

Exide Industries

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Top-line growth was muted mainly on account of slower growth in the automotive OEM segment and lower demand for inverter batteries during the quarter. The current valuation seems stretched, given the earnings CAGR of 13.4% for FY11-FY13E period. Hence, we downgrade our rating to **'Reduce'** from **'Accumulate'** earlier.

Q1FY12 Summary Table (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Sales	12,444	13,292	11,521	8.0	12,481	(0.3)
EBITDA	2,223	2,456	2,632	(15.5)	2,338	(4.9)
Margin (%)	17.9	18.5	22.8		18.7	
Adj. PAT	1,632	1,702	1,653	(1.3)	1,637	(0.3)

Source: Company Data, PL Research

Hero Honda

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Hero Honda (HH) reported a 5.4% QoQ growth in its top-line at Rs56.8bn. Volumes for the quarter increased by 5.2% QoQ whereas average realisation / vehicle remained flat. We estimate a 16.2% CAGR in revenues and a 13.7% CAGR in earnings for FY11-FY13E period. At the CMP, the stock trades at 13.7x its FY13E earnings, respectively; this in our view is fully valued. Maintain **'Reduce'**.

Q1FY12 Summary Table (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Sales	56,833	57,262	42,966	32.3	53,909	5.4
EBITDA	8,178	8,716	7,136	14.6	8,299	(1.5)
Margin (%)	14.4	15.2	16.6		15.4	
Adj. PAT	5,579	5,515	4,917	13.5	5,014	11.3

Source: Company Data, PL Research

Hindustan Zinc

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Hindustan Zinc (HZL) reported better-than-expected results on the back of higher than expected concentrate volumes and yields on treasury investments. Arguments of strong earnings quality and attractive valuations hold firm even after the earnings dilution associated with recommendations under the draft bill of new MMDRA act. We maintain our **'Accumulate'** rating on the stock.

Q1FY12 Summary Table (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Sales	28,214	27,348	19,508	44.6	31,970	(11.8)
EBITDA	15,666	15,133	10,023	56.3	19,282	(18.8)
Margin (%)	55.5	55.3	51.4		60.3	
Adj. PAT	14,993	14,307	8,909	68.3	17,713	(15.4)

Source: Company Data, PL Research

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Kotak Mahindra Bank

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Kotak Mahindra Bank's headline numbers were in line with our estimates; however steep margin erosion was a dampener. Asset quality continued to improve. On a consolidated basis, weak capital market businesses and loss from international subsidiaries acted a drag on consolidated earnings.

Q1FY12 Summary Table – Standalone (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Interest Income	5,678	6,266	5,082	11.7	6,216	(8.6)
Operating Profit	3,861	4,062	3,153	22.4	3,680	4.9
Margin (%)	5.0	-	5.4		5.3	
Adj. PAT	2,520	2,592	1,869	34.8	2,487	1.3

Source: Company Data, PL Research

Rallis India

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Rallis consolidated net sales grew by 46.5% YoY to Rs2,975m on the back of contribution from Metahelix Lifesciences. Rallis's EBITDA grew by 90.0% YoY to Rs435m with EBITDA margin of 14.6%. Metahelix has shown strong sales of Rs593m with the EBITDA margin of 20.6% during Q1FY12. Rallis's adjusted PAT grew by 58.4% YoY to Rs231m. Metahelix contributed Rs66m in Rallis's PAT.

Q1FY12 Summary Table (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Sales	2,977	2,541	2,044	45.6	2,326	28.0
EBITDA	437	387	243	79.9	355	23.0
Margin (%)	14.7	15.2	11.9		15.3	
Adj. PAT	231	226	148	55.8	190	21.8

Source: Company Data, PL Research

YES Bank

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Yes Bank's headline numbers were in line with our expectations. Key positives for the quarter were stable margins and impeccable asset quality. Business growth remained healthy and CASA ratio improved to 10.9% from 10.3%. We maintain our 'BUY' rating with a target price of Rs450.

Q1FY12 Summary Table (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Interest Income	3,542	3,650	2,621	35.1	3,485	1.6
Operating Profit	3,251	3,350	2,490	30.6	3,488	(6.8)
Margin (%)	2.80	-	3.10		2.80	
Adj. PAT	2,161	2,144	1,564	38.2	2,034	6.2

Source: Company Data, PL Research

**Zee Entertainment**Sahil Desai | sahildesai@plindia.com | +91-22-6632 2259

Zee Entertainment (ZEEL) has recorded a dismal 0.5% YoY ad revenue growth, as ad spends slowed down considerably in the latter half of the quarter. Sports segment revenues of Rs 873m and operating loss of Rs 566m. While the impact of the slowdown in ad spends was worse than expected, the improvement in DTH revs augurs well for maintaining profitability. Maintain **Accumulate**.

Q1FY12 Summary Table (Rs m)

	Q1FY12A	Q1FY12E	Q1FY11	YoY gr. (%) Actual	Q4FY11	QoQ gr. (%) Actual
Net Sales	6,983	7,534	6,770	3.1	7,980	(12.5)
EBITDA	1,561	1,812	1,870	(16.6)	2,269	(31.2)
<i>Margin (%)</i>	<i>22.3</i>	<i>24.0</i>	<i>27.6</i>		<i>28.4</i>	
Adj. PAT	1,337	1,345	1,249	7.1	1,941	(31.1)

Source: Company Data, PL Research

July 21, 2011

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Rating	Reduce
Price	Rs154
Target Price	Rs142
Implied Upside	-7.8%
Sensex	18,436

(Prices as on July 21, 2011)

Trading data

Market Cap. (Rs bn)	131.2
Shares o/s (m)	850.0
3M Avg. Daily value (Rs m)	312.6

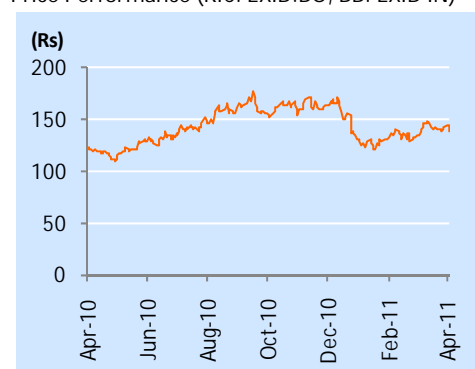
Major shareholders

Promoters	45.99%
Foreign	15.14%
Domestic Inst.	16.43%
Public & Other	22.84%

Stock Performance

(%)	1M	6M	12M
Absolute	3.3	13.6	16.4
Relative	(1.7)	16.6	13.8

Price Performance (RIC: EXID.BO, BB: EXID IN)



Source: Bloomberg

■ **Top-line disappoints leading to lower than expected EBITDA:** Top-line for the quarter grew by 8% YoY at Rs 12.4bn (Our est. 13.2bn) mainly led by 5.6% growth in pricing. Top-line growth was muted mainly on account of slower growth in the automotive OEM segment and lower demand for inverter batteries during the quarter. Overall volumes grew by only ~3% YoY. Raw material / net sales rose by 390bps YoY at 63.5% whereas other expenditure increased by 130bps YoY at 13.0% thereby leading to a 490bps YoY drop in EBITDA margins @ 17.9%. As a result EBITDA declined by 15.5% YoY at Rs2.2bn (Our est. 2.4bn). Due to higher other income (5x compared to Q1FY11) the Net profit came in flat at 1.6bn (Our est. Rs1.7bn).

■ **Inverter volumes decline by 26% YoY:** According to the management, the prevalent power supply situation and pleasant weather conditions in the north Indian markets led to lower sales of inverter batteries during the quarter. Inverter volumes for the quarter were down by 26% YoY at 206mn AMPH thereby dragging the overall Industrial segment volumes by 5.6% YoY. Excluding the inverter segment, industrial segment growth has been 12% YoY.

■ **Revision in estimates:** Management guided for a lower top-line growth of 15% in FY12E mainly led by the slowdown in the OE as well as the industrial segment. We foresee no major improvement in EBITDA margins in near term. As a result, we are downgrading our earnings estimate by 7% for FY12E and 9% for FY13E.

■ **Valuations appear stretched; downgrade to Reduce:** Adjusting for Exide's 50% stake in ING Life Insurance and other subsidiaries (valued at Rs16/share), the stock is trading at 17.5x FY12E and 14.7x FY13E earnings, respectively. The current valuation seems stretched, given the earnings CAGR of 13.4% for FY11-FY13E period. Hence, we downgrade our rating to 'Reduce' from 'Accumulate' earlier.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	37,974	45,326	51,985	60,282
Growth (%)	11.9	19.4	14.7	16.0
EBITDA (Rs m)	8,813	8,577	9,520	11,454
PAT (Rs m)	5,256	6,194	6,725	7,953
EPS (Rs)	6.2	7.3	7.9	9.4
Growth (%)	74.0	17.8	8.6	18.3
Net DPS (Rs)	1.0	1.5	1.5	1.8

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	23.2	18.9	18.3	19.0
RoE (%)	30.3	25.0	22.4	22.2
RoCE (%)	27.5	24.7	22.5	22.3
EV / sales (x)	3.5	2.9	2.5	2.1
EV / EBITDA (x)	15.0	15.3	13.7	11.2
PE (x)*	22.2	18.9	17.5	14.7
P / BV (x)	5.9	4.8	4.0	3.4
Net dividend yield (%)	0.6	1.0	1.0	1.1

Source: Company Data; PL Research

* adj. for subs value of Rs16/share

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Exhibit 1: Q1FY12 Result Overview (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	FY12E	FY11	YoY gr. (%)
Net Sales	12,444	11,521	8.0	12,271	51,985	45,326	14.7
Expenditure							
Raw Material	7,906	6,863	15.2	7,695	32,543	28,075	15.9
<i>% of Net Sales</i>	<i>63.5</i>	<i>59.6</i>		<i>62.7</i>	<i>62.6</i>	<i>61.9</i>	
Salaries & Wages	720	678	6.1	854	3,197	2,829	13.0
<i>% of Net Sales</i>	<i>5.8</i>	<i>5.9</i>		<i>7.0</i>	<i>6.1</i>	<i>6.2</i>	
Other Exp.	1,596	1,348	18.4	1,593	6,724	5,845	15.1
<i>% of Net Sales</i>	<i>12.8</i>	<i>11.7</i>		<i>13.0</i>	<i>12.9</i>	<i>12.9</i>	
Total Expenditure	10,221	8,889	15.0	10,142	42,465	36,749	15.6
EBITDA	2,223	2,632	(15.5)	2,128	9,520	8,577	11.0
<i>EBITDA Margin (%)</i>	<i>17.9</i>	<i>22.8</i>		<i>17.3</i>	<i>18.3</i>	<i>18.9</i>	
Depreciation	237	194	22.0	227	970	835	16.2
Net interest	11	13	(15.7)	8	45	57	(21.1)
Non Operative Income	308	62	399.7	426	900	1,249	(27.9)
Exceptional						469	
PBT	2,282	2,486	(8.2)	2,319	9,405	9,403	0.0
Tax Total	650	833	(21.9)	683	2,681	2,740	(2.2)
<i>Tax Rate-Total (%)</i>	<i>28.5</i>	<i>33.5</i>		<i>29.4</i>	<i>28.5</i>	<i>29.1</i>	
Rep.PAT	1,632	1,653	(1.3)	1,637	6,725	6,663	0.9
Extraordinary Expenses	-	-		-	-	469	
Adj. profit	1,632	1,653	(1.3)	1,637	6,725	6,194	8.6

Source: Company Data, PL Research

Exhibit 2: SOTP

Particulars	Parameter	Value / share (Rs)
Core Business	13.5x FY13E EPS	126
Insurance Business	15% NBAP margin	10
Smelters /Other subs	1x P/BV	6
SOTP Value		142

Source: PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	37,974	45,326	51,985	60,282
Raw Material Expenses	21,807	28,075	32,543	37,390
Gross Profit	16,166	17,251	19,442	22,893
Employee Cost	2,252	2,829	3,197	3,594
Other Expenses	5,101	5,845	6,724	7,845
EBITDA	8,813	8,577	9,520	11,454
Depr. & Amortization	807	835	970	1,090
Net Interest	103	57	45	40
Other Income	88	1,718	900	800
Profit before Tax	7,991	9,403	9,405	11,124
Total Tax	2,735	2,740	2,681	3,170
Profit after Tax	5,256	6,663	6,725	7,953
Ex-Od items / Min. Int.	—	469	—	—
Adj. PAT	5,256	6,194	6,725	7,953
Avg. Shares O/S (m)	850.0	850.0	850.0	850.0
EPS (Rs.)	6.2	7.3	7.9	9.4

