MORNING INSIGHT

Kotak Securities

PRIVATE CLIENT RESEARCH

JULY 24, 2012

Economy News

- Just a day after Presidential polls, the public sector oil companies hiked petrol prices by up to 90 paise a litre. This is the second hike during the current fiscal. The companies reduced prices twice. While diesel prices remain untouched. (BL)
- Malaysia headquartered Axiata Group, which holds about 20% stake in Idea Cellular, has threatened to claim damages and drag the Indian government into international arbitration under the Bilateral Investment Promotion and Protection Agreement (BIPA). This makes it the sixth international investor in the telecom space to serve notice under bilateral trade agreements. (ET)
- The US wants India to raise its foreign direct investment (FDI) ceiling, especially in the Defence sector. The US Deputy Secretary of Defence said that If India raises its FDI ceiling to international standards, it would increase commercial incentives to invest. (BL)
- The RBI has revised the norms for structuring derivative contracts for banks. Besides simplified terms of payment, the central bank has also allowed banks to terminate contracts without regulatory approvals
- The Group of Ministers (GoM) headed by the Union Home Minister, Mr. P. Chidambaram, is likely to meet on July 25 to discuss the Draft Coal Regulator Bill. Pricing power to the regulator was one of the contentious issues when the Draft Coal Regulator Bill was taken up by the Cabinet in May. The Cabinet had referred the matter to the GoM. (BL)

Corporate News

- **Nava Bharat Ventures Ltd** is set to increase its power generation capacity to 450 mw by Q4FY13 by commissioning two more plants. The 64 mw plant at Odissa is ready for commissioning and is awaiting final approvals to begin operations while they will add 150 mw project at Paloncha in Andhra Pradesh, taking the power generation capacity to 450 mw. (BL)
- Two years after it bought three shale gas assets in the US, the business, **Reliance Industries** says, is set to become a material contributor to the company's earnings in the next three years. By 2015, RIL expects shale gas volumes to grow at a compounded annual average of 50 per cent, with the business to contribute eight to 10% of EBITDA. (BS)
- Construction work at **Jindal Steel and Power's** steel and power project in Odissa was partially hit on Monday as many workers kept away from work and villagers demanded more compensation for loss of land. (ET)
- Rajasthan oilfields will continue to be the driver for **Cairn India** in the days to come. While cumulative production from Rajasthan crossed 100 mn barrels and generated more than $9 bn in gross revenues till date, Cairn has relinquished a block in the Kerala-Konkan region. (BL)
- **Essar Oil** has secured Rs.50 bn from a consortium of 12 banks to meet most of its Rs 61.7 bn sales tax dues to the Gujarat government. The consortium of banks includes State Bank of India, ICICI Bank, Bank of Baroda, Punjab National Bank, IDBI Bank and Bank of India. (BS)
- Pharma firm **Lupin** says it will challenge a US court order that prevents it from selling a lowcost generic version of Pfizer's nerve pain drug Pregabalin for six years. A court in the US had last week allowed Pfizer to retain the marketing monopoly of its two patents for Pregabalin, sold under the brand Lyrica, until December 2018. The order threatens to derail Lupin's plan to tap Pregabalin's fast growing market in the US. (ET)

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

Equity

		% Chg		
	23 Jul 12	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,877	(1.6)	(0.6)	(1.9)
NIFTY Index	5,118	(1.7)	(0.5)	(2.0)
BANKEX Index	11,805	(2.0)	2.1	0.3
BSET Index	5,258	(1.2)	(7.2)	(5.5)
BSETCG INDEX	9,746	(2.0)	0.1	2.9
BSEOIL INDEX	7,953	(0.9)	0.7	0.2
CNXMcap Index	7,228	(1.7)	1.3	(3.5)
BSESMCAP INDEX	6,599	(1.1)	3.0	(2.8)
World Indices				
Dow Jones	12,721	(0.8)	0.6	(2.2)
Nasdaq	2,890	(1.2)	(0.1)	(2.4)
FTSE	5,534	(2.1)	0.4	(3.1)
NIKKEI	8,508	(1.9)	(3.7)	(10.5)
HANGSENG	19,641	-	0.3	(7.9)

Value traded (Rs cr)

	23 Jul 12	% Chg - Day
Cash BSE	1,587	(5.6)
Cash NSE	7,783	(7.8)
Derivatives	152,551	28.4

Net inflows (Rs cr)

	20 Jul 12	% Chg	MTD	YTD
FII	239	11.4	9,267	51,347
Mutual Fund	(42)	(555.4)	(1,968)	(8,027)

FII open interest (Rs cr)

	20 Jul 12	% Chg
FII Index Futures	16,179	0.8
FII Index Options	46,690	3.6
FII Stock Futures	27,391	(0.3)
FII Stock Options	2,007	(4.2)

Advances / Declines (BSE)

23 Jul 12	A	B	T	Total	% total
Advances	30	678	269	977	34
Declines	169	1,338	285	1,792	62
Unchanged	3	72	32	107	4

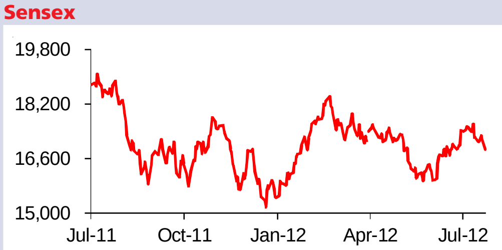
Commodity

		% Chg		
	23 Jul 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	88.2	0.0	10.5	(14.9)
Gold (US$/OZ)	1,579.1	(0.3)	0.5	(4.0)
Silver (US$/OZ)	27.1	(0.5)	0.9	(12.3)

Debt / forex market

	23 Jul 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.2	8.2	8.3	N/A
Re/US$	55.9	55.3	57.0	52.5

Sensex



RESULT UPDATE

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

GEOMETRIC LTD

PRICE: RS.80 **RECOMMENDATION: BUY**
TARGET PRICE: RS.102 **FY13E P/E: 6X**

- Geometric's 1QFY13 results were better than estimates, both at the revenue and the EBIDTA levels.
- USD revenue growth of 6.4% was brought in largely by a volume growth of 6.4%. Average realisations were almost flat QoQ. Volumes had grown by 5.1% in 4QFY12.
- EBIDTA margins were sharply higher QoQ, largely due to the rupee depreciation and deferral of some expenditure to future quarters.
- The company provided Rs.85 as one-time consultancy charges, as against Rs.27mn in 4QFY12.
- The amount of new orders booked was at $10.3mn as against $11.7mn during the previous quarter. The company is investing more in business generation activities, and will continue to do so, we believe.
- More focus on complete solutions has led to creation of offerings by combining the earlier diverse offerings. The company has also started a consulting practice to get into the client at an early stage.
- The management has also indicated greater focus on improving margins through levers like G&A leverage along with better utilization of the employee pyramid.
- Lower consultancy charges from 2Q should set-off the impact of expected rupee appreciation and the delayed expenditure.
- We have adjusted earnings estimates to accommodate for 1QFY13 results. Our earnings estimates stand at Rs.13.2 (10.6) for FY13, after accounting for one-off expenses. The improvement is partly due to the rupee depreciation.
- Our DCF - based price target works out to Rs.102 (Rs.82 earlier), based on FY13E earnings. We recommend BUY (ACCUMULATE earlier), looking at the attractive valuations.
- Geometric's revenue growth has been relatively high over the past few quarters and the order bookings should lead to decent growth going ahead. Our exit multiple works out to 8x FY13E EPS.

