investor's eye

Index

HCL Technologies

Apple Green

Stock Update

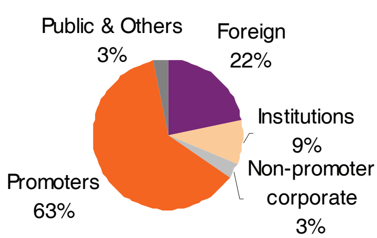
Strong earnings momentum continues....

Buy; CMP: Rs580

Company details

Price target:	Rs650
Market cap:	Rs40,275 cr
52 week high/low:	Rs606/374
NSE volume: (no. of shares)	11.5 lakh
BSE code:	532281
NSE code:	HCLTECH
Sharekhan code:	HCLTECH
Free float: (no. of shares)	26.3 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	21.4	21.1	35.8
Relative to Sensex	-0.3	11.5	10.3	22.8

Result highlights

- **Beats the street:** HCL Technologies (HCL Tech) has continued its strong earnings momentum with a better than expected margin performance, leading to a handsome outperformance in the net income level. For Q1FY2013, the revenues were up by 3.2% quarter on quarter (QoQ) to $1113.8 million, margins remain stable at 22.2% (despite wage hike) and the net income was up by 3.6% QoQ to Rs884.8 crore, much ahead of our and the Street's estimates.

- **IMS continues its strong momentum, IT services remains modest:** HCL Tech's Infrastructure Management Services (IMS) vertical continues to deliver a strong revenue momentum. For Q1FY2013, IMS reported a sequential growth of 10.4% QoQ to $295.8 million. However, IT services delivered a modest growth of 0.5% (0.2% on a constant currency basis) to $767.9 million. Although the volume growth of IT services was 2.7%, drop in the realisation (1.8% QoQ) led to a muted growth. Business process outsourcing (BPO)'s revenues increased by 5.3% QoQ to $50.1 million. The overall revenues were up by 3.2% to $1,113.8 million and blended volume growth was 4.5% QoQ.

- **Margin performance surprises positively:** For the quarter under review, earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin performance

Results Rs cr

Particulars	Q1FY13	Q1FY12	Q4FY12	YoY %	QoQ %
Revenues ($ mn)	**1,113.8**	**1,002.2**	**1,079.6**	**11.1**	**3.2**
Derived exchange rate (Rs/US$)	54.7	46.4	54.8	17.8	-0.3
Net sales	**6,091.0**	**4,651.3**	**5,919.1**	**31.0**	**2.9**
Direct costs	3,945.7	3,187.1	3,836.7	23.8	2.8
Gross profit	2,145.3	1,464.2	2,082.4	46.5	3.0
SG&A	794.3	669.3	781.5	18.7	1.6
EBITDA	**1,351.0**	**794.9**	**1,300.9**	**70.0**	**3.9**
Depreciation and amortisation	169.2	130.9	152.4	29.3	11.0
EBIT	**1,181.8**	**664.0**	**1,148.5**	**78.0**	**2.9**
Forex gain/(loss)	-60.9	-17.9	-57.6	-240.2	-5.7
Other income	35.7	23.7	15.3	50.6	133.3
PBT	1,156.6	669.8	1,106.2	72.7	4.6
Tax provision	271.8	172.8	252.5	57.3	7.6
PAT	884.8	497.0	853.7	78.0	3.6
Minority interest	0.0	0.3	-0.4		
Net profit	**884.8**	**496.7**	**854.1**	**78.1**	**3.6**
EPS (Rs)	12.8	7.2	12.3		
Margin (%)					
GPM	35.2	31.5	35.2		
EBITDA	22.2	17.1	22.0		
EBIT	19.4	14.3	19.4		
NPM	14.5	10.7	14.4		
Tax rate	23.5	25.8	22.8		

*June ending company

surprised positively, despite the lack of currency benefits and wage hike (taken for part of the employees effective from July 1, 2012). The EBITDA margin remained stable at 22.2% sequentially against our expectations of a sequential drop. In the last four preceding quarters, HCL Tech margins have improved by around 370 basis points (driven by currency and operational efficiency). For the quarter under review, offshore shift (150 basis points) and utilisation improvement (170 basis points) have driven the impressive margin performance. The management has also pointed out that transition of large deals (large deals worth $2.5 billion won in October-March 2012) to steady state has also helped improve the operational efficiency.