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	5,238	3,978	7,465	8,135
C/F from Investing	(7,691)	(1,845)	(5,300)	(4,600)
C/F from Financing	2,145	(2,013)	(1,502)	(1,728)
Inc. / Dec. in Cash	(308)	121	664	1,807
Opening Cash	336	27	148	812
Closing Cash	27	148	812	2,619
FCFF	4,317	2,767	3,455	5,035
FCFE	2,046	1,889	3,434	5,035

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	11.9	19.4	14.7	16.0
EBITDA (%)	61.8	(2.7)	11.0	20.3
PAT (%)	84.8	17.8	8.6	18.3
EPS (%)	74.0	17.8	8.6	18.3
Profitability				
EBITDA Margin (%)	23.2	18.9	18.3	19.0
PAT Margin (%)	13.8	13.7	12.9	13.2
RoCE (%)	27.5	24.7	22.5	22.3
RoE (%)	30.3	25.0	22.4	22.2
Balance Sheet				
Net Debt : Equity	—	—	—	(0.1)
Net Wrkng Cap. (days)	43	55	55	53
Valuation				
PER (x)*	22.2	18.9	17.5	14.7
P / B (x)	5.9	4.8	4.0	3.4
EV / EBITDA (x)	15.0	15.3	13.7	11.2
EV / Sales (x)	3.5	2.9	2.5	2.1
Earnings Quality				
Eff. Tax Rate	34.2	29.1	28.5	28.5
Other Inc / PBT	1.1	14.0	9.6	7.2
Eff. Depr. Rate (%)	6.0	5.3	5.0	4.9
FCFE / PAT	38.9	30.5	51.1	63.3

Source: Company Data, PL Research. * adj. for subs value of Rs16/share

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	22,199	27,425	32,670	38,895
Total Debt	900	22	—	—
Other Liabilities	590	675	675	675
Total Liabilities	23,689	28,121	33,345	39,570
Net Fixed Assets	7,144	9,018	11,438	13,248
Goodwill	—	—	—	—
Investments	13,354	13,780	15,380	16,980
Net Current Assets	3,191	5,324	6,527	9,342
<i>Cash & Equivalents</i>	<i>30</i>	<i>148</i>	<i>812</i>	<i>2,619</i>
<i>Other Current Assets</i>	<i>9,089</i>	<i>13,140</i>	<i>13,618</i>	<i>15,555</i>
<i>Current Liabilities</i>	<i>5,929</i>	<i>7,964</i>	<i>7,903</i>	<i>8,832</i>
Other Assets	—	—	—	—
Total Assets	23,689	28,121	33,345	39,570

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	11,272	10,502	12,271	12,444
EBITDA	2,455	1,601	2,128	2,223
% of revenue	21.8	15.2	17.3	17.9
Depr. & Amortization	201	212	227	237
Net Interest	17	19	8	11
Other Income	191	331	426	308
Profit before Tax	2,897	1,702	2,319	2,282
Total Tax	768	458	683	650
Profit after Tax	2,129	1,244	1,637	1,632
Adj. PAT	1,660	1,244	1,637	1,632

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Industrial Seg. Turnover (Rs m)	11,709	13,495	14,450	16,197
Auto Seg. Turnover (Rs m)	25,876	32,182	37,393	43,083
Lead Price (\$/tonne)	2,094	2,544	2,510	2,491
Lead & Lead Alloys (Rs m)	17,539	23,414	24,543	27,129
Other RM (Rs m)	4,477	6,055	7,750	9,765

Source: Company Data, PL Research.

July 21, 2011

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Rating	Reduce
Price	Rs1,785
Target Price	Rs1,820
Implied Upside	2.0%
Sensex	18,436

(Prices as on July 21, 2011)
Trading data

Market Cap. (Rs bn)	356.5
Shares o/s (m)	199.7
3M Avg. Daily value (Rs m)	970.6

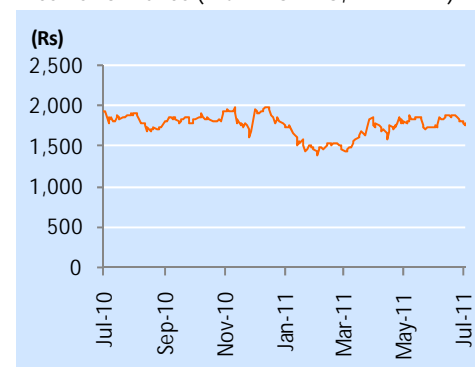
Major shareholders

Promoters	52.21%
Foreign	32.79%
Domestic Inst.	5.17%
Public & Other	9.83%

Stock Performance

(%)	1M	6M	12M
Absolute	1.3	1.8	(8.0)
Relative	(3.7)	4.8	(10.6)

Price Performance (RIC: HROH.BO, BB: HH IN)



Source: Bloomberg

■ **Operating performance below expectations; PAT in-line:** Hero Honda (HH) reported a 5.4% QoQ growth in its top-line at Rs56.8bn. Volumes for the quarter increased by 5.2% QoQ whereas average realisation / vehicle remained flat. The material cost/net sales increased by 190bps QoQ. Material cost per vehicle increased by Rs750 compared to a flat net realisation per vehicle. As a result EBITDA/vehicle declined by Rs360 QoQ. Other expenses / net sales declined by 60bps QoQ on account of World Cup expenses in Q4FY11 thereby partially mitigating the impact of higher material cost. As a result, EBITDA margins declined by 100bps QoQ at 14.4%. On account of pressure on margins and increase in amortization expenses (licence fee and royalty payment of Rs1.7bn reflected below EBITDA), PBT was flat QoQ at Rs6.6bn. Due to lower tax rate of 16.7%, the PAT grew by 11% QoQ at Rs5.6bn in line with our estimates.

■ **Conference Call highlights:** HH maintained their guidance of surpassing the Rs6mn mark in FY12E, thereby indicating a growth of 14-15%. However, the management cautioned that they might face capacity constraints as their exit capacity (end FY12E) post de-bottlenecking would be ~6.4mn units thereby restricting growth. HH is likely to incur 1.2% of sales on R&D expenses (part of which could be capitalised) and a further Rs1bn towards brand building in the coming quarters. HH believes that the raw material prices have peaked and are likely to ease in the H2FY12. HH has pegged tax rate guidance at around ~17%.

■ **Outlook & Valuation:** We estimate a 16.2% CAGR in revenues and a 13.7% CAGR in earnings for FY11-FY13E period. At the CMP, the stock trades at 15.8x and 13.7x its FY12E and FY13E earnings, respectively. In our view the stock is fully valued at the current levels. Hence, we maintain our '**Reduce**' rating as the upside seems limited from the current levels.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	158,605	194,012	231,306	261,841
Growth (%)	28.1	22.3	19.2	13.2
EBITDA (Rs m)	27,670	29,804	34,226	39,210
PAT (Rs m)	22,318	20,077	22,580	25,954
EPS (Rs)	111.8	100.5	113.1	130.0
Growth (%)	74.1	(10.0)	12.5	14.9
Net DPS (Rs)	110.0	105.0	70.0	80.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	17.4	15.4	14.8	15.0
RoE (%)	61.4	62.5	66.2	60.3
RoCE (%)	59.9	50.3	53.9	59.6
EV / sales (x)	2.1	1.8	1.5	1.3
EV / EBITDA (x)	12.2	11.9	10.3	8.6
PE (x)	16.0	17.8	15.8	13.7
P / BV (x)	10.3	12.1	9.2	7.5
Net dividend yield (%)	6.2	5.9	3.9	4.5

Source: Company Data; PL Research

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Exhibit 1: Q1FY12 Result Overview (Rs m)

Y/e March	Q1FY12*	Q1FY11*	YoY gr. (%)	Q4FY11*	FY12E	FY11	YoY gr. (%)
Net Sales	56,833	42,966	32.3	53,909	231,306	194,012	19.2
Total Expenses	48,656	35,831	35.8	45,610	197,080	164,208	20.0
Raw Material Cost	42,448	30,594	38.7	39,269	170,536	141,111	20.9
<i>% of Net Sales</i>	<i>74.7</i>	<i>71.2</i>		<i>72.8</i>	<i>73.7</i>	<i>72.7</i>	
Staff cost	1,645	1,450	13.5	1,680	6,937	6,189	12.1
<i>% of Net Sales</i>	<i>2.9</i>	<i>3.4</i>		<i>3.1</i>	<i>3.0</i>	<i>3.2</i>	
Other Expenses	4,563	3,787	20.5	4,661	19,606	16,908	16.0
<i>% of Net Sales</i>	<i>8.0</i>	<i>8.8</i>		<i>8.6</i>	<i>8.5</i>	<i>8.7</i>	
Operating Profit	8,178	7,136	14.6	8,299	34,226	29,804	14.8
<i>% of Net Sales</i>	<i>14.4</i>	<i>16.6</i>		<i>15.4</i>	<i>14.8</i>	<i>15.4</i>	
Interest	(31.9)	(26.6)		81	(140.0)	(19)	
Depreciation	2,398	1,593	50.5	2,376	10,300	7,657	34.5
PBT before other income	5,812	5,569	4.4	5,842	24,066	22,166	8.6
Other Income	884	534	65.5	743	3,150	2,681	17.5
Exceptional	-	-		-		798	
PBT	6,696	6,104	9.7	6,586	27,216	24,049	13.2
Tax Provision	1,117	1,187	(5.9)	1,572	4,636	4,769	(2.8)
<i>Tax Rate (%)</i>	<i>16.7%</i>	<i>19.4%</i>		<i>23.9%</i>	<i>17.0%</i>	<i>19.8%</i>	
Adj. PAT	5,579	4,917	13.5	5,014	22,580	20,078	12.5
Reported PAT	5,579	4,917	13.5	5,014	22,580	19,280	17.1

Source: Company Data, PL Research

* We have reclassified royalty as well as licence fees in the Depreciation and Amortisation expenses instead of classifying it in other expenses to enable like to like comparison.

Exhibit 2: Operating Metrics

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	FY12E	FY11	YoY gr. (%)
Volumes (Nos)	1,529,577	1,234,039	23.9	1,454,431	6,185,798	5,402,444	14.5
Realization / Vehicle	37,156	34,817	6.7	37,066	37,393	35,912	4.1
Material Cost/ Vehicle (Rs)	27,751	24,791	11.9	26,999	27,569	26,120	5.5
Other Expn/ Vehicle (Rs)	2,983	3,069	(2.8)	3,205	3,170	3,130	1.3
EBIDTA / Vehicle (Rs)	5,346	5,782	(7.5)	5,706	5,533	5,517	0.3
Net Profit/ Vehicle (Rs)	3,647	3,984	(8.5)	3,447	3,650	3,716	(1.8)

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	158,605	194,012	231,306	261,841
Raw Material Expenses	107,364	141,111	170,536	192,972
Gross Profit	51,241	52,901	60,770	68,870
Employee Cost	5,603	6,189	6,937	7,631
Other Expenses	17,969	16,908	19,606	22,029
EBITDA	27,670	29,804	34,226	39,210
Depr. & Amortization	1,915	7,657	10,300	11,639
Net Interest	(206)	(19)	(140)	(150)
Other Income	2,356	2,681	3,150	3,550
Profit before Tax	28,317	24,847	27,216	31,271
Total Tax	5,999	4,770	4,636	5,317
Profit after Tax	22,318	19,279	22,580	25,954
Ex-Od items / Min. Int.	—	1,596	—	—
Adj. PAT	22,318	20,077	22,580	25,954
Avg. Shares O/S (m)	199.7	199.7	199.7	199.7
EPS (Rs.)	111.8	100.5	113.1	130.0

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	26,866	38,143	32,530	34,983
C/F from Investing	(5,276)	(44,663)	(1,990)	(1,990)
C/F from Financing	(4,714)	(11,837)	(28,116)	(17,283)
Inc. / Dec. in Cash	16,876	(18,357)	2,424	15,711
Opening Cash	2,196	19,072	715	3,140
Closing Cash	19,072	715	3,139	18,850
FCFF	47,857	3,658	30,480	32,923
FCFE	47,732	3,324	30,480	32,923

