MORNING INSIGHT

Kotak Securities

PRIVATE CLIENT RESEARCH

JUNE 20, 2012

Economy News

- Advance tax collections from corporate India in the first quarter this year (April-June) reported a meagre 4.9% increase to Rs 328.8Bn. That marked a steep fall from 19% growth to Rs 313.5 bn in the corresponding period last year. The indication is companies may have paid less tax foreseeing a slowdown in earnings. (BS)
- PM Manmohan Singh reassured his countrymen, as well as foreign investors, of the India growth story, promising steps to revive investor sentiment in the country. He assured investors his government wouldn't change policies abruptly. (BS)
- The Central Electricity Regulatory Commission (CERC) is making moves to amend its rate regulations in a bid to promote hydro power projects to meet peak-hour demand. In a draft regulation to amend its terms and conditions of rate regulations, 2009, the central power regulator has proposed 16.5% (ROE) for reservoir-based hydro electricity generating stations, including pumped storage schemes. (BS)
- The Prime Minister's Office (PMO) has called a meeting on Wednesday to revive the contentious issue of imposing duty on foreign power equipment in the country, according to three people familiar with the development. The move, primarily aimed at discouraging the purchase of cheap power equipment from China and to provide a level playing field to domestic manufacturers, has been in the works since 2010. (Mint)
- After a year of investigating charges of price collusion and artificial scarcity, the Competition Commission of India (CCI) is set to pass an order tomorrow, accusing top cement companies of creating a cartel. According to top CCI officials, though 39 cement companies were under the scanner, only the top 11 by revenue are likely to face penal action, of eight per cent of their average sales in the past three years. (BS)

Corporate News

- **ONGC** and China National Petroleum Corp. inked an agreement to jointly bid for energy assets overseas in a move that could have a significant impact on the global race for oil and gas blocks. (Mint)
- **GVK Power and Infrastructure** is seeking to raise $500-600 million by selling a stake in its Singapore arm and is in talks with government of Singapore Investment Corp for a potential deal, two sources with direct knowledge of the matter said. The Indian developer of airports, power projects, roads and mines will sell a minority stake in GVK Coal Developers (Singapore) Pte Ltd, the sources said, adding that a deal may be a precursor to a Singapore listing of the unit that holds coal assets in Australia. (BS)
- India's largest real estate company, **DLF Ltd,** may offload its stake in the Nagpur Information Technology Special Economic Zone (IT SEZ) after September, in the second round of raising funds from non-core asset sales to cut debt. (BS)
- Hit by a demand slump, Toyota Kirloskar Motor has stopped production of its all petrol cars, while others like Fiat are considering shutting down plants for a few days next month. While **Tata Motors** will stop production of commercial vehicles at Pune for three days this week, Maruti Suzuki India will be having its week-long annual maintenance shut down from next week. (BS)
- **State Bank of India (SBI)** has approached rating agency Moody's Investors Services, requesting it to take a fresh look at the bank's improved net worth and performance in the hope it might be upgraded. (FE)
- **Jindal Steel & Power,** the Naveen Jindal-controlled steelmaker, is likely to exit from a three-year long takeover tussle for listed Australian coal explorer Rocklands Richfield, following an aggressive bid by China's Linyi Mining Group which has swung the support of Rocklands senior management to the Chinese offer. (ET)

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

Equity

	19 Jun 12	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	16,860	0.9	4.4	(2.6)
NIFTY Index	5,104	0.8	4.3	(3.2)
BANKEX Index	11,282	0.5	5.2	(4.7)
BSET Index	5,712	(0.1)	3.6	(4.6)
BSETCG INDEX	9,480	0.6	8.7	(5.5)
BSEOIL INDEX	7,921	2.1	6.1	(3.2)
CNXMcap Index	6,970	0.4	1.5	(8.7)
BSESMCAP INDEX	6,307	(0.0)	0.8	(4.9)
World Indices				
Dow Jones	12,837	0.7	3.8	(2.5)
Nasdaq	2,930	1.2	5.4	(4.7)
FTSE	5,586	1.7	6.0	(5.2)
NIKKEI	8,656	(0.7)	1.3	(14.0)
HANGSENG	19,417	(0.1)	3.0	(6.6)

Value traded (Rs cr)

	19 Jun 12	% Chg - Day
Cash BSE	1,827	(2.6)
Cash NSE	9,081	(6.9)
Derivatives	152,483	(20.4)

Net inflows (Rs cr)

