

## JM Financial Research

### Power Sector: Macro Monitor | Deficit falls sharply; Merchant rates holding on

#### Sector Update

June'13 marked a significant decline in peak/base deficit as early onset of monsoon impacted demand (-3% YoY) and improved supply from Hydro plants (+8% YoY). While the demand decline has significantly impacted the operations of NTPC (June PLF decline by 680bps YoY), bilateral merchant rates are expected to be stable based on forward curve of contracts.

### Mahindra & Mahindra | FY13 Annual Report Analysis

**Company Update** BUY ₹1,207 (Mar'14)

M&M's FY13 annual report highlights company's firm footing in the farm mechanization segment and the initiatives undertaken by the company during the year in both, automotive and farm equipment segments. Amongst all auto companies in India, M&M by far, has the largest exposure to India's rural economy. While, strong FY13 performance helped M&M further strengthen its balance sheet, improvement in financial performance at SYMC reflected results of M&M's efforts. However, stress in 2W/CV ventures, remained high. We maintain our BUY rating with Mar'14 TP of ₹1,207 valuing standalone business at ₹835 (13x FY15E core EPS) and group investments at ₹372.

### HDFC | Strong individual loans growth; stable spreads

**Company Update** BUY ₹1,000 (Jun'14)

Despite intense competition, HDFC continues to grow at premium to industry and gain market share. While current market share is at around 17%, on incremental basis, HDFC has maintained its market share of c.21% during last 3-4 years. We believe HDFC's growth to remain strong even as competition remains intense. HDFC has also demonstrated its ability to maintain spreads in a narrow range across interest rate cycle. Asset Quality to remain robust.

### Reliance Industries | 1Q operationally weaker; E&P guidance disappoints

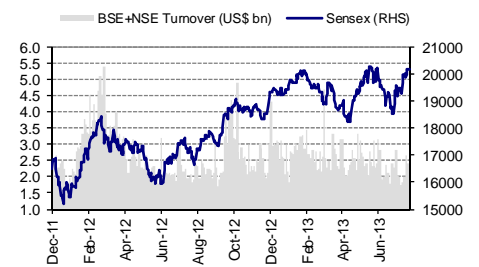
**Company Update** BUY ₹943 (Mar'14)

RIL's 1QFY14 net profit at ₹53.5bn was broadly in-line with JMFe of ₹52.9bn, but operationally, results were slightly weaker with EBITDA at ₹70.8bn c.7.9% below JMFe. Higher other income, specifically c. ₹5.69bn other non-interest income, led to in-line performance at the net profit level. RIL stated that all projects are on track with phase-wise expansion of Petrochemicals to commence from 2QFY14. However, weaker operational performance and no indications of near-term E&P production growth will likely dampen stock performance, especially after the c.11% increase in stock price in the past 1 month.

### World Indices

	Close	% Change	
		Daily	YTD
BSE Sensex	20,150	0.1	3.7
NSE 50 Nifty	6,029	-0.1	2.1
CNX Mid Cap	7,408	-0.8	-12.9
S&P 500	1,692	0.2	18.6
FTSE 100	6,631	-0.1	12.4
Nasdaq	3,588	-0.7	18.8
Hang Seng	21,369	0.0	-5.7
Shanghai Comp	1,998	0.3	-12.0

### Sensex and Total Turnover (US\$ bn)



### Net Institutional Flows (US\$ mn)

Cash	FII	Cash	MF
7/18/2013	-19.0	7/18/2013	-51.1
MTD	-1000.6	MTD	-172.5
YTD	12340.7	YTD	-2302.0
Derivatives			
FII	Index		Stocks
7/19/2013	86.2		-66.6
MTD	718.7		420.3

### Turnover (US\$ bn)

	BSE	% Chg	NSE	% Chg
Cash	0.3	1.8	2.1	-0.2
F&O	NA	NA	26.9	-1.3

Top Gainers/Losers*		Turnover spurt over 5 days avg.		BSE Sectoral & Broad Indices				
Gainers	% Chg	Company	Val-mn	% Chg	Sector	Close	% Chg	%YTD
Manappuram Fi	9.8	Tata Chemical	8.86	6.2	Auto	10,687	1.7	31.2
Opto Circuits	5.3	Housing Dev F	6.71	4.7	Bankex	12,543	-1.8	37.0
Mmtc Ltd	5.0	Irb Infrastru	6.40	4.5	FMCG	7,441	-0.2	84.4
Tata Consulta	5.0	Rec Limited	6.19	4.3	Cap.Goods	9,320	-2.0	15.5
Shree Renuka	3.9	Idea Cellular	5.80	4.1	IT	7,097	2.8	23.4
Hcl Tech Ltd	3.9	Idfc Ltd	5.79	4.1	Metal	7,478	-0.8	-19.5
Tech Mahindra	3.8	Bajaj Auto Lt	4.94	3.5	Oil & Gas	9,161	0.7	21.7
Losers	% Chg	5 Day Movement	Price	% Chg	Power	1,643	-1.9	-8.5
Bharat Heavy	-8.3	Manappuram Fi	899	26.5	Realty	1,456	-1.8	5.9
Financial Tec	-7.4	Opto Circuits	107	22.6	Healthcare	9,346	-1.0	59.2
Wockhardt Ltd	-6.4	Hindustan Uni	104	14.0	PSU	5,945	-0.2	-6.6
Uco Bank	-5.6	Glaxosmithkli	381	13.5	BSE100	6,009	-0.2	30.7
Gitanjali Gem	-5.0	Godrej Consum	5,283	11.9	BSE200	2,398	-0.2	29.6
Chambal Ferti	-4.6	Aditya Birla	1,164	11.9	BSE500	7,383	-0.2	27.8

Note: \*From BSE200

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

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**Hexaware | 2QCY13 Results: Growth acceleration ahead**

**Company Update** BUY ₹125 (Dec'13)

Hexaware reported in-line revenues with strong margin expansion driving 18% EBITDA beat. Going forward, company has guided for 3.5%-5.5% QoQ revenue growth in 3QCY13, a sharp acceleration from the trajectory over past few quarters. The revenue acceleration is driven by a) opportunity from Peoplesoft 9.2 upgrade, b) improvement in US and Europe outlook particularly among banking clients and c) growth visibility at top client. We had raised earnings and upgraded to BUY pre-results and maintain our bullish stance. Retain BUY with TP of Rs125.

**eClerx | 1QFY14 Results: Margin beat; strong hiring indicates likely acceleration of revenue growth**

**Company Update** BUY ₹1,000 (Mar'14)

eClerx reported in-line revenue performance with EBITDA margin beat of 265bps. Company indicated an improved demand outlook for all the three business segments. Company will also benefit from pricing up-tick in FY14. Strong head-count addition indicates likely acceleration of revenue growth. We believe company will be able to meet NASSCOM guidance of 12-14% US\$ revenue growth in FY14. We revise our estimates driven largely by currency reset to 57, raise FY14/15 EPS by 13/15% and increase TP to Rs1,000 based on 11x FY15 EPS.

**DB Corp Ltd. | Strong ad pickup drive overall growth**

**Company Update** BUY ₹306 (Mar'14)

DB Corp (DBCL) healthy 20% YoY in ad revenues during 1QFY14 (stronger than JMFe) was a reflection of its focus on yield improvement strategy backed by its diversified regional print presence. We raise our FY14-15E ad growth forecast for DBCL by 4-6% in FY14/15E and expect print ad revenue growth at 14%/11% YoY in FY14/15E respectively which will also be aided by election spends during FY14E. While we see the strong 29.6% EBITDA margin in 1QFY14 to not sustain for future quarters due to currency impact, FY14E margin at 26% will still witness 240bps YoY expansion, resulting in strong net profit growth of c.25%YoY in FY14E. We raise our earning estimates by 11-12% for FY14/15E and revise Mar'14 TP to ₹306 (earlier ₹272), based on 17x FY15E earnings. Maintain BUY.

**Hindustan Media Ventures | First Cut - 1QFY14 results better than JMFe****Flash Update**

- Revenues, EBITDA margin above JMFe
- Other highlights of the quarter
- Earnings call details

**Key Statistics**

	Close	% Change	
		Daily	YTD
US\$ / ₹*	59.4	0.5	-7.3
US\$/Euro	1.3	0.1	-0.3
US\$/Yen	100.0	0.7	-13.3
10 yr G-Sec (%)	8.3	0.0	0.1
Call rate (%)	7.6	-3.2	-9.0
Brent-spot (US\$/bbl)	109	-0.1	-2.9
Gold (US\$)	1,315	1.5	-21.5
Aluminium (LME, US\$/t)	1,782	1.2	-12.7
Copper (LME, US\$/t)	6,909	0.3	-12.6
Zinc (LME, US\$/t)	1,829	0.5	-10.7
Steel (US\$/t)	508	0.0	-4.7

\*+/- chg reflects \$ appreciation/depreciation

**Bulk Deals**

Company	Price	Rs mn		
		Buy	Sell	Total
Rosette Resorts	75	0	36	36
Cupid Trades	156	4	4	8
Websol Energy	6	2	2	5
Nucent Estates	17	1	1	2
Residency Proj	50	1	1	2
Mahindra Comp	65	2	0	2
Sai Wires India	7	0	1	1
Eastern Sugar	9	1	0	1
Marvel Web Soln	5	0	0	1
Kuwer Inds.	14	0	1	1
Suryanagri Finl.	25	0	1	1
Mold-Tek Technol	23	0	1	1
Kailash Ficom	8	0	0	0
Supertex Inds.	3	0	0	0
Nimbus Inds	7	0	0	0

**Key Stock Activity of Previous Trading Day**

Top Sensex Movers				Top Turnover (NSE+BSE)		Company**	Vol (mn)	%Chg
c. 85% of Sensex wt.				% of total turnover,		Future OI gainers		
Company	Price	Cont.	Daily % Chg	YTD	Company	Rs. bn	%	
Itc Ltd	369	3.2	0.1	28.7	Tata Chemical	8.9	6.2	7.9
Reliance Inds	923	12.7	0.7	10.0	Housing Dev F	6.7	4.7	3.8
Infosys Ltd	2,846	26.4	1.7	22.7	Irb Infrastru	6.4	4.5	3.5
Hdfc Bank Ltd	681	-7.1	-0.5	0.3	Rec Limited	6.2	4.3	3.2
Housing Dev F	804	-35.0	-2.3	-3.0	Idea Cellular	5.8	4.1	Future OI losers
Icici Bank Lt	959	-35.1	-2.6	-15.7	Idfc Ltd	5.8	4.1	Aditya Birla
Tata Consulta	1,742	56.1	4.9	38.4	Bajaj Auto Lt	4.9	3.5	Uco Bank
Larsen & Toub	975	-10.4	-1.1	-9.0	Reliance Comm	3.8	2.6	Exide Industr
Hindustan Uni	687	-2.4	-0.3	30.9	Bajaj Finserv	3.4	2.4	Hdfc Bank Lim
Oil & Natural	316	5.6	0.7	18.3	Siemens Ltd	3.2	2.2	Power Finance
Tata Motors L	295	16.2	2.5	-5.7	Reliance Capi	2.6	1.8	MW Position
State Bank In	1,814	-3.3	-0.6	-23.9	Bhushan Steel	2.5	1.8	Unitech Ltd
Bharti Airtel	330	12.3	2.3	4.2	Yes Bank Ltd	2.4	1.7	Jaiprakash As
Sun Pharma In	1,080	-18.2	-3.4	46.9	Tata Power Co	2.3	1.6	Gmr Infrastru
Mahindra & Ma	878	1.4	0.3	-5.5	Hexaware Tech	2.2	1.6	Ifci Ltd
Dr Reddy'S La	2,349	1.6	0.5	28.5	Ranbaxy Labs	2.2	1.6	Reliance Comm

Contribution to change in Sensex, MWPL - Market wide position limit, \*\* One day prior data

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**HT Media | First Cut - 1QFY14 net profit better than JMFe**

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**Flash Update**

- 1QFY14 revenues better than JMFe, EBITDA margin in-line with expectation
- Other highlights of the quarter
- Maintain BUY

**Corporate News**

- **RIL** will invest \$5.1bn in the next three years in its US shale gas business, taking the total investment in the business to \$10.8bn. (BL)
- Close on the heels of **Posco** and **ArcelorMittal** pulling out of steel projects in Karnataka and Orissa, respectively, **Monnet Ispat** is actively considering scrapping its proposed plant in Jharkhand. (Mint)
- **Coal India** says may find it tough to meet its production target for 12<sup>th</sup> Plan period as several expansion projects are stuck due to problems with land acquisition and clearances. (ET)
- **Kalyani Forge** plans to invest c.₹2bn over next five years in upgrading the current facility and key areas of operations. (ET)
- **Bharti** plans new cable link to boost net speed in Bangladesh; telco also readies to pitch for 3G airwaves to be auctioned by the country. (ET)
- **Piramal** Group-backed PE fund IndiaVenture Advisors is planning to raise ₹10bn to invest in the Indian healthcare segment. (BL)
- **Dr Reddy's** says it is working on six new drugs in different areas, including metabolic disorders and cardiovascular diseases, psoriasis and migraine. (ET)

**Economic/Regulatory News**

- **SEBI** writes to **FIPB** expressing concern that control of **Jet Airways** could pass into foreign hands because of the manner in which its deal with **Etihad** has been structured; Watchdog's view may queer pitch for ₹20bn transaction as FIPB mulls approval in July 29 meet. (ET)
- **India's GDP** will grow by around 6% in FY14, with the first quarter growth in the range of 5%, according to an economic outlook survey by **FICCI**. (BS)

# Power Sector: Macro Monitor

## Deficit falls sharply; Merchant rates holding on

**June'13 marked a significant decline in peak/base deficit as early onset of monsoon impacted demand (-3% YoY) and improved supply from Hydro plants (+8% YoY). While the demand decline has significantly impacted the operations of NTPC (June PLF decline by 680bps YoY), bilateral merchant rates are expected to be stable based on forward curve of contracts.**

- **June'13:** Base deficit at 4.1% (vs 8.6% in Jun'12) while peak shortage also fell to 4.5% (9% last year). Key states facing significant narrowing of demand-supply gap were Punjab, Bihar, Haryana and Tamil Nadu. While demand declined on back of early onset of monsoon, extension of such a trend will be a key game changer going forward. **1Q13:** Peak deficit down to 6.3% (9% last year), with Base deficit at stable at 6.0% (8.1% last year).
- **PLF's (Exhibit 3, 8):** All India PLFs at 72% falling from 74% last year. **NTPC:** PLFs falls to 79% in 1Q13 vs 86% last year. **Tata Power (Mundra UMPP):** PLFs at 78% in Jun'13 on CoD of full capacity. **JSW Energy:** Vijaynagar/Ratnagiri remains strong at 86% but Barmer PLF falls to 65% (impact of new capacities added). **Adani Power:** PLF's rise to 72% in Jun vs 50% last year.
- Power **Exchange prices remain subdued** (around ₹1.6-2.8/kWh) in day ahead market, while **Bilateral Merchant rates (3-9 months contracts) are still holding on since** SEBs had tied up base load and summer power through these contracts, as evident in the forward curve at ₹4-4.5/kWh till Mar'14 (Exhibit 1, 2).
- Imported coal rates continue to decline to 6,200GCV at \$79/T (-4% MoM) and 4,200GCV at \$44.3/T (Exhibit 4,5).

## JM view and stock impact:

- Despite a weak INR, imported coal fired merchant plants can still earn 25-27% RoEs at current coal rates of \$79-80/T and bilateral merchant prices of ₹ 4.2-4.4/kWh (CERC forward curve). We estimate implied RoE of an average imported coal fired plant to be 15% at ₹4/Kwh and 31% at ₹4.5/Kwh of merchant rates (Exhibit 6, 7). **Near term Positive for JSW Energy** as they enjoy arbitrage between high merchant/low coal rates coupled with good PLF's. **Negative for Tata Power** – on continued weakness in international coal prices. Falling PLF's **negative for NTPC** as efficiency gains and cost savings take a hit.

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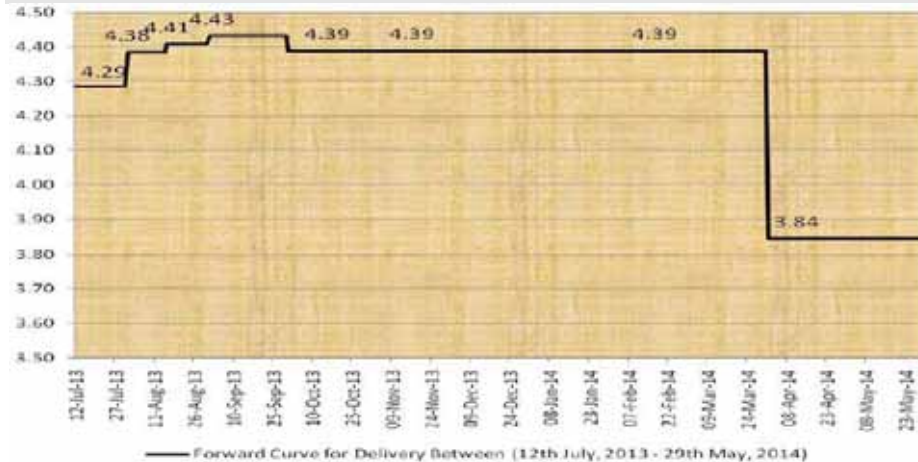
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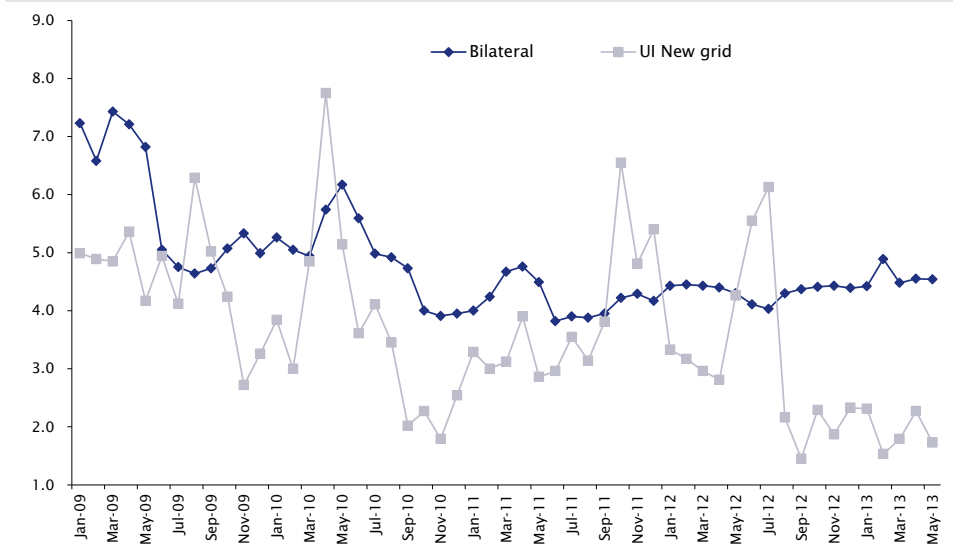
## Current macro trends

**Exhibit 1. Forward curve of bilateral contracts**



Source: CERC, JM Financial

**Exhibit 2. Merchant Rates - Bilateral trade & UI**



Source: CERC, IEX, JM Financial

**Exhibit 3. All India Power capacity & PLF**

	2012								2013				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Capacity	177,134	178,476	180,508	181,458	182,008	182,878	184,278	185,081	185,096	185,910	188,774	195,802	196,084
RES	24,503	24,503	24,833	24,998	24,998	24,998	24,998	25,856	25,856	25,856	25,856	27,542	27,542
<b>Total Capacity (MW)</b>	<b>201,637</b>	<b>202,979</b>	<b>205,340</b>	<b>206,456</b>	<b>207,006</b>	<b>207,876</b>	<b>209,276</b>	<b>210,937</b>	<b>210,952</b>	<b>211,766</b>	<b>214,630</b>	<b>223,344</b>	<b>223,626</b>
Total(BU)	74.7	78.9	76.3	76.0	74.3	73.1	78.2	72.9	76.5	78.3	68.5	79.9	77.6
% YoY	4%	5%	8%	3%	2%	4%	5%	2%	5%	7%	-4%	4%	4%
<b>PLF</b>													
Central Sector	82.2%	85.5%	82.3%	78.3%	69.7%	68.6%	78.3%	80.1%	84.5%	84.9%	82.4%	83%	75%
State Sector	71.7%	69.1%	66.7%	62.0%	56.8%	56.4%	67.2%	66.0%	67.7%	70.0%	66.4%	66%	68%
Pvt.UTL Sector	82.1%	82.9%	66.3%	58.2%	57.5%	60.5%	66.5%	66.3%	66.2%	66.4%	63.6%	67%	67%
<b>All India PLF reported</b>	<b>74%</b>	<b>72%</b>	<b>67%</b>	<b>61%</b>	<b>62%</b>	<b>71%</b>	<b>71%</b>	<b>73%</b>	<b>74%</b>	<b>71%</b>	<b>72%</b>	<b>70%</b>	<b>72%</b>

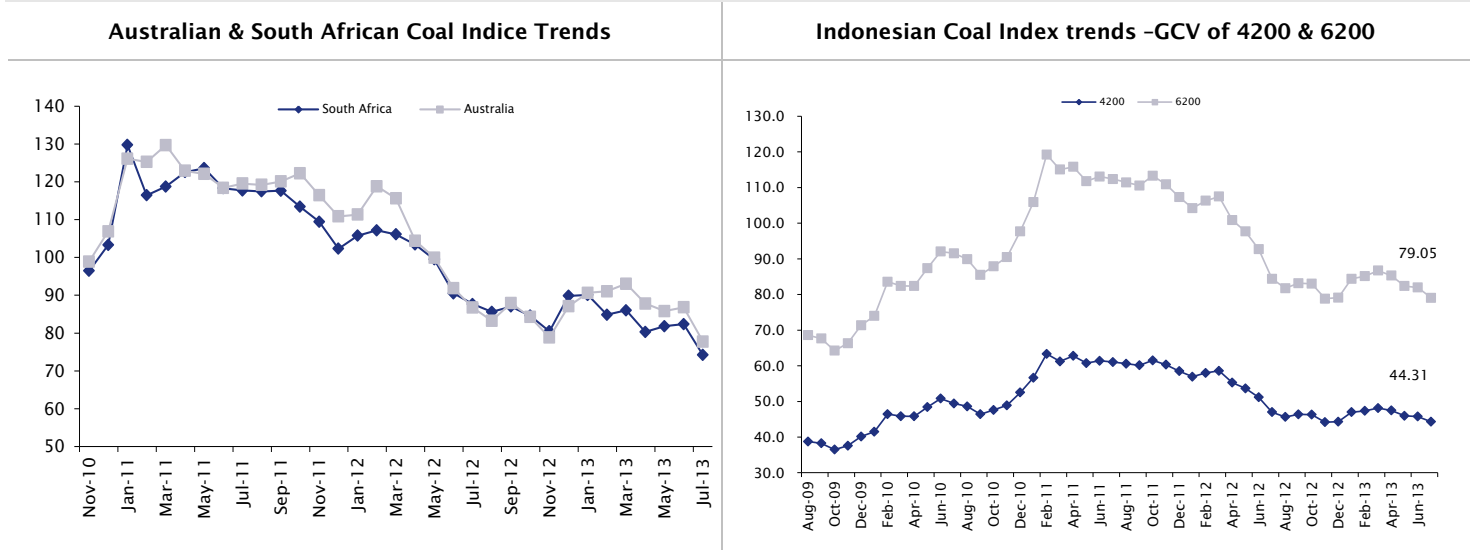
Source: CEA, JM Financial

**Exhibit 4. International Coal Price Indices**

Coal	Index Prices (US\$/tonne)	% MoM	% YoY
Indonesia 4,200	44.3	-3.2%	-5.7%
Indonesia 6,200	79.1	-3.5%	-6.3%
Australia- 6,700	76.4	-7.9%	-10.4%
South Africa- 6,000	72.7	-6.4%	-14.9%

Source: Bloomberg, JM Financial

**Exhibit 5. International Coal Price Trends**

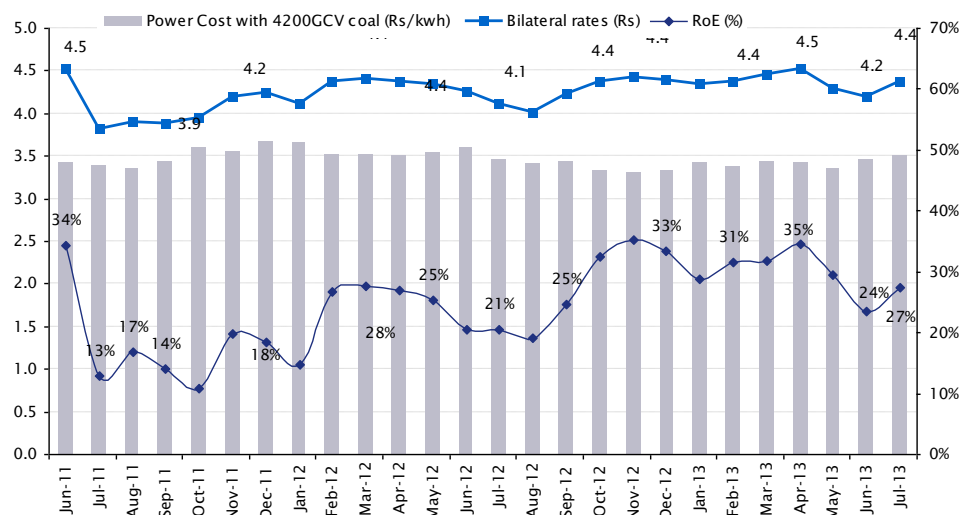


Source: Bloomberg, JM Financial

**Exhibit 6. Implied RoE of Imported coal based merchant plants**

Month	Power cost ex RoE (₹/kwh) - Using 4200GCV coal	Bilateral rates (₹)	RoE (%)
July/13	3.50	4.38	27%
June/13	3.45	4.20	24%
May/13	3.35	4.30	30%
Apr/13	3.42	4.52	35%
Mar/13	3.44	4.46	32%

Source: CERC, Bloomberg, JM Financial

**Exhibit 7. Bilateral Rates & implied RoE for imported coal merchant plants**

Source: JM Financial

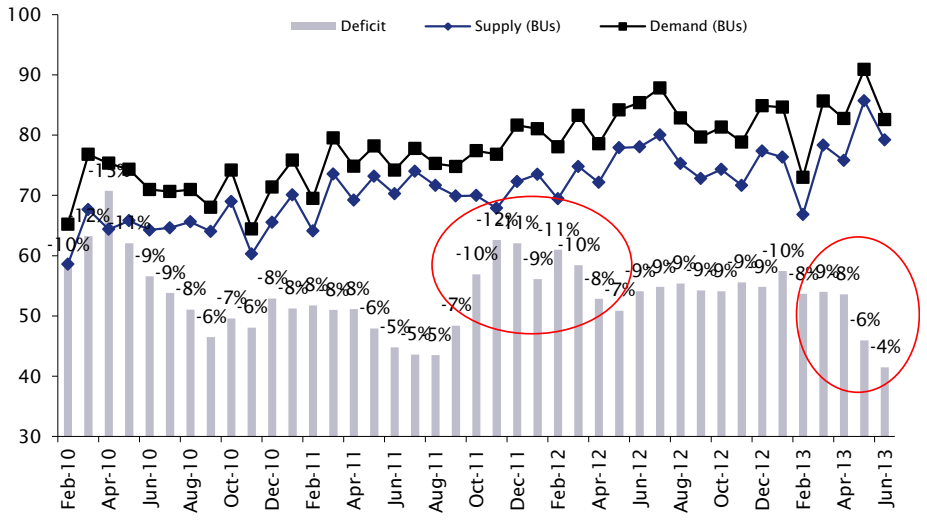
Key Assumptions: PLF- 80%, SHR- 2,100kcal/kWh, Capex - ₹55mn/MW, Coal cost based on 4,200GCV Indonesian index

**Exhibit 8. Company generation trends**

Station	Apr-12		May-12		Jun-12		Apr-13		May-13		Jun-13	
	MU	PLF (%)	MU	PLF (%)	MU	PLF (%)	MU	PLF (%)	MU	PLF (%)	MU	PLF (%)
<b>NTPC Total</b>	18,367	84.0	21,250	89.8	19,828	85.1	19,563	77.7	20,539	81.2	18,646	78.3
<b>Tata Power</b>												
Trombay	847	70	849	68	848	71	777	65	822	66	666	53
Belgaum	256	92	253	94	264	70	186	72	200	75	187	72
Maithon	319	84	214	-	-	-	546	72	590	77	531	70
CGPL (Mundra UMPP)	237	41	526	88	525	91	1,682	58	2,186	72	2,252	78
<b>Tata Power Total</b>	<b>1,659</b>	-	<b>1,842</b>	-	<b>1,636</b>	-	<b>3,190</b>	-	<b>3,799</b>	-	<b>3,635</b>	-
<b>JSW Energy</b>												
JSW Energy (Vijay Nagar+Ratnagiri)	1371	92	1491	97	1344	91	1383	93	1431	93	1275	86
RWPL (Barmer)	321	82	278	69	272	70	483	62	590	73	504	65
<b>JSW Energy Total</b>	<b>1,691</b>		<b>1,769</b>		<b>1,616</b>		<b>1,866</b>		<b>2,021</b>		<b>1,778</b>	
<b>Adani Power Total</b>	<b>1,679</b>	58	<b>1,742</b>	49	<b>1,651</b>	51	<b>2,851</b>	68	<b>2,895</b>	74	<b>2,736</b>	72

Source: CEA, JM Financial

Exhibit 9. Power demand Supply & deficit



Source: JM Financial



# Mahindra & Mahindra | MM IN

## FY13 Annual Report Analysis

M&M's FY13 annual report highlights company's firm footing in the farm mechanization segment and the initiatives undertaken by the company during the year in both, automotive and farm equipment segments. Amongst all auto companies in India, M&M by far, has the largest exposure to India's rural economy. While, strong FY13 performance helped M&M further strengthen its balance sheet, improvement in financial performance at SYMC reflected results of M&M's efforts. However, stress in 2W/CV ventures, remained high. We maintain our BUY rating with Mar'14 TP of ₹1,207 valuing standalone business at ₹835 (13x FY15E core EPS) and group investments at ₹372.

- Targeting a bigger pie of farm sector:** Initiatives like continued focus on widening the Mahindra AppliTrac (agricultural equipment) sales network (leveraging existing M&M and Swaraj dealers) have further cemented M&M's dominant rural position. By the end of FY13, M&M had more than 158 operational Samriddhi centers, with more than 66 offering farming inputs. M&M launched 13 new products in FY13 under its crop care initiative, helping the business grow 60% during the year. M&M micro irrigation business also registered 29% growth in FY13. Collectively, initiatives like these have helped M&M target a wider value chain in domestic farm sector.
- While maintaining focus on domestic tractor segment:** Despite challenging demand environment, M&M continued to launch new products in the domestic tractor market like 255 Power Plus, Swaraj 724 XM, 395DI, Swaraj 841 XM (optimized for sandy soil operations), and Swaraj 744 XM.
- Gains traction in USA and Africa tractor markets:** M&M achieved 7.8% market share in USA 0-80HP tractor segment, ending 4Q as the third largest tractor manufacturer. While the M&M tractor volumes in Africa grew by c. 15%, demand environment in SAARC countries remained challenging. FY13 proved to be challenging year for China as well with M&M China volumes dropping by 21% to 20,867 units.
- New launches supported automotive volume growth:** While existing products like Bolero, Scorpio, Maxximo (LCV) continued to post healthy volumes, robust volumes from new launches like XUV500, Quanto, Maxximo Minivan (passenger LCV) and Maxximo plus (LCV) helped M&M post robust growth in its automotive volumes.
- Strong operating performance further helps M&M strengthen its balance sheet:** Helped by strong performance and lower Capex requirement, M&M has generated significant free cash flow for the year further strengthening the balance sheet and reducing its debt to equity from 0.30x to 0.24x.

### Exhibit 1: Financial Summary

(₹ mn)

Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E
Net sales	227,023	310,303	395,308	426,097	487,318
Sales growth (%)	25.9	36.7	27.4	7.8	14.4
EBITDA	32,194	35,285	44,220	46,661	53,536
EBITDA (%)	13.9	11.2	11.0	10.8	10.8
Adjusted net profit	25,446	27,706	32,622	34,995	40,321
EPS (₹)	42.4	45.1	53.1	57.7	66.5
EPS growth (%)	20.2	6.4	17.7	8.6	15.2
ROCE (%)	23.8	21.2	21.4	20.5	21.5
ROE (%)	28.1	24.7	24.4	22.1	21.8
PE (x)	20.7	19.5	16.5	15.2	13.2
Price/Book value (x)	5.1	4.5	3.7	3.1	2.7
EV/EBITDA (x)	14.2	13.1	9.9	8.9	7.4

Source: Company data, JM Financial. Note: Valuations as of 19/07/2013

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### Key Data

Market cap (bn)	₹ 541.5 / US\$ 9.1
Shares in issue (mn)	606.4
Diluted share (mn)	606.4
3-mon avg daily val (mn)	₹ 1223.1/US\$ 20.5
52-week range	₹ 1025.9/674.7
Sensex/Nifty	20,150/6,029
₹/US\$	59.7

### Daily Performance



%	1M	3M	12M
Absolute	-10.2	-2.7	23.9
Relative*	-14.9	-8.6	7.3

\* To the BSE Sensex

### Shareholding Pattern (%)

	Mar-13	Mar-12
Promoters	25.2	25.3
FII	35.0	26.5
DII	15.5	20.7
Public / others	24.3	27.6

JM Financial Research is also available on:  
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Please see important disclosure at the end of the report

- **Ssangyong reports better performance; greater focus on deriving synergies with M&M:** Ssangyong Motor Company (SYMC) revenues increased by 22% to c.150bn Korean Won in FY13, driven by success of new Korando. Helped by growth in topline, SYMC managed to reduce its net loss from ₹7.2bn in FY12 to ₹5.1bn in FY13. Further, leveraging Ssangyong R&D skills, M&M is developing two common platforms and various engines to be used on these platforms. In addition, the company is also looking to common sourcing to further increase the synergy benefits. During the year M&M raised its stake in SYMC to 72.85% by pumping in ₹4bn (80bn Korean Won) in lieu of additional shares. The proceeds would help SYMC improve its financial structure and fund new product development.
- **R&D focus intact:** Despite the subdued industry growth M&M continued to invest in R&D, which, increased by c.30% in FY13 to ₹10.6bn. In fact, since FY09 R&D spend has grown at 20% CAGR helping M&M aggressively launch new models and product refreshes.
- **2W/CV businesses remain under pressure:** M&M's equity investment in subsidiaries increased from ₹36.5bn in FY12 to ₹48.9bn in FY13, driven by c. ₹5.8bn/₹3.5bn investment in CV/2W ventures. During FY13, M&M bought Navistar's stake in both Mahindra Navistar Automotives Limited and Mahindra Navistar Engines Private Limited for a total consideration of c. ₹1.7bn as Navistar Inc. decided to exit the ventures in India.