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	28.1	22.3	19.2	13.2
EBITDA (%)	58.2	7.7	14.8	14.6
PAT (%)	74.1	(10.0)	12.5	14.9
EPS (%)	74.1	(10.0)	12.5	14.9
Profitability				
EBITDA Margin (%)	17.4	15.4	14.8	15.0
PAT Margin (%)	14.1	10.3	9.8	9.9
RoCE (%)	59.9	50.3	53.9	59.6
RoE (%)	61.4	62.5	66.2	60.3
Balance Sheet				
Net Debt : Equity	(0.5)	—	(0.1)	(0.4)
Net Wrkng Cap. (days)	(20)	(63)	(54)	(45)
Valuation				
PER (x)	16.0	17.8	15.8	13.7
P / B (x)	10.3	12.1	9.2	7.5
EV / EBITDA (x)	12.2	11.9	10.3	8.6
EV / Sales (x)	2.1	1.8	1.5	1.3
Earnings Quality				
Eff. Tax Rate	21.2	19.2	17.0	17.0
Other Inc / PBT	8.3	10.8	11.6	11.4
Eff. Depr. Rate (%)	7.0	12.7	16.6	18.2
FCFE / PAT	213.9	16.6	135.0	126.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	34,650	29,561	38,669	47,410
Total Debt	660	327	327	327
Other Liabilities	1,527	17,052	2,468	2,468
Total Liabilities	36,838	46,940	41,464	50,205
Net Fixed Assets	17,069	42,054	33,744	24,095
Goodwill	—	—	—	—
Investments	39,257	51,288	51,288	51,288
Net Current Assets	(19,488)	(46,402)	(43,568)	(25,178)
<i>Cash & Equivalents</i>	<i>19,072</i>	<i>715</i>	<i>3,140</i>	<i>18,850</i>
<i>Other Current Assets</i>	<i>9,754</i>	<i>14,331</i>	<i>20,856</i>	<i>28,765</i>
<i>Current Liabilities</i>	<i>48,314</i>	<i>61,448</i>	<i>67,563</i>	<i>72,793</i>
Other Assets	—	—	—	—
Total Assets	36,838	46,940	41,464	50,205

Quarterly Financials (Rs m)

Y/e March	Q1FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	42,966	51,617	53,909	56,833
EBITDA	6,026	5,766	8,299	8,178
% of revenue	14.0	11.2	15.4	14.4
Depr. & Amortization	483	560	2,376	2,398
Net Interest	(27)	(52)	81	(32)
Other Income	534	620	743	884
Profit before Tax	6,103	5,080	6,586	6,696
Total Tax	1,187	790	1,572	1,117
Profit after Tax	4,917	4,290	5,014	5,579
Adj. PAT	4,917	5,088	5,014	5,579

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Total Vol. (nos)	4,600,594	5,402,444	6,185,798	6,928,094
Net Realization/Unit (Rs)	34,475	35,912	37,393	37,794
RM Cost/Unit (Rs)	23,337	26,120	27,569	27,853
Other Exp./Unit (Rs)	3,906	3,130	3,170	3,180
EBITDA/Unit (Rs)	6,014	5,517	5,533	5,660
Net Profit/Unit (Rs)	4,851	3,716	3,650	3,746

Source: Company Data, PL Research.

July 21, 2011

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Rating	Accumulate
Price	Rs138
Target Price	Rs155
Implied Upside	12.3%
Sensex	18,436

(Prices as on July 21, 2011)

Trading data

Market Cap. (Rs bn)	583.3
Shares o/s (m)	4,225.3
3M Avg. Daily value (Rs m)	207.6

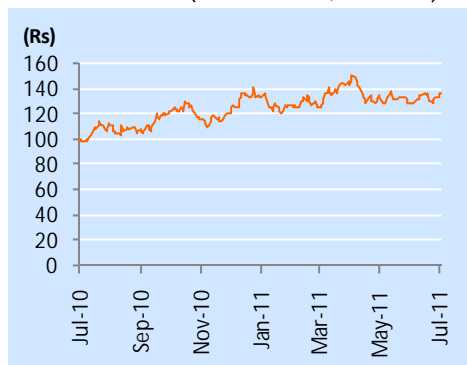
Major shareholders

Promoters	64.92%
Foreign	1.46%
Domestic Inst.	31.77%
Public & Other	1.85%

Stock Performance

(%)	1M	6M	12M
Absolute	6.0	3.2	36.7
Relative	1.0	6.2	34.2

Price Performance (RIC: HZNC.BO, BB: HZ IN)



Source: Bloomberg

Hindustan Zinc

Results above expectation; valuations attractive

Hindustan Zinc (HZL) reported better-than-expected results on the back of higher than expected concentrate volumes and yields on treasury investments. Arguments of strong earnings quality and attractive valuations hold firm even after the earnings dilution associated with recommendations under the draft bill of new MMDRA act. We maintain our '**Accumulate**' rating on the stock with price target of Rs155.

- **Better-than-expected concentrate sales volume led the performance:** Aided with higher than expected sales volumes of silver rich lead concentrate (10kt v/s PL: 7kt) revenue from by-product sales, HZL posted EBITDA above our expectation at Rs15.7bn (PL: Rs15.2bn). However, cost per tonne of refined metal rose much ahead of our expectation at Rs60,828 (PL: Rs59,133) owing to lower mined production and higher than expected energy cost. Driven by better operational performance and higher-than-expected yields on treasury, the company posted PAT above our expectation at Rs15bn (PL: Rs14.3bn).
- **Conference call highlights:** Mined production was impacted during the quarter due to unplanned shutdown at Rampura Agucha mines for two weeks due to break-down of primary crusher. Operations are back to normal and management expects to recover the production losses in the coming quarters. Company commenced the commissioning of 100ktpa lead smelter at Dariba. Management expects to produce saleable zinc by mid of Q2FY12.
- **Valuation and Outlook:** The recommendations under the draft bill of new MMDR act would dent HZL's earnings by 12% in FY12. However, we believe that negatives are more than factored in the stock price and provide an attractive opportunity demonstrated by consistent and strong track record. At CMP, stock trades at P/E of 9.9x and 9.2x FY12E and FY13E respectively and EV/EBITDA of 5.9x and 4.4x FY12E and FY13E respectively the earnings adjusted for higher royalty proposed under the draft bill. We maintain our '**Accumulate**' rating on the stock with price target of Rs155, EV/EBITDA of 6x FY12E.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	80,170	99,121	123,856	132,052
Growth (%)	41.1	23.6	25.0	6.6
EBITDA (Rs m)	46,701	54,859	71,531	76,639
PAT (Rs m)	40,414	49,005	67,958	72,683
EPS (Rs)	9.6	11.6	16.1	17.2
Growth (%)	48.2	21.3	38.7	7.0
Net DPS (Rs)	0.6	1.0	1.0	1.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	58.3	55.3	57.8	58.0
RoE (%)	24.9	24.1	26.5	22.6
RoCE (%)	25.0	24.1	26.5	22.6
EV / sales (x)	7.2	5.3	3.8	3.0
EV / EBITDA (x)	12.3	9.6	6.5	5.1
PE (x)	14.4	11.9	8.6	8.0
P / BV (x)	3.2	2.6	2.0	1.6
Net dividend yield (%)	0.4	0.7	0.7	0.7

Source: Company Data; PL Research

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Please refer to important disclosures and disclaimers at the end of the report

Exhibit 1: Q1FY12 Result Overview (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	FY12E	FY11	YoY gr. (%)
Net Sales	28,214	19,508	44.6	31,970	123,856	99,121	25.0
Raw material consumed	1,317	(422)	(411.8)	324	-	95	
<i>% of Net Sales</i>	<i>4.7</i>	<i>-2.2</i>		<i>1.0</i>	<i>0.0</i>	<i>0.1</i>	
Stores and spares consumed	2,366	1,965	20.4	2,395	10,942	8,818	24.1
<i>% of Net Sales</i>	<i>8.4</i>	<i>10.1</i>		<i>7.5</i>	<i>8.8</i>	<i>8.9</i>	
Power and fuel	2,953	2,251	31.2	2,848	12,790	10,226	25.1
<i>% of Net Sales</i>	<i>10.5</i>	<i>11.5</i>		<i>8.9</i>	<i>10.3</i>	<i>10.3</i>	
Mining Royalty Rates	1,936	1,551	24.8	2,510	10,222	8,033	27.2
<i>% of Net Sales</i>	<i>6.9</i>	<i>8.0</i>		<i>7.9</i>	<i>8.3</i>	<i>8.1</i>	
Other manufacturing expenses	1,900	1,909	(0.4)	2,142	9,113	8,400	8.5
<i>% of Net Sales</i>	<i>6.7</i>	<i>9.8</i>		<i>6.7</i>	<i>7.4</i>	<i>8.5</i>	
Employee Cost	1,274	1,482	(14.0)	1,341	5,417	5,108	6.1
<i>% of Net Sales</i>	<i>4.5</i>	<i>7.6</i>		<i>4.2</i>	<i>4.4</i>	<i>5.2</i>	
Selling, general and administrative	802	750	7.0	1,129	3,841	3,582	7.2
<i>% of Net Sales</i>	<i>2.8</i>	<i>3.8</i>		<i>3.5</i>	<i>3.1</i>	<i>3.6</i>	
Total Expenditure	12,548	9,484	32.3	12,688	52,325	44,262	18.2
EBITDA	15,666	10,023	56.3	19,282	71,531	54,859	30.4
<i>Margin (%)</i>	<i>55.5</i>	<i>51.4</i>		<i>60.3</i>	<i>57.8</i>	<i>55.3</i>	
Depreciation	1,345	1,123	19.8	1,271	5,479	4,747	15.4
Other income	3,811	1,779	114.2	3,428	17,116	9,890	73.1
EBIT	18,131	10,680	69.8	21,439	83,168	60,001	38.6
Interest	65	66	(0.9)	133	248	194	27.7
PBT	18,066	10,614	70.2	21,307	82,920	59,807	38.6
Extraordinary income/(expense)	(44)	-		-	(44)	(212)	
PBT (After EO)	18,022	10,614	69.8	21,307	82,876	59,596	39.1
Tax	3,073	1,705	80.3	3,594	14,918	10,591	40.9
<i>% PBT</i>	<i>17.1</i>	<i>16.1</i>		<i>16.9</i>	<i>18.0</i>	<i>17.8</i>	
Reported PAT	14,949	8,909	67.8	17,713	67,958	49,005	38.7
Adjusted PAT	14,986	8,909	68.2	17,713	67,994	49,179	38.3

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	FY12E	FY11	YoY gr. (%)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	188,403	181,930	3.6	231,039	945,532	840,040	12.6
- Refined metal (Zinc+Lead)-tonnes	207,781	178,663	16.3	209,568	885,471	775,663	14.2
- Sulphuric acid-tonnes	324,589	264,729	22.6	328,784	1,361,546	1,192,699	14.2
- Silver (kgs)	39,586	37,176	6.5	42,789	322,700	148,082	117.9
Sales volume							
- Refined Zinc	191,571	164,445	16.5	194,491	791,946	712,603	11.1
- Refined Lead	14,712	14,075	4.5	16,358	85,260	57,229	49.0
- Sulphuric acid	318,769	263,365	21.0	327,907	1,352,381	1,191,847	13.5
- Silver (kgs)	40,908	35,830	14.2	44,325	324,230	146,558	121.2
Realisation (Rs/unit)							
- Refined Zinc	107,647	97,850	10.0	114,935	108,551	106,469	2.0
- Refined Lead	127,207	102,764	23.8	130,595	118,407	114,877	3.1
- Sulphuric acid	3,061	2,605	17.5	2,607	2,605	2,436	6.9
- Silver (kgs)	55,758	28,155	98.0	49,197	53,031	37,090	43.0

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	80,170	99,121	123,856	132,052
Raw Material Expenses	—	—	—	—
Gross Profit	80,170	99,121	123,856	132,052
Employee Cost	4,574	5,108	5,417	6,096
Other Expenses	28,895	39,155	46,908	49,317
EBITDA	46,701	54,859	71,531	76,639
Depr. & Amortization	3,343	4,747	5,479	6,160
Net Interest	439	194	248	264
Other Income	7,222	9,678	17,072	19,518
Profit before Tax	50,141	59,596	82,876	89,733
Total Tax	9,727	10,591	14,918	17,049
Profit after Tax	40,414	49,005	67,958	72,683
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	40,414	49,005	67,958	72,683
Avg. Shares O/S (m)	4,225.3	4,225.3	4,225.3	4,225.3
EPS (Rs.)	9.6	11.6	16.1	17.2

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	40,772	42,719	58,288	63,563
C/F from Investing	(38,796)	(36,564)	6,629	16,168
C/F from Financing	(1,874)	(3,633)	(5,159)	(5,191)
Inc. / Dec. in Cash	102	2,522	59,759	74,541
Opening Cash	27,192	9,275	56,329	116,088
Closing Cash	27,275	11,779	116,088	190,628
FCFF	23,124	31,741	55,105	78,570
FCFE	23,642	31,141	55,105	78,570

