Economy News

- Market regulator SEBI will conduct an auction tomorrow for the grant of investment limits to foreign investors in Government debt securities worth more than Rs 230 bn. (BL)
- Indirect tax mop up grew at a slower pace of 4.7 percent at Rs 1.11 trillion in the April-June quarter of current fiscal in India, mainly on account of decline in excise duty collection, reflecting slump in manufacturing activity. (Mint)
- Delhi court has asked Reliance ADA Group Chairman Anil Ambani and his wife Tina to appear as prosecution witnesses in the ongoing trial of former telecom minister A Raja and a number of businessmen and executives who are accused of conspiring with the former minister to improperly obtain telecom licences.(ET)

Corporate News

- Sebi has written to the Foreign Investment Promotion Board (FIPB) expressing concern that control of **Jet Airways** could pass into foreign hands because of the manner in which its 20 bn deal with Etihad Airways has been structured.(ET)
- The Cabinet at its next meeting may approve the sale of 10 per cent of the government's stake in **Indian Oil Corporation (IOC),** which may fetch over Rs 43 bn to the exchequer at the current market price.(ET)
- **Zuari Industries,** which is in talks with UB Group Chairman Vijay Mallya to buy Mangalore Chemicals and Fertilisers, has shelved its Rs 50 bn urea manufacturing project in Karnataka. (BL)
- The Comptroller and Auditor General of India (CAG) has rejected the telecom department's defence on adjusting the entry fee paid by Telenor-controlled **Unitech Wireless** against the money the company had to pay for spectrum won in auctions. (BL)
- **Mundra port,** run by Adani Ports and Special Economic Zone Ltd (APSEZ), has emerged as the largest merchant port in India handling 24 mt, overtaking the Union government-controlled Kandla Port by a small margin in terms of cargo handled in the first quarter of the current fiscal. (mint)
- Adventz Chairman Saroj Poddar has proposed an open offer to buy 30 percent stake in **Kalindee Rail Nirman Ltd.** The offer is being made by Adventz group company Texmaco Rail and Engineering.(BS)
- **VA Tech Wabag** is confident of its order book growing at least 20-25 percent in the current financial year, helped by a pickup in orders for water treatment and waste water treatment plants in India and overseas markets.(BS)
- **TVS motor** which has been facing tough times in the market of late, will launch six products, including a three-wheeler before December 2014. (ET)
- **Wockhardt Ltd** has received a warning letter from US health regulator over its facility at Waluj in Maharashtra not meeting manufacturing norms.(BS)
- **Monnet Ispat and Energy** is actively considering scrapping its proposed 1.5 million tonnes plant in Jharkhand.(BS)
- **Coal India** may find it tough to meet its production target for the 12th Plan period as several expansion projects of the state-run miner are stuck due to problems with land acquisition and clearances. (ET)
- With capacity expansion and diversification plans, **Pennar Industries** is eyeing nearly Rs 50 bn revenue over the next five years.(ET)

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

Equity

		% Chg		
	19 Jul 13	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,150	0.1	7.3	5.1
NIFTY Index	6,029	(0.1)	6.4	3.3
BANKEX Index	12,543	(1.8)	(3.3)	(12.9)
BSET Index	7,097	2.8	18.1	23.2
BSETCG INDEX	9,320	(2.0)	3.2	(4.6)
BSEOIL INDEX	9,161	0.7	9.7	5.7
CNXMcap Index	7,408	(0.8)	1.2	(4.6)
BSESMCAP INDEX	5,706	(0.6)	(0.2)	(5.4)
World Indices				
Dow Jones	15,544	(0.0)	5.0	6.7
Nasdaq	3,588	(0.7)	6.9	10.9
FTSE	6,631	(0.1)	8.4	5.6
NIKKEI	14,590	(1.5)	10.3	7.5
HANGSENG	21,362	0.1	5.4	(3.1)

Value traded (Rs cr)

	19 Jul 13	% Chg - Day
Cash BSE	1,882	1.0
Cash NSE	12,330	(0.8)
Derivatives	159,356	(1.25)

Net inflows (Rs cr)

	18 Jul 13	% Chg	MTD	YTD
FII	(114)	2,604.8	(6,005)	65,302
Mutual Fund	(303)	231.7	(1,034)	(13,211)

FII open interest (Rs cr)

	18 Jul 13	% Chg
FII Index Futures	15,547	2.4
FII Index Options	56,611	3.2
FII Stock Futures	29,268	0.1
FII Stock Options	3,647	4.2

Advances / Declines (BSE)

19 Jul 13	A	B	T	Total	% total
Advances	63	769	184	1,016	41
Declines	137	981	187	1,305	53
Unchanged	2	113	26	141	6

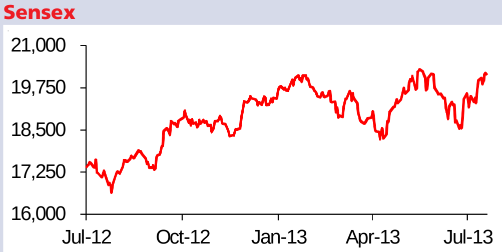
Commodity

		% Chg		
	19 Jul 13	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	108.5	0.4	15.8	22.2
Gold (US$/OZ)	1,293.8	0.7	1.4	(7.6)
Silver (US$/OZ)	19.5	0.3	(1.2)	(15.0)

