investor's eye

Index

Sharekhan Ltd, Regd Add: 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400 042, Maharashtra. Tel: 022 - 61150000. BSE Cash-INB011073351; F&O-INF011073351; NSE – INB/INF231073330; CD - INE231073330; MCX Stock Exchange: CD - INE261073330 DP: NSDL-IN-DP-NSDL-233-2003; CDSL-IN-DP-CDSL-271-2004; PMS INP000000662; Mutual Fund: ARN 20669. Sharekhan Commodities Pvt. Ltd.: MCX-10080; (MCX/TCM/CORP/0425); NCDEX -00132; (NCDEX/TCM/CORP/0142)

Allahabad Bank

Cannonball

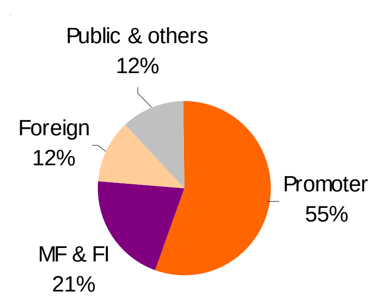
Stock Update

Q1FY2013 results: First-cut analysis

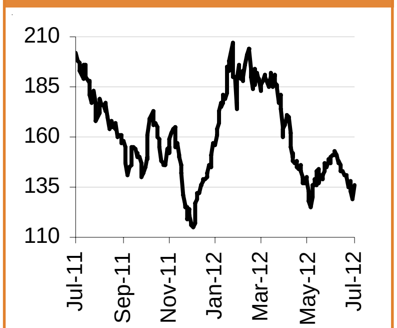
Buy; CMP: Rs137

Company details	
Price target:	Rs230
Market cap:	Rs6,835 cr
52 week high/low:	Rs211/114
NSE volume: (no. of shares)	14.9 lakh
BSE code:	532480
NSE code:	ALBK
Sharekhan code:	ALBK
Free float: (no. of shares)	22.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.3	-16.2	-14.2	-36.5
Relative to Sensex	-12.9	-15.7	-13.3	-31.7

Result highlights

Allahabad Bank's Q1FY2013 results were ahead of estimates as the net earnings of the bank grew by 22.9% year on year (YoY; 28.4% quarter on quarter [QoQ]) to Rs514 crore. This was largely contributed by a decline in the provision expenses and lower tax rates (20% vs 26.6%).

Dip in margins and slower loan expansion hurt NII growth

The net interest income (NII) was in line with our estimates as it grew by 11.1% YoY and 1.4% QoQ to Rs1,306 crore. The net interest margin (NIM) declined 5 basis points QoQ to 3.17%. The yield on advances grew by 41 basis points sequentially to 12.43% which was offset by a 49 basis points sequential increase in the cost of deposits. The current account savings account (CASA) ratio also declined sequentially to 29.6% from 30.5% in Q4FY2012 contributing to an increase in the cost of deposits.

Advances growth at 12% YoY; deposits growth in line with industry

The advances of the bank grew by 11.9% YoY and remained flat sequentially as the bank focused on reducing the short term low yielding advances. The corporate advances grew by 8% YoY whereas the small and medium enterprise (SME) advances grew by 12.2% YoY. The agriculture and retail advances reported a strong growth of 19.6% YoY and 15.5% YoY respectively. The deposits grew by 17.2% YoY but declined by 1.7% QoQ.

Sharp rise in restructured advances

The gross and net non performing assets (NPAs) increased sequentially to 1.96% and 1.09% respectively from 1.83% and 0.98% in Q4FY2012, contributed by slippages of Rs590 crore (annualised 2.1%). The bank also restructured Rs4,777 crore of

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Interest earned	4,458.2	3,549.8	25.6	4,168.2	7.0
Interest expense	3,152.3	2,374.3	32.8	2,879.9	9.5
Net interest income	**1,305.9**	**1,175.6**	**11.1**	**1,288.4**	**1.4**
Other income	309.6	285.9	8.3	355.1	-12.8
Net operating income	**1,615.4**	**1,461.5**	**10.5**	**1,643.5**	**-1.7**
Operating expenses	659.8	571.9	15.4	742.4	-11.1
- Employee cost	313.2	382.2	-18.1	495.0	-36.7
- Other costs	224.2	189.7	18.2	247.4	-9.4
Operating profit	**955.6**	**889.6**	**7.4**	**901.1**	**6.1**
Prov for contingencies	313.2	319.7	-2.0	454.4	-31.1
PBT	**642.5**	**570.0**	**12.7**	**446.7**	**43.8**
TAX	128.5	151.8	-15.4	46.5	176.6
PAT	**514.0**	**418.1**	**22.9**	**400.2**	**28.4**
Gross NPA (%)	2.0	1.6		1.8	
Net NPA (%)	1.1	0.6		1.0	

advances during the quarter largely accounting for the Uttar Pradesh state electricity board (SEB; Rs2,500 crore) and Rs600 crore (Dakshin Haryana and Ajmer SEBs). The bank has additional restructuring in the pipeline of Rs700-800 crore. The total restructured loans stand at Rs10,277 crore (9.7% of the advances).

Non- interest income growth remains muted

The non-interest income grew by 8.3% YoY (12.8% QoQ) mainly driven by an 8.9% YoY (-12.3% QoQ) growth in the commission income. The foreign exchange (forex) income grew by 88% YoY while the treasury profits increased to Rs55 crore vs Rs26 crore in Q1FY2012. The cost to income ratio grew to 40.8% for the quarter as against 39.1% in Q1FY2012 (45.2% in Q4FY2012).

Provision expenses dip 30% QoQ

The provision expenses declined by 2% YoY and 29.7% QoQ mainly led by a reversal in provision for investment depreciation. During the quarter the provisions for NPAs stood at Rs270 crore as against Rs166 crore in Q1FY2012 (Rs411 crore in Q4FY2012) whereas the bank recorded a reversal of provision for investment depreciation of Rs96 crore as against Rs113 crore in Q1FY2012. The provision coverage ratio (PCR) remained stable at 73.6%, in line with Q4FY2012. The tax rate of the bank has also fallen to 20% for the quarter from 26.6% in Q1FY2012 (10.3% in Q4FY2012).

Outlook and valuation

Allahabad Bank reported better than expected numbers on the back of lower provisions and tax rates. The core income growth has slowed in line with the industry. While the overall NPA numbers are better than peers the sharp rise in restructured advances during the quarter is concerning. We will release a detailed update post the management interaction.

