Economy News

- Global credit ratings major Standard and Poor's (S&P) has revised the outlook on India's long-term credit rating to 'negative' from 'stable.' There was a 'one in three' chance of a rating downgrade within the next 24 months, the agency warned. S&P cited slow fiscal progress and deteriorating economic indicators as the reason for its surprise move. (BL)
- India's mission to sit at the high table of global finance is going to cost a pretty packet. The government will shell out over $11 bn to buy a bigger quota in the International Monetary Fund, or IMF. This will give India a greater say in the affairs of the multilateral lender. (ET)
- India had record food grain production. The stock of food grains in the central pool is around 53.5 million tonne, comprising 33.3 million tonne of rice and 19.9 million tonne wheat. In the current season, the government plans to procure 32 million tonne of wheat, taking the central pool past 50 million tonne. (ET)
- The renewable energy ministry is planning to re-introduce incentives for the wind energy sector to allay fears that capacity addition could fall after the sops were withdrawn from April 1. The government rolled back two key incentives for the sector this year: accelerated depreciation and generation-based incentive. (ET)

Corporate News

- **Aurobindo Pharma Ltd** has received final approval from the US Food and Drug Administration to manufacture and market Olanzapine tablets. Annual sale of olanzapine was approximately $3.2 billion and it is ready for launch, the company said. (BL)
- A consortium of four state-owned Indian companies - **SAIL, Nalco, Hindustan Copper** and **Mineral Exploration Corp** - has been shortlisted to invest in new gold and copper deposits in Afghanistan. Two private players - Monnet Ispat & Energy and Jindal Steel & Power - have also made the cut, opening up the possibility of a public-private partnership for a strategic bid by the Indian metals majors. (ET)
- **Ranbaxy Laboratories** launched a drug to treat malaria. Claimed to be the first original drug developed by an Indian entity, Synriam, the branded anti-malarial combination, will offer a more effective and shorter drug regimen to patients. The product is undergoing final stages of clinical trials in Africa. (BS)
- **Federal Bank** cut its base rate or the minimum rate of lending by 0.20 percent to 10.45 percent following last week's RBI reduction in the key lendig rate. The bank action, which follows similar announcements from other lenders like ICICI Bank, IDBI Bank and Corporation Bank, among others, will be applicable from May 2. (ET)
- The Airports Economic Regulatory Authority (AERA) has allowed Delhi International Airport Ltd (DIAL) to charge a User Development Fee (UDF) from both departing and arriving passengers. AERA has approved an overall increase in aeronautical charges for the Delhi airport by 345.9 per cent, less than half the 770 per cent demanded by DIAL. The Delhi airport DIAL, a consortium of Bangalore-based **GMR** Group. (BS)
- **ICICI Bank's** stake in the troubled air carrier Kingfisher Airlines has come down sharply to 2.9 per cent, from more than five per cent at the end of 2011. ICICI Bank held about 1.67 crore shares, accounting for a 2.9 per cent stake, in the airline as on March 31, 2012. In contrast, ICICI Bank held 2.63 crore shares, or 5.3 per cent stake, in Kingfisher as on December 31, 2011. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

		% Chg		
	25 Apr 12	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,151	(0.3)	0.6	0.4
NIFTY Index	5,202	(0.4)	0.3	0.8
BANKEX Index	11,716	(0.4)	1.3	3.5
BSET Index	5,480	(1.5)	(8.8)	(2.6)
BSETCG INDEX	9,447	(0.2)	(4.9)	(7.2)
BSEOIL INDEX	7,900	(0.4)	(0.1)	(5.0)
CNXMcap Index	7,430	(0.8)	(1.6)	5.4
BSESMCAP INDEX	6,754	(0.5)	3.4	5.4
World Indices				
Dow Jones	13,091	0.7	(1.1)	2.8
Nasdaq	3,030	2.3	(3.0)	8.0
FTSE	5,719	0.2	(3.1)	(1.3)
NIKKEI	9,561	1.0	(4.4)	8.2
HANGSENG	20,646	(0.1)	0.5	1.7

Value traded (Rs cr)

	25 Apr 12	% Chg - Day
Cash BSE	2,038	(10.1)
Cash NSE	10,478	(11.6)
Derivatives	198,860	32.5

Net inflows (Rs cr)

	24 Apr 12	% Chg	MTD	YTD
FII	(839)	147.8	(302)	43,736
Mutual Fund	(101)	(201.5)	(431)	(5,861)

FII open interest (Rs cr)

	24 Apr 12	% Chg
FII Index Futures	13,746	14.9
FII Index Options	39,680	(0.7)
FII Stock Futures	24,192	0.2
FII Stock Options	1,146	(5.6)

Advances / Declines (BSE)

25 Apr 12	A	B	T	Total	% total
Advances	38	742	191	971	34
Declines	115	1,106	223	1,444	51
Unchanged	49	324	63	436	15

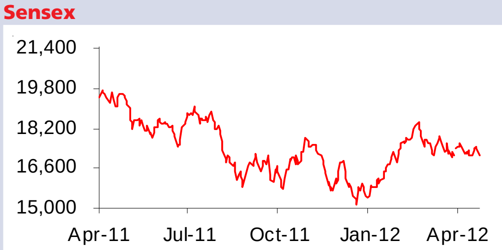
Commodity

		% Chg		
	25 Apr 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	104.0	(0.1)	(2.8)	4.3
Gold (US$/OZ)	1,633.1	(0.5)	(2.3)	(4.6)
Silver (US$/OZ)	30.2	(1.9)	(6.2)	(8.6)

Debt / forex market

	25 Apr 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.63	8.57	N/A	8.38
Re/US$	52.6	52.7	51.3	50.1

Sensex



RESULT UPDATE

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WIPRO TECHNOLOGIES

PRICE: RS.410 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.421 **FY13E P/E: 15.8x**

Wipro's 4QFY12 results were disappointing. IT services volumes grew by 0.8% QoQ and came in below our estimates. The management has attributed this to some temporary softness in India business. EBIT margins in the IT services business were flat QoQ. The realisations were higher, though. In 3Q, realisations had improved by about 4% QoQ on the back of improved efficiencies in the fixed priced projects. The revenue growth guidance for 1QFY13 at (-1%) - 1% in USD terms is lower than expectations and also lower than what was provided by Infosys.

Broader management commentary suggests comfort with respect to CY12 budgets and increase in outsourcing / off-shoring. Discretionary spends are under stress in some sectors, we understand.

We modify earnings to account for the 4QFY12 results - expect FY13E EPS at Rs.26 (Rs.27 earlier), on the back of marginally lower volume growth assumptions. We maintain ACCUMULATE rating with a price target of Rs. 421 (Rs.438) based on FY13E earnings. We prefer TCS and Infosys over Wipro. Our exit multiple for Wipro is at a discount to TCS and equal to Infosys. Higher success in driving incremental growth from large accounts, stability in average realisations and sustained higher margins may make us more positive on the company. Higher-than-expected appreciation in the INR and a slower-than-anticipated recovery in user economies pose downside risks to our estimates.

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	310,528	375,866	425,832
Growth (%)	14.5	21.0	13.3
EBITDA	65,835	74,143	83,512
EBITDA margin (%)	21.2	19.7	19.6
PBT	62,457	69,417	80,062
Net profit	52,743	55,655	63,649
EPS (Rs)	21.6	22.7	26.0
Growth (%)	15.2	4.8	14.7
CEPS (Rs)	25.0	26.8	30.4
BV (Rs/share)	97.7	116.1	135.4
Dividend / share (Rs)	4.0	5.0	6.0
ROE (%)	24.3	21.6	21.3
ROCE (%)	25.2	23.9	24.0
Net cash (debt)	82,962	90,706	134,386
NW Capital (Days)	83.8	88.4	86.9
P/E (x)	19.0	18.1	15.8
P/BV (x)	4.2	3.5	3.0
EV/Sales (x)	3.0	2.4	2.1
EV/EBITDA (x)	14.1	12.4	10.5

Source: Company, Kotak Securities - Private Client Research

4QFY12 results

(Rs mn)	4QFY12	3QFY12	QoQ (%)	4QFY11	YoY (%)
Turnover	**98,692**	**100,591**	**-1.9**	**83,024**	**18.9**
Expenditure	79,081	80,748		65,956	
EBDITA	**19,611**	**19,843**	**-1.2**	**17,068**	**14.9**
Depreciation	2,668	2,604		2,281	
EBIT	**16,943**	**17,239**	**-1.7**	**14,787**	**14.6**
Interest	-1,977	-1,132		-1,491	
PBT	**18,920**	**18,371**	**3.0**	**16,278**	**16.2**
Tax	4,015	3,810		2,604	
PAT	**14,905**	**14,561**	**2.4**	**13,674**	**9.0**
Share of profit	7	117		139	
EO Items	0	0		0	
Minority interest	-103	-114		-59	
Adjusted PAT	**14,809**	**14,564**	**1.7**	**13,754**	**7.7**
EPS (Rs)	**6.02**	**5.92**		**5.60**	
EBIDTA(%)	19.9	19.7		20.6	
EBIT (%)	17.2	17.1		17.8	
Net Profit (%)	15.1	14.5		16.5	

Source : Company

IT SERVICES

Volume growth at 0.8%

- Wipro's IT Services revenues reported a 1% fall in INR terms. USD revenues were up by about 1% QoQ.
- The revenues growth in CC terms was at by 1.3% sequentially. This 1.3% growth came on the back of a 0.8% rise in volumes whereas productivity went up by about 0.5%.
- The volume growth was higher than that reported by Infosys abut was well below the growth reported by TCS and HCLT.
- Wipro had been reporting lower growth in volumes vis-à-vis industry peers over the past few quarters.
- The management has indicated that, there has been some slowness in decision making by clients, which had an impact in 4Q. The India business also witnessed some challenges in the telecom and Government businesses after reporting a strong 3Q.
- However, the company has already seen decision making pick up in 1QFY13 and expects the same to result in better order-flow going ahead.
- We believe that, the recent changes to the management and execution team had resulted in this relatively lower growth rate. The initial benefits were reflected in past two quarters. However, this growth had come on better terms offered by the company, we understand.
- We need to see the volume growth performance from the management in these tough times.
- The company has indicated that, it focused on improving efficiencies and productivity.
- On a geography basis, the major regions of US and Europe reported muted revenue growth. The emerging economies of India/ME as well as ROW saw revenues grew at a decent pace and helped Wipro report a stable quarter.

