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Daily Alerts

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Real Estate/NBFC: Update

This has reference to our note on real estate/NBFCs dated March 21, 2013. Please note the debt facility of Mantri Developers Private Ltd was upgraded to ICRA B from ICRA D in November 2012. According to ICRA, the debt is rolled over and will either be repaid or converted into fresh lease rental discounting. Further, in April 2013, ICRA upgraded the long-term ratings assigned to its fund-based facilities (of Rs1.4 bn) to ICRA BB and withdrew the ICRA B rating on Rs4.5 bn of facilities as there is no outstanding against the rated instrument.

EQUITY MARKETS

India	Change %		
	8-May	1-day	1-mo 3-mo
Sensex	19,990	0.5	9.7 2.6
Nifty	6,069	0.4	10.4 2.8
Global/Regional indices			
Dow Jones	15,105	0.3	2.9 7.9
Nasdaq Composite	3,413	0.5	5.4 6.9
FTSE	6,583	0.4	4.3 5.1
Nikkei	14,388	0.7	9.1 29.0
Hang Seng	23,204	(0.2)	6.1 (0.0)
KOSPI	1,978	1.1	3.0 1.4
Value traded – India			
Cash (NSE+BSE)	121	128	130
Derivatives (NSE)	1,103	772	976
Deri. open interest	1,467	1,256	1,327

Forex/money market

	Change, basis points			
	8-May	1-day	1-mo	3-mo
Rs/US\$	54.1	(0)	(29)	14
10yr govt bond, %	7.8	-	(21)	(15)

Net investment (US\$m)

	7-May	MTD	CYTD
FIs	202	667	12,001
MFs	(37)	(176)	(1,742)

Top movers

Best performers	Change, %			
	8-May	1-day	1-mo	3-mo
RCOM IN Equity	112.0	(0.7)	73.6	48.8
SUNP IN Equity	985.6	(0.5)	13.6	32.1
HUVR IN Equity	587.0	1.3	24.3	29.7
LPC IN Equity	730.8	2.3	19.7	22.3
UNSP IN Equity	2324.1	(1.0)	29.7	21.2
Worst performers				
MMTC IN Equity	228.0	1.1	0.8	(55.4)
WLCO IN Equity	50.9	0.2	(8.1)	(45.6)
SUEL IN Equity	14.6	(1.0)	7.8	(41.7)
EDSL IN Equity	73.0	5.6	26.3	(38.4)
IVRC IN Equity	20.6	(0.7)	5.9	(34.8)

MAY 09, 2013
RESULT

Coverage view: **Cautious**

Price (Rs): **885**

Target price (Rs): **760**

BSE-30: **19,990**

Loan growth on track, earnings in line. HDFC maintained strong growth in the retail business (25% yoy) and resumed loan growth in the non-retail segment (up 5% qoq) after a pause in 3QFY13 (loan book in the non-retail segment was flat in 3Q). NIM improved qoq (in line with seasonal trends), though were marginally below our estimates. Higher fees and lower expenses boosted earnings. We tweak estimates, retain SELL rating with target price of Rs760 (Rs730 earlier).

Company data and valuation summary

HDFC

Stock data

52-week range (Rs) (high,low)	895-611
Market Cap. (Rs bn)	1,355.6

Shareholding pattern (%)

Promoters	0.0
FIs	73.2
MFs	2.8

Price performance (%)

	1M	3M	12M
Absolute	16.7	9.4	34.6
Rel. to BSE-30	7.7	6.7	11.4

Forecasts/Valuations

	2013	2014E	2015E
EPS (Rs)	31.4	37.1	43.3
EPS growth (%)	12.3	18.3	16.8
P/E (X)	28.2	23.9	20.4
NII (Rs bn)	61.4	74.6	87.1
Net profits (Rs bn)	48.5	57.4	67.0
BVPS	163.2	183.2	206.6
P/B (X)	5.4	4.8	4.3
ROE (%)	22.0	21.6	22.4
Div. Yield (%)	1.4	1.7	2.0

Growth on track; higher fees and lower operating expenses support earnings

HDFC reported PAT of Rs15.5 bn, up 17% yoy and 1% ahead of estimates. Loan growth remained stable at 21% yoy. NIM (KS-calculated) expanded to 4.6% from 3.7% in 3QFY13, but lower than 4.9% in 4QFY12; reported spreads were stable at 2.3%. Sharp rise in fees and capital gains (including dividend income) supported growth in operational income (up 14% yoy).

We are tweaking our estimates to factor higher loan book, lower margins and higher expenses; we revise our SOTP-based price target to Rs760 (from Rs730) to factor higher value of the mortgage business and HDFC Bank. At our price target, the core business will trade at 3.6X PBR FY2014E and HDFC Bank at 4X book.

Loan growth remains strong, non-retail loans gain traction

Increase in competition from SBI has not affected the growth momentum in HDFC's retail business—loan book up 25% yoy in 4QFY13. The non-retail business has increased by 5% qoq in 4Q to Rs587 bn; the non-retail book was flat in 3QFY13 (Rs557 bn in 2QFY13 and 3QFY13). This loan growth was driven by higher disbursements—Rs277 bn (up 30% yoy) in 4QFY13 versus Rs141 bn (down 12% qoq) in 3QFY13. HDFC's loans under management increased by 22% yoy—8% qoq in 4QFY13 (from 3% qoq in 3QFY13); we continue to model 20% loan growth in FY2014E.

NIM decline yoy; higher spreads in non-retail loans

HDFC's NIM (calculated) improved to 4.6% from 3.7% in 3QFY13—this is in line with seasonal trends as collections improve in 4Q. On a yoy basis, NIM were however lower—NIM were 4.9% in 4QFY12. We model marginal NIM expansion in FY2014E due to likely decline in interest rates in the system.

HDFC's reported spreads were stable at 2.3%. However, spreads on the non-retail business increased to 2.95% for FY2013 from 2.8% in 9MFY13; a back-of-the-envelope calculation indicates that the spread for this segment for 4QFY13 would be higher at 3.3-3.4%.

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Non-retail business lifts fees, capital gains higher as well

HDFC reported 47% rise in fee income to Rs879 mn (Rs392 mn in 3QFY13), largely on the back of higher business in the non-retail segment. Capital gains and dividend income were up 28% yoy to Rs1.8 bn (higher than our estimate of Rs1.5 bn).

Consolidated earnings up 17%

Consolidated earnings increased by 17% in 4QFY13 to Rs20 bn. During FY2013, consolidated earnings increased to Rs66 bn from Rs55 bn in FY2012.

- ▶ The life insurance business delivered PAT of Rs4.5 bn, up from Rs2.7 bn in FY2012; reported market consistent EV was Rs58 bn. During the year, premium was up 16% yoy. We shall discuss the results of HDFC Standard Life with its management.
- ▶ The general insurance business turned profitable with PAT of Rs1.5 bn (as compared to loss of Rs397 mn in FY2012). Gross premiums were up 33% yoy to Rs25 bn.
- ▶ Asset management business delivered 4% growth in AUMs to Rs1.02 tn and earnings of Rs3.18 bn (0.3% of average AUMs), up from Rs2.69 bn in FY2012.

Exhibit 1: HDFC—P&L statement
4QFY12-4QFY13 (Rs mn)

	4Q12	1Q13	2Q13	3Q13	4Q13	YoY (%)	4Q13E	Act vs KS (%)
Operating income	48,847	49,346	52,697	52,421	56,661	16	58,881	(4)
Interest on loans	46,199	46,462	48,357	49,972	53,392	16	52,373	2
Fees and other charges	600	617	525	392	879	47	613	43
Dividend	615	1,595	1,946	452	814	32	313	160
Sale of investment	790	202	941	963	1,049	33	1,194	(12)
Other op income	643	470	928	642	526	(18)	4,388	(88)
Interest expense	29,389	33,882	35,414	35,214	34,398	17	35,503	(3)
Net operating income	19,458	15,464	17,283	17,207	22,263	14	23,636	(6)
Op. inc. excl. gains, capital gains and lease income	18,053	13,667	14,396	15,792	20,399	13	26,576	(23)
Net Fund based income	18,858	14,847	16,758	16,815	21,383	13	22,723	(6)
Net Fund based income (int income less int exp)	16,810	12,580	12,943	14,758	18,994	13	23,398	(19)
Other exp.	1,220	1,691	1,821	1,780	1,309	7	1,784	(27)
Other exp.	724	1,083	1,200	1,138	718	(1)	1,173	(39)
Staff expenses	496	608	621	642	590	19	610	(3)
PBDT	18,238	13,773	15,462	15,427	20,954	15	21,852	(4)
Depreciation	59	47	56	59	73	24	54	36
Other income	63	74	78	84	116	85	79	48
PBT	18,242	13,799	15,484	15,452	20,997	15	21,777	(4)
Tax	4,980	3,780	3,970	4,050	5,445	9	6,314	(14)
PAT	13,262	10,019	11,514	11,402	15,552	17	15,463	1
Tax rate	27	27	26	26	26		29	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: HDFC—quarterly data
4QFY12-4QFY13 (Rs mn)

	4Q12	1Q13	2Q13	3Q13	4Q13	YoY (%)
Other details - Rs bn						
Disbursement for the quarter	213	156	250	141	277	30
Outstanding (Rs bn)	1,409	1,483	1,551	1,605	1,700	21
Annualised NII (Rs mn)	67,240	50,320	51,772	59,032	75,976	13
NIMs (%)	4.9	3.5	3.4	3.7	4.6	
Gross NPAs (Rs mn)	9,540	11,900	12,060	12,240	11,990	
Gross NPL ratio (%)	0.9	0.8	0.8	0.8	0.7	
CAR (%)	14.6	14.6	16.7	17.5	16.2	
Tier I (%)	11.6	11.8	14.1	14.9	13.8	
Avg spread - reported (%)	2.3	2.3	2.3	2.3	2.3	
Individual loans			2.0	2.0	2.0	
Developer loans			2.7	2.8	2.9	
ROA	3.5	2.5	2.7	2.6	3.5	
ROE	27.5	20.3	20.5	18.3	24.6	
Balance sheet (Rs mn)						
Sharecapital	2,954	2,977	3,078	3,082	3,093	5
Reserves	187,222	201,678	241,191	252,398	246,907	32
Total liabilities and shareholders funds	1,585,984	1,642,760	1,718,635	1,740,846	1,838,280	16
Loans	1,408,750	1,482,622	1,551,270	1,604,340	1,700,460	21
Individuals	887,779	954,129	994,010	1,047,300	1,113,210	25
Corporate bodies	501,896	509,977	537,630	539,350	569,550	13
Others	19,071	18,516	19,630	17,690	17,700	(7)
Investments	122,070	151,825	150,241	145,780	136,841	12
Deferred tax	6,282	6,282	6,552	6,692	6,314	1
Current liabilities	93,749	61,115	87,736	77,016	114,688	22
Fixed assets	2,340	2,350	2,367	2,380	2,379	2
Total assets	1,585,984	1,642,760	1,718,635	1,740,846	1,838,280	16
Loan book calculations						
Loan on balance sheet	1,408,750	1,482,622	1,551,270	1,604,340	1,700,460	21
Loans outside balance sheet	145,560	138,720	157,480	160,490	197,300	36
Individual loans pre sell down	1,033,339	1,092,849	1,151,490	1,207,790	1,310,510	27
Loans under management	1,554,310	1,621,342	1,708,750	1,764,830	1,897,760	22
Composition of loan book under management						
Total loan under management	1,554,310	1,621,342	1,708,750	1,764,830	1,897,760	
Individual loans under management	1,033,339	1,092,849	1,151,490	1,207,790	1,310,510	
Other loans	520,972	528,493	557,260	557,040	587,250	
Share of non-retail (%)	34	33	33	32	31	

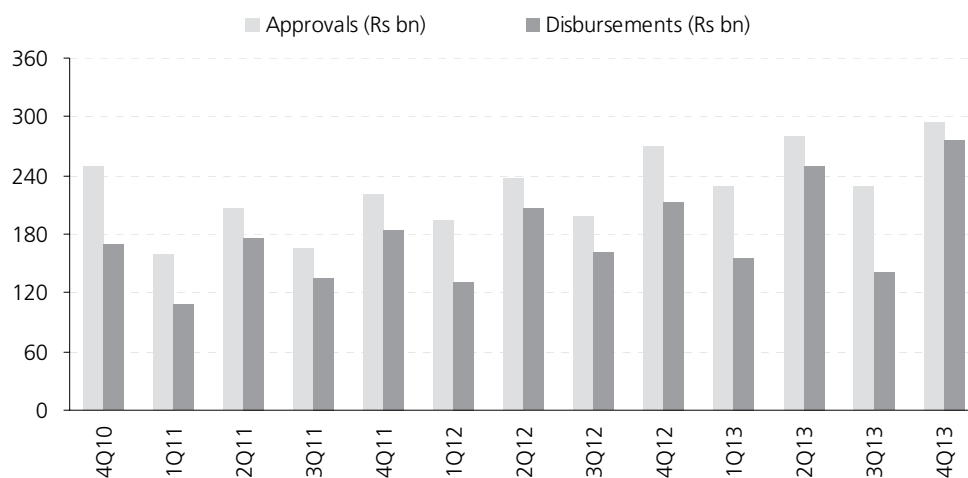
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: HDFC Ltd consolidated quarterly data
March fiscal year-ends, 4QFY12-4QFY13 (Rs mn)

	4Q12	1Q13	2Q13	3Q13	4Q13	YoY (%)
Total operating income	121,740	72,688	104,496	101,286	81,013	(33)
Operating income	51,512	51,230	54,235	55,384	59,476	15
Premium Income from Insurance business	38,746	20,073	29,713	30,065	46,652	20
Other Income from Insurance Business	30,538	1,162	19,533	14,819	(26,643)	(187)
Profit on sale of Investments	944	222	1,015	1,019	1,528	62
Interest expense	31,220	34,486	36,709	36,272	35,489	14
Net operating income	90,520	38,202	67,787	65,014	45,523	(50)
Other exp.	69,148	23,994	50,005	46,753	20,948	(70)
Other exp.	67,980	22,242	48,266	44,935	19,489	(71)
Staff expenses	1,130	1,284	1,309	1,356	1,332	18
Provisioning expenses	39	468	429	461	127	230
PBDT	21,373	14,208	17,782	18,262	24,575	15
Depreciation	195	128	132	135	147	(25)
Other income	(228)	77	125	108	77	(134)
PBT	20,949	14,157	17,776	18,235	24,506	17
Tax	5,474	4,283	4,613	4,693	6,432	18
PAT	15,476	9,874	13,163	13,542	18,074	17
Minority interest	(821)	(436)	(1,059)	(803)	(1,121)	37
Profit from associates	3,112	3,320	3,635	4,329	3,878	25
Consolidated PAT	17,767	12,759	15,749	17,058	20,831	17

Source: Company, Kotak Institutional Equities

Exhibit 4: Approvals and disbursements
March fiscal year-ends, 4QFY10-4QFY13 (Rs bn)



Source: Company, Kotak Institutional Equities

Exhibit 5: HDFC Ltd—change in estimates
March fiscal year-ends, 2013-15E

	New estimates			Old estimates			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
NIM (post provisions - %)	3.8	3.8	3.8	3.8	3.9	3.9			
Loan book	1,700,460	2,049,252	2,449,310	1,689,272	2,011,018	2,385,364	1	2	3
Operating income	208,396	243,194	288,095	196,154	230,129	271,304	6	6	6
Interest income	185,374	219,812	262,586	174,264	208,141	247,296	6	6	6
Capital gains	3,155	4,000	4,500	3,000	3,500	4,000	5	14	13
Interest expense	138,909	160,207	191,378	125,013	146,328	173,914	11	9	10
Net operating income	69,487	82,987	96,717	71,142	83,801	97,389	(2)	(1)	(1)
Net operating inc. excl. gains	66,332	78,987	92,217	68,142	80,301	93,389	(3)	(2)	(1)
Loan loss provisions	1,450	2,175	2,436	2,000	2,240	2,509	(28)	(3)	(3)
Fee income	2,729	2,969	3,468	2,447	3,057	3,573	11	(3)	(3)
Operating expenses	5,153	6,101	7,003	5,075	5,938	6,950	2	3	1
Employee expenses	2,462	2,855	3,286	2,481	2,855	3,286	(1)	0	0
PBT	65,728	77,783	90,837	66,512	78,668	91,479	(1)	(1)	(1)
Net profit	48,483	57,375	67,004	48,398	57,243	66,565	0	0	1
PBT bef cap gains	62,573	73,783	86,337	63,512	75,168	87,479	(1)	(2)	(1)

Source: Company, Kotak Institutional Equities

Exhibit 6: HDFC has been a consistent player, SBI slowed down in recent times
O/s mortgage loan book of key players, March fiscal year-ends, 4QFY10-4QFY13 (Rs bn)

	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
SBI (Rs bn)	712	747	793	851	899	932	959	990	1,027	1,054	1,084	1,132	-
QoQ growth (Rs bn)	39	35	46	59	48	33	27	31	37	26	30	48	
YoY (%)	32	30	27	27	26	25	21	16	14	13	13	14	
HDFC (Rs bn)	613	641	683	701	736	779	803	843	888	954	994	1,047	1,113
QoQ growth (Rs bn)	38	28	41	19	35	42	24	40	45	66	40	53	66
YoY (%)	12	17	20	22	20	21	18	20	21	23	24	24	25
ICICI Bank (Rs bn)	474	473	503	517	539	546	551	548	487	595	614	540	576
QoQ growth (Rs bn)	(10)	(1)	30	14	22	7	5	(4)	(61)	108	19	(73)	35
YoY (%)	(17)	(12)	3	7	14	15	10	6	(10)	9	11	(1)	18
LIC Housing Fin (Rs bn)	381	400	434	464	510	529	561	587	631	656	691	727	778
QoQ growth (Rs bn)	39	19	34	30	46	19	32	26	44	25	35	36	51
YoY (%)	38	37	36	36	34	32	29	27	24	24	23	24	23
Axis Bank	147	150	153	169	189	203	223	249	282	304	328	356	389
QoQ growth (Rs bn)	13	2	4	16	20	14	20	27	32	23	23	28	33
YoY (%)	41	37	27	26	28	35	45	48	49	50	47	43	38
Dewan	88	98	111	124	141	153	168	185	255	277	232	310	339
QoQ growth (Rs bn)	10	14	12	17	12	15	17	17	70	22	(46)	79	29
YoY (%)	53	55	56	61	57	51	50	50	81	81	38	67	33

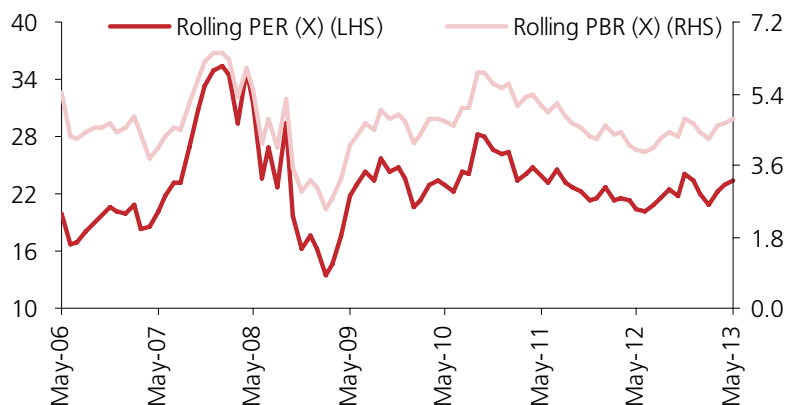
Source: Company, Kotak Institutional Equities

Exhibit 7: HDFC, sum-of-the-parts-based valuation

Business/ subsidiaries	HDFC's holding (%)	Value of companies (Rs mn)	Value per share (Rs)	Valuation methodology
HDFC			433	Based on residual growth model; multiple of 3.6X PBR FY2014E
Value of subsidiaries and associates			308	
HDFC Bank	23	1,546,350	220	Based on target price
HDFC Standard Life MF	60	48,480	19	4% of March 2014E AUMs
-PMS business	60	1,200	0	10% of AUMs
Life Insurance	72	111,520	47	11% margins and 16X NBV multiple
General insurance	74	9,890	4	Based on deal with ERGO
Gruh Finance	62.0	33,960	12	Based on market price
IDFC	1.9	215,546	2	Based on market price
HDFC Venture capital				
HDFC Property Fund	81	1,500	1	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	81	697	0	Rs4.64bn of fund assuming value of 15%
Real estate fund	60	2,520	1	US\$800 mn assuming value of 7.5%
Equity investments			14	
BVPS of non-strategic investments			5	
Unrealised gains on above			9	
Total value per share			754	

Source: Kotak Institutional Equities estimates

Exhibit 8: HDFC—one-year forward rolling PER and PBR
Monthly data, May 2006 - May 2013 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 9: HDFC, valuation
March fiscal year-ends, 2010-16E

March y/e	Profit after tax		EPS core (Rs)	P/E (X)	PE on core operations		BVPS (Rs)	BVPS Core (Rs)	P/B on core operations		RoA (%)	RoE (%)	Core RoE (%)
	(Rs mn)	EPS (Rs)			operations (X)	operations (X)			P/B (X)	operations (X)			
2010	28,265	20	17	45	35.8	106	47	8	12.8	2.6	20.0	30.3	
2011	35,351	24	20	37	29.5	118	58	7	10.3	2.8	21.7	38.9	
2012	41,226	28	24	32	24.8	129	67	7	8.8	2.7	22.7	38.4	
2013E	48,483	31	26	28	22.7	162	104	5	5.7	2.7	22.0	31.2	
2014E	57,375	37	32	24	18.7	181	122	5	4.9	2.7	21.6	28.2	
2015E	67,004	43	37	20	16.0	205	145	4	4.1	2.7	22.4	27.9	
2016E	78,627	51	44	17	13.6	232	172	4	3.5	2.7	23.3	27.5	
Share price (Rs)							885						
Market Capitalisation (Rs mn)							1368520						
Less :value of subsidiaries and investments (Rs mn)							497012						
Price adjusted for subsidiaries and investments (Rs)							871,508						
Price per share adjt for subsidiaries and investments (Rs)							594						

Source: Kotak Institutional Equities

Exhibit 10: HDFC—key ratios
March fiscal year-ends, 2010-16E (%)

	2010	2011	2012	2013E	2014E	2015E	2016E
Spread calc							
Average yield on assets (incl fees)	10.4	10.1	11.3	11.7	11.6	11.7	11.7
Average cost of funds	8.0	7.3	9.0	9.4	9.2	9.2	9.2
Overall spread	2.4	2.8	2.4	2.3	2.4	2.5	2.5
Spread on housing loans	2.9	3.0	2.7	2.5	2.6	2.5	2.4
NIM (pre provisions)	3.7	4.0	3.8	3.8	3.9	3.9	3.8
DU PONT Analysis							
Net total income	3.7	4.0	3.8	3.8	3.9	3.9	3.8
Net interest income	3.3	3.5	3.4	3.4	3.5	3.5	3.5
Capital gains	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Dividend income	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Net other income	0.2	0.2	0.3	0.2	0.2	0.2	0.1
Operating expenses	0.3	0.3	0.3	0.3	0.3	0.3	0.3
ROA	2.6	2.8	2.7	2.7	2.7	2.7	2.7
Average assets/average equity	7.7	7.9	8.4	8.2	8.0	8.4	8.7
ROE	20.0	21.7	22.7	22.0	21.6	22.4	23.3
Growth (%)							
Net loans	15	20	20	21	21	20	19
Total assets	15	20	20	17	18	18	17
PBT	22	24	16	16	18	17	17
PAT	24	25	17	18	18	17	17

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: HDFC standalone P&L and balance sheet
March fiscal year-ends, 2010-16E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E	2016E
Income statement							
Total income excluding fee income	111,066	126,325	169,530	208,396	243,194	288,095	339,772
Interest on Housing Loans	99,790	110,683	150,071	185,374	219,812	262,586	311,724
Dividends	2,327	2,252	3,096	4,806	4,279	4,961	5,661
Lease rentals	241	231	175	158	142	128	115
Other operating income	8,708	13,159	16,188	18,057	18,961	20,421	22,271
Income from investments	6,614	7,799	11,217	12,331	11,733	12,120	12,323
Capital gains	2,094	3,597	2,702	3,155	4,000	4,500	5,500
Interest payable	70,631	75,597	111,568	138,909	160,207	191,378	226,539
Net Income before provision	40,435	50,728	57,963	69,487	82,987	96,717	113,233
Provision	580	700	800	1,450	2,175	2,436	2,728
Fee income	2,317	2,204	3,799	2,729	2,969	3,468	4,054
Total income	113,383	128,528	173,329	211,124	246,163	291,563	343,825
Total expenses	3,056	3,619	4,313	5,153	6,101	7,003	8,043
Depreciation	182	192	205	236	248	260	273
Other income	226	251	213	351	351	351	351
Profit before tax	39,160	48,671	56,656	65,728	77,783	90,837	106,594
Tax	10,895	13,320	15,430	17,245	20,408	23,833	27,967
Profit after tax	28,265	35,351	41,226	48,483	57,375	67,004	78,627
- EPS	20	24	28	31	37	43	51
EPS (core)	17	20	24	26	32	37	44
Book value	106	118	129	162	181	205	232
Book value (core)	47	58	67	104	122	145	172
Balance sheet							
Net loans	979,670	1,171,268	1,408,750	1,700,460	2,049,252	2,449,310	2,914,047
Total Investments	107,275	118,324	122,070	136,841	143,551	148,181	148,181
In equity	85,185	88,446	90,588	89,898	92,398	92,398	92,398
Fixed assets owned	2,221	2,340	2,340	2,379	2,570	2,775	2,997
Total assets	1,166,415	1,395,023	1,675,205	1,952,968	2,308,659	2,713,554	3,178,514
Total Borrowings	965,653	1,154,105	1,391,275	1,588,280	1,907,603	2,270,700	2,662,067
Total borrowings and CL	1,014,438	1,221,856	1,485,024	1,702,968	2,028,025	2,397,143	2,820,121
Share capital	2,871	2,934	2,954	3,093	3,093	3,093	3,093
Reserves	149,106	170,231	187,222	246,907	277,542	313,318	355,300
Shareholders fund	151,977	173,165	190,176	250,000	280,635	316,411	358,392

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013

RESULT

Coverage view: **Attractive**

Price (Rs): **731**

Target price (Rs): **760**

BSE-30: **19,990**

Positive outlook for FY2014E. Lupin reported better-than-expected earnings for the quarter driven by sharp spike in domestic sales and better product mix. In the analysts meet, the management provided positive growth outlook for FY2014E – no specific guidance was provided. We expect the stock performance to be driven by the ramp-up in US generics and stable performance in India. We maintain ADD rating on the stock with increased TP at Rs760 (from Rs655) – valued at 22X one-year forward EPS.

Company data and valuation summary

Lupin

Stock data		Forecasts/Valuations			
		2013	2014E	2015E	
52-week range (Rs) (high,low)	739-496	EPS (Rs)	29.4	32.4	37.4
Market Cap. (Rs bn)	326.7	EPS growth (%)	51.0	10.3	15.4
Shareholding pattern (%)		P/E (X)	24.9	22.5	19.5
Promoters	46.8	Sales (Rs bn)	94.6	108.9	126.2
FIs	27.8	Net profits (Rs bn)	13.1	14.5	16.7
MFs	5.2	EBITDA (Rs bn)	22.4	24.7	28.1
Price performance (%)		EV/EBITDA (X)	14.9	13.3	11.5
Absolute	1M 3M 12M	ROE (%)	28.5	25.1	23.8
Rel. to BSE-30	8.8 19.2 10.6	Div. Yield (%)	0.5	0.8	0.9

Strong quarter driven by spike in domestic formulation

Lupin reported net profit of Rs4.1 bn (162% yoy), 34% ahead of estimates. The beat was primarily driven by sharp spike in domestic growth (at 50% yoy). Sales at Rs25.4 bn (36% yoy) were 6% ahead of estimates. EBITDA at Rs6.1 bn (98% yoy) was 21% ahead. EBITDA margin at 24.1% was 290 bps ahead of estimates – the beat driven primarily by a better product mix (higher domestic sales, Tricor sales in US). Gross margin at 64.4% was ahead of estimates by 170 bps.