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	41.1	23.6	25.0	6.6
EBITDA (%)	70.8	17.5	30.4	7.1
PAT (%)	48.2	21.3	38.7	7.0
EPS (%)	48.2	21.3	38.7	7.0
Profitability				
EBITDA Margin (%)	58.3	55.3	57.8	58.0
PAT Margin (%)	50.4	49.4	54.9	55.0
RoCE (%)	25.0	24.1	26.5	22.6
RoE (%)	24.9	24.1	26.5	22.6
Balance Sheet				
Net Debt : Equity	—	(0.2)	(0.4)	(0.5)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	14.4	11.9	8.6	8.0
P / B (x)	3.2	2.6	2.0	1.6
EV / EBITDA (x)	12.3	9.6	6.5	5.1
EV / Sales (x)	7.2	5.3	3.8	3.0
Earnings Quality				
Eff. Tax Rate	19.4	17.8	18.0	19.0
Other Inc / PBT	14.4	16.5	20.6	21.8
Eff. Depr. Rate (%)	4.1	4.8	4.7	5.2
FCFE / PAT	58.5	63.5	81.1	108.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	181,240	225,332	288,363	356,119
Total Debt	605	4	4	4
Other Liabilities	7,112	9,447	10,276	11,173
Total Liabilities	188,957	234,783	298,643	367,296
Net Fixed Assets	72,771	81,294	85,052	80,992
Goodwill	—	—	—	—
Investments	109,492	93,346	93,346	93,346
Net Current Assets	6,695	60,143	120,245	192,959
<i>Cash & Equivalents</i>	<i>9,275</i>	<i>56,329</i>	<i>116,088</i>	<i>190,628</i>
<i>Other Current Assets</i>	<i>10,677</i>	<i>19,560</i>	<i>21,544</i>	<i>20,233</i>
<i>Current Liabilities</i>	<i>13,258</i>	<i>15,747</i>	<i>17,387</i>	<i>17,903</i>
Other Assets	—	—	—	—
Total Assets	188,957	234,783	298,643	367,296

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	21,629	26,015	31,970	28,214
EBITDA	10,871	14,786	19,282	15,666
% of revenue	50.3	56.8	60.3	55.5
Depr. & Amortization	1,158	1,195	1,271	1,345
Net Interest	(5)	1	133	65
Other Income	2,222	2,358	3,428	3,811
Profit before Tax	11,728	15,947	21,307	18,022
Total Tax	2,241	3,051	3,594	3,073
Profit after Tax	9,699	12,896	17,713	14,993
Adj. PAT	9,658	12,896	17,713	14,993

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Mined Zinc metal prod-MIC tns	682,772	752,120	833,627	832,743
Mined Lead metal prod-MIC tns	85,847	87,920	111,905	138,756
Refined Zinc Vol. (tonnes)	577,685	712,603	791,946	791,106
Refined Lead Vol. (tonnes)	64,391	57,229	85,260	131,818
Concentrate sales vol (tonnes)	254,418	104,414	36,187	—
Silver Sales Vol. (kg)	139,130	146,558	324,230	447,475
Zinc (US\$)-LME / tonne	1,936	2,186	2,250	2,250
Lead(US\$)-LME / tonne	1,986	2,245	2,350	2,350
Silver (Rs / Kg)	24,724	37,090	36,573	53,031
Cost per tonne of Mined metal (Zn+Pb)	43,544	52,691	55,339	57,039

Source: Company Data, PL Research.

July 21, 2011

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Rating	Accumulate
Price	Rs476
Target Price	Rs506
Implied Upside	6.3%
Sensex	18,436

(Prices as on July 21, 2011)

Trading data

Market Cap. (Rs bn)	350.7
Shares o/s (m)	736.9
3M Avg. Daily value (Rs m)	625.7

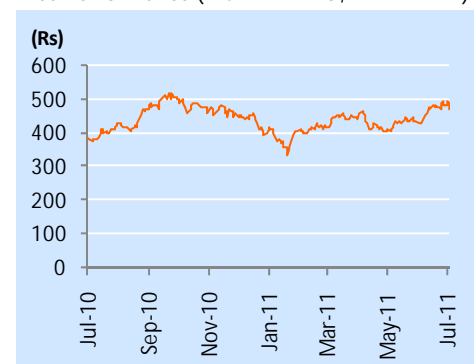
Major shareholders

Promoters	45.51%
Foreign	26.00%
Domestic Inst.	5.40%
Public & Other	23.09%

Stock Performance

(%)	1M	6M	12M
Absolute	9.4	15.1	21.3
Relative	4.4	18.1	18.7

Price Performance (RIC: KTKM.BO, BB: KMB IN)



Source: Bloomberg

Kotak Mahindra Bank

Margin erosion plays spoilsport

- **Change in accounting policy accentuates margin compression:** Kotak Mahindra Bank (KMB) reported consolidated PAT of Rs4.16bn, up 27.0% YoY but down 15.3% QoQ and standalone PAT of Rs2.5bn, up 34.8% YoY and 1.3% QoQ. Net interest income (NII) grew by healthy 17.7% YoY but declined by 8.6% QoQ on account of a 60bps QoQ decline in reported margins at 5.0%. From Q1FY12 onwards, the bank classifies loan processing charges on its retail assets as fee income as against interest income earlier which has affected NIMs during the quarter. However, even on an adjusted basis, the margin contraction was ~30bps QoQ as the rising cost of funds started catching up. Fee income grew by 40.6% YoY and 19.5% QoQ on account of the changes in the above mentioned accounting policy.
- **Business growth remains strong; asset quality stable:** Business growth during the quarter was strong with advances growing 39.5% YoY and 10.3% QoQ driven by strong sequential growth in the corporate and CV loans. Deposits grew by 29.1% YoY and 6.1% QoQ; CASA ratio declined by ~340bps QoQ to 26.6%. Asset quality remained stable with gross NPAs increasing marginally by 2.0% QoQ and provision coverage including technical writeoffs too remaining steady at ~70%.
- **Capital market related businesses remain weak; international subsidiaries report losses:** Earnings from the capital market related businesses i.e. IB and broking remained weak reflecting the sluggish industry scenario. International subsidiaries reported loss of Rs30mn on account of MTM losses on certain FCCB investments made by the bank. Kotak Prime continues to grow at a healthy pace and maintains good profitability. Despite weaker premium growth life insurance business was the second highest contributor to the consolidated bottomline due to its cost control measures.

Key financials (Y/e March) (Cons)	2010	2011	2012E	2013E
Net interest income (Rs m)	28,283	35,069	37,134	45,304
Growth (%)	19.1	24.0	5.9	22.0
Operating profit (Rs m)	24,136	23,950	36,481	40,160
PAT (Rs m)	13,070	15,667	17,924	23,004
EPS (Rs)	17.7	21.3	24.3	31.2
Growth (%)	100.3	19.9	14.4	28.3
Net DPS (Rs)	0.4	0.5	0.8	1.0

Source: Company Data; PL Research

Profitability & Valuation (Cons)	2010	2011	2012E	2013E
NIM (%)*	5.4	5.1	4.8	5.0
RoAE (%)	18.5	16.9	15.3	17.3
RoAA (%)	2.8	2.6	2.3	2.7
P / BV (x)	4.6	3.0	2.7	2.4
P / ABV (x)	4.7	3.1	2.7	2.4
PE (x)	25.2	21.0	18.3	14.3
Net dividend yield (%)	0.1	0.1	0.2	0.2

Source: Company Data; PL Research

* Calculated on average assets

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- **Valuation and Outlook:** KMB continues to perform well in its lending operations; however steep margin compression was a dampener. As cost pressures catch up with rising interest rates, larger share of KMB's incremental lending in low yielding corporate segment is also one of the factors affecting margins. Nevertheless, stable asset quality resulting into lower credit costs during the quarter is a positive. The bank has been performing exceedingly well on the asset quality front and we do not expect any negative surprises regarding asset restructuring due to bank's limited exposure towards some of the troubled sectors. Consequently, we believe KMB is a safer bet in the current environment. However, strong recent outperformance coupled with prolonged weak outlook for the capital market related businesses could act as an overhang on the stock. We therefore maintain our '**Accumulate**' rating with a revised price target of Rs506 due to lower valuations ascribed to the capital market related businesses.

Exhibit 1: Q1FY12 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY Gr. (%)	Q4FY11	QoQ Gr. (%)
Interest Income	18,696	12,787	46.2	17,227	8.5
Interest Expended	9,492	5,254	80.7	7,744	22.6
Net Interest Income	9,204	7,532	22.2	9,483	(2.9)
Non-Interest Income	8,400	10,500	(20.0)	13,051	(35.6)
Treasury	248	1	NM	466	(46.9)
CEB	3,242	3,632	(10.7)	3,340	(2.9)
Insurance premium	5,003	5,462	(8.4)	10,630	(52.9)
Net total Income	17,604	18,032	(2.4)	22,534	(21.9)
Operating Expenses	11,338	12,772	(11.2)	15,489	(26.8)
Employee Expenses	3,848	3,519	9.4	4,005	(3.9)
Other operating expenses	3,764	3,642	3.4	4,307	(12.6)
Operating profit	6,267	5,260	19.1	7,046	(11.1)
Provisions	242	553	(56.3)	(86)	(381.9)
Profit before tax	6,025	4,707	28.0	7,131	(15.5)
Tax	1,831	1,511	21.2	2,077	(11.8)
<i>Effective Tax Rate (%)</i>	<i>30.4</i>	<i>32.1</i>		<i>29.1</i>	
Profit After Tax (before minority int.)	4,194	3,197	31.2	5,055	(17.0)
Less: Share of minority interest	120	(18)	(769.8)	185	(35.0)
Add: Share in profit of associates	88	62	41.0	44	97.9
Profit After Tax (after minority int.)	4,161	3,277	27.0	4,914	(15.3)
Asset Quality					
Gross NPAs	7,174	9,357	(23.3)	7,120	0.8
<i>% Gross NPAs</i>	<i>1.59</i>	<i>2.79</i>		<i>1.71</i>	
Net NPAs	2,407	3,930	(38.8)	2,427	(0.8)
<i>% Net NPAs</i>	<i>0.54</i>	<i>1.19</i>		<i>0.59</i>	
<i>Provision Coverage (%)</i>	<i>66.5</i>	<i>58.0</i>		<i>65.9</i>	
<i>% Gross NPAs - excl. stressed assets</i>	<i>1.07</i>	<i>2.02</i>		<i>1.13</i>	
<i>% Net NPAs - excl. stressed assets</i>	<i>0.41</i>	<i>0.95</i>		<i>0.43</i>	
Capital Adequacy (%)					
<i>CAR</i>	<i>18.4</i>	<i>16.9</i>		<i>19.5</i>	
<i>Tier 1</i>	<i>16.9</i>	<i>15.1</i>		<i>18.1</i>	
<i>NIM – Reported (%)</i>	<i>5.00*</i>	<i>5.40</i>		<i>5.60</i>	
Balance Sheet Items					
Deposits	293,970	222,880	31.9	273,130	7.6
Advances	446,990	329,782	35.5	412,421	8.4
Investments	194,220	163,740	18.6	182,791	6.3
Total Assets	641,210	493,522	29.9	595,212	7.7

Source: Company Data, PL Research

*Reported NIM adjusted for processing fees now classified as non-interest income v/s interest income earlier

Exhibit 2: Q1FY12 Result Overview - Standalone (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY Gr. (%)	Q4FY11	QoQ Gr. (%)
Interest Income	13,298	8,974	48.2	12,326	7.9
Interest Expense	7,619	4,148	83.7	6,111	24.7
Net Interest Income	5,678	4,826	17.7	6,216	(8.6)
Non-Interest Income	2,287	1,626	40.6	1,913	19.5
Treasury	(90)	859	(110.5)	1,065	(108.5)
CEB	2,377	767	209.8	848	180.2
Net total Income	7,965	6,453	23.4	8,129	(2.0)
Operating Expenses	4,105	3,299	24.4	4,449	(7.7)
Employee	2,062	1,656	24.5	2,183	(5.5)
Other operating expenses	2,043	1,643	24.3	2,266	(9.9)
Operating profit	3,861	3,153	22.4	3,680	4.9
Core operating profits	3,951	2,294	72.2	2,615	51.1
Provisions	221	561	(60.6)	(72)	(407.9)
Profit before tax	3,640	2,592	40.4	3,751	(3.0)
Tax	1,119	723	54.7	1,264	(11.5)
<i>Effective Tax Rate (%)</i>	<i>30.8</i>	<i>27.9</i>		<i>33.7</i>	
Net Profit After Tax	2,520	1,869	34.8	2,487	1.3
Asset Quality					
Gross NPAs	6,157	7,782	(20.9)	6,035	2.0
<i>% Gross NPAs</i>	<i>1.88</i>	<i>3.29</i>		<i>2.03</i>	
Net NPAs	2,135	3,082	(30.7)	2,112	1.1
<i>% Net NPAs</i>	<i>0.66</i>	<i>1.33</i>		<i>0.72</i>	
<i>Provision Coverage (%)</i>	<i>65.3</i>	<i>60.4</i>		<i>65.0</i>	
Capital Adequacy (%)					
<i>CAR</i>	<i>16.1</i>	<i>16.8</i>		<i>19.9</i>	
<i>Tier 1</i>	<i>18.2</i>	<i>14.2</i>		<i>18.0</i>	
<i>NIM – Calculated (%)*</i>	<i>4.29</i>	<i>5.36</i>		<i>5.29</i>	
Balance Sheet Items					
Deposits	310,470	240,578	29.1	292,610	6.1
CASA	82,540	66,573	24.0	87,905	(6.1)
<i>CASA (%)</i>	<i>26.6</i>	<i>27.7</i>		<i>30.0</i>	
Advances	323,390	231,886	39.5	293,293	10.3
Investments	179,250	156,130	14.8	171,214	4.7
Total Assets	550,730	388,016	41.9	508,507	8.3