	18 Jun 12	% Chg	MTD	YTD
FII	(593)	(251.3)	248	42,194
Mutual Fund	(38)	(379.6)	384	(5,971)

FII open interest (Rs cr)

	18 Jun 12	% Chg
FII Index Futures	11,674	4.7
FII Index Options	45,938	2.5
FII Stock Futures	23,257	2.5
FII Stock Options	1,352	0.8

Advances / Declines (BSE)

19 Jun 12	A	B	T	Total	% total
Advances	119	1,054	177	1,350	48
Declines	81	1,030	208	1,319	47
Unchanged	3	106	26	135	5

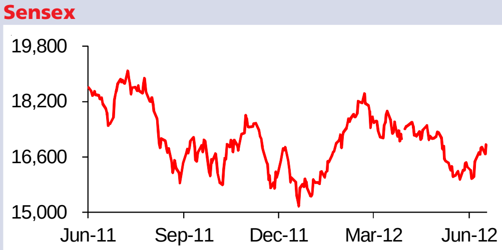
Commodity

	19 Jun 12	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	83.9	(0.2)	(8.3)	(20.6)
Gold (US$/OZ)	1,619.4	(0.3)	2.1	(1.6)
Silver (US$/OZ)	28.4	(1.0)	(0.4)	(10.7)

Debt / forex market

	19 Jun 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.39	8.43	8.53	N/A
Re/US$	56.0	55.9	55.0	50.2

Sensex



SECTOR UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6621 6302

CEMENT

What if CCI imposes penalty at 8% of average turnover of last three years on Cement Companies?

- **CCI had been investigating cement companies on account of alleged cartelization in cement prices and according to unauthenticated media reports, CCI is likely to impose penalty on cement companies at 8% of average turnover of last three years. Though the final verdict has not yet come, we present below our analysis of impact if penalty comes at 8% of average turnover of last three years for top cement companies.**
- **CCI order, if it comes, would result in de-rating of the sector, we opine, since companies were enjoying higher valuation multiples on account of pricing discipline being maintained in various markets despite demand slowdown.**
- **Along with this, cement prices would also likely come under pressure.**
- **We thus present below our analysis of impact of 8% fine on cement companies, decline in cement prices going forward and thereafter the corresponding impact on valuation multiples and recommendations for the sector.**
- **However, we maintain our estimates for the cement companies till the time final order from CCI comes through and would reassess the financials depending upon final CCI order.**
- **Though we expect demand to witness an improvement in FY13 in comparison with FY12, but with CCI acting as a watchdog against cartelization, we believe that sector would underperform in near term. Thus we would recommend a selective approach in cement sector.**

If CCI imposes fine on cement companies for cartelization.....

CCI had been investigating cement companies on account of alleged cartelization in cement prices and may fine cement companies upto 8% of average turnover of last three years as per the unauthenticated media reports. CCI started these investigations a year back on allegations that companies reduced production by operating at very low capacity utilization to inflate prices in the market. However, cement companies have indicated that price increases have been linked with the cost pressures and prices had been hiked in line with increase in overall costs. We believe that this fine, if it comes at 8%, would be negative for cement companies but companies can go to Competition Appellate Tribunal and ask for a stay on this order.

Financial impact on cement companies if fine is imposed at the rate of 8%...

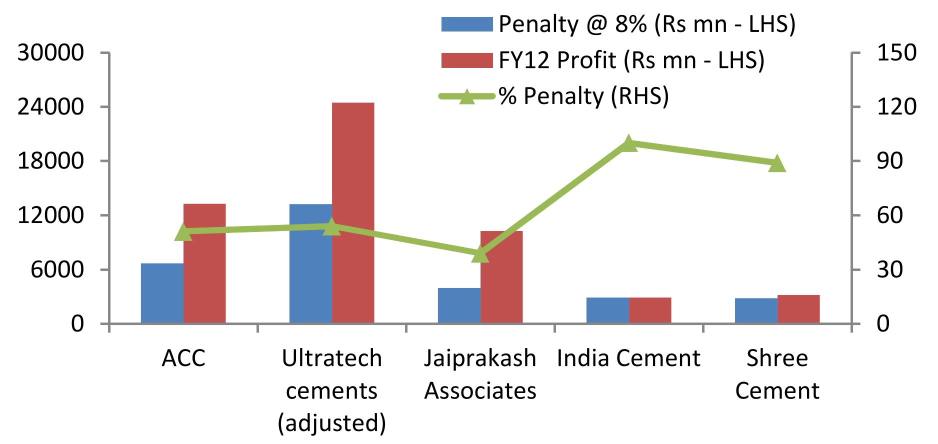
CCI may impose penalty of 8% of average turnover of past three years for cement companies. This amounts to nearly 39-100% of net profits for cement companies based on FY12 and nearly 3% of their market capitalization. We believe that cement companies would challenge the CCI fine and if they have to pay the penalty, it would be either adjusted from reserves or from P&L as extra-ordinary expense.

