

## Top Research Picks

- ➔ **ABB India (ABB IN, HOLD):** Signs of stability emerging – upgrade to HOLD
- ➔ **HDFC (HDFC IN, BUY):** Retail growth strong despite rising competition – BUY
- ➔ **KEC International (KECI IN, HOLD):** Profits continue to dwindle; trimming estimates/TP

## Other Research

- ➔ **India Economics: Macro data preview - IIP: 3.0%, WPI: 5.7%, Trade Deficit: \$12.7bn**
- ➔ **India IT Services: CTSH – Healthy Q1; immigration bill to be a sector risk**
- ➔ **Oracle Financial Services (OFSS IN, SELL): Valuations expensive; Oracle chooses OFS – SELL**

9 May 2013



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**HOLD**

TP: INR 575.00

▲ 7.0%

## ABB India

ABB IN

### Signs of stability emerging – upgrade to HOLD

**ABB's Q1CY13 results were in line with our expectations, with PAT of Rs 426mn, down 11% YoY, and sales of Rs 19.7bn, up 10% YoY. EBITDA margins remained flat YoY at 5.4% as gains from cost optimisation and operational improvement were dented by low price realisations and tight market conditions. We maintain our TP for the stock at Rs 575 but upgrade our recommendation to HOLD (from SELL) as the business is seen gaining stability.**

- ➔ **Strong growth in Power Systems, traction in Discrete Automation:** Power Systems (36% of revenues) grew by a strong 32% YoY while Discrete Automation (21% of revenues) by 7% YoY during the quarter. However, segments such as Process Automation/Power Products/Low Voltage saw revenue declines of 8%/4%/2%.
- ➔ **Operating margins stabilise:** EBITDA margins for the quarter remained flat YoY at 5.4%, while improving 220bps sequentially. The company reported operating profits across all of its five segments for the first time in last four quarters. EBIT margins for Process Automation/Power Products expanded 360bps/260bps YoY to 6.4%/5% but dropped 290bps YoY to 7.5% for Discrete Automation.
- ➔ **Order inflows remain soft amid an unfavourable macro:** Order inflows for the quarter slipped 8% YoY to Rs 15.3bn (vs. a quarterly run-rate of Rs 19bn for the past 8 quarters) as the order book declined 9% YoY to Rs 82.3bn (or 1x CY13 sales).
- ➔ **Upgrade to HOLD:** We keep our estimates and TP unchanged at Rs 575 (for Mar'14) but upgrade the stock to HOLD (from SELL) as we believe the business is gaining stability, as reflected in the company's buoyant operating margins and limited potential of a downside from current levels (26.7x/22.2x for CY14E/CY15E).

#### Financial Highlights

Y/E 31 Dec	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	74,490	75,650	85,228	96,240	108,385
EBITDA (INR mln)	3,365	3,365	6,304	7,635	9,053
Adjusted net profit (INR mln)	1,679	1,374	3,441	4,266	5,139
Adjusted EPS (INR)	8.7	6.5	16.2	20.1	24.3
Adjusted EPS growth (%)	191.9	(25.5)	150.4	24.0	20.5
DPS (INR)	2.0	2.0	2.0	2.0	2.0
ROIC (%)	8.8	6.8	12.9	13.8	14.5
Adjusted ROAE (%)	6.8	5.4	12.6	14.0	14.9
Adjusted P/E (x)	67.0	108.1	33.1	26.7	22.2
EV/EBITDA (x)	35.8	43.0	17.4	14.4	12.0
P/BV (x)	4.9	5.7	4.0	3.5	3.1

Source: Company, Bloomberg, RCML Research

9 May 2013



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PRICE CLOSE (08 May 13)

INR 537.40

MARKET CAP

INR 113,880 mln

USD 2,104 mln

SHARES O/S

211.9 mln

FREE FLOAT

15.5%

3M AVG DAILY VOLUME./VALUE

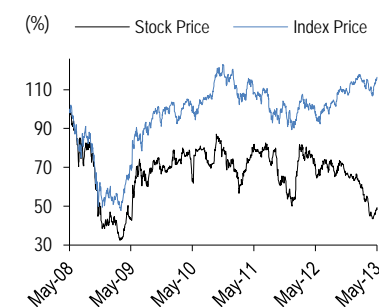
0.1 mln/ USD 0.7 mln

52 WK HIGH

INR 806.95

52 WK LOW

INR 473.55





## Per Share Data

Y/E 31 Dec (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	8.7	6.5	16.2	20.1	24.3
Adjusted EPS	8.7	6.5	16.2	20.1	24.3
DPS	2.0	2.0	2.0	2.0	2.0
BVPS	119.6	122.6	135.3	151.9	172.7

## Valuation Ratios

Y/E 31 Dec (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	1.6	1.9	1.3	1.1	1.0
EV/EBITDA	35.8	43.0	17.4	14.4	12.0
Adjusted P/E	67.0	108.1	33.1	26.7	22.2
P/BV	4.9	5.7	4.0	3.5	3.1

## Financial Ratios

Y/E 31 Dec	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	4.5	4.4	7.4	7.9	8.4
EBIT margin	3.4	3.2	6.2	6.7	7.1
Adjusted profit margin	2.3	1.8	4.0	4.4	4.7
Adjusted ROAE	6.8	5.4	12.6	14.0	14.9
ROCE	7.1	6.3	12.9	14.2	15.0
<b>YoY Growth (%)</b>					
Revenue	17.1	1.6	12.7	12.9	12.6
EBITDA	115.8	(0.0)	87.4	21.1	18.6
Adjusted EPS	191.9	(25.5)	150.4	24.0	20.5
Invested capital	22.0	15.4	12.7	16.3	10.9
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	147	153	152	154	154
Inventory (days)	55	62	58	58	58
Payables (days)	90	95	98	101	100
Current ratio (x)	1.3	1.4	1.4	1.4	1.4
Quick ratio (x)	1.1	1.1	1.1	1.1	1.2
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	6.1	4.9	4.9	4.8	4.8
Total asset turnover	1.2	1.2	1.2	1.2	1.2
Net interest coverage ratio	8.4	5.6	20.6	24.0	27.3
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