Mcleod Russel India

Ugly Duckling

Stock Update

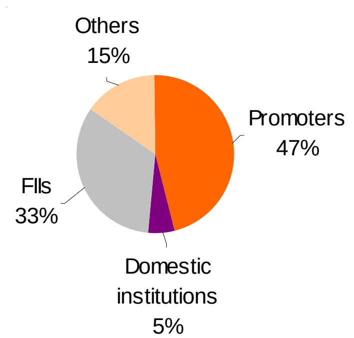
Seasonally weak Q1 disappoints; strong revival expected in the coming quarters

Buy; CMP: Rs325

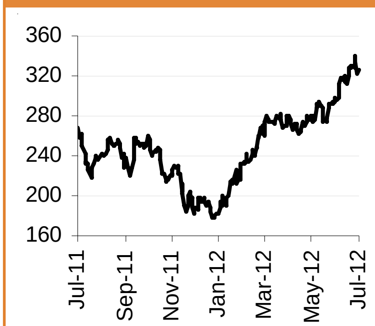
Company details

Price target:	Rs339
Market cap:	Rs3,557 cr
52 week high/low:	Rs345/166
NSE volume: (no. of shares)	4.1 lakh
BSE code:	532654
NSE code:	MCLEODRUSS
Sharekhan code:	MCLEODRUSS
Free float: (no. of shares)	5.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.1	18.3	78.9	19.6
Relative to Sensex	12.6	19.0	80.8	28.7

Result highlights

- **Q1FY2013 revenues flat; impact of lower volumes mitigated by higher realisations:** Mcleod Russel India Ltd (MRIL)'s income from operations (including other operating income) stood flat at Rs145.7 crore in Q1FY2013. The sales volume was down by 19% year on year (YoY) to 7.9 million kg, while the average realisation was up by 21% to approximately Rs181 per kg during the quarter.

- **Margins dented by crop loss; jump in blended realisations improves outlook:** The operating margins were down significantly to 15.7% in Q1FY2013 from 30.3% in Q1FY2012 and the operating profit was down by 49% to Rs22.9 crore. The unfavourable weather conditions have resulted in a crop loss of 28 million kg in India and 2.7 million kg for MRIL, which has resulted in lower volume offtake in an already seasonally weak quarter. The margins were dented as the company accounted for the entire cost of crop loss in Q1 results. On the brighter side, the blended realisations have moved up by close to Rs30 kg and the same would get reflected in Q2 and Q3 results (that contribute close to 65% of sales).

- **Broadly maintain estimates:** We have fine-tuned our estimates for FY2013 and FY2014 to factor in for the crop loss (resulting in lower volumes), cost increases and higher blended realisations. However, any further loss of crop could be detrimental for the company and the volume performance in Q2 and Q3 will have to be watched closely for any further slippages.

Results (Standalone) (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %
Total revenues	145.7	147.8	-1.4
Raw material cost	-101.5	-88.6	14.5
Employee cost	118.6	105.6	12.2
Consumption of stores and spares	23.0	21.3	8.0
Power and Fuel	34.0	28.3	20.0
Freight, Shipping and selling expenses	9.1	8.3	10.0
Other expenses	39.6	28.1	41.0
Total expenditure	122.8	103.0	19.3
Operating profit	22.9	44.8	-49.0
Other income	12.6	5.6	124.4
Finance cost	8.6	4.9	74.7
Depreciation	7.6	7.1	7.8
PBT	19.3	38.5	-49.8
Tax	0.0	0.0	
PAT	19.3	38.5	-49.8
Sales quantity	0.8	1.0	-19
Average realisation	180.9	149.8	21
EPS (Rs)	1.8	3.5	-49.8
OPM (%)	15.7	30.3	

- **Maintain Buy:** Q2 and Q3 of a fiscal year are the key quarters for the black tea producing companies in India. Any improvement in the tea production in the coming months and firm tea prices would act as a key positive for MRIL in the coming quarters. Hence the next two quarters' performance has to be keenly monitored. At the current market price the stock trades at 10.9x its FY2013E consolidated earnings per share (EPS) of Rs29.7 and 8.6x its F2014E consolidated EPS of Rs37.5. We maintain our Buy recommendation on the stock with a price target of Rs339.

Exports decline by 44% YoY

The exports declined by 44% YoY to Rs14.8 crore in Q1FY2013. The export volumes were down by 47% YoY to 0.8 million kg, impacted by a lower product during the quarter. The export realisation stood at Rs185.3 per kg, up by 5% YoY. The company expects export volumes to improve in the coming quarters and expects the year to end with an export volume of 24-25 million kg.

Total standalone sales (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %
Exports sales	14.8	26.5	-44.1
Domestic sales	128.1	118.8	7.9
Total sales	142.9	145.3	-1.6
Sales volume (in million kg)			
Exports sales	0.8	1.5	-46.7
Domestic sales	7.1	8.2	-13.4
Total sales volume	7.9	9.7	-18.6
Sale realisation (Rs per kg)			
Exports sales	185.3	176.7	4.9
Domestic sales	180.4	144.8	24.6
Average sales realisation	180.9	149.8	20.8

Other geographies' performance: The Ugandan subsidiary's sales were down by 6.7% YoY to $14 million in H1CY2012 on a constant currency basis. This was largely on account of a 6.7% YoY drop in sales volume. The production in Uganda was down by 6.8% YoY to 6.8 million kg. The EBIDTA margins were down to 28.6% in Q1FY2013 from 36.0% in Q1FY2012. On the other hand the Rwandan subsidiary's sales stood at $4.2 million and its EBDITA margins stood at 69.0%.

International subsidiaries performance

Particulars	H1CY12	H1CY11	YoY %
Sales (USD Million)			
Phuben (Vietnam)	4.5	2.8	62.1
MCRL (Uganda)	14.0	15.0	-6.7
Gisovu (Rwanda)	4.2		
EBIDTA (USD Million)			
Phuben (Vietnam)	0.2	0.3	-33.3
MCRL (Uganda)	4.0	5.4	-25.9
Gisovu (Rwanda)	2.9		
EBIDTA Margins (%)			
Phuben (Vietnam)	4.5	10.8	
MCRL (Uganda)	28.6	36.0	
Gisovu (Rwanda)	69.0		

View on global tea production and prices: India's tea production is down by approximately 9% YoY to 216 million kg from January to May 2012. As per the Indian Tea Association, the production in June 2012 was down in key northern tea growing areas due to unfavorable rains. The tea production during the period of July-September 2012 (key production months) will have to be keenly monitored and the same will give us a clear indication of the current fiscal production. On the other hand the Kenyan and Sri Lankan tea production was down by ~11% YoY and ~7% YoY respectively during the period January-June 2012. This has increased the demand-supply mismatch in the global markets and fuelled the tea prices upwards in the domestic market. The average north India prices stood at Rs162 per kg in June 2012 as against Rs132 per kg in June 2011.

With the demand-supply gap of tea to sustain in the coming months, we expect the Indian tea prices to remain firm in the coming months.

Broadly maintain estimates

We have fine-tuned our estimates for FY2013 and FY2014 to factor in for the crop loss (resulting in lower volumes), cost increases and higher blended realisations. However, any further loss of crop could be detrimental for the company and the volume performance in Q2 and Q3 needs to be watched closely for any further slippages.