#### Exhibit 2. 2W/CV businesses drove increase in investments

(₹ mn)	FY12	FY13	YoY Change
<b>A. Non-Current Investment</b>			
Investments in Equity Instruments - Unquoted			
Mahindra Engineering and Chemical Products Limited	2,318	3,118	800
Mahindra Overseas Investment Company (Mauritius) Limited	3,146	3,871	725
Mahindra Navistar Automotives Limited	4,104	8,939	4,835
Mahindra Vehicle Manufacturers Limited	9,623	9,623	0
Mahindra Hinoday Industries Limited	1,680	1,680	0
Mahindra Navistar Engines Private Limited	995	1,963	968
Mahindra Aerospace Private Limited	1,162	1,805	643
Mahindra Two Wheelers Limited	4,723	8,173	3,450
Mahindra Reva Electric Vehicles Private Limited	2,172	2,672	500
Others	6,562	7,107	545
Total of unquoted subsidiary	36,483	48,950	12,467
Others	166	156	-10
Investments in Equity Instruments - Quoted			
Mahindra lifespace developers Ltd	2,769	2,769	0
M&M Financial services	1,509	1,509	0
Mahindra Holidays & Resorts	289	275	-14
Ssangyong Motor	17,396	17,396	0
EPC Industrie Ltd	435	778	343
Others	9,217	9,217	0
Total of quoted subsidiary	31,615	31,944	329
Others	6,515	6,515	0
Others (mainly government securities)	17,825	18,150	325
<b>Total Non-Current Investments Net (A)</b>	<b>92,605</b>	<b>105,715</b>	<b>13,111</b>
<b>B. Current Investments</b>			
Investment in equity instruments	0	0	0
Investment in govt securities	18	19	1
Investment in debentures / bonds	1,065	782	-282
Investment in Mutual Funds	2,786	5,839	3,053
Other investments (Certificate of Deposits)	6,500	5,979	-521
<b>Total Current Investments Net (B)</b>	<b>10,369</b>	<b>12,620</b>	<b>2,251</b>
<b>Total Investments (A+B)</b>	<b>102,974</b>	<b>118,335</b>	<b>15,361</b>

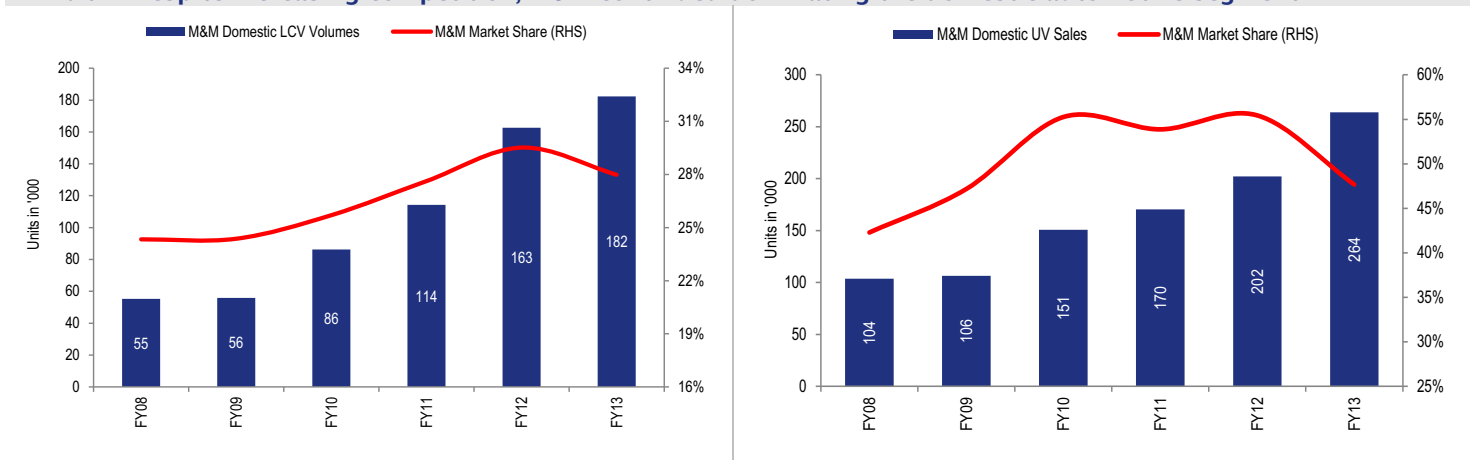
Source: Company, JM Financial

**Exhibit 3. Subsidiaries financial performance - 2W/CV businesses**

	Net Revenues			Net Profit		Net Profit Margin	
	FY12	FY13	YoY Change	FY12	FY13	FY12	FY13
Mahindra Navistar Automotives Limited	12,959	12,321	-5%	(3,100)	(3,651)	-24%	-30%
Mahindra Navistar Engines Private Limited	1,267	1,178	-7%	(648)	(619)	-51%	-53%
Mahindra Two Wheelers Limited	4,922	4,339	-12%	(2,383)	(2,639)	-48%	-61%
Others	343,676	436,868	27%	3,075	6,346	0.9%	1.5%
Subsidiary total	362,823	454,705	25%	(3,056)	(564)	-1%	0%

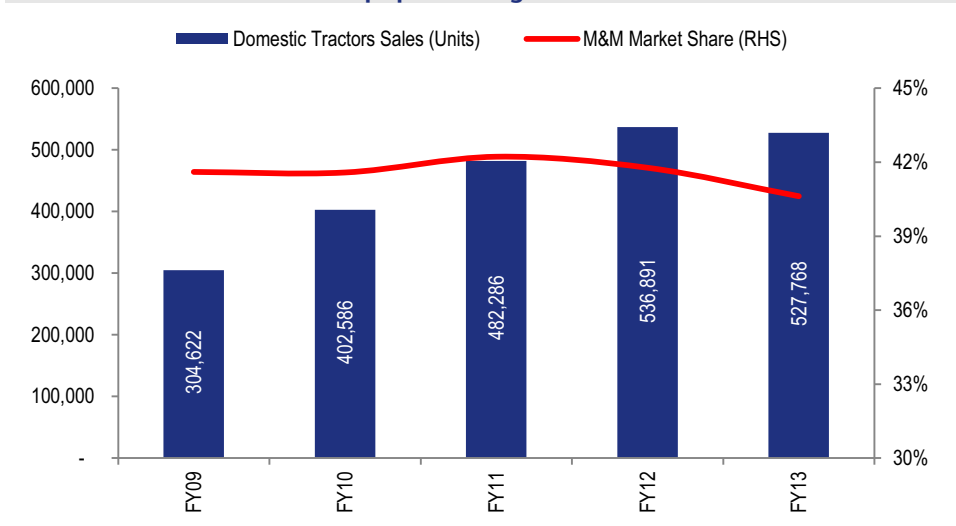
Source: Company, JM Financial

**Exhibit 4. Despite increasing competition, M&M continued dominating the domestic automotive segment ...**



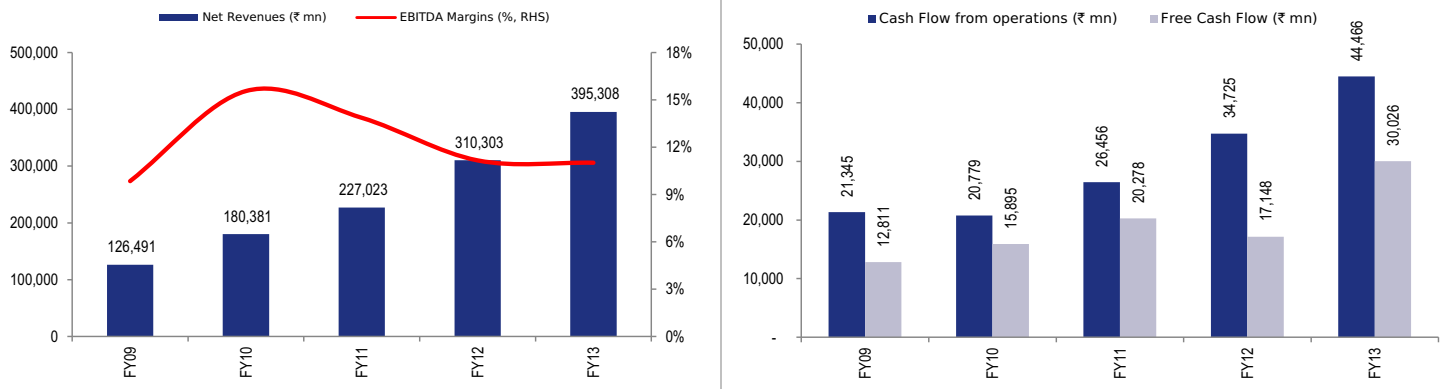
Source: Company, SIAM, JM Financial

**Exhibit 5. ...as in the farm equipment segment**



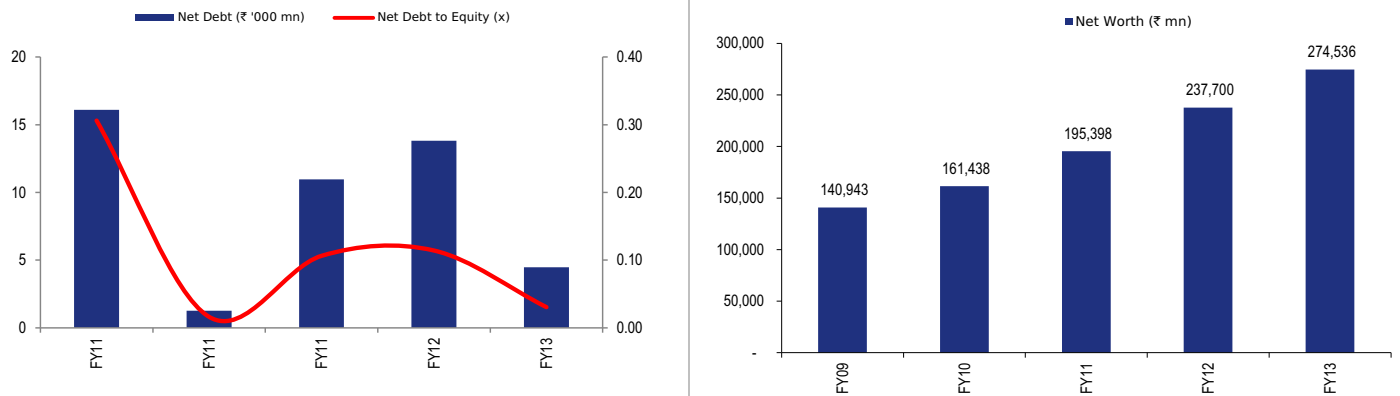
Source: Company, Crisil, JM Financial

**Exhibit 6. Which, aided healthy growth in topline and cash flows**



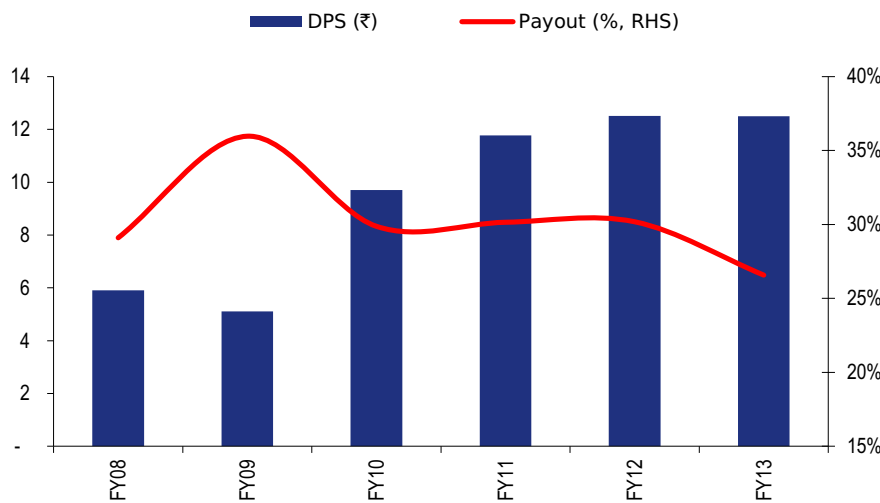
Source: Company, JM Financial

**Exhibit 7. And also helped M&M strengthen its balance sheet**



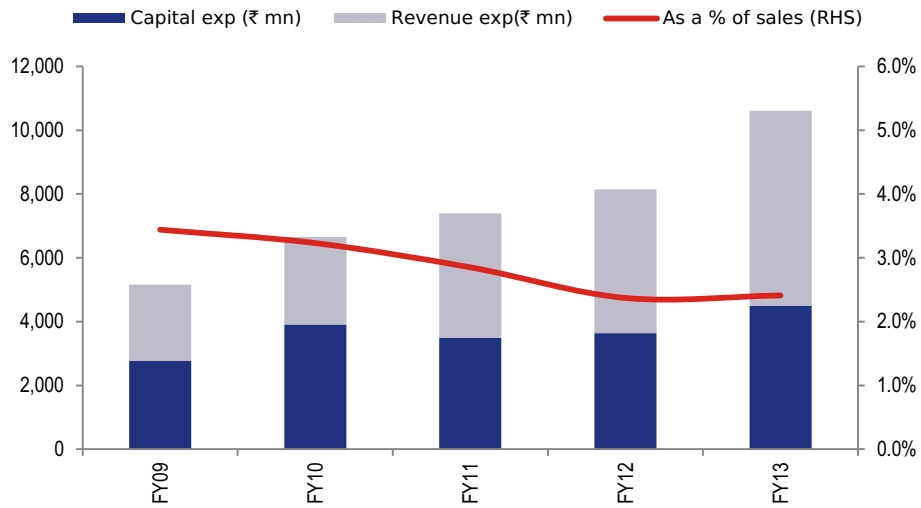
Source: Company, JM Financial

**Exhibit 8. Dividend payout trends**



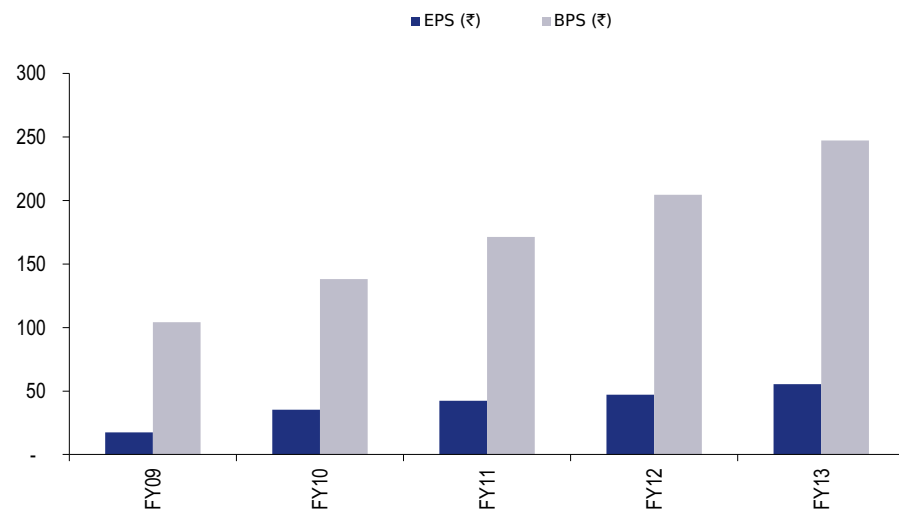
Source: Company, JM Financial

**Exhibit 9. R&D remains a key focus area**



Source: JM Financial

**Exhibit 10. EPS and BPS trends**



Source: Company, JM Financial

## Company background

- M&M, India's largest UV and tractor manufacturer is also the holding company of the \$16.2bn Mahindra group. The group has sizable presence in automobiles, IT, financial services, hospitality and real estate. Within the automobile sector the company has presence in two wheelers, three wheelers, cars, UVs, LCVs, MHCVs and tractors.

It forayed into the two wheelers sector in July'08 with the acquisition of Kinetic's two wheeler operations. The company acquired the interest of JV partner Renault and re-launched Logan as Verito. The company recently acquired the interest of JV partner Navistar in the CV JVs.

Revenue Variables					
Y/E March	FY09	FY10	FY11	FY12	FY13
Automotive Volume (units)	206,960	269,766	354,073	465,794	555,222
Automotive Realisations (₹)	394,320	417,309	391,704	393,306	407,416
Tractors (units)	120,202	174,634	214,325	236,666	223,885
Tractor Realisation (₹)	365,928	372,065	400,443	401,729	395,169
<b>Total Sales (units)</b>	<b>327,162</b>	<b>444,400</b>	<b>568,398</b>	<b>702,460</b>	<b>779,107</b>

Source: Company, JM Financial

## Investment Rationale

- Amongst four-wheeler players, M&M enjoys some structural advantages like a) significantly higher exposure to rural and semi-urban markets (c.70% of domestic volumes), b) relatively lower competitive intensity in core UV and tractor business, c) immensely successful launches in UV segment like Scorpio and XUV500, d) recent successes like Quanto and Ssangyong Rexton, e) strong financing arm that specialises in rural lending, and f) increased demand for farm mechanisation due to scarce labour
- We believe Ssangyong is a strategic fit for M&M automotive division. Ssangyong will not only M&M help absorb newer technology, it will also help M&M extends its product range in India by introducing premium Ssangyong SUVs and access foreign market through its distribution network.
- Entry into the fast growing small truck market with Maxximo and the passenger segment with the passenger variant of Maxximo.

## Key Risks

- Higher-than-estimated pressure on growth/pricing in auto business,
- Additional duties/taxes on diesel UVs, and
- Erratic monsoons.

## Financial Tables

Profit & Loss						(₹ mn)
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E	
<b>Net sales (Net of excise)</b>	<b>227,023</b>	<b>310,303</b>	<b>395,308</b>	<b>426,097</b>	<b>487,318</b>	
Growth (%)	25.9	36.7	27.4	7.8	14.4	
Other operational income	5,230	5,809	6,231	7,204	8,267	
Raw material (or COGS)	162,639	234,998	304,152	327,668	375,722	
Personnel cost	14,315	17,018	18,665	20,676	23,265	
Other expenses (or SG&A)	23,105	28,813	34,502	38,296	43,062	
<b>EBITDA</b>	<b>32,194</b>	<b>35,285</b>	<b>44,220</b>	<b>46,661</b>	<b>53,536</b>	
EBITDA (%)	13.9	11.2	11.0	10.8	10.8	
Growth (%)	11.7	9.6	25.3	5.5	14.7	
Other non-op. income	5,480	5,988	6,993	8,100	8,720	
Depreciation and amort.	4,139	5,761	7,108	8,082	9,123	
EBIT	33,535	35,512	44,105	46,679	53,133	
Add: Net interest income	487	-536	-540	-328	-80	
Pre tax profit	34,021	34,976	43,565	46,351	53,054	
Taxes	8,575	7,270	10,943	11,356	12,733	
Add: Extraordinary items	1,175	1,083	906	0	0	
Less: Minority interest	0	0	0	0	0	
Reported net profit	26,621	28,789	33,528	34,995	40,321	
<b>Adjusted net profit</b>	<b>25,446</b>	<b>27,706</b>	<b>32,622</b>	<b>34,995</b>	<b>40,321</b>	
Margin (%)	11.0	8.8	8.1	8.1	8.1	
Diluted share cap. (mn)	600	614	614	606	606	
<b>Diluted EPS (₹)</b>	<b>42.4</b>	<b>45.1</b>	<b>53.1</b>	<b>57.7</b>	<b>66.5</b>	
Growth (%)	20.2	6.4	17.7	8.6	15.2	
Total Dividend + Tax	8,026	8,690	8,912	11,012	11,012	

Source: Company, JM Financial

Balance Sheet						(₹ mn)
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E	
Share capital	2,936	2,945	2,952	3,032	3,032	
Other capital	0	0	0	0	0	
Reserves and surplus	100,198	118,102	143,638	167,621	196,929	
Networth	103,134	121,047	146,589	170,653	199,961	
Total loans	24,045	35,808	34,886	30,179	30,179	
Minority interest	0	0	0	0	0	
<b>Sources of funds</b>	<b>127,179</b>	<b>156,855</b>	<b>181,475</b>	<b>200,832</b>	<b>230,140</b>	
Intangible assets	0	0	0	0	0	
Fixed assets	59,713	78,655	90,058	107,693	124,231	
Less: Deprn. and amort.	28,384	35,721	40,479	48,561	57,684	
Net block	31,329	42,934	49,579	59,131	66,547	
Capital WIP	7,737	7,947	8,635	7,538	6,212	
Investments	89,256	102,974	118,335	125,835	133,835	
Def tax assets/- liability	-3,544	-5,271	-6,149	-7,307	-8,368	
Current assets	67,076	83,845	97,988	110,760	136,547	
Inventories	16,942	23,584	24,198	28,017	32,043	
Sundry debtors	13,773	19,285	22,084	25,683	29,373	
Cash & bank balances	6,146	11,884	17,814	20,283	35,917	
Other current assets	0	0	0	0	0	
Loans & advances	30,214	29,092	33,893	36,776	39,215	
Current liabilities & prov.	64,675	75,574	86,912	95,125	104,632	
Current liabilities	47,860	58,313	67,858	76,905	86,772	
Provisions and others	16,815	17,261	19,055	18,220	17,859	
Net current assets	2,400	8,272	11,076	15,635	31,916	
Others (net)	0	0	0	0	0	
<b>Application of funds</b>	<b>127,179</b>	<b>156,855</b>	<b>181,475</b>	<b>200,832</b>	<b>230,140</b>	

Source: Company, JM Financial

Cash flow statement						(₹ mn)
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E	
Reported net profit	26,621	28,789	33,528	34,995	40,321	
Depreciation and amort.	3,006	7,337	4,758	8,082	9,123	
-Inc/dec in working cap.	7,355	-5,276	3,314	1,629	2,152	
Others	0	0	0	0	0	
<b>Cash from operations (a)</b>	<b>36,982</b>	<b>30,850</b>	<b>41,600</b>	<b>44,706</b>	<b>51,595</b>	
-Inc/dec in investments	-25,276	-13,717	-15,361	-7,500	-8,000	
Capex	-5,045	-19,152	-12,091	-16,538	-15,212	
Others	-12,617	5,143	-189	-3,719	-2,799	
<b>Cash flow from inv. (b)</b>	<b>-42,939</b>	<b>-27,726</b>	<b>-27,640</b>	<b>-27,757</b>	<b>-26,010</b>	
Inc/-dec in capital	6,272	-2,186	926	80	0	
Dividend+Tax thereon	-8,026	-8,690	-8,912	-11,012	-11,012	
Inc/-dec in loans	-4,757	11,763	-922	-4,707	0	
Others	1,182	1,728	877	1,159	1,061	
<b>Financial cash flow (c)</b>	<b>-5,330</b>	<b>2,614</b>	<b>-8,030</b>	<b>-14,480</b>	<b>-9,951</b>	
Inc/-dec in cash (a+b+c)	-11,286	5,738	5,930	2,469	15,634	
Opening cash balance	17,432	6,146	11,884	17,814	20,283	
Closing cash balance	6,146	11,884	17,814	20,283	35,917	

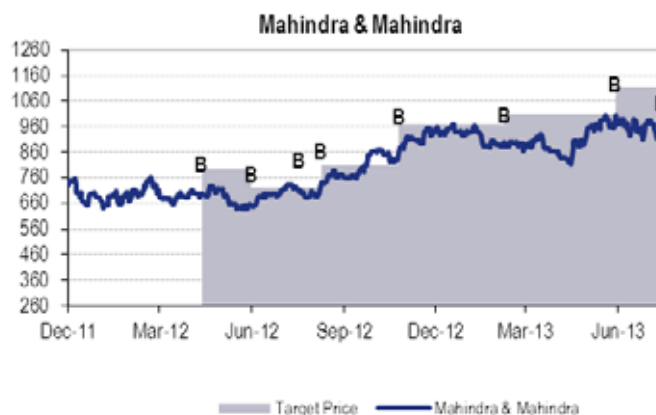
Source: Company, JM Financial

Key Ratios					
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E
BV/Share (₹)	172.0	197.1	238.8	281.4	329.8
ROCE (%)	23.8	21.2	21.4	20.5	21.5
ROE (%)	28.1	24.7	24.4	22.1	21.8
Net Debt/equity ratio (x)	-0.7	-0.7	-0.7	-0.7	-0.7
<b>Valuation ratios (x)</b>					
PER	20.7	19.5	16.5	15.2	13.2
PBV	5.1	4.5	3.7	3.1	2.7
EV/EBITDA	14.2	13.1	9.9	8.9	7.4
EV/Sales	2.0	1.5	1.1	1.0	0.8
<b>Turnover ratios (no.)</b>					
Debtor days	22	23	20	22	22
Inventory days	27	28	22	24	24
Creditor days	104	82	72	77	76

Source: Company, JM Financial

**History of earnings estimates and target price**

Date	FY13E EPS (₹)	% Chg.	FY14E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
12-Apr-12	48.1		53.8		790	Mar-13	
31-May-12	48.4	0.6	54.5	1.3	723	Mar-13	-8.5
18-Jul-12	48.4	0.0	54.5	0.0	723	Mar-13	0.0
9-Aug-12	49.6	2.5	55.9	2.6	809	Mar-13	11.9
26-Oct-12	53.7	8.3	59.7	6.8	967	Sep-13	19.5
8-Feb-13	53.9	0.4	59.1	-1.0	1,008	Mar-14	4.2
30-May-13	55.3	2.6	59.9	1.4	1,115	Mar-14	10.6
15-Jul-13	55.3	0.0	57.7	-3.7	1,207	Mar-14	8.3

**Recommendation history**

## JM Financial Institutional Securities Private Limited

**Member, BSE Limited and National Stock Exchange of India Limited**  
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## Strong individual loans growth; stable spreads

Despite intense competition, HDFC continues to grow at premium to industry and gain market share. While current market share is at around 17%, on incremental basis, HDFC has maintained its market share of c.21% during last 3-4 years. We believe HDFC's growth to remain strong even as competition remains intense. HDFC has also demonstrated its ability to maintain spreads in a narrow range across interest rate cycle. Asset Quality to remain robust.

- Adjusted profit up 26% YoY:** HDFC's reported net profit grew 17.1% YoY to ₹11.7bn, in-line with JMFe. Cost of zero coupon bonds (net of taxes), adjusted through reserve during 1Q14 was at ₹0.97bn. Adjusting for its impact, NII and net profit grew 25.8% and 26.2% YoY, respectively. Earnings growth was driven by a) steady loan AUM growth of 20% YoY, b) Adj. NII growth of 26% YoY, supported by stable spreads of 2.29% (vs. 2.27% in 1Q13). However, non-interest income grew by only 12% YoY as treasury profits were Zero in 1Q14. Gross NPLs declined to 0.77% (vs. 0.79% in 1Q13).
- Individual loans (+24% YoY) drive steady loans growth of 19% YoY (on-book):** HDFC's loan book grew 19% YoY and 4% QoQ. Individual loan book (67% of total loans) was up 24% YoY and corporate loan book grew 11% YoY. Including sell-downs in preceding 12 months, individual loan growth was strong at 31% YoY. Individual mortgage market trends indicate that HDFC has improved its current market share to c.14.5% (on-books) and c.1.7% (including sell-downs). On incremental basis, HDFC has maintained its share of c.21% during last 3-4 years; we believe there is scope for further market share gain even as competition from private banks (market share 14%) remains intense. We expect SOE banks, currently commanding 47%, to lose share. We expect HDFC to grow its retail loan book at premium to industry at c.17-18% CAGR for FY13-15E.
- Adjusted NII up 26% YoY, supported by stable spreads:** Adjusting for cost of ZCBs, NII grew 26% YoY. Spreads improved slightly by 2bps YoY to 2.29% in 1Q14 despite increase in share of Individual segment in loan mix. Spreads for individual loans were at 2.01% and for non-individual loans was 2.82%. Despite concerns of intense competition, spreads for individual loans have been stable. We expect stable spreads over FY13-15E to drive NII CAGR of 17.5%.
- Muted non-interest income growth:** Other income growth of 12% was impacted by zero treasury profits and decline in fee income by 12% YoY. Dividend income was up strongly by 36% YoY. We expect 12% CAGR in non-interest income.
- Maintain BUY with TP of ₹1,000:** We maintain our FY14/15E as expect strong momentum in Individual segments to continue. We expect adjusted net profit CAGR of c.16% for FY13-15E. We value the parent at 17x1yr fwd EPS, implying standalone value of ₹691 per share. We ascribe ₹309 (net of cost of investments and 15% holding company discount) to listed associates and other subsidiaries, implying June'14 TP of ₹1,000. BUY.

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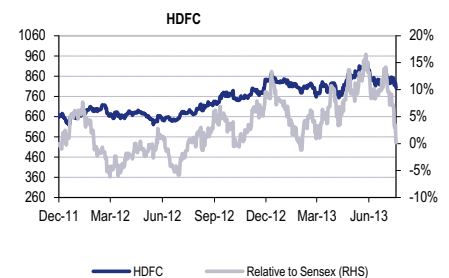
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### Key Data

Market cap (bn)	₹ 1248.3 / US\$ 20.9
Shares in issue (mn)	1,546.4
Diluted share (mn)	1,546.4
3-mon avg daily val (mn)	₹ 2650.5/US\$ 44.4
52-week range	₹ 931.4/631.3
Sensex/Nifty	20,150/6,029
₹/US\$	59.7

### Daily Performance



%	1M	3M	12M
Absolute	-4.7	-1.8	15.8
Relative*	-9.4	-7.8	-0.8

\* To the BSE Sensex

### Shareholding Pattern (%)

	Mar-13	Mar-12
Promoters	0.0	0.0
FII	73.7	65.8
DII	12.9	15.4
Public / others	13.5	18.8

### Exhibit 1. Financial Summary (Standalone)

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Adj. Profit*	30,029	36,376	44,103	51,670	59,397
Adj. Profit (YoY) (%)	14.0%	21.1%	21.2%	17.2%	15.0%
Assets (YoY) (%)	19.4%	20.3%	16.4%	16.8%	16.3%
ROA (%)	2.35%	2.37%	2.43%	2.44%	2.41%
ROE (%)	18.5%	20.0%	20.0%	19.6%	20.2%
Adj. EPS (₹)	20.5	24.6	28.5	33.4	38.4
EPS (YoY) (%)	11.6%	20.3%	15.8%	17.2%	15.0%
PE (x)	39.1	32.5	28.0	23.9	20.8
BV (₹)	118	129	162	180	201
BV (YoY) (%)	11.5%	9.1%	25.6%	11.3%	11.9%
P/BV (x)	6.78	6.21	4.95	4.45	3.97

Source: Company data, JM Financial. Note: Valuations as of 19/07/2013

\*adjusted for interest Cost of Zero coupon NCD which is charged directly to securities premium account

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

Please see important disclosure at the end of the report

## HDFC-SOTP valuation

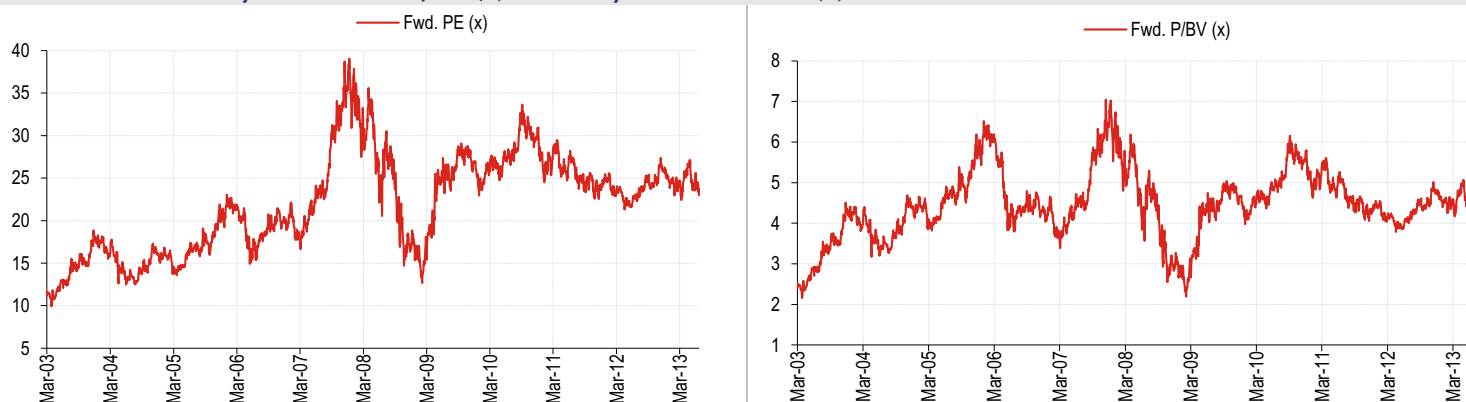
- **Maintain BUY with TP of ₹1,000:** We maintain our FY14/15E as expect strong momentum in Individual segments to continue. We expect adjusted net profit CAGR of c.16% for FY13-15E. We value the parent at 17x 1yr fwd EPS, implying standalone value of ₹691 per share. We ascribe ₹309 (net of cost of investments and 15% holding company discount) to listed associates and other subsidiaries, **implying June'14 TP of ₹1,000. BUY.**
- **Key risks:** We build loan book CAGR of 17% during FY13-15E (vs.c.22% CAGR during FY06-12) as we believe mortgage market is susceptible to economic slowdown and higher property prices. We have factored the impact on loan growth in our projections. However, lower than expected growth is the risk to estimates.
- Also, sustained liquidity shock and aggressive competition can impact spreads negatively.

