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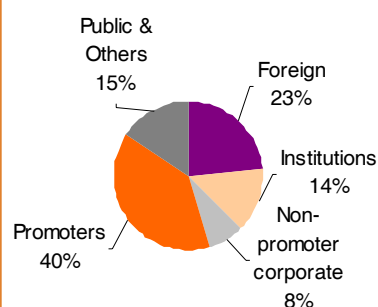
NIIT Technologies

Ugly Duckling
Stock Update
Downgraded to Hold; price target revised to Rs320
Hold; CMP: Rs286

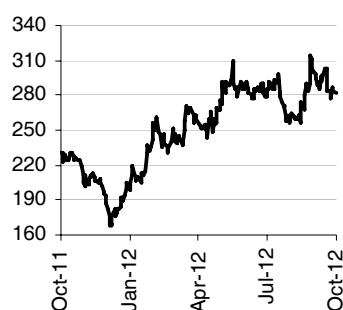
Company details

Price target:	Rs320
Market cap:	Rs1,713 cr
52 week high/low:	Rs317/166
NSE volume: (no. of shares)	1.4 lakh
BSE code:	532541
NSE code:	NIITTECH
Sharekhan code:	NIITTECH
Free float: (no. of shares)	3.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	0.8	12.1	37.3
Relative to Sensex	-8.4	-7.6	1.0	23.3

Result highlights

- Earnings below estimates:** The disappointments in the revenues of Geospatial Information Services (GIS; revenues dropped by 3.8% quarter on quarter [QoQ]) business, Room Solutions (revenues dropped by 11.8% QoQ) coupled with lower than expected ramp up in the Crime and Criminal Tracking Network and System (CCTNS) revenues (hardware sales dropped by 36% QoQ) have led to revenues miss for the quarter for NIIT Technologies (NIIT Tech). The consolidated revenues were up by 6.5% QoQ to Rs500.1 crore (lower than our estimate of Rs529.2 crore). On a constant currency basis, the revenues were up by 3% QoQ and the benefit from currency movement was 3.5% QoQ.
- During the quarter, the revenues from the Morris Communication joint venture were up 1.9% QoQ to Rs26 crore, whereas Proyecta reported revenues of Rs12.7 crore, down 10.6% QoQ.
- The earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins were up by 100 basis points QoQ to 17% (below our expectation of 17.4%). Despite witnessing improvement in utilisation (130 basis points) and currency benefits (3.5%), margin improvement was restricted to 100 basis points on account of crash in margins in GIS business (dropped to 1% from 15% in Q1FY2013) and 400 basis points quarter-on-quarter (Q-o-Q) fall in Room Solutions margins to 19%.

Results

Particulars	Q2FY13	Q2FY12	Q1FY13	YoY %	QoQ %
Net sales	500.1	371.1	469.6	34.8	6.5
Direct costs	320.3	230.1	304.7	39.2	5.1
Gross profit	179.8	141.0	164.9	27.5	9.0
SG&A	95.0	86.0	89.8	10.5	5.8
EBITDA	84.8	55.0	75.1	54.2	12.9
Depreciation & amort.	13.8	8.3	12.6	66.3	9.5
PBIT	71.0	46.7	62.5	52.0	13.6
Other income	-11.5	11.5	21.0	-200.0	-154.8
PBT	59.5	58.2	83.5	2.2	-28.7
Tax	14.6	15.1	24.6	-3.3	-40.7
PAT	44.9	43.1	58.9	4.2	-23.7
Minority interest	1.8	-2.7	1.3	-166.7	34.3
Net profit (reported)	43.1	45.8	57.5	-5.9	-25.1
EO	0.0	7.1	0.0		
Net profit (adj.)	43.1	52.9	57.5	-18.6	-25.1
Equity capital (FV Rs10/-)	59.9	59.9	59.9		
EPS (Rs)	7.2	8.8	9.6		
Margin (%)					
GPM	36.0	38.0	35.1		
EBITDA	17.0	14.8	16.0		
EBIT	14.2	12.6	13.3		
NPM	8.6	12.3	12.2		
Tax rate	24.5	25.9	29.5		

- ♦ The company reported a foreign exchange (forex) loss from revaluation of assets and liabilities of Rs15 crore as compared with a forex gain of Rs17 crore in Q1FY2013. The resultant net profit for the quarter was down by 25% QoQ to Rs 43.1 crore.
- ♦ **Multiple headwinds in offing could restrict earnings momentum:** The delay in the billing in the CCTNS projects coupled with slower traction in the GIS and Room Solutions (expect to ramp only by Q4FY2013) could lead to disappointments in the revenues in the next two quarters. The higher onsite cost pertaining to the initial ramp up of the recent deal wins could restrict the margins improvement in the coming quarters. Further, the possibility of pricing cut (2-5%) in the renewal deals as well as new deals coupled with absence of currency benefits could affect the earnings performance in FY2014.
- ♦ **Valuation and view:** On account of the lowering of margin assumption and currency reset, we have revised our earnings estimates by 18.5% and 10.5% for FY2013E and FY2014E respectively. Further, the possible earning disappointments in the medium term could restrict any material re-rating of the stock. We are downgrading our rating from Buy to Hold with a revised price target of Rs320.
- ♦ **Sustained order intake momentum:** The company has witnessed a sustained order intake of \$93 million in the quarter under review, taking the total orders executable over the next 12 months to \$253 million, up from \$240 million at the end of the previous quarter. The order intake for the quarter includes new business from an existing client (Morris Communication) worth \$20 million. The order intake was strongest in the USA (aided by Morris Communication) at \$43 million followed by Europe, Middle East and Africa at \$33 million. The company has also acquired a 200-seater development centre in Philippines from its client Sabre Holdings. Through the acquisition, the company would deepen its long-standing relationship with Sabre Holdings and also enable it to service other clients from the Philippines geography.
- ♦ **Management sees mixed outlook; pricing could see pressure going ahead:** The management's commentary on the demand environment is mixed. The commentary is positive on the travel and transportation side of the business (42% of revenues) whereas subdued on the banking, financial services and insurance (BFSI) side of the business (33% of revenues). The management expects sluggishness to remain in the banking and financial services (BFS) vertical, at least for the large

