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#### Results, Change in Reco

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### News Round-up

- ▶ Food inflation shot up to a 25 week high, moving again into double-digit territory & increasing the likelihood the RBI will raise interest rates yet again at next week's monetary policy review. Food inflation for the week to Oct. 8 rose to 10.6% from a year ago compared with 9.32% in the previous week. (ECNT)
- ▶ Shares of housing finance cos. fell in a weak market on concern the regulatory move to ban these firms from penalising pre-payment of loans would affect their profits. (ECNT)
- ▶ The Directorate General of Hydrocarbon's move to arm-twist Reliance Ind. (RIL IN) into spending about USD 612.24mn to drill four new wells at the KG-D6 block faces scrutiny by the national auditor as the wells turned out to be dry & the govt. will have to foot the bill. (ECNT)
- ▶ SEBI set to probe alleged disclosure & investor protection rule violation by DLF (DLFU IN). (ECNT)
- ▶ Hindustan Zinc (HZ IN) has discovered zinc & lead reserves in Ajmer district of Rajasthan. The co. has found proven reserves of 10-12 million tonne zinc & expects it can go further after exploration. (TTOI)
- ▶ SBI (SBIN IN) hikes home loan tenure to 30 years. Rising rates prompt extension by 10 more years; others may follow suit. (BSTD)

Source: ECNT= Economic Times, BSTD = Business Standard, FNLE = Financial Express, THBL = Business Line.

### EQUITY MARKETS

India	Change %			
	20-Oct	1-day	1-mo	3-mo
Sensex	16,937	(0.9)	(0.8)	(8.1)
Nifty	5,092	(0.9)	(0.8)	(8.1)
<b>Global/Regional indices</b>				
Dow Jones	11,542	0.3	3.7	(9.3)
Nasdaq Composite	2,599	(0.2)	2.4	(8.3)
FTSE	5,385	(1.2)	1.8	(8.7)
Nikkie	8,690	0.1	(0.6)	(13.2)
Hang Seng	17,993	0.1	(4.4)	(18.2)
KOSPI	1,822	0.9	(1.7)	(15.1)
<b>Value traded – India</b>				
Cash (NSE+BSE)	117		130	137
Derivatives (NSE)	1,592		1,323	1,335
Deri. open interest	1,368		1,410	1,436

#### Forex/money market

	Change, basis points			
	20-Oct	1-day	1-mo	3-mo
Rs/US\$	49.8	0	148	540
10yr govt bond, %	8.8	3	47	53

#### Net investment (US\$m)

	19-Oct	MTD	CYTD
FIs	4	(76)	(226)
MFs	(2)	56	(282)

#### Top movers -3mo basis

		Change, %			
<b>Best performers</b>		20-Oct	1-day	1-mo	3-mo
ACEM	IN Equity	153.9	(1.0)	2.7	21.9
IDEA	IN Equity	93.3	(0.8)	(5.8)	17.0
UTCEM	IN Equity	1119.1	(0.4)	(4.2)	15.0
MM	IN Equity	801.6	(1.1)	(1.6)	14.1
ACC	IN Equity	1115.1	(1.0)	4.0	14.0
<b>Worst performers</b>					
IVRC	IN Equity	36.0	(2.6)	(12.2)	(46.3)
RCAPT	IN Equity	337.5	1.1	(20.1)	(42.5)
IBREL	IN Equity	69.6	(2.5)	(15.3)	(40.6)
HDIL	IN Equity	93.9	(1.7)	(16.9)	(39.0)
ADE	IN Equity	465.6	(1.6)	(24.8)	(35.3)

**'Royal'ty conundrum.** Cairn reported weak 2QFY12 results with adjusted net income at Rs7.2 bn (quarterly results not comparable) versus our estimate of Rs8.6 bn (adjusted for one-off royalty payment). 2QFY12 results had multiple adjustments on account of (1) royalty being treated as cost recoverable, (2) foreign exchange gain and (3) finance charges. We have explained the impact of these one-off items later in the note. We maintain our REDUCE rating on the stock given modest upside to our revised 12-month target price of Rs300 (Rs295 previously).

### Company data and valuation summary

Cairn India

#### Stock data

52-week range (Rs) (high,low) 372-249

Market Cap. (Rs bn) 558.3

#### Shareholding pattern (%)

Promoters 62.2

FIs 7.4

MFs 1.7

#### Price performance (%)

Absolute (3.9) (7.2) (13.0)

Rel. to BSE-30 (3.0) 1.4 2.0

#### Forecasts/Valuations

2011 2012E 2013E

EPS (Rs) 33.3 41.8 50.6

EPS growth (%) 501.1 25.4 21.2

P/E (X) 8.8 7.0 5.8

Sales (Rs bn) 109.0 133.8 163.2

Net profits (Rs bn) 63.3 80.5 96.3

EBITDA (Rs bn) 85.4 109.0 129.3

EV/EBITDA (X) 6.3 4.6 3.7

ROE (%) 16.9 18.3 20.0

Div. Yield (%) 0.0 1.7 5.1

### 2QFY12 results—not comparable due to several one-offs

Cairn reported 2QFY12 EBITDA at ₹21 bn (-33.7% qoq), versus our estimate of ₹27.8 bn. Crude price realization was lower qoq at US\$102.8/bbl (-2.9% qoq). Crude oil production from Rajasthan block remained stable qoq at 125,251 b/d (gross basis). 2QFY12 gas realization was US\$4.5/mcf versus US\$4.5/mcf in 1QFY12 and 2QFY11. The management highlighted that it expects to start production from Bhagyam in 4QCY11 and Aishwariya in 2HCY12. However, the management was diffident of achieving production beyond 175,000 b/d in the near term without augmentation of infrastructure capacity.

### And now the details of one-offs

(1) We note that 2QFY12 results had multiple adjustments on account of royalty becoming cost recoverable. 2QFY12 reported net income of ₹7.6 bn included ₹13.6 bn of provision on account of cost-recoverability of royalty for prior periods. (2) Other income increased sharply to ₹5.9 bn in 2QFY12, led by foreign exchange gain of ₹5.3 bn, which reflects the impact of rupee depreciation on foreign currency-denominated deposits of US\$1 bn. (3) Finance charges increased sharply to ₹1.23 bn in 2QFY12 due to one-time charge of ₹0.83 bn on repayment of foreign currency loans.

### Not a BUY unless we assume very high crude oil prices and/or recoverable reserves

We maintain our REDUCE rating on the stock with a target price of ₹300. We find it difficult to build a case for investment in the stock at current levels unless we assume (1) very high crude oil prices in perpetuity or (2) significantly higher recoverable reserves. We note that the current stock price is discounting US\$90/bbl in perpetuity. We also highlight that we already assume recoverable reserves at 1.45 bn bbls from the Rajasthan block versus management guidance of 2P reserves of 1.15 bn bbls.

### Fine-tuned earnings; retain REDUCE with a revised target price of ₹300

We have revised our FY2012-14E EPS to ₹41.8 (+3.4%), ₹50.6 (+2.6%) and ₹41.4 (+2.5%) to reflect (1) 2QFY12 results, (2) revised exchange rate assumptions, (3) lower production from Rajasthan field and (4) other minor changes. We retain our REDUCE rating on the stock with a 12-month DCF-based target price of ₹300 (₹295 previously) noting modest upside from current levels.

## REDUCE

OCTOBER 20, 2011

### RESULT

Coverage view: **Attractive**

Price (Rs): **294**

Target price (Rs): **300**

BSE-30: **16,937**

### QUICK NUMBERS

- US\$425 mn of prior-period royalty = US\$294 mn of exceptional item + US\$42 mn of adjustment against 1QFY12 profit petroleum + US\$89 mn of royalty adjusted from 2QFY12 revenues
- Stock price discounting US\$90/bbl of crude price in perpetuity

Gundeep Singh

gundeep.singh@kotak.com

Mumbai: +91-22-6634-1286

Tarun Lakhotia

tarun.lakhotia@kotak.com

Mumbai: +91-22-6634-1188

Kotak Institutional Equities Research  
kotak.research@kotak.com

Mumbai: +91-22-6634-1100

## Details of 2QFY12 results and other operational update

Exhibit 1 gives highlights of Cairn's 2QFY12 results and compares the same with 1QFY12 and 2QFY11. We discuss key highlights below.

### Interim results of Cairn India (₹ mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.)			yoy			2012E
					2QFY12E	2QFY11	1QFY12	1HFY12	1HFY11	(% chg.)	
<b>Income from operations</b>	<b>26,522</b>	<b>33,125</b>	<b>26,864</b>	<b>37,127</b>	<b>(19.9)</b>	<b>(1.3)</b>	<b>(28.6)</b>	<b>51,126</b>	<b>35,270</b>	<b>45.0</b>	<b>123,205</b>
Total expenditure	(5,482)	(5,363)	(5,358)	(5,387)	2.2	2.3	1.8	(10,861)	(7,705)	41.0	(24,002)
Inc/(Dec) in stock	37	—	(268)	(56)	—	—	—	(19)	402	—	—
Operating expenses	(4,708)	(4,372)	(4,257)	(4,257)	7.7	10.6	10.6	(8,965)	(6,445)	39.1	(19,772)
Staff cost	(235)	(295)	(300)	(191)	(20.6)	(21.7)	23.0	(426)	(489)	(12.9)	(1,182)
Government taxes/share of profit	—	—	—	—	—	—	—	—	—	—	—
Other expenditure	(576)	(696)	(534)	(883)	(17.2)	7.9	(34.7)	(1,451)	(1,173)	23.6	(3,048)
<b>EBITDA</b>	<b>21,040</b>	<b>27,762</b>	<b>21,506</b>	<b>31,740</b>	<b>(24.2)</b>	<b>(2.2)</b>	<b>(33.7)</b>	<b>40,265</b>	<b>27,565</b>	<b>46.1</b>	<b>99,203</b>
Other income	5,930	974	282	528	—	—	—	6,450	563	—	9,778
Interest	(1,228)	(362)	(1,281)	(446)	—	—	—	(1,674)	(1,774)	—	(2,457)
Exploration costs written off	(389)	(250)	(422)	(187)	55.5	(7.9)	107.6	(576)	(744)	(22.5)	(1,500)
DD&A	(3,142)	(3,650)	(2,756)	(3,460)	(13.9)	14.0	(9.2)	(6,602)	(4,416)	49.5	(15,153)
<b>Pretax profits</b>	<b>22,211</b>	<b>24,475</b>	<b>17,329</b>	<b>28,175</b>	<b>(9.3)</b>	<b>28.2</b>	<b>(21.2)</b>	<b>37,862</b>	<b>21,195</b>	<b>78.6</b>	<b>89,871</b>
Extraordinaries/sales tax benefit	(13,552)	—	—	—	—	—	—	(1,028)	—	—	(1,028)
Tax	(1,211)	(1,532)	(2,799)	(651)	(21.0)	(56.7)	86.0	(1,862)	(3,095)	(39.8)	(6,586)
Deferred taxation	182	—	1,321	(258)	—	—	—	(76)	565	—	(2,817)
<b>Net income</b>	<b>7,630</b>	<b>22,238</b>	<b>15,851</b>	<b>27,266</b>	<b>(65.7)</b>	<b>(51.9)</b>	<b>(72.0)</b>	<b>34,896</b>	<b>18,665</b>	<b>87.0</b>	<b>79,440</b>
<b>EPS (Rs)</b>	<b>4.0</b>	<b>11.7</b>	<b>8.3</b>	<b>14.3</b>	—	—	—	<b>18.3</b>	<b>9.8</b>	—	<b>41.8</b>
Income tax rate (%)	11.9	9.1	8.5	3.2	—	—	—	5.3	11.9	—	10.6
<b>Production, selling price data</b>											
Production volume, gross ('000 boepd)	169.9	172.3	165.4	171.8	(1.4)	2.8	(1.1)	170.9	130.2	31.3	182.5
<b>Production volume, net ('000 boepd)</b>	<b>99.2</b>	<b>99.8</b>	<b>94.3</b>	<b>99.6</b>	<b>(0.5)</b>	<b>5.2</b>	<b>(0.4)</b>	<b>99.4</b>	<b>69.6</b>	<b>42.9</b>	<b>106.6</b>
Rajasthan	87.7	87.5	81.2	87.6	0.2	7.9	0.1	87.6	56.2	56.1	94.3
CB-OS-2	3.4	3.7	4.5	3.5	(7.4)	(24.2)	(3.9)	3.5	5.0	(29.9)	3.6
Oil	2.2	2.2	2.6	2.2	(1.9)	(18.3)	(3.4)	2.2	3.0	(26.0)	2.2
Gas (mn cf/d)	7.6	8.0	11.2	8.0	(5.1)	(32.1)	(5.0)	7.8	12.0	(35.0)	7.8
Ravva	8.1	8.6	8.6	8.5	(5.1)	(5.0)	(4.3)	8.3	8.5	(1.5)	8.7
Oil	6.1	6.8	6.6	6.9	(10.1)	(8.3)	(11.5)	6.5	6.6	(1.4)	6.8
Gas (mn cf/d)	12.4	9.9	11.7	9.9	25.1	5.8	25.0	11.1	11.4	(2.0)	10.7
<b>Selling price, oil (US\$/bbl)</b>	<b>102.8</b>	<b>103.4</b>	<b>69.5</b>	<b>105.9</b>	<b>(0.6)</b>	<b>47.9</b>	<b>(2.9)</b>	<b>104.4</b>	<b>70.8</b>	<b>47.5</b>	<b>100.0</b>
<b>Selling price, gas (US\$/mcf)</b>	<b>4.5</b>	<b>4.6</b>	<b>4.5</b>	<b>4.5</b>	<b>(2.6)</b>	—	—	<b>4.5</b>	<b>4.6</b>	<b>(1.1)</b>	<b>4.6</b>
Exchange rate (Rs/US\$)	45.7	45.8	46.5	44.7	—	—	—	45.2	46.1	—	47.3

Source: Company, Kotak Institutional Equities estimates

- **Decline in EBITDA due to cost recovery of royalty.** Cairn India reported 2QFY12 consolidated net revenues at ₹26.5 bn (-28.6% qoq and -1.3% yoy) and EBITDA at ₹21 bn (-33.7% qoq and -2.2% yoy). The qoq decline in EBITDA reflects (1) royalty adjustment of US\$209 mn versus nil in the previous quarter and (2) lower crude price realization for Rajasthan block at US\$101.6/bbl versus US\$104.9/bbl in 1QFY12. Gross production from Rajasthan block remained steady qoq at 125,251 b/d (gross basis).

The discount to Dated Brent was ~US\$11/bbl for the overall company and about US\$12/bbl for the Rajasthan block. Gas price realization was at US\$4.5/mcf versus US\$4.5/mcf in 1QFY12.

- **Production remains steady for Rajasthan block.** Cairn's share of production from Rajasthan block was at 87,676 boe/d (working interest-basis) in 2QFY12 versus 87,589 boe/d in 1QFY12. At CB-OS-2, gas production declined 5% qoq and oil production declined 3.4% qoq. At Ravva, oil production declined by 11.5% qoq and gas production increased by 25% qoq.
- **One-off impact of royalty being treated as a cost-recoverable item.** We note that 2QFY12 reported earnings of ₹7.6 bn includes a one-off provision of ₹13.6 bn to account for royalty being treated as cost-recoverable item for FY2010-11 and 1QFY12.

- ▶ **Sharp increase in other income.** Cairn's other income increased sharply to ₹5.9 bn from ₹528 mn in 1QFY12 led by foreign exchange fluctuation gain of ₹5.3 bn, which reflects the impact of rupee depreciation on its foreign currency-denominated deposits of US\$1 bn.
- ▶ **Increase in finance charges.** Cairn India reported a sharp increase in finance cost to ₹1.23 bn from ₹446 mn in 1QFY12, reflecting a one-time charge of ₹0.83 bn on repayment of foreign currency loans.
- ▶ **DD&A charges decline 9.2% qoq.** Cairn reported DD&A expense at ₹3.1 bn (-9.2% qoq). The qoq decline in DD&A expenses was on account of lower exploration activities due to monsoon. The management has guided DD&A expenses to be ~US\$9/bbl in the long term.
- ▶ **Taxation.** The effective tax rate for the company was 5.3% in 1HFY12 which reflects availing of MAT credit for ₹4.7 bn. The company booked a deferred tax asset of ₹0.2 bn in 2QFY12 versus deferred tax liability of ₹0.3 bn in 1QFY12.

### More on the royalty adjustment

We attempt to provide clarity on the adjustment on account of royalty being made cost recoverable. We highlight that the impact is fairly complicated given that multiple variables get impacted.

- ▶ **Gross revenues (A).** Cairn's gross revenues for 2QFY12 were at US\$862 mn. This represents the gross revenues without any impact of royalty being made cost recoverable.
- ▶ **Royalty pertaining to 2QFY12.** The total royalty for the Rajasthan block pertaining to 2QFY12 was US\$171 mn and Cairn's share of royalty (70%) was US\$120 mn.
- ▶ **Royalty pertaining to prior periods.** The gross royalty pertaining to prior periods for the Rajasthan block was US\$608 mn, Cairn's share of the same was US\$425 mn. However, Cairn could have recovered only US\$336 mn out of US\$425 mn given the insufficient level of revenues to recover the same. The remaining US\$89 was carried forward to 2QFY12.
- ▶ **Royalty impact taken in 2QFY12 (B).** We highlight that the total royalty adjusted from the revenues of 2QFY12 was US\$209 mn. This includes (1) US\$120 mn pertaining to 2QFY12 (A) and (2) US\$89 which was carried forward from 1QFY12 as unrecovered royalty.
- ▶ **Extraordinary item relating to prior periods.** Cairn reported extraordinary item of ₹13.6 bn (US\$294 mn) in 2QFY12 relating to royalty adjustment for prior periods up to (and including) 1QFY12. We note that US\$336 was the total royalty that Cairn could have recovered upto 1QFY12. However, the same has been netted for the profit petroleum of US\$42 mn that it paid to the government in 1QFY12. Thus, US\$294 is the net extraordinary item appearing in 2QFY12.
- ▶ **Net (adjusted) sales revenues for Cairn in 2QFY12.** We note that the reported net revenues of US\$578 mn (₹26.5 bn) represents (1) gross sales of US\$862 mn (A) less (2) royalty impact taken in 2QFY12 of US\$209 mn (B) less (3) profit petroleum of US\$75 attributable to the government.

### Difficult to build a case for investment unless one assumes (1) a very bullish view on crude oil prices and/or (2) significant upgrade to reserves

We find it difficult to build a case for investment in the stock at current valuations unless (1) we build a very bullish view on crude oil prices from current levels and/or (2) there is a significant upgrade of reserves from Rajasthan block. We give our views on these potential drivers below:

- **Crude oil prices.** We highlight that the stock has historically shown a very high correlation to crude oil prices. This is despite a very modest sensitivity of fair value to near-term crude oil prices. We note that our fair valuation changes by ₹11/share even if we assume US\$10/bbl higher crude oil prices for FY2012-13E. However, the stock price has shown a high sensitivity given that the stock is only crude oil play in India.

We note that the current stock price is discounting US\$90/bbl in perpetuity assuming (1) 1.45 bn bbls of cumulative production, (2) exchange rate assumption of ₹45/US\$ in perpetuity and (3) 2% annual inflation adjustment to crude oil prices from FY2016E onwards. We find it difficult to justify upside to the current stock price unless we model significantly higher crude oil prices in the long term.

- **Upgrade to reserves.** We do not rule out upside to our fair value from any potential upgrade to reserves from Cairn's Rajasthan block. However, we have already modeled higher estimates versus the announced 2P reserves from the Rajasthan block. We have assumed recoverable reserves of 1.45 bn bbls from the Rajasthan block versus the company's guidance of 2P reserves of 1.15 bn bbls (see Exhibit 2). We note that the company typically does an appraisal of its reserves at the end of the financial year.

**Revised gross oil in place is about 4 bn barrels and 2P reserves is 1.15 bn barrels**  
Original oil in place and reserves of RJ-ON-90/1 block (mn bbls)

	Original oil in place	2P reserves	Working Interest
MBA			
MBA EOR	2.05	0.69	0.49
Rajasthan other fields	1.98	0.31	0.22
<b>Total RJ-ON-90/1</b>	<b>4.03</b>	<b>1.15</b>	<b>0.81</b>

Source: Company, Kotak Institutional Equities

### Ramp-up in production may be slower given capacity constraints

Cairn management is planning to (1) ramp up production from Mangala field to 150,000 b/d versus 125,000 b/d and (2) start production from Bhagyam field in 4QFY12E. The management also maintained its guidance of (1) commissioning of Train IV in 2HCY11E and (2) commencement of production from Aishwariya field in 2HCY12E. The company has guided for an exit rate of 175,000 b/d for FY2012E. However, the management has cautioned against overly optimistic assumptions on the ramp-up of production given capacity constraints on its infrastructure. The management has stated it will have to augment its infrastructure capacity to ramp up production beyond 175,000 b/d.

### Earnings revision and key assumptions

We have revised our FY2012E, FY2013E and FY2014E EPS to ₹41.8, ₹50.6 and ₹41.4 from ₹40.4, ₹49.3 and ₹40.3 to reflect (1) 2QFY12 results, (2) revised exchange rate assumptions, (3) lower production from Rajasthan field and (4) other minor changes. We discuss our key assumptions behind earnings estimates below.

- **Volumes.** We model gross production from the Rajasthan block at 6.7 mn tons (135 kb/d) for FY2012E, 9 mn tons (180 kb/d) for FY2013E and 10.1 mn tons (202 kb/d) for FY2014E. We assume gross production of 1.45 bn bbls (1 bn bbls net to Cairn) over the life of the field, which is higher than the management's guidance of 2P reserves of 1.15 bn bbls.
- **Crude oil price assumption.** We assume crude oil (Dated Brent) prices at US\$110/bbl, US\$100/bbl and US\$95/bbl for FY2012E, FY2013E and FY2014E. We assume FY2015E crude price at US\$90/bbl and an increase in crude prices by 2% in perpetuity beyond FY2015E to reflect the impact of inflation. We model US\$10/bbl discount to Dated Brent for Cairn's Rajasthan crude.
- **Exchange rate.** We have revised our exchange rate assumptions for FY2012E, FY2013E and FY2014E to ₹47.3/US\$, ₹49.75/US\$ and ₹48.5/US\$ versus ₹46.3/US\$, ₹45.63/US\$ and ₹45/US\$ previously. We have assumed an exchange rate for FY2015E onwards at ₹45/US\$.

Crude price discounted at various levels of stock price of Cairn

Stock price (Rs/share)	Crude price discounted (US\$/bbl)
390	115
375	110
360	107
345	102
330	99
315	96
300	91
285	87
270	84
255	81
240	77

Note:

- (1) Crude price discounted from FY2012E in perpetuity.
- (2) Exchange rate assumption (FY2015E onwards) is ₹45/US\$.
- (3) Inflation assumption of 2% in crude prices from FY2016E onwards.

Source: Kotak Institutional Equities estimates

We value Cairn India stock at ₹300

EV and equity value of Cairn (US\$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	10,833	10,062	9,934
CB-OS-2	65	39	18
Ravva	277	223	184
Upside potential (KG-DWN-98/2)	100	112	125
<b>Total</b>	<b>11,275</b>	<b>10,436</b>	<b>10,263</b>
Net debt	(382)	(1,081)	(1,714)
<b>Equity value</b>	<b>11,657</b>	<b>11,517</b>	<b>11,976</b>
Equity shares (mn)	1,902	1,903	1,903
<b>Equity value per share (Rs/share)</b>	<b>290</b>	<b>301</b>	<b>305</b>

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn, calendar year-ends, 2006-07, March fiscal year-ends, 2009-14E (₹ mn)

	2006	2007	2009 (a)	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>								
Net sales	18,254	16,561	25,156	22,627	108,977	133,808	163,227	146,401
<b>EBITDA</b>	<b>7,521</b>	<b>6,817</b>	<b>9,098</b>	<b>9,874</b>	<b>84,117</b>	<b>99,203</b>	<b>123,328</b>	<b>103,842</b>
Other income	0	1,324	5,510	4,077	1,288	9,778	6,006	8,422
Interest	(201)	(27)	(64)	(148)	(2,909)	(2,457)	(540)	—
Depreciation	(497)	(4,589)	(4,382)	(3,570)	(13,596)	(16,653)	(22,515)	(24,794)
Pretax profits	6,823	3,524	10,162	10,232	68,900	89,871	106,278	87,469
Extraordinary items	—	(2,120)	(283)	(69)	—	(1,028)	—	—
Tax	(2,254)	(740)	(1,221)	(739)	(4,397)	(6,586)	(9,219)	(8,752)
Deferred taxation	(22)	(764)	(623)	1,087	(1,159)	(2,817)	(740)	(34)
<b>Net profits</b>	<b>4,548</b>	<b>(100)</b>	<b>8,035</b>	<b>10,511</b>	<b>63,344</b>	<b>79,440</b>	<b>96,320</b>	<b>78,684</b>
<b>Earnings per share (Rs)</b>	<b>2.6</b>	<b>(0.1)</b>	<b>4.3</b>	<b>5.5</b>	<b>33.3</b>	<b>41.8</b>	<b>50.6</b>	<b>41.4</b>
<b>Balance sheet (Rs mn)</b>								
Total equity	292,804	294,358	328,023	338,683	402,932	450,530	496,635	516,933
Deferred tax liability	4,258	4,916	5,540	4,453	5,612	8,429	9,169	9,203
Total borrowings	5,122	3,124	43,564	34,007	26,782	13,282	—	—
Current liabilities	39,716	8,372	16,132	14,806	29,266	32,159	32,912	33,266
<b>Total liabilities and equity</b>	<b>341,900</b>	<b>310,771</b>	<b>393,259</b>	<b>391,949</b>	<b>464,592</b>	<b>504,400</b>	<b>538,716</b>	<b>559,403</b>
Cash	61,348	1,504	18,968	6,269	44,847	67,038	83,112	127,430
Current assets	6,470	19,029	53,712	17,465	34,761	39,751	44,829	41,925
Total fixed assets	17,609	25,157	62,660	92,904	99,054	103,222	101,980	75,540
Net producing properties	2,354	4,390	3,014	4,995	20,850	29,309	43,715	49,428
Investments	4	7,129	1,713	17,124	10,944	10,944	10,944	10,944
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	—	—	943	943	943	943
<b>Total assets</b>	<b>341,900</b>	<b>310,771</b>	<b>393,259</b>	<b>391,949</b>	<b>464,592</b>	<b>504,400</b>	<b>538,716</b>	<b>559,403</b>
<b>Free cash flow (Rs mn)</b>								
Operating cash flow, excl. working capital	4,505	6,387	8,213	6,501	71,403	66,654	95,014	79,479
Working capital changes	34,256	(908)	1,213	(7,082)	(10,088)	(2,097)	(4,325)	3,259
Capital expenditure	(5,619)	(11,739)	(31,613)	(33,662)	(25,648)	(27,599)	(34,170)	(2,617)
Investments/Goodwill	(252,717)	(53,863)	(25,062)	25,194	(24,004)	—	—	—
Other income	—	1,298	1,518	2,360	903	9,778	6,006	8,422
<b>Free cash flow</b>	<b>(219,574)</b>	<b>(58,824)</b>	<b>(45,730)</b>	<b>(6,689)</b>	<b>12,566</b>	<b>46,736</b>	<b>62,525</b>	<b>88,542</b>
<b>Key assumptions</b>								
Gross production ('000 boe/d)	91.0	75.4	68.1	64.3	150.6	182.5	221.5	238.2
Net production ('000 boe/d)	25.1	19.4	17.8	21.0	87.9	106.6	136.6	150.5
Gross production from Rajasthan block ('000 boe/d)	—	—	—	8.8	101.0	134.6	180.0	202.0
Dated Brent (US\$/bbl)	65.3	70.3	87.4	67.0	86.7	110.0	100.0	95.0
Discount of Rajasthan crude to Dated Brent (US\$/bbl)	—	—	—	5.0	10.0	11.0	10.5	10.0

Note:

(a) 15 months period starting from January 1, 2008 to March 31, 2009.

Source: Kotak Institutional Equities estimates



OCTOBER 20, 2011

**RESULT**

Coverage view: **Cautious**

Price (Rs): **1,614**

Target price (Rs): **1,585**

BSE-30: **16,937**

**Margins improve sequentially.** Bajaj Auto 2QFY12 profit of Rs7.9 bn (+16% yoy, +11% qoq) was 4% above our estimates due to a higher-than-estimated average selling price and lower raw material costs. EBITDA margins came in at 20.1% (60 bps above our estimates) driven by an improvement in product mix. We maintain our SELL rating on the stock as we believe margins are likely to trend down as competitive intensity increases in the sector with addition in capacities.

**Company data and valuation summary**

Bajaj Auto

**Stock data**

52-week range (Rs) (high,low) 1,695-1,166

Market Cap. (Rs bn) 467.0

**Shareholding pattern (%)**

Promoters 50.0

FIIs 15.9

MFs 2.6

**Price performance (%)**

Absolute (0.9) 13.3 8.5

Rel. to BSE-30 0.1 23.7 27.3

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	90.4	103.9	114.1
EPS growth (%)	43.9	15.0	9.8
P/E (X)	17.9	15.5	14.1
Sales (Rs bn)	160.0	189.9	217.9
Net profits (Rs bn)	26.2	30.1	33.0
EBITDA (Rs bn)	34.2	38.0	40.3
EV/EBITDA (X)	13.6	12.3	11.5
ROE (%)	84.9	52.2	43.6
Div. Yield (%)	2.5	2.5	2.5

**Improvement in product mix and higher export selling prices helped beat expectations**

- ▶ Bajaj Auto 2QFY12 adjusted profit of Rs7.9 bn (+16% yoy; +11% qoq) was 4% above our estimates. Revenues grew by 21% yoy (4% above our estimates) due to improvement in product mix. Raw material costs as a percentage of net sales declined to 71.4% in 2QFY12 (120 bps decline qoq) driven by superior product mix and decline in raw material costs during the quarter. Staff costs declined by 6% qoq while other expenses rose sharply by 22% qoq. The tax rate came in at 23.4% below our estimate of 27%.
- ▶ Domestic premium motorcycle segment increased by 18% qoq and the company increased its market share by 1.7% qoq. The executive segment declined by 1% qoq while the economy segment increased by 8% qoq. The company's market share increased across the three segments sequentially by 1-1.7%. Domestic motorcycle volumes were up 8% yoy while domestic three wheeler volumes declined by 9% yoy.
- ▶ Export volumes were robust (+38% yoy) while export revenues increased by 50% yoy indicating that the pricing/mix improved by 12% yoy in the quarter. Export average selling price increased by 3% qoq, which we believe could be due to a sharp depreciation of the INR versus USD during the quarter. The company indicated that they it not increase prices in export markets during the quarter. However, the company has stated that it increased prices by 3.5% in export markets from October 1 to pass on the impact due to a decline in the DEPB rate to 5.5% from 9%.
- ▶ EBITDA margins came in at 20.1% (-60 bps yoy; +100 bps qoq) which was driven by – (1) improvement in export realizations by 3% qoq due to appreciation of rupee vs. USD and 3% qoq improvement in domestic realizations driven by higher share of premium bikes in the mix and (2) benefit of lower raw material cost.

We maintain our SELL rating on the stock with a target price of Rs 1,585 based on 14X FY2013E EPS as we believe the stock is fairly valued. We reckon EBITDA margins are likely to decline going forward as competition intensifies with Honda nearly doubling its capacity over the next two years. We will revisit our estimates post the concall on Monday.

Hitesh Goel

hitesh.goel@kotak.com

Mumbai: +91-22-6634-1327

Kotak Institutional Equities Research  
kotak.research@kotak.com

Mumbai: +91-22-6634-1100



### Margins surprise positively as Pulsar sales bounce back

- ▶ Bajaj Auto 2QFY12 adjusted profit of Rs7.9 bn (+16% yoy; +11% qoq) was 4% above our estimates. Revenues grew by 21% yoy (4% above our estimates) due to an improvement in product mix. Raw material costs as a percentage of net sales declined to 71.4% in 2QFY12 (120 bps decline qoq) driven by superior product mix and a decline in raw material costs during the quarter. Staff costs declined by 6% qoq while other expenses rose sharply by 22% qoq. The tax rate came in at 23.4% below our estimate of 27%.
- ▶ Domestic premium motorcycle segment increased by 18% qoq and the company increased its market share by 1.7% qoq. Executive segment declined by 1% qoq while the economy segment increased by 8% qoq. The company's market share increased across the three segments sequentially by 1-1.7%.
- ▶ Domestic motorcycle volumes were up 8% yoy while domestic three wheeler volumes declined by 9% yoy.
- ▶ Export volumes were robust (+38% yoy) while export revenues increased by 50% yoy indicating that the pricing/mix improved by 12% yoy in the quarter. Export average selling price increased by 3% qoq which we believe could be due to sharp depreciation of the INR versus USD during the quarter. The company indicated that it did not increase prices in export markets during the quarter. However, it also stated that it increased prices by 3.5% in export markets from October 1 to pass on the impact due to decline in DEPB rate to 5.5% from 9%.
- ▶ Three-wheeler volumes also increased at a robust pace of 17% yoy driven by 44% yoy increase in export volumes while domestic three-wheeler volumes declined by 9% yoy.
- ▶ EBITDA margins came in at 20.1% (-60 bps yoy; +100 bps qoq) which was driven by – (1) improvement in export realizations by 3% qoq due to appreciation of the INR versus USD and 3% qoq improvement in domestic realizations driven by higher share of premium bikes in the mix and (2) benefit of lower raw material cost.
- ▶ The company also reported a mark-to-market loss of Rs 954 mn on the forward contracts it has taken for exports which is a notional loss, in our view, and is unlikely to impact cash flow of the company.
- ▶ The company also indicated that it has received a notice from the Uttarakhand government to pay Rs 779.3 mn towards national calamity contingent duty which is paid on the sale of vehicles from its Pantnagar plant. Bajaj has not taken this impact in the financials as of now and has filed a writ petition against this in court. But we believe they will have to pay this amount as it was part of the original agreement to pay 1% of profits made at Pantnagar plant to National Calamity Fund. This could impact margins going forward.
- ▶ The company had launched Boxer 150cc in August 2011 and will launch new Pulsar variants in 4QFY12E which should help the company improve its market share in 2HFY12E, in our view. However, we expect export volume growth to slow down in 2HFY12E.

We maintain our SELL rating on the stock with a target price of Rs 1,585 based on 14X FY2013E EPS as we believe stock is fairly valued. We reckon EBITDA margins are likely to decline going forward as competition intensifies with Honda, nearly doubling its capacity over the next two years.

