

Industrials  
 Electrical Equipment  
 Equity – India

## Overweight

Target price (INR)	135.00
Share price (INR)	84.70
Potential return (%)	59.4

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	-17.8	-31.5	-28.0
Relative <sup>A</sup> (%)	-11.8	-22.0	-18.5

Index<sup>A</sup> BOMBAY SE IDX

RIC KAPT.BO  
 Bloomberg KPP IN

Market cap (USDm) 236  
 Market cap (INRm) 12,998

Enterprise value (INRm) 10,780  
 Free float (%) 39

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# Kalpataru Power Transmission

OW: Good visibility at attractive valuations

- ▶ **Q4 performance largely positive; record order book provides good visibility of up to two years of revenues**
- ▶ **Margin pressure dampens outlook; we cut FY13-14e EPS by c9-15% and position ourselves modestly below guidance**
- ▶ **Driven by recent weakness, stock remains attractive on our lower estimates; maintain OW; cut TP to INR135 from INR150**

**Q4 performance largely positive:** Barring a seemingly temporary fallout in margins in the standalone business, KPP reported a broadly strong set of Q4 results. The order intake in Q4 remained strong at both entities (KPTL and JMC) and the order book reached an all time high of INR116bn. Execution in the standalone business – a concern for investors – also picked up in Q4, driving sales growth of c20%. Execution at JMC continued to remain strong, beating our sales estimates by c11%. As such, the strong order book provides good sales visibility of up to two years and is likely to drive consolidated sales growth of high teens if not 20%+, which KPP is currently guiding to.

**Margin pressure dampens the outlook:** While management attributed the margin fallout in Q4 to a couple of exceptional factors, i.e. 1) cINR150-160m due to steel price volatility, and 2) cINR80m due to forex losses on foreign payables, it acknowledged that margins in general remain under pressure. In our opinion, this is driven largely by the pricing pressure in domestic market, increasing labour costs, and increasing competition in the international markets. As such, management has lowered its standalone EBITDA margin guidance to c10.0-10.5% from c11%+ and consol. margin guidance to c9.0-9.5% from c10%+ earlier. This coupled with increasing debt at the consolidated level is likely to offset some portion of revenue growth in FY13. We forecast consol. EBITDA margin to fall to c9.0% in FY13e and c8.9% in FY14e and lower our FY13/14e EPS by c15%/9% to INR14.1/17.9.

**Stock remains attractive on valuation; maintain OW:** KPP has fallen c21% in last one month (including today's fall) and remains attractive on our lower estimates, trading at c6.0x FY13e PE and c4.7x FY14e PE. KPP is currently trading largely in line with its closest peer KEC but continues to trade below its average trough multiple of c6.5x during 2008-09 crisis. Given strong order book and hence good visibility on revenues, we continue to find the stock attractive and maintain our OW rating on the stock. However, driven by our earnings estimate cut, we lower our TP to INR135 from INR150. Our TP is derived from our preferred EVA valuation methodology and implies that 12 month from now, the stock should be trading at a 12 month forward PE of c7.5x on FY14e EPS of INR17.9.

## Financials & valuation

### Financial statements

Year to	03/2012a	03/2013e	03/2014e	03/2015e
<b>Profit &amp; loss summary (INRm)</b>				
Revenue	53,080	62,100	73,303	84,120
EBITDA	5,004	5,592	6,525	7,386
Depreciation & amortisation	-986	-1,058	-1,119	-1,155
Operating profit/EBIT	4,018	4,534	5,406	6,231
Net interest	-1,476	-1,524	-1,465	-1,401
PBT	2,775	3,292	4,263	5,191
HSBC PBT	2,775	3,292	4,263	5,191
Taxation	-735	-916	-1,204	-1,508
Net profit	1,887	2,164	2,742	3,279
HSBC net profit	1,887	2,164	2,742	3,279

### Cash flow summary (INRm)

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Cash flow from operations	4,351	2,728	2,811	3,546
Capex	-2,270	-1,270	-1,370	-1,520
Cash flow from investment	-2,270	-1,270	-1,370	-1,520
Dividends	-269	-273	-314	-359
Change in net debt	1,973	-3,520	-1,195	-1,724
FCF equity	1,585	1,176	1,119	1,666