- **HCL Tech continues to gain from vendor churn, seeing strong opportunities in H2FY2013:** HCL Tech continues to gain from the vendor churn undertaken by the customers and is expecting an increase in opportunities in H2FY2013 (October 2012-March 2013). As per TPI, deals of total contract value worth $61 billion are up for renewal in H2CY2012, out of which around 30% deals are expected to see the vendor churn. During H2FY2012, the company has won cumulative deals worth $2.5 billion. The management's strategy of focusing on the key markets like the USA and Europe is playing out well as most of the deals restructuring/churn is happening in the two geographies. Further, with an impressive success ratio of above 50% in the recent deals wins/bid ratio, we believe HCL Tech is all set to make further inroads from the vendor churn exercise in the global market in the medium term.

- **Valuation and view:** HCL Tech has delivered strong numbers for the quarter. The margin performance has surpassed our expectations. We have marginally tweaked our earnings estimates on account of the rupee-US dollar currency reset. Among the large-cap IT companies, HCL Tech continues to remain our favoured pick. At the current market price of Rs580, the stock trades at 12.7x and 11.2x FY2013 and FY2014 earnings estimates respectively. We maintain our Buy rating on HCL Tech with a price target of Rs650.

Gearing up to gaining market share in the upcoming deal renewal season: As per a recent TPI report, H2CY2012 would see deals worth $61 billion coming up for renewal. Of this, about 30% are expected to see vendor churn. In October-December 2012, deals worth $30 billion could be coming up for renewal. Further in CY2013, the deals coming up for renewal would increase to $120 billion up from $100 billion in CY2012. Also, from October 2012 to December 2014, deals worth $273 billion would be coming up for renewal. Of this, IMS, the sweet spot for HCL Tech, would see deal worth $111 billion coming up for renewal. In context, in the last deal renewal season (October 2011–March 2012), HCL Tech had won deals worth $2.5 billion. To add to this, the company had a win ratio of 51% in Q1FY2013, winning 12 deals in the quarter. The management is gearing up to gain a pie of the upcoming renewal season and is gaining further ground against the incumbent players.

Segmental performance

Core Software Services: Volume growth at 2.5%, realisations fall...

Particulars	Q1 FY13	Q1 FY12	Q4 FY12	YoY %	QoQ %
Revenues ($ mn)	767.9	709.4	764.0	8.2	0.5
Revenues (Rs cr)	4,199.5	3,292.7	4,188.6	27.5	0.3
EBITDA (Rs cr)	985.4	591.7	974.7	66.5	1.1
EBITDA (%)	*23.5*	*18.0*	*23.3*		
EBIT (Rs cr)	886.0	507.8	881.3	74.5	0.5
EBIT margin (%)	*21.1*	*15.4*	*21.0*		

Source: Company and Sharekhan Research

- In US dollar terms, core IT services' revenues grew by 0.5% sequentially to $767.9 million, aided by a sequential volume growth of 2.5%. Cross currency tailwinds benefited by 30 basis points and realisation was down by 1.8%. In rupee terms, revenues were up 0.3% to Rs4,199.5 crore.
- The EBITDA margins improved by 20 basis points to 23.5% despite wage hike, mainly due to higher offshore (up 150 basis points) and improvement in utilisations (up 170 basis points).
- Among service lines, the revenues from custom application services grew 2.2% (1.6% on a constant currency basis), and engineering and research and development services grew by 0.4% (0.3% on a constant currency basis) whereas enterprise application services fell by 1.3% (2% on a constant currency basis).
- Drop in enterprise application services (EAS) revenues is mainly due to reduction in smaller discretionary spends and stricter capital expenditure spending undertaken by the customers.
- During the quarter under review, there was a gross employee addition of 2,394 head counts and net reduction of 181 head counts, taking the total employee head count to 55,266. The gross lateral addition was at 1,578 employees as against 1,778 employees in Q4FY2012.
- The attrition rate on the last-twelve-month basis decreased to 13.4% as against 13.7% in Q4FY2012.

