MORNING INSIGHT

Kotak Securities

PRIVATE CLIENT RESEARCH

APRIL 30, 2012

Economy News

- The Government may introduce a 'reverse subsidy' scheme for local manufacture of electronic goods. The scheme will be part of the proposed national electronic policy, which aims to encourage local manufacturing of goods, including mobile handsets, semiconductor wafer fabs, consumer electronics and telecom network equipment. (BL)
- The National Highways Authority of India (NHAI) plans to award tolling and maintenance contracts for 3,000 km of highways for five to nine years, giving new business opportunities to companies that lost out in the bidding for bigger contracts to build roads. (ET)
- The government is planning to change the contours of a stock market investment scheme announced in the national budget that would qualify for income-tax (I-T) rebates. Instead of retail investors putting money directly in equities, as the budget proposed, the government may ask them to invest through mutual funds. (Mint)

Corporate News

- **Tata Steel** is testing a technology that will produce coal with low ash content. The plant, to be set up in Jamshedpur, aims to start commercial production for clean coal by 2018-20. (BL)
- After going slow on international launches of its sports utility vehicle to meet the domestic demand, auto major **Mahindra & Mahindra** is gearing up to introduce XUV500 in Italy, Australia and Chile soon. (BL)
- Travel service provider **Cox & Kings,** which has got licence from the RBI for using foreign currency account, is planning to begin transactions by May- end. (BL)
- **MMTC** will sign iron ore supply contracts next month with Japanese and South Korean steel companies including Posco, for a period of three years. (BL)
- **Biocon** plans to pursue multiple regional partner models to market insulin and insulin analogs globally. (BL)
- Hit by adverse foreign exchange fluctuations and higher input costs, the country's largest car maker **Maruti Suzuki India Limited (MSIL)** is looking at reducing its buying costs by three percent every year to improve profit margins.(BS)
- **India Cements Ltd** would invest around Rs 7.5 bn in one of its factories in Tamil Nadu. The proposed investment is to expand the annual capacity of this plant to two million tonnes (mt). (BS)
- **Reliance Broadcast Network Ltd (RBNL),** which signed an equal joint venture with Luxembourg-based RTL Group SA, is set to launch its first action entertainment channel, Thrill, this quarter. (BS)
- The Central Empowered Committee (CEC), appointed by the Supreme Court to probe illegal mining in Karnataka, has recommended an in-depth investigation into alleged illegal export of seized iron ore from the Belekeri port by shipping operators, including **Adani Enterprises.** (BS)
- **Oil India** will now be a part of a consortium, including Gujarat State Petroleum Corp, ONGC, and BPCL, that had jointly bid for British Gas Group's stake in Gujarat Gas Co Ltd. (ET)

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

Equity

	28 Apr 12	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	17,187	0.3	(1.2)	(0.0)
NIFTY Index	5,209	0.4	(1.6)	0.2
BANKEX Index	11,760	0.6	0.1	3.2
BSET Index	5,572	0.1	(8.4)	(3.6)
BSETCG INDEX	9,398	0.1	(6.3)	(4.7)
BSEOIL INDEX	7,882	0.1	(2.5)	(7.3)
CNXMcap Index	7,416	0.6	(3.8)	4.4
BSESMCAP INDEX	6,726	0.4	1.5	4.1
World Indices				
Dow Jones	13,228	0.2	0.1	4.7
Nasdaq	3,069	0.6	(0.7)	9.1
FTSE	5,777	0.5	0.2	1.7
NIKKEI	9,562	0.0	(5.6)	8.2
HANGSENG	20,741	(0.3)	2.0	2.8

Value traded (Rs cr)

	28 Apr 12	% Chg - Day
Cash BSE	1,974	(16.2)
Cash NSE	909	(90.9)
Derivatives	7,196	(91.6)

Net inflows (Rs cr)

	27 Apr 12	% Chg	MTD	YTD
FII	(196)	(30.3)	(778)	43,260
Mutual Fund	(152)	40.0	(416)	(5,845)

FII open interest (Rs cr)

	27 Apr 12	% Chg
FII Index Futures	9,125	(33.6)
FII Index Options	23,315	(41.2)
FII Stock Futures	20,061	(17.1)
FII Stock Options	122	(89.4)

Advances / Declines (BSE)

28 Apr 12	A	B	T	Total	% total
Advances	56	728	237	1,021	35
Declines	60	821	232	1,113	38
Unchanged	88	581	89	758	26

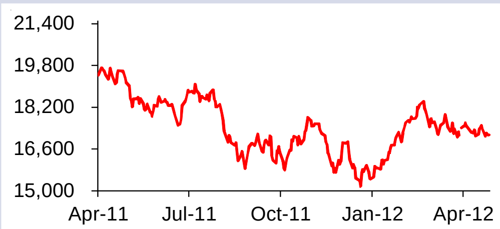
Commodity

	28 Apr 12	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	104.8	(0.2)	1.7	6.4
Gold (US$/OZ)	1,664.9	0.4	(0.2)	(3.9)
Silver (US$/OZ)	31.3	0.4	(3.4)	(5.5)

Debt / forex market

	28 Apr 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.65	8.66	8.61	8.41
Re/US$	52.6	52.6	50.7	49.3

Sensex



RESULT UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 6621 6312

ICICI BANK

PRICE: RS.861 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1103 **FY13E P/E: 13.0X, P/ABV: 1.6X**

