MORNING INSIGHT

kotak® Kotak Securities

PRIVATE CLIENT RESEARCH

OCTOBER 15, 2012

Economy News

- The government plans to relax rules for oil and gas exploration licences in time for the next bidding round, in a move to attract global companies. (BS)
- The government may consider giving discount to power companies while auctioning coal blocks to ensure low electricity tariffs. (ET)
- The bourses and the Securities and Exchange Board of India are close to agreeing on a trading band that would be imposed at the very least on constituent stocks of major indexes to prevent a recurrence of the "flash crash" this month. (Mint)

Corporate News

- **Bharti Airtel,** the country's largest telco by revenue and customers, is planning its most significant restructuring by combining its Indian and African operations into a single business entity under a global CEO by mid-2013. (ET)
- **State Bank of India** group plans to acquire 50,000 Point-of-Sale (PoS) machines for deployment over the next 18 months. (BL)
- Banks and financial institutions that have lent money to **Deccan Chronicle Holdings** are being investigated by the finance ministry for alleged irregularities in their dealings (ET)
- **Engineers India Ltd (EIL)** is aiming to bag execution and integration jobs in power projects, cashing in on delays in projects handled by public sector equipment maker Bharat Heavy Electricals Ltd (BHEL). (BL)
- **Kingfisher Airlines** has called for a meeting with its engineers and pilots from across its operating bases for what is being seen as a make or break meeting for the struggling debt ridden carrier at its Mumbai headquarters (ET)
- With the **GVK Group** securing Australian Government's nod for port development at Abbot Point, Queensland, it plans to develop and operate Dual Quadrant Ship loaders at Terminal 3.(BL)
- **Reliance Industries Limited (RIL)** has cut capital investment on the main oil and gas fields in the KG-D6 block by $3 billion on the back of an unexpected drop in reserves in an area that was once India's most prolific.(BS)
- **Jet airways** has reconfigured all of its 75 JetKonnect Boeing 737s with a twin-class configuration, offering eight business class seats on every aircraft in an effort to drum up demand in an indifferent market.(ET)
- **Jubilant Foodworks** will hike prices by 2-3% starting November this year because of inflationary pressures and also announce a new brand positioning - 'yeh hai rishton ka time', steering away from its five-year-old 'khushiyon ki home delivery' tagline.(ET)

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

Equity

		% Chg		
	12 Oct 12	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,675	(0.7)	1.1	8.5
NIFTY Index	5,676	(0.6)	1.8	8.6
BANKEX Index	13,087	(0.4)	7.4	7.4
BSET Index	5,729	(2.6)	(7.7)	6.9
BSETCG INDEX	11,176	(0.4)	11.3	11.1
BSEOIL INDEX	8,543	(0.3)	(2.0)	6.4
CNXMcap Index	7,922	0.1	7.9	6.6
BSESMCAP INDEX	7,110	0.0	7.3	5.5
World Indices				
Dow Jones	13,329	0.0	(1.9)	4.3
Nasdaq	3,044	(0.2)	(4.4)	4.7
FTSE	5,793	(0.6)	(2.1)	2.2
NIKKEI	8,534	(0.1)	(6.9)	(2.2)
HANGSENG	21,136	0.7	2.3	10.6

Value traded (Rs cr)

	12 Oct 12	% Chg - Day
Cash BSE	2,697	10.4
Cash NSE	12,527	(1.2)
Derivatives	144,471	4.14

Net inflows (Rs cr)

	11 Oct 12	% Chg	MTD	YTD
FII	417	(36.2)	8,033	91,813
Mutual Fund	(166)	(45.7)	(1,762)	(14,417)

FII open interest (Rs cr)

	11 Oct 12	% Chg
FII Index Futures	15,420	(2.9)
FII Index Options	50,627	2.3
FII Stock Futures	30,630	(0.4)
FII Stock Options	2,505	(3.5)

Advances / Declines (BSE)

12 Oct 12	A	B	T	Total	% total
Advances	87	972	299	1,358	45
Declines	114	1,120	273	1,507	50
Unchanged	3	92	37	132	4

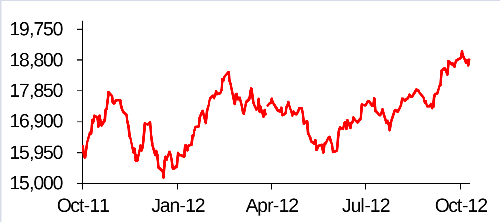
Commodity

		% Chg		
	12 Oct 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	91.0	(0.9)	(8.1)	4.5
Gold (US$/OZ)	1,760.0	(0.5)	(1.7)	9.5
Silver (US$/OZ)	33.7	(1.2)	(4.1)	21.3

Debt / forex market

	12 Oct 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.3	8.3	8.4	8.3
Re/US$	52.8	52.7	55.2	55.9

Sensex



RESULT UPDATE

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INFOSYS TECHNOLOGIES LTD

PRICE: RS.2395 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.2498 **FY14E P/E: 14.2x**

2QFY13 numbers came in below estimates. While revenue growth was largely in line, margins disappointed. Conservative provisioning and lower product revenues impacted margins. Infosys has been disappointing on revenues / margins for past few quarters due to company-specific issues, in the backdrop of an uncertain macro. We reduce our earnings estimates. We accord valuations which are almost at the lower end of the valuations band of previous low-growth phase (FY10), as the recovery is still uncertain and may be gradual. Infosys is giving continued importance to high quality business and this should yield results in the long term. We remain structurally positive on the stock over this time frame. We expect that, the stock will remain range-bound in the near term, because of no near-term triggers. Any fall should be utilized to buy the stock. We maintain ACCUMULATE with a PT Rs.2498, based on FY14 earnings estimates.