Expected impact of CCI fine on last financial year's bottom line

(Rsmn)	Cement turnover over last three years			Penalty	As % of	% of
	FY12/CY11	FY11/CY10	FY10/CY09	@ 8%	FY12 profits	Mcap
ACC	94389	77173	80272	6716	51%	3%
Ultratech cements (adjusted)	181664	159691	154756	13230	54%	3%
Jaiprakash Associates (cement revenue)	54650	54558	39751	3972	39%	3%
India Cement	40149	33631	35853	2924	100%	12%
Shree Cement	40351	31965	34552	2850	89%	3%

Source: Companies, Kotak Securities - Private Client Research

Penalty as a % of FY12 profits



Source: Kotak Securities - Private Client Research

Along with this, we also believe that cement prices would come under pressure and companies would not be able to enjoy the pricing discipline which they had been maintaining from past several quarters. Our pricing assumptions for companies under our coverage would get correspondingly changed if CCI imposes fine at 8%. We present below change in the estimates for FY13 for cement companies if CCI fine comes through -

Change in estimates for FY13 to factor in lower than expected cement realizations if CCI order comes through

	Earlier estimates				Revised estimates			
	Revenue	Operating Profit	OPM %	Net profit	Revenue	Operating Profit	OPM %	Net profit
ACC	111869	22309	19.9%	12099	107,801	18,241	16.9%	9,251
Grasim	266465	58671	22.0%	27992	260,938	53,074	20.3%	25,545
Ultratech cements	207635	46789	22.5%	25091	202,108	41,192	20.4%	21,173
India Cement	46750	9939	21.3%	3282	45,726	8,906	19.5%	2596
Shree Cement	54541	13681	25.1%	4645	53,662	12,802	23.9%	3925

Source: Kotak Securities - Private Client Research

Valuation multiples to witness a de-rating if CCI fine comes through..

- Cement companies had been trading at higher valuation multiples on account of pricing discipline being maintained by them despite lower than expected demand growth during past few quarters.
- We believe that if CCI imposes fine on the cement companies on account of cartelization, pricing discipline would come under pressure and cement prices would start coming down in different markets.
- Along with this, sector would also witness a de-rating in valuation multiples.
- We thus present below our analysis of revision in our estimates and target prices on cement companies if CCI fine comes through at the rate of 8% of average turnover of last three years.
- Though we expect demand to witness an improvement in FY13 in comparison with FY12, but with CCI acting as a watchdog against cartelization, we believe that sector would underperform in near term. Thus we would recommend a selective approach in cement sector.
- **However, we maintain our estimates for the cement companies till the time final order from CCI comes through and would reassess the financials depending upon final CCI order.**

Impact on valuations, target prices and recommendation if CCI fine(@8%) comes through...

Target Valuations

	Earlier Target price	Earlier Reco	Revised target price	Revised Reco
ACC	1235	REDUCE	1087	REDUCE
Grasim	3049	BUY	2822	BUY
Ultratech cements	1592	ACCUMULATE	1282	REDUCE
India Cement	91	REDUCE	76	REDUCE
Shree Cement	2886	ACCUMULATE	2628	ACCUMULATE

Source: Kotak Securities - Private client Research

COMPANY UPDATE

Arun Agarwal
arun.agarwal@kotak.com
+91 22 6621 6143

MARUTI SUZUKI INDIA LIMITED (MSIL)

PRICE: RS.1080 **RECOMMENDATION: NA**
TARGET PRICE: NA **FY13E P/E: 14.3x**

- **Passenger car industry is expected to have a tough FY13 as demand is expected to remain subdued.**
- **Recent events like hike in petrol price and status quo by RBI on rate cut has only prolonged the recovery in demand.**
- **MSIL's petrol car sales are expected to de-grow despite low last year's base (due to strike in FY12). Volume growth in FY13 is now expected to be driven largely by diesel run passenger vehicles.**
- **Weak INR against the USD is expected to play negatively on the company's operating margins as major portion of the INR-USD exposure is unhedged.**
- **MSIL has decided to merge SPIL (Suzuki Power train India Limited) with itself by buying the 70% stake held by Suzuki Motor Corporation (SMC).**
- **We are revising our FY13 estimates to factor in the current weak passenger car demand, unfavorable INR movement and merger of SPIL.**
- **We are temporarily suspending our rating on MSIL as we are advisor to MSIL in the deal with SPIL.**