Q4FY12 results: Strong quarter with healthy earnings

- NII came at Rs.31.05 bn (23.7% YoY) beating our as well consensus estimate on back of 17.3% loan growth along with 27 bps improvement in NIM. Net Income also came ahead of expectations (Rs.19.02 bn; 31.0% growth) well supported by strong non-interest income (35.8% YoY).
- CASA mix remained stable QoQ at 43.5% (Q4FY12) which is key to the likely improvement in its future NIM. Positive surprise during Q4FY12 came on NIM front which rose 27 bps to 3.0%.
- Domestic loan book grew 14.3% YoY while international book grew 26.0% YoY (exchange rate movement did play an important role). Corporate book saw strong growth (27.2% YoY) while agriculture segments saw strong traction QoQ (27.8% QoQ). Retail book continues to grow at moderate pace (7.6% YoY; 9.3% QoQ) despite strong growth in its disbursements.
- Asset quality continued to improve - net NPA declined to 0.62% at the end of Q4FY12 from 0.94% at the end of Q4FY11 and 0.70% at the end of Q3FY12. In absolute terms also, it declined 23.0% YoY and 9.0% QoQ. Restructured book rose slightly during the quarter to Rs.42.6 bn (1.7% of loan book).
- Management's focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock. We are modeling earnings to grow 18.3% during FY13E and reiterate BUY on the stock with the unchanged TP of Rs.1103 (SOTP method), where the value of its standalone business comes to Rs.880 (1.6x FY13E ABV) and the value of subsidiaries at Rs.223 (holding company discount: 20% to the fair value of its subsidiaries at Rs.278).

Quarterly Performance

(Rs. mn)	Q4FY12	Q4FY11	% Change
Int. on advances	**61282**	**45351**	**35.1**
Int. on investments	26155	22093	18.4
Int. on RBI/Other balances	1279	911	40.5
Other Interest	3031	3210	-5.6
Total Interest earned	**91746**	**71565**	**28.2**
Interest expenses	60699	46467	30.6
Net interest income	**31048**	**25097**	**23.7**
Other income	22285	16407	35.8
Net Revenue (NII + Other income)	**53332**	**41504**	**28.5**
Total operating expense	22216	18455	20.4
Employee cost	11031	8566	28.8
Direct marketing agency expenses	533	453	17.7
Other operating exp	10652	9436	12.9
Operating profit	**31116**	**23049**	**35.0**
Provisions	4693	3836	22.3
Provision for Taxes	6291	5606	12.2
Deferred tax	1115	-914	NM
Net profit	**19018**	**14521**	**31.0**
EPS (Rs.)	**16.50**	**12.61**	**30.8**

Source: Company

NII grew 23.7% during Q4FY12, ahead of our expectations; net Income was also strong aided by robust non-interest income.

NII came at Rs.31.05 bn (23.7% YoY) beating our as well consensus estimate on back of 17.3% loan growth along with 27 bps improvement in NIM. Net Income also came ahead of expectations (Rs.19.02 bn; 31.0% growth) well supported by strong non-interest income (35.8% YoY).

Domestic loan book grew 14.3% YoY while international book grew 26.0% YoY (exchange rate movement did play an important role). Corporate book saw strong growth (27.2% YoY) while agriculture segments saw strong traction QoQ (27.8% QoQ). Retail book continues to grow at moderate pace (7.6% YoY; 9.3% QoQ) despite strong growth in its disbursements. We believe closing number has been impacted by two factors - 1) Unsecured retail book continued to decline and 2) Pre-payment in secured retail book (mortgages)

Trend in loan book

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Advances (bn)	1,843.8	1,942.0	2,066.9	2,163.7	2,206.9	2,339.5	2,461.6	2,537.3
Retail including CV	763	781	790	837	827	819	824	901
Corporate & Project Finance	443	542	620	565	633	676	766	718
Agriculture	166	132	153	210	188	175	175	223
International	451	487	504	552	558	669	697	695

Source: Company

CASA mix remained stable QoQ at 43.5%; we expect NIM to come at 2.9% during FY13 as compared to 2.73% achieved during FY12.

The bank has been focusing on improving its funding mix by increasing the share of CASA mix which improved from 28.7% at the end of FY09 to 45.1% at the end of FY11. CASA mix remained stable QoQ at 43.5% during Q4FY12 which is key in our view, to the likely improvement in its future NIM. Even the average CASA mix remained stable QoQ at 39% during Q4FY12.

Trend in Deposit growth

	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12
Deposits (bn)	2,230.9	2,177.5	2,256.0	2,306.8	2,450.9	2,605.9	2,555.0
Saving deposits	632.5	645.8	668.7	668.6	701.5	735.0	760.5
Current deposits	348.6	316.2	347.8	297.8	330.0	400.4	349.7
CASA (Low Cost Deposits)	981.1	962.0	1,016.5	966.4	1,031.5	1,135.4	1,110.2
Term deposits	1,249.9	1,215.5	1,239.6	1,340.4	1,419.5	1,470.5	1,444.8
CASA (%)	44.0	44.2	45.1	41.9	42.1	43.6	43.5

Source: Company

During Q4FY12, positive surprise came on NIM front which rose 27 bps to 3.0%. We believe its NIM to witness some improvement during FY13 as ~Rs.4.0 bn (annual impact) worth of credit losses on securitized book which are booked under the interest income line would run-off from next year (i.e. FY13 onwards). Even international book is likely to support the NIM at higher levels. We are modeling NIM to come at 2.9% during FY13 as compared to 2.73% achieved during FY12.

Asset quality continued to improve; although restructured book spiked during Q4FY12, it was largely in line with management's earlier guidance.

Asset quality continued to improve - net NPA declined to 0.62% at the end of Q4FY12 from 0.94% at the end of Q4FY11 and 0.70% at the end of Q3FY12. In absolute terms also, it declined 23.0% YoY and 9.0% QoQ.