Debt / forex market

	19 Jul 13	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	N/A	7.5	7.8
Re/US$	59.7	59.7	58.7	54.0

Sensex



RESULT UPDATE

Dipen Shah
dipen.shah@kotak.com
+91 22 6621 6301

NIIT LTD

PRICE: RS.18 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.19.7 **FY14E P/E: 5.9x**

NIIT's 1QFY14 results were disappointing, once again. The sluggishness in the Indian IT exports has continued to rub off on NIIT with ILS revenues falling by 12% YoY and India overall enrollments by 20% YoY. SLS businesses also reported de-growth on a YoY basis as one of the Government schools contract ended. CLS reported a decent 11% QoQ growth, aided by rupee depreciation. Lower revenue leverage and investments in skill building courses continue to impact profitability at the company level. Investments in cloud are expected to improve revenue prospects as well as profitability in FY14, though we are yet to see signs of the same in financials. GNIIT has seen enrolments rise (9% YoY) after several quarters of de-growth. Sustained uptrend in MTS and private schools is also encouraging. However, these positives are balanced by the softness in revenues of career learning solutions. Our FY14 EPS estimates stand at Rs.3. We maintain ACCUMULATE. At our TP of Rs.19.7, FY14E earnings will be discounted by about 6.5x. The erratic performance of the past constrains us from giving a better valuation to the stock. The company has paid out a dividend of Rs.1.6 per share for FY13 and we expect it to be maintained in FY14, making the yield attractive. A slower-than-expected global recovery and a sharper-than-expected rupee appreciation may impact growth rates further.

Summary table

(Rs mn)	FY12	FY13	FY14E
Sales	12,603	9,609	10,161
Growth (%)	1.0	-23.8	5.7
EBITDA	1,475	523	819
EBITDA margin (%)	11.7	5.4	8.1
PBT	2,030	(680)	(12)
Net profit	1,102	262	501
EPS (Rs)	6.7	1.6	3.0
Growth (%)	19.5	(76.2)	91.2
CEPS (Rs)	12.0	6.8	8.0
BV (Rs/share)	40.1	40.0	41.0
Dividend / share (Rs)	2.0	1.6	2.0
ROE (%)	18.1	4.0	7.5
ROCE (%)	27.8	(8.7)	(0.1)
Net cash (debt)	(147)	50	259
NW Capital (Days)	40.9	46.7	45.6
P/E (x)	2.7	11.2	5.9
P/BV (x)	0.4	0.4	0.4
EV/Sales (x)	0.2	0.3	0.3
EV/EBITDA (x)	2.1	5.5	3.3

Source: Company, Kotak Securities - Private Client Research

1QFY14 results

1QFY14 results were disappointing

(Rs.mn)	4QFY13	1QFY14	QoQ (%)	1QFY13	YoY (%)
Income	2216	2222	0.3	2275	-2.3
Expenditure	2145	2118		2161	
EBIDTA	**71**	**104**	**46.5**	**114**	**-8.8**
Depreciation	223	210		203	
EBIT	**-152**	**-106**	**NM**	**-89**	**NM**
Interest	0	0		0	
Other Income	-10	-81		-276	
PBT	**-162**	**-187**	**NM**	**-365**	**NM**
Tax	-49	33		-341	
PAT	**-113**	**-220**		**-24**	
Share of profit	140	128		138	
Adjusted PAT	**27**	**-92**	**-440.7**	**114**	**NM**
Shares (mns)	165.1	165.1		165.1	
EPS (Rs)	**0.2**	**-0.6**		**0.7**	
EBIDTA (%)	3.2	4.7		5.0	
EBIT (%)	-6.9	-4.8		-3.9	
Net Profit (%)	-5.1	-9.9		-1.1	

Source : Company

ILS

- ILS revenues fell by about 12% on a YoY basis, which was disappointing. 1Q is normally a good quarter in terms of revenues and enrolments for ILS.
- The fall was lower than the 36% fall witnessed in 4QFY13, though.

- The main reason for the fall has been the career courses, where revenues are down by 12% YoY, even as revenues from other courses remained flat. The fall reflects the continuing negative sentiments in the minds of the prospective students.
- We opine that, the slowdown in the IT services exports industry impacted the YoY growth. The hiring demand from the IT services company has come off and this impacted sentiments, we understand.
- On the other hand, the non-IT business in ILS witnessed a 42% YoY rise, driven by banking products. Non-IT business now contributes 24% of revenues of ILS.
- Overall enrolments were down by about 20% YoY at 103,179, though GNIIT enrolments grew by 9%.

Growth in ILS revenues

	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	3QFY12	1QFY14
Revenues (Rs mns)	1327.00	1522.00	1074.27	1494.00	1034.00	1327.00	948.00
YoY growth (%)	10.77	13.72	-8.81	-17.09	-22.08	10.77	-11.75

Source : Company

- NIIT is now focusing on the Cloud Campus as the next growth area for this business. The company has invested significantly in building the Cloud infrastructure which had impacted margins during FY13.
- The Cloud Campus program has been rolled out in 154 centres and it already has more than 33000 enrollments. 50 courses are now being offered on cloud campus.
- NIIT sees this as the driver of future revenue growth. We believe that, successful acceptance of this model can lead to faster roll-out of programs, wider reach of programs as well as better employee productivity, leading to higher revenues and margins.

