



Economy News

- ▶ The Reserve Bank has turned down banks' demand for restructuring stressed real estate loans without providing for potential losses, a move that could mount pressure on builders to lower prices as banks push to recover loans. (ET)
- ▶ The government plans to directly transfer money to the bank accounts of cooking gas customers even if they do not have Aadhaar identification. The oil ministry will also seek Cabinet approval to end the sale of subsidised kerosene and proposes to transfer cash to the bank accounts of consumers. The twin proposals will help save the exchequer Rs 150bn a year. (ET)
- ▶ The government said only those coal mines which have been explored would be put up for auction. Of the 54 coal mines identified to be allocated through auction route, only 12 have been explored so far. (BL)
- ▶ The government and the Reserve Bank of India (RBI) are considering relaxation in the stiff valuation norms governing foreign direct investment in unlisted Indian firms, a move that could potential boost private equity flows. (ET)
- ▶ The finance ministry is considering a proposal to raise excise duty and service tax by two per cent to 14 per cent each in the Union Budget for 2013-14. The move is likely to help the ministry collect about Rs 30,000 crore. Certain exemptions may also be rolled back. (BS)
- ▶ The food ministry has withdrawn its proposal to almost double the price of sugar sold in ration shops. This is the second time such a proposal has been put on hold by the government. (ET)

Corporate News

- ▶ **Maruti Suzuki** has pleaded inability to pay over Rs 12 bn by way of enhanced land acquisition dues for 600 acres it acquired for the Manesar plant in 2002, and urged the Supreme Court to hear it before taking a call on the enhanced compensation amount for farmers. (ET)
- ▶ **Reliance Industries Ltd (RIL)** expects 'no new production from D1- D3 fields', the largest in the D6 block. But other discoveries in the block can be developed using the existing infrastructure so as to help reduce overall capital spend by \$1 billion. (BL)
- ▶ The **GMR Group** said it plans to file an appeal before a Singapore tribunal challenging a decision by the Maldives government to terminate an agreement, signed in 2010, allowing it to operate the Male International airport. (ET)
- ▶ **DLF**, the country's largest realty company, is close to selling its international hotel chain, Aman Resorts, to a US-based investment company for \$325 million. DLF is to offload its stake in the chain, retaining the Aman property in Delhi only. (BS)
- ▶ The fate of iconic British carmaker Aston Martin is likely to be finalised this week with **Mahindra & Mahindra (M&M)** as the front-runner to become its strategic investor. M&M is poised to edge out Italian private equity fund Investindustrial, the other serious contender in the race, though negotiations are still on with Aston Martin's current shareholders and management, said sources aware of these talks. (ET)
- ▶ The management of **PVR** has initiated active discussions with a group of private equity investors and non-banking finance companies (NBFCs) to finance its plan to buy the promoters of Cinemax, for Rs 5.5 bn. (ET)
- ▶ **AstraZeneca** has been denied patent protection for its anti-cancer drug Gefitinib, becoming the latest multinational pharmaceutical firm to run afoul of India's patent law. The Intellectual Property Appellate Board ruled the molecule from the British company lacked invention, marking the third time it has been rebuffed over the anti-lung cancer drug. (ET)

Equity

	27 Nov 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,842	1.6	1.2	6.9
NIFTY Index	5,727	1.6	1.1	7.4
BANKEX Index	13,381	1.8	1.2	15.9
BSET Index	5,877	1.2	3.8	1.4
BSETCG INDEX	10,812	1.0	(4.6)	12.5
BSEOIL INDEX	8,061	1.2	(4.0)	(4.1)
CNXMcap Index	7,948	1.2	2.0	12.2
BSESMCAP INDEX	7,183	0.9	1.4	11.9
World Indices				
Dow Jones	12,985	0.8	(0.9)	(0.9)
Nasdaq	2,992	0.8	0.1	(2.9)
FTSE	5,803	0.1	0.1	1.0
NIKKEI	9,308	(1.2)	4.9	3.3
HANGSENG	21,709	(0.6)	1.4	10.2

Value traded (Rs cr)

