Index

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Bajaj Corp

Ugly Duckling

Stock Update

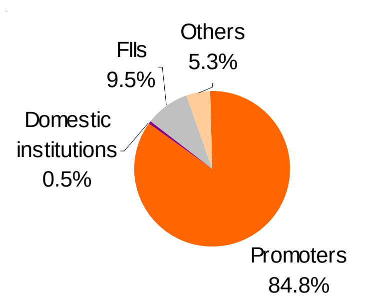
Q1FY2013 results: First-cut analysis

Hold; CMP: Rs150

Company details

Price target:	Under review
Market cap:	Rs2,212 cr
52 week high/low:	Rs153/119
NSE volume: (no. of shares)	97,271
BSE code:	533229
NSE code:	BAJAJCORP
Sharekhan code:	BAJAJCORP
Free float: (no. of shares)	2.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	19.8	13.9	43.3	21.6
Relative to Sensex	20.8	13.1	41.2	26.2

Result highlights

- Bajaj Corp's Q1FY2013 results are ahead of our expectation largely on account of higher than expected operating margins during the quarter. The ad-spends as a percentage to sales stood lower than our expectation, resulting in a 322 basis points year on year (YoY) increase in the operating margins to 28.2%.

- The net sales grew by 29.6% YoY to Rs138.2 crore, which is exactly in-line with our expectation of Rs137.9 crore. The sales volume growth during the quarter stood at ~22%.

- The gross margins improved by 275 basis points YoY and 251 basis points quarter on quarter (QoQ) to 55.7% in Q1FY2013 (ahead of our expectation of 54.2%). This gives us an indication that the key input prices have remained stable on a Y-o-Y basis. The price increase of ~9% in the Bajaj Almond Drops hair oil must have helped in improving the gross margins on a Q-o-Q as well as Y-o-Y basis.

- The ad-spends as a percentage to sales stood at 7.1% in Q1FY2013 as against our expectation of 15.0% for the quarter. Hence the operating margins stood at 28.2%, ahead of our expectation of 24.2%. The operating margins improved sequentially by 470 basis points.

- The operating profit grew by 46.3% YoY to Rs38.9 crore and the profit after tax (PAT) grew by 32.4% YoY to Rs37.6 crore (ahead of our expectation of Rs34.1 crore).

- Q1FY2013 was yet another quarter of strong performance by Bajaj Corp with an around 30% growth in revenues and an above 30% growth in the PAT. However

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Net sales	**138.0**	**106.6**	**29.5**	**146.6**	**-5.8**
Other operating income	0.2	0.1	82.3	0.4	-57.8
Total income from operations	**138.2**	**106.7**	**29.6**	**147.0**	**-6.0**
Total expenditure	99.3	80.1	24.0	112.6	-11.8
Operating profit	**38.9**	**26.6**	**46.3**	**34.5**	**12.9**
Other income	9.0	9.5	-5.6	10.0	-10.3
Interest expenses	0.0	0.0	-30.5	0.0	-21.0
Depreciation	0.8	0.5	64.5	0.8	-3.0
Profit before tax	**47.1**	**35.6**	**32.2**	**43.7**	**7.8**
Tax	9.5	7.2	31.5	9.1	4.1
Reported PAT	**37.6**	**28.4**	**32.4**	**34.6**	**8.8**
Adjusted EPS (Rs)	2.6	1.9	32.4	2.3	8.8
Gross margins (%)	55.7	52.9	275 bps	53.2	251 bps
OPM (%)	28.2	24.9	322 bps	23.5	470 bps

at the backdrop of below-normal monsoon and sustained high food inflation, we might see some moderation in the growth trajectory in the coming quarters. Having said that, a clear indication would emerge from the management commentary in the conference call. The stock price has surged in the recent past and has surpassed our target price. Thus we will review our earnings estimates and revise our price target for the stock post the conference call tomorrow. At the current market price the stock is trading at 14.9x and 12.7x its FY2013E and FY2014E earnings respectively. We downgrade our recommendation on the stock from Buy to Hold.

GlaxoSmithKline Consumer Healthcare

Evergreen

Stock Update

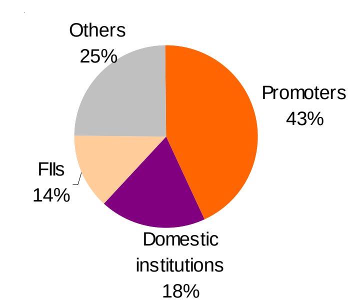
Results ahead of expectation

Buy; CMP: Rs2,668

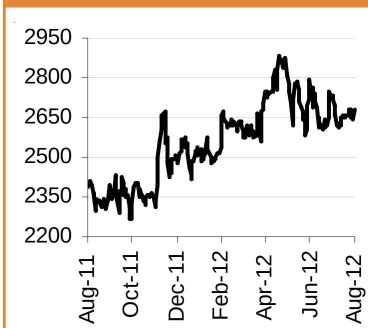
Company details

Price target:	Rs3,000
Market cap:	Rs11,232 cr
52 week high/low:	Rs2940/2179
NSE volume: (no. of shares)	4.2 lakh
BSE code:	500676
NSE code:	GSKCONS
Sharekhan code:	GSKCONS
Free float: (no. of shares)	2.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.7	-5.7	4.1	10.9
Relative to Sensex	-2.9	-6.3	2.6	15.2

Result highlights

- **Results ahead of expectation:** Glaxo Smithkline Consumer Healthcare (GSK Consumer)'s Q2CY2012 results have come ahead of our expectation largely on account of higher than anticipated business auxiliary income and treasury income during the quarter. The domestic revenue growth sustained at 15% with volume growth standing at 7%. *Horlicks'* volume growth stood at 7% while *Boost's* volume growth improved to 11%. The highlight of the quarter was the 360 basis points year on year (YoY) improvement in the gross margins to 63.0%.

- **Q2CY2012 performance snapshot:** GSK Consumer's reported net sales grew by 11.7% YoY to Rs729.7 crore (our expectation was of Rs773.3 crore) driven by a 3.2% volume growth and an approximately 9% YoY price-led growth in Q2CY2012. The revenue growth was impacted by a 10% YoY decline in the export sales and flat canteen sales department (CSD) sales. The domestic business' revenues grew by 15.5% YoY in Q2CY2012, driven by a mix of 7% volume growth and price-led growth of 8%. The gross margins improved by 360 basis points YoY to 63.0%. The improvement in the gross margins can be attributed to an improved revenue mix due to lower exports & CSD sales, softening in the prices of key inputs and the price increases undertaken in the portfolio. However a 247 basis points YoY increase in the other expenses resulted in a flat operating profit margin (OPM) to 15.2% in Q2CY2012. Hence the operating profit grew by 12.3% YoY (in line with the top line growth) to Rs110.7 crore. The business auxiliary income grew by 40% YoY to Rs28.7 crore and the other income grew by 84.0% YoY to Rs28.5 crore during the quarter. This led to a strong 29.3% YoY growth in

Results (Rs cr)

Particulars	Q2CY12	Q2CY11	YoY %	Q1CY12	QoQ %
Net sales	**729.7**	**653.4**	**11.7**	**813.0**	**-10.2**
Other operating income	28.7	20.5	40.1	23.4	22.7
Total operating income	758.4	673.9	12.5	836.4	-9.3
Total expenditure	619.1	554.8	11.6	651.4	-5.0
Operating profit	**110.7**	**98.5**	**12.3**	**161.7**	**-31.5**
Other income	28.5	15.5	84.3	24.5	16.6
EBIDTA	167.9	134.5	24.8	209.5	-19.9
Interest	0.8	0.9	-7.8	1.2	-29.7
PBDT	167.1	133.6	25.1	208.3	-19.8
Depreciation	8.6	11.3	-24.4	11.9	-28.3
PBT	158.5	122.3	29.6	196.4	-19.3
Tax	51.9	39.8	30.3	64.5	-19.4
Reported PAT	**106.6**	**82.5**	**29.3**	**132.0**	**-19.2**
Adjusted EPS (Rs.)	25	20	29.3	31	-19.2
GPM (%)	63.0	59.4	360bps	59.4	360bps
OPM% (excl. other operating inc.)	15.2	15.1		19.9	

the reported profit after tax (PAT) to Rs106.5 crore (ahead of our expectation of Rs96 crore) during the quarter.

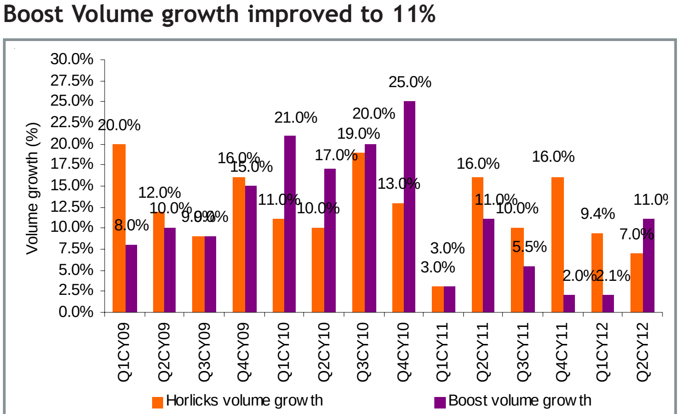
- **Outlook and valuation:** We have fine-tuned our earnings estimates for FY2013 and FY2014 to factor in for a lower than anticipated revenue growth, substantial improvement in the gross margin and higher than anticipated other income during the quarter. However any disruption in the volume growth momentum and any significant surge in the key input prices in the coming quarter would act as a key risk to our earnings estimates.

