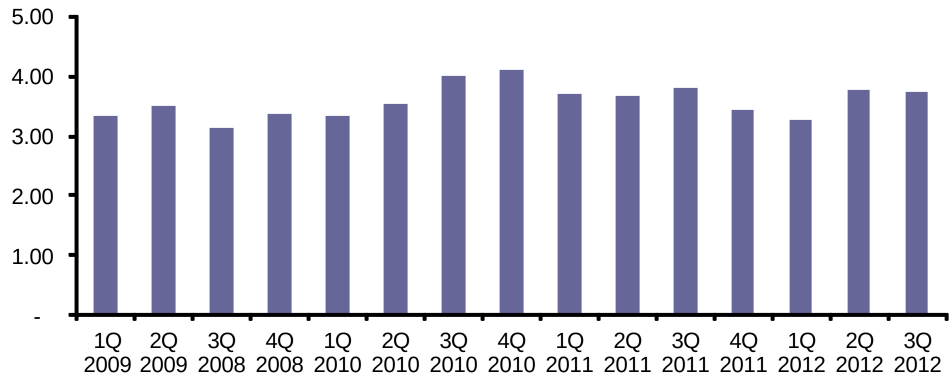

*Source: Company*

During the same period, deposits grew 33.9% YoY to Rs.2086.9 bn at the end of Q3FY12. CASA deposits grew 31.6% YoY, largely due to strong traction in current account float. Saving deposits grew 20.9% YoY while growth was subdued QoQ (1.1%). Strong term deposit mobilization (35.7% YoY) led to marginal drop in CASA share to 41.6% at the end of Q3FY12 as compared to 42.3% at the end of Q3FY11 and 42.2% at the end of Q2FY12.

NIM during Q3FY12 surprised positively which remained flat at 3.75% (3bps decline QoQ), well above the upper band of guided range of 3.5%. With no sequential uptick in PSL portfolio along with higher yield on investment book, blended yield remained robust. At the same time, funding cost largely remained constant which helped the bank in delivering strong NIM for Q3FY12. Stable funding cost is reflecting that not much re-pricing is left on the wholesale book while healthy CASA mix also helped in containing the cost.

We are modeling NIM to stay at ~3.5% during FY12 (NIM at 3.62% during 9MFY12) and at ~3.3% during FY13E as compared to 3.65% witnessed during FY11.

**Trends in NIM (%)**




*Source: Company*

## Asset quality remained stable in percentage terms; however, slippage came on higher side (Rs.5.35 bn; 150bps annualized slippage ratio)

Although asset quality remained stable in percentage terms, slippage came on higher side (Rs.5.35 bn; 150bps annualized slippage ratio). Slippages inched up during last two quarters on back of stress on its SMEs, mid-corporate and agri portfolio which translated into higher credit costs (79bps: Q2FY12, 94bps: Q3FY12). Management has guided us the credit costs to be in the range of 75-80bps, going forward.

In percentage terms, gross and net NPAs remained stable at 1.10% and 0.39%, respectively at the end of Q3FY12. However, perceived risk has amplified with high exposure to infrastructure and other stressed sectors.

**Trends in asset quality**

| NPA (Rs. Bn) | Q1 FY11 | Q2 FY11 | Q3 FY11 | Q4 FY11 | Q1 FY12 | Q2 FY12 | Q3 FY12 |
|---|---|---|---|---|---|---|---|
| Gross NPA | 13.41 | 13.62 | 14.83 | 15.99 | 15.73 | 17.44 | 19.15 |
| % of Gross Advances | 1.13 | 1.12 | 1.09 | 1.01 | 1.06 | 1.08 | 1.10 |
| Net NPA | 4.13 | 4.09 | 3.86 | 4.10 | 4.62 | 5.49 | 6.83 |
| % of Net Advances | 0.35 | 0.34 | 0.29 | 0.26 | 0.31 | 0.34 | 0.39 |
| Provision Coverage Ratio (%) | 69.2% | 70.0% | 74.0% | 80.9% | 80.0% | 77.7% | 75.3% |