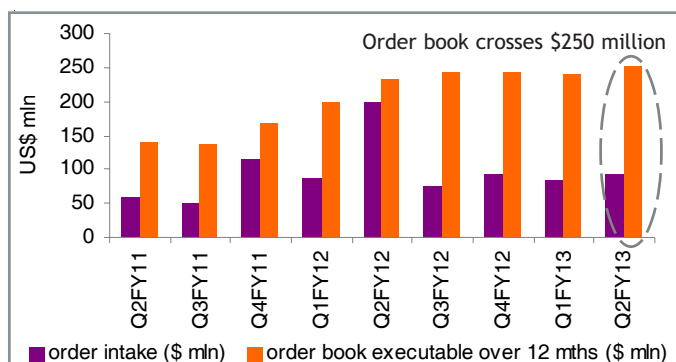
Operating matrix

Particulars	Q2FY13	Q2FY12	Q1FY13	YoY %	QoQ %	Key comments
Geographic mix (%)						
Americas	38.0	37.0	36.0	38.4	12.4	➤ The USA is seeing the effect of slow BFS traction.
EMEA	39.0	38.0	39.0	38.3	6.5	➤ India's revenues down due to slow uptick in CCTNS deal as well as GIS business.
APAC	13.0	13.0	13.0	34.8	6.5	
India	10.0	12.0	12.0	12.3	-11.3	
Industry verticals (%)						
BFSI	33.0	39.0	34.0	14.0	3.4	➤ BFSI revenues on a decline due to a sluggish demand environment.
Transportation	42.0	36.0	40.0	57.2	11.8	
Retail & manufacturing	6.0	8.0	7.0	1.1	-8.7	➤ Insurance vertical affected by lack of license revenues in the quarter.
Government	5.0	4.0	8.0	68.5	-33.4	
Others	14.0	13.0	11.0	45.1	35.5	➤ Transportation continues to see strong traction.
Client contribution (%)						
Top 5 clients	32.0	30.0	30.0	43.7	13.6	➤ Traction seen in top accounts with no. of clients above \$10 million increasing to nine from eight and in \$5-10 million range increasing to nine from seven.
Top 10 clients	47.0	44.0	43.0	43.9	16.4	
Top 20 clients	64.0	60.0	60.0	43.7	13.6	
Others	36.0	40.0	40.0	21.3	-4.2	
Service lines (%)						
ADM	64.0	65.0	61.0	32.7	11.7	➤ Revenues from IP asset-based services are down due to lower license revenues in the quarter in the insurance business.
IP Asset based	10.0	14.0	12.0	-3.7	-11.3	
Managed services	11.0	13.0	12.0	14.0	-2.4	
System Int. & package Impl	9.0	5.0	9.0	142.6	6.5	
BPO	6.0	3.0	6.0	169.5	6.5	

Source: Company & Sharekhan Research

clients, whereas insurance would see a slow recovery. The company is also facing some sluggishness in the government side of the business as can be seen from the performance in the GIS business as well as the CCTNS deals. The management has also indicated at pricing environment tightening up and could see pricing pressure in new deals as well as renewals of existing deals going ahead.

Order booking continues to remain strong



Source: Company & Sharekhan Research

Other key highlights

- GIS revenues for the quarter were down 3.8% QoQ and 13.3% year on year (YoY) to Rs22.9 crore. The GIS business saw margins crash to 1% from 15% in Q1FY2013 as the company is facing problems with one of its projects, the effect of which is expected to normalise by Q4FY2013.
- Room Solutions reported revenues of Rs36.6 crore down 11.8% on a Q-o-Q basis. The Q-o-Q fall in revenues was mainly due to lower license revenues as against a strong performance in Q1FY2013.
- During Q4FY2012, NIIT Tech has made a net addition of 173 employees, including 61 employees added through the Sabre Holdings development centre acquisition, taking the total headcount at the end of the quarter to 7,617 employees. The attrition rate increased marginally to 12.7% from 12.4% in the sequential previous quarter and the utilisation rate improved by 130 basis points to 79.8%.
- Cash and cash equivalents at the end of Q2FY2013 stood at Rs232 crore, down from Rs266.9 crore at the end of the sequential previous quarter. The drop in cash balance is mainly due to payment of dividend including tax of about Rs55 crore and capital expenditure of Rs19.5 crore. The debt on the books has decreased to

Rs30.7 crore from Rs42.2 crore at the end of the sequential previous quarter.

- The company has hedges of \$48.39 million at Rs55.69/\$ against \$41.06 million at Rs52.55/\$ as at the end of the sequential previous quarter.
- The days sales outstanding days were down to 75 days from 84 days in the sequential previous quarter with decrease in revenue from the government business.
- The number of clients contributing more than \$1 million increased to 68 from 64 in the sequential previous quarter.

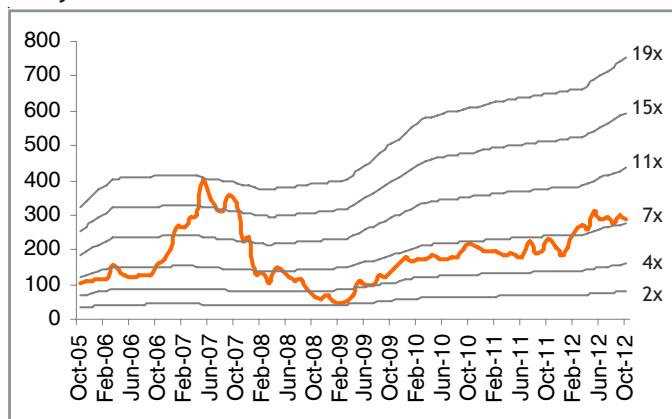
Valuation and view

On account of the lowering of margin assumption and currency reset, we have revised our earnings estimates by 18.5% and 10.5% for FY2013E and FY2014E respectively. Further, the possible earning disappointments in the medium term could restrict any material re-rating of the stock. We are downgrading our rating from Buy to Hold with a revised price target of Rs320.

Valuations

Particulars	FY11	FY12	FY13E	FY14E
Revenues (Rs cr)	1,232.2	1,576.5	2,028.3	2,344.9
EBITDA margin (%)	19.3	17.0	16.6	17.2
Net profit (Rs cr)	182.2	197.2	207.9	256.3
EPS (Rs)	30.6	33.1	34.9	43.0
PE (x)	9.4	8.6	8.2	6.7
EV/EBITDA (x)	6.6	5.5	4.2	3.1
RoE (%)	27.3	23.6	20.8	21.9
RoCE (%)	31.8	29.7	27.9	29.4
Dividend yield (%)	2.6	2.9	2.7	3.3

One-year forward PE band



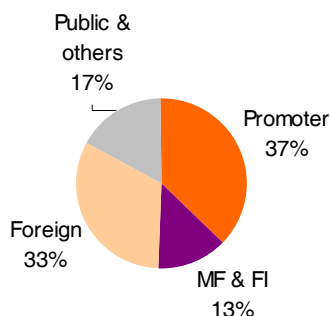
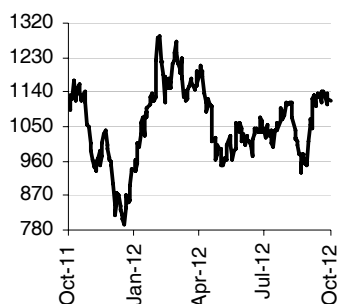
Source: Bloomberg

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Axis Bank

Emerging Star
Stock Update
Strong traction in retail business
Buy; CMP: Rs1,146
Company details

Price target:	Rs1,370
Market cap:	Rs47,521 cr
52 week high/low:	Rs1,308 /784
NSE volume: (no. of shares)	22.3 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (no. of shares)	26.0 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	10.8	8.2	-2.2	3.0
Relative to Sensex	9.3	-0.9	-11.8	-7.5

Result highlights

- Axis Bank's Q2FY2013 results were in line with our estimates at the net interest income (NII) level but slightly lower than estimated at the net profit level (up 22% year on year [YoY] to Rs1,124 crore). Higher provisions (up 25.6% YoY) affected the growth in the earnings though the effect was partly offset by treasury profits.
- The NII growth of 16% YoY was in line with our estimate. The growth in the NII was driven by a sequential expansion in the net interest margin (NIM; 3.46% vs 3.37% in Q1FY2013) and a healthy growth in the advances (up 22.9% YoY).
- Led by a strong growth in the retail advances the total advances increased by 22.9% YoY. Further, the retail term deposits expanded to 40% of term deposits. The current account and savings account (CASA) ratio improved by 200 basis points quarter on quarter (QoQ) to 41% backed by a healthy savings deposit inflow.
- The non-interest income displayed a robust growth of 29.0% YoY (up 19.3% QoQ) on the back of a treasury gain of Rs207 crore and a 19.8% year-on-year (YoY; up 16.4% QoQ) increase in the fee income. The retail fee expanded by 43% YoY while the corporate fee grew by 15% YoY.
- The asset quality showed some stress as slippages were relatively higher contributed by a chunky account. Consequently, provisions increased by 25.6% YoY. The bank restructured Rs323 crore worth of advances in Q2FY2013. As a result, the restructured book increased to 2.3% of the net advances.

