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July to September 2012
**Quarterly Results**

# Manmohan’s Tryst With Reforms

## PM redeems his pledge to revive animal spirits, not wholly or in full measure, but very substantially

**India**

# Contents



*(All prices as on October 5, 2012)*

Ajay Bodke
ajaybodke@plindia.com
+91-22-6632 2210

# India Strategy

*Revenue growth of Nifty Companies expected to fall to a 10-quarter low at just 13.4% YoY, PAT growth to bounce back by 16.4% YoY*

**Slowing revenue growth but rebound in EBITDA and net profit growth:** Revenue growth of Nifty companies is expected to fall to a ten-quarter low of just 13.4% YoY (the previous time it had fallen lower than this was in Q3FY10 at 9.9%). Revenues excluding Oil & Gas are expected to fall at 10.5%, again a ten-quarter low. EBITDA growth, on the other hand, is expected to bounce back strongly by 12.4% YoY (excluding Oil & Gas by 14.5% YoY). Similarly, PAT growth will bounce back by 16.4% YoY (excluding Oil & Gas by 16.4% YoY). Moderation in input price inflation on a YoY basis and strengthening of rupee leading to near-absence of foreign exchange losses has been responsible for this uptick in net profit growth. Revenue and PAT growth for all the companies under PL's coverage universe are expected to grow YoY by 12.4% and 2.9%, respectively and de-grow QoQ by 0.1% and 7.5%, respectively. EBITDA margin (excluding BFSI) is expected to decline YoY by 1.01% and 0.08% QoQ. Corporate India continues to encounter headwinds in the form of slowing demand due to uncertainty in macro-environment and high interest rates.

*Corporate India continues to encounter headwinds in the form of slowing demand due to uncertainty in macro-environment and high interest rates.*

**Strong performance from Cement, Pharmaceutical and Banking & Financial Services sectors:** Strong growth in realizations offsetting a tepid volume growth, observance of strict discipline by various players in the sector helping to maintain prices, healthy balance sheets and lower leverage levels due to strong cash flow generation will lead to a stellar performance by cement companies. Strong growth in the US, better operational performance and boost provided to net profits due to expected forex gains on hedges & foreign loans due to favorable currency movements will underpin pharmaceutical sector's earnings. It is a story of contrasting halves in the Banking & Financial sector. Private Banks and NBFCs would report strong operating performance helped by easing of wholesale rates and retail asset quality holding up well. PSU Banks, on the contrary, will be impacted by muted loan growth and continuing pressure on slippages in bad & restructured asset book. Banks with overseas exposure could see contraction in their international book due to 5% rupee appreciation during the quarter.

**Metals, Power, Construction and Real Estate continue to be laggards:** Deteriorating global demand environment raising downside risks to spreads, weak domestic demand and excess supply in the domestic market will put pressure on earnings in metals sector. Power sector will continue to reel under increased fuel and interest costs causing delays in execution. Rising debt levels would continue to strain balance sheets and raise questions on viability of some power projects. No significant pick-up in order inflows, earnings impacted due to large interest burden as a result of high debt levels and no improvement in working capital cycle will put pressure on construction sector. Challenging macro-economic environment with no respite from high interest rates and no significant drop in prices impacting buyer affordability will continue to impact the performance of the real estate sector.

## European Economy

**All eyes on Spain's bailout request and progress on common banking supervisor**

*Markets worried as no commitment yet from the Spanish government to approach the ECB for a bailout*

Global markets in general and Eurozone in particular have received a strong boost since September after the ECB President Mario Draghi's dramatic announcement of unlimited bond-buying program for debt-stricken members. The bond yields of debt-stricken countries like Spain, Italy etc had responded positively in the expectation that these countries would abide by the stringent conditionality which is the prerequisite for a rescue by the ECB. The Spanish government, however, is not committing any timeline for approaching the ECB injecting a sense of uncertainty in the bond & currency markets.

*Political backlash over deep fiscal and structural reforms holding back Spanish government from seeking bailout*

*German government expects that bailout packages for Spain, Cyprus and Greece's be bundled together for approval by German Parliament*

Spanish Prime Minister Mr. Mariono Rajoy is holding back as any acceptance of conditionality entailing deep fiscal & structural reforms is expected to harm him politically. Independent assessments indicate that Spain may need a bailout package of almost Euro 60bn. Germany would much rather that Spain approach the ECB for rescue later as it would like to bundle any Spanish request with a much smaller Euro 15bn rescue for Cyprus and a revision in the second Euro 130bn rescue for Greece in late 2012. German Chancellor, Ms Angela Merkel, faces stiff opposition from within her coalition for these bailout packages and would prefer to go to the Parliament just once with a combined bailout package for the three nations to avoid repeated fights to get approvals.

*All eyes on the EU leaders summit on October 18 and 19 for the exact contours to operationalise common EU-wide banking supervisor*

The ECB in its meeting last week decided to keep its key refinance rate unchanged at 0.75%. Leaders of France, Italy, Spain, Portugal and Malta have called for expediting the process for establishing a common EU-wide banking supervisor before the end of 2012 and making it operational by January 2013. EU leaders had agreed in June 2012 to have a common banking supervisor for allowing banks in the 17-nation Euro area direct access to Euro 500bn permanent bailout fund European Stability Mechanism (ESM). A single supervisor would help break the link between sovereigns and banks and free sovereigns like Spain and Ireland from propping-up their troubled banks. Germany, Netherland and Finland, however, have advised caution before rushing through and have suggested that banks should be forced to undergo stress tests before coming under common supervisor. Clarity should emerge by October 18th and 19th at EU leaders' summit in Brussels.

## US Economy

**Flashing Mixed signals**

*Sharp drop in unemployment rate to 7.8% to boost Obama's re-election prospects*

September 2012 saw a sharp drop in the US unemployment rate to 7.8% vis-à-vis an expected number of 8.2%. At 7.8%, the unemployment level is at its lowest level since President Obama took office and is expected to provide a boost to his re-election prospects. The employment-to-population ratio or the proportion of working age population with job increased to its highest level since May 2010.

*Fed to continue with its easy monetary policy stance till Mid-2015*

*GDP in Q2CY12 grows at considerably slower 1.3% due to severe drought in the Mid-West*

Persistently poor market conditions had led the US Fed to announce a plan to purchase US$40bn of mortgage-backed-securities each month till it saw a sustained recovery in the economy. It has also promised to keep interest rates low till mid-2015 even after the recovery strengthened. US GDP grew at 1.3% annualized in Q2CY12 considerably slower than the initial estimate of 1.7% due to sharply lower agricultural production as a result of severe drought in US Mid-West.

*Consumer confidence surveys indicate strong confidence despite high jobless rates and pay levels that lag inflation*

*Rising Home and equity prices expected to fuel consumer spending*

Mixed signals continue to emanate from the US. Consumer confidence surveys indicate that despite high jobless rates and pay levels that lag inflation, consumer confidence is surprisingly high as consumers expect hiring to pick-up. Without more hiring and stronger pay rises, the gains in confidence levels will not last. Home prices are rising steadily according to S &P/Case-Shiller Index in July 12 but the pace of new home sales dipped in August 2012 from a two-year high in July 2012. Rising home and equity prices are expected to fuel consumer spending the mainstay of the US economy.

## Chinese economy

**Slowdown continues**

*Chinese August services PMI falls to lowest level since March 2011, Manufacturing PMI rises*

*Announcement of massive program for sixty infra projects worth US$160bn to boost growth*

China's August 2012 services PMI fell to 53.7 from 56.3, the lowest since March 2011. China's official manufacturing PMI in August 2012 rose to 49.8 from 49.2 last month breaking a trend of four consecutive monthly declines. The Chinese government has cut interest rates, lowered reserve requirements for banks, increased tax incentives for exports, announced a massive program for 60 infrastructure projects amounting to approximately US$160billion over the next few years and increased pace of approvals for infrastructure projects to boost economic growth and allay fears of hard landing.

## Indian Economy

*A somnolent government goes into reforms overdrive to address twin deficits, boost growth and ward off a credit downgrade*

**Indian Government goes into a reforms overdrive:** After persistent criticism over the last two years from both domestic and international investors about policy paralysis, fears of large fiscal slippage, a possible credit downgrade and no forward movement on the politically unpalatable yet economically crucial second-generation reforms, the government finally woke up from its somnolent state and unveiled a series of executive decisions to address its twin deficits, boost growth and ward off a credit downgrade.

*Revival of animal spirits through far reaching economic reforms in the face of strong political adversity*

*TMC pulls out, SP and BSP the main bulwark of support for the government*

**Economic imperatives to outweigh political expediency:** In three spectacular bursts of announcements on September 13 & 14, 2012 and October 4, 2012, the Prime Minister walked the talk of reviving animal spirits. In the teeth of vociferous opposition from parties in Opposition like the BJP and the Left and some his own allies both within the ruling coalition like the DMK and TMC as well as those providing outside support like the SP, the Prime Minister spelt out the rationale for taking these tough decisions and signaled unambiguously that henceforth economic imperatives will outweigh political expediency. Although the TMC with its 19 Members of Parliament in the Lower House withdrew its support for his government reducing it to a minority the Prime Minister refused to buckle down, confident of continued support from the two regional behemoths from Uttar Pradesh-the most-populous state of India namely SP (22 Members of Parliament in the Lower House) and BSP (21 Members of Parliament in the Lower House).

*Hike in diesel prices, limiting no of subsidised LPG cylinders – A signal to address ballooning fuel subsidies*

**A modest beginning to curtail ballooning Fuel subsidies:** On September 13, the Cabinet Committee on Political Affairs (CCPA) headed by the Prime Minister decided to hike diesel prices by Rs5 per litre and capped the supply of subsidized cylinders to six per household to stop the hemorrhaging being suffered by the Oil Marketing Companies (OMC) and reduce government's fuel subsidies by Rs450 billion on a yearly basis. This year, the government's fuel subsidy bill was expected to be Rs1,870 billion. This would reduce by approximately Rs225 billion in the remaining six-months of FY13. The last hike in diesel prices was in June 2011.

*FDI in multi-brand Retail to reduce wastage of farm produce, moderate consumer inflation through investments in rural infrastructure and economies of scale*

**Entry of foreign supermarkets with majority holding:** On September 14, 2012, the CCPA pushed through the move to allow 51% FDI in multi-brand retail in all cities having a population over 1 million with certain conditions like minimum US$100m, 50% investment to be made in rural infrastructure like cold chains & warehouses and at least 30% of goods to be procured from local producers.

*Onerous domestic sourcing norms from small and medium enterprises diluted*

**Dilution of local sourcing norms for single-brand retailers:** CCPA also relaxed the onerous 30% domestic sourcing norms from the micro, small & medium (MSME) sector for single brand retailers. 100% FDI was allowed in single brand retail but hadn't taken off due to these restrictive local sourcing requirements from MSME sector. Foreign single brand retailers can now source 30% of their sales from any local producers irrespective of the size of the vendors and if they are unable to source the same, they have the option of putting up their own manufacturing units.

*Flood gates of FDI opened to Domestic Airlines, Cable TV & DTH, Power exchanges*

**Lifeline for capital-starved domestic airlines, uniformity in foreign holdings in all broadcasting sectors and fillip to power market:** It threw a lifeline to capital-starved domestic airlines by allowing foreign airlines to invest up to 49% in them. Earlier all foreign investors, except airlines, could buy stakes in Indian airlines. This would ease the funding pressure for domestic carriers. Foreign investment in certain broadcasting sectors like Cable TV and DTH was increased from 49% to 74%. 26% FDI in power exchanges is expected to provide a fillip to India's power market.

*Disinvestment bugle sounded through minority stake sales*

**Sounding of bugle for disinvestment program:** In a move to kick-start the disinvestment process, CCPA has approved minority stake sales in four PSU's- Oil India, Hindustan Copper, Nalco and MMTC. It is likely to raise Rs150bn from these sales. The government has estimated a sum of Rs300bn from divestment proceeds in the budget for FY12-13.

*After reforms through executive fiat will the government succeed in pushing through reforms that require legislative approval?*

**Reforms through legislature- Will the government succeed in cobbling-up majority?:** All the reforms announced in September do not require legislative (Parliamentary) approval but a mere executive fiat would suffice. The bolder reforms announced on October 4, 2012, go many leaps ahead as the government would need to get these approved by the Parliament where it lacks a majority in the Upper House and would have to ensure that its two main outside supporters, SP and BSP, either supports it Parliament by casting votes in favour of these reforms or abstain from voting allowing the government a walk-through. The abstention will then be justified by the arch-rivals SP and BSP by claiming that although they are per se opposed to these 'anti-people' measures, they are do not want to destabilize the government lest it helps the 'communal forces' (Read: BJP) gain ascendance.

*Bold proposals to open up Insurance and Pension sectors-will the Parliament oblige?*

*Opposition expected from the Left, TMC; BJP ambivalent; stance of SP and BSP to be the clincher*

**Foreign investment in Insurance & Pension sector- Financial sector reforms gets a leg-up:** Cabinet proposed allowing 49% FDI in insurance up from the previous 26% cap. It also allowed 26% FDI in pension sector and linked the FDI cap to that in the insurance sector. Thus, if the Parliament were to approve 49% FDI in insurance then the limit for FDI in pension sector would automatically go up to 49%. The government would need to convince the principal opposition party BJP to come on board and also convince some its allies like DMK and outside supporters like SP and BSP to support the bill in Parliament. The Left parties and TMC are ideologically opposed to FDI in pensions and insurance. The move has been welcomed by the players in the insurance sector, has the full backing of the insurance regulator IRDA and would help the players in attracting capital to expand their reach and roll out innovative products.

*Full autonomy to Forward Markets Commission to benefit various stakeholders, including farmers through better price discovery and price risk management*

**Full autonomy to Forward Markets Commission:** Cabinet also announced other far-reaching measures like granting full autonomy to the Forward Markets Commission making this agency the regulator of the commodity futures market. It is expected that new products like options will be allowed in the commodity markets and it would benefit various stakeholders, including farmers, through better price discovery and price risk management.

*New companies bill to usher in transparency in investments, strengthen the rights of minority shareholders and make it tough for companies to hide illegal transactions*

**New Companies Bill cleared - To usher in transparency:** The long pending new Companies Bill has also been cleared by the Cabinet. The Bill makes it mandatory for companies to set aside certain sum on corporate social responsibility, seeks to reduce gender disparity by laying down quotes for women on boards of companies, tries to improve governance of companies by ensuring that at least one-third of the board comprises of independent directors who can serve a maximum of ten years, makes rotation of auditors compulsory and makes class-action suits against companies possible. The Bill should help promote transparency in investments, strengthen the rights of minority shareholders and make it tough for companies to hide illegal transactions.

*New competition act to bring all sectors under the CCI*

**New Competition Act cleared:** The new Competition act cleared by the Cabinet will ensure that all sectors will come under the purview of the Competition Commission of India (CCI) with provisions for exemptions in specific cases like merger of two banks where one bank is a failing one. The amendments would help sectoral regulators to regulate their specific sectors. However, CCI will have jurisdiction over all sectors.

*End-to-End computerization of leaky PDS to weed out bogus ration cards and better target subsidies*

**Computerization to better target PDS subsidies:** Other reforms approved by the Cabinet include end-to-end computerization of the leaky public distribution system (PDS) with an outlay of Rs8.85bn on a cost-sharing basis with the states in order to weed out bogus ration cards and better target subsidies. It also granted international airport status to five cities of Lucknow, Varanasi, Mangalore, Tiruchirappalli and Coimbatore.

*12th Plan to target 8.2% GDP growth vis-à-vis 7.9% in the 11th*

*Infrastructure, Health and Education – Thrust areas*

**Approval of 12th Five-year plan draft document:** The Cabinet approved the 12th five-year plan (2012-17) draft document that seeks to achieve annual average economic growth of 8.2% down from 9% envisaged earlier in view of the fragile global recovery. Growth in agriculture and manufacturing sectors has been pegged at 4% and 10% respectively. Infrastructure, health and education have been identified as thrust areas. In the 11th plan (2002-12), India recorded an average GDP growth of 7.9% lower than the 9% target envisaged in the 11th Plan.

In the 12th plan, the projected average rate of gross capital formation in 12th plan is 37% of GDP, domestic savings rate is 34.2% of GDP and the net external financing needed for macro-economic balance has been placed at 2.9% of GDP. The total plan has been estimated at Rs47.7 lakh crores, 135% more than the 11th Plan. It aims to double spending on infrastructure to US$1trn. As against 30% population living below poverty line currently, the plan aims to reduce it by 10% by its terminal year.

*Kelkar's bitter pill to help recovery of ailing government finances*

**Kelkar's Path to medium-term Fiscal consolidation from FY13 to FY15:** The Finance Ministry appointed Kelkar Committee submitted its report on path to medium-term fiscal consolidation from FY13 to FY15. It has recommended measures to increase tax-to-GDP ratio, pruning expenditure on subsidies and other items of expenditure, right-sizing of plan support and steps to improve disinvestment proceeds. The Committee has warned the government that if does not follow the steps recommended to curb subsidies, it would have to face a 1% fiscal slippage in FY13 from a budgeted figure of 5.1% to 6.1%. If, however, the government adopts the steps recommended, it can contain the fiscal slippage to 5.2% of GDP in FY13.

*Measures to increased Tax/GDP ratio, prune expenditure on subsidies, right size plan support and steps to monetize surplus land & PSU equity holdings*

**Some of the key recommendations of the Committee are as follows:**

- Curtail subsidies to 2% of GDP in FY14 and 1.8% in FY15 as against projected 2.6% in FY13. The budgeted figure for FY13 is 2%.
- Hike the prices of subsidized fuels like diesel by Rs 4/litre, LPG by Rs 50/cylinder and kerosene by Rs2 per litre to reduce OMC's under-recoveries by Rs200bn. The government has already hiked diesel prices by Rs5 per litre and curtailed the number of subsidized LPG cylinders to 6 per household per year.
- Move to a market-based pricing for all auto and cooking fuels like diesel, kerosene and LPG by March 2014.
- All subsidies to needy households should be done through direct cash transfers
- Reduce excise and service tax rates to 8%.
- Implement GST by forging a consensus among all the stakeholders
- Make quoting of PAN or UID compulsory for all financial transactions, immovable property transactions, payments of salaries etc to ensure that there is no splitting of transactions to escape the Income Tax department's gaze. Online verification of PAN mandatory for all high value transactions to control black money transactions.
- Looking at the precarious fiscal position, the proposed Food Security Bill (FSB) should be phased out appropriately as it is likely to burden the government finances by an additional Rs600bn to Rs1,000bn per annum over and above Rs850bn provision for food subsidy in FY13. The government has rejected this suggestion of staggering the implementation of FSB. The Congress party, especially its leadership, is committed to pushing through FSB very soon and tout it as one of its major planks towards helping the 'aam aadmi' (common man) during the run up to the national polls slated in 2014. It believes that the FSB will pay rich electoral dividends in the same manner that the populist Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGA) played during the last national polls.

- Expedite the disinvest program and sell off government's minority stakes in Specified Undertaking of Unit Trust of India (SUUTI) { SUUTI holds large minority stakes in Axis Bank, ITC and L & T among other holdings}, Balco and Hindustan Zinc as these companies are privately owned and are holdings are not strategic in nature.
- Sell under-utilized land parcels held by PSU's, Railways and Port Trusts to finance infrastructure needs in urban areas on lines similar to that done in other countries like Australia, Canada, China, France and USA.
- Urge Central PSU Boards to find appropriate capital investments to utilize their surplus cash. If the Boards are unable to do so during FY13, the government must demand a 'special dividend' from the PSU's on a use-it-or-lose-it principle.

*Measures to revive Insurance sector*

**Chidambaram steps in to revive the insurance sector:** Finance Minister Mr. P. Chidambaram announced several measures to revive the life insurance sector which we expect would require US$12bn of capital infusion over the next five years according to the sector regulator IRDA. The measures include:

- Easier investment norms by allowing insurance firms to invest more in debt securities other than those rated AAA. Currently, they have to invest at least 75% of their debt-related investments in AAA rated securities.
- Faster clearance for new products.
- Assurance to address tax-related issues like reduction of service tax, treatment of annuity products on par with New Pension Scheme (NPS) & TDS on commission paid to agents of insurance firms.
- Allowing banks to sell products of more than one insurance company.

*Agreement for IDF approved – to enhance flow of funds to infra sector*

**Tripartite agreement for operationalising Infrastructure Debt Fund (IDF) approved:** To enhance the flow of funds into infrastructure sector, the government has cleared the tripartite agreement for setting up of IDF to re-finance bank debt to the sector. The agreement would be signed between lender (bank), developer and IDF. 85% of a loan provided by a bank would be re-financed by the IDF after one year of disbursement so that banks have more free funds for lending. Infrastructure projects are initially funded by consortium of banks. Infrastructure sector requires long-term funding of 20-25 years, while banks typically have shorter term liabilities of 5-7 year tenure. Both foreign and domestic Pension funds and Insurance companies can be tapped by IDF's as investors.

*Final norms for new banking licenses awaited*

**Final norms for new banking licenses expected soon:** The RBI is expected to issue the final guidelines for setting up of new banks and invite applications for licenses. It is likely to offer four licenses pegging the minimum capital requirement at Rs10bn and is widely expected to keep out entities with a significant exposure in realty and construction sectors. Whether it also keeps out industrial houses will be keenly watched. The actual grant of licenses will only happen after the Banking Laws Amendment Bill is passed by the Parliament. The Bill faces strong resistance among a large section of Opposition parties and some allies of the government. Draft guidelines were issued by the RBI in August 2010 and gist of norms issued in July 2012.

*Will RBI play ball and reduce repo rates or will it cut CRR?*

**All eyes on RBI's Monetary Policy Review on October 30th 2012:** RBI has acknowledged that the government has taken many steps to address the issue of containment of fiscal deficit but would want more clarity on the outcome before making its stance clear. The government has told the RBI that it is sticking to its yearly borrowing calendar as of now and has indicated its resolve to maintain fiscal deficit at the same level as budgeted at 5.1%. How the government manages to do that will be watched by the RBI. RBI continues to maintain its stance of curbing inflation, while supporting growth. In their pre-policy meeting with the RBI, bankers have asked for reduction in CRR (SBI Chairman has asked for a 1.5% CRR cut) as the banks feel that a cut in CRR would have greater impact than a cut in repo rate as CRR cut reduces the cost of funds for banks directly. Banks have also promised transmission of any cuts to customers. RBI had cut CRR by 0.5% in September 2012.

**Issues dogging the coal and power sector key to revive the industrial capex:** The High-powered Committee of Secretaries set up by the PMO under the Chairmanship of Prime Minister's Principal secretary Mr. Pulok Chatterjee had issued a directive to Coal India to sign fuel supply agreements (FSA) latest by March 31, 2012, with all the power projects totaling 60,000 MW that had received letters of assurance after March 2009 and which would be commissioned before March 2015. The deadline has long passed.

*Will the final signing of fuel supply agreements between CIL and buyers on the terms proposed by CIL happen soon?*

CIL's board has recently issued the details of revised penalty clauses in case they are unable to fulfill commitments to supply the contracted quantity. More needs to be done to encourage buyers to sign FSAs as the committed 80% supply consists of only 65% domestic coal and 15% imported coal. There is no agreement on the price to be paid by the buyer for imported coal, with CIL insisting that it should be on cost-plus basis and buyers holding out for some pooling price mechanism.

*The next frontier: Allowing commercial mining as against current policy of captive mining*

The government will sooner rather than later have to take a call on transparently allowing mining on a commercial basis. Currently, only captive users in power, cement, steel etc are eligible for applying for a coal mine.

*Viability of gas power plants in question due to precipitous plunge in gas availability*

Nearly 12000 MW of power plants are either commissioned or in various advance stage of construction based on KG D-6 gas. With the precipitous plunge in the KG D-6 gas output, most would be rendered unviable unless gas is made available to them at competitive rates. Operating on imported LNG or naphtha at current rates is clearly unviable.

*Pass-through of increased coal costs impacting viability of many plants. Will a solution be found soon?*

Issues regarding coal-based power plants need to be addressed expeditiously. Many plants have come up or in the process of being built on either imported or domestic coal where the cost of coal has risen sharply and these power producers have legally binding contracts to supply electricity to discoms at fixed rates for 20-25 years. These plants are unviable unless a pass-through of fuel costs is allowed (which may be opposed by one or more buyers as they can cite breach of legally binding contract and seek legal redress ) or else the promoters asked to take a hair-cut on their equity exposures. If the plant is unviable even after the entire equity exposure is written off then the bankers may think of calling for newer bids for these plants looking at the current cost structure. In such a re-bidding, pass-through of fuel costs can then be embedded.

*Bailout package for discoms – Monitoring tariff increases and reduction in T&D losses key to watch*

Although the Centre has announced a rescue package for the near-bankrupt discom sector, it must ensure that there is strict adherence and hawkish monitoring of all the promises made by State Governments & their discoms before availing any grants. Regular tariff increases to pass on increase in costs and reduction of T & D losses should be closely watched. The Centre should nudge the States to explore the open access and privatizing certain circles if not the entire discom.

*Critical future reforms: Expeditious passage of a balanced Land Acquisition Bill*

**Critical bottlenecks to speedy revival of investment cycle:** The government must redouble its efforts to evolve a consensus on the contentious land acquisition bill that balances the interests of industry and farmers. Expeditious acquisition of land at reasonable rates is the single biggest obstacle holding back a large number of industrial and infrastructure projects.

*National Investment Board to catalyze pending investments*

The setting up of National Investment Board that would act as the single window clearance for all projects with investments above Rs10bn would provide fillip to speedy implementation of large projects. Several large projects with investments to the tune of Rs1.5 lakh crores have been held up for want of statutory clearances.

*Identification and speedy implementation Mega Infrastructure projects key to revive capex cycle*

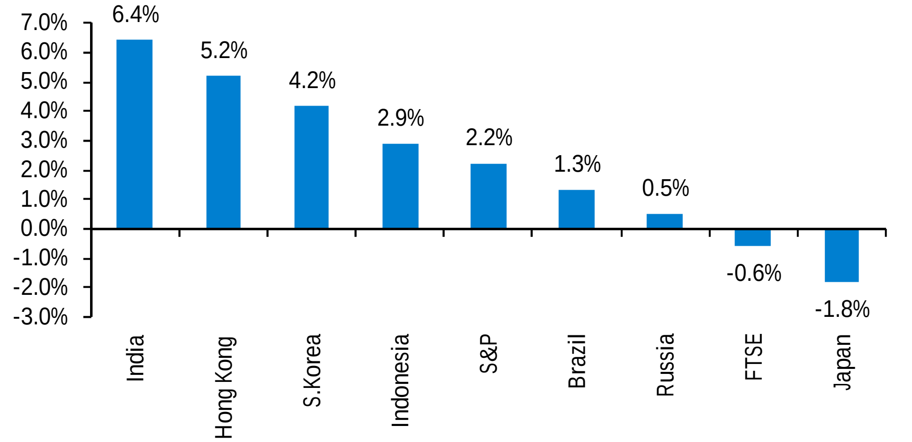
The Central Government must identify some mega projects of national importance and ensure that all the bottlenecks for speedy implementation are addressed. If this necessitates a separate Cabinet Minister, the Prime Minister should not hesitate to appoint one. China has recently announced 60 mega infrastructure projects worth US$160bn to be implemented over next 2-3 years.

Some of the projects that could be designated as ones of national importance would include Delhi-Mumbai Dedicated Freight Corridor (DFC), Delhi- Kolkata DFC, Delhi-Mumbai Industrial Corridor, New airports like New Mumbai, Trans-harbour link in Mumbai, Elevated rail corridors for entire Mumbai suburban network, Metro rail networks in all cities having a population of over 1 million, building High Speed Rail Networks (Bullet trains) connecting the four metros for passenger traffic, developing infrastructure for transport via waterways in cities like Mumbai, Kolkata, Chennai etc, international competitive bidding for privatizing all the minor ports and airports other than those already privatized and schemes to provide housing to the massive slum populations in metros like Mumbai, Kolkata, Delhi etc. should be vigorous.

## Global Equity Markets Performance

*India best performing market last month*

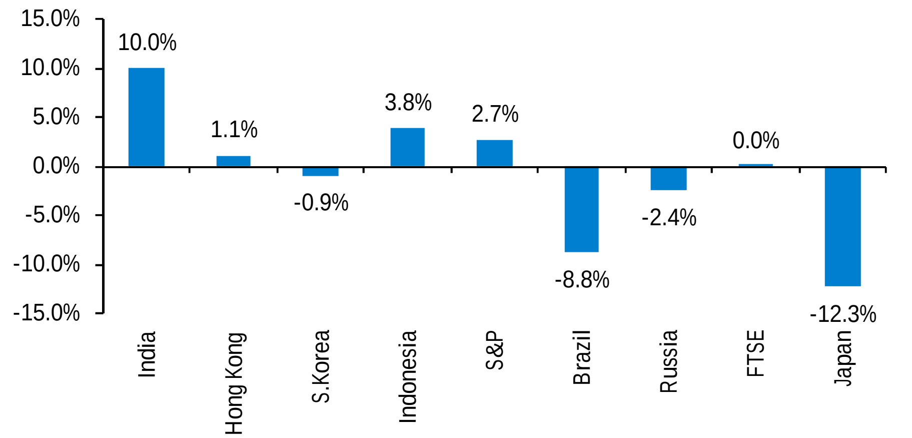
**Month-on-Month**




*Source: Bloomberg, PL Research*

*India leads the chart in YTD performance*

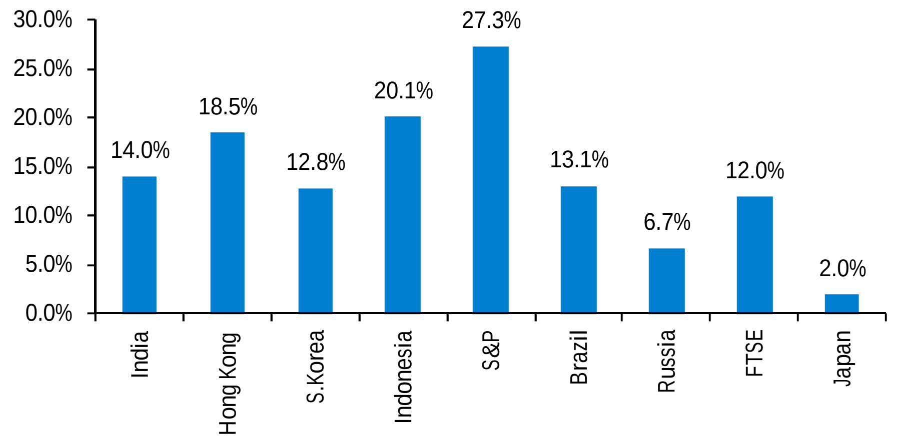
**Calendar Year-to-date**




*Source: Bloomberg, PL Research*

*US the best performer over last one year*

**Year-on-Year**



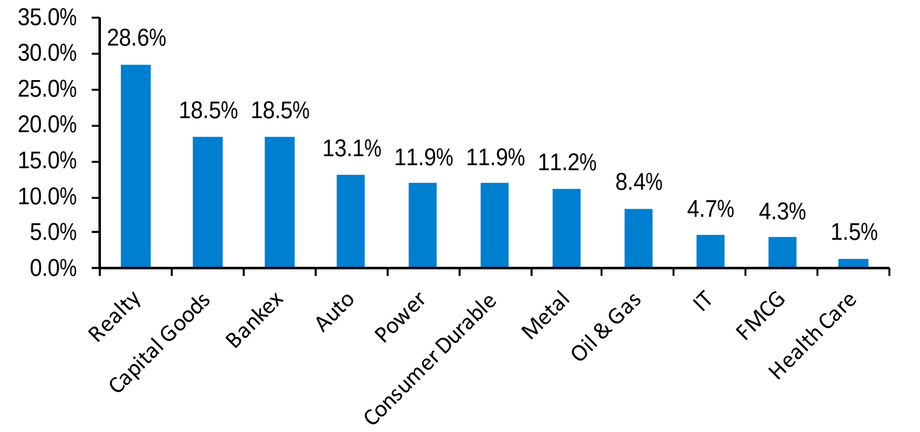

*Source: Bloomberg, PL Research*

## Indian Equities – Sector Performance

*Interest sensitive sectors like Realty, Capital Goods and Banks outperform the most*

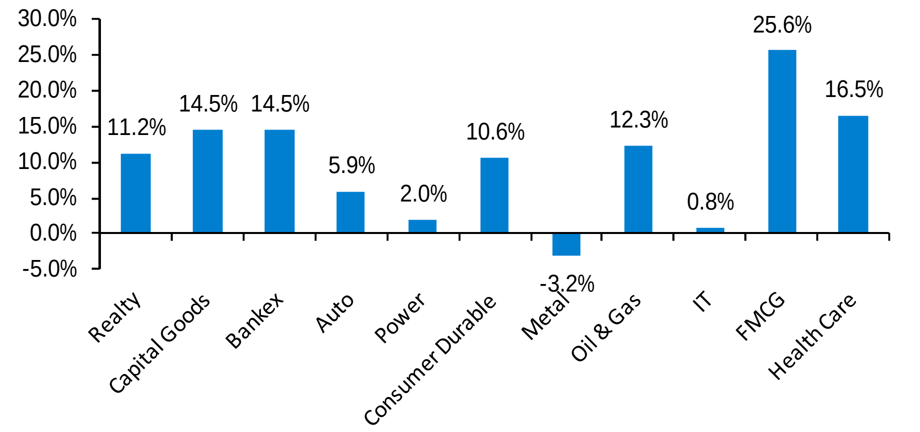
*Defensives like Healthcare and FMCG are the laggards*

### Month-on-Month




*Source: Bloomberg, PL Research*

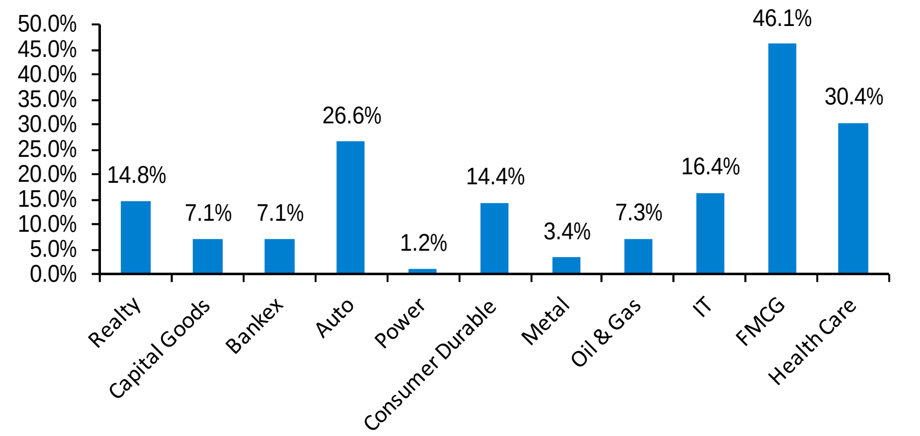
### Calendar Year-to-date




*Source: Bloomberg, PL Research*

*On a one year basis defensives have been clear outperformers*

### Year-on-Year

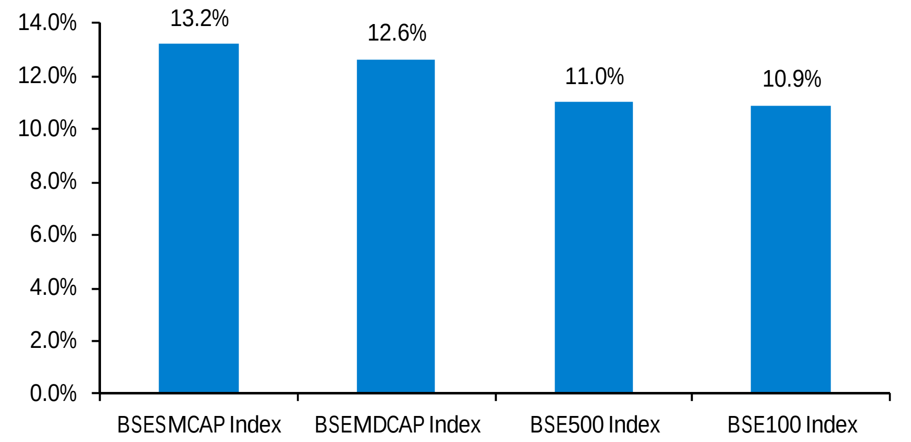



*Source: Bloomberg, PL Research*

## India: Marketcap-wise Performance

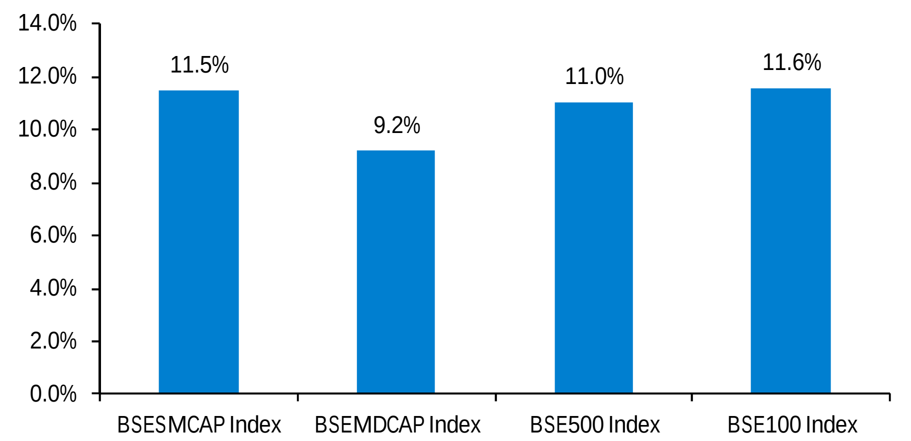
*Broader markets outperform large caps*

**Month-on-Month**




*Source: Bloomberg, PL Research*

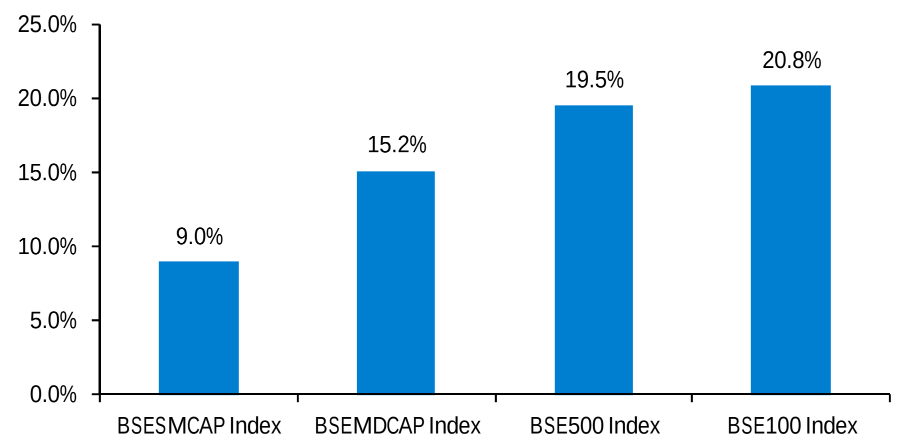
**Calendar Year-to-date**




*Source: Bloomberg, PL Research*

*On a one year basis Large Caps handsomely outperform Mid and Small Caps*

**Year-on-Year**

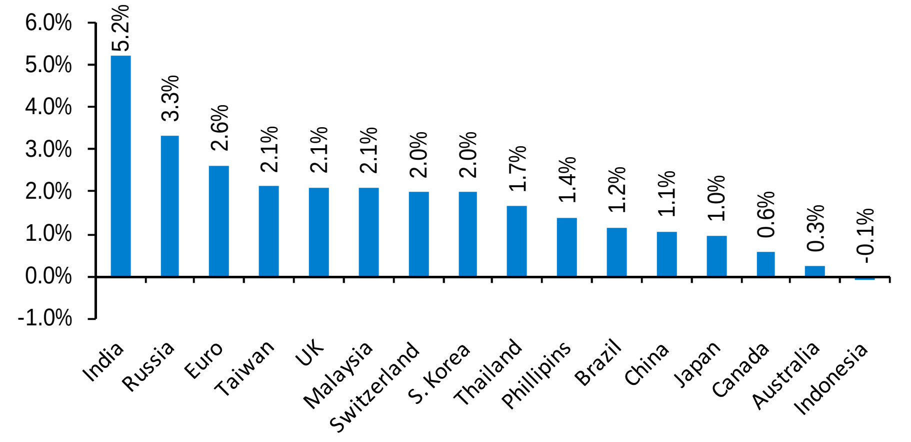



*Source: Bloomberg, PL Research*

## Global Currency Movement

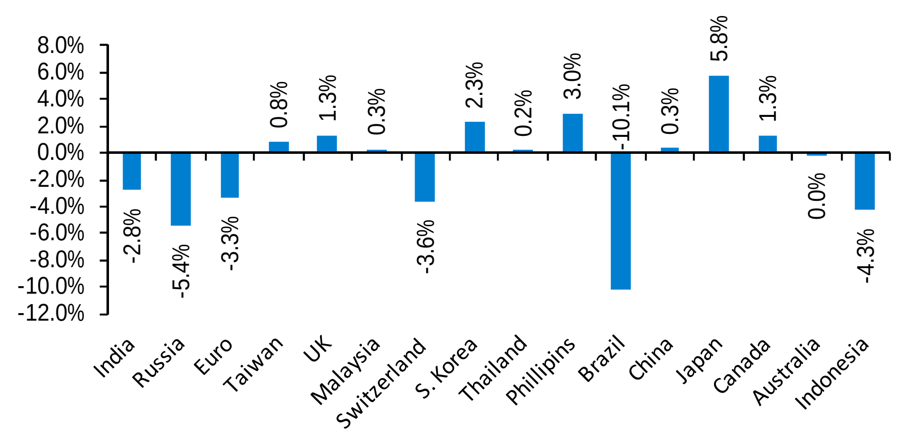
*Rupee the strongest performer over last month*

**Month-on-Month**




*Source: Bloomberg, PL Research*

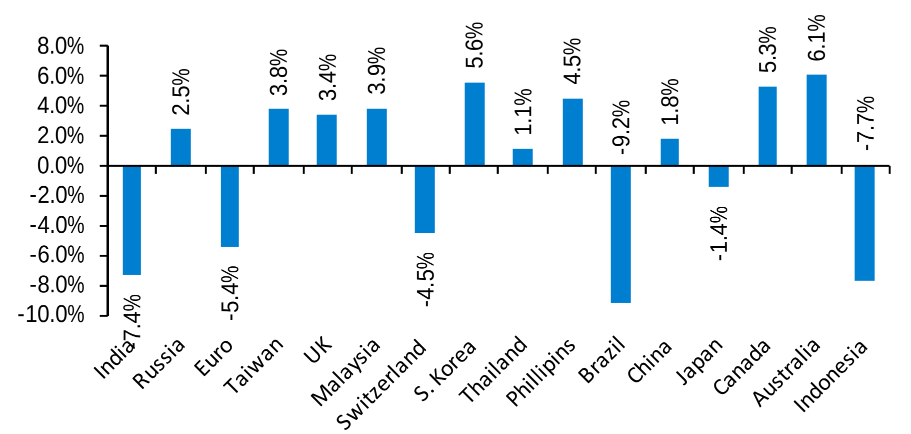
**Calendar Year-to-date**




*Source: Bloomberg, PL Research*

*Over a one year basis Rupee still the 3rd worst performing currency*

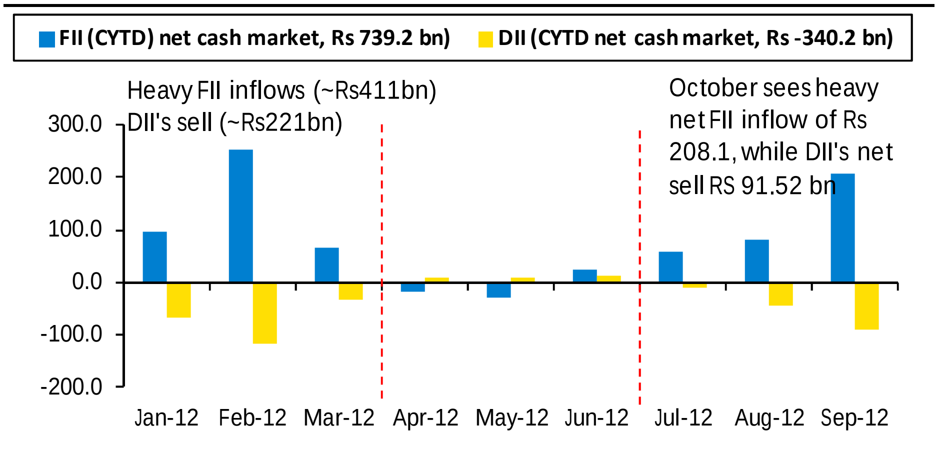
**Year-on-Year**




*Source: Bloomberg, PL Research*

*FIIs pour in Rs739.2bn in India CYTD, DIIs remain net sellers of Rs340.2bn*

**India: FII/DII Equity Flows**

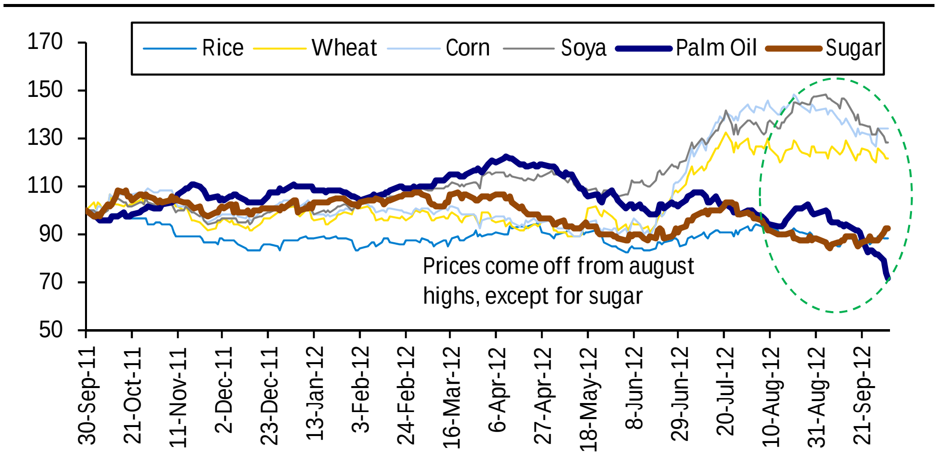



*Source: Bloomberg, PL Research*

## Global Agricultural Commodities

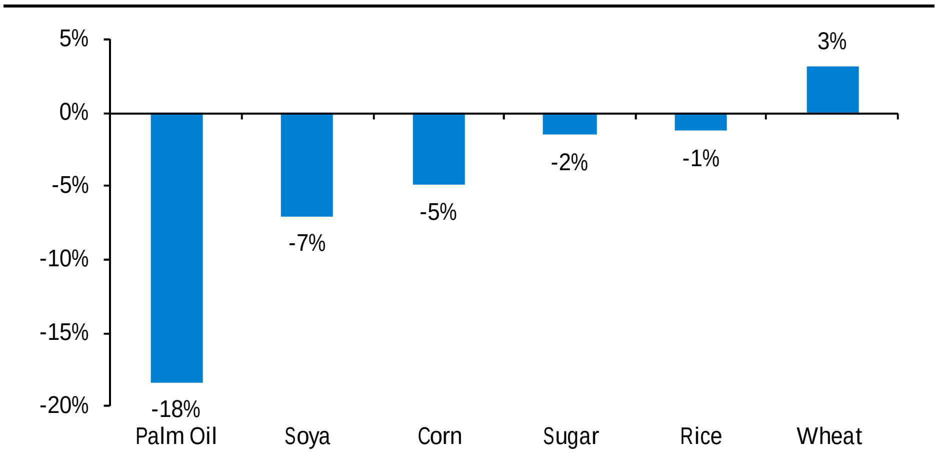
*Global agri commodity prices come off from August highs, expect for Sugar*

**Performance of Global Agricultural Commodities**




*Source: Bloomberg, PL Research*

**Month-on-Month Performance**

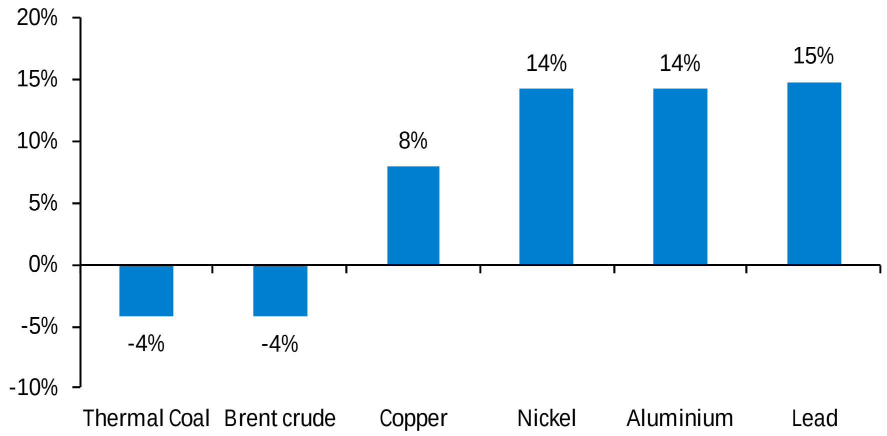



*Source: Bloomberg, PL Research*

## Global Industrial Commodities

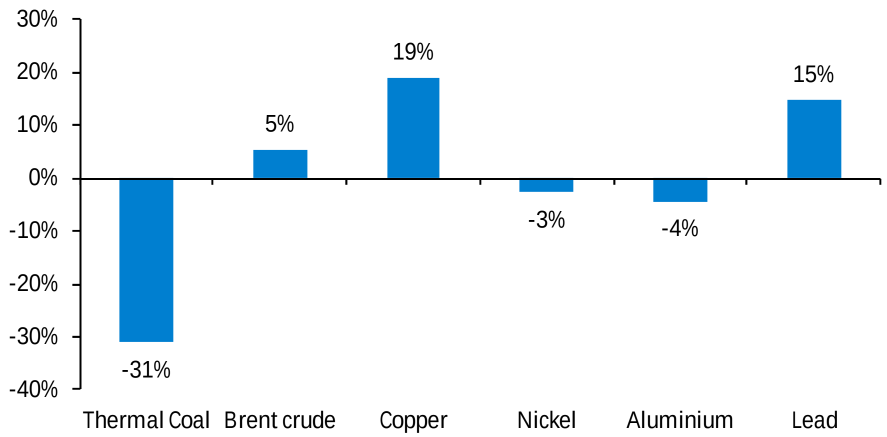
*Global liquidity enhancement measures reflect in sharp rise in Non-Ferrous metal prices*

**Month-on-Month**




*Source: Bloomberg, PL Research*

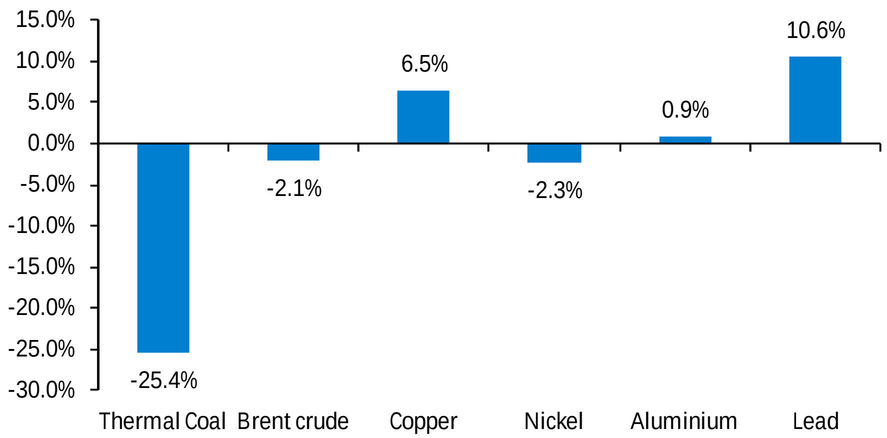
**Calendar Year-to-date**




*Source: Bloomberg, PL Research*

*Thermal Coal loses a quarter of its price over the last one year*

**Year-on-Year**




*Source: Bloomberg, PL Research*

## NIFTY: Earnings growth and valuations

*Nifty EPS for FY13 and FY14 estimated at Rs372.8 and Rs428.4, a growth of 9.8% and 14.9% respectively*

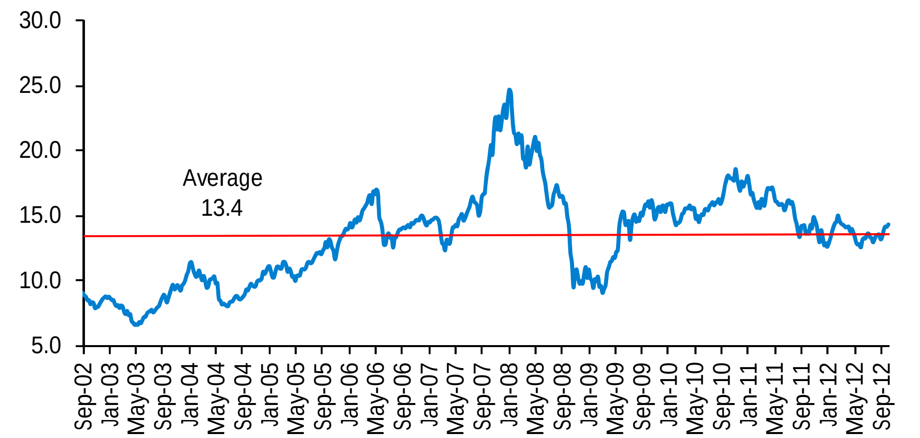
*Earnings downgrades continue*

We estimate the EPS for NIFTY companies in FY12, FY13 and FY14 at Rs339.6, Rs372.8 and Rs428.4, respectively, representing a YoY growth of 0.6%, 9.8% and 14.9%, respectively. The EPS estimates for FY13 and FY14 are on continues downward trajectory. Three months back, the EPS estimates for FY13 and FY14 were at Rs403.2 and Rs453.1, respectively, a growth of 22.7 % and 19.8%, respectively. Last month the EPS for FY13 and FY14 was downgraded to Rs385.3 and Rs439.4, respectively, a growth of 13.4% and 14%, respectively. Cement (34.1% YoY growth), Pharmaceuticals (21.6% YoY growth) and Technology (18.9% YoY growth) will lead the charge in net profit growth in FY13, while Oil & Gas (-3.1% YoY growth), Automobiles (2.6% YoY growth) and Real estate (2.2% YoY growth) are expected to be the laggards.

*Nifty trading at 7.4% premium to its 10-yr avg. of 1-yr forward multiple*

At October 5, 2012 closing of 5747, NIFTY is trading at 16.9x FY12, 15.4x FY13 and 13.4x FY14 estimated earnings. As the chart below indicates, the last ten-year average for NIFTY's one-year forward PE is 13.4x. Thus, Nifty is currently trading at 14.4x i.e. at 7.4% premium to its ten-year average of one-year forward multiple (based on September 13 estimated EPS of Rs 399).

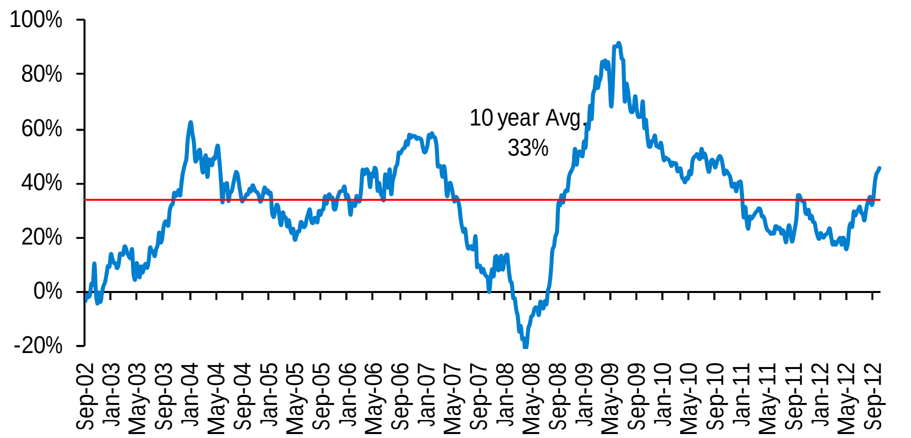
**Nifty 1-yr forward PE**




*Source: Bloomberg, PL Research*

*MSCI India trading at 46% premium to MSCI Asia (Ex-Japan) vis-à-vis last 10 years average of 33%*

**MSCI India Premium to MSCI Asia (Ex-Japan)**




*Source: Bloomberg, PL Research*

The chart above indicates MSCI India's premium to MSCI Asia (ex-Japan) over the last ten years. India has always traded at a premium to Asia (ex-Japan) due to its healthier ROE, superior earnings growth and lower contribution of non-commodity plays. The average of last ten-year's premium is 33%. MSCI India is currently trading at 46% premium to MSCI Asia (ex-Japan).

*Supportive global liquidity situation fueling risk-on trade benefiting India*

*Government's reforms overdrive has decisively turned the sentiments from despondency to elation*

*Adoption of Kelkar Committee recommendations on medium term fiscal consolidation the single most key to continued buoyancy in markets*

A supportive global liquidity situation due to liquidity enhancement measures by the global Central Banks like the ECB, Fed, BOE, BOJ and BOC have fuelled a risk-on trade benefitting equities as an asset class. This, coupled, was complemented by not-so-expensive valuations in India that resulted in a surge of FII inflows despite macro-economic concerns resulting from falling growth, rising twin deficits and no movement on reforms. The government's final awakening from its state of somnolence after two years of policy paralysis has enthused both industry and investment fraternity. Markets expect that the decisive turn of sentiment from one of despondency to elation due to the reformist zeal rediscovered by the Prime Minister should now be supplemented by the government by committing itself to adoption of some of the key recommendations of the Kelkar Committee on medium-term fiscal consolidation. The key to continued FII flows and expected surge in FDI flows in various sectors as well as revving up the investment cycle by the domestic industry lies in confidence that the broken public finances will be repaired through a credible & transparent medium-term fiscal consolidation plan.

*Markets to trade between 5400 and 6000 levels, rally to broad base into mid-caps, political tremors the only risk (looks unlikely in near term)*

We expect the market to continue to trade with an upward bias. Downside looks limited to 5400 levels and after consolidating at the 5800 levels the markets further upside to 6000 levels would depend on uptick in earnings growth trajectory and continuance of reforms momentum. Any downside risk can only emerge if one of the outside supporters to the government i.e. SP or BSP were to pull the plug which looks unlikely in the near-term. Large caps may see some consolidation and rally would now percolate down to midcaps.

# Top Picks

## Large Caps

- Coal India
- Power Grid Corporation
- Dr. Reddy's Laboratories
- Infosys
- Axis Bank
- Adani Ports & SEZ
- Cairn India
- Maruti Suzuki

## Mid-Caps

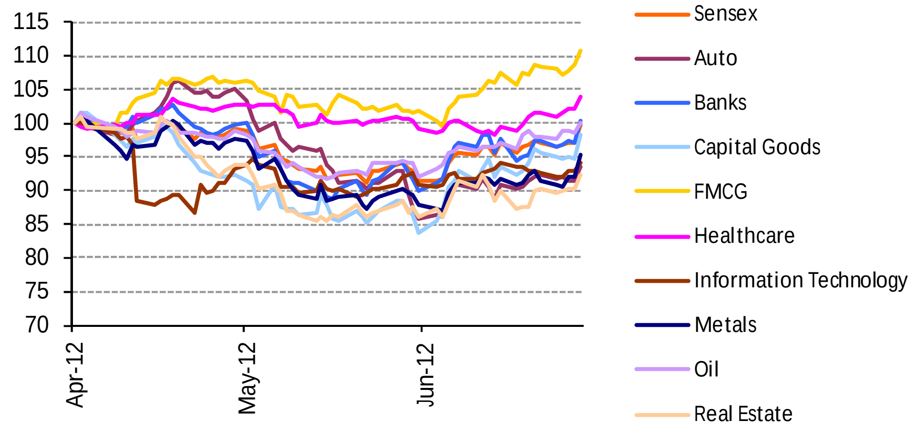
- YES Bank
- IPCA
- Amara Raja Batteries
- NIIT Technologies
- Shree Cement
- Jammu & Kashmir Bank
- KEC International
- Torrent Pharmaceutical
- Voltas
- Persistent Systems

### Top Picks Summary

| | CMP (Rs.) | TP (Rs) | *Upside* | Mcap (Rs bn) | Revenue Growth (%) | | Earnings Growth (%) | | RoE (%) | | PER (x) | | P/BV (x) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2013E | 2014E | 2013E | 2014E | 2013E | 2014E | 2013E | 2014E | 2013E | 2014E |
| **Large Caps** | | | | | | | | | | | | | | |
| Coal India | 363 | 389 | *7.0%* | 2,295.7 | 7.9 | 6.4 | 10.0 | 6.5 | 36.4 | 32.8 | 14.2 | 13.3 | 4.7 | 4.0 |
| Infosys | 2,527 | 2,850 | *12.8%* | 1,445.4 | 14.5 | 12.2 | 15.2 | 14.2 | 25.8 | 24.3 | 15.1 | 13.2 | 3.5 | 2.9 |
| Cairn India | 326 | 400 | *22.6%* | 625.5 | 39.4 | 10.1 | 24.6 | (4.9) | 19.0 | 15.9 | 6.3 | 6.7 | 1.1 | 1.0 |
| Power Grid Corporation | 118 | 133 | *12.5%* | 547.2 | 30.3 | 18.2 | 20.6 | 12.9 | 14.3 | 14.9 | 13.9 | 12.3 | 1.9 | 1.6 |
| Axis Bank | 1,143 | 1,350 | *18.1%* | 472.3 | 19.5 | 21.7 | 10.6 | 17.5 | 19.5 | 19.4 | 10.1 | 8.6 | 1.8 | 1.5 |
| Maruti Suzuki | 1,388 | 1,597 | *15.1%* | 401.0 | 22.6 | 26.5 | 16.7 | 60.7 | 11.9 | 16.9 | 21.0 | 13.1 | 2.4 | 2.1 |
| Dr.Reddy's Laboratories | 1,697 | 2,004 | *18.1%* | 287.9 | 9.0 | 9.3 | 22.0 | 15.2 | 23.9 | 24.1 | 19.5 | 16.9 | 4.4 | 3.8 |
| Adani Port & SEZ | 128 | 156 | *21.8%* | 256.7 | 21.6 | 27.0 | 16.3 | 44.8 | 24.0 | 28.9 | 20.4 | 14.1 | 4.6 | 3.7 |
| **Mid-Caps** | | | | | | | | | | | | | | |
| YES Bank | 394 | 450 | *14.4%* | 138.9 | 31.0 | 25.3 | 20.8 | 24.3 | 22.7 | 23.1 | 11.8 | 9.5 | 2.4 | 2.0 |
| Shree Cement | 3,874 | 4,472 | *15.4%* | 135.0 | (3.3) | 18.9 | 69.9 | 17.3 | 31.6 | 26.8 | 12.6 | 10.7 | 3.3 | 2.5 |
| Torrent Pharma | 690 | 913 | *32.3%* | 58.4 | 19.7 | 16.0 | 29.4 | 22.4 | 31.0 | 30.0 | 13.9 | 11.3 | 3.8 | 3.0 |
| IPCA | 443 | 559 | *26.0%* | 55.9 | 16.6 | 17.1 | 40.8 | 29.4 | 27.6 | 28.5 | 14.4 | 11.1 | 3.6 | 2.8 |
| Jammu & Kashmir Bank | 1,020 | 1,250 | *22.6%* | 49.5 | 15.9 | 15.4 | 16.7 | 10.9 | 21.0 | 20.0 | 5.3 | 4.8 | 1.0 | 0.9 |
| Voltas | 121 | 135 | *11.4%* | 40.0 | (3.3) | 11.5 | 267.4 | 16.7 | 16.8 | 16.7 | 14.8 | 12.6 | 2.3 | 2.0 |
| Amara Raja Batteries | 224 | 250 | *11.5%* | 38.3 | 18.0 | 13.1 | 29.4 | 18.3 | 29.6 | 27.5 | 13.8 | 11.6 | 3.6 | 2.9 |
| KEC International | 70 | 79 | *13.8%* | 17.9 | 15.2 | 15.3 | 19.1 | 25.4 | 18.3 | 19.2 | 8.1 | 6.4 | 1.4 | 1.1 |
| Persistent Systems | 427 | 480 | *12.5%* | 17.1 | 22.6 | 12.8 | 34.9 | 15.2 | 20.8 | 20.1 | 8.9 | 7.7 | 1.7 | 1.4 |
| NIIT Technologies | 283 | 350 | *23.6%* | 16.9 | 21.0 | 14.6 | 17.2 | 18.5 | 22.8 | 22.9 | 7.4 | 6.2 | 1.6 | 1.3 |

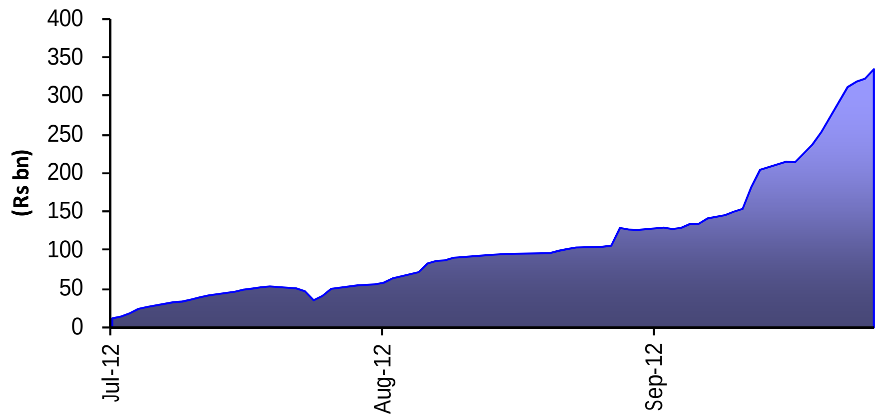
*Source: PL Research*

**Sectoral indices in Q2FY13**



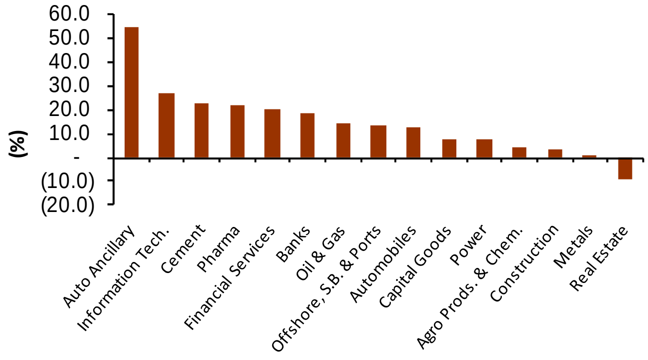

*Source: Bloomberg, PL Research*

**Cumulative FII inflows in Q2FY13**



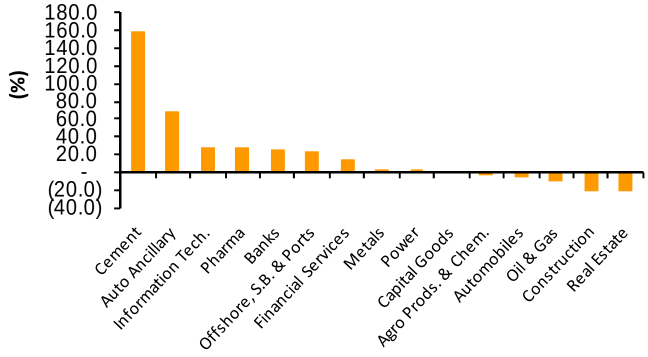

*Source: SEBI, PL Research*

**Q2FY13 revenue growth estimate (YoY)**



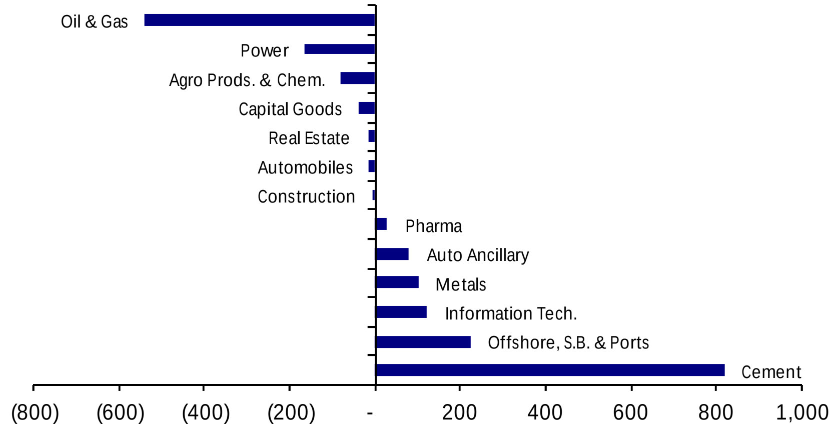

*Source: PL Research*

**Q2FY13 profit growth estimate (YoY)**




*Source: PL Research*

**EBITDAM YoY change in Q2FY13 (bps)**



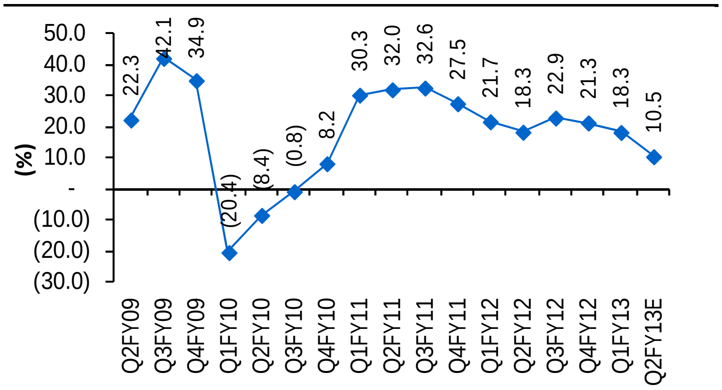

*Source: PL Research*

**Sector-wise growth and margin expectations – Q2FY13 PL estimates**

| | Revenue (%) | | PAT (%) | | EBITDA Margin (bps) | |
|---|---|---|---|---|---|---|
| | YoY | QoQ | YoY | QoQ | YoY | QoQ |
| Automobiles | 12.3 | (5.2) | (5.3) | (10.1) | (14) | (28) |
| Auto Ancillary | 54.2 | (0.6) | 69.7 | (6.7) | 79 | (5) |
| Agro Prods. & Chem. | 3.9 | 15.4 | (2.6) | 17.9 | (79) | 33 |
| Banks | 18.6 | 6.8 | 25.2 | 2.7 | | |
| Capital Goods | 7.6 | 14.5 | (0.8) | 29.5 | (39) | 173 |
| Cement | 22.7 | (9.6) | 159.8 | (23.1) | 819 | (318) |
| Construction | 3.3 | (5.6) | (21.6) | (22.7) | (8) | (31) |
| Financial Services | 19.7 | 7.7 | 14.6 | 11.0 | | |
| Information Tech. | 26.8 | 4.0 | 28.6 | (1.2) | 120 | (20) |
| Metals | 1.0 | (6.5) | 3.5 | (23.8) | 101 | (184) |
| Offshore, S.B. & Ports | 13.8 | (2.0) | 23.4 | (4.9) | 224 | (175) |
| Oil & Gas | 14.4 | 2.0 | (11.0) | (6.2) | (538) | 84 |
| Pharma | 22.1 | (4.2) | 28.1 | 15.3 | 29 | (196) |
| Power | 7.5 | 1.9 | 2.9 | (13.9) | (166) | (43) |
| Real Estate | (9.0) | 3.7 | (22.0) | (9.0) | (17) | (139) |
| **PL Universe** | **12.4** | **(0.1)** | **2.9** | **(7.5)** | **(101)** | **(8)** |
| **PL Universe (excl. Oil & Gas)** | **11.6** | **(0.9)** | **10.5** | **(8.0)** | **61** | **(38)** |

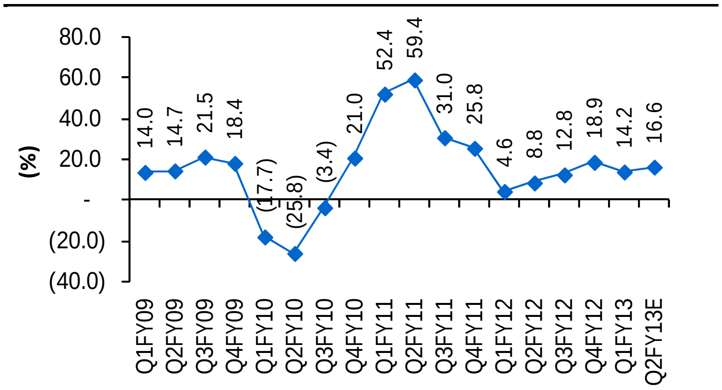
*Source: Company Data, PL Research* **EBITDA Margins are excluding BFSI*

**Nifty Revenue Growth (YoY) (excl. Oil & Gas)**




*Source: PL Research*

**Nifty PAT Growth (YoY) (excl. Oil & Gas)**




*Source: PL Research*

## Nifty Valuation

| | Weight-age (%) | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| **Banking & Fin.** | **28.0%** | | | | |
| PER (x) | | 18.8 | 14.8 | 12.6 | 10.9 |
| *PAT Growth (%)* | | *26.8* | *26.8* | *17.7* | *15.6* |
| **Technology** | **12.3%** | | | | |
| PER (x) | | 24.0 | 19.7 | 16.5 | 14.5 |
| *PAT Growth (%)* | | *16.9* | *22.3* | *18.9* | *14.0* |
| **Oil & Gas** | **12.9%** | | | | |
| PER (x) | | 12.5 | 11.0 | 11.4 | 10.4 |
| *PAT Growth (%)* | | *30.6* | *13.1* | *(3.1)* | *9.8* |
| **FMCG** | **12.4%** | | | | |
| PER (x) | | 47.1 | 37.8 | 32.2 | 27.0 |
| *PAT Growth (%)* | | *27.2* | *24.6* | *17.7* | *19.2* |
| **Eng. & Power** | **10.4%** | | | | |
| PER (x) | | 17.2 | 17.6 | 15.8 | 14.3 |
| *PAT Growth (%)* | | *11.0* | *(2.6)* | *11.8* | *10.3* |
| **Auto** | **8.2%** | | | | |
| PER (x) | | 14.2 | 11.7 | 11.4 | 9.4 |
| *PAT Growth (%)* | | *90.0* | *21.3* | *2.6* | *21.7* |
| **Metals** | **4.9%** | | | | |
| PER (x) | | 12.7 | 13.5 | 12.1 | 10.8 |
| *PAT Growth (%)* | | *48.0* | *(5.9)* | *11.9* | *11.8* |
| **Pharma** | **4.8%** | | | | |
| PER (x) | | 38.0 | 28.8 | 23.7 | 20.8 |
| *PAT Growth (%)* | | *69.4* | *31.9* | *21.6* | *14.2* |

| | Weight-age (%) | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|---|
| **Cement** | **3.9%** | | | | |
| PER (x) | | 26.2 | 23.5 | 17.5 | 13.9 |
| *PAT Growth (%)* | | *(18.5)* | *11.6* | *34.1* | *25.6* |
| **Telecom** | **1.8%** | | | | |
| PER (x) | | 16.6 | 22.1 | 11.9 | 9.3 |
| *PAT Growth (%)* | | *(37.9)* | *(25.1)* | *86.5* | *28.2* |
| **Real Estate** | **0.5%** | | | | |
| PER (x) | | 26.6 | 33.5 | 32.8 | 26.3 |
| *PAT Growth (%)* | | *(15.0)* | *(20.5)* | *2.2* | *24.6* |
| **Nifty as on Oct 5** | **5,747** | | | | |
| **EPS (Rs) - Free Float** | | **337.8** | **339.6** | **372.8** | **428.4** |
| ***Growth (%)*** | | ***16.6*** | ***0.6*** | ***9.8*** | ***14.9*** |
| **PER (x)** | | **17.0** | **16.9** | **15.4** | **13.4** |
| **EPS (Rs) - Free Float** | | | | | |
| **Nifty Cons.** | | **337.8** | **339.6** | **385.0** | **440.3** |
| ***Var. (PLe v/s Cons.) (%)*** | | **-** | **-** | ***(3.2)*** | ***(2.7)*** |
| **Sensex as on Oct 5** | **18,938** | | | | |
| **EPS (Rs) - Free Float** | | **1,109.6** | **1,100.9** | **1,187.8** | **1,361.1** |
| ***Growth (%)*** | | ***9.5*** | ***(0.8)*** | ***7.9*** | ***14.6*** |
| **PER (x)** | | **17.1** | **17.2** | **15.9** | **13.9** |
| **Sensex Cons.** | | **1,109.6** | **1,100.9** | **1,230.5** | **1,397.3** |
| ***Var. (PLe v/s Cons.) (%)*** | | **-** | **-** | ***(3.5)*** | ***(2.6)*** |

*Cons.: Bloomberg Estimates*

*For Detailed Break-up of Company & Sector wise please refer Page No. 169-176*

## Top picks

None

# Agri Products & Chemicals

- Our 'Agri Products and Chemicals' coverage universe is likely to show growth of 3.9% YoY (up 15.4% QoQ) in net sales. EBITDA and PAT are expected to be lower by 0.9% and 2.6% YoY, respectively.

- Fertiliser players are likely to witness lower sales volume during the quarter as the industry had pushed inventory in the market during Q4FY12 and inventory at the distributor level is getting liquidated in H1FY13. Hence, it would result in lower dispatches for fertiliser players during the quarter.

- On account of higher working capital (due to inventory push) as on March 31, 2012, all fertiliser players had seen increased debt levels. We believe that finance cost of players would mount substantially in Q2FY13. We believe this to be a short-term phenomenon and working capital is expected to get released in the near term. Finance cost of fertiliser players under coverage are expected to go up by 43.2% YoY (down 2.2% QoQ).

- Indian Fertilizer Industry is witnessing tough time on account of government inaction on the policy front. Depreciating currency is exerting pressure on the margin of non-urea fertilizer players. It could lead to further price hike at the farmer level as government finances are in a tight condition. It may result in muted volume growth in non-urea fertilizer in the near term despite witnessed de-growth in FY12. We remain cautious on non-urea fertilizer players in the short term and prefer urea players.

- Agrochemical Industry has witnessed a tough time in H2FY12. However, hike in minimum support price and uptick in agriculture commodity is a positive indicator for the industry in the near term. Industry has taken a price hike by 5-10% to pass on higher cost led by rupee depreciation during Q1FY13. Hence, we believe that margin pressure is likely to ease during Q2FY13. Our industry interactions suggest that delayed monsoon has impacted the Kharif crop as well as consumption of agrochemicals. Rainfall has finally picked up in Aug-Sept which is a good sign for the Agricultural Input Industry. We remain positive on the space from both, short as well as long-term perspective.