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	6,206	8,079	10,438
Growth (%)	21.3	30.2	29.2
EBITDA	748	1,124	1,912
EBITDA margin (%)	12.1	13.9	18.3
PBT	702	1,015	1,516
Net profit	574	592	830
EPS (Rs)	9.2	9.4	13.2
Growth (%)	19.9	2.8	40.1
CEPS (Rs)	13.3	14.0	18.3
BV (Rs/share)	34.9	29.8	42.0
Dividend / share (Rs)	1.0	1.0	1.0
ROE (%)	28.4	29.3	36.9
ROCE (%)	28.2	37.6	47.6
Net cash (debt)	198	799	1,442
NW Capital (Days)	69.6	65.3	68.2
P/E (x)	8.7	8.5	6.0
P/BV (x)	2.3	2.7	1.9
EV/Sales (x)	0.8	0.5	0.3
EV/EBITDA (x)	6.4	3.7	1.9

Source: Company, Kotak Securities - Private Client Research

1QFY13 results - better than expectations

(Rs.mn)	4QFY12	1QFY13	QoQ (%)	1QFY12	YoY (%)
Income	**2249.3**	**2608.1**	**15.9**	**1726.9**	**51.0**
Expenditure	1967.5	2081.4		1560.2	
Operating profit	**281.8**	**526.7**	**86.9**	**166.7**	**215.9**
Depreciation	74.9	74.3		65.1	
EBIT	**206.9**	**452.5**	**118.6**	**101.6**	**345.2**
Interest	7.6	8.3		1.9	
Other inc	-3.0	-70.4		77.2	
E.O items	0.0	0.0		2.6	
PBT	**196.3**	**373.9**	**90.4**	**174.4**	**114.4**
Tax	20.1	132.8		39.7	
PAT	**176.3**	**241.0**		**134.7**	
Minority Interest	48.5	34.4		17.3	
PAT after M I	127.8	206.6	61.7	117.4	76.0
EPS (Rs)	**2.0**	**3.3**		**1.9**	
Margins (%)					
Operating Profit	12.5	20.2		9.7	
EBIT	9.2	17.3		5.9	
Net Profit	7.8	9.2		7.8	

Source : Company

- Revenues during the quarter were higher by 16% QoQ. In USD terms, the growth was 6.4% (5.4% in 4Q).
- The growth was brought about largely by volumes, which rose by about 6.4% (5.1% in 4QFY12, 4% in 3Q and 3.5% in 2Q). Average realisations were almost flat, we understand.
- Volumes have likely grown on the back of higher wallet share from existing accounts. Revenues from Geometric's Top 5 clients and Top 10 clients grew by about 21% QoQ in INR terms.
- Of late, most of the revenue stability has come about on account of increasing traction in accounts like Ford and Goodyear (largely on-site) and Caterpillar and Volvo (off-site).
- Management commentary indicates a degree of stability in large clients.
- The management sees a strong market and demand environment, which is contrary to the comments heard from most peers.
- We believe that, the confidence comes from the fact that, automotive and hi-tech sectors have been impacted relatively less. This was also echoed by top companies like TCS in their management updates.
- About 80% of Geometric's revenues come from automotive and industrial verticals.
- During the quarter, Geometric added $10.3mn ($11.7mn in 4QFY12) worth of orders. This high level of order bookings is encouraging from the future growth perspective.
- While the company has seen good scale up in the Top clients in the past few quarters, it expects the remaining accounts to contribute to growth in future quarters.
- We understand that Geometric has become the Tier 1 vendor for a large aeroplane manufacturer and revenues have started flowing and should improve over the next few quarters.

Macro scene cautious; No major impact at micro level

- Management has indicated that the outlook on macro scene remains cautious. However, it is not witnessing any project cancellations or deferrals.
- The demographic (ageing population) and secular changes in the need for engineering talent are expected to drive demand in future. The offset policy in aerospace and defense will likely provide further opportunities to the company.
- Within verticals, automotive is doing well in terms of demand as companies are looking at innovative ways of reducing costs for their solutions. The company is witnessing more demand for solution-orientation.
- In aerospace, companies have very long order cycles of upto 5 - 7 years. This cushions the impact of any economic slowdown on demand for IT companies. Thus, Geometric has not seen any impact on its business from these companies.
- However, the major aircraft programs are coming to an end and if no new designs come up over the next few quarters, demand for Geometric may come down.
- On the industrial equipment side also, the company is seeing no impact of the current uncertain macro scene. It plans to fortify its capabilities in oli & Gas sector.

Margins improved sharply on a QoQ basis

- EBITDA margins rose sharply on a QoQ basis after falling sharply in 4QFY12. EBIDTA margins fell from 18.2% in 3QFY12 to 12.5% in 4QFY12 before improving to 20.2% in 1QFY13.
- The improvement in 1Q came partly on the back of the depreciation in rupee by about 9% QoQ and partly because of the one-off items, in addition to the operational efficiencies.
- Rupee depreciation helped to the extent of about 300bps. One off items added about 186bps to margins, we estimate.
- In 4QFY12, there was an impact due to consultancy charges (Rs.82mn) and provision for doubtful debts (Rs.27.36mn).
- In 1QFY13, the consultancy charges were Rs.86mn but, there was a write back of provision for doubtful debts to the extent of Rs.7mn.
- The consultancy fee is expected to reduce in 2Q to Rs.31mn and stop thereafter.
- While the significant volatility makes it difficult to forecast margins, we believe that revenue growth will be the major lever for the company to improve and sustain margins. The revenue growth has been decent for the past few quarters.
- The company is looking at other levers like the pyramid effect, increasing offshore content, G&A leverage, billing rate increases and non-linearity to protect and improve margins.
- Currently, Geometric has high utilization rates.

High tax rate

- The company provided for tax at the rate of 36% of PBT as all entities were at the full tax rate during the quarter.

Focusing more on solutions / consultancy

- Geometric has identified the following strengths on which it plans to build further competencies in the future : Manufacturing engineering, PLM capability and Ability to create Intellectual Property
- While the Indian unit has expertise in PLM, the US subsidiary is strong in manufacturing engineering. The company plans to consolidate these services into solutions and cross sell these to clients.
- It has created solutions (as against discrete services) by combining various elements of its capabilities. Geometric has identified offerings, each with a relevant business model and engagement model, with a view to provide better services and also reduce the time to penetrate into new markets.
- The company formed a consulting group to bring in a solution-based approach in all customer engagements and suggest unique architectures and solutions to meet customer objectives

Financial prospects

- We have increased our earnings estimates for FY13 on the back of rupee depreciation, higher volume growth and relatively higher margin assumptions.
- We believe Geometric should see higher volumes. However, there may be volatility in the near term in case the delays in decision making persist.
- We have incorporated a USD revenue growth of 22% for FY13 (Low growth of 1% - 2% QoQ assumed for next three quarters).
- Margins are expected to improve in FY13 on the back of rupee depreciation, improved efficiencies and benefits from the restructuring currently underway in the company.
- PAT is expected to grow by 40% in FY13, leading to an EPS of Rs.13.2. We expect FY13 to have a one-off consultancy expense of Rs.115mn.

Valuations

We recommend BUY on Geometric Ltd with a price target of Rs.102

- Our DCF - based price target for Geometric stands at Rs.102 as compared to Rs.82 earlier.
- This is largely on the back of revision in EPS estimates. At our TP, our FY13E earnings will be discounted by 8x, which we believe is fair.
- Geometric has been focusing on verticalised services and solutions to increase relevance to customers. Value engineering and cost reduction for clients are the focus areas.
- It has identified manufacturing engineering, PLM capabilities and IP creation as its inherent strengths on which it will concentrate.
- With more solutions approach being demanded by clients, Geometric is restructuring its offerings. It needs to develop the consulting capability and also blend it with its software & engineering services.
- We upgrade the stock to **BUY**, looking at the potential upside of about 30%.
- We will wait for more stability and sustainability in the revenue profile and in the margin profile of Geometric before according higher valuations to the stock.

Risks and concerns

- INR appreciation beyond our assumed levels and slower revival in user economies pose downside risks to our recommendation.