	27 Nov 12	% Chg - Day
Cash BSE	3,188	36.1
Cash NSE	13,503	42.5
Derivatives	205,911	57.4

Net inflows (Rs cr)

	26 Nov 12	% Chg	MTD	YTD
FII	208	(58.5)	6,150	100,202
Mutual Fund	(209)	(1,285.8)	(1,075)	(16,250)

FII open interest (Rs cr)

	26 Nov 12	% Chg
FII Index Futures	12,264	31.0
FII Index Options	53,563	1.6
FII Stock Futures	33,440	5.1
FII Stock Options	2,685	0.8

Advances / Declines (BSE)

	27 Nov 12	A	B	T	Total	% total
Advances	155	1,237	344	1,736	58	
Declines	44	842	249	1,135	38	
Unchanged	3	83	37	123	4	

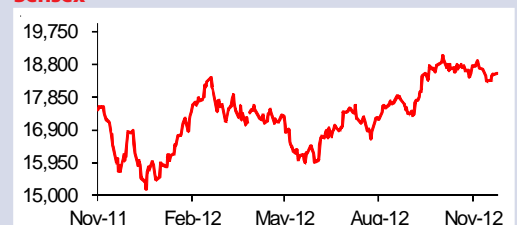
Commodity

	27 Nov 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	86.7	0.2	1.3	(9.2)
Gold (US\$/OZ)	1,720.9	(1.4)	0.7	3.8
Silver (US\$/OZ)	33.7	(1.0)	6.3	9.5

Debt / forex market

	27 Nov 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.3	N/A	N/A	8.4
Re/US\$	55.5	55.7	54.1	55.7

Sensex



COMPANY UPDATE

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CASTROL INDIA LTD. (CIL)

PRICE: Rs.299
TARGET PRICE: Rs.265

RECOMMENDATION: REDUCE
CY13E P/E: 31.1x

- ❑ We expect Castrol's near term performance to be under pressure mainly on account of 1). Weak demand impacted by the overall slowdown in the economy, 2). Higher raw material cost due to significant rupee depreciation and 3). Competition from OMCs.
- ❑ The company's margins are expected to remain under pressure on account of competition from OMCs and rising cost pressure (~5% depreciation of rupee). In Q3CY12, margins fell by 320 bps YoY to 16.6%. On a full year basis, we expect Castrol to report an EPS of Rs. 8.7 in CY12E & Rs. 9.6 in CY13E and cash EPS of Rs. 9.2 in CY12E & Rs.10.2 in CY13E. Castrol's management has also guided that the next few quarters are likely to be challenging.
- ❑ On the basis of our estimates, the stock at current market price of Rs.299 is expensively valued at 10.5x EV/EBITDA, 31.1x P/E and 20.6x P/BV on the basis of CY13E earnings.
- ❑ Based on our DCF valuation model, the target price of Castrol comes to Rs. 265 (earlier Rs.302). We have cut our estimates mainly to reflect the slowdown in the demand and cost. Hence, we maintain our REDUCE rating on Castrol on account of weak business environment.

Summary table

(Rs mn)	CY11	CY12E	CY13E
Sales	29,818	31,383	33,350
Growth (%)	9.0	5.3	6.3
EBITDA	6,747	6,025	6,604
EBITDA Margin	22.6	19.2	19.8
PBT	7,160	6,393	6,991
Net Profit	4,810	4,309	4,761
EPS (Rs.)	9.4	8.7	9.6
Growth (%)	(52.3)	-7.2	10.5
CEPS	9.9	9.2	10.2
BV (Rs/Share)	24.4	13.3	14.5
DPS (Rs.)	15.0	6.5	7.2
ROE (%)	58.5	52.6	53.0
ROCE (%)	58.6	52.7	53.0
Net Debt / (Cash)	(5,490)	(5,703)	(6,498)
NW Capital (Days)	12.6	11.3	11.4
P/E (X)	31.9	34.3	31.1
P/BV (X)	12.2	22.4	20.6
EV/Sales (X)	2.2	2.1	2.0
EV/EBITDA (X)	10.3	11.5	10.5

Source: Company, Kotak Securities - Private Client Research

Key developments:

- Castrol's management has indicated that slowdown in demand coupled with higher input cost will impact the profitability. The challenging base oil & additive cost environment and the general slowdown in the economy will impact both sales and the margin.
- Further, Indian rupee remains weak (~5% depreciation of rupee) and crude oil prices have strengthened recently. This will continue to keep Castrol's margins under pressure. Management has guided that the next few quarters are likely to be challenging.
- Automotive segment has shown some growth but industrial and building & construction lubricant segments are adversely impacted due to reduced activity in these sectors and delays in key projects. This has been further compounded by cost cutting and down stocking in these sectors.
- Castrol has undertaken strong marketing programs targeted towards consumers, trade and influencers which will help in maintaining its automotive market share. However, overall volume is expected to remain under pressure due to decline in the industrial and marine volume.
- The company is focusing on driving volume growth through increasing distribution reach and strengthening advocacy amongst key stakeholders. In this regard, the Company has increased its advertisement budget.

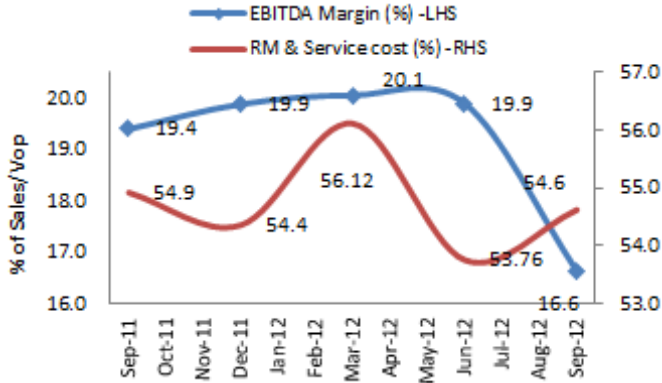
Key risk remains in terms of:

- The Company's management has indicated the lubricant market growth has been slower due to the economic slowdown and inflationary pressures. This has been compounded by continuing input cost pressure and rupee depreciation which have impacted margins.
- Any significant fall in the crude oil price will lower the base-oil price (with a lag of six months) which can improve its margins.
- Any significant rupee appreciation will impact the raw material cost.

Castrol's financial performance:

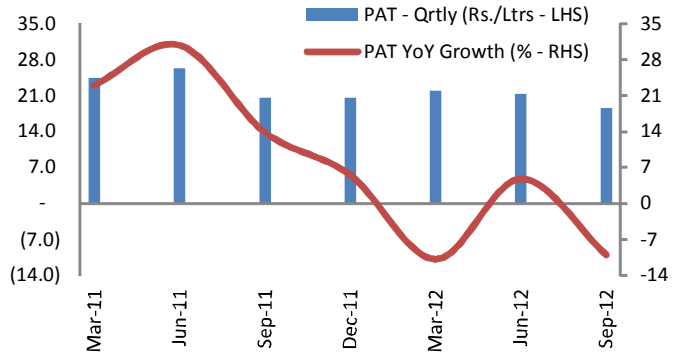
Castrol's margin is under pressure due to high raw material cost and higher advertisement spend. In order to retain its market share the Company is focusing on advertisement and sales promotion schemes.

Margins



Source: Company and Kotak Securities - Private Client Research

Castrol's net profit per unit sold is continuously falling



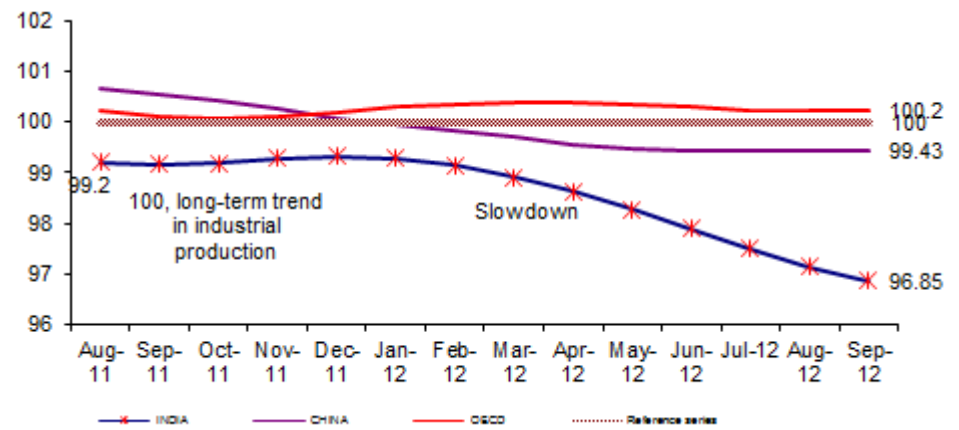
Source: Company and Kotak Securities - Private Client Research