Bajaj Auto 2QFY12 result summary  
March fiscal year-end, Rs mn

	2QFY12	2QFY12E	2QFY11	1QFY12	% change		
					KIE est	yoy	qoq
Volumes (units)	1,164,137	1,164,137	1,000,570	1,092,815	-	16.3	6.5
Net realisations	45,246	43,470	43,393	43,716	4.1	4.3	3.5
<b>Net sales</b>	<b>52,673</b>	<b>50,605</b>	<b>43,418</b>	<b>47,773</b>	<b>4.1</b>	<b>21.3</b>	<b>10.3</b>
Inc/dec in stock	(415)	-	(320)	1,148			
Raw materials	38,031	36,400	31,032	33,517	3.3	22.5	8.5
Staff costs	1,311	1,500	1,142	1,389	(12.6)	14.8	(5.6)
Other expenses	3,173	2,815	2,593	2,611	12.7	22.4	21.5
Total expenses	42,099	40,715	34,446	38,665	3.4	22.2	8.9
<b>EBITDA</b>	<b>10,574</b>	<b>9,890</b>	<b>8,973</b>	<b>9,109</b>	<b>6.9</b>	<b>17.8</b>	<b>16.1</b>
Other income	745	850	837	731	(12.4)	(11.0)	1.9
Interest expense	202	2	7	2			
Depreciation expense	394	310	300	306	27.2	31.4	28.7
Profit before tax before exceptional	10,722	10,428	9,503	9,531	2.8	12.8	12.5
Extraordinary income	-	-	-	-			
Extraordinary exp	954	-	-	-			
<b>Profit before tax</b>	<b>9,768</b>	<b>10,428</b>	<b>9,503</b>	<b>9,531</b>	<b>(6.3)</b>	<b>2.8</b>	<b>2.5</b>
Tax expense	2,510	2,816	2,682	2,420	(10.9)	(6.4)	3.7
Profit after tax	7,258	7,612	6,821	7,111	(4.6)	6.4	2.1
<b>Adj PAT</b>	<b>7,898</b>	<b>7,612</b>	<b>6,821</b>	<b>7,111</b>	<b>3.8</b>	<b>15.8</b>	<b>11.1</b>
Raw material cost as % of net sales	71.4	71.9	70.7	72.6			
Staff cost as % of net sales	2.5	3.0	2.6	2.9			
Other expenses as % of net sales	6.0	5.6	6.0	5.5			
EBITDA margin (%)	20.1	19.5	20.7	19.1			
No of shares	289	289	289	289			
EPS	27.3	26.3	23.6	24.6			
Tax rate (%)	23.4	27.0	28.2	25.4			
<b>Volume breakdown (units)</b>							
Economy	126,980	126,980	85,660	111,607		48.2	13.8
Executive	368,095	368,095	338,684	355,156		8.7	3.6
Premium	189,524	189,524	208,306	156,401		(9.0)	21.2
Domestic motorcycle	684,599	684,599	632,650	623,164		8.2	9.9
Export motorcycle	342,686	342,686	250,822	339,876		36.6	0.8
<b>Total motorcycle</b>	<b>1,027,285</b>	<b>1,027,285</b>	<b>883,472</b>	<b>963,040</b>		<b>16.3</b>	<b>6.7</b>
Domestic 3 wheelers	55,332	55,332	60,566	42,276		(8.6)	30.9
Export 3 wh	81,520	81,520	56,532	87,499		44.2	(6.8)
<b>3 wheelers</b>	<b>136,852</b>	<b>136,852</b>	<b>117,098</b>	<b>129,775</b>		<b>16.9</b>	<b>5.5</b>
<b>Total volumes</b>	<b>1,164,137</b>	<b>1,164,137</b>	<b>1,000,570</b>	<b>1,092,815</b>		<b>16.3</b>	<b>6.5</b>
<b>Volume mix (%)</b>							
Economy	10.9	10.9	8.6	10.2			
Executive	31.6	31.6	33.8	32.5			
Premium	16.3	16.3	20.8	14.3			
Domestic motorcycle	58.8	58.8	63.2	57.0			
Export motorcycle	29.4	29.4	25.1	31.1			
<b>Total motorcycle</b>	<b>88.2</b>	<b>88.2</b>	<b>88.3</b>	<b>88.1</b>			
Domestic 3 wheelers	4.8	4.8	6.1	3.9			
Export 3 wh	7.0	7.0	5.6	8.0			
<b>3 wheelers</b>	<b>11.8</b>	<b>11.8</b>	<b>11.7</b>	<b>11.9</b>			
<b>Total volumes</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>			

Source: Company, Kotak Institutional Equities estimates

## Premium motorcycle volumes increased in the product mix in 2QFY12

Bajaj Auto quarterly volume-mix trend, March fiscal year-ends (units)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
<b>Domestic motorcycle</b>										
<125 cc	100,904	207,113	310,809	310,152	311,154	287,060	265,811	295,262	306,074	291,722
>125cc	229,290	206,594	177,337	239,851	254,967	345,590	333,039	321,968	317,090	392,877
<b>Total domestic motorcycle</b>	<b>330,194</b>	<b>413,707</b>	<b>488,146</b>	<b>550,003</b>	<b>566,121</b>	<b>632,650</b>	<b>598,850</b>	<b>617,230</b>	<b>623,164</b>	<b>684,599</b>
Exports	152,689	186,489	224,313	162,689	262,270	250,822	239,659	219,416	339,876	342,686
<b>Total motorcycles</b>	<b>482,883</b>	<b>600,196</b>	<b>712,459</b>	<b>712,692</b>	<b>828,391</b>	<b>883,472</b>	<b>838,509</b>	<b>836,646</b>	<b>963,040</b>	<b>1,027,285</b>
3 wheelers	63,242	85,246	96,167	96,281	99,918	117,076	108,363	111,527	129,764	136,852
<b>Total volumes</b>	<b>546,125</b>	<b>685,442</b>	<b>808,626</b>	<b>808,973</b>	<b>928,309</b>	<b>1,000,548</b>	<b>946,872</b>	<b>948,173</b>	<b>1,092,804</b>	<b>1,164,137</b>
<b>Mix (%)</b>										
<125 cc	18.5	30.2	38.4	38.3	33.5	28.7	28.1	31.1	28.0	25.1
>125cc	42.0	30.1	21.9	29.6	27.5	34.5	35.2	34.0	29.0	33.7
<b>Total domestic motorcycle</b>	<b>60.5</b>	<b>60.4</b>	<b>60.4</b>	<b>68.0</b>	<b>61.0</b>	<b>63.2</b>	<b>63.2</b>	<b>65.1</b>	<b>57.0</b>	<b>58.8</b>
Exports	28.0	27.2	27.7	20.1	28.3	25.1	25.3	23.1	31.1	29.4
<b>Total motorcycles</b>	<b>88.4</b>	<b>87.6</b>	<b>88.1</b>	<b>88.1</b>	<b>89.2</b>	<b>88.3</b>	<b>88.6</b>	<b>88.2</b>	<b>88.1</b>	<b>88.2</b>
3 wheelers	11.6	12.4	11.9	11.9	10.8	11.7	11.4	11.8	11.9	11.8
<b>Total volumes</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EBITDA margins (%)</b>	<b>19.5</b>	<b>22.0</b>	<b>22.0</b>	<b>22.9</b>	<b>20.0</b>	<b>20.7</b>	<b>20.3</b>	<b>20.5</b>	<b>19.1</b>	<b>20.1</b>

Source: Company estimates

## We expect the volumes to increase at a 13% CAGR over the next two years

Bajaj Auto volume assumptions, March fiscal year-ends, 2009-2014E (units)

	2009	2010	2011	2012E	2013E	2014E
<b>Motorcycles</b>	<b>1,907,810</b>	<b>2,506,845</b>	<b>3,387,043</b>	<b>3,976,572</b>	<b>4,502,679</b>	<b>5,083,260</b>
<b>Domestic</b>	<b>1,276,427</b>	<b>1,781,748</b>	<b>2,414,606</b>	<b>2,809,648</b>	<b>3,160,716</b>	<b>3,540,002</b>
< 125 cc	432,551	928,878	1,159,190	1,391,028	1,571,862	1,760,485
> 125 cc	843,876	852,870	1,255,416	1,418,620	1,588,854	1,779,517
<b>Exports</b>	<b>631,383</b>	<b>725,097</b>	<b>972,437</b>	<b>1,166,924</b>	<b>1,341,963</b>	<b>1,543,258</b>
< 125 cc	378,986	533,126	639,733	767,680	882,832	1,015,256
> 125 cc	252,397	191,971	332,704	399,245	459,132	528,001
<b>Scooters</b>	<b>11,772</b>	<b>4,851</b>	-	-	-	-
<b>Total 2-wheelers</b>	<b>1,919,582</b>	<b>2,511,696</b>	<b>3,387,043</b>	<b>3,976,572</b>	<b>4,502,679</b>	<b>5,083,260</b>
<b>Domestic 3-Wheelers</b>	<b>135,470</b>	<b>176,027</b>	<b>205,627</b>	<b>216,562</b>	<b>238,218</b>	<b>262,040</b>
Passenger 3-wheelers	125,273	164,493	201,270	211,334	232,467	255,714
Goods 3-wheelers	10,197	11,534	4,357	5,228	5,751	6,326
Exports	139,056	164,909	231,281	277,537	319,168	351,085
<b>Total 3-wheelers</b>	<b>274,526</b>	<b>340,936</b>	<b>436,908</b>	<b>494,099</b>	<b>557,386</b>	<b>613,124</b>
<b>Total vehicles</b>	<b>2,194,108</b>	<b>2,852,632</b>	<b>3,823,951</b>	<b>4,470,672</b>	<b>5,060,065</b>	<b>5,696,384</b>
<b>Growth (yoy %)</b>						
<b>Motorcycles</b>	<b>(10.8)</b>	<b>31.4</b>	<b>35.1</b>	<b>17.4</b>	<b>13.2</b>	<b>12.9</b>
<b>Domestic</b>	<b>(23.0)</b>	<b>39.6</b>	<b>35.5</b>	<b>16.4</b>	<b>12.5</b>	<b>12.0</b>
< 125 cc	(41.2)	114.7	25.0	20.0	13.0	12.0
> 125 cc	(8.5)	1.1	50.0	13.0	12.0	12.0
<b>Exports</b>	<b>31.1</b>	<b>14.8</b>	<b>34.1</b>	<b>20.0</b>	<b>15.0</b>	<b>15.0</b>
< 125 cc	35.3	40.7	22.0	20.0	15.0	15.0
> 125 cc	25.3	(23.9)	85.0	20.0	15.0	15.0
<b>Scooters</b>	<b>(44.7)</b>	<b>(58.8)</b>	-	-	-	-
<b>Total 2-wheelers</b>	<b>(11.2)</b>	<b>30.8</b>	<b>34.9</b>	<b>17.4</b>	<b>13.2</b>	<b>12.9</b>
<b>Domestic 3-Wheelers</b>	<b>(12.0)</b>	<b>29.9</b>	<b>16.8</b>	<b>5.3</b>	<b>10.0</b>	<b>10.0</b>
Passenger 3-wheelers	(1.7)	31.3	33.0	5.0	10.0	10.0
Goods 3-wheelers	(61.7)	13.1	(75.0)	20.0	10.0	10.0
Exports	2.0	18.6	24.0	20.0	15.0	10.0
<b>Total 3-wheelers</b>	<b>(5.4)</b>	<b>24.2</b>	<b>28.1</b>	<b>13.1</b>	<b>12.8</b>	<b>10.0</b>
<b>Total vehicles</b>	<b>(10.5)</b>	<b>30.0</b>	<b>34.0</b>	<b>16.9</b>	<b>13.2</b>	<b>12.6</b>

Source: Company, Kotak Institutional Equities estimates

Bajaj Auto profit and loss, balance sheet and cash flow model  
March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>						
Net sales	84,369	115,085	159,981	189,871	217,892	248,385
<b>EBITDA</b>	<b>12,097</b>	<b>26,175</b>	<b>34,168</b>	<b>37,993</b>	<b>40,324</b>	<b>43,117</b>
Other income	1,043	976	3,339	4,613	6,413	8,213
Interest	(210)	(60)	(17)	-	-	-
Depreciation	(1,298)	(1,365)	(1,228)	(1,401)	(1,491)	(1,502)
<b>Profit before tax</b>	<b>11,632</b>	<b>25,726</b>	<b>36,262</b>	<b>41,204</b>	<b>45,246</b>	<b>49,827</b>
Extra-ordinary items	(2,071)	(1,624)	7,246	-	-	-
Taxes	(3,016)	(7,075)	(10,110)	(11,125)	(12,216)	(13,453)
<b>Net profit</b>	<b>6,545</b>	<b>17,027</b>	<b>33,398</b>	<b>30,079</b>	<b>33,029</b>	<b>36,374</b>
<b>Adjusted net profit</b>	<b>7,963</b>	<b>18,171</b>	<b>26,152</b>	<b>30,079</b>	<b>33,029</b>	<b>36,374</b>
<b>Adjusted earnings per share (Rs)</b>	<b>27.5</b>	<b>62.8</b>	<b>90.4</b>	<b>103.9</b>	<b>114.1</b>	<b>125.7</b>
<b>Balance sheet (Rs mn)</b>						
Equity	18,697	29,283	49,102	65,638	85,124	107,955
Deferred tax liability	42	17	297	297	297	297
Total borrowings	15,700	13,386	3,252	3,146	3,146	3,146
Current liabilities	24,376	28,579	39,553	44,954	49,042	53,624
<b>Total liabilities</b>	<b>58,814</b>	<b>71,265</b>	<b>92,204</b>	<b>114,036</b>	<b>137,609</b>	<b>165,023</b>
Net fixed assets	15,481	15,211	15,483	16,332	17,090	17,838
Investments	18,085	40,215	47,952	65,702	83,702	101,702
Cash	1,369	1,014	5,565	2,416	4,547	10,261
Other current assets	21,884	14,824	23,161	29,544	32,228	35,179
Miscellaneous expenditure	1,996	-	43	43	43	43
Deferred tax assets	-	-	-	-	-	-
<b>Total assets</b>	<b>58,814</b>	<b>71,265</b>	<b>92,204</b>	<b>114,036</b>	<b>137,609</b>	<b>165,023</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	8,870	18,874	24,352	24,890	28,148	30,809
Working capital changes	(4,744)	8,498	(4,215)	(981)	1,403	1,632
Capital expenditure	(3,861)	(1,078)	(1,614)	(2,250)	(2,250)	(2,250)
<b>Free cash flow</b>	<b>265</b>	<b>26,293</b>	<b>18,523</b>	<b>21,659</b>	<b>27,302</b>	<b>30,191</b>
<b>Ratios</b>						
EBITDA margin (%)	13.7	21.9	20.5	19.3	18.0	16.9
PAT margin (%)	7.4	14.3	20.1	15.3	14.7	14.2
Debt/equity (X)	0.8	0.5	0.1	0.0	0.0	0.0
Net debt/equity (X)	0.2	(0.7)	(0.8)	(0.8)	(0.9)	(0.9)
Book Value (Rs/share)	64.8	101.2	170.7	227.8	295.2	374.1
RoAE (%)	37.7	70.9	84.9	52.2	43.6	37.6
<b>RoACE (%)</b>	<b>18.7</b>	<b>42.5</b>	<b>64.7</b>	<b>43.9</b>	<b>36.0</b>	<b>30.4</b>

Source: Company, Kotak Institutional Equities estimates

**OCTOBER 20, 2011**
**RESULT**

 Coverage view: **Neutral**

 Price (Rs): **1,119**

 Target price (Rs): **1,220**

 BSE-30: **16,937**

**2QFY12: Profitability reflective of seasonal vagaries.** UltraTech (UTCEM) reported 2QFY12 net income of Rs2.8 bn, marginally ahead of our estimates but significantly below Street expectations. Seasonal impact of low volumes and weak pricing implied drop in profitability to Rs628/ton (-48% qoq, +40% yoy), though we expect recent price increases and better volumes post-monsoon to help alleviate operating profits. Maintain ADD rating with target price of Rs1,220/share; UTCEM trades at 6.5X EV/EBITDA on FY2013E, 20% discount to ACC and Ambuja Cement.

**Company data and valuation summary**

UltraTech Cement

**Stock data**

52-week range (Rs) (high,low)	1,198-883
Market Cap. (Rs bn)	306.7

**Shareholding pattern (%)**

Promoters	63.3
FIs	15.5
MFs	1.6

**Price performance (%)**

	1M	3M	12M
Absolute	(2.2)	13.6	(0.2)
Rel. to BSE-30	(1.3)	24.1	17.1

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	44.9	75.7	89.7
EPS growth (%)	(49.2)	68.7	18.5
P/E (X)	24.9	14.8	12.5
Sales (Rs bn)	132.1	174.7	195.5
Net profits (Rs bn)	12.3	20.7	24.6
EBITDA (Rs bn)	28.3	41.9	48.9
EV/EBITDA (X)	10.9	7.3	6.1
ROE (%)	16.7	17.8	17.9
Div. Yield (%)	0.5	0.5	0.5

**Net income marginally ahead of estimate on higher other income**

UTCEM reported revenues of Rs39.1 bn (22% yoy, -10% qoq), operating profits of Rs5.8 bn (43% yoy, -51% qoq) and net income of Rs2.8 bn (141% yoy, -59% qoq) against our estimate of Rs39.5 bn, Rs6.2 bn and Rs2.6 bn, respectively. Lower-than-estimated volumes (9.3 mn tons versus estimated 9.5 mn tons) and higher overhead expenses dented the benefits of better realizations (2% above estimate) leading to a 6% miss in operating profits. Higher other income, however, absorbed the miss at operating level resulting in a beat at net income. We discuss the result in detail in the subsequent section.

**Realizations dip sequentially on seasonal weakness in prices**

UTCEM's average realization decreased 6% qoq (~Rs13/bag) on account of pricing weakness in July and August. Cement prices on an average declined by Rs14-15/bag sequentially, typical of the weakness witnessed in the monsoons. Our channel checks, however, indicate some revival in cement prices in several pockets—especially those of West and North India. Further, prices in South India (~25% of UTCEM sales) remained stable at Rs275-280/bag levels through the quarter despite sluggish demand and low utilization rates.

**Operating environment remains challenging—weak demand could weigh**

Challenging operating environment driven by subdued demand could weigh on the already fragile demand-supply balance and test the market discipline that has allowed for continued pricing discipline. We note that recent agitations in Andhra Pradesh will further strain the demand environment in South India and chances of a potential revival in 2HFY12E. However, the unrelenting cost pressures from higher fuel and freight cost have likely been absorbed and may stabilize at current levels.

**Maintain ADD with a target price of Rs1,220/share**

We maintain our ADD rating on UTCEM with a target price of Rs1,220/share and note that UTCEM continues to trade at discounted valuation as compared to peers.

Murtuza Arsiwalla  
 murtuza.arsiwalla@kotak.com  
 Mumbai: +91-22-6634-1125

Shubham Satyarth  
 shubham.satyarth@kotak.com  
 Mumbai: +91-22-6634-1320

Kotak Institutional Equities Research  
 kotak.research@kotak.com  
 Mumbai: +91-22-6634-1100

UTCEM now trades at EV/ton of US\$133/ton (24% discount to Ambuja Cement and 3% discount to ACC) and EV/EBTDA of 6.5X (20% discount to Ambuja Cement and ACC) on FY2013E capacity and earnings, respectively. We have revised our FY2012/13E EPS estimates upwards by 3.5% and 4.4% to account for better realizations.

#### Exhibit 1: Net income marginally ahead of estimate on higher other income

Quarterly results for UltraTech Cement, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	Change (%)			2011	2012E	(% chg)
					2QFY12E	2QFY11	1QFY12			
<b>Net sales</b>	<b>39,098</b>	<b>39,451</b>	<b>32,147</b>	<b>43,654</b>	<b>(1)</b>	<b>22</b>	<b>(10)</b>	<b>132,099</b>	<b>174,703</b>	<b>32.3</b>
Raw materials	(6,218)	(4,940)	(4,416)	(4,663)				(17,435)	(22,911)	
Employee costs	(2,058)	(2,085)	(1,911)	(1,841)				(6,665)	(8,602)	
Power costs	(9,549)	(10,735)	(8,434)	(10,367)				(31,226)	(43,510)	
Freight costs	(7,480)	(7,935)	(6,505)	(7,691)				(28,849)	(32,622)	
Purchase of finished goods	(451)	(228)	(229)	(376)				(1,222)	(900)	
Other costs	(7,525)	(7,351)	(6,575)	(6,836)				(21,279)	(27,578)	
<b>EBITDA</b>	<b>5,816</b>	<b>6,176</b>	<b>4,078</b>	<b>11,881</b>	<b>(6)</b>	<b>43</b>	<b>(51)</b>	<b>25,424</b>	<b>38,579</b>	<b>51.7</b>
<b>EBITDA (%)</b>	<b>14.9</b>	<b>15.7</b>	<b>12.7</b>	<b>27.2</b>				<b>19.2</b>	<b>22.1</b>	
Other income	1,034	703	684	658				2,867	3,331	
Interest	(672)	(766)	(845)	(726)				(2,771)	(2,974)	
Depreciation	(2,228)	(2,361)	(2,184)	(2,230)				(7,657)	(9,484)	
PBT	3,951	3,752	1,733	9,583				17,862	29,452	64.9
Tax	(1,162)	(1,126)	(575)	(2,752)				(5,107)	(7,925)	
Deferred tax	-	-	-	-				32	(793)	
<b>PAT</b>	<b>2,789</b>	<b>2,626</b>	<b>1,158</b>	<b>6,831</b>	<b>6</b>	<b>141</b>	<b>(59)</b>	<b>12,787</b>	<b>20,734</b>	<b>62.1</b>
Extraordinaries	-	-	102	-				1,255	-	
<b>Reported PAT</b>	<b>2,789</b>	<b>2,626</b>	<b>1,260</b>	<b>6,831</b>				<b>14,042</b>	<b>20,734</b>	
<b>Sales (mn tons)</b>	<b>9.3</b>	<b>9.5</b>	<b>9.1</b>	<b>9.8</b>	<b>(3)</b>	<b>2</b>	<b>(5)</b>	<b>34.8</b>	<b>39.7</b>	<b>14.2</b>
<b>Realization (Rs/ton)</b>	<b>4,222</b>	<b>4,153</b>	<b>3,533</b>	<b>4,473</b>	<b>2</b>	<b>20</b>	<b>(6)</b>	<b>3,798</b>	<b>4,397</b>	<b>15.8</b>
Cost (Rs/ton)	3,594	3,503	3,085	3,255				3,067	3,426	
Raw materials	671	520	485	478				501	577	
Employee costs	222	219	210	189				192	216	
Power & fuel costs	1,031	1,130	927	1,062				898	1,095	
Freight costs	808	835	715	788				829	821	
Purchase of finished goods	49	24	25	39				35	23	
Other costs	813	774	722	700				612	694	
<b>Profitability (Rs/ton)</b>	<b>628</b>	<b>650</b>	<b>448</b>	<b>1,217</b>	<b>(3)</b>	<b>40</b>	<b>(48)</b>	<b>731</b>	<b>971</b>	<b>32.8</b>
Tax rate (%)	29.4	30.0	33.2	28.7				28.4	29.6	

Source: Company, Kotak Institutional Equities estimates

#### Detailed analysis of quarterly results

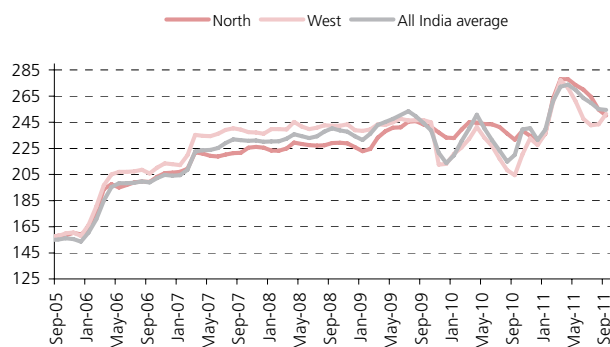
We discuss below some key highlights of 2QFY12 results.

- **Volumes.** Total volumes declined to 9.3 mn tons (2% yoy, -5% qoq) comprising 9 mn tons of domestic sales and 0.3 mn tons of clinker and cement exports. While sequential decline in volumes is a seasonal impact, muted 2% yoy growth is reflective of general demand weakness.
- **Realization.** Blended realizations decreased to Rs4,222/ton in 2QFY12 (20% yoy, -6% qoq). Sequential decline in blended realization is on account of pricing weakness in July and August.
- **Power and fuel cost.** UTCEM's power and fuel cost remained stable at Rs1,031/ton in 2QFY12 (Rs1,062/ton in 1QFY12) as prices of imported coal remained stable with some moderation witnessed more recently. Further decline in power and fuel cost could also be on account of higher quantum of clinker purchases during the quarter as reflected in a sharp jump in raw material cost.



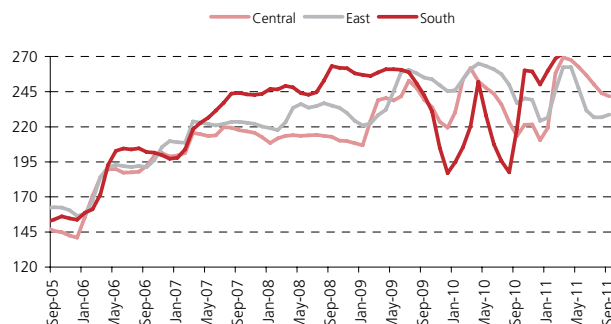
- **Freight cost.** Freight cost increased to Rs808/ton in 2QFY12 from Rs788/ton in 1QFY12. We note that the marginal 3% increase is primarily on account of hike in diesel prices in June 2011 though highlight that truck freight rates have remained fairly stable owing to increased supply of trucks leading to increased competition.
- **Raw material cost.** Raw material cost increased sharply to Rs671/ton (40% qoq, 38% yoy). As highlighted above, sharp jump in raw material cost could likely be on account of higher quantum of clinker purchases during the quarter.

**Exhibit 2: Prices trending upwards after monsoon weakness**  
Cement prices, North, West and All India average (Rs/bag)



Source: CMA, Kotak Institutional Equities estimates

**Exhibit 3: Prices in South continues to be robust**  
Cement prices, South, Central and East India (Rs/bag)



Source: CMA, Kotak Institutional Equities estimates

### Balance sheet analysis for 1HFY12

We discuss below some key takeaways from UTCEN balance sheet as of September 2011.

- **Capex run rate picks up.** UTCEN incurred a capex of Rs11 bn in 1HFY12 as against a total capex of Rs12.4 bn in FY2011 and Rs4.5 bn in 1HFY11. We note that bulk of the capex is for its expansion capacities at Chhattisgarh and Karnataka aggregating to 9.2 mtpa. The management has guided for a capex of Rs110 bn during the FY2012-14E period which includes Rs51 bn for the expansion capacities, Rs11 bn for evacuation and logistic infrastructure, Rs7 bn for captive power units (120 MW) and another Rs37 bn on modernization and upgradation of existing plants. The management has indicated that the expansion capacities will likely be operational by FY2014E.
- **Working capital.** Both inventories and debtors remained fairly stable at 47 and 16 days of sales in 1HFY12 (against 46 and 14 in FY2011).
- **Debt.** Total gross debt declined marginally from Rs41.5 bn as of March 2011 to Rs40 bn as of September 2011.

Exhibit 4: UTCCEM incurred a capex of Rs11 bn in 1HFY12  
Balance sheet of UTCCEM as of September 2011 (Rs mn)

	Sep-11	Sep-10	Mar-11
<b>Sources of funds</b>			
Share capital	2,741	2,740	2,740
Reserves and surplus	113,552	95,355	103,920
Loan funds	40,161	40,944	41,446
Deferred tax liability	17,447	17,583	17,301
<b>Total</b>	<b>173,901</b>	<b>156,622</b>	<b>165,407</b>
<b>Utilization of funds</b>			
Fixed Assets	131,704	120,626	125,056
Investments	35,288	31,496	37,303
Inventories	21,479	20,111	19,565
Sundry debtors	7,285	5,244	6,023
Cash and bank balances	1,378	1,547	1,448
Loans and advances	11,486	9,047	10,551
Current liabilities	29,085	26,429	28,804
Provisions	5,634	5,020	5,735
Net current assets (ex cash)	5,531	2,953	1,600
<b>Total</b>	<b>173,901</b>	<b>156,622</b>	<b>165,407</b>

Source: CMA, Kotak Institutional Equities estimates

Exhibit 5: Profit model, balance sheet and cash model of Ultratech, March fiscal year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>						
Net sales	63,831	70,497	132,099	174,703	195,477	217,172
<b>EBITDA</b>	<b>15,861</b>	<b>18,776</b>	<b>25,424</b>	<b>38,579</b>	<b>45,582</b>	<b>51,102</b>
Other income	1,036	1,227	2,867	3,331	3,302	3,556
Interest	(1,255)	(1,175)	(2,771)	(2,974)	(2,637)	(2,233)
Depreciation	(3,230)	(3,881)	(7,657)	(9,484)	(10,076)	(11,111)
Pretax profits	12,411	14,947	17,862	29,452	36,171	41,315
Tax	(3,844)	(4,949)	(5,075)	(8,718)	(11,598)	(13,267)
<b>Net profits</b>	<b>8,567</b>	<b>9,998</b>	<b>12,787</b>	<b>20,734</b>	<b>24,573</b>	<b>28,048</b>
Extraordinary items	—	—	1,255	—	—	—
<b>Earnings per share (Rs)</b>	<b>78.8</b>	<b>88.2</b>	<b>44.9</b>	<b>75.7</b>	<b>89.7</b>	<b>102.3</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	43,250	54,394	123,961	143,884	168,227	197,125
Total borrowings	21,416	16,045	41,446	35,946	32,296	25,646
Current liabilities	12,427	12,991	34,539	44,402	49,563	54,987
<b>Total liabilities and equity</b>	<b>77,094</b>	<b>83,430</b>	<b>199,946</b>	<b>224,233</b>	<b>250,085</b>	<b>277,758</b>
Cash	1,045	837	1,448	973	5,196	31,246
Current assets	12,571	13,887	36,139	47,385	52,875	58,608
Total fixed assets	53,130	52,011	125,056	138,571	154,711	150,600
Investments	10,348	16,696	37,303	37,303	37,303	37,303
<b>Total assets</b>	<b>77,094</b>	<b>83,430</b>	<b>199,946</b>	<b>224,232</b>	<b>250,085</b>	<b>277,758</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	12,518	12,681	22,391	33,185	37,913	43,260
Working capital	193	541	(704)	(1,383)	(329)	(308)
Capital expenditure	(8,226)	(2,592)	(12,419)	(23,000)	(26,216)	(7,000)
Investments	(8,639)	(6,348)	—	—	—	—
<b>Free cash flow</b>	<b>(4,154)</b>	<b>4,283</b>	<b>9,268</b>	<b>8,802</b>	<b>11,368</b>	<b>35,952</b>

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2011

**RESULT**

Coverage view: **Cautious**

Price (Rs): **121**

Target price (Rs): **120**

BSE-30: **16,937**

**2QFY12 results impacted by decline in replacement demand.** Exide's 2QFY12 results were significantly below our and consensus estimates due to 15% yoy decline in 4-wheeler battery replacement volumes and higher cost of lead during the quarter. Our concerns on waning pricing power of Exide in the battery market are coming true and we believe it will be difficult for the company to raise prices in the future even if replacement demand revives. We maintain our SELL rating on the stock.

**Company data and valuation summary**

Exide Industries

**Stock data**

52-week range (Rs) (high,low) 188-110

Market Cap. (Rs bn) 103.1

**Shareholding pattern (%)**

Promoters 46.0

FII's 16.1

MFs 4.2

**Price performance (%)**

Absolute (8.8) (28.8) (23.7)

Rel. to BSE-30 (7.9) (22.2) (10.4)

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	7.5	6.8	7.9
EPS growth (%)	18.0	(8.9)	17.0
P/E (X)	16.3	17.9	15.3
Sales (Rs bn)	45.5	50.3	56.6
Net profits (Rs bn)	6.3	5.8	6.7
EBITDA (Rs bn)	8.8	8.1	9.3
EV/EBITDA (X)	11.7	12.8	11.1
ROE (%)	25.5	19.4	19.5
Div. Yield (%)	1.2	1.1	1.1

**EBITDA margins nosedive sequentially due to decline in replacement demand and high lead cost**

Exide's 2QFY12 profit of Rs512 mn (-72% yoy, -69% qoq) was 61% below our estimates. The company indicated that replacement demand for 4-wheeler batteries has declined by 15% yoy in 2QFY12. In our view, probably the company has lost significant market share in replacement market which could be a major cause of worry. We base our assumptions on the following facts:

- Replacement market is a stable market and in our opinion the volumes cannot decline in a growing 4-wheeler market like India. We base our thesis on the fact that replacement tyre volumes in cars as well as trucks has only declined once (in low single digit) over the past 10-year history (Exhibit 3).
- Replacement tyre volume between April and August has grown by 9% yoy and replacement tyre volume growth in August was ~3% yoy.

The company had also subsequently cut 4-wheeler automotive battery prices by 10-12% in September to protect their market share.

The company also indicated that they had purchased high-cost lead in 1QFY12 which impacted profitability as they could not increase prices in the market because they were losing market share to competitors. We believe pricing power of the company is waning and it will be very difficult for the company to raise prices even if replacement demand revives. Other income has also fallen significantly qoq due to lower smelter profits.

We believe automotive replacement battery demand will revive after a few quarters but the company's EBITDA margins may not come back to historical high levels. We will revisit our estimates post the concall on Monday after we get more clarity on the replacement/OEM mix in the automotive segment, industrial battery revenue growth and lead smelter contribution in the company's lead sourcing. We maintain our SELL rating on the stock.

Hitesh Goel

hitesh.goel@kotak.com

Mumbai: +91-22-6634-1327

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

Exide Industries 2QFY12 results summary  
March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	change (%)		
					kotak est	yoy	qoq
Gross sales	14,326	14,005	13,739	15,163	2.3	4.3	(5.5)
Less: excise duty and sales tax	2,574	2,542	2,472	2,726	1.2	4.1	(5.6)
Other operating income	8	7	5	7	10.8	74.5	10.8
Net sales	11,761	11,470	11,272	12,444	2.5	4.3	(5.5)
Raw materials	8,499	7,400	6,686	7,906	14.9	27.1	7.5
Staff costs	644	700	660	720	(8.0)	(2.4)	(10.5)
Other expenses	1,715	1,580	1,471	1,596	8.6	16.6	7.4
<b>Total expenses</b>	<b>10,858</b>	<b>9,680</b>	<b>8,817</b>	<b>10,222</b>	<b>12.2</b>	<b>23.1</b>	<b>6.2</b>
<b>EBITDA</b>	<b>903</b>	<b>1,790</b>	<b>2,455</b>	<b>2,223</b>	<b>(49.6)</b>	<b>(63.2)</b>	<b>(59.4)</b>
Other income	79	300	191	308	(73.7)	(58.7)	(74.4)
Interest expense	16	11	17	11	46.4	(4.7)	42.5
Depreciation	247	237	201	237	4.1	22.5	4.1
<b>Profit before tax</b>	<b>719</b>	<b>1,842</b>	<b>2,428</b>	<b>2,282</b>	<b>(61.0)</b>	<b>(70.4)</b>	<b>(68.5)</b>
Tax expense	208	534	768	650	(61.1)	(73.0)	(68.1)
Exceptional income	—	—	469	—			
<b>Profit after tax</b>	<b>512</b>	<b>1,308</b>	<b>2,129</b>	<b>1,632</b>	<b>(60.9)</b>	<b>(76.0)</b>	<b>(68.7)</b>
<b>Recurring PAT</b>	<b>512</b>	<b>1,308</b>	<b>1,801</b>	<b>1,632</b>	<b>(60.9)</b>	<b>(71.6)</b>	<b>(68.7)</b>
No of shares	850	850	850	850			
EPS	0.6	1.5	2.1	1.9			
Excise duty, sales tax to gross sales (%)	18.0	18.2	18.0	18.0			
Raw material to net sales (%)	72.3	64.5	59.3	63.5			
Staff costs to net sales (%)	5.5	6.1	5.9	5.8			
Other expenses to net sales (%)	14.6	13.8	13.0	12.8			
<b>EBITDA margin (%)</b>	<b>7.7</b>	<b>15.6</b>	<b>21.8</b>	<b>17.9</b>			
Tax rate (%)	28.9	29.0	31.6	28.5			

Source: Company, Kotak Institutional Equities estimates

Exide Industries sum-of-the-parts valuation methodology  
March fiscal year-ends (Rs mn)

	EPS (Rs)	PE (X)	Per share value
Standalone FY2013 EPS	7.9	14	111
ING Vysya (50% stake value)			12
<b>SOTP based value</b>			<b>123</b>
<b>SOTP based value</b>			<b>120</b>

Source: Kotak Institutional Equities estimates

## Exhibit 3: Replacement tyre volumes historical trend

March fiscal year-ends (000 units)

Year	Cars	yoy chg (%)	MHCV	yoy chg (%)
2002	4,358		5,852	
2003	5,376	23.4	6,701	14.5
2004	5,443	1.2	6,914	3.2
2005	6,020	10.6	6,507	(5.9)
2006	7,308	21.4	7,379	13.4
2007	7,092	(3.0)	7,262	(1.6)
2008	8,248	16.3	7,905	8.9
2009	7,994	(3.1)	9,177	16.1
2010	9,662	20.9	10,522	14.7
2011	12,078	25.0	10,838	3.0

Source: Crisil estimates, ATMA, Kotak Institutional Equities estimates

## Exide Industries profit and loss, balance sheet and cash flow model

March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>						
Net sales	33,930	37,940	45,536	50,262	56,613	64,359
<b>EBITDA</b>	<b>5,448</b>	<b>8,894</b>	<b>8,788</b>	<b>8,094</b>	<b>9,282</b>	<b>10,461</b>
Other income	65	121	1,038	1,008	1,345	1,613
Interest	(479)	(103)	(57)	(31)	(34)	(9)
Depreciation	(679)	(807)	(835)	(946)	(1,090)	(1,209)
<b>Profit before tax</b>	<b>4,354</b>	<b>8,106</b>	<b>8,934</b>	<b>8,124</b>	<b>9,503</b>	<b>10,856</b>
Tax expense	(1,510)	(2,735)	(2,740)	(2,356)	(2,756)	(3,148)
<b>Adjusted net profit</b>	<b>2,844</b>	<b>5,371</b>	<b>6,335</b>	<b>5,768</b>	<b>6,747</b>	<b>7,708</b>
<b>Adjusted earnings per share (Rs)</b>	<b>3.6</b>	<b>6.3</b>	<b>7.5</b>	<b>6.8</b>	<b>7.9</b>	<b>9.1</b>
<b>Balance sheet (Rs mn)</b>						
Equity	12,504	22,198	27,425	31,918	37,390	43,823
Total Borrowings	3,172	900	22	300	50	50
Deferred Tax Liability	412	590	675	675	675	675
Current liabilities	4,866	5,929	7,964	7,830	8,578	9,491
<b>Total liabilities</b>	<b>20,954</b>	<b>29,616</b>	<b>36,086</b>	<b>40,723</b>	<b>46,693</b>	<b>54,039</b>
Net fixed assets	6,853	7,144	9,018	11,772	13,182	13,973
Investments	6,682	13,354	13,780	13,940	18,180	21,840
Cash	337	29	148	202	234	1,100
Other current assets	7,082	9,089	13,140	14,809	15,097	17,127
<b>Total assets</b>	<b>20,954</b>	<b>29,616</b>	<b>36,086</b>	<b>40,723</b>	<b>46,693</b>	<b>54,039</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow	3,456	6,355	7,115	6,715	7,837	8,917
Working capital changes	488	(637)	(2,015)	(1,804)	460	(1,117)
Capital expenditure	(1,515)	(1,098)	(2,708)	(3,700)	(2,500)	(2,000)
Change in investments	(1,499)	(6,672)	(426)	(160)	(4,240)	(3,660)
<b>Free cash flow</b>	<b>1,804</b>	<b>3,683</b>	<b>1,209</b>	<b>11</b>	<b>4,597</b>	<b>4,600</b>
<b>Ratios</b>						
EBITDA margin (%)	16.1	23.4	19.3	16.1	16.4	16.3
PAT margin (%)	8.4	14.2	13.9	11.5	11.9	12.0
Net debt/equity (X)	0.2	0.0	(0.0)	0.0	(0.0)	(0.0)
Book Value (Rs/share)	15.6	26.1	32.3	37.6	44.0	51.6
RoAE (%)	25.0	31.0	25.5	19.4	19.5	19.0
<b>RoACE (%)</b>	<b>34.3</b>	<b>38.1</b>	<b>34.9</b>	<b>27.7</b>	<b>27.9</b>	<b>27.1</b>

Source: Company, Kotak Institutional Equities estimates

**Holding fort in the current environment.** Yes Bank reported 33% earnings growth driven by moderate NIM expansion (10 bps) and healthy non-interest income—earnings impressive despite a high interest rate environment that is difficult for the bank's operating environment. Fee income was driven by capital market activities and core transaction banking. Asset quality trends have been strong with negligible slippages while restructured loans increased primarily from MFIs. The bank is currently trading at 2.2X book and 11X FY2012E EPS for 20% RoEs and EPS growth of about 25% CAGR for FY2011-13E. Retain BUY and TP of ₹420.

