MORNING INSIGHT

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PRIVATE CLIENT RESEARCH

JULY 30, 2012

## Economy News

- The Union ministry of environment and forests (MoEF) has put in place a plan to mitigate potential corruption in awarding forest and environmental licences, to hasten the entire process. (ET)
- The government's financial reforms panel is considering a complete makeover of the country's insurance laws that would end the monopoly of state-owned Life Insurance Corp. of India (LIC), shift control of the government to the insurance regulator, and create a legal system to deal with any failure of insurers. (Mint)
- The central bank has challenged Andhra Pradesh's right to regulate microfinance firms registered with it as NBFCs, drawing a sharp retort from the state government. (ET)

## Corporate News

- **Reliance** has put all its future investments proposals for its premium East Coast block on the back-burner due to uncertainty on Government approvals. (BL)
- **DLF,** the country's largest developer, will sell its 17.5-acre land in Mumbai's Lower Parel to Lodha Group and a private equity player for about Rs 28 bn ending its long-drawn bid to break ground in India's financial capital. (ET)
- **SKS Microfinance Ltd** has sought shareholders' approval for shifting the registered office from Andhra Pradesh to Maharashtra. (BL)
- **Indian Oil Corporation (IOC)** will set up its first refinery outside India with an investment of up to Rs 200 bn in Sri Lanka. It will become the second Indian company to have a refinery abroad. (BS)
- **Cairn India** plans to spend over $600 million over the next two years to further enhance output from its Rajasthan oilfields. (BL)
- **Ashok Leyland** will be signing up at least three overseas joint ventures in the next two to three months, as it looks to consolidate its presence in new geographies. (BL)
- **Suzlon** has redeemed in cash the two June series of foreign currency convertible bonds (FCCBs) totally valued at $360 million.(BL)
- Drug makers **Lupin** and Novartis have entered into a marketing alliance under which Lupin would sell Novartis' asthma drug, Onbrez, in India. (BS)
- **Petronet LNG Ltd** is in talks to set up a Rs 35 bn power plant adjacent to its upcoming LNG import facility at Kochi in Kerala.(BL)
- **Dhunseri Petrochem & Tea** has bought tea estates in the south eastern African country of Malawi at a consideration of Rs 1.21 bn. (ET)
- **Mahindra Satyam** has enter into an agreement with Aberdeen Claims Administration Inc to settle charges of losses due to the Satyam scam filed in a US district court for $12 million (Rs 667 mn)

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

### Equity

| | | % Chg | | |
|---|---|---|---|---|
| | 27 Jul 12 | 1 Day | 1 Mth | 3 Mths |
| **Indian Indices** | | | | |
| SENSEX Index | 16,839 | 1.2 | (3.4) | (2.8) |
| NIFTY Index | 5,100 | 1.1 | (3.4) | (2.8) |
| BANKEX Index | 11,633 | 0.4 | (2.3) | (1.7) |
| BSET Index | 5,224 | 1.3 | (9.4) | (8.4) |
| BSETCG INDEX | 9,300 | (0.6) | (7.2) | (1.2) |
| BSEOIL INDEX | 7,911 | 0.8 | (2.0) | (0.7) |
| CNXMcap Index | 7,024 | (0.6) | (4.5) | (6.0) |
| BSESMCAP INDEX | 6,358 | (1.0) | (2.8) | (6.0) |
| **World Indices** | | | | |
| Dow Jones | 13,076 | 1.5 | 1.5 | (1.0) |
| Nasdaq | 2,958 | 2.2 | 0.8 | (2.9) |
| FTSE | 5,627 | 1.0 | 1.0 | (1.9) |
| NIKKEI | 8,567 | 1.5 | (4.3) | (9.5) |
| HANGSENG | 19,275 | 2.0 | 0.3 | (7.5) |

### Value traded (Rs cr)

| | 27 Jul 12 | % Chg - Day |
|---|---|---|
| Cash BSE | 2,272 | 6.8 |
| Cash NSE | 10,674 | (18.2) |
| Derivatives | 106,098 | (49.2) |

### Net inflows (Rs cr)

| | 26 Jul 12 | % Chg | MTD | YTD |
|---|---|---|---|---|
| FII | (930) | 273.5 | 8,424 | 50,505 |
| Mutual Fund | 401 | 1,181.8 | (1,792) | (7,852) |

### FII open interest (Rs cr)

| | 26 Jul 12 | % Chg |
|---|---|---|
| FII Index Futures | 11,405 | 2.6 |
| FII Index Options | 31,519 | 11.7 |
| FII Stock Futures | 22,494 | 0.3 |
| FII Stock Options | 757 | 247.5 |

### Advances / Declines (BSE)

| 27 Jul 12 | A | B | T | Total | % total |
|---|---|---|---|---|---|
| Advances | 93 | 717 | 240 | 1,050 | 37 |
| Declines | 109 | 1,276 | 311 | 1,696 | 59 |
| Unchanged | 0 | 99 | 29 | 128 | 4 |

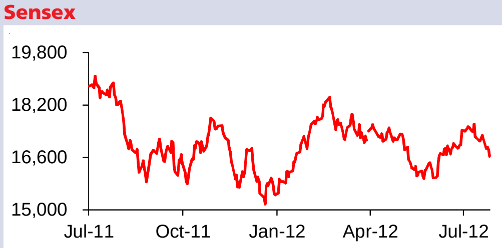
### Commodity

| | | % Chg | | |
|---|---|---|---|---|
| | 27 Jul 12 | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US$/BBL) | 90.1 | (0.0) | 6.1 | (14.1) |
| Gold (US$/OZ) | 1,617.4 | 0.2 | 1.5 | (2.6) |
| Silver (US$/OZ) | 27.5 | (0.1) | 0.5 | (11.0) |

### Debt / forex market

| | 27 Jul 12 | 1 Day | 1 Mth | 3 Mths |
|---|---|---|---|---|
| 10 yr G-Sec yield % | 8.3 | 8.3 | 8.4 | N/A |
| Re/US$ | 55.4 | 55.5 | 57.1 | 52.5 |

### Sensex



**RESULT UPDATE**

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# ZENSAR TECHNOLOGIES LTD

**PRICE: RS.270** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.295** **FY13E P/E: 6.3X**

- Zensar's results were marginally lower than estimates. USD revenues grew by 2.1% QoQ, largely due to higher amount of bought-outs. Volume growth, excluding bought-outs, was flat, we understand.
- EBIDTA margins were lower QoQ (excluding exceptional forex loss) despite rupee depreciation. This was because of the full impact of employee additions done in 4Q and also due to the higher bought-out component.
- A higher-than-expected forex gain helped beat PAT estimates.
- Cisco revenues have stabilized and have started scaling up with contribution of 24% to the overall topline of the company. According to the management, Zensar is expected to get additional revenues as one of the large Indian vendors has been rationalized by Cisco.
- The management indicated a stable macro environment, with clients looking at growth as well as efficiencies. It is confident of out-performing the industry growth, as projected by NASSCOM.
- Post the acquisition of Akibia, Zensar is in a position to cross sell services to the mutually exclusive set of clients and this is expected to help growth rates. More than 14 clients are getting joint services from Zensar and Akibia.
- A change in business mix, focus on utilization and cost optimisation should sustain margins in FY13, we opine.
- The management has detailed four focus areas to take the revenues to an aspirational level of $1bn by FY16.
- We have revised our FY13E EPS to Rs.43.1 (Rs.41.3), largely on the back of a change in assumed exchange rate (Rs.53 / USD for FY13).
- The stock has moved up sharply in the past quarter and is currently trading at 6.3x FY13E earnings. We recommend ACCUMULATE (BUY earlier) post the sharp run-up and would await better levels to enter the stock. Our DCF-based price target stands at Rs.295 (Rs.235 earlier).
- A delayed recovery in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are the risks for a relatively small player like Zensar.

**Summary table**

| (Rs mn) | FY11 | FY12 | FY13E |
|---|---|---|---|
| Sales | 11,383 | 17,826 | 22,042 |
| Growth (%) | 18.6 | 56.6 | 23.7 |
| EBITDA | 1,530 | 2,262 | 2,680 |
| EBITDA margin (%) | 13.4 | 12.7 | 12.2 |
| PBT | 1,502 | 2,362 | 2,756 |
| Net profit | 1,318 | 1,586 | 1,873 |
| EPS (Rs) | 30.4 | 36.5 | 43.1 |
| Growth (%) | 3.4 | 20.4 | 18.1 |
| CEPS (Rs) | 37.2 | 44.2 | 50.9 |
| BV (Rs/share) | 103.0 | 132.7 | 170.7 |
| Dividend / share (Rs) | 4.5 | 4.5 | 5.0 |
| ROE (%) | 34.0 | 31.0 | 28.4 |
| ROCE (%) | 29.2 | 33.4 | 32.6 |
| Net cash (debt) | (1,263) | (114) | 1,117 |
| NW Capital (Days) | 8.9 | 32.2 | 42.2 |
| P/E (x) | 8.9 | 7.4 | 6.3 |
| P/BV (x) | 2.6 | 2.0 | 1.6 |
| EV/Sales (x) | 1.1 | 0.7 | 0.5 |
| EV/EBITDA (x) | 8.5 | 5.2 | 4.0 |

*Source: Company, Kotak Securities - Private Client Research*

**1QFY13 results**

| (Rs mn) | 1QFY13 | 4QFY12 | % QoQ | 1QFY12 | % YoY |
|---|---|---|---|---|---|
| **Income** | **5442.9** | **4939.7** | **10.2** | **3987.8** | **36.5** |
| Expenditure | 4699.5 | 4329.3 | | 3557.1 | |
| **EBIDTA** | **743.4** | **610.4** | **21.8** | **430.7** | **72.6** |
| Depreciation | 78.0 | 92.6 | | 81.2 | |
| **EBIT** | **665.4** | **517.8** | **28.5** | **349.5** | **90.4** |
| Interest | 27.1 | 25.7 | | 21.4 | |
| Other inc | 193.7 | 77.7 | | 57.1 | |
| **PBT** | **832.0** | **569.8** | **46.0** | **385.2** | **116.0** |
| Tax | 286.6 | 176.9 | | 114.5 | |
| **PAT** | **545.4** | **392.9** | **38.8** | **270.7** | **101.5** |
| Shares (mns) | 43.4 | 43.4 | | 43.4 | |
| **EPS (Rs)** | **12.6** | **9.1** | | **6.2** | |
| **Margins (%)** | | | | | |
| Operating Profit | 13.7 | 12.4 | | 10.8 | |
| Gross Profit | 12.2 | 10.5 | | 8.8 | |
| Net Profit | 10.0 | 8.0 | | 6.8 | |

*Source : Company*

## USD revenues grew by 2.1% QoQ; volumes were likely flat

- Revenue growth during the quarter was at about 2.1%. Hardware and other bought outs were at about Rs.830mn v/s Rs.650mn in 4QFY12.
- Excluding these, revenues were largely flat. This was slightly disappointing. We had assumed a marginal volume growth. We had indicated that, Zensar's revenue growth has been very erratic over quarters.
- Average realisations were almost stable on a sequential basis.