- ▶ The management mentioned that there has been no one-off in the domestic formulation sales growth. The higher growth was attributed to a weak base, marketing initiatives and resumption of supplies in certain product segments during the quarter. We find it difficult to explain this growth in the backdrop of a slowing domestic market. The company has guided for 20% growth in domestic formulations for FY2014E.
- ▶ US sales at Rs11.4 bn (54% yoy) was broadly in line. The growth is primarily led by generics (Tricor, OC launches) while branded business was negatively impacted by entry of Antara generic. The sale also appears to include licensing income of US\$7 mn (estimated).
- ▶ Lupin has announced changes to senior management – Dr Kamal Sharma has been appointed as Vice Chairman (from MD earlier) while Ms Vinita Gupta has been appointed CEO (from Head of US business). Mr Nilesh Gupta has been appointed as the MD.

Positive outlook for US generics growth; we increase FY2014/15E EPS by 9%

The management expects US oral contraceptives portfolio to reach US\$100 mn – we increase our US OC sales estimate by US\$30 mn (from US\$68 mn) to account for Yaz (was earlier expected to be launched in June 2014). The EPS increase is primarily driven by higher US generic sales with expectation of limited competition launches in 2HFY14. We remain positive on the US generics ramp-up over the next 12-18 months. Maintain ADD with TP at Rs760 (from Rs655) – valued at 22X one-year forward EPS.

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Exhibit 1: Lupin 4QFY13 consolidated results, March fiscal year-ends (Rs mn)

	4QFY13	4QFY13E	4QFY12	3QFY13	(% chg.)			yoy		
					4QFY13E	4QFY12	3QFY13	FY2013	FY2012 (% chg.)	
Sales	25,374	23,867	18,596	24,659	6.3	36.4	2.9	94,618	68,227	38.7
Total expenditure	19,271	18,812	15,510	18,961	2.4	24.2	1.6	74,041	56,382	31.3
Raw material	9,039	8,907	7,632	9,357	1.5	18.4	(3.4)	35,480	26,039	36.3
Staff cost	3,309	3,175	2,702	3,165	4.2	22.4	4.5	12,488	9,695	28.8
Other expenditure	6,924	6,729	5,176	6,440	2.9	33.8	7.5	26,073	20,648	26.3
EBITDA	6,103	5,056	3,086	5,698	20.7	97.8	7.1	20,577	11,846	73.7
Other income	547	420	489	617				2,402	1,376	74.6
Licensing income			238						1,372	
Non recurring expense/(income)										
Interest	133	80	145	77				410	355	
Depreciation	1,290	720	706	688				3,322	2,275	
Pretax profits	5,227	4,676	2,962	5,550	11.8	76.5	(5.8)	19,247	11,964	60.9
Tax	1,080	1,590	1,348	2,116				5,842	3,086	
Minority interest	(66)	(50)	(56)	(82)				(263)	(199)	
Net income	4,081	3,036	1,559	3,352	34.4	161.8	21.7	13,142	8,679	51.4
EPS (Rs)	9.1	6.8	3.5	7.5	34.4	161.4	21.7	29.4	19.4	51.3
Tax rate (%)	20.7	34.0	45.5	38.1				30.4	25.8	
Segment wise sales										
Formulations	22,938	21,435	16,164	22,306	7.0	41.9	2.8	85,120	59,735	42.5
Domestic	5,659	4,377	3,773	5,708	29.3	50.0	(0.9)	23,643	19,059	24.1
US	11,463	11,340	7,460	10,390	1.1	53.7	10.3	37,695	23,930	57.5
Japan	2,752	3,071	2,694	3,658	(10.4)	2.2	(24.8)	13,040	8,608	51.5
South Africa	906	846	705	831	7.1	28.5	9.0	3,210	2,554	25.7
EU	660	455	455	598	45.1	45.1	10.4	2,357	1,975	19.3
ROW	1,498	1,346	1,077	1,121	11.3	39.1	33.6	5,175	3,609	43.4
API	2,436	2,432	2,432	2,353	0.2	0.2	3.5	9,498	8,491	11.9
Total sales	25,374	23,867	18,596	24,659	6.3	36.4	2.9	94,618	68,226	38.7
% margin										
Raw material	35.6	37.3	41.0	37.9				37.5	38.2	
Staff cost	13.0	13.3	14.5	12.8				13.2	14.2	
Other expenditure	27.3	28.2	27.8	26.1				27.6	30.3	
EBITDA	24.1	21.2	16.6	23.1				21.7	17.4	

Note:

(a) Depreciation for 4QFY13 includes Rs736 mn impairment on account of Antara generic entry.

Source: Company, Kotak Institutional Equities

Key takeaways from analysts meet

- ▶ OC portfolio ramp-up expected in FY2014E. Lupin remains confident of achieving US\$100 mn in sales from the oral contraceptive portfolio. The company has launched over 10 OC products and expects to receive approval for more products during FY2014E.

The company expects the court decision on Bayer Yaz/Yasmin product liability litigation in a month's time. The decision on launching Yasmin will depend on the outcome of the litigation. Lupin expects to get the approval for Yaz in 1HFY14.

- ▶ Niaspan. The company expects Niaspan to be a limited-competition opportunity with launch in March 2014. There are multiple filers for Niaspan but generic entry will be staggered over a period of time. Niaspan (generic name: Niacin; extended release tablet; Abbott) is used to control cholesterol and has annual US sales of US\$920 mn. Teva (Barr) was the sole FTF on all strengths (500, 750 and 1,000 mg) and the product is due to be launched on September 20, 2013.

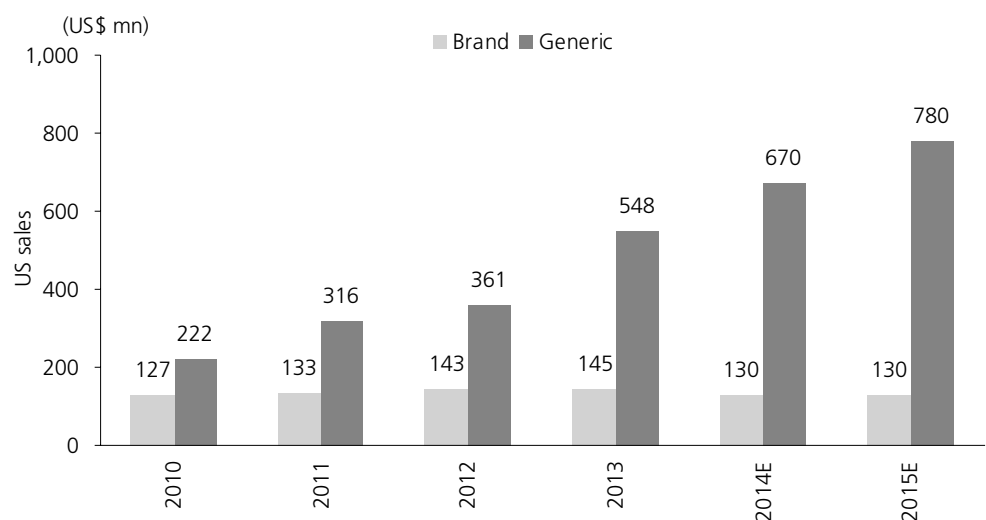
Exhibit 2: Generic competition for Niaspan

Generic filer	Filing period	Litigation status
Teva (Barr)	Oct-01	Settled
Lupin	Jan-09	Settled
Sun	Jan-10	Settled
Sandoz	May-10	District
Cadila	Dec-11	District
Amneal	Jan-12	Settled
Mylan	Jan-12	District
Watson	Feb-12	District
Kremers Urban	Apr-12	District

Source: Bloomberg, Kotak Institutional Equities

- ▶ Lupin expects approval for Coreg CR to be a significant upside to the US business. The brand is worth US\$200 mn with limited filers till date (Mutual, Anchen). The status on Mutual FTF is not clear leading to uncertainty around the product approval. We have not estimated this opportunity for Lupin in FY2014.
- ▶ The company expects Mylan to enter Tricor market over the next few months. We expect staggered generic entry in the Tricor market over the next 18 months.
- ▶ Renvela/Renagel are expected to remain limited competition beyond the 180-day period.
- ▶ On the litigation front, the company remains optimistic on the Zymar/Zymaxid opportunity in FY2014. The patent litigation on Ranexa XR is likely to be a tougher challenge for Lupin.
- ▶ The company continued to pursue acquisition opportunities in US brands, Latin America and Platform technologies.

Exhibit 3: Lupin – US sales by segment, March fiscal year-ends, 2010-15E (US\$ mn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Sales summary, March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013	2014E	2015E
Formulations	39,924	47,890	59,735	85,120	99,326	116,518
Domestic	13,446	15,509	19,059	23,643	28,372	34,046
US	16,497	20,208	23,930	37,695	43,200	50,050
Japan	5,341	6,212	8,608	13,040	14,996	17,245
South Africa	1,325	1,829	2,554	3,210	3,852	4,622
EU	1,396	1,809	1,975	2,357	2,593	2,852
Others	1,919	2,323	3,609	5,175	6,314	7,702
API	7,772	8,589	8,491	9,498	9,587	9,685
Total	47,696	56,479	68,226	94,618	108,913	126,203
% of sales						
Formulations	83.7	84.8	87.6	90.0	91.2	92.3
Domestic	28.2	27.5	27.9	25.0	26.0	27.0
US	34.6	35.8	35.1	39.8	39.7	39.7
Japan	11.2	11.0	12.6	13.8	13.8	13.7
South Africa	2.8	3.2	3.7	3.4	3.5	3.7
EU	2.9	3.2	2.9	2.5	2.4	2.3
Others	4.0	4.1	5.3	5.5	5.8	6.1
API	16.3	15.2	12.4	10.0	8.8	7.7
yoy growth, %						
Formulations	27.1	20.0	24.7	42.5	16.7	17.3
Domestic	17.8	15.3	22.9	24.1	20.0	20.0
US	31.3	22.5	18.4	57.5	14.6	15.9
Japan	20.7	16.3	38.6	51.5	15.0	15.0
South Africa	44.2	38.0	39.6	25.7	20.0	20.0
EU	30.5	29.6	9.2	19.3	10.0	10.0
Others	87.9	21.1	55.4	43.4	22.0	22.0
API	3.1	10.5	-1.1	11.9	0.9	1.0
Total	22.5	18.4	20.8	38.7	15.1	15.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Financial summary, March fiscal year-ends, 2011-15E (Rs mn)

	2011	2012	2013	2014E	2015E
Net sales	56,126	68,186	94,618	108,913	126,203
yoy growth, %	18.4	21.5	38.8	15.1	15.9
Sales from exclusivity launches	—	1,104	2,060	—	—
Core sales	56,126	67,082	92,558	108,913	126,203
yoy growth	18.4	19.5	38.0	17.7	15.9
EBITDA	10,704	12,905	22,373	24,724	28,111
yoy growth, %	13.3	20.6	73.4	10.5	13.7
margin, %	19.1	18.9	23.6	22.7	22.3
EBITDA - exclusivity launches	—	1,049	1,836	—	—
Base EBITDA	10,704	11,857	20,537	24,724	28,111
yoy growth, %	13.3	10.8	73.2	20.4	13.7
margin, %	19.1	17.7	22.2	22.7	22.3
Adj Net Profit	7,547	6,822	11,863	14,502	16,732
yoy growth, %	13.4	-9.6	73.9	22.2	15.4
Adj EPS	16.9	15.3	26.5	32.4	37.4
yoy growth, %	13.0	-9.7	73.8	22.2	15.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Change in sales estimates, March fiscal year-ends, 2014-15E (Rs mn)

	Old estimates		New estimates		% change	
	2014E	2015E	2014E	2015E	2014E	2015E
Domestic formulation	26,386	31,135	28,372	34,046	7.5	9.3
Total US sales	39,852	45,925	43,200	50,050	8.4	9.0
- US generics	32,940	39,050	36,180	42,900	9.8	9.9
- US brands	6,912	6,875	7,020	7,150	1.6	4.0
Japan	15,363	17,667	14,996	17,245	-2.4	-2.4
South Africa	3,780	4,536	3,852	4,622	1.9	1.9
Europe	2,367	2,604	2,593	2,852	9.5	9.5
ROW	6,028	7,233	6,314	7,702	4.7	6.5
API	9,494	9,494	9,587	9,685	1.0	2.0
Total	103,270	118,595	108,913	126,203	5.5	6.4

Source: Kotak Institutional Equities estimates

Exhibit 7: Change in earnings estimates, March fiscal year-ends, 2013-15E (Rs mn)

	Old estimates		New estimates		% change	
	2014E	2015E	2014E	2015E	2014E	2015E
Sales	103,270	118,595	108,913	126,203	5.5	6.4
Raw material	37,798	42,694	39,753	45,433	5.2	6.4
Staff cost	14,578	17,202	14,985	17,983	2.8	4.5
R&D	7,306	8,083	7,589	8,666	3.9	7.2
Others	22,414	26,523	22,611	26,760	0.9	0.9
EBITDA	21,925	24,843	24,724	28,111	12.8	13.2
PBT	18,773	21,492	21,002	24,189	11.9	12.6
Tax	5,256	6,018	6,301	7,257	19.9	20.6
PAT -reported	13,317	15,274	14,502	16,732	8.9	9.5
PAT -adjusted	13,317	15,274	14,502	16,732	8.9	9.5
EPS -adjusted	29.8	34.2	32.4	37.4	8.9	9.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Profit and loss statement, March fiscal year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012	2013	2014E	2015E
Net sales	37,759	47,405	56,126	68,186	94,618	108,913	126,203
Materials	(15,697)	(19,445)	(21,977)	(25,513)	(34,980)	(39,753)	(45,433)
Employee cost	(4,570)	(5,872)	(7,677)	(9,695)	(12,488)	(14,985)	(17,983)
R&D	(2,318)	(3,650)	(4,660)	(5,228)	(7,099)	(7,589)	(8,666)
Others	(7,638)	(8,990)	(11,108)	(14,844)	(17,679)	(21,861)	(26,010)
Total expenditure	(30,224)	(37,956)	(45,422)	(55,281)	(72,245)	(84,189)	(98,092)
EBITDA	7,535	9,449	10,704	12,905	22,373	24,724	28,111
Depreciation and amortisation	(880)	(1,239)	(1,712)	(2,275)	(3,322)	(3,622)	(3,922)
EBIT	6,655	8,210	8,992	10,630	19,051	21,102	24,189
Net finance cost	(456)	(336)	(261)	(315)	(410)	(200)	(100)
Other income	162	142	72	144	606	100	100
Non-recurring income	(301)	342	807	1,524	—	—	—
Pretax profits	6,060	8,358	9,611	11,983	19,247	21,002	24,189
Current tax	(983)	(1,360)	(1,169)	(3,086)	(5,842)	(6,301)	(7,257)
Reported net profit	5,077	6,997	8,441	8,897	13,405	14,702	16,932
Minority Interests	(62)	(180)	(168)	(199)	(263)	(200)	(200)
Reported net profit after minority interests	5,015	6,817	8,273	8,699	13,142	14,502	16,732
Adjusted Net profit	5,015	6,654	7,547	6,822	11,863	14,502	16,732
Adjusted EPS	11.3	15.0	16.9	15.3	26.5	32.4	37.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Balance sheet, cash model, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013	2014E	2015E
Balance sheet							
Total equity	14,248	25,678	32,811	40,129	52,042	63,643	77,028
Total debt	12,233	11,399	11,624	16,400	11,635	10,352	5,299
Current liabilities	12,162	11,893	14,518	20,178	22,530	24,845	26,974
Minority Interests	143	255	515	723	595	595	595
Deferred tax liabilities	1,164	1,435	1,411	1,442	1,633	1,633	1,633
Total equity and liabilities	39,950	50,659	60,879	78,872	88,435	101,068	111,530
Cash and cash equivalents	778	2,015	4,201	4,025	4,349	7,659	9,223
Current assets	21,531	25,739	30,766	42,886	50,956	58,401	65,721
Net fixed assets	15,186	19,062	20,568	27,497	29,708	31,586	33,164
Capital -WIP	2,240	3,579	5,312	4,437	3,401	3,401	3,401
Investments	216	264	32	28	21	21	21
Total assets	39,950	50,659	60,879	78,872	88,435	101,067	111,530
Free cash flow							
Operating cash flow, excl. working capital	6,434	8,130	9,575	11,407	17,137	18,524	20,954
Working capital	(1,739)	(1,366)	(1,596)	(5,816)	(5,262)	(5,130)	(5,191)
Capital expenditure	(3,399)	(6,709)	(4,287)	(5,099)	(5,500)	(5,500)	(5,500)
Acquisitions	(1,566)	—	(80)	(2,289)	—	—	—
Free cash flow	(270)	56	3,613	(1,797)	6,376	7,894	10,263

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013

RESULT

Coverage view: **Attractive**

Price (Rs): **444**

Target price (Rs): **430**

BSE-30: **19,990**

Work in progress. Ranbaxy's earnings were below our expectation, driven by a sequential decline in US sales. Remediation expenses and launch expenses for Absorica also contributed to the miss. The positive from the quarter was initial gains for Absorica in the US – this may hold the key to recovery of US sales. Work on resolution of FDA issues is ongoing - while costs appear to be peaking, our cautious view is based on unpredictable timelines. We reduce CY2013E EPS by 9% and maintain our REDUCE rating with a target price of Rs430 (due to roll-forward) - value the stock at 18X one-year forward core EPS + US FTF NPV of Rs60/share.

Company data and valuation summary

Ranbaxy Laboratories

Stock data		Forecasts/Valuations			
		2013	2014E	2015E	
52-week range (Rs) (high,low)	578-371	EPS (Rs)	21.8	16.5	28.6
Market Cap. (Rs bn)	187.3	EPS growth (%)	(217.7)	(24.4)	73.0
Shareholding pattern (%)		P/E (X)	20.3	26.9	15.5
Promoters	63.5	Sales (Rs bn)	121.7	111.8	126.0
FIs	12.8	Net profits (Rs bn)	9.2	7.0	12.1
MFs	2.2	EBITDA (Rs bn)	17.7	11.6	18.8
Price performance (%)		EV/EBITDA (X)	10.7	17.7	9.4
Absolute	1M 0.8 3M 3.5 12M (9.9)	ROE (%)	26.5	12.8	14.8
Rel. to BSE-30	(7.0) 0.9 (25.4)	Div. Yield (%)	0.0	0.0	0.0

Weaker sales, higher remediation expenses drive earnings miss

Ranbaxy reported net income of Rs1.3 bn, which was 22% lower than our expectation. The numbers are not comparable on a yoy basis due to the presence of generic Atorvastatin sales (during the FTF period) in 1QCY12. Sales of Rs24.4 bn were 9% lower than our estimate, driven mainly by weaker US sales (sequential decline of US\$30 mn). EBITDA (excluding other operating income) of Rs1.3 bn was significantly lower than our expectation, given higher spends on remediation activities under the US FDA consent decree. Other expenses were also higher due to promotional activities for Absorica in the US (launched in November 2012). Gross margin of 63.2% recovered sharply on a sequential basis (640 bps), driving EBITDA margin increase to 5.3% (from 1.5% in 4QCY12).

Absorica initial trends are encouraging

Ranbaxy gained 9.4% market share in the Isotretinoin market (US\$400 mn) within five months of launching the product in the US. Given that Absorica is not a substitutable generic the quick market share ramp-up is encouraging. There has been incremental competition in the Isotretinoin market with DRL's entry in April 2013. Ranbaxy also recently launched Desvenlafaxine base (partnered with Alembic) which will be promoted through the trade channel (not substitutable). While US sales for the quarter missed expectation (due to Actos chargebacks), we believe the efforts in the branded business provide hope for a US recovery.

No update on consent decree resolution

The Ranbaxy management did not provide specific timelines on potential resolution of US FDA issues. We have seen professional/legal fees peak in CY2012 at Rs4 bn – a significant part of the spend is likely to be towards remediation activities (estimate Rs2.5-3.0 bn). The management indicated a decline in this spending was a good indicator of the progress made on the resolution.

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Exhibit 1: Ranbaxy earnings, December year-ends (Rs mn)

	1QCY13	1QCY13E	1QCY12	4QCY12	(% chg.)			CY2013E
					1QCY13E	1QCY12	4QCY12	
Sales	24,398	26,782	36,954	26,708	(8.9)	(34.0)	(8.6)	111,767
Sales - excluding exclusivity sales	24,398	26,782	21,593	26,708	(8.9)	13.0	(8.6)	
Total expenditure	23,100	24,545	27,716	26,303	(5.9)	(16.7)	(12.2)	101,338
Raw material	8,979	10,445	8,526	11,545	(14.0)	5.3	(22.2)	40,214
Staff cost	4,862	5,100	4,702	4,813	(4.7)	3.4	1.0	21,859
Other expenditure	9,259	9,000	14,488	9,945	2.9	(36.1)	(6.9)	39,264
EBITDA	1,298	2,237	9,238	405	(42.0)	(85.9)	220.3	10,429
EBITDA - adjusted	1,298	2,237	1,582	405	(42.0)	(17.9)	220.3	10,429
Other operating income	607	400	723	404				1,900
Non operating income	624	700	1,557	485				1,800
Non recurring income / (expense)	462	0	3,447	(3,658)				461
Interest	525	400	187	1,357				2,100
Depreciation	797	800	799	805				3,452
Pretax profits	1,670	2,137	13,980	(4,525)	(21.9)	(88.1)	(136.9)	9,038
Tax	353	534	1,374	340				1,808
Minority interest	59	-	139	59				250
Net income	1,258	1,603	12,468	(4,925)	(21.5)	(89.9)	(125.5)	6,980
Tax rate (%)	21.2	25.0	9.8	(7.5)				20.0
Segment wise sales (in US\$ mn)								
Domestic formulation	101	103	99	99	(2.4)	1.5	1.5	450
US	110	155	401	139	(29.1)	(72.6)	(20.9)	540
Canada	17	20	15	21	(13.7)	15.1	(17.8)	85
Europe/CIS	104	108	101	112	(4.0)	2.7	(7.4)	478
Africa	55	45	45	49	22.3	22.3	12.3	200
Asia Pacific / Latin America	31	35	41	36	(11.7)	(24.7)	(13.7)	166
Total formulation	417	466	702	456	(10.4)	(40.6)	(8.4)	1,918
API	33	30	34	41	11.6	(1.5)	(17.5)	151
Total sales	451	496	736	496	(9.1)	(38.8)	(9.2)	2,070
% margin								
Raw material	36.8	39.0	23.1	43.2				36.0
Staff cost	19.9	19.0	12.7	18.0				19.6
Other expenditure	37.9	33.6	39.2	37.2				35.1
EBITDA	5.3	8.4	25.0	1.5				9.3

Notes:

- Non-recurring income is net forex gains – forex gain on options (Rs0.8 bn) partially offset by forex loss on receivables (Rs0.3 bn)
- Staff cost includes the benefit of write-back of Rs0.3 bn due to gain on a defined benefit plan

Source: Company, Kotak Institutional Equities estimates

Ranbaxy – rebuilding the US pipeline

The management highlighted efforts to rebuild the US pipeline, filing three ANDAs during the quarter. The company had filed five ANDAs in CY2012. The filings are significantly weak compared with peers. We list some of Ranbaxy's US litigations in Exhibit 2.

Exhibit 2: Ranbaxy: List of key patent litigations in the US

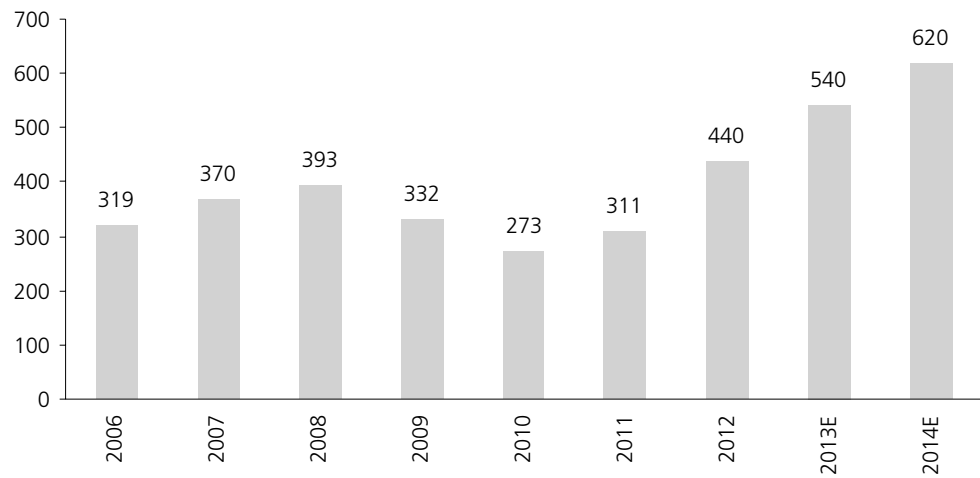
Molecule Name	Brand Name	Innovator	US brand/market size (US\$ mn)	FTF status	Tentative launch	Tentative approval	Final approval	Litigation status	Competition	Comments
Valganciclovir	Valcyte	Roche	350	Sole	CY2013	No	No	Settled	Ranbaxy is the FTF and has settled for a launch in Mar-13 (yet to launch). Endo, Sandoz, DRL and Apotex are other filers.	
Sirolimus	Rapamune	Pfizer	200	Shared (with Watson)	Jan-14	No	No	District	Watson. Other generics may have filed a PIII on the '899 patent (expires in Jan-14)	In Watson case, the district court held the '899 patent valid.
Esomeprazole magnesium	Nexium	AstraZeneca	2,272	Sole	May-14	5-Feb-08	No	Settled	Ranbaxy is the FTF and has settled for a launch on 27-May-14. Other filers such as DRL and Teva have also settled for a launch in Nov-14. Sandoz/Lupin/Torrent/He tero has also settled but terms not disclosed. Mylan has also filed.	
Risedronate sodium	Atelvia	Warner Chilcott	50	No	>Jun-14	No	No	District	Watson (FTF), Teva	In Actonel case, the appeals court has upheld the '122 patent (expires in Jun-14).
Memantine	Namenda	Forest Labs	1,030	Shared (with 14 more filers)	Jan-15	No	14-Apr-10	Settled	We expect competition to be intense during the exclusivity period and beyond.	All the generics have settled the case. Patent expires in Apr-15.
Ethinyl estradiol; norgestimate	Ortho Tri-cyclen Lo	J&J	420	No	Jun-16	No	No	Settled	Teva, Watson, Sandoz, Mylan, Sun, Lupin, Glenmark	Oral contraceptive filing. The patent ('819) has been upheld by the district court.
Oxycodone	Oxecta	Acura	na	No	Not Known	No	No	District	Watson, Impax, Par, Sandoz	
Minocycline HCl	Solodyn	Medicis	500	No	Not Known	No	No	Settled	> 5 filers	The market has been shifted to higher strengths - generics have settled for launch in 2018/19. Ranbaxy has also received approval for a new strength of Minocycline (to be promoted as a brand).
Fenofibrate	Tricor	Abbott	1,000	No	Not Known	No	No	Settled	Teva, Lupin and Biovail have already launched. Other filers are Mylan, Impax and Wockhardt.	