### Company data and valuation summary

Yes Bank

#### Stock data

52-week range (Rs) (high,low) 388-234

Market Cap. (Rs bn) 98.9

#### Shareholding pattern (%)

Promoters 26.5

FIs 52.9

MFs 2.2

#### Price performance (%)

Absolute (1.6) (10.7) (19.2)

Rel. to BSE-30 (0.7) (2.4) (5.2)

#### Forecasts/Valuations

2011 2012E 2013E

EPS (Rs) 20.9 26.2 31.9

EPS growth (%) 39.6 25.3 21.5

P/E (X) 13.6 10.9 8.9

NII (Rs bn) 12.5 16.2 22.2

Net profits (Rs bn) 7.3 9.1 11.1

BVPS 109.3 131.9 159.3

P/B (X) 2.6 2.2 1.8

ROE (%) 21.1 21.8 21.9

Div. Yield (%) 0.9 1.1 1.3

**High interest impacts growth while fee income contribution showed improvement; maintain BUY**

Yes Bank's earnings (33% yoy) were driven by healthy revenue growth (35% yoy) led by strong contribution from margin expansion (10 bps), capital market-related businesses and core transaction banking. Cost of funds remains high at 8.6% implying a negative return in its SLR portfolio and making it difficult to grow balance sheet (21% yoy) at current NIMs. We see growth delayed by a few quarters till interest rates cool off from current levels. Fee income has been impressive but the quarter saw a few one-off large transactions in capital markets (debt-related) driving performance—unlikely to be repeated given market conditions but we expect core transaction banking fees to drive overall non-interest income.

Weak CASA deposit mobilization remains a key disappointment (2% qoq and 20% yoy). CASA ratio is flat qoq at 11% and recent branch expansion is yet to make meaningful contribution to overall CASA deposits. We have broadly maintained our estimates (increased credit costs to factor the current environment) and note that the low interest rate environment conducive for wholesale business models like that of Yes Bank. Retain BUY and target of ₹420 valuing the bank at 2.6X FY2013E book and 13X EPS. We expect Yes Bank to outperform the broader market as interest rates soften from current levels.

**NIMs improve 10 bps to 2.9%; high cost of funds implies negative yields on SLR**

NIMs for the quarter improved by 10 bps to 2.9% on the back of shift in the composition of assets and liabilities. The bank has shed some wholesale loans and sourced relatively low-cost borrowings (including overseas funds) to manage its liabilities. Cost of funds remains high at 8.6%, implying negative returns on SLR deposits. Overall loan yields remain high at 12.2%, one of the highest among peers for an asset portfolio primarily in corporate segment.

We maintain our current NIM assumptions (20 bps decline in FY2012E but an improvement of about 10 bps in FY2013E). The bank should see early benefits when interest rates decline as the bank has a larger share of shorter duration liabilities (except capital funds).

**BUY**

OCTOBER 20, 2011

### RESULT

Coverage view: **Attractive**

Price (Rs): **290**

Target price (Rs): **420**

BSE-30: **17,085**

### QUICK NUMBERS

- NIMs improve 10 bps qoq; NII grew by 23% yoy
- Gross NPLs at 0.2%; flat qoq
- Maintain BUY with TP of ₹420 (same as before)

M.B. Mahesh  
mb.mahesh@kotak.com  
Mumbai: +91-22-6634-1231

Nischint Chawathe  
nischint.chawathe@kotak.com  
Mumbai: +91-22-6634-1545

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100



### Weak loan growth as credit substitutes take a higher share of growth

Yes Bank's reported loan growth was weak at 13% yoy (3% qoq) as focus shifted to non-SLR-related investments which grew sharply qoq (40% qoq). We believe that the increase in lending through credit substitutes, primarily in the form of CP/bonds, looks opportunistic, client-driven rather than choice. Expect sell-down from this portfolio as yields decline from current levels and shift focus to loan growth.

Overall composition of loans changed marginally towards retail (includes portfolio/loans buyouts) which is currently about 15% of loans (12% in June 2011). Large corporate houses account for about 60% of loans while the mid-corporate segment is about 25% of loans. Given the lumpiness in corporate loans and interest rates, we expect loan growth at 30% CAGR for FY2011-13E.

### Balance sheet growth supported by growth in borrowings and less on deposits

Overall deposits grew by 10% yoy (1% qoq) as compared to balance sheet growth of 21% yoy growth as the bank looked at other windows to mobilize funds. The management indicated that a combination of refinancing facilities from various domestic and international markets was utilized over the past few quarters to mobilize marginally lower cost funds.

We note that the bank has accelerated the branch expansion which could probably result in improvement in the liability franchise. The bank opened 50 branches (134 branches in the past four quarters) taking the total branches to 305. However, while deposits from branches have grown impressively (about 100% yoy), improving CASA ratio continues to remain a struggle. CASA ratio is currently at 11% (flat qoq) despite weak deposit growth.

### Fee income boosted from financial markets; transaction banking impressive

Yes Bank saw overall non-interest income grow 63% yoy primarily on the back of strong business from debt underwriting (few large deals) and healthy growth in transaction banking income. Consequently, fee income to assets improved to 1.4% having declined to a low of 1.1% in June 2011. Performance on core transaction banking-related activities was impressive (59% yoy). Financial markets (forex related) grew 20% while retail fees were flat.

Given the market conditions, we expect a more subdued performance in capital market-related activities but expect healthy growth in core banking-related activities. We are building fee income to grow by 25% CAGR for FY2011-13E.

### Other highlights for the quarter

- ▶ Asset quality continues to remain very healthy with gross NPLs at 0.2% and net NPLs 0.04% of loans. Slippages were negligible for the quarter (about 20 bps). Restructured assets increased by ₹885 mn to ₹1.7 bn (0.5% of loans) as the bank restructured few MFI accounts—classified as standard post CDR exercise. The bank has made an ad hoc provisions of about ₹80 mn during the quarter in addition to specific and loan loss provisions of ₹100 mn each.
- ▶ Cost-income ratio declined marginally to 36% from 37% in June 2011—largely driven by stable staff costs. Staff expenses increased by 25% yoy. Non-staff expenses increased 38% yoy (23% qoq).
- ▶ Tier-1 ratio for the quarter was at 9.4%. A slowdown in overall loan growth has resulted in lower capital consumption and we believe that the bank should be able to grow comfortably without any near-term concern on pace of capital consumption.

## Yes Bank quarterly results

March fiscal year-end, 2QFY11-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	Growth yoy (%)	2QFY12E	Vs KIE estimates (%)
Interest income	9,538	11,262	12,226	13,995	14,387	51	14,284	1
Advances	7,252	8,178	8,883	10,262	10,318	42	10,487	(2)
Investments	2,245	2,993	3,269	3,648	3,981	77	3,695	8
Balance with RBI	28	70	60	80	41	47	96	(57)
Interest expenses	6,406	8,030	8,741	10,454	10,530	64	10,572	(0)
<b>Net interest income</b>	<b>3,132</b>	<b>3,232</b>	<b>3,485</b>	<b>3,542</b>	<b>3,856</b>	<b>23</b>	<b>3,712</b>	<b>4</b>
Non-interest income	1,310	1,617	1,868	1,653	2,141	63	1,969	9
Transaction banking	383	498	654	420	609	59	536	14
Financial advisory	637	535	772	829	978	54	675	45
<b>Total income</b>	<b>4,442</b>	<b>4,848</b>	<b>5,353</b>	<b>5,195</b>	<b>5,997</b>	<b>35</b>	<b>5,681</b>	<b>6</b>
Operating expenses	1,628	1,736	1,865	1,944	2,138	31	2,122	1
Employee cost	878	903	1,030	1,098	1,100	25	1,185	(7)
Other operating cost	750	833	835	846	1,038	38	937	11
Pre-prov profit	2,814	3,113	3,488	3,251	3,859	37	3,559	8
Provisions	174	250	433	15	379	117	350	8
Loan loss	174	140	173	-	350	101	300	17
Others	-	110	260	15	29		50	(43)
<b>Profit before tax</b>	<b>2,640</b>	<b>2,863</b>	<b>3,055</b>	<b>3,236</b>	<b>3,481</b>	<b>32</b>	<b>3,209</b>	<b>8</b>
Tax	877	952	1,021	1,075	1,130	29	1,072	5
<b>Profit after tax</b>	<b>1,763</b>	<b>1,911</b>	<b>2,034</b>	<b>2,161</b>	<b>2,350</b>	<b>33</b>	<b>2,136</b>	<b>10</b>
Tax rate (%)	33.2	33.2	33.4	33.2	32.5	(2)	33.4	(2.8)
<b>PBT- treasury gains</b>	<b>2,492</b>	<b>2,689</b>	<b>2,854</b>	<b>3,079</b>	<b>3,338</b>	<b>34</b>	<b>3,024</b>	<b>10</b>
<b>PBT- treasury gains+provisions</b>	<b>2,666</b>	<b>2,939</b>	<b>3,287</b>	<b>3,094</b>	<b>3,716</b>	<b>39</b>	<b>3,374</b>	<b>10</b>

Source: Kotak Institutional Equities

## Yes Bank quarterly results

Key financial items, March fiscal year-ends, 2QFY11-2QFY12 (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	Growth yoy (%)
<b>Key balance sheet items (Rs bn)</b>						
Deposits	400,137	394,528	459,389	435,759	440,759	10
Demand deposits	359,723	354,286	412,072	388,261	392,276	
Term deposits	40,414	40,242	47,317	47,498	48,484	
CASA ratio (%)	10.1	10.2	10.3	10.9	11.0	
Branches	171	185	214	255	305	
Loans	303,481	311,122	343,636	331,042	341,941	13
Large coporate	211,830	210,318	223,707	209,219	209,952	
ELC/SME	59,482	69,380	78,693	80,774	81,382	
Retail	32,169	31,423	41,236	41,049	50,949	
Investments	144,546	152,223	188,288	175,448	214,369	48
<b>Total assets</b>	<b>517,963</b>	<b>522,447</b>	<b>590,070</b>	<b>569,636</b>	<b>627,518</b>	<b>21</b>
<b>Yield management measures (%)</b>						
Cost of funds	6.7	7.1	7.8	8.5	8.6	
Yield on advances	9.5	10.0	10.7	11.6	12.2	
NIM	3.0	2.8	2.8	2.8	2.9	
Spread	3.3	3.3	3.1	3.0	3.3	
<b>Asset quality details</b>						
Gross NPLs (Rs mn)	677	728	805	560	688	2
Gross NPL (%)	0.2	0.2	0.2	0.2	0.2	
Net NPLs (Rs mn)	172	174	92	27	136	(21)
Net NPAs (%)	0.1	0.1	0.0	0.0	0.0	
Provisions (Rs mn)	506	555	714	533	552	
Provision Coverage (%)	74.7	76.1	88.6	95.2	80.2	
Restructured Loans (Rs mn)	690	837	829	870	1,755	154
Restructured Loans (% of cust. assets)	0.2	0.3	0.2	0.3	0.5	
<b>Capital adequacy details (%)</b>						
CAR	19.4	18.2	16.5	16.2	16.0	
Tier I	11.0	10.4	9.7	9.6	9.4	
Tier II	8.4	7.8	6.8	6.6	6.6	
<b>Fee income composition (Rs mn)</b>						
Financial markets	341	410	241	247	410	20
Financial advisory	637	535	772	829	978	54
Third party distribution	148	174	201	157	143	(3)
Treasury trading income	(200)	-	-	-	-	
Transaction banking	383	498	654	420	609	59
Others	1	(0)	(0)	(0)	1	
<b>Total</b>	<b>1310</b>	<b>1617</b>	<b>1868</b>	<b>1653</b>	<b>2141</b>	<b>63</b>

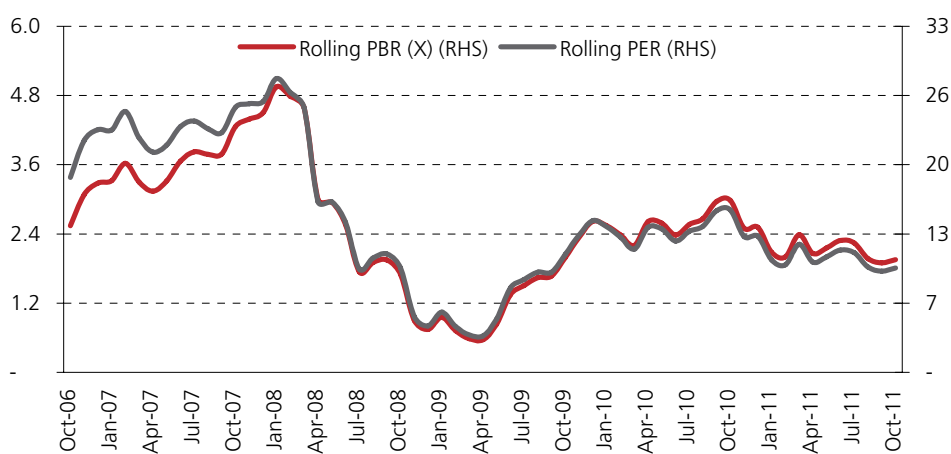
Source: Kotak Institutional Equities

## Yes Bank-- estimate changes

March fiscal year-ends, 2012-2014E (₹ mn)

	New estimates			Old estimates			% change		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Net interest income	16,225	22,197	27,923	16,450	22,388	27,944	(1.4)	(0.9)	(0.1)
NIM (%)	2.5	2.6	2.6	2.5	2.6	2.5			
Customer assets	476,969	622,388	797,575	493,990	638,510	783,030	(3.4)	(2.5)	1.9
Loan loss provisions	1,249	3,312	4,354	1,196	2,630	3,353	4.4	25.9	29.8
Other income	8,691	11,509	14,469	8,470	11,226	14,107	2.6	2.5	2.6
Fee income	7,357	9,418	12,054	7,136	9,135	11,692	3.1	3.1	3.1
Treasury income	300	800	800	300	800	800	-	-	-
Operating expenses	9,787	13,593	17,429	9,864	13,972	17,895	(0.8)	(2.7)	(2.6)
Employee expenses	5,067	7,016	9,041	5,189	7,321	9,117	(2.4)	(4.2)	(0.8)
PBT	13,580	16,502	20,310	13,559	16,712	20,504	0.2	(1.3)	(0.9)
Tax	4,471	5,433	6,687	4,464	5,502	6,751	0.2	(1.3)	(0.9)
<b>Net profit</b>	<b>9,109</b>	<b>11,069</b>	<b>13,623</b>	<b>9,095</b>	<b>11,210</b>	<b>13,753</b>	<b>0.2</b>	<b>(1.3)</b>	<b>(0.9)</b>
<b>PBT-treasury+provisions</b>	<b>14,829</b>	<b>19,314</b>	<b>24,164</b>	<b>14,756</b>	<b>18,842</b>	<b>23,357</b>	<b>0.5</b>	<b>2.5</b>	<b>3.5</b>

Source: Kotak Institutional Equities estimates

Rolling PER and PBR (X) for Yes Bank  
October 2006-October 2011

Source: Kotak Institutional Equities

Yes Bank, growth rates, key ratios and Du Pont analysis  
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
<b>Growth rates (%)</b>						
Net loan	31.5	78.9	54.8	27.1	33.3	30.1
Net loan including CPs and debentures	32.8	71.9	66.3	24.3	30.5	28.1
Investments excld. CPs and debentures	38.0	52.9	58.9	38.1	35.9	34.3
Net fixed assets	29.6	(11.9)	14.7	146.8	6.6	13.5
Cash and bank balance	18.1	39.0	30.8	37.1	0.2	29.6
Total Asset	34.8	58.9	62.2	27.1	29.0	29.6
Deposits	21.8	65.7	71.4	27.1	29.4	30.1
Current	24.2	99.0	62.1	53.8	54.4	51.1
Savings	31.1	103.6	109.0	78.7	55.3	30.1
Fixed	21.5	62.5	71.8	23.5	25.7	27.0
Net interest income	51.3	54.7	58.2	30.1	36.8	25.8
Loan loss provisions	309.9	51.3	(27.8)	36.7	165.2	31.5
Total other income	21.1	31.7	8.3	39.4	32.4	25.7
Net fee income	10.0	67.9	54.8	25.3	28.0	28.0
Net capital gains	151.3	(34.0)	(147.3)	(164.7)	166.7	—
Net exchange gains	27.9	56.9	55.5	25.0	25.0	25.0
Operating expenses	20.5	19.5	35.9	44.0	38.9	28.2
Employee expenses	7.7	17.8	41.0	39.8	38.5	28.9
<b>Key ratios (%)</b>						
Yield on average earning assets	10.7	8.4	8.8	9.4	9.0	8.8
Yield on average loans	13.6	10.2	10.6	11.1	10.6	10.4
Yield on average investments	8.2	6.8	7.1	7.9	7.4	7.0
Average cost of funds	8.4	6.1	6.6	7.4	6.9	6.7
Interest on deposits	8.3	5.8	6.3	7.2	6.6	6.5
Difference	2.2	2.3	2.2	1.9	2.1	2.0
Net interest income/earning assets	2.7	2.8	2.7	2.5	2.6	2.6
Spreads on lending business	5.2	4.1	3.9	3.7	3.7	3.6
New provisions/average net loans	0.8	0.7	0.3	0.3	0.7	0.7
Total provisions/gross loans	0.3	0.1	0.0	0.3	0.8	1.2
Interest income/total income	53.8	57.8	66.7	65.1	65.9	65.9
Other income / total income	46.2	42.2	33.3	34.9	34.1	34.1
Fee income to total income	23.9	27.8	31.4	29.5	27.9	28.4
Fees income to PBT	48.5	52.2	53.7	54.2	57.1	59.4
Net trading income to PBT	36.1	11.4	(3.6)	2.2	4.8	3.9
Exchange inc./PBT	6.0	6.1	6.3	6.3	6.5	6.6
Operating expenses/total income	44.2	36.7	36.3	39.3	40.3	41.1
Operating expenses/assets	2.1	1.7	1.4	1.5	1.6	1.6
Operating profit /AWF	1.7	2.2	2.5	2.0	1.9	1.8
Tax rate	34.8	34.2	33.4	32.9	32.9	32.9
Dividend payout ratio	-	10.7	11.9	11.9	11.9	11.9
Share of deposits						
Current	7.5	9.1	8.6	10.4	12.4	14.4
Fixed	91.3	89.5	89.7	87.1	84.6	82.6
Savings	1.2	1.5	1.8	2.5	3.0	3.0
Loans-to-deposit ratio	76.7	82.8	74.8	74.8	77.0	77.0
Equity/assets (EoY)	7.1	8.5	6.4	6.1	5.7	5.3
<b>Dupont analysis (%)</b>						
Net interest income	2.6	2.7	2.6	2.4	2.6	2.5
Loan loss provisions	0.4	0.4	0.2	0.2	0.4	0.4
Net other income	2.2	1.9	1.3	1.3	1.3	1.3
Operating expenses	2.1	1.7	1.5	1.5	1.6	1.6
Inv. depreciation	(0.1)	0.1	(0.0)	—	—	—
(1- tax rate)	65.2	65.8	66.6	67.1	67.1	67.1
<b>ROA</b>	<b>1.5</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>
Average assets/average equity	13.6	12.6	13.9	16.0	17.0	18.2
<b>ROE</b>	<b>20.6</b>	<b>20.3</b>	<b>21.1</b>	<b>21.8</b>	<b>21.9</b>	<b>22.3</b>

Source: Company, Kotak Institutional Equities

Yes Bank, income statement and balance sheet  
March fiscal year-ends 2009-2014E (₹ mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Income statement (Rsmn)</b>						
Total interest income	20,014	23,697	40,417	60,661	75,282	95,451
Loans	14,878	17,715	29,891	43,278	54,151	69,514
Investments	4,996	5,859	10,273	17,043	20,737	25,485
Cash and deposits	140	123	253	340	394	453
Total interest expense	14,921	15,818	27,948	44,437	53,084	67,528
Deposits from customers	12,271	12,534	22,942	37,742	44,382	56,214
<b>Net interest income</b>	<b>5,093</b>	<b>7,880</b>	<b>12,469</b>	<b>16,225</b>	<b>22,197</b>	<b>27,923</b>
Loan loss provisions	836	1,265	914	1,249	3,312	4,354
<b>Net interest income (after prov.)</b>	<b>4,257</b>	<b>6,615</b>	<b>11,556</b>	<b>14,976</b>	<b>18,885</b>	<b>23,570</b>
Other income	4,369	5,755	6,233	8,691	11,509	14,469
Net fee income	2,258	3,791	5,870	7,357	9,418	12,054
Net capital gains	1,485	980	(464)	300	800	800
Net exchange gains	281	441	686	857	1,071	1,339
Operating expenses	4,185	5,002	6,798	9,787	13,593	17,429
Employee expenses	2,180	2,569	3,623	5,067	7,016	9,041
Depreciation on investments	(199)	154	(72)	—	—	—
Other Provisions	(19)	(50)	140	300	300	300
Pretax income	4,659	7,265	10,922	13,580	16,502	20,310
Tax provisions	1,621	2,488	3,650	4,471	5,433	6,687
<b>Net Profit</b>	<b>3,038</b>	<b>4,777</b>	<b>7,271</b>	<b>9,109</b>	<b>11,069</b>	<b>13,623</b>
% growth	51.7	57.2	52.2	25.3	21.5	23.1
<b>Operating profit</b>	<b>3,792</b>	<b>7,653</b>	<b>12,368</b>	<b>14,829</b>	<b>19,314</b>	<b>24,164</b>
% growth	28	98	81	17	18	24
<b>Balance sheet (Rsmn)</b>						
Cash and bank balance	19,227	26,732	34,960	47,933	48,040	62,251
Cash	315	357	596	3,530	9,114	12,857
Balance with RBI	12,463	19,596	30,164	40,203	34,727	45,195
Balance with banks	145	123	90	90	90	90
Net value of investments	71,170	102,099	188,288	244,775	318,207	413,670
Govt. and other securities	46,801	67,865	107,473	163,959	245,488	347,428
Shares	55	827	135	135	135	135
Debentures and bonds	10,242	8,915	40,197	40,197	40,197	40,197
<b>Net loans and advances</b>	<b>124,031</b>	<b>221,931</b>	<b>343,636</b>	<b>436,771</b>	<b>582,191</b>	<b>757,377</b>
Fixed assets	1,311	1,155	1,324	3,268	3,484	3,954
Net leased assets						
Net Owned assets	1,311	1,155	1,324	3,268	3,484	3,954
Other assets	13,269	11,907	21,861	17,489	15,740	16,527
<b>Total assets</b>	<b>229,008</b>	<b>363,825</b>	<b>590,070</b>	<b>750,236</b>	<b>967,662</b>	<b>1,253,779</b>
Deposits	161,694	267,986	459,389	583,897	755,631	983,007
Borrowings and bills payable	40,951	48,731	67,675	87,978	114,371	148,682
Other liabilities	10,120	16,213	25,065	32,584	42,359	55,067
<b>Total liabilities</b>	<b>212,766</b>	<b>332,930</b>	<b>552,129</b>	<b>704,458</b>	<b>912,361</b>	<b>1,186,757</b>
Paid-up capital	2,970	3,397	3,471	3,471	3,471	3,471
Reserves & surplus	13,272	27,499	34,469	42,306	51,830	63,551
<b>Total shareholders' equity</b>	<b>16,242</b>	<b>30,896</b>	<b>37,941</b>	<b>45,778</b>	<b>55,301</b>	<b>67,022</b>

Source: Company, Kotak Institutional Equities



OCTOBER 20, 2011

**RESULT**

Coverage view: **Cautious**

Price (Rs): **347**

Target price (Rs): **445**

BSE-30: **16,937**

**PAT miss due to cost-licensing income mismatch.** Lower EBITDA margin due to cost-licensing income mismatch despite in-line sales was the main reason behind PAT miss of 7% versus our estimate. We believe correction of this in 2HFY12E coupled with sustenance of sales momentum of 2QFY12 will lead to a better 2HFY12E. FY2013E presents upsides to our estimates due to Atorvastatin, Fidaxomicin supplies. We leave our core EPS unchanged, lower reported EPS due to lower licensing. BUY; PT at Rs445.

**Company data and valuation summary**

Biocon

**Stock data**

52-week range (Rs) (high,low) 460-301

Market Cap. (Rs bn) 69.5

**Shareholding pattern (%)**

Promoters 60.9

FIIs 5.6

MFs 6.0

**Price performance (%)**

Absolute 3.5 (6.3) (21.6)

Rel. to BSE-30 4.5 2.3 (8.1)

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	18.4	17.6	20.2
EPS growth (%)	23.9	(4.1)	14.3
P/E (X)	18.9	19.7	17.2
Sales (Rs bn)	27.7	20.3	22.9
Net profits (Rs bn)	3.7	3.5	4.0
EBITDA (Rs bn)	5.9	5.8	6.6
EV/EBITDA (X)	10.9	11.1	9.7
ROE (%)	19.4	16.4	16.7
Div. Yield (%)	0.0	0.0	0.0

**Total sales at Rs5 bn in line with our estimate, up 19% yoy on a like-to-like basis**

Total sales excluding licensing income was up 19% yoy and 10% qoq to Rs4.7 bn, in line with our estimate. Contract research showed strong growth at 19% yoy for the third quarter in a row, 3% above our estimate, and biopharma sales excluding licensing at Rs3.7 bn grew 19% yoy, in line with our estimate driven by (1) 35% growth in branded formulations, (2) growth in statins, and (3) growth in immunosuppressants (around 10% of biopharma sales).

**PAT at Rs857 mn, 7% below our estimate of Rs922 mn**

Despite in-line sales and lower tax and interest cost, lower EBITDA margin was the main reason for PAT miss. EBITDA margin (including other income of Rs160 mn) was at 28.5%, down 70 bps qoq and lower than our estimate of 31% due to higher development costs from Pfizer-related work reflected across all cost items at Rs260 mn against income of Rs365 mn in 2QFY12 versus Rs40 mn against income of Rs144 mn in 1QFY12. Also gross margin was flat qoq despite (1) higher proportion of sales from branded business, and (2) higher off-take of Fidaxomicin. Lack of gross margin expansion coupled with sharp increase in (1) staff costs, up 38% yoy and 12% qoq to Rs724 mn, and (2) higher other expenses at Rs351 mn, up 45% qoq, led to lower EBITDA margin.

**We largely leave F2012-13E core EPS (excluding R&D, licensing income) unchanged**

We leave our FY2012-13E core EPS largely unchanged. We reduce FY2012-13E reported EPS by 6-9% due to lower licensing income (Rs1.6 bn in FY2012E versus Rs2 bn earlier). We estimate sales ex-licensing to grow at 13-14% in FY2012-13E (see Exhibits 3,4), versus 16/17% growth seen in 1HFY12/FY2011. We expect EBITDA margin (including other income) at 30.5% in FY2012E versus 29.2% in 1QFY12 and 28.5% in 2QFY12 due to (1) pick-up in high-margin Fidaxomicin in 2HFY12E, and (2) higher EBITDA contribution from licensing which we estimate at Rs1.6 bn in FY2012E, in line with guidance. We estimate reported EPS (see Exhibit 6) of Rs17.6 in FY2012E (versus Rs19.4 earlier, Rs7.8 in 1HFY12) to increase by 14% to Rs20.2 (versus Rs21.4) in FY2013E.

**We maintain BUY with PT at Rs445, unchanged (18X core FY2013E EPS)**

We expect sales momentum of 2QFY12 to sustain and expect mismatch of higher development costs versus licensing to correct in 2HFY12E. We value stock at Rs445 at (1) 18X FY2013E core EPS of Rs20.2, (2) cash/share of Rs26, and (3) Pfizer deal NPV/value of Rs57.

**QUICK NUMBERS**

- **PAT miss of 7% versus our estimate**
- **Total sales at Rs5 bn, in line with our estimate**
- **FY2013E presents upsides to our estimates due to Atorvastatin, Fidaxomicin supplies**

Priti Arora  
priti.arora@kotak.com  
Mumbai: +91-22-6634-1551

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

### Key takeaways from conference call

- ▶ Pfizer has launched insulin and glargine at same price points as Biocon in 1QFY12 in India under different brand names. Registrations in emerging markets are underway. Biocon is targeting 40% plus growth in FY2012E and Rs5 bn of sales from branded formulations in India by FY2014E versus Rs1.6 bn in FY2011. We estimate sales of Rs4 bn in FY2014E.
- ▶ Biocon is supplying Atorvastatin API to 4 partners in Europe and has tied up with 2 partners in US who are likely to launch in FY2013E.
- ▶ Significant numbers from Fidaxomicin supplies for Biocon are expected in FY2013E. Recently Optimer increased its peak sales forecast to US\$2 bn from US\$1.5 bn earlier. Biocon has also tied up as the exclusive supplier for Europe where launch is planned in 2012E with Astellas as marketing partner. Optimer received positive response from CHMP (Committee for Medicinal Products for Human Use) in September 2011. The European Commission generally follows the recommendations of the CHMP and delivers its final decision within three months of the CHMP opinion.
- ▶ Licensing income was Rs511 mn in 1HFY12, however, only Rs220 mn of this flowed to EBITDA and Rs110 mn to bottom line versus entire amount of Rs437 mn which went to bottom line in 1HFY11. Biocon expects licensing income to pick up in 2HFY12E to touch FY2011 levels of Rs1.52 bn.
- ▶ Contract research delivered PAT of Rs240 mn in 1HFY12 versus breakeven position in 1HFY11 (see Exhibit below).

#### PAT break-up (Rs mn)

	1HFY11	1HFY12	% growth
Biocon	1,035	1,207	17
Contract research	—	240	NM
Licensing	437	110	NM
<b>Total</b>	<b>1,472</b>	<b>1,557</b>	<b>6</b>

Source: Kotak Institutional Equities estimates, Company

## Interim results—Biocon, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	With Axicorp		% change		
			2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12
Sales	3,791	3,795	5,776	3,399	(0)	(34)	12
Contract research fees	928	904	782	874	3	19	6
Technology Licensing Fees	365	452	231	144	(19)	58	153
<b>Expenses</b>							
Materials	2,142	2,138	3,798	1,906	0	(44)	12
Power	227	211	200	231	7	13	(2)
Staff costs	724	625	707	644	16	2	12
Other expenses	657	654	684	432	0	(4)	52
FX Losses(gains)	—	—	(37)	—	NM	NM	NM
<b>EBITDA</b>	<b>1,334</b>	<b>1,522</b>	<b>1,437</b>	<b>1,204</b>	<b>(12)</b>	<b>(7)</b>	<b>11</b>
R&D expenses	306	404	197	203	(24)	55	51
<b>EBITDA margin</b>	<b>28.5</b>	<b>31.5</b>	<b>22.2</b>	<b>29.2</b>	<b>(3.1)</b>	<b>6.3</b>	<b>(0.7)</b>
Interest	20	40	65	57	(50)	(69)	(65)
Depreciation	429	450	391	451	(5)	10	(5)
Other income	160	150	89	123	7	79	30
<b>PBT</b>	<b>1,045</b>	<b>1,182</b>	<b>1,070</b>	<b>819</b>	<b>(12)</b>	<b>(2)</b>	<b>28</b>
Current tax	188	260	156	119	(28)	21	58
<b>PAT</b>	<b>857</b>	<b>922</b>	<b>914</b>	<b>700</b>	<b>(7)</b>	<b>(6)</b>	<b>22</b>
Minority interest	—	—	22	—	NM	NM	NM
<b>PAT</b>	<b>857</b>	<b>922</b>	<b>893</b>	<b>700</b>	<b>(7)</b>	<b>(4)</b>	<b>22</b>
Biopharmaceuticals	3,791	3,795	3,176	3,399	(0)	19	12
Axicorp	—	—	2,600	—	NM	NM	NM
Contract research	928	904	782	874	3	19	6
Technology licensing fees	365	452	231	144	(19)	58	153
<b>Total</b>	<b>5,084</b>	<b>5,150</b>	<b>6,789</b>	<b>4,417</b>	<b>(1)</b>	<b>(25)</b>	<b>15</b>
<b>Total ex Axicorp/l. income</b>	<b>4,719</b>	<b>4,698</b>	<b>3,958</b>	<b>4,273</b>	<b>0</b>	<b>19</b>	<b>10</b>

Source: Kotak Institutional Equities estimates, Company

## 1H/2HFY12 sales break-up (Rs mn)

	1HFY12	1HFY11	yoy growth (%)	2HFY12E	2HFY11	yoy growth (%)
Biopharma	7,190	6,242	15	7,642	7,025	9
Research	1,802	1,502	20	2,093	1,675	25
Licensing income	509	437	16	1,086	1,088	(0)
<b>Total</b>	<b>9,501</b>	<b>8,181</b>	<b>16</b>	<b>10,821</b>	<b>9,788</b>	<b>11</b>
<b>Total ex licensing</b>	<b>8,992</b>	<b>7,744</b>	<b>16</b>	<b>9,735</b>	<b>8,700</b>	<b>12</b>

Source: Kotak Institutional Equities estimates, Company

## Sales break-up (Rs mn)

	FY2010	FY2011	yoy growth (%)	FY2012E	yoy growth (%)	FY2013E	yoy growth (%)
Biopharma	11,247	13,301	18	14,832	12	16,483	11
Research	2,807	3,177	13	3,893	23	4,586	18
Axicorp	9,739	9,705	(0)	0			
Licensing income	1,525	1,525	0	1,589	4	1,825	15
<b>Total</b>	<b>25,318</b>	<b>27,708</b>	<b>9</b>	<b>20,314</b>	<b>(27)</b>	<b>22,894</b>	<b>13</b>
<b>Total ex Axicorp, licensing</b>	<b>14,054</b>	<b>16,478</b>	<b>17</b>	<b>18,725</b>	<b>14</b>	<b>21,069</b>	<b>13</b>

Source: Kotak Institutional Equities estimates, Company

## Price target, FY2013E

	Now	Earlier
Diluted core EPS (excl R&D and licensing)	20.1	20.4
P/E (X)	18.0	18.0
Value per share	361	367
Cash per share	26	21
Pfizer deal NPV*	57	57
<b>Share price target</b>	<b>444</b>	<b>445</b>

\* Only glargine, recombinant

Source: Kotak Institutional Equities estimates, Company

## Change in estimates

	Current estimates		Earlier estimates		% change	
	2012E	2013E	2012E	2013E	2012E	2013E
Biopharma	14,832	16,483	14,836	16,555	(0)	(0)
Research	3,893	4,586	3,778	4,584	3	0
Licensing	1,589	1,825	2,031	2,053	(22)	(11)
<b>Net sales</b>	<b>20,314</b>	<b>22,894</b>	<b>20,645</b>	<b>23,192</b>	<b>(2)</b>	<b>(1)</b>
<b>EBITDA</b>	<b>5,768</b>	<b>6,588</b>	<b>6,214</b>	<b>6,905</b>	<b>(7)</b>	<b>(5)</b>
Depreciation	(1,800)	(2,150)	(1,800)	(2,150)	0	0
<b>EBIT</b>	<b>3,968</b>	<b>4,438</b>	<b>4,414</b>	<b>4,755</b>	<b>(10)</b>	<b>(7)</b>
Net finance cost	(160)	(100)	(160)	(100)	0	0
Other income	600	700	600	700	0	0
<b>PBT</b>	<b>4,408</b>	<b>5,038</b>	<b>4,854</b>	<b>5,355</b>	<b>(9)</b>	<b>(6)</b>
Current tax	(882)	(1,008)	(971)	(1,071)	(9)	(6)
<b>PAT</b>	<b>3,527</b>	<b>4,031</b>	<b>3,883</b>	<b>4,284</b>	<b>(9)</b>	<b>(6)</b>
<b>PAT excluding licensing, R&amp;D</b>	<b>3,455</b>	<b>4,010</b>	<b>3,458</b>	<b>4,082</b>	<b>(0)</b>	<b>(2)</b>
<b>EPS</b>	<b>17.6</b>	<b>20.2</b>	<b>19.4</b>	<b>21.4</b>	<b>(9)</b>	<b>(6)</b>
<b>Core EPS</b>	<b>17.3</b>	<b>20.1</b>	<b>17.3</b>	<b>20.4</b>	<b>(0)</b>	<b>(2)</b>

Source: Kotak Institutional Equities estimates, Company

## Profit and loss statement, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
<b>Net sales</b>	<b>10,538</b>	<b>16,086</b>	<b>23,678</b>	<b>27,708</b>	<b>20,314</b>	<b>22,894</b>	<b>25,608</b>
<b>Total expenditure</b>	<b>(7,552)</b>	<b>(12,853)</b>	<b>(18,963)</b>	<b>(21,840)</b>	<b>(14,546)</b>	<b>(16,306)</b>	<b>(18,192)</b>
<b>EBITDA</b>	<b>2,986</b>	<b>3,233</b>	<b>4,715</b>	<b>5,868</b>	<b>5,768</b>	<b>6,588</b>	<b>7,415</b>
Depreciation	(939)	(1,103)	(1,401)	(1,568)	(1,800)	(2,150)	(2,500)
<b>EBIT</b>	<b>2,047</b>	<b>2,131</b>	<b>3,314</b>	<b>4,300</b>	<b>3,968</b>	<b>4,438</b>	<b>4,915</b>
Net finance cost	(102)	(177)	(169)	(257)	(160)	(100)	(60)
Other income	364	646	370	429	600	700	700
Forex loss/(gain)	—	(1,472)	—	—	—	—	—
<b>PBT</b>	<b>2,309</b>	<b>1,128</b>	<b>3,515</b>	<b>4,472</b>	<b>4,408</b>	<b>5,038</b>	<b>5,555</b>
Current tax	(97)	(98)	(445)	(721)	(882)	(1,008)	(1,111)
Deferred tax	(17)	(1)	(42)	—	—	—	—
FBT	(15)	(19)	—	—	—	—	—
<b>PAT</b>	<b>2,180</b>	<b>1,009</b>	<b>3,028</b>	<b>3,751</b>	<b>3,527</b>	<b>4,031</b>	<b>4,444</b>
Profit /(loss) in mi	(65)	79	96	75	—	—	—
<b>PAT</b>	<b>2,245</b>	<b>930</b>	<b>2,932</b>	<b>3,676</b>	<b>3,527</b>	<b>4,031</b>	<b>4,444</b>
Exceptional items	2,394	—	—	—	—	—	—
<b>PAT</b>	<b>4,639</b>	<b>930</b>	<b>2,932</b>	<b>3,676</b>	<b>3,527</b>	<b>4,031</b>	<b>4,444</b>
<b>PAT excluding licensing, R&amp;D</b>	<b>2,064</b>	<b>2,410</b>	<b>3,002</b>	<b>2,998</b>	<b>3,455</b>	<b>4,010</b>	<b>4,664</b>

Source: Kotak Institutional Equities estimates, Company

## Balance sheet, cash model, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
<b>Balance sheet</b>							
Total equity	14,841	15,107	17,578	20,327	22,717	25,497	28,464
Total debt	2,551	5,239	5,136	3,343	3,500	2,000	1,000
Current liabilities	3,005	4,375	5,799	10,997	11,781	12,902	14,240
Minority interests	(73)	248	338	377	—	—	—
Deferred tax liabilities	465	466	508	497	497	497	497
<b>Total equity and liabilities</b>	<b>20,789</b>	<b>25,436</b>	<b>29,359</b>	<b>35,541</b>	<b>38,495</b>	<b>40,896</b>	<b>44,202</b>
Cash and cash equivalents	96	118	1,399	4,413	4,000	1,000	1,000
Current assets	5,250	7,806	9,520	10,616	12,025	14,105	16,384
Net assets incl intangibles	10,695	13,836	14,134	15,906	17,622	18,929	20,210
Investments	4,748	3,676	4,306	4,605	4,848	6,862	6,608
<b>Total uses of funds</b>	<b>20,789</b>	<b>25,436</b>	<b>29,359</b>	<b>35,541</b>	<b>38,495</b>	<b>40,896</b>	<b>44,202</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	2,872	3,009	4,256	5,174	4,975	5,701	6,432
Working capital	(20)	(1,302)	(363)	3,878	(764)	(1,073)	(1,167)
Capital expenditure	(1,836)	(4,243)	(1,547)	(3,238)	(3,515)	(3,457)	(3,782)
Investments	3,957	(1,071)	630	299	243	2,014	(254)
<b>Free cash flow</b>	<b>4,974</b>	<b>(3,607)</b>	<b>2,976</b>	<b>6,114</b>	<b>938</b>	<b>3,185</b>	<b>1,230</b>

Source: Kotak Institutional Equities estimates, Company

OCTOBER 20, 2011

#### RESULT

Coverage view: **Cautious**

Price (Rs): **423**

Target price (Rs): **515**

BSE-30: **16,937**

**Better-than-expected results; but inflows just about keep pace.** Thermax reported strong revenues of Rs13 bn, up 19% yoy and 14% above our estimates. EBITDA margin at 10.8% (down 100 bps yoy) was in line with estimates as contribution margin decline (190 bps) was buffered by operating leverage gains. Backlog declined both sequentially and yoy, raising concerns on future revenue momentum. 2Q inflows of Rs12 bn (down 11.5% yoy) is just about keeping pace with our full-year estimate. Working capital also deteriorated a little on lower liabilities, possibly on declining backlog. Retain ADD.