*Source: Company*

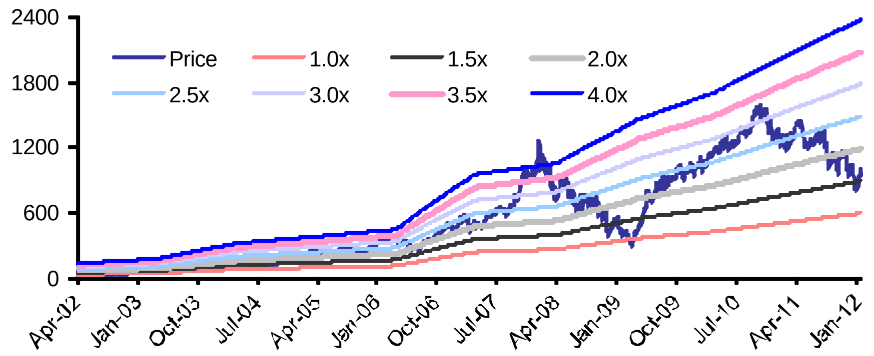
On back of higher provisions, coverage ratio is also healthy at 75.3% (including prudential write-offs it is 87.7%) at the end of Q3FY12. The bank has restructured Rs.2.95 bn during Q3FY12 and now its cumulative restructured book stands at Rs.27.0 bn (~1.9% of net advances).

## Valuations & recommendation

At the current market price of Rs.1008, the stock is trading at 8.7x its FY13E earnings and 1.6x its FY13E ABV. Although there are concerns like high exposure to infrastructure and other stressed sectors which might come in the way of stock performance in near-term, stock is currently available at a significant discount to its historical average. Hence, we advise our clients to look at this opportunity with medium to long term horizon.

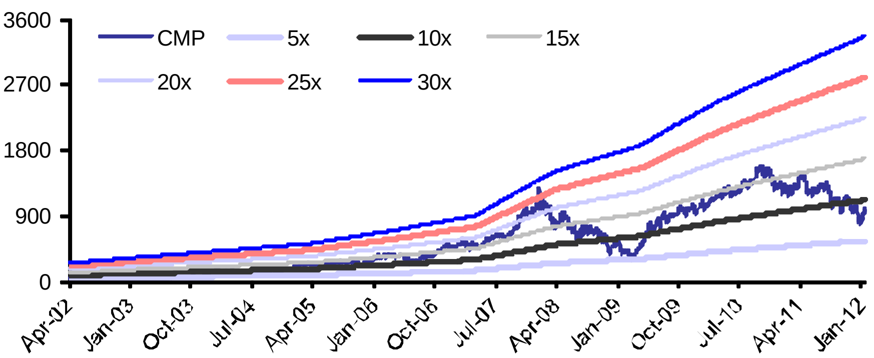
We are modeling healthy earnings which is likely to grow at 18.3% CAGR during FY11-13E and strong return ratios (RoE: ~20%, RoA: ~1.5%) during FY12-13E. We are maintaining **BUY** rating on the stock with unchanged TP of Rs.1230 based on P/ABV of 2.0x its FY13E adjusted book value.

### 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*

**Key data**

| (Rs bn) | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|
| Interest income | 116.38 | 151.55 | 221.20 | 258.18 |
| Interest expense | 66.34 | 85.92 | 140.73 | 165.65 |
| **Net interest income** | **50.04** | **65.63** | **80.47** | **92.53** |
| Growth (%) | 35.8% | 31.1% | 22.6% | 15.0% |
| | | | | |
| Other income | 39.46 | 46.32 | 53.55 | 62.67 |
| Gross profit | 52.41 | 64.16 | 75.40 | 85.42 |
| **Net profit** | **25.15** | **33.88** | **40.75** | **47.40** |
| Growth (%) | 38.5% | 34.8% | 20.3% | 16.3% |
| | | | | |
| Gross NPA (%) | 1.1 | 1.0 | 1.3 | 1.3 |
| Net NPA (%) | 0.4 | 0.3 | 0.4 | 0.4 |
| Net interest margin (%) | 3.8 | 3.7 | 3.5 | 3.3 |
| CAR (%) | 15.8 | 12.7 | 12.8 | 12.5 |
| RoE (%) | 20.2 | 20.4 | 20.3 | 19.7 |
| RoA (%) | 1.53 | 1.60 | 1.53 | 1.50 |
| Dividend per share (Rs) | 12.0 | 14.0 | 16.0 | 18.0 |
| | | | | |
| **EPS (Rs)** | **62.1** | **82.5** | **99.3** | **115.5** |
| **Adjusted BVPS (Rs)** | **363.4** | **428.4** | **522.2** | **613.5** |
| | | | | |
| **P/E (x)** | **16.2** | **12.2** | **10.2** | **8.7** |
| **P/ABV (x)** | **2.8** | **2.4** | **1.9** | **1.6** |