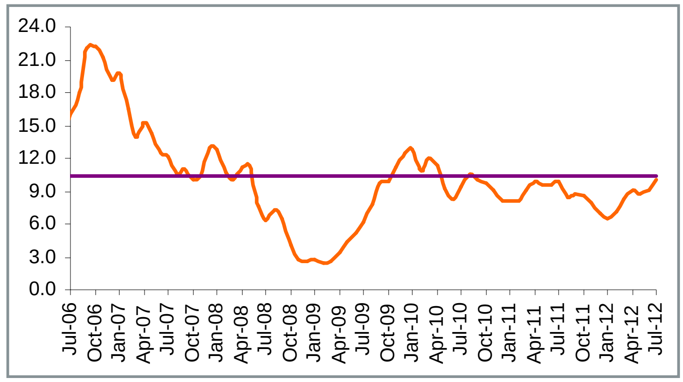
Outlook and valuation

Q2 and Q3 of a fiscal year are the key quarters for the black tea producing companies in India. Any improvement in the tea production in the coming months and firm tea prices would act as a key positive for MRIL in the coming quarters. Hence the next two quarters' performance has to be keenly monitored. At the current market price the stock trades at 10.9x its FY2013E consolidated EPS of Rs29.7 and 8.6x its F2014E consolidated EPS of Rs37.5. We maintain our Buy recommendation on the stock with a price target of Rs339.

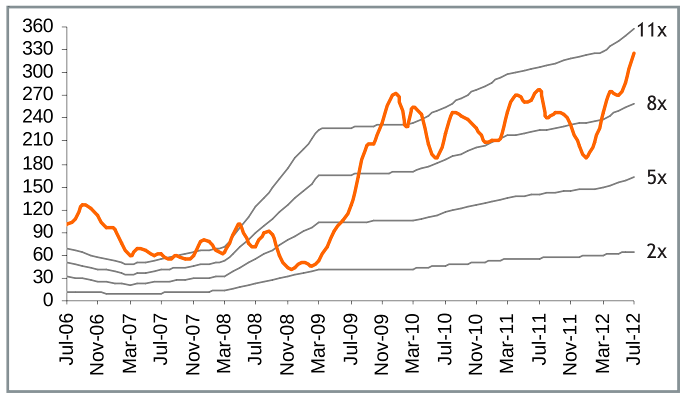
Valuations (Consolidated)

Particulars	FY11	FY12	FY13E	FY14E
Net sales (Rs cr)	1269.2	1412.0	1683.6	1982.5
Operating profit (Rs cr)	360.3	356.0	446.3	547.7
Adjusted PAT (Rs cr)	246.4	296.5	326.2	412.2
EPS (Rs)	22.5	27.1	29.8	37.7
OPM (%)	28.4	25.2	26.5	27.6
PE (X)	14.4	12.0	10.9	8.6
Market cap/sales	2.8	2.5	2.1	1.8
EV/EBIDTA (X)	10.7	10.5	8.3	6.5
RoE (%)	17.3	18.6	17.6	19.2
RoCE (%)	18.9	18.8	21.3	23.5

One year forward PE chart



PE band



Bank of Baroda

Apple Green

Stock Update

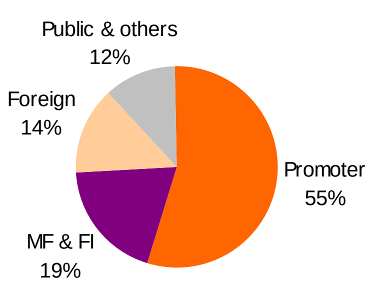
Asset quality disappoints

Buy; CMP: Rs673

Company details

Price target:	Rs865
Market cap:	Rs27,652 cr
52 week high/low:	Rs894/615
NSE volume: (no. of shares)	7.2 lakh
BSE code:	532134
NSE code:	BANKBARODA
Sharekhan code:	BANKBARODA
Free float: (no. of shares)	18.78 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-9.4	-12.4	-12.4	-24.0
Relative to Sensex	-9.0	-11.9	-11.5	-18.1

Result highlights

- Bank of Baroda (BoB)'s Q1FY2013 results were broadly in line with our estimates as net profits grew 10.3% year on year (YoY) to Rs1,139 crore. Though the net interest income (NII) growth was healthy (up 21.8% YoY), higher provisions impacted the growth in profits.
- The net interest margin (NIM; global) declined by 24 basis points quarter on quarter (QoQ; 2.73% in Q1FY2013 vs 2.96% in Q4FY2012) due to a decline in the yield on advances and rise in the cost of deposits.
- Advances grew 23% YoY largely contributed by overseas advances (up 41% YoY) while domestic advances grew 16% YoY. The domestic current account savings account (CASA) ratio was at 32.2% compared to 33.2% in Q4FY2012.
- The asset quality disappointed as gross non performing assets (NPAs) expanded by 33% QoQ (gross NPAs at 1.84% vs 1.53% in Q4FY2012) in absolute numbers contributed by slippages of Rs1,257 crore. However, the additional restructuring was lower (Rs771 crore) than the peer banks.
- The fee income growth was sluggish (up 4% YoY) while recoveries from written off accounts (Rs83 crore vs Rs29 crore) and higher foreign exchange (forex) income supported growth of the non-interest income (up 20% YoY).

Valuation

At the operating level, BoB's results are healthy, showing a growth of 23% YoY with a 21% growth in the NII. The margins are expected to stabilise around the current levels and we expect the bank to deliver a NII growth of 19% (compounded annual

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Interest earned	8,557.6	6,631.8	29.0	8,118.5	5.4
Interest expense	5,759.5	4,334.6	32.9	5,321.1	8.2
Net interest income	**2,798.1**	**2,297.2**	**21.8**	**2,797.4**	**0.0**
Other income	770.8	640.9	20.3	897.8	-14.1
Net operating income	**3,568.9**	**2,938.1**	**21.5**	**3,695.2**	**-3.4**
Operating expenses	1,315.7	1,106.8	18.9	1,644.3	-20.0
- Employee cost	761.0	645.4	17.9	1,019.6	-25.4
- Other costs	554.7	461.4	20.2	624.7	-11.2
Operating profit	**2,253.2**	**1,831.3**	**23.0**	**2,050.9**	**9.9**
Prov for contingencies	893.8	391.1	128.6	843.7	5.9
PBT	**1,346.9**	**1,427.2**	**-5.6**	**1,196.5**	**12.6**
TAX	208.1	394.4	-47.2	(321.7)	-164.7
PAT	**1,138.9**	**1,032.9**	**10.3**	**1,518.2**	**-25.0**
Gross NPA (%)	1.84	1.46		1.53	
Net NPA (%)	0.65	0.44		0.54	

growth rate [CAGR] over FY2012- 14). Though the asset quality remains an industry-wide concern, BoB's NPAs are lower than peers and a higher provisioning coverage ratio provides comfort on earnings. We expect BoB's earnings to grow at a CAGR of 11% over FY2012-14 and expect the bank to maintain RoA of +1% going ahead. We maintain Buy with a target price of Rs865.

Steady growth in NII, margins dip 24 basis points QoQ

BoB's NII grew 21.8% YoY in line with our estimates leading to a healthy 23% growth in the operating profits. However the NIM declined by 24 basis points QoQ to 2.73%. The domestic NIM dipped by 22 basis points while the overseas NIM declined by 13 basis points QoQ. The contraction in the NIM was contributed by a combination of a decline in the yields and rise in cost of funds. Going ahead the management expects to maintain the NIM (global) at 2.7% levels.

Slower growth in domestic advances

While the overall advances growth was healthy, showing a growth of 23% YoY, it was largely contributed by overseas advances (up 41% YoY; partly due to currency depreciation). The domestic advances grew 16% YoY largely in line with the industry. Within the domestic segment the retail advances grew at a slower rate (16%) due to cautious lending. The deposits increased 23% YoY whereas the domestic CASA ratio was at 32.2% vs 33.2% in Q4FY2012.