IMS: Driving growth…

Particulars	Q1 FY13	Q1 FY12	Q4 FY12	YoY %	QoQ %
Revenues ($ mn)	295.8	246.3	268.0	20.1	10.4
Revenues (Rs cr)	1,617.5	1,142.9	1,469.3	41.5	10.1
EBITDA (Rs cr)	340.3	206.6	308.4	64.7	10.3
EBITDA (%)	*21.0*	*18.1*	*21.0*		
EBIT (Rs cr)	290.0	171.8	262.4	68.8	10.5
EBIT margin (%)	*17.9*	*15.0*	*17.9*		

Source: Company and Sharekhan Research

- IMS services' revenues grew by 10.4% sequentially to $295.8 million with cross currency headwinds getting affected by 10 basis points. The sequential growth is on account of the two quarters (6.6% in Q4FY2012 and 5% in Q3FY2012). In rupee terms, the revenues were up 10.1% sequentially to Rs1,617.5 crore.
- The EBITDA margins were stable at 21% despite no benefit from rupee depreciation and an adverse impact of wage hike.
- The total employee head count stood at 20,355, a net addition of 1,127 on a sequential basis. The gross overall addition was of 2,085 employees with lateral addition at 1,994 employees.
- The attrition rate was down at 14.3% from 15% in the previous quarter.
- Of the large deal wins announced in the IMS space, 80% are from Fortune 500/Global 2000 customers.

BPO: revenues highest in the last ten quarters, margins improve

Particulars	Q1 FY13	Q1 FY12	Q4 FY12	YoY %	QoQ %
Revenues ($ mn)	50.1	46.5	47.6	7.7	5.3
Revenues (Rs cr)	274.0	215.7	261.2	27.0	4.9
EBITDA (Rs cr)	25.3	-3.4	17.7	844.1	42.9
EBITDA (%)	*9.2*	*-1.6*	*6.8*		
EBIT (Rs cr)	5.9	-15.6	4.7	137.8	25.5
EBIT margin (%)	2.2	*-7.2*	*1.8*		

Source: Company and Sharekhan Research

- The BPO business reported a 5.3% sequential rise in revenues in US dollar terms to $50.1 million with benefit from cross currency tailwinds of 50 basis points. The revenues were the highest over the last ten

Operating matrix

Particulars	Q1FY13	Q1FY12	Q4FY12	YoY %	QoQ %	Remarks
Geographic mix (%)						➢ America's growth backed by large deal wins in the previous quarters. ➢ Growth faster in America and Europe as the company focuses on these geographies.
Americas	57.0	55.8	56.6	13.5	3.9	
Europe	27.9	26.6	28.0	16.6	2.8	
Rest of the world	15.1	17.5	15.5	-4.1	0.5	
Service offering (%)						
Enterprise application services	19.9	19.8	20.8	11.7	-1.3	➢ IMS reports strong growth on the back of a ramp-up happening in large deals ➢ EAS affected by sluggishness in the discretionary spends
Engineering and R&D services	18.1	18.6	18.6	8.1	0.4	
Custom application	31.0	32.4	31.3	6.3	2.2	
Infrastructure services	26.6	24.6	24.8	20.2	10.7	
BPO services	4.5	4.6	4.4	8.7	5.5	
Industry verticals (%)						
Financial services	24.1	25.1	23.8	6.7	4.5	➢ Healthcare vertical leads growth as ramp-up is happening in the large deals like Astra Zeneca etc. ➢ Retail CPG reports 10.4% Q-o-Q growth. Financial services grow 4.5% QoQ on the back of deal wins in the previous quarters
Manufacturing	27.6	29.0	28.4	5.8	0.3	
Telecom	7.5	8.5	8.0	-1.9	-3.3	
Retail & consumer product group	9.2	8.5	8.6	20.3	10.4	
Media, publishing & entertainment	7.0	6.8	6.7	14.4	7.8	
Healthcare	12.0	7.6	10.8	75.5	14.6	
Energy, utilities & public sector	6.9	8.0	7.2	-4.1	-1.1	
Others	5.7	6.6	6.4	-4.0	-8.1	
Client contribution (%)						
Top 5 clients	16.2	15.3	16.4	17.7	1.9	➢ Top 6-10 clients and other than top 20 clients growing faster than the company average
Top 10 clients	24.5	24.1	24.7	13.0	2.3	
Top 20 clients	33.6	34.2	34.1	9.2	1.7	
Others	66.4	65.8	65.9	12.1	4.0	

Source: Company and Sharekhan Research

quarters. In rupee terms, the revenues were up 4.9% sequentially to Rs274 crore.