Although restructured book spiked during Q4FY12 (116% YoY), it was largely in line with management's earlier guidance. Cumulative restructured book stands at Rs.42.6 bn (1.7% of loan book). Earlier management had indicated that exposure worth ~Rs.13.0 bn has been referred under CDR (names like GTL and 3I Infotech) which could be restructured during Q4FY12. Hence, we are not surprised to see this spike on the restructuring front.

Valuation and Recommendation

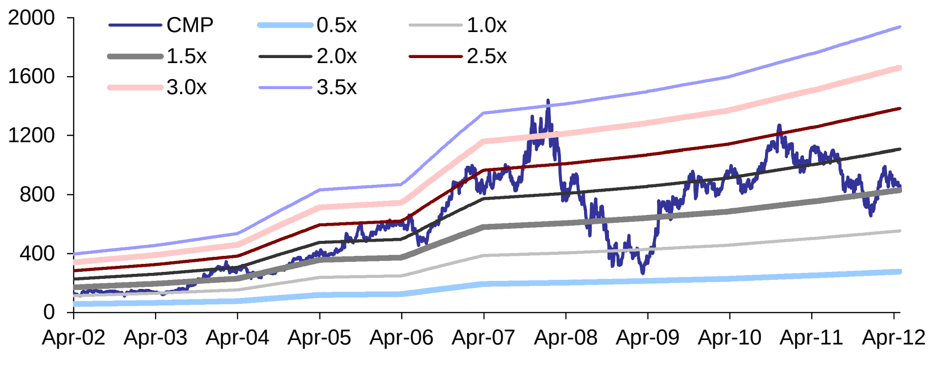
At the current market price of Rs.861, the stock is trading at 13.0x its FY13E earnings and 1.6x its FY13E ABV. We are modeling earnings to grow 18.3% during FY13E and expect bank to focus on liability franchise (CASA mix) and profitability (RoE is likely to improve further with increase in leverage in next 2-3 years); loan growth target would track the deposit mobilization with CASA share being maintained at 40%+ levels.

Sum of Parts Valuation

	Basis	Multiple	Year	Value / Share
Core Banking Business (standalone)	ABV	1.60	FY13	880
Overseas Banking Subsidiaries	ABV	1.50	FY13	58
Life Insurance Business	NBAP	12	FY13	158
ICICI Securities	PAT	12	FY13	14
Asset Management	AUM	5%	FY13	23
Private Equity	AUM	10%	FY13	21
Non Life Insurance	PAT	12	FY13	4
Total Value of subsidiaries				**278**
20% discounted value				223
Total Value				**1,103**

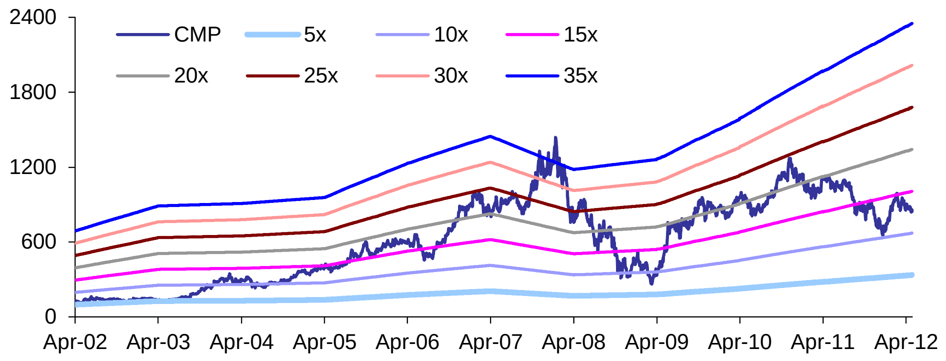
Source: Kotak Securities - Private Client Research

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

We recommend BUY on ICICI Bank with a price target of Rs.1103

Focus on CASA, NIM and asset quality continues; management focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock. We reiterate **BUY** on the stock with the unchanged TP of Rs.1103 (SOTP method), where the value of its standalone business comes to Rs.880 (1.6x FY13E ABV) and the value of subsidiaries at Rs.223 (holding company discount: 20% to the fair value of its subsidiaries at Rs.278).

Key data

(Rs bn)	FY10	FY11	FY12E	FY13E
Interest income	257.07	259.74	335.43	384.51
Interest expense	175.93	169.57	228.09	252.39
Net interest income	**81.14**	**90.17**	**107.34**	**132.12**
Growth (%)	-3.0	11.1	19.0	23.1
Other income	74.78	66.48	75.03	78.21
Gross profit	97.32	90.48	103.86	120.72
Net profit	**40.27**	**51.53**	**64.69**	**76.50**
Growth (%)	7.1	28.0	25.6	18.3
Gross NPA (%)	5.2	4.6	4.0	3.6
Net NPA (%)	2.1	1.1	0.8	0.7
Net interest margin (%)	2.5	2.7	2.7	2.9
CAR (%)	19.4	19.5	18.6	17.4
RoE (%)	8.0	9.7	11.2	12.2
RoA (%)	1.1	1.3	1.5	1.6
Dividend per share (Rs.)	12.0	14.0	16.5	17.5
EPS (Rs)	**36.1**	**45.5**	**56.1**	**66.4**
Adjusted BVPS (Rs)	428.5	457.4	501.1	550.1
P/E (x)	**23.8**	**18.9**	**15.3**	**13.0**
P/ABV (x)	2.0	1.9	1.7	1.6

Source: Kotak Securities - Private Client Research

RESULT UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 6621 6312

AXIS BANK

PRICE: RS.1104 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1230 **FY13E P/E: 9.2X, P/ABV: 1.8X**

Q4FY12 results: Core earnings better than expectations. CASA and NIM remained healthy; however, slippage remained at the elevated levels.

