kotak® Institutional Equities

INDIA DAILY

January 28, 2013

EQUITY MARKETS

India	25-Jan	1-day	1-mo	3-mo
		Change %		
Sensex	20,104	0.9	3.4	7.9
Nifty	6,075	0.9	2.8	7.2
Global/Regional indices				
Dow Jones	13,896	0.5	7.4	6.0
Nasdaq Composite	3,150	0.6	6.4	5.4
FTSE	6,284	0.3	6.1	8.2
Nikkie	10,880	(0.4)	4.7	21.8
Hang Seng	23,692	0.5	4.5	10.0
KOSPI	1,939	(0.4)	(2.9)	2.5
Value traded – India				
Cash (NSE+BSE)	152		137	47
Derivatives (NSE)	1,454		1,236	2,272
Deri. open interest	1,609		1,662	1,723

Forex/money market

	25-Jan	1-day	1-mo	3-mo
	Change, basis points			
Rs/US$	53.9	12	(89)	(27)
10yr govt bond, %	8.0	-	(28)	(32)

Net investment (US$mn)

	23-Jan		MTD	CYTD
FIIs	152		3,015	3,015
MFs	(40)		(551)	(547)

Top movers -3mo basis

Best performers	25-Jan	1-day	1-mo	3-mo
	Change, %			
RCOM IN Equity	86.1	7.6	17.5	51.9
UT IN Equity	36.5	7.0	8.5	50.0
UNSP IN Equity	1793.7	2.1	(5.5)	49.1
IDEA IN Equity	113.4	(0.7)	9.1	39.5
SUEL IN Equity	21.1	16.9	9.0	36.1
Worst performers				
MMTC IN Equity	573.5	(0.6)	(8.6)	(19.6)
BHFC IN Equity	233.5	0.5	(7.6)	(18.9)
EDSL IN Equity	127.1	(1.7)	(10.4)	(17.8)
IVRC IN Equity	34.8	5.6	(22.4)	(16.8)
HDIL IN Equity	82.9	11.3	(24.6)	(15.5)

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INDIA

JANUARY 28, 2013

NEW RELEASE

BSE-30: 20,104

'Reform' stocks: Hope and change.

Changes in (1) policy, (2) regulatory, (3) operating, (4) financial and (5) other parameters can lead to a significant upgrade in earnings and valuations of stocks in the (1) infrastructure, (2) PSU energy and (3) utilities sectors. Of course, there are several sectors and companies that can suffer from reforms of a different nature such as (1) proper pricing of resources, (2) stricter regulations in the banking sector and (3) normalization of tax rates from removal of certain tax exemptions.

Change in operating and regulatory environment can provide earnings and valuation boost

We identify certain developments that can provide a significant boost to companies' earnings and valuations. We divide these into five broad areas: (1) Policy, (2) regulatory, (3) operating, (4) financials and (5) others (better delivery of public services). We note that these changes are not certain and much will depend on the Government's ability to implement further reforms.

Positive regulatory developments in the oil, gas and power segments

Government-owned energy companies will benefit from an increase in prices of regulated fuels (diesel, kerosene, LPG) and consequent lower subsidies. The impact on earnings will depend on the relative sharing of 'benefits' (lower subsidies) between the Government and the oil companies. A fair system will result in a re-rating of their multiples. In the case of the power sector, (1) power purchase agreement (PPA) re-pricing and (2) coal price pooling will benefit companies with high input costs or unviable PPAs.

Financial restructuring, if implemented, may be positive for weak companies

Leveraged companies in the infrastructure and power sectors can consider various options to strengthen their balance sheets, such as (1) sale of operating assets to private-equity investors, (2) asset sales to strategic players, (3) monetization of associated real estate in infrastructure projects and (4) further infusion of equity. Some of them can also benefit from better operating conditions—availability of fuels in the power sector, for example.

Now, for the ones that may be negatively impacted by real reforms

(1) Correct pricing of natural resources, (2) stricter regulations in the banking sector and (3) removal of income-tax exemptions will impact the earnings of several companies negatively. In fact, many of today's stalwarts would see their profits and book value significantly eroded. We do a hypothetical exercise for certain sectors and stocks to gauge the impact but stress that the exercise is largely theoretical.

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'REFORM' STOCKS: HOPE AND CHANGE

Changes in (1) policy, (2) regulatory, (3) operating, (4) financial and (5) other parameters can lead to a significant upgrade in the earnings and valuations of stocks in the (1) infrastructure, (2) PSU energy and (3) utilities sectors. These changes can come from the actions of various agencies such as Government, judiciary, regulators and majority shareholders. We note that the impact of possible changes is very large in the case of many companies.

Beneficiaries of real reforms

We analyze sectors and stocks that can benefit from generic and sector-specific reforms. The reforms encompass elements of (1) improved governance in India, which may result in higher GDP growth and pick-up in the investment cycle, (2) better policies in several sectors such as energy and natural resources, (3) favorable regulations in sectors such as banking and power utilities and (4) improvement in operating conditions in the case of power utilities.

The recent euphoria in the market is based on the announcement of 'reforms'; the BSE-30 Index has rallied 14.3% since September 1, 2012 following several positive policy announcements. The Government announced several initiatives such as (1) partial deregulation of diesel prices, (2) increase in railway passenger fares after a decade and (3) increase in FDI limits in several sectors (civil aviation, electronic media distribution and insurance). These reform announcements have generated significant optimism among market participants. However, we believe India would need to do more (see Exhibit 1, our wish list of reforms) to (1) correct its macro-economic imbalances (fiscal, CAD), (2) increase its potential GDP growth and (3) improve investment sentiment.

Multifaceted reforms required to bring India back on track, some progress in few areas
KIE's wish list of actionable reforms

		Executive	Legislative
(A)	**Governance reforms: Decisive leadership to overcome policy paralysis of the past several years**		
1	Addressing endemic corruption via specific oversight legislations like Lokpal		√
2	Reducing excessive bureaucracy by streamlining decision making; single-window clearances required	√	
3	Executive and legislative arms of the Government need to work: Present and clear bills in Parliament		√
4	Strong regulators required across many sectors (energy, coal, real estate) with appropriate penal powers	√	√
5	Institutions like CAG to be strengthened with the Executive not directly sparring with them in public	√	
(B)	**Fiscal reforms: Tighter fiscal management to bring down interest rates in the economy**		
1	Important for Government to signal fiscal prudence for RBI to reciprocate on monetary policy: FRBM Act		√
2	Taxation reforms: GST and DTC implementation critical; practical timelines should be announced and adhered to	√	√
3	Subsidy reforms: Capping subsidies on fuels (diesel, kerosene and LPG) and market-linked pricing for fertilizer	√	
4	Spreading direct cash-transfer pilots across the country to cover various subsidies, support systems	√	
5	Increasing price of power to sustainable rates for the SEBs to return to health	√	
(C)	**Investment reforms: Better investment climate to increase potential GDP growth**		
1	Creation of a proper institutional framework to award and monitor infrastructure projects	√	√
2	Clear, transparent policies on auction of natural resources such as coal, minerals and spectrum	√	
3	Identifying new avenues of infrastructure creation; facilitating them with land acquisition	√	

Source: Kotak Institutional Equities estimates

We note that improvements in the operating, policy and regulatory environment and favorable developments can provide a significant boost to the valuation of certain sectors and stocks. We expect several companies in sectors such as (1) infrastructure, (2) PSU banking, (3) PSU energy and (4) utilities to benefit from higher earnings and valuation multiples.

We classify the set of changes into five broad heads.

- **Policy.** Any decision by the Government to (1) further deregulate fertilizer and fuel prices or (2) increase their retail prices will result in a significant reduction in under-recoveries (subsidies) and higher earnings for the companies. Government-owned downstream and upstream companies will both benefit from higher fuel prices. The Government has allowed oil marketing companies to periodically raise diesel prices to align them to market/global levels and charge full market prices for bulk diesel (18% of total sales volumes). We view this as the most significant among the reforms announced so far, if the deregulation of diesel prices goes as per plan.

  Similarly, proper pricing of natural resources (coal, ores) may benefit resource owners (subject to changes in royalty structure) but it may impact converters negatively, especially companies in the steel sector that have been allocated natural resources at low or nil costs and that sell their finished products at market/global prices.

- **Regulatory.** (1) Power purchase agreement re-pricing and (2) coal price pooling will benefit power companies stuck with high cost structures and unfavorable PPAs currently. Changes in accounting norms for provisions and classification of NPAs and restructured loans for banks can help to improve their RoE.

- **Operating**. Increased availability of coal, both domestically and internationally, will be critical for several power utilities in that their PLFs can improve from current low levels. Higher domestic coal and gas production will entail faster environmental clearances, land acquisition and better pricing. Indian companies operating coal mines in other countries will need to work out their litigation disputes (in Australia) and deal with local tax increases (in Indonesia) to ensure energy/fuel sufficiency for their downstream units in India.

- **Financial.** We believe companies in the infrastructure and real estate sectors need to consider a mix of options to strengthen their balance sheets. These include (1) hiving-off operating assets to private-equity investors, (2) asset sales to strategic players, (3) monetization of associated real estate in infrastructure projects and (4) further infusion of equity funds.

- **Others.** We see UID-linked subsidy delivery helping to reduce leakages and duplication of benefits, particularly in the areas of distribution of subsidized food and kerosene. Using UID-linked credit disbursal for NPL-ridden priority-sector loans can help to reduce potential cases of fraud and thus, NPLs.

Changes are required but some of them may not be for the good

We believe meaningful changes in all the aforementioned areas will require significant concerted action by multiple stakeholders providing resolution of issues both within and outside India. In many cases, a company may be able to make certain changes on its own (if it were to find a market for its assets or financial partners, for example) while in some cases, regulators or governments may need to create the relevant policy framework.

However, we are not endorsing all these changes. We think most of the changes discussed above are relevant, and in fact, required. However, we think certain changes may not be desirable even if they may be economically sensible. For example, we would question the legal and social implications of (1) signed contracts of power-purchase agreements being reopened or (2) banking-sector regulations being made more lenient for banks and companies to tide over the current difficult conditions.

We quote from our recent report dated January 14, 2013 titled '*The long and the short of it—time will tell*'. "A real test of India's approach will be soon visible in matters that affect certain sectors and stocks directly. We randomly raise three issues that are very relevant for investors. Each of these issues can be addressed through an easy, convenient approach or the hard, difficult but perhaps, right one. Sensible capitalism based on clear rules of the game is one economic approach and robber-baron capitalism, another. Both can deliver growth but we would think the first approach is more preferable for sustainable growth and an equitable society."

The main beneficiaries

Exhibit 2 is a graphic representation of potential beneficiaries from the aforementioned changes/reforms. We have discussed most of these companies in greater detail in subsequent sections.

Critical reforms across dimensions can impact some companies meaningfully
Potential beneficiaries from the changes/reforms

Company	Policy	Regulatory	Operating	Financial	Others
Infrastructure					
GMR	Low	Moderate	High	High	Low
GVK	Low	Moderate	High	High	Low
Power utilities					
Adani Power	Moderate	High	High	High	Low
Lanco Infratech	Moderate	High	High	High	Low
Tata Power	Moderate	High	High	High	Low
PSU banks					
All stocks	Low	High	Low	High	Moderate
PSU energy					
BPCL	High	Moderate	Low	Low	Moderate
GAIL	High	Moderate	Low	Low	Moderate
HPCL	High	Moderate	Low	Low	Moderate
IOCL	High	Moderate	Low	Low	Moderate
ONGC	High	Moderate	Low	Low	Moderate
Resource companies, converters					
Coal India	High	Low	Low	Low	Low
NMDC	High	Low	Low	Low	Low

Notes:

(light)	Low
(medium)	Moderate
(dark)	High

Source: Kotak Institutional Equities

- Infrastructure
    - **GMR.** (1) Availability of coal and gas to fire extant and upcoming power projects, (2) monetization of Mumbai airport's real estate and (3) sale of some of its assets can help to meaningfully reduce leverage (₹153 bn debt against ₹133 bn of equity in 1HFY13).
    - **GVK Power & Infrastructure.** (1) Increased availability of gas could help to improve PLFs, revenues and profits of its power segment, (2) monetization of real estate at the Delhi airport and (3) entry of investment partners (or buyers) of some of the operating road projects can help GVK to reduce its consolidated debt burden of ₹155 bn (1HFY13) and increase its equity valuation.

- Power utilities
  - **Adani Power**. (1) A small increase in average tariffs (₹0.25/kWh) across its projects can add 140% to our current estimated fair value of ₹33, (2) pooling of coal prices can reduce costs by ₹4 bn (and increase our estimated fair value to ₹53) and (3) ramp-up of Bunyu coal mine production to 10 mtpa can double the fair value estimate of APL. However, it would appear that APL's stock price already factors some rationalization of its power tariffs and costs.
  - **Lanco Infratech.** A sustainable merchant tariff of ₹4.0/kWh could add ₹6 to our fair value estimate of ₹12. In addition, allowing cost-plus tariff at Amarkantak could add ₹3 to fair value estimates; utilization of 90% at Kondapalli could add ₹2 to our fair value estimate.
  - **Tata Power**. (1) A tariff hike of ₹0.50/kWh to offset costs in the Mundra power plant could add ₹37 to current estimated fair value of ₹111. We do not think a review of the PPA may be feasible. Nonetheless, reduction in fuel costs by ~20% through higher blending of low-cost coal could accrue ₹26 to our fair valuation.
- **PSU banking sector**. Changes in the operating and regulatory environment coupled with equity infusion can be positive for PSU banks.
- **PSU energy sector**. The implementation of (1) clear pricing policies for fuels in India with a specified subsidy-sharing mechanism, (2) further increase in retail diesel prices (bulk diesel pricing has been freed) and (3) identification of beneficiaries via the UID system can help to reduce subsidies meaningfully and result in significantly higher earnings of both upstream and downstream companies. This would also lead to more visibility on their earnings, resulting in the market being comfortable with 10X sustainable earnings.
- **Resources**. The transition of pricing for coal (Coal India) and iron ore (NMDC) from the current *ad hoc* system to a more transparent one, linked to global prices, will result in a meaningful increase in revenues and earnings of resource companies. However, we expect the Government to increase royalty on revenues or implement additional tax on profits (mining tax) concurrently. We think this would be a fair arrangement as Coal India and NMDC currently pay very small royalty on production of coal or iron ore from their allocated mines. We note that the mines were allocated free of charge to the companies by the Government as they used to be 100% owned by the Government.

The Googler's guide to the information galaxy.

With 2.4 bn humans surfing the internet, their cumulative online activity is the pulse of our society. Google, the gatekeeper to a gigantic web of information portals, has the unique ability to peek into the mind of the average Googler. Deep within the recesses of the mind lie thought patterns and labyrinthine associations that reveal individuals… and society. Don't panic! Check out our *desi* Googler: A consumer with many dimensions.

Internet, Google and India: Warming up with the Zeitgeist of CY2012

The man-made galaxy of information portals, made traversable from the comfort of the living room, has hooked more than 34% of the world. India has 137 mn internet surfers, the third largest internet population after China and the US. About 40% of the world's web surfers frequent Google with concerns and queries each month. In India, surveys claim Google's penetration is more than 90%: Google tells all. Consolidating the questions we asked Google, search trends can identify the general intellectual, moral and cultural climate of our era. The world chose Whitney Houston as the most searched-for celebrity in CY2012, but India chose the voluptuous Sunny Leone: To each his own. But Ms Leone may not be flattered that she was actually beaten by queries on IBPS (Institute of Banking Personnel Selection) and Gate Exams (Graduate Aptitude Test in Engineering). Author Chetan Bhagat, on the other hand, might say, 'I told you so… that's what young India wants'.

Google trends: Inside the mind of the *desi* Googler

Don't panic, be surprised. The desi Googler, as we have discovered, is a creature of many facets: Family man/woman, concerned citizen, consumer, student and more. We use Google Trends to get a clue into aspects of that life, from insightful 'economic implications' to inconsequential 'did you knows': All part of the 360 degree consumer phenomenon. After all, surging search volumes for Bollywood's sizzling Katrina Kaif from Madhya Pradesh and Bihar are unlikely to make the RBI soften interest rates. But a drop in 'home loan' searches to pre-2009 levels might flag attention. While the world seems to love cars more than their lives (as searches on insurance show), the desi Googler seems to have other priorities. For smart-phones, Nokia is still India's preferred search brand. Indians put more effort into looking for face wash than hair color (in contrast to the world). Fairness cream is most searched for in Hyderabad but Ludhiana tops the 'face wash' list. And guess what: It's the men who seem to be asking Google for fairer, cleaner skin.

Google correlate: Economics, put your freak on

Search patterns have a way of validating intuitive and empirically derived knowledge. Equipped with a repository of real-world economic data, we identify Googled queries that share the highest correlation with economic data. As search patterns are linked to real-world events and activities, causal relationships with the underlying economic trends are highly plausible. What is the relationship between consumer confidence and franchising opportunities with Starbucks? Are job opportunities in Guangdong linked to global freight rates? Do cars make an ideal wedding gift in India? We leave you with some quirky correlations.

QUICK NUMBERS

- Recreation comprises ~40% of India's online activity
- The *desi* Googler: his life, universe and everything
- Googling for home loans is on a downtrend
- What is the connection between consumer confidence and coffee shop franchises?

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kotak Institutional Equities

Maruti Suzuki (MSIL)

Automobiles

SELL

JANUARY 28, 2013

RESULT

Coverage view: Neutral

Price (Rs): 1,599

Target price (Rs): 1,300

BSE-30: 20,104

Impressive cost control buoys margins. 3QFY13 EBITDA was 8% better than our estimates primarily reflecting strong cost control and lower-than-expected discounts. Sequential improvement in gross margins despite a negative impact of currency on vendor imports was aided by strong cost control with vendors. We maintain our SELL rating on the stock due to muted industry growth over the next 12 months and expensive valuations.

Company data and valuation summary

Maruti Suzuki

Stock data			
52-week range (Rs) (high,low)			1,608-1,051
Market Cap. (Rs bn)			483.2
Shareholding pattern (%)			
Promoters			54.2
FIIs			20.3
MFs			3.8
Price performance (%)	1M	3M	12M
Absolute	8.2	16.8	35.5
Rel. to BSE-30	3.6	9.0	15.1

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	63.0	87.0	96.8
EPS growth (%)	11.2	38.2	11.2
P/E (X)	25.4	18.4	16.5
Sales (Rs bn)	414.3	457.9	525.9
Net profits (Rs bn)	19.0	26.3	29.2
EBITDA (Rs bn)	24.0	35.5	40.3
EV/EBITDA (X)	17.5	11.6	9.8
ROE (%)	11.7	14.4	14.0
Div. Yield (%)	0.5	0.5	0.5

Revising down our domestic passenger car industry growth outlook

We have cut Maruti Suzuki's volume estimates by 2-5% reflecting our modest outlook on the domestic passenger car industry volume growth. We now forecast domestic passenger car industry to grow at 8%/16% yoy in FY2014/15E versus 17/15% yoy earlier. Our change in outlook is reflecting modest increase in incomes and rise in cost of ownership (increase in diesel prices and potential increase in excide duties in the budget). OEMs have also indicated a modest outlook for FY2014. Hyundai has guided to a flat growth while Maruti Suzuki expects 6% yoy growth for the industry in FY2014.

We expect Maruti to lose 100 bps market share over the next two years as competitors target the Swift/Dzire segment. We expect Honda and Nissan to increase their market share. Honda plans to bring diesel variants of Brio sedan and Brio hatchback which will compete with Swift/Dzire while Nissan is looking at launching Datsun brand to target WagonR/Ritz segment.

3QFY13 results surprise positively driven by strong cost control

Maruti reported EBITDA of Rs8,913 mn (+121% yoy) which was 8% above our estimates.
The company had a 200 bps qoq negative impact on gross margins due to vendor compensation because of adverse impact of currency (hits Maruti's P&L with a quarter lag). This impact was offset by (1) 1% price hike effected in October, (2) 70 bps improvement in gross margins due to positive product mix and lower discounts and (3) 150 bps qoq improvement in gross margins due to cost reductions with vendors and localization. The company indicated that the impact of localization in this quarter was very less and most of the benefit was achieved through negotiations with vendors.

We have raised our EBITDA estimates by 3-5% over FY2014-15E driven by increase in our EBITDA margin assumptions by 60-110 bps, primarily reflecting a change in our currency assumptions (6.3% depreciation of JPY-INR versus our previous estimates). We have thus raised our target price to Rs1,300 (versus Rs1,100 earlier) reflecting increase in earnings estimates. We now value the company at 14X PE multiple on our FY2014E MSIL + SPIL estimates (versus 13X earlier) due to visibility of improvement in EBITDA margins.

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Muted outlook; maintain SELL rating on the stock

We maintain our SELL rating on the stock due to (1) our modest outlook on domestic passenger car industry volume growth (we have cut our volume growth estimates to 8% yoy from 17% yoy in FY2014) and (2) expensive valuations; the stock trades at 17.5X PE multiple on our FY2014 earnings estimates (20% premium to its historical average). This is despite industry growth expected to be much lower than the historical 15% volume CAGR and the company's EBITDA margins declining from double digits to high single digit.

We have raised our EBITDA estimates by 3-5% over FY2014-15E driven by the following changes.

- We have cut our volume estimates by 2-5% reflecting our modest outlook on the domestic passenger car industry volume growth. We now forecast domestic passenger car industry to grow at 8%/16% yoy in FY2014/15E versus 17/15% yoy earlier. Our change in outlook is reflecting modest increase in incomes and rise in cost of ownership (increase in diesel prices and potential increase in excide duties in the budget). OEMs have also indicated a modest outlook for FY2014. Hyundai has guided to a flat growth while Maruti Suzuki expects a 6% yoy growth for the industry in FY2014.

- We have increased our EBITDA margin estimates by 60-110 bps primarily reflecting a change in our currency assumptions (6.3% depreciation of JPY-INR versus our previous estimates). Maruti has a significant exposure to Japanese Yen (~23% of its net sales). We expect currency change to aid ~140 bps improvement in EBITDA margins offset by higher discounts on Alto 800. The company has introduced Rs10,000 cash discount on Alto 800, which we believe is likely to continue due to modest industry growth.

We have increased our target price to Rs1,300 (from Rs1,100 earlier) reflecting our upward revision in our earnings estimates. We now value the company at 14X PE multiple on our FY2014E MSIL + SPIL estimates (versus 13X earlier). The change in multiple reflects improving margin trajectory of the company and its ability to retain this benefit as we believe discounts have already increased significantly over the past two years and we are unlikely to see a significant increase in discounts. Having said that, we would monitor the diesel price hikes, and if diesel price hikes are significant we could see discounts increasing in the diesel segment as capacities are rising significantly.

Exhibit 1: We revise our EBITDA estimates upwards by 3-5% over FY2014-15E
Earnings revision table, March fiscal year-ends, 2013-15E (Rs mn)

	Old			New			change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Volumes (units)	1,183,261	1,332,907	1,471,377	1,174,267	1,262,712	1,436,269	(0.8)	(5.3)	(2.4)
Net ASPs	351,900	365,479	372,815	352,786	362,666	366,190	0.3	(0.8)	(1.8)
Net sales	**416,389**	**487,150**	**548,551**	**414,265**	**457,942**	**525,947**	**(0.5)**	**(6.0)**	**(4.1)**
EBITDA	**31,005**	**41,630**	**48,085**	**31,650**	**43,885**	**49,643**	**2.1**	**5.4**	**3.2**
Margin (%)	7.4	8.5	8.8	7.6	9.6	9.4			
EBITDA/vehicle	26,203	31,232	32,680	26,953	34,755	34,564	2.9	11.3	5.8
Net Profit	19,000	25,248	28,862	19,017	26,288	29,238	0.1	4.1	1.3
Standalone EPS	**62.9**	**83.6**	**95.5**	**63.0**	**87.0**	**96.8**	**0.1**	**4.1**	**1.3**
MSIL + SPIL EPS	**64.1**	**88.5**	**100.9**	**64.2**	**92.0**	**102.2**	**0.1**	**3.9**	**1.3**
JPYINR	0.681	0.655	0.655	0.681	0.614	0.614	—	(6.3)	(6.3)

Source: Kotak Institutional Equities estimates

We expect Honda to regain market share

We expect Maruti to lose 100 bps market share over the next two years as competitors target the Swift/Dzire segment. We expect Honda and Nissan to increase their market share. Honda plans to bring diesel variants of Brio sedan and Brio hatchback which will compete with Swift/Dzire while Nissan is looking at launching Datsun brand to target WagonR/Ritz segment. We believe industry growth will likely rebound in FY2015E due to three year of low base and pent-up demand. While we acknowledge Maruti Suzuki has been able to regain market share post strike period, we believe increasing competition in the Swift/Dzire space is likely to impact Maruti's market share. Ford Ecosport is also likely to be priced in the Dzire/SX4 segment and could lead to some shift of sedan customers to SUV.

Exhibit 2: Competition to intensify further with new model launches planned by other players
Recently launched and upcoming new car models in Indian car market

Manufacturer	Model	Expected timeline	Expected price (Rs Lakhs)
Cars			
Ford	Figo facelift	Launched	3.85-6.0
	Fiesta facelift	4QCY13	7.5-11.5
GM	Spark facelift	Launched	3.2-4.2
	Sail U-VA	Launched	4.2-6.7
	Sail sedan	1QCY13	6.0-7.5
	Beat facelift	2QCY13	3.8-5.7
Honda	Amaze	2QCY13	7.5
	New Accord	2QCY13	20.0
	Next-gen City	4QCY13	NA
	Brio hatchback diesel	1QCY14	NA
	New Jazz	2QCY14	NA
Hyundai	i10 diesel	3QCY13	4.5-5.5
Maruti	A-star facelift	2QCY13	3.7-4.5
	Alto K10 facelift	2QCY13	NA
	New sedan	4QCY13	6.5-8.5
Renault Nissan	Sunny Auto	1QCY13	8.7
	Datsun K2 hatch	1QCY14	<4.0
	Nissan Sylphy	2QCY14	NA
	Datsun I2 hatch	4QCY14	<4.0
Toyota	Etios Liva Sport	2QCY13	7.5
Volkswagen	Polo 1.6 GTD	1QCY13	NA
	Polo Auto	1QCY13	8.0
	New Beetle	1QCY13	25.0
	CrossPolo	4QCY13	6.0-8.0

Source: Company, Autocar, Kotak Institutional Equities

Exhibit 3: We expect Maruti's market share in the domestic passenger car market to decline by 1% from FY2013-15E
Manufacturer-wise passenger car domestic market sales and market share, March fiscal year-ends, 2010-15E

	2010	2011	2012	2013E	2014E	2015E
Manufacturer-wise sales (units)						
Maruti	765,533	966,847	855,730	859,440	916,206	1,054,370
GM	70,677	87,153	86,847	69,478	84,478	94,193
Ford	34,325	95,395	90,506	85,981	94,579	108,766
Nissan	207	12,564	36,612	48,000	62,400	81,120
Toyota	10,134	19,226	90,969	77,324	79,644	91,590
Tata Motor	201,399	256,202	257,966	221,851	221,851	244,036
Hyundai	314,967	358,893	387,168	387,168	391,040	467,292
VW	3,988	51,605	78,275	62,620	66,064	75,974
Skoda	17,542	21,693	32,334	34,274	38,387	42,993
Honda	61,332	58,951	54,108	67,635	107,017	128,420
Fiat	24,609	21,067	16,073	6,500	6,500	7,150
Audi	1,350	1,999	2,047	4,094	5,118	6,397
BMW	3,459	6,094	2,863	5,726	7,158	8,947
Mercedes	3,611	5,962	3,069	6,138	7,673	9,591
Mahindra	5,332	10,008	17,895	16,000	20,000	25,000
Hindustan Motors	8,950	7,223	3,069	2,762	2,900	3,045
Others	60	56	112	184	576	559
Total	**1,527,475**	**1,980,938**	**2,015,643**	**1,955,174**	**2,111,588**	**2,449,442**
Manufacturer-wise sales growth (%)						
Maruti	20.2	26.3	(11.5)	0.4	6.6	15.1
GM	53.5	23.3	(0.4)	(20.0)	21.6	11.5
Ford	36.2	177.9	(5.1)	(5.0)	10.0	15.0
Nissan	183.6	5,969.6	191.4	31.1	30.0	30.0
Toyota	18.1	89.7	373.2	(15.0)	3.0	15.0
Tata Motor	25.5	27.2	0.7	(14.0)	—	10.0
Hyundai	29.1	13.9	7.9	—	1.0	19.5
VW	80.3	1,194.0	51.7	(20.0)	5.5	15.0
Skoda	26.3	23.7	49.1	6.0	12.0	12.0
Honda	22.2	(3.9)	(8.2)	25.0	58.2	20.0
Fiat	205.1	(14.4)	(23.7)	(59.6)	—	10.0
Audi	63.4	48.1	2.4	100.0	25.0	25.0
BMW	26.1	76.2	(53.0)	100.0	25.0	25.0
Mercedes	15.1	65.1	(48.5)	100.0	25.0	25.0
Mahindra	(60.3)	87.7	78.8	(10.6)	25.0	25.0
Hindustan Motors	36.4	(19.3)	(57.5)	(10.0)	5.0	5.0
Others	140.0	(6.7)	100.0	64.2	213.2	(3.0)
Total volumes	**25.0**	**29.7**	**1.8**	**(3.0)**	**8.0**	**16.0**
Domestic market share (%)						
Maruti	50.1	48.8	42.5	44.0	43.4	43.0
GM	4.6	4.4	4.3	3.6	4.0	3.8
Ford	2.2	4.8	4.5	4.4	4.5	4.4
Nissan	0.0	0.6	1.8	2.5	3.0	3.3
Toyota	0.7	1.0	4.5	4.0	3.8	3.7
Tata Motor	13.2	12.9	12.8	11.3	10.5	10.0
Hyundai	20.6	18.1	19.2	19.8	18.5	19.1
VW	0.3	2.6	3.9	3.2	3.1	3.1
Skoda	1.1	1.1	1.6	1.8	1.8	1.8
Honda	4.0	3.0	2.7	3.5	5.1	5.2
Fiat	1.6	1.1	0.8	0.3	0.3	0.3
Audi	0.1	0.1	0.1	0.2	0.2	0.3
BMW	0.2	0.3	0.1	0.3	0.3	0.4
Mercedes	0.2	0.3	0.2	0.3	0.4	0.4
Mahindra	0.3	0.5	0.9	0.8	0.9	1.0
Hindustan Motors	0.6	0.4	0.2	0.1	0.1	0.1
Others	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, Kotak Institutional Equities estimates

Operationally better-than-expected results

Maruti reported EBITDA of Rs8,913 mn (+121% yoy) which was 8% above our estimates. Net sales of Rs112,003 mn (45% yoy) were 2% above our estimates driven by lower-than-expected discounts (discounts reduced by Rs2,700/vehicle in 3QFY13 versus 2QFY13). The key reasons for positive beat on our EBITDA was driven by—

- Average discounts in 3QFY13 were Rs12,000/vehicle (Rs2,700 lower than 2QFY13). Diesel volumes formed 33% of total volumes in 3QFY13 versus 30% in 2QFY13.

- The company had a 200 bps qoq negative impact on gross margins due to vendor compensation because of adverse impact of currency (hits Maruti's P&L with a quarter lag). This impact was offset by (1) 1% price hike effected in October, (2) 70 bps improvement in gross margins due to positive product mix and lower discounts and (3) 150 bps qoq improvement in gross margins due to cost reductions with vendors and localization. The company indicated that the impact of localization in this quarter was very less and most of the benefit was achieved through negotiations with vendors.

- Staff costs were also much lower than expected despite wage hikes given to its workers post the strike. We expect staff costs to inch higher from current levels.

- Other expenses were much higher than our estimates due to higher royalty payments (likely due to richer product mix) and higher export sales despite Yen depreciation versus INR of 6% during the quarter. Selling and distribution expenses were static as percentage of sales versus 2QFY13. Operating leverage benefits were only reflected in staff costs.

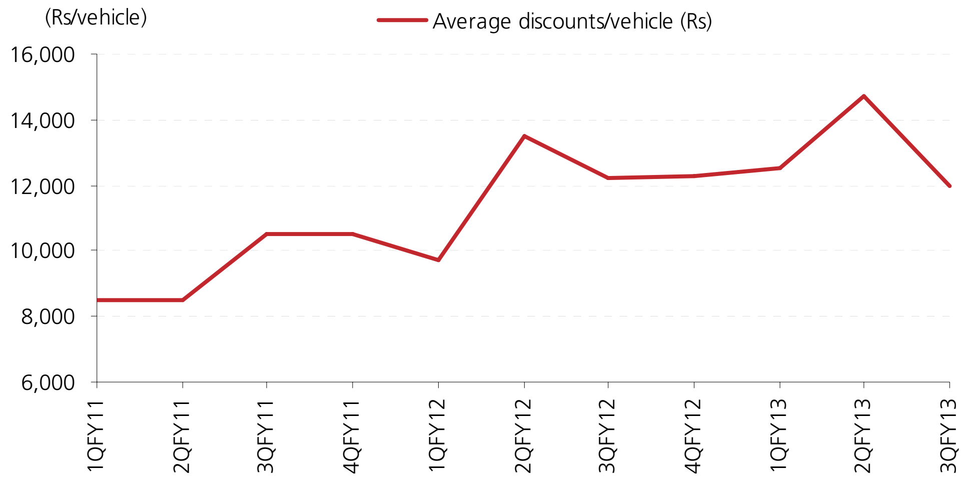
We believe EBITDA margins are likely to inch higher from current levels due to currency benefit and unlikely increase in discounts from current levels. Having said that, the Street is factoring in expansion in margins but is building in very high industry growth which we believe could come off meaningfully.

Exhibit 4: Operationally results were better than estimates due to better-than-expected gross margins
Maruti Suzuki 3QFY13 result summary, March fiscal year-ends (Rs mn)

					Change (%)					
	3QFY13	3QFY13E	3QFY12	2QFY13	Kotak est	yoy	qoq	9MFY13	9MFY12	% change
Volumes (units)	**301,453**	**301,453**	**239,528**	**230,376**		**25.9**	**30.9**	**827,725**	**773,361**	**7.0**
Gross average selling prices (Rs)	410,070	405,042	350,135	397,757	1.2	17.1	3.1	403,481	334,900	20.5
Gross sales	123,617	122,101	83,867	91,634	1.2	47.4	34.9	333,971	258,999	28.9
Excise duty	14,047	14,408	8,596	10,933	(2.5)	63.4	28.5	38,408	26,803	43.3
Net sales	109,570	107,693	75,271	80,701	1.7	45.6	35.8	295,563	232,195	27.3
Other operating income	2,434	2,500	2,045	2,353	(2.6)	19.0	3.4	7,276	6,405	13.6
Net sales (incl op income)	**112,003**	**110,193**	**77,316**	**83,054**	**1.6**	**44.9**	**34.9**	**302,839**	**238,601**	**26.9**
Inc/(dec) of stock	(1,587)	—	(1,185)	2,520				(400)	(1,758)	
Raw materials	89,429	87,600	62,327	63,590	0.3	43.7	32.9	238,254	189,086	26.0
Staff costs	2,412	2,700	2,090	2,352	(10.7)	15.4	2.6	7,147	5,878	21.6
Other expenses	12,837	11,599	10,052	9,507	10.7	27.7	35.0	35,538	28,851	23.2
Total expenses	**103,091**	**101,899**	**73,284**	**77,969**	**1.2**	**40.7**	**32.2**	**280,539**	**222,056**	**26.3**
EBITDA	**8,913**	**8,294**	**4,032**	**5,085**	**7.5**	**121.0**	**75.3**	**22,301**	**16,544**	**34.8**
Other income	1,886	1,600	1,746	1,563	17.9	8.0	20.7	4,134	5,300	(22.0)
Interest expense	459	350	176	380	31.2	161.1	20.8	1,172	344	240.4
Depreciation	3,583	3,500	2,989	3,470	2.4	19.9	3.3	10,453	8,078	29.4
Profit before tax	**6,756**	**6,044**	**2,613**	**2,798**	**11.8**	**158.6**	**141.5**	**14,810**	**13,422**	**10.3**
Tax expense	1,743	1,209	557	524	44.2	213.1	232.9	3,285	3,469	(5.3)
Profit after tax	**5,013**	**4,836**	**2,056**	**2,274**	**3.7**	**143.8**	**120.4**	**11,525**	**9,953**	**15.8**
EPS	16.6	16.0	6.8	7.5				38.2	32.9	
Excise duty to gross sales (%)	11.4	11.8	10.2	11.9				11.5	10.3	
Raw material to net sales (%)	78.4	79.5	79.1	79.6				78.5	78.5	
Staff costs to net sales (%)	2.2	2.5	2.7	2.8				2.4	2.5	
Other expenses to net sales (%)	11.5	10.5	13.0	11.4				11.7	12.1	
EBITDA margin (%)	**8.0**	**7.5**	**5.2**	**6.1**				**7.4**	**6.9**	
Tax rate (%)	25.8	20.0	21.3	18.7				22.2	25.8	
Volume mix (units)										
M800	3,400	3,400	4,595	4,207		(26.0)	(19.2)	11,997	16,660	(28.0)
Alto	72,559	72,559	63,732	49,119		13.9	47.7	181,889	207,169	(12.2)
Wagonr	33,800	33,800	32,074	36,116		5.4	(6.4)	97,247	104,097	(6.6)
A-Star	1,950	1,950	2,122	768		(8.1)	153.9	5,599	9,497	(41.0)
Estillo	3,274	3,274	2,423	2,986		35.1	9.6	8,634	13,291	(35.0)
Swift	46,776	46,776	41,493	21,361		12.7	119.0	123,353	93,513	31.9
Ritz	18,740	18,740	9,755	15,284		92.1	22.6	49,420	47,382	4.3
Dzire	40,967	40,967	24,593	26,192		66.6	56.4	114,117	69,976	63.1
SX4	1,716	1,716	2,596	1,414		(33.9)	21.4	4,577	12,505	(63.4)
Kizashi	151	151	216	14		(30.1)	978.6	186	387	(51.9)
Eeco and Omni	25,338	25,338	27,516	31,092		(7.9)	(18.5)	84,504	105,881	(20.2)
Gypsy, Ertiga	20,286	20,286	688	21,401		2,848.5	(5.2)	60,652	4,534	1,238
Domestic vols	268,957	268,957	211,803	209,954		27.0	28.1	742,175	684,892	8.4
Export vols	32,496	32,496	27,725	20,422		17.2	59.1	85,550	88,469	(3.3)
Total volumes	**301,453**	**301,453**	**239,528**	**230,376**		**25.9**	**30.9**	**827,725**	**773,361**	**7.0**
Volume Mix (%)										
M800	1.1	1.1	1.9	1.8				1.4	2.2	
Alto	24.1	24.1	26.6	21.3				22.0	26.8	
Wagonr	11.2	11.2	13.4	15.7				11.7	13.5	
A-Star	0.6	0.6	0.9	0.3				0.7	1.2	
Estillo	1.1	1.1	1.0	1.3				1.0	1.7	
Swift	15.5	15.5	17.3	9.3				14.9	12.1	
Ritz	6.2	6.2	4.1	6.6				6.0	6.1	
Dzire	13.6	13.6	10.3	11.4				13.8	9.0	
SX4	0.6	0.6	1.1	0.6				0.6	1.6	
Eeco and Omni	8.4	8.4	11.5	13.5				10.2	13.7	
Gypsy, Ertiga	6.7	6.7	0.3	9.3				7.3	0.6	
Domestic vols	89.2	89.2	88.4	91.1				89.7	88.6	
Export vols	10.8	10.8	11.6	8.9				10.3	11.4	

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Average discounts continue to remain high in the recent quarters
Average discount per vehicle, Maruti Suzuki, March fiscal year-ends, 2011-13YTD (Rs)



Source: Company, Kotak Institutional Equities

Exhibit 6: We estimate 8% yoy growth in volumes in FY2014E
Volume assumptions, March fiscal year-ends, 2010-15E (units)

