MORNING INSIGHT

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

NOVEMBER 1, 2011

Economy News

- The Government's fiscal deficit in the just ended first six months has exceeded 70 per cent of the Budget target, according to the Controller General of Accounts (CGA). The data also show a massive revenue shortfall. Only 36.6 per cent of the budgeted tax revenue and 40.5 per cent of the non-tax revenue have been achieved in the first six months. (BL)
- With rising input costs and high interest rates, growth in eight key infrastructure sectors slowed down to 2.3 per cent in September from 3.3 per cent a year ago. Coal, natural gas and fertiliser showed decline in output raising concerns for the industry and government. The numbers were discouraging even compared to August when these sectors grew by 3.7 per cent. (ET)
- Having made it difficult for foreign investors to exit from an investment and having been greeted by a chorus of protest, the Government has now dropped the controversial provision that put all the instruments with inbuilt options outside the ambit of Foreign Direct Investment. (BL)

Corporate News

- Hyderabad-based engineering and construction company IVRCL Limited, and its subsidiary **IVRCL Infrastructures and Projects Limited,** received in-principle approval from their respective boards to pursue the proposal for amalgamation of IVRCL Assets with IVRCL Limited. (BS)
- Setting speculations on its next acquisition at rest, **Reliance Industries (RIL)** said it is not in talks to acquire the US-based oil refiner Valero Energy. (BS)
- **Tata Motors** will challenge the Calcutta High Court order upholding the validity of the Singur Land and Rehabilitation and Development Act. The company on Monday filed an appeal in the division bench and the matter would be heard from tomorrow. (BS)
- After a one-off reduction, state-owned oil companies today hiked jet fuel prices by a steep 3.8% in line. The price of aviation turbine fuel (ATF), or jet fuel, at Delhi's T3 airport was raised by Rs 2,845 per kilolitre (kl), or 3.8%, to Rs 61,115 per kl with effect from midnight tonight, an official of Indian Oil Corporation (IOC), said. (BS)
- **Sterlite Industries** plans to convert all its loans in a loss-making group firm into equity, putting it on a possible collision course with its shareholders. (ET)
- **NHPC Ltd** expects to raise Rs.20-30 bn by the end of March 2012 via term loans and rupee bonds to fund construction of projects, R.K. Taneja, executive director, finance, said. (ET)
- The country's drug regulator has given conditional market approval for **Ranbaxy Laboratories'** anti-malaria drug, paving the way for the launch of the country's first privately-developed medicine. (ET)

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

Equity

		% Chg		
	31 Oct 11	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,705	(0.6)	7.6	(3.3)
NIFTY Index	5,327	(0.6)	7.8	(3.4)
BANKEX Index	11,454	0.7	5.6	(8.2)
BSET Index	5,828	(0.0)	10.5	(1.0)
BSETCG INDEX	10,969	(0.6)	2.1	(16.2)
BSEOIL INDEX	8,988	(2.1)	5.8	1.6
CNXMcap Index	7,267	0.4	2.4	(9.2)
BSESMCAP INDEX	6,975	0.2	1.4	(15.8)
World Indices				
Dow Jones	11,955	(2.3)	9.5	(1.5)
Nasdaq	2,684	(1.9)	11.1	(2.2)
FTSE	5,544	(2.8)	8.1	(4.0)
NIKKEI	8,988	(0.7)	2.4	(10.6)
HANGSENG	19,865	(0.8)	11.3	(13.6)

Value traded (Rs cr)

	31 Oct 11	% Chg - Day
Cash BSE	2,159	(13.0)
Cash NSE	10,713	(25.2)
Derivatives	73,233	(22.9)

Net inflows (Rs cr)

	28 Oct 11	% Chg	MTD	YTD
FII	2,360	419.3	1,988	459
Mutual Fund	(157)	(548.6)	(212)	5,385

FII open interest (Rs cr)

	28 Oct 11	% Chg
FII Index Futures	15,894	2.3
FII Index Options	37,037	2.3
FII Stock Futures	28,360	0.5
FII Stock Options	494	18.7

Advances / Declines (BSE)

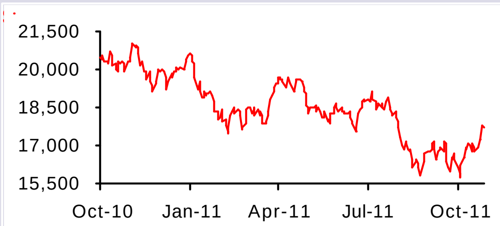
31 Oct 11	A	B	S	Total	% total
Advances	107	1,162	224	1,493	51
Declines	97	1,020	236	1,353	46
Unchanged	2	75	31	108	4

Commodity

		% Chg		
	31 Oct 11	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	92.8	(0.4)	17.2	(2.2)
Gold (US$/OZ)	1,724.6	(1.0)	5.8	5.9
Silver (US$/OZ)	34.5	(1.6)	13.8	(13.0)

Debt / forex market

	31 Oct 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.92	8.92	N/A	8.55
Re/US$	48.7	48.8	49.0	44.1



RESULT UPDATE

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WIPRO TECHNOLOGIES

PRICE: RS.368 **RECOMMENDATION: BUY**
TARGET PRICE: RS.422 **FY13E P/E: 14.3X**

Wipro's 2QFY11 results were below expectations. The negative surprise came in the form of a 3.5% fall in average off-shore realisations (CC terms) and the greater-than-expected fall in EBIDTA margins in the IT services business. Average realizations had fallen by 1.7% (on-site) and 1.2% (off-shore) in 1Q on CC basis. The organic volume growth of about 4.6% was in line. The revenue growth guidance for 3Q at 2% - 4% in USD terms reflects the seasonality associated with the December quarter. Wipro's volume growth has lagged peers in the recent past likely due to lower success in account mining. The recent organizational restructuring is complete and initial results are already visible. We understand that, the same will yield results over the future quarters.

Broader management commentary suggests increasing comfort with respect to demand and signs of a pick up in certain verticals. Wipro management also indicated that discretionary spends are increasing, leading to better pipelines across businesses. The company has 25 deals in the pipeline which are worth more than $50mn each.

We modify earnings to account for the 2QFY12 results - expect FY12E EPS at Rs.22.7 (Rs.22.8), helped partly by the recent rupee depreciation. We introduce FY13 estimates and expect EPS to be at Rs.25.7. We maintain BUY rating with a price target of Rs.422 based on FY13E earnings (Rs.411 based on FY12E earnings). However, we prefer TCS and Infosys over Wipro and our exit multiple for Wipro is at a discount to peers. Higher success in driving incremental growth from large accounts, stability in average realisations and sustained higher margins may make us more positive on the company. Higher-than-expected appreciation in the INR and a slower-than-anticipated recovery in user economies pose downside risks to our estimates.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	310,528	370,440	418,976
Growth (%)	14.5	19.3	13.1
EBITDA	65,835	74,623	84,080
EBITDA margin (%)	21.2	20.1	20.1
PBT	62,457	68,973	78,694
Net profit	52,743	55,483	62,561
EPS (Rs)	21.6	22.7	25.7
Growth (%)	15.2	5.2	13.0
CEPS (Rs)	25.0	26.9	30.3
Book value (Rs/share)	97.7	114.0	132.7
Dividend per share (Rs)	4.0	5.0	6.0
ROE (%)	24.3	21.5	20.8
ROCE (%)	25.2	23.8	23.6
Net cash (debt)	82,962	136,833	196,673
NW Capital (Days)	83.8	92.4	85.5
P/E (x)	17.0	16.2	14.3
P/BV (x)	3.8	3.2	2.8
EV/Sales (x)	2.6	2.1	1.7
EV/EBITDA (x)	12.5	10.3	8.4

Source: Company, Kotak Securities - Private Client Research

2QFY12 results

(Rs mn)	2QFY12	1QFY12	QoQ (%)	2QFY11	YoY (%)
Turnover	90,945	85,640	6.2	77,305	17.6
Expenditure	73,546	68,350		60,890	
EBDITA	**17,399**	**17,290**	**0.6**	**16,415**	**6.0**
Depreciation	2,520	2,338		1,968	
EBIT	**14,879**	**14,952**	**-0.5**	**14,447**	**3.0**
Interest	-863	-1,432		-541	
PBT	**15,742**	**16,384**	**-3.9**	**14,988**	**5.0**
Tax	2,841	3,096		2,183	
PAT	**12,901**	**13,288**	**-2.9**	**12,805**	**0.7**
Share of profit	99	110		192	
EO Items	0	0		0	
Minority interest	-10	-49		-148	
Adjusted PAT	12,990	13,349	-2.7	12,849	1.1
EPS (Rs)	**5.29**	**5.44**		**5.24**	
EBIDTA(%)	19.1	20.2		21.2	
EBIT (%)	16.4	17.5		18.7	
Net Profit (%)	14.2	15.5		16.6	

Source : Company

IT services

Revenues : organic volume growth at 4.6%; off-shore realizations down QoQ

- Wipro's IT Services revenues reported a 6.6% rise in INR terms. A part of the growth was contributed by the consolidation of SAIC for the full quarter, which brought in revenues of about $46mn ($10mn in 1Q).
- Organic revenues growth was about 2.9% in USD terms, which was led by a 4.6% rise in volumes.
- While the volume growth matched the growth reported by Infosys, it was lower than the 6.25% volume rise of TCS.
- Wipro had been reporting lower growth in volumes vis-à-vis industry peers over the past few quarters.
- We believe that, the recent changes to the management and execution team had resulted in this relatively lower growth rate. However, we opine that, the initial benefits are reflecting on the numbers.
- Finance solutions vertical has reported a 6.9% QoQ growth in CC terms and revenues from Europe have also increased by 6.8% in CC terms and 7.4% in INR terms.
- While the company has witnessed some stress in the Investment Banking business, the overall spending trends are strong.
- Manufacturing is also seeing strong spending trends across US and Europe.
- The growth was muted in 1Q across geographies and verticals in CC terms.