## DuPont Analysis

Y/E 31 Dec (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	62.7	66.6	67.0	67.0	67.0
Interest burden (PBT/EBIT)	104.2	85.1	97.7	98.8	99.7
EBIT margin (EBIT/Revenue)	3.4	3.2	6.2	6.7	7.1
Asset turnover (Revenue/Avg TA)	123.6	118.6	121.4	120.3	120.8
Leverage (Avg TA/Avg equities)	243.2	248.5	257.0	262.8	260.9
Adjusted ROAE	6.8	5.4	12.6	14.0	14.9



## Income Statement

Y/E 31 Dec (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Total revenue</b>	<b>74,490</b>	<b>75,650</b>	<b>85,228</b>	<b>96,240</b>	<b>108,385</b>
EBITDA	3,365	3,365	6,304	7,635	9,053
EBIT	2,570	2,424	5,254	6,442	7,691
Net interest income/(expenses)	(307)	(432)	(256)	(268)	(282)
Other income/(expenses)	415	71	137	193	261
Exceptional items	0	0	0	0	0
EBT	2,678	2,062	5,135	6,367	7,670
Income taxes	(832)	(688)	(1,695)	(2,101)	(2,531)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>1,846</b>	<b>1,374</b>	<b>3,441</b>	<b>4,266</b>	<b>5,139</b>
Adjustments	(167)	0	0	0	0
<b>Adjusted net profit</b>	<b>1,679</b>	<b>1,374</b>	<b>3,441</b>	<b>4,266</b>	<b>5,139</b>

## Balance Sheet

Y/E 31 Dec (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	18,649	18,994	23,564	25,479	28,706
Other current liabilities	16,530	13,946	16,736	18,781	21,159
Provisions	2,331	2,465	2,465	2,465	2,465
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	424	424	424	424	424
Reserves & surplus	24,921	25,557	28,254	31,775	36,171
Shareholders' fund	25,345	25,981	28,677	32,199	36,594
<b>Total liabilities and equities</b>	<b>62,855</b>	<b>64,699</b>	<b>75,757</b>	<b>84,239</b>	<b>95,239</b>
Cash and cash eq.	2,644	767	1,204	1,013	2,748
Accounts receivables	30,825	32,644	38,116	43,058	48,511
Inventories	9,255	9,204	10,183	11,503	12,960
Other current assets	6,876	5,783	8,503	9,605	10,821
Investments	507	2,910	2,910	2,910	2,910
Net fixed assets	11,684	12,405	13,855	15,162	16,300
CWIP	839	839	839	839	839
Intangible assets	0	0	0	0	0
Deferred tax assets, net	224	148	148	148	148
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>62,855</b>	<b>64,699</b>	<b>75,757</b>	<b>84,239</b>	<b>95,239</b>

## Cash Flow Statement

Y/E 31 Dec (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	2,641	2,315	4,491	5,458	6,501
Interest expenses	307	432	256	268	282
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(8,515)	(1,468)	(2,083)	(2,188)	(2,440)
Other operating cash flows	1,976	2,455	1,023	922	878
<b>Cash flow from operations</b>	<b>(3,898)</b>	<b>3,301</b>	<b>3,431</b>	<b>4,193</b>	<b>4,939</b>
Capital expenditures	(1,577)	(1,000)	(1,000)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(1,577)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Equities issued	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(307)	(432)	(256)	(268)	(282)
Dividends paid	(496)	(496)	(496)	(496)	(496)
<b>Cash flow from financing</b>	<b>(803)</b>	<b>(928)</b>	<b>(752)</b>	<b>(764)</b>	<b>(778)</b>
<b>Changes in cash and cash eq</b>	<b>(3,228)</b>	<b>(1,877)</b>	<b>437</b>	<b>(191)</b>	<b>1,736</b>
<b>Closing cash and cash eq</b>	<b>2,644</b>	<b>767</b>	<b>1,204</b>	<b>1,013</b>	<b>2,748</b>

8 May 2013

**BUY**

TP: INR 1,000.00  
▲ 13.0%

**HDFC**

HDFC IN

**Retail growth strong despite rising competition – BUY**

**HDFC posted solid Q4 (PAT: Rs 15.5bn) marked by strong business growth and improvement in spreads. Total loan book grew 21% YoY with growth in the retail loan book even stronger at 24% YoY (adj. for portfolio sold) despite rising competition from banks. Asset quality was healthy (GNPLs in individual/non-individual accounts at 0.58%/0.91%). We remain positive on HDFC due to strong mortgage demand, and expect lower wholesale rates to support its NIMs. Maintain BUY with a new TP of Rs 1,000 (Rs 925 earlier).**

- ➔ **Business growth strong; spreads improve QoQ:** Advances growth of 21% YoY was driven by the retail segment (up 25.4% YoY). The corporate loan book growth was also healthy at 5.6% QoQ (14.5% YoY). Including loans sold, the overall loan book/retail book grew 20.7% YoY/ 24.1% YoY. Disbursements/sanctions growth in FY14 was relatively lower at 14.5%/15.9% YoY; however, this was largely on account of lower corporate disbursals. Retail disbursements grew by ~33% YoY. Spreads/ NIMs improved from 2.28%/4.1% in 9MFY13 to 2.3%/4.2% in FY13, indicating spread expansion which we believe could be due to a decline in wholesale rates.
- ➔ **Asset quality firm; fee income growth strong:** GNPLs in the individual segment stood at 0.58% in Mar'13 (0.55% in Mar '12/0.62% in Dec '12), whereas that in the corporate segment were also stable QoQ at 0.91%. Outstanding provisions stood at Rs 17.9bn, of which Rs 4.8bn were NPL provisions. Other income growth was strong at 38% YoY driven by 48%/32% YoY growth in fees/dividends (Fig 2). Profit from sale of investments was robust at 33% YoY. The C/I ratio was stable YoY at 5.1%.
- ➔ **Maintain BUY on high earnings visibility:** We expect HDFC to report strong advances and earnings growth (~19%/ 18% CAGR) over FY12-FY15. The stock is trading at 14x FY14 EPS and 3.8x FY14 BV (after adjusting for subsidiaries). In our view, valuations are reasonable given HDFC's leadership position in the housing finance segment, strong visibility to earnings and high core ROEs of ~30%.