Summary table

(Rs mn)	FY12	FY13E	FY14E
Sales	337,340	398,654	420,857
Growth (%)	22.7	18.2	5.6
EBITDA	97,780	105,662	108,558
EBITDA margin (%)	29.0	26.5	25.8
PBT	116,820	128,720	132,858
Net profit	83,150	92,270	96,322
EPS (Rs)	145.5	161.5	168.6
Growth %	21.9	11.0	4.4
CEPS	169.2	189.4	198.1
BV (Rs / Share)	585.7	695.2	802.0
Dividend / Share (Rs)	50.0	45.0	60.0
ROE %	27.4	25.2	22.5
ROCE %	38.5	35.1	31.0
Net cash (debt)	205,910	247,554	301,341
NW capital (Days)	63.3	61.4	60.9
P/E (x)	16.5	14.8	14.2
P/BV (x)	4.1	3.4	3.0
EV/Sales (x)	3.4	2.8	2.5
EV/EBITDA (x)	11.8	10.6	9.8

Source: Company, Kotak Securities - Private Client Research

Investment Argument

- The 2Q results of Infosys came in lower than our estimates. The disappointment came in from the lower-than-expected margins, even as revenue growth was in-line. Volumes grew by 3.8% in IT services, which was in-line. After accounting for the one-time hit in 1Q revenues ($15mn), the growth was about 3%, we believe. Overall, volume growth was 6% QoQ. We do not have finer details about difference in volume growth for IT services and for the company. Average realisations in IT services were almost flat.
- EBIT margins fell by 166bps, largely due to conservative provisioning, employee promotions and lower product revenues (down by 13% QoQ). The past few quarters reflect the reduced cushion available to Infosys, as far as meeting its guidance is concerned. This is largely due to the relatively high exposure to discretionary spends and the challenging demand scenario, which has not revived v/s 1Q end.
- FY13 guidance has been reduced marginally in CC terms, likely reflecting continued stress. The extent of miss is lower though, when compared to past few quarters. This may keep sentiment subdued in the near term. Infosys has agreed to give salary increments to all employees.
- The management's focus on high quality revenues has likely had some impact on the revenue growth. However, we believe this approach will hold the company in good state over the longer term. Infosys has a TCV (total Contract Value) outstanding of about nearly $500mn already in its Products, Platforms & Solutions business, which is encouraging. It continues to win large deals (6 in 2Q).

Quarterly financial performance

(Rs.mn)	1QFY13	2QFY13	% Chg	2QFY12	% Chg
Turnover	**96160**	**98580**	**2.5**	**80990**	**21.7**
Expenditure	69230	72610		58180	
EBIT	**26930**	**25970**	**-3.6**	**22810**	**13.9**
Other Income	4760	7060		3870	
PBT	**31690**	**33030**	**4.2**	**26680**	**23.8**
Tax	8800	9340		7620	
PAT	**22890**	**23690**	**3.5**	**19060**	**24.3**
PAT after EO items	22890	23690		19060	
EPS (Rs)	**40.1**	**41.5**		**33.4**	
EBIT (%)	28.0	26.3		28.2	
Net Profit (%)	23.8	24.0		23.5	

Source : Company

- We make changes to our FY13 estimates and introduce Fy14 estimates. We have assumed the rupee at 53/USD in FY13 and Rs.51.5 in FY14. We expect the EPS to be Rs.169 in FY14, partly impacted by the assumed rupee appreciation (4pps YoY). We accord valuations which are almost at the lower end of the valuations band of previous low-growth phase (FY10), as the recovery is still uncertain and may be gradual.
- We remain structurally positive on the long term prospects of Infosys. The stock is expected to remain range-bound in the short term in the absence of any triggers and any further fall in price can be utilized to buy the stock with a medium - to - long term perspective. We maintain ACCUMULATE with a PT of Rs.2498, based on FY14 estimates.

2QFY13 results - lower than our estimates

Infosys' 2QFY13 results were lower than our estimates.

IT services volumes grew by 3.8%

- Revenues for the quarter grew by 2.5% QoQ in INR terms. In USD terms, they grew by 2.6% and in CC terms, revenues grew by 2.4%.
- The volume growth in IT services was at 3.8%, which was in line.
- Overall, the volume growth was about 6%. This was likely due to better growth in services like BPO, Testing and IMS. However, they account for a relatively small part of the revenues. We do not have the further and finer details on these issues.
- During 1Q, there was an impact of about 0.8% in revenues due to reversal of accrued revenues from a client, which discontinued a transformational project.
- Accounting for the same, revenues growth was correspondingly lower.

Average realisations flat QoQ for IT services; down overall

- Average realisations for IT services were down by only 0.2%, which was a relief after a sharp fall in 1Q. However, average blended realisations for the company were down by about 3%, we understand.
- While we do not have further insights into the reasons, we believe that, this fall was likely due to increased proportion of BPO, etc revenues, which have lower realisations. Also, the product revenues fell by 13% QoQ.

Revenue growth- Services wise

(Rs mn)	1QFY13	2QFY13	QoQ (%)	2QFY12	YoY (%)
Business Operations	61,542	63,584	3.3	52,077	22.1
As a % of revenues	64.0	64.5		64.3	
Consul & SI	28,752	29,574	2.9	25,269	17.0
As a % of revenues	29.9	30.0		31.2	
Products, PF, Solns	5,866	5,422	-7.6	4,211	28.7
As a % of revenues	6.1	5.5		5.2	
Total revenues	96,160	98,580	2.5	81,557	20.9

Source : Company

- In 1Q, the company had indicated that, it had conceded to some pricing pressure from clients.
- Verticalwise, BFSI revenues were flat QoQ in CC terms. The relaxation of deadlines on some of the regulatory / compliance issues by the US Government has resulted in immediate scale down in spends, impacting Infosys. The scale downs were in the non-discretionary spends.

- Among all, the stress is more in BFSI segment in US, which has been following zero-based budgeting and spending on a month-on-month basis.
- The remaining verticals reported decent growth on CC basis. Infosys has been investing heavily in verticals like Life Sciences and Healthcare (investment verticals), which should contribute to growth in the quarters going ahead.
- Infosys derives a substantial part of its revenues from discretionary spends and that also had some impact on the growth.

QoQ Growth in industry segments (Constant Currency terms)

(Rs mn)	1QFY13	2QFY13
BFSI	-0.4	0.3
Manufacturing	3.1	2.9
RCL	2.6	3.9
ECS	0.0	3.7

Source : Company

- Revenues from Europe grew at a fast pace after declining by 7% in the previous quarter (largely on the back of revenue reversal and also due to scale down in a large account in UK in 1Q).

QoQ Growth in geographies (Constant Currency terms)

(Rs mn)	1QFY13	2QFY13
North America	1.7	2.2
Europe	-7.2	5.1
ROW	2.2	1.8

Source : Company

Large deals continue

- Infosys continued to win new large deals and had a total of 6 new deals in 2QFY13, out of which, two were of more than $200mn TCV.
- The company won 2 transformational deals during the quarter.
- With discretionary spends witnessing moderation, the transformational deals flow is expected to slow down.