Revenue break-up - Geography - wise

(Rs mn)	1QFY12	2QFY12	QoQ (%)	2QFY11	YoY (%)
USA	33944.35	35307.97	4.02	32125.95	9.90
Europe	18317.14	19668.66	7.38	15229.65	29.15
Japan	704.51	887.82	26.02	862.06	2.99
India & ME	5764.13	6351.34	10.19	5114.86	24.17
ROW	5315.81	6078.16	14.34	4137.87	46.89

Source : Company

- However, telecom continued to be impacted by the erratic spending patterns on the OEM space. It reported a 0.6% fall in CC terms and a marginal fall in INR terms.
- The OEM space is challenged but the service providers space is seeing more spends in newer areas like cloud and mobility.

Revenue break-up - Vertical - wise

(Rs mn)	1QFY12	2QFY12	QoQ (%)	2QFY11	YoY (%)
Global Media / Telecom	10759.72	10722.15	-0.35	9712.50	10.40
Finance Solns	17100.27	18507.66	8.23	15459.54	19.72
Maft & Hitech	12617.05	12975.85	2.84	12011.31	8.03
Hcare, Life S, Sers	6532.69	6692.81	2.45	6264.27	6.84
Retail & Trans	9606.89	10039.21	4.50	8907.91	12.70
Energy & Util	7429.33	9356.27	25.94	5114.86	82.92

Source : Company

- Volumes grew on the back of increased traction in the Top accounts. Revenues from the Top client grew by about 20% in INR terms and the Top 10 clients grew by 10% QoQ.
- We understand that, the account mining and execution focus on Wipro has started reflecting in these increased revenues from the Top accounts of the company. In 1Q, the Top 10 clients had reported flat growth.
- Wipro has been increasingly focusing on its existing accounts and has re-aligned its sales teams to the focus verticals to effectively service large accounts.
- The company has indicated that, the pipeline is robust with a few large deals under negotiations. It has about 25 deals, each worth more than $50mn, in the pipeline.
- We understand that, there is traction in discretionary spends..
- Clients are looking at reducing costs on one hand but on the other hand, they are looking at ways to improve growth rates and this is driving discretionary spends.
- Wipro is witnessing higher traction in new service areas like business analytics, cloud and mobility. These form part of the focus themes for Wipro.

Services mix

(Rs mn)	1QFY12	2QFY12	QoQ (%)	2QFY11	YoY (%)
Technology Infra Sers	13897.97	15092.96	8.60	12126.25	24.47
Analytics, Inf Mgt	4098.94	4507.40	9.97	3333.28	35.22
Busi Appli Sers	19469.97	20829.65	6.98	17413.53	19.62
BPO	5956.27	6009.87	0.90	5632.10	6.71
Product Engg &Mobi	5315.81	5736.69	7.92	4999.92	14.74
ADM	15306.98	16117.37	5.29	13965.31	15.41

Source : Company

Realisations down QoQ

- The average realizations were down by 3.5% (off-shore) during the quarter on a CC basis. On-site realisations were marginally higher.
- This is the second successive quarter of realization falls for Wipro and is of concern to us.
- As was the case last time, the management has indicated this to one-off factors. It has indicated completion of FP projects during the quarter as one of the reasons.
- The management also said that, it had to put in extra efforts for completing some projects with no commensurate revenues.
- We view this with concern especially in the backdrop of stable and rising prices. We will watch the price - volume balance closely in the future quarters. The management has indicated soft pricing trends in the seasonally weak December quarter (due to lower number of working hours).
- The management has indicated that like-to-like pricing is stable with upward bias in areas like analytics and ERP consulting.
- Non-linear revenues at about 11% of overall revenues, are expected to provide some cushion to overall pricing in the future.

Non-IT businesses

- Within the non-IT businesses, the revenues in Wipro Consumer Care and Lightning grew at about 20% YoY to Rs.8bn, while the IT products business reported a 6% fall on a YoY basis.

EBITDA margins - lower than expected

- The EBITDA margins in 2QFY12 were lower on a sequential basis by about 200bps in IT services business.
- The company gave salary hikes WEF June 2011 (2-3% onsite and 12-15% offshore). The full impact of the same was felt in 2Q. Moreover, the full quarter consolidation of SAIC also impacted margins QoQ.
- The company was able to set-off part of the impact by improving efficiencies and cost rationalization.
- The company added 5,240 employees on a net basis during the quarter.
- The DSOs for the IT services business have improved marginally to 76 v/s 77 QoQ. However, the ratio has deteriorated over the past few quarters and is also much higher as compared to most industry peers.

Guidance for 3QFY12 reflects seasonality

- Wipro has guided to a flat to a 2% - 4% sequential rise in USD revenues in IT services. This accounts for the lower number of working hours in the quarter. However, it is lower than the guidance provided by Infosys.
- Wipro's focus on creating demand rather than reacting to demand will likely lead to slower growth in the near term, we understand.

Valuations and recommendations

- We have made suitable changes to our earnings estimates to take into account the 2QFY12 results.
- For FY12E, We expect IT services revenues to grow by 20%, partly aided by SAIC. Margins are expected to be lower due to salary hikes and SAIC consolidation.
- We expect earnings for FY12E to be Rs.22.7 per share.
- We introduce FY13E earnings. We expect IT services revenues to grow by about 14%. We have assumed rupee to appreciate to an average of about Rs.46.5 for FY13E.

We maintain BUY on Wipro Technologies with a revised price target of Rs.422

- Margins are expected to be impacted in IT services due to salary increments and rupee appreciation v/s 2HFY12 levels.
- We have assumed tax at 20.5% for FY13E. Consequently, PAT is expected to rise by 13% to Rs.25.7.
- We have accorded a discount to Wipro as compared to the valuations accorded to Infosys and TCS, noting the relatively lower margins, reduction in average realisations and a relatively subdued revenue growth profile.
- Noting the upside to our target price for Wipro based on FY12E earnings, we maintain our BUY recommendation with a price target of Rs.422 (Rs.411).
- Our exit multiple works out to 16.5x FY13E EPS.

Risks and concerns

" A delayed recovery in major user economies and a sharper-than-expected appreciation of rupee remain the key risks for earnings.

RESULT UPDATE

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SUBEX AZURE LIMITED (SUBEX)

PRICE: RS.42 **RECOMMENDATION: SELL**
TARGET PRICE: RS.47 **FY12E P/E: 4X**

We terminate our coverage on the stock

Subex's performance for 2QFY12 was marginally higher than our estimates. The company has sold off its activation business (a part of the Syndesis acquisition made earlier). The business was incurring losses at the EBIDTA levels. However, the company has declined to give the details of the sales consideration. We find this surprising though we believe that, the consideration would have been negligible. Moreover, at the current market price, we expect Subex to counter problems in repaying the FCCBs worth $94mn which are maturing in March 2012. We believe that, conversion into shares may not happen looking at the price differential between the conversion price and the CMP. We are concerned on the above - mentioned issues and hence, recommend exiting the stock, till there is more certainty on the same. We terminate coverage on the stock. We may re-initiate coverage after getting more clarity on the financials.

Summary table

(Rs mn)	FY10	FY11	FY12E
Sales	4,631	4,828	4,792
Growth (%)	-0.2	4.3	0.0
EBITDA	769	1,313	1,318
EBITDA margin (%)	16.6	27.2	27.5
PBT	309	882	896
Net profit	208	838	793
EPS (Rs)	3.6	12.1	11.4
Growth (%)	172.0	236.0	(5.0)
CEPS (Rs)	6.4	13.6	12.7
Dividend / share (Rs)	-	-	1.0
ROE (%)	4.9	29.9	44.2
ROCE (%)	6.1	15.0	17.9
Net cash (debt)	(6,269)	(5,416)	(5,667)
NW Capital (Days)	25.0	45.8	38.3
P/E (x)	11.7	3.5	3.7
P/BV (x)	0.7	1.4	1.9
EV/Sales (x)	2.0	1.7	1.8
EV/EBITDA (x)	11.9	6.3	6.5

Source: Company, Kotak Securities - Private Client Research

2QFY12 results

(Rs mn)	1QFY12	2QFY12	QoQ (%)	2QFY11	YoY (%)
Revenues	**1102.8**	**1281.6**	**16.2**	**1235.1**	**3.8**
Expenditure	897.6	916.2		907.1	
EBDITA	**205.2**	**365.4**	**78.1**	**328.0**	**11.4**
Depreciation	21.0	20.9		27.5	
EBIT	**184.2**	**344.5**	**87.0**	**300.5**	**14.6**
Interest	103.1	106.6		103.7	
Other Income	66.8	7.4		12.6	
Provisions	0.0	0.0		0.0	
PBT	**147.9**	**245.2**	**65.9**	**209.4**	**17.1**
Tax	6.3	-3.5		13.3	
PAT	**141.6**	**248.7**	**75.6**	**196.0**	**26.9**
EO items	-9.3	-378.2		111.2	
PAT after EO items	132.3	-129.5		307.2	
Shares (mns)	69.3	69.3		69.3	
EPS (Rs.)	**2.0**	**3.6**		**2.8**	
OPM (%)	18.6	28.5		26.6	
GPM (%)	16.7	26.9		24.3	
NPM (%)	12.8	19.4		15.9	

Source : Company

Products business

- Product revenues rose by 18% QoQ to Rs.1.17bn. This was largely led by the growth in revenues in the RMS products business, we opine.
- The order intake continued to be buoyant and amounted to $23.5mn during the quarter v/s $23mn in the previous quarter.
- America Moviles, one of the largest wireless telcos in Latin America, has chosen ROC FMS and ROC RA solutions for group wide implementation.
- For 2QFY12, support revenues contributed about 22% of the overall revenues and Managed services formed about 12% of revenues.