### Balance sheet summary (INRm)

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Intangible fixed assets	202	0	0	0
Tangible fixed assets	14,955	12,483	12,734	13,100
Current assets	41,194	48,565	56,121	63,881
Cash & others	7,221	11,165	12,360	14,084
Total assets	57,187	64,083	71,891	80,016
Operating liabilities	24,038	28,597	33,592	38,337
Gross debt	11,558	11,982	11,982	11,982
Net debt	4,338	817	-377	-2,101
Shareholders funds	18,514	19,015	20,872	23,029
Invested capital	32,288	29,920	33,029	36,100

### Ratio, growth and per share analysis

Year to	03/2012a	03/2013e	03/2014e	03/2015e
<b>Y-o-y % change</b>				
Revenue	21.9	17.0	18.0	14.8
EBITDA	3.6	11.8	16.7	13.2
Operating profit	1.7	12.8	19.2	15.3
PBT	-4.3	18.7	29.5	21.8
HSBC EPS	-6.4	14.7	26.7	19.6

### Ratios (%)

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Revenue/IC (x)	1.6	2.1	2.2	2.3
ROIC	9.8	11.7	12.6	13.1
ROE	10.2	11.4	13.1	14.2
ROA	3.9	3.9	4.5	4.8
EBITDA margin	9.4	9.0	8.9	8.8
Operating profit margin	7.6	7.3	7.4	7.4
EBITDA/net interest (x)	3.4	3.7	4.5	5.3
Net debt/equity	21.9	3.8	-1.5	-7.5
Net debt/EBITDA (x)	0.9	0.1	-0.1	-0.3
CF from operations/net debt	100.3	333.8		

### Per share data (INR)

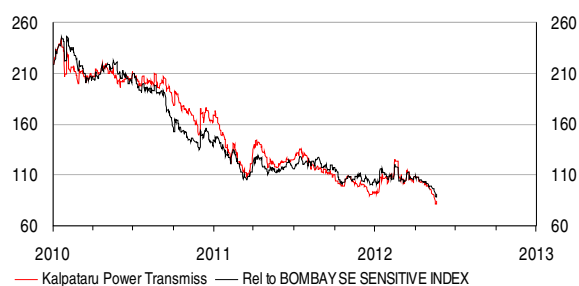
Year to	03/2012a	03/2013e	03/2014e	03/2015e
EPS reported (fully diluted)	12.29	14.10	17.87	21.37
HSBC EPS (fully diluted)	12.29	14.10	17.87	21.37
DPS	1.52	1.75	2.00	2.00
Book value	129.02	141.21	159.54	181.57

### Valuation data

Year to	03/2012a	03/2013e	03/2014e	03/2015e
EV/sales	0.6	0.4	0.3	0.3
EV/EBITDA	5.9	3.9	3.6	3.3
EV/IC	0.9	0.7	0.7	0.7
PE*	9.2	6.0	4.7	4.0
P/Book value	0.9	0.6	0.5	0.5
FCF yield (%)	11.9	11.2	11.1	15.6
Dividend yield (%)	1.3	2.1	2.4	2.4

Note: \* = Based on HSBC EPS (fully diluted)

### Price relative



Source: HSBC

Note: price at close of 21 May 2012

## Key takeaways from Q4 earnings call

### Q4 Performance

- ▶ There was strong order inflow of INR20.5bn in KPTL and INR8.5bn in JMC. At KPTL, the company booked its biggest order ever of INR9bn from Congo. At JMC, the Q4 order inflow was driven largely by F&B segment
- ▶ Consol. OB is now at INR116bn, of which cINR55bn is JMC and cINR61bn is KPTL. Around half of the KPTL order book is now international. c70% of KPTL OB and c65% of JMC OB has variable price contracts
- ▶ Around INR10bn worth of orders at JMC pertain to the internal BOT projects
- ▶ Margins in Q4 came in c100-150bp below internal expectations. Two factors contributed to the miss: 1) Significant steel price volatility in Q4 and the lag effect associated with price escalations, and 2) forex losses on revaluation of foreign payables
- ▶ Competition remains high in both PGCIL and SEB orders. SEB ordering activity is reducing
- ▶ KPTL inventories in Q4 went up because the company bought all the steel related to a couple of short lead-time orders from US/Canada
- ▶ KPTL tax rate was lower in Q4 due to revenue mix