RESULT UPDATE

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6621 6305

LARSEN & TOUBRO LTD (L&T)

PRICE: RS.1375 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1435 **FY13E P/E: 15.1x**

- L&T came out with numbers that were ahead of expectations on the revenue and profit front. Reported EBITDA margins were sharply lower bearing the brunt of forex loss of Rs 2.6 bn. The forex hit was offset by commensurate rise in other income from subsidiaries.
- Core EBITDA margins (excluding forex hit on borrowings) stand at 10.4% vs 11.9%.
- Order intake was robust on the face of it but unimpressive excluding spillover projects from previous fiscal.
- Management commentary on business environment continues to be lackluster with continued project deferrals in key verticals.
- Given that the first quarter had the benefit of spill-over orders of previous fiscal, order announcements needs to be monitored in the current quarter to get a sense of sustainable order intake.
- The stock has corrected 4% from its recent high of Rs 1430. In view of this, we upgrade the stock to ACCUMULATE. Recommend investors to buy the stock on declines.
- Risks - Weak capex cycle and policy bottlenecks coupled with rising capital engagement in business.

Summary table - Consolidated

(Rs mn)	FY11	FY12	FY13E
Sales	519,534	643,131	746,539
Growth (%)	18.2	23.8	16.1
EBITDA	75,553	87,699	97,877
EBITDA margin (%)	14.5	13.6	13.1
PBT	68031	69735	77912
Net profit	44,562	46,937	52,517
EPS (Rs)	69.9	77.0	87.2
Growth (%)	15.1	10.1	13.3
CEPS (Rs)	84.3	103.2	111.9
BV (Rs/share)	409.1	488.0	558.2
Dividend / share (Rs)	14.7	14.7	14.7
ROE (%)	18.6	17.2	16.7
ROCE (%)	16.9	13.9	13.3
Net cash (debt)	-291831	-456300	-301283
NW Capital (Days)	37.5	193.9	86.7
EV/Sales (x)	2.0	1.9	1.4
EV/EBITDA (x)	13.6	13.8	10.8
P/E (x)	19.7	17.9	15.8
P/BV (x)	3.4	2.8	2.5

Source: Company, Kotak Securities - Private Client Research

Financial performance

Rs mn	Q1 FY13	Q1 FY12	YoY (%)
SalesTurnover	120,783	95,784	26
excise duty	1,230	958	28
Excise rate %	1.0	1.0	2
Net sales	**119,554**	**94,826**	**26**
Total op expenses	108,684	83,561	30
Raw material	32,085	22,729	41
Sun-contracting charges	24,905	18,455	35
Construction materials	20,891	19,194	9
purchase of trading goods	5,017	4,885	3
Other operating expenses	10,624	7,819	36
sales and admin exp	5,687	2,819	102
Personnel	9,474	7,660	24
Operating Profit	**10,870**	**11,265**	**(4)**
Other income	6,058	2962	105
Depreciation	1,919	1,679	14
EBIT	**15,009**	**12,548**	**20**
Interest	2,284	1,613	42
PBT	**12,725**	**10,935**	**16**
current Tax	3,760	3,413	10
deferred tax	(55)	61	(190)
Adjusted PAT	**9,020**	**7,462**	**21**
Extraordinary gains/(losses)	-383.4	0	
Reported PAT	**8,637**	**7,462**	**16**

Source: Company

Ratios

	Q1FY13	Q1FY12	YoY (%)
EPS (Rs)	15.40	12.74	21
EBITDA (%)	9.1	11.9	
Raw Matl costs to sales (%)	26.8	24.0	
Sub-contracting costs to sales (%)	20.8	19.5	
construction materials costs to sales (%)	17.5	20.2	
Purchase of trading goods costs to sales (%)	4.2	5.2	
Total material and contracting expenses	69.3	68.8	
Other op expenses costs to sales (%)	8.9	8.2	
sales and admin costs to sales (%)	4.8	3.0	
Personnel costs to sales (%)	7.9	8.1	
Tax rate (%)	29	32	

Source: Company

Segment Performance

Segment revenues Rs mn	Q1FY13	Q1FY12	YoY (%)
Engg and Construction	104,898	80,994	30
Electrical and Electronics	7,603	7,462	2
Machinery and Industrial products	5,753	6,904	-17
Others	2,749	1,990	38
Total	121,002	97,350	24

Source: company

Strong execution in the quarter

E&C Segment

- During the quarter, the E&C segment reported 26% yoy growth in revenue, which was ahead of our expectations and aided by strong execution momentum. For the fiscal, the company has guided for 15-20% growth in revenues. Given the strong beginning to the fiscal, the company appears poised to meet its revenue guidance.
- Execution has been well managed even as the company continued to face delays due to forest and land clearances.
- The revenue growth was primarily boosted by domestic market (up 17% yoy) as well as exports slowed down during the quarter. At Rs 20.3 bn exports were up 90% yoy and accounted for 17% of net revenue.
- During the past few years, the company has significantly upgraded its execution capability with the addition of equipments and fabrication yards in Oman and Katupalli.

Electrical and Electronics Segment

- In this segment, L&T makes medium and low voltage switchgears. The Segment revenue growth slowed down to 2% yoy during the quarter.
- This segment includes low and medium voltage switchgear products, electrical systems, energy meters and medical systems.
- The company indicated that it has been a challenging year for the electrical industry as the T&D market has contracted during the fiscal. Moreover, demand for MV switchgear from traditional industrial segments like cement, steel and sugar has continued to be slack partly offset by resilient demand from Tier-2 cities (LV switchgear)

MIP (Machinery and Industrial Products)

- This segment includes marketing of construction machinery and earth moving equipments, manufacturing of industrial valves and rubber manufacturing machines.
- The MIP segment posted a significant decline of 17% yoy in revenue in Q1 FY13 on slack demand from the construction and industrial segment. The management indicated that policy uncertainty resulted in stalling of investment in the mining sector, which resulted in lower offtake.
- "Others" segment include technology services division, e-Engineering solutions and embedded systems. This segment posted robust growth of 38% yoy on strong demand from the US geography. Moreover, the growth is coming on a low base. INR depreciation would have also aided higher revenue growth.

Even excluding forex fluctuation loss from operations, EBITDA margins have been lower than expected

- Reported EBITDA margins for the quarter stood at 9.1% down 180 bps on a yoy basis. The sharp drop in EBITDA was largely due to forex loss of Rs 2.6 bn vs forex gain of Rs 350 mn in Q1 FY12.
- The company clarified that Sales and General Adminstration (SG&A) expenses included Rs 2.6 bn of forex losses coming from operations (Rs 1.0 bn) and loans (Rs 1.6 bn).
- The management further indicated that SG&A expenses includes several provisions/contingencies/warranties that are of a non-linear nature. During the quarter, there was a writeback of around Rs 450 mn included in SG&A expenses.
- Adjusted for the operations part of the forex element, EBITDA margins stand at 10.4% vs 11.9% in Q1 FY12.
- Employee costs rose 24% yoy due to addition of personnel at its various locations including Hazira, Coimbatore and Sohar.
- The "others" segment's (includes technology outsourcing) margins were boosted by tailwinds from INR depreciation (~11% depreciation for the quarter)

Segment margins

(%)	Q1FY13	Q1FY12	Q1FY11
Engg and Construction	9.4	10.0	12.3
Electrical and Electronics	5.3	8.3	9.9
Machinery and Industrial products	12.7	17.7	20.6
Others	38.0	21.2	27.4

Source: company

Other income aided by large dividends from subsidiaries

- Other income was up 105% yoy to Rs 6.0 bn mainly attributed to large dividend payouts by L&T Infotech and L&T Infocity. These two subsidiaries accounted for bulk of dividend payout of Rs 2.92 bn vs 0.56 bn in Q1 FY12.
- Interest income was up 32% yoy attributed to treasury activities as the company has around Rs 50 bn in liquid funds.

Order intake not very impressive if spill-over orders from previous fiscal are excluded

- Order inflows for Q1FY13 came in at Rs 196 bn, up 21% yoy. Order intake was mainly contributed by the infrastructure (roads and buildings) and accounted for 65% of total value.
- This indicates that order intake in other manufacturing oriented segments like Process, O&G and Power has continued to remain weak.
- Crucial detail is relating to quantum of previous fiscal orders included in this quarter as this gives us a sense of sustainable run-rate of quarterly order intake. Responding to this, the management clarified that the Rs 38 bn NHAI road order was won by IDPL in Q4FY12 but has been booked in Q1FY13. Excluding this, around 25% of the orders were pertained to the previous fiscal. Thus, it appears only around Rs 117 bn of orders were fresh and not in the nature of spill-over of previous fiscal. It remains to be seen how order intake shapes up in the subsequent order without the benefit of spill-over orders.