### Exhibit2.HDFC:SOTP valuations

HDFC SOTP	Holding (%)	Valuation Methodology	Value Per Share	Contribution to TP (%)
HDFC - Parent	100%	17x 1 yr fwd Adj. EPS#	691	69%
HDFC Bank Stake	22.8%	Fair Value	286	29%
HDFC Standard Life	72.4%	Appraisal Value	67	7%
Asset Management	60.0%	5% of AUM	20	2%
HDFC Ergo	74.0%	2.5x Book	6	1%
HDFC Property Fund	80.5%	15% of AUM	1	0%
HDFC Int. Real Estate Fund	100%	15% of AUM	3	0%
Gruh Finance	59.7%	CMP	15	1%
Less: Cost of investments			(53)	-5%
Less: Holding Co. discount (@15%)*			(38)	-4%
<b>Total</b>			<b>1,000</b>	<b>100%</b>

Source: Company JM Financial. \*Discount applied for listed subsidiaries/associates. # adjusted for interest Cost of Zero coupon NCD which is charged directly to securities premium account.

### Exhibit 3.HDFC:One-year forward P/BV (x) and one-year forward PE (x)



Source: Bloomberg, JM Financial.

## HDFC - 1Q14 Trends

### Exhibit 4.HDFC: 1Q14 - Results Summary

Earnings Table (₹ mn)	1Q13	4Q13	1Q14	YoY (%)	QoQ (%)
<b>NII (adj.)<sup>*</sup></b>	<b>11,042</b>	<b>18,292</b>	<b>13,888</b>	<b>25.8%</b>	<b>-24.1%</b>
Dividends	1,596	814	2,171	36.1%	166.6%
Profit on sale of investments	202	1,049	0	n.m.	n.m.
Income from leases	10	13	10	4.1%	-18.4%
Fees and Other Charges	618	879	544	-11.9%	-38.1%
Other Income	74	116	80	8.7%	-31.2%
<b>Total Non-Interest income</b>	<b>2,499</b>	<b>2,871</b>	<b>2,806</b>	<b>12.3%</b>	<b>-2.3%</b>
<b>Total Income</b>	<b>13,541</b>	<b>21,163</b>	<b>16,693</b>	<b>23.3%</b>	<b>-21.1%</b>
Employee Cost	609	590	744	22.2%	26.0%
Establishment expenses	176	183	260	47.7%	42.0%
Other expenses	510	286	576	13.1%	101.8%
Depreciation and Amortisation	48	73	55	15.7%	-24.1%
<b>Total Operating Expenses</b>	<b>1,342</b>	<b>1,132</b>	<b>1,635</b>	<b>21.8%</b>	<b>44.5%</b>
<b>Operating Profit (PPP)</b>	<b>12,199</b>	<b>20,031</b>	<b>15,058</b>	<b>23.4%</b>	<b>-24.8%</b>
Core Operating Profits	11,997	18,983	15,058	25.5%	-20.7%
<b>Total Provisions</b>	<b>400</b>	<b>250</b>	<b>300</b>	<b>-25.0%</b>	<b>20.0%</b>
PBT	11,799	19,781	14,758	25.1%	-25.4%
Tax	3,269	5,055	3,994	22.2%	-21.0%
<b>Adjusted Profit</b>	<b>8,530</b>	<b>14,727</b>	<b>10,764</b>	<b>26.2%</b>	<b>-26.9%</b>
Adj. for ZCD cost	1,489	825	967	-35.1%	17.1%
<b>Reported Profit</b>	<b>10,019</b>	<b>15,552</b>	<b>11,731</b>	<b>17.1%</b>	<b>-24.6%</b>
<b>Loans (₹bn)</b>					
<b>Loans Outstanding</b>	<b>1,482.6</b>	<b>1,700.5</b>	<b>1,769.9</b>	<b>19.4%</b>	<b>4.1%</b>
Total Assets	1,746.8	1,955.3	2,022.7	15.8%	3.4%
<b>Ratios Analysis (%)</b>					
Cost / Income ratio (%)	9.9%	5.3%	9.8%	-0.11%	4.45%
Fees to Income	4.6%	4.2%	3.3%	-1.30%	-0.90%
Tax rate	27.7%	25.6%	27.1%	-0.65%	1.51%
<b>Credit Quality</b>					
Gross NPAs (₹ mn.)	11,900	11,990	13,710	15.2%	14.3%
Gross NPA (90 days overdue) (%)	0.79%	0.70%	0.77%	-0.02%	0.07%
<b>Capital Adequacy (%)</b>					
Tier I (%)	11.80%	13.80%	14.00%	2.20%	0.20%
CAR (%)	14.60%	16.20%	16.30%	1.70%	0.10%
<b>Du-pont Analysis (%)</b>					
NII / Assets (%)	2.58%	3.86%	2.79%	0.21%	-1.07%
Non-Interest Inc. / Assets (%)	0.58%	0.61%	0.56%	-0.02%	-0.04%
Operating Cost / Assets (%)	0.31%	0.24%	0.33%	0.02%	0.09%
Operating Profits / Assets (%)	2.85%	4.22%	3.03%	0.18%	-1.20%
Provisions / Assets (%)	0.09%	0.05%	0.06%	-0.03%	0.01%
<b>ROA (%)</b>	<b>1.99%</b>	<b>3.11%</b>	<b>2.16%</b>	<b>0.17%</b>	<b>-0.94%</b>

Source: Company, JM Financial, \* adjustment for interest Cost of Zero coupon NCD which is charged directly to securities premium account

- HDFC reported 1Q14 adjusted net profit in-line with our estimate.

Exhibit 5.HDFC: Actual vs estimates

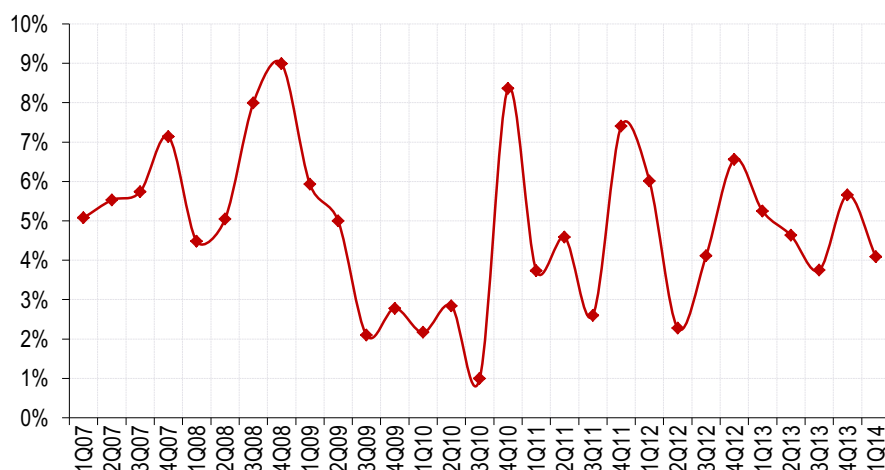
(₹ mn)

Actual vs. Estimates	1Q14E	1Q14A	A/E (%)
<b>NII (adj.)*</b>	<b>14,151</b>	<b>13,888</b>	<b>-2%</b>
P/L from sale of Investments	500	0	NM
Other Non-interest Income	2,435	2,806	15%
<b>Total Income</b>	<b>17,086</b>	<b>16,693</b>	<b>-2%</b>
Op. Exp.	1,513	1,635	8%
<b>Op. Profit</b>	<b>15,573</b>	<b>15,058</b>	<b>-3%</b>
<b>Core Op. Profit</b>	<b>15,073</b>	<b>15,058</b>	<b>0%</b>
Provisions	300	300	0%
<b>Adjusted PAT</b>	<b>10,996</b>	<b>10,764</b>	<b>-2%</b>
Cost of ZCBs / FRNs	926	967	4%
<b>Reported Profit</b>	<b>11,923</b>	<b>11,731</b>	<b>-2%</b>

Source: Company, JM Financial, \* adjustment for interest Cost of ZCDs which is charged directly to securities premium account

- HDFC witnessed healthy loans growth (up 5.7% QoQ), driven by individual loans(up 5.8% QoQ).

Exhibit 6. HDFC: QoQ growth in outstanding loan book (%)



Source: Company, JM Financial.

- Share of individual loans was stable QoQ at 65.5% in the on-book loans portfolio.

Exhibit 7. HDFC: Loan portfolio (on-book) - growth and composition					(₹bn)
	1Q13	4Q13	1Q14	YoY (%)	QoQ (%)
Individuals	954	1,113	1,184	24.1%	6.4%
Corporate Bodies	510	570	566	11.0%	-0.6%
Others	19	18	19	5.0%	9.8%
<b>Total</b>	<b>1,483</b>	<b>1,700</b>	<b>1,770</b>	<b>19.4%</b>	<b>4.1%</b>
Individuals	64.4%	65.5%	66.9%	2.6%	1.4%
Corporate Bodies	34.4%	33.5%	32.0%	-2.4%	-1.5%
Others	1.2%	1.0%	1.1%	-0.2%	0.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial.

- AUM (loan portfolio adjusted for sell down) grew 20.3% YoY with individual loans comprising 68.6% of AUM.

Exhibit 8. HDFC: AUM (Assets under management)					(₹bn)
	1Q13	4Q13	1Q14	YoY (%)	QoQ (%)
O/S Individuals Loans	954	1,113	1,184	24.1%	6.4%
Add: Sell-downs	139	170	173	24.7%	1.9%
Individuals (Gross of sell-downs)	1,093	1,283	1,357	24.2%	5.8%
Corporate Bodies	528	587	586	10.8%	-0.3%
<b>Total</b>	<b>1,621</b>	<b>1,870</b>	<b>1,943</b>	<b>19.8%</b>	<b>3.9%</b>
Individuals	67.4%	68.6%	69.9%	2.5%	1.3%
Corporate Bodies	32.6%	31.4%	30.1%	-2.5%	-1.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial.

- Borrowing mix has shifted towards lower share of term loans, replaced by bonds, debentures, CPs and deposits. Proportion of term loans in borrowing mix was at 11% (4Q12: 29%).

Exhibit 9. HDFC: Borrowings - growth and composition					(₹bn)
Borrowings (₹bn)	1Q13	4Q13	1Q14	YoY (%)	QoQ (%)
Term Loans	375	178	128	-65.8%	-28.1%
Bonds, Debentures, CPs	664	891	968	45.7%	8.6%
Deposits	399	519	537	34.4%	3.4%
<b>Total</b>	<b>1,438</b>	<b>1,588</b>	<b>1,633</b>	<b>13.5%</b>	<b>2.8%</b>
Term Loans	26%	11%	8%	-18.2%	-3.4%
Bonds, Debentures, CPs	46%	56%	59%	13.1%	3.2%
Deposits	28%	33%	33%	5.1%	0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Company, JM Financial.

## Financial Tables (Standalone)

Profit & Loss		(₹ mn)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
<b>Net Interest Income (NII)</b>	<b>39,325</b>	<b>46,098</b>	<b>55,662</b>	<b>65,826</b>	<b>76,746</b>	
Profit on Investments	3,597	2,702	3,156	2,800	2,800	
Dividends	2,252	3,097	4,807	5,129	5,591	
Fee & Other Income	2,686	2,996	2,807	3,371	3,879	
<b>Non-Interest Income</b>	<b>8,535</b>	<b>8,794</b>	<b>10,769</b>	<b>11,300</b>	<b>12,270</b>	
<b>Total Income</b>	<b>47,860</b>	<b>54,892</b>	<b>66,432</b>	<b>77,126</b>	<b>89,016</b>	
Operating Expenses	3,812	4,519	5,389	5,949	6,670	
<b>Pre-provisioning Profits</b>	<b>44,049</b>	<b>50,373</b>	<b>61,043</b>	<b>71,177</b>	<b>82,346</b>	
<b>Total Provisions</b>	<b>700</b>	<b>800</b>	<b>1,450</b>	<b>1,300</b>	<b>1,350</b>	
<b>PBT</b>	<b>43,349</b>	<b>49,573</b>	<b>59,593</b>	<b>69,877</b>	<b>80,996</b>	
Tax	13,320	13,198	15,490	18,208	21,599	
<b>Adj. PAT</b>	<b>30,029</b>	<b>36,376</b>	<b>44,103</b>	<b>51,670</b>	<b>59,397</b>	
Adj. for ZCD cost*	5,321	4,851	4,380	3,105	3,105	
<b>Reported Profits</b>	<b>35,350</b>	<b>41,226</b>	<b>48,483</b>	<b>54,775</b>	<b>62,502</b>	
Dividend	15,516	18,868	22,615	23,520	26,234	
<b>Retained Profits</b>	<b>14,513</b>	<b>17,508</b>	<b>21,488</b>	<b>28,150</b>	<b>33,164</b>	

Source: Company, JM Financial \* adjustment for interest Cost of Zero coupon NCD which is charged directly to securities premium account.

Balance Sheet		(₹ mn)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
Equity Capital	2,934	2,954	3,093	3,093	3,093	
Reserves & Surplus	170,231	187,222	246,907	275,057	308,221	
Borrowed Funds	1,151,123	1,391,275	1,588,280	1,867,817	2,184,412	
Current Liabilities	68,136	93,749	112,274	131,449	154,027	
<b>Total Liabilities</b>	<b>1,392,424</b>	<b>1,675,199</b>	<b>1,950,554</b>	<b>2,277,416</b>	<b>2,649,753</b>	
Investments	118,324	122,070	136,135	147,814	160,159	
Net Advances	1,168,062	1,404,217	1,695,707	1,983,977	2,321,253	
Cash & Bank Bal.	64,053	60,014	63,589	73,407	84,726	
Loans & Advances	33,015	77,934	43,580	59,519	69,638	
Other Current Assets	2,150	2,343	2,901	3,307	3,770	
Fixed Assets	2,340	2,340	2,330	2,446	2,568	
Deferred Tax Asset	4,481	6,282	6,314	6,945	7,640	
<b>Total Assets</b>	<b>1,392,424</b>	<b>1,675,199</b>	<b>1,950,554</b>	<b>2,277,416</b>	<b>2,649,753</b>	

Source: Company, JM Financial.

Key ratios		(%)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
<b>Growth (YoY) (%)</b>						
Borrowed Funds	19.2%	20.9%	14.2%	17.6%	17.0%	
Advances	19.2%	20.2%	20.8%	17.0%	17.0%	
Total Assets	19.4%	20.3%	16.4%	16.8%	16.3%	
NII	16.2%	17.2%	20.7%	18.3%	16.6%	
Non-Interest Income	18.5%	3.0%	22.5%	4.9%	8.6%	
Operating Expenses	17.7%	18.6%	19.3%	10.4%	12.1%	
Operating Profits	16.5%	14.4%	21.2%	16.6%	15.7%	
Core Operating Profits	13.2%	17.8%	21.4%	18.1%	16.3%	
Provisions	20.7%	14.3%	81.3%	-10.4%	3.9%	
PAT (Pre-Extraordinaries)	14.0%	21.1%	21.2%	17.2%	15.0%	
Adj. PAT	14.0%	21.1%	21.2%	17.2%	15.0%	
Reported PAT	25.1%	16.6%	17.6%	13.0%	14.1%	
<b>Yields / Margins (%)</b>						
Interest Spread (%)	2.58%	2.23%	2.07%	2.07%	2.12%	
NIM (%)	3.34%	3.23%	3.27%	3.30%	3.28%	
<b>Profitability (%)</b>						
ROA (%)	2.35%	2.37%	2.43%	2.44%	2.41%	
ROE (%)	18.5%	20.0%	20.0%	19.6%	20.2%	
Cost to Income (%)	8.0%	8.2%	8.1%	7.7%	7.5%	
<b>Assets Quality (%)</b>						
Gross NPAs (%)	0.77%	0.76%	0.70%	0.70%	0.69%	
<b>Capital Adequacy (%)</b>						
Tier I (%)	12.20%	11.70%	13.80%	12.35%	11.94%	
CAR (%)	14.00%	14.60%	16.20%	13.45%	12.89%	

Source: Company, JM Financial.

DuPont Analysis		(%)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
NII / Assets (%)	3.07%	3.01%	3.07%	3.11%	3.12%	
Other income / Assets (%)	0.67%	0.57%	0.59%	0.53%	0.50%	
Total Income / Assets (%)	3.74%	3.58%	3.66%	3.65%	3.61%	
Cost to Assets (%)	0.30%	0.29%	0.30%	0.28%	0.27%	
PPP / Assets (%)	3.44%	3.28%	3.37%	3.37%	3.34%	
Provisions / Assets (%)	0.05%	0.05%	0.08%	0.06%	0.05%	
ROA (%)	2.35%	2.37%	2.43%	2.44%	2.41%	

Source: Company, JM Financial.

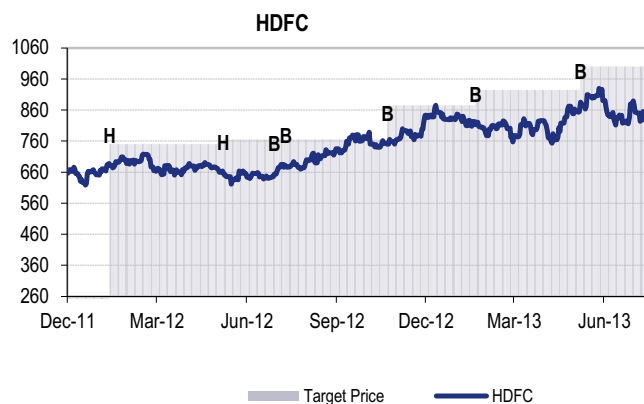
Valuations						
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
Shares in issue (mn)	1,466.9	1,477.0	1,546.4	1,546.4	1,546.4	
Adj. EPS (₹.)	20.5	24.6	28.5	33.4	38.4	
Adj. EPS (YoY) (%)	11.6%	20.3%	15.8%	17.2%	15.0%	
PE (x)	39.1	32.5	28.0	23.9	20.8	
BV (₹.)	118	129	162	180	201	
P/BV (x)	6.78	6.21	4.95	4.45	3.97	
DPS (₹.)	10.6	12.8	14.6	15.2	17.0	
Div. yield (%)	1.3%	1.6%	1.8%	1.9%	2.1%	

Source: Company, JM Financial.

**History of earnings estimates and target price**

Date	FY13 EPS (₹)	% Chg.	FY14E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
13-Jan-12	26.8		30.9		750	Dec-12	
8-May-12	27.6	3.0	31.7	2.6	765	Mar-13	2.0
29-Jun-12	27.6	0.0	31.7	0.0	765	Mar-13	0.0
11-Jul-12	27.6	0.0	31.7	0.0	765	Mar-13	0.0
23-Oct-12	27.8	0.7	32.2	1.6	875	Sep-13	14.4
21-Jan-13	28.7	3.2	32.5	0.9	925	Dec-13	5.7
08-May-13	28.5	-0.7	33.4	2.8	1,000	Mar-14	8.1

\*adjusted EPS for Zero coupon NCDs.

**Recommendation history**

## JM Financial Institutional Securities Private Limited

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# Reliance Industries | RIL IN

 BUY  
 Target: ₹943 (Mar'14)

## 1Q operationally weaker; E&P guidance disappoints

RIL's 1QFY14 net profit at ₹53.5bn was broadly in-line with JMFe of ₹52.9bn, but operationally, results were slightly weaker with EBITDA at ₹70.8bn c.7.9% below JMFe. Higher other income, specifically c. ₹5.69bn other non-interest income, led to in-line performance at the net profit level. RIL stated that all projects are on track with phase-wise expansion of Petrochemicals to commence from 2QFY14. However, weaker operational performance and no indications of near-term E&P production growth will likely dampen stock performance, especially after the c.1.1% increase in stock price in the past 1 month.

- 1QFY14 operationally weaker:** RIL's 1QFY14 EBITDA at ₹70.8bn (₹78.3bn/₹67.5bn in 4QFY13/1QFY13) was c.7.9% below JMFe (₹76.8bn), primarily due to marginally weaker GRM (US\$8.4/bbl vs. US\$8.6/bbl JMFe) and lower E&P EBIT. However, RIL booked an income of ₹5.69bn on account of sale of bond/mutual fund investments, which coupled with lower DD&A and lower tax-rate resulted in net profit of ₹53.5bn (₹55.9bn/₹44.7bn in 4QFY13/1QFY13) - c.1.2% above JMFe (₹52.9bn).
- QoQ segmental margin performance - petchem marginally lower, refining corrects:** Segmentally, petchem maintained EBIT margin of c.8.6% on the back of: 1) healthy PE and PP margins due to strong domestic demand, and 2) better PTA margins due to operating rate-cuts by regional producers, but polyester margins (PFY/PSF) were impacted by weak demand. RIL expects stronger petchem performance in 2Q aided by full impact of customs duty hike and weak INR. GRMs declined in-line with estimates from \$10.1 (4QFY13) to \$8.4 (1QFY14) primarily due to weaker petrol, diesel and naphtha cracks.
- Key analyst meet takeaways on E&P:** RIL stated that it now has approval for installing compressors, workover on wells and drilling a new well in MA in existing producing fields of D1, D3 and MA. This could result in containing production decline from KG-D6, but to increase production RIL will take c.3 years after all approvals are in-place for the Satellite and R Series fields, implying production could start only in FY18.
- Maintain BUY with Mar'14 TP of ₹943:** We maintain BUY as even though contribution from new projects will start from FY15; we believe RIL will benefit in the near-term from INR depreciation. Any positive developments on E&P and/or improvement in petchem/refining margins could act as trigger.

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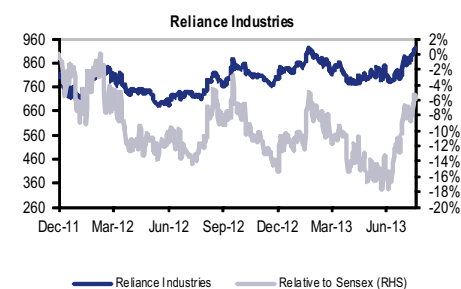
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### Key Data

Market cap (bn)	₹ 2983.1 / US\$ 50.0
Shares in issue (mn)	3,229.0
Diluted share (mn)	3,229.0
3-mon avg daily val (mn)	₹ 3303.2/US\$ 55.3
52-week range	₹ 955.0/682.4
Sensex/Nifty	20,150/6,029
₹/US\$	59.7

### Daily Performance



%	1M	3M	12M
Absolute	11.1	18.2	26.9
Relative	6.4	12.2	10.3

\* To the BSE Sensex

### Shareholding Pattern (%)

	Mar-13	Mar-12
Promoters	45.3	44.8
FII	17.8	17.6
DII	10.9	10.6
Public / Others	26.0	27.1

### Exhibit 1. Financial Summary

	₹ bn				
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E
Net sales	2,482	3,299	3,603	3,572	3,547
Sales growth (%)	28.9	32.9	9.2	-0.9	-0.7
EBITDA	381	336	308	305	343
EBITDA (%)	15.4	10.2	8.5	8.6	9.7
Adjusted net profit	203	200	210	208	218
EPS (₹)	62.0	61.3	64.5	64.5	67.6
EPS growth (%)	24.8	-1.1	5.4	0.0	4.8
ROIC (%)	10.4	9.2	9.2	9.1	9.2
ROE (%)	14.1	12.6	12.1	11.0	10.5
PE (x)	14.9	15.1	14.3	14.3	13.7
Price/Book value (x)	2.0	1.8	1.7	1.5	1.4
EV/EBITDA (x)	8.0	7.9	8.1	7.3	6.5

Source: Company data, JM Financial. Note: Valuations as of 19/07/2013

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## 1QFY14 operationally weaker; E&P guidance disappoints

- 1QFY14 operationally weaker; higher other income leads to in-line net profit:** RIL's 1QFY14 net profit of ₹53.5bn (₹55.9bn/₹44.7bn in 4QFY13/1QFY13) was c.1.2% above JMFe (₹52.9bn). EBITDA at ₹70.8bn (₹78.3bn/₹67.5bn in 4QFY13/1QFY13) was c.7.9% below JMFe (₹76.8bn), primarily due to marginally weaker than expected GRM (US\$8.4/bbl vs. US\$8.6/bbl JMFe), and lower E&P EBIT. However, RIL booked income of ₹5.69bn on account of sale of bond investments, which coupled with lower DD&A and lower tax-rate led to an in-line performance at the net profit level.

### Exhibit 2. RIL 1QFY14: Key highlights

Parameter	1QFY14	1QFY14E	% Var	4QFY13	QoQ	1QFY13	YoY
Net Sales (₹ mn)	876,450	972,526	-9.9%	841,980	4.1%	918,750	-4.6%
EBITDA (₹ mn)	70,750	76,814	-7.9%	78,250	-9.6%	67,470	4.9%
EBITDA margin	8.1%	7.9%		9.3%		7.3%	
EBIT (₹ mn)	49,370	53,616	-7.9%	55,860	-11.6%	43,130	14.5%
PBT (₹ mn)	66,620	68,676	-3.0%	71,200	-6.4%	54,330	22.6%
PAT (₹ mn)	53,520	52,881	1.2%	55,890	-4.2%	44,730	19.7%
PAT margin	6.1%	5.4%		6.6%		4.9%	
EPS (₹)	16.3	16.4		17.1		13.7	
GRM (US\$/bbl)	8.4	8.6		10.1		7.6	

Source: Company, JM Financial. Note: EPS is calculated w/o adjustment for treasury stock

Sequentially, GRMs declined from US\$10.1/bbl in 4QFY13 to US\$8.4/bbl in 1QFY14 and oil/gas volumes continued to decline.

- Exploration and Production – KG and PMT continue to decline:** RIL's KG gas production continued to decline with 1QFY14 production declining by c.18% QoQ. While KG oil production had shown an uptick in 4QFY13, it again declined in 1QFY14, leading to lower than expected E&P EBIT.

At the analyst meet, RIL gave the following updates on its future E&P activities:

**a) D1-D3/ MA (Existing fields that are producing):** RIL had previously stated that it wanted to undertake capex on certain activities such as installing a compressor and workover of some wells as well as drilling one new well in MA field in order to contain the decline rate. RIL has now stated that it has the necessary permission to incur this capex and its focus would be to sustain the production from this field. While the capex could result into some bump in gas production, the focus would be to ensure continued production from these fields till the other newer fields (Satellite / R Series / MJ) come into production.

**b) Approvals for new fields (Satellite / R Series):** Approval for development of near-by Satellite fields has been received while approval for R-series is expected shortly. Once RIL gets approval for this capex, it will approach their board for final investment decision for which it would need clarity on gas price. Once Board approves the capex, it could take RIL about 3 years to develop the Satellite and R Series, fields implying production from those fields could start only by FY18.

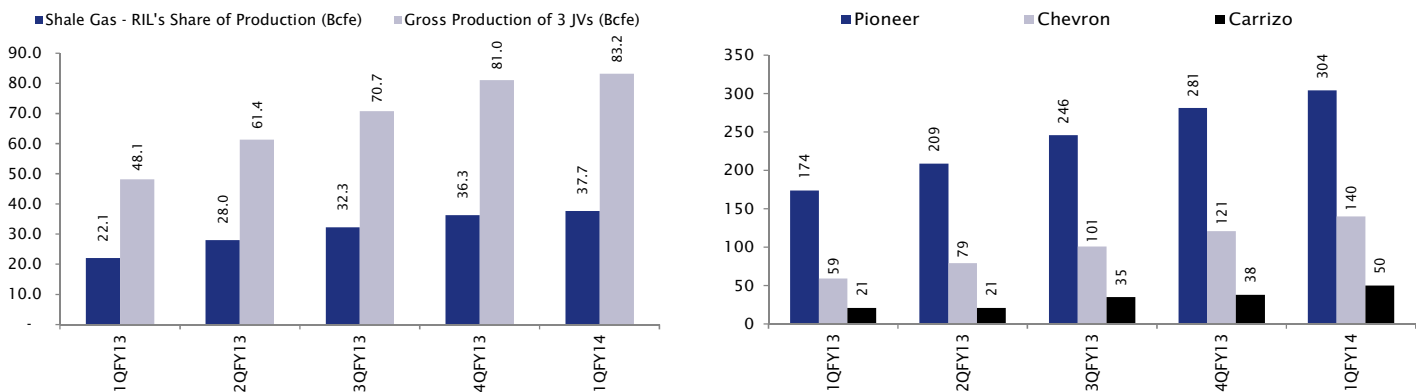
**c) MJ field:** RIL had announced a discovery in KG D6 block last quarter - a new field lying about 2 kms below the currently producing fields (D1-D3). At the ensuing analyst meet, RIL clarified that this discovery is currently being appraised for commercial viability. However, development of this field could be technically more challenging because it is c.2 kms below D1-D3, implying potentially higher temperature and pressure. Therefore production from these fields could potentially start only after Satellite and R Series fields.

- **Shale gas - progressing well:** RIL's shale gas business continued to ramp-up during the quarter, with RIL and partners ramping up production by c.4% sequentially.

RIL has now invested c.\$6.0bn in all the shale gas joint ventures. During 1QFY14, shale gas + oil production (RIL share) was c.11.6 mmscmd which is now higher than RIL's share from KG production (c.9.2 mmscmd). Improvement in Henry Hub gas prices and higher condensate/liquids pricing (due to the recent spike in WTI prices) can be a key driver of profitability from this business going forward.

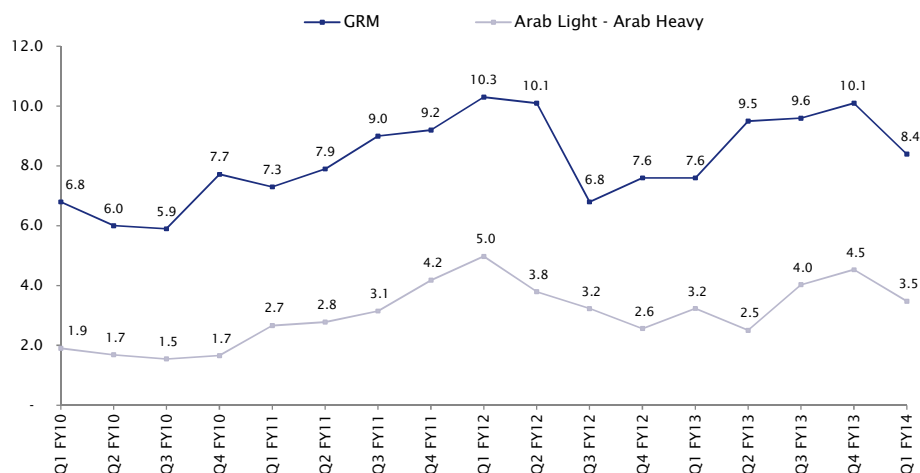
**Exhibit 3. Production from US shale gas fields**

**Number of wells drilled in US shale gas fields**



Source: Company

- **Coal-Bed Methane:** RIL has two CBM blocks in Madhya Pradesh. After drilling initial few wells for appraisal, RIL approached the Government to approve gas price which is still awaited. Meanwhile RIL has received approval for laying a pipeline connecting the CBM fields to the existing East-West pipeline. However, RIL is awaiting approval on gas price before it can move to development and production phase. Hence, while this CBM project has the potential to produce c.5-7 mmscmd of gas at its peak, we do not expect this to add to RIL's production in the near-term.
- **Refining business:** Refining performance was broadly in-line, with GRM declining from \$10.1 in 4QFY13 to \$8.4 in 1QFY14. This was due to lower petrol, diesel and naphtha cracks on the back of weak demand. The initial part of the quarter was particularly weak due to weaker regional demand and return of refineries from maintenance. However, the latter part of the quarter improved due to the commencement of the summer driving season and unplanned outages. RIL expects stronger middle distillate cracks in the coming few months due to peak driving season demand and increased demand for power generation from European and Middle East markets.

**Exhibit 4. Weaker cracks (QoQ) lead to lower GRMs (US\$/bbl)**

Source: Bloomberg, Company, JM Financial.

- Petrochemicals business:** Segmentally, petchem segment surprised with EBIT rising c.7.5% YoY (vs. our expectation of a decline). The company has attributed this to: 1) healthy PE and PP margins due to strong domestic demand, and 2) better PTA margins due to operating rate-cuts by regional producers. Polyester margins (PFY/PSF) however remained impacted by weak demand. RIL expects a stronger petchem performance in 2Q aided by full impact of customs duty hike and weak INR.

At the analyst meet, RIL maintained that all projects are on schedule and the Petrochemical expansion projects will move to production in a phased manner. This will start with an expansion of finished product capacity (Polyesters) and the first capacity expansion will be commissioned in the current quarter (2QFY14) while the final would be somewhere in FY16. Hence, 3QFY14 onwards, we could see some improvement in Polyester volume.