Results

Particulars	Q2FY2013	Q2FY2012	YOY %	Q1FY2013	QoQ %
Interest earned	6,687.2	5,276.0	26.7	6,482.9	3.2
Interest expense	4,360.3	3,268.7	33.4	4,303.0	1.3
Net interest income	2,326.9	2,007.3	15.9	2,179.9	6.7
Other income	1,593.1	1,234.9	29.0	1,335.5	19.3
Total income	3,920.0	3,242.2	20.9	3,515.4	11.5
Operating expenses	1,741.7	1,466.5	18.8	1,551.7	12.2
- Employee cost	577.9	498.6	15.9	582.6	-0.8
- Other costs	1,163.8	967.9	20.2	969.1	20.1
Operating profit	2,178.3	1,775.6	22.7	1,963.7	10.9
Prov. for contingencies	509.4	405.6	25.6	258.8	96.8
PBT	1,668.8	1,370.1	21.8	1,704.8	-2.1
Tax	545.3	449.7	21.3	551.3	-1.1
PAT	1,124	920.3	22.1	1,153.5	-2.6
NIM (%)	3.46	3.78	-32 bps	3.37	9 bps
Gross NPA (%)	1.10	1.08	2 bps	1.06	4 bps
Net NPA (%)	0.33	0.34	-1 bps	0.31	2 bps

- Axis Bank's Q2FY2013 performance points to a structural shift towards the retail business as both retail deposits and advances showed traction during the quarter. We largely retain our estimates and expect the bank's earnings to grow at a compounded annual growth rate (CAGR) of 15% over FY2012-14. We maintain our Buy rating on Axis Bank with a price target of Rs1,370.

Margin expands by 9 basis points QoQ to 3.46%

Axis Bank's NIM increased by 9 basis points QoQ to 3.46% mainly because of a 16-basis-point quarter-on-quarter (Q-o-Q; 6.54% vs 6.70% in Q1FY2013) decline in the cost of funds. The reduction in the cash reserve ratio (CRR), the rise in the CASA ratio and the running down of the priority sector loans positively affected the margin. The NII increased by 15.9% YoY, in line with our estimate. Going ahead, the management expects the decline in the cost of deposits to ease, thereby cushioning the margin.

Strong pick-up in retail advances

During Q2FY2013 the growth in the advances (up 23% YoY) was primarily driven by the retail advances, which grew by 51.0% YoY (up 9.1% QoQ). The high growth rate in the retail advances was in line with the management's strategy to expand the proportion of the retail advances (26% in Q2FY2013) gradually, increasing it to about 30% in a couple of years. Moreover, the bank will also focus on lending to the agricultural and small and medium enterprise (SME) segments.

Business growth

Particulars	Q2FY13	Q2FY12	YoY %	Q1FY13	QoQ %
Advances	172,132	140,089	22.9	171,146	0.6
Deposits	235,619	194,455	21.2	222,631	5.8
CD ratio (%)	73.1	72.0		76.9	

CASA ratio up 200 basis points QoQ, retail liabilities improve

The bank's CASA ratio improved by 200 basis points QoQ to 41% driven by a strong 20% Y-o-Y growth in the savings deposits. The daily average CASA balance increased to 36% from 35.7% in Q1FY2013. Further, the proportion of retail term deposits increased to 40.2% from 36.2% in Q2FY2012, thereby decreasing the bank's reliance on wholesale funds. The bank's focus to improve retail liabilities has begun to yield positive results.

Asset quality stress within manageable limits

The slippages were relatively high (0.4% of opening advance) during Q2FY2013 mainly because of slippages from a large corporate account. However, due to increased write-offs (Rs393 crore; 0.2% of the opening advances)

there was a marginal increase in the gross non-performing assets (NPAs; 1.10% vs 1.08% in Q2FY2012). The bank also restructured Rs323 crore worth of advances during the quarter, thereby increasing the cumulative restructured advances to 2.3% of the net advances. The management continues to guide that the impairment in the asset quality (restructuring + slippages) will be restricted to Rs1,000 crore per quarter which is manageable.

Provisions rise sharply

The provisions rose by 25.6 YoY (up 96.8% QoQ) on the back of a higher provision for loan losses (Rs407 crore) and a contingency provision of Rs115 crore. During the quarter there was a write-back from investment provisions to the tune of Rs65 crore which cushioned the profitability. The provision coverage was 80% excluding the written-off accounts. The bank has guided for credit cost to be around 85-90 basis points of advances but we have assumed higher provisions to factor the stress on the asset quality.

Treasury gains drive non-interest income growth

The non-interest income of the bank grew by 29.0% YoY on the back of a sharp increase in the treasury profits (Rs207 crore vs Rs28 crore in Q2FY2012). The treasury gains came in from equity (Rs95 crore including the stake sale in an asset management company), bonds (Rs75 crore) and foreign exchange and derivatives (Rs28 crore). The fee income also showed a healthy growth of 19.8% YoY mainly on account of a 42.7% increase in the retail fee.

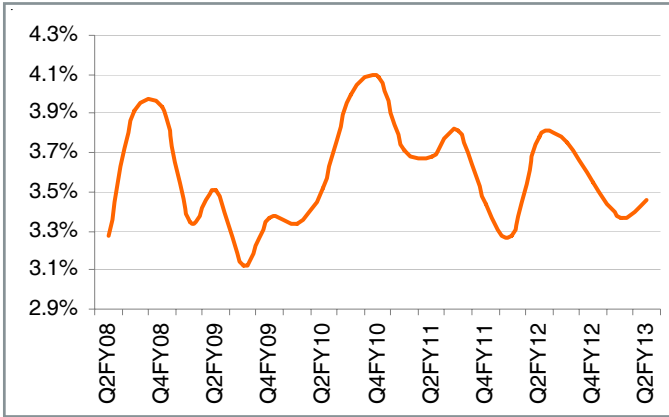
Non-interest income

Particulars	Q2FY13	Q2FY12	YoY %	Q1FY13	QoQ %
- Fee Income	1,343.0	1,121.0	19.8	1,154.0	16.4
- Treasury profit	207.0	28.0	-	150.0	-
- Misc. income	43.1	85.9	-	31.5	-
Non-interest income	1,593.1	1,234.9	29.0	1,335.5	19.3