Macro scene stable

- Subex has maintained that, there is a revival in sentiment among clients. The management indicated increase in number of contracts being placed by clients.
- It also indicated that, they were looking at costs and hence, vendors are forced to provide better value or immediate cost reduction benefits to customers.
- While Subex is optimistic on the prospects of the industry, most of the larger players have indicated still sluggish prospects.
- We remain cautious because of the concentrated nature of the market (few players dominate the same) and the lumpy nature of revenues.

Margins

- EBIDTA margins in products business improved by about 400bps to 30.8%, on the back of higher revenues and control on costs.
- The company had Rs.7.4mn of operational other income. Interest cost remained high at Rs.106mn for the quarter and the company had a negative tax provision of Rs.3.5mn.
- The company made some one time provisions of Rs.387mn towards exchange differences on restatement of FCCB liabilities and prior period managerial remuneration expenses, partly set off by gain on sale of assets of activation business.
- This resulted in a net loss for the quarter.

Sale of Activation products business - sale details unavailable

- Subex had sold off its Activation products business to NetCracker USA.
- According to the management, this business had revenues of about $15mn in FY11 with matching expenses.
- The business recorded revenues of about $3mn in 1HFY12 with EBIDTA loss of about $4.5mn. Revenues in 2Q were at $2mn with EBIDTA loss of about Rs.70mn.
- The company had acquired these products as a part of the Syndesis acquisition done in 2006. The total revenues of Syndesis were at about $40mn at the time of acquisition and the acquisition was done for $165mn.
- The sold product portfolio formed a significant part of the Syndesis portfolio.
- The company has declined to give details about the sale consideration and other finer details of the deal. We find this very surprising.
- However, we believe that, the consideration would have been negligible.

Conversion / restructuring of FCCBs

- Subex had restructured about $141mn of FCCBs (out of a total of $180mn). The company has issued new FCCBs of $98.7mn against the cancellation of these older FCCBs. The new FCCBs are convertible into shares at a price of Rs.80 per share (Rs.656 per share earlier).
- The remaining FCCBs are convertible at Rs.656 per share
- The company has already reduced its liability partly by converting some FCCBs into shares. However, the total outstanding FCCBs still amount to about $93.8mn. These will mature in March 2012.
- The current price is much lower than the conversion price (Rs.80 and Rs.656 for the two sets of FCCBs). Hence, we believe that, conversion of FCCBs into shares may be difficult.
- We also believe that, the company will not have the requisite cash in the balance sheet by that date, to repay the FCCBs in full.

- According to the management, the company has initiated proceedings to raise finance (equity or debt) to repay the FCCBs maturing by March 2012.
- We have not assumed any repayment / conversion of these FCCBs pending availability of further details.

We make changes to our FY12 estimates.

- We expect Subex to report revenues of Rs.4.8bn in FY12E. Product revenues are expected to be at Rs.4.34bn.
- Product EBIDTA margins are expected to improve in 2HFY12 post the sale of the loss making business.
- We arrive at a PAT of Rs.793mn in FY12E, leading to an EPS of Rs.11 for FY12E on current equity capital.
- We have neither considered the MTM gains / losses on the FCCBs nor the other forex gains / losses in line with the company policy, which treats them as extraordinary items.

Valuations

We recommend SELL on Subex with a price target of Rs.47

- The stock is currently available at low valuations.
- However, lack of clarity on the earlier-mentioned issues may impact the stock price. Also, uncertainty on these issues makes the earnings estimates and target price redundant.

Risks

- A delayed recovery in major user economies may impact our projections.
- A sharp acceleration in rupee from the current levels may impact our earnings estimates for the company.
- Delays in receipt and execution of orders may make earnings volatile in future quarters while likely impacting the overall revenue and profit growth of the company.

RESULT UPDATE

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MARUTI SUZUKI INDIA LIMITED (MSIL)

PRICE: RS.1125 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.1112 **FY13E P/E: 14.2X**

- **MSIL reported below expected results for 2QFY12. While sales were down by 16% YoY, net profit dropped by 60% YoY, much below our and street expectations.**
- **Weak petrol car demand, labor issues and strong yen were the prime reasons for such a steep fall in the profits for the company.**
- **Recent yen depreciation has lead the company to hedge significant proportion of yen exposure related to 2HFY12. However the rates still remain lower as compared to FY11 and marginally lower than 2QFY12 hedged rates.**
- **We are revising our FY12 estimates to factor in lower than expected results and we are also introducing FY13 estimates.**
- **We roll over our price target to FY13 estimates (earlier FY12). We value the stock at 14x which is at a discount to the company's past 5 years one year forward PE multiple of 16x. Reason for discount in valuation multiple are 1.Weak demand outlook 2.Pressure on margins and 3.Volatile forex movement. Our revised price target stands at Rs1,112 (earlier Rs1,120). We retain our REDUCE rating on the stock.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	362,997	334,703	394,183
Growth (%)	25	(8)	18
EBITDA	30,579	22,667	29,178
EBITDA margin (%)	8.4	6.8	7.4
PBT	31,088	25,522	31,644
Net profit	22,886	18,504	22,942
EPS (Rs)	79.2	64.0	79.4
Growth (%)	(8.4)	(19.1)	24.0
CEPS (Rs)	114.3	100.3	120.8
BV (Rs/share)	480	538	612
Dividend / share (Rs)	7.5	5.0	5.0
ROE (%)	17.8	12.6	13.8
ROCE (%)	23.3	17.1	18.9
Net cash (debt)	69,209	57,227	59,788
NW Capital (Days)	(6.2)	(4.2)	(5.1)
P/E (x)	14.2	17.6	14.2
P/BV (x)	2.3	2.1	1.8
EV/Sales (x)	0.7	0.8	0.7
EV/EBITDA (x)	8.4	11.8	9.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	2QFY12	2QFY11	YoY%	1QFY12	QoQ%
Total Revenues	**75,754**	**89,774**	**(15.6)**	**83,615**	**(9.4)**
Total expenditure	73,374	81,870	(10.4)	77,149	(4.9)
RM consumed	61,566	70,756	(13.0)	66,917	(8.0)
Employee cost	1,995	1,568	27.2	1,794	11.2
Other expenses	9,814	9,545	2.8	8,438	16.3
EBITDA	**2,380**	**7,904**	**(69.9)**	**6,466**	**(63.2)**
EBITDA margin (%)	3.1	8.8	-	7.7	-
Depreciation	2,664	2,381	11.9	2,425	9.9
Interest cost	109	97	12.3	58	90
Other operating income	2,562	1,699	50.8	1,678	52.7
Other Income	1,177	1,340	(12.1)	1,801	(34.6)
Extraordinary income/ (loss)	-	-	-	-	-
PBT	**3,346**	**8,465**	**(60.5)**	**7,463**	**(55.2)**
PBT margins (%)	4.4	9.4		8.9	
Tax	942	2,481	(62.0)	1,970	(52.2)
Tax rate (%)	28.1	29.3	-	26.4	-
Reported PAT	**2,404**	**5,983**	**(59.8)**	**5,492**	**(56.2)**
PAT margins (%)	**3.2**	**6.7**	**-**	**6.6**	**-**
Reported EPS (Rs)	8.3	20.7	(59.8)	19.0	(56.2)
Volume data (Nos)					
Domestic	222,406	277,936	(20.0)	250,683	(11.3)
Exports	29,901	35,718	(16.3)	30,843	(3.1)
Total Volumes	**252,307**	**313,654**	**(19.6)**	**281,526**	**(10.4)**
Net Realization (Rs)	298,741	284,935	4.8	295,529	1.1
RM cost per vehicle (Rs)	244,010	225,587	8.2	237,695	2.7

Source: Company

Weak demand and labor issues pulls down revenue by 16%

- MSIL posted revenues of Rs75,754mn in 2QFY12, a 16% YoY drop over 2QFY11 revenues of Rs89,774mn. Slowing demand for petrol cars and labor strike at the company's plant led to 20% YoY drop in volumes. However net realizations improved by 5% on price hikes taken over the past one year and rising diesel car mix.
- On a sequential basis, revenues declined by 10% led by reduction in volumes.
- Export revenues for the quarter stood at Rs8,860mn.
- Discounts averaged Rs13,500 in the quarter as against Rs9,500 during 1QFY12. Reasons for increase in discounts were 1.Weak demand for petrol car and 2. Lower sales of high demand models (Swift and Dzire). Going ahead into 2HFY12 the company expects discounts to continue at the current level.
- Management expects that the overall demand scenario is weak on account of high interest rates, increase in fuel prices (petrol) and slowing economy.
- Despite significant waiting period, models such as Swift and Dzire will only partially compensate for slowing demand for other petrol driven models due to capacity constraints. Company will be able to produce 16,000-18,000 units of Swift model per month (earlier production was 12,000 units per month).
- Post strike, production at both Manesar and Suzuki Powertrain are in the ramp-up stage and is expected to reach the pre-strike level of production by December 2011/January 2012.
- In the first six months, industry demand for petrol driven cars is down by ~11% and for diesel driven cars is up by ~24% clearing showing rising preference towards diesel cars. For MSIL, limited supply of diesel engines will impact production of high selling diesel cars in 3QFY12. Even though the company is increasing the diesel engine capacity from 20,000 units per month to 25,000 units per month by January 2012; the demand for diesel cars is far more than the increase in capacity. Accordingly the company has initiated talks with Fiat India for supply of diesel engine which the company believes could be operational by January 2012. However the quantity that the company could source will depend on free capacity available with Fiat India. During the quarter, diesel car sales in the overall volume mix stood at 22%.
- During the first six months, the company's volumes are down by 11% in 1HFY12 and we expect the company's FY12 volumes to de-grow by 12%. We have however factored in a 15% volume growth for the company in FY13.