CLS

- Revenues grew by 11% on a QoQ basis and 16% YoY. Managed Training Services continued to be the growth driver with 19% YoY growth and now revenues from MTS form 74% of CLS revenues.
- After transferring the Element K business, the company has been left with about 1/3rd of the overall revenues in CLS. Of this, about 74% is contributed by Managed Training Services (MTS), which has been growing at a very fast pace.
- The company had an order intake of $16.2mn ($14.3mn) during the quarter. MTS closed 3 (1) deals during the quarter.
- We believe that, with the developed economies likely stabilizing, demand may pick up over the next few quarters.

Revenue break up

(Rs mn)	1QFY14	4QFY13	1QFY13
Individual	948.00	981.00	1074.27
Skill building	6.00	4.00	1.00
Schools	424.00	470.00	470.00
Corporate	844.00	761.00	730.00

Source : Company

SLS

- SLS revenues were down by 10% YoY. The company completed a 500 school project from a state Government.
- The non-Government schools business saw revenues grow by 7% YoY and the same now contributes about 50% of SLS revenues.
- The business added 125 non-Government schools in 1Q. The number of Government schools is around 13240, we believe.
- The company witnessed continuing momentum in IP based orders. N Guru, the company's offering in the private schools business is gaining increasing acceptance, as is reflected in the additional schools bookings.

Margins were down YoY

- Headline margins for the quarter were lower YoY to 4.7% v/s 5%. NIIT's margins have disappointed us for the past several quarters.
- The ILS business reported marginal EBIDTA (almost break-even levels) after reporting a negative EBIDTA margin for 2HFY13. Margins in ILS fell YoY due to operating leverage. This was set off by cost management to some extent.
- The company is marketing its Cloud Campus initiative, which will allow it to implement the 1-NIIT program across centres. Relatively lower enrollments also impacted margins.
- Margins were also impacted by investments in the skills building initiative, which the company has started with the joint venture - NIIT Yuva Jyoti Ltd - with National Skills Development Council (NSDC). NSDC will hold 10% equity in NYJL, which aims to train 7 million students in 1,500 centres across 1,000 cities over 10 years.
- The skills building business had a negative EBIDTA of Rs.23mn.
- SLS margins were also lower YoY on lower revenues and some closing out costs for a 500 schools program, which was completed during the quarter.
- CLS margins improved on a YoY basis due to the rupee benefit and higher proportion of MTS revenues (CLS).
- We have tweaked our FY14E earnings.
- We have built in an improved scenario for the ILS and CLS business (on assumption of improvement in developed economies) and have also assumed profitability improvement due to the cloud initiative.
- We expect the individual learning business to report a 2% growth in FY14E over FY13.
- CLS business is expected to grow at about 17% in FY14E due to higher revenues in the MTS business and the rupee depreciation.
- SLS is expected to report a de-growth in revenues due to the discontinuance of schools projects during the fiscal. Excluding bought-outs, revenues are expected to report a small growth YoY.
- We have assumed margins to improve to 8% v/s about 5.4% in FY13. The cloud initiative is expected to help improve the ILS margins. Absence of spends on cloud / 1-NIIT should also help. Skills building initiative is also expected to see lower losses.
- On the other hand, SLS margins are expected to rise on higher contribution of private schools and lower bought-outs. CLS should see margins improve due to rupee depreciation and higher proportion of MTS revenues.
- After accounting for its 24% share in NIIT Technologies' profits, we expect the net profit to be at Rs.501mn in FY14E.

Valuations and recommendation

We maintain ACCUMULATE rating on NIIT with a price target of Rs.19.7

- Prior investments in cloud are expected to improve revenue prospects as well as profitability in FY14. Sustained uptrend in MTS and private schools is also encouraging.
- However, these positives are balanced by the softness in career learning solutions, which has seen some uptick in 1Q. We maintain our ACCUMULATE rating on NIIT.
- At our TP of Rs.19.7, FY14E earnings will be discounted by about 6.5x. The erratic performance of the past constrains us from giving a better valuation to the stock.

Concerns

- A slower-than-expected recovery in the global economy could impact revenue growth of NIIT.
- Steep rupee appreciation v/s major global currencies may impact the financials of NIIT.

RESULT UPDATE

Ritwik Rai
ritwik.rai@kotak.com
+91 22 6621 6310

DB CORP

PRICE: RS.265 **RECOMMENDATION: BUY**
TARGET PRICE: RS.315 **FY14E P/E: 16.9x**

DB Corp has reported a strong set of 1QFY14 financials. The company registered 19% y/y growth in revenues, beating our estimates by 6%. Expenses were largely in line with our expectations (revenue growth has largely been led by yield improvements); as a result, the company far surpassed our EBITDA and PAT expectations. We believe yield improvements can be sustained and there is scope for continued positive earnings surprise, given that street expectations are relatively modest. Competitive intensity continues to be soft, and is likely to remain so in the next few quarters. We raise our EPS estimate for FY14 to Rs 15.7 (Rs 14.7 previously), and raise our price target to Rs 315. The stock is likely to witnessed increased interest from investors looking to play the election spends theme. Maintain BUY.