  We expect GSK Consumer's top line and bottom line to grow at a compound annual growth rate (CAGR) of 16.6% and 19.2% respectively over CY2011-13. We like GSK Consumer on the back of its leadership position in the malted food drinks (MFD) segment, strong pricing power and strong cash generation ability. Hence we maintain our Buy recommendation on the stock with a price target of Rs3,000. At the current market price the stock trades at 25.8x its CY2012E earnings per share (EPS) of Rs103.5 and 22.2x its CY2013E EPS of Rs120.1.

Business performance

MFD segment posts double-digit value growth: *Horlicks* and *Boost* clocked value growth of 14% YoY and 22% YoY respectively during the quarter. *Horlicks* brand's volume growth moderated from 9.4% YoY in Q1CY2012 to 7% YoY in Q2CY2012. On the other hand *Boost* has seen a significant improvement in the sales volume growth to 11% YoY in Q2CY2012 (from 2.1% YoY in Q1CY2012) largely on account of innovations and renovations done in the brand. *Horlicks* and *Boost* together have a volume market share of close to 64%. The sachets are driving the growth in the MFD segment (4.5% of the total revenues), growing by around 40% YoY. *Horlicks Gold* has performed in line with the company's expectations and currently contributes

Boost Volume growth improved to 11%

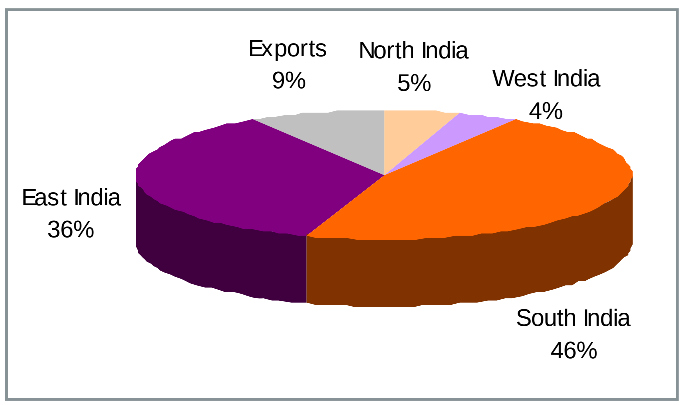


close to 2% of total revenues. In the current inflationary and uncertain macro environment, the company is confident of registering a volume growth of 7-8% in the domestic MFD segment in the coming quarters.

Performance of non-MFD segment: The biscuit segment maintained its strong growth momentum with an around 27% YoY revenue growth (to Rs36 crore) during the quarter. We believe the growth in the biscuit segment is largely driven by a double-digit volume growth. The recently launched *Horlicks Oats* has performed above the company's expectations and garnered a market share of 11.3% in south India. It currently ranks number 3 in south India. The company would continue to focus on its performance in south India, before launching it in other regions of the country.

Exports sales decline by 10% YoY: Exports, which contribute around 6% to GSK Consumer's total revenues, declined by 10% YoY on account of a high base of Q2CY2011. The export revenues grew by 58% in Q2CY2011. Bangladesh and Sri Lanka are key export markets for GSK Consumers. In Sri Lanka the category has de-grown by 10%, which is a matter of concern for GSK Consumer. However the company has taken initiatives to improve sales in Sri Lanka.

Region wise sales break up



Other highlights

- ***Key input prices remained flat sequentially:*** The malted barley and skimmed milk powder prices were up 8% YoY and 10% YoY respectively, while wheat flour prices remained flat on a Y-o-Y basis during the quarter. Overall the raw material cost inflation stood at 6.5% YoY in Q2CY2013. However the prices of key inputs including skimmed milk powder and barley remained flat on a sequential basis. The company expects the prices to remain stable for the next three to four months. The company implemented a second round of price increase of above 5% in July 2012 to mitigate the impact of increase in excise duty and service tax rate in the Union Budget 2012-13. We expect the gross margins to remain stable in the coming quarters unless there is a significant hike in the key input prices.

- ***Sustained strong growth in business auxiliary income:*** The business auxiliary income continued to grow strongly during the quarter with a 40.0% YoY rise to Rs28 crore. The same came on the back of a strong performance of the newly launched Sensodyne toothpaste, while the matured brands like Crocin and Iodex serviced income growth by 10% YoY.

- ***Capex of Rs120-130 crore for FY2013:*** The company is planning to incur a capital expenditure (capex) of Rs120-130 crore for CY2012 for the expansion of the capacity. The capex would be funded through internal accruals.

Outlook and valuation: We have fine-tuned our earnings estimates for FY2013 and FY2014 to factor in for a lower than anticipated revenue growth, substantial improvement in the gross margins and higher than anticipated other income during the quarter. However any disruption in the volume growth momentum and any significant surge in the key input prices in the coming quarter would act as a key risk to our earnings estimates.

We expect GSK Consumer's top line and bottom line to grow at a CAGR of 16.6% and 19.2% respectively over CY2011-13. We like GSK Consumer on the back of its leadership position in the MFD segment, strong pricing power and strong cash generation ability. Hence we maintain our Buy recommendation on the stock with a price target of Rs3,000. At the current market price the stock trades at 25.8x its CY2012E EPS of Rs103.5 and 22.2x its CY2013E EPS of Rs120.1.

Valuation

Particulars	CY10	CY11	CY12E	CY13E
Revenues (Rs cr)	2306.1	2685.5	3119.8	3651.4
Operating margins (%)	16.3	15.8	16.6	16.7
PAT (Rs cr)	299.8	355.2	435.4	505.1
EPS (Rs)	71.3	84.5	103.5	120.1
P/E (x)	37.4	31.6	25.8	22.2
EV/sales (x)	4.4	3.8	3.2	2.7
EV/EBIDTA (x)	20.7	17.2	13.9	11.6
RoNW (%)	32.2	33.8	34.6	33.5
RoCE (%)	48.7	51.7	52.8	51.1

Ipca Laboratories

Ugly Duckling

Stock Update

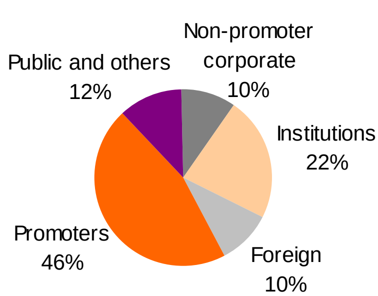
Strong operating performance; target price revised to Rs476

Buy; CMP: Rs409

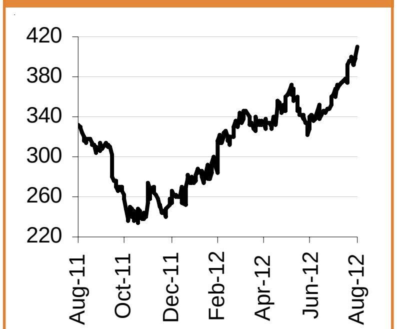
Company details

Price target:	Rs476
Market cap:	Rs5,046 cr
52 week high/low:	Rs410/230
NSE volume: (no. of shares)	1.5 lakh
BSE code:	524494
NSE code:	IPCALAB
Sharekhan code:	IPCALAB
Free float: (no. of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.1	11.2	35.1	23.4
Relative to Sensex	13.0	10.5	33.1	28.1

Result highlights

- **Strong operating performance:** Ipca Laboratories (Ipca)'s net sales jumped by 19.7% year on year (YoY) to Rs630.3 crore in Q1FY2013, mainly driven by the formulation business in the domestic market, which grew by 18.6% YoY to Rs224.2 crore and the active pharmaceutical ingredient (API) business which grew by 39% YoY to Rs181.6 crore. The operating profit margin (OPM) got expanded by 460 basis points YoY to 21.8%. However, the net profit after tax (PAT) declined by 30.4% YoY to Rs43 crore, mainly due to a provision for foreign exchange (forex) loss of Rs58.9 crore. Excluding the forex loss, the net profit would rise by an impressive 93% YoY to Rs101.8 crore.

- **87% of forex loss is unrealised and adjustable:** Out of Rs58.9 crore provided during the quarter Rs51.2 crore is unrealised and therefore subject to adjustments in subsequent quarters. Moreover, only Rs20.8 crore of the unrealised forex loss belongs to the trading account and the remaining relates to foreign loans, which are payable over a long period of time. However, it has realised a forex loss of Rs7.8 crore during the quarter.

- **We fine-tune estimates and revise target price to Rs476; maintain Buy:** We marginally fine tune our earnings estimate for FY2013 and FY2014 to reduce it by nearly 2% (mainly on account of higher fixed cost and higher than estimated capital expenditure [capex] guidance). We also roll-over our target multiples to FY2014E earnings, which results in the target price getting increased by 9% to Rs476 (implies 13x FY2014E earnings).