- The EBITDA margins improved by 240 basis points sequentially to 9.2%.
- The total employee head count stood at 9,714, a net addition of 70 employees sequentially. The gross lateral addition was at 1,893 employees.
- Over the last two years, the share of voice-based revenues is down to 36% from 60%.
- The company has maintained its expectation of BPO business reaching the company's average margins in the next 18-24 months.

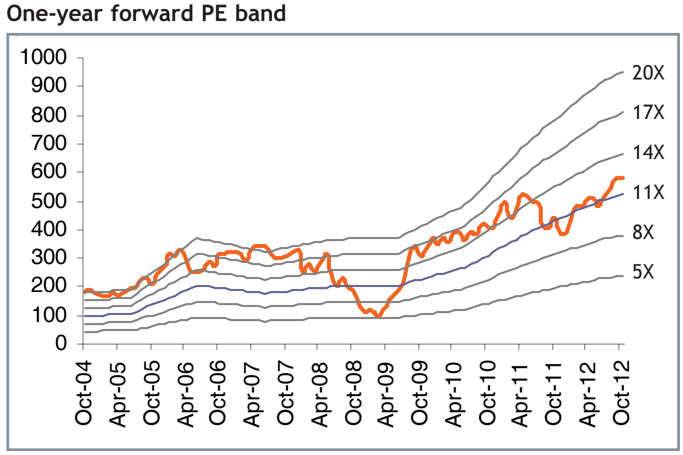
Other key highlights

- During the quarter, the company signed 12 multi-year, multi-million transformational deals across manufacturing, financial and consumer services.
- The company added 38 new clients during the quarter, taking the total active clients to 536. The number of $30 million+ clients increased to 29 from 25 in the previous quarter.
- The hedge position at the end of the quarter was to the tune of $1.465 billion from $1.4 billion at the end of the sequential previous quarter.
- Day sales outstanding days (excluding unbilled revenues) increased to 59 days from 57 days in the previous quarter.
- Cash and cash equivalents at the end of the quarter stood at $521.4 million (as against $503.2 million in the previous quarter) whereas the debt on books was $310.6 million (as against $345.5 million in the previous quarter).
- HCL Tech added 6,372 employees on a gross basis and 1,016 employees on a net basis, taking the total head count to 85,335 employees. The gross lateral hiring for the quarter was of 5,465 headcounts, up from 5,064 headcounts in the sequential previous quarter.
- The utilisation including trainees improved by 180 basis points to 74.2%. Excluding trainees, it improved by 230 basis points at 77.4% over the sequential previous quarter.
- **Valuation and view:** HCL Tech has delivered strong numbers for the quarter. The margin performance has surpassed our expectations. We have marginally tweaked our earnings estimates on account of the rupee-US dollar currency reset. Among the large-cap IT companies, HCL Tech continues to remain our favoured pick. At the current market price of Rs580, the stock trades at 12.7x and 11.2x FY2013 and FY2014 earnings estimates respectively. We maintain our Buy rating on HCL Tech with a price target of Rs650.

Valuations

Particulars	FY11	FY12	FY13E	FY14E
Net sales (Rs cr)	16,034.2	21,031.2	24,901.3	28,465.1
EBITDA (Rs cr)	2,748.8	4,025.1	4,883.1	5,391.8
Net profit (Rs cr)	1,710.0	2,525.9	3,195.3	3,617.4
EPS (Rs)	24.4	36.1	45.6	51.7
PER (x)	23.7	16.1	12.7	11.2
EV/EBITDA (x)	13.8	8.8	6.9	5.9
RoE (%)	24.6	29.8	30.1	27.2
RoCE (%)	23.0	30.4	32.3	30.3
Dividend (Rs)	7.6	11.9	11.8	11.7
Dividend yield (%)	1.2	1.3	2.1	2.0