Summary table

(Rs mn)	FY13	FY14E	FY15E
Sales	15,923	18,427	19,571
Growth (%)	8.8	15.7	6.2
EBITDA	3,760	4,956	5,380
EBITDA margin (%)	23.6	26.9	27.5
PBT	3,313	4,432	4,841
Net profit	2,181	2,881	3,195
EPS (Rs)	11.9	15.7	17.4
Growth (%)	7.8	32.1	10.9
CEPS (Rs)	15.1	19.0	20.9
BV (Rs/share)	56.2	64.9	75.4
Dividend / share (Rs)	5.5	6.0	6.0
ROE (%)	21.9	26.0	24.9
ROCE (%)	17.7	20.8	20.4
Net cash (debt)	312	295	2,040
NW Capital (Days)	45	71	71
P/E (x)	22.3	16.9	15.2
P/BV (x)	4.7	4.1	3.5
EV/Sales (x)	3.0	2.6	2.4
EV/EBITDA (x)	12.7	9.6	8.6

Source: Company, Kotak Securities - Private Client Research

Results Summary

(Rs mn, FY Ends Mar)	1QFY14	1QFY13	Chg. y/y	4QFY13	Chg, q/q
Revenues:	**4494**	**3770**	**19.2%**	**3981**	**12.9%**
- o/w Advertising	3447	2862	20.4%	2975	15.9%
- o/w Circulation	770	658	17.0%	733	5.0%
-o/w Other	277	250	11.0%	273	1.6%
Expenses:	**3166**	**3005**	**5.3%**	**3042**	**4.1%**
-Raw Material Expenses	1421	1332	6.7%	1337	6.3%
(Driver) : NP Prices (Rs/ MT)	33215	32318	2.8%	32797	1.3%
(Driver): NP Quantity (MT)	42770	41202	3.8%	40763	4.9%
-Personnel Expenses	744	682	9.1%	692	7.5%
-Operating Expenses	1001	991	1.0%	1013	-1.1%
EBITDA	**1328**	**765**	**73.7%**	**939**	**41.4%**
Margin	29.6%	20.3%	9.3ppt	23.6%	6.0ppt
Depreciation	158	135	16.7%	151	4.4%
Interest Expenses	25	17	47.3%	22	14.9%
Other Income	45	46	-1.1%	92	-50.8%
PBT	**1191**	**658**	**80.9%**	**858**	**38.8%**
Provision for Tax	430	222	93.7%	307	40.3%
Effective Tax Rate	36.1%	33.7%	2.4ppt	35.7%	0.4ppt
PAT (bef. Minority/ Assoc.)	761	436	74.4%	552	37.9%
Minority Interests	0	0	NM	1	NM
PAT	**761**	**437**	**74.3%**	**553**	**37.7%**
Shares O/S	183	183		183	
EPS	**4.1**	**2.4**	**74.3%**	**3.0**	**37.7%**

Source: Company Reports, Kotak Securities - Private Client Research

- DB Corp reported 19% growth in 1QFY14 revenues, led by strong growth in advertising revenues (up20%, y/y). Circulation revenue growth was strong as well, at 17% y/y. The topline for the company was 6% stronger than our estimates. Expenses were largely in line with our estimates, leading to a positive and significant earnings surprise. Reported EBITDA surpassed our estimates by 31%.

- Print business mature editions brought in EBITDA margin of 36% (y/y expansion of 5.7 ppt), while emerging print editions of the company brought in EBITDA (loss) margin of -16% (y/y expansion of 11.5 ppt). Radio business of the company registered growth of 22% in the topline, and brought in EBITDA margin of 29% (y/y expansion of 7.8 ppt).

- EBITDA is inclusive of pre-operating loss of Rs 8.7 mn on account of Akola edition of the company's Marathi daily (launched this month). Also included in EBITDA are forex losses of Rs 25.3mn.
- Management has indicated that a large part (70-75%) of the growth in advertising has come in on account of improved yields - the same may be corroborated with the reported financials, where consumption of newsprint has risen about 4%. Several categories, including government advertising, autos, real estate, FMCG, and education have performed strongly. Laggards include government tender advertising, appointments and placement classifieds, tours and travels.
- Circulation revenues rose as a result of realization improvement (rise in cover prices as well as reduction in commissions), and reflect the relatively low competitive intensity that the industry is witnessing at present.
- Management expects that following rupee depreciation, it is fair to expect that newsprint price rise for the year shall be higher than 5%. We believe that newsprint consumption going forward shall broadly be in line with the rise in circulation (which itself is expected to be modest). The company has launched the Akola edition of its Marathi daily and would, next month, be launching an edition in Amravati. The management has indicated on the call that expansion in geographies may be faster than what was earlier expected.
- Personnel expenses are expected to be in line with this quarter's growth and other expenses shall rise modestly, as per management.