Source: Company Data, PL Research

* NII for the quarter adjusted for processing fees now classified under non-interest income as against interest income earlier

Exhibit 3: Trend in performance of Kotak Mahindra Bank and its key subsidiaries (Rs m)

Y/e March	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Kotak Bank (Standalone)						
NII	5,260	5,082	5,438	5,715	6,216	5,678
% y-o-y growth	25.8	24.3	24.6	17.4	18.2	11.7
PAT	2,025	1,869	1,947	1,879	2,487	2,520
% y-o-y growth	97.4	107.0	54.6	31.9	22.8	34.8
Remarks	Margin pressures affect topline growth; asset quality remains stable and business growth strong					
Kotak Mahindra Prime						
Revenues	2,735	2,999	3,158	3,840	3,651	3,960
% y-o-y growth	7.4	33.9	31.5	50.8	33.5	32.0
PAT	586	760	613	937	869	930
% y-o-y growth	24.7	302.1	55.2	89.5	48.3	22.4
Advances - Auto (Rs bn)	65	71	78	79	85	89
Advances - Others (Rs bn)	18	20	22	25	27	26
Remarks	Loan growth in auto segment remains healthy; bottomline too improves by 7.0% QoQ					
Kotak Mahindra Old Mutual Life Insurance						
Gross Premium	11,371	5,577	7,348	6,108	10,721	5,110
% y-o-y growth	25.5	28.7	25.4	(14.2)	(5.7)	(8.4)
PAT	444	(69)	134	236	712	460
% y-o-y growth	11.8	(727.3)	204.5	22.1	60.4	(766.7)
Remarks	YoY premium growth affected due to regulatory changes effected from Sept'10; profitability improves on account of lower operating costs					
Kotak Mahindra Capital Company						
Revenues	382	339	335	301	603	230
% y-o-y growth	324.4	53.4	50.9	59.3	57.9	(32.2)
PAT	134	69	73	76	300	10
% y-o-y growth	(452.6)	42.9	78.0	375.0	123.9	(85.5)
Remarks	IB business records lowest revenues and profits since Q4FY10 reflecting the sluggish industry scenario					

Source: Company Data, PL Research

Exhibit 4: Trend in performance of Kotak Mahindra Bank and its key subsidiaries (Rs m)

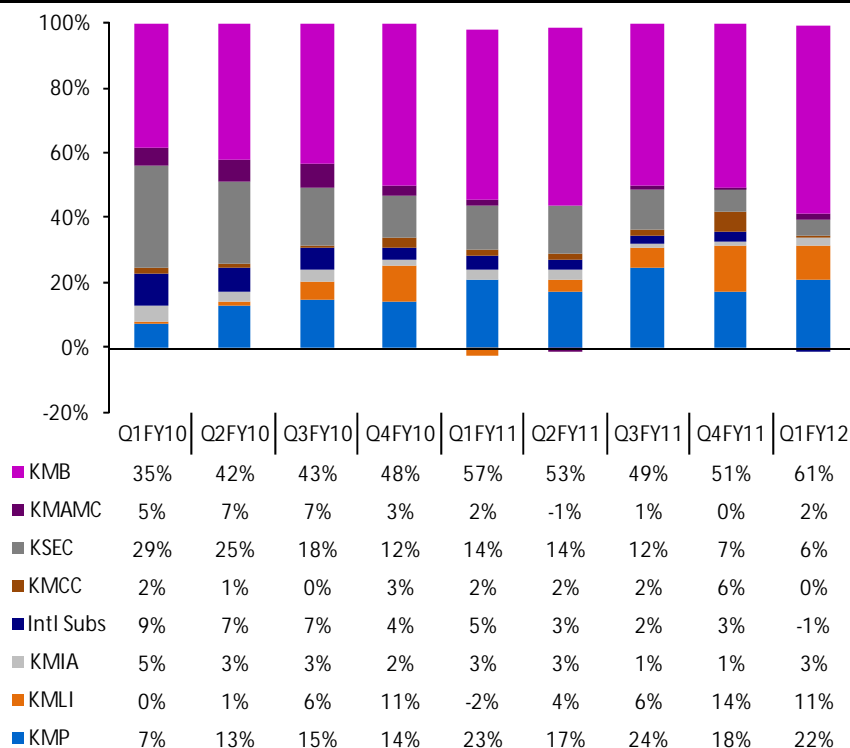
Y/e March	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Kotak Securities						
Revenues	1,872	1,744	1,980	1,957	1,694	1,450
% y-o-y growth	(4.1)	(21.9)	(15.6)	1.6	(9.5)	(16.9)
PAT	508	474	517	466	362	230
% y-o-y growth	182.2	(36.2)	(31.9)	(21.3)	(28.7)	(51.5)
Average Daily Volumes (Rs bn)	36	40	46	52	46	36
Market Share (%)	4.1	3.7	3.7	3.7	3.4	2.7
Remarks	Securities business continues to remain under pressure with volumes, revenues and PAT down 22%, 14% and 37% on a QoQ basis respectively.					
Kotak Mahindra AMC						
Revenues	395	375	166	239	301	370
% y-o-y growth	55.5	0.5	(65.5)	(52.9)	(23.8)	(1.3)
PAT	130	74	(40)	56	16	90
% y-o-y growth	83.1	(46.8)	(120.5)	(75.5)	(87.7)	21.6
AUM (Rs bn)	373	285	284	276	323	342
- Equity	50	45	44	40	38	47
- Debt	323	240	240	236	285	295
Remarks	Equity AUMs grow by 23.7% QoQ and remain flat YoY; Meanwhile revenues and profitability remains largely stable sequentially					
Kotak Investment Advisors Limited (KIAL)						
Revenues	244	248	221	231	261	250
% y-o-y growth	(18.4)	(2.7)	(10.5)	(5.7)	7.0	0.8
PAT	71	108	106	54	59	110
% y-o-y growth	(30.4)	(8.2)	11.6	(52.9)	(16.9)	1.9
Commitments (Rs bn)	1	54	53	53	50	49
Remarks	Despite sequentially flattish revenues, profits increase 86% QoQ but remain flat on a YoY basis					
International Subsidiaries						
AUM (Rs bn)	1.6	1.6	2.0	2.0	2.0	1.7
% y-o-y growth	45.5	-	11.1	25.0	25.0	6.3
PAT	153	157	123	82	150	(30)
% y-o-y growth	705.3	(32.0)	(40.9)	(63.7)	(2.0)	(119.1)
Remarks	International subsidiaries reported a net loss of Rs30mn on account of MTM losses on certain FCCB investments held by the bank					

Source: Company Data, PL Research

Exhibit 5: Trend in Consolidated PAT contribution by various subsidiaries

Given the weak performance in the capital market businesses, the proportion of the lending business in the consolidated bottomline remains strong (83% in Q1FY12 v/s 69% in Q4FY11). The second highest profit contributor for the quarter was the life insurance business.

We believe the outlook for the capital market related businesses continues to remain weak in the near future and hence the contribution of the lending business to the consolidated bottomline will continue to remain crucial.



Source: Company Data, PL Research

Exhibit 6: SOTP Valuation

Subsidiaries		Basis (Rs bn)		Multiple	KMB Rs. Per share		% of SOTP	
		FY12E	FY13E		FY12E	FY13E	FY12E	FY13E
Kotak Securities - KSEC	Earnings	17.8	18.9	1.5	36	39	8%	8%
KMCC - KMCC	Earnings	5.0	5.1	1.2	8	8	2%	2%
Kotak AMC - KAMC	AUMs	355.3	426.4	5.0%	24	29	5%	6%
Pvt Equity - KMIA	AUMs	66.5	79.8	8.0%	7	9	2%	2%
Kotak Prime - KMP	ABV	12.3	14.7	2.5	42	50	9%	10%
Investments - KMI	ABV	2.7	3.2	1.5	5	7	1%	1%
International Subs	Earnings	0.4	0.5	13.0	8	9	2%	2%
Kotak UK - Kotak UK	Earnings	0.2	0.2	13.0	3	4	1%	1%
Kotak OM Life - KMLI*	App Value	34.8	41.8	-	30	36	7%	7%
Value of subsidiaries per share					164	190		
KM Bank	ABV **	73.0	83.2	2.8	278	316	63%	62%
SOTP - target price					441	506	100%	100%

Source: PL Research

* Post 15% holding company discount for its life insurance venture

** ABV - reduced by Rs 6 per share for investments in subsidiaries and outstanding NNPA's

July 21, 2011

Manish Mahawar
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Rating	BUY
Price	Rs145
Target Price	Rs182
Implied Upside	25.5%
Sensex	18,436

(Prices as on July 21, 2011)
Trading data

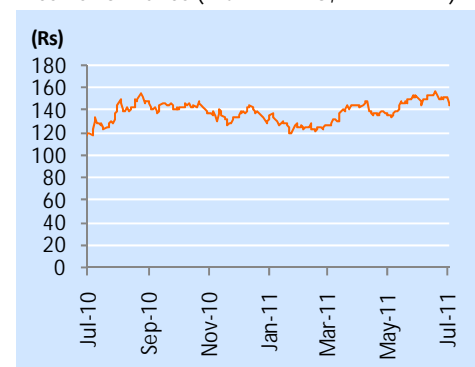
Market Cap. (Rs bn)	28.2
Shares o/s (m)	194.5
3M Avg. Daily value (Rs m)	47.8

Major shareholders

Promoters	50.66%
Foreign	6.47%
Domestic Inst.	19.36%
Public & Other	23.51%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.7)	5.9	20.1
Relative	(8.7)	8.9	17.5

Price Performance (RIC: RALL.BO, BB: RALI IN)

Source: Bloomberg

■ **Robust performance by Metahelix resulted in better consolidated Q1FY12 result:** Rallis India (Rallis's) consolidated net sales grew by 46.5% YoY to Rs2,975m (PL – Rs2,541m) on the back of contribution by Metahelix Lifesciences (Metahelix) i.e. seed business. Rallis has acquired Metahelix during December 2010. Hence, Metahelix was not included in Rallis's Q1FY11 financial. Company's EBITDA grew by 90.0% YoY to Rs435m with EBITDA margin of 14.6% (PL – 15.2%). Metahelix has shown strong sales of Rs593m with the EBITDA margin of 20.6% during Q1FY12. Rallis's adjusted PAT grew by 58.4% YoY to Rs231m (PL – Rs226m). Metahelix contributed Rs66m in consolidated company's PAT.

■ **Strong standalone operational performance:** Company's standalone sales grew by ~17% to Rs2,384m. We believe that Rallis's volume grew by >15% YoY during the quarter. EBITDA grew by 29.4% YoY to Rs314m with the EBITDA margin of 13.1%. Company EBITDA margin expanded by 190bps YoY because it was impact by adverse currency movement (in export) and higher marketing expenses during corresponding quarter of previous year. It resulted to lower other expenses to sales ratio which has come down by 150bps YoY to 18.2%. Standalone PAT has shown growth of 11.7% YoY to Rs166m. Lower growth in PAT was on account of higher finance cost and depreciation. We believe that depreciation and finance cost has increased YoY primarily on account of capitalization of newly commissioned Dahej Plant.