#### Company data and valuation summary

Thermax

##### Stock data

52-week range (Rs) (high,low) 930-406

Market Cap. (Rs bn) 50.4

##### Shareholding pattern (%)

Promoters 62.0

FIs 10.3

MFs 9.4

##### Price performance (%)

Absolute (16.1) (28.2) (45.5)

Rel. to BSE-30 (15.3) (21.6) (36.0)

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	31.6	31.9	31.7
EPS growth (%)	44.3	0.8	(0.6)
P/E (X)	13.4	13.3	13.3
Sales (Rs bn)	53.4	56.8	56.9
Net profits (Rs bn)	3.8	3.8	3.8
EBITDA (Rs bn)	5.7	5.7	5.7
EV/EBITDA (X)	7.3	7.0	6.8
ROE (%)	31.5	26.4	22.3
Div. Yield (%)	2.1	2.2	2.2

#### Results ahead of expectations on revenues and profits; margin in line with estimates

Thermax reported 2QFY12 standalone sales of Rs13 bn (up 19% yoy), significantly ahead of our estimate of Rs11.4 bn. Both the segments contributed to sales growth (energy up 16% yoy to Rs10.3 bn, environment up 20% to Rs3 bn). EBITDA margin at 10.8%, down 100 bps yoy, was in line with our estimates. Note that contribution margins were in fact down 190 bps yoy, but were partly buffered by operating leverage gains (on lower employee cost as a percentage of sales). Thermax reported a PAT of Rs1 bn, up 13.6% yoy and 21% ahead of our estimate of Rs837 mn.

#### Order inflows decline, just keeping pace with expectations; may drag down sales going forward

Thermax reported standalone order backlog of Rs57.7 bn at end-2QFY12, down 12.6% yoy and also marginally lower on a sequential basis (from Rs59 bn at end-1QFY11). This implies order inflows of about Rs11.7 bn in 2QFY12, lower than the Rs13 bn of orders won in 2QFY11. The order inflow is just about keeping pace with our expectation of Rs12-13 bn per quarter in order to meet our full-year inflow estimate of Rs50 bn. The declining backlog and inflows reflect the weakness in overall ordering for the sector and may affect revenue momentum for Thermax.

#### Working capital deteriorates a little on lower liabilities likely led by declining backlog

The company's net working capital (excluding cash) increased to Rs455 mn at end-2QFY12 versus negative working capital of Rs2.2 bn at end-Mar-11. This was primarily led by lower current liabilities, thus probably led by lower advances as the backlog declined. We also highlight the increase in company's debt levels to Rs902 mn from Rs480 mn at end-Mar-11.

#### Retain estimates and ADD rating (TP: Rs515); would revisit estimate post today's concall

We retain our estimates of Rs31.9 and Rs31.7 for FY2012E and FY2013E and our target price of Rs515/share (based on 16X FY2013E earnings). We retain our ADD rating based on (1) attractive valuations (13.5X FY2013E P/E, 7.7X EV/EBITDA), (2) estimates build in conservative assumptions, (3) strong expansion of business opportunity, and (4) a very strong balance sheet.

We would revisit our estimates/TP/rating post today's conference call.

Lokesh Garg  
lokesh.garg@kotak.com  
Mumbai: +91-22-6634-1496

Supriya Subramanian  
supriya.subramanian@kotak.com  
Mumbai: +91-22-6634-1383

Aditya Mongia  
aditya.mongia@kotak.com  
Mumbai: +91-22-6634-1453

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100



### Results ahead of expectations on revenues and profits; margins in line

Thermax reported standalone sales of Rs13 bn, up 19% yoy from Rs10.9 bn in 2QFY11. The sales were ahead of our estimate of Rs11.4 bn. The company's EBITDA margin declined 100 bps on a yoy basis to 10.8%, in line with our estimate of 10.8%. Contribution margin declined by 190 bps on a yoy basis to 30%, also contracting by 30 bps on a sequential basis. Lower employee expenses (150 bps yoy improvement) supporting margin. PAT grew by 14% yoy (versus our estimate of a 6% decline) to Rs1.0 bn (22% ahead of our estimates).

Consolidated sales for 1HFY12 at Rs27.3 bn grew 35% yoy. Net PAT of Rs1.9 bn implied 24% growth yoy.

#### Results beat estimates on revenues and profit

Thermax (standalone) - 2QFY12 - key numbers (Rs mn)

	% change												
	2QFY12	2QFY12E	2QFY11	1QFY12	vs est.	yoy	qoq	1HFY12	1HFY11	% change	FY2012E	FY2011	% change
Total income	13,035	11,444	10,916	10,444	13.9	19.4	24.8	23,479	18,814	24.8	52,018	48,832	6.5
Expenses	(11,630)	(10,214)	(9,630)	(9,307)	13.9	20.8	25.0	(20,937)	(16,569)	26.4	(46,528)	(43,171)	7.8
Raw material	(9,137)		(7,464)	(7,347)		22.4	24.4	(16,484)	(12,740)	29.4	(36,509)	(34,221)	6.7
Employee	(985)		(990)	(905)		(0.4)	8.9	(1,890)	(1,742)	8.5	(4,065)	(3,686)	10.3
Other expenses	(1,514)		(1,208)	(1,121)		25.3	35.0	(2,635)	(2,144)	22.9	(5,954)	(5,327)	11.8
EBITDA	1,405	1,230	1,286	1,137	14.2	9.3	23.6	2,542	2,245	13.2	5,490	5,661	(3.0)
Other income	208	139	133	147	49.7	56.0	41.0	355	273	30.1	555	523	6.3
PBDIT	1,613	1,369	1,419	1,284	17.8	13.6	25.6	2,897	2,519	15.0	6,045	6,183	(2.2)
Interest	(11)	(5)	(5)	(4)	101.8	141.9	191.8	(15)	(10)	45.6	(22)	(22)	—
Depreciation	(117)	(115)	(105)	(111)	2.2	11.6	5.6	(228)	(211)	8.1	(458)	(432)	6.1
PBT	1,485	1,249	1,309	1,170	18.9	13.4	26.9	2,654	2,298	15.5	5,565	5,730	(2.9)
Tax	(468)	(412)	(414)	(371)	13.4	12.9	26.1	(838)	(741)	13.2	(1,848)	(1,906)	(3.0)
Net profit	1,017	837	895	799	21.5	13.6	27.3	1,816	1,557	16.6	3,717	3,824	(2.8)
Order details													
Order booking	11,677		13,198	14,440		(11.5)	(19.1)	26,117	30,508	(14.4)	49,676	53,170	(6.6)
Order backlog	57,700		66,020	58,890		(12.6)	(2.0)	57,700	66,020	(12.6)	52,230	56,060	(6.8)
Key ratios (%)													
Raw material /sales	70.0		68.1	69.7				69.9	67.4		70.2	70.0	
Contribution margin	30.0		31.9	30.3				30.1	32.6		29.8	30.0	
Employee exp./sales	7.6		9.1	8.7				8.0	9.3		7.8	7.5	
Other expenses/sales	11.6		11.1	10.7				11.2	11.4		11.4	10.9	
EBITDA margin	10.8	10.8	11.8	10.9				10.8	11.9		10.6	11.6	
PBT margin	11.4	10.9	12.0	11.2				11.3	12.2		10.7	11.7	
Tax rate	31.5	33.0	31.6	31.7				31.6	32.2		33.2	33.3	
PAT margin	7.8	7.3	8.2	7.6				7.7	8.3		7.1	7.8	
EPS (Rs)	8.5	7.0	7.5	6.7				15.2	13.1		31.2	32.1	

Source: Company, Kotak Institutional Equities estimates

### Both segments clocked healthy sales growth; energy segment margin improves

- **Energy segment:** Sales grew by 16% yoy to Rs10.3 bn. It reported a 50 bps increase in EBIT margin to 10.7% (10.2% last year)
- **Environment segment:** Sales grew 20% yoy to Rs2.9 bn. EBIT margin contracted by 160 bps to 10.8%

Segmental revenues and margins of Thermax for 2QFY12 (Rs mn)

	2QFY12	2QFY11	1QFY12	% change		1HFY12	1HFY11 % change		FY2012E	FY2011	% change
				yoy	qoq						
<b>Revenues</b>											
Energy	10,348	8,910	8,024	16.1	29.0	18,372	14,975	169.9	40,412	39,072	3.4
Environment	2,968	2,482	2,647	19.6	12.1	5,616	4,703	162.9	12,366	11,472	7.8
Less Intersegment	(282)	(475)	(227)	(40.7)	24.3	(509)	(864)	(12.1)	(759)	(1,711)	(55.6)
<b>Total</b>	<b>13,035</b>	<b>10,916</b>	<b>10,444</b>	<b>19.4</b>	<b>24.8</b>	<b>23,479</b>	<b>18,814</b>	<b>176.5</b>	<b>52,018</b>	<b>48,832</b>	<b>6.5</b>
<b>PBIT</b>											
Energy	1,102	913	810	20.8	36.2	1,912	1,593	153.7	4,041	4,160	(2.9)
Environment	320	308	313	3.7	2.2	633	577	167.7	1,546	1,476	4.7
Net unallocable income	73	93	51	(20.9)	44.2	124	137	(100.0)	—	116	(100.0)
<b>Total PBIT</b>	<b>1,484</b>	<b>1,309</b>	<b>1,170</b>	<b>13.4</b>	<b>26.9</b>	<b>2,654</b>	<b>2,298</b>	<b>142.2</b>	<b>5,565</b>	<b>5,730</b>	<b>(2.9)</b>
<b>Revenue mix (%)</b>											
Energy	77.7	78.2	75.2			76.6	76.1		76.6	77.3	
Environment	22.3	21.8	24.8			23.4	23.9		23.4	22.7	
<b>EBIT margin (%)</b>											
Energy	10.7	10.2	10.1			10.4	10.6		10.0	10.6	
Environment	10.8	12.4	11.8			11.3	12.3		12.5	12.9	
<b>Total PBIT</b>	<b>11.4</b>	<b>12.0</b>	<b>11.2</b>			<b>11.3</b>	<b>12.2</b>		<b>10.7</b>	<b>11.7</b>	

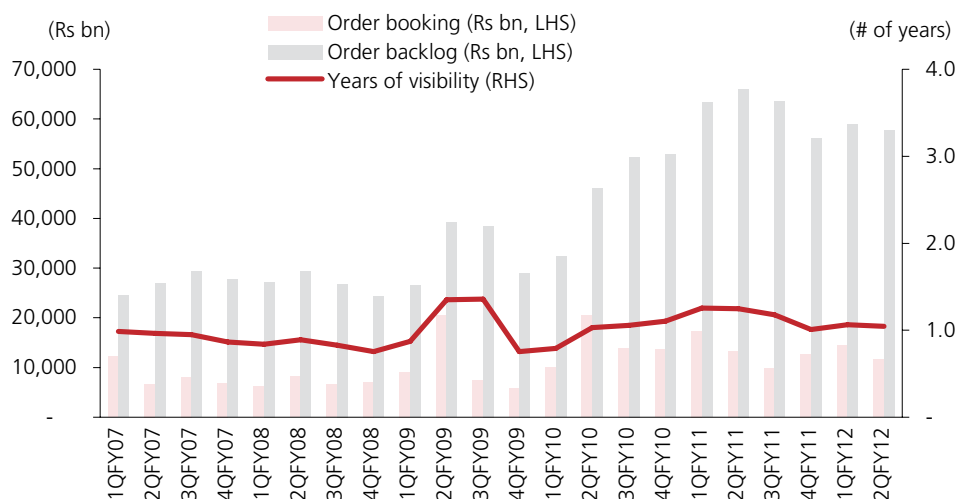
Source: Company, Kotak Institutional Equities estimates

Order inflows decline yoy and just about keep pace with our expectation

Thermax reported a standalone order backlog of Rs57.7 bn versus Rs66 bn a year ago and Rs59 bn at end-Jun-11. This implies order inflows of about Rs11.7 bn in 2QFY12, lower than Rs14.4 bn worth of orders secured in same quarter last year. The declining backlog and inflows reflect the weakness in the overall ordering in the sector and may affect revenue momentum. The backlog presently provides a visibility of little over a year on base on four quarter forward revenues (assuming 4.3% yoy sales growth).

Order backlog provides visibility of 1 years based on forward four quarter revenues

Order booking, Order backlog & visibility trend for Thermax at end-Sep-11



Source: Company, Kotak Institutional Equities estimates

### Working capital deteriorates a little on declining backlog led lower liabilities

The company reported that its net current assets, excluding cash, have gone up to Rs455 mn versus negative working capital of Rs2.2 bn at FY2011-end. This was primarily led by lower current liabilities, thus probably led by lower advances as the backlog declines. We highlight the increase in company's debt levels to Rs902 mn from Rs480 mn at end-Mar-11.

Thermax balance sheet at end-Sep-11, 2011 (Rs mn)

	Sep-10	Mar-11	Sep-11	Mar-12E	Mar-13E
<b>Shareholders funds</b>	<b>11,935</b>	<b>12,923</b>	<b>14,630</b>	<b>15,345</b>	<b>17,743</b>
Share capital	238	238	238	238	238
Reserves & surplus	11,696	12,685	14,392	15,106	17,505
<b>Loan funds</b>	<b>-</b>	<b>480</b>	<b>902</b>	<b>480</b>	<b>480</b>
Deferred tax liability	165	201	194	201	201
<b>Total sources of funds</b>	<b>12,100</b>	<b>13,605</b>	<b>15,726</b>	<b>16,026</b>	<b>18,425</b>
<b>Fixed assets</b>	<b>5,080</b>	<b>5,163</b>	<b>5,331</b>	<b>5,359</b>	<b>5,482</b>
Investments	1,874	4,044	4,233	5,294	6,544
<b>Cash &amp; bank balances</b>	<b>7,324</b>	<b>6,566</b>	<b>5,707</b>	<b>6,797</b>	<b>6,397</b>
<b>Current assets</b>	<b>17,875</b>	<b>20,155</b>	<b>19,378</b>	<b>23,818</b>	<b>23,539</b>
Inventories	3,265	2,823	3,027	8,551	8,451
Sundry debtors	7,915	10,013	10,143	11,401	11,268
Loans & advances	3,674	3,094	3,125	3,296	3,257
Other current assets	3,022	4,225	3,084	570	563
<b>Current liabilities &amp; provisions</b>	<b>20,053</b>	<b>22,323</b>	<b>18,923</b>	<b>25,242</b>	<b>23,538</b>
Current liabilities	19,741	20,756	18,547	23,515	21,831
Provisions	312	1,566	376	1,727	1,706
<b>Net working capital (excl. cash)</b>	<b>(2,177)</b>	<b>(2,168)</b>	<b>455</b>	<b>(1,424)</b>	<b>2</b>
Miscellaneous expenditure					
<b>Total application of funds</b>	<b>12,100</b>	<b>13,605</b>	<b>15,726</b>	<b>16,026</b>	<b>18,425</b>
<b>As days of sales</b>					
<b>Current assets</b>	<b>175</b>	<b>154</b>	<b>134</b>	<b>167</b>	<b>167</b>
Inventories	63	22	21	60	60
Sundry debtors	154	76	70	80	80
Loans & advances	71	24	22	23	23
Other current assets	59	32	21	4	4
<b>Current liabilities &amp; provisions</b>	<b>389</b>	<b>170</b>	<b>131</b>	<b>177</b>	<b>167</b>
Current liabilities	383	158	128	165	155
Provisions	6	12	3	12	12
<b>Net working capital (excl. cash)</b>	<b>(42)</b>	<b>(17)</b>	<b>3</b>	<b>(10)</b>	<b>0</b>

Source: Company, Kotak Institutional Equities estimates

Energy segment expected to record strong growth on the back of large order inflows

Energy segment revenues for Thermax, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011	2012E	2013E
<b>Energy segment</b>							
<b>Revenue</b>	<b>17,093</b>	<b>26,207</b>	<b>25,173</b>	<b>24,082</b>	<b>39,082</b>	<b>40,412</b>	<b>38,814</b>
Growth (%)	39.6	53.3	(3.9)	(4.3)	62.3	3.4	(4.0)
<b>Order inflow</b>	<b>28,324</b>	<b>20,770</b>	<b>35,510</b>	<b>46,352</b>	<b>41,013</b>	<b>36,912</b>	<b>38,757</b>
Growth (%)	59.0	(26.7)	71.0	30.5	(11.5)	(10.0)	5.0
<b>Order backlog</b>	<b>24,680</b>	<b>19,340</b>	<b>24,509</b>	<b>44,889</b>	<b>46,724</b>	<b>43,224</b>	<b>43,168</b>
Growth (%)	77.5	(21.6)	26.7	83.2	4.1	(7.5)	(0.1)
<b>Bill to book ratio (%)</b>	<b>60.9</b>	<b>74.7</b>	<b>67.9</b>	<b>50.5</b>	<b>59.8</b>	<b>62.0</b>	<b>62.0</b>
EBIT	2,553	3,705	3,315	2,873	4,160	4,041	3,881
<b>EBIT Margin (%)</b>	<b>14.9</b>	<b>14.1</b>	<b>13.2</b>	<b>11.9</b>	<b>10.6</b>	<b>10.0</b>	<b>10.0</b>
<b>Environment segment</b>							
<b>Revenue</b>	<b>5,261</b>	<b>6,513</b>	<b>8,113</b>	<b>8,410</b>	<b>11,472</b>	<b>12,366</b>	<b>13,221</b>
Growth (%)	29.9	23.8	24.6	3.7	36.4	7.8	6.9
<b>Order inflow</b>	<b>6,577</b>	<b>7,420</b>	<b>7,310</b>	<b>11,578</b>	<b>12,157</b>	<b>12,765</b>	<b>14,041</b>
Growth (%)	34.8	12.8	(1.5)	58.4	5.0	5.0	10.0
<b>Order backlog</b>	<b>3,000</b>	<b>5,000</b>	<b>4,461</b>	<b>7,922</b>	<b>8,606</b>	<b>9,005</b>	<b>9,825</b>
Growth (%)	82.3	66.7	(10.8)	77.6	8.6	4.6	9.1
<b>Bill to book ratio (%)</b>	<b>106.6</b>	<b>97.1</b>	<b>93.7</b>	<b>82.0</b>	<b>81.9</b>	<b>82.5</b>	<b>82.5</b>
EBIT	665	792	1,140	1,173	1,476	1,546	1,653
<b>EBIT Margin (%)</b>	<b>12.6</b>	<b>12.2</b>	<b>14.0</b>	<b>14.0</b>	<b>12.9</b>	<b>12.5</b>	<b>12.5</b>
<b>Sum of Segments</b>							
<b>Revenues</b>	<b>21,368</b>	<b>31,568</b>	<b>32,111</b>	<b>31,855</b>	<b>48,843</b>	<b>51,194</b>	<b>50,474</b>
Growth (%)	45.9	47.7	1.7	(0.8)	53.3	4.8	(1.4)
<b>EBIT</b>	<b>2,973</b>	<b>4,296</b>	<b>4,211</b>	<b>3,935</b>	<b>5,752</b>	<b>5,587</b>	<b>5,534</b>
<b>Margin (%)</b>	<b>13.9</b>	<b>13.6</b>	<b>13.1</b>	<b>12.4</b>	<b>11.8</b>	<b>10.9</b>	<b>11.0</b>
<b>Order inflow</b>	<b>34,901</b>	<b>28,190</b>	<b>42,820</b>	<b>57,930</b>	<b>53,170</b>	<b>49,676</b>	<b>52,799</b>
Growth (%)	53.8	(19.2)	51.9	35.3	(8.2)	(6.6)	6.3
<b>Order backlog</b>	<b>27,680</b>	<b>24,340</b>	<b>28,970</b>	<b>52,810</b>	<b>56,060</b>	<b>52,230</b>	<b>52,993</b>
Growth (%)	78.0	(12.1)	19.0	82.3	6.2	(6.8)	1.5

Assume moderate growth in order inflows in the core energy business (excluding utility orders).

Execution rate of order book would be less than historical as company takes larger-sized orders and projects.

Assume moderate growth in order inflows in FY2012E-13E

Assume slower execution as order size increase, for e.g. municipal sewage plants.

Decline in standalone order inflows in FY2011 (based on consolidated backlog)

Source: Company, Kotak Institutional Equities estimates

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**RESULT**

 Coverage view: **Neutral**

 Price (Rs): **230**

 Target price (Rs): **320**

 BSE-30: **16,937**

**Peak investment quarter.** DBCL reported apparently weak 2QFY12 EBITDA of Rs771 mn (-19% yoy). However, adjusted for Rs58 mn of forex losses (un-hedged ECB exposure), EBITDA of Rs829 mn (-13% yoy) was in line with expectations. Mature business EBITDA came in at Rs1.07 bn (+2% yoy) in a challenging environment; emerging business losses increased to Rs231 mn (+189% yoy). Retain BUY with FY2013E TP of Rs320 (Rs330 previously); inexpensive valuations at 13.5X FY2013E mature business EPS estimates, given new expansions, are likely to be value-accretive in time.

**Company data and valuation summary**

DB Corp

**Stock data**

52-week range (Rs) (high,low) 310-186

Market Cap. (Rs bn) 42.2

**Shareholding pattern (%)**

Promoters 86.5

FIs 5.1

MFs 3.5

**Price performance (%)**

Absolute 1M 4.0 3M 3.1 12M (16.8)

Rel. to BSE-30 4.8 12.2 (0.4)

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	14.1	11.6	14.2
EPS growth (%)	32.7	(18.0)	22.9
P/E (X)	16.3	19.9	16.2
Sales (Rs bn)	12.7	14.8	17.9
Net profits (Rs bn)	2.6	2.1	2.6
EBITDA (Rs bn)	4.0	3.6	4.4
EV/EBITDA (X)	10.6	11.7	9.6
ROE (%)	35.0	24.4	27.2
Div. Yield (%)	1.7	2.6	3.5

**2QFY12 results appear weak given Rs58 mn forex losses**

- DBCL reported optically weak 2QFY12 EBITDA of Rs771 mn (-19% yoy) led by forex losses of Rs58 mn (un-hedged ECB exposure) despite reasonably robust 16% yoy advertising revenue growth. Adjusted EBITDA of Rs829 mn (-13% yoy) was in line with expectations, impacted by Rs150 mn increased losses in emerging markets (Jharkhand/Maharashtra).
- DBCL reported 2QFY12 EBITDA of Rs1.07 bn (+2% yoy) in mature markets led by robust leading position across MPCG (MP-Chhattisgarh), Rajasthan, CPH (Chandigarh-Punjab-Haryana) and Gujarat, in a challenging advertising environment.
- 2QFY12 may be the peak investment quarter with Rs231 mn of emerging market losses at ~22% of mature market earnings of Rs1.07 bn.

**Retain BUY led by mature market franchise; FY2013E TP of Rs320**

Retain BUY with FY2013E TP of Rs320 (Rs330 previously); our FY2012E-13E earnings estimates are revised to Rs11.6 (Rs13.0 previously) and Rs14.1 (Rs14.2) led by (1) one-off forex losses (overhead costs) in FY2012E, (2) reduced advertising revenues and (3) revised Rs/US\$ assumptions impacting newsprint prices; however, the latter may be negated by a reported modest decline in domestic newsprint prices (80% consumption share in DBCL). Additionally, we highlight that the apparent decline in EPS to Rs11.6 in FY2012E from Rs14.1 in FY2011 has to be viewed against (1) forex losses in FY2012E and (2) tax savings from accrued losses of FM radio business in FY2011. Inexpensive valuations at 13.5X FY2013E mature business EPS estimates; the risk is continued inexpensive valuations given operating losses from emerging markets for some time.

We view the street's fears on DBCL market expansions as significantly overblown given the track record of the company. Nonetheless, we do not presume any value-addition from new markets in our TP (implied 19X FY2013E mature market EPS). The concern on potential challenges of simultaneous expansion in two large markets (Maharashtra and Bihar) was put to rest by the deferment of Bihar expansion; the focus on Maharashtra expansion (operating breakeven) is the prudent approach, in our view. The operating losses in emerging markets have also been impacted by the challenging environment (advertising, currency).

 Amit Kumar  
 amit.ckumar@kotak.com  
 Mumbai: +91-22-6634-1392

 Kotak Institutional Equities Research  
 kotak.research@kotak.com  
 Mumbai: +91-22-6634-1100

## Interim results of DB Corp (DBCL), March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	chg (%)			1HFY12	1HFY11	chg (%)
					2QFY12E	2QFY11	1QFY12			
<b>Total revenues</b>	<b>3,539</b>	<b>3,450</b>	<b>3,010</b>	<b>3,538</b>	<b>3</b>	<b>18</b>	<b>0</b>	<b>7,077</b>	<b>5,997</b>	<b>18</b>
Advertising revenues	2,608	2,625	2,258	2,717	(1)	16	(4)	5,325	4,515	18
Circulation revenues	601	575	532	568	5	13	6	1,169	1,069	9
Other operating revenues	330	250	220	252	32	50	31	583	412	41
<b>Total expenditure</b>	<b>(2,768)</b>	<b>(2,625)</b>	<b>(2,059)</b>	<b>(2,534)</b>	<b>5</b>	<b>34</b>	<b>9</b>	<b>(5,302)</b>	<b>(3,910)</b>	<b>36</b>
Raw material costs	(1,245)	(1,250)	(901)	(1,184)	(0)	38	5	(2,429)	(1,733)	40
Other direct costs	(451)	(400)	(363)	(392)	13	24	15	(843)	(685)	23
Employee expenses	(613)	(575)	(459)	(575)	7	34	7	(1,188)	(869)	37
SG&A expenses	(458)	(400)	(337)	(384)	15	36	19	(842)	(623)	35
<b>EBITDA</b>	<b>771</b>	<b>825</b>	<b>951</b>	<b>1,004</b>	<b>(7)</b>	<b>(19)</b>	<b>(23)</b>	<b>1,775</b>	<b>2,087</b>	<b>(15)</b>
<b>OPM (%)</b>	<b>21.8</b>	<b>23.9</b>	<b>31.6</b>	<b>28.4</b>				<b>25.1</b>	<b>34.8</b>	
Other income	20	50	32	37	(61)	(39)	(47)	56	75	(26)
Interest expense	(67)	(50)	(38)	(27)	34	78	149	(94)	(85)	11
D&A expenses	(124)	(125)	(107)	(117)	(1)	16	6	(241)	(211)	14
<b>PBT</b>	<b>600</b>	<b>700</b>	<b>839</b>	<b>896</b>	<b>(14)</b>	<b>(28)</b>	<b>(33)</b>	<b>1,496</b>	<b>1,867</b>	<b>(20)</b>
Extraordinaries	-	-	-	-				-	-	
Tax provision	(197)	(225)	(308)	(284)	(12)	(36)	(31)	(482)	(656)	(27)
Minority interest	(0)	-	20	(1)				(1)	36	(103)
<b>Adjusted PAT</b>	<b>403</b>	<b>475</b>	<b>551</b>	<b>611</b>	<b>(15)</b>	<b>(27)</b>	<b>(34)</b>	<b>1,013</b>	<b>1,246</b>	<b>(19)</b>
<b>Reported PAT</b>	<b>403</b>	<b>475</b>	<b>551</b>	<b>611</b>	<b>(15)</b>	<b>(27)</b>	<b>(34)</b>	<b>1,013</b>	<b>1,246</b>	<b>(19)</b>
<b>Tax rate (%)</b>	<b>32.9</b>	<b>32.1</b>	<b>36.7</b>	<b>31.7</b>				<b>32.2</b>	<b>35.2</b>	
<b>EPS (Rs/share)</b>	<b>2.2</b>	<b>2.6</b>	<b>3.0</b>	<b>3.3</b>	<b>(15)</b>	<b>(28)</b>	<b>(34)</b>	<b>5.6</b>	<b>6.9</b>	<b>(19)</b>

Source: Company data, Kotak Institutional Equities estimates

## DBCL's mature business financials, 1HFY11-12 (Rs mn)

	2QFY12		2QFY11		chg (%)	
	Emerging	Mature	Emerging	Mature	Emerging	Mature
Revenues	302	3,223	10	2,998		8
<b>EBITDA</b>	<b>(231)</b>	<b>1,071</b>	<b>(80)</b>	<b>1,052</b>	<b>189</b>	<b>2</b>
Margin (%)	(76)	33	(800)	35	(90)	(5)

	1QFY12		1QFY11		chg (%)	
	Emerging	Mature	Emerging	Mature	Emerging	Mature
Revenues	219	3,307	-	2,977		11
<b>EBITDA</b>	<b>(173)</b>	<b>1,198</b>	<b>-</b>	<b>1,145</b>		<b>5</b>
Margin (%)	(79)	36	-	38		(6)

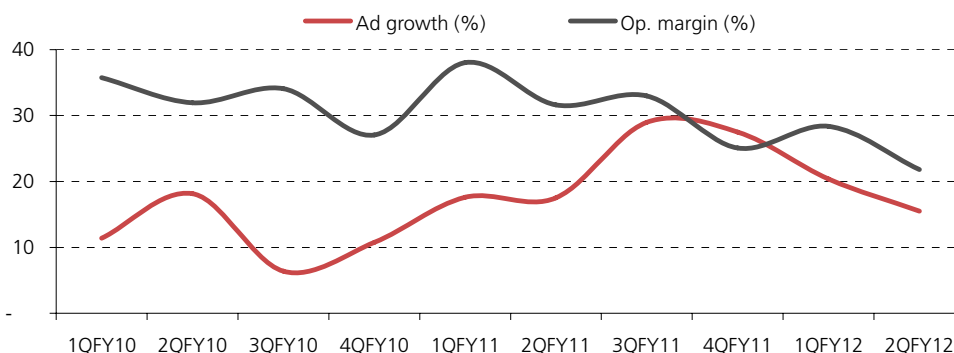
## Notes:

- (a) Mature business financials include legacy print as well as FM radio.  
 (b) 2QFY12 mature business financials adjusted for Rs58 mn of forex losses.

Source: Company data, Kotak Institutional Equities

- ▶ DBCL reported 2QFY12 advertising revenues of Rs2.61 bn (credible +16% yoy), including incremental contribution from emerging markets. However, advertising growth was slowest in the past six quarters led by the economic slowdown in India; incremental contribution from emerging markets will take time to scale up.
- ▶ DBCL reported 2QFY12 circulation revenues of Rs601 mn (+13% yoy) and helped support financials in a challenging advertising environment. We have previously highlighted that the effective cover price in the Marathi market remains at reasonable levels, where the expansion was scaled up during this quarter.

## Trends in advertising growth and operating margins of DBCL (%)



Source: Company data, Kotak Institutional Equities

## Effective cover price realization for DBCL from Divya Marathi (Rs/copy)

	Urban	Rural	Comments
<b>Circulation scheme</b>			
Initial cost to subscriber (Rs)	199	199	
Monthly payment (Rs)	45	55	To be paid to the hawker at home
Annual cost to subscriber (Rs)	540	660	
<b>Gross realization (Rs)</b>	<b>739</b>	<b>859</b>	
<b>Consumer freebies</b>			
Free gift to subscriber (Rs)	199	199	Retail price of the gift given to the subscriber
Gift cost to DBCL (Rs)	100	100	Volume discount given bulk buying by DBCL
Free advertising given (Rs)	540	660	Zero cost to DBCL given low advertising at launch
Adv cost to DBCL (Rs)	-	-	Limited advertising in the newspaper at launch
<b>Net cost to DBCL (Rs)</b>	<b>100</b>	<b>100</b>	
<b>Effective realization</b>			
DBCL realization (Rs)	640	760	Adjusted for direct cost but not distribution cost
<b>DBCL realization (Rs/copy)</b>	<b>1.8</b>	<b>2.1</b>	
Commission expense (Rs/copy)	1.0	1.2	Adjusted for direct cost but not distribution cost
<b>Net realization (Rs/copy)</b>	<b>0.8</b>	<b>0.9</b>	

Source: Company data, Kotak Institutional Equities

- 2QFY11 raw material costs at Rs1.25 bn (+5% qoq) were in line with expectations. The raw material costs were contained as (1) likely cost rationalization measures and (2) stable qoq domestic newsprint prices. We note that 2QFY12 included the following new editions: (1) first full quarter of Dhanbad edition (April 2011 launch), (2) first full quarter of Aurangabad edition (May 2011 launch), (3) launch of Nashik edition in July 2011 as well as (4) launch of Jalgaon edition in September 2011.
- However, 2QFY12 other direct costs as well as employee costs increased 15% yoy and 7% yoy. We also highlight that DBCL acquired the operations of Writers and Publishers (WWPL), engaged in outsourced printing, during the quarter. This also resulted in 50% yoy increase in other income in 2QFY12.
- SG&A expenses with higher by Rs58 mn on account of forex loss (un-hedged ECB exposure); adjusted overheads were in line with expectations.
- DBCL's 2QFY12 net interest expenses were Rs47 mn versus Rs10 mn of other income in 1QFY12; the negative variance was on account of (1) dividend payout for FY2011 during 1QFY12 as well as (2) acquisition of WPPL (Rs350 mn).