## No concerns at micro level; Cisco to scale up

- While accepting that, the macro scene is still uncertain, the management has indicated that, it has not seen any major changes at the micro levels, which may cause concern.
- The company has not seen any major delays in project ramp-ups or start of new projects - discretionary or non-discretionary.
- There are some delays and postponements in the investment banking business in BFS.
- The top clients of the company continue to scale up business along expected lines.
- Cisco, the largest client for Zensar, has started scaling up on the revenue front from 4QFY12. About 24% of the revenues came from this account.
- We note that, Cisco revenues had not scaled up over the past three quarters before 4QFY12

## because of internal restructuring within the client.

- Cisco has recently announced further cost consolidation exercise including some employee rationalization. These initiatives may have a marginal short term impact on Zensar, if at all. On the other hand, Zensar is likely to benefit from the recent vendor rationalization exercise conducted by Cisco.
- According to the management, Cisco has rationalised its vendor base to cut costs (Zensar, TCS, Wipro and Accenture were the vendors).
- In this process, Cisco has discontinued work with one of the large Indian vendors and Zensar is expected to benefit in terms of additional revenues.
- We note that, post Akibia's acquisition, Cisco's contribution to Zensar's revenues has fallen from the higher levels of about 34% to around 24%. This was one of the factors limiting additional business from Cisco.
- The management is confident of strong growth from Cisco going ahead because of cost pressures on Cisco.
- The management maintains that, it has and will further rationalize some of the accounts which are yielding low margins. This is with a view to re-align the work force to better yielding projects.

## Akibia - Consolidated efforts yielding results

- The consolidated service offerings along with Akibia are getting increased acceptance from the company's clients. More than 14 clients are getting services jointly.

## Average realizations were almost unchanged

- Average realizations for the company were almost stable over the previous quarter.
- New contracts are coming in at higher-than-average rates. However, billing rate increases are contingent on consistent demand in the future.
- The company has not seen any pressure on billing rates from existing clients till date.

## Net addition of 111 employees

- Zensar added 111 (923) employees during the quarter. The utilization levels reduced by about 200 bps on a sequential basis.
- The management has indicated that, it is taking a hard look at the utilization levels and also at the performance related issues of employees.
- Zensar has been focusing on improving utilization levels and we expect the same to continue over the fiscal.

## EBIDTA margins low QoQ

- Headline numbers show EBIDTA margins to have improved. However, this was due to the forex loss of about Rs.100mn included in 4QFY12 opex.
- Excluding these, margins contracted QoQ.
- This contraction came in despite the rupee depreciation. The mitigating factors were the higher hardware revenues and the full impact of the large employee addition in 4QFY12. dipped.

## Future focus areas

- The management has detailed the four focus areas, which are expected to take Zensar to an aspirational revenue level of $1bn by FY16.
- These are : IM, BFSI, Healthcare and Manufacturing/Retail/ Distribution.
- IM currently brings in about 35% of the total revenues and Zensar plans to grow this into a $400mn revenue business by FY12.
- Zensar will target to grow its existing US relationships which growing the RIMS business in European countries like UK, Germany and Benelux.
- It has also decided to penetrate the Cloud, Social Media and Mobility (CLOSOMO) markets.
- In IM, the company has already won $10mn worth of orders through the joint value proposition (Zensar and Akibia).
- In Cloud, the partnership with Google has already brought in 2-3 clients and Zensar will be providing cloud platforms to them.
- BFSI currently brings in 15% of revenues and the target is to get about $200mn revenues by FY16.
- The focus of Zensar will be more on Insurance, we believe, where it will likely use more platform based services.
- The company enjoys strong relationship with its clients that include UBS, Credit Suisse, Investec, Nomura etc. On the other hand, Akibia has some marquee customers like Federal Reserve Bank, JP Morgan chase etc.
- Company plans to cross sell some of its own and Akibia products across globe. This is also expected to increase the client mining - for instance Nomura is Zensar's client in Asia Pacific and Akibia's client in USA.

- Manufacturing/Retail/Distribution (MRD) currently brings in 50% of revenues and is targeted to grow to $300mn by FY16.
- Currently 25% of the company's revenues and nearly 50% of the MRD revenues come from the hi-tech companies.
- Zensar is looking at SMEs as an area of growth and will target these through solutions and platforms.
- Within retail, the focus will be on sub-segments like apparel retail and e-tailing. The oracle and SAP expertise will lead to new customer engagements, we believe.
- Healthcare is a relatively new vertical for Zensar. It is currently focused on the ICD-10 business and has an order book of about $8mn in ICD.

## Financial prospects

- We have made changes to our FY13E earnings. We assume the rupee to average Rs.53 per USD in FY13.
- Revenues are expected to rise by 24% in FY13 on the back of a 14% rise in volumes. Rupee depreciation will likely account for the balance.
- Margins are expected to fall from 1Q levels because of the salary hikes and the expected rupee appreciation v/s 1Q levels.
- We have assumed tax at relatively lower levels of 32% in FY13 because of the expected increase in revenues from SEZs.
- Consequently, PAT is expected to rise by about 18% to Rs.1.87bn, leading to an EPS of Rs.43 in FY13E.

## Valuations

**We recommend ACCUMULATE on Zensar Technologies with a revised price target of Rs.295**

- Our DCF based price target is Rs.295 (Rs.235) for the stock, based on FY13E earnings.
- Sustained rise in margins and stable revenue growth profile may lead us to accord higher valuations to the stock.

## Concerns

- A sharp acceleration from the current levels may impact our earnings estimates for the company.
- A delayed recovery in major global economies could impact revenue growth of Zensar.

RESULT UPDATE

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# THERMAX LTD

**PRICE: RS.481** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.450** **FY13E P/E: 16.6x**

- **The decline in the revenue growth of Thermax was largely expected as the order backlog has been on a declining trend.**
- **Order backlog (Standalone) is down 24% yoy to Rs 44.7 bn, thus imparting a revenue visibility of 10 months based on trailing four quarters revenues.**
- **In view of the weak order intake in FY12, we project revenue and earnings to decline in FY13 by 9% and 12% respectively.**
- **We had previously recommended "Reduce at Rs 425" on the stock. Valuations are still not supportive at current levels and there is scope for further contraction. We maintain REDUCE with an unchanged target price of Rs 450.**

**Summary table**

| (Rs mn) | FY11 | FY12 | FY13E |
|---|---|---|---|
| Sales | 53307 | 60912 | 55453 |
| Growth (%) | 58 | 14 | -9 |
| EBITDA | 5682 | 5919 | 5197 |
| EBITDA margin (%) | 10.7 | 9.7 | 9.4 |
| PBT | 5747.7 | 5964.0 | 5222.3 |
| Net profit | 3783 | 3921 | 3452 |
| EPS (Rs) | 31.8 | 32.9 | 29.0 |
| Growth (%) | 46.2 | 3.6 | -12.0 |
| CEPS (Rs) | 36.7 | 39.5 | 35.1 |
| BV (Rs/share) | 110.5 | 136.9 | 160.1 |
| Dividend / share (Rs) | 9.0 | 7.0 | 5.0 |
| ROE (%) | 23.3 | 17.0 | 11.8 |
| ROCE (%) | 38.0 | 28.4 | 19.7 |
| Net cash (debt) | 7815 | 6673 | 10746 |
| NW Capital (Days) | -24.2 | -6.4 | -27.4 |
| EV/Sales (x) | 0.9 | 0.8 | 0.8 |
| EV/EBITDA (x) | 8.7 | 8.5 | 8.9 |
| P/E (x) | 15.1 | 14.6 | 16.6 |
| P/Cash Earnings | 13.1 | 12.2 | 13.7 |
| P/BV (x) | 4.4 | 3.5 | 3.0 |

*Source: Company, Kotak Securities - Private Client Research*

**Financial performance**

| (Rs mn) | Q1FY13 | Q1FY12 | YoY (%) |
|---|---|---|---|
| **Net Sales** | **9,730** | **10,329** | **(6)** |
| Other income from operations | 104 | 115 | (10) |
| Total Expenditure + | 8,871 | 9,307 | (5) |
| Raw Matl costs | 6,282 | 6,855 | (8) |
| Purchase of trading goods | 290 | 427 | (32) |
| Staff costs | 900 | 905 | (0) |
| Other expenditure | 1,398 | 1,121 | 25 |
| **PBIDT** | **964** | **1,137** | **(15)** |
| Other Income | 187 | 147 | 27 |
| Depreciation | 132 | 111 | 19 |
| **EBIT** | **1,019** | **1,174** | **(13)** |
| Interest | 37 | 4 | 911 |
| **PBT** | **981** | **1,170** | **(16)** |
| Tax | 309 | 371 | (17) |
| **Adj Profit After Tax** | **672** | **799** | **(16)** |
| MTM loss | -124.0 | 1.5 | |
| Exports | 2,220 | 2,018 | |
| **EPS (Rs)** | **5.6** | **6.7** | |
| PBIDTM (%) | 9.9 | 11.0 | |
| PBDIT % excluding other op income | 8.8 | 9.9 | |
| Raw Material costs to sales (%) | 68 | 70 | |
| Other costs to sales (%) | 14.4 | 10.9 | |
| Tax rate (%) | 31.5 | 31.7 | |

*Source: Company*

- The deceleration in the revenue growth of Thermax was largely expected as the order backlog has been on a declining trend. For the quarter, revenues declined 6% yoy to Rs 9.7 bn. With large orders hard to come by, the company has been banking on short-cycle orders.
- Exports during the quarter were up 10% to Rs 2.2 bn. Both the segments registered a decline in revenues.