### Outlook

- ▶ Guiding for sales growth of c15%+ for standalone business and c20%+ growth for consolidated business
- ▶ EBITDA margin guidance for standalone lowered to c10.0-10.5% from 11%+ earlier and for consol. to c9.0-9.5% from c10%+ earlier; for JMC, guiding for a margin of c7.0-7.5%
- ▶ For Shubham Logistics, expect sales growth of c20% and PAT to double in FY13; Transmission BOT sales to be cINR540m with EBITDA margin of at least c25%; Road BOTs can contribute revenues of cINR1.5bn or so from FY14 onwards
- ▶ Guidance for capex of cINR700-750m at KPTL, cINR500m at both JMC and Shubham Logistics (SSIL)
- ▶ Road BOTs will require a total equity infusion of around INR4.5bn, of which the company has already invested cINR2.0bn. They are likely to invest c1bn in FY13, which will come through internal accruals, and c1.5bn in FY14
- ▶ Commissioning schedule of Road BOT projects: Rohtak Bawal in Q1 FY14, Agra Aligarh in Q2 FY14 and Nagpur Waiganga in Q2 FY15. For Rewa MP, the concession agreement has just been signed and the financial closure is expected shortly

## Q4 FY12 Earnings summary – Kalpataru standalone (KPTL)

### KPP Standalone - Mar YE (INRm)

	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q4FY12e	BB Cons Q4FY12e	Act vs HSBC	Act vs Cons
Net Sales	8,846	5,846	5,833	8,008	10,616	10,828	10,228	-2%	3.8%
EBITDA	985	667	708	908	930	1,222	1,152	-24%	-19.3%
Profit before tax	790	474	483	568	717	990	806	-28%	-11.0%
Net Income	616	336	343	403	568	703	630	-19%	-9.9%
EPS	4.0	2.2	2.2	2.6	3.7	4.6	4.1	-19%	-9.8%
<b>Margins &amp; Trend</b>									
	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q4FY12e	BB Cons Q4FY12e	Act vs HSBC	Act vs Cons
Sales growth	5.5%	8.7%	-7.6%	1.0%	20.0%	22.4%	15.6%	-2.4%	4.4%
EBITDA mgn	11.1%	11.4%	12.1%	11.3%	8.8%	11.3%	11.3%	(252)	(251)
PBT mgn	8.9%	8.1%	8.3%	7.1%	6.8%	9.1%	7.9%	(238)	(112)
NI mgn	7.0%	5.7%	5.9%	5.0%	5.3%	6.5%	6.2%	(114)	(81)

Source: Company Data, HSBC, Bloomberg

## Q4 FY12 Earnings summary – JMC projects

### JMC Projects - Mar YE (INRm)

	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q4FY12e	BB Cons Q4FY12e	Act vs HSBC	Act vs Cons
Net Sales	4,861	3,739	4,243	5,688	6,932	6,394	n/a	8%	n/a
EBITDA	387	298	319	384	508	502	n/a	1%	n/a
Profit before tax	224	112	116	158	258	209	n/a	24%	n/a
Net Income	211	80	84	118	239	141	n/a	70%	n/a
EPS	8.1	3.0	3.2	4.5	9.1	5.4	n/a	70%	n/a
<b>Margins &amp; Trend</b>									
	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q4FY12e	BB Cons Q4FY12e	Act vs HSBC	Act vs Cons
Sales growth	30.1%	43.9%	60.6%	56.4%	42.6%	31.5%	n/a	11.1%	n/a
EBITDA mgn	8.0%	8.0%	7.5%	6.8%	7.3%	7.8%	n/a	(52)	n/a
PBT mgn	4.6%	3.0%	2.7%	2.8%	3.7%	3.3%	n/a	46	n/a
NI mgn	4.3%	2.1%	2.0%	2.1%	3.4%	2.2%	n/a	124	n/a