New deals won based on platforms - TCV of nearly $500mn

- Infosys has been focusing on products, platforms and solutions (PPS) with a view to provide better value to customers and convert their capex to opex. (see table above)
- The focus on PPS is also expected to ease the pressure on margins for Infosys in the medium to long term.
- Revenues from PPS were down by 7.6% QoQ, but that was mainly due to a sharp fall of 13% in Finacle revenues. The remaining part of the business grew at about 9% QoQ.
- Infosys currently has 13 platforms and will be launching more in FY13, we understand.
- The business added 15 clients in this quarter and about 60 clients are being serviced currently. The cloud practice is also getting new clients. Infosys has executed about 170 projects in cloud. It has more than 3000 people in this practice.
- On mobility, Infosys has 1200 experts, who service about 70 client engagements.

- The company already has contracts totaling to about $500mn (total contract value - TCV), which are based on these platforms and which are to be executed over the next 3 - 5 years.
- We see this segment as a critical piece of Infosys' strategy to sustain margins as well as revenue growth in the future.

Margins down - a negative surprise

- Infosys reported a 160bps fall in EBIT margins, which was a negative surprise, as it came despite no change in exchange rate.
- The fall in margins came in largely due to employee promotions (20000), lower product revenues (Finacle) and also conservative provisioning.
- The management indicated that, it had conservatively provided for post sales client support (about Rs.600mn), which is expected to be reversed. Also, there was a rise in sub-contracting costs, which may be reversed in future.
- However, this sharp fall has come as a negative surprise and is of concern.We will watch closely is some of this impact is indeed reversed, going ahead. 2610 employees on a net basis and utilization rates improved from about 71.5% to about 73%.
- The management has indicated that, it will be comfortable with utilization rates of between 76% - 80%. It has earlier indicated a range of 78% - 82%.

Other income component higher than estimates

- The other income component was higher than estimates. Forex gains amounted to 1.57bn, much higher than what we had estimated.
- Infosys has hedges worth $1.1bn as at 2Q end, similar to that in 1Q.

Guidance for FY13 lowered once again; marginally though

- Infosys has maintained its guidance of 'atleast 5% growth' in USD revenues. However, in CC terms, it has come off marginally to about 5.75%. EPS guidance in CC terms has been maintained. EBIT margins are expected to contract by about 200bps over FY12.
- The lower margin guidance is due to the increase in salaries, which the company has agreed to give WEF 3Q for off-shore employees (6%) and WEF 4Q to on-site employees (about 2%).
- The reduction in guidance is marginal.

Financial estimates

- We have made changes to our FY13 estimates and we introduce FY14 estimates.
- Volumes are expected to grow by 11% YoY in FY13 and 10% in FY14. We have assumed the rupee to average 53 / USD in FY13 and 51.5 / USD in FY14.
- We expect margins to be impacted by the salary hikes and by the assumed rupee appreciation. Better utilization levels also restrict the impact.
- With tax rates expected to be at about 28% of PBT, PAT is expected to be at Rs.96.3bn in FY14E. EPS is expected to be at about Rs.169 for FY14.

Valuations and recommendations

- We accord valuations which are at the lower end of the valuation band of previous low-growth phase (FY10), as the recovery is still uncertain and is likely to be gradual. We value the stock on FY14E earnings.
- Consequently, our target price stands revised to Rs.2498 (Rs.2485 earlier, based on FY13E earnings).
- We note that, significant currency fluctuations may have an impact on our expectations and hence, also the price target.
- We remain positive on the medium - to - long term strategy of the company. Management has reiterated its long term commitment to increase the proportion of non-linear revenues.
- We concur with the management's view that this is necessary to ensure profitable growth, while providing more value to customers. Post the recent reorganization, there is greater emphasis on products, platforms and solutions. We remain optimistic on the company's future prospects, led by a strong management team.

We maintain ACCUMULATE rating on Infosys Technologies with a price target of Rs.2498

- However, in the short term, the stock may remain range-bound due to disappointment over the FY13 guidance and due to the uncertain macro. **ACCUMULATE.**

Concerns and risks

- A sharp appreciation in the rupee against various currencies will impact our earnings estimates.
- Recessionary conditions in developed economies will likely impact future revenue growth and profitability of the company.

Dipen Shah holding 50 shares of Infosys Technologies

RESULT UPDATE

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HDFC BANK

PRICE: RS.631 **RECOMMENDATION: BUY**
TARGET PRICE: RS.700 **FY14E P/E: 17.5X, P/ABV: 3.6X**

Q2FY13: Core performance largely in line

HDFC bank reported strong net interest income (26.7% YoY), mainly aided by healthy loan growth (22.9% YoY) along with 10bps improvement in NIM (YoY). Net profit rose 30.1% YoY on back of lower NPA provisions (decline of 20% YoY).

Although CASA mix declined YoY by ~140bps, it remained stable QoQ at ~46.0% at the end of Q2FY13. We believe this decline is in line with the industry trend; however, it still remains one of the best in the industry. NIM saw 10bps YoY improvement mainly due to 280bps improvement in LDR (loan deposit ratio) on back of strong built-up in retail book.

Asset quality improved marginally - gross NPA came a tad lower (both YoY & QoQ) at 0.91% at the end of Q2FY13; while net NPA remained stable QoQ at 20bps. Its provision coverage ratio is also healthy at 82% at the end of Q2FY13, which provides cushion to its future earnings with any unforeseen deterioration in its asset quality. Lower stressed assets (net NPA: 20bps, restructured book: 30bps), further reduces the risk of any big negative surprise in the future.

At the CMP of Rs.631, the stock is trading at 17.5x its FY14E earnings and 3.6x its FY14E ABV. In our view, HDFC bank would continue to enjoy the valuation premium vis-à-vis its peers as it fares better at majority of the operational parameters - liability franchise, asset quality and NIM. We are rolling over target multiple on FY14 and upgrade the stock to BUY with TP of Rs.700 based on 4.0x of its FY14E ABV.