Business growth

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Advances	173,911	145,567	19.5	177,882	-2.2
Deposits	222,110	199,178	11.5	222,869	-0.3
CD Ratio	78.3	73.1		79.8	

Asset quality disappoints

During Q1FY2013, the slippages increased to Rs1,257 crore (Rs1,323 crore in Q4FY2012) which led to a rise in the NPAs. According to the management the slippages were largely from smaller accounts (except for a large corporate account of ~Rs100 crore) and could be recovered in the coming quarters. The bank also restructured Rs771 crore of advances thereby increasing the restricted advances to 5.5% of the book. According to the management a third of the total restructured advances have completed two years tenure and would require lower provisioning vis a vis other public sector banks. The provision coverage remained at a healthy level of 79% vs 80% in Q4FY2012.

Tax rate declines to 15%

The tax rate was lower at 15% compared to 28% in Q1FY2012 which aided the growth in profits. The management justifies the reduction in tax rate on account of lower taxes on overseas operations and G-sec portfolio.

Provision expenses

Particulars	Q1 FY13	Q1 FY12	YoY %	Q4 FY12	QoQ %
Prov. for contingencies	518.5	428.4	21.0	517.2	0.3
- For NPAs/Standard assets	443.0	353.0	25.5	365.0	21.4
- For Investment Depreciation	66.0	70.0	-5.7	-108.0	-161.1
- Others	9.0	6.0	50.0	260.0	-96.5

Sluggish growth in fee income

The fee income grew at 4.0% YoY due to a slower growth in commissions and incidental charges. However, a stronger growth in forex income (up 37% YoY) and treasury income (Rs82 crore vs Rs137 crore in Q4FY2012) contributed to a 20% YoY growth in the non-interest income. The cost to income ratio was 36.9% vs 44.5% in Q4FY2012.

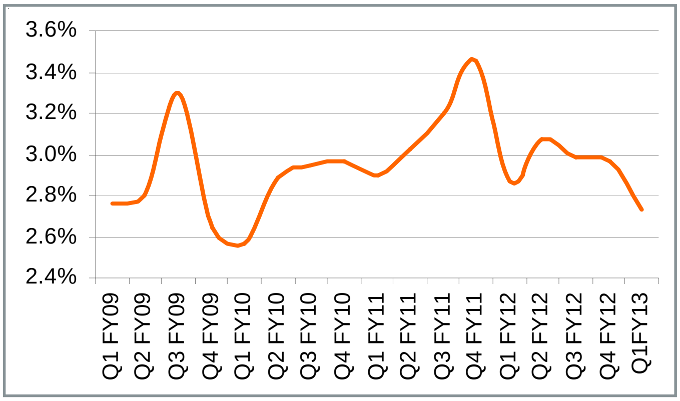
Non-interest income

Particulars	Q1 FY13	Q1 FY12	YoY %	Q4 FY12	QoQ %
Non-interest income	**491.2**	**484.0**	**1.5**	**755.4**	**-35.0**
- Fee income	295.0	252.0	17.1	403.0	-26.8
- Trading and Forex income	83.0	60.0	38.3	63.0	31.7
- Treasury profit	55.0	113.0	-51.3	127.0	-56.7
- Misc. income	58.0	59.0	-1.7	162.0	-64.2

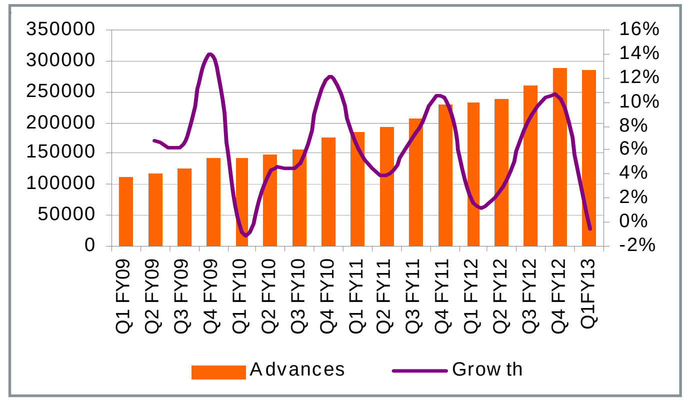
Valuation

At the operating level, BoB's results are healthy, showing a growth of 23% YoY with a 21% growth in the NII. The margins are expected to stabilise around the current levels and we expect the bank to deliver a NII growth of 19% CAGR over FY2012- 14. Though the asset quality remains an industry-wide concern, BoB's NPAs are lower than peers and a higher provisioning coverage ratio provides comfort on earnings. We expect BoB's earnings to grow at a CAGR of 11% over FY2012-14 and expect the bank to maintain RoA of +1% going ahead. We maintain Buy with a target price of Rs865.