One-year forward PE band



Source: Bloomberg

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

Shree Cement

Cannonball

Stock Update

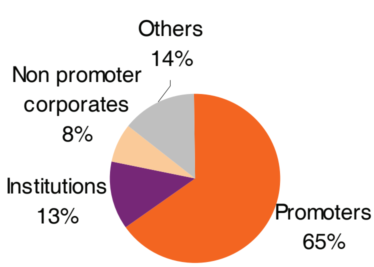
Price target revised to Rs4,250

Hold; CMP: Rs4,075

Company details

Price target:	Rs4,250
Market cap:	Rs14,196 cr
52 week high/low:	Rs4,442/1,833
NSE volume: (no. of shares)	12,556
BSE code:	500387
NSE code:	SHREECEM
Sharekhan code:	SHREECEM
Free float: (no. of shares)	1.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	19.5	39.3	42.3	122.5
Relative to Sensex	18.7	27.9	29.6	101.2

Result highlights

- **Impressive performance; earnings ahead of estimate:** In Q1FY2013, Shree Cement (quarter ending September 2012) posted an impressive performance. The operating profit of Rs393.8 crore (up 96% year on year [YoY]) was in line with our estimate. However, on account of lower than expected depreciation (Rs94 crore as compared with our estimates of Rs125 crore) and higher than expected other income of Rs29 crore (up 43.4% YoY), the adjusted net profit of Rs229 crore stood higher than our estimates.

- **A strong volume growth in cement and power drives overall revenue growth:** In Q1FY2013, Shree Cement posted revenues of Rs1,323.8 crore, which was higher by 55.4% YoY. The overall revenue growth was driven by 40.1% revenue growth in its cement business and a sharp jump in the revenues from the sale of power units (around Rs136.4 crore as compared with Rs4.2 crore in the corresponding quarter of the previous year). The revenue growth of cement division was supported by close to 22% growth in the volume and around 15% improvement in the average blended realisation. On the other hand, in the power division, the robust revenue growth was driven by an increase in the power volume (30.7 crore units as compared with 0.7 crore units in the corresponding quarter of the previous year) due to the commissioning of the second phase of its power plant of a capacity of 150MW.

- **Increased cement realisation and increased contribution from power business result in margin expansion:** The operating profit margin (OPM) surged by 616 basis points YoY to 29.7% during the quarter. The margin expanded largely on account of an increase in the cement realisation by around 15% YoY and an increase in the contribution from the power division. The power division recorded

Results Rs cr

Particulars	Q1FY2013	Q1FY2012	YoY %	QoQ %
Net sales	**1,323.8**	**852.0**	**55.4**	**-9.0**
Total expenditure	930.0	651.1	42.8	-4.5
Operating profits	**393.8**	**200.9**	**96.0**	**-18.2**
Other income	29.2	20.4	43.4	-9.2
EBITDA	423.0	221.3	91.2	-17.6
Interest	54.3	46.8	16.0	13.3
PBDT	368.7	174.5	111.3	-20.8
Depreciation	94.2	161.9	-41.9	15.1
PBT	274.5	12.5	2,091.1	-28.4
Tax	45.4	(27.7)	-264.0	42.0
Extraordinary items	1.0	1.1	-15.2	
Reported PAT	228.1	39.1	483.5	-35.1
Adjusted PAT	229.1	40.2	469.4	-34.8
Margins (%)				
OPMs	29.7	23.6		
PAT	17.3	4.7		
Tax rate	16.5			

earnings before interest, taxes, depreciation and amortisation (EBITDA) of Rs.33.8 crore as against negligible amount in the corresponding quarter of the previous year. Consequently, the operating profit increased by 96% YoY to Rs393.8 crore (as compared with the revenue growth of 55.4%). On per tonne basis, the EBITDA per tonne of cement increased by 50.3% YoY to around Rs1,188 due to the increase in the average realisation.