**Operational highlights of the results:****Exhibit 5. Operational highlights**

Operational:	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	QoQ	YoY	1QFY14E	JM vs Act
<b>Refining</b>									
Throughput (MMT)	17.3	17.6	17.5	16.1	17.1	6.2%	-1.2%	18.5	-7.8%
GRM (\$/bbl)	7.6	9.5	9.6	10.1	8.4	-16.8%	10.5%	8.6	-2.3%
<b>Petchem Vol (kT)</b>									
Polymer	1,101	1,099	1,100	1,100	1,122	2.0%	1.9%	1,109	1.2%
Intermediates	1,200	1,200	1,200	1,170	1,086	-7.2%	-9.5%	1,169	-7.1%
Polyester	415	420	365	430	411	-4.4%	-1.0%	669	-38.6%
<b>E&amp;P</b>									
KG Oil (kT)	139	139	83	99	78	-21.1%	-44.0%	177	-56.0%
KG Gas (mmscmd)	32.5	28.5	24.0	18.8	15.3	-18.5%	-52.9%	15.0	2.1%
Other Oil (kT)	324	297	297	262	253	-3.6%	-22.1%	256	-1.1%
Other Gas (mmscmd)	9.9	9.3	8.9	7.5	7.7	2.3%	-22.1%	7.3	5.3%

Source: Company, JM Financial

Exhibits 6/7 provide an overview of RIL's segmental performance/margin.

Oil and gas revenue continues to fall sharply on the back of continuing decline in production volumes.

Exhibit 6. Segmental Performance						(₹ mn)	
Segment	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	QoQ	YoY
<b>Revenue</b>							
Petchem	218,390	220,580	220,530	221,580	219,500	-0.9%	0.5%
Refining	853,830	838,780	866,410	778,720	814,580	4.6%	-4.6%
Oil and Gas	25,080	22,540	19,210	15,970	14,540	-9.0%	-42.0%
Others	2,480	1,680	1,760	3,590	6,160	71.6%	148.4%
<b>EBIT</b>							
Petchem	17,560	17,400	19,370	18,950	18,880	-0.4%	7.5%
Refining	21,510	35,440	36,150	35,200	29,510	-16.2%	37.2%
Oil and Gas	9,720	8,660	5,900	4,600	3,520	-23.5%	-63.8%
Others	10	80	770	480	840	75.0%	8300.0%
<b>EBIT Margin</b>							
Petchem	8.0%	7.9%	8.8%	8.6%	8.6%		
Refining	2.5%	4.2%	4.2%	4.5%	3.6%		
Oil and Gas	38.8%	38.4%	30.7%	28.8%	24.2%		
Others	0.4%	4.8%	43.8%	13.4%	13.6%		

Source: Company, JM Financial

### Exhibit 7. Key margin trends

Margin Trend	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	QoQ	YoY
<b>Petrochemicals (\$/MT)</b>							
<u>Cracker:</u>							
Ethylene	282	258	291	356	314	-12%	12%
Propylene	438	401	341	362	442	22%	1%
<u>Polymer:</u>							
PE	166	132	106	137	241	76%	46%
PP	61	59	118	172	135	-22%	120%
PVC	377	291	304	324	351	8%	-7%
<u>Intermediates:</u>							
PX	563	446	660	690	626	-9%	11%
PTA	113	126	49	64	64	0%	-44%
MEG	182	301	289	268	221	-18%	21%
<u>Polyester:</u>							
PET	149	107	100	159	173	8%	16%
PSF	260	174	168	220	229	4%	-12%
POY	310	292	289	259	289	12%	-7%
<b>Refining (\$/bbl)</b>							
Arab Light	108.7	108.0	109.8	111.0	102.4	-8%	-6%
Arab Heavy	105.5	105.5	105.8	106.5	98.9	-7%	-6%
Arab Light - Arab Heavy	3.2	2.5	4.0	4.5	3.5	-23%	9%
Singapore Dubai Crack	6.6	9.1	6.5	8.7	6.6	-24%	1%
<b>RIL refining margin</b>	7.6	9.5	9.6	10.1	8.4	-17%	11%
Premium over Singapore	1.1	0.4	3.1	1.4	1.8	29%	71%
<u>Product Cracks</u>							
Naphtha Crack	-7.7	-5.8	-3.1	-1.9	-5.8	199%	-25%
Gasoline Crack	15.4	16.9	15.0	20.0	16.5	-17%	7%
Gasoil Crack	16.6	20.1	19.3	21.2	18.8	-11%	13%
LPG Crack	-43.1	-29.1	-18.4	-30.3	-32.9	9%	-24%

Source: Bloomberg, Reuters, Company, JM Financial. Note: Refining product cracks with respect to Arab Heavy

## Financial Summary

Exhibit 8. Financial Summary									(₹ mn)
Parameters	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	QoQ	YoY	1QFY14E	JM vs Act
<b>Net Sales</b>	<b>918,750</b>	<b>903,350</b>	<b>938,860</b>	<b>841,980</b>	<b>876,450</b>	<b>4.1%</b>	<b>-4.6%</b>	<b>972,526</b>	<b>-9.9%</b>
(Inc)/Dec in Stocks	-9,870	-17,840	7,700	-12,890	-7,460			-1,944	
Purchases	1,630	540	630	2,220	3,920			1,255	
Consumption of RM	793,350	777,960	781,700	709,820	737,290	3.9%	-7.1%	833,004	-11.5%
Employee Cost	8,470	8,440	8,630	7,920	8,990	13.5%	6.1%	8,804	2.1%
Other Expense	57,700	57,200	56,470	56,660	62,960	11.1%	9.1%	54,593	15.3%
Total Expenditure	851,280	826,300	855,130	763,730	805,700	5.5%	-5.4%	895,712	-10.0%
<b>EBITDA</b>	<b>67,470</b>	<b>77,050</b>	<b>83,730</b>	<b>78,250</b>	<b>70,750</b>	<b>-9.6%</b>	<b>4.9%</b>	<b>76,814</b>	<b>-7.9%</b>
<i>EBITDA margin</i>	<i>7.3%</i>	<i>8.5%</i>	<i>8.9%</i>	<i>9.3%</i>	<i>8.1%</i>			<i>7.9%</i>	
Depreciation	24,340	22,770	24,570	22,390	21,380	-4.5%	-12.2%	23,198	-7.8%
<b>EBIT</b>	<b>43,130</b>	<b>54,280</b>	<b>59,160</b>	<b>55,860</b>	<b>49,370</b>	<b>-11.6%</b>	<b>14.5%</b>	<b>53,616</b>	<b>-7.9%</b>
Other Income	19,040	21,120	17,400	22,430	25,350	13.0%	33.1%	23,761	6.7%
Interest Charges	7,840	7,370	8,060	7,090	8,100	14.2%	3.3%	8,700	-6.9%
<b>PBT</b>	<b>54,330</b>	<b>68,030</b>	<b>68,500</b>	<b>71,200</b>	<b>66,620</b>	<b>-6.4%</b>	<b>22.6%</b>	<b>68,676</b>	<b>-3.0%</b>
Current Tax	9,600	14,270	13,480	15,310	13,100	-14.4%	36.5%	13,735	-4.6%
<i>Tax as % of PBT</i>	<i>17.7%</i>	<i>21.0%</i>	<i>19.7%</i>	<i>21.5%</i>	<i>19.7%</i>			<i>23.0%</i>	
<b>PAT</b>	<b>44,730</b>	<b>53,760</b>	<b>55,020</b>	<b>55,890</b>	<b>53,520</b>	<b>-4.2%</b>	<b>19.7%</b>	<b>52,881</b>	<b>1.2%</b>
<i>PAT margin</i>	<i>4.9%</i>	<i>6.0%</i>	<i>5.9%</i>	<i>6.6%</i>	<i>6.1%</i>			<i>5.4%</i>	
EPS	13.7	16.4	16.8	17.1	16.3			16.4	

Source: Company, JM Financial. Note: EPS is calculated adjusting for treasury stock

- **Maintain BUY with Mar'14 TP of ₹943:** We maintain BUY as even though contribution from new projects will start from FY15, we believe RIL will benefit in the near-term from INR depreciation. Any positive developments on E&P and/or improvement in petchem/refining margins could act as trigger.

## Exhibit 9. SOTP valuation

Particulars	Value ₹ mn	Multiple	Value ₹/sh	Methodology / Comments
<b>E&amp;P:</b>				
Based on 2P Reserves:	<u>EV</u>	<u>EV/boe(\$)</u>		
KG-D6 (D1, D3 and MA)	203,037	8.2	62	DCF with WACC of 11%
Shale gas JV	297,307	2.4	91	DCF with WACC of 11%
Other Producing Assets				
Panna Mukta	8,803	8.0	13	5x EV / EBITDA
Tapti	3,110	7.7	5	5x EV / EBITDA
Others		7.0	15	Includes R Series and Satellite Fields
<b>E&amp;P Valuation</b>			<b>186</b>	
<b>Refining</b>	<u>EBITDA (₹ mn)</u>	<u>EV/EBITDA</u>		
FY15E EBITDA	136,161	6.0	250	6.0x EV / EBITDA on FY15E EBITDA
<b>Petrochemicals</b>	<u>EBITDA (₹ mn)</u>	<u>EV/EBITDA</u>		
FY15E EBITDA	130,339	6.7	267	6.7x EV/EBITDA for FY15E EBITDA
<b>Others</b>	<u>Book Value</u>	<u>P/B</u>		
Retail	56,649	1.0	17	1x P/B for FY13 (AR)
SEZ	23,244	1.0	7	1x P/B for FY13 (AR)
Investment in Telecom	74,450	1.0	23	1x on Book value of Investment (Equity Infusion in subsidiary)
Treasury Stock (mn)	292		80	Valued at ₹900/share
Net Debt			-113	Net debt as on Mar'14, after adjusting for RIL's investments in Retail, SEZ and Telecom
<b>Value Mar'14</b>			<b>943</b>	

Source: JM Financial. Note: 1) EV/boe on gross working interest entitlement on 2P reserve.

**Exhibit 10. Key assumptions**

Particulars	Units	FY12	FY13	FY14E	FY15E
Exchange Rate	₹/\$	47.9	54.4	55.0	55.0
Average Interest Cost	%	4.9%	4.3%	6.0%	6.0%
Tax Rate	%	22%	22%	23%	25%
<b>E&amp;P:</b>					
Discount Rate	%	11%			
KG Gas production	mmscmd	43	27	15	13
<b>Refining:</b>					
Operating Rates	%	109%	110%	110%	110%
Blended GRM	\$/bbl	10.6	8.0	9.0	9.0
<b>Petrochemicals:</b>					
Blended Operating Rates	%	99%	97%	90%	90%
Blended Margin (end product)	\$/MT	291	211	277	309
Blended Tariff arbitrage	%	6%	9%	11%	11%

Source: Company, JM Financial

## Company background

- Reliance Industries is the largest private sector company in India, with businesses in the energy and materials value chain. With a strategy of backward integration, the company quickly integrated to textile manufacturing, petrochemicals, refining and finally in exploration and production of oil and gas. The company is among the top ten producers in the world in major petrochemical products.

### Exhibit 11. Key Assumptions (Standalone)

Particulars	FY11	FY12	FY13	FY14E	FY15E
Revenue (₹ bn)	2,482	3,299	3,603	3,572	3,547
Growth YoY (%)	29%	33%	9%	-1%	-1%
<b>E&amp;P</b>					
KG Gas production (mmscmd)	56	43	27	15	13
Gas Price (\$/mmbtu)	4.2	4.2	4.2	4.2	8.4
KG-D6 reserves (TCF)	4.1				
<b>Refining</b>					
GRM (\$/bbl)	8.4	8.6	9.2	9.0	9.0
<b>Petchem</b>					
Blended margin (end product) (\$/ton)	342	291	211	312	309
Blended tariff arbitrage	8%	6%	9%	11%	11%
EBITDA (₹ bn)	381	336	308	305	343
EPS (₹)	62.0	61.3	64.5	64.5	67.6
Growth YoY (%)	25%	-1%	5%	0%	5%
USD/INR Rate	45.56	47.87	54.44	55.00	55.00

Source: Company, JM Financial

## Investment Rationale

- Capex Plans:** RIL is planning to spend c.US\$12bn over the next 3 years on petrochemicals capacity expansion, setting up a refinery offgas cracker (ROGC), petcoke gasification unit and shale gas assets in the US. RIL is also planning additional capex of c.US\$6-7bn on E&P assets in India, telecom and retail. Expansion in ROGC, petrochemicals and petcoke gasification will add c.US\$3-4bn to RIL's standalone EBITDA.
- Gas Price Hike:** RIL is a key beneficiary of the recent gas price hike. Not only will this improve the valuation of its KG-D6 block, it will also help monetize its other discoveries.
- Rupee Depreciation:** INR depreciation impacts RIL positively as: 1) RIL's assets were created when rupee was at c.45/\$ and with c.30% INR depreciation, the rupee value of assets has appreciated by c.30%, or 2) Since margins for all products are US\$ denominated, INR depreciation increases EBITDA and improves valuation.

## Key Risks

- **Volatility in global refining and petchem margins:** Since RIL's margins are dependent on global cracks and products margins, demand slowdown and/or higher raw material costs can impact RIL's margins adversely.
- **Further negative surprises in KG-D6:** While KG-D6 gas production has anyway declined significantly; any further declines would hamper valuations and sentiment even more.
- **Utilization of cash for non-value-accretive acquisitions:** Investment of RIL's significant cash reserves in unrelated, non value-accretive businesses pose a risk.

## Bear Case Scenario Analysis

In our bear case scenario, we assume: 1) GRMs \$1.0 lower than base case, 2) blended petchem margins \$50/mt lower than base case, 3) KG-D6 recoverable reserves c.20% lower, and 4) treasury stock valued at ₹750/sh.

**Exhibit 12. RIL: Bear case scenario analysis (Standalone)**

Particulars	Base Case		Bear Case	
	FY14E	FY15E	FY14E	FY15E
Revenue (₹ bn)	3,572	3,547	3,557	3,533
Growth YoY (%)	-1%	-1%	-1%	-1%
<u>E&amp;P</u>				
KG Gas production (mmscmd)	15	13	14	13
Gas Price (\$/mmbtu)	4.2	8.4	4.2	8.4
KG-D6 reserves (TCF)	4.1		3.3	
<u>Refining</u>				
GRM (\$/bbl)	9.0	9.0	8.0	8.0
<u>Petchem</u>				
Blended margin (end product) (\$/ton)	312	309	262	259
Blended tariff arbitrage	11%	11%	11%	11%
EBITDA (₹ bn)	305	343	257	295
EPS (₹)	64.5	67.6	52.8	55.3
Growth YoY (%)	0%	5%	-18%	5%
USD/INR Rate	55.00	55.00	55.00	55.00
<b>Target Price</b>	<b>943</b>		<b>806</b>	

Source: JM Financial



## Financial Tables (Standalone)

Profit & Loss Statement						(₹ bn)
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E	
Net sales (Net of excise)	2,482	3,299	3,603	3,572	3,547	
Growth (%)	28.9	32.9	9.2	-0.9	-0.7	
Other operational income	0	0	0	0	0	
Raw material (or COGS)	1,915	2,754	3,033	3,017	2,937	
Personnel cost	26	29	34	35	37	
Other expenses (or SG&A)	160	180	228	214	229	
<b>EBITDA</b>	<b>381</b>	<b>336</b>	<b>308</b>	<b>305</b>	<b>343</b>	
EBITDA (%)	15.4	10.2	8.5	8.6	9.7	
Growth (%)	24.7	-11.8	-8.4	-0.8	12.4	
Other non-op. income	0	0	0	0	0	
Depreciation and amort.	136	114	95	93	115	
EBIT	245	222	213	213	229	
Add: Net interest income	7	35	50	58	62	
Pre tax profit	252	258	263	271	291	
Taxes	50	57	53	62	73	
Add: Extraordinary items	0	0	0	0	0	
Less: Minority interest	0	0	0	0	0	
Reported net profit	203	200	210	208	218	
<b>Adjusted net profit</b>	<b>203</b>	<b>200</b>	<b>210</b>	<b>208</b>	<b>218</b>	
Margin (%)	8.2	6.1	5.8	5.8	6.2	
Diluted share cap. (mn)	3,273	3,271	3,254	3,229	3,229	
<b>Diluted EPS (₹)</b>	<b>62.0</b>	<b>61.3</b>	<b>64.5</b>	<b>64.5</b>	<b>67.6</b>	
Growth (%)	24.8	-1.1	5.4	0.0	4.8	
Total Dividend + Tax	28	29	31	32	33	

Source: Company, JM Financial

Balance Sheet						(₹ bn)
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E	
Share capital	33	33	32	32	32	
Other capital	0	0	0	0	0	
Reserves and surplus	1,483	1,628	1,768	1,944	2,129	
Networth	1,515	1,661	1,800	1,977	2,162	
Total loans	674	586	545	495	445	
Minority interest	0	0	0	0	0	
<b>Sources of funds</b>	<b>2,189</b>	<b>2,247</b>	<b>2,345</b>	<b>2,472</b>	<b>2,607</b>	
Intangible assets	0	0	0	0	0	
Fixed assets	2,213	2,055	2,132	2,292	2,480	
Less: Depn. and amort.	785	918	1,034	1,132	1,250	
Net block	1,427	1,137	1,097	1,160	1,230	
Capital WIP	128	78	191	237	283	
Investments	377	540	525	535	575	
Def tax assets/- liability	-116	-121	-122	-130	-142	
Current assets	915	1,197	1,371	1,598	1,494	
Inventories	298	360	427	412	403	
Sundry debtors	174	184	119	137	136	
Cash & bank balances	271	396	495	724	630	
Other current assets	2	2	5	0	0	
Loans & advances	169	254	325	325	325	
Current liabilities & prov.	542	583	718	928	833	
Current liabilities	497	540	674	885	790	
Provisions and others	46	43	43	43	43	
Net current assets	373	614	654	669	660	
Others (net)	0	0	0	0	0	
<b>Application of funds</b>	<b>2,189</b>	<b>2,247</b>	<b>2,345</b>	<b>2,472</b>	<b>2,607</b>	

Source: Company, JM Financial

Cash flow statement						(₹ bn)
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E	
Reported net profit	203	200	210	208	218	
Depreciation and amort.	159	132	116	98	118	
Incr/dec in working cap.	42	-27	132	208	-85	
Others	0	0	0	0	0	
<b>Cash from operations (a)</b>	<b>404</b>	<b>305</b>	<b>458</b>	<b>514</b>	<b>251</b>	
Incr/dec in investments	-144	-164	15	-10	-40	
Capex	-61	208	-190	-207	-233	
Others	-59	-88	-72	5	0	
<b>Cash flow from inv. (b)</b>	<b>-264</b>	<b>-44</b>	<b>-247</b>	<b>-212</b>	<b>-273</b>	
Incr/dec in capital	-31	-25	-40	0	0	
Dividend+Tax thereon	-28	-29	-31	-32	-33	
Incr/dec in loans	49	-88	-41	-50	-50	
Others	6	6	1	8	12	
<b>Financial cash flow (c)</b>	<b>-4</b>	<b>-137</b>	<b>-111</b>	<b>-74</b>	<b>-72</b>	
Incr/dec in cash (a+b+c)	137	125	99	228	-94	
Opening cash balance	135	271	396	495	724	
Closing cash balance	271	396	495	724	630	

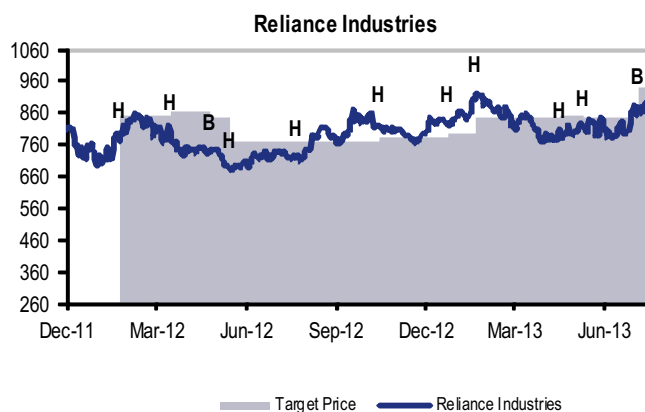
Source: Company, JM Financial

Key Ratios					
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E
BV/Share (₹)	462.9	507.8	557.4	612.1	669.5
ROIC (%)	10.4	9.2	9.2	9.1	9.2
ROE (%)	14.1	12.6	12.1	11.0	10.5
Net Debt/equity ratio (x)	0.0	-0.2	-0.3	-0.4	-0.4
<b>Valuation ratios (x)</b>					
PER	14.9	15.1	14.3	14.3	13.7
PBV	2.0	1.8	1.7	1.5	1.4
EV/EBITDA	8.0	7.9	8.1	7.3	6.5
EV/Sales	1.2	0.8	0.7	0.6	0.6
<b>Turnover ratios (no.)</b>					
Debtor days	26	20	12	14	14
Inventory days	44	40	43	42	41
Creditor days	95	72	81	107	98

Source: Company, JM Financial

**History of earnings estimates and target price**

Date	FY13E EPS (₹)	% Chg.	FY14E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
23-Jan-12	64.2		67.2		850	Dec-12	
15-Mar-12	58.8	-8.4	63.5	-5.5	866	Mar-13	1.9
24-Apr-12	55.6	-5.4	60.1	-5.4	846	Mar-13	-2.3
14-May-12	59.1	6.3	66.9	11.3	770	Mar-13	-9.0
23-Jul-12	63.3	7.1	69.7	4.2	770	Mar-13	0.0
15-Oct-12	63.1	-0.3	66.9	-4.0	781	Sep-13	1.4
24-Dec-12	63.2	0.2	66.5	-0.6	797	Sep-13	2.0
21-Jan-13	63.1	-0.2	66.9	0.6	848	Mar-14	6.4
17-Apr-13	65.0	3.0	71.9	7.5	854	Mar-14	0.7
10-May-13	64.5	-0.8	56.4	-21.6	847	Mar-14	-0.8
5-Jul-13	64.5	0.0	64.5	14.4	943	Mar-14	11.3

**Recommendation history****JM Financial Institutional Securities Private Limited**

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## 2QCY13 Results: Growth acceleration ahead

Hexaware reported in-line revenues with strong margin expansion driving 18% EBITDA beat. Going forward, company has guided for 3.5%-5.5% QoQ revenue growth in 3QCY13, a sharp acceleration from the trajectory over past few quarters. The revenue acceleration is driven by a) opportunity from Peoplesoft 9.2 upgrade, b) improvement in US and Europe outlook particularly among banking clients and c) growth visibility at top client. We had raised earnings and upgraded to BUY pre-results and maintain our bullish stance. Retain BUY with TP of Rs125.

- 2QCY13 Results - Margin expansion drives profit beat:** Hexaware reported revenue (US\$) growth of 0.8% QoQ, slightly ahead of JMFe of 0.5% QoQ and within guidance of (0-2%). EBITDA margins improved 440bps QoQ to 23.7%, driven by a) currency benefit (130 bps), b) reversal of provisions related to employees (150bps, one-time benefit) and c) normalization of cost (235bps). Even without the one-time benefit, EBITDA margins were ahead of estimates by 190bps. Net profit grew 24% QoQ to Rs980mn, a 10% beat on estimates. Margins have improved steadily for Hexaware from c.17% in Dec-12 to 22.2% (normalized) and are expected to remain steady going forward.
- 3QCY13 guidance indicates growth acceleration:** Company has guided for 3.5%-5.5% QoQ revenue growth during 3QCY13. Wage hikes (offshore) will be effective from 3QCY13; company expects to offset the margin impact by benefits from currency depreciation and operational efficiencies.
- Healthy deal pipeline:** Company is pursuing 4 large deals (US\$25mn+) from existing clients and expects to conclude at least two by end of CY13. Outlook from banking clients remains strong and in terms of geography, US is strong and Europe outlook has improved. Top client issues have been resolved, and company expects strong growth going forward.

**Valuation, Retain BUY, attractive dividend yield:** Our TP of Rs125 is based on 10x CY14 EPS. Company has increased the quarterly dividend per share to Rs1.4 (Payout ratio of 50%) implying a dividend yield of c.5.5%.

### Exhibit 1: Financial Summary

Y/E December	CY10A	CY11A	CY12A	CY13E	CY14E
Net sales	10,546	14,505	19,482	21,836	24,602
Sales growth (%)	1.5	37.5	34.3	12.1	12.7
EBITDA	905	2,615	4,040	4,475	4,994
EBITDA (%)	8.6	18.0	20.7	20.5	20.3
Adjusted net profit	852	2,670	3,276	3,486	3,748
EPS (Rs)	2.8	8.9	10.9	11.6	12.5
EPS growth (%)	-36.9	213.5	22.4	6.4	7.5
ROIC (%)	10.7	40.6	36.9	31.0	30.9
ROE (%)	9.4	26.9	29.5	27.1	25.7
PE (x)	37.7	12.0	9.8	9.2	8.6
Price/Book value (x)	3.3	3.2	2.7	2.4	2.1
EV/EBITDA (x)	29.3	10.2	6.8	5.9	5.0

Source: Company data, JM Financial. Note: Valuations as of 19/07/2013

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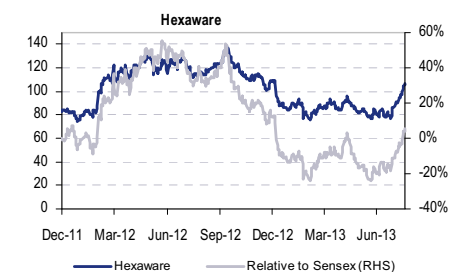
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### Key Data

Market cap (bn)	₹ 31.9 / US\$ 0.5
Shares in issue (mn)	295.5
Diluted share (mn)	300.8
3-mon avg daily val (mn)	189.1/US\$ 3.2
52-week range	₹ 142.0/72.3
Sensex/Nifty	20,150/6,029
₹/US\$	59.7

### Daily Performance



	1M	3M	12M
Absolute	28.9	22.1	-7.0
Relative*	24.2	16.1	-23.6

\* To the BSE Sensex

### Shareholding Pattern (%)

	Jun-13	Jun-12
Promoters	27.9	27.9
FII	36.2	43.4
DII	10.4	8.8
Public / others	25.5	20.0

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Please see important disclosure at the end of the report

## 2QCY13- Margin expansion drives profit beat

### Exhibit 2. 2QCY13 - Actual vs JMF Estimates

	2QCY13E	2QCY13	Chg YoY	Chg QoQ	Delta vs JMF
Revenues (US\$ mn)	94.6	94.8	3.9%	0.8%	0.2%
Revenues (Rs mn)	5,341	5,366	7.3%	5.7%	0.5%
EBITDA margin	20.3%	23.7%	0.8%	4.4%	3.4%
EBITDA (Rs mn)	1,083	1,273	11.0%	30.0%	17.5%
EBIT margin	18.5%	22.0%	0.6%	4.5%	3.5%
EBIT (Rs mn)	986	1,179	10.1%	33.2%	19.6%
PAT (Rs mn)	890	980	10.1%	23.6%	10.0%
EPS (Rs)	3.0	3.3	10.0%	23.6%	10.0%

Revenue growth of 0.8% against our expectation of 0.5% QoQ

Source: Company data, JM Financial

### Exhibit 3. 2QCY13 detailed financials

(INR mn)	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	YoY	QoQ
Revenues (US\$ mn)	91.2	92.8	92.4	94.1	94.8	3.9%	0.8%
<b>Revenues</b>	<b>5,001</b>	<b>5,075</b>	<b>5,023</b>	<b>5,077</b>	<b>5,366</b>	<b>7.3%</b>	<b>5.7%</b>
<b>Expenses</b>	<b>-3,854</b>	<b>-3,977</b>	<b>-4,176</b>	<b>-4,098</b>	<b>-4,093</b>	<b>6.2%</b>	<b>-0.1%</b>
- Personnel Cost	-2,995	-3,067	-3,210	-3,162	-3,252	8.6%	2.8%
- SG&A	-859	-910	-966	-936	-841	-2.1%	-10.1%
<b>EBITDA</b>	<b>1,147</b>	<b>1,098</b>	<b>847</b>	<b>979</b>	<b>1,273</b>	<b>11.0%</b>	<b>30.0%</b>
Depreciation	-76	-88	-89	-93	-94	23.2%	0.3%
<b>EBIT</b>	<b>1,071</b>	<b>1,010</b>	<b>758</b>	<b>886</b>	<b>1,179</b>	<b>10.1%</b>	<b>33.2%</b>
Non-operating Income	49	55	48	118	63	29%	-47.0%
- Foreign exchange gains / -losses	-55	-39	-45	23	-40	-28.2%	-272.7%
- Other income	104	94	93	95	102	-1.6%	7.7%
- Financial expenses	0	0	0	0	0		
<b>PBT (before extraordinary charges)</b>	<b>1,120</b>	<b>1,065</b>	<b>806</b>	<b>1,004</b>	<b>1,242</b>	<b>10.9%</b>	<b>23.7%</b>
Extraordinary income/(loss)	0	0	0	0	0		
<b>PBT (after extraordinary charges)</b>	<b>1,120</b>	<b>1,065</b>	<b>806</b>	<b>1,004</b>	<b>1,242</b>	<b>10.9%</b>	<b>23.7%</b>
Tax	-230	-225	-144	-211	-262	14.3%	24.4%
Tax rate (%)	20.5%	21.1%	17.8%	21.0%	21.1%	0.6%	0.1%
<b>Reported Profit</b>	<b>890</b>	<b>841</b>	<b>662</b>	<b>793</b>	<b>980</b>	<b>10.1%</b>	<b>23.6%</b>
<b>Adjusted net profits</b>	<b>890</b>	<b>841</b>	<b>662</b>	<b>793</b>	<b>980</b>	<b>10.1%</b>	<b>23.6%</b>
Diluted EPS (Rs)	3.0	2.8	2.2	2.6	3.3	10.0%	23.6%
<b>Margins (%)</b>							
Gross margin	40.1%	39.6%	36.1%	37.7%	39.4%	-0.7%	1.7%
EBITDA margin	22.9%	21.6%	16.9%	19.3%	23.7%	0.8%	4.4%
EBIT margin	21.4%	19.9%	15.1%	17.4%	22.0%	0.6%	4.5%
PAT margin	17.8%	16.6%	13.2%	15.6%	18.3%	0.5%	2.6%

Source: Company data

- Hexaware 2QCY13 US\$ revenues increased by 0.8% QoQ (+3.9%YoY) to US\$94.8mn, slightly above our estimate of 0.5% QoQ growth and within the guidance of US\$94.0-96.0mn.
- EBITDA margins surprised positively and expanded 440bps QoQ (+80bps YoY) to 23.7%, against our expectation of 100bps increase.
- EBITDA margins expansion was driven by **a)** currency benefit (130 bps), **b)** reversal of provisions related to employees (150bps, one-time benefit) and **c)** normalization of cost (235bps).
- Net profit at Rs980mn (+23.6% QoQ, +10.1%YoY), was c.10% ahead of estimates, driven by the beat on margins.