Operating margins down significantly

- MSIL reported a 70% YoY and 63% QoQ drop in its EBITDA to Rs2,380mn. EBITDA margin stood at 3.1% for the quarter as against 8.8% in 2QFY11 and 7.7% in 1QFY12. There were multiple reasons for such a drastic decline in the compay's operating performance.
- As stated earlier, higher discounts on weak demand had some impact on revenues. Furthermore, the company provided Rs270mn for mark to market on commodity. Accordingly raw material to net sales ratio increased from 80.4% in 1QFY11 to 81.7% despite largely stable commodity prices.
- Employee cost increased by 27% YoY and 11% QoQ to Rs1,995mn.
- Higher advertisement spends led to 27% sequential rise in selling and distribution cost.
- Royalty for the quarter stood at 6% of sales as against 4.8% in 1QFY11. Current quarter royalty also included ~Rs500mn (~Rs1000mn for 1HFY12) towards MTM provision for royalty related to 1QFY12.
- Going ahead we expect the margins to improve from 2QFY12 levels, but will continue to remain under pressure. For FY12 and FY13, our EBITDA margin estimate stands at 6.8% and 7.4% respectively.

PAT down by 60%, much below consensus

- Due to poor operating performance, the company reported PAT that was significantly lower than our (Rs4,069mn) and consensus expectation (Rs4,100mn).
- MSIL's net profit for the quarter stood at Rs2,404mn, a YoY drop of 60%.
- Other operating income increased by 53% sequentially on account of write backs to the tune of ~Rs600mn.
- With new line at Manesar coming on stream in September 2011, depreciation cost saw slight increase during the quarter. However the full impact will be come in 3QFY12 onwards.

Hedging strategy

- For MSIL, 2QFY12, was largely hedged on the yen related direct imports. On the yen side, the company was hedged until October 2011.
- Recent yen depreciation has lead the company to hedge significant proportion of yen exposure related to 2HFY12. However the rates still remain lower as compared to FY11 and marginally lower than 2QFY12 hedged rate.
- On the hedging policy, the company said that they will continue with their existing strategy of trying to cover forex exposure for three to six month period.
- Since the company compensates its vendors with a quarterly lag, 3QFY12 results could see some yen related impact. Company has started meetings with vendors to lower their yen exposure which now stands at 14% of the company's net sales.

Change in estimates

- Due to strike in October 2011 and lower than expected results, we are revising our FY12 estimates downwards. Our revised FY12 EPS now stands lower by 8.5% to Rs64.
- We are also introducing FY13 estimates. For FY13, we have factored in a 15% volumes growth and 7.4% EBITDA margin leading to 24% increase in net profits.

Revision in FY12 estimates

	Old	New	% change
Volume (mn units)	1.2	1.1	(3.8)
Sales (Rs mn)	347,465	334,703	(3.7)
EBITDA margin (%)	7.6	6.8	
Net Profit (Rs mn)	20,227	18,504	(8.5)

Source: Kotak Securities - Private Client Research

Outlook and valuations

- At the CMP of Rs1,125, the stock trades at 17.6x and 14.2x its estimated FY12 and FY13 earnings respectively.

We retain REDUCE rating on Maruti Suzuki India with a revised price target of Rs.1112

- We roll over our price target to FY13 estimates (earlier FY12).
- We value the stock at 14x which is at a discount to the company's past 5 years one year forward PE multiple of 16x. Reason for discount in valuation multiple are 1.Weak demand outlook 2.Pressure on margins and 3.Volatile forex movement.
- Our revised price target stands at Rs1,112 (earlier Rs1,120). We retain our **REDUCE** rating on the stock.

RESULT UPDATE

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ICICI BANK

PRICE: RS.930 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1336 **FY13E P/E: 14.9X, P/ABV: 1.7X**

Q2FY12 results: Largely in line quarter

- **NII grew 13.7% to Rs.25.06 bn in Q2FY12 (as against our estimate of Rs.24.37 bn) on back of 20.5% loan growth along with stable margin at 2.6%. Net Income also came ahead of expectations (Rs.15.03 bn; 21.6% growth), mainly on back of lower credit costs (~60 bps in Q2FY12 as against 142 bps in Q2FY11 and 84 bps in Q1FY12).**
- **CASA mix remained stable QoQ at ~42% at the end of Q2FY12 and has aided in maintaining margins at 2.6%; we are modeling NIM to come at 2.65% during FY12-13E, after factoring in interest paid on saving deposits to be 5% (hike of 100 bps from current level).**
- **Domestic loan book grew 14.8% YoY during Q2FY12 while international book grew 37.3% YoY (~26% YoY excluding the impact of exchange rate movement) during the same period. Other segments like agriculture and corporate grew at 32.9% and 24.8%; while growth in retail book was subdued at 4.9% YoY.**
- **Asset quality has continued to improve- net NPA declined to 0.80% at the end of Q2FY12 from 1.37% at the end of Q2FY11 and 0.91% at the end of Q1FY12. In absolute terms also, it declined 29.9% YoY and 4.9% QoQ.**
- **We are modeling earnings to grow 18.3% CAGR during FY11-13E. We expect bank to focus on liability structure (CASA mix) and profitability (RoA; RoE will improve with increase in leverage in next 2-3 years).**
- **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 target price of Rs.1336 (SOTP methodology), where the value of its standalone business comes to Rs.1093 (2.0x FY13E ABV) and the value of subsidiaries at Rs.243 (holding company discount: 20% to the fair value of its subsidiaries at Rs.303).**

Quarterly Performance

(Rs mn)	Q2FY12	Q2FY11	% Change
Int. on advances	53807	39492	36.2
Int. on investments	23450	19161	22.4
Int. on RBI/Other balances	1153	823	40.1
Other Interest	3166	3615	-12.4
Total Interest earned	**81576**	**63091**	**29.3**
Interest expenses	56512	41047	37.7
Net interest income	**25064**	**22044**	**13.7**
Other income	17396	15779	10.2
Net Revenue (NII + Other income)	**42460**	**37823**	**12.3**
Total operating expense	18922	15704	20.5
Employee cost	8427	6243	35.0
Direct marketing agency expenses	362	355	2.1
Other operating exp	10133	9106	11.3
Operating profit	**23538**	**22119**	**6.4**
Provisions	3188	6411	-50.3
Provision for Taxes	5445	4951	10.0
Deferred tax	-127	-1606	NM
Net profit	**15032**	**12363**	**21.6**
EPS (Rs.)	**13.05**	**10.91**	**19.6**

Source: Company

NII grew 13.7%, ahead of our expectations; net Income was aided by lower credit costs during Q2FY12.

NII grew 13.7% to Rs.25.06 bn in Q2FY12 (as against our estimate of Rs.24.37 bn) on back of 20.5% loan growth along with stable margin at 2.6%. Net Income also came ahead of expectations (Rs.15.03 bn; 21.6% growth), mainly on back of lower credit costs (~60 bps in Q2FY12 as against 142 bps in Q2FY11 and 84 bps in Q1FY12).

Domestic loan book grew 14.8% YoY during Q2FY12 while international book grew 37.3% YoY (~26% YoY excluding the impact of exchange rate movement) during the same period. Other segments like agriculture and corporate grew at 32.9% and 24.8%; while growth in retail book was subdued at 4.9% YoY.

Trend in loan book

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Advances (bn)	1,843.8	1,942.0	2,066.9	2,163.7	2,206.9	2,206.9
Retail including CV	763	781	790	837	827	827
Corporate & Project Finance	443	542	620	565	633	633
Agriculture	166	132	153	210	188	188
International	451	487	504	552	558	558

Source: Company

Although retail book grew at subdued pace (4.9% YoY), this is the third quarter in row when it has delivered positive YoY growth.

CASA mix remained stable QoQ at ~42%; we expect NIM to remain stable at 2.65% during FY12-13E.

The bank has been focusing on improving its funding mix by increasing the share of CASA mix. Its CASA mix has improved from 28.7% at the end of FY09 to 45.1% at the end of FY11. CASA mix remained stable QoQ at ~42% at the end of Q2FY12 and this has aided in maintaining the margins at 2.6%.

Trend in Deposit growth

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Deposits (bn)	2,230.9	2,177.5	2,256.0	2,306.8	2,306.8
Saving deposits	632.5	645.8	668.7	668.6	668.6
Current deposits	348.6	316.2	347.8	297.8	297.8
CASA (Low Cost Deposits)	981.1	962.0	1,016.5	966.4	966.4
Term deposits	1,249.9	1,215.5	1,239.6	1,340.4	1,340.4
CASA (%)	44.0%	44.2%	45.1%	41.9%	41.9%

Source: Company

Its NIM has remained stable at 2.6% during Q2FY12 (both YoY as well as QoQ). NIM of ICICI bank has been historically lower vis-à-vis its peers due to imbalances in its asset & liability profiles. Although liability franchise has improved very sharply in last 2 years, its margin has continued to drag. However, we believe these overhangs are likely to wane from FY13E due to two factors -

1) ~Rs.1.0 bn / quarter worth of credit losses on securitized book which are booked under the interest income line would go from FY13 onwards and

2) Management focus on international book where NIM is lower at 85-90 bps; this is likely to happen with the decline in share of overseas book (as it lags domestic book growth) along with improvement in its incremental margins.