Industrial growth led to increase in lubricant consumption in manufacturing units

Organisation for Economic Co-operation and Development (OECD) composite leading indicators (CLIs) is pointing slowdown in economy OECD composite leading indicators (CLIs) is designed to anticipate turning points in economic activity relative to trend, which point to an increasing pace of economic activity.

Based on this, we believe India is a slowdown phase as the OECD (India) is at 96.85. We believe this will impact the industrial demand of lubricants in CY13.

OECD composite leading indicators



Source: Bloomberg

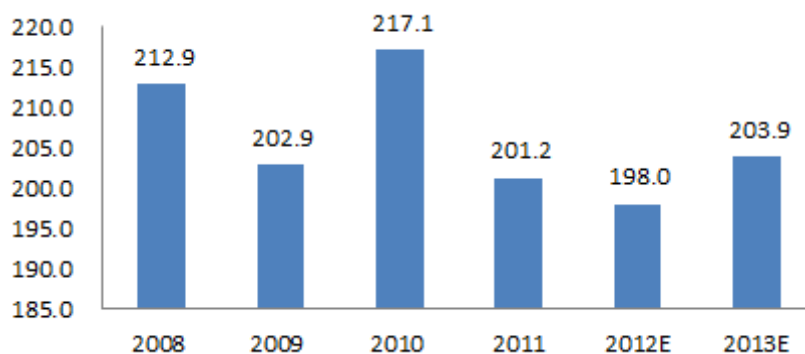
Growth cycle phases of the CLI are defined as follows: expansion (increase above 100), downturn (decrease above 100), slowdown (decrease below 100), recovery (increase below 100). CLI data is of 29 OECD member countries and 6 OECD non-member economies.

Comments: The horizontal line 100 shows the long-term trend in industrial production (the reference series). Expansion denotes a CLI increasing above 100. Downturn a CLI decreasing but still above 100 Slowdown a CLI decreasing below 100; recovery a CLI increasing but below 100

Key financial assumption:

Lubricant sales volumes: We expect Castrol to 3% YoY increase in lubricant sales volumes (manufactured) for CY13E as against a decline of 0.4% YoY in M9CY12 and 7.3% YoY in CY2011. The decline in sales volume in CY2011 reflects likely loss of market share due to delay in price hikes taken by the competition.

Sales volume (mn ltrs)

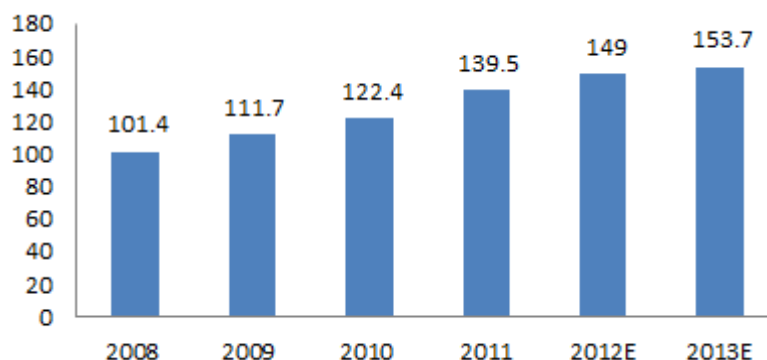


Source: Company and Kotak Securities - Private Client Research

Sales realization

We have assumed Castrol's lubes blended net realization of Rs.149/ltrs to increase by ~7% in CY2012E and by 3% YoY in CY2013E to Rs.153.7/ltrs. The company has increased its prices by ~3% in June 2012.