Result Performance

(Rs mn)	Q2FY13	Q2FY12	YoY (%)
Interest on advances	64494.1	49947.9	29.1
Interest on Investment	19527.7	16181.9	20.7
Int on RBI/ other assets	849.9	329.4	158.0
Other interests	374.8	717.8	-47.8
Total interest earned	**85246.5**	**67177.0**	**26.9**
Interest expended	47929.6	37731.9	27.0
Net interest income	**37316.9**	**29445.1**	**26.7**
Other income	13451.2	12116.8	11.0
Fee Income	12091.0	9879.0	22.4
Foreign exchange Income	2359.0	2180.0	8.2
Profit on sale of Investments	-1059.0	13.0	NM
Others	60.2	44.8	34.4
Net Revenue (NII + Other income)	**50768.1**	**41561.9**	**22.2**
Operating Expenses	**25055.0**	**20303.9**	**23.4**
Employee expenses	9629.3	8231.0	17.0
Other operating expenses	15425.7	12072.9	27.8
Operating profit	**25713.1**	**21258.0**	**21.0**
Prov. & contingencies	2928.9	3660.5	-20.0
Taxes	7184.4	5604.0	28.2
Net profit	15599.8	11993.5	30.1
EPS (Rs.)	6.61	5.10	29.5

Source: Company

NII growth came at 26.7% YoY, marginally above our estimates; however, net profit came in line.

HDFC bank reported strong net interest income (26.7% YoY), mainly aided by healthy loan growth (22.9% YoY) along with 10bps improvement in NIM (YoY). NII was marginally above our expectations, as ~Rs.1.0 bn worth of dividend income received on MF investment has been included as a part of interest income. If excluded NII growth will come down to 23.3%, largely in line with our expectations.

Net profit rose 30.1% YoY on back of lower NPA provisions (decline of 20% YoY) despite moderate rise in non-interest income. Even though fee-income grew at healthy pace (22.4%), subdued forex income along with loss from sale on investment pulled down the overall growth in non-interest income (11.0% YoY)

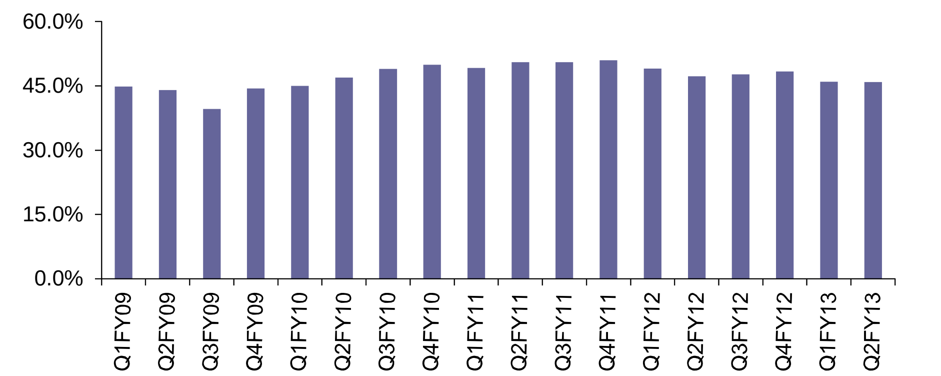
Retail segment has driven the loan growth during previous 4-5 quarters, however although overall loan growth is faster than the system, future loan growth is likely to track its deposit mobilization

HDFC bank has the ability to gain market share in advances by leveraging its distribution networks. Over the years, they have grown their loan book 4-5% faster than the system.

The bank's total business grew at 20.7% - deposit growth came at 18.8% while advances grew 22.9% YoY. Although CASA mix declined YoY by ~140bps, it remained stable QoQ at ~46.0% at the end of Q2FY13. We believe this decline is in line with the industry trend; however, it still remains one of the best in the industry

The share of retail book to total loan portfolio rose marginally QoQ during Q2FY13 - now, the share of retail and wholesale book stand at 53:47. The strong growth in retail segment came on the back of robust growth in CV/Equipment financing, credit cards, personal loan and gold loans etc.

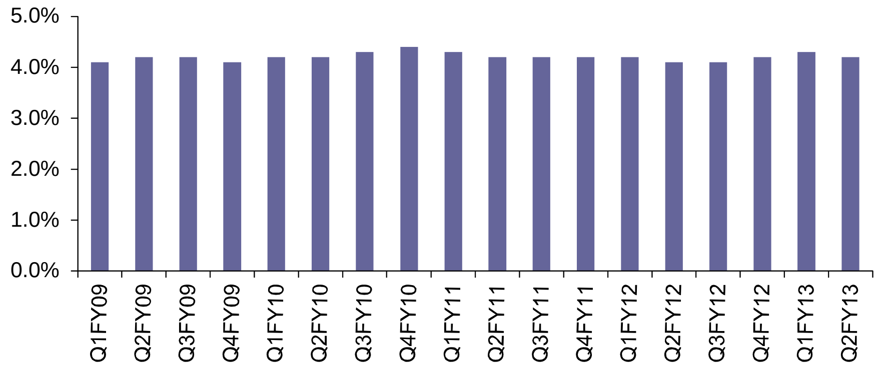
Trend in CASA (%)



Source: Company

NIM saw 10bps YoY improvement mainly due to 280bps improvement in LDR (loan deposit ratio) on back of strong built-up in retail book.

Trends in NIM (%)



Source: Company

Asset quality improved marginally; lower restructured book further reduces the risk of any big negative surprise in the future.

HDFC bank has managed its asset quality well during prevailing uncertain macro-economic environment. Its asset quality improved marginally - gross NPA came a tad lower (both YoY & QoQ) at 0.91% at the end of Q2FY13; while net NPA remained stable QoQ at 20bps.

Trends in asset quality

NPA (Rs Bn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Gross NPA	18.33	18.95	20.20	19.99	20.86	21.33
% of Gross Advances	1.04	1.00	1.03	1.02	0.97	0.91
Net NPA	3.19	3.55	3.98	3.52	3.96	3.87
% of Net Advances	0.18	0.20	0.20	0.20	0.20	0.20
Provision Coverage Ratio (%)	83.0	81.3	80.3	82.4	81.0	82.0

Source: Company

Its provision coverage ratio is also healthy at 82% at the end of Q2FY13, which provides cushion to its future earnings with any unforeseen deterioration in its asset quality. Lower stressed assets (net NPA: 20bps, restructured book: 30bps), further reduces the risk of any big negative surprise in the future.