Revenue break-up - Geography - wise

(Rs mns)	3QFY12	4QFY12	QoQ (%)	4QFY11	YoY (%)
USA	40,265	39,542	(1.8)	33,898	16.7
Europe	21,628	21,023	(2.8)	17,609	19.4
Japan	997	835	(16.3)	943	(11.5)
India & ME	6,979	7,286	4.4	5,723	27.3
ROW	6,826	7,210	5.6	4,717	52.9

Source : Company

- Within verticals, Finance solutions vertical reported de-growth after posting a 4.6% rise during 3Q. Focus verticals of utilities and retail reported health growth of about 5% in CC terms.
- While the company has witnessed some stress in the Investment Banking business, the overall spending trends in Insurance / Retail banking are strong. Regulatory space is also witnessing good traction.
- The Media/Telecom vertical, which had reported a 5% growth in CC terms in 3Q, once again reported a fall in revenues of about 2.9% on a CC basis.
- The OEM space is challenged but the service providers space is seeing more spends in newer areas like cloud and mobility.
- A flat growth in US revenues and de-growth in BFSI space reflects the concerns voiced by companies like Infosys about the emerging challenges in that region.

Revenue break-up - Vertical - wise

(Rs mns)	3QFY12	4QFY12	QoQ (%)	4QFY11	YoY (%)
Global Media / Telecom	11,811	11,309	(4.3)	10,817	4.5
Finance Solns	20,938	20,189	(3.6)	16,792	20.2
Maft & Hitech	14,572	14,496	(0.5)	12,390	17.0
Hcare, Life S, Sers	7,670	7,590	(1.0)	6,604	14.9
Retail & Trans	11,428	11,688	2.3	9,874	18.4
Energy & Util	10,277	10,626	3.4	6,415	65.6

Source : Company

- Volume growth suffered as revenues from top clients moderated. In INR terms, revenues from the top client were down by 11% and revenues from the top 5 clients fell by 4% QoQ.
- The management has termed these as quarterly aberration but future revenue trends from these clients will reflect the sustainability of high revenue growth for the company.
- Wipro has been increasingly focusing on its existing accounts and has re-aligned its sales teams to the focus verticals to effectively service large accounts.

Realisations up QoQ

- The average realizations were up by about 0.4% on-site and 1.4% off-shore.
- In 3Q, like-to-like realisations had remained flat. We will watch the price - volume balance closely in the future quarters.
- Non-linear revenues at more than 11% of overall revenues, are expected to provide some cushion to overall pricing in the future.

NON-IT BUSINESSES

Within the non-IT businesses, the revenues in Wipro Consumer Care and Lightning grew at about 25% YoY to Rs.9.07bn, while the IT products business reported a 3% rise to Rs.9.37bn.

EBITDA margins - lower than expected

- EBITDA margins in 4QFY12 were almost flat and came in below estimates.
- While the rupee appreciation impacted margins negatively, better utilization rates and productivity increment set-off most part of the fall.
- Number of employees fell for the quarter by 814 to 135920 and this helped keep employee costs under check.
- The management has indicated that, it will likely give salary hikes WEF June (normal cycle) and the increments may be 6-8% off-shore and about 2-3% on-site.
- This, along with investments in front end, may keep margins under check in FY13.
- The DSOs for the IT services business have increased to about 73 days v/s 71 QoQ. The ratio is much higher as compared to most industry peers and needs to be watched closely.

Guidance for 1QFY13 - lower than Infosys

- Wipro has guided to a (-1%) - 1% sequential rise in USD revenues in IT services, largely on higher volumes.
- This is disappointing even as compared to Infosys which had guided to a flat or 1% increase in revenues.
- The main reason for the muted guidance is the fact that, the India business is facing some challenges in the telecom and Government verticals. Also, the delayed decision-making in global business in 4Q will have an impact on 1Q revenues.
- The management has indicated that, the scale-ups have re-started in 1QFY13 and should lead to higher growth going ahead.

Valuations and recommendations

- We have made suitable changes to our earnings estimates to take into account the 4QFY12 results.
- For FY13E, We expect IT services revenues to grow by about 11% in USD terms, led largely by volumes. We have assumed rupee to average Rs.49 / USD for FY13E.
- Margins are expected to be largely flat as the impact of salary increments and front-end investments is expected to be set off by better utilization rates and cost optimization.

We recommend ACCUMULATE on Wipro Technologies with a price target of Rs.421

- We have assumed tax at 20.5% for FY13E. Consequently, PAT is expected to rise by 15% to Rs.63.9bn. EPS works out to Rs.26.
- We have accorded a discount to Wipro as compared to the valuations accorded to TCS, noting the relatively lower margins and a relatively subdued revenue growth profile. Valuations are almost equal to those accorded to Infosys.
- Noting the limited upside to our target price for Wipro based on FY13E earnings, we maintain **ACCUMULATE** with a price target of Rs.421 (Rs.437).
- Our exit multiple works out to 16.2x FY13E EPS.

Risks and concerns

- A delayed recovery in major user economies and a sharper-than-expected appreciation of rupee remain the key risks for earnings.

RESULT UPDATE

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ZENSAR TECHNOLOGIES LTD

PRICE: RS.194 **RECOMMENDATION: BUY**
TARGET PRICE: RS.235 **FY13E P/E: 4.7X**

- Zensar's results were largely in line with expectations. USD revenues grew by 2.7% QoQ, largely led by higher volumes.
- EBIDTA margins were flattish (excluding bought-outs and exceptional forex loss) despite rupee appreciation.
- A forex swing of Rs.280mn impacted headline numbers on the EBIDTA and PAT front.
- Cisco revenues have stabilized and have started scaling up with 4Q seeing an 11% rise on a YoY basis. According to the management, Zensar is expected to get additional revenues as one of the large Indian vendors has been rationalized by Cisco.
- The management indicated a conducive macro environment, with clients looking at growth as well as efficiencies. It is confident of out-performing the industry growth as projected by NASSCOM.
- Post the acquisition of Akibia, Zensar is in a position to cross sell services to the mutually exclusive set of clients and this is expected to help growth rates. Order booking for combined services is at about $14mn currently, we understand. More than 14 clients are getting joint services from Zensar and Akibia.
- Rationalization of low-margin business, focus on utilization and cost optimisation should sustain margins in FY13, we opine.
- The management has detailed four focus areas to take the revenues to an aspirational level of $1bn by FY16.
- We have revised our FY13E EPS to Rs.41.3 (Rs.40.7), largely on the back of a change in assumed exchange rate (Rs.50 / USD for FY13).
- The stock is available at 4.7x FY13E earnings. We maintain BUY, with a DCF-based price target of Rs.235 (Rs.220 earlier).
- A delayed recovery in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are the risks for a relatively small player like Zensar.