- Axis bank reported strong net interest income growth (26.2% YoY) on back of 19.2% YoY loan growth and 11 bps improvement in NIM (3.55% in Q4FY12). Its net profit grew 25.2% YoY mainly aided by strong core performance and lower NPA provisions.
- CASA mix remained healthy at ~42%; NIM also came healthy at 3.55% for Q4FY12 and closed the year at 3.59%, well above the upper band of guided range of 3.5%. Strong uptick in Priority Sector Lending (PSL) portfolio (62.1% QoQ) during Q4FY12 provided some semblance of respect to its loan book. We believe its full impact on the margin is likely to be seen during H1FY13.
- Although asset quality improved in percentage terms, slippage remained at the elevated levels (Rs.5.14 bn; 144bps annualized slippage ratio). The bank has also restructured Rs.5.88 bn during Q4FY12 (on the higher side) and now its cumulative restructured book stands at Rs.30.6 bn (~2.1% of net advances).
- Although slippage was higher, strong up gradation & recovery contained the credit cost during Q4FY12. We are modeling earnings to grow 16.7% during FY13E along with healthy return ratios (RoE: ~20%, RoA: ~1.6%). At the current market price of Rs.1104, the stock is trading at 9.2x its FY13E earnings and 1.8x its FY13E ABV. Due to recent fall in share price, we are upgrading the stock from ACCUMULATE earlier to BUY with unchanged TP of Rs.1230 based on P/ABV of 2.0x its FY13E adjusted book value.

Result Performance

(Rs mn)	Q4FY12	Q4FY11	YoY (%)
Interest on advances	42,578.7	30,626.4	39.0
Interest on Investment	17,375.6	12,130.6	43.2
Interest on RBI/ banks' balances	238.8	635.9	-62.4
Other interest	410.1	273.7	49.8
Total interest earned	**60,603.2**	**43,666.6**	**38.8**
Interest expense	39,142.3	26,656.6	46.8
Net interest income	**21460.9**	**17010.0**	**26.2**
Other income	15,876.2	14,504.0	9.5
Operating Revenue (NII + Other income)	37,337.1	31,514.0	18.5
Operating Expenses	**16,961.6**	**13,305.9**	**27.5**
Payments to / Provisions for employees	5,295.5	3,960.2	33.7
Other operating expenses	11,666.1	9,345.7	24.8
Operating Profit Before Prov. & Cont.	20,375.5	18,208.1	11.9
Provisions & contingencies	1,392.8	2,543.9	-45.2
Provision for taxes	6,210.0	5,463.1	13.7
Net profit	**12,772.7**	**10,201.1**	**25.2**
EPS (Rs)	**30.91**	**24.87**	**24.3**

Source: Company

Q4FY12 earnings up 26.2%, better than our expectations; lower NPA provisions aided the strong bottom-line growth

Axis bank reported strong net interest income growth (26.2% YoY) on back of 19.2% YoY loan growth and 11 bps improvement in NIM (3.55% in Q4FY12). Its net profit grew 25.2% YoY mainly aided by strong core performance and lower NPA provisions.

Core fee income grew at moderate pace (7.8% YoY) during Q4FY12; however, QoQ growth was strong at 8.5%. For the full year fee-income growth was 24.7% YoY during FY12; we are modeling fee-based income to grow at 18.0% during FY13 as against 40% CAGR achieved during FY08-12.

Business growth moderates; CASA and NIM remained healthy

The bank's balance sheet grew 17.7% YoY at the end of Q4FY12 largely on back of faster growth in PSL book. Strong uptick in PSL portfolio (62.1% QoQ) during Q4FY12 provided some semblance of respect to its loan book.

Retail book saw the robust growth (35.3% YoY; 12.9% QoQ); while SMEs and corporate segments grew at 11.2% and 19.9%, respectively.

CASA mix remained healthy at ~42%; NIM also came healthy at 3.55% for Q4FY12 and closed the year at 3.59%, well above the upper band of guided range of 3.5%. We believe its full impact on the margin is likely to be seen during H1FY13. We are modeling NIM to stay at ~3.5% during FY13 as compared to 3.59% witnessed during FY12.

Although asset quality improved in percentage terms, slippage remained at the elevated levels

Although asset quality improved in percentage terms, slippage remained at the elevated levels (Rs.5.14 bn; 144bps annualized slippage ratio). Despite higher slippage, strong up-gradation & recovery contained the credit cost during Q4FY12.

In percentage terms, gross and net NPAs came at healthy levels - 0.94% and 0.25%, respectively at the end of Q4FY12. However, perceived risk has amplified with high exposure to infrastructure and other stressed sectors.

Trends in asset quality

NPA (Rs bn)	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12
Gross NPA	13.41	13.62	14.83	15.99	15.73	17.44	19.15	18.06
% of Gross Advances	1.13	1.12	1.09	1.01	1.06	1.08	1.10	0.94
Net NPA	4.13	4.09	3.86	4.10	4.62	5.49	6.83	4.73
% of Net Advances	0.35	0.34	0.29	0.26	0.31	0.34	0.39	0.25
Provision Coverage Ratio (%)	69.2	70.0	74.0	80.9	80.0	77.7	75.3	80.9

Source: Company

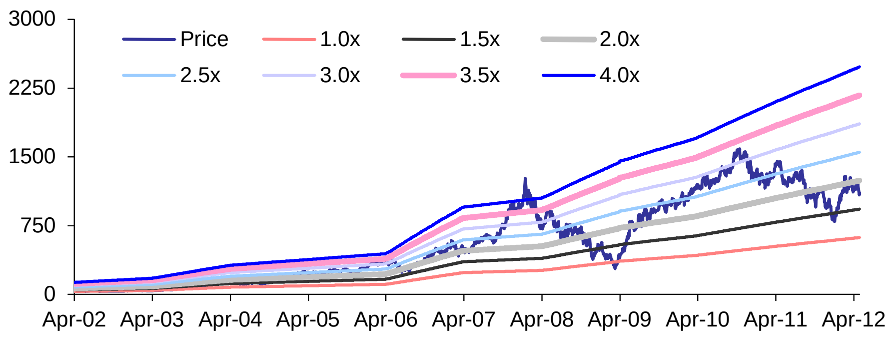
Coverage ratio is also healthy at 80.9% (including prudential write-offs at 91.2%) at the end of Q4FY12. The bank has also restructured Rs.5.88 bn during Q4FY12 (on the higher side) and now its cumulative restructured book stands at Rs.30.6 bn (~2.1% of net advances).