Exhibit 3: Core margin analysis, December year-ends, 2006-CY2014E (Rs mn)

	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Total sales	59,762	68,426	68,883	72,014	85,091	99,578	121,663	111,767	125,969
% yoy growth		14.5	0.7	4.5	18.2	17.0	22.2	-8.1	12.7
One -off opportunities	1,925	900		5,126	14,944	19,573	25,071		
Base sales	57,837	67,526	68,883	66,888	70,147	80,005	96,592	111,767	125,969
% yoy growth		16.8	2.0	-2.9	4.9	14.1	20.7	15.7	12.7
Reported EBITDA	7,892	8,839	5,200	4,701	15,721	15,637	17,665	11,629	18,813
% margin	13.2	12.9	7.5	6.5	18.5	15.7	14.5	10.4	14.9
% yoy growth		12.0	-41.2	-9.6	234.4	-0.5	13.0	-34.2	61.8
One -off EBITDA	1,733	810	0	4,870	14,197	11,522	11,821	0	0
Base EBITDA	6,160	8,029	5,200	-169	1,524	4,114	5,844	11,629	18,813
% margin	10.6	11.9	7.5	-0.3	2.2	5.1	6.1	10.4	14.9
% yoy growth		30.3	-35.2	NM	NM	169.9	42.1	99.0	61.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: US core sales, December year-ends, 2006-14E (US\$ mn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: US FTF pipeline

	Launch	NPV/share
Valsartan	2QCY13	15
Valganciclovir	2QCY13	5
Nexium	May-14	40
Total FTF value		60

Source: Kotak Institutional Equities estimates

Exhibit 6: Change in sales estimates, December year-ends, 2013-14E (Rs mn)

	Old estimates		New estimates		% change	
	2013E	2014E	2013E	2014E	2013E	2014E
Domestic formulations	24,298	27,256	24,298	27,256	0.0	0.0
North America	34,830	39,150	33,750	38,070	(3.1)	(2.8)
Europe	12,797	14,461	12,797	14,461	0.0	0.0
Romania	6,414	7,376	6,414	7,376	0.0	0.0
Africa	10,801	12,205	10,801	12,205	(0.0)	0.0
Asia	6,499	7,343	6,499	7,343	(0.0)	0.0
CIS	6,583	7,570	6,583	7,570	(0.0)	(0.0)
Latin America	2,453	2,699	2,453	2,699	0.0	0.0
Total formulations	104,673	118,059	103,593	116,979	(1.0)	(0.9)
API	8,173	8,991	8,173	8,991	0.0	0.0
Total sales	112,847	127,049	111,767	125,969	(1.0)	(0.9)

Source: Kotak Institutional Equities estimates

Exhibit 7: Change in earnings estimates, December year-ends, 2013E-14E (Rs mn)

	Old estimates		New estimates		% change	
	2013E	2014E	2013E	2014E	2013E	2014E
Sales	112,847	127,049	111,767	125,969	(1.0)	(0.9)
EBITDA - reported	13,849	19,355	11,629	18,813	(16.0)	(2.8)
EBITDA - adjusted	13,849	19,355	11,629	18,813	(16.0)	(2.8)
PBT	9,897	15,553	9,038	15,410	(8.7)	(0.9)
Tax	1,979	3,111	1,808	3,082	(8.7)	(0.9)
PAT -reported	7,668	12,192	6,980	12,078	(9.0)	(0.9)
PAT -adjusted	7,668	12,192	6,980	12,078	(9.0)	(0.9)
EPS -adjusted	18.2	28.9	16.5	28.6	(9.2)	(1.1)

Source: Kotak Institutional Equities estimates

Exhibit 8: Revenue summary, December year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012	2013E	2014E
Domestic formulations	17,164	17,549	19,513	21,661	24,298	27,256
North America	19,194	30,162	38,064	53,336	33,750	38,070
Europe	9,331	8,774	9,166	12,718	12,797	14,461
Romania	3,674	3,656	4,700	5,729	6,414	7,376
Africa	6,044	7,038	8,825	9,428	10,801	12,205
Asia	4,931	4,570	5,027	5,715	6,499	7,343
CIS	4,255	4,616	5,031	4,436	6,583	7,570
Latin America	3,433	3,793	2,826	2,201	2,453	2,699
Total formulations	68,026	80,158	93,152	115,224	103,593	116,979
API	5,415	5,210	6,774	7,305	8,173	8,991
Total sales	73,441	85,368	99,926	122,529	111,767	125,969
yoy growth, %						
Domestic formulations	7.6	2.2	11.2	11.0	12.2	12.2
North America	-0.5	57.1	26.2	40.1	-36.7	12.8
Europe	-3.1	-6.0	4.5	38.7	0.6	13.0
Romania	-20.9	-0.5	28.5	21.9	11.9	15.0
Africa	7.4	16.5	25.4	6.8	14.6	13.0
Asia	15.9	-7.3	10.0	13.7	13.7	13.0
CIS	-12.2	8.5	9.0	-11.8	48.4	15.0
Latin America	7.4	10.5	-25.5	-22.1	11.5	10.0
Total formulations	0.9	17.8	16.2	23.7	-10.1	12.9
API	6.8	-3.8	30.0	7.8	11.9	10.0
Total sales	1.3	16.2	17.1	22.6	-8.8	12.7
% of sales						
Domestic formulations	23.4	20.6	19.5	17.7	21.7	21.6
North America	26.1	35.3	38.1	43.5	30.2	30.2
Europe	12.7	10.3	9.2	10.4	11.4	11.5
Romania	5.0	4.3	4.7	4.7	5.7	5.9
Africa	8.2	8.2	8.8	7.7	9.7	9.7
Asia	6.7	5.4	5.0	4.7	5.8	5.8
CIS	5.8	5.4	5.0	3.6	5.9	6.0
Latin America	4.7	4.4	2.8	1.8	2.2	2.1
Total formulations	92.6	93.9	93.2	94.0	92.7	92.9
API	7.4	6.1	6.8	6.0	7.3	7.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Profit and loss statement, December year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012	2013E	2014E
Net sales	72,014	85,091	99,578	121,663	111,767	125,969
Materials	(29,836)	(29,462)	(32,558)	(40,089)	(38,136)	(42,477)
Employee cost	(12,179)	(13,381)	(14,971)	(17,576)	(20,151)	(22,993)
R&D	(5,447)	(5,452)	(5,182)	(5,000)	(5,185)	(5,597)
Legal	(3,115)	(2,400)	(3,074)	(4,165)	(1,600)	(1,600)
Others	(17,242)	(19,474)	(28,641)	(37,552)	(35,465)	(34,890)
Total expenditure	(67,819)	(70,169)	(84,425)	(104,382)	(100,538)	(107,556)
EBITDA	4,701	15,721	15,637	17,665	11,629	18,813
Depreciation and amortisation	(2,676)	(3,717)	(3,940)	(3,202)	(3,452)	(3,702)
EBIT	2,025	12,004	11,696	14,463	8,177	15,110
Net finance cost	396	972	359	754	(2,100)	(1,800)
Other income	474	714	700	1,649	2,500	2,100
Non-recurring income	7,195	7,311	(39,620)	(4,416)	461	0
Pretax profits	10,089	21,001	(26,865)	12,449	9,038	15,410
Current tax	(6,991)	(5,849)	(1,969)	(2,939)	(1,808)	(3,082)
Reported net profit	3,099	15,152	(28,834)	9,510	7,230	12,328
Minority Interests	142	185	163	282	250	250
Reported net profit after minority interests	2,957	14,967	(28,997)	9,228	6,980	12,078
Adjusted Net profit	(1,576)	(562)	2,335	3,029	6,980	12,078
Adjusted EPS	(3.7)	(1.3)	5.5	7.2	16.5	28.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Balance sheet and cash model, December year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012	2013E	2014E
Balance sheet						
Total equity	41,675	55,981	28,687	40,832	55,641	88,832
Total debt	36,295	43,348	44,907	49,013	31,624	25,412
Current liabilities	41,112	41,398	82,757	73,774	49,963	54,064
Minority Interests	2,292	713	816	901	901	901
Total equity and liabilities	121,375	141,441	157,167	164,520	138,128	169,209
Cash and cash equivalents	12,416	32,644	30,681	46,004	11,913	34,471
Current assets	47,670	54,287	73,901	64,733	71,885	80,110
Net fixed and intangible assets	44,905	45,479	48,587	50,078	50,625	50,923
Capital -WIP	6,231	3,818	2,641	2,558	2,558	2,558
Investments	5,407	4,985	982	790	790	790
Deferred tax asset	4,746	227	375	357	357	357
Total assets	121,375	141,440	157,167	164,520	138,128	169,209
Free cash flow						
Operating cash flow, excl. working capital	(1,892)	12,399	(12,786)	8,792	19,323	38,549
Working capital	271	2,987	19,078	7,029	(30,963)	(4,124)
Capital expenditure	(5,221)	(4,983)	(4,739)	(4,767)	(4,000)	(4,000)
Free cash flow	(6,842)	10,403	1,553	11,054	(15,641)	30,425

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013
RESULT

Coverage view: **Cautious**

Price (Rs): **537**

Target price (Rs): **425**

BSE-30: **19,990**

Weak performance; continues to invest in long-term opportunity. ABB's results surprised in terms of sales (up 10% on strong power-systems business) but were weak on (1) margins (similar to CY2012 levels, adjusted for provisions), (2) inflows (ordering from new segments like solar and buildings limited decline to 6%) and (3) working capital (debt at Rs5 bn from Rs3 bn at the end of December 2012). It is optimistic about business recovery and continues to invest in business (new units for GIS and distribution transformers). We retain our SELL rating on high valuations (27X one-year forward P/E).

Company data and valuation summary
ABB
Stock data

52-week range (Rs) (high,low) 830-468

Market Cap. (Rs bn) 113.9

Shareholding pattern (%)

Promoters 75.0

FIs 3.3

MFs 1.6

Price performance (%)

Absolute 1M 3M 12M

Rel. to BSE-30 1.8 (18.9) (41.3)

Forecasts/Valuations

2013 2014E 2015E

EPS (Rs) 6.7 17.0 24.5

EPS growth (%) (23.6) 155.6 44.3

P/E (X) 80.8 31.6 21.9

Sales (Rs bn) 75.1 80.2 85.8

Net profits (Rs bn) 1.4 3.6 5.2

EBITDA (Rs bn) 2.4 5.9 7.7

EV/EBITDA (X) 47.4 19.5 14.4

ROE (%) 5.5 13.1 16.8

Div. Yield (%) 0.6 0.6 0.7

Outlook: Acknowledges business uncertainty; investing in business to cater to long-term demand

While being cautious about the environment (delays in investment decisions, stiff competition), ABB is positive about longer-term demand and is investing in new capacities (setting up units for GIS and distribution transformers). It cited near-term opportunities in power including (1) solar (Andhra Pradesh) and (2) Flexible AC transmission systems (large tenders opened by PGCIL). At a company level, it believes it is better placed than in the last cycle and dismissed risks to business from higher royalty payments and receivables going bad.

Inflows: New segments (solar, railways) limit overall decline; weak backlog offers limited visibility

ABB posted 6% decline in order inflows in 1QCY13, led mainly by lack of large project order wins. The 10% growth in short-cycle orders was supported by diversification into new infrastructure segments like railways, solar and buildings (ordering in traditional segments has declined here). While execution in the first quarter (up 10% yoy) benefitted from strong growth in the power-systems segment, weak backlog (Rs82 bn; one-year visibility) may constrain incremental execution if ordering does not pick up (we build 7% growth for CY2013E assuming 12% growth in inflows).

Results: Lower-than-expected margin recovery, higher interest costs negate sales surprise

ABB reported better-than-expected sales of Rs19.5 bn (up 10% yoy, 6% ahead of our estimate) on strong recovery in the power-systems business (up 32% yoy after a decline over two quarters). EBITDA margin of 4.6% (similar to provision adjusted CY2012 margin of 5%) was flat yoy and lower than our 6% estimate. Lower-than-expected margins and higher interest costs (Rs198 mn in 1Q) led to PAT of Rs426 mn (down 11% yoy, a 38% miss). Note increase in debt (Rs5 bn from Rs3 bn at the end of March 2013).

We marginally revise estimates on higher interest cost; reiterate SELL

We revise our estimates to Rs17 and Rs24.5 for CY2013 and CY2014 from Rs17.3 and Rs23 on higher interest payments in CY2013 and marginal upward revision to CY2014E margin. We reiterate our SELL rating (retain TP of Rs425) on (1) high valuations (27X one-year forward P/E) and (2) weak operational performance with intense competition and a sedate demand outlook.

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Inflows: New segments (solar, railways) limit overall decline

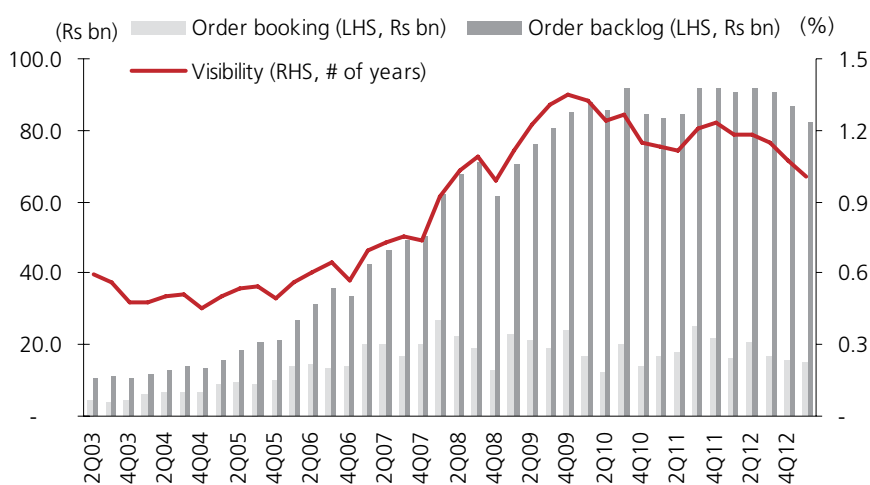
ABB reported a 6% decline in order inflows in 1QCY13 led mainly by a lack of large project order wins. The 10% growth in short-cycle orders was supported by business diversification into new infrastructure segments like railways, solar and buildings (ordering in traditional segments declined here, as well).

Weak backlog provides limited visibility

While execution in the first quarter (up 10% yoy) benefitted from strong growth in the power-systems segment, weak backlog (Rs82 bn; one year's visibility) may constrain incremental execution if ordering does not pick up (we build 7% growth for CY2013E assuming 12% growth in inflows).

Exhibit 1: Backlog provides one year of forward visibility

ABB - order booking, order backlog and visibility trend, December calendar year-ends (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Margin: Continues focus on initiatives for operational excellence

The company continues to focus on improving operational efficiencies and optimizing the supply chain and has benefitted from this in the recent quarter. It improved gross margins to 28% from 26% reported in 4CY12. It also contained its employee costs, which grew only 2.5% yoy on an adjusted basis (1QCY12 had reversal of bonus provision of Rs160 mn). Other expenses for the quarter have increased by about 5% due to inflation.

Product share of business increases on stronger exports and solar business

Products now account for about 60% of ABB's business versus 50-55% earlier due to stronger exports and the solar business. In contrast to the projects business, the products business fared better based on (1) lower impact of a weak economic cycle and (2) lower payment risks from clients.

Results: Lower-than-expected margin recovery, high interest cost negate sales surprise

- ▶ **Double-digit revenue growth supported by strong growth in power systems.** ABB reported better-than-expected 1QCY13 revenue of Rs19.5 bn, up 10% yoy and about 6% ahead of our estimate of Rs18.5 bn (which implied 4% yoy growth). The double-digit revenue growth was led by power systems, which grew by 32% yoy and discrete automation (up 7% yoy). Process automation recorded a 7.8% revenue decline, with the power products and low-voltage products segment reporting a 2.4% yoy decline.

- ▶ Margins profile stabilizes though still below recovery expectations. ABB reported 4.6% EBITDA margin in 1QCY13, flat yoy and below our expectation of recovery to 6%. All segments reported EBIT margin of 4-8% (power segment reported 4% EBIT margin after two quarters of loss).
- ▶ Reports PAT of Rs426 mn (down 11% yoy). Lower-than-expected margin and higher interest cost (Rs198 mn in 1Q) led to PAT of Rs426 mn (down 11% yoy, 38% below our estimate). Note increase in debt to Rs5 bn (from Rs3.3 bn at the end of March 2013).

Exhibit 2: ABB: 1QCY13 - key numbers (Rs mn)

	1QCY13	1QCY13E	1QCY12	4QCY12	% change			CY2013E	CY2012	% change
					vs est.	yoy	qoq			
Sales	19,534	18,447	17,730	20,528	5.9	10.2	(4.8)	80,202	75,137	6.7
Expenses	(18,635)	(17,340)	(16,928)	(20,157)	7.5	10.1	(7.6)	(74,346)	(72,689)	2.3
Raw material cost	(14,509)	-	(12,818)	(15,068)		13.2	(3.7)	(56,651)	(54,595)	3.8
Employee expenses	(1,693)	-	(1,489)	(1,459)		13.7	16.1	(6,333)	(6,240)	1.5
Other expenses	(2,700)	-	(2,698)	(3,210)		0.1	(15.9)	(11,362)	(11,854)	(4.2)
EBITDA	899	1,107	803	371	(18.8)	12.0	142.5	5,856	2,448	139.2
Other income	180	223	191	323	(19.1)	(5.7)	(44.2)	1,115	1,041	7.2
Interest	(198)	(70)	(54)	(185)		265.7	6.9	(628)	(432)	45.2
Depreciation	(246)	(238)	(223)	(246)	3.5	10.2	0.1	(952)	(942)	1.0
PBT	636	1,022	716	263	(37.8)	(11.3)	141.3	5,392	2,114	155.0
Tax	(210)	(337)	(240)	(96)	(37.7)	(12.5)	119.2	(1,790)	(705)	154.0
Net profit	426	685	476	168	(37.8)	(10.6)	153.9	3,602	1,409	155.6
Key ratios (%)										
Raw material/ Sales	72.9	-	71.9	75.5				70.6	72.7	
Employee exp./ Sales	8.7	-	8.4	7.1				7.9	8.3	
Other exp./ Sales	13.8	-	15.2	15.6				14.2	15.8	
EBITDA margin	4.6	6.0	4.5	1.8				7.3	3.3	
PBT Margin	3.3	5.5	4.0	1.3				6.7	2.8	
PAT Margin	2.2	3.7	2.7	0.8				4.5	1.9	
Tax rate	33.0	33.0	33.5	36.4				33.2	33.3	
EPS	2.0	3.2	2.2	0.8				17.0	6.7	
Order details										
Order booking	15,310		16,320	15,790		(6.2)	(3.0)	82,873	69,660	19.0
Order backlog	82,290		90,280	86,720		(8.9)	(5.1)	91,407	86,720	5.4

Source: Company, Kotak Institutional Equities estimates

Segmental results

- ▶ **Power systems: Strong sales growth helps to boost margin:** The segment benefitted from a strong backlog and reported sales growth of 32% (1Q sales of Rs7.5 bn). This also improved its EBIT margin to 4% (losses reported over the past two quarters).
- ▶ **Power products: Marginal decline in sales; margin intact.** Power products reported sales of Rs4.4 bn, a marginal 3.5% decline yoy. EBIT margin was steady at 5%.
- ▶ **Process automation: Sales contract 8% yoy but margin improves sharply.** Segmental sales declined 8% yoy to Rs2.8 bn in 1QCY13. EBIT margin of 6.4% was a surprise (note that the segment reported losses for the full year 2012).
- ▶ **Discrete automation/low voltage products.** Both segments reported modest deterioration in margins (200-300 bps lower yoy) due to (1) the business mix (some large projects are being delivered; generally have lower margins) and (2) higher commodity prices. Discrete automation sales grew 7% (in spite of subdued demand from core sectors of cement and steel) while low voltage product sales declined by 2% yoy.

Exhibit 3: ABB: 1QCY13 segmental results - key numbers (Rs mn)

	1QCY13	1QCY12	4QCY12	% change		CY2012	CY2011	% chg.
				yoy	qoq			
Revenues								
Power Products	4,421	4,580	5,844	(3.5)	(24.3)	20,853	20,008	4.2
Power Systems	7,519	5,689	5,990	32.2	25.5	22,422	23,624	(5.1)
Discrete Automation & Motion	4,420	4,141	4,934	6.8	(10.4)	17,753	17,993	(1.3)
Process Automation	2,803	3,039	4,098	(7.8)	(31.6)	13,566	13,219	2.6
Low voltage products	1,414	1,447	1,683	(2.3)	(16.0)	6,174	5,399	14.4
Total	20,577	18,895	22,549	8.9	(8.7)	80,767	80,242	0.7
Less Intersegmental	(982)	(1,063)	(1,856)			(5,478)	(6,055)	(9.5)
Net Sales	19,700	17,903	20,823	10.0	(5.4)	75,650	74,490	1.6
EBIT								
Power Products	220	107	549	105.2	(60)	1,384	998	38.7
Power Systems	299	282	(629)	6	NA	(145)	(8)	1,652
Discrete Automation & Motion	332	432	646	(23.2)	(48.5)	1,956	2,066	(5.3)
Process Automation	179	83	(9)	115	NA	(152)	377	(140.4)
Low voltage products	54	82	115	(34)	(53)	396	341	15.9
Total	1,084	987	671	9.9	61.6	3,439	3,774	(8.9)
(Add)/ Less - Interest	(198)	(54)	(185)			(432)	(307)	40.9
Other unallocated exp.	(251)	(216)	(223)			(944)	(790)	19.5
Total Profit Before Tax	636	716	264	(11.3)	141.2	2,062	2,677	(23.0)
EBIT margin (%)								
Power Products	5.0	2.3	9.4			6.6	5.0	
Power Systems	4.0	5.0	(10.5)			(0.6)	(0.0)	
Discrete Automation & Motion	7.5	10.4	13.1			11.0	11.5	
Process Automation	6.4	2.7	(0.2)			(1.1)	2.8	
Low voltage	3.8	5.7	6.8			6.4	6.3	

Source: Company, Kotak Institutional Equities estimates

We marginally revise estimates on higher interest cost; reiterate SELL

We revise estimates to Rs17 and Rs24.5 for CY2013 and CY2014 from Rs17.3 and Rs23 on higher interest payments in CY2013E and upward revision to CY2014E margin. We reiterate our SELL rating (we retain our target price of Rs425) on (1) high valuations (27X one-year forward P/E) and (2) weak operational performance with intense competition and a sedate demand outlook.

Exhibit 4: Change in estimates for ABB, December calendar year-ends, 2013-14E (Rs mn)

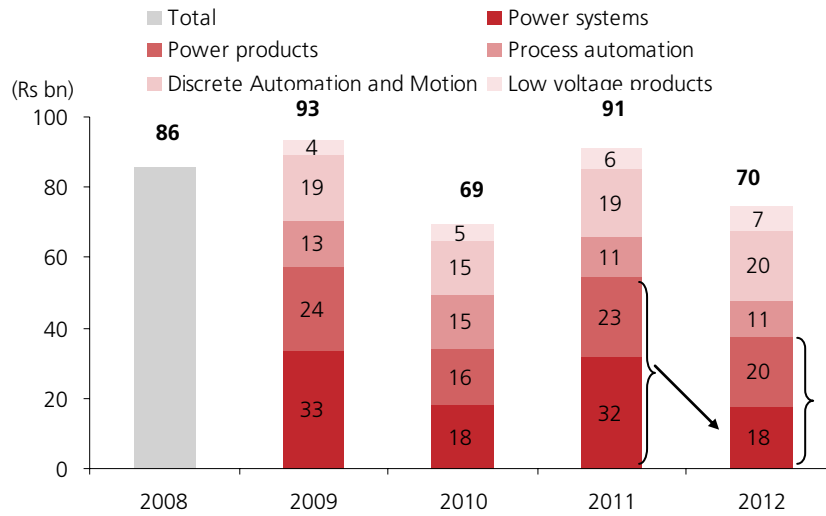
	CY2012	New estimates		Old estimates		% change	
		CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Order inflows	74,230	82,873	95,304	82,873	95,304	-	-
Revenues	75,137	80,202	85,768	80,202	85,768	-	-
Power Products	20,853	21,110	23,144	21,110	23,144	-	-
Power Systems	22,422	24,244	24,437	24,244	24,437	-	-
Discrete Automation & Motion	17,753	20,783	23,377	20,783	23,377	-	-
Process Automation	13,566	12,279	12,487	12,279	12,487	-	-
Low voltage products	6,174	7,797	8,750	7,797	8,750	-	-
EBITDA	2,448	5,856	7,667	5,604	7,127	4.5	7.6
EBITDA margin (%)	3.3	7.3	8.9	7.0	8.3		
Interest cost	(432)	(628)	(302)	(281)	(257)	123.6	17.3
PAT	1,409	3,602	5,197	3,665	4,866	(1.7)	6.8
EPS (Rs)	6.7	17.0	24.5	17.3	23.0	(1.7)	6.8
Growth (%)							
Order inflows	(18.4)	11.6	15.0	11.6	15.0		
Revenues	1.9	6.7	6.9	6.7	6.9		
Power Products	4.2	1.2	9.6	1.2	9.6		
Power Systems	(5.1)	8.1	0.8	8.1	0.8		
Discrete Automation & Motion	(1.3)	17.1	12.5	17.1	12.5		
Process Automation	2.6	(9.5)	1.7	(9.5)	1.7		
Low voltage products	14.4	26.3	12.2	26.3	12.2		
EBITDA	(13.5)	139.2	30.9	128.9	27.2		
PAT	(23.6)	155.6	44.3	160.0	32.8		

Source: Company, Kotak Institutional Equities estimates

Takeaways form the 2012 annual report

- ▶ **Power systems ordering contracts sharply.** A sharp 18% decline in 2012 order inflows was largely attributable to a fall in power systems (down 45% yoy to levels last seen in CY2005) and power products orders (down 12%). In contrast, industrial capex-related businesses (process automation, discrete automation and low voltage products) fared better (single-digit decline/growth in inflows).

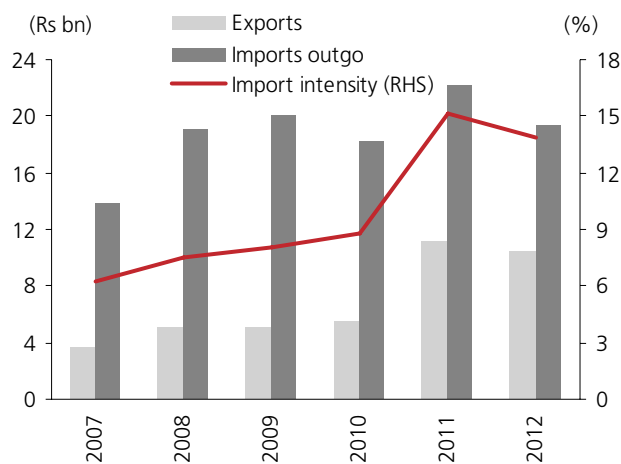
Exhibit 5: Decline in 2012 inflows was led mainly by a sharp contraction in the power segment
 Order inflow trajectory for ABB, December calendar year-ends, 2008-12



Source: Company, Kotak Institutional Equities

- ▶ **High import dependence.** ABB has so far used India as a market rather than a center to indigenize production. The global slowdown, leading to enhanced competition, growing local/emerging market demand and enhanced manufacturing competitiveness, may have led the MNC to rethink and develop a stronger manufacturing base in India.