**Financial Highlights**

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income (INR mln)	42,471	49,983	59,275	71,661	83,860
Net revenues (INR mln)	53,181	61,975	72,567	87,318	102,383
Pre-provision profits (INR mln)	49,370	57,456	67,178	81,023	95,114
Adj. PAT (INR mln)	35,350	41,226	48,483	57,797	67,651
Adj. EPS (INR)	24.1	27.9	31.4	37.4	43.7
ROE (%)	21.7	22.7	22.0	21.6	22.3
ROA (%)	2.9	2.8	2.8	2.9	2.9
Gross NPA (%)	0.8	0.8	0.7	0.7	0.7
CAR (%)	14.0	14.6	16.2	14.1	13.6
P/BV (x)	5.9	5.2	5.5	4.8	4.2
P/E (x)	29.1	24.1	28.2	23.7	20.2

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (08 May 13)  
INR 885.00

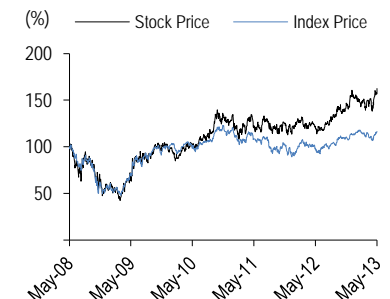
MARKET CAP  
INR 1,307,101 mln  
USD 24,152 mln

SHARES O/S  
1,477.0 mln

FREE FLOAT  
100.0%

3M AVG DAILY VOLUME./VALUE  
2.7 mln/ USD 39.8 mln

52 WK HIGH                      52 WK LOW  
INR 885.00                      INR 620.90



**BUY**

TP: INR 1,000.00

▲ 13.0%

**HDFC**

HDFC IN



Results Review

INDIA  
FINANCIALS**Disbursements**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Disbursements	603,140	711,130	824,520	989,424	1,173,199
Growth (%)	19.6	17.9	15.9	20.0	18.6
AUM/Sanctions	1,171,266	1,404,217	1,671,469	1,997,064	2,376,800
Growth (%)	19.6	19.9	19.0	19.5	19.0

**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	24.1	27.9	31.4	37.4	43.7
Adjusted EPS	24.1	27.9	31.4	37.4	43.7
DPS	9.1	11.0	12.5	12.8	15.0
Book value	118.0	128.8	161.7	183.7	209.5
Adjusted book value	115.4	126.0	158.5	180.8	206.5

**Valuation Ratios**

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
P/E	29.1	24.1	28.2	23.7	20.2
P/BV	5.9	5.2	5.5	4.8	4.2
P/ABV	6.1	5.3	5.6	4.9	4.3

**Financial Ratios**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Spread Analysis</b>					
Interest spreads	2.5	2.4	2.3	2.4	2.4
Yield on advances	10.5	11.9	12.2	12.0	12.0
Yield on assets	9.7	11.1	11.6	11.6	11.6
Cost of funds	7.1	8.8	9.3	9.2	9.3
NIMs	3.5	3.4	3.5	3.6	3.6
<b>Operating Ratios</b>					
Operating cost to income	7.2	7.3	7.4	7.2	7.1
Operating expenses / Avg assets	0.3	0.3	0.3	0.3	0.3
<b>Asset Quality and Capital</b>					
Gross NPA	0.8	0.8	0.7	0.7	0.7
Net NPA	0.5	0.4	0.4	0.3	0.3
CAR	14.0	14.6	16.2	14.1	13.6
<b>Growth Ratios</b>					
Net interest income	25.4	17.7	18.6	20.9	17.0
Non-interest income	17.7	12.0	10.8	17.8	18.3
Pre-provisioning profit	24.2	16.4	16.9	20.6	17.4
Net profit	25.1	16.6	17.6	19.2	17.0
Assets	19.6	20.1	16.7	15.9	17.9
Advances	19.6	19.9	21.1	17.4	19.0
Book value	11.5	9.1	25.6	13.6	14.1
EPS	22.4	15.8	12.3	19.2	17.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Net interest income / Assets	3.5	3.4	3.5	3.6	3.6
Non-interest income / Assets	0.9	0.8	0.8	0.8	0.8
Operating expenses / Assets	0.3	0.3	0.3	0.3	0.3
Provisions / Assets	0.1	0.1	0.1	0.1	0.1
Taxes / Assets	1.1	1.1	1.0	1.1	1.1
ROA	2.9	2.8	2.8	2.9	2.9
Equity / Assets	13.3	12.5	12.9	13.4	12.9
<b>ROAE</b>	<b>21.7</b>	<b>22.7</b>	<b>22.0</b>	<b>21.6</b>	<b>22.3</b>