## Valuation of Indian print media companies, March fiscal year-ends, 2010-13E

	EV	EBITDA (Rs bn)				EV/EBITDA (X)			
	(Rs bn)	2010	2011	2012E	2013E	2010	2011	2012E	2013E
JAGP	33	2.8	3.6	3.6	4.2	11.6	9.2	9.1	7.7
<b>JAGP (adjusted)</b>	<b>31</b>	<b>2.8</b>	<b>3.6</b>	<b>3.6</b>	<b>4.2</b>	<b>11.1</b>	<b>8.8</b>	<b>8.7</b>	<b>7.4</b>
DBCL	42	3.4	4.0	3.6	4.4	12.4	10.5	11.7	9.7
<b>DBCL (adjusted)</b>	<b>42</b>	<b>3.4</b>	<b>4.2</b>	<b>4.3</b>	<b>5.3</b>	<b>12.4</b>	<b>10.0</b>	<b>9.9</b>	<b>8.1</b>
HMVL	8	0.8	0.9	1.1	1.4	9.5	9.0	7.6	5.7
HTML	29	2.6	3.1	3.6	4.5	11.2	9.3	8.1	6.4
<b>HTML (adjusted)</b>	<b>29</b>	<b>2.6</b>	<b>3.0</b>	<b>3.3</b>	<b>4.2</b>	<b>11.2</b>	<b>9.6</b>	<b>8.6</b>	<b>6.9</b>

	Price	EPS (Rs/share)				P/E (X)			
	(Rs)	2010	2011	2012E	2013E	2010	2011	2012E	2013E
JAGP	105	5.8	6.7	6.7	8.0	17.9	15.6	15.6	13.1
<b>JAGP (adjusted)</b>	<b>105</b>	<b>5.9</b>	<b>6.9</b>	<b>7.0</b>	<b>8.2</b>	<b>17.7</b>	<b>15.1</b>	<b>15.0</b>	<b>12.7</b>
DBCL	230	10.6	14.1	11.6	14.2	21.7	16.3	19.9	16.2
<b>DBCL (adjusted)</b>	<b>230</b>	<b>10.6</b>	<b>14.8</b>	<b>13.7</b>	<b>17.1</b>	<b>21.7</b>	<b>15.5</b>	<b>16.8</b>	<b>13.5</b>
HMVL	133	7.9	8.2	10.1	12.2	16.8	16.2	13.1	10.9
HTML	140	6.0	7.6	8.6	10.5	23.2	18.4	16.4	13.4

	Readership (mn)				EV/Reader (X)			
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2010	Q4 2010	Q1 2011	Q2 2011
JAGP	16.6	16.8	16.6	17.1	1,967	1,950	1,971	1,911
DBCL	17.3	17.7	17.8	18.0	2,449	2,392	2,381	2,360
<b>HMVL</b>	<b>10.8</b>	<b>11.5</b>	<b>11.8</b>	<b>12.0</b>	<b>735</b>	<b>695</b>	<b>674</b>	<b>664</b>
<b>Discount (%)</b>					<b>67</b>	<b>68</b>	<b>69</b>	<b>69</b>

Notes:

(a) Adjusted for higher dividend payout versus peers DBCL and HTML.

(b) Adjusted for near-term startup losses in Jharkhand and Maharashtra.

(c) Adjusted for 22% minority interest in subsidiary HMVL post IPO in October-2010.

Source: Company data, Kotak Institutional Equities estimates

## Readership of DBCL across core, legacy markets (mn)

	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	chg (%)
<b>MPCG</b>						
<b>Dainik Bhaskar</b>	<b>4.2</b>	<b>4.3</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>	<b>14</b>
Nai Dunia	1.5	1.6	1.9	2.0	1.9	31
Patrika Dainik	0.7	0.9	1.1	1.1	1.3	73
Hari Bhoomi	1.1	1.2	1.2	1.2	1.2	11
<b>Rajasthan</b>						
Rajasthan Patrika	6.8	7.1	7.0	6.9	6.8	0
<b>Dainik Bhaskar</b>	<b>6.1</b>	<b>6.1</b>	<b>6.4</b>	<b>6.3</b>	<b>6.4</b>	<b>5</b>
<b>CPH</b>						
<b>Dainik Bhaskar</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>(2)</b>
Punjab Kesari	2.1	2.1	2.1	2.0	2.0	(6)
Dainik Jagran	1.8	1.8	1.8	1.7	1.7	(8)
<b>Gujarat</b>						
Gujarat Samachar	4.5	4.5	4.4	4.4	4.4	(1)
<b>Divya Bhaskar</b>	<b>3.7</b>	<b>3.8</b>	<b>3.7</b>	<b>3.8</b>	<b>3.8</b>	<b>2</b>
Sandesh Dainik	3.1	3.4	3.3	3.2	3.3	6

Source: Indian Readership Survey, Kotak Institutional Equities



## DBCL's geographic expansion in various states of India

Phase I expansion	Phase II expansion
Jaipur (1996, RAJ)	Chandigarh (2000, CPH)
Ajmer (1997, RAJ)	Panipat (2000, CPH)
Jodhpur (1997, RAJ)	Hissar (2000, CPH)
Bikaner (1997, RAJ)	Faridabad (2001, CPH)
Udaipur (1997, RAJ)	
Kota (1997, RAJ)	
Phase III expansion	Phase IV expansion
Ahmedabad (2003, GUJ)	Amritsar (2006, CPH)
Surat (2004, GUJ)	Jalandhar (2006, CPH)
Baroda (2004, GUJ)	Ludhiana (2007, CPH)
Bhavnagar (2004, GUJ)	Delhi (2007, CPH)
Mumbai (2004, MAH)	
Rajkot (2005, GUJ)	

Source: Company data, Kotak Institutional Equities

## Financial summary of DB Corp Limited, March fiscal year-ends, 2008-14E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
<b>Profit model</b>							
Net sales	8,627	9,610	10,630	12,652	14,754	17,861	21,319
<b>EBITDA</b>	<b>1,829</b>	<b>1,461</b>	<b>3,430</b>	<b>4,031</b>	<b>3,627</b>	<b>4,384</b>	<b>5,562</b>
Other income	116	109	112	142	170	182	186
Interest	(397)	(510)	(357)	(153)	(153)	(153)	(153)
Depreciation	(220)	(290)	(378)	(433)	(519)	(555)	(618)
<b>Pretax profits</b>	<b>1,328</b>	<b>770</b>	<b>2,806</b>	<b>3,587</b>	<b>3,126</b>	<b>3,859</b>	<b>4,976</b>
Extraordinary items	8	—	—	—	—	—	—
Current tax	(560)	(377)	(841)	(897)	(932)	(1,172)	(1,551)
Deferred taxation	(70)	(47)	(216)	(102)	(79)	(80)	(72)
<b>Net income</b>	<b>706</b>	<b>346</b>	<b>1,749</b>	<b>2,588</b>	<b>2,115</b>	<b>2,607</b>	<b>3,353</b>
<b>Adjusted net income</b>	<b>763</b>	<b>464</b>	<b>1,828</b>	<b>2,585</b>	<b>2,121</b>	<b>2,606</b>	<b>3,350</b>
<b>Earnings per share (Rs)</b>	<b>4.5</b>	<b>2.8</b>	<b>10.6</b>	<b>14.1</b>	<b>11.6</b>	<b>14.2</b>	<b>18.3</b>
<b>Balance sheet</b>							
Total equity	2,198	2,577	6,487	8,289	9,128	10,026	10,814
Deferred taxation liability	346	393	609	695	774	854	927
Total borrowings	3,436	5,631	3,207	2,372	2,372	2,372	2,372
Current liabilities	1,714	2,189	2,073	2,189	2,707	3,272	4,024
<b>Total capital</b>	<b>7,936</b>	<b>10,914</b>	<b>12,420</b>	<b>13,548</b>	<b>14,980</b>	<b>16,524</b>	<b>18,138</b>
Cash	808	452	1,951	1,731	2,057	2,498	2,803
Other current assets	3,404	3,536	3,664	4,187	4,843	5,485	6,345
Total fixed assets	3,623	6,471	6,475	7,358	7,807	8,269	8,718
Investments	68	238	205	163	163	163	163
Miscellaneous expenditure	33	217	126	110	110	110	110
<b>Total assets</b>	<b>7,936</b>	<b>10,914</b>	<b>12,420</b>	<b>13,548</b>	<b>14,980</b>	<b>16,524</b>	<b>18,138</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	1,556	1,016	2,566	3,297	2,696	3,212	4,011
Working capital changes	674	122	(174)	(556)	(138)	(76)	(109)
Capital expenditure	(1,081)	(2,966)	(603)	(1,433)	(968)	(1,016)	(1,067)
Income from investments	113	109	111	142	170	182	186
<b>Free cash flow</b>	<b>1,262</b>	<b>(1,718)</b>	<b>1,899</b>	<b>1,450</b>	<b>1,760</b>	<b>2,302</b>	<b>3,021</b>
<b>Ratios (%)</b>							
Debt/equity	135	190	45	26	24	22	20
Net debt/equity	103	174	18	7	3	(1)	(4)
ROAE (%)	34	17	36	32	22	25	30
<b>ROACE (%)</b>	<b>15</b>	<b>8</b>	<b>21</b>	<b>25</b>	<b>19</b>	<b>21</b>	<b>25</b>

Source: Company data, Kotak Institutional Equities estimates

OCTOBER 20, 2011

### RESULT

Coverage view: **Attractive**

Price (Rs): **89**

Target price (Rs): **100**

BSE-30: **16,937**

**Remarkable run continues; raise estimates, maintain ADD.** Sustaining its rich vein of form, Hexaware reported another solid quarter of revenue growth and margin expansion. Substantial EBITDA margin beat drove a 20% net income beat over our estimates. We raise our CY2011/12/13E EPS estimates by 13/21/22%, partly aided by revised Re/US\$ assumptions. Expansion in target multiples would have to wait for more confidence on margin sustenance what has reached higher-than-historical-average levels. We raise TP to Rs100/share, maintaining target CY2012E P/E multiple. ADD.

### Company data and valuation summary

Hexaware Technologies

#### Stock data

52-week range (Rs) (high,low)	94-37
Market Cap. (Rs bn)	25.9

#### Shareholding pattern (%)

Promoters	28.2
FIs	47.5
MFs	3.8

#### Price performance (%)

	1M	3M	12M
Absolute	21.5	18.9	112.1
Rel. to BSE-30	22.7	29.9	148.9

#### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	3.0	8.4	8.8
EPS growth (%)	(36.8)	186.0	3.8
P/E (X)	30.2	10.6	10.2
Sales (Rs bn)	10.5	14.1	16.6
Net profits (Rs bn)	1.1	2.5	2.5
EBITDA (Rs bn)	0.9	2.4	3.0
EV/EBITDA (X)	23.1	8.8	6.9
ROE (%)	9.3	23.7	21.6
Div. Yield (%)	1.7	3.4	3.6

### Another robust quarter; margins surprise again

Reported revenues of US\$78.8 mn (+5.3% qoq, +29% yoy) were marginally ahead of estimates. EBITDA of Rs686 mn was however 16% ahead of our estimate – reported margins of 18.7% (+340 bps qoq despite absorbing onsite wage hikes) were 240 bps ahead of our estimated 16.3%. Sharp offshore shift in revenues, currency benefits, and further SG&A rationalization were the key drivers of margin expansion. Net income beat of 19.3% was further aided by higher-than-expected other income. Net income for the quarter was Rs646 mn, up 7.3% qoq and 54% yoy.

### EBITDA margin – the journey from 6.8% to 18.7% in five quarters (June 2010 to September 2011)

In addition to sustained strong revenue momentum, Hexaware has also delivered a strong EBITDA margin turnaround over the past five quarters. After hitting a low of 6.8% as late as June 2010, EBITDA margin has expanded to 18.7% in the September 2011 quarter – an expansion of almost 12% pts in just five quarters. A good 770 bps of this expansion has come on the back of SG&A leverage – SG&A expenses as % of revenues are down to 19.5% from 27.2%. Absolute SG&A has gone up by just 4% in this timeframe versus a revenue growth of nearly 46%. Even as increased sales force efficiency has contributed (S&M headcount is up just 6% since June 2010 from 139 to 147), we also understand from the company that it has cut G&A in absolute terms over the timeframe. Bulk of G&A savings have accrued from a move to owned premises from rented ones, driving lower rental and facility expenses. Gross margin expansion of 420 bps over this timeframe has primarily come on the back of offshore shift and some benefits from Re depreciation.

### Lead indicators on revenue growth positive; management confident of sustaining margins

We note some of the key positive indicators on revenue growth – (1) a robust December 2011 quarter revenue growth guidance (+4-4.7% qoq), (2) strong hiring trends – the company added 745 employees during the quarter following on strong net hiring in the June 2011 quarter; cumulative employee additions over the past two quarters has been 1,500, roughly 23% of end-March 2011 quarter, and (3) sustained strong traction in top client relationships.

Kawaljeet Saluja  
kawaljeet.saluja@kotak.com  
Mumbai: +91-22-6634-1243

Rohit Chordia  
rohit.chordia@kotak.com  
Mumbai: +91-22-6634-1397

Shyam M.  
shyam.m@kotak.com  
Mumbai: +91-22-6634-1470

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

In addition, the management remains confident of its ability to sustain margins at current level, even on an ex-currency basis. The company sees three key drivers – (1) some more scope of SG&A rationalization, (2) potential to increase offshore revenues mix, and (3) employee pyramid expansion. We note that Hexaware has started inducting campus graduates into its employee pool on an accelerated basis from this year after almost three years of lull on this front. Even as we concur with the management on these drivers, we believe margin benefits from these can be extracted only if strong volume growth sustains and pricing holds fort. Macro-led volume slowdown could thus be a double whammy – growth as well as margin pressure – this remains a key risk.

#### Raise estimates; maintain ADD

We have raised our CY2011/12/13E EPS estimates by 13/21/22% to Rs8.4/8.8/10, respectively. EPS revision is driven by a modest upward revision in revenue growth estimates, and a sharp one in margin forecasts, partly driven by a revised Re/US\$ assumption. We raise our target price on the stock to Rs100/share (from Rs80 earlier), maintaining our target PE multiple of roughly 11X CY2012E earnings. Reiterate our ADD rating on the stock. Upside to our target price would demand more confidence on margin sustenance.

#### Other result highlights

- ▶ End-September 2011 dollar hedges outstanding stood at US\$176.7 mn at an average rate of Rs47.89/US\$. Outstanding Euro hedges totaled to EUR10.4 mn at an average rate of Rs70.48/EUR.
- ▶ Receivable days stood at a healthy 57 days.
- ▶ Attrition has declined significantly to 14.7% from 2QCY11 levels of 18%.
- ▶ The management expected the tax rates for CY2011E and CY2012E to be around 17% and 22-23%, respectively.
- ▶ 12 new clients were added over the quarter.

Exhibit 1: Key changes in CY2011-13E estimates

	New			Old			Change (%)		
	CY2011	CY2012	CY2013	CY2011	CY2012	CY2013	CY2011	CY2012	CY2013
<b>Revenues (US\$ mn)</b>	<b>307</b>	<b>360</b>	<b>436</b>	<b>306</b>	<b>353</b>	<b>427</b>	<b>0.2</b>	<b>2.1</b>	<b>2.2</b>
EBITDA Margin (%)	17.1	17.9	17.8	15.0	14.7	15.0			
<b>Recurring EPS (Rs/ share)</b>	<b>8.4</b>	<b>8.8</b>	<b>10.0</b>	<b>7.5</b>	<b>7.3</b>	<b>8.2</b>	<b>12.5</b>	<b>20.8</b>	<b>22.2</b>
<b>Re/ US\$ rate</b>	<b>46.0</b>	<b>46.0</b>	<b>45.4</b>	<b>44.6</b>	<b>45.4</b>	<b>44.7</b>	<b>3.1</b>	<b>1.4</b>	<b>1.6</b>

Source: Kotak Institutional Equities estimates

Exhibit 2: Hexaware - Consolidated quarterly results 3QCY11, December year-ends (Rs mn)

	3QCY10	2QCY11	3QCY11	% chg.		Kotak estimates	% deviation
				qoq	yoy		
<b>Revenue (US\$ mn)</b>	<b>61.1</b>	<b>74.8</b>	<b>78.8</b>	<b>5.3</b>	<b>29.0</b>	<b>78.3</b>	<b>0.7</b>
<b>Revenues</b>	<b>2,817</b>	<b>3,341</b>	<b>3,660</b>	<b>9.5</b>	<b>29.9</b>	<b>3,636</b>	<b>0.7</b>
Software Development Costs	(1,874)	(2,117)	(2,262)	6.8	20.7	(2,281)	(0.8)
<b>Gross profit</b>	<b>943</b>	<b>1,224</b>	<b>1,398</b>	<b>14.2</b>	<b>48.3</b>	<b>1,355</b>	<b>3.1</b>
Total SG&A Expenses	(703)	(714)	(712)	(0.3)	1.3	(763)	(6.7)
<b>EBITDA</b>	<b>240</b>	<b>510</b>	<b>686</b>	<b>34.5</b>	<b>185.8</b>	<b>592</b>	<b>15.9</b>
Depreciation	(58)	(59)	(64)	8.5	10.3	(67)	(4.4)
<b>EBIT</b>	<b>182</b>	<b>451</b>	<b>622</b>	<b>37.9</b>	<b>242</b>	<b>525</b>	<b>18.5</b>
Other Income	(5)	267	160	(40)	(3,300)	132	22
<b>Profit Before Tax</b>	<b>177</b>	<b>718</b>	<b>782</b>	<b>8.9</b>	<b>341.8</b>	<b>657</b>	<b>19.1</b>
Provision for Tax	(9)	(116)	(136)	17.2	1,411.1	(115)	18.2
<b>Net Profit</b>	<b>168</b>	<b>602</b>	<b>646</b>	<b>7.3</b>	<b>284.5</b>	<b>542</b>	<b>19.3</b>
Extraordinary items	252	—	—			—	
<b>Net Profit- Reported</b>	<b>420</b>	<b>602</b>	<b>646</b>	<b>7.3</b>	<b>53.8</b>	<b>542</b>	<b>19.3</b>
Recurring EPS (Rs/share)	0.6	2.1	2.2	7.3	280.4 #	1.9	19.3
No of shares outstanding (mn)	287.3	290.4	290.4			290.4	
<b>As % of revenues</b>							
Gross Margin (%)	33.5	36.6	38.2			37.3	
<b>EBITDA Margin</b>	<b>8.5</b>	<b>15.3</b>	<b>18.7</b>			<b>16.3</b>	
SG&A Expenses (%)	25.0	21.4	19.5			21.0	
<b>Billing Rates (US\$/manhour)</b>							
Onsite	71.2	72.0	72.5	0.7	1.8		
Offshore	21.5	22.5	23.0	2.2	7.0		
<b>Revenue Mix (%)</b>							
Onsite	60.3	56.7	53.7				
Offshore	39.7	43.3	46.3				

Hexaware has guided for US\$ 82-82.5 mn revenues for 4QCY11, an increase of 4-4.7% qoq.

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Hexaware: key operational metrics

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Revenues (US\$ mn)	53.6	54.5	54.0	48.6	54.9	61.1	66.6	70.4	74.8	78.8
qoq growth (%)	1.9	1.7	(0.9)	(10.0)	13.1	11.2	9.0	5.7	6.2	5.3
Revenues (Rs mn)	2,591	2,632	2,520	2,220	2,513	2,817	2,996	3,185	3,341	3,660
Exchange rate	48.35	48.32	46.66	45.68	45.73	46.13	44.98	45.24	44.67	46.45
<b>Vertical split of revenues (%)</b>										
BFSI	40.4	41.9	42.3	40.8	36.5	35.5	36.5	34.4	32.9	34.4
TTHL	17.1	17.1	18.7	20.0	21.7	24.7	23.6	24.8	24.6	23.2
Emerging segments	30.4	29.4	28.8	39.2	41.8	39.8	39.9	40.8	42.5	42.4
Others	12.1	11.6	10.2	-	-	-	-	-	-	-
<b>Service line split of revenues (%)</b>										
ADM	44.7	46.6	48.5	49.2	48.0	44.3	41.7	38.9	39.2	40.5
EAS	26.7	26.3	26.1	23.4	27.8	29.5	29.4	31.6	31.3	30.5
Testing / BTO	13.9	11.4	10.0	10.6	8.1	7.3	9.3	9.3	9.4	9.2
Business intelligence & analytics	6.7	7.4	7.3	6.5	6.8	8.4	9.2	9.9	9.9	9.6
BPO	7.0	6.7	6.8	7.4	7.0	6.6	5.9	5.7	5.7	5.7
Others	1.0	1.6	1.3	2.9	2.3	3.9	4.5	4.6	4.5	4.5
<b>Geographical split of revenues (%)</b>										
Americas	65.2	64.6	67.3	68.7	65.7	67.0	69.9	66.0	66.4	64.7
Europe	27.7	29.2	26.8	25.4	28.9	27.7	24.4	27.9	27.2	28.4
Rest of the world	7.1	6.2	5.9	5.9	5.4	5.3	5.7	6.1	6.4	6.9
<b>Onsite-Offshore mix (%)</b>										
Onsite	58.9	60.6	60.8	60.3	60.3	60.3	60.4	59.2	56.7	53.7
Offshore	41.1	39.4	39.2	39.7	39.7	39.7	39.6	40.8	43.3	46.3
<b>Client metrics</b>										
Repeat business (%)	97.3	96.4	96.9	96.1	94.5	94.8	94.1	93.2	92.5	93.5
Clients billed	166	159	157	156	156	167	174	180	190	194
Clients added	10	9	7	9	12	13	11	10	14	12
<b>Revenue concentration (%)</b>										
Top 1 client	12.6	11.5	10.3	8.2	8.6	10.9	9.7	11.6	12.5	13.6
Top 5 clients	33.7	34.7	35.0	32.0	34.1	37.1	38.1	37.7	38.3	38.3
Top 10 clients	49.9	50.6	49.8	46.5	48.5	49.9	49.9	49.5	51.8	52.5
<b>Client size (ttm)</b>										
> US\$1 mn	49	47	47	47	49	50	50	49	50	51
Between US\$1 mn - US\$5 mn	40	38	39	39	40	39	39	39	40	39
Between US\$5 mn - US\$10 mn	6	6	4	4	5	7	7	6	6	8
> US\$10 mn	3	3	4	4	4	4	4	4	4	4
<b>Billing rates (US\$/hr)</b>										
Onsite	68.3	70.1	70.0	72.9	69.0	71.2	71.2	72.0	72.0	72.5
Offshore	23.0	23.7	23.7	22.4	21.6	21.5	21.9	22.2	22.5	23.0
<b>Employee metrics</b>										
Total employees (consolidated)	5,041	5,006	5,137	5,304	6,031	6,308	6,511	6,664	7,419	8,164
Billable personnel (%)										
Onsite (%)	18.7	19.2	18.0	18.5	19.4	19.3	20.1	20.0	19.6	18.7
Offshore (%)	68.8	68.4	70.0	69.8	70.1	70.7	70.5	70.9	71.9	73.0
Marketing (incl sales support - %)	2.5	2.6	2.5	2.5	2.3	2.1	2.1	2.0	2.0	1.8
Others (incl tech support - %)	10.0	9.8	9.5	9.2	8.2	7.9	7.3	7.1	6.5	6.5
Utilization (%)	74.8	75.7	75.2	69.1	68.0	68.5	69.4	72.7	71.4	70.6
Attrition rate (%) annualized	16.9	19.5	19.4	19.5	22.6	19.9	19.6	19.6	18.0	14.7
DSO	57	57	56	62	53	63	59	63	55	57

Notes:

(a) Starting Q2 10, reclassification from Americas to Europe to align with the Clients Global Corporate Office.

(b) Starting Q1 10, Billing Rates, Utilisation and Attrition metrics pertain to IT business only.

(c) Starting Q1 10, Revenue Concentration includes all IT business and BPO revenues.

Source: Company, Kotak Institutional Equities

Exhibit 4: Consolidated financials for Hexaware, December year-ends, 2009-2012E (Rs mn)

	2009	2010	2011E	2012E
<b>Profit model</b>				
Total income	10,386	10,546	14,113	16,585
<b>EBITDA</b>	<b>2,023</b>	<b>938</b>	<b>2,419</b>	<b>2,970</b>
Depreciation and ammortisation	(270)	(247)	(257)	(300)
Other income	(307)	249	734	639
<b>Pretax profits</b>	<b>1,446</b>	<b>941</b>	<b>2,897</b>	<b>3,310</b>
Tax	(103)	(92)	(443)	(763)
<b>Profit after tax</b>	<b>1,343</b>	<b>849</b>	<b>2,454</b>	<b>2,547</b>
<b>Diluted recurring EPS (Rs/share)</b>	<b>4.7</b>	<b>3.0</b>	<b>8.4</b>	<b>8.8</b>
<b>Balance sheet</b>				
Total equity	8,497	9,655	11,089	12,530
Deferred taxation liability	(110)	(169)	(169)	(169)
Current liabilities	2,709	2,785	2,792	3,069
<b>Total liabilities and equity</b>	<b>11,259</b>	<b>12,382</b>	<b>13,712</b>	<b>15,431</b>
Cash	2,992	4,356	4,552	5,405
Other current assets	2,639	3,551	4,282	4,801
Tangible fixed assets	4,358	4,078	4,481	4,828
<b>Total assets</b>	<b>11,259</b>	<b>12,382</b>	<b>13,712</b>	<b>15,431</b>
<b>Free cash flow</b>				
Operating cash flow, excl. WC	1,838	1,084	2,226	2,424
Working capital changes	283	(836)	(723)	(242)
Capital expenditure	(82)	(340)	(660)	(646)
<b>Free cash flow</b>	<b>2,040</b>	<b>(92)</b>	<b>843</b>	<b>1,536</b>
<b>Ratios (%)</b>				
EBITDA margin	19.5	8.9	17.1	17.9
ROE	17.8	9.3	23.7	21.6
ROCE	22.6	7.5	20.7	22.6

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2011

#### RESULT

Coverage view: **Neutral**

Price (Rs): **133**

Target price (Rs): **220**

BSE-30: **16,937**

**Strong 2QFY12 in challenging environment.** HMVL reported strong 2QFY12 EBITDA of Rs314 mn (+73% yoy) led by (1) strong 23% yoy advertising growth in challenging environment, (2) improved margins (+7 ppts yoy) but also (3) favorable base (impact of cover price cut in Jharkhand from 2QFY11). Retain BUY with unchanged FY2013E TP of Rs220 (EPS adjusted for growth, cost control and Rs/US\$ assumptions) led by (1) leadership position in Bihar (structural advertising growth), (2) tail stage of UP expansion and (3) attractive valuations at 11X FY2013E EPS estimates. We expect the ~70% EV/reader discount versus peers to reduce over the next few quarters.

#### Company data and valuation summary

Hindustan Media Ventures

##### Stock data

52-week range (Rs) (high,low) 200-120

Market Cap. (Rs bn) 9.7

##### Shareholding pattern (%)

Promoters 77.7

FIs 0.9

MFs 15.4

##### Price performance (%)

Absolute (6.5) (3.3) (25.2)

Rel. to BSE-30 (5.6) 5.6 (12.3)

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	7.3	10.1	12.2
EPS growth (%)	198.0	39.0	20.6
P/E (X)	18.1	13.0	10.8
Sales (Rs bn)	5.2	6.1	7.3
Net profits (Rs bn)	0.5	0.7	0.9
EBITDA (Rs bn)	0.9	1.1	1.4
EV/EBITDA (X)	8.6	7.3	5.5
ROE (%)	23.3	17.9	18.4
Div. Yield (%)	0.8	0.8	1.5

#### Strong 2QFY12: advertising growth momentum recovers in challenging environment

- ▶ HMVL reported strong 2QFY12 EBITDA of Rs314 mn (+73%) led by (1) strong advertising growth (+23%) in challenging environment as well as (2) relatively stable cost structure resulting in improved margin performance (+7 ppts yoy). HMVL also had a favorable base (Exhibits 2-3) given impact of cover price cuts in Jharkhand from 2QFY11.
- ▶ We highlight that HMVL's 2QFY12 financials below the EBITDA line are not comparable to prior quarters given equity raising/IPO of the company in 3QFY11.
- ▶ HMVL reported strong 2QFY12 advertising revenues of Rs1.13 bn (+23%) after 2 quarters of sub-20% growth (fanning fears of slowdown in growth momentum). The strong growth was led by (1) structural advertising shift in Bihar (due to economic turnaround) and (2) continued incremental contribution flowing through from the UP expansion.

#### Retain BUY: likely reduction in ~65% EV/reader discount versus peers sooner than later

The rebound in advertising growth renews the confidence that weak performance of the past few quarters was largely on account of one-off impediments; (1) the structural growth drivers remain intact (Bihar, UP) and (2) so does the focus of the company on improving monetization (bridging the large gap versus leading peers JAGP/DBCL). However, HMVL needs to (1) ensure continued robust market share in Bihar (emerging competition) and (2) complete the UP expansion (the top cities at least, and start targeting the runners-up position) to drive advertising benefits in FY2013E (advertising recovery). The next few quarters provide the opportunity: (1) reduced competition (weak advertising environment), (2) reduced newsprint pressures and (3) margin tailwinds (favorable base, much below peer margins). The company plans to launch 2 editions in UP (Aligarh, Moradabad) and strengthen Bihar (Gaya) in 2HFY12E.

Retain BUY with unchanged FY2013E TP of Rs220. Our revised FY2012E-13E EPS estimates are Rs10 (Rs9 previously) and Rs12 (unchanged) adjusted for advertising growth, cost control and revised Rs/US\$ assumptions. HMVL remains attractively valued at 11X FY2013E EPS but more important, ~70% EV/reader discount versus peers. We expect the discount to close led by continued operational and improved financial performance.

Amit Kumar  
 amit.ckumar@kotak.com  
 Mumbai: +91-22-6634-1392

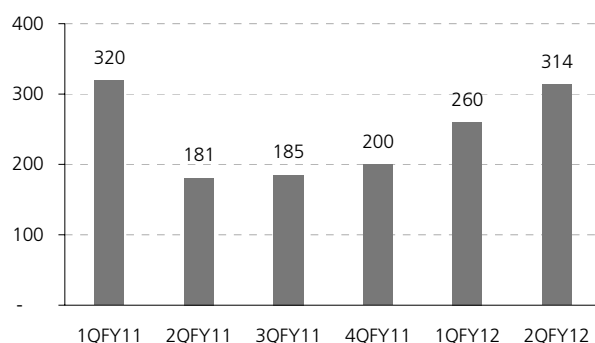
Kotak Institutional Equities Research  
 kotak.research@kotak.com  
 Mumbai: +91-22-6634-1100

## Interim results of Hindustan Media (HMTL), March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	chg (%)			1HFY12	1HFY11	chg (%)
					2QFY12E	2QFY11	1QFY12			
<b>Total revenues</b>	<b>1,542</b>	<b>1,500</b>	<b>1,257</b>	<b>1,481</b>	<b>3</b>	<b>23</b>	<b>4</b>	<b>3,023</b>	<b>2,578</b>	<b>17</b>
Advertisement revenues	1,133	1,100	914	1,108	3	24	2	2,241	1,877	19
Circulation revenues	333	325	288	331	2	16	1	664	611	9
Other operating revenues	76	75	55	42	1	38	81	118	90	32
<b>Total expenditure</b>	<b>(1,228)</b>	<b>(1,250)</b>	<b>(1,076)</b>	<b>(1,221)</b>	<b>(2)</b>	<b>14</b>	<b>1</b>	<b>(2,449)</b>	<b>(2,077)</b>	<b>18</b>
Raw material costs	(635)	(625)	(559)	(604)	2	14	5	(1,239)	(1,083)	
Employee expenses	(179)	(200)	(165)	(179)	(11)	8	-	(358)	(310)	
SG&A and other expenses	(414)	(425)	(352)	(438)	(3)	18	(5)	(852)	(683)	
<b>EBITDA</b>	<b>314</b>	<b>250</b>	<b>181</b>	<b>260</b>	<b>26</b>	<b>73</b>	<b>21</b>	<b>574</b>	<b>501</b>	<b>15</b>
Depreciation	(47)	(50)	(40)	(45)	(6)	18	5	(92)	(75)	
Other income	41	25	20	54	64	105	(25)	95	33	
Interest expense	(6)	-	(8)	(5)		(25)	28	(11)	(34)	
Tax provision	(80)	(75)	(46)	(79)	7	74	2	(159)	(134)	
<b>Net income</b>	<b>222</b>	<b>150</b>	<b>107</b>	<b>186</b>	<b>48</b>	<b>107</b>	<b>19</b>	<b>408</b>	<b>290</b>	
<b>OPM (%)</b>	<b>20</b>	<b>17</b>	<b>14</b>	<b>18</b>				<b>19</b>	<b>19</b>	
<b>Tax rate (%)</b>	<b>26</b>	<b>33</b>	<b>30</b>	<b>30</b>				<b>28</b>	<b>32</b>	
<b>EPS</b>	<b>3.0</b>	<b>2.0</b>	<b>1.9</b>	<b>2.5</b>	<b>48</b>	<b>61</b>	<b>19</b>	<b>5.6</b>	<b>5.1</b>	

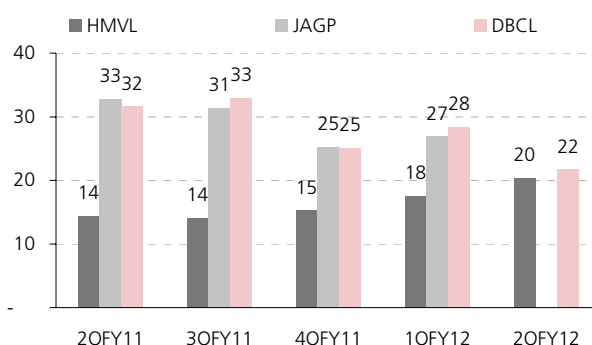
Source: Company data, Kotak Institutional Equities

## Trends in EBITDA performance of HMTL (Rs mn)



Source: Company data, Kotak Institutional Equities

## Trends in margins of HMTL versus peers JAGP and DBCL (%)



Source: Company data, Kotak Institutional Equities

- ▶ HMTL reported 2QFY12 operating costs of Rs1.23 bn (+14% yoy) versus 23% yoy growth in revenues, resulting in positive operating leverage (+7 ppts yoy increase in EBITDA margin, which reached 20%+ levels in 2QFY12). HMTL highlighted cost optimization measures, notably newsprint consumption (pagination levels, circulation wastage) as well as improved employee productivity.
- ▶ The EBITDA margin was also supported by lack of new launches in this particular quarter; HMTL plans to renew its expansion and consolidation in core UP and Bihar markets in 2HFY12E, which is timely in our view. The completion of UP expansion in 2HFY12E will provide HMTL with the option of rate hikes in FY2013E as well.
- ▶ HMTL has already taken provisions of Rs35 mn against its ad-for-equity investments in GTL Infrastructure; no further provisions are envisaged.
- ▶ HMTL continues to maintain a strong balance sheet (net cash of Rs1.87 bn) after IPO, resulting in interest income of Rs35 mn in 2QFY12. Tax rates were optically lower at 26% given interest income from FMPs is exempt from tax.



## Valuation of Indian print media companies, March fiscal year-ends, 2010-13E

	EV	EBITDA (Rs bn)				EV/EBITDA (X)			
	(Rs bn)	2010	2011	2012E	2013E	2010	2011	2012E	2013E
JAGP	33	2.8	3.6	3.6	4.2	11.6	9.2	9.1	7.7
<b>JAGP (adjusted)</b>	<b>31</b>	<b>2.8</b>	<b>3.6</b>	<b>3.6</b>	<b>4.2</b>	<b>11.1</b>	<b>8.8</b>	<b>8.7</b>	<b>7.4</b>
DBCL	42	3.4	4.0	3.8	4.5	12.4	10.5	11.2	9.5
<b>DBCL (adjusted)</b>	<b>42</b>	<b>3.4</b>	<b>4.2</b>	<b>4.3</b>	<b>5.3</b>	<b>12.4</b>	<b>10.0</b>	<b>9.8</b>	<b>8.1</b>
HMVL	8	0.8	0.9	1.1	1.4	9.5	9.0	7.6	5.7

	Price	EPS (Rs/share)				P/E (X)			
	(Rs)	2010	2011	2012E	2013E	2010	2011	2012E	2013E
JAGP	105	5.8	6.7	6.7	8.0	17.9	15.6	15.6	13.1
<b>JAGP (adjusted)</b>	<b>105</b>	<b>5.9</b>	<b>6.9</b>	<b>7.0</b>	<b>8.2</b>	<b>17.7</b>	<b>15.1</b>	<b>15.0</b>	<b>12.7</b>
DBCL	230	10.6	14.1	12.0	14.4	21.7	16.3	19.2	16.0
<b>DBCL (adjusted)</b>	<b>230</b>	<b>10.6</b>	<b>14.8</b>	<b>13.7</b>	<b>16.9</b>	<b>21.7</b>	<b>15.5</b>	<b>16.8</b>	<b>13.6</b>
HMVL	133	7.9	8.2	10.1	12.2	16.8	16.2	13.1	10.9

	Readership (mn)				EV/Reader (X)			
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2010	Q4 2010	Q1 2011	Q2 2011
JAGP	16.6	16.8	16.6	17.1	1,967	1,950	1,971	1,911
DBCL	17.3	17.7	17.8	18.0	2,449	2,392	2,381	2,360
<b>HMVL</b>	<b>10.8</b>	<b>11.5</b>	<b>11.8</b>	<b>12.0</b>	<b>735</b>	<b>695</b>	<b>674</b>	<b>664</b>
<b>Discount (%)</b>					<b>67</b>	<b>68</b>	<b>69</b>	<b>69</b>

Notes:

(a) Adjusted for higher dividend payout versus peers DBCL and HTML.