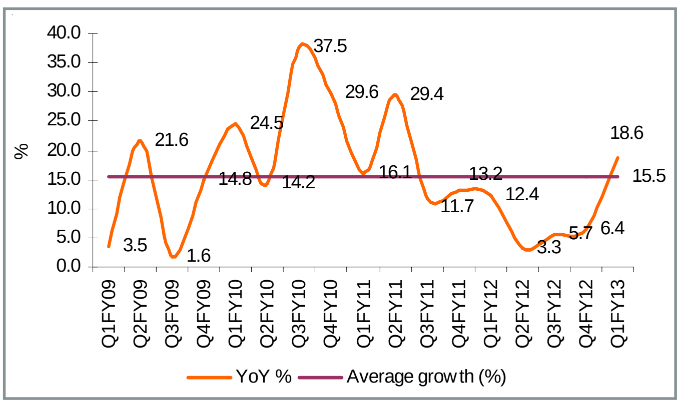
Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Net sales	630.3	526.4	19.7	553.1	13.9
Expenditure	492.6	435.6	13.1	443.7	11.0
Operating profit	137.6	90.8	51.6	109.4	25.8
Other income	7.1	6.2	14.6	11.7	-39.2
EBIDTA	144.8	97.0	49.3	121.1	19.5
Interest	9.5	7.4	28.3	11.1	-14.5
Depreciation	19.9	15.4	29.3	14.2	40.3
PBT	115.3	74.2	55.5	95.8	20.4
Tax	13.5	21.5	-37.3	18.6	-27.3
Adjusted PAT (ex-forex)	101.8	52.6	93.4	77.2	31.9
Forex loss/(gains)	58.9	-9.1	-746.7	-5.1	-1244.9
Net profit (reported)	43.0	61.7	-30.4	82.4	-47.8
EPS (Rs)	8.1	4.2	92.8	6.1	31.9
OPM (%)	21.8	17.2	460bps	19.8	205.8bps
EBIDTA margin (%)	23.0	18.4	455bps	21.9	107.1bps
Net profit margin (%)	16.2	10.0	616bps	14.0	219.4bps
Tax rate (%)	23.9	29.0	-512bps	19.4	451.8bps

Impressive pick up in domestic formulation market

The revenue from the domestic market witnessed a strong rise of 18.6% YoY to Rs224.2 crore. The growth in the domestic market has been better than that in the six sequential previous quarters when the company witnessed the impact of sales force restructuring and addition of new field force. The growth during the quarter surpasses the three years’ historical average of 15.5% and it is also better than industry average of 15-16%. The growth has been supported by across therapies with the respiratory and anti-infectives segments contributing better than others. We believe the trend would continue and the company may achieve an 18% growth in revenue from the domestic market during FY2013.

Growth in domestic formulations business



Revenue break-up

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
India	263.5	229.7	14.7	181.9	44.9
Formulations	224.2	189.0	18.6	147.6	51.9
API	39.3	40.7	-3.3	34.3	14.7
International	366.7	296.7	23.6	371.1	-1.2
Formulations	224.5	206.6	8.7	239.2	-6.1
Tender business	60.0	53.3	12.5	63.0	-4.8
Other generic business	164.5	153.3	7.3	176.2	-6.6
API	142.2	90.1	57.8	131.9	7.8
Total sales	**630.3**	**526.4**	**19.7**	**553.0**	**14.0**
Total API	181.6	130.8	38.8	166.2	9.2
Total Formulation	448.7	395.6	13.4	386.8	16.0

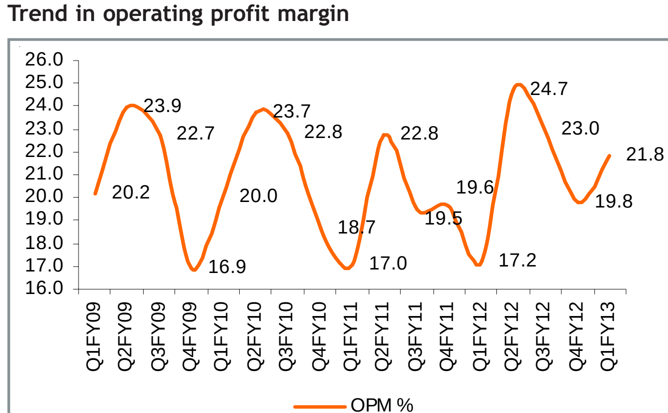
Implementation of ‘track and trace’ system temporarily hurts export of formulations; we expect a rebound in H2FY2013

The revenue from export of formulations during the quarter witnessed a modest growth of 7.3% YoY to Rs164.5 crore despite a favorable currency. A slower growth during the quarter was primarily due to the implementation of the ‘track and trace’ system mandated by the government of India. The government has announced that all pharmaceutical export shipments must have the ‘track and trace’ feature to avoid any spurious Indian pharmaceutical products getting pushed into the market. This switch-over process, which requires all inventories to be recorded in a specially made software, resulted in temporary disruptions in supplies to export markets, especially to Europe and the CIS region (Commonwealth of Independent States region). However, with this being a temporary phenomenon, we expect the exports growth to bounce back in H2FY2013. We expect the formulation exports business to record a near 29% rise in FY2013 and 16% rise in FY2014.

API business jumps on consolidation of Tonira and off-take in international markets: During Q1FY2013 the revenue from the active pharmaceutical ingredient (API) business jumped by 38.8% to Rs181.6 crore, mainly driven by exports which jumped by 57.8% YoY to Rs142.2 crore. The exports of API comprise of Rs14 crore of sale from the newly merged Tonira Pharma (Tonira). Tonira exports APIs mainly to Japan and it is expected to contribute near to Rs50 crore to the company’s revenues in FY2013. Excluding Tonira Pharma, the revenue from API exports jumped by 42.3% YoY, which is yet impressive. However, the revenue from domestic sales of APIs declined by 3.3% YoY to Rs39.3 crore. We expect API exports to record a 6.6% rise in revenues in FY2013 and 11.4% rise in FY2014.

Healthy rise in margin; reversal of trend: A better product mix helped the company to record a healthy rise in the operating margin by 460 basis points YoY to 21.8%. This is a reversal of trend as Q1 records generally lower margin due to seasonality involved in some products. Even on a quarter on quarter (QoQ) basis, the margin expanded by 206 basis points. A strong revenue from the domestic market, backward integration and synergies from Tonira are some of the factors which contributed towards the expansion in margins. We expect this level of margin to sustain even in the subsequent quarters. We forecast an operating margin of 21.5% and 22.5% for FY2013 and FY2014 respectively.

Trend in operating profit margin



Cost analysis

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Adjusted RM cost	245.8	210.4	16.8	219.3	12.1
% of sales	*39.0*	*40.0*		*39.6*	
Employee expenses	91.6	83.6	9.6	79.7	15.0
% of sales	*14.5*	*15.9*		*14.4*	
Other expenses	155.2	141.7	9.6	144.7	7.3
% of sales	*24.6*	*26.9*		*26.2*	

MTM forex loss impacts bottom-line; expect subsequent reversals: During Q1FY2013, the company provided for a forex loss of Rs58.85 crore against a forex gain of Rs9.10 crore in Q1FY2012. The forex loss for the quarter substantially represents an unrealised forex loss on translation of forward contract based derivatives and long term liabilities (foreign loans). The translation provision is subject to further adjustments and we expect a part of it to be reversed in the subsequent quarters, assuming the rupee (INR) does not see any sharp movement against major currencies in the subsequent quarter.

Break-up of forex loss

Particulars	On trading	On loans	Total	% of net forex loss
Unrealised	20.8	30.4	51.2	87
Realised	3.0	4.8	7.8	13
Total	23.8	35.2	59.0	
% of net forex loss	40	60		

The company follows a policy of covering net exports exposure six months forward and the current provision of forex loss (unrealised) is based on committed exports. The company has $10 million of loans payable during the year out of the $60 million of foreign loans (external commercial borrowing) outstanding currently.

Adjusted PAT jumps by 93.4% YoY: Due to the forex loss provision, the PAT declined by 30% YoY to Rs43 crore. However, excluding the forex losses, the net profit would have jumped by 93.4% YoY to Rs101.8 crore.

Rs280 capex plans for FY2013; debt-equity unlikely to ease: The company is expected to spend Rs280 crore during FY2013 towards setting up a research and development (R&D) facility (Rs50 crore) and two API plants for production of Losartan and malarial drug - Artemisinin. This is expected to result in an increase in the debt level by nearly 27% in FY2013. However, the debt-equity will remain at the current level of 0.4x.

We revise target price up by 9% to Rs476: We marginally fine tune our earnings estimate for FY2013 and FY2014, reducing it by nearly 2% (mainly on account of higher fixed cost; higher than estimated capex guidance). We also roll-over our target multiples to FY2014E earnings, which results in the target price getting revised upward by 9% to Rs476 (implies 13x FY2014E earnings). The stock is currently trading at 11x FY2014E earnings.

Valuation

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net sales (Rs cr)	1566.6	1898.9	2314.0	2758.2	3172.0
PAT (Rs cr)	199.1	219.4	316.9	366.6	458.3
Shares in issue (cr)	12.5	12.6	12.6	12.6	12.6
EPS (Rs)	15.9	17.5	25.3	29.3	36.6
YoY change (%)	*12.3*	*9.8*	*45.0*	*15.7*	*25.0*
Consolidated EPS (Rs)	15.9	0.0	25.1	0.0	0.0
PER (x)	25.7	23.4	16.2	14.0	11.2
Cash EPS (Rs)	19.5	21.9	27.2	36.5	44.1
Cash PER (x)	21.0	18.7	15.0	11.2	9.3
EV/EBIDTA (x)	16.8	15.1	12.1	9.8	7.8
Book value (Rs/share)	69.1	83.7	99.4	131.9	163.8
P/BV (x)	5.9	4.9	4.1	3.1	2.5
Mcap/sales	3.3	2.7	2.2	1.9	1.6
RoCE (%)	22.4	21.5	22.9	24.5	25.1
RoNW (%)	26.4	22.8	24.0	25.1	24.5

Greaves Cotton

Emerging Star

Stock Update

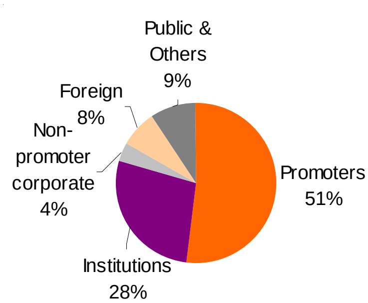
Price target revised to Rs76

Hold; CMP: Rs65

Company details

Price target:	Rs76
Market cap:	Rs1,587 cr
52 week high/low:	Rs100/60
NSE volume: (no. of shares)	1.7 lakh
BSE code:	501455
NSE code:	GREAVESCOT
Sharekhan code:	GREAVESCOT
Free float: (no. of shares)	11.8 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-7.9	-20.7	-24.1	-27.5
Relative to Sensex	-7.1	-21.2	-25.2	-24.7

Result highlights

Greaves cotton Q1FY2013 PAT in-line but margins disappoint

- While revenues came in-line; operating margins were 70 basis points lower than our estimates on account of an increase in material and staff costs.
- Raw Material (RM)/sales at 69.7% came 70 basis points higher than our estimates and staff cost/sales at 8.9% came 90 basis points higher than our estimates.
- However, other expenses/sales came 70 basis points lower than our estimates at 9.3%. The Q1FY2013 operating margins came at 12.1%, ie 90 basis points lower than our expectations.
- The other income came higher than expected due to better treasury income and interest income on income tax refunds. This restricted the decline in profit after tax (PAT) to 7% YoY in Q1FY2013 (about 2.2% lower than our estimates).