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	11,383	17,825	20,488
Growth (%)	18.6	56.6	14.9
EBITDA	1,530	2,262	2,680
EBITDA margin (%)	13.4	12.7	13.1
PBT	1,502	2,362	2,597
Net profit	1,318	1,586	1,792
EPS (Rs)	30.4	36.5	41.3
Growth (%)	3.4	20.3	13.0
CEPS (Rs)	37.2	44.2	50.2
Book value (Rs/share)	103.0	134.2	170.4
Dividend per share (Rs)	4.5	4.5	5.0
ROE (%)	34.0	30.8	27.1
ROCE (%)	29.2	31.7	28.4
Net cash (debt)	(1,263)	(586)	1,037
NW Capital (Days)	8.9	18.8	16.0
P/E (x)	6.4	5.3	4.7
P/BV (x)	1.9	1.4	1.1
EV/Sales (x)	0.9	0.5	0.4
EV/EBITDA (x)	6.3	4.0	2.8

Source: Company, Kotak Securities - Private Client Research

4QFY12 results

(Rs mn)	3QFY12	4QFY12	% QoQ	4QFY11	% YoY
Income	**4808.3**	**4939.1**	**2.7**	**3742.6**	**32.0**
Expenditure	4110.6	4328.7		3372.8	
EBIDTA	**697.7**	**610.3**	**-12.5**	**369.8**	**65.0**
Depreciation	78.2	92.6		90.3	
EBIT	**619.5**	**517.7**	**-16.4**	**279.5**	**85.2**
Interest	23.8	25.7		23.3	
Other inc	201.1	77.7		95.6	
PBT	**796.8**	**569.7**	**-28.5**	**351.8**	**61.9**
Tax	275.1	176.9		-26.4	
Minority Interest	0.0	0.0		0.0	
PAT	**521.7**	**392.8**	**-24.7**	**378.2**	**3.9**
E.O items	0.0	0.0		0.0	
Shares (mns)	43.4	43.4		43.3	
EPS (Rs)	**12.0**	**9.1**		**8.7**	
Margins (%)					
Operating Profit	14.5	12.4		9.9	
Gross Profit	12.9	10.5		7.5	
Net Profit	10.8	8.0		10.1	

Source : Company

Revenues grew by 2.7% QoQ, largely led by volumes

- Revenue growth during the quarter was at about 2.7%.
- Hardware and other bought outs were at about Rs.650mn; marginally higher v/s 3Q.
- Excluding these, revenues grew by about 2.5%, largely due to higher volumes, which is encouraging.
- Average realisations were almost stable on a sequential basis. However, we note that, Zensar's volume growth has been very erratic over quarters.

No concerns at micro level; Cisco to scale up

- While accepting that, the macro scene is still uncertain, the management has indicated that, it has not seen any major changes at the micro levels, which may cause concern.
- The company has not seen any major delays in project ramp-ups or start of new projects - discretionary or non-discretionary.
- A survey of the top clients in 3QFY12 had indicated a 10% - 15% increase in budgets for 3 out of the Top 5 clients. Cisco's budget is expected to rise by about 5-7% for CY12.
- The top clients of the company continue to scale up business along expected lines.
- Cisco, the largest client for Zensar, has started scaling up on the revenue front from 4QFY12.
- We note that, Cisco revenues had not scaled up over the past three quarters because of internal restructuring within the client.
- Zensar is also likely to benefit from the recent vendor rationalization exercise conducted by Cisco.
- According to the management, Cisco has rationalised its vendor base to cut costs (Zensar, TCS, Wipro and Accenture were the vendors).
- In this process, Cisco has discontinued work with one of the large Indian vendors and Zensar is expected to benefit in terms of additional revenues.
- We note that, post Akibia's acquisition, Cisco's contribution to Zensar's revenues has fallen from the higher levels of about 34% to around 22%. This was one of the factors limiting additional business from Cisco.
- The management is confident of strong growth from Cisco going ahead because of cost pressures on Cisco.
- We view this potential scale up positively as it will provide support to the overall revenue growth of the company.
- Zensar has benefitted due to vendor consolidation by 2 of the Top 10 clients.
- The management maintains that, it has and will further rationalize some of the accounts which are yielding low margins. This is with a view to re-align the work force to better yielding projects.

Akibia - Consolidated efforts yielding results

- The consolidated service offerings along with Akibia are getting increased acceptance from the company's clients.
- About 14 clients are getting services jointly. The management has also indicated that, the order book for consolidated service offerings is currently at $14mn, with more in the pipeline.

Average realizations were almost unchanged

- Average realizations for the company were almost stable over the previous quarter.
- New contracts are coming in at higher-than-average rates. However, billing rate increases are contingent on consistent demand in the future.
- The company has not seen any pressure on billing rates from existing clients till date.
- In fact, the management had indicated earlier that, it has been able to get billing rate increases from about 60% - 70% of its clients. We find this surprising especially in the backdrop of weak economic environment. We will watch out for the impact of these increases over the next few quarters.

Net addition of 923 employees

- Zensar added 923 (67) employees during the quarter, which was significantly higher than estimates.
- The utilization levels also increased over the previous quarter.
- However, the revenue growth was only about 2.7%, and seems low as compared to the growth in number of billed hours. Further details on the same are not available.
- The management has indicated that, it is taking a hard look at the utilization levels and also at the performance related issues of employees.
- Zensar has been focusing on improving utilization levels and we expect the same to continue over the fiscal.

EBIDTA margins flat

- Headline numbers show EBIDTA margins to have dipped. However, this was largely due to the adverse impact on translation of forex assets in the balance sheet. According to the management, there was an impact of Rs.100mn v/s NIL in 3Q.
- Excluding this impact and the impact on margins due to the hardware component, EBDITA margins during the quarter were almost flat, despite the appreciation of the rupee.

Future focus areas

- The management has detailed the four focus areas, which are expected to take Zensar to an aspirational revenue level of $1bn by FY16.
- These are : IM, BFSI, Healthcare and Manufacturing/Retail/ Distribution.
- IM currently brings in about 35% of the total revenues and Zensar plans to grow this into a $400mn revenue business by FY12.
- Zensar will target to grow its existing US relationships which is growing the RIMS business in European countries like UK, Germany and Benelux.
- It has also decided to penetrate the Cloud, Social Media and Mobility (CLOSOMO) markets.
- In IM, the company has already won $10mn worth of orders through the joint value proposition (Zensar and Akibia).
- In Cloud, the partnership with Google has already brought in 2-3 clients and Zensar will be providing cloud platforms to them.
- BFSI currently brings in 15% of revenues and the target is to get about $200mn revenues by FY16.

- The focus of Zensar will be more on Insurance, we believe, where it will likely use more platform based services.
- The company enjoys strong relationship with its clients that include UBS, Credit Suisse, Investec, Nomura etc. On the other hand, Akibia has some marquee customers like Federal Reserve Bank, JP Morgan chase etc.
- Company plans to cross sell some of its own and Akibia products across globe. This is also expected to increase the client mining - for instance Nomura is Zensar's client in Asia Pacific and Akibia's client in USA.
- Manufacturing/Retail/Distribution (MRD) currently brings in 50% of revenues and is targeted to grow to $300mn by FY16.
- Currently 25% of the company's revenues and nearly 50% of the MRD revenues come from the hi-tech companies.
- Zensar is looking at SMEs as an area of growth and will target these through solutions and platforms.
- Within retail, the focus will be on sub-segments like apparel retail and e-tailing. The oracle and SAP expertise will lead to new customer engagements, we believe.
- Healthcare is a relatively new vertical for Zensar. It is currently focused on the ICD-10 business and has an order book of about $8mn in ICD.

Financial prospects

- We have made changes to our FY13E earnings. We assume the rupee to average Rs.50 per USD in FY13.
- Revenues are expected to rise by 15% in FY13 on the back of a similar rise in volumes.
- Margins are expected to remain largely stable in FY13 as the salary increments set-off the benefits coming from cost optimization and better utilization rates.
- We have assumed tax at lower levels of 31% in FY13 because of the expected increase in revenues from SEZs.
- Consequently, PAT is expected to rise by about 13% to Rs.1.79bn, leading to an EPS of Rs.41.3 in FY13E.

Valuations

We recommend BUY on Zensar Technologies with a price target of Rs.235

- We have done our DCF analysis wherein we have also incorporated a WACC of about 15% to compensate for the higher risks.
- Our price target is Rs.235 (Rs.220) for the stock, based on FY13E earnings.
- Sustained rise in margins and stable revenue growth profile may lead us to accord higher valuations to the stock.

Concerns

- A sharp acceleration from the current levels may impact our earnings estimates for the company.
- A delayed recovery in major global economies could impact revenue growth of Zensar.

RESULT UPDATE

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BHARAT ELECTRONICS

PRICE: RS.1480 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1770 **FY13E P/E: 11.7x**

- **BEL's Q4FY12 headline numbers were sharply lower than expected. Apart from a significant slippage in revenues, profit margins could have been lower on account of higher share of non-defence business in the revenue mix. Notwithstanding this, the company enjoys a strong order backlog (a key positive in current scenario of declining order backlogs for capital goods companies).**
- **Post the revisions to our forecasts, we maintain BUY with a revised target price of Rs 1770.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	52064	56453	61680
Growth (%)	3.8	8.4	9.3
EBITDA	8741	5542	8834
EBITDA margin (%)	16.8	9.8	14.3
PBT	11,410	10,215	13,922
Net profit	8612	7565	10163
EPS (Rs)	107.7	94.6	127.0
Growth (%)	19.5	-12.2	34.3
CEPS (Rs)	120.4	109.3	143.2
BV (Rs/share)	613.2	678.5	776.3
Dividend per share (Rs)	25.0	25.0	25.0
ROE (%)	18.1	14.4	17.2
ROCE (%)	18.0	14.4	17.2
Net cash (debt)	65190	64633	67534
NW Capital (Days)	-158	-105	-66
EV/Sales (x)	1.0	1.0	0.8
EV/EBITDA (x)	6.1	9.7	5.8
P/E (x)	14.1	15.7	11.7
P/Cash Earnings	12.3	13.5	10.3
P/BV (x)	2.4	2.2	1.9