**BUY**

TP: INR 1,000.00

▲ 13.0%

**HDFC**

HDFC IN

**Results Review****INDIA  
FINANCIALS****Income Statement**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Interest income	118,070	161,551	198,184	231,141	273,090
Interest expense	(75,599)	(111,568)	(138,909)	(159,480)	(189,230)
Net interest income	42,471	49,983	59,275	71,661	83,860
Non-interest income	10,711	11,992	13,293	15,657	18,523
Net revenue	53,181	61,975	72,567	87,318	102,383
Operating expenses	(3,812)	(4,519)	(5,389)	(6,296)	(7,269)
Pre-provisioning profits	49,370	57,456	67,178	81,023	95,114
Provisions & contingencies	(700)	(800)	(1,450)	(1,849)	(2,187)
PBT	48,670	56,656	65,728	79,174	92,927
Extraordinaries	0	0	0	0	0
Income tax	(13,320)	(15,430)	(17,245)	(21,377)	(25,276)
Reported PAT	35,350	41,226	48,483	57,797	67,651
<b>Adj. net profit</b>	<b>35,350</b>	<b>41,226</b>	<b>48,483</b>	<b>57,797</b>	<b>67,651</b>

**Balance Sheet**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Advances	1,171,266	1,404,217	1,700,460	1,997,064	2,376,800
Investments	118,324	122,070	136,135	133,262	140,082
Current assets	98,610	140,291	110,020	126,523	145,501
Net block (inc CWIP)	2,340	2,340	2,380	2,486	2,522
Goodwill	0	0	0	0	0
Other assets	4,481	6,283	6,314	6,314	6,314
<b>Total Assets</b>	<b>1,395,021</b>	<b>1,675,200</b>	<b>1,955,308</b>	<b>2,265,648</b>	<b>2,671,218</b>
Share capital	2,934	2,954	3,093	3,093	3,093
Options/warrants/others	0	0	0	0	0
Reserves & surplus	170,231	187,222	246,907	280,931	320,868
Net worth	173,165	190,176	250,000	284,024	323,960
Total borrowings	1,154,105	1,391,275	1,588,280	1,869,478	2,217,638
Current liabilities	33,030	47,185	72,856	63,305	74,495
Provisions	34,721	46,564	44,172	48,841	55,125
Deferred tax liabilities	0	0	0	0	0
Other liabilities	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,395,021</b>	<b>1,675,200</b>	<b>1,955,308</b>	<b>2,265,648</b>	<b>2,671,218</b>



8 May 2013

**HOLD**

TP: INR 55.00

▲ 12.9%

# KEC International

KECI IN

## Profits continue to dwindle; trimming estimates/TP

**KECI's Q4FY13 results missed our expectations with a consol. net loss of Rs 139mn on losses in new businesses (~26% of sales), higher costs related to project closures, MTM losses and higher taxes. Consol. revenue growth was up 4% YoY to Rs 21.5bn, while the EBITDA margin slipped ~400bps YoY to 4.1%. The consolidated order book stands at Rs 95bn, up 10% YoY. We trim our FY14E EPS estimates by 15% and cut our TP to Rs 55 (from Rs 65) on a weakening margin profile. Maintain HOLD.**

- ➔ **Overall profitability impacted by losses in new businesses:** Power Systems, Cables, Telecom, Railway and Water businesses (together ~26% of Q4 consolidated sales) reported losses of ~Rs 0.5bn (or 9% of sales), impacting operating margins for the quarter. Also, the company saw a MTM loss of Rs 120mn in Q4 (vs. Rs 450mn in FY13) mostly on customer advances and a depreciating INR.
- ➔ **Order inflows slip, but order book continues to grow:** FY13 order book expanded 10% YoY to Rs 95bn (or 1.2x FY14 sales), even as order inflows during the quarter slipped 8% YoY to Rs 17bn. Order inflows for the year were up 20% YoY to Rs 75bn.
- ➔ **Execution in international transmission business remains weak:** The international transmission business (including SAE Tower) which accounts for 40% of sales, reported a 9% YoY sales decline for the quarter. Execution in SAE Towers dropped 3% YoY for the quarter.
- ➔ **Elevated interest costs continue to hit profit:** Interest expenses for the quarter surged 39% YoY to Rs 570mn. Total borrowings at FY13-end increased to Rs 14.6bn (up 31% YoY). KECI's average borrowing cost stands at 8.6%.
- ➔ **Valuations:** We trim our FY14E EPS estimates by 15% and lower our Mar'14 TP to Rs 55 (from Rs 65). Maintain HOLD.

### Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	44,767	58,147	69,795	80,329	90,619
EBITDA (INR mln)	4,735	4,713	3,814	5,316	6,635
Adjusted net profit (INR mln)	2,141	1,571	652	1,876	2,623
Adjusted EPS (INR)	8.3	6.1	2.5	7.3	10.2
Adjusted EPS growth (%)	8.3	(26.6)	(58.5)	187.9	39.8
DPS (INR)	1.2	1.2	0.5	0.5	0.5
ROIC (%)	15.2	11.5	5.9	11.8	14.9
Adjusted ROAE (%)	24.7	15.3	5.8	15.8	20.2
Adjusted P/E (x)	9.9	10.7	19.2	6.7	4.8
EV/EBITDA (x)	7.0	5.5	6.7	4.8	4.0
P/BV (x)	2.2	1.5	1.1	1.0	0.9

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (08 May 13)

INR 48.70

MARKET CAP

INR 12,521 mln

USD 231 mln

SHARES O/S

257.1 mln

FREE FLOAT

90.8%

3M AVG DAILY VOLUME./VALUE

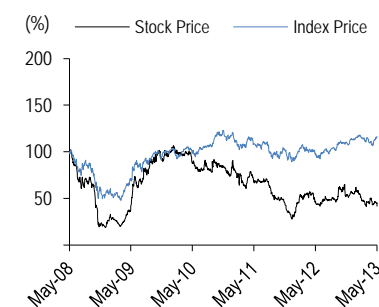
0.4 mln/ USD 0.4 mln

52 WK HIGH

INR 75.75

52 WK LOW

INR 48.10







**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	8.7	8.1	2.5	7.3	10.2
Adjusted EPS	8.3	6.8	2.5	7.3	10.2
DPS	1.2	1.2	0.5	0.5	0.5
BVPS	36.8	43.1	44.6	47.5	53.4