(b) Adjusted for near-term startup losses in Jharkhand and Maharashtra.

(c) Adjusted for 22% minority interest in subsidiary HMVL post IPO in October-2010.

Source: Company data, Kotak Institutional Equities estimates

## Financial summary of Hindustan/HMVL, March fiscal year-ends, 2008-14E (Rs mn)

	Hindustan		HMVL				
	2008	2009	2010 (b)	2011	2012E	2013E	2014E
<b>Profit model</b>							
Net sales	2,650	3,527	4,411	5,197	6,082	7,336	8,762
<b>EBITDA</b>	<b>110</b>	<b>134</b>	<b>835</b>	<b>886</b>	<b>1,050</b>	<b>1,392</b>	<b>1,864</b>
Other income	9	10	33	83	171	161	148
Interest	(17)	(51)	(65)	(43)	—	—	—
Depreciation	(87)	(122)	(147)	(164)	(212)	(272)	(325)
<b>Pretax profits</b>	<b>16</b>	<b>(30)</b>	<b>656</b>	<b>762</b>	<b>1,009</b>	<b>1,281</b>	<b>1,688</b>
Extraordinary items	—	—	(14)	—	—	—	—
Tax provision	(16)	(11)	(204)	(226)	(265)	(383)	(531)
Minority interest	—	—	—	—	—	—	—
<b>Reported net income</b>	<b>(1)</b>	<b>(40)</b>	<b>438</b>	<b>536</b>	<b>745</b>	<b>898</b>	<b>1,157</b>
<b>Adjusted net income</b>	<b>(1)</b>	<b>(40)</b>	<b>452</b>	<b>536</b>	<b>745</b>	<b>898</b>	<b>1,157</b>
<b>Earnings per share (Rs)</b>			<b>7.9</b>	<b>8.2</b>	<b>10.1</b>	<b>12.2</b>	<b>15.8</b>
<b>Balance sheet</b>							
Total equity	639	1,269	754	3,790	4,449	5,177	5,993
Deferred taxation liability	—	—	28	36	50	62	73
Total borrowings	—	—	1,350	205	—	—	—
Current liabilities	302	600	1,167	1,299	1,441	1,568	1,776
<b>Total capital</b>	<b>941</b>	<b>1,869</b>	<b>3,298</b>	<b>5,329</b>	<b>5,940</b>	<b>6,807</b>	<b>7,842</b>
Cash and equivalents	8	11	271	361	86	123	280
Other current assets	577	760	1,134	1,392	1,661	1,891	2,178
Total fixed assets	356	1,098	1,559	1,686	2,303	2,903	3,493
Investments	—	—	312	1,890	1,890	1,890	1,890
Miscellaneous expenditure	—	—	22	—	—	—	—
<b>Total assets</b>	<b>941</b>	<b>1,869</b>	<b>3,298</b>	<b>5,329</b>	<b>5,940</b>	<b>6,807</b>	<b>7,842</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	117	142	804	705	800	1,021	1,344
Working capital changes	(59)	115	205	(134)	(126)	(103)	(80)
Capital expenditure	(146)	(822)	(499)	(293)	(830)	(872)	(915)
<b>Free cash flow</b>	<b>(89)</b>	<b>(565)</b>	<b>510</b>	<b>277</b>	<b>(156)</b>	<b>47</b>	<b>350</b>

Source: Company data, Kotak Institutional Equities estimates

**Results disappoint; near-term outlook remains challenging.** Crompton's results disappointed with higher-than-expected margin correction across segments. The near-term outlook remains challenging in terms of growth as well as margins. The company's balance sheet also took a hit with higher debt levels to fund higher working capital requirements. Inflows at Rs22 bn were reasonable leading to a backlog of Rs71 bn. Downgrade to ADD as business remains under pressure (though may be largely priced-in).

### Company data and valuation summary

Crompton Greaves

Stock data				Forecasts/Valuations				2011	2012E	2013E		
52-week range (Rs) (high,low)		349-133		EPS (Rs)		14.3		9.3		11.2		
Market Cap. (Rs bn)		91.4		EPS growth (%)		11.5		(34.8)		20.1		
Shareholding pattern (%)				P/E (X)		9.9		15.3		12.7		
Promoters		40.9		Sales (Rs bn)		100.1		107.2		116.8		
FIs		21.6		Net profits (Rs bn)		9.2		6.0		7.2		
MFs		12.7		EBITDA (Rs bn)		13.4		9.3		11.0		
Price performance (%)		1M	3M	12M	EV/EBITDA (X)		6.4		9.2		7.4	
Absolute		(10.8)	(21.4)	(55.6)	ROE (%)		31.7		17.0		17.7	
Rel. to BSE-30		(10.2)	(14.4)	(46.9)	Div. Yield (%)		1.7		1.0		1.1	

### Near-term outlook challenging, low cost sourcing, manufacturing to drive medium-term growth

Business across segments may remain challenging in terms of growth as well as margins. Long-term drivers were identified as (1) using Indian manufacturing base to supply to global markets and (2) low cost sourcing to increase margins. However, both these may pan out only over a period of time.

### BS takes a bit of a knock; skeptical of backlog-based explanation of higher inventories in overseas

The increase in inventory and debtor levels (particularly in overseas subsidiaries) was attributed to execution of backlog. We remain skeptical of this rationale as the order backlog has not increased materially on a yoy basis. Debt increased to Rs9.7 bn (up Rs5 bn from FY11-end).

### Reasonable order inflows lead to flat backlog; PGCIL substation order win is a first

Consolidated inflows of Rs22 bn were relatively flat on a yoy basis (up 33% qoq) even as consolidated backlog remained flat at Rs71.2 bn. 765 KV substation win from PGCIL (a first as earlier one from UP state); though the focus remains on manufacturing and not on EPC business.

### Revise estimates and target price to Rs160/share (Rs200 earlier); downgrade to ADD

Revise estimates to Rs9.3 and Rs11.2 from Rs10.3 and Rs12.7 for FY2012E and FY2013E, on lower revenue growth and margins. Key assumptions include (1) 8% consolidated revenue CAGR over FY2011-13E, (2) 8.7% consolidated EBITDA margin in FY2012E (11.5% standalone) and (3) 20% tax rate (standalone). Downgrade to ADD (from BUY) with a revised TP of Rs160 (from Rs200) as (1) business remains under pressure on both revenues and margins across segments even though it may be largely priced-in, (2) negatively surprised by sequential decline in standalone business, (3) lack of visible improvement in overseas business margins and (4) balance sheet deterioration with higher debt and inventory levels. Attempts at enhanced and more transparent communication are visible and positive. Valuations appear reasonable at about 12.5X FY2013E EPS.

The medium/long-term outlook remains positive, however, in the near term, CRG may continue to face pressures as (1) the power segment may remain weak as competition and cycle concerns linger and (2) overseas business growth is partly fed by acquisition/currency which may not continue while margin may remain weak. Consumer segment may pick up but only to the extent of 10-15% as dealer feedback on business remains weak.

# ADD

OCTOBER 20, 2011

RESULT, CHANGE IN RECO.

Coverage view: **Cautious**

Price (Rs): **143**

Target price (Rs): **160**

BSE-30: **16,937**

### QUICK NUMBERS

- Consolidated revenues of Rs27 bn up 12.8% yoy
- EBITDA margin contracts by 550 bps yoy to 8.4%
- Net PAT at Rs1.2 bn, down 45% yoy
- Margin contraction led by overseas subs (560 bps yoy) and domestic power segment (630 bps)

Lokesh Garg  
lokesh.garg@kotak.com  
Mumbai: +91-22-6634-1496

Supriya Subramanian  
supriya.subramanian@kotak.com  
Mumbai: +91-22-6634-1383

Aditya Mongia  
aditya.mongia@kotak.com  
Mumbai: +91-22-6634-1453

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

**Near-term outlook challenging; low-cost sourcing, manufacturing to drive growth**

Business across segments may remain challenging in terms of growth as well as margins. Long-term drivers were identified as (1) using Indian manufacturing base to supply to global markets and (2) low cost sourcing to increase margins – the company presently sources only 43% of its inputs from low-cost countries. However, we expect that both these measures would play out only over a period of time. The management made all comparisons of 2Q performance against 1QFY12 and hence the company's operational performance and expectations have been reset at lower levels.

We believe that while the medium/long-term outlook for the company remains positive, in the near term the company may continue to face pressures as (1) the power segment may remain weak as competition and cycle concerns linger, and (2) 2Q overseas business growth was partly fed by acquisition/currency which may not continue while margin may remain weak (7%). The consumer segment may pick up but only to the extent of 10-15% yoy growth as dealer feedback on business remains weak.

**Retains business guidance of 10-12% revenue growth, 8-10% EBITDA margin**

The management has retained the business guidance in terms of revenue growth (10-12%) and EBITDA margin (8-10%). Note that the first half revenue growth and margins have been broadly on track i.e. 9% revenue growth and margins have been at 8%. The management retained other components of guidance as well such as (1) R&D related tax advantages to come through in 2HFY12E (R&D expenses are certified in beginning of 4Q; expects 15% effective tax rate for FY2012E) and (2) aircraft would go off the books in 3QFY12E.

We expect Crompton to record an EPS of Rs9.3 for FY2012E and Rs11.2 for FY2013E. Key assumptions underlying our estimates include (1) about 8% consolidated revenue CAGR over FY2011-13E, (2) 8.7% consolidated EBITDA margin in FY2012E (11.5% at standalone level) and (3) 20% effective tax rate for the standalone entity.

Key segmental assumptions for Crompton, March fiscal year-ends 2011-13E (Rs mn)

	2011	1QFY12	2QFY12	1HFY12	2HFY12E	2012E	2013E
<b>Valuation</b>							
<b>EPS (Rs)</b>	<b>14.3</b>	<b>1.2</b>	<b>1.8</b>	<b>3.1</b>	<b>6.3</b>	<b>9.3</b>	<b>11.2</b>
BVPS (Rs)	51.0		53.5	53.5	58.6	58.6	68.0
P/E (X)	9.8					15.0	12.5
P/B (X)	2.7		2.6	2.6	2.4	2.4	2.1
<b>Consolidated</b>							
Revenue	100,051	24,377	27,055	51,433	55,779	107,212	116,761
Yoy growth (%)	9.5	5.9	12.8	9.4	5.1	7.2	8.9
EBITDA margin (%)	13.4	7.5	8.4	7.9	9.4	8.7	9.4
PAT	9,191	778	1,183	1,961	4,031	5,991	7,197
<b>Segmental</b>							
<b>Power systems</b>							
Revenue	25,542	5,686	5,988	11,674	13,230	24,904	26,149
Yoy growth (%)	1.8	11.5	(7.0)	1.2	(5.5)	(2.5)	5.0
EBITmargin (%)	18.0	12.6	11.2	11.9	11.2	11.5	11.5
<b>Consumer products</b>							
Revenue	20,212	5,437	4,801	10,238	10,479	20,717	23,307
Yoy growth (%)	25.4	2.2	3.6	2.9	2.1	2.5	12.5
EBITmargin (%)	14.5	13.9	11.3	12.7	10.4	11.5	11.5
<b>Industrial systems</b>							
Revenue	14,066	3,617	3,766	7,383	8,090	15,473	17,407
Yoy growth (%)	19.8	16.2	9.4	12.6	7.7	10.0	12.5
EBITmargin (%)	18.7	15.9	15.7	15.8	14.3	15.0	14.5
<b>Others</b>							
Revenue	171	28	30	58	61	120	120
Yoy growth (%)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(30.0)	-
EBITmargin (%)	17.3	12.5	9.6	11.0	13.9	12.5	12.5
<b>Overseas subsidiaries</b>							
Revenue	40,536	9,689	12,541	22,230	24,255	46,485	50,311
Yoy growth (%)	5.1	1.0	31.6	16.2	13.3	14.7	8.2
EBITDA margin (%)	10.1	(0.5)	5.1	2.7	7.2	5.0	6.7

Source: Company, Kotak Institutional Equities estimates

### Recent ease in commodity prices may benefit; but steel still remains high and copper may be largely hedged

Some benefit of commodity price decline may flow through, particularly in the consumer and industrial segment. Note that these are short lead-time businesses wherein the commodity requirements are not hedged. Copper requirements for long-lead power business are typically hedged. Some of the benefit may come in as the company was absorbing part of the commodity price increases (unable to pass onto customers) and thus the recent decline may help in slightly better margins in incremental orders.

### BS takes a bit of a knock; skeptical of backlog based explanation of higher inventories in overseas

Crompton management attributed the increase in inventory and debtor levels (particularly in overseas subsidiaries) primarily in order to service the existing order book. However, we remain skeptical of this rationale as the order backlog has not increased materially on a yoy or sequential basis. Increased working capital levels led to higher debt levels at the consolidated level - up by Rs5 bn during 1HFY12 from Rs4.7 bn at end-FY2011 to Rs9.7 bn at enf-1HFY12.

Consolidated and standalone balance sheet of Crompton, March fiscal year-ends, 2010-12E (Rs mn)

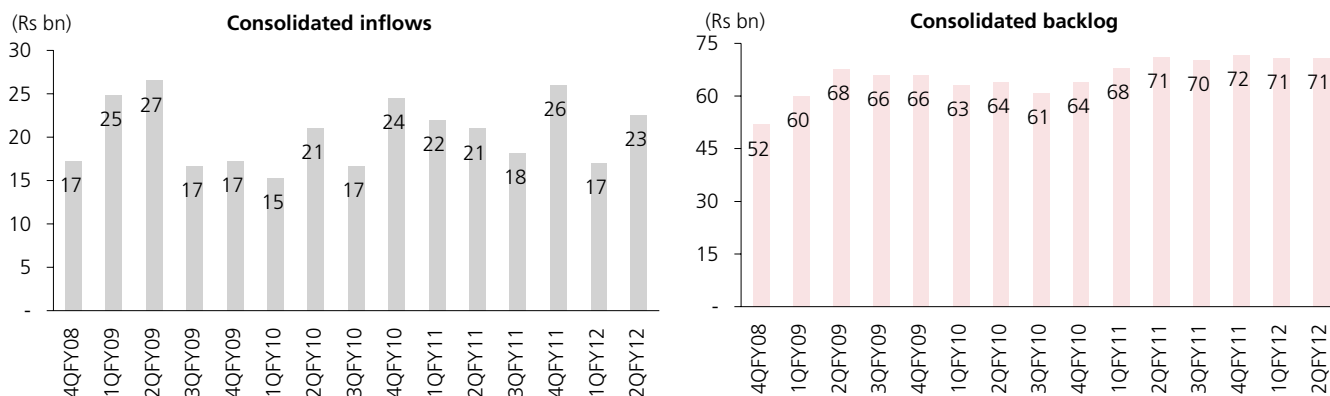
	Consolidated			Standalone			Overseas - implied		
	1HFY11	2011	1HFY12	1HFY11	2011	1HFY12	1HFY11	2011	1HFY12
<b>Shareholders funds</b>	<b>28,781</b>	<b>32,747</b>	<b>34,352</b>	<b>20,151</b>	<b>23,041</b>	<b>24,822</b>			
Share capital	1,283	1,283	1,283	1,283	1,283	1,283			
Reserves & surplus	27,498	31,464	33,069	18,868	21,758	23,539			
<b>Loan funds</b>	<b>5,796</b>	<b>4,703</b>	<b>9,706</b>	<b>242</b>	<b>134</b>	<b>253</b>	<b>5,555</b>	<b>4,569</b>	<b>9,453</b>
Secured loans	5,567	4,554	9,438	111	82	203			
Unsecured loans	229	149	268	131	52	50			
Deferred tax liabilities (net)	159	160	(413)	885	735	647			
<b>Total sources of funds</b>	<b>34,780</b>	<b>37,767</b>	<b>43,801</b>	<b>21,277</b>	<b>23,910</b>	<b>25,721</b>			
Fixed assets	17,153	19,417	23,526	7,982	9,230	8,670	9,170	10,187	14,856
Investments	6,473	6,747	3,492	7,673	7,816	6,163			
Cash & bank balance	3,455	2,984	2,430	2,222	1,509	925	1,232	1,475	1,505
<b>Current assets</b>	<b>39,000</b>	<b>42,512</b>	<b>50,837</b>	<b>20,025</b>	<b>22,341</b>	<b>26,904</b>	<b>18,975</b>	<b>20,171</b>	<b>23,933</b>
Inventories	12,915	11,893	17,449	4,860	4,057	5,111	8,055	7,835	12,338
Sundry debtors	22,969	25,427	28,388	13,046	15,102	15,272	9,924	10,325	13,116
Loans & advances	3,098	5,192	4,970	2,104	3,182	6,522			
<b>Current liabilities &amp; provision</b>	<b>31,300</b>	<b>33,892</b>	<b>36,484</b>	<b>16,626</b>	<b>16,986</b>	<b>16,941</b>	<b>14,675</b>	<b>16,906</b>	<b>19,543</b>
Current liabilities	26,600	29,595	32,710	14,450	15,293	15,174	12,149	14,301	17,536
Provisions	4,701	4,298	3,774	2,175	1,693	1,767	2,525	2,605	2,007
<b>Net current assets (excl. cash)</b>	<b>7,700</b>	<b>8,619</b>	<b>14,353</b>	<b>3,400</b>	<b>5,355</b>	<b>9,963</b>	<b>4,301</b>	<b>3,265</b>	<b>4,390</b>
<b>Total application of funds</b>	<b>34,780</b>	<b>37,767</b>	<b>43,801</b>	<b>21,277</b>	<b>23,910</b>	<b>25,721</b>	<b>13,503</b>	<b>13,857</b>	<b>18,080</b>

Source: Company, Kotak Institutional Equities estimates

### Order inflows and backlog flat yoy; PGCIL substation order win is a first

Crompton reported consolidated order inflows (excluding Consumer business revenues) of Rs22 bn, a 33% growth on a sequential basis and relatively flat on a yoy basis. The sequential growth was primarily led by power segment inflows at Rs18.3 bn recording a 41% sequential growth. CRG reported a consolidated backlog of Rs71.2 bn versus 1Q-end backlog of Rs71 bn. The company has won a 765 KV substation tender from PGCIL (a first as earlier one was from UP state); though it still wants to retain focus on manufacturing and not on the EPC execution business.

Consolidated Quarterly order booking and backlog trend for Crompton, March fiscal year-ends, 2008-1HFY12



Source: Company, Kotak Institutional Equities

### Revise estimates and target price to Rs160/share; downgrade to ADD

We revise our earnings estimates on Crompton to Rs9.3 and Rs11.2 from Rs10.3 and Rs12.7 for FY2012E and FY2013E, respectively, based on lower revenue growth and margin assumptions across most segments. We correspondingly revise our target price to Rs160/share (from Rs200/share) based on 14X FY2013E EPS (from 15X earlier).

Revised assumptions of Crompton, March fiscal year-ends, 2012-13E (Rs mn)

		Revised estimates		Previous estimates		Variation (%)	
	2011	2012E	2013E	2012E	2013E	2012E	2013E
Standalone power							
Revenues	25,542	24,904	26,149	26,820	26,820	(7.1)	(2.5)
Growth (%)	1.8	(2.5)	5.0	5.0	—		
EBIT	4,602	2,864	3,007	3,621	3,621	(20.9)	(16.9)
EBIT margin (%)	18.0	11.5	11.5	13.5	13.5		
Consumer products							
Revenues	20,212	20,717	23,307	21,728	23,900	(4.7)	(2.5)
Growth (%)	25.4	3—	12.5	7.5	10.0		
EBIT	2,928	2,382	2,680	2,933	3,227	(18.8)	(16.9)
EBIT margin (%)	14.5	11.5	11.5	13.5	13.5		
Industrial systems							
Revenues	14,066	15,473	17,407	14,770	16,247	4.8	7.1
Growth (%)	19.8	10.0	12.5	5.0	10.0		
EBIT	2,626	2,321	2,524	2,068	2,275	12.2	11.0
EBIT margin (%)	18.7	15.0	14.5	14.0	14.0		
Overseas subsidiaries							
Revenues	40,493	48,228	52,210	45,762	51,443	5.4	1.5
Growth (%)	1.2	19.1	8.3	13.0	12.4		
EBITDA	4,099	2,343	3,389	2,603	4,127	(10.0)	(17.9)
EBITDA margin (%)	10.1	4.9	6.5	5.7	8.0		
Consolidated							
Revenues	100,051	107,212	116,761	107,006	116,158	0.2	0.5
Growth (%)	9.5	7.2	8.9	7.0	8.6		
EBITDA	13,438	9,332	10,978	10,597	12,630	(11.9)	(13.1)
EBITDA margin (%)	13.4	8.7	9.4	9.9	10.9		
EPS (Rs)	14.3	9.3	11.2	10.3	12.7	(9.5)	(11.8)
EPS growth (%)	11.5	(34.8)	20.1	(28.0)	23.2		

Source: Company, Kotak Institutional Equities estimates

Downgrade to ADD (from BUY) with a revised TP of Rs160 (from Rs200) as (1) business remains under pressure on both revenues and margins across segments even though it may largely be priced-in, (2) negatively surprised by sequential decline in standalone business, (3) lack of visible improvement in overseas business margins and (4) balance sheet deterioration with higher debt and inventory levels. Attempts to communicate more transparently are visible and positive. Valuations appear reasonable at about 12.5X FY2013E EPS.

Key risks to earnings relate to (1) aggressive competition and large capacity additions in the domestic power T&D segment may pressure revenue growth and margins, (2) slower-than-expected pick-up in international demand, (3) Euro area business (17% of business) and Euro currency (translation), and (4) slower-than-expected growth and lower-than-expected margins in the consumer and industrial business.

Consolidated financials of Crompton Greaves, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011	2012E	2013E
<b>Income statement</b>							
<b>Operating income</b>	<b>56,396</b>	<b>68,323</b>	<b>87,373</b>	<b>91,409</b>	<b>100,051</b>	<b>107,212</b>	<b>116,761</b>
Total operating expenses	(51,567)	(60,884)	(77,417)	(78,639)	(86,613)	(97,880)	(105,783)
<b>EBITDA</b>	<b>4,828</b>	<b>7,439</b>	<b>9,956</b>	<b>12,770</b>	<b>13,438</b>	<b>9,332</b>	<b>10,978</b>
Other income	1,068	757	587	937	999	669	768
Interest expense	(583)	(781)	(655)	(265)	(209)	(398)	(452)
Depreciation	(954)	(1,263)	(1,216)	(1,551)	(1,936)	(2,043)	(2,153)
<b>Pre-tax profit</b>	<b>4,360</b>	<b>6,152</b>	<b>8,672</b>	<b>11,891</b>	<b>12,291</b>	<b>7,560</b>	<b>9,141</b>
Tax	(1,495)	(2,054)	(3,047)	(3,650)	(3,100)	(1,568)	(1,944)
<b>Net profits</b>	<b>2,865</b>	<b>4,098</b>	<b>5,625</b>	<b>8,241</b>	<b>9,191</b>	<b>5,991</b>	<b>7,197</b>
<b>EPS (Rs)</b>	<b>7.8</b>	<b>11.2</b>	<b>15.3</b>	<b>12.8</b>	<b>14.3</b>	<b>9.3</b>	<b>11.2</b>
<b>Balance sheet</b>							
<b>Shareholders funds</b>	<b>9,688</b>	<b>13,018</b>	<b>18,310</b>	<b>25,043</b>	<b>32,747</b>	<b>37,623</b>	<b>43,605</b>
Equity share capital	733	733	733	1,283	1,283	1,283	1,283
Reserves and surplus	8,955	12,285	17,577	23,760	31,464	36,340	42,322
Minority interest	284	123	139	43	157	157	157
<b>Loan funds</b>	<b>9,045</b>	<b>8,420</b>	<b>7,182</b>	<b>5,010</b>	<b>4,703</b>	<b>8,703</b>	<b>6,703</b>
<b>Total sources of funds</b>	<b>19,017</b>	<b>21,560</b>	<b>25,631</b>	<b>30,095</b>	<b>37,607</b>	<b>46,483</b>	<b>50,465</b>
<b>Net fixed assets</b>	<b>10,873</b>	<b>12,444</b>	<b>13,785</b>	<b>13,760</b>	<b>19,417</b>	<b>21,056</b>	<b>21,661</b>
Investments	645	934	1,672	5,536	6,747	6,747	6,747
<b>Net current assets (excl. cash)</b>	<b>4,667</b>	<b>5,149</b>	<b>4,035</b>	<b>4,161</b>	<b>8,619</b>	<b>11,161</b>	<b>12,151</b>
Cash	2,415	2,445	5,656	6,688	2,984	7,679	10,066
Net deferred tax asset	418	588	482	(49)	(160)	(160)	(160)
<b>Total application of funds</b>	<b>19,017</b>	<b>21,560</b>	<b>25,631</b>	<b>30,095</b>	<b>37,607</b>	<b>46,483</b>	<b>50,465</b>
<b>Free cash flow</b>							
<b>Operating profit before wcap. changes</b>	<b>4,410</b>	<b>5,972</b>	<b>7,602</b>	<b>10,588</b>	<b>11,448</b>	<b>8,433</b>	<b>9,803</b>
Change in working capital / other adjustments	(1,028)	(481)	1,113	(125)	(4,459)	(2,541)	(990)
<b>Net cashflow from operating activities</b>	<b>3,382</b>	<b>5,491</b>	<b>8,716</b>	<b>10,462</b>	<b>6,989</b>	<b>5,891</b>	<b>8,813</b>
Fixed Assets	(6,424)	(2,834)	(2,557)	(1,526)	(7,593)	(3,683)	(2,758)
Investments	6	(290)	(738)	(3,864)	(1,211)	—	—
<b>Cash (used) / realised in investing activities</b>	<b>(6,418)</b>	<b>(3,124)</b>	<b>(3,295)</b>	<b>(5,389)</b>	<b>(8,804)</b>	<b>(3,683)</b>	<b>(2,758)</b>
<b>Free cash flow</b>	<b>(3,036)</b>	<b>2,367</b>	<b>5,421</b>	<b>5,073</b>	<b>(1,815)</b>	<b>2,209</b>	<b>6,055</b>
<b>Ratios</b>							
EBITDA margin (%)	8.6	10.9	11.4	14.0	13.4	8.7	9.4
Debt/equity	0.9	0.6	0.4	0.2	0.1	0.2	0.2
Net debt/equity	0.7	0.5	0.1	(0.1)	0.1	0.0	(0.1)
RoAE (%)	32.7	35.7	35.7	39.6	30.8	17.0	17.7
RoACE (%)	21.1	22.8	25.7	31.6	26.8	15.1	15.6

Source: Company, Kotak Institutional Equities estimates

## Consolidated results

### Results disappoint on sharp margin contraction despite revenue outperformance

Crompton reported consolidated revenues of Rs27 bn in 2QFY12, recording 12.8% yoy growth, about 6% ahead of our estimate of Rs25.6 bn. The revenue outperformance was largely led by better-than-expected revenues at the overseas subsidiaries. Despite the better-than-expected revenues, sharp margin contraction led to a steep miss on net results. Crompton reported an EBITDA margin of 8.4%, down 550 bps yoy from 13.9% in 2QFY11 and versus our estimate of 11.4%. The margin miss was led by overseas subsidiaries where sequential improvement has been lower than expectations. The sharp margin decline led to net PAT of Rs1.2 bn, down 45% yoy and 34% below our estimate of Rs1.8 bn.

For the half year ending September 30, 2011, Crompton reported consolidated revenues of Rs51.4 bn, up 9.4% yoy from Rs47 bn in 1HFY11. EBITDA margin declined by 550 bps yoy to 7.9% in 1HFY12 (versus 13.4% in the previous year) leading to a 51% yoy decline in net PAT - reported net PAT of Rs1.96 bn in 1HFY12 versus Rs4 bn in 1HFY11.

Crompton Greaves - 2QFY12 consolidated revenue model (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	% change			1HFY12	1HFY11	% change
					vs est.	yoy	qoq			
<b>Sales</b>	<b>27,055</b>	<b>25,614</b>	<b>23,979</b>	<b>24,377</b>	<b>5.6</b>	<b>12.8</b>	<b>11.0</b>	<b>51,433</b>	<b>47,001</b>	<b>9.4</b>
<b>Expenses</b>	<b>(24,796)</b>	<b>(22,698)</b>	<b>(20,647)</b>	<b>(22,559)</b>	<b>9.2</b>	<b>20.1</b>	<b>9.9</b>	<b>(47,354)</b>	<b>(40,695)</b>	<b>16.4</b>
Stock	1,847		636	2,721		190.3	(32.1)	4,567	1,527	199.1
Raw material	(20,047)		(15,273)	(19,000)		31.3	5.5	(39,048)	(30,347)	28.7
Employee	(3,574)		(3,093)	(3,221)		15.6	11.0	(6,795)	(6,087)	11.6
Other expenses	(3,021)		(2,917)	(3,059)		3.6	(1.3)	(6,079)	(5,788)	5.0
<b>EBITDA</b>	<b>2,260</b>	<b>2,917</b>	<b>3,332</b>	<b>1,819</b>	<b>(22.5)</b>	<b>(32.2)</b>	<b>24.3</b>	<b>4,078</b>	<b>6,306</b>	<b>(35.3)</b>
Other income	215	151	228	151	42.4	(5.6)	42.1	366	411	(10.8)
Interest	(102)	(113)	(49)	(110)	(9.2)	110.7	(6.7)	(212)	(99)	114.7
Depreciation	(726)	(553)	(458)	(608)	31.3	58.7	19.5	(1,334)	(873)	52.8
<b>PBT</b>	<b>1,646</b>	<b>2,402</b>	<b>3,054</b>	<b>1,253</b>	<b>(31.5)</b>	<b>(46.1)</b>	<b>31.4</b>	<b>2,899</b>	<b>5,745</b>	<b>(49.5)</b>
Tax	(463)	(600)	(920)	(475)	(22.9)	(49.6)	(2.5)	(938)	(1,713)	(45.2)
<b>Net profit</b>	<b>1,183</b>	<b>1,801</b>	<b>2,134</b>	<b>778</b>	<b>(34.3)</b>	<b>(44.6)</b>	<b>52.1</b>	<b>1,961</b>	<b>4,032</b>	<b>(51.4)</b>
Extraordinary items	—	—	—	17				17	—	
<b>RPAT</b>	<b>1,183</b>	<b>1,801</b>	<b>2,134</b>	<b>795</b>	<b>(34.3)</b>	<b>(44.6)</b>	<b>48.9</b>	<b>1,978</b>	<b>4,032</b>	<b>(50.9)</b>
<b>Key ratios (%)</b>										
Raw material/Sales	67.3		61.0	66.8				67.0	61.3	
Employee exp./Sales	13.2		12.9	13.2				13.2	13.0	
Other exp./Sales	11.2		12.2	12.5				11.8	12.3	
<b>EBITDA margin</b>	<b>8.4</b>	<b>11.4</b>	<b>13.9</b>	<b>7.5</b>				<b>7.9</b>	<b>13.4</b>	
PBT Margin	6.1	9.4	12.7	5.1				5.6	12.2	
Tax rate	28.1	25.0	30.1	37.9				32.4	29.8	
PAT margin	4.4	7.0	8.9	3.2				3.8	8.6	

Source: Company, Kotak Institutional Equities estimates

## Standalone results

### Nil revenue growth (broadly in line) however margins disappoint

Crompton reported 2QFY12 standalone revenues of Rs14.5 bn, relatively flat on a yoy basis and marginally (about 3%) lower than our expectation of Rs14.9 bn. However, margins disappointed recording a sharp correction of 490 bps yoy to 11.1% in 2QFY12 versus our expectation of 12.7% margin (and 2QFY11 margin of 16%). Sharp margin contraction led to a 29% yoy decline in net PAT to Rs1.1 bn in 2QFY12 (from Rs1.6 bn in 2QFY11), about 17% below our estimate of Rs1.36 bn.



## Crompton Greaves - 2QFY12 standalone revenue model (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	% change			1HFY12	1HFY11	% change
					vs est.	yoy	qoq			
<b>Sales</b>	<b>14,515</b>	<b>14,962</b>	<b>14,448</b>	<b>14,688</b>	<b>(3.0)</b>	<b>0.5</b>	<b>(1.2)</b>	<b>29,203</b>	<b>27,877</b>	<b>4.8</b>
<b>Expenses</b>	<b>(12,901)</b>	<b>(13,057)</b>	<b>(12,139)</b>	<b>(12,822)</b>	<b>(1.2)</b>	<b>6.3</b>	<b>0.6</b>	<b>(25,722)</b>	<b>(23,474)</b>	<b>9.6</b>
Stock	(298)		104	794		(388.0)	(137.6)	496	1,170	(57.6)
Raw material	(10,194)		(9,962)	(11,206)		2.3	(9.0)	(21,400)	(20,133)	6.3
Employee	(892)		(741)	(918)		20.3	(2.8)	(1,810)	(1,467)	23.4
Other Exp	(1,516)		(1,540)	(1,492)		(1.5)	1.6	(3,008)	(3,044)	(1.2)
<b>EBITDA</b>	<b>1,614</b>	<b>1,905</b>	<b>2,309</b>	<b>1,867</b>	<b>(15.3)</b>	<b>(30.1)</b>	<b>(13.5)</b>	<b>3,481</b>	<b>4,403</b>	<b>(20.9)</b>
Other income	168	156	193	157	7.6	(12.8)	7.4	325	341	(4.7)
Interest	(1)	(17)	7	(14)	(97.1)	(107.2)	(96.5)	(15)	13	(212.1)
Depreciation	(267)	(231)	(195)	(286)	15.5	36.9	(6.5)	(553)	(368)	50.4
<b>PBT</b>	<b>1,515</b>	<b>1,812</b>	<b>2,314</b>	<b>1,723</b>	<b>(16.4)</b>	<b>(34.5)</b>	<b>(12.1)</b>	<b>3,238</b>	<b>4,389</b>	<b>(26.2)</b>
Tax	(391)	(453)	(729)	(433)	(13.6)	(46.3)	(9.6)	(824)	(1,383)	(40.4)
<b>Net profit</b>	<b>1,123</b>	<b>1,359</b>	<b>1,585</b>	<b>1,290</b>	<b>(17.4)</b>	<b>(29.1)</b>	<b>(12.9)</b>	<b>2,413</b>	<b>3,007</b>	<b>(19.7)</b>
<b>Key ratios (%)</b>										
Raw material/Sales	72.3		68.2	70.9				71.6	68.0	
Employee exp./Sales	6.1		5.1	6.3				6.2	5.3	
Other exp./Sales	10.4		10.7	10.2				10.3	10.9	
<b>EBITDA margin</b>	<b>11.1</b>	<b>12.7</b>	<b>16.0</b>	<b>12.7</b>				<b>11.9</b>	<b>15.8</b>	
PBT Margin	10.4	12.1	16.0	11.7				11.1	15.7	
Tax rate	25.8	25.0	31.5	25.1				25.5	31.5	
PAT margin	7.7	9.1	11.0	8.8				8.3	10.8	

Source: Company, Kotak Institutional Equities estimates

For the half year ending September 30, 2011, standalone revenues recorded a 4.8% yoy growth to Rs29 bn. EBITDA margin contracted by 390 bps yoy to 11.9% in 1HFY12 (from 15.8%) leading to a 20% yoy decline in net PAT - reported net PAT of Rs2.4 bn in 1HFY12 versus Rs3 bn in 1HFY11.

#### Segmental results: Power leads revenue disappointment while margin disappoints across segments

- **Power Systems:** Revenue disappointment was led by the power segment which reported revenues of Rs6 bn, about 11.5% below our estimate of Rs6.7 bn, and down 7% yoy. This segment also disappointed significantly at the margin level recording EBIT margin of 11.2% versus our estimate of 13.5% and down 630 bps yoy. Margins also declined sequentially from 12.6% in 1QFY12 despite a 5% sequential growth in revenues. For the half year ending September 30, 2011, the power segment revenues have remained relatively flat yoy at Rs11.7 bn. EBIT margins recorded a sharp correction to about 12% in 1HFY12 versus 17.1% in 1HFY11.
- **Consumer Products and Industrial Systems:** Consumer and industrial segments recorded moderate revenue growth of 3.6% and 9% yoy respectively (about 3-4% ahead of our estimates). Margins for these segments also disappointed versus estimates. Consumer business EBIT margin corrected by 320 bps yoy to 11.3% versus our estimate of 12.5% while industrials segment EBIT margin corrected by 480 bps yoy to 15.7% in 2QFY12 (marginally below our estimate of 16%).