Q1 FY13 - Order wins

	Value Rs mn
L&T Atco Saudia	na
Buildings and Construction	25920
L&T Shipbuilding for four vessels	4830
Buildings and Construction	24100
NHAI Road Project	38000
Coal Handling Plant	4070
Power Transmission (Middle East)	6690
Power Transmission (India)	8460
Power Transmission (Middle East)	1560
NHDP Road project (EPC)	20400

Source: Company

- The company maintained its guidance of 15-20% growth in order intake in FY13. The current quarterly run-rate of order intake is good enough for the company to meet its fiscal order intake target of Rs 810-840 bn.
- The company is targeting a higher pie of the hydrocarbon business from new geographies in the Middle East especially Saudi Arabia.
- Order backlog at Rs 1457 bn is up 11.9% yoy but flat sequentially, equivalent to revenue visibility of 33 months based on trailing four quarters revenues. We note that revenue visibility has begun to peak out since Q1 FY12.
- The company indicated that the share of slow-moving orders in this quarter has increased to ~10% vs 9-10% in Q1 FY12. Among the major orders that have not started are 1) JP Karchana (Rs 28 bn) 2) Gas-based power project order from PPN Energy (Rs 14 bn) and Rajpura unit 3 (Rs 52 bn) and 4) Blast Furnace order (value na). We remain concerned on this front.

Increase in Capital Employed remains a concern to be monitored

Working capital has increased across segments and more so in E&C and Machinery and Industrial products. Consequently, the company reported sharp drop in "cash from operations" in FY12 to Rs 10.8 bn from Rs 38.3 bn in FY11. In Q1FY13, the company attributed the rise in capital employed to support needed for supply chain activities (mainly funding support of subcontractors).

Capital employed

Rs mn	Q1 FY13	Q1 FY12	Q1 FY11
Engg and Construction	132537	88305	70921
Electrical and Electronics	13355	12777	11086
Machinery and Industrial products	6701	5597	1761
Others	6448	5677	2028
Total capital employed in segments	159040	112354	85796

Source: company

Business Outlook -General inertia in project finalization persists

- Management has indicated that it does not anticipate major execution related issues in the foreseeable future and is well positioned to deliver 15-20% growth in revenues in FY13.
- The company continues to witness project deferrals in Power, Mining and Hydrocarbons front, which is impacting its order intake.
- On the roads front, the company clarified that NHAI is not finding enough takers for its BOT based projects, hence ordering activity has slowed down.
- Activity in railways (Dedicated Freight Corridor) remains sluggish and any order may materialize only in H2, the management opined.
- Maintained revenue growth guidance of 15-20% in FY13 and stable EBITDA margin guidance with variation of +/- 50 bps.
- The company indicated that it does not plan to further invest in Road BOT and Metro BOT projects as it has its hands full. Considering that its development projects have contributed between 10-15% of its annual order intake, the company's decision to go slow on development projects may have negative implications on its order intake.

Stock outlook

- Stock performance would be contingent on newsflow on larger order wins, commodity price trends and general economic and policy datapoints (interest rate cuts and mining and power sector reforms), we opine.
- We expect stock to respond favourably to any reforms moves to address the issues that have plagued the power sector.

Valuation and Rating: Upgrade to Accumulate with a revised target price of Rs 1435 (Rs 1360 earlier)

- There is a minor adjustment to our FY13 profit estimates (previous EPS of Rs 84.4 per share).

Earnings exstimates - FY13

Rs mn	Earlier	Revised
Revenue	740834	746539
EBITDA (%)	13.1	13.1
EPS (Rs)	84.4	87.2
% change		3.8%

Source: Kotak Securities - Private Client Research

On a FY13 basis, L&T is trading at 15.8x P/E and 10.8x EV/EBITDA (median P/E of 21x in past five years). The stock has corrected 4% from its recent high of Rs 1430. In view of this, we upgrade the stock to Accumulate. However, note that near-term outlook for the capital goods sector remains clouded due to sluggish industrial and infrastructure growth.

We recommend ACCUMULATE on L&T with a price target of Rs.1435

In our DCF valuation, we have factored in a CAGR of 14% in revenue growth between FY12-16. We work out price target of Rs 1435 (Rs 1360 earlier), implying an exit multiple of 16.4x FY13 earnings.

Valuation

Rs mn	Parameter	Fair Value	Per share
L&T Infotech	12x FY12 earnings	48,564	83
L&T Finance Holdings	30% disc to mkt value	43,143	74
L&T IDPL	2x BV	32,376	54
L&T Standalone	DCF	716991	1224
Total			**1,435**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

HT MEDIA

PRICE: RS.90 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.110 **FY14E P/E: 11.5x**

HT Media reported a weak set of 1QFY13 financials on account of degrowth in metros, even as the company displayed unexpected flexibility in management of expenses, aided, among other items, by lower provisioning for private treaties expenses. Earnings visibility continues to be low, in our view, placing a cap on valuations. Maintain ACCUMULATE on cheap valuations, and large opportunity size in markets where HT Media has acquired a foot in the door.

- **Result Highlights - Ad revenues disappoint, Costs surprise positively:** HT Media's results were a top-line led disappointment (revenues -1% y/y), on account of decline in advertising revenues (-3%, y/y). However, cost management softened the impact of the same on the EBITDA line. Reported EBITDA (Rs 669 mn) was 12% below our estimates. The company reported 31% rise in other income, which, along with lower effective tax rate, has led to a positive PAT surprise (Rs 426 mn versus est Rs 356 mn).

- **Newsprint costs control on decline in circulation, pagination - issues likely to impact growth path for the company:** The management indicated that circulation for the company has declined in the quarter, on account of selective cover price hikes taken in the past few months. In addition, the company has reduced pagination to control costs. As we have indicated earlier, such measures, while helpful in placing a near-term bottom on earnings, may affect long-term competitiveness of the company adversely.

- **Lack of visibility in operating income continues:** Although the company has managed expenses strongly in the quarter, newsprint expenses shall likely rise in the coming quarters (rupee depreciation). Also, q/q results carry the impact of lower provisioning for losses in the company's private treaties division. We note, however, that the company has indicated a sharply lower effective tax rate in the coming year on account of shine.com losses, which would have a positive impact on our estimates.

- **Changes in Estimates, maintain investment view:** We make changes to our estimates on account of weaker expectations in advertising revenues. Our FY13/ FY14 EBITDA estimates are reduced 2%/1%, while our EPS estimates change + 11.5% / -0.7%, on account of assumption of lower effective tax rate. Our ACCUMULATE rating on the stock stays, as we think positives of cheap valuation, and large opportunity size are balanced against poor earnings visibility which places a cap on valuations.

- **Risks:** Downside risks to our estimates include sharper deceleration of advertising expenditures of firms, forex risks, and competitive risks especially noting the cut in circulation/ pagination that HT Media is resorting to.