Valuations & recommendation

We recommend BUY on Axis Bank with a price target of Rs.1230

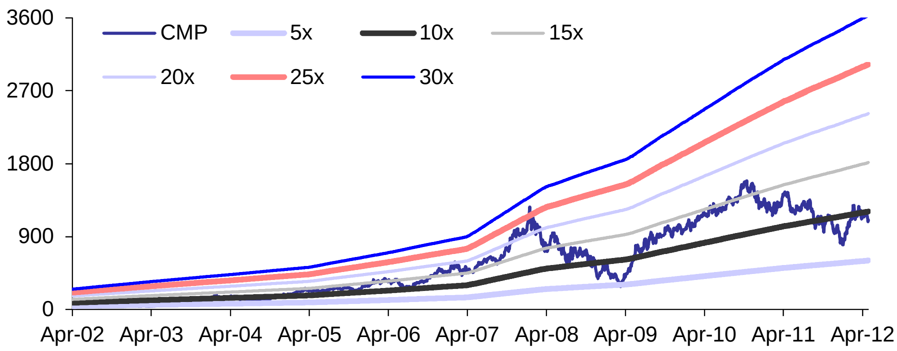
At the current market price of Rs.1104, the stock is trading at 9.2x its FY13E earnings and 1.8x its FY13E ABV. We are modeling earnings to grow 16.7% during FY13E along with healthy return ratios (RoE: ~20%, RoA: ~1.6%). We are upgrading the stock from ACCUMULATE earlier to BUY with unchanged TP of Rs.1230 based on P/ABV of 2.0x its FY13E adjusted book value.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

Key data

(Rs. bn)	2010	2011	2012	2013E
Interest income	116.38	151.55	219.95	257.16
Interest expense	66.34	85.92	139.77	161.22
Net interest income	**50.04**	**65.63**	**80.18**	**95.94**
Growth (%)	35.8%	31.1%	22.2%	19.7%
Other income	**39.46**	**46.32**	**54.20**	**62.04**
Gross profit	52.41	64.16	74.31	86.78
Net profit	**25.15**	**33.88**	**42.42**	**49.50**
Growth (%)	38.5%	34.8%	25.2%	16.7%
Gross NPA (%)	1.1	1.0	1.1	1.3
Net NPA (%)	0.4	0.3	0.3	0.3
Net interest margin (%)	**3.8**	**3.7**	**3.6**	**3.5**
CAR (%)	15.8	12.7	12.8	12.4
RoE (%)	20.2	20.4	21.1	20.5
RoA (%)	1.53	1.60	1.62	1.63
Dividend per share (Rs)	12.0	14.0	16.0	18.0
EPS (Rs)	**62.1**	**82.5**	**102.7**	**119.8**
Adjusted BVPS (Rs)	363.4	428.4	525.3	616.0
P/E (x)	**17.8**	**13.4**	**10.8**	**9.2**
P/ABV (x)	3.0	2.6	2.1	1.8

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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

MARUTI SUZUKI INDIA LIMITED (MSIL)

PRICE: RS.1397 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1368 **FY13E P/E: 15.3x**

- MSIL's 4QFY12 results were mixed. While the operating performance came in below expectations, higher other income and low tax led to higher than expected net profit.
- For MSIL, 4QFY12 was the first full quarter of normal performance after the labor issues disrupted production.
- MSIL's revenues grew by 17% YoY, but adverse forex movement and weak macro factors led to YoY drop in operating margins leading to a 3% drop in net profits.
- However, the situation for the company has improved and we expect the performance to get better in the coming quarters.
- Increased availability of diesel engines, strong response to new launches and low last year base will drive volume growth for the company. Further, favorable foreign exchange movement has given the company an opportunity to hedge portion of its FY13 forex exposure.
- We continue to maintain our ACCUMULATE rating on stock with price target of Rs1,368.

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	362,997	348,778	435,513
Growth (%)	24.7	(3.9)	24.9
EBITDA	30,579	18,036	34,158
EBITDA margin (%)	8.4	5.2	7.8
PBT	31,088	21,462	36,082
Net profit	22,886	16,351	26,340
EPS (Rs)	79.2	56.6	91.2
Growth (%)	(8.4)	(28.6)	61.1
CEPS (Rs)	114.3	96.0	134.2
BV (Rs/share)	480.0	525.7	610.2
Dividend / share (Rs)	7.5	7.5	7.5
ROE (%)	17.8	11.3	16.1
ROCE (%)	23.3	14.3	21.3
Net cash (debt)	69,209	61,120	62,597
NW Capital (Days)	(6.2)	(3.2)	(4.6)
P/E (x)	17.6	24.7	15.3
P/BV (x)	2.9	2.7	2.3
EV/Sales (x)	0.9	1.0	0.8
EV/EBITDA (x)	10.9	19.0	10.0