Segment-wise standalone revenues and EBIT for Crompton (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	%change			1HFY12	1HFY11	% change
					vs est.	yoy	qoq			
<b>Revenues</b>										
Power Systems	5,988	6,762	6,440	5,686	(11.5)	(7.0)	5.3	11,674	11,541	1.2
Consumer Products	4,801	4,634	4,634	5,437	3.6	3.6	(11.7)	10,238	9,952	2.9
Industrial systems	3,766	3,617	3,442	3,617	4.1	9.4	4.1	7,383	6,554	12.6
<b>Total</b>	<b>14,515</b>	<b>14,962</b>	<b>14,448</b>	<b>14,688</b>	<b>(3.0)</b>	<b>0.5</b>	<b>(1.2)</b>	<b>29,203</b>	<b>27,877</b>	<b>4.8</b>
<b>PBIT</b>										
Power Systems	672	913	1,128	717	(26.4)	(40.4)	(6.3)	1,389	1,974	(29.6)
Consumer Products	543	579	671	754	(6.3)	(19.1)	(28.0)	1,296	1,474	(12.0)
Industrial systems	591	579	705	576	2.1	(16.2)	2.7	1,166	1,347	(13.4)
<b>Total</b>	<b>1,808</b>	<b>2,077</b>	<b>2,510</b>	<b>2,050</b>	<b>(12.9)</b>	<b>(28.0)</b>	<b>(11.8)</b>	<b>3,858</b>	<b>4,810</b>	<b>(19.8)</b>
<b>Revenue mix (%)</b>										
Power Systems	41.3	45.2	44.6	38.7				40.0	41.4	
Consumer Products	33.1	31.0	32.1	37.0				35.1	35.7	
Industrial systems	25.9	24.2	23.8	24.6				25.3	23.5	
<b>PBIT margins (%)</b>										
Power Systems	11.2	13.5	17.5	12.6				11.9	17.1	
Consumer Products	11.3	12.5	14.5	13.9				12.7	14.8	
Industrial systems	15.7	16.0	20.5	15.9				15.8	20.5	
<b>Total</b>	<b>12.5</b>	<b>13.9</b>	<b>17.4</b>	<b>14.0</b>				<b>13.2</b>	<b>17.3</b>	

Source: Company, Kotak Institutional Equities estimates

Overseas subsidiary  
results

Revenue growth partially on currency depreciation; but margins again much below expectations

Overseas subsidiaries reported 2QFY12 sales of Rs12.5 bn, recording strong growth of 31.6% yoy and 17.7% ahead of our estimate of Rs10.7 bn. The strong growth was partially aided by favourable currency movement (Euro-INR). Furthermore, this quarter's numbers also include revenues of Emotron and QEI (acquired in 1QFY12) and hence yoy comparison is not comparable.

However, overseas subsidiaries also reported disappointing margins; reported EBITDA margin of 5.1% down 560 bps yoy and versus our estimate of 9.5%. Margin disappointment led to net PAT of Rs60 mn (down 89% yoy) against our estimate of Rs442 mn.

Emotron and QEI contributed Rs1 bn to 2Q revenues; EBITDA positive but goodwill write-downs affected net results

Emotron and QEI made reasonable contribution (to the tune of about Rs1 bn) to the quarters revenues. The management cited that Emotron recorded revenues of Euro 12 mn and QEI recorded revenues of US\$4 mn in 2QFY12. Both these companies were positive at the EBITDA level as well but goodwill write-downs (amortization of goodwill on consolidated) affected net level contribution.

## Crompton Greaves - 2QFY12 subsidiaries revenue model (Rs mn)

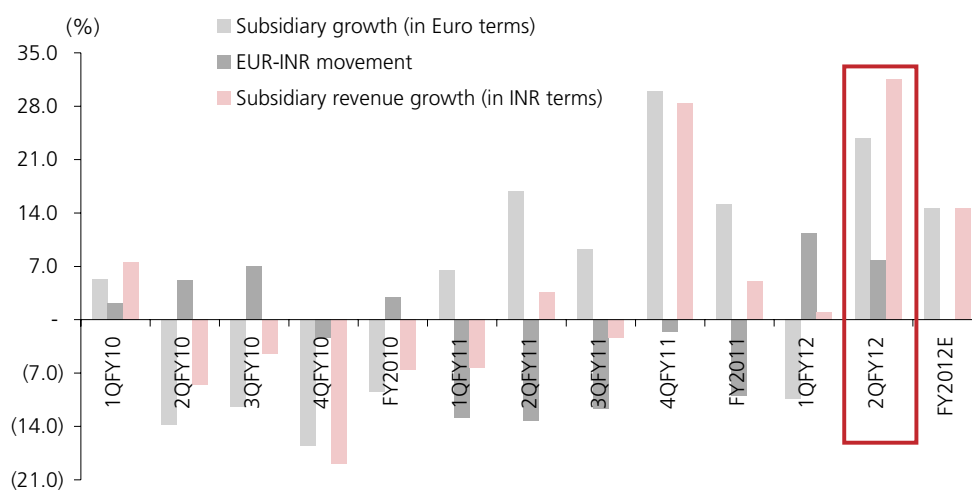
	2QFY12	2QFY12E	2QFY11	1QFY12	% change			1HFY12	1HFY11	% change
					vs est.	yoy	qoq			
<b>Sales</b>	<b>12,541</b>	<b>10,652</b>	<b>9,531</b>	<b>9,689</b>	<b>17.7</b>	<b>31.6</b>	<b>29.4</b>	<b>22,230</b>	<b>19,124</b>	<b>16.2</b>
<b>Expenses</b>	<b>(11,895)</b>	<b>(9,640)</b>	<b>(8,508)</b>	<b>(9,737)</b>	<b>23.4</b>	<b>39.8</b>	<b>22.2</b>	<b>(21,632)</b>	<b>(17,221)</b>	<b>25.6</b>
Stock	2,145		533	1,926		302.8	11.4	4,072	357	1,041.1
Raw material	(9,853)		(5,312)	(7,794)		85.5	26.4	(17,647)	(10,214)	72.8
Employee	(2,682)		(2,352)	(2,302)		14.1	16.5	(4,985)	(4,620)	7.9
Other Exp	(1,504)		(1,377)	(1,567)		9.2	(4.0)	(3,071)	(2,744)	11.9
<b>EBITDA</b>	<b>646</b>	<b>1,012</b>	<b>1,023</b>	<b>(48)</b>	<b>(36.2)</b>	<b>(36.9)</b>	<b>(1,445.4)</b>	<b>598</b>	<b>1,903</b>	<b>(68.6)</b>
Other income	47	(5)	35	(5)	(983.0)	34.1	(983.0)	42	70	(40.8)
Interest	(102)	(95)	(55)	(95)	6.8	83.6	6.8	(197)	(112)	76.1
Depreciation	(459)	(322)	(263)	(322)	42.7	74.8	42.7	(781)	(505)	54.6
<b>PBT</b>	<b>132</b>	<b>590</b>	<b>740</b>	<b>(470)</b>	<b>(77.7)</b>	<b>(82.2)</b>	<b>(128.0)</b>	<b>(339)</b>	<b>1,356</b>	<b>(125.0)</b>
Tax	(72)	(147)	(191)	(42)	(51.3)	(62.3)	70.1	(114)	(331)	(65.5)
<b>Net profit</b>	<b>60</b>	<b>442</b>	<b>549</b>	<b>(513)</b>	<b>(86.5)</b>	<b>(89.1)</b>	<b>(111.7)</b>	<b>(453)</b>	<b>1,025</b>	<b>(144.2)</b>
<b>Key ratios (%)</b>										
Raw material/Sales	61.5		50.1	60.6				61.1	51.5	
Employee exp./Sales	21.4		24.7	23.8				22.4	24.2	
Other exp./Sales	12.0		14.4	16.2				13.8	14.3	
<b>EBITDA margin</b>	<b>5.1</b>	<b>9.5</b>	<b>10.7</b>	<b>(0.5)</b>				<b>2.7</b>	<b>9.9</b>	
PBT Margin	1.1	5.5	7.8	(4.9)				(1.5)	7.1	
Tax rate	54.5	25.0	25.8	(9.0)				(33.7)	24.4	
PAT margin	0.5	4.2	5.8	(5.3)				(2.0)	5.4	

Source: Company, Kotak Institutional Equities estimates

## Part of revenue growth on favourable currency movement

We highlight that the strong sales growth of 31.6% reported by the overseas subsidiaries include a 7.8% positive EUR-INR currency impact. The subsidiary sales have likely recorded a revenue growth of about 24% yoy in EUR terms.

## Quarterly subsidiary revenues of Crompton in local currency and INR terms



Source: Company, Bloomberg, Kotak Institutional Equities estimates

OCTOBER 20, 2011

UPDATE

Coverage view: **Cautious**

Price (Rs): 70

Target price (Rs):

BSE-30: 16.937

**Sales increase qoq drives EBITDA margin expansion.** IBREL sold 1.2 mn sq. ft in 2QFY12 versus 0.78 mn sq. ft in 1QFY12 and 1.8 mn sq. ft in 2QFY11 while realization dropped 18% qoq and 76% yoy, indicating sales are moving in mid-income projects. Revenues of Rs3.3 bn in 2QFY12 are up 37% qoq and 11% yoy and EBITDA of Rs1 bn is up 230% qoq and 26% yoy. Net profit at Rs0.4 bn, however, has declined by 40% qoq and 23% yoy led by higher interest costs.

## Company data and valuation summary

Indiabulls Real Estate

Indiabulls Real Estate

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)		219-68		EPS (Rs)	2011	2012E	2013E
Market Cap. (Rs bn)		28.0		EPS growth (%)	(1,095.5)	114.1	81.5
Shareholding pattern (%)				P/E (X)	17.5	8.2	4.5
Promoters		28.0		Sales (Rs bn)	14.3	16.4	24.8
FIIs		52.1		Net profits (Rs bn)	1.6	3.4	6.2
MFs		0.9		EBITDA (Rs bn)	3.2	3.8	8.3
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	12.7	10.1	4.4
Absolute	(16.2)	(41.9)	(66.8)	ROE (%)	1.4	2.9	5.0
Rel. to BSE-30	(15.4)	(36.5)	(61.0)	Div. Yield (%)	0.4	0.7	1.0

Interest expenses negate EBITDA margin expansion

IBREL reported revenues of Rs3.3 bn (+37% qoq, +11% yoy) and EBITDA of Rs1 bn (+230% qoq, +26% yoy) with EBITDA margin expanding to 30.9% versus 12.8% in 1QFY12 and 27.1% in 2QFY11. EBITDA margin jumped in 2QFY12 as cost of construction and development as a percentage of sales declined to 53% in 2QFY12 versus 67% in 1QFY12 and 62% in 2QFY11. PAT came in at Rs0.4 bn (-40% qoq, -23% yoy) and PAT margin declined to 11.9% versus 27.3% in 1QFY12 (due to high other income) and 16.9% in 2QFY11 (due to lower interest costs).

Sales volume improves qoq; delivers 0.1 mn sq. ft in Ahmedabad

IBREL sold 1.2 mn sq. ft (value of Rs4.9 bn) in 2QFY12 versus 0.8 mn sq. ft (value of Rs3.8 bn) in 1QFY12 and 1.8 mn sq. ft (value of Rs31 bn) in 2QFY11 while realizations declined by 18% qoq and 76% yoy to Rs3,967/sq.ft, indicating that sales are taking place in mid-income projects. The company has now sold 71% of residential area under construction (63% at end-1QFY12) and incremental qoq growth will have to come from revenue recognition in the balance 29% as they get booked as sales. The company leased an additional 0.2 mn sq. ft in 2QFY12 (same as in 1QFY12) bringing the total are under lease to 2.0 mn sq. ft at end-2QFY12. The company has also handed over 0.1 mn sq. ft area in Ahmedabad.

Area under construction increased due to addition in commercial segment

While area under construction in residential segment remained stagnant qoq at 14.6 mn sq. ft (stagnant for the past three quarters), commercial area under construction increased to 2.9 mn sq. ft (2.6 mn sq. ft at end-1QFY12) as the company added 0.3 mn sq. ft of projects in the mid-income segment.

## QUICK NUMBERS

- Revenues of Rs3.3 bn (+37% qoq, +11 yoy)
- Sold 1.2 mn sq. ft in 2QFY12 versus 0.78 mn sq. ft in 1QFY12
- Value of listed entities is 70% of current market cap

Ajay Mathrani  
ajay.mathrani@kotak.com  
Mumbai: +91-22-6634-1376

Dhruva Acharya  
dhruva.acharya@kotak.com  
Mumbai: +91-22-6634-1417

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

**Revenues up 11% yoy while profit declines 23% yoy**  
Interim results, IBREL, March fiscal year-ends (Rs mn)

	2QFY12	1QFY12	2QFY11	% change		1HFY12	1HFY11	% change
				qoq	yoy			
<b>Net sales</b>	<b>3,320</b>	<b>2,421</b>	<b>3,001</b>	<b>37</b>	<b>11</b>	<b>5,741</b>	<b>4,718</b>	<b>22</b>
<b>Expenditure</b>	<b>(2,294)</b>	<b>(2,110)</b>	<b>(2,188)</b>	<b>9</b>	<b>5</b>	<b>(4,405)</b>	<b>(3,688)</b>	<b>19</b>
Real estate construction and development expenses	(1,753)	(1,616)	(1,874)	8	(6)	(3,369)	(3,197)	5
Employees cost	(257)	(198)	(136)	29	89	(455)	(258)	76
Other expenditure	(285)	(296)	(178)	(4)	60	(581)	(233)	149
<b>EBITDA</b>	<b>1,026</b>	<b>311</b>	<b>813</b>	<b>230</b>	<b>26</b>	<b>1,336</b>	<b>1,029</b>	<b>30</b>
Other income	350	1,406	243	(75)	44	1,756	449	291
Interest costs	(724)	(334)	(116)	116	521	(1,058)	(127)	734
Depreciation	(55)	(53)	(42)	4	31	(109)	(76)	43
<b>PBT</b>	<b>597</b>	<b>1,329</b>	<b>897</b>	<b>(55)</b>	<b>(34)</b>	<b>1,925</b>	<b>1,276</b>	<b>51</b>
Taxes (including deferred tax, FBT and wealth tax)	(213)	(306)	(393)	(30)	(46)	(519)	(519)	(0)
<b>PAT before minority interest</b>	<b>384</b>	<b>1,022</b>	<b>505</b>	<b>(62)</b>	<b>(24)</b>	<b>1,406</b>	<b>756</b>	<b>86</b>
Minority Interest	(10)	363	(4)	NA	152	353	42	735
<b>PAT after minority interest</b>	<b>394</b>	<b>660</b>	<b>509</b>	<b>(40)</b>	<b>(23)</b>	<b>1,054</b>	<b>714</b>	<b>48</b>
<b>Key ratios</b>								
EBITDA margin (%)	30.9	12.8	27.1			23.3	21.8	
PAT margin (%)	11.9	27.3	16.9			18.4	15.1	
Effective tax rate (%)	35.7	23.0	43.8			27.0	40.7	

Source: Company, Kotak Institutional Equities

**1.23 mn sold in 2QFY12 versus 0.78 mn sq. ft in 1QFY12**  
Sales and construction status, IBREL, March fiscal year-ends

	2QFY12		1QFY12		4QFY11		3QFY11		2QFY11	
	Value (Rs mn)	Area (mn sq ft)	Value (Rs mn)	Area (mn sq ft)	Value (Rs mn)	Area (mn sq ft)	Value (Rs mn)	Area (mn sq ft)	Value (Rs mn)	Area (mn sq ft)
<b>Sales status</b>										
Opening Balance	64,870	9.15	61,080	8.37	55,650	7.25	48,000	5.41	17,150	3.65
Add: Sales booked in quarter	4,880	1.23	3,790	0.78	5,430	1.12	8,680	2.27	30,990	1.84
Less: Handed over								(0.56)	(143)	(0.08)
Closing balance	69,750	10.38	64,870	9.15	61,080	8.37	56,680	7.12	47,997	5.41
<b>Under construction</b>										
Opening Balance		17.17		16.19		16.33		14.69		14.46
New launches less handovers		0.31		0.98		(0.15)		2.50		0.23
Closing balance	-	17.48		17.17		16.19		17.19		14.69

Source: Company, Kotak Institutional Equities

- Though IBREL sold 1.23 mn sq. ft in 2QFY12 versus 0.78 mn sq. ft in 1QFY12, realizations declined by 18% qoq and 76% yoy to Rs3,967/sq.ft, indicating that sales are taking place in mid-income projects. As per Propequity, in July and August 2011, IBREL sold 0.37 mn sq. ft in its Indiabulls Greens project in Panvel which is selling for Rs4,100-4,500/sq. ft.

Area under construction increases by 0.3 mn sq. ft in commercial segment  
Break-up of area under construction, IBREL, end-2QFY12

	2QFY12 (mn sq ft)	1QFY12 (mn sq ft)	4QFY11 (mn sq ft)	3QFY11 (mn sq ft)	2QFY11 (mn sq ft)	1QFY11 (mn sq ft)
<b>Residential area under construction</b>						
Super premium	3.3	3.3	3.3	3.3	3.3	3.3
Premium	6.6	6.6	6.6	6.6	4.9	4.9
Mid-income	4.7	4.7	4.7	4.7	4.2	3.9
<b>Total residential</b>	<b>14.6</b>	<b>14.6</b>	<b>14.6</b>	<b>14.6</b>	<b>12.4</b>	<b>12.1</b>
<b>Commercial area under construction</b>						
Super premium	0.2	0.2	0.2	0.9	1.4	1.4
Premium	0	0	—	—	—	—
Mid-income	2.7	2.4	1.4	0.9	0.9	0.9
<b>Total commercial</b>	<b>2.9</b>	<b>2.6</b>	<b>1.6</b>	<b>1.8</b>	<b>2.3</b>	<b>2.3</b>
<b>Total</b>	<b>17.5</b>	<b>17.2</b>	<b>16.2</b>	<b>16.3</b>	<b>14.7</b>	<b>14.5</b>

Source: Kotak Institutional Equities

- ▶ Area under construction increased by 0.3 mn sq. ft qoq to 17.5 mn sq. ft at end-2QFY12 as IBREL added area in the mid-income commercial segment. Area under construction in residential segment remained stagnant qoq at 14.6 mn sq. ft and has now remained at this number for the past three quarters.
- ▶ IBREL's land bank for future development stands as 3,127 acres (including SEZ land) versus 3,124 acres at end-1QFY12 as the company acquired 34 acres of land (categorized under residential area) and moved 31 acres to area under development (28 acres of residential area and 3 acres of commercial area). The break-up is—(1) residential area of 533 versus 527 acres at end-1QFY12, (2) 43 mn sq. ft of commercial area (46 mn sq. ft at end-1QFY12), and (3) SEZ area of 2,551 acres (implied though the 2QFY12 presentation does not explicitly mention this).
- ▶ Area under development increased to 64 mn sq. ft versus 63 mn sq. ft at end-1QFY12—(1) residential area of 55 mn sq. ft (54 mn sq. ft at end-1QFY12) and (2) commercial area of 9 mn sq ft (steady qoq). The company has handed over 0.1 mn sq. ft of space in Ahmedabad.
- ▶ On the assets side, qoq, (1) cash and investments including mutual fund investments declined by Rs0.86 bn to Rs55.6 bn, (2) fixed assets including CWIP and capital advances increased by Rs14.7 bn to Rs59.7 bn and (3) loans and advances increased by Rs2.2 bn to Rs25.3 bn. On the liabilities side, qoq, (1) optionally convertible debentures have reduced to zero from Rs1.4 bn at end-1QFY12, (2) compulsorily convertible debentures have reduced by Rs1.1 bn to Rs6.9 bn, (3) loans from others have increased by Rs1.2 bn to Rs22.5 bn and (4) overall loan funds reduced by Rs1.7 bn to Rs30.9 bn. Current liabilities have increased sharply by Rs19.1 bn qoq to Rs48 bn. Debt has not risen as it is likely that 1QFY12 funding for projects undertaken in the quarter came from letters of credit drawn against sanctioned loan facilities which is cheaper in terms of interest rates and forms a part of current liabilities.

## Quarterly balance sheet of IBREL

March fiscal year-ends, 4QFY10-2QFY12 (Rs mn)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
<b>Shareholders funds</b>							
Share capital	803	803	804	804	804	805	806
Reserves and surplus	93,512	93,728	93,633	94,364	89,833	87,834	88,749
Share application money pending allotment	0	—	—	28	2	38	—
Share application money received by subsidiary pending allotment	—	—	3	3	—	1	1
Share warrants	—	—	1,184	1,184	1,090	1,090	1,090
Share warrants of subsidiary companies	—	—	—	3,045	3,045	3,045	3,045
Minority interest	19,956	20,269	20,357	20,390	20,470	23,657	23,743
Preference share capital of subsidiary companies	3,125	3,125	3,125	3,125	3,125	3,125	2,577
<b>Loan funds</b>							
Optionally convertible debentures	1,410	1,410	1,410	1,410	1,410	1,410	—
Compulsorily convertible debentures	7,986	7,986	7,986	7,986	7,986	7,986	6,867
Loans from others	2,256	3,284	4,967	21,901	25,981	21,234	22,463
Interest accrued and due	1,980	2,085	2,105	2,120	1,944	1,944	1,542
Deferred tax liability (Net)	—	—	—	—	—	—	—
<b>Total</b>	<b>131,027</b>	<b>132,690</b>	<b>135,574</b>	<b>156,358</b>	<b>155,691</b>	<b>152,168</b>	<b>150,883</b>
Fixed assets (including CWIP/capital advances)	8,427	11,040	14,325	25,419	37,185	44,974	59,701
Investments (Including mutual funds investments)	72,474	73,501	70,534	68,981	66,698	52,284	51,540
Deferred tax asset (Net)	2	4	8	10	9	48	135
<b>Current assets, loans and advances</b>							
Inventories	24,489	24,585	26,671	47,572	47,220	50,229	51,096
Sundry debtors	190	1,424	2,639	3,899	5,840	7,386	7,818
Cash and bank balances	10,454	4,533	6,679	5,476	6,058	4,188	4,073
Other current assets	101	214	727	261	95	234	223
Loans and advances	18,439	25,699	26,107	26,273	18,710	23,100	25,284
<b>Less: current liabilities and provisions</b>							
Current liabilities	4,063	8,518	11,567	20,734	25,046	28,947	48,043
Provisions	257	360	606	798	1,077	1,328	943
Net current assets	49,353	47,578	50,650	61,948	51,800	54,862	39,507
Debit balance of P&L Account	771	566	57	—	—	—	—
<b>Total</b>	<b>131,027</b>	<b>132,690</b>	<b>135,574</b>	<b>156,358</b>	<b>155,691</b>	<b>152,168</b>	<b>150,883</b>

Source: Company, Kotak Institutional Equities

## Value of listed entities is 70% of current market capitalization

Value implied by the current market prices of the two listed entities (IPIT and IBPOW) in which IBREL holds stakes (even after assuming a 20% holding company discount) is worth Rs49/share which is 70% of IBREL's stock price.

## IBPOW and IPIT account for 70% of IBREL's current market capitalization

Contribution to IBREL share price from IBPOW and IPIT based on respective market prices

Entity	Share price (Rs)	Market cap. (Rs bn)	IBREL's stake (%)	Value of IBREL's stake @ 20% discount	
				(Rs bn)	Per share (Rs)
IPIT	6.9	25.0	45.0	9.0	22
Indiabulls Power	11.2	22.6	58.6	10.6	26
Total					49
IBREL stock price					70
Accounted for by listed entities					70%

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## September 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
17-Oct	18-Oct	19-Oct	20-Oct	21-Oct	22-Oct
				3I Infotech	Axis Bank
				Akzo Nobel	Binani Industries
				Asian Paints	Grasim Industries
				Federal Bank	Jagran Prakashan
				GCPL	Kalpataru Power Transmission
				Godrej Properties	Polaris
				HCC	Power Grid Corp
				HT Media	Suzlon Energy
				Idea	Syndicate Bank
				Indiabulls Financial Services	
				JSW Steel	
				Kansai Nerolac	
				L&T	
				NIIT	
				PVR	
				Shoppers Stop	
				Texmaco	
				United Phosphorus	
24-Oct	25-Oct	26-Oct	27-Oct	28-Oct	29-Oct
Container Corp	Dr Reddy's Laboratories	Muthoot Finance		BEML	LIC Housing Finance
ITC	Engineers India			Bharat Electronics	Maharashtra Seamless
JM Financial	KEC International			NHPC	Mahindra Holidays & Resorts
MMFSL	Kotak Mahindra Bank			Redington India	Maruti Suzuki
Pfizer	NTPC			Tata Global Beverages	
Sterlite Industries	Oracle Financial Services				
Tata Coffee	Sesa Goa				
Titan Industries					
Union Bank of India					
31-Oct	1-Nov	2-Nov	3-Nov	4-Nov	5-Nov
Bank of Baroda	ACC	Karur Vysya Bank	SunTV Network	Apollo Hospital Enterprises	Carborundum Universal
Bata India	Aditya Birla Nuvo	Piramal Life Sciences	TVS Motor Co.	Bharti Airtel	MTNL
BPCL	Ambuja Cements		Welspun Corp	Glaxosmithkline Consumers	Motherson Sumi
Canara Bank	Bajaj Electricals			Glaxosmithkline Pharmaceuticals	
Castrol India	Central Bank of India			Marico	
Century Textiles					
Colgate Palmolive					
Corporation Bank					
Dabur India					
Dena Bank					
EIH					
Gujarat Pipavav Port					
Hindustan Unilever					
ICICI Bank					
Jammu & Kashmir Bank					
Karnataka Bank					
SJVN					
United Bank of India					
Wipro					
7-Nov	8-Nov	9-Nov	10-Nov	11-Nov	12-Nov
Madras Cement	ABB	Apollo Tyres	Cadila Healthcare	Dishman Pharma	
Punjab Lyod	Aban Offshore	Lupin	GVK Power & Infra	Jet Airways	
	Godrej Industries	Power Finance Corp	Hindalco Industries	JK Cement	
	IDFC	Ranbaxy Laboratories	VA Tech Wabag	Tata Chemicals	
		Tata Communications		Shree Cements	
		Voltas			
14-Nov	15-Nov	16-Nov	17-Nov	18-Nov	19-Nov
India Cements	Tata Power				
Mahindra & Mahindra					
Tata Motors					