	2010	2011	2012	2013E	2014E	2015E
Volumes (units)						
M800	33,028	26,485	22,512	15,000	12,000	12,000
Omni	95,330	88,626	79,763	63,811	67,001	70,351
Alto LX (800)	235,212	346,840	305,219	274,697	288,432	323,044
Zen	41,624	52,188	23,485	14,091	15,500	18,600
Wagon R	144,898	163,019	141,827	137,572	151,329	181,595
Ritz	63,096	68,749	70,957	74,504	78,230	93,875
Swift	116,174	140,862	152,131	173,429	187,304	215,399
A star	32,186	36,894	14,020	5,608	5,608	5,608
Esteem/Swift Dzire	83,601	107,955	110,132	157,489	170,088	195,601
Versa/Eeco	5,995	72,000	61,200	48,960	51,408	53,978
Gypsy (MUV)	3,841	5,575	5,225	5,225	5,486	5,761
Exports	147,575	138,266	127,379	124,831	139,811	156,588
SX4	15,714	23,327	17,997	6,659	7,325	8,057
Kizashi		128	458	300	300	500
Ertiga			1,300	72,000	82,800	95,220
Domestic volumes	**870,790**	**1,132,739**	**1,006,316**	**1,049,436**	**1,122,901**	**1,279,681**
Total volumes	**1,018,365**	**1,271,005**	**1,133,695**	**1,174,267**	**1,262,712**	**1,436,269**
Volume growth yoy (%)						
M800	(33.1)	(19.8)	(15.0)	(33.4)	(20.0)	—
Omni	24.6	(7.0)	(10.0)	(20.0)	5.0	5.0
Alto LX (800)	10.7	47.5	(12.0)	(10.0)	5.0	12.0
Zen	27.3	25.4	(55.0)	(40.0)	10.0	20.0
Wagon R	7.5	12.5	(13.0)	(3.0)	10.0	20.0
Ritz			3.2	5.0	5.0	20.0
Swift	5.5	21.3	8.0	14.0	8.0	15.0
A star	51.1	14.6	(62.0)	(60.0)	—	—
Esteem/Swift Dzire	34.9	29.1	2.5	43.0	8.0	15.0
Versa/Eeco	316.3	1,101.0	(15.0)	(20.0)	5.0	5.0
Gypsy (MUV)	(46.8)	45.1	(15.0)	—	5.0	5.0
Exports	110.8	(6.3)	(7.9)	(2.0)	12.0	12.0
SX4	12.4	48.4	(30.0)	(63.0)	10.0	10.0
Kizashi			257.8	(34.5)	—	66.7
Ertiga					10.0	10.0
Domestic volumes	**20.6**	**30.1**	**(11.2)**	**4.3**	**7.0**	**14.0**
Total volumes	**28.6**	**24.8**	**(10.8)**	**3.6**	**7.5**	**13.7**

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: We expect 23% CAGR in earnings during FY2012-15E due to low base in FY2012
MSIL+SPIL financial summary, March fiscal year-ends, 2012-15E

	2012	2013E	2014E	2015E
Net sales	353,380	419,668	465,732	534,733
EBITDA	**31,352**	**36,947**	**51,774**	**58,575**
Other income	7,549	8,094	8,824	9,721
Interest exp	1,158	1,421	1,296	1,356
Depreciation	16,089	18,691	23,369	27,021
PBT	**21,653**	**24,929**	**35,933**	**39,919**
Tax	5,187	5,546	8,157	9,057
PAT	**16,467**	**19,382**	**27,775**	**30,861**
No of shares	302.1	302.1	302.1	302.1
EBITDA margin (%)	8.9	8.8	11.1	11.0
EPS	54.5	64.2	92.0	102.2
Balance sheet summary (Rs mn)				
Net Worth	171,907	188,639	213,764	241,975
Borrowings	17,422	15,053	17,053	16,053
Other liabilities	56,864	60,163	64,762	72,197
Total Liability	**246,193**	**263,855**	**295,579**	**330,225**
Net Assets	102,655	114,964	131,595	138,573
Cash	25,412	16,027	19,554	28,614
investments	61,474	66,474	70,474	78,474
other assets	56,652	66,390	73,956	84,564
Total Assets	**246,193**	**263,855**	**295,579**	**330,225**

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: We expect 20% CAGR in earnings during FY2012-15E coming off from a low base
Maruti Suzuki profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
Profit model (Rs mn)						
Net sales	290,989	360,205	348,778	414,265	457,942	525,947
EBITDA	**39,543**	**36,574**	**26,221**	**31,650**	**43,885**	**49,643**
Other income	4,967	4,899	7,177	7,672	8,432	9,359
Interest	(335)	(250)	(552)	(1,055)	(1,050)	(1,050)
Depreciation	(8,250)	(10,135)	(11,384)	(13,886)	(17,564)	(20,466)
Profit before tax	**35,925**	**31,088**	**21,462**	**24,381**	**33,703**	**37,485**
Current tax	11,230	8,101	4,138	5,364	7,415	8,247
Deferred tax	(281)	101	972	—	—	—
Adj Net profit	**24,976**	**22,886**	**16,352**	**19,017**	**26,288**	**29,238**
Earnings per share (Rs)	**86.4**	**79.2**	**56.6**	**63.0**	**87.0**	**96.8**
Balance sheet (Rs mn)						
Equity	118,351	138,675	151,874	168,241	191,878	218,466
Deferred tax liability	1,370	1,644	3,023	3,023	3,023	3,023
Total Borrowings	8,214	3,092	12,369	14,000	14,000	14,000
Current liabilities	35,678	40,840	55,756	58,862	62,887	70,082
Total liabilities	**163,613**	**184,251**	**223,022**	**244,126**	**271,788**	**305,571**
Net fixed assets	54,123	63,919	81,321	97,435	109,871	115,904
Investments	71,766	51,068	61,474	66,474	70,474	78,474
Cash	982	25,085	24,361	14,750	18,818	28,129
Other current assets	36,742	44,179	55,866	65,467	72,625	83,063
Total assets	**163,613**	**184,251**	**223,022**	**244,126**	**271,788**	**305,571**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	28,991	26,691	23,334	26,286	36,471	41,396
Working capital changes	1,327	1,503	(1,040)	(6,495)	(3,133)	(3,243)
Capital expenditure	(14,593)	(21,427)	(26,325)	(30,000)	(30,000)	(26,500)
Free cash flow	**15,725**	**6,767**	**(4,031)**	**(10,209)**	**3,337**	**11,653**
Ratios						
EBITDA margin (%)	13.3	10.0	7.3	7.5	9.4	9.3
PAT margin (%)	8.6	6.4	4.7	4.6	5.7	5.6
Net debt/equity (X)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)
Book value (Rs/share)	414.4	485.7	536.1	566.9	645.2	733.2
RoAE (%)	23.3	17.6	11.1	11.7	14.4	14.0
RoACE (%)	**41.3**	**30.2**	**14.0**	**13.8**	**17.8**	**17.8**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Reliance Power (RPWR)

Utilities

SELL

JANUARY 28, 2013

RESULT

Coverage view: Attractive

Price (Rs): 95

Target price (Rs): 80

BSE-30: 20,104

Operations improve at Rosa but visibility on future projects still bleak. Reliance Power (RPWR) continues to report an improving performance at its operational Rosa project—high-cost fuel (Rs3.8/kWh) improving utilization rates and an ever rising realization (Rs6/kWh in 3QFY13). While Rosa stabilizes and Butibori is nearing commercial generation, limited progress on Chitrangi (key value contributor) and continuing fuel supply risks cause us to maintain our cautious stance. We maintain our SELL rating with a target price of Rs80.

Company data and valuation summary

Reliance Power

Stock data			
52-week range (Rs) (high,low)			139-75
Market Cap. (Rs bn)			265.1
Shareholding pattern (%)			
Promoters			80.4
FIIs			5.4
MFs			0.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	2.5	(3.8)	(3.0)
Rel. to BSE-30	(1.8)	(10.2)	(17.6)

Forecasts/Valuations	2012	2013E	2014E
EPS (Rs)	3.1	3.4	3.7
EPS growth (%)	14.0	9.5	10.2
P/E (X)	30.6	27.9	25.3
Sales (Rs bn)	20.2	49.5	65.9
Net profits (Rs bn)	8.7	9.5	10.5
EBITDA (Rs bn)	6.2	16.0	27.0
EV/EBITDA (X)	69.3	26.8	20.6
ROE (%)	5.0	5.3	5.5
Div. Yield (%)	0.0	0.0	0.0

Generation spike at Rosa aided by expensive fuel; higher taxes partially absorb gains

RPWR reported net sales of Rs14.7 bn (220% yoy, 36% qoq), operating profit of Rs4.9 bn (252% yoy, 25% qoq) and net income of Rs2.7 bn (30% yoy, 11% qoq) against our estimates of Rs10.2 bn, Rs4 bn and Rs2.5 bn respectively. Higher generation (144% yoy, 44% qoq) at Rosa and improved realizations (26 yoy, 9% qoq) led to the revenue beat. The improved realizations were an outcome of high-cost fuel that allowed for improved operational parameters. However, lower-than-estimated other income and a higher tax rate of 33% (our estimate: 20%) led to a lower beat in net profits.

Realization spike reflective of higher fuel cost, though ability to absorb may come under threat

Rosa plant reported a sharp improvement in operational parameters with generation of 2,407 MU (144% yoy, 44% qoq), an effective PLF of 100% and a PAF of 103%. An improvement in average realizations to Rs6/kWh is reflective of an equivalent jump in fuel costs (Rs3.75/kWh). The benefits of higher fuel cost further reflect in improved profitability under a cost-plus tariff regime though we are skeptical about RPWRs ability to maintain such high operational rates, with prices in the short-term market ruling almost 30% lower (Rs4/kWh).

Fuel, execution concerns on portfolio remain; we maintain our SELL rating

We reiterate our SELL rating with a revised target price of Rs80 (Rs79 previously). Our cautious stance on RPWR stems from enhanced execution and fuel risks associated with key projects and dependence on Chitrangi as the key value contributor, which continues to make limited progress. We have revised our EPS estimates for FY2013 to Rs3.4 (previously Rs3.7) to factor marginal delays in commissioning of Butibori units I and II.

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Operational highlights of 3QFY13

We discuss below some key operational and financial highlights

- Rosa generation spikes up. With sequential improvement in Rosa (Units-I and II combined) PLF to 100% (75% in 2QFY13, 75% in 3QFY12), RPWR's gross generation increased to 2,422 MU (145% yoy, 45% qoq). With the capital maintenance at Rosa-I completed during the last quarter, combined PAF also improved sequentially to 104% (78% in 2QFY13, 75% in 3QFY12).

- Butibori units fully commissioned. With the commissioning of Unit-II in January 2013, Butibori (2X300 MW) is now fully commissioned. The units are expected to begin commercial generation from March 2013 and June 2013 respectively.

- Realization rates improve with higher fuel costs. Sequentially, blended realizations increased to Rs6/kWh (26% yoy, 9% qoq), with Rosa II tariffs recognized as per amended CERC guidelines.

- Fuel cost continues to rise. Average fuel cost increased to Rs3.4/kWh (31% yoy, -11% qoq). The management attributed this to increased blending of imported and market-priced domestic coal.

- O&M cost falls sharply. Average O&M costs have fallen sharply to Rs3.4/kWh (-56 % yoy, -12% qoq) due to allocation of fixed costs over a higher base of power generation during the quarter.

Exhibit 1: Net sales include Rs280 mn of prior-period sales and Rs1330 mn of traded power sales
RPWR's interim results, March fiscal year-end, 2013 (Rs mn)

					(% Chg.)					
	3QFY13	3QFY13E	3QFY12	2QFY13	3QFY13E	3QFY12	2QFY13	FY2012	FY2013E	(% Chg.)
Net sales	**14,638**	**12,237**	**4,573**	**10,792**	**20**	**220**	**36**	**20,192**	**49,533**	**145**
Operating costs										
Cost of fuel	(9,084)	(7,590)	(2,564)	(6,370)				(11,285)	(31,337)	178
Cost of goods sold	—	—	(19)	—				—	—	
Personnel costs	(215)	(230)	(148)	(203)				(730)	(830)	14
Other expenses	(413)	(345)	(440)	(290)				(1,938)	(1,406)	(27)
EBITDA	**4,926**	**4,072**	**1,401**	**3,929**	**21**	**252**	**25**	**6,239**	**15,961**	**156**
EBITDA margin (%)	34	33	31	36				31	32	
Other income	1,219	1,252	2,168	1,022				7,476	5,040	
Interest & finance charges	(1,493)	(1,410)	(720)	(1,374)				(2,976)	(5,668)	
Depreciation	(703)	(740)	(323)	(719)				(1,215)	(2,883)	
PBT	**3,950**	**3,173**	**2,526**	**2,859**	**24**	**56**	**38**	**9,524**	**12,449**	**31**
Provision for tax (net)	(1,294)	(631)	(488)	(457)				(856)	(2,960)	
Net profit	**2,656**	**2,542**	**2,039**	**2,402**	**5**	**30**	**11**	**8,668**	**9,490**	**9**
EBITDA margin (%)	34	33	31	36				31	32	
Tax rate (%)	33	20	19	16				9	24	
Key operating parameters										
Units generated (MU)	2,422	2,300	987	1,669				4,353	8,509	
Average realization (Rs/kwh)	6.0	5.5	4.8	5.5				4.8	5.9	
Cost of fuel (Rs/unit)	3.8	3.3	2.6	3.8				2.6	3.7	
O&M (Rs/unit)	0.26	0.3	0.6	0.3				0.61	0.26	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: SOTP-based value of RPWR

Project	Type	Capacity (MW)	Value (Rs bn) 2013E	2014E	12-month	CoE (%)
Rosa I	Thermal	600	9	8	8	12
Rosa II	Thermal	600	14	14	14	12
Butibori	Thermal	600	5	9	8	12
Sasan	Thermal	3,960	6	9	8	12
Chitrangi	Thermal	3,960	102	113	111	15
Total		**11,982**	**135**	**153**	**149**	
Cash and equivalents			**14**	**79**	63	
Post money value			**149**	**233**	**212**	
No. of Shares			2.8	2.8	2.8	
Value per share			**53**	**83**	**76**	

Source: Company, Kotak Institutional Equities estimates

Looming fuel sourcing risks for large projects

- Surplus use of coal from Sasan mines for Chitrangi project still a concern. Though the EGoM had decided to allow RPWR to use surplus coal from allocated mines for Sasan (Moher, Moher-Almohri and Chhatrasal), we see increased risks on sourcing coal for the project. Recent observations from the Attorney General regarding definition of surplus coal as "surplus coal is such coal... that is available after satisfying the needs of a UMPP" and increased scrutiny on mining and minerals industry do not seem to allay our concerns.

- Full COD of Butibori awaited due to paucity of coal. Though both units of the Butibori project have been commissioned (Unit I in October 2012 and Unit II in January 2013), the project is still awaiting full COD due to paucity in coal supply. The Butibori project had earlier secured medium-term FSAs from WCL (1.11 mtpa). We factor the entire coal requirement of ~2.7 mtpa for this project to be met through linkage supplies from WCL.

- Samalkot project stranded. The 2,400 MW Samalkot project is ready for commissioning but has remained stranded due to acute shortage of gas supply from KG D-6. Recent discussions on increasing prices of gas as high as US$8/mmbtu raise concerns about the long-term feasibility of gas-based projects competing with alternative fuel sources.

- Krishnapatnam project. The Krishnapatnam project is based on imported coal supply from Indonesian mines. Although we do not assign value to this project, the management's negative stance on developing these mines does not augur well for the project's long-term prospects.

Exhibit 3: Consolidated profit model, balance sheet, cash model of RPWR, March fiscal year ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012	2013E	2014E
Profit model						
Net revenues	—	207	10,548	20,192	49,533	65,910
EBITDA	**(1,031)**	**(1,073)**	**2,291**	**6,239**	**15,961**	**27,012**
Other income	3,604	8,227	8,633	7,476	5,040	5,630
Interest (expense)/income	—	(70)	(2,195)	(2,976)	(5,668)	(12,518)
Depreciation	(2)	(57)	(1,009)	(1,215)	(2,883)	(6,211)
Pre-tax profits	**2,570**	**7,026**	**7,720**	**9,524**	**12,449**	**13,913**
Tax	(125)	(187)	(347)	78	(2,236)	(2,297)
Deferred taxation	—	(327)	231	(935)	(724)	(1,154)
Minority interest	—	—	—	—	—	—
Net income	**2,445**	**6,512**	**7,604**	**8,668**	**9,490**	**10,462**
Extraordinary items	—	—	—	—	—	—
Reported profit	2,445	6,512	7,604	8,668	9,490	10,462
Earnings per share (Rs)	**1.1**	**2.7**	**2.9**	**3.1**	**3.4**	**3.7**
Balance sheet						
Paid-up common stock	23,968	23,968	28,051	28,051	28,051	28,051
Total shareholders' equity	137,791	144,630	168,334	175,696	185,186	195,648
Deferred taxation liability	—	—	—	-	724	1,877
Minority interest	—	—	—	—	—	—
Total borrowings	13,325	22,406	73,348	181,353	241,507	313,855
Total liabilities and equity	**151,116**	**167,037**	**241,683**	**357,049**	**427,416**	**511,381**
Net fixed assets	2,879	23,408	36,368	65,720	95,150	199,603
Capital work-in-progress	46,780	68,029	126,227	217,970	273,452	265,546
Investments	103,172	79,152	56,790	14,140—	14,140—	14,140—
Cash	216	1,338	19,161	14,058	79,362	21,674
Net current assets (excl. cash)	(1,931)	(4,890)	3,136	45,161	(34,686)	10,418
Total assets	**151,116**	**167,037**	**241,683**	**357,049**	**427,416**	**511,381**
Free cash flow						
Operating cash flow, excl. working capital	2,447	6,896	8,382	10,817	13,097	17,827
Working capital changes	(4,065)	2,959	(8,026)	(42,025)	79,847	(45,104)
Capital expenditure	(38,602)	(44,820)	(73,281)	(122,445)	(87,794)	(102,759)
Free cash flow	**(40,220)**	**(34,965)**	**(72,925)**	**(153,653)**	**5,150**	**(130,037)**
Ratios						
Net debt/equity (%)	10	15	32	95	88	149
Return on equity (%)	1.8	4.6	4.9	5.0	5.3	5.5
Book value per share (Rs)	57.5	60.3	60.0	62.6	66.3	70.4
RoCE (%)	**1.8**	**4.2**	**3.9**	**2.9**	**3.0**	**2.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Shriram Transport (SHTF)

Banks/Financial Institutions

ADD

JANUARY 28, 2013

RESULT

Coverage view: Cautious

Price (Rs): 759

Target price (Rs): 775

BSE-30: 20,104

Stable performance in a challenging macro environment. STFC reported 14% earnings growth on the back of moderate but improving loan growth (18% yoy) and stable margins qoq. A strategy to slow down its business momentum in 2012 has helped STFC arrest further deterioration in asset quality even as large banks and NBFCs have recently reported stress in their CV portfolios. STFC's focus on used CV loans, a counter-cyclical product (up 22% yoy in 3QFY13), will largely drive near-term growth. We revise our estimates upwards; retain ADD with price target of Rs775.

Company data and valuation summary

Shriram Transport

Stock data			
52-week range (Rs) (high,low)			805-475
Market Cap. (Rs bn)			169.3
Shareholding pattern (%)			
Promoters			46.2
FIIs			40.1
MFs			1.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	0.6	23.2	30.3
Rel. to BSE-30	(3.7)	14.9	10.7

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	60.5	72.2	85.4
EPS growth (%)	7.3	19.4	18.2
P/E (X)	12.5	10.5	8.9
NII (Rs bn)	35.1	42.9	51.4
Net profits (Rs bn)	13.5	16.1	19.0
BVPS	292.3	338.4	391.2
P/B (X)	2.6	2.2	1.9
ROE (%)	20.7	21.1	21.2
Div. Yield (%)	1.6	1.9	2.3

QUICK NUMBERS

- Loan book up 18% yoy
- Used CVs loan book up 22% yoy
- PAT up 14% yoy

3QFY13 performance: Loan growth accelerates; margins stable qoq

Shriram Transport Finance (STFC) reported 3QFY13 PAT of Rs3.45 bn, up 14% yoy and 1% above estimates.

- **Core performance strong.** Strong loan growth, up 18% yoy as compared to 16% in 2QFY13 and 11% in FY2013E, has largely aided STFC's earnings growth. Used CV finance loan book grew 22% yoy while new CVs were up 8% yoy. Disbursements were up 42% yoy; disbursements for used CVs were up 17% qoq while new CV loans were flat qoq. Margins (KS calculated) were flat qoq at 7.9%.

- **Expenses stable.** Operating expenses were stable qoq at 1.76% of AUM, down from 1.95% in 3QFY12. The company has added about 770 employees during the quarter, largely to support growth in its small CVs finance vertical; this will likely push the operating cost ratio over the next few quarters.

- **GNPL at 2.9%.** Gross NPLs increased 6% qoq; GNPL ratio was stable at 2.9%. Credit cost (Rs2.1 bn) was stable qoq at 1.9% of AUMs.

Stable performance in 3Q is positive, improvement in macro will make us more assertive; ADD

Change in estimates. We are raising our estimates by 2-6% to factor higher loan growth, lower margins and operating expenses. We continue to retain elevated provisioning cost estimate (2% of average AUMs for FY2014E and FY2015E). We raise our loan growth estimate to 16% (from 14% earlier) for the next two years on the back of higher traction in used CV finance business. We are reducing our NIM and expenses assumptions, realigning the same with 9MFY13 performance.

Retain ADD. In light of stable operating performance, we retain ADD rating on the stock with price target of Rs775 (Rs710 earlier). At our target price, the stock will trade at 10.7X PER and 2.1X PBR FY2014E for about 21% RoE in the medium term.

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Key catalysts and risks. We expect STFC to deliver 20% loan growth in FY2013E (15% earlier), 15% and 18% in FY2014E and FY2015E respectively. This will likely be driven by high growth in used CV finance business even as new CV finance will remain subdued over the next few quarters. Recovery in the CV cycle will provide an upside to our growth and credit cost estimates. Any further deterioration in STFC's performance over the next few quarters is the key risk.

High growth and RoE in equipment finance subsidiary despite macro risks. Shriram Equipment Finance (100% subsidiary of STFC) has reported 14% qoq loan growth and 28% RoE on the back of high NIM and negligible credit costs. In a short period, the company has scaled up to a loan book of Rs27 bn, i.e. about 6% of the AUMs of the parent. While a low base has helped the company deliver high growth, macro challenges in the construction equipment segment pose asset quality risks. We are currently not assigning any value to this business.

Key assumptions in our model

- **Loan growth at 15-18%.** We are raising our loan growth estimate to 15-18% (from 14% earlier) for next two years respectively. We expect used CV finance business to drive volume in the near term (growing by 20%+); STFC's efforts to focus on small CVs will drive growth in new CV finance over the medium term. Our auto analysts project flat growth in the CV industry (in volume terms) in FY2013E on the back of 18% growth in LCVs and 25% decline in MHCV sales during the year. Notably, the growth in LCVs has declined to sub-20% levels during FY2013E after three years of 30%+ growth. In the past nine months, LCVs have reported 16% growth while MHCVs have reported a 19% decline. However, we believe that fleet replacement demand by FY2014E-end will boost CV growth; the low base of FY2013E will support 13-15% growth in CVs in FY2014E.

- **NIM improvement in FY2014E.** We model NIM of 8.3-8.5% over the next two years, up from 8% in FY2013E and 7.9% in FY2012. A moderate reduction in borrowing cost coupled with re-pricing of loan assets will boost NIM. We expect credit quality to remains stable; hence we don't expect significant reversals in interest income over the next two years (unlike FY2012 and FY2013E)—this will also boost NIMs.

- **We expect operating expense to remain low.** We model opex (to AUM) ratio of 1.9-2.1% over the next two years as compared to 1.8% in FY2013E. Notably, opex ratio was about 2.4% between FY2008 and FY2011 largely to support high (25%) growth in business.

- **Credit cost provides a buffer.** STFC reported average credit cost (to AUM ratio) of 1.6% between FY2008 and FY2012; the ratio was increased to 2% in FY2012E; we continue to model 2% credit cost ratio for the next three years. Recovery in the CV cycle will provide an upside to our estimates.

Exhibit 1: Shriram Transport Finance – quarterly data
March fiscal year-ends, 3QFY12-3QFY13 (Rs mn)

	3Q12	4Q12	1Q13	2Q13	3Q13	YoY (%)	3Q13E	Actual vs KS (%)
Total operational income	14,385	14,314	14,197	15,535	16,296	13	15,950	2
Income on securitised loans	4,927	5,156	5,322	4,590	4,251	(14)	-	-
Total interest expense	6,348	6,259	6,173	6,858	7,350	16	7,109	3
Net operational income (before provisioi	8,037	8,055	8,024	8,677	8,946	11	8,841	1
Net operational income	8,037	8,055	8,024	8,677	8,946	11	8,841	1
Net interest income	3,110	2,899	2,702	4,087	4,695	51	8,841	(47)
Provision and credit costs	1,920	1,918	2,025	2,105	2,126	11	2,050	4
Net operational income after provisions	6,117	6,137	5,999	6,572	6,820	11	6,791	0
Other income	294	255	700	314	299	2	300	(0)
Total income	8,331	8,310	8,724	8,991	9,245	11	9,141	1
Operating expenses	1,866	1,782	1,940	1,873	1,998	7	2,000	(0)
Pretax income	4,545	4,610	4,759	5,013	5,121	13	5,091	1
Tax provisions	1,517	1,530	1,543	1,637	1,662	10	1,680	(1)
Net Profit	3,028	3,080	3,217	3,376	3,459	14	3,411	1
PBT (excl provisions and extraordinaties)	6,465	6,528	6,784	7,118	7,247	12	7,141	1
PBT (before standard asset provisions)	4,545	4,610	4,759	5,013	5,121	13	5,091	1
Tax rate (%)	33	33	32	33	32		-	
Other details								
Disbursements (Rs mn)	49,270	49,803	53,691	61,673	69,965	42		
Pre-owned	41,704	39,838	43,698	50,458	58,805	41		
New	7,566	9,965	9,993	11,215	11,160	48		
Securitisation during the period (Rs mn)	33,414	43,456	-	3,875	30,395	(9)		
O/s Truck assets (Rs mn)	**237,178**	**219,870**	**256,402**	**293,713**	**310,847**	**31**		
Off balance sheet truck assets (Rs mn)	155,418	182,261	162,822	147,137	154,599	(1)		
Total truck assets (Rs mn)	392,596	402,131	419,220	440,850	465,000	18	455,411	2
Used vehicle / truck assets (%)	77	77	77	79	79			
New vehicle / truck assets (%)	23	23	23	22	21			
NIMs (KS calc - %)	**8.3**	**8.1**	**7.8**	**8.1**	**7.9**		**7.9**	
RoA (%)	3.6	3.5	4.3	3.9	3.6			
RoE (%)	21.4	20.9	27.4	20.8	20.4			
Cost to income (%)	23.2	22.1	24.2	21.6	22.3			
Gross NPLs(%)	2.8	3.1	3.0	2.9	2.9			
Gross NPL (Rs mn)	6,718	6,938	7,776	8,553	9,086			
Net NPLs(%)	0.4	0.4	0.6	0.6	0.6			
Net NPL (Rs mn)	931	977	1,576	1,754	1,921			
Capital adequacy ratio (%)	25	22	21	20	19			
Debt equity ratio (X)	3.94	3.86	3.37	3.58	4.05			
Balance Sheet								
Fixed assets	392	397	427	500	547	39		
Loans and advances	2,058	1,622	3,725	1,175	3,020	47		
Cash and bank	37,924	53,809	33,333	30,482	41,170	9		
Investments	35,165	39,646	12,593	9,655	46,343	32		
Truck receivables	235,992	219,019	253,431	293,247	308,494	31		
Current assets	32,117	40,533	32,710	27,041	25,729	(20)		
Total	343,647	355,026	336,220	362,098	425,303	24		
Shareholders funds	57,891	59,923	63,140	66,510	69,456	20		
Equity capital	2,263	2,263	2,263	2,264	2,269	0		
Reserves	55,628	57,660	60,877	64,246	67,187	21		
Loans	228,034	231,219	212,792	237,877	281,609	23		
Current liabilities	59,692	66,051	62,607	60,030	77,024	29		
Total	343,647	355,026	336,220	362,098	425,304	24		

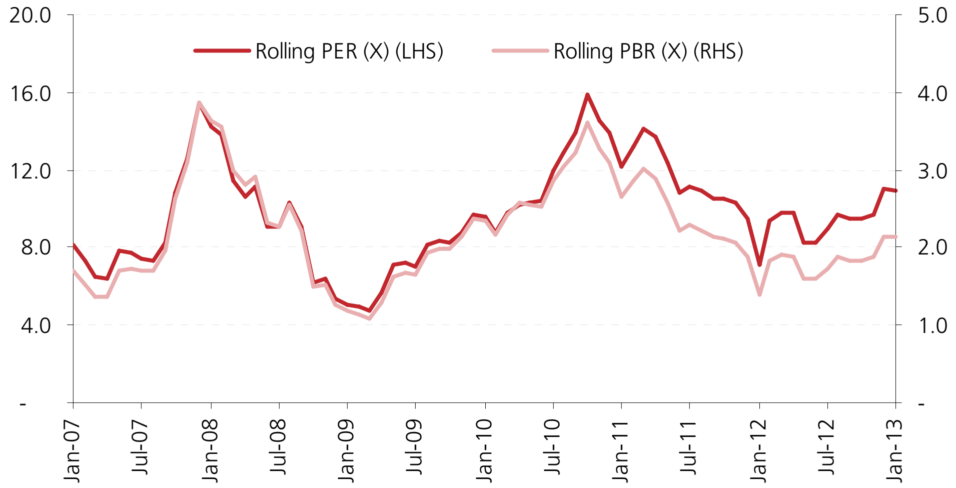
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Shriram Equipment Finance – quarterly data
March fiscal year-ends, 1QFY12-3QFY13

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	YoY (%)
Income statement (Rs mn)								
Revenue from operations	331	464	580	725	835	957	1,069	84
Interest costs	144	204	277	338	423	499	532	92
Net interest income	**187**	**260**	**304**	**388**	**413**	**458**	**537**	**77**
Other income	0	-	0	0	-	0	0	-
Total income	**187**	**260**	**304**	**388**	**413**	**458**	**537**	**77**
Operating expenses	**65**	**65**	**73**	**92**	**103**	**110**	**115**	**58**
Employee expenses	36	39	39	58	62	65	65	66
Depreciation and amortization	1	1	1	1	2	1	2	45
Other expenses	27	25	32	33	40	44	48	49
PPOP	**123**	**195**	**231**	**296**	**309**	**349**	**422**	**83**
Provisions	9	10	13	42	48	22	33	145
PBT	**114**	**185**	**218**	**254**	**261**	**327**	**389**	**79**
Provision for tax	39	61	71	82	85	106	126	79
Current tax	42	65	72	86	87	108	129	79
Deferred tax	(3)	(4)	(2)	(3)	(2)	(2)	(3)	85
PAT	**74**	**124**	**147**	**172**	**176**	**221**	**263**	**79**
Gross NPL (Rs mn)	2	15	54	51	115	126	161	
Gross NPL (%)	0.0	0.1	0.4	0.3	0.5	0.5	0.6	
Net NPL (Rs mn)	2	14	46	15	38	34	48	
Net NPL (%)	0.0	0.1	0.3	0.1	0.2	0.1	0.2	
ROA (%)	3.2	4.1	4.2	4.0	3.4	3.9	4.1	
ROE (%)	13.8	18.0	20.4	22.6	21.9	25.9	28.8	
Total disbursement (Rs mn)	**3,758**	**3,857**	**3,325**	**5,467**	**3,782**	**4,090**	**5,812**	**75**
Used CE	731	788	763	863	776	1,035	1,655	117
New CE	3,027	3,069	2,562	4,604	3,006	3,055	4,158	62
AUMs (Rs bn)	9,575	12,891	15,059	19,234	21,418	23,809	27,253	81
NIM-KS (%)		9.3	8.7	9.0	8.1	8.1	8.4	
Total assets (Rs mn)	11,038	12,958	15,191	19,385	21,532	24,065	27,520	81
Shareholders equity (Rs mn)	2,685	2,809	2,956	3,127	3,304	3,525	3,788	28
Paid up capital	2,600	2,600	2,600	2,600	2,600	2,600	2,600	-
Reserves	85	209	356	527	704	925	1,188	234

Source: Company, Kotak Institutional Equities

Exhibit 3: STFC- 1-year forward PER and PBR (X)
January 2007-January 2013



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 4: Shriram Transport Finance - old and new estimates
March fiscal year-ends, 2013-15E (Rs mn)

	Old estimates			New estimates			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Net interest income (a)	37,286	43,701	48,792	35,096	42,916	51,370	(6)	(2)	5
Loans (incl. securitised loans)	460,817	523,905	595,616	480,067	554,292	653,579	4	6	10
YoY(%)	**14.8**	**13.7**	**13.7**	**19.6**	**15.5**	**17.9**			
NII/ AUMs (%)	**8.6**	**8.9**	**8.7**	**8.0**	**8.3**	**8.5**			
NPL provisions	8,523	9,719	10,384	8,439	10,438	11,488	(1)	7	11
Operating expenses	10,407	11,612	13,048	8,010	9,918	12,949	(23)	(15)	(1)
Employee	4,304	4,906	5,681	3,735	4,639	6,421	(13)	(5)	13
Others	6,103	6,706	7,367	4,276	5,280	6,528	(30)	(21)	(11)
PBT	19,856	23,870	26,861	20,147	24,059	28,433	1	1	6
Tax	6,580	7,910	8,901	6,649	7,939	9,383	1	0	5
PAT	**13,276**	**15,960**	**17,959**	**13,499**	**16,120**	**19,050**	**2**	**1**	**6**
PBT-provisions	**28,379**	**33,588**	**37,245**	**28,586**	**34,497**	**39,921**	**1**	**3**	**7**

Note
(a) Includes income on securitised assets

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Finance penetration in new CVs is close to peak levels
New CV sales and disbursements to CV, March fiscal year-ends, 2006-14E

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
CV									
Sales	318	442	477	372	529	727	891	922	1,088
Disbursements	197	268	280	194	272	402	496	590	697
Penetration (%)	**62**	**61**	**59**	**52**	**51**	**55**	**56**	**64**	**64**

Source: CRISIL, SIAM, Kotak Institutional Equities estimates

Exhibit 6: Growth in new CV disbursements is moderating for most players
New CV disbursements of key NBFCs, March fiscal year-ends, 2001-14E

	2010	2011	2012	2013E	2014E
Chola	21	29	43	47	50
Magma		20	21	25	30
MMFS	6	9	17	21	23
STFC	28	50	38	40	45
Sundaram	25	45	56	64	73
Tata Motors Finance	47	55	74	96	119
Others (incl banks)	145	195	247	297	356
Total disbursements	**272**	**402**	**496**	**590**	**697**
YoY (%)	40	48	23	19	18

Source: CRISIL, Kotak Institutional Equities

Exhibit 7: Shriram Transport Finance - key ratios
March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
Growth in key parameters (%)						
Loans under management	28.2	23.8	11.2	19.6	15.5	17.9
Total assets	7.9	17.2	13.2	27.1	22.3	21.3
Borrowings	(8.3)	7.7	16.3	26.0	21.3	20.0
Net interest income	30.1	37.9	14.1	0.3	22.3	19.7
Operating expenses	5.4	65.5	4.4	(15.9)	23.8	30.6
Key ratios(%)						
NII/ AUMs(%)	8.6	9.4	9.2	8.0	8.3	8.5
Operating expenses/total income	24.1	27.8	26.4	21.9	22.3	24.5
Tax rate	34.1	33.5	33.1	33.0	33.0	33.0
Dividend payout ratio	18.2	13.9	20.0	20.0	20.0	20.0
Debt/ equity (X)	4.80	4.05	3.86	4.15	4.28	4.36
Du Pont Analysis						
(% of average AUMs)						
Net interest income	8.6	9.4	9.2	8.0	8.3	8.5
Loan loss provisions	1.6	1.6	2.0	1.9	2.0	1.9
Net other income	0.2	0.7	0.3	0.3	0.3	0.2
Operating expenses	2.1	2.8	2.5	1.8	1.9	2.1
(1- tax rate)	65.9	66.5	66.9	67.0	67.0	67.0
ROA	**3.4**	**3.8**	**3.3**	**3.1**	**3.1**	**3.2**
Average AUMs/average equity (X)	8.4	7.5	7.0	6.8	6.8	6.7
ROE	**28.4**	**28.1**	**23.1**	**20.7**	**21.1**	**21.2**

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Shriram Transport Finance - income statement and balance sheet
March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
Income statement						
Total interest income	44,075	51,848	57,923	64,367	77,422	90,260
Total interest expense	21,826	21,164	22,919	29,270	34,506	38,890
Net interest income	**22,249**	**30,684**	**35,004**	**35,096**	**42,916**	**51,370**
Provisions and write/off	4,106	5,235	7,683	8,439	10,438	11,488
Net interest income (after prov.)	18,143	25,449	27,321	26,658	32,477	39,882
Other income	620	2,162	1,015	1,500	1,500	1,500
Operating expenses	**5,512**	**9,121**	**9,524**	**8,010**	**9,918**	**12,949**
Employee expenses	2,251	3,582	3,701	3,735	4,639	6,421
Depreciation	149	108	135	114	124	135
Advt and commission/brokerage	591	109	241	265	291	321
Sourcing and collection commission	30	-	25	30	30	30
Other expenses	2,483	5,322	5,423	3,867	4,834	6,043
Pretax income	**13,251**	**18,490**	**18,812**	**20,147**	**24,059**	**28,433**
Tax provisions	4,514	6,190	6,234	6,649	7,939	9,383
Net Profit	**8,737**	**12,300**	**12,578**	**13,499**	**16,120**	**19,050**
% growth	**43**	**41**	**2**	**7**	**19**	**18**
EPS (Rs)	39	55	56	60	72	85
% growth	30	41	2	7	19	18
BPS (Rs)	172	220	269	315	370	436
ABVPS (Rs)	166	216	264	292	338	391
Balance sheet						
Total Loans	**179,689**	**197,690**	**220,821**	**314,962**	**404,925**	**514,134**
Investments	80	80	80	80	80	80
Cash & deposits	45,373	36,251	53,812	60,163	68,182	72,954
Loans and advances	912	1,590	8,753	11,379	14,793	19,231
Net fixed assets	465	384	377	143	109	64
Other current assets	23,979	42,125	32,247	32,247	32,247	32,247
Total assets	**269,725**	**316,084**	**357,721**	**454,673**	**556,036**	**674,410**
Total Borrowings	184,598	198,817	231,274	291,409	353,570	424,231
Current liabilities	38,245	55,720	51,052	72,817	93,616	118,864
Provisions	8,458	12,503	15,527	20,185	26,240	34,112
Total liabilities	231,302	267,040	297,852	384,410	473,425	577,207
Share capital	2,231	2,231	2,231	2,231	2,231	2,231
Reserves	36,168	46,782	57,659	67,999	80,347	94,940
Shareholders fund	**38,423**	**49,044**	**59,922**	**70,262**	**82,610**	**97,203**
Truck AUM	**291,489**	**360,860**	**401,280**	**480,067**	**554,292**	**653,579**

Source: Company, Kotak Institutional Equities estimates

kotak® Institutional Equities

Bharat Electronics (BHE)

Industrials

REDUCE

JANUARY 28, 2013

RESULT

Coverage view: Cautious

Price (Rs): 1,230

Target price (Rs): 1,300

BSE-30: 20,104

Weakness persists in execution, contribution margin. BEL's 3QFY13 results reflected continued weakness in (1) sales (flat yoy, 4.4% decline in 9M) and (2) contribution margin (35% in 3QFY13, 34.5% in 9MFY13 against 37% in FY2012 and 42% over FY2010-11). Lower-than-expected staff cost share in sales in 3QFY13 (also fell in 9M despite falling sales) led to EBITDA margin reverting to 9.6% after two quarters of EBITDA losses. We await 4QFY13 results (~40% of sales) before reviewing margins (low-margin Government-nominated orders may have been completed in 3QFY13). Retain REDUCE.