Outlook and Investment View

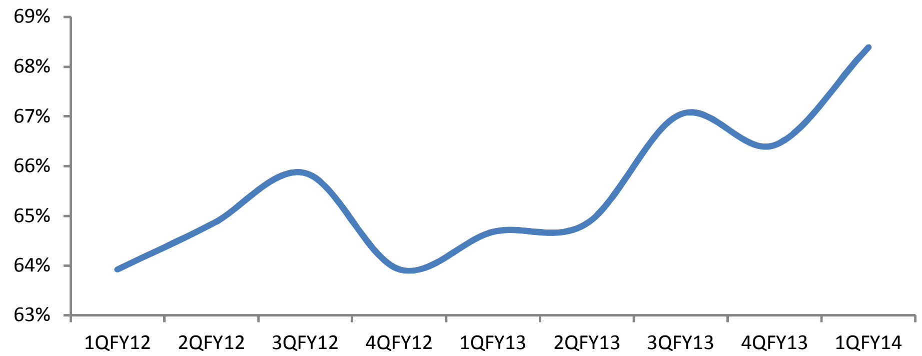
- Over the past year, we have been consistently bullish on the medium-term prospects of DB Corp, for the following reasons: 1/ we think the company has a strong position in most of its markets, and is therefore better positioned to withstand advertising slowdown by hiking cover prices, 2/ we believed that the company shall be able to keep a tight leash on expenses in the downturn (no significant new launches expected, and management initiatives to reduce expenses in existing editions), 3/ the company's geographical footprint allows it to take better advantage of several elections that are due to take place in the coming quarters, viz. elections in Madhya Pradesh, Chhattisgarh, Rajasthan.
- While (1), (2) mentioned above have helped DB Corp outperform other print media companies in the past year (DB Corp currently trades at its 52- week high, while most peers trade at 52-week lows), (3) is just beginning to play out. Given that elections in these states are still five months away, the strong growth in advertising revenues (we believe, also strong relative to the industry) indicates significant potential for growth in the coming quarters. We note that DB Corp holds a 'can't avoid' (for advertising in mass media vehicles) position in Madhya Pradesh, and is a strong #1/ #2 in Chhattisgarh and Rajasthan geographies. Political advertising has the additional advantage of lower pressure on yields, which will likely continue to aid margins.

Readership Statistics for election - going states (AIR'000)

	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Madhya Pradesh (Crucial Market for: DB Corp, Jagran challenger)									
Dainik Bhaskar Group	3534	3730	3806	3881	4134	4130	4115	4121	4124
Nai Dunia	1209	1285	1226	1213	1185	1211	1140	1130	1055
Patrika	1080	1113	1251	1430	1627	1747	1867	1841	1844
Chhattisgarh (Crucial market for: DB Corp, Jagran challenger)									
Dainik Bhaskar	1016	966	992	1067	1003	971	934	925	899
Nava Bharat (Mah/Chh)	771	792	748	745	727	669	633	650	617
Hari Bhoomi	911	893	920	933	934	936	899	926	895
Nai Dunia	360	355	358	308	362	388	354	342	304
Patrika	0	0	0	0	160	199	205	210	224
Rajasthan (Crucial Market for Rajasthan Patrika, DB Corp challenger)									
Rajasthan Patrika	7026	6871	6811	6796	6701	6652	6617	6671	6733
Dainik Bhaskar Group	6379	6312	6425	6434	6393	6309	6295	6322	6234

Source: Indian readership Survey

Gross Margins (%)



Source: Company Reports, Note: Gross profits have been computed as total revenues less raw material expenses

- The management has indicated that the rollout of new editions may be affected sooner than the company had (earlier) expected; we believe the same is indicative of the confidence that the management places in growth-margin path sustaining at levels that have been witnessed in this quarter, and the management shall ensure expansion in a manner that is supportive of building a strong earnings visibility.
- Competitive intensity among newspaper publishers continues to be contained; and there is little reason to expect weaker cover prices, or higher consumption of newsprint on this count. Other expenses for the company are likely to be largely stable. New editions of the company continue to perform, and radio business of the company is also likely to benefit from political/ government advertising in the coming quarters. The company is likely to continue gaining from higher cover prices/ realizations in the coming quarters, although at a lower rate.
- We therefore believe there is a case for factoring in stronger growth in FY14 financials than we have so far. We raise our revenue estimates 3.7% for FY14 - on account of higher expectations of advertising revenue growth. We think that while newsprint expenses are likely to rise, the same shall be more than offset by strong growth in advertising and circulation revenues. As such our margin expectations rise 1.3 ppt in FY14, and our EPS estimates are revised upward by 7%. Since FY14 changes in our assumptions are largely on account of stronger expectations of political advertising, our FY15/ onward estimates remain largely unchanged.

- Current consensus estimates (Rs 14.5, FY14 E, Bloomberg consensus estimates), we think, do not sufficiently incorporate the advertising growth that the company has begun to see; as such the company may continue to outperform expectations. On our (revised) estimates, DB Corp trades at 16.9x FY14 PER; we believe there is sufficient scope for upsides. We raise our price target to Rs 315 (18X PER FY15E, 20x PER FY14E), and maintain BUY.

We maintain BUY rating on DB Crop with a price target of Rs.315

- Risks to our earnings estimates and investment view include weaker macroeconomic environment/ political advertising, raw material price risks, and competitive risks. Earnings risks may be witnessed in later quarters relating to ad-for-equity deals entered into by the company.