We are modeling NIM to come at 2.65% during FY12-13E, after factoring in interest paid on saving deposits to be 5% (hike of 100 bps from current level).

Asset quality has stabilized; going forward, lower credit cost is likely to boost its earnings, in our view.

Asset quality has continued to improve- net NPA declined to 0.80% at the end of Q2FY12 from 1.37% at the end of Q2FY11 and 0.91% at the end of Q1FY12. In absolute terms also, it declined 29.9% YoY and 4.9% QoQ. Its provision coverage ratio has also improved to 78.2% at the end of Q2FY12 from 69.0% at the end of Q2FY11 and 76.9% at the end of Q1FY12.

We have factored in lower credit costs (~40 bps for FY12-13 as against 54 bps for FY11) due to decline in delinquencies in last couple of quarters. Its cumulative re-structured book stands at Rs.25.0 bn (~1.1% of advances), lower than the industry average and corroborate our view that asset quality cycle has peaked for the ICICI bank.

Valuation and Recommendation

With all the 4Cs (CASA, Cost optimization, Credit quality and Capital conservation) already in place, we expect ICICI bank to continue to drive its B/S growth during FY12-13E. Domestic loan book is likely to grow in line with the system; however, due to conscious strategy of moderate growth in the International book, overall growth is expected to be slightly lower than the system.

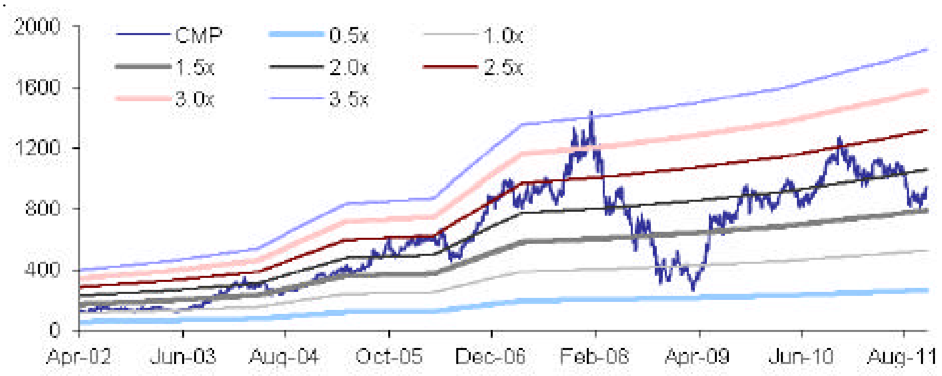
At the current market price of Rs.930, the stock is trading at 14.9x its FY13E earnings and 1.7x its FY13E ABV. We are modeling earnings to grow 18.3% CAGR during FY11-13E. We expect bank to focus on liability structure (CASA mix) and profitability (RoA; RoE will improve with increase in leverage in next 2-3 years); loan growth target would track the deposit mobilization with CASA share being maintained at ~40%.

Sum of Parts Valuation

	Basis	Multiple	Year	Value / Share
Core Banking Business (standalone)	ABV	2.00	FY13	1,093
Overseas Banking Subsidiaries	ABV	2.00	FY13	81
Life Insurance Business	NBAP	12	FY13	161
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				**303**
20% discounted value				243
Total Value				**1,336**

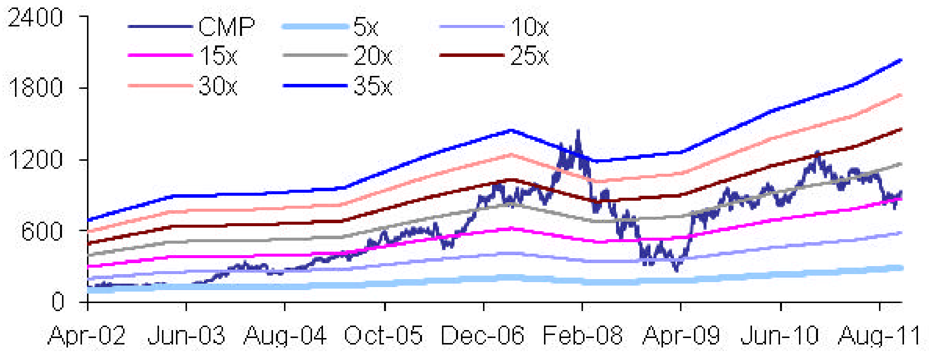
Source: Kotak Securities - Private Client Research

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

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 target price of Rs.1336 (SOTP methodology), where the value of its standalone business comes to Rs.1093 (2.0x FY13E ABV) and the value of subsidiaries at Rs.243 (holding company discount: 20% to the fair value of its subsidiaries at Rs.303).

Key data

(Rs bn)	FY10	FY11	FY12E	FY13E
Interest income	257.07	259.74	325.39	382.97
Interest expense	175.93	169.57	221.08	261.46
Net interest income	**81.14**	**90.17**	**104.31**	**121.51**
Growth (%)	-3.0%	11.1%	15.7%	16.5%
Other income	74.78	66.48	70.35	86.02
Gross profit	97.32	90.48	96.26	113.72
Net profit	**40.26**	**51.52**	**59.82**	**72.09**
Growth (%)	7.1%	28.0%	16.1%	20.5%
Gross NPA (%)	5.2	4.6	4.0	3.5
Net NPA (%)	2.1	1.1	0.8	0.8
Net interest margin (%)	2.5	2.7	2.7	2.6
CAR (%)	19.4	19.5	18.5	17.2
RoE (%)	8.0	9.7	10.4	11.5
RoA (%)	1.1	1.3	1.4	1.5
Dividend per share (Rs.)	12.0	14.0	15.0	15.0
EPS (Rs)	**36.1**	**45.5**	**51.9**	**62.6**
Adjusted BVPS (Rs)	428.5	457.4	499.2	546.7
P/E (x)	**25.8**	**20.5**	**17.9**	**14.9**
P/ABV (x)	2.2	2.0	1.9	1.7

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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BANK OF BARODA

PRICE: RS.771 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1050 **FY13E P/E: 5.3X; P/ABV: 1.1X**

Q2FY12: Overall strong quarter

- **Net interest income (NII) grew 25.9% in Q2FY12, ahead of expectations, on back of strong loan growth (23.9%) and 5 bps improvement in NIM. However, its net profit growth came slightly lower at 14.4% on back of moderate non-interest income and higher provisions (Rs.4.83 bn during Q2FY12 as against Rs.1.86 bn during Q2FY11).**
- **Asset quality remained stable with gross and net NPA reported at 1.41% and 0.47%, respectively. BoB has also done well on the slippage front, which has remained stable at ~1.0% during last two quarters (better than that of its peers). Lower restructured book (~3.3%) along with lower slippage on these accounts (12.3% till Q2FY12) vis-à-vis that of its peers further enhances our confidence.**
- **We are modeling earnings to grow 15.5% CAGR during FY11-13E, while return profile is also expected to remain healthy (RoA: ~1.2%, RoE: ~22.0%) during next two years. We believe BoB deserves to trade at a premium to its peers, who have shown less discipline while striving for growth and hence maintain BUY rating on the stock with the unchanged TP of Rs.1050 based on 1.5x its FY13E adjusted book value.**

Result Performance

(Rs. mn)	Q2FY12	Q2FY11	YoY (%)
Interest on advances	54,823.5	38,382.8	42.8
Interest on Investment	15,461.4	11,565.4	33.7
Interest on RBI/ banks' balances	2,079.2	1,469.2	41.5
Other interest	150.3	169.2	-11.2
Total Interest earned	72,514.4	51,586.6	40.6
Interest expenses	46,845.3	31,205.2	50.1
Net interest income	**25669.1**	**20381.4**	**25.9**
Other income	7,343.4	6,813.0	7.8
Net Revenue (NII + Other income)	**33,012.5**	**27,194.4**	**21.4**
Operating Expenses	11,612.8	10,627.0	9.3
Payments to / Provisions for employees	6,466.1	6,561.6	-1.5
Other operating expenses	5,146.7	4,065.4	26.6
Operating profit	**21,399.7**	**16,567.4**	**29.2**
Provisions & contingencies	**4,833.5**	**1,854.9**	**160.6**
Provision for taxes	4,775.4	4,519.5	5.7
Extraordinary Items	130.0	-	NM
Net profit	**11660.8**	**10193.0**	**14.4**
EPS (Rs.)	**29.69**	**27.98**	**6.1**

Source: Company

NII growth came at 25.9%, ahead of expectations

Net interest income (NII) grew 25.9% in Q2FY12, ahead of expectations, on back of strong loan growth (23.9%) and 5 bps improvement in NIM.

However, its net profit growth came slightly lower at 14.4% on back of moderate non-interest income and higher provisions (Rs.4.83 bn during Q2FY12 as against Rs.1.86 bn during Q2FY11). Spike in provisions has come on the back of higher NPA provisions (Rs.2.98 bn in Q2FY12 as against Rs.1.42 bn in Q2FY11) as well as higher investment depreciation (Rs.1.45 bn during Q2FY11 as against Rs.0.20 bn write-back during Q2FY11).

Moderation is visible in the business growth; we have modeled slower loan growth (19-20%) during FY12-13E, on back of rising macro-headwinds.

Moderation is visible in the business growth during last few quarters. It came at 22.8% YoY (similar to Q1FY12), below the ~30% growth witnessed during previous four quarters. Although loan growth came at 23.9% YoY, Foreign book grew 36.8%, partly aided by the currency depreciation.