Company data and valuation summary

Bharat Electronics

Stock data			
52-week range (Rs) (high,low)			1,710-1,111
Market Cap. (Rs bn)			96.4
Shareholding pattern (%)			
Promoters			75.9
FIIs			3.8
MFs			6.4
Price performance (%)	1M	3M	12M
Absolute	1.0	(6.8)	(15.7)
Rel. to BSE-30	(2.3)	(12.5)	(28.1)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	110.7	125.7	138.7
EPS growth (%)	4.1	13.5	10.4
P/E (X)	10.9	9.6	8.7
Sales (Rs bn)	64.1	70.9	78.4
Net profits (Rs bn)	8.8	10.0	11.1
EBITDA (Rs bn)	8.6	10.4	12.1
EV/EBITDA (X)	3.6	2.7	2.0
ROE (%)	14.3	14.6	14.5
Div. Yield (%)	2.5	2.5	2.5

Continued weak execution and contribution margin cause concern

BEL reported lower-than-estimated revenue of Rs14.4 bn (an 8% miss), relatively flat yoy. We note a similar trend (flat/declining revenue in 1HFY13), attributed to execution delays in the systems business from delays in (1) bulk-production clearance, (2) customer trials and (3) acceptances. Contribution margin in 3QFY13 (35%) was weak (32-35% over the past five quarters against 42% over FY2010-11).The fall in contribution margin was largely led by (1) project-specific (low margin Government-nominated civilian orders) factors and (2) structural factors (low-value share in projects, foreign ToT and competition from private-sector/defense PSUs).

Lower-than-expected employee costs as a percentage of sales boost EBITDA margin and PAT

BEL's 3QFY13 EBITDA margin recovered to 9.6% (up 170 bps yoy) after two consecutive quarters of EBITDA losses, led by lower staff costs as a percentage of sales (employee costs As a percentage of sales also declined over 9MFY13 despite an overall fall in revenue). The large beat on EBITDA margin (9.6% against our estimate of 3.5%) led to PAT of Rs1.98 bn (up 13% yoy; significantly ahead of our Rs1.4 bn estimate) despite the miss on revenue.

9M: Revenues declined yoy with small EBITDA loss; PAT entirely supported by other income

BEL reported 9MFY13 revenue of Rs32.6 bn, down 4.4% yoy. It reported almost nil EBITDA (a loss of Rs196 mn) against a profit of Rs1.8 bn in 9MFY12. BEL reported 9MFY13 PAT of Rs2.97 bn (down 30% yoy), supported mainly by other income of Rs5 bn in 9MFY13.

We retain REDUCE on risks to sales, margin; await 4QFY13 results for view on margin recovery

We retain our estimates of Rs111 and Rs126 over FY2013-14 and REDUCE rating (TP: Rs1,300 based on 11X one-year forward EPS) on (1) execution and margin risks, (2) other income of 40% of FY2013E PBT, (3) valuations not necessarily cheap (10XFY2014P, 1.4XFY2014B against15% RoE) though they appear cheap, adjusted for cash. (However, cash has no clear utilization) and (4) infrequent investor communication.

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Revenues disappoint but sharp margin recovery leads to large PAT beat

- **Flat yoy revenues disappoint.** BEL reported 3QFY13 revenue of Rs14.4 bn, relatively flat yoy and about 8% below our estimate of Rs15.7 bn. We note a similar trend (flat/declining revenues in 1HFY13) which was attributed to execution delays in the systems business on delays in (1) bulk production clearance, (2) customer trials and (3) acceptances.

- **Low staff costs lead to margin beat; contribution margin under pressure.** BEL reported a revival in EBITDA margin to 9.6% in 3QFY13 after two consecutive quarters of EBITDA losses and against our expectation of about 3.5%. EBITDA margin at 9.6% was about 170 bps up yoy led by lower employee expenses as a percentage of sales. Note that employee expenses declined by about 12% sequentially on an absolute basis, as well. Pressure points that impacted margins over the past few quarters include (1) large unfactored cost of trials, (2) execution of low-margin orders (such as Government-nominated civilian orders and projects involving foreign ToT) and (3) competition from defense PSUs and the private sector.

- **Margin expansion negates revenue decline, leading to significant PAT beat.** BEL reported other income of Rs1.5 bn, down 4% yoy and 10% qoq (our estimate was Rs1.66 bn). PAT was Rs1.98 bn in 3QFY13, up 13% yoy and significantly ahead of our estimate of Rs1.4 bn (mainly due to higher-than-expected margins despite a miss on the revenue side).

- **9M results: Strong other income negates negative EBITDA, results in small PAT.** In the nine months ending December 31, 2012, BEL reported revenue of Rs32.6 bn, down 4.4% yoy. BEL reported almost nil EBITDA (small EBITDA loss of Rs196 mn against a profit of Rs1.8 bn a year earlier). The PAT was primarily led by other income of Rs5 bn in 9MFY13. BEL reported 9MFY13 PAT of Rs2.97 bn, down 30% yoy.

Low employee cost-led margin surprise negates revenue decline to result in significant PAT beat
BEL: Key numbers, 3QFY13 (Rs mn)

`

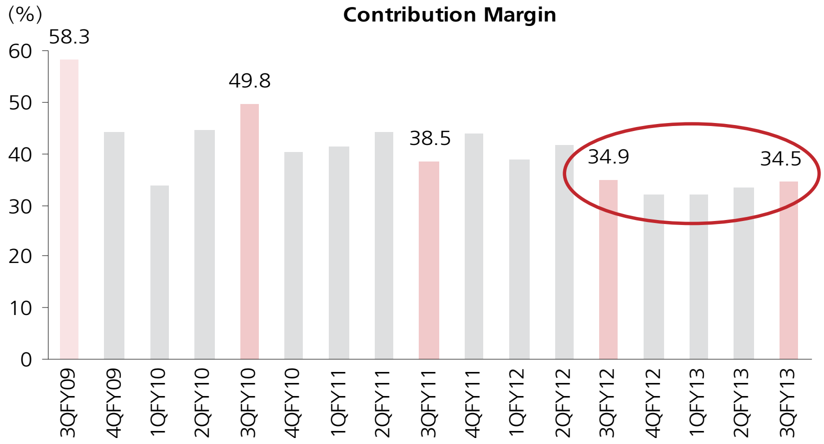
					% change								
	3QFY13	3QFY13E	3QFY12	2QFY13	vs est.	yoy	qoq	9MFY13	9MFY12	% change	FY2013E	FY2012	% change
Net Sales	**14,437**	**15,651**	**14,316**	**10,399**	**(7.8)**	**0.8**	**38.8**	**32,628**	**34,132**	**(4.4)**	**62,603**	**56,500**	**10.8**
Raw Material cost	(11,491)		(9,477)	(6,983)		21.2	64.6	(24,973)	(21,862)	14.2	(39,815)	(36,690)	8.5
Stock Adjustment	2,033		161	71		1,161.1	2,751.8	3,312	742	NA	-	899	NA
Employee Expenses	(2,406)		(2,671)	(2,725)		(9.9)	(11.7)	(7,988)	(8,491)	(5.9)	(11,461)	(10,812)	6.0
Other Expenses	(1,192)		(1,198)	(1,101)		(0.5)	8.3	(3,175)	(2,664)	19.2	(4,445)	(4,927)	(9.8)
Total Expenditure	**(13,055)**	**(15,103)**	**(13,184)**	**(10,737)**	**(13.6)**	**(1.0)**	**21.6**	**(32,824)**	**(32,275)**	**1.7**	**(55,721)**	**(51,530)**	**8.1**
EBITDA	**1,382**	**548**	**1,132**	**(338)**	**152.3**	**22.1**	**(508.9)**	**(196)**	**1,857**	**(110.6)**	**6,882**	**4,970**	**38.5**
Other Income	1,510	1,659	1,576	1,681	(9.0)	(4.2)	(10.1)	5,000	4,846	3.2	6,808	7,031	(3.2)
Interest	(1)	(1)	(0)	(0)	(39.0)	1,047.9	257.5	(4)	(2)	136.7	(6)	(6)	-
Depreciation	(318)	(316)	(293)	(309)	0.8	8.6	3.2	(933)	(880)	6.0	(1,373)	(1,208)	13.7
PBT	**2,573**	**1,889**	**2,415**	**1,034**	**36.2**	**6.5**	**148.8**	**3,867**	**5,821**	**(33.6)**	**12,311**	**10,787**	**14.1**
Tax	(597)	(491)	(668)	(232)	21.5	(10.7)	157.6	(896)	(1,596)	(43.9)	(3,570)	(2,450)	45.7
PAT	**1,976**	**1,398**	**1,746**	**802**	**41.3**	**13.1**	**146.3**	**2,972**	**4,225**	**(29.7)**	**8,740**	**8,337**	**4.8**
Key ratios (%)													
Material cost ratio	65.5		65.1	66.5				66.4	61.9		63.6	63.3	
Contribution margin	**34.5**		**34.9**	**33.5**				**33.6**	**38.1**		**36.4**	**36.7**	
Employee cost ratio	16.7		18.7	26.2				24.5	24.9		18.3	19.1	
Other exps ratio	8.3		8.4	10.6				9.7	7.8		7.1	8.7	
EBITDA margin	**9.6**	**3.5**	**7.9**	**(3.2)**				**(0.6)**	**5.4**		**11.0**	**8.8**	
PBT Margin	17.8	12.1	16.9	9.9				11.9	17.1		19.7	19.1	
PAT Margin	13.7	8.9	12.2	7.7				9.1	12.4		14.0	14.7	
Effective Tax Rate	23.2	26.0	27.7	22.4				23.2	27.4		29.0	22.8	
EPS (Rs)	**24.7**	**17.5**	**21.8**	**10.0**				**37.1**	**52.8**		**109.3**	**103.7**	

Source: Company, Kotak Institutional Equities estimates

Contribution margin remains sedate

We note that BEL has been reporting contribution margin of 32-35% over the past five quarters (3QFY12-3QFY13) against 42% over FY2010-11 (48% over FY2007-09). This 7-10% fall in contribution margin was led by (1) BEL increasing its project share of business and (2) likely execution of negligible margin Government-nominated orders. Besides the decline in contribution margin, BEL's profitability was impacted by increasing employee costs (another 2-3% impact) as revenues grew by 5% over the past three years.

Contribution margin has remained weak over the past five quarters
Contribution margin, March fiscal year ends, 2009-13 (%)



Source: Company, Kotak Institutional Equities

Consolidated financials of Bharat Electronics, March fiscal year-ends, 2007-14E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Income statement								
Net sales	**42,067**	**47,469**	**53,645**	**56,266**	**57,920**	**64,149**	**70,897**	**64,149**
Total expenditure	(31,852)	(36,708)	(45,224)	(47,277)	(52,783)	(57,146)	(62,131)	(57,146)
Total RM consumption	(21,665)	(25,121)	(31,356)	(32,533)	(36,710)	(40,915)	(44,664)	(40,915)
Employee expenses	(6,658)	(7,632)	(10,176)	(10,521)	(10,931)	(11,586)	(12,509)	(11,586)
Other expenses	(3,529)	(3,955)	(3,692)	(4,223)	(5,142)	(4,646)	(4,957)	(4,646)
EBDITA	**10,215**	**10,762**	**8,422**	**8,989**	**5,137**	**7,003**	**8,766**	**7,003**
Other income	2,456	2,348	3,831	3,960	7,185	6,962	6,964	6,962
Interest	(3)	(108)	(6)	(5)	(7)	(6)	(6)	(6)
Depreciation	(1,007)	(1,128)	(1,223)	(1,269)	(1,256)	(1,460)	(1,539)	(1,460)
PBT	**11,661**	**11,873**	**11,023**	**11,675**	**11,060**	**12,499**	**14,186**	**12,499**
Tax	(3,503)	(3,568)	(3,333)	(3,094)	(2,555)	(3,643)	(4,134)	(3,643)
PAT	**8,157**	**8,305**	**7,691**	**8,582**	**8,504**	**8,856**	**10,052**	**8,856**
One-time items	216	(775)	(315)	201	(31)	-	-	-
Reported PAT	8,373	7,530	7,376	8,782	8,473	8,856	10,052	8,856
EPS	**104.7**	**94.1**	**92.2**	**109.7**	**105.8**	**110.6**	**125.6**	**138.6**
Balance sheet								
Total shareholders funds	**33,444**	**39,246**	**44,792**	**51,524**	**59,050**	**65,097**	**72,342**	**65,097**
Share capital	800	800	800	800	800	800	800	800
Reserves & surplus	32,644	38,446	43,992	50,724	58,250	64,297	71,542	64,297
Total debt	**21**	**18**	**13**	**9**	**3**	**-**	**-**	**-**
Total liabilities	**33,465**	**39,265**	**44,805**	**51,533**	**59,053**	**65,097**	**72,342**	**65,097**
Gross block	15,173	16,710	17,988	18,873	20,042	21,292	22,292	21,292
Less: accum. depreciation	(10,803)	(11,824)	(12,881)	(13,843)	(14,743)	(16,203)	(17,742)	(16,203)
Net block	**4,370**	**4,886**	**5,107**	**5,030**	**5,299**	**5,089**	**4,550**	**5,089**
Capital work in progress	354	499	327	597	1,470	1,470	1,470	1,470
Net current assets	**2,700**	**5,822**	**1,920**	**(21,286)**	**(18,223)**	**(9,311)**	**(4,811)**	**(9,311)**
Deferred tax assets	1,425	1,480	1,583	1,825	2,304	2,304	2,304	2,304
Total assets	**33,465**	**39,265**	**44,805**	**51,533**	**59,053**	**65,097**	**72,342**	**65,097**

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Oriental Bank of Commerce (OBC)

Banks/Financial Institutions

REDUCE

JANUARY 28, 2013

RESULT

Coverage view: Cautious

Price (Rs): 330

Target price (Rs): 325

BSE-30: 20,104

A weak performance. OBC delivered a weak business performance in 3QFY13 with earnings declining 8% yoy (28% yoy at PBT level). Loan impairment was high on slippages and fresh restructuring. NIM showed a marginal expansion as cost decline is picking up pace. Retain REDUCE as we expect (1) return ratios to remain weak to factor elevated provisions and expenses for wage settlement and (2) weak revenue growth to continue on the back of slower loan growth and negligible NIM expansion.

Company data and valuation summary

Oriental Bank of Commerce

Stock data			
52-week range (Rs) (high,low)			368-200
Market Cap. (Rs bn)			96.2
Shareholding pattern (%)			
Promoters			58.0
FIIs			9.5
MFs			6.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	0.5	5.0	33.3
Rel. to BSE-30	(3.8)	(2.0)	13.2

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	50.0	55.3	60.2
EPS growth (%)	27.9	10.6	8.8
P/E (X)	6.6	6.0	5.5
NII (Rs bn)	48.2	55.9	62.9
Net profits (Rs bn)	14.6	16.1	17.6
BVPS	362.2	409.5	459.3
P/B (X)	0.9	0.8	0.7
ROE (%)	11.7	11.9	11.9
Div. Yield (%)	3.1	3.4	3.7

Revenue growth struggles while loan impairments remain high

3QFY13 was a weak quarter as revenue growth was slow at 10% yoy and provisions were higher for loan impairment (slippages at 2.8%, write-off at 1.2% and fresh restructuring at 2.5%). We note that slippages are coming not only from the bank's large corporate portfolio but also from SME. Benefit of repayment in restructured loans (aviation sector) was offset by higher fresh restructuring. Earnings de-grew 8% yoy (28% yoy at PBT level). NIM expansion was moderate but benefit from declining costs of deposits is moving to lower lending yields. The bank has made provisions for new wage settlement. The high duration portfolio did not result in investment gains.

Retain REDUCE as return ratios are likely to remain weak

We continue to maintain our REDUCE rating and value the bank at ₹325 (unchanged) which implies 0.8X (12M forward) book and 6X EPS. We expect return ratios to be subdued (RoEs at 12% and RoAs at 0.7-0.8%). We are not too positive on margin expansion cycle for the bank as we expect lending spreads (which are at a decade high) to decline but would be partially offset by an improvement in investment spreads. We expect revenue growth to struggle on the back of lower loan growth and elevated operating costs for the new wage settlement. We would be extremely cautious on growth in retail as the slippages reported in the past few quarters have been at ~4% despite housing being the primary loan in this portfolio. Impact of dynamic provisions would be lower as the current costs are already at ~140 bps.

Modest expansion of NIM; sharp expansion unlikely in our view

The current quarter saw a marginal expansion of NIM (5 bps qoq) to 2.8% as costs have started to ease (pace of decline has accelerated—13 bps in 3QFY13 as compared to 5 bps in 2QFY13—which is positive). We see the decline to continue over the next few quarters. Lending spreads for the bank are at a decade high while loan growth has slowed considerably—both are likely to reverse over the next few quarters which should keep NIM expansion under check. Note that investment spreads are likely to improve as the bank booked strong gains in FY2009-10 which is getting replaced with high yielding investment portfolio. We are factoring overall NIMs to improve by ~5 bps over FY2013-15E.

QUICK NUMBERS

- Earnings declined 8% yoy; NII grew 6% yoy
- Slippages at 2.8%; restructured loans at 9.5%; net NPLs at 2.1%
- Maintain REDUCE with TP at ₹325 (unchanged)

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No respite on slippages; high repayments cushion fresh restructuring

Loan impairment remained high for the quarter on the back of higher slippages and fresh restructuring. Slippages for the quarter (2.8% of loans) were primarily from the large corporate loan portfolio—a function of the loan book and the underlying economic conditions. Fresh slippages in the SME portfolio remained high at >3% but performance on retail was impressive (<1% of loans).

Overall gross NPL increased by 7% qoq despite higher write-offs (1.2% of loans). OBC has one of the most aggressive write-off policies among peers but we believe some of these write-offs are technical in nature as the recovery from this portfolio has also increased in recent quarters (reflected in non-interest income).

Fresh restructuring remains high in few sectors

Outstanding restructured loans were at 9.5% of loans as compared to 9.7% in the previous quarter. The decline was primarily on the back of higher repayment from the aviation sector but was offset by fresh restructuring in the iron and steel portfolio. Of the total restructured loans, ~50% are primarily from SEB/aviation exposure. The bank has restructured 60% of the bank's overall SEB exposure. The new restructuring package announced by the Government for SEBs and bond issuance (state-owned aviation company) could result in a decline of ~40% in outstanding restructured loans.

Our outlook on asset quality remains unchanged as we see stress on corporate loans to result in elevated restructuring/NPLs—slight decline from current levels over FY2013-15E. We would be cautious on the banks' shift to retail as the slippages in this portfolio are high. We expect credit costs at 1.4% to factor high slippages/restructuring, restructured loans and dynamic provisions.

Loan growth at 12% yoy; need to relook at retail, SME or growth strategy

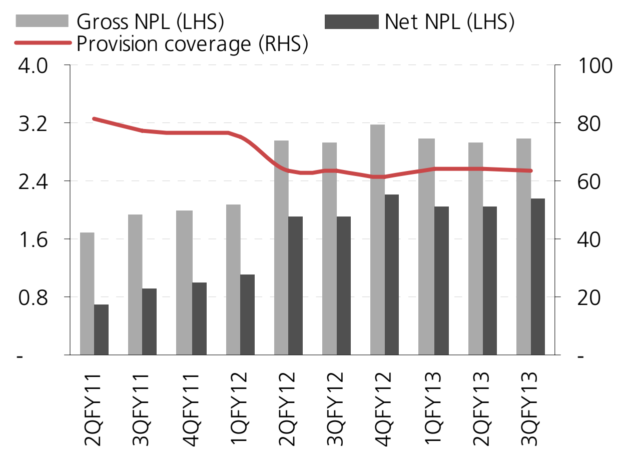
Overall loan growth slowed to 12% yoy on the back of slower growth in the corporate portfolio (11% yoy). Retail loan portfolio grew 13% yoy while agriculture and SME portfolio grew 18% yoy. Exposure to infrastructure has been broadly stable at about 22% of loans, of which power is 13%, telecom is 2% and roads/port is 4%. Within power, exposure is mainly towards state governments (8.2% of loans mainly to distribution companies—5.5% of loans). However, we note that the share of private exposure has steadily started to increase to 5% of loans from 3.5% in September 2012—a key worry in our view. We are building loan growth at 13-14% CAGR for FY2012-14E.

Deposits grew at the slowest pace at 8% yoy (flat qoq) as growth opportunity has slowed and the bank is de-bulking its deposit profile (currently at 19% of deposits from 30% in December 2011). CASA ratio for the quarter was stable at 24%—not too positive given the slow growth in deposits.

Other highlights for the quarter

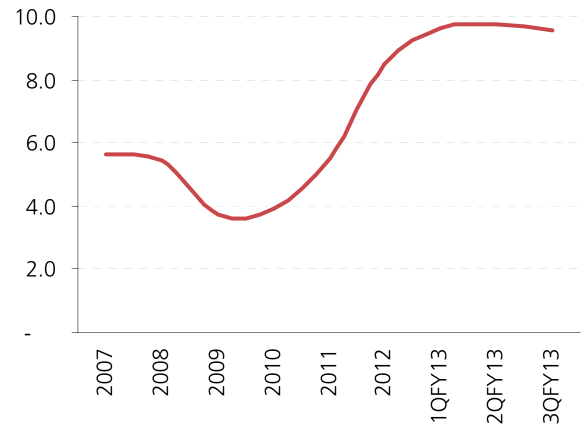
- Non-interest income grew 28% yoy mainly on the back of strong growth in recovery income (3X yoy). Core fee income grew 10% yoy. Despite a high duration investment book, treasury income (adjusted for depreciation) was similar to the previous quarter—surprising in our view.
- Cost-income ratio for the quarter stood at 41%. The bank has started to make provisions for the new wage settlement.
- The bank reversed provision for tax in the current quarter primarily on the back of higher write-offs.

Exhibit 1: Gross NPL declined marginally in 1QFY13
NPLs and provision coverage, March fiscal year-ends, 2QFY11-3QFY13 (%)



Source: Company, Kotak Institutional Equities

Exhibit 2: Nearly 50% of restructured loans are Air India and SEBs
Restructured loans to total loans, March fiscal year-ends, 2007-3QFY13 (%)



Source: Company, Kotak Institutional Equities

Exhibit 3: OBC has to improve its investment yields to offset the compression in lending spreads
March fiscal year-ends, 2008-12 (%)

	NIM					Yield on advances					Yield on investments					Cost of funds				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Andhra	2.7	2.7	2.8	3.3	3.3	10.2	10.8	10.3	10.5	12.0	7.3	7.0	6.4	6.9	7.4	6.0	6.5	5.6	5.5	7.0
Corporation	2.5	2.3	2.3	2.4	2.1	9.3	10.0	8.9	8.6	10.2	7.6	7.4	7.1	6.0	6.8	5.8	6.3	5.6	5.3	6.9
Indian	3.2	3.5	3.7	3.7	3.5	10.2	11.1	10.2	10.3	11.4	8.0	7.7	8.0	7.2	7.8	5.6	6.2	5.6	5.4	6.6
IOB	3.0	2.7	2.6	2.8	2.6	10.3	10.8	10.0	9.3	10.8	8.7	7.3	7.0	7.0	7.7	6.3	6.6	6.1	5.5	7.0
OBC	2.1	2.0	2.4	2.9	2.6	9.8	10.6	10.0	10.0	11.6	8.6	8.3	7.8	6.6	7.3	6.9	7.4	6.5	5.8	7.6
Union	2.7	2.8	2.4	3.0	2.9	9.8	10.4	9.0	8.9	9.7	7.8	7.5	7.2	7.2	7.7	6.1	6.1	5.5	5.1	6.2

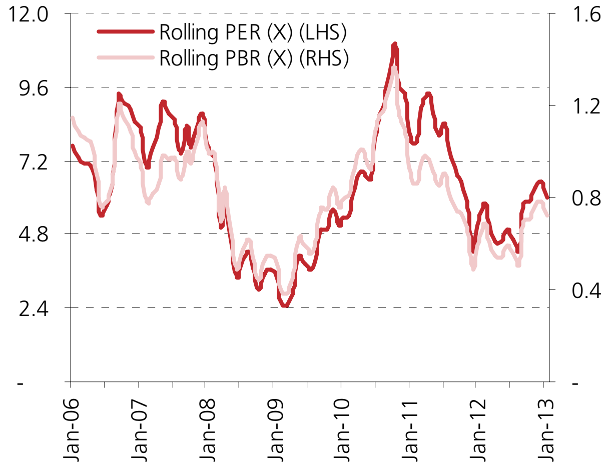
Source: Company, Kotak Institutional Equities

Exhibit 4: Old and new estimates
Old and new estimates, March fiscal year-ends, 2013-15E (₹ mn)

	New Estimates			Old Estimates			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Net interest income	48,173	55,938	62,937	49,310	57,607	63,960	(2.3)	(2.9)	(1.6)
Advances (Rs bn)	1,284	1,454	1,655	1,284	1,467	1,670	-	(0.9)	(0.9)
NIM (%)	2.6	2.7	2.6	2.7	2.7	2.7			
Loan loss provisions	19,229	19,163	21,758	16,826	19,259	21,963	14.3	(0.5)	(0.9)
Other income	15,939	17,608	19,574	14,278	15,809	17,418	11.6	11.4	12.4
Fee income	9,436	10,379	11,209	8,347	9,182	9,916	13.0	13.0	13.0
Treasury income	2,000	2,500	3,250	2,000	2,500	3,000	-	-	8.3
Operating expenses	26,315	30,642	35,055	26,616	31,000	35,470	(1.1)	(1.2)	(1.2)
Employee expenses	15,494	18,438	21,344	15,795	18,796	21,758	(1.9)	(1.9)	(1.9)
Investment depn	(1,200)	200	100	(1,200)	200	100			
PBT	**19,446**	**23,381**	**25,437**	**21,024**	**22,797**	**23,684**	**(7.5)**	**2.6**	**7.4**
Net profit	**14,598**	**16,148**	**17,568**	**15,362**	**16,657**	**17,305**	**(5.0)**	**(3.1)**	**1.5**

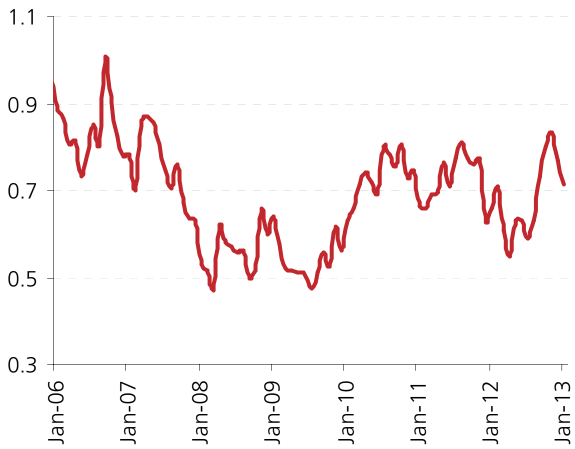
Source: Company, Kotak Institutional Equities estimates

Exhibit 5: OBC - Rolling PBR and PER
Jan 2006-Jan 2013 (X)



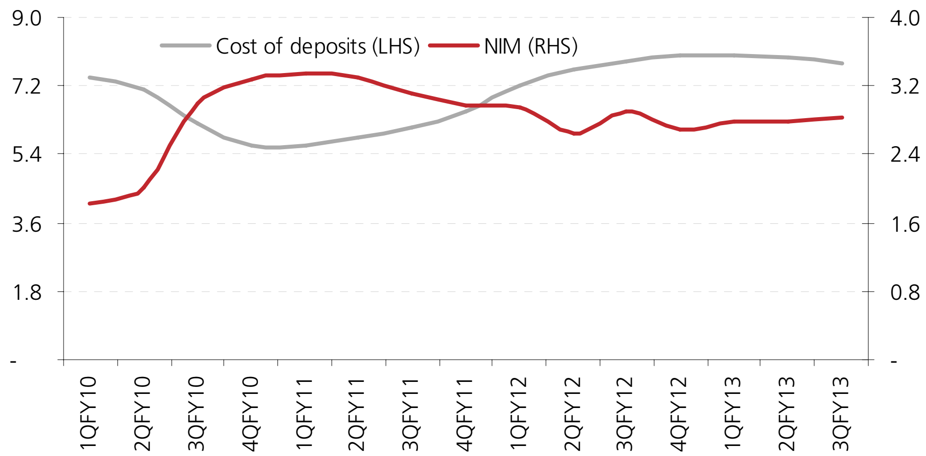
Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 6: OBC is currently trading marginally higher over its long term-term discount to peers
OBC trading premium to public banks, Jan 2006-Jan 2013 (X)



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 7: NIM has remained stable qoq
NIM and cost of deposits, March fiscal year-ends, 1QFY10-3QFY13 (%)



Source: Kotak Institutional Equities

Exhibit 8: OBC, quarterly results
March fiscal year-ends, 3QFY12-3QFY13 (₹ mn)

	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	% chg	3QFY13E	Actual Vs KS
Interest income	41,965	42,208	42,872	44,146	44,687	6	45,564	(2)
Loans	32,377	32,802	33,320	34,251	35,073	8	35,421	(1)
Investments	8,539	9,339	9,457	9,860	9,535	12	10,110	(6)
Balance with RBI & banks	1,039	66	85	33	78	(93)	33	134
Others	11	2	10	2	2	(83)	-	-
Interest expense	30,566	31,526	31,613	32,575	32,643	7	32,961	(1)
Net interest income	**11,399**	**10,682**	**11,258**	**11,571**	**12,044**	**6**	**12,603**	**(4)**
Non-int.income	**2,953**	**3,438**	**4,084**	**4,068**	**3,778**	**28**	**3,113**	**21**
Other income ex treasury	2,588	3,000	4,218	3,549	3,160	22	2,490	27
Sale of invts.	365	438	(133)	519	618	69	623	(1)
Total income	**14,352**	**14,119**	**15,343**	**15,639**	**15,822**	**10**	**15,716**	**1**
Op. expenses	**6,081**	**6,580**	**6,377**	**6,427**	**6,559**	**8**	**6,798**	**(4)**
Employee cost	3,632	3,957	3,762	3,665	3,906	8	4,104	(5)
Other cost	2,449	2,623	2,615	2,762	2,652	8	2,693	(2)
Operating profit	8,271	7,539	8,965	9,212	9,264	12	8,918	4
Provisions and cont.	3,809	5,344	3,321	4,599	6,038	59	3,907	55
Investment depreciation	903	(186)	(1,318)	(62)	153	(83)	(100)	(253)
NPLs	2,440	5,000	4,301	4,410	4,292	76	3,749	14
PBT	**4,462**	**2,196**	**5,644**	**4,614**	**3,226**	**(28)**	**5,011**	**(36)**
Tax	920	(453)	1,730	1,592	(39)	(104)	1,450	(103)
Net profit	**3,542**	**2,649**	**3,914**	**3,022**	**3,264**	**(8)**	**3,561**	**(8)**
Tax rate (%)	20.6	(20.6)	30.7	34.5	(1.2)	(105.8)	28.9	(104.1)
Key balance sheet items (Rs bn)								
Deposits	1,562	1,560	1,582	1,642	1,685	8		
CASA ratio (%)	22.3	24.1	24.0	24.1	23.9			
Advances	1,107	1,120	1,139	1,178	1,236	12		
Retail loans	121	116	119	131	136	13		
Large corporates	575	576	593	616	641	11		
Mid corporates	221	227	227	233	241	9		
Investments	533	525	542	553	548	3		
Other details								
Asset quality details								
Gross NPLs (Rs bn)	32.3	35.8	33.8	34.7	36.9	14.2		
Gross NPLs (%)	2.9	3.2	3.0	2.9	3.0			
Net NPLs (Rs bn)	20.6	24.6	23.1	23.9	26.1	26.6		
Net NPLs (%)	1.9	2.2	2.1	2.0	2.1			
Provision coverage (%)	36.2	31.3	31.7	30.9	29.3			
Provision coverage (%, w/o)	63.3	61.5	64.4	64.5	63.6			
Restructured loans (Rs bn)	60.9	95.1	109.5	114.8	118.0			
% of loan book	5.5	8.5	9.6	9.7	9.5			
Yield management measures (%)								
Yield on advances	12.6	12.3	12.4	12.4	12.1			
Yield on investments	7.5	7.5	7.5	7.5	7.4			
Cost of deposits	7.9	8.0	8.0	7.9	7.8			
Net interest margin	2.9	2.7	2.8	2.8	2.8			

Notes:
(1) Outstanding restructured loans represent loans only for those which are less than 2 years and are standard. Revised from 1QFY12.

Source: Company, Kotak Institutional Equities

Exhibit 9: OBC, growth rates and key ratios
March fiscal year-ends, 2010-15E (%)

	2010	2011	2012	2013E	2014E	2015E
Growth rates (%)						
Net loan	21.9	14.9	16.8	14.7	13.2	13.8
Customer assets	20.5	14.4	16.6	14.4	13.0	13.6
Investments excld. CPs and debentures growth	29.8	41.0	5.0	15.5	16.3	13.8
Net fixed assets	0.7	0.3	1.6	10.5	9.5	8.7
Cash and bank balance	19.4	(20.4)	(24.9)	3.5	2.1	0.4
Total Asset	22.1	17.4	10.4	13.8	13.2	12.9
Deposits	22.3	15.6	12.2	14.7	14.3	13.8
Current	32.5	(8.0)	(0.2)	10.8	10.4	9.8
Savings	26.6	25.0	14.2	17.8	12.8	12.3
Fixed	20.3	16.3	12.8	14.2	15.0	14.5
Net interest income	45.6	43.7	0.9	14.3	16.1	12.5
Loan loss provisions	159.0	72.0	27.6	55.5	(0.3)	13.5
Total other income	12.0	(20.0)	29.2	28.5	10.5	11.2
Net fee income	42.5	11.0	15.0	30.0	10.0	8.0
Net capital gains	(12.0)	(82.2)	125.9	17.5	25.0	30.0
Net exchange gains	(29.2)	62.4	40.0	(20.0)	5.0	15.0
Operating expenses	21.9	12.2	22.4	13.7	16.4	14.4
Employee expenses	28.5	7.9	29.4	14.2	19.0	15.8
Key ratios (%)						
Yield on average earning assets	8.5	8.3	9.6	9.6	9.4	9.2
Yield on average loans	10.0	10.0	11.6	11.6	11.2	10.9
Yield on average investments	7.8	6.6	7.3	7.0	6.9	6.8
Average cost of funds	6.5	5.8	7.6	7.5	7.2	7.0
Interest on deposits	6.4	5.8	7.6	7.5	7.2	7.0
Difference	**2.0**	**2.5**	**2.1**	**2.1**	**2.2**	**2.2**
Net interest income/earning assets	2.4	2.9	2.6	2.6	2.7	2.6
New provisions/average net loans	0.7	1.1	1.2	1.6	1.4	1.4
Interest income/total income	70.8	81.3	77.3	75.1	76.1	76.3
Fee income to total income	13.9	12.4	13.3	14.7	14.1	13.6
Fees income to PBT	35.6	31.1	50.9	48.5	44.4	44.1
Net trading income to PBT	10.6	(3.2)	(1.6)	8.6	10.0	12.1
Exchange inc./PBT	4.7	6.0	12.4	7.3	6.4	6.7
Operating expenses/total income	41.0	36.8	42.4	41.0	41.7	42.5
Operating expenses/assets	1.3	1.3	1.4	1.4	1.4	1.4
Operating profit /AWF	1.0	1.4	0.9	0.9	1.0	0.9
Tax rate	29.3	26.3	19.9	24.9	30.9	30.9
Dividend payout ratio	20.1	20.2	20.2	20.2	20.2	20.2
Share of deposits						
Current	8.5	6.8	6.0	5.8	5.6	5.4
Fixed	75.0	75.4	75.9	75.6	76.0	76.5
Savings	16.5	17.8	18.1	18.6	18.4	18.1
Loans-to-deposit ratio	69.4	69.0	71.8	71.8	71.1	71.1
Equity/assets (EoY)	6.0	6.9	6.7	6.4	6.2	6.0
Asset quality trends (%)						
Gross NPL	1.7	2.0	3.2	2.9	2.7	2.4
Net NPL	0.9	1.0	2.2	2.0	1.6	1.3
Slippages	1.7	1.9	4.1	2.6	2.6	2.6
Provision coverage	50.7	51.2	31.3	35.1	44.3	49.2
Dupont analysis (%)						
Net interest income	2.3	2.8	2.5	2.5	2.6	2.6
Loan loss provisions	0.5	0.6	0.7	1.0	0.9	0.9
Net other income	1.0	0.6	0.7	0.8	0.8	0.8
Operating expenses	1.6	1.4	1.5	1.4	1.4	1.4
(1- tax rate)	70.7	73.7	80.1	75.1	69.1	69.1
ROA	0.9	1.0	0.7	0.8	0.7	0.7
Average assets/average equity	16.0	15.5	14.7	15.3	15.9	16.5
ROE	14.5	15.5	9.9	11.7	11.9	11.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: OBC, income statement and balance sheet
March fiscal year-ends, 2010-15E (₹ mn)

	2010	2011	2012	2013E	2014E	2015E
Income statement						
Total interest income	102,571	120,878	158,149	177,721	198,170	219,197
Loans	75,675	89,539	120,746	138,875	153,388	168,715
Investments	24,618	27,744	36,709	38,580	44,508	50,204
Cash and deposits	2,279	3,595	693	266	274	277
Total interest expense	73,497	79,103	115,991	129,548	142,231	156,259
Net interest income	29,074	41,775	42,158	48,173	55,938	62,937
Loan loss provisions	5,636	9,694	12,367	19,229	19,163	21,758
Net interest income (after prov.)	23,438	32,082	29,791	28,944	36,775	41,179
Other income	12,000	9,601	12,402	15,939	17,608	19,574
Net fee income	5,721	6,349	7,258	9,436	10,379	11,209
Net capital gains	4,236	754	1,703	2,000	2,500	3,250
Net exchange gains	759	1,233	1,775	1,420	1,491	1,714
Operating expenses	16,860	18,925	23,155	26,315	30,642	35,055
Employee expenses	9,713	10,485	13,568	15,494	18,438	21,344
Depreciation on investments	(5)	963	2,854	(1,200)	200	100
Other Provisions	2,529	1,409	1,928	321	161	161
Pretax income	16,055	20,386	14,258	19,446	23,381	25,437
Tax provisions	4,708	5,357	2,842	4,849	7,232	7,868
Net Profit	11,347	15,029	11,416	14,598	16,148	17,568
% growth	25.3	32.4	(24.0)	27.9	10.6	8.8
Operating profit	11,814	20,595	15,409	16,246	21,081	22,287
% growth	29.5	74.3	(25.2)	5.4	29.8	5.7
Balance sheet						
Balance with banks	64,776	8,337	2,045	2,045	2,045	2,045
Net value of investments	357,853	495,454	521,013	598,943	693,109	785,760
Govt. and other securities	327,530	365,997	393,487	472,097	566,264	658,914
Shares	5,207	6,571	5,002	5,002	5,002	5,002
Debentures and bonds	19,256	18,036	19,813	19,813	19,813	19,813
Net Owned assets	13,940	13,978	14,207	15,702	17,201	18,699
Other assets	21,624	28,739	39,035	39,035	39,035	39,035
Total assets	**1,374,310**	**1,613,434**	**1,781,302**	**2,027,896**	**2,295,225**	**2,590,693**
Deposits	1,202,576	1,390,543	1,559,649	1,788,235	2,043,789	2,326,357
Borrowings and bills payable	53,283	60,898	53,334	60,793	60,793	60,793
Other liabilities	36,071	51,021	48,894	48,894	48,894	48,894
Total liabilities	**1,291,930**	**1,502,462**	**1,661,877**	**1,897,922**	**2,153,475**	**2,436,044**
Paid-up capital	2,505	2,918	2,918	2,918	2,918	2,918
Reserves & surplus	79,874	108,054	116,507	127,057	138,832	151,732
Total shareholders' equity	**82,379**	**110,971**	**119,425**	**129,974**	**141,750**	**154,649**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Ashok Leyland (AL)

Automobiles

ADD

JANUARY 28, 2013

RESULT

Coverage view: Neutral

Price (Rs): 25

Target price (Rs): 26

BSE-30: 20,104

Near-term jitters, but inexpensive valuations. Commercial vehicle cycle has surprised us negatively and domestic truck volumes are likely to decline by 25% yoy in FY2013E. We expect a modest recovery in truck volumes in FY2014E (+13% yoy) due to uptick in industrial production, moderate decline in interest rates and replacement demand. The stock trades at inexpensive valuations on depressed earnings. We maintain ADD rating on the stock with a target price of Rs26.