**Valuation Ratios**

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	0.7	0.4	0.4	0.3	0.3
EV/EBITDA	7.0	5.5	6.7	4.8	4.0
Adjusted P/E	9.9	10.7	19.2	6.7	4.8
P/BV	2.2	1.5	1.1	1.0	0.9

**Financial Ratios**

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	10.6	8.1	5.5	6.6	7.3
EBIT margin	9.7	7.3	4.7	5.9	6.6
Adjusted profit margin	4.8	2.7	0.9	2.3	2.9
Adjusted ROAE	24.7	15.3	5.8	15.8	20.2
ROCE	14.7	10.8	6.0	11.4	13.1
<b>YoY Growth (%)</b>					
Revenue	14.5	29.9	20.0	15.1	12.8
EBITDA	16.4	(0.5)	(19.1)	39.4	24.8
Adjusted EPS	8.3	(26.6)	(58.5)	187.9	39.8
Invested capital	41.4	(5.5)	35.4	(7.3)	8.9
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	169	147	141	138	138
Inventory (days)	33	33	29	31	35
Payables (days)	188	191	184	181	184
Current ratio (x)	1.5	1.3	1.3	1.4	1.4
Quick ratio (x)	1.4	1.2	1.2	1.3	1.3
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	4.8	5.3	5.4	5.7	6.5
Total asset turnover	1.1	1.1	1.2	1.2	1.2
Net interest coverage ratio	4.0	2.7	1.7	2.2	2.6
Adjusted debt/equity	1.4	1.0	1.3	1.4	1.3

**DuPont Analysis**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	65.8	57.7	44.3	67.3	67.3
Interest burden (PBT/EBIT)	75.2	64.3	45.2	59.1	65.0
EBIT margin (EBIT/Revenue)	9.7	7.3	4.7	5.9	6.6
Asset turnover (Revenue/Avg TA)	108.9	112.1	115.7	117.6	120.6
Leverage (Avg TA/Avg equities)	474.3	505.1	535.2	576.9	579.3
Adjusted ROAE	24.7	15.3	5.8	15.8	20.2



## Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Total revenue</b>	<b>44,767</b>	<b>58,147</b>	<b>69,795</b>	<b>80,329</b>	<b>90,619</b>
EBITDA	4,735	4,713	3,814	5,316	6,635
EBIT	4,327	4,234	3,253	4,721	6,001
Net interest income/(expenses)	(1,075)	(1,597)	(1,944)	(2,102)	(2,283)
Other income/(expenses)	0	85	161	171	180
Exceptional items	0	0	0	0	0
EBT	3,252	2,721	1,470	2,790	3,898
Income taxes	(1,111)	(1,150)	(818)	(913)	(1,275)
Extraordinary items	(85)	522	(1)	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>2,226</b>	<b>2,093</b>	<b>650</b>	<b>1,876</b>	<b>2,623</b>
Adjustments	85	(345)	1	0	0
<b>Adjusted net profit</b>	<b>2,141</b>	<b>1,745</b>	<b>652</b>	<b>1,876</b>	<b>2,623</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	24,037	31,807	34,709	39,825	44,779
Other current liabilities	0	0	0	0	0
Provisions	760	972	885	1,336	1,502
Debt funds	13,490	11,139	14,560	17,579	18,299
Other liabilities	497	513	904	513	513
Equity capital	514	514	514	514	514
Reserves & surplus	8,952	10,564	10,958	11,698	13,216
Shareholders' fund	9,466	11,078	11,472	12,213	13,730
<b>Total liabilities and equities</b>	<b>48,249</b>	<b>55,509</b>	<b>61,626</b>	<b>71,465</b>	<b>78,823</b>
Cash and cash eq.	1,540	2,029	1,556	4,335	4,266
Accounts receivables	21,716	25,062	28,870	32,035	36,370
Inventories	3,359	4,401	3,960	6,048	6,801
Other current assets	10,528	11,588	13,298	15,343	17,615
Investments	0	0	0	0	0
Net fixed assets	8,289	9,215	11,542	10,758	10,950
CWIP	4	4	2,521	4	4
Intangible assets	2,813	3,209	3,424	2,942	2,817
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>48,249</b>	<b>55,509</b>	<b>61,626</b>	<b>71,465</b>	<b>78,823</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	2,465	2,572	1,211	2,472	3,256
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,505)	2,533	4,708	(1,379)	(2,039)
Other operating cash flows	36	16	264	(807)	(910)
<b>Cash flow from operations</b>	<b>(4)</b>	<b>5,122</b>	<b>6,183</b>	<b>285</b>	<b>308</b>
Capital expenditures	(1,462)	(1,330)	(304)	(250)	(300)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(1,462)</b>	<b>(1,330)</b>	<b>(304)</b>	<b>(250)</b>	<b>(300)</b>
Equities issued	0	0	0	0	0
Debt raised/repaid	5,622	(2,351)	5,720	720	720
Dividends paid	(361)	(361)	(150)	(150)	(150)
Other financing cash flows	(2,953)	(591)	(11,711)	2,384	(436)
<b>Cash flow from financing</b>	<b>2,309</b>	<b>(3,302)</b>	<b>(6,352)</b>	<b>2,743</b>	<b>(77)</b>
<b>Changes in cash and cash eq</b>	<b>842</b>	<b>489</b>	<b>(473)</b>	<b>2,779</b>	<b>(69)</b>
<b>Closing cash and cash eq</b>	<b>1,540</b>	<b>2,029</b>	<b>1,556</b>	<b>4,335</b>	<b>4,266</b>

8 May 2013

## Macro data preview

**IIP: 3.0%, WPI: 5.7%, Trade Deficit: \$12.7bn**

After a pick-up in March eight-core sector growth, we expect IIP growth (due 10 May) to improve marginally to 3.0% (cons. 2.5%) on a positive base effect in Manufacturing and revival in the Electricity sector. April headline WPI inflation (due 14 May) is also likely to moderate further to 5.7% (cons. 5.5%) on lower Primary/Fuel inflation.