*Source: Company, Kotak Securities - Private Client Research*

RESULT UPDATE

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# ITC LTD

**PRICE: RS.201** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.220** **FY13E P/E: 22.4X**

- **ITC reported in-line operating financials for 3QFY12. The company reported Rs 61.9Bn in sales (est: Rs 62.4 Bn), Rs 23.3Bn EBITDA (est: Rs 23.2Bn), broadly in line with our estimates. PAT came in at Rs 17.0 Bn, 7% higher than our estimates, on account of stronger other (financial) income.**
- **Key disappointment of the result was the cigarette volume growth, which has likely softened to 4%-5% for 3QFY12, following 7%-8% y/y growth in the second quarter. Even so, net sales growth in cigarettes came in at 16.6% (gross sales growth of 11%, excise growth of 4% y/y), on account of stronger pricing as well as better product mix. Key positive of the results was the continued improvement in non-cigarette FMCG margins which came in at -3.4% - non-cigarette FMCGs losses have declined to Rs 466mn for the quarter.**
- **We believe higher prices, as well as a stronger base (1.5% volume growth in 3QFY11, in our understanding), would largely explain ITC's comparatively weaker volumes in the quarter. We expect cigarette volumes to pick up in the next quarter, which has a weaker base (4QFY11 was a negative growth quarter).**
- **We continue to hold a positive stance on ITC's prospects on account of: 1/ leading position in cigarette market in India, 2/ demonstrated pricing power and margin growth in cigarettes, 3/ improving prospects of non-cigarette FMCG products, 4/ defensive nature of the company on account of addictive nature of key product and high gross margins of the same.**
- **Union Budget remains the key event to watch for. Given strong valuations for ITC at present, we believe the overhang of the budget could provide better entry opportunities. We would be buyers of the stock into declines of 5-7%. Maintain ACCUMULATE, Price target Rs 220 (unchanged).**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 211,676 | 243,664 | 284,837 |
| Growth (%) | 16.6 | 15.1 | 16.9 |
| EBITDA | 71,534 | 88,628 | 103,542 |
| EBITDA margin (%) | 23.4 | 24.8 | 25.2 |
| PBT | 72,682 | 87,925 | 103,024 |
| Net profit | 49,876 | 59,789 | 69,541 |
| EPS (Rs) | 6.4 | 7.7 | 9.0 |
| Growth (%) | 21.2 | 19.9 | 16.3 |
| CEPS (Rs) | 7.3 | 8.7 | 10.1 |
| BV (Rs/share) | 19.9 | 23.1 | 26.9 |
| Dividend / share (Rs) | 4.5 | 3.9 | 4.5 |
| ROE (%) | 33.8 | 35.9 | 36.0 |
| ROCE (%) | 25.4 | 29.2 | 30.0 |
| Net cash (debt) | 4,878 | 10,185 | 28,024 |
| NW Capital (Days) | 120 | 135 | 156 |
| P/E (x) | 31.2 | 26.0 | 22.4 |
| P/BV (x) | 10.1 | 8.7 | 7.5 |
| EV/Sales (x) | 7.3 | 6.3 | 5.4 |
| EV/EBITDA (x) | 21.7 | 17.4 | 14.8 |