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

Rs mn	4QFY12	4QFY11	YoY%	3QFY12	QoQ%
Total Revenues	**115,245**	**98,388**	**17.1**	**75,813**	**52.0**
Total expenditure	108,685	89,921	20.9	73,282	48.3
RM consumed	93,328	77,603	20.3	61,142	52.6
Employee cost	2,560	1,534	66.9	2,090	22.5
Other expenses	12,797	10,784	18.7	10,050	27.3
EBITDA	**6,560**	**8,467**	**(22.5)**	**2,531**	**159.2**
EBITDA margin (%)	5.7	8.6	-	3.3	-
Depreciation	3,306	2,967	11.4	2,989	10.6
Interest cost	208	64	226	178	17
Other operating income	2,025	1,666	21.6	1,503	34.8
Other Income	2,969	1,163	155.2	1,746	70.0
Extraordinary income/ (loss)			-		-
PBT	**8,040**	**8,266**	**(2.7)**	**2,613**	**207.7**
PBT margins (%)	7.0	8.4		3.4	
Tax	1,642	1,667	(1.5)	557	194.8
Tax rate (%)	20.4	20.2	-	21.3	-
Reported PAT	**6,398**	**6,599**	**(3.0)**	**2,056**	**211.2**
PAT margins (%)	5.6	6.7	-	2.7	-
Reported EPS (Rs)	**22.1**	**22.8**	**(3.0)**	**7.1**	**211.2**
Volume data					
Domestic	321,424	312,389	2.9	211,803	51.8
Exports	38,910	30,951	25.7	27,725	40.3
Total Volumes	360,334	343,340	4.9	239,528	50.4
Net Realization (Rs)	318,770	285,336	11.7	314,247	1.4
RM cost per vehicle (Rs)	259,004	226,023	14.6	255,261	1.5

Source: Company

Strong diesel car demand drives revenue

- MSIL reported revenues of Rs115,245mn, a growth of 17% over 4QFY11 revenues of Rs98,388mn. Revenue growth came on account of 11.7% increase in blended realization and 5% increase in volumes. Better product mix (higher diesel car sales) and price hike led to YoY jump in blended realization.
- On a sequential basis, revenues were up by 52% on lower 3QFY12 base. Volumes in 3QFY12 were hit due to labor strike at the company's plant.
- MSIL's volumes in FY12 witnessed 11% drop due to various reasons that includes strike at the company's plant and slowdown in petrol car demand. We expect volumes to grow by 18% in FY13 for MSIL. Factors that will drive increase in volumes are 1.Higher availability of diesel engines 2.Contribution from new launches (Ertiga) and 3.Low FY12 base (expected to have lost sales due to labor strike).
- RBI recently lowered the repo rate by 50bps point. Any further rate cuts will only add to the positive sentiment for car demand.
- Strong demand for diesel car will be the key volume growth driver for MSIL in FY13. In FY12 diesel volumes accounted for 23% of domestic volumes which we expect to increase to 33% of domestic volumes in FY13.
- Recently launched Ertiga has received strong response and the current bookings stand at 22,000 units of which more than 80% is for diesel model. Other models like Swift and Dzire continue to enjoy strong waiting period of 4-6 months on diesel variants.
- Demand for petrol car remains weak and that can be gauged from the increase in discount level on a sequential basis. Despite improvement in product mix (increased production levels of models on waiting list) the company witnessed increase in discount levels from ~Rs12,600in 3QFY12 to Rs13,493 in 4QFY12. For FY13, the company has chartered out some initiatives like interest subvention, exploring new markets/segments and focus on exchange program to drive petrol car sales.

Operating margins comes in lower than expected; to improve going forward

- MSIL's operating performance came in below expectations. EBITDA margin for the quarter came in at 5.7% as against our expectation of 6.7%.
- Raw material cost for the quarter was higher by ~Rs2bn on account of vendor compensation related to adverse forex movement in 3QFY12.
- Employee cost also saw a significant 22% QoQ increase to Rs2,560mn. Other expenses jumped by 27.3% YoY primarily due to sharp increase in manufacturing and other overhead.
- Royalty for the quarter was lower by ~Rs500mn on account of mark-to-market reversal.
- Increase in cost across different overhead led to lower than expected performance on the EBITDA margin front.
- Going ahead into FY13, we expect the company's EBITDA margin to show improvement. With strong response to the new launches, we expect the product mix to improve further for MSIL.
- MSIL has hedged its 1QFY13 expected yen exposure completely. Even for 2QFY13, around two-third of the expected yen exposure is covered. We believe that this will help the company improve its margins in the next couple of quarters.
- MSIL has hedged 40% of its expected FY13 yen exposure (direct and indirect). On the INR-USD exposure, partial cover has been taken for 1QFY13 exposure. Company already enjoys a natural hedge to the tune of 25% of its INR-USD exposure and almost full natural hedge on its Euro-USD exposure.

Higher other income and low tax boost net profit

- Other income for the quarter saw a steep increase of 155% YoY and 70% QoQ that came in at Rs2,969mn. Maturity of FMP's in the quarter led to higher capital gains for the company.
- Other operating income increased by 22% YoY largely in line with improved business activity.
- Tax rate for the quarter stood at 20.4%, lower than our expectation on account of higher tax free income during the quarter.
- MSIL reported PAT of Rs6,398mn, 3% drop YoY but higher than our estimate of Rs5,453mn.

Capex plans

- MSIL has a current production capacity of 1.5-1.6mn units pa. With the completion of expansion of new line at Manesar, the capacity will increase by another 250,000 units per annum.
- On the diesel engine, the company has increased production capacity to 300,000 units pa. Any further expansion on account of de-bottlenecking has been ruled out. Further under the agreement with FIAT India, the company can source upto 100,000 diesel engines per annum. Therefore the company's production of diesel engine cars gets capped at 400,000 units in FY13. In FY12 sales of diesel cars was up by 37% and that of petrol cars was down by 14%.
- Company's new diesel engine plant with a capacity of 300,000 units per annum is been set up at a total cost of Rs17bn. This plant will come up in two phases - first phase with a capacity of 150,000 units will come up by mid next financial year and the second phase is expected to get ready by 2014.
- MSIL is also setting up a R&D facility by investing Rs20bn at Rohtak in Haryana. Company has already invested Rs11bn so far and the balance Rs9bn will be invested over FY13-FY15.
- MSIL has chalked out a sum of Rs30bn towards capex in FY13.