Summary table

(Rs mn)	FY12	FY13E	FY14E
Sales	20,030	20,927	22,673
Growth (%)	12.1	4.5	8.3
EBITDA	2,869	2,713	3,183
EBITDA margin (%)	14.3	13.0	14.0
PBT	2,341	2,342	2,864
Net profit	1,655	1,805	1,861
EPS (Rs)	7.1	7.7	7.9
Growth (%)	(8.5)	9.1	3.1
CEPS (Rs)	11.0	12.1	12.5
BV (Rs/share)	67.6	75.1	82.8
Dividend / share (Rs)	0.4	0.4	0.4
ROE (%)	11.0	10.8	10.1
ROCE (%)	10.6	10.5	10.0
Net cash (debt)	3,664	4,353	6,825
NW Capital (Days)	4	43	38
P/E (x)	12.9	11.8	11.5
P/BV (x)	1.3	1.2	1.1
EV/Sales (x)	0.9	0.8	0.6
EV/EBITDA (x)	6.5	6.3	4.6

Source: Company, Kotak Securities - Private Client Research

1QFY13 Results Summary

Rs mn, FY Ends Mar	1QFY13	1QFY12	Chg, % (y/y)	4QFY12	Chg, % q/q
Revenues	**4899**	**4945**	**-0.9**	**4933**	**-0.7**
-o/w Advertising (print)	3725	3833	-2.8	3736	-0.3
-o/w Circulation	525	485	8.2	483	8.7
-o/w Other	649	627	3.4	714	-9.2
Raw Material Expenses	1778	1726	3.0	1828	-2.7
Gross Margin (%)	63.7	65.1	-1.4ppt	62.9	0.8ppt
Personnel Expenses	917	880	4.1	897	2.2
Other Expenses	1536	1440	6.6	1727	-11.0
EBITDA	**669**	**899**	**-25.7**	**482**	**38.7**
Margin (%)	13.6	18.2	-4.5ppt	9.8	3.9ppt
Depreciation and Amortization	220	214	3.0	249	-11.7
EBIT	**448**	**686**	**-34.6**	**233**	**92.8**
Interest Expenses	103	63	64.6	104	-0.4
EBT	**345**	**623**	**-44.6**	**129**	**167.6**
Other Income	209	159	31.3	179	17.3
PBT	**555**	**782**	**-29.1**	**308**	**80.3**
Provision for Tax	129	243	-47.1	81	58.1
Exceptional Items	0	0	NM	0	NM
PAT	**426**	**540**	**-21.1**	**226**	**88.3**
Minority Interest	20	25		6	
PAT (Post Minority Int)	**407**	**515**	**-21.1**	**220**	**84.9**
Equity Capital	4700	4700		4700	
EPS (Rs)	**1.7**	**2.2**	**-21.1**	**0.9**	**84.9**

Source: Company

- HT Media reported advertising revenue decline, on account of weakness in English newspapers of the company (-xx% y/y). HMVL (subsidiary with Hindi newspaper operations) reported 6% growth, y/y, resulting in consolidated advertising revenues of -3%. As reported by other newspaper publishers, national advertising has turned negative, with weakness in government advertising, real estate advertising, BFSI. Moreover, advertising in metros (in HT Media's case, Delhi, since Mumbai enjoys growth from a weak base) has been severely hit, in our understanding, as Mumbai and Mint have grown in lower double digits. The company has stated that the declines in advertising revenues are largely pricing led. Circulation revenues of the company grew 8% on account of higher circulation, resulting in overall revenue degrowth of 1%.

- The company has shown strong flexibility in management of expenses, especially newsprint. Newsprint expenses grew only 3% y/y despite the significant depreciation in the rupee (large part of the copmany's newsprint requirements are imported). The company had indicated earlier that forex liabilities have been managed due to aggressive hedging, and this quarter's effective USD/ INR is likely to have been in the region of Rs51/ USD. Even so, the company's financials indicate that consumption of newsprint is being aggressively cut down. Management has indicated that newsprint expenses have surprised positively on account of: 1/ declining circulation on account of rising cover prices in certain geographies, 2/ lower pagination.

- Expenses growth was soft in the quarter, with 4% and 7% growth (y/y) in personnel expenses and other expenses respectively. We note that other expenses' 11% decline is partly on account of lower provisioning for the company's private treaties' revenues (Rs 7 mn in the quarter, versus Rs 57 mn in 4QFY12), and lower provisions for bad debts.

- Post aggressive cost measures, HT Media is still lagging behind our EBITDA estimates (Rs 669 mn reported versus our estimate of Rs 757 mn, due to weakness in advertising revenues, which has affected margins negatively. On account of higher other income and lower effective tax rate, HT Media has reported PAT Rs 426 mn, 14% ahead of our estimates.
- Going forward, the company has indicated that the effective tax rate shall be roughly around MAT for FY13, on account of losses of shine.com. On new initiatives, the company noted : 1/ HT Burda brought in losses of Rs 15 mn for the quarter, and the company expects the JV to break even in this year, 2/ shine.com has reached the milestone of 5mn active resumes, and the management expects quarter - by- quarter decline in EBITDA losses from here on.

Investment View

- Changes in estimates, visibility in operating profit remains low: We make changes to our estimates to account for: 1/ lower advertising revenues from the Delhi market, 2/ changes in our assumption for tax rate for HT Media. The changes in key financial metrics are summarised below:

Change in Estimates

	Prior Est		Revised Est.		% Chg.	
	FY13	FY14	FY13	FY14	FY13	FY14
Revenues	21,173	22,922	20,927	22,673	-1.2	-1.1
EBITDA	2,763	3,215	2,713	3,183	-1.8	-1.0
PAT	1,619	1,874	1,805	1,861	11.5	-0.7

Source: Kotak Securities - Private Client Research

- Earnings visibility remains low on account of: 1/ impact of rupee depreciation in later quarters, 2/private treaty losses going forward, and 3/ losses in new businesses of the company, especially digital operations and education. Weak visibility in earnings will impact valuations (prime reason for contained enthusiasm from us despite cheap valuations.

We maintain ACCUMULATE rating on HT Media with a price target of Rs.110

- Our ACCUMULATE rating is an acknowledgement of opportunities that HT Media has, as well as cheap valuations of the stock as compared with peers. We note that at CMP, HT Media trades at 0.8x EV/ Sales, indicating that the market is discounting the possibility of continued losses in new editions of the company fairly aggressively.
- The company has, in the past, said that it would relook its presence in the job portal space, if losses do not decline significantly (4QFY12 conference call). While we hope the same shall be followed through, we believe actual action on this count may be some time away. While cost management and valuations may place a floor on the stock price, poor visibility sets a ceiling. We maintain **ACCUMULATE,** with a price target of Rs 110 (Rs 115 earlier).

RESULT UPDATE

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

ZEE ENTERTAINMENT

PRICE: RS.152 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.167 **FY14E P/E: 18.0x**

Zee Entertainment reported a strong set of 1QFY13 financials, beating our estimates on the topline as well as the bottom-line. Advertising revenue growth, driven by strong ratings of key channels, is particularly impressive given weak industry growth in the quarter. Attraction of defensive characteristics of Zee Entertainment (significant subscription revenues stream, large bouquet); and Zee Entertainment is well - exposed to DAS implementation, which would provide another driver of margin expansion. Ratings of flagship channel shall be a driver of the stock in the short-term. We expect valuations to sustain at high levels on benefits from DAS implementation, earnings visibility, and ratings of the company's key channels (seeing uptrend in near-term). ACCUMULATE, with a price target of Rs 167 (Rs 132 earlier).

- **1QFY13 earnings surprise positively:** Zee Entertainment reported revenues Rs 8.4Bn (+6% over estimates), and EBITDA Rs 2.3Bn (+21% over estimates). The company saw strong growth in advertising revenues, led by improvement in ratings of key channels, including flagship Zee TV. Subscription revenues held up well, on account of 16.4% growth in international revenues. EBITDA margin surprised positively, on account of lower content expenses relative to expectations.

- **Key channels seeing strong traction in ratings, industry outperformance to continue in advertising stream:** Zee TV has, in the most recent week recorded 253 GRPs, well over the average of 213 GRPs recorded in 1QFY13. As stated in prior reports, we believe Zee TV is a significant determinant of the company's advertising revenues. We therefore see ZEEL's outperformance in advertising revenues continuing over the next quarter.

- **Change in estimates:** We make changes to our estimates following the results, to factor in higher advertising revenue growth as well as stronger subscription revenues. Our revenue growth expectation is revised upward 3.9%/4.4% for FY13/FY14. The resultant change in our EPS estimates for FY13/FY14 is 13%/ 14%.

- **Longer-term growth-margin profile to receive a boost from DAS implementation:** There is now a greater belief of implementation of DAS, which should impact Zee Entertainment positively (lower carriage fees, higher subscription revenues). We note: 1/ Zee Entertainment shall benefit from higher subscription revenues as well as reduced carriage fee, 2/ Entertainment genre, by virtue of greater differentiation is able to, historically, command subscription revenues with greater visibility.