Contd...2

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	9,040	10,989	14,214	17,327
Growth (%)	6.2	21.6	29.3	21.9
EBITDA (Rs m)	1,814	2,046	2,889	3,578
PAT (Rs m)	984	1,266	1,721	2,214
EPS (Rs)	5.1	6.5	8.9	11.4
Growth (%)	42.9	28.6	36.0	28.6
Net DPS (Rs)	1.7	2.0	2.2	2.4

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	20.1	18.6	20.3	20.7
RoE (%)	28.8	27.3	30.5	31.2
RoCE (%)	23.3	27.2	31.3	32.2
EV / sales (x)	2.1	2.5	1.9	1.5
EV / EBITDA (x)	10.4	13.6	9.6	7.4
PE (x)	28.7	22.3	16.4	12.7
P / BV (x)	4.4	5.6	4.5	3.6
Net dividend yield (%)	1.2	1.4	1.5	1.7

Source: Company Data; PL Research

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- **Business Update:** Company's has set up new pesticide plant in Dahej, Gujarat (SEZ) with the capex of ~Rs1.8b. Dahej facility has started commercial production from June 2011. We expect that new plant would support export sales of Rallis. We have considered Rs750m sales from new plant during FY12 in our estimate. This plant will enjoy tax exemption for five years and have potential to generate turnover of Rs5000m over three years.
- **Re-iterate 'BUY':** At present valuation, Rallis is trading at par/premium v/s global as well as domestic peers on account of better financial (debt free balance sheet), focus on branded products, higher return ratio's and synergy with Tata Chemicals. We strongly believe that Rallis will be trade at premium, going forward too. We expect that Rallis could positively surprise in the future on the back of its land bank (85 acres in Hyderabad and 25 acres in Mumbai), strategic stake in Advinus Therapeutics and income from pulse initiatives. We re-iterate our **"BUY"** rating on stock with the target price of Rs182 (i.e. 16x FY13E).

Exhibit 1: Q1FY12 Result Overview (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	FY12E	FY11	YoY gr. (%)
Net Sales	2,975	2,030	46.5	2,321	13,850	10,658	29.9
Raw material consumed	1,664	1,219	36.6	1,361	8,127	6,336	28.3
<i>As % of net sales</i>	<i>55.9</i>	<i>60.0</i>		<i>58.7</i>	<i>58.7</i>	<i>59.4</i>	
Employee expenses	240	186	29.2	143	802	729	10.0
<i>As % of net sales</i>	<i>8.1</i>	<i>9.1</i>		<i>6.2</i>	<i>5.8</i>	<i>6.8</i>	
Other expenses	637	397	60.2	466	2,396	1,879	27.5
<i>As % of net sales</i>	<i>21.4</i>	<i>19.6</i>		<i>20.1</i>	<i>17.3</i>	<i>17.6</i>	
Total expenditure	2,540	1,801	41.0	1,970	11,325	8,943	26.6
EBITDA	435	229	90.0	351	2,525	1,715	47.2
<i>Margin (%)</i>	<i>14.6</i>	<i>11.3</i>		<i>15.1</i>	<i>18.2</i>	<i>16.1</i>	
Depreciation	54	36	52.0	52	245	175	40.0
PBIT	380	193	97.1	298	2,280	1,540	48.1
Other Income	2	12	(82.1)	5	364	331	10.0
Interest	28	(9)	(414.4)	18	25	25	-
Profit before tax	354	214	65.7	285	2,619	1,846	41.9
Tax	78	68	14.8	95	789	581	36.0
<i>Tax Rate (%)</i>	<i>21.9</i>	<i>31.7</i>		<i>33.5</i>	<i>30.1</i>	<i>31.4</i>	
Adjusted PAT before MI	277	146	89.4	190	1,830	1,266	44.6
Minority Interest	45	-		-	-	-	
Adjusted PAT	231	146	58.4	190	1,830	1,266	44.6
Ex-Items	-	-		-	28	-	
Reported PAT	231	146	58.4	190	1,802	1,266	42.4

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	9,040	10,989	14,214	17,327
Raw Material Expenses	—	—	—	—
Gross Profit	9,040	10,989	14,214	17,327
Employee Cost	—	—	—	—
Other Expenses	7,225	8,943	11,325	13,748
EBITDA	1,814	2,046	2,889	3,578
Depr. & Amortization	152	175	287	300
Net Interest	27	25	49	49
Other Income	—	—	—	—
Profit before Tax	1,635	1,846	2,554	3,230
Total Tax	512	581	784	928
Profit after Tax	1,124	1,266	1,769	2,302
Ex-Od items / Min. Int.	(140)	—	48	88
Adj. PAT	984	1,266	1,721	2,214
Avg. Shares O/S (m)	129.6	194.5	194.5	194.5
EPS (Rs.)	5.1	6.5	8.9	11.4

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	1,879	1,415	1,682	2,106
C/F from Investing	(965)	(595)	(1,050)	(250)
C/F from Financing	(874)	(455)	(452)	(507)
Inc. / Dec. in Cash	40	365	180	1,349
Opening Cash	72	112	477	608
Closing Cash	112	477	608	1,869
FCFF	2,139	815	(416)	1,768
FCFE	1,414	815	(416)	1,768

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	6.2	21.6	29.3	21.9
EBITDA (%)	30.9	12.8	41.2	23.9
PAT (%)	54.5	28.6	36.0	28.6
EPS (%)	42.9	28.6	36.0	28.6
Profitability				
EBITDA Margin (%)	20.1	18.6	20.3	20.7
PAT Margin (%)	10.9	11.5	12.1	12.8
RoCE (%)	23.3	27.2	31.3	32.2
RoE (%)	28.8	27.3	30.5	31.2
Balance Sheet				
Net Debt : Equity	—	(0.1)	(0.1)	(0.2)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	28.7	22.3	16.4	12.7
P / B (x)	4.4	5.6	4.5	3.6
EV / EBITDA (x)	10.4	13.6	9.6	7.4
EV / Sales (x)	2.1	2.5	1.9	1.5
Earnings Quality				
Eff. Tax Rate	31.3	31.4	30.7	28.7
Other Inc / PBT	—	—	—	—
Eff. Depr. Rate (%)	4.9	4.7	5.0	5.0
FCFE / PAT	143.7	64.4	(24.2)	79.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	4,228	5,038	6,259	7,927
Total Debt	81	81	81	81
Other Liabilities	—	—	48	88
Total Liabilities	4,309	5,120	6,388	8,096
Net Fixed Assets	2,648	3,203	3,716	3,666
Goodwill	—	—	—	—
Investments	1,403	1,268	1,518	1,518
Net Current Assets	205	596	1,101	2,858
<i>Cash & Equivalents</i>	<i>112</i>	<i>477</i>	<i>608</i>	<i>1,869</i>
<i>Other Current Assets</i>	<i>3,133</i>	<i>3,463</i>	<i>4,172</i>	<i>5,035</i>
<i>Current Liabilities</i>	<i>3,040</i>	<i>3,344</i>	<i>3,678</i>	<i>4,046</i>
Other Assets	53	53	53	53
Total Assets	4,309	5,120	6,388	8,096

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	3,691	2,735	2,326	2,977
EBITDA	894	534	355	437
% of revenue	24.2	19.5	15.3	14.7
Depr. & Amortization	40	44	52	54
Net Interest	(1)	11	18	28
Other Income	—	—	—	—
Profit before Tax	855	480	285	354
Total Tax	268	143	95	78
Profit after Tax	587	337	190	231
Adj. PAT	587	337	190	231

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Domestic Sales	7,059	8,224	9,869	11,645
International Sales	1,925	2,573	3,345	4,181
Seeds Sales	—	192	1,000	1,500

Source: Company Data, PL Research.

July 21, 2011

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Rating	BUY
Price	Rs318
Target Price	Rs450
Implied Upside	41.5%
Sensex	18,436

(Prices as on July 21, 2011)
Trading data

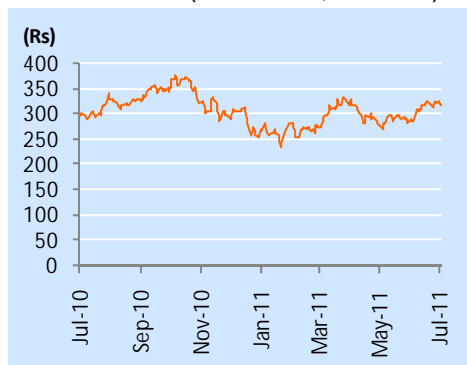
Market Cap. (Rs bn)	110.3
Shares o/s (m)	347.2
3M Avg. Daily value (Rs m)	863.8

Major shareholders

Promoters	26.50%
Foreign	48.09%
Domestic Inst.	11.76%
Public & Other	13.65%

Stock Performance

(%)	1M	6M	12M
Absolute	10.6	17.9	6.7
Relative	5.6	20.9	4.2

Price Performance (RIC: YESB.BO, BB: YES IN)

Source: Bloomberg

■ **Operating performance in line, margins remain stable:** Yes Bank reported Q1FY12 PAT of Rs2.16bn, up 38.2% YoY and 6.2% QoQ, in line with our expectations of Rs2.14bn. Net Interest Income (NII) for the quarter grew by 35.1% YoY and 1.6% QoQ to Rs3.54bn, driven by a 117bps QoQ improvement in CD ratio to 76.0% coupled with stable reported margins at 2.8%. On a sequential basis, the increase in the yield on advances (90bps QoQ) outpaced the increase in the cost of funds (70bps QoQ). Fee income declined by 11.5% QoQ on account of a sharp 35.8% and 21.9% QoQ decline in the transaction banking and distribution income respectively. Provisioning expenses declined by 88.0% YoY to Rs15mn net of provision write back of Rs150mn on one single large account, which boosted profitability.

■ **Business growth remains healthy; CASA ratio improves:** Advances grew by 26.1% YoY but declined by 3.7% QoQ as the management cautiously de-risked its portfolio from some of the segments from the credit quality perspective. On a sequential basis, only business banking loans grew by 2.6% QoQ, while the corporate loans de-grew by 6.5% QoQ. The pace of deposit growth moderated as deposits grew by 44.1% YoY, but declined by 5.1% QoQ. The sequential decline in deposits was lead by a 5.8% QoQ decline in term deposits, while the CASA deposits grew strongly by 50.1% YoY. As a result the CASA ratio improved to 10.9% from 10.3% in Q4FY11. Notably the bank opened 41 branches during the quarter resulting into addition of 75 new branches in past two quarters.

Contd...2

Key financials (Y/e March)	2010	2011	2012E	2013E
Net interest income (Rs m)	7,880	12,469	16,782	23,458
Growth (%)	54.7	58.2	34.6	39.8
Operating profit (Rs m)	8,633	11,904	15,975	21,679
PAT (Rs m)	4,777	7,272	9,905	13,504
EPS (Rs)	14.1	20.9	25.6	34.9
Growth (%)	37.4	48.9	22.1	36.3
Net DPS (Rs)	1.5	2.5	3.0	3.5

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
NIM (%)	2.66	2.61	2.47	2.62
RoAE (%)	20.3	21.1	19.9	20.0
RoAA (%)	1.61	1.52	1.46	1.51
P / BV (x)	3.5	2.9	2.0	1.7
P / ABV (x)	3.5	2.9	2.0	1.7
PE (x)	22.6	15.2	12.4	9.1
Net dividend yield (%)	0.5	0.8	0.9	1.1

Source: Company Data; PL Research

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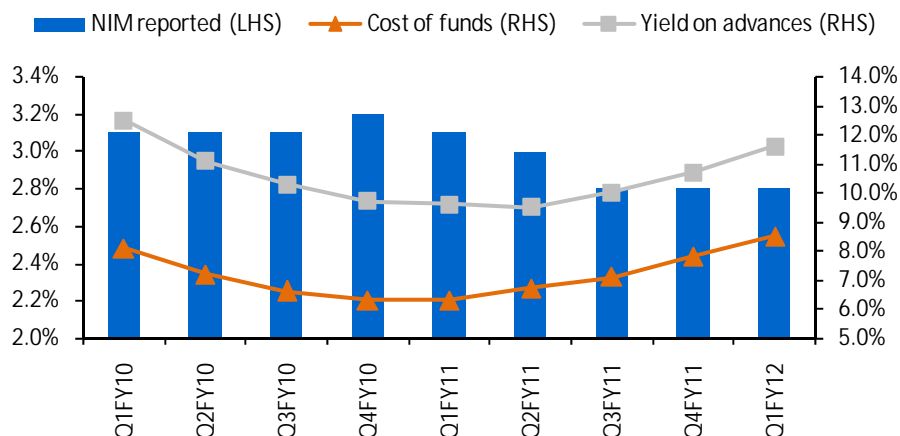
- **Asset quality improves considerably:** Gross NPAs declined by 30.5% QoQ on account of recoveries from one single large account. Provision coverage improved further to 95% from ~89% in Q4FY11. The cumulative restructured assets stood stable at Rs0.87bn or 0.26% of gross advances. The net NPAs stood at an all time low and at near zero levels at 0.01%.
- **Valuation and Outlook:** Yes Bank reported a healthy set of numbers with stable margins and impeccable asset quality. The bank is progressing well on its growth plan chalked out under the current growth phase of the bank. The bank is aggressively rolling out its branch network which should enable it to strengthen its liability franchise. We expect Yes Bank to record earnings CAGR of 36% during the period FY11-13E with RoA's remaining high at around 1.5% levels. We have also factored in equity dilution of ~11% in FY12 as the bank is likely to raise capital to fund its future growth requirements. At CMP, the stock trades at 2.0x and 1.7x its FY12E and FY13E ABV, respectively. We maintain our **'BUY'** rating and price target of Rs450 on the stock.