Net realization (Rs/ltr)



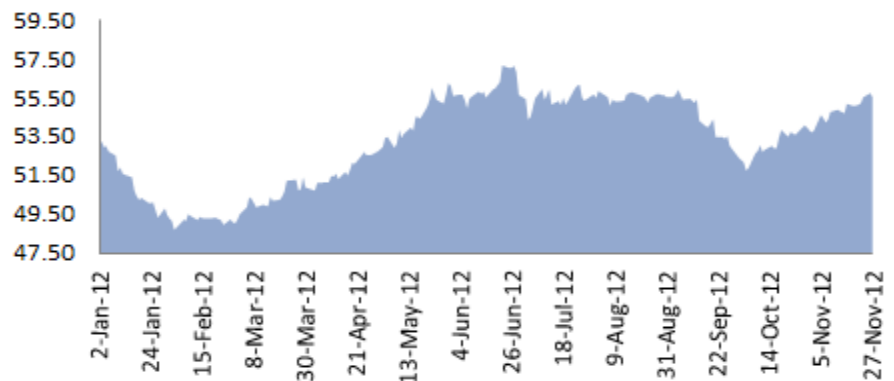
Source: Company and Kotak Securities - Private Client Research

Raw material cost: We have assumed lube cost (main raw material) on a higher side mainly on account of higher crude oil prices and weak rupee. We have assumed raw material to VOP (value of purchases) of 59.45% in CY12 and 59.10% in CY13.

Weak rupee:

In 2012 till date, INR has depreciated by ~5% as against US\$ impacting its raw material cost.

INR / USD

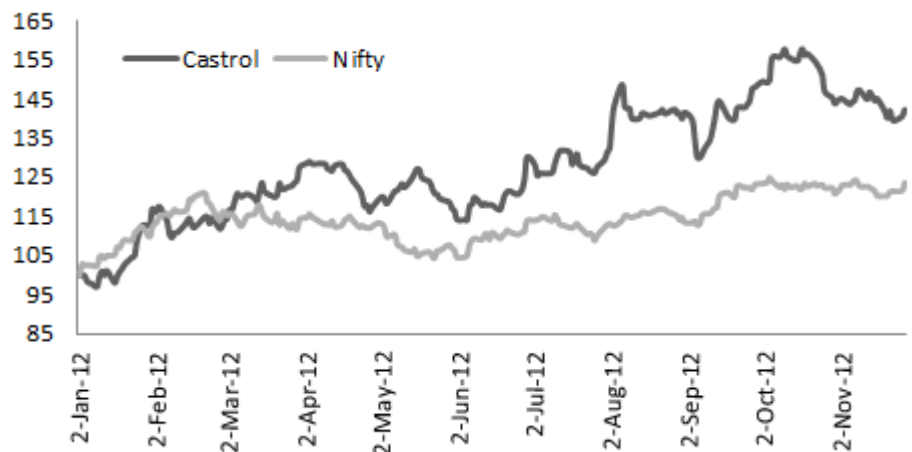


Source: Bloomberg

Share price performance

In 2012, Castrol has outperformed Nifty by significant margin. We don't expect the same to continue. In 2012 till date, Castrol has given a return of 42%.

Price performance



Source: Bloomberg

Outlook and valuation:

- The company's margins are expected to remain under pressure on account of competition from OMCs and rising cost pressure (~5% depreciation of rupee). In Q3CY12, its margins fell by 320 bps YoY to 16.6%. On a full year basis, we expect Castrol to report an EPS of Rs. 8.7 CY12E & Rs. 9.6 CY13E and cash EPS of Rs. 9.2 CY12E & Rs.10.2 CY13E. Castrol's management has also guided that the next few quarters are likely to be challenging.
- On the basis of our estimates, the stock at current market price of Rs.299 is expensively valued at 10.5x EV/EBIDTA, 31.1x P/E and 20.6x P/BV on the basis of CY13E earnings.
- Based on our DCF valuation model, the target price of Castrol comes to Rs. 265 (earlier Rs.302). We have cut our estimates mainly to reflect the slowdown in the demand and cost. Hence, we maintain our **REDUCE** rating on Castrol on account of weak business environment.