Change in Estimates (Rs mn)

	Prior Estimates		Revised Estimates		% chg.	
	FY14	FY15	FY14	FY15	FY14	FY15
Revenues	17761	19515	18427	19571	3.7%	0.3%
EBITDA	4537	5321	4956	5380	9.2%	1.1%
Margin	26%	27%	27%	27%	1.3ppt	0.2ppt
PAT	2689	3204	2881	3195	7.1%	-0.3%

Source: Kotak Securities - Private Client Research

RESULT UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 6621 6312

HDFC LTD

PRICE: RS.804 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.800 **FY14E P/E: 21.4X; P/ABV: 4.5X**

Q1FY14 results: Core performance largely in line.

NII grew at healthy pace (15.8% YoY), albeit a shade lower than our expectation on back of marginal decline in reported NIM which was impacted due to change in loan mix with the share of corporate loans declining by more than 240bps YoY. Net profit growth was also marginally lower than our expectations (17.1% YoY) on back of absence of any treasury profit during Q1FY14.

Overall loan book continued to grow at healthy pace (19.4% YoY; ~24% including loans sell-down of Rs.63.1 bn during LTM) - retail loan book grew at 24.1% (~31% inclusive of loan sell-down), while corporate segment witnessed moderate growth (11.0% YoY).

Asset quality remained healthy - gross NPA improved to 0.77% (Q1FY14) from 0.79% (Q1FY13). Moreover, consistency lies in the downward secular trajectory, where its gross NPA has declined YoY for last 34 consecutive quarters. Stock trades at rich valuation (3.25x FY14E ABV), post stripping the value of subsidiaries and investments. Hence, we retain REDUCE rating on the stock with unchanged TP of Rs.800 based on SOTP method (core business: Rs.565; 3.25x FY14 ABV and subsidiaries: Rs.235).

Result performance

(Rs bn)	Q1FY14	Q4FY13	Q1FY13	YoY (%)	QoQ (%)
Interest income	52.2	53.4	46.5	12.3	(2.2)
Interest expenses	37.6	34.4	33.9	11.1	9.4
Net Interest Income	**14.6**	**19.0**	**12.6**	**15.8**	**(23.3)**
Other Income	3.5	2.3	2.8	25.2	47.8
Total Income	**18.0**	**21.3**	**15.3**	**17.4**	**(15.5)**
Operating Expense	1.6	1.1	1.3	21.8	44.5
Operating profit	**16.4**	**20.2**	**14.0**	**17.0**	**(18.9)**
Loan loss provision	0.3	0.3	0.4	(25.0)	20.0
Profit before tax	**16.1**	**19.9**	**13.6**	**18.3**	**(19.4)**
Provisions for taxes	4.4	5.2	4.9	(11.8)	(16.4)
Profit after tax	**11.7**	**14.7**	**8.7**	**35.4**	**(20.4)**
PAT incl. extra-ordinary gains	11.7	15.6	8.8	33.0	(24.6)
EPS	**7.5**	**10.1**	**6.8**	**11.3**	**(24.9)**
Cost/Income ratio (%)	9.1	5.3	8.7		
Effective Tax rate (%)	27.1	26.1	36.3		
Mortgaged Loan (Rs. bn)	1,769.9	1,700.5	1,482.6	19.4	4.1

Source: Company

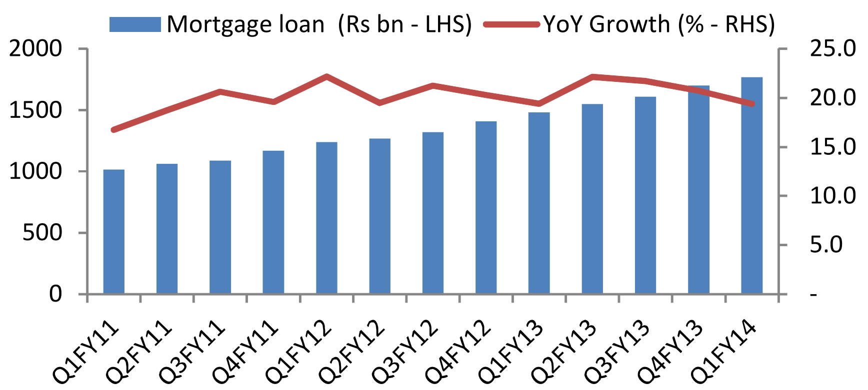
Core operating performance largely in line with our estimates; individual segment continued to drive overall loan growth

Net Interest Income (NII) grew at healthy pace (15.8% YoY), albeit a shade lower than our expectation during Q1FY14 on back of marginal decline in reported NIM. We believe that impact could have come due to change in loan mix with the share of corporate loans declining by more than 240bps YoY. Net profit growth was also marginally lower than our expectations (17.1% YoY; Rs.11.73 bn) on back of absence of any treasury profit during Q1FY14 as against the run-rate of Rs.800 mn/ quarter seen during previous 4 quarters.