Valuation

In our Q4FY2012 note, we downgraded FY2013 revenue growth expectations to just 5% on account of a sharp deterioration in the three-wheeler business. After considering the margin outlook as well as in-line Q1FY2013 results, we maintain our earnings per share (EPS) estimates for FY2013 and FY2014 to Rs5.9 and Rs6.9 respectively. The company would require additional investments in product development, research and development (R&D) and engineering to support the next leg of growth. While our earnings estimates remain unchanged, there is a risk of the core three-wheeler engine business deteriorating faster than expected due to an ageing product profile. Considering this, we assign a 10% discount to our target multiple on the company to 11x one-year forward earnings. We maintain our Hold recommendation on the stock with a revised price target of Rs76 per share.

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Total income	**411.6**	**402.5**	**2.3**	**445.4**	**-7.6**
Total expenditure	361.9	346.0	4.6	385.8	-6.2
Operating profits	49.7	56.6	-12.1	59.7	-16.7
Other income	2.9	1.1	172.2	3.4	-14.3
Interest	0.3	1.1	-71.8	1.4	-77.2
Depreciation	8.9	7.3	22.6	8.8	1.5
PBT	43.4	49.3	-11.9	53.0	-18.0
Tax	11.9	15.3	-22.5	18.5	-35.9
Adjusted PAT	**31.6**	**34.0**	**-7.1**	**35.1**	**-10.2**
Recurring EPS	1.3	1.4		1.4	
Reported PAT	**31.6**	**34.0**	**-7.1**	**77.7**	**-59.4**
OPM (%)	12.1	14.0		13.4	
Tax Rate	27.3	31.1		35.0	

Segmental comparison of business segments (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Engine division					
Revenues	362.3	337.9	7.2	394.7	-8.2
PBIT	58.4	58.1	0.4	73.3	-20.4
PBIT margins (%)	16.1	17.2	-110bps	18.6	-250bps
Construction equipment					
Revenues	35.5	48.6	-27.0	38.3	-7.3%
PBIT	-1.6	0.1	NA	-4.2	NA
PBIT margins (%)	-4.6	0.2	-480bps	-10.9	630bps
Others					
Revenues	14.1	16.0	-11.9	12.6	11.8
PBIT	1.1	2.8	-62.2	-0.2	NA
PBIT margins (%)	7.6	17.7	-1010bps	-1.3	890bps

Engine business: The revenues in Q1FY2013 grew by 7.2% YoY in spite of flat three-wheeler demand. The slower growth in three-wheelers was offset by supplies to Tata Magic Iris and Ace Zip. For the quarter, the revenue contribution from spare parts (reported under engine sales) increased to 24% against 21% a year ago, reflecting a strong growth. In Q1FY2013, the company sold 90,000 automotive engines, 28,000 agri engines and around 2,000 gensets.

Infrastructure equipment business: The revenues in Q1FY2013 declined sharply by 27% YoY due to sluggish demand. The possibility of a turnaround looks bleak in the near term.

Key take-aways from the conference call

Stagnation witnessed for three-wheeler engines but...

The engine volumes in Q1FY2013 remained flat Y-o-Y for both, automotive and agri segments, but the segment grew in value terms by 7% YoY. The demand for three-wheelers declined sharply, thereby impacting the offtake of three-wheeler engines. But the same got offset by four-wheeler engines. Industrial engines grew by 10% YoY while genset engines grew in single digits during Q1FY2013.

...revenue diversification in four-wheelers and non-auto application supported growth

Tata Motors' engine offtake is consolidating around 4,000-5,000 units/per month (13-14,000 engines dispatched in Q1FY2013). The company is a 100% supplier to the Magic Iris and Ace Zip vehicles of Tata Motors. Further a ramp up from Tata Motors is expected from Q3FY2013.

Non-auto applications from tractors, pumps sets, marine engines and spare parts sales offset the decline in the three-wheeler engine market. The contribution by spares, reported under the automotive engine segment has improved to 24% in Q1FY2013 against 21% a year ago.

Industrial engines are a relatively new opportunity for the company where it is currently utilising engines as captive for construction equipment segment (for transit mixers). Several third party customers are taking trials and some breakthrough is expected in the medium term.

Focus is also being laid on large agri equipments such as harvesters, reapers and on other equipment related to fire fighting, marine, drilling etc. The farm equipment demand is expected to remain flat due to the deficit monsoon which is likely to impact cultivation. Diesel pump sets, electrical pump sets and the tiller market are other niche markets.

In the infrastructure segment, the road sector has shown signs of improvement while the concrete segment significantly moderated. The break-even in the infrastructure segment is uncertain in the near term.

Q1FY2013 seen as worst for operating margins; expect improvement in H2FY2013

The management expects margins to benefit from the operating leverage in H2FY2013 when volumes revive. The Q1FY2013 operating margins at 12.1% are seen as worst for the year. Also, several one-off activities in the past few quarters that elevated other expenses are expected to moderate going forward. The company had a large spend in Q4FY2012 on brand transformation.

The engine business' earnings before interest and tax (EBIT) margins were the lowest in the last few quarters. Margins may improve from Q3FY2013 on a better mix as well as demand revival in key segments.

Attracting talent to prepare organisation for next level of growth

The company indicated towards higher employee expenses for FY2013 due to planned investments in R&D, marketing and engineering as the management prepares the organisation for the next level of growth. The ball park figure for employee expenses per quarter is in the range of Rs35-36 crore.

New avenues of growth: In talks with Piaggio for small LCV but nothing concluded

The company is in discussions with Piaggio for engine supply for a sub-1 tonne light commercial vehicle (LCV). However nothing concrete has been concluded. The company recently concluded a seven year engine supply agreement with Atul Auto for 100% engine supplies to three-wheeled vehicles.

Capex plan lowered as macro environment turns tough

The farm equipment engine capacity is 160,000 engines vs 110,000 in FY2012 and the current utilisation is around 70%.

Automotive engines' capacity is being enhanced in Ranipet, Tamil Nadu, taking the total capacity to 5,25,000 units. However, the Ranipet investments have now been restricted to assembling while capacity build up on machining has been deferred due to a difficult macro economic environment. The Ranipet capex has been curtailed to Rs30 crore from Rs50 crore.

Overall the capex has been restricted from Rs150 crore earlier to Rs90 crore in FY2013 with an option to review in H2FY2013 based on demand pick up.

Valuation

In our Q4FY2012 note, we downgraded FY2013 revenue growth expectations to just 5% on account of a sharp deterioration in the three-wheeler business. After considering the margin outlook as well as in-line Q1FY2013 results, we maintain our EPS estimates for FY2013 and FY2014 to Rs5.9 and Rs6.9 respectively. The company would require additional investments in product development, R&D and engineering to support the next leg of growth. While our earnings estimates remain unchanged, there is a risk of the core three-wheeler engine business deteriorating faster than expected due to an ageing product profile. Considering this, we assign a 10% discount to our target multiple on the company to 11x one-year forward earnings. We maintain our Hold recommendation on the stock with a revised price target of Rs76 per share.