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q4FY12	Q4FY11	YoY (%)
SalesTurnover	**22,321**	**23,073**	**-3**
Other operating income	651	528	23
Operating Expenditure	**19,751**	**17,786**	**11**
Raw Material costs	10,204	8,860	15
Staff costs	2,410	2,908	-17
Other expenditure	2,157	1,892	14
Traded items	4,980	4,126	21
Operating profit	**3,222**	**5,815**	**-45**
Depreciation	300	327	-8
Other income	1,472	776	90
EBIT	**4,394**	**6,264**	**-30**
Interest	1	2	-52
PBT	**4393**	**6,262**	**-30**
Tax	1,054	1,780	-41
Adjusted PAT	**3,339**	**4,483**	**-26**
Ratios			
OPM (%)	14	25	
Raw Matl costs to sales (%)	46	38	
Trading items to sales (%)	22	18	
Staff costs to sales (%)	11	13	
Other exp to sales (%)	10	8	
Tax rate (%)	**24**	**28**	
EPS Rs	**41.7**	**56.0**	

Source: Company

Significant revenue miss

- BEL's revenue were lower than estimates for the quarter as well as for the year.
- BEL reported Rs 56 bn in revenues in FY12, a significant miss from its target of Rs 62 bn.
- Turnover from indigenously developed products stood at 81%. Some of the significant supplies made against major orders during the year include supply of Akash Weapon System, Coastal Surveillance System, Sonar Systems etc.
- Supplies to defence contributed 73% of revenue vs 80% in the previous fiscal, indicating an increase in contribution from civilian business.
- Major civilian project include 1) sale of 6 lac tablet PCs for conducting socio-economic survey valued at Rs 3.6 bn 2) Data digitization of 210 mn records and 5 mn biometric enrolments for National Population

EBITDA margin sharply lower on likely increase in non-defence revenues

- Q4FY12 EBITDA margins stood at 14% vs 25% in Q4FY11. We believe sharp margin decline could be on account of higher share of non defence business in the quarter.
- For FY12, EBITDA margin declined 640 bps mainly due to larger share of projects business (system integration works) and non-defence orders. The company's business is not material cost intensive, hence margins depend on product mix changes and changes in operating leverage.

Order backlog provides comfort

- Order backlog for the company has increased to Rs 257 bn vs Rs 236 bn in FY11. Revenue visibility has improved to 56 months of FY12 revenues.
- Order intake during FY12 included Akash System Rs 32 bn, Coastal surverillance system Rs 6.0 bn, socio economic census Rs 5.4 bn and Shipborne EMS system Rs 4.0 bn.

Muted revenue guidance of Rs 63 bn in FY13

- The company has set a revenue target of Rs 63 bn in FY13, implying a growth of 12% over FY12.
- It needs to be noted that the company missed out on its revenue target for FY12.

Future Initiatives

- Proposed JV with Thales in the area of civilian and select defence radars is under consideration.
- Plan to tap the upcoming opportunities in telecom sector as the new telecom policy envisages indigenous design and manufacturing.
- To tap the offset opportunity, BEL has identified contract manufacturing as a key area to work with foreign OEMs.
- Apart from this, BEL is also looking at Railway safety and signaling and Nuclear power and instrumentation segment.
- BEL has invested over 7% of its revenues in R&D activities.

Earnings Revision

The company's MOU based revenue target for FY13 at Rs 62 bn is lower than our estimates. In view of this, we are making revisions to our estimates.

Earnings estimates (FY13)

Rs mn	Earlier	Revised
Revenue	73834	61680
EBITDA %	15.6	14.3
EPS (Rs)	140	127
% change		-9.2

Source: Company

Valuation

At the current price, BEL is trading at 11.7x FY13E earnings. On a forward EV/EBITDA basis, the company trades at 5.8x.

We maintain BUY on Bharat Electronics with a price target of Rs.1770

Although, the company reported significant revenue and profits miss in FY12, we remain positive in view of the healthy order backlog, which provides revenue visibility of 56 months. The company is not exposed to capex cycles. Moreover, defence modernization is an irreversible process.

The stock has outperformed the capital goods sector. In view of the reasons mentioned above, we maintain **BUY** with a revised DCF based price target of Rs 1770 (Rs 1913 earlier). At the target price, the stock would be valued at 14x FY13 earnings.

RESULT UPDATE

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INDIA CEMENTS LTD

PRICE: RS.87 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.91 **FY13E P/E: 8.1x**

Result overview: Revenue growth of the company was led by sequential stable cement prices in southern region during Q4FY12 and was in line with our estimates. Costs remained high due to higher power and fuel and freight expenses. Net profit growth was boosted by lower tax rate but was in line with our estimates. We maintain negative bias for the company on account of low demand growth in southern region and hence retain REDUCE rating on the stock. Stock would get re-rated once demand improvement sustains in southern region and also once fears of CCI fine recede.

- **Company's revenues for Q4FY12 and full year FY12 were in line with our estimates led by improvement in realizations in comparison with last year. Revenues reported a growth of 12% and 20% YoY for Q4FY12 and FY12 respectively.**
- **Operating margin for Q4FY12 improved on YoY basis led by higher average cement realizations. Margins also witnessed an improvement on yearly basis.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	35,007	42,034	46,750
Growth (%)	-7.2	20.1	11.2
EBITDA	4,337	9,034	9,930
EBITDA margin (%)	12.4	21.5	21.2
PBT	899	3,810	4,899
Net profit	681	2,930	3,282
EPS (Rs)	2.2	9.5	10.7
Growth (%)	-80.8	330.2	12.0
CEPS (Rs)	10.2	17.7	19.2
BV (Rs/share)	133.1	140.9	151.6
Dividend / share (Rs)	1.7	1.7	1.7
ROE (%)	1.7	7.0	7.3
ROCE (%)	3.6	9.8	10.9
Net cash (debt)	(24,230)	(26,314)	(22,435)
NW Capital (Days)	192	192	192
EV/Sales (x)	1.3	1.2	1.0
EV/EBITDA (x)	10.9	5.5	4.6
P/E (x)	39.2	9.1	8.1
P/BV (x)	0.7	0.6	0.6

Source: Company, Kotak Securities - Private Client Research

Financial highlights

Rs million	Q4FY12	Q4FY11	YoY (%)	FY12	FY11	YoY (%)
Net Sales	**11,160**	**9,979**	**12%**	**42,034**	**35,007**	**20%**
Expenditure	9,008	8,192		33,001	30,670	
Inc/Dec in trade	30	385		32	-114	
RM	1,452	1,336		5,410	5,162	
As a % of net sales	13.0	13.4		12.9	14.7	
Staff cost	921	670		3,026	2,532	
As a % of net sales	8.3	6.7		7.2	7.2	
Power and fuel	3,175	2,507		10,947	10,201	
As a % of net sales	28.5	25.1		26.0	29.1	
Transportation & Handling	2,119	1,879		7,549	7,102	
As a % of net sales	19.0	18.8		18.0	20.3	
Other expenditure	1,311	1,414		6,036	5,787	
As a % of net sales	11.8	14.2		14.4	16.5	
Operating Profit	**2,152**	**1,787**	**20**	**9,034**	**4,337**	**108**
Operating Profit Margin	19.3%	17.9%		21.5%	12.4%	
Depreciation	646	615		2,513	2,440	
EBIT	**1,506**	**1,172**	**28**	**6,521**	**1,897**	**244**
Interest	640	434		2,867	1,417	
EBT(exc other income)	866	738	17	3,653	479	662
Other Income	70	25		193	396	
Exceptional gains	0	8		-36	23	
EBT	**935**	**771**	**21**	**3,810**	**899**	**324**
Tax	286	219		880	218	
Tax Rate (%)	30.6	28.4		23.1	24.2	
PAT	**649**	**552**	**18**	**2,930**	**681**	**330**
Extraordinary Items	0	0		0	0	
Net Profit	**649**	**552**	**18**	**2,930**	**681**	**330**
NPM%	5.8	5.5		7.0	1.9	
Equity Capital	3,071.8	3,071.7		3,071.8	3,071.7	
EPS (Rs)	**2.1**	**1.8**		**9.5**	**2.2**	

Source: Company

- **Net profit performance was also in line with our estimates but was also boosted by lower tax rate.**
- **Though demand has improved during Q4FY12, demand scenario going ahead is still uncertain in southern region and company expects cement demand to grow by 6-7% for the southern region.**
- **We revise our estimates upwards to take into account higher cement prices. At current market price of Rs 87, stock is trading at 8.1x P/E and 4.6x EV/EBITDA on FY13 estimates. We continue to value company at an average of EV/Tonne of $80 per tonne and 5x EV/EBITDA on FY13 estimates and arrive at revised price target of Rs 91 (Rs 82 earlier). We continue to maintain REDUCE on the stock. Stock would get re-rated once demand improvement sustains in southern region and also once fears of CCI fine recede.**