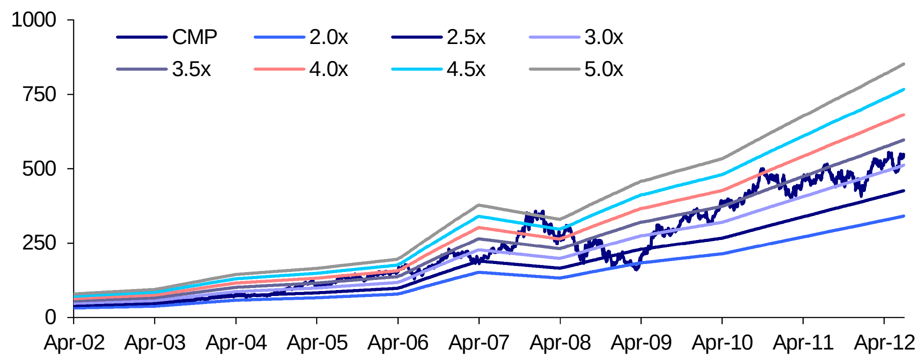
Valuation & recommendations

We recommend BUY on HDFC Bank with a price target of Rs.700

In our view, HDFC bank would continue to enjoy the valuation premium vis-à-vis its peers as it fares better at majority of the operational parameters - liability franchise, asset quality and NIM. It has also consistently delivered a growth of ~30% (YoY) in net profit for the past 42 quarters.

At the CMP of Rs.631, the stock is trading at 17.5x its FY14E earnings and 3.6x its FY14E ABV. We expect HDFC bank to report earnings growth at 28.4% CAGR during FY12-14E with healthy return rations (FY14E: RoE: 22.2% & RoA: 1.7%). We are rolling over target multiple on FY14 and upgrade the stock to BUY with TP of Rs.700 based on 4.0x of its FY14E ABV.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Key data

(Rs Bn)	FY11	FY12	FY13E	FY14E
Interest income	199.28	272.86	329.04	391.48
Interest expense	93.85	149.90	183.47	217.70
Net interest income	**105.43**	**122.97**	**145.58**	**173.78**
Growth (%)	25.7%	16.6%	18.4%	19.4%
Other income	**43.35**	**52.44**	**62.36**	**75.04**
Gross profit	77.25	89.50	106.81	129.89
Net profit	**39.26**	**51.67**	**66.34**	**85.24**
Growth (%)	33.1%	31.6%	28.4%	28.5%
Gross NPA (%)	1.1	1.0	1.1	1.1
Net NPA (%)	0.2	0.2	0.2	0.2
Net interest margin (%)	4.1	4.0	4.0	4.0
CAR (%)	16.2	16.5	15.7	15.2
RoE (%)	16.7	18.7	20.5	22.2
RoA (%)	1.6	1.7	1.7	1.7
Dividend per share (Rs)	3.3	4.3	5.0	5.5
EPS (Rs)	**16.9**	**22.0**	**28.1**	**36.1**
Adjusted BVPS (Rs)	**107.8**	**126.0**	**145.8**	**174.0**
P/E (x)	**37.4**	**28.7**	**22.5**	**17.5**
P/ABV (x)	**5.9**	**5.0**	**4.3**	**3.6**

Source: Company, Kotak Securities - Private Client Research

ECONOMY UPDATE

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AUGUST IIP: GREW AT 2.7%

2.7% IIP growth in August against -0.2% in July (revised down from 0.06%) suggest bottoming out of IIP

IIP print in August suggests worst may be over in terms of IIP de-growth. IIP grew by 2.7% in August vs. -0.2% in July (revised downwards from 0.06%) as against 3.4% in Aug'11; but m-o-m contraction continues even in Aug'12. 3MMA of IIP recovered to 0.24% vs. 0.18% 3MMA in July'12. All India CPI inflation for September 2012 came at 9.73% vs 10.03% in August 2012. The corresponding CPI inflation for rural and urban areas for September 2012 are 9.79% and 9.72% respectively. CPI Inflation for rural and urban areas for August 2012 were 9.90% and 10.19% respectively. We expect IIP which in past 6 months degrew by 1%, to post improvements from here on, primarily based on low base of last year.

Implication for interest rate

We are retaining our expectation of 50 bps cut in policy rates (repo rate) in FY13. Reciprocating to government's reform measures RBI reduced CRR in the last policy, while retained its focus on inflation. The September WPI inflation (on Monday) will be the most important data before the RBI policy meeting on 30 October. We are penciling in further fiscal action towards containment of fiscal deficit and RBI is likely to respond positively to them. We are not penciling in CRR reduction, as it is already at historic lows and there is enough liquidity in the system. Recent fiscal decisions have increased the possibility of a rate cut in the next policy, accordingly we are penciling 25 bps cut in repo rate on 30th.

Sector Growth:

- Mining sector growth at 2.0% vs. -1.6%
- Manufacturing sector growth at 2.9% vs. -0.4%
- Electricity sector growth at 1.9% vs 2.8%
- Basic goods growth at 2.8% vs. 1.0%
- Capital sector goods contraction at -1.7% vs. -4.5%
- Intermediate goods growth at 1.9% vs. -1.2%
- Consumer durables goods growth at 3.96% vs 0.62%
- Consumer non-durables goods growth at 5.84% vs. 0.3%

Components of Industrial Production

The index is a composite indicator that measures the short term changes in the volume of industrial production. According to the index, the industrial growth for the month of August is 2.66% YoY (MoM -0.72%). The cumulative growth for the period Apr-Aug stands revised at 0.4% vs 5.6 in Apr-Aug'11. Overall, IIP growth averaged 1.2% in Q2 (Jul-Aug), better than in Q1 (-0.2%), suggesting that IIP growth is starting to recover, though it remains at a very low level. The three sectors that constitute the index are Mining, Manufacturing and Electricity; growth rates of these three sectors for the month are 2%, 2.9% and 1.9% respectively. The cumulative growth in the three sectors during Apr-Aug has been -0.6%, 0.0% and 4.8%. As per "use-based" classification there has been negative growth in capital goods at -1.7% and positive growth has been in basic goods 2.8%. The Consumer durables and Consumer non-durables recorded growth of 4% and 5.8% respectively, with the overall growth in Consumer goods being 5%.

Performance in Manufacturing sector at 2.9% (from -0.4% last month) was major savior (wt. 76%), disappointment came from electricity sector posting growth on 1.87% (wt. 10%); and mining sector which growing at 2% (wt. 14.16%). Mining, Manufacturing and Electricity segments noted m-o-m decline of 3.9%, 0.1% and 2.6% respectively for August 2012. Capital goods contraction is the only factor for this month's IIP in negative territory, which contributed -0.2% to IIP as against 1.1% by basic goods, 0.3% by intermediate goods, and 1.5% by consumer goods (consumer durables contributed 0.6% and non-durables had 1% contribution). Only 0.2% was contributed by mining and 0.2% by electricity. The IIP Ex Capital Goods showed a higher m-o-m decline for August 2012 at 2.0%, as the capital goods noted 8.4% (m-o-m) increase in August 2012. Higher consumption goods production growth of 5.0% from 0.5% in July was the main reason for the upside, led by higher production of both consumer durable and nondurables goods.