## Fertiliser volumes decline continues…

- **Non-urea fertiliser sales volume showed a decline of 28.1% YoY during Jul-Aug 2012:** Overall fertiliser sales volume de-grew by 15.1% YoY. Urea and non-urea fertiliser volumes have shown decline of 2.0% and 28.1% YoY, respectively. Even manufactured (excl. SSP) and traded non-urea volume has shown steep decline of 28.8% and 33.4% YoY, respectively. Fertilizer players had pushed their inventory aggressively in the market during Q4FY12 on account of lower non-urea fertiliser subsidy in FY13. It had resulted in lower volumes during Q2FY13.

**Fertilizer Sales Volume (MT)**

| Particulars | Jul - Aug 2012 | Jul - Aug 2011 | YoY % | YTD FY12 | YTD FY11 | YoY % |
|---|---|---|---|---|---|---|
| Urea | 5,291,897 | 5,398,776 | *(2.0)* | 10,866,785 | 11,297,215 | *(3.8)* |
| Non Urea | 3,944,658 | 5,485,150 | *(28.1)* | 8,190,477 | 10,457,927 | *(21.7)* |
| **Total** | **9,236,555** | **10,883,926** | ***(15.1)*** | **19,057,262** | **21,755,142** | ***(12.4)*** |

*Source: DoF, PL Research*

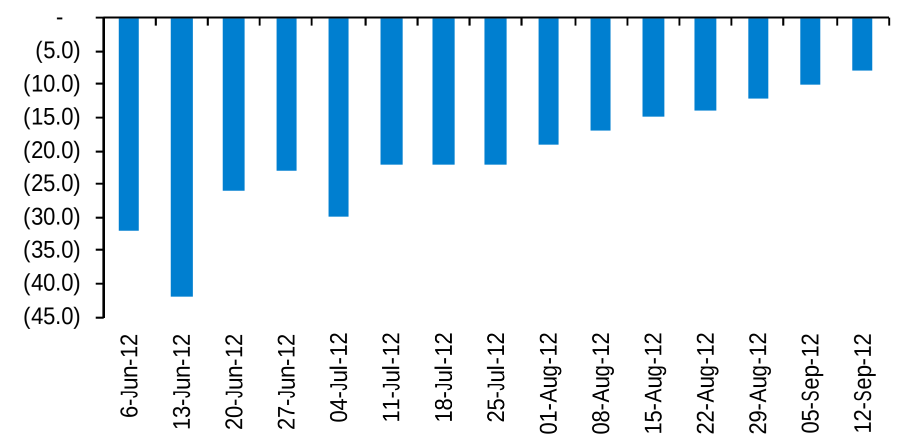
**Break-up of Non-Urea Fertilisers (MT)**

| Particulars | Jul - Aug 2012 | Jul - Aug 2011 | YoY % | YTD FY12 | YTD FY11 | YoY % |
|---|---|---|---|---|---|---|
| Manufactured (excl. SSP) | 1,690,106 | 2,374,161 | *(28.8)* | 3,580,309 | 5,237,544 | *(31.6)* |
| Traded | 1,591,546 | 2,390,205 | *(33.4)* | 3,135,322 | 3,584,004 | *(12.5)* |
| SSP | 663,006 | 720,784 | *(8.0)* | 1,474,846 | 1,636,379 | *(9.9)* |
| **Total** | **3,944,658** | **5,485,150** | ***(28.1)*** | **8,190,477** | **10,457,927** | ***(21.7)*** |

*Source: DoF, PL Research*

## Monsoon – Picked up in Aug-Sept

**Monsoon: Rabi crop likely to be better**




*Source: IMD, PL Research*

## Stock Performance

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Tata Chemicals | 3.0 | (1.2) | (8.7) | 8.6 | (6.3) | (9.2) | (17.0) | (11.3) |
| Coromandel International | (0.5) | 5.7 | 4.0 | 0.3 | (9.9) | (2.2) | (4.3) | (19.6) |
| United Phosphorus | 10.3 | 4.0 | (1.2) | 6.7 | 0.9 | (3.9) | (9.5) | (13.3) |
| Chambal Fertilizers & Chemicals | 6.6 | (8.7) | (12.8) | (19.9) | (2.8) | (16.6) | (21.1) | (39.8) |
| Rallis India | 6.8 | 6.5 | 20.1 | (15.1) | (2.6) | (1.5) | 11.8 | (35.0) |
| Jain Irrigation | 14.6 | (19.2) | (31.3) | (43.1) | 5.2 | (27.2) | (39.7) | (63.0) |
| Deepak Fertilisers & Petrochemicals Corporation | 5.2 | (5.7) | (10.3) | (17.0) | (4.2) | (13.7) | (18.6) | (36.9) |

*Source: Bloomberg, PL Research*

## Summary Financials - Quarterly (Rs m)

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Tata Chemicals** | Sales | 34,319 | 35,710 | *(3.9)* | 30,661 | *11.9* | 64,981 | 65,249 | *(0.4)* |
| | EBITDA | 6,567 | 6,740 | *(2.6)* | 5,348 | *22.8* | 11,915 | 12,008 | *(0.8)* |
| | *Margins (%)* | *19.1* | *18.9* | | *17.4* | | *18.3* | *18.4* | |
| | PAT | 2,528 | 3,023 | *(16.4)* | 2,092 | *20.8* | 4,620 | 5,089 | *(9.2)* |
| **Coromandel International** | Sales | 25,370 | 27,241 | *(6.9)* | 18,545 | *36.8* | 43,915 | 45,197 | *(2.8)* |
| | EBITDA | 3,466 | 3,754 | *(7.7)* | 2,108 | *64.4* | 5,574 | 6,249 | *(10.8)* |
| | *Margins (%)* | *13.7* | *13.8* | | *11.4* | | *12.7* | *13.8* | |
| | PAT | 2,062 | 2,562 | *(19.5)* | 1,151 | *79.2* | 3,212 | 4,150 | *(22.6)* |
| **United Phosphorus** | Sales | 20,210 | 17,757 | *13.8* | 22,142 | *(8.7)* | 42,352 | 36,378 | *16.4* |
| | EBITDA | 3,609 | 3,255 | *10.9* | 3,864 | *(6.6)* | 7,473 | 6,704 | *11.5* |
| | *Margins (%)* | *17.9* | *18.3* | | *17.5* | | *17.6* | *18.4* | |
| | PAT | 1,819 | 713 | *155.1* | 2,029 | *(10.3)* | 3,848 | 2,556 | *50.5* |
| **Chambal Fertilizers & Chemicals** | Sales | 21,093 | 16,532 | *27.6* | 13,819 | *52.6* | 34,912 | 28,371 | *23.1* |
| | EBITDA | 2,277 | 2,155 | *5.7* | 2,091 | *8.9* | 4,368 | 4,146 | *5.4* |
| | *Margins (%)* | *10.8* | *13.0* | | *15.1* | | *12.5* | *14.6* | |
| | PAT | 916 | 738 | *24.0* | 812 | *12.8* | 1,728 | 1,467 | *17.8* |
| **Rallis India** | Sales | 4,660 | 4,395 | *6.0* | 3,453 | *35.0* | 8,113 | 7,370 | *10.1* |
| | EBITDA | 1,042 | 1,046 | *(0.4)* | 415 | *151.2* | 1,457 | 1,482 | *(1.7)* |
| | *Margins (%)* | *22.4* | *23.8* | | *12.0* | | *18.0* | *20.1* | |
| | PAT | 653 | 657 | *(0.6)* | 239 | *172.8* | 892 | 889 | *0.4* |
| **Jain Irrigation** | Sales | 7,563 | 7,711 | *(1.9)* | 8,649 | *(12.6)* | 16,212 | 17,224 | *(5.9)* |
| | EBITDA | 1,616 | 1,795 | *(9.9)* | 1,813 | *(10.8)* | 3,429 | 4,078 | *(15.9)* |
| | *Margins (%)* | *21.4* | *23.3* | | *21.0* | | *21.2* | *23.7* | |
| | PAT | 277 | 709 | *(60.9)* | 626 | *(55.7)* | 903 | 1,669 | *(45.9)* |
| **Deepak Fertilisers & Petrochemicals Corporation** | Sales | 6,495 | 5,891 | *10.3* | 6,444 | *0.8* | 12,939 | 10,697 | *21.0* |
| | EBITDA | 1,172 | 1,177 | *(0.5)* | 1,124 | *4.2* | 2,296 | 2,374 | *(3.3)* |
| | *Margins (%)* | *18.0* | *20.0* | | *17.4* | | *17.7* | *22.2* | |
| | PAT | 534 | 619 | *(13.7)* | 505 | *5.7* | 1,039 | 1,258 | *(17.4)* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 473,555 | 462,775 | 502,012 |
| *Growth (%)* | *28.5* | *(2.3)* | *8.5* |
| EBITDA | 72,754 | 78,243 | 87,864 |
| *Margin (%)* | *15.4* | *16.9* | *17.5* |
| PAT | 32,346 | 35,199 | 42,197 |
| *Growth (%)* | *18.7* | *8.8* | *19.9* |
| PE (x) | 10.1 | 9.3 | 7.7 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 119,710 | 115,236 | *3.9* | 103,714 | *15.4* |
| EBITDA | 19,748 | 19,922 | *(0.9)* | 16,764 | *17.8* |
| *Margin (%)* | *16.5* | *17.3* | *(79)bps* | *16.2* | *33 bps* |
| PAT (Excl. Ex Items) | 8,789 | 9,020 | *(2.6)* | 7,453 | *17.9* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Tata Chemicals

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs320 |
| Target Price | NA |
| Market Cap. (Rs bn) | 81.7 |
| Shares o/s (m) | 254.8 |

TCL's net sales are expected to de-grow by 3.9% YoY to Rs34.3bn, primarily on account of lower fertiliser sales volume. We expect 2.6% YoY de-growth in EBITDA to Rs6.6bn. Interest is expected to be higher by 23.1% YoY to Rs1,250m (flat QoQ) on account of higher debt led by increased working capital requirement. We have considered tax rate of 25.0% in Q2FY13 v/s 25.4% in the corresponding quarter of the previous year. It would result in 16.4% de-growth in PAT to Rs2.5bn. We have not factored in any forex gain/loss in our estimate.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 136,551 | 128,707 | 134,947 |
| EBITDA | 23,338 | 25,198 | 26,808 |
| *Margin (%)* | *17.1* | *19.6* | *19.9* |
| PAT | 9,213 | 10,064 | 11,287 |
| EPS (Rs) | 36.2 | 39.5 | 44.3 |
| *RoE (%)* | *15.5* | *14.8* | *14.9* |
| PE (x) | 8.9 | 8.1 | 7.2 |
| P / BV (x) | 1.3 | 1.1 | 1.0 |
| EV / E (x) | 5.8 | 5.1 | 4.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 34,319 | 35,710 | *(3.9)* | 30,661 | 64,981 | 65,249 | *(0.4)* |
| EBITDA | 6,567 | 6,740 | *(2.6)* | 5,348 | 11,915 | 12,008 | *(0.8)* |
| *Margin (%)* | *19.1* | *18.9* | *26 bps* | *17.4* | *18.3* | *18.4* | *(7)bps* |
| Reported PAT | 2,528 | 2,754 | *(8.2)* | 1,076 | 3,604 | 4,753 | *(24.2)* |
| PAT (Excl. Ex Items) | 2,528 | 3,023 | *(16.4)* | 2,092 | 4,620 | 5,089 | *(9.2)* |
| **Operating Metrics** | | | | | | | |
| Inorganic Chemical Sales | 16,921 | 16,382 | *3.3* | 18,651 | 35,572 | 31,567 | *12.7* |
| Fertiliser Sales | 12,038 | 14,160 | *(15.0)* | 6,978 | 19,016 | 24,629 | *(22.8)* |
| *Inorganic Chemical EBIT %* | *19.9* | *21.4* | *(149)bps* | *18.8* | *19.4* | *21.0* | *(157)bps* |
| *Fertiliser EBIT %* | *8.5* | *10.9* | *(240)bps* | *4.0* | *6.3* | *9.7* | *(347)bps* |

## Coromandel International

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs296 |
| Target Price | NA |
| Market Cap. (Rs bn) | 83.5 |
| Shares o/s (m) | 282.4 |

We expect fertilizer volumes (manufactured and traded) to be lower by ~32% YoY to 6.2Lac MT, primarily due to liquidation of inventory at distributor level in the industry. Non-subsidy business (excluding Sabero) is likely to show growth of ~15% YoY. We expect the EBITDA margin to be lower by 12bps YoY (up 230bps QoQ). Interest is expected to be higher by 1.6x YoY to Rs500m (lower 7% QoQ) on account of higher debt led by increased working capital requirement. We are considering tax rate of 30.0% in Q2FY13 (same in Q2FY12).

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 98,310 | 89,169 | 98,742 |
| EBITDA | 10,367 | 11,352 | 14,233 |
| *Margin (%)* | *10.5* | *12.7* | *14.4* |
| PAT | 6,475 | 7,077 | 8,478 |
| EPS (Rs) | 22.9 | 25.1 | 30.0 |
| *RoE (%)* | *29.6* | *27.6* | *28.8* |
| PE (x) | 12.9 | 11.8 | 9.8 |
| P / BV (x) | 3.5 | 3.1 | 2.6 |
| EV / E (x) | 9.9 | 9.0 | 7.4 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 25,370 | 27,241 | *(6.9)* | 18,545 | 43,915 | 45,197 | *(2.8)* |
| EBITDA | 3,466 | 3,754 | *(7.7)* | 2,108 | 5,574 | 6,249 | *(10.8)* |
| *Margin (%)* | *13.7* | *13.8* | *(12)bps* | *11.4* | *12.7* | *13.8* | *(113)bps* |
| Reported PAT | 2,062 | 2,824 | *(27.0)* | 1,151 | 3,212 | 4,413 | *(27.2)* |
| PAT (Excl. Ex Items) | 2,062 | 2,562 | *(19.5)* | 1,151 | 3,212 | 4,150 | *(22.6)* |
| **Operating Metrics** | | | | | | | |
| Manufactured Fertilizer Volume (m Mt) | 0.48 | 0.80 | *(39.2)* | 0.41 | 0.90 | 1.37 | *(34.4)* |

## United Phosphorus

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs133 |
| Target Price | NA |
| Market Cap. (Rs bn) | 61.4 |
| Shares o/s (m) | 461.8 |

We expect UPL to report 13.8% YoY growth in sales to Rs20.2bn on account of contribution from DVA Agro Brazil (started contributing partially since Q2FY12). We are assuming EBITDA margin of 17.9% (down 47bps YoY, up 40bps QoQ). We believe that finance cost is likely to be lower by 58.3% YoY to Rs800m because company had forex loss of Rs1,114m in the corresponding quarter of the previous year. We have not factored in any forex gain/loss in our estimate. UPL has guided for FY13 tax rate of 15-20%. Hence, we are considering tax rate of 20% in Q2FY13.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 76,547 | 87,467 | 97,345 |
| EBITDA | 13,674 | 15,897 | 17,918 |
| *Margin (%)* | *17.9* | *18.2* | *18.4* |
| PAT | 5,962 | 7,504 | 8,968 |
| EPS (Rs) | 12.9 | 16.4 | 19.6 |
| *RoE (%)* | *15.1* | *16.9* | *17.7* |
| PE (x) | 10.3 | 8.1 | 6.8 |
| P / BV (x) | 1.5 | 1.3 | 1.1 |
| EV / E (x) | 6.5 | 5.3 | 4.5 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 20,210 | 17,757 | *13.8* | 22,142 | 42,352 | 36,378 | *16.4* |
| EBITDA | 3,609 | 3,255 | *10.9* | 3,864 | 7,473 | 6,704 | *11.5* |
| *Margin (%)* | *17.9* | *18.3* | *(47)bps* | *17.5* | *17.6* | *18.4* | *(78)bps* |
| Reported PAT | 1,819 | 570 | *219.4* | 2,029 | 3,848 | 2,413 | *59.5* |
| PAT (Excl. Ex Items) | 1,819 | 713 | *155.1* | 2,029 | 3,848 | 2,556 | *50.5* |
| **Operating Metrics** | | | | | | | |
| North America Sales | 3,140 | 2,990 | *5.0* | 6,750 | 9,890 | 8,100 | *22.1* |
| India Sales | 6,373 | 5,690 | *12.0* | 6,220 | 12,593 | 11,050 | *14.0* |
| Europe Sales | 2,456 | 2,233 | *10.0* | 4,210 | 6,666 | 5,990 | *11.3* |
| Rest of the World Sales | 8,392 | 7,040 | *19.2* | 5,317 | 13,709 | 11,660 | *17.6* |

## Jain Irrigation

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs71 |
| Target Price | NA |
| Market Cap. (Rs bn) | 28.7 |
| Shares o/s (m) | 405.2 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 49,329 | 53,366 | 60,271 |
| EBITDA | 9,330 | 9,950 | 11,407 |
| *Margin (%)* | *18.9* | *18.6* | *18.9* |
| PAT | 3,895 | 3,550 | 4,813 |
| EPS (Rs) | 9.6 | 7.7 | 10.4 |
| *RoE (%)* | *23.4* | *16.3* | *17.2* |
| PE (x) | 7.4 | 9.2 | 6.8 |
| P / BV (x) | 1.6 | 1.3 | 1.1 |
| EV / E (x) | 6.8 | 5.7 | 4.8 |

We believe that micro irrigation would show muted growth (negative 20% YoY), resulting in 1.9% de-growth in the net sales during Q2FY13. We are expecting 190bps YoY dip in EBITDA margin to 21.4% (up 40bps QoQ) during the quarter. Finance cost is likely to grow by 22.8% YoY (flat QoQ) to Rs1,000m. It would lead to de-growth in PBT by 52.9% YoY. JISL has guided tax rate of 23-24% for FY13. Hence, we are considering tax rate of 20.0% in Q2FY13 v/s 3.6% during Q2FY12. It would lead to 60.9% YoY de-growth in PAT. We have not factored in any forex gain/loss in our estimate.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 7,563 | 7,711 | *(1.9)* | 8,649 | 16,212 | 17,224 | *(5.9)* |
| EBITDA | 1,616 | 1,795 | *(9.9)* | 1,813 | 3,429 | 4,078 | *(15.9)* |
| *Margin (%)* | *21.4* | *23.3* | *(190)bps* | *21.0* | *21.2* | *23.7* | *(252)bps* |
| Reported PAT | 277 | 116 | *139.5* | (169) | 108 | 940 | *(88.5)* |
| PAT (Excl. Ex Items) | 277 | 709 | *(60.9)* | 626 | 903 | 1,669 | *(45.9)* |
| **Operating Metrics** | | | | | | | |
| MIS Sales | 3,022 | 3,778 | *(20.0)* | 3,300 | 6,322 | 8,645 | *(26.9)* |
| Piping Sales | 1,888 | 1,716 | *10.0* | 2,998 | 4,886 | 4,192 | *16.6* |
| Agro Processing Sales | 1,630 | 1,358 | *20.0* | 1,376 | 3,006 | 2,830 | *6.2* |
| Sheet Sales | 523 | 475 | *10.0* | 400.0 | 923 | 883 | *4.5* |

## Chambal Fertilisers

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs72 |
| Target Price | NA |
| Market Cap. (Rs bn) | 30.1 |
| Shares o/s (m) | 416.2 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 75,584 | 64,838 | 66,406 |
| EBITDA | 9,190 | 8,785 | 9,350 |
| *Margin (%)* | *12.2* | *13.5* | *14.1* |
| PAT | 3,301 | 3,330 | 4,010 |
| EPS (Rs) | 7.9 | 8.0 | 9.6 |
| *RoE (%)* | *20.1* | *18.3* | *19.1* |
| PE (x) | 9.1 | 9.0 | 7.5 |
| P / BV (x) | 1.8 | 1.5 | 1.3 |
| EV / E (x) | 6.5 | 5.1 | 4.3 |

Net sales are expected to grow by 27.6% YoY due to higher urea realization led by higher input cost and higher trading volume on YoY basis. We expect the manufactured urea volume to be flat YoY at Rs5.7Lac. We expect the blended EBITDA margin to be lower by 224bps YoY since the company had received Rs200m as prior period subsidy in the corresponding quarter of the previous year. Excluding this, blended EBITDA margin is expected to be lower by 100bps on YoY basis.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 21,093 | 16,532 | *27.6* | 13,819 | 34,912 | 28,371 | *23.1* |
| EBITDA | 2,277 | 2,155 | *5.7* | 2,091 | 4,368 | 4,146 | *5.4* |
| *Margin (%)* | *10.8* | *13.0* | *(224)bps* | *15.1* | *12.5* | *14.6* | *(210)bps* |
| Reported PAT | 916 | 917 | *(0.1)* | 771 | 1,686 | 1,553 | *8.6* |
| PAT (Excl. Ex Items) | 916 | 738 | *24.0* | 812 | 1,728 | 1,467 | *17.8* |
| **Operating Metrics** | | | | | | | |
| Fertilizers Sales | 9,155 | 7,609 | *20.3* | 8,779 | 17,935 | 14,609 | *22.8* |
| Trading Sales | 9,902 | 6,881 | *43.9* | 3,034 | 12,936 | 9,780 | *32.3* |
| Shipping Sales | 976 | 984 | *(0.9)* | 884 | 1,860 | 1,874 | *(0.7)* |
| *Fertilizers EBIT %* | *12.5* | *16.8* | *(426)bps* | *14.2* | *13.3* | *15.2* | *(189)bps* |
| *Trading EBIT %* | *4.3* | *6.0* | *(174)bps* | *13.9* | *9.1* | *7.9* | *114 bps* |
| *Shipping EBIT %* | *1.0* | *(5.0)* | *602 bps* | *1.4* | *1.2* | *3.2* | *(197)bps* |

## Rallis India

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs148 |
| Target Price | NA |
| Market Cap. (Rs bn) | 28.7 |
| Shares o/s (m) | 194.5 |

We expect 6.0% YoY growth in consolidated sales led by 4.5% YoY growth in the pesticide business. We believe that pesticide business growth would be muted and primarily driven by export business during Q2FY13. We are assuming Rs100m (v/s Rs30m in Q2FY12) sales in seed business. We have considered EBITDA margin of 22.4%, down 144bps YoY, on account of lower margin in pesticide business due to higher raw material cost on YoY basis. We have not factored in any forex gain/loss in our estimate.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 12,749 | 14,497 | 17,033 |
| EBITDA | 2,126 | 2,466 | 2,932 |
| *Margin (%)* | *16.7* | *17.0* | *17.2* |
| PAT | 1,209 | 1,499 | 1,900 |
| EPS (Rs) | 6.2 | 7.7 | 9.8 |
| *RoE (%)* | *22.9* | *24.9* | *26.4* |
| PE (x) | 22.3 | 18.0 | 14.2 |
| P / BV (x) | 4.9 | 4.1 | 3.4 |
| EV / E (x) | 13.3 | 11.2 | 9.1 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 4,660 | 4,395 | *6.0* | 3,453 | 8,113 | 7,370 | *10.1* |
| EBITDA | 1,042 | 1,046 | *(0.4)* | 415 | 1,457 | 1,482 | *(1.7)* |
| *Margin (%)* | *22.4* | *23.8* | *(144)bps* | *12.0* | *18.0* | *20.1* | *(215)bps* |
| Reported PAT | 655 | 585 | *12.0* | 242 | 897 | 816 | *9.9* |
| PAT (Excl. Ex Items) | 653 | 657 | *(0.6)* | 239 | 892 | 889 | *0.4* |

## Deepak Fertilisers

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs133 |
| Target Price | NA |
| Market Cap. (Rs bn) | 11.7 |
| Shares o/s (m) | 88.2 |

We expect the net sales to grow by 10.3% YoY due to higher chemicals sales led by combination of volume and realization. EBITDA margin is expected to be lower by 195bps YoY (up 60bps QoQ) on account of higher raw material prices primarily in chemical business. Interest is expected to be higher by 33.8% YoY (lower 7.4% QoQ) to Rs200m on account of higher debt led by increased working capital requirement. We have not factored in any forex gain/loss in our estimate.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 6,495 | 5,891 | *10.3* | 6,444 | 12,939 | 10,697 | *21.0* |
| EBITDA | 1,172 | 1,177 | *(0.5)* | 1,124 | 2,296 | 2,374 | *(3.3)* |
| *Margin (%)* | *18.0* | *20.0* | *(195)bps* | *17.4* | *17.7* | *22.2* | *(445)bps* |
| Reported PAT | 534 | 539 | *(0.9)* | 455 | 989 | 1,178 | *(16.1)* |
| PAT (Excl. Ex Items) | 534 | 619 | *(13.7)* | 505 | 1,039 | 1,258 | *(17.4)* |
| **Operating Metrics** | | | | | | | |
| Industrial Chemicals Sales | 4,115 | 3,515 | *17.1* | 4,700 | 8,815 | 6,842 | *28.8* |
| Fertilisers Sales | 2,240 | 2,307 | *(2.9)* | 1,795 | 4,035 | 3,781 | *6.7* |
| *Industrial Chemicals EBIT %* | *22.6* | *22.1* | *54 bps* | *20.4* | *21.5* | *25.2* | *(371)bps* |
| *Fertilisers EBIT %* | *7.3* | *15.0* | *(768)bps* | *7.6* | *7.4* | *15.2* | *(773)bps* |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 24,486 | 24,731 | 27,267 |
| EBITDA | 4,729 | 4,595 | 5,215 |
| *Margin (%)* | *19.3* | *18.6* | *19.1* |
| PAT | 2,291 | 2,175 | 2,741 |
| EPS (Rs) | 26.0 | 24.7 | 31.1 |
| *RoE (%)* | *20.2* | *16.8* | *18.5* |
| PE (x) | 5.1 | 5.4 | 4.3 |
| P / BV (x) | 1.0 | 0.9 | 0.7 |
| EV / E (x) | 3.8 | 3.3 | 2.4 |

Surjit Arora
surjitarora@plindia.com
+91-22-6632 2235

# Automobiles

**Domestic two-wheeler declines by 5.2% for the quarter:** Despite the strong growth by Honda Motorcycle and Scooter India (HMSI), the domestic two-wheeler segment posted a 5.2% decline, mainly led by ~12-14% YoY decline for the quarter for both the incumbents i.e. Hero Motocorp (HMCL) and Bajaj Auto (BJA). This was mainly on account of inventory build-up at the HMCL dealers' end and retail sales being muted.

## Top picks

Maruti Suzuki

**Quarterly trend in two-wheeler segment sales**

| Particulars | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13E |
|---|---|---|---|---|---|
| Two-Wheelers | 3,403,452 | 3,402,897 | 3,441,738 | 3,519,529 | 3,225,000 |
| *QoQ Growth (%)* | *6.8%* | *-1.6%* | *1.1%* | *2.3%* | *-8.4%* |

*Source: SIAM Data, PL Research*

HMCL reported 13.7% YoY de-growth in volumes in Q2FY13E as compared to 9.6% decline reported by BJA in the overall volumes, including exports.

**YTD two-wheeler segment sales**

| | Q2FY13E | Q2FY12 | *YoY gr. (%)* |
|---|---|---|---|
| **Domestic Two-wheelers** | **3,225,000** | **3,403,452** | ***(5.2)*** |
| Hero Motocorp | 1,285,805 | 1,504,470 | *(14.5)* |
| Bajaj Auto | 601,720 | 684,671 | *(12.1)* |
| HMSI | 655,920 | 462,045 | *42.0* |

*Source: SIAM Data, PL Research*

**Manesar lock-out at Maruti led to 6.6% de-growth in the passenger car segment:**

**Quarterly trend in passenger car segment sales**

| Particulars | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13E |
|---|---|---|---|---|---|
| Passenger Cars | 444,271 | 469,551 | 637,281 | 490,802 | 415,000 |
| *QoQ Growth (%)* | *-4.5%* | *5.7%* | *35.7%* | *-23.1%* | *-15.4%* |

*Source: SIAM Data, PL Research*

Consumer sentiment has been impacted negatively on account of higher prices of cars (Excise duty + Registration Tax) and higher petrol prices. Demand for petrol cars has weakened YTD which is evident from the high inventory levels for petrol cars and higher discounts on the same. It is unlikely that this scenario will improve in the coming months. However, with Maruti Suzuki (MSIL) ramping up production at Manesar with a peak capacity of 1,700/day by mid-October, we expect 8-10% growth for the passenger car segment in Q3FY13E.

**YTD Passenger car segment sales**

| | Q2FY13E | Q2FY12 | *YoY gr. (%)* |
|---|---|---|---|
| **Domestic Passenger Car** | **415,000** | **444,271** | ***(6.6)*** |
| Maruti Suzuki | 157,461 | 182,446 | *(13.7)* |
| Hyundai | 85,900 | 87,709 | *(2.0)* |
| Tata Motors | 57,880 | 48,516 | *19.3* |
| Toyota | 19,700 | 21,118 | *(6.7)* |
| Ford | 21,980 | 21,985 | - |
| Nissan | 11,600 | 5,061 | *229.2* |

*Source: SIAM Data, PL Research*

**Medium & Heavy Commercial Vehicles (M&HCV) sales decline by 11.0% YoY on account of lower freight rates and slowdown in economic activity**

**Quarterly trend in M&HCV segment sales**

| Particulars | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13E |
|---|---|---|---|---|---|
| M&HCVs | 85,535 | 84,068 | 104,098 | 66,055 | 76,150 |
| *QoQ Growth (%)* | *14.0%* | *-1.7%* | *23.8%* | *-36.5%* | *15.3%* |

*Source: SIAM Data, PL Research*

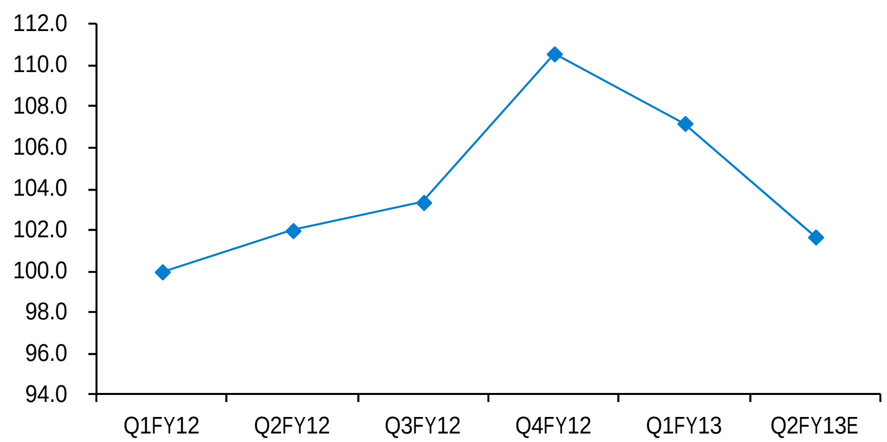
Sharp increase in prices of the vehicles, post March 2012, on account of excise duty hike and softening of freight rates across various trunk routes led to a sharp decline in M&HCV volumes in Q2FY13.

**YTD M&HCV segment sales**

| | Q2FY13E | Q2FY12 | *YoY gr. (%)* |
|---|---|---|---|
| **Domestic M&HCV** | **76,150** | **85,535** | ***(11.0)*** |
| Tata Motors | 42,754 | 50,694 | *(15.7)* |
| Ashok Leyland | 19,175 | 20,288 | *(5.5)* |

*Source: SIAM Data, PL Research*

**Auto Companies - Raw Material Index**




*Source: PL Research*

We have built a raw material index giving different weightage to different commodities. We have assigned highest weightage to Steel (45%), followed by Aluminium (20%) and Plastics/Polymers (15%). Our raw material index declined by ~4% QoQ. Major raw materials like Steel and Aluminium have corrected by 6-8% in the last few months. However, the companies under coverage are unlikely to benefit from the same as many contracts are for 3-6months period. This, in turn, will lead to flat margins QoQ.

**Our universe – Volume numbers**

| Company | Q2FY13E | *YoY gr (%)* | *QoQ gr (%)* |
|---|---|---|---|
| Ashok Leyland | 29,840 | *26.1* | *8.2* |
| Bajaj Auto | 1,049,208 | *(9.9)* | *(2.8)* |
| Hero Motocorp | 1,332,805 | *(13.7)* | *(18.8)* |
| Maruti Suzuki | 230,376 | *(8.7)* | *(22.0)* |
| M&M | 188,412 | *7.3* | *3.4* |
| Tata Motors | 221,090 | *7.1* | *17.1* |

*Source: Company Data, PL Research*

Auto companies under our coverage reported mixed set of volumes in Q2FY13E. Ashok Leyland (AL), Tata Motors (TAMO) and Mahindra & Mahindra (M&M) reported an improvement in volumes, whereas MSIL, BJA and HMCL reported a decline.

Driven by TAMO, auto companies are expected to post 12.3% YoY growth in their top-line and 5.3% YoY de-growth in PAT for Q2FY13E. Excluding TAMO, PAT decline was steeper at 12.1% YoY, led by ~28.0% de-growth for HMCL and 24.0% decline for MSIL, for the quarter.

**MSIL**: MSIL is likely to be impacted by the lock-out at Manesar during the quarter (loss of ~45k units). The New *Swift 'Dzire'* and the recently launched *'Ertiga'* are likely to stem the fall in volumes. With the interest rate likely to come down over the next 3-4months and ramp-up of production at Manesar to 2,000 cars/day, we remain positive on MSIL with a volume estimate of 18.0% YoY in FY14E. At the same time, the new 800cc launch scheduled for October 16, 2012 would be keenly watched out for as it has the ingredients to be the volume driver for MSIL.

**TAMO**: We believe TAMO could surprise negatively on the JLR front as rupee has appreciated by ~2.5% during for the quarter. At the same time, the negative commentary by the global peers like BMW and Daimler doesn't augur well for the outlook in European region as well as China. On the valuation front, the stock trades at a fair valuation of 8.0x FY14E EPS adjusted for R&D expenses in line with global peers. Hence, we don't see much upside from the current levels.

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Tata Motors | 22.7 | 16.9 | 0.7 | 90.3 | 13.3 | 8.9 | (7.6) | 70.4 |
| Mahindra & Mahindra | 15.1 | 20.4 | 24.5 | 10.8 | 5.7 | 12.4 | 16.2 | (9.1) |
| Bajaj Auto | 6.5 | 12.5 | 7.2 | 16.9 | (2.9) | 4.6 | (1.1) | (3.0) |
| Maruti Suzuki | 18.2 | 11.9 | 5.5 | 27.8 | 8.8 | 3.9 | (2.8) | 7.9 |
| Hero Motocorp | 0.1 | (14.6) | (10.0) | (7.1) | (9.3) | (22.6) | (18.3) | (27.1) |
| Ashok Leyland | 19.6 | (4.3) | (21.0) | 0.4 | 10.2 | (12.2) | (29.3) | (19.5) |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Tata Motors** | Sales | 425,575 | 361,975 | *17.6* | 433,236 | *(1.8)* | 858,811 | 697,700 | *23.1* |
| | EBITDA | 59,767 | 48,155 | *24.1* | 62,547 | *(4.4)* | 122,314 | 92,773 | *31.8* |
| | *Margins (%)* | *14.0* | *13.3* | | *14.4* | | *14.2* | *13.3* | |
| | PAT | 23,735 | 23,162 | *2.5* | 26,858 | *(11.6)* | 50,594 | 43,728 | *15.7* |
| **Mahindra & Mahindra** | Sales | 96,410 | 73,606 | *31.0* | 93,674 | *2.9* | 190,084 | 140,877 | *34.9* |
| | EBITDA | 11,230 | 9,060 | *24.0* | 11,094 | *1.2* | 22,324 | 18,014 | *23.9* |
| | *Margins (%)* | *11.6* | *12.3* | | *11.8* | | *11.7* | *12.8* | |
| | PAT | 8,664 | 7,694 | *12.6* | 7,256 | *19.4* | 15,921 | 13,743 | *15.9* |
| **Bajaj Auto** | Sales | 48,404 | 52,673 | *(8.1)* | 49,557 | *(2.3)* | 97,961 | 100,846 | *(2.9)* |
| | EBITDA | 9,434 | 10,574 | *(10.8)* | 9,617 | *(1.9)* | 19,051 | 20,082 | *(5.1)* |
| | *Margins (%)* | *19.5* | *20.1* | | *19.4* | | *19.4* | *19.9* | |
| | PAT | 7,139 | 8,212 | *(13.1)* | 7,184 | *(0.6)* | 14,323 | 15,324 | *(6.5)* |
| **Maruti Suzuki** | Sales | 82,237 | 78,316 | *5.0* | 107,782 | *(23.7)* | 190,019 | 162,857 | *16.7* |
| | EBITDA | 5,127 | 5,702 | *(10.1)* | 7,863 | *(34.8)* | 12,990 | 13,806 | *(5.9)* |
| | *Margins (%)* | *6.2* | *7.3* | | *7.3* | | *6.8* | *8.5* | |
| | PAT | 2,407 | 3,165 | *(24.0)* | 4,238 | *(43.2)* | 6,644 | 8,657 | *(23.3)* |
| **Hero Motocorp** | Sales | 50,953 | 58,293 | *(12.6)* | 62,473 | *(18.4)* | 113,426 | 115,110 | *(1.5)* |
| | EBITDA | 7,319 | 9,187 | *(20.3)* | 9,369 | *(21.9)* | 16,688 | 17,468 | *(4.5)* |
| | *Margins (%)* | *14.4* | *15.8* | | *15.0* | | *14.7* | *15.2* | |
| | PAT | 4,369 | 6,037 | *(27.6)* | 6,155 | *(29.0)* | 10,524 | 11,615 | *(9.4)* |
| **Ashok Leyland** | Sales | 32,695 | 30,946 | *5.7* | 30,073 | *8.7* | 62,768 | 55,901 | *12.3* |
| | EBITDA | 2,648 | 3,312 | *(20.0)* | 2,477 | *6.9* | 5,125 | 5,758 | *(11.0)* |
| | *Margins (%)* | *8.1* | *10.7* | | *8.2* | | *8.2* | *10.3* | |
| | PAT | 846 | 1,541 | *(45.1)* | 739 | *14.4* | 1,586 | 2,403 | *(34.0)* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 2,890,450 | 3,366,983 | 3,871,735 |
| *Growth (%)* | *26.2* | *16.5* | *15.0* |
| EBITDA | 385,905 | 441,937 | 529,089 |
| *Margin (%)* | *13.4* | *13.1* | *13.7* |
| PAT | 230,351 | 237,965 | 289,934 |
| *Growth (%)* | *20.4* | *3.3* | *21.8* |
| PE (x) | 12.1 | 11.7 | 9.6 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | QoQ gr. (%) |
|---|---|---|---|---|---|
| Net Sales | 736,275 | 655,809 | *12.3* | 776,794 | *(5.2)* |
| EBITDA | 95,526 | 85,990 | *11.1* | 102,967 | *(7.2)* |
| *Margin (%)* | *13.0* | *13.1* | *(14)bps* | *13.3* | *(28)bps* |
| PAT (Excl. Ex Items) | 47,161 | 49,810 | *(5.3)* | 52,430 | *(10.1)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Tata Motors

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs281 |
| Target Price | Rs283 |
| Market Cap. (Rs bn) | 890.4 |
| Shares o/s (m) | 3,173.8 |

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 1,656,545 | 1,931,527 | 2,191,910 |
| EBITDA | 237,005 | 269,459 | 316,185 |
| *Margin (%)* | *14.3* | *14.0* | *14.4* |
| PAT | 125,224 | 125,614 | 151,688 |
| EPS (Rs) | 39.5 | 37.7 | 45.5 |
| *RoE (%)* | *47.9* | *33.6* | *32.6* |
| PE (x) | 7.1 | 7.4 | 6.2 |
| P / BV (x) | 2.7 | 2.2 | 1.8 |
| EV / E (x) | 5.0 | 4.3 | 3.5 |

On a standalone basis, M&HCV volumes de-grew by ~15.7% YoY, whereas the LCV segment grew by ~17.7%. Despite a 17% QoQ improvement in volumes, EBITDA margins are likely to be flat on account of higher spend on advertising for the CV segment. JLR volumes declined 6.6% on a QoQ basis on account of lower demand for the existing Range Rover model as customers are waiting for the all new aluminium bodied Range Rover to be launched in a month's time. On account of higher incentives and lower volumes, we expect margins to contract by 30bps QoQ.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 425,575 | 361,975 | *17.6* | 433,236 | 858,811 | 697,700 | *23.1* |
| EBITDA | 59,767 | 48,155 | *24.1* | 62,547 | 122,314 | 92,773 | *31.8* |
| *Margin (%)* | *14.0* | *13.3* | *74 bps* | *14.4* | *14.2* | *13.3* | *95 bps* |
| Reported PAT | 23,735 | 18,772 | *26.4* | 22,453 | 46,189 | 38,768 | *19.1* |
| PAT (Excl. Ex Items) | 23,735 | 23,162 | *2.5* | 26,858 | 50,594 | 43,728 | *15.7* |
| **Operating Metrics** | | | | | | | |
| Stnd. Top-line | 122,127 | 129,538 | *(5.7)* | 105,864 | 227,991 | 245,779 | *(7.2)* |
| Stnd. EBITDA | 9,078 | 9,331 | *(2.7)* | 7,734 | 16,812 | 19,532 | *(13.9)* |
| JLR Volumes (nos) | 77,981 | 68,000 | *14.7* | 83,452 | 161,433 | 130,090 | *24.1* |
| JLR Top-line | 287,414 | 217,146 | *32.4* | 312,097 | 599,511 | 411,762 | *45.6* |
| JLR EBITDA | 40,615 | 32,120 | *26.4* | 45,322 | 85,937 | 58,184 | *47.7* |

## Mahindra & Mahindra

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs869 |
| Target Price | Rs880 |
| Market Cap. (Rs bn) | 569.0 |
| Shares o/s (m) | 654.7 |

**Key Figures *(Rs m)* - *Standalone***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 318,535 | 398,714 | 453,931 |
| EBITDA | 37,708 | 46,963 | 54,642 |
| *Margin (%)* | *11.8* | *11.8* | *12.0* |
| PAT | 27,706 | 31,658 | 36,552 |
| EPS (Rs) | 42.3 | 48.4 | 55.8 |
| *RoE (%)* | *24.6* | *23.7* | *23.0* |
| PE (x)* | 16.0 | 14.0 | 12.1 |
| P / BV (x) | 4.7 | 3.9 | 3.3 |
| EV / E (x) | 15.7 | 12.6 | 10.7 |

**Adj. for subs. Valuation at Rs192/share*

Led by higher volumes of *XUV 500*, automotive segment grew by 13.1% QoQ. Tractor volumes account for 26.5% in Q2FY13 as against 32.7% of overall volumes in Q1FY13. This, in our view, would negate the positive impact of the stable raw material cost during the quarter. As a result, we expect a 20bps QoQ contraction in margins. On account of higher other income due to dividends from subsidiaries, PAT is expected to increase by 19.2% QoQ.

**Quarterly Table *(Rs m)* - Standalone**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 96,410 | 73,606 | *31.0* | 93,674 | 190,084 | 140,877 | *34.9* |
| EBITDA | 11,230 | 9,060 | *24.0* | 11,094 | 22,324 | 18,014 | *23.9* |
| *Margin (%)* | *11.6* | *12.3* | *(66)bps* | *11.8* | *11.7* | *12.8* | *(104)bps* |
| Reported PAT | 8,664 | 7,374 | *17.5* | 7,256 | 15,921 | 13,423 | *18.6* |
| PAT (Excl. Ex Items) | 8,664 | 7,694 | *12.6* | 7,256 | 15,921 | 13,743 | *15.9* |
| **Operating Metrics** | | | | | | | |
| Total Automotive Sales | 138,572 | 118,207 | *17.2* | 122,571 | 261,143 | 213,445 | *22.3* |
| Total Tractor sales | 49,840 | 57,394 | *(13.2)* | 59,578 | 109,418 | 117,546 | *(6.9)* |
| Total Volumes | 188,412 | 175,601 | *7.3* | 182,149 | 370,561 | 330,991 | *12.0* |
| Net Realization / Vehicle | 511,699 | 419,167 | *22.1* | 514,271 | 512,963 | 425,622 | *20.5* |
| EBITDA / Vehicle | 59,604 | 51,595 | *15.5* | 60,908 | 60,245 | 54,425 | *10.7* |

## Bajaj Auto

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,751 |
| Target Price | Rs1,879 |
| Market Cap. (Rs bn) | 506.7 |
| Shares o/s (m) | 289.4 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 195,290 | 205,794 | 233,016 |
| EBITDA | 37,154 | 40,991 | 49,560 |
| *Margin (%)* | *19.0* | *19.9* | *21.3* |
| PAT | 31,341 | 30,794 | 37,190 |
| EPS (Rs) | 108.3 | 106.4 | 128.5 |
| *RoE (%)* | *57.2* | *45.7* | *44.3* |
| PE (x) | 16.2 | 16.5 | 13.6 |
| P / BV (x) | 8.4 | 6.8 | 5.4 |
| EV / E (x) | 13.2 | 11.9 | 9.4 |

BJA reported a 9.6% YoY decline in two-wheeler sales for the quarter with domestic volumes declining by ~12.1%. Three-wheeler sales declined by 11.8% YoY on account of exports to Sri Lanka which were impacted due to higher import duty. We expect margins to be flat QoQ, despite pressure on raw materials, on account of better product mix in favor of 3-wheelers (accounted for 11.5% vs 8.9% QoQ of volumes).

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 48,404 | 52,673 | *(8.1)* | 49,557 | 97,961 | 100,846 | *(2.9)* |
| EBITDA | 9,434 | 10,574 | *(10.8)* | 9,617 | 19,051 | 20,082 | *(5.1)* |
| *Margin (%)* | *19.5* | *20.1* | *(58)bps* | *19.4* | *19.4* | *19.9* | *(47)bps* |
| Reported PAT | 7,139 | 7,258 | *(1.6)* | 7,184 | 14,323 | 14,370 | *(0.3)* |
| PAT (Excl. Ex Items) | 7,139 | 8,212 | *(13.1)* | 7,184 | 14,323 | 15,324 | *(6.5)* |
| **Operating Metrics** | | | | | | | |
| Total Vol. (nos) | 1,049,208 | 1,164,137 | *(9.9)* | 1,078,971 | 2,128,179 | 2,256,952 | *(5.7)* |
| Net Realization/Unit (Rs) | 46,134 | 45,246 | *2.0* | 45,930 | 46,030 | 44,682 | *3.0* |
| RM Cost/Unit (Rs) | 32,773 | 32,312 | *1.4* | 32,513 | 32,643 | 32,014 | *2.0* |
| EBITDA/Unit (Rs) | 8,992 | 9,083 | *(1.0)* | 8,913 | 8,952 | 8,898 | *0.6* |

## Maruti Suzuki

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,388 |
| Target Price | Rs1,597 |
| Market Cap. (Rs bn) | 401.0 |
| Shares o/s (m) | 289.0 |

MSIL reported 8.7% YoY de-growth in the overall volumes on account of lock-out at the Manesar plant (loss est. at ~45,000 units). As a result, on a QoQ basis, volumes were down 22.0%. Diesel vehicles accounted for ~48% of the domestic volumes as against 54% in Q1FY13. MSIL has increased wages for ~2,000 workers at Gurgaon by 50% as a part of wage settlement. On account of lower volumes and 70bps QoQ impact on employee cost, margins are likely to decline by 110bps QoQ.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 355,871 | 436,253 | 551,846 |
| EBITDA | 25,130 | 32,709 | 49,551 |
| *Margin (%)* | *7.1* | *7.5* | *9.0* |
| PAT | 16,352 | 19,080 | 30,669 |
| EPS (Rs) | 56.6 | 66.0 | 106.1 |
| *RoE (%)* | *11.3* | *11.9* | *16.9* |
| PE (x) | 24.5 | 21.0 | 13.1 |
| P / BV (x) | 2.6 | 2.4 | 2.1 |
| EV / E (x) | 15.4 | 11.5 | 7.5 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 82,237 | 78,316 | *5.0* | 107,782 | 190,019 | 162,857 | *16.7* |
| EBITDA | 5,127 | 5,702 | *(10.1)* | 7,863 | 12,990 | 13,806 | *(5.9)* |
| *Margin (%)* | *6.2* | *7.3* | *(105)bps* | *7.3* | *6.8* | *8.5* | *(164)bps* |
| Reported PAT | 2,407 | 2,405 | *0.1* | 4,238 | 6,644 | 8,397 | *(20.9)* |
| PAT (Excl. Ex Items) | 2,407 | 3,165 | *(24.0)* | 4,238 | 6,644 | 8,657 | *(23.3)* |
| **Operating Metrics** | | | | | | | |
| Total Vol. (nos) | 230,376 | 252,307 | *(8.7)* | 295,896 | 526,272 | 533,833 | *(1.4)* |
| Net Realization/Unit (Rs) | 356,970 | 310,400 | *15.0* | 364,255 | 361,066 | 305,071 | *18.4* |
| RM Cost/Unit (Rs) | 279,018 | 244,010 | *14.3* | 283,555 | 281,286 | 239,183 | *17.6* |
| EBITDA/Unit (Rs) | 22,255 | 22,599 | *(1.5)* | 26,573 | 24,683 | 25,861 | *(4.6)* |
| Net Profit/Unit (Rs) | 10,446 | 12,540 | *(16.7)* | 14,321 | 12,625 | 16,217 | *(22.2)* |

## Hero Motocorp

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs1,810 |
| Target Price | Rs1,778 |
| Market Cap. (Rs bn) | 361.5 |
| Shares o/s (m) | 199.7 |

HMCL reported a 13.7% YoY decline in volumes on account of higher inventory build up and lower retail demand. As a result, HMCL is likely to report a 12.6% YoY decline in the top-line. EBITDA margins are expected to contract by 140bps on account of higher advertisement spend, increased raw material cost on account of lag effect of rupee depreciation against Yen (in Q1FY13) and lower volumes. As a result, PAT is likely to de-grow by 27.6% YoY.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 235,790 | 253,803 | 284,464 |
| EBITDA | 36,047 | 38,662 | 44,150 |
| *Margin (%)* | *15.3* | *15.2* | *15.5* |
| PAT | 23,783 | 25,202 | 27,313 |
| EPS (Rs) | 119.1 | 126.2 | 136.8 |
| *RoE (%)* | *65.6* | *49.0* | *40.3* |
| PE (x) | 15.2 | 14.3 | 13.2 |
| P / BV (x) | 8.4 | 6.0 | 4.8 |
| EV / E (x) | 10.0 | 9.3 | 8.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 50,953 | 58,293 | *(12.6)* | 62,473 | 113,426 | 115,110 | *(1.5)* |
| EBITDA | 7,319 | 9,187 | *(20.3)* | 9,369 | 16,688 | 17,468 | *(4.5)* |
| *Margin (%)* | *14.4* | *15.8* | *(140)bps* | *15.0* | *14.7* | *15.2* | *(46)bps* |
| Reported PAT | 4,369 | 6,037 | *(27.6)* | 6,155 | 10,524 | 11,615 | *(9.4)* |
| PAT (Excl. Ex Items) | 4,369 | 6,037 | *(27.6)* | 6,155 | 10,524 | 11,615 | *(9.4)* |
| **Operating Metrics** | | | | | | | |
| Total Volumes | 1,332,805 | 1,544,315 | *(13.7)* | 1,642,292 | 2,975,097 | 3,073,892 | *(3.2)* |
| Net Real. / Vehicle | 38,230 | 37,747 | *1.3* | 38,040 | 38,125 | 37,448 | *1.8* |
| RM Cost / Vehicle | 27,899 | 27,350 | *2.0* | 28,025 | 27,962 | 27,551 | *1.5* |
| EBITDA / vehicle | 5,492 | 5,949 | *(7.7)* | 5,705 | 5,609 | 5,683 | *(1.3)* |
| Net Profit / Vehicle | 3,278 | 3,909 | *(16.1)* | 3,748 | 3,537 | 3,779 | *(6.4)* |

## Ashok Leyland

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs25 |
| Target Price | Rs25 |
| Market Cap. (Rs bn) | 65.7 |
| Shares o/s (m) | 2,660.7 |

AL reported 26.1% YoY growth in the volumes, mainly on account of ~8,650 units of LCV Sales. M&HCV sales for the quarter de-grew by ~1.5% YoY. The average realization/vehicle is expected to be lower by 16.5% YoY on account of product mix skewed towards LCV segment and higher discounts in the M&HCV segment. We expect a 260bps YoY decline in EBITDA margins due to product mix skewed towards LCVs (accounted for ~29.0% of volumes).

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 128,420 | 140,893 | 156,569 |
| EBITDA | 12,862 | 13,153 | 15,000 |
| *Margin (%)* | *10.0* | *9.3* | *9.6* |
| PAT | 5,945 | 5,617 | 6,521 |
| EPS (Rs) | 2.2 | 2.1 | 2.5 |
| *RoE (%)* | *14.6* | *13.0* | *14.1* |
| PE (x) | 11.1 | 11.7 | 10.1 |
| P / BV (x) | 1.6 | 1.5 | 1.4 |
| EV / E (x) | 7.5 | 7.7 | 6.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 32,695 | 30,946 | *5.7* | 30,073 | 62,768 | 55,901 | *12.3* |
| EBITDA | 2,648 | 3,312 | *(20.0)* | 2,477 | 5,125 | 5,758 | *(11.0)* |
| *Margin (%)* | *8.1* | *10.7* | *(260)bps* | *8.2* | *8.2* | *10.3* | *(214)bps* |
| Reported PAT | 846 | 1,541 | *(45.1)* | 669 | 1,516 | 2,403 | *(36.9)* |
| PAT (Excl. Ex Items) | 846 | 1,541 | *(45.1)* | 739 | 1,586 | 2,403 | *(34.0)* |
| **Operating Metrics** | | | | | | | |
| Total Vol (nos.) | 29,840 | 23,659 | *26.1* | 27,585 | 57,425 | 42,936 | *33.7* |
| Avg. Real./ Unit (Rs) | 1,095,662 | 1,307,989 | *(16.2)* | 1,090,211 | 1,093,044 | 1,301,955 | *(16.0)* |
| RM Cost/Unt. (Rs) | 803,344 | 961,890 | *(16.5)* | 793,426 | 798,385 | 947,331 | *(15.7)* |
| EBITDA/Unt. | 88,732 | 139,970 | *(36.6)* | 89,798 | 89,244 | 134,101 | *(33.4)* |

Surjit Arora
surjitarora@plindia.com
+91-22-6632 2235

# Auto Ancillary

**Top picks**

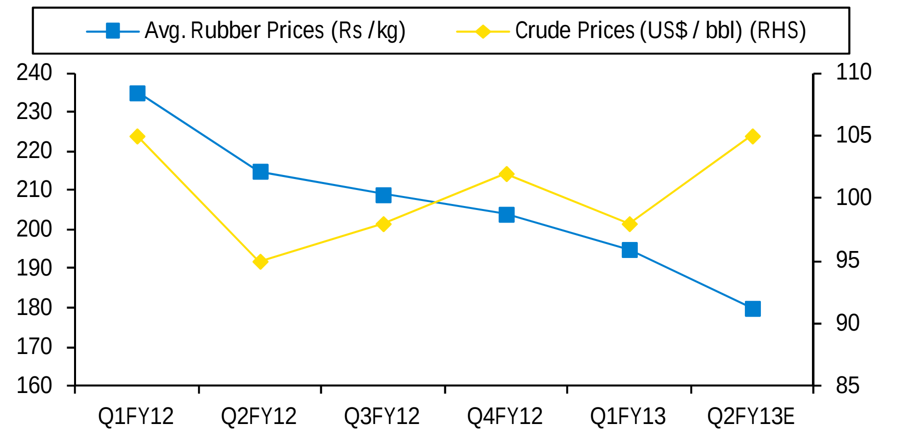
Amara Raja Batteries

Motherson Sumi

With an uptick in the replacement market, battery companies are likely to report a robust growth in top-line as well as bottom-line for Q2FY13E.

Ancillary companies under our coverage are expected to post a growth of 54.2% YoY (15.5% YoY excl. Motherson Sumi, MSSL), mainly attributed to a likely robust growth in battery companies and MSSL's acquisition of *Peguform* in November 2011.

**Key Raw Material**




*Source: PL Research*

PAT, for our coverage universe, is expected to grow by 73.2% YoY (78.4% excl. MSSL), mainly on account of improvement in EBITDA margins for battery as well as tyre companies on a YoY basis. However, on a sequential basis, PAT is likely to decline by 4.7% on account of lower demand on the OEM segment and the export front.

CCI announcement to penalise the Tyre companies for cartelisation would continue to be an overhang on tyre companies.

**Amara Raja Batteries:** Telecom side (~25% of the top-line) of the business seems to have bottomed out and the management is confident of continuing its growth in the industrial segment despite challenges on the pricing front. At the CMP, the stock is trading at 11.6x its FY14E earnings estimate, which in our view is attractive.

**Motherson Sumi**: We expect better times ahead for MSSL, with the execution of new order book at SMR and improvement in margins at Peguform over the next one year. At the CMP, the stock is trading at 15.3x FY13E and 13.2x FY14E earnings, which in our view, is attractive, given 35.0% CAGR in earnings for FY12-FY14E.

### Stock Performance

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Exide Industries | 6.3 | 9.7 | 4.5 | 15.9 | (3.1) | 1.7 | (3.8) | (4.0) |
| Motherson Sumi Systems | 25.5 | 46.4 | 26.4 | 44.0 | 16.1 | 38.4 | 18.1 | 24.1 |
| Bharat Forge | 12.8 | (2.8) | (1.5) | 22.0 | 3.4 | (10.8) | (9.8) | 2.0 |
| Apollo Tyres | (2.6) | 11.2 | 7.4 | 69.7 | (12.0) | 3.2 | (0.9) | 49.8 |
| Amara Raja Batteries | 21.0 | 44.5 | 46.0 | 118.5 | 11.7 | 36.6 | 37.7 | 98.6 |
| CEAT | 1.6 | 10.1 | 10.8 | 48.4 | (7.8) | 2.1 | 2.5 | 28.5 |

*Source: Bloomberg, PL Research*

### Summary Financials - Quarterly (Rs m)

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Exide Industries** | Sales | 16,313 | 11,761 | *38.7* | 15,536 | *5.0* | 31,848 | 24,205 | *31.6* |
| | EBITDA | 2,509 | 903 | *177.9* | 2,328 | *7.8* | 4,837 | 3,126 | *54.8* |
| | *Margins (%)* | *15.4* | *7.7* | | *15.0* | | *15.2* | *12.9* | |
| | PAT | 1,650 | 513 | *221.9* | 1,520 | *8.5* | 3,170 | 2,145 | *47.8* |
| **Motherson Sumi Systems** | Sales | 61,761 | 23,387 | *164.1* | 63,880 | *(3.3)* | 125,641 | 46,388 | *170.8* |
| | EBITDA | 4,340 | 2,036 | *113.2* | 4,552 | *(9.6)* | 8,892 | 3,910 | *127.4* |
| | *Margins (%)* | *7.0* | *8.7* | | *7.1* | | *7.1* | *8.4* | |
| | PAT | 1,557 | 986 | *57.9* | 2,090 | *(32.1)* | 3,648 | 1,527 | *138.9* |
| **Bharat Forge** | Sales | 9,745 | 9,100 | *7.1* | 9,364 | *4.1* | 19,108 | 17,677 | *8.1* |
| | EBITDA | 2,426 | 2,186 | *11.0* | 2,351 | *3.2* | 4,778 | 4,267 | *12.0* |
| | *Margins (%)* | *24.9* | *24.0* | | *25.1* | | *25.0* | *24.1* | |
| | PAT | 1,128 | 1,031 | *9.4* | 1,052 | *7.2* | 2,180 | 2,005 | *8.7* |
| **Apollo Tyres** | Sales | 31,681 | 28,712 | *10.3* | 31,647 | *0.1* | 63,328 | 56,936 | *11.2* |
| | EBITDA | 3,641 | 2,304 | *58.0* | 3,516 | *3.6* | 7,157 | 4,633 | *54.5* |
| | *Margins (%)* | *11.5* | *8.0* | | *11.1* | | *11.3* | *8.1* | |
| | PAT | 1,480 | 781 | *89.5* | 1,389 | *6.6* | 2,869 | 1,556 | *84.4* |
| **Amara Raja Batteries** | Sales | 7,007 | 5,604 | *25.0* | 6,938 | *1.0* | 13,945 | 10,851 | *28.5* |
| | EBITDA | 1,157 | 882 | *31.3* | 1,195 | *(3.2)* | 2,353 | 1,559 | *50.9* |
| | *Margins (%)* | *16.5* | *15.7* | | *17.2* | | *16.9* | *14.4* | |
| | PAT | 726 | 519 | *40.0* | 757 | *(4.1)* | 1,483 | 909 | *63.2* |
| **CEAT** | Sales | 11,894 | 11,180 | *6.4* | 11,891 | *0.0* | 23,785 | 21,946 | *8.4* |
| | EBITDA | 1,006 | 612 | *64.4* | 1,069 | *(5.9)* | 2,075 | 565 | *267.3* |
| | *Margins (%)* | *8.5* | *5.5* | | *9.0* | | *8.7* | *2.6* | |
| | PAT | 193 | 58 | *232.8* | 258 | *(25.1)* | 451 | (329) | *NA* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 452,941 | 607,348 | 682,806 |
| *Growth (%)* | *40.8* | *34.1* | *12.4* |
| EBITDA | 45,381 | 63,979 | 75,853 |
| *Margin (%)* | *10.0* | *10.5* | *11.1* |
| PAT | 19,310 | 27,557 | 32,930 |
| *Growth (%)* | *3.4* | *42.7* | *19.5* |
| PE (x) | 20.0 | 14.0 | 11.8 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 138,401 | 89,744 | *54.2* | 139,256 | *(0.6)* |
| EBITDA | 15.080 | 8,923 | *69.0* | 15,012 | *0.5* |
| *Margin (%)* | *10.9* | *9.9* | *95 bps* | *10.8* | *12 bps* |
| PAT (Excl. Ex Items) | 6,735 | 3,888 | *73.2* | 7,067 | *(4.7)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Exide Industries

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs152 |
| Target Price | Rs147 |
| Market Cap. (Rs bn) | 129.1 |
| Shares o/s (m) | 850.0 |

Exide is likely to post a 38.7% YoY growth in its top-line, mainly on account of a double-digit growth in the replacement segment and strong traction in the home inverters segment. On account of lower base last year, due to delay in capacity expansion, top-line growth would be robust. Exide's EBITDA margins are likely to improve by 40bps QoQ on account of richer product mix.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 51,111 | 59,733 | 67,115 |
| EBITDA | 6,880 | 9,476 | 11,263 |
| *Margin (%)* | *13.5* | *15.9* | *16.8* |
| PAT | 4,613 | 6,358 | 7,567 |
| EPS (Rs) | 5.4 | 7.5 | 8.9 |
| *RoE (%)* | *15.9* | *19.3* | *19.9* |
| PE (x)* | 26.3 | 19.1 | 16.0 |
| P / BV (x) | 4.2 | 3.7 | 3.1 |
| EV / E (x) | 18.7 | 13.6 | 11.3 |

**Adj. for Subs. & insurance value of Rs9/share*

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 16,313 | 11,761 | *38.7* | 15,536 | 31,848 | 24,205 | *31.6* |
| EBITDA | 2,509 | 903 | *177.9* | 2,328 | 4,837 | 3,126 | *54.8* |
| *Margin (%)* | *15.4* | *7.7* | *771 bps* | *15.0* | *15.2* | *12.9* | *227 bps* |
| Reported PAT | 1,650 | 513 | *221.9* | 1,520 | 3,170 | 2,145 | *47.8* |
| PAT (Excl. Ex Items) | 1,650 | 513 | *221.9* | 1,520 | 3,170 | 2,145 | *47.8* |

## Motherson Sumi Systems

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs161 |
| Target Price | Rs170 |
| Market Cap. (Rs bn) | 94.5 |
| Shares o/s (m) | 587.4 |

Samvardhana Motherson Reflectec (SMR) is likely to grow by 25.3% YoY in revenue terms. We expect *Peguform* to report Rs31.5bn top-line for the quarter. Utilization levels improving at SMR level is likely to lead stable EBITDA margins at SMR at 5.0%. On account of Peguform (~4%), EBITDA margins are likely to decline by 170bps YoY.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 149,076 | 264,047 | 304,456 |
| EBITDA | 10,745 | 18,492 | 23,194 |
| *Margin (%)* | *7.2* | *7.0* | *7.6* |
| PAT | 3,915 | 6,163 | 7,139 |
| EPS (Rs) | 6.7 | 10.5 | 12.2 |
| *RoE (%)* | *22.5* | *29.7* | *28.4* |
| PE (x) | 24.1 | 15.3 | 13.2 |
| P / BV (x) | 5.1 | 4.1 | 3.4 |
| EV / E (x) | 12.7 | 7.7 | 6.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 61,761 | 23,387 | *164.1* | 63,880 | 125,641 | 46,388 | *170.8* |
| EBITDA | 4,340 | 2,036 | *113.2* | 4,552 | 8,892 | 3,910 | *127.4* |
| *Margin (%)* | *7.0* | *8.7* | *(168)bps* | *7.1* | *7.1* | *8.4* | *(135)bps* |
| Reported PAT | 1,577 | 243 | *540.7* | 81 | 1,639 | 896 | *83.0* |
| PAT (Excl. Ex Items) | 1,577 | 986 | *57.9* | 2,090 | 3,648 | 1,527 | *138.9* |
| **Operating Metrics** | | | | | | | |
| SMR Sales | 16,100 | 12,846 | *25.3* | 16,063 | 32,163 | 25,776 | *24.8* |
| MSSL Sales exc. SMR | 45,661 | 10,541 | *333.2* | 47,817 | 93,478 | 20,612 | *353.5* |
| EBITDA - SMR | 805 | 996 | *(22.4)* | 804 | 1,609 | 1,625 | *(3.0)* |
| *EBITDA - SMR (%)* | *5.0* | *7.6* | *(260)bps* | *5.0* | *5.0* | *6.3* | *(130)bps* |
| *EBITDA excl SMR (%)* | *7.3* | *17.2* | *(944)bps* | *7.8* | *9.6* | *15.0* | *(540)bps* |

## Bharat Forge

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs310 |
| Target Price | Rs334 |
| Market Cap. (Rs bn) | 76.2 |
| Shares o/s (m) | 246.0 |

We expect the top-line to grow by a muted 7.1% YoY, mainly led by 19.5% YoY improvement in the export revenues. We expect the company to pass on the raw material pressure to the end consumer, thereby, increasing its EBITDA/tonne on a YoY basis.

**Key Figures *(Rs m) - Consolidated***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 62,791 | 71,807 | 79,781 |
| EBITDA | 9,961 | 12,239 | 14,312 |
| *Margin (%)* | *15.9* | *17.0* | *17.9* |
| PAT | 4,131 | 5,124 | 6,229 |
| EPS (Rs) | 16.8 | 20.8 | 25.3 |
| *RoE (%)* | *19.8* | *20.7* | *20.5* |
| PE (x) | 18.4 | 14.9 | 12.2 |
| P / BV (x) | 3.4 | 2.8 | 2.3 |
| EV / E (x) | 9.0 | 7.0 | 5.7 |

**Quarterly Table *(Rs m) - Standalone***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 9,745 | 9,100 | *7.1* | 9,364 | 19,108 | 17,677 | *8.1* |
| EBITDA | 2,426 | 2,186 | *11.0* | 2,351 | 4,778 | 4,267 | *12.0* |
| *Margin (%)* | *24.9* | *24.0* | *88 bps* | *25.1* | *25.0* | *24.1* | *86 bps* |
| Reported PAT | 1,128 | 1,096 | *2.9* | 1,052 | 2,180 | 2,070 | *5.3* |
| PAT (Excl. Ex Items) | 1,128 | 1,031 | *9.4* | 1,052 | 2,180 | 2,005 | *8.7* |

## Apollo Tyres

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs90 |
| Target Price | Rs104 |
| Market Cap. (Rs bn) | 45.2 |
| Shares o/s (m) | 504.0 |

We expect Apollo Tyres to post a 10.3% YoY growth in top-line, mainly on account of a 16.6% YoY improvement in standalone top-line and 36.4% YoY increase in Dunlop revenues. We expect a 13.7% de-growth in sales at *Vredestein* mainly on account of a seasonally weak quarter. On account of lower rubber cost, the consolidated margins are likely to improve 40bps QoQ.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 121,531 | 134,172 | 145,396 |
| EBITDA | 11,660 | 14,472 | 16,462 |
| *Margin (%)* | *9.6* | *10.8* | *11.3* |
| PAT | 4,392 | 5,862 | 7,069 |
| EPS (Rs) | 8.7 | 11.6 | 14.0 |
| *RoE (%)* | *16.7* | *19.2* | *19.9* |
| PE (x) | 10.3 | 7.7 | 6.4 |
| P / BV (x) | 1.6 | 1.4 | 1.2 |
| EV / E (x) | 6.2 | 4.8 | 3.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 31,681 | 28,712 | *10.3* | 31,647 | 63,328 | 56,936 | *11.2* |
| EBITDA | 3,641 | 2,304 | *58.0* | 3,516 | 7,157 | 4,633 | *54.5* |
| *Margin (%)* | *11.5* | *8.0* | *347 bps* | *11.1* | *11.3* | *8.1* | *317 bps* |
| Reported PAT | 1,480 | 781 | *89.5* | 1,389 | 2,869 | 1,556 | *84.4* |
| PAT (Excl. Ex Items) | 1,480 | 781 | *89.5* | 1,389 | 2,869 | 1,556 | *84.4* |
| **Operating Metrics** | | | | | | | |
| Standalone - Rev. | 21,519 | 18,449 | *16.6* | 21,524 | 43,043 | 38,057 | *13.1* |
| Dunlop-Rev. | 4,123 | 3,023 | *36.4* | 3,927 | 8,050 | 5,823 | *38.3* |
| VBVV Rev. | 6,464 | 7,492 | *(13.7)* | 6,496 | 12,960 | 13,527 | *(4.2)* |

## Amara Raja Batteries

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs224 |
| Target Price | Rs250 |
| Market Cap. (Rs bn) | 38.3 |
| Shares o/s (m) | 170.8 |

AMRJ is likely to post a 25.0% YoY growth in the top-line, mainly on account of a strong traction from the automotive replacement segment and increased demand for the UPS segment. Signs of recovery in the Telecom sector (which accounts for ~25% of the sales) augurs well for the margin picture of the company. EBITDA margins are likely to improve 80bps YoY on account of stable lead prices.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 23,711 | 27,990 | 31,642 |
| EBITDA | 3,578 | 4,608 | 5,377 |
| *Margin (%)* | *15.1* | *16.5* | *17.0* |
| PAT | 2,152 | 2,784 | 3,292 |
| EPS (Rs) | 12.6 | 16.3 | 19.3 |
| *RoE (%)* | *29.3* | *29.6* | *27.5* |
| PE (x) | 17.8 | 13.8 | 11.6 |
| P / BV (x) | 4.7 | 3.6 | 2.9 |
| EV / E (x) | 10.3 | 7.9 | 6.4 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 7,007 | 5,604 | *25.0* | 6,938 | 13,945 | 10,851 | *28.5* |
| EBITDA | 1,157 | 882 | *31.3* | 1,195 | 2,353 | 1,559 | *50.9* |
| *Margin (%)* | *16.5* | *15.7* | *78 bps* | *17.2* | *16.9* | *14.4* | *250 bps* |
| Reported PAT | 726 | 519 | *40.0* | 757 | 1,483 | 909 | *63.2* |
| PAT (Excl. Ex Items) | 726 | 519 | *40.0* | 757 | 1,483 | 909 | *63.2* |

## CEAT

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs111 |
| Target Price | Rs129 |
| Market Cap. (Rs bn) | 3.8 |
| Shares o/s (m) | 34.3 |

CEAT is expected to post a slower growth of 6.4% YoY in its top-line, mainly on account of a slowdown in OEM as well as the replacement market. On a sequential basis, despite key input prices declining (rubber down by 5% QoQ), we expect the company to report a 50bps decline in EBITDA margins due to lower uptick in volumes.

**Key Figures** ***(Rs m)***

| | **FY12** | **FY13E** | **FY14E** |
|---|---|---|---|
| Net Sales | 44,721 | 49,599 | 54,416 |
| EBITDA | 2,556 | 4,694 | 5,246 |
| *Margin (%)* | *5.7* | *9.5* | *9.6* |
| PAT | 106 | 1,265 | 1,632 |
| EPS (Rs) | 3.1 | 36.9 | 47.6 |
| *RoE (%)* | *1.6* | *17.7* | *19.1* |
| PE (x) | 35.9 | 3.0 | 2.3 |
| P / BV (x) | 0.6 | 0.5 | 0.4 |
| EV / E (x) | 6.3 | 3.7 | 3.2 |

**Quarterly Table** ***(Rs m)***

| **Y/e March** | **Q2 FY13E** | **Q2 FY12** | ***YoY gr. (%)*** | **Q1 FY13** | **H1 FY13E** | **H1 FY12** | ***YoY gr. (%)*** |
|---|---|---|---|---|---|---|---|
| Net Sales | 11,894 | 11,180 | *6.4* | 11,891 | 23,785 | 21,946 | *8.4* |
| EBITDA | 1,006 | 612 | *64.4* | 1,069 | 2,075 | 565 | *267.3* |
| *Margin (%)* | *8.5* | *5.5* | *298 bps* | *9.0* | *8.7* | *2.6* | *615 bps* |
| Reported PAT | 193 | 58 | *232.8* | 258 | 451 | (361) | *NA* |
| PAT (Excl. Ex Items) | 193 | 58 | *232.8* | 258 | 451 | (329) | *NA* |
| **Operating Metrics** | | | | | | | |
| Tonnage (MT) | 51,000 | 50,000 | *2.0* | 51,500 | 102,500 | 101,500 | *1.0* |
| Realization / kg | 233 | 224 | *4.3* | 231 | 232 | 216 | *7.3* |
| Recipe cost / kg | 165 | 166 | *(0.2)* | 163 | 166 | 144 | *15.2* |

Adarsh Parasrampuria
adarshparasrampuria@plindia.com
+91-22-6632 2236

Parul Gulati
parulgulati@plindia.com
+91-22-6632 2242

## Top picks

ICICI Bank

Axis Bank

Yes Bank

Jammu & Kashmir Bank

# Banking & Financial Services

Q2FY13 will be a relatively strong operating quarter for financials, with 19% YoY net profit growth, with private banks expected to report ~24% PAT growth, NBFCs (incl. HFCs) ~16% and PSUs (excl. SBI) a modest ~12%. Loan growth trends will remain muted but margin performance will be mixed, with private banks/NBFCs reporting some inch-up and PSU banks facing some weakness. With the reform push lately, markets are factoring in some asset quality revival but feedback from PSU banks suggest a disappointment in Q2FY13 numbers, though private banks and NBFCs will largely see strong asset quality trends continuing. **Overall, we retain our preference for ICICI/Axis as PSU banks could disappoint on asset quality. Yes Bank remains the best play on easing wholesale rates. We also like mid-cap private banks as they provide potential for strong upside (+20-25%) and offer downside protection as growth slowdown will be lower + Infra risks is limited (J&K – Top buy among mid-cap private banks).**

**Asset quality – Negative feedback from PSU banks:** Slippages trend will continue to remain volatile for PSU banks, especially for PNB/BOI, among our coverage universe, where we expect gross slippages to remain as high as +3%, though in PNB's case, strong recoveries/upgrades could provide some offsets. Asset quality trends for private banks and NBFCs are expected to remain strong with some credit costs implications in Q2/Q3 for banks/IFCs with exposure to Deccan Chronicle.

**Growth and Margins:** Sequential system loan growth has remained muted and banks with overseas exposure could see contraction in their international book due to ~5% rupee appreciation. LT wholesale rates have come off by ~30bps in the last month of Q2FY13 with positive implications for NBFCs/Yes Bank on margins. CRR/SLR cuts have been a positive development, but with lack of credit off take, PSU bank's margins will see some moderation from Q1FY13 levels.

**Possible Negative surprises (1) LICHF** – Markets, including us, have been expecting margin recovery but with significant fall in proportion of builder book in Q2FY13, we believe, margins at best will remain flat QoQ for LICHF v/s expectations of some improvement. **(2) PNB/BOI** could report +3% gross slippages but PNB's recovery trends have been relatively robust **(3) ICICI, Axis Bank's fee income** trends will remain muted. However, this has been guided by the management and factored by the street – For ICICI, a surprise in margins in FY13 will make up for lower fees, whereas, consensus numbers, we believe, will be downgraded for Axis Bank.

**Positive surprises expected: (1) Yes Bank and IDFC** are the biggest beneficiaries of easing wholesale rates and that will be reflected in Yes Bank's improving margins from Q2FY13 and IDFC will be able to maintain margins despite high share of low margin re-financing business currently. **(2) ING Vysya** will also show an improvement in margins and coupled with low credit costs, we expect strong PAT growth **(3) Retail asset quality** is still holding up relatively well and even for CVs management feedback does not suggest any material inch-up in credit costs for Q2FY13.