*Source: Company, Kotak Securities - Private Client Research*

**3QFY12 - Quarter Highlights**

| Rsmn, FY Ends Mar | Q3FY10 | Q4FY10 | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | Q3 FY12 |
|---|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **45319** | **50538** | **48166** | **50612** | **54535** | **58363** | **57675** | **59742** | **61954** |
| - o/w Cigarettes | 23316 | 24530 | 24836 | 25501 | 27726 | 27673 | 28736 | 29681 | 32328 |
| - o/w Non-Cigarette FMCG | 8896 | 11227 | 10014 | 10556 | 11021 | 13125 | 11978 | 13407 | 13707 |
| - o/w Hotels | 2477 | 2562 | 2099 | 2089 | 2816 | 3003 | 2305 | 2111 | 2787 |
| - o/w Agri Business | 9052 | 9881 | 13498 | 13498 | 10667 | 10818 | 17071 | 14345 | 11394 |
| - o/w Paper and Paperboard | 8118 | 8030 | 7937 | 9192 | 8773 | 9170 | 9596 | 10054 | 9784 |
| **Expenses** | | | | | | | | | |
| - Raw Material Expenses | 18223 | 21785 | 17911 | 18532 | 20478 | 24576 | 22992 | 23191 | 21725 |
| Gross Profit | 27096 | 28753 | 30255 | 32080 | 34057 | 33787 | 34682 | 36550 | 40229 |
| Gross Margins | 59.8% | 56.9% | 62.8% | 63.4% | 62.4% | 57.9% | 60.1% | 61.2% | 64.9% |
| - Employee Expenses | 2228 | 2558 | 3419 | 2612 | 2773 | 2790 | 3942 | 2650 | 2981 |
| - Other Expenses | 8275 | 10793 | 10772 | 11579 | 11593 | 13106 | 11906 | 12821 | 13962 |
| **EBITDA** | **16593** | **15401** | **16064** | **17889** | **19690** | **17891** | **18834** | **21080** | **23286** |
| Margin | 36.6% | 30.5% | 33.4% | 35.3% | 36.1% | 30.7% | 32.7% | 35.3% | 37.6% |
| Depreciation | 1549 | 1539 | 1597 | 1540 | 1681 | 1642 | 1665 | 1701 | 1739 |
| **EBIT** | **15045** | **13863** | **14467** | **16349** | **18009** | **16249** | **17169** | **19378** | **21547** |
| Other Income | 2074 | 1370 | 1292 | 2105 | 2533 | 2259 | 2366 | 2918 | 3375 |
| Interest Expenses | 109 | 185 | 58 | 54 | 230 | 140 | 165 | 142 | 157 |
| **PBT** | **17010** | **15048** | **15701** | **18400** | **20313** | **18368** | **19370** | **22155** | **24766** |
| Provision for Tax | 5569 | 4766 | 4998 | 5833 | 6422 | 5553 | 6043 | 7012 | 7757 |
| **PAT** | **11442** | **10282** | **10703** | **12567** | **13891** | **12815** | **13327** | **15143** | **17009** |

*Source: Company Reports*

ITC reported net sales growth of 14.75% y/y, slightly weaker than our expectations. Segment-wise, net sales of cigarettes grew 16.6%, non-cigarettes FMCGs grew 24.4%, hotels de-grew 1.0%, agri-businesses grew 6.8%, and paper and paperboards saw growth of 11.5% (all comparisons in the report would be y/y).

Growth in cigarettes (11% y/y growth in gross sales) was led by realizations, which grew 6-6.5% y/y in the quarter, while the balance came from volume growth (4-5%, in line with growth in excise). We note that ITC has taken price hikes across several brands, including Capstan, Wills Navy Cut in the past quarter; which, in addition to price hikes taken in several brands earlier, has led to a strong growth in pricing, even after accounting for higher VAT in the year. With product mix roughly constant y/y, this has led to a 16.6% growth in net sales.

The company has continued to show strong growth in the non-cigarette FMCG space, on account of strong growth in volumes as well as pricing (premiumisation). The release indicates that the company has registered strong growth across categories. Growth in hotels has been weak on account of a weaker global economy and decline in foreign tourist arrivals, in our understanding.

ITC's gross margins, at 64.9%, are the strongest in 28 quarters, which explains the 0.3ppt) surprise on EBITDA margins. Other Income, including other operating income (includes export benefits, duty drawbacks), grew 33% y/y, and is the prime reason for positive PAT surprise. Other income has largely grown on account of other financial income, which grew 47.7% y/y.