Source: Company data, HSBC, Bloomberg

## Q4 FY12 Earnings summary – KPTL segments

### Segment sales – Standalone (INRm)

	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
Transmission & Distribution	4,738	5,472	7,014	7,965	5,228	4,827	7,047	9,316
Real Estate	2	0	0	0	0	1	0	0
Biomass Energy Division	72	97	132	130	106	109	133	149
Infrastructure Division	567	745	906	751	512	897	827	1,152
Unallocable/Inter-segment	0	0	0	0	0	0	0	0
<b>Total</b>	<b>5,378</b>	<b>6,315</b>	<b>8,052</b>	<b>8,846</b>	<b>5,846</b>	<b>5,833</b>	<b>8,008</b>	<b>10,616</b>

Segment sales growth	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
Transmission & Distribution	24.7%	21.6%	14.5%	7.2%	10.4%	-11.8%	0.5%	17.0%
Real Estate	650.0%	-40.0%	-92.7%	-50.0%	-80.0%	133.3%	0.0%	-100.0%
Biomass Energy Division	-42.3%	-24.4%	1.1%	3.3%	46.1%	12.8%	0.7%	14.6%
Infrastructure Division	-40.3%	-16.8%	-3.1%	-9.3%	-9.7%	20.3%	-8.6%	53.4%
<b>Total</b>	<b>10.4%</b>	<b>14.3%</b>	<b>12.0%</b>	<b>5.5%</b>	<b>8.7%</b>	<b>-7.6%</b>	<b>-0.5%</b>	<b>20.0%</b>

Segment sales split	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
Transmission & Distribution	88.1%	86.7%	87.1%	90.0%	89.4%	82.8%	88.0%	87.7%
Real Estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Biomass Energy Division	1.3%	1.5%	1.6%	1.5%	1.8%	1.9%	1.7%	1.4%
Infrastructure Division	10.5%	11.8%	11.2%	8.5%	8.8%	15.4%	10.3%	10.9%
Unallocable/Inter-segment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company data, HSBC

### Segment EBIT – Standalone (INRm)

	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
Transmission & Distribution	584	581	688	785	544	566	732	736
Real Estate	1	0	0	0	0	1	0	0
Biomass Energy Division	(20)	5	25	22	5	(1)	21	8
Infrastructure Division	53	63	80	75	14	31	49	97
Unallocable/Inter-segment	74	108	130	111	131	128	101	105
<b>Total</b>	<b>693</b>	<b>757</b>	<b>924</b>	<b>994</b>	<b>694</b>	<b>725</b>	<b>902</b>	<b>947</b>

Segment EBIT margin	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
Transmission & Distribution	12.3%	10.6%	9.8%	9.9%	10.4%	11.7%	10.4%	7.9%
Real Estate	93.3%	100.0%	100.0%	50.0%	66.7%	85.7%	100.0%	na
Biomass Energy Division	-27.7%	4.9%	19.2%	17.1%	4.9%	-0.9%	15.5%	5.2%
Infrastructure Division	9.4%	8.5%	8.8%	10.0%	2.8%	3.5%	5.9%	8.5%
<b>Total</b>	<b>12.9%</b>	<b>12.0%</b>	<b>11.5%</b>	<b>11.2%</b>	<b>11.9%</b>	<b>12.4%</b>	<b>11.3%</b>	<b>8.9%</b>

Segment EBIT split	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
Transmission & Distribution	84.3%	76.7%	74.5%	79.0%	78.3%	78.1%	81.1%	77.8%
Real Estate	0.2%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Biomass Energy Division	-2.9%	0.6%	2.7%	2.2%	0.7%	-0.1%	2.3%	0.8%
Infrastructure Division	7.7%	8.4%	8.7%	7.6%	2.1%	4.3%	5.4%	10.3%
Unallocable/Inter-segment	10.7%	14.2%	14.1%	11.2%	18.9%	17.6%	11.2%	11.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company data, HSBC