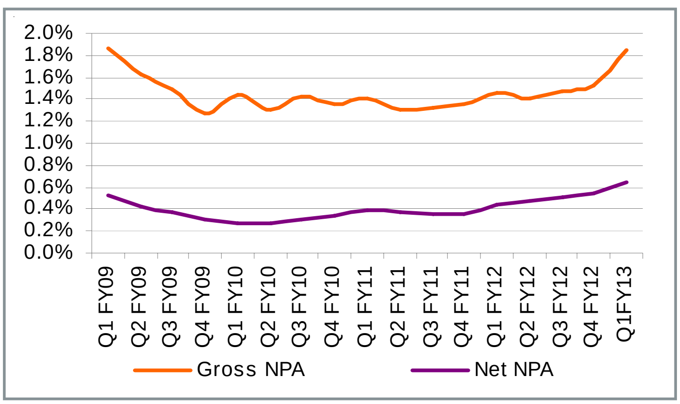
Trend in NIM



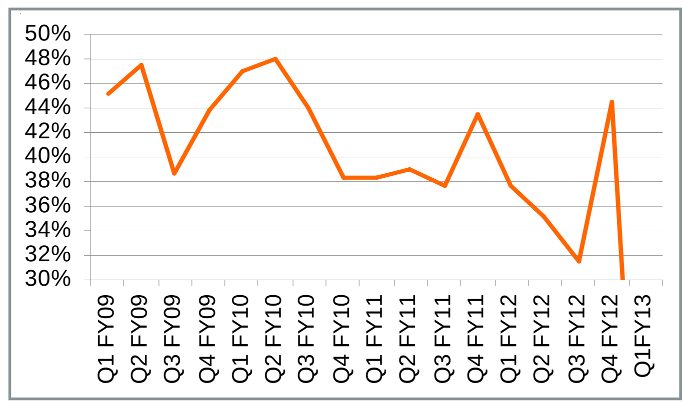
Advances growth



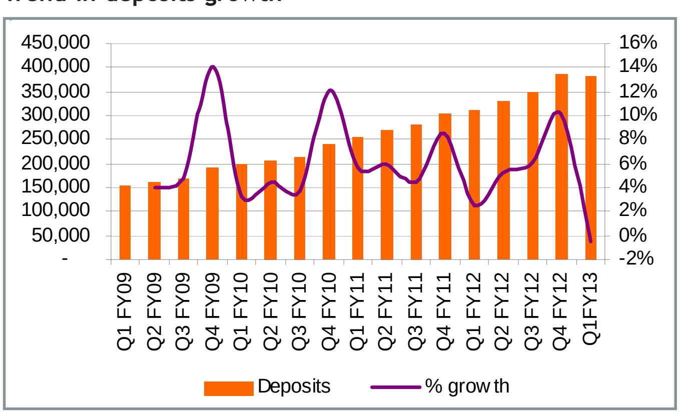
Trend in gross and net NPAs



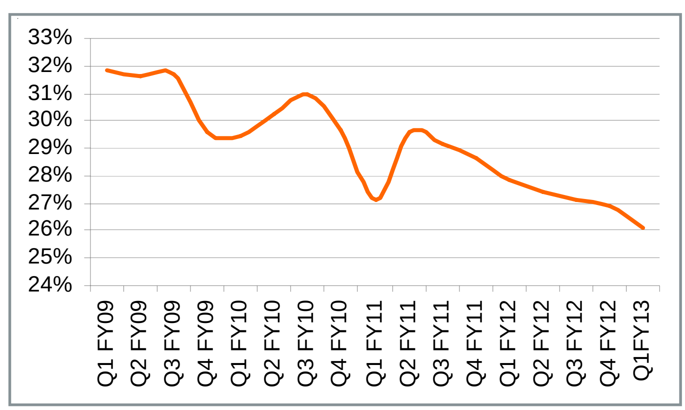
Cost-income ratio



Trend in deposits growth



Trend in CASA



Financials

Profit & Loss statement (Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net interest income	5,940	8,802	10,317	12,272	14,600
Non-interest income	2,806	2,809	3,422	3,862	4,373
Net total income	8,746	11,611	13,739	16,134	18,973
Operating expenses	3,811	4,630	5,159	5,846	6,813
Pre-provisioning profit	4,935	6,982	8,581	10,288	12,160
Provision & contingency	697	1,331	2,555	2,857	3,240
PBT	4,238	5,650	6,026	7,430	8,921
Tax	1,180	1,409	1,019	2,155	2,765
PAT	3,058	4,242	5,007	5,276	6,155

Balance sheet (Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Networth	15,106	21,045	27,478	31,706	36,638
Deposits	241,262	305,439	384,871	456,072	542,726
Borrowings	6,160	12,906	14,171	15,963	20,081
Other liabilities & provisions	15,789	19,008	20,802	22,845	25,229
Total liabilities	278,317	358,398	447,323	526,585	624,674
Assets					
Cash & balances with RBI	13,540	19,868	21,651	25,084	29,850
Balances with banks & money at call	21,927	30,066	42,517	44,643	46,875
Investments	61,182	71,261	83,209	100,760	120,744
Advances	175,035	228,676	287,377	341,979	410,375
Fixed assets	2,285	2,300	2,342	2,589	2,798
Other assets	4,347	6,227	10,227	11,530	14,032
Total assets	278,317	358,398	447,323	526,585	624,674

Key ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Per share data					
EPS	83.7	107.6	121.4	127.5	148.4
DPS	14.5	15.9	19.7	21.7	25.2
BV	377.7	501.3	641.3	746.5	867.1
ABV	361.2	481.2	603.9	709.0	835.7
Spreads (%)					
Yield on advances	7.9	8.0	8.7	8.6	8.5
Cost of deposits	4.6	4.3	5.1	5.1	5.0
Net interest margins	2.5	3.0	2.8	2.7	2.7
Operating ratios (%)					
Credit to deposit	72.5	74.9	74.7	75	75.6
Cost to income	43.6	39.9	37.5	36.2	35.9
Non interest income / Total income	32.1	24.2	24.9	23.9	23.0
Return ratios (%)					
RoE	21.9	23.5	20.6	17.8	18
RoA	1.2	1.3	1.2	1.1	1.1
Assets/Equity	18.1	17.6	16.6	16.5	16.8
Asset quality ratios (%)					
Gross NPA	1.4	1.4	1.5	1.8	1.7
Net NPA	0.3	0.3	0.5	0.5	0.3
Provision coverage	74.8	74.8	65.3	75.8	81.3
Growth ratios (%)					
Net interest income	15.9	48.2	17.2	18.9	19
PPP	14.6	41.5	22.9	19.9	18.2
PAT	37.3	38.7	18	5.4	16.7
Advances	21.6	30.6	25.7	19	20
Deposits	25.4	26.6	26	18.5	19
Valuation ratios (%)					
P/E	8.2	6.4	5.7	5.4	4.6
P/BV	1.8	1.4	1.1	0.9	0.8
P/ABV	1.9	1.4	1.1	1.0	0.8

Maruti Suzuki India

Apple Green

Stock Update

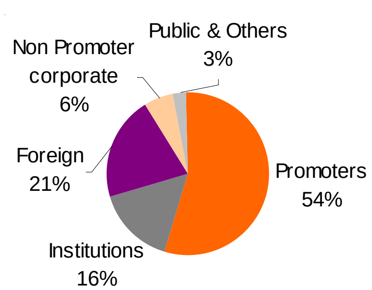
Price target revised to Rs1,364

Hold; CMP: Rs1,120

Company details

Price target:	Rs1,364
Market cap:	Rs32,362 cr
52 week high/low:	Rs1428/905
NSE volume: (no. of shares)	10.3 lakh
BSE code:	532500
NSE code:	MARUTI
Sharekhan code:	MARUTI
Free float: (no. of shares)	13.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	-19.5	-8.1	-7.3
Relative to Sensex	-0.4	-19.0	-7.1	-0.3

Result highlights

- Maruti Suzuki (Maruti)'s total income grew 27.5% year on year (YoY) in Q1FY2013 as against our expectation of a 15% growth.
- However operating margins at 7.3% were a disappointment. We had estimated them to come in at 7.7% for the quarter. The profit after tax (PAT) also got impacted due to a lower than expected other income.

Negative surprises

- The royalty as a percentage of sales came in at 6.2% for Q1FY2013 as against 5.1% in Q4FY2012. A sharp 110 basis point quarter on quarter (QoQ) jump is due to the depreciation of the rupee against the dollar and the yen.
- Other manufacturing expenses were up 100 basis points YoY and 70 basis points sequentially. They include a foreign exchange (forex) loss of 60 basis points. Hence, these two items brought a 180 basis points increase in other expenses sequentially.
- There was no improvement in operating margins that remained flat sequentially.
- The other income has come sharply lower than expected at Rs112 crore, ie the lowest in the last seven quarters.

Positive surprises

- Raw materials (RM)/sales improved 170 basis points sequentially to 79.7%. This is on account of a better product mix and price increases that brought a benefit of 110 basis points. Also, parts exports benefited by 30 basis points and cost control brought savings of 20 basis points sequentially. The tax rate came at 19.4% - the lowest in the last three years.

Valuation

We are downgrading our FY2013 earnings per share (EPS) estimates as we assume 50,000 units of production loss at Manesar and assume a lower base of rupee impacting royalty payable due to large unhedged positions in H2FY2013. We cut FY2013 EPS estimate by 15% to Rs71 while our FY2014 EPS estimate stands lower by 2.5% to Rs91. We revise our target price to Rs1,364/share based on 15x FY2014 estimates.