## Key metrics data

Exhibit 4. Geography mix and revenue growth (2QCY13)			(US\$)	
Geography	Revenue contribution	QoQ	YoY	
Americas	67.1%	1.2%	10.2%	
Europe	26.3%	0.8%	-6.4%	
APAC	6.6%	-3.6%	-8.5%	
<b>Total</b>	<b>100.0%</b>	<b>0.8%</b>	<b>3.9%</b>	

Source: Company data

Revenues grew in Americas and Europe while APAC declined

Exhibit 5. Vertical mix and revenue growth (2QCY13)			(US\$)	
Verticals	Revenue contribution	QoQ	YoY	
Banking and Capital Markets	35.5%	4.0%	28.6%	
Healthcare and Insurance	15.9%	0.1%	1.4%	
Travel and Transportation	19.5%	0.3%	2.4%	
Emerging segments	29.1%	-2.3%	-14.1%	
<b>Total</b>	<b>100.0%</b>	<b>0.8%</b>	<b>3.9%</b>	

Source: Company data

Growth driven by Banking and capital markets (+4.0% QoQ)

Exhibit 6. Services mix and revenue growth (2QCY13)			(US\$)	
Service lines split	Revenue contribution	QoQ	YoY	
Application Development and Maintenance	38.1%	1.3%	3.4%	
Enterprise Solutions	29.0%	0.4%	-6.7%	
Testing / QATS (Quality Assurance and Testing Services)	13.0%	9.2%	51.8%	
Business Intelligence & Analytics	10.2%	-6.6%	0.0%	
BPO	4.3%	0.8%	-6.9%	
Remote Infrastructure Management Services (RIMS)	5.4%	-4.5%	10.1%	
<b>Total</b>	<b>100.0%</b>	<b>0.8%</b>	<b>3.9%</b>	

Source: Company data

Mixed performance amongst service lines

Exhibit 7. Employee mix					
Billable Personnel	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Onsite	18.6%	18.8%	19.3%	18.1%	18.8%
Offshore	73.5%	73.4%	73.0%	73.6%	72.9%
<b>Total</b>	<b>92.1%</b>	<b>92.2%</b>	<b>92.3%</b>	<b>91.7%</b>	<b>91.7%</b>
Marketing (incl sales support)	1.9%	2.0%	1.9%	2.0%	2.0%
Others (incl tech support)	6.0%	5.8%	5.8%	6.3%	6.3%
<b>Grand Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Global headcount (includes BPO)	8,733	9,143	9,069	8,670	8,700
Net Addition	109	410	(74)	(399)	30

Source: Company data

Net head-count addition of 30 taking total head-count to 8,700

Exhibit 8. Onsite-Offshore mix and revenue growth (2QCY13)			(US\$)	
	Revenue contribution	QoQ	YoY	
Onsite	52.5%	1.1%	2.2%	
Offshore	47.5%	0.4%	6.0%	
<b>Total</b>	<b>100.0%</b>	<b>0.8%</b>	<b>3.9%</b>	

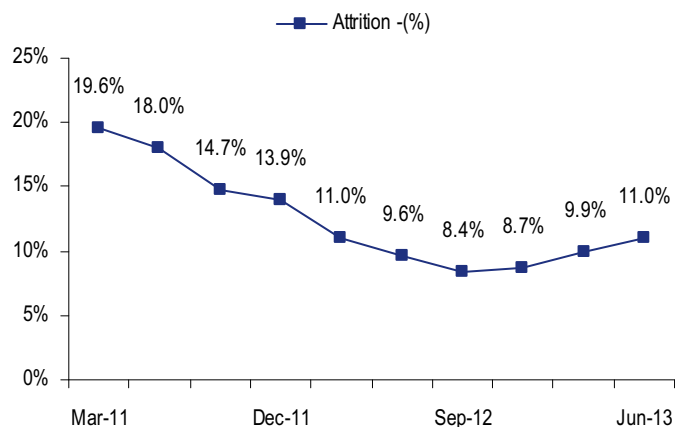
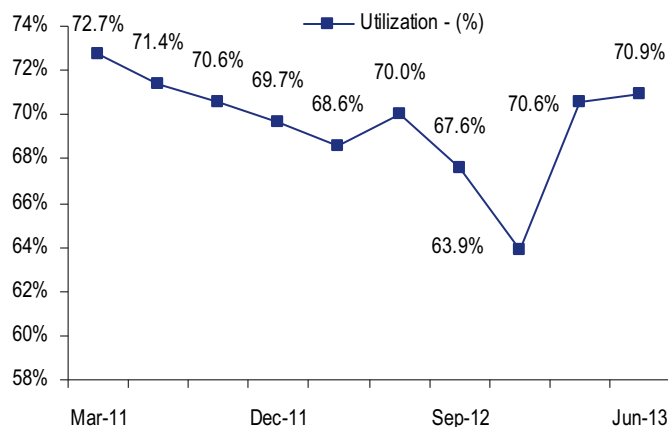
Source: Company data

Higher growth at onsite

**Exhibit 9. Employee metrics**

Utilization (incl. trainees) marginally improved QoQ

Attrition (LTM) increased during the quarter



Source: Company data

**Exhibit 10. Client Metrics**

Client details	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Clients billed	210	217	218	216	219
Clients added	12	12	11	11	14
More than USD 1 Mn +	57	57	55	55	53
Less than USD 5 Mn	44	43	40	40	37
Between USD 5 to 10 Mn	7	7	7	7	8
Between USD 10 to 20 Mn	3	4	5	5	5
Over USD 20mn	3	3	3	3	3

Source: Company data

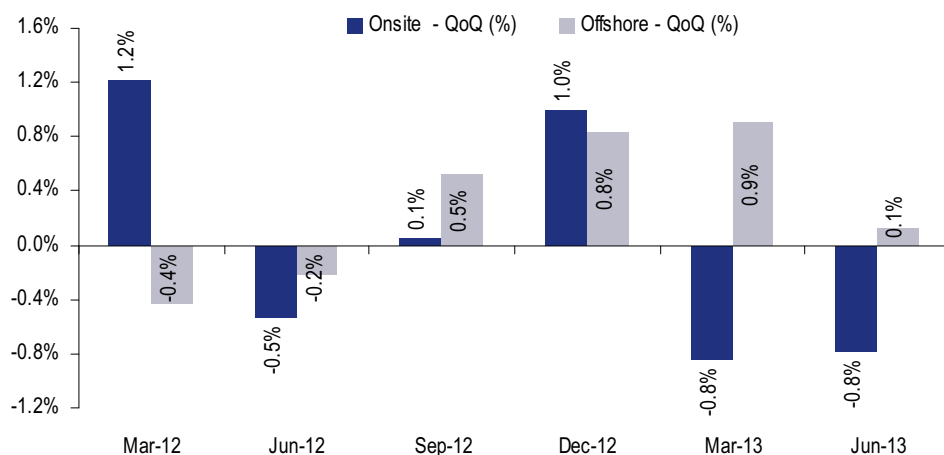
Company added 14 clients during the quarter

**Exhibit 11. Client Concentration and growth (2QCY13)**

Client concentration	Revenue contribution	QoQ	YoY
Top 1	13.8%	7.0%	-3.1%
Top 5	37.9%	3.8%	4.2%
Top 10	53.1%	4.5%	6.8%

Source: Company data

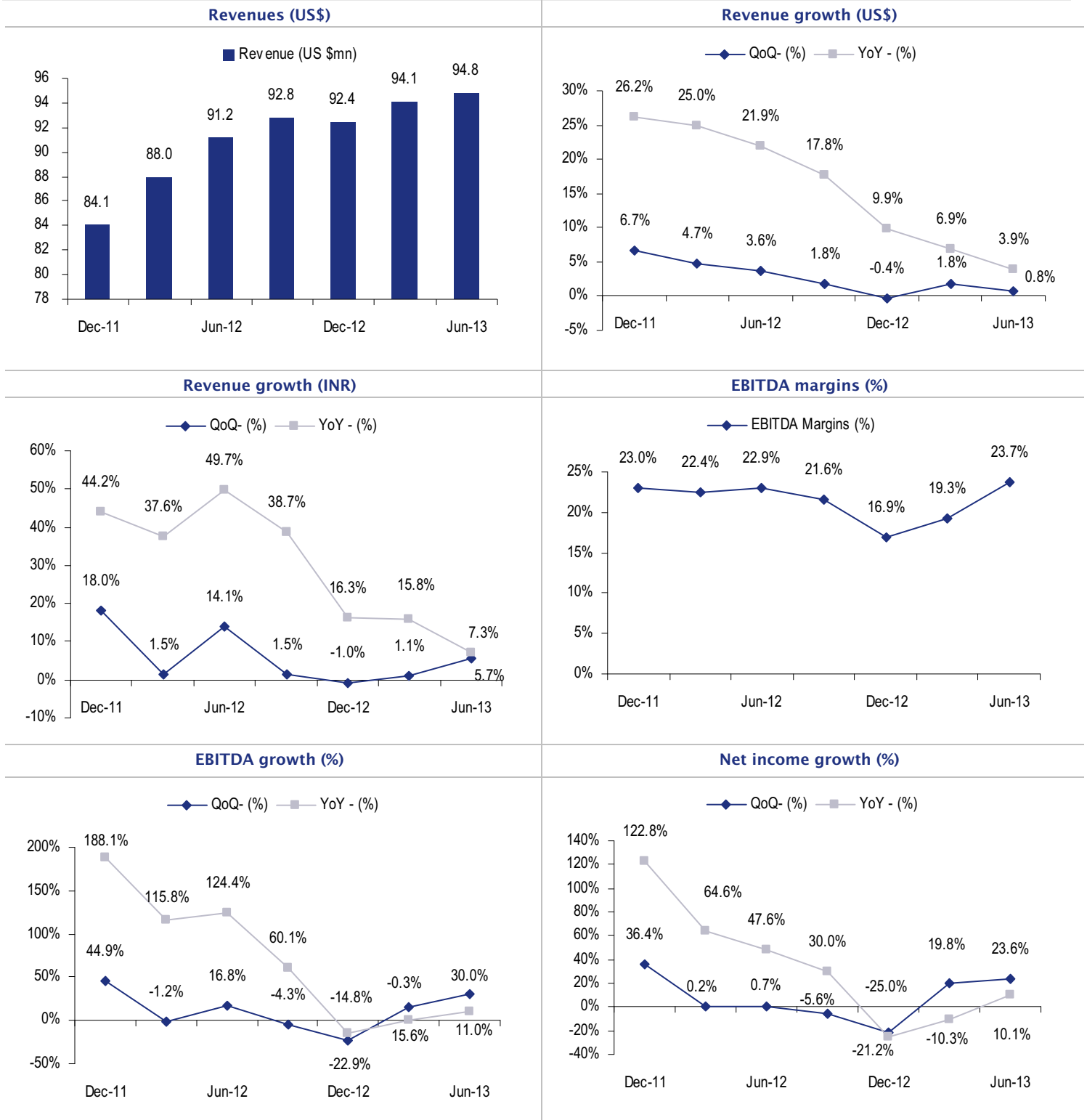
Top client grew by 7.0% QoQ after 13.1% QoQ growth in 1QCY13

**Exhibit 12. Pricing trend**

Source: Company data

Pricing declined 0.8% QoQ at onsite and was up by 0.1% at off-shore

**Exhibit 13. Key Quarterly Financials**



Source: Company data

## Company background

- Hexaware (founded in 1990) is a mid-cap Indian IT services company with CY12 (FY13) revenues of US\$364mn and employee count of 8,670 at Mar'13. CY12 revenue break-up by geography – Americas (65%), Europe (27%) and RoW (7%). Revenue break-up by verticals - Banking and capital markets (30.5%), Travel & Transportation (20.5%), Healthcare & Insurance (16%) and emerging segments (33%). The company reported revenue CAGR of 25.6% (US\$) between CY10-12, while net income witnessed 96% CAGR to ₹3.3bn in CY12.

### Exhibit 14. Key Assumptions

	CY10	CY11	CY12	CY13E	CY14E
Revenue - USD mn	231.2	308.1	364.5	389.9	431.6
Growth - YoY (%)	7.7%	33.3%	18.3%	7.0%	10.7%
Revenue - ₹ mn	10,546	14,505	19,482	21,836	24,386
Growth - YoY (%)	1.5%	37.5%	34.3%	12.1%	11.7%
EBIT - ₹ mn	663	2,368	3,716	4,080	4,486
EBIT margin	6.3%	16.3%	19.1%	18.7%	18.4%
EPS - ₹	2.8	8.9	10.9	11.6	12.5
Growth - YoY (%)	-36.9%	213.5%	22.4%	6.4%	7.6%
Tax rate	7.9%	13.2%	18.9%	22.2%	22.5%
USD/INR rate	45.6	47.1	53.5	56.0	56.5

Source: Company data, JM Financial

## Investment Rationale

- Revival of growth, Expansion of margin:** Hexaware's performance had been adversely impacted in 4QCY12 due to the decline in top client. Post 4QCY12, decline has been arrested and company expects continued growth from the top client. In addition, Peoplesoft 9.2 led upgrades, traction at banking clients in US and a healthy deal pipeline provides enhanced revenue visibility for Hexaware. We expect revenue growth to accelerate in 2HCY13 along with margin improvement. Our TP of ₹125 is based on 10x CY14 EPS. The stock also offers dividend yield of c.5.5%.

## Key Risks

- Global macro-economic slowdown, issues with top clients, proposed immigration reforms, wage inflation.

## Bear Case Analysis

We assume 2% lower revenue growth and 100bps lower EBITDA margins and target multiple of 8x to arrive at a Dec'13 TP of ₹91.

### Exhibit 15. Bear case presents 20% downside to TP

	Base Case	Pessimistic case
<b>CY13E</b>		
Revenue growth (US\$)	7.0%	5.0%
EBITDA Margin	20.5%	19.5%
EPS	11.6	10.8
<b>CY14E</b>		
Revenue growth (US\$)	10.7%	8.7%
EBITDA Margin	20.2%	19.2%
EPS	12.5	11.4
EPS (Dec-14)	12.5	11.4
Multiple	10.0	8.0
Price Target (Dec- 13)	125	91

Source: JM Financial



## Financial Tables (Consolidated)

Profit & Loss					
	(₹ mn)				
Y/E December	CY10A	CY11A	CY12A	CY13E	CY14E
Net sales (Net of excise)	10,546	14,505	19,482	21,836	24,602
Growth (%)	1.5	37.5	34.3	12.1	12.7
Other operational income	0	0	0	0	0
Raw material (or COGS)	6,755	8,210	10,606	12,055	13,765
Personnel cost	0	0	0	0	0
Other expenses (or SG&A)	2,885	3,680	4,836	5,305	5,843
EBITDA	905	2,615	4,040	4,475	4,994
EBITDA (%)	8.6	18.0	20.7	20.5	20.3
Growth (%)	-54.2	188.8	54.5	10.8	11.6
Other non-op. income	-248	248	-113	45	-175
Depreciation and amort.	242	247	324	395	438
EBIT	416	2,616	3,603	4,125	4,381
Add: Net interest income	529	461	437	356	454
Pre tax profit	944	3,077	4,040	4,481	4,835
Taxes	92	407	763	995	1,088
Add: Extraordinary items	224	0	0	0	0
Less: Minority interest	0	0	0	0	0
Reported net profit	1,076	2,670	3,276	3,486	3,748
Adjusted net profit	852	2,670	3,276	3,486	3,748
Margin (%)	8.1	18.4	16.8	16.0	15.2
Diluted shares (mn)	300	300	301	301	301
Diluted EPS (Rs.)	2.8	8.9	10.9	11.6	12.5
Growth (%)	-36.9	213.5	22.4	6.4	7.5
Total Dividend + Tax	509	1,362	1,863	1,867	1,867

Source: Company, JM Financial

Balance Sheet					
	(₹ mn)				
Y/E December	CY10A	CY11A	CY12A	CY13E	CY14E
Share capital	290	587	593	593	593
Other capital	1	0	0	0	0
Reserves and surplus	9,363	9,575	11,445	13,064	14,945
Networth	9,655	10,162	12,039	13,658	15,538
Total loans	112	0	0	0	0
Minority interest	0	0	0	0	0
Sources of funds	9,766	10,162	12,039	13,658	15,538
Intangible assets	1,193	1,418	1,506	1,506	1,506
Fixed assets	3,359	4,149	4,798	5,498	6,198
Less: Depn. and amort.	1,442	1,596	1,861	2,256	2,694
Net block	3,109	3,972	4,443	4,747	5,010
Capital WIP	969	813	757	757	757
Investments	397	229	2,354	2,354	2,354
Def tax assets/- liability	169	162	73	73	73
Current assets	7,907	9,317	8,027	9,779	11,910
Inventories	0	0	0	0	0
Sundry debtors	1,919	2,993	3,649	4,090	4,608
Cash & bank balances	4,356	4,377	1,969	2,988	4,260
Other current assets	657	674	812	910	1,025
Loans & advances	976	1,272	1,597	1,790	2,017
Current liabilities & prov	2,785	4,331	3,616	4,053	4,566
Current liabilities	1,475	2,891	2,365	2,651	2,987
Provisions and others	1,309	1,440	1,250	1,401	1,579
Net current assets	5,122	4,986	4,412	5,726	7,345
Others (net)					
Application of funds	9,766	10,162	12,039	13,658	15,538

Source: Company, JM Financial

Cash flow statement					
	(₹ mn)				
Y/E December	CY10A	CY11A	CY12A	CY13E	CY14E
Reported net profit	1,076	2,670	3,276	3,486	3,748
Depreciation and amort.	93	153	265	395	438
-Inc/dec in working cap.	-227	-966	-662	-377	-443
Others	0	0	0	0	0
Cash from operations (a)	942	1,857	2,880	3,505	3,743
-Inc/dec in Investments	872	168	-2,126	0	0
Capex	186	-860	-680	-700	-700
Others	-465	1,124	-1,172	81	96
Cash flow from inv. (b)	593	432	-3,977	-619	-604
Inc/-dec in capital	590	-801	463	0	0
Dividend+Tax thereon	-509	-1,362	-1,863	-1,867	-1,867
Inc/-dec in loans	-51	-112	0	0	0
Others	-58	6	89	0	0
Financial cash flow (c)	-28	-2,268	-1,311	-1,867	-1,867
Inc/-dec in cash (a+b+c)	1,508	21	-2,408	1,019	1,272
Opening cash balance	2,848	4,356	4,377	1,969	2,988
Closing cash balance	4,356	4,377	1,969	2,988	4,260

Source: Company, JM Financial

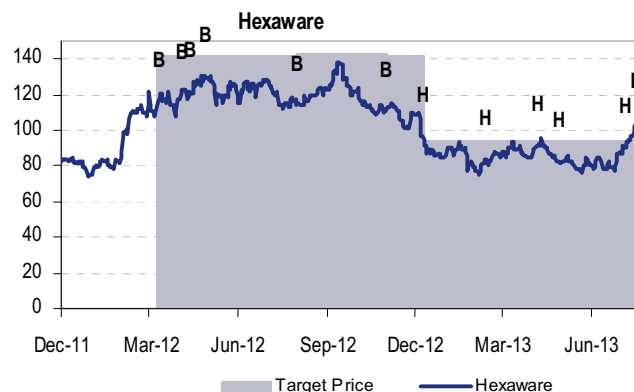
Key Ratios					
Y/E December	CY10A	CY11A	CY12A	CY13E	CY14E
BV/Share (Rs)	32.2	33.9	40.1	45.5	51.8
ROIC (%)	10.7	40.6	36.9	31.0	30.9
ROE (%)	9.4	26.9	29.5	27.1	25.7
Net Debt/equity ratio (x)	-0.5	-0.5	-0.4	-0.4	-0.4
Valuation ratios (x)					
PER	37.7	12.0	9.8	9.2	8.6
PBV	3.3	3.2	2.7	2.4	2.1
EV/EBITDA	29.3	10.2	6.8	5.9	5.0
EV/Sales	2.5	1.8	1.4	1.2	1.0
Turnover ratios (no.)					
Debtor days	66	75	68	68	68
Inventory days	0	0	0	0	0
Creditor days	23	24	18	18	18

Source: Company, JM Financial

## History of earnings estimates and target price

Date	FY13E EPS (₹)	% Chg.	FY14E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
3-Apr-12	10.2	0.0	11.8	0.0	142	Dec-12	0.0
12-Apr-12	10.2	0.0	11.8	0.0	142	Dec-12	0.0
27-Apr-12	10.2	0.0	11.8	0.0	142	Dec-12	0.0
27-Apr-12	10.8	5.9	12.5	5.9	150	Dec-12	5.6
31-Jul-12	11.6	7.4	13.0	4.0	144	Dec-12	-4.0
1-Nov-12	11.2	-3.4	12.0	-7.7	142	Sep-13	-1.4
9-Dec-12	10.5	-6.2	10.2	-15.0	95	Sep-13	-33.1
11-Feb-13	10.5	0	10.2	0	95	Sep-13	0.0
5-Apr-13	10.5	0.0	10.2	0.0	95	Sep-13	0.0
29-Apr-13	10.9	3.8	10.2	0.0	95	Sep-13	0.0
5-Jul-13	10.9	0.0	10.2	0.0	95	Sep-13	0.0
17-Jul-13	10.9	0.0	11.6	13.7	125	Dec-13	31.6

## Recommendation history



## JM Financial Institutional Securities Private Limited

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All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

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## 1QFY14 Results: Margin beat; strong hiring indicates likely acceleration of revenue growth

eClerx reported in-line revenue performance with EBITDA margin beat of 265bps. Company indicated an improved demand outlook for all the three business segments. Company will also benefit from pricing up-tick in FY14. Strong head-count addition indicates likely acceleration of revenue growth. We believe company will be able to meet NASSCOM guidance of 12-14% US\$ revenue growth in FY14. We revise our estimates driven largely by currency reset to 57, raise FY14/15 EPS by 13/15% and increase TP to Rs1,000 based on 11x FY15 EPS.

- In-line revenue growth:** eClerx reported in-line revenue (US\$) growth of 2.2% against JMFe of 2.5% QoQ. EBITDA margins surprised positively and expanded 220bps QoQ to 41.6% against our expectation of 150bps decline. Margins benefited by USD/INR depreciation and reversal of employee salary related provisions during the quarter, offsetting the impact of wage hikes. Margin improvement resulted in 11% EBITDA and 19% adjusted EPS beat.
- Agilyst business remains strong:** Agilyst has seen strong growth last year, with annual run-rate up from US\$15mn at end FY12 to US\$20mn+ at present. eClerx expects strong growth from cable/media business driven by (a) cost reduction efforts and (b) increased acceptance of off-shoring.
- Improvement in demand outlook, hiring indicates confidence on growth:** Demand outlook remains steady in the online business with growth driven by digital offerings and company has added new clients in this segment. Banking and financial services outlook has improved and company indicated higher budgets for discretionary spend. The company is in active discussion with 2-3 clients for near-shore delivery centre, which may boost growth in 2HFY14/FY15. Strong employee addition of 435 (7% increase in head-count) in 1QFY14 indicates likely acceleration of revenue growth momentum.
- Retain BUY, 30% returns potential:** We retain BUY with TP of Rs1,000 based on 11x FY15 EPS, implying a total return of 30% (including 5% dividend yield).

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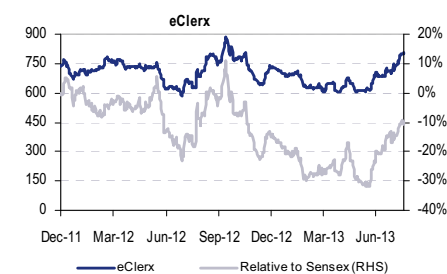
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### Key Data

Market cap (bn)	₹ 24.3 / US\$ 0.4
Shares in issue (mn)	28.5
Diluted share (mn)	30.1
3-mon avg daily val (mn)	₹ 15.0/US\$ 0.3
52-week range	₹ 910.0/597.0
Sensex/Nifty	20,150/6,029
`/US\$	59.7

### Daily Performance



	1M	3M	12M
Absolute	10.7	24.7	27.7
Relative*	6.0	18.8	11.1

\* To the BSE Sensex

### Shareholding Pattern (%)

	Jun-13	Jun-12
Promoters	53.1	54.5
FII	21.4	20.3
DII	14.8	13.0
Public / others	10.7	12.2

### Exhibit 1: Financial Summary

Y/E March	FY11A	FY12A	FY13E	FY14E	FY15E
Net sales	3,421	4,729	6,508	7,713	8,664
Sales growth (%)	33.1	38.2	37.6	18.5	12.3
EBITDA	1,346	1,897	2,508	3,088	3,436
EBITDA (%)	39.3	40.1	38.5	40.0	39.7
Adjusted net profit	1,327	1,598	1,790	2,442	2,754
EPS (Rs)	44.1	53.0	59.4	81.0	91.3
EPS growth (%)	78.1	20.2	12.0	36.4	12.8
ROIC (%)	96.7	119.2	62.2	60.6	64.6
ROE (%)	60.6	54.9	47.4	53.3	49.4
PE (x)	18.3	15.2	13.6	10.0	8.8
Price/Book value (x)	10.2	7.1	5.9	4.8	4.0
EV/EBITDA (x)	15.7	10.7	8.5	6.7	5.8

Source: Company data, JM Financial. Note: Valuations as of 19 / 07 / 2013

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## 1QFY14 result – In-line revenues, beat on margins

### Exhibit 2. 1QFY14 – Actual vs JMF Estimates

	1QFY14E	1QFY14	Chg YoY	Chg QoQ	Delta vs JMFe
Revenues (US\$ mn)	33.1	33.0	17.4%	2.2%	-0.3%
Revenues (Rs mn)	1,874	1,899	23.6%	8.9%	1.3%
EBITDA margin	37.9%	41.6%	1.8%	2.2%	3.7%
EBITDA (Rs mn)	710	791	29.3%	15.1%	11.4%
EBIT margin	35.4%	39.0%	1.7%	2.3%	3.6%
EBIT (Rs mn)	663	741	29.2%	15.6%	11.7%
Reported PAT (Rs mn)	533	617	25.1%	28.1%	15.8%
Adjusted PAT (Rs mn)*	554	657	28.7%	30.7%	18.6%
Adjusted EPS (Rs)	18.4	21.8	28.5%	30.7%	18.6%

Source: Company data, JM Financial Note: PAT adjusted for the amortization of acquisition payment of Rs41mn during 1QFY14

### Exhibit 3. 1QFY14 result snapshot

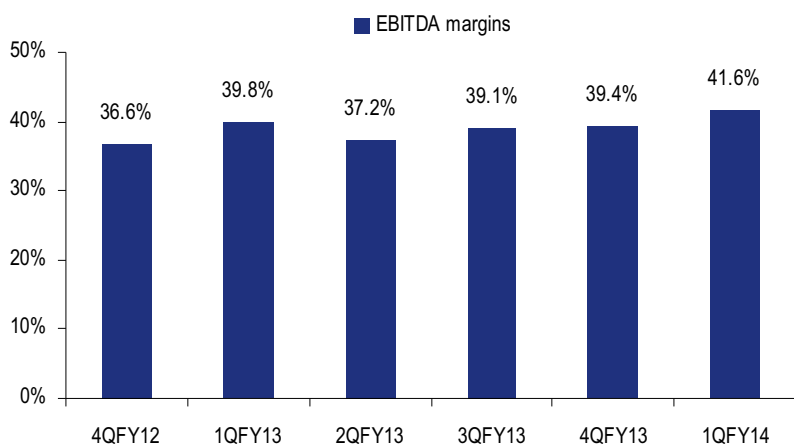
(Rs mn)	1Q FY13	2Q FY13	3Q FY13	4Q FY13	1Q FY14	QoQ	YoY
<b>Revenues (US\$ mn)</b>	<b>28.1</b>	<b>29.8</b>	<b>31.3</b>	<b>32.3</b>	<b>33.0</b>	<b>2.2%</b>	<b>17.4%</b>
<b>Revenues</b>	<b>1,537</b>	<b>1,617</b>	<b>1,708</b>	<b>1,743</b>	<b>1,899</b>	<b>8.9%</b>	<b>23.6%</b>
<b>Expenses</b>	<b>-926</b>	<b>-1,016</b>	<b>-1,040</b>	<b>-1,057</b>	<b>-1,109</b>	<b>4.9%</b>	<b>19.8%</b>
- Personnel Cost	-652	-745	-769	-787	-838	6.4%	28.5%
- SG&A	-273	-271	-271	-269	-271	0.4%	-1.0%
<b>EBITDA</b>	<b>612</b>	<b>601</b>	<b>668</b>	<b>687</b>	<b>791</b>	<b>15.1%</b>	<b>29.3%</b>
Depreciation	-38	-44	-53	-46	-49		
Amortization of deferred acquisition payment	0	-33	-21	-21	-41		
<b>EBIT</b>	<b>574</b>	<b>524</b>	<b>595</b>	<b>620</b>	<b>701</b>	<b>13.1%</b>	<b>22.2%</b>
Non-operating Income	46	-187	-10	-31	108	-451.6%	134.4%
Interest income/other	25	20	17	23	31	32.7%	22.3%
Foreign exchange gain/loss	21	-208	-27	-54	77		
- Financial expenses	0	0	0	0	0		
<b>PBT (before extraordinary charges)</b>	<b>620</b>	<b>337</b>	<b>585</b>	<b>589</b>	<b>809</b>	<b>37.3%</b>	<b>30.6%</b>
Extraordinary income/(loss)	-21	0	0	0	0		
<b>PBT (after extraordinary charges)</b>	<b>598</b>	<b>337</b>	<b>585</b>	<b>589</b>	<b>809</b>	<b>37.3%</b>	<b>35.2%</b>
Tax	-105	-85	-95	-107	-192	78.6%	82.4%
Tax rate	17.6%	25.3%	16.3%	18.2%	23.7%	30.1%	34.9%
<b>Reported Profit</b>	<b>493</b>	<b>252</b>	<b>490</b>	<b>482</b>	<b>617</b>	<b>28.1%</b>	<b>25.1%</b>
Amortization of deferred acquisition payment	0	33	21	21	41		
<b>Adjusted net profits</b>	<b>511</b>	<b>284</b>	<b>511</b>	<b>503</b>	<b>658</b>	<b>30.9%</b>	<b>28.9%</b>
Diluted EPS (Adjusted)	17.0	9.4	16.9	16.7	21.8	30.9%	28.7%
<b>Margins (%)</b>							
Gross margin	57.6%	54.0%	55.0%	54.8%	55.9%	1.0%	-1.7%
EBITDA margin	39.8%	37.2%	39.1%	39.4%	41.6%	2.2%	1.8%
EBIT margin	37.3%	32.4%	34.8%	35.6%	36.9%	1.4%	-0.4%
Reported profit Margin	32.1%	15.6%	28.7%	27.6%	32.5%	4.9%	0.4%
Adjusted Profit Margin	33.2%	17.6%	29.9%	28.8%	34.6%	5.8%	1.4%

Source: Company data Note: Exceptional item of ₹21mn during 1QFY13 on account of no-compete fees paid to Agilyst and ₹33mn/21mn/21mn/41mn in 2Q/3Q/4QFY13/1QFY14 due to amortization of acquisition payment for Agilyst

- eClerx' 1QFY14 revenue growth of 2.2% QoQ came in-line with JMFe of 2.5% growth. Revenue grew by 2.4% QoQ in constant currency.

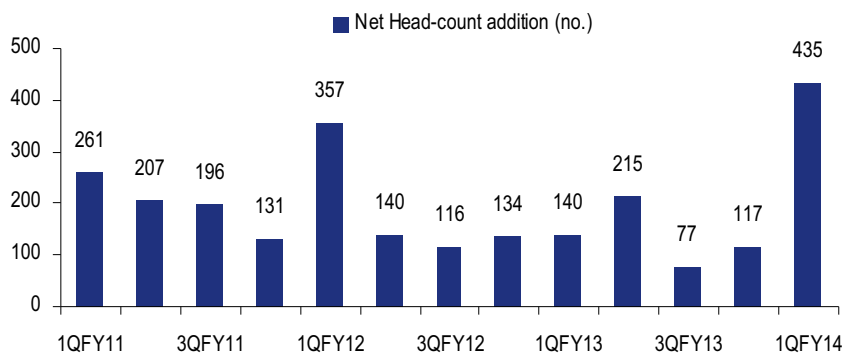
- EBITDA margins expanded 220 bps against expectation of 150bps decline. Margins benefited from reversal of employee incentive related provisions (+105bps), currency depreciation (+400bps) partly offset by wage hike impact (-290bps). Even excluding one-time benefit, EBITDA margins were up by 115bps.
- Company paid US\$2mn in 1QFY14 towards deferred payment for Agilyst acquisition (earlier paid: US\$16mn). The last series of deferred payment will be paid in 4QFY14 (between US\$0-4mn).
- As a result of the payment, amortization amount for Agilyst increased to Rs41mn from Rs21mn in previous quarter. Company expects Rs26mn amortization on a quarterly basis.
- Reported PAT came at Rs 617mn (+28.1% QoQ, +25.1% YoY).
- Adjusted PAT came at Rs658mn (+31% QoQ) and was c.19% above estimates. 1QFY14 adjusted EPS grew 31% QoQ to Rs21.8.

**Exhibit 4. eClerx continues to maintain healthy EBITDA margins, with 1QFY14 margins benefiting from currency depreciation**



Source: Company data

**Exhibit 5. Headcount addition indicates strong near-term visibility**



Source: Company data. Excluding the headcount addition due to Agilyst in 1QFY13

## Maintain BUY with TP of Rs1,000 (prev: Rs870)

We revised earnings estimates for eClerx, changes largely driven by currency assumption reset to 57 and marginal increase in US\$ revenue estimates. We increase our FY14/15 revenues (US\$) estimates by 0.6% and 1.8% respectively and now forecast FY14/15 revenue growth of 11.7%/12.3% respectively. We revise our USD/INR assumption from 53 to 57 for FY14/15, and our EBIT margin estimates go up by c.240/225bps respectively. We now forecast EBIT margins of 37.3%/36.9% for FY14/15 respectively.

Our other assumptions remain largely un-changed and net-net EPS estimate is revised upwards by c.13/15% for FY14/15.

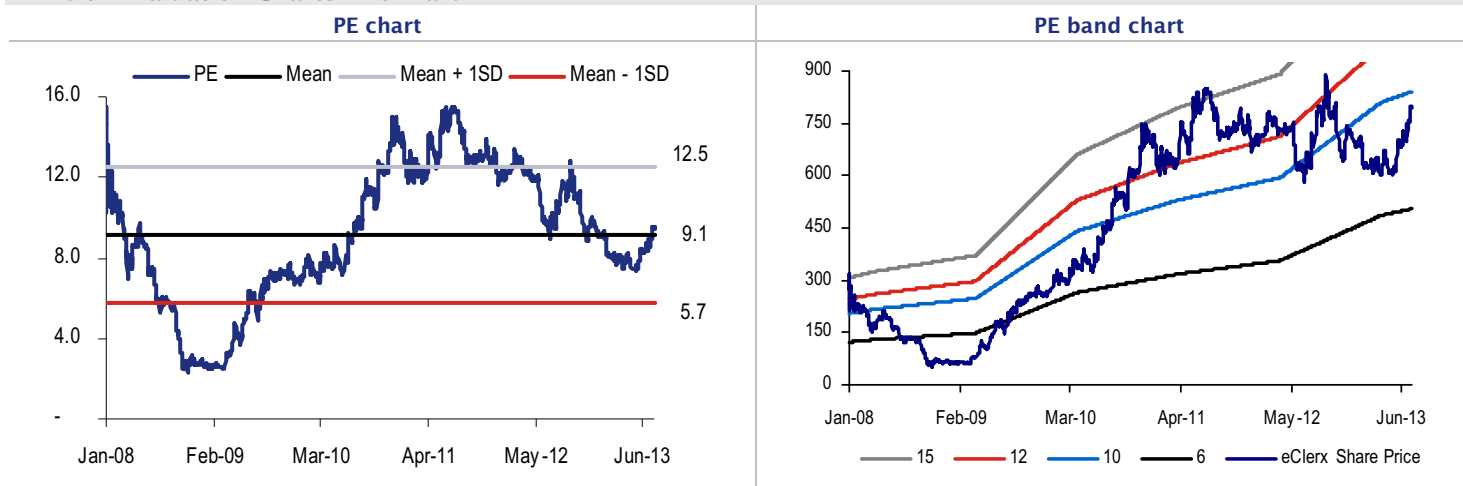
We revise eClerx TP to Rs1,000 (prev: Rs870) based on 11x FY15 EPS. eClerx remains our preferred pick in mid-cap space on account of differentiated service offerings, superior financial metrics along with high dividend yield of c.5%.