**Q2 Results Preview (Rs m)**

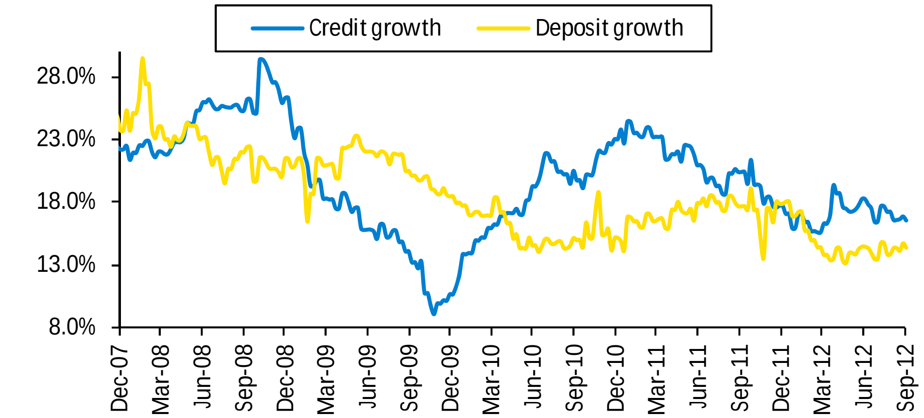
| | NII | QoQ | YoY | PPOP | QoQ | YoY | PAT | QoQ | YoY |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Bank | 36,913 | 5.9% | 25.4% | 26,811 | 3.9% | 26.1% | 15,365 | 8.4% | 28.1% |
| ICICI Bank | 31,815 | -0.4% | 26.9% | 29,677 | 0.6% | 26.1% | 18,252 | 0.6% | 21.4% |
| Axis Bank | 23,788 | 9.1% | 18.5% | 21,145 | 7.7% | 19.1% | 11,710 | 1.5% | 27.2% |
| HDFC | 15,265 | 4.3% | 16.8% | 14,616 | 7.5% | 16.8% | 11,340 | 13.2% | 16.8% |
| SBI | 123,263 | 10.9% | 18.3% | 87,073 | 6.5% | 16.5% | 39,671 | 5.7% | 41.2% |
| PNB | 36,457 | -1.3% | 5.6% | 26,911 | -5.3% | 6.5% | 12,956 | 4.0% | 7.5% |
| BOI | 23,690 | 15.9% | 24.4% | 18,087 | 8.1% | 16.6% | 8,028 | -9.5% | 63.5% |
| BOB | 28,983 | 3.6% | 12.9% | 23,405 | 3.9% | 9.4% | 11,363 | -1.3% | -3.6% |
| Kotak | 7,635 | 5.9% | 26.1% | 4,660 | 3.9% | 22.6% | 2,921 | 3.4% | 12.4% |
| IDFC | 6,626 | 5.3% | 33.0% | 6,865 | 4.6% | -9.1% | 4,164 | 9.6% | -20.4% |
| IndusInd | 5,163 | 6.7% | 23.2% | 4,270 | 5.7% | 28.2% | 2,427 | 2.7% | 25.7% |
| Yes | 5,045 | 6.8% | 30.8% | 4,781 | 4.0% | 23.9% | 2,864 | -1.3% | 21.9% |
| SIB | 3,050 | 2.8% | 17.9% | 2,056 | -0.9% | 23.6% | 1,164 | -5.4% | 22.6% |
| ING | 3,626 | 5.6% | 19.4% | 2,461 | 13.1% | 29.9% | 1,466 | 12.6% | 27.1% |
| J&K | 5,492 | 2.5% | 26.5% | 4,112 | -1.0% | 31.5% | 2,456 | -0.2% | 23.0% |
| Federal | 5,257 | 6.9% | 10.8% | 3,771 | 8.8% | 4.4% | 2,008 | 5.5% | 5.0% |
| LIC Housing | 3,595 | 2.6% | 7.6% | 3,484 | 0.2% | 3.9% | 2,504 | 10.0% | 154.5% |
| MMFSL | 5,300 | 8.7% | 35.8% | 3,583 | 10.3% | 41.1% | 1,904 | 18.2% | 40.5% |
| Shriram Tran. | 3,695 | 36.7% | 4.9% | 6,600 | 8.5% | 0.6% | 3,330 | 3.5% | 11.2% |
| **Total Banks (excl. SBI)** | **209,225** | **4.5%** | **18.5%** | **167,433** | **2.6%** | **17.7%** | **90,023** | **1.3%** | **19.6%** |
| **Total (excl. SBI)** | **251,508** | **5.1%** | **19.0%** | **207,408** | **3.4%** | **16.2%** | **116,386** | **3.3%** | **18.6%** |
| **Total Private** | **127,730** | **4.7%** | **23.5%** | **103,689** | **3.8%** | **23.7%** | **60,597** | **3.0%** | **23.4%** |
| **Total Public (excl. SBI)** | **89,130** | **4.4%** | **12.5%** | **68,403** | **1.1%** | **10.0%** | **32,348** | **-1.5%** | **12.5%** |
| **Total NBFC's (incl. HFCs)** | **34,648** | **8.2%** | **20.3%** | **35,315** | **7.1%** | **8.6%** | **23,441** | **12.0%** | **15.6%** |

| | Loans (Rs bn) | QoQ | YoY | Margins (%) | QoQ | YoY | LLP/Loans (%) | QoQ | YoY |
|---|---|---|---|---|---|---|---|---|---|
| HDFC Bank | 2,283 | 7.0% | 21.1% | 4.38% | 0.04% | 0.18% | 0.76% | -0.16% | -0.02% |
| ICICI Bank | 2,693 | 1.7% | 15.1% | 2.94% | -0.07% | 0.34% | 0.69% | -0.01% | 0.15% |
| Axis Bank | 1,763 | 3.0% | 25.8% | 3.57% | 0.20% | -0.21% | 0.89% | 0.29% | -0.27% |
| HDFC | 1,535 | 3.5% | 20.8% | 3.67% | -0.03% | -0.02% | 0.00% | 0.00% | 0.00% |
| SBI | 9,352 | 2.0% | 18.3% | 3.77% | 0.20% | -0.02% | 1.15% | 0.08% | -0.56% |
| PNB | 2,974 | 1.0% | 19.4% | 3.54% | -0.06% | -0.41% | 1.00% | -0.41% | -0.15% |
| BOI | 2,653 | 0.4% | 22.3% | 2.56% | 0.29% | 0.12% | 1.00% | 0.28% | -1.13% |
| BOB | 2,879 | 0.7% | 20.4% | 2.76% | 0.03% | -0.31% | 1.00% | -0.25% | 0.19% |
| Kotak | 455 | 7.5% | 21.8% | 4.67% | 0.02% | 0.04% | 0.37% | 0.05% | 0.40% |
| IDFC | 517 | 3.0% | 31.4% | 4.30% | -0.03% | 0.13% | 0.77% | -0.05% | 0.13% |
| IndusInd | 391 | 5.0% | 29.8% | 3.46% | 0.05% | -0.10% | 0.63% | 0.06% | 0.01% |
| Yes | 397 | 3.0% | 16.1% | 2.87% | 0.07% | -0.03% | 0.54% | 0.23% | 0.10% |
| SIB | 283 | 3.5% | 23.0% | 3.06% | 0.02% | 0.04% | 0.45% | 0.08% | 0.04% |
| ING | 304 | 4.0% | 20.4% | 2.92% | 0.05% | -0.04% | 0.44% | 0.08% | 0.16% |
| J&K | 352 | 6.0% | 24.7% | 3.79% | -0.08% | 0.18% | 0.53% | -0.07% | 0.22% |
| Federal | 396 | 4.0% | 17.7% | 3.59% | 0.17% | -0.18% | 0.78% | 0.12% | -0.08% |
| LIC Housing | 683 | 4.0% | 21.7% | 2.15% | -0.03% | -0.30% | 0.06% | -0.21% | -1.40% |
| MMFSL | 235 | 8.0% | 32.6% | 9.33% | 0.23% | -0.60% | 1.28% | -0.29% | 0.10% |
| Shriram Tran. | 430 | 2.6% | 13.0% | 8.08% | 0.26% | -0.82% | 1.97% | 0.04% | -0.51% |
| **Total (excl. SBI)** | **21,222** | **2.6%** | **20.7%** | **3.48%** | **-0.48%** | **-0.66%** | **0.78%** | **-0.05%** | **-0.18%** |

*Source: Company Data, PL Research*

*Q2FY13 loan growth trends remain muted and rupee appreciation of 5% will impact reported growth for overseas loan book for banks*

**Loan growth moderating gradually**




*Source: RBI*

*Only SBI has moved on the base rate in Q2FY13*

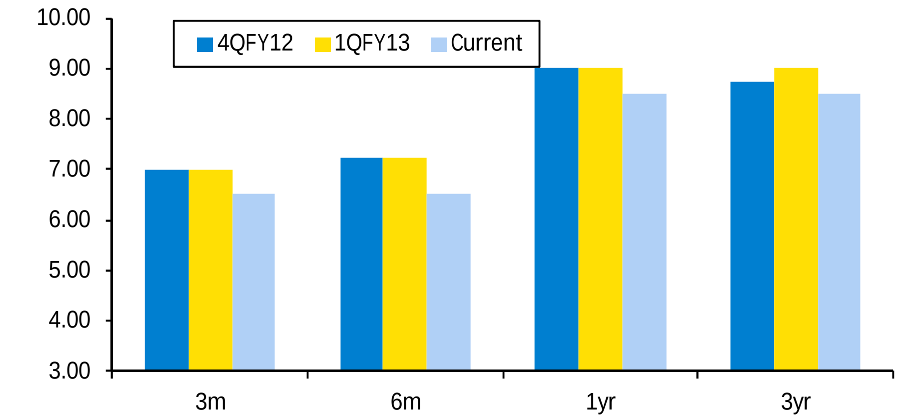
**Base rate movement for Banks**

| | Mar-12 | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 |
|---|---|---|---|---|---|---|---|
| ICICI | **10.00%** | **9.75%** | 9.75% | 9.75% | 9.75% | 9.75% | 9.75% |
| HDFCB | 10.00% | 10.00% | **10.00%** | **9.80%** | 9.80% | 9.80% | 9.80% |
| Axis | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% |
| PNB | **10.75%** | **10.50%** | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% |
| BOB | **10.75%** | **10.50%** | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% |
| BOI | **10.75%** | **10.50%** | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% |
| SBI | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | **10.00%** | **9.75%** |
| IndusInd | 10.75% | 10.75% | 10.75% | 10.75% | 10.75% | 10.75% | 10.75% |
| Yes | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% | 10.50% |

*Source: Media reports, Company*

*SBI has been the most aggressive in bringing down deposit rates*

**Deposit rates have come off by 25-75bps in Q2FY13**




*Source: Bloomberg, SBI*

**Margins: Some pressure for PSU banks, private banks and NBFCs to report an improvement**

| | 2Q12 | 1Q13 | 2Q13E | y/y | q/q |
|---|---|---|---|---|---|
| HDFC Bank | 4.20% | 4.35% | 4.38% | *0.18%* | *0.04%* |
| **ICICI Bank** | **2.60%** | **3.01%** | **2.94%** | ***0.34%*** | ***-0.07%*** |
| Axis Bank | 3.78% | 3.37% | 3.57% | *-0.21%* | *0.20%* |
| HDFC | 3.69% | 3.70% | 3.67% | *-0.02%* | *-0.03%* |
| SBI | 3.79% | 3.57% | 3.77% | *-0.02%* | *0.20%* |
| **PNB** | **3.95%** | **3.60%** | **3.54%** | ***-0.41%*** | ***-0.06%*** |
| **BOI** | **2.44%** | **2.27%** | **2.56%** | ***0.12%*** | ***0.29%*** |
| **BOB** | **3.07%** | **2.73%** | **2.76%** | ***-0.31%*** | ***0.03%*** |
| Kotak | 4.63% | 4.65% | 4.67% | *0.04%* | *0.02%* |
| **IDFC** | **4.17%** | **4.33%** | **4.30%** | ***0.13%*** | ***-0.03%*** |
| IndusInd | 3.56% | 3.41% | 3.46% | *-0.10%* | *0.05%* |
| **Yes** | **2.90%** | **2.80%** | **2.87%** | ***-0.03%*** | ***0.07%*** |
| SIB | 3.02% | 3.04% | 3.06% | *0.04%* | *0.02%* |
| **ING** | **2.96%** | **2.87%** | **2.92%** | ***-0.04%*** | ***0.05%*** |
| J&K | 3.62% | 3.88% | 3.79% | *0.18%* | *-0.08%* |
| Federal | 3.77% | 3.42% | 3.59% | *-0.18%* | *0.17%* |
| **LIC Housing** | **2.45%** | **2.18%** | **2.15%** | ***-0.30%*** | ***-0.03%*** |
| MMFSL | 9.93% | 9.10% | 9.33% | *-0.60%* | *0.23%* |
| Shriram Tran. | 8.89% | 7.82% | 8.08% | *-0.82%* | *0.26%* |

*Source: Company Data, Bloomberg*

**Credit costs for Banks/NBFCs in Q2FY13**

| | 2Q12 | 1Q13 | 2Q13E | y/y | q/q |
|---|---|---|---|---|---|
| HDFC Bank | 0.78% | 0.91% | 0.76% | *-0.02%* | *-0.16%* |
| ICICI Bank | 0.55% | 0.70% | 0.69% | *0.15%* | *-0.01%* |
| Axis Bank | 1.16% | 0.60% | 0.89% | *-0.27%* | *0.29%* |
| HDFC | 0.00% | 0.00% | 0.00% | *0.00%* | *0.00%* |
| SBI | 1.71% | 1.07% | 1.15% | *-0.56%* | *0.08%* |
| PNB | 1.14% | 1.40% | 1.00% | *-0.15%* | *-0.41%* |
| BOI | 2.13% | 0.72% | 1.00% | *-1.13%* | *0.28%* |
| BOB | 0.81% | 1.25% | 1.00% | *0.19%* | *-0.25%* |
| Kotak | -0.03% | 0.32% | 0.37% | *0.40%* | *0.05%* |
| IDFC | 0.64% | 0.82% | 0.77% | *0.13%* | *-0.05%* |
| IndusInd | 0.62% | 0.57% | 0.63% | *0.01%* | *0.06%* |
| Yes | 0.44% | 0.31% | 0.54% | *0.10%* | *0.23%* |
| SIB | 0.41% | 0.37% | 0.45% | *0.04%* | *0.08%* |
| ING | 0.28% | 0.36% | 0.44% | *0.16%* | *0.08%* |
| J&K | 0.32% | 0.61% | 0.53% | *0.22%* | *-0.07%* |
| Federal | 0.86% | 0.66% | 0.78% | *-0.08%* | *0.12%* |
| LIC Housing | 1.46% | 0.27% | 0.06% | *-1.40%* | *-0.21%* |
| MMFSL | 1.18% | 1.57% | 1.28% | *0.10%* | *-0.29%* |
| Shriram Tran. | 2.48% | 1.93% | 1.97% | *-0.51%* | *0.04%* |

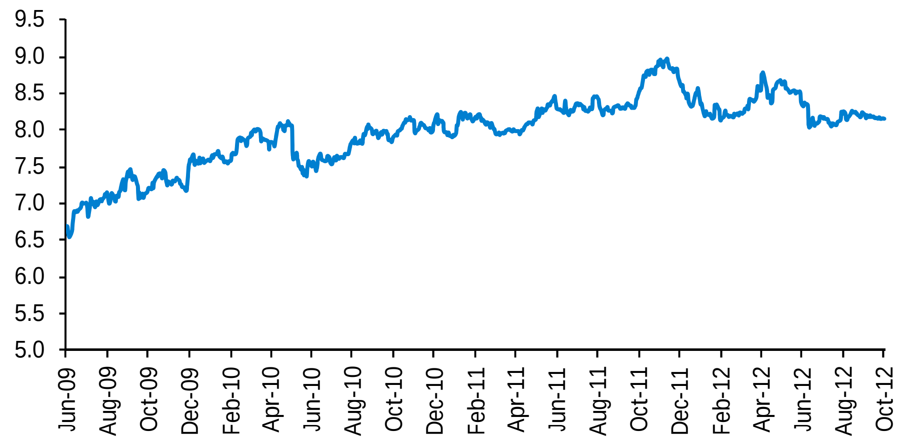
*Source: Company Data, Bloomberg*

**PSU banks: Guidance by PNB/BOI suggest that slippages will remain high**

| SBI (Rs m) | 2Q12A | 3Q12A | 4Q12A | 1Q13A | 2Q13E |
|---|---|---|---|---|---|
| Opening | 277,680 | 339,460 | 400,980 | 396,760 | 471,560 |
| Additions | 82,700 | 81,610 | 43,830 | 108,440 | 65,000 |
| Upgradation+Recovery | 17,720 | 19,680 | 47,210 | 32,820 | 25,000 |
| Write-offs | 3,200 | 410 | 840 | 820 | 820 |
| Closing | 339,460 | 400,980 | 396,760 | 471,560 | 510,740 |
| **Annualized Slippages %** | **4.2%** | **4.0%** | **2.0%** | **4.9%** | **2.8%** |
| **Reductions (excl. Write-offs %)** | **0.9%** | **1.0%** | **2.2%** | **1.5%** | **1.1%** |
| **Net Slippages (%)** | **3.3%** | **3.0%** | **-0.2%** | **3.4%** | **1.7%** |
| **PNB** | 2Q12 | 3Q12 | 4Q12 | 1Q13E | 1Q13E |
| Opening | 48,920 | 51,480 | 64,410 | 87,200 | 99,890 |
| Addition | 9,930 | 16,830 | 28,190 | 27,690 | 22,000 |
| Cash Recovery | 5,130 | 3,340 | 4,100 | 5,700 | 6,000 |
| Upgradation | 2,060 | 250 | 650 | 8,960 | 6,000 |
| Deduction | 7,370 | 3,900 | 5,410 | 15,000 | 12,500 |
| Closing | 51,480 | 64,410 | 87,190 | 99,890 | 109,390 |
| **Annualized Slippages %** | **1.6%** | **2.6%** | **4.1%** | **3.8%** | **3.0%** |
| **Reductions (excl. Write-offs %)** | **1.2%** | **0.6%** | **0.7%** | **2.0%** | **1.6%** |
| **Net Slippages (%)** | **0.4%** | **2.1%** | **3.4%** | **1.8%** | **1.4%** |
| **BOI** | 2Q12 | 3Q12 | 4Q12 | 1Q13E | 1Q13E |
| Opening | 59,881 | 67,699 | 64,266 | 59,076 | 67,636 |
| Additions | 28,217 | 5,196 | 3,770 | 17,470 | 20,000 |
| Recovery | 2,980 | 2,715 | 4,050 | 3,620 | 3,500 |
| Upgradation | 1,458 | 1,274 | 870 | 3,220 | 2,000 |
| Write-off | 15,961 | 2,640 | 4,040 | 2,070 | 2,500 |
| Ending | 67,699 | 64,266 | 59,076 | 67,636 | 79,636 |
| **Annualized Slippages %** | **5.2%** | **0.9%** | **0.6%** | **2.7%** | **3.0%** |
| **Reductions (excl. Write-offs %)** | **0.8%** | **0.7%** | **0.8%** | **1.1%** | **0.8%** |
| **Net Slippages (%)** | **4.4%** | **0.2%** | **-0.2%** | **1.7%** | **2.2%** |
| **BOB** | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13E |
| Opening | 34,256 | 34,023 | 38,952 | 44,649 | 53,196 |
| Additions | 5,825 | 9,527 | 13,233 | 12,567 | 11,000 |
| Recovery | 1,454 | 1,389 | 1,708 | 1,249 | 1,500 |
| Upgradations | 421 | 1,656 | 564 | 1,342 | 1,000 |
| Write-offs | 4,184 | 1,552 | 5,265 | 1,955 | 2,000 |
| Closing NPAs | 34,023 | 38,952 | 44,649 | 53,196 | 59,696 |
| **Annualized Slippages %** | **0.99%** | **1.52%** | **1.93%** | **1.75%** | **1.53%** |
| **Reductions (excl. Write-offs %)** | **0.32%** | **0.49%** | **0.33%** | **0.36%** | **0.35%** |
| **Net Slippages (%)** | **0.67%** | **1.04%** | **1.60%** | **1.39%** | **1.19%** |

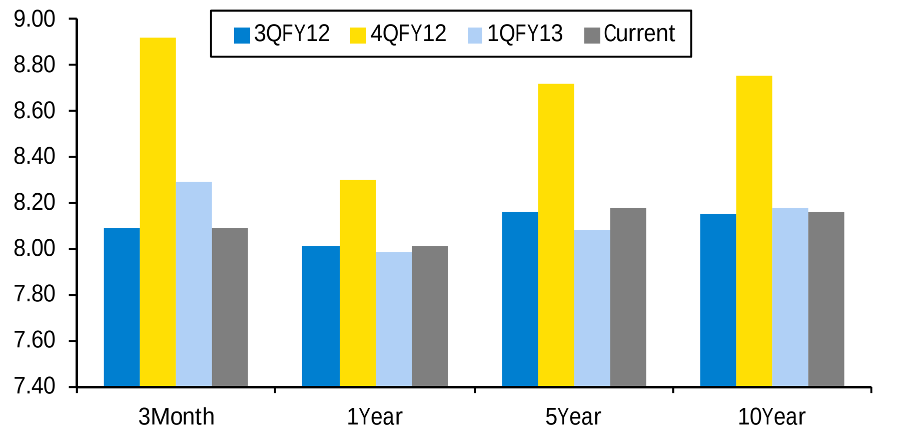
*Source: Company Data, PL Research*

**G-Sec have remained almost flat in Q2FY13 after ~30-40bps fall in Q1FY13**




*Source: Bloomberg*

**G-Secs flat across most maturities**




*Source: Company Data, PL Research*

**Stock Performance (Banks)**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| HDFC Bank | 5.1 | 6.6 | 18.2 | 41.9 | (4.3) | (1.4) | 9.9 | 22.0 |
| State Bank of India | 27.8 | 4.7 | 8.2 | 36.1 | 18.4 | (3.2) | (0.1) | 16.2 |
| ICICI Bank | 21.3 | 15.8 | 19.8 | 36.9 | 11.9 | 7.9 | 11.5 | 17.0 |
| Kotak Mahindra Bank | 11.9 | 6.0 | 15.6 | 48.3 | 2.5 | (2.0) | 7.3 | 28.4 |
| Axis Bank | 22.9 | 9.5 | (2.0) | 20.1 | 13.5 | 1.5 | (10.3) | 0.1 |
| Bank of Baroda | 29.7 | 8.4 | (0.9) | 9.0 | 20.3 | 0.4 | (9.2) | (10.9) |
| Punjab National Bank | 22.5 | (3.1) | (11.9) | (9.9) | 13.1 | (11.1) | (20.2) | (29.8) |
| Bank of India | 16.4 | (16.3) | (20.3) | (3.2) | 7.0 | (24.3) | (28.6) | (23.1) |
| IndusInd Bank | 18.1 | 6.2 | 10.5 | 54.0 | 8.7 | (1.8) | 2.2 | 34.0 |
| YES Bank | 21.4 | 10.0 | 5.3 | 59.9 | 12.0 | 2.1 | (3.0) | 40.0 |
| Federal Bank | 14.1 | 0.7 | 4.0 | 33.9 | 4.7 | (7.3) | (4.3) | 14.0 |
| ING Vysya Bank | 12.0 | 12.3 | 18.1 | 46.2 | 2.6 | 4.3 | 9.8 | 26.3 |
| Jammu & Kashmir Bank | 13.3 | 5.4 | 11.5 | 34.8 | 3.9 | (2.6) | 3.2 | 14.8 |
| South Indian Bank | 7.7 | (8.5) | (6.3) | 6.4 | (1.7) | (16.5) | (14.6) | (13.5) |

*Source: Bloomberg, PL Research*

**Stock Performance (Financial Services)**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| HDFC | 3.5 | 10.9 | 10.3 | 20.0 | (5.9) | 2.9 | 2.0 | 0.1 |
| IDFC | 26.4 | 11.5 | 14.6 | 44.3 | 17.0 | 3.5 | 6.3 | 24.4 |
| Shriram Transport Finance | 2.9 | 14.4 | 5.6 | 8.5 | (6.5) | 6.5 | (2.7) | (11.4) |
| LIC Housing Finance | 13.5 | (1.2) | 1.2 | 27.2 | 4.1 | (9.2) | (7.1) | 7.3 |
| Mahindra & Mahindra Financial Services | 20.6 | 31.5 | 28.7 | 43.5 | 11.2 | 23.5 | 20.4 | 23.6 |

*Source: Bloomberg, PL Research*

## Banking

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **HDFC Bank** | NII | 36,913 | 29,445 | *25.4* | 34,841 | *5.9* | 71,753 | 57,925 | *23.9* |
| | PPP | 26,811 | 21,258 | *26.1* | 25,809 | *3.9* | 52,620 | 41,592 | *26.5* |
| | *NIM Calculated (%)* | *4.34* | *4.10* | | *4.30* | | *4.32* | *4.15* | |
| | PAT | 15,365 | 11,994 | *28.1* | 14,174 | *8.4* | 29,538 | 22,843 | *29.3* |
| **State Bank of India** | NII | 123,263 | 104,219 | *18.3* | 111,189 | *10.9* | 234,452 | 201,215 | *16.5* |
| | PPP | 87,073 | 74,743 | *16.5* | 81,767 | *6.5* | 168,840 | 149,084 | *13.3* |
| | *NIM Calculated (%)* | *3.77* | *3.79* | | *3.57* | | *3.67* | *3.71* | |
| | PAT | 39,671 | 28,104 | *41.2* | 37,516 | *5.7* | 77,187 | 45,857 | *68.3* |
| **ICICI Bank** | NII | 31,815 | 25,064 | *26.9* | 31,929 | *(0.4)* | 63,744 | 49,174 | *29.6* |
| | PPP | 29,677 | 23,538 | *26.1* | 29,493 | *0.6* | 59,170 | 45,878 | *29.0* |
| | *NIM Calculated (%)* | *2.94* | *2.60* | | *3.01* | | *2.98* | *2.60* | |
| | PAT | 18,252 | 15,032 | *21.4* | 18,151 | *0.6* | 36,403 | 28,354 | *28.4* |
| **Kotak Mahindra Bank** | NII | 7,635 | 6,055 | *26.1* | 7,213 | *5.9* | 14,848 | 11,733 | *26.6* |
| | PPP | 4,660 | 3,800 | *22.6* | 4,484 | *3.9* | 9,143 | 7,661 | *19.4* |
| | *NIM Calculated (%)* | *4.67* | *4.63* | | *4.65* | | *4.66* | *4.66* | |
| | PAT | 2,921 | 2,600 | *12.4* | 2,824 | *3.4* | 5,746 | 5,121 | *12.2* |
| **Axis Bank** | NII | 23,788 | 20,073 | *18.5* | 21,799 | *9.1* | 45,586 | 37,314 | *22.2* |
| | PPP | 21,145 | 17,756 | *19.1* | 19,637 | *7.7* | 40,782 | 33,341 | *22.3* |
| | *NIM Calculated (%)* | *3.66* | *3.75* | | *3.43* | | *3.54* | *3.52* | |
| | PAT | 11,710 | 9,203 | *27.2* | 11,535 | *1.5* | 23,245 | 18,627 | *24.8* |
| **Bank of Baroda** | NII | 28,983 | 25,669 | *12.9* | 27,981 | *3.6* | 56,963 | 48,641 | *17.1* |
| | PPP | 23,405 | 21,400 | *9.4* | 22,532 | *3.9* | 45,937 | 39,712 | *15.7* |
| | *NIM Calculated (%)* | *2.76* | *3.07* | | *2.73* | | *2.74* | *2.97* | |
| | PAT | 11,363 | 11,791 | *(3.6)* | 11,513 | *(1.3)* | 22,876 | 22,119 | *3.4* |
| **Punjab National Bank** | NII | 36,457 | 34,526 | *5.6* | 36,951 | *(1.3)* | 73,408 | 65,679 | *11.8* |
| | PPP | 26,911 | 25,278 | *6.5* | 28,409 | *(5.3)* | 55,320 | 50,017 | *10.6* |
| | *NIM Calculated (%)* | *3.54* | *3.95* | | *3.60* | | *3.57* | *3.90* | |
| | PAT | 12,956 | 12,050 | *7.5* | 12,457 | *4.0* | 25,413 | 23,101 | *10.0* |

*Source: Company Data, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | YoY gr. (%) | Q1FY13 | QoQ gr. (%) | H1FY13E | H1FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|---|---|
| **Bank of India** | NII | 23,690 | 19,039 | *24.4* | 20,436 | *15.9* | 44,126 | 37,449 | *17.8* |
| | PPP | 18,087 | 15,515 | *16.6* | 16,736 | *8.1* | 34,822 | 29,475 | *18.1* |
| | *NIM Calculated (%)* | *2.37* | *2.34* | | *2.08* | | *2.23* | *2.30* | |
| | PAT | 8,028 | 4,911 | *63.5* | 8,875 | *(9.5)* | 16,902 | 10,086 | *67.6* |
| **IndusInd Bank** | NII | 5,163 | 4,192 | *23.2* | 4,841 | *6.7* | 10,004 | 8,092 | *23.6* |
| | PPP | 4,270 | 3,330 | *28.2* | 4,040 | *5.7* | 8,311 | 6,447 | *28.9* |
| | *NIM Calculated (%)* | *3.46* | *3.56* | | *3.41* | | *3.44* | *3.52* | |
| | PAT | 2,427 | 1,931 | *25.7* | 2,363 | *2.7* | 4,790 | 3,733 | *28.3* |
| **YES Bank** | NII | 5,045 | 3,856 | *30.8* | 4,722 | *6.8* | 9,767 | 7,399 | *32.0* |
| | PPP | 4,781 | 3,859 | *23.9* | 4,596 | *4.0* | 9,377 | 7,111 | *31.9* |
| | *NIM Calculated (%)* | *2.87* | *2.90* | | *2.80* | | *2.84* | *2.85* | |
| | PAT | 2,864 | 2,350 | *21.9* | 2,901 | *(1.3)* | 5,766 | 4,511 | *27.8* |
| **Federal Bank** | NII | 5,257 | 4,744 | *10.8* | 4,916 | *6.9* | 10,173 | 9,342 | *8.9* |
| | PPP | 3,771 | 3,613 | *4.4* | 3,465 | *8.8* | 7,236 | 7,153 | *1.2* |
| | *NIM Calculated (%)* | *344.61* | *352.61* | | *327.66* | | *336.13* | *356.95* | |
| | PAT | 2,008 | 1,912 | *5.0* | 1,904 | *5.5* | 3,911 | 3,373 | *16.0* |
| **ING Vysya Bank** | NII | 3,626 | 3,036 | *19.4* | 3,433 | *5.6* | 7,058 | 5,656 | *24.8* |
| | PPP | 2,461 | 1,894 | *29.9* | 2,175 | *13.1* | 4,636 | 3,363 | *37.9* |
| | *NIM Calculated (%)* | *3.24* | *3.28* | | *3.19* | | *3.21* | *3.09* | |
| | PAT | 1,466 | 1,154 | *27.1* | 1,302 | *12.6* | 2,768 | 2,094 | *32.2* |
| **Jammu & Kashmir Bank** | NII | 5,492 | 4,343 | *26.5* | 5,356 | *2.5* | 10,849 | 8,715 | *24.5* |
| | PPP | 4,112 | 3,128 | *31.5* | 4,152 | *(1.0)* | 8,264 | 6,292 | *31.3* |
| | *NIM Calculated (%)* | *3.79* | *3.62* | | *3.88* | | *3.84* | *3.77* | |
| | PAT | 2,456 | 1,997 | *23.0* | 2,461 | *(0.2)* | 4,917 | 3,819 | *28.7* |
| **South Indian Bank** | NII | 3,050 | 2,588 | *17.9* | 2,968 | *2.8* | 6,018 | 4,637 | *29.8* |
| | PPP | 2,056 | 1,663 | *23.6* | 2,075 | *(0.9)* | 4,130 | 3,095 | *33.5* |
| | *NIM Calculated (%)* | *3.06* | *3.02* | | *3.04* | | *3.05* | *2.78* | |
| | PAT | 1,164 | 949 | *22.6* | 1,230 | *(5.4)* | 2,394 | 1,774 | *34.9* |

*Source: Company Data, PL Research*

## Financials

### Summary Financials - Quarterly (Rs m)

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **HDFC** | NII | 15,265 | 13,064 | *16.8* | 14,638 | *4.3* | 29,903 | 25,335 | *18.0* |
| | PPP | 15,416 | 13,377 | *15.2* | 13,799 | *11.7* | 29,215 | 25,132 | *16.2* |
| | PAT | 11,330 | 9,707 | *16.7* | 10,019 | *13.1* | 21,350 | 18,152 | *17.6* |
| **IDFC** | NII | 6,626 | 4,980 | *33.0* | 6,290 | *5.3* | 12,916 | 9,810 | *31.7* |
| | PPP | 6,865 | 7,510 | *(8.6)* | 6,490 | *5.8* | 13,355 | 12,301 | *8.6* |
| | PAT | 4,164 | 5,230 | *(20.4)* | 3,800 | *9.6* | 7,964 | 8,370 | *(4.9)* |
| **Shriram Transport Finance** | NII | 3,695 | 3,522 | *4.9* | 2,702 | *36.7* | 6,397 | 6,177 | *3.6* |
| | PPP | 6,600 | 6,560 | *0.6* | 6,085 | *8.5* | 12,685 | 13,028 | *(2.6)* |
| | PAT | 3,330 | 2,994 | *11.2* | 3,219 | *3.5* | 6,549 | 6,467 | *1.3* |
| **LIC Housing Finance** | NII | 3,595 | 3,341 | *7.6* | 3,505 | *2.6* | 7,099 | 6,951 | *2.1* |
| | PPP | 3,484 | 3,354 | *3.9* | 3,479 | *0.2* | 6,963 | 7,143 | *(2.5)* |
| | PAT | 2,504 | 984 | *154.5* | 2,277 | *10.0* | 4,782 | 3,549 | *34.7* |
| **Mahindra & Mahindra Financial Services** | NII | 5,300 | 3,902 | *35.8* | 4,876 | *8.7* | 10,176 | 7,219 | *41.0* |
| | PPP | 3,583 | 2,539 | *41.1* | 3,248 | *10.3* | 6,831 | 4,613 | *48.1* |
| | PAT | 1,904 | 1,355 | *40.5* | 1,610 | *18.2* | 3,515 | 2,377 | *47.8* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data (Banks)

### Key Figures *(Rs m)*

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 1,337,829 | 1,527,400 | 1,767,404 |
| *Growth (%)* | *20.7* | *14.2* | *15.7* |
| PPP | 1,027,221 | 1,166,190 | 1,341,785 |
| *Growth (%)* | *19.7* | *13.5* | *15.1* |
| PAT | 497,450 | 586,476 | 680,574 |
| *Growth (%)* | *27.4* | *17.9* | *16.0* |
| PE (x) | 13.0 | 11.1 | 9.5 |

### Quarterly Table *(Rs m)*

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| NII | 340,177 | 286,849 | *18.6* | 318,574 | *6.8* |
| PPP | 259,219 | 220,775 | *17.4* | 249,370 | *3.9* |
| PAT | 132,653 | 105,977 | *25.2* | 129,205 | *2.7* |

## Consolidated Sectoral Data (Financial Services)

### Key Figures *(Rs m)*

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| NII | 133,499 | 160,656 | 190,669 |
| *Growth (%)* | *17.0* | *20.3* | *18.7* |
| PPP | 133,211 | 156,131 | 183,999 |
| *Growth (%)* | *13.2* | *17.2* | *17.8* |
| PAT | 84,685 | 101,008 | 119,003 |
| *Growth (%)* | *13.2* | *19.3* | *17.8* |
| PE (x) | 20.3 | 17.1 | 14.5 |

### Quarterly Table *(Rs m)*

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| NII | 34,480 | 28,810 | *19.7* | 32,011 | *7.7* |
| PPP | 35,948 | 33,340 | *7.8* | 33,101 | *8.6* |
| PAT | 23,234 | 20,271 | *14.6* | 20,925 | *11.0* |

*Note: NII, PPP and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## HDFC Bank

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs622 |
| Target Price | Rs625 |
| Market Cap. (Rs bn) | 1,460.6 |
| Shares o/s (m) | 2,346.7 |

We expect overall growth trend to moderate marginally, with ~21% YoY growth in credit. We expect margins to remain flat as upward pressure on liabilities is done with. Core fee income growth has been robust and we factor in ~23% YoY growth in fee income. Overall, we expect operating profit growth of 26% YoY and factoring in credit costs of ~75bps, we expect PAT growth of 28% for HDFC Bank.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 122,968 | 152,369 | 183,798 |
| PPP | 89,504 | 114,322 | 141,074 |
| *NIM (%)* | *4.00* | *4.15* | *4.16* |
| PAT | 51,671 | 65,952 | 78,479 |
| EPS (Rs) | 22.0 | 28.1 | 33.4 |
| PE (x) | 36.9 | 28.3 | 22.1 |
| P / ABV (x) | 5.8 | 4.9 | 4.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 36,913 | 29,445 | *25.4* | 34,841 | 71,753 | 57,925 | *23.9* |
| PPP | 26,811 | 21,258 | *26.1* | 25,809 | 52,620 | 41,592 | *26.5* |
| *NIM Calculated (%)* | *4.34* | *4.10* | *24 bps* | *4.30* | *4.32* | *4.15* | *17 bps* |
| PAT | 15,365 | 11,994 | *28.1* | 14,174 | 29,538 | 22,843 | *29.3* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.78* | *0.30* | *48 bps* | *0.37* | *0.57* | *0.36* | *22 bps* |
| Advances | 2,283 | 1,885 | *21.1* | 2,133 | 2,283 | 1,885 | *21.1* |
| Gross NPA | 20.2 | 18.9 | *6.6* | 20.9 | 20.2 | 18.9 | *6.6* |
| Net NPA | 4.0 | 3.6 | *12.0* | 4.0 | 4.0 | 3.6 | *12.0* |

## State Bank of India

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs2,399 |
| Target Price | Rs2,100 |
| Market Cap. (Rs bn) | 1,569.9 |
| Shares o/s (m) | 671.0 |

We expect a PAT of Rs39.7bn. SBI has been active in cutting rates on retail and SME side and have recently reduced their base rate by 25bps. Though deposit rates have also been cut, we expect margins to moderate for SBI marginally from Q1FY13 levels. We factor in Rs65bn of gross slippages and Rs40bn of net slippages in Q1FY13, leading to credit costs of ~110bps.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 455,500 | 578,778 | 621,348 |
| PPP | 328,735 | 403,012 | 423,520 |
| *NIM (%)* | *2.95* | *3.33* | *3.18* |
| PAT | 108,139 | 154,173 | 189,193 |
| EPS (Rs) | 170.3 | 229.8 | 281.9 |
| PE (x) | 13.7 | 10.2 | 8.3 |
| P / ABV (x) | 1.9 | 1.6 | 1.4 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 123,263 | 104,219 | *18.3* | 111,189 | 234,452 | 201,215 | *16.5* |
| PPP | 87,073 | 74,743 | *16.5* | 81,767 | 168,840 | 149,084 | *13.3* |
| *NIM Reported (%)* | *3.77* | *3.79* | *(2)bps* | *3.57* | *3.67* | *3.71* | *(4)bps* |
| PAT | 39,671 | 28,104 | *41.2* | 37,516 | 77,187 | 45,857 | *68.3* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *1.10* | *1.49* | *(39)bps* | *1.25* | *1.18* | *1.55* | *(37)bps* |
| Advances | 9,352 | 7,906 | *18.3* | 9,168 | 9,352 | 7,906 | *18.3* |
| Gross NPA | 471.6 | 339.5 | *38.9* | 461.8 | 471.6 | 339.5 | *38.9* |
| Net NPA | 283.2 | 161.2 | *75.7* | 203.2 | 283.2 | 161.2 | *75.7* |

## ICICI Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs1,067 |
| Target Price | Rs1,100 |
| Market Cap. (Rs bn) | 1,232.2 |
| Shares o/s (m) | 1,155.2 |

We expect reported loan growth to come off to ~15% as rupee depreciation impacts the overall growth despite factoring ~18% growth in the domestic book. Management has been maintaining guidance of 3% margins for full year but we expect ~7-8bps dip in margins v/s Q1FY13 as funds raised overseas recently are still to get deployed. Core fee income momentum continues to remain weak and will miss guidance of double-digit growth. Overall, we expect a PAT of Rs18.3bn, up 21.4% YoY, with credit costs remaining under check at ~70bps.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 107,342 | 131,311 | 154,445 |
| PPP | 103,865 | 129,986 | 154,013 |
| *NIM (%)* | *2.44* | *2.62* | *2.71* |
| PAT | 64,653 | 78,535 | 91,008 |
| EPS (Rs) | 56.0 | 68.0 | 78.8 |
| PE (x) | 19.1 | 15.7 | 13.5 |
| P / ABV (x) | 2.0 | 1.9 | 1.7 |

*Adj. for Subs. Valuation of Rs164/share*

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 31,815 | 25,064 | *26.9* | 31,929 | 63,744 | 49,174 | *29.6* |
| PPP | 29,677 | 23,538 | *26.1* | 29,493 | 59,170 | 45,878 | *29.0* |
| *NIM Calculated (%)* | *2.94* | *2.60* | *34 bps* | *3.01* | *2.98* | *2.60* | *38 bps* |
| PAT | 18,252 | 15,032 | *21.4* | 18,151 | 36,403 | 28,354 | *28.4* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost* | *0.70* | *0.56* | *14 bps* | *0.72* | *0.71* | *0.70* | *1 bps* |
| Advances | 2,693 | 2,340 | *15.1* | 2,648 | 2,693 | 2,340 | *15.1* |
| Gross NPA | 101.1 | 100.2 | *0.9* | 98.2 | 101.1 | 100.2 | *0.9* |
| Net NPA | 19.9 | 21.8 | *(9.1)* | 19.0 | 19.9 | 21.8 | *(9.1)* |

## Kotak Mahindra Bank

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs637 |
| Target Price | Rs530 |
| Market Cap. (Rs bn) | 471.6 |
| Shares o/s (m) | 740.7 |

We expect margins to remain stable QoQ as upward liability pressure on a fixed rate loan book is done. Sequential loan growth at ~7.5% will be robust but reported YoY growth will show moderation due to ~13% QoQ growth reported in Q2FY12. Overall, we expect ~12% YoY PAT growth for Kotak on a standalone basis and ~13% on a consolidated basis.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 34,698 | 42,681 | 51,983 |
| PPP | 25,533 | 31,384 | 39,578 |
| *NIM (%)* | *4.68* | *4.66* | *4.63* |
| PAT | 16,650 | 19,168 | 23,624 |
| EPS (Rs) | 22.5 | 25.9 | 31.9 |
| PE (x) | 28.3 | 24.6 | 20.0 |
| P / ABV (x) | 3.7 | 3.3 | 2.9 |

**Quarterly Table (Rs m)**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 7,635 | 6,055 | *26.1* | 7,213 | 14,848 | 11,733 | *26.6* |
| PPP | 4,660 | 3,800 | *22.6* | 4,484 | 9,143 | 7,661 | *19.4* |
| *NIM Calculated (%)* | *4.67* | *4.63* | *4 bps* | *4.65* | *4.66* | *4.66* | *(1)bps* |
| PAT | 2,921 | 2,600 | *12.4* | 2,824 | 5,746 | 5,121 | *12.2* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit cost (%)* | *0.39* | *(0.03)* | *41 bps* | *0.34* | *0.36* | *0.13* | *23 bps* |
| Advances | 455 | 373 | *21.8* | 423 | 455 | 373 | *21.8* |
| Gross NPA | 7.9 | 7.1 | *12.6* | 7.7 | 7.9 | 7.1 | *12.6* |
| Net NPA | 3.9 | 2.3 | *69.3* | 3.8 | 3.9 | 2.3 | *69.3* |

## Axis Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs1,143 |
| Target Price | Rs1,350 |
| Market Cap. (Rs bn) | 472.3 |
| Shares o/s (m) | 413.2 |

We expect Axis to report a PAT of Rs11.7bn, up 27.2% YoY. NIMs should see a seasonal expansion of ~23bps QoQ also aided by easing wholesale rates. Fees will be a disappointment at <10% core fee growth v/s management's earlier guidance of +15% growth which has been recently scaled down. We factor in credit costs of ~90bps as we factor in ~Rs6bn of gross slippages v/s Rs5bn of run rate seen in the past few quarters.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 80,177 | 95,816 | 116,627 |
| PPP | 74,309 | 88,481 | 105,147 |
| *NIM (%)* | *3.04* | *3.09* | *3.19* |
| PAT | 42,422 | 48,253 | 56,690 |
| EPS (Rs) | 102.7 | 113.6 | 133.5 |
| PE (x) | 11.1 | 10.1 | 8.6 |
| P / ABV (x) | 2.1 | 1.8 | 1.5 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| NII | 23,788 | 20,073 | *18.5* | 21,799 | 45,586 | 37,314 | *22.2* |
| PPP | 21,145 | 17,756 | *19.1* | 19,637 | 40,782 | 33,341 | *22.3* |
| *NIM Calculated (%)* | *3.66* | *3.75* | *(10)bps* | *3.43* | *3.54* | *3.52* | *3 bps* |
| PAT | 11,710 | 9,203 | *27.2* | 11,535 | 23,245 | 18,627 | *24.8* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.90* | *0.96* | *(6)bps* | *0.76* | *0.83* | *0.74* | *10 bps* |
| Advances | 1,763 | 1,401 | *25.8* | 1,711 | 1,763 | 1,401 | *25.8* |
| Gross NPA | 24.7 | 17.4 | *41.5* | 20.9 | 24.7 | 17.4 | *41.5* |
| Net NPA | 6.9 | 5.5 | *25.3* | 6.0 | 6.9 | 5.5 | *25.3* |

## Bank of Baroda

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs794 |
| Target Price | Rs850 |
| Market Cap. (Rs bn) | 327.6 |
| Shares o/s (m) | 412.4 |

We expect BOB to report a PAT of Rs11.4bn in Q2FY13. Margins have been contracting for BOB over the last three quarters and we expect muted margin performance even in Q2FY13 (flat QoQ). Reported loan growth, which has been +22-23%, will moderate due to rupee appreciation impact on overseas book. Slippages have been inching up over the last two quarters but has remained at manageable levels and we factor in Rs11bn of slippages with low recoveries/upgrades.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 103,170 | 116,168 | 134,946 |
| PPP | 85,806 | 95,275 | 110,207 |
| *NIM (%)* | *2.57* | *2.39* | *2.37* |
| PAT | 50,070 | 50,225 | 58,790 |
| EPS (Rs) | 121.4 | 121.8 | 142.6 |
| PE (x) | 6.5 | 6.5 | 5.6 |
| P / ABV (x) | 1.3 | 1.1 | 0.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| NII | 28,983 | 25,669 | *12.9* | 27,981 | 56,963 | 48,641 | *17.1* |
| PPP | 23,405 | 21,400 | *9.4* | 22,532 | 45,937 | 39,712 | *15.7* |
| *NIM Calculated (%)* | *2.76* | *3.07* | *(31)bps* | *2.73* | *2.74* | *2.97* | *(23)bps* |
| PAT | 11,363 | 11,791 | *(3.6)* | 11,513 | 22,876 | 22,119 | *3.4* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *1.14* | *0.42* | *71 bps* | *1.63* | *1.38* | *0.60* | *78 bps* |
| Advances | 2,879 | 2,391 | *20.4* | 2,858 | 2,879 | 2,391 | *20.4* |
| Gross NPA | 59.7 | 34.0 | *75.5* | 53.2 | 59.7 | 34.0 | *75.5* |
| Net NPA | 19.8 | 11.2 | *76.8* | 18.4 | 19.8 | 11.2 | *76.8* |

## Punjab National Bank

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs819 |
| Target Price | Rs850 |
| Market Cap. (Rs bn) | 277.8 |
| Shares o/s (m) | 339.2 |

Margin pressure remains as loan growth remains stagnant and hence, we factor in ~7-8bps contraction in margins to ~3.5%. Sequential growth will remain in line with industry trends. PNB continues to see strong trends in recoveries/upgrades which is a positive sign but slippage guidance continues to remain high and hence, we do not factor in any meaningful respite in asset quality issues in Q2FY13. We factor in Rs22bn of slippages (3% of loans) v/s Rs28bn in Q1FY13.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 134,144 | 152,957 | 171,332 |
| PPP | 106,143 | 115,638 | 128,594 |
| *NIM (%)* | *3.22* | *3.13* | *3.06* |
| PAT | 48,846 | 51,796 | 59,985 |
| EPS (Rs) | 144.0 | 152.7 | 176.9 |
| PE (x) | 5.7 | 5.4 | 4.6 |
| P / ABV (x) | 1.1 | 1.0 | 0.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| NII | 36,457 | 34,526 | *5.6* | 36,951 | 73,408 | 65,679 | *11.8* |
| PPP | 26,911 | 25,278 | *6.5* | 28,409 | 55,320 | 50,017 | *10.6* |
| *NIM Calculated (%)* | *3.54* | *3.95* | *(41)bps* | *3.60* | *3.57* | *3.90* | *(33)bps* |
| PAT | 12,956 | 12,050 | *7.5* | 12,457 | 25,413 | 23,101 | *10.0* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost* | *1.00* | *0.80* | *20 bps* | *1.55* | *1.27* | *1.00* | *27 bps* |
| Advances | 2,974 | 2,490 | *19.4* | 2,945 | 2,974 | 2,490 | *19.4* |
| Gross NPA | 109.4 | 51.5 | *112.4* | 99.9 | 109.4 | 51.5 | *112.4* |
| Net NPA | 48.8 | 20.9 | *133.8* | 49.2 | 48.8 | 20.9 | *133.8* |

## Bank of India

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs297 |
| Target Price | Rs355 |
| Market Cap. (Rs bn) | 170.6 |
| Shares o/s (m) | 574.5 |

We expect BOI to report a PAT of Rs8.0bn in Q2FY13. Margins had seen a ~60bps fall in Q1FY13 due to one-off interest reversals. However, with high slippages continuing and loan growth pressure, we expect only a ~30bps inch-back in margins. Slippages inched up for BOI in Q1FY13 after two quarters of relatively positive asset quality performance and guidance for Q2FY13 for asset quality seems very weak. Hence, we expect Rs20bn of slippages (3% of loans) v/s Rs17.5bn of slippages in Q1FY13.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 83,134 | 101,621 | 117,197 |
| PPP | 66,939 | 79,249 | 91,107 |
| *NIM (%)* | *2.27* | *2.46* | *2.44* |
| PAT | 26,775 | 33,842 | 39,942 |
| EPS (Rs) | 46.6 | 58.9 | 69.5 |
| PE (x) | 6.4 | 5.0 | 4.3 |
| P / ABV (x) | 1.0 | 0.9 | 0.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| NII | 23,690 | 19,039 | *24.4* | 20,436 | 44,126 | 37,449 | *17.8* |
| PPP | 18,087 | 15,515 | *16.6* | 16,736 | 34,822 | 29,475 | *18.1* |
| *NIM Calculated (%)* | *2.37* | *2.34* | *3 bps* | *2.08* | *2.23* | *2.30* | *(7)bps* |
| PAT | 8,028 | 4,911 | *63.5* | 8,875 | 16,902 | 10,086 | *67.6* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *1.00* | *1.86* | *(86)bps* | *0.98* | *0.99* | *1.29* | *(30)bps* |
| Advances | 2,653 | 2,170 | *22.3* | 2,642 | 2,653 | 2,170 | *22.3* |
| Gross NPA | 79.5 | 65.5 | *21.4* | 67.5 | 79.5 | 65.5 | *21.4* |
| Net NPA | 52.0 | 42.4 | *22.5* | 44.1 | 52.0 | 42.4 | *22.5* |

## IndusInd Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs369 |
| Target Price | Rs400 |
| Market Cap. (Rs bn) | 172.6 |
| Shares o/s (m) | 467.7 |

We expect IIB to report a PAT of Rs2.43bn up 25.7% YoY. We expect margins to inch up marginally as funding environment has eased. We factor in ~5% QoQ loan growth for IIB as Q2 is a seasonally strong quarter. We conservatively factor in credit costs of ~65bps for the quarter..Though the CV cycle is turning, management does not expect any large negative surprises in Q2FY13. However, management commentary on CV cycle will be the key thing to watch out for.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 17,042 | 21,654 | 27,621 |
| PPP | 13,730 | 17,712 | 22,531 |
| *NIM (%)* | *3.32* | *3.36* | *3.44* |
| PAT | 8,026 | 10,010 | 12,375 |
| EPS (Rs) | 17.2 | 21.4 | 26.5 |
| PE (x) | 21.5 | 17.2 | 13.9 |
| P / ABV (x) | 3.8 | 3.2 | 2.7 |

**Quarterly Table (Rs m)**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 5,163 | 4,192 | *23.2* | 4,841 | 10,004 | 8,092 | *23.6* |
| PPP | 4,270 | 3,330 | *28.2* | 4,040 | 8,311 | 6,447 | *28.9* |
| *NIM Calculated (%)* | *3.46* | *3.56* | *(10)bps* | *3.41* | *3.44* | *3.52* | *(8)bps* |
| PAT | 2,427 | 1,931 | *25.7* | 2,363 | 4,790 | 3,733 | *28.3* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | 0.65 | 0.64 | *1 bps* | 0.59 | 0.62 | 0.65 | *(3)bps* |
| Advances | 391 | 301 | *29.8* | 372 | 391 | 301 | *29.8* |
| Gross NPA | 3.7 | 3.3 | *10.9* | 3.7 | 3.7 | 3.3 | *10.9* |
| Net NPA | 0.9 | 0.9 | *(1.0)* | 1.0 | 0.9 | 0.9 | *(1.0)* |

## YES Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs394 |
| Target Price | Rs450 |
| Market Cap. (Rs bn) | 138.9 |
| Shares o/s (m) | 353.0 |

We expect Yes to report a PAT of Rs2.9bn, up 22% YoY. We expect margins to start showing some signs of improvement as Yes Bank is the biggest beneficiary of a moderation in wholesale rates. We factor in ~25 YoY growth, including credit substitutes. We factor in credit costs of ~55bps for the quarter with some risk of higher slippages due to exposure to Deccan Chronicle though Yes Bank has recovered some of their exposure.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 16,156 | 21,172 | 26,521 |
| PPP | 15,417 | 20,152 | 25,348 |
| *NIM (%)* | *2.44* | *2.60* | *2.70* |
| PAT | 9,784 | 11,805 | 14,671 |
| EPS (Rs) | 27.7 | 33.4 | 41.6 |
| PE (x) | 14.2 | 11.8 | 9.5 |
| P / ABV (x) | 3.0 | 2.4 | 2.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 5,045 | 3,856 | *30.8* | 4,722 | 9,767 | 7,399 | *32.0* |
| PPP | 4,781 | 3,859 | *23.9* | 4,596 | 9,377 | 7,111 | *31.9* |
| *NIM Calculated (%)* | *2.87* | *2.90* | *(3)bps* | *2.80* | *2.84* | *2.85* | *(1)bps* |
| PAT | 2,864 | 2,350 | *21.9* | 2,901 | 5,766 | 4,511 | *27.8* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.55* | *0.45* | *10 bps* | *0.31* | *0.43* | *0.23* | *20 bps* |
| Advances | 397 | 342 | *16.1* | 385 | 397 | 342 | *16.1* |
| Gross NPA | 1.4 | 0.7 | *103.4* | 1.1 | 1.4 | 0.7 | *103.4* |
| Net NPA | 0.4 | 0.1 | *181.2* | 0.3 | 0.4 | 0.1 | *181.2* |

## Federal Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs458 |
| Target Price | Rs525 |
| Market Cap. (Rs bn) | 78.3 |
| Shares o/s (m) | 171.0 |

We expect Federal Bank to report a PAT of Rs2.0bn, up just 5% YoY. We expect margins to remain inch up by ~20bps after one-off impact in Q1FY13. Asset quality has been showing some stability on the SME and retail side and we expect that trend to continue and hence, expect overall credit costs at ~80bps for Q2FY13.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 19,534 | 22,048 | 25,845 |
| PPP | 15,065 | 15,982 | 19,136 |
| *NIM (%)* | *3.49* | *3.35* | *3.33* |
| PAT | 7,768 | 8,253 | 9,980 |
| EPS (Rs) | 45.4 | 48.3 | 58.3 |
| PE (x) | 10.1 | 9.5 | 7.9 |
| P / ABV (x) | 1.4 | 1.2 | 1.1 |

**Quarterly Table (Rs m)**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 5,257 | 4,744 | *10.8* | 4,916 | 10,173 | 9,342 | *8.9* |
| PPP | 3,771 | 3,613 | *4.4* | 3,465 | 7,236 | 7,153 | *1.2* |
| *NIM Calculated (%)* | *3.45* | *3.53* | *(8)bps* | *3.28* | *3.36* | *3.57* | *(21)bps* |
| PAT | 2,008 | 1,912 | *5.0* | 1,904 | 3,911 | 3,373 | *16.0* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.80* | *0.78* | *2 bps* | *0.80* | *0.80* | *1.10* | *(30)bps* |
| Advances | 396 | 336 | *17.7* | 380 | 396 | 336 | *17.7* |
| Gross NPA | 14.8 | 12.5 | *18.3* | 14.1 | 14.8 | 12.5 | *18.3* |
| Net NPA | 2.1 | 2.0 | *6.6* | 2.4 | 2.1 | 2.0 | *6.6* |

## ING Vysya Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs420 |
| Target Price | Rs480 |
| Market Cap. (Rs bn) | 63.1 |
| Shares o/s (m) | 150.1 |

We expect ING Vysya to report a PAT of Rs1.5bn, up 27% YoY. With wholesale rates easing, margins are expected to show signs of improvement from Q2FY13. Opex growth will remain under check at ~11% YoY growth. Asset qaulity has been surprising the street and we expect robust trends to continue even in Q2FY13 and hence, we factor in ~45bps of credit costs.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| NII | 12,084 | 14,515 | 17,241 |
| PPP | 7,679 | 10,077 | 12,819 |
| *NIM (%)* | *2.82* | *2.82* | *2.80* |
| PAT | 4,563 | 5,486 | 6,948 |
| EPS (Rs) | 30.4 | 36.5 | 46.3 |
| PE (x) | 13.8 | 11.5 | 9.1 |
| P / ABV (x) | 1.6 | 1.4 | 1.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| NII | 3,626 | 3,036 | *19.4* | 3,433 | 7,058 | 5,656 | *24.8* |
| PPP | 2,461 | 1,894 | *29.9* | 2,175 | 4,636 | 3,363 | *37.9* |
| *NIM Calculated (%)* | *3.24* | *3.28* | *(4)bps* | *3.19* | *3.21* | *3.09* | *12 bps* |
| PAT | 1,466 | 1,154 | *27.1* | 1,302 | 2,768 | 2,094 | *32.2* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.45* | *0.28* | *17 bps* | *0.37* | *0.41* | *0.19* | *22 bps* |
| Advances | 304 | 253 | *20.4* | 293 | 304 | 253 | *20.4* |
| Gross NPA | 6.2 | 5.1 | *22.0* | 5.9 | 6.2 | 5.1 | *22.0* |
| Net NPA | 0.6 | 0.8 | *(24.5)* | 0.6 | 0.6 | 0.8 | *(24.5)* |

## Jammu & Kashmir Bank

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs1,020 |
| Target Price | Rs1,250 |
| Market Cap. (Rs bn) | 49.5 |
| Shares o/s (m) | 48.5 |

We expect J&K Bank to report a PAT of Rs2.45bn, up 23% YoY. Advances growth has picked up for J&K Bank and we expect the strong momentum to continue with ~25% loan growth. Asset quality continues to remain strong and we factor in ~55bps of credit costs for J&K Bank.

**Key Figures *(Rs m)***

| | **FY12** | **FY13E** | **FY14E** |
|---|---|---|---|
| NII | 18,384 | 21,313 | 24,589 |
| PPP | 13,703 | 16,276 | 18,333 |
| *NIM (%)* | *3.32* | *3.31* | *3.30* |
| PAT | 8,032 | 9,372 | 10,398 |
| EPS (Rs) | 165.6 | 193.3 | 214.4 |
| PE (x) | 6.2 | 5.3 | 4.8 |
| P / ABV (x) | 1.2 | 1.0 | 0.9 |

**Quarterly Table (Rs m)**

| **Y/e March** | **Q2 FY13E** | **Q2 FY12** | ***YoY gr. (%)*** | **Q1 FY13** | **H1 FY13E** | **H1 FY12** | ***YoY gr. (%)*** |
|---|---|---|---|---|---|---|---|
| NII | 5,492 | 4,343 | *26.5* | 5,356 | 10,849 | 8,715 | *24.5* |
| PPP | 4,112 | 3,128 | *31.5* | 4,152 | 8,264 | 6,292 | *31.3* |
| *NIM Calculated (%)* | *3.79* | *3.62* | *18 bps* | *3.88* | *3.84* | *3.77* | *7 bps* |
| PAT | 2,456 | 1,997 | *23.0* | 2,461 | 4,917 | 3,819 | *28.7* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.61* | *0.68* | *(7)bps* | *1.07* | *0* | *0.92* | *(8)bps* |
| Advances | 352 | 282 | *24.7* | 332 | 352 | 282 | *24.7* |
| Gross NPA | 5.6 | 6.4 | *(13.2)* | 5.4 | 5.6 | 6.4 | *(13.2)* |
| Net NPA | 0.5 | 0.6 | *(22.1)* | 0.5 | 0.5 | 0.6 | *(22.1)* |

## South Indian Bank

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs23 |
| Target Price | Rs25 |
| Market Cap. (Rs bn) | 2.6 |
| Shares o/s (m) | 113.4 |

We expect South Indian bank to report a PAT of Rs1.17bn, up 22.6% YoY. We expect margins to stay flat QoQ and with ~23% loan growth, we expect NII growth of ~19%. Asset quality has been the best in the industry. However, the next 1-2 quarters may be impacted due to recognition and provision on NAFED (Rs1.5bn exposure).

**Key Figures *(Rs m)***

| | **FY12** | **FY13E** | **FY14E** |
|---|---|---|---|
| NII | 10,217 | 12,426 | 15,099 |
| PPP | 6,515 | 8,136 | 9,828 |
| *NIM (%)* | *2.80* | *2.79* | *2.77* |
| PAT | 4,017 | 4,586 | 5,572 |
| EPS (Rs) | 3.5 | 3.4 | 4.2 |
| PE (x) | 6.5 | 6.7 | 5.5 |
| P / ABV (x) | 1.3 | 1.1 | 0.9 |

**Quarterly Table *(Rs m)***

| **Y/e March** | **Q2 FY13E** | **Q2 FY12** | ***YoY gr. (%)*** | **Q1 FY13** | **H1 FY13E** | **H1 FY12** | ***YoY gr. (%)*** |
|---|---|---|---|---|---|---|---|
| NII | 3,050 | 2,588 | *17.9* | 2,968 | 6,018 | 4,637 | *29.8* |
| PPP | 2,056 | 1,663 | *23.6* | 2,075 | 4,130 | 3,095 | *33.5* |
| *NIM Calculated (%)* | *3.06* | *3.02* | *4 bps* | *3.04* | *3.05* | *2.78* | *28 bps* |
| PAT | 1,164 | 949 | *22.6* | 1,230 | 2,394 | 1,774 | *34.9* |
| **Operating Metrics (Rs bn)** | | | | | | | |
| *Credit Cost (%)* | *0.45* | *0.42* | *3 bps* | *0.37* | *0.41* | *0.41* | *1 bps* |
| Advances | 283 | 230 | *23.0* | 273 | 283 | 230 | *23.0* |
| Gross NPA | 3.3 | 2.3 | *41.2* | 2.9 | 3.3 | 2.3 | *41.2* |
| Net NPA | 1.1 | 0.6 | *80.9* | 1.0 | 1.1 | 0.6 | *80.9* |

## HDFC

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs750 |
| Target Price | Rs800 |
| Market Cap. (Rs bn) | 1,107.6 |
| Shares o/s (m) | 1,477.0 |

We expect a usual quarter for HDFC, with margins expected to remain flat sequentially. We expect 3% sequential loan growth (~22% YoY growth). Reported PAT growth is expected to be at ~16.7% YoY, and adjusted for capital gain income, we expect PAT growth of ~19% YoY.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Op. Inc. | 61,975 | 74,775 | 87,631 |
| NII | 49,765 | 62,220 | 74,155 |
| PPP | 57,456 | 69,542 | 81,570 |
| PAT | 41,226 | 49,462 | 57,975 |
| EPS (Rs) | 27.9 | 32.3 | 37.8 |
| *NIM (%)* | *3.2* | *3.4* | *3.4* |
| *RoE (%)* | *22.7* | *22.4* | *21.5* |
| PE (x) | 26.9 | 23.2 | 19.8 |
| P/BV (x) | 5.8 | 4.6 | 4.0 |

*Adj. for Subs. Valuation of Rs210/share*

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Operating Inc. | 16,990 | 14,786 | *14.9* | 15,541 | 32,531 | 27,853 | *16.8* |
| NII | 15,265 | 13,064 | *16.8* | 14,638 | 29,903 | 25,335 | *18.0* |
| Non Interest Inc. | 1,725 | 1,722 | *0.2* | 903 | 2,628 | 2,518 | *4.4* |
| PPP | 15,416 | 13,377 | *15.2* | 13,799 | 29,215 | 25,132 | *16.2* |
| PAT | 11,330 | 9,707 | *16.7* | 10,019 | 21,350 | 18,152 | *17.6* |
| **Operating Metrics** | | | | | | | |
| AUM | 1,534,515 | 1,269,924 | *20.8* | 1,482,623 | 1,534,515 | 1,269,924 | *20.8* |
| Borrowing | 1,487,096 | 1,251,027 | *18.9* | 1,438,116 | 1,487,096 | 1,251,027 | *18.9* |
| Disbursement | 244,655 | 207,335 | *18.0* | 156,384 | 401,039 | 337,655 | *18.8* |
| *NIM (%)* | *3.7* | *3.7* | *1 bps* | *3.7* | *3.7* | *3.6* | *4 bps* |

## IDFC

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs159 |
| Target Price | Rs145 |
| Market Cap. (Rs bn) | 240.6 |
| Shares o/s (m) | 1,512.4 |

Loan growth has surprised IDFC over the last three quarters and despite expecting just 3% QoQ growth, reported loan growth will be up ~31% YoY for IDFC. IDFC has seen margins inching up despite higher share of re-financing business. With wholesale rates moderating, we believe IDFC will be able to hold up on margins QoQ. IDFC has provided aggresively for its Deccan Chronicle exposure in Q1FY13 and we expect IDFC to write-off that account in Q1FY13, leading to higher credit costs apart from which we do not see any negative asset quality surprises.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Op. Inc. | 29,788 | 33,057 | 38,361 |
| NII | 20,032 | 23,847 | 27,990 |
| PPP | 24,570 | 27,268 | 31,832 |
| PAT | 15,541 | 18,651 | 21,737 |
| EPS (Rs) | 10.3 | 12.3 | 14.4 |
| *NIM (%)* | *3.6* | *3.6* | *3.5* |
| *RoE (%)* | *13.7* | *14.3* | *14.9* |
| PE (x) | 15.5 | 12.9 | 11.1 |
| P/BV (x) | 2.0 | 1.8 | 1.6 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Operating Inc. | 8,251 | 8,830 | *(6.6)* | 7,660 | 15,911 | 14,761 | *7.8* |
| NII | 6,626 | 4,980 | *33.0* | 6,290 | 12,916 | 9,810 | *31.7* |
| Non Interest Inc. | 1,625 | 3,850 | *(57.8)* | 1,370 | 2,995 | 4,951 | *(39.5)* |
| PPP | 6,865 | 7,510 | *(8.6)* | 6,490 | 13,355 | 12,301 | *8.6* |
| PAT | 4,164 | 5,230 | *(20.4)* | 3,800 | 7,964 | 8,370 | *(4.9)* |
| **Operating Metrics** | | | | | | | |
| *NIM (%)* | *4.3* | *4.2* | *13 bps* | *4.3* | *4.3* | *4.1* | *17 bps* |
| Disbursements | 47,983 | 36,910 | *30.0* | 45,020 | 93,003 | 65,980 | *41.0* |
| *Credit Cost (%)* | *0.6* | *0.5* | *12 bps* | *0.7* | *0.7* | *0.4* | *23 bps* |
| Loans | 516,617 | 393,134 | *31.4* | 501,570 | 516,617 | 393,134 | *31.4* |

## Shriram Transport Finance

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs647 |
| Target Price | Rs575 |
| Market Cap. (Rs bn) | 146.3 |
| Shares o/s (m) | 226.2 |

Loan growth is expected to remain muted with AUM growth of 13% YoY. With wholesale rates coming off and a fixed rate loan book, we expect some inch up in margins in Q2FY13 but impact of move from assignment to PTC will be seen only in H2FY13. Truck rentals have been moderating in Apr-Jun 2012 and asset quality will be the key thing to watch out for (we have factored in ~200bps (flat QoQ) of credit costs.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Op. Inc. | 34,327 | 36,385 | 40,640 |
| NII | 33,312 | 35,404 | 39,635 |
| PPP | 26,492 | 27,761 | 31,056 |
| PAT | 12,574 | 13,647 | 15,214 |
| EPS (Rs) | 55.6 | 60.3 | 67.2 |
| *NIM (%)* | *4.6* | *4.9* | *5.7* |
| *RoE (%)* | *23.1* | *20.7* | *19.5* |
| PE (x) | 11.6 | 10.7 | 9.6 |
| P/BV (x) | 2.5 | 2.1 | 1.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Operating Inc. | 9,029 | 8,605 | *4.9* | 8,727 | 17,757 | 17,228 | *3.1* |
| NII | 3,695 | 3,522 | *4.9* | 2,702 | 6,397 | 6,177 | *3.6* |
| Non Interest Inc. | 450 | 258 | *74.3* | 702 | 1,152 | 735 | *56.8* |
| PPP | 6,600 | 6,560 | *0.6* | 6,085 | 12,685 | 13,028 | *(2.6)* |
| PAT | 3,330 | 2,994 | *11.2* | 3,219 | 6,549 | 6,467 | *1.3* |
| **Operating Metrics** | | | | | | | |
| *Credit Cost (%)* | *2.0* | *2.5* | *(52)bps* | *2.0* | *2.0* | *2.2* | *(23)bps* |
| AUM | 430,263 | 380,764 | *13.0* | 419,224 | 430,263 | 380,764 | *13.0* |
| On-Balance Sheet | 267,441 | 243,277 | *9.9* | 256,402 | 267,441 | 243,277 | *9.9* |
| *NIM (on AUM) (%)* | *8.1* | *8.9* | *(82)bps* | *7.8* | *7.9* | *8.9* | *(95)bps* |

## LIC Housing Finance

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs270 |
| Target Price | Rs300 |
| Market Cap. (Rs bn) | 136.6 |
| Shares o/s (m) | 505.0 |

We expect LICHF to report a PAT of Rs2.5bn. Growth remains robust despite higher rate offering than competition. However, the key negative surprise will be on margins even in Q2FY13 as margins wil be lower than Q1FY13 levels or at best come in line with Q1FY13 levels. Re-pricing of assets are happening as expected but slower disbursements and higher repayments in the builder book is causing a significant contraction in proportion of builder loans and thus, impacting margins.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Op. Inc. | 16,241 | 19,682 | 24,847 |
| NII | 13,916 | 17,293 | 21,981 |
| PPP | 13,870 | 16,888 | 21,533 |
| PAT | 9,142 | 11,814 | 15,084 |
| EPS (Rs) | 18.1 | 23.4 | 29.9 |
| *NIM (%)* | *2.5* | *2.5* | *2.6* |
| *RoE (%)* | *18.6* | *19.2* | *20.9* |
| PE (x) | 14.9 | 11.6 | 9.1 |
| P/BV (x) | 2.4 | 2.1 | 1.8 |

**Quarterly Table (Rs m)**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Operating Inc. | 4,119 | 3,916 | *5.2* | 3,999 | 8,118 | 8,126 | *(0.1)* |
| NII | 3,595 | 3,341 | *7.6* | 3,505 | 7,099 | 6,951 | *2.1* |
| Non Interest Inc. | 524 | 574 | *(8.7)* | 494 | 1,019 | 1,175 | *(13.3)* |
| PPP | 3,484 | 3,354 | *3.9* | 3,479 | 6,963 | 7,143 | *(2.5)* |
| PAT | 2,504 | 984 | *154.5* | 2,277 | 4,782 | 3,549 | *34.7* |
| **Operating Metrics** | | | | | | | |
| *Credit Cost (%)* | *0.0* | *0.4* | *(36)bps* | *0.1* | *0.0* | *0.2* | *(18)bps* |
| Loans | 682,698 | 560,977 | *21.7* | 656,440 | 682,698 | 560,977 | *21.7* |
| NIM | 2.15 | 2.45 | *(29.85)* | 2.18 | 2.17 | 2.62 | *(44.93)* |
| *Builders Loans (%)* | *6.0* | *7.1* | *(106)bps* | *4.6* | *5.3* | *3.5* | *178 bps* |

## M&M Financial Services

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs890 |
| Target Price | Rs900 |
| Market Cap. (Rs bn) | 91.4 |
| Shares o/s (m) | 102.7 |

We expect MMFS to report PAT of Rs1.9bn, up 40% YoY. The sequential rise in PAT is seasonal in nature, largely driven by lower credit costs as Gross NPAs remain flat QoQ in Q2FY13 and we expect similar outcome in Q2FY13. Margins show a positive bias in Q2 v/s Q1 and hence, we expect ~15-20bps of QoQ increase in margins. MMFS has seen margins come off over the last 4-6 quarters due to its fixed rate book and with wholesale rates coming off, we expect pick up in margins from H2FY13. Asset quality remains robust and we factor in ~130bps of credit costs in Q2FY13.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Op. Inc. | 16,743 | 22,169 | 27,227 |
| NII | 16,474 | 21,891 | 26,908 |
| PPP | 10,823 | 14,672 | 18,008 |
| PAT | 6,201 | 7,434 | 8,993 |
| EPS (Rs) | 60.4 | 72.4 | 87.6 |
| *NIM (%)* | *10.7* | *11.1* | *10.9* |
| *RoE (%)* | *22.8* | *22.7* | *22.9* |
| PE (x) | 14.7 | 12.3 | 10.2 |
| P/BV (x) | 3.2 | 2.6 | 2.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q1 FY13E | Q1 FY12 | *YoY gr. (%)* | Q4 FY12 | 12M FY13E | 12M FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Operating Inc. | 5,350 | 4,098 | *30.6* | 4,916 | 10,266 | 7,628 | *34.6* |
| NII | 5,300 | 3,902 | *35.8* | 4,876 | 10,176 | 7,219 | *41.0* |
| Non Interest Inc. | 50 | 196 | *(74.5)* | 39 | 89 | 408 | *(78.1)* |
| PPP | 3,583 | 2,539 | *41.1* | 3,248 | 6,831 | 4,613 | *48.1* |
| PAT | 1,904 | 1,355 | *40.5* | 1,610 | 3,515 | 2,377 | *47.8* |
| **Operating Metrics** | | | | | | | |
| *Credit Cost (%)* | *1.3* | *1.1* | *26 bps* | *1.6* | *1.5* | *1.2* | *31 bps* |
| AUM | 234,836 | 177,046 | *32.6* | 217,441 | 234,836 | 177,046 | *32.6* |
| Off-Balance sheet AUM | 19,076 | 9,952 | *91.7* | 17,663 | 19,076 | 9,952 | *91.7* |
| *NIM (% AUM)* | *9.4* | *9.3* | *8 bps* | *9.2* | *9.3* | *8.9* | *36 bps* |

Kunal Sheth
kunalsheth@plindia.com
+91-22-6632 2257

Riddhi Kothari
riddhikothari@plindia.com
+91-22-6632 2238

# Capital Goods

Government's new found zeal for reforms delighted the markets. Over the last three months, the Capital goods index has outperformed the broader markets by ~7%. We expect sales for our coverage universe to grow by 7.6% YoY in Q2FY13. EBITDA margins are expected to be at 12% and PAT is expected to de-grow by 0.8% (excluding Suzlon) for the quarter.

## Top picks

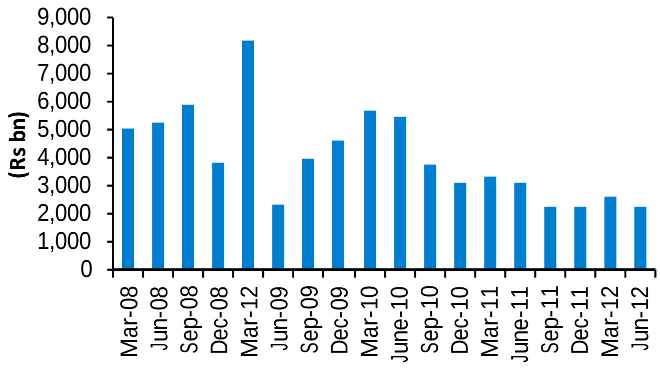
Voltas

PowerGrid

KEC International

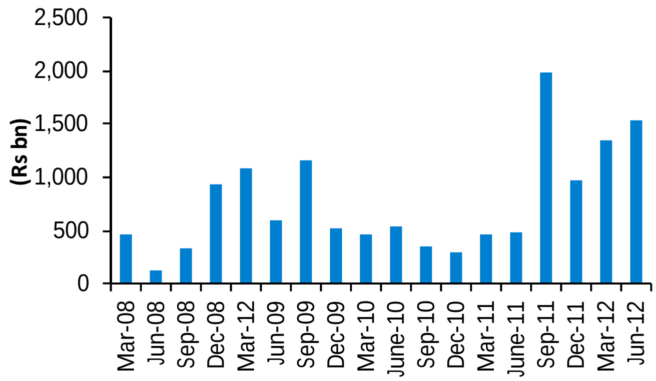
Pace of announcement of new investments continues to fall. New investment stood at Rs2.2trn in June 2012 quarter (down 27% YoY) v/s Rs2.6.trn in March 2012 quarter (down 22% YoY) v/s Rs2.2trn in December 2011 quarter (down 29% YoY) v/s Rs2.2trn in September 2011 quarter (down 39% YoY). The number of projects shelved also continues to be high at Rs1.5trn in June 2012 quarter (up 2220% YoY) v/s Rs1.3trn in March 2012 quarter. The increasing trend in projects shelved indicates the loss of confidence of corporate India on the demand sustainability, going forward.

**New projects announcement**




*Source: CMIE, PL Research*

**Projects Shelved**




*Source: CMIE, PL Research*

**Capacity utilisation of large Industries (%)**

| Sector Name | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---|---|---|---|---|
| | Actual | Actual | Actual | Actual |
| Cement | 75.0 | 70.9 | 71.0 | 69.7 |
| Finished Steel | 66.6 | 64.2 | 68.4 | 68.4 |
| Sponge Iron | 71.2 | 69.0 | 67.1 | 67.1 |
| Aluminium | 88.5 | 87.5 | 92.6 | 92.6 |
| Thermal power (PLF) | 77.3 | 77.7 | 75.0 | 75.0 |
| Petroleum products | 90.3 | 100.6 | 103.7 | 103.7 |
| Paints | 79.2 | 83.8 | 86.1 | 86.1 |
| Tyres | 77.9 | 67.9 | 78.9 | 78.9 |
| Paper | 84.6 | 87.3 | 86.9 | 86.9 |

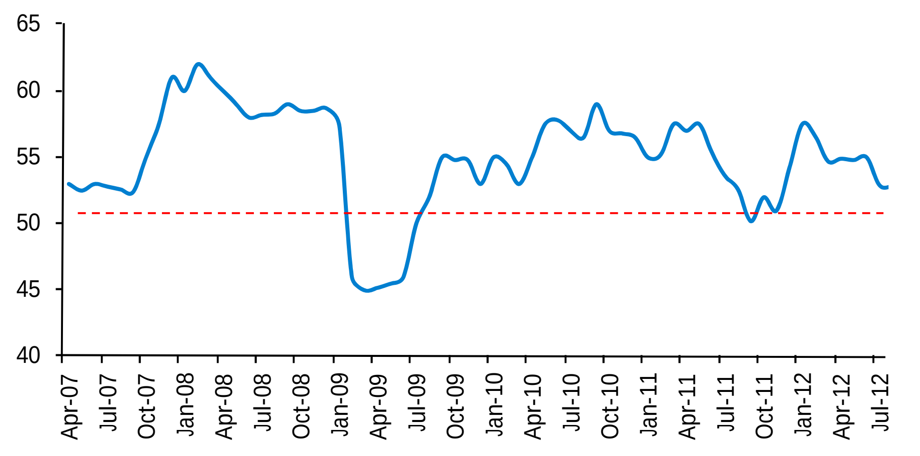
*Source: CMIE, PL Research*

According to CMIE, the large and capital intensive industries in India have seen huge capacity additions in last few years. The capacity utilisation has fallen as the demand has not grown at the same pace and also large number of projects is scheduled to be completed in the next two years which should make promoters selective in implementing fresh projects going forward. Also problem faced in land acquisition, environment clearance, local unrest, lack of availability of raw material (coal/iron ore) have also led to increase in number of projects being shelved.