Sector Trends:

Sector wise only 1/2 of industry groups in manufacturing sector posted positive growth (13 out of 22, up from 8), primarily led by industry group: 15.4% in 'publishing & media', followed by 14.5% in 'Communication equipment' and 14.4% in 'Medical instruments, & watches'. On the other hand, the industry group 'Computing machinery' has shown a negative growth of 13.1% followed by 9.5% in 'Motor vehicles' and 7.6% in 'Other transport equipment'.

Some of the important items showing high positive growth include 'Mobile Phones' (18.0%), 'Antibiotics' (43.0%), 'Carbon Steel' (51.5%), 'Aluminium' (68.3%), 'Air Conditioner (Room)' (76.9%), 'Tea' (20.1%), 'Boilers' (21.9%), 'CR Sheets' (24.9%), 'Plastic Machinery' (36.5%), 'Mancozab' (282.1%) and 'Soft Drinks' (55.5%).

Some of the other important items showing high negative growth are: 'Cable, Rubber Insulated' (-64.1%), 'Passenger Cars' (-17.5%), 'Sponge Iron' (-20.4%), 'Tractors' (-20.1%), 'Vitamins' (- 36.1%), 'Furnace Oil' (-27.4%), 'Aviation Turbine Fuel' (-28.3%), 'Earth Moving Machinery' (- 19.6%), 'Cigarettes' (-17.6%), 'Ayurvedic Medicaments' (-25.2%) and 'Fruit Pulp' (-36.3%).

Exhibit 1:Performance of Industrial Production (YoY %)

	Mining		Manufacturing		Electricity		General	
Month	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
April	1.6%	-2.8%	5.7%	-1.8%	6.5%	4.6%	5.3%	-1.3%
May	1.8%	-0.7%	6.3%	2.6%	10.3%	5.9%	6.2%	2.5%
June	-1.4%	0.2%	11.1%	-3.1%	8.0%	8.8%	9.5%	-1.8%
July	0.7%	-1.6%	3.1%	-0.4%	13.1%	2.8%	3.7%	-0.2%
August	**-5.5%**	**2.0%**	**3.9%**	**2.9%**	**9.5%**	**1.9%**	**3.4%**	**2.7%**
September	-7.5%		3.1%		9.0%		2.5%	
October	-5.9%		-6.0%		5.6%		-5.0%	
November	-3.5%		6.6%		14.6%		6.0%	
December	-3.3%		2.8%		9.1%		2.6%	
January	-2.1%		1.1%		3.2%		1.0%	
February	2.3%		4.1%		8.0%		4.3%	
March	-1.1%		-3.6%		2.7%		-2.8%	

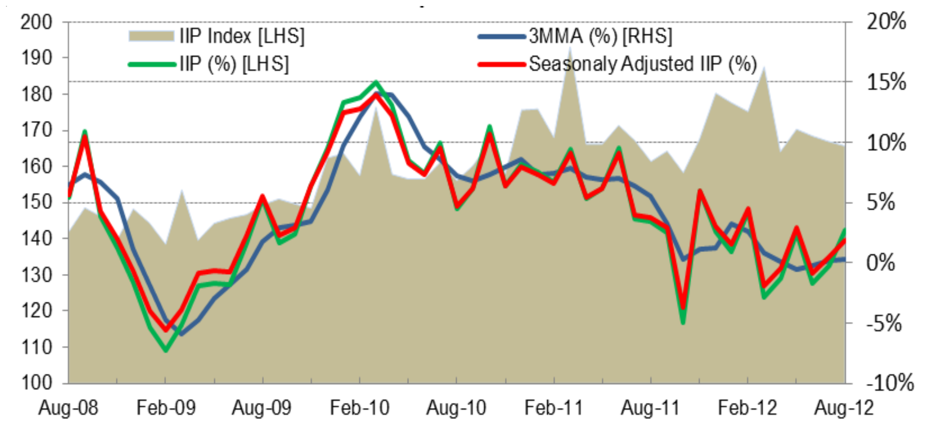
Source: MOSPI and Kotak Securities - Private Client Research

Exhibit 2: Performance of Use Based Industries (YoY %)

	Basic goods		Capital goods		Intermediate goods		Consumer goods	
Month	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
April	7.1%	1.9%	6.6%	-21.5%	3.9%	-1.8%	3.2%	3.7%
May	7.5%	4.4%	6.2%	-8.6%	0.1%	3.4%	7.2%	4.4%
June	7.8%	4.2%	38.7%	-28.1%	1.6%	0.6%	3.1%	4.1%
July	10.0%	1.0%	-13.7%	-4.5%	-0.1%	-1.2%	6.3%	0.5%
August	**5.8%**	**2.8%**	**4.0%**	**-1.7%**	**-1.0%**	**1.9%**	**2.1%**	**5.0%**
September	5.3%		-6.5%		-1.4%		5.7%	
October	1.3%		-26.5%		-8.3%		0.0%	
November	6.4%		-4.7%		1.3%		12.8%	
December	5.5%		-16.0%		-1.5%		10.1%	
January	2.0%		-2.7%		-2.5%		2.5%	
February	7.6%		10.4%		0.9%		-0.4%	
March	1.1%		-20.1%		0.0%		1.1%	

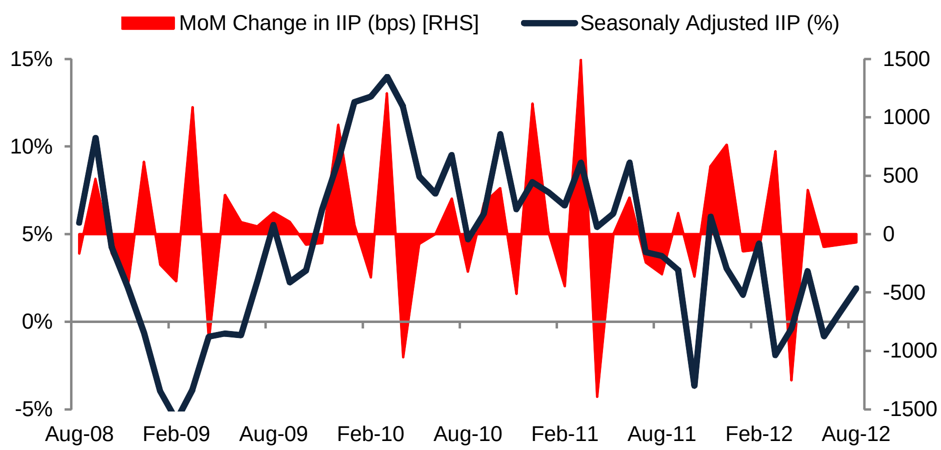
Source: MOSPI and Kotak Securities - Private Client Research