- **A drop in the depreciation and higher other income expanded earnings growth:** During the quarter under review, the depreciation charge dropped sharply by 41.9% YoY to Rs94.2 crore, which was much lower than our expectation of around Rs125 crore. In addition to the drop in the depreciation, the other income also came higher than estimated at Rs29.2 crore (up 43.4% YoY). Hence, the earnings growth further expanded (Rs229.1 crore compared with just Rs40 crore YoY).
- **Cement capacity to enhance to 15.5mtpa by year ending June 2014:** The company is in the process of adding another 2 million tonne per annum (mtpa) grinding capacity in Bihar, which will increase its overall cement capacity from 13.5mtpa to 15.5mtpa by December 2013. Further, the company is also adding 4mtpa of clinker capacity through units IX and X at its current location in Ras, Rajasthan, and these capacities are expected to be completed by June 2013 and June 2014 respectively.
- **Upgrading earnings estimates for FY2013 and FY2014:** We are incorporating in our estimates the better than expected realisation of the cement division. We are also factoring in the FY2013 and FY2014 estimates the lower than expected depreciation. As a result, we are upgrading our earnings estimates for both FY2013 and FY2014. The revised earnings per share (EPS) estimates now work out to Rs217.1 and Rs244.7 for FY2013 and FY2014 respectively.
- **Maintain Hold with revised price target of Rs4,250:** We believe the company's performance improved at the operating level due to better volume growth and realisation in the cement business and a surge in the revenue from the power business. Consequently, we have upgraded earnings estimates for FY2013 and FY2014, and also revised upwards our price target to Rs4,250 (we have valued the cement business at enterprise value [EV]/tonne of $125 and the power business at price/book value [P/BV] 1x). However, on account of the limited upside from the current level and the key concern in terms of higher than expected pressure on the cement realisation and higher freight cost, we maintain our Hold recommendation on the stock. At the current market price, the stock trades at an EV/EBITDA of 7.9x on FY2013E and 6.1x on FY2014 earnings estimates. We maintain our Hold recommendation with a revised price target of Rs4,250.

Segmental analysis

Particulars	Q1FY2013	Q1FY2012	YoY %	QoQ %
Segment revenue				
Cement	1,187.4	847.8	40.1	-7.4
Wind power	260.0	83.6	211.0	-14.3
Total	**1,447.4**	**931.4**	**55.4**	**-8.7**
Less: inter segmental revenue	123.6	79.4	55.8	-5.1
Net segment revenue	**1,323.8**	**852.0**	**55.4**	**-9.0**
Segment results				
Cement	239.7	123.0	94.9	-28.7
Wind power	60.2	-83.0		-7.2
Total	**300.0**	**40.0**	**650.1**	**-25.2**
PBIT margins (%)				
Cement	20.2	14.5	5.7	
Wind power	23.2			

Cement division: The volume (cement and clinker both) increased by around 22% YoY. The volume growth was mainly driven by a ramp-up in the new capacity. On a sequential basis the volume declined by 12% on account of the monsoon season. On the realisation front, the average blended realisation of the company increased by around 15% YoY. On a sequential basis, the realisation increased by over 5% to Rs3,919/tonne.

On the cost front, there was a decrease in the cost of inputs like pet coke on a per tonne basis. However, the freight cost and other expenditure increased by 12% and 23% on a per tonne basis. Hence, the overall cost of production per tonne increased by 4.2% YoY to around Rs2,731/tonne. However, with the healthy increase of 15% in the realisation, the EBITDA per tonne improved by 50.3% YoY to Rs1,188/tonne.

With supply control and a better demand environment in the company's key market, we believe the average cement realisation for FY2013 will be higher as compared with that in FY2012. However, any significant increase in the supply in FY2013 could adversely affect the cement prices.