We expect April's trade deficit to rise marginally MoM to US\$12.7bn as exports fall 15%, offsetting a likely 5%MoM dip in imports. Macro indicators are turning in favour of easing and we see another 75bps in rate cuts through this fiscal.

- ➔ **Mar'13 IIP (due 10 May) to recover marginally to 3.0%:** Historic data suggests that production normally picks up in March, with IIP hitting peak levels in March each year (see Fig 5). Moreover, a low base last year especially in the Manufacturing sector (-3.6% in Mar'12) should result in relatively better overall IIP growth of 3.0% in Mar'13 (vs. 0.6% in Feb'13), as also indicated by the 2.9% growth in the eight-core sectors (37% of IIP). Sector-wise, while we expect Manufacturing/Electricity growth to pick-up marginally to 3.8%/2.9% vs. 2.2%/-3.2% in Feb'13, Mining growth is likely to remain weak at -3.1%. Overall, we expect FY13 IIP growth at a muted 1.1% vs. 3.1% in FY12.
- ➔ **Apr'13 inflation (due 14 May) to moderate further to 5.7%:** We expect headline WPI inflation to decline further to 5.7% in April led by a sharp respite in Primary/Fuel components. Primary inflation is expected to cool off further to 6.9% in April on lower food/mineral prices. A 6%/5.5% cut in petrol/ATF prices in April, along with the absence of a diesel price hike, would likely result in a 70bps MoM decline in Fuel inflation to 9.5%. Mfg. inflation, however, is expected to remain largely flat at 4.0%. Overall, we expect avg. WPI inflation at 6.0% in FY14 (7.4% in FY13) vs. the RBI's/consensus' est. at 5.5%/6.5%.
- ➔ **Apr'13 trade deficit expected at US\$12.7bn:** After strong growth in March, we expect exports to decline by 15% MoM to US\$26.3bn but still register robust 12% YoY growth on a favourable base effect (US\$23.5bn in Apr'12). A 5% MoM decline in crude oil imports on falling crude prices would likely result in a 5.2% MoM decline in the overall imports bill in April, even as the YoY growth of 5% looks decent on a low base. This would result in a trade deficit of US\$12.7bn in April, marginally inching up from the US\$10.3bn in Mar'13 but down from US\$13.6bn reported in Apr'12.

Overall, we expect CAD to improve gradually through FY14 as trade deficit narrows on declining commodity prices and improving global demand; our FY14 CAD estimate is at 3.8%.

- ➔ **Maintain 75bps cut through the fiscal:** While macro indicators are turning in favour of monetary easing, the central bank's hawkish tone last week indicates that rate cuts going forward would be more gradual and would depend on the inflation/CAD/growth trajectory. Overall, we expect another 75bps through this fiscal, but maintain that the key remains effective monetary transmission.



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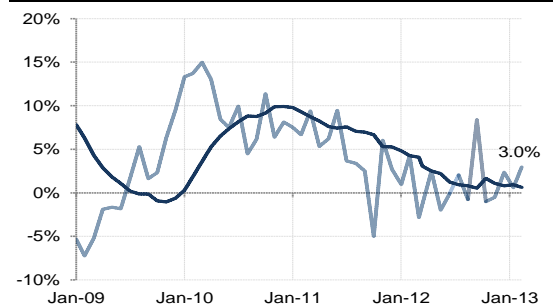
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**Fig 1 - Index of Industrial Production (%YoY)**



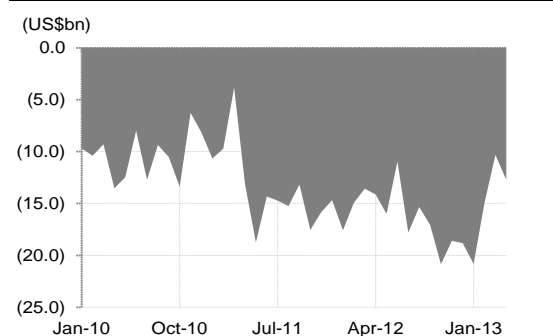
Source: MOSPI, RCML Research

**Fig 2 - WPI inflation trajectory**



Source: MOSPI, RCML Research

**Fig 3 - Trade deficit expected at \$12.7bn**



Source: MOSPI, RCML Research

8 May 2013

# India IT Services

## CTSH – Healthy Q1; immigration bill to be a sector risk

**CTSH result takeaways: (1) Q1 revenue growth at 3.7% QoQ, ahead of Indian listed peers (1.5–3%) led partly by the C1 group acquisition; (2) Solid Q2 guidance at 5.5% QoQ, but CY13 growth guidance maintained at 17%; (3) While there are certain detrimental clauses in the immigration bill, management believes their conversion into law would be a long drawn-out process. Management is building in a 3% CQGR for 2HCY13 and is conservative, in our view, given the volatile demand environment. We maintain our growth recovery thesis for the sector, and would recommend staying invested in large-caps (TCS/INFO) but outcome/newsflow on the immigration bill remains a risk.**