Overall loan book continued to grow at healthy pace (19.4% YoY; ~24% including loans sell-down of Rs.63.1 bn during LTM) - retail loan book grew at 24.1% (~31% inclusive of loan sell-down), while corporate segment witnessed moderate growth (11.0% YoY).

Overall approval and disbursements grew by ~16% during Q1FY14. Its individual loan book has grown to 70% of total loan book at the end of Q1FY14, 200bps improvement QoQ. Real estate developer loans remained flat QoQ and entire incremental growth during Q1FY14 (Rs.80.8 bn including loan sell-down) has come from the individual loan segments.

Strong growth despite intensifying competition



Source: Company

Marginal pressure on spread witnessed sequentially due to change in loan mix as well as decline in spread on non-individual loans.

Although spread improved YoY from 2.27% in Q1FY13 to 2.29% in Q1FY14, it was down sequentially due to change in loan mix as well as decline in spread on non-individual loans. The share of individual loan book which has relatively lower spread (individual book: 2%; non-individual book: 2.82%) improved ~200bps to 70% while spread on non-individual segment also saw some pressure (12bps QoQ).

During H2FY13, HDFC Ltd also had the benefits of Rs.32.9 bn mobilized through warrants conversion which helped them in interest cost saving; HDFC Ltd reported sequential decline in interest expense for two consecutive quarters during Q3FY13 & Q4FY13. Although there are fears of some pressure on its spread, we believe its spead is likely to be in the range of 2.2-2.3% during FY14/15E.

The recent spike in 10-Yr yield could put pressure on the borrowing costs of HDFC ltd while increased competition in individual loan segment as most of the banks are becoming aggressive in retail segment to compensate for the near complete slowdown in corporate loan off-take, could be a risk in our view.

Asset quality has continued to improve - gross NPA declined YoY for last 34 consecutive quarters.

Its asset quality remained healthy with gross NPA improving to 0.77% at the end of Q1FY14 from 0.79% at the end of Q1FY13. Moreover, consistency lies in the downward secular trajectory, where its gross NPA has declined YoY for last 34 consecutive quarters, in percentage terms.

Asset quality of individual portfolio is superior to that of builder loans with gross NPA coming at 0.61% and 1.08%, respectively and has also improved YoY from 0.67% in Q1FY13. HDFC ltd is carrying a provision of Rs.18.0 bn, against the regulatory requirement of Rs.13.3 bn (i.e. excess provision of Rs.4.8 bn) - Rs.4.2 bn is on account of non-performing loans while rest Rs.9.1 bn on account of general provisions.

Valuation and recommendation

HDFC Ltd is better placed vis-à-vis peers, with small towns continuing to drive demand. We believe favorable trends like rising urbanization and India's demographic dividend will continue to drive demand for mortgages in the near foreseeable future, as focus segment is less prone to cyclicality. We have modeled ~18% loan growth during FY14/15E in the prevailing uncertain macro-economic environment; however, we believe things are likely to improve as we are on the downward trajectory of the interest rate cycle.

We recommend REDUCE on HDFC with a price target of Rs.800

We have marginally tweaked the earnings estimate for FY14/15E and expect net income to grow at 19% CAGR with healthy return profile (RoE: ~22.0%). Despite several positive attributes, we believe stock is trading rich at 3.25x FY14E ABV, post stripping the value of subsidiaries and investments. Hence, we retain **REDUCE** rating on the stock with unchanged TP of Rs.800 based on SOTP method (core business: Rs.565; 3.25x FY14 ABV and subsidiaries: Rs.235).

Summary Table

Rs bn	2012	2013	2014E	2015E
Int. Income	167.9	205.6	234.2	275.2
Int. expenses	111.6	138.9	154.2	180.5
NII	**56.4**	**66.6**	**80.0**	**94.7**
Growth (%)	20%	18%	20%	18%
Non-Int Income	5.6	5.9	6.0	6.3
Total Income	62.0	72.6	86.0	101.0
Operating Profit	57.5	67.2	79.9	94.1
PAT	**41.2**	**48.5**	**58.0**	**68.5**
Growth (%)	16.6%	18%	19.6%	18.1%
GNPA - 90 Days (%)	0.7	0.8	0.7	0.7
NNPA - 90 Days (%)	0.5	0.5	0.5	0.5
Spreads (%)	2.2	2.2	2.2	2.2
RoA (%)	3.9	4.6	4.5	4.3
RoE (%)	22.7	22.0	21.9	22.9
Dividend Payout (Rs.)	11.0	12.5	13.0	14.0
EPS (Rs)	**27.9**	**31.4**	**37.5**	**44.3**
BV (Rs)	**128.8**	**161.7**	**181.6**	**205.2**
Adj. BV (Rs)	**121.8**	**153.9**	**173.1**	**195.8**
P/E (x)	**28.8**	**25.6**	**21.4**	**18.1**
P/ABV (x)	**6.6**	**5.2**	**4.6**	**4.1**