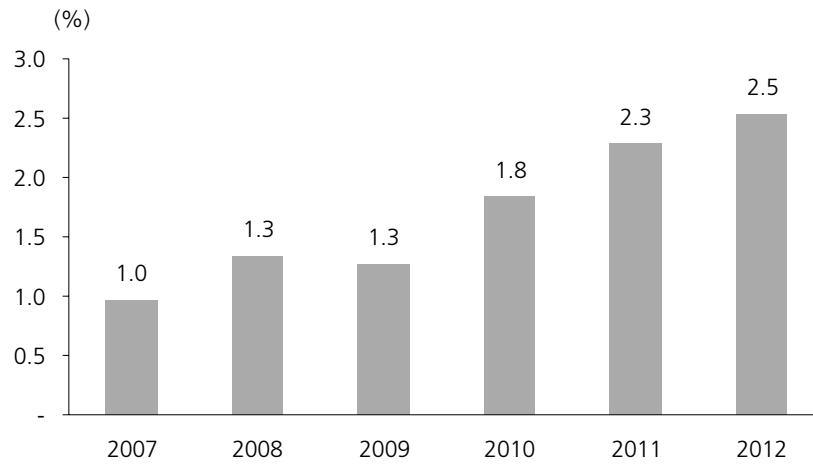
Exhibit 6: ABB has high import dependence
 ABB's exports and imports, December year-ends, 2007-12



Source: Company, Kotak Institutional Equities

- ▶ **ABB's royalty at high 2011 level.** ABB's low margin in 2012 was partly attributed to a high 2.5% royalty share of sales (2.3% in 2011, 1.8% in 2010). This represents a structural increase in the company's costs compared with historical levels.

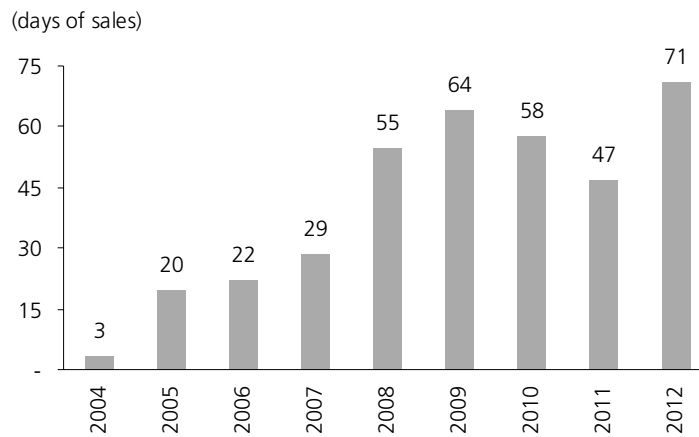
Exhibit 7: ABB's royalty share of sales increased in 2012
 Royalty share of sales for ABB, December calendar year-ends, 2005-12 (%)



Source: Company, Kotak Institutional Equities

- ▶ **ABB's working capital deteriorates on lower payables.** Working capital deteriorated to 71 days of sales at the end of 2012 versus 47 days of sales at the end of 2011. This was led by lower trade payables (continue to decline to 111 days versus 140 days in 2007). Despite a declining backlog, advances were stable at 50 days of sales, possibly reflecting the impact of an execution slowdown.

Exhibit 8: ABB's working capital deteriorated in 2012
 ABB's working capital, December calendar year-ends, 2004-12



Source: Company, Kotak Institutional Equities

Exhibit 9: Financials of ABB, December calendar year-ends, 2007-14E (Rs mn)

	2007	2008	2009	2010	2011	2012	2013E	2014E
Income statement								
Net revenues	59,303	68,370	62,372	62,871	73,703	75,137	80,202	85,768
Total operating expenses	(52,057)	(60,673)	(57,098)	(62,033)	(70,872)	(72,689)	(74,346)	(78,101)
Raw material cost	(42,920)	(49,504)	(45,179)	(48,291)	(54,785)	(54,595)	(56,651)	(59,340)
Employee expenses	(3,061)	(4,030)	(3,892)	(4,901)	(5,868)	(6,240)	(6,333)	(6,611)
Other expenses	(6,076)	(7,139)	(8,027)	(9,111)	(10,218)	(11,854)	(11,362)	(12,150)
EBITDA	7,247	7,698	5,274	838	2,831	2,448	5,856	7,667
EBITDA margin (%)		11.3	8.5	1.3	3.8	3.3	7.3	8.9
Other income	710	1,304	726	855	949	1,041	1,115	1,370
Interest	(68)	(303)	(241)	(174)	(307)	(432)	(628)	(302)
Depreciation	(324)	(367)	(485)	(517)	(795)	(942)	(952)	(956)
PBT	7,565	8,332	5,274	1,002	2,677	2,114	5,392	7,780
Tax	(2,648)	(2,858)	(1,728)	(370)	(832)	(705)	(1,790)	(2,583)
Net profit	4,917	5,474	3,546	632	1,845	1,409	3,602	5,197
EPS (Rs)	23.2	25.8	16.7	3.0	8.7	6.7	17.0	24.5
Balance sheet								
Shareholders funds	16,118	21,047	24,097	24,051	25,345	26,016	28,800	33,129
Equity capital	424	424	424	424	424	424	424	424
Reserves and surplus	15,694	20,623	23,673	23,627	24,921	25,593	28,376	32,705
Total sources of funds	16,269	21,190	24,237	24,191	25,364	29,293	31,800	33,147
Total fixed assets	4,579	6,833	7,895	8,238	12,268	12,719	12,767	12,812
Investments	705	611	169	168	167	166	166	166
Cash and bank balance	6,429	3,482	5,241	5,871	2,691	868	2,296	3,329
Net working capital	4,685	10,301	10,931	9,914	9,493	14,600	15,631	15,901
Total application of funds	16,269	21,190	24,237	24,191	25,364	29,293	31,800	33,147
Cash flow statement								
Cash flow from operating activities	3,023	56	3,290	2,052	2,782	(2,801)	3,404	5,756
Cash flow from investing activities	(1,369)	(2,118)	(474)	(598)	(5,169)	(1,567)	(1,000)	(1,000)
Free cash flow	1,654	(2,062)	2,816	1,454	(2,387)	(4,368)	2,404	4,756
Cash flow from financing activities	(476)	(472)	(424)	(424)	(617)	2,558	(977)	(3,723)
Cash generated/(utilised)	964	(2,946)	1,759	630	(3,182)	(1,810)	1,428	1,033
Net cash at start of the year	5,464	6,429	3,482	5,241	5,871	2,691	868	2,296
Net cash at end of the year	6,429	3,482	5,241	5,871	2,691	868	2,296	3,329

Source: Company, Kotak Institutional Equities estimates

Asset quality stable. 4QFY13 was a steady quarter with the bank using most of the underlying gains on treasury income to improve provision coverage. Loan impairment was low with negligible slippages while fresh restructuring was primarily from SEBs. Loan growth was strong but disappointing as it appears to be short term in nature. Margin expansion is likely as NIM for FY2013 was closer to a decade low and costs have started to soften. Maintain BUY on inexpensive valuations with TP of ₹480 (unchanged).

Company data and valuation summary

Corporation Bank

Stock data		Forecasts/Valuations			
		2013	2014E	2015E	
52-week range (Rs) (high,low)	495-360	EPS (Rs)	93.8	102.3	108.7
Market Cap. (Rs bn)	61.5	EPS growth (%)	(7.7)	9.0	6.3
Shareholding pattern (%)		P/E (X)	4.3	3.9	3.7
Promoters	58.5	NII (Rs bn)	34.3	42.7	47.9
FIs	3.5	Net profits (Rs bn)	14.3	15.6	16.6
MFs	3.4	BVPS	565.6	615.3	684.3
Price performance (%)		P/B (X)	0.7	0.7	0.6
Absolute	1M 3M 12M	ROE (%)	16.1	15.4	14.6
	3.6 (1.2) (0.5)	Div. Yield (%)	5.0	5.4	5.8
Rel. to BSE-30	(4.4) (3.7) (17.6)				

Slippages show improvement but short-term growth could have been avoided; maintain BUY

Corporation Bank reported a fairly stable quarter on loan impairment (slippages at ~1% and fresh restructuring <5% of loans, of which >60% were from SEB). Coverage ratio improved ~400 bps qoq to 62% as the bank utilized the strong gains reported for the quarter. A key disappointment was the strong growth in loans (14% qoq and 18% yoy) as bulk of this growth appears to be short term in nature; avoidable in our view as it raises requirements for PSL in subsequent years, which the bank has been meeting through higher share of RIDF investments.

We have marginally revised our estimates downwards to factor slower loan growth, higher operating expenses and provisions (partly to meet the dynamic provisions and possible impairment in the infrastructure portfolio). We are valuing the bank at 0.8X book and 5X EPS for RoEs at ~15%. Earnings growth has scope for improvement but dependent on NIM expansion. Inexpensive valuation drives our rating but dilution risk is high as tier-1 ratio is at ~8% levels and operating leverage is low over the next few years.

Loan impairment ratios stable qoq; restructuring primarily in SEB exposure

Corporation Bank reported a fairly strong quarter with gross and net NPLs declining qoq. Gross NPLs declined 40 bps qoq to 1.7% while net NPLs declined 40 bps qoq to 1.2% of loans. Reported slippages have been adjusted for recoveries of loans that slipped in the past three quarters, resulting in a negligible slippage for the quarter. However, discussions with the bank indicate that gross slippages have been low this quarter, which we believe is quite possible as the bank has a high share of corporate loans where slippages are lumpy in nature. Fresh restructuring was at ~5% of loans but >60% of loans were restructured in the SEB exposure in the current quarter. The bank has adjusted its outstanding restructured loans under the new guidelines, which resulted in a decline of 200 bps to 6.5% of loans.

While the quarter has been impressive, we maintain our cautious outlook as the bank has a high share of corporate exposure (~50% in corporate loans and ~15% in SME loans) where the possibility of slippages remains high and volatile. We expect high credit costs in the medium term at 1.2-1.3% (including dynamic provisions) and slippages at ~2% for FY2014-15E.

BUY

MAY 09, 2013

RESULT

Coverage view: **Cautious**

Price (Rs): **402**

Target price (Rs): **480**

BSE-30: **19,990**

QUICK NUMBERS

- NII grew 12% yoy; loan grew 14% yoy
- Net NPLs 1.2%; restructured loans at 6.5%
- Maintain BUY with TP at ₹480 (unchanged)

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Stable NIMs but costs have started to decline; NIM at a decade low

NIMs were stable qoq at 2.3% as the bank has started to see a decline in cost of funds. However, the improvement has been slower than expected as the benefit of declining costs was passed to borrowers through a reduction in base rate and high growth in low-yielding loans that was funded through high-cost deposits (deposits grew 22% yoy, 18% qoq). CASA ratio remained flat at 22%.

We expect NIM, which is at a decade low, to improve from current levels by 20 bps by FY2014-15E as benefit of a higher share of wholesale deposits (re-pricing benefit) plays out.

Loan growth driven by corporate loans; attempt to diversify loan portfolio

Similar to the previous few years, growth has been extremely strong in the last quarter (14% qoq), primarily driven by large corporate loans. Majority of the loans has been driven by the large corporate segment, short term in nature which could be repaid this quarter. Such growth has a negative implication as the bank needs to build a high PSL portfolio in subsequent years (the bank already has a high share of investments in low-yielding RIDF bonds). We are not too positive on growth as the bank focuses primarily on large corporate loans and sanctions have been negligible in the past 6-8 quarters.

Other operational highlights for the quarter

- ▶ Non-interest income increased 34% yoy on the back of 30% yoy growth in treasury income and strong recovery from bad debts. Core fee income grew 27% yoy, driven by working capital requirements like LC and BGs.
- ▶ Cost to income ratio was stable at 38% but the bank has been making provisions for wage settlement in the provisioning line item rather than staff costs. The management has made a provision factoring ~14% hike in the new wage settlement—a bit low in our view.
- ▶ Tier-1 ratio was at 8.3% with overall capital adequacy at 12.3%. The bank would need to dilute its equity capital over the next few years to keep the current pace of growth as RoEs are likely to decline on the back of higher provisions for the new wage settlement, normalization of retirement assumptions and dynamic provisions.

Exhibit 1: Slippages trend continues to be volatile

Movement of NPLs, March fiscal year-ends, 4QFY10-4QFY13 (₹ bn)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
Opening NPL	7.5	6.5	7.3	7.4	9.1	7.9	8.5	10.8	12.5	12.7	16.9	19.5	22.8
Addition	1.0	2.2	1.3	2.9	1.5	1.5	5.1	3.7	1.6	7.2	4.5	7.0	2.4
Reductions	2.0	1.4	1.1	1.1	2.7	1.0	2.8	2.0	1.4	3.1	1.9	3.7	4.7
Write off	1.0	0.5	1.2	1.1	2.7	0.3	2.7	1.4	1.4	1.4	1.4	3.4	-
Recovery	0.4	0.8	(0.4)	(0.0)	0.3	0.3	0.0	0.7	(0.0)	0.3	0.0	0.4	-
Upgradation	0.6	0.2	0.3	5.3	(5.2)	0.4	0.1	(0.1)	0.0	1.3	0.5	(0.1)	-
Closing NPL	6.5	7.3	7.4	9.1	7.9	8.5	10.8	12.5	12.7	16.9	19.5	22.8	20.5
Slippages (%)	0.7	1.4	0.8	1.6	0.8	0.7	2.6	1.8	0.7	2.9	1.8	2.9	0.9
Gross NPLs (%)	1.0	1.1	1.1	1.3	0.9	1.1	1.3	1.4	1.3	1.7	2.0	2.2	1.7
Net NPLs	2.0	2.8	2.7	4.1	4.0	4.1	7.5	8.9	8.7	11.9	13.5	17.0	14.1
Net NPLs (%)	0.3	0.4	0.4	0.6	0.5	0.5	0.9	1.0	0.9	1.2	1.4	1.6	1.2

Source: Company, Kotak Institutional Equities

Exhibit 2: Change in estimates

Old and new estimates, March fiscal year-ends, 2014-15E (₹ mn)

	New estimates		Old estimates		% change	
	2014E	2015E	2014E	2015E	2014E	2015E
Net interest income	42,673	47,920	43,727	48,747	(2.4)	(1.7)
NIM (%)	2.2	2.2	2.4	2.4		
Loan growth	12.6	13.3	12.6	13.3		
Loan loss provisions	15,145	17,824	14,629	17,216	3.5	3.5
Other income	19,520	22,666	18,448	21,393	5.8	6.0
Treasury income	4,500	5,500	4,500	5,500	-	-
Operating expenses	24,821	29,132	24,479	28,741	1.4	1.4
Employee expenses	13,140	15,304	12,925	15,054	1.7	1.7
Investment dep/amortization	200	200	200	200	-	-
PBT	20,828	22,430	21,667	22,982	(3.9)	(2.4)
Net profit	15,644	16,624	16,475	17,015	(5.0)	(2.3)
PBT - treasury	16,528	17,130	17,367	17,682	(4.8)	(3.1)
PBT - treasury + NPL provisions	31,673	34,954	31,996	34,899	(1.0)	0.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Corporation Bank quarterly results
March fiscal year-ends, 4QFY12-4QFY13 (₹ mn)

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	% chg	4QFY13E	Actual Vs KS
Interest income	35,859	36,506	37,445	38,709	40,681	13	38,588	5
Advances	26,913	27,415	28,105	28,379	30,590	14	28,574	7
Investments	8,050	7,882	8,250	9,111	9,074	13	9,252	(2)
Others	896	1,209	1,090	1,219	1,017	13	761	34
Interest expenses	27,519	28,422	29,412	29,875	31,373	14	28,946	8
Net interest income	8,339	8,084	8,032	8,834	9,308	12	9,642	(3)
Non-interest income	4,233	3,276	3,260	3,870	5,674	34	4,454	27
Fee income and others	2,449	2,147	2,448	2,440	3,202	1	2,468	-
Investment gains	959	426	462	671	1,243	30	941	32
Forex income	430	387	67	289	289	(33)	527	-
Dividend on shares	18	109	31	29	500	2,741	65	-
Bad debt recovery	378	207	251	440	440	16	397	-
Other income excluding treasury	3,274	2,850	2,798	3,198	4,431	35	3,513	26
Total income	12,572	11,360	11,292	12,703	14,982	19	14,096	6
Operating expenses	4,430	4,662	4,435	5,114	5,757	30	5,475	5
Employee cost	2,161	2,390	2,036	2,634	2,843	32	2,884	(1)
Other cost	2,269	2,272	2,399	2,481	2,914	28	2,591	12
Pre-tax and pre-provision profit	8,143	6,699	6,858	7,589	9,225	13	8,621	7
Provisions	3,377	2,166	2,688	4,061	4,599	36	4,141	11
NPLs	1,783	2,394	2,292	3,239	2,355	32	2,840	(17)
Inv. depreciation	(549)	(644)	(242)	(10)	843	(254)	796	6
PBT	4,765	4,533	4,169	3,529	4,625	(3)	4,480	3
Tax	1,253	830	112	497	1,070	(15)	992	8
Net profit	3,513	3,703	4,057	3,032	3,555	1	3,488	2
Tax rate (%)	26	18	3	14	23			
PBT-treasury profits	3,257	3,462	3,466	2,847	4,226			
PBT- treasury profits + NPL	5,040	5,857	5,758	6,086	6,581			
Balance sheet (Rs bn)								
Deposits	1361.4	1341.0	1437.4	1403.8	1660.1	21.9		
CASA Ratio (%)	22.1	20.7	20.9	20.5	21.7			
Investments	474.7	477.9	535.3	532.6	581.6	22.5		
Advances	1004.7	985.5	981.6	1044.4	1187.2	18.2		
Medium and large industries	449.2	450.4	468.7	485.1	521.0	16.0		
SME	143.4	146.6	157.8	176.4	195.2	36.1		
Agriculture	71.4	72.1	80.0	87.3	94.7	32.6		
Retail	202.9	228.5	211.7	228.8	251.5	23.9		
Others	137.8	87.8	63.4	66.9	124.8	-9.4		

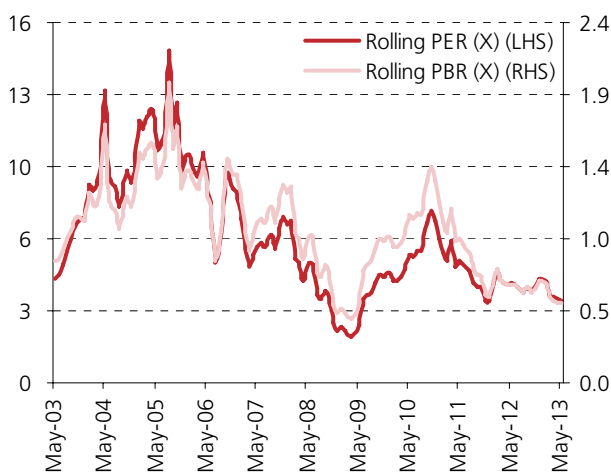
Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Corporation Bank—key operational parameters
March fiscal year-ends, 4QFY12-4QFY13

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
Asset quality details					
Gross NPLs (Rs mn)	12,742	16,894	19,493	22,841	20,492
Gross NPLs (%)	1.3	1.7	2.0	2.2	1.7
Net NPLs (Rs mn)	8,694	11,855	13,510	16,976	14,109
Net NPLs (%)	0.9	1.2	1.4	1.6	1.2
Provision coverage (%)	31.8	29.8	30.7	25.7	31.2
Provision coverage (inc w/o) (%)	65.3	61.0	60.4	58.0	62.1
Slippages (Rs mn)	1,388	3,070	1,855	3,657	4,709
Slippages ratio (%)	0.7	2.9	1.8	2.9	0.9
Restructured loans (gross, Rs mn)	73,120	83,878	86,396	88,950	76,750
Restructured loans to loans (%)	7.3	8.5	8.8	8.5	6.5
Yield management measures (%)					
Yield on advances	11.7	11.6	11.9	11.6	11.5
Yield on investments	7.8	7.7	7.7	7.8	7.7
Cost of deposits	8.0	8.1	8.3	8.1	8.0
NIM	2.4	2.3	2.2	2.4	2.3
Calculated Figures (Quarterly)					
Yield on advances	11.2	11.0	11.4	11.2	11.0
Yield on investments	6.8	6.6	6.5	6.8	6.5
Yield on funds	9.3	9.3	9.4	9.7	9.4
Cost of deposits	8.4	8.4	8.5	8.4	8.2
Spreads	0.9	0.9	1.0	1.3	1.2
NIM	2.2	2.1	2.0	2.2	2.1
Capital adequacy details (%)					
CAR	13.0	12.9	13.1	12.6	12.3
Tier I	8.3	8.3	8.4	8.1	8.3
Tier II	4.7	4.6	4.7	4.5	4.0

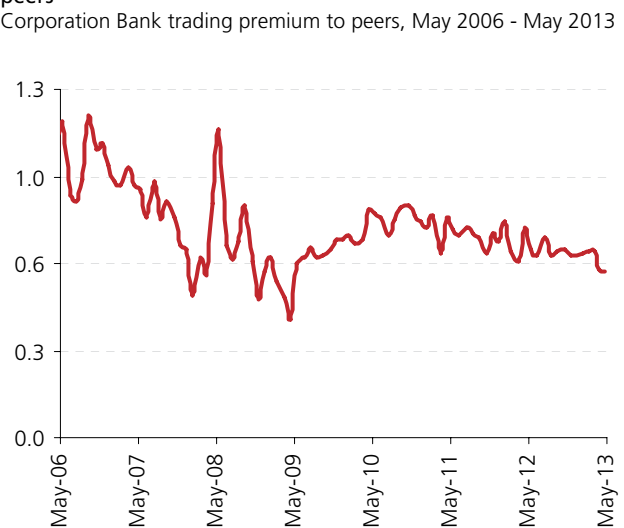
Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Corporation Bank: Rolling PER and PBR
May 2003 – May 2013



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 6: Corporation Bank trading at significant discount to peers
Corporation Bank trading premium to peers, May 2006 - May 2013



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 7: Corporation Bank key ratios and growth rates
March fiscal year-ends, 2010-15E (%)

	2010	2011	2012	2013	2014E	2015E
Growth rates (%)						
Net loan	30.3	37.4	15.7	18.2	12.6	13.3
Customer assets	30.3	35.4	15.6	17.9	12.5	13.1
Cash and bank balance	2.4	(3.7)	12.6	8.4	4.7	7.7
Total Asset	28.5	28.5	14.0	18.3	9.5	11.0
Deposits	25.3	25.9	16.6	21.9	9.4	11.2
Net interest income	30.7	33.0	7.0	8.9	24.6	12.3
Loan loss provisions	114.9	43.4	21.0	54.0	47.3	17.7
Total other income	7.2	5.9	18.9	7.7	21.4	16.1
Net fee income	14.1	16.9	11.8	10.0	10.0	10.0
Net exchange gains	19.0	15.3	38.9	(30.9)	12.0	12.0
Operating expenses	25.8	30.3	8.6	12.0	24.3	17.4
Employee expenses	35.0	41.7	2.0	8.4	32.7	16.5
Key ratios (%)						
Yield on average earning assets	7.6	7.4	8.7	8.8	8.9	8.7
Yield on average loans	8.9	8.6	10.2	10.4	10.6	10.2
Yield on average investments	7.1	6.0	6.8	6.6	6.7	6.5
Average cost of funds	5.6	5.3	6.9	7.2	7.1	6.9
Interest on deposits	5.5	5.1	7.1	7.4	7.0	6.8
Difference	2.0	2.1	1.8	1.6	1.8	1.8
Net interest income/earning assets	2.3	2.4	2.1	2.0	2.2	2.2
Spreads on lending business	3.3	3.4	3.3	3.2	3.4	3.3
Spreads on lending business (incl. Fees)	3.8	3.8	3.7	3.6	3.8	3.7
New provisions/average net loans	0.7	0.7	0.7	0.9	1.2	1.3
Total provisions/gross loans	0.7	0.5	0.4	0.4	1.5	2.4
Interest income/total income	65.1	70.1	67.8	68.1	68.6	67.9
Other income / total income	34.9	29.9	32.2	31.9	31.4	32.1
Fee income to total income	8.9	8.4	8.5	8.6	7.7	7.4
Fee income to advances	0.5	0.5	0.4	0.4	0.4	0.4
Fees income to PBT	18.1	18.3	20.7	25.8	22.9	23.4
Net trading income to PBT	14.8	6.7	14.7	16.9	20.6	23.6
Exchange inc./PBT	5.6	5.6	7.8	6.1	5.6	5.8
Operating expenses/total income	37.1	39.1	38.4	39.7	39.9	41.3
Operating expenses/assets	1.3	1.3	1.2	1.1	1.2	1.3
Operating profit /AWF	1.4	1.4	1.0	0.8	0.8	0.8
Tax rate	29.5	26.9	21.0	14.9	24.9	25.9
Dividend payout ratio	20.1	21.0	20.2	21.3	21.3	21.3
Share of deposits						
Current	14.5	12.1	9.0	9.0	9.0	9.0
Fixed	71.4	74.0	77.9	77.9	77.9	77.9
Savings	14.0	13.9	13.1	13.1	13.1	13.1
Loans-to-deposit ratio	68.2	74.4	73.8	71.5	73.6	75.0
Equity/assets (EoY)	5.2	5.0	5.1	4.9	5.1	5.1
Asset quality measures (%)						
Gross NPL	1.0	0.9	1.3	1.7	2.0	1.9
Net NPL	0.3	0.5	0.9	1.2	1.5	1.5
Slippages	1.0	1.3	1.4	2.1	2.1	2.0
Provision coverage	69.7	49.7	31.8	31.2	23.9	21.5
Dupont analysis (%)						
Net interest income	2.2	2.3	2.0	1.9	2.1	2.1
Loan loss provisions	0.4	0.4	0.4	0.6	0.7	0.8
Net other income	2.2	2.3	2.0	1.9	2.1	2.1
Operating expenses	1.3	1.3	1.3	1.3	1.3	1.3
(1- tax rate)	70.5	73.1	79.0	85.1	75.1	74.1
ROA	1.2	1.1	1.0	0.8	0.8	0.7
Average assets/average equity	18.6	19.8	19.9	20.0	20.0	19.7
ROE	22.0	21.9	19.5	16.1	15.4	14.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Corporation Bank P&L and balance sheet
March fiscal year-ends, 2010-15E (₹ mn)

	2010	2011	2012	2013	2014E	2015E
Total interest income	72,946	91,352	130,178	153,341	176,444	190,053
Total interest expense	50,843	61,955	98,709	119,082	133,771	142,133
Net interest income	22,103	29,397	31,469	34,258	42,673	47,920
Loan loss provisions	3,848	5,518	6,675	10,281	15,145	17,824
Net interest income (after prov.)	18,255	23,879	24,794	23,978	27,528	30,096
Other income	11,864	12,559	14,926	16,079	19,520	22,666
Net fee income	3,023	3,533	3,949	4,344	4,778	5,256
Net capital gains	3,088	2,095	3,650	2,802	4,500	5,500
Net exchange gains	934	1,076	1,495	1,033	1,157	1,296
Operating expenses	12,600	16,417	17,836	19,968	24,821	29,132
Employee expenses	6,317	8,949	9,132	9,903	13,140	15,304
Depreciation on investments	619	797	853	(53)	200	200
Other Provisions	218	(113)	1,977	3,286	1,200	1,000
Pretax income	16,683	19,336	19,055	16,856	20,828	22,430
Tax provisions	4,921	5,204	3,995	2,509	5,183	5,806
Net Profit	11,762	14,133	15,060	14,347	15,644	16,624
% growth	31.8	20.2	6.6	(4.7)	9.0	6.3
PBT+provision-treasury gains	18,279	23,444	24,910	27,568	32,873	35,954
% growth	34.9	28.3	6.3	10.7	19.2	9.4
Balance sheet (Rs mn)						
Cash and bank balance	107,919	103,925	116,980	126,833	132,779	142,993
Net value of investments	345,226	434,527	474,746	581,645	610,050	655,713
Govt. and other securities	247,917	280,901	370,357	477,302	505,707	551,370
Shares	3,546	4,397	5,243	5,243	5,243	5,243
Debentures and bonds	12,665	13,129	14,633	14,633	14,633	14,633
Net loans and advances	632,026	868,504	1,004,690	1,187,167	1,337,046	1,514,795
Fixed assets	2,893	3,310	3,560	4,432	4,682	4,982
Other assets	28,609	24,819	35,628	34,347	34,347	34,347
Total assets	1,116,673	1,435,086	1,635,604	1,934,423	2,118,904	2,352,829
Deposits	927,337	1,167,475	1,361,422	1,660,055	1,816,722	2,019,768
Borrowings and bills payable	96,605	165,841	148,364	128,989	140,087	153,018
Other liabilities	34,983	30,392	43,059	49,723	54,696	60,165
Total liabilities	1,058,924	1,363,708	1,552,845	1,838,766	2,011,505	2,232,951
Paid-up capital	1,434	1,481	1,481	1,529	1,529	1,529
Reserves & surplus	56,314	69,897	81,278	94,128	105,871	118,349
Total shareholders' equity	57,749	71,378	82,759	95,657	107,400	119,878

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013

RESULT

Coverage view: **Cautious**

Price (Rs): 49

Target price (Rs): 70

BSE-30: 19,990

High cost provisions mar results. KEC reported weak 4QFY13 with revenue growth of 4% (Rs21.5 bn), sharp margin contraction (to 4.1%, down 170 bps qoq) and a net loss of Rs138 mn. Margins were primarily impacted by high cost provisioning for projects near completion in the new business segments (on higher-than-anticipated costs). We believe that this provisioning may continue for 1-2 quarters and hence some margin pressure may remain (though may still improve sequentially). Orders (backlog of Rs95 bn) and balance sheet (72 days WCap) were relatively stable. Retain BUY (TP: Rs70) on reasonable valuations.