### Exhibit 6. Earnings change summary

	FY14E	FY15E
Revenue (US\$ mn)	135.3	152.0
Change	0.6%	1.8%
Growth (YoY)	11.7%	12.3%
Revenue (Rs mn)	7,713	8,664
Change	8.2%	9.5%
Growth (YoY)	18.5%	12.3%
EBIT margin	37.3%	36.9%
Change (bps)	239	225
Change (YoY)	167	-43
EBIT (Rs mn)	2,878	3,196
Change	15.6%	16.6%
Growth (YoY)	24.1%	11.1%
Net Profit (Rs mn)	2,442	2,754
Change	13.2%	15.1%
Growth (YoY)	36.4%	12.8%
EPS (Rs)	81.0	91.3
Change	13.2%	15.1%
Growth (YoY)	36.4%	12.8%

Source: JM Financial

### Exhibit 7. Valuation Charts - Forward PE



Source: Bloomberg, JM Financial

## Key Metrics

### Exhibit 8. Geographic mix and revenue contribution

(US\$)	Revenue contribution	QoQ	YoY
North America	74.0%	2.2%	22.4%
Europe	21.0%	2.2%	23.3%
ROW	5.0%	2.2%	-34.8%

*Even growth across geographies*

Source: Company data

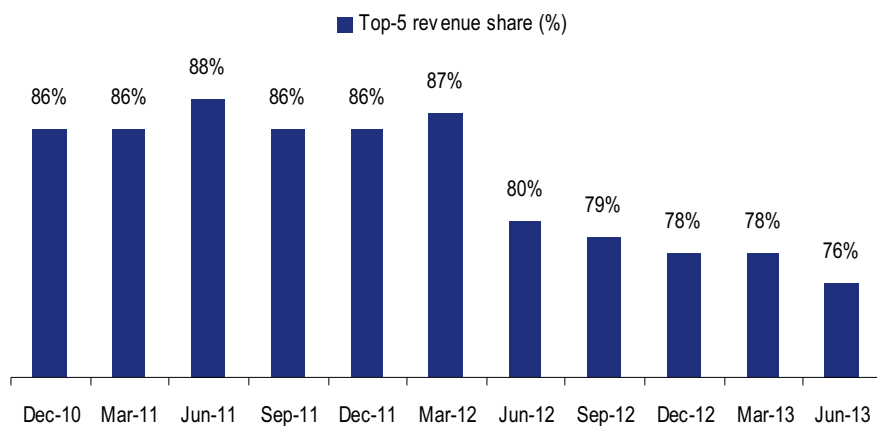
### Exhibit 9. Client mix and revenue contribution

(US\$)	Revenue contribution	QoQ	YoY
Top 5	78.0%	-0.5%	11.6%
Ex-Top 5	22.0%	11.5%	40.9%

*Top-5 client revenues declined 0.5% QoQ, while non-Top5 grew by 11.5%*

Source: Company data

### Exhibit 10. Revenue share from top-5 clients



*Share of top-5 clients continues to come down steadily*

Source: Company data

### Exhibit 11. Billing mix and revenue contribution

(US\$)	Revenue contribution	QoQ	YoY
FTE	91.0%	5.5%	18.7%
SEZ Revenue	60.0%	2.2%	13.6%

Source: Company data

### Exhibit 12. Employee metrics

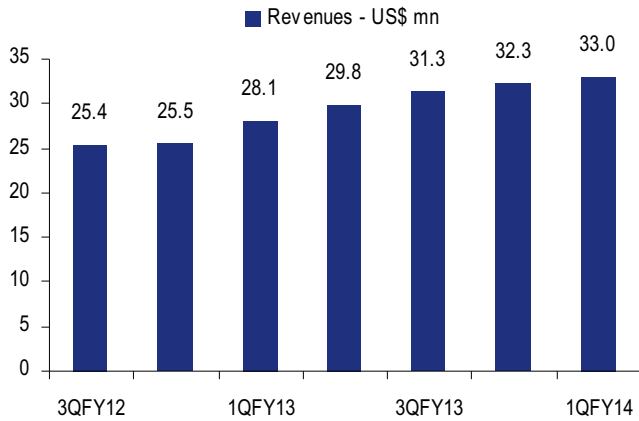
	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14
Manpower	4,405	5,545	5,760	5,837	5,954	6,389
Net Addition	134	1,140	215	77	117	435
Attrition (%)	30.9%	23.2%	30.2%	26.5%	27.3%	25.2%

*Net addition of 435 (7%+ of prev quarter head-count) indicates growth visibility*

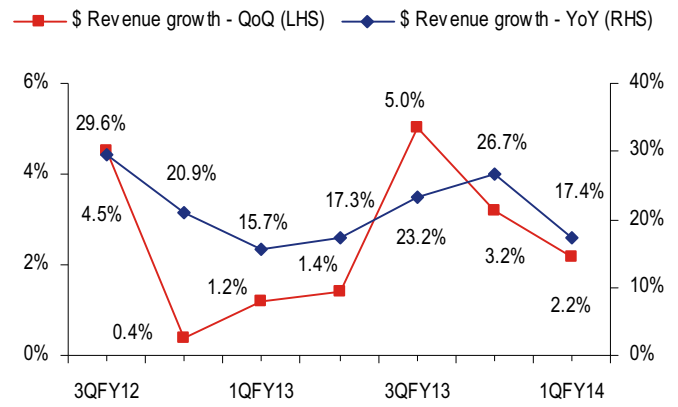
Source: Company data

Exhibit 12. Key financials

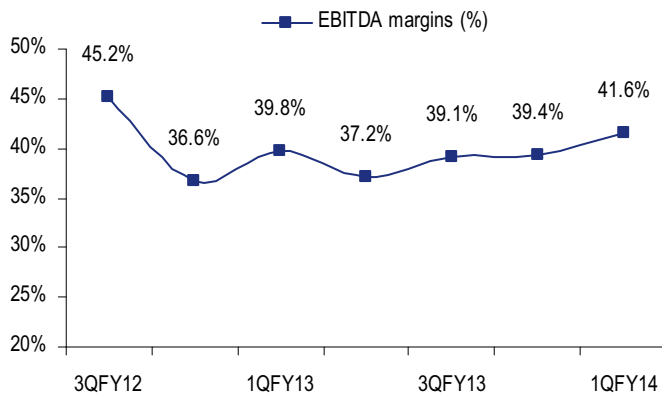
Revenue (US\$)



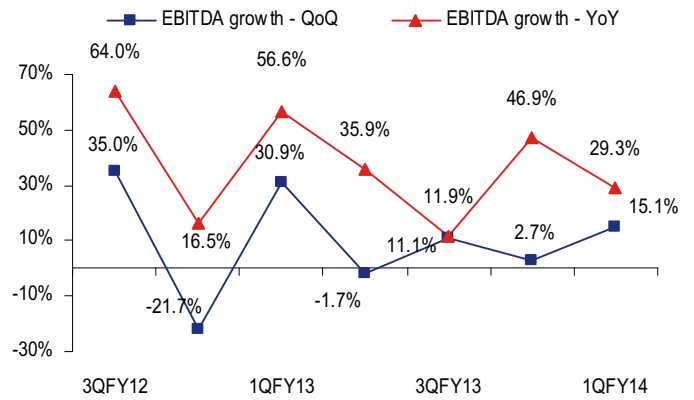
Revenue growth (US\$)



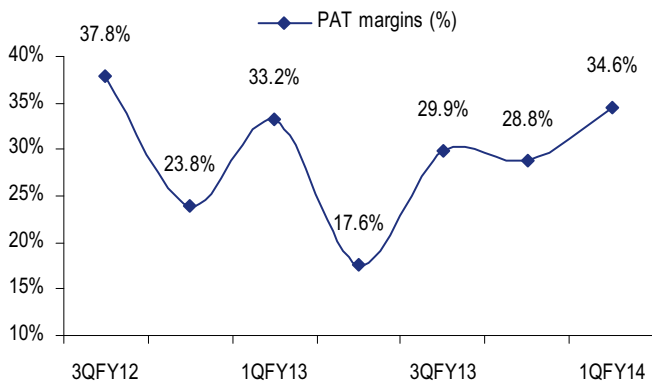
EBITDA Margins (%)



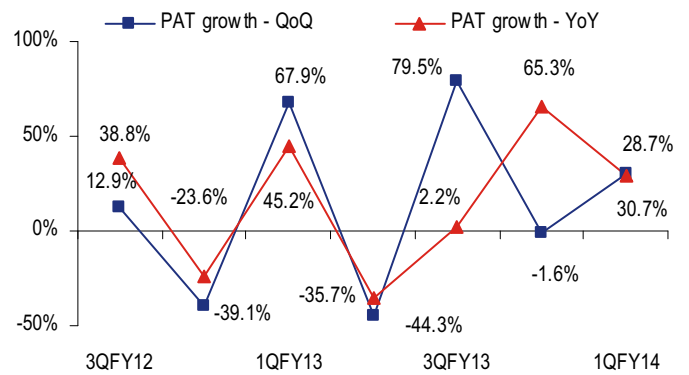
EBITDA growth (INR)



Net Margins (%)



Net income growth (INR)



Source: Company data Note



## Company Description

- eClerx is a niche mid-cap KPO company focused on (a) banking and capital markets (c.42% revenue share as per our estimates), (b) online business (c.42% share) and (c) Cable & telecom (c.16%) acquired through Agilyst acquisition (incorporated from 1QFY13 onwards). The company reported revenues of US\$121.2mn during FY13 and had employee base of 5,954 at Mar-13. Revenue breakup by geography – North America (74%), Europe (20%) and Rest of world (6%) Top-5 clients contributed 79% of revenues in FY13, with total client base of 73 at Mar-13.

### Exhibit 13. Key Assumptions

	FY11	FY12	FY13E	FY14E	FY15E
Revenue - US\$ mn	75.5	97.5	121.2	135.3	152.0
Growth	37.3%	29.1%	24.3%	11.7%	12.3%
Revenue - Rs mn	3,421	4,729	6,508	7,713	8,664
Growth	33.1%	38.2%	37.6%	18.5%	12.3%
EBIT - Rs mn	1,255	1,768	2,320	2,878	3,196
EBIT margin	36.7%	37.4%	35.6%	37.3%	36.9%
EPS - Rs	44.1	53.0	59.4	81.0	91.3
Growth	78.1%	20.2%	12.0%	36.4%	12.8%
Tax rate	11.3%	20.0%	20.0%	23.0%	23.0%
USD / INR rate	45.3	48.5	53.7	57.0	57.0

Source: Company data, JM Financial

## Investment Rationale

- Differentiated services, superior financial performance:** eClerx' revenues (US\$)/EPS have grown at CAGR of 26% (organic)/28% between FY09-13, while EBITDA margins have remained above c.38% levels. FCF/PAT conversion of c.74% for past five years compares with leading tier-I players and dividend payout has been c.50%. We expect steady revenue growth along with stable margins for eClerx driving 24.0% EPS CAGR between FY13-15. The company is almost entirely off-shore and therefore will be less impacted by any potential changes from the US immigration reforms. We assign a P/E multiple of 11x to arrive at Mar'14 TP of Rs1,000.

## Key Risks

- Global macro-economic slowdown, wage inflation, any issues with Top-5 clients.

## Bear Case Analysis

We assume 2% lower revenue growth and 100bps lower EBITDA margins and target multiple of 9x to arrive at Mar '14 TP of Rs775.

### Exhibit 14. Bear case presents 22% downside to TP

	Base Case	Pessimistic case
<b>FY14</b>		
Revenue growth (US\$)	11.7%	9.7%
EBITDA Margin (%)	40.0%	39.0%
EPS (Rs)	81.0	77.7
<b>FY15</b>		
Revenue growth (US\$)	12.3%	10.3%
EBITDA Margin (%)	39.7%	38.7%
EPS (Rs)	91.3	86.1
EPS (Mar-15) - Rs	91.3	86.1
Multiple (x)	11.0	9.0
Price Target (Mar- 14)	<b>1,000</b>	<b>775</b>

Source: JM Financial

## Financial Tables (Consolidated)

Profit & Loss					
	(₹ mn)				
Y/E March	FY11A	FY12A	FY13E	FY14E	FY15E
Net sales (Net of excise)	3,421	4,729	6,508	7,713	8,664
Growth (%)	33.1	38.2	37.6	18.5	12.3
Other operational income	0	0	0	0	0
Raw material (or COGS)	1,477	2,039	2,835	3,326	3,767
Personnel cost	0	0	0	0	0
Other expenses (or SG&A)	599	793	1,165	1,299	1,461
<b>EBITDA</b>	<b>1,346</b>	<b>1,897</b>	<b>2,508</b>	<b>3,088</b>	<b>3,436</b>
EBITDA (%)	39.3	40.1	38.5	40.0	39.7
Growth (%)	34.1	41.0	32.2	23.1	11.3
Other non-op. income	62	174	-284	0	50
Depreciation and amort.	91	129	188	210	240
EBIT	1,316	1,942	2,036	2,878	3,246
Add: Net interest income	76	49	108	139	195
Pre tax profit	1,392	1,991	2,144	3,017	3,441
Taxes	168	394	429	694	792
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	0	0	0	0	0
Reported net profit	1,224	1,598	1,715	2,323	2,650
<b>Adjusted net profit</b>	<b>1,327</b>	<b>1,598</b>	<b>1,790</b>	<b>2,442</b>	<b>2,754</b>
Margin (%)	38.8	33.8	27.5	31.7	31.8
Diluted share cap. (mn)	30	30	30	30	30
<b>Diluted EPS (Rs.)</b>	<b>44.1</b>	<b>53.0</b>	<b>59.4</b>	<b>81.0</b>	<b>91.3</b>
Growth (%)	78.1	20.2	12.0	36.4	12.8
Total Dividend + Tax	755	595	1,029	1,394	1,590

Source: Company, JM Financial

Balance Sheet					
	(₹ mn)				
Y/E March	FY11A	FY12A	FY13E	FY14E	FY15E
Share capital	289	291	291	291	291
Other capital	1	3	3	3	3
Reserves and surplus	2,095	3,139	3,825	4,754	5,814
Networth	2,384	3,432	4,118	5,047	6,107
Total loans	0	0	0	0	0
Minority interest	0	0	0	0	0
<b>Sources of funds</b>	<b>2,384</b>	<b>3,432</b>	<b>4,118</b>	<b>5,047</b>	<b>6,107</b>
Intangible assets	0	0	0	0	0
Fixed assets	639	907	1,957	2,572	2,872
Less: Depn. and amort.	335	463	651	861	1,101
Net block	305	444	1,306	1,711	1,771
Capital WIP	65	45	45	45	45
Investments	279	999	999	999	999
Def tax assets/- liability	0	0	0	0	0
Current assets	2,873	3,119	2,532	3,489	4,730
Inventories	0	0	0	0	0
Sundry debtors	659	422	927	1,099	1,234
Cash & bank balances	1,515	1,687	624	1,228	2,190
Other current assets	412	636	0	0	0
Loans & advances	286	375	981	1,162	1,306
Current liabilities & prov	1,144	1,182	772	1,204	1,445
Current liabilities	151	211	101	151	201
Provisions and others	994	971	671	1,054	1,244
Net current assets	1,728	1,937	1,761	2,285	3,285
Others (net)	7	8	8	8	8
<b>Application of funds</b>	<b>2,384</b>	<b>3,432</b>	<b>4,118</b>	<b>5,047</b>	<b>6,107</b>

Source: Company, JM Financial

Cash flow statement					
	(₹ mn)				
Y/E March	FY11A	FY12A	FY13E	FY14E	FY15E
Reported net profit	1,224	1,598	1,715	2,323	2,650
Depreciation and amort.	88	129	188	210	240
-Inc/dec in working cap.	-164	295	-666	-172	-136
Others	0	0	0	0	0
<b>Cash from operations (a)</b>	<b>1,148</b>	<b>2,022</b>	<b>1,237</b>	<b>2,361</b>	<b>2,754</b>
-Inc/dec in Investments	496	-721	0	0	0
Capex	-136	-248	-1,050	-615	-300
Others	373	-332	-220	251	97
<b>Cash flow from inv. (b)</b>	<b>734</b>	<b>-1,300</b>	<b>-1,270</b>	<b>-364</b>	<b>-203</b>
Inc/-dec in capital	-85	45	0	0	0
Dividend+Tax thereon	-755	-595	-1,029	-1,394	-1,590
Inc/-dec in loans	0	0	0	0	0
Others	0	-1	0	0	0
<b>Financial cash flow (c)</b>	<b>-839</b>	<b>-550</b>	<b>-1,029</b>	<b>-1,394</b>	<b>-1,590</b>
Inc/-dec in cash (a+b+c)	1,043	171	-1,062	604	962
Opening cash balance	472	1,515	1,687	624	1,228
Closing cash balance	1,515	1,687	624	1,228	2,190

Source: Company, JM Financial

Key Ratios					
Y/E March	FY11A	FY12A	FY13E	FY14E	FY15E
BV/Share (Rs)	79.1	113.8	136.6	167.4	202.6
ROIC (%)	96.7	119.2	62.2	60.6	64.6
ROE (%)	60.6	54.9	47.4	53.3	49.4
Net Debt/equity ratio (x)	-0.8	-0.8	-0.4	-0.4	-0.5
<b>Valuation ratios (x)</b>					
PER	18.3	15.2	13.6	10.0	8.8
PBV	10.2	7.1	5.9	4.8	4.0
EV/EBITDA	15.7	10.7	8.5	6.7	5.8
EV/Sales	6.2	4.3	3.3	2.7	2.3
<b>Turnover ratios (no.)</b>					
Debtor days	70	33	52	52	52
Inventory days	0	0	0	0	0
Creditor days	25	29	0	0	0

Source: Company, JM Financial

**History of earnings estimates and target price**

Date	FY13E EPS (₹)	% Chg.	FY14E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
2-Apr-12	62.8	0.0	76.7	0.0	880	Mar-13	0.0
3-Apr-12	62.9	0.2	76.2	-0.7	880	Mar-13	0.0
21-May-12	60.2	-4.3	71.3	-6.4	855	Mar-13	-2.8
24-Jul-12	67.8	12.6	75.8	6.3	910	Mar-13	6.4
6-Aug-12	67.1	-1.0	75.1	-0.9	910	Mar-13	0.0
28-Sep-12	67.1	0.0	75.1	0.0	910	Mar-13	0.0
1-Nov-12	58.2	-13.3	71.7	-4.5	910	Sep-13	0.0
28-Jan-13	59.4	2.1	71.6	-0.1	910	Sep-13	0.0
5-Apr-13	59.4	0.0	71.6	0.0	910	Sep-13	0.0
10-Apr-13	59.4	0.0	71.6	0.0	910	Sep-13	0.0
24-May-13	59.4	0.0	71.6	0.0	870	Mar-14	-4.4
5-Jul-13	59.4	0.0	71.6	0.0	870	Mar-14	0.0

**Recommendation history****JM Financial Institutional Securities Private Limited**

Member, BSE Limited and National Stock Exchange of India Limited

SEBI Registration Nos.: BSE - INB011296630 &amp; INF011296630, NSE - INB231296634 &amp; INF231296634

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## Strong ad pickup drive overall growth

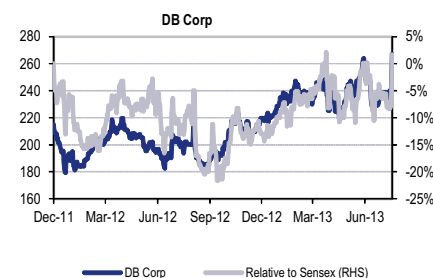
DB Corp (DBCL) healthy 20% YoY in ad revenues during 1QFY14 (stronger than JMFe) was a reflection of its focus on yield improvement strategy backed by its diversified regional print presence. We raise our FY14-15E ad growth forecast for DBCL by 4-6% in FY14/15E and expect print ad revenue growth at 14%/11% YoY in FY14/15E respectively which will also be aided by election spends during FY14E. While we see the strong 29.6% EBITDA margin in 1QFY14 to not sustain for future quarters due to currency impact, FY14E margin at 26% will still witness 240bps YoY expansion, resulting in strong net profit growth of c.25%YoY in FY14E. We raise our earning estimates by 11-12% for FY14/15E and revise Mar'14 TP to ₹306 (earlier ₹272), based on 17x FY15E earnings. Maintain BUY.

- **1QFY14 revenues, EBITDA margin above JMFe:** 1QFY14 consolidated revenues of DBCL grew c.19% YoY to ₹4.5bn, better than JMFe of ₹4.2bn led by 1) strong 20% YoY growth in ad revenues to ₹3.25bn (JMFe c.₹3bn), 2) healthy 17%/22% YoY growth in circulation/radio revenues to ₹767mn/₹172mn respectively. Aided by strong revenue growth, EBITDA margin improved strong c.870bps YoY to 29.6% (JMFe 22%). Net profit grew a strong c.74% YoY to ₹761mn, with EPS of ₹4.1 (JMFe ₹2.9).
- **Margins for mature editions see strong improvement, emerging edition EBITDA loss remain flat:** While DBCL's mature edition EBITDA margin improved by 470bps sequentially to 35.5% due to strong revenue growth in 1QFY14, emerging edition EBITDA loss stood flat QoQ at ₹58mn. Driven by strong ad revenue growth, 1QFY14 EBITDA margin stood strong at 29.6% (up c.870bps YoY). We see EBITDA margin to come in lower for future quarters due to currency impact and expect FY14/15E EBITDA margin at 26% (up 240bps YoY), 27.6% (up 160bps YoY) respectively. We have revised our INR/USD assumption upwards to ₹57 in FY14E and expect DBCL to resort to pagination cuts, reduce import newsprint quality and other cost control measures to lower currency impact. Our revised assumption for blended newsprint price is at ₹35.6 (up c.8% YoY) with consumption of 1.68lakhs MT (up 2.3%YoY).
- **Maintain BUY with revised Mar'14 TP to ₹306:** Post stronger than expected 1QFY14 results led by strong revenue growth we raise our FY14/15 estimates by 11-12% (exhibit 6). We continue to like DBCL's aggressive diversification strategy with strong execution capabilities and revise upwards our Mar'14 TP to ₹306 (earlier ₹272), based on 17x FY15E EPS of ₹18.0. Maintain BUY.

### Key Data

Market cap (bn)	₹ 49.0 / US\$ 0.8
Shares in issue (mn)	183.4
Diluted share (mn)	183.4
3-mon avg daily val (mn)	₹ 13.7/US\$ 0.2
52-week range	₹ 273.0/180.6
Sensex/Nifty	20,150/6,029
₹/US\$	59.7

### Daily Performance



%	1M	3M	12M
Absolute	12.7	19.8	32.4
Relative*	8.0	13.9	15.8

\* To the BSE Sensex

### Shareholding Pattern (%)

	Mar'13	Mar'12
Promoters *	75.0	86.4
FII	14.4	4.8
DII	5.5	4.7
Public / others	5.2	4.0

### Exhibit 1. Financial Summary (consolidated)

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Net sales	12,600	14,515	15,923	18,038	19,973
Sales growth (%)	18.5	15.2	9.7	13.3	10.7
EBITDA	3,975	3,364	3,760	4,685	5,506
EBITDA (%)	31.6	23.2	23.6	26.0	27.6
Adjusted net profit	2,363	2,021	2,181	2,720	3,296
EPS (₹)	12.9	11.0	11.9	14.8	18.0
EPS growth (%)	28.0	-14.5	7.9	24.7	21.2
ROIC (%)	28.6	21.7	21.4	25.2	30.2
ROE (%)	32.0	23.0	22.3	24.5	25.8
PE (x)	20.7	24.2	22.4	18.0	14.9
Price/Book value (x)	5.9	5.3	4.8	4.1	3.6
EV/EBITDA (x)	12.3	14.4	12.8	10.0	8.2

Source: Company data, JM Financial. Note: Valuations as of 19/07/2013

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- **Ad/circulation revenues witness healthy YoY growth:** At ₹3.2bn, print ad revenue grew a healthy 20% YoY and was better than JMFe of c.₹3bn driven by yield improvement and growth in most ad categories especially education, real estate, auto and FMCG sectors. Circulation revenues also witnessed strong 17% YoY growth to ₹767mn led by increase in cover prices.
- **Other key highlights:** 1) EBITDA margin from mature editions of print business improved c.470bps QoQ to 35.5% in 1QFY14 and EBITDA loss from emerging editions stood flat QoQ at ₹58mn, 2) 1QFY14 radio revenues stood at ₹172mn (up c.22% YoY) with EBITDA margin of c.29%, 3) internet business revenues stood at ₹26mn (up c.17%YoY) with EBIT loss of ₹32mn vs ₹34mn in 4QFY13, 4) Launched 6<sup>th</sup> edition in Akola (Maharashtra) and another edition in Amravati is expected to be launched soon.
- **Key takeaways from 1QFY14 earnings call:** As per management 1) ad growth momentum should continue going forward on the back of yield improvement strategy and upcoming state and general elections, 2) blended average newsprint cost stood at c.₹33.2 per kg with c.42,600 MT of consumption in 1QFY14. Blended newsprint price is expected to increase more than 5% YoY in FY14E, 3) DBCL would concentrate on existing markets and does not have immediate plans to launch Bihar, 4) both national and local segments achieved double digit growth during the quarter, 5) the circulation revenue increase is mainly due to cover price hike. The average realization cover price of ₹1.7 offers room for further increase as it is still lower than peers, 6) after Akola launch in Maharashtra, Amravati market will be launched in the next one month.

**Exhibit 2. Result summary (consolidated)**

(₹ mn)	4QFY13	1QFY13	1QFY14	YoY %	1QFY14E
Advertisement	2,779	2,701	3,253	20.4	3,000
Circulation	731	656	767	16.9	732
Others (including Radio, Events etc)	471	413	474	14.9	473
<b>Total Revenues</b>	<b>3,981</b>	<b>3,770</b>	<b>4,494</b>	<b>19.2</b>	<b>4,205</b>
COGS	1,337	1,332	1,421	6.7	1,451
Staff cost	692	682	744	9.1	736
Other Expenses	1,013	971	1,001	3.1	1,093
Total Expense	3,042	2,985	3,166	6.1	3,280
<b>EBITDA</b>	<b>939</b>	<b>785</b>	<b>1,328</b>	<b>69.2</b>	<b>925</b>
<b>EBITDA %</b>	<b>23.6</b>	<b>20.8</b>	<b>29.6</b>		<b>22.0</b>
Depreciation	151	135	158	16.7	150
Interest	22	37	25	-33.4	15
Other income	92	46	45	-1.1	40
<b>PBT</b>	<b>858</b>	<b>658</b>	<b>1,191</b>	<b>80.9</b>	<b>800</b>
Tax	307	222	430		272
Net profit before MI	552	436	761	74.4	528
Minority Interest	-1	0	0		0
<b>Net profit</b>	<b>553</b>	<b>437</b>	<b>761</b>	<b>74.3</b>	<b>528</b>
<b>EPS (₹)</b>	<b>3.0</b>	<b>2.4</b>	<b>4.1</b>	<b>74.3</b>	<b>2.9</b>
Eq. Share o/s (mn)	183	183	183		183

Source: Company, JM Financial

**Exhibit 3. OPEX breakup**

(%)	4QFY13	1QFY13	1QFY14	1QFY14E
COGS	33.6	35.3	31.6	34.5
Staff Cost	17.4	18.1	16.6	17.5
Other expenses	25.4	25.8	22.3	26.0

Source: Company, JM Financial

**Exhibit 4. Segment results**

(₹ mn)	4QFY13	1QFY13	1QFY14	YoY %
Printing & Publishing	3,761	3,568	4,292	20.3
Radio Broadcasting	183	140	172	22.4
Events	31	46	15	-67.3
Others	21	25	29	17.1
<b>Total revenues</b>	<b>3,995</b>	<b>3,779</b>	<b>4,507</b>	<b>19.3</b>
Less: Inter-segment	14	9	13	
<b>Net Revenues</b>	<b>3,981</b>	<b>3,770</b>	<b>4,494</b>	<b>19.2</b>
<b>Segment EBIT</b>				
Printing & Publishing	860	729	1,234	69.1
Radio Broadcasting	40	3	23	
Events	-15	-1	-1	
Others	-47	-25	-42	
<b>Total</b>	<b>837</b>	<b>707</b>	<b>1,214</b>	<b>71.8</b>
<b>Segment EBIT %</b>				
Printing & Publishing	22.9	20.4	28.7	
Radio Broadcasting	21.8	2.2	13.5	
Events	-49.3	-2.9	-4.5	
Others	NM	NM	NM	
<b>Total</b>	<b>21.0</b>	<b>18.7</b>	<b>27.0</b>	
<b>Less: Other unallocable item</b>	22	37	25	-33.4
<b>Less: Interest</b>	48	57	43	-23.9
<b>Add: Unallocable income</b>	92	46	45	-1.1
<b>PBT</b>	<b>858</b>	<b>658</b>	<b>1,191</b>	<b>80.9</b>

Source: Company, JM Financial, NM: Not meaningful

**Exhibit 5. Emerging/Mature Edition financials**

(₹ mn)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
<b>Emerging</b>	219	302	376	346	441	453	497	377	366
Revenues	-173	-231	-165	-198	-121	-99	-57	-58	-58
EBITDA	-79%	-76%	-44%	-57%	-27%	-22%	-11%	-15%	-16%
<i>EBITDA margin</i>									
<b>Mature</b>	3,183	3,086	3,381	3,085	3,175	3,135	3,698	3,520	3,969
Revenues	1,181	1,002	1,141	923	961	928	1,227	1,085	1,410
EBITDA	37%	32%	34%	30%	30.3%	30%	33.2%	30.8%	35.5%
<i>EBITDA margin</i>	219	302	376	346	441	453	497	377	366

Source: Company, JM Financial

**Exhibit 6. Revised summary (Consolidated)**

(₹ mn)	FY14E			FY15E		
	Revised	Old	% Chg	Revised	Old	% Chg
Advertisement	12,880	12,372	4.1%	14,297	13,485	6.0%
Circulation	3,123	3,115	0.2%	3,408	3,400	0.2%
Others	2,035	2,050	-0.7%	2,268	2,301	-1.4%
<b>Net Revenues</b>	<b>18,038</b>	<b>17,537</b>	<b>2.9%</b>	<b>19,973</b>	<b>19,186</b>	<b>4.1%</b>
COGS	5,999	5,869	2.2%	6,229	6,006	3.7%
Staff Cost	3,122	3,215	-2.9%	3,533	3,693	-4.3%
Other Expenses	4,232	4,276	-1.0%	4,705	4,602	2.2%
EBITDA	4,685	4,177	12.1%	5,506	4,884	12.7%
EBITDA margin	26.0%	23.8%		27.6%	25.5%	
<b>Net profit</b>	<b>2,720</b>	<b>2,434</b>	<b>11.7%</b>	<b>3,296</b>	<b>2,939</b>	<b>12.2%</b>
<b>EPS (₹)</b>	<b>14.8</b>	<b>13.3</b>		<b>18.0</b>	<b>16.0</b>	

Source: Company, JM Financial

**Exhibit 7. Mar'14 target price upside of c.15%**  
 We assign a 17x multiple to arrive at TP of ₹306

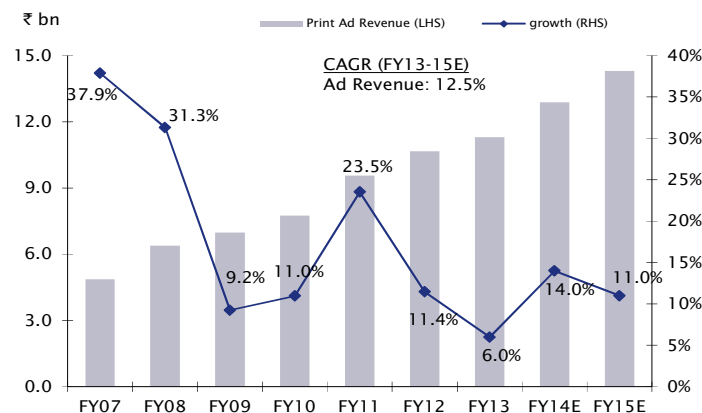
2-yr average PE [Rounded]	17x
Premium/Discount	NA
Target P/E [Rounded]	17x
Mar'15 EPS (₹)	18.0
<b>Target Price (₹)</b>	<b>306</b>
Potential upside/downside to TP	14.6%

Source: Bloomberg, JM Financial

**Exhibit 8. DBCL - JM Financial vs Consensus**  
 Our estimates are broadly in line with consensus

Y/E Mar (₹ mn)	2014E	2015E
<b>Sales</b>		
JM Financial	18,038	19,973
Consensus (Mean)	17,806	19,860
<i>JM Financial vs. Consensus</i>	1.3%	0.6%
<b>Reported EBITDA</b>		
JM Financial	4,685	5,506
Consensus (Mean)	4,501	5,261
<i>JM Financial vs. Consensus</i>	4.1%	4.7%
<b>Net Profit</b>		
JM Financial	2,720	3,296
Consensus (Mean)	2,740	3,276
<i>JM Financial vs. Consensus</i>	-0.7%	0.6%

Source: Bloomberg, JM Financial

**Exhibit 9. DBCL - Ad revenue forecast**  
 Print ad revenues to have c.13% CAGR in FY13-15E


Source: Company, JM Financial

**Exhibit 10. DBCL - 1-yr fwd P/E band**  
 2-yr average P/E multiple of c.17x


Source: Bloomberg, JM Financial

**Exhibit 11. Sensitivity of newsprint price and exchange rate on EBITDA**

FY14 EBITDA (₹ mn)	Newsprint price (\$)					
	585	605	625	645	665	
55	5,266	5,080	4,895	4,710	4,525	
56	5,167	4,978	4,790	4,601	4,413	
<b>USD/INR rate</b>	57	5,069	4,877	<b>4,685</b>	4,493	4,301
	58	4,970	4,775	4,579	4,384	4,189
	59	4,872	4,673	4,474	4,275	4,077