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- ➔ **Steady quarter:** CTSH reported a healthy Q1CY13, with revenues growing by 3.7% QoQ to US\$ 2,021mn, ahead of its guidance of US\$ 2bn. The company closed the C1 Group acquisition in Q1. Growth was broad-based with BFSI, manufacturing and healthcare growing by 4.9%, 4.2% and 2% respectively. North America grew by 3% QoQ, Europe by 6.7% QoQ (4% organic) and ROW by 4.8% QoQ. The non-GAAP EBIT margin was flat QoQ at 19.8%. GAAP EPS at US\$ 0.93 was up 18% YoY.
- ➔ **Strong 2QCY13 guidance:** CTSH guided for 2QCY13 revenues to be at least US\$ 2.13bn, implying a 5.5% QoQ growth. The company maintained its full-year CY13 guidance at 17% growth, implying a 3% CQGR for 2HCY13 – conservative as management is adding extra cushion for unknowns. That said, CTSH continues to indicate a healthy deal pipeline, which translated into solid 2Q guidance.
- ➔ **Immigration bill – key risk:** The impending immigration bill remains a risk for the outsourcing industry. CTSH expects the process to be a long drawn-out one and anticipates challenges/lobbying before the proposed clauses turn into final law. It indicated that the bill is likely to be debated more extensively and lobbied for in the Congress. Further, management indicated that it expects support from clients on its stand.

**Fig 1 - CTSH: Quarterly P&L**

(US\$ in m , year-end December)	2011				2012				2013
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Revenue	1,371.3	1,485.2	1,601.0	1,663.7	1,711.3	1,795.2	1,891.7	1,948.2	2,020.7
EBIT	281.4	293.6	317.5	334.1	349.3	358.2	377.6	383.7	399.5
Pre Tax Profit	296.6	301.3	312.5	349.1	353.7	361.4	386.6	393.3	410.8
Net Profit	220.3	225.8	246.4	259.4	267.4	271.7	293.8	299.7	309.6
Non GAAP EPS (\$)	0.71	0.72	0.80	0.84	0.86	0.88	0.97	0.99	1.01
GAAP EPS (\$)	0.67	0.67	0.73	0.78	0.79	0.82	0.91	0.92	0.93
<b>Margins (%)</b>									
Operating Margin	20.5	19.8	19.8	20.1	20.4	20.0	20.0	19.7	19.8
Net Margin	16.1	15.2	15.4	15.6	15.6	15.1	15.5	15.4	15.3

Source: Company

8 May 2013

**SELL**

TP: INR 2,200.00

▼ 15.5%

# Oracle Financial Services

OFSS IN

## Valuations expensive; Oracle chooses OFS – SELL

**OFSS reported a modest quarter with product revenues up 9% QoQ, but only 1% YoY. Services growth (-13% QoQ) remains a concern. For the full year FY13, product revenues grew 2% in US\$ terms, led by 11% new licence growth, and overall EBIT margin stood at 33.2% (-60bps YoY). We see a mixed outlook for BFSI discretionary spends, especially core banking, which is likely to weigh on licence sales. We build in a 7%/6% revenue/EPS CAGR over FY13-FY15, and find valuations at 20x fwd P/E expensive given muted growth. SELL.**

- ➔ **Muted Q4FY13:** OFSS reported a muted Q4 with revenues up only 2% YoY to Rs 8.8bn, with product revenues growing just 1% YoY. Services performance was weak, down 13% QoQ and dipping 1% for full-year FY13. EBIT margin declined 320bps YoY to 35.7% and was down 60bps to 33.2% in FY13. Overall net profit for FY13 grew by 18% to Rs 10.75bn driven largely by INR depreciation and higher other income.
- ➔ **Discretionary spend outlook uncertain:** OFSS is highly leveraged to discretionary IT spends and the European market. While Europe exposure has moderated, macro uncertainties persist, more so in Europe. Further, muted licence sales (-34% in FY12, 11% in FY13) are likely to be a drag on growth rates in FY14 as AMC and Implementation revenues could remain sluggish. Also, a large proportion of these new licence sales are from MEA and APAC, which could be lower margin.
- ➔ **Oracles chooses OFS, no de-listing:** Oracle announced that it will be selling 5.3% stake in OFSS through an offer for sale (OFS) to reduce its stake to 75% and comply with SEBI guidelines. The stake is worth ~Rs 10bn at the current share price.
- ➔ **Expensive, SELL:** The stock is trading at 20x FY14EP/E, the upper end of the band. This is at a 20% premium to large-cap IT services peers and already prices in strategic premium. We value OFSS at 15x fwd P/E to arrive at our March'14 TP of Rs 2,200. Maintain SELL given expensive valuations and a mixed growth outlook.

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PRICE CLOSE (08 May 13)

INR 2,602.15

MARKET CAP

INR 218,306 mln

USD 4,034 mln

SHARES O/S

83.9 mln

FREE FLOAT

17.8%

3M AVG DAILY VOLUME./VALUE

0.1 mln/ USD 2.6 mln

52 WK HIGH

INR 3,373.80

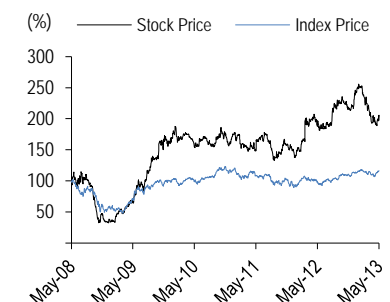
52 WK LOW

INR 2,390.80

### Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
Revenue (INR mln)	29,969	31,467	34,740	36,830	40,002
EBITDA (INR mln)	11,220	11,111	12,190	12,748	14,045
Adjusted net profit (INR mln)	11,110	9,092	10,750	11,194	12,131
Adjusted EPS (INR)	132.2	108.2	127.7	133.2	144.3
Adjusted EPS growth (%)	42.7	(18.2)	18.1	4.3	8.4
DPS (INR)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	41.9	27.9	35.6	41.6	44.8
Adjusted ROAE (%)	20.6	14.4	14.5	13.2	12.5
Adjusted P/E (x)	15.0	24.2	20.1	19.5	18.0
EV/EBITDA (x)	12.3	16.3	13.2	12.0	10.1
P/BV (x)	3.1	3.5	2.9	2.6	2.3