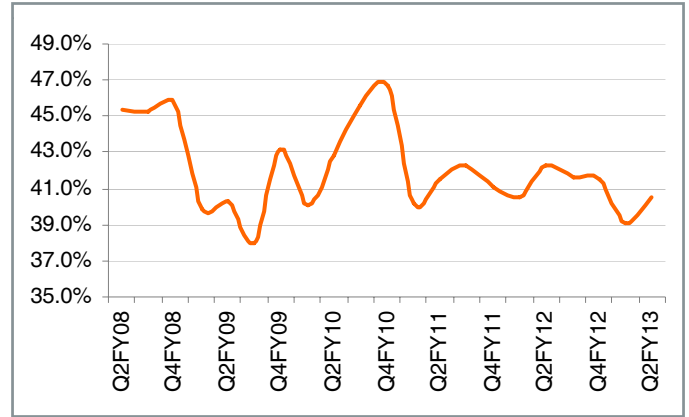
Valuations

Axis Bank's Q2FY2013 performance points to a structural shift towards the retail business as both retail deposits and advances showed traction during the quarter. The margin is likely to be maintained at 3.2% levels (vs 3.5% in Q2FY2013) as the rising competition in the retail space will have some impact on the margin. The bank's tier-I capital adequacy ratio was at 9.92% including the Q2FY2013 profits. The asset quality could see some stress due to slippages on certain corporate exposure but we expect the same to be within manageable limits. We largely retain our estimates and expect the bank's earnings to grow at a CAGR of 15% over FY2012-14. We maintain our Buy recommendation on Axis Bank with a price target of Rs1,370.

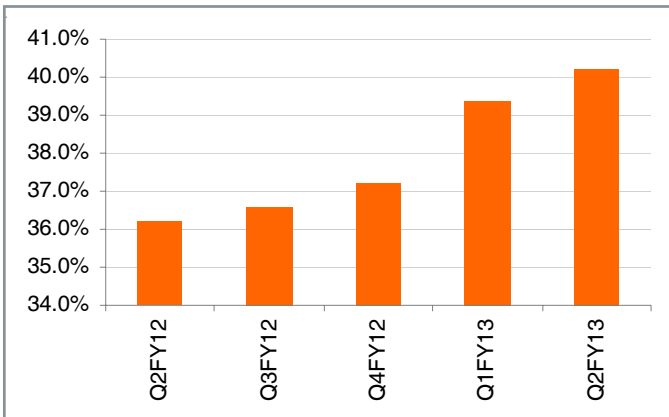
Trend in NIM



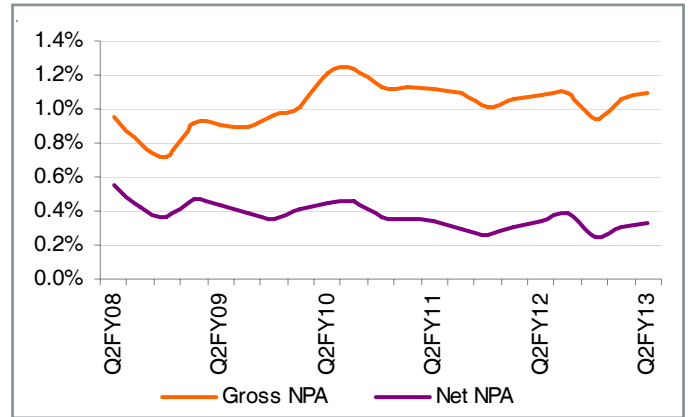
Trend in CASA (%)



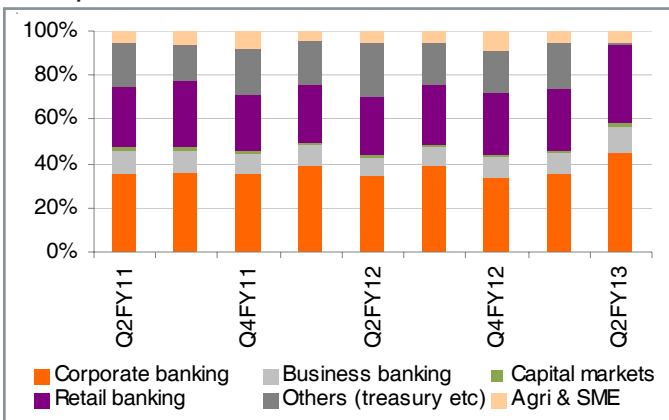
Retail term deposits as a % of total deposits



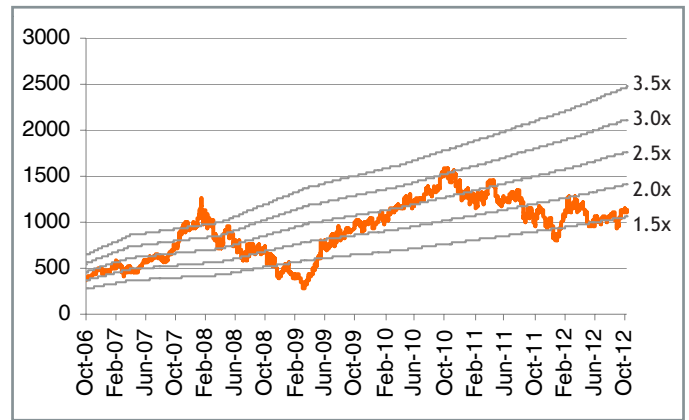
Trend in asset quality



Breakup of non-interest income



Price to book value



Financials

Profit and loss statement

Rs cr

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net interest income	5,004	6,563	8,018	9,334	11,051
Non-interest income	3,956	4,632	5,420	6,562	7,722
Net total income	8,960	11,195	13,438	15,895	18,773
Operating expenses	3,710	4,779	6,007	7,015	8,142
Pre-provisioning profit	5,251	6,416	7,431	8,880	10,631
Provision & contingency	1,401	1,280	1,143	1,771	2,170
PBT	3,850	5,136	6,288	7,109	8,461
Tax	1,337	1,747	2,046	2,367	2,818
PAT	2,513	3,388	4,242	4,742	5,644

Balance sheet

Rs cr

Particulars	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Networth	16,043	18,999	22,809	26,697	31,324
Deposits	141,300	189,238	220,104	261,924	314,309
Borrowings	17,169	26,268	34,072	36,047	40,785
Other liabilities & provisions	6,133	8,209	8,643	10,103	12,243
Total liabilities	180,646	242,713	285,628	334,770	398,661
Assets					
Cash & balances with RBI	9,474	13,886	10,703	13,882	16,658
Balances with banks & money at call	5,733	7,522	3,231	3,929	4,715
Investments	55,975	71,992	93,192	102,775	115,235
Advances	104,343	142,408	169,760	203,711	249,547
Fixed assets	1,222	2,273	2,259	2,485	2,982
Other assets	3,899	4,632	6,483	7,988	9,524
Total assets	180,646	242,713	285,628	334,770	398,661