**Segment revenues**

| (Rs mn) | Q1FY13 | Q1FY12 | % change |
|---|---|---|---|
| Segment- Energy | 7,654 | 8,024 | -5% |
| Segment - Enviro | 2,432 | 2,647 | -8% |

*Source: Company*

- EBITDA margin for the quarter has declined to 9.9% due to a combination of lower revenues and higher MTM loss on foreign exchange (loss of Rs 124 mn vs gain of Rs 1.5 mn). The forex loss eroded 130 bps from the EBITDA margins.

**Segment Margins**

| (%) | Q1FY13 | Q1FY12 |
|---|---|---|
| Segment- Energy | 10.7 | 10.1 |
| Segment - Enviro | 10.1 | 11.8 |

*Source: Company*

## Consolidated PAT significantly lower than standalone due to losses at subsidiaries

Consolidated PAT for the quarter was significantly lower (than the standalone PAT) due to loss at its 1) Power generation equipment JV TBW - as working capital expenses led to losses 2) Losses at its Chinese subsidiary which makes Chillers 3) Loss at Thermax instrumentation which is facing cost over-runs in the final stages of commissioning of Minakshi Power Plant 4) Dutch boiler subsidiary Danstoker reported marginal loss

The Chinese operations have been bleeding for quite some time and the turnaround is getting delayed as chinese economic growth slows down.

There are cost-overruns at its project construction subsidiary ie Thermax Instrumentation as costs of certain construction materials like cement and sand have gone up significantly

**Consolidated Numbers**

| (Rs mn) | Q1FY13 | Q1FY12 | YoY (%) |
|---|---|---|---|
| Revenues | 11702 | 12402.3 | (6) |
| PBT | 796.2 | 1242.6 | (36) |
| PAT | 524.8 | 856.1 | (39) |

*Source: Company*

## Order intake down 13% yoy but up 54% on a sequential basis

- With few large projects getting finsalised in the core sectors like Cement, fertilizer and steel, the company's order intake has taken a beating.
- Order backlog is down 24% to Rs 44.7 bn, thereby reducing revenue visibility to 10 months of trailing four quarters.
- Order intake (Standalone) of Rs 12.5 bn in the quarter, down 13% yoy but up 54% sequentially, indicating that market is holding on.
- Outlook on power sector orders continues to be a matter of concern. The company expect continued drought in private sector utility orders in this fiscal.

## Other concall highlights

- Given the sharply lower order backlog, the company expects a drop in revenues in FY13.
- The company expects to largely maintain EBITDA margins at FY12 levels, though there is a risk of 100-150 bps loss in EBITDA margins in this fiscal. The bias is towards margin decline.
- Given the load shedding in various parts of india (especially Southern India), the company expect interest to revive in Captive power projects. Several SEBs have raised electricity duties and tariffs in recent months, which has made grid power costlier thereby making captive power viable.
- In line with industry trends, working capital has increased on a yoy basis. The management attributed this to some large projects like Bhilai Steel Plant project (Rs 4.1 bn), wherein the collection period is longer.

## Valuation - Maintain Reduce

**We maintain REDUCE on Thermax with a price target of Rs.450**

We had previously recommended "Reduce at Rs 425" on the stock. Valuations are still not supportive at current levels and there is scope for further contraction. We maintain **REDUCE** with an unchanged target price of Rs 450.

**RESULT UPDATE**

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# IRB INFRASTRUCTURE

**PRICE: RS.113** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.197** **FY13E P/E: 7.7x**

- **Revenues of the company for Q1FY13 reported a growth of 22% YoY, much ahead of our estimates. This was led by excellent growth of 26% YoY in EPC division and 12.6% YoY improvement in toll revenues.**
- **EPC business margins continued to remain strong and led to improvement in overall operating margins on yearly basis on a consolidated basis.**
- **Net profit reported a growth of 5.7% YoY for Q1FY13 and stood better than our estimates led by strong execution seen in EPC division.**
- **We maintain our estimates and continue to maintain BUY recommendation on the stock with a revised price target of Rs 197 based on sum of the parts valuations on FY13 estimates.**

**Summary table**

| (Rs mn) | FY11 | FY12E | FY13E |
|---|---|---|---|
| Sales | 25,026 | 32,559 | 39,179 |
| Growth (%) | 42.7 | 30.1 | 20.3 |
| EBITDA | 11,617 | 14,946 | 16,033 |
| EBITDA margin (%) | 46.4 | 45.9 | 40.9 |
| PBT | 5,791 | 6,512 | 6,195 |
| Net profit | 4,557 | 4,960 | 4,881 |
| EPS (Rs) | 13.7 | 14.9 | 14.7 |
| Growth (%) | 32.8 | 8.9 | (1.6) |
| CEPS(Rs) | 20.5 | 23.9 | 28.2 |
| BV (Rs/share) | 73.2 | 86.3 | 99.2 |
| DPS (Rs) | 1.5 | 1.5 | 1.5 |
| ROE (%) | 20.4 | 18.7 | 15.8 |
| ROCE (%) | 15.6 | 14.7 | 11.4 |
| Net debt | 33,705 | 48,069 | 67,652 |
| P/E (x) | 8.2 | 7.6 | 7.7 |
| P/BV (x) | 1.5 | 1.3 | 1.1 |
| EV/Sales (x) | 2.8 | 2.6 | 2.7 |
| EV/EBITDA (x) | 6.1 | 5.7 | 6.6 |

*Source: Company, Kotak Securities - Private Client Research*

**Financial highlights**

| | Q1FY13 | | | Q1FY12 | | |
|---|---|---|---|---|---|---|
| (Rs mn) | EPC | BOT | Total | EPC | BOT | Total |
| **Revenues** | **7,505** | **2,618** | **10,123** | **5,971** | **2,324** | **8,295** |
| YoY (%) | 25.7 | 12.6 | 22.0 | | | |
| **EBITDA** | **2,260** | **2,319** | **4,580** | **1,548** | **2,029** | **3,577** |
| EBITDA (%) | 30.1 | 88.6 | 45.2 | 25.9 | 87.3 | 43.1 |
| Depreciation | 127 | 959 | 1,086 | 137 | 465 | 602 |
| **EBIT** | **2,134** | **1,360** | **3,494** | **1,411** | **1,564** | **2,974** |
| Interest | 600 | 940 | 1,540 | 285 | 890 | 1,174 |
| **EBT** | **1,533** | **420** | **1,953** | **1,126** | **674** | **1,800** |
| YoY (%) | 36.2 | -37.7 | 8.5 | | | |
| Tax | 487 | 70 | 557 | 360 | 83 | 443 |
| Tax (%) | 31.7 | 16.7 | 28.5 | 32.0 | 12.2 | 24.6 |
| **PAT** | **1,047** | **350** | **1,397** | **766** | **592** | **1,357** |
| Minority interest | 0 | -22 | -22 | | 16 | 16 |
| **Net profit** | **1,047** | **372** | **1,418** | **766** | **576** | **1,342** |
| YoY (%) | 36.6 | -35.4 | 5.7 | | | |
| Net profit w/o MAT credit | 1,047 | 314 | 1361 | 766 | 576 | 1,342 |
| Shares(mn) | 332.4 | 332.4 | 332.4 | 332.4 | 332.4 | 332.4 |
| **EPS (Rs)** | **3.1** | **1.1** | **4.3** | **2.3** | **1.7** | **4.0** |

*Source: Company*

## Revenue growth led by excellent execution seen in EPC division

- Revenues of the company for Q1FY13 reported a growth of 22% YoY, much ahead of our estimates. This was led by excellent growth of 26% YoY in EPC division and 12.6% YoY improvement in toll revenues.
- Growth in EPC division for Q1FY13 was led by excellent execution seen in Jaipur-Deoli, Talegaon-Amravati and Amritsar-Pathankot project. Company's order book stands at Rs77.8bn with Rs 20.6bn in ongoing BOT projects, Rs 20.4bn in BOT projects in O&M phase and Rs 37 bn in BOT projects where LOA is received but construction yet to commence. Construction work on Ahmedabad-Vadodara project is expected to commence by end of Q2FY13 since company is awaiting the appointed date from NHAI. Company has already achieved financial closure for this project. Construction work is 70% complete in Jaipur-Deoli and 65% in Talegaon-Amravati project, 50% in Amritsar-Pathankot project and 38% in Tumkur-Chitradurg project. Company expects to complete construction work on Jaipur-Deoli and Talegaon-Amravati project by end of FY13 while Amritsar-Pathankot project is expected to complete by FY14.