Revenue growth led by strong pricing discipline

- Company's revenues for Q4FY12 and full year FY12 were in line with our estimates led by improvement in realizations in comparison with last year. Revenues reported a growth of 12% and 20% YoY for Q4FY12 and FY12 respectively.
- Revenue from cement segment stood at Rs 11 bn while freight earnings stood at Rs 114 mn, wind mill earnings at Rs 6.5 mn and IPL earnings at Rs 1.5 mn for Q4FY12.
- For the full year, revenues reported a growth of 20% with cement revenues contributing Rs 40.1 bn while freight earnings stood at Rs 374 mn, wind mill earnings at Rs 114 mn and IPL earnings at Rs 1398 mn.
- Cement dispatches (including clinker) in Q4FY12 stood at 2.6 MT (up by 2% YoY) and at 9.5 MT for the full year (decline of 5.3% YoY). Adjusted cement realizations stood at Rs 4245 per tonne (up 11.4% YoY) and Rs 4215 per tonne (up 26% YoY) for Q4FY12 and FY12 respectively. Cement realizations have improved in FY12 mainly due to supply discipline being exhibited by players despite lack of demand growth.
- Demand has however started improving since Nov, 2011 and is also primarily led by private sector housing while government related contracts are much lower than last year. During Q4FY12, demand has registered a growth of 12.63% YoY in TN, 10.82% YoY in Karnatka, 11.77% YoY in Kerala and -2.14% YoY in AP. Overall demand in south improved by 9.4% in the last quarter as opposed to a negative growth of 3% during 9MFY12. Company expects demand in southern region to grow by 6-7% during FY13.
- Cement plant at Banswara, Rajasthan being put up by Indo Zinc Ltd had started commercial production from Feb, 2011 and has fully ramped up also during Q3FY12. Tamil Nadu thermal power plant of 25MW has commissioned in Jan, 2012 while second boiler of 25MW is likely to get commissioned in next 3-4 weeks. AP thermal power plant is expected to commission by FY13-end.
- We tweak our volume and pricing and expect revenues to grow by 11.2% in FY13 to Rs 46.7 bn as against Rs 44.1 bn estimated earlier.

Operating margins slightly lower than our estimates

- Operating margin for Q4FY12 declined sequentially due to higher costs and flat realizations. However, margins improved on an yearly basis and stood at 19.3% for Q4FY12 as compared to 17.9% seen during Q4FY11. On a full year basis, operating margin improvement is primarily led by improvement in cement prices.
- EBITDA for cement division stood at Rs2130 mn while for IPL, EBITDA was Rs -18.1 mn, for wind mill, EBITDA was Rs 6.5 mn and for freight, EBITDA was Rs 33.7 mn for Q4FY12. Thus EBITDA per tonne for cement has come down to Rs 819 per tonne as against Rs 862 per tonne in Q3FY12, Rs 883 per tonne during Q2FY12, Rs 996 per tonne during Q1FY12.

- Following cost heads witnessed increases and are likely to remain high going forward also -
  - Raw material cost per tonne has witnessed an increase due to higher prices of fly ash, gypsum and increased royalty on limestone.
  - Power and fuel per tonne -Power and fuel cost per tonne increased on yearly basis and stood at Rs 1221 for Q4FY12. This increase was led by disturbances in the availability of power in AP and Tamil Nadu. This resulted in high cost of power. Along with this, coal prices from Singareni Collieries have increased. Company has also reduced the dependence on imported coal to nearly 60% now and thus sources the remaining coal requirement from open market where prices continue to stay high.
  - Freight expenses per tonne- Freight cost per tonne has moved up on yearly basis due to hike in diesel prices as well as higher lead distance.
  - Staff cost per tonne has also increased due to higher renumerations for the directors.

Per tonne analysis

	Q4FY12	Q4FY11	Q3FY12
Dispatches (mn tonne)	**2.6**	**2.549**	**2.185**
Adj cem realisation/tonne	**4245**	**3812**	**4243**
YoY	11.4%		
Cost Per tonne			
Inc/dec in material	12	151	
Raw material	558	524	523
Staff cost	354	263	324
Power and fuel	1221	984	1221
Transporation &Handling	815	737	783
Other expenditure	504	555	567
Total cost per tonne	**3465**	**3214**	**3419**
EBITDA per tonne	**781**	**598**	**824**
Cement EBITDA per tonne	**819**	**709**	**863**

Source: Company

- We tweak our estimates and expect operating margins of 21.2% for FY13 vs 20.8% estimated earlier.

Net profit growth boosted by lower tax rate

- Net profit performance was also in line with our estimates but was also boosted by lower tax rate.
- Overall interest burden during FY12 witnessed an increase due to higher loans availed to redeem FCCBs during Q1FY12.
- We revise our estimates and expect net profits of Rs 3.28 bn (Rs 2.76 bn earlier) for FY13.

Valuation and recommendation

We recommend REDUCE on India Cements with a price target of Rs.91

- At current market price of Rs 87, stock is trading at 8.1x P/E and 4.6x EV/EBITDA on FY13 estimates.
- We continue to value company at an average of EV/Tonne of $80 per tonne and 5x EV/EBITDA on FY13 estimates and arrive at revised price target of Rs 91 (Rs 82 earlier).
- We continue to maintain REDUCE on the stock.
- Stock would get re-rated once demand improvement sustains in southern region and also once fears of CCI fine recede.

Result Update

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Petronet LNG Ltd. (PLNG)

Price: Rs.139 **Recommendation: ACCUMULATE**
Target Price: Rs.155 **FY13E P/E: 9.4x**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Net Sales	131,973	224,507	278,205
Growth (%)	23.9	70.1	23.9
EBIDTA	12,333	18,292	20,258
EBIDTA margin (%)	9.3	8.1	7.3
PBT	9,063	15,525	16,841
Net profit	6,195	10,575	11,117
EPS (Rs)	8.10	14.10	14.82
Growth (%)	50.2	74.1	5.1
CEPS (Rs)	10.7	16.6	17.5
Book value (Rs/share)	35.7	46.9	59.0
DPS (Rs)	2.00	2.50	2.52
ROE (%)	23.9	33.0	27.3
ROCE (%)	13.6	18.8	18.1
Net Cash (Debt)	(19706)	(17302)	(24121)
NW Capital (Days)	7.3	11.9	5.1
EV/Sales (x)	0.9	0.5	0.4
EV/EBIDTA (x)	10.0	6.7	6.1
P/E (x)	17.2	9.9	9.4
P/BV (x)	3.89	2.96	2.36
P/CEPS (X)	13.0	8.4	8.0

Source: Company, Kotak Securities - Private Client Research

Result analysis and key takeaways from the conference call of Petronet LNG.

- **Petronet LNG Ltd. has reported Q4FY12 results which are broadly in line with our estimates. The Company has reported a PAT of Rs. 2451 Mn in Q4FY12 higher by 18.8% YoY but lower by 17% QoQ. Our PAT estimate was Rs.2542 Mn. (3.7% variation)**
- **On a sequential basis, PAT was lower mainly on account of 1). Lower volume growth (lower by 6.9% QoQ but up by 7.3% YoY and 2). Lower average net back.**
- **In Q4FY12, volumes were lower due to temporary shutdown of 4-5 fertilizer plants (normal maintenance) resulting in lower demand. On a sequential basis, the volumes were down due to extraordinary performance in Q3FY12 (base effect).**
- **Management has guided that there is a strong demand of LNG from refineries, petrochemicals and CGDs customers reflecting spot LNG to replace liquid fuels. Hence, going forward volumes are expected to improve. On the other hand, domestic natural gas supply was lower on account of falling gas production from RIL's KG-D6.**
- **In FY12, the company has operated at 107% of its capacity (nameplate capacity of the Dahej terminal being 10 MMTPA) and processed a total volume of 548 TBtus against a total regasification volume of 440 TBtus in FY11.**
- **Petronet imported 171 shiploads of LNG from long-term import contract with RasGas of Qatar and another 34 cargoes were imported from spot market. Further, Dahej terminal also received another 21 cargoes, imported by GAIL India and Gujarat State Petroleum Corp.**
- **Dahej:** PLNG plans to invest Rs 30 Bn on expanding its Dahej plant's capacity to 15 mmtpa from the present 10 mmtpa. With expended facility in place the total capacity will increase by 50%. It is also setting up a second jetty at Dahej, which will enable it to improve utilization of its existing capacity by another 20-25%.
- Additional Jetty and associated unloading terminal expected at Dahej to commission by Q2FY14, contract has been awarded. We believe that this will allow PLNG to bring in bigger vessels which will lower the turnaround time and will improve operational efficiencies.
- **Kochi:** The Company is setting up another LNG terminal at Kochi. The terminal (5 MTPA) will be set-up with an investment of Rs.42 bn and is expected to commission around Dec'12 / March'13. Management stated that construction work at the Kochi terminal is on schedule and more than 95% work has been completed.
- **Andhra Pradesh- East Coast at Gangavaram:** In order to meet the rising domestic natural gas demand, PLNG is setting up third RLNG terminal with a capacity of 5 MMTPA at Andhra Pradesh (east coast of India) and is expected to commission by 2015.
- Currently, PLNG is importing 7.5 mmtpa from Qatar on a long-term basis and additional 1.5 mmtpa from Gas Natural (of Spain). It is in touch with countries like Qatar and Australia for long-term contracts for sourcing LNG. If USA further allows exporting of LNG then it will be significantly positive for the Company. Petronet's ability to sign any long-term supply contract could improve visibility to its earnings growth and prove a major trigger for appreciation.