Company data and valuation summary

Ashok Leyland

Stock data			
52-week range (Rs) (high,low)			34-19
Market Cap. (Rs bn)			66.5
Shareholding pattern (%)			
Promoters			51.0
FIIs			16.8
MFs			2.2
Price performance (%)	1M	3M	12M
Absolute	(5.8)	7.8	(8.9)
Rel. to BSE-30	(9.8)	0.5	(22.6)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	0.8	2.1	2.7
EPS growth (%)	(60.9)	156.0	27.1
P/E (X)	30.1	11.8	9.3
Sales (Rs bn)	121.0	144.0	166.7
Net profits (Rs bn)	2.2	5.7	7.2
EBITDA (Rs bn)	10.5	15.2	17.6
EV/EBITDA (X)	11.1	7.8	6.6
ROE (%)	11.0	15.3	18.1
Div. Yield (%)	1.0	3.4	4.3

Downcycle in CVs is short and recovery tends to be quite sharp

Our analysis of past 15-year trend (please see Exhibit 2) in domestic truck volume growth indicates that commercial vehicle cycle downturns have been short and recovery tends to be quite sharp despite moderate pick-up in industrial production. We believe truck operators delay purchases during periods of low freight demand and come back due to replacement demand. Barring FY2008/09, when funding was a constraint, commercial vehicle cycle downturns have not lasted for more than 1.5 years. Our economist expects 5% growth in industrial production in FY2014E which should aid double-digit volume growth in truck. We are already 12 months into the downturn and are likely to witness a 25% yoy decline in volume growth in FY2013E.

Ashok Leyland also guided to a 10% yoy growth in the industry in FY2014E.

We revise our estimates downwards due to significant decline in MHCV volumes post Dec 2013

We have revised our earnings downward by 14-18% over FY2014/15E reflecting 13% cut in our MHCV volume estimates and increase in interest expenses due to sharp rise in debt. The company has indicated that recovery in MHCV cycle could be delayed and 4QFY13 volumes are likely to remain very weak. Our EBITDA margin assumptions have been increased by 80-90 bps as we expect pricing to bottom out (discounts have reached very high levels, around 6-7% of vehicle price) given our outlook on 13% yoy increase in domestic truck volumes in FY2014E.

We maintain our ADD rating on the stock due to inexpensive valuations and our expectations of moderate recovery in truck growth after a 20% yoy decline in FY2013E. We have reduced our target price to Rs26 (from Rs29 earlier) based on cut in our earnings estimates. We value the company at 12X PE multiple on our FY2014 earnings estimates.

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We revise our estimates downwards by 14-18% over FY2014/15E

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Exhibit 1: We revise our earnings estimates downwards by 14-18% for FY2014-15E
Earning revision table, March fiscal year-ends, 2014-15E

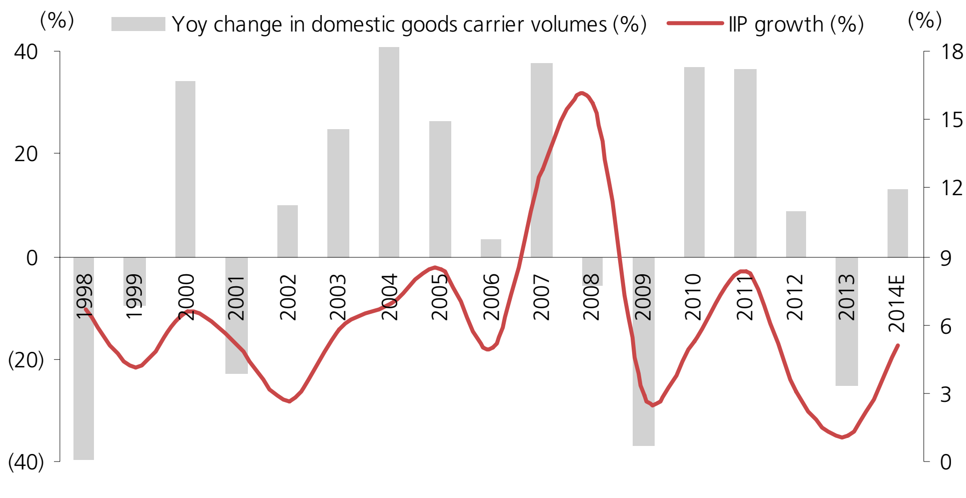
	New estimates		Old estimates		% change	
	2014E	2015E	2014E	2015E	2014E	2015E
Dost volumes	45,000	54,000	45,000	54,000	—	—
MHCV volumes	88,676	100,169	101,329	114,499	(12.5)	(12.5)
Volumes (units)	**133,676**	**154,169**	**146,329**	**168,499**	**(8.6)**	**(8.5)**
Net sales (Rs mn)	**143,994**	**166,729**	**160,115**	**184,332**	**(10.1)**	**(9.5)**
EBITDA (Rs mn)	15,204	17,633	15,885	18,123	(4.3)	(2.7)
EBITDA margin (%)	10.6	10.6	9.9	9.8		
Adj. net profit (Rs mn)	**5,655**	**7,186**	**6,889**	**8,306**	**(17.9)**	**(13.5)**
EPS (Rs)	2.1	2.7	2.6	3.1	(17.9)	(13.5)

Source: Kotak Institutional Equities estimates

Conference call takeaways

- The company expects domestic truck industry to grow by 10% yoy in FY2014 due to low base effect, replacement demand and moderate decline in interest rates. Our analysis of past 15 year of domestic truck industry volume trend suggests down-cycle in trucks is short and lasts on an average of 1.5 years. Our economist expects a 5% growth in industrial production in FY2014E which should aid double-digit growth in trucks supported by replacement demand and pick-up in freight demand.

Exhibit 2: Downturn in CV cycle lasts for around ~1.5 years
Growth rate in domestic goods carrier segment and IIP in India, March fiscal year-ends, 1998-2014E (%)



Source: Company, Kotak Institutional Equities estimates

- Discounts on trucks increased by Rs15,000/vehicle sequentially due to weak demand. The company was also impacted by 3.5% cut in duty drawback rates on exports which impacted export revenues.

- The company has increased prices by 2% in January 2013 but we believe it would be very difficult to retain this benefit in a weak market. Lower volumes of multi-axle trucks in the product mix also impacted gross margins in 3QFY13.

- Dost continues to garner good response. The company indicated that they were constraint by gearbox supplies which has been resolved. The company expects to increase volume run-rate of Dost to 3,500/month from 4QFY13 (from 2,500/month currently).

- The company's non-vehicle revenues reported a strong growth. Engine volumes almost doubled in 3QFY13 while spare part sales were up 91% yoy.

- The company has very high debt of around Rs50 bn (which has increased from Rs31 bn by end of March 2013) due to rise in investments and capex requirements. The company has spent Rs4.4 bn in capex and Rs5.5 bn in investments in 9MFY13. The company is guiding to raise another Rs5 bn in 4QFY13 to fund investments worth Rs3.5 bn and capex of Rs1.5 bn. Majority of capex is being utilized for product development while investments are being used to fund expansion of Hinduja Foundries, Nissan LCV joint venture, etc.

- The company plans to divest non-core assets and liquid investments like stake in IndusInd Bank to reduce debt.

Exhibit 3: We expect domestic truck volumes to grow at 12% yoy in FY2014E
Volume assumptions, March fiscal year-ends, 2010-15E (units)

	2010	2011	2012	2013E	2014E	2015E
Buses	16,405	20,425	20,638	20,019	21,020	23,122
Trucks	40,728	62,818	61,252	49,002	54,882	62,565
LCV	814	701	398	438	482	530
Dost	—	—	7,383	36,000	45,000	54,000
Domestic volumes	**57,947**	**83,944**	**89,671**	**105,458**	**121,383**	**140,217**
Buses	2,076	4,808	5,207	5,363	6,168	6,908
Trucks	3,617	5,285	6,944	4,514	5,191	5,969
LCV	286	164	774	813	935	1,075
Export volumes	**5,979**	**10,257**	**12,925**	**10,690**	**12,293**	**13,952**
Buses	18,481	25,233	25,845	25,382	27,187	30,030
Trucks	44,345	68,103	68,196	53,515	60,072	68,534
LCV	1,100	865	1,172	1,251	1,416	1,605
Dost	—	—	7,383	34,000	45,000	54,000
Total volumes	**63,926**	**94,201**	**102,596**	**114,148**	**133,676**	**154,169**
Growth (% yoy)						
Buses	2.3	24.5	1.0	(3.0)	5.0	10.0
Trucks	31.1	54.2	(2.5)	(20.0)	12.0	14.0
LCV	58.4	(13.9)	(43.2)	10.0	10.0	10.0
Dost	—	—	—	387.6	25.0	20.0
Domestic volumes	**21.7**	**44.9**	**6.8**	**17.6**	**15.1**	**15.5**
Buses	(43.8)	131.6	8.3	3.0	15.0	12.0
Trucks	58.6	46.1	31.4	(35.0)	15.0	15.0
LCV	(65.8)	(42.7)	372.0	5.0	15.0	15.0
Export volumes	**(12.2)**	**71.6**	**26.0**	**(17.3)**	**15.0**	**13.5**
Buses	(6.3)	36.5	2.4	(1.8)	7.1	10.5
Trucks	33.0	53.6	0.1	(21.5)	12.3	14.1
LCV	(18.5)	(21.4)	35.5	6.7	13.2	13.3
Dost	—	—	—	360.5	32.4	20.0
Total volumes	**17.4**	**47.4**	**8.9**	**11.3**	**17.1**	**15.3**

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: We expect EBITDA margins to improve by 190 bps in FY2014E

Ashok Leyland profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
Profit model						
Volumes	63,926	94,201	102,596	114,148	133,676	154,169
Net sales	72,447	111,256	127,694	121,039	143,994	166,729
EBITDA	**7,628**	**12,137**	**12,577**	**10,517**	**15,204**	**17,633**
Other income	189	234	249	285	310	337
Interest	(811)	(1,679)	(2,414)	(4,153)	(4,809)	(4,857)
Depreciation	(2,041)	(2,674)	(3,528)	(3,703)	(3,891)	(4,131)
Profit before tax	**5,448**	**8,018**	**6,900**	**4,510**	**6,813**	**8,983**
Current tax	(1,299)	(1,112)	(775)	(893)	(1,820)	(2,623)
Deferred tax	88	(594)	(465)	155	661	826
Net profit	**4,237**	**6,313**	**5,660**	**3,772**	**5,655**	**7,186**
Earnings per share (Rs)	**1.4**	**2.4**	**2.1**	**0.8**	**2.1**	**2.7**
Balance sheet						
Equity	36,563	39,630	42,082	45,091	48,100	51,923
Deferred tax liability	4,611	5,338	4,908	4,753	4,091	3,265
Total Borrowings	22,039	25,683	30,979	52,228	53,228	53,228
Current liabilities	29,608	35,283	41,189	33,215	39,775	46,003
Total liabilities	**92,820**	**105,933**	**119,157**	**135,287**	**145,194**	**154,419**
Net fixed assets	48,110	49,918	54,617	56,915	58,023	58,892
Investments	3,262	12,300	15,345	22,345	27,345	30,345
Cash	5,189	1,795	326	1,209	374	3,742
Other current assets	36,208	41,877	47,962	53,911	58,544	60,532
Miscellaneous expenditure	52	43	908	908	908	908
Total assets	**92,820**	**105,933**	**119,157**	**135,287**	**145,194**	**154,419**
Free cash flow						
Operating cash flow excl. working capital	6,563	10,828	10,952	11,187	13,384	15,010
Operating cash flow incl. working capital	10,902	5,914	11,171	(2,735)	15,311	19,251
Capital expenditure	(6,844)	(3,501)	(6,906)	(6,000)	(5,000)	(5,000)
Investments	47	(9,038)	(3,031)	(7,000)	(5,000)	(3,000)
Free cash flow	**4,105**	**(6,625)**	**1,233**	**(15,735)**	**5,311**	**11,251**
Ratios						
EBITDA margin (%)	10.5	10.9	9.8	8.7	10.6	10.6
PAT margin (%)	5.8	5.7	4.4	3.1	3.9	4.3
Debt/equity (X)	0.5	0.6	0.7	1.1	1.0	1.0
Net debt/equity (X)	0.4	0.3	0.3	1.0	1.0	0.9
Book Value (Rs/share)	10.2	11.6	12.4	13.5	14.3	15.5
RoAE (%)	16.7	21.8	17.7	11.0	15.3	18.1
RoACE (%)	**8.1**	**11.6**	**10.4**	**7.7**	**9.4**	**10.4**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Coromandel International (CRIN)

Others

SELL

JANUARY 28, 2013

RESULT

Coverage view:

Price (Rs): 225

Target price (Rs): 220

BSE-30: 20,104

Way below estimates. Coromandel's 3QFY13 results were way below estimates, led by pressure on margins in the fertilizer business. High inventories in the system led the company to offer discounts. Besides, higher credit was extended in the market, leading to high working capital and finance costs. The company has acquired Liberty Phosphates and other group companies for Rs3.75 bn (higher end). We view the move negatively as we consider SSP an even lower value-added business than complex fertilizer, about which we have been expressing concern. Coromandel has paid almost replacement costs for assets, which is negative in our view. We cut our estimates and retain SELL with a revised target price of Rs220 (Rs260 earlier).

Company data and valuation summary

Coromandel International

Stock data			
52-week range (Rs) (high,low)			314-210
Market Cap. (Rs bn)			63.6
Shareholding pattern (%)			
Promoters			63.9
FIIs			7.6
MFs			5.3
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(14.7)	(19.3)	(17.9)
Rel. to BSE-30	(17.5)	(25.2)	(29.6)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	18.1	22.1	25.4
EPS growth (%)	(19.7)	21.8	15.0
P/E (X)	12.4	10.2	8.9
Sales (Rs bn)	80.3	99.0	112.4
Net profits (Rs bn)	5.1	6.2	7.2
EBITDA (Rs bn)	7.3	10.7	12.0
EV/EBITDA (X)	10.5	6.8	6.0
ROE (%)	18.8	20.5	20.7
Div. Yield (%)	3.3	3.4	3.4

Results way below estimates, led by higher discounts and higher working capital requirements

Coromandel reported 3QFY13 consolidated revenue of Rs24.2 bn (-5% yoy; -5.6% qoq). Reported 3QFY13 consolidated EBITDA of Rs1.28 bn (-45% yoy; -45.9% qoq) was way below our estimate, led by pressure on margins. The company had to offer higher discounts to push stock in the face of high inventories. Coromandel said it had excess inventories of 2.5-3 mn tons in the market. Interest cost increased to Rs536 mn in 3QFY13 from Rs447 in 2QFY13 (Rs 307 mn in 2QFY12) due to higher working capital requirements as the company extended higher credit in the market to push sales. Company reported consolidated 3QFY13 PAT of Rs680 mn (-48% yoy; -71% qoq).

Coromandel acquires Liberty Phosphates, another low value-added business after Sabero

The company has initiated the process to acquire ~82% of Liberty Phosphates (LP) at a valuation of Rs3.5 bn (100% of the company). Coromandel will also pay Rs880 mn to acquire 100% in Liberty Urvarak Limited (LUL; holds 5% in LP) and Tungabhadra Fertilizers. Altogether, the transaction would involve an outlay of Rs3.73 bn (at the higher end). We have long highlighted the low value-added nature of the complex fertilizer business, which is apparent in its mid-single digit RoCE on green-field expansions. Value-add and entry barriers in SSP are even lower. Since the company paid almost replacement costs for assets, it is negative, in our view. The acquisition can be funded out of internal accruals and the amount involved is small relative to the market cap of the company (Rs63 bn); hence, we will not be too worried about the same.

Cutting estimates; retain SELL with a revised target price of Rs220 (10X one-year forward EPS)

We have cut our earning estimates for the company. We have also cut earnings multiple from 12X earlier to 10X as of now as we expect multiple de-rating to continue for the company. We retain our SELL rating with a revised target price of Rs220 at 10X FY2014E EPS (adj).

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Exhibit 1: Coromandel's 3QFY13 results much lower than estimates, led by pressure on margins in a market saddled with inventories
Interim results of Coromandel, consolidated, March fiscal year-end (Rs mn)

					% change					
	3QFY13	**3QFY13E**	**2QFY13**	**3QFY12**	**Est.**	**qoq**	**yoy**	**9MFY13**	**9MFY12**	**% change**
Net sales	24,245	20,576	25,678	25,502	18	(5.6)	(4.9)	68,468	71,518	(4.3)
Expenditure	**(22,961)**	**—**	**(23,305)**	**(23,167)**		**(1.5)**	**(0.9)**	**(62,702)**	**(62,541)**	**0.3**
(inc)/dec in stock	(235)	—	6,582	6,301		(103.6)	(103.7)	6,530	7,887	(17.2)
Consumption of raw materials	(15,615)	—	(15,776)	(15,776)		(1.0)	(1.0)	(43,308)	(43,022)	0.7
Purchase of traded goods	(3,160)	—	(10,462)	(10,413)		(69.8)	(69.7)	(14,850)	(18,506)	(19.8)
Employee costs	(575)	—	(592)	(472)		(2.8)	21.8	(1,730)	(1,391)	24.4
Other expenditure	(3,377)	—	(3,058)	(2,807)		10.4	20.3	(9,345)	(7,510)	24.4
EBITDA	**1,284**	**1,646**	**2,373**	**2,335**	**(22)**	**(45.9)**	(45.0)	**5,765**	**8,977**	**(35.8)**
Depreciation	(180)	(175)	(171)	(139)		5.6	29.2	(521)	(419)	24.4
Interest	(536)	(400)	(447)	(307)		19.9	74.8	(1,521)	(757)	100.9
Other income	143	100	219	215		(34.8)	(33.7)	545	641	(15.0)
PBT	**710**	**1,171**	**1,974**	**2,103**	**(39)**	**(64.1)**	**(66.3)**	**4,268**	**8,442**	**(49.4)**
Exceptional items	-	—	1,074	-240—				1,074	(355.30)	
PBT (after ext. items)	**710**	**1,171**	**3,048**	**1,864**		**(76.7)**	**(61.9)**	**5,342**	**8,087**	**(33.9)**
Tax expense	(21)	(281)	(671)	(557)		(96.9)	(96.2)	(1,134)	(2,368)	(52.1)
PAT	**689**	**890**	**2,377**	**1,306**	**(23)**	**(71.0)**	**(47.3)**	**4,208**	**5,719**	**(26.4)**
Minority interest	5	10	8	-				4	-	
Reported PAT	**684**	**880**	**2,369**	**1,306**	**(22)**	**(71.1)**	**(47.6)**	**4,203**	**5,719**	**(26.5)**
RM/sales (%)	78.4		76.5	78.0				75.4	75.0	
Other exp./sales	13.9		11.9	11.0				13.6	10.5	
EBITDA margin (%)	5.3		9.2	9.2				8.4	12.6	
Effective tax rate (%)	3.0		22.0	29.9				21.2	29.3	
PAT margin (%)	2.8		9.2	5.1				6.1	8.0	

Source: Company, Kotak Institutional Equities

Exhibit 2: Sales volumes under pressure
Trend in quarterly fertilizer volumes for Coromandel, March fiscal year-ends 2012-13 (Rs mn)

	Q2FY12	**Q3FY12**	**Q4FY12**	**Q1FY13**	**Q2FY13**	**Q3FY13**	**Yoy (%)**	**Qoq (%)**
Manufactured	771,763	481,509	630,206	420,460	553,000	450,000	-7%	-19%
Traded	138,614	361,545	268,493	72,662	229,000	315,000	-13%	38%
Total	910,377	843,054	898,699	493,122	782,000	765,000	-9%	-2%

Source: Company, Kotak Institutional Equities

Exhibit 3: Interim results of Sabero, March fiscal year-ends, 2012-13 (Rs mn)

	1QFY12	**2QFY12**	**3QFY12**	**4QFY12**	**1QFY13**	**2QFY13**	**3QFY13**
Total operating income	**682**	**1,050**	**912**	**941**	**1,250**	**1,415**	**1,240**
Expenditure	**(788)**	**(1,119)**	**(1,145)**	**(973)**	**(1,145)**	**(1,279)**	**(1,115)**
RM cost	(483)	(717)	(626)	(626)	(816)	(909)	(790)
Employee costs	(56)	(63)	(66)	(47)	(56)	(55)	(54)
Other expenditure	(249)	(339)	(454)	(299)	(273)	(315)	(271)
EBITDA	**(106)**	**(69)**	**(233)**	**(32)**	**104**	**136**	**125**
Depreciation	(26)	(24)	(27)	(31)	(28)	(28)	(28)
Interest	(52)	(49)	(93)	(58)	(101)	(53)	(78)
Other income	33	(15)	1	10	5	2	1
PBT	**(150)**	**(157)**	**(353)**	**(112)**	**(19)**	**58**	**20**
Exceptional items			—	—	—	(17)	-
PBT (after ext. items)	**(150)**	**(157)**	**(353)**	**(112)**	**(19)**	**40**	**20**
Tax expense	(0)	(3)	137	—	—	—	—
PAT	**(150)**	**(159)**	**(215)**	**(112)**	**(19)**	**40**	**20**
Minority interest/profit/(loss) :	(0)	(0)	0	(0)	(0)	-	0
Reported PAT	**(150)**	**(159)**	**(215)**	**(112)**	**(19)**	**40**	**20**
Margins (%)							
Gross margins	29	32	31	33	35	36	36
EBITDA	(15)	(7)	(26)	(3)	8	10	10

Source: Company, Kotak Institutional Equities

Liberty acquisition: Negative, in our view, even though transaction size is small

The company has initiated the process to acquire ~82% in Liberty Phosphates (LP) at a valuation of Rs3.5 bn (100% of the company). In addition, Coromandel will pay Rs880 mn to acquire 100% in Liberty Urvarak Limited (LUL; holds 5% in LP) and Tungabhadra Fertilizers. Altogether, the transaction would involve an outlay of Rs3.73 bn (at the higher end). Liberty has capacity to produce 0.96 mn tons of SSP a year and another 0.132 mn tons of capacity is being commissioned. Coromandel produced 0.65 mn tons of fertilizer in FY2012. After the acquisition, Coromandel would have combined capacity to produce 1.23 mn tons of SSP a year. According to the management the rationale for acquisition is as follows:

- The management sees a big opportunity in SSP as it gives farmers a cheaper option to apply phosphates to crops. It assumes even more importance in the light of the price of DAP and other complex fertilizer increasing by 2.5X (last two years) after the Government moved to a nutrient-based subsidy system and reduced subsidies and increased prices of the above-mentioned fertilizers. Hence, the management expects volumes of SSP to grow at much higher rates than other fertilizer. As per the management, SSP accounts 30% of the phosphate requirement in Brazil but only 7% in India.
- Liberty will improve the distribution footprint of Coromandel in West and North India.
- The acquisition would make Coromandel, one of the largest players in SSP, in India.
- Liberty's plants are in locations where raw material (rock phosphate) is available. Half of the rock phosphate requirement is met from Rajasthan State Mines Limited (RSML) and the rest is imported from Egypt and other countries.

Coromandel acquires assets at replacement cost; expensive, in our view

Coromandel has acquired almost 1 mn tons of SSP capacity through this acquisition. As per industry sources, 0.13 mn tons of green-field capacity (excluding the sulfuric acid plant) cost Rs350-450 mn. This compares favorably with Rs1.2 bn that Coromandel is spending to build 0.3 mn tons of SSP capacity in Bathinda. This would put replacement cost of 1 mn tons of SSP capacity (Liberty) at Rs2.7-3.5 bn. Coromandel has valued Liberty (listed entity only) at Rs3.4 bn; almost at par with the replacement cost.

We have long highlighted the low value-added nature of the complex fertilizer business which is apparent in mid-single digit RoCE on green-field expansions. Value-add and entry barriers in SSP are even lower. The company has paid almost the replacement cost for assets, which is negative, in our view. Since the acquisition can be funded out of internal accruals and the amount involved is small relative to the market cap of the company (Rs63 bn); we will not be too worried about it.

Exhibit 4: SSP has lower value-add versus complex fertilizers, which itself is a bad business

Calculations of RoCE for a 1 mn ton green-field complex fertilizer plant (Rs mn)

Capital Investment (incl. land) (a)	15,000
Realization per ton (Rs)	30,000
Turnover at 90% utilization	27,000
Working capital (at 30%) (b)	8,100
Total capital deployed (c)	23,100
EBITDA per ton (Rs)	2,500
EBITDA	2,250
Depreciation (5% of gross block)	750
EBIT (d)	1,500
Tax (at 30%) (e)	450
ROCE ((d)-(e))/(c) (%)	**4.5**

Source: Industry sources, Kotak Institutional Equities

Exhibit 5: SSP has lower value-add versus complex fertilizer which itself is a bad business

Calculations for RoCE for a brown-field complex fertilizer plant (Rs mn)

Capital Investment (incl. land) (a)	3,500
Realization per ton (Rs)	30,000
Turnover at 90% utilization	27,000
Working capital (at 30%) (b)	8,100
Total capital deployed (c)	11,600
EBITDA per ton (Rs)	2,500
EBITDA	2,250
Depreciation (5% of gross block)	175
EBIT (d)	2,075
Tax (at 25%) (e)	623
ROCE ((d)-(e))/(c) (%)	**12.5**

Source: Industry sources, Kotak Institutional Equities

Exhibit 6: Profit and loss account, Liberty, consolidated, March fiscal year-ends

	2008	2009	2010	2011	2012
Net Sales	**1,014**	**3,051**	**2,037**	**3,642**	**4,866**
Expenditure					
Stock Adjustments	(13)	5	(525)	341	69
Raw Materials	600	2,087	1,908	1,870	2,691
Power & Fuel Cost	40	46	68	87	130
Employee Cost	54	61	80	116	153
Other Manufacturing Expenses	83	123	133	158	188
Selling and Administration Expenses	153	303	273	452	701
Miscellaneous Expenses	7	48	7	13	7
Total Expenditure	**922**	**2,673**	**1,944**	**3,036**	**3,939**
EBITDA	**92**	**378**	**93**	**606**	**927**
Other Income	9	5	80	37	30
Interest	54	54	48	70	124
Depreciation	21	21	23	28	29
Profit Before Tax	26	308	101	544	804
Tax	13	115	37	189	238
Fringe Benefit Tax	1	1	-	4	(0)
Deferred Tax	(3)	(3)	(1)	(0)	27
Net Profit	**16**	**196**	**65**	**352**	**539**

Source: Company, Kotak Institutional Equities

Exhibit 7: Balance sheet of Liberty Phosphates, consolidated, March fiscal year-ends (Rs mn)

	2008	2009	2010	2011	2012
Share Capital	117	144	194	194	194
Reserves Total	123	341	421	734	1,238
Total Shareholders Funds	**240**	**485**	**615**	**928**	**1,432**
Secured Loans	230	341	385	585	681
Unsecured Loans	13	7	2	26	29
Total Debt	**243**	**348**	**387**	**612**	**710**
Sources of funds	**483**	**833**	**1,002**	**1,539**	**2,142**
Gross Block	310	329	419	529	649
Less: Accumulated Depreciation	156	176	198	226	254
Net Block	155	153	221	303	395
Capital Work in Progress	6	26	17	74	50
Investments	0	-	18	19	191
Inventories	377	374	1,004	893	755
Sundry Debtors	162	1,097	282	628	1,667
Cash and Bank	87	205	103	324	464
Loans and Advances	75	101	207	174	92
Total Current Assets	**700**	**1,778**	**1,596**	**2,019**	**2,978**
Current Liabilities	373	1,068	832	682	1,344
Other Liabilities	-	-	-	85	21
Provisions	8	57	16	163	160
Total Current Liabilities	**382**	**1,125**	**848**	**929**	**1,526**
Net Current Assets	**319**	**653**	**748**	**1,090**	**1,453**
Miscellaneous Expenses not written off	15	10	5	-	-
Net Deferred Tax	(12)	(8)	(8)	(7)	(35)
Other Assets	-	-	-	61	88
Uses of funds	**483**	**833**	**1,002**	**1,539**	**2,142**

Source: Company, Kotak Institutional Equities

Exhibit 8: Interim results of Liberty Phosphates, March fiscal year-ends (Rs mn)

	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Net Sales	**655**	**1047**	**1104**	**1086**	**1496**	**1164**	**1408**	**1167**
Total Expenditure	502	864	923	863	1235	1058	1179	1071
EBITDA	**154**	**183**	**181**	**223**	**260**	**106**	**229**	**96**
Other Income	4	3	3		19	33	5	75
Interest	13	31	18	30	23	36	27	16
Depreciation	5	9	5	7	9	10	10	10
PBT	**140**	**147**	**161**	**186**	**247**	**93**	**198**	**144**
Tax	49	43	53	62	79	31	64	50
Deferred Tax	3	4	(1)	(2)	1	(1)	3	(1)
PAT	**88**	**99**	**110**	**126**	**167**	**63**	**131**	**95**
EBITDA (%)	**23**	**17**	**16**	**21**	**17**	**9**	**16**	**8**

Source: Company, Kotak Institutional Equities

Highlights of the conference call

- Coromandel has done mechanical completion of C train, which would increase complex fertilizer capacity by 0.8 mn tons. Depreciation due to this would hit the P&L in 4QFY13. The company should be able to operate the new capacity at utilization levels of 70-75% in FY2014. Tifert (phos acid) plant is being commissioned.
- The company has almost Rs30 bn of receivables and subsidy dues being financed with buyers' credit of 180 days.
- Non-subsidy business accounted for 35-40% of operating profits in the quarter.
- According to the management, its conversations with government departments indicate that the subsidy on P and K (per kg) would be cut further in FY2014.
- Phosphoric acid price would be US$770 per ton until March 2013.
- Government is mulling a proposal to block import of fertilizer for a specified duration. If that happens, companies would be able to clear inventories. There is enough stock with companies for the next season.

Estimates cut; we retain SELL, revise TP to Rs220 (at 10X FY2014E EPS)

We have cut our earnings estimates, led by lower margins in the fertilizer business. We retain our SELL rating with a revised target price of Rs220 (at 10X FY2014E adj EPS). We have cut earnings multiple from 12X earlier to 10X as of now as we expect multiple de rating to continue for the company.

Exhibit 9: Change in estimates for Coromandel, consolidated, March fiscal year-ends (Rs mn)

		FY2013E			FY2014E			FY2015E		
		New	**Old**	**% change**	**New**	**Old**	**% change**	**New**	**Old**	**% change**
Revenue	(Rs mn)	80,253	86,824	(7.6)	99,016	98,881	0.1	112,394	112,242	0.1
EBITDA	(Rs mn)	7,267	8,732	(16.8)	10,747	10,977	(2.1)	11,953	12,206	(2.1)
Net income	(Rs mn)	5,128	6,548	(21.7)	6,245	6,605	(5.4)	7,182	7,429	(3.3)

Source: Company, Kotak Institutional Equities

Exhibit 10: Summary financials: Coromandel International
Profit and loss account, cash flow statement and balance sheet, consolidated, March fiscal year-ends 2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit model (Rs mn)								
Income	37,808	94,000	64,241	75,550	98,327	80,253	99,016	112,394
EBITDA	**4,363**	**6,771**	**7,394**	**9,721**	**9,856**	**7,267**	**10,747**	**11,953**
Other income	197	1,816	1,068	1,626	1,469	763	510	506
Interest	(699)	(876)	(782)	(868)	(1,261)	(1,835)	(1,228)	(936)
Depreciation	(522)	(562)	(594)	(621)	(597)	(757)	(975)	(1,101)
Profit before tax	**3,339**	**7,149**	**7,086**	**9,857**	**9,467**	**5,438**	**9,054**	**10,422**
Tax expense	(1,238)	(3,140)	(2,409)	(2,921)	(2,766)	(1,305)	(2,716)	(3,126)
Exceptional items	—	1,586	—	—	(355)	1,070	—	—
Reported PAT	**2,101**	**5,595**	**4,677**	**6,937**	**6,345**	**5,203**	**6,338**	**7,295**
Minority interest					(43)	76	92	113
Reported PAT	**2,101**	**5,595**	**4,677**	**6,937**	**6,388**	**5,128**	**6,245**	**7,182**
EPS	7.4	19.8	16.6	24.6	22.6	18.2	22.1	25.4
Balance sheet (Rs mn)								
Equity	7,955	12,120	15,015	19,567	24,003	26,771	30,551	35,288
Total borrowings	10,431	17,708	20,470	16,638	29,563	19,377	13,377	13,377
Deferred tax liability/minority interest	825	795	855	815	832	832	832	832
Current liabilities and provisions	8,359	17,626	10,031	18,391	25,252	19,092	23,205	26,137
Total liabilites	**27,570**	**48,248**	**46,370**	**55,411**	**79,651**	**66,072**	**67,965**	**75,634**
Net fixed assets	7,402	7,966	9,576	11,430	14,756	17,161	18,929	20,983
Investments and goodwill	718	2,208	1,693	1,705	4,965	4,965	4,965	4,965
Cash	1,072	4,253	9,605	9,605	9,847	5,342	1,896	3,370
Other current assets	18,377	33,821	25,497	32,671	50,083	38,604	42,174	46,316
Total assets	**27,570**	**48,248**	**46,370**	**55,411**	**79,651**	**66,072**	**67,965**	**75,635**
Free cash flow (Rs mn)								
Operating cash	3,506	6,821	5,021	7,112	8,310	7,032	8,031	8,826
Working capital changes	(293)	(7,321)	1,205	1,181	(7,370)	5,319	542	(1,209)
Capital expenditure	(421)	(1,161)	(2,215)	(2,439)	(2,361)	(3,162)	(2,743)	(3,155)
Free cash flow	**2,792**	**(1,661)**	**4,010**	**5,854**	**(1,421)**	**9,190**	**5,830**	**4,462**
Ratios								
EBITDA margin (%)	11.5	7.2	11.5	12.9	10.0	9.1	10.9	10.6
Net debt/equity (X)	1.18	1.11	0.72	0.36	0.82	0.52	0.38	0.28
Book value (Rs/share)	28.2	42.9	53.2	69.3	85.1	94.9	108.3	125.0
ROAE (%)	26.4	27.6	27.6	32.0	25.0	13.6	20.3	20.6
ROACE (%)	15.6	14.0	13.4	17.5	14.3	9.8	14.9	16.1

Source: Company, Kotak Institutional Equities

Biocon (BIOS)

Pharmaceuticals

ADD

JANUARY 28, 2013

RESULT

Coverage view: Attractive

Price (Rs): 268

Target price (Rs): 300

BSE-30: 20,104

Comfortable beat. Biocon reported a strong quarter with sales and EBITDA 7% and 9% ahead of estimates. The recovery in biopharmaceuticals (excluding India branded) was driven by an improved performance across segments. Research services have sustained the momentum while India branded sales are expected to rebound in 4QFY13E. The strong performance in base business is comforting and we view the potential partnership for biosimilar insulin in regulated markets to be a key trigger. ADD with increased TP at Rs300(from Rs287).

Company data and valuation summary

Biocon

Stock data			
52-week range (Rs) (high,low)			322-208
Market Cap. (Rs bn)			53.5
Shareholding pattern (%)			
Promoters			60.9
FIIs			3.3
MFs			4.6
Price performance (%)	1M	3M	12M
Absolute	(4.5)	2.6	0.8
Rel. to BSE-30	(8.6)	(4.3)	(14.4)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	17.7	20.6	24.1
EPS growth (%)	3.4	16.5	17.1
P/E (X)	15.1	13.0	11.1
Sales (Rs bn)	24.2	28.7	33.4
Net profits (Rs bn)	3.5	4.1	4.8
EBITDA (Rs bn)	5.2	6.2	7.2
EV/EBITDA (X)	8.6	7.2	6.5
ROE (%)	14.8	15.6	16.5
Div. Yield (%)	2.0	2.3	2.7

QUICK NUMBERS

- Core EBITDA higher by 9% versus estimates, driven by strong sales performance
- Core EBITDA margin expansion of 230 bps yoy
- ADD with increased TP at Rs300 (from Rs287)

Strong quarter on most counts

Biocon reported net income of Rs0.9 bn (8% yoy), which is 14% ahead of estimates. Core EBITDA at Rs1.3 bn (44% yoy) beat estimates by 9%. Core sales at Rs6.2 bn (29% yoy) are 7% ahead—driven by a strong sales performance in API, Fidaxomicin supplies and emerging markets.

- Core EBITDA margin at 21.2% is up 230 bps yoy and broadly in line with expectation. Raw material costs were negatively impacted by currency depreciation offsetting the improved product mix (43.3% versus 42.9% yoy). The margin expansion yoy was driven by operating leverage and additional Insupen launch expense in the base period.
- Licensing income remained marginal for the quarter at Rs88 mn versus Rs310 mn a year ago. Our estimates did not include any licensing income for the quarter.

Momentum in biopharma to sustain; domestic growth expected to rebound in 4Q

- Branded formulation sales growth in India dipped to 19% yoy versus the 30%+ growth seen in the recent past. The company attributed the slowdown in domestic market to confusion around the pricing policy and expects a rebound in 4QFY13.
- Ramp-up in Fidoxamicin supplies, insulin sales in emerging markets and positive pricing environment in immunosuppressant market were the key drivers for 27% constant currency growth in biopharma (excluding India branded and licensing; currency benefit of 5%). The company expects the momentum to sustain with improving Fidaxomicin sales, expansion into additional markets for insulin and new molecules/share gains in immunosuppressants. Growth in Statins remains moderate (10% yoy) while the company has managed to hold market share.
- Research services growth was at 17% on a constant currency basis (10% currency benefit).

Maintain ADD with increased TP at Rs300 (from Rs287), based on 15X one-year forward EPS

There is marginal change to our FY2014/15 estimates. For biosimilar insulin, Biocon is in talks with two players for a partnership in regulated markets. We believe this will be a key trigger for the stock.