- Construction work on Kolhapur project is already over and tolling will commence after state government approval committee submits its report and give clearance for toll collection. For Ahmedabad Vadodara project, we expect construction to commence by end of Q2FY13.
- Toll revenues reported a growth of 12.6% YoY for Q1FY13. Key projects such as Mumbai-Pune, Surat-Dahisar, Bharuch-Surat, Thane-Bhiwandi and Thane-Ghodbunder reported an increase of 5%, 13%, 13%, 10.3% and 12.9% YoY respectively led by some improvement in traffic flows. For Tumkur-Chitradurg project, toll revenues reported a growth of 10% QoQ due to toll rate hike of 6% taken in the month of April, 2012.
- IRB had also initiated the process to acquire MVR Infrastructure and tollways private limted at a consideration of nearly Rs 1.3 bn during Q1FY13. We have currently not factored in this acquisition in our estimates since it will be done in three tranches and is also subject to final approval from NHAI for acquisition of entire 100% in the company.
- We maintain our estimates and thus expect consolidated revenues to grow by 20% in FY13.

**BOT revenue trend**

| | FY11 | Q1FY12 | Q2FY12 | Q3FY12 | Q4FY12 | FY12 | Q1FY13 |
|---|---|---|---|---|---|---|---|
| **SuratDahisar** | **3647** | **942** | **939** | **1063** | **1065** | **4008** | **1064** |
| QoQinc (%) | | -4.1 | -0.3 | 13.2 | 0.2 | | -0.1 |
| YoYinc (%) | 9.3 | 6.8 | 13.4 | 11.4 | 8.5 | 9.9 | 13.0 |
| **Mumbai Pune** | **3215** | **986** | **997** | **1000** | **994** | **3977** | **1035** |
| QoQinc (%) | | 22.9 | 1.1 | 0.3 | -0.6 | | 4.1 |
| YoYinc (%) | 5.0 | 22.9 | 24.2 | 23.7 | 23.9 | 23.7 | 5.0 |
| **Thane Bhiwandi** | **544** | **156** | **145** | **159** | **166** | **626** | **172** |
| QoQinc (%) | | 4.0 | -7.1 | 9.7 | 4.4 | | 3.6 |
| YoYinc (%) | 15.3 | 17.3 | 18.9 | 15.2 | 10.7 | 15.1 | 10.3 |
| **Thane Ghodbunder** | **284** | **70** | **69** | **75** | **78** | **292** | **79** |
| QoQinc (%) | | -5.4 | -1.4 | 8.7 | 4.0 | | 1.3 |
| YoYinc (%) | 2.5 | -2.8 | 6.2 | 3.1 | 5.4 | 2.8 | 12.9 |
| **Pune-Nashik** | **212** | **56** | **55** | **58** | **58** | **226** | **56** |
| QoQinc (%) | | 1.8 | -1.8 | 5.5 | 0.0 | | -3.4 |
| YoYinc (%) | 17.1 | 16.7 | 3.8 | 4.6 | 5.5 | 6.6 | 0.0 |
| **Pune-Sholapur** | **144** | **43** | **39** | **42** | **44** | **170** | **47** |
| QoQinc (%) | | 2.4 | -9.3 | 7.7 | 4.8 | | 6.8 |
| YoYinc (%) | 8.3 | 19.4 | 25.8 | 18.8 | 4.8 | 18.1 | 9.3 |
| **NKT** | **146** | **37** | **35** | **35** | **35** | **143** | **36** |
| QoQinc (%) | | 0.0 | -5.4 | 0.0 | 0.0 | | 2.9 |
| YoYinc (%) | 8.1 | -2.6 | 0.0 | -2.6 | -5.4 | -2.1 | -2.7 |
| **MMK** | **76** | **20** | **19** | **19** | **21** | **78** | **21** |
| QoQinc (%) | | -4.8 | -5.0 | 0.0 | 10.5 | | 0.0 |
| YoYinc (%) | 20.6 | 17.6 | -5.0 | 0.1 | 0.0 | 2.6 | 5.0 |
| **Kharpada bridge** | **74** | **23** | **19** | **20** | **22** | **85** | **24** |
| QoQinc (%) | | 9.5 | -17.4 | 5.3 | 10.0 | | 9.1 |
| YoYinc (%) | 10.4 | 21.1 | 26.7 | 3.8 | 4.8 | 14.9 | 4.3 |
| **Bharuch surat** | **1302** | **336** | **347** | **372** | **374** | **1429** | **381** |
| QoQinc (%) | | -4.3 | 3.3 | 7.2 | 0.5 | | 1.9 |
| YoYinc (%) | 96.4 | 12.8 | 13.8 | 7.0 | 6.6 | 9.8 | 13.4 |
| **TumkurChitradurg** | | **114** | **387** | **380** | **377** | **1257** | **413** |
| QoQinc (%) | | | 239.5 | -1.8 | -0.8 | | |

*Source: Company*

## Operating margins better than our estimates

- EPC business margins continued to remain strong and led to improvement in overall operating margins on yearly basis on a consolidated basis.
- Operating margins in the construction division stood at 30.1% for Q1FY13. This was also led by range-bound input prices. Margins also remained strong in the BOT division at 88.6% for Q1FY13. Overall margins on consolidated basis stood at 45.2% for Q1FY13 as against 43.1% in Q1FY12.
- We maintain our estimates of consolidated margins of40.9% for FY13. However, if margins continue to stay high in the EPC division for another quarter, we would upgrade our assumptions for the same for the full year.

## Net profit growth led by improvement in revenues and strong margins

- Net profit reported a growth of 5.7% YoY for Q1FY13, ahead of our estimates led by strong execution seen in EPC division.
- Depreciation and interest charges are likely to remain high going forward due to amortization of Surat-Dahisar for the full year as well as capitalization of interest cost.
- We maintain our estimates and expect net profits of Rs 4.9 bn for FY13.

## Valuation and recommendation

**We continue to maintain BUY on IRB Infrastructure with a price target of Rs.197**

- At current price of Rs113, stock is trading at 7.7x P/E and 6.6x EV/EBITDA on FY13 estimates.
- We maintain our estimates and continue to maintain **BUY** recommendation on the stock with an unchanged price target of Rs 197 on FY13 estimates.
- We continue to remain positive on the company and believe that IRB is best positioned to capture upcoming opportunities in the road segment.
- Key risk to our recommendation may come from negative outcome of CBI enquiry on company's promoter. Company promoter has already gone through a polygraphic test and expects to come out clean in this enquiry.

**Sum of the parts valuation**

| | EPS (FY13E) | Multiple (x) | EV (Rs mn) | Value per share |
|---|---|---|---|---|
| **Core construction division** | **9.6** | **6** | | **58** |
| **BOT projects(based on FY13) Cost of equity (%)** | | | | |
| Bharuch Surat | 13 | | 2,576 | 8 |
| Thane Ghodbunder | 13 | | 2,353 | 7 |
| SuratDahisar | 13 | | 256 | 1 |
| Mumbai Pune | 13 | | 15,248 | 46 |
| Pune-Sholapur | 13 | | 831 | 3 |
| KHP | 13 | | 278 | 1 |
| Thane bhiwandi | 13 | | 2,396 | 7 |
| Pune Nashik | 13 | | 1,608 | 5 |
| NKT | 13 | | 331 | 1 |
| MMK | 13 | | 406 | 1 |
| Kolhapur IRDP | 13.4 | | 3,885 | 12 |
| Talegaon Amravati | 13.4 | | 3,097 | 9 |
| Jaipur-Deoli | 13.4 | | 6,563 | 20 |
| Amritsar-Pathankot | 13.4 | | 4,476 | 13 |
| Goa-Karnataka | 13.4 | | 5,522 | 0 |
| TumkurChitradurg | 13.4 | | 1,306 | 4 |
| Ahmedabad-Vadodara | 13.4 | | -1,227 | -4 |
| **Real estate investment valuations 1250 acres** | | **1** | **1,300** | **4** |
| **Cash and investments** | | | **551** | **2** |
| **Total** | | | | **197** |

*Source: Kotak Securities - Private Client Research*

**RESULT UPDATE**

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# GRASIM INDUSTRIES

**PRICE: RS.2700** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.3025** **FY13E P/E: 9.4x**

- **Revenues of the company for Q1FY13 were inline with our estimates led by improvement in cement and VSF volumes.**
- **Operating margins came slightly better than our estimates but witnessed a decline on yearly basis due to increase in overall cost for cement and VSF division.**
- **Net profit performance for the quarter was led by better than expected operating margins during the quarter.**
- **We tweak our estimates to factor in improvement in operating margins. We also affect changes in our price target to factor in change in market value of holding investments of Grasim. At current price of Rs2700, stock is trading at 9.4x P/E and 4x EV/EBITDA on FY13 estimates. Retain BUY on Grasim with price target of Rs.3025 (Rs.2891 earlier) based on SOTP valuation.**

**Summary table**

| (Rs mn) | FY11 | FY12 | FY13E |
|---|---|---|---|
| Sales | 212,690 | 249,878 | 260,938 |
| Growth (%) | 7 | 17 | 4 |
| EBITDA | 46,832 | 53,184 | 55,301 |
| EBITDA margin (%) | 22.0 | 21.3 | 21.2 |
| PBT | 38,528 | 48,522 | 48,828 |
| Net profit | 22,648 | 26,475 | 26,353 |
| EPS (Rs) | 246.9 | 288.6 | 287.3 |
| Growth (%) | (16) | 17 | (0) |
| CEPS (Rs) | 371.0 | 414.5 | 428.7 |
| BV (Rs/share) | 1,588.9 | 1,852.9 | 2,115.8 |
| Dividend / Share (Rs) | 20.0 | 20.0 | 20.0 |
| ROE (%) | 16.7 | 16.8 | 14.5 |
| ROCE (%) | 21.6 | 23.1 | 21.3 |
| Net cash (debt) | 14,349 | 31,060 | 26,329 |
| NW capital(days) | 43 | 33 | 33 |
| EV/Sales (x) | 1.1 | 0.9 | 0.8 |
| EV/EBITDA (x) | 5.0 | 4.1 | 4.0 |
| P/E (x) | 10.9 | 9.4 | 9.4 |
| P/BV (x) | 1.7 | 1.5 | 1.3 |