Key ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Per share data					
EPS	62.0	82.5	102.7	114.8	136.6
DPS	11.6	16.3	18.6	20.7	24.6
BV	396.0	462.8	552.0	646.1	758.1
ABV	385.6	452.7	540.5	631.0	740.6
Spreads (%)					
Yield on advances	8.6	8.4	9.9	9.7	9.6
Cost of deposits	4.4	4.5	6.0	5.9	5.8
Net interest margins	3.5	3.4	3.3	3.2	3.3
Operating ratios (%)					
Credit to deposit	73.8	75.3	77.1	77.8	79.4
Cost to income	41.4	42.7	44.7	44.1	43.4
CASA	46.7	41.1	41.5	40.4	39.4
Non interest income/ Total income	44.1	41.4	40.3	41.3	41.1
Return ratios (%)					
RoE	19.1	19.3	20.3	19.2	19.5
RoA	1.5	1.6	1.6	1.5	1.5
Assets/equity	12.5	12.1	12.6	12.5	12.6
Asset quality ratios (%)					
Gross NPA	1.3	1.1	1.1	1.2	1.2
Net NPA	0.4	0.3	0.3	0.3	0.3
Provision coverage	68.2	74.2	73.3	75.1	75.9
Growth ratios (%)					
Net interest income	35.8	31.1	22.2	16.4	18.4
PPP	41.0	22.2	15.8	19.5	19.7
PAT	38.4	34.8	25.2	11.8	19.0
Advances	27.9	36.5	19.2	20.0	22.5
Deposits	20.4	33.9	16.3	19.0	20.0
Valuation ratios (%)					
P/E	18.4	13.8	11.1	10.0	8.4
P/BV	2.9	2.5	2.1	1.8	1.5
P/ABV	3.0	2.5	2.1	1.8	1.5

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CMC**Emerging Star**

Stock Update

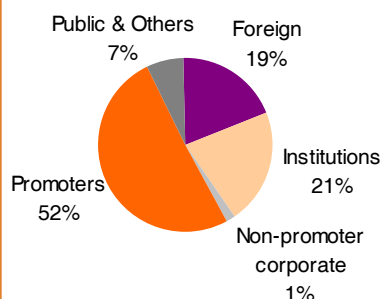
Impressive margin performance

Buy; CMP: Rs1,118

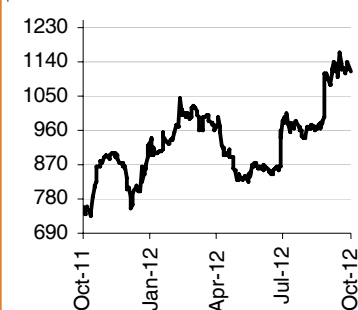
Company details

Price target:	Rs1,551
Market cap:	Rs3,389 cr
52-week high/low:	Rs1,192/685
NSE volume: (no. of shares)	44,817
BSE code:	517326
NSE code:	CMC
Sharekhan code:	CMC
Free float: (no. of shares)	1.48 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	19.0	18.4	47.1
Relative to Sensex	0.0	9.1	6.7	32.0

Result highlights

- ♦ **Strong growth in SI business:** In Q2FY2013 CMC maintained the strong growth momentum in the system integration (SI) business, which reported a strong sequential growth of 6.3% in its revenues. The customer services business' revenues were down by 13.8% quarter on quarter (QoQ) on account of lower equipment sales during the quarter. The consolidated revenues for the quarter increased by 1.4% QoQ and 28.2% year on year (YoY) to Rs458.6 crore.
 - The services business' revenues rose by 5.6% QoQ to Rs434.4 crore (accounting for 94.8% of the total revenues) whereas the equipment business' revenues were down by 41.7% QoQ to Rs23.8 crore (accounting for 5.2% of the total revenues).
 - The revenues of CMC Americas (its US subsidiary) grew by 5% QoQ and 25% YoY in US dollar terms. In rupee terms, the revenues of the subsidiary rose by 6.3% QoQ to Rs197.7 crore. The revenues earned through joint go-to-market with Tata Consultancy Services (TCS) were stable at 56% of the total revenues on Q-o-Q basis.
 - The international revenues were up by 3.5% QoQ and 44.1% YoY to Rs304.1 crore (accounting for 66.4% of the total revenues). The domestic revenues were down by 2.8% QoQ but up by 5.5% YoY to Rs154.1 crore (accounting for 33.6% of the total revenues).

Results

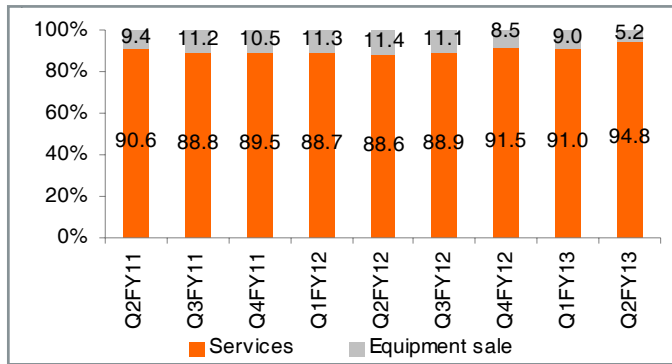
Particulars	Q2FY13	Q2FY12	Q1FY13	YoY %	QoQ %
Revenues	458.6	357.7	452.3	28.2	1.4
Materials	18.6	38.1	37.5	-51.1	-50.4
Staff costs	131.0	108.2	128.8	21.1	1.7
Other expenses	60.1	50.5	57.4	18.8	4.6
Sub-contracting and outsourcing	172.4	107.8	153.2	60.0	12.5
Total expenditure	382.0	304.5	377.0	25.5	1.3
Operating profit	76.6	53.2	75.2	43.9	1.8
Other income	1.1	4.9	5.7	-77.0	-80.1
EBIDTA	77.7	58.1	80.9	33.7	-4.0
Depreciation	5.6	5.4	5.4	3.3	3.2
Interest	0.0	0.0	0.0	-86.5	-97.7
PBT	72.1	52.7	75.5	36.8	-4.5
Tax	22.7	20.1	17.1	13.2	33.2
PAT	49.4	32.6	58.4	51.3	-15.5
EO (tax on CMC America dividend)	4.5	4.2	0.0	7.7	
Net profit	53.9	36.8	58.4	46.4	-7.8
Equity capital (face value of Rs10)	30.3	30.3	30.3		
EPS (Rs)	17.8	12.1	19.3	46.4	-7.8
Margins analysis (%)					
OPM	16.7	14.9	16.6		
Staff costs	28.6	30.2	28.5		
Sub-contracting costs	37.6	30.1	33.9		
Tax rate	31.5	38.1	22.6		
NPM	10.8	9.1	12.9		
NPM after EO	11.7	10.3	12.9		