- **Zee Entertainment among the more dependable beneficiaries of DAS:** While Zee Entertainment is not as leverage to the implementation of DAS (as compared with distribution entities, news broadcasters), for it has a strong analogue revenue stream already, it is among the more dependable beneficiaries of digitization, on account of greater differentiation in entertainment broadcasting than news. Moreover, Zee Entertainment has sufficient cash (Rs 11.8Bn) to seize opportunities as they arise.

- **Maintain ACCUMULATE, price target Rs 167:** We maintain our ACCUMULATE rating on Zee Entertainment following the results, as we believe that a large part of the near-term benefits described above have been factored into the price. Valuations, at 20.4x PER FY14E, are strong, as compared with other stocks in our coverage, but deservedly so, on high visibility in earnings and strong growth prospects over the next two years (17.4% CAGR, highest in our coverage universe).

Summary table

(Rs mn)	FY12E	FY13E	FY14E
Sales	30,406	35,515	40,236
Growth (%)	0.9	16.8	13.3
EBITDA	7,426	9,482	11,179
EBITDA margin (%)	24.4	26.7	27.8
PBT	8,426	10,368	11,784
Net profit	5,980	6,987	7,935
EPS (Rs)	6.1	7.4	8.5
Growth (%)	(3.1)	21.8	13.6
CEPS (Rs)	6.5	7.8	8.9
BV (Rs/share)	34.7	41.0	46.6
Dividend / share (Rs)	1.5	2.4	2.7
ROE (%)	18.5	19.3	19.3
ROCE (%)	18.4	19.3	19.3
Net cash (debt)	4,721	6,765	9,707
NW Capital (Days)	166	166	166
P/E (x)	24.9	20.4	18.0
P/BV (x)	4.4	3.7	3.3
EV/Sales (x)	4.2	3.5	3.0
EV/EBITDA (x)	17.1	13.2	10.9

Source: Company, Kotak Securities - Private Client Research

1QFY13 Result Highlights

ZEEL, Rs mn (FY Ends Mar)	1QFY13	1QFY12	% chg, y/y	4QFY12	% chg, q/q
Revenues:	**8430**	**6983**	**20.7**	**8691**	**-3.0**
- Advertising Revenues	4472	3787	18.1	4150	7.8
- Subscription Revenues	3641	3051	19.3	4022	-9.5
- Domestic Subn.	2505	2075	20.7	2973	-15.7
- International Subn.	1136	976	16.4	1049	8.3
-Other Revenues	317	145	118.7	519	-39.0
Expenses	**6097**	**5423**	**12.4**	**7091**	**-14.0**
- Content and Programming	3757	3423	9.8	4242	-11.4
- SG&A Expenses	1453	1253	16.0	2090	-30.5
- Employee Expenses	888	747	18.8	759	17.0
EBITDA	**2333**	**1560**	**49.5**	**1600**	**45.8**
Margin (%)	27.7	22.3	5.3ppt	18.4	9.3ppt
Depreciation and Amortization	99	89	11.4	81	21.5
EBIT	**2234**	**1472**	**51.8**	**1518**	**47.1**
Interest Expenses	18	30	-40.8	-219	-108.2
Other Income	301	255	18.4	510	-40.9
PBT	**2517**	**1696**	**48.4**	**2247**	**12.0**
Prior Period Items				-45	
Provision for Taxes	947	394	140.2	573	65.4
Effective Tax Rate	37.6	23.2	61.9	25.5	47.7
PAT before Minority Interest	1570	1302	20.6	1629	-3.6
Minority Interest	-12	-35	-67.3	-28	-58.9
Profit After Tax	1582	1337	18.3	1601	-1.2

Source: Company

- Zee Entertainment reported a set of surprisingly strong financials for 1QFY13, beating our estimates on all financial metrics. Advertising revenues (+18%, y/y) were strong, especially given the economic circumstance, on account of better ratings in the company's key channels. Subscription revenues maintained a strong momentum in the quarter, even as domestic subscription revenues declined marginally on a q/q basis (-4% on a like to like basis, note that growth above is not comparable since 4QFY12 carried revenues of three quarters, based on accounting changes made by ZEEL in 4QFY12), as international subscription revenues grew 16%.
- The company was also able to keep a check on expenses, with content expenses rising merely 10% y/y. While SG&A expenses have risen sharply, there is likely a one-off impact in there of changes in the company's accounting policies. Personnel expenses too have risen 19%, on account of incentives provided to the company's employees. EBITDA margin came in at 27.7%- a 5.3 ppt improvement (y/y).
- Items below the EBITDA line are largely in line with our estimates, with the exception of a high effective tax rate in the quarter. PAT came in at Rs 1582 mn, well above our estimates. For the full-year, Zee Entertainment continues to guide for an effective tax rate of 30%.
- The management has stated that the advertising environment remains soft and the growth in advertising revenues has come in largely on account of growth seen in ratings of key channels, including Zee TV. In 2QFY13, the company has launched certain new shows (fear Files and Rab Se Sona Ishq), and will continue to raise its programming hours going forward.
- The company has indicated that while it will continue to make investments in the Tamil Nadu market, it would go about the same in a systematic fashion. The company has effectively withdrawn its guidance on losses from sports businesses in the year only committing to a reduction of losses. Sports losses for the quarter came in at Rs 210mn.

Investment View

- We raise our estimates, on expectations of higher advertising as well as subscription revenues, as well as lower content expenses. The changes in our estimates are summarised below:

Earnings estimate revision

	Prior		Revised		% Chg.	
	FY13	FY14	FY13	FY14	FY13	FY14
Revenues	34181	38524	35515	40236	3.9	4.4
EBITDA	8358	9888	9482	11179	13.5	13.1
PAT	6184	6969	6987	7935	13.0	13.9

Source: Kotak Securities - Private Client Research

We note that: 1/ rise in revenues is largely on account of changes in advertising revenues, and higher growth in international subscription revenues, 2/ we have factored for a lower EBITDA margin (FY13 relative to 1QFY13) going forward, in order to factor in possible negative impact of certain initiatives of the company, such as higher hours of original programming, greater focus on Tamil Nadu market.

- We maintain a view that ZEEL is amongst the better positioned media companies at present, on account of high visibilility in earnings, enabled by a strong subscription revenue stream (44%, FY13E) as well as improving ratings of its key channels. In the most recent week, Zee TV has brought in 253 GRPs, on the back of strong performance from two non-fiction properties Dance India Dance Little Masters, and (recently launched) Fear Files (weekend programming). We believe Zee Entertainment has an opportunity to gain further in the near-term if new fiction shows (Rab Se Sona Ishq) gain traction. Near-term earnings performance of Zee Entertainment is likely to be strong, on account of ratings.
- Since our last update, there is a greater certainty on digitization implementation. Zee Entertainment stands to gain from DAS implementation as: 1/ Zee Entertainment's revenues from cable could potentially rise 2x post complete digitization (note that DTH and cable streams currently bring in roughly equal revenues, even as the subscriber base in cable is about three times as large, 3/ Zee Entertainment pays carriage fees, we believe, upto 3-5% of its sales. The same could decline sharply via DAS.

We recommend ACCUMULATE on Zee Entertainment with a price target of Rs.167

- We believe that while Zee Entertainment may not be, at the outset, among the most significant beneficiary of DAS implementation (distribution companies, as well as DTH entities shall likely see most immediate benefits), the company is amongst the most dependable beneficiaries. Moreover, we believe that Zee Entertainment has historically shown strong vision (development of international and domestic subscription revenues streams, entry in regional GECs) in the face of new opportunities. Also, Zee Entertainment has sufficient cash on its books to participate in opportunities as they arise.
- On account of higher growth-margin profile going forward, we raise our price target to Rs 167 (from 132/ share in the last update). We maintain **ACCUMULATE** on Zee Entertainment - Zee Entertainment is our preferred pick in our broadcasting coverage universe.

RESULT UPDATE

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

CAIRN INDIA LTD. (CIL)

PRICE: RS.321 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.365 **FY13E P/E: 6.1x**

Bigger story intact....