*Source: Company, Kotak Securities - Private Client Research*

**Consolidated Financial highlights**

| (Rs mn) | Q1FY13 | Q1FY12 | YoY (%) |
|---|---|---|---|
| **Net sales** | **67934** | **58721** | **15.7** |
| Expenditure | 52002 | 42967 | 21.0 |
| Dec/(Inc) in stock | -804 | -2439 | |
| Raw material consumed | 14827 | 12558 | |
| As a % of sales | 21.8 | 21.4 | |
| Purchase of finished goods | 759 | 519 | |
| As a % of sales | 1.1 | 0.9 | |
| Staff cost | 3753 | 3114 | |
| As a % of sales | 5.5 | 5.3 | |
| Power and fuel | 13890 | 12951 | |
| As a % of sales | 20.4 | 22.1 | |
| Freight, handling and other expense | 10786 | 7980 | |
| As a % of sales | 15.9% | 13.6 | |
| Other expenditure | 8790 | 8285 | |
| As a % of sales | 12.9 | 14.1 | |
| **Operating profit** | **15932** | **15754** | **1.1** |
| Operating margin | 23.5 | 26.8 | |
| Depreciation | 2979 | 2815 | |
| **EBIT** | **12953** | **12939** | **0.1** |
| Interest | 740 | 942 | |
| **EBT (exc other income)** | **12214** | **11998** | **1.8** |
| Other income | 1742 | 1730 | |
| Write back of provisions | | | |
| **EBT** | **13955** | **13728** | **1.7** |
| Tax | 3856 | 3726 | |
| Tax (%) | 27.6 | 27.1 | |
| **PAT** | **10100** | **10002** | **1.0** |
| - Minority share | 3006 | 2627 | |
| + Share of profit/(loss) of associate | 86 | 141 | |
| **Net profit** | **7180** | **7517** | **-4.5** |
| Equity capital | 917.4 | 917.2 | |
| **EPS (Rs)** | **78.3** | **82.0** | |

*Source: Company*

## Revenue growth in line with our estimates

- Revenues of the company for Q1FY13 were inline with our estimates led by improvement in cement and VSF volumes. Cement prices improvement also contributed to healthy growth in revenues.

- Segment wise performance of the company is shown below -

  - **Cement** - Cement volumes including clinker on a consolidated basis for Q1FY13 stood at 11.02 MT as against 10.72 MT in Q1FY12, reporting a growth of 3%. Capacity utilizations for the cement division stood at 84% during Q1FY13. White cement volumes witnessed an improvement of 11% YoY. Grey cement realizations improved significantly on a yearly basis due to prices hikes seen during Q1FY13.

    Out of company's capex of nearly Rs 119bn for cement division expansion as well as modernization, company intends to spend Rs 58.5bn for setting up additional clinker units at Chattisgarh (4.8MT) and Karnataka (4.4 MT) and Rs 60.5 bn for setting up bulk packaging terminals across various states and upgrading and modernizing existing units. Company has already spent nearly Rs 32 bn during FY12 and Rs9.3bn in Q1FY13 out of the total capex of nearly Rs56bn in FY13 and Rs31bn in FY14. These capacities are likely to commission from Q1FY14.

    Cement prices have remained firm during Q1FY13 led by revival in infrastructure and housing sectors as well as supply discipline. We believe that monsoons may continue to hold the cement pricing trend going forward. Lower than expected monsoons may result in higher cement prices during Q2FY13 also.

  - **VSF** - VSF volumes improved sharply during Q1FY13 on a yearly basis led by uninterrupted operations at Nagda plant. Q1FY12 had a 27days shutdown due to water shortage. Company has specified that due to delayed monsoon, production has been impacted by 11 days but correspondingly company has now built an additional reservoir to overcome water shortage. Prices have witnessed a correction on yearly basis since during Q1FY12, prices were at peak due to cotton shortage but on sequential basis, prices have improved by nearly 6% and are currently around Rs 128 per kg. Due to uncertainties associated with euro zone and new capacities in China, VSF prices may continue to remain subdued in the near term. During the quarter, Domsjo performance has improved but PAT was impacted by forex losses.

    Company's expansion plans for VSF are progressing as per schedule. Company is adding greenfield plant of 1,20,000 TPA at Vilayat, Gujarat and carrying out a brownfield expansion of 36,500 TPA at Harihar, Karnataka which will increase its capacity by nearly 50%. Both the projects are expected to be commissioned by Q4FY13. It is also expanding the capacity of Domsjo, Sweden from 210 KTPA to 255 KTPA which will get commissioned by Q2FY13 and is also planning to set up a greenfield project of 180K TPA in Turkey in JV with group companies but is currently awaiting necessary approvals. Company has also acquired assets of Terrace Bay, a pulp mill in Ontario in Canada in JV which will help in meeting increased pulp requirements for VSF expansion.

  - **Chemicals** - Chemicals' division volumes for Q1FY13 were up by 28% YoY while average realizations also improved by 17% YoY for Q1FY13 led by higher caustic prices. Caustic production has been curtailed globally due to lower chlorine demand and sharp decline in chlorine prices which has resulted in higher caustic prices.

    Grasim expansion plan to build 182,500 tonnes caustic capacity at Vilayat for its captive use along with the VSF facilities is progressing on schedule.

  - We maintain our estimates and expect revenues to grow by 4% for FY13.

## Operating margin impacted by high costs

- Operating margins came in slightly better than our estimates but witnessed a decline on yearly basis due to increase in overall cost for cement and VSF division.
- EBIT margin in VSF division has declined sharply due to increase in caustic soda prices and fall in VSF realizations on yearly basis. EBIT margins in chemicals division have witnessed an improvement led by higher prices. Cement division EBIT margins declined marginally despite improvement in cement prices due to increase in freight costs led by hike in railway freight by 22% and rupee depreciation which negated the fall in imported coal prices.
- We tweak our estimates to factor in improved margins in cement division and expect margins to be 21.2% for FY13.

## Net profit growth marginally better than our estimates

- Net profit performance for the quarter was led by better than expected operating margins during the quarter.
- After factoring in slightly improved margins for cement division and higher minority interest corresponding to Ultratech, our revised net profit estimate stands at Rs 26.3 bn for FY13.

## Valuation and recommendation

**We continue to maintain BUY on Grasim Industries with a revised price target of Rs.3025**

- At current price of Rs 2700, stock is trading at 9.4x P/E and 4x EV/EBITDA on FY13 estimates.
- We tweak our estimates to factor in improvement in operating margins. Our price target also got changed due to change in market value of holding investments of Grasim.
- We arrive at a revised price target of Rs3025 based on sum of the parts valuation.(Rs2891 earlier). We continue to maintain **BUY** on Grasim.

**Sum of the parts valuation based on FY13 estimates**

| Division | EBITDA (Rsmn) | EV/EBITDA (x) | EV (Rsmn) | Rationale |
|---|---|---|---|---|
| Valuation of VSF division | 10092 | 5 | 50460 | Based on relative valuations |
| Valuation of chemical division | 1790 | 5 | 8948 | Based on relative valuations |
| Net debt(standalone) | | | (20492) | |
| **Total** | | | **79900** | |
| Valuation of 60.3% holding in merged entity | | | 186635 | At our valuation of ultratech |
| Investments | | | 10944 | At 20% discount to current market price of Rs 81 |
| **Total valuation** | | | **277479** | |
| **Value per share(Rs)** | | | **3025** | |

*Source: Kotak Securities - Private Client Research*

**RESULT UPDATE**

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# TVS MOTORS (TVSM)

**PRICE: RS.38** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.54** **FY13E P/E: 7.1x**

- **TVSM's 1QFY13 results came in ahead of estimates. Both revenues and net profit were better than expectation. However EBITDA margin came in lower than anticipated due to increase in branding activity.**
- **Revenues in the quarter grew by 4% to Rs18,198mn. However cost pressures pulled down EBITDA margin from 6.7% in 1QFY12 to 5.9% in 1QFY13 leading to 13% YoY dip in net profits at Rs511mn.**
- **Currently the overall demand for 2W is soft. We expect gradual pick-up in demand going ahead. TVSM is planning to launch couple of new products in FY13 and that should aid volume growth and market share improvement.**
- **Going ahead, we therefore expect gradual improvement in volumes for the company. We believe higher volumes will also aid margins which currently are under pressure.**
- **We maintain our BUY rating with price target of Rs54.**