The company has reported strong profitability across segments, a summary of which is provided in the table below:

**3QFY12: Segment Highlights**

| Rsmn, FY Ends Mar | Q3FY10 | Q4FY10 | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | Q3 FY12 |
|---|---|---|---|---|---|---|---|---|---|
| **Segmental Profit** | **16056** | **14779** | **15658** | **18572** | **18805** | **17958** | **19358** | **22449** | **22653** |
| - o/w Cigarettes | 13098 | 12512 | 13050 | 14582 | 15330 | 14706 | 15767 | 17289 | 18442 |
| - o/w Non-Cigarette FMCG | -860 | -787 | -893 | -889 | -736 | -678 | -763 | -559 | -466 |
| - o/w Hotels | 763 | 782 | 385 | 399 | 886 | 996 | 513 | 434 | 1017 |
| - o/w Agri Business | 1041 | 583 | 1231 | 2024 | 1411 | 998 | 1571 | 2388 | 1417 |
| - o/w Paper and Paperboard | 2014 | 1688 | 1885 | 2456 | 1914 | 1937 | 2270 | 2897 | 2243 |
| **Segment Profitability, % (PBIT/ Gross Sales)** | | | | | | | | | |
| Cigarettes | 29.6 | 27.7 | 27.9 | 30.3 | 29.3 | 28.8 | 29.9 | 31.5 | 31.7 |
| Non-Cigarette FMCG | -9.6 | -7.0 | -8.9 | -8.4 | -6.7 | -5.2 | -6.4 | -4.2 | -3.4 |
| Hotels | 28.8 | 28.5 | 17.1 | 17.7 | 29.2 | 30.7 | 20.3 | 18.5 | 32. |
| Agri-Business | 11.5 | 5.9 | 9.1 | 16.2 | 13.2 | 9.2 | 9.2 | 16.6 | 12.4 |
| Paper and Paperboard | 23.8 | 20.2 | 22.7 | 25.6 | 20.9 | 20.1 | 22.4 | 27.5 | 21.8 |

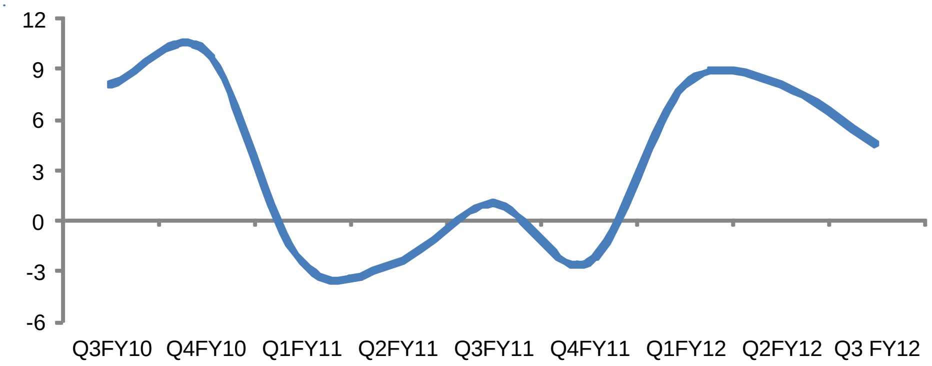
*Source: Company Reports*

We note that: 1/ profitability in cigarettes has reached a fresh high in the quarter on the back of improved realizations and likely benefits of lower tobacco costs, 2/ non-cigarette FMCGs losses have declined substantially toRs 466mn, 3/ the company's focus in cost reduction has led to significant improvement in margins of hotel businesses of the company, 4/ the company has managed its margins in paper and paperboards in the face of rising fibre costs.

## Outlook

ITC continues to exercise strong pricing power in its core segment (cigarettes), maintaining strong visibility in profits of the segment as well as the company as a whole (cigarettes still contribute 81% to segment EBIT). Although the softness in volume growth in this quarter is a cause for some concern, we believe a weaker base in 4QFY12 would (other things being equal) bring volume growth on track.