- ◆ **Impressive margin performance:** Despite wage hike and lower benefits from rupee depreciation during the quarter, CMC managed to keep its operating profit margin (OPM) stable at 16.7% as against 16.6% in Q1FY2013. Lower equipment sales (down 41.7% QoQ) and a higher contribution from the services business helped stabilise the margin, which was ahead of our expectation of 15.7%. Going forward, the management has maintained the margin range of 16-17% for the coming quarters.
- ◆ **Higher tax and lower other income drags profitability:** For the quarter, the net other income (NII) declined by 80% QoQ to Rs1.1 crore on account of a foreign exchange (forex) loss of Rs1.6 crore and a lower treasury income. Further, a significant rise of 33.2% QoQ in the tax provision to Rs22.7 crore on account of an amount of Rs4.5 crore pertaining to the tax on the dividend from CMC Americas led to a 15.5% sequential fall in the net income to Rs49.4 crore. On a Y-o-Y basis the net profit rose by 51.3%. However, adjusting for the one-off item of the tax on the dividend for the quarter, the net profit declined as restricted at 7.8% QoQ to Rs53.9 crore.
- ◆ **Management remains upbeat about the demand environment:** The CMC management remains upbeat about the business visibility. The company is experiencing strong traction in the SI business, which is the spearhead of the company's growth strategy. Within the SI segment, the company is witnessing traction in the embedded systems and real-time systems, product engineering services, validation and testing services in the USA. The company is also witnessing traction in the solution-led businesses in the insurance, port and transportation segments both in the domestic and international markets. CMC is exploring newer geographies like the Middle East, Africa, Asia Pacific and Eastern Europe for its solutions. The information technology enabled services (ITES) segment is also witnessing traction in the digitisation and work flow management segments. The company is strategically placing its services as knowledge process outsourcing services, like analytics and business intelligence. In India, the company expects increased spending on e-Governance and is well placed to garner an incremental share of the same.
- ◆ **Valuation:** CMC continues to deliver a strong operational performance. The deal flows in the SI, ITES and IMS businesses have improved and the management has increased focus on the international and emerging geographies. All this would maintain the growth momentum in the coming quarters. We have marginally revised our earnings estimates for FY2013 and FY2014 on account of higher tax assumptions and currency reset. We maintain our positive stance on CMC on account of the strong predictability of its earnings among the mid-cap IT stocks and a 41% CAGR in earnings over FY2012-14E. We maintain our Buy rating on the stock with a price target of Rs1,551.

Segmental performance					Rs cr
Particulars	Q2	Q2	Q1	YoY	QoQ
	FY13	FY12	FY13	%	%
Customer services					
Revenues	77.7	84.5	90.2	-8.1	-13.8
PBIT	10.8	6.7	9.9	60.7	9.3
Margins (%)	13.9	7.9	10.9		
% of revenues	16.9	23.6	19.9		
System integration					
Revenues	281.0	204.5	264.4	37.4	6.3
PBIT	53.4	43.7	55.9	22.1	-4.5
Margins (%)	19.0	21.4	21.1		
% of revenues	61.3	57.2	58.5		
ITES					
Revenues	72.1	48.4	71.4	48.7	1.0
PBIT	19.6	13.8	20.1	41.8	-2.3
Margins (%)	27.2	28.6	28.2		
% of revenues	15.7	13.5	15.8		
Education and training					
Revenues	16.3	15.4	13.9	5.3	17.1
PBIT	2.0	2.8	0.6	-28.1	245.8
Margins (%)	12.5	18.4	4.2		
% of revenues	3.5	4.3	3.1		
SEZ					
Revenues	11.7	4.8	12.5	140.7	-6.7
PBIT	9.3	2.7	10.0	242.6	-6.7
Margins (%)	79.9	56.1	80.0		
% of revenues	2.5	1.4	2.8		
Total revenues	458.6	357.7	452.3	28.2	1.4
Total PBIT	95.1	69.8	96.4	36.2	-1.3
Blended margins (%)	20.7	19.5	21.3		

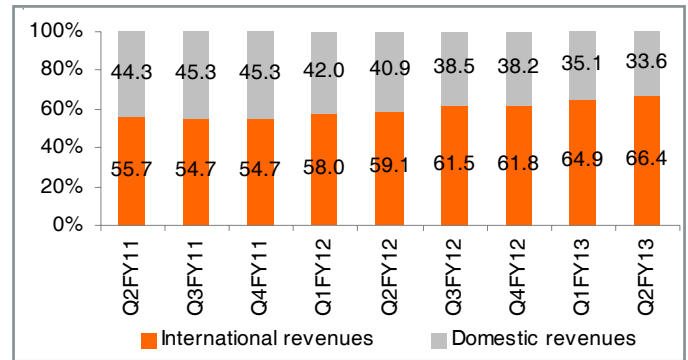
Source: Company and Sharekhan Research

Management expects equipment business to be at 8-10%



Source: Company & Sharekhan Research

Increasing international business



Source: Company & Sharekhan Research

Operating matrix

Particulars	Q2 FY13	Q2 FY12	Q1 FY13	YoY %	QoQ %
Geography-wise (%)					
International	66.4	59.1	64.9	44.1	3.5
Domestic	33.6	40.9	35.1	5.5	-2.8
Vertical-wise (%)					
Services	94.8	88.6	91.0	37.3	5.6
Equipment sale	5.2	11.4	9.0	-41.5	-41.7
TCS' contribution (%)	56.0	51.0	56.0		
Employees					
On rolls	4,658	4,334	4,630	324	28
On contract	6,093	4,166	6,084	1,927	9
Total	10,751	8,500	10,714	2,251	37
Client addition	15	23	20		
DSO days	83	113	86		

Source: Company and Sharekhan Research

Other highlights

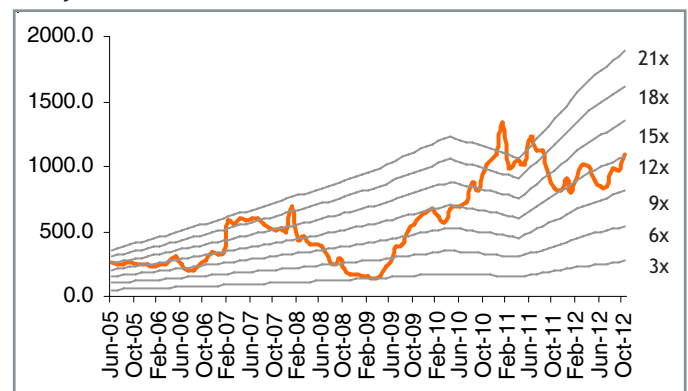
- At the end of the quarter the cash & cash equivalents stood at Rs178.9 crore, down from Rs236 crore at the end of the previous quarter. The cash level is down mainly due to a dividend payment (including tax) of Rs44 crore and capital expenditure (capex) of Rs26 crore during the quarter. For FY2013 the company has planned a capex of Rs228 crore of which Rs180 crore would be towards the Hyderabad special economic zone (SEZ) and Rs30 crore towards setting up a centre in Kolkata to house 1,500 seats. The company has already done a capex of Rs44 crore in H1FY2013.
- The days sales outstanding (DSOs) at the end of the quarter was lower at 83 days vs 86 days at the end of the previous quarter.
- The company added 37 employees in the quarter taking the total headcount at the end of the quarter to 10,751 employees.
- The company added 15 new clients in the quarter of which 13 are from domestic market.

Valuation: CMC continues to deliver a strong operational performance. The deal flows in the SI, ITES and IMS businesses have improved and the management has increased focus on the international and emerging geographies. All this would maintain the growth momentum in the coming quarters. We have marginally revised our earnings estimates for FY2013 and FY2014 on account of higher tax assumptions and currency reset. We maintain our positive stance on CMC on account of the strong predictability of its earnings among the mid-cap IT stocks and a 41% CAGR in its earnings over FY2012-14E. We maintain our Buy rating on the stock with a price target of Rs1,551.