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Revenues	**10778.2**	**8454.1**	**27.5**	**11727.0**	**-8.1**
EBIDTA	786.3	810.4	-3.0	858.5	-8.4
EBIDTA margins (%)	7.3	9.6		7.3	
Depreciation	339.9	242.5	40.2	330.6	2.8
Interest (Income)	33.2	5.8	476.5	20.8	59.5
Other income	112.3	184.1	-39.0	296.9	-62.2
PBT	525.5	746.2	-29.6	804.0	-34.6
Tax	101.8	197.0	-48.3	164.2	-38.0
Adjusted PAT	**423.8**	**549.2**	**-22.8**	**639.8**	**-33.8**
EPS	14.7	19.0		22.1	

Focus shifts on hedging strategy

To ascertain the vulnerability of the depreciating rupee against the dollar and the yen, we took a closer look at the hedging strategy of Maruti. The company indicated that Q1FY2013 is fully hedged, Q2FY2013 is hedged for almost two-thirds and for Q3FY2013, some hedges have been taken to cover royalty as it is paid in November. It further indicated that the company has covered about 50% of the total expected exposure for FY2013. The key monitorable remains the dollar-yen.

- Dollar-Yen: Covered 40-50% of expected exposure for FY2013.
- Euro-Rupee: Has a natural hedge as exports are netted off with imports with some timing difference.
- Dollar-Rupee: The company is partially covered as 25% is a natural hedge.

The company reported a 100 basis points exchange impact on royalty payout sequentially which the management earlier indicated to have covered fully. In the short term, the royalty payable to the parent would be impacted due to the lockout at Manesar; however as the production resumes, lower hedges would make it vulnerable to the rupee's depreciation.

Maruti Suzuki: expense tracker

Total expenditure	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Q1 FY13
Net sales (%)					
Material cost	79.9	81.7	81.2	81.3	79.7
Employee cost	2.2	2.6	2.8	2.2	2.3
Selling & distribution cost	2.5	3.5	3.0	2.6	2.6
Manufacturing expenses	8.0	9.5	10.4	8.6	10.4
- Royalty	4.8	6.0	6.0	5.1	6.2

Manesar resolution critical

The critical Manesar plant lockout happened 12 days ago (since July 18, 2012). Given the sensitivity of the situation followed by a fatality and thereafter extreme statements being issued by the management and the workers, the resolution may take longer than the expected time. We do not expect the lockout to spillover in Q3FY2013; however there is no clarity on the situation.

The Manesar facility produces around 1,500 vehicles a day. The key products manufactured at the plant are the Swift, Dzire and the Ertiga. These are high-value products where there are no discounts and the customer waiting period is long.

We assume a 25% higher realisation, of over Rs4 lakh a vehicle, for these vehicles as most of the variants sold are diesel models. Based on the output, we estimate a Rs60 crore revenue loss a day.

Lowering FY2013 volume and margin outlook on labour unrest

Without factoring for the lockout at Manesar, we had earlier assumed an 11% volume growth for FY2013 to 1.25 million units with 32% contribution from diesel cars. We now cut our FY2013 volume outlook to a growth of 10% as we assume a disruption of 50,000 units (1,500 cars X 50 days) from Manesar (adjusted with the inventory of 25,000 units).

We also lower our margin assumptions for FY2013 to 7.3% as currency vulnerability looks severe. The company has relatively large unhedged positions for H2FY2013. A temporary shift in the mix towards higher end petrol cars is also likely to dent margins in Q2FY2013.

Downgrading FY2013 and FY2014 EPS estimates

We are downgrading our FY2013 EPS estimates as we assume 50,000 units of production loss at Manesar and assume a lower base of rupee impacting royalty payable due to large unhedged positions in H2FY2013. We cut our FY2013 EPS estimate by 15% to Rs71 while our FY2014 EPS estimate stands lower by 2.5% to Rs91. We revise our target price to Rs1,364/share based on 15x FY2014 estimates.

Valuation

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net sales (Rs cr)	29623.0	36965.4	35895.1	45782.0	54030.4
Growth (%)	41.7	24.8	-2.9	27.5	18.0
EBITDA (Rs cr)	3954.3	3664.3	2580.3	3355.3	4452.4
OPM (%)	13.7	9.9	7.2	7.3	8.2
PAT (Rs cr)	2497.6	2288.6	1635.1	2051.6	2628.3
Growth (%)	104.9	-8.4	-28.6	25.5	28.1
FD EPS (Rs)	86.4	79.2	56.6	71.0	90.9
P/E (x)	13.0	14.1	19.8	15.8	12.3
P/B (x)	2.7	2.3	2.1	1.9	1.7
EV/EBITDA (x)	6.6	6.8	10.3	7.9	5.7
RoE (%)	21.1	16.5	10.8	12.2	14.0
RoCE (%)	28.3	21.8	14.1	15.7	19.2

Union Bank of India

Ugly Duckling

Stock Update

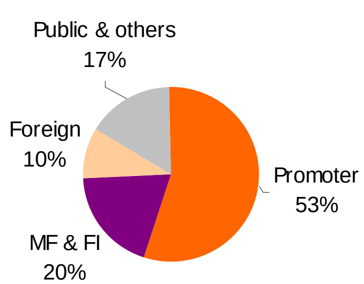
Price target revised to Rs190

Hold; CMP: Rs170

Company details

Price target:	Rs190
Market cap:	Rs9,331 cr
52 week high/low:	Rs294/155
NSE volume: (no. of shares)	11.7 lakh
BSE code:	532477
NSE code:	UNIONBANK
Sharekhan code:	UNIONBANK
Free float: (no. of shares)	25.1 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-20.9	-22.4	-20.7	-42.5
Relative to Sensex	-20.6	-21.9	-19.8	-38.1

Result highlights

- Union Bank of India (Union Bank)'s Q1FY2013 net profits have come in below our expectation as they grew by 10% year on year (YoY; 16.2% quarter on quarter [QoQ]) to Rs512 crore. The lower than expected earnings growth was on account of subdued growth in the net interest income (NII) and increase in provision expenses.
- The NII grew 14.6% YoY (-2.9 QoQ) in line with our estimates. The reversal of interest income (Rs79 crore) coupled with a decline in yields contributed to a 25 basis point Q-o-Q decline in the net interest margin (NIM; 3.01% vs 3.26% in Q4FY2012).
- The business growth was steady as advances grew by 19.5% YoY (- 2.2% QoQ) while the deposits grew 11.5% YoY. The current account savings account (CASA) stood at 30.9% as against 31.3% in the sequential previous quarter.
- The asset quality showed a sharp deterioration as gross and net non performing assets (NPAs) increased to 3.76% and 2.2% respectively (3.01% and 1.7% in Q4FY2012). The slippages were at Rs1,631 crore while the bank restructured Rs1,642 crore of advances (Rs1,200 crore from the Rajasthan state electricity board [SEB]).
- The non interest income growth was muted (1.5% YoY) due to lower treasury profits. However, the commission income grew by 17.1% YoY.