Source: JM Financial

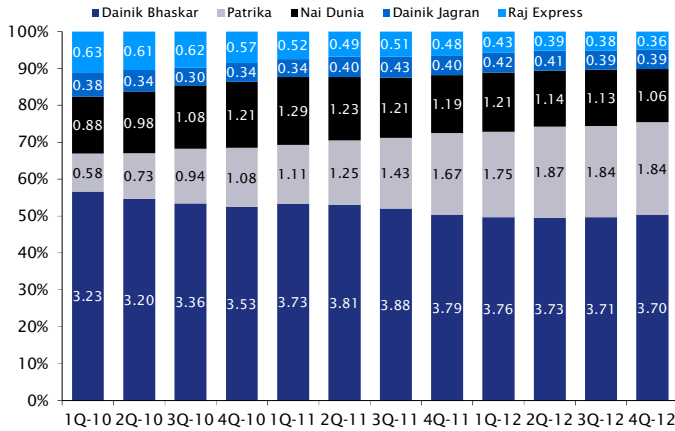
**Exhibit 12. Sensitivity of newsprint price and exchange rate on EPS**

FY14 EPS (₹)	Newsprint price (\$)					
	585	605	625	645	665	
55	16.9	16.3	15.6	14.9	14.3	
56	16.6	15.9	15.2	14.5	13.9	
<b>USD/INR rate</b>	57	16.2	15.5	<b>14.8</b>	14.1	13.4
	58	15.9	15.2	14.5	13.7	13.0
	59	15.5	14.8	14.1	13.4	12.6

Source: JM Financial

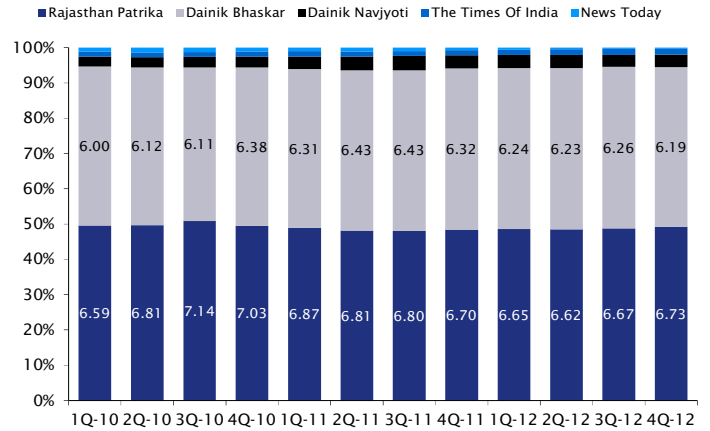
## DBCL – Readership data across key States

**Exhibit 13. MP - Top dailies (mn)**  
DB clear leader with c.3.7mn readers



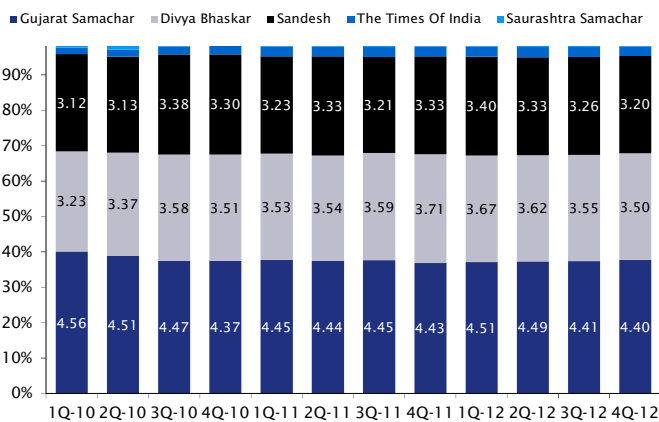
Source: Industry, IRS, JM Financial, AIR data

**Exhibit 14. Rajasthan - Top dailies (mn)**  
Competition mainly between top 2 players – RP and DB



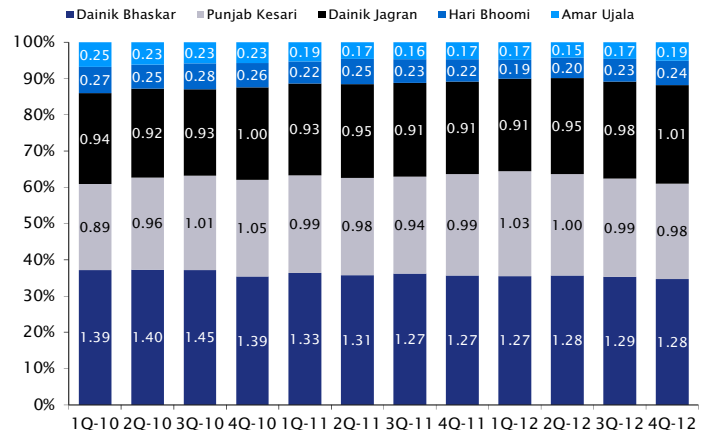
Source: Industry, IRS, JM Financial, AIR data

**Exhibit 15. Gujarat - Top dailies (mn)**  
DB maintains number 2 position despite QoQ loss



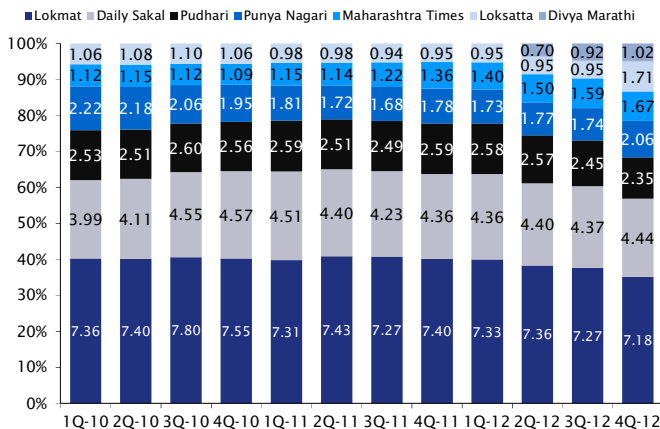
Source: Industry, IRS, JM Financial, AIR data

**Exhibit 16. Haryana - Top dailies (mn)**  
DB leads with 1.28mn readers, PK follows with c.1 mn



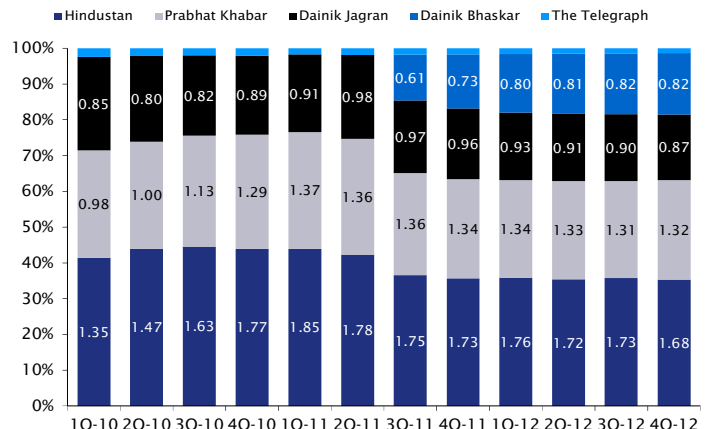
Source: Industry, IRS, JM Financial, AIR data

**Exhibit 17. Maharashtra - Top Marathi dailies (mn)**  
Lokmat leads, Divya Marathi clocks over 1mn readers



Source: Industry, IRS, JM Financial, AIR data

**Exhibit 18. Jharkhand - Top dailies (mn)**  
Hindustan clear leader, DB maintain readers at c.0.82mn



Source: Industry, IRS, JM Financial, AIR data



**Exhibit 19. DBCL – Global/Indian valuation comparables**

Ticker	Currency	Y/E	Price	Mkt Cap. (US\$m)	FY13-15E CAGR			PEG (x)	EVG(x)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			
					Rev	EBITDA	EPS	FY13-15E	FY13-15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	
<b>USA</b>																			
Gannett Co. Inc	GCI US	USD	Dec	26.4	6,033	6.5%	10.4%	12.9%	0.8	0.5	12.0	9.8	9.4	6.1	4.8	4.6	1.3	1.1	1.0
New York Times	NYT US	USD	Dec	12.1	1,800	-2.0%	-1.7%	-9.1%	-3.2	-3.5	28.6	29.4	34.6	5.9	5.8	5.5	0.8	0.8	0.7
<b>Asia</b>																			
APN News & Media	APN AU	AUD	Dec	0.3	161	0.9%	-0.2%	NM	NM	-21.2	NM	3.8	3.8	4.2	4.0	3.7	0.7	0.6	0.6
Fairfax Media	FXJ AU	AUD	June	0.5	1,089	-4.3%	-9.8%	NM	NM	-0.4	9.4	9.5	9.2	3.7	4.4	4.1	0.6	0.7	0.6
Singapore Press Holdings	SPH SP	SGD	Aug	4.3	5,430	2.0%	0.5%	0.4%	42.0	29.4	19.3	18.8	19.1	15.4	15.2	15.2	6.0	5.8	5.7
Star Publications	STAR MK	MYR	Dec	2.8	643	3.2%	2.5%	3.7%	3.2	2.5	12.2	11.7	11.4	6.5	6.3	6.0	1.6	1.6	1.5
West Australian	SWM AU	AUD	June	2.1	1,942	0.4%	1.3%	7.5%	1.2	5.0	10.2	9.3	8.9	7.2	6.7	6.5	1.8	1.7	1.7
<b>Europe</b>																			
Axel Springer	SPR GR	EUR	Dec	34.4	4,455	2.5%	7.3%	9.6%	1.2	0.8	13.0	11.5	10.8	6.4	5.6	4.8	1.1	1.1	0.9
Daily mail & general trust	DMGT LN	GBP	Sept	7.8	4,426	2.4%	5.2%	8.5%	1.7	1.7	15.3	14.3	13.0	9.6	9.0	8.2	1.9	1.9	1.7
Johnston Press	JPR LN	GBP	Dec	0.2	173	-1.2%	6.7%	NM	NM	0.8	7.4	6.8	3.6	5.5	5.0	3.8	1.3	1.2	1.0
<b>India</b>																			
DB Corp *	DBCL IN	INR	Mar	267.0	820	12.0%	21.0%	22.9%	0.8	0.5	22.4	18.0	14.9	13.0	10.2	8.3	3.1	2.6	2.3
DB Corp @ TP *	DBCL IN	INR	Mar	305.6	939	12.0%	21.0%	22.9%	0.9	0.6	25.7	20.6	17.0	14.9	11.7	9.6	3.5	3.0	2.6
HT Media *	HTML IN	INR	Mar	95.4	375	4.2%	15.6%	14.5%	0.8	0.3	13.4	11.6	10.2	6.5	5.0	3.8	0.9	1.1	1.0
HT Media @ TP *	HTML IN	INR	Mar	140.4	553	4.2%	15.6%	14.5%	1.2	0.5	19.7	17.2	15.0	10.3	8.1	6.6	1.4	1.3	1.1
Jagran Prakashan *	JAGP IN	INR	Mar	89.9	500	9.2%	18.5%	15.7%	0.8	0.5	15.8	13.2	11.8	11.0	8.7	7.2	2.1	1.8	1.6
Jagran Prakashan @ TP *	JAGP IN	INR	Mar	114.5	637	9.2%	18.5%	15.7%	1.1	0.6	20.1	16.8	15.0	13.8	11.0	9.2	2.7	2.3	2.1

Note:

1) Figures for companies with reporting year ending Dec 2012/13/14 and June/Aug/Sept 2013/14/15 correspond to FY13/14/15 respectively.

2) PEG denotes FY13-15E EPS CAGR to FY14E P/E multiple, EVG denotes FY13-15E EBITDA CAGR to FY14E EV/EBITDA multiple

3) \* JMF estimates

4) NM: Not meaningful

Source: Bloomberg, JM Financial, Valuations as on 19/07/2013

## Company background

DBCL is India's largest print media company that publishes 8 newspapers with 65 editions, 199 sub-editions in 4 multiple languages (Hindi, Gujarati, English and Marathi) across 13 states in India. The flagship newspapers Dainik Bhaskar (in Hindi) established in 1958, Divya Bhaskar and Saurashtra Samachar (in Gujarati) have a combined average daily readership of 19.8mn, making it one of the most widely read newspaper groups in India with presence in MP, Chhattisgarh, Rajasthan, Haryana, Punjab, Chandigarh, Himachal Pradesh, Uttarakhand, Delhi, Gujarat, Maharashtra, Jharkhand and Jammu.

The other noteworthy newspaper brands are Dainik Divya Marathi, Business Bhaskar, DB Gold, DB Star and, DNA (in Gujarat, Rajasthan & MP) on a franchisee basis. DBCL is the only media conglomerate that enjoys a leadership position in multiple states, in multiple languages and is a dominant player in its all major markets. The company's other business interests also span the radio segment through the brand "My FM" Radio station with presence in 7 states and 17 cities, and a strong online presence in internet portals.

Exhibit 20. Revenue Variables					( ₹ mn )
Y/E March	FY11A	FY12A	FY13A	FY14E	FY15E
Advertisement	9,565	10,659	11,299	12,880	14,297
% growth	23.5%	11.4%	6.0%	14.0%	11.0%
Circulation	2,144	2,432	2,830	3,123	3,408
% growth	1.2%	13.5%	16.4%	10.4%	9.1%
Others	892	1,424	1,795	2,035	2,268
% growth	16.1%	59.7%	26.1%	13.4%	11.4%
<b>Total Revenues</b>	<b>12,600</b>	<b>14,515</b>	<b>15,923</b>	<b>18,038</b>	<b>19,973</b>
<b>% growth</b>	<b>18.5%</b>	<b>15.2%</b>	<b>9.7%</b>	<b>13.3%</b>	<b>10.7%</b>

Source: Company, JM Financial

## Investment Rationale

- Strong diversified print presence across major states with existence in high potential regional markets which has been growing faster with increasing literacy levels.
- With its uniformly distributed EBITDA from diversified markets along with even distribution of 19.8mn average daily readers (highest by any print media company in India), we see DBCL to garner stronger sustainable long term growth vs peers.
- Expect revenue/PAT CAGR (FY13-15E of c.12%/23% driven by yield improvement, margin expansion through emerging editions and improved performance from existing markets.
- Expect FCF to witness strong improvement on the back of growth in operating profits and lower CAPEX requirements.

## Key Risks

**Risks:** 1) Delay in turnaround from new launches due to high competitive intensity can impact profitability, return ratios, 2) slower than expected recovery in ad spends can affect overall performance of the company and 3) newsprint price rise can dent company's margin performance, 4) high fx rate can increase newsprint cost burden and impact margins.

## Financial Tables (Consolidated)

Profit & Loss		(₹ mn)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
<b>Net sales (Net of excise)</b>	<b>12,600</b>	<b>14,515</b>	<b>15,923</b>	<b>18,038</b>	<b>19,973</b>	
Growth (%)	18.5	15.2	9.7	13.3	10.7	
Other operational income	0	0	0	0	0	
Raw material (or COGS)	3,999	5,230	5,567	6,137	6,381	
Personnel cost	1,846	2,429	2,795	3,122	3,533	
Other expenses (or SG&A)	2,780	3,492	3,802	4,095	4,554	
<b>EBITDA</b>	<b>3,975</b>	<b>3,364</b>	<b>3,760</b>	<b>4,685</b>	<b>5,506</b>	
EBITDA (%)	31.6	23.2	23.6	26.0	27.6	
Growth (%)	15.9	-15.4	11.8	24.6	17.5	
Other non-op. income	0	0	0	0	0	
Depreciation and amort.	433	506	581	661	670	
EBIT	3,542	2,858	3,179	4,023	4,836	
Add: Net interest income	45	148	134	98	158	
Pre tax profit	3,587	3,006	3,313	4,121	4,995	
Taxes	1,268	983	1,132	1,401	1,698	
Add: Extraordinary items	222	0	0	150	0	
Less: Minority interest	-44	2	0	0	0	
Reported net profit	2,585	2,021	2,181	2,870	3,296	
<b>Adjusted net profit</b>	<b>2,363</b>	<b>2,021</b>	<b>2,181</b>	<b>2,720</b>	<b>3,296</b>	
Margin (%)	18.8	13.9	13.7	15.1	16.5	
Diluted share cap. (mn)	183	183	183	183	183	
<b>Diluted EPS (₹)</b>	<b>12.9</b>	<b>11.0</b>	<b>11.9</b>	<b>14.8</b>	<b>18.0</b>	
Growth (%)	28.0	-14.5	7.9	24.7	21.2	
Total Dividend + Tax	849	1,065	1,177	1,284	1,498	

Source: Company, JM Financial

Balance Sheet		(₹ mn)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
Share capital	1,833	1,833	1,834	1,834	1,834	
Other capital	29	49	51	53	54	
Reserves and surplus	6,427	7,388	8,406	9,992	11,790	
Networth	8,289	9,271	10,292	11,878	13,678	
Total loans	1,982	1,801	1,374	1,224	1,074	
Minority interest	4	15	11	11	11	
<b>Sources of funds</b>	<b>10,275</b>	<b>11,087</b>	<b>11,676</b>	<b>13,113</b>	<b>14,763</b>	
Intangible assets	577	637	1,061	1,064	1,067	
Fixed assets	7,830	9,064	10,011	10,347	10,695	
Less: Deprn. and amort.	1,729	2,218	2,759	3,420	4,090	
Net block	6,678	7,483	8,313	7,991	7,672	
Capital WIP	413	450	70	84	87	
Investments	163	460	807	807	807	
Def tax assets/- liability	-695	-746	-834	-916	-1,016	
Current assets	6,198	6,970	7,072	9,018	11,365	
Inventories	728	1,186	1,299	1,414	1,451	
Sundry debtors	2,401	2,484	3,083	3,459	3,776	
Cash & bank balances	1,727	1,884	1,277	2,404	4,312	
Other current assets	16	16	16	16	16	
Loans & advances	1,326	1,400	1,397	1,725	1,811	
Current liabilities & prov.	2,580	3,620	3,817	3,936	4,216	
Current liabilities	2,039	2,779	2,871	3,010	3,129	
Provisions and others	541	841	946	926	1,087	
Net current assets	3,618	3,350	3,255	5,082	7,148	
Others (net)	98	90	64	64	64	
<b>Application of funds</b>	<b>10,275</b>	<b>11,087</b>	<b>11,676</b>	<b>13,113</b>	<b>14,763</b>	

Source: Company, JM Financial

Cash flow statement		(₹ mn)				
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
Reported net profit	2,585	2,021	2,181	2,870	3,296	
Depreciation and amort.	425	489	541	661	670	
-Inc/dec in working cap.	-949	-225	-829	-417	-299	
Others	-41	12	-5	0	0	
<b>Cash from operations (a)</b>	<b>2,019</b>	<b>2,297</b>	<b>1,888</b>	<b>3,114</b>	<b>3,667</b>	
-Inc/dec in investments	42	-297	-347	0	0	
Capex	-1,041	-1,331	-991	-353	-353	
Others	674	650	317	-283	141	
<b>Cash flow from inv. (b)</b>	<b>-325</b>	<b>-978</b>	<b>-1,021</b>	<b>-636</b>	<b>-212</b>	
Inc/-dec in capital	67	26	17	1	1	
Dividend+Tax thereon	-849	-1,065	-1,177	-1,284	-1,498	
Inc/-dec in loans	-1,225	-182	-427	-150	-150	
Others	114	59	114	82	100	
<b>Financial cash flow (c)</b>	<b>-1,894</b>	<b>-1,162</b>	<b>-1,474</b>	<b>-1,350</b>	<b>-1,547</b>	
Inc/-dec in cash (a+b+c)	-199	157	-607	1,127	1,907	
Opening cash balance	1,926	1,727	1,884	1,277	2,404	
Closing cash balance	1,727	1,884	1,277	2,404	4,311	

Source: Company, JM Financial

Key Ratios						
Y/E March	FY11	FY12	FY13	FY14E	FY15E	
BV/Share (₹)	45.1	50.3	55.8	64.5	74.3	
ROIC (%)	28.6	21.7	21.4	25.2	30.2	
ROE (%)	32.0	23.0	22.3	24.5	25.8	
Net Debt/equity ratio (x)	0.0	-0.1	-0.1	-0.2	-0.3	
<b>Valuation ratios (x)</b>						
PER	20.7	24.2	22.4	18.0	14.9	
PBV	5.9	5.3	4.8	4.1	3.6	
EV/EBITDA	12.3	14.4	12.8	10.0	8.2	
EV/Sales	3.9	3.3	3.0	2.6	2.2	
<b>Turnover ratios (no.)</b>						
Debtor days	70	62	71	70	69	
Inventory days	21	30	30	29	27	
Creditor days	70	75	63	62	62	

Source: Company, JM Financial

**History of earnings estimates and target price**

Date	FY13E EPS (₹)	% Chg.	FY14E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
24-Jan-12	13.0		14.8		210	Dec-12	
16-Apr-12	12.7	-2.3	14.6	-1.4	218	Mar-13	3.8
20-Jul-12	11.1	-12.6	13.0	-11.0	195	Mar-13	-10.6
13-Aug-12	11.1	0.0	13.0	0.0	195	Mar-13	0.0
25-Oct-12	11.3	1.8	13.2	1.5	215	Sep-13	10.3
22-Jan-13	11.8	4.4	14.0	6.1	246	Mar-14	14.4
17-May-13	11.9	0.8	14.0	0.0	284	Mar-14	15.4
9-Jul-13	11.9	0.0	13.3	-5.0	272	Mar-14	-4.2

**Recommendation history****JM Financial Institutional Securities Private Limited**

Member, BSE Limited and National Stock Exchange of India Limited

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## First Cut – 1QFY14 results better than JMFe

- Revenues, EBITDA margin above JMFe:** At ₹1.8bn (up 13% YoY), 1QFY14 total revenues came better than JMFe of ₹1.7bn led by 1) 14% YoY growth in ad revenues to ₹1.33bn on increased ad volumes and 2) c.12% YoY growth in circulation revenues to ₹421mn driven by higher realization per copy. EBITDA margin at 22% stood strong with c.570bps YoY increase and came in 270bps above JMFe primarily due to 1% decline in COGS on the back of decline in newsprint consumption during 1QFY14. Strong margin expansion aided net profit growth with a healthy YoY of c.56% YoY to ₹303mn, translating into EPS of ₹4.1 (JMFe ₹3.3).
- Other highlights of the quarter:** 1) strong growth in ad revenues is attributed to improved traction in UP/Uttarakhand markets, 2) management concluded offer for sale of c.1.9mn shares on 11 July, 13 resulting in dilution of promoters holding to 75% from 77.64%, 3) Strong balance sheet with net cash of ₹3.4bn as on 1QFY14.
- Earnings call details:** We will review our earning estimates for HMVL post its earnings call on 19<sup>th</sup> July'13 at 5PM (dial in: 022-66295841). At CMP of ₹123, the stock is trading at c.8x FY15E earnings.

### Exhibit 1. Result summary

(₹ mn)	4QFY13	1QFY13	1QFY14	YoY %	1QFY14E
Advertisement	1,105	1,166	1,326	13.7	1,278
Circulation	400	375	421	12.3	409
Others revenues	49	54	57	5.9	50
<b>Total Revenues</b>	<b>1,554</b>	<b>1,595</b>	<b>1,804</b>	<b>13.1</b>	<b>1,737</b>
COGS	633	688	686	-0.4	699
Staff cost	196	195	215	10.3	200
Other Expenses	432	452	506	11.9	504
Total Expense	1,260	1,335	1,407	5.4	1,402
<b>EBITDA</b>	<b>294</b>	<b>260</b>	<b>397</b>	<b>53.0</b>	<b>334</b>
<b>EBITDA %</b>	<b>18.9</b>	<b>16.3</b>	<b>22.0</b>		<b>19.3</b>
Depreciation	53	53	53	0.4	55
EBIT	241	207	344	66.4	279
Interest	16	13	7		5
Other income	76	70	83		60
<b>PBT</b>	<b>302</b>	<b>264</b>	<b>419</b>	<b>58.7</b>	<b>334</b>
Tax	75	71	116		90
<b>Net profit</b>	<b>227</b>	<b>193</b>	<b>303</b>	<b>56.7</b>	<b>244</b>
<b>EPS (₹)</b>	<b>3.1</b>	<b>2.6</b>	<b>4.1</b>		<b>3.3</b>
Eq. Share o/s (mn)	73.4	73.4	73.4		73.4

Source: Company, JM Financial

### Exhibit 2. OPEX breakup

(%)	4QFY13	1QFY13	1QFY14	1QFY14E
COGS	40.7	43.2	38.0	40.3
Staff Cost	12.6	12.2	11.9	11.5
Other expenses	27.8	28.3	28.0	29.0

Source: Company, JM Financial

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## First Cut – 1QFY14 net profit better than JMFe

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- **1QFY14 revenues better than JMFe, EBITDA margin in-line with expectation:** At ₹5.4bn, 1QFY14 consolidated revenues increased 10% YoY and came better than JMFe of ₹5.2bn driven by 1) c.10% YoY increase in ad revenues to ₹4.1bn (JMFe ₹3.96bn) due to ad volume increase, 2) strong 16% YoY growth in circulation revenues to ₹608mn on increased realization per copy, and 3) healthy c.15% YoY growth in radio revenues to ₹214mn. EBITDA margin at 14.4% was broadly in-line with JMFe and improved by 80bps YoY. While COGS decreased by c.1%YoY, other expenses grew by c.18% YoY on account of increase in promotion activities. 1QFY14 net profit at ₹475mn (up c.17% YoY) came in better than JMFe of ₹410mn, translating into EPS of ₹2.0 vs ₹1.7 each in 1QFY13/4QFY13 respectively (JMFe ₹1.7)
- **Other highlights of the quarter:** 1) 1QFY14 ad revenues increased c.10% YoY to ₹4.1bn with English/Hindi ad revenues at ₹2.77bn/₹1.33bn (c.8%/14% YoY respectively). Delhi ad revenues increased c.7% YoY and Mumbai ad revenues grew a healthy 26% YoY, 2) radio revenues came in at ₹214mn (up 15% YoY) with EBIT margin at 17% vs 8% in 1QFY13, 3) while digital revenues grew a healthy 41% YoY to ₹171mn, EBIT loss for the quarter stood higher at ₹170mn (₹117mn in 1QFY13) on rise in promotion expenses primarily in the form of TV commercials, 4) strong net cash of ₹6.8bn as on 1QFY14.
- **Maintain BUY:** We will review our TP and earning estimates for HTML post its 1QFY14 earnings call (scheduled on 22nd July'13 at 11AM, dial in: 022-66295841) wherein we hope to secure management inputs on ad outlook, newsprint costs and other relevant details. At a CMP of ₹96, stock is trading at 12x/10x FY14/15E earnings.

### Exhibit 1: Result Summary (Consolidated)

(₹ mn)	4Q13	1Q13	1Q14	YoY %	1Q14E
Advertisement	3,778	3,725	4,095	9.9	3,964
Circulation	574	525	608	15.8	583
Others	653	650	706	8.7	649
<b>Total Revenues</b>	<b>5,005</b>	<b>4,900</b>	<b>5,409</b>	<b>10.4</b>	<b>5,197</b>
COGS	1,649	1,778	1,757	-1.2	1,767
Staff cost	990	917	1,055	15.1	1,013
Advt & Sales promotion	320	350	440	25.7	364
Other Expenses	1,329	1,187	1,378	16.1	1,325
Total Expense	4,288	4,231	4,629	9.4	4,469
<b>EBITDA</b>	<b>718</b>	<b>668</b>	<b>780</b>	<b>16.7</b>	<b>728</b>
EBITDA %	14.3	13.6	14.4		14.0
Depreciation	232	220	219	-0.7	230
Interest	135	103	138	33.2	130
Other income	247	209	276	31.7	238
<b>PBT</b>	<b>597</b>	<b>554</b>	<b>699</b>		<b>606</b>
Tax	167	129	184		164
% tax rate	27.9	23.2	26.2		27.0
PAT Before MI	430	426	516	21.1	442
Minority Interest	29	20	41		32
<b>PAT after MI</b>	<b>401</b>	<b>406</b>	<b>475</b>	<b>16.9</b>	<b>410</b>
<b>EPS (₹)</b>	<b>1.7</b>	<b>1.7</b>	<b>2.0</b>	<b>17.1</b>	<b>1.7</b>

Source: Company, JM Financial

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**Exhibit 2: OPEX breakup**

(%)	4Q13	1Q13	1Q14	1Q14E
COGS	32.9	36.3	32.5	34.0
Staff Cost	19.8	18.7	19.5	19.5
Advt. & Sales promotion	6.4	7.1	8.1	7.0
Other expenses	26.6	24.2	25.5	25.5

Source: Company, JM Financial

**Exhibit 3: Segment results**

(₹ mn)	4Q13	1Q13	1Q14	YoY %
Printing & Publishing	4,671	4,606	5,046	9.5
Radio Broadcasting	184	186	214	15.1
Internet Business	146	121	171	41.4
Unallocated	37	9	29	
<b>Total revenues</b>	<b>5,038</b>	<b>4,922</b>	<b>5,460</b>	<b>10.9</b>
Less: Inter-segment	33	22	51	
<b>Net Revenues</b>	<b>5,005</b>	<b>4,900</b>	<b>5,409</b>	<b>10.4</b>
<b>Segment EBIT</b>				
Printing & Publishing	684	633	815	28.8
Radio Broadcasting	11	15	37	153.1
Internet Business	-81	-117	-170	NM
Unallocated	-128	-82	-120	NM
<b>Total</b>	<b>485</b>	<b>448</b>	<b>561</b>	<b>25.2</b>
<b>Segment EBIT %</b>				
Printing & Publishing	14.6	13.7	16.1	
Radio Broadcasting	5.7	7.8	17.1	
Internet Business	-55.6	-97.1	-99.9	
Unallocated	NM	NM	NM	
<b>Total</b>	<b>9.6</b>	<b>9.1</b>	<b>10.3</b>	
<b>Less: Interest</b>	<b>135</b>	<b>103</b>	<b>138</b>	<b>33.2</b>
<b>Add: Inc. from Investments</b>	<b>247</b>	<b>209</b>	<b>276</b>	<b>31.7</b>
<b>PBT</b>	<b>597</b>	<b>555</b>	<b>699</b>	<b>26.1</b>

Source: Company, JM Financial, NM: Not meaningful

## Earnings Calendar – July-August 2013

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
22	23	24	25	26	27
Larsen & Toubro Asian Paints Hindustan Oil Exploration Company Parrys Sugar Industries	WABCO India Shriram Transport Finance Company State Bank of Bikaner and Jaipur Coromandel International L&T Finance Holdings Blue Dart Express KPIT Cummins Infosystems India Infoline	Central Bank of India Sagar Cements Indiabulls Real Estate Ambuja Cements United Phosphorus	Bajaj Corp SKS Microfinance MRF Thermax Bata India State Bank of Mysore Strides Arcolab Raymond ACC Shriram City Union Finance	GIC Housing Finance State Bank of Travancore CESC Torrent Pharmaceuticals Eveready Industries India Aditya Birla Money Dish TV India Punjab National Bank Tata Communications Pfizer Sterlite Technologies Edelweiss Financial Services JK Lakshmi Cement Bank of India Hindustan Unilever	Binani Industries JK Cement Corporation Bank Relaxo Footwears Punjab & Sind Bank
29	30	31	01	02	03
Mahindra Holidays & Resorts India Madras Fertilizers Madras Cements Vijaya Bank Bharti Infratel Allahabad Bank UltraTech Cement	Zee News Syndicate Bank Dr. Reddy's Laboratories Taj GVK Hotels & Resorts Shoppers Stop Petronet LNG PVR The Phoenix Mills Financial Technologies (India) Sun Pharma Advanced Research Company Pantaloons Fashion & Retail Thomas Cook (India)	ICICI Bank JSW Steel NHPC Limited Religare Enterprises GATI HCL Technologies	Adani Power Adani Ports and SEZ Idea Cellular Castrol India GlaxoSmithKline Consumer Healthcare Balkrishna Industries Cummins India Titan Industries	Berger Paints (I) HCC TV Today Network Siemens Deepak Nitrite	Coal India PTC India Grasim Industries Godrej Consumer Products
05	06	07	08	09	10
Tata Chemicals	Tata Power Company Bajaj Electricals Bombay Dyeing & Mfg Company	Alembic Pharmaceuticals Essar Shipping Emami Apollo Tyres Ranbaxy Laboratories	Adani Enterprises Jet Airways (India) Rural Electrification Corporation	ABB India	Godrej Industries
12	13	14	15	16	17
Britannia Industries Jyothy Laboratories	Hindalco Industries Mahindra & Mahindra BPCL	Procter & Gamble Hygiene and Health			