Valuations

Particulars	FY11	FY12	FY13E	FY14E
Total revenues (Rs cr)	1,084.4	1,469.3	1,906.5	2,360.2
EBITDA margin (%)	19.4	15.3	16.8	16.9
Net profit (Rs cr)	178.4	152.8	240.5	303.7
EPS (Rs)	58.9	50.4	79.4	100.2
PER (x)	19.0	22.2	14.1	11.2
EV/EBITDA (x)	14.7	14.2	10.2	8.0
RoE (%)	30.6	21.4	27.6	27.7
RoCE (%)	36.0	30.9	36.5	35.6
Dividend yield (%)	0.9	1.1	1.1	1.3

One-year forward PE band



Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Reliance Industries

Evergreen

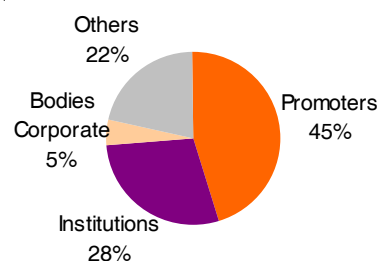
Stock Update

Price target revised to Rs915
Buy; CMP: Rs813

Company details

Price target:	Rs915
Market cap:	Rs267,172 cr
52 week high/low:	Rs902/671
NSE volume: (no. of shares)	31.9 lakh
BSE code:	500325
NSE code:	RELIANCE
Sharekhan code:	RELIANCE
Free float: (no. of shares)	180.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.2	14.6	10.8	-3.9
Relative to Sensex	-3.5	5.0	-0.1	-13.8

Result highlights

- Earnings in line with estimate:** Despite an unexpected surge in the effective tax rate, Reliance Industries Ltd (RIL) posted an adjusted net profit of Rs5,376 crore (declined by 5.7% year on year (YoY) which is much in line with our estimate. The gross refining margin (GRM) of \$9.5 per barrel reported by the company is also in line with expectations but the margin in the petrochemical business is ahead of the Street's expectations. A higher than expected net other income of Rs2,112 crore mitigated the impact of the surge in the tax rate during the quarter.
- Strong growth in refining business; falling output dents E&P revenues:** RIL reported a revenue growth of 15% YoY to Rs90,335 crore for the quarter. The revenue growth was mainly driven by a healthy revenue growth of 23.2% YoY in the refining division. The petrochemical division of the company registered a revenue growth of 4.7% YoY to Rs22,058 crore in the same quarter. However, the exploration and production (E&P) division continues to post a decline in revenues—its revenues declined by 36.7% in Q2FY2013 on account of a falling output from the Krishna-Godavari (KG)-D6 basin.
- Refining margin improved QoQ supported by better product cracks:** During the quarter the refining plant of the company achieved a 112% utilisation rate and refined 17.6 million tonne of crude oil against 17.1 million tonne in Q2FY2012. The GRM improved to \$9.5/barrel in Q2FY2013 (in line with our

Results

Rs cr

Particulars	Q2FY2013	Q2FY2012	YoY %	QoQ %
Net sales	90,335	78,569	15.0	-1.7
Total expenditure	82,630	68,725	20.2	-2.9
- Raw material consumed	77,796	64,661	20.3	-1.9
- Stock adjustment	-1,784	-1,607	11.0	80.7
- Purchase of finished goods	54	514	-89.5	-66.9
- Employee expenses	844	715	18.0	-0.4
- Other expenses	5,720	4,442	28.8	-0.9
Operating profit	7,705	9,844	-21.7	14.2
Other income	2,112	1,102	91.7	10.9
EBITDA	9,817	10,946	-10.3	13.5
Interest	737	660	11.7	-6.0
Depreciation	2,277	2,969	-23.3	-6.5
PBT	6,803	7,317	-7.0	25.2
Tax	1,427	1,614	-11.6	48.6
PAT	5,376	5,703	-5.7	20.2
Reported PAT	5,376	5,703	-5.7	20.2
EPS	16.4	17.4		
OPM (%)	8.5	12.5		
PATM (%)	6.0	7.3		
Tax rate (%)	21.0	22.1		

estimate) from \$7.6/barrel in Q1FY2013. The sequential improvement in the GRM was largely on account of an expansion in the gas oil and gasoline cracks. The refining segment's revenues grew by 23.1% YoY to Rs88,878 crore. However, on account of a year-on-year (Y-o-Y) fall in GRM the earnings before interest and tax (EBIT) grew by only 15.3% to Rs3,544 crore.

- ♦ **Petrochemical margin better than Street's expectation:** During the quarter the revenues from the petrochemical division grew by 4.7% YoY and 1% quarter on quarter (QoQ). On the margin front, the division has displayed a better than expected performance with an EBIT margin of 7.9%, which is largely flat on a quarter-on-quarter (Q-o-Q) basis as against the Street's expectation of a higher contraction. However, on a Y-o-Y basis the margin was still on the lower side mainly on account of a reduction in the deltas across petrochemicals including polypropylene (PP), purified terephthalic acid (PTA) and mono ethylene glycol (MEG). Consequently, the EBIT from the division declined by 28.2% YoY to Rs1,740 crore.
- ♦ **Gas output from KG-D6 basin continues to fall:** The gas production from the KG-D6 basin dropped on both Y-o-Y and Q-o-Q bases during Q2FY2013. The average daily production rate during the quarter dropped to 29 million metric standard cubic metre per day (mmscmd) as compared with 45mmscmd in Q2FY2012 and 33mmscmd in Q1FY2013. The oil production from the Panna-Mukta-Tapti (PMT) oilfield declined by 17.9% during the quarter due to a natural decline in the reserve. The average crude oil price realisation for H1FY2013 was \$103 per barrel for the KG-D6 basin and \$111 per barrel for the PMT oilfield.
- ♦ **Maintain Buy with revised price target of Rs915:** We have largely maintained our earnings estimates for FY2013 and FY2014 at Rs61.5 and Rs64.9 respectively. The declining output from the KG-D6 basin and the margin pressure in the petrochemical business are the key concerns for the company. On the flip side, the expected bottoming out of the petrochemical cycle with an improvement in the spreads going ahead, the increasing production of unregulated shale gas and the potential revival of capital expenditure (capex) in the E&P segment are some of the positive triggers for the stock. Hence, we maintain our Buy recommendation on RIL with a revised price target of Rs915 (arrived at using the sum-of-the-parts valuation method). Currently, the RIL stock is trading at a price/earnings (P/E) of 13.3x and 12.6x FY2013 and FY2014 estimated earnings.

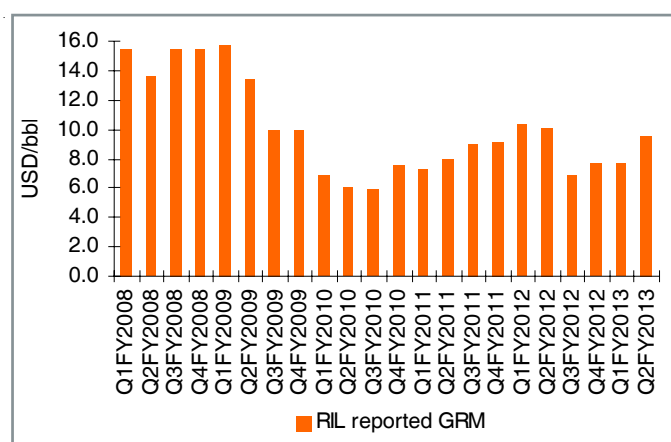
Refining segment: a sequential improvement in GRM supported better products cracks

- ♦ RIL refined 17.6 million tonne of crude oil during Q2FY2013 against 17.3 million tonne in Q1FY2013 and 17.1 million tonne in Q2FY2012. The company has achieved a utilisation rate of 112% during H1FY2013 as compared with the global range of 75-84%. Further, the GRM for Q2FY2013 improved QoQ to \$9.5/barrel (in line with our estimate). The GRM improved largely on account of an expansion in the product cracks particularly for gas oil and gasoline. However, on a Y-o-Y basis it remains at the lower end as in Q2FY2012 the company had posted a healthy GRM of \$10.1/barrel.
- ♦ On a Y-o-Y basis, the Arab light-heavy crude differential narrowed by \$1.6/barrel as compared with the corresponding period of the previous year. This is due to the closure of a number of simple refineries in Europe and on the east coast of the USA, the availability of more light crude in the USA and an increased demand for heavy crude as more complex refineries got operationalised during the quarter.
- ♦ The refining segment's revenues grew by 23.2% YoY to Rs83,878 crore. However, on account of a Y-o-Y fall in the GRM (from \$10.1/barrel in Q2FY2012 to \$9.5/barrel in Q2FY2013), the EBIT grew by only 15.3% as compared with the 23.2% growth in the revenues. The EBIT margin contracted marginally to 4.2% from 4.5% in Q2FY2012.