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	362,997	348,778	434,965
Growth (%)	25	(4)	25
EBITDA	30,579	18,036	32,067
EBITDA margin (%)	8.4	5.2	7.4
PBT	31,088	21,462	30,423
Net profit	22,886	16,351	22,817
EPS (Rs)	79.2	56.6	75.5
Growth (%)	(8.4)	(28.6)	33.5
CEPS (Rs)	114.3	96.0	133.5
BV (Rs/share)	480	526	611
Dividend / share (Rs)	7.5	7.5	7.5
ROE (%)	17.8	11.3	13.6
ROCE (%)	23.3	14.3	17.2
Net cash (debt)	69,209	61,120	48,956
NW Capital (Days)	(6.2)	(3.2)	(4.6)
P/E (x)	13.6	19.1	14.3
P/BV (x)	2.3	2.1	1.8
EV/Sales (x)	0.7	0.7	0.6
EV/EBITDA (x)	7.9	13.9	8.6

Source: Company, Kotak Securities - Private Client Research

Demand recovery for petrol car gets prolonged

- On the macro front, the overall economic slowdown has led to poor demand for passenger cars. Widening gap between petrol and diesel prices has led to the petrol cars facing the entire brunt.
- Demand for petrol cars is slowing down more than expected given various negative factors at play. Recent steep price hike in petrol prices is expected to keep the demand under pressure over the near to medium term.
- Indian economy slowed down considerably in 4QFY12, leading to subdued expectations in FY13. Economic indicators like the IIP and inflation too are not indicating any quick recovery in the domestic economy.
- In its recent monetary policy, the RBI kept repo rates unchanged indicating its preference towards inflation control.
- With expected sluggish economic growth in the near to medium term and high difference between petrol and diesel prices, demand recovery for petrol cars will be delayed, in our view.
- For MSIL, we expect the petrol car sales in FY13 to de-grow marginally over FY12 despite lower base (due to strike in FY12).

Additional duty on diesel car sales will be significantly negative for MSIL

- Media reports suggest that the government is considering introducing additional duty in diesel run passenger vehicles. The logic behind this move is to compensate for the significant benefits derived from using subsidized diesel.
- If the government imposes any substantial additional levy on diesel run cars, it will be a major negative for MSIL.

- Changing consumer preference towards diesel cars has prompted the company to increase diesel engine supply. Accordingly, the company has increased the diesel engine manufacturing capacity from 240,000 units to 300,000 units pa, tied up with Fiat to procure additional 100,000 diesel engines pa and is setting up a new plant capable of manufacturing 300,000 units pa.
- MSIL's volume growth in FY13 is expected to be driven by growth in diesel run cars. We expect the share of diesel car sales in the company's portfolio to increase from ~22% in FY12 to ~32% in FY13.
- So any measure that curbs diesel car demand will be a significant negative for the company both in the near and the long term.

Adverse currency movement will keep margins under pressure

- Weak INR has emerged as a challenge for MSIL. Apart from the natural hedge (~25% of INR-USD exposure), the company has taken only partial cover for its 1QFY13 INR-USD exposure.
- Company's import exposure (both direct and indirect) accounts for 25% of sales and the same are pre-dominantly JPY denominated. On the JPY/USD side, the company has 40% of its expected FY13 exposure (direct and indirect) covered. However, the concern is on the INR/USD exposure which remains largely unhedged.
- Weak INR against the USD will keep the company's margin under pressure and we expect some impact on this account in 1QFY13 results.

SPIL merger

- MSIL has decided to merge SPIL (Suzuki Power train India Limited) with itself by buying the 70% stake held by Suzuki Motor Corporation (SMC).
- Through a share swap deal, MSIL will issue one share for acquiring every 70 shares of SPIL effectively valuing SPIL at ~Rs.21bn. This will lead to issuance of 13.17mn equity shares by MSIL leading to an equity dilution of 4.5%.
- Consequent to the merger, SMC's holding in MSIL will increase from 54.2% to 56.2%.
- SPIL is an associate of MSIL with the later holding 30% stake in the company. SPIL supplies diesel engines and transmissions to MSIL.
- SPIL has a current manufacturing capacity of 300,000 diesel engines per annum. MSIL accounts for ~90% of SPIL's sales.
- In FY12, SPIL's revenues stood at Rs45,514mn, EBITDA margin at 12.1% and PAT margin of 2.5%. Company follows an aggressive depreciation policy leading to lower PAT margins despite healthy EBITDA margins.
- As of end FY12, SPIL's gross block stood at Rs32bn and had long term borrowings of Rs5bn.
- Royalty outgo for SPIL is 4.8% of net sales and is paid in Euro. SPIL has significant forex exposure which is largely associated with Euro and Yen.