Company data and valuation summary

KEC International

Stock data

52-week range (Rs) (high,low)	81-47
Market Cap. (Rs bn)	12.5

Shareholding pattern (%)

Promoters	44.5
FII's	2.2
MF's	27.6

Price performance (%)

	1M	3M	12M
Absolute	(11.4)	(11.6)	(7.8)
Rel. to BSE-30	(18.3)	(13.8)	(23.7)

Forecasts/Valuations

	2013	2014E	2015E
EPS (Rs)	2.5	6.5	9.3
EPS growth (%)	(63.1)	154.7	44.4
P/E (X)	19.2	7.5	5.2
Sales (Rs bn)	69.8	76.3	84.3
Net profits (Rs bn)	0.7	1.7	2.4
EBITDA (Rs bn)	3.8	5.1	6.4
EV/EBITDA (X)	7.3	5.5	4.5
ROE (%)	5.5	13.0	16.6
Div. Yield (%)	0.8	2.0	2.9

Weak results on sharp margin contraction (high cost provisioning); reports net loss in 4Q

KEC reported 4QFY13 revenues of Rs21.5 bn, registering a relatively low yoy growth of about 4% (primarily on weaker-than-expected power systems revenues). However, note that for the full year FY2013, KEC has reported a healthy revenue growth of about 20% yoy. We note sharp EBITDA margin contraction, down 400 bps yoy to 4.1% and down 170 bps sequentially as well. The low margins for the quarter were attributed to high provisions for projects in new business segments which are close to completion on the back of higher-than-anticipated project execution costs (new business segment losses of Rs450-500 mn). Margins were also marred by forex losses (MTM adjustments) to the tune of Rs120 mn in 4QFY13. Lower-than-expected revenues and sharp margin contraction led to a net loss of Rs138 mn in 4QFY13.

Expect better margins in FY2014E; though pressure likely to remain for next 1-2 quarters

We believe that low margin trend may continue for the next 1-2 quarters as these project completions are likely to continue (which may incur high cost provisioning). However, margins may have potentially bottomed out and note scope for some sequential improvement in margin in FY2014E on the back of (1) lower competitive intensity in domestic T&D market – as evidenced in PGCIL ordering, (2) better margin profile of recently won orders (even in new segments) and (3) company getting its own pre-qualifications in some new segments (water, railways).

Order inflow traction remains strong; balance sheet also reasonable (working capital at 72 days)

Order inflow traction remained relatively strong with the company booking total inflows of about Rs75 bn in FY2013, an increase of 20% yoy. KEC reported a consolidated order backlog of Rs94.7 bn at end-FY2013, up 10.5% yoy (provides comfort on revenue growth visibility).

KEC reported a gross debt of Rs16.7 bn (up from Rs12.4 bn at end-FY2012; note sequential improvement). Working capital days remained reasonable at 72 days of sales (broadly in line).

Revise estimates; retain BUY (TP: Rs70) on reasonable valuations (near-term pressure likely priced in)

We revise our estimates to Rs6.5 and Rs9.3 from Rs8.6 and Rs11.2 for FY2014E and FY2015E.

Retain BUY (revised TP of Rs70 from Rs80) as market price likely builds in most of near-term negativity; valuations reasonable (1-year forward P/E of 6.5X and 1X P/B for a potential RoE of 14-16%).

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Weak results on disappointing revenues and low margins; reports net loss

KEC reported 4QFY13 revenues of Rs21.5 bn, registering a relatively low yoy growth of about 4% and about 12% below our estimate of Rs24 bn. This is against a very strong growth of close to 30% recorded in 9MFY13. The key disappointment versus our estimates was on the back of weaker-than-expected power systems revenues. However, note that for the full year FY2013, KEC has reported a healthy revenue growth of about 20% yoy.

Sharp margin disappointment (contracts sequentially) on high provisions

We note sharp contraction in EBITDA margin, down about 400 bps yoy to 4.1% (versus our estimate of about 6.5%). Margin has also contracted sequentially, down 170 bps sequentially from 5.8% in 3QFY13. The low margins for the quarter were attributed to high provisions for projects in new business segments on the back of higher-than-anticipated project execution costs. The management cited that several projects in the new business segments were close to completion and these projects had incurred higher-than-initially-expected costs. New business segments recorded an EBITDA level loss of about Rs450-500 mn on the back on these provisions. Margins were also marred by forex losses (MTM adjustments) to the tune of Rs120 mn in 4QFY13 (Rs450 mn in FY2013).

Very high tax expense further mars net results; reports net loss (of Rs138 mn) for the quarter

Weaker-than-expected revenues and low margins led to low PBT of Rs214 mn for 4QFY13. KEC also reported very high tax expense of about Rs352 mn for the quarter (full-year effective tax rate of about 55.7%) leading to a net loss of Rs138 mn in 4QFY13 (against a profit of Rs735 mn in 4QFY12).

Exhibit 1: KEC consolidated - 4QFY13 results (Rs mn)

	4QFY13	4QFY13E	4QFY12	3QFY13	% change			FY2013	FY2012	% change
					vs est.	yoy	qoq			
Total operating income	21,500	24,391	20,690	17,970	(11.9)	3.9	19.6	69,795	58,147	20.0
Expenses	(20,611)	(22,767)	(19,004)	(16,935)	(9.5)	8.5	21.7	(65,981)	(53,434)	23.5
Stock	(521)		(465)	205		11.9	(354)	(10)	91	(111.0)
Raw material cost	(16,714)		(15,625)	(13,816)		7.0	21.0	(53,291)	(43,264)	23.2
Employee expenses	(1,178)		(1,114)	(1,240)		5.7	(5.0)	(4,829)	(4,274)	13.0
Other expenses	(2,199)		(1,800)	(2,084)		22.2	5.5	(7,852)	(5,987)	31.1
EBITDA	889	1,624	1,686	1,035	(45.3)	(47.3)	(14.1)	3,814	4,713	(19.1)
Other income	50	39	2	68			(27)	161	11	
Interest	(570)	(504)	(410)	(530)	13.1	38.9	7.6	(1,944)	(1,491)	30.4
Depreciation	(155)	(152)	(115)	(145)	2.3	34.7	7.1	(561)	(479)	17.0
PBT	214	1,008	1,162	428	(78.8)	(81.6)	(50.1)	1,470	2,755	(46.6)
Tax	(352)	(326)	(427)	(135)	7.8	(17.6)	161.3	(818)	(986)	(17.1)
Net profit	(138)	682	735	293	(120.2)	(118.8)	(147.0)	652	1,768	(63.1)
Key ratios (%)										
Raw material cost/ Sales	80.2		77.8	75.7				76.4	74.2	
Employee expenses/ Sales	5.5		5.4	6.9				6.9	7.3	
Other expenses/ Sales	10.2		8.7	11.6				11.2	10.3	
EBITDA margin	4.1	6.7	8.1	5.8				5.5	8.1	
PBT margin	1.0	4.1	5.6	2.4				2.1	4.7	
Tax rate	164.6	32.3	36.7	31.4				55.7	35.8	
PAT margin	(0.6)	2.8	3.6	1.6				0.9	3.0	
EPS (Rs)	(0.5)	2.7	2.9	1.1				2.5	6.9	
Order details										
Order inflows	17,040		18,470	22,900		(7.7)	(25.6)	74,840	62,390	20.0
Order backlog	94,700		85,720	101,500		10.5	(6.7)	94,700	85,720	10.5

Source: Company, Kotak Institutional Equities estimates

High cost provisioning may continue for next 1-2 quarters as well

We believe that low margin trend may continue for the next 1-2 quarters as these projects completions are likely to continue. However, margins may have potentially bottomed out and note scope for some sequential improvement in margin on the back of (1) lower competitive intensity in domestic T&D market – as evidenced in PGCIL ordering, (2) better margin profile of recently won orders (even in new segments) and (3) company getting its own PQs in new segments.

Power systems leads revenue disappointment; international business declines yoy while domestic records sharp growth

KEC's power systems segment led the revenue disappointment – reported revenues of Rs1.65 bn against our estimate of about Rs4 bn and 3QFY13 revenues of Rs3.8 bn. Most of the other segments reported broadly in-line revenues. The core transmission segment recorded a 5% yoy growth driven by domestic transmission growth of 25% (to Rs7.45 bn); international transmission business declined by about 10% yoy (though broadly expected) and SAE revenues declined by about 2.8% yoy.

Exhibit 2: Segment-wise revenues for KEC (consolidated) in 4QFY13 (Rs mn)

	4QFY13	4QFY12	3QFY13	% change		FY2013	FY2012	% change
				yoy	qoq			
Transmission - Total	15,860	15,170	11,520	4.5	37.7	49,000	43,810	11.8
Domestic	7,450	5,940	4,770	25.4	56.2	19,440	15,780	23.2
International	6,350	7,110	3,950	(10.7)	60.8	19,240	18,900	1.8
SAE Towers	2,060	2,120	2,800	(2.8)	(26.4)	10,320	9,130	13.0
Power systems	1,650	2,910	3,830	(43.3)	(56.9)	9,790	6,050	61.8
Cables	1,870	1,520	1,310	23.0	42.7	5,520	5,710	(3.3)
Telecom	370	180	620	105.6	(40.3)	1,510	750	101.3
Railway	1,220	800	330	52.5	269.7	2,700	1,640	64.6
Water	530	110	360	NA	NA	1,270	190	568.4
Total revenues	21,500	20,690	17,970	3.9	19.6	69,790	58,150	20.0
Revenu contribution (%)								
Transmission - Total	73.8	73.3	64.1			70.2	75.3	
Domestic	34.7	28.7	26.5			27.9	27.1	
International	29.5	34.4	22.0			27.6	32.5	
SAE Towers	9.6	10.2	15.6			14.8	15.7	
New segments	26.2	26.7	35.9			29.8	24.7	

Source: Company, Kotak Institutional Equities

KEC reported standalone revenues of Rs18 bn in 4QFY13, registering a 6% yoy growth. EBITDA margin contracted by 100 bps sequentially (on high cost provisions) to 3.8% (and against 8% reported in 4QFY12). Slow revenue growth and sharp margin contraction led to a net standalone loss of Rs184 mn in 4QFY12.

Exhibit 3: KEC standalone - 4QFY13 results (Rs mn)

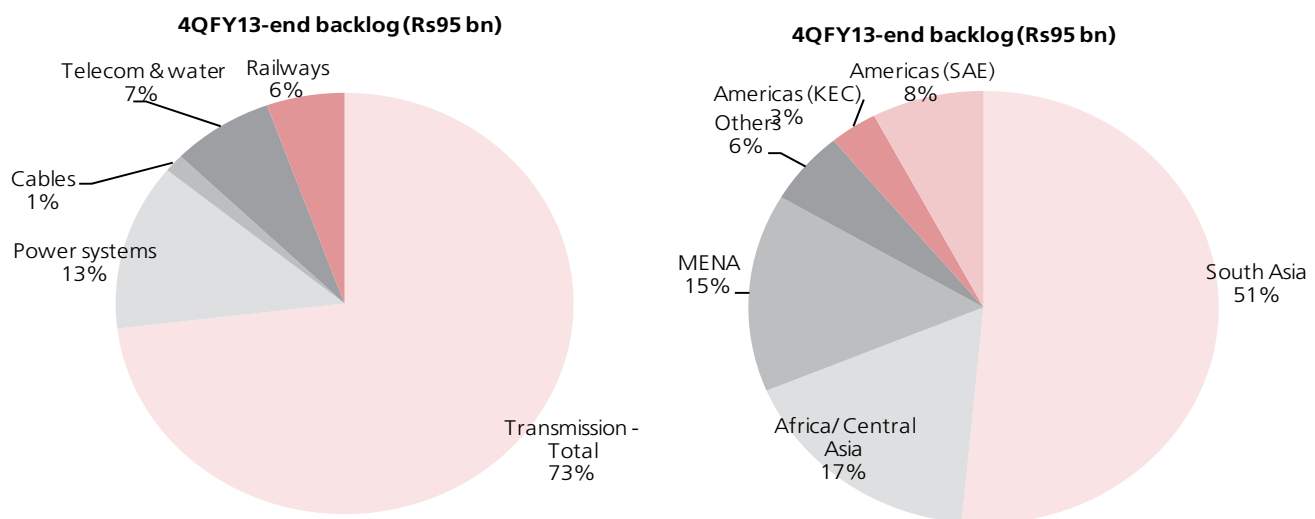
	4QFY13	4QFY12	3QFY13	% change		FY2013	FY2012	% change
				yoy	qoq			
Operating income	18,157	17,125	14,393	6.0	26.2	55,921	46,036	21.5
Expenses	(17,465)	(15,754)	(13,703)	10.9	27.5	(53,610)	(42,662)	25.7
Stock	(336)	(487)	213			46	183	
Raw material cost	(14,580)	(13,137)	(11,531)	11.0	26.4	(44,482)	(35,925)	23.8
Employee expenses	(725)	(657)	(735)	10.4	(1.4)	(2,891)	(2,418)	19.6
Other expenses	(1,824)	(1,474)	(1,650)	23.8	10.6	(6,283)	(4,501)	39.6
EBITDA	692	1,372	689	(49.6)	0.3	2,311	3,374	(31.5)
Other income	43	66	89	NA	(51.5)	206	808	(74.4)
Interest	(500)	(339)	(455)	47.2	9.7	(1,648)	(1,263)	30.5
Depreciation	(125)	(93)	(109)	34.4	15.0	(431)	(361)	19.4
PBT	110	1,006	214	(89.0)	(48.6)	439	2,558	(82.8)
Tax	(294)	(335)	(60)	(12.2)	391.2	(392)	(730)	(46.3)
Net profit	(184)	670	154	(127.5)	(219.2)	47	1,828	(97.4)
Key ratios (%)								
Raw material cost/ Sales	82.2	79.6	78.6			79.5	77.6	
Employee expenses/ Sales	4.0	3.8	5.1			5.2	5.3	
Other expenses/ Sales	10.0	8.6	11.5			11.2	9.8	
EBITDA margin	3.8	8.0	4.8			4.1	7.3	
PBT margin	0.6	5.9	1.5			0.8	5.6	
Tax rate	267.0	33.3	28.0			89.3	28.5	
PAT margin	(1.0)	3.9	1.1			0.1	4.0	

Source: Company, Kotak Institutional Equities

Order inflow traction remains strong; backlog of Rs95 bn, up 10.5% yoy

Order inflow traction remained relatively strong with the company booking total inflows of about Rs75 bn in FY2013, an increase of 20% yoy. KEC reported a consolidated order backlog of Rs94.7 bn at end-FY2013, which is an increase of about 10.5% yoy (from end-FY2012). This provides comfort on revenue growth visibility for the company. The order backlog remains well diversified between segments and geographies.

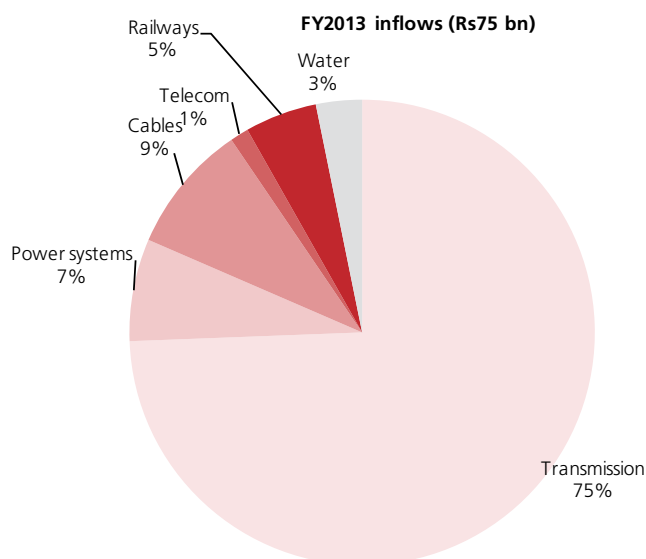
Exhibit 4: Segmental break-up of KEC International's order backlog, at end-FY2013



Source: Company, Kotak Institutional Equities

Order inflows in FY2013 were dominated by the core transmission line business which formed about 75% of total order inflows.

Exhibit 5: Segmental order inflow mix in FY2013



Source: Company, Kotak Institutional Equities

Balance Sheet: Some sequential improvement but down yoy (though broadly in line)

The balance sheet improved on a sequential basis in terms of debt (gross debt at Rs16.7 bn against Rs20 bn at end-9M). However, gross debt has increased from end-FY2012 levels of Rs12.4 bn. Working capital days deteriorated yoy to about 72 days of sales (net working capital excluding cash) against 60 days at end-FY2012. Though note that this was broadly expected (as end-FY2012 working capital level was exceptionally low on the back of high customer advances). Note that debtor days have in fact gone down by about 6 days (from 198 days at end-FY2012 to 192 days at end-FY2013).

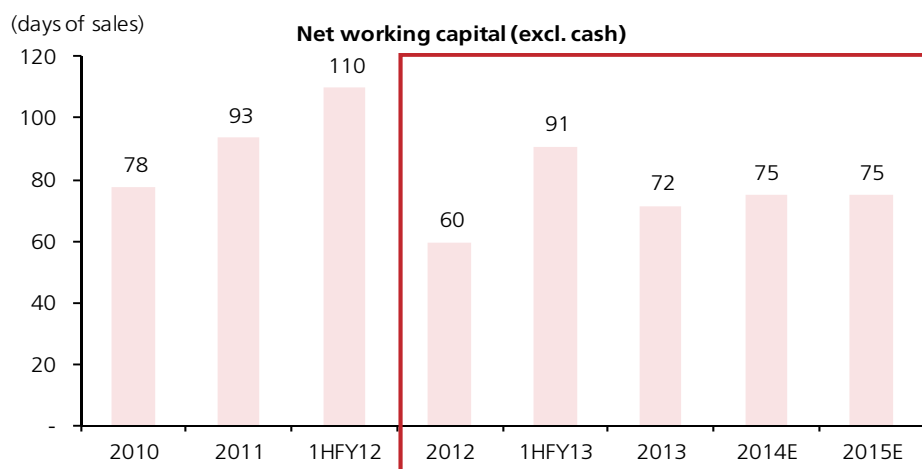
Exhibit 6: KEC International consolidated balance sheet, March fiscal year-ends, 2010-13E (Rs mn)

	2010	2011	1HFY12	2012	1HFY13	2013E
Shareholders funds	7,871	9,466	9,879	11,080	11,397	11,472
Equity share capital	514	514	514	514	514	514
Reserves & surplus	7,357	8,952	9,365	10,566	10,883	10,958
Loan funds	7,867	14,322	17,230	12,390	18,860	16,690
Deferred tax liability	461	497	490	510	504	621
Total source of funds	16,199	24,285	27,600	23,980	30,761	28,783
Net fixed assets	7,170	8,409	8,641	9,221	9,747	10,114
Goodwill on consolidation	—	2,812	3,089	3,209	3,335	3,424
Investments	30	—	—	—	—	—
Cash balances	698	1,614	1,100	2,030	1,370	1,556
Current assets	26,077	34,259	37,722	41,050	45,092	47,253
Inventories	2,498	3,359	4,817	4,400	4,642	3,960
Sundry debtors	19,624	26,177	26,641	31,550	33,558	36,675
Loans and advances	3,956	4,723	6,264	5,100	6,891	6,618
Current liabilities and Provisions	17,776	22,809	22,953	31,530	28,782	33,564
Current liabilities	17,214	22,248	22,679	30,460	28,054	32,679
Provisions	562	561	274	1,070	728	885
Net current assets excl. cash	8,301	11,450	14,770	9,520	16,309	13,689
Total application of funds	16,199	24,285	27,600	23,980	30,761	28,783
Trailing 4 qtr revenues	39,072	44,742	49,161	58,147	65,611	69,795
WCap (days of sales)						
Current assets	244	279	280	258	251	247
Inventories	23	27	36	28	26	21
Sundry debtors	183	214	198	198	187	192
Loans and advances	37	39	47	32	38	35
Current liabilities & Provisions	166	186	170	198	160	176
Net current assets excl. cash	78	93	110	60	91	72

Source: Company, Kotak Institutional Equities

We expect the company to maintain net working capital levels of about 70-75 days over the next few years (FY2013-15E).

Exhibit 7: Net working capital levels of KEC International, March fiscal year-ends, 2010-15E



Source: Company, Kotak Institutional Equities estimates

Thane plant shutdown; entire cable business shifted to Vadodara facility

KEC has discontinued production of cables from its Thane plant from February 2013. Entire range of cable products would now be manufactured from the new facility commissioned at Vadodara. This would help improve margins of the cables business to some extent as the Thane plant was running at sub-optimal capacity levels. The Vadodara plant is now fully commissioned (annual production capacity of about 4,000 kms of cables). The management expects this facility to contribute about Rs3.5 bn of revenues once it is fully operational and running at optimum capacity utilization (maybe in another 1.5-2 years).

Estimates build revenue moderation and some margin recovery in FY2014E

We expect the company to report earnings of Rs6.5 and Rs9.3 in FY2014E and FY2015E respectively. Key assumptions driving our estimates include:

- ▶ **Strong revenue growth in FY2013 to moderate to some extent in FY2014E.** The strong revenue growth (of 20%) recorded in FY2013 may moderate to some extent in FY2014E – build about 9-10% revenue growth
- ▶ **Margin improvement in FY2014E.** Our estimates build FY2014E EBITDA margin of 6.7% an improvement versus FY2013 EBITDA margin of 5.5%. This improvement would be on the back of (1) recovery in margins for the domestic transmission business as the low-margin PGCIL orders get completed and start of execution of recent order wins which are at better margins (on lower competitive intensity), (2) some improvement in margins for the new segments as these businesses scale up and (3) company getting its own pre-qualifications for some of the new business segments (water, railways).

Exhibit 8: Segmental assumptions for KEC International, March fiscal year-ends, 2011-15E (Rs mn)

	2011	2012	2013E	2014E	2015E
Total					
Inflows	55,280	65,870	78,770	84,142	93,490
Inflows growth (%)	30.2	19.2	19.6	6.8	11.1
Revenues	44,742	58,147	69,795	76,325	84,347
Yoy growth (%)	14.5	30.0	20.0	9.4	10.5
Backlog	78,000	85,720	94,700	102,518	111,660
EBITDA	4,626	4,654	3,814	5,146	6,361
EBITDA margin (%)	10.3	8.0	5.5	6.7	7.5
Transmission - international					
Inflows	17,780	20,807	25,014	27,515	30,267
Inflows growth (%)	(23.4)	17.0	20.2	10.0	10.0
Revenues	17,520	18,900	19,240	23,774	26,689
Backlog	24,280	26,187	31,961	35,703	39,280
EBITDA	1,971	1,748	1,539	1,902	2,269
EBITDA margin (%)	11.3	9.3	8.0	8.0	8.5
Transmission - domestic					
Inflows	17,500	17,567	25,214	25,214	27,735
Inflows growth (%)	52.3	0.4	43.5	—	10.0
Revenues	12,240	15,780	19,440	23,175	25,130
Backlog	24,400	26,187	31,961	34,000	36,604
EBITDA	1,346	1,460	1,166	1,854	2,136
EBITDA margin (%)	11.0	9.3	6.0	8.0	8.5
SAE					
Inflows		7,753	10,069	11,075	12,404
Inflows growth (%)		NA	29.9	10.0	12.0
Revenues	3,540	9,130	10,320	10,905	11,615
Backlog	8,920	7,543	7,292	7,462	8,252
EBITDA	496	1,096	1,290	1,091	1,161
EBITDA margin (%)	14.0	12.0	12.5	10.0	10.0
Power systems					
Inflows	9,760	6,784	6,189	7,117	8,185
Inflows growth (%)	136.3	(30.5)	(9—)	15.0	15.0
Revenues	4,920	6,050	9,790	8,722	8,111
Backlog	14,610	15,344	11,743	10,138	10,212
EBITDA	541	303	-	218	406
EBITDA margin (%)	11.0	5.0	-	2.5	5.0
Cables					
Inflows	5,440	5,927	5,104	5,870	6,751
Inflows growth (%)	277.8	9	(13.9)	15.0	15.0
Revenues	4,800	5,710	5,520	3,380	5,871
Backlog	1,240	1,457	1,042	3,532	4,411
EBITDA	120	114	(110—)	-	176
EBITDA margin (%)	2.5	2.0	(2—)	-	3.0
Telecom					
Inflows	1,050	2,714	1,090	1,253	1,441
Revenues	810	750	1,510	1,197	1,335
Backlog	350	2,314	1,894	1,950	2,056
EBITDA margin (%)	5.0	—	—	2.5	4.0
Railways					
Inflows	3,440	1,179	3,627	3,265	3,591
Revenues	910	1,640	2,700	3,294	3,368
Backlog	3,890	3,429	4,356	4,327	4,551
EBITDA margin (%)	2.0	—	—	2.0	4.0
Water					
Inflows	310	3,137	2,464	2,833	3,116
Revenues	—	190	1,270	1,878	2,229
Backlog	310	3,257	4,451	5,406	6,294
EBITDA margin (%)	—	—	—	2.0	4.0

Full-year inflows estimate of Rs77 bn based on traction so far; has won Rs58 bn of inflows in 9MFY13

Strong revenue growth of about 25% in FY2013E (recorded 29% in 9M) with some moderation in FY2014E

Expect domestic transmission margins to increase to 8% in FY2014E; may revert to historical levels of 9-10% in FY2015E

Build some improvement in new segment margins as the business scales up

Source: Company, Kotak Institutional Equities estimates

Revise estimates; retain BUY (TP: Rs70/share) primarily on valuations

We revise our estimates to Rs6.5 and Rs9.3 from Rs8.6 and Rs11.2 for FY2014E and FY2015E primarily on the back of lower margin and higher finance cost estimates. We correspondingly revise our target price to Rs70/share (from Rs80/share earlier) based on 9X 12-month forward earnings; our target price implies EV/EBITDA valuation of about 6X on 12-month forward basis.