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Exhibit 1: Biocon 3QFY13 results, March fiscal year-ends (Rs mn)

					(% chg.)			yoy			
	3QFY13	3QFY13E	3QFY12	2QFY13	*3QFY13E*	*3QFY12*	*2QFY13*	9MFY13	9MFY12	*(% chg.)*	FY2013E
Sales	6,254	5,826	4,856	5,924	*7.3*	*28.8*	*5.6*	17,747	13,788	*28.7*	24,199
Total expenditure	4,926	4,606	3,937	4,759	*6.9*	*25.1*	*3.5*	14,225	11,137	*27.7*	19,272
Raw material	2,710	2,476	2,085	2,554	*9.4*	*30.0*	*6.1*	7,686	6,118	*25.6*	10,493
Staff cost	946	930	791	946	*1.7*	*19.7*	*0.0*	2,804	2,261	*24.0*	3,754
R&D	430	400	330	429	*7.5*	*30.3*	*0.2*	1,219	836	*45.8*	1,669
Other expenditure	841	800	732	830	*5.1*	*14.9*	*1.3*	2,516	1,922	*30.9*	3,356
EBITDA	**1,328**	**1,220**	**919**	**1,165**	***8.8***	***44.5***	***14.0***	**3,522**	**2,652**	***32.8***	**4,927**
Other income	254	200	191	495				967	765		1,167
Licensing income	88	0	310	0				228	815		228
Interest	29	10	25	11				72	92		92
Depreciation	461	450	434	446				1,334	1,314		1,799
Pretax profits	**1,180**	**960**	**961**	**1,204**	***22.9***	***22.8***	***(1.9)***	**3,311**	**2,826**	***17.1***	**4,432**
Tax	252	154	113	304				694	420		873
Minority interest	11	-	-	-				12	0		22
Net income	**918**	**807**	**849**	**899**	***13.8***	***8.1***	***2.0***	**2,605**	**2,406**	***8.3***	**3,536**
EPS (Rs)	**4.6**	**4.0**	**4.2**	**4.5**	***13.8***	***8.1***	***2.0***	**13.0**	**12.0**	***8.3***	**17.7**
Tax rate (%)	21.4	16.0	11.7	25.3				20.9	14.9		19.7
Segment wise sales											
Branded formulations - India	855	1,044	720	913	*(18.1)*	*18.8*	*(6.4)*	2,628	1,935	*35.8*	3,408
Biopharmaceuticals	4,070	3,740	3,030	4,056	*8.8*	*34.3*	*0.4*	11,666	9,040	*29.0*	16,046
Pharma	**4,925**	**4,784**	**3,750**	**4,969**	***3.0***	***31.3***	***(0.9)***	**14,294**	**10,975**	***30.2***	**19,454**
Contract research and manufacturing services	1,463	1,478	1,203	1,371	*(1.1)*	*21.5*	*6.7*	4,146	3,164	*31.0*	5,698
Licensing revenues	88	-	310	-				228	815	*(72.0)*	228
Total	**6,476**	**6,262**	**5,263**	**6,340**	***3.4***	***23.0***	***2.1***	**18,668**	**14,955**	***24.8***	**25,381**
Intersegment revenues	47	65	63	54				163	185		228
Total sales	**6,429**	**6,197**	**5,200**	**6,286**	***3.7***	***23.6***	***2.3***	**18,505**	**14,770**	***25.3***	**25,152**
Segment wise EBITDA											
Pharma	1,967		1,543	2,048		*27.5*	*(4.0)*	5,716	4,515		
Contract research and manufacturing services	558		461	526		*21.1*	*6.1*	1,558	1,038		
Total	**2,524**		**2,003**	**2,574**		***26.0***	***(1.9)***	**7,274**	**5,553**	***31.0***	
Interest	29		25	11		*16.7*	*168.2*	72	92		
Depreciation and amortisation	461		434	446		*6.3*	*3.4*	1,334	1,314		
Unallocated corporate expense	1,021		740	1,048		*38.0*	*(2.5)*	3,018	1,920		
Unallocated corporate income	(167)		(157)	(133)		*6.6*	*25.8*	(460)	(599)		
Pretax profits	**1,180**		**961**	**1,203**		***22.8***	***(1.9)***	**3,310**	**2,826**	***17.1***	
% margin											
Raw material	43.3	42.5	42.9	43.1				43.3	44.4		43.4
Staff cost	15.1	16.0	16.3	16.0				15.8	16.4		15.5
R&D	6.9	6.9	6.8	7.2				6.9	6.1		6.9
Other expenditure	13.4	13.7	15.1	14.0				14.2	13.9		13.9
EBITDA	**21.2**	**20.9**	**18.9**	**19.7**				**19.8**	**19.2**		**20.4**

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Segment-wise sales, March fiscal year-ends (Rs mn)

					(% chg.)			yoy		
	3QFY13	3QFY13E	3QFY12	2QFY13	*3QFY13E*	*3QFY12*	*2QFY13*	9MFY13	9MFY12	*(% chg.)*
Segment wise sales										
Branded formulations - India	855	1,044	720	913	*(18.1)*	*18.8*	*(6.4)*	2,628	1,944	*35.2*
Biopharmaceuticals -API/EM formulations	4,002	3,469	3,037	3,720	*15.4*	*31.8*	*7.6*	11,207	8,939	*25.4*
Total Biopharmaceuticals	**4,857**	**4,513**	**3,757**	**4,633**	***7.6***	***29.3***	***4.8***	**13,835**	**10,883**	***27.1***
Contract research	1,397	1,313	1,102	1,290	*6.4*	*26.8*	*8.3*	3,913	2,922	*33.9*
Licensing income	88	-	310	-				227	802	
Total sales	**6,342**	**5,826**	**5,169**	**5,923**	***8.9***	***22.7***	***7.1***	**17,975**	**14,607**	***23.1***

Source: Company, Kotak Institutional Equities estimates

Call highlights

Emerging market insulin sales have doubled for the quarter. The company has approval in 44 countries with key focus in Brazil, Mexico and other South East Asian markets. Biocon has also filed for approval in 30 markets.

The MR strength in domestic business is ~1,650. The company is targeting to expand the field force to drive sales growth.

There has been price increases across segments which also contributed to the growth during the quarter.

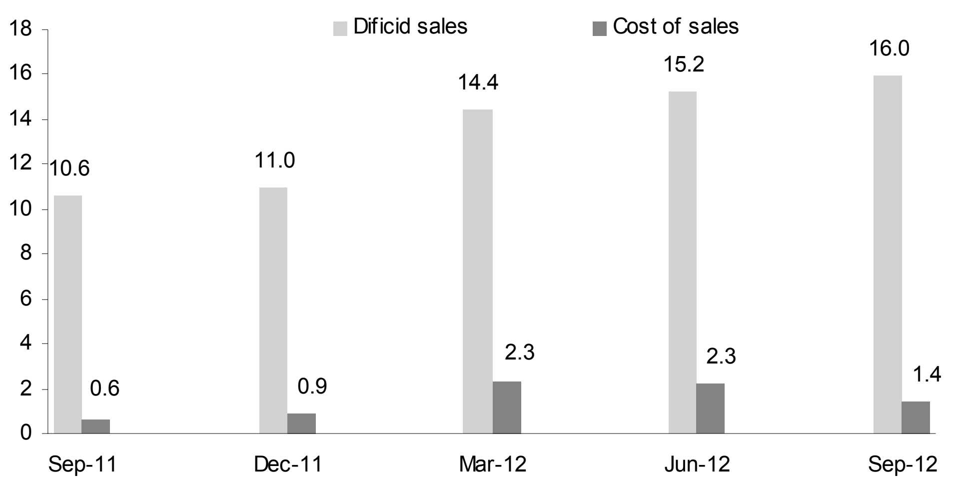
The company has netted off Rs63.5 mn against the R&D expense for expense relating to insulin development (from the deferred revenue in balance sheet).

Ramp-up in Fidoxamicin supplies

The ramp-up in Fidoxamicin supplies to Optimer has been a key factor for the strong performance. There have been three key drivers behind the ramp-up in Fidoxamicin supplies:

- US sales gaining traction.
- Launches in EU by Astellas starting June 2012.
- Supplies for clinical trials being conducted by Optimer.

Exhibit 3: Dificid quarterly US sales since launch (US$ mn)



Source: Company, Kotak Institutional Equities

Dificid (molecule name: Fidaxomicin) is a tablet used for the treatment of clostrum diffcile infections. The innovator is Optimer which markets the drug in US and Canada. Astellas has the exclusive rights in EU, Middle East and CIS.

Exhibit 4: Dificid – development and commercialization timeline

Period	Event details
May-10	Optimer enters into supply agreement with Biocon for Fidaxomicin API.
Feb-11	Astellas to commercialize Dificid in EU, Middle East and CIS countries.
May-11	Dificid receives approval in US.
Jun-11	Agreement with Patheon to supply Fidaxomicin tablets.
Dec-11	Dificid receives approval in EU.
Mar-12	Astellas to commercialize Dificid in Japan.
Jun-12	Astellas initiates sales of Dificid in EU.
Jun-12	Optimer and Specialized Therapeutics form alliance for commercializing Fidaxomicin in Australia and New Zealand.
Jul-12	Dificid receives approval in Canada.
Nov-12	Optimer initiates PIIIb trial for Dificid to treat CDAD in bone marrow transplant patients.
Dec-12	AstraZeneca and Optimer to collaborate in Latin American markets - AZN to commercialize Dificid in Brazil, Mexico, Central America and Caribbean.

Source: Company, Kotak Institutional Equities

Insulin partnership—remains the key stock trigger

R&D expense for 9MFY13 at Rs1.2 bn is up 44% yoy (6.9% of sales). The increase in R&D expense is primarily due to the advancing pipeline in both novel molecules and biosimilars. We continue to estimate R&D to stay at 6.7% of sales for FY2014/15. We believe partnering opportunities on biosimilar insulin for regulated markets is likely to be the key near-term trigger for the stock.

The EU PIII trial for rh-insulin has completed the second phase covering safety and immunogenicity (over a 12-month period). Biocon is currently compiling the data and expects filing in 8-9 months. Biocon is in partnering discussion with two players currently. The current discussions are for both US and EU covering both rh and insulin analogues.

The approval/launch for biosimilar insulin is expected in CY2015. A global partner will provide validation of Biocon's efforts in biosimilar insulin along with the strong financial/regulatory strength to monetize the insulin opportunity for regulated markets.

Novel molecules—work in progress

The novel molecules pipeline for Biocon remains in early stage with potential monetization opportunities a few years away. Approvals in emerging markets and option agreements provide some comfort but regulated markets (primarily US) hold the key to commercial upside.

Itolizumab: Biocon recently received the regulatory approval in India for Itolizumab (anti-CD6) for treating psoriasis. The launch in Indian market is expected in mid-CY2013. Biocon expects peak sales of Rs1 bn to be achieved in four years from launch.

The company also expects to expand the molecule to other auto-immune indications such as Rheumatoid arthritis, Psoriatic arthritis and multiple sclerosis. Biocon targets an IND submission in the US by CY2013 – pre-IND meeting expected in the next 3-4 months.

The strategy is to progress the molecule to clinics prior to any partnering opportunities in order to maximize the potential. This may mean any potential partnering on Itolizumab may not be on the radar for the next 6-12 months.

IN-105: In November 2012, Biocon concluded an option agreement with Bristol-Myers Squibb for IN-105 (oral insulin). Biocon plans to initiate trials shortly with the inputs from partner to re-design the clinical trials. The trials will be funded by the partner with limited impact on Biocon's P&L. The trial results are expected in 2 years post which the partner will decide on the development agreement. The option agreement has also includes a pre-determined licensing value in case the partner exercises the option.

BVX20: Biocon has initiated PI trial in India during the quarter.

Exhibit 5: Sales guidance, March fiscal year-ends, 2012-18E (US$ mn)

	2012	2015E	2018E
Small molecules	248	280	300
Biosimililars (Insulin + MAbs)	23	70	200
Research services	90	175	250
Branded formulation	45	140	200
Licensing and other income	45	35	50
Total sales	**450**	**700**	**1,000**
% of sales			
Small molecules	55	40	30
Biosimililars (Insulin + MAbs)	5	10	20
Research services	20	25	25
Branded formulation	10	20	20
Licensing and other income	10	5	5

Source: Company, Kotak Institutional Equities

Exhibit 6: Change to earnings estimate, March fiscal year-ends, 2013-15E (Rs mn)

	Old estimates			New estimates			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Sales	23,401	27,538	32,246	24,199	28,692	33,425	3.4	4.2	3.7
Raw material	10,037	11,566	13,543	10,493	12,338	14,306	4.5	6.7	5.6
Staff cost	3,718	4,276	5,046	3,754	4,355	5,139	1.0	1.8	1.8
R&D	1,589	1,827	2,156	1,669	1,919	2,226	5.0	5.0	3.3
Other expense	3,315	3,812	4,498	3,356	3,859	4,554	1.2	1.2	1.2
EBITDA	4,741	6,056	7,002	4,927	6,221	7,200	3.9	2.7	2.8
PBT	4,158	5,043	5,869	4,432	5,182	6,071	6.6	2.8	3.4
Tax	766	908	1,056	873	1,036	1,214	14.0	14.2	14.9
PAT	**3,392**	**4,135**	**4,813**	**3,536**	**4,120**	**4,827**	**4.3**	**(0.4)**	**0.3**
EPS	**17.0**	**20.7**	**24.1**	**17.7**	**20.6**	**24.1**	**4.3**	**(0.4)**	**0.3**

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Sales summary, March fiscal year-ends, 2011-15E (Rs mn)

	2011	2012	2013E	2014E	2015E
Biopharmaceuticals	13,317	15,445	19,454	23,205	26,907
- Domestic formulations	1,860	2,585	3,408	4,430	5,316
- API/Export formulations	11,457	12,860	16,046	18,774	21,590
Contract research and manufacturing	3,467	4,437	5,698	6,838	8,069
Licensing income	1,525	1,260	228	—	—
Gross sales	**17,982**	**20,798**	**25,152**	**29,792**	**34,725**
% of sales					
Biopharmaceuticals	74.1	74.3	77.3	77.9	77.5
- Domestic formulations	10.3	12.4	13.5	14.9	15.3
- API/Export formulations	63.7	61.8	63.8	63.0	62.2
Contract research and manufacturing	19.3	21.3	22.7	23.0	23.2
Licensing income	8.5	6.1	0.9	—	—
% yoy growth					
Biopharmaceuticals		16.0	26.0	19.3	16.0
- Domestic formulations		39.0	31.8	30.0	20.0
- API/Export formulations		12.2	24.8	17.0	15.0
Contract research and manufacturing		28.0	28.4	20.0	18.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Biocon interim balance sheet, March fiscal year-ends, 2011-9MFY13 (Rs mn)

	2011	2012	1HFY13	9MFY13
Share capital	1,000	1,000	1,000	1,000
Reserves and surplus	19,328	21,725	23,474	24,446
Total equity	**20,328**	**22,725**	**24,474**	**25,446**
Minority interest	377	38	43	54
Long term borrowings	658	699	1,253	1,571
Deferred tax liabilities	497	—	386	356
Other long term liabilities	3,390	5,832	4,495	4,685
Long term provisions	—	—	36	42
Total non current liabilities	**4,545**	**6,531**	**6,170**	**6,654**
Short term borrowings	2,475	1,873	1,292	1,000
Trade payables	2,965	3,478	3,107	3,618
Other current liabilities	3,755	2,689	3,639	3,866
Short term provisions	1,410	2,115	675	760
Total current liabilities	**10,605**	**10,155**	**8,713**	**9,244**
Total equity and liabilities	**35,855**	**39,449**	**39,400**	**41,398**
Fixed assets	15,602	16,594	16,831	17,202
Goodwill	—	—	122	122
Non current investments	609	643	776	776
Long term loans and advances	—	—	2,062	2,316
Other non current assets	1,574	2,455	1,855	288
Total non current assets	**17,785**	**19,770**	**21,646**	**20,704**
Current investments	3,995	4,924	4,054	4,185
Inventories	4,136	3,783	4,050	4,298
Trade receivables	4,852	4,815	5,034	5,591
Cash and cash equivalents	4,414	5,232	3,404	5,561
Short term loans and advances	46	95	820	559
Other current assets	627	830	392	500
Total current assets	**18,070**	**19,679**	**17,754**	**20,694**
Total assets	**35,855**	**39,449**	**39,400**	**41,398**

Source: Company, Kotak Institutional Equities

Exhibit 9: Profit and loss statement, March fiscal year ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013E	2014E	2015E
Net sales	**15,964**	**23,171**	**26,182**	**19,599**	**24,199**	**28,692**	**33,425**
Raw materials	(8,384)	(13,377)	(15,231)	(8,515)	(10,493)	(12,338)	(14,306)
Employee cost	(1,788)	(2,451)	(3,128)	(3,076)	(3,754)	(4,355)	(5,139)
R& D	(598)	(786)	(804)	(1,562)	(1,669)	(1,919)	(2,226)
Others	(2,083)	(2,350)	(2,307)	(2,539)	(3,356)	(3,859)	(4,554)
Total expenditure	**(12,853)**	**(18,963)**	**(21,470)**	**(15,692)**	**(19,272)**	**(22,471)**	**(26,225)**
EBITDA	**3,111**	**4,207**	**4,712**	**3,907**	**4,927**	**6,221**	**7,200**
Depreciation/amortisation	(1,103)	(1,401)	(1,568)	(1,744)	(1,799)	(1,889)	(1,979)
EBIT	**2,008**	**2,806**	**3,144**	**2,163**	**3,128**	**4,332**	**5,221**
Net finance cost	(175)	(167)	(247)	(122)	(92)	(50)	(50)
Other income	644	368	419	618	1,167	900	900
Licensing income	123	507	1,155	1,266	228	—	—
Exceptional items	(1,472)	—	—	—	—	—	—
PBT	**1,128**	**3,515**	**4,472**	**3,925**	**4,432**	**5,182**	**6,071**
Current tax	(118)	(487)	(721)	(541)	(873)	(1,036)	(1,214)
Minority interest	(79)	(96)	(75)	—	22	25	30
PAT - reported	**931**	**2,932**	**3,675**	**3,384**	**3,536**	**4,120**	**4,827**
PAT - adjusted	**1,189**	**2,476**	**2,685**	**2,994**	**3,536**	**4,120**	**4,827**
EPS - adjusted	**6.0**	**12.5**	**13.6**	**15.1**	**17.7**	**20.6**	**24.1**

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Balance sheet and cash flow statement, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013E	2014E	2014E
Balance sheet							
Total equity	15,107	17,579	20,328	22,724	25,027	27,709	30,852
Total debt	5,239	5,136	3,342	2,708	2,708	2,708	2,708
Current liabilities	4,375	5,800	10,997	13,980	13,383	12,783	12,273
Minority interest	248	338	377	38	38	38	38
Deferred tax liabilities	466	508	497	(78)	(78)	(78)	(78)
Total equity and liabilities	**25,436**	**29,361**	**35,541**	**39,372**	**41,077**	**43,160**	**45,793**
Cash and cash equivalents	118	1,399	4,414	5,233	6,031	5,628	3,673
Inventories	3,192	3,716	4,137	3,783	4,350	5,003	5,753
Receivables	3,667	4,461	5,124	4,917	5,556	6,279	7,095
Other current assets	947	1,344	1,355	2,950	2,950	2,950	2,950
Net fixed assets	**10,485**	**11,653**	**11,769**	**12,502**	**12,203**	**13,313**	**16,334**
Net intangibles	1,631	1,726	2,342	1,235	1,235	1,235	1,235
Capital -WIP	1,720	755	1,796	3,189	3,189	3,189	3,189
Investments	3,676	4,306	4,605	5,563	5,563	5,563	5,563
Total assets	**25,436**	**29,361**	**35,541**	**39,372**	**41,077**	**43,160**	**45,793**
Free cash flow							
Operating cash flow, excl. working capital	2,233	4,752	5,293	4,661	5,450	6,085	6,886
Working capital	(1,282)	(345)	2,692	980	(1,804)	(1,975)	(2,077)
Capital expenditure	(2,955)	(1,967)	(2,520)	(2,982)	(1,500)	(3,000)	(5,000)
Free cash flow	**(2,004)**	**2,440**	**5,465**	**2,659**	**2,146**	**1,110**	**(191)**

Source: Company, Kotak Institutional Equities

Aban Offshore (Aban)

Energy

RS

JANUARY 28, 2013

RESULT

Coverage view: Attractive

Price (Rs): 355

Target price (Rs): NA

BSE-30: 20,104

Weak results. Aban Offshore reported 3QFY13 net income at ₹318 mn, sharply lower than our estimate of ₹809 mn led by weaker revenues which reflects lower utilization levels. Sharp decline in net income yoy reflects increase in operating and interest expenses and a higher effective tax rate. We expect the company to continue restructuring its debt over the next few years as estimated cash flows from operations are not sufficient to service its repayment schedule for existing debt obligations.

Company data and valuation summary

Aban Offshore

Stock data			
52-week range (Rs) (high,low)			572-320
Market Cap. (Rs bn)			15.5
Shareholding pattern (%)			
Promoters			54.1
FIIs			8.5
MFs			0.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(5.9)	(22.6)	(19.4)
Rel. to BSE-30	(9.9)	(27.8)	(31.5)

Forecasts/Valuations	2012	2013E	2014E
EPS (Rs)	68.3	43.2	79.4
EPS growth (%)	(49.1)	(36.7)	83.6
P/E (X)	5.2	8.2	4.5
Sales (Rs bn)	31.6	36.7	39.9
Net profits (Rs bn)	3.2	2.2	3.7
EBITDA (Rs bn)	18.4	20.3	21.5
EV/EBITDA (X)	8.1	7.5	6.6
ROE (%)	12.3	8.9	12.9
Div. Yield (%)	1.0	1.3	1.4

Results marred by increase in operating expenses, interest costs and higher effective tax rate

Aban reported a sharp decline in net income to ₹318 mn (-57% yoy) in 3QFY13 despite higher revenues at ₹9.1 bn (+5% yoy) led by (1) increase in operating expenses to ₹4.2 bn (+15% yoy), (2) increase in interest expense to ₹3 bn (+17% yoy) and (3) a higher effective tax rate at 61.4% in 3QFY13 versus 31.9% in 3QFY12. The company reported consolidated EBITDA at ₹4.9 bn in 3QFY13 versus ₹5 bn in 3QFY12. However, the operating margin declined to 53.6% in 3QFY13 versus 57.8% in 3QFY12. Employee cost increased to ₹1.1 bn (+20% yoy) and other expenses increased to ₹1.9 bn (+15% yoy).

Likely recovery in jackup rates given higher utilization levels

As per ODS-Petrodata, contracted utilization of jackups has improved to 84% in December 2012 as compared to average utilization of 70-75% since mid-2009. Jackup utilization for marketed fleet remains high at 92% in the recent month. We expect Aban Offshore to benefit from likely improvement in demand for jackups over the next few years in Middle-East, Southeast Asia and Indian Ocean particularly in Saudi Arabia, UAE, Indonesia and India.

Low free cash flows to impact debt repayment ability

We highlight that Aban's net debt/EBITDA ratio stands at 6.8X and 6X in FY2013E and FY2014E and EBITDA to interest coverage ratio is at 1.7X and 1.8X in FY2013E and FY2014E. We expect the company to refinance its debt obligations over the next few years in order to manage its existing repayment schedule (see Exhibit 2) given low operating cash flows available after servicing the interest burden. We also see risks to our operating estimates in the near term from delay in renewal of contracts and lower-than-expected dayrates. Out of total fleet size of 18—(1) an FPU is currently idle, (2) contracts for two jackups are concluding in 1QCY13 and (3) contracts for three jackups are under renegotiation. Exhibit 3 provides the current status of Aban's fleet.

Earnings revision

We have revised our earnings estimates for Aban to ₹43 in FY2013E and ₹79 in FY2014E from ₹71 and ₹92 previously to reflect (1) 9MFY13 results, (2) higher opex and interest costs, (3) revised exchange rate assumptions and (4) other minor changes.

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Key details of 3QFY13 results

Exhibit 1 gives details of Aban's 3QFY13 results and compares it with 2QFY13 and 3QFY12 results.

Exhibit 1: Interim results of Aban Offshore (consolidated) , March fiscal year-ends (₹ mn)

					(% chg.)			yoy		
	3QFY13	3QFY13E	3QFY12	2QFY13	3QFY13E	3QFY12	2QFY13	9MFY13	9MFY12	(%chg.)
Net sales	**9,090**	**9,633**	**8,659**	**9,541**	***(5.6)***	***5.0***	***(4.7)***	**27,130**	**23,598**	***15.0***
Total expenditure	**(4,213)**	**(4,281)**	**(3,651)**	**(4,648)**	***(1.6)***	***15.4***	***(9.3)***	**(12,300)**	**(9,469)**	***29.9***
Consumption of stores and spares	(472)	—	(317)	(542)		*48.8*	*(13.0)*	(1,348)	(847)	*59.2*
Staff cost	(1,121)	—	(931)	(1,210)		*20.4*	*(7.3)*	(3,300)	(2,554)	*29.2*
Machinery rental	(223)	—	(211)	(260)		*5.6*	*(14.3)*	(666)	(431)	*54.6*
Repairs to machinery	—	—	(133)	—				—	(278)	
Insurance	(479)	—	(385)	(437)		*24.5*	*9.5*	(1,295)	(1,043)	*24.2*
Other expenses	(1,918)	—	(1,674)	(2,198)		*14.6*	*(12.7)*	(5,691)	(4,317)	*31.8*
EBITDA	**4,877**	**5,352**	**5,007**	**4,893**	***(8.9)***	***(2.6)***	***(0.3)***	**14,830**	**14,129**	***5.0***
OPM (%)	**53.6**	**55.6**	**57.8**	**51.3**				**54.7**	**59.9**	
Other income	77	65	78	64	*17.8*	*(1.9)*	*20.3*	207	262	*(21.2)*
Interest	(2,997)	(2,974)	(2,570)	(2,976)	*0.7*	*16.6*	*0.7*	(9,097)	(7,036)	*29.3*
Depreciation	(1,203)	(1,286)	(1,441)	(1,233)	*(6.5)*	*(16.5)*	*(2.4)*	(3,717)	(4,009)	*(7.3)*
Pretax profits	**753**	**1,157**	**1,075**	**748**	***(34.8)***	***(29.9)***	***0.7***	**2,223**	**3,347**	***(33.6)***
Tax	(430)	(348)	(363)	(231)				(832)	(1,010)	
Deferred taxation	(33)	—	20	(25)				(87)	73	
Net income	**291**	**809**	**731**	**492**	***(64.1)***	***(60.3)***	***(41.0)***	**1,304**	**2,410**	***(45.9)***
Share in joint venture	27	—	—	—				—	—	
Reported net income	**318**	**809**	**731**	**492**	***(60.7)***	***(56.5)***	***(35.4)***	**1,304**	**2,410**	***(45.9)***
Effective tax rate (%)	61.4	30.1	31.9	34.2				41.3	28.0	

Source: Company, Kotak Institutional Equities

Exhibit 2: Aggressive debt repayment schedule of Aban Offshore
Debt repayment schedule of Aban Offshore, March fiscal year-ends, 2013-22E (US$ mn)

	2013E	2014E	2015E	2016E	2017E	2018-22E
Loan/bond amortizations	247	306	308	293	276	763
Loan/bond bullet repayments	—	—	262	88	—	—
Total repayments	**247**	**306**	**570**	**381**	**276**	**763**

Source: Company, Kotak Institutional Equities

Exhibit 3: Fleet status of Aban Offshore

Name	Location	Contract end	Day rates Currency	Day rates Amount	Status
Fleet- Aban Offshore Ltd					
Aban-II	East coast	April-15	USD	52,000	Operational
Aban-III	Mumbai High	December-14	USD	63,000	Operational
Aban-IV	Mumbai High	July-15	USD	63,000	Operational
Aban-V	India	October-14	EUR	90,000	Operational
Aban-VI	Persian Gulf	January-14	USD	60,000	Operational
FPU Tahara	East coast		USD		Marketing
Aban Ice	Mumbai High	March-13	INR	6,185,700	Operational
Fleet- Aban Singapore Pte Ltd					
Aban-VII	India	July-13	USD	65,000	Operational
Aban-VIII	Middle East	June-13	USD	160,000	Operational
Aban Abraham	Brazil	June-16	USD	269,000	Operational
Fleet- Sinvest					
Deep Driller 1	India	March-14	USD	135,000	Operational
Deep Driller 2	Middle East	September-12	USD	176,667	Operational
Deep Driller 3	Malaysia	October-15	USD	140,000	Operational
Deep Driller 4	Middle East	September-12	USD	176,667	Operational
Deep Driller 5	Middle East	September-12	USD	176,667	Operational
Deep Driller 6	Middle East	April-14	USD	125,000	Operational
Deep Driller 7	Mexico	February-13	USD	137,000	Operational
Deep Driller 8	Brunei	September-14	USD	100,000	Operational

Source: Company, Kotak Institutional Equities

Exhibit 4: Profit model and balance sheet (consolidated) for Aban Offshore, March fiscal year-ends, 2008-15E (₹ mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit model								
Total income	20,211	30,501	33,587	33,472	31,629	36,681	39,866	39,237
EBITDA	**12,691**	**17,638**	**21,004**	**21,869**	**18,404**	**20,259**	**21,527**	**21,372**
Interest expense	(6,533)	(8,725)	(9,768)	(9,238)	(9,891)	(12,128)	(11,675)	(11,592)
Depreciation	(2,549)	(4,414)	(4,616)	(4,907)	(5,160)	(4,946)	(4,789)	(4,822)
Other income	733	224	218	260	658	375	400	425
Pretax profits	**4,342**	**4,722**	**6,838**	**7,984**	**4,011**	**3,560**	**5,464**	**5,383**
Extra ordinary items	(2,536)	2,080	(2,408)	(4,669)	—	—	—	—
Reported PBT	**1,807**	**6,802**	**4,430**	**3,315**	**4,011**	**3,560**	**5,464**	**5,383**
Tax	(1,514)	(2,646)	(2,651)	(2,675)	(819)	(1,398)	(1,729)	(1,575)
Deferred taxation	84	138	80	144	23	—	—	—
Profit after tax	**377**	**4,294**	**1,860**	**784**	**3,215**	**2,162**	**3,735**	**3,809**
Joint venture/ minority	853	1,113	1,250	665	—	—	—	—
Reported consolidated net profit	**1,230**	**5,407**	**3,110**	**1,449**	**3,215**	**2,162**	**3,735**	**3,809**
Adjusted net profit	**2,954**	**3,951**	**4,613**	**6,118**	**3,215**	**2,162**	**3,735**	**3,809**
Diluted earnings per share (Rs)	**71**	**97**	**100**	**134**	**68**	**43**	**79**	**85**
Balance sheet								
Total equity	5,063	14,188	18,547	18,078	25,806	23,931	28,698	31,576
Preference capital	3,060	3,260	3,260	3,260	2,810	2,810	2,810	1,250
Deferred taxation liability	654	516	436	292	269	269	269	269
Total borrowings	130,434	166,355	141,641	130,478	135,753	136,772	126,276	121,196
Current liabilities	7,517	14,090	9,342	8,605	9,047	10,046	10,952	10,537
Total liabilities and equity	**146,727**	**198,408**	**173,225**	**160,713**	**173,685**	**173,827**	**169,005**	**164,828**
Cash	6,453	5,948	2,360	5,951	1,344	843	697	768
Other current assets	7,637	11,106	12,269	15,375	15,087	16,348	17,768	17,488
Goodwill	44,289	55,991	49,555	49,224	56,157	59,612	57,404	57,404
Tangible fixed assets	81,958	119,612	104,090	90,010	101,063	96,990	93,101	89,135
Investments	6,391	5,751	4,951	153	34	34	34	34
Total assets	**146,727**	**198,408**	**173,225**	**160,713**	**173,685**	**173,827**	**169,005**	**164,828**
Free cash flow								
Operating cash flow, excl. working capital	3,146	10,306	7,862	11,021	8,666	6,733	8,123	8,205
Working capital changes	(1,654)	2,313	2,131	(4,709)	(7,721)	(342)	(538)	47
Capital expenditure	(32,638)	(50,742)	(3,935)	5,026	(6,610)	(872)	(901)	(855)
Investment changes	(386)	2,314	8,097	4,355	427	—	—	—
Other income	458	245	48	59	29	375	400	425
Free cash flow	**(31,074)**	**(35,564)**	**14,204**	**15,752**	**(5,209)**	**5,894**	**7,085**	**7,822**
Ratios (%)								
EBITDA margin	62.8	57.8	62.5	65.3	58.2	55.2	54.0	54.5
Debt/equity	2,335	1,154	763	728	531	577	446	385
Net debt/equity	2,222	1,113	751	696	526	573	443	382
RoAE	51.7	26.9	24.3	33.3	12.3	8.9	12.9	12.0
RoACE	**3.4**	**5.9**	**6.2**	**7.9**	**7.0**	**5.8**	**7.3**	**7.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Heavy Electricals (BHEL)

Industrials

SELL

JANUARY 28, 2013

UPDATE

Coverage view: Cautious

Price (Rs): 229

Target price (Rs): 205

BSE-30: 20,104

Recent bids magnify margin risk; directional positive on competition, pipeline still inadequate. BHEL has emerged as L1 bidder for two of RRVUNL projects (2X660 MW each). However bids at Rs54-55 bn (Rs40-42 mn/MW) seem quite aggressive and were about 10% lower than the L2 bid (L&T) and BHEL's own bid in the previous round of tendering. We believe there may be two positives in the BTG space, thinning competition and improving inflow pipeline visibility. However, aggressive price quotes increase margin risks (at contribution level besides negative operating leverage). We remain cautious with likely material decline in earnings over FY2014-15E.

Company data and valuation summary

Bharat Heavy Electricals

Stock data			
52-week range (Rs) (high,low)			328-195
Market Cap. (Rs bn)			564.2
Shareholding pattern (%)			
Promoters			67.7
FIIs			12.9
MFs			1.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	1.3	(3.8)	(18.3)
Rel. to BSE-30	(2.5)	(9.5)	(31.6)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	28.5	21.9	19.4
EPS growth (%)	(1.0)	(23.0)	(11.5)
P/E (X)	8.1	10.5	11.9
Sales (Rs bn)	502.3	456.1	431.0
Net profits (Rs bn)	69.7	53.6	47.5
EBITDA (Rs bn)	94.1	70.0	57.0
EV/EBITDA (X)	5.6	6.4	6.9
ROE (%)	24.9	16.4	13.0
Div. Yield (%)	2.6	2.0	1.8

Declared L1 in Rajasthan tenders; pricing seems aggressive versus L2, previous round of bidding

BHEL has been declared the lowest bidder for the EPC contract of the Rajasthan tenders (Suratgarh and Chhabra, 2X660 MW each). The bid of Rs54-55 bn each (Rs40-42 mn/MW) seems quite aggressive and was significantly lower (over 10%) than the L2 bidder (L&T at Rs60-61 bn). Note that these bids are even lower (by ~10%) than BHEL's own bids during the previous round of tendering despite inflationary pressure and Rupee depreciation (super-critical would have a high import content). RRVUNL has the option to split the orders of the two projects between BHEL and the next bidder provided the L2 bidder (L&T) is willing to match BHEL's bid.

Potential thinning of competition, more visible pipeline; margins more risky

We believe there are two directional positives in the BTG space: (1) Potential thinning of competition (duty takes effect, some potential competitors hold back – Alstom, BGR) and (2) increasing visibility of an order inflow pipeline (though led by state and central utilities; Bhusawal of Mahagenco is next). However we believe these factors may not be enough for BHEL as (1) the pipeline would give visibility of 7-8 GW of annual business, which may still lead to a revenue decline, (2) aggressive price quotes may lead to margin squeeze at the contribution level apart from negative operating leverage and (3) near-term execution may bring disappointment due to slower execution of backlog projects.

Backlog: BHEL expects no further cancellations; receivables issues being resolved

BHEL does not expect any order cancellation though it said certain projects were being impacted by pending receivables. The overall receivables situation has improved materially after the setting up of a special committee under ED-Finance. BHEL stopped supply to Indiabulls' 20X270 MW project due to financing issues though it currently has no receivables (the project is ~40% complete with minimal execution in phase-II).

We are cautious due to likely revenue and earnings declines and weak near-term ordering pipeline

We retain our cautious stance (SELL, TP: Rs205) as BHEL's revenues and earnings could potentially decline materially over FY2014-15 without meaningful improvement in inflows due to (1) an inadequate backlog, (2) execution slowdown and (3) margin pressure.

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BHEL declared L1 (by a wide margin) for Rajasthan orders

BHEL has been declared the lowest bidder for the EPC contract of two Rajasthan power plant tenders, Suratgarh and Chhabra (2X660 MW each). L&T comes next in both the tenders, followed by BGR (L3) and Alston (L4).

BHEL placed a bid of Rs54 bn and Rs55.5 bn for the two projects. Against this L&T's price was about 10% higher than BHEL's at Rs59.5 bn and Rs60.5 bn while BGR placed bids at Rs63-65 bn for the projects. Note that the bids appear quite aggressive implying realization of only Rs40-42 mn per MW.

Exhibit 1: Details/bids for Rajasthan state projects

Project	Capacity (MW)	Configuration	Bid (Rs bn)	Pew MW realization (Rs mn/ MW)
Suratgarh	1,320	2X660 MW	54	41
Chhabra	1,320	2X660 MW	56	42

Source: News flows, Company, Kotak Institutional Equities

Client may split order with next bidder (L&T) provided it matches BHEL bid

The client (RRVUNL) has the prerogative to split the two orders between the L1 and L2 bidders (in the interest of speedy execution). However the L2 bidder, L&T, would have to match BHEL's bid, which is 10% lower than its own bid, to win the contract. We believe the bidding is likely to have been quite aggressive as both BHEL and L&T are short of orders. L&T may not have room to reduce prices further unless it wants to pick up an almost zero margin order of this size and risk profile.

Prices seem over 10% lower than those in the previous round of bidding

We believe these prices are very aggressive and are more than 10% lower than BHEL's own price when the tender was last opened about two years ago. In that round BHEL had quoted a bid of Rs60-61 bn and BGR's quote was Rs63-64 bn. BHEL has dropped the price by more than 10% from the last bid; note that this is in the face of significant inflation in commodities and labor.

Price lower than recent completion cost of smaller sub-critical projects in the vicinity

The BGR management previously said the 1,200 MW sub-critical project in Kalisindh, Rajasthan was being completed at a project cost of Rs54.5 bn whereas BHEL's bid for larger sized super-critical projects was lower. This was despite currency depreciation (there is significant import dependence for high-quality steel plates and tubes for super-critical boilers) and higher costs of cement, aggregates and labor.

OPGCL bid: BHEL bid lower than Dongfang's; low in recent bulk tender as well

Industry checks suggest BHEL's quote in Odisha (2X660 MW Banaharpalli plant for OPGCL) for total BTG may be about Rs20 mn per MW: 7-8% less than DongFang's bid. Note that the OPGCL plant was conceptualized some time ago and may not be impacted by recently imposed duties.

This price is also lower than the recently realized bulk tender price of Rs23-24 mn/MW (bid details of bulk tender in Appendix 1) even though we believe the scope may be slightly different. We understand that in the Odisha tender, erection is not in the scope of the project but is included in the bulk tender.

The general trend seems to be that BHEL is using its superior balance sheet and risk-taking abilities to take a best shot at each tender from a shallow pipeline.

Price squeeze, EPC/bundled BTG quote trend negative for Thermax/Toshiba

We believe this level of price competition and a trend towards a combined BTG quote or even full EPC (NTPC is trying this for the first time in Khargone) business is negative for smaller standalone players like Thermax and Toshiba whose risk appetite is lower.

Alstom makes no significant progress; BGR suffers setbacks

We note that Alstom has not made significant progress in setting up its BTG manufacturing capacity in India. BGR's failure to win orders in Rajasthan may be negative for it with respect to its BTG business, though it has sizeable business on hand from NTPC bulk tenders. We highlight several questions regarding BGR's BTG strategy related to (1) lack of business in recent bids, (2) slow progress in setting up BTG manufacturing facilities and (3) a Hitachi-Mitsubishi global combine.

Competition may thin, pipeline more visible, but margins become more risky

We believe there are two directional positives in the BTG space related to (1) potential thinning of competition (as duty takes effect, some potential competitors hold back) and (2) improving visibility in the order-inflow pipeline (though led by state and central utilities; Bhusawal of Mahagenco is next in line). However we believe these positives may not be enough for BHEL as (1) the pipeline would give visibility of 7-8 GW of annual business that may still lead to revenue decline, (2) price quotes seem to suggest that margin squeeze would come from contribution level and negative operating leverage and (3) near-term execution may be disappointing due to slower execution of projects in the backlog.

BHEL's business visibility can improve over the next one to two years as (1) the order pipeline strengthens, (2) the imposition of import duty kicks in, (3) competition withdrawal becomes visible and (4) near-term execution challenges and a large part of margin contraction pans out and becomes part of base case.

Key takeaways from recent meeting with BHEL management:

BHEL sees no cancellations in order backlog; receivables issues being resolved

BHEL does not expect any cancellation of existing orders though it said certain projects had pending issues (BHEL has stopped supply to Indiabulls 20X270 MW on financing grounds). The company has set up a committee under the ED, Finance, which has resulted in an improvement in the receivables situation. On the Indiabulls project, BHEL does not have pending receivables; supplies and payment received so far broadly match each other. The project is about 40% complete (with minimal execution in phase-II) implying that phase-I is 70-75% complete.

We believe cancellations are not the key issue as several projects that we identified as risky have started execution (based on CEA data and independent tracking of data points like ordering for BoP items to other vendors). A shallow incremental ordering pipeline and slower-than-expected progress on the existing backlog is a key issue.