In the recent RBI policy review, it has clearly acknowledged that while growth risks have increased, inflation risks still remain. Mitigating the growth risks and taking the economy to a higher sustainable growth trajectory requires concerted policy action across a range of domains. It also highlighted that monetary policy plays an important role in supporting the growth revival. However, in the current situation, persistent inflationary pressures alongside risks emerging from twin deficits, current account deficit and fiscal deficit, constrain a stronger response of monetary policy to growth risks. It opted to give liquidity support by cutting CRR. Rate cut, as declared by RBI, will take time to come by, given the sticky inflation.

Economic activity picked up modestly in Q1 of 2012-13 in relation to the preceding quarter; however, the sluggish momentum of value added in Q1 was evident across all sectors of the economy. Lead indicators point to slack in activity in Q2 as well. Industrial production rose by just 0.1% in July. In August, the manufacturing PMI fell to its lowest level during 2012 so far, as a result of output disruptions due to power shortages and declining export orders.

**HSBC PMI India**

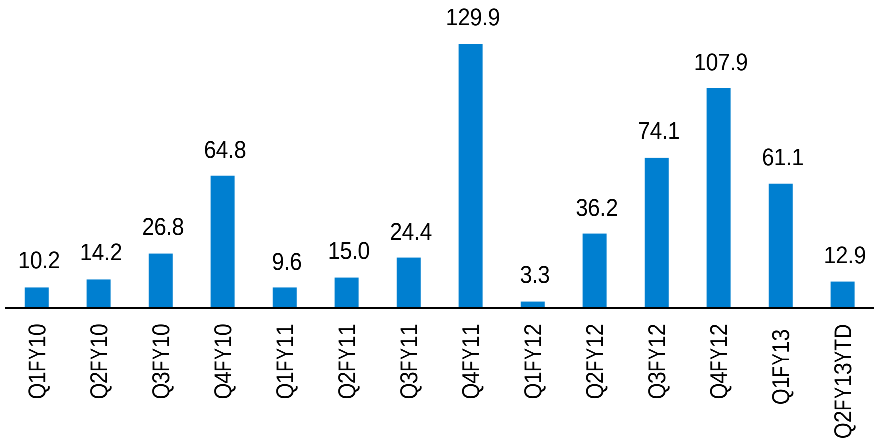



*Source: Markit Economics, HSBC, PL Research*

*NOTE: Reading above 50 indicates expansion and below it denotes contraction; 50 denotes no change*

The end market for Power equipment continued to be weak, with virtually no orders finalised in the quarter. The issue relating to coal shortage, environment clearance continues to haunt the sector. CCEA passed the bailout package for SEB. Salient features of the Restructuring Package: (1) 50% of outstanding ST loans to be taken over by the State Government in the next 2-5 years and in the interim will be funded by bonds issued by SEBs but guaranteed and serviced by State Government. (2) Restructuring the balance 50% debt by banks – Committee recommended extending tenure to 7-10 years with a 3-yr moratorium (3) Central Government to provide incentive of ~25% of principal repayment of the loans taken over by State + T&D loss reduction linked incentives. The committee also recommended a 3-yr transitional finance mechanism to bridge revenue gap in the near term. The implementation of the same remains to be seen; however, it has raised hope of improved capex by SEB. It will also provide working capital relief for all those vendors who were facing problems due to stressed financials of SEBs.

**Order flow from Power Grid (Rs bn)**




*Source: Company Data, PL Research*

The total order placed in Q2FY13 by Power Grid in the first two months was ~Rs12.7bn, (v/s Rs74bn in Q3FY12). The pace of ordering is clearly quite robust and spread out against previous years where most of the ordering used to happen in Q4 (mostly March). The commentary from market participants continues to be negative with most players acknowledging high competitive intensity in the industry.

Voltas is trading at 13x FY14E earnings. The outlook might be slightly muted in the near term on order flow. Voltas has increased its reach in terms of geography in international markets and business segments in the domestic market which should help order flow once the cycle turns.

KEC is trading at 6.5x FY14E earnings. The company's strong order book, continuing growth in order pipeline and ability to win orders in the current environment gives comfort on revenue visibility. Improved balance sheet gives additional comfort. We expect the stock to deliver earnings CAGR of 22% over FY12-14E.

Power Grid is trading at 1.5x FY14E book value. The management highlighted that it is highly focused on execution and ambitiously looking at reducing CWIP in FY13 despite huge capex plans of Rs200bn in FY13. This effectively means that the management is indicating capitalization numbers of ~Rs200-210bn for FY13. It has already capitalized assets worth Rs50bn till the end of July 2012. It believes if it can pull off this kind of number in FY13 and work around with the debt: equity ratio of 72:28 (as regulation say equity up to 30%), it can possibly avoid need for dilution in FY14. We expect the stock to deliver earnings CAGR of 16.2% over FY12-17E, with core ROE of ~17.6% over the same period.

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| BHEL | 27.1 | 12.0 | (3.5) | (15.8) | 17.7 | 4.0 | (11.9) | (35.7) |
| Power Grid Corporation | (3.7) | 3.4 | 6.6 | 23.3 | (13.1) | (4.6) | (1.7) | 3.3 |
| ABB | 10.5 | (1.4) | (6.0) | 17.9 | 1.1 | (9.4) | (14.3) | (2.0) |
| Cummins India | 13.1 | 10.9 | 4.3 | 27.3 | 3.7 | 2.9 | (4.0) | 7.4 |
| Crompton Greaves | 30.5 | 6.2 | (3.9) | (5.6) | 21.1 | (1.8) | (12.2) | (25.5) |
| Thermax | 18.9 | 16.4 | 21.2 | 41.4 | 9.5 | 8.4 | 12.9 | 21.5 |
| Voltas | 13.3 | 3.6 | (0.2) | 17.9 | 3.9 | (4.4) | (8.6) | (2.0) |
| Suzlon Energy | 15.8 | (9.1) | (30.2) | (49.6) | 6.5 | (17.0) | (38.5) | (69.6) |
| BGR Energy Systems | 11.9 | (8.9) | (19.1) | (4.8) | 2.5 | (16.9) | (27.4) | (24.7) |
| KEC International | 29.1 | 14.3 | 3.8 | 24.0 | 19.7 | 6.3 | (4.5) | 4.0 |
| Kalpataru Power Transmission | 36.4 | 4.1 | (17.9) | (14.7) | 27.0 | (3.9) | (26.2) | (34.6) |
| Jyoti Structures | 32.7 | 11.7 | 15.4 | (18.7) | 23.3 | 3.7 | 7.1 | (38.7) |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | YoY gr. (%) | Q1FY13 | QoQ gr. (%) | H1FY13E | H1MFY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|---|---|
| **BHEL** | Sales | 109,818 | 102,986 | 6.6 | 83,262 | 31.9 | 193,080 | 174,242 | 10.8 |
| | EBITDA | 17,681 | 17,123 | 3.3 | 10,894 | 62.3 | 28,575 | 26,798 | 6.6 |
| | *Margins (%)* | *16.1* | *16.6* | | *13.1* | | *14.8* | *15.4* | |
| | PAT | 13,925 | 14,120 | (1.4) | 9,209 | 51.2 | 23,134 | 22,277 | 3.8 |
| **Power Grid Corporation** | Sales | 30,379 | 22,644 | 34.2 | 28,883 | 5.2 | 59,261 | 44,669 | 32.7 |
| | EBITDA | 25,609 | 18,978 | 34.9 | 24,646 | 3.9 | 50,256 | 37,433 | 34.3 |
| | *Margins (%)* | *84.3* | *83.8* | | *85.3* | | *84.8* | *83.8* | |
| | PAT | 9,887 | 7,087 | 39.5 | 8,701 | 13.6 | 18,588 | 14,140 | 31.5 |
| **ABB** | Sales | 19,628 | 17,263 | 13.7 | 18,585 | 5.6 | 55,943 | 52,006 | 7.6 |
| | EBITDA | 785 | 494 | 58.8 | 807 | (2.7) | 2,394 | 2,024 | 18.3 |
| | *Margins (%)* | *4.0* | *2.9* | | *4.3* | | *4.3* | *3.9* | |
| | PAT | 436 | 222 | 96.2 | 516 | (15.6) | 1,428 | 1,205 | 18.6 |
| **Cummins India** | Sales | 12,693 | 10,903 | 16.4 | 12,588 | 0.8 | 25,280 | 21,356 | 18.4 |
| | EBITDA | 2,374 | 1,759 | 34.9 | 2,325 | 2.1 | 4,698 | 3,616 | 29.9 |
| | *Margins (%)* | *18.7* | *16.1* | | *18.5* | | *18.6* | *16.9* | |
| | PAT | 1,701 | 1,286 | 32.3 | 1,806 | (5.8) | 3,506 | 2,543 | 37.9 |
| **Crompton Greaves** | Sales | 30,159 | 27,055 | 11.5 | 28,111 | 7.3 | 58,270 | 51,433 | 13.3 |
| | EBITDA | 1,927 | 2,260 | (14.8) | 1,668 | 15.5 | 3,594 | 4,078 | (11.9) |
| | *Margins (%)* | *6.4* | *8.4* | | *5.9* | | *6.2* | *7.9* | |
| | PAT | 945 | 1,163 | (18.8) | 849 | 11.3 | 1,794 | 1,940 | (7.5) |
| **Thermax** | Sales | 10,533 | 13,035 | (19.2) | 9,835 | 7.1 | 20,368 | 23,479 | (13.3) |
| | EBITDA | 1,053 | 1,405 | (25.0) | 964 | 9.2 | 2,017 | 2,542 | (20.6) |
| | *Margins (%)* | *10.0* | *10.8* | | *9.8* | | *9.9* | *10.8* | |
| | PAT | 731 | 1,017 | (28.1) | 673 | 8.8 | 1,404 | 1,816 | (22.7) |
| **Voltas** | Sales | 12,156 | 11,019 | 10.3 | 16,116 | (24.6) | 28,272 | 24,477 | 15.5 |
| | EBITDA | 432 | 76 | 467.8 | 887 | (51.3) | 1,318 | 1,138 | 15.8 |
| | *Margins (%)* | *3.6* | *0.7* | | *5.5* | | *4.7* | *4.7* | |
| | PAT | 331 | 228 | 45.3 | 780 | (57.6) | 1,111 | 962 | 15.5 |
| **Suzlon Energy** | Sales | 56,441 | 51,310 | 10.0 | 47,707 | 18.3 | 104,148 | 95,110 | 9.5 |
| | EBITDA | 453 | 3,860 | (88.3) | (2,574) | (117.6) | (2,120) | 8,760 | (124.2) |
| | *Margins (%)* | *0.8* | *7.5* | | *(5.4)* | | *(2.0)* | *9.2* | |
| | PAT | (6,297) | 470 | NA | (8,936) | NA | (15,232) | 1,070 | NA |
| **BGR Energy Systems** | Sales | 7,490 | 7,706 | (2.8) | 6,108 | 22.6 | 13,598 | 15,018 | (9.5) |
| | EBITDA | 1,049 | 1,093 | (4.0) | 878 | 19.4 | 1,927 | 2,024 | (4.8) |
| | *Margins (%)* | *14.0* | *14.2* | | *14.4* | | *14.2* | *13.5* | |
| | PAT | 428 | 514 | (16.6) | 336 | 27.6 | 764 | 1,016 | (24.8) |
| **KEC International** | Sales | 15,407 | 12,632 | 22.0 | 13,641 | 12.9 | 29,048 | 22,857 | 27.1 |
| | EBITDA | 1,156 | 1,076 | 7.4 | 1,032 | 11.9 | 2,188 | 2,032 | 7.7 |
| | *Margins (%)* | *7.5* | *8.5* | | *7.6* | | *7.5* | *8.9* | |
| | PAT | 391 | 382 | 2.4 | 332 | 17.9 | 723 | 713 | 1.4 |

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1MFY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Kalpataru Power Transmission** | Sales | 6,494 | 5,833 | *11.3* | 6,994 | *(7.2)* | 13,488 | 11,660 | *15.7* |
| | EBITDA | 662 | 708 | *(6.4)* | 704 | *(5.9)* | 1,366 | 1,356 | *0.8* |
| | *Margins (%)* | *10.2* | *12.1* | | *10.1* | | *10.1* | *11.6* | |
| | PAT | 264 | 343 | *(23.0)* | 274 | *(3.5)* | 537 | 679 | *(20.8)* |
| **Jyoti Structures** | Sales | 6,694 | 6,321 | *5.9* | 6,538 | *2.4* | 13,232 | 12,698 | *4.2* |
| | EBITDA | 689 | 680 | *1.4* | 631 | *9.2* | 1,321 | 1,382 | *(4.4)* |
| | *Margins (%)* | *10.3* | *10.8* | | *9.7* | | *10.0* | *10.9* | |
| | PAT | 220 | 239 | *(8.1)* | 174 | *26.6* | 393 | 501 | *(21.4)* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 968,763 | 1,009,291 | 1,076,191 |
| *Growth (%)* | *10.7* | *4.2* | *6.6* |
| EBITDA | 141,706 | 137,334 | 140,080 |
| *Margin (%)* | *14.6* | *13.6* | *13.0* |
| PAT | 92,712 | 90,793 | 91,435 |
| *Growth (%)* | *7.9* | *(2.1)* | *0.7* |
| PE (x) | 19.3 | 19.7 | 19.5 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 231,071 | 214,753 | *7.6* | 201,778 | *14.5* |
| EBITDA | 27,807 | 26,674 | *4.2* | 20,789 | *33.8* |
| *Margin (%)* | 12.0 | 12.4 | *(39)bps* | 10.3 | *173 bps* |
| PAT (Excl. Ex Items) | 19,372 | 19,533 | *(0.8)* | 14,957 | *29.5* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

*All Nos. excluding Suzlon Energy and Power Grid Corporation*

## BHEL

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs264 |
| Target Price | Rs214 |
| Market Cap. (Rs bn) | 645.9 |
| Shares o/s (m) | 2,447.5 |

With no major orders announced in this quarter, we expect order booking to remain subdued. Though NTPC bulk tenders for 660MW and 800MW have been evaluated, LOAs have not been awarded for all the projects due to issues relating to few clearances. The total order for BHEL from NTPC bulk tenders will be ~Rs135bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 479,789 | 477,468 | 467,919 |
| EBITDA | 99,072 | 89,404 | 82,025 |
| *Margin (%)* | *20.6* | *18.7* | *17.5* |
| PAT | 70,592 | 63,504 | 58,068 |
| EPS (Rs) | 28.8 | 25.9 | 23.7 |
| *RoE (%)* | *30.7* | *22.5* | *17.6* |
| PE (x) | 9.1 | 10.2 | 11.1 |
| P / BV (x) | 2.5 | 2.1 | 1.8 |
| EV / E (x) | 5.9 | 6.1 | 6.4 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 109,818 | 102,986 | *6.6* | 83,262 | 193,080 | 174,242 | *10.8* |
| EBITDA | 17,681 | 17,123 | *3.3* | 10,894 | 28,575 | 26,798 | *6.6* |
| *Margin (%)* | *16.1* | *16.6* | *(53)bps* | *13.1* | *14.8* | *15.4* | *(58)bps* |
| Reported PAT | 13,925 | 14,120 | *(1.4)* | 9,209 | 23,134 | 22,277 | *3.8* |
| PAT (Excl. Ex Items) | 13,925 | 14,120 | *(1.4)* | 9,209 | 23,134 | 22,277 | *3.8* |
| **Operating Metrics** | | | | | | | |
| RM % sales | 59.0 | 59.4 | *(41)bps* | 58.3 | 58.7 | 58.9 | *(20)bps* |
| Employee Exp. % sales | 13.5 | 13.1 | *40 bps* | 16.8 | 14.9 | 15.2 | *(30)bps* |
| % full year sales | 23.0 | 21.5 | *154 bps* | 17.4 | 40.0 | 36.0 | *400 bps* |
| Order Book (Rs bn) | 1,276 | 1,610 | *(20.7)* | 1,329 | 1276 | 1610 | *(20.7)* |
| Order inflow (Rs bn) | 57 | 143 | *(60.0)* | 56 | 113 | 167.7 | *(32.6)* |

## Power Grid Corporation

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs118 |
| Target Price | Rs133 |
| Market Cap. (Rs bn) | 547.2 |
| Shares o/s (m) | 4,629.7 |

We expect strong momentum in capitalization to continue even in the current quarter. The company is aiming at reducing CWIP in the current year , which effectively means a capitalization of Rs 200bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 100,353 | 130,810 | 154,574 |
| EBITDA | 83,824 | 114,393 | 136,844 |
| *Margin (%)* | *83.5* | *87.4* | *88.5* |
| PAT | 32,549 | 39,262 | 48,680 |
| EPS (Rs) | 7.0 | 8.5 | 9.6 |
| *RoE (%)* | *13.0* | *14.3* | *14.9* |
| PE (x) | 16.8 | 13.9 | 12.3 |
| P / BV (x) | 2.1 | 1.9 | 1.6 |
| EV / E (x) | 12.5 | 10.2 | 8.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 30,379 | 22,644 | *34.2* | 28,883 | 59,261 | 44,669 | *32.7* |
| EBITDA | 25,609 | 18,978 | *34.9* | 24,646 | 50,256 | 37,433 | *34.3* |
| *Margin (%)* | *84.3* | *83.8* | *49 bps* | *85.3* | *84.8* | *83.8* | *100 bps* |
| Reported PAT | 9,887 | 7,087 | *39.5* | 8,701 | 18,588 | 14,140 | *31.5* |
| PAT (Excl. Ex Items) | 9,887 | 7,087 | *39.5* | 8,701 | 18,588 | 14,140 | *31.5* |
| **Operating Metrics** | | | | | | | |
| Capitalization(Rs bn) | 45.0 | 32.6 | *40.6s* | 40.7 | 85.72 | 40.46 | *112 bps* |

## ABB

| | |
|---|---|
| Rating | **Sell** |
| Price | Rs791 |
| Target Price | Rs634 |
| Market Cap. (Rs bn) | 167.6 |
| Shares o/s (m) | 211.9 |

We expect the overall order flow to remain subdued, given the high competition from Power Grid orders and continued delay in ordering from the Industrial segment. We expect the margins to be under pressure due to execution of low margin orders. However, YoY margin will improve 114bps due to lower base last year.

**Key Figures *(Rs m)***

| | CY11 | CY12E | CY13E |
|---|---|---|---|
| Net Sales | 73,703 | 85,063 | 100,364 |
| EBITDA | 2,831 | 4,849 | 7,026 |
| *Margin (%)* | *3.8* | *5.7* | *7.0* |
| PAT | 1,845 | 2,871 | 4,477 |
| EPS (Rs) | 8.7 | 13.6 | 21.1 |
| *RoE (%)* | *7.6* | *11.4* | *15.6* |
| PE (x) | 90.8 | 58.4 | 37.4 |
| P / BV (x) | 6.9 | 6.4 | 5.4 |
| EV / E (x) | 58.3 | 33.8 | 22.3 |

**Quarterly Table *(Rs m)***

| Y/e Dec | Q3 CY12E | Q3 CY11 | *YoY gr. (%)* | Q2 CY12 | 9M CY12E | 9M CY11 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 19,628 | 17,263 | *13.7* | 18,585 | 55,943 | 52,006 | *7.6* |
| EBITDA | 785 | 494 | *58.8* | 807 | 2,394 | 2,024 | *18.3* |
| *Margin (%)* | *4.0* | *2.9* | *114 bps* | *4.3* | *4.3* | *3.9* | *39 bps* |
| Reported PAT | 436 | 222 | *96.2* | 516 | 1,428 | 1,205 | *18.6* |
| PAT (Excl. Ex Items) | 436 | 222 | *96.2* | 516 | 1,428 | 1,205 | *18.6* |
| **Operating Metrics** | | | | | | | |
| RM cost % sales | 72.0 | 72.7 | *(71)bps* | 72.1 | 72.0 | 73.9 | *(190)bps* |
| % full year sales | 26.6 | 23.4 | *321 bps* | 25.2 | 66.0 | 71.0 | *(480)bps* |
| Order Inflow(Rs bn) | 19.9 | 24.9 | *(20.0)* | 20,450 | 57.0 | 60.0 | *(5.2)* |
| Order book (Rs bn) | 92.1 | 91.5 | *0.6* | 91,750 | 92.1 | 91.5 | *0.6* |

## Cummins India

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs506 |
| Target Price | Rs524 |
| Market Cap. (Rs bn) | 140.1 |
| Shares o/s (m) | 277.2 |

After a very strong Q1FY13, the company expects the strong growth in power and export market to continue for the current quarter as well. Strong volume growth and softening of commodities (especially pig iron) will help improve margins QoQ.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 41,172 | 47,010 | 54,645 |
| EBITDA | 6,972 | 8,462 | 9,945 |
| *Margin (%)* | *16.9* | *18.0* | *18.2* |
| PAT | 5,398 | 6,264 | 7,265 |
| EPS (Rs) | 19.5 | 22.6 | 26.2 |
| *RoE (%)* | *27.7* | *29.1* | *30.6* |
| PE (x) | 26.0 | 22.4 | 19.3 |
| P / BV (x) | 6.7 | 6.3 | 5.5 |
| EV / E (x) | 19.8 | 16.6 | 14.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 12,693 | 10,903 | *16.4* | 12,588 | 25,280 | 21,356 | *18.4* |
| EBITDA | 2,374 | 1,759 | *34.9* | 2,325 | 4,698 | 3,616 | *29.9* |
| *Margin (%)* | *18.7* | *16.1* | *257 bps* | *18.5* | *18.6* | *16.9* | *166 bps* |
| Reported PAT | 1,701 | 1,286 | *32.3* | 1,806 | 3,506 | 3,057 | *14.7* |
| PAT (Excl. Ex Items) | 1,701 | 1,286 | *32.3* | 1,806 | 3,506 | 2,543 | *37.9* |
| **Operating Metrics** | | | | | | | |
| RM % Sales | 63.5 | 58.1 | *542 bps* | 63.3 | 63.4 | 58.0 | *540bps* |
| % Full year Sales | 24.5 | 26.5 | *(198)bps* | 26.8 | 54.0 | 52.0 | *200bps* |

## Crompton Greaves

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs139 |
| Target Price | Rs110 |
| Market Cap. (Rs bn) | 89.4 |
| Shares o/s (m) | 641.5 |

We expect the power system revenue to grow by 11.5% YoY, driven by 10% YoY growth in international power systems and 12% YoY growth in the domestic power system. We expect domestic industrial business to be slow (1% YoY) due to adverse macro and 40% growth in international business (due to contribution from acquisitions). We expect the consumer segment to grow by 15% YoY. We expect international business to continue to make losses due to issues related to the Belgium subsidary.

**Key Figures *(Rs m)-Consolidated***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 112,486 | 129,746 | 149,933 |
| EBITDA | 8,036 | 9,670 | 12,089 |
| *Margin (%)* | *7.1* | *7.5* | *8.1* |
| PAT | 3,616 | 5,386 | 6,925 |
| EPS (Rs) | 5.6 | 8.4 | 10.8 |
| *RoE (%)* | *10.5* | *14.2* | *16.0* |
| PE (x) | 24.7 | 16.6 | 12.9 |
| P / BV (x) | 2.5 | 2.2 | 1.9 |
| EV / E (x) | 11.8 | 9.8 | 7.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 30,159 | 27,055 | *11.5* | 28,111 | 58,270 | 51,433 | *13.3* |
| EBITDA | 1,927 | 2,260 | *(14.8)* | 1,668 | 3,594 | 4,078 | *(11.9)* |
| *Margin (%)* | *6.4* | *8.4* | *(197)bps* | *5.9* | *6.2* | *7.9* | *(176)bps* |
| Reported PAT | 945 | 1,183 | *(20.1)* | 859 | 1,804 | 1,980 | *(7.5)* |
| PAT (Excl. Ex Items) | 945 | 1,183 | *(20.1)* | 859 | 1,804 | 1,980 | *(7.5)* |
| **Operating Metrics** | | | | | | | |
| Power segment | 19,375 | 17,611 | *10.0* | 17,620 | 36995 | 32777 | *12.9* |
| Industry segment | 5,049 | 4,655 | *8.5* | 4,051 | 4051 | 8453 | *7.6* |
| Consumer segment | 5,522 | 4,801 | *15.0* | 6,521 | 12042 | 10238 | *17.6* |

## Thermax

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs580 |
| Target Price | Rs582 |
| Market Cap. (Rs bn) | 69.1 |
| Shares o/s (m) | 119.2 |

We expect the execution to remain weak during the quarter due to lower order carry. We expect fresh order intake to come down by 5% YoY at ~Rs11.2bn (against Rs11.9bn). The company will be able to maintain good run rate of above Rs 10bn due to growing base business orders and few serious enquiries for captive power plant likely to be concluded over the next two quarters.

**Key Figures *(Rs m) -Consolidated***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 60,912 | 52,152 | 55,976 |
| EBITDA | 5,919 | 4,925 | 5,589 |
| *Margin (%)* | *9.7* | *9.4* | *10.0* |
| PAT | 3,921 | 3,026 | 3,653 |
| EPS (Rs) | 32.9 | 25.4 | 30.7 |
| *RoE (%)* | *26.6* | *17.2* | *18.1* |
| PE (x) | 17.6 | 22.8 | 18.9 |
| P / BV (x) | 4.2 | 3.7 | 3.2 |
| EV / E (x) | 10.5 | 12.1 | 10.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 10,533 | 13,035 | *(19.2)* | 9,835 | 20,368 | 23,479 | *(13.3)* |
| EBITDA | 1,053 | 1,405 | *(25.0)* | 964 | 2,017 | 2,542 | *(20.6)* |
| *Margin (%)* | *10.0* | *10.8* | *(78)bps* | *9.8* | *9.9* | *10.8* | *(92)bps* |
| Reported PAT | 731 | 1,017 | *(28.1)* | 673 | 1,404 | 1,816 | *(22.7)* |
| PAT (Excl. Ex Items) | 731 | 1,017 | *(28.1)* | 673 | 1,404 | 1,816 | *(22.7)* |
| **Operating Metrics** | | | | | | | |
| Energy segment | 6,903 | 10,349 | *(33.3)* | 7,654 | 14,500 | 18,372 | *(21.1)* |
| Environment segment | 1,947 | 2,968 | *(34.4)* | 2,432 | 5,616 | 4,363 | *28.7* |
| Order Book (Rs bn) | 46 | 58 | *(21.1)* | 45 | 47 | 58 | *(18.1)* |
| Order Inflow(Rs bn) | 11.3 | 11.9 | *(5.0)* | 12.6 | 24 | 26 | *(9.2)* |

## Voltas

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs121 |
| Target Price | Rs135 |
| Market Cap. (Rs bn) | 40.0 |
| Shares o/s (m) | 330.7 |

**Key Figures *(Rs m)* – Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 51,857 | 50,133 | 55,901 |
| EBITDA | 3,365 | 3,244 | 3,962 |
| *Margin (%)* | *6.5* | *6.5* | *7.1* |
| PAT | 737 | 2,717 | 3,181 |
| EPS (Rs) | 2.2 | 8.2 | 9.6 |
| *RoE (%)* | *5.2* | *16.8* | *16.7* |
| PE (x) | 54.2 | 14.8 | 12.6 |
| P / BV (x) | 2.7 | 2.3 | 2.0 |
| EV / E (x) | 11.7 | 11.4 | 8.9 |

We expect overall revenue growth to be slow at Rs12.1bn (10% YoY). The margin of MEP segment are likely to be under pressure as the incremental cost related to the Sidra project after techno commerical survey is likely to be taken in the quarter. Though in UCP segment, Voltas has been able to grow faster than the market, margins are likely to be under pressure due to competition.

**Quarterly Table *(Rs m)* – Consolidated**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 12,156 | 11,019 | *10.3* | 16,116 | 28,272 | 24,477 | *15.5* |
| EBITDA | 432 | 76 | *467.8* | 887 | 1,318 | 1,138 | *15.8* |
| *Margin (%)* | *3.6* | *0.7* | *286 bps* | *5.5* | *4.7* | *4.7* | *1 bps* |
| Reported PAT | 331 | 403 | *(17.8)* | 780 | 1,111 | 1,720 | *(35.4)* |
| PAT (Excl. Ex Items) | 331 | 228 | *45.3* | 780 | 1,111 | 962 | *15.5* |
| **Operating Metrics** | | | | | | | |
| MEP | 8,081 | 7,623 | *6.0* | 7,413 | 15,494 | 14,392 | *7.7* |
| Eng. Product & services | 1,346 | 1,202 | *12.0* | 1,066 | 2,412 | 2,175 | *10.9* |
| UCP | 2,427 | 2,110 | *15.0* | 7,544 | 9,970 | 7,735 | *28.9* |
| Order Book (Rs bn) | 48 | 45 | *5.0* | 46 | 48 | 45 | *5.0* |
| Interest % sales | 1.1 | 0.6 | *43 bps* | 0.8 | 0.6 | 0.6 | *0 bps* |

## Suzlon Energy

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs18 |
| Target Price | Rs13 |
| Market Cap. (Rs bn) | 31.2 |
| Shares o/s (m) | 1,777.4 |

**Key Figures *(Rs m) -Consolidated***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 213,592 | 271,332 | 325,165 |
| EBITDA | 18,212 | 17,572 | 23,328 |
| *Margin (%)* | *8.5* | *6.5* | *7.2* |
| PAT | (7,058) | (1,647) | 2,835 |
| EPS (Rs) | (4.0) | (0.9) | 1.6 |
| *RoE (%)* | *(12.1)* | *(3.2)* | *5.5* |
| PE (x) | (4.4) | (18.9) | 11.0 |
| P / BV (x) | 0.6 | 0.6 | 0.6 |
| EV / E (x) | 8.0 | 8.8 | 7.1 |

We expect domestic volumes to be down 37% YoY at 250MW. However, QoQ volumes will be up as last quarter volumes were severally impacted by FCCB restructuring and working capital constraint which will be partly resolved in the current quarter. However, we expect it to continue to be in red.

**Quarterly Table *(Rs m)* – Consolidated**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 56,441 | 51,310 | *10.0* | 47,707 | 104,148 | 95,110 | *9.5* |
| EBITDA | 453 | 3,860 | *(88.3)* | (2,574) | (2,120) | 8,760 | *(124.2)* |
| *Margin (%)* | 0.8 | 7.5 | *(672)bps* | (5.4) | (2.0) | 9.2 | *(1,125)bps* |
| Reported PAT | (6,297) | (1,720) | *NA* | (8,936) | (15,232) | (1,120) | *NA* |
| PAT (Excl. Ex Items) | (5,797) | 470 | *NA* | (8,936) | (15,232) | 1,070 | *NA* |
| **Operating Metrics** | | | | | | | |
| Sales Domestic (MW) | 250 | 396 | *(36.9)* | 60 | 310 | 700 | *(55.7)* |
| Sales International (MW) | 80 | 25 | *220.0* | 90 | 170 | 158 | *7.6* |
| Interest % sales | 8.9 | 7.0 | *190 bps* | 10.3 | 10 | 7 | *300 bps* |

## BGR Energy Systems

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs288 |
| Target Price | Rs251 |
| Market Cap. (Rs bn) | 20.8 |
| Shares o/s (m) | 72.2 |

We expect sales to de-grow by 3% YoY. Margins are expected to improve due to lower contribution from EPC revenue. BGR received LOA for steam generator for Raghunathpur.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 34,445 | 37,450 | 45,190 |
| EBITDA | 4,706 | 4,706 | 5,498 |
| *Margin (%)* | *13.7* | *12.6* | *12.2* |
| PAT | 2,235 | 2,139 | 1,958 |
| EPS (Rs) | 31.0 | 29.6 | 27.1 |
| *RoE (%)* | *21.8* | *18.1* | *14.3* |
| PE (x) | 9.3 | 9.7 | 10.6 |
| P / BV (x) | 1.9 | 1.6 | 1.4 |
| EV / E (x) | 7.7 | 7.3 | 6.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 7,490 | 7,706 | *(2.8)* | 6,108 | 13,598 | 15,018 | *(9.5)* |
| EBITDA | 1,049 | 1,093 | *(4.0)* | 878 | 1,927 | 2,024 | *(4.8)* |
| *Margin (%)* | *14.0* | *14.2* | *(18)bps* | *14.4* | *14.2* | *13.5* | *69 bps* |
| Reported PAT | 428 | 514 | *(16.6)* | 336 | 764 | 1,016 | *(24.8)* |
| PAT (Excl. Ex Items) | 428 | 514 | *(16.6)* | 336 | 764 | 1,016 | *(24.8)* |
| **Operating Metrics** | | | | | | | |
| RM % Sales | 77.2 | 80.7 | *(350)bps* | 74.4 | 75.9 | 77.1 | *(120) bps* |
| ETR | 33.0 | 32.5 | *51 bps* | 32.5 | 32.8 | 32.4 | *40 bps* |
| Order book (Rs bn) | 85 | 73 | *16.9* | 150 | 85 | 73 | *16.4* |
| Interest as % of sales | 5.0 | 3.9 | *108 bps* | 5.6 | 5.3 | 3.2 | *210 bps* |

## KEC International

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs70 |
| Target Price | Rs79 |
| Market Cap. (Rs bn) | 17.9 |
| Shares o/s (m) | 257.0 |

We expect steady sales growth of 22% YoY at Rs15.4bn. Margins are likely to be under pressure due to execution of low margin orders and contribution of new business with low margins. Higher interest costs and lower margins will take a toll on the PAT growth.

**Key Figures *(Rs m)* – Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 58,147 | 66,987 | 77,234 |
| EBITDA | 4,713 | 5,579 | 6,699 |
| *Margin (%)* | *8.1* | *8.3* | *8.7* |
| PAT | 1,863 | 2,218 | 2,781 |
| EPS (Rs) | 7.2 | 8.6 | 10.8 |
| *RoE (%)* | *18.1* | *18.3* | *19.2* |
| PE (x) | 9.6 | 8.1 | 6.4 |
| P / BV (x) | 1.6 | 1.4 | 1.1 |
| EV / E (x) | 5.7 | 5.1 | 4.2 |

**Quarterly Table (Rs *m)* – Consolidated**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 15,407 | 12,632 | *22.0* | 13,641 | 29,048 | 22,857 | *27.1* |
| EBITDA | 1,156 | 1,076 | *7.4* | 1,032 | 2,188 | 2,032 | *7.7* |
| *Margin (%)* | *7.5* | *8.5* | *(102)bps* | *7.6* | *7.5* | *8.9* | *(136)bps* |
| Reported PAT | 391 | 222 | *76.2* | 212 | 603 | 553 | *9.1* |
| PAT (Excl. Ex Items) | 391 | 382 | *2.4* | 332 | 723 | 713 | *1.4* |
| **Operating Metrics** | | | | | | | |
| RM % sales | 51.8 | 53.6 | *(183)bps* | 48.0 | 54.2 | 50.4 | *380 bps* |
| % full year sales | 23.0 | 21.7 | *128 bps* | 20.4 | 86.8 | 77.0 | *980 bps* |
| Order Book(Rs bn) | 101 | 85 | *19.3* | 95 | 101 | 85 | *19.3* |
| Order Flow(Rs bn) | 22 | 12 | *80.0* | 20 | 20 | 23 | *(12.3)* |
| Interest % sales | 2.9 | 3.0 | *(8)bps* | 2.9 | 2.9 | 3.0 | *(10)bps* |

## Kalpataru Power Transmission

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs89 |
| Target Price | Rs99 |
| Market Cap. (Rs bn) | 13.6 |
| Shares o/s (m) | 153.5 |

We expect the sales growth to be 11.3% YoY at Rs6.4bn. Though no major announcements have happened in terms of orders, we expect the order flow to grow by 10%, given the strong ordering traction by Power Grid and in the international markets. Margins will be under pressure and will come down by 193bps due to execution of lower margin orders.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 30,327 | 34,179 | 39,306 |
| EBITDA | 3,292 | 3,417 | 4,087 |
| *Margin (%)* | *10.9* | *10.0* | *10.4* |
| PAT | 1,649 | 1,800 | 2,199 |
| EPS (Rs) | 10.7 | 11.7 | 14.3 |
| *RoE (%)* | *10.4* | *10.9* | *11.5* |
| PE (x) | 8.2 | 7.6 | 6.2 |
| P / BV (x) | 0.9 | 0.8 | 0.6 |
| EV / E (x) | 5.3 | 4.8 | 4.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 6,494 | 5,833 | *11.3* | 6,994 | 13,488 | 11,660 | *15.7* |
| EBITDA | 662 | 708 | *(6.4)* | 704 | 1,366 | 1,356 | *0.8* |
| *Margin (%)* | *10.2* | *12.1* | *(193)bps* | *10.1* | *10.1* | *11.6* | *(150)bps* |
| Reported PAT | 264 | 343 | *(23.0)* | 274 | 537 | 679 | *(20.8)* |
| PAT (Excl. Ex Items) | 264 | 343 | *(23.0)* | 274 | 537 | 679 | *(20.8)* |
| **Operating Metrics** | | | | | | | |
| RM% Sales | 48.0 | 49.3 | *(133)bps* | 46.4 | 47.1 | 47.1 | *0 bps* |
| % full year sales | 19.0 | 19.2 | *(23)bps* | 20.5 | 39 | 38 | *100 bps* |
| Order Book(Rs bn) | 61 | 60 | *1.6* | 60 | 61 | 60 | *1.6* |
| Order Flow (Rs bn) | 7 | 7 | *10.0* | 7 | 14 | 21 | *(34)* |
| Interest % sales | 3.5 | 4.1 | *(65)bps* | 4.5 | 4.5 | 4.2 | *35 bps* |

## Jyoti Structures

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs50 |
| Target Price | Rs62 |
| Market Cap. (Rs bn) | 4.1 |
| Shares o/s (m) | 82.2 |

We expect the sales to grow by 5.9% YoY at Rs6.6bn. The execution is likely to be slow due to ROW issues in few projects. Higher interest cost is likely to take a toll on PAT. The stretched working capital due to delayed payment from SEB is likely to keep interest cost high and continue to drag profitability.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 25,924 | 29,103 | 29,724 |
| EBITDA | 2,800 | 3,077 | 3,160 |
| *Margin (%)* | *10.8* | *10.6* | *10.6* |
| PAT | 855 | 868 | 929 |
| EPS (Rs) | 10.4 | 10.6 | 11.3 |
| *RoE (%)* | *13.4* | *13.0* | *12.9* |
| PE (x) | 4.8 | 4.8 | 4.5 |
| P / BV (x) | 0.6 | 0.6 | 0.5 |
| EV / E (x) | 4.1 | 3.6 | 3.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 6,694 | 6,321 | *5.9* | 6,538 | 13,232 | 12,698 | *4.2* |
| EBITDA | 689 | 680 | *1.4* | 631 | 1,321 | 1,382 | *(4.4)* |
| *Margin (%)* | *10.3* | *10.8* | *(46)bps* | *9.7* | *10.0* | *10.9* | *(90)bps* |
| Reported PAT | 220 | 239 | *(8.1)* | 174 | 393 | 501 | *(21.4)* |
| PAT (Excl. Ex Items) | 220 | 239 | *(8.1)* | 174 | 393 | 501 | *(21.4)* |
| **Operating Metrics** | | | | | | | |
| Rm % sales | 55.5 | 56.6 | *(113)bps* | 55.1 | 55.3 | 57.4 | *(210)bps* |
| % full year sales | 23.0 | 24.4 | *(138)bps* | 22.5 | 45.5 | 49 | *(7.1)* |
| Order Book(Rs bn) | 50 | 44 | *13.8* | 46 | 50 | 44 | *13.8* |
| Order flow (Rs bn) | 11 | 6 | *90.9* | 9 | 20 | 12 | *69.1* |
| Interest % sales | 5.2 | 4.5 | *70 bps* | 5.0 | 5.2 | 4.5 | *70 bps* |

Kamlesh Bagmar
kamleshbagmar@plindia.com
+91-22-6632 2237

Mandar Dhavle
mandardhavle@plindia.com
+91-22-6632 2258

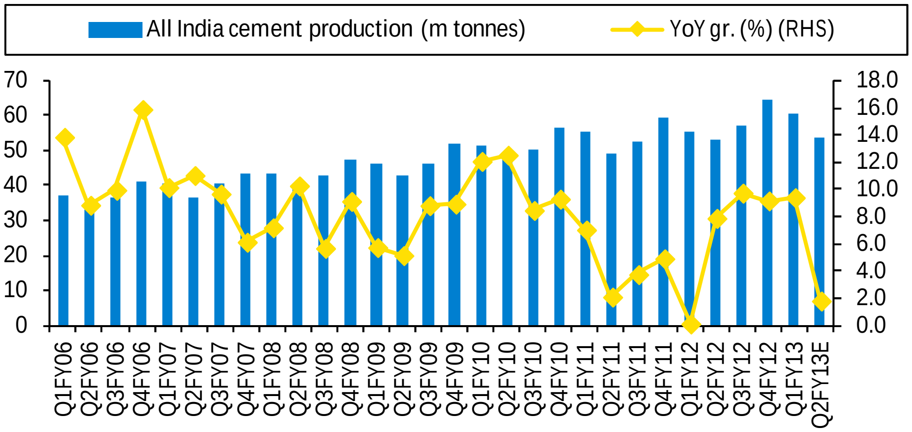
## Top picks

Shree Cement

# Cement

According to the data from the office of the Economic Adviser to the Ministry of Commerce and Industry, all India cement production declined 0.6% YoY to 36.3m tonnes during July-August 2012. Data indicates sharp deceleration in demand compared to 9.4% growth in Q1FY13. However, Q1FY13 was benefitted by low base of 0.1% growth. Our interactions with companies suggest 2-4% growth in the month of September on the back of low base of 2% growth.

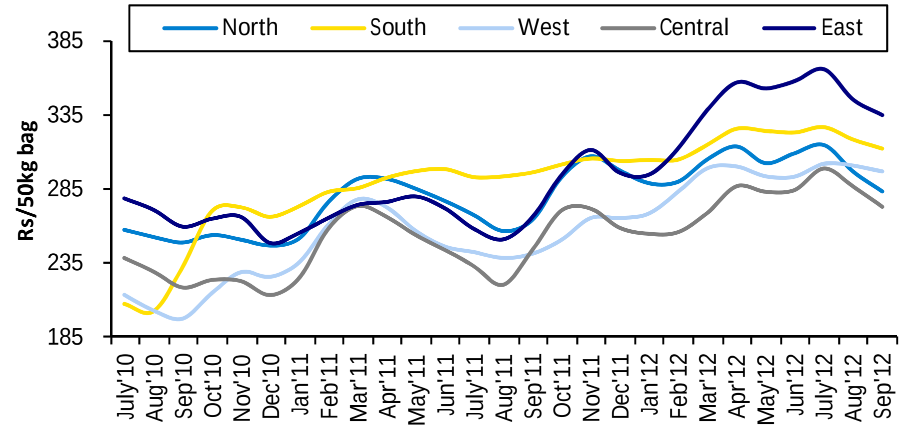
**All India Cement Production**




*Source: Economic Advisor to Ministry of Commerce & Industry*

Thanks to the strong discipline, all India average cement price fell marginally by ~1% or Rs3-4/bag QoQ to Rs310 during the quarter against historical average of Rs15-20/bag. On YoY basis, the average stands higher by 21% or Rs55/bag. Both, Eastern and Western region, witnessed the highest price increase to the tune of ~Rs90 and Rs60/bag YoY during the quarter with an average price of Rs350 and Rs300, respectively. Prices in the Northern region rose by Rs35/bag, with an average price level of Rs300 for the quarter. Prices in the Central region edged higher by Rs54/bag at Rs285 on the back of strong prices in MP. Southern region attracted the lowest increase of Rs25/bag on the backdrop of Rs15/bag fall in AP.

**Region-wise prices**




*Source: Industry, PL Research*

We have been structurally positive on the earnings quality of the sector, driven by maturity demonstrated by the manufacturers. However, we turn uncomfortable on the Top-3 players, UltraTech Cement (UTCEM), ACC and Ambuja Cement (ACEM), given their expensive valuations at EV/EBITDA of 8.5-9x and P/E of 15x FY14E. We continue to like Shree Cement, given its strong earnings profile, attractive valuations (EV/EBITDA at 5.7x FY14E) and aggressive capacity expansion.

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| UltraTech Cement | 17.7 | 27.7 | 30.2 | 78.2 | 8.3 | 19.7 | 21.9 | 58.3 |
| Ambuja Cement | 19.9 | 23.6 | 28.8 | 45.1 | 10.5 | 15.7 | 20.4 | 25.2 |
| ACC | 12.0 | 12.4 | 8.4 | 31.7 | 2.6 | 4.4 | 0.1 | 11.8 |
| Shree Cement | 14.1 | 26.0 | 24.4 | 110.7 | 4.7 | 18.0 | 16.1 | 90.8 |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | YoY gr. (%) | Q1FY13 | QoQ gr. (%) | H1FY13E | H1FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|---|---|
| UltraTech Cement | Sales | 46,858 | 39,098 | *19.8* | 50,748 | (7.7) | 97,605 | 82,613 | *18.1* |
| | EBITDA | 10,856 | 5,816 | *86.7* | 12,918 | (16.0) | 23,774 | 17,699 | *34.3* |
| | *Margins (%)* | *23.2* | *14.9* | | *25.5* | | *24.4* | *21.4* | |
| | PAT | 6,358 | 2,471 | *157.3* | 7,784 | (18.3) | 14,141 | 9,160 | *54.4* |
| Ambuja Cement | Sales | 21,990 | 18,051 | *21.8* | 25,660 | (14.3) | 73,982 | 61,854 | *19.6* |
| | EBITDA | 5,652 | 3,115 | *81.5* | 7,223 | (21.8) | 20,320 | 15,057 | *35.0* |
| | *Margins (%)* | *25.7* | *17.3* | | *28.2* | | *27.5* | *24.3* | |
| | PAT | 3,602 | 1,921 | *87.5* | 4,689 | (23.2) | 13,366 | 9,471 | *41.1* |
| ACC | Sales | 26,349 | 22,834 | *15.4* | 29,190 | (9.7) | 85,691 | 73,786 | *16.1* |
| | EBITDA | 4,244 | 2,179 | *94.7* | 6,503 | (34.7) | 16,927 | 13,235 | *27.9* |
| | *Margins (%)* | *16.1* | *9.5* | | *22.3* | | *19.8* | *17.9* | |
| | PAT | 2,611 | 1,176 | *122.0* | 4,145 | (37.0) | 13,931 | 7,856 | *77.3* |
| Shree Cement | Sales | 13,448 | 8,546 | *57.4* | 14,553 | (7.6) | 57,021 | 58,981 | *(3.3)* |
| | EBITDA | 4,241 | 2,004 | *111.6* | 4,812 | (11.9) | 16,539 | 16,239 | *1.8* |
| | *Margins (%)* | *31.5* | *23.5* | | *33.1* | | *29.0* | *27.5* | |
| | PAT | 2,917 | 393 | *642.3* | 3,516 | (17.0) | 10,719 | 6,308 | *69.9* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 426,081 | 480,693 | 543,210 |
| *Growth (%)* | *31.8* | *12.8* | *13.0* |
| EBITDA | 92,255 | 117,908 | 143,539 |
| *Margin (%)* | *21.7* | *24.5* | *26.4* |
| PAT | 52,496 | 75,230 | 92,207 |
| *Growth (%)* | *40.9* | *43.3* | *22.6* |
| PE (x) | 24.4 | 17.0 | 13.9 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | QoQ gr. (%) |
|---|---|---|---|---|---|
| Net Sales | 108,644 | 88,529 | *22.7* | 120,150 | *(9.6)* |
| EBITDA | 24,993 | 13,114 | *90.6* | 31,455 | *(20.5)* |
| *Margin (%)* | *23.0* | *14.8* | *819 bps* | *26.2* | *(318)bps* |
| PAT (Excl. Ex Items) | 15,486 | 5,962 | *159.8* | 20,134 | *(23.1)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## UltraTech Cement

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs1,971 |
| Target Price | Rs1,958 |
| Market Cap. (Rs bn) | 540.2 |
| Shares o/s (m) | 274.0 |

Thanks to the strong rise in realisations across its markets, domestic grey cement realisations are expected to grow by 18.1% YoY/Rs660 (per tonne) and flat QoQ to Rs4,298. Volumes are expected to grow by 2.2% to 9.2m tonnes. Owing to higher energy and freight cost, cost of production is expected to escalate by 6% YoY or Rs215/tonne to Rs3,757. Thanks to steeper rise in realisation relative to escalation in costs, EBITDA/t would expand by ~83% to Rs1,133.

**Key Figures *(Rs m)***

| | FY11 | FY12E | FY13E |
|---|---|---|---|
| Net Sales | 181,664 | 206,140 | 232,698 |
| EBITDA | 39,987 | 50,905 | 61,266 |
| *Margin (%)* | *22.0* | *24.7* | *26.3* |
| PAT | 23,396 | 31,729 | 38,033 |
| EPS (Rs) | 85.4 | 115.8 | 138.8 |
| *RoE (%)* | *19.9* | *22.2* | *21.8* |
| PE (x) | 23.1 | 17.0 | 14.2 |
| P / BV (x) | 4.2 | 3.4 | 2.8 |
| EV / E (x) | 13.6 | 10.8 | 8.6 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 46,858 | 39,098 | *19.8* | 50,748 | 97,605 | 82,613 | *18.1* |
| EBITDA | 10,856 | 5,816 | *86.7* | 12,918 | 23,774 | 17,699 | *34.3* |
| *Margin (%)* | *23.2* | *14.9* | *829 bps* | *25.5* | *24.4* | *21.4* | *293 bps* |
| Reported PAT | 6,358 | 2,789 | *128.0* | 7,784 | 14,141 | 9,620 | *47.0* |
| PAT (Excl. Ex Items) | 6,358 | 2,471 | *157.3* | 7,784 | 14,141 | 9,160 | *54.4* |
| **Operating Metrics** | | | | | | | |
| Grey cement Vol. (m te) | 9.2 | 9.0 | *2.2* | 10.1 | 19.4 | 18.5 | *4.5* |
| Net grey cement Realisation (Rs/te) | 4,298 | 3,638 | *18.1* | 4,300 | 4,299 | 3,790 | *13.4* |
| Blended EBITDA/tonne (Rs) | 1,133 | 619 | *83.0* | 1,238 | 1,188 | 912 | *30.3* |

## Ambuja Cement

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs216 |
| Target Price | Rs202 |
| Market Cap. (Rs bn) | 330.9 |
| Shares o/s (m) | 1,529.9 |

Solely on the back of realizations, net revenue is expected to grow 21.8% YoY to Rs22bn. Cost/tonne is expected to increase by 9% (Rs284) to Rs3,390 on account of higher energy and freight cost. Thanks to steeper rise in realisation relative to escalation in cost, EBITDA/tonne would expand by 81.1% to Rs 1,173. Adjusted PAT is expected to grow by 87.5% YoY to Rs3.6bn.

**Key Figures *(Rs m)***

| | CY11 | CY12E | CY13E |
|---|---|---|---|
| Net Sales | 85,312 | 101,176 | 113,029 |
| EBITDA | 19,067 | 26,845 | 32,296 |
| *Margin (%)* | *22.3* | *26.5* | *28.6* |
| PAT | 12,583 | 17,681 | 21,821 |
| EPS (Rs) | 8.2 | 11.5 | 14.2 |
| *RoE (%)* | *16.3* | *20.6* | *22.3* |
| PE (x) | 26.4 | 18.8 | 15.2 |
| P / BV (x) | 4.1 | 3.7 | 3.2 |
| EV / E (x) | 15.9 | 11.0 | 8.7 |

**Quarterly Table *(Rs m)***

| Y/e Dec | Q3 CY12E | Q3 CY11 | *YoY gr. (%)* | Q2 CY12 | 9M CY12E | 9M CY11 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 21,990 | 18,051 | *21.8* | 25,660 | 73,982 | 61,854 | *19.6* |
| EBITDA | 5,652 | 3,115 | *81.5* | 7,223 | 20,320 | 15,057 | *35.0* |
| *Margin (%)* | *25.7* | *17.3* | *845 bps* | *28.2* | *27.5* | *24.3* | *312 bps* |
| Reported PAT | 3,602 | 1,715 | *110.0* | 4,689 | 11,413 | 9,265 | *23.2* |
| PAT (Excl. Ex Items) | 3,602 | 1,921 | *87.5* | 4,689 | 13,366 | 9,471 | *41.1* |
| **Operating Metrics** | | | | | | | |
| Volume (m te) | 4.8 | 4.8 | *0.2* | 5.6 | 16.6 | 15.7 | *5.7* |
| Net Realisations (Rs/te) | 4,562 | 3,753 | *21.6* | 4,556 | 4,448 | 3,930 | *13.2* |
| EBITDA/te (Rs/te) | 1,173 | 648 | *81.1* | 1,283 | 1,222 | 957 | *27.7* |

## ACC

| | |
|---|---|
| Rating | **Sell** |
| Price | Rs1,458 |
| Target Price | Rs1,392 |
| Market Cap. (Rs bn) | 274.0 |
| Shares o/s (m) | 188.0 |

Benefit of 19.6% (or Rs737/t) increase in realisation would be restricted to 15.4% on revenue due to 3.2% fall in volumes. Cost is expected to rise by 10% or Rs349/tonne to Rs3,731 due to an increase in coal prices by Coal India and higher railway freights. Hence, EBITDA/tonne would expand by 101.2% from Rs383 to Rs771. Net profit is expected to rise by 122% to Rs2.6bn.

**Key Figures *(Rs m)***

| | CY11 | CY12E | CY13E |
|---|---|---|---|
| Net Sales | 100,123 | 116,356 | 129,708 |
| EBITDA | 16,961 | 23,620 | 29,154 |
| *Margin (%)* | *16.9* | *20.3* | *22.5* |
| PAT | 10,209 | 15,101 | 19,777 |
| EPS (Rs) | 54.3 | 80.3 | 105.2 |
| *RoE (%)* | *15.4* | *20.4* | *23.4* |
| PE (x) | 26.8 | 18.1 | 13.9 |
| P / BV (x) | 3.9 | 3.5 | 3.0 |
| EV / E (x) | 14.8 | 10.3 | 7.9 |

**Quarterly Table *(Rs m)***

| Y/e Dec | Q3 CY12E | Q3 CY11 | YoY gr. (%) | Q2 CY12 | 9M CY12E | 9M CY11 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 26,349 | 22,834 | *15.4* | 29,190 | 85,691 | 73,786 | *16.1* |
| EBITDA | 4,244 | 2,179 | *94.7* | 6,503 | 16,927 | 13,235 | *27.9* |
| *Margin (%)* | *16.1* | *9.5* | *656 bps* | *22.3* | *19.8* | *17.9* | *182 bps* |
| Reported PAT | 2,611 | 1,593 | *63.9* | 4,145 | 11,625 | 8,376 | *38.8* |
| PAT (Excl. Ex Items) | 2,611 | 1,176 | *122.0* | 4,145 | 13,931 | 7,856 | *77.3* |
| **Operating Metrics** | | | | | | | |
| Volume (m te) | 5.5 | 5.7 | *(3.2)* | 6.1 | 18.3 | 17.8 | *2.8* |
| Net Realisation (Rs/te) | 4,501 | 3,765 | *19.6* | 4,581 | 4,435 | 3,898 | *13.8* |
| EBITDA (Rs/ te) | 771 | 383 | *101.2* | 1,075 | 926 | 744 | *24.4* |

## Shree Cement

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs3,874 |
| Target Price | Rs4,472 |
| Market Cap. (Rs bn) | 135.0 |
| Shares o/s (m) | 34.8 |

Led by 13.4% rise in realizations and 21.5% volume growth, revenue of cement business is expected to grow by 38%. Power business is expected to post revenue of Rs1.8bn against Rs34m in the previous year. Cement biz's cost of production is expected to marginally come down by 1% at Rs2,578 owing to lower pet coke prices and higher scale. Rise in realizations by Rs460 and lower costs would lead to expansion in EBITDA by Rs488/tonne to ~Rs1292. Hence, EBITDA is expected to grow by 111.6% to Rs4.2bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 58,981 | 57,021 | 67,774 |
| EBITDA | 16,239 | 16,539 | 20,823 |
| *Margin (%)* | *27.5* | *29.0* | *30.7* |
| PAT | 6,308 | 10,719 | 12,577 |
| EPS (Rs) | 181.1 | 307.7 | 361.0 |
| *RoE (%)* | *26.7* | *31.6* | *26.8* |
| PE (x) | 21.4 | 12.6 | 10.7 |
| P / BV (x) | 4.9 | 3.3 | 2.5 |
| EV / E (x) | 7.5 | 7.3 | 5.4 |

**Quarterly Table *(Rs m)***

| Y/e June | Q1 FY13E | Q1 FY12 | YoY gr. (%) | Q4 FY12 | 12M FY13E | 12M FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 13,448 | 8,546 | *57.4* | 14,553 | 57,021 | 58,981 | *(3.3)* |
| EBITDA | 4,241 | 2,004 | *111.6* | 4,812 | 16,539 | 16,239 | *1.8* |
| *Margin (%)* | *31.5* | *23.5* | *809 bps* | *33.1* | *29.0* | *27.5* | *147 bps* |
| Reported PAT | 2,917 | 385 | *657.7* | 3,515 | 10,719 | 6,185 | *73.3* |
| PAT (Excl. Ex Items) | 2,917 | 393 | *642.3* | 3,516 | 10,719 | 6,308 | *69.9* |
| **Operating Metrics** | | | | | | | |
| Vol. (m te)-Cement | 3.0 | 2.5 | *21.5* | 3.4 | 12.7 | 14.9 | *(14.4)* |
| Vol. (m units)-Power | 400 | 7 | *5,782.4* | 390 | 2,090 | 1,322 | *58.1* |
| Net Realisations (Rs/te) | 3,870 | 3,412 | *13.4* | 3,806 | 4,406 | 4,033 | *9.2* |
| Cement EBITDA (Rs/te) | 1,292 | 803 | *60.8* | 1,326 | 1,167 | 1,026 | *13.7* |
| Cement EBITDA | 3,901 | 1,997 | *95.4* | 4,467 | 14,856 | 15,261 | *(2.7)* |
| Power EBITDA | 340 | 8 | *NA* | 345 | 1,683 | 978 | *72.2* |

Rupa Shah
rupashah@plindia.com
+91-22-6632 2244

## Top picks

None

# Construction

Stocks in the Infrastructure sector show an upward trend, mainly due to announcement of host of reforms in Power, Infrastructure and Retail sector.

**FM puts infra on fast track; reviews 191 infra projects**

The Finance minister proposed to clear projects worth about Rs10bn. From around 109 pending ministry clearances, nearly 76 projects need regulatory clearances, 33 need nods from State Government and banks, whereas 22 projects are yet to achieve financial closure.

**Infra projects stuck**

| | |
|---|---|
| MoEF | 35 |
| Coal Min | 26 |
| Power Min | 9 |
| Road, Trans Min | 8 |
| Mining Min | 5 |
| Oil Min | 4 |
| DoT | 2 |

*Source: Company Data, PL Research*

Moreover, the announcement of minority stake sales in four PSUs is expected to raise nearly Rs150bn, which may aid Infra growth. It was topped by RBI cutting CRR by 25 basis points which we expect would release Rs170bn in the system. The Cabinet Committee on Economic Affairs also approved the scheme for Financial Restructuring of State Distribution Companies (Discoms). All these events will help some liquidity easing in the system and thus, give some impetus to Infrastructure funding.

Ordering activity was flat YoY and QoQ though it is an encouraging sign. Going ahead, we still believe that the stock performance will depend on 1) improvement in the balance sheet and 2) improvement in order inflows with the softening in competitive intensity.

For the overall sector, order inflow stands at Rs256bn (approx) as against Rs306bn (approx) for Q1FY13 and is down by 17% as compared to Q2FY12.

On the order inflow front, we are expecting 6% YoY de-growth (for our coverage universe), Order inflow for our universe stands at Rs236bn for Q2FY13E as against Rs296bn for Q1FY13.

Key developments to watch out for in Q3FY13E are 1) DFC orders 2) revival of Power and Hydrocarbon sector and 3) fund raising plans in infrastructure asset SPVs.

## Sectoral Insights

### Roads

***In Q2FY13E, NHAI has awarded close to 350kms***. *Total order inflow in roads is Rs57bn.IVRCL, HCC and KNR Constructions* were among the players who have bagged projects from NHAI. Apart from that, smaller players like *J.Kumar* and others also got some EPC-based road projects.

### Power

Orders from the power sector continue to be a drag on account of domestic fuel deficits and poor financial health of the State Electricity Boards. However, delay in order inflows from the power generation sector has not much affected the power transmission projects which continue to pour in, though on a smaller scale. During the quarter, L&T has booked few orders from the transmission and distribution segment. *Total order inflow is Rs26-30bn.*

### Hydrocarbon/Process

Order inflows improved in Q2FY13E with some revival in ONGC orders. Order inflows are expected to improve in the Middle East and South East Asian markets. *Total order inflow is Rs38bn.*

### Infrastructure

Infrastructure orders continue to show signs of recovery. L&T witnessed highest order inflows in Factory and Building segment, Water and effluent treatment business and Road sectors. *Total order inflow is Rs63bn. Mining, Railways and other smaller sectors also performed well with an order inflow of Rs52bn.*

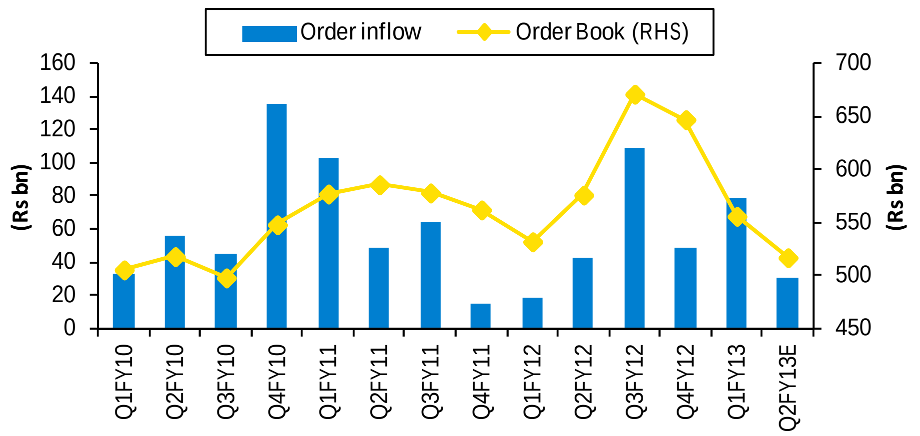
Policy paralysis at the centre is loosening up and benefits of various initiatives are expected to flow in. However, the company level issues like poor balance sheet and bad performance of their BOT assets are adding to the woes. Re-rating of the sector has materialised; however, it is not being backed by a fundamental improvement in company level health.

**Quarterly Snapshot (Rs bn)**

| | Q4FY10 | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Order Inflow trend** | | | | | | | | | | | |
| L&T | 245 | 156 | 205 | 133 | 301 | 162 | 161 | 171 | 211 | 196 | 196 |
| Punj Lloyd | 38 | 46 | 0 | 42 | 17 | 24 | 18 | 29 | 15 | 20 | 0 |
| IVRCL | 41 | 53 | 23 | 36 | 6 | 9 | 22 | 34 | 44 | 47 | 16 |
| Hindustan Construction | 39 | 15 | 11 | 1 | 7 | 10 | 0 | 6 | 3 | 10 | 15 |
| Nagarjuna Construction | 50 | 20 | 15 | 28 | 0 | 14 | 17 | 66 | 0 | 20 | 0 |
| Engineers India | 3 | 7 | 11 | 19 | 3 | 1 | 3 | 3 | 1 | 1 | 9 |
| **Total** | **421** | **312** | **265** | **258** | **335** | **220** | **222** | **309** | **274** | **296** | **236** |

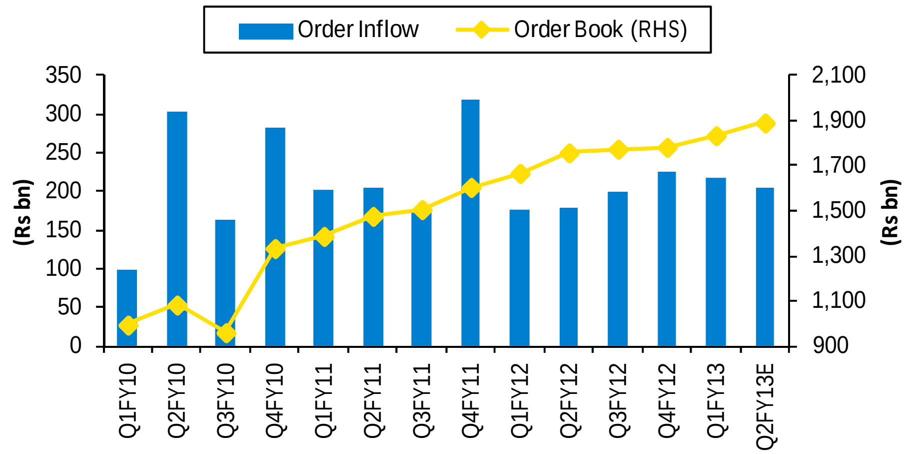
*Source: BSE, PL Research, Company Data*

**Order book trend - Construction**




*Source: Company Data, PL Research*

**Order book trend – Engineering**




*Source: Company Data, PL Research*

**Sectoral Order Inflow (Rs bn)**

| Segments | FY10 | FY11 | FY12E | Q1FY13 | Q2FY13E |
|---|---|---|---|---|---|
| Roads | 250 | 350 | 623 | 106 | 57 |
| Water | 79 | 56 | 83 | 18 | 18 |
| Bldg/Industrial capex/Urban Dev | 191 | 232 | 204 | 73 | 63 |
| Power | 312 | 323 | 265 | 55 | 28 |
| Process & Hydrocarbon | 308 | 249 | 255 | 17 | 38 |
| Others | 160 | 155 | 162 | 38 | 52 |
| **Total** | **1,300** | **1,365** | **1,591** | **306** | **256** |

*Source: BSE, PL Research, Company Data (covers 75% of the listed company's data, thus indicative)*

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Larsen & Toubro | 24.6 | 15.5 | 22.6 | 22.8 | 15.2 | 7.5 | 14.3 | 2.9 |
| Jaiprakash Associates | 38.9 | 13.5 | 3.1 | 24.4 | 29.5 | 5.5 | (5.2) | 4.5 |
| GMR Infrastructure | 33.8 | (2.6) | (13.6) | 0.6 | 24.4 | (10.6) | (21.9) | (19.3) |
| Engineers India | 14.0 | 4.7 | (9.2) | (1.7) | 4.6 | (3.3) | (17.5) | (21.6) |
| Punj Lloyd | 25.7 | (0.7) | (3.8) | 5.4 | 16.3 | (8.7) | (12.1) | (14.5) |
| IVRCL | 13.9 | (17.7) | (36.9) | 28.6 | 4.5 | (25.7) | (45.2) | 8.6 |
| NCC | 59.0 | 14.9 | (9.2) | (10.3) | 49.6 | 6.9 | (17.5) | (30.2) |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Larsen & Toubro** | Sales | 112,415 | 112,452 | *(0.0)* | 119,554 | *(6.0)* | 231,969 | 207,279 | *11.9* |
| | EBITDA | 11,242 | 11,741 | *(4.3)* | 13,040 | *(13.8)* | 24,282 | 23,006 | *5.5* |
| | *Margins (%)* | *10.0* | *10.4* | | *10.9* | | *10.5* | *11.1* | |
| | PAT | 7,321 | 7,985 | *(8.3)* | 8,637 | *(15.2)* | 15,958 | 15,446 | *3.3* |
| **Jaiprakash Associates** | Sales | 28,196 | 30,675 | *(8.1)* | 29,636 | *(4.9)* | 57,832 | 62,098 | *(6.9)* |
| | EBITDA | 7,353 | 6,832 | *7.6* | 7,713 | *(4.7)* | 15,066 | 14,185 | *6.2* |
| | *Margins (%)* | *26.1* | *22.3* | | *26.0* | | *26.1* | *22.8* | |
| | PAT | 1,074 | 1,287 | *NA* | 1,382 | *(22.3)* | 2,456 | 2,358 | *NA* |
| **GMR Infrastructure** | Sales | 24,412 | 18,123 | *34.7* | 25,336 | *(3.6)* | 49,748 | 36,758 | *35.3* |
| | EBITDA | 5,389 | 5,014 | *7.5* | 5,679 | *(5.1)* | 11,068 | 9,993 | *10.8* |
| | *Margins (%)* | *22.1* | *27.7* | | *22.4* | | *22.2* | *27.2* | |
| | PAT | (2,009) | (950) | *NA* | (1,426) | *40.8* | (3,435) | (1,461) | *135.1* |
| **Engineers India** | Sales | 7,120 | 8,274 | *(13.9)* | 7,200 | *(1.1)* | 14,320 | 16,810 | *(14.8)* |
| | EBITDA | 1,279 | 1,628 | *(21.4)* | 1,509 | *(15.2)* | 2,788 | 3,425 | *(18.6)* |
| | *Margins (%)* | *18.0* | *19.7* | | *21.0* | | *19.5* | *20.4* | |
| | PAT | 1,263 | 1,467 | *(13.9)* | 1,543 | *(18.2)* | 2,806 | 2,947 | *(4.8)* |

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Punj Lloyd** | Sales | 26,412 | 23,769 | *11.1* | 27,068 | *(2.4)* | 53,480 | 46,252 | *15.6* |
| | EBITDA | 2,510 | 1,868 | *34.4* | 2,190 | *14.6* | 4,700 | 3,526 | *33.3* |
| | *Margins (%)* | *9.5* | *7.9* | | *8.1* | | *8.8* | *7.6* | |
| | PAT | 169 | 123 | *36.8* | (133) | *NA* | 35 | 1 | *NA* |
| **NCC** | Sales | 12,412 | 10,902 | *13.8* | 14,721 | *(15.7)* | 27,133 | 22,311 | *21.6* |
| | EBITDA | 1,110 | 1,031 | *7.6* | 1,167 | *(4.9)* | 2,277 | 2,190 | *4.0* |
| | *Margins (%)* | *8.9* | *9.5* | | *7.9* | | *8.4* | *9.8* | |
| | PAT | 41 | 114 | *NA* | 166 | *(75.3)* | 207 | 347 | *NA* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 934,937 | 1,074,844 | 1,242,851 |
| *Growth (%)* | *19.7* | *15.0* | *15.6* |
| EBITDA | 130,303 | 149,325 | 176,014 |
| *Margin (%)* | *13.9* | *13.9* | *14.2* |
| PAT | 53,097 | 56,799 | 68,279 |
| *Growth (%)* | *31.0* | *7.0* | *20.2* |
| PE (x) | 26.6 | 24.9 | 20.7 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 210,967 | 204,195 | *3.3* | 223,514 | *(5.6)* |
| EBITDA | 28,883 | 28,114 | *2.7* | 31,297 | *(7.7)* |
| *Margin (%)* | *13.7* | *13.8* | *(8)bps* | *14.0* | *(31)bps* |
| PAT (Excl. Ex Items) | 7,858 | 10,025 | *(21.6)* | 10,168 | *(22.7)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Larsen & Toubro

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,650 |
| Target Price | Rs1,690 |
| Market Cap. (Rs bn) | 1,010.4 |
| Shares o/s (m) | 612.4 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 531,705 | 639,286 | 739,978 |
| EBITDA | 62,826 | 72,095 | 83,729 |
| *Margin (%)* | *11.8* | *11.3* | *11.3* |
| PAT | 44,196 | 47,396 | 52,742 |
| EPS (Rs) | 72.2 | 77.4 | 86.1 |
| *RoE (%)* | *18.8* | *17.5* | *17.1* |
| PE (x)* | 17.2 | 16.1 | 14.4 |
| P / BV (x) | 4.0 | 3.5 | 3.1 |
| EV / E (x) | 17.4 | 15.4 | 13.5 |

**Adj. for Subs. Val of Rs398/share*

L&T's order inflow is expected to be at Rs195.7bn (there could be some order bookings which are not disclosed to the tune of Rs40-50bn) as against Rs196bn in Q1FY13 and Rs161bn in Q2FY12. Weakness in domestic Power segment continues. However, it was more than made up by strong Buildings segment and international hydrocarbon awards. The company is gaining strong traction in water effluents and related segment.