**ITC Cigarettes Volume Growth (%, y/y), Quarterly Trends**



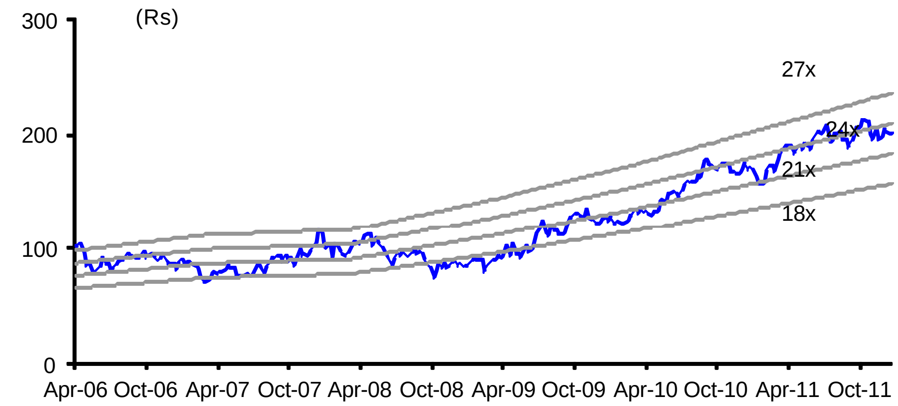

*Source: Kotak Securities- Private Client Research (Estimates)*

Another significant sales growth engine of the company, that is, non-cigarette FMCG business, continues to perform strongly. The business is showing strong signs of turning to profits by FY13-end, even as ITC continues to introduce product extensions, and launching of new products. The paper and hotel segments of the company shall benefit from capacity additions in FY13. WE believe the agri-business has stabilized post certain product mix changes made by the company.

Overall, we believe the earnings of the company are on a steady path, with fears of a severe excise duty hike in the upcoming Union budget being the only hitch.

ITC is trading at valuations of 23x NTM PER, which we believe still leaves some scope for fear-led correction before/ after the budget. We note that over the past five years, ITC has historically provided opportunities of cheaper opportunities (17x-21x NTM PER) of entry. We think the multiple should contract a turn or two (21x-22x NTM PER) in the coming weeks. We maintain an ACCUMULATE stance on the stock, with a view to buy on declines of 5-7% from CMP.