Exhibit 2: BHEL's recent order wins show progress

			Order to BHEL		Corroborative order		
Client	Project	Expenditure (Rs bn/MW)	Size (Rs mn)	Nature	Vendor	Nature	Source
DB Power	Chhattisgarh - 2X600 MW	18	26,650	Main plant package	Alstom T&D	Sub-station automation systems	Alstom T&D annual report
Hinduja	Vizag - 2X520 MW	16	41,800	EPC order	Alstom T&D	Sub-station automation systems	Alstom T&D annual report
					McNally Bharat	Stacker-cum-reclaimer and wagon tippler	BSE press release
Bajaj Hindustan	Lalitpur - 3X660 MW	16	54,500	Main plant package	L&T	Coal handling system	Projects Monitor/ L&T release
Visa Power	Chhattisgarh - 2X600 MW	NA	26,650	Main plant package	L&T	Balance of plant works	Visa Power website
					KEC International	400 kV transmission line	
					Tata Projects	Raw water intake system	
Bellary	Karnataka - 1X700 MW	20	37,000	EPC order	Coastal Projects	Civil & structural works	Press report
Surana Power	Raichur - 2X210 MW	NA	11,400	Main plant package	Alstom T&D	400 kV gas insulated switchgear	Alstom T&D annual report
NTPC	Nabinagar - 4X250 MW	2	20,300	TG, ESP	ABB	Sub-station automation systems	Press reports
					Tecpro	Coal handling package	Tecpro investor release
NTPC	Muzaffarpur - 2X195 MW	—	10,770	Main plant package	Tecpro	Ash handling system	Tecpro investor release
					HCC	Civil works/chimney elevator package	
					IVRCL	Pre-treatment plant package	BSE press release
KPCL-BHEL JV	Yerasmus	9	63,000	EPC order	Elecon Engg	Stacker-cum-reclaimer	Projects Today
					Coastal Projects	Civil & structural works	Projects Today

Source: CEA, industry sources, Kotak Institutional Equities

Going the EPC way to increase revenue per unit in a smaller market

BHEL accepted that the ordering environment did not allow the possibility of booking orders at 15-16 GW a year, as BHEL did over FY2008-11. The ordering environment is potentially 8-10 GW a year and will possibly stay at this level over the next two years in a reasonably positive case scenario. This ordering is driven by state and central utilities. It aims to offset the lower business in GW terms by going for more EPC projects (aims to increase the EPC share to about 35% from the current 25% in the near-term).

Market may be shifting to EPC jobs; negative for Thermax, Toshiba

The market may be shifting towards projects on an EPC basis. Recently, NTPC attempted to order its Khargone (2X660 MW) plant on an EPC basis, which it typically does not do. States have typically been awarding jobs on an EPC/BoP+BTG basis as they lack the manpower to integrate various packages. Even within that, the incremental direction is towards EPC. This is incrementally negative for Thermax (it lacks turbine and may not be able to pick up large EPC jobs considering the risk profile) and Toshiba. BGR Energy also may be negatively impacted as the BoP market, which opened up over the past few years, dries up, even though BGR has the capability to do EPC jobs.

Pipeline: FY14E better than FY13E but well below full throttle

BHEL said it had 10-13 GW of projects under consideration (including 7-8 GW of tendered projects, including OPGL, Tanda, Rajasthan). Some of these would spill over to FY2014E which may also see another 5-6 GW orders from (1) APGenco (1-2 projects) and (2) MahaGenco (Nasik expansion). This would imply about 10 GW of ordering opportunity in FY2014E.

Exhibit 3: 8 GW of near-term opportunity for BHEL
Details of key EPC/BTG thermal projects in advanced stages

Project	Status	Agency	Capacity (MW)	Nature	Clearances	Remarks/constraints
Projects with environemtal clearance						
Banaharpalli U3,4	BHEL awarded L1	OPGCL	1,320	BTG	Coal: Manoharpur/Dipside Manoharpur (in No Go zone EC: Received in Feb 2010 Land required only for ash pond (expansion project), no diversion of forest land is required	Submitted request for tapering linkage
Suratgarh U7,8	BHEL declared L1	RRUVNL	1,320	EPC	Coal: Parsa Kente mines/imported (70:30) Land: has been acquired EC: Received in May-12 FC: Stage I approved	None
Chhabra U5,6	BHEL declared L1	RRUVNL	1,320	EPC	Coal: Parsa Kente mines/imported (70:30) Land: has been acquired EC: Received in May-12 (only for one unit as second unit lacks coal supply	EC received for only 1 unit
Neyvelli	Tendered	NLC	1,000	TG	Lignite: Take supply from resturcturing of existing NLC mines EC:Issued in Oct-10	None
Tanda	L&T likely L1 (boiler)	NTPC	1,320	NA	Coal: North Kapampura mines EC: Issed in Apr 11	Close to being tendered
Bhusawal U-6	Tendered	MAHAGENCO	660	EPC	Coal: WCL LoA (1 mtpa)/Machakata mines (rapering linkage) Land: has been acquired EC: Achieved in Nov-12	Machakata to make minimum 2 years
Total			**6,940**			
Projects with ToRs issued						
Khargone	Tendered	NTPC	1,320	EPC	Coal: SECL EC: TOR achieved in Dec-10, EIA prepared, public hearing completed in Jan-12 Land: In-principle commitment	EC likely to be awarded with PH has happened with certain pre-conditions decided for granting clearance
Total			**1,320**			
Total near-term opprtunity			**8,260**			

Source: Industry sources, Kotak Institutional Equities

We are slightly skeptical about this opportunity, particularly in terms of timelines, as states have been very irregular in ordering and decisions may remain pending for a long period of time in some cases (the Rajasthan tender is an example).

Competition: BGR may pull out; market's EPC preference negative for TMX

BHEL said BGR had not put in price bids for the OPGCL and Tanda orders despite being qualified on technical grounds. This casts doubt on BGR's willingness to build a power generation equipment manufacturing business. Its ability to comply with a phased manufacturing program (negligible progress so far) is also to be seen. BGR may not have taken the Tanda boiler orders, among others, based on the fact that it has sufficient business from NTPC bulk tenders.

BHEL believes foreign joint-venture partners (both partners are jointly and severally liable) would supply equipment from their global facilities. Even though there is risk, it is less likely that these plans will go the Barh way (Russian suppliers delayed deliveries by several years). However, bulk tenders aim to promote domestic manufacturing and indigenization. BHEL berated the delay in setting up the PMP monitoring committee, supposed to be set up by the CEA and highlighted the disadvantage it put BHEL to.

Market may remain oversupplied even without BGR/Bharat Forge capacities

We believe that even after discounting capacities of BGR and Bharat Forge and supply from Chinese manufacturers (non-remunerative post-currency depreciation and a stiff import duty), demand (10-13 GW a year) may be less than available supply (27-30 GW nameplate capacity equivalent to possibly 20 GW of total deliverable capacity). Besides, there is four-way competition (BHEL, L&T, Thermax/Toshiba, Alstom-Shanghai/Doosan).

Exhibit 4: Power equipment manufacturing capacity may exceed likely demand of about 14-18 GW a year over the next few years
Details of capacity addition by various players

	Structure	Capital investment	Boiler capacity (MW/ annum)	Turbine capacity (MW/ annum)	Likely start of manufacturing	Estimated utility orders (MW/ annum)
L&T - Mitsubishi	51:49	30,000	4,000	4,000	Jun-10	2,000-3,000
BGR Energy - Hitachi	51:49	32,000	4,000	4,000	Jul-13	2,000-3,000
JSW - Toshiba	25:75	11,800	—	3,000	Jun-11	
Bharat Forge - Alstom	49:51	24,000	—	5,000	Jun-11	
Thermax - B&W PCG	51:49	7,000	3,000	—	NA	
Doosan (AE&E)	NA	10,000	3,000	—		
Gammon - Ansaldo	15:85		2,000	—		
Total for new players			**16,000**	**16,000**		**4,000-5,500**
Imported equipment						**2,000-2,500**
BHEL current capacity			15,000	15,000		
BHEL - incremental capacity			5,000	5,000		
Total for BHEL			**20,000**	**20,000**		**7,000-10,000**
Total supply ex BGR and Bharat Forge			**32,000**	**27,000**		**14,000-18,000**
Total supply			**36,000**	**36,000**		

Source: Company, News flows, Kotak Institutional Equities

Industrials: Plans to expand into transport, transmission, renewable, defense

BHEL's plans indicate its intention to capitalize on the opportunity in the transport segment: BHEL plans to (1) expand capacity at its Jhansi locomotive facility (from 50 to 75 locomotives a year), (2) ramp-up of its EMU propulsion system business (executes 38 sets orders, 40 more sets in the offing) and (3) bid for supply of Metro coaches (DMRC). The other key areas of focus for BHEL are (1) T&D (HVDC orders, 765 kV transformers/reactors), (2) renewables (it is expanding solar PV capacity to 280 MW; has in-principle clearance for an integration facility for silicon and cell manufacturing); BHEL's JV with BEL to address the photovoltaic opportunity has been going slow and (3) defense (BHEL is in talks with the ministry for other nomination orders besides the current ones for guns).

Exports slow, acceptance a challenge

Exports are limited because of (1) lack of acceptance in developed markets, (2) slowdown in capex in other countries as well, (3) smaller developing markets being addressed and (4) BHEL exporting to countries where western suppliers may not want to do business, or where a line of credit is available from the Indian Government.

Cautious about likely revenues, earnings decline, a weak near-term pipeline

We maintain our SELL rating with a target price of Rs215 (8X one-year forward earnings) based on our view that revenues and earnings can decline due to an inadequate backlog, slower execution, negative operating leverage without meaningful improvement in order inflows (FY2013E and FY2014E will be sequentially better than FY2012 but still inadequate) in the near term. BHEL said it was facing low capacity utilization related to lack of an incremental order-booking pipeline and slower execution of plants currently in the backlog related to developers' financing and other sectoral issues.

Exhibit 5: Segment-wise inflow and execution for BHEL, March fiscal year-ends, 2008-2015E (Rs bn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Power								
Utility order inflow (GW)	**14.6**	**17.0**	**16.5**	**15.1**	**2.8**	**7.0**	**7.0**	**8.0**
Realization (Rs mn / MW)	26.6	26.1	24.3	29.4	41.7	27.0	28.0	28.0
Utility order inflow	**387**	**444**	**401**	**443**	**118**	**189**	**196**	**224**
Spare orders	24	28	19	21	23	26	31	37
International orders	23	33	36	37	2	28	30	33
Order inflows	**434**	**504**	**456**	**502**	**142**	**242**	**257**	**295**
% growth	46.4	16.3	(9.7)	10.3	(71.6)	12.0	10.0	10.0
Revenues	**159**	**213**	**269**	**332**	**379**	**428**	**386**	**358**
% growth	14.9	34.1	25.8	23.5	14.2	12.9	(9.8)	(7.2)
Order backlog	770	1,074	1,271	1,456	1,175	989	861	798
Bill to book ratio (%)	23	21	21	22	25	33	35	36
Industry								
Order inflows	**79**	**103**	**135**	**104**	**79**	**79**	**90**	**99**
% growth	19.9	30.5	31.5	(23.1)	(24.3)	—	15.0	10.0
Revenues	**60**	**72**	**79**	**102**	**117**	**103**	**96**	**97**
% growth	11.8	20.6	8.7	29.6	14.1	(11.6)	(6.7)	1.3
Order backlog	106	141	200	206	176	155	153	159
Bill to book ratio (%)	50	46	38	41	48	48	48	48
Total								
Order inflows	**512**	**607**	**590**	**606**	**221**	**321**	**348**	**394**
% growth	41.6	18.4	(2.7)	2.7	(63.5)	45.2	8.3	13.3
Revenues	**219**	**286**	**347**	**434**	**495**	**531**	**482**	**455**
% growth	**14.0**	**30.4**	**21.5**	**24.9**	**14.2**	**7.2**	**(9.2)**	**(5.5)**
Order backlog	876	1,215	1,471	1,661	1,350	1,144	1,014	957
Bill to book ratio (%)	**27**	**24**	**23**	**24**	**28**	**35**	**37**	**38**
EBITDA margin								
Net revenues	193	262	329	416	472	502	456	431
Direct costs	(113)	(168)	(201)	(234)	(286)	(305)	(282)	(267)
Gross profit	80	94	128	182	186	197	174	164
Contribiution margin (%)	**41.6**	**32.9**	**36.7**	**41.8**	**37.6**	**37.1**	**36.1**	**36.1**
Employee expenses	(26)	(30)	(52)	(54)	(55)	(60)	(63)	(66)
Other fixed costs	(21)	(27)	(22)	(48)	(40)	(43)	(41)	(42)
EBITDA	**33**	**37**	**54**	**79**	**91**	**94**	**70**	**57**
EBITDA margin (%)	**17.2**	**14.1**	**16.5**	**19.0**	**19.3**	**18.7**	**15.3**	**13.2**
Net profit								
Other income	14	15	16	17	20	17	18	24
Depreciation	(3)	(3)	(5)	(5)	(8)	(9)	(10)	(11)
PBT	**44**	**48**	**66**	**90**	**103**	**102**	**78**	**69**
Tax expenses	(16)	(17)	(23)	(30)	(33)	(32)	(25)	(22)
Net PAT	**29**	**31**	**43**	**60**	**70**	**70**	**54**	**47**
EPS (Rs)	**11.7**	**12.8**	**17.6**	**24.6**	**28.8**	**28.5**	**21.9**	**19.4**

Inflows have remained stagnant at about 15 GW for the past 4 years

Build average 8-9 GW inflows over the next three years (inflows include about 3-4 GW inflows from NTPC bulk tender)

FY2012E inflows of Rs207 bn is net of cancellation to the tune of about Rs50 bn

Expect revenues to stagnate at about Rs500 bn over the next 3 years on sedate order inflows

Estimates already build improved execution rate

Expect EBITDA margin contraction on rising fixed costs even as contribution margins remains relatively flat

Stagnant revenues and margin contraction to lead to declining EPS over FY2013-15E

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: BHEL income statement, balance sheet and cash flow, March fiscal year-ends, 2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Income Statement								
Total net revenues	**193,046**	**262,123**	**328,614**	**415,661**	**472,279**	**502,337**	**456,109**	**430,978**
Cost of goods sold	(159,868)	(225,078)	(274,348)	(336,609)	(380,909)	(408,233)	(386,138)	(373,975)
EBIDTA	**33,178**	**37,046**	**54,266**	**79,052**	**91,370**	**94,104**	**69,971**	**57,004**
Other income	14,448	14,974	16,483	17,011	20,166	16,845	18,448	23,508
Interest	(354)	(307)	(335)	(547)	(513)	(148)	(148)	(148)
Depreciation	(2,972)	(3,343)	(4,580)	(5,441)	(8,000)	(9,096)	(9,996)	(11,076)
Pre-tax Profit	44,299	48,370	65,834	90,074	103,023	101,705	78,275	69,288
Tax	(15,711)	(17,106)	(22,800)	(29,945)	(32,623)	(32,037)	(24,657)	(21,826)
PAT	**28,589**	**31,263**	**43,034**	**60,130**	**70,400**	**69,668**	**53,619**	**47,462**
Balance sheet								
Shareholders' equity	107,742	129,388	159,174	201,538	253,732	305,983	346,197	381,793
Loan funds	952	1,494	1,278	1,634	1,234	1,234	1,234	1,234
Total source of funds	**108,694**	**130,882**	**160,451**	**203,172**	**254,966**	**307,217**	**347,431**	**383,027**
Net block	9,813	14,704	24,154	34,009	42,968	41,872	43,876	44,800
WIP	6,580	11,570	15,296	17,622	13,246	13,246	13,246	13,246
Investments	83	523	798	4,392	4,617	6,000	6,000	6,000
Net current assets (excl cash)	(5,021)	(17,465)	7,030	29,212	111,723	193,507	160,390	140,216
Cash and bank balance	83,860	103,147	97,901	96,302	66,720	37,129	108,456	163,303
Deferred Tax Assets	13,379	18,403	15,272	21,636	15,462	15,462	15,462	15,462
Total applications	**108,694**	**130,882**	**160,451**	**203,172**	**254,966**	**307,217**	**347,431**	**383,027**
Cash flow statement								
Net cashflow from operating activites	40,894	42,026	26,250	37,026	2,062	(3,020)	96,732	78,712
Net cashflow from investing activites	(6,639)	(13,244)	(17,554)	(20,616)	(12,648)	(9,383)	(12,000)	(12,000)
Free cash flow	**34,255**	**28,782**	**8,696**	**16,410**	**(10,587)**	**(12,404)**	**84,732**	**66,712**
Net cashflow from financing activites	(8,670)	(9,194)	(13,465)	(17,391)	(18,605)	(17,417)	(13,405)	(11,865)
Cash generated /utilised	25,584	19,707	(4,768)	(999)	(29,192)	(29,821)	71,327	54,847
Net cash at end of year	**83,860**	**103,147**	**97,901**	**96,302**	**66,720**	**37,129**	**108,456**	**163,303**
Ratios (%)								
EBITDA margin	**17.2**	**14.1**	**16.5**	**19.0**	**19.3**	**18.7**	**15.3**	**13.2**
PAT margin	14.8	11.9	13.1	14.5	14.9	13.9	11.8	11.0
RoE	29.2	26.4	29.8	33.3	30.9	24.9	16.4	13.0
RoCE	29.2	26.3	29.7	33.3	30.9	24.8	16.4	13.0
Net current assets (excl cash) as days of sales	(9.5)	(24.3)	7.8	25.7	86.3	140.6	128.4	118.7
EPS (Rs)	**11.7**	**12.8**	**17.6**	**24.6**	**28.8**	**28.5**	**21.9**	**19.4**

Source: Company, Kotak Institutional Equities estimates

APPENDIX 1: BULK TENDER BIDS

Exhibit 7: Bids for super-critical bulk tenders

Project		Price (Rs bn)	Capacity (MW)	Realization (Rs mn/MW)	Date
NTPC bulk tender					
9X800 MW boiler	Doosan (winning bid)	70	4,000	17.5	Sep-11
	L&T (L2)			18.2	
	BGR Energy (L3)			18.9	
	Thermax (L4)			21.9	
	BHEL (L5)				
9X800 MW turbine	BGR (winning bid)	30	3,200	9.3	Sep-11
	L&T			10.4	
	BHEL			12.5	
9X800 MW tender - total BTG				**26.8**	
11X660 MW turbine	Bharat Forge	41	3,300	12.4	Nov-10
	BHEL (L2)			13.6	
	JSW-Toshiba (L3)			17.9	
11X660 MW boiler	BGR (winning bid)	56	3,960	14.0	Feb-12
	BHEL (L2)			15.8	
	L&T (L3)				
11X660 MW tender - total BTG				**26.4**	

Source: News flows, Company, Kotak Institutional Equities

kotak Institutional Equities

Glenmark Pharmaceuticals (GNP)

Pharmaceuticals

REDUCE

JANUARY 28, 2013

UPDATE

Coverage view: Attractive

Price (Rs): 515

Target price (Rs): 510

BSE-30: 20,104

Glenmark launches Mupirocin cream. The at-risk launch of Mupirocin in US by Glenmark will contribute Rs2.1/share for FY2014E (+7% upside to EPS; Rs1 bn in profits for the period till Oct 2014). With additional generic entry expected post patent expiry, we expect sustainable profits to have +1% EPS impact. Glenmark has also filed for declaratory judgment of non-infringement on the two unexpired patents. We maintain REDUCE rating with unchanged TP of Rs510 – the stock is fully valued on FY2014E EPS.

Company data and valuation summary

Glenmark Pharmaceuticals

Stock data			
52-week range (Rs) (high,low)			552-285
Market Cap. (Rs bn)			139.4
Shareholding pattern (%)			
Promoters			25.1
FIIs			45.2
MFs			9.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(1.1)	27.9	63.9
Rel. to BSE-30	(5.3)	19.4	39.2

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	22.3	28.3	32.3
EPS growth (%)	1.8	27.0	14.2
P/E (X)	23.1	18.2	15.9
Sales (Rs bn)	48.9	57.3	65.1
Net profits (Rs bn)	6.0	7.7	8.7
EBITDA (Rs bn)	10.0	12.0	13.2
EV/EBITDA (X)	15.5	12.7	11.3
ROE (%)	22.7	23.6	22.1
Div. Yield (%)	0.5	0.7	0.8

Glenmark launches (at-risk) generic version of Bactroban cream

Glenmark has launched generic version of Bactroban cream (molecule name: Mupirocin; Innovator: GlaxoSmithKline; 2%) in the US (on January 24, 2013). The launch is at-risk given unexpired patents for the drug and follows the final approval from the US FDA. Status on authorized generic launch is not known. GSK reported annualized US sales of US$80 mn for Bactroban in CY2012 - the cream formulation is expected to be US$55-60 mn and rest is the nasal ointment.

- **Sustainable EPS impact of +1.2%.** We expect the launch to contribute Rs2.1/share (7.4% upside to FY2014E EPS) annually during the period of patent protection (till Oct 20, 2014; assume no other generic). The launch will contribute Rs1 bn during the 21-month period. We expect 2-3 more generics to enter the market on patent expiry and ~+1% EPS upside on a sustainable basis or Rs0.1 bn at the PAT level (refer to Exhibit 1).

- **Patent landscape.** Bactroban is protected by two patents – 5569672 (expires on Oct 29, 2013) and 6025389 (expires on Oct 20, 2014). There is no stay on FDA granting the final approval since the '672 patent is not listed in the orange book while the '389 patent was listed post the ANDA filing by Glenmark.

Glenmark seeks declaratory judgment (DJ) on unexpired patents

Following the launch, Glenmark has filed for a DJ for patent non-infringement and invalidity in the district court (of Delaware). We expect the innovator to challenge the Glenmark suit. In November 2012, GSK had requested Glenmark to provide the ANDA sample in order to verify the claims of non-infringement (refer to Exhibit 2).

A delayed launch would have meant limited upside for Glenmark (which appears to be an early filer) given patent expiry is less than two years away. We believe this may have been a key consideration for the at-risk launch.

Maintain REDUCE with TP at Rs510

We have not included the impact of Mupirocin launch in our estimates but expect marginal impact on sustainable EPS. At 18X FY2014E, we believe the stock is fully valued.

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Expect 2-3 generic players on patent expiry

Our estimate of competition is based on the number of filers seen in the Mupirocin ointment market. There is no para-IV filing for the cream formulation. Given the patent expiry is in October 2014, we believe the generic filers (in case they filed after the patent was listed) may have targeted a launch post the patent expiry.

It is not clear when the patent was listed and if there are other generics who may have filed their ANDAs prior to the listing date.

Exhibit 1: Impact on sustainable EPS is likely to be ~1% (US$ mn)

	Pre patent expiry	Post patent expiry
US Brand sales	55	55
Price erosion	50%	70%
Glenmark market share	50%	30%
Glenmark sales	13.8	5.0
% EBITDA margin	95%	50%
Profit before tax	13.1	2.5
Tax rate	20%	20%
Profit after tax (in US$ mn)	10.5	2.0
Profit after tax (in INR mn)	564	107
Number of shares	271	271
EPS (in INR)	2.1	0.4

	2014E	2015E
Adjusted EPS	28.3	32.3
% upside from Mupirocin cream launch	7.4%	1.2%

Source: Kotak Institutional Equities estimates

Exhibit 2: Generic Mupirocin - timeline

Period	Event details
11-Dec-97	GSK receives US FDA approval for Mupirocin cream.
15-Feb-00	US PTO grants the '389 patent
22-Feb-10	Glenmark files ANDA for Mupirocin cream - 2%.
2-Nov-12	Glenmark send a correspondence to US FDA relating to the patent issues for the ANDA.
7-Nov-12	GSK send a letter to Glenmark relating to the ANDA - seeks explanation on the basis of non-infringement of '389 and '672 patents and seeks the sample for testing.
12-Nov-12	Glenmark responds to GSK letter - claims burden to prove infringement is on GSK and seeks for factual basis for the infringement accusations.
13-Nov-12	GSK responds that the request for sample was in good faith which can help to resolve the matter. Re-iterates request for sample and other technical information to evaluate the claim of non-infrimgement of the ANDA prior to launch. According to GSK, the response by Glenmark also signals a growing dispute regarding a possible at-risk launch of the ANDA product.
24-Jan-13	Glenmark receives US FDA approval for Mupirocin cream ANDA - launches the drug in US.

Source: US FDA, USPTO, Bloomberg, Kotak Institutional Equities

Exhibit 3: Bactroban – market landscape

Brand name	Innovator	Molecule name	Formulation	Strength	Approval date	Generic approval (approval period)	Comments
Bactoban	GlaxoSmithKline	Mupirocin	Topical Ointment	2%	31-Dec-87	Perrigo (Nov-03), Teva (Nov-03), Taro (Sep-05), Fougera (Nov-05), Glenmark (Jun-11),	Brand has sales of US$100mn prior to generic entry.
		Mupirocin calcium	**Topical Cream**	**2%**	**11-Dec-97**	**Glenmark (Jan-13)**	**There is one listed patent - 6025389 (expires in Oct-14). The other patent in contention - 5569672 (expires in Oct-13) is not listed in the orange book.**
		Mupirocin calcium	Nasal Ointment	2%	18-Sep-95	None	No patent protection
Centany	Perrigo	Mupirocin	Topical Ointment	2%	4-Dec-02	None	There is one listed patent - 6013657 (expires in Jul-18).

Source: US FDA, Kotak Institutional Equities

Exhibit 4: Financial summary, March fiscal year-ends, 2012-15E (Rs mn)

	2012	2013E	2014E	2015E
Net Sales (excl licensing)	**37,654**	**48,895**	**57,255**	**65,129**
% growth		29.9%	17.1%	13.8%
Reported EBITDA (excl licensing)	5,908	9,541	11,971	13,180
% margins	15.7%	19.5%	20.9%	20.2%
% growth		61.5%	25.5%	10.1%
Adjusted EBITDA (for MTM losses)	**7,366**	**9,941**	**11,971**	**13,180**
% margins	19.6	20.3	20.9	20.2
% growth		35.0	20.4	10.1
Reported PAT	4,603	6,030	7,657	8,743
% growth		31.0	27.0	14.2
Adjusted PAT	4,531	5,950	7,657	8,743
% growth		31.3	28.7	14.2
Adjusted EPS	**16.7**	**22.0**	**28.3**	**32.3**
% growth		31.3	28.7	14.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Revenue summary, March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
Domestic formulations	7,529	8,447	10,021	12,356	14,580	17,204
Semi regulated market	3,864	4,070	5,926	7,434	8,921	10,260
Latin america	1,361	1,919	2,869	3,568	4,282	4,924
Europe	1,363	1,528	1,976	2,171	2,388	2,627
Speciality business	**14,116**	**15,963**	**20,792**	**25,529**	**30,171**	**35,014**
US	7,230	8,352	12,137	17,681	20,880	23,183
Europe	299	544	1,031	1,489	1,713	1,969
Latin america (Argentina)	343	401	142	174	209	251
API	2,627	2,767	3,094	3,894	4,283	4,711
Generics business	**10,500**	**12,063**	**16,405**	**23,238**	**27,085**	**30,115**
Licensing income	232	895	2,535	495	—	—
Others	—	569	474	128	—	—
Total	**24,848**	**29,491**	**40,206**	**49,390**	**57,255**	**65,129**
yoy growth, %						
Domestic formulations	22.6	12.2	18.6	23.3	18.0	18.0
Semi regulated market	64.1	5.3	45.6	25.5	20.0	15.0
Latin America	(13.9)	41.0	49.5	24.4	20.0	15.0
Europe	36.8	12.1	29.4	9.8	10.0	10.0
Speciality business	**27.5**	**13.1**	**30.3**	**22.8**	**18.2**	**16.1**
US	(1.5)	15.5	45.3	45.7	18.1	11.0
Europe	103.7	81.6	89.7	44.4	15.0	15.0
Latin america (Argentina)	(14.3)	16.9	(64.5)	22.4	20.0	20.0
API	33.2	5.3	11.8	25.8	10.0	10.0
Generics business	**6.5**	**14.9**	**36.0**	**41.7**	**16.6**	**11.2**
Total	**18.7**	**18.7**	**36.3**	**22.8**	**15.9**	**13.8**
% of sales						
Domestic formulations	30.3	28.6	24.9	25.0	25.5	26.4
Semi regulated market	15.5	13.8	14.7	15.1	15.6	15.8
Latin America	5.5	6.5	7.1	7.2	7.5	7.6
Europe	5.5	5.2	4.9	4.4	4.2	4.0
Speciality business	**56.8**	**54.1**	**51.7**	**51.7**	**52.7**	**53.8**
US	29.1	28.3	30.2	35.8	36.5	35.6
Europe	1.2	1.8	2.6	3.0	3.0	3.0
Latin america (Argentina)	1.4	1.4	0.4	0.4	0.4	0.4
API	10.6	9.4	7.7	7.9	7.5	7.2
Generics business	42.3	40.9	40.8	47.0	47.3	46.2
Licensing income	**0.9**	**3.0**	**6.3**	**1.0**	**—**	**—**

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Profit and loss statement, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013E	2014E	2015E
Net sales	**20,402**	**23,891**	**28,579**	**37,654**	**48,895**	**57,255**	**65,129**
Raw materials	(6,581)	(7,843)	(9,918)	(13,454)	(17,429)	(20,039)	(22,665)
Employee cost	(3,194)	(3,321)	(5,103)	(6,289)	(7,741)	(8,980)	(10,417)
R& D	(1,274)	(1,179)	(1,380)	(2,916)	(3,765)	(4,008)	(4,559)
Others	(3,452)	(5,585)	(7,166)	(9,087)	(10,418)	(12,257)	(14,308)
Total expenditure	**(14,500)**	**(17,928)**	**(23,568)**	**(31,746)**	**(39,354)**	**(45,284)**	**(51,949)**
EBITDA	**5,902**	**5,963**	**5,011**	**5,908**	**9,541**	**11,971**	**13,180**
Depreciation/amortisation	(1,027)	(1,206)	(947)	(979)	(1,276)	(1,476)	(1,676)
EBIT	**4,875**	**4,757**	**4,064**	**4,929**	**8,265**	**10,496**	**11,505**
Net finance cost	(1,405)	(1,640)	(1,566)	(1,377)	(1,524)	(1,300)	(1,000)
Other income	(782)	490	1,405	(1,207)	178	150	150
Licensing income	—	232	895	2,535	495	—	—
PBT	**2,688**	**3,839**	**4,799**	**4,881**	**7,414**	**9,346**	**10,655**
Current tax	(754)	(529)	(240)	(238)	(1,291)	(1,589)	(1,811)
Minority interest	18	66	46	40	93	100	100
PAT - reported	**1,916**	**3,244**	**4,512**	**4,603**	**6,030**	**7,657**	**8,743**
PAT - adjusted	**1,347**	**1,986**	**2,272**	**4,531**	**5,950**	**7,657**	**8,743**
EPS - adjusted	**5.3**	**7.6**	**8.4**	**16.7**	**22.0**	**28.3**	**32.3**

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Balance sheet and cash flow statement, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013E	2014E	2015E
Balance sheet							
Total equity	15,982	23,552	20,372	24,016	29,204	35,793	43,316
Total debt	20,943	18,694	21,116	22,445	22,118	19,453	15,983
Current liabilities	4,563	5,186	7,746	10,623	11,806	13,167	14,732
Minority interest	32	130	267	250	250	250	250
Deferred tax liabilities	569	710	—	—	—	—	—
Total equity and liabilities	**42,089**	**48,273**	**49,501**	**57,334**	**63,378**	**68,662**	**74,281**
Cash and cash equivalents	715	1,070	1,986	3,253	3,253	3,253	3,253
Current assets	20,077	23,140	24,029	26,252	29,672	33,232	37,326
Net fixed assets	**7,857**	**9,245**	**10,337**	**10,511**	**12,646**	**13,885**	**14,924**
Net intangibles	7,806	8,628	10,329	11,862	12,352	12,837	13,322
Capital -WIP	5,454	6,008	1,457	2,483	2,483	2,483	2,483
Investments	181	181	281	298	298	298	298
Deferred tax assets	—	—	1,081	2,674	2,674	2,674	2,674
Total assets	**42,089**	**48,273**	**49,501**	**57,334**	**63,378**	**68,663**	**74,281**
Free cash flow							
Operating cash flow, excl. working capital	4,036	5,618	5,775	8,392	8,923	10,533	11,519
Working capital	(3,877)	(2,094)	3,531	(348)	(2,237)	(2,199)	(2,529)
Capital expenditure	(9,744)	(3,958)	(4,012)	(2,854)	(3,900)	(3,200)	(3,200)
Free cash flow	**(9,585)**	**(434)**	**5,294**	**5,190**	**2,786**	**5,133**	**5,790**

Source: Company, Kotak Institutional Equities estimates

CAUTIOUS

JANUARY 28, 2013

UPDATE

BSE-30: 20,104

3QFY13 review: multiples suggest an upcycle, business does not. Tier-1 IT companies reported creditable performance despite concerns of client shutdowns and soft discretionary spending. While still too early to call it a trend, 3QFY13 saw an uptick in pace of deal closures translating into moderate revenue growth. Stock performance from here would be determined by uptick in discretionary spend in key verticals, something which becomes evident in early Feb; we would wait for that event rather than join the 'upgrade bandwagon'. We stay cautious on Tier-1 IT.

3QFY13: not as bad as feared; well set for decent exit to FY2013

Tier-1 IT companies reported organic US$ revenue growth of 2.4-4.2% qoq in the Dec 2012 quarter, creditable against the backdrop fears of client shutdowns and pull-back of discretionary spending. On a yoy comparison, organic growth was 3.7-13%. Realization improvements and cross-currency benefits aided revenue growth even as volume growth was muted. The better-than-expected performance in 3QFY13 sets companies up for a better exit to FY2013 than how the year started. Key verticals of BFSI and manufacturing held up well despite concerns regarding extended client shutdowns in these verticals which tempered expectations for the quarter.

Discretionary spending: still too early to take a decisive call

3QFY13 saw early signs of improvement in the demand environment. Commentary and metrics from Infosys and TCS are construed as possible recovery in discretionary spending as revenues from consulting and system integration projects saw strong growth across the large players. TCS highlighted that timely completion of budgeting process along with better clarity on areas of spending will likely lead to better 2013 than stop-start 2012.

We would refrain from extrapolating this quarter's results as an indicator of return in discretionary spend-led medium-term demand. Dec 2012 quarter was possibly the best example of how the demand scenario continues to be volatile. As late as mid-Dec many companies indicated challenges to revenue growth (after having guided to a higher number just a month earlier) due to client spending freeze/furloughs in key markets. Some of the results, however, were clearly at odds with the revised mid-Dec commentary indicating that demand environment can change fast, in either direction. A clearer view on discretionary spending would be visible by early Feb when budgets (not encouraging) start getting allocated to projects.

Discount for unpredictability from premium for predictability

Demand for Indian IT is not easy to forecast as (1) link between macroeconomic indicators and flow of IT business is not as strong and (2) only limited data points exist to assess changes in the variables driving demand for Indian IT. These challenges get accentuated by 'crowding-out' or fragmentation in the market where the difference between a dogfight for market share and a relatively healthy market is just a 3-4% difference in industry growth rates.

Effectively this implies that the Indian IT industry has become a lot more cyclical where predictability of the business seems to be deteriorating as evident from volatile performance and extreme swings in commentary of companies. Just as the IT sector traded at premium multiples for predictability, it could easily trade at a discount for its current unpredictability. We argue for a multiple of 15-16 X 12-month forward earnings for sector leaders based on an assumption of 10-12% growth. We caution against assigning a higher multiple based on the premature assumption of recovery in demand. We stay cautious on the sector with Infosys likely to be the relative outperformer among Tier-1 on its likely strong deal-led return to normalized level of growth.

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What to expect of FY2014E? More of the same!

Infosys' strong growth and unchanged organic growth guidance are construed by the Street as a sign of revival in the demand environment. However, it is more likely a reflection of its revamped, more aggressive turf protection strategy which is helping Infosys win its fair share of deals in the market. A more competitive Infosys is not great news for the sector which is currently facing increasing competition for a shrinking incremental revenue pie. Global SIs have perfected their global delivery model and are increasingly becoming relevant competition for the Tier-1 players. Even smaller mid-tier players like TechM-Satyam are making their presence felt in their areas of strength. Impact of the competition is best captured by (1) move of Infosys to the price-taker category and (2) decline in profitability of Tier-1 companies (except HCLT) in FY2013E by 0.5-2.7% despite benefits from Rupee depreciation. In our view, this hyper competition can lead to pressure on pricing and margins for the industry unless there is a marked improvement in demand led by the return of discretionary spending. As discussed earlier, we don't see any compelling evidence for the same just yet.

Accenture's performance and CTSH's guidance, which have often been a barometer for industry demand scenario, do not paint a very strong picture either. Accenture has guided for full-year growth of 5-8% in constant currency terms. Consulting bookings were flat yoy while outsourcing bookings declined 8.3% - outsourcing decision-making remains sluggish while flattish consulting bookings depict that an uptick in discretionary spends could still be some time away. CTSH's 8-K filing in December 2012 for senior management compensation linked to CY2013 growth targets shows materially lower growth than its projected growth rate for CY2012. The threshold for 100% compensation is 16% revenue growth, down from the 20% growth it is expected to achieve in CY2012. CTSH has historically grown 6-10% faster than other Indian Tier-1 companies.

Interesting highlights from 3QFY13 results of IT companies

Price realizations: volatility due to changing business mix

Blended price realization for Tier-1 IT companies improved 0.5-3.8% qoq, while volume growth was negligible. This is quite a surprise compared to the equally volatile trends of earlier quarters. We believe that such volatility captures shift of revenues of Indian IT companies towards transformation deals, fixed price projects and incrementally outcome-based pricing contracts. Against this backdrop, price realization (and volumes) reported by companies would reduce in relevance. What would matter more in such an environment is spread, i.e. the difference between the revenue and direct cost for service delivery.

Europe remains volatile, performance was strong in 3QFY13

Performance in Europe continues to be unpredictable and volatile with the exception of TCS. Revenues from Europe showed robust growth for all players in 3QFY13. Europe, which is relatively under-penetrated for offshore IT services, remains critical to sustain growth aspirations of the Indian IT industry. Greater acceptance of Indian IT services and better deal wins in Europe will help reduce dependence on well-penetrated North American markets and bring down the element of cyclicality in performance.

Build-up of bench is worrying

Most companies, including the mid-tier companies, are maintaining fairly large benches with hopes pinned on a swift recovery in demand. While headcount addition was fairly muted in 3QFY13, it needs to be seen in the context of declining attrition rates in the industry. These will contribute to a further build-up in bench strength, which can have a detrimental effect on margins if demand does not recover soon.

Infra management and BPO form the bedrock of growth but cannot be good for margins

The traditional service lines of application development and maintenance had a weak quarter in 3QFY13. Growth was led by strong performance in some of the relatively newer service offerings like infra management and business process management. While good for growth, these services typically operate at lower margins than the traditional ADM business. This can put further pressure on margins of IT companies.

See Exhibits 1-12, which capture various aspects of 3QFY13 results.

Exhibit 1: Dec 2012 quarter performance versus KIE estimates

	vs KIE estimates			Earnings changes		Target price	
	Revenues	**EBITDA margin**	**Net Income**	**FY2013E**	**FY2014E**	**Pre-results**	**Post results**
Infosys	Beat	In-line	Beat	▲	▲	2,350	2,700
TCS	In-line	Beat	Beat	▲	▲	1,225	1,320
Wipro	In-line	In-line	Beat	▲	▲	375	400
HCL Tech	In-line	Beat	Beat	▲	▲	575	650
Polaris	Miss	Miss	Miss	▼	▼	120	120
Mindtree	In-line	In-line	Beat	▲	▲	750	825

Note:
(1) Revenue and net income beat/miss implies revenues/net income more/less than estimates by 1% or more.

Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: Dec 2012 quarter financial performance of key companies under our coverage

	Dec-12	qoq (%)	yoy (%)	Dec-12E	versus est. (%)
Infosys					
Revenues (US$ mn)	1,911	6.3	5.8	1,865	2.4
Revenues (Rs mn)	104,240	5.7	12.1	101,759	2.4
EBITDA (Rs mn)	29,710	3.4	(5.2)	28,757	3.3
Net income (Rs mn)	23,690	—	(0.1)	21,642	9.5
EBITDA margin (%)	**28.5**			**28.3**	**24 bps**
TCS					
Revenues (US$ mn)	2,948	3.3	14.0	2,941	0.2
Revenues (Rs mn)	160,699	2.9	21.7	160,425	0.2
EBITDA (Rs mn)	46,540	4.8	13.7	45,488	2.3
Net income (Rs mn)	35,518	1.1	23.0	34,968	1.6
EBITDA margin (%)	**29.0**			**28.4**	**61 bps**
Wipro					
Revenues (US$ mn) - Global IT Services	1,577	2.4	4.8	1,577	0.0
Revenues (Rs mn) - Wipro Limited	110,246	3.5	10.3	110,624	(0.3)
EBIT (Rs mn) - Wipro Limited	19,459	4.7	12.9	19,113	1.8
Net income (Rs mn)	17,164	6.6	17.9	16,298	5.3
Global IT EBIT margin (%)	**20.8**			**20.8**	**6 bps**
HCLT					
Revenues (US$ mn)	1,154	3.6	13.0	1,146	0.7
Reveneus (Rs mn)	62,738	3.0	19.6	62,534	0.3
EBITDA (Rs mn)	13,945	4.9	46.8	12,932	7.8
Net income (Rs mn)	9,427	9.3	70.7	8,621	9.4
EBITDA margin (%)	**22.2**			**20.7**	**155 bps**
Polaris					
Revenues (US$ mn)	106	(1.6)	(5.9)	107	(1.2)
Revenues (Rs mn)	5,606	(4.3)	(2.1)	5,835	(3.9)
EBITDA (Rs mn)	545	(38.3)	(48.4)	853	(36.1)
Net income (Rs mn)	407	(26.2)	(33.4)	602	(32.5)
EBITDA margin (%)	**9.7**			**14.6**	**-489 bps**
MindTree					
Revenues (US$ mn)	110	2.4	6.0	109	0.6
Revenues (Rs mn)	5,901	(1.0)	13.5	5,864	0.6
EBITDA (Rs mn)	1,204	(8.7)	34.2	1,222	(1.5)
Net income (Rs mn)	988	36.8	63.0	899	10.0
EBITDA margin (%)	**20.4**			**20.8**	**-43 bps**

Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Revenue and EPS guidance for various Indian IT companies for Mar 2013 quarter

	Actuals	Guidance (lower-end or single point)			Guidance (upper-end)			Guidance (lower-end)	
	Dec-12	Mar-13	qoq (%)	yoy (%)	Mar-13	qoq	yoy (%)	FY2013	yoy (%)
Infosys									
Revenues (US$ mn)	1,911	No quarterly guidance provided						7,450	6.5
Revenues (Rs bn)	104.2							407.5	20.8
EPS (Rs)	41.5							162.8	11.9
Re/US$ rate	54.5							54.7	
Wipro									
Revenues IT services (US$ mn) (a)	1,577	1,585	0.5	3.2	1,625	3.0	5.8		

Note:
(a) Global IT services

Source: Companies

Exhibit 4: Earnings revision for the top companies
Upward revision driven by change in Re/USD rates and expectation of improved growth

	Revised		Earlier		Change (%)/(bps)	
	FY2013E	FY2014E	FY2013E	FY2014E	FY2013E	FY2014E
Infosys (a)						
Revenues (US$ mn)	7,451	8,543	7,403	8,203	0.6	4.1
EPS (Rs)	162.9	177.2	160.5	168.5	1.5	5.2
EBITDA margin (%)	29.1	28.5	29.9	29.6	-87 bps	-105 bps
TCS						
Revenues (US$ mn)	11,581	13,247	11,493	12,984	0.8	2.0
EPS (Rs)	72.0	80.0	69.5	76.1	3.6	5.2
EBIT margin (%)	27.3	26.9	27.0	26.5	28 bps	47 bps
Wipro						
IT Services Revenues (US$ mn)	6,242	6,886	6,241	6,823	0.0	0.9
EPS (Rs)	27.4	29.4	26.4	28.3	3.6	3.6
IT services EBITmargin (%)	20.9	20.5	20.9	20.5	7 bps	-1 bps
HCLT						
Revenues (US$ mn)	4,686	5,256	4,586	5,087	2.2	3.3
EPS (Rs)	51.6	53.7	46.8	50.0	10.3	7.3
EBITDA margin (%)	21.6	19.5	20.8	19.2	88 bps	25 bps

Note:
(a) Infosys revised revenue estimates include Lodestone revenues

Source: Kotak Institutional Equities estimates

Exhibit 5: US$ revenue growth of the IT companies under coverage

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Revenues (US$ mn)										
TCS	2,004	2,144	2,244	2,412	2,525	2,586	2,648	2,728	2,853	2,948
Infosys	1,496	1,585	1,602	1,672	1,746	1,806	1,771	1,752	1,797	1,911
Wipro IT	1,273	1,344	1,400	1,408	1,473	1,506	1,536	1,515	1,541	1,577
HCL Tech	804	864	915	963	1,002	1,022	1,048	1,080	1,114	1,154
Polaris	84	89	97	101	111	112	104	105	108	106
Mindtree	82	85	86	93	101	104	105	106	107	110
Total	**5,743**	**6,111**	**6,344**	**6,647**	**6,958**	**7,136**	**7,211**	**7,285**	**7,519**	**7,806**
Sequential quarter change (%)										
TCS	11.7	7.0	4.7	7.5	4.7	2.4	2.4	3.0	4.6	3.3
Infosys	10.2	5.9	1.1	4.3	4.5	3.4	(1.9)	(1.1)	2.6	6.3
Wipro IT	5.7	5.6	4.2	0.5	4.6	2.2	2.0	(1.4)	1.7	2.4
HCL Tech	9.0	7.5	5.8	5.3	4.1	2.0	2.5	3.0	3.2	3.6
Polaris	5.9	6.6	8.5	4.1	10.6	1.0	(8.0)	1.7	2.1	(1.6)
Mindtree	7.0	3.5	1.2	7.3	9.5	2.3	1.3	0.4	1.7	2.4
Total	**9.4**	**6.4**	**3.8**	**4.8**	**4.7**	**2.5**	**1.1**	**1.0**	**3.2**	**3.8**
YoY growth (%)										
Total	**27.0**	**27.6**	**27.3**	**26.6**	**21.2**	**16.8**	**13.7**	**9.6**	**8.1**	**9.4**

Source: Companies, Kotak Institutional Equities

Exhibit 6: Vertical-wise split of revenue (US$ mn)

	3QFY13		Growth (%)	
	Revenue	% of revenues	qoq	yoy
Infosys				
BFSI	644	33.7	6.3	1.0
Manufacturing	415	21.7	4.4	12.6
Telecom	183	9.6	3.1	3.7
Retailing	306	16.0	0.1	11.4
Others, of which	363	19.0	16.8	4.2
Utilities	103	5.4	8.4	(4.8)
Logistics & Transportation	34	1.8	12.6	(4.8)
Others	225	11.8	21.8	10.5
Total	**1,911**	**100.0**	**6.3**	**5.8**
TCS				
BFSI	1,268	43.0	3.8	13.2
Manufacturing	251	8.5	7.1	24.2
Telecom	280	9.5	(4.7)	8.3
Healthcare	153	5.2	3.3	11.8
Retail & Distribution	395	13.4	3.3	24.2
Transportation	106	3.6	3.3	8.0
Energy & Utilities	112	3.8	9.1	5.7
Others	383	13.0	4.1	10.6
Total	**2,948**	**100.0**	**3.3**	**14.0**

	3QFY13		Growth (%)	
	Revenues	% of revenues	qoq	yoy
Wipro				
Global Media & Telecom	226	14.3	1.7	(2.7)
Finance Solutions	424	26.9	2.0	3.2
Manufacturing & hi-tech	295	18.7	0.8	3.1
Healthcare & life sciences	156	9.9	6.7	3.7
Retail & transportation	238	15.1	3.1	6.2
Energy & Utilities	238	15.1	2.4	18.1
Total	**1,577**	**100.0**	**2.4**	**4.8**
HCL Tech				
Financial services	298	25.8	10.9	15.2
Manufacturing	314	27.2	2.1	4.1
Telecom	82	7.1	(1.9)	0.2
Retail & CPG	104	9.0	1.4	15.5
MP&E	81	7.0	3.6	23.5
Life sciences	137	11.9	2.8	56.3
E&U, public sector	81	7.0	5.1	22.6
Others	58	5.0	(9.1)	(18.7)
Total	**1,154**	**100.0**	**3.6**	**13.0**

Source: Companies, Kotak Institutional Equities

Exhibit 7: Geographical split of revenues (US$ mn)

	3QFY13		Growth (%)	
	Revenues	% of revenues	qoq	yoy
Infosys				
North America	1,166	61.0	1.5	1.3
Europe	459	24.0	16.5	12.4
India	42	2.2	46.2	10.9
Rest of the world	245	12.8	8.0	16.8
Total	**1,911**	**100.0**	**6.3**	**5.8**
Wipro				
North America	787	49.9	(0.8)	(0.4)
Europe	467	29.6	7.5	10.0
Japan	16	1.0	(6.9)	(19.4)
Rest of the world	308	19.5	4.0	13.5
- India	169	10.7	3.3	23.2
Total	**1,577**	**100.0**	**2.4**	**4.8**
Polaris				
US/North America	47	44.8	(2.7)	(6.2)
Europe	24	22.4	1.7	(8.1)
India, APAC & ME	35	32.8	(2.2)	(4.0)
Total	**106**	**100.0**	**(1.6)**	**(5.9)**

	3QFY13		Growth (%)	
	Revenues	% of revenues	qoq	yoy
TCS				
North America	1,551	52.6	2.9	12.5
Europe	784	26.6	3.3	18.9
India	224	7.6	4.7	3.1
Others	389	13.2	4.1	17.6
Total	**2,948**	**100.0**	**3.3**	**14.0**
HCL Tech				
America	657	56.9	3.5	9.3
Europe	329	28.5	5.9	20.1
Rest of the world	169	14.6	0.2	14.5
Total	**1,154**	**100.0**	**3.6**	**13.0**
Mindtree				
North America	61	55.8	(1.7)	5.1
Europe	33	30.2	5.5	13.8
India	7	6.3	7.4	(7.4)
APAC	9	7.8	20.9	(2.9)
Total	**110**	**100.0**	**2.4**	**6.0**

Source: Companies, Kotak Institutional Equities

Exhibit 8: Service line-wise split of revenue (US$ mn)

	3QFY13		Growth (%)	
	Revenues	% of revenues	qoq	yoy
Infosys				
Application development	302	15.8	(1.2)	(2.2)
Application maintenance	382	20.0	(0.6)	(2.9)
Business Process Mgmt	124	6.5	15.2	32.3
Consulting & SI	623	32.6	15.6	12.7
Infrastructure Mgmt	132	6.9	7.9	19.7
Product Engineering	61	3.2	0.1	(5.9)
Testing Services	161	8.4	3.9	12.5
Others	52	2.7	(4.3)	(1.5)
Products	75	3.9	9.1	(14.0)
Total revenues	**1,911**	**100.0**	**6.3**	**5.8**
HCL Tech				
Engg and R&D services	203	17.6	0.9	5.2
Infrastructure Services	328	28.4	10.8	36.5
Custom applications	353	30.6	2.4	5.4
Enterprise application	219	19.0	(0.9)	5.7
BPO services	51	4.4	1.3	10.4
Total revenues	**1,154**	**100.0**	**3.6**	**13.0**

	3QFY13		Growth (%)	
	Revenues	% of revenues	qoq	yoy
TCS				
ADM	1,250	42.4	1.7	9.9
Enterprise solutions	445	15.1	4.7	8.9
Assurance services	227	7.7	3.3	15.5
Engineering services	139	4.7	5.6	16.5
Infrastructure services	345	11.7	6.0	25.8
Global consulting	94	3.2	10.2	30.3
BPO	366	12.4	1.7	30.9
Asset leverage solutions	83	2.8	7.2	(16.0)
Total revenues	**2,948**	**100.0**	**3.3**	**14.0**
Wipro				
Tech. Infra practices	374	23.7	4.6	14.4
Analytics & Info mgmt	112	7.1	2.4	12.7
BAS	495	31.4	4.7	6.8
BPO	139	8.8	3.5	8.5
Product engg. & mobility	118	7.5	(6.4)	(6.5)
ADM	339	21.5	(0.4)	(6.2)
Total revenues	**1,577**	**100.0**	**2.4**	**4.8**

Source: Companies, Kotak Institutional Equities

Exhibit 9: Operating margin trajectory of Indian IT companies

	3QFY12	2QFY13	3QFY13	qoq (bps)	yoy (bps)
TCS	31.0	28.4	29.0	53 bps	-203 bps
Infosys	33.7	29.1	28.5	-64 bps	-522 bps
Wipro - IT services	23.8	23.6	23.5	-3 bps	-22 bps
HCL Tech	18.1	21.8	22.2	40 bps	411 bps
Mindtree	17.3	22.1	20.4	-172 bps	314 bps
Polaris	18.4	15.1	9.7	-535 bps	-871 bps

Source: Companies, Kotak Institutional Equities

Exhibit 10: Net hiring trends for Indian IT companies

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Infosys	3,914	1,026	7,646	5,311	3,041	2,740	8,262	3,266	4,906	1,157	2,610	1,868
Wipro	5,955	4,224	2,975	3,591	2,894	4,105	5,240	5,004	(814)	2,632	2,107	2,246
TCS	10,775	3,271	10,717	12,497	11,700	3,576	12,580	11,981	11,832	4,962	10,531	9,561
HCL Tech	2,441	6,428	5,661	2,049	1,153	3,626	3,474	2,556	(612)	1,855	1,016	(141)
Mindtree	170	715	572	87	(124)	30	1,003	354	66	(170)	53	69
Polaris	188	207	959	172	124	455	471	604	382	832	(470)	(134)
Total	**23,443**	**15,871**	**28,530**	**23,707**	**18,788**	**14,532**	**31,030**	**23,765**	**15,760**	**11,268**	**15,847**	**13,469**

Source: Companies, Kotak Institutional Equities

Exhibit 11: Attrition has declined further in 3QFY13

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
TCS (a)	11.0	12.3	13.1	13.2	13.1	13.6	12.5	11.7	11.1	10.9	10.2	9.8
TCS (f)	10.2	13.1	15.6	10.0	16.1	17.1	14.9	12.5	12.6	14.7	13.1	11.7
Infosys (b)	13.4	15.8	17.1	17.5	17.0	15.8	15.6	15.4	14.7	14.9	15.0	15.1
Infosys (f)	19.3	27.4	22.3	18.4	18.2	21.7	20.6	17.8	15.6	21.5	20.5	16.9
Wipro (c)	17.6	24.4	24.9	23.9	23.4	25.2	22.4	20.6	20.0	18.4	17.9	16.9
Mindtree	14.1	17.8	21.9	24.2	25.1	25.6	21.7	19.4	18.2	17.0	16.3	15.1
HCL Tech (e)	13.9	15.7	16.7	17.2	17.0	16.5	15.9	15.7	15.0	14.0	13.6	13.6
HCL Tech (f)	33.0	33.6	36.4	35.5	35.0	31.6	29.6	25.7	25.7	24.7	25.3	24.8

Notes:
(a) LTM attrition for IT services
(b) Standalone attrition numbers for last twelve months, ex BPO/subsidiaries
(c) Wipro Technologies only, quarterly annualized attrition, includes involuntary attrition
(d) Attrition is LTM and ex-BPO
(e) For IT services only, excludes involuntary attrition
(f) Quarterly annualized attrition computed (includes BPO)

Source: Companies, Kotak Institutional Equities

Exhibit 12: Utilization rates for various IT companies

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Tata Consultancy Services	74.3	74.8	77.7	77.1	75.1	76.2	76.4	74.0	71.3	72.3	72.8	72.1
Infosys	67.4	71.9	73.6	70.9	65.6	67.4	68.5	67.6	64.2	64.7	67.5	67.1
Wipro (a)	79.3	78.4	78.0	75.6	76.1	76.9	76.1	73.5	74.1	75.5	73.7	71.7
HCL Technologies (b)	76.2	72.9	70.1	70.1	71.9	72.5	69.7	69.6	72.2	72.4	74.2	75.6
Mindtree	71.4	70.5	70.0	69.3	70.9	72.5	71.3	68.3	67.8	68.9	71.7	71.4
Polaris	81.0	79.0	76.0	78.0	80.0	81.0	80.0	81.0	81.0	80.5	81.2	80.1

Notes:
(a) Wipro Technologies only
(b) Utilization is for off-shore only, incl trainees

Source: Companies, Kotak Institutional Equities

Exhibit 13: Valuation summary of key Indian technology companies

	25-Jan-13		Mkt cap.		EPS (Rs)			PER (X)			EV/EBITDA (X)			EV/Sales (X)		
Company	**Price (Rs)**	**Rating**	**(Rs m)**	**(US$ m)**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**
HCL Technologies	681	REDUCE	484,227	9,000	34.6	51.6	53.7	19.7	13.2	12.7	12.1	8.4	7.8	2.3	1.8	1.5
Hexaware Technologies	81	REDUCE	23,803	442	9.1	10.9	10.0	8.9	7.4	8.1	7.4	5.2	5.4	1.4	1.1	1.0
Infosys	2,815	REDUCE	1,615,609	30,030	144.9	162.9	177.2	19.4	17.3	15.9	13.2	11.7	10.2	4.2	3.4	2.9
Mindtree	783	ADD	32,204	599	53.1	79.7	86.1	14.7	9.8	9.1	10.9	6.1	5.6	1.7	1.3	1.1
Mphasis	369	SELL	77,830	1,447	39.0	37.6	37.7	9.5	9.8	9.8	7.9	7.3	7.1	1.5	1.4	1.3
Polaris Financial Technology	122	REDUCE	12,124	225	20.8	21.1	18.7	5.9	5.8	6.5	3.3	2.9	2.6	0.5	0.4	0.3
Mahindra Satyam	121	ADD	141,826	2,636	10.2	10.2	11.1	11.9	11.8	10.9	11.1	6.9	6.1	1.8	1.4	1.2
TCS	1,341	REDUCE	2,623,627	48,766	54.4	72.0	80.0	24.7	18.6	16.8	17.5	13.6	11.9	5.2	3.9	3.4
Tech Mahindra	1,007	ADD	128,329	2,385	80.1	96.0	104.8	12.6	10.5	9.6	15.9	10.7	9.8	2.5	2.1	1.9
Wipro	408	REDUCE	1,001,188	18,609	22.7	27.4	29.4	18.0	14.9	13.9	12.4	10.0	8.8	2.5	2.1	1.8
Technology		**Cautious**	***6,140,766***	***114,141***				***19.7***	***16.0***	***14.7***	***14.0***	***11.1***	***9.9***	***3.4***	***2.8***	***2.4***
KS universe (b)			***53,971,439***	***1,003,187***				***16.3***	***14.8***	***13.2***	***10.3***	***9.4***	***8.1***	***1.5***	***1.3***	***1.2***

	Target	O/S shares	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
Company	**Price**	**(mn)**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**
HCL Technologies	650	711	51.2	49.4	3.9	24,295	36,713	38,426	39,224	55,010	55,683	210,312	254,210	285,922
Hexaware Technologies	90	294	207.9	20.3	(8.2)	2,669	3,211	2,948	2,646	4,005	3,877	14,505	19,333	20,927
Infosys	2,700	574	21.0	12.5	8.7	83,150	93,526	101,702	107,180	118,521	131,579	337,340	407,473	461,422
Mindtree	825	41	115.1	50.1	8.1	2,185	3,280	3,544	2,930	4,915	5,010	19,152	23,572	26,114
Mphasis	375	211	(24.6)	(3.7)	0.4	8,223	7,917	7,952	9,849	10,512	10,752	50,980	53,574	58,002
Polaris Financial Technology	120	100	7.4	1.9	(11.4)	2,069	2,108	1,868	2,906	2,836	2,737	20,527	23,017	24,147
Mahindra Satyam	120	1,176	142.3	0.1	9.1	11,967	11,973	13,062	10,240	15,876	16,544	63,956	76,550	84,680
TCS	1,320	1,957	22.0	32.4	11.1	106,382	140,881	156,586	144,176	183,263	203,602	488,938	631,927	715,605
Tech Mahindra	1,025	128	63.5	19.9	9.1	10,494	12,581	13,724	8,516	13,397	14,462	54,897	67,124	76,126
Wipro	400	2,456	5.2	20.6	7.2	55,730	67,245	72,103	75,601	89,633	96,318	375,248	435,244	474,061
Technology			***21.2***	***23.4***	***8.5***	***311,194***	***384,007***	***416,656***	***409,023***	***504,915***	***548,019***	***1,670,707***	***2,030,449***	***2,270,935***
KS universe (b)			***9.4***	***9.7***	***12.6***									

Notes
(a) HCL Technologies is June fiscal year-ending
(b) Patni Computers Systems and Hexaware Technologies are December year-ending.

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

December 2012: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
28-Jan	**29-Jan**	**30-Jan**	**31-Jan**	**1-Feb**	**2-Feb**	**3-Feb**
Adani Ports	Container Corp	Central Bank of India	Allahabad Bank	Adani Enterprises	DIVIs Laboratories	
Adani Pow er	Crompton Greaves	Colgate Palmolive	Bayer Corp	Bharti Airtel	Indian Bank	
Amar Raja	Dabur India	Dena Bank	Cummins India	BHEL		
Bank of India	Engineers India	Indian Overseas Bank	Godrej Consumers	Corporation Bank		
Financial Technologies	Glenmark Pharmaceuticals	IPCA Laboratories	Grasim Industries	IDFC		
IL & FS Investment Managers	GMDC	NALCO	ICICI Bank	Jet Airw ays		
ING Vysya Bank	Idea	Pow er Finance Corp.	Lupin	Karur Vysya Bank		
JSW Steel	Mahindra Holidays	SJVN	Mahindra Satyam	Marico		
Neyveli Lignite	Oracle Financial	Titan Industries	Manglore Refinery	MCX		
Reliance Infrastructure	Reliance Capital		Punjab National Bank			
Torrent Pow er	Sterlite Indsutries		Siemens			
	Torrent Pharma		Tata Global Beverages			
	United Phosphorus		Thermax			
			Union Bank of India			
4-Feb	**5-Feb**	**6-Feb**	**7-Feb**	**8-Feb**	**9-Feb**	**10-Feb**
REC	NHPC	Apollo Tyres	ACC	Cadila Healthcare		
Bank of Baroda	Uco Bank	Godrej Indsutries	Ambuja Cements	Emami		
J&K Bank		United Brew eries	Apollo Hospitals	GMR Infra		
Jubilant Foodw orks			Aurobindo Pharma	Gujarat State Petronet		
United Spirits			MRF	Hindalco Industries		
				Mahindra & Mahindra		
				Sun Pharmaceuticals		
				Tata Chemcials		
11-Feb	**12-Feb**	**13-Feb**	**14-Feb**	**15-Feb**	**16-Feb**	**17-Feb**
Britannia Industries	Lanco Infratech	BPCL	Dr Reddys			
Hexaw are Technologies	CESC	Madras Cements				
ONGC	HPCL					
Tata Pow er						