**Summary table**

| (Rs mn) | FY11 | FY12 | FY13E |
|---|---|---|---|
| Sales | 62,913 | 71,262 | 76,882 |
| Growth (%) | 42.0 | 13.3 | 7.9 |
| EBITDA | 4,108 | 4,694 | 4,906 |
| EBITDA margin (%) | 6.5 | 6.6 | 6.4 |
| PBT | 2,481 | 3,165 | 3,271 |
| Net profit | 1,946 | 2,491 | 2,552 |
| EPS (Rs) | 4.1 | 5.2 | 5.4 |
| Growth (%) | 121.1 | 28.0 | 2.5 |
| CEPS (Rs) | 6.4 | 7.7 | 8.0 |
| Book value (Rs/share) | 21.0 | 24.6 | 29.0 |
| Dividend per share (Rs) | 1.1 | 1.3 | 1.0 |
| ROE (%) | 21.2 | 23.0 | 20.1 |
| ROCE (%) | 15.4 | 19.3 | 17.8 |
| Net cash (debt) | (7,373) | (7,024) | (8,027) |
| NW Capital (Days) | (7) | (7) | (12) |
| P/E (x) | 9.3 | 7.2 | 7.1 |
| P/BV (x) | 1.8 | 1.5 | 1.3 |
| EV/Sales (x) | 0.4 | 0.4 | 0.3 |
| EV/EBITDA (x) | 6.2 | 5.3 | 5.3 |

*Source: Company, Kotak Securities - Private Client Research*

**Financial performance**

| (Rs mn) | 1QFY13 | 1QFY12 | YoY% | 4QFY12 | QoQ% |
|---|---|---|---|---|---|
| **Total Revenues** | **18,198** | **17,460** | **4.2** | **16,272** | **11.8** |
| Total expenditure | 17,123 | 16,289 | 5.1 | 15,282 | 12.0 |
| RM consumed | 13,363 | 13,127 | 1.8 | 11,890 | 12.4 |
| Employee cost | 1,024 | 909 | 12.6 | 949 | 7.9 |
| Other expenses | 2,736 | 2,253 | 21.4 | 2,444 | 11.9 |
| **EBITDA** | **1,075** | **1,171** | **(8.2)** | **989** | **8.7** |
| EBITDA margin (%) | 5.9 | 6.7 | - | 6.1 | - |
| Depreciation | 310 | 277 | 11.8 | 317 | (2.4) |
| Finance cost | 155 | 152 | 2.0 | 133 | 16.2 |
| Other Income | 51 | 36 | 40.3 | 83 | (39.1) |
| **PBT** | **661** | **779** | **(15.1)** | **622** | **6.3** |
| PBT margins (%) | 3.6 | 4.5 | | 3.8 | |
| Tax | 150 | 191 | (21.2) | 50 | 203.2 |
| Tax rate (%) | 22.7 | 24.5 | - | 8.0 | - |
| **Reported PAT** | **511** | **588** | **(13.1)** | **572** | **(10.7)** |
| PAT margins (%) | 2.8 | 3.4 | - | 3.5 | - |
| Reported EPS (Rs) | 1.1 | 1.2 | (13.1) | 1.2 | (10.7) |

*Source: Company*

## Result highlights

- Revenues in 1QFY13 stood at Rs18,198mn, 4.2% higher YoY and ahead of our and street expectation. Reasons for more than expected revenues include both; higher than anticipated volumes and realization.
- Volumes during the quarter at 0.547mn remained flat YoY. However realization improved 4.9% YoY and came in ahead of expectation which we believe was on account of product mix. As per management, some portion of sales done to the distribution arm was not captured in the volumes reported on the monthly basis and hence the difference in volume estimates.
- Sequentially, revenues were higher by 12% on back of growth in volumes and improvement in blended realizations.

**Per vehicle data (Rs)**

| | 1QFY13 | 1QFY12 | YoY (%) | 4QFY12 | QoQ (%) |
|---|---|---|---|---|---|
| Realization | 32,744 | 31,202 | 4.9 | 31,713 | 3.3 |
| RM cost | 24,430 | 23,991 | 1.8 | 23,523 | 3.9 |
| Employee cost | 1,872 | 1,661 | 12.7 | 1,878 | (0.3) |
| Other expenses | 5,001 | 4,118 | 21.4 | 4,835 | 3.4 |

*Source: Company*

- Raw material cost as a % of sales at 74.6% came down YoY from 76.9% but inched up QoQ from 74.2%. Raw material cost per vehicle was higher QoQ by 3.9% as against 3.3% increase in realization and this led to some pressure on margins in 1QFY13.
- Employee cost during the quarter stood at 1,024mn, as against Rs909mn and Rs949mn reported in 1QFY12 and 4QFY12 respectively.
- Other expenses increased substantially during the quarter and was the prime reason for dip in operating margins. Other expenses increase by 21.4% YoY and 11.9% QoQ to Rs2,736mn.
- As per the management, the company increased their investments in brands during the quarter given the overall slowdown. We expect the same to continue to 2QFY13.
- TVSM reported EBITDA margin of 5.9% as against 6.7% and 6.1% reported in 1QFY12 and 4QFY12 respectively. EBITDA margins were lower than our expectation of 6.2% on account of marginally higher raw material cost and significant jump in other expenses.
- Tax rate during the quarter came in at 22.7% that was slightly lower than 1QFY12 tax rate of 24.5%.
- 1QFY13 net profit at Rs511mn was lower by 13% YoY largely on account of pressure on operating margin in the current weak demand environment. In 4QFY12, other income was on the higher side and tax rate on the lower side. Accordingly profits over 4QFY12 were lower by 11%.

## Other highlights

- During the quarter the company invested Rs.61 mn in Sundaram Business Development Consulting (Shanghai) Co. Ltd., China.
- In PT TVS Motor Company Indonesia, the company sold 6,041 units, a drop over 1QFY12 sales volume of 7,035 units. Currently the company is expanding its sales network there from 110 dealers to 200 dealers (by year end) in six provinces.

## FY13 outlook and valuation

- Currently the 2W demand scenario is on softer side. We expect the situation to improve gradually going ahead.
- TVSM is planning to launch a new motorcycle in the executive segment ahead of the festive season. TVSM is a very small player in the motorcycle segment.We thereby expect the new launch will be helpful for the company in improving volumes and market share. Apart from this the company will also be launching a new scooter in 4QFY13.
- In the export markets the company is witnessing pressure in some markets like Sri Lanka and Egpyt.

**We maintain our BUY rating on TVS Motors with a price target of Rs.54**

- In FY13, we have factored in a 5.3% volume growth assumption for TVSM. While in 1QFY13, the volume growth was flat, we except new launches, improvement in market sentiment and lower 2HFY12 base should help the company achieve our expected volume growth rate.
- Given weak demand scenario, margins too are under pressure. However as volumes improve, we expect the same to have a positive rub off on the margins.
- Company said that they are currently in talks with BMW, but did not divulge other details.
- We retain our **BUY** rating and price target of Rs54 on the stock.
- Weak performance in the Indonesian subsidiary remains a matter of concern.

**RESULT UPDATE**

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# MARUTI SUZUKI INDIA LIMITED (MSIL)

**PRICE: RS.1113** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.1017** **FY13E P/E: 17.5X**

- MSIL reported weak set of 1QFY13 results with operating margins taking a hit on account of poor demand and weak INR. Lower other income further impacted net profits during the quarter.
- Revenues during the quarter grew by 27.5% YoY to Rs107,782mn. However EBITDA margin dipped from 9.6% in 1QFY12 to 7.3% for the quarter under review leading to 23% YoY drop in net profits. Profits during the quarter were lower than expected.
- Overall demand for cars continue to remain subdued. Now with the lock-out at the company's Manesar plant, the volume growth in FY13 will come under further pressure.
- We are lowering our FY13 estimates to factor in below than expected 1QFY13 numbers, impact of Manesar plant lock-out and weak INR. Accordingly we are revising our FY13 net profit estimates downwards from Rs22,817mn to Rs19,199mn.
- We see lot of headwinds for MSIL in the form of overall weak demand, labor issues at the Manesar plant and weak INR. We rate the stock as REDUCE with a price target of Rs.1017.

**Summary table**

| (Rs mn) | FY11 | FY12 | FY13E |
|---|---|---|---|
| Sales | 369,456 | 356,427 | 428,610 |
| Growth (%) | 24.7 | (3.5) | 20.3 |
| EBITDA | 37,038 | 25,685 | 34,814 |
| EBITDA margin (%) | 10.0 | 7.2 | 8.1 |
| PBT | 31,088 | 21,461 | 25,599 |
| Net profit | 22,886 | 16,351 | 19,199 |
| EPS (Rs) | 79.2 | 56.6 | 63.6 |
| Growth (%) | (8.4) | (28.6) | 12.3 |
| CEPS (Rs) | 114.3 | 96.0 | 118.4 |
| BV (Rs/share) | 480.0 | 525.7 | 599.0 |
| Dividend / share (Rs) | 7.5 | 7.5 | 7.5 |
| ROE (%) | 17.8 | 11.3 | 11.5 |
| ROCE (%) | 23.3 | 14.3 | 14.6 |
| Net cash (debt) | 69,209 | 61,120 | 44,682 |
| NW Capital (Days) | (6.1) | (3.6) | (4.5) |
| P/E (x) | 14.1 | 19.7 | 17.5 |
| P/BV (x) | 2.3 | 2.1 | 1.9 |
| EV/Sales (x) | 0.7 | 0.7 | 0.7 |
| EV/EBITDA (x) | 6.8 | 10.1 | 8.4 |