Valuation

Particulars	FY10	FY11*	FY12	FY13E	FY14E
Net sales (Rs cr)	1345.8	1667.3	1751.9	1844.5	2065.8
Growth (%)	*29.3*	*23.9*	*5.1*	*5.3*	*12.0*
EBIDTA (Rs cr)	206.5	263.7	236.5	251.6	283.0
OPM (%)	15.3	15.8	13.5	13.6	13.7
PAT (Rs cr)	118.1	169.7	184.5	144.4	167.6
Growth (%)	*111.0*	*43.8*	*8.7*	*-21.7*	*16.1*
FD EPS (Rs)	4.8	7.0	5.8	5.9	6.9
PE (x)	13.4	9.3	11.2	11.0	9.5
P/B (x)	4.1	3.5	2.8	2.5	2.1
EV/EBIDTA (x)	7.9	6.2	7.0	6.7	5.8
RoCE (%)	41.2	47.9	31.3	28.4	29.2
RoE (%)	26.4	32.3	21.9	19.6	19.8

* Annualised

Jaiprakash Associates

Ugly Duckling

Stock Update

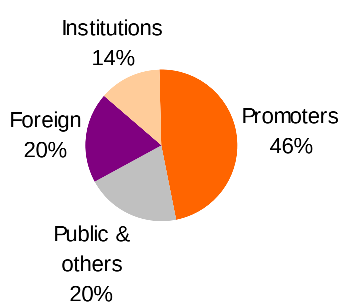
Earnings in line with estimates

Buy; CMP: Rs76

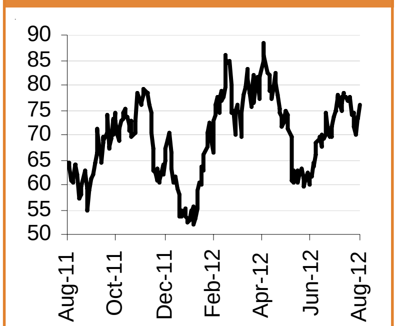
Company details

Price target:	Rs105
Market cap:	Rs16,126 cr
52 week high/low:	Rs88/50
NSE volume: (no. of shares)	1.9 lakh
BSE code:	532532
NSE code:	JPASSOCIAT
Sharekhan code:	JPASSOCIAT
Free float: (no. of shares)	113.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	-1.8	5.1	10.8
Relative to Sensex	0.7	-2.4	3.6	15.1

Result highlights

- **Q1FY2013 earnings in line with estimate:** In Q1FY2013 JP Associates Ltd (JAL) posted a net profit of Rs139 crore (a decline of 24.7% year on year [YoY]). The same is in line with our estimate. However, the revenues came short of our estimate on account of lower than expected revenues from its construction division. The earnings of Q1FY2013 are comparable on a year-on-year (Y-o-Y) basis because the company has reworked the earnings of Q1FY2012 for a like-to-like comparison in view of the partial demerger of its cement division.

- **Cement division supports revenue growth; construction and real estate divisions offset the benefit:** The revenues from the cement division, which accounts for around 50% of the overall revenue, grew by an impressive 21.8% YoY supported by a growth in the volume as well as realisation. However, on account of a decline in the revenues from the construction and real estate divisions (down 4.6% and 52.4% YoY respectively), the overall revenues of the company could grow by just 3.1% YoY to Rs3,008 crore.

- **OPM expanded YoY as well as sequentially:** On the margin front, the operating profit margin (OPM) for the quarter stood at 26% as compared with 25.7% in the corresponding quarter of the previous year on account of an increase in the profitability of its construction division (EBIT margin of 29.6% as against 19.6% in Q1FY2012). The sharp increase in the EBIT margin of the construction division was driven by the claim received by the company on one of its hydro power projects executed in Jammu & Kashmir. On the other hand, the profitability of its other key divisions, namely cement and real estate, contracted by 170 basis points and 13 percentage points YoY respectively.

Results (stand-alone) (Rs cr)

Particulars	Q1FY13	Q1FY12*	YoY %	QoQ %
Net sales	**2964**	**2902**	**2.1**	**-26.4**
Other operating income	45	17	169.1	24.5
Total revenues	**3008**	**2919**	**3.1**	**-25.9**
Total expenditure	2192	2156	1.7	-27.9
Operating profit	**771**	**747**	**3.3**	**-21.6**
Other income	29	21	38.6	-10.1
EBIDTA	844	784	7.7	-19.7
Interest	465	384	21.3	-19.8
PBDT	379	400	-5.2	-19.5
Depreciation	176	141	24.8	7.7
PBT	204	259	-21.3	-33.7
Tax	65	75	-13.0	127.5
RPAT	139	184	-24.7	-50.2
Margins (%)				
OPM	26.0	25.7		
NPM	4.7	6.4		
Tax rate	31.8	28.8		

*Financials for Q1FY2012 restated factoring in the partial demerger of the cement division

- **Surge in the interest outgo and depreciation charge dent earnings:** During the quarter the interest outgo increased by 21.3% YoY to Rs465 crore and the depreciation charge increased by 24.8% YoY to Rs176 crore. Hence, at the net profit level the company posted a decline of 24.7% YoY to Rs139 crore (as compared with a 3.3% growth at the operating level).
- **Maintain Buy with price target of Rs105:** We continue to like JAL due to its diversified business model and aggressive expansion plan. However, huge cost pressure in the cement division and fluctuating profitability in the construction division will be the key risks. In terms of valuation, we continue to value the stock using the sum-of-the parts (SOTP) valuation method and arrive at a value of Rs105 per share. We maintain our Buy recommendation on the stock with a price target of Rs105. At the current market price, the stock is trading at a price/earnings (PE) ratio of 15.5x FY2013 and 13.7x FY2014 stand-alone earnings estimates (earnings not adjusted for the partial demerger of the cement division).

Segmental performance

Cement and cement product division

The revenues from the cement & cement product division were higher by 21.8% YoY at Rs1,687 crore, which is in line with our estimate. The cement revenues were equally supported by volume and realisation growth. The volume growth was supported by the stabilisation of the new capacity and penetration in the other regions whereas the Y-o-Y 10.4% growth in the realisation to Rs4,350 per tonne was on account of the price hikes implemented by the company in April and mid June 2012. We believe the average cement realisation for FY2013 will be higher compared with the average realisation of FY2012.

However, on the EBIT margin front, the division witnessed margin pressure—the EBIT margin for the quarter contracted to 14.5% from 16.2% in the corresponding quarter of the previous year due to an increase in the cost pressure in terms of the power & fuel cost and the freight cost. Further, the EBIT margin of 14.5% is lower than our estimate. Consequently, the EBIT from the division stood at Rs227 crore. As per the management, the EBITDA per tonne of cement during the quarter stood at Rs960 as compared with Rs940 in the corresponding quarter of the previous year.

Given the early capacity addition and the aggressive marketing to grab market share from its peers, we believe the volume growth of the company will be higher in FY2013 compared with the average volume growth expected at an all-India level (8.0-8.5% in FY2013).

Construction division

The performance of the construction division exceeds the street's estimates primarily on the margin front. The revenue from the division even though declined by 4.6% YoY to Rs1,216 crore (below our estimates) on account of commissioning of a couple of its large projects and poor execution rate in the ongoing projects. In terms of positive surprises, the EBIT margin of the division has improved significantly to 29.6% in Q1FY2013 as compared to 19.6% in Q1FY2012. Consequently the EBIT of the division has surged by 44% YoY to Rs360 crore (ahead of our estimates). However, the margin expansion is primarily driven by claim received by the company in executing one of its hydro power projects in Jammu & Kashmir.

Going ahead we believe the division has huge opportunity from the in house power projects.

Real estate division

During the quarter the real estate division of the company has posted a de-growth in its revenues by 52.4% YoY to Rs165 crore which is much below our estimates. On the margin front the EBIT margin of the division contracted sharply by close to 13 percentage points YoY to 40.4%. The contraction in the EBIT margin on a Y-o-Y basis is primarily on account of change in the projects mix and increase in the price of input. Consequently, the EBIT of the division has decreased by 64% YoY to Rs67 crore which is much below our estimates.

Segment results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	QoQ %
Revenue				
Cement & cement product	1,563	1,283	21.8	-7.3
Construction	1,216	1,275	-4.6	-31.3
Hydro Electric & Wind Power	10	12	-16.2	133.1
Hotel/Hospitality & golf course	49	42	15.6	-12.1
Investments	20	5	269.7	3.6
Real estate	165	347	-52.4	-70.6
Un-allocated	22	18	28.3	48.2
Total	**3,045**	**2,982**	**2.1**	**-25.9**
Intersegment revenue	10	43	-77.0	-46.5
Total sales/Income from operations	**3,036**	**2,939**	**3.3**	**-25.8**
Segment result				
Cement & cement Product	227	208	9.1	6.7
Construction	360	250	44.0	-14.9
Hydro Electric & wind power	5	7	-29.1	-741.0
Hotel/Hospitality & Golf Course	1	(2)	-159.5	-66.7
Investments	20	5	269.7	3.6
Real estate	67	185	-64.0	-72.8
Others		(1)	-100.0	-100.0
Total	**680**	**653**	**4.1**	**-24.6**
EBIT margins (%)				
Cement & cement product	14.5	16.2		
Construction	29.6	19.6		
Hydro electric & wind power	50.0	59.0		
Hotel/Hospitality & golf course	2.0	-4.0		
Real estate	40.4	53.4		

Penalty by High court of Himachal Pradesh and CCI

During the quarter the High court of Himachal Pradesh imposed a penalty of Rs100 crore on the company (Jaiprakash Associates) for alleged compliance related issue under Environmental Law in respect of its grinding and blending units at Bagheri. Further the Competition Commission of India (CCI) has also imposed a penalty of Rs1,323 crore on the company for involvement in the formation of a cartel and managing cement prices at higher levels. However, as per the legal advice the company believes it has strong reason for successful appeal in both the cases and hence no provision has been made against this penalty during the quarter.

Received approval for demerger of its cement plant in Gujarat & Andhra Pradesh

The company has received an approval from the High court of Allahabad for demerger of its cement plants located in Gujarat and Andhra Pradesh and transfer the same into Jaypee Cement Corporation which is a 100% subsidiary of JP Associates. Jaypee Cement Corporation is implementing the set up of a 3 MTPA cement plant in Karnataka. Hence the new entity Jaypee Cement Corporation will have a combined cement capacity of around 12 MTPA by the end of FY2013. Going ahead the company is looking to sell stake in Jaypee Cement Corporation by introducing a strategic investor and reducing the debt in the parent's balance sheet.

Outlook & valuation

We continue to like JAL due to its diversified business model and aggressive expansion plan. However, huge cost pressure in the cement division and fluctuating profitability in the construction division will be the key risks. In terms of valuation, we continue to value the stock using the SOTP valuation method and arrive at a value of Rs105 per share. We maintain our Buy recommendation on the stock with a price target of Rs105. At the current market price, the stock is trading at a price/earnings (PE) ratio of 15.5x FY2013 and 13.7x FY2014 stand-alone earnings estimates (earnings not adjusted for partial de-merger of cement division).