We maintain REDUCE on Castrol India with a price target of Rs.265

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
27-Nov	20 Microns	Dobariya Ashvinbhai Thobhanbhai	S	93,124	141.1
27-Nov	Adinath Bio	Narendra Jadavjibhai Patel	B	3,088,500	0.8
27-Nov	Adinath Bio	Aadesh Commodities Pvt Ltd	S	3,004,500	0.8
27-Nov	Akar Tools	Pankaj Babulal Shah	B	27,851	25.0
27-Nov	Ankush Finstock	Zobair Ahmad	S	44,652	14.6
27-Nov	Arcadia Merc	Haresh Vala	B	42,855	15.1
27-Nov	Arnav Corp	Status Equity And Finance Pvt Ltd	S	52,226	14.3
27-Nov	Arvind Intl-\$	B K Shah Co	B	305,002	16.0
27-Nov	Arvind Intl-\$	Amit Kumar Agarwal	S	80,000	16.0
27-Nov	Cubical Fin	Alka Agarwal	B	95,000	81.8
27-Nov	Dhanus Tech	Park Habitats Pvt Ltd	B	12,452,001	1.5
27-Nov	Dhanus Tech	Nirvana Mall Mgmt Co Pvt Ltd	S	12,500,000	1.5
27-Nov	Fact Enterprise	Blc Trading Agencies Pvt Ltd	S	125,000	6.4
27-Nov	Fact Enterprise	Mehul Securities	S	135,220	6.2
27-Nov	Federal Bank	L&T Finance Holdings Ltd	S	7,995,619	453.7
27-Nov	Federal Bank	HSBC Global Inve. Funds Mauritius	B	1,426,849	453.0
27-Nov	Globus Spr	Grovsnor Investment Fund Ltd	B	150,000	123.4
27-Nov	Globus Spr	Bela Properties Pvt Ltd	S	150,000	123.4
27-Nov	Hit Kit Global	Vora Construction Ltd	B	1,081,499	0.3
27-Nov	Hit Kit Global	Priyanka Anup Mittal	S	639,993	0.3
27-Nov	Karma Ind	Viraj Mercantile Pvt Ltd	S	190,000	3.2
27-Nov	Karma Ind	Josh Trading Pvt Ltd	S	210,000	3.2
27-Nov	Karma Ind	Stylecheck Garments Pvt Ltd	B	165,604	3.2
27-Nov	Ortin Lab-\$	Satyanarayan Saboo	B	29,128	29.5
27-Nov	Pasupati Fin	Orion Investmart Pvt Ltd	S	43,535	23.4
27-Nov	Ravinay Trad	Ravi Agarwal	B	15,000	171.1
27-Nov	Raymed Labs	Kapil Gupta	S	35,000	24.1
27-Nov	Raymed Labs	Swati Amrish Shah	B	25,000	24.3
27-Nov	Scope Ind	Sriharicharan Damaraju	B	70,000	25.5
27-Nov	Shalibhadra Fin	Shah Anilbhai Naginlal	B	32,492	54.5
27-Nov	Smilax	Naval Kishore Loya HUF	B	75,000	19.7
27-Nov	Southern Onlin	Dikson Trading & Finance Co Ltd	S	236,408	2.5
27-Nov	Southern Onlin	Hari Krishna Reddy Kallam	B	200,000	2.5
27-Nov	Veer Energy	Raval Ankitkumar Dineshkumar	S	358,300	14.8
27-Nov	VMS Inds	Mono Herbicides Ltd	S	232,678	20.3
27-Nov	VMS Inds	S Praveen Kumar	B	400,000	20.3

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ITC Ltd	294	2.5	12.3	6.2
HDFC	799	3.0	11.4	4.1
HDFC Bank	681	2.8	10.7	4.1
Losers				
Power Grid	119	(1.5)	(0.8)	4.0
NTPC	159	(0.6)	(0.4)	2.3
ONGC	250	(0.1)	(0.1)	4.4

Source: Bloomberg

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