Per tonne analysis of cement business

Particulars	Q2FY12	Q3FY12	Q4FY12	Q5FY12	Q1FY13	YoY %	QoQ %
Volume	**2,485,000**	**2,848,000**	**3,473,000**	**3,439,520**	**3,030,000**	**21.9**	**-11.9**
Realisation	**3,412**	**3,797**	**3,424**	**3,728**	**3,919**	**14.9**	**5.1**
Cost break-up							
RM	384	379	123	385	421	9.6	9.3
Stock adjustments	60	(68)	3	11	8	-86.0	-25.8
Total RM	443	312	127	396	429	-3.2	8.3
Employee expense	239	224	174	217	232	-2.6	7.1
Power and fuel	810	791	872	592	747	-7.7	26.3
Transportation and handling	627	736	708	685	703	12.1	2.6
Other expenses	502	619	543	542	619	23.2	14.3
Total expenditure per tonne	2,621	2,682	2,425	2,431	2,731	4.2	12.3
EBDITA per tonne	**790**	**1,114**	**999**	**1,297**	**1,188**	**50.3**	**-8.4**

Power division's performance

During the quarter, the performance of the power division was impressive in terms of volume. The company sold 30.7 crore units (as compared with just 0.7 crore units sold in the corresponding quarter of the previous year). The volume surged on account of the stabilisation of its merchant power plant of 300-MW capacity. The average realisation for the quarter stood at Rs4.4/unit. The revenue from the power division came in at around Rs136.4 crore.

On the cost front, the cost of generation per unit works out to Rs3.3/unit and the EBITDA/unit works out to Rs1.1/unit.

During FY2012, the company commissioned the phases I and II of the 300-MW power plant and the fuller impact of the same will be visible in FY2013 and FY2014. Hence, we expect the volume growth to support the revenue growth of the power division in the coming years.

Capacity addition update:

- ***Cement capacity addition of 2mtpa by year ending June 2014:*** The company is in the process of adding another 2mtpa grinding capacity in Bihar, which will increase its overall cement capacity from 13.5mtpa to 15.5mtpa by December 2013. Further, the company is also adding 4mtpa of clinker capacity through units IX and X at its current location in Ras, Rajasthan, and these capacities are expected to be completed by June 2013 and June 2014 respectively.

- ***Internal accruals and strong balance sheet to fund capex:*** On the capital expenditure (capex) front, the company plans to do a capex of about Rs700 crore and Rs800 crore in FY2013 and FY2014 respectively. Looking at the internal accruals and strong balance sheet of the company, we believe the funding for the capex will not be an issue.

Valuation

We are incorporating in our estimates the better than expected realisation of the cement division. We are also factoring in the FY2013 and FY2014 estimates the lower than expected depreciation. As a result, we are upgrading our earnings estimates for both FY2013 and FY2014. The revised EPS estimates now work out to Rs217.1 and Rs244.7 for FY2013 and FY2014 respectively. We believe the company's performance improved at the operating level due to better volume growth and realisation in the cement business and a surge in the revenue from the power business. Consequently, we have upgraded earnings estimates for FY2013 and FY2014, and also revised upwards our price target to Rs4,250 (we have valued the cement business at EV/tonne of $125 and the power business at P/BV 1x). However, on account of the limited upside from the current level and the key concern in terms of higher than expected pressure on the cement realisation and higher freight cost, we maintain our Hold recommendation on the stock. At the current market price, the stock trades at an EV/EBITDA of 7.9x on FY2013E and 6.1x on FY2014 earnings estimates. We maintain our Hold recommendation with a revised price target of Rs4,250.

Valuations

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net sales (Rs cr)	3,632	3,512	5,898	5,553	6,161
Growth %	*34*	*-3*	*68*	*-6*	*11*
EBDITA (Rs cr)	1,503	886	1,646	1,567	1,775
EBDITA margin (%)	41	25	28	28	29
Adjusted PAT (Rs cr)	740	258	631	756	852
Growth %	*21*	*-65*	*144*	*20*	*13*
EPS diluted (Rs)	208.5	57.2	181.1	217.1	244.7
PE (x)	19.5	71.1	22.5	18.8	16.6
P/BV (x)	7.7	7.1	5.2	4.1	3.4
EV/EBDITA (x)	9.5	16.4	7.6	7.9	6.1
EV/sales (x)	3.9	4.1	2.1	2.2	1.8
RoE (%)	48	10	27	25	22
RoCE (%)	26	15	25	22	21

*FY12 is fifteen month with Y.E June 2012, hence not comparable

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
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Oil India
Piramal Enterprises (Piramal Healthcare)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Shree Cement

Emerging Star

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

Ugly Duckling

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

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects

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