Valuation and outlook

Union Bank's Q1FY2013 results were marred by a jump in slippages and a decline in margins. We therefore revise our estimates by 6-8% over FY2013 and FY2014 to

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Interest earned	**6069.9**	**4915.7**	**23.5**	**5743.4**	**5.7**
Interest expense	4248.2	3325.5	27.7	3866.8	9.9
Net interest income	1821.7	1590.2	14.6	1876.6	-2.9
Other income	491.2	484.0	1.5	755.4	-35.0
Total income	2312.9	2074.2	11.5	2632.0	-12.1
Operating expenses	1045.9	908.4	15.1	1033.2	1.2
- Employee cost	679.5	591.8	14.8	594.8	14.2
- Other costs	366.4	316.6	15.7	438.4	-16.4
Operating profit	**1267.1**	**1165.8**	**8.7**	**1598.8**	**-20.7**
Prov for contingencies	518.5	428.4	21.0	517.2	0.3
PBT	748.6	737.4	1.5	1081.6	-30.8
Tax	237.0	273.0	-13.2	308.5	-23.2
PAT	**511.6**	**464.4**	**10.2**	**773.2**	**-33.8**
Gross NPA (%)	3.8	2.6		3.0	
Net NPA (%)	2.2	1.3		1.7	

factor the concerns (dip in margins, asset quality) and now expect earnings to grow at a compounded annual growth rate (CAGR) of 23.4%. The return on equity (RoE) is likely to remain at 15% levels and the return on assets (RoA) at 0.75% levels. We therefore revise the target price to Rs190 (0.8x FY2014 adjusted book value [BV]) and retain our Hold recommendation on the bank.

Margin dips 25bps QoQ

Union Bank's NII grew by 14.6% YoY (-2.9% QoQ), largely in line with our estimates. The subdued growth in the NII was on account of a sharp decline in the NIM (3.01% vs 3.26% in Q4FY2012). The bank reversed Rs79 crore of interest income (on impaired loans) while the yield on funds declined by 37 basis points QoQ (9.34% vs 9.71%). The same contributed to a decline in margins. However excluding the interest reversal the NIMs were at 3.14% levels.

Advances growth steady but deposits growth slows

During Q1FY2013, the advances grew by 19.5% YoY (-2.2% QoQ), ie higher than the industry rate. However the deposits reported a muted growth of 11.5% YoY as the bank focused on shedding the high cost deposits. Currently the bulk deposits account for 16.6% against 15% stipulated by the government. The CASA ratio declined marginally to 30.9% as against 31.3% in the sequential previous quarter as savings bank deposits grew by 11.3% QoQ.

Business growth

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Advances	173,911	145,567	19.5	177,882	-2.2
Deposits	222,110	199,178	11.5	222,869	-0.3
CD Ratio (%)	78.3	73.1		79.8	

Muted growth in non-interest income

The bank's non-interest income reported a muted growth of 1.5% YoY (-35% QoQ). The commission income grew by 17.1% YoY (-26.8% QoQ) whereas the foreign exchange (forex) income recorded a strong growth of 38.3% YoY and 31.7% QoQ.

Non-interest income

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Non-interest income	**491.2**	**484.0**	**1.5**	**755.4**	**-35.0**
- Fee income	295.0	252.0	17.1	403.0	-26.8
- Trading and Forex Income	83.0	60.0	38.3	63.0	31.7
- Treasury profit	55.0	113.0	-51.3	127.0	-56.7
- Misc. income	58.0	59.0	-1.7	162.0	-64.2

However the treasury income showed a sharp decline (Rs55 crore vs Rs113 crore in Q1FY2012) and the recoveries from written off accounts were also lower at (Rs58 crore vs Rs162 crore) which dragged the non-interest income growth. The cost to income ratio increased to 45.2% during the quarter as against 43.8% in Q1FY2012 (39.3% in Q4FY2012).

Stress continues on asset quality

During Q1FY2013, the asset quality deteriorated significantly as the gross and net NPAs increased to 3.76% and 2.2% respectively (3.01% and 1.7% in Q4FY2012). This was contributed by slippages of Rs1,631 crore (of which Rs650 crore belonged to three lumpy accounts) mainly from the large corporate segment. The restructured assets book also expanded as the bank restructured Rs1,642 crore (Rs1,200 crore for the Rajasthan SEB) of loans, thereby taking the total restructured book to Rs13,521 crore (7.8% of total advances). Going ahead the restructured advances could rise, mainly from SEBs, in the next few quarters.

Provision expenses remain high

The provision expenses grew by 21% YoY mainly contributed by NPA provision (up 25.5% YoY). The provision for depreciation on investments increased to Rs49 crore as against Rs8 crore in Q1FY2012 (reversal of Rs108 crore in Q4FY2012) due to the depreciation in the equity book. We have raised our slippages and provision estimates to factor deterioration in asset quality.

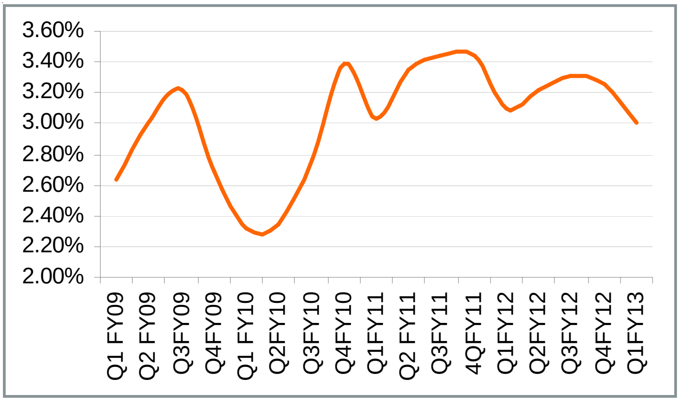
Provision expenses

Particulars	Q1FY13	Q1FY12	YoY %	Q4FY12	QoQ %
Prov for Contin	518.5	428.4	21.0	517.2	0.3
- For NPAs/Standard Assets	443.0	353.0	25.5	365.0	21.4
- For Investment Depreciation	66.0	70.0	-5.7	(108.0)	-161.1
- Others	9.0	6.0	50.0	260.0	-96.5

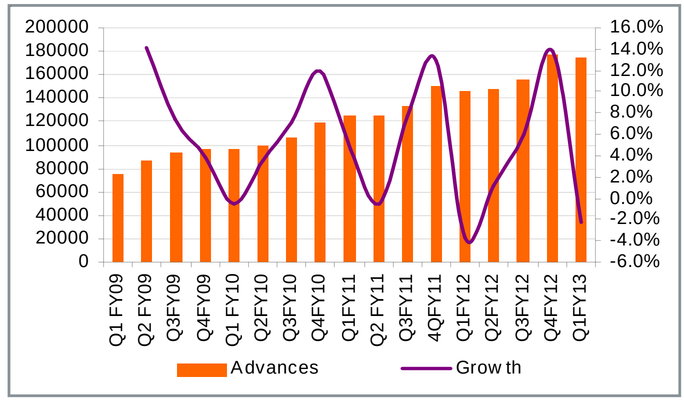
Valuations

Union Bank's Q1FY2013 results were marred by a jump in slippages and a decline in margins. We therefore revise our estimates by 6-8% over FY2013 and FY2014 to factor the concerns (dip in margins, asset quality) and now expect earnings to growth at a CAGR of 23.4%. The RoE is likely to remain at 15% levels and the RoA at 0.75% levels. We therefore revise the target price to Rs190 (0.8x FY2014 adjusted book value [BV]) and retain our Hold recommendation on the bank.