Valuation (standalone)

Particulars	FY10	FY11	FY12	FY13E*	FY14E*
Rep. net profit (Rs cr)	1708	1166	1027	1040	1177
Adj. net profit (Rs cr)	706	653	1020	1040	1177
Shares in issue (cr)	212.8	212.8	212.8	212.8	212.8
EPS (Rs)	3.3	3.1	4.8	4.9	5.5
PER (x)	22.9	24.7	15.8	15.5	13.7
RoCE (%)	10.3	9.6	9.6	11.3	12.2
RoNW (%)	8.3	8.3	8.3	10.0	10.4

*Earnings not adjusted for partial de-merger of cement division

SOTP valuation

Business	Valuation	Comment
Cement	8129	5x FY2013 EV/EBITDA
E&C	6307	5x FY 2013 EV/EBIDTA
Value of Jaypee Greens	526	at 1x NAV
Value of Taj expressway	13194	at 1x NAV
Power Projects	9276.2	
Jaypee Hotel	328	7x FY 2013 EV/EBIDTA
Treasury stock	1317	
Total Enterprise value	39078	
Less:		
Net Debt	-16703	FY2012 net debt
Target M-Cap	22375	
Fair value (Rs/share)	**105**	

IDBI Bank

Cannonball

Stock Update

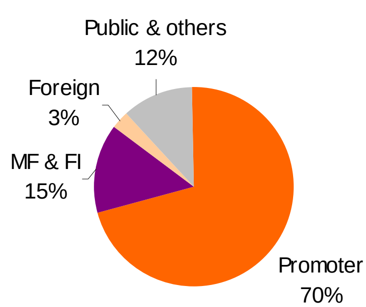
Price target revised to Rs120

Hold; CMP: Rs87

Company details

Price target:	Rs120
Market cap:	Rs11,070 cr
52 week high/low:	Rs128/77
NSE volume: (no. of shares)	23.7 lakh
BSE code:	500116
NSE code:	IDBI
Sharekhan code:	IDBI
Free float: (no. of shares)	37.6 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-5.8	-13.3	-11.6	-28.1
Relative to Sensex	-5.0	-13.9	-12.8	-25.3

Result highlights

- IDBI Bank's Q1FY2013 results were below our expectations as the net profits grew by 27.5% year on year (YoY) to Rs427 crore. The subdued growth in the net interest income (NII; 10.3% YoY) coupled with an increase in provisions (up 19% YoY) contributed to a lower than estimated growth in earnings.
- The NII growth of 10.3% YoY (4.9% QoQ) was slightly short of our estimates as there was reversal of Rs60 crore of interest income from the slippages. While margins remained stable (2.09% vs 2.07% in Q4FY2012) the advances declined 7.4% quarter on quarter (QoQ) leading to a slower growth in the NII.
- The current account savings account (CASA) ratio declined to 18.1% (24.1% in Q4FY2012) largely due to a decline in the current account deposits. Overall, the deposits grew by 8.8% YoY.
- Due to higher slippages (Rs1,043 crore) and sluggish recoveries, the asset quality deteriorated sharply during the quarter. The slippages were mainly from the corporate, small and medium enterprise (SME) and agri segments. The bank also restructured Rs902 crore worth of advances, thereby taking the total restructured book to 6.5% of total advances.
- The non-interest income grew by 20% YoY (-33.5% QoQ) led by a 37% YoY growth (36% QoQ decline) in the commission income. The cost to income ratio declined to 36.8% from 39.9% in Q4FY2012 (34.9% in Q1FY2012).

Outlook and valuation

A relatively weaker deposit base, rising non-performing assets (NPAs) and a lower tier I capital adequacy ratio (CAR; 8.24%) are likely to constrain the business growth

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Interest earned	6,269.8	5,628.9	11.4	6,079.5	3.1
Interest expense	4,999.2	4,476.5	11.7	4,868.6	2.7
Net interest income	1,270.6	1,152.4	10.3	1,210.9	4.9
Other income	517.0	430.9	20.0	777.0	-33.5
Net operating income	1,787.6	1,583.3	12.9	1,987.9	-10.1
Operating expenses	658.6	552.5	19.2	793.3	-17.0
- Employee cost	316.3	244.0	29.6	383.2	-17.5
- Other costs	342.3	308.5	10.9	410.1	-16.5
Operating profit	1,129.1	1,030.8	9.5	1,194.6	-5.5
Prov for contingencies	506.8	425.7	19.1	273.8	85.1
PBT	622.2	605.1	2.8	920.8	-32.4
Tax	194.9	270.0	-27.8	150.0	29.9
PAT	427.3	335.1	27.5	770.8	-44.6
Gross NPA (%)	3.24	2.10		2.49	
Net NPA (%)	2.07	1.25		1.61	

going ahead. We have revised our estimates downwards for FY2013 and FY2014 by around 7% and now expect the bank's earnings to grow at a compounded annual growth rate (CAGR) of 7.5% over FY2012-14. The return ratios (return on equity [RoE] of 11% and return on assets [RoA] of 0.7%) remain lower than that of peer banks and hence are likely to impact valuations. We revise our sum of the parts (SOTP) based target price to Rs120 (valued for the standalone bank at Rs105). Going ahead the asset quality remains a key concern which could keep valuations depressed. We maintain our Hold rating on the stock.

NII growth remains subdued

IDBI Bank's NII growth has remained subdued over the past four quarters due to a slower business growth. Apart from that there was interest reversal of Rs60 crore (due to slippages) which impacted growth in NII. While the margins remained stable (2.09% vs 2.07%), the bank's strategy of moderate growth in advances has impacted NII growth. The cost of funds increased marginally on QoQ basis (8.43% vs 8.38%) due to the cash reserve ratio (CRR) cut. The yield on advances and investments was slightly lower on a sequential basis. We have built in a NII growth of 15.7% CAGR over FY2012-14.

Advances decline 7.4% QoQ, retail mix improves

During Q1FY2013, the advances declined by 7.4% QoQ (growth of 8.3% YoY). The corporate, SME and agriculture advances recorded a sequential decline of 8.5%, 40.6% and 16% respectively. However the retail advances increased by 11.2% QoQ and 13.7% YoY. Consequently, the proportion of retail advances increased to 16.8% from 20.2% in Q1FY2012. Going ahead the bank will focus more on the priority sector advances to achieve priority sector targets.

Business growth

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Advances	167,779	154,984	8.3	181,158	-7.4
Deposits	191,747	176,282	8.8	210,492	-8.9
CD Ratio	87.5	87.9		86.1	

CASA ratio retracts to 18.1%

The CASA ratio deteriorated to 18.1% during the quarter mainly due to an outflow of current account deposits (-46% QoQ). While the overall deposits declined by 9% QoQ, the savings deposits declined by 7.4% QoQ. We have therefore reduced our CASA ratio assumptions to 20%.

Steady growth in non-interest income

The non-interest income grew by 20% YoY (-33.5% QoQ) led by a 37% YoY growth in commission income and 10% YoY growth in foreign exchange (forex) income. The treasury income declined to Rs16 crore from Rs58 crore in Q1FY2012 (Rs27 crore in Q4FY2102). The cost to income ratio remained healthy at 36.8% compared to 39.9% in Q4FY2012.

Non-interest income

Particulars	Q1 FY13	Q1 FY12	YoY %	Q4 FY12	QoQ %
Fee income	368	268	37.3	577	-36.2
Trading and forex income	45	41	9.8	70	-35.7
Treasury profit	16	58	-72.4	27	-40.7
Misc. income	88	63	39.7	103	-14.6
Total	**517**	**431**	**20.0**	**777**	**-33.5**

Higher slippages deteriorate asset quality

The asset quality deteriorated sharply as the gross and net NPAs increased to 3.24% and 2.07% respectively from 2.49% and 1.61% in Q4FY2012. The bank has reported slippages of Rs1,043 crore (annualized 2.3%) whereas the recoveries/up-gradations were merely Rs93 crore for the quarter. The slippages came in mainly from the corporate (Rs414 crore), SME (Rs297 crore) and agri (Rs149 crore) segments. The agri NPA increased to 3.68% from 2.19% in Q4FY2012 whereas the corporate NPAs increased to 2.1% from 1.56% in Q4FY2012. The bank also restructured advances of Rs902 crore in Q1FY2013 mainly from the telecom and infrastructure segments (restructured book at 6.5% of total advances).

Provision expenses add pressure on earnings

The provision expenses grew by 19.1% YoY (85.1% QoQ) leading to a pressure on the earnings of the bank. The NPA provision expenses increased to Rs377 crore from Rs58 crore in Q4FY2012 whereas the provision for restructured advances were at Rs89 crore as against Rs104 crore. The provision coverage ratio (PCR) of the bank also declined to 65.5% from 68.3% in Q4FY2012. Given the possibility of increased restructuring and slippages from CDR cases we have raised our credit cost estimates to factor in the deterioration in asset quality.