Exhibit 1: Q1FY12 Result Overview (Rs m)

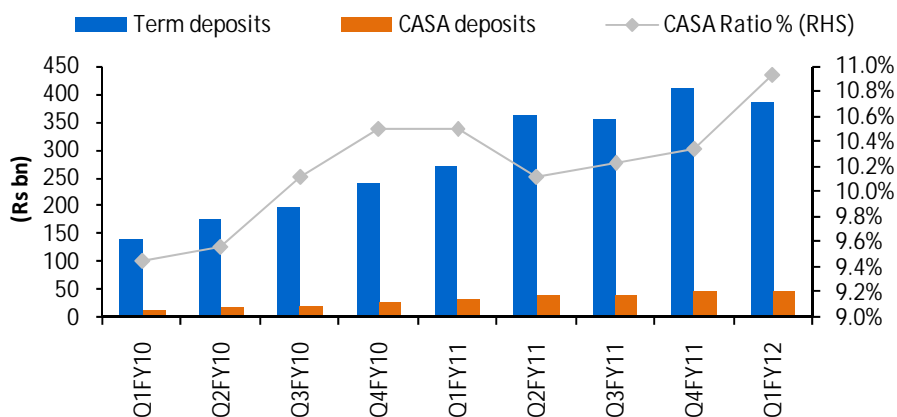
Y/e March	Q1FY12	Q1FY11	YoY Gr. (%)	Q4FY11	QoQ Gr. (%)
Interest Income	13,995	7,392	89.3	12,226	14.5
Interest Expense	10,454	4,771	119.1	8,741	19.6
Net Interest Income	3,542	2,621	35.1	3,485	1.6
Non-Interest Income	1,653	1,438	14.9	1,868	(11.5)
Treasury Income	247	226	9.3	241	2.5
Other Income	1,406	1,212	16.0	1,627	(13.6)
Net total Income	5,195	4,059	28.0	5,353	(2.9)
Operating Expenses	1,944	1,570	23.8	1,865	4.2
Employee	1,098	812	35.2	1,030	6.6
Other operating expenses	846	758	11.6	835	1.3
Operating profit	3,251	2,490	30.6	3,488	(6.8)
Core operating profit	3,004	2,264	32.7	3,247	(7.5)
Provisions	15	126	(88.0)	433	(96.5)
Profit before tax	3,236	2,364	36.9	3,055	5.9
Tax	1,075	800	34.4	1,021	5.3
<i>Effective Tax Rate (%)</i>	<i>33.2</i>	<i>33.9</i>		<i>33.4</i>	
Net Profit after tax	2,161	1,564	38.2	2,034	6.2
Asset Quality					
Gross NPA's	560	597	(6.3)	805	(30.5)
<i>Gross NPA's %</i>	<i>0.17</i>	<i>0.23</i>		<i>0.23</i>	
Net NPA's	27	111	(75.9)	92	(70.8)
<i>Net NPA's %</i>	<i>0.01</i>	<i>0.04</i>		<i>0.03</i>	
<i>Provision Coverage (%)</i>	<i>95.2</i>	<i>81.4</i>		<i>88.6</i>	
Capital Adequacy (%)					
<i>CAR</i>	<i>16.2</i>	<i>16.6</i>		<i>16.5</i>	
<i>Tier 1</i>	<i>9.6</i>	<i>10.3</i>		<i>9.7</i>	
Yield Measurement ratios (%)					
<i>NIM - reported</i>	<i>2.80</i>	<i>3.10</i>		<i>2.80</i>	
<i>NIM - calculated</i>	<i>2.44</i>	<i>3.00</i>		<i>2.51</i>	
Balance Sheet Items					
Deposits	435,759	302,387	44.1	459,389	(5.1)
CASA	47,644	31,751	50.1	47,509	0.3
<i>CASA Ratio (%)</i>	<i>10.9</i>	<i>10.5</i>		<i>10.3</i>	
Advances	331,042	262,568	26.1	343,636	(3.7)
Investments	175,448	110,175	59.2	188,288	(6.8)
Total Assets	569,636	334,961	70.1	590,070	(3.5)

Source: Company Data, PL Research

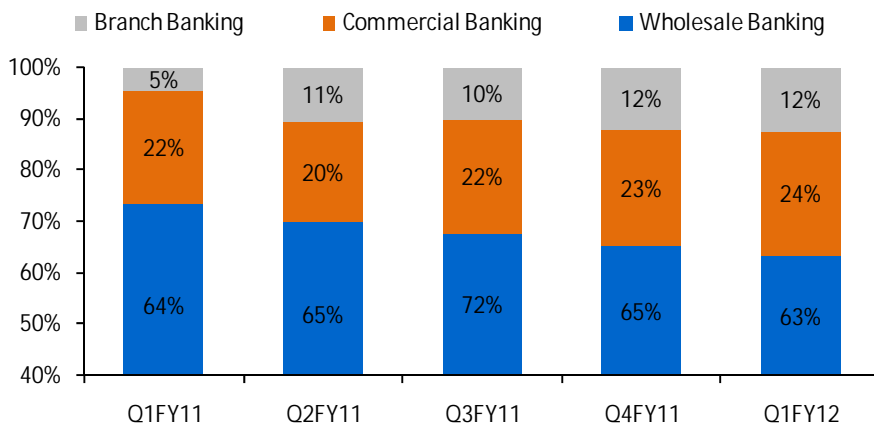
Reported NIM remained stable QoQ at 2.8% as the bank was able to pass on the increase in its cost of funds. On a QoQ basis, the increase in the yield on advances (90bps QoQ) outpaced the increase in the cost of funds (70bps QoQ).

Exhibit 2: Quarterly trend in reported margins, yield on advances and cost of funds


Source: Company Data, PL Research

Exhibit 3: Trend in deposit composition and growth


Source: Company Data, PL Research

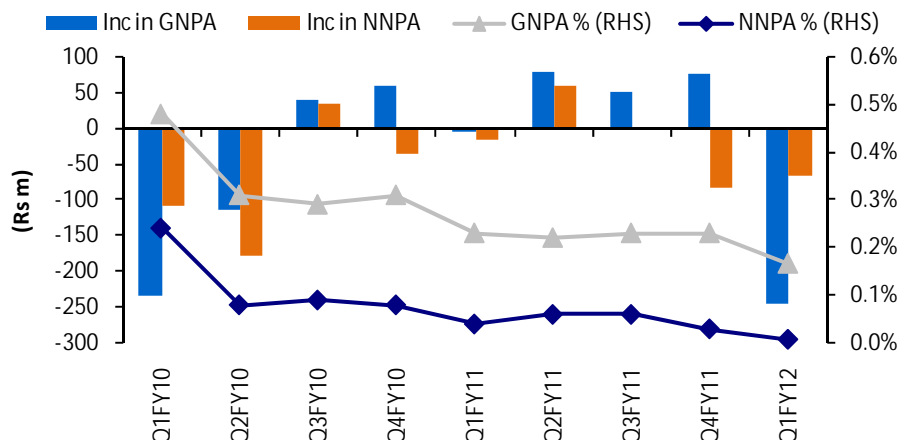
Exhibit 4: QoQ trend in loan book break-up


Source: Company Data, PL Research

During Q1FY12, only the commercial banking segment recorded a sequential increase of 2.6%, while the corporate or the wholesale banking segment declined by 6.5% QoQ. Meanwhile the branch banking loans remained largely stable on a QoQ basis.

Exhibit 5: QoQ change in gross and net NPAs

Asset quality improved considerably with GNPA's declining by 30.5% QoQ. The provision cover of the bank further improved to 95% from 88% in Q4FY11 and as a result the net NPAs stood at an all time low of near zero levels of 0.01%.



Source: Company Data, PL Research

Transaction banking and branch banking fees decline sequentially

Fee income during the quarter grew by 15.0% YoY but declined by 11.5% QoQ on account of a sharp 35.8% QoQ decline in the transaction banking fees driven by lower activity in the wholesale banking segment and a 21.9% QoQ decline in the distribution income on account of the seasonal nature of the business.

Exhibit 6: Other income breakup

	(Rs m)				
Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	QoQ gr. (%)
Transaction banking	420	343	22.4	654	(35.8)
Financial markets	247	226	9.3	241	2.5
Financial Advisory	829	761	8.9	772	7.4
3rd party distribution	157	108	45.4	201	(21.9)
Total	1,653	1,438	15.0	1,868	(11.5)

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Int. Earned from Adv.	17,715	29,891	43,319	55,587
Int. Earned from Inv.	5,859	10,273	16,637	20,597
Others	123	253	408	822
Total Interest Income	23,697	40,418	60,363	77,007
Interest expense	15,818	27,948	43,581	53,549
NII	7,880	12,469	16,782	23,458
Growth (%)	54.7	58.2	34.6	39.8
Treasury Income	2,008	1,018	1,578	1,736
NTNII	3,747	5,215	6,738	8,591
Non Interest Income	5,755	6,233	8,316	10,326
Total Income	29,452	46,651	68,679	87,333
Growth (%)	20.8	58.4	47.2	27.2
Operating Expense	5,002	6,798	9,123	12,106
Operating Profit	8,633	11,904	15,975	21,679
Growth (%)	63.6	37.9	34.2	35.7
NPA Provisions	876	393	706	715
Total Provisions	1,368	982	1,191	1,523
PBT	7,265	10,922	14,784	20,155
Tax Provisions	2,488	3,650	4,879	6,651
Effective Tax Rate (%)	34.2	33.4	33.0	33.0
PAT	4,777	7,272	9,905	13,504
Growth (%)	57.2	52.2	36.2	36.3

Balance Sheet (Rs m)

Y/e March	2010	2011	2012E	2013E
Par Value	10	10	10	10
No. of equity shares	340	347	387	387
Equity	3,397	3,472	3,872	3,872
Networth	30,896	37,941	61,487	73,405
Adj. Networth	30,766	37,849	60,765	71,224
Deposits	267,986	459,389	597,206	794,284
Growth (%)	65.7	71.4	30.0	33.0
Low Cost deposits	28,182	47,509	65,693	103,257
% of total deposits	10.5	10.3	11.0	13.0
Total Liabilities	363,825	590,070	767,757	1,020,280
Net Advances	221,931	343,636	440,683	602,245
Growth (%)	78.9	54.8	28.2	36.7
Investments	102,099	188,288	250,827	317,714
Total Assets	363,825	590,070	767,757	1,020,280

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Interest Income	9,538	11,262	12,226	13,995
Interest Expense	6,406	8,030	8,741	10,454
Net Interest Income	3,132	3,232	3,485	3,542
Non Interest Income	1,310	1,617	1,868	1,653
CEB	1,169	1,207	1,627	1,406
Treasury	141	410	241	247
Net Total Income	4,442	4,848	5,353	5,195
Operating Expenses	1,628	1,736	1,865	1,944
Employee Expenses	878	903	1,030	1,098
Other Expenses	750	833	835	846
Operating Profit	2,814	3,113	3,488	3,251
Core Operating Profit	2,673	2,703	3,247	3,004
Provisions	174	250	433	15
Profit before tax	2,640	2,863	3,055	3,236
Tax	877	952	1,021	1,075
PAT before EO	1,763	1,911	2,034	2,161
Extraordinary item	—	—	—	—
PAT	1,763	1,911	2,034	2,161

Key Ratios

Y/e March	2010	2011	2012E	2013E
CMP (Rs)	318	318	318	318
Equity Shrs. Os. (m)	340	347	387	387
Market Cap (Rs m)	110,342	110,342	110,342	110,342
M/Cap to AUM (%)	29.7	18.7	16.0	12.1
EPS (Rs)	14.1	20.9	25.6	34.9
Book Value (Rs)	91	109	159	190
Adj. BV (75%) (Rs)	91	110	158	186
P/E (x)	22.6	15.2	12.4	9.1
P/BV (x)	3.5	2.9	2.0	1.7
P/ABV (x)	3.5	2.9	2.0	1.7
DPS (Rs)	1.5	2.5	3.0	3.5
Dividend Yield (%)	0.5	0.8	0.9	1.1

Profitability (%)

Y/e March	2010	2011	2012E	2013E
NIM	2.7	2.6	2.5	2.6
RoAA	1.6	1.5	1.5	1.5
RoAE	20.3	21.1	19.9	20.0

Efficiency

Y/e March	2010	2011	2012E	2013E
Cost-Income Ratio (%)	36.7	36.3	36.3	35.8
C-D Ratio (%)	82.8	74.8	73.8	75.8
Business per Emp. (Rs m)	161	204	211	240
Profit per Emp. (Rs m)	16	19	20	23
Business per Branch (Rs m)	3,266	3,752	3,591	3,837
Profit per Branch (Rs m)	32	34	34	37

Asset Quality

Y/e March	2010	2011	2012E	2013E
Gross NPAs (Rs m)	602	805	1,767	3,622
Net NPAs (Rs m)	130	92	722	2,181
Gr. NPAs to Gross Adv. (%)	0.3	0.2	0.4	0.6
Net NPAs to Net Adv. (%)	0.1	0.0	0.2	0.4
NPA Coverage (%)	78.4	88.6	59.1	39.8

Source: Company Data, PL Research.