- **Cairn has reported better than expected Q1FY13 results. It has reported a PAT growth of 75% QoQ and 40.3% YoY to Rs.38.3 Bn. The results are better mainly on account of 1). Higher oil and gas production 2). Forex gain (Rs.8.7 Bn on deposits and receivables), 3). Lower operating and administration expenses and 4) Lower income tax.**
- **Mangala field is currently producing at ~150 Kbopd and Bhagyam is producing at ~25 Kbopd. Bhagyam is expected to ramp-up to its approved plateau rate of 40 kbopd in this regard the Company has drilled a total of 64 wells uptill now. The drilling activity for the residual wells approved under FDP is in-progress. Along with this, the pipeline de-bottlenecking is underway. The Raageshwari and Saraswati fields continue to cumulatively produce ~500 bopd. However, there is a marginal delay in commencement of production from Aishwariya field and is now expected to commence production by end FY13.**
- **CIL has renewed sales arrangements with buyers (PSUs and private refiners) for more than 175kbopd.**

- As on 30th June'12, Gross cumulative Rajasthan development capital expenditure is at US$ 3,492 Mn, of which US$ 57.7 Mn was spent during Q1FY13.
- Management has stated that further investments are planned to augment processing capacity, pipeline infrastructure (as current MPT facility can support ~175 Kbopd) and E&P activity. In FY13E and FY14E, we expect a gross investment/ capex of ~$ 1.2 Bn, subject to government approvals.
- CIL's board of directors has approved the annual dividend policy. CIL is expected to maintain dividend payout ~20% of the annual consolidated net profit. CIL has indicated that actual dividend will be paid out only after corporate reorganization is complete which is expected in CY12.
- We believe the key triggers for Cairn India in the immediate near future are 1). Crude oil prices remains at elevated levels, 2). Rupee depreciation against dollar due to large current account deficit, etc, 3). Production ramp-up approval by GOI and 4). Any significant commercial discovery.
- Cash (Net debt) as on 30th June'12 was Rs.110.97 Bn (Rs.58.16/Share). The Company has partly paid off its foreign debt. As on 30th June'12, the non-convertible debentures outstanding were Rs.12.5 Bn.
- We expect FY13E EPS of Rs. 52.6 and cash EPS of Rs. 61.8. We have modeled Brent crude oil price at $100/bbls and rupee at 52/$. In Q1FY13, the Company's Rajasthan crude oil realization was mere ~7.3% discount to Brent crude as against our assumption of 10% for the whole year.
- Stock is fairly valued at 5.1x EV/EBIDTA and 6.1x P/E based on FY13E earnings estimates.
- We believe the fair value of the stock is Rs. 365/Share (earlier Rs.360/share). We maintain our bullish view and maintain Accumulate rating on Cairn India Ltd as we believe the process of approvals and production ramp-up should speed up.

Summary table

(Rs mn)	FY12	FY13E	FY14E
Sales	118,607	180,489	216,478
Growth (%)	15.4	52.2	19.9
EBITDA	98,730	119,733	126,928
EBITDA Margin (%)	83.2	66.3	58.6
PBT	84,235	106,666	112,592
Net Profit	79,377	100,266	104,711
EPS (Rs.)	41.6	52.6	54.9
Growth (%)	25.1	26.3	4.4
CEPS	49.7	61.8	65.4
BV (Rs/Share)	253.2	293.7	335.9
DPS (Rs.)	8.32	10.5	11.0
ROE (%)	17.4	18.4	16.8
ROCE (%)	20.5	21.8	21.6
Net Debt/ (Cash)	(70,135)	(156,481)	(248,063)
NW Capital (Days)	89	53	40
EV/Sales (x)	5.1	3.4	2.8
EV/EBITDA (X)	6.1	5.1	4.8
P/E (X)	7.7	6.1	5.8
P/CEPS (X)	6.4	5.2	4.9
P/BV (X)	1.3	1.1	1.0

Source: Company, Kotak Securities - Private Client Research

Key risk remains -

- Any significant fall in the crude oil prices will impact the realization.
- Exchange fluctuation risk
- Delay in getting government approval for increasing the production from the Rajasthan block can impact over valuations.
- Any hike in taxes such as Cess, etc.
- CIL is planning to write off goodwill (Rs.253.2 Bn) which can impact its earnings. However, we believe this can be ignored as this is a mere book entry and does not result in any cash out flow. Also, we believe post goodwill w/o, return ratios of CIL will improve.
- Exiting of any key personnel from the management can have sentiment impact.

Cairn India Consolidated

(Rs. Mn)	Unit	June 12	June 11	YoY (%)	QoQ (%)
Net Sales/Income from ops		**44,400**	**37,127**	**19.6**	**21.6**
Incr/(Decr) in stock		180	(56.40)		
VoP		44,580	37,070	20.3	21.5
Total Expenditure		10,011	5,510	81.7	33.2
EBIDTA		**34,569**	**31,561**	**9.5**	**18.5**
Foreign Exc Fluctuation (Loss)/Gain (Net)		8,663	0		(499.3)
Depreciation		4,373	3,460	26.4	9.0
EBIT		**38,858**	**28,101**	**38.3**	**69.1**
Other income		964	520	85.5	4.5
Interest-net		295	446	(33.9)	(3.5)
PBT		**39,528**	**28,175**	**40.3**	**67.5**
Tax		1,271	909	39.8	(26.8)
Current Tax		6,524	5,584		
MAT		(4,950)	(4,933)		
Deferred tax		(304)	258		
Reported PAT		**38,257**	**27,266**	**40.3**	**75.0**
Equity Capital		19,079	19,023		
Reported EPS (Rs)	Rs.	20.05	14.33	40	74.9
Margins					
EBITDA Margin	%	77.9	85.0	(7.2)	(2.0)
EBIT Margin	%	87.5	75.7	11.8	24.6
Reported PAT Margin	%	86.2	73.4	12.7	26.3
Other Income/PBT	%	2.4	1.8	0.6	(1.5)
Tax/Adj. PBT (%)	%	3.2	3.2	(0.0)	(4.1)
Expenses (Rs. Mn)					
Operating Expenses	Rs. Mn	1,772	4,257	(58.4)	(11.0)
Staff costs	Rs. Mn	322	191	68.5	97.1
Adm. & Other Costs	Rs. Mn	619	875	(29.2)	(15.6)
Exploration Costs					
(Cost of Geological, Seismic					
studies & Unsuccessful Wells)	Rs. Mn	352	187	88.0	(45.8)
Cess	Rs. Mn	6,947	-	0	74.5
Total	Rs. Mn	10,011	5,510	81.7	33.2
Expenses Ratio					
Operating Expenses to Sales	%	4.0	11.5	(7.5)	0.0
Employee cost to Sales	%	0.72	0.51	0.2	(0.2)
Administration Costs to VOP	%	1.39	2.36	(1.0)	(0.2)
Mfg to Sales	%	0.79	0.51	0.3	(1.2)
Cess / unit	Rs/MT	4,350	-	0	47.1

Source: Company

Q1FY13 net profit better than our estimates:

- **Revenue:** Cairn India's revenues for Q1FY13 has increased by 21.6% QoQ and 19.6% YoY to Rs.44.4 Bn. The revenue was higher due to the higher crude oil production from Mangala and Bhagyam field in Rajasthan.
- **Crude oil production:** In Q1FY13, the average gross operated production increased by 14.8% QoQ and 20.5% YoY to 206.985 Kboe (WI production of 127.228 kboe) as against 171.809 Kboe in Q1 FY12(WI production of 99.65 kboe).
- Mangala field is continuing production at peak rate of ~150 kbopd. Further, development work on the Aishwariya field is currently underway with EPC contracts awarded. The crude oil production is expected to commence from end of FY13, subject to approvals.
- **Sales Realization:** CIL's average sales realization was $99.3/boe (6.9% QoQ lower) in Q1FY13 as against $106.7/bbls in Q4FY12. Further, average crude oil realization was $101/bbls (lower by 7.6%QoQ) in Q1FY13 as against $109.3/bbls in Q4FY12. However, rupee depreciation has mitigated the impact of the fall. The average exchange realization for Q1FY13 was Rs.54.10/$ as against Rs.50.21/$ in Q4FY12. The gas price realization was $4.5 per million standard cubic ft.
- **Share of expenses in producing oil and gas blocks:** In Q1FY13, the operating expenses has fallen by 11.0%% QoQ and 58.4% YoY to Rs.1.77 Bn.
- **Employee Expenses:** In Q1FY13, the employee cost has increased by 97.1%% QoQ and 68.5% YoY to Rs.322 Mn mainly on account of employee stock option charge of Rs.71.9 Mn.
- **Cess on crude oil production:** In Q1FY13, the amount of oil cess paid has increased significantly by 74.5% QoQ to Rs.6.95 Bn on account of higher crude production and higher cess rate from FY13.
- **Forex Gain:** In Q1FY13, CIL has net forex gain of Rs.8.66 Bn as against a loss of Rs. 2.17 Bn mainly on account of weak rupee. The Company receives its realization in dollar terms and has deposits in dollar terms this has resulted in forex gain and has significantly improved the profitability of the Company.
- **Cash flow from operations:** CIL's operating cash flow has increased to Rs. 28.2 Bn (Q1FY13).
- **Depreciation cost:** In Q1FY13, depreciation cost has increased by 9% QoQ to Rs.4.37 Bn.
- **Other Income:** CIL's other income has increased by 4.5% QoQ and 85.5% YoY to Rs. 964 Mn in Q1FY13.
- **Interest Cost:** CIL's finance cost has fallen by 3.5% QoQ to Rs.295 Mn as the Company has paid off part of its debt.
- **Tax rate:** In Q1FY13, CIL has paid tax at an effective rate of 3.2% as against 7.4% in Q4FY12 and 3.2% in Q1FY12. The effective tax rate was lower as the Company doesn't have to pay tax on forex gains.
- **Profit after tax:** CIL's PAT has increased by 40.3% YoY and 75% QoQ to Rs.38.3 Bn resulting in an EPS of Rs. 20.05 for Q1FY13.
- **Capex:** As on 3oth June'12, Gross cumulative Rajasthan development capital expenditure is at US$ 3,492 Mn, of which US$ 57.7 Mn was spent during Q1FY13. Management has stated that further investments are planned to augment processing capacity and pipeline infrastructure.

Valuation and Recommendation:

- We expect FY13E EPS of Rs. 52.6 and cash EPS of Rs. 61.8. We have modeled Brent crude oil price at $100/bbls and rupee at 52/$.
- Stock is fairly valued at 5.1x EV/EBIDTA and 6.1x P/E based on FY13E earnings estimates.
- We believe the fair value of the stock is Rs. 365/Share (earlier Rs.360/share). We maintain our bullish view and maintain Accumulate rating on Cairn India Ltd as we believe the process of approvals and production ramp-up should speed up.

Key risk remains -

We recommend ACCUMULATE on Cairn India with a price target of Rs.365

- Any significant fall in the crude oil prices will impact the realization.
- Exchange fluctuation risk
- Delay in getting government approval for increasing the production from the Rajasthan block can impact over valuations.
- Any hike in taxes such as Cess, etc.
- CIL is planning to write off goodwill (Rs.253.2 Bn) which can impact its earnings. However, we believe this can be ignored as this is a mere book entry and does not result in any cash outflow. Also, we believe post goodwill w/o, return ratios of CIL will improve.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
23-Jul	Aarey Drugs	Mukesh Bhogibhai Darji	B	83,201	30.7
23-Jul	Arvind Intl-$	Manjari Chirag Kamdar	S	100,000	14.8
23-Jul	Bampsl Sec	Gopi Nath Sharma	S	1,915,305	0.7
23-Jul	Bampsl Sec	Sangeeta Bandil	B	2,000,000	0.7
23-Jul	Chisel	Ashokkumar Mohanlal Rawal	S	14,400	8.8
23-Jul	Claris Lifesciences	Signet Healthcare Partners Qp Partnership Iii Lp	B	1,405,050	162.0
23-Jul	Claris Lifesciences	Aditya Sushilkumar Handa	S	1,733,204	162.1
23-Jul	Croitre Inds	Ajay Golecha	S	50,000	70.3
23-Jul	Dollex Inds	Sharda Manoj Kasliwal	S	200,000	4.0
23-Jul	Dollex Inds	Manoj Kasliwal	S	300,000	4.1
23-Jul	Finalysis Cred	Vallabhbhai Kakadiya	S	37,549	65.3
23-Jul	Finalysis Cred	Pankaj Jayantilal Dave	B	44,149	65.3
23-Jul	Fineotex Chem	Dikson Trading & Finance Co Ltd	B	71,337	29.0
23-Jul	Invicta Meditek	Yai Angu	B	65,000	36.9
23-Jul	Mahesh Agri	Bina Atul Chauhan	B	5,000	35.4
23-Jul	Mahesh Agri	Natverlal R Patel	S	5,000	35.4
23-Jul	Ortin Lab-$	Devang Hemendrakumar Shah	B	25,306	19.9
23-Jul	Ortin Lab-$	M/S Jem Fiscal Limited	S	25,000	20.1
23-Jul	Parichay Invest	Shyam Construction	B	62,900	255.2
23-Jul	Parichay Invest	Ashlesh Gunvantbhai Shah HUF	S	10,635	255.5
23-Jul	Parichay Invest	Jhaveri Sanjeev Burman	S	31,175	255.2
23-Jul	Parichay Invest	Virendrakumar Jayantilal Patel	S	8,215	255.2
23-Jul	Parichay Invest	Sanjay Jethalal Soni Huf	S	22,950	255.1
23-Jul	PFL Infotech	Mono Herbicides Limited	S	62,562	23.6
23-Jul	PFL Infotech	Nalla Ramachandra Rao	B	65,000	23.5
23-Jul	Polypro Fibrils	Ajay Ravindra Shah	B	35,001	12.8
23-Jul	Polypro Fibrils	Jayesh Ravinchandra Shah	B	25,834	12.7
23-Jul	Polypro Fibrils	Urvi Prakash Shah	S	60,000	12.8
23-Jul	Raj Television	Ilangovan Rajani	S	66,869	199.9
23-Jul	Rei Agro	BNY Mellon Asian Equity Fund	S	14,000,000	10.4
23-Jul	Rei Agro	BNY Mellon Investment Funds Newton Oriental Fund	S	35,000,000	10.4
23-Jul	Rei Agro	BNY Mellon Investment Funds Newton Asian Income Fund	B	49,000,000	10.4
23-Jul	Sapan Chem	Jesnar	S	66,000	1.4
23-Jul	Siddha Ventures	Hansaben Hasmukhbhai Amin	B	100,000	1.2
23-Jul	Siddha Ventures	Amin Nakul Hasmukh	S	99,500	1.2
23-Jul	Southern Onlin	Dikson Trading & Finance Co Ltd	B	1,455,587	4.5
23-Jul	Southern Onlin	Samridhi Share & Stock Broker	S	200,000	4.6
23-Jul	Southern Onlin	New Mech Vyapaar Pvt Ltd	S	300,000	4.5
23-Jul	Southern Onlin	Arpit Share Brokers Pvt Ltd	S	960,000	4.5
23-Jul	Vision Tech	Srinivas Karrothi	S	200,000	8.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Dr Reddy's	1,629	1.1	0.7	0.3
Cipla	328	0.7	0.4	0.8
HCL Tech	478	-0.4	(0.2)	0.5
Losers				
ICICI Bank	913	(2.4)	(8.2)	3.2
ITC	250	(1.3)	(5.7)	2.6
HDFC Bank	573	(1.7)	(5.6)	1.5

Source: Bloomberg

Fundamental Research Team

Dipen Shah
IT, Media
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, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Arun Agarwal
Automobiles
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 22 6621 6343

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

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group . The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India. Tel : +9122 6634 1100
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.
Investment in securities market is subject to market risk, please read the combined risk disclosure document prior to investing.