- PLNG is also aiming to increase its presence in direct marketing rather than just a tolling re-gassifier. This will improve its margins going forward.
- India's gas demand is currently pegged at 179 mmscmd, while the domestic supply is constrained at around 140 mmscmd.
- For FY13E we expect revenues of Rs.278 bn (up 23.8% YoY), operating margin of 7.3% and PAT of Rs.11.1 bn. accordingly, we expect PLNG to report EPS of Rs.14.82 (earlier Rs.15.36) and CEPS of Rs.17.5 in FY13E. We expect 11.1 Mn MTPA of LNG sales volume for FY13E.
- The Board has recommended a dividend of Rs 2.50 per equity share.
- On the basis of our estimates, the stock at current market price of Rs.139 is attractively valued at 6.1x EV/EBIDTA, 9.4x P/E, 8x P/CEPS and 2.36x P/BV on FY13E earnings.
- We recommend Accumulate on PLNG with 12-month price target of Rs.155. We believe PLNG should benefit from gas shortages and rising domestic natural gas demand over the long term. The scrip should see a re-rating as the Kochi capacity nears commissioning. Petronet LNG's robust business model coupled with undemanding valuations make it attractive for long-term investors.

Key Risk and Concerns:

- Availability of LNG at reasonable prices on a long term basis has remained a key worry.
- Regulatory risk: Any capping of margins by PNGRB will negatively impact its earnings and growth. However, management has indicated that imported LNG does not fall under the preview of PNGRB.
- Project execution risk.

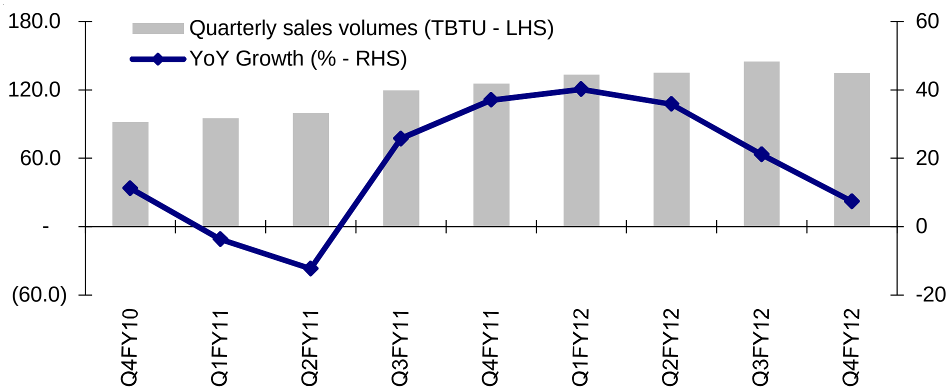
Quarterly performance

(Rs mn)	Q4FY12	Q4FY11	YoY (%)	QoQ (%)
Net Sales	**63,228**	**39,860**	**58.6**	**(0.1)**
Total Expenditure	59,524	36,347	63.8	2.2
EBIDTA	**3,704**	**3,513**	**5.4**	**(27.1)**
Depreciation	458	455	0.8	(1.0)
EBIT	**3,245**	**3,059**	**6.1**	**(29.7)**
Other income	748	314	138.4	356.0
Interest-net	342	431	(20.7)	(0.8)
PBT	**3,651**	**2,941**	**24.2**	**(17.7)**
Tax	1,200	878	36.7	(16.4)
PAT	**2,451**	**2,063**	**18.8**	**(18.3)**
Equity Capital	7,500	7,500	0.0	
EPS (Rs)	**3.27**	**2.75**	**18.8**	**(18.3)**
Cash EPS	3.9	3.4	15.6	(16.0)
EBITDA Margin (%)	5.9	8.8	(3.0)	(2.2)
EBIT Margin (%)	5.1	7.67	(2.5)	(2.2)
Adj PAT Margin (%)	3.9	5.18	(1.3)	(0.9)
Other Income/PBT (%)	20.5	10.7	92.0	16.8
Tax/PBT (%)	32.9	29.9	0.1	0.5
Raw Material consump (Incl. Forex)	58,818	35,743	64.6	2.1
Staff costs	108	122	(11.6)	68.5
Other Expenditure	599	482	24.3	4.1
Total	**59,524**	**36,347**	**63.8**	**2.2**

Source: Company

- **Volumes:** During Q4FY12, PLNG sold 135 TBTUs of re-gasified LNG as against 125.8 TBTUs in Q4FY11 which is up by 7.3% YoY basis but down by 6.9% on QoQ basis. In Q4FY12, volumes were lower due to temporary shutdown of 4-5 fertilizer plants (normal maintenance) resulting in lower demand. On a sequential basis, the volumes were down due to extraordinary performance in Q3FY12 (base effect).
- Non-core sectors (industries excluding power and fertilizer) find re-gasified LNG to be a cheaper option when compared to the liquid fuels, which will ensure high capacity utilization for Petronet even in future.
- In Q4FY12, PLNG has imported ~33-34 cargos, out of this ~majority of them are long-term contracts and balance was short term spot cargos. This clearly implies strong appetite in refineries and CGDs to consume costly spot LNG to replace liquid fuels.
- **Revenue and Realization:** Revenues for Q4FY12 were at Rs.63.2 Bn which is substantially up by 58.6% YoY basis but was flat on sequential basis. The average net realization (LNG sold and service provided) is up 47.8% YoY basis to Rs. 468.5 per mmbtu and 7.2% QoQ basis.
- **Demand Outlook:** Petronet LNG has been benefiting from a decline in local production of natural gas that has pushed up LNG imports. Natural gas output at Reliance's D6 block in the Krishna Godavari basin is currently around 30-35 million standard cubic meters a day, significantly down. Also, it is expected that it will take two-three years to ramp-up the production.
- **Raw material cost** i.e. LNG for Q4FY12 was at Rs.58.8 Bn up by 64.6% YoY basis and 2.1% on sequential basis. Hence, PLNG imported LNG at average cost of Rs.435.8 per mmbtu in Q4FY12 which is up by 53.3% YoY basis and by 9.7% on sequential basis. This is mainly on account of increase in LNG prices. The key factors which have supported the LNG prices are the increased demand from Japan, China and India.
- **Net Back** (Net Revenue less Raw Material Cost) for Q4FY12 was at Rs.4.4 Bn up by 7.1% on YoY basis but down by 22.9% on QoQ basis. Resulting in average net back of Rs. 32.7 per mmbtu down by 0.2% YoY basis and 17.2% on sequential basis mainly due to lower volumes.
- **Staff Cost:** Employee cost has increased significantly by 68.5% QoQ to Rs.109 Mn.
- Other expenditure has increased significantly by 4.1% QoQ and 24.3% YoY.
- **Operating Profit:** For Q4FY12, the operational profit was up by 5.4% YoY but down by 27.1% on sequential basis to Rs. 3.7 Bn. The Company recorded EBIDTA margin of 5.86%, which is down 2.96% on YoY basis and by 2.17% on QoQ basis.
- **Other Income:** In Q4FY12, other income has increased by 138.4% YoY and 356% QoQ to Rs.748 mn.
- Finance cost has fallen by 0.8% QoQ and by 20.7% YoY to Rs.342 Mn.
- PBT for Q4FY12 was at Rs.3.65 bn up 24.2% YoY but down by 17.7% on sequential basis.
- PAT for Q4FY12 was at Rs.2.45 bn up by 18.8% YoY but down by 18.3% on sequential basis thereby translating into quarterly EPS of Rs.3.27 and CEPS of Rs.3.88.

Quarterly sale volume (TBTU) & YoY growth (%)



Source: Company and Kotak Securities - Private Client Research

Latest Developments

Concern of PNGRB capping margins of PLNG:

- PLNG's indicated that re-gasified LNG or LNG business does not fall under the domain of regulator.
- The Company's management has indicated that more than 90% LNG is sold back-to-back to GAIL, IOC and Bharat Petroleum and doesn't have marketing margin. The bulk is sold to these three off takers and they do the retailing. PLNG itself is not engaged in any retailing activity of its own. There is very small quantity that goes directly to some of the customers like Essar or Reliance.

Company back ground

- Petronet LNG is India's largest importer of liquefied natural gas (LNG) at its Dahej plant. It has expanded the Dahej capacity to 10 MMTPA.
- PLNG has a firm supply contract with Qatar's RasGas for 7.5 MTPA for which it has a back-to-back sales contract. It also imports LNG on a spot basis depending on its ability to market the same in domestic market.
- Similarly, it also imports cargos on behalf of other importers for a fee. The company currently charges Rs 35 per MMBTU as regasification charges, which are set to go up 5% every year in January.

Key assumptions

- For FY13E we expect revenues of Rs.278 bn (up 23.8% YoY), operating margin of 7.3% and PAT of Rs.11.1 bn. accordingly, we expect PLNG to report EPS of Rs.14.82 and CEPS of Rs.17.5 in FY13E. We expect 11.1 Mn MTPA of LNG sales volume for FY13E.
- Management has guided higher re-gasification charges for FY13E. Also, the Company enjoys marginally higher margins on spot cargo's which will also improve its operating margins.