**Quarterly Table *(Rs m)- (Standalone)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 112,415 | 112,452 | *(0.0)* | 119,554 | 231,969 | 207,279 | *11.9* |
| EBITDA | 11,242 | 11,741 | *(4.3)* | 13,040 | 24,282 | 23,006 | *5.5* |
| *Margin (%)* | *10.0* | *10.4* | *(44)bps* | *10.9* | *10.5* | *11.1* | *(63)bps* |
| Reported PAT | 7,321 | 7,985 | *(8.3)* | 8,506 | 15,827 | 15,446 | *2.5* |
| PAT (Excl. Ex Items) | 7,321 | 7,985 | *(8.3)* | 8,637 | 15,958 | 15,446 | *3.3* |
| **Operating Metrics** | | | | | | | |
| E&C | 102,298 | 97,212 | *5.2* | 104,898 | 207,195 | 178,206 | *16.3* |
| E&E | 4,497 | 8,474 | *(46.9)* | 7,603 | 12,099 | 15,936 | *(24.1)* |
| MIP | 3,372 | 6,780 | *(50.3)* | 5,753 | 9,125 | 13,684 | *(33.3)* |
| Order intake (Rs bn) | 195.7 | 160.1 | *22.2* | 196.0 | 391.7 | 322.0 | *21.6* |
| Order Book (Rs bn) | 1,614 | 1,362 | *18.5* | 1,531 | 1,614 | 1,421 | *13.6* |

## Jaiprakash Associates

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs89 |
| Target Price | Rs78 |
| Market Cap. (Rs bn) | 188.6 |
| Shares o/s (m) | 2,126.5 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 127,429 | 122,327 | 128,781 |
| EBITDA | 33,294 | 32,917 | 33,160 |
| *Margin (%)* | *26.1* | *26.9* | *25.7* |
| PAT | 10,263 | 7,204 | 9,264 |
| EPS (Rs) | 4.8 | 3.4 | 4.4 |
| *RoE (%)* | *9.5* | *5.7* | *7.0* |
| PE (x)* | 10.5 | 14.9 | 11.6 |
| P / BV (x) | 1.5 | 1.5 | 1.4 |
| EV / E (x) | 11.7 | 10.7 | 10.0 |

**Adj. for Subs. Valn of Rs38/share*

JPA's cement dispatches for Q2FY13E are expected to be at 3.3m tonnes as against 3.6m tonnes in Q1FY13, registering a growth of 8% QoQ. We expect the realizations to be flat QoQ, marginally down by Rs21. EBIT margins will be up 50bps on a QoQ basis. EPC revenues will continue to be a drag on a YoY basis; however, a recovery is expected in H2FY13E on account of new orders converting into revenues.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 28,196 | 30,675 | *(8.1)* | 29,636 | 57,832 | 62,098 | *(6.9)* |
| EBITDA | 7,353 | 6,832 | *7.6* | 7,713 | 15,066 | 14,185 | *6.2* |
| *Margin (%)* | *26.1* | *22.3* | *381 bps* | *26.0* | *26.1* | *22.8* | *321 bps* |
| Reported PAT | 1,074 | 1,287 | *(16.6)* | 1,382 | 2,456 | 2,358 | *4.2* |
| PAT (Excl. Ex Items) | 1,074 | 1,287 | *(16.6)* | 1,382 | 2,456 | 2,358 | *4.2* |
| **Operating Metrics** | | | | | | | |
| Const. (Rs m) | 11,945 | 15,548 | *(23.2)* | 12,160 | 24,105 | 28,296 | *(14.8)* |
| Cement (Rs m) | 14,259 | 13,239 | *7.7* | 15,629 | 29,889 | 29,512 | *1.3* |
| Debt (Rs bn) | 255 | 230 | *10.9* | 250 | 255 | 230 | *10.9* |
| *Int. as a % to sales* | *16.8* | *13.2* | *363 bps* | *15.7* | *16.2* | *13.2* | *304 bps* |
| *EBIT Per tonne - Cement* | *427.8* | *(71.9)* | *(695.1)* | *453.3* | *430.0* | *421.0* | *2.1* |

## GMR Infrastructure

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs26 |
| Target Price | Rs28 |
| Market Cap. (Rs bn) | 101.8 |
| Shares o/s (m) | 3,892.1 |

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 83,201 | 101,681 | 131,854 |
| EBITDA | 16,645 | 25,620 | 37,373 |
| *Margin (%)* | *20.0* | *25.2* | *28.3* |
| PAT | (7,336) | (4,099) | (1,160) |
| EPS (Rs) | (1.9) | (1.1) | (0.3) |
| *RoE (%)* | *(9.6)* | *(5.8)* | *(1.8)* |
| PE (x) | (13.9) | (24.8) | (87.7) |
| P / BV (x) | 1.4 | 1.6 | 1.6 |
| EV / E (x) | 24.6 | 18.9 | 14.0 |

Revenues from the DIAL Airports will show some positive traction on account of partial booking of sales based on increased tariffs. Operations across other airports are expected to be stable on a QoQ basis. Power revenues may take a hit as seasonally it is a weak quarter. EPC and Road revenues would continue to do well. Margin will be maintained; however, interest will continue to hit the bottom-line.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 24,412 | 18,123 | *34.7* | 25,336 | 49,748 | 36,758 | *35.3* |
| EBITDA | 5,389 | 5,014 | *7.5* | 5,679 | 11,068 | 9,993 | *10.8* |
| *Margin (%)* | *22.1* | *27.7* | *(559)bps* | *22.4* | *22.2* | *27.2* | *(494)bps* |
| Reported PAT | (2,009) | (625) | *NA* | (943) | (2,952) | (1,292) | *NA* |
| PAT (Excl. Ex Items) | (2,009) | (950) | *NA* | (1,426) | (3,435) | (1,461) | *NA* |
| **Operating Metrics** | | | | | | | |
| Airports Revenues | 13,412 | 8,356 | *60.5* | 12,843 | 26,255 | 16,742 | *56.8* |
| Power Revenues | 7,012 | 5,431 | *29.1* | 7,463 | 14,475 | 11,022 | *31.3* |
| Debt (Rs bn) | 412 | 263 | *56.7* | 392 | 412 | 263 | *56.7* |
| *Interest as % of Sales* | *20.6* | *21.6* | *(107)bps* | *19.0* | *19.8* | *19.8* | *(2)bps* |

## Engineers India

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs241 |
| Target Price | Rs221 |
| Market Cap. (Rs bn) | 81.1 |
| Shares o/s (m) | 336.9 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 36,988 | 35,412 | 38,953 |
| EBITDA | 7,032 | 6,120 | 6,441 |
| *Margin (%)* | *19.0* | *17.3* | *16.5* |
| PAT | 6,365 | 5,346 | 5,518 |
| EPS (Rs) | 18.9 | 15.9 | 16.4 |
| *RoE (%)* | *38.7* | *26.9* | *24.1* |
| PE (x) | 12.7 | 15.2 | 14.7 |
| P / BV (x) | 4.4 | 3.8 | 3.3 |
| EV / E (x) | 9.2 | 9.8 | 9.1 |

Order intake in Q2FY13E is expected to be at Rs9bn. The company has bagged a Rs7bn order from BPCL and another Rs2bn orders from various petchem companies. Further, BPCL has signed a MOU for the execution of Rs200bn expansion plan of the BPCL Kochi Refinery. We are expecting contribution from LSTK to grow and thus, EBITDA margin is expected to decrease by 171bps YoY as LSTK has lower margins.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 7,120 | 8,274 | *(13.9)* | 7,200 | 14,320 | 16,810 | *(14.8)* |
| EBITDA | 1,279 | 1,628 | *(21.4)* | 1,509 | 2,788 | 3,425 | *(18.6)* |
| *Margin (%)* | *18.0* | *19.7* | *(171)bps* | *21.0* | *19.5* | *20.4* | *(91)bps* |
| Reported PAT | 1,263 | 1,467 | *(13.9)* | 1,543 | 2,806 | 2,947 | *(4.8)* |
| PAT (Excl. Ex Items) | 1,263 | 1,467 | *(13.9)* | 1,543 | 2,806 | 2,947 | *(4.8)* |
| **Operating Metrics** | | | | | | | |
| Consultancy | 2,848 | 2,849 | *(0.0)* | 2,892 | 5,740 | 5,629 | *2.0* |
| LSTK | 4,272 | 5,424 | *(21.2)* | 4,308 | 8,580 | 11,180 | *(23.3)* |
| *Other Inc. / PAT (%)* | *51.6* | *36.8* | *1,484bps* | *47.5* | *36.5* | *30.7* | *579 bps* |
| Order Book (Rs bn) | 33.4 | 60.0 | *(44.3)* | 41.4 | 33.4 | 60.0 | *(44.3)* |

## Punj Lloyd

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs56 |
| Target Price | Rs47 |
| Market Cap. (Rs bn) | 18.5 |
| Shares o/s (m) | 331.9 |

Punj Lloyd did not report any orders on exchanges. However, it already has a comfortable order book of Rs220bn. We expect margin improvement to continue as new orders with betters margins are under execution. Infrastructure would continue to be the largest contributor to the overall revenues.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 103,129 | 121,130 | 141,723 |
| EBITDA | 6,532 | 8,017 | 10,034 |
| *Margin (%)* | *6.3* | *6.6* | *7.1* |
| PAT | (752) | 448 | 1,095 |
| EPS (Rs) | (2.3) | 1.3 | 3.3 |
| *RoE (%)* | *(2.4)* | *1.4* | *3.4* |
| PE (x) | (24.6) | 41.4 | 16.9 |
| P / BV (x) | 0.6 | 0.6 | 0.6 |
| EV / E (x) | 9.9 | 8.8 | 7.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 26,412 | 23,769 | *11.1* | 27,068 | 53,480 | 46,252 | *15.6* |
| EBITDA | 2,510 | 1,868 | *34.4* | 2,190 | 4,700 | 3,526 | *33.3* |
| *Margin (%)* | *9.5* | *7.9* | *165 bps* | *8.1* | *8.8* | *7.6* | *116 bps* |
| Reported PAT | 169 | 247 | *(31.8)* | (133) | 35 | 125 | *(71.6)* |
| PAT (Excl. Ex Items) | 169 | 123 | *36.8* | (133) | 35 | 1 | *4,336.3* |
| **Operating Metrics** | | | | | | | |
| Pipeline | 7,924 | 5,942 | *33.3* | 4,123 | 12,047 | 11,563 | *4.2* |
| Infrastructure | 12,678 | 6,893 | *83.9* | 8,542 | 21,220 | 13,413 | *58.2* |
| Debt (Rs bn) | 55 | 51 | *7.8* | 54 | 55 | 51 | *7.8* |
| OB (Rs bn) | 220.6 | 222.9 | *(1.0)* | 247.0 | 220.6 | 222.9 | *(1.0)* |
| *Int. as a % to sales* | *8.0* | *5.5* | *250 bps* | *6.8* | *7.4* | *5.3* | *209 bps* |

## NCC

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs52 |
| Target Price | Rs53 |
| Market Cap. (Rs bn) | 13.3 |
| Shares o/s (m) | 256.6 |

NCC has not reported any orders on exchanges and thus, we believe there could be an order inflow below Rs2bn in Q2FY13E. Seasonally being a weak quarter revenues will be weak. However, last year's lower base effect will lead to a growth number. Margins are expected to come off by 52bps YoY on account of higher costs. Debt continues to impact the bottom-line and hence, we expect a nominal profit of Rs41m.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 52,485 | 55,008 | 61,562 |
| EBITDA | 3,974 | 4,556 | 5,277 |
| *Margin (%)* | *7.6* | *8.3* | *8.6* |
| PAT | 360 | 505 | 820 |
| EPS (Rs) | 1.4 | 2.0 | 3.2 |
| *RoE (%)* | *1.5* | *2.1* | *3.3* |
| PE (x)* | 11.3 | 9.3 | 8.6 |
| P / BV (x) | 0.6 | 0.5 | 0.5 |
| EV / E (x) | 9.6 | 8.8 | 7.6 |

**Adj. for Subs. Valn & Int earnings of Rs11/share*

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 12,412 | 10,902 | *13.8* | 14,721 | 27,133 | 22,311 | *21.6* |
| EBITDA | 1,110 | 1,031 | *7.6* | 1,167 | 2,277 | 2,190 | *4.0* |
| *Margin (%)* | *8.9* | *9.5* | *(52)bps* | *7.9* | *8.4* | *9.8* | *(142)bps* |
| Reported PAT | 41 | 114 | *(64.1)* | 166 | 207 | 347 | *(40.3)* |
| PAT (Excl. Ex Items) | 41 | 114 | *(64.1)* | 166 | 207 | 347 | *(40.3)* |
| **Operating Metrics** | | | | | | | |
| OB (Rs bn) | 138 | 148 | *(6.8)* | 150 | 138 | 148 | *(6.8)* |
| Pwr/Elec./Metals/O&G | 3,103 | 2,726 | *13.8* | 3,680 | 6,783 | 5,578 | *21.6* |
| Bldgs. | 3,475 | 3,053 | *13.8* | 4,122 | 7,597 | 6,247 | *21.6* |
| *Int. as a % to sales* | *7.8* | *6.5* | *124 bps* | *6.3* | *7.0* | *7.1* | *(9)bps* |
| Debt (Rs bn) | 25.4 | 26.0 | *(2.3)* | 24.5 | 25.4 | 26.0 | *(2.3)* |

Shashi Bhusan
shashibhusan@plindia.com
+91-22-6632 2300

Pratik Shah
pratikshah@plindia.com
+91-22-6632 2256

### Top picks

Infosys

NIIT Tech

Persistent Systems

# Information Technology

We see a stable demand environment for Indian IT companies. The growing concern of deteriorating business environment resulting in shrinking demand for IT Services has been allayed by results from global tech-majors like Oracle and Accenture. We continue to expect cautiously-optimistic commentaries from Indian IT. We expect positive commentary on the US and APAC in terms of geography and retail and manufacturing in terms of vertical. Although pricing is likely to remain subdued, we are not anticipating any sharp dip in realization. Sudden appreciation in currency in the last two weeks of September 2012 would result in other income losses for Indian IT due to revaluation of financial assets.

**Infosys – FY13 USD organic revenue guidance to be retained, EPS guidance to be revised downward**: Our discussion with the management indicated that Infosys is likely to maintain the organic revenue growth (in USD terms) guidance of 5% YoY that includes ramp-downs in the pipeline, excluding inorganic contribution from Lodestone. Hence, the company is likely to up their guidance for FY13 by 1-2 percentage point that includes inorganic contribution from Lodestone. The company may revise EPS guidance for FY13 downward by 2-3% from Rs166.5 due to rupee appreciation. However, we also expect the management to maintain their cautious tone, citing uncertainty in macro-economic environment.

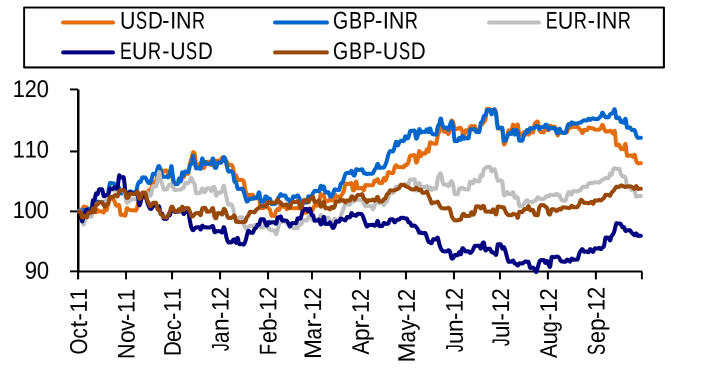
**Currency appreciation in last two weeks of September erodes bottom-line, minimal cross-currency headwinds**: Euro/GBP weakened against USD by 0.1/2.5% and is likely to have a negative impact by ~25-50bps in USD terms revenue. However, rupee depreciated against USD, EUR and GBP by 2.1%, -0.5% and 1.9% QoQ, respectively, which would create margin tailwind of 30-60bps QoQ. However, our analysis shows that sudden appreciation in rupee to Rs52.6/$ by the end of September is likely to have a negative impact due to revaluation of financial assets.

**What to look for? 1)** Commentary on expense of IT budgets **2)** Pricing pressure and pricing discipline **3)** Key verticals/Geography growth/de-growth expectation **4)** Discretionary/Non-Discretionary spending **5)** Any delay in project ramp-ups **6)** Demand environment in Europe and Continental Europe **7)** Commentary on protectionism **8)** Strategy to handle protectionism.

**Tier-2 IT companies to participate in the growth momentum**: We expect Tier-1 companies to deliver their 2-4% volume growth, with no improvement in realization, whereas, we expect mid and small Tier Indian IT companies to report 2-5% growth. We expect positive commentary from *NIIT Tech*, *MindTree* and *Persistent* on client spending, but cautious tone from *Mphasis* and *Tech Mahindra*.

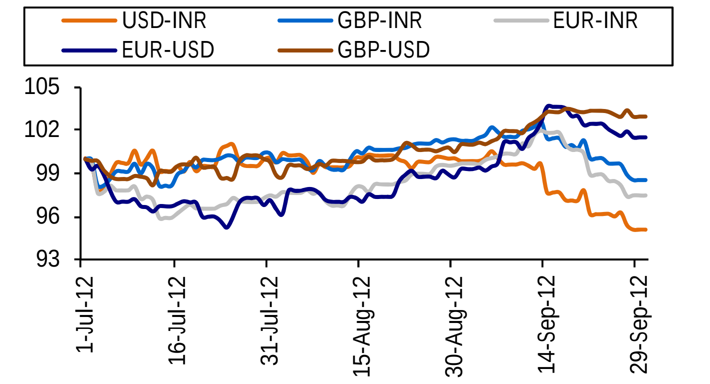
**Infosys, HCL Tech, NIIT Tech and Persistent – our top pick in the sector**: We expect Infosys to give in-line result, but low expectation leaves little room for negative surprise, whereas *HCL Tech* is likely to report strongest quarter in terms of volume growth in Tier-1. NIIT Tech and Persistent is our preferred pick in Tier-2 as we expect momentum to get stronger in FY13 with stickiness in margins.

**Currency – favourable movement for USD-INR YoY basis...**




*Source: Bloomberg, Company Data, PL Research*

**...and QoQ – but negative impact due to sudden currency appreciation**




*Source: Bloomberg, Company Data, PL Research*

**Guidance Analysis**

| | GUIDANCE GIVEN BY THE COMPANY | | | | OUR ESTIMATES | | ACTUALS | |
|---|---|---|---|---|---|---|---|---|
| | Q2FY13 | | FY2013 | | Q2FY13 | FY2013 | Q1FY13 | FY2012 |
| **Infosys Technologies** | | | | | | | | |
| Revenue (Rs m) | n/a | n/a | 403,640 | 403,640 | 99,528.0 | 386,420.0 | 96,160.0 | 337,340.0 |
| EPS (Rs) | n/a | n/a | 166.5 | 166.5 | 40.2 | 167.5 | 40.1 | 145.4 |
| Revenue (US$ m) | n/a | n/a | 7,343 | 7,343 | 1806.3 | 7,568.0 | 1,752.0 | 6,994.0 |
| | | | | | | | | |
| **Wipro** | 1520 | 1550 | n/a | n/a | 1546 | 6,146 | 1515 | 5,921 |
| Revenue (US$ m) | n/a | n/a | 403,640 | 403,640 | 99,528.0 | 386,420.0 | 96,160.0 | 337,340.0 |

*Source: Company Data, PL Research*

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Tata Consultancy Services | (4.4) | 5.1 | 11.4 | 25.8 | (13.8) | (2.9) | 3.1 | 5.8 |
| Infosys | 8.0 | 1.9 | (11.0) | 3.7 | (1.4) | (6.1) | (19.3) | (16.2) |
| Wipro | 3.1 | (5.7) | (15.9) | 13.8 | (6.3) | (13.6) | (24.2) | (6.1) |
| HCL Technologies | 2.0 | 16.5 | 12.7 | 45.8 | (7.3) | 8.5 | 4.4 | 25.9 |
| Tech Mahindra | 13.8 | 28.5 | 30.7 | 78.0 | 4.4 | 20.6 | 22.4 | 58.1 |
| Mphasis | 5.1 | 2.6 | (2.6) | 27.1 | (4.3) | (5.4) | (10.9) | 7.2 |
| Hexaware Technologies | (6.7) | (6.5) | (5.3) | 45.4 | (16.1) | (14.5) | (13.6) | 25.5 |
| CMC | 16.0 | 30.0 | 13.9 | 43.7 | 6.7 | 22.0 | 5.6 | 23.8 |
| MindTree | (4.2) | (6.7) | 29.0 | 92.1 | (13.6) | (14.6) | 20.7 | 72.1 |
| eClerx Services | 3.6 | 19.1 | 7.2 | 9.2 | (5.8) | 11.1 | (1.1) | (10.8) |
| KPIT Cummins Infosystems | (7.0) | (3.1) | 49.3 | 64.3 | (16.4) | (11.1) | 41.0 | 44.4 |
| NIIT Technologies | 0.8 | (0.4) | 5.3 | 45.9 | (8.6) | (8.4) | (3.0) | 26.0 |
| Persistent Systems | 12.0 | 8.0 | 31.4 | 42.2 | 2.6 | (0.0) | 23.1 | 22.3 |
| Polaris Financial Technology | 8.5 | 0.6 | (21.7) | 4.2 | (0.9) | (7.4) | (30.0) | (15.7) |
| Rolta India | 12.5 | (11.1) | (24.0) | 4.3 | 3.1 | (19.1) | (32.3) | (15.6) |
| Geometric | 12.9 | 55.4 | 67.5 | 179.0 | 3.5 | 47.4 | 59.2 | 159.1 |

*Source: Bloomberg, PL Research*

## Summary Financials - Quarterly (Rs m)

| | | Q2FY13E | Q2FY12 | QoQ gr. (%) | Q1FY13 | YoY gr. (%) | H1FY13E | H1FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|---|---|
| **Tata Consultancy Services** | Sales | 156,325 | 148,687 | 5.1 | 116,335 | 34.4 | 305,012 | 224,305 | 36.0 |
| | EBITDA | 44,814 | 43,328 | 3.4 | 33,829 | 32.5 | 88,142 | 64,139 | 37.4 |
| | *Margins (%)* | *28.7* | *29.1* | | *29.1* | | *28.9* | *28.6* | |
| | PAT | 33,067 | 32,806 | 0.8 | 24,390 | 35.6 | 65,873 | 48,193 | 36.7 |
| **Infosys** | Sales | 99,528 | 96,160 | 3.5 | 80,990 | 22.9 | 195,688 | 155,840 | 25.6 |
| | EBITDA | 30,854 | 29,460 | 4.7 | 25,160 | 22.6 | 60,314 | 46,910 | 28.6 |
| | *Margins (%)* | *31.0* | *30.6* | | *31.1* | | *30.8* | *30.1* | |
| | PAT | 22,932 | 22,890 | 0.2 | 19,060 | 20.3 | 45,822 | 36,280 | 26.3 |
| **Wipro** | Sales | 107,976 | 104,832 | 3.0 | 90,070 | 19.9 | 212,808 | 174,999 | 21.6 |
| | EBITDA | 20,839 | 19,728 | 5.6 | 16,522 | 26.1 | 40,567 | 33,101 | 22.6 |
| | *Margins (%)* | *19.3* | *18.8* | | *18.3* | | *19.1* | *18.9* | |
| | PAT | 15,673 | 15,802 | (0.8) | 13,009 | 20.5 | 31,475 | 26,358 | 19.4 |
| **HCL Technologies** | Sales | 62,014 | 59,191 | 4.8 | 46,513 | 33.3 | 245,428 | 210,312 | 16.7 |
| | EBITDA | 12,589 | 13,009 | (3.2) | 7,949 | 58.4 | 47,258 | 40,251 | 17.4 |
| | *Margins (%)* | *20.3* | *22.0* | | *17.1* | | *19.3* | *19.1* | |
| | PAT | 8,046 | 8,541 | (5.8) | 4,971 | 61.8 | 31,669 | 25,260 | 25.4 |
| **Tech Mahindra** | Sales | 15,733 | 15,434 | 1.9 | 13,333 | 18.0 | 31,167 | 26,258 | 18.7 |
| | EBITDA | 3,209 | 3,302 | (2.8) | 2,042 | 57.2 | 6,511 | 4,460 | 46.0 |
| | *Margins (%)* | *20.4* | *21.4* | | *15.3* | | *20.9* | *17.0* | |
| | PAT | 3,024 | 3,384 | (10.6) | 2,404 | 25.8 | 6,408 | 5,169 | 24.0 |
| **Mphasis** | Sales | 14,269 | 14,053 | 1.5 | 13,242 | 7.8 | 55,779 | 50,678 | 10.1 |
| | EBITDA | 3,154 | 3,158 | (0.1) | 2,453 | 28.6 | 11,944 | 9,252 | |
| | *Margins (%)* | *22.1* | *22.5* | | *18.5* | | *21.4* | *18.3* | |
| | PAT | 2,141 | 2,087 | 2.6 | 1,830 | 17.0 | 7,970 | 7,927 | 0.5 |
| **Hexaware Technologies** | Sales | 5,176 | 5,001 | 3.5 | 3,660 | 41.4 | 14,560 | 10,186 | 42.9 |
| | EBITDA | 1,201 | 1,147 | 4.7 | 686 | 75.0 | 3,330 | 1,652 | 101.6 |
| | *Margins (%)* | *23.2* | *22.9* | | *18.7* | | *22.9* | *16.2* | |
| | PAT | 893 | 890 | 0.4 | 646 | 38.3 | 2,667 | 1,786 | 49.3 |
| **CMC** | Sales | 4,704 | 4,523 | 4.0 | 3,577 | 31.5 | 9,226 | 6,633 | 39.1 |
| | EBITDA | 790 | 752 | 5.0 | 532 | 48.6 | 1,543 | 1,039 | 48.5 |
| | *Margins (%)* | *16.8* | *16.6* | | *14.9* | | *16.7* | *15.7* | |
| | PAT | 596 | 584 | 2.0 | 326 | 82.7 | 1,180 | 675 | 74.9 |
| **MindTree** | Sales | 5,998 | 5,630 | 6.5 | 4,567 | 31.3 | 11,628 | 8,698 | 33.7 |
| | EBITDA | 1,236 | 1,174 | 5.3 | 588 | 110.1 | 2,410 | 1,048 | 129.9 |
| | *Margins (%)* | *20.6* | *20.9* | | *12.9* | | *20.7* | *12.0* | |
| | PAT | 562 | 890 | (36.8) | 545 | 3.1 | 1,452 | 858 | 69.2 |
| **eClerx Services** | Sales | 1,657 | 1,537 | 7.8 | 1,137 | 45.7 | 3,194 | 2,133 | 49.7 |
| | EBITDA | 661 | 612 | 8.1 | 442 | 49.4 | 1,273 | 833 | 52.8 |
| | *Margins (%)* | *39.9* | *39.8* | | *38.9* | | *39.8* | *39.0* | |
| | PAT | 451 | 493 | (8.5) | 442 | 2.0 | 944 | 794 | 18.9 |

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *QoQ gr. (%)* | Q1FY13 | *YoY gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **KPIT Cummins Infosystems** | Sales | 5,592 | 5,383 | *3.9* | 3,250 | *72.0* | 10,974 | 6,411 | *71.2* |
| | EBITDA | 889 | 806 | *10.2* | 444 | *100.4* | 1,696 | 841 | *101.7* |
| | *Margins (%)* | *15.9* | *15.0* | | *13.6* | | *15.5* | *13.1* | |
| | PAT | 533 | 513 | *3.9* | 336 | *58.5* | 1,046 | 577 | *81.2* |
| **NIIT Technologies** | Sales | 4,802 | 4,696 | *2.3* | 3,711 | *29.4* | 9,498 | 6,999 | *35.7* |
| | EBITDA | 792 | 751 | *5.5* | 550 | *44.0* | 1,543 | 1,159 | *33.2* |
| | *Margins (%)* | *16.5* | *16.0* | | *14.8* | | *16.2* | *16.6* | |
| | PAT | 498 | 576 | *(13.5)* | 458 | *8.7* | 1,074 | 871 | *23.3* |
| **Persistent Systems** | Sales | 3,127 | 3,007 | *4.0* | 2,382 | *31.3* | 6,135 | 4,620 | *32.8* |
| | EBITDA | 807 | 807 | *0.0* | 454 | *77.9* | 1,614 | 855 | *88.8* |
| | *Margins (%)* | *25.8* | *26.8* | | *19.0* | | *26.3* | *18.5* | |
| | PAT | 426 | 416 | *2.5* | 324 | *31.5* | 842 | 600 | *40.4* |
| **Polaris Financial Technology** | Sales | 6,069 | 5,693 | *6.6* | 5,097 | *19.1* | 11,763 | 9,599 | *22.5* |
| | EBITDA | 783 | 693 | *12.9* | 622 | *26.0* | 1,476 | 1,200 | *23.0* |
| | *Margins (%)* | *12.9* | *12.2* | | *12.2* | | *12.6* | *12.5* | |
| | PAT | 572 | 609 | *(6.1)* | 537 | *6.4* | 1,180 | 983 | *20.1* |
| **Rolta India** | Sales | 4,591 | 4,451 | *3.2* | 4,858 | *(5.5)* | 19,842 | 18,288 | *8.5* |
| | EBITDA | 2,433 | 2,431 | *0.1* | 1,790 | *36.0* | 7,739 | 8,068 | *(4.1)* |
| | *Margins (%)* | *53.0* | *54.6* | | *36.8* | | *39.0* | *44.1* | |
| | PAT | 411 | 477 | *(13.9)* | 622 | *(33.9)* | 2,364 | 2,664 | *(11.3)* |
| **Geometric** | Sales | 2,721 | 2,608 | *4.3* | 1,912 | *42.3* | 5,329 | 3,639 | *46.4* |
| | EBITDA | 539 | 527 | *2.3* | 276 | *95.3* | 1,065 | 443 | *140.8* |
| | *Margins (%)* | *19.8* | *20.2* | | *14.4* | | *20.0* | *12.2* | |
| | PAT | 225 | 207 | *8.7* | 134 | *67.8* | 431 | 251 | *71.6* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 1,659,979 | 1,949,697 | 2,195,323 |
| *Growth (%)* | *24.7* | *17.5* | *12.6* |
| EBITDA | 412,585 | 487,059 | 542,487 |
| *Margin (%)* | *24.9* | *25.0* | *24.7* |
| PAT | 307,739 | 364,731 | 414,244 |
| *Growth (%)* | *22.9* | *18.5* | *13.6* |
| PE (x) | 18.6 | 15.7 | 13.8 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 500,283 | 480,886 | *4.0* | 394,635 | *26.8* |
| EBITDA | 125,590 | 121,685 | *3.2* | 94,337 | *33.1* |
| *Margin (%)* | *25.1* | *25.3* | *(20)bps* | *23.9* | *120 bps* |
| PAT (Excl. Ex Items) | 90,050 | 91,164 | *(1.2)* | 70,035 | *28.6* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Tata Consultancy Services

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,304 |
| Target Price | Rs1,360 |
| Market Cap. (Rs bn) | 2,552.2 |
| Shares o/s (m) | 1,957.2 |

We expect TCS to report 4.5% volume growth aided by retail, manufacturing, and insurance sector, with muted performance on the pricing front. EBITDA margin is expected to be eroded by 47bps due to project ramp-ups and onsite cost. We expect cross-currency to have -0.5% impact growth. The management was cautious on growth and margin outlook in the analyst meet. We expect the management's stance to stay the same.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 488,938 | 583,815 | 658,494 |
| EBITDA | 144,176 | 173,058 | 194,957 |
| *Margin (%)* | *29.5* | *29.6* | *29.6* |
| PAT | 106,441 | 130,344 | 147,527 |
| EPS (Rs) | 54.4 | 66.6 | 75.4 |
| *RoE (%)* | *36.7* | *35.6* | *32.4* |
| PE (x) | 24.0 | 19.6 | 17.3 |
| P / BV (x) | 7.8 | 6.3 | 5.1 |
| EV / E (x) | 17.3 | 14.2 | 12.4 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 156,325 | 148,687 | *5.1* | 116,335 | 305,012 | 224,305 | *36.0* |
| EBITDA | 44,814 | 43,328 | *3.4* | 33,829 | 88,142 | 64,139 | *37.4* |
| *Margin (%)* | *28.7* | *29.1* | *(47)bps* | *29.1* | *28.9* | *28.6* | *30 bps* |
| Reported PAT | 33,067 | 32,806 | *0.8* | 24,390 | 65,873 | 48,193 | *36.7* |
| PAT (Excl. Ex Items) | 33,067 | 32,806 | *0.8* | 24,390 | 65,873 | 48,193 | *36.7* |
| **Operating Metrics** | | | | | | | |
| Volume (persons month) | 571,715 | 547,096 | *4.5* | 487,560 | 1,118,810 | 946,440 | *18.2* |
| Pricing (US$ / Hr) | 33.4 | 33.4 | - | 33.6 | 33.4 | 33.8 | *(1.2)* |
| Currency (USD/INR) | 55.1 | 54.5 | *1.1* | 46.1 | 54.8 | 45.4 | *20.7* |
| SW Devp. Cost (% of Sales) | 55.7 | 55.3 | *39 bps* | 56.3 | 55.5 | 56.8 | *(125)bps* |
| SG&A (% of Sales) | 16.1 | 16.0 | *9 bps* | 15.2 | 16.1 | 15.2 | *92 bps* |

## Infosys

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs2,527 |
| Target Price | Rs2,850 |
| Market Cap. (Rs bn) | 1,445.4 |
| Shares o/s (m) | 572.0 |

We expect Infosys to report revenue growth of 3.5% in INR terms, with volume growth of 3.3% for Q2FY13, performing in-line with their anticipated growth rate to achieve guidance. We expect pricing downtick of 0.1% QoQ. We expect cross-currency to have negative impact of 0.2% QoQ. We expect the margins to expand by 36bps for the quarter due to currency depreciation and cost absorption. We expect USD revenue guidance to be reiterated at 5% YoY for FY13 in USD terms.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 337,340 | 386,420 | 433,711 |
| EBITDA | 107,160 | 124,780 | 139,119 |
| *Margin (%)* | *31.8* | *32.3* | *32.1* |
| PAT | 83,160 | 95,821 | 109,463 |
| EPS (Rs) | 145.4 | 167.5 | 191.4 |
| *RoE (%)* | *27.4* | *25.8* | *24.3* |
| PE (x) | 17.4 | 15.1 | 13.2 |
| P / BV (x) | 4.3 | 3.5 | 2.9 |
| EV / E (x) | 11.6 | 9.4 | 8.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 99,528 | 96,160 | *3.5* | 80,990 | 195,688 | 155,840 | *25.6* |
| EBITDA | 30,854 | 29,460 | *4.7* | 25,160 | 60,314 | 46,910 | *28.6* |
| *Margin (%)* | *31.0* | *30.6* | *36 bps* | *31.1* | *30.8* | *30.1* | *72 bps* |
| Reported PAT | 22,932 | 22,890 | *0.2* | 19,060 | 45,822 | 36,280 | *26.3* |
| PAT (Excl. Ex Items) | 22,932 | 22,890 | *0.2* | 19,060 | 45,822 | 36,280 | *26.3* |
| **Operating Metrics** | | | | | | | |
| Volume (persons month) | 300,039 | 290,454 | *3.3* | 275,758 | 590,493 | 526,197 | *12.2* |
| Pricing (US$ / Hr) | 34.2 | 34.3 | *(0.1)* | 36.0 | 34.3 | 35.0 | *(2.0)* |
| Currency (USD/INR) | 55.1 | 54.9 | *0.4* | 46.4 | 55.0 | 45.6 | *20.6* |
| SW Devp. Cost (% of sales) | 57.5 | 57.8 | *(29)bps* | 0.6 | 57.6 | 56.9 | *72 bps* |
| SG&A (% of sales) | 11.5 | 11.6 | *(7)bps* | 13.3 | 11.5 | 13.0 | *(148)bps* |

## Wipro

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs373 |
| Target Price | Rs440 |
| Market Cap. (Rs bn) | 917.6 |
| Shares o/s (m) | 2,458.5 |

We expect Wipro to report IT Services revenue growth of 2% in USD terms to US$1,546m, in line with their guidance of 0.3% to 2.3% QoQ growth. We expect volumes to grow by 2.3% sequentially, with no pressure on pricing. EBITDA margin is expected to expand by 48bps due to currency depreciation and cost absorption. We are expecting management commentary on strategy to perform ahead of Tier-1 competitors. In terms of commentary, we expect improving business momentum with guidance of investment in Sales and Marketing effort by the company.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 107,976 | 104,832 | *3.0* | 90,070 | 212,808 | 174,999 | *21.6* |
| EBITDA | 20,839 | 19,728 | *5.6* | 16,522 | 40,567 | 33,101 | *22.6* |
| *Margin (%)* | *19.3* | *18.8* | *48 bps* | *18.3* | *19.1* | *18.9* | *15 bps* |
| Reported PAT | 15,673 | 15,802 | *(0.8)* | 13,009 | 31,475 | 26,358 | *19.4* |
| PAT (Excl. Ex Items) | 15,673 | 15,802 | *(0.8)* | 13,009 | 31,475 | 26,358 | *19.4* |
| **Operating Metrics** | | | | | | | |
| Volume (persons month) | 175,804 | 171,851 | *2.3* | 166,001 | 347,655 | 322,679 | *7.7* |
| Pricing (US$ / Hr) | 38.0 | 38.0 | - | 37.5 | 38.0 | 37.7 | *0.8* |
| Currency (USD/INR) | 55.0 | 54.7 | *0.6* | 45.8 | 54.8 | 45.3 | *21.2* |
| Sw. Devp. Cost (% of Sales) | 69.1% | 69.5% | *(41)bps* | 72.1% | 69.3% | 71.4% | *(2)bps* |
| SG&A (% of Sales) | 11.6% | 11.7% | *(7)bps* | 9.5% | 11.6% | 9.7% | *2 bps* |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 371,972 | 435,621 | 486,189 |
| EBITDA | 70,865 | 81,789 | 91,336 |
| *Margin (%)* | *19.1* | *18.8* | *18.8* |
| PAT | 55,732 | 63,994 | 73,555 |
| EPS (Rs) | 22.7 | 26.0 | 29.9 |
| *RoE (%)* | *21.2* | *20.8* | *20.7* |
| PE (x) | 16.5 | 14.3 | 12.5 |
| P / BV (x) | 3.2 | 2.8 | 2.4 |
| EV / E (x) | 12.2 | 10.2 | 8.8 |

## HCL Technologies

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs574 |
| Target Price | Rs580 |
| Market Cap. (Rs bn) | 397.6 |
| Shares o/s (m) | 693.3 |

We expect HCL to report 4.5% QoQ volume growth for Q1FY13, whereas, pricing is expected to remain muted. We expect margin erosion for the quarter by 168bps due to wage hike given by the company. We expect management commentary on demand environment, tight pricing environment and growth & margin outlook for FY13. We expect commentary on large project ramp-ups. We expect commentary on cash flow situation for FY13.

**Quarterly Table *(Rs m)***

| Y/e June | Q1 FY13E | Q4 FY12 | *QoQ gr. (%)* | Q1 FY12 | 12M FY13E | 12M FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 62,014 | 59,191 | *4.8* | 46,513 | 245,428 | 210,312 | *16.7* |
| EBITDA | 12,589 | 13,009 | *(3.2)* | 7,949 | 47,258 | 40,251 | *17.4* |
| *Margin (%)* | *20.3* | *22.0* | *(168)bps* | *17.1* | *19.3* | *19.1* | *12 bps* |
| Reported PAT | 8,046 | 8,541 | *(5.8)* | 4,971 | 31,669 | 25,260 | *25.4* |
| PAT (Excl. Ex Items) | 8,046 | 8,541 | *(5.8)* | 4,971 | 31,669 | 25,260 | *25.4* |
| **Operating Metrics** | | | | | | | |
| Volume (persons months) | 126,551 | 121,101 | *4.5* | 110,245 | 529,469 | 465,877 | *13.7* |
| Pricing (US$ / Hr) | 35.8 | 35.8 | *0.0* | 36.6 | 36.4 | 36.1 | *1.0* |
| Currency (INR/USD) | 55.1 | 54.8 | *0.5* | 46.4 | 51.5 | 50.4 | *2.2* |
| SW. Devp. Cost (% of sales) | 66.0 | 64.8 | *118 bps* | 68.5 | 66.7 | 66.8 | *(14)bps* |
| SG&A (% of sales) | 13.7 | 13.2 | *50 bps* | 14.4 | 14.1 | 14.0 | *2 bps* |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 210,312 | 245,428 | 281,338 |
| EBITDA | 40,251 | 47,258 | 53,479 |
| *Margin (%)* | *19.1* | *19.3* | *19.0* |
| PAT | 25,260 | 31,669 | 36,419 |
| EPS (Rs) | 36.4 | 45.7 | 52.5 |
| *RoE (%)* | *26.4* | *26.9* | *26.1* |
| PE (x) | 15.7 | 12.6 | 10.9 |
| P / BV (x) | 3.7 | 3.1 | 2.6 |
| EV / E (x) | 10.2 | 8.5 | 7.3 |

## Tech Mahindra

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs947 |
| Target Price | Rs950 |
| Market Cap. (Rs bn) | 120.7 |
| Shares o/s (m) | 127.5 |

Due to GBP, USD was flattish for the quarter; hence, neither negative nor positive impact due to the same. Also, we expect 4.1% QoQ de-growth in revenue coming from British Telecom. The management commentary on ex-BT business is likely to be positive. We expect a road-map for integration with Satyam. We expect contribution of Rs1,157m from Satyam. We expect road-map for merger with Mahindra Satyam.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 54,897 | 62,308 | 68,539 |
| EBITDA | 9,194 | 12,150 | 12,337 |
| *Margin (%)* | *16.7* | *19.5* | *18.0* |
| PAT | 10,952 | 11,762 | 12,436 |
| EPS (Rs) | 85.9 | 92.2 | 97.5 |
| *RoE (%)* | *29.6* | *27.0* | *25.0* |
| PE (x) | 11.0 | 10.3 | 9.7 |
| P / BV (x) | 3.0 | 2.6 | 2.3 |
| EV / E (x) | 14.0 | 10.5 | 10.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 15,733 | 15,434 | *1.9* | 13,333 | 31,167 | 26,258 | *18.7* |
| EBITDA | 3,209 | 3,302 | *(2.8)* | 2,042 | 6,511 | 4,460 | *46.0* |
| *Margin (%)* | *20.4* | *21.4* | *(99)bps* | *15.3* | *20.9* | *17.0* | *391 bps* |
| Reported PAT | 3,024 | 3,384 | *(10.6)* | 2,404 | 6,408 | 5,169 | *24.0* |
| PAT (Excl. Ex Items) | 3,024 | 3,384 | *(10.6)* | 2,404 | 6,408 | 5,169 | *24.0* |
| **Operating Metrics** | | | | | | | |
| Rev from BT | 5,328 | 5,556 | *(4.1)* | 4,933 | 10,884 | 10,103 | *7.7* |
| Rev. from Non BT Clients | 10,405 | 9,878 | *5.3* | 8,400 | 20,283 | 16,155 | *25.6* |
| Satyam Contribution | 1,157 | 1,502 | *(23.0)* | 1,016 | 2,659 | 1,976 | *34.5* |
| SW Devp. Cost (% of sales) | 62.7 | 62.7 | *(4)bps* | 68.0 | 62.7 | 67.0 | *(432)bps* |
| SG&A (% of sales) | 16.9 | 15.9 | *104 bps* | 16.7 | 16.4 | 15.9 | *44 bps* |

## Mphasis

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs402 |
| Target Price | Rs365 |
| Market Cap. (Rs bn) | 84.4 |
| Shares o/s (m) | 210.0 |

We expect Mphasis to report a growth of 1.5% QoQ for the top-line in INR terms due to de-growth of 1.5% in HP portfolio and 3.5% growth in direct channel. The company has 35% portfolio exposed to INR. Hence, negative impact on forex-translation losses due to currency appreciation in the last week of September-12 would be limited. The management has guided for US$16m revenue from non-ES business compared to US$15m in Q3FY12. The EBITDA margin is expected to be weak due to pricing pressure from HP's account.

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 55,779 | 62,583 | 71,497 |
| EBITDA | 11,944 | 12,774 | 12,400 |
| *Margin (%)* | *21.4* | *20.4* | *17.3* |
| PAT | 7,970 | 9,064 | 10,021 |
| EPS (Rs) | 37.9 | 43.2 | 47.7 |
| *RoE (%)* | *18.8* | *18.2* | *17.2* |
| PE (x) | 10.6 | 9.3 | 8.4 |
| P / BV (x) | 1.8 | 1.6 | 1.3 |
| EV / E (x) | 6.4 | 5.3 | 4.7 |

**Quarterly Table *(Rs m)***

| Y/e Oct | Q4 FY12E | Q3 FY12 | *QoQ gr. (%)* | Q4 FY11 | 12M FY12E | 12M FY11 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 14,269 | 14,053 | *1.5* | 13,242 | 55,779 | 50,678 | *10.1* |
| EBITDA | 3,154 | 3,158 | *(0.1)* | 2,453 | 11,944 | 9,252 | *29.1* |
| *Margin (%)* | *22.1* | *22.5* | *(37)bps* | *1,852.2* | *21.4* | *18.3* | *316 bps* |
| Reported PAT | 2,141 | 2,087 | *2.6* | 1,830 | 7,970 | 7,927 | *0.5* |
| PAT (Excl. Ex Items) | 2,141 | 2,087 | *2.6* | 1,830 | 7,970 | 7,927 | *0.5* |
| **Operating Metrics** | | | | | | | |
| Application Serv | 8,437 | 8,321 | *1.4* | 8,134 | 31,628 | 33,496 | *(5.6)* |
| BPO Serv. | 2,352 | 2,257 | *4.2* | 1,517 | 6,133 | 6,706 | *(8.5)* |
| ITO Serv. | 3,644 | 3,475 | *4.9* | 3,591 | 12,917 | 10,162 | *27.1* |
| SW Devp. Cost (% of sales) | 71.1% | 71.1% | *6 bps* | 75.6% | 72.5 | 75.8 | *(328)bps* |
| SG&A (% of sales) | 9.2% | 9.3% | *(2)bps* | 9.0% | 9.0 | 9.0 | *7 bps* |

## Hexaware Technologies

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs116 |
| Target Price | Rs105 |
| Market Cap. (Rs bn) | 34.1 |
| Shares o/s (m) | 293.4 |

We expect volume growth of 3.3% QoQ with no change in realization. However, cross-currency would impact dollar revenue negatively by 0.2%. We expect margins to expand by 26bps as we see cost absorption and gain due to currency depreciation. We expect update on the large deal pipelines that was highlighted by the management in the last quarter.

**Key Figures *(Rs m)***

| | FY11 | FY12E | FY13E |
|---|---|---|---|
| Net Sales | 14,505 | 18,611 | 21,018 |
| EBITDA | 2,646 | 3,929 | 4,401 |
| *Margin (%)* | *18.2* | *21.1* | *20.9* |
| PAT | 2,668 | 3,165 | 3,570 |
| EPS (Rs) | 9.1 | 10.8 | 12.2 |
| *RoE (%)* | *26.9* | *28.7* | *27.7* |
| PE (x) | 12.8 | 10.8 | 9.6 |
| P / BV (x) | 3.4 | 2.9 | 2.5 |
| EV / E (x) | 11.3 | 7.4 | 6.4 |

**Quarterly Table *(Rs m)***

| Y/e Dec | Q3 CY12E | Q2 CY12 | *QoQ gr. (%)* | Q3 CY11 | 9M CY12E | 9M CY11 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 5,176 | 5,001 | *3.5* | 3,660 | 14,560 | 10,186 | *42.9* |
| EBITDA | 1,201 | 1,147 | *4.7* | 686 | 3,330 | 1,652 | *101.6* |
| *Margin (%)* | *23.2* | *22.9* | *26 bps* | *18.7* | *22.9* | *16.2* | *665 bps* |
| Reported PAT | 893 | 890 | *0.4* | 646 | 2,667 | 1,786 | *49.3* |
| PAT (Excl. Ex Items) | 893 | 890 | *0.4* | 646 | 2,667 | 1,786 | *49.3* |
| **Operating Metrics** | | | | | | | |
| Total Technical Billed (Headcount) | 8,313 | 8,043 | *3.3* | 7,486 | 8,094 | 6,777 | *19.4* |
| Onsite Realization ($/hr) | 73.5 | 73.5 | - | 72.5 | 74 | 72 | *2.0* |
| Offshore Real. ($/hr) | 22.9 | 22.9 | - | 23.0 | 23 | 23 | *1.3* |
| SW Devp. Cost (% of sales) | 59.8 | 59.9 | *(14)bps* | 61.8 | 59.5 | 62.6 | *(318)bps* |
| Sales & Mktg. (% of Sales) | 17.1 | 17.2 | *(13)bps* | 19.5 | 11.5 | 6.6 | *484 bps* |

## MindTree

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs649 |
| Target Price | Rs800 |
| Market Cap. (Rs bn) | 26.3 |
| Shares o/s (m) | 40.5 |

We expect MindTree to report USD growth of 3.1% QoQ, led by a growth in volumes by 3.2%. We anticipate margin erosion by 25bps due to wage hike given in this quarter. We expect PES to bounce back to low single-digit growth, but IT services to lead the growth. Moreover, at the bottom-line, we expect 36.8% QoQ de-growth due to forex and asset translation losses. We expect continued positive commentary from the management and how new structure is aiding to growth.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 19,152 | 24,354 | 26,785 |
| EBITDA | 2,930 | 4,803 | 5,217 |
| *Margin (%)* | *15.3* | *19.7* | *19.5* |
| PAT | 2,153 | 3,270 | 3,747 |
| EPS (Rs) | 53.2 | 80.7 | 92.5 |
| *RoE (%)* | *24.8* | *29.4* | *26.0* |
| PE (x) | 12.2 | 8.0 | 7.0 |
| P / BV (x) | 2.7 | 2.1 | 1.6 |
| EV / E (x) | 8.8 | 5.0 | 4.1 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 5,998 | 5,630 | *6.5* | 4,567 | 11,628 | 8,698 | *33.7* |
| EBITDA | 1,236 | 1,174 | *5.3* | 588 | 2,410 | 1,048 | *129.9* |
| *Margin (%)* | *20.6* | *20.9* | *(25)bps* | *12.9* | *20.7* | *12.0* | *867 bps* |
| Reported PAT | 562 | 890 | *(36.8)* | 545 | 1,452 | 858 | *69.2* |
| PAT (Excl. Ex Items) | 562 | 890 | *(36.8)* | 545 | 1,452 | 858 | *69.2* |
| **Operating Metrics** | | | | | | | |
| Volume (persons month) | 21,854 | 21,176 | *3.2* | 20,275 | 43,030 | 39,424 | *9.1* |
| Realization (US$ / Hr) | 28.1 | 28.1 | *0.2* | 28.0 | 28.1 | 27.5 | *1.9* |
| Currency (USD/INR) | 55.2 | 53.4 | *3.4* | 45.1 | 54.3 | 44.9 | *21.0* |
| SW Devp. Cost (% of Sales) | 61.3 | 61.1 | *16 bps* | 66.7 | 61.2 | 67.2 | *(595)bps* |
| SG&A (% of sales) | 18.1 | 18.0 | *9 bps* | 20.4 | 18.1 | 20.8 | *(278)bps* |

## CMC

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,124 |
| Target Price | Rs1,050 |
| Market Cap. (Rs bn) | 34.1 |
| Shares o/s (m) | 30.3 |

We expect revenue growth (in USD terms) of 3.4% QoQ. Due to rupee depreciation, we expect margin expansion of 17bps for the quarter as cost absorption and higher onshore work. Due to forex and asset translation losses, we expect PAT growth of 2% QoQ. We expect the management guidance on onset of offshoring, since onsite has gone up ~20 percentage point over the last eight quarters.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 14,693 | 19,198 | 22,705 |
| EBITDA | 2,243 | 3,099 | 3,517 |
| *Margin (%)* | *15.3* | *16.1* | *15.5* |
| PAT | 1,518 | 2,228 | 2,403 |
| EPS (Rs) | 50.1 | 73.5 | 79.3 |
| *RoE (%)* | *21.3* | *25.8* | *22.8* |
| PE (x) | 22.4 | 23.2 | 23.0 |
| P / BV (x) | 4.4 | 3.9 | 3.5 |
| EV / E (x) | 15.1 | 16.6 | 15.1 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | QoQ gr. (%) | Q2 FY12 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 4,704 | 4,523 | *4.0* | 3,577 | 9,226 | 6,633 | *39.1* |
| EBITDA | 790 | 752 | *5.0* | 532 | 1,543 | 1,039 | *48.5* |
| *Margin (%)* | *16.8* | *16.6* | *17 bps* | *14.9* | *16.7* | *15.7* | *105 bps* |
| Reported PAT | 596 | 584 | *2.0* | 326 | 1,180 | 675 | *74.9* |
| PAT (Excl. Ex Items) | 596 | 584 | *2.0* | 326 | 1,180 | 675 | *74.9* |
| **Operating Metrics** | | | | | | | |
| Revenue (US$ m) | 85 | 83 | *2.9* | 78 | 168 | 146 | *15.4* |
| Rs/US$ | 55.1 | 54.5 | *1.1* | 46.1 | 54.8 | 45.4 | *20.7* |
| Gross Margin | 91.4 | 91.7 | *(0.3)* | 87.6 | 91.5 | 87.7 | *4.4* |
| Subcontracting (% of rev.) | 34.0 | 33.9 | *12 bps* | 30.1 | 33.9 | 28.2 | *571 bps* |

## KPIT Cummins Infosystems

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs119 |
| Target Price | Rs130 |
| Market Cap. (Rs bn) | 21.0 |
| Shares o/s (m) | 175.7 |

We expect volume growth of 4% QoQ growth for KPIT; however, USD revenue growth is at 3.5% due to cross-currency headwinds. The growth is largely led by a recovery in the manufacturing sector. EBITDA margins are likely to expand by 92bps to 15.9% due to cost absorption and currency depreciation. We expect commentary on current status of '*Revolvo*'. We expect management commentary to be more cautious as demand in auto sector has plateaued.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 15,000 | 20,410 | 23,396 |
| EBITDA | 2,181 | 3,289 | 3,634 |
| *Margin (%)* | *14.5* | *16.1* | *15.5* |
| PAT | 1,454 | 2,235 | 2,494 |
| EPS (Rs) | 8.3 | 12.7 | 14.2 |
| *RoE (%)* | *21.8* | *27.0* | *24.1* |
| PE (x) | 14.4 | 9.4 | 8.4 |
| P / BV (x) | 2.9 | 2.3 | 1.8 |
| EV / E (x) | 8.9 | 5.7 | 4.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | QoQ gr. (%) | Q2 FY12 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 5,592 | 5,383 | *3.9* | 3,250 | 10,974 | 6,411 | *71.2* |
| EBITDA | 889 | 806 | *10.2* | 444 | 1,696 | 841 | *101.7* |
| *Margin (%)* | *15.9* | *15.0* | *92 bps* | *13.6* | *15.5* | *13.1* | *234 bps* |
| Reported PAT | 533 | 513 | *3.9* | 336 | 1,046 | 577 | *81.2* |
| PAT (Excl. Ex Items) | 533 | 513 | *3.9* | 336 | 1,046 | 577 | *81.2* |
| **Operating Metrics** | | | | | | | |
| Volume (persons months) | 3,008 | 2,892 | *4.0* | 2,401.1 | 5,900 | 4,753 | *24.1* |
| Offshore Utilization (%) | 75 | 74 | *39 bps* | 73 | 149 | 144 | *457 bps* |
| Currency (USD/INR) | 55 | 55 | *0.4* | 46 | 55 | 46 | *20.5* |
| SW Devp. Cost (% of Sales) | 50.4% | 50.6% | *(22)bps* | 65.6% | 50.5% | 66.4% | *(1,589)bps* |
| SG&A (% of sales) | 33.7% | 34.4% | *(70)bps* | 20.7% | 34.1% | 20.5% | *1,355 bps* |

## eClerx Services

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs788 |
| Target Price | Rs640 |
| Market Cap. (Rs bn) | 22.9 |
| Shares o/s (m) | 29.1 |

We expect a strong volume growth of 5.6% QoQ for Q2FY13, due to inorganic contribution from Agilyst in the quarter. We expect realizations to remain flat. Depreciation in currency and cost absorption would push the margins up by 10bps. However, higher hedge position and asset translation loss would erode bottom-line.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 4,729 | 5,755 | 6,717 |
| EBITDA | 1,897 | 2,264 | 2,544 |
| *Margin (%)* | *40.1* | *39.3* | *37.9* |
| PAT | 1,598 | 1,925 | 2,208 |
| EPS (Rs) | 55.0 | 66.3 | 76.0 |
| *RoE (%)* | *54.9* | *49.0* | *44.3* |
| PE (x) | 14.3 | 11.9 | 10.4 |
| P / BV (x) | 6.7 | 5.2 | 4.1 |
| EV / E (x) | 11.2 | 9.0 | 7.6 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 1,657 | 1,537 | *7.8* | 1,137 | 3,194 | 2,133 | *49.7* |
| EBITDA | 661 | 612 | *8.1* | 442 | 1,273 | 833 | *52.8* |
| *Margin (%)* | *39.9* | *39.8* | *12 bps* | *38.9* | *39.8* | *39.0* | *80 bps* |
| Reported PAT | 451 | 493 | *(8.5)* | 442 | 944 | 794 | *18.9* |
| PAT (Excl. Ex Items) | 451 | 493 | *(8.5)* | 442 | 944 | 794 | *18.9* |
| **Operating Metrics** | | | | | | | |
| Volume (persons month) | 11,516 | 10,904 | *5.6* | 8,424 | 22,419 | 16,092 | *39.3* |
| Utilization (%) | 0.7 | 0.7 | *2.9* | 0.7 | 0.7 | 0.7 | *-* |
| Re/$ Rate | 55.1 | 54.7 | *0.7* | 46.8 | 54.9 | 45.7 | *20.0* |
| Per. Exp. (as % of sales) | 42.7 | 42.4 | *27 bps* | 43.8 | 42.6 | 44.3 | *(2)bps* |
| SG&A (as % of sales) | 17.4 | 17.8 | *(38)bps* | 17.3 | 17.6 | 16.6 | *1 bps* |

## NIIT Technologies

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs283 |
| Target Price | Rs350 |
| Market Cap. (Rs bn) | 16.9 |
| Shares o/s (m) | 59.6 |

We expect NIIT Tech to report USD growth of 2% QoQ, led by a growth in volumes by 2.5%. The quarter is likely to witness margin expansion of 51bps due to currency depreciation and cost absorption. We expect order book to show muted growth in the quarter. However, we expect steady performance in manufacturing and TTSL vertical. Moreover, recent acquisition of Sabre's asset and new deals from key accounts would prompt management for a positive commentary.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 15,764 | 19,080 | 21,874 |
| EBITDA | 2,683 | 3,079 | 3,549 |
| *Margin (%)* | *17.0* | *16.1* | *16.2* |
| PAT | 1,956 | 2,293 | 2,716 |
| EPS (Rs) | 32.8 | 38.4 | 45.5 |
| *RoE (%)* | *23.4* | *22.8* | *22.9* |
| PE (x) | 8.6 | 7.4 | 6.2 |
| P / BV (x) | 1.8 | 1.6 | 1.3 |
| EV / E (x) | 5.5 | 4.6 | 3.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 4,802 | 4,696 | *2.3* | 3,711 | 9,498 | 6,999 | *35.7* |
| EBITDA | 792 | 751 | *5.5* | 550 | 1,543 | 1,159 | *33.2* |
| *Margin (%)* | *16.5* | *16.0* | *51 bps* | *14.8* | *16.2* | *16.6* | *(31)bps* |
| Reported PAT | 498 | 576 | *(13.5)* | 458 | 1,074 | 871 | *23.3* |
| PAT (Excl. Ex Items) | 498 | 576 | *(13.5)* | 458 | 1,074 | 871 | *23.3* |
| **Operating Metrics** | | | | | | | |
| Total Technical Billed (Headcount) | 2,976 | 2,904 | *2.5* | 2,714 | 5,880 | 5,155 | *14.1* |
| Utilization | 0.8 | 0.8 | *0.6* | 0.8 | 0.8 | 0.8 | *(2.8)* |
| SW Devp. Cost (% of sales) | 64.6 | 64.9 | *(29)bps* | 62.0 | 64.7 | 61.6 | *310 bps* |
| Sales & Mktg. (% of Sales) | 18.9 | 19.1 | *(22)bps* | 23.2 | 19.0 | 21.7 | *(267)bps* |

## Persistent Systems

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs427 |
| Target Price | Rs480 |
| Market Cap. (Rs bn) | 17.1 |
| Shares o/s (m) | 40.0 |

We expect Persistent Systems to grow by 4.6% QoQ in USD terms. We expect margin erosion of 103bps despite currency depreciation due to lesser IP revenue and wage hike given by the company. We expect top clients ramp-down to bottom out in the quarter. The management commentary would hint towards an improving demand scenario.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 10,003 | 12,267 | 13,835 |
| EBITDA | 2,324 | 3,200 | 3,468 |
| *Margin (%)* | *23.2* | *26.1* | *25.1* |
| PAT | 1,418 | 1,913 | 2,204 |
| EPS (Rs) | 35.4 | 47.8 | 55.1 |
| *RoE (%)* | *17.8* | *20.8* | *20.1* |
| PE (x) | 12.0 | 8.9 | 7.7 |
| P / BV (x) | 2.0 | 1.7 | 1.4 |
| EV / E (x) | 6.8 | 4.6 | 3.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | *QoQ gr. (%)* | Q2 FY12 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 3,127 | 3,007 | *4.0* | 2,382 | 6,135 | 4,620 | *32.8* |
| EBITDA | 807 | 807 | *0.0* | 454 | 1,614 | 855 | *88.8* |
| *Margin (%)* | *25.8* | *26.8* | *(103)bps* | *19.0* | *26.3* | *18.5* | *781 bps* |
| Reported PAT | 426 | 416 | *2.5* | 324 | 842 | 600 | *40.4* |
| PAT (Excl. Ex Items) | 426 | 416 | *2.5* | 324 | 842 | 600 | *40.4* |
| **Operating Metrics** | | | | | | | |
| Volume (persons month) | 11,970 | 11,422 | *4.8* | 11,097 | 23,392 | 22,008 | *6.3* |
| Realization (US$ / Hr) | 3,345 | 3,345 | *0.0* | 3,208 | 3,345 | 3,178 | *5.3* |
| Currency (USD/INR) | 55.0 | 55.3 | *(0.6)* | 46.2 | 55.2 | 45.5 | *21.3* |
| SW Devp. Cost (% of sales) | 67.9 | 66.9 | *101 bps* | 0.8 | 67.4 | 77.4 | *(10)bps* |
| SG&A (% of sales) | 6.3 | 6.3 | *2 bps* | 4.0 | 6.3 | 4.1 | *2 bps* |

## Rolta India

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs73 |
| Target Price | Rs85 |
| Market Cap. (Rs bn) | 11.8 |
| Shares o/s (m) | 161.3 |

We expect a strong growth for EGIS and EICT, growing at 2.4% and 4.2% QoQ, respectively, whereas EDOS is likely to grow by 2.9% QoQ. Unlike previous quarter, the growth in EDOS is likely to be driven by actual volume growth. Also, we expect improvement in the order book. We look forward to the management commentary on interest cost impact and the means to tackle it.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 18,288 | 19,842 | 21,430 |
| EBITDA | 8,068 | 7,739 | 8,358 |
| *Margin (%)* | *44.1* | *39.0* | *39.0* |
| PAT | 2,664 | 2,364 | 2,442 |
| EPS (Rs) | 16.5 | 14.7 | 15.1 |
| *RoE (%)* | *11.5* | *8.4* | *8.2* |
| PE (x) | 4.4 | 5.0 | 4.8 |
| P / BV (x) | 0.4 | 0.4 | 0.4 |
| EV / E (x) | 2.2 | 2.2 | 1.9 |

**Quarterly Table *(Rs m)***

| Y/e June | Q1 FY13E | Q4 FY12 | *QoQ gr. (%)* | Q1 FY12 | 12M FY13E | 12M FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 4,591 | 4,451 | *3.2* | 4,858 | 19,842 | 18,288 | *8.5* |
| EBITDA | 2,433 | 2,431 | *0.1* | 1,790 | 7,739 | 8,068 | *(4.1)* |
| *Margin (%)* | *53.0* | *54.6* | *(161)bps* | *36.8* | *39.0* | *44.1* | *(512)bps* |
| Reported PAT | 411 | 477 | *(13.9)* | 622 | 2,364 | 2,664 | *(11.3)* |
| PAT (Excl. Ex Items) | 411 | 477 | *(13.9)* | 622 | 2,364 | 2,664 | *(11.3)* |
| **Operating Metrics** | | | | | | | |
| EGIS Rev. | 2,003 | 1,956 | *2.4* | 2,602 | 10,551 | 8,941 | *18.0* |
| EDOS Rev. | 1,033 | 1,003 | *2.9* | 1,043 | 4,568 | 4,079 | *12.0* |
| EICT Rev. | 1,555 | 1,492 | *4.2* | 1,213 | 4,724 | 5,268 | *(10.3)* |
| SW Devp. Cost (% of sales) | 31.5% | 31.3% | *19 bps* | 27.6% | 38.8 | 29.7 | *907 bps* |

## Polaris Financial Technology

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs129 |
| Target Price | Rs150 |
| Market Cap. (Rs bn) | 12.8 |
| Shares o/s (m) | 99.2 |

We expect *Sourcing* and *Intellect* to grow at 3.4% and 4% QoQ, respectively, whereas *BPO* revenue is likely to grow by 3.6% QoQ. We expect margins to expand by 72bps due to currency depreciation and cost absorption. Also, we expect muted commentary on the deal pipeline for *Intellect* and cautious tone on the overall demand environment due to high exposure to BFSI vertical.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 20,527 | 24,931 | 27,590 |
| EBITDA | 2,906 | 3,133 | 3,380 |
| *Margin (%)* | *14.2* | *12.6* | *12.3* |
| PAT | 2,204 | 2,422 | 2,694 |
| EPS (Rs) | 22.2 | 24.4 | 27.2 |
| *RoE (%)* | *19.6* | *18.3* | *17.5* |
| PE (x) | 5.8 | 5.3 | 4.8 |
| P / BV (x) | 1.1 | 0.9 | 0.8 |
| EV / E (x) | 3.3 | 2.7 | 1.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | QoQ gr. (%) | Q2 FY12 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 6,069 | 5,693 | *6.6* | 5,097 | 11,763 | 9,599 | *22.5* |
| EBITDA | 783 | 693 | *12.9* | 622 | 1,476 | 1,200 | *23.0* |
| *Margin (%)* | *12.9* | *12.2* | *72 bps* | *12.2* | *12.6* | *12.5* | *5 bps* |
| Reported PAT | 572 | 609 | *(6.1)* | 537 | 1,180 | 983 | *20.1* |
| PAT (Excl. Ex Items) | 572 | 609 | *(6.1)* | 537 | 1,180 | 983 | *20.1* |
| **Operating Metrics** | | | | | | | |
| FT Sourcing | 85 | 82 | *3.4* | 80 | 167 | 157 | *6.7* |
| FT Intellect | 25.5 | 24.5 | *4.0* | 30.4 | 50.0 | 53.9 | *(7.3)* |
| BPO | 0.9 | 0.9 | *3.6* | 0.7 | 1.8 | 1.4 | *30.8* |
| SDE (as % of sales) | 69.0% | 69.3% | *(33)bps* | 70.7% | 69.2% | 69.6% | *(0)bps* |
| S&M Exp (as % of sales) | 12.4% | 12.5% | *(5)bps* | 10.6% | 12.4% | 11.0% | *1 bps* |

## Geometric

| | |
|---|---|
| Rating | **Under-Review** |
| Price | Rs117 |
| Target Price | NA |
| Market Cap. (Rs bn) | 7.4 |
| Shares o/s (m) | 62.7 |

Volumes and pricing (put together for Q2FY13) for Geometric are expected to report a growth of 3% QoQ. We expect almost new strategy from the company's new management for H2FY13. We expect EBITDA margin to be eroded by 40bps due to payment to consultants. However, bottom-line would grow by 8.7% due to no extraordinary charges.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 8,079 | 10,083 | 11,395 |
| EBITDA | 1,116 | 1,725 | 1,982 |
| *Margin (%)* | *13.8* | *17.1* | *17.4* |
| PAT | 592 | 1,022 | 1,263 |
| EPS (Rs) | 9.4 | 16.3 | 20.2 |
| *RoE (%)* | *29.3* | *43.6* | *37.1* |
| PE (x) | 12.4 | 7.2 | 5.8 |
| P / BV (x) | 3.9 | 2.6 | 1.8 |
| EV / E (x) | 6.5 | 3.8 | 2.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q1 FY13 | QoQ gr. (%) | Q2 FY12 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 2,721 | 2,608 | *4.3* | 1,912 | 5,329 | 3,639 | *46.4* |
| EBITDA | 539 | 527 | *2.3* | 276 | 1,065 | 443 | *140.8* |
| *Margin (%)* | *19.8* | *20.2* | *(40)bps* | *14.4* | *20.0* | *12.2* | *783 bps* |
| Reported PAT | 225 | 207 | *8.7* | 134 | 431 | 251 | *71.6* |
| PAT (Excl. Ex Items) | 225 | 207 | *8.7* | 134 | 431 | 251 | *71.6* |
| **Operating Metrics** | | | | | | | |
| Revenues (US$ m) | 3,932 | 3,817 | *3.0* | 3,400 | 7,749 | 6,603 | *17.3* |
| Software Seg. Rev. | 89 | 89 | *0.5* | 89 | 178 | 175 | *1.3* |
| Engineering Seg. | 55 | 55 | *0.8* | 46 | 110 | 91 | *20.5* |
| Products Seg. Rev. | 60.0 | 60.3 | *(0.5)* | 66.6 | 60.2 | 68.1 | *(11.7)* |
| SW Devp. Cost (% of sales) | 20.2 | 19.5 | *71 bps* | 19.0 | 19.8 | 19.9 | *(1)bps* |

Kamlesh Bagmar
kamleshbagmar@plindia.com
+91-22-6632 2237

Mandar Dhavle
mandardhavle@plindia.com
+91-22-6632 2258

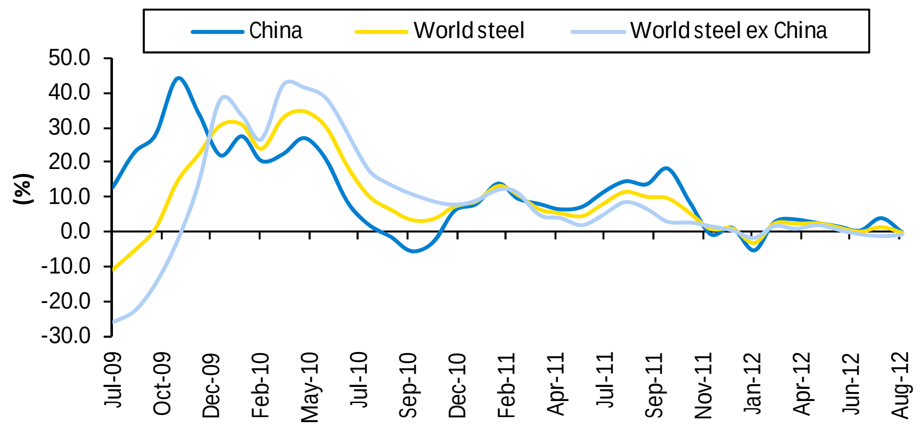
## Top picks

Coal India

# Metals & Mining

World Steel production growth continued to languish, clocking a meagre ~0.4% YoY growth in Jul-Aug'12 owing to a continued weakness in Europe and Chinese markets. Despite heavy losses and sluggish demand, China's production grew 2% during the period at 120m tonnes. Europe reported decline in production for 11 straight months till August, with 4.5% cut in production during Jul-Aug'12. Production in North America was marginally down by ~0.4% at 20.1m tonnes.

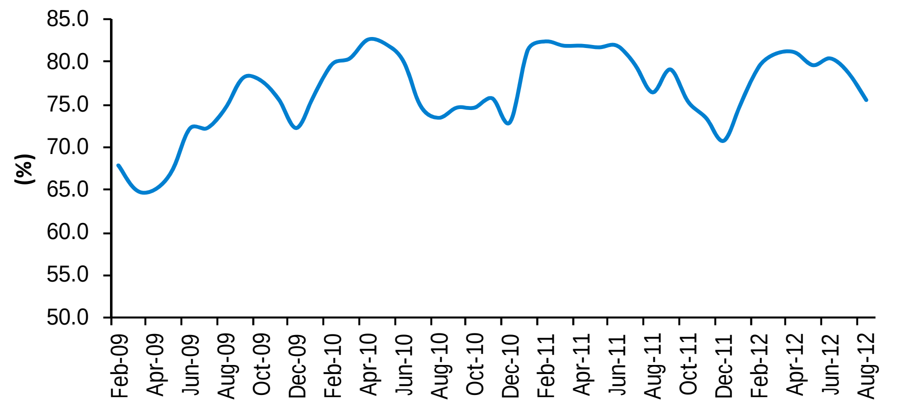
**Movement in Crude Steel Production**




*Source: World Steel, PL Research*

Utilisation levels are down by ~100bps YoY on the back drop of weak demand across the regions.

**Movement in World Steel capacity utilisation**

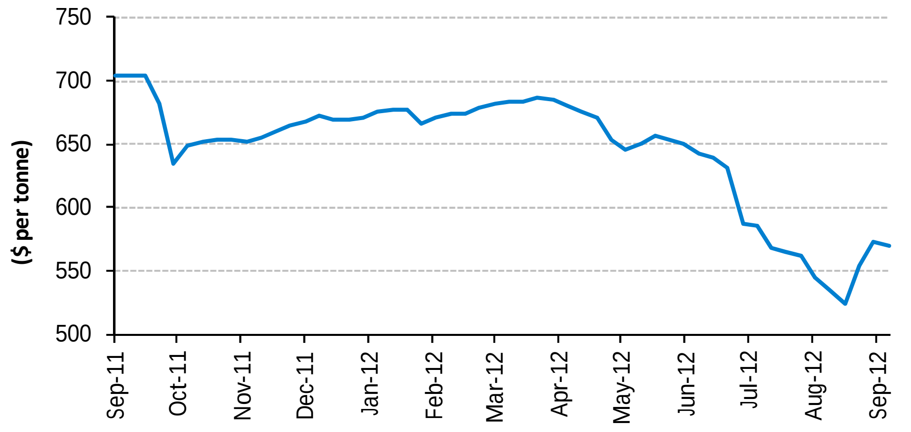



*Source: World Steel, PL Research*

Flat steel product prices fell sharply across the markets during the quarter, with current prices in China and North America near their multi-year lows. The price fall has been severe in China on the backdrop of elevated inventory levels and continuous contraction in demand across the sectors. Domestic steel prices in China fell by an average of US$90/t during the quarter at US$578. Prices in European and North American markets fell by an average of US$50 and US$25 QoQ/tonne, respectively.

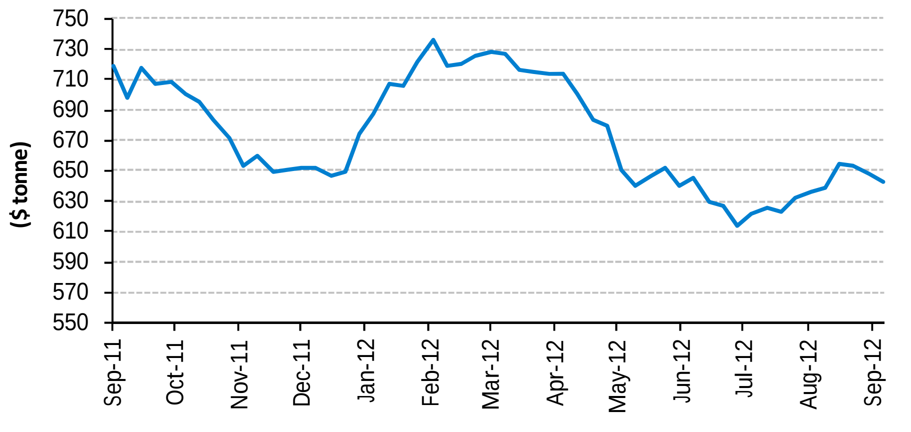
Flat steel prices in India corrected by an average of Rs 1,500/tonne to Rs 34,500 due to a weak demand, increased imports and elevated inventory levels. Long product prices came off by an average of Rs 2,250 at Rs 38,250/tonne.

**China HRC price**



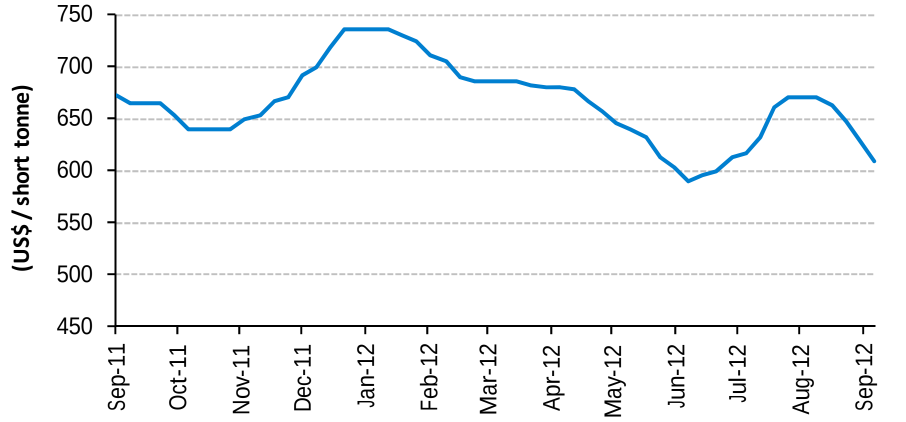

*Source: SBB, PL Research*

**Europe HRC Price**




*Source: SBB, PL Research*

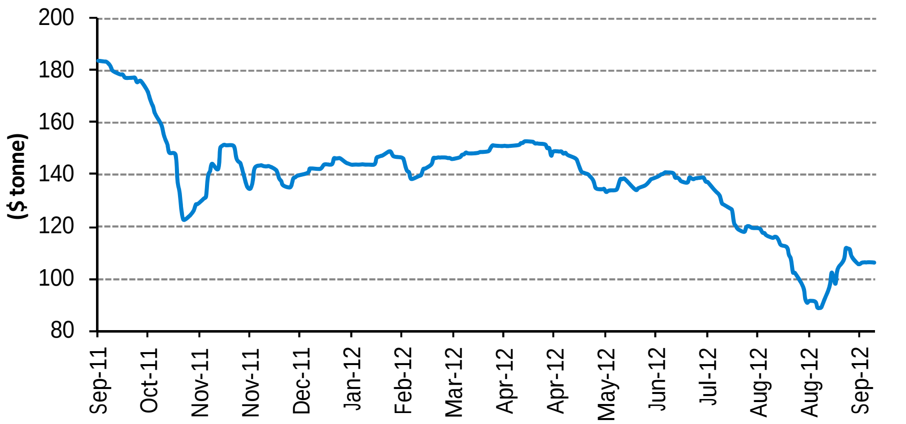
**North America HRC Price**




*Source: SBB, PL Research*

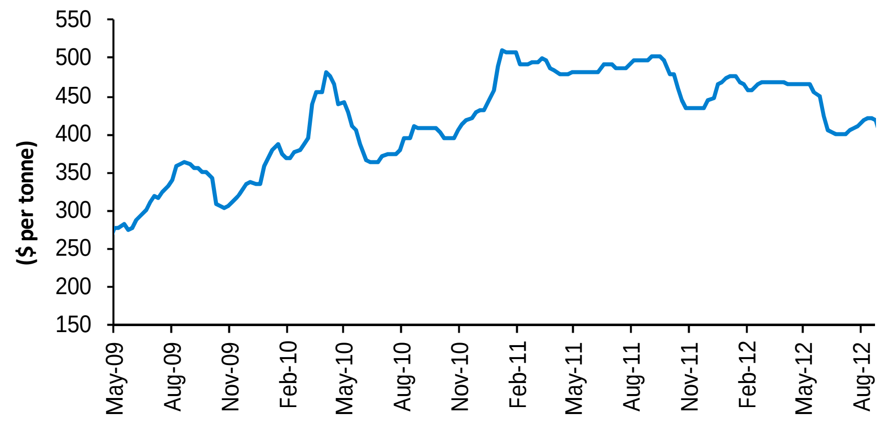
Spot iron ore prices (CIF China) fell by ~ 17% or US$23/t during the quarter, with an average of US$112 on account of weak steel prices and mounting losses across Chinese steel mills. However, prices rebounded strongly by ~20% or US$17/t at the current price levels of US$104 from its lows of US$87 on September 5, 2012 in reaction to stimulus announced by the Chinese government.

**Indian origin Iron Ore (63% Fe) Export Prices (CIF) to China**




*Source: SBB, PL Research.*

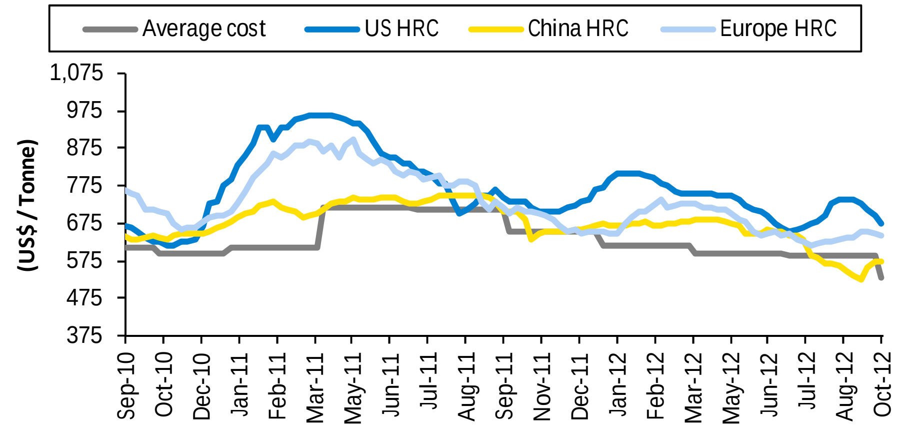
**Rotterdam Scrap Prices**




*Source: SBB, PL Research*

Spreads remained relatively strong in the North American markets on the back of firm steel prices. On the contrary, spreads in Europe remained under pressure owing to weak steel prices and lean seasonal demand. Profitability of Chinese steel mills came under pressure due to steeper fall in steel prices relative to input prices.

**Steel prices and cost of production (Blast furnace producers) movement**




*Source: SBB, PL Research*

We maintain our negative outlook on the sector as deteriorating demand environment raises downside risks to spreads. We believe that risk reward remains unfavourable at the current valuations in the wake of sluggish macro environment, weak domestic demand and excess supply in domestic market. We like Coal India on the back of attractive valuations and strong earnings profile.