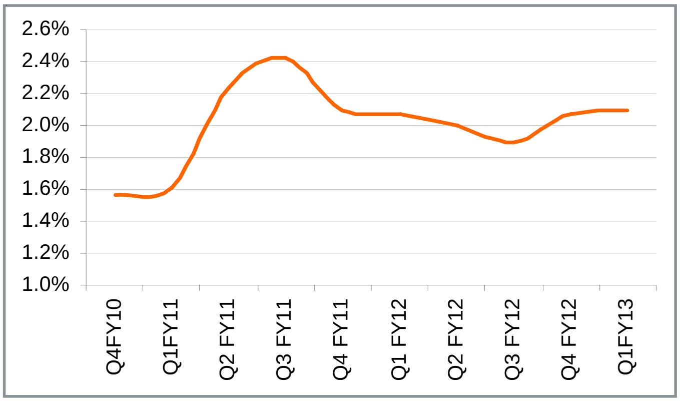
Provision expenses

Particulars	Q1 FY13	Q1 FY12	YoY %	Q4 FY12	QoQ %
For NPAs	377	360	4.7	162	132.7
Others	129	65	98.5	112	15.2
Total	**506**	**425**	**19.1**	**274**	**85.1**

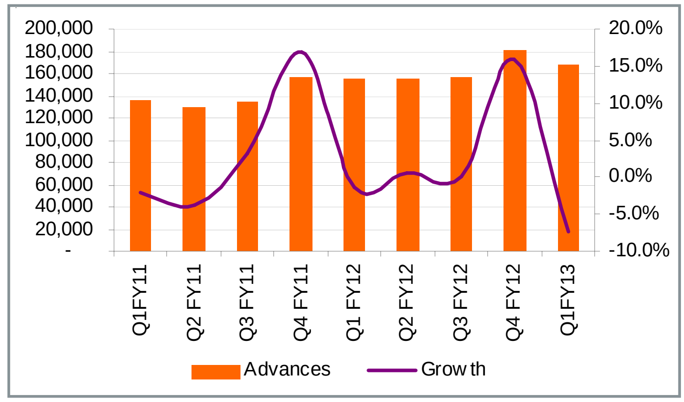
Valuations and outlook

The bank continued to see its advances grow at a lower rate than the industry rate which impacted the growth in NII. A relatively weaker deposit base, rising NPAs and lower Tier I CAR are likely to constrain the business growth going ahead. We have revised our estimates downwards for FY2013 and FY2014 by around 7% and now expect earnings to grow at a CAGR of 7.5% over FY2012-14. The return ratios (RoE of 11% and RoA of 0.7%) remain lower than that of peer banks and hence are likely to impact valuations. We revise our SoTP based target price to Rs120 (we value standalone bank at Rs105). Going ahead the asset quality remains a key concern which could keep valuations depressed. We maintain our Hold rating on the stock.

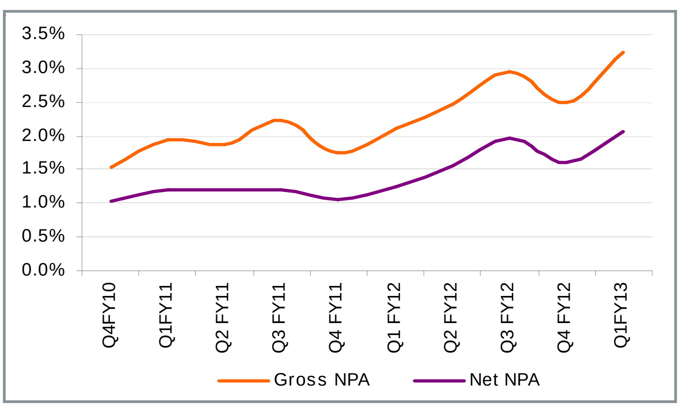
Trend in NIM



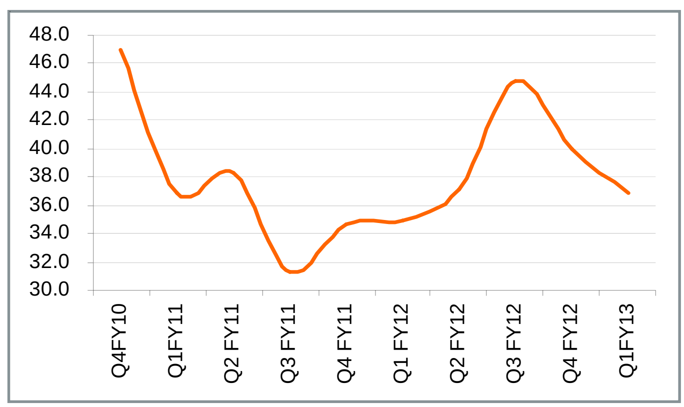
Advances growth



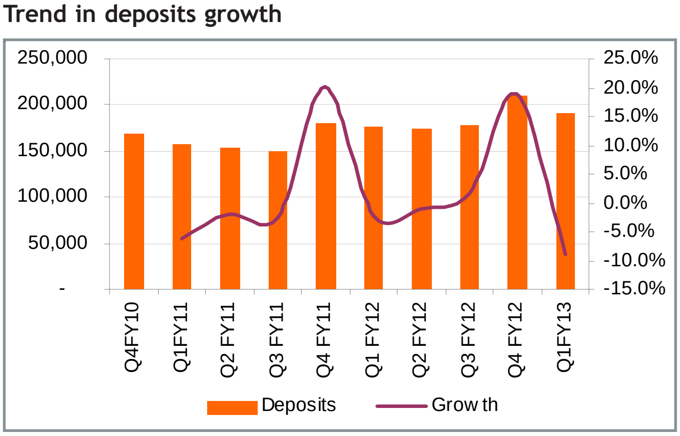
Trend in gross and net NPAs



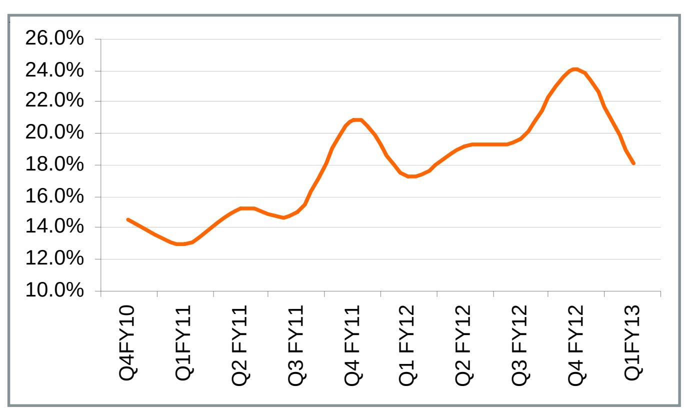
Cost-income ratio



Trend in deposits growth



Trend in CASA



Financials

Profit & Loss statement (Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net interest income	2,256	4,329	4,545	5,138	6,083
Non-interest income	2,302	2,084	2,119	2,422	2,760
Net total income	4,558	6,413	6,664	7,559	8,843
Operating expenses	1,831	2,255	2,608	2,954	3,413
Pre-provisioning profit	2,726	4,158	4,056	4,605	5,429
Provision & contingency	1,682	1,877	1,427	1,841	2,125
PBT	1,045	2,281	2,630	2,764	3,304
Tax	14	631	598	774	958
PAT	1,031	1,650	2,032	1,990	2,346

Balance sheet (Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Networth	10,165	14,568	19,427	20,951	22,748
Deposits	167,667	180,486	210,493	239,962	279,555
Borrowings	47,710	51,570	54,789	57,594	65,722
Other liabilities & provisions	8,031	6,754	6,128	7,349	8,317
Total liabilities	233,573	253,377	290,836	325,855	376,343
Assets					
Cash & balances with RBI	13,904	19,559	15,090	12,838	14,956
Balances with banks & money at call	679	1207	2967	3264	3591
Investments	73346	68269	83175	92159	102829
Advances	138202	157098	181158	208332	244790
Fixed assets	2997	3037	3019	3441	3923
Other assets	4446	4206	5426	5820	6254
Total assets	233573	253377	290836	325855	376343

Key ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Per share data					
EPS (Fully diluted)	14.2	16.8	15.9	15.6	18.4
DPS	3.0	3.5	3.2	3.1	3.7
BV	113.5	128.7	137.1	149.1	163.1
ABV	94.1	111.7	114.4	117.5	132.0
Spreads (%)					
Yield on advances	8.9	9.3	10.6	10.3	10.3
Cost of deposits	6.6	5.7	7.3	6.8	6.8
Net interest margins	1.2	2.0	2.0	2.0	2.0
Operating ratios (%)					
Credit to deposit	82.4	87.0	86.1	86.8	87.6
Cost to income	40.2	35.2	39.1	39.1	38.6
CASA	14.6	20.9	24.1	20.6	20.4
Non interest income / Total income	50.5	32.5	31.8	32.0	31.2
Return ratios (%)					
RoE	10.5	13.3	12.0	9.9	10.7
RoA	0.5	0.7	0.7	0.6	0.7
Assets/Equity	20.7	19.7	16	15.3	16.1
Asset Quality ratios (%)					
Gross NPA	1.5	1.8	2.5	3.1	2.9
Net NPA	1.0	1.1	1.6	1.9	1.6
Growth ratios (%)					
Net interest income	70.2	91.9	5.0	13.0	18.4
PPP	97.9	52.5	-2.4	13.5	17.9
PAT	20.1	60.0	23.1	-2.0	17.9
Advances	33.6	13.7	15.3	15.0	17.5
Deposits	49.2	7.6	16.6	14.0	16.5
Valuation ratios (%)					
P/E	6.1	5.2	5.5	5.6	4.7
P/BV	0.8	0.7	0.6	0.6	0.5
P/ABV	0.9	0.8	0.8	0.7	0.7

Automobiles

Sector Update

Crash test ahead

M&M's automotive division outperformed……

In July 2012, Mahindra & Mahindra (M&M)'s automotive division registered a strong double digit growth of 18.7% year on year (YoY) amid a slowdown in the industry. The company's utility vehicle (UV) sales jumped 32% YoY led by the success of the XUV 500 which still commands a waiting period of two to three months. Light commercial vehicle (LCV) sales continued with their growth momentum as M&M introduced a passenger variant of the Maxximo. Exports also witnessed a strong growth both on Y-o-Y and month-on-month (MoM) basis, boosting M&M's overall sales.