Source: Company, Bloomberg, RCML Research



**SELL**

TP: INR 2,200.00

▼ 15.5%

**Oracle Financial Services**

OFSS IN

**Results Review****INDIA**

INFORMATION TECHNOLOGY

**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13A	FY14E	FY15E
Reported EPS	132.2	108.2	127.7	133.2	144.3
Adjusted EPS	132.2	108.2	127.7	133.2	144.3
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	643.2	751.5	879.7	1,012.2	1,156.5

**Valuation Ratios**

Y/E 31 Mar (x)	FY11A	FY12A	FY13A	FY14E	FY15E
EV/Sales	4.6	5.7	4.6	4.2	3.5
EV/EBITDA	12.3	16.3	13.2	12.0	10.1
Adjusted P/E	15.0	24.2	20.1	19.5	18.0
P/BV	3.1	3.5	2.9	2.6	2.3

**Financial Ratios**

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	37.4	35.3	35.1	34.6	35.1
EBIT margin	36.1	33.8	33.2	32.7	33.2
Adjusted profit margin	37.1	28.9	30.9	30.4	30.3
Adjusted ROAE	20.6	14.4	14.5	13.2	12.5
ROCE	19.9	11.7	11.2	10.3	9.9
<b>YoY Growth (%)</b>					
Revenue	4.3	5.0	10.4	6.0	8.6
EBITDA	8.9	(1.0)	9.7	4.6	10.2
Adjusted EPS	42.7	(18.2)	18.1	4.3	8.4
Invested capital	20.3	(5.3)	(18.5)	3.4	1.3
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	91	100	85	77	79
Inventory (days)	0	0	0	0	0
Payables (days)	0	0	0	0	0
Current ratio (x)	7.2	6.9	7.4	7.6	8.1
Quick ratio (x)	7.2	6.9	7.4	7.6	8.1
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	2.2	2.3	2.5	2.6	2.8
Total asset turnover	0.5	0.5	0.4	0.4	0.4
Net interest coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY11A	FY12A	FY13A	FY14E	FY15E
Tax burden (Net income/PBT)	89.0	64.2	66.6	68.0	68.0
Interest burden (PBT/EBIT)	115.4	133.1	139.8	136.6	134.2
EBIT margin (EBIT/Revenue)	36.1	33.8	33.2	32.7	33.2
Asset turnover (Revenue/Avg TA)	54.4	47.2	44.4	40.8	38.8
Leverage (Avg TA/Avg equities)	113.7	113.9	113.9	113.6	113.1
Adjusted ROAE	20.6	14.4	14.5	13.2	12.5



**SELL**

TP: INR 2,200.00

▼ 15.5%

# Oracle Financial Services

OFSS IN



Results Review

INDIA

INFORMATION TECHNOLOGY

## Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
<b>Total revenue</b>	<b>29,969</b>	<b>31,467</b>	<b>34,740</b>	<b>36,830</b>	<b>40,002</b>
EBITDA	11,220	11,111	12,190	12,748	14,045
EBIT	10,812	10,645	11,535	12,053	13,296
Net interest income/(expenses)	1,668	3,524	4,595	4,409	4,544
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	12,480	14,168	16,130	16,462	17,840
Income taxes	(1,370)	(5,076)	(5,380)	(5,268)	(5,709)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>11,110</b>	<b>9,092</b>	<b>10,750</b>	<b>11,194</b>	<b>12,131</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,110</b>	<b>9,092</b>	<b>10,750</b>	<b>11,194</b>	<b>12,131</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Accounts payables	0	0	0	0	0
Other current liabilities	7,144	8,912	10,064	11,406	12,390
Provisions	0	0	0	0	0
Debt funds	0	0	0	0	0
Other liabilities	92	93	40	83	83
Equity capital	420	421	420	420	420
Reserves & surplus	53,637	62,754	73,644	84,670	96,801
Shareholders' fund	54,057	63,175	74,064	85,090	97,222
<b>Total liabilities and equities</b>	<b>61,293</b>	<b>72,180</b>	<b>84,168</b>	<b>96,580</b>	<b>109,695</b>
Cash and cash eq.	29,033	39,486	54,720	65,138	77,002
Accounts receivables	8,206	8,972	7,280	8,250	8,962
Inventories	0	0	0	0	0
Other current assets	14,069	13,364	12,091	13,703	14,885
Investments	0	0	0	0	0
Net fixed assets	9,985	10,358	10,078	9,489	8,846
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>61,293</b>	<b>72,180</b>	<b>84,168</b>	<b>96,580</b>	<b>109,695</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Net income + Depreciation	11,518	9,558	11,405	11,889	12,880
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,917)	1,706	4,118	(1,241)	(910)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>7,601</b>	<b>11,265</b>	<b>15,523</b>	<b>10,649</b>	<b>11,970</b>
Capital expenditures	(726)	(839)	(375)	(106)	(106)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(726)</b>	<b>(839)</b>	<b>(375)</b>	<b>(106)</b>	<b>(106)</b>
Equities issued	44	25	140	(168)	(0)
Debt raised/repaid	59	1	(53)	44	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>102</b>	<b>26</b>	<b>87</b>	<b>(125)</b>	<b>(0)</b>
<b>Changes in cash and cash eq</b>	<b>6,978</b>	<b>10,452</b>	<b>15,234</b>	<b>10,418</b>	<b>11,864</b>
<b>Closing cash and cash eq</b>	<b>29,033</b>	<b>39,486</b>	<b>54,720</b>	<b>65,138</b>	<b>77,002</b>

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