Performance of refining division

Particulars	Q2FY2013	Q2FY2012	YoY %	QoQ %
GRM (\$/bbl)	9.5	10.1	-5.9	25.0
Crude refined (mn tonne)	17.6	17.1	2.9	1.7
Revenues	83,878	68,096	23.2	-1.8
EBIT	3,544	3,075	15.3	64.8
EBIT (%)	4.2	4.5		

RIL GRM trend



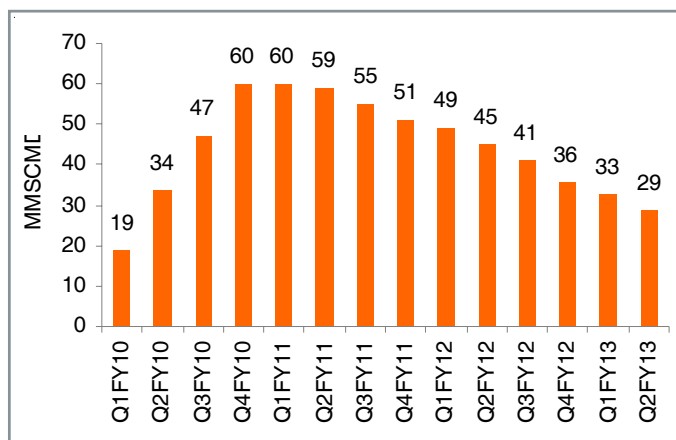
E&P segment: output at KG-D6 continues to fall

- ◆ In Q2FY2013, the production from the KG-D6 basin dropped on both Y-o-Y and Q-o-Q bases as a result of a lower production. The production rate dropped to 29mmscmd during the quarter from 45mmscmd in Q2FY2012 and 33mmscmd in Q1FY2013.
- ◆ The oil production from the PMT oilfield declined by 15.4% during the quarter whereas the gas production from the same oilfield improved by 2.3% YoY. Going ahead, the production from the PMT oilfield is expected to decline due to a natural decline in the reserve.
- ◆ The exploration initiative in Sohagpur east and west coal bed methane (CBM) have been completed and these blocks are in the development phase. These blocks have been drilled, logged and tested for gas content.
- ◆ The average crude oil price realisation for H1FY2013 was \$103 per barrel for the KG-D6 basin and \$111 per barrel for the PMT oilfield.

Performance of E&P division

Particulars	Q2FY2013A	Q2FY2012	YoY %	QoQ %
Production				
KG-D6 (mmscmd)	29	45	-36.6	-12.1
Revenues	2,254	3,563	-36.7	-10.1
EBIT	866	1,531	-43.4	-10.9
EBIT (%)	38.4	43.0		

Production trend at KG-D6 field



Petrochemical segment: margin better than expected

- ◆ During the quarter, the overall production of the division declined to 5.5 million tonne from 5.7 million tonne in the corresponding quarter of the previous year. The volume contracted on account of a decrease in the volume of polyethylene (PE), polyvinyl chloride (PVC), paraxylene (PX) and MEG.
- ◆ The revenues from the petrochemical division grew by 4.7% YoY and 1% QoQ to Rs22,058 crore during the quarter.
- ◆ The division displayed a better than expected margin performance with an EBIT margin of 7.9%, which is largely flat on a Q-o-Q basis as against the Street's expectation of a higher contraction. However, on a Y-o-Y basis the margin is still on the lower side mainly on account of a reduction in the deltas across PP, PTA and MEG. Consequently, the EBIT from the division declined by 28.2% YoY to Rs1,740 crore.

Balance sheet update: significant cash on books

- ◆ The cash and cash equivalents stood healthy at Rs79,159 crore at the end of September 2012. On the other hand, the total outstanding debt as on September 2012 stood at Rs70,059 crore. Hence, the company is net cash positive.
- ◆ The net capex for H1FY2013 was Rs8,528 crore (\$1.6 billion) of which the cash outflow was Rs4,479 crore.

Outlook and valuation

We have largely maintained our earnings estimates for FY2013 and FY2014 at Rs61.5 and Rs64.9 respectively. The declining output from the KG-D6 basin and the margin pressure in the petrochemical business are the key concerns for the company. On the flip side, the expected bottoming out of the petrochemical cycle with an improvement in the spreads going ahead, the increasing production of unregulated shale gas and the potential revival of capex in the E&P segment are some of the positive triggers for the stock. Hence, we maintain our Buy recommendation on RIL with a revised price target of Rs915 (arrived at using the sum-of-the-parts valuation method). Currently, the RIL stock is trading at a P/E of 13.3x and 12.6x FY2013 and FY2014 estimated earnings.

Valuations

Particulars	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales (Rs cr)	203,739.7	265,810.6	358,501.0	341,535.6	323,328.9
Operating profit (Rs cr)	30,902.2	38,043.6	34,817.0	32,744.1	34,482.0
OPM (%)	15	14	10	10	11
Adj. net profit (Rs cr)	15,897.6	19,293.7	20,033.0	20,199.4	21,325.1
Adj. EPS (Rs)	48.4	58.7	61.0	61.5	64.9
Y-o-Y change %	3.9	21.4	3.8	0.8	5.6
PER (x)	16.9	13.9	13.4	13.3	12.6
EV/EBIDTA (x)	10.4	8.5	9.3	9.9	9.4
Dividend yield (%)	1.1	0.9	1.1	1.1	1.1
RoCE (%)	14.2	10.6	11.2	9.9	9.7
RoNW (%)	11.3	12.5	11.5	10.4	9.9

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Sharekhan Stock Idea

Evergreen

GlaxoSmithKline Consumer Healthcare
Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
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Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
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Grasim Industries
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ITC
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Marico
Maruti Suzuki India
Lupin
Oil India
Piramal Enterprises (Piramal Healthcare)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
CMC
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Kalpataru Power Transmission
Max India
Opto Circuits India
Persistent Systems
Relaxo Footwears
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

AGC Networks
Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Dishman Pharmaceuticals & Chemicals
Federal Bank
Gayatri Projects
India Cements
Ipca Laboratories
Jaiprakash Associates
Kewal Kiran Clothing
Mcleod Russel India
NIIT Technologies
Orbit Corporation
Polaris Financial Technology
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Raymond
Selan Exploration Technology
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

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Mahindra Lifespace Developers
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