Source: BSE, NSE India



## Valuation Table

Coverage Universe		19 July 2013																			
Company	Reco	Mkt Cap (₹ bn)	CMP	% YTD	Target	Target Date	(%) upside	EPS			EPS Gr (%)	PE (x)			PEG	EV/EBITDA		P/BV		ROE	
								FY13E	FY14E	FY15E	13-15	FY13E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	
<b>Automobiles</b>																					
Ashok Leyland*	HOLD	40	15	-43.6	18	Mar-14	17.6	0.5	-0.2	1.4	62.5	28.1	NA	10.6	NA	8.3	4.4	0.9	0.9	NA	8.6
Bajaj Auto*	BUY	569	1,966	-7.7	2,175	Mar-14	10.6	105.2	119.5	135.9	13.7	18.7	16.5	14.5	1.2	11.3	9.5	5.9	4.8	39.3	36.7
Eicher Motors	BUY	104	3,840	32.1	3,591	Dec-13	-6.5	120.1	157.7	199.3	28.8	32.0	24.4	19.3	0.9	12.4	9.4	4.9	4.1	22.1	23.2
Hero MotoCorp*	BUY	354	1,773	-6.7	1,951	Mar-14	10.0	106.1	114.7	139.6	14.7	16.7	15.5	12.7	0.7	8.8	7.9	5.8	4.7	41.1	40.8
Mahindra & Mahindra*	BUY	533	879	-5.6	1,207	Mar-14	37.3	53.1	57.7	66.5	11.9	16.5	15.2	13.2	1.0	8.9	7.4	3.1	2.7	22.1	21.8
Maruti Suzuki*	BUY	438	1,452	-2.6	2,168	Mar-14	49.4	79.2	110.4	128.0	27.1	18.3	13.2	11.3	0.8	6.7	5.5	2.0	1.7	16.6	16.6
Tata Motors	BUY	940	295	-5.8	342	Mar-14	16.2	31.0	40.7	45.9	21.6	9.5	7.2	6.4	0.6	3.4	2.8	1.9	1.4	29.4	25.2
TVS Motor*	BUY	15	32	-22.8	50	Mar-14	53.8	4.4	4.8	5.5	12.6	7.4	6.8	5.9	0.4	2.5	2.1	1.1	1.0	17.6	18.3
<b>Auto Ancillaries</b>																					
Apollo Tyres	BUY	35	70	-21.0	95	Mar-14	35.0	11.7	13.5	14.8	12.6	6.0	5.2	4.7	0.5	3.4	3.0	0.9	0.7	18.3	17.0
Bharat Forge	BUY	52	222	-11.8	300	Mar-14	35.0	10.6	15.2	19.2	34.5	20.9	14.7	11.6	0.5	7.1	5.9	2.1	1.9	15.0	17.2
Motherson Sumi Systems	BUY	131	222	12.0	268	Mar-14	20.6	10.3	13.1	19.1	36.1	21.5	17.0	11.6	0.4	6.8	4.9	4.5	3.4	29.7	33.6
Wabco India*	BUY	32	1,670	0.1	1,900	Mar-14	13.8	69.0	81.1	105.0	23.4	24.2	20.6	15.9	0.7	12.7	9.7	4.0	3.3	21.4	22.6
<b>Cement</b>																					
ACC*	BUY	240	1,276	-10.9	1,400	Mar-14	9.8	71.2	56.6	80.3	6.2	17.9	22.5	15.9	0.5	11.2	8.2	3.0	2.8	13.9	18.2
Ambuja Cement*	BUY	320	207	3.2	210	Mar-14	1.3	9.6	7.5	11.0	6.9	21.5	27.6	18.8	0.6	13.9	9.8	3.4	3.1	12.8	17.3
Grasim Industries	BUY	259	2,817	-11.1	3,800	Dec-13	34.9	272.4	259.1	320.1	8.4	10.3	10.9	8.8	0.5	4.4	3.1	1.2	1.1	11.5	12.7
India Cements*	HOLD	18	58	-36.7	75	Mar-14	30.3	6.0	5.4	10.4	32.0	9.6	10.7	5.5	0.1	4.6	3.5	0.4	0.4	4.0	7.4
Shree Cement*	BUY	154	4,430	-4.6	5,800	Mar-14	30.9	263.7	278.5	337.0	13.0	16.8	15.9	13.1	0.8	7.3	6.0	3.5	2.8	24.2	23.5
UltraTech Cement*	BUY	529	1,930	-2.8	2,200	Mar-14	14.0	100.0	94.3	119.0	9.1	19.3	20.5	16.2	0.8	10.8	8.6	3.0	2.6	15.8	17.2
<b>Consumer Goods</b>																					
Asian Paints	HOLD	495	5,165	16.5	4,331	Mar-14	-16.2	115.8	141.4	174.1	22.6	44.6	36.5	29.7	1.6	22.8	18.7	12.0	9.9	36.2	36.6
Bajaj Corp.	BUY	36	245	4.5	295	Mar-14	20.5	11.2	13.3	15.5	17.8	21.9	18.4	15.7	1.1	14.9	12.4	6.6	5.7	37.9	38.8
Colgate-Palmolive India	SELL	203	1,490	-4.9	1,234	Mar-14	-17.2	36.5	42.4	48.7	15.5	40.8	35.1	30.6	2.4	25.0	21.3	36.7	32.4	NA	NA
Dabur	BUY	292	168	30.1	160	Mar-14	-4.6	4.4	5.3	6.4	20.3	38.0	31.3	26.3	1.6	23.2	19.6	10.7	8.7	38.1	36.6
GSK Consumer	BUY	223	5,305	39.4	4,268	Mar-14	-19.5	103.9	122.7	145.3	18.3	51.1	43.2	36.5	2.3	29.8	24.6	13.8	11.6	34.6	34.5
Godrej Consumer Products	BUY	324	951	31.7	896	Mar-14	-5.8	20.1	26.0	33.2	28.4	47.2	36.6	28.6	1.3	24.9	20.0	8.3	6.9	24.6	26.5
Hindustan Unilever	BUY	1,483	686	30.7	555	Mar-14	-19.1	15.5	17.4	19.8	13.1	44.3	39.3	34.6	2.9	29.3	25.3	41.0	33.1	NA	NA
ITC	BUY	2,931	369	28.7	372	Mar-14	0.8	9.6	11.2	13.3	17.6	38.3	33.0	27.7	1.7	21.3	17.9	10.9	9.5	35.6	36.8
Marico Ltd.	HOLD	140	218	-0.2	227	Mar-14	4.3	6.0	7.3	9.1	22.6	36.0	29.7	24.0	1.2	18.9	15.5	5.9	4.9	21.6	22.2
Titan Industries	BUY	232	261	-8.1	316	Mar-14	20.9	8.1	8.7	10.7	14.5	32.1	30.1	24.5	1.3	19.3	15.7	9.2	7.3	34.4	33.3
<b>Industrials</b>																					
BGR Energy*	SELL	9	119	-54.5	170	Mar-14	43.0	22.5	19.3	21.8	-1.5	5.3	6.2	5.5	0.5	6.2	6.9	0.6	0.6	10.8	11.2
BHEL*	HOLD	425	174	-23.9	185	Mar-14	6.5	27.0	21.1	20.8	-12.2	6.4	8.2	8.3	NA	4.6	4.1	1.3	1.1	16.1	14.4
Cummins India*	BUY	125	451	-13.1	555	Mar-14	23.0	27.6	25.2	27.9	0.6	16.4	17.9	16.2	1.7	15.3	13.8	4.7	4.1	27.7	27.2
Thermax	SELL	72	605	-1.9	520	Mar-14	-14.0	26.9	28.5	32.5	10.0	22.5	21.2	18.6	1.5	12.5	11.1	3.5	3.1	17.5	17.8
Voltas	HOLD	27	81	-23.7	95	Mar-14	17.6	5.8	6.7	7.9	16.9	14.0	12.0	10.2	0.7	7.9	6.6	1.5	1.4	13.1	14.0
<b>Transmission &amp; Distribution</b>																					
ABB India*	HOLD	123	581	-17.0	492	Dec-13	-15.4	6.5	13.1	16.4	59.1	89.7	44.3	35.4	1.8	25.1	21.6	4.4	4.1	10.9	12.0
Alstom T&D*	HOLD	39	165	-11.6	175	Mar-14	6.0	4.5	5.4	7.3	NA	33.8	27.7	20.7	NA	12.2	10.1	4.0	3.7	13.7	16.9
Crompton Greaves	HOLD	56	88	-24.3	91	Mar-14	3.7	1.3	7.2	8.8	158.4	66.6	12.2	10.0	0.6	6.9	5.5	1.4	1.3	12.4	13.8
KEC International	HOLD	9	34	-48.9	54	Mar-14	58.4	2.5	4.7	6.6	61.5	13.5	7.3	5.2	0.2	5.0	4.3	0.7	0.6	10.1	13.1
Kalpataru Power	BUY	10	65	-30.7	105	Mar-14	60.9	8.4	11.5	12.7	22.9	7.7	5.7	5.1	0.5	5.9	5.6	0.5	0.5	8.9	9.3

\* - Standalone Numbers /UR - Under Review

Company	Reco	Mkt Cap (₹ bn)	CMP	% YTD	Target	Target Date	(%) upside	EPS FY13E	EPS FY14E	EPS Gr FY15E	EPS Gr (%) 13-15	PE (x) FY13E	PE (x) FY14E	PE (x) FY15E	PEG	EV/EBITDA FY14E	EV/EBITDA FY15E	P/BV FY14E	P/BV FY15E	ROE FY14E	ROE FY15E
<b>Infrastructure/Construction</b>																					
GMR Infrastructure	BUY	62	16	-17.3	28	Mar-14	75.0	-1.8	-1.6	-2.0	NA	NA	NA	NA	NA	10.8	9.2	0.7	0.8	NA	NA
HCC*	SELL	6	10	-44.3	16	Mar-13	63.0	-2.5	-1.5	-1.0	NA	NA	NA	NA	NA	9.9	8.9	0.6	0.6	NA	NA
IVRCL*	BUY	5	15	-66.6	60	Sep-13	292.2	-3.4	0.7	0.8	NA	NA	21.2	18.3	1.3	4.0	4.0	0.2	0.2	1.0	1.2
Larsen & Toubro*	BUY	902	974	-9.1	1,250	Mar-14	28.3	52.1	55.6	63.7	10.6	18.7	17.5	15.3	1.2	11.0	9.4	2.8	2.5	16.7	17.1
Nagarjuna Const*	BUY	7	26	-54.5	50	Dec-13	90.5	0.3	2.8	3.6	233.2	81.8	9.3	7.4	0.4	3.8	4.1	0.3	0.3	2.9	3.6
Punj Lloyd	SELL	10	32	-47.4	50	Sep-13	59.2	-0.2	-3.2	-1.8	NA	NA	NA	NA	NA	6.1	6.2	0.4	0.4	NA	NA
Simplex Infra.*	HOLD	3	68	-73.2	212	Sep-13	210.1	11.0	14.1	15.8	19.8	6.2	4.8	4.3	0.4	4.4	4.2	0.3	0.2	5.4	5.8
<b>IT Services</b>																					
eClerx	BUY	23	807	17.9	1,000	Mar-14	23.9	59.4	81.0	91.3	24.0	13.6	10.0	8.8	0.8	6.7	5.8	4.6	3.8	53.3	49.4
Hexaware	BUY	32	107	25.5	125	Dec-13	17.0	10.9	11.6	12.5	6.9	9.8	9.2	8.6	1.2	5.9	5.0	2.3	2.0	27.1	25.7
HCL Tech	BUY	619	892	44.2	950	Jun-14	6.5	53.0	63.6	73.1	17.4	16.8	14.0	12.2	0.9	8.9	7.5	3.6	2.8	28.5	26.3
Infosys	BUY	1,627	2,847	22.8	3,150	Mar-14	10.6	163.4	172.8	196.8	9.7	17.4	16.5	14.5	1.2	10.7	8.9	3.5	3.0	22.8	22.2
Tech Mahindra	BUY	144	1,132	21.5	1,400	Dec-13	23.6	86.1	100.8	125.1	20.5	13.1	11.2	9.1	0.5	7.6	6.8	2.7	2.3	27.2	29.1
MindTree	HOLD	39	945	38.4	900	Mar-14	-4.8	81.7	98.3	100.5	10.9	11.6	9.6	9.4	4.3	6.1	5.1	2.4	2.0	27.6	23.1
Mphasis	HOLD	85	407	5.9	391	Oct-13	-4.0	37.6	36.6	39.1	2.0	10.8	11.1	10.4	1.6	6.4	5.6	1.8	1.7	16.9	16.6
NIIT Tech	BUY	16	263	8.6	360	Mar-14	36.8	35.5	41.4	44.7	12.2	7.4	6.4	5.9	0.8	3.2	2.6	1.2	1.1	20.9	19.5
Persistent Systems	HOLD	20	524	2.2	480	Mar-14	-8.3	46.4	51.1	52.3	6.2	11.3	10.2	10.0	4.3	4.2	3.4	1.7	1.5	19.1	16.9
Tata Consultancy	BUY	3,411	1,743	38.8	1,900	Mar-14	9.0	71.9	88.2	103.3	19.9	24.2	19.8	16.9	1.2	13.6	11.5	6.3	4.9	36.4	32.7
<b>Media</b>																					
DB Corp	BUY	49	267	16.7	306	Mar-14	14.5	11.9	14.8	18.0	22.9	22.4	18.0	14.9	0.8	10.0	8.2	4.1	3.6	24.5	25.8
Dish TV*	HOLD	61	57	-24.9	74	Mar-14	30.1	-1.2	-0.9	NA	NA	NA	NA	NA	NA	10.5	8.6	NM	NM	49.0	NA
Eros International	BUY	12	135	-34.2	234	Mar-14	73.2	16.8	20.1	23.4	17.9	8.0	6.7	5.8	0.4	5.7	5.1	1.1	0.9	17.3	17.1
HT Media	BUY	23	96	-10.0	140	Mar-14	46.0	7.1	8.2	9.4	14.5	13.5	11.7	10.3	0.8	4.0	2.9	1.3	1.1	11.4	11.7
Jagran Prakashan	BUY	28	90	-15.1	115	Mar-14	27.4	5.7	6.8	7.6	15.7	15.8	13.2	11.8	1.1	8.1	6.6	2.8	2.5	21.9	22.3
Sun TV Network	BUY	158	401	-6.2	530	Mar-14	32.4	18.0	20.4	24.1	15.7	22.2	19.7	16.6	1.1	12.1	10.2	4.9	4.4	26.3	27.7
Zee Entertainment	BUY	229	240	8.7	285	Mar-14	18.8	7.6	8.5	10.2	15.7	31.6	28.1	23.6	1.5	19.3	15.9	5.2	4.6	19.6	20.7
<b>Metals &amp; Mining</b>																					
Bhushan Steel	BUY	105	463	-2.2	476	Mar-14	2.9	40.1	41.2	53.2	15.1	11.5	11.2	8.7	0.4	9.8	8.3	1.1	1.0	10.2	11.8
Hindalco Industries	HOLD	198	104	-20.6	105	Mar-14	1.3	15.8	11.1	11.9	-13.2	6.6	9.3	8.7	1.3	6.1	5.5	0.5	0.5	5.8	5.8
Hindustan Zinc	BUY	441	104	-23.3	140	Mar-14	34.2	16.4	15.5	14.6	-5.7	6.4	6.7	7.2	NA	2.8	2.4	1.2	1.0	18.9	15.5
Jindal Steel & Power	BUY	197	210	-53.0	366	Mar-14	73.9	39.4	37.6	39.1	-0.4	5.3	5.6	5.4	1.4	5.9	4.6	0.8	0.7	15.5	14.0
JSW Steel	HOLD	127	571	-29.6	720	Mar-14	26.0	371.0	90.0	102.0	-47.6	1.5	6.4	5.6	0.5	4.4	4.1	0.6	0.5	10.0	10.2
Monnet Ispat	BUY	8	118	-58.2	214	Mar-14	81.9	38.9	30.0	38.8	-0.1	3.0	3.9	3.0	0.1	7.0	4.6	0.3	0.2	6.7	8.1
NMDC	BUY	427	108	-34.8	127	Mar-14	18.0	16.2	14.1	14.2	-6.3	6.7	7.6	7.6	17.4	3.1	3.0	1.4	1.2	19.0	16.8
SAIL	HOLD	186	45	-50.4	58	Mar-14	29.0	5.8	7.1	7.1	10.6	7.7	6.3	6.3	NA	4.4	4.7	0.5	0.4	7.3	7.0
Sesa Sterlite	BUY	433	146	-25.3	192	Mar-14	31.5	31.5	31.9	36.2	7.4	4.6	4.6	4.0	0.3	3.1	2.7	0.6	0.5	13.9	14.2
Tata Steel	BUY	234	241	-43.8	385	Mar-14	59.8	21.4	17.7	14.3	-18.1	11.3	13.6	16.8	NA	5.1	5.2	0.7	0.6	5.1	4.0
<b>Others</b>																					
Adani Port & SEZ	BUY	304	147	8.7	178	Mar-14	21.3	8.1	9.5	11.5	19.3	18.1	15.5	12.7	0.7	12.3	10.0	3.4	2.8	25.4	23.8
Bajaj Electricals*	BUY	18	181	-13.7	210	Mar-14	16.1	5.0	11.5	17.5	86.8	36.0	15.7	10.3	0.3	7.9	5.5	2.3	2.0	15.4	20.9
Balkrishna Industries	BUY	21	221	-26.2	326	Mar-14	47.3	36.2	34.4	40.8	6.1	6.1	6.4	5.4	0.3	5.8	4.4	1.2	1.0	20.9	20.4
Gujarat Pipavav*	BUY	24	49	-1.1	58	Mar-14	18.4	1.5	2.8	4.0	61.9	32.0	17.3	12.2	0.4	12.5	10.7	1.8	1.5	10.7	13.4
Havells India	BUY	97	781	22.7	765	Mar-14	-2.0	32.1	42.8	49.2	23.8	24.3	18.2	15.9	1.2	12.3	10.5	5.3	4.3	32.7	29.9
HSIL	BUY	6	87	-35.5	136	Mar-14	56.7	12.4	12.3	16.9	16.5	7.0	7.1	5.1	0.2	5.0	4.3	0.5	0.5	7.7	10.0
Mahindra Holidays	BUY	23	259	-23.0	340	Mar-14	31.3	10.8	13.9	16.6	23.7	23.9	18.7	15.6	0.9	10.5	8.5	3.3	2.9	18.7	19.6
Rain Commodities	UR	11	32	-18.4	UR	UR	NA	16.6	11.8	12.4	-13.7	1.9	2.7	2.6	0.6	2.7	2.1	0.4	0.3	14.4	13.4
Redington India	BUY	24	61	-29.7	106	Mar-14	74.1	8.1	9.0	10.6	14.3	7.5	6.7	5.8	0.4	6.1	5.3	1.2	1.0	20.1	19.7
Tribhovandas Bhimji Zaveri	BUY	13	196	-14.5	305	Mar-14	55.9	12.9	14.5	20.3	25.2	15.1	13.5	9.7	0.3	9.8	7.8	2.8	2.2	22.0	25.7
TTK Prestige*	HOLD	39	3,419	1.2	3,400	Mar-14	-0.6	117.2	135.9	166.6	19.2	29.2	25.2	20.5	1.1	16.6	13.7	7.5	5.8	33.7	31.7
Thomas Cook (India)	BUY	12	55	-7.0	68	Dec-13	24.2	2.6	3.1	3.8	20.7	21.2	17.8	14.6	0.8	8.4	6.9	2.4	2.1	14.1	15.2

\* - Standalone Numbers /UR - Under Review

Company	Reco	Mkt Cap (₹ bn)	CMP	% YTD	Target	Target Date	(% upside	EPS			EPS Gr	PE (x)			EV/EBITDA		P/BV		ROE		
								FY13E	FY14E	FY15E	(%) 13-15	FY13E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	
<b>Oil &amp; Gas</b>																					
Bharat Petroleum	BUY	251	347	-2.7	446	Mar-14	28.7	26.0	32.4	32.6	12.0	13.3	10.7	10.6	14.9	6.2	5.9	1.4	1.3	13.4	12.6
Cairn India	BUY	588	308	-3.5	400	Mar-14	29.8	63.2	60.6	65.6	1.8	4.9	5.1	4.7	0.6	2.9	2.1	1.0	0.9	22.2	20.4
GAIL	BUY	422	333	-6.7	385	Mar-14	15.7	34.0	36.0	32.8	-1.8	9.8	9.2	10.1	NA	6.6	6.5	1.4	1.2	15.5	12.7
Gujarat Gas*	HOLD	27	214	-30.0	247	Dec-13	15.7	22.3	21.8	23.0	1.4	9.6	9.8	9.3	1.9	5.1	4.6	2.7	2.5	28.4	27.5
Hindustan Petro.	BUY	77	227	-22.1	313	Mar-14	38.2	6.7	24.0	28.6	107.2	34.0	9.4	7.9	0.5	7.8	7.2	0.5	0.5	5.9	6.8
Indraprastha Gas*	UR	41	293	17.7	UR	UR	NA	22.9	25.7	28.1	10.8	12.8	11.4	10.4	1.2	5.5	4.8	2.5	2.2	23.6	22.2
Indian Oil	HOLD	547	225	-16.5	262	Mar-14	16.3	18.3	27.5	28.6	24.8	12.3	8.2	7.9	2.2	8.0	7.8	0.8	0.8	10.3	10.1
Petronet LNG*	BUY	94	125	-20.5	184	Mar-14	47.3	15.3	12.8	12.9	-8.4	8.2	9.8	9.7	25.0	6.6	5.4	1.8	1.6	19.8	17.3
Oil India*	HOLD	332	552	18.4	637	Mar-14	15.5	59.7	63.2	76.1	12.9	9.2	8.7	7.2	0.4	3.2	2.4	1.5	1.3	18.6	19.7
ONGC	BUY	2,712	317	18.3	389	Mar-14	22.7	28.3	36.7	43.5	24.0	11.2	8.6	7.3	0.5	3.2	2.4	1.6	1.4	19.3	20.1
Reliance Industries	BUY	2,983	924	10.0	943	Mar-14	2.1	71.1	68.1	70.0	-0.8	13.0	13.6	13.2	4.8	7.8	6.9	1.5	1.3	11.4	10.7
<b>Pharmaceuticals</b>																					
Aurobindo Pharma	BUY	51	174	-8.2	205	Mar-14	17.9	14.9	20.0	22.5	22.7	11.6	8.7	7.7	0.7	7.1	6.4	1.6	1.4	20.3	19.0
Cadila Healthcare	BUY	159	775	-14.1	930	Mar-14	20.0	32.0	31.6	46.5	20.6	24.2	24.5	16.7	0.5	16.3	11.8	4.6	3.8	19.9	25.1
Cipla	BUY	334	416	0.3	435	Mar-14	4.7	18.9	18.0	21.8	7.5	22.0	23.1	19.0	1.1	15.1	12.3	3.3	2.8	15.0	15.9
Dr Reddy's Labs	BUY	400	2,346	28.2	2,370	Mar-14	1.0	93.4	105.5	118.6	12.7	25.1	22.2	19.8	1.8	16.9	14.8	4.6	3.9	22.5	21.4
Ipsa Laboratories	BUY	82	647	24.7	720	Mar-14	11.3	30.1	37.3	48.1	26.4	21.5	17.4	13.5	0.6	11.5	9.0	4.2	3.3	26.8	27.1
Lupin	BUY	402	899	46.5	800	Mar-14	-11.0	29.4	36.9	39.8	16.3	30.6	24.3	22.6	3.1	14.9	13.7	6.3	5.1	28.9	25.1
Natco Pharma	BUY	16	518	12.6	522	Mar-14	0.8	24.9	27.4	31.7	12.7	20.8	18.9	16.3	1.2	11.6	9.9	2.6	2.3	14.8	15.0
Ranbaxy Labs	BUY	137	324	-35.6	510	Dec-13	57.3	7.7	16.2	24.2	77.2	42.1	20.0	13.4	0.4	10.4	7.3	3.0	2.5	15.7	20.4
Sun Pharma	BUY	1,119	1,080	46.7	1,080	Mar-14	0.0	35.8	45.4	54.2	23.0	30.1	23.8	19.9	1.2	16.9	14.1	6.2	4.9	29.1	27.5
Torrent Pharma	BUY	75	886	23.8	900	Mar-14	1.6	44.7	52.5	59.9	15.8	19.8	16.9	14.8	1.2	11.3	9.8	4.3	3.6	28.2	26.5
Wockhardt	BUY	97	889	-43.5	1,680	Mar-14	89.0	146.4	121.7	120.1	-9.4	6.1	7.3	7.4	NA	5.4	5.0	2.5	1.9	40.8	29.6
<b>Real Estate</b>																					
DLF	SELL	300	168	-27.0	220	Mar-14	30.7	4.5	6.0	9.3	44.3	37.5	28.1	18.0	0.5	13.1	9.9	1.0	1.0	3.7	5.5
Oberoi Realty	BUY	64	194	-32.6	300	Mar-14	54.5	15.4	16.4	21.3	17.6	12.6	11.9	9.1	0.4	6.8	4.8	1.4	1.2	12.2	14.2
Prestige Estate Projects	BUY	45	128	-28.4	220	Mar-14	71.3	8.2	11.5	14.4	32.6	15.7	11.2	8.9	0.4	8.2	6.1	1.5	1.3	13.7	15.2
Sobha Developers	BUY	32	321	-15.4	475	Mar-14	47.8	22.1	30.7	44.9	42.4	14.5	10.5	7.2	0.2	6.4	4.9	1.4	1.2	13.5	17.7
Unitech	SELL	51	20	-41.8	24	Mar-14	22.4	0.8	1.5	2.1	60.3	24.4	13.2	9.5	0.3	14.0	9.0	0.4	0.4	3.1	4.2
<b>Telecom</b>																					
Bharti Airtel	BUY	1,319	330	4.0	345	Mar-14	4.6	6.0	9.4	12.5	44.4	55.0	35.1	26.4	1.1	6.7	6.0	2.2	2.1	6.8	8.0
Idea Cellular	BUY	499	151	45.0	152	Mar-14	1.0	3.2	5.3	8.6	63.6	47.0	28.2	17.6	0.5	8.1	6.5	3.1	2.7	11.7	16.7
<b>Utilities</b>																					
Adani Power	HOLD	95	40	-35.9	43	Mar-14	8.7	-8.9	-1.5	5.1	NA	NA	NA	7.8	NA	11.8	6.0	2.4	1.8	NA	26.8
Coal India	BUY	1,876	297	-16.3	370	Mar-14	24.6	27.1	28.9	31.1	7.1	10.9	10.3	9.5	1.3	5.8	4.7	3.4	2.9	35.0	32.9
JSW Energy	BUY	70	43	-37.1	55	Mar-14	28.5	6.3	4.8	5.9	-3.6	6.7	8.9	7.3	0.4	4.7	4.1	1.0	1.0	12.3	13.8
Lanco Infratech	SELL	16	7	-50.2	8	Mar-14	18.5	-4.2	-1.4	NA	NA	NA	NA	5.8	NA	8.8	NA	0.5	NA	NA	NA
NTPC*	HOLD	1,185	144	-8.1	152	Mar-14	5.8	15.3	13.0	14.3	-3.5	9.4	11.0	10.1	1.2	9.5	8.5	1.4	1.3	12.9	13.0
NHPC	HOLD	220	18	-29.7	22	Mar-14	23.5	1.6	1.8	2.0	11.3	11.1	9.9	9.0	0.9	7.8	7.0	0.7	0.7	7.1	7.6
Power Grid Corp.*	BUY	516	111	-3.0	125	Mar-14	12.3	8.9	10.0	10.2	7.1	12.5	11.2	10.9	5.9	9.0	8.4	1.8	1.5	16.7	15.5
Tata Power	HOLD	219	93	-16.2	93	Sep-13	0.5	3.2	8.4	10.9	84.2	28.7	11.1	8.5	0.4	6.6	5.1	1.7	1.5	12.6	15.3
<b>Agri</b>																					
Bajaj Hindusthan*	SELL	10	16	-38.2	23	Sep-13	47.9	-3.8	-6.8	-5.4	NA	NA	NA	NA	NA	16.7	11.7	0.3	0.3	NA	NA
Balrampur Chini	BUY	11	43	-12.7	71	Mar-14	64.7	6.6	6.8	6.6	0.0	6.5	6.4	6.5	NA	5.8	5.6	0.7	0.7	12.2	11.1
Coromandel International	BUY	51	179	-31.9	245	Mar-14	36.8	15.2	18.4	22.2	20.8	11.8	9.7	8.1	0.5	6.8	5.4	1.7	1.5	20.3	20.1
EID Parry*	BUY	25	142	-31.2	201	Mar-14	41.4	19.1	9.3	10.3	-26.7	7.5	15.3	13.8	1.5	11.3	10.7	1.8	1.7	11.9	12.6
Shree Renuka Sugars	UR	13	20	-37.3	UR	UR	NA	0.6	3.4	2.9	112.5	30.9	5.8	6.8	NA	5.4	5.1	0.6	0.6	10.4	8.4

\* - Standalone Numbers /UR - Under Review

Company	Reco	Mkt Cap (₹ bn)	CMP	% YTD	Target	Target Date	(% upside	EPS			EPS Gr	PE (x)			PEG	P/BV		ROE	
								FY13E	FY14E	FY15E	(%) 13-15	FY13E	FY14E	FY15E		FY14E	FY15E	FY14E	FY15E
<b>Banking &amp; Financial Services*</b>																			
<b>NBFC</b>																			
Bajaj Finance	BUY	66	1,325	0.9	1,700	Mar'14	28.3	118.8	139.0	166.4	18.3	11.2	9.5	8.0	0.5	1.7	1.4	18.9	19.2
Cholamandalam Investment	BUY	34	238	-11.6	330	Mar'14	38.7	21.4	27.4	34.7	27.2	11.1	8.7	6.9	0.3	1.5	1.3	18.5	20.0
HDFC	BUY	1,242	803	-3.1	1,000	Mar-14	24.5	31.4	35.4	40.4	13.5	25.6	22.7	19.9	1.6	4.5	4.0	19.6	20.2
IDFC	BUY	191	126	-26.5	190	Mar'14	50.9	11.4	14.0	12.2	3.8	11.1	9.0	10.3	NA	1.3	1.1	14.7	11.5
LIC Housing Finance	BUY	116	208	-28.5	290	Mar'14	39.2	20.3	23.5	29.3	20.2	10.3	8.9	7.1	0.4	1.3	1.2	17.1	17.3
L&T Finance Holdings	UR	127	74	-16.9	UR	UR	NA	3.6	4.4	5.5	23.4	20.4	16.8	13.4	0.7	2.1	1.8	13.1	14.3
MCX India	BUY	38	739	-49.8	1,080	Mar'14	46.1	58.7	47.7	54.1	-4.0	12.6	15.5	13.7	1.2	3.0	2.8	20.1	21.2
M&M Financial	BUY	141	250	13.9	275	Mar'14	10.0	15.7	18.0	21.6	17.5	15.9	13.9	11.6	0.7	2.7	2.3	21.0	21.6
Power Finance Corp.	BUY	176	133	-34.6	235	Mar'14	76.5	33.5	38.4	45.0	15.9	4.0	3.5	3.0	0.2	0.6	0.5	19.6	19.7
Rural Electrification Corp.	BUY	45	192	-21.6	285	Mar'14	48.3	397.9	474.7	568.2	19.5	0.5	0.4	0.3	0.0	0.2	0.2	52.7	53.3
Shriram Transport	BUY	150	660	-12.9	850	Mar'14	28.8	60.0	68.4	80.8	16.1	11.0	9.6	8.2	0.5	1.8	1.5	19.8	19.7
Shriram City Union Finance	BUY	55	935	-4.7	1,260	Mar'14	34.8	81.1	93.1	111.6	17.3	11.5	10.0	8.4	0.5	1.9	1.6	21.5	20.8
<b>Private Sector Banks</b>																			
AXIS Bank	BUY	558	1,192	-12.1	1,700	Jun-14	42.6	110.7	131.0	152.3	17.3	10.8	9.1	7.8	0.6	1.5	1.3	17.2	17.4
Federal Bank	BUY	65	382	-29.0	535	Mar-14	40.0	49.0	51.3	59.6	10.3	7.8	7.5	6.4	0.5	0.9	0.8	13.1	13.7
HDFC Bank	BUY	1,618	680	0.2	825	Jun-14	21.3	28.3	35.7	44.1	24.8	24.1	19.0	15.4	0.8	3.8	3.2	21.5	22.3
ICICI Bank	BUY	1,107	959	-15.7	1,425	Mar-14	48.5	72.2	82.9	95.2	14.9	13.3	11.6	10.1	0.8	1.5	1.4	13.7	14.2
IndusInd Bank	BUY	233	445	6.7	600	Jun-14	34.8	20.3	27.8	35.1	31.5	21.9	16.0	12.7	0.6	2.7	2.3	18.1	19.6
ING Vysya Bank	BUY	89	572	8.1	750	Mar-14	31.1	39.6	51.3	65.9	29.0	14.5	11.2	8.7	0.4	1.7	1.5	16.3	18.1
Karur Vysya Bank	BUY	44	411	-26.8	535	Sep-13	30.3	55.2	63.4	75.5	17.0	7.4	6.5	5.4	0.3	1.2	1.0	20.3	20.8
South Indian Bank	BUY	31	23	-15.6	32	Mar-14	39.4	3.8	4.2	5.0	14.9	6.1	5.5	4.6	0.3	0.9	0.8	18.1	18.5
Yes Bank	BUY	173	425	-8.5	700	Mar'14	64.9	36.3	40.1	49.4	16.7	11.7	10.6	8.6	0.5	1.8	1.5	21.1	19.3
<b>SOE BANKS</b>																			
Bank of Baroda	BUY	241	571	-34.1	825	Mar-14	44.4	106.0	115.9	134.1	12.5	5.4	4.9	4.3	0.3	0.7	0.6	15.2	15.4
Bank of India	HOLD	126	212	-38.3	355	Mar-14	67.8	46.1	57.4	66.5	20.1	4.6	3.7	3.2	0.2	0.5	0.4	14.2	14.7
Canara Bank	BUY	141	318	-35.9	480	Dec'13	50.7	64.8	73.4	85.2	14.6	4.9	4.3	3.7	0.3	0.6	0.5	13.5	14.2
Oriental Bank	BUY	51	173	-50.5	370	Dec'13	113.3	45.5	51.5	60.6	15.4	3.8	3.4	2.9	0.2	0.4	0.3	12.0	12.8
Punjab National Bank	BUY	223	631	-27.6	1,050	Mar-14	66.4	134.3	149.9	178.7	15.3	4.7	4.2	3.5	0.2	0.6	0.6	15.9	16.6
State Bank of India	BUY	1,239	1,811	-24.1	2,500	Mar-14	38.0	206.2	249.0	292.0	19.0	8.8	7.3	6.2	0.4	1.1	1.0	16.1	16.6
Union Bank of India	SELL	93	157	-42.9	240	Mar-14	53.3	36.2	37.0	44.3	10.6	4.3	4.2	3.5	0.2	0.5	0.5	13.4	14.4

\* - Standalone Numbers /UR - Under Review

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