July 21, 2011

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Rating	Accumulate
Price	Rs132
Target Price	Rs133
Implied Upside	.8%
Sensex	18,436

(Prices as on July 21, 2011)

Trading data

Market Cap. (Rs bn)	129.3
Shares o/s (m)	978.1
3M Avg. Daily value (Rs m)	309.3

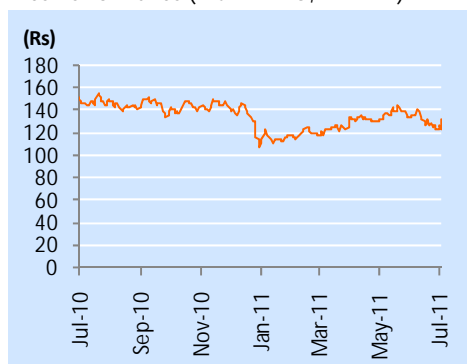
Major shareholders

Promoters	42.78%
Foreign	35.14%
Domestic Inst.	14.27%
Public & Other	7.81%

Stock Performance

(%)	1M	6M	12M
Absolute	(2.9)	15.7	(12.4)
Relative	(7.9)	18.7	(14.9)

Price Performance (RIC: ZEE.BO, BB: Z IN)



Source: Bloomberg

Zee Entertainment

Dismal ad growth; DTH maintains momentum

- **Ad growth disappoints despite muted expectations:** Zee Entertainment (ZEEL) has recorded a dismal 0.5% YoY ad revenue growth, as ad spends slowed down considerably in the latter half of the quarter. While the general slowdown in ad spends was a major factor, the lull in advertising after the heavy cricket spends also contributed to the drag.
- **Sports drag continues:** Sports segment recorded revenues of Rs 873m and operating loss of Rs 566m. While management continues to maintain its guidance of maximum full year sports losses of Rs 1bn, we believe that the bleak outlook on ad spends and pre-fixed nature of content costs will prove a significant challenge.
- **Strong DTH growth drives pay revenues:** Subscription revenue slipped 2% QoQ as DTH revenues (up 13% QoQ) mitigated the impact of a decline in domestic cable revenues (down 7% QoQ) and international revenues (down 10% QoQ).
- **Operating profits hit by higher cost base:** More programming hours, higher costs per hour for content and the higher personnel expenses led to pressure on margins as ad revenue slowed down. One-time expenses of ~Rs 210m on the re-branding exercise at Zee also contributed to EBITDA margin slippage of ~530 bp YoY to 22.3%. Adjusting for this, EBITDA margin was 25.4%.
- **Outlook:** While the impact of the slowdown in ad spends was more severe than expected, the improvement in DTH revenues augurs well for maintaining profitability. Further, the reduction in sports losses (management has guided to a max. loss of Rs 1bn) could prove a major positive. We reduce our EPS estimates marginally for FY12E (-4%) and FY13E (-1%) maintain our **Accumulate** rating with a **target price of Rs 133**.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	21,997	30,135	33,291	38,179
Growth (%)	1.0	37.0	10.5	14.7
EBITDA (Rs m)	6,134	8,265	8,633	10,244
PAT (Rs m)	6,060	6,030	6,160	7,240
EPS (Rs)	12.4	6.2	6.3	7.4
Growth (%)	54.8	(50.2)	2.1	17.5
Net DPS (Rs)	4.0	2.0	1.3	1.5

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	27.9	27.4	25.9	26.8
RoE (%)	16.8	17.4	18.5	18.8
RoCE (%)	15.2	17.0	18.7	19.0
EV / sales (x)	2.7	4.2	3.7	3.1
EV / EBITDA (x)	9.8	15.2	14.4	11.7
PE (x)	10.7	21.4	21.0	17.9
P / BV (x)	1.7	4.2	3.6	3.1
Net dividend yield (%)	3.0	1.5	1.0	1.1

Source: Company Data; PL Research

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Exhibit 1: Q1FY12 Result Overview (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	QoQ gr. (%)
Net Sales	6,983	6,770	3.1	7,980	(12.5)
Programming & Operating Cost	3,423	3,050	12.2	3,730	
<i>% of net sales</i>	<i>49.0</i>	<i>45.1</i>		<i>46.7</i>	<i>4.9</i>
Staff Cost	747	597	25.1	825	
<i>% of net sales</i>	<i>10.7</i>	<i>8.8</i>		<i>10.3</i>	<i>3.4</i>
Selling & Other Expenditure	1,253	1,252	0.0	1,156	
<i>% of net sales</i>	<i>17.9</i>	<i>18.5</i>		<i>14.5</i>	<i>23.9</i>
Total Expenses	5,423	4,900	10.7	5,711	
<i>% of net sales</i>	<i>77.7</i>	<i>72.4</i>		<i>71.6</i>	<i>8.5</i>
Operating profit	1,561	1,870	(16.6)	2,269	(31.2)
<i>OPM (%)</i>	<i>22.3</i>	<i>27.6</i>		<i>28.4</i>	
Other income	255	126	102.1	228	11.8
EBITDA	1,815	1,996	(9.1)	2,496	(27.3)
<i>EBITDA margins (%)</i>	<i>26.0</i>	<i>29.5</i>		<i>31.3</i>	
Depreciation	89	62	43.3	68	31.4
Interest	31	51	(39.8)	23	32.6
Profit before tax	1,696	1,884	(10.0)	2,406	(29.5)
Extraordinary income	-	291	(100.0)	13	(100.0)
Tax	394	673	(41.4)	501	(21.2)
<i>Tax rate (%)</i>	<i>23.2</i>	<i>35.7</i>		<i>20.8</i>	
PAT before minority interest & exceptional items	1,302	1,210	7.5	1,905	(31.7)
Less: Minority interest	(35)	(38)	(8.1)	(36)	(2.2)
Adjusted PAT	1,337	1,249	7.1	1,941	(31.1)
Exceptional Items	-	291		13	
Reported PAT	1,337	1,539	(13.2)	1,954	(31.6)

Source: Company Data, PL Research

Exhibit 2: Segmental Breakup (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	QoQ gr. (%)
Advertisement	3,787	3,769	0.5	4,797	(21.0)
Subscription	3,051	2,614	16.7	3,107	(1.8)
Others	145	387	(62.6)	76	90.1
Total revenues	6,983	6,770	3.1	7,980	(12.5)

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	21,997	30,135	33,291	38,179
Raw Material Expenses	9,452	14,369	16,220	18,240
Gross Profit	12,545	15,766	17,072	19,939
Employee Cost	1,963	2,738	3,209	3,787
Other Expenses	4,448	4,762	5,229	5,909
EBITDA	6,134	8,265	8,633	10,244
Depr. & Amortization	285	288	318	352
Net Interest	331	104	85	97
Other Income	1,220	851	794	842
Profit before Tax	6,738	8,725	9,024	10,637
Total Tax	857	2,813	2,864	3,397
Profit after Tax	5,881	5,912	6,159	7,240
Ex-Od items / Min. Int.	(212)	(118)	—	—
Adj. PAT	6,060	6,030	6,160	7,240
Avg. Shares O/S (m)	489.0	978.1	978.1	978.1
EPS (Rs.)	12.4	6.2	6.3	7.4

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	7,067	5,727	3,283	5,382
C/F from Investing	4,552	(4,990)	586	618
C/F from Financing	(7,846)	(2,951)	(2,358)	(1,529)
Inc. / Dec. in Cash	3,773	(2,214)	1,511	4,471
Opening Cash	2,092	6,072	3,858	5,368
Closing Cash	5,865	3,858	5,368	9,839
FCFF	15,068	5,715	2,656	6,267
FCFE	10,506	4,537	2,656	6,267

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	1.0	37.0	10.5	14.7
EBITDA (%)	12.4	34.7	4.4	18.7
PAT (%)	74.4	(0.5)	2.1	17.5
EPS (%)	54.8	(50.2)	2.1	17.5
Profitability				
EBITDA Margin (%)	27.9	27.4	25.9	26.8
PAT Margin (%)	27.5	20.0	18.5	19.0
RoCE (%)	15.2	17.0	18.7	19.0
RoE (%)	16.8	17.4	18.5	18.8
Balance Sheet				
Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.2)
Net Wrkng Cap. (days)	(15)	5	28	26
Valuation				
PER (x)	10.7	21.4	21.0	17.9
P / B (x)	1.7	4.2	3.6	3.1
EV / EBITDA (x)	9.8	15.2	14.4	11.7
EV / Sales (x)	2.7	4.2	3.7	3.1
Earnings Quality				
Eff. Tax Rate	12.7	32.2	31.7	31.9
Other Inc / PBT	18.1	9.8	8.8	7.9
Eff. Depr. Rate (%)	8.0	8.2	7.6	7.9
FCFE / PAT	173.4	75.2	43.1	86.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	38,300	30,948	35,675	41,233
Total Debt	1,195	17	17	17
Other Liabilities	(22)	(118)	(119)	(119)
Total Liabilities	39,472	30,846	35,574	41,131
Net Fixed Assets	3,193	2,320	2,320	2,320
Goodwill	16,395	6,144	6,094	6,045
Investments	3,203	6,964	6,964	6,965
Net Current Assets	16,549	15,225	19,889	25,383
<i>Cash & Equivalents</i>	<i>5,864</i>	<i>3,858</i>	<i>5,368</i>	<i>9,839</i>
<i>Other Current Assets</i>	<i>21,050</i>	<i>20,512</i>	<i>24,547</i>	<i>26,475</i>
<i>Current Liabilities</i>	<i>10,365</i>	<i>9,145</i>	<i>10,026</i>	<i>10,931</i>
Other Assets	132	193	306	419
Total Assets	39,472	30,846	35,574	41,131

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	7,116	7,548	7,980	6,983
EBITDA	1,885	1,541	2,269	1,561
% of revenue	26.5	20.4	28.4	22.3
Depr. & Amortization	56	78	68	89
Net Interest	5	24	23	31
Other Income	240	232	228	255
Profit before Tax	2,064	1,672	2,406	1,696
Total Tax	801	818	501	394
Profit after Tax	1,262	1,509	1,954	1,337
Adj. PAT	1,262	809	1,941	1,337

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Ad Rev (Rs m)	10,670	17,010	18,527	20,891
Total Pay Rev (Rs m)	9,869	11,259	13,149	15,815
DTH Rev (Rs m)	2,247	3,295	4,619	6,422
Cable Rev (Rs m)	3,449	3,870	4,395	4,964
Int. Cable Rev (Rs m)	4,173	4,094	4,135	4,429
Ad rev growth (%)	0.7	59.4	8.9	12.8
DTH rev growth (%)	89.8	46.7	40.2	39.0

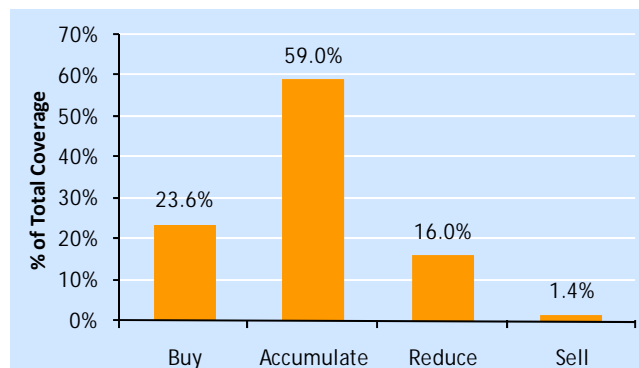
Source: Company Data, PL Research.

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Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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