*Source: Company, Kotak Securities - Private Client Research*

**Quarterly performance**

| Rs mn | 1QFY13 | 1QFY12 | YoY% | 4QFY12 | QoQ% |
|---|---|---|---|---|---|
| **Total Revenues** | **107,782** | **84,541** | **27.5** | **117,270** | **(8.1)** |
| Total expenditure | 99,919 | 76,437 | 30.7 | 108,685 | (8.1) |
| RM consumed | 83,903 | 65,977 | 27.2 | 93,328 | (10.1) |
| Employee cost | 2,383 | 1,794 | 32.8 | 2,560 | (6.9) |
| Other expenses | 13,633 | 8,666 | 57.3 | 12,797 | 6.5 |
| **EBITDA** | **7,863** | **8,104** | **(3.0)** | **8,585** | **(8.4)** |
| EBITDA margin (%) | 7.3 | 9.6 | - | 7.3 | - |
| Depreciation | 3,399 | 2,425 | 40.2 | 3,306 | 2.8 |
| Interest cost | 332 | 58 | 477 | 208 | 59 |
| Other Income | 1,123 | 1,841 | (39.0) | 2,969 | (62.2) |
| **PBT** | **5,255** | **7,462** | **(29.6)** | **8,040** | **(34.6)** |
| PBT margins (%) | 4.9 | 8.8 | | 6.9 | |
| Tax | 1,018 | 1,970 | (48.3) | 1,642 | (38.0) |
| Tax rate (%) | 19.4 | 26.4 | - | 20.4 | - |
| **Reported PAT** | **4,238** | **5,492** | **(22.8)** | **6,398** | **(33.8)** |
| PAT margins (%) | 3.9 | 6.5 | - | 5.5 | - |
| **Reported EPS (Rs)** | **14.7** | **19.0** | **(22.8)** | **22.1** | **(33.8)** |
| **Volume data** | | | | | |
| Domestic | 263,264 | 250,683 | 5.0 | 321,424 | (18.1) |
| Exports | 32,632 | 30,843 | 5.8 | 38,910 | (16.1) |
| Total Volumes | 295,896 | 281,526 | 5.1 | 360,334 | (17.9) |
| Net Realization (Rs) | 355,843 | 293,279 | 21.3 | 318,770 | 11.6 |
| RM cost per vehicle (Rs) | 283,555 | 234,355 | 21.0 | 259,004 | 9.5 |

*Source: Company*

## Result Highlights

- MSIL reported revenues of Rs107,782mn, that was higher by 27.5% over 1QFY12 revenues of Rs84,541mn. Volumes during the same period grew by 5% and blended realization was higher by 21%.
- During 1QFY13, the product mix improved in favor of diesel run cars which enjoy higher realization over the petrol version. Further the option of diesel engine is available in cars that come in higher price bracket within the company's product portfolio. Accordingly the blended realization witnessed a significant jump YoY.
- On sequential basis, the revenues came off by 8% on account of 18% dip in volumes. Better product mix though helped the realization grow by 11.6% during the period.
- Raw material cost to sales remained largely stable over 1QFY13. Benefits from improved mix, price increase and better export realization were nullified by exchange impact on direct and indirect imports.
- However on QoQ, raw material cost to sales was down by 160bps largely on account of net price increase and improved product mix.
- Employee cost on YoY basis grew by 33% YoY to Rs2,383mn. However over QoQ the employee cost was lower by 7%.
- Other expenses saw a steep increase and came in ahead of expectation impacting the EBITDA margin during the quarter. In 1QFY13, other expenses grew by 57% YoY from Rs8,666mn in 1QFY12 to Rs13,633mn during the quarter under review.
- Royalty charge increased from 4.8% of net sales in 1QFY12 to 6.2% primarily due to negative impact of currency movement.
- Other expenses were also negatively impacted by increase in power and fuel cost and forex loss.
- Due to increase in other expenses, EBITDA margin came in at 7.3% as against 9.6% in 1QFY12 and our expectation of 7.8%.
- Sequentially EBITDA margins remained flat at 7.3%. We had expected margins to improve sequentially on account of improved product mix and USD-JPY hedges at favorable rate.
- Depreciation cost increased YoY from Rs2,425mn to Rs3,399mn due to Manesar B plant coming on stream.
- Other income for MSIL had been erratic over the past few quarter and that trend continued during the quarter. Other income dropped 39% YoY and 62% QoQ to Rs1,123mn in 1QFY13. Other income came in below our expectation and was one of the prime reason for lower than expected profit. Tax rate at 19.4% remained on the lower side.
- PAT in 1QFY13 came in at Rs.4,238mn, a drop of 23% YoY and lower than our expectation of Rs4,946mn. PAT came in lower than expected on account of higher other expenses and lower other income.

## Outlook for FY13

- Overall passenger car demand is currently subdued. However the key concern for MSIL is the labor issues at the Manesar plant.
- Company has already declared lock-out at the Manesar plant following the violent act carried out at the workers. Production of some of the key models will be impacted and this will be negative the company's profitability going ahead.
- Prolong lock-out at the plant will give competitors the chance to make inroads in to MSIL markets which we believe will have negative repercussion in the longer run.

- As per media reports, MSIL will be looking at replacing contract workers will permanent workers in certain core areas of operations by end FY13. In our view, this will increase the employee cost for the company and put strain on margins.
- Weak INR is negative for the company and at the current rates the company will continue to face pressure on its operating margins.

## Change in estimates

- We are lowering our FY13 estimates on account of 1.Below expected 1QFY13 results 2.Lockout at Manesar plant and 3.Weak INR.
- We lower our revenues by 3% on account cut in volume assumption in the back-drop of lockout at Manesar facility.
- We also lower our EBITDA margin assumption from 9.1% to 8.1% because of impact of lockout at the Manesar plant and continued weakness in INR.
- As a result our revise net profit estimate stands revised downward to Rs19,199mn (earlier Rs22,817mn). We expect FY13 to be a challenging year for MSIL.
- We see lot of headwinds for MSIL in the form of overall weak demand, labor issues at the Manesar plant and weak INR. We rate the stock as **REDUCE** with a price target of Rs.1017.

**Change in estimates FY13**

| (Rs mn) | Old | New | % change |
|---|---|---|---|
| Revenues | 443,215 | 428,610 | -3.3 |
| EBITDA margin | 9.1 | 8.1 | - |
| PAT | 22,817 | 19,199 | -15.9 |

*Source: Kotak Securities - Private Client Research*

**RESULT UPDATE**

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# INDRAPRASTHA GAS (IGL)

**PRICE: RS.230** **RECOMMENDATION: ACCUMULATE**
**TARGET PRICE: RS.260** **FY13E P/E: 7.7x**

## Strong financial performance

- **IGL has posted better than expected result mainly on account of 1). Better realization, 2) Higher volume growth, in both the segments and 30 lower other manufacturing expenses.**
- **In Q1FY13, IGL's net revenue has increased by 7.1% QoQ and by 41.7% YoY to Rs. 7.6 Bn mainly on account of higher volume growth and increase in realization. Its bottom line has increased by 19.1% QoQ and 6.2% YoY to Rs. 850 Mn.**
- **Management has indicated that there is strong demand of CNG and PNG in Delhi and NCR. IGL expects additional 45K auto rickshaws will be converted into CNG as per directive of the government. In the domestic PNG segment, IGL expects a volumes growth of 26% in FY13 and will replace LPG cylinders.**
- **Combined volume growth of CNG and PNG in FY13 is expected to be ~26%.**
- **Recently, PNGRB (petroleum and natural gas regulator) has filed a 'special leave petition' in the Hon'ble Supreme Court against the order dated June 01, 2012 passed by Hon'ble Delhi High Court indicating PNGRB has no regulatory powers. If Supreme Court gives a verdict which caps IGL's tariffs then it will be significantly negative for IGL.**
- **In July'12, IGL has hiked the prices of CNG gas in Delhi by Rs 2.9/kg and by Rs 3.30/kg in Noida, citing rise in input cost as the factor. The current consumer price of CNG is Rs 38.35 a kg in Delhi and Rs 43.10 a kg in Noida, Greater Noida and Ghaziabad.**
- **IGL's raw material cost has increased due to 1). Rupee depreciation and 2). Lower supply of cheap domestic gas from KG-D6, forced IGL to import higher qty. of costlier RLNG.**
- **IGL sources gas from APM, KG-D6, long term R-LNG and spot R-LNG. The gas is priced in dollars terms and the dollar has appreciated vis-à-vis rupee in Q1 till date FY13. The impact of the same will be reflected in Q1FY13.**

- The Company is trying to enter into long term LNG supply agreement in order to reduce its dependence on costlier spot cargoes. In this regard, IGL is in talks with its promoters GAIL & BPCL and others.
- IGL's revenues are expected to grow with the increase in realization and huge demand of natural gas both in CNG and PNG segment.
- In FY13E, IGL will be investing ~Rs.5 Bn in Delhi and NCR to expand its network.
- The management has guided that in addition to catering to the demand of households, the thrust would be on tapping industrial and commercial customers who have huge demand potential. Also, private vehicles will continue to be a growth driver for CNG sales in the coming years.
- We expect FY13E EPS of Rs. 29.8. The management believes that the strong trends in CNG and PNG segment will continue and IGL is best placed to benefit from rising gas consumption in India.

**Summary table**

| (Rs mn) | FY12 | FY13E | FY14E |
|---|---|---|---|
| Sales | 27,937 | 41,610 | 48,135 |
| Growth (%) | 43.0 | 48.9 | 15.7 |
| EBIDTA | 6,347 | 8,429 | 9,386 |
| EBIDTA margin (%) | 22.7 | 20.3 | 19.5 |
| PBT | 4,501 | 6,224 | 7,384 |
| Net profit | 3064 | 4176 | 4967 |
| EPS (Rs) | 21.9 | 29.8 | 35.5 |
| Growth (%) | 18.5 | 36.5 | 18.9 |
| CEPS (Rs) | 32.1 | 41.6 | 47.8 |
| BV/Share (Rs.) | 87.8 | 109.9 | 137.1 |
| DPS (Rs) | 5.0 | 6.6 | 7.2 |
| ROE (%) | 26.5 | 29.0 | 27.8 |
| ROCE (%) | 20.4 | 24.2 | 24.9 |
| Net Debt | 5,037 | 5,024 | 763 |
| NW Capital (days) | -15.4 | -12.5 | -13.1 |
| EV/Sales (x) | 1.3 | 0.9 | 0.8 |
| EV/EBIDTA (x) | 5.9 | 4.5 | 4.0 |
| P/E (x) | 10.5 | 7.7 | 6.5 |
| P/BV (x) | 2.6 | 2.1 | 1.7 |
| P/CEPS (X) | 7.2 | 5.5 | 4.8 |

*Source: Company, Kotak Securities - Private Client Research*

- Key risk remains in terms of 1). Gas supply, 2). Further rise in gas prices both domestic and LNG, 3). Cost and time run in project execution and 4). Any major regulation by PNGRB on marketing margin.
- Based on our estimates, the stock at current market price of Rs.230 is trading at 4.5x EV/EBIDTA and 7.7x P/E on FY13E earnings.
- Based on our DCF valuation model, the fair value of IGL is Rs. 260 (earlier Rs. 256) and we maintain our accumulate rating.