Exhibit 3: Comparative Performance of IIP



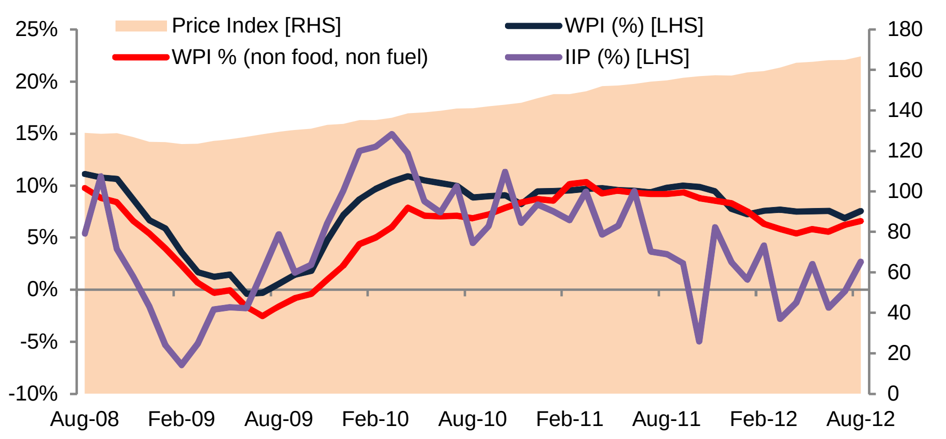
Source: MOSPI

Exhibit 4: Seasonaly Adjusted & MoM Change in IIP



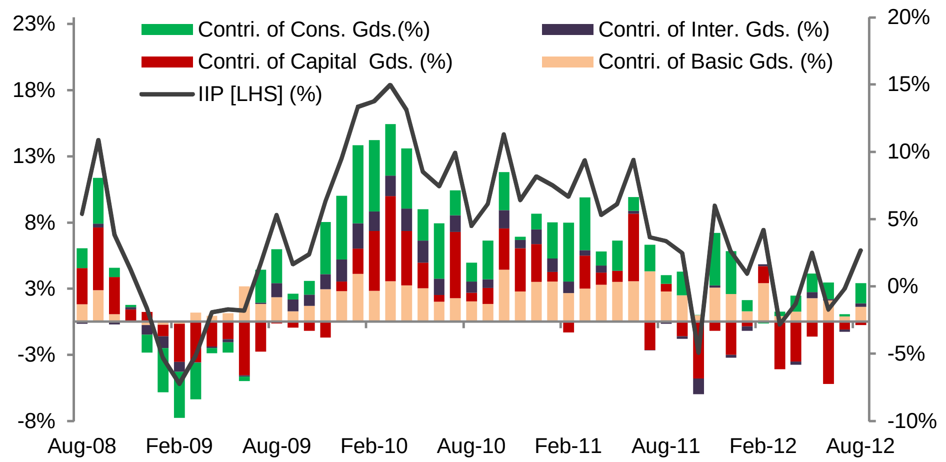
Source: MOSPI

Exhibit 5: Inflation and growth trade-off



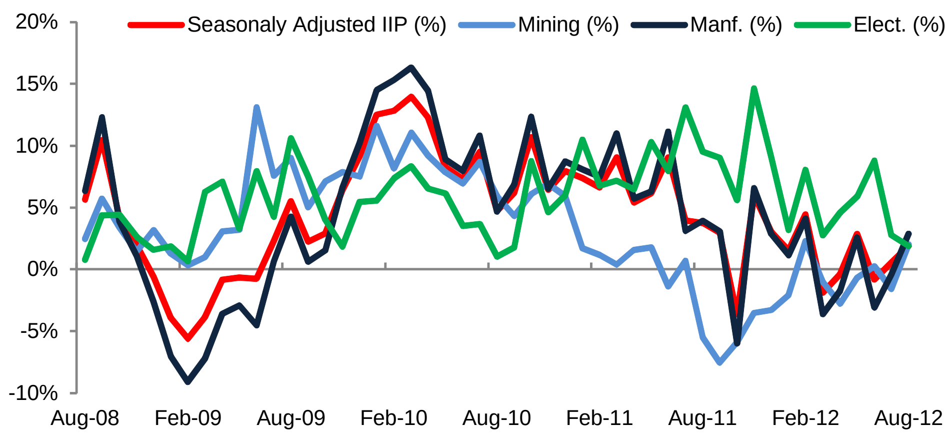
Source: MOSPI

Exhibit 6: Contribution to IIP



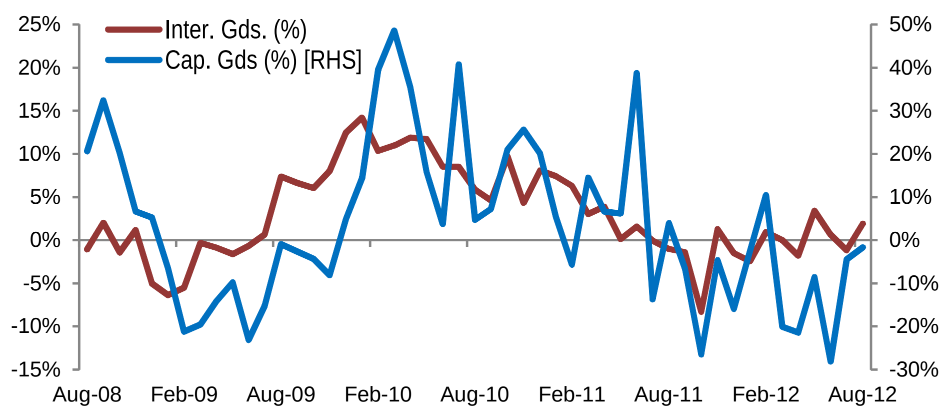
Source: MOSPI

Exhibit 7: Sectoral Components of IIP



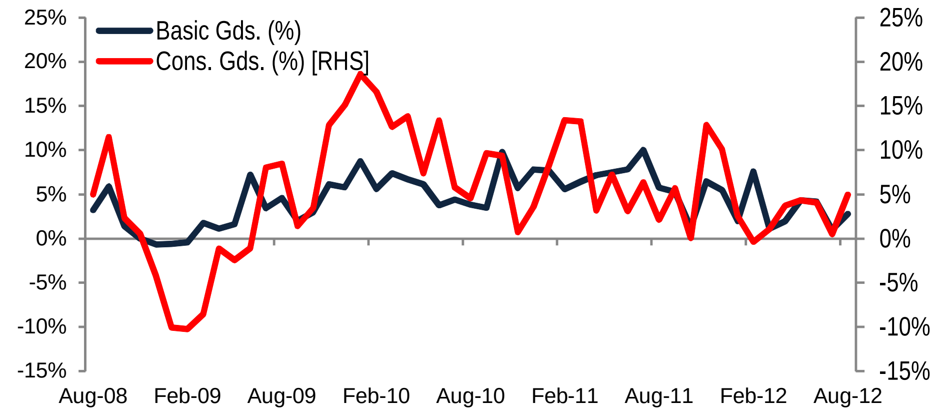
Source: MOSPI

Exhibit 8: Use Based Components of IIP - Capital Goods & Inter. Gds.



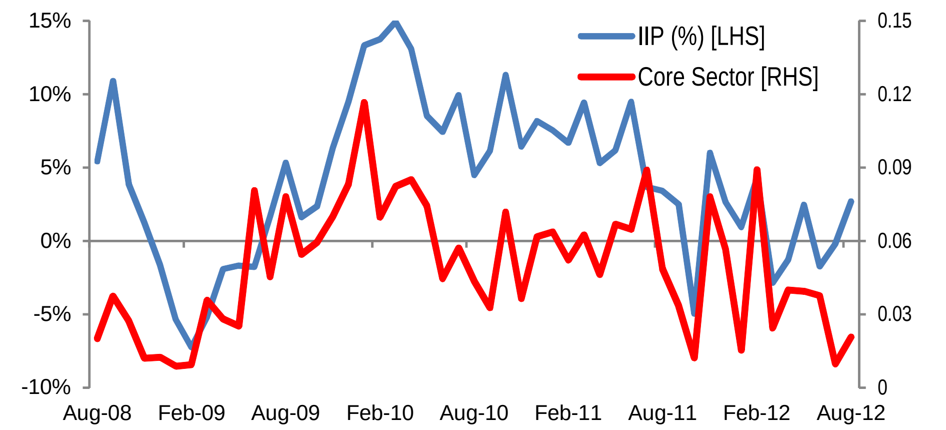
Source: MOSPI

Exhibit 9: Use Based Components of IIP - Consumer Goods



Source: MOSPI

Exhibit 10: Core Sector and IIP Growth Rates



Source: MOSPI

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
12-Oct	8k Miles Soft	Niraj Nagindas Shah	S	55,000	23.0
12-Oct	Aarey Drugs	Ridhisidhi Financial Advisory Pvt Ltd	S	91,717	55.1
12-Oct	Aarey Drugs	Bhavya Sharecom Pvt Ltd	B	100,000	54.8
12-Oct	Anshus Cloth	Rathod Manoj Chhaganlal Huf	B	120,000	26.9
12-Oct	Anshus Cloth	Oswal Shares & Securities Ltd.	S	312,000	26.9
12-Oct	Anshus Cloth	Vikramkumar Karanraj Sakaria Huf	B	224,000	27.0
12-Oct	Anuvin Inds	Mahasuklal Shah Huf	S	30,000	11.3
12-Oct	Ashutosh Paper	Chartered Motors Pvt Ltd	B	36,000	69.5
12-Oct	Birla Pacific Med	Paramhans Securities Pvt Ltd	B	800,000	2.6
12-Oct	D B Realty	Rare Enterprises	B	1,250,000	90.2
12-Oct	D B Realty	Ohm Enterprises	B	2,000,000	90.2
12-Oct	D B Realty	Trinity Capital (Eleven) Limited	S	8,723,747	90.4
12-Oct	Devika Prot	Amit Krishnakant Thakker	S	100,000	8.1