CASA mix remained stable at ~34% at the end of Q2FY12. Bank has been maintaining domestic CASA mix at 34-35% of total deposits in last couple of quarters, which have helped them in sustaining healthy NIM in domestic operations.

Trend in yields, cost of deposits & NIM

Yields (%)	1Q2011	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012
Advances	8.17	8.40	8.58	8.74	9.11	9.64
Investments	6.66	7.06	7.39	6.83	7.47	7.58
Cost of Deposits	4.39	4.50	4.53	4.79	5.36	5.61
NIM (%) [Reported] - Domestic	3.43	3.62	3.82	4.16	3.39	3.67
NIM (%) [Reported] - Global	2.90	3.02	3.20	3.45	2.87	3.07

Source: Company

NIM improved by 5 bps YoY on back of 126 bps improvement in yield on advances (~200 bps improvement in domestic operations, while overseas operations saw ~40 bps margin contraction) and relatively moderate rise in cost of deposits (~120 bps YoY). We have modeled NIM at 2.96% and 2.86% during FY12 and FY13, respectively as compared to 3.12% witnessed during FY11.

Muted non-interest income on back of lower treasury gains

Non-interest income was muted (growth of 7.8% YoY) on back of lower treasury profit (decline of 90.8% YoY) despite healthy growth in fee-based income (13.2% YoY) and robust recovery from PMO accounts (76.4% YoY).

Other Income

(Rs. bn)	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	YoY (%)	QoQ (%)
Fee Income	4.02	3.83	4.82	3.98	4.55	13.2	14.3
Profit on sale of Investments	1.10	0.85	1.21	0.74	0.10	-90.8	-86.3
Profit on Exchange Transactions	1.00	1.47	1.46	1.40	1.47	47.3	5.2
Recovery from PWO (w/o a/c)	0.69	0.61	0.86	0.29	1.22	76.4	324.1
Total non-interest income	6.81	6.76	8.35	6.41	7.34	7.8	14.6

Source: Company

Asset quality remained largely stable; slippage came at ~1.0% during last two quarters, better than that of its peers. Lower re-structured book with limited delinquencies till date enhances our confidence.

Asset quality remained largely stable with gross and net NPA reported at 1.41% and 0.47%, respectively. BoB has also done well on the slippage front, which has remained stable at ~1.0% during last two quarters (better than that of its peers).

Trend in NPAs

(Rs bn)	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	YoY (%)	QoQ (%)
Gross NPA	27.20	27.70	31.53	34.25	34.02	25.1	-0.7
Gross (%)	1.39	1.32	1.36	1.46	1.41		
Net NPA	7.31	7.44	7.91	10.24	11.19	53.0	9.2
Net (%)	0.38	0.36	0.35	0.44	0.47		

Source: Company

Lower restructured book (~3.3%) along with lower slippage on these accounts (12.3% till Q2FY12) vis-à-vis that of its peers further enhances our confidence.

We believe BoB has well managed the transition to system based NPA recognition system; incremental slippage has remained ~1.0% during last two quarters (better than its peers). During Q2FY12, Union bank disappointed on the slippage front (PNB and SBI are yet to declare their results), BoB delivered stable quarters.

Trend in Slippages (Peer comparison)

(annualized) - %	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
BoB	1.52	0.66	0.63	1.52	1.02
SBI	2.54	3.28	1.97	3.52	3.20
PNB	2.61	1.95	2.09	2.68	1.94
Union	2.06	3.73	2.52	1.34	2.00

Source: Company

It coverage ratio is healthy and now stands at 82.0% (including technical write-off) at the end of Q2FY12, a way ahead of the regulatory requirement of 70%.

Leveraging Overseas operations

During Q2FY12, BoB's overseas operations contributed 27.2% in total business and 20.1% in total gross profit. Overseas operations have also contributed to the robust growth in core fee-based income (36% to total fee-based income).

We believe lower Cost / Income ratio (16.2% in Q2FY12) as compared to 39.2% in domestic operations leads to even higher contribution to operating profit.

On asset quality front also, its overseas operations perform better. Its gross NPA stands at only 0.69% as compared to 1.70% for domestic operations at the end of Q2FY12.

Valuation & recommendation

At the current market price of Rs.771, the stock is trading at 5.3x its FY13E earnings and 1.1x its FY13E ABV. We are modeling earnings to grow 15.5% CAGR during FY11-13E, while return profile is also expected to remain healthy (RoA: ~1.2%, RoE: ~22.0%) during next two years.

We like BoB for consistently delivering healthy operating performance and improving its return ratios over last couple of years. Although their exposure to infrastructure segments is in line with that of peers, its restructured book remains fairly small with low delinquencies (Rs.78.3 bn; ~3.3% of advances).

We maintain BUY on Bank of Baroda with a price target of Rs.1050

Hence, we believe BoB deserves to trade at a premium to its peers who have shown less discipline while striving for growth. We are maintaining BUY rating on the stock with the unchanged target price of Rs.1050 based on 1.5x its FY13E adjusted book value.

Key data

(Rs bn)	2010	2011	2012E	2013E
Interest income	166.98	218.86	284.82	335.44
Interest expense	107.59	130.84	185.64	221.95
Net interest income	**59.39**	**88.02**	**99.19**	**113.49**
Growth (%)	15.9	48.2	12.7	14.4
Other income	28.06	28.09	29.77	36.35
Gross profit	49.35	69.82	82.53	95.54
Net profit	**30.58**	**42.42**	**47.03**	**56.57**
Growth (%)	37.3	38.7	10.9	20.3
Gross NPA (%)	1.4	1.4	1.5	1.5
Net NPA (%)	0.3	0.4	0.4	0.4
Net interest margin (%)	2.7	3.1	3.0	2.8
CAR (%)	14.4	14.5	14.3	13.9
RoE (%)	24.2	25.3	21.7	21.7
RoAA (%)	1.2	1.3	1.2	1.2
Dividend per share (Rs)	15.0	16.5	17.5	17.5
EPS (Rs)	**84.3**	**108.3**	**120.1**	**144.5**
Adjusted BVPS (Rs)	361.9	484.2	579.0	694.0
P/E (x)	**9.1**	**7.1**	**6.4**	**5.3**
P/ABV (x)	2.1	1.6	1.3	1.1

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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HAVELLS INDIA LTD (HIL)

PRICE: RS.358 | **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.395 | **FY13E P/E: 12X**

- **HIL reported decent set of nos. for Q2FY12. Numbers are in line with our estimates on revenue and net profit front.**
- **Robust growth in domestic business across all verticals helped margin sustenance at the consolidated level. Increase in working capital due to piling up of inventory led to higher interest charges for the quarter.**
- **Management has concluded successful restructuring at Sylvania in the last fiscal and expects to report consistency in performance going ahead. Management expects to maintain Sylvania's margins.**
- **We maintain ACCUMULATE rating on the company's stock with a one year DCF based price target of Rs.395.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	56,356	62,145	68,472
Growth (%)	5.6	10.7	10.4
EBITDA	5,718	5,863	6,517
EBITDA margin (%)	10.1	9.4	9.5
PBT	4066	4248	4979
Net profit	3,035	3,059	3,585
EPS (Rs)	25.2	25.4	29.8
Growth (%)	336.0	0.8	17.2
CEPS (Rs)	31.9	32.3	36.9
BV (Rs/share)	54.3	79.7	109.5
DPS (Rs)	1.3	1.4	1.4
ROE (%)	57.6	37.9	31.5
ROCE (%)	23.0	20.3	20.4
Net cash (debt)	(9,398)	(7,754)	(3,789)
NW Capital (Days)	18.5	21.6	17.3
EV/Sales (x)	0.9	0.8	0.8
EV/EBITDA (x)	9.1	8.9	8.0
P/E (x)	14.2	14.1	12.0
P/Cash Earnings (x)	11.2	11.1	9.7
P/BV (x)	6.6	4.5	3.3

Source: Company, Kotak Securities - Private Client Research

Standalone Result

(Rs mn)	2QFY12	2Q 2011	YoY (%)	1QFY12	QoQ (%)
Net Income	**8522**	**6966**	**22.3**	**8027**	**6.2**
Decrease/ (Increase) in stock	(237)	(421)	(43.6)	(814)	(70.8)
Raw Material consumed	5389	4505	19.6	5641	(4.5)
Employee expenses	358	243	47.3	332	7.8
Other expenses	1848	1801	2.6	1982	(6.8)
Total expenditure	7358	6128	20.1	7142	3.0
EBITDA	**1164**	**838**	**38.9**	**884**	**31.7**
Other income	1.7	1.4		1.4	
Depreciation	91	72	26.2	83	9.4
EBIT	**1075**	**767**	**40.1**	**802**	**34.0**
Net Interest	71	13	457.8	84	
PBT	**1003**	**754**	**33.0**	**718**	**39.7**
Tax	166	175	(5.4)	143	
PAT	**837**	**579**	**44.7**	**575**	**45.6**
Reported PAT	837	579	44.7	575	45.6
EPS (Rs)	**6.7**	**4.6**	**44.7**	**4.6**	**45.6**
EBITDA (%)	13.7	12.0		11.0	
PAT (%)	9.8	8.3		7.2	
RM/Sales (x)	63.2	64.7		70.3	
Tax Rate (%)	16.5	23.3		20.0	

Source: Company

Sylvania

(Rs mn)	2QFY12	2Q 2011	YoY (%)
Revenues	7460	6700	11.3
EBITDA	555	396	40.2
PBT	102	76	34.2

Source: Company

Consolidated

Rs mn	2QFY12	2Q 2011	% YoY
Revenues	15850.00	13350.00	18.7
EBITDA	1710.00	1230.00	39.0
PBT	1050.00	940.00	11.7

Source: Company

Result Highlights

- Domestic revenue grew by 22.3% YoY at Rs 8.5 bn in Q2FY12 mainly driven by the 1) lighting division that grew 30% YoY 2) cables division that grew 31% YoY.
- Company maintained EBITDA margins at 12.1% driven by operating leverage. Lower advertising expense of Rs 140 mn in the quarter vis-à-vis 420 mn in Q1FY12 aided to the profitability.
- Revenues from Switchgear division at Rs 2.2 bn observed meaningful YoY% growth. We highlight that the revenue growth in the division had been sluggish in the past on account of declining export to the UK region.
- Company has been planning to launch switchgears in the international market and expects to maintain margins at the levels of over 20%.
- Fans division grew by 11% YoY in the quarter. This year, north India has observed lighter summer season which has led to sluggish growth for the industry and piling up of finished goods inventory.
- Electrical Consumer Durables further strengthen with revenues at Rs 1.2 bn. Management has indicated substantial growth in some of the newly launched products viz. Greasers in FY12.
- We believe that the company is well poised to maintain margins in the domestic market going ahead on account of 1) steady cost management across the board 2) increase in contribution from new product launches going ahead.