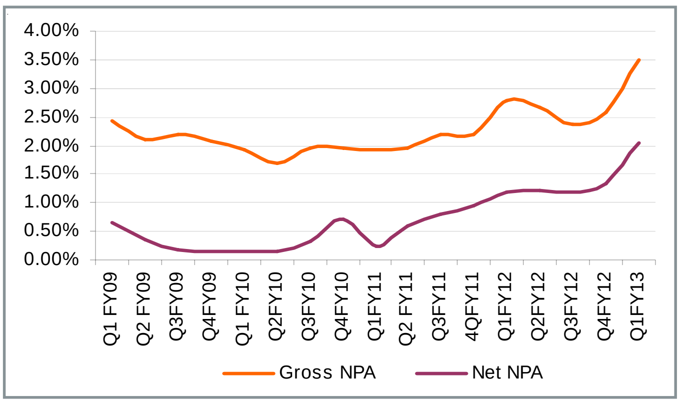
Trend in NIM (%)



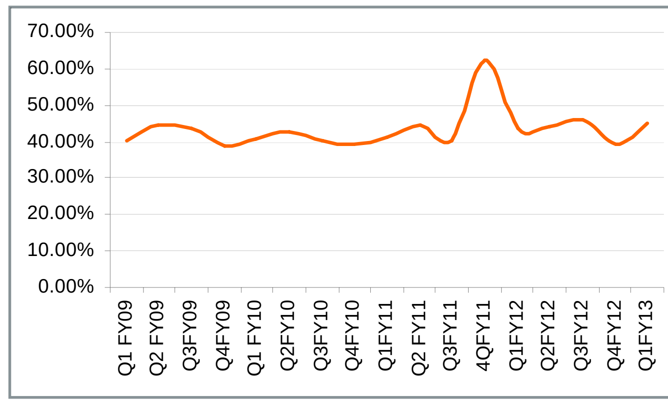
Trend in advance growth



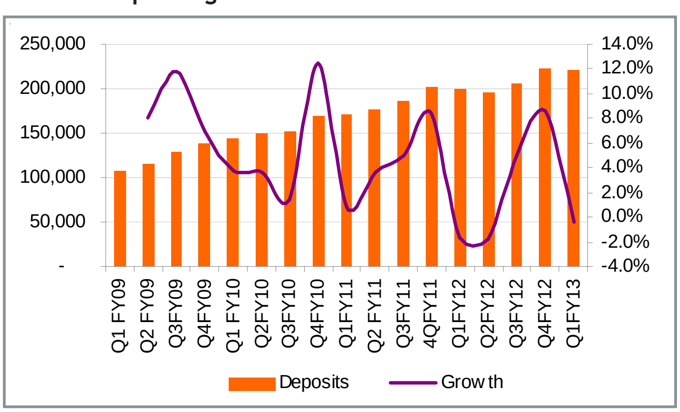
Trend in gross and net NPAs



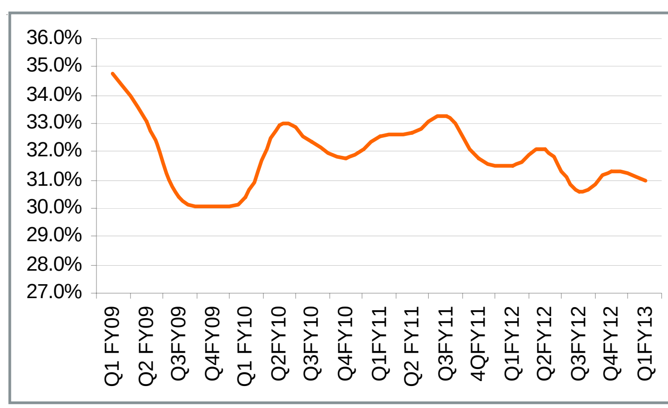
Cost-income ratio (%)



Trend in deposits growth



Trend in CASA



Financials

Profit & Loss statement

(Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net interest income	4,192	6,216	6,909	7,778	9,142
Non-interest income	1,975	2,039	2,332	2,557	2,812
Net total income	6,167	8,255	9,241	10,335	11,955
Operating expenses	2,507	3,950	3,986	4,527	5,260
Pre-provisioning profit	3,660	4,305	5,255	5,808	6,694
Provision & contingency	826	1,352	2,541	2,409	2,659
PBT	2,833	2,953	2,714	3,399	4,036
Tax	758	873	926	1,088	1,332
PAT	2,075	2,080	1,788	2,311	2,704

Balance sheet

(Rs cr)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Networth	10,424	12,652	14,522	16,428	18,657
Deposits	170,040	202,461	222,869	260,757	308,997
Borrowings	9,215	13,427	18,020	20,861	24,411
Other liabilities & provisions	5,483	7,443	6,800	8,186	8,859
Total liabilities	195,162	235,983	262,211	306,231	360,923
Assets					
Cash & balances with RBI	12,468	17,610	11,634	15,645	17,613
Balances with banks & money at call	3,308	2,488	4,042	4,203	4,329
Investments	54,404	58,399	62,364	71,957	83,403
Advances	119,315	150,986	177,882	208,122	248,706
Fixed assets	2,305	2,293	2,336	2,453	2,575
Other assets	3,361	4,207	3,955	3,851	4,297
Total assets	195,162	235,983	262,211	306,231	360,923

Key ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Per share data					
EPS	41	40	32	42	49
BV	174	211	236	271	311
ABV	155	177	181	206	255
Spreads (%)					
Yield on advances	9.0	8.9	9.7	9.4	9.3
Cost of deposits	5.5	5.1	6.3	6.0	5.9
Net interest margins	2.6	3.2	3.2	3.1	3.1
Operating ratios (%)					
Credit to deposit	70.2	74.6	79.8	79.8	80.5
Cost to income	40.7	47.8	43.1	43.8	44.0
CASA	31.7	31.8	31.3	31.9	32.2
Non interest income/ Total income	32.0	24.7	25.2	24.7	23.5
Return ratios (%)					
RoE	21.7	18.0	13.2	14.9	15.4
RoA	1.17	0.96	0.72	0.8	0.8
Assets/Equity	18.6	18.7	18.3	18.4	19.0
Asset quality ratios (%)					
Gross NPA	2.2	2.4	3.0	3.3	3.0
Net NPA	0.8	1.2	1.7	1.7	1.2
Growth (%)					
NII	10	48	11	13	18
PPP	19	18	22	11	15
PAT	2	0	-14	29	17
Advances	24	27	18	17	20
Deposits	22.6	19.1	10.1	17.0	18.5
Valuation ratios (%)					
P/E	4.1	4.3	5.2	4.0	3.5
P/BV	1.0	0.8	0.7	0.6	0.5
P/ABV	1.1	1.0	0.9	0.8	0.7

Sharekhan Stock Idea

Evergreen

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

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
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 Healthcare (Nicholas Piramal India)
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)
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Kalpataru Power Transmission
Max India
Opto Circuits India
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
India Cements
Ipca Laboratories
ISMT
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