Valuation

We recommend ACCUMULATE on Maruti Suzuki India with a price target of Rs.1368

- AT the CMP of Rs1,397, the stock trades at 15.3x its expected FY13 EPS of Rs91.2.
- We retain our **ACCUMULATE** rating and price target of Rs1,368 on the stock (valued at 15x FY13 estimated earnings). We recommend accumulating the stock on declines from the current levels.

RESULT UPDATE

Ruchir Khare
ruchir.khare@kotak.com
+91 22 6621 6448

SIEMENS INDIA LTD

PRICE: RS.781 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.750 **CY12 P/E: 28.0x**

- **Siemens Q2FY12 numbers are well above our estimates on revenue and profitability front. Higher operating margins in energy and infrastructure segments resulted in YoY PAT growth.**
- **However for 1HFY12, company has reported sharp contraction in operating margins which resulted in YoY de-growth in PAT for the first half of current year. We highlight that the company has a diversified product base which accounts for abbreviations in reported quarterly numbers and therefore do not reflect the actual business trend.**
- **We continue to prefer Siemens in the listed MNC players in power sector for having an inherent technological edge and diversified product profile over peer group. However, in view of downside from current levels, we change our rating from Accumulate to 'Reduce' with a DCF based revised price target of Rs 750 (Rs 735 earlier).**

Summary table

(Rs mn)	FY10	FY11	F12E
Sales	94,001	121,064	137,332
Growth (%)	11.1	28.8	13.4
EBITDA	12,932	13,496	15,793
EBITDA margin (%)	13.8	11.1	11.5
PBT	12,588	12,749	14,248
Net profit	8,272	8,454	9,403
EPS (Rs)	24.5	25.1	27.9
Growth (%)	23.8	2.2	11.2
CEPS (Rs)	27.6	29.6	32.6
B V (Rs/share)	103.2	113.2	135.4
Dividend / share (Rs)	5.0	5.0	5.0
ROE (%)	25.9	23.2	22.4
ROCE (%)	25.9	23.2	22.4
Net cash (debt)	18,534	12,750	11,835
NW Capital (Days)	5.4	28.2	22.0
EV/Sales (x)	2.6	2.1	1.8
EV/EBITDA (x)	18.9	18.6	15.9
P/E (x)	31.8	31.1	28.0
P/Cash Earnings	28.3	26.4	24.0
P/BV (x)	7.6	6.9	5.8

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)	1HFY12
Sales	**37,973**	**31,208**	**21.7**	**23,969**	**58.4**	**61,942**
Other Income	120	293		0		120
(Inc)/dec in stock in trade	1,722	292	488.9	(3,759)	(145.8)	(2,037)
Raw materials	26,212	23,084	13.5	22,272	17.7	48,484
Employee cost	2,527	2,233	13.1	2,525	0.1	5,051
Other expenditure	2,587	1,310	97.5	1,699	52.3	4,286
Total Expenses	**33,048**	**26,919**	**22.8**	**22,737**	**45.3**	**55,785**
EBITDA	**4,925**	**4,289**	**14.8**	**1,231**	**299.9**	**6,157**
Depreciation	469	367	28.0	431	8.8	901
EBIT	**4,456**	**3,922**	**13.6**	**800**		**5,256**
interest	79	63		(249)		-170
PBT	**4,497**	**4,151**	**8.3**	**1,050**		**5,546**
Tax	1,496	1,407	6.3	342		1,838
PAT	**3,001**	**2,744**	**9.4**	**707**	**324.2**	**3,708**
EPS	**9.1**	**8.1**	**11.9**	**2.1**		**11.2**
Raw materials/sales	69.0	74.0		92.9		78.3
EBITDA (%)	13.0	13.7		5.1		9.9
Tax Rate	33.3	33.9		32.6		33.1

Source: Company

Q2FY12 result highlights

- Revenue for the quarter grew by 21% mainly driven by infrastructure and energy segment. However in 1HFY12, company has reported marginal revenue growth on account of muted performance in the previous quarter. Management has stated that the activity in the T&D space continues to remain sluggish.
- The industrial division reported muted YoY revenue growth at Rs 9.4 bn in Q2FY12. The division includes motors, which is a play on Greenfield industrial capex as well as replacement demand. This division is largely short-cycle product business and traction in economic growth is reflected immediately in numbers.

- In Q2FY12, energy division has reported significant YoY growth in revenues at 18 bn. However for the entire first half of FY12 revenue growth for the segment stood at 12%. Affected by pricing pressure due to increased competition in T&D segment and higher input prices, company has reported 17% de growth in EBIT for the segment at Rs 3.2 bn in 1HFY12.
- Company has been positive on the outlook for healthcare segment in the country. It has established meaningful market share over a period of years. Segment reported a growth of 13% YoY in the quarter.
- We believe that the company is reasonably poised to benefit from any recovery in the overall infrastructure spending by the public and private sector. While the healthcare division is likely to report resilient demand, growth in energy and industry division would be sensitive to the economic revival.
- We believe that the company is likely to report traction in drive technologies and building technologies going ahead. We also believe that it would report reasonable growth in healthcare division in future. In our projections, we therefore build order intake of Rs 14 bn for FY12E.