### Stock Performance

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Coal India | 1.2 | 4.3 | 6.4 | 11.9 | (8.2) | (3.7) | (1.9) | (8.0) |
| Hindustan Zinc | 8.1 | 8.9 | 6.2 | 20.4 | (1.3) | 0.9 | (2.1) | 0.5 |
| Jindal Steel & Power | 24.0 | (11.5) | (20.6) | (6.6) | 14.6 | (19.5) | (28.9) | (26.5) |
| Tata Steel | 17.3 | (9.1) | (13.7) | 2.5 | 7.9 | (17.1) | (22.0) | (17.4) |
| Steel Authority of India | 12.8 | (8.6) | (12.0) | (12.8) | 3.4 | (16.6) | (20.3) | (32.7) |
| Sterlite industries | 8.4 | (7.9) | (8.7) | (3.4) | (1.0) | (15.8) | (17.0) | (23.3) |
| JSW Steel | 12.7 | 2.1 | 2.7 | 33.5 | 3.3 | (5.8) | (5.6) | 13.6 |

*Source: Bloomberg, PL Research*

### Summary Financials - Quarterly (Rs m)

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Coal India** | Sales | 147,502 | 131,481 | *12.2* | 165,006 | *(10.6)* | 312,508 | 276,472 | *13.0* |
| | EBITDA | 29,390 | 24,819 | *18.4* | 48,146 | *(39.0)* | 77,536 | 72,980 | *6.2* |
| | *Margins (%)* | *19.9* | *18.9* | | *29.2* | | *24.8* | *26.4* | |
| | PAT | 31,176 | 25,796 | *20.9* | 44,762 | *(30.4)* | 75,938 | 67,147 | *13.1* |
| **Hindustan Zinc** | Sales | 26,887 | 25,935 | *3.7* | 27,127 | *(0.9)* | 54,014 | 54,148 | *(0.2)* |
| | EBITDA | 13,959 | 14,215 | *(1.8)* | 13,935 | *0.2* | 27,894 | 29,881 | *(6.6)* |
| | *Margins (%)* | *51.9* | *54.8* | | *51.4* | | *51.6* | *55.2* | |
| | PAT | 14,388 | 13,639 | *5.5* | 15,813 | *(9.0)* | 30,201 | 28,625 | *5.5* |
| **Jindal Steel & Power** | Sales | 47,988 | 44,066 | *8.9* | 46,804 | *2.5* | 94,792 | 83,468 | *13.6* |
| | EBITDA | 17,364 | 16,872 | *2.9* | 15,722 | *10.4* | 33,086 | 33,090 | *(0.0)* |
| | *Margins (%)* | *36.2* | *38.3* | | *33.6* | | *34.9* | *39.6* | |
| | PAT | 9,274 | 9,307 | *(0.4)* | 8,300 | *11.7* | 17,574 | 18,495 | *(5.0)* |
| **Tata Steel** | Sales | 295,819 | 327,979 | *(9.8)* | 338,212 | *(12.5)* | 634,031 | 657,981 | *(3.6)* |
| | EBITDA | 31,874 | 27,500 | *15.9* | 34,033 | *(6.3)* | 65,907 | 72,073 | *(8.6)* |
| | *Margins (%)* | *10.8* | *8.4* | | *10.1* | | *10.4* | *11.0* | |
| | PAT | 2,887 | 2,124 | *35.9* | 5,979 | *(51.7)* | 8,866 | 21,971 | *(59.6)* |
| **Steel Authority of India** | Sales | 110,503 | 108,367 | *2.0* | 106,407 | *3.8* | 216,910 | 216,630 | *0.1* |
| | EBITDA | 11,341 | 11,842 | *(4.2)* | 13,785 | *(17.7)* | 25,126 | 24,003 | *4.7* |
| | *Margins (%)* | *10.3* | *10.9* | | *13.0* | | *11.6* | *11.1* | |
| | PAT | 6,881 | 8,383 | *(17.9)* | 8,700 | *(20.9)* | 15,581 | 16,945 | *(8.1)* |
| **Sterlite Industries** | Sales | 109,038 | 101,338 | *7.6* | 105,914 | *2.9* | 214,952 | 199,578 | *7.7* |
| | EBITDA | 23,266 | 24,202 | *(3.9)* | 22,512 | *2.9* | 45,779 | 51,418 | *(11.0)* |
| | *Margins (%)* | *21.3* | *23.9* | | *21.3* | | *21.3* | *25.8* | |
| | PAT | 12,790 | 12,909 | *(0.9)* | 13,484 | *(5.7)* | 26,274 | 29,336 | *(10.4)* |
| **JSW Steel** | Sales | 86,661 | 76,251 | *13.7* | 90,302 | *(4.0)* | 176,963 | 146,896 | *20.5* |
| | EBITDA | 14,114 | 12,890 | *9.5* | 17,654 | *(20.1)* | 31,768 | 26,781 | *18.6* |
| | *Margins (%)* | *16.3* | *16.9* | | *19.5* | | *18.0* | *18.2* | |
| | PAT | 2,576 | 4,860 | *(47.0)* | 4,877 | *(47.2)* | 7,452 | 10,643 | *(30.0)* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 3,448,255 | 3,669,272 | 4,098,183 |
| *Growth (%)* | *19.4* | *6.4* | *11.7* |
| EBITDA | 614,356 | 688,436 | 785,445 |
| *Margin (%)* | *17.8* | *18.8* | *19.2* |
| PAT | 360,001 | 394,437 | 446,592 |
| *Growth (%)* | *(2.9)* | *9.6* | *13.2* |
| PE (x) | 12.6 | 11.5 | 10.1 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | QoQ gr. (%) |
|---|---|---|---|---|---|
| Net Sales | 797,535 | 789,482 | *1.0* | 852,645 | *(6.5)* |
| EBITDA | 127,368 | 118,125 | *7.8* | 151,852 | *(16.1)* |
| *Margin (%)* | *16.0* | *15.0* | *101 bps* | *17.8* | *(184)bps* |
| PAT (Excl. Ex Items) | 65,598 | 63,379 | *3.5* | 86,101 | *(23.8)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Coal India

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs363 |
| Target Price | Rs389 |
| Market Cap. (Rs bn) | 2,295.7 |
| Shares o/s (m) | 6,316.4 |

Benefitted by 3% rise (Rs 49/tonne) in realisations and 8.5% volume growth at 102m tonnes, net revenue is expected to grow by 12.2% YoY. Thanks to higher scale, cost per tonne is expected to rise marginally by 2% (Rs 24/t) to Rs1,165 despite higher wages and consumables costs. Hence, EBITDA per tonne is expected to expand by 9% to Rs290. Accordingly, EBITDA is expected to grow by 18.4% YoY or Rs 4.6bn to Rs 29.4bn. Thanks to elevated cash levels, PAT is expected to grow by 20.9% to Rs46.4bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 624,154 | 673,673 | 717,051 |
| EBITDA | 156,387 | 170,816 | 176,296 |
| *Margin (%)* | *25.1* | *25.4* | *24.6* |
| PAT | 147,263 | 161,925 | 172,530 |
| EPS (Rs) | 23.3 | 25.6 | 27.3 |
| *RoE (%)* | *39.9* | *36.4* | *32.8* |
| PE (x) | 15.6 | 14.2 | 13.3 |
| P / BV (x) | 5.7 | 4.7 | 4.0 |
| EV / E (x) | 11.1 | 9.6 | 8.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 147,502 | 131,481 | *12.2* | 165,006 | 312,508 | 276,472 | *13.0* |
| EBITDA | 29,390 | 24,819 | *18.4* | 48,146 | 77,536 | 72,980 | *6.2* |
| *Margin (%)* | *19.9* | *18.9* | *105 bps* | *29.2* | *24.8* | *26.4* | *(159)bps* |
| Reported PAT | 31,176 | 25,858 | *20.6* | 44,693 | 75,869 | 67,297 | *12.7* |
| PAT (Excl. Ex Items) | 31,176 | 25,796 | *20.9* | 44,762 | 75,938 | 67,147 | *13.1* |
| **Operating Metrics** | | | | | | | |
| Coal despatches (m tn) | 102 | 94 | *8.5* | 113 | 214.7 | 200.0 | *7.4* |
| Real. / tonne (Rs) | 1,455 | 1,406 | *3.4* | 1,465 | 1,460 | 1,386 | *5.3* |
| Total cost per tonne (Rs) | 1,165 | 1,141 | *2.1* | 1,037 | 1,094 | 1,018 | *7.5* |
| EBITDA / tonne (Rs) | 290 | 265 | *9.2* | 427 | 361 | 365 | *(1.1)* |
| Cash cost per tonne (Rs) | 1,070 | 1,065 | *0.5* | 944 | 1,004 | 940 | *6.8* |
| Emp. cost / tonne (Rs) | 631 | 709 | *(10.9)* | 598 | 614 | 601 | *2.2* |
| OBR adj / tonne (Rs) | 65 | 54 | *19.7* | 71 | 68 | 58 | *18.2* |

## Hindustan Zinc

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs136 |
| Target Price | Rs139 |
| Market Cap. (Rs bn) | 575.3 |
| Shares o/s (m) | 4,225.3 |

Owing to 1% increase in realisations (in Rs) of Zinc-Lead refined metal and 7% rise in revenues of silver business, revenue is expected to decline marginally by ~0.9% QoQ despite 2% fall in refined zinc-lead metal volumes. Thanks to lower energy cost and higher realisations, EBITDA is expected to remain flat at Rs 14bn. Owing to MTM FMP one-time gain in Q1FY13 (show in other income) and higher tax rate, PAT is expected to fall by 9.0% to Rs 14.4bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 105,994 | 121,061 | 131,163 |
| EBITDA | 52,635 | 66,732 | 71,794 |
| *Margin (%)* | *49.7* | *55.1* | *54.7* |
| PAT | 48,605 | 64,449 | 71,432 |
| EPS (Rs) | 11.5 | 15.3 | 16.9 |
| *RoE (%)* | *19.7* | *21.9* | *20.7* |
| PE (x) | 11.8 | 8.9 | 8.1 |
| P / BV (x) | 2.1 | 1.8 | 1.5 |
| EV / E (x) | 9.9 | 7.2 | 6.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 26,887 | 25,935 | 3.7 | 27,127 | 54,014 | 54,148 | (0.2) |
| EBITDA | 13,959 | 14,215 | (1.8) | 13,935 | 27,894 | 29,881 | (6.6) |
| *Margin (%)* | *51.9* | *54.8* | *(289)bps* | *51.4* | *51.6* | *55.2* | *(354)bps* |
| Reported PAT | 14,388 | 13,447 | 7.0 | 15,813 | 30,201 | 28,396 | 6.4 |
| PAT (Excl. Ex Items) | 14,388 | 13,639 | 5.5 | 15,813 | 30,201 | 28,625 | 5.5 |
| **Operating Metrics** | | | | | | | |
| Total Refined metal-tns | 185,000 | 198,846 | (7.0) | 189,000 | 374,000 | 405,128 | (7.7) |
| Silver Sales Vol. (kg) | 75,000 | 41,454 | 80.9 | 73,000 | 148,000 | 82,362 | 79.7 |
| Zinc (US$)-LME / tonne | 1,885 | 2,233 | (15.6) | 1,935 | 1,910 | 2,242 | (14.8) |
| Silver (Rs / Kg) | 55,500 | 57,746 | (3.9) | 53,151 | 54,325 | 56,752 | (4.3) |

## Jindal Steel & Power

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs416 |
| Target Price | Rs392 |
| Market Cap. (Rs bn) | 389.3 |
| Shares o/s (m) | 934.8 |

Thanks to 2.8% YoY growth in steel volumes and 8% rise in steel realizations, standalone revenue is expected to grow by 7% YoY despite flat revenues in other segments. Thanks to flat margins in steel business and forex gain, standalone EBITDA would grow by 8% YoY to Rs 11.5bn. Owing to higher depreciation and interest cost, standalone PAT would decline by 3% YoY to Rs 5.3bn. Jindal Power is expected to report 8.5% YoY decline in PAT at Rs 3.8bn on account of 5% decline in volumes. Consolidated EBITDA is expected to grow by 3%, while PAT is expected to remain flat.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 181,665 | 213,429 | 256,481 |
| EBITDA | 69,452 | 70,397 | 78,547 |
| *Margin (%)* | *38.2* | *33.0* | *30.6* |
| PAT | 39,578 | 36,916 | 36,536 |
| EPS (Rs) | 42.3 | 39.5 | 39.1 |
| *RoE (%)* | *24.6* | *18.6* | *15.6* |
| PE (x) | 9.8 | 10.5 | 10.7 |
| P / BV (x) | 2.1 | 1.8 | 1.6 |
| EV / E (x) | 8.0 | 8.4 | 8.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 47,988 | 44,066 | *8.9* | 46,804 | 94,792 | 83,468 | *13.6* |
| EBITDA | 17,364 | 16,872 | *2.9* | 15,722 | 33,086 | 33,090 | *(0.0)* |
| *Margin (%)* | *36.2* | *38.3* | *(211)bps* | *33.6* | *34.9* | *39.6* | *(474)bps* |
| Reported PAT | 9,274 | 8,754 | *5.9* | 3,853 | 13,128 | 17,942 | *(26.8)* |
| PAT (Excl. Ex Items) | 9,274 | 9,307 | *(0.4)* | 8,300 | 17,574 | 18,495 | *(5.0)* |
| **Operating Metrics** | | | | | | | |
| Steel Sales Vol. (Tonnes) | 615,000 | 598,209 | *2.8* | 561,337 | 1,176,337 | 1,055,096 | *11.5* |
| JSPL-Pwr (m kwh) | 580 | 222 | *161.3* | 584 | 1,164 | 481 | *142.0* |
| Standalone EBITDA | 11,546 | 10,701 | *7.9* | 10,185 | 21,730 | 20,296 | *7.1* |
| Standalone PAT | 5,268 | 5,435 | *(3.1)* | 4,003 | 9,270 | 10,137 | *(8.6)* |
| JPL-Kwh sold (m) | 1,684 | 1,777 | *(5.2)* | 1,965 | 3,649 | 3,691 | *(1.2)* |
| JPL-Rate / Kwh | 3.7 | 3.7 | *0.0* | 3.8 | 3.8 | 3.8 | *(1.2)* |
| JPL-PAT | 3,749 | 4,098 | *(8.5)* | 3,144 | 6,893 | 8,627 | *(20.1)* |

## Tata Steel

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs411 |
| Target Price | Rs418 |
| Market Cap. (Rs bn) | 398.8 |
| Shares o/s (m) | 971.4 |

Standalone net revenue (incl. other operating income) is expected to grow by 2.5% QoQ on the back of 7% growth in volumes, 3% or Rs 1,500/t cut in realizations and flat revenue in other segments. Thanks to currency translation gains against loss of Rs 2bn in Q1 and one-time provisioning of Rs1bn in employee cost, EBITDA/t would fall marginally by 0.7% QoQ to Rs 17,356. Thanks to higher volumes, EBITDA would grow 6.1% QoQ (+6.5% YoY) to Rs 29.5bn. On the back of lower interest cost and tax rate, PAT is expected to grow by 10.7% QoQ at Rs15bn.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 1,328,997 | 1,366,590 | 1,504,617 |
| EBITDA | 124,168 | 142,937 | 172,639 |
| *Margin (%)* | *9.3* | *10.5* | *11.5* |
| PAT | 20,279 | 24,413 | 44,674 |
| EPS (Rs) | 20.9 | 25.1 | 46.0 |
| *RoE (%)* | *5.2* | *5.6* | *9.9* |
| PE (x) | 19.7 | 16.3 | 8.9 |
| P / BV (x) | 0.9 | 0.9 | 0.9 |
| EV / E (x) | 7.2 | 6.5 | 5.5 |

**Quarterly Table *(Rs m)* - Standalone**

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 91,312 | 82,119 | *11.2* | 89,080 | 180,393 | 160,722 | *12.2* |
| EBITDA | 29,506 | 27,698 | *6.5* | 27,798 | 57,304 | 58,846 | *(2.6)* |
| *Margin (%)* | *32.3* | *33.7* | *(142)bps* | *31.2* | *31.8* | *36.6* | *(485)bps* |
| Reported PAT | 15,019 | 14,952 | *0.4* | 13,566 | 28,584 | 37,147 | *(23.0)* |
| PAT (Excl. Ex Items) | 15,019 | 14,952 | *0.4* | 13,566 | 28,584 | 32,036 | *(10.8)* |
| **Operating Metrics** | | | | | | | |
| Sales volume (m tonnes) | 1.7 | 1.6 | *3.2* | 1.6 | 3.3 | 3.2 | *1.5* |
| Realisation / Tonne (Rs) | 49,463 | 45,978 | *7.6* | 50,977 | 50,195 | 45,696 | *9.8* |
| EBITDA / Tonne (Rs) | 17,356 | 16,807 | *3.3* | 17,483 | 17,418 | 17,947 | *(2.9)* |

## Tata Steel

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs411 |
| Target Price | Rs418 |
| Market Cap. (Rs bn) | 398.8 |
| Shares o/s (m) | 971.4 |

Impacted by weak spreads and sluggish demand, Tata steel Europe's EBITDA/t is expected to fall to US$10 against US$35 and US$18 in Q1FY13 and Q2FY12, respectively. Hence, consolidated EBITDA is expected to decline by 6% QoQ to Rs 31.9bn. PAT would decline by 52% QoQ to Rs 2.9bn owing to higher tax rate.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 1,328,997 | 1,366,590 | 1,504,617 |
| EBITDA | 124,168 | 142,937 | 172,639 |
| *Margin (%)* | *9.3* | *10.5* | *11.5* |
| PAT | 20,279 | 24,413 | 44,674 |
| EPS (Rs) | 20.9 | 25.1 | 46.0 |
| *RoE (%)* | *5.2* | *5.6* | *9.9* |
| PE (x) | 19.7 | 16.3 | 8.9 |
| P / BV (x) | 0.9 | 0.9 | 0.9 |
| EV / E (x) | 7.2 | 6.5 | 5.5 |

**Quarterly Table *(Rs m)* – Consolidated**

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 295,819 | 327,979 | *(9.8)* | 338,212 | 634,031 | 657,981 | *(3.6)* |
| EBITDA | 31,874 | 27,500 | *15.9* | 34,033 | 65,907 | 72,073 | *(8.6)* |
| *Margin (%)* | *10.8* | *8.4* | *239 bps* | *10.1* | *10.4* | *11.0* | *(56)bps* |
| Reported PAT | 2,887 | 2,124 | *35.9* | 5,979 | 8,866 | 55,590 | *(84.1)* |
| PAT (Excl. Ex Items) | 2,887 | 2,124 | *35.9* | 5,979 | 8,866 | 21,971 | *(59.6)* |
| Operating Metrics | | | | | | | |
| SalesVol.-Corus (mt) | 3.2 | 3.5 | *(9.5)* | 3.2 | 6.4 | 7.0 | *(9.5)* |
| EBITDA/Tn-Corus (US$) | 10 | 18 | *(44.8)* | 35 | 22 | 48 | *(53.1)* |
| Sales Vol.-South East (mt) | 0.7 | 0.8 | *(8.9)* | 0.7 | 1.4 | 1.6 | *(8.9)* |
| EBITDA/Tn-SEAN (US$) | 15.0 | 6.3 | *137.0* | 23.6 | 19 | 16 | *22.0* |

## SAIL

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs86 |
| Target Price | Rs81 |
| Market Cap. (Rs bn) | 356.1 |
| Shares o/s (m) | 4,130.4 |

Net revenue is expected to grow by 3.8% QoQ on account of 8% growth in volume and 4% fall (Rs 1,635/tonne) in realisations. We expect volumes of 2.7m tonnes and realizations at Rs40,927 for the quarter. EBITDA/tonne is expected to decline by 24% or Rs 1,314 QoQ to Rs 4,201 on account of weaker realizations. Adjusted PAT would fall by 21% QoQ to Rs 6.9bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 456,540 | 458,092 | 549,079 |
| EBITDA | 53,574 | 59,958 | 82,351 |
| *Margin (%)* | *11.7* | *13.1* | *15.0* |
| PAT | 37,268 | 35,174 | 37,107 |
| EPS (Rs) | 9.0 | 8.5 | 9.0 |
| *RoE (%)* | *9.7* | *8.6* | *8.5* |
| PE (x) | 9.6 | 10.1 | 9.6 |
| P / BV (x) | 0.9 | 0.8 | 0.8 |
| EV / E (x) | 8.5 | 8.7 | 7.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 110,503 | 108,367 | *2.0* | 106,407 | 216,910 | 216,630 | *0.1* |
| EBITDA | 11,341 | 11,842 | *(4.2)* | 13,785 | 25,126 | 24,003 | *4.7* |
| *Margin (%)* | *10.3* | *10.9* | *(66)bps* | *13.0* | *11.6* | *11.1* | *50 bps* |
| Reported PAT | 7,894 | 4,946 | *59.6* | 6,964 | 14,858 | 13,430 | *10.6* |
| PAT (Excl. Ex Items) | 6,881 | 8,383 | *(17.9)* | 8,700 | 15,581 | 16,945 | *(8.1)* |
| **Operating Metrics** | | | | | | | |
| Sales Volume (m tonnes) | 2.7 | 2.8 | *(3.9)* | 2.5 | 5.2 | 5.6 | *(6.5)* |
| Realisation per tonne | 40,927 | 38,565 | *6.1* | 42,563 | 41,714 | 38,962 | *7.1* |
| EBITDA per tonne | 4,201 | 4,214 | *(0.3)* | 5,514 | 4,832 | 4,317 | *11.9* |

## Sterlite Industries

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs101 |
| Target Price | Rs100 |
| Market Cap. (Rs bn) | 339.3 |
| Shares o/s (m) | 3,361.2 |

EBITDA is expected to rise by 3.4% QoQ (Rs754m) to Rs 23.3bn, primarily driven by 35% and 4% growth in EBITDA at Aluminium and Sterlite copper respectively. Led by higher volumes in Sterlite energy, Power business' EBITDA is expected to grow by 273% YoY to Rs2.5bn. Adjusted PAT is likely to decline by 5% QoQ to Rs12.8bn due to hihger tax rate and lower other income.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 409,668 | 449,171 | 507,868 |
| EBITDA | 99,564 | 111,304 | 130,301 |
| *Margin (%)* | *24.3* | *24.8* | *25.7* |
| PAT | 56,058 | 53,925 | 62,294 |
| EPS (Rs) | 16.7 | 16.0 | 18.5 |
| *RoE (%)* | *12.8* | *11.2* | *11.7* |
| PE (x) | 6.1 | 6.3 | 5.4 |
| P / BV (x) | 0.7 | 0.7 | 0.6 |
| EV / E (x) | 2.8 | 2.4 | 1.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 109,038 | 101,338 | *7.6* | 105,914 | 214,952 | 199,578 | *7.7* |
| EBITDA | 23,266 | 24,202 | *(3.9)* | 22,512 | 45,779 | 51,418 | *(11.0)* |
| *Margin (%)* | *21.3* | *23.9* | *(254)bps* | *21.3* | *21.3* | *25.8* | *(447)bps* |
| Reported PAT | 12,790 | 9,978 | *28.2* | 12,016 | 24,806 | 26,375 | *(5.9)* |
| PAT (Excl. Ex Items) | 12,790 | 12,909 | *(0.9)* | 13,484 | 26,274 | 29,336 | *(10.4)* |
| **Operating Metrics** | | | | | | | |
| LME-Aluminium | 1,918 | 2,395 | *(19.9)* | 1,978 | 3,896 | 4,995 | *(22.0)* |
| Price per unit (SEL) (Rs) | 3.4 | 3.5 | | 3.4 | 3.4 | 3.6 | *(3.7)* |
| EBITDA-Zinc (Int. Op.) | 3,490 | 5,260 | *NA* | 3,370 | 6,860 | 10,480 | |
| EBITDA-Sterlite Copper | 2,719 | 3,750 | *(27.5)* | 2,650 | 5,369 | 7,060 | *(24.0)* |
| EBITDA-Aluminium | 770 | 550 | *40.1* | 570 | 1,340 | 2,460 | *(45.5)* |
| EBITDA-SEL | 2,535 | 680 | *NA* | 2,655 | 5,190 | 1,388 | *NA* |

## JSW Steel

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs738 |
| Target Price | Rs623 |
| Market Cap. (Rs bn) | 164.7 |
| Shares o/s (m) | 223.1 |

Led by flat steel volumes and 3.6% QoQ (Rs 1,550/tonne) decline in realisations, consolidated revenue is expected to fall by 4% to Rs86.6bn. EBITDA/tonne is expected to fall by 20% or Rs 1,650/tonne to Rs 6,721. Accordingly, EBITDA would decline by 20% QoQ to Rs 14.1bn. PAT (before minority interest and share of profit/loss in associates) is expected to fall by 48% QoQ to Rs 3.2bn.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 341,237 | 387,255 | 431,924 |
| EBITDA | 58,575 | 66,292 | 73,517 |
| *Margin (%)* | *17.2* | *17.1* | *17.0* |
| PAT | 10,950 | 17,635 | 22,020 |
| EPS (Rs) | 49.1 | 79.0 | 98.7 |
| *RoE (%)* | *6.7* | *10.3* | *11.7* |
| PE (x) | 15.0 | 9.3 | 7.5 |
| P / BV (x) | 1.0 | 0.9 | 0.8 |
| EV / E (x) | 5.7 | 5.5 | 5.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 86,661 | 76,251 | *13.7* | 90,302 | 176,963 | 146,896 | *20.5* |
| EBITDA | 14,114 | 12,890 | *9.5* | 17,654 | 31,768 | 26,781 | *18.6* |
| *Margin (%)* | *16.3* | *16.9* | *(62)bps* | *19.5* | *18.0* | *18.2* | *(28)bps* |
| Reported PAT | 6,722 | 1,271 | *428.8* | 2,690 | 9,412 | 7,054 | *33.4* |
| PAT (Excl. Ex Items) | 2,576 | 4,860 | *(47.0)* | 4,877 | 7,452 | 10,643 | *(30.0)* |
| **Operating Metrics** | | | | | | | |
| Sales volume (m tonnes) | 2.1 | 1.9 | *11.6* | 2.1 | 4.2 | 3.6 | *17.1* |
| Realisation per tonne | 41,267 | 40,537 | *1.8* | 42,817 | 42,044 | 40,861 | *2.9* |
| EBITDA per tonne | 6,721 | 6,853 | *(1.9)* | 8,371 | 7,548 | 7,450 | *1.3* |

Kejal Mehta
kejalmehta@plindia.com
+91-22-6632 2246

# Offshore & Ports

## Offshore

### Top picks

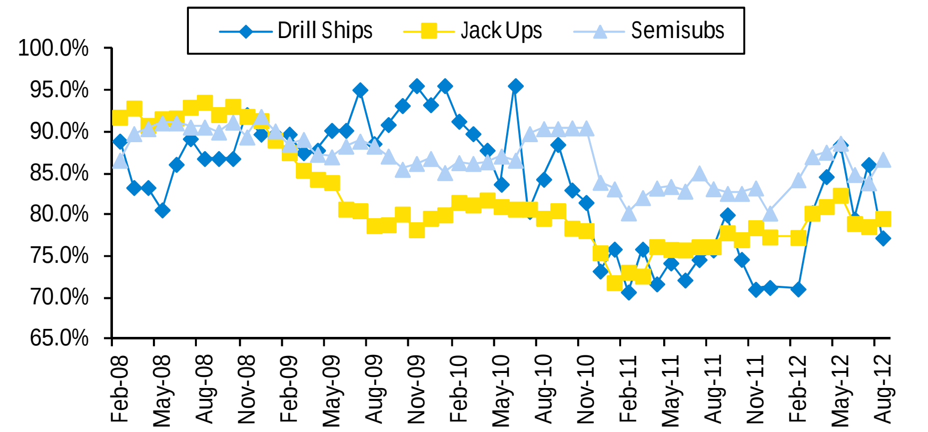
Adani Ports & SEZ

The recovery in crude prices has percolated down to asset deployments across most categories of vessels despite an increase in the fleet size. While Jack-ups & Semi-subs have witnessed a more stable trajectory, utilizations for drill ships have been rather erratic.

Utilization levels for jack-ups stood at 79.6% in August, while those for semi-subs stood at 86.7%, a strong increase from 84.8% in June. In case of drillships, utilizations, after rising sharply in the month of July to 86.8%, fell sharply in August to 77.2%.

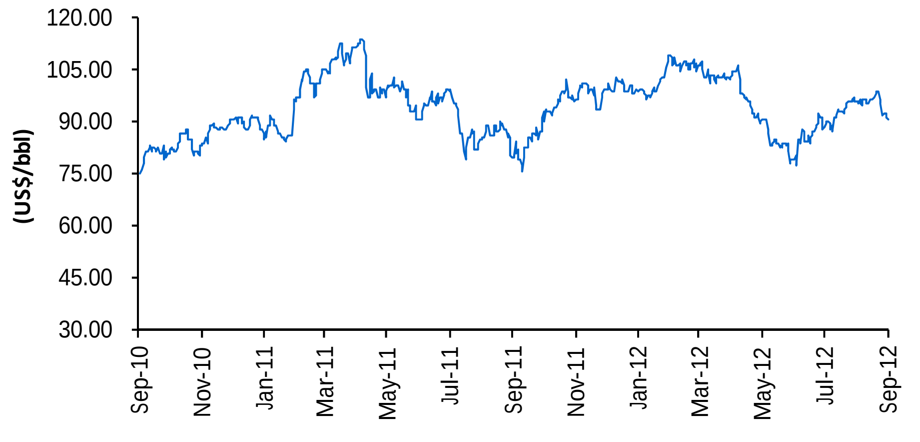
Stock prices of offshore companies have captured the up-move in the price of crude. On an average, the increases in stock prices have been ~12% in the July-September period.

**Rig Utilizations**



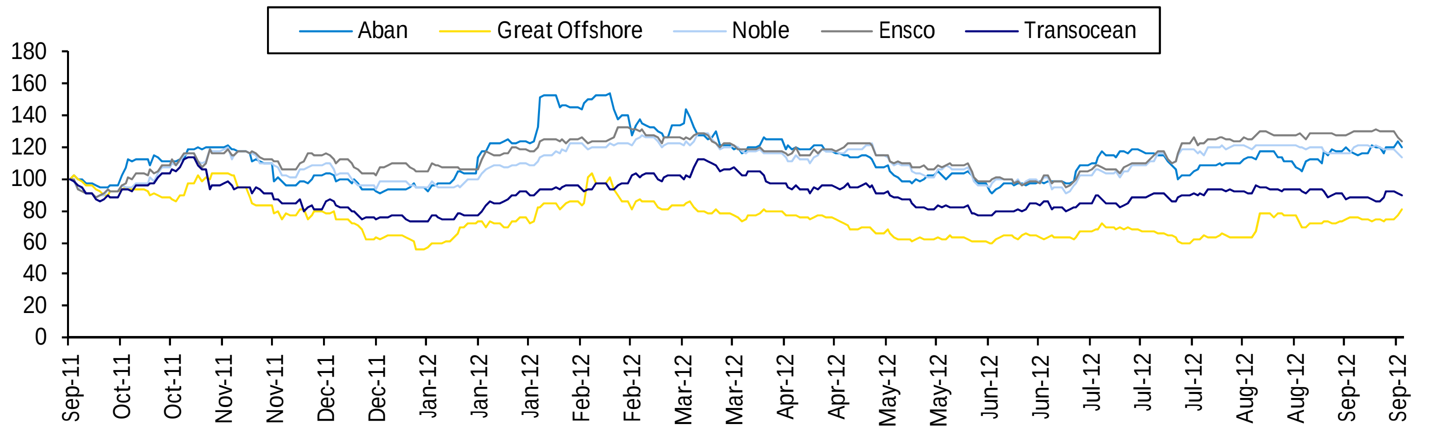

*Source: Rigzone*

**Crude prices correct sharply post a sustained strong period**




*Source: Bloomberg, PL Research*

**Relative stock performance of Global Offshore companies**




*Source: Bloomberg, PL Research*

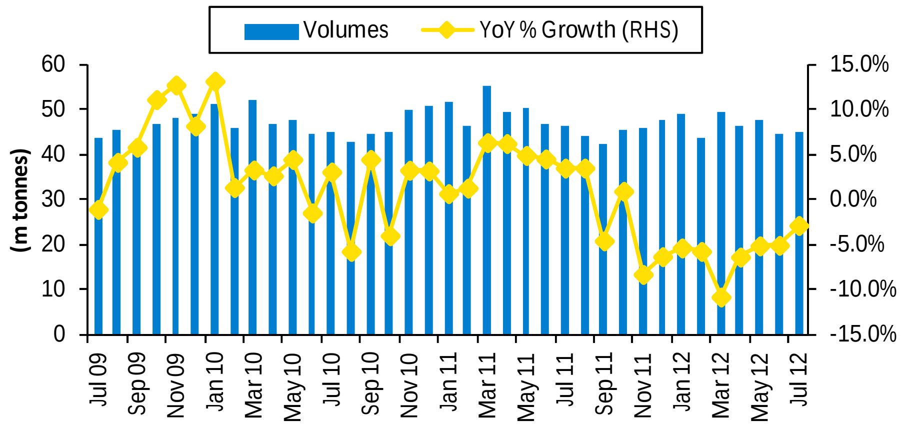
## Ports

Major port volumes continued their downward trajectory with a 4% YoY decline in volumes for the May-July 2012 period. On a sequential basis too, volumes were down 2% for the 3-month period.

Iron ore volumes was one the key reasons for the sharp fall as the ban on illegal mining in Goa added on to the existing issue of hike in export duty on iron ore since January 2012. Thermal coal volumes too declined 10% on a sequential basis. The overall tepid trade environment also resulted in sluggish volumes at major ports.

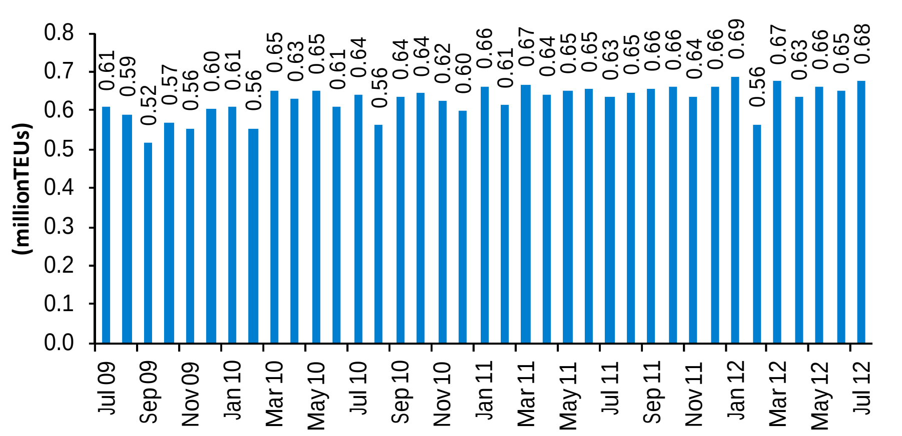
P.O.L volumes witnessed a sharp increase in July, the effect of which was felt in volumes at Kandla. On the container front, volumes have remained flat, given the overall weakness in global trade. We expect container volumes for the non-major ports to be dull too, given the macro-economic turmoil.

**Major port volumes**




*Source: IPA, PL Research*

**Container volumes at major ports**




*Source: IPA*

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Adani Port & SEZ | 10.9 | 3.4 | (2.7) | (14.9) | 1.5 | (4.6) | (11.0) | (34.9) |
| Gujarat Pipavav Port | 5.7 | (8.2) | (10.8) | (19.9) | (3.7) | (16.2) | (19.1) | (39.8) |
| Aban Offshore | 13.4 | 11.3 | 4.9 | 39.3 | 4.0 | 3.3 | (3.4) | 19.4 |
| Gateway Distriparks | 6.8 | 0.4 | (4.2) | 8.2 | (2.5) | (7.5) | (12.5) | (11.7) |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Adani Port & SEZ** | Sales | 7,795 | 6,197 | *25.8* | 7,894 | *(1.3)* | 15,689 | 11,493 | *36.5* |
| | EBITDA | 5,640 | 4,106 | *37.4* | 6,000 | *(6.0)* | 11,640 | 7,735 | *50.5* |
| | *Margins (%)* | *72.4* | *66.3* | | *76.0* | | *74.2* | *67.3* | |
| | PAT | 4,042 | 2,734 | *47.8* | 4,184 | *(3.4)* | 8,226 | 5,259 | *56.4* |
| **Gujarat Pipavav Port*** | Sales | 879 | 979 | *(10.2)* | 938 | *(6.3)* | 2,821 | 2,808 | *0.5* |
| | EBITDA | 359 | 450 | *(20.3)* | 385 | *(6.6)* | 1,195 | 1,238 | *(3.5)* |
| | *Margins (%)* | *40.8* | *46.0* | | *41.0* | | *42.3* | *44.1* | |
| | PAT | 202 | 132 | *52.9* | 157 | *28.6* | 500 | 301 | *66.2* |
| **Aban Offshore** | Sales | 8,335 | 7,626 | *9.3* | 8,500 | *(1.9)* | 16,835 | 14,939 | *12.7* |
| | EBITDA | 4,945 | 4,588 | *7.8* | 5,060 | *(2.3)* | 10,005 | 9,122 | *9.7* |
| | *Margins (%)* | *59.3* | *60.2* | | *59.5* | | *59.4* | *61.1* | |
| | PAT | 371 | 793 | *(53.2)* | 521 | *(28.8)* | 892 | 1,678 | *(46.8)* |
| **Gateway Distriparks** | Sales | 514 | 601 | *(14.5)* | 558 | *(7.9)* | 1,072 | 1,211 | *(11.5)* |
| | EBITDA | 242 | 342 | *(29.3)* | 287 | *(15.9)* | 529 | 698 | *(24.3)* |
| | *Margins (%)* | *47.0* | *56.8* | | *51.5* | | *49.4* | *57.6* | |
| | PAT | 178 | 226 | *(21.2)* | 179 | *(0.8)* | 357 | 449 | *(20.4)* |

*Source: Company Data, PL Research*     ** Y/e Dec*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 76,540 | 85,914 | 99,619 |
| *Growth (%)* | *22.8* | *12.2* | *16.0* |
| EBITDA | 43,390 | 50,057 | 58,750 |
| *Margin (%)* | *56.7* | *58.3* | *59.0* |
| PAT | 16,099 | 17,386 | 23,682 |
| *Growth (%)* | *24.2* | *8.0* | *36.2* |
| PE (x) | 19.6 | 18.1 | 13.3 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 17,523 | 15,403 | *13.8* | 17,890 | *(2.0)* |
| EBITDA | 11,186 | 9,487 | *17.9* | 11,732 | *(4.7)* |
| *Margin (%)* | *63.8* | *61.6* | *224 bps* | *65.6* | *(175)bps* |
| PAT (Excl. Ex Items) | 4,793 | 3,885 | *23.4* | 5,042 | *(4.9)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Adani Port & SEZ

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs128 |
| Target Price | Rs156 |
| Market Cap. (Rs bn) | 256.7 |
| Shares o/s (m) | 2,003.4 |

Volumes are expected to be slightly higher on a sequential basis on account of increased contribution from the Hindustan Mittal refinery commencing operations. Besides, container volumes are likely to be a tad higher than in Q1FY13. With regards to coal volumes, Tata Steel's contribution is expected to be minuscule. However, Adani's contribution is likely to continue close to the Q1 levels. On the SEZ front, we expect revenues from the MSC-CT 3 transaction to continue during Q2FY13 as well.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 32,708 | 39,780 | 50,531 |
| EBITDA | 20,653 | 26,227 | 34,372 |
| *Margin (%)* | *63.1* | *65.9* | *68.0* |
| PAT | 10,833 | 12,593 | 18,230 |
| EPS (Rs) | 5.4 | 6.3 | 9.1 |
| *RoE (%)* | *24.0* | *24.0* | *28.9* |
| PE (x) | 23.7 | 20.4 | 14.1 |
| P / BV (x) | 5.3 | 4.6 | 3.7 |
| EV / E (x) | 20.4 | 16.1 | 12.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 7,795 | 6,197 | *25.8* | 7,894 | 15,689 | 11,493 | *36.5* |
| EBITDA | 5,640 | 4,106 | *37.4* | 6,000 | 11,640 | 7,735 | *50.5* |
| *Margin (%)* | *72.4* | *66.3* | *610 bps* | *76.0* | *74.2* | *67.3* | *689 bps* |
| Reported PAT | 4,042 | 2,734 | *47.8* | 4,184 | 8,226 | 5,259 | *56.4* |
| PAT (Excl. Ex Items) | 4,042 | 2,734 | *47.8* | 4,184 | 8,226 | 5,259 | *56.4* |
| **Operating Metrics** | | | | | | | |
| Rev/Tonne Rs. | 347 | 366 | *(5.2)* | 355 | 351 | 353 | *-0.6* |
| SEZ Land Sales (acres) | 70 | - | | 80 | 150 | - | |
| Port volumes (mn tonnes) | 18.3 | 16.8 | *8.9* | 17.4 | 35.7 | 31.9 | *11.9* |

## Gujarat Pipavav Port

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs52 |
| Target Price | Rs63 |
| Market Cap. (Rs bn) | 25.2 |
| Shares o/s (m) | 483.9 |

The weakness in global trade is likely to further percolate to container volumes for the company this quarter. Bulk volumes are also likely to be dull on account of slackness in coal volumes as well as fertilizer volumes. We expect significant interest saving this quarter as the Rs3.5bn raised from the QIP issue were used to pay off debt as the utilization of funds towards capex is still a while away.

**Key Figures *(Rs m)***

| | CY11 | CY12E | CY13E |
|---|---|---|---|
| Net Sales | 3,968 | 4,332 | 5,217 |
| EBITDA | 1,829 | 1,928 | 2,504 |
| *Margin (%)* | *46.1* | *44.5* | *48.0* |
| PAT | 572 | 885 | 1,384 |
| EPS (Rs) | 1.3 | 1.8 | 2.9 |
| *RoE (%)* | *7.5* | *8.8* | *11.0* |
| PE (x) | 38.5 | 28.4 | 18.2 |
| P / BV (x) | 2.8 | 2.1 | 1.9 |
| EV / E (x) | 15.0 | 14.3 | 11.3 |

**Quarterly Table *(Rs m)***

| Y/e Dec | Q3 CY12E | Q3 CY11 | *YoY gr. (%)* | Q2 CY12 | 9M CY12E | 9M CY11 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 879 | 979 | *(10.2)* | 938 | 2,821 | 2,808 | *0.5* |
| EBITDA | 359 | 450 | *(20.3)* | 385 | 1,195 | 1,238 | *(3.5)* |
| *Margin (%)* | *40.8* | *46.0* | *(517)bps* | *41.0* | *42.3* | *44.1* | *(173)bps* |
| Reported PAT | 202 | 132 | *52.9* | 157 | 500 | 301 | *66.2* |
| PAT (Excl. Ex Items) | 202 | 132 | *52.9* | 157 | 500 | 301 | *66.2* |
| **Volumes** | | | | | | | |
| Container (TEUs) | 110,444 | 168,983 | *(34.6)* | 122,716 | 398,432 | 439,863 | *(9.4)* |
| Bulk (mt) | 0.78 | 0.78 | *0.4* | 0.87 | 2.28 | 2.79 | *(18.2)* |

## Aban Offshore

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs470 |
| Target Price | Rs413 |
| Market Cap. (Rs bn) | 20.5 |
| Shares o/s (m) | 43.5 |

The positive news for the quarter is that the four rigs in the Middle East, where contracts were due to expire, have been extended though the details regarding the new tenure and day-rates are yet to be finalized. However, we do not see too much of a downward risk on the day rates of these assets. Overall financials for the quarter are expected to look dull on account of high interest cost being borne by the company with sharp depreciation of the rupee accompanied by an increase in interest rates. Two rigs went off-charter this quarter, of which, the contract for DD3 is expected to be extended, while DD1 is now being marketed.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 31,629 | 32,300 | 32,585 |
| EBITDA | 18,404 | 19,051 | 18,651 |
| *Margin (%)* | *58.2* | *59.0* | *57.2* |
| PAT | 3,215 | 2,347 | 2,273 |
| EPS (Rs) | 73.9 | 53.9 | 52.2 |
| *RoE (%)* | *14.7* | *9.5* | *9.3* |
| PE (x) | 6.4 | 8.7 | 9.0 |
| P / BV (x) | 0.8 | 0.9 | 0.8 |
| EV / E (x) | 8.4 | 8.0 | 7.7 |

**Quarterly Table *(Rs m)* - Standalone**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 8,335 | 7,626 | *9.3* | 8,500 | 16,835 | 14,939 | *12.7* |
| EBITDA | 4,945 | 4,588 | *7.8* | 5,060 | 10,005 | 9,122 | *9.7* |
| *Margin (%)* | *59.3* | *60.2* | *(84)bps* | *59.5* | *59.4* | *61.1* | *(163)bps* |
| Reported PAT | 371 | 793 | *(53.2)* | 521 | 892 | 1,678 | *(46.8)* |
| PAT (Excl. Ex Items) | 371 | 793 | *(53.2)* | 521 | 892 | 1,678 | *(46.8)* |
| **Operating Metrics** | | | | | | | |
| Fleet Size | 18 | 18 | | 18 | 18 | 18 | |
| No. of un-contracted rigs | 2 | 2 | | 2 | 2 | 2 | |
| No. of vessels under dry-docking | - | 2 | | - | - | 2 | |

## Gateway Distriparks

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs146 |
| Target Price | Rs168 |
| Market Cap. (Rs bn) | 15.8 |
| Shares o/s (m) | 107.9 |

With sluggish port volumes during the quarter on account of the trade slowdown, CFS & rail volumes are both likely to be hit sharply during the quarter. Besides, JNPT has lost volumes on account of strikes, holidays etc. Realisations are likely to be flattish despite volumes dropping on account of an increase in dwell time. With regards to the Faridabad ICD, the situation is status-quo and therefore, commencement of operations are likely to be further delayed. The Chennai CFS land acquisition has also not fructified during the quarter.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 8,235 | 9,501 | 11,287 |
| EBITDA | 2,504 | 2,851 | 3,222 |
| *Margin (%)* | *30.4* | *30.0* | *28.5* |
| PAT | 1,480 | 1,560 | 1,794 |
| EPS (Rs) | 13.7 | 14.5 | 16.6 |
| *RoE (%)* | *20.1* | *19.3* | *20.0* |
| PE (x) | 10.6 | 10.1 | 8.8 |
| P / BV (x) | 2.1 | 1.9 | 1.7 |
| EV / E (x) | 6.1 | 5.6 | 4.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 514 | 601 | *(14.5)* | 558 | 1,072 | 1,211 | *(11.5)* |
| EBITDA | 242 | 342 | *(29.3)* | 287 | 529 | 698 | *(24.3)* |
| *Margin (%)* | *47.0* | *56.8* | *(984)bps* | *51.5* | *49.4* | *57.6* | *(829)bps* |
| Reported PAT | 178 | 226 | *(21.2)* | 179 | 357 | 449 | *(20.4)* |
| PAT (Excl. Ex Items) | 178 | 226 | *(21.2)* | 179 | 357 | 449 | *(20.4)* |
| **Operating Metrics** | | | | | | | |
| CFS Volumes (TEUs) | 83,177 | 86,890 | *(4.3)* | 92,419 | 175,596 | 177,749 | *(1.2)* |
| Revenue/TEU (Rs) | 8,825 | 9,452 | *(6.6)* | 8,722 | 8,771 | 9,296 | *(5.6)* |

Deepak Pareek
deepakpareek@plindia.com
+91-22-6632 2241

Dhrushil Jhaveri
dhrushiljhaveri@plindia.com
+91-22-6632 2232

# Oil & Gas

Crude oil bounced back sharply from the US$90/bbl levels seen in June 2012, with Brent oil prices averaging at US$110/bbl during the quarter. Government finally bit the bullet on hiking prices and with the recent rupee appreciation, under recoveries are expected to reduce to ~Rs1,365bn (at US$110 crude and exchange rate of Rs53/USD), near last year's level of ~Rs1,380bn.

The quarter saw a flare up in Singapore GRMs to ~US$9.1/bbl versus an average US$6.65/bbl in Q1 on the back of a slew of unplanned refinery shutdowns at the time of seasonally strong demand. Refinery margins have started to trend down, declining to ~US$8.7/bbl in September versus ~US$10.4/bbl in August 2012.

India destination LNG prices remained subdued at an average ~US$10.7/mmbtu during the quarter, at divergence from the crude price uptick in Q2, boding well for Petronet LNG's marketing margins.

## Top picks

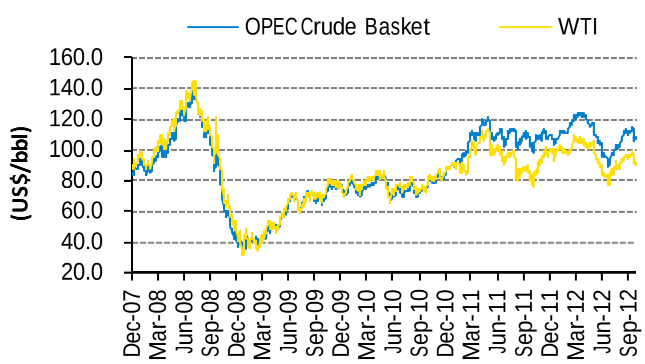
Cairn India

### Crude - prices bounce back from lows, averaged at US$110.0/bbl in Q2FY13

Geopolitical risks came to the forefront driving crude prices back to ~US$110/bbl levels, a sharp increase from the lows of ~US$90/bbl seen in June 2012. Iran sanctions coming into effect starting July 1, 2012 and civil war in Syria drove increased geopolitical risk perception in the Middle East, driving crude prices higher.

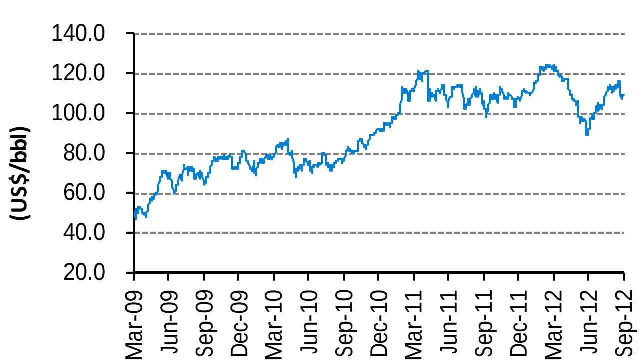
Although recent comments from the Saudi oil minister suggested that demand supply conditions favour lower prices, a continued risk on environment on account of QE3 could continue to support prices.

**Crude price – WTI, OPEC**




*Source: Bloomberg, PL Research*

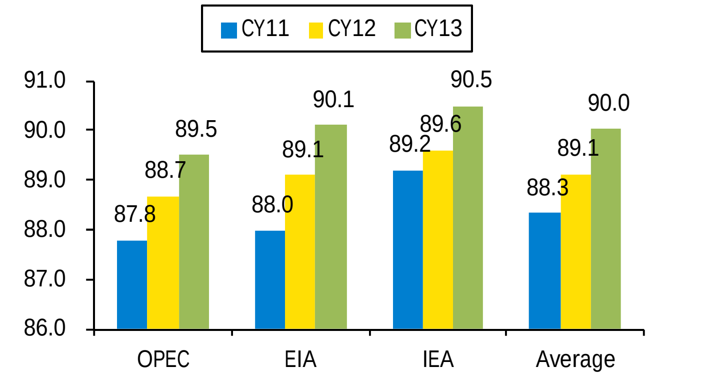
**Indian Crude basket**




*Source: Bloomberg, PL Research*

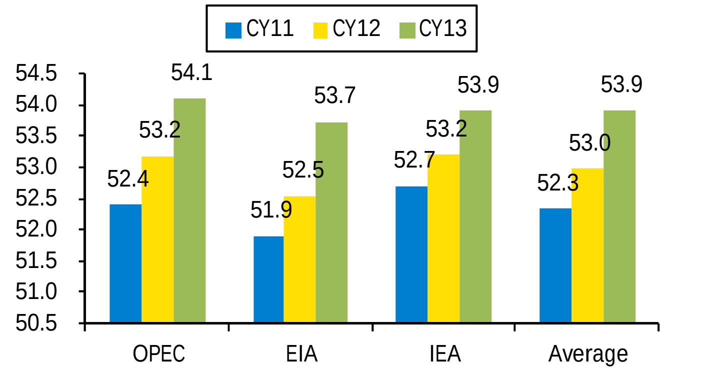
Demand forecast for 2012 has largely remained unchanged, only IEA has revised demand downwards by ~0.3 mbpd to get aligned to the other forecasts. 2013 oil consumption is expected to rise by ~0.9-1 mbpd.

**Global demand estimates**




*Source: Industry, PL Research*

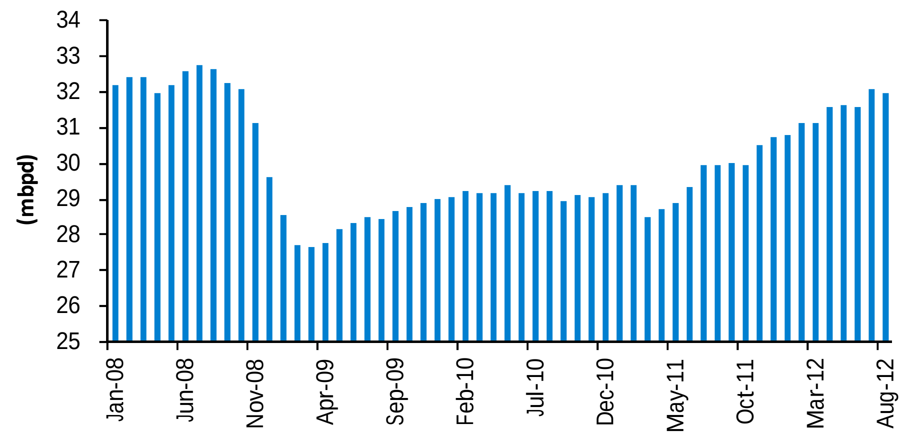
**Non- OPEC supply estimates**




*Source: Industry, PL Research*

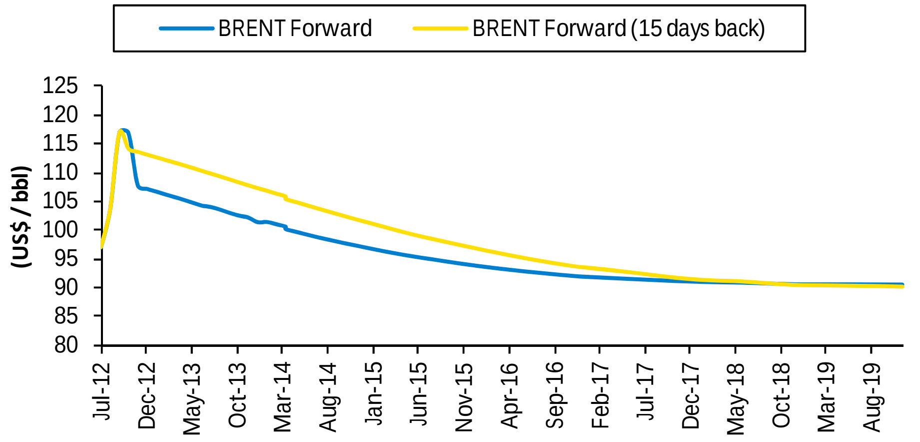
OPEC crude oil production, during the quarter, averaged at 32m bbl/d, an increase from average production of 31.6 bbl/d and 30.1m bbl/d in Q1FY13 and Q4FY12, respectively, on account of higher production from Iraq along with higher Saudi supplies.

**OPEC monthly crude oil production**




*Source: Bloomberg, PL Research*

**Brent forward prices**




*Source: Bloomberg, PL Research*

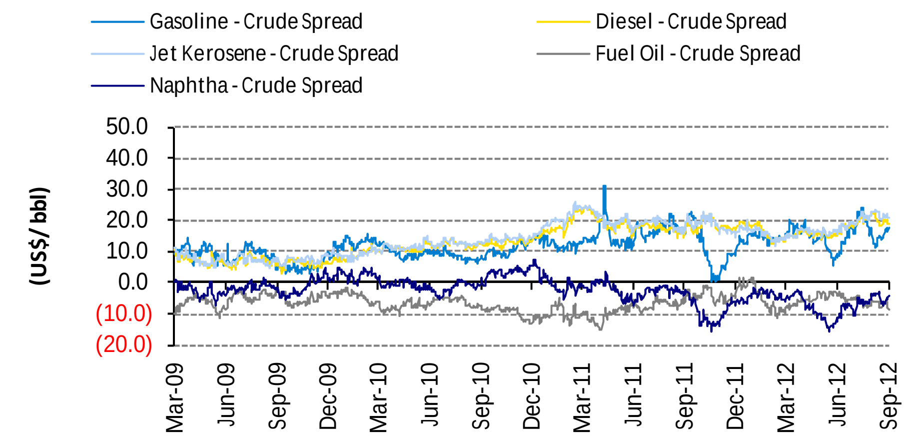
## GRMs witness a sharp spike QoQ

August 2012 witnessed a sharp spike in Singapore GRMs to US$10.4 per barrel versus US$8.1 in July 2012. Product cracks witnessed a sharp uptick on the back of strong demand (emanating from the US summer driving season) coinciding with unplanned refinery shutdowns. Unplanned refinery shutdowns (Thailand Bangchak refinery ~120kbpd, Vietnam Dung Quat refinery: 135 kbpd) accentuated the supply shortfall caused by planned refinery shutdowns at a time of low product inventory levels causing refining margins to spike. Margins overall were also aided by the temporary shutdown of units in the Gulf of Mexico owing to the Hurricane 'Isaac'.

Gasoil cracks averaged at US$19.5 in Q2FY13 v/s US$15.6 in Q1FY13, while jet kerosene spreads stood at US$20.4 per barrel v/s US$16.1 in Q1. Gasoline cracks (over Dubai), after surging to >US$20 per barrel in August 2012, ended the quarter at an average ~US$16.2 per barrel versus US$14.3 in Q1FY13.

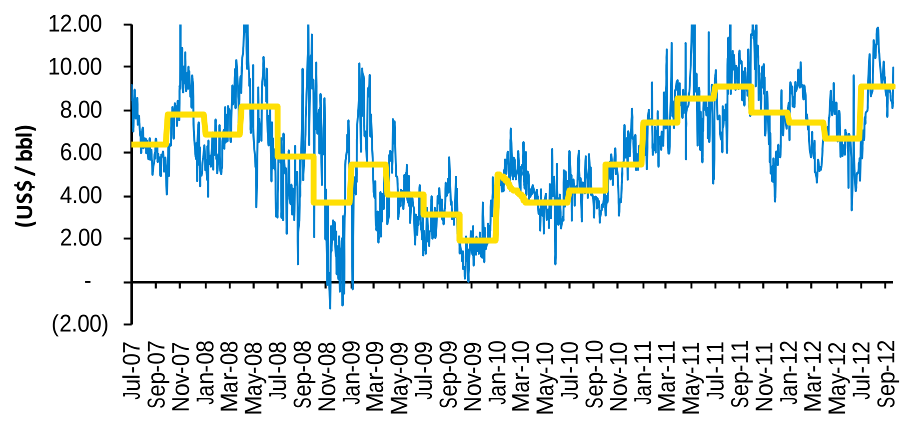
GRMs have retreated in September 2012, averaging ~US$8.7 per barrel compared to US$10.7 in August 2012. We maintain our medium-term outlook of refining capacity additions outpacing demand, resulting in a subdued refining margin scenario.

**Petroleum product spreads**




*Source: Bloomberg, PL Research*

**Reuters Singapore Complex GRMs**

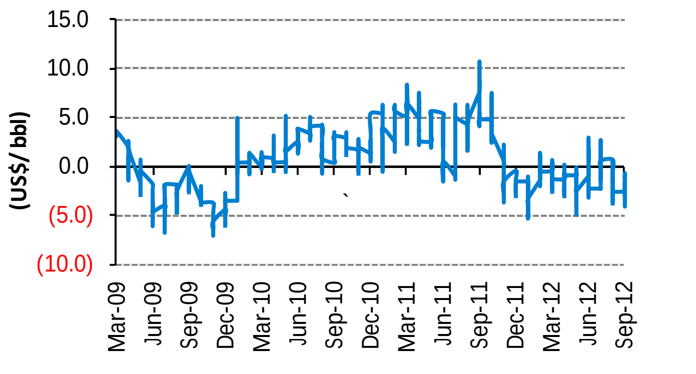



*Source: Reuters, PL Research*

## Crude differentials – flat QoQ

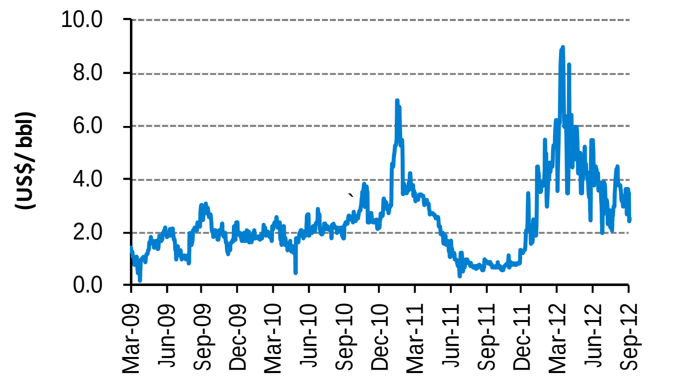
Light-heavy differentials stood flat on a QoQ basis, with Dubai-AH spread averaging at US$0.5/bbl as against US$1/bbl. The spreads between AL-AH declined to US$(1.3)/ bbl versus US$(1.46)/bbl in the previous quarter.

**Arab light-heavy differential**




*Source: Bloomberg, PL Research*

**WTI-WTS sweet-sour differential**

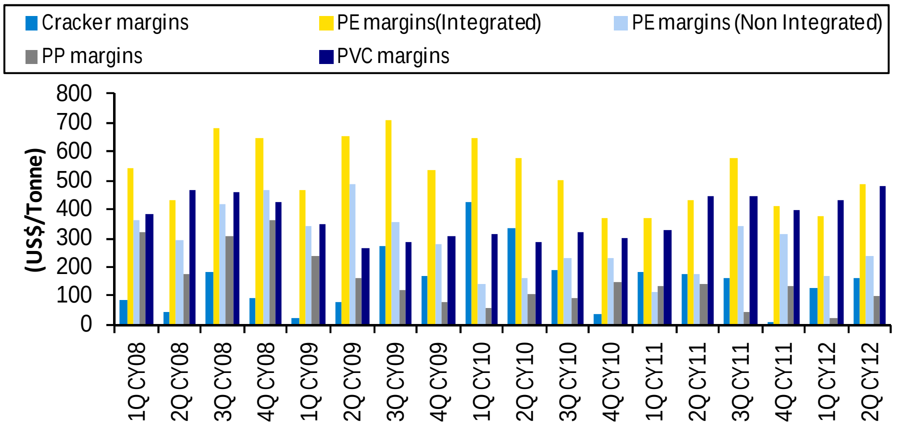



*Source: Bloomberg, PL Research*

## Petrochemical margins improves

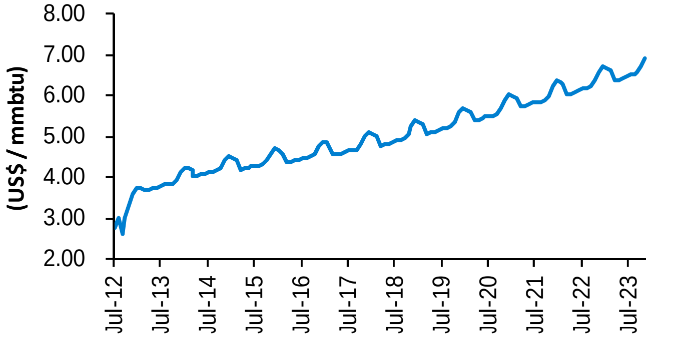
In the Petchem segment, cracker margins declined during the quarter, averaging at US$55/tonne as compared to US$162/tonne (Q1FY13). The deterioration in margins could largely be attributed to higher naphtha prices (higher naphtha spreads) during the quarter, while petrochemical prices react with a lag. Similarly, the PE margins (both integrated and non-integrated) witnessed a decline. The integrated PE margins decreased to an average at US$367/tonne as against US$489/tonne in Q1FY13. Non-integrated PE margins declined to US$220/tonne as against US$241/tonne in Q1FY13. Margins in the PVC segment were at US$467/tonne as against US$482/tonne in the previous quarter. PP margins averaged US$45/tonnes as against US$100/tonne in the previous quarter.

**Petrochemical Margins**



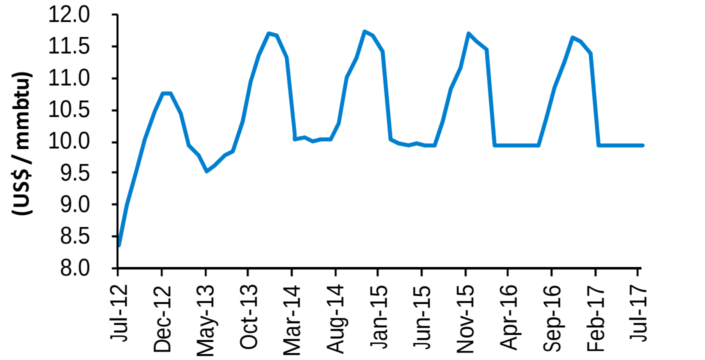

*Source: Bloomberg, PL Research*

**Henry Hub gas forward curve**



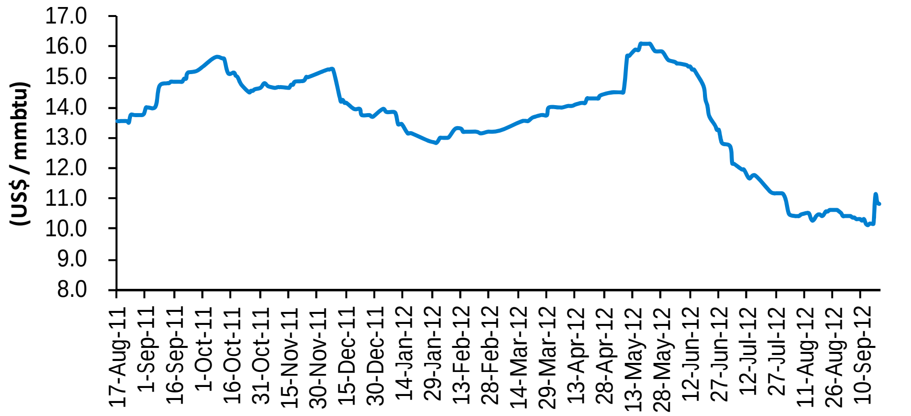

*Source: Bloomberg, PL Research*

**ICE Natural Gas Future Prices**




*Source: Bloomberg, PL Research*

**India Spot LNG prices**




*Source: PL Research*

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Reliance Industries | 11.2 | 16.1 | 14.8 | 11.8 | 1.8 | 8.1 | 6.5 | (8.1) |
| Oil & Natural Gas Corporation | 5.1 | 3.1 | 4.7 | 8.8 | (4.3) | (4.8) | (3.6) | (11.1) |
| Cairn India | (2.1) | 3.6 | (9.1) | 22.0 | (11.4) | (4.4) | (17.4) | 2.1 |
| GAIL | 10.4 | 8.9 | 5.9 | (3.0) | 1.0 | 0.9 | (2.4) | (23.0) |
| Oil India | 1.7 | (1.9) | (0.9) | (6.0) | (7.7) | (9.9) | (9.2) | (25.9) |
| Petronet LNG | 0.9 | 7.2 | (7.4) | 1.1 | (8.4) | (0.8) | (15.7) | (18.8) |
| Gujarat State Petronet | 4.9 | 11.6 | 4.7 | (21.6) | (4.5) | 3.7 | (3.6) | (41.5) |
| Gujarat Gas Company | 3.4 | (2.9) | (24.0) | (24.5) | (5.9) | (10.9) | (32.3) | (44.4) |
| Indraprastha Gas | 7.8 | 3.9 | (30.3) | (39.6) | (1.6) | (4.1) | (38.7) | (59.5) |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q1FY13E | Q1FY12 | *YoY gr. (%)* | Q4FY12 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Reliance Industries** | Sales | 931,628 | 785,690 | *18.6* | 918,750 | *1.4* | 1,850,378 | 1,595,870 | *15.9* |
| | EBITDA | 84,332 | 98,440 | *(14.3)* | 67,470 | *25.0* | 151,802 | 197,700 | *(23.2)* |
| | *Margins (%)* | *9.1* | *12.5* | | *7.3* | | *8.2* | *12.4* | |
| | PAT | 51,071 | 57,030 | *(10.4)* | 44,730 | *14.2* | 95,801 | 113,640 | *(15.7)* |
| **Oil & Natural Gas Corporation** | Sales | 198,673 | 226,163 | *(12.2)* | 201,778 | *(1.5)* | 400,451 | 388,153 | *3.2* |
| | EBITDA | 108,841 | 141,596 | *(23.1)* | 111,305 | *(2.2)* | 220,146 | 234,266 | *(6.0)* |
| | *Margins (%)* | *54.8* | *62.6* | | *55.2* | | *55.0* | *60.4* | |
| | PAT | 56,756 | 86,422 | *(34.3)* | 60,777 | *(6.6)* | 117,532 | 127,371 | *(7.7)* |
| **Cairn India** | Sales | 47,498 | 26,522 | *79.1* | 44,400 | *7.0* | 91,899 | 63,649 | *44.4* |
| | EBITDA | 36,301 | 21,040 | *72.5* | 34,921 | *4.0* | 71,222 | 52,788 | *34.9* |
| | *Margins (%)* | *76.4* | *79.3* | | *78.7* | | *77.5* | *82.9* | |
| | PAT | 24,856 | 7,630 | *225.8* | 38,257 | *(35.0)* | 63,113 | 35,091 | *79.9* |
| **GAIL** | Sales | 113,508 | 96,990 | *17.0* | 110,886 | *2.4* | 224,394 | 185,664 | *20.9* |
| | EBITDA | 19,974 | 16,483 | *21.2* | 18,991 | *5.2* | 38,965 | 32,039 | *21.6* |
| | *Margins (%)* | *17.6* | *17.0* | | *17.1* | | *17.4* | *17.3* | |
| | PAT | 11,981 | 10,944 | *9.5* | 11,338 | *5.7* | 23,319 | 20,791 | *12.2* |
| **Oil India** | Sales | 26,034 | 32,703 | *(20.4)* | 24,396 | *6.7* | 50,431 | 55,581 | *(9.3)* |
| | EBITDA | 10,989 | 16,202 | *(32.2)* | 12,025 | *(8.6)* | 23,014 | 27,831 | *(17.3)* |
| | *Margins (%)* | *42.2* | *49.5* | | *49.3* | | *45.6* | *50.1* | |
| | PAT | 8,564 | 11,385 | *(24.8)* | 9,299 | *(7.9)* | 17,863 | 19,881 | *(10.2)* |
| **Petronet LNG** | Sales | 78,622 | 53,669 | *46.5* | 70,298 | *11.8* | 148,920 | 99,902 | *49.1* |
| | EBITDA | 4,786 | 4,484 | *6.8* | 4,565 | *4.9* | 9,351 | 8,865 | *5.5* |
| | *Margins (%)* | *6.1* | *8.4* | | *6.5* | | *6.3* | *8.9* | |
| | PAT | 2,757 | 2,603 | *5.9* | 2,702 | *2.0* | 5,459 | 5,170 | *5.6* |
| **Gujarat State Petronet** | Sales | 2,382 | 2,808 | *(15.2)* | 2,676 | *(11.0)* | 5,058 | 5,651 | *(10.5)* |
| | EBITDA | 2,156 | 2,584 | *(16.6)* | 2,465 | *(12.5)* | 4,621 | 5,203 | *(11.2)* |
| | *Margins (%)* | *90.5* | *92.0* | | *92.1* | | *91.4* | *92.1* | |
| | PAT | 1,036 | 1,293 | *(19.9)* | 1,248 | *(17.0)* | 2,285 | 2,667 | *(14.3)* |

**Summary Financials - Quarterly (Rs m)**

| | | Q1FY13E | Q1FY12 | *YoY gr. (%)* | Q4FY12 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Gujarat Gas Company** | Sales | 8,795 | 6,533 | *34.6* | 7,725 | *13.8* | 23,760 | 17,676 | *34.4* |
| | EBITDA | 1,582 | 1,179 | *34.2* | 836 | *89.1* | 3,183 | 3,670 | *(13.3)* |
| | *Margins (%)* | *18.0* | *18.0* | | *10.8* | | *13.4* | *20.8* | |
| | PAT | 1,060 | 802 | *32.2* | 525 | *101.8* | 2,239 | 2,482 | *(9.8)* |
| **Indraprastha Gas** | Sales | 8,631 | 5,975 | *44.5* | 7,607 | *13.5* | 16,238 | 11,349 | *43.1* |
| | EBITDA | 2,272 | 1,579 | *43.8* | 1,797 | *26.4* | 4,069 | 3,163 | *28.6* |
| | *Margins (%)* | *26.3* | *26.4* | | *23.6* | | *25.1* | *27.9* | |
| | PAT | 1,148 | 772 | *48.7* | 850 | *35.0* | 1,998 | 1,573 | *27.1* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 5,965,653 | 6,208,047 | 6,473,426 |
| *Growth (%)* | *31.9* | *4.1* | *4.3* |
| EBITDA | 1,170,307 | 1,164,876 | 1,276,048 |
| *Margin (%)* | *19.6* | *18.8* | *19.7* |
| PAT | 651,063 | 623,976 | 679,357 |
| *Growth (%)* | *16.0* | *(4.2)* | *8.9* |
| PE (x) | 10.6 | 11.1 | 10.2 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 1,415,771 | 1,237,053 | *14.4* | 1,388,516 | *2.0* |
| EBITDA | 271,233 | 303,586 | *(10.7)* | 254,375 | *6.6* |
| *Margin (%)* | *19.2* | *24.5* | *(538)bps* | *18.3* | *84 bps* |
| PAT (Excl. Ex Items) | 159,228 | 178,882 | *(11.0)* | 169,727 | *(6.2)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Reliance Industries

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs858 |
| Target Price | Rs804 |
| Market Cap. (Rs bn) | 2,805.9 |
| Shares o/s (m) | 3,273.4 |

On the back of higher GRMS during the quarter, RIL is likely to report strong set of numbers. Benchmark Singapore GRMs have averaged at US$9.2/bbl. We expect GRMS of US$9.0/bbl for RIL during the quarter. Rupee depreciation (on YoY basis) and higher other income are likely to aid results during the quarter. Petrochemical segment is expected to see some inventory destocking during the quarter.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 3,585,010 | 3,586,464 | 3,612,168 |
| EBITDA | 345,080 | 335,987 | 332,670 |
| *Margin (%)* | *9.6* | *9.4* | *9.2* |
| PAT | 197,170 | 200,389 | 203,852 |
| EPS (Rs) | 60.3 | 61.3 | 62.3 |
| *RoE (%)* | *12.2* | *11.3* | *10.7* |
| PE (x) | 14.2 | 14.0 | 13.8 |
| P / BV (x) | 1.7 | 1.5 | 1.4 |
| EV / E (x) | 9.9 | 9.0 | 8.7 |

**Quarterly Table *(Rs m)* - Standalone**

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 931,628 | 785,690 | *18.6* | 918,750 | 1,850,378 | 1,595,870 | *15.9* |
| EBITDA | 84,332 | 98,440 | *(14.3)* | 67,470 | 151,802 | 197,700 | *(23.2)* |
| *Margin (%)* | *9.1* | *12.5* | *(348)bps* | *7.3* | *8.2* | *12.4* | *(418)bps* |
| Reported PAT | 51,071 | 57,030 | *(10.4)* | 44,730 | 95,801 | 113,640 | *(15.7)* |
| PAT (Excl. Ex Items) | 51,071 | 57,030 | *(10.4)* | 44,730 | 95,801 | 113,640 | *(15.7)* |
| **Operating Metrics** | | | | | | | |
| GRMs (US$/bbl) | 9.0 | 10.1 | *(10.9)* | 7.6 | 8.3 | 10.2 | *(18.6)* |
| Crude throughput (mmt) | 16.3 | 17.0 | *(4.4)* | 16.3 | 32.6 | 33.8 | *(3.6)* |
| KG Gas production (mmscmd) | 28.0 | 45.0 | *(37.8)* | 35.9 | 32.0 | 47.0 | *(32.0)* |

## ONGC

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs287 |
| Target Price | Rs301 |
| Market Cap. (Rs bn) | 2,457.2 |
| Shares o/s (m) | 8,555.6 |

ONGC crude oil and natural gas sales volumes are likely to be muted on a QoQ basis at 5.9MT and 5.14BCM, respectively, during the quarter. On the back of our assumption of 40% subsidy share for upstream and consequently, 82% of the same to ONGC, we expect the net realization for the quarter to stand at US$56/bbl. However, given the fact that government is yet to announce the subsidy-sharing for the fiscal, the quarterly performance holds limited relevance.

**Key Figures *(Rs m)* - Consolidated**

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 1,473,068 | 1,593,175 | 1,696,767 |
| EBITDA | 587,064 | 555,161 | 648,241 |
| *Margin (%)* | *39.9* | *34.8* | *38.2* |
| PAT | 281,467 | 233,704 | 286,301 |
| EPS (Rs) | 32.9 | 27.3 | 33.5 |
| *RoE (%)* | *22.8* | *16.9* | *18.6* |
| PE (x) | 8.7 | 10.5 | 8.6 |
| P / BV (x) | 1.9 | 1.7 | 1.5 |
| EV / E (x) | 4.1 | 4.3 | 3.5 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 198,673 | 226,163 | *(12.2)* | 201,778 | 400,451 | 388,153 | *3.2* |
| EBITDA | 108,841 | 141,596 | *(23.1)* | 111,305 | 220,146 | 234,266 | *(6.0)* |
| *Margin (%)* | *54.8* | *62.6* | *(782)bps* | *55.2* | *55.0* | *60.4* | *(538)bps* |
| Reported PAT | 56,756 | 86,422 | *(34.3)* | 60,777 | 117,532 | 127,371 | *(7.7)* |
| PAT (Excl. Ex Items) | 56,756 | 86,422 | *(34.3)* | 60,777 | 117,532 | 127,371 | *(7.7)* |
| **Operating Metrics** | | | | | | | |
| Dom. Sale of crude oil (MMT) | 5.9 | 5.8 | *2.1* | 5.9 | 11.8 | 11.5 | *2.9* |
| Dom. Sale of Natural gas (MCM) | 5,144 | 5,165 | *(0.4)* | 5,116 | 10,260 | 10,043 | *2.2* |

## Cairn India

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs326 |
| Target Price | Rs400 |
| Market Cap. (Rs bn) | 625.5 |
| Shares o/s (m) | 1,918.4 |

Cairn's operating profitability is likely to be flattish on QoQ basis during the quarter led by marginal increased production from the Mangala field. We expect production of 171,500bpd from the Rajasthan block during Q2FY13 and realisation is likely to be around US$101/bbl. Due to appreciation of the rupee on the closing basis, the restatement of the forex deposits is likely to result into MTM loss of Rs4,500m.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 118,607 | 165,300 | 181,923 |
| EBITDA | 95,533 | 124,700 | 132,701 |
| *Margin (%)* | *80.5* | *75.4* | *72.9* |
| PAT | 79,377 | 98,898 | 94,041 |
| EPS (Rs) | 41.4 | 51.6 | 49.0 |
| *RoE (%)* | *17.9* | *19.0* | *15.9* |
| PE (x) | 7.9 | 6.3 | 6.7 |
| P / BV (x) | 1.3 | 1.1 | 1.0 |
| EV / E (x) | 5.9 | 4.1 | 3.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 47,498 | 26,522 | *79.1* | 44,400 | 91,899 | 63,649 | *44.4* |
| EBITDA | 36,301 | 21,040 | *72.5* | 34,921 | 71,222 | 52,788 | *34.9* |
| *Margin (%)* | *76.4* | *79.3* | *(290)bps* | *78.7* | *77.5* | *82.9* | *(544)bps* |
| Reported PAT | 24,856 | 7,630 | *225.8* | 38,257 | 63,113 | 35,091 | *79.9* |
| PAT (Excl. Ex Items) | 24,856 | 7,630 | *225.8* | 38,257 | 63,113 | 35,091 | *79.9* |
| **Operating Metrics** | | | | | | | |
| Rajasthan working int. vol (Th. bopd) | 122 | 88 | *38.9* | 122 | 122 | 89 | *36.6* |

## GAIL

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs393 |
| Target Price | Rs345 |
| Market Cap. (Rs bn) | 498.6 |
| Shares o/s (m) | 1,268.5 |

GAIL is likely to report a subdued performance for the quarter on the back of stagnant transmission volumes. Transmission volumes during the quarter are likely to be ~112mmscmd. For the current quarter under consideration, we believe inventory build-up on the petrochemical side is likely to be destocked resulting in higher volumes QoQ. Gas trading profitability is expected to be strong during the quarter.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 402,807 | 345,194 | 354,545 |
| EBITDA | 56,980 | 61,412 | 69,876 |
| *Margin (%)* | *14.1* | *17.8* | *19.7* |
| PAT | 36,778 | 36,953 | 39,981 |
| EPS (Rs) | 29.0 | 29.1 | 31.5 |
| *RoE (%)* | *18.4* | *16.9* | *16.9* |
| PE (x) | 13.6 | 13.5 | 12.5 |
| P / BV (x) | 2.4 | 2.2 | 2.0 |
| EV / E (x) | 9.8 | 9.8 | 8.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 113,508 | 96,990 | *17.0* | 110,886 | 224,394 | 185,664 | *20.9* |
| EBITDA | 19,974 | 16,483 | *21.2* | 18,991 | 38,965 | 32,039 | *21.6* |
| *Margin (%)* | *17.6* | *17.0* | *60 bps* | *17.1* | *17.4* | *17.3* | *11 bps* |
| Reported PAT | 11,981 | 10,944 | *9.5* | 11,338 | 23,319 | 20,791 | *12.2* |
| PAT (Excl. Ex Items) | 11,981 | 10,944 | *9.5* | 11,338 | 23,319 | 20,791 | *12.2* |
| **Operating Metrics** | | | | | | | |
| Natural Gas Trans. (mmscmd) | 112 | 119 | *(5.9)* | 110 | 110.9 | 118.1 | *(6.1)* |
| Natural Gas Trad. (mmscmd) | 845 | 796 | *6.2* | 845 | 1,690 | 1,613.0 | *4.8* |
| LPG Trans. (TMT) | 105 | 129 | *(18.6)* | 66 | 171.0 | 217 | *(21.2)* |

## Oil India

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs490 |
| Target Price | Rs512 |
| Market Cap. (Rs bn) | 294.6 |
| Shares o/s (m) | 601.1 |

OIL India is likely to witness an increase in crude oil sales during the quarter post the maintenance shutdown at their Numaligarh refinery in Q1FY13. We factor in crude oil production of 0.975 mt for the quarter and upstream susbsidy-sharing of 40% (of which 13.5% will be borne by OIL).