## FY13-15 earnings estimate summary

### Kalpataru Power - Mar YE (INRm)

	FY10	FY11	New Forecasts			Old Forecasts		Change in f/c		
			FY12	FY13e	FY14e	FY15e	FY13e	FY14e	FY13e	FY14e
Order Backlog	76,705	96,500	116,000	139,959	163,723	185,625	134,815	157,250	3.8%	4.1%
<b>Net Sales</b>	<b>39,963</b>	<b>43,547</b>	<b>53,080</b>	<b>62,100</b>	<b>73,303</b>	<b>84,120</b>	<b>60,124</b>	<b>69,067</b>	<b>3.3%</b>	<b>6.1%</b>
Clean EBITDA	4,331	4,831	5,004	5,592	6,525	7,386	6,014	6,819	-7.0%	-4.3%
<b>Reported EBITDA</b>	<b>4,404</b>	<b>4,830</b>	<b>5,004</b>	<b>5,592</b>	<b>6,525</b>	<b>7,386</b>	<b>6,014</b>	<b>6,819</b>	<b>-7.0%</b>	<b>-4.3%</b>
Clean EBIT	3,586	3,951	4,018	4,534	5,406	6,231	4,884	5,577	-7.2%	-3.1%
<b>Reported EBIT</b>	<b>3,659</b>	<b>3,950</b>	<b>4,018</b>	<b>4,534</b>	<b>5,406</b>	<b>6,231</b>	<b>4,884</b>	<b>5,577</b>	<b>-7.2%</b>	<b>-3.1%</b>
Other Income	222	300	233	282	322	360	279	312		
Net Financials	(1,234)	(1,351)	(1,476)	(1,524)	(1,465)	(1,401)	(1,260)	(1,212)		
<b>Profit before tax</b>	<b>2,647</b>	<b>2,899</b>	<b>2,775</b>	<b>3,292</b>	<b>4,263</b>	<b>5,191</b>	<b>3,903</b>	<b>4,677</b>	<b>-15.7%</b>	<b>-8.9%</b>
Income tax	(691)	(773)	(735)	(916)	(1,204)	(1,508)	(1,132)	(1,356)		
Extraordinary items	0	0	0	0	0	0	0	0		
Minorities	(179)	(126)	(153)	(212)	(317)	(403)	(228)	(314)		
Clean Net Income	1,715	1,988	1,887	2,164	2,742	3,279	2,543	3,007	-14.9%	-8.8%
<b>Reported Net Income</b>	<b>1,777</b>	<b>2,000</b>	<b>1,887</b>	<b>2,164</b>	<b>2,742</b>	<b>3,279</b>	<b>2,543</b>	<b>3,007</b>	<b>-14.9%</b>	<b>-8.8%</b>
Clean EPS	12.9	13.1	12.3	14.1	17.9	21.4	16.6	19.6	-14.9%	-8.8%
<b>Reported EPS</b>	<b>13.4</b>	<b>13.2</b>	<b>12.3</b>	<b>14.1</b>	<b>17.9</b>	<b>21.4</b>	<b>16.6</b>	<b>19.6</b>	<b>-14.9%</b>	<b>-8.8%</b>
DPS	1.7	1.5	1.5	1.8	2.0	2.0	2.0	2.0	-12.5%	0.0%

Margins & Trend	FY10	FY11	New Forecasts			Old Forecasts		Change in f/c		
			FY12	FY13e	FY14e	FY15e	FY13e	FY14e	FY13e	FY14e
Sales visibility (yrs)	1.9	2.2	2.2	2.3	2.2	2.2	2.2	2.3	0.5%	-1.9%
<b>Sales growth</b>	<b>16%</b>	<b>9%</b>	<b>22%</b>	<b>17%</b>	<b>18%</b>	<b>15%</b>	<b>19%</b>	<b>14%</b>	<b>-1.9%</b>	<b>4.2%</b>
Clean EBITDA mgn	10.8%	11.1%	9.4%	9.0%	8.9%	8.8%	10.0%	9.9%	-1.0%	-1.0%
<b>Reported EBITDA mgn</b>	<b>11.0%</b>	<b>11.1%</b>	<b>9.4%</b>	<b>9.0%</b>	<b>8.9%</b>	<b>8.8%</b>	<b>10.0%</b>	<b>9.9%</b>	<b>-1.0%</b>	<b>-1.0%</b>
Clean EBIT mgn	9.0%	9.1%	7.6%	7.3%	7.4%	7.4%	8.1%	8.1%	-0.8%	-0.7%
<b>Reported EBIT mgn</b>	<b>9.2%</b>	<b>9.1%</b>	<b>7.6%</b>	<b>7.3%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>8.1%</b>	<b>8.1%</b>	<b>-0.8%</b>	<b>-0.7%</b>
PBT mgn	6.6%	6.7%	5.2%	5.3%	5.8%	6.2%	6.5%	6.8%	-1.2%	-1.0%
Clean NI mgn	4.3%	4.6%	3.6%	3.5%	3.7%	3.9%	4.2%	4.4%	-0.7%	-0.6%
<b>Reported NI mgn</b>	<b>4.4%</b>	<b>4.6%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>-0.7%</b>	<b>-0.6%</b>