Source: BSE, NSE, Kotak Institutional Equities



## India Daily Summary - October 21, 2011

		20-Oct-11		Mkt cap.		O/S		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company		Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Automobiles																															
Apollo Tyres		53	BUY	26,818	538	504	8.7	7.7	9.6	(26.1)	(11.7)	24.3	6.1	6.9	5.5	5.1	4.3	3.8	1.0	0.9	0.8	0.9	0.8	1.0	20.1	15.0	16.1	85	59.8	3.9	
Ashok Leyland		25	SELL	65,453	1,314	2,661	2.4	2.1	2.4	68.1	(11.9)	12.8	10.4	11.8	10.4	7.3	7.7	7.0	1.5	1.4	1.3	4.1	4.1	4.1	21.8	17.4	18.2	26	5.7	3.6	
Bajaj Auto		1,614	SELL	466,961	9,375	289	90.4	103.3	113.0	43.9	14.3	9.4	17.9	15.6	14.3	13.6	12.3	11.6	9.5	7.1	5.5	2.5	2.5	2.5	84.9	51.9	43.4	1,585	(1.8)	15.2	
Bharat Forge		287	ADD	68,093	1,367	237	12.5	16.0	20.2	1,402.1	27.9	25.8	22.9	17.9	14.2	10.7	8.8	7.4	3.0	2.6	2.2	1.2	—	—	8.2	14.0	15.1	320	11.5	2.3	
Exide Industries		121	SELL	103,105	2,070	850	7.5	6.8	7.9	18.0	(8.9)	17.0	16.3	17.9	15.3	11.7	12.8	11.1	3.8	3.2	2.8	1.2	1.1	1.1	25.5	19.4	19.5	120	(1.1)	6.9	
Hero Motocorp		2,030	SELL	405,401	8,139	200	99.3	120.5	135.4	(11.1)	21.3	12.4	20.4	16.9	15.0	13.5	12.1	10.2	8.7	7.5	6.2	5.2	3.4	3.4	56.5	67.0	60.0	1,900	(6.4)	24.4	
Mahindra & Mahindra		802	ADD	492,182	9,882	614	41.7	46.9	52.2	22.7	12.5	11.2	19.2	17.1	15.4	14.7	12.5	11.0	4.6	3.8	3.2	1.4	1.2	1.2	27.3	24.5	22.6	900	12.3	33.0	
Maruti Suzuki		1,077	ADD	311,275	6,250	289	79.2	66.0	90.3	(8.4)	(16.7)	36.8	13.6	16.3	11.9	8.3	9.3	6.4	2.2	2.0	1.7	0.7	0.7	0.7	17.6	12.9	15.5	1,240	15.1	14.7	
Tata Motors		183	ADD	608,808	12,223	3,325	27.2	23.1	23.9	737.9	(15.0)	3.6	6.7	7.9	7.7	4.9	5.6	5.3	3.1	2.3	1.9	2.1	1.6	1.6	66.1	34.2	27.3	180	(1.7)	56.5	
Automobiles			Cautious	2,548,096	51,159					82.8	(3.5)	11.3	12.4	12.9	11.6	8.2	8.4	7.5	3.9	3.2	2.6	2.3	1.9	1.9	31.1	24.7	22.8				
Banks/Financial Institutions																															
Andhra Bank		119	BUY	66,758	1,340	560	22.6	24.2	27.5	5.0	6.9	13.5	5.3	4.9	4.3	—	—	—	1.0	0.9	0.8	4.6	4.9	5.6	23.2	19.4	19.2	190	59.3	1.6	
Axis Bank		1,131	BUY	464,163	9,319	411	82.5	98.9	119.7	33.0	19.8	21.1	13.7	11.4	9.4	—	—	—	2.4	2.1	1.8	1.2	1.5	1.8	19.3	19.7	20.3	1,700	50.4	54.9	
Bajaj Finserv		559	ADD	80,920	1,625	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	7.2	8.9	9.1	—	—	—	2.3	1.7	1.3	2.2	2.2	2.2	37.2	21.8	16.4	650	16.2	2.7	
Bank of Baroda		749	BUY	294,252	5,908	393	108.0	109.5	129.1	29.1	1.4	17.9	6.9	6.8	5.8	—	—	—	1.5	1.3	1.1	2.6	2.6	3.1	25.9	20.4	20.5	1,250	66.9	7.5	
Bank of India		334	BUY	182,717	3,668	547	45.5	54.0	70.7	37.4	18.7	30.9	7.3	6.2	4.7	—	—	—	1.1	1.0	0.9	2.4	2.9	3.8	17.3	17.2	19.5	470	40.8	5.6	
Canara Bank		458	BUY	202,783	4,071	443	90.9	86.3	108.7	23.3	(5.0)	25.9	5.0	5.3	4.2	—	—	—	1.1	1.0	0.8	2.4	2.6	2.6	23.2	17.7	19.0	600	31.1	7.0	
Corporation Bank		413	BUY	61,141	1,228	148	95.4	93.4	114.1	16.3	(2.1)	22.2	4.3	4.4	3.6	—	—	—	0.9	0.7	0.6	4.8	4.7	5.8	21.9	18.1	19.2	630	52.6	0.7	
Federal Bank		396	BUY	67,700	1,359	171	34.3	44.5	55.4	26.3	29.8	24.3	11.5	8.9	7.1	—	—	—	1.4	1.2	1.1	2.1	2.8	3.5	12.0	14.2	15.8	500	26.3	3.1	
HDFC		645	REDUCE	946,077	18,995	1,467	24.1	27.8	31.6	22.4	15.4	13.7	26.8	23.2	20.4	—	—	—	5.5	4.8	3.7	1.4	1.6	1.9	21.7	22.1	21.3	725	12.4	37.2	
HDFC Bank		490	ADD	1,138,756	22,863	2,326	16.9	22.0	28.1	31.0	30.2	27.8	29.0	22.3	17.4	—	—	—	4.5	3.9	3.3	0.7	0.9	1.1	16.7	18.7	20.5	560	14.4	35.2	
ICIICI Bank		878	BUY	1,011,356	20,305	1,152	44.7	58.0	63.1	23.9	29.7	8.8	19.6	15.1	13.9	—	—	—	1.8	1.7	1.6	1.6	2.0	2.2	9.7	11.7	11.8	1,100	25.3	79.1	
IDFC		122	BUY	184,058	3,695	1,509	8.8	9.9	12.0	4.6	12.8	21.6	13.9	12.3	10.1	—	—	—	1.8	1.5	1.3	1.8	1.6	2.0	14.7	13.1	13.9	150	23.0	19.4	
India Infoline		72	SELL	23,569	473	327	7.4	4.8	6.5	(9.3)	(34.5)	33.8	9.8	14.9	11.2	—	—	—	1.4	1.2	1.1	4.3	1.4	1.9	12.9	8.7	10.3	70	(2.9)	1.0	
Indian Bank		207	BUY	88,769	1,782	430	38.8	42.0	50.9	10.5	8.2	21.2	5.3	4.9	4.1	—	—	—	1.1	1.0	0.8	3.6	3.8	4.6	22.3	20.4	21.0	300	45.2	1.3	
Indian Overseas Bank		99	BUY	61,040	1,226	619	17.3	21.1	27.3	33.6	22.0	29.1	5.7	4.7	3.6	—	—	—	0.7	0.7	0.6	5.0	4.3	4.7	12.7	13.3	15.3	190	92.6	1.6	
IndusInd Bank		270	BUY	125,787	2,525	466	12.4	15.6	18.2	45.2	26.1	16.6	21.8	17.3	14.8	—	—	—	3.4	3.0	2.6	0.7	0.9	1.1	20.8	18.1	17.8	325	20.4	3.3	
J&K Bank		814	ADD	39,473	793	48	126.9	141.8	152.8	20.1	11.8	7.7	6.4	5.7	5.3	—	—	—	1.1	1.0	0.9	3.2	3.6	3.8	19.0	18.4	17.3	950	16.7	0.5	
LIC Housing Finance		218	ADD	103,325	2,074	475	20.5	22.9	27.5	47.2	11.4	20.4	10.6	9.5	7.9	—	—	—	2.6	2.2	1.8	2.0	2.3	2.7	25.8	23.7	23.9	260	19.5	18.7	
Mahindra & Mahindra Financial		630	BUY	64,550	1,296	102	45.2	56.4	69.2	26.1	24.8	22.7	13.9	11.2	9.1	—	—	—	2.6	2.3	1.9	1.6	2.0	2.4	22.0	21.4	22.3	825	30.9	1.0	
Muthoot Finance		167	BUY	61,896	1,243	371	15.7	21.6	26.7	108.4	37.1	23.7	10.6	7.7	6.2	—	—	—	4.6	2.0	1.5	—	—	—	51.5	36.7	28.1	230	38.0	—	
Oriental Bank of Commerce		301	BUY	87,791	1,763	292	51.5	55.6	65.4	13.7	8.0	17.6	5.8	5.4	4.6	—	—	—	0.9	0.8	0.7	3.5	3.7	4.4	15.5	13.9	14.7	430	42.9	3.5	
PFC		150	BUY	198,056	3,976	1,320	22.8	23.4	28.3	11.1	2.4	21.3	6.6	6.4	5.3	—	—	—	1.3	1.0	0.9	2.6	3.1	3.8	18.4	17.0	16.7	225	50.0	11.2	
Punjab National Bank		984	BUY	311,585	6,256	317	140.0	163.0	201.5	13.0	16.5	23.6	7.0	6.0	4.9	—	—	—	1.6	1.3	1.1	2.2	3.4	4.2	24.4	23.5	24.2	1,500	52.5	7.4	
Reliance Capital		337	REDUCE	83,067	1,668	246	9.3	16.5	24.8	(25.3)	77.0	50.4	36.3	20.5	13.6	—	—	—	1.2	1.1	1.1	1.1	2.0	2.9	3.3	5.7	8.3	470	39.3	28.8	
Rural Electrification Corp.		175	BUY	172,941	3,472	987	26.0	29.0	32.5	28.1	11.5	12.3	6.7	6.0	5.4	—	—	—	1.4	1.2	1.0	20.8	20.4	4.7	5.3	21.5	20.8	20.4	240	37.0	8.8
Shriram Transport		608	REDUCE	135,703	2,725	223	55.1	65.6	75.3	40.8	19.0	14.8	11.0	9.3	8.1	—	—	—	2.8	2.4	2.0	1.1	2.2	2.5	28.1	26.8	25.2	700	15.1	7.0	
SKS Microfinance		203	RS	14,978	301	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	13.0	(5.2)	52.4	—	—	—	0.8	1.0	0.9	—	—	—	—	8.3	(17.4)	1.9	—	—	3.9
State Bank of India		1,935	BUY	1,228,755	24,670	635	130.2	195.6	256.1	(9.9)	50.3	30.9	14.9	9.9	7.6	—	—	—	1.9	1.6	1.4	1.8	1.9	2.0	12.6	17.8	20.0	2,750	42.1	129.1	
Union Bank		250	BUY	131,109	2,632	524	39.5	50.2	60.4	(3.9)	27.1	20.5	6.3	5.0	4.1	—	—	—	1.2	1.0	0.9	3.7	4.7	5.7	20.9	21.9	22.5	425	70.0	5.2	
Yes Bank		285	BUY	98,867	1,985	347	21.5	26.2	32.3	43.2	22.1	23.3	13.3	10.9	8.8	—	—	—	2.6	2.2	1.8	0.9	1.1	1.3	21.7	21.7	22.2	420	47.5	16.9	
Banks/Financial Institutions			Attractive	7,731,943	155,237					20.1	20.0	22.6	12.6	10.5	8.6	—	—	—	2.0	1.7	1.5	1.7	2.0	2.4	16.0	16.6	17.5				
Cement																															
ACC		1,115	SELL	209,496	4,206	188	55.6	60.1	72.7	(33.2)	8.2	20.9	20.1	18.5	15.3	12.3	10.4	8.2	3.1	2.8	2.5	3.2	2.1	2.1	17.5	17.3	18.1	980	(12.1)	6.8	
Ambuja Cements		154	SELL	234,294	4,704	1,522	7.9	7.8	9.8	(1.5)	(0.5)	25.5	19.5	19.6	15.6	11.9	10.9	8.5	3.0	2.7	2.5	1.3	1.4	1.6	16.6	14.8	16.9	135	(12.3)	6.3	
Grasim Industries		2,319	BUY	212,722	4,271	92	232.0	254.6	277.2	(22.9)	9.7	8.9	10.0	9.1	8.4	6.2	4.8	4.2	1.5	1.3	1.1	0.8	1.5	1.5	15.7	15.0	14.4	2,900	25.0	3.7	
India Cements		75	ADD	22,885	459	307	1.9	8.3	9.2	(81.2)	339.0	10.4	39.4	9.0	8.1	14.4	5.8	5.2	0.5	0.5	0.5	2.1	4.3	4.3	1.4	6.2	6.5	82	10.1	1.6	
Shree Cement		1,893	REDUCE	65,961	1,324	35	57.2	83.1	132.9	(72.5)	45.5	59.8	33.1	22.8	14.2	7.4	6.9	4.9	3.4	3.2	2.8	0.6	0.6	0.6	10.7	14.5	20.7	1,730	(8.6)	1.	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Oct-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	3,157	SELL	302,819	6,080	96	80.8	94.6	111.4	13.0	17.1	17.7	39.1	33.4	28.3	26.1	21.2	17.4	14.8	11.4	9.2	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(8.1)	4.3
Colgate-Palmolive (India)	997	SELL	135,564	2,722	136	29.6	34.1	38.8	(4.9)	15.0	14.1	33.7	29.3	25.7	29.3	25.6	21.4	35.3	35.9	28.7	2.2	3.0	2.7	113.4	121.6	124.2	900	(9.7)	1.6
Dabur India	98	SELL	170,731	3,428	1,740	3.3	3.7	4.4	12.8	14.1	18.8	30.0	26.3	22.2	24.3	20.0	16.8	13.0	10.1	7.9	1.2	1.3	1.6	51.2	43.8	40.6	110	12.1	2.7
GlaxoSmithkline Consumer (a)	2,355	ADD	99,022	1,988	42	71.3	83.2	104.0	28.8	16.7	25.0	33.0	28.3	22.6	23.7	20.4	17.1	10.6	9.0	7.6	2.1	1.6	2.0	32.2	33.5	35.5	2,900	23.2	1.1
Godrej Consumer Products	410	ADD	132,640	2,663	324	14.9	18.4	22.7	31.3	23.4	23.8	27.5	22.3	18.0	23.5	16.4	12.5	7.7	5.5	4.4	1.2	0.8	0.8	35.9	28.7	27.0	510	24.4	2.4
Hindustan Unilever	330	ADD	713,586	14,327	2,159	9.9	11.3	13.3	4.8	14.1	17.7	33.5	29.3	24.9	28.4	24.8	20.3	27.1	23.5	20.3	2.3	2.8	3.3	66.3	85.9	87.5	370	12.0	19.2
ITC	205	ADD	1,574,922	31,620	7,681	6.4	8.0	9.1	20.7	24.9	13.1	32.0	25.6	22.7	21.2	17.3	15.1	9.4	8.1	7.0	2.2	1.8	2.2	33.2	35.5	34.4	230	12.2	34.6
Jubilant Foodworks	858	SELL	56,156	1,127	65	11.2	16.6	24.1	99.6	48.6	45.1	76.6	51.6	35.6	46.8	28.6	20.0	29.3	18.7	12.2	—	—	—	46.6	44.2	41.6	750	(12.6)	29.1
Jyothy Laboratories	140	ADD	11,268	226	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	13.3	14.8	11.9	10.5	9.2	7.6	1.7	1.6	1.5	4.2	3.3	4.2	12.3	11.1	12.9	220	57.4	0.4
Manico	151	ADD	93,110	1,869	615	3.9	5.1	6.7	(12.8)	31.2	32.0	39.0	29.7	22.5	24.0	20.8	15.7	9.9	7.8	6.0	0.4	0.5	0.6	30.3	29.8	30.5	175	15.7	1.1
Nestle India (a)	4,268	SELL	411,469	8,261	96	86.8	103.6	123.2	16.7	19.3	18.9	49.2	41.2	34.7	32.7	26.8	22.1	48.1	34.9	26.4	1.1	1.4	1.7	116.5	98.3	86.8	3,500	(18.0)	1.9
Tata Global Beverages	85	ADD	52,719	1,058	618	4.0	6.0	7.1	(34.6)	52.6	17.6	21.5	14.1	12.0	8.3	7.0	5.8	1.1	1.0	1.0	2.3	3.6	4.2	6.5	9.6	10.8	120	40.8	3.9
Titan Industries	216	ADD	192,073	3,856	888	4.9	7.4	8.8	71.7	51.5	17.8	44.0	29.0	24.6	32.2	20.2	16.6	17.7	12.6	9.5	0.6	1.0	1.4	47.8	50.5	44.0	240	10.9	17.3
United Spirits	871	ADD	109,424	2,197	126	29.5	39.2	50.6	8.3	32.8	29.0	29.5	22.2	17.2	15.4	11.8	10.2	2.5	2.3	2.0	0.4	0.3	0.4	9.1	10.7	12.5	1,100	26.3	5.1
Consumer products		Neutral	4,055,501	81,423					15.6	21.9	17.1	33.9	27.8	23.8	23.6	19.2	16.1	10.4	8.9	7.6	1.7	1.8	2.1	30.7	31.9	32.0			
Constructions																													
IVRCL	36	BUY	9,599	193	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	6.1	6.3	5.5	5.7	5.4	5.3	0.5	0.4	0.4	1.1	1.1	1.1	8.2	7.3	7.9	75	108.6	5.0
Nagarjuna Construction Co.	54	BUY	13,958	280	257	6.4	5.9	7.7	(29.7)	(7.8)	30.8	8.5	9.3	7.1	7.7	7.2	6.8	0.6	0.6	0.5	3.7	3.7	3.7	7.1	6.3	7.8	100	83.8	1.2
Punj Lloyd	54	REDUCE	18,440	370	340	(1.5)	5.5	7.4	(56.6)	(467.8)	34.9	(36.6)	9.9	7.4	12.6	5.6	4.9	0.6	0.6	0.5	(0.1)	0.9	1.2	(1.7)	6.1	7.7	65	19.7	5.1
Sadbhav Engineering	128	BUY	19,229	386	150	7.8	10.8	11.9	51.0	38.9	10.6	16.5	11.9	10.8	9.9	7.9	7.2	3.0	2.4	2.0	0.5	0.5	0.5	18.1	20.4	18.6	180	40.3	0.3
Construction		Attractive	61,226	1,229					(1.1)	67.6	23.4	15.8	9.4	7.6	8.6	6.3	5.7	0.8	0.7	0.7	1.1	1.4	1.5	4.8	7.6	8.7			
Energy																													
Aban Offshore	408	BUY	17,740	356	44	134.2	99.1	102.6	25.9	(26.1)	3.5	3.0	4.1	4.0	6.5	6.9	6.5	0.8	0.8	0.7	0.9	1.0	1.1	33.3	21.9	17.9	670	64.4	7.2
Bharat Petroleum	642	ADD	232,235	4,663	362	38.9	54.0	55.1	(32.5)	38.9	1.9	16.5	11.9	11.7	10.6	7.5	7.1	1.5	1.4	1.3	2.2	2.8	2.8	9.2	11.8	11.2	780	21.4	5.6
Cairn india	294	REDUCE	558,308	11,209	1,902	33.3	40.4	49.3	501.1	21.2	22.2	8.8	7.3	6.0	6.4	4.6	3.8	1.4	1.2	1.1	—	1.7	5.1	16.9	17.7	19.5	295	0.5	11.9
Castrol India (a)	479	SELL	118,534	2,380	247	19.8	21.9	22.3	28.5	10.8	1.6	24.2	21.8	21.5	15.5	14.6	14.1	23.0	20.9	19.9	3.1	3.5	3.8	100.2	100.2	94.7	425	(11.3)	0.9
GAIL (India)	422	BUY	535,235	10,746	1,268	28.2	34.3	36.0	13.8	21.8	4.9	15.0	12.3	11.7	9.5	9.0	8.0	2.6	2.2	1.9	1.8	2.1	2.4	17.5	18.4	16.5	560	32.7	9.3
GSPL	97	SELL	54,430	1,093	563	8.9	8.5	8.4	21.7	(4.0)	(1.2)	10.9	11.3	11.5	7.0	6.7	6.6	2.4	2.0	1.8	1.0	1.8	2.6	25.2	19.3	16.4	92	(4.9)	4.7
Hindustan Petroleum	341	ADD	115,518	2,319	339	40.8	20.3	33.9	(20.8)	(50.4)	67.3	8.3	16.8	10.1	3.8	4.6	3.2	0.7	0.7	0.7	4.1	1.8	3.1	9.0	4.1	6.5	430	26.2	6.5
Indian Oil Corporation	291	BUY	706,412	14,183	2,428	32.4	28.4	32.1	(34.0)	(12.5)	12.9	9.0	10.3	9.1	8.6	7.5	6.5	1.2	1.1	1.0	3.3	3.0	3.4	13.3	10.8	11.3	385	32.3	4.0
Oil India	1,273	BUY	306,117	6,146	240	120.0	171.7	190.1	4.2	43.1	10.7	10.6	7.4	6.7	5.2	2.9	2.4	1.8	1.6	1.4	2.9	4.3	4.7	16.2	20.1	19.4	1,750	37.5	2.0
Oil & Natural Gas Corporation	267	BUY	2,280,901	45,794	8,556	24.7	37.2	40.8	7.4	50.8	9.7	10.8	7.2	6.5	4.1	3.0	2.4	1.5	1.4	1.2	3.3	4.5	5.3	14.3	19.1	18.3	380	42.5	24.9
Petronet LNG	164	SELL	123,150	2,473	750	8.1	13.3	12.8	50.3	64.1	(3.5)	20.3	12.3	12.8	11.7	8.4	8.8	4.1	3.2	2.6	1.2	1.8	1.8	20.9	28.1	21.9	135	(17.8)	12.9
Reliance Industries	839	ADD	2,500,165	50,197	2,981	62.0	70.3	71.1	24.8	13.5	1.1	13.5	11.9	11.8	7.4	6.1	5.9	1.5	1.4	1.2	1.0	1.1	1.2	13.0	13.3	12.0	1,000	19.2	90.1
Energy		Attractive	7,548,744	151,558					11.6	25.7	6.7	11.2	8.9	8.4	6.3	5.0	4.3	1.6	1.4	1.2	2.1	2.7	3.3	13.8	15.4	14.8			
Industrials																													
ABB	701	SELL	148,474	2,981	212	3.0	21.1	27.3	(82.2)	606.1	29.6	234.8	33.3	25.7	170.0	22.4	16.7	6.1	5.3	4.5	0.3	0.5	0.5	2.6	17.1	19.1	700	(0.1)	1.7
BGR Energy Systems	319	Reduce	23,053	463	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	7.1	7.9	8.2	4.8	4.4	4.1	2.4	2.0	1.7	3.1	2.5	2.4	39.0	27.4	21.9	400	25.2	4.9
Bharat Electronics	1,522	ADD	121,756	2,445	80	107.3	121.7	135.5	11.6	13.5	11.3	14.2	12.5	11.2	6.3	5.2	3.8	2.4	2.1	1.8	1.4	1.6	1.6	18.2	17.6	17.1	1,875	23.2	1.1
Bharat Heavy Electricals	318	REDUCE	777,847	15,617	2,448	24.6	25.3	27.5	39.7	3.0	8.5	12.9	12.6	11.6	8.6	7.9	7.2	3.9	3.1	2.6	2.0	1.7	1.8	33.3	27.6	24.6	360	13.3	28.5
Crompton Greaves	143	REDUCE	91,414	1,835	642	14.3	9.3	11.2	11.5	(34.8)	20.1	9.9	15.3	12.7	6.4	9.2	7.4	2.8	2.4	2.1	1.7	1.0	1.1	31.7	17.0	17.7	160	12.3	17.2
Larsen & Toubro	1,385	REDUCE	843,379	16,933	609	67.7	79.2	91.7	18.1	16.9	15.9	20.5	17.5	15.1	14.8	11.3	10.1	3.2	2.6	2.3	1.0	1.0	1.0	17.0	16.5	16.2	1,625	17.3	64.3
Maharashtra Seamless	330	BUY	23,257	467	71	46.1	41.6	46.7	19.3	(9.7)	12.3	7.2	7.9	7.1	3.7	3.7	3.0	0.9	0.8	0.8	2.5	2.5	2.8	13.3	11.1	11.5	460	39.5	0.2
Siemens	811	SELL	273,454	5,490	337	22.4	28.9	32.5	39.5	28.8	12.3	36.1	28.1	25.0	21.3	17.9	15.5	8.4	6.9	5.7	0.6	0.7	0.8	25.2	26.9	24.8	830	2.3	3.0
Suzlon Energy	36	SELL	63,363	1,272	1,746	(6.0)	1.8	3.2	(4.6)	(129.2)	80.6	(6.0)	20.6	11.4	19.5	7.3	6.3	0.9	0.9	0.9	—	0.6	0.6	(15.8)	4.4	7.7	40	10.2	17.3
Tecpro Systems	220	ADD	11,104	223	50	27.0	29.4	32.7	24																				

## Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Oct-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Media																														
DB Corp	230	BUY	42,200	847	183	14.1	13.0	15.5	32.7	(8.1)	19.9	16.3	17.8	14.8	10.6	10.4	8.7	5.1	4.5	4.0	1.7	2.6	3.5	35.0	26.9	28.6	330	43.3	0.8	
DishTV	76	ADD	80,826	1,623	1,062	(1.7)	0.3	1.2	(32.4)	(119.5)	282.3	(45.6)	234.4	61.3	37.7	16.6	11.9	36.2	31.4	20.8	—	—	—	(56.9)	14.3	40.8	95	24.8	7.0	
Eros International	270	ADD	26,140	525	97	11.8	15.8	19.9	19.0	34.0	25.9	22.9	17.1	13.6	16.1	12.1	8.8	3.9	3.1	2.5	—	—	—	24.9	20.2	20.5	270	0.1	2.6	
Hindustan Media Ventures	133	BUY	9,772	196	73	7.3	9.1	10.9	198.0	24.0	20.1	18.2	14.7	12.2	8.7	7.7	6.0	2.6	2.2	1.9	0.8	0.8	1.5	23.3	16.1	16.9	210	57.7	0.1	
HT Media	140	ADD	32,877	660	235	7.6	8.5	10.4	24.8	11.7	22.2	18.4	16.4	13.4	8.5	7.3	5.7	2.3	2.2	2.1	1.4	2.9	4.3	14.9	13.8	15.9	190	35.8	0.5	
Jagran Prakashan	105	BUY	33,127	665	316	6.8	6.7	8.0	16.7	(1.4)	18.7	15.4	15.6	13.1	9.2	9.0	7.5	4.7	4.2	3.9	3.3	3.3	4.8	32.8	28.5	30.8	160	52.7	0.3	
Sun TV Network	271	BUY	106,835	2,145	394	19.5	21.0	25.1	48.1	7.7	19.2	13.9	12.9	10.8	8.3	7.4	6.2	4.4	3.8	3.4	3.2	3.7	5.2	36.5	33.4	34.8	440	62.3	6.4	
Zee Entertainment Enterprises	112	BUY	110,017	2,209	978	5.8	6.2	7.7	10.0	6.4	23.3	19.2	18.1	14.7	12.8	11.7	9.3	2.6	2.5	2.4	1.2	1.2	1.4	14.2	14.3	16.9	160	42.3	4.8	
Media		Neutral	441,794	8,870					51.8	18.0	24.9	22.3	18.9	15.1	12.0	10.2	8.2	4.1	3.7	3.4	1.6	1.9	2.6	18.3	19.6	22.2				
Metals & Mining																														
Coal India	330	ADD	2,082,505	41,811	6,316	17.3	24.1	29.3	13.6	39.1	21.9	19.1	13.7	11.2	11.1	8.0	6.5	6.0	4.7	3.7	1.2	2.2	2.7	35.1	38.2	36.7	454	37.7	36.1	
Hindalco Industries	125	ADD	238,788	4,794	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	9.8	6.8	7.1	5.6	5.5	5.9	0.8	0.7	0.7	1.2	1.2	1.2	9.7	11.4	10.0	175	40.3	26.8	
Hindustan Zinc	121	ADD	509,113	10,222	4,225	11.6	12.6	13.8	21.8	8.0	9.4	10.3	9.6	8.7	6.5	5.6	4.2	2.3	1.9	1.6	0.8	2.1	2.1	24.3	21.7	20.2	140	16.2	2.9	
Jindal Steel and Power	538	REDUCE	502,326	10,085	934	40.2	41.5	47.9	5.1	3.3	15.5	13.4	12.9	11.2	10.0	9.3	8.4	3.6	2.8	2.3	0.3	0.3	0.3	30.9	24.5	22.6	565	5.1	24.1	
JSW Steel	583	SELL	131,668	2,644	226	78.6	70.2	107.5	(2.2)	(10.7)	53.1	7.4	8.3	5.4	6.0	6.4	5.4	0.8	0.7	0.7	2.1	2.1	2.1	13.6	9.3	12.9	660	13.3	39.1	
National Aluminium Co.	60	SELL	155,665	3,125	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	14.6	12.1	12.6	6.6	5.2	5.0	1.4	1.3	1.2	2.5	2.5	2.5	9.9	11.1	10.0	65	7.6	0.5	
Sesa Goa	209	SELL	187,126	3,757	895	47.0	40.1	41.6	59.8	(14.6)	3.7	4.5	5.2	5.0	3.7	3.9	3.1	1.5	1.2	0.9	1.9	1.9	2.0	36.8	22.1	17.9	230	10.0	17.0	
Sterlite Industries	116	BUY	390,908	7,848	3,361	15.2	17.0	19.0	26.2	12.0	11.5	7.7	6.8	6.1	4.8	3.6	3.0	0.9	0.8	0.7	1.0	1.0	1.0	13.0	13.0	12.8	185	59.1	18.0	
Tata Steel	442	BUY	428,975	8,613	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	5.9	6.4	5.7	5.7	6.0	5.1	1.2	1.0	0.8	2.7	1.8	1.8	24.7	15.5	15.7	625	41.5	49.4	
Metals & Mining		Attractive	4,627,073	92,899					39.1	13.0	14.1	11.2	9.9	8.7	7.1	6.2	5.4	2.1	1.8	1.5	1.3	1.8	2.0	19.0	18.1	17.7				
Pharmaceutical																														
Apollo Hospitals	515	ADD	71,503	1,436	139	13.2	17.8	21.4	21.0	34.5	19.9	38.9	28.9	24.1	17.7	13.4	11.1	3.7	2.8	2.5	—	—	—	9.8	10.7	10.5	650	26.3	1.8	
Biocon	347	BUY	69,450	1,394	200	18.4	19.4	21.4	23.9	5.6	10.3	18.9	17.9	16.2	10.9	10.4	9.4	3.4	3.0	2.7	—	—	—	19.4	17.9	17.4	445	28.1	2.4	
Cipla	289	REDUCE	231,884	4,656	803	12.3	14.5	16.5	(10.0)	17.5	13.7	23.4	19.9	17.5	20.3	14.5	11.9	3.5	3.1	2.7	1.0	1.0	1.2	15.4	16.0	16.5	310	7.3	8.0	
Cadila Healthcare	756	REDUCE	154,851	3,109	205	34.7	38.2	45.1	40.6	10.0	18.1	21.8	19.8	16.8	18.9	16.1	12.7	7.1	5.6	4.5	0.8	1.0	1.2	37.5	31.7	29.6	900	19.0	2.2	
Dishman Pharma & chemicals	56	REDUCE	4,514	91	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	5.6	6.9	6.4	7.9	5.9	5.4	0.5	0.5	0.5	—	—	—	9.6	7.2	7.3	70	26.1	0.2	
Divi's Laboratories	727	ADD	96,456	1,937	133	32.4	36.7	45.0	25.7	13.5	22.4	22.5	19.8	16.2	18.5	14.2	11.6	5.4	4.6	3.9	—	—	—	25.9	25.0	26.2	830	14.2	2.1	
Dr Reddy's Laboratories	1,522	REDUCE	258,611	5,192	170	64.9	80.0	98.5	932.5	23.2	23.2	23.4	19.0	15.4	16.5	12.5	10.1	5.6	4.5	3.6	0.7	0.9	0.9	24.8	26.3	25.9	1,650	8.4	10.9	
GlaxoSmithkline Pharmaceuticals (a)	2,091	REDUCE	177,148	3,557	85	68.3	78.2	88.6	15.5	14.6	13.3	30.6	26.7	23.6	20.3	18.0	15.5	9.1	8.4	7.7	1.9	2.4	2.7	30.9	32.6	33.9	2,220	6.1	1.4	
Glenmark Pharmaceuticals	287	ADD	77,730	1,561	270	17.0	26.2	23.5	33.6	54.5	(10.3)	17.0	11.0	12.2	19.2	12.8	10.9	3.8	2.9	2.4	—	—	—	20.6	29.8	21.2	395	37.4	4.3	
Jubilant Life Sciences	197	REDUCE	31,406	631	159	14.4	16.5	22.7	(45.6)	14.5	37.6	13.7	11.9	8.7	11.0	8.8	7.4	1.4	1.3	1.1	1.0	1.0	1.5	12.3	11.7	14.2	205	4.0	0.8	
Lupin	470	ADD	210,606	4,228	448	19.2	22.7	26.3	25.6	17.9	15.7	24.4	20.7	17.9	20.5	17.4	13.1	6.3	5.0	4.1	0.6	0.7	1.0	29.5	27.5	25.7	530	12.8	9.2	
Ranbaxy Laboratories	502	SELL	212,529	4,267	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.4	29.6	24.2	15.2	25.7	20.0	3.8	3.3	2.9	—	—	—	34.5	11.9	12.8	435	(13.4)	7.0	
Sun Pharmaceuticals	489	ADD	506,201	10,163	1,036	17.5	20.4	24.3	34.4	16.3	19.2	27.9	24.0	20.1	23.7	19.0	15.4	4.9	4.1	3.5	0.7	0.8	1.0	21.0	20.2	20.7	560	14.6	11.3	
Pharmaceuticals		Cautious	2,102,888	42,220					43.1	6.2	17.5	22.0	20.7	17.6	17.7	14.7	11.8	3.5	3.0	2.6	0.7	0.8	1.0	16.0	14.5	14.7				
Property																														
DLF	231	BUY	395,380	7,938	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	25.4	19.4	14.7	16.6	13.1	9.9	1.5	1.4	1.3	0.9	1.1	1.3	5.4	7.5	9.2	270	17.1	35.0	
Housing Development & Infrastructure	94	BUY	41,786	839	445	19.8	28.7	34.3	24.0	44.8	19.7	4.7	3.3	2.7	5.0	3.5	3.0	0.4	0.4	0.3	—	1.1	1.6	10.0	12.3	12.7	150	59.7	19.6	
Indiabulls Real Estate	70	RS	27,996	562	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	17.5	8.2	4.5	12.7	10.1	4.4	0.2	0.2	0.2	—	0.7	1.0	1.4	2.9	5.0	—	—	8.4	
Mahindra Life Space Developer	312	BUY	12,714	255	41	24.9	30.8	37.5	30.2	23.7	21.6	12.5	10.1	8.3	9.5	6.8	5.1	1.2	1.1	1.0	1.6	1.4	1.6	10.4	11.6	12.7	450	44.4	0.2	
Oberoi Realty	234	BUY	77,210	1,550	330	15.7	17.2	27.4	14.8	9.7	59.3	14.9	13.6	8.5	11.0	9.5	5.1	2.3	2.0	1.7	0.4	0.6	1.1	19.9	15.8	21.4	310	32.4	0.3	
Phoenix Mills	187	BUY	27,093	544	145	6.3	7.4	10.7	53.0	17.2	44.1	29.6	25.2	17.5	21.9	18.3	13.7	1.7	1.6	1.5	1.0	1.1	1.1	5.8	6.6	8.9	300	60.4	0.1	
Puravankara Projects	73	ADD	15,633	314	213	5.5	9.0	10.9	(18.9)	62.8	21.5	13.3	8.1	6.7	18.1	9.9	8.4	1.0	0.9	0.8	1.4	2.0	2.7	8.0	12.0	13.1	80	9.2	0.0	
Sobha Developers	230	BUY	22,555	453	98	18.8	20.6	27.2	33.8	9.2	32.2	12.2	11.2	8.5	11.0	9.9	7.0	1.2	1.1	1.0	1.3	1.5	1.7	10.2	10.3	12.4	370	60.9	0.7	
Unitech	27	RS	70,509	1,416	2,616	2.3	2.6	2.7	(23.4)	12.8	4.9	11.6	10.3	9.8	13.5	10.9	8.9	0.6	0.6	0.5	—	0.7	1.1	5.4	5.7	5.4	—	—	14.9	
Property		Cautious	727,388	14,604					5.3	42.1	31.3	17.0	11.9	9.1	13.5	9.8	7.3	1.0	1.0	0.9	0.7	1.0	1.3	6.1	8.0	9.5				

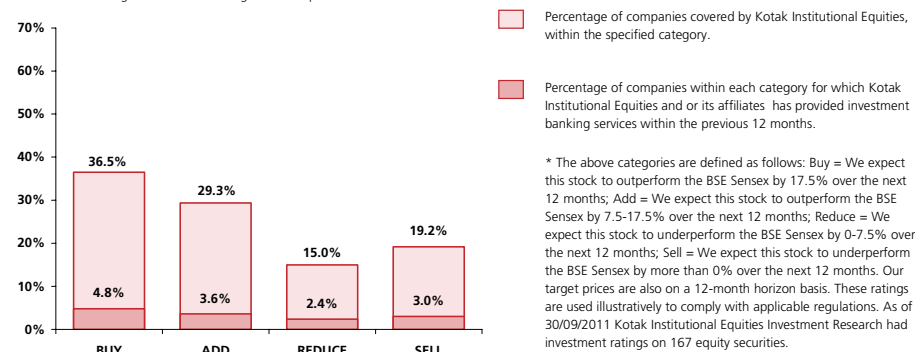
## Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Oct-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
<b>Sugar</b>																													
Bajaj Hindustan	37	REDUCE	8,554	172	228	1.9	3.7	1.6	(28.7)	90.5	(57.3)	19.4	10.2	23.8	16.8	5.6	5.3	0.3	0.3	0.3	1.6	1.6	1.6	1.7	2.7	1.1	60	60.2	1.8
Balrampur Chini Mills	53	BUY	13,075	263	247	6.7	4.0	7.7	111.0	(40.5)	94.0	7.9	13.3	6.9	11.1	8.8	5.9	0.9	0.8	1.5	1.4	1.4	11.6	6.5	11.9	80	51.1	1.5	
Shree Renuka Sugars	56	BUY	37,742	758	670	10.5	6.4	5.0	214.7	(39.4)	(21.0)	5.4	8.9	11.2	8.2	6.4	5.3	1.5	1.3	1.2	1.8	1.8	1.8	34.4	16.1	11.4	75	33.2	8.0
<b>Sugar</b>																													
		Cautious	59,371	1,192					122.4	(24.7)	(7.4)	7.3	9.8	10.5	10.6	6.4	5.4	0.9	0.8	0.7	1.7	1.7	1.7	11.6	8.1	7.0			
<b>Technology</b>																													
HCL Technologies	412	SELL	290,249	5,827	705	22.9	31.1	34.3	30.4	36.1	10.2	18.0	13.2	12.0	10.9	8.1	7.3	3.4	2.8	2.4	1.8	1.9	2.0	21.0	22.9	22.1	400	(2.8)	11.7
Hexaware Technologies	89	ADD	25,889	520	290	3.0	8.4	8.8	(36.8)	186.0	3.8	30.2	10.6	10.2	23.1	8.8	6.9	2.7	2.3	2.1	1.7	3.4	3.6	9.3	23.7	21.6	100	12.2	3.6
Infosys Technologies	2,748	BUY	1,577,094	31,664	574	119.7	141.1	161.9	10.5	17.8	14.8	22.9	19.5	17.0	15.7	13.1	11.3	6.1	5.1	4.3	2.2	1.6	1.8	28.0	28.4	27.3	3,000	9.2	85.9
Mahindra Satyam	70	SELL	82,320	1,653	1,176	4.2	6.7	7.0	68.9	58.4	4.7	16.7	10.5	10.0	12.1	6.2	4.8	4.8	3.3	2.5	—	—	—	27.6	37.1	28.2	70	-	8.9
Mindtree	383	ADD	15,767	317	41	24.7	42.0	45.4	(52.7)	70.2	8.1	15.5	9.1	8.4	8.6	6.0	4.7	2.0	1.7	1.5	0.6	1.1	3.6	14.4	20.3	18.9	460	20.1	1.8
Mphasis BFL	322	SELL	67,842	1,362	211	51.8	38.6	30.0	18.8	(25.5)	(22.2)	6.2	8.4	10.7	5.3	6.2	6.7	2.1	1.7	1.5	1.2	1.4	1.6	38.6	22.3	14.8	300	(6.8)	3.5
Patni Computer Systems	324	ADD	43,144	866	133	42.6	30.3	34.3	16.5	(29.0)	13.5	7.6	10.7	9.4	4.3	3.9	2.7	1.4	1.2	1.1	20.4	1.9	2.1	18.4	9.6	12.3	400	23.5	2.4
Polaris Software Lab	137	REDUCE	13,664	274	100	19.3	18.8	19.0	25.7	(2.6)	0.7	7.1	7.3	7.2	4.0	3.1	2.7	1.3	1.1	1.0	2.7	2.8	3.0	20.2	16.8	14.8	130	(5.1)	2.1
TCS	1,045	REDUCE	2,045,078	41,060	1,957	44.5	53.0	60.6	26.8	18.9	14.3	23.5	19.7	17.3	17.7	14.0	12.0	8.1	6.6	5.5	1.7	2.0	2.3	37.8	37.0	35.0	1,150	10.1	48.9
Tech Mahindra	570	SELL	71,782	1,441	126	48.8	72.1	75.5	(25.2)	47.8	4.7	11.7	7.9	7.5	8.1	8.1	7.1	2.1	1.8	1.6	0.7	0.7	1.8	20.5	26.0	23.8	600	5.3	3.3
Wipro	355	ADD	870,066	17,469	2,454	21.6	22.4	24.5	14.5	3.9	9.1	16.4	15.8	14.5	12.0	10.7	9.5	3.6	3.1	2.6	1.2	1.3	1.5	24.3	21.1	19.7	370	4.4	11.9
<b>Technology</b>																													
		Attractive	5,102,894	102,452					17.1	15.7	11.4	19.9	17.2	15.4	14.3	11.8	10.3	5.2	4.3	3.7	1.9	1.7	2.0	26.2	25.3	23.9			
<b>Telecom</b>																													
Bharti Airtel	390	ADD	1,481,254	29,740	3,798	15.9	18.2	28.0	(32.6)	14.5	53.7	24.5	21.4	13.9	10.5	8.1	6.1	3.0	2.7	2.2	—	—	—	13.3	13.3	17.4	460	17.9	46.9
IDEA	93	ADD	308,033	6,184	3,303	2.7	2.7	5.1	(0.5)	(1.4)	89.2	34.3	34.8	18.4	11.0	8.3	6.4	2.5	2.3	2.1	—	—	—	7.6	7.0	12.0	115	23.3	19.1
MTNL	30	SELL	19,026	382	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(2.9)	(3.3)	(3.6)	1.0	1.3	1.7	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	35	15.9	0.8
Reliance Communications	75	SELL	159,726	3,207	2,133	6.3	2.6	5.2	(71.1)	(59.4)	103.2	11.9	29.3	14.4	5.9	6.4	5.4	0.4	0.4	0.4	—	—	—	3.2	1.3	2.7	80	6.8	18.9
Tata Communications	183	REDUCE	52,155	1,047	285	(24.9)	(28.8)	(34.0)	(13.0)	15.6	18.1	(7.3)	(6.4)	(5.4)	10.5	9.2	9.1	1.5	2.1	3.8	—	—	—	(17.5)	(27.0)	(50.2)	180	(1.6)	1.1
<b>Telecom</b>																													
		Neutral	2,020,193	40,560					(45.8)	0.6	71.4	29.2	29.0	16.9	9.6	7.9	6.2	1.7	1.7	1.5	—	—	—	6.0	5.7	8.9			
<b>Utilities</b>																													
Adani Power	86	REDUCE	205,217	4,120	2,393	2.4	11.0	15.0	200.7	368.5	35.8	36.4	7.8	5.7	36.3	7.6	4.9	3.3	2.2	1.6	—	—	—	8.5	33.5	31.8	100	16.6	3.2
CESC	264	BUY	33,008	663	125	37.7	42.5	51.3	9.1	12.7	20.8	7.0	6.2	5.1	5.2	5.6	5.3	0.7	0.6	0.5	1.9	2.0	2.3	10.5	10.7	11.5	440	66.5	1.3
JSW Energy	50	REDUCE	82,082	1,648	1,640	5.1	4.8	4.7	12.9	(6.2)	(1.8)	9.8	10.4	10.6	11.2	7.5	5.8	1.4	1.3	1.1	(2.0)	—	—	16.1	13.0	11.3	60	19.9	1.5
Lanco Infratech	15	BUY	33,790	678	2,223	2.0	3.0	3.4	(5.8)	47.2	16.6	7.6	5.1	4.4	8.3	7.7	7.3	0.9	0.7	0.6	—	—	—	12.2	15.0	14.6	45	196.1	5.8
NHPC	23	ADD	285,992	5,742	12,301	1.3	1.8	2.1	(27.2)	36.0	16.3	17.2	12.7	10.9	12.8	9.7	7.8	1.0	1.0	0.9	1.8	2.1	2.5	6.3	8.0	8.8	30	29.0	1.9
NTPC	171	REDUCE	1,412,448	28,358	8,245	11.0	11.2	12.0	5.3	1.4	6.8	15.5	15.3	14.3	12.8	12.4	11.6	2.0	1.9	1.7	2.2	2.0	2.1	13.7	12.8	12.6	180	5.1	9.3
Reliance Infrastructure	405	BUY	107,520	2,159	265	58.0	64.1	76.3	(6.5)	10.5	19.0	7.0	6.3	5.3	6.8	3.6	2.6	0.5	0.4	0.4	2.3	2.5	2.8	6.4	11.2	12.2	920	126.9	13.7
Reliance Power	85	SELL	239,553	4,810	2,805	2.7	2.9	2.9	(5.0)	7.6	(0.5)	31.5	29.3	29.4	166.6	71.1	14.9	1.5	1.4	1.3	—	—	—	4.9	4.9	4.7	88	3.0	6.5
Tata Power	97	BUY	240,540	4,829	2,468	7.6	8.5	9.2	21.5	10.7	8.8	12.7	11.5	10.6	10.4	8.1	7.8	1.6	1.5	1.3	1.4	1.5	1.7	13.8	13.6	13.3	135	38.5	9.1
<b>Utilities</b>																													
		Cautious	2,640,151	53,007					5.1	20.2	12.8	15.3	12.7	11.3	13.9	10.4	8.6	1.5	1.4	1.3	1.6	1.5	1.7	10.1	11.0	11.3			
<b>Others</b>																													
Carborundum Universal	156	SELL	14,586	293	93	18.3	18.9	21.0	67.7	3.7	10.6	8.5	8.2	7.4	6.8	5.8	5.1	1.7	1.5	1.3	2.5	2.6	2.8	20.7	18.4	17.8	290	85.8	0.1
Havells India	363	REDUCE	45,250	908	125	24.5	25.8	28.8	334.1	5.1	11.5	14.8	14.1	12.6	9.8	9.0	7.9	6.4	4.5	3.4	0.7	0.8	0.8	53.9	37.6	30.9	370	2.0	2.1
Jaiprakash Associates	70	BUY	149,808	3,008	2,126	6.0	6.3	7.2	230.2	3.9	15.6	11.7	11.3	9.7	11.7	10.1	9.7	1.4	1.3	1.1	—	—	—	13.3	11.7	12.3	115	63.2	26.5
Jet Airways	239	BUY	20,594	413	86	(10.1)	(69.1)	7.0	(91.0)	588	(110.1)	(23.7)	(3.5)	34.2	9.6	11.6	7.4	1.3	2.1	1.9	—	—	—	(5.0)	—	—	500	109.6	9.5
SpiceJet	23	BUY	9,953	200	441	2.5	(3.0)	3.3	(1.8)	(220.2)	(210.4)	9.0	(7.5)	6.8	13.2	(17.6)	9.3	3.1	3.2	2.2	—	—	—	(96.1)	(41.6)	37.7	50	121.7	1.8
Tata Chemicals	316	REDUCE	80,541	1,617	255	26.2	32.9	38.8	(0.7)	25.4	17.9	12.0	9.6	8.2	7.4	5.2	4.4	1.5	1.3	1.1	3.2	3.8	4.7	16.9	18.6	19.5	365	15.5	2.6
United Phosphorus	145	BUY	67,146	1,348	462	12.3	16.0	19.9	3.9	29.4	24.3	11.8	9.1	7.3	7.2	4.9	4.2	1.8	1.6	1.3	1.4	2.1	2.4	18.0	18.6	19.9	220	51.3	3.8
<b>Others</b>																													
			387,878	7,788					233.8	(5.7)	57.1	13.7	14.5	9.2	10.0	8.8	7.6	1.7	1.5	1.3	1.1	1.3	1.6	12.1	10.4	14.4			
<b>KS universe (b)</b>																													
			44,201,162	887,440					18.5	17.5	16.0	15.1	12.8	11.1	9.8	8													

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As of September 30, 2011

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#### Corporate Office

Kotak Securities Ltd.  
Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

#### Overseas Offices

Kotak Mahindra (UK) Ltd  
6th Floor, Portsoken House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc  
50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel:+1-914-997-6120

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