Exhibit 9: Revised consolidated estimates of KEC International, March fiscal year-ends, 2013-15E (Rs mn)

	2013	Revised estimates		Previous estimates		Revision (%)	
		2014E	2015E	2014E	2015E	2014E	2015E
Order inflows	78,770	84,142	93,490	83,895	93,358	0.3	0.1
Yoy growth (%)		6.8	11.1	6.5	11.3		
Order backlog	94,700	102,518	111,660	94,501	101,763	8.5	9.7
Revenues	69,795	76,325	84,347	80,168	86,096	(4.8)	(2.0)
Yoy growth (%)		9.4	10.5	14.9	7.4		
EBITDA	3,814	5,146	6,361	5,695	6,804	(9.6)	(6.5)
EBITDA margin (%)	5.5	6.7	7.5	7.1	7.9		
Net PAT	652	1,660	2,398	2,200	2,886	(24.5)	(16.9)
EPS (Rs)	2.5	6.5	9.3	8.6	11.2	(24.5)	(16.9)

Source: Company, Kotak Institutional Equities estimates

Retain BUY as market price likely builds in most of near-term negativity; valuations reasonable

We reiterate our BUY rating on the company as the current market price (of about Rs50/share) likely builds in most of the negativity of near-term margin pressure. The stock is trading at relatively attractive valuations of 6.5X one-year forward P/E, 5X EV/EBITDA and about 1X P/B for a potential RoE of 14-16%.

We believe the incrementally the operations of the company could see some improvement on the back of (1) potential bottoming out of margins and scope for expansion in FY2014E, (2) a strong FY2013-end order backlog of Rs95 bn, well-diversified across segments (transmission, power systems, railways, water and cables) and geographies (KEC is present in over 45 countries) and (3) reasonable capital allocation discipline (no forays into BOT assets and real estate).

Exhibit 10: Consolidated financials of KEC International, March fiscal year-ends, 2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Income statement								
Total operating income	28,145	34,288	39,072	44,742	58,147	69,795	76,325	84,347
Total operating costs	(24,602)	(31,278)	(35,014)	(40,116)	(53,493)	(65,981)	(71,179)	(77,987)
Raw materials consumed	(20,319)	(25,508)	(29,709)	(32,358)	(43,173)	(53,301)	(57,244)	(61,995)
Employee expenses	(1,233)	(1,420)	(1,689)	(2,832)	(4,284)	(4,829)	(5,540)	(6,713)
Operating and other expenses	(3,050)	(4,350)	(3,616)	(4,926)	(6,037)	(7,852)	(8,396)	(9,278)
EBITDA	3,543	3,010	4,059	4,626	4,654	3,814	5,146	6,361
Other income	3	6	10	26	12	161	177	194
Interest expense	(677)	(1,000)	(865)	(1,075)	(1,448)	(1,944)	(2,173)	(2,231)
Depreciation	(251)	(230)	(270)	(408)	(479)	(561)	(595)	(636)
PBT	2,618	1,787	2,934	3,168	2,739	1,470	2,554	3,689
Taxes paid	(897)	(618)	(1,037)	(1,111)	(971)	(818)	(894)	(1,291)
Net PAT	1,722	1,168	1,897	2,057	1,768	652	1,660	2,398
Key ratios (%)								
EBITDA margin	12.6	8.8	10.4	10.3	8.0	5.5	6.7	7.5
PAT margin	6.1	3.4	4.9	4.6	3.0	0.9	2.2	2.8
Effective tax rate	34.3	34.6	35.3	35.1	35.5	55.7	35.0	35.0
Earnings per share (₹)	7.0	4.7	7.7	8.0	6.9	2.5	6.5	9.3
Balance sheet								
Shareholders funds	4,848	5,581	7,871	9,466	11,078	11,472	12,841	14,818
Equity share capital	493	493	493	514	514	514	514	514
Reserves & surplus	4,354	5,087	7,377	8,952	10,564	10,958	12,327	14,304
Loan funds	5,918	6,218	7,867	14,322	12,392	16,690	16,500	16,500
Deferred tax liability	200	298	461	497	513	621	621	621
Total source of funds	11,070	12,097	16,199	24,285	23,983	28,783	29,962	31,939
Net fixed assets	4,503	5,586	7,170	8,409	9,348	10,114	10,270	10,634
Goodwill on consolidation	—	—	—	2,812	3,209	3,424	3,424	3,424
Cash balances	680	1,411	698	1,614	2,102	1,556	585	549
Net current assets excluding cash	5,882	5,072	8,301	11,450	9,324	13,689	15,683	17,332
Total application of funds	11,070	12,097	16,199	24,285	23,983	28,783	29,962	31,939
Cash flow statement								
Operating profit before working capital changes	1,972	1,398	2,167	2,466	2,247	1,213	2,255	3,033
Change in working capital/other adjustments	(3,526)	810	(3,230)	(3,149)	2,126	(4,365)	(1,995)	(1,648)
Net cash flow from operating activities	(1,554)	2,208	(1,063)	(683)	4,373	(3,152)	260	1,385
Cash (used)/realised in investing activities	(454)	(1,337)	(1,855)	(4,429)	(1,815)	(1,542)	(750)	(1,000)
Free cash flow	(2,008)	871	(2,918)	(5,112)	2,558	(4,695)	(490)	385
Cash (used)/realised in financing activities	2,563	(239)	2,043	5,992	(2,086)	4,040	(481)	(421)
Cash generated/utilised	466	730	(713)	916	489	(548)	(971)	(36)
Net cash at end of year	680	1,410	698	1,614	2,102	1,555	585	549

Source: Company, Kotak Institutional Equities estimates

APPENDIX 1: LIST OF ORDER INFLOW ANNOUNCEMENTS IN FY2013

Exhibit 11: List of order inflows announced by KEC in FY2013

Date	Client	Segment	Size (Rs mn)	Country	Details
1-Apr	Not specified	Cables	740	India	Supply of power and telecom cables
1-Apr	PGCIL	Power systems	400	India	765 kV GIS in Tamil Nadu
1-Apr	Various orders	Transmission	680		Additional orders from existing transmission projects
1-Apr	PGCIL	Transmission	2,190	India	400 kV & 220 kV lines between Kurukshetra-Jalandar-Haripur
1-Apr	Saudi Electricity Company	Transmission	1,960	Saudi Arabia	380 kV lines for interconnection of Al Salam, Madinah
1-Apr	PT PLN (Indonesia state electricity corp)	Transmission	1,290	Indonesia	150 kV line between Bengkayang-Ngabang-Tayanwith
1-Apr	Various orders (to SAE)	Transmission	1,150	Americas	Supply of lattice towers and hardware
1-Apr	Not specified	Transmission	730	Americas	Supply of poles to Canada
15-Feb	Not specified	Cables	870	India	Supply of power and telecom cables
15-Feb	Various orders (to SAE)	Transmission	790	Americas	Supply of lattice towers and poles
15-Feb	APTransco	Transmission	1,890	India	400 kV double circuit line between Rangampet-Gajwel
15-Feb	PGCIL	Transmission	1,180	India	220 kV and 132 kV transmission lines in Jharkhand
15-Feb	PGCIL	Transmission	1,730	India	765 kV transmission line between Varanasi-Balia in UP
2-Jan	Various orders (to SAE)	Transmission	630	Americas	Supply of lattice towers and poles to Brazil, Mexico and USA
2-Jan	Tamakoshi Hydropower Ltd	Transmission	1,310	Nepal	Supply & erection of transmission line (49 kms) and substation
2-Jan	Bhawan Engg Company LLC	Transmission	6,020	Oman	400 kV, 260 kms transmission line from Sur to Izki grid
2-Jan	Various orders	Cables	430	India	Supply of power and telecom cables
2-Jan	PGCIL	Transmission	3,860	India	800 kV HVDC transmission line, 232 kms, in Chhattisgarh
2-Jan	PGCIL	Transmission	2,860	India	800 kV HVDC transmission line, 145 kms, in Chhattisgarh
10-Dec	NTPC	Water	440	India	Water system civil works for Solapur STPP
10-Dec	Various orders	Cables	810	India	Supply of power and telecom cables
10-Dec	Ministry of Energy and Mineral Development	Power systems	530	Uganda	33 kV distribution lines and associated low voltage networks
10-Dec	Various orders (to SAE)	Transmission	2,240	Americas	Supply of lattice towers and poles to Brazil, Mexico and USA
10-Dec	PGCIL	Transmission	2,100	India	765 kV S/C transmission lines from Meerut (UP) to Moga (Punjab)
15-Oct	Various orders	Cables	390	India	Supply of power and telecom cables
15-Oct	PGCIL	Telecom	620	India	Fibre optic communication system in western region of India
15-Oct	PGCIL	Power systems	720	India	Four 400/220 kV substations in Punjab and Goa
15-Oct	National Grid Corp. pf Philippines	Transmission	380	Philippines	132 kV single circuit transmission lines
15-Oct	Société Tunisienne de l'Electricité et du Gaz	Transmission	880	Tunisia	Order from existing transmission line project
15-Oct	Abu Dhabi Transmission & Despatch Co.	Transmission	2,780	Abu Dhabi	400 kV transmission lines between Ruwals and Bab grids
15-Oct	Himachal Pradesh Power Transmission Corp.	Transmission	640	India	400 kV and 220 kV transmission lines in Himachal Pradesh
15-Oct	PGCIL	Transmission	2,270	India	400 kV, 220 kV and 132 kV transmission lines in Jharkhand
21-Sep	Various orders	Cables	1,140	India	Supply of power and telecom cables
21-Sep	Rail Vikas Nigam Ltd	Railways	1,620	India	Railway electrification, signalling and telecommunication works
21-Sep	Various orders (to SAE)	Transmission	1,740	Americas	Supply of lattice towers and poles to Brazil, Mexico and USA
21-Sep	National Grid Corp. pf Philippines	Transmission	380	Philippines	138 kV transmission line
21-Sep	PGCIL	Transmission	1,140	India	765 kV transmission line between Rihand-Vindhyachal in UP
27-Jul	Several orders	Cables	2,120	India	Various orders for supply of power and telecom cables
27-Jul	Ministry of Railway Transport	Railways	1,920	Turkmenistan	Power supply, signalling and telecommunication systems
27-Jul	Kenya Power & Lighting Co. (KPLC)	Power systems	280	Kenya	66/33/11 kV distribution lines (about 100 kms) in Nairobi
27-Jul	Sarawak Energy Berhad (SEB)	Power systems	750	Malaysia	275 kV substations at Similajau and Oya
27-Jul	Several orders (SAE)	Transmission	1,800	Americas	Various orders for supply of lattice towers
27-Jul	Power Grid Company of Bangladesh	Transmission	530	Bangladesh	132 kV transmission line between Sherpur & Kalauara
4-Jul	Kenya Power & Lighting Co. (KPLC)	Cables	280	Kenya	42 kms of 33 kV XLPE and optic fibre underground cables
4-Jul	Kenya Power & Lighting Co. (KPLC)	Power systems	490	Kenya	Four 33/11 kV substations, one 66/11 kV substation near Nairobi
4-Jul	Kenya Power & Lighting Co. (KPLC)	Power systems	1,180	Kenya	8 66/11 kV substations and 33/11 kV substation near Nairobi
4-Jul	Not specified	Transmission	540	Sri Lanka	40 kms of 132 kV double circuit transmission lines
4-Jul	PGCIL	Transmission	2,470	India	170 kms of 400 kV transmission lines between Nellore-Thiruvalem
4-Jul	PGCIL	Transmission	2,990	India	130 kms of 765 kV transmission lines in Orissa
6-Jun	Tamil Nadu Transmission Corp.	Transmission	3,610	India	114 kms of 400 kV transmission lines
6-Jun	PGCIL	Telecom	300	India	Optical Power Ground Wire communication systems
Total announcements in FY2013E so far			#####		

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013

UPDATE

Coverage view: **Cautious**

Price (Rs): **154**

Target price (Rs): **175**

BSE-30: **19,990**

Tide continues to be favorable; retain BUY. Note several positive developments such as (1) strong volume pick-up at Dahej, start of Hazira, (2) likely completion of Abbot and Dhamra deals, (3) strong generation at Tata & Mundra and possible compensatory tariff, (4) recent security clearance and (5) pick-up in container cargo (CT3) on constrained west-coast capacity. Mundra port continues to grow ahead of peers and may become the country's largest port in FY2014E. Retain BUY (TP: Rs175) on (1) acyclical strong growth business, (2) resilient competitive advantage, (3) strong cash flows and (4) reasonable valuations.

Company data and valuation summary

Adani Port and SEZ

Stock data

52-week range (Rs) (high,low) 163-105

Market Cap. (Rs bn) 311.5

Shareholding pattern (%)

Promoters 77.5

FIs 10.2

MFs 1.7

Price performance (%)

Absolute 1M 3M 12M 7.2 1.7 25.5

Rel. to BSE-30 (1.1) (0.9) 3.9

Forecasts/Valuations

	2012	2013E	2014E
EPS (Rs)	5.5	6.1	9.8
EPS growth (%)	20.0	11.2	61.6
P/E (X)	28.3	25.4	15.7
Sales (Rs bn)	32.7	44.4	44.6
Net profits (Rs bn)	11.0	12.3	19.8
EBITDA (Rs bn)	20.7	31.0	31.2
EV/EBITDA (X)	23.5	16.3	12.1
ROE (%)	23.8	22.3	27.6
Div. Yield (%)	0.7	0.8	1.1

Volume pick-up at Dahej and start of Hazira encouraging; Abbot and Dhamra deals near completion

Scale-up in volumes and visibility for Dahej port continue – handled volumes of 2.6 mn tons in 3QFY13 and 5.6 mn tons in 9MFY13. Hazira project trial operations started in 2QFY13 with volumes of 0.13 mn tons in 3QFY13. As per recent management interactions, it seems that Abbot Point (sell-down to promoter and realization of at least the invested equity) and Dhamra (news reports of discussion with Tata Group on service contracts) are nearing completion. Both transactions are positive. In the meanwhile, there is strong sequential pick-up in Dhamra volumes as well.

Strong generation at Tata UMPP and Adani Power Mundra plant; compensatory tariff even better

Generation at Adani's (4,620 MW) and Tata's plant (4,000 MW) remains strong – operating at PLFs of ~70% and over 90% respectively. This provides comfort on our coal import projections. Possible compensatory tariff may enhance visibility apart from reducing group debt concerns.

We also note potential for scale-up in (1) container cargo – recently commissioned terminal (CT-3) in an otherwise capacity-constrained west coast and (2) crude – scale-up in Panipat refinery. We believe that Mundra port could potentially cross the 100 mn ton mark in FY2014E (~80 mn tons in FY2013E).

Security clearance; manageable impact of environment report; LNG terminal progress

Some other development with positive drift are – (1) recently received security clearance for incremental bids opens growth avenues (Chennai port and possibly JNPT 4th container terminal rebid also), (2) recent environmental impact report did conclude damage but the impact is manageable (~Rs2 bn), bulk of negative observations pertained to North port which is just a plan as of now, and (3) GSPC has invited bids for stake in LNG terminal at Mundra that may further enhance Mundra's profile without much investment (25% stake in the terminal).

Marginally revise estimates; reiterate BUY with a target price of Rs175

Marginally revise estimates and TP (Rs175 from Rs160) on better long-term volumes for Dahej and Hazira, slightly higher SEZ valuation and roll-forward. Reiterate BUY on (1) relatively acyclical strong growth business, (2) cash-flows, (3) resilient competitive advantage and (4) reasonable valuations (10.6X FY2014E EV/EBITDA). We prefer ADSEZ over GGPL on better scale, scope, visibility and margins.

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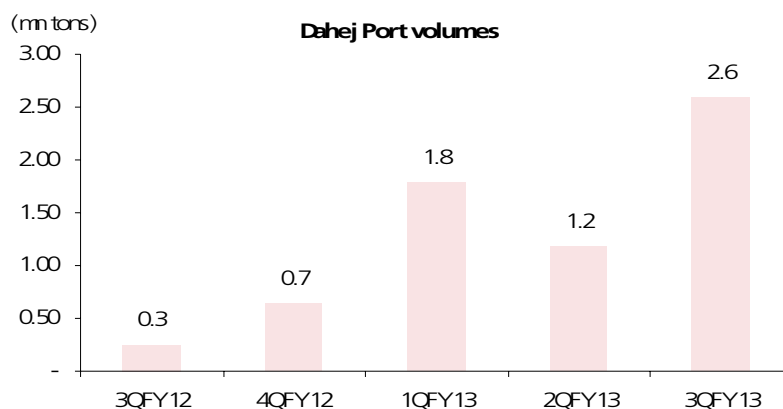
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Progress on volume build-up and visibility at Dahej and Hazira

The company also reported good scale-up in volumes and visibility for recently commissioned Dahej port (in mid-FY2012). The port handled volumes of about 2.6 mn tons in 3QFY13 and about 5.6 mn tons in 9MFY13. Adani Ports has entered into eight medium-term agreements (for three years) with various port service users at Dahej port as well as a short-term agreement (for nine months). This provides comfort on volume visibility for the near-medium term. The port is expected to handle cargo to the tune of about 7 mn tons in FY2013E and about 10 mn tons in FY2014E.

Exhibit 1: Volumes handled at Dahej port, 2QFY12-3QFY13



Source: Company, Kotak Institutional Equities

The company has also recently completed the Hazira port project (capacity of 20 mn tons) and trial operations started in 2QFY13 – reported volumes of about 0.13 mn tons in 3QFY13.

Furthermore, Maersk line has also introduced an additional stop for its Europe-Middle East line (ME3) at Hazira port. This would primarily be for transshipment cargo. The shipping route for this line would now be Pipavav (India) – Hazira (India) - Nhava Sheva (India) – Jebel Ali (UAE) – Salalah (Oman) – Port Said (Egypt) – Mersin (Turkey) – Ambarli (Turkey) – Izmit Korfezi (Turkey).

The company also cited good visibility/enquiries for cargo at Hazira port. Dahej and Hazira port would be operated as twin ports with Dahej port focusing on dry bulk cargo while Hazira port focusing on container and liquid cargo. Both these ports would target cargo headed towards central India (Madhya Pradesh, Chhattisgarh) and Northern Maharashtra, apart from the key industrial areas in South Gujarat (Surat, Bharuch, Baroda, etc.).

Apart from this, the company is also likely to complete the Mormugao port project by end-FY2013E (about 90-95% of works already completed).

Commissioning of these projects would correspondingly lead to higher revenues, margins and cash flows for the company.

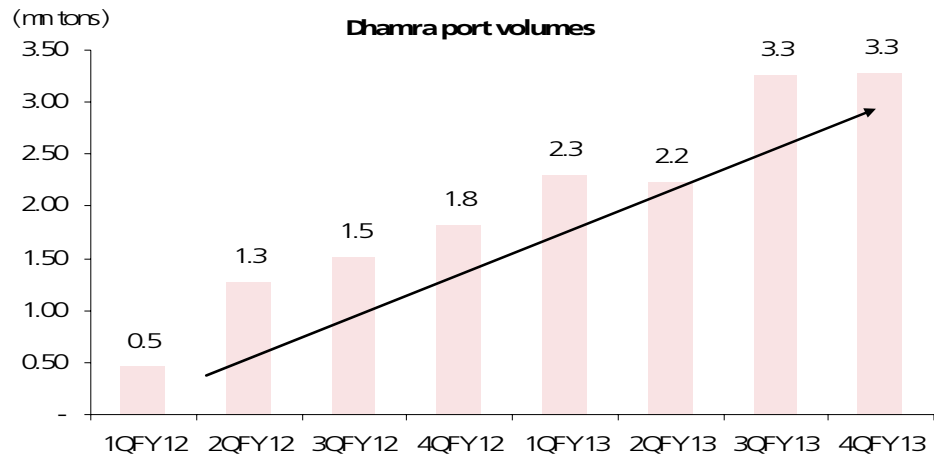
Further developments in Dhamra port acquisition

Recent news reports suggest that Adani Ports has made further headways in terms of acquisition of Tata-L&T JV's Dhamra port project on the east coast of India. The company recently had discussions with Tata Steel regarding terms of handling cargo at Dhamra port – presently being done by TM International Logistics (a Tata group company).

Recent operations: Sharp sequential pick-up in Dhamra port volumes (over 11 mn tons in FY2013E)

We note a strong sequential pick-up in cargo volumes being handled at Dhamra port. The port recorded cargo volumes of over 11 mn tons in FY2013E, a growth of about 118% yoy (from 5.06 mn tons recorded in FY2012).

Exhibit 2: Strong sequential pick-up in volumes at Dhamra port
Quarterly cargo volumes handled at Dhamra port



Source: Company, News flows, Kotak Institutional Equities estimates

Valuation appears reasonable at about 2.1X historical book

Recent news flows had suggested potential acquisition of Dhamra port by APSEZ for a likely enterprise value of about Rs55 bn (about US\$1 bn). Against this, the project has been funded through (1) Rs26 bn of debt, (2) Rs6.5 bn of equity invested by L&T and Tata Steel (Rs3.24 bn each) and (3) Rs7.2 bn of subordinate debt/quasi-equity invested by L&T and Tata Steel.

This transaction implies a price to book value (adjusted for the loan funds) of about 2.1X for L&T's and Tata Steel's historical investment in the port (share capital + quasi-equity). While this valuation may appear expensive on an EV/EBITDA basis currently, we still believe it may be reasonable given the long-term potential for growth and expansion at the port.

Exhibit 3: Acquisition implies 2X P/B value (on historically invested book)

Implied valuation of Dhamra Port acquisition by APSEZ (Rs mn)

	Rs mn
Debt	25,910
Total equity	13,657
Share capital	6,480
Subordinate debt/ quasi-equity	7,177
Acquisition EV	55,000
Implied equity value (EV-debt)	29,090
Implied P/B (X)	2.1

Source: Company, News flows, Kotak Institutional Equities estimates

Dhamra provides several strategic advantages (east coast presence, proximity to mineral belt).

Sale of Abbot Point asset (for at least invested equity) likely close to completion

The company is likely close to completion of its sale of Abbot Point (its Australian coal exports terminal) to its promoter group (for a realization of at least the invested equity).

Selling Abbot Point stake to help reduce risk perception of the company

We believe that the transaction may be largely positive and would help reduce the risk perception on the company. Note that this asset was leading to higher risk perception among investors on the back of large amount of debt, near-term losses and interest rate risk (highly leveraged transaction).

The company plans to sell off almost entire stake in the asset (would eventually hold only about US\$1,000 of equity in the asset). Sale of the asset would reduce the debt on the consolidated balance sheet by about Rs105-110 bn (about AU\$1.9-2 bn). We also note a potential reduction of debt on the standalone balance sheet to the tune of about Rs9.5 bn (equity invested in the asset). This would help ease the strain on the company's balance sheet – consolidated debt/equity would decline to about 1X for FY2014E against our present estimate of about 2.5X. This would also improve the consolidated and standalone operating numbers for FY2014E on the back of lower interest expenses (at standalone and consolidated) and non-inclusion of losses of Abbot Point terminal.

Exhibit 4: Comparing key financials of APSEZ (standalone and consolidated) with and without Abbot Point (Rs mn)

	Consolidated numbers				Standalone numbers			
	With Abbot		Without Abbot		With Abbot		Without Abbot	
	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Consolidated numbers								
Income statement								
Revenues	55,452	67,994	43,697	52,565	36,158	42,346	36,158	42,346
EBITDA	38,457	47,322	30,581	36,522	25,990	30,123	25,990	30,123
Interest expense	(12,457)	(12,427)	(6,014)	(5,580)	(4,200)	(4,169)	(3,915)	(3,480)
Depreciation	(9,195)	(9,497)	(6,116)	(6,418)	(4,408)	(4,734)	(4,408)	(4,734)
PBT	17,822	27,005	19,469	26,130	18,044	22,291	18,329	22,980
Tax paid	(210)	(836)	(210)	(368)	(193)	(103)	(193)	(103)
Net PAT	17,612	26,168	19,258	25,763	17,851	22,188	18,136	22,877
Balance sheet								
Net worth	73,798	95,631	82,095	103,397	77,872	96,003	78,105	96,798
Loan funds	185,074	169,574	80,837	65,337	71,016	56,016	61,516	46,516
Sources of funds	269,790	276,000	173,856	179,534	158,849	161,579	149,582	152,874
Net assets	228,543	224,208	138,227	136,971	104,423	103,975	104,423	103,975
Cash & bank balance	26,215	45,885	20,611	36,671	13,440	25,879	13,646	26,649
Investments	4,508	4,508	4,508	4,508	23,929	23,929	14,455	14,455
Net current assets	10,525	1,399	10,525	1,399	17,058	7,796	17,058	7,796
Application of funds	269,790	276,000	173,871	179,549	158,849	161,579	149,582	152,874
Key ratios								
RoE (%)	26.5	30.9	27.2	27.8	25.3	25.5	25.7	26.2
RoCE (%)	11.1	14.0	11.4	17.7	12.7	15.1	13.2	16.2
Debt/Equity (X)	2.5	1.8	1.0	0.6	0.9	0.6	0.8	0.5
Net debt/ EBITDA (X)	4.1	2.6	2.0	0.8	2.2	1.0	1.8	0.7
Key valuation ratios								
P/E (X)	15.7	10.6	15.7	11.7	14.3	11.5	14.3	11.4
EV/ EBITDA (X)	11.3	8.5	11.9	9.1	11.7	9.5	11.5	9.3

Lower consol debt would reduce interest expenses

Consol debt likely to reduce by Rs104 bn (AU\$1.9 bn)

Some impact on standalone debt with lower investments

Investments to go down by about Rs9.5 bn (investment in Abbot as at end-FY2012)

Transaction would help ease balance sheet stress

Source: Company, Kotak Institutional Equities estimates

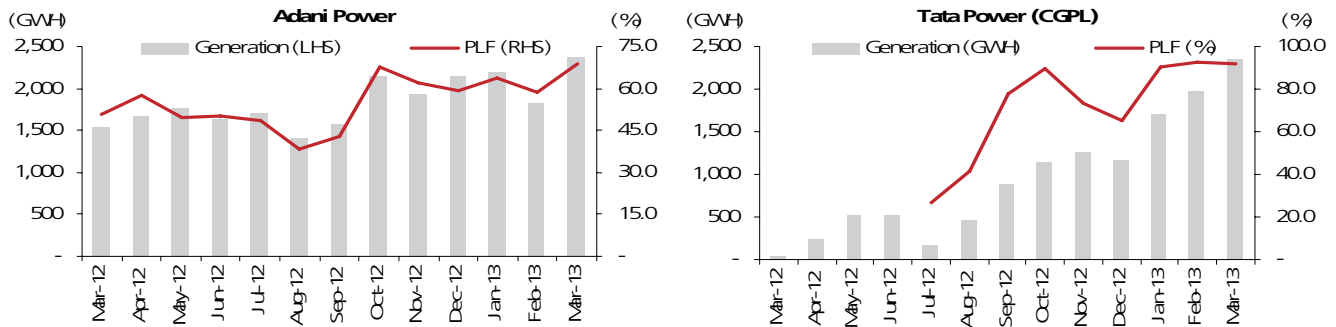
Would help fund potential acquisitions/new projects in India

The stake sale of Abbot Point would help the company to fund potential port asset acquisitions (Dhamra port) and incremental port project wins in India. The company has cited intentions to focus on developing its presence in India.