**ITC Band Chart (NTM PER)**




*Source: Bloomberg, 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) |
|---|---|---|---|---|---|
| 20-Jan | Arrow Securi | Advance India Shares & Sec | B | 40,000 | 17.3 |
| 20-Jan | Arrow Securi | Aanir Shares Services | B | 54,000 | 17.4 |
| 20-Jan | Arrow Securi | Anuj Garg | S | 40,000 | 17.3 |
| 20-Jan | Arrow Securi | Dineshkumar Haribhai Patel | S | 52,500 | 17.4 |
| 20-Jan | Ashram Online | Vandana Jain | S | 76,000 | 2.7 |
| 20-Jan | Asia Hr Tech | Kunal Zaverilal Dedhia | B | 50,000 | 5.6 |
| 20-Jan | Asia Hr Tech | M Saraswathy | S | 100,000 | 5.6 |
| 20-Jan | Chokhani Sec | R R Chokhani | B | 225,000 | 9.8 |
| 20-Jan | Chokhani Sec | Chokhani Financial & Investment | S | 225,000 | 9.8 |
| 20-Jan | Dazzel Conf | Sarwankumar Devidutt Saraf | B | 750,000 | 3.6 |
| 20-Jan | Dazzel Conf | Nareshkumar Kishanlal Saraf | B | 750,000 | 3.6 |
| 20-Jan | Dhvanil Chem | Dharmendra Ghanshyambhai M | B | 40,000 | 32.2 |
| 20-Jan | Dhvanil Chem | Ganesh Bhagoji Khaire | S | 34,100 | 32.1 |
| 20-Jan | Diamant | Rajesh Jayantilal Khandhar | B | 425,000 | 9.1 |
| 20-Jan | IFL Promoters | Advance India Shares & Securities | B | 150,000 | 5.3 |
| 20-Jan | IFL Promoters | Anuj Garg | S | 150,000 | 5.3 |
| 20-Jan | Kanchan Intl | Dharmendra Harilal Bhojak | B | 27,975 | 66.6 |
| 20-Jan | Kanchan Intl | Anuj Gupta | S | 21,000 | 66.9 |
| 20-Jan | Ken Fin Serv | Ramesh Krishna Kulaye | S | 19,300 | 90.5 |
| 20-Jan | Koutons Retl | IFCI Ltd. | S | 364,035 | 17.8 |
| 20-Jan | Max India | Reliance Capital Trustee Co A/C Reliance Growth Fund | B | 3,498,404 | 155.0 |
| 20-Jan | Max India | Federated Global Inv Mgt Corp A/C Federated International Small-M | S | 2,507,279 | 155.0 |
| 20-Jan | Midland Poly | Shree Bahubali International Ltd | B | 50,000 | 46.5 |
| 20-Jan | Midland Poly | Tamkore Investment Pvt Ltd | B | 50,000 | 46.5 |
| 20-Jan | Midland Poly | Sharada Commerce Pvt Ltd | B | 50,000 | 46.5 |
| 20-Jan | Midland Poly | Samayak Sales Pvt Ltd | B | 48,050 | 46.5 |
| 20-Jan | Midland Poly | Deora Finance Pvt Ltd | B | 25,000 | 46.5 |
| 20-Jan | Midland Poly | Lakhotia And Sons | B | 100,000 | 46.5 |
| 20-Jan | Midland Poly | Sulochana Devi Budhia | B | 30,000 | 46.5 |
| 20-Jan | Midland Poly | Mukut Behari Agarwal | S | 80,000 | 46.5 |
| 20-Jan | Midland Poly | Anurag Agarwal | S | 55,000 | 46.5 |
| 20-Jan | Midland Poly | Atul Jain | S | 100,000 | 46.5 |
| 20-Jan | Parichay Invest | Keerti Gupta | S | 6,200 | 33.7 |
| 20-Jan | Parichay Invest | Rohitji Gandaji Parmar | S | 8,610 | 33.7 |
| 20-Jan | Pasupati Fin | Amit Krishnakant Thakker | B | 30,000 | 27.4 |
| 20-Jan | Prabhav Inds | Lifecode Mercantile Privatelimited | B | 300,000 | 4.5 |
| 20-Jan | Refex Refr | Streamline Shipping Co Pvt Ltd | S | 88,063 | 8.1 |
| 20-Jan | Shreeyash | Bliss Investment Consultancy | B | 30,000 | 28.0 |
| 20-Jan | SP Capital | Amit Sampathraj Shah | S | 35,800 | 59.9 |
| 20-Jan | Spectacle | Jigar Praful Ghoghari | S | 453,000 | 4.9 |
| 20-Jan | Sterling Bio | Bp Fintrade Pvt Ltd | S | 1,752,713 | 12.9 |
| 20-Jan | Sybly Inds-$ | Bampsl Securities Ltd | S | 2,491,614 | 0.2 |
| 20-Jan | Unimers India | Ahinsa Merchandise Pvt Ltd | B | 376,623 | 9.1 |
| 20-Jan | Unimers India | Athena Advisory Services Pvt Ltd | S | 379,123 | 9.1 |
| 20-Jan | Vaishnavi | Gopala Krishna Bonam | S | 86,000 | 7.6 |

*Source: BSE*

## Forthcoming events

**Company/Market**

| Date | Event |
|---|---|
| 23-Jan | Colgate Palmolive, Coromandel Intl, Electrosteel Casting, Federal Bank, Gail India, Geometric, Idea Cellular, Kotak Mahindra Bank, L&T, Lakshmi Mach, Maruti Suzuki, Shree Cement, Sterlite Ind, Torrent Pharma earnings expected |
| 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** | | | | |
| ICICI Bank | 842 | 5.7 | 17.2 | 9.7 |
| AXIS Bank | 1,009 | 5.7 | 4.6 | 4.9 |
| Bajaj Auto | 1,561 | 6.4 | 4.1 | 2.2 |
| **Losers** | | | | |
| ITC | 201 | (3.8) | (14.0) | 17.2 |
| M&M | 657 | (2.4) | (2.4) | 4.8 |
| Dr Reddy Lab | 1,645 | (3.2) | (2.3) | 0.4 |

*Source: Bloomberg*

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## Disclaimer



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