Change in estimates

- We are revising our FY13 estimates in order to factor in the current weak passenger car demand, unfavorable INR movement and merger of SPIL.
- Accordingly, our revised revenue estimate stands at Rs434,965mn (earlier Rs435,513mn), EBITDA margin at 7.4% (earlier 7.8%) and net profit at Rs22,817mn (earlier Rs26,340mn).
- We are temporarily suspending our rating on MSIL as we are advisor to MSIL in the deal with SPIL.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
19-Jun	Arunjyoti Ent	Anupam Narain Gupta	S	26,000	18.12
19-Jun	Bhoruka Alum	Hiten Chandrakantbhai Parmar	S	275,588	2.13
19-Jun	Blue Star	Saif India IV FII Holdings Ltd	B	958,714	174.93
19-Jun	Blue Star	Equinox Partners LP	S	947,321	175.00
19-Jun	Finalysis Cred	Dharmendra Harilal Bhojak	B	50,094	57.95
19-Jun	Gujarat Narm Fly	Kailash Ficom Ltd	B	75,000	45.03
19-Jun	IDFC	Macquarie Bank Ltd	S	8,000,000	127.55
19-Jun	IFL Promoters	North India Securities Pvt Ltd	S	50,001	5.52
19-Jun	Jaihind Syn	Dinesh Jayntalal Doshi	B	43,075	14.55
19-Jun	Krishna Deep	Alok Finance Pvt. Ltd.	B	60,000	42.25
19-Jun	Madhur Capital	Shalin Vinitbhai Parikh	S	50,000	8.03
19-Jun	Mahaveer Info	Sangita Sandeep Merchant	B	37,755	13.02
19-Jun	Mahesh Agri	Murlidhar Ganpat Jadhav	S	3,500	9.72
19-Jun	Raymed Labs	Utkarsh Printing Press Pvt Ltd	B	61,999	22.30
19-Jun	Suryanagri Fin	Alok Finance Pvt. Ltd.	B	22,500	24.20
19-Jun	Suryanagri Fin	Niraj Realtors & Shares Pvt. Ltd.	B	22,500	24.20
19-Jun	Suryanagri Fin	Manisha Sanjay Agrawal	S	90,000	24.20
19-Jun	Sybly Inds-$	Bampsl Securities Ltd	B	2,200,100	0.53
19-Jun	Venus Power	Dhana Energy Pvt Ltd	B	110,000	24.26

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ITC Ltd	249	2.6	10.7	6.2
Reliance Ind	737	2.6	10.0	1.8
ICICI Bank	827	1.3	3.8	3.1
Losers				
Infosys	2,477	(1.4)	(5.4)	0.8
Sterlite Ind	94	(1.6)	(0.7)	24.6
Tata Power	91	(1.4)	(0.7)	3.7

Source: Bloomberg

Fundamental Research Team

Dipen Shah
IT, Media
dipen.shah@kotak.com
+91 22 6621 6301

Saurabh Agrawal
Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448

Amit Agarwal
Logistics, Transportation
agarwal.amit@kotak.com
+91 22 6621 6222

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Saday Sinha
Banking, NBFC, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Ritwik Rai
FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6652 9172

Teena Virmani
Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Arun Agarwal
Automobiles
arun.agarwal@kotak.com
+91 22 6621 6143

Sumit Pokharna
Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Technical Research Team

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6621 6360

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Premshankar Ladha
premshankar.ladha@kotak.com
+91 22 6621 6261

Derivatives Research Team

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 22 6621 6343

Rahul Sharma
sharma.rahul@kotak.com
+91 22 6621 6198

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6621 6350

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6621 6110

Disclaimer

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India. Tel : +9122 6634 1100
Correspondence address: Infinity IT Park, Bldg. No 21, Opp Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097.
Tel No : 66056825.
Securities and Exchange Board Of India: Registration No's: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230/
INE 011207251, OTC INB 200808136, MCXSX INE 260808130. AMFI No: 0164.