Rising generation levels of power plants provide comfort on coal imports

We note scale-up in the operations/generation levels of the two power plants in the vicinity of the port, viz. Adani’s Mundra power plant with an installed capacity of 4,620 MW and Tata Power’s Coastal Gujarat power plant with an installed capacity of 4,000 MW. Both these power plants have scaled up in generation levels with Adani Power’s plant operating at close to 70% PLFs and Tata Power’s plant operating at high PLF levels of over 90%. This provides more comfort on potential coal import volumes for these power plants.

Exhibit 5: Power generation and PLF levels of Adani Power and Tata Power plants at Mundra, March 2012-13



Source: CEA monthly power generation reports, Kotak Institutional Equities

Furthermore, the management also indicated that the coal for Adani power plant sourced from domestic coal mines (situated in the east of India) would also be transported to the plant via shipping route and hence would also contribute to the volumes handled at the port.

Mundra port handled about 19 mn tons of coal volumes in FY2012 of which about 8.5 mn tons was for the power plants. This constituted about 13% of the total port volumes of 64 mn tons in FY2012. We expect coal imports for power plants to scale up to 23 mn tons (11 mn tons for Adani Power and 12 mn tons for Tata Power) by FY2015E – which would form about 20% of the expected port volumes (of 114 mn tons) in FY2015E.

Exhibit 6: Coal for power plants to contribute about 20% of total port volumes in FY2015E
Cargo-wise volumes handled at Mundra Port, March fiscal year-ends, 2010-15E

	2010	2011	2012	2013E	2014E	2015E
Volumes (MMT)						
Coal (general)	8.5	11.1	10.3	11.3	13.0	15.0
Coal for power plants	-	3.5	8.5	12.0	22.0	23.0
Adani Power	-	3.5	7.8	8.0	12.0	12.0
Tata Power (CGPL)	-	-	0.7	4.0	10.0	11.0
Other bulk	13.1	16.1	17.6	17.7	20.4	23.1
Container	11.1	14.7	18.2	25.4	30.8	36.3
Liquid	7.5	6.9	9.3	12.7	15.2	16.2
Total	40.2	52.3	63.9	79.2	101.4	113.5

1,000 MW of capacity to require about 3-3.5 mn tons of coal

	2010	2011	2012	2013E	2014E	2015E
Volume share (%)						
Coal (general)	21.3	21.3	16.1	14.3	12.9	13.2
Coal for power plants	-	6.7	13.2	15.2	21.7	20.3
Other bulk	32.5	30.7	27.6	22.4	20.1	20.3
Container	27.6	28.2	28.5	32.1	30.4	32.0
Liquid	18.7	13.1	14.6	16.0	15.0	14.3

Coal imports for power plants to contribute to almost 20% of port volumes in FY2015E (from about 13-15% presently)

	2010	2011	2012	2013E	2014E	2015E
Yoy growth (%)						
Coal (general)	16.0	30.4	(7.5)	10.0	15.0	15.0
Coal for power plants	-	-	141.4	42.0	83.3	4.5
Other bulk	9.8	23.1	9.6	0.7	14.9	13.1
Container	17.5	32.9	23.8	39.5	20.9	18.0
Liquid	10.3	(8.3)	35.2	36.3	19.7	6.6
Total	13.2	30.2	22.1	23.9	28.0	12.0

Source: Company, Kotak Institutional Equities estimates

New container terminal to help support container cargo in capacity-constrained west coast

We believe that container volumes at the port could record a strong growth over the next few years. This would be aided by recently commissioned new container terminal (CT-3; container handling capacity of 1.5 mn TEUs) in an otherwise capacity-constrained west coast. West coast ports handled about 10 mn TEUs of container capacity in FY2013E. Assuming that this would grow at about 7-8% yoy over FY2014-15E (against historical 10-year CAGR of 12-14%), this would imply incremental 1 mn TEUs of container cargo landing on the west coast over the next two years. Against this, spare capacity is available only at Mundra and Hazira ports and some capacity at Pipavav (of about 200,000 TEUs). We build container volume growth of about 18-20% over FY2014-15E for Mundra port.

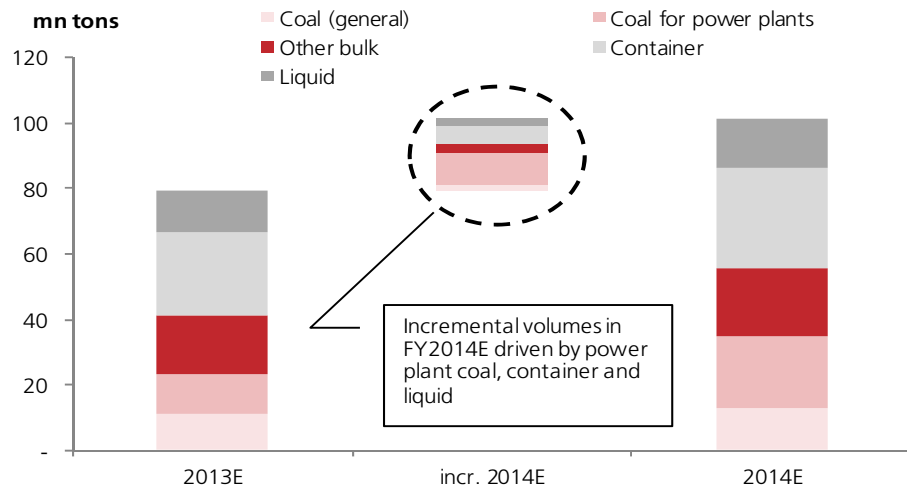
The recently commissioned South basin container terminal (CT-3) is operating at full swing with six cranes along an 800 mts length berth. Furthermore, the terminal may also attract larger vessels (>10,000 TEUs class). The terminal seems better-equipped visibly itself as compared to both CT1 and CTII in terms of size of cranes etc, particularly compared to CT1 (smaller cranes with no twin movement restricting efficiency).

Potential to cross the 100 mn ton mark in FY2014E

We believe that Mundra port could become the largest port in India (already ranks second) in FY2014E with potential volumes crossing the 100 mn ton mark. We expect the port to handle about 80 mn tons of cargo in FY2013E (management indication of about 82 mn tons). The incremental volumes in FY2014E are likely to be driven by coal volumes for power plants, strong growth in container volumes (driven by commissioning of CT-3) and pick-up in liquid cargo volumes (on the back of scale-up in Panipat refinery volumes).

Exhibit 7: Potential to cross the 100 mn ton mark in FY2014E

Commodity-wise break-up of incremental cargo volumes at Mundra port, March fiscal year-ends, 2013-14E



Source: Company, News flows, Kotak Institutional Equities estimates

Gets security clearance: to help grow project portfolio, though incremental projects may be non-remunerative

Adani Ports recently received security clearance from the Union Home Ministry to bid for port projects in the country. This is post a period of almost three years for which the company was not allowed to bid for several large port projects. This would help the company to bid for upcoming projects and grow its project portfolio (broadening to south and east coasts as well). However, we note that competition remains relatively stiff in the space, making incremental project wins non-remunerative.

Key upcoming project includes a Rs40 bn container terminal project at Chennai port. Essar Ports was the only sole bidder for the project earlier, with Adani Ports also in contention now. Bids for the project are likely to be invited soon. Apart from this, the shipping ministry has also lined up about 30 projects (worth about Rs250 bn) to be awarded this year.

GSPC developing 5 mn tons LNG terminals; looking for strategic partners

Gujarat State Petroleum Corporation (GSPC) is developing a 5 mn ton liquefied natural gas (LNG) terminal at Mundra. GSPC holds 50% stake in the venture and Adani Ports holds 25% stake. The company is looking for a third strategic partner to invest the remaining 25% stake in the venture. About six players (two Japanese and four Indian) are in the race for this remaining stake. The LNG terminal would require an initial investment of about Rs52 bn (for the 5 mn ton capacity) and is expected to be commissioned by 2015-16. The companies which have responded to the expression of interest include GAIL India, Petronet LNG, Torrent Group, Reliance-British Petroleum JV, Itochu Corp (Japan) and Toyota Tsusho (Japan).

Ahead of peers in terms of volume growth; ranks #2 among major ports

In 9MFY13, Mundra Port recorded total cargo growth of about 18% yoy. This is versus a yoy decline of 3% recorded by major ports in India. In the container segment, Mundra Port recorded a strong growth of 15% versus a yoy decline of 1.4% in container volumes handled at major ports.

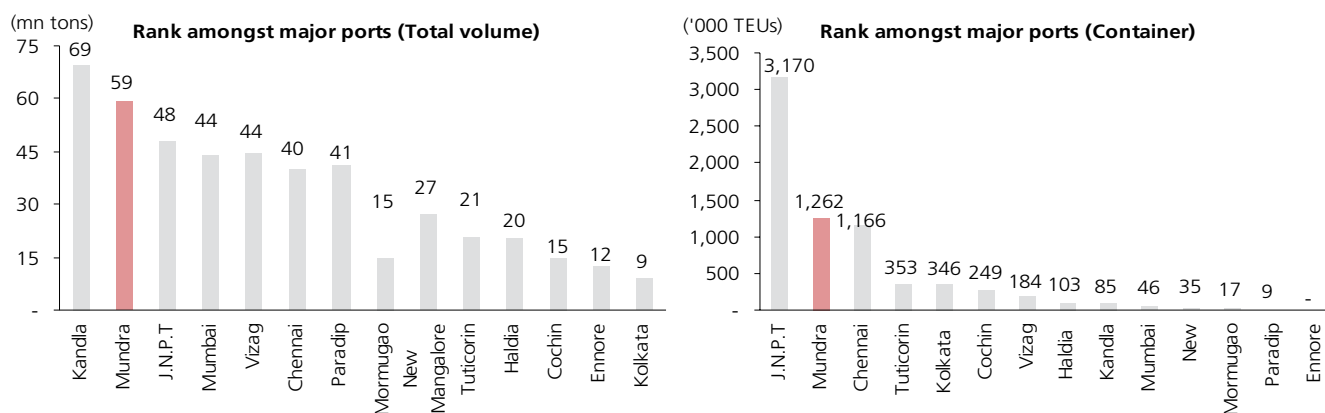
Exhibit 8: Port has outperformed peers in terms of volume growth in 9MFY13
Volumes handled at Mundra port in 9MFY13 versus major ports of the country

	Total cargo (MMT)			Container ('000 TEUs)		
	9MFY13	9MFY12	%change	9MFY13	9MFY12	%change
Kolkata	8.7	9.4	(7.7)	346	311	11.3
Haldia	20.2	24.4	(17.3)	103	104	(1.0)
Paradip	40.7	40.5	0.6	9	5	80.0
Visakhapatnam	44.2	52.6	(16.0)	184	168	9.5
Ennore	12.2	10.4	17.5	—	—	NA
Chennai	39.9	41.9	(4.9)	1,166	1,175	(0.8)
Tuticorin	21.0	20.9	0.5	353	357	(1.1)
Cochin	14.9	14.9	0.2	249	258	(3.5)
New Mangalore	27.0	24.2	11.5	35	35	-
Mormugao	14.9	28.3	(47.4)	17	17	-
Mumbai	44.1	40.2	9.6	46	45	2.2
J.N.P.T	48	49	(3.0)	3,170	3,244	(2.3)
Kandla	69.5	60.9	14.1	85	123	(30.9)
Major ports	405.3	418.2	(3.1)	5,763	5,842	(1.4)
Mundra	59.2	50.3	17.7	1,262	1,099	14.9

Source: Company, Indian Ports Association, Kotak Institutional Equities

Mundra port now ranks #2 among major ports in India in terms of total volume handled in 1HFY13 as well as in terms of container cargo handled.

Exhibit 9: Mundra ranks 2nd in terms of total volume and container volume handled
Mundra's rank in terms of volume handled at the port versus major ports of the country, for 9MFY13



Source: Company, Indian Ports Association, Kotak Institutional Equities

Some partial relief in SEZ business

Mundra's SEZ business has also got some partial relief in terms of the Supreme Court upholding the land allocation (of 1,000 acres), allowing construction of units to proceed (staying Gujarat High Court's order) and Central Government restoring approval held back on issues of contiguity (1,840 ha.) etc.

Marginally revise estimates; reiterate BUY with a TP of Rs175

We marginally revise our consolidated estimates to Rs6.1 and Rs9.8 from Rs6.2 and Rs9.5 for FY2013E and FY2014E respectively. We revise our SOTP-based target price of APSEZ to Rs175/share (from Rs160 earlier) based on slightly higher long-term volume outlook for Dahej and Hazira ports and on roll-forward.

Our SOTP-based target price of Rs175/share is comprised of (1) Rs136/share from the Mundra port business (12-month forward DCF valuation), (2) Rs14//share from the SEZ business, (3) Rs8/share from Dahej port value, (4) Rs9/share from Mormugao and Hazira ports, (5) Rs5/share from Abbot Point Coal Terminal (valued at equity invested at end-FY2012) and (6) Rs3/share from book value of investments in Adani Logistics.

Our target price implies about 12X FY2014E EV/EBITDA for the core asset (Mundra port) and we believe that is reasonable considering (1) durability of this EBITDA (non-regulated, competing facilities difficult to create), (2) likely strong growth over next two-three years as utilization grows and (3) tax advantages (MAT and MAT credit).

Exhibit 10: We arrive at an SOTP-based target price of Rs175/share for MPSEZ
12-month forward sum-of-total-parts valuation of Adani Ports & SEZ

	<u>Valuation</u> <u>(Rs mn)</u>	<u>Stake</u> <u>(%)</u>	<u>Value of stake</u> <u>(Rs mn)</u>	<u>Per share</u> <u>(Rs)</u>	<u>Method of valuation</u>	<u>FY14E implied P/B</u> <u>(X)</u>	<u>EV/EBITDA implied</u> <u>(X)</u>
Mundra port	274,385	100.0	274,385	136	12M forward DCF	3.5	11.8
SEZ	28,978	100.0	28,978	14	12M forward DCF		
Dahej port	23,125	74.0	17,112	8	12M forward DCF	6.7	
Mormugao port	3,620	100.0	3,620	2	12M forward DCF	2.6	
Hazira port	14,863	100.0	14,863	7	12M forward DCF	2.5	
Abbot Point Port	9,325	100.0	9,325	5	1X invested equity	1.0	
Adani Logistics	6,237	100.0	6,237	3	2X book value		
Total				176			

Source: Company, Kotak Institutional Equities estimates

We retain our BUY rating on APSEZ on reasonable valuations for a strong cash-flow generating business. We are positive about the business based on (1) a relatively acyclical business as most port volumes are linked to energy imports (coal for upcoming power plants), (2) strong cash-flow generation assets (standalone EBITDA of Rs21 bn in FY2013E) and (3) large operational assets (Mundra, Dahej, Hazira) may warrant higher P/B valuations on resilient competitive advantages, (4) few and subscale competing facilities, if any particularly on the west coast, (5) likely start of phase of reaping benefits of large capex committed over past two years. We prefer APSEZ over GPPL on better scale, scope, visibility and margins.

Exhibit 11: Consolidated financials of Adani Ports & SEZ Ltd, March fiscal year-ends, 2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E
Income statement								
Net sales	8,170	11,949	14,955	20,001	32,708	44,443	44,630	52,573
Total operating costs	(2,813)	(4,393)	(5,293)	(7,007)	(12,056)	(13,491)	(13,478)	(16,085)
EBITDA	5,357	7,557	9,663	12,994	20,653	30,951	31,152	36,488
EBITDA margin (%)	65.6	63.2	64.6	65.0	63.1	69.6	69.8	69.4
Other income	279	446	321	309	596	1,258	1,016	1,284
Depreciation	(1,023)	(1,468)	(1,868)	(2,388)	(4,630)	(7,783)	(6,116)	(6,418)
Financial charges	(1,079)	(1,459)	(559)	(880)	(4,796)	(11,189)	(6,014)	(5,580)
Pre-tax profit	3,535	5,075	7,556	10,036	11,822	13,238	20,039	25,774
Taxation	(1,534)	(533)	(601)	(874)	(896)	(979)	(233)	(332)
Adjusted PAT	2,001	4,542	6,955	9,162	10,927	12,259	19,806	25,442
EPS (Rs)	1.0	2.1	3.3	4.6	5.5	6.1	9.8	12.6
Balance sheet								
Shareholders funds	26,216	29,306	34,637	41,899	48,385	59,306	82,533	103,514
Share capital	4,051	4,045	4,035	4,035	4,035	4,035	4,035	4,035
Reserves and surplus	22,164	25,261	30,602	37,864	44,350	55,271	78,498	99,479
Loan funds	20,680	28,957	37,062	35,925	175,650	199,811	80,837	65,337
Amt received/ receivable under LT lease	6,568	6,505	6,291	6,121	5,905	5,459	5,166	5,015
Deferred tax liability (net)	1,771	2,296	2,817	3,468	15,179	4,820	4,795	4,545
Total sources of funds	55,252	67,156	81,629	88,400	246,467	270,186	174,358	179,846
Total fixed assets	36,673	51,792	67,682	84,683	209,531	236,357	138,103	136,847
Investments	8,886	2,072	2,249	1,070	11,823	4,508	4,508	4,508
Cash and bank balance	9,029	12,951	9,997	2,515	11,184	12,255	20,812	37,084
Net current assets excl cash	663	321	1,701	132	13,929	17,066	10,934	1,407
Total application of funds	55,252	67,156	81,629	88,400	246,467	270,186	174,358	179,846
Cash flows								
Cash flow from operations	7,243	8,336	8,524	14,649	18,267	17,736	38,042	46,718
Cash flow from investing activities	(21,920)	(10,094)	(18,463)	(18,688)	(141,024)	(28,821)	102,581	(4,447)
Free cash flows	(14,678)	(1,758)	(9,939)	(4,039)	(122,756)	(11,086)	140,623	42,271
Cash flow from financing activities	22,806	5,519	5,927	(4,106)	130,177	11,189	(121,859)	(25,693)
Cash generated /utilised	8,418	3,922	(4,539)	(8,725)	6,647	(623)	18,149	16,199
Net cash at start of year	611	9,029	12,951	9,997	2,515	11,184	12,255	20,812
Net cash at end of year	9,029	12,951	8,413	1,272	9,162	10,561	30,404	37,011

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013

UPDATE

Coverage view: **Attractive**

Price (Rs): **527**

Target price (Rs): **520**

BSE-30: **19,990**

No surprises from guidance. Glenmark guided for sales growth of 20% yoy for FY2014E with core margin staying flat at 20.4%. We believe the outlook for US (to 18% yoy) has moderated despite the at-risk launch of Mupirocin (in January 2013). Growth outlook for emerging markets remains positive while India is expected to grow at 18-20%. The guidance suggests weak cash generation for FY2014 despite the strong P&L growth. We maintain our REDUCE rating with TP at Rs520 (from Rs510 earlier).

Company data and valuation summary

Glenmark Pharmaceuticals

Stock data

52-week range (Rs) (high,low)	552-307
Market Cap. (Rs bn)	141.1

Shareholding pattern (%)

Promoters	25.1
FIs	45.2
MFs	9.6

Price performance (%)

	1M	3M	12M
Absolute	6.2	5.5	57.6
Rel. to BSE-30	(1.6)	3.3	31.1

Forecasts/Valuations

	2013	2014E	2015E
EPS (Rs)	22.7	27.7	32.3
EPS growth (%)	3.8	22.0	16.6
P/E (X)	23.0	18.8	16.1
Sales (Rs bn)	49.6	59.4	69.1
Net profits (Rs bn)	6.1	7.5	8.7
EBITDA (Rs bn)	10.1	12.0	13.6
EV/EBITDA (X)	15.7	13.0	11.2
ROE (%)	23.8	24.3	23.1
Div. Yield (%)	0.4	0.6	0.7

FY2014E guidance is in line with expectations

Glenmark provided FY2014E guidance which is broadly in line with our expectation:

- ▶ Sales growth (excluding licensing income) expected to be 20% yoy – domestic market growth at 18-20% and US to grow by 18% yoy. Semi-regulated markets, Latin America and Europe are expected to grow between 25% and 30%.
- ▶ Core EBITDA at Rs12.2 bn (20.5% yoy) – margin assumption at 20.4% which is flat on a yoy basis. Tax rate guidance of 15-17%.
- ▶ Free cash flow generation to be used to repay debt – no M&A plans in the near future. Working capital days to be in the range of 105-115 days. Capital expenditure in the range of Rs3-3.5 bn. The guidance suggests limited cash flow generation in FY2014E (refer Exhibit1).

Multiple factors at play during 4QFY13

The sharp increase in gross margin has been attributed to (1) focus on improved product mix in US along with launch of Mupirocin cream and (2) strong growth in Russia and in particular, the launch of OTC business. The elements which contribute to the higher other expense during the quarter include currency losses (of Rs150 mn), GDUFA fees (estimated to be Rs150 mn), higher advertising spends on account of the OTC launch in Russia and increase in sales and marketing expenditure given the growing presence in branded markets. Of these, currency losses and GDUFA fees are not recurring while the OTC spends will moderate with the brands getting established. We expect the marketing spends to remain elevated given the multiple business segments/geographies which are being targeted.

Maintain REDUCE with TP at Rs520 (from Rs510)

We have marginally tweaked FY2014/15E EPS – our estimates for FY2014 are in line with the guidance provided. We maintain REDUCE rating with TP at Rs520 (from Rs510; due to roll-forward) – 18X one-year forward EPS.

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Call highlights

Cautious US guidance. The company guidance of 18% yoy growth in the US assumes US\$56 mn addition for FY2014E. This appears to be conservative given the launch of Mupirocin cream will contribute US\$15-20 mn in sales for the year. The management believes that the review timelines in US are getting stretched which is reflected in the cautious guidance.

The company is confident of a better US sales growth in FY2015/16E given the approvals for the pipeline products.

Latin America – optimistic on long-term opportunity. Glenmark remains optimistic on the long-term opportunity in Latin America despite the challenging environment during FY2013. Product approval delays have been the key issue impacting growth in these markets.

Higher generic spend drives R&D increase. R&D expense for FY2013 was at Rs3.8 bn – out of which Rs2.0 bn was for innovative R&D and Rs 1.8 bn for generics (increased by 60% yoy). The higher spend in generics is primarily on account of higher spend in US. The company plans to file for 20 ANDAs in the US. Of the 18 filings in FY2013, 50% of the filings are in niche segments (dermatology, OC and injectable oncology).

Tax rate remains below MAT. Tax rate for FY2013 at 15% was low due to MAT credit and deferred tax asset due to losses in Brazil and Argentina.

Limited progress on debt reduction. There has been marginal increase in net debt (of Rs0.6 bn) over the past 12 months despite the significant P&L growth. Net debt stood at Rs21.4 bn - increase of Rs2 bn out of which Rs1.5 bn was on account of currency.

Working capital improved on a yoy basis to 106 days from 120 days. However, receivable days inched up during the quarter (from 3QFY13) to 120 days from 113 days (company had guided for an increase in 3QFY13).

Total capital expenditure for FY2013 of Rs4.7 bn includes Rs3.5 bn in fixed asset addition, Rs1.1 bn in intangible asset addition due to brand in-licensing in EU and the remaining due to currency movement.

Gross debt for FY2013 was at Rs27.5 bn which includes Rs19.2 bn of long-term debt, Rs3.6 bn in short-term debt and Rs4.6 bn in other current liabilities. Cash balance at the end of the quarter stood at Rs6 bn.

The company remains confident of debt reduction in FY2014E.

Exhibit 1: Pro-forma cash flow statement for FY2014E

	Higher end of guidance	Lower end of guidance
EBITDA	12,029	12,029
Working capital changes	(2,696)	(4,322)
- working capital days	105	115
Tax	(1,374)	(1,557)
- % tax rate	15	17
Cash flow from operations	7,960	6,150
Capital expenditure	(3,000)	(3,500)
Free cash flow	4,960	2,650
Dividend	(630)	(630)
Purchase of Glenmark generic ESOP	(500)	(500)
Interest payment	(1,400)	(1,400)
Cash flow available for debt repayment	2,430	121

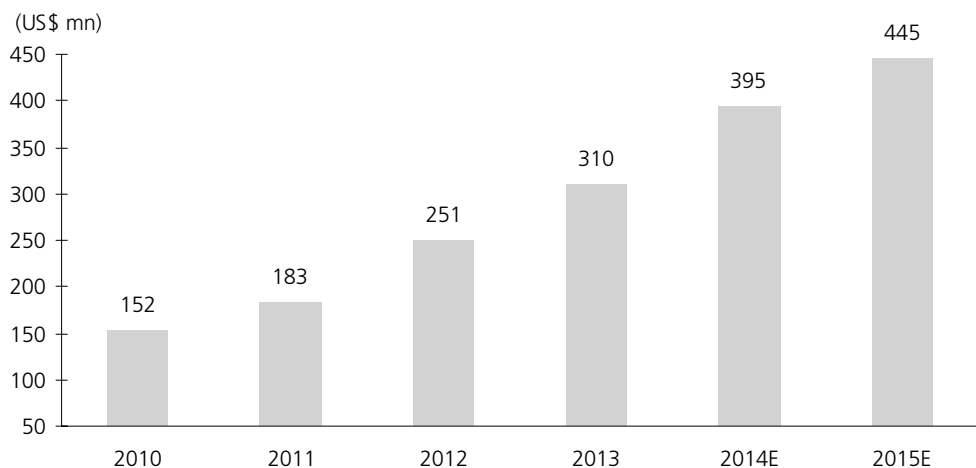
Source: Company, Kotak Institutional Equities

Exhibit 2: Glenmark – NCE/NBE pipeline

Molecule name	Therapy area	Status	Catalyst	Comments
Revamilast (GRC 4039)	Asthma	Recruiting patients for PIIb trial in Europe and India.	PIIb data expected in 2QCY13	
GRC17536	Pain	PII in UK, Germany and India - initiated recruitment for the study.	Data expected in 1HCY13	Potential out-licensing candidate
	Respiratory	PIIa study in UK	Data expected in 1HCY13	
GRC15300	Neuropathic pain	Licensed to Sanofi - PIIa study is ongoing (initiated in 1QFY13)	Data expected in 1HCY13	
Vatelizumab (GBR500)	Ulcerative colitis	Licensed to Sanofi - PII study is ongoing (initiated in 2QFY13)	Data expected in end of FY2014	
GBR900	Pain	Pre-clinical	Expect to enter clinic in 1QFY14	
Crofelemer	Multiple types of diarrhoea	Salis received approval in US for HIV associated diarrhoea in Dec-12.		GNP launch (in ROW) expected in FY2015.
		Filings have been undertaken in ROW markets for HIV indication (GNP's territories)		
		PIII trial ongoing for adult acute diarrhoea (by Glenmark) in India/Bangladesh		
		Clinical development plan being finalised by GNP in pediatric acute diarrhoea.		
mPGES-1	Inflammation	Will enter the clinics in early FY2014.	PI data by end FY2014.	Entered into a option agreement with Forest Labs.
GBR830 (anti-OX40)	Autoimmune	Pre-clinical	PI initiation by 4QFY14.	