Source: HSBC, Company data

## Valuation and risks

KPP is currently trading largely in line with its closest peer KEC but continues to trade below its average trough multiple of c6.5x during 2008-09 crisis. Given the strong order book and hence good visibility on revenues, we continue to find the stock attractive and maintain our OW rating on the stock. However, driven by our earnings estimate cut, we lower our TP to INR135 from INR150.

Our target price is derived from our preferred EVA valuation methodology. For the standalone business, we assume target sales growth of c8%, through-cycle operating return margin of c9% and WACC of 15.1%. For JMC, we assume target sales growth of c8%, through-cycle operating return margin of c5% and WACC of 15.2%. Our target price implies that 12 months from now, the stock should be trading at a 12m fwd PE of c7.5x on FY14e EPS of INR17.9

Under HSBC's research model, for stocks without a volatility indicator, the Neutral rating band is five percentage points above and below the hurdle rate for India stocks of 11%. This translates into a Neutral rating band of 6% to 16% around the current share price. Our 12-month target price of INR135 suggests a potential return of c59%, which is above the Neutral rating band; hence, we maintain our Overweight rating on the stock.

## Key risks

We highlight key risks related to our investment case on Kalpataru below:

- ▶ Weaker-than-expected execution, particularly at KPTL
- ▶ Delay/cancellation in transmission projects
- ▶ Excessive pricing pressure

# Disclosure appendix

## Analyst Certification

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## Rating definitions for long-term investment opportunities

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.



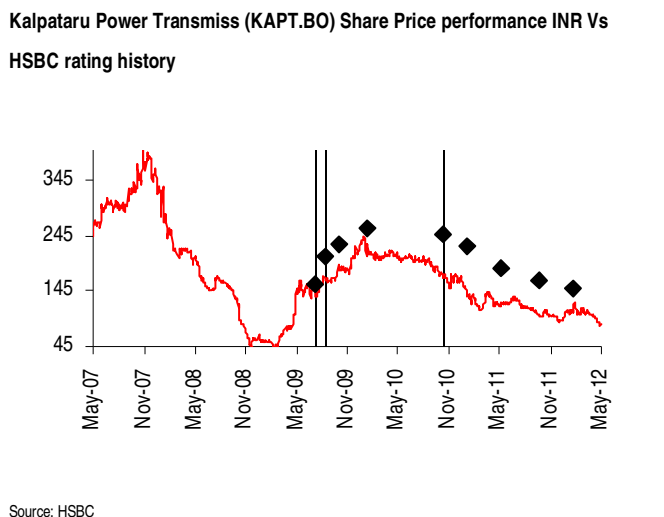
\*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

## Rating distribution for long-term investment opportunities

As of 22 May 2012, the distribution of all ratings published is as follows:

<b>Overweight (Buy)</b>	49%	(25% of these provided with Investment Banking Services)
<b>Neutral (Hold)</b>	37%	(25% of these provided with Investment Banking Services)
<b>Underweight (Sell)</b>	14%	(16% of these provided with Investment Banking Services)

## Share price and rating changes for long-term investment opportunities



Recommendation & price target history		
From	To	Date
Underweight (V)	Neutral (V)	30 July 2009
Neutral (V)	Overweight (V)	01 September 2009
Overweight (V)	Overweight	01 November 2010
Target Price	Value	Date
Price 1	156.00	30 July 2009
Price 2	208.00	01 September 2009
Price 3	230.00	26 October 2009
Price 4	260.00	02 February 2010
Price 5	250.00	01 November 2010
Price 6	225.00	25 January 2011
Price 7	185.00	26 May 2011
Price 8	165.00	11 October 2011
Price 9	150.00	15 February 2012

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
KALPATARU POWER TRANSMISSION	KAPT.BO	84.70	21-May-2012	4

Source: HSBC

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