……. while strike at Manesar impacted Maruti's sales

Maruti Suzuki (Maruti)'s sales were impacted due to a lockout since July 18 , 2012 at the Manesar plant due to eruption of violence. Sales of top selling models (Swift and Dzire) which are made at the Manesar plant were impacted due to the lockout. Resumption of operations at the Manesar plant is critical to the company as it accounts for about 35% of the overall production for the company.

Macro headwinds impacting demand

Macro headwinds in the form of slowing economic growth, higher inflation and higher fuel prices have impacted automotive demand. Below normal monsoons have further contributed to the slowdown in automotive sales. Companies have resorted to production cuts and are offering higher discounts to enhance sales and avoid inventory pile up.

Higher interest rates to contain demand in the near term

The Reserve Bank of India (RBI)'s reluctance to cut interest rates due to high inflation is likely to maintain pressure on demand. Segments such as medium and heavy commercial vehicles (MHCVs), tractors and passenger cars, which are highly dependent on financing, are likely to see subdued demand. Interest rates are expected to reverse only in H2FY2013, thereby keeping pressure on demand even in Q2FY2013.

Maruti: Lockout at Manesar leads to M-o-M decline in sales

- Maruti's Manesar plant faced lockout after eruption of violence on July 18, 2012, impacting sales. The lockout impacted sales of the Dzire and the Swift leading to 16.9% and 30.3% M-o-M decline in volumes respectively. Sales were however up on a Y-o-Y basis as July 2011 also had the impact of a strike at Manesar then.
- The entry level petrol car sales continued to face pressure and declined by 23.7% YoY.
- The van segment comprising the Omni and the Eeco continued to decline with a 48.6% YoY drop in volumes. The SX4's sales continued to face pressure with a 70.5% YoY decline.
- Utility vehicle (UV) sales performed strongly due to the recently launched Ertiga, which registered a growth of 29.4% MoM.
- Exports registered a strong growth of 27.4% YoY at 11,210 units.

Maruti - July 2012 sales performance

Particulars	Jul-12	Jul-11	MoM (%)	YoY (%)	YTD FY13	YTD FY12	YoY (%)
Mini- 800, A-Star, Alto, Wagon R	28,998	38,028	-15.2	-23.7	123,811	160,080	-22.7
Compact- Swift, Estillo, Ritz	15,759	9,099	-30.3	73.2	88,745	64,750	37.1
Super Compact- Dzire	11,413	3,021	-16.9	277.8	58,371	28,116	107.6
Mid Size- SX4	679	2,303	66.4	-70.5	2,126	7,820	-72.8
Executive- Kizashi	2	32	-66.7	-93.8	23	149	-84.6
Total Passenger cars	56,851	52,483	-19.9	8.3	273,076	260,915	4.7
UV's- Grand Vitara, Gypsy, Ertiga	7,294	642	29.4	1036.1	26,259	2,144	1124.8
Vans- Omni, Eco	6,879	13,379	-0.5	-48.6	34,953	54,128	-35.4
Total Domestic Sales	**71,024**	**66,504**	**-15.0**	**6.8**	**334,288**	**317,187**	**5.4**
Export	11,210	8,796	-14.2	27.4	43,842	39,639	10.6
Total Sales	**82,234**	**75,300**	**-14.9**	**9.2**	**378,130**	**356,826**	**6.0**

M&M: Automotive business continues strong performance; tractor sales impacted by poor monsoon

- M&M's July 2012 automotive sales grew by strong double digits (18.7% YoY) at 47,059 units.
- UV sales maintained strong momentum with a 32.3% YoY growth in volumes. Verito sales however declined 22.6% YoY.
- Light commercial vehicle (LCV) sales (Gio + Maxximo) registered a growth of 9% YoY at 14,688 units.
- Exports grew strongly on both, M-o-M as well as Y-o-Y basis.
- Three-wheeler and Navistar sales were under pressure with a decline of 4.6% and 16.9% YoY respectively.
- M&M's domestic tractor volumes declined 1.3% YoY to 15,495 units. This could be attributable to poor monsoon. Tractor exports grew marginally to 1,026 units.

M&M - July 2012 sales performance

Particulars	Jul-12	Jul-11	MoM (%)	YoY (%)	YTD FY13	YTD FY12	YoY (%)
UV+Verito	22,011	17,312	11.2	27.1	83,515	65,526	27.5
Three wheeler Alfa	5,149	5,395	6.5	-4.6	18,964	19,453	-2.5
GIO + Maxximo	14,688	13,472	12.1	9.0	54,099	44,528	21.5
Total Vehicles M&M	41,848	36,179	10.9	15.7	156,578	129,507	20.9
CVs (Navistar)	951	1,144	-22.0	-16.9	4,409	4,096	7.6
Total Auto - Domestic	**42,799**	**37,323**	**9.9**	**14.7**	**160,987**	**133,603**	**20.5**
Exports - M&M	4,260	2,310	79.7	84.4	12,101	8,027	50.8
Total Automotive	**47,059**	**39,633**	**13.9**	**18.7**	**173,088**	**141,630**	**22.2**
Tractors - domestic	15,495	15,699	-31.1	-1.3	72,056	72,943	-1.2
Tractors - exports	1,026	993	-19.3	3.3	4,043	3,901	3.6
Total Tractors	**16,521**	**16,692**	**-30.5**	**-1.0**	**76,099**	**76,844**	**-1.0**

Tata Motors: Strong growth led by car and LCV segment, MHCV sales remain under pressure

- MHCV sales continued to face pressure with 19.3% YoY decline in volumes. The company has already undertaken block closures at plants to align production with demand.
- LCV sales continued with the strong momentum with an 18.6% YoY growth.
- Car sales recorded a strong growth of 52.6% YoY. Sales across the board, ie of the Nano, Indica, Indigo and the UV portfolio recorded a growth in excess of 40% YoY. The company is likely to have benefited from the ongoing strike at Maruti's Manesar plant.
- Exports however declined 25.3% YoY.

Tata Motors - July 2012 sales performance

Particulars	Jul-12	Jul-11	MoM (%)	YoY (%)	YTD FY13	YTD FY12	YoY (%)
M&HCV domestic	12,786	15,836	1.0	-19.3	47,729	61,378	-22.2
LCV domestic	29,601	24,962	4.4	18.6	109,956	92,600	18.7
Cars domestic	26,240	17,192	52.2	52.6	86,645	81,974	5.7
- Nano	5,485	3,260	-2.1	68.3	27,625	25,239	9.5
- Indica	8,852	5,860	66.0	51.1	26,564	23,795	11.6
- Indigo	6,816	4,877	156.4	39.8	16,540	19,309	-14.3
- Uvs	5,087	3,195	39.4	59.2	15,916	13,631	16.8
Exports	4,864	6,512	-19.9	-25.3	17,935	21,398	-16.2
Total	**73,491**	**64,502**	**14.2**	**13.9**	**262,265**	**257,350**	**1.9**

TVS Motors: Two-wheeler sales decline across segments, three-wheeler sales remain flat

- TVS Motors' two-wheeler sales declined 15.4% YoY to 157,954 units. The decline was witnessed across product segments.
- Motorcycle sales were the worst hit with a 24% YoY decline in volumes. After losing market share in the motorcycle segment, TVS Motors is now witnessing a market share loss in the scooter segment after Honda expanded capacity.
- Moped sales too declined 5.2% YoY at 63,704 units.
- Three-wheeler sales remained flat at 3,301 units.

TVS Motors - July 2012 sales performance

Particulars	Jul-12	Jul-11	MoM (%)	YoY (%)	YTD FY13	YTD FY12	YoY (%)
Motorcycle	53,355	70,170	-12.9	-24.0	246,729	285,221	-13.5
Mopeds	63,704	67,169	-3.5	-5.2	267,579	259,302	3.2
Scooters	40,895	49,333	7.2	-17.1	153,727	166,856	-7.9
Total Two wheeler	**157,954**	**186,672**	**-4.5**	**-15.4**	**668,035**	**711,379**	**-6.1**
Three wheelers	3,301	3,290	1.4	0.3	12,380	14,713	-15.9
Overall Sales	**161,255**	**189,962**	**-4.4**	**-15.1**	**680,415**	**726,092**	**-6.3**

Eicher Motors: Sales in negative territory

- VECV's domestic sales declined for the first time in the calendar year in July 2012. Domestic sales declined by a sharp 11.3% YoY at 3,492 units. The year till date (YTD CY2012) sales growth has now come down to single digits.
- Exports also witnessed pressure with the sales halving to 110 units.

Eicher Motors - July 2012 sales performance

Particulars	Jul-12	Jul-11	MoM (%)	YoY (%)	YTD CY12	YTD CY11	YoY (%)
Domestic	3,492	3,935	-7.3	-11.3	28,177	25,852	9.0
Exports	110	217	-63.0	-49.3	1,484	1,712	-13.3
Total sales	**3,602**	**4,152**	**-11.4**	**-13.2**	**29,661**	**27,564**	**7.6**

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
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
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HCL Technologies
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Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
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Shree Cement

Emerging Star

Axis Bank (UTI Bank)
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
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Ugly Duckling

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Ipca Laboratories
ISMT
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Mcleod Russel India
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Orbit Corporation
Polaris Financial Technology
Pratibha Industries
Provogue India
Punjab National Bank
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Raymond
Selan Exploration Technology
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
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