Source: Company, Kotak Institutional Equities

Exhibit 3: US generic sales, March fiscal year-ends, 2010-15E (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Change to sales estimates, March fiscal year-ends, 2014-15E (Rs mn)

	Old estimates		New estimates		% change	
	2014E	2015E	2014E	2015E	2014E	2015E
Domestic formulations	14,681	17,030	15,715	18,072	7.0	6.1
Semi regulated market	10,242	12,291	10,153	12,184	(0.9)	(0.9)
Latin america	4,023	4,627	4,099	4,714	1.9	1.9
Europe	2,098	2,308	2,521	2,773	20.1	20.1
Speciality	31,045	36,256	32,488	37,743	4.6	4.1
US	21,330	24,475	19,727	23,392	(7.5)	(4.4)
Europe	1,765	2,029	2,134	2,454	20.9	20.9
Latin america (Argentina)	225	271	236	283	4.5	4.5
API	4,464	4,910	4,772	5,249	6.9	6.9
Generics	27,784	31,685	26,868	31,378	(3.3)	(1.0)
Licensing income	—	—	—	—		
Others	—	—	—	—		
Total	58,829	67,941	59,356	69,121	0.9	1.7

Source: Kotak Institutional Equities estimates

Exhibit 5: Change to sales estimates, March fiscal year-ends, 2014-15E (Rs mn)

	Old estimates		New estimates		% change	
	2014E	2015E	2014E	2015E	2014E	2015E
Sales	58,829	67,941	59,356	69,121	0.9	1.7
Raw material	20,347	23,614	19,868	22,810	(2.4)	(3.4)
Staff cost	9,501	11,021	9,345	11,125	(1.6)	0.9
R&D	4,706	5,435	5,045	5,530	7.2	1.7
Other expense	12,505	14,529	13,069	16,026	4.5	10.3
EBITDA - reported	11,770	13,341	12,029	13,630	2.2	2.2
EBITDA - adjusted	11,770	13,341	12,029	13,630	2.2	2.2
PBT	9,103	10,774	9,159	10,660	0.6	(1.1)
Tax	1,547	1,832	1,557	1,812	0.6	(1.1)
PAT -reported	7,455	8,842	7,502	8,748	0.6	(1.1)
PAT -adjusted	7,455	8,842	7,502	8,748	0.6	(1.1)
EPS -adjusted	27.5	32.7	27.7	32.3	0.6	(1.1)

Source: Kotak Institutional Equities estimates

Exhibit 6: Sales summary, March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013	2014E	2015E
Domestic formulations	7,529	8,447	10,021	13,096	15,715	18,072
Semi regulated market	3,864	4,070	5,926	8,122	10,153	12,184
Latin america	1,361	1,919	2,869	3,279	4,099	4,714
Europe	1,363	1,528	1,976	2,017	2,521	2,773
Speciality business	14,116	15,963	20,792	26,514	32,488	37,743
US	7,230	8,352	12,137	16,887	19,727	23,392
Europe	299	544	1,031	1,707	2,134	2,454
Latin america (Argentina)	343	401	142	189	236	283
API	2,627	2,767	3,094	3,976	4,772	5,249
Generics business	10,500	12,063	16,405	22,759	26,868	31,378
Licensing income	232	895	2,535	493	—	—
Others	—	569	474	357	—	—
Total	24,848	29,491	40,206	50,123	59,356	69,121
yoy growth, %						
Domestic formulations	22.6	12.2	18.6	30.7	20.0	15.0
Semi regulated market	64.1	5.3	45.6	37.1	25.0	20.0
Latin America	(13.9)	41.0	49.5	14.3	25.0	15.0
Europe	36.8	12.1	29.4	2.0	25.0	10.0
Speciality business	27.5	13.1	30.3	27.5	22.5	16.2
US	(1.5)	15.5	45.3	39.1	16.8	18.6
Europe	103.7	81.6	89.7	65.5	25.0	15.0
Latin america (Argentina)	(14.3)	16.9	(64.5)	32.4	25.0	20.0
API	33.2	5.3	11.8	28.5	20.0	10.0
Generics business	6.5	14.9	36.0	38.7	18.1	16.8
Total	18.7	18.7	36.3	24.7	18.4	16.5
% of sales						
Domestic formulations	30.3	28.6	24.9	26.1	26.5	26.1
Semi regulated market	15.5	13.8	14.7	16.2	17.1	17.6
Latin America	5.5	6.5	7.1	6.5	6.9	6.8
Europe	5.5	5.2	4.9	4.0	4.2	4.0
Speciality business	56.8	54.1	51.7	52.9	54.7	54.6
US	29.1	28.3	30.2	33.7	33.2	33.8
Europe	1.2	1.8	2.6	3.4	3.6	3.5
Latin america (Argentina)	1.4	1.4	0.4	0.4	0.4	0.4
API	10.6	9.4	7.7	7.9	8.0	7.6
Generics business	42.3	40.9	40.8	45.4	45.3	45.4
Licensing income	0.9	3.0	6.3	1.0	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Financial summary, March fiscal year-ends, 2012-15E (Rs mn)

	2012	2013	2014E	2015E
Net Sales (excl licensing)	37,654	49,630	59,356	69,121
% growth		31.8%	19.6%	16.5%
Reported EBITDA (excl licensing)	5,908	9,607	12,029	13,630
% margins	15.7%	19.4%	20.3%	19.7%
% growth		62.6%	25.2%	13.3%
Adjusted EBITDA (for MTM losses)	7,366	10,117	12,029	13,630
% margins	19.6	20.4	20.3	19.7
% growth		37.4	18.9	13.3
Reported PAT	4,603	6,147	7,502	8,748
% growth		33.5	22.0	16.6
Adjusted PAT	4,531	5,924	7,502	8,748
% growth		30.8	26.6	16.6
Adjusted EPS	16.7	21.9	27.7	32.3
% growth		30.7	26.6	16.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Profit and loss statement, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013	2014E	2015E
Net sales	20,402	23,891	28,579	37,654	49,630	59,356	69,121
Raw materials	(6,581)	(7,843)	(9,918)	(13,454)	(16,536)	(19,868)	(22,810)
Employee cost	(3,194)	(3,321)	(5,103)	(6,289)	(7,882)	(9,345)	(11,125)
R&D	(1,274)	(1,179)	(1,380)	(2,916)	(3,870)	(5,045)	(5,530)
Others	(3,452)	(5,585)	(7,166)	(9,087)	(11,735)	(13,069)	(16,026)
Total expenditure	(14,500)	(17,928)	(23,568)	(31,746)	(40,024)	(47,327)	(55,491)
EBITDA	5,902	5,963	5,011	5,908	9,607	12,029	13,630
Depreciation/amortisation	(1,027)	(1,206)	(947)	(979)	(1,270)	(1,570)	(1,870)
EBIT	4,875	4,757	4,064	4,929	8,337	10,459	11,760
Net finance cost	(1,405)	(1,640)	(1,566)	(1,377)	(1,510)	(1,300)	(1,100)
Other income	(782)	490	1,405	(1,207)	17	—	—
Licensing income	—	232	895	2,535	493	—	—
PBT	2,688	3,839	4,799	4,881	7,337	9,159	10,660
Current tax	(754)	(529)	(240)	(238)	(1,108)	(1,557)	(1,812)
Minority interest	18	66	46	40	83	100	100
PAT - reported	1,916	3,244	4,512	4,603	6,147	7,502	8,748
PAT - adjusted	1,347	1,986	2,272	4,531	5,924	7,502	8,748
EPS - adjusted	5.3	7.6	8.4	16.7	21.9	27.7	32.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Balance sheet and cash flow, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010	2011	2012	2013	2014E	2015E
Balance sheet							
Total equity	15,982	23,552	20,372	24,016	27,630	34,085	41,612
Total debt	20,943	18,694	21,116	22,445	27,000	25,405	21,849
Current liabilities	4,563	5,186	7,746	10,623	15,069	16,637	18,440
Minority interest	32	130	267	250	244	244	244
Deferred tax liabilities	569	710	—	—	—	—	—
Total equity and liabilities	42,089	48,273	49,501	57,334	69,942	76,370	82,145
Cash and cash equivalents	715	1,070	1,986	3,253	6,052	6,052	6,052
Current assets	20,077	23,140	24,029	26,252	31,620	36,418	40,863
Net fixed assets	7,857	9,245	10,337	10,511	13,151	14,296	15,141
Net intangibles	7,806	8,628	10,329	11,862	12,652	13,137	13,622
Capital -WIP	5,454	6,008	1,457	2,483	2,483	2,483	2,483
Investments	181	181	281	298	181	181	181
Deferred tax assets	—	—	1,081	2,674	3,803	3,803	3,803
Total assets	42,089	48,273	49,501	57,334	69,942	76,370	82,145
Free cash flow							
Operating cash flow, excl. working capital	4,036	5,618	5,775	8,392	9,520	10,472	11,818
Working capital	(3,877)	(2,094)	3,531	(348)	(922)	(3,230)	(2,641)
Capital expenditure	(9,744)	(3,958)	(4,012)	(2,854)	(4,700)	(3,200)	(3,200)
Free cash flow	(9,585)	(434)	5,294	5,190	3,898	4,042	5,976

Source: Company, Kotak Institutional Equities estimates

MAY 09, 2013

UPDATE

BSE-30: 19,990

CTSH—robust quarter. CTSH delivered financial services-led 3.7% sequential revenue growth. Guidance for 2QCY13 was solid at 5.4% sequentially (5% organic). Read-through for the sector are—(1) we are positively surprised by the growth in the financial services vertical—whether it is strong market share gain or broader recovery in the market remains debatable, (2) pressure on profitability is evident with a new low on gross margins and (3) the immigration reform bill may remain an overhang for some more time. We stay Cautious on the sector.

Delivers strong quarter with positive commentary

- ▶ CTSH delivered a strong 1QCY13 with 3.7% sequential revenue growth to US\$2,021 mn. BFSI vertical grew 5% qoq with the banking segment growing at a faster rate. Europe grew 4% on organic basis and 6.7% including C1 acquisition.
- ▶ The company guided for 5.4% sequential revenue growth (5% on organic basis). The company retained CY2013E revenue growth guidance of at least 17%. More important, CTSH indicated possibility of an upgrade to this guidance if the current pace of decision making continues.
- ▶ CTSH increased the stock repurchase program to US\$1.5 bn from US\$1 bn earlier and extended the term of the program to December 2014.

Read-through for Indian IT from results and management commentary

CTSH results reaffirm its growth leadership and challenge Street's views on recent belief of catch-up of growth by other Tier-1 IT. CTSH has grown 5-10% faster than other Tier-1 IT, CY2013E may be no different. We detail our thoughts

- ▶ **Rebound in BFSI.** CTSH's banking segment within BFSI grew faster and was certainly impressive for a soft period of IT spending. Growth was also materially higher than reported numbers of other Tier-1 IT. Whether this is strong client portfolio, market share gain or revival in IT spending in the vertical remains debatable. Our stance on this aspect has been of modest recovery of spending in financial services. Key risk to our view on the sector is sharp spending recovery in the financial services sector.
- ▶ **Immigration bill.** CTSH management stance on the earnings call was a mixture of caution (given the meaningful impact on the Indian IT companies' onsite business model, if all or even some of the proposals are accepted) and optimism on this aspect (given that the proposed bill still has to go through a series of reviews, each of which has potential for changes to the bill). The company also indicated that its client base in the US is willing to weigh in on this issue in favor of the offshore players, if needed, at the right time. We believe it is risky to dismiss the immigration bill—it is a high-impact event, even if one assumes it to be a low probability one. We had discussed our thoughts on this aspect in a couple of earlier notes.
- ▶ **Gross margins decline to all-time lows.** CTSH reported gross margins of 40.6% for the quarter, down 30 bps qoq and 185 bps yoy. More important, (1) 1QCY13 gross margins reflect an all-time low and (2) the gross margin story is similar across several other companies as well. Extent of gross margin decline in a reasonable growth environment with currency tailwinds is a clear reflection of the pressure in the marketplace, irrespective of whether the same reflects in pricing movement or not.

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1QCY13 earnings highlights

- ▶ Revenues at US\$2,021 mn (+3.7% qoq, +18.1% yoy) were ahead of expectations. CTSH had guided for revenues of at least US\$2,000 mn in 1QCY13.
- ▶ Cognizant has guided for CY2013E revenues to be at least US\$8.6 bn, including US\$90 mn from the acquisition of MediCall and six C1 group companies. 2QCY13 revenue guidance of at least US\$2.13 bn implies 5.4% sequential growth (about 5% in organic terms). The guidance implies revenue CQGR for 3Q-4QCY13 to achieve the full-year guidance is 2.9%, achievable in our view.
- ▶ Cognizant indicated that it was among the top applicants for green cards for its employees. It believes the immigration reforms bill in its current form is detrimental to businesses across the US who rely on outsourcing firms like CTSH. It expects the final version of the bill to differ materially from the current one.
- ▶ BFSI growth was strong at 5% qoq led by clients in banking, while healthcare had a modest quarter growing 2%. Cognizant expects BFSI to have a good year, while healthcare will be impacted by weakness in the pharma segment.
- ▶ End-period headcount was around 162,700, a net addition of 6,000. This includes the 450 employees added as part of the C1 acquisition. Quarterly annualized attrition has increased to 12.3% from 10.7% in the previous quarter.
- ▶ Receivable days increased to 76 days from 72 in 4QCY12.

Exhibit 1: Cognizant interim results, December year-ends (US\$ mn)

	1QCY12	4QCY12	1QCY13	% qoq	% yoy
Revenues	1,711	1,948	2,021	3.7	18.1
Cost of revenues	(985)	(1,151)	(1,200)	4.3	21.9
SG&A expenses	(374)	(402)	(413)	2.9	10.4
EBITDA	353	396	408	3.0	15.6
Depreciation and amortization	(35)	(39)	(42)	6.1	19.9
EBIT	318	356	366	2.7	15.1
Other income	4	10	11	17.6	157.6
PBT	322	366	377	3.1	17.0
Provision for taxes	(79)	(87)	(93)	6.8	18.2
PAT	244	279	284	1.9	16.6
Margins (%)					
EBITDA	20.6	20.3	20.2		
EBIT	18.6	18.3	18.1		
Net income	14.2	14.3	14.1		
Tax rate (%)	24.4	23.8	24.6		

Source: Company

Exhibit 2: Revenue growth for CTSH: guidance versus actuals

Quarter	Guided revenue (US\$ mn)	Guided growth (%)	Actual revenue (US\$ mn)	Actual growth (%)	Beat/(Miss)
1QCY06	275.0	7.0	285.5	11.1	4.1
2QCY06	317.0	11.0	336.8	18.0	6.9
3QCY06	363.0	7.8	377.5	12.1	4.3
4QCY06	405.0	7.3	424.4	12.4	5.1
1QCY07	448.0	5.6	460.3	8.5	2.9
2QCY07	500.0	8.6	516.5	12.2	3.6
3QCY07	550.0	6.5	558.8	8.2	1.7
4QCY07	590.0	5.6	600.0	7.4	1.8
1QCY08	640.0	6.7	643.1	7.2	0.5
2QCY08	680.0	5.7	685.4	6.6	0.8
3QCY08	723.0	5.5	734.7	7.2	1.7
4QCY08	746.7	1.6	753.0	2.5	0.9
1QCY09	735.0	(2.4)	745.9	(0.9)	1.4
2QCY09	760.0	1.9	776.6	4.1	2.2
3QCY09	800.0	3.0	853.5	9.9	6.9
4QCY09	880.0	3.1	902.7	5.8	2.7
1QCY10	935.0	3.6	959.7	6.3	2.7
2QCY10	1,015.0	5.8	1,105.2	15.2	9.4
3QCY10	1,175.0	6.3	1,216.9	10.1	3.8
4QCY10	1,270.0	4.4	1,310.6	7.7	3.3
1QCY11	1,360.0	3.8	1,371.3	4.6	0.9
2QCY11	1,450.0	5.7	1,485.2	8.3	2.6
3QCY11	1,570.0	5.7	1,601.0	7.8	2.1
4QCY11	1,660.0	3.7	1,663.7	3.9	0.2
1QCY12	1,700.0	2.2	1,711.3	2.9	0.7
2QCY12	1,790.0	4.6	1,795.2	4.9	0.3
3QCY12	1,875.0	4.4	1,891.7	5.4	0.9
4QCY12	1,940.0	2.6	1,948.2	3.0	0.4
1QCY13	2,000.0	2.7	2,020.7	3.7	1.1
2QCY13	2,130.0	5.4			

Source: Company

Exhibit 3: CTSH continues to grow 5-10% above other Tier-1 peers

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Revenues (US\$ mn)													
Infosys	1,296	1,358	1,496	1,585	1,602	1,672	1,746	1,806	1,771	1,752	1,797	1,911	1,938
Wipro	1,166	1,204	1,273	1,344	1,400	1,408	1,473	1,506	1,536	1,515	1,541	1,577	1,585
TCS	1,686	1,794	2,004	2,144	2,244	2,412	2,525	2,586	2,648	2,728	2,853	2,948	3,040
Cognizant	960	1,105	1,217	1,311	1,371	1,485	1,601	1,664	1,711	1,795	1,892	1,948	2,021
qoq growth (%)													
Infosys	5.2	4.8	10.2	6.0	1.1	4.3	4.5	3.4	(1.9)	(1.1)	2.6	6.3	1.4
Wipro	3.5	3.2	5.7	5.6	4.2	0.5	4.6	2.2	2.0	(1.4)	1.7	2.4	0.5
TCS	3.1	6.4	11.7	7.0	4.7	7.5	4.7	2.4	2.4	3.0	4.6	3.3	3.1
Cognizant	6.3	15.2	10.1	7.7	4.6	8.3	7.8	3.9	2.9	4.9	5.4	3.0	3.7
yoy growth (%)													
Infosys	15.5	21.0	29.6	28.7	23.6	23.1	16.7	13.9	10.5	4.8	2.9	5.8	9.4
Wipro	11.5	16.6	19.5	19.3	20.1	16.9	15.7	12.0	9.7	7.6	4.6	4.8	3.2
TCS	17.7	21.1	30.3	31.1	33.1	34.4	26.0	20.6	18.0	13.1	13.0	14.0	14.8
Cognizant	28.7	42.3	42.6	45.2	42.9	34.4	31.6	26.9	24.8	20.9	18.2	17.1	18.1

Source: Company, Kotak Institutional Equities

Exhibit 4: CTSH continues to gain relative revenue market share

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Revenues (US\$ mn)													
Infosys	1,296	1,358	1,496	1,585	1,602	1,672	1,746	1,806	1,771	1,752	1,797	1,911	1,938
Wipro	1,166	1,204	1,273	1,344	1,400	1,408	1,473	1,506	1,536	1,515	1,541	1,577	1,585
TCS	1,686	1,794	2,004	2,144	2,244	2,412	2,525	2,586	2,648	2,728	2,853	2,948	3,040
HCL Tech	685	738	804	864	915	963	1,002	1,022	1,048	1,080	1,114	1,154	1,191
Cognizant	960	1,105	1,217	1,311	1,371	1,485	1,601	1,664	1,711	1,795	1,892	1,948	2,021
Total	5,793	6,198	6,794	7,248	7,532	7,939	8,346	8,583	8,714	8,870	9,196	9,539	9,775
Incremental revenues (US\$ mn)													
Infosys	64	62	138	89	17	69	74	60	(35)	(19)	45	114	27
Wipro	39	38	69	71	57	7	65	33	30	(21)	26	37	8
TCS	51	108	210	140	100	168	113	61	62	80	125	95	92
HCL Tech	34	52	66	60	50	48	39	20	26	32	34	41	37
Cognizant	57	145	112	94	61	114	116	63	48	84	96	57	73
Total	245	406	595	454	285	407	407	237	131	156	327	343	236
Market share of incremental revenues (%)													
Infosys	26.2	15.3	23.2	19.6	6.0	17.0	18.3	25.4	(26.8)	(12.2)	13.8	33.3	11.4
Wipro	16.0	9.3	11.6	15.6	19.9	1.7	16.0	13.9	23.0	(13.4)	7.9	10.7	3.3
TCS	20.9	26.6	35.3	30.8	35.1	41.3	27.7	25.8	47.4	51.4	38.3	27.7	39.0
HCL Tech	13.7	12.9	11.1	13.3	17.7	11.9	9.6	8.4	19.9	20.4	10.5	11.8	15.5
Cognizant	23.3	35.9	18.8	20.6	21.3	28.0	28.4	26.5	36.4	53.8	29.5	16.5	30.7
Market share of total revenues (%)													
Infosys	22.4	21.9	22.0	21.9	21.3	21.1	20.9	21.0	20.3	19.8	19.5	20.0	19.8
Wipro	20.1	19.4	18.7	18.5	18.6	17.7	17.6	17.5	17.6	17.1	16.8	16.5	16.2
TCS	29.1	28.9	29.5	29.6	29.8	30.4	30.3	30.1	30.4	30.8	31.0	30.9	31.1
HCL Tech	11.8	11.9	11.8	11.9	12.1	12.1	12.0	11.9	12.0	12.2	12.1	12.1	12.2
Cognizant	16.6	17.8	17.9	18.1	18.2	18.7	19.2	19.4	19.6	20.2	20.6	20.4	20.7

Source: Company, Kotak Institutional Equities

Exhibit 5: Valuation summary of key Indian technology companies

Company	8-May-13		Mkt cap.		EPS (Rs)			PER (X)			EV/EBITDA (X)			EV/Sales (X)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
HCL Technologies	752	REDUCE	534,388	9,870	53.9	55.9	59.7	14.0	13.4	12.6	9.0	8.4	7.5	2.0	1.7	1.5
Hexaware Technologies	86	REDUCE	25,097	464	11.2	10.2	10.1	7.7	8.4	8.5	5.7	5.2	4.9	1.2	1.0	0.9
Infosys	2,351	REDUCE	1,343,161	24,807	164.9	163.1	178.8	14.3	14.4	13.1	9.7	9.1	8.0	2.8	2.4	2.1
Mindtree	883	ADD	36,637	677	81.7	87.6	96.7	10.8	10.1	9.1	7.3	6.7	5.6	1.5	1.3	1.0
Mphasis	418	SELL	88,124	1,628	37.6	35.8	35.3	11.1	11.7	11.8	8.3	8.3	8.0	1.6	1.5	1.3
Polaris Financial Technology	106	REDUCE	10,533	195	21.1	18.7	19.4	5.0	5.6	5.4	2.3	2.1	1.7	0.3	0.2	0.2
Mahindra Satyam	113	REDUCE	132,653	2,450	11.0	11.2	11.9	10.2	10.1	9.5	6.2	5.7	4.8	1.3	1.1	0.9
TCS	1,480	REDUCE	2,896,852	53,503	71.3	79.6	87.4	20.8	18.6	16.9	15.4	13.0	11.6	4.4	3.7	3.3
Tech Mahindra	984	REDUCE	125,435	2,317	105.1	106.3	103.8	9.4	9.3	9.5	9.9	9.3	9.5	2.0	1.8	1.6
Wipro	351	REDUCE	864,636	15,969	24.9	26.2	28.4	14.1	13.4	12.3	9.5	8.6	7.6	2.1	1.8	1.6
Technology	Cautious		6,057,516	111,878				15.9	15.1	14.1	11.3	10.1	9.2	2.8	2.4	2.2
KIE universe			53,671,096	991,269				15.1	13.6	12.0	9.7	8.4	7.2	1.3	1.2	1.1
Company	Target	O/S shares	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)				
	Price (Rs)		(mn)	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	
HCL Technologies	650	711	55.8	3.9	6.6	38,026	39,777	42,539	55,595	56,593	59,690	253,529	286,199	309,289		
Hexaware Technologies	90	293	22.8	(8.7)	(1.1)	3,276	2,993	2,960	4,074	4,009	4,105	19,482	20,928	22,928		
Infosys	2,450	571	13.3	(1.1)	9.6	94,210	93,212	102,161	115,600	117,741	128,957	403,520	441,245	490,124		
Mindtree	900	41	53.2	7.2	10.5	3,389	3,635	4,015	4,860	4,910	5,470	23,618	26,217	29,368		
Mphasis	350	211	(3.7)	(4.7)	(1.4)	7,923	7,547	7,438	10,512	10,420	10,619	53,574	57,020	63,219		
Polaris Financial Technology	120	100	1.9	(11.4)	3.7	2,108	1,868	1,937	2,836	2,737	2,727	23,017	24,147	25,462		
Mahindra Satyam	120	1,176	8.4	1.2	6.9	12,973	13,127	14,034	16,468	16,457	17,797	77,572	84,562	92,854		
TCS	1,350	1,957	31.2	11.7	9.8	139,581	155,867	171,140	180,726	208,260	226,467	629,895	722,438	794,083		
Tech Mahindra	1,025	128	31.2	1.1	(2.3)	13,768	13,921	13,603	14,110	14,728	13,979	68,315	77,782	82,429		
Wipro	350	2,463	9.9	5.1	8.6	61,347	64,457	70,021	81,150	84,357	91,363	374,256	398,288	435,597		
Technology			22.5	5.2	7.2	381,172	401,143	429,848	492,877	527,668	561,173	1,965,204	2,182,756	2,345,353		
KIE universe			6.3	11.5	13.5											

Notes

(a) HCL Technologies is June fiscal year-ending

(b) Hexaware Technologies is December year-ending.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

March 2013: Results calendar

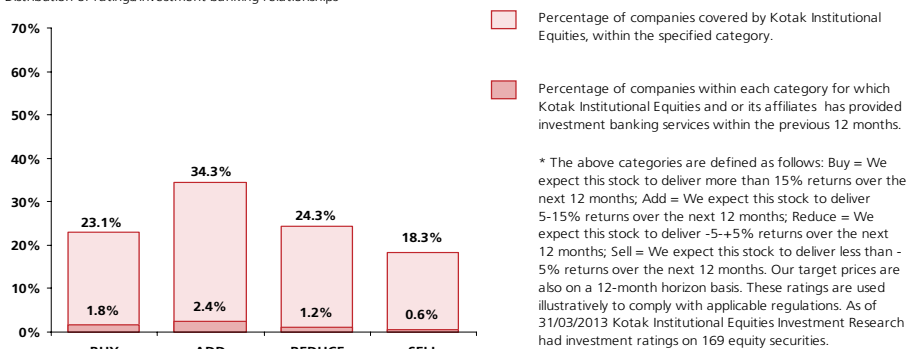
Mon	Tue	Wed	Thu	Fri	Sat
6-May	7-May	8-May	9-May	10-May	11-May
		ABB	Asian Paints	Apollo Tyres	Dena Bank
		Corporation Bank	Bajaj Hindustan	Ashok Leyland	India Infoline
		Future Retail	Escorts	Central Bank of India	
		HDFC	Gateway Distriparks	Cummins India	
		KEC International	Godrej Properties	Essar Oil	
		Lupin	Indian Bank	NTPC	
		Piramal Life	Jubilant Foodworks	Punj Lloyd	
		Ranbaxy Lab	Punjab National Bank	Reliance Communication	
		SKS Microfinance	Union Bank	Sobha Developers	
13-May	14-May	15-May	16-May	17-May	18-May
Amara Raja Batteries	Dr Reddys Lab	Adani Ports	Bajaj Auto	ITC	
Bank of Baroda	Muthoot Finance	Bajaj Finance	Bajaj Holdings	Motherson Sumi	
Bank of India	Reliance Infra	Bajaj Finserv	Satyam Computers	SunTV Network	
Eicher Motors	United Bank of India	IRB Infra	TTK Prestige		
Hindustan Media		J&K Bank			
Nestle India		Karnataka Bank			
Reliance Power		United Spirits			
TV18 Broadcast					
20-May	21-May	22-May	23-May	24-May	25-May
Adani Enterprises			BHEL		Container Corp
27-May	28-May	29-May	30-May	31-May	1-Jun
Tata Chemicals	Colgate Palmolive	BPCL	IPCA Lab		
	Dishman Pharma		Mahindra & Mahindra		
	Godrej Industries		Tata Power		
	NHPC				

Source: BSE, NSE, Kotak Institutional Equities

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

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