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	25-Jan-13		Mkt cap.		O/S shares	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)	(mn)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	(Rs)	(%)	(US$ mn)
Automobiles																													
Apollo Tyres	84	BUY	42,545	789	504	8.1	11.7	14.0	(7.0)	43.8	20.0	10.4	7.2	6.0	5.9	4.5	3.8	1.3	1.1	1.0	0.6	0.8	1.0	15.6	19.0	19.1	110	30.3	5.4
Ashok Leyland	25	ADD	66,517	1,234	2,661	2.1	0.8	2.1	(10.6)	(60.9)	156.0	11.8	30.1	11.8	7.7	11.1	7.8	1.4	1.3	1.3	4.0	1.0	3.4	17.7	11.0	15.3	26	4.0	4.7
Bajaj Auto	2,080	REDUCE	601,952	11,164	289	103.8	110.3	139.3	14.9	6.3	26.3	20.0	18.9	14.9	14.6	14.5	11.4	9.9	7.7	6.1	2.2	2.1	2.7	54.5	46.0	45.5	2,100	1.0	16.6
Bharat Forge	233	REDUCE	55,398	1,027	237	17.4	13.8	19.1	38.5	(20.3)	37.9	13.4	16.9	12.2	7.7	8.4	6.8	2.2	2.0	1.8	0.4	0.4	0.4	15.1	14.2	13.2	270	15.7	2.4
Exide Industries	121	SELL	102,978	1,910	850	5.4	5.9	7.1	(27.2)	9.6	19.2	22.3	20.4	17.1	15.0	13.1	11.2	3.4	3.0	2.7	1.2	1.3	1.5	15.9	15.6	16.6	110	(9.2)	4.8
Hero Motocorp	1,765	SELL	352,451	6,537	200	119.1	104.8	115.3	19.9	(12.0)	10.0	14.8	16.8	15.3	11.2	12.5	10.4	6.4	5.1	4.2	1.7	1.8	2.0	61.8	40.4	34.9	1,600	(9.3)	13.3
Mahindra & Mahindra	902	ADD	553,521	10,266	614	45.1	53.2	59.3	8.1	17.9	11.4	20.0	16.9	15.2	15.2	12.2	10.7	4.4	3.7	3.2	1.3	1.8	2.0	24.6	24.7	23.4	1,000	10.9	21.8
Maruti Suzuki	1,599	SELL	483,162	8,961	302	56.6	63.0	87.0	(28.6)	11.2	38.2	28.3	25.4	18.4	22.9	17.7	11.7	3.1	2.8	2.5	0.4	0.5	0.5	11.1	11.7	14.4	1,300	(18.7)	23.4
Motherson Sumi Systems	198	BUY	116,248	2,156	588	4.4	7.9	15.9	(34.3)	78.9	101.9	44.8	25.0	12.4	19.0	10.8	5.5	6.2	5.4	3.7	1.1	1.2	2.0	15.5	30.7	33.3	230	16.3	2.0
Tata Motors	301	BUY	968,572	17,963	3,218	44.6	33.3	50.5	58.7	(25.4)	51.7	6.8	9.0	6.0	5.6	5.3	3.9	2.9	2.3	1.7	1.3	2.0	1.4	46.3	28.2	32.5	350	16.3	62.3
Automobiles		**Neutral**	**3,343,342**	**62,006**					**25.8**	**(7.3)**	**31.8**	**12.7**	**13.7**	**10.4**	**9.2**	**8.5**	**6.4**	**3.8**	**3.1**	**2.5**	**1.4**	**1.6**	**1.7**	**29.7**	**22.8**	**24.2**			
Banks/Financial Institutions																													
Andhra Bank	117	ADD	65,219	1,210	560	24.0	22.2	22.4	6.1	(7.7)	1.1	4.9	5.3	5.2	—	—	—	0.9	0.9	0.8	4.7	4.4	4.4	19.2	15.6	14.2	125	7.3	2.7
Axis Bank	1,386	ADD	572,804	10,623	413	102.7	115.7	120.1	24.4	12.6	3.8	13.5	12.0	11.5	—	—	—	2.5	2.2	1.9	1.2	1.3	1.4	20.3	19.3	17.3	1,520	9.6	40.2
Bajaj Finserv	857	SELL	136,366	2,529	159	94.8	69.2	72.1	21.3	(27.1)	4.2	9.0	12.4	11.9	—	—	—	2.7	2.0	1.6	1.6	1.6	1.6	32.2	18.5	15.0	810	(5.5)	3.0
Bank of Baroda	882	REDUCE	363,723	6,746	412	121.4	114.1	118.7	12.4	(6.0)	4.0	7.3	7.7	7.4	—	—	—	1.4	1.3	1.2	1.9	2.2	2.3	21.7	16.7	15.3	770	(12.7)	10.5
Bank of India	364	BUY	208,981	3,876	575	46.6	52.4	58.1	2.5	12.4	10.8	7.8	6.9	6.3	—	—	—	1.2	1.1	1.0	1.9	2.1	2.4	15.0	14.4	14.1	340	(6.5)	6.8
Canara Bank	489	REDUCE	216,671	4,018	443	74.1	68.4	77.4	(18.5)	(7.7)	13.2	6.6	7.1	6.3	—	—	—	1.2	1.1	1.0	2.2	2.5	2.5	15.4	12.7	13.0	420	(14.1)	8.3
Corporation Bank	454	BUY	67,228	1,247	148	101.7	92.9	110.5	6.6	(8.6)	18.8	4.5	4.9	4.1	—	—	—	0.9	0.8	0.7	4.5	4.1	4.9	19.5	15.6	16.4	480	5.8	0.9
Federal Bank	507	ADD	86,661	1,607	171	45.4	47.7	47.5	32.3	5.0	(0.3)	11.2	10.6	10.7	—	—	—	1.6	1.4	1.3	1.8	1.9	1.9	14.4	13.5	12.2	540	6.6	5.7
HDFC	806	SELL	1,234,335	22,892	1,532	27.9	31.6	37.4	15.8	13.2	18.3	28.9	25.5	21.6	—	—	—	6.5	4.9	4.4	1.3	1.5	1.7	22.7	22.0	21.5	730	(9.4)	37.7
HDFC Bank	665	SELL	1,560,665	28,944	2,347	22.0	28.6	36.5	30.4	30.1	27.3	30.2	23.2	18.2	—	—	—	5.3	4.5	3.8	0.6	0.8	1.1	18.7	20.7	22.3	615	(7.5)	30.8
ICICI Bank	1,173	ADD	1,352,140	25,077	1,153	56.1	64.9	63.6	25.4	15.6	(2.0)	20.9	18.1	18.5	—	—	—	2.3	2.1	2.0	1.4	1.7	1.6	11.2	11.9	10.8	1,140	(2.8)	56.1
IDFC	170	ADD	256,572	4,758	1,512	10.3	12.5	14.9	17.2	21.9	18.7	16.5	13.5	11.4	—	—	—	2.1	1.9	1.7	1.4	1.5	1.7	13.7	14.6	15.5	170	0.2	19.0
India Infoline	80	REDUCE	26,071	484	327	4.5	7.7	8.5	(38.3)	68.5	10.5	17.6	10.4	9.4	—	—	—	1.5	1.3	1.1	1.7	3.3	1.8	7.7	13.1	12.7	65	(18.6)	1.0
Indian Bank	200	BUY	85,954	1,594	430	39.6	39.8	41.8	1.2	0.7	5.0	5.1	5.0	4.8	—	—	—	1.0	0.9	0.8	3.8	3.7	3.9	19.4	17.0	15.7	260	30.0	1.2
Indian Overseas Bank	83	REDUCE	66,470	1,233	797	13.2	14.7	20.5	(24.0)	11.9	39.3	6.3	5.7	4.1	—	—	—	0.7	0.7	0.6	5.4	4.1	5.8	9.9	9.5	12.2	75	(10.1)	2.4
IndusInd Bank	432	ADD	224,295	4,160	520	17.2	19.9	22.8	38.5	16.0	14.6	25.1	21.7	18.9	—	—	—	5.0	3.1	2.7	0.5	0.8	0.9	20.1	17.6	15.1	460	6.6	10.0
J&K Bank	1,280	REDUCE	62,063	1,151	48	165.6	199.0	183.3	30.6	20.2	(7.9)	7.7	6.4	7.0	—	—	—	1.5	1.3	1.2	2.6	3.1	2.9	21.2	21.6	17.2	1,260	(1.6)	2.6
LIC Housing Finance	283	NR	142,926	2,651	505	18.1	22.1	28.4	(11.8)	22.2	28.6	15.6	12.8	10.0	—	—	—	2.5	2.3	1.9	1.3	1.6	2.0	18.6	18.3	20.2	—	—	15.7
L&T Finance Holdings	86	SELL	146,698	2,721	1,715	2.7	3.5	4.7	(5.6)	33.6	32.0	32.2	24.1	18.3	—	—	—	3.1	2.7	2.4	—	—	—	11.9	12.0	13.9	60	(29.9)	13.2
Mahindra & Mahindra Financial	1,071	REDUCE	121,660	2,256	114	60.4	77.6	91.8	33.6	28.5	18.2	17.7	13.8	11.7	—	—	—	4.2	2.8	2.4	1.2	1.7	2.0	22.8	23.5	21.1	1,100	2.8	5.3
Muthoot Finance	217	NR	80,494	1,493	372	24.0	25.7	25.1	52.4	7.1	(2.5)	9.0	8.4	8.6	—	—	—	2.8	2.1	1.7	1.8	—	—	41.9	29.8	22.7	—	—	—
Oriental Bank of Commerce	330	REDUCE	96,237	1,785	292	39.1	50.0	55.3	(24.0)	27.9	10.6	8.4	6.6	6.0	—	—	—	1.0	0.9	0.8	2.4	3.1	3.4	9.9	11.7	11.9	325	(1.5)	5.5
PFC	206	ADD	272,046	5,045	1,319	23.0	28.8	31.5	0.9	25.3	9.1	9.0	7.2	6.6	—	—	—	1.4	1.2	1.2	2.9	3.7	4.0	16.9	17.3	16.7	220	6.7	8.9
Punjab National Bank	873	REDUCE	296,222	5,494	339	144.0	139.6	153.6	2.9	(3.0)	10.0	6.1	6.3	5.7	—	—	—	1.3	1.2	1.0	2.5	2.4	2.7	21.1	16.7	16.1	800	(8.4)	11.2
Reliance Capital	476	ADD	117,258	2,175	246	21.1	36.7	21.7	126.7	74.0	(41.0)	22.6	13.0	22.0	—	—	—	1.1	1.0	1.0	1.6	2.3	1.4	5.7	8.0	4.5	450	(5.5)	33.4
Rural Electrification Corp.	241	REDUCE	237,764	4,410	987	28.6	35.7	39.1	10.0	24.9	9.7	8.4	6.7	6.2	—	—	—	1.7	1.6	1.5	3.1	3.9	4.3	20.5	22.1	20.9	234	(2.8)	7.7
Shriram City Union Finance	1,072	NR	59,284	1,099	55	65.4	83.0	100.6	34.7	26.9	21.2	16.4	12.9	10.6	—	—	—	3.4	2.6	2.1	0.6	1.0	1.3	23.3	23.0	22.9	—	—	0.4
Shriram Transport	759	ADD	169,307	3,140	223	56.4	60.5	72.2	2.3	7.3	19.4	13.5	12.5	10.5	—	—	—	2.9	2.6	2.2	0.9	1.6	1.9	23.1	20.7	21.1	775	2.1	4.7
SKS Microfinance	170	RS	12,444	231	73	(189.0)	(32.2)	0.5	(1,304.4)	(83.0)	(101.4)	(0.9)	(5.3)	377.6	—	—	—	2.9	5.4	4.8	—	—	—	(122.9)	(70.7)	1.4	—	—	3.1
State Bank of India	2,514	ADD	1,686,795	31,283	671	174.5	209.2	218.7	34.0	19.9	4.6	14.4	12.0	11.5	—	—	—	2.5	2.4	2.2	1.6	1.6	1.7	15.7	15.7	14.6	2,400	(4.5)	97.9
Union Bank	253	ADD	139,399	2,585	551	32.3	37.5	40.6	(18.2)	16.3	8.1	7.8	6.7	6.2	—	—	—	1.3	1.2	1.0	3.2	2.9	3.1	14.9	15.1	14.5	285	12.6	9.6
Yes Bank	504	REDUCE	177,994	3,301	353	27.7	35.3	39.0	32.1	27.5	10.6	18.2	14.3	12.9	—	—	—	3.8	3.1	2.6	0.8	1.0	1.1	23.1	24.0	21.9	450	(10.8)	19.8
Banks/Financial Institutions		**Cautious**	**10,342,746**	**191,817**					**14.6**	**15.1**	**9.8**	**14.2**	**12.4**	**11.3**	—	—	—	**2.3**	**2.1**	**1.9**	**1.5**	**1.7**	**1.8**	**16.4**	**17.1**	**16.6**			
Cement																													
ACC	1,327	SELL	249,270	4,623	188	57.1	73.6	79.7	7.8	28.9	8.2	23.2	18.0	16.7	13.3	9.6	8.3	3.2	2.9	2.6	2.4	1.8	1.8	16.9	18.4	17.5	1,300	(2.0)	7.2
Ambuja Cements	199	SELL	303,181	5,623	1,522	7.8	10.6	12.7	(1.2)	36.2	20.0	25.6	18.8	15.6	14.8	11.0	9.1	3.5	3.2	2.9	1.1	1.4	1.9	14.6	18.2	19.5	180	(9.6)	8.3
Grasim Industries	3,018	ADD	276,788	5,133	92	288.6	335.4	363.9	24.4	16.2	8.5	10.5	9.0	8.3	7.0	5.4	4.5	1.6	1.4	1.2	1.1	1.1	1.1	16.7	16.7	15.7	3,600	19.3	4.2
India Cements	88	ADD	26,924	499	307	9.0	9.8	12.4	373.8	9.5	26.7	9.8	8.9	7.1	5.2	4.6	3.9	0.6	0.6	0.6	2.4	3.6	3.6	6.9	7.3	8.6	105	19.8	2.6
Shree Cement	4,447	SELL	154,919	2,873	35	159.6	272.8	286.5	179.3	70.9	5.0	27.9	16.3	15.5	8.6	9.4	7.9	5.8	4.5	3.6	0.4	0.4	0.4	24.3	31.1	25.8	3,427	(22.9)	1.3
UltraTech Cement	1,917	SELL	525,296	9,742	274	89.3	101.8	121.9	99.0	14.0	19.7	21.5	18.8	15.7	13.2	10.8	8.7	3.6	3.0	2.5	0.5	0.5	0.5	20.8	19.7	19.7	1,700	(11.3)	8.2
Cement		**Cautious**	**1,536,379**	**28,494**					**40.8**	**23.6**	**13.6**	**18.8**	**15.2**	**13.4**	**10.3**	**8.4**	**7.0**	**2.8**	**2.4**	**2.1**	**1.1**	**1.0**	**1.1**	**14.9**	**16.0**	**15.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	25-Jan-13		Mkt cap.		O/S shares	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)	(mn)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	(Rs)	(%)	(US$ mn)
Consumer products																													
Asian Paints	4,406	SELL	422,595	7,837	96	103.1	122.6	141.5	17.3	18.9	15.5	42.7	35.9	31.1	27.8	23.0	19.5	15.4	12.5	10.4	0.9	1.1	1.3	41.4	40.1	38.1	3,550	(19.4)	5.9
Bajaj Corp.	242	BUY	35,732	663	148	8.1	11.5	14.0	16.5	40.7	21.8	29.8	21.1	17.4	30.7	19.9	15.6	8.4	7.4	6.5	1.7	2.7	3.5	29.9	37.0	39.9	280	15.6	0.6
Colgate-Palmolive (India)	1,409	SELL	191,600	3,553	136	32.8	39.5	46.1	10.9	20.4	16.6	42.9	35.6	30.6	36.9	29.8	25.2	44.0	36.0	31.4	1.8	2.0	2.5	109.0	111.0	109.7	1,150	(18.4)	3.5
Dabur India	129	ADD	226,357	4,198	1,753	3.7	4.5	5.2	12.6	21.1	15.7	35.1	29.0	25.0	27.8	22.4	18.8	13.0	10.3	8.3	1.0	1.2	1.4	41.4	40.1	37.0	140	8.4	2.3
GlaxoSmithkline Consumer	3,771	RS	158,581	2,941	42	86.0	108.5	126.4	20.8	26.1	16.4	43.8	34.7	29.8	34.8	29.3	24.8	13.9	11.5	9.7	0.9	1.2	1.5	34.4	36.2	35.3	—	—	3.4
Godrej Consumer Products	725	ADD	234,570	4,350	324	17.7	22.3	28.5	18.7	26.2	27.7	41.0	32.5	25.5	28.4	22.0	17.2	8.3	6.7	5.7	0.7	0.7	0.7	25.2	24.2	28.0	760	4.8	2.3
Hindustan Unilever	477	REDUCE	1,029,955	19,102	2,162	11.9	14.9	16.5	22.4	25.4	10.6	40.0	31.9	28.9	34.8	30.3	26.8	29.3	34.4	27.3	1.6	3.6	2.3	83.4	99.1	105.5	450	(5.6)	26.4
ITC	300	ADD	2,356,085	43,696	7,860	7.8	9.4	11.2	22.3	19.4	19.1	38.2	32.0	26.9	27.5	22.5	18.6	12.5	11.2	10.0	1.5	1.9	2.3	35.5	37.0	39.4	330	10.1	35.9
Jubilant Foodworks	1,269	SELL	83,273	1,544	66	16.4	23.0	34.7	46.1	40.8	50.6	77.6	55.1	36.6	44.2	31.3	21.8	28.1	18.6	12.3	—	—	—	44.0	40.6	40.6	1,000	(21.2)	8.6
Jyothy Laboratories	150	ADD	24,530	455	164	2.8	4.3	7.5	(73.3)	53.8	76.2	54.2	35.3	20.0	36.0	19.9	13.9	4.0	3.6	3.1	—	—	—	6.1	10.8	16.6	195	30.1	0.6
Marico	217	ADD	140,022	2,597	645	5.2	6.6	8.0	34.2	27.4	20.6	41.7	32.8	27.2	30.2	22.3	18.0	12.0	9.2	7.2	0.3	0.4	0.5	31.0	32.3	30.0	240	10.5	1.1
Nestle India	4,650	SELL	448,343	8,315	96	104.6	113.0	139.2	20.5	8.0	23.2	44.5	41.1	33.4	29.4	25.4	20.4	35.2	26.2	18.9	1.0	1.2	1.3	94.7	73.0	65.7	4,000	(14.0)	2.2
Speciality Restaurants	179	ADD	8,382	155	47	4.9	6.3	8.5	7.6	28.2	34.9	36.5	28.4	21.1	23.1	18.2	13.0	7.3	5.4	4.3	—	—	—	16.2	14.0	12.2	200	12.0	0.6
Tata Global Beverages	148	BUY	91,523	1,697	618	5.4	6.5	7.7	36.3	19.7	19.6	27.4	22.9	19.2	16.2	12.4	10.4	1.6	1.5	1.5	1.2	1.4	1.7	7.8	8.6	9.9	165	11.5	11.1
Titan Industries	274	ADD	243,653	4,519	888	6.7	8.4	10.4	36.5	25.8	23.1	40.9	32.5	26.4	28.1	21.6	16.9	16.8	12.7	8.9	0.8	1.1	0.4	47.9	44.4	39.5	325	18.4	9.9
United Breweries	722	SELL	191,019	3,543	264	4.8	8.8	13.8	(17.2)	84.3	55.9	150.7	81.8	52.5	48.6	34.2	24.7	14.0	13.0	10.9	0.1	0.2	0.4	9.3	15.9	21.9	700	(3.1)	20.7
United Spirits	1,794	ADD	228,221	4,233	127	15.8	36.8	64.8	(55.4)	133.6	76.0	113.8	48.7	27.7	29.1	18.6	14.6	4.9	2.8	2.5	0.1	0.5	0.4	4.5	7.3	11.0	1,500	(16.4)	117.6
Consumer products		**Cautious**	**6,114,442**	**113,398**					**19.7**	**23.8**	**21.0**	**41.7**	**33.7**	**27.9**	**29.6**	**23.8**	**19.6**	**12.7**	**10.6**	**9.2**	**1.2**	**1.8**	**1.8**	**30.4**	**31.5**	**32.9**			
Constructions																													
NCC	53	ADD	13,535	251	257	1.4	2.4	3.0	(78.0)	73.5	25.1	37.6	21.7	17.3	8.8	8.2	8.7	0.6	0.6	0.5	0.6	1.1	1.9	1.5	2.6	3.1	55	4.3	1.7
Punj Lloyd	51	REDUCE	17,337	322	340	3.3	3.9	7.6	(322.9)	18.7	94.5	15.4	13.0	6.7	9.7	6.6	5.7	0.6	0.6	0.5	0.3	0.7	1.3	3.8	4.5	8.2	60	17.5	4.0
Sadbhav Engineering	125	BUY	18,750	348	150	9.3	5.3	9.1	20.4	(42.8)	69.4	13.4	23.3	13.8	7.8	10.8	7.7	2.4	2.2	1.9	0.5	0.5	0.5	17.9	9.4	13.9	180	44.3	0.3
Construction		**Cautious**	**49,621**	**920**					**25.9**	**(4.4)**	**71.5**	**17.2**	**18.0**	**10.5**	**9.1**	**7.5**	**6.7**	**0.8**	**0.8**	**0.7**	**0.4**	**0.7**	**1.2**	**4.7**	**4.4**	**7.0**			
Energy																													
Aban Offshore	355	RS	15,454	287	44	68.3	43.2	79.4	(49.1)	(36.7)	83.6	5.2	8.2	4.5	8.1	7.5	6.6	0.5	0.6	0.5	1.0	1.3	1.4	12.3	8.9	12.9	—	—	3.1
Bharat Petroleum	420	ADD	303,657	5,632	723	18.3	30.3	20.9	(5.7)	65.1	(31.1)	22.9	13.9	20.1	11.9	8.2	10.1	1.9	1.7	1.6	1.3	2.2	1.5	8.1	12.2	7.8	455	8.3	9.0
Cairn india	323	ADD	615,707	11,419	1,907	41.6	63.9	56.1	25.0	53.7	(12.3)	7.8	5.0	5.8	5.8	3.7	3.7	1.3	1.1	1.0	—	3.9	5.3	17.7	23.3	18.4	370	14.6	22.5
Castrol India	298	SELL	147,206	2,730	495	9.5	9.2	10.2	(4.4)	(3.0)	11.2	31.5	32.4	29.2	21.5	22.4	19.9	26.9	25.8	24.1	2.5	2.5	2.7	87.9	81.1	85.4	200	(32.8)	1.2
GAIL (India)	354	ADD	448,471	8,317	1,268	28.8	31.2	31.4	2.3	8.4	0.6	12.3	11.3	11.2	8.0	7.4	7.0	1.9	1.7	1.5	2.5	2.7	2.7	15.7	15.1	13.5	420	18.8	6.9
GSPL	74	ADD	41,780	775	563	9.3	8.5	8.1	4.7	(8.6)	(5.2)	8.0	8.7	9.2	4.9	5.0	4.9	1.5	1.3	1.1	1.3	1.3	1.3	20.7	15.8	13.0	85	14.5	1.3
Hindustan Petroleum	351	REDUCE	118,823	2,204	339	26.8	10.2	23.5	(34.4)	(61.8)	129.2	13.1	34.2	14.9	2.9	4.0	3.2	0.7	0.7	0.7	2.4	0.9	2.1	5.4	2.0	4.5	370	5.6	9.4
Indian Oil Corporation	324	ADD	785,563	14,569	2,428	32.9	18.3	24.3	1.3	(44.3)	32.7	9.8	17.7	13.3	7.6	9.1	7.7	1.3	1.2	1.2	1.5	1.2	2.3	13.0	6.8	8.5	335	3.5	5.3
Oil India	533	BUY	320,550	5,945	601	57.3	58.5	62.2	19.5	2.1	6.2	9.3	9.1	8.6	4.0	3.5	2.8	1.7	1.5	1.4	3.6	3.9	4.3	17.2	15.5	14.9	700	31.3	2.2
Oil & Natural Gas Corporation	341	ADD	2,918,288	54,123	8,556	32.8	29.9	33.1	33.1	(8.8)	10.6	10.4	11.4	10.3	4.4	4.8	4.1	1.7	1.6	1.4	2.9	2.9	3.2	16.8	13.5	13.5	375	9.9	23.6
Petronet LNG	155	ADD	115,950	2,150	750	14.1	16.3	13.0	70.7	15.8	(20.6)	11.0	9.5	11.9	7.5	6.9	7.5	3.0	2.4	2.0	1.6	1.8	1.9	29.7	27.2	17.5	180	16.4	3.7
Reliance Industries	912	REDUCE	2,719,268	50,432	2,981	61.3	64.1	61.4	(1.1)	4.6	(4.2)	14.9	14.2	14.9	8.7	9.3	9.2	1.5	1.4	1.3	0.9	1.0	1.0	11.7	11.2	9.9	835	(8.5)	50.8
Energy		**Attractive**	**8,550,718**	**158,582**					**12.9**	**(0.8)**	**2.5**	**11.3**	**11.4**	**11.1**	**6.4**	**6.5**	**5.9**	**1.6**	**1.4**	**1.3**	**1.8**	**2.2**	**2.5**	**13.9**	**12.7**	**11.9**			
Industrials																													
ABB	674	SELL	142,795	2,648	212	8.7	11.4	20.1	192.0	31.1	76.0	77.4	59.0	33.5	49.3	35.1	20.9	5.6	5.3	4.7	0.4	0.5	0.5	7.4	9.3	14.9	500	(25.8)	0.7
BGR Energy Systems	249	REDUCE	17,943	333	72	31.1	27.9	33.9	(30.7)	(10.1)	21.5	8.0	8.9	7.3	5.6	5.0	4.7	1.6	1.4	1.2	2.8	2.3	2.7	21.7	16.9	18.0	280	12.6	1.0
Bharat Electronics	1,230	REDUCE	98,384	1,825	80	106.3	110.7	125.7	(0.9)	4.1	13.5	11.6	11.1	9.8	5.9	4.7	3.4	1.7	1.5	1.4	1.7	2.4	2.4	15.3	14.3	14.6	1,300	5.7	1.0
Bharat Heavy Electricals	229	SELL	561,479	10,413	2,448	28.8	28.5	21.9	17.1	(1.0)	(23.0)	8.0	8.1	10.5	5.4	5.5	6.4	2.2	1.8	1.6	2.8	2.7	2.0	30.9	24.9	16.4	205	(10.6)	16.3
Crompton Greaves	110	BUY	70,854	1,314	642	5.7	4.1	10.1	(60.0)	(28.6)	147.4	19.3	27.0	10.9	8.5	11.3	6.6	2.0	1.9	1.6	1.3	1.3	1.6	10.6	7.1	16.1	155	40.3	6.3
Cummins India	493	ADD	136,618	2,534	277	22.0	25.4	29.8	(0.9)	15.3	17.3	22.4	19.4	16.5	20.5	16.6	13.9	6.7	5.9	5.2	2.2	2.6	3.0	30.7	31.1	32.0	525	6.5	1.7
Kalpataru Power Transmission	100	BUY	15,377	285	153	13.3	13.6	15.5	(4.1)	2.0	14.2	7.5	7.4	6.5	5.1	5.0	4.5	0.8	0.8	0.7	1.5	1.5	1.5	10.7	9.8	10.3	120	19.8	0.4
KEC International	64	BUY	16,479	306	257	6.9	6.8	8.9	(14.1)	(1.8)	31.9	9.3	9.5	7.2	5.8	6.5	5.3	1.4	1.3	1.1	1.9	1.6	2.1	16.4	14.1	16.4	80	24.8	0.4
Larsen & Toubro	1,611	REDUCE	986,760	18,300	612	75.7	82.2	88.0	12.4	8.6	7.1	21.3	19.6	18.3	16.3	14.7	12.8	3.2	2.7	2.3	0.9	0.9	0.9	16.1	14.7	13.5	1,600	(0.7)	44.9
Maharashtra Seamless	239	BUY	16,871	313	71	43.9	33.9	39.1	(9.0)	(22.6)	15.3	5.5	7.0	6.1	3.3	3.6	2.8	0.6	0.6	0.5	3.1	2.8	3.3	11.5	8.3	9.2	400	67.2	0.1
Siemens	642	SELL	225,808	4,188	352	13.6	23.3	27.4	(46.6)	71.2	17.6	47.2	27.5	23.4	28.8	16.0	13.3	5.3	4.6	4.0	0.3	0.7	0.9	11.7	17.9	18.3	575	(10.4)	2.5
Suzlon Energy	21	RS	37,502	696	1,777	(4.0)	(3.7)	(0.4)	(34.1)	(6.0)	(88.1)	(5.3)	(5.7)	(47.6)	8.3	8.5	6.8	0.7	0.8	0.9	—	0.9	0.9	(11.7)	(13.7)	(1.8)	—	—	10.9
Tecpro Systems	149	ADD	7,495	139	50	24.4	25.1	27.6	(9.6)	2.9	9.9	6.1	5.9	5.4	4.9	5.0	4.6	1.0	0.8	0.8	—	—	—	17.1	15.3	14.8	200	34.7	0.2
Thermax	583	REDUCE	69,411	1,287	119	32.9	26.5	31.6	4.0	(19.5)	19.4	17.7	22.0	18.4	11.8	14.1	11.3	4.3	3.8	3.3	1.2	1.4	1.5	26.6	18.2	19.2	510	(12.5)	0.8
Voltas	98	REDUCE	32,264	598	331	9.4	7.4	8.3	(3.4)	(21.2)	11.6	10.3	13.1	11.7	8.3	9.1	7.2	2.2	1.9	1.8	1.6	2.3	2.6	21.7	15.6	15.8	115	17.9	3.8
Industrials		**Cautious**	**2,419,169**	**44,866**					**6.5**	**4.2**	**3.3**	**16.3**	**15.6**	**15.1**	**11.1**	**10.5**	**9.8**	**2.7**	**2.4**	**2.1**	**1.4**	**1.5**	**1.4**	**16.8**	**15.3**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	25-Jan-13		Mkt cap.		O/S shares	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)**	**(mn)**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**2012**	**2013E**	**2014E**	**(Rs)**	**(%)**	**(US$ mn)**
Infrastructure																													
Adani Port and SEZ	130	BUY	262,874	4,875	2,017	5.5	5.9	8.8	20.0	8.3	48.8	23.9	22.0	14.8	21.1	15.3	11.3	5.3	4.4	3.5	0.8	0.9	1.3	23.8	21.9	26.6	160	22.8	3.4
Container Corporation	929	ADD	120,748	2,239	130	67.5	75.2	83.2	(0.1)	11.4	10.7	13.8	12.4	11.2	9.1	8.2	7.2	2.2	1.9	1.7	1.7	1.9	2.1	16.6	16.4	16.1	1,000	7.6	0.9
GMR Infrastructure	19	RS	72,983	1,354	3,892	(1.1)	0.4	0.4	236.7	(132.7)	(3.8)	(16.5)	50.6	52.6	18.1	8.0	5.6	0.8	0.6	0.6	—	—	—	(5.8)	1.9	1.8	—	—	4.7
Gujarat Pipavav Port	44	REDUCE	21,271	394	483	1.4	1.4	2.2	(212.6)	4.1	58.4	32.5	31.3	19.7	14.1	12.8	11.3	2.7	1.8	1.6	—	—	—	10.4	7.0	10.2	52	18.2	0.4
GVK Power & Infrastructure	13	RS	20,925	388	1,579	0.4	1.0	3.5	(60.3)	165.6	243.1	34.0	12.8	3.7	26.2	12.8	7.5	0.6	0.4	0.4	—	2.6	6.0	1.8	3.9	11.1	—	—	2.9
IRB Infrastructure	117	BUY	38,936	722	332	15.1	12.2	12.5	10.8	(19.0)	2.5	7.8	9.6	9.4	6.7	6.9	6.0	1.3	0.9	0.8	—	—	—	18.1	11.0	9.1	170	45.1	9.3
Infrastructure		**Cautious**	**537,736**	**9,973**					**(2.9)**	**36.8**	**38.2**	**24.9**	**18.2**	**13.2**	**16.2**	**10.7**	**7.7**	**2.0**	**1.6**	**1.4**	**0.8**	**1.0**	**1.3**	**8.0**	**8.7**	**10.6**			
Media																													
DB Corp	240	BUY	43,994	816	183	11.0	11.4	13.8	(14.5)	3.3	21.5	21.8	21.1	17.3	12.6	11.8	9.9	4.7	4.4	4.0	2.1	2.5	3.3	23.0	21.6	24.1	260	8.3	0.3
DishTV	74	ADD	78,866	1,463	1,064	(1.0)	(1.3)	0.6	(45.3)	32.4	(146.9)	(73.1)	(55.2)	117.8	17.8	14.8	11.6	(84.1)	(49.2)	(84.6)	—	—	—	694.0	112.4	(53)	80	7.9	5.9
Eros International	203	ADD	18,605	345	92	16.5	18.8	20.5	31.9	13.8	9.5	12.3	10.8	9.9	9.1	7.6	7.0	2.2	1.8	1.5	—	—	—	20.0	18.5	16.8	230	13.4	3.1
Hindustan Media Ventures	151	BUY	11,097	206	73	8.9	11.1	12.1	21.9	25.0	8.6	17.0	13.6	12.5	9.2	7.3	6.2	2.5	2.2	2.0	0.8	1.3	2.6	15.9	17.3	16.7	200	32.3	0.0
HT Media	106	BUY	24,919	462	235	7.0	7.0	8.6	(8.5)	(1.0)	23.4	15.1	15.2	12.3	6.7	6.6	5.0	1.6	1.5	1.4	0.4	1.9	3.8	11.1	10.2	11.8	130	22.7	0.3
Jagran Prakashan	109	BUY	34,392	638	316	5.6	6.0	7.0	(17.4)	6.7	16.8	19.3	18.1	15.5	10.7	10.0	8.6	4.6	4.2	3.8	3.2	3.2	3.2	24.5	24.3	25.8	130	19.5	0.2
Sun TV Network	445	REDUCE	175,326	3,252	394	17.6	17.5	20.5	(10.0)	(0.3)	17.2	25.3	25.4	21.7	16.0	15.4	13.3	6.6	6.0	5.5	2.1	2.2	2.7	28.6	25.9	27.7	410	(7.8)	9.8
Zee Entertainment Enterprises	228	REDUCE	216,553	4,016	950	6.0	7.3	8.9	(0.5)	20.6	22.0	37.8	31.4	25.7	27.2	21.6	17.3	4.7	4.5	4.3	0.6	0.7	0.9	13.0	14.9	17.3	190	(16.6)	11.5
Media		**Neutral**	**603,752**	**11,197**					**(1.5)**	**7.0**	**30.1**	**31.4**	**29.4**	**22.6**	**16.4**	**14.6**	**12.1**	**5.2**	**4.8**	**4.4**	**1.2**	**1.4**	**1.7**	**16.5**	**16.3**	**19.5**			
Metals & Mining																													
Coal India	341	BUY	2,154,196	39,952	6,316	23.2	24.8	28.4	34.4	6.5	14.5	14.7	13.8	12.0	9.2	7.9	6.5	5.1	4.1	3.3	2.9	2.2	2.5	38.0	32.8	30.4	404	18.5	12.8
Hindalco Industries	116	SELL	222,918	4,134	1,915	17.7	14.7	14.0	38.8	(16.9)	(5.1)	6.6	7.9	8.3	6.9	8.0	8.3	0.7	0.6	0.6	1.3	1.3	1.3	11.1	8.5	7.5	115	(1.2)	15.7
Hindustan Zinc	129	ADD	544,814	10,104	4,225	13.2	15.5	15.6	13.2	17.6	0.9	9.8	8.3	8.2	6.0	5.3	4.2	2.0	1.7	1.5	1.9	2.0	2.0	22.6	22.3	19.0	156	21.0	2.4
Jindal Steel and Power	433	REDUCE	405,189	7,515	935	42.4	32.6	43.6	5.6	(23.2)	33.8	10.2	13.3	9.9	8.4	8.7	7.9	2.2	1.9	1.6	0.4	0.4	0.4	24.8	15.7	17.8	420	(3.1)	16.9
JSW Steel	865	SELL	192,988	3,579	223	24.1	68.9	66.7	(69.3)	185.9	(3.1)	35.9	12.6	13.0	6.0	6.4	6.6	1.2	1.1	1.0	0.9	1.2	1.2	8.2	9.8	8.0	585	(32.4)	14.6
National Aluminium Co.	47	SELL	121,388	2,251	2,577	3.4	3.2	3.6	(19.7)	(5.9)	13.2	14.0	14.9	13.1	6.4	5.7	4.6	1.0	1.0	0.9	2.1	2.1	2.1	7.6	6.8	7.4	50	6.2	0.2
NMDC	160	BUY	635,740	11,790	3,965	18.5	17.0	19.1	12.6	(8.1)	12.7	8.7	9.5	8.4	4.9	5.3	4.3	2.6	2.2	1.9	2.8	3.1	3.1	33.3	25.3	24.1	190	18.5	13.8
Sesa Goa	183	ADD	159,219	2,953	869	31.0	26.6	28.0	(36.2)	(14.2)	5.3	5.9	6.9	6.5	5.6	28.9	16.2	1.1	0.9	0.8	2.5	0.6	0.6	11.1	(0.2)	2.2	203	10.8	6.1
Sterlite Industries	112	ADD	377,463	7,000	3,361	15.8	16.2	16.9	3.9	2.7	4.2	7.1	6.9	6.7	4.2	3.6	2.9	0.8	0.7	0.7	1.8	1.8	1.8	12.1	11.2	10.7	122	8.6	12.4
Tata Steel	407	ADD	395,121	7,328	971	17.2	14.0	48.7	(72.3)	(18.7)	247.1	23.6	29.0	8.4	7.8	7.8	6.0	0.9	0.9	0.9	2.9	3.0	3.0	6.4	3.2	10.6	400	(1.7)	31.4
Metals & Mining		**Cautious**	**5,209,035**	**96,607**					**0.5**	**0.7**	**14.5**	**11.1**	**11.0**	**9.6**	**6.9**	**6.9**	**5.9**	**1.9**	**1.7**	**1.5**	**2.4**	**2.0**	**2.2**	**17.0**	**15.2**	**15.4**			
Pharmaceutical																													
Apollo Hospitals	776	ADD	107,903	2,001	139	15.8	22.0	29.2	19.3	39.6	32.6	49.1	35.2	26.5	21.1	17.5	14.0	4.3	3.8	3.4	0.5	0.7	1.0	9.6	11.5	13.6	820	5.7	7.5
Biocon	268	ADD	53,510	992	200	17.1	17.7	20.6	(6.9)	3.4	16.5	15.6	15.1	13.0	8.8	8.6	7.2	2.4	2.1	1.9	1.9	2.0	2.3	15.7	14.8	15.6	300	12.1	3.4
Cipla	398	REDUCE	319,482	5,925	803	14.0	19.8	20.0	13.5	41.4	0.9	28.4	20.1	19.9	19.4	14.2	13.0	4.2	3.6	3.1	0.5	0.7	0.7	15.7	17.0	16.6	400	0.5	14.4
Cadila Healthcare	867	ADD	177,457	3,291	205	31.9	32.8	47.1	(8.2)	3.0	43.5	27.2	26.4	18.4	20.9	17.6	12.8	6.9	5.8	4.7	0.9	0.9	1.4	27.5	23.9	28.4	943	8.8	2.2
Divi's Laboratories	1,035	REDUCE	137,303	2,546	133	40.2	49.5	58.9	24.0	23.1	19.0	25.7	20.9	17.6	19.5	15.7	12.6	6.4	5.4	4.5	1.3	1.5	1.8	27.1	28.1	28.0	1,130	9.2	7.3
Dr Reddy's Laboratories	1,945	ADD	331,020	6,139	170	84.0	102.3	110.1	29.4	21.7	7.6	23.1	19.0	17.7	14.5	12.6	11.5	5.8	4.6	3.8	0.7	0.7	0.8	23.4	24.9	22.5	2,100	8.0	13.3
GlaxoSmithkline Pharmaceuticals	2,054	SELL	174,099	3,229	85	74.3	79.8	90.3	8.8	7.5	13.2	27.7	25.7	22.7	19.7	19.1	16.2	9.0	8.5	8.0	2.2	2.4	3.1	32.4	34.0	36.2	1,900	(7.5)	1.5
Glenmark Pharmaceuticals	515	REDUCE	139,366	2,585	271	21.9	22.3	28.3	31.1	1.8	27.0	23.5	23.1	18.2	26.3	16.3	12.7	5.7	4.7	3.9	0.4	0.5	0.7	20.7	22.7	23.6	510	(1.0)	5.8
Lupin	599	ADD	267,954	4,969	447	19.5	28.3	29.6	1.2	45.4	4.6	30.8	21.2	20.2	21.7	13.3	12.5	6.6	5.3	4.4	0.5	0.8	0.8	23.9	28.0	23.8	600	0.1	8.2
Ranbaxy Laboratories	456	SELL	192,362	3,568	422	(18.5)	38.8	23.5	(145.7)	309.1	(39.5)	(24.6)	11.8	19.4	13.6	8.8	13.5	6.7	4.5	3.7	—	—	—	(68.5)	45.6	20.8	482	5.7	7.3
Sun Pharmaceuticals	729	REDUCE	754,622	13,995	1,036	25.0	28.5	33.3	42.5	14.1	16.7	29.2	25.6	21.9	21.6	13.8	14.2	5.7	4.8	4.1	0.6	0.7	0.9	21.9	20.4	20.3	664	(8.9)	10.3
Pharmaceuticals		**Attractive**	**2,655,078**	**49,241**					**(9.5)**	**52.0**	**7.1**	**32.4**	**21.3**	**19.9**	**18.7**	**13.7**	**13.0**	**5.6**	**4.6**	**4.0**	**0.7**	**0.9**	**1.0**	**17.2**	**21.8**	**19.9**			
Real Estate																													
DLF	260	NR	445,360	8,260	1,715	7.1	12.7	16.9	(22.1)	79.7	33.1	36.7	20.4	15.4	17.5	13.3	10.3	1.6	1.5	1.4	1.0	1.1	1.3	4.5	7.6	9.5	—	—	28.7
Housing Development & Infrastructure	83	NR	34,735	644	419	22.0	28.8	28.8	11.3	30.5	0.2	3.8	2.9	2.9	4.9	4.4	3.9	0.3	0.3	0.3	—	1.8	2.4	8.3	10.8	9.6	—	—	44.9
Mahindra Life Space Developer	408	NR	16,662	309	41	29.4	29.8	34.3	18.0	1.3	15.1	13.9	13.7	11.9	13.6	10.8	10.3	1.5	1.4	1.3	1.1	1.2	1.3	11.2	10.4	11.0	—	—	0.5
Oberoi Realty	304	NR	100,222	1,859	330	14.1	14.3	22.4	(10.5)	1.4	57.3	21.6	21.3	13.6	18.1	14.0	8.8	2.7	2.5	2.1	0.7	0.8	1.0	13.1	12.0	16.9	—	—	0.6
Phoenix Mills	253	NR	36,581	678	145	7.3	10.7	11.5	14.9	46.9	7.9	34.7	23.6	21.9	26.4	18.4	17.7	2.2	2.0	1.9	0.8	0.8	0.8	6.4	8.9	9.0	—	—	0.6
Sobha Developers	419	NR	41,118	763	98	21.4	25.1	37.4	13.8	17.1	49.2	19.6	16.7	11.2	11.3	10.2	7.2	2.1	1.9	1.6	1.2	1.2	1.2	10.9	11.7	15.6	—	—	1.1
Unitech	36	NR	95,364	1,769	2,616	0.9	1.8	2.3	(56.1)	84.8	32.7	38.4	20.8	15.7	35.6	19.5	15.1	0.8	0.8	0.7	0.3	0.3	0.3	2.1	3.7	4.7	—	—	28.5
Real Estate		**Cautious**	**698,627**	**12,957**					**0.3**	**48.7**	**1.1**	**19.2**	**12.9**	**12.8**	**12.3**	**9.6**	**9.2**	**1.5**	**1.3**	**1.3**	**0.8**	**1.1**	**1.2**	**7.6**	**10.2**	**10.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	25-Jan-13		Mkt cap.		O/S shares	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)	(mn)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	(Rs)	(%)	(US$ mn)
Technology																													
HCL Technologies	681	REDUCE	484,227	8,980	711	34.6	51.6	53.7	51.2	49.4	3.9	19.7	13.2	12.7	12.1	8.4	7.8	5.0	3.6	2.9	1.2	1.2	1.2	25.1	30.7	25.5	650	(4.6)	15.3
Hexaware Technologies	81	REDUCE	23,803	441	294	9.1	10.9	10.0	207.9	20.3	(8.2)	8.9	7.4	8.1	7.4	5.2	5.4	2.3	2.1	1.9	4.9	6.7	6.2	26.9	29.7	24.3	90	11.0	6.0
Infosys	2,815	REDUCE	1,615,609	29,963	574	144.9	162.9	177.2	21.0	12.5	8.7	19.4	17.3	15.9	13.2	11.7	10.2	5.2	4.4	3.7	1.6	1.9	2.1	29.0	27.3	25.3	2,700	(4.1)	61.5
Mahindra Satyam	121	ADD	141,826	2,630	1,176	10.2	10.2	11.1	142.3	0.1	9.1	11.9	11.8	10.9	11.1	6.9	6.1	4.7	3.4	2.7	—	—	1.8	50.4	33.8	28.2	120	(0.5)	7.5
Mindtree	783	ADD	32,204	597	41	53.1	79.7	86.1	115.1	50.1	8.1	14.7	9.8	9.1	10.9	6.1	5.6	3.4	2.7	2.2	0.7	2.0	3.3	25.2	30.3	26.8	825	5.4	1.6
Mphasis	369	SELL	77,830	1,443	211	39.0	37.6	37.7	(24.6)	(3.7)	0.4	9.5	9.8	9.8	7.9	7.3	7.1	2.0	1.8	1.6	1.8	4.6	5.1	22.8	19.0	17.4	375	1.5	1.0
Polaris Financial Technology	122	REDUCE	12,124	225	100	20.8	21.1	18.7	7.4	1.9	(11.4)	5.9	5.8	6.5	3.3	2.9	2.6	1.0	0.9	0.8	3.2	3.4	3.5	18.1	15.8	12.6	120	(1.3)	1.5
TCS	1,341	REDUCE	2,623,627	48,658	1,957	54.4	72.0	80.0	22.0	32.4	11.1	24.7	18.6	16.8	17.5	13.6	11.9	8.1	6.5	5.4	1.9	2.1	2.4	36.8	38.8	35.4	1,320	(1.5)	30.0
Tech Mahindra	1,007	ADD	128,329	2,380	128	80.1	96.0	104.8	63.5	19.9	9.1	12.6	10.5	9.6	15.9	10.7	9.8	3.2	2.7	2.4	0.4	0.6	0.8	28.4	28.8	27.3	1,025	1.8	10.8
Wipro	408	REDUCE	1,001,188	18,568	2,456	22.7	27.4	29.4	5.2	20.6	7.2	18.0	14.9	13.9	12.4	10.0	8.8	3.5	3.0	2.5	1.2	1.5	1.7	21.2	21.5	19.7	400	(1.9)	13.1
Technology		**Cautious**	**6,140,766**	**113,887**					**21.2**	**23.4**	**8.5**	**19.7**	**16.0**	**14.7**	**14.0**	**11.1**	**9.9**	**5.1**	**4.2**	**3.6**	**1.6**	**1.9**	**2.1**	**26.0**	**26.4**	**24.3**			
Telecom																													
Bharti Airtel	361	ADD	1,369,035	25,390	3,798	11.2	8.1	12.9	(29.6)	(27.8)	59.7	32.1	44.5	27.9	8.6	7.9	6.8	2.7	2.6	2.4	—	0.4	0.4	8.6	5.9	8.9	340	(5.7)	31.3
IDEA	113	ADD	374,594	6,947	3,303	2.2	3.3	6.0	(19.6)	52.3	81.4	51.8	34.0	18.8	10.0	8.4	6.6	2.9	2.6	2.3	—	—	—	5.7	8.1	13.2	116	2.3	6.8
MTNL	25	RS	15,908	295	630	(9.1)	(8.4)	(8.3)	(11.9)	(8.1)	(1.7)	(2.8)	(3.0)	(3.1)	0.4	0.5	0.6	0.2	0.2	0.2	—	—	—	(5.7)	(5.5)	(5.8)	—	—	1.1
Reliance Communications	86	SELL	177,710	3,296	2,064	4.5	2.7	4.8	(31.0)	(40.2)	79.8	19.1	32.0	17.8	9.5	8.1	6.7	0.5	0.5	0.5	—	—	—	2.4	1.5	2.6	60	(30.3)	22.1
Tata Communications	233	REDUCE	66,305	1,230	285	(27.9)	(34.1)	(23.7)	12.0	22.3	(30.4)	(8.3)	(6.8)	(9.8)	9.7	8.2	7.3	2.9	4.6	8.6	—	—	—	(27.0)	(52.1)	(61.4)	220	(5.4)	1.2
Telecom		**Neutral**	**2,003,552**	**37,158**					**(34.4)**	**(28.8)**	**107.8**	**44.1**	**62.0**	**29.9**	**9.1**	**8.1**	**6.8**	**1.8**	**1.7**	**1.6**	**—**	**—**	**0.2**	**4.0**	**2.8**	**5.5**			
Utilities																													
Adani Power	64	SELL	139,302	2,583	2,180	(0.4)	(7.4)	(1.9)	(118.0)	1,645.4	(74.3)	(150.7)	(8.6)	(33.6)	37.6	47.4	13.8	2.3	3.3	3.6	—	—	—	(1.5)	(31.3)	(10.2)	33	(48.4)	3.8
CESC	333	REDUCE	41,585	771	125	21.7	26.0	32.3	(9.3)	19.6	24.1	15.3	12.8	10.3	8.9	9.1	6.1	0.7	0.7	0.6	—	1.5	1.6	4.5	5.2	6.2	294	(11.7)	5.1
JSW Energy	72	SELL	118,162	2,191	1,640	2.0	6.7	7.1	(60.6)	230.6	5.9	35.7	10.8	10.2	15.8	7.7	6.2	2.1	1.7	1.5	—	—	—	5.8	17.5	15.7	61	(15.3)	2.9
Lanco Infratech	12	RS	27,676	513	2,223	(0.5)	(0.7)	1.0	(131.8)	39.2	(233.2)	(23.8)	(17.1)	12.8	10.6	10.3	6.9	0.6	0.6	0.6	—	—	—	(2.5)	(3.6)	4.8	—	—	5.6
NHPC	26	ADD	323,509	6,000	12,301	2.5	2.0	2.3	84.5	(21.6)	17.1	10.6	13.5	11.5	9.9	12.0	9.6	1.1	1.1	1.0	2.6	2.0	2.4	11.1	8.2	9.0	27	2.7	6.5
NTPC	159	ADD	1,313,915	24,368	8,245	10.8	13.3	13.9	(1.1)	22.8	5.0	14.7	12.0	11.4	12.0	10.7	9.5	1.8	1.6	1.5	2.1	2.5	2.6	12.6	14.2	13.7	180	13.0	8.8
Power Grid	111	ADD	513,900	9,531	4,630	7.1	8.1	10.0	22.9	14.3	23.8	15.7	13.7	11.1	12.6	11.4	9.0	2.2	2.0	1.8	1.9	2.2	2.7	14.6	15.1	16.9	140	26.1	7.7
Reliance Infrastructure	540	BUY	142,076	2,635	263	60.3	56.8	59.8	4.0	(5.8)	5.3	9.0	9.5	9.0	10.9	4.8	4.2	0.6	0.6	0.5	1.9	2.1	2.1	8.9	10.1	9.4	904	67.4	19.2
Reliance Power	95	SELL	265,084	4,916	2,805	3.1	3.4	3.7	14.0	9.5	10.2	30.6	27.9	25.3	69.3	26.8	20.6	1.5	1.4	1.4	—	—	—	5.0	5.3	5.5	80	(15.3)	12.7
Tata Power	106	ADD	261,521	4,850	2,468	4.6	3.4	6.0	(40.6)	(26.8)	77.3	23.0	31.4	17.7	11.3	9.3	7.3	1.9	1.9	1.8	1.4	1.6	1.6	8.1	6.1	10.4	113	6.7	5.7
Utilities		**Attractive**	**3,146,731**	**58,359**					**(1.8)**	**4.0**	**21.9**	**16.4**	**15.7**	**12.9**	**13.5**	**11.6**	**9.3**	**1.5**	**1.5**	**1.4**	**1.7**	**1.9**	**2.0**	**9.5**	**9.3**	**10.5**			
Others																													
Carborundum Universal	146	BUY	27,285	506	187	11.6	9.1	12.5	27.0	(21.4)	37.4	12.6	16.0	11.6	7.7	8.8	6.6	2.5	2.2	1.9	1.4	1.1	1.5	24.8	16.3	19.4	180	23.6	0.4
Coromandel International	225	SELL	63,564	1,179	283	22.6	18.1	22.1	(7.9)	(19.7)	21.8	10.0	12.4	10.2	8.3	10.5	6.8	2.6	2.4	2.1	3.1	3.3	3.4	27.8	18.8	20.5	220	(2.2)	0.8
Havells India	660	REDUCE	82,320	1,527	125	31.5	31.7	37.3	28.2	0.8	17.6	21.0	20.8	17.7	13.1	11.9	10.2	8.1	5.6	4.5	1.0	1.1	1.2	45.6	31.8	28.2	580	(12.1)	3.7
Jaiprakash Associates	87	BUY	184,576	3,423	2,126	2.9	6.6	10.7	(51.5)	127.3	60.9	29.7	13.1	8.1	13.4	9.0	7.0	1.6	1.5	1.3	—	—	—	5.6	11.7	16.6	100	15.2	32.0
Jet Airways	612	SELL	52,804	979	86	(184.6)	(11.0)	25.7	1,735.6	(94)	(333.9)	(3.3)	(55.7)	23.8	(679.0)	11.9	8.3	40.3	146.0	20.5	—	—	—	(164.4)	(113.4)	150.8	350	(42.8)	40.6
Rallis India	138	BUY	26,749	496	194	5.1	6.3	8.6	(21.6)	23	37.6	27.0	21.9	16.0	13.8	12.9	8.9	4.8	4.3	3.6	1.6	1.6	1.6	20.4	19.6	24.5	155	12.7	1.3
SpiceJet	47	BUY	22,839	424	484	(13.7)	0.4	3.5	(649.9)	(103.2)	679.1	(3.4)	106.4	13.7	(5.6)	25.0	8.5	(14.9)	(71.0)	16.9	—	—	—	(721)	(23.2)	325.1	60	27.3	5.0
Tata Chemicals	366	BUY	93,290	1,730	255	32.9	35.3	40.4	28.2	7.4	14.3	11.1	10.4	9.1	6.1	5.5	4.8	1.3	1.2	1.1	2.7	2.7	2.7	12.3	11.7	11.9	360	(1.7)	4.4
United Phosphorus	138	REDUCE	63,590	1,179	462	12.0	15.0	16.0	(0.4)	24.9	6.5	11.4	9.2	8.6	6.1	5.5	5.0	1.5	1.3	1.2	1.8	1.8	1.8	14.5	16.0	15.0	120	(12.9)	5.7
Others			**617,017**	**11,443**					**(67.8)**	**254.8**	**43.2**	**53.0**	**14.9**	**10.4**	**12.9**	**8.8**	**6.8**	**2.2**	**2.0**	**1.7**	**1.2**	**1.2**	**1.2**	**4.2**	**13.3**	**16.3**			
KS universe (b)			**53,968,710**	**1,000,903**					**9.4**	**9.5**	**12.7**	**16.3**	**14.9**	**13.2**	**10.3**	**9.4**	**8.1**	**2.5**	**2.3**	**2.0**	**1.5**	**1.7**	**1.8**	**15.4**	**15.2**	**15.3**			
KS universe (b) ex-Energy			**45,417,993**	**842,322**					**8.4**	**12.6**	**15.4**	**17.8**	**15.8**	**13.7**	**12.0**	**10.4**	**8.7**	**2.8**	**2.5**	**2.2**	**1.4**	**1.6**	**1.7**	**16.0**	**16.0**	**16.4**			
KS universe (d) ex-Energy & ex-Commodities			**38,672,579**	**717,221**					**9.5**	**14.9**	**15.7**	**19.3**	**16.8**	**14.5**	**13.7**	**11.4**	**9.6**	**3.0**	**2.7**	**2.4**	**1.3**	**1.6**	**1.7**	**15.8**	**16.2**	**16.6**			

Notes:

(a) For banks we have used adjusted book values.

(b) 2012 means calendar year 2011, similarly for 2013 and 2014 for these particular companies.

(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(d) Rupee-US Dollar exchange rate (Rs/US$)= 53.92

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Kotak Institutional Equities Research coverage universe

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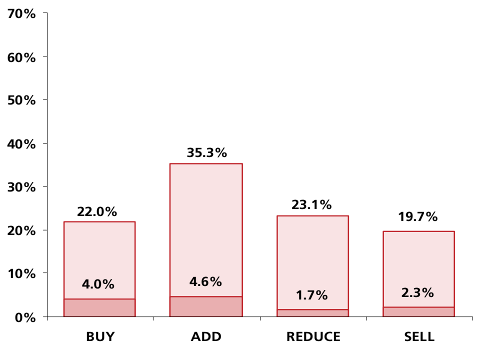

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Source: Kotak Institutional Equities

As of December 31, 2012

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

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