Segment reporting (Standalone)

	2QFY12	2Q 2011	YoY (%)	1QFY12	QoQ (%)
Standalone Revenues (Rs mn)					
Switchgear	2218	1748	26.9	1883	17.7
Cable and Wires	3692	2838	30.1	3564	3.6
Lighting and fixtures - India	1374	1053	30.6	1210	13.6
Electrical consumer durables	1220	972	25.6	1342	(9.1)
PBIT (Rs mn)					
Switchgear	839	646	29.9	724	15.9
Cable and Wires	342	272	25.6	310	10.2
Lighting and fixtures - India	336	189	77.9	302	11.5
Electrical consumer durables	338	271	24.5	418	(19.2)
PBIT (%)					
Switchgear	37.8	37.0		38.4	
Cable and Wires	9.3	9.6		8.7	
Lighting and fixtures - India	24.5	18.0		24.9	
Electrical consumer durables	27.7	27.9		31.1	

Source: Company

- Company reported strong standalone operating cash flows in Q2FY12 at Rs 1.03 bn vis-à-vis Rs 607 mn in Q2 FY11.
- Interest outflow for the domestic business increased significantly at Rs 71 mn for the quarter vis-à-vis Rs 31 last year on account of considerable increase in interest rates and working capital.
- Management has concluded successful restructuring of Sylvania in last fiscal and expects to maintain operating margins at 7-8% in FY12. However, investment of Rs 110 mn in Sylvania from Havells standalone has come as a surprise.

- We highlight that the management had stated in past that no further investment would be required in Sylvania (100% subsidiary of Havells India Ltd) from the Havells.
- Inventory in the domestic business increased to Rs 6.1 bn vis-à-vis Rs 4.6 bn in the previous year. We believe that this implies lower than anticipated demand for consumer appliances and mainly in the fans space which is an industry wide phenomenon.
- Sylvania posted continued recovery with revenues at Rs 7.4 bn (EUR 115.5 mn) Q2FY12 Emerging markets including Latin America has been observing adequate traction.
- We highlight that the Sylvania has generated a foreign exchange loss of Rs 170 mn on account of sharp movement of currencies mainly Chinese Yuan in the quarter. Loss has mainly come from the reinstatement of net creditors from Chinese outsourcing and loan outstanding in foreign currencies.
- In constant currency terms, Sylvania has reported a 3% YoY growth in revenues. However this includes other income of EUR 1.4 mn on account of sale of fixed assets.
- Net debt at Sylvania stood at EUR 125 mn at the end ofQ2FY12. We believe that refinancing of this loan is likely to benefit the company in near term to funds its future growth.
- Company has recorded significant growth in Consolidated PAT at Rs 800 mn for the quarter on back of successful streamlining of Sylvania's operations with the domestic business.

International presence offers geographical diversification to take advantage of the upsurge in consumer appliances market in Asian and African markets

- Company (including Sylvania) is present in nearly 50 countries across Europe and Asia. Moreover it has been witnessing enormous potential in the emerging markets like Africa where housing and real estate market is picking up.
- With an aim to establish itself as a prominent player in these markets, company is planning to strengthen its dealer franchise in these regions. It would be offering its diverse range of products within the parent brand Havells and the acquired brand Sylvania to the overseas customers.
- Going ahead, the company expects substantial amount of revenues through exports on account of revival of the European economy giving a boost to the legacy market of Sylvania coupled with new market development in Asia and Africa regions.

Valuation and Recommendations

We maintain ACCUMULATE rating on Havells India with a price target of Rs.395

- At current price of Rs.358, stock is trading at 12x P/E and 8x EV/EBITDA on FY13E earnings.
- We maintain '**ACCUMULATE**' rating with a one year DCF based revised price target of Rs 395 on company's stock.

RESULT UPDATE

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CASTROL INDIA LTD. (CIL)

PRICE: RS.493 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.470 **CY12E P/E: 21X**

Higher raw material cost, lower sales volume and weak rupee has led to dismal performance

- Castrol's net profit is below our estimates. This reflects the continued challenging base oil and additive cost environment that the company is facing.
- In Q3CY11, its net profit has fallen by 18.6% YoY and by 33.3% QoQ (due to seasonality) to Rs.951 Mn resulting in an EPS of Rs.3.85. The bottom line has fallen mainly due to 1). Lower sales volume, 2). Higher raw material cost (Base oil), 3). Increased employee cost, 4). Higher other expenses which includes forex losses & plant impairment, and 5). Increased cost of finished goods purchased.
- Castrol's PAT margin fell by 410 bps YoY and 390 bps QoQ to 14.2% in Q3CY11.
- Operating margin fell by 670 bps YoY and 540 bps QoQ to 19.4% in Q3CY11 mainly due to significant rise in raw material cost (Lube oil prices). Its raw material cost has increased by 16.8% YoY to Rs.3.81 Bn. Lube oil prices has increased significantly despite fall in crude oil prices. Castrol imports its raw material hence higher rupee has also led to higher raw material cost.
- Raw material cost as a proportion to net sales moved to 54.9% higher by 440 bps YoY and 500 bps QoQ. Similarly, cost of traded goods has increased as a proportion to net sales to 5.1% higher by 280% YoY.
- Both auto-motive and industrial segment has seen operating margin contraction in Q3CY11. However, the fall was higher in automotive segment as compared to non-automotive segment mainly due to stiff competition.
- Its top line has increased by 5.0% YoY but was down by 14.6% QoQ (due to seasonality) to Rs.7.74 Bn mainly due to year-on-year increase in prices however on a sequential basis it was flat. However, sales volume was significantly lower both on year-on year and sequential basis. Net Revenue has grown both in the automotive and non-automotive segment on year-on-year basis. Higher revenue growth was witnessed in the non-automotive segment as compare to automotive segment.
- Other Income (OI) has increased by 82.8% YoY to Rs.170 Mn. OI has increased mainly due to higher cash balance along with higher interest rates brought in higher interest income. Also, note that other income to PBT has increased by 6.7%YoY to 12.1% in Q3CY11.
- Revised earnings estimate with EPS of Rs.19.2 CY11E and 23.5 CY12E.
- On the basis of our estimates, the stock at current market price of Rs.493 is fairly valued at 13.2x EV/EBIDTA, 21.0x P/E and 17.9x P/BV on the basis of CY12 earnings.
- Based on our DCF valuation model, the 12-month target price of Castrol is Rs.470. We have assumed WACC of 11.3% (Risk free rate of 6.5%). We have assumed zero debt.

Summary table

(Rs mn)	CY10	CY11E	CY12E
Sales	27,348	30,089	33,490
Growth (%)	18.0	10.0	11.3
EBITDA	7,352	6,867	8,677
EBITDA Margin	26.9	22.8	25.9
PBT	7,379	7,191	8,693
Net Profit	4,903	4,747	5,806
EPS (Rs.)	19.7	19.2	23.5
Growth (%)	85.5	-2.5	22.3
CEPS	20.7	20.2	24.7
Book Value (Rs/Share)	22.4	24.7	27.6
DPS (Rs.)	15.0	14.4	17.6
ROE (%)	65.8	60.0	64.4
ROCE (%)	66.0	60.2	64.4
Net Debt / (Cash)	(6,193)	(6,986)	(7,792)
NW Capital (Days)	1.3	-4.4	-0.5
P/E (X)	25.0	25.7	21.0
P/BV (X)	22.0	19.9	17.9
EV/Sales (X)	4.2	3.8	3.4
EV/EBITDA (X)	16.1	17.3	13.7

Source: Company, Kotak Securities - Private Client Research

Key risk remains in terms of:

- Any significant fall in the crude oil price, will lower the base-oil price (with a lag of six months) which will improve the margins and can increase the lubricant consumption higher than expected.
- Castrol has been trying to shift demand for its high-efficiency synthetic oil-base lubricants which can boost its margins.