Price target revised to Rs.155

We have valued PLNG on DCF-based method of valuation with 13.5% WACC and 6.5% terminal growth rate. The 12M price target is revised to Rs.155.

Valuation & Recommendation

We recommend ACCUMULATE on Petronet LNG with a price target of Rs.155

- On the basis of our estimates, the stock at current market price of Rs.139 is attractively valued at 6.1x EV/EBIDTA, 9.4x P/E, 8.0x P/CEPS and 2.36x P/BV on FY13E earnings.
- We recommend **ACCUMULATE** on PLNG with a revised price target of Rs.155

Notes:

LNG is natural gas in its highly compact liquid form. When natural gas is cooled to minus 260 degrees Fahrenheit (or minus 162 degrees Celcius), it is reduced to one six-hundredth of its original volume and becomes a clear, non-toxic liquid. LNG offers a safe and economical means for transporting natural gas over long distances to locations beyond the reach of pipelines. LNG is loaded on specialized ships and delivered to a regas- sification terminal where it is reheated, turned into gas and distributed to customers through a pipeline network.

RESULT UPDATE

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SESA GOA

PRICE: RS.186 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.215 **FY13E P/E 4.3x; EV/EBITDA 6.2x**

Better than expected results, improved iron ore prices & Cairn India outlook - Attractively valued post sell off - Upgrade to Accumulate

Sesa Goa Ltd reported better than expected results in Q4FY12, primarily led by improvement in iron ore sales realizations. FY12 iron ore production was down 27% Y/Y but sales were down only 12% Y/Y as there was significant inventory liquidation. Trend is unlikely to change substantially as production bottlenecks might take longer than anticipated to be removed in Karnataka. However, iron ore prices are holding on much better than anticipated due to record steel production in China.

At lower levels, imported iron ore is cheaper than China domestic iron ore CoP which leads to substitution. We have substantially raised our iron ore price expectations for FY13 while cutting our sales volume estimates. Key assumption changes are depicted later in the note.

We continue valuing Sesa Goa based on SOTP wherein core iron ore business continues to be valued at 3.5x EV/EBITDA for FY13e and 20% stake in Cairn India is valued at 30% holding company discount to the fair value assumption of our oil& gas analyst.

We are upgrading our FY13e EPS by 12.1% to Rs43.5. Please note that Cairn India is expected to contribute 57% of the consolidated PAT in FY13e. We would incorporate consolidated financials of proposed Sesa Sterlite once it obtains shareholder's approval in coming months. We arrive at target price of Rs215 which offers ~15%upside from present levels. Hence we upgrade our recommendation from Reduce to Accumulate and advise investors to buy on declines.

Summary table - Consolidated

(Rs mn)	FY11	FY12E	FY13E
Sales (Rs. mn)	91455	82745	80861
Growth (%)	57.6	-9.5	-2.3
EBITDA (Rs. mn)	52063	35001	28081
EBITDA Margins (%)	56.6	42.1	34.6
PBT	55597	31292	23199
Net Profit (Rs. mn)	42225	26955	37781
EPS (Rs.)	48.6	31.0	43.5
Growth (%)	54	-36	40
CEPS (Rs.)	49.4	31.8	44.5
BV (Rs./share)	147.4	173.7	212.5
Dividend / share (Rs.)	3.5	4.0	4.0
ROE (%)	40.7	19.3	22.5
ROCE (%)	30.6	14.3	15.8
Net Cash (debt)	86974	-36222	-11713
NW Capital (Days)	101	82	80
EV/Sales (x)	0.8	2.4	2.1
EV/ EBITDA (x)	1.4	5.7	6.2
P/E (x)	3.8	6.0	4.3
P/B (x)	1.3	1.1	0.9

Source: Company, Kotak Securities - Private Client Research

Quarterly Comparative

(in Rs. Mn)	Q4FY12	Q3FY12	Q4FY11	%Q/Q	%Y/Y
Net Sales	**27,914**	**26,043**	**36,073**	**7.2%**	**-22.6%**
Services and Other proceeds	30	128	164	-76.6%	-81.7%
Total Operating Income	**27,944**	**26,171**	**36,236**	**6.8%**	**-22.9%**
Raw material consumption	1,551	3,975	3,047	-61.0%	-49.1%
Stores and spares	895	956	957	-6.4%	-6.5%
Purchase of Ore	1,032	1,421	1,299	-27.4%	-20.6%
Freight Charges	2,683	2,563	3,689	4.7%	-27.3%
Wages and Salaries	876	638	665	37.3%	31.7%
Export Duty	7,422	4,485	3,650	65.5%	103.3%
Other administrative expenses	3,517	1,281	1,747	174.6%	101.3%
Total operating expenditure	**17,975**	**15,319**	**15,053**	**17.3%**	**19.4%**
EBITDA	**9,969**	**10,852**	**21,184**	**-8.1%**	**-52.9%**
% margin	35.70%	41.50%	58.5%	(580bps)	(2280bps)
Other Income	141	180	1,690	-21.7%	-91.7%
Depreciation	286	263	371	8.5%	-22.9%
Interest	(1,648)	730	141	-325.8%	-1266.0%
Exceptional/ Forex Loss(Gains)	661	1,779	(35)	-62.9%	-1988.3%
PBT	**10,811**	**8,260**	**22,397**	**30.9%**	**-51.7%**
Taxes	3,848	2,564	7,779	50.1%	-50.5%
Tax Rate	35.60%	31.0%	34.7%	14.7%	2.6%
Share of profit of associates	4,658	1,219		282.0%	#DIV/0!
PAT	**11,621**	**6,915**	**14,618**	**68.1%**	**-20.5%**
% net margin	24.90%	21.8%	40.3%	310bps	(1540bps)
EPS (Rs)	**13.37**	**7.96**	**17.00**	**68.0%**	**-21.4%**

Source: Company

Results/Concall Highlights

- Average iron ore sales realizations rose by 7.7% Q/Q but was down 11.1% Y/Y to $91.8/wmt. According to the management, > 50% of its sales during Q4 were from long-term contracts which led to better price realization than spot prices.
- Sales - During Q4, iron ore sales were 5.2dmt vs 6.6dmt Y/Y down by 21%Y/Y. At Karnataka, it sold 0.2dmt in Q4 down 60%Y/Y and 69% Q/Q. At Goa, it sold 4.9dmt of iron ore in Q4 vs 5.9dmt Y/Y i.e. down 17%Y/Y, primarily driven by strict regulatory vigilance and local transportation issues.
- Production - During Q4, iron ore production was 4.9dmt vs 5.5dmt Y/Y i.e. down 11%Y/Y.The decline is mainly on account of the ban on mining operations in Karnataka. Sesa's production in Goa had been hit by road congestion in the state's mining areas and an ongoing transporters' strike. But, road congestion has eased after several mines extracting iron ore without legal approval have been asked to shut and strike is expected to end soon.
- Pig Iron - During Q4, pig iron production was at 59000 tonnes a decline of 12% Y/Y and sales volumes were at 60000 tonnes, an decrease of 8% y/y. The production & sales volumes were affected on account of low availability of iron ore from Karnataka.
- Cairn India contributed to the consolidated earnings for the full quarter for the first time in Q4. It contributed Rs4.66bn through profit from associates and constituted 40% of the consolidated PAT of Rs.11.62bn for Q4.
- Q4 forex gain stood at Rs740mn while Q4 interest cost was Rs700mn.
- Due to changes in accounting policy as per AS 16, Rs 1610mn was been taken out of interest charges and put under other expenditure line item during Q4. This along with Rs40mn net of forex gain & interest charges for Q4 sums upto Rs 1650mn which is shown as interest reversal during Q4.
- Sesa Goa has announced final dividend of Rs2/share and had earlier paid interim dividend of Rs2/share during the year. Dividend payout ratio for FY12 works out to 15% and management intends to maintain that in coming years.
- Management has indicated that the prevailing iron ore spot prices are $132/dmt FOB for 63.5% Fe grade and $105/dmt FOB for 57-58% Fe grade.
- Goa CoP production during Q4 stood at $25-26/dmt FOB (including royalty).
- Management has guided iron ore sales volume from Goa to be 15dmt in FY13e vs. 13.3dmt in FY12. Karnataka sales volume guidance was avoided due to ongoing regulatory uncertainty (stood at 2.7dmt for FY12)
- Management has again restated that even as iron ore mining ban is lifted at Karnataka, it is highly unlikely that the exports would be allowed from Karnataka in medium term. Iron ore sales realization for Karnataka was $48/dmt in Q4 which is at substantial discount to Goa sales realization and trend should continue in FY13e as well.
- Central Empowered Committee has proposed a penalty of Rs 5 crore to companies which have mining pit outside the lease area and Rs 1 crore for encroachments in the nature of dumps or roads in Bellary region. By that logic Sesa Goa will pay Rs 6 crore towards penalty for Karnataka operations.
- For Karnataka iron ore restarting operations, Reclamation and Rehabilitation (R&R) has to be done and has to be approved by the Central Empowered Committee (CEC) and then thereafter also Supreme Court's order says that this has to be cleared by the Ministry of Environment and Forests (MoEF). This might take few months.
- Sesa Sterlite merger is likely to come up for shareholder approval after high court assigns a date which management expects should be allotted by Jun end 2012.