12-Oct	Devika Prot	Veepul Kishore Gohill	B	82,104	7.4
12-Oct	Finalysis Cred	Sagar Kadam	B	44,775	57.6
12-Oct	Indus Finance	S M S Tools Pvt Ltd	B	68,500	57.0
12-Oct	Jaihind Syn	Darshana Vipul Vikam	B	50,000	6.1
12-Oct	Jaihind Syn	Value Plus Shares N Securities P Ltd	S	24,115	6.1
12-Oct	Karur Vysya Bank	Lotus Global Investments Ltd	S	550,000	426.0
12-Oct	Magna Electo-$	N Krishnasamraj Huf	B	30,900	70.0
12-Oct	Magna Electo-$	Prathap S	S	25,900	70.0
12-Oct	Ortin Lab-$	Murali Krishna Murthy S	S	25,000	25.5
12-Oct	Pasupati Fin	Orion Stocks Ltd	S	25,000	21.9
12-Oct	Pasupati Fin	Charishma Engineering Ltd	S	30,070	22.2
12-Oct	Pasupati Fin	Orion Investmart Pvt Ltd	B	25,000	21.9
12-Oct	Rammaica India	Parkes Multi Trade Pvt Ltd	B	35,000	27.2
12-Oct	Regency Trust	Sunil Kumar Goel	B	50,000	34.3
12-Oct	Regency Trust	Jash Ketan Karani	S	50,000	34.3
12-Oct	Shalibhadra Fin	Hinaben Romeshbhai Shah	S	32,461	55.4
12-Oct	Shalibhadra Fin	Shah Anilbhai Naginlal	B	32,752	55.4
12-Oct	Shreychem	Arsenal Finstock Services Pvt Ltd	B	46,787	74.9
12-Oct	Sunlake Resorts	Savitridevi Jaiprakash Agarwal	B	80,000	4.7
12-Oct	Sunlake Resorts	Nikita Bhupendra Shah	S	75,400	4.7
12-Oct	Suryanagri Fin	Chimanlal Jaigopal Shah	S	49,500	44.0
12-Oct	Vikash Metal	India Focus Cardinal Fund	S	512,542	1.4

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC Bank	631	1.0	3.6	3.9
ACC Ltd	1,498	3.9	1.6	0.5
TCS	1,298	0.7	1.5	1.2
Losers				
Infosys Ltd	2,395	(5.4)	(21.0)	7.1
ICICI Bank	1,045	(1.3)	(4.8)	2.1
HDFC	740	(1.1)	(3.8)	2.2

Source: Bloomberg

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