Quarterly Result Analysis - Q3CY11 EBIDTA and PAT both lower, pressure on margins

Quarterly performance

(Rs Mn)	Sep-11	Sep-10	YoY (%)	QoQ (%)
Domestic Revenues	7,738	7373	5.0	(14.6)
Excise Duty	1,022	964	6.0	(12.2)
Net Revenues	**6,716**	**6,409**	**4.8**	**(15.0)**
Change in inventory	212	42	404.8	2,928.6
Total Expenditure	5,625	4,775	17.8	(5.5)
EBIDTA	**1,303**	**1,676**	**(22.3)**	**(33.4)**
Depreciation	62	63	(1.6)	(1.6)
EBIT	**1,241**	**1,613**	**(23.1)**	**(34.4)**
Other income	170	93	82.8	(24.8)
Interest/Bank Charges	9.0	6	50.0	350.0
PBT	**1,402**	**1,700**	**(17.5)**	**(33.8)**
Tax	451	531	(15.1)	(34.8)
PAT	**951**	**1,169**	**(18.6)**	**(33.3)**
Equity Capital	2,473	2,473		
FV	10	10		
Basic EPS	3.85	4.73	(18.6)	(33.3)

Source: Company

Profitability Analysis

(%)	Sep-11	Sep-10	YoY (%)	QoQ (%)
EBITDA Margin	19.4	26.2	(6.7)	(5.4)
EBIT Margin	18.5	25.2	(6.7)	(5.5)
Adj. PAT Margin	14.2	18.2	(4.1)	(3.9)
Other Income/PBT	12.1	5.5	6.7	1.5
Tax/PBT	32.2	31.2	0.9	(0.5)
Excise/net dom sales	13.2	13.1	0.1	0.4

Source: Company

NOTE:

The lubricant business is a seasonal business and volume gets affected due to various seasonal factors. Hence, quarter-on-quarter result comparison will not give the correct picture. We have observed that for Castrol Quarter 2 (April- June) and Quarter 4 (Oct-Dec) of the calendar year are generally the best quarters. In Q3, volumes growth gets affected mainly due to monsoons which limit the transportation activity.

Operational Parameters

	Sep-11	Sep-10	YoY (%)	QoQ (%)
Raw Materials	3,805	3258	16.8	(3.6)
Staff costs	318	269	18.2	7.1
Purchase of Finished Goods	355	151	135.1	(18.6)
Advertisement Exp.	433	451	(4.0)	(18.9)
Carriage, Freight & Insurance (CIF)	193	184	4.9	(9.4)
Other Expenses	521	462	12.8	(0.2)
Total	5,625	4,775	17.8	(5.5)
Cost Ratio Analysis				
(% of (Net sales + Inventory)				
RM & Service cost	54.9	50.5	4.4	5.0
Staff cost	4.6	4.2	0.4	0.8
Purchase of FG	5.1	2.3	2.8	(0.4)
Advertisement Exp. (Net Sales)	6.4	7.0	(0.6)	(0.3)
Carriage, Freight & Insurance	2.8	2.9	(0.1)	0.1
Other Expenses	7.5	7.2	0.4	0.9

Source: Company

Quarterly Result Analysis - Low volume growth and contraction in margins

- In Q3CY11, its net profit has fallen by 18.6% YoY and by 33.3% QoQ (due to seasonality) to Rs.951 Mn resulting in an EPS of Rs.3.85. The bottom line has fallen mainly due to 1). Lower sales volume, 2). Higher raw material cost (Base oil is derivative of crude oil), 3). Increased employee cost, 4). Higher other expenses, and 5). Increased cost of finished goods purchased.
- Castrol's PAT margin fell by 410 bps YoY to 14.2% in Q3CY11.
- In Q3CY11, Castrol's net realization was up by 15.04% YoY but was flat on QoQ to Rs.140/ltrs. This is mainly due to price hike the company has taken in Q2CY11. However, management has guided no price hike in Q4CY11 to re-gain its lost volume.
- The Company's top line has increased by 5.0% YoY to Rs.7.7 Bn mainly due to higher realization on year-on-year basis. Castrol's sales volume was significantly lower on YoY.
- Revenue has grown both in the automotive and non-automotive segment. Higher net revenue growth was witnessed in the non-automotive segment as compare to automotive segment.
- Overall operating margin fell by 670 bps YoY and 540 bps QoQ to 19.4% in Q3CY11. Its margins fell due to significant rise in raw material cost (Lube oil prices).
- Raw material cost increased by 16.8% YoY but was lower by 3.6% QoQ to Rs.3.8 Bn. Lube oil is a derivative of crude oil and Brent crude prices has increased from $77.46/bbls (Q3CY10) to $113.58/bbls (Q3CY11) but has fallen from $117.73/bbls (Q2CY11). On a sequential basis, rupee has depreciated to Rs.45.8/$ (Q3CY11) from Rs.44.7/$ (Q2CY11) but appreciated against Rs.46.5/$ (Q3CY10).
- Raw material cost as a proportion to net sales increased to 54.9% higher by 4.4% YoY and 5.0% QoQ. Similarly, other expenditure as a proportion to net sales moved to 7.5% higher by 0.4% YoY and 0.9% QoQ.

- Other Income (OI) has increased by 82.8% YoY but was lower by 24.8% QoQ to Rs.170 Mn. OI has increased mainly due to higher cash balance along with higher interest rates brought in higher interest income. Also, note that other income to PBT has increased by 6.7% to 12.1% in Q3CY11.
- Finance/Bank charges have gone up to Rs.9 Mn from Rs.6 Mn on QoQ basis. As on 30th Sep'11, the Company is a Zero debt Company.
- Depreciation cost (non-cash) has gone down by 1.6% YoY to Rs. 62 Mn.
- The Company has paid tax at a lower rate as compared to statutory rate. It has paid tax at the rate of 32.2%.
- Similarly, PAT margin fell by 410 bps YoY and 390 bps to 14.2% in Q3CY11 due to various reasons cited above.

Segment Performance Analysis:

	Sep-11	Sep-10	YoY (%)	QoQ (%)
Segment Revenue (Net Sales) (Rs. Mn)				
Automotive	5,652	5,484	3.06	(35.3)
Non-Automotive	1,064	925	15.03	(9.1)
Total	6,716	6,409	4.79	(32.2)
Segment Revenue Contribution (%)				
Automotive	84.2	85.6	(1.41)	(4.0)
Non-Automotive	15.8	14.4	1.41	4.0
Segment EBIT (Adj for exceptional) (Rs. Mn)				
Automotive	1,042	1,402	(25.7)	(36.7)
Non-Automotive	257	246	4.5	(12.0)
Total	1,299	1,648	(21.2)	(33.0)
EBIT Margin %				
Automotive	18.4	25.6	(7.13)	(0.4)
Non-Automotive	24.2	26.6	(2.44)	(0.8)
Segment EBIT Contribution (%)				
Automotive	80.2	85.1	(4.86)	(4.7)
Non-Automotive	19.8	14.9	4.86	4.7
CE (Rs. Mn)				
Automotive	2,445	1,723	41.9	53.1
Non-Automotive	1,174	982	19.6	3.2
Un-allocable	3,653	4,076	-10.4	14.9
Total	7,272	6,781	7.2	23.0
EBIT/CE (%)				
Automotive	170	325	-47.6	(241.8)
Non-Automotive	87.6	100.2	-12.6	(15.1)
Total	71.5	97.2	-26.5	(59.6)

Source: Company

Automotive Segment - Margin Contraction

In Q3CY11, Castrol India booked a revenue growth of 3.06% YoY but witnessed de-growth of 35.3% QoQ to Rs.5.65 Bn. Automotive segment had contributed ~84.2% of the revenue, down by 1.41% YoY and 4.0% QoQ. Further, operating profit was down by 25.7% YoY and by 36.7% on sequential basis. EBIDTA margin has fallen by 713 bps YoY and 40 bps QoQ to 18.4%, EBIDTA for the quarter stand at Rs.1.04 Bn, down 25.7% YoY. In the last nine months, the unit cost of goods increased by almost 30% YoY. To partly offset the cost of goods increase, the company has increased selling prices by 15%. This has put pressure on the retail value chain. In addition, lower liquidity, higher interest rates and the inflationary environment have also had an impact on the consumption. The competition has taken longer than usual to take up its prices. As a result, Castrol's volumes have been under pressure in the retail segment.

Industrial Segment - Margin Contraction

In Q3CY11, Castrol India booked a revenue growth of 15.03% YoY to Rs.1.06 Bn. Industrial segment contributed ~15.8% of the total revenue up by 1.41% YoY and 4.0% QoQ. It terms of operating profit, this segment has contributed 19.8% of the total operating profit. EBIDTA margin has fallen by 244 bps YoY and 80 bps QoQ to 24.2%, EBIDTA for the quarter stand at Rs.257 Mn (+ 4.5% YoY).

Global Base oil price outlook:

According to Purvin & Gertz, Crude oil price expectations remain high, API Group I production costs will continue to set the base oil pricing floor. The key factors which impact the base oil prices are 1). Crude oil price 2). Feedstock cost and 3). Both energy and non-energy operating costs. Hence, it's the total cost of production (and not just the price of crude alone) that is the fundamental driver of base oil prices. Currently, the cost of production is very high. The total cost of production at a smaller, higher-cost API Group I refinery has risen from around $200 per ton of base oil produced in 1995 to some $1,100 per ton of base oil in 2011.

We recommend REDUCE on Castrol India with a price target of Rs.470

Also, the base oil market has become more responsive over time. The historic "base oil lag" of several months has narrowed in recent years. Since early 2008, that lag has shrunk to just two months at industry level.

The base oil market is evolving. The Middle East is emerging as a new global supply hub, and it is expected that incremental capacity of ~7 MTPA of high-quality base oil will commence in 2015. This will put pressure on Group I vs. II/III price differentials.

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Hindustan Unilever	376	7.1	8.4	8.0
HDFC Bank	490	1.5	4.3	3.2
Infosys	2,878	0.7	3.0	1.3
Losers				
Reliance Ind	878	(2.5)	(12.5)	3.6
Tata Motors	198	(4.0)	(4.8)	13.3
ITC Ltd	213	(1.1)	(4.1)	6.6

Source: Bloomberg

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