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
19-Jul	Croitre Inds	Arun Mandaviya HUF	S	53,786	6.5
19-Jul	Croitre Inds	Buddhan Singh	B	73,493	6.5
19-Jul	Croitre Inds	Sadasivam Ramasamy	S	59,900	6.5
19-Jul	Cupid Trades	Ashlesh Gunvantbhai Shah	B	10,025	157.1
19-Jul	Cupid Trades	Naina Sajeev Malhotra	S	6,000	154.9
19-Jul	Cupid Trades	Shweta Dhiren Agrawal	S	6,550	155.2
19-Jul	Cupid Trades	Firoz Hanifbhai Memon	B	5,001	155.0
19-Jul	Eastern Sugar	Anoop Nopany	B	125,000	9.0
19-Jul	Kuwer Inds	Vct Lease Invest Pvt Ltd	S	50,000	13.8
19-Jul	Mahindra Com	Chetan R.Shah	B	26,555	65.3
19-Jul	Marvel Capital	Suresh Laxman Mandavkar	S	83,000	4.5
19-Jul	Marvel Capital	Nikhil Mahendra Doshi	B	35,000	4.6
19-Jul	Marvel Capital	Nimesh Mahendra Doshi	B	35,000	4.5
19-Jul	Marvel Capital	Vijay Mahendra Doshi	B	35,000	4.5
19-Jul	Mindviscap	Parekh Sharadchandra Mugatlal	S	43,968	7.9
19-Jul	Moldtek Tech	Andhavarapu Prasad	S	28,000	23.3
19-Jul	Nimbus Inds	Gandhi Anandita	B	40,000	6.7
19-Jul	Osian Inds	Dhaval Jayant Parekh	S	70,905	1.8
19-Jul	Osian Inds	Padma Vivek Kochar	B	50,000	1.8
19-Jul	Radglobal	Agarwal Mohit	S	485,000	75.0
19-Jul	Residency Proj	Valuemart Retail (India) Ltd	S	20,000	50.0
19-Jul	Residency Proj	Kerul Champaklal Shah	B	20,000	50.0
19-Jul	Supertex Inds	A K Investments	B	60,505	2.6
19-Jul	Supertex Inds	Ravisha Financial Services Pvt Ltd	S	60,465	2.6
19-Jul	Suryanagri Fin	Agrawal Estate Organisers Ltd	S	26,613	25.0
19-Jul	Websol Energy	Pratik Merchants Pvt Ltd	S	200,000	5.9
19-Jul	Websol Energy	Radison Tieup Pvt Ltd	B	197,000	5.9

Source: BSE

Forthcoming events

Company/Market

Date	Event
19 Jul	Bajaj Auto, Bajaj Holdings, CRISIL, Federal Bank, HDFC, Hexaware Tech, Hindustan Zinc, JK Paper, Lloyds Finance, Mastek, NIIT, RIL, Uco Bank, Unichem Lab, Zenith Info earnings expected.
20 Jul	Andhra Petro, Garware Poly, HT Media, Jindal Poly, Shyaram Silk, Surya Pharma earnings expected.
22 Jul	Asian Paints, Blue Star, GS Auto, Himachal Futur, Hindustan Oil, IL&FS Invest, ING Vysya Bank, Just Dial, L&T, Mangalore Ref, Onward Tech, Piramal Glass, Ruchira Papers, South India Paper, Vakranghee Soft earnings expected
23 Jul	3M India, AP Paper, Blue Dart, Century Tex, Dewan Housing, Greenply Ind, India Infoline, KPIT Cummins, L&T Finance Holdings, Mahindra Forging, Shriram Transport, Tata Elxsi, Tata Sponge, Vidarbha Iron earnings expected
24 Jul	Ador Welding, Ambuja Cements, BSL, Cairn India, Central Bank, Century Enka, Dabur India, Hero MotoCorp, Indiabulls Infra, Indiabulls Real Estate, ION Exc, Kirloskar Bros, Mahindra Lifestyle, Novartis India, Orient Refractories, Ponni Sugar Erod, Sagar Cement, Shanthi Gears, SKF India, United Phos, Vintron Info, Yes Bank earnings expected

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
TCS	1,743	5.0	13.1	4.3
Infosys Ltd	2,847	1.7	7.0	2.1
Tata Motors	295	2.7	4.3	6.3
Losers				
HDFC	803	(3.1)	(12.5)	6.6
ICICI Bank	959	(2.6)	(9.0)	5.4
Sun Pharma	1,080	(3.4)	(4.5)	1.6

Source: Bloomberg

Fundamental Research Team

Dipen Shah
IT
dipen.shah@kotak.com
+91 22 6621 6301

Saurabh Agrawal
Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448

Amit Agarwal
Logistics, Transportation
agarwal.amit@kotak.com
+91 22 6621 6222

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Saday Sinha
Banking, NBFC, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Ritwik Rai
FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6652 9172

Teena Virmani
Construction, Cement
teena.virmani@kotak.com
+91 22 6621 6302

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6621 6143

Sumit Pokharna
Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Technical Research Team

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6621 6360

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Premshankar Ladha
premshankar.ladha@kotak.com
+91 22 6621 6261

Derivatives Research Team

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Rahul Sharma
sharma.rahul@kotak.com
+91 22 6621 6198

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6621 6350

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6621 6110

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.
Correspondence address: Infinity IT Park, Bldg. No 21, Opp Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097.
Tel No : 66056825.
Securities and Exchange Board Of India: Registration No's: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230/ INE 011207251, OTC INB 200808136, MCXSX INE 260808130. AMFI No: 0164.