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 98,632 | 105,854 | 112,183 |
| EBITDA | 46,747 | 46,846 | 49,249 |
| *Margin (%)* | *47.4* | *44.3* | *43.9* |
| PAT | 34,469 | 31,597 | 33,618 |
| EPS (Rs) | 57.3 | 52.6 | 55.9 |
| *RoE (%)* | *20.1* | *16.2* | *15.7* |
| PE (x) | 8.5 | 9.3 | 8.8 |
| P / BV (x) | 1.6 | 1.4 | 1.3 |
| EV / E (x) | 3.6 | 3.4 | 3.1 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 26,034 | 32,703 | *(20.4)* | 24,396 | 50,431 | 55,581 | *(9.3)* |
| EBITDA | 10,989 | 16,202 | *(32.2)* | 12,025 | 23,014 | 27,831 | *(17.3)* |
| *Margin (%)* | *42.2* | *49.5* | *(733)bps* | *49.3* | *45.6* | *50.1* | *(444)bps* |
| Reported PAT | 8,564 | 11,385 | *(24.8)* | 9,299 | 17,863 | 19,881 | *(10.2)* |
| PAT (Excl. Ex Items) | 8,564 | 11,385 | *(24.8)* | 9,299 | 17,863 | 19,881 | *(10.2)* |
| **Operating Metrics** | | | | | | | |
| Oil production (m barrels) | 7 | 7 | *(1.6)* | 7 | 14 | 14 | *(1.9)* |

## Petronet LNG

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs160 |
| Target Price | Rs177 |
| Market Cap. (Rs bn) | 119.6 |
| Shares o/s (m) | 750.0 |

Petronet LNG is likely to see a slight uptick volumes on a QoQ basis. We expect term contract volumes during the quarter to stand at 94TBTU, spot volumes at 28TBTU and tolling volumes at 14TBTUs. EBITDA/TBTU is likely to remain flat QoQ at Rs35.3/TBTU.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 227,039 | 332,212 | 426,576 |
| EBITDA | 18,373 | 19,168 | 20,768 |
| *Margin (%)* | *8.1* | *5.8* | *4.9* |
| PAT | 10,795 | 11,152 | 10,229 |
| EPS (Rs) | 14.4 | 14.9 | 13.6 |
| *RoE (%)* | *34.8* | *28.2* | *21.5* |
| PE (x) | 11.1 | 10.7 | 11.7 |
| P / BV (x) | 3.4 | 2.7 | 2.3 |
| EV / E (x) | 7.6 | 7.7 | 7.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 78,622 | 53,669 | *46.5* | 70,298 | 148,920 | 99,902 | *49.1* |
| EBITDA | 4,786 | 4,484 | *6.8* | 4,565 | 9,351 | 8,865 | *5.5* |
| *Margin (%)* | *6.1* | *8.4* | *(227)bps* | *6.5* | *6.3* | *8.9* | *(259)bps* |
| Reported PAT | 2,757 | 2,603 | *5.9* | 2,702 | 5,459 | 5,170 | *5.6* |
| PAT (Excl. Ex Items) | 2,757 | 2,603 | *5.9* | 2,702 | 5,459 | 5,170 | *5.6* |
| **Operating Metrics** | | | | | | | |
| Contracted Sales (TBTUs) | 94 | 90 | *3.7* | 96 | 190 | 180 | *5.0* |
| Spot LNG (TBTUs) | 28 | 28 | *1.1* | 21 | 49 | 52 | *(6.8)* |
| EBITDA/MMBTU | 35 | 33 | *6.4* | 36 | 39 | 38 | *3.0* |

## Gujarat State Petronet

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs82 |
| Target Price | Rs95 |
| Market Cap. (Rs bn) | 46.1 |
| Shares o/s (m) | 562.6 |

On account of a decline in production from KG basin, GSPL's transmission volumes are slated to decline during the quarter to 31.4mmscmd in Q2FY13 as against 35.2mmscmd in Q2FY12, although flat on QoQ basis (31.1mmscmd in Q1FY13). Average transmission tariff is expected to decline on YoY basis as well as QoQ basis reflecting the recent PNGRB tariff order.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 11,153 | 10,317 | 9,587 |
| EBITDA | 10,253 | 9,510 | 8,839 |
| *Margin (%)* | *91.9* | *92.2* | *92.2* |
| PAT | 5,206 | 4,722 | 4,277 |
| EPS (Rs) | 9.3 | 8.4 | 7.6 |
| *RoE (%)* | *23.3* | *17.8* | *14.2* |
| PE (x) | 8.9 | 9.8 | 10.8 |
| P / BV (x) | 1.9 | 1.6 | 1.5 |
| EV / E (x) | 5.4 | 5.8 | 6.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 2,382 | 2,808 | *(15.2)* | 2,676 | 5,058 | 5,651 | *(10.5)* |
| EBITDA | 2,156 | 2,584 | *(16.6)* | 2,465 | 4,621 | 5,203 | *(11.2)* |
| *Margin (%)* | *90.5* | *92.0* | *(152)bps* | *92.1* | *91.4* | *92.1* | *(72)bps* |
| Reported PAT | 1,036 | 1,293 | *(19.9)* | 1,248 | 2,285 | 2,667 | *(14.3)* |
| PAT (Excl. Ex Items) | 1,036 | 1,293 | *(19.9)* | 1,248 | 2,285 | 2,667 | *(14.3)* |
| **Operating Metrics** | | | | | | | |
| Transmission volumes (mmscmd) | 31.4 | 35.2 | *(10.8)* | 31.1 | 31.3 | 36.0 | *(13.1)* |
| Avg. Transmission Tariff (Rs/000scm) | 785 | 833 | *(5.8)* | 892 | 838.3 | 822.8 | *1.9* |

## Gujarat Gas Company

| | |
|---|---|
| Rating | **Under Review** |
| Price | Rs306 |
| Target Price | NA |
| Market Cap. (Rs bn) | 39.3 |
| Shares o/s (m) | 128.3 |

GujGas' distribution volumes are expected to average at about 3.35mmscmd during Q3CY12, a slight increase on a QoQ basis. Despite the depreciation of the rupee, during the quarter, the profitability is likely to be strong during the quarter owing to the price increase taken in the industrial space at the beginning of the quarter. EBITDA/scm is likely to increase Rs5.2/scm, up 79% QoQ.

**Key Figures *(Rs m)***

| | CY11 | CY12E | CY13E |
|---|---|---|---|
| Net Sales | 24,186 | 33,353 | 35,052 |
| EBITDA | 3,969 | 4,452 | 4,791 |
| *Margin (%)* | *16.4* | *13.3* | *13.7* |
| PAT | 2,735 | 3,069 | 3,298 |
| EPS (Rs) | 21.3 | 23.9 | 25.7 |
| *RoE (%)* | *33.5* | *36.8* | *37.3* |
| PE (x) | 14.4 | 12.8 | 11.9 |
| P / BV (x) | 5.0 | 4.5 | 4.0 |
| EV / E (x) | 9.9 | 8.8 | 8.0 |

**Quarterly Table *(Rs m)***

| Y/e Dec | Q3 CY12E | Q3 CY11 | *YoY gr. (%)* | Q2 CY12 | 9M CY12E | 9M CY11 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 8,795 | 6,533 | *34.6* | 7,725 | 23,760 | 17,676 | *34.4* |
| EBITDA | 1,582 | 1,179 | *34.2* | 836 | 3,183 | 3,670 | *(13.3)* |
| *Margin (%)* | *18.0* | *18.0* | *(6)bps* | *10.8* | *13.4* | *20.8* | *(737)bps* |
| Reported PAT | 1,060 | 802 | *32.2* | 525 | 2,239 | 2,482 | *(9.8)* |
| PAT (Excl. Ex Items) | 1,060 | 802 | *32.2* | 525 | 2,239 | 2,482 | *(9.8)* |
| **Operating Metrics** | | | | | | | |
| Gas sales (mmscmd) | 3.4 | 3.5 | *(5.5)* | 3.2 | 3.3 | 3.4 | *(3.5)* |
| Avg dist. Rate (Rs/scm) | 28.6 | 19.7 | *44.7* | 26.5 | 26.3 | 18.9 | *39.4* |

## Indraprastha Gas

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs260 |
| Target Price | Rs310 |
| Market Cap. (Rs bn) | 36.4 |
| Shares o/s (m) | 140.0 |

CNG and PNG volume growth is expected to be robust on a YoY basis, registering a growth of 11.4% and growth of 21.4% YoY, respectively. On account of lower spot LNG prices, coupled with decline in crude oil prices in month of June (impacting term LNG prices on one month lag), coupled with price increase resorted at the beginning of the quarter, we expect a significant increase in the operating profitability during the quarter. EBITDA/scm is likely to increase QoQ to Rs6.54/scm from Rs5.56/scm.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 25,151 | 36,179 | 44,625 |
| EBITDA | 6,309 | 7,640 | 8,912 |
| *Margin (%)* | *25.1* | *21.1* | *20.0* |
| PAT | 3,064 | 3,491 | 3,760 |
| EPS (Rs) | 21.9 | 24.9 | 26.9 |
| *RoE (%)* | *27.4* | *25.9* | *23.7* |
| PE (x) | 11.9 | 10.4 | 9.7 |
| P / BV (x) | 3.0 | 2.5 | 2.1 |
| EV / E (x) | 6.6 | 5.7 | 5.1 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 8,631 | 5,975 | *44.5* | 7,607 | 16,238 | 11,349 | *43.1* |
| EBITDA | 2,272 | 1,579 | *43.8* | 1,797 | 4,069 | 3,163 | *28.6* |
| *Margin (%)* | *26.3* | *26.4* | *(12)bps* | *23.6* | *25.1* | *27.9* | *(281)bps* |
| Reported PAT | 1,148 | 772 | *48.7* | 850 | 1,998 | 1,573 | *27.1* |
| PAT (Excl. Ex Items) | 1,148 | 772 | *48.7* | 850 | 1,998 | 1,573 | *27.1* |
| **Operating Metrics** | | | | | | | |
| CNG (m kgs) | 198 | 177 | *11.4* | 183 | 381 | 338.7 | *12.4* |
| PNG (mmscm) | 83 | 68 | *21.4* | 80 | 163 | 133.0 | *22.4* |

Amit Shah
amitshah@plindia.com
+91-22-6632 2259

# Pharmaceuticals

For Q2FY13, we estimate top-line growth of 24% YoY for our coverage universe (excluding one-offs), with EBITDA growth at a robust 29% YoY. Adjusted PAT is expected to grow by 28% YoY. The EBITDA growth is mainly led by strong performance by Sun Pharma on the back of improvement in the profitability of Taro, Ranbaxy on a low base and Lupin due to favourable product mix and currency benefits. Adjusted PAT growth would be led by strong operational performance. For some of the companies, PAT is boosted by expected forex gains on hedges and forex loans, while for some companies, the PAT growth is impacted by variety of reasons like higher tax rate, lower other income, higher depreciation on account of acquisitions and higher interest outgo related to increase in working capital/debt raised for acquisitions.

## Top picks

IPCA Labs

Torrent Pharma

Divi's Lab

Dr Reddy's Lab

**Q2FY13 Performance – Excluding one-offs**

| | YoY growth (%) | | | YoY margin improvement (bps) | |
|---|---|---|---|---|---|
| | **Revenue** | **EBITDA** | **PAT** | **EBITDA** | **PAT** |
| Sun Pharma | 40.0 | 49.9 | 44.7 | 283 | 101 |
| Cipla | 11.4 | 7.0 | 9.1 | -97 | -35 |
| Dr Reddy's Lab | 19.6 | 12.5 | 4.7 | -116 | -155 |
| Ranbaxy | 21.4 | 54.1 | -5.3 | 224 | -170 |
| Lupin | 31.8 | 39.1 | 25.7 | 93 | -56 |
| Cadila | 27.4 | 25.4 | 104.5 | -36 | 499 |
| **Large generic companies** | **24.8** | **30.9** | **27.4** | **107** | **31** |
| | | | | | |
| Divi's Lab | 30.6 | 31.0 | 18.5 | 13 | -276 |
| IPCA | 16.3 | 8.5 | 63.6 | -169 | 509 |
| Torrent Pharma | 20.9 | 24.0 | 22.9 | 52 | 24 |
| **Mid cap companies** | **21.2** | **20.3** | **32.4** | **-19** | **158** |
| | | | | | |
| **Aggregate** | **24.3** | **29.3** | **28.1** | **89** | **47** |

*Source: Company Data, PL Research*
*Note – Above numbers exclude one-offs to facilitate comparison of core operations*

**Q2FY13 Performance – Including one-offs**

| | YoY growth (%) | | | YoY margin improvement (bps) | |
|---|---|---|---|---|---|
| | Revenue | EBITDA | PAT | EBITDA | PAT |
| Sun Pharma | 44.1 | 60.4 | 55.9 | 468 | 258 |
| Cipla | 15.8 | 17.8 | 20.7 | 42 | 72 |
| Dr Reddy's Lab | 20.7 | 14.8 | 7.6 | -104 | -148 |
| Ranbaxy | 21.4 | 54.1 | -5.3 | 224 | -170 |
| Lupin | 33.3 | 45.0 | 34.5 | 147 | 11 |
| Cadila | 27.4 | 25.4 | 104.5 | -36 | 499 |
| **Large generic companies** | **26.8** | **37.5** | **35.1** | **189** | **100** |
| | | | | | |
| Divi's Lab | 30.6 | 31.0 | 18.5 | 13 | -276 |
| IPCA | 16.3 | 8.5 | 63.6 | -169 | 509 |
| Torrent Pharma | 20.9 | 24.0 | 22.9 | 52 | 24 |
| **Mid cap companies** | **21.2** | **20.3** | **32.4** | **-19** | **158** |
| | | | | | |
| **Aggregate** | **26.0** | **35.0** | **34.7** | **161** | **107** |

*Source: Company Data, PL Research*

## US is likely to be the main growth driver for the companies during the quarter

For most of the companies under our coverage universe, US is likely to be a key growth driver during the quarter. All the large cap companies, except Dr Reddy's Lab, is likely to witness strong growth in the US business for the quarter. Even mid-cap companies like Torrent and IPCA are likely to witness strong growth in US on a small base. We believe that US remains a key growth driver for most of the Indian companies in the medium term. The table below gives our expectation of the US business growth of various companies for the quarter v/s the overall top-line growth of those companies.

**US lead the growth for companies during the quarter**

| | Base US business growth (%) | Overall top-line growth (%) |
|---|---|---|
| Sun Pharma | 65 | 40 |
| Lupin | 27 | 26* |
| Cadila | 30 | 27 |
| Ranbaxy | 25 | 21 |
| IPCA | 24 | 16 |
| Torrent Pharma | 54 | 21 |

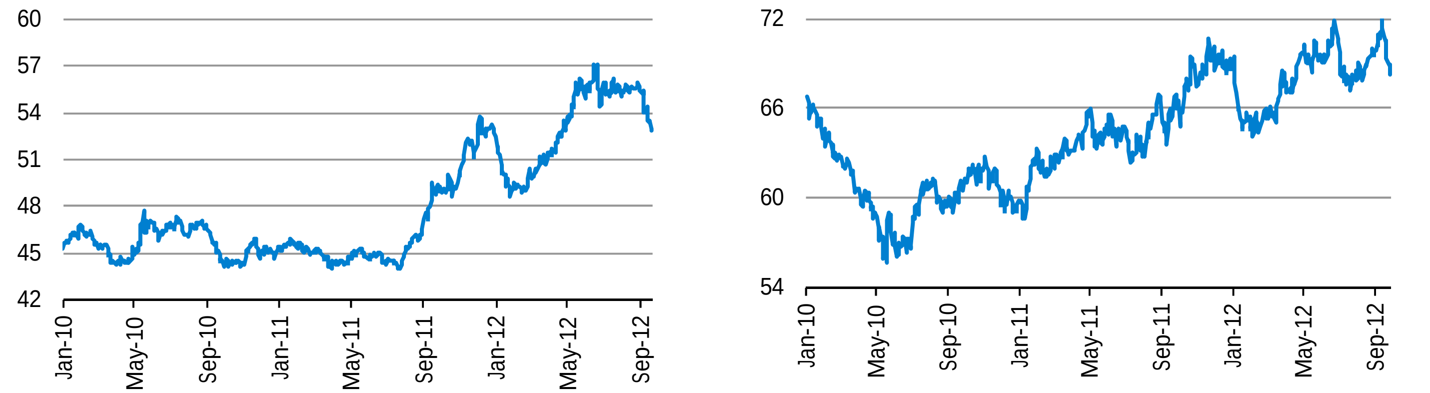
*Source: Company Data, PL Research* ** excluding the impact of Irom acquisition*

## YoY INR depreciation and QoQ appreciation against USD and Euro to partly boost top-line growth for the sector and positively impact the earnings of companies with forex debt

The rupee has depreciated by 20.5% YoY against the USD and 6.8% YoY against the Euro.

This is likely to partially boost top-line growth for larger Indian players with high exposure to the currencies. The companies with adequate hedges like Dr Reddy's Lab and Ranbaxy will not benefit significantly. However, companies with inadequate hedges like Cipla, Cadila and Divi's Lab are likely to benefit from the INR depreciation. Further, 5.3% QoQ appreciation of INR will have a positive impact on the companies which have borrowed in USD as these companies will have MTM against these liabilities.

**YoY INR depreciation and QoQ appreciation v/s USD and Euro will partially boost revenues benefit forex currency borrowers**




*Source: Bloomberg, PL Research*

## New Pharma Pricing Policy seems to have limited impact on the profitability of the leading companies

Government announced new pharma pricing policy on September 27, 2012 to control the prices of 348 essential drugs as chalked out in National List of Essential Medicines (NLEM) 2011. The policy was anticipated to be highly detrimental to the growth and profitability of the domestic pharma industry. However, the final policy seems to have much less impact on the profitability of the pharma companies than what was anticipated. Various provisions in the policy have been made keeping in mind both the industry profitability and availability of essential drugs at reasonable prices.

**The latest policy is favourable to the industry on two counts:**

1) **The pricing is based on market dynamics** rather than cost-based pricing which is there in the ongoing DPCO of 1995. It comes as a major relief to the industry as we believe that the cost plus pricing would have impacted the industry very badly and would have created various issues such as compliance and quality of the drugs. The new policy is based on a ceiling price which is arrived by calculating the Weighted Average Price of all the drugs having market share of more than 1%.

2) **Combination drugs are excluded from the gambit of price control.** This reduced the span of control from 75% of the entire market to ~30% of the market. Combinations drugs are a major part of domestic formulation industry. The new pricing policy only covers 348 drugs and their 652 strengths as mentioned in the NLEM 2011.

Though the fine print of new policy is not yet available, industry sources believe that the impact of the new policy will not be very significant for the leading companies. On an average, the impact on PBT for various leading companies seems to be less than 10% and less than 5% in some cases. The actual implementation of the policy will take few months as per industry sources.

However, recently, the SC has asked the government to frame a final pharma pricing policy within a week failing which the court may pass an interim order. The court asked the govt. not to alter the existing pricing system for essential medicines. It means the court wants the govt. to stick to the provisions of existing DPCO which decides price on the cost-based method as against market-based pricing proposed by GOM. The SC, as per its observation, is in favor of applying the current cost-based pricing mechanism on all the 348 drugs, which is expected to significantly bring down prices of various essential medicines in the country. The impact of cost-based policy will be severe on the industry as the 348 drugs cover ~30% of the Rs650bn domestic formulation market. If this policy is implemented it will lead to a substantial de-rating of the sector.

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| Sun Pharmaceutical Industries | 4.9 | 7.4 | 21.0 | 48.0 | (4.4) | (0.6) | 12.7 | 28.1 |
| Cipla | (2.5) | 12.3 | 19.2 | 29.6 | (11.9) | 4.3 | 10.9 | 9.6 |
| Dr.Reddy's Laboratories | 1.2 | 4.2 | (0.9) | 14.3 | (8.1) | (3.8) | (9.2) | (5.6) |
| Lupin | (3.0) | 5.1 | 6.3 | 21.0 | (12.4) | (2.8) | (2.0) | 1.0 |
| Ranbaxy Laboratories | (4.2) | 3.5 | 10.8 | 1.7 | (13.6) | (4.5) | 2.5 | (18.2) |
| Cadila Healthcare | (9.2) | 7.1 | 11.7 | 6.3 | (18.6) | (0.9) | 3.4 | (13.7) |
| Divi's Laboratories Ltd | (2.3) | 5.8 | 43.0 | 52.8 | (11.6) | (2.2) | 34.7 | 32.9 |
| IPCA | 2.6 | 18.7 | 33.2 | 87.0 | (6.8) | 10.7 | 24.9 | 67.1 |
| Torrent Pharmaceuticals | (1.9) | 11.7 | 9.5 | 27.4 | (11.3) | 3.7 | 1.1 | 7.5 |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **Sun Pharmaceutical Industries** | Sales | 24,960 | 18,946 | *31.7* | 26,581 | *(6.1)* | 51,541 | 35,303 | *46.0* |
| | EBITDA | 10,717 | 7,841 | *36.7* | 12,169 | *(11.9)* | 22,885 | 13,315 | *71.9* |
| | *Margins (%)* | *42.9* | *41.4* | | *45.8* | | *44.4* | *37.7* | |
| | PAT | 7,889 | 5,454 | *44.7* | 6,618 | *19.2* | 14,507 | 9,840 | *47.4* |
| **Cipla** | Sales | 19,801 | 17,780 | *11.4* | 19,582 | *1.1* | 39,383 | 33,694 | *16.9* |
| | EBITDA | 4,681 | 4,376 | *7.0* | 5,399 | *(13.3)* | 10,079 | 8,072 | *24.9* |
| | *Margins (%)* | *23.6* | *24.6* | | *27.6* | | *25.6* | *24.0* | |
| | PAT | 3,371 | 3,090 | *9.1* | 3,294 | *2.3* | 6,665 | 5,623 | *18.5* |
| **Dr.Reddy's Laboratories** | Sales | 25,780 | 22,679 | *13.7* | 25,406 | *1.5* | 51,186 | 42,462 | *20.5* |
| | EBITDA | 4,769 | 4,799 | *(0.6)* | 4,996 | *(4.5)* | 9,765 | 8,634 | *13.1* |
| | *Margins (%)* | *18.5* | *21.2* | | *19.7* | | *19.1* | *20.3* | |
| | PAT | 2,809 | 2,685 | *4.6* | 2,348 | *19.6* | 5,157 | 4,948 | *4.2* |
| **Lupin** | Sales | 21,675 | 16,448 | *31.8* | 22,192 | *(2.3)* | 43,866 | 31,879 | *37.6* |
| | EBITDA | 3,844 | 2,764 | *39.1* | 4,230 | *(9.1)* | 8,074 | 5,462 | *47.8* |
| | *Margins (%)* | *17.7* | *16.8* | | *19.1* | | *18.4* | *17.1* | |
| | PAT | 2,527 | 2,010 | *25.7* | 2,098 | *20.4* | 4,625 | 4,111 | *12.5* |
| **Ranbaxy Laboratories** | Sales | 25,440 | 20,955 | *21.4* | 32,285 | *(21.2)* | 95,593 | 63,696 | *50.1* |
| | EBITDA | 2,683 | 1,741 | *54.1* | 5,113 | *(47.5)* | 17,349 | 7,589 | *128.6* |
| | *Margins (%)* | *10.5* | *8.3* | | *15.8* | | *18.1* | *11.9* | |
| | PAT | 1,533 | 1,620 | *(5.3)* | 1,722 | *(11.0)* | 5,272 | 4,399 | *19.9* |
| **Cadila Healthcare** | Sales | 15,863 | 12,450 | *27.4* | 15,486 | *2.4* | 31,350 | 24,907 | *25.9* |
| | EBITDA | 3,456 | 2,757 | *25.4* | 3,419 | *1.1* | 6,875 | 5,781 | *18.9* |
| | *Margins (%)* | *21.8* | *22.1* | | *22.1* | | *21.9* | *23.2* | |
| | PAT | 2,100 | 1,027 | *104.5* | 1,948 | *7.8* | 4,048 | 2,459 | *64.6* |
| **Divi's Laboratories** | Sales | 4,623 | 3,541 | *30.6* | 4,860 | *(4.9)* | 9,483 | 7,126 | *33.1* |
| | EBITDA | 1,654 | 1,262 | *31.0* | 1,745 | *(5.2)* | 3,399 | 2,540 | *33.8* |
| | *Margins (%)* | *35.8* | *35.6* | | *35.9* | | *35.8* | *35.6* | |
| | PAT | 1,257 | 1,061 | *18.5* | 1,330 | *(5.5)* | 2,587 | 2,086 | *24.0* |
| **IPCA** | Sales | 7,248 | 6,235 | *16.3* | 6,344 | *14.3* | 13,592 | 11,534 | *17.8* |
| | EBITDA | 1,715 | 1,580 | *8.5* | 1,329 | *29.0* | 3,044 | 2,532 | *20.2* |
| | *Margins (%)* | *23.7* | *25.3* | | *21.0* | | *22.4* | *22.0* | |
| | PAT | 1,275 | 780 | *63.6* | 430 | *196.7* | 1,705 | 1,396 | *22.1* |
| **Torrent Pharmaceuticals** | Sales | 8,261 | 6,833 | *20.9* | 7,669 | *7.7* | 15,930 | 13,308 | *19.7* |
| | EBITDA | 1,743 | 1,406 | *24.0* | 1,560 | *11.7* | 3,302 | 2,937 | *12.4* |
| | *Margins (%)* | *21.1* | *20.6* | | *20.3* | | *20.7* | *22.1* | |
| | PAT | 1,228 | 1,000 | *22.9* | 1,019 | *20.6* | 2,247 | 2,025 | *11.0* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 539,977 | 644,293 | 697,448 |
| *Growth (%)* | *22.1* | *19.3* | *8.3* |
| EBITDA | 130,478 | 154,807 | 163,613 |
| *Margin (%)* | *24.2* | *24.0* | *23.5* |
| PAT | 78,201 | 97,378 | 113,520 |
| *Growth (%)* | *25.4* | *24.5* | *16.6* |
| PE (x) | 28.0 | 22.5 | 19.3 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | QoQ gr. (%) |
|---|---|---|---|---|---|
| Net Sales | 153,652 | 125,867 | *22.1* | 160,405 | *(4.2)* |
| EBITDA | 35,261 | 28,526 | *23.6* | 39,960 | *(11.8)* |
| *Margin (%)* | *22.9* | *22.7* | *29 bps* | *24.9* | *(196)bps* |
| PAT (Excl. Ex Items) | 23,990 | 18,725 | *28.1* | 20,808 | *15.3* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## Sun Pharmaceuticals Ind.

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs683 |
| Target Price | Rs761 |
| Market Cap. (Rs bn) | 706.8 |
| Shares o/s (m) | 1,035.6 |

We expect Sun Pharma's Q2FY13 core top-line to grow 40% YoY to Rs25bn, mainly led by 56.6% YoY growth in revenue from export formulations led by Taro and Caraco on the back of better product pricing and a low base. Domestic formulation business is likely to grow by 23.8% YoY to Rs8.72bn. Core EBITDA is likely to grow 50% YoY to Rs10.72bn and core EBITDA margins are expected to expand 280bps to 42.9% led by improved profitability of Taro. We expect adjusted PAT to grow by 44.7% YoY to Rs7.9bn, in line with strong operational performance but pulled down by higher share of minority. Including the contribution from low competition products, reported PAT is likely to grow by 55.9% YoY to Rs9.32b.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 80,057 | 100,314 | 109,862 |
| EBITDA | 32,507 | 42,015 | 41,420 |
| *Margin (%)* | *40.6* | *41.9* | *37.7* |
| PAT | 23,228 | 28,440 | 30,158 |
| EPS (Rs) | 22.4 | 27.5 | 29.1 |
| *RoE (%)* | *21.5* | *21.4* | *19.5* |
| PE (x) | 30.4 | 24.9 | 23.4 |
| P / BV (x) | 5.8 | 4.9 | 4.3 |
| EV / E (x) | 20.8 | 15.5 | 15.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 24,960 | 18,946 | *31.7* | 26,581 | 51,541 | 35,303 | *46.0* |
| EBITDA | 10,717 | 7,841 | *36.7* | 12,169 | 22,885 | 13,315 | *71.9* |
| *Margin (%)* | *42.9* | *41.4* | *155 bps* | *45.8* | *44.4* | *37.7* | *669 bps* |
| Reported PAT | 9,317 | 5,978 | *55.9* | 7,956 | 17,273 | 10,988 | *57.2* |
| PAT (Excl. Ex Items) | 7,889 | 5,454 | *44.7* | 6,618 | 14,507 | 9,840 | *47.4* |
| **Operating Metrics** | | | | | | | |
| US Sales | 11,330 | 7,991 | *41.8* | 15,411 | 26,741 | 14,211 | *88.2* |
| Domestic formulation Sales | 8,721 | 7,046 | *23.8* | 5,877 | 14,598 | 13,431 | *8.7* |

## Cipla

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs364 |
| Target Price | Rs361 |
| Market Cap. (Rs bn) | 292.5 |
| Shares o/s (m) | 802.9 |

Cipla's Q2FY13 top-line is likely to report muted growth of 11.4% YoY to Rs19.8bn, impacted by 8.7% YoY growth in exports formulations and muted 12.1% YoY growth in domestic formulation business due to strong Q1FY13 performance. While EBITDA is likely to increase by only 7% YoY, EBITDA margins are likely to contract by 97bps YoY to 23.65 on a high base and adverse product mix. Adjusted PAT is likely to grow by 9.1% YoY to Rs3.37bn, in line with operational performance. Including the contribution of one-off opportunities in US, the top-line and PAT is expected to grow by 16% YoY and 20.7% YoY, respectively.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 70,207 | 78,556 | 87,349 |
| EBITDA | 16,589 | 19,011 | 20,059 |
| *Margin (%)* | *23.6* | *24.2* | *23.0* |
| PAT | 11,228 | 13,028 | 14,503 |
| EPS (Rs) | 14.0 | 16.2 | 18.1 |
| *RoE (%)* | *15.7* | *16.0* | *15.7* |
| PE (x) | 26.0 | 22.4 | 20.2 |
| P / BV (x) | 3.8 | 3.4 | 3.0 |
| EV / E (x) | 17.6 | 15.3 | 14.5 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 19,801 | 17,780 | *11.4* | 19,582 | 39,383 | 33,694 | *16.9* |
| EBITDA | 4,681 | 4,376 | *7.0* | 5,399 | 10,079 | 8,072 | *24.9* |
| *Margin (%)* | *23.6* | *24.6* | *(97)bps* | *27.6* | *25.6* | *24.0* | *164 bps* |
| Reported PAT | 3,371 | 3,090 | *9.1* | 4,008 | 7,379 | 5,623 | *31.2* |
| PAT (Excl. Ex Items) | 3,371 | 3,090 | *9.1* | 3,294 | 6,665 | 5,623 | *18.5* |
| **Operating Metrics** | | | | | | | |
| Domestic Formulation Sales | 9,202 | 8,208 | *12.1* | 9,388 | 18,590 | 15,409 | *20.6* |
| Other Operating Income | 492 | 462 | *6.5* | 408 | 900 | 873 | *3.1* |

## Dr. Reddy's Laboratories

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs1,697 |
| Target Price | Rs2,004 |
| Market Cap. (Rs bn) | 287.9 |
| Shares o/s (m) | 169.6 |

We expect Dr Reddy's Lab's (DRRD) core revenue (excluding one-off sales) to grow by 19.6% YoY to Rs25.8bn in Q2FY13, led by strong 29% growth from international PSAI business and 21.5% YoY growth in revenues from international branded formulation business. Including one-off revenues, the top-line growth is likely to be 20.7% YoY. Core EBITDA is likely to grow by 12.5% YoY to Rs4.8bn and we expect core EBITDA margins to contract by 120bps YoY to 18.5% due to absence of DEPB benefits and adverse product mix. We expect adjusted PAT to grow by 4.6% YoY to Rs2.8b due to higher tax rate and lower other income. Including contribution from one-off opportunities, we expect PAT to increase by 7.5% YoY to Rs3.3bn.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 96,737 | 105,474 | 115,310 |
| EBITDA | 23,740 | 21,095 | 23,985 |
| *Margin (%)* | *24.5* | *20.0* | *20.8* |
| PAT | 12,109 | 14,771 | 17,010 |
| EPS (Rs) | 71.4 | 87.1 | 100.3 |
| *RoE (%)* | *23.4* | *23.9* | *24.1* |
| PE (x) | 23.8 | 19.5 | 16.9 |
| P / BV (x) | 5.0 | 4.4 | 3.8 |
| EV / E (x) | 12.7 | 14.5 | 12.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 25,780 | 22,679 | *13.7* | 25,406 | 51,186 | 42,462 | *20.5* |
| EBITDA | 4,769 | 4,799 | *(0.6)* | 4,996 | 9,765 | 8,634 | *13.1* |
| *Margin (%)* | *18.5* | *21.2* | *(266)bps* | *19.7* | *19.1* | *20.3* | *(126)bps* |
| Reported PAT | 3,308 | 3,078 | *7.5* | 3,360 | 6,668 | 5,704 | *16.9* |
| PAT (Excl. Ex Items) | 2,809 | 2,685 | *4.6* | 2,348 | 5,157 | 4,948 | *4.2* |
| **Operating Metrics** | | | | | | | |
| US Sales | 6,027 | 6,287 | *(4.1)* | 7,920 | 13,947 | 12,043 | *15.8* |
| Branded Formulation Sales | 9,240 | 7,732 | *19.5* | 8,968 | 18,208 | 14,483 | *25.7* |

## Lupin

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs568 |
| Target Price | Rs622 |
| Market Cap. (Rs bn) | 253.8 |
| Shares o/s (m) | 446.7 |

We expect Lupin's Q2FY13 top-line to record 31.8% YoY growth, driven mainly by 72% YoY growth in Japan on the back of *Irom* acquisition and favorable currency and 37% YoY growth in advanced market formulations led by new product launches. We expect EBITDA to grow by 39% YoY and EBITDA margins are likely to expand by 93bps YoY on the back of lower other expenditure and favorable currency. We expect PAT to grow 25.7% YoY to Rs2.53bn due to higher tax rate. Including the contribution from one-off opportunities, the Revenue and PAT are likely to grow by 32% YoY and 42% YoY.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 69,597 | 88,284 | 101,323 |
| EBITDA | 13,215 | 16,971 | 20,462 |
| *Margin (%)* | *19.0* | *19.2* | *20.2* |
| PAT | 8,677 | 10,698 | 13,891 |
| EPS (Rs) | 19.4 | 24.0 | 31.1 |
| *RoE (%)* | *23.8* | *24.2* | *26.2* |
| PE (x) | 29.2 | 23.7 | 18.3 |
| P / BV (x) | 6.3 | 5.3 | 4.4 |
| EV / E (x) | 20.1 | 15.6 | 12.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 21,675 | 16,448 | *31.8* | 22,192 | 43,866 | 31,879 | *37.6* |
| EBITDA | 3,844 | 2,764 | *39.1* | 4,230 | 8,074 | 5,462 | *47.8* |
| *Margin (%)* | 17.7 | 16.8 | *93 bps* | 19.1 | 18.4 | 17.1 | *127 bps* |
| Reported PAT | 2,653 | 2,010 | *32.0* | 2,804 | 5,456 | 4,111 | *32.7* |
| PAT (Excl. Ex Items) | 2,527 | 2,010 | *25.7* | 2,098 | 4,625 | 4,111 | *12.5* |
| **Operating Metrics** | | | | | | | |
| Advanced Market Formulations | 11,265 | 7,761 | *45.1* | 11,826 | 23,091 | 14,774 | *56.3* |
| Emerging Market Formulations | 8,309 | 6,711 | *23.8* | 8,049 | 16,358 | 13,028 | *25.6* |

## Ranbaxy Laboratories

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs529 |
| Target Price | Rs577 |
| Market Cap. (Rs bn) | 223.4 |
| Shares o/s (m) | 422.0 |

We expect Ranbaxy's Q3CY12 top-line to grow 21.4% YoY, partially led by favorable currency. Further, the revenue will be led by strong growth of 15.3% in Asia Pacific and Middle East region. Domestic formulation is likely to report 15.8% YoY growth to Rs6bn. We expect EBITDA to grow 54% YoY to Rs2.68bn, while EBITDA margins to expand by 224bps YoY to 10.5% on a low base. Also, EBITDA margins are boosted by favourable currency. We expect adjusted PAT to decline by 5.3% YoY to Rs1.5bn despite healthy operational performance led by 3x increase in interest cost and higher tax payment on account of forex gains.

**Key Figures *(Rs m)***

| | CY11 | CY12E | CY13E |
|---|---|---|---|
| Net Sales | 101,614 | 123,538 | 110,886 |
| EBITDA | 16,189 | 20,568 | 15,199 |
| *Margin (%)* | *15.9* | *16.6* | *13.7* |
| PAT | 5,955 | 7,486 | 9,405 |
| EPS (Rs) | 14.1 | 17.7 | 22.3 |
| *RoE (%)* | *12.4* | *15.9* | *16.4* |
| PE (x) | 37.5 | 29.8 | 23.8 |
| P / BV (x) | 5.5 | 4.2 | 3.7 |
| EV / E (x) | 14.7 | 12.2 | 16.1 |

**Quarterly Table *(Rs m)***

| Y/e March | Q3 CY12E | Q3 CY11 | YoY gr. (%) | Q2 CY12 | 9M CY12E | 9M CY11 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 25,440 | 20,955 | *21.4* | 32,285 | 95,593 | 63,696 | *50.1* |
| EBITDA | 2,683 | 1,741 | *54.1* | 5,113 | 17,349 | 7,589 | *128.6* |
| *Margin (%)* | *10.5* | *8.3* | *224 bps* | *15.8* | *18.1* | *11.9* | *623 bps* |
| Reported PAT | 4,830 | (4,646) | *NA* | (5,857) | 11,440 | 830 | *1,277.6* |
| PAT (Excl. Ex Items) | 1,533 | 1,620 | *(5.3)* | 1,722 | 5,272 | 4,399 | *19.9* |
| **Operating Metrics** | | | | | | | |
| US Sales (USD m) | 88 | 84 | *4.6* | 255 | 741 | 334 | *121.5* |
| India Formulation Sales | 5,971 | 5,157 | *15.8* | 5,540 | 16,513 | 14,336 | *15.2* |

## Cadila Healthcare

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs819 |
| Target Price | Rs1,031 |
| Market Cap. (Rs bn) | 167.8 |
| Shares o/s (m) | 204.7 |

Cadila's Q2FY13 top-line is likely to grow by 27.4% YoY to Rs15.9bn, led by 34% YoY growth in domestic formulation business on the back of the acquisition of Biochem and 25.7% YoY growth in international formulations business led by US, Brazil and RoW markets. We expect EBITDA to grow by 25.4% YoY to Rs3.46bn and EBITDA margins are likely to contract by 36bps YoY to 21.8% on a high base. Adjusted PAT is likely to double YoY to Rs2.1bn led by strong operational performance and forex gains during the quarter compared to forex loss in Q2FY12. Tax rate is likely to be higher at 23% due to change in taxation related to domestic formulation business.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 52,633 | 64,659 | 75,059 |
| EBITDA | 11,248 | 13,915 | 16,917 |
| *Margin (%)* | *21.4* | *21.5* | *22.5* |
| PAT | 5,660 | 8,228 | 10,551 |
| EPS (Rs) | 27.6 | 40.2 | 51.5 |
| *RoE (%)* | *23.8* | *28.4* | *29.0* |
| PE (x) | 29.6 | 20.4 | 15.9 |
| P / BV (x) | 6.5 | 5.2 | 4.2 |
| EV / E (x) | 16.3 | 13.3 | 10.8 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 15,863 | 12,450 | *27.4* | 15,486 | 31,350 | 24,907 | *25.9* |
| EBITDA | 3,456 | 2,757 | *25.4* | 3,419 | 6,875 | 5,781 | *18.9* |
| *Margin (%)* | *21.8* | *22.1* | *(36)bps* | *22.1* | *21.9* | *23.2* | *(128)bps* |
| Reported PAT | 2,100 | 1,027 | *104.5* | 1,948 | 4,048 | 3,325 | *21.7* |
| PAT (Excl. Ex Items) | 2,100 | 1,027 | *104.5* | 1,948 | 4,048 | 2,459 | *64.6* |
| **Operating Metrics** | | | | | | | |
| Domestic Formulation Sales | 6,299 | 4,700 | *34.0* | 5,818 | 12,117 | 9,274 | *30.7* |
| Exports Formulation Sales | 7,091 | 5,643 | *25.7* | 7,247 | 14,338 | 10,906 | *31.5* |

## Divi's Laboratories

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,096 |
| Target Price | Rs1,178 |
| Market Cap. (Rs bn) | 145.4 |
| Shares o/s (m) | 132.7 |

We expect 30.6% YoY increase in revenue for DIVI in Q2FY13 to Rs4.6bn, led by both, CCS and API businesses. CCS business is expected to grow by 31.2% YoY, while API business is expected to report growth of 26% YoY. EBITDA is likely to grow by 31% YoY to Rs1.65bn in line with top-line growth. We expect adjusted PAT to grow by 18.5% YoY to Rs1.26bn, reflecting the operational performance but impacted by lower other income and higher tax rate.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 18,585 | 23,707 | 28,018 |
| EBITDA | 6,849 | 8,674 | 10,229 |
| *Margin (%)* | *36.9* | *36.6* | *36.5* |
| PAT | 5,332 | 6,630 | 7,819 |
| EPS (Rs) | 40.2 | 49.9 | 58.9 |
| *RoE (%)* | *27.1* | *28.4* | *28.2* |
| PE (x) | 27.3 | 21.9 | 18.6 |
| P / BV (x) | 6.8 | 5.7 | 4.8 |
| EV / E (x) | 21.3 | 16.8 | 14.2 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 4,623 | 3,541 | *30.6* | 4,860 | 9,483 | 7,126 | *33.1* |
| EBITDA | 1,654 | 1,262 | *31.0* | 1,745 | 3,399 | 2,540 | *33.8* |
| *Margin (%)* | *35.8* | *35.6* | *13 bps* | *35.9* | *35.8* | *35.6* | *21 bps* |
| Reported PAT | 1,257 | 1,061 | *18.5* | 1,330 | 2,587 | 2,086 | *24.0* |
| PAT (Excl. Ex Items) | 1,257 | 1,061 | *18.5* | 1,330 | 2,587 | 2,086 | *24.0* |
| **Operating Metrics** | | | | | | | |
| CCS Revenues | 2,165 | 1,650 | *31.2* | 2,310 | 4,475 | 3,408 | *31.3* |
| Carotenoid Revenues | 378 | 240 | *57.5* | 331 | 709 | 380 | *86.5* |

## IPCA

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs443 |
| Target Price | Rs559 |
| Market Cap. (Rs bn) | 55.9 |
| Shares o/s (m) | 126.2 |

We expect IPCA Lab's (IPCA) Q2FY13 top-line to grow 16.3% YoY to Rs7.25bn, led by the international formulations segment, which is expected to grow by 21.1% YoY on the back of strong growth in all geographies partially led by favorable currency. We expect domestic formulations to grow by 10.4% YoY to Rs2.53bn due to the malaria season. EBITDA is expected to grow by 8.5% YoY to Rs1.72bn and EBITDA margins are likely to decline by 170bps YoY due to high base. We expect Adj. PAT to grow by 63.6% YoY to Rs1.28bn, led by forex gain expected during the quarter versus forex loss reported in the Q2FY12.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 23,587 | 27,495 | 32,198 |
| EBITDA | 5,135 | 6,351 | 7,784 |
| *Margin (%)* | *21.8* | *23.1* | *24.2* |
| PAT | 2,762 | 3,890 | 5,033 |
| EPS (Rs) | 21.9 | 30.8 | 39.9 |
| *RoE (%)* | *24.0* | *27.6* | *28.5* |
| PE (x) | 20.2 | 14.4 | 11.1 |
| P / BV (x) | 4.5 | 3.6 | 2.8 |
| EV / E (x) | 11.9 | 9.6 | 7.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 7,248 | 6,235 | *16.3* | 6,344 | 13,592 | 11,534 | *17.8* |
| EBITDA | 1,715 | 1,580 | *8.5* | 1,329 | 3,044 | 2,532 | *20.2* |
| *Margin (%)* | *23.7* | *25.3* | *(169)bps* | *21.0* | *22.4* | *22.0* | *44 bps* |
| Reported PAT | 1,275 | 780 | *63.6* | 430 | 1,705 | 1,396 | *22.1* |
| PAT (Excl. Ex Items) | 1,275 | 780 | *63.6* | 430 | 1,705 | 1,396 | *22.1* |
| **Operating Metrics** | | | | | | | |
| Domestic Formulation Sales | 2,530 | 2,292 | *10.4* | 2,242 | 4,772 | 4,182 | *14.1* |
| Export Formulations | 3,155 | 2,605 | *21.1* | 2,245 | 5,401 | 4,671 | *15.6* |

## Torrent Pharmaceuticals

| | |
|---|---|
| Rating | **BUY** |
| Price | Rs690 |
| Target Price | Rs913 |
| Market Cap. (Rs bn) | 58.4 |
| Shares o/s (m) | 84.6 |

We expect Torrent Pharma's Q2FY13 top-line to grow 20.9% YoY to Rs8.26bn, led by the international formulations segment, which is expected to grow 25.6% YoY on the back of strong growth in US, Latin America and Brazil, partially led by a favorable currency. We expect domestic formulations to grow by 13.9% YoY to Rs2.72bn. EBITDA is expected to grow 24% YoY, while EBITDA margins are likely to expand by 52bps on the back of improving profitability of international operations and benefit of operating leverage. We expect Adj. PAT to grow 22.9% YoY to Rs1.23bn in line with operational performance but partly impacted by higher tax expenses.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 26,959 | 32,267 | 37,442 |
| EBITDA | 5,006 | 6,208 | 7,557 |
| *Margin (%)* | *18.6* | *19.2* | *20.2* |
| PAT | 3,251 | 4,207 | 5,151 |
| EPS (Rs) | 38.4 | 49.7 | 60.9 |
| *RoE (%)* | *29.3* | *31.0* | *30.0* |
| PE (x) | 18.0 | 13.9 | 11.3 |
| P / BV (x) | 4.9 | 3.8 | 3.0 |
| EV / E (x) | 11.2 | 8.9 | 7.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 8,261 | 6,833 | 20.9 | 7,669 | 15,930 | 13,308 | 19.7 |
| EBITDA | 1,743 | 1,406 | 24.0 | 1,560 | 3,302 | 2,937 | 12.4 |
| *Margin (%)* | *21.1* | *20.6* | *52 bps* | *20.3* | *20.7* | *22.1* | *(134)bps* |
| Reported PAT | 1,228 | 1,000 | 22.9 | 1,019 | 2,247 | 2,025 | 11.0 |
| PAT (Excl. Ex Items) | 1,228 | 1,000 | 22.9 | 1,019 | 2,247 | 2,025 | 11.0 |
| **Operating Metrics** | | | | | | | |
| Domestic Formulations Sales | 2,717 | 2,385 | 13.9 | 2,802 | 5,519 | 4,845 | 13.9 |
| Intl. Formulations Sales | 4,727 | 3,762 | 25.6 | 4,071 | 8,797 | 6,823 | 28.9 |

Rupa Shah
rupashah@plindia.com
+91-22-6632 2244

# Power

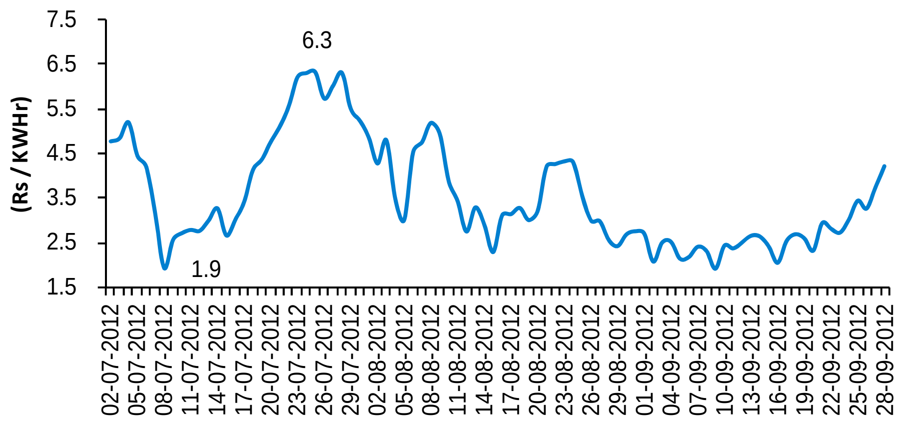
## Top picks

None

Power sector experienced relatively higher merchant tariff rates, average rate being Rs3.5/unit (3.4/unit in Q1FY13), which indicates that monsoons didn't have much impact on prices. Capacity addition for July 2012 stood at 950MW (Target-1050MWs), lower by 9% YoY. During August 2012, capacity addition stood at 1070MW (Target-285MWs). Capacity addition YTD stands at 6706MWs.

As far as July 2012 generation goes, units generated stood at 76bn (flat QoQ and 2.1% YoY growth). However, August saw a MoM de-growth of 2.2% at 74.3bn units and growth was 1.7% YoY. The impact of monsoons, thus, is clearly visible. All India PLF stood at 66% YTD. The short-term contracts comprised 10% of the generation.

**Prices remain a little higher**



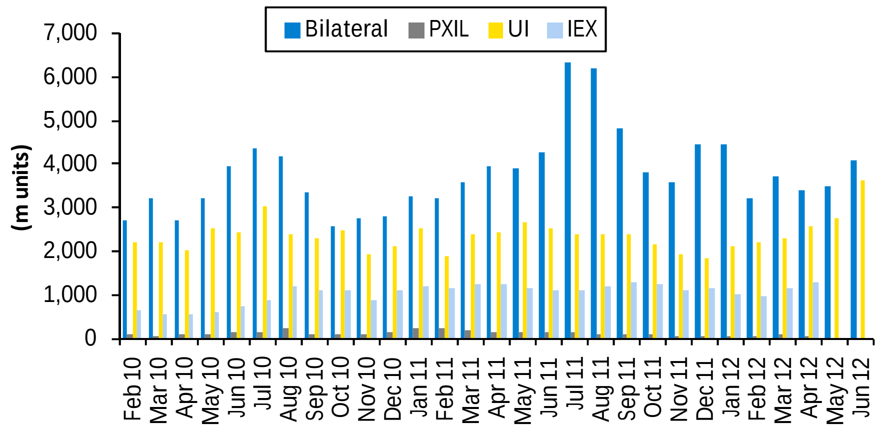

*Source: IEX*

**Average Prices kw/hr**

| Months | Bilateral | IEX | PXIL |
|---|---|---|---|
| June'11 | 3.82 | 2.80 | 2.90 |
| July'11 | 3.90 | 2.97 | 3.22 |
| Aug'11 | 3.88 | 2.89 | 3.01 |
| Sep'11 | 3.95 | 3.00 | 3.08 |
| Oct'11 | 4.22 | 5.40 | 5.42 |
| Nov'11 | 4.29 | 4.08 | 4.09 |
| Dec'11 | 4.17 | 4.05 | 4.02 |
| Jan'12 | 4.43 | 3.29 | 3.36 |
| Feb'12 | 4.45 | 3.34 | 3.50 |
| Mar'12 | 4.74 | 3.20 | 4.00 |
| Apr'12 | 4.40 | 3.19 | 4.71 |
| May 12 | 4.30 | 3.60 | 3.89 |
| Jun 12 | 4.11 | 4.11 | 4.10 |

*Source: CERC*

**Short-Term Markets - Volumes Scenario**




*Source: Industry*

**OTC contracts volumes**

| 30th July-26th Aug 2012 | Mus |
|---|---|
| Less than Rs4/unit | 1230 |
| More than Rs4/unit | 369 |

*Source: CERC*

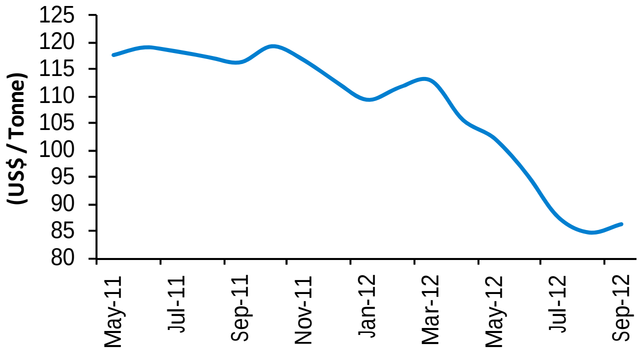
## Sector Insights

**Finally some relief for SEBs and in turn, the generators:** The CCEA approved the scheme for Discoms. The size of the bailout package is pegged at Rs1.9lakh cr. The scheme is effective as soon as notified and will remain open upto December 31, 2012 unless extended by the GOI. Support under the scheme will be available for all participating State-owned Discoms on fulfilling certain mandatory conditions as outlined in the scheme. Regular tariff hikes, subsidy from state finances if no tariff hike taken, grant from Central Government if loss reduced by 25% are some of the preemptive conditions for the scheme. This scheme will help the power generators and trading companies to recover their dues.

**Some tariff revisions and more in line:** Punjab State Power Corporation (PSPCL) has increased surcharge on fuel cost adjustment by 10 paise per unit as Punjab thermal power stations had recommended a hike of 23 paise as fuel cost adjustment surcharge in addition to already existing power tariff in the state. It's the second one in July; the commission had announced an average tariff hike of 12.08%. The Maharashtra Electricity Regulatory Commission (MERC) has hiked the power tariff in the state, barring Mumbai, by an average of 16.48%. The Kerala State Electricity Board (KSEB) also filed a petition before the Kerala State Electricity Regulatory Commission (KSERC) seeking a second tariff revision within a matter of two months. It is learnt that 22 State Governments have approached the electricity regulators in their respective states and a hike in tariff.

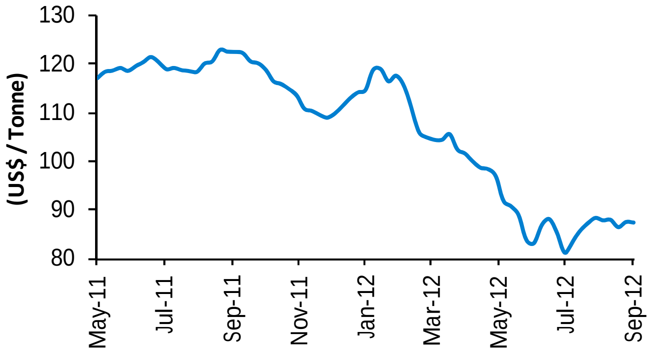
**Coal price pooling on back front:** After some resistance from some majors of power generating companies and lack of concrete planning on pricing and logistics price pooling has taken a back seat and implementation now is further deferred. FSA with the power generating companies were signed by CIL for up to 80% where the domestic content is pegged at 65%.

**McCloskey Coal price movement**




*Source: Bloomberg, PL Research*

**Indonesia Coal price movement**




*Source: Bloomberg, PL Research*

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| NTPC | 1.5 | 5.8 | 1.9 | 4.4 | (7.9) | (2.1) | (6.4) | (15.6) |
| Tata Power | 9.4 | (1.5) | 3.2 | 5.9 | 0.0 | (9.5) | (5.1) | (14.0) |
| NHPC | 14.5 | 4.9 | (1.5) | (12.6) | 5.1 | (3.0) | (9.8) | (32.5) |
| Reliance Infrastructure | 21.8 | (5.7) | (9.7) | 43.8 | 12.4 | (13.7) | (18.1) | 23.9 |
| SJVN | 1.8 | (2.0) | (2.5) | (7.6) | (7.6) | (10.0) | (10.8) | (27.5) |
| Lanco Infratech | 45.9 | (2.8) | (16.5) | 6.7 | 36.5 | (10.7) | (24.8) | (13.2) |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly (Rs m)**

| | | Q2FY13E | Q2FY12 | *YoY gr. (%)* | Q1FY13 | *QoQ gr. (%)* | H1FY13E | H1FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|---|---|
| **NTPC** | Sales | 158,412 | 153,775 | *3.0* | 159,600 | *(0.7)* | 318,012 | 295,490 | *7.6* |
| | EBITDA | 31,961 | 32,387 | *(1.3)* | 36,306 | *(12.0)* | 68,267 | 61,050 | *11.8* |
| | *Margins (%)* | *20.2* | *21.1* | | *22.7* | | *21.5* | *20.7* | |
| | PAT | 19,950 | 16,640 | *19.9* | 24,987 | *(20.2)* | 44,937 | 37,950 | *18.4* |
| **Tata Power** | Sales | 74,412 | 62,823 | *18.4* | 72,539 | *2.6* | 146,951 | 121,068 | *21.4* |
| | EBITDA | 16,289 | 13,848 | *17.6* | 14,129 | *15.3* | 30,418 | 28,081 | *8.3* |
| | *Margins (%)* | *21.9* | *22.0* | | *19.5* | | *20.7* | *23.2* | |
| | PAT | 2,356 | 4,064 | *(42.0)* | 2,801 | *(15.9)* | 5,157 | 8,369 | *(38.4)* |
| **NHPC** | Sales | 18,412 | 19,815 | *(7.1)* | 14,218 | *29.5* | 32,630 | 35,421 | *(7.9)* |
| | EBITDA | 11,871 | 14,513 | *(18.2)* | 9,040 | *31.3* | 20,911 | 24,896 | *(16.0)* |
| | *Margins (%)* | *64.5* | *73.2* | | *63.6* | | *64.1* | *70.3* | |
| | PAT | 8,612 | 7,291 | *18.1* | 6,699 | *28.6* | 15,311 | 13,360 | *14.6* |
| **Reliance Infrastructure** | Sales | 50,487 | 55,487 | *(9.0)* | 53,411 | *(5.5)* | 103,898 | 107,398 | *(3.3)* |
| | EBITDA | 5,729 | 5,221 | *9.7* | 6,298 | *(9.0)* | 12,027 | 13,131 | *(8.4)* |
| | *Margins (%)* | *11.3* | *9.4* | | *11.8* | | *11.6* | *12.2* | |
| | PAT | 3,041 | 3,616 | *(15.9)* | 4,120 | *(26.2)* | 7,161 | 6,580 | *8.8* |
| **SJVN** | Sales | 5,843 | 6,220 | *(6.1)* | 5,043 | *15.9* | 10,886 | 11,756 | *(7.4)* |
| | EBITDA | 5,383 | 5,793 | *(7.1)* | 4,537 | *18.6* | 9,920 | 10,859 | *(8.6)* |
| | *Margins (%)* | *92.1* | *93.1* | | *90.0* | | *91.1* | *92.4* | |
| | PAT | 3,704 | 4,095 | *(9.6)* | 3,153 | *17.5* | 6,857 | 7,577 | *(9.5)* |
| **Lanco Infratech** | Sales | 33,515 | 18,966 | *76.7* | 34,958 | *(4.1)* | 68,473 | 37,638 | *81.9* |
| | EBITDA | 4,774 | 4,509 | *5.9* | 5,857 | *(18.5)* | 10,631 | 8,594 | *23.7* |
| | *Margins (%)* | *14.2* | *23.8* | | *16.8* | | *15.5* | *22.8* | |
| | PAT | (3,580) | (2,591) | *38.2* | (2,102) | *70.3* | (5,682) | (3,167) | *79.4* |
| **PTC India** | Sales | 25,485 | 23,890 | *6.7* | 19,869 | *28.3* | 45,354 | 48,765 | *(7.0)* |
| | EBITDA | 382 | 444 | *(13.9)* | 313 | *22.1* | 695 | 920 | *(24.5)* |
| | *Margins (%)* | *1.5* | *1.9* | | *1.6* | | *1.5* | *1.9* | |
| | PAT | 271 | 260 | *4.3* | 222 | *21.8* | 493 | 557 | *(11.5)* |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 1,361,726 | 1,512,949 | 1,693,220 |
| *Growth (%)* | *20.7* | *11.1* | *11.9* |
| EBITDA | 258,948 | 311,856 | 399,685 |
| *Margin (%)* | *19.0* | *20.6* | *23.6* |
| PAT | 119,373 | 147,405 | 171,888 |
| *Growth (%)* | *(25.3)* | *23.5* | *16.6* |
| PE (x) | 18.3 | 14.8 | 12.7 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | *QoQ gr. (%)* |
|---|---|---|---|---|---|
| Net Sales | 366,566 | 340,977 | *7.5* | 359,638 | *1.9* |
| EBITDA | 76,389 | 76,715 | *(0.4)* | 76,480 | *(0.1)* |
| *Margin (%)* | *20.8* | *22.5* | *(166)bps* | *21.3* | *(43)bps* |
| PAT (Excl. Ex Items) | 34,355 | 33,376 | *2.9* | 39,879 | *(13.9)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## NTPC

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs171 |
| Target Price | Rs176 |
| Market Cap. (Rs bn) | 1,410.4 |
| Shares o/s (m) | 8,245.5 |

NTPC has commissioned 660MWs in Q2FY13E which is Sipat Unit 3. The company has taken US$500m Fixed Rate Senior Unsecured Notes under its US$2bn MTN programme. The notes carry a coupon of 4.75% p.a. payable semi-annually and are of a 10-year tenor. The generation in Q2FY13E is expected to be lower as seasonally it's a weak quarter.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 611,963 | 662,980 | 747,123 |
| EBITDA | 131,938 | 144,739 | 190,044 |
| *Margin (%)* | *21.6* | *21.8* | *25.4* |
| PAT | 82,608 | 94,125 | 110,056 |
| EPS (Rs) | 10.0 | 11.4 | 13.3 |
| *RoE (%)* | *11.7* | *12.3* | *13.2* |
| PE (x) | 17.1 | 15.0 | 12.8 |
| P / BV (x) | 1.9 | 1.8 | 1.6 |
| EV / E (x) | 13.1 | 12.9 | 10.4 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 158,412 | 153,775 | *3.0* | 159,600 | 318,012 | 295,490 | *7.6* |
| EBITDA | 31,961 | 32,387 | *(1.3)* | 36,306 | 68,267 | 61,050 | *11.8* |
| *Margin (%)* | *20.2* | *21.1* | *(89)bps* | *22.7* | *21.5* | *20.7* | *81 bps* |
| Reported PAT | 19,950 | 24,240 | *(17.7)* | 24,987 | 44,937 | 44,998 | *(0.1)* |
| PAT (Excl. Ex Items) | 19,950 | 16,640 | *19.9* | 24,987 | 44,937 | 37,950 | *18.4* |
| **Operating Metrics** | | | | | | | |
| Operating capacity (MWs) | 30,855 | 27,548 | *12.0* | 28,695 | 30,855 | 27,548 | *12.0* |
| *Avg. Coal PLF (%)* | *86.0* | *86.0* | *0 bps* | *86.4* | *86.2* | *86.0* | *20 bps* |
| Generation (Bus) | 57 | 51 | *12.6* | 59 | 116 | 105 | *10.4* |

## Tata Power

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs104 |
| Target Price | Rs110 |
| Market Cap. (Rs bn) | 246.8 |
| Shares o/s (m) | 2,373.3 |

Coal realisations have cooled off by 4-9% QoQ on an overall basis which will also reflect in the company's realisations. Coal volumes are expected to be down by 2.9% YoY at 16.5mt, flat QoQ. The AG has recommended a tariff hike for plants facing an unexpected rise in prices. Unit 2 of the UMPP has achieved COD, which will aid the overall revenues.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 260,014 | 309,818 | 349,880 |
| EBITDA | 53,253 | 60,556 | 72,315 |
| *Margin (%)* | *20.5* | *19.5* | *20.7* |
| PAT | 11,007 | 10,865 | 10,471 |
| EPS (Rs) | 4.6 | 4.6 | 4.4 |
| *RoE (%)* | *8.2* | *7.9* | *7.5* |
| PE (x) | 22.4 | 22.7 | 23.6 |
| P / BV (x) | 1.8 | 1.8 | 1.8 |
| EV / E (x) | 10.1 | 9.7 | 8.9 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 74,412 | 62,823 | 18.4 | 72,539 | 146,951 | 121,068 | 21.4 |
| EBITDA | 16,289 | 13,848 | 17.6 | 14,129 | 30,418 | 28,081 | 8.3 |
| *Margin (%)* | *21.9* | *22.0* | *(15)bps* | *19.5* | *20.7* | *23.2* | *(250)bps* |
| Reported PAT | 2,356 | (11,875) | (119.8) | 1,459 | 3,815 | (7,570) | (150.4) |
| PAT (Excl. Ex Items) | 2,356 | 4,064 | (42.0) | 2,801 | 5,157 | 8,369 | (38.4) |
| **Operating Metrics** | | | | | | | |
| Units Sold Mus | 4,121 | 3,793 | 8.6 | 4,227 | 8,348 | 7,725 | 8.1 |
| Units Generated Mus | 4,111 | 3,772 | 9.0 | 4,259 | 8,370 | 7,661 | 9.3 |
| Avg Realisation Rs/pu | 4.9 | 4.2 | 16.7 | 4.8 | 4.9 | 4.4 | 10.2 |
| Coal Sales (MTPA) | 16.5 | 17.0 | (2.9) | 16.3 | 33 | 32 | 1.9 |

## NHPC

| Rating | Accumulate |
|---|---|
| Price | Rs20 |
| Target Price | Rs21 |
| Market Cap. (Rs bn) | 247.9 |
| Shares o/s (m) | 12,300.7 |

We are expecting sales of 7.4bn units, 4.2% growth YoY in Q2FY13E. NHPC has declared commercial operation for Unit 2 & 3 aggregating to 154 MW of Chamera Hydro Electric Project (stage III) on June 30, 2012.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 56,547 | 56,222 | 60,333 |
| EBITDA | 36,806 | 39,460 | 41,750 |
| *Margin (%)* | *65.1* | *70.2* | *69.2* |
| PAT | 21,381 | 21,998 | 23,945 |
| EPS (Rs) | 1.7 | 1.8 | 1.9 |
| *RoE (%)* | *8.4* | *8.1* | *8.3* |
| PE (x) | 11.6 | 11.3 | 10.4 |
| P / BV (x) | 0.9 | 0.9 | 0.8 |
| EV / E (x) | 10.1 | 9.6 | 9.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 18,412 | 19,815 | *(7.1)* | 14,218 | 32,630 | 35,421 | *(7.9)* |
| EBITDA | 11,871 | 14,513 | *(18.2)* | 9,040 | 20,911 | 24,896 | *(16.0)* |
| *Margin (%)* | *64.5* | *73.2* | *(877)bps* | *63.6* | *64.1* | *70.3* | *(620)bps* |
| Reported PAT | 8,612 | 9,665 | *(10.9)* | 6,699 | 15,311 | 17,495 | *(12.5)* |
| PAT (Excl. Ex Items) | 8,612 | 7,291 | *18.1* | 6,699 | 15,311 | 13,360 | *14.6* |
| **Operating Metrics** | | | | | | | |
| Generation Mus | 7,437 | 7,088 | *4.9* | 6,148 | 13,585 | 13,372 | *1.6* |

## Reliance Infrastructure

| Rating | Accumulate |
|---|---|
| Price | Rs542 |
| Target Price | Rs602 |
| Market Cap. (Rs bn) | 142.5 |
| Shares o/s (m) | 263.0 |

RInfra's Delhi Metro was commerially shut for maintenance purpose which will impact the revenues from that segment; however, that will be mitigated by CODs of Gurgaon-Sohna BOT and Solapur-Kolhapur transmission line. The company also started the production of cement at Butibori under the brand name of 'Reliance Cement'. We expect EPC revenues to fall 12.2% YoY.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 236,407 | 238,877 | 242,581 |
| EBITDA | 985 | 20,849 | 33,791 |
| *Margin (%)* | *0.4* | *8.7* | *13.9* |
| PAT | (6,070) | 11,024 | 11,185 |
| EPS (Rs) | (23.1) | 41.9 | 42.5 |
| *RoE (%)* | *(2.5)* | *4.4* | *4.2* |
| PE (x) | NA | 12.9 | 12.7 |
| P / BV (x) | 0.6 | 0.5 | 0.5 |
| EV / E (x) | NA | 20.2 | 13.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 50,487 | 55,487 | *(9.0)* | 53,411 | 103,898 | 107,398 | *(3.3)* |
| EBITDA | 5,729 | 5,221 | *9.7* | 6,298 | 12,027 | 13,131 | *(8.4)* |
| *Margin (%)* | *11.3* | *9.4* | *194 bps* | *11.8* | *11.6* | *12.2* | *(65)bps* |
| Reported PAT | 3,041 | 3,616 | *(15.9)* | 4,120 | 7,161 | 7,680 | *(6.8)* |
| PAT (Excl. Ex Items) | 3,041 | 3,616 | *(15.9)* | 4,120 | 7,161 | 6,580 | *8.8* |
| **Operating Metrics** | | | | | | | |
| Electricity | 31,302 | 34,393 | *(9.0)* | 33,115 | 64,417 | 67,648 | *(4.8)* |
| EPC | 17,670 | 22,123 | *(20.1)* | 18,694 | 36,364 | 39,664 | *(8.3)* |
| Debt (Rs bn) | 240 | 149 | *61.1* | 240 | 240 | 149 | *61.1* |

## SJVN

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs19 |
| Target Price | Rs22 |
| Market Cap. (Rs bn) | 80.5 |
| Shares o/s (m) | 4,136.6 |

SJVN`s Nathpa Jhakri Hydro Power Station (NJHPS) plant had to be shut down in August 2012 as Karcham Wangtoo stopped the units which would have impending damages from operating if SJVN would still continue to operate. An inquiry is being carried out on this matter. We estimate generation of 3.2bn units which is flat on a YoY basis.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 19,098 | 20,290 | 23,735 |
| EBITDA | 16,613 | 18,002 | 20,988 |
| *Margin (%)* | *87.0* | *88.7* | *88.4* |
| PAT | 10,814 | 11,051 | 12,882 |
| EPS (Rs) | 2.6 | 2.7 | 3.1 |
| *RoE (%)* | *14.4* | *13.6* | *14.6* |
| PE (x) | 7.4 | 7.3 | 6.2 |
| P / BV (x) | 1.0 | 0.9 | 0.9 |
| EV / E (x) | 4.6 | 4.1 | 3.7 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 5,843 | 6,220 | *(6.1)* | 5,043 | 10,886 | 11,756 | *(7.4)* |
| EBITDA | 5,383 | 5,793 | *(7.1)* | 4,537 | 9,920 | 10,859 | *(8.6)* |
| *Margin (%)* | *92.1* | *93.1* | *(100)bps* | *90.0* | *91.1* | *92.4* | *(124)bps* |
| Reported PAT | 3,704 | 4,095 | *(9.6)* | 3,153 | 6,857 | 7,577 | *(9.5)* |
| PAT (Excl. Ex Items) | 3,704 | 4,095 | *(9.6)* | 3,153 | 6,857 | 7,577 | *(9.5)* |

## Lanco Infratech

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs16 |
| Target Price | Rs13 |
| Market Cap. (Rs bn) | 38.0 |
| Shares o/s (m) | 2,389.7 |

Lanco has been granted an interim tariff hike in Udupi (600MWs) plant where the revised rate will be Rs 4.2/unit. MP has also lifted the ban on the company pertaining to the Amarkantak plant and has, in principal, agreed to give a tariff hike. Thus, a slack in EPC revenues will be compensated by the power revenues.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 101,194 | 136,802 | 172,498 |
| EBITDA | 17,899 | 26,929 | 39,158 |
| *Margin (%)* | *17.7* | *19.7* | *22.7* |
| PAT | (1,120) | (2,567) | 2,168 |
| EPS (Rs) | (0.5) | (1.1) | 0.9 |
| *RoE (%)* | *(2.4)* | *(5.5)* | *4.4* |
| PE (x) | NA | NA | 17.5 |
| P / BV (x) | 0.8 | 0.8 | 0.8 |
| EV / E (x) | 18.6 | 12.4 | 9.3 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 33,515 | 18,966 | *76.7* | 34,958 | 68,473 | 37,638 | *81.9* |
| EBITDA | 4,774 | 4,509 | *5.9* | 5,857 | 10,631 | 8,594 | *23.7* |
| *Margin (%)* | *14.2* | *23.8* | *(953)bps* | *16.8* | *15.5* | *22.8* | *(731)bps* |
| Reported PAT | (3,580) | (2,591) | *38.2* | (4,412) | (7,992) | (2,459) | *225.0* |
| PAT (Excl. Ex Items) | (3,580) | (2,591) | *38.2* | (2,102) | (5,682) | (3,167) | *79.4* |
| **Operating Metrics** | | | | | | | |
| Project Dev. | 12,412 | 21,847 | *(43.2)* | 16,782 | 29,194 | 39,145 | *(25.4)* |
| Sale of Energy | 19,412 | 9,947 | *95.2* | 21,305 | 40,717 | 20,717 | *96.5* |
| Debt (Rs bn) | 240 | 189 | *27.0* | 331 | 240 | 189 | *27.0* |

## PTC India

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs70 |
| Target Price | Rs74 |
| Market Cap. (Rs bn) | 20.7 |
| Shares o/s (m) | 295.0 |

We expect PTC to report 13% de-growth in unit sales at 7.5bn units and the realizations are expected to be Rs3.5/unit. Trading margins are expected to be around 3paise/unit. As the SEBs across states have taken a hike, the dues of Rs9bn outstanding to them are expected to get cleared gradually.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 76,503 | 87,961 | 97,071 |
| EBITDA | 1,454 | 1,320 | 1,640 |
| *Margin (%)* | *1.9* | *1.5* | *1.7* |
| PAT | 753 | 910 | 1,180 |
| EPS (Rs) | 2.6 | 3.1 | 4.0 |
| *RoE (%)* | *3.4* | *4.0* | *5.2* |
| PE (x) | 27.5 | 22.8 | 17.5 |
| P / BV (x) | 0.9 | 0.9 | 0.9 |
| EV / E (x) | 15.4 | 15.1 | 12.0 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 25,485 | 23,890 | *6.7* | 19,869 | 45,354 | 48,765 | *(7.0)* |
| EBITDA | 382 | 444 | *(13.9)* | 313 | 695 | 920 | *(24.5)* |
| *Margin (%)* | *1.5* | *1.9* | *(36)bps* | *1.6* | *1.5* | *1.9* | *(35)bps* |
| Reported PAT | 271 | 356 | *(23.8)* | 252 | 523 | 808 | *(35.3)* |
| PAT (Excl. Ex Items) | 271 | 260 | *4.3* | 222 | 493 | 557 | *(11.5)* |
| **Operating Metrics** | | | | | | | |
| Trading Vol. (M units) | 8,495 | 8,655 | *(1.8)* | 6,495 | 14,990 | 15,381 | *(2.5)* |

Kejal Mehta
kejalmehta@plindia.com
+91-22-6632 2246

Pratik Shah
pratikshah@plindia.com
+91-22-6632 2256

# Real Estate

On the back of RBI's anti-inflammatory stance, the overall situation in the Real Estate sector remains status quo. Post the 50bps rate cut in the previous quarter, the rates have remained stable, excluding a 25bps cut in CRR, which is an attempt to infuse liquidity.

The weak macro-economic scenario, coupled with pre-festive slackness, has a significant bearing on the Real estate demand. The lower growth affects both the residential and the commercial real estate market demand which has resulted in lower absorption, coupled with the absence of any significant launches, barring cities like Bengaluru, where the action has been quite significant.

The positive action for the quarter was the completion of DLF's Mumbai land transaction. Lodha Developers bought DLF's Lower Parel land parcel for a consideration of Rs27bn. DLF has been trying to close this transaction for a while now and the completion of the same is a significant positive for DLF, given its huge debt burden.

The recent reforms announced by the government as a part of its fiscal consolidation program, though unlikely to have an immediate positive impact, are quite critical for an initial boost to the economy. This, however, needs to be followed up by several other policy actions across spheres. The opening up of FDI in multi-brand retail could provide impetus to commercial leasing over a slightly long-term period as investments start to roll.