- Sesa Goa has net addition of 68wmt in reserves and resources for FY12 which now stands at 374dmt primarily led by Goa region. Cut off Fe grade for an additional reserve was taken as 50%. Overall average grade is ~52% Fe. At present run rate this work out to mining life of >15years.

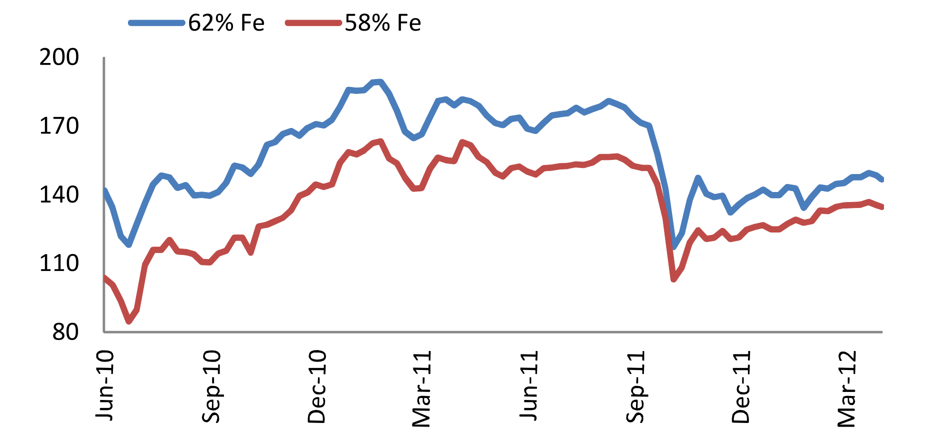
We recommend ACCUMULATE on Sesa Goa with a price target of Rs.215

- Sesa plans to spend Rs6bn on capital expenditure in FY13 which will be mostly used for expanding its mines in India and sustenance capex. The plan doesn't include what it could spend on developing iron-ore mines in Liberia, where it has acquired a majority stake in a mining company. According to aero-magnetic surveys, the area that the Liberian company holds has 1.0 billion tons of reserves. Management has said that it is undertaking a study of the region at the moment. The broad contours of the [Liberian] project will emerge in the next few months.

- During the year, Sesa Goa made strategic investments into 20% stake in Cairn India Limited at Rs130.75bn, 51% stake in Western Cluster Limited, Liberia at an acquisition cost of Rs 4.11bn and 100% stake in Goa Energy Private Limited at Rs1.04bn.

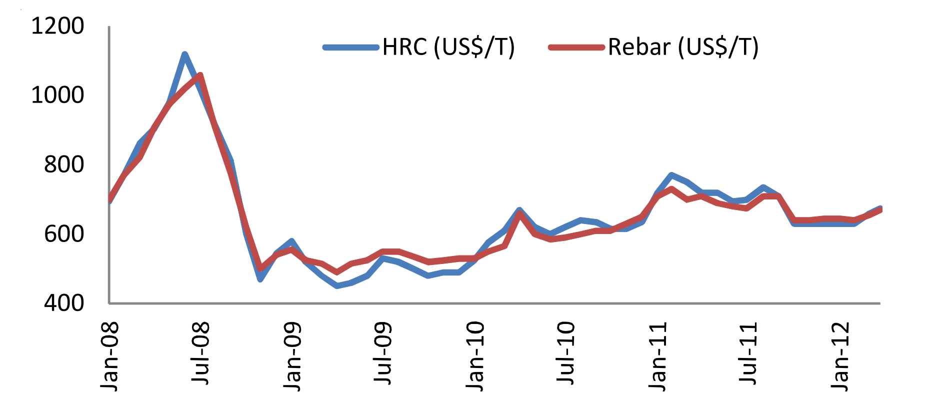
- As at 31 Mar 2012, Sesa Goa had a total debt of Rs37.34bn with cash and cash equivalents of Rs5.92bn consisting of Rs5.04bn in debt mutual funds and Rs0.88 crores in fixed deposits and cash with banks.

Iron ore export prices to China CIF (US$/t)



Source: Bloomberg

Seasonal Strength missing - China Steel Export Prices (US$/t)



Source: Bloomberg

Segmental Comparative

(in Rs. Mn)	Q4FY12	Q3FY12	Q4FY11	%Q/Q	%Y/Y
Sales Breakup					
Iron Ore	25,979.0	23903.4	35237.1	8.7%	-26.3%
Met Coke	1,504.7	1430.1	1370.4	5.2%	9.8%
Pig Iron	1,773.5	2035.2	1780.1	-12.9%	-0.4%
Power	22.1				
Total	**29279**	**27369**	**38388**	**7.0%**	**-23.7%**
EBIT Breakup					
Iron Ore	9,473.5	10592.9	20375.3	-10.6%	-53.5%
Met Coke	97.2	-173.4	54.2	-156.1%	79.3%
Pig Iron	113.4	180.9	413.9	-37.3%	-72.6%
Power	8.7				
Total	**9692.8**	**10600.4**	**20843.4**	**-8.6%**	**-53.5%**
EBIT Margin					
Iron Ore	36.5%	44.3%	57.8%	(780bps)	(2140bps)
Met Coke	6.5%	-12.1%	4.0%	1860bps%	250bps%
Pig Iron	6.4%	8.9%	23.3%	(250bps)	(1690bps)
Power	39.4%				
Total	**33.1%**	**38.7%**	**54.3%**	**(560bps)**	**2120bps)**
Iron Ore Sales Volume (WMT)	5.7	5.50	7.5	2.9%	-24.5%
Realisations (Rs./MT)	4590.5	4346.1	4698.3	5.6%	-2.3%
Realisations (US$/MT)	91.8	85.2	103.3	7.7%	-11.1%

Source: Company

Balance Sheet

Year ending Mar	FY11	FY12e	FY13e
LIABILITIES			
Equity Share Capital	869.1	869.1	869.1
Reserves & Surplus	127,235.2	150,122.8	183,836.1
Net Worth	128,104	150,992	184,705
Short Term Loans	0	20,000	25,000
Long Term Loans	9,995	18,000	30,000
Deferred Tax Liabilities	682	800	664
Total Liabilities	**138,781**	**189,792**	**240,369**
ASSETS			
Gross Block	30,648	47,310	54,935
Less Depreciation	6,492	7,553	8,817
Net Block	24,156	39,757	46,118
CWIP	7,287	3,125	1,500
Investments	87,998	128,808	175,317
of which financial investments	87,998	-7,192	34,317
Total Current Assets	36,596	36,839	37,499
Total Current Liabilities	17,256	18,737	20,064
Net Current Assets	19,340	18,102	17,435
Total Assets	**138,781**	**189,792**	**240,369**

Source: Company, Kotak Securities - Private Client Research

P&L

(Rs mn)	FY11	FY12e	FY13e
Net Sales	91455	82745	80861
EBITDA	**52063**	**35001**	**28081**
Other Income	5887	2346	1362
Depreciation	964	1061	1264
Interest	901	4333	4650
PBT	**55597**	**31292**	**23199**
Taxes	13372	10214	7250
PAT	**42225**	**26955**	**37781**
Shares Outstanding mn	869.1	869.1	869.1
EPS	**48.6**	**31.0**	**43.5**

Source: Company, Kotak Securities - Private Client Research

Key Ratio

	FY11	FY12e	FY13e
EBITDA Margins (%)	56.6%	42.1%	34.6%
NPM Margins (%)	45.9%	25.4%	19.6%
ROE on yr-end equity (%)	33.0%	17.9%	20.5%
ROAE (%)	40.7%	19.3%	22.5%
EPS growth (%)	53.6%	-36.2%	40.2%
P/E	3.8	6.0	4.3
EV/sales	0.8	2.4	2.1
EV/EBITDA	1.4	5.7	6.2
P/B	1.3	1.1	0.9
BVPS	147.4	173.7	212.5

Source: Company, Kotak Securities - Private Client Research

SOTP based Target Price on FY13e consolidated earnings

	EBITDA (Rs. mn)	Multiple (x)	Enterprise Value (Rs. mn)	Value (Rs./Share)
Enterprise Value	**28081**	**3.50**	**98283**	**113.1**
Add: Net Cash (at end of FY13e)			-11713	-13.5
Target Market Capitalization for Sesa Goa			86570	99.6
Value of Investment in Cairn India (30% holding co. discount)			100459	115.6
Target Price				**215**

Source: Kotak Securities - Private Client Research

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC Bank	547	0.9	2.8	2.7
L&T	1,232	1.1	2.3	2.8
Bharti Airtel	313	1.8	2.2	4.1
Losers				
Wipro	410	(7.2)	(5.2)	6.0
TCS	1,171	(1.9)	(3.8)	2.7
ICICI Bank	838	(1.1)	(3.5)	5.3

Source: Bloomberg

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