Segment Revenue

(Rs mn)	Q2FY12	Q2FY11	YoY (%)	Q1FY12	QoQ (%)
Infrastructure and cities	8,894	6,680	33.1	6,325	40.6
Energy	18,342	14,069	30.4	9,706	89.0
Industry	9,429	9,341	0.9	7,352	28.2
Healthcare	2,917	2,565	13.7	2,020	44.4

Source: Company

- EBITDA margins for the quarter stood at 13% compared to 13.7% in Q2 FY11. Company has reported jump in operating margins after two quarters. We highlight that margins are also sensitive to the sales mix between products and projects. Company reported order inflows of close to Rs 18 bn in the quarter amounting to the order backlog of Rs.126 bn at the end of 1HFY12.
- We highlight that the company has a diversified product base which accounts for abbreviations in reported quarterly nos.

Segment margins

(%)	Q2FY12	Q2FY11	Q1FY12
Infrastructure and cities	7.9	8.9	6.2
Energy	18.1	15.6	-0.2
Industry	5.6	8.7	3.0
Healthcare	(4.4)	9.8	-1.7

Source: Company

Long term business outlook remain positive; company is well poised to benefit from recovery in domestic T&D market and pick up in industrial capex cycle

- We remain positive on the long term outlook for energy division. We believe expects that the solution to the current issues related to fuel linkages and environment clearances would maintain the growth of the sector in future.
- Company has been observing continued momentum in Building Technologies (BT), Drive Technologies (DT) and industry Automation (IA) business (included in industry division). Another factor that contributed to the segment's performance is the additional solutions in its portfolio due to the amalgamation of the Company's Chennai-based subsidiaries Siemens Pvt. Ltd.

- Management shares a sanguine outlook for Indian drive technologies business. The DT division has been observing meaningful demand for its energy efficient and sustainable products due to increased compliance toward energy conservation.
- Demand for the segment has slightly moderated over the last few quarters. Management expects that the segment is likely to benefit from any recovery in public spending on infrastructure and urban development programs. However it expects margins to remain subdued over FY12 due to increased labour cost and input prices.
- We remain positive on the healthcare segment and believe that company is likely to benefit from the new technologies planned to be launched in FY12. Company intends to increase its offerings in tier ii and tier iii cities.

Business Outlook: Domestic market remained subdues in 1HFY12; company likely to observe margin pressure over FY12

- In our projected financials, we build revenue growth at 23% CAGR between FY10-12E driven by industrial, energy and healthcare division.
- We believe that the company would continue to experience increase in competition in power space mainly from domestic players mainly in T&D space.
- We believe that the company would also experience margin contraction vis-à-vis FY11 on account of increase in input prices. We opine that that margin would stabilize at 11-11.5% in FY12E.
- In our projected financials, we build 16.7% growth in revenues driven by industrial, energy and healthcare division.
- We believe that the company would continue to experience increase in competitions in power space mainly from domestic players.
- We believe that the company would also experience margin pressure on account of increase in input prices. We opine that that margin would stabilize at current levels of 11-11.5% going ahead.

Valuation & Recommendation

- We remain cautious on the stock and the MNC Electrical Equipment sector due to ongoing competitive scenario coupled with stock valuations running ahead of earnings growth.

We recommend REDUCE on Siemens India with a price target of Rs.750

- Currently Siemens stock is trading at 28x P/E and 15.9x EV/EBITDA on FY12 estimated earnings.
- We continue to prefer Siemens in the listed MNC players in power sector for having an inherent technological edge and diversified product profile over peer group. However, in view of inadequate upside from current levels, we change our rating from Accumulate to **'REDUCE'** with a DCF based revised price target of Rs 750 (Rs 735 earlier).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
28-Apr	ACIL	Pragati Shares & Stock Services	S	3,867,856	0.5
28-Apr	Aroma Ent	Varshaben Ajaybhai Naik	B	45,000	12.1
28-Apr	Aroma Ent	Pravin Kumar Vrajlal Panjabi	B	45,000	12.1
28-Apr	Aroma Ent	Prachi Ajaybhai Naik	B	45,000	12.1
28-Apr	Aroma Ent	Mukeshbhai Manilal Patel	B	45,000	12.1
28-Apr	Aroma Ent	Bharatbhai Keshubhai Patel	B	45,000	12.1
28-Apr	Aroma Ent	Shree Bhuvnakaram Tradinvest	S	190,500	12.1
28-Apr	Pasupati Fin	Ramesh Bahadur Kalu Singh	B	25,000	28.0
28-Apr	Pasupati Fin	Vipul Virendrakumar Patel	S	31,600	28.0
28-Apr	Prism Info	Neeta Nilesh Shah	B	100,000	20.3
28-Apr	Prism Info	Sainath Informatics Pvt Ltd	S	110,000	20.3
28-Apr	Transcorp Intl	Vitro Suppliers Pvt Ltd	B	35,000	32.7
28-Apr	Transcorp Intl	Tekmek Trading Co Pvt Ltd.	S	35,000	32.7

Source: BSE

Forthcoming events

Company/Market

Date	Event
30 Apr	Bank of India, Dabur India, Exide Ind, Godrej Cons. Hinduja Vent, Hindustan Motors, Indiabulls Sec, JSW Energy, Oriental Bank, Procter & Gamble, Punj Lloyd, Silverline Tech, Titan Industries, Tube investments, United Phosp, Vijaya Bank earnings expected

Source: Bloomberg

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	869	0.9	2.9	0.5
ITC	247	0.5	1.9	0.1
Axis Bank	1,121	1.6	1.4	0.5
Losers				
ITC	246	(1.3)	(5.6)	6.2
SBI	2,126	(1.7)	(3.0)	2.5
Coal India	351	(2.3)	(1.7)	1.0

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
Auto & Auto Ancillary
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

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.