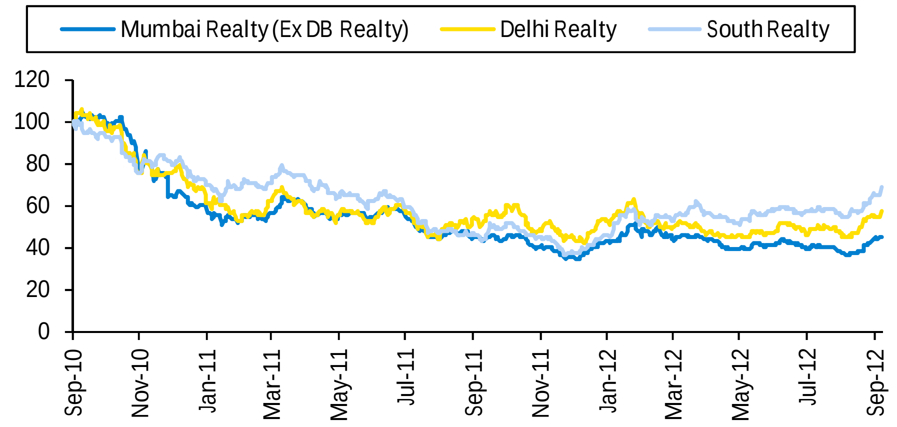
The depreciation of the rupee keeps the NRI demand window open for the sector as real estate investments in dollar terms gets attractive.

BSE Realty Index has returned 8.2% for the July-September period and 11.3% for the July-October period, while the SENSEX has returned 7.8% and 8.4% for the same periods, respectively.

## Top picks

Sobha Developers

**Relative Regional Stock performance**




*Source: Bloomberg, PL Research*

## Residential

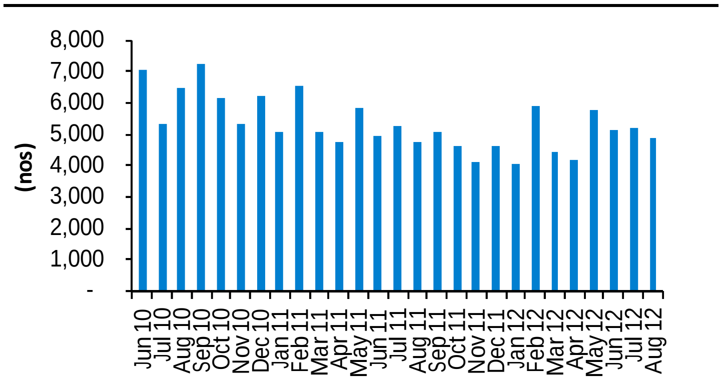
With the exception of Bengaluru, where a strong increase in sales volumes has resulted in declining inventory, NCR and Mumbai continue to suffer from high inventory and weak volumes.

Post the strength witnessed in Mumbai registeration numbers in the March-May period, June-August has witnessed a declining trend, with a 13% fall in registration numbers in August as compared to May levels. The lack of new launches, sticky prices, coupled with high interest rates, is of no help to home sales. The stressed affordability equation continues amid high property prices. The ray of sunshine in this bleak situation is the onset of the festive season which could see a bit of cheer for residential sales.

An interesting trend is the recent drop in rentals in the high-end segment in Mumbai, indicating a large pool of investor units available for rent not finding the requisite tenants. The existence of low rentals and high prices may be a reflection of the fact that Mumbai investors are not sensitive to rental yield of properties.

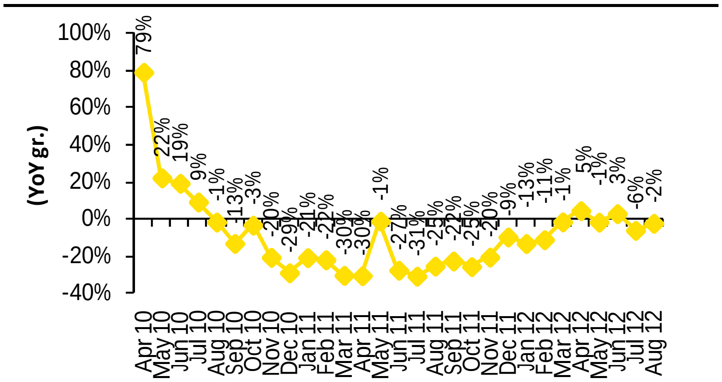
*(Note: Registrations data includes Residential and Commercial properties)*

**Registration of Sale Deed agreements in Mumbai**



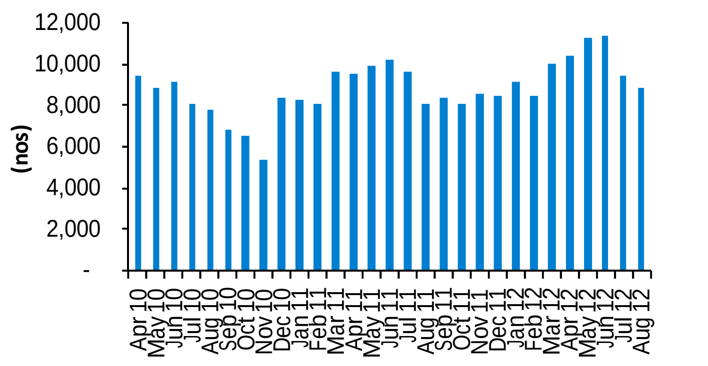

*Source: DGR Mumbai, PL Research*

**YoY% growth in Sale Deed registrations**



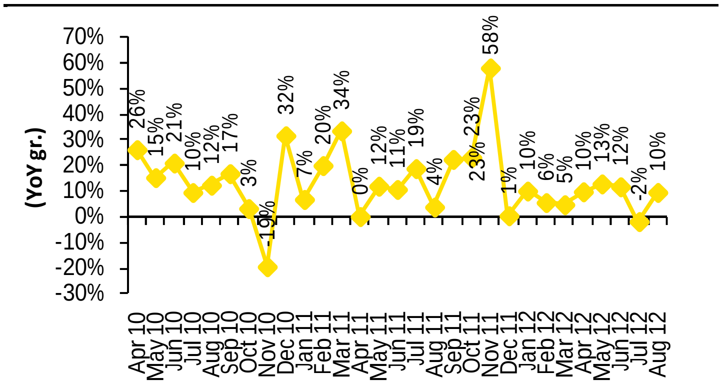

*Source: DGR Mumbai, PL Research*

**Registration of Lease Agreements in Mumbai**



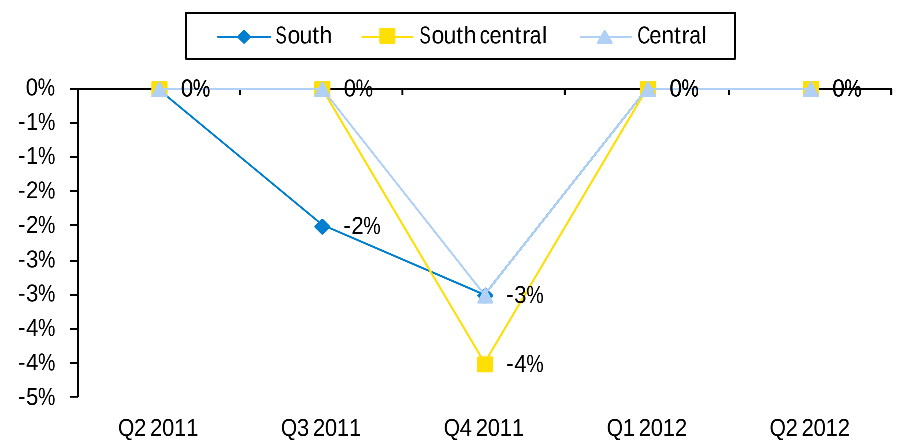

*Source: DGR Mumbai, PL Research*

**YoY% growth in Lease Agreement registrations**



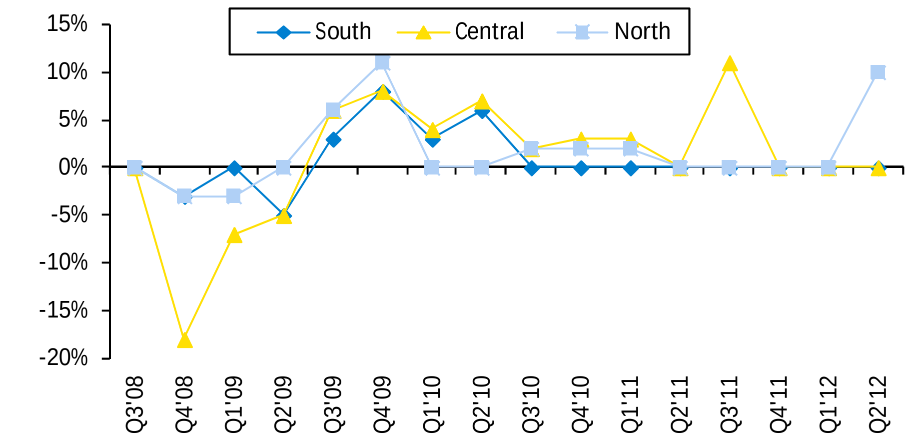

*Source: DGR Mumbai, PL Research*

**Mumbai high-end segment rentals on a declining trend**



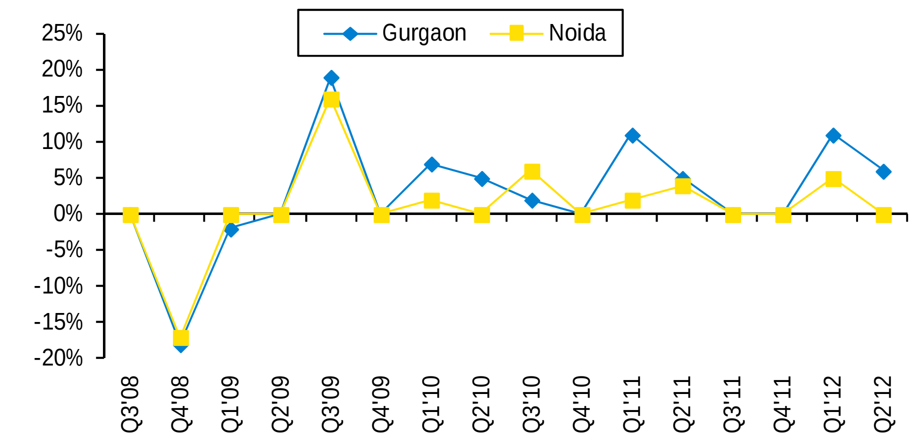

*Source: PL Research*

**QoQ (%) change in Mumbai mid-segment prices**



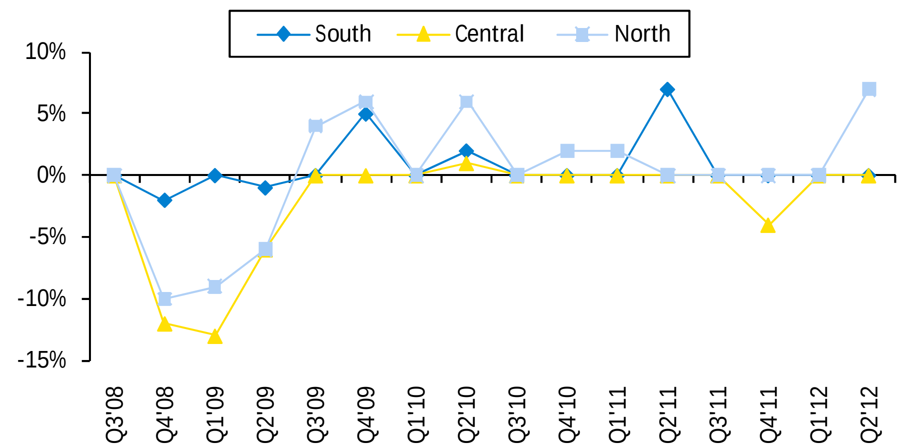

*Source: Cushman & Wakefield*

**QoQ (%) change in Gurgaon and Noida mid-segment prices**



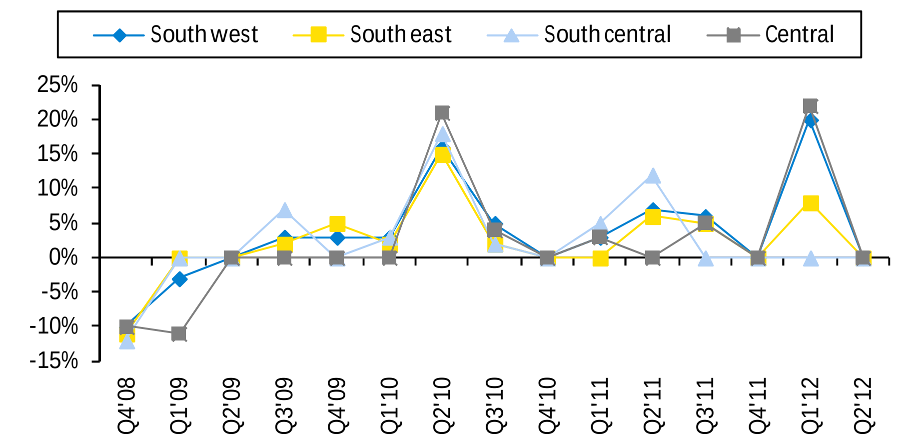

*Source: Cushman & Wakefield*

**QoQ (%) change in Mumbai high-end prices**



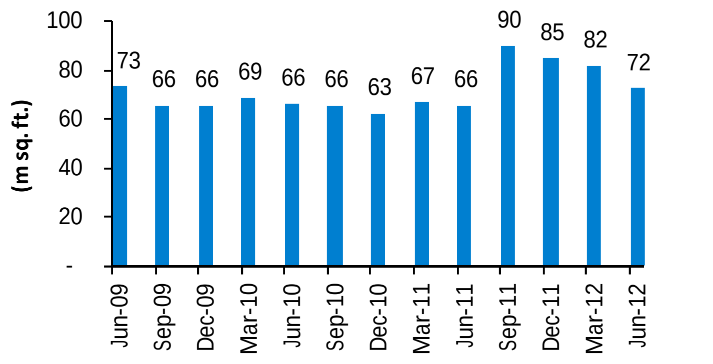

*Source: Cushman & Wakefield*

**QoQ (%) change in NCR high-end prices**



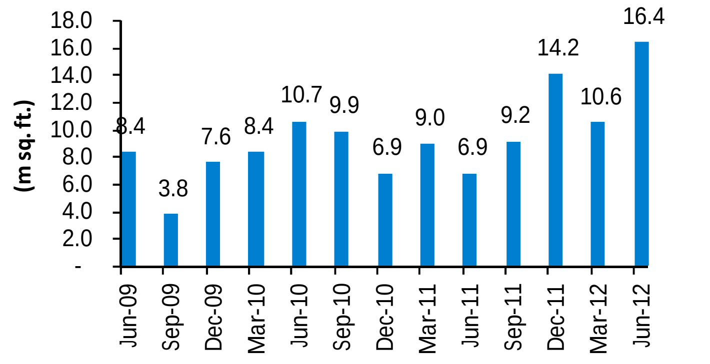

*Source: Cushman & Wakefield*

**Bengaluru Inventory declines QoQ**



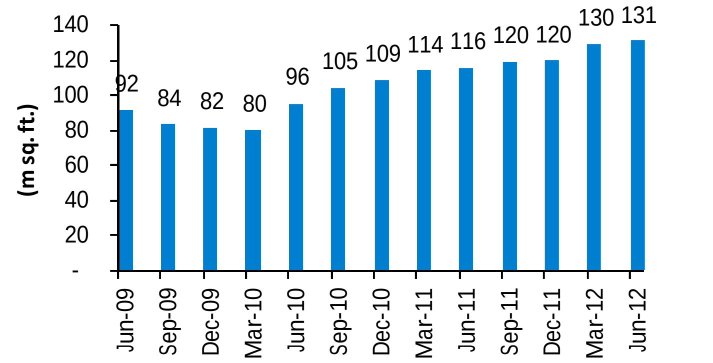

*Source: Liases Foras, PL Research*

**Bengaluru sales spike QoQ**



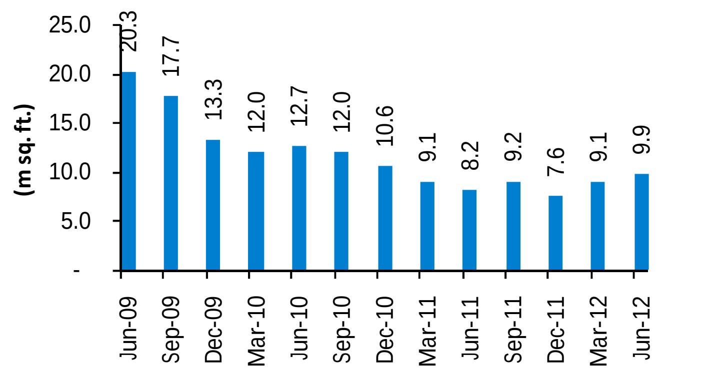

*Source: Liases Foras, PL Research*

**Mumbai inventory continues to inch up**



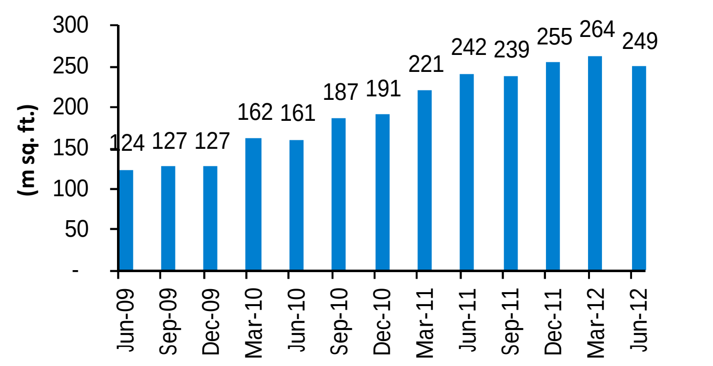

*Source: Liases Foras, PL Research*

**Mumbai sales volumes recover slightly from dismal levels**



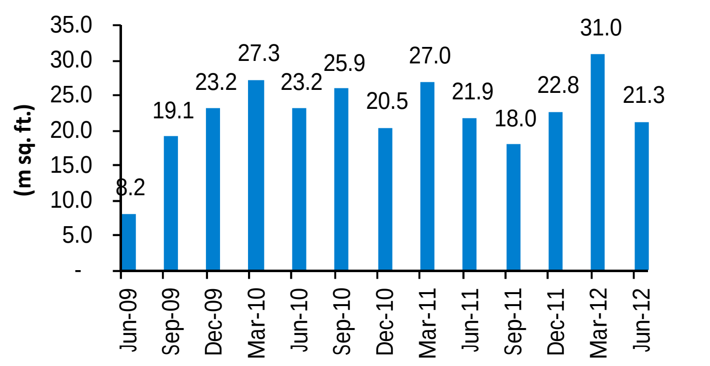

*Source: Liases Foras, PL Research*

**Delhi inventory decline slightly QoQ**




*Source: Liases Foras, PL Research*

**Delhi sales sharply decline**




*Source: Liases Foras, PL Research*

## Commercial

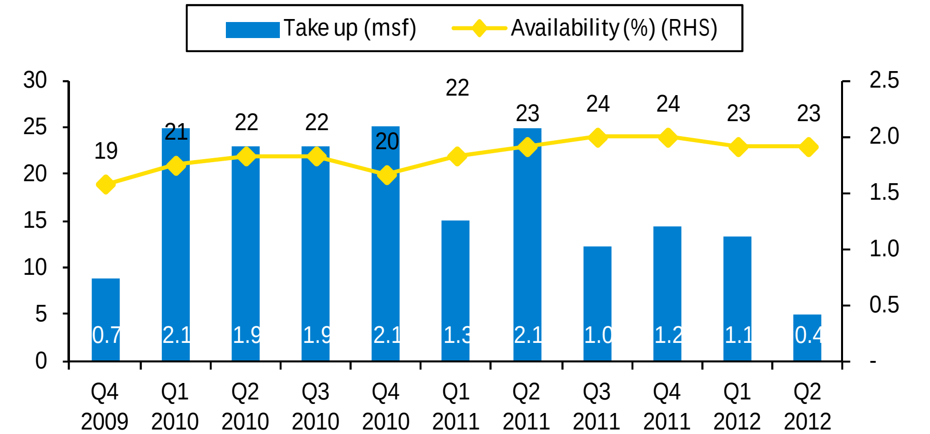
Weakness in the commercial market continued, with Bengaluru too participating in the decline. NCR witnessed a bit of a breather this quarter; however, vacancy levels remain dismal for the region. Overall, though enquires for the commercial real estate has been strong, deal completion has not been taking place, given the uncertain macro-economic scenario.

Mumbai commercial markets plummented from a take-up of 1.1m sq.ft in Q1 declining to 0.4m sq.ft in Q2. High vacancy levels (~23%) continue to be the painpoint for the commercial market in Mumbai.

Post a very strong run-up in the volumes, the volumes in Bengaluru have halved to 1.8m sq.ft in Q2 as against the previous quarter. Vacancy levels, however, declined by 100bps to comfortable levels of 14%.

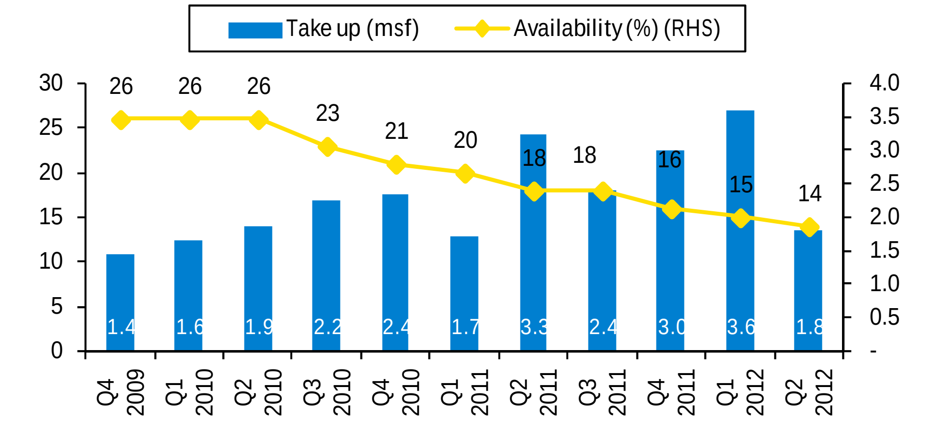
The surprise for the quarter came from the NCR where volumes increased sharply from 0.9m sq.ft in Q1 to 1.7m sq.ft, with vacancy levels also declining by 120bps to 30%.

**Mumbai Rental Demand (msf) and Availability (%)**



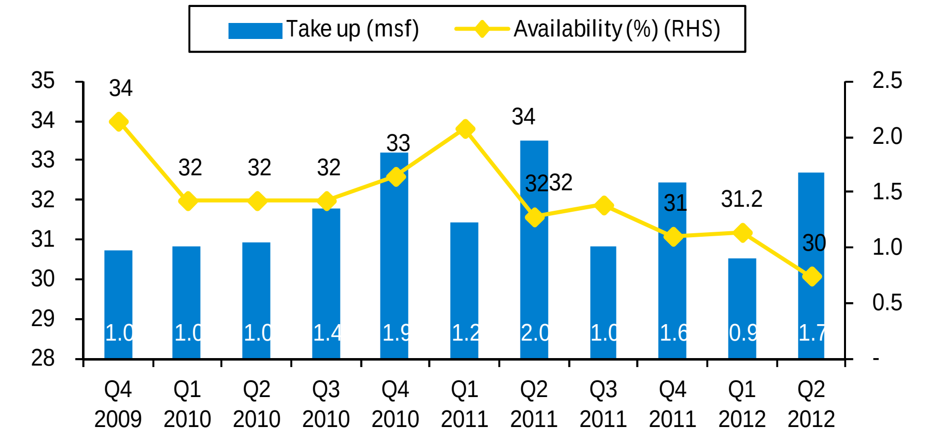

*Source: DTZ, PL Research*

**Bengaluru Rental Demand (msf) and Availability (%)**




*Source: DTZ, PL Research*

**NCR Rental Demand (msf) and Availability (%)**




*Source: DTZ, PL Research*

**Stock Performance**

| | Absolute | | | | Relative to Sensex | | | |
|---|---|---|---|---|---|---|---|---|
| | 1M | 3M | 6M | 12M | 1M | 3M | 6M | 12M |
| DLF | 25.3 | 12.6 | 18.3 | 17.2 | 15.9 | 4.6 | 10.0 | (2.8) |
| Oberoi Realty | 18.3 | 10.6 | (3.7) | 20.4 | 8.9 | 2.6 | (12.0) | 0.5 |
| Unitech | 38.1 | 5.4 | (12.3) | 1.6 | 28.7 | (2.6) | (20.7) | (18.3) |
| Prestige Estates Projects | 26.1 | 18.6 | 33.9 | 65.3 | 16.7 | 10.6 | 25.6 | 45.4 |
| Housing Development & Infrastructure | 55.0 | 19.2 | 24.8 | 19.7 | 45.6 | 11.2 | 16.5 | (0.2) |
| Sobha Developers | 16.1 | 13.8 | 23.2 | 91.0 | 6.7 | 5.9 | 14.9 | 71.1 |
| Anant Raj Industries | 85.9 | 49.3 | 35.5 | 46.0 | 76.5 | 41.4 | 27.2 | 26.0 |
| Peninsula Land | 48.1 | 32.7 | 49.9 | 22.4 | 38.7 | 24.7 | 41.5 | 2.5 |

*Source: Bloomberg, PL Research*

**Summary Financials - Quarterly**

| | | Q2FY13E | Q2FY12 | YoY gr. (%) | Q1FY13 | QoQ gr. (%) | H1FY13E | H1FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|---|---|
| **DLF** | Sales | 23,280 | 25,324 | (8.1) | 21,977 | 5.9 | 45,257 | 49,782 | (9.1) |
| | EBITDA | 10,709 | 11,730 | (8.7) | 10,670 | 0.4 | 21,379 | 22,840 | (6.4) |
| | *Margins (%)* | *46.0* | *46.3* | | *48.6* | | *47.2* | *45.9* | |
| | PAT | 2,467 | 3,682 | (33.0) | 2,943 | (16.2) | 5,410 | 7,297 | (25.9) |
| **Oberoi Realty** | Sales | 2,050 | 2,226 | (7.9) | 1,999 | 2.6 | 4,049 | 3,832 | 5.7 |
| | EBITDA | 1,179 | 1,155 | 2.0 | 1,139 | 3.5 | 2,318 | 2,056 | 12.8 |
| | *Margins (%)* | *57.5* | *51.9* | | *57.0* | | *57.2* | *53.6* | |
| | PAT | 1,016 | 1,114 | (8.8) | 1,008 | 0.8 | 2,024 | 2,172 | (6.8) |
| **Unitech** | Sales | 3,670 | 6,261 | (41.4) | 4,077 | (10.0) | 7,747 | 12,219 | (36.6) |
| | EBITDA | 484 | 1,381 | (64.9) | 547 | (11.5) | 1,032 | 2,579 | (60.0) |
| | *Margins (%)* | *13.2* | *22.1* | | *13.4* | | *13.3* | *21.1* | |
| | PAT | 405 | 925 | (56.2) | 459 | (11.9) | 864 | 1,908 | (54.7) |
| **Prestige Estates Projects** | Sales | 2,250 | 1,281 | 75.7 | 2,192 | 2.7 | 4,442 | 3,765 | 18.0 |
| | EBITDA | 731 | 493 | 48.5 | 704 | 3.9 | 1,435 | 1,182 | 21.4 |
| | *Margins (%)* | *32.5* | *38.4* | | *32.1* | | *32.3* | *31.4* | |
| | PAT | 428 | 263 | 63.0 | 493 | (13.1) | 921 | 627 | 46.9 |
| **HDIL** | Sales | 2,195 | 4,407 | (50.2) | 2,012 | 9.1 | 4,207 | 9,525 | (55.8) |
| | EBITDA | 1,515 | 2,321 | (34.7) | 1,577 | (4.0) | 3,092 | 5,257 | (41.2) |
| | *Margins (%)* | *69.0* | *52.7* | | *78.4* | | *73.5* | *55.2* | |
| | PAT | 958 | 1,486 | (35.5) | 1,054 | (9.1) | 2,012 | 3,380 | (40.5) |
| **Sobha Developers** | Sales | 4,345 | 3,294 | 31.9 | 4,247 | 2.3 | 8,592 | 6,326 | 35.8 |
| | EBITDA | 1,151 | 755 | 52.5 | 1,132 | 1.7 | 2,283 | 1,436 | 59.0 |
| | *Margins (%)* | *26.5* | *22.9* | | *26.7* | | *26.6* | *22.7* | |
| | PAT | 456 | 409 | 11.6 | 460 | (0.8) | 916 | 718 | 27.6 |
| **Anant Raj Industries** | Sales | 958 | 883 | 8.5 | 915 | 4.7 | 1,873 | 1,710 | 9.5 |
| | EBITDA | 483 | 515 | (6.3) | 470 | 2.8 | 953 | 1,007 | (5.4) |
| | *Margins (%)* | *50.4* | *58.4* | | *51.4* | | *50.9* | *58.9* | |
| | PAT | 342 | 346 | (1.1) | 333 | 2.8 | 676 | 693 | (2.5) |
| **Peninsula Land** | Sales | 1,450 | 496 | 192.5 | 1,334 | 8.7 | 2,784 | 1,555 | 79.1 |
| | EBITDA | 518 | 153 | 238.6 | 465 | 11.4 | 983 | 691 | 42.3 |
| | *Margins (%)* | *35.7* | *30.9* | | *34.9* | | *35.3* | *44.5* | |
| | PAT | 452 | 137 | 230.7 | 419 | 7.8 | 871 | 636 | 37.0 |

*Source: Company Data, PL Research*

## Consolidated Sectoral Data

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 182,110 | 205,551 | 251,788 |
| *Growth (%)* | *(6.8)* | *12.9* | *22.5* |
| EBITDA | 68,568 | 79,100 | 96,538 |
| *Margin (%)* | *37.7* | *38.5* | *38.3* |
| PAT | 33,135 | 37,818 | 48,837 |
| *Growth (%)* | *(20.5)* | *14.1* | *29.1* |
| PE (x) | 22.2 | 19.4 | 15.0 |

**Quarterly Table *(Rs m)***

| | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | QoQ gr. (%) |
|---|---|---|---|---|---|
| Net Sales | 40,198 | 44,172 | *(9.0)* | 38,753 | *3.7* |
| EBITDA | 16,770 | 18,503 | *(9.4)* | 16,704 | *0.4* |
| *Margin (%)* | 41.7 | 41.9 | *(17)bps* | 43.1 | *(139)bps* |
| PAT (Excl. Ex Items) | 6,525 | 8,362 | *(22.0)* | 7,169 | *(9.0)* |

*Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.*

## DLF

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs242 |
| Target Price | Rs206 |
| Market Cap. (Rs bn) | 410.6 |
| Shares o/s (m) | 1,697.6 |

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 96,294 | 102,183 | 113,408 |
| EBITDA | 39,043 | 41,180 | 45,250 |
| *Margin (%)* | 40.5 | 40.3 | 39.9 |
| PAT | 12,263 | 12,534 | 15,623 |
| EPS (Rs) | 7.2 | 7.4 | 9.2 |
| *RoE (%)* | 4.9 | 4.8 | 5.8 |
| PE (x) | 33.5 | 32.8 | 26.3 |
| P / BV (x) | 1.6 | 1.6 | 1.5 |
| Net Debt | 235,598 | 233,147 | 234,592 |
| DE (x) | 0.92 | 0.85 | 0.73 |

DLF launched a couple of small projects - one in Gurgaon and one in Bengaluru and has been releasing additional area at the previously launched projects like Lucknow and Mullanpur in Chandigarh. Sales, though expected to be slightly better than Q1, are still likely to be modest. Major launches are expected in H2FY13. The big event for DLF this quarter is the sale of its Mumbai land to Lodha Developers for a value of Rs27bn which is the first of its three large non-core asset sales lined up. It has received Rs5bn and the remaining will be received over the next couple of months. The fructification of this deal is positive as the company will be able to reduce its debt.

**Quarterly Table *(Rs m)***

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net Sales | 23,280 | 25,324 | *(8.1)* | 21,977 | 45,257 | 49,782 | *(9.1)* |
| EBITDA | 10,709 | 11,730 | *(8.7)* | 10,670 | 21,379 | 22,840 | *(6.4)* |
| *Margin (%)* | *46.0* | *46.3* | *(32)bps* | *48.6* | *47.2* | *45.9* | *136 bps* |
| Reported PAT | 2,467 | 3,724 | *(33.8)* | 2,943 | 5,410 | 7,339 | *(26.3)* |
| PAT (Excl. Ex Items) | 2,467 | 3,682 | *(33.0)* | 2,943 | 5,410 | 7,297 | *(25.9)* |
| **Operating Metrics** | | | | | | | |
| **Development Business** | | | | | | | |
| Sales (msf) | 1.6 | 1.3 | *25.0* | 1.3 | 2.9 | 3.5 | *(15.5)* |
| **Annuity Business** | | | | | | | |
| Leases (msf) | 0.3 | 0.2 | *42.9* | 0.3 | 0.6 | 0.9 | *(37.2)* |

## Oberoi Realty

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs270 |
| Target Price | Rs312 |
| Market Cap. (Rs bn) | 88.5 |
| Shares o/s (m) | 328.2 |

Q2FY13 has been a non-eventful quarter for the company in terms of new launches since the situation with all three projects in pipeline remains status quo. At the Worli Oasis project, though the progress in construction is significant, the formal launch is awaited. The talks between the company and the hotel operator has fallen apart and it is now looking at closing the deal with another player. With regards to the Mulund and Worli GSK project, the final clearances are moving at a slower-than-expected pace; hence, the launch is expected to take time.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 8,247 | 11,708 | 22,154 |
| EBITDA | 4,835 | 7,089 | 12,646 |
| *Margin (%)* | *58.6* | *60.5* | *57.1* |
| PAT | 4,633 | 5,944 | 10,175 |
| EPS (Rs) | 14.1 | 18.1 | 34.1 |
| *RoE (%)* | *13.2* | *15.0* | *22.0* |
| PE (x) | 19.1 | 14.9 | 7.9 |
| P / BV (x) | 2.4 | 2.1 | 1.6 |
| Net Debt | (12,934) | (11,433) | (8,362) |
| DE (x) | NA | NA | NA |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 2,050 | 2,226 | *(7.9)* | 1,999 | 4,049 | 3,832 | *5.7* |
| EBITDA | 1,179 | 1,155 | *2.0* | 1,139 | 2,318 | 2,056 | *12.8* |
| *Margin (%)* | *57.5* | *51.9* | *560 bps* | *57.0* | *57.2* | *53.6* | *360 bps* |
| Reported PAT | 1,016 | 1,114 | *(8.8)* | 1,008 | 2,024 | 2,177 | *(7.0)* |
| PAT (Excl. Ex Items) | 1,016 | 1,114 | *(8.8)* | 1,008 | 2,024 | 2,177 | *(7.0)* |
| **Operating Metrics** | | | | | | | |
| Sales Volume (msf) | 0.12 | 0.19 | *(35.5)* | 0.12 | 0.24 | 0.40 | *(38.5)* |
| Sales Value (Rs m) | 1,980 | 2,239 | *(11.6)* | 2,076 | 4,056 | 4,858 | *(16.5)* |
| Sales Realization (Rs/sf) | 16,500 | 12,037 | *37.1* | 16,761 | 33,261 | 24,486 | *35.8* |

## Unitech

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs26 |
| Target Price | Rs22 |
| Market Cap. (Rs bn) | 66.8 |
| Shares o/s (m) | 2,616.3 |

Another dull quarter, dampened further by 'Ground Water' issues in Gurgaon, has led to a slowdown in the pace of construction. The company has restricted new launches; however, has been releasing additional area at the existing projects. The company's focus has been to increase pace of construction and has, therefore, been raising additional debt for the same. Sales for the quarter are likely to be subdued.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 24,466 | 25,722 | 28,958 |
| EBITDA | 4,019 | 6,521 | 7,768 |
| *Margin (%)* | *16.4* | *25.4* | *26.8* |
| PAT | 2,484 | 3,798 | 4,386 |
| EPS (Rs) | 0.9 | 1.5 | 1.7 |
| *RoE (%)* | *2.1* | *3.2* | *3.6* |
| PE (x) | 26.9 | 17.6 | 15.2 |
| P / BV (x) | 0.6 | 0.5 | 0.5 |
| Net Debt | 49,379 | 51,508 | 51,756 |
| DE (x) | 0.45 | 0.45 | 0.45 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 3,670 | 6,261 | *(41.4)* | 4,077 | 7,747 | 12,219 | *(36.6)* |
| EBITDA | 484 | 1,381 | *(64.9)* | 547 | 1,032 | 2,579 | *(60.0)* |
| *Margin (%)* | *13.2* | *22.1* | *(886)bps* | *13.4* | *13.3* | *21.1* | *(779)bps* |
| Reported PAT | 405 | 925 | *(56.2)* | 459 | 863 | 1,908 | *(54.7)* |
| PAT (Excl. Ex Items) | 405 | 925 | *(56.2)* | 459 | 864 | 1,908 | *(54.7)* |
| **Operating Metrics** | | | | | | | |
| **Sale/Volumes (msf)** | | | | | | | |
| Residential | 1.30 | 1.56 | *(16.7)* | 1.44 | 2.74 | 3.22 | *(14.9)* |
| Non-Residential | 0.05 | 0.24 | *(79.2)* | 0.08 | 0.13 | 0.48 | *(72.9)* |
| **Avg. Real. (Rs/sq.ft)** | | | | | | | |
| Residential | 4,250 | 5,385 | *(21.1)* | 4,232 | 8,482 | 9,752 | *(13.0)* |
| Non-Residential | 11,950 | 9,500 | *25.8* | 11,961 | 23,911 | 21,792 | *9.7* |

## Prestige Estates Projects

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs142 |
| Target Price | Rs148 |
| Market Cap. (Rs bn) | 39.3 |
| Shares o/s (m) | 328.1 |

Post a spectacular Q1, the momentum in Q2 is expected to be maintained with two large soft launches during the quarter. Firstly, the company soft launched a project 'Fern Residency' which is a 2.2m sq.ft project with 1300 units. This was followed by the soft launch of a project near Hebbal in Bengaluru called 'Misty Waters'. This project is million sq.ft in size having 560 units. Both these soft launches have received a very decent response, coupled with sales at its existing projects.

**Key Figures *(Rs m)***

| | FY12 | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 10,523 | 15,405 | 25,114 |
| EBITDA | 2,966 | 4,303 | 7,111 |
| *Margin (%)* | *28.2* | *27.9* | *28.3* |
| PAT | 826 | 1,161 | 2,791 |
| EPS (Rs) | 2.5 | 3.5 | 8.5 |
| *RoE (%)* | *3.9* | *5.2* | *11.8* |
| PE (x) | 56.4 | 40.2 | 16.7 |
| P / BV (x) | 2.1 | 2.1 | 1.9 |
| Net Debt | 14,573 | 21,605 | 22,751 |
| DE (x) | 0.84 | 0.96 | 0.86 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 2,250 | 1,281 | *75.7* | 2,192 | 4,442 | 3,765 | *18.0* |
| EBITDA | 731 | 493 | *48.5* | 704 | 1,435 | 1,182 | *21.4* |
| *Margin (%)* | *32.5* | *38.4* | *(595)bps* | *32.1* | *32.3* | *31.4* | *92 bps* |
| Reported PAT | 428 | 263 | *63.0* | 493 | 921 | 627 | *46.9* |
| PAT (Excl. Ex Items) | 428 | 263 | *63.0* | 493 | 921 | 627 | *46.9* |
| **Operating Metrics** | | | | | | | |
| Sales (msf) | 1.6 | 2.1 | *(26.8)* | 2.0 | 3.6 | 2.1 | *69.5* |
| Avg Realization (Rs/sq.ft.) | 4,950 | 3,682 | *34.4* | 4,953 | 9,903 | 3,682 | *169.0* |

## HDIL

| | |
|---|---|
| Rating | **Reduce** |
| Price | Rs109 |
| Target Price | Rs82 |
| Market Cap. (Rs bn) | 45.5 |
| Shares o/s (m) | 419.0 |

We expect a lackluster quarter barring the sale of FSI in the Vasai-Virar region. Planned launches also seem to be delayed and hence, new sales is likely to be contributed only by *Premier Exotica*, the Kurla (west) launch done in Q1. The key to watch out for, however, will be the debtor realization as proceeds worth Rs6bn are yet to be realized from the Guru Ashish FSI sale.

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 20,064 | 23,299 | 24,855 |
| EBITDA | 9,562 | 10,594 | 10,863 |
| *Margin (%)* | *47.7* | *45.5* | *43.7* |
| PAT | 8,174 | 8,782 | 7,997 |
| EPS (Rs) | 19.5 | 21.0 | 19.1 |
| *RoE (%)* | *8.3* | *8.2* | *6.9* |
| PE (x) | 5.6 | 5.2 | 5.7 |
| P / BV (x) | 0.4 | 0.4 | 0.4 |
| Net Debt | 38,552 | 33,059 | 27,316 |
| DE (x) | 0.40 | 0.34 | 0.30 |

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | YoY gr. (%) | Q1 FY13 | H1 FY13E | H1 FY12 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 2,195 | 4,407 | *(50.2)* | 2,012 | 4,207 | 9,525 | *(55.8)* |
| EBITDA | 1,515 | 2,321 | *(34.7)* | 1,577 | 3,092 | 5,257 | *(41.2)* |
| *Margin (%)* | *69.0* | *52.7* | *1,634 bps* | *78.4* | *73.5* | *55.2* | *1,831 bps* |
| Reported PAT | 958 | 1,486 | *(35.5)* | 1,054 | 2,011 | 3,379 | *(40.5)* |
| PAT (Excl. Ex Items) | 958 | 1,486 | *(35.5)* | 1,054 | 2,012 | 3,380 | *(40.5)* |
| **Operating Metrics** | | | | | | | |
| FSI Sales Rs Mn | 2,160 | 2,930 | *(26.3)* | 2,012 | 4,172 | 6,230 | *(33.0)* |
| TDR Sales Rs Mn | - | 707 | | - | - | 2,332 | |
| TDR Sales (msf) | - | 0.3 | | - | - | 0.9 | |

## Sobha Developers

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs388 |
| Target Price | Rs409 |
| Market Cap. (Rs bn) | 38.1 |
| Shares o/s (m) | 98.1 |

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 14,079 | 17,326 | 24,788 |
| EBITDA | 4,666 | 4,967 | 7,347 |
| *Margin (%)* | *33.1* | *28.7* | *29.6* |
| PAT | 2,060 | 2,613 | 4,173 |
| EPS (Rs) | 21.0 | 26.6 | 42.6 |
| *RoE (%)* | *10.7* | *12.4* | *17.5* |
| PE (x) | 18.5 | 14.6 | 9.1 |
| P / BV (x) | 1.9 | 1.7 | 1.5 |
| Net Debt | 11,443 | 9,932 | 7,662 |
| DE (x) | 0.60 | 0.57 | 0.47 |

The company had two significant launches during the quarter and one relaunch. The company launched a 0.5m sq.ft project in Thrissur & 0.3m sq.ft project in the heart of Bengaluru, both of which have received a good response. In terms of sales, we expect the quarter to be extremely robust on account of new launches as well as on account of stocks being released at the previously launched projects. The Gurgaon project is also scaling new highs in terms of sales at increasing price points. We are not expecting any debt reduction in Q2 on account of the dividend payout obligation during the quarter. However, we expect debt reduction from Q3 onwards.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 4,345 | 3,294 | *31.9* | 4,247 | 8,592 | 6,326 | *35.8* |
| EBITDA | 1,151 | 755 | *52.5* | 1,132 | 2,283 | 1,436 | *59.0* |
| *Margin (%)* | *26.5* | *22.9* | *358 bps* | *26.7* | *26.6* | *22.7* | *388 bps* |
| Reported PAT | 456 | 409 | *11.6* | 460 | 916 | 718 | *27.6* |
| PAT (Excl. Ex Items) | 456 | 409 | *11.6* | 460 | 916 | 718 | *27.6* |
| **Operating Metrics** | | | | | | | |
| Sales (msf) | 1.0 | 0.9 | *7.0* | 0.8 | 1.8 | 1.6 | *14.7* |
| Avg Realisation (Rs/sq.ft) | 6,250 | 5,196 | *20.3* | 5,737 | 11,987 | 9,743 | *23.0* |

## Anant Raj Industries

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs80 |
| Target Price | Rs85 |
| Market Cap. (Rs bn) | 23.7 |
| Shares o/s (m) | 295.1 |

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 3,115 | 4,841 | 7,171 |
| EBITDA | 1,699 | 2,590 | 3,657 |
| *Margin (%)* | *54.5* | *53.5* | *51.0* |
| PAT | 1,182 | 1,431 | 2,167 |
| EPS (Rs) | 4.0 | 4.8 | 7.3 |
| *RoE (%)* | *3.1* | *3.7* | *5.4* |
| PE (x) | 17.9 | 14.7 | 9.7 |
| P / BV (x) | 0.5 | 0.5 | 0.5 |
| Net Debt | 10,544 | 17,662 | 22,128 |
| DE (x) | 0.30 | 0.30 | 0.27 |

Of the four projects which are currently underway, the company has significant inventory only at its township project in Sector 63 Gurgaon. The quarter also is likely to witness majority of its sales from this project only. This project is yet to come in for revenue recognition and is likely to appear in the H2FY13.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 958 | 883 | *8.5* | 915 | 1,873 | 1,710 | *9.5* |
| EBITDA | 483 | 515 | *(6.3)* | 470 | 953 | 1,007 | *(5.4)* |
| *Margin (%)* | 50.4 | 58.4 | *(794)bps* | 51.4 | 50.9 | 58.9 | *(803)bps* |
| Reported PAT | 342 | 332 | *3.0* | 323 | 665 | 679 | *(2.0)* |
| PAT (Excl. Ex Items) | 342 | 346 | *(1.1)* | 333 | 676 | 693 | *(2.5)* |
| **Operating Metrics** | | | | | | | |
| Ceramic Tiles | - | 2 | | - | 0 | 6 | |
| Rental received | 258 | 198 | *30.5* | 255 | 513 | 396 | *29.6* |
| Project Sales | 625 | 684 | *(8.6)* | 535 | 1,160 | 1,308 | *(11.3)* |

## Peninsula Land

| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs51 |
| Target Price | Rs62 |
| Market Cap. (Rs bn) | 14.3 |
| Shares o/s (m) | 279.5 |

**Key Figures *(Rs m)***

| | FY12E | FY13E | FY14E |
|---|---|---|---|
| Net Sales | 5,323 | 5,068 | 5,339 |
| EBITDA | 1,779 | 1,856 | 1,895 |
| *Margin (%)* | *33.4* | *36.6* | *35.5* |
| PAT | 1,514 | 1,556 | 1,526 |
| EPS (Rs) | 5.4 | 5.6 | 5.5 |
| *RoE (%)* | *10.4* | *10.0* | *9.3* |
| PE (x) | 9.4 | 9.2 | 9.4 |
| P / BV (x) | 0.9 | 0.9 | 0.8 |
| Net Debt | 10,194 | 11,604 | 7,341 |
| DE (x) | 0.8 | 0.8 | 0.6 |

Sales at Peninsula Business Park have picked up speed, with only three floors remaining to be sold. However, although in terms of sales, the quarter is expected to be quite robust, revenue booking for these sales may take another quarter on account of pending paperwork etc. The company did not have any new launches this quarter. However, pre-launch bookings at the company's Breach Candy project in Mumbai have commenced. The company has also completed the formalities with regards to the land acquisition of the Bhattad land parcel in Sewri.

**Quarterly Table *(Rs m)***

| Y/e March | Q2 FY13E | Q2 FY12 | *YoY gr. (%)* | Q1 FY13 | H1 FY13E | H1 FY12 | *YoY gr. (%)* |
|---|---|---|---|---|---|---|---|
| Net Sales | 1,450 | 496 | *192.5* | 1,334 | 2,784 | 1,555 | *79.1* |
| EBITDA | 518 | 153 | *238.6* | 465 | 983 | 691 | *42.3* |
| *Margin (%)* | *35.7* | *30.9* | *486 bps* | *34.9* | *35.3* | *44.5* | *(914)bps* |
| Reported PAT | 452 | 137 | *230.7* | 419 | 871 | 636 | *37.0* |
| PAT (Excl. Ex Items) | 452 | 137 | *230.7* | 419 | 871 | 636 | *37.0* |
| **Operating Metrics** | | | | | | | |
| Ashok Gardens | 30 | - | | 50 | 80 | - | |
| Swan Mills | - | 165 | | - | - | 165 | |
| Peninsula Business Park | 1,350 | 260 | *419.2* | 1,210 | 2,560 | 1,160 | *120.7* |
| Others | 70 | 71 | *(1.1)* | 80 | 150 | 230 | *(34.6)* |

# Annexure

## Auto

**Nifty: Company & Sector Valuations**

| | | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 1 | Bajaj Auto | 1.3% | 506,696 | 289.4 | 1,751 | 26,123 | 31,341 | 30,794 | 37,190 | 90.3 | 108.3 | 106.4 | 128.5 | 19.4 | 16.2 | 16.5 | 13.6 |
| | *Growth (%)* | | | | | *40.1* | *20.0* | *(1.7)* | *20.8* | *40.1* | *20.0* | *(1.7)* | *20.8* | | | | |
| 2 | Hero Honda Motors | 1.0% | 361,524 | 199.7 | 1,810 | 20,077 | 23,783 | 25,202 | 27,313 | 100.5 | 119.1 | 126.2 | 136.8 | 18.0 | 15.2 | 14.3 | 13.2 |
| | *Growth (%)* | | | | | *(10.0)* | *18.5* | *6.0* | *8.4* | *(10.0)* | *18.5* | *6.0* | *8.4* | | | | |
| 3 | Mahindra & Mahindra | 2.2% | 533,549 | 614.0 | 869 | 24,892 | 27,706 | 31,658 | 36,552 | 38.0 | 42.3 | 48.4 | 55.8 | 18.5 | 16.7 | 14.6 | 12.6 |
| | *Growth (%)* | | | | | *21.7* | *11.3* | *14.3* | *15.5* | *8.2* | *11.3* | *14.3* | *15.5* | | | | |
| 4 | Maruti Suzuki India | 1.0% | 400,920 | 288.9 | 1,388 | 23,538 | 16,352 | 16,995 | 27,384 | 81.4 | 56.6 | 58.8 | 94.8 | 17.0 | 24.5 | 23.6 | 14.6 |
| | *Growth (%)* | | | | | *(6.6)* | *(30.5)* | *3.9* | *61.1* | *(6.6)* | *(30.5)* | *3.9* | *61.1* | | | | |
| 5 | Tata Motors | 2.7% | 830,010 | 2,958.5 | 281 | 90,425 | 125,224 | 125,614 | 151,688 | 28.4 | 39.5 | 37.7 | 45.5 | 9.9 | 7.1 | 7.4 | 6.2 |
| | *Growth (%)* | | | | | *738.0* | *38.5* | *0.3* | *20.8* | *649.8* | *39.1* | *(4.5)* | *20.8* | | | | |
| | **Total** | **8.2%** | **2,632,700** | **4,350.5** | | **185,055** | **224,406** | **230,263** | **280,127** | | | | | **14.2** | **11.7** | **11.4** | **9.4** |
| | ***Growth (%)*** | | | | | ***90.0*** | ***21.3*** | ***2.6*** | ***21.7*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## BFSI

### Nifty: Company & Sector Valuations

| | | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 6 | Axis Bank | 1.6% | 473,783 | 414.5 | 1,143 | 33,884 | 42,422 | 48,253 | 56,690 | 82.5 | 102.7 | 113.6 | 133.5 | 13.8 | 11.1 | 10.1 | 8.6 |
| | Book Value (Rs) | | | | | 463 | 552 | 631 | 743 | | | | | | | | |
| | P/BV (x) | | | | | 2.5 | 2.1 | 1.8 | 1.5 | | | | | | | | |
| | *Growth (%)* | | | | | *36.7* | *25.2* | *13.7* | *17.5* | *34.9* | *24.4* | *10.6* | *17.5* | | | | |
| 7 | HDFC | 6.4% | 1,154,556 | 1,539.5 | 750 | 35,350 | 41,226 | 49,462 | 57,975 | 24.1 | 27.9 | 32.3 | 37.8 | 31.1 | 26.9 | 23.2 | 19.8 |
| | Book Value (Rs) | | | | | 118 | 129 | 165 | 187 | | | | | | | | |
| | P/BV (x) | | | | | 6.4 | 5.8 | 4.6 | 4.0 | | | | | | | | |
| | *Growth (%)* | | | | | *25.1* | *16.6* | *20.0* | *17.2* | *22.4* | *15.8* | *15.7* | *17.2* | | | | |
| 8 | HDFC Bank | 6.2% | 1,469,921 | 2,361.7 | 622 | 39,264 | 51,671 | 65,952 | 78,479 | 16.9 | 22.0 | 28.1 | 33.4 | 36.9 | 28.3 | 22.1 | 18.6 |
| | Book Value (Rs) | | | | | 109 | 128 | 149 | 176 | | | | | | | | |
| | P/BV (x) | | | | | 5.7 | 4.9 | 4.2 | 3.5 | | | | | | | | |
| | *Growth (%)* | | | | | *33.1* | *31.6* | *27.6* | *19.0* | *31.0* | *30.4* | *27.6* | *19.0* | | | | |
| 9 | ICICI Bank | 6.8% | 1,226,206 | 1,149.5 | 1,067 | 51,514 | 64,653 | 78,535 | 91,008 | 44.7 | 56.0 | 68.0 | 78.8 | 23.9 | 19.1 | 15.7 | 13.5 |
| | Book Value (Rs) | | | | | 478 | 523 | 571 | 627 | | | | | | | | |
| | P/BV (x) | | | | | 2.2 | 2.0 | 1.9 | 1.7 | | | | | | | | |
| | *Growth (%)* | | | | | *28.0* | *25.5* | *21.5* | *15.9* | *23.9* | *25.1* | *21.5* | *15.9* | | | | |
| 10 | IDFC | 1.1% | 240,769 | 1,513.3 | 159 | 12,791 | 15,541 | 18,651 | 21,737 | 8.8 | 10.3 | 12.3 | 14.4 | 18.2 | 15.5 | 12.9 | 11.1 |
| | Book Value (Rs) | | | | | 71 | 81 | 91 | 102 | | | | | | | | |
| | P/BV (x) | | | | | 2.2 | 2.0 | 1.8 | 1.6 | | | | | | | | |
| | *Growth (%)* | | | | | *20.4* | *21.5* | *20.0* | *16.5* | *7.2* | *17.4* | *20.0* | *16.5* | | | | |
| 11 | Kotak Mahindra Bank | 1.3% | 473,264 | 743.3 | 637 | 14,924 | 16,650 | 19,168 | 23,624 | 20.3 | 22.5 | 25.9 | 31.9 | 31.4 | 28.3 | 24.6 | 20.0 |
| | Book Value (Rs) | | | | | 124 | 150 | 179 | 179 | | | | | | | | |
| | P/BV (x) | | | | | 5.1 | 4.2 | 3.6 | 3.6 | | | | | | | | |
| | *Growth (%)* | | | | | *21.1* | *11.6* | *15.1* | *23.2* | *14.5* | *11.0* | *15.1* | *23.2* | | | | |
| 12 | Punjab National Bank | 0.6% | 277,821 | 339.2 | 819 | 44,335 | 48,846 | 51,796 | 59,985 | 139.9 | 144.0 | 152.7 | 176.9 | 5.9 | 5.7 | 5.4 | 4.6 |
| | Book Value (Rs) | | | | | 632 | 777 | 902 | 1,048 | | | | | | | | |
| | P/BV (x) | | | | | 1.3 | 1.1 | 0.9 | 0.8 | | | | | | | | |
| | *Growth (%)* | | | | | *13.5* | *10.2* | *6.0* | *15.8* | *13.0* | *2.9* | *6.0* | *15.8* | | | | |

### Nifty: Company & Sector Valuations

| | | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 13 | State Bank Of India | 3.3% | 1,569,876 | 671.0 | 2,339 | 108,139 | 154,173 | 189,193 | 212,113 | 170.3 | 229.8 | 281.9 | 316.1 | 13.7 | 10.2 | 8.3 | 7.4 |
| | Book Value (Rs) | | | | | 1,315 | 1,583 | 1,816 | 2,073 | | | | | | | | |
| | P/BV (x) | | | | | 1.8 | 1.5 | 1.3 | 1.1 | | | | | | | | |
| | *Growth (%)* | | | | | *(7.6)* | *42.6* | *22.7* | *12.1* | *(7.6)* | *34.9* | *22.7* | *12.1* | | | | |
| 14 | Bank of Baroda | 0.7% | 311,044 | 391.5 | 794 | 42,417 | 50,070 | 50,225 | 58,790 | 108.3 | 121.4 | 121.8 | 142.6 | 7.3 | 6.5 | 6.5 | 5.6 |
| | Book Value (Rs) | | | | | 505 | 638 | 740 | 860 | | | | | | | | |
| | P/BV (x) | | | | | 1.6 | 1.2 | 1.1 | 0.9 | | | | | | | | |
| | *Growth (%)* | | | | | *38.7* | *18.0* | *0.3* | *17.1* | *29.4* | *12.1* | *0.3* | *17.1* | | | | |
| | **Total** | **28.0%** | **7,197,240** | **8,732.1** | | **382,618** | **485,251** | **571,235** | **660,401** | | | | | **18.8** | **14.8** | **12.6** | **10.9** |
| | ***Growth (%)*** | | | | | ***26.8*** | ***26.8*** | ***17.7*** | ***15.6*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Cement

### Nifty: Company & Sector Valuations

| | | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 15 | ACC | 0.7% | 273,667 | 187.7 | 1,458 | 9,785 | 10,209 | 15,101 | 19,777 | 52.1 | 54.3 | 80.3 | 105.2 | 28.0 | 26.8 | 18.1 | 13.9 |
| | *Growth (%)* | | | | | *(37.4)* | *4.3* | *47.9* | *31.0* | *(37.4)* | *4.3* | *47.9* | *31.0* | | | | |
| 16 | Ambuja Cements | 0.9% | 333,095 | 1,540.0 | 216 | 12,088 | 12,583 | 17,681 | 21,821 | 7.9 | 8.2 | 11.5 | 14.2 | 27.4 | 26.4 | 18.8 | 15.2 |
| | *Growth (%)* | | | | | *1.8* | *4.1* | *40.5* | *23.4* | *1.5* | *3.8* | *40.5* | *23.4* | | | | |
| 17 | Grasim Industries | 1.2% | 308,446 | 91.7 | 3,362 | 22,790 | 26,475 | 27,067 | 31,228 | 248.5 | 288.6 | 291.3 | 336.0 | 13.5 | 11.6 | 11.5 | 10.0 |
| | *Growth (%)* | | | | | *(26.4)* | *16.2* | *2.2* | *15.4* | *(26.4)* | *16.1* | *0.9* | *15.4* | | | | |
| 18 | UltraTech Cement | 1.1% | 540,269 | 274.1 | 1,971 | 10,952 | 12,787 | 23,396 | 31,729 | 87.9 | 46.7 | 85.4 | 115.8 | 22.4 | 42.2 | 23.1 | 17.0 |
| | *Growth (%)* | | | | | *12.0* | *16.8* | *83.0* | *35.6* | *11.8* | *(46.9)* | *83.0* | *35.6* | | | | |
| | **Total** | **3.9%** | **1,455,477** | **2,093.6** | | **55,615** | **62,053** | **83,244** | **104,554** | | | | | **26.2** | **23.5** | **17.5** | **13.9** |
| | ***Growth (%)*** | | | | | ***(18.5)*** | ***11.6*** | ***34.1*** | ***25.6*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Engineering & Power

### Nifty: Company & Sector Valuations

| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 19 BHEL | 1.1% | 645,922 | 2,447.6 | 264 | 55,130 | 70,592 | 63,504 | 58,068 | 22.5 | 28.8 | 25.9 | 23.7 | 11.7 | 9.1 | 10.2 | 11.1 |
| *Growth (%)* | | | | | *11.7* | *28.0* | *(10.0)* | *(8.6)* | *11.7* | *28.1* | *(10.0)* | *(8.6)* | | | | |
| 20 Jaiprakash Associates | 0.6% | 188,615 | 2,126.4 | 89 | 7,571 | 10,263 | 7,204 | 9,264 | 3.6 | 4.8 | 3.4 | 4.4 | 24.9 | 18.4 | 26.2 | 20.4 |
| *Growth (%)* | | | | | *(11.8)* | *35.5* | *(29.8)* | *28.6* | *(11.9)* | *35.5* | *(29.8)* | *28.6* | | | | |
| 21 Larsen & Toubro | 4.9% | 1,012,726 | 613.8 | 1,650 | 36,720 | 44,196 | 47,396 | 52,742 | 60.3 | 72.2 | 77.4 | 86.1 | 27.4 | 22.9 | 21.3 | 19.2 |
| *Growth (%)* | | | | | *16.0* | *20.4* | *7.2* | *11.3* | *14.7* | *19.7* | *7.2* | *11.3* | | | | |
| 22 NTPC | 1.2% | 1,410,387 | 8,245.5 | 171 | 88,332 | 82,608 | 94,125 | 110,056 | 10.7 | 10.0 | 11.4 | 13.3 | 16.0 | 17.1 | 15.0 | 12.8 |
| *Growth (%)* | | | | | *4.5* | *(6.5)* | *13.9* | *16.9* | *4.5* | *(6.5)* | *13.9* | *16.9* | | | | |
| 23 Power Grid Corp Of India | 0.9% | 547,234 | 4,629.7 | 118 | 27,009 | 32,549 | 39,262 | 48,680 | 5.8 | 7.0 | 8.5 | 9.6 | 20.3 | 16.8 | 13.9 | 12.3 |
| *Growth (%)* | | | | | *30.9* | *23.6* | *(8.3)* | *48.6* | *26.4* | *-* | *7.3* | *45.3* | | | | |
| 24 Reliance Infrastructure | 0.4% | 142,541 | 263.0 | 542 | 16,971 | (6,070) | 11,024 | 11,185 | 63.5 | (23.1) | 41.9 | 42.5 | 8.5 | (23.5) | 12.9 | 12.7 |
| *Growth (%)* | | | | | *11.7* | *(135.8)* | *(281.6)* | *1.5* | *2.3* | *(136.4)* | *(281.6)* | *1.5* | | | | |
| 25 Siemens India | 0.3% | 253,299 | 340.3 | 744 | 7,578 | 6,914 | 8,474 | 10,309 | 22.5 | 20.3 | 24.9 | 30.2 | 33.1 | 36.7 | 29.9 | 24.6 |
| *Growth (%)* | | | | | *7.5* | *(8.8)* | *22.6* | *21.7* | *7.5* | *(9.7)* | *22.6* | *21.5* | | | | |
| 26 Tata Power Co | 0.9% | 246,800 | 2,373.1 | 104 | 19,396 | 11,007 | 10,865 | 10,471 | 8.2 | 4.6 | 4.6 | 4.4 | 12.7 | 22.4 | 22.7 | 23.6 |
| *Growth (%)* | | | | | *20.6* | *(43.3)* | *(1.3)* | *(3.6)* | *20.6* | *(43.3)* | *(1.3)* | *(3.6)* | | | | |
| **Total** | **10.4%** | **4,447,521** | **21,039.4** | | **258,707** | **252,060** | **281,855** | **310,774** | | | | | **17.2** | **17.6** | **15.8** | **14.3** |
| ***Growth (%)*** | | | | | ***11.0*** | ***(2.6)*** | ***11.8*** | ***10.3*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## FMCG

**Nifty: Company & Sector Valuations**

| | | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 27 | Hindustan Unilever | 3.2% | 1,222,349 | 2,161.9 | 565 | 21,336 | 26,770 | 31,906 | 37,167 | 9.9 | 12.4 | 14.8 | 17.2 | 57.2 | 45.7 | 38.3 | 32.9 |
| | *Growth (%)* | | | | | *1.7* | *25.5* | *19.2* | *16.5* | *2.8* | *25.3* | *19.2* | *16.5* | | | | |
| 28 | ITC | 8.2% | 2,165,588 | 7,856.3 | 276 | 50,083 | 62,584 | 72,891 | 87,182 | 6.5 | 8.0 | 9.3 | 11.2 | 42.6 | 34.4 | 29.6 | 24.7 |
| | *Growth (%)* | | | | | *20.3* | *25.0* | *16.5* | *19.6* | *20.3* | *23.7* | *16.5* | *19.6* | | | | |
| 29 | Asian Paints | 1.0% | 365,574 | 95.9 | 3,811 | 8,194 | 9,845 | 11,948 | 14,840 | 85.4 | 102.6 | 124.6 | 154.7 | 44.6 | 37.1 | 30.6 | 24.6 |
| | *Growth (%)* | | | | | *(2.0)* | *20.2* | *21.4* | *24.2* | *(2.0)* | *20.2* | *21.4* | *24.2* | | | | |
| | **Total** | **12.4%** | **3,753,510** | **10,018.2** | | **79,613** | **99,199** | **116,746** | **139,189** | | | | | **47.1** | **37.8** | **32.2** | **27.0** |
| | ***Growth (%)*** | | | | | ***27.2*** | ***24.6*** | ***17.7*** | ***19.2*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Metals

**Nifty: Company & Sector Valuations**

| | | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 30 | Hindalco Industries | 0.9% | 239,322 | 1,914.6 | 125 | 24,564 | 22,372 | 29,659 | 33,230 | 12.8 | 11.7 | 15.4 | 16.8 | 9.7 | 10.7 | 8.1 | 7.4 |
| | *Growth (%)* | | | | | *(37.4)* | *(8.9)* | *32.6* | *12.0* | *(42.1)* | *(8.9)* | *31.4* | *9.6* | | | | |
| 31 | Jindal Steel & Power | 0.9% | 389,265 | 934.8 | 416 | 37,539 | 39,578 | 36,916 | 36,536 | 40.2 | 42.3 | 39.5 | 39.1 | 10.4 | 9.8 | 10.5 | 10.7 |
| | *Growth (%)* | | | | | *5.1* | *5.4* | *(6.7)* | *(1.0)* | *4.7* | *5.4* | *(6.7)* | *(1.0)* | | | | |
| 32 | Sesa Goa | 0.4% | 149,616 | 869.1 | 172 | 42,225 | 26,955 | 34,128 | 34,023 | 49.2 | 31.0 | 39.0 | 38.4 | 3.5 | 5.6 | 4.4 | 4.5 |
| | *Growth (%)* | | | | | *60.6* | *(36.2)* | *26.6* | *(0.3)* | *51.7* | *(36.9)* | *25.7* | *(1.6)* | | | | |
| 33 | Tata Steel | 1.5% | 398,732 | 971.2 | 411 | 59,368 | 20,279 | 24,413 | 44,674 | 61.9 | 20.9 | 25.1 | 46.0 | 6.6 | 19.7 | 16.3 | 8.9 |
| | *Growth (%)* | | | | | *(536.0)* | *(65.8)* | *20.4* | *83.0* | *(503.3)* | *(66.3)* | *20.4* | *83.0* | | | | |
| 34 | Coal India | 1.3% | 2,295,683 | 6,316.4 | 363 | 108,957 | 147,263 | 161,925 | 172,530 | 17.3 | 23.3 | 25.6 | 27.3 | 21.1 | 15.6 | 14.2 | 13.3 |
| | *Growth (%)* | | | | | *12.8* | *35.2* | *10.0* | *6.5* | *12.8* | *35.2* | *10.0* | *6.5* | | | | |
| | **Total** | **4.9%** | **3,472,618** | **11,006** | | **272,652** | **256,447** | **287,041** | **320,992** | | | | | **12.7** | **13.5** | **12.1** | **10.8** |
| | ***Growth (%)*** | | | | | ***48.0*** | ***(5.9)*** | ***11.9*** | ***11.8*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Oil & Gas

**Nifty: Company & Sector Valuations**

| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 35 BPCL | 0.5% | 257,780 | 723.1 | 357 | 16,350 | 7,808 | 13,996 | 17,186 | 22.6 | 10.8 | 20.1 | 24.9 | 15.8 | 33.0 | 17.8 | 14.3 |
| *Growth (%)* | | | | | *0.2* | *(52.2)* | *79.2* | *22.8* | *0.2* | *(52.2)* | *85.9* | *23.8* | | | | |
| 36 Cairn India | 0.8% | 622,430 | 1,909.0 | 326 | 63,344 | 79,377 | 98,898 | 94,041 | 32.4 | 41.4 | 51.6 | 49.0 | 10.1 | 7.9 | 6.3 | 6.7 |
| *Growth (%)* | | | | | *701.7* | *25.3* | *24.6* | *(4.9)* | *696.0* | *27.9* | *24.6* | *(4.9)* | | | | |
| 37 Gail India | 1.0% | 498,575 | 1,268.5 | 393 | 35,611 | 36,778 | 36,953 | 39,981 | 28.1 | 29.0 | 29.1 | 31.5 | 14.0 | 13.6 | 13.5 | 12.5 |
| *Growth (%)* | | | | | *13.4* | *3.3* | *0.5* | *8.2* | *13.4* | *3.3* | *0.5* | *8.2* | | | | |
| 38 ONGC | 2.8% | 2,457,137 | 8,555.5 | 287 | 224,560 | 281,467 | 233,704 | 286,301 | 26.2 | 32.9 | 27.3 | 33.5 | 10.9 | 8.7 | 10.5 | 8.6 |
| *Growth (%)* | | | | | *15.7* | *25.3* | *(17.0)* | *22.5* | *15.7* | *25.3* | *(17.0)* | *22.5* | | | | |
| 39 Reliance Industries | 7.8% | 2,808,910 | 3,274.6 | 858 | 192,715 | 197,170 | 200,389 | 203,852 | 58.9 | 60.3 | 61.3 | 62.3 | 14.6 | 14.2 | 14.0 | 13.8 |
| *Growth (%)* | | | | | *21.8* | *2.3* | *1.6* | *1.7* | *21.7* | *2.4* | *1.6* | *1.7* | | | | |
| **Total** | **12.9%** | **6,644,832** | **15,730.6** | | **532,580** | **602,601** | **583,940** | **641,362** | | | | | **12.5** | **11.0** | **11.4** | **10.4** |
| ***Growth (%)*** | | | | | ***30.6*** | ***13.1*** | ***(3.1)*** | ***9.8*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Pharma

### Nifty: Company & Sector Valuations

| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 40 Cipla | 1.0% | 292,464 | 802.9 | 364 | 9,671 | 11,228 | 13,028 | 14,503 | 12.0 | 14.0 | 16.2 | 18.1 | 30.2 | 26.0 | 22.4 | 20.2 |
| *Growth (%)* | | | | | *(10.7)* | *16.1* | *16.0* | *11.3* | *(10.7)* | *16.1* | *16.0* | *11.3* | | | | |
| 41 Dr. Reddy's | 1.2% | 288,137 | 169.8 | 1,697 | 11,099 | 12,109 | 14,771 | 17,010 | 65.6 | 71.4 | 87.1 | 100.3 | 25.9 | 23.8 | 19.5 | 16.9 |
| *Growth (%)* | | | | | *939.2* | *9.1* | *22.0* | *15.2* | *936.8* | *8.8* | *22.0* | *15.2* | | | | |
| 42 Ranbaxy Laboratories | 0.4% | 223,547 | 422.3 | 529 | 3,008 | 5,955 | 7,486 | 9,405 | 7.1 | 14.1 | 17.7 | 22.3 | 74.1 | 37.5 | 29.8 | 23.8 |
| *Growth (%)* | | | | | *(470.4)* | *98.0* | *25.7* | *25.6* | *(469.9)* | *97.5* | *25.7* | *25.6* | | | | |
| 43 Sun Pharma | 1.4% | 705,745 | 1,034.0 | 683 | 14,041 | 23,228 | 28,440 | 30,158 | 13.6 | 22.4 | 27.5 | 29.1 | 50.3 | 30.4 | 24.9 | 23.4 |
| *Growth (%)* | | | | | *47.8* | *65.4* | *22.4* | *6.0* | *47.8* | *65.4* | *22.4* | *6.0* | | | | |
| 44 Lupin | 0.7% | 253,980 | 447.0 | 568 | 8,582 | 8,677 | 10,698 | 13,891 | 19.2 | 19.4 | 24.0 | 31.1 | 29.5 | 29.2 | 23.7 | 18.3 |
| *Growth (%)* | | | | | *25.9* | *1.1* | *23.3* | *29.8* | *25.5* | *1.0* | *23.3* | *29.8* | | | | |
| **Total** | **4.8%** | **1,763,872** | **2,876.0** | | **46,401** | **61,197** | **74,423** | **84,966** | | | | | **38.0** | **28.8** | **23.7** | **20.8** |
| ***Growth (%)*** | | | | | ***69.4*** | ***31.9*** | ***21.6*** | ***14.2*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Real Estate

### Nifty: Company & Sector Valuations

| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) | | | | EPS (Rs) | | | | PER (x) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| 45 DLF | 0.5% | 410,883 | 1,698.6 | 242 | 15,424 | 12,263 | 12,534 | 15,623 | 9.1 | 7.2 | 7.4 | 9.2 | 26.6 | 33.5 | 32.8 | 26.3 |
| *Growth (%)* | | | | | *(15.0)* | *(20.5)* | *2.2* | *24.6* | *(15.0)* | *(20.5)* | *2.2* | *24.6* | | | | |
| **Total** | **0.5%** | **410,883** | **1,698.6** | | **15,424** | **12,263** | **12,534** | **15,623** | | | | | **26.6** | **33.5** | **32.8** | **26.3** |
| ***Growth (%)*** | | | | | ***(15.0)*** | ***(20.5)*** | ***2.2*** | ***24.6*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Technology

### Nifty: Company & Sector Valuations

| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) 2011 | 2012 | 2013 | 2014 | EPS (Rs) 2011 | 2012 | 2013 | 2014 | PER (x) 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 46 HCL Technologies | 0.8% | 398,061 | 694.0 | 574 | 17,099 | 25,260 | 31,669 | 36,419 | 24.8 | 36.4 | 45.7 | 52.5 | 23.1 | 15.7 | 12.6 | 10.9 |
| *Growth (%)* | | | | | *31.5* | *47.7* | *25.4* | *15.0* | *28.0* | *46.7* | *25.4* | *15.0* | | | | |
| 47 Infosys Technologies | 6.7% | 1,450,999 | 574.2 | 2,527 | 68,230 | 83,160 | 95,821 | 109,463 | 119.3 | 145.4 | 167.5 | 191.4 | 21.2 | 17.4 | 15.1 | 13.2 |
| *Growth (%)* | | | | | *8.9* | *21.9* | *15.2* | *14.2* | *8.9* | *21.9* | *15.2* | *14.2* | | | | |
| 48 TCS | 3.7% | 2,552,216 | 1,957.2 | 1,304 | 82,936 | 106,441 | 130,344 | 147,527 | 42.4 | 54.4 | 66.6 | 75.4 | 30.8 | 24.0 | 19.6 | 17.3 |
| *Growth (%)* | | | | | *20.7* | *28.3* | *22.5* | *13.2* | *20.7* | *28.3* | *22.5* | *13.2* | | | | |
| 49 Wipro | 1.1% | 918,940 | 2,462.0 | 373 | 53,004 | 55,732 | 63,994 | 73,555 | 21.6 | 22.7 | 26.0 | 29.9 | 17.3 | 16.5 | 14.3 | 12.5 |
| *Growth (%)* | | | | | *18.0* | *5.1* | *14.8* | *14.9* | *(29.4)* | *5.0* | *14.8* | *14.9* | | | | |
| **Total** | **12.3%** | **5,320,216** | **5,687.5** | | **221,269** | **270,593** | **321,828** | **366,964** | | | | | **24.0** | **19.7** | **16.5** | **14.5** |
| ***Growth (%)*** | | | | | ***16.9*** | ***22.3*** | ***18.9*** | ***14.0*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Telecom

### Nifty: Company & Sector Valuations

| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) 2011 | 2012 | 2013 | 2014 | EPS (Rs) 2011 | 2012 | 2013 | 2014 | PER (x) 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 50 Bharti Airtel | 1.8% | 1,009,194 | 3,797.5 | 266 | 60,922 | 45,604 | 85,044 | 109,036 | 16.0 | 12.0 | 22.4 | 28.7 | 16.6 | 22.1 | 11.9 | 9.3 |
| *Growth (%)* | | | | | *(37.9)* | *(25.1)* | *86.5* | *28.2* | *(37.9)* | *(25.1)* | *86.5* | *28.2* | | | | |
| **Total** | **1.8%** | **1,009,194** | **3,797.5** | | **60,922** | **45,604** | **85,044** | **109,036** | | | | | **16.6** | **22.1** | **11.9** | **9.3** |
| ***Growth (%)*** | | | | | ***(37.9)*** | ***(25.1)*** | ***86.5*** | ***28.2*** | | | | | | | | |

*Source: Company Data, Bloomberg, PL Research*

## Total Nifty

### Nifty: Company & Sector Valuations

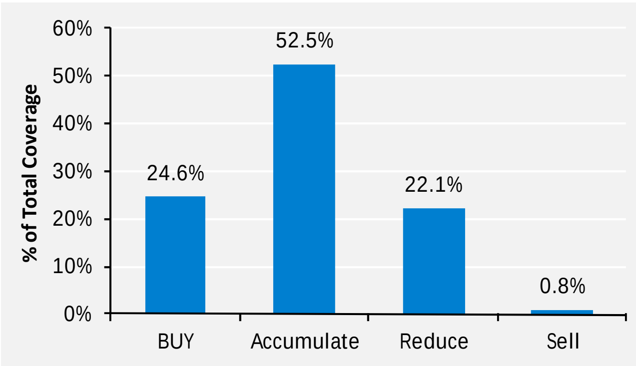
| | Wgt (%) | Mcap (Rs m) | No. of Shares (m) | CMP (Rs) | PAT (Rs m) 2010 | 2011 | 2012 | 2013 | EPS (Rs) 2010 | 2011 | 2012 | 2013 | PER (x) 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Grand Total*** | **100.0%** | **38,108,063** | **6,647.6** | | **2,110,855** | **2,371,673** | **2,648,153** | **3,033,990** | **336.0** | **356.8** | **398.4** | **456.4** | **17.1** | **16.1** | **14.4** | **12.6** |
| ***Growth (%)*** | | | | | ***25.0*** | ***12.4*** | ***11.7*** | ***14.6*** | ***25.2*** | ***6.2*** | ***11.7*** | ***14.6*** | | | | |

*Source: Company Data, Bloomberg, PL Research*    ** Not based on Free Float*

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

## Rating Distribution of Research Coverage




## PL's Recommendation Nomenclature

| | | | | | |
|---|---|---|---|---|---|
| **BUY** | : | Over 15% Outperformance to Sensex over 12-months | **Accumulate** | : | Outperformance to Sensex over 12-months |
| **Reduce** | : | Underperformance to Sensex over 12-months | **Sell** | : | Over 15% underperformance to Sensex over 12-months |
| **Trading Buy** | : | Over 10% absolute upside in 1-month | **Trading Sell** | : | Over 10% absolute decline in 1-month |
| **Not Rated (NR)** | : | No specific call on the stock | **Under Review (UR)** | : | Rating likely to change shortly |