**Result Table**

| (Rs mn) | Unit | Q1FY13 | Q1FY12 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| **Net Sales** | **Rs. Mn** | **7602** | **5364** | **41.7** | **7.1** |
| Net Sales | Rs/Scm | 23.5 | 19.0 | 23.5 | 5.0 |
| Add: Closing Stock | Rs. Mn | 1.07 | 1.81 | -40.8 | -119.5 |
| **Raw Material** | | | | | |
| Less: Raw Material | Rs. Mn | 4900 | 3006 | 63.0 | 6.53 |
| Gross Margin | Rs. Mn | 2703 | 2360 | 14.6 | 8.4 |
| Gross Margin | Rs./Scm | 8.4 | 8.4 | -0.2 | 6.32 |
| Gross Margin | % | 35.6 | 44.0 | -8.4 | 0.4 |
| Less: Opex | Rs. Mn | 911 | 786 | 15.8 | -4.9 |
| Salaries,Wages & Bonus | Rs. Mn | 121 | 99 | 21.7 | 12.1 |
| Salaries,Wages & Bonus | Rs./Scm | 0.37 | 0.35 | 6.0 | 9.9 |
| Other Mfg Expenses Excl Excise | Rs. Mn | 790 | 687 | 15.0 | -7.1 |
| Other Mfg Expenses | Rs./Scm | 2.4 | 2.4 | 0.2 | -8.9 |
| **EBIDTA** | **Rs. Mn** | **1793** | **1573** | **13.9** | **16.8** |
| EBIDTA per unit of sales | Rs./Scm | 5.54 | 5.58 | -0.7 | 14.5 |
| EBIDTA Margin | % | 23.6 | 29.3 | -5.7 | 2.0 |
| Add: Other Income | Rs. Mn | 36 | 24 | 50.9 | 18.4 |
| Less: Depreciation | Rs. Mn | 427 | 322 | 32.5 | 13.8 |
| Less: Depreciation | Rs./Scm | 1.3 | 1.1 | 15.5 | 11.6 |
| **EBIT** | **Rs. Mn** | **1401** | **1275** | **9.9** | **17.8** |
| EBIT | Rs./Scm | 4.3 | 4.5 | | |
| Less: Interest | Rs. Mn | 155 | 90 | 72.2 | 7.0 |
| Less: Interest | Rs./Scm | 0.48 | 0.32 | | |
| **PBT** | **Rs. Mn** | **1246** | **1185** | **5.2** | **19.3** |
| EBT | Rs./Scm | 3.9 | 4.2 | | |
| Less: Tax | Rs. Mn | 396 | 384 | 3.2 | 19.6 |
| Tax | Rs./Scm | 1.2 | 1.4 | | |
| PAT | Rs. Mn | 850 | 801 | 6.2 | 19.1 |
| PAT | Rs./Scm | 2.6 | 2.84 | | |
| PAT | % | 11.2 | 14.9 | -3.7 | 1.1 |
| **EPS** | **Rs/Share** | **6.1** | **5.7** | **6.2** | **19.1** |
| PAT | Rs/SCM | 2.63 | 2.84 | -7.5 | 16.8 |
| Equity | Rs. Mn | 1400 | 1400 | | |
| **Ratio Analysis** | | | | | |
| RW/Net Sales (Excise) | % | 64.5 | 56.0 | 8.4 | (0.3) |
| Staff Cost | % | 1.6 | 1.9 | (0.3) | 0.1 |
| Other Mfg. Expenses Excl Excise | % | 10.4 | 12.8 | (2.4) | (1.6) |
| Cash EPS | Rs/Share | 9.1 | 8.0 | 13.7 | 17.3 |
| Other Income/Net Sales | % | 2.9 | 2.0 | 0.9 | (0.0) |
| Tax rate (%) | % | 31.8 | 32.4 | (0.6) | 0.1 |

*Source: Company, Kotak Securities - Private Client Research*

**Segment-wise break-up**

| (Rs mn) | Unit | Q1FY13 | Q1FY12 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| A). CNG-Gross Sales | Rs. Mn | 6414 | 4688 | 36.8 | 3.5 |
| CNG Gross Sales | Rs/SCM | 26.31 | 21.61 | 21.7 | 3.6 |
| CNG Gross Sales | Rs/Kg | 35.15 | 29.06 | 20.9 | 3.4 |
| CNG- Net Sales | Rs. Mn | 6414 | 4688 | 36.8 | 3.5 |
| CNG- Net Sales | Rs/Scm | 26.3 | 21.6 | 21.7 | 3.6 |
| Less: Excise Duty | Rs. Mn | 812 | 593 | 36.9 | 3.7 |
| Excise Duty | Rs/SCM | 3.3 | 2.7 | 21.8 | 3.7 |
| Excise Duty | Rs/Kg | 4.4 | 3.7 | 21.0 | 3.5 |
| Excise Duty/Net Sales (%) | % | 12.66 | 12.65 | 0.0 | |
| Sales Volume | MSCM | 244 | 217 | 12.4 | -0.1 |
| Sales Volume | Mn Kg | 183 | 161.3 | 13.1 | 0.2 |
| CNG-Net Sales - Excise | Rs. Mn | 5602 | 4095 | 36.8 | 3.5 |
| CNG-Net Sales - Excise | Rs/SCM | 23.0 | 18.9 | 21.7 | 3.6 |
| CNG-Net Sales - Excise | Rs/Kg | 30.7 | 25.4 | 20.9 | 3.4 |
| | | | | | |
| B). PNG-Sales | Rs. Mn | 1999 | 1269 | 57.5 | 18.6 |
| Sales realisation | Rs./Scm | 25.1 | 19.588 | 28.4 | 8.9 |
| Sales Volume | MSCM | 79.5 | 64.8 | 22.7 | 8.9 |
| Total Sales Volume | MSCM | 323 | 282 | 14.8 | 2.0 |

*Source: Company, Kotak Securities - Private Client Research*

## Result Analysis

- **Revenue:** Net revenue for Q1FY13 was at Rs.7.6 Bn up by 41.7% YoY and 7.1% on sequential basis. Higher revenue was a result of both increase in sales volume and price revision undertaken by IGL.
- **Volume:** During Q1FY13, IGL sold ~183 mn kg of CNG thereby registering a growth of 13.1% YoY and 0.2% sequential. IGL sold 79.5 mn SCM of PNG in Q1FY13 showing strong 22.7% YoY and 8.9% sequential growth.
- **Segment wise revenue analysis:** IGL has registered net revenue of Rs.5.6 Bn in CNG business a 36.8% YoY and 3.5% sequential growth. However, PNG segment has registered revenue of Rs.1.99 Bn resulting in a 57.5% YoY and 18.6% QoQ growth.
- **Realization:** Blended gross realization is higher by 23.5% YoY and 5% QoQ to Rs.23.5/Scm (net of excise). On QoQ basis, the realization improved mainly due to ~8.9% realization growth in PNG segment.
- **Raw Material Cost:** The raw material cost has increased by 6.53% QoQ and by 63.0% YoY basis to Rs. 4.9 Bn. The raw material cost as a percentage of revenue is up by 840 bps YoY basis but down by 30 bps QoQ basis.
- In order to meet the rising domestic demand of natural gas, IGL not only source KG-D6 gas and Administered Price Mechanism (APM) gas but also source higher priced long-term RLNG as well as spot RLNG. Higher proportion of RLNG and rupee depreciation has led to significant increase in raw material cost. We would like to highlight here that the gas supplied by RIL and ONGC is fixed by government in US dollar terms. Hence any rupee depreciation increases the cost for IGL.
- In absolute terms, EBIDTA was at Rs.1.79 Bn up by 13.9% YoY basis and by 16.8% QoQ. Another important factor to monitor is EBIDTA per unit of sales. The same has increased by 14.5% QoQ but down by 0.7% YoY to Rs. 5.54/SCM.

- **Operating Margins:** In Q1FY13, the EBIDTA margin stood at 23.6%, which is down by 570 bps YoY basis but up by 20 bps on QoQ basis. Margins have increased mainly due to higher realizations.
- PNG segment has witnessed higher growth in volumes as compare to CNG segment.
- The staff cost (as a percentage of sales) has fallen on YoY basis but increased QoQ basis to 1.6% of net sales.
- Other income of the company has increased by 50.9% YoY basis and 18.4% QoQ basis to Rs.36 Mn due to use of funds for expansion purpose.
- The depreciation cost has gone up by 32.5% on YoY basis and 13.8% QoQ basis to Rs.427 Mn as the company has expanded the number of stations in & around Delhi and capitalized pipelines. As on 31st March'12, the Company has 308 CNG station.
- In Q1FY13, the Company paid an interest of Rs.155 Mn which is higher by 72.2% YoY and 7% QoQ basis. Higher interest rate and higher borrowings has resulted in higher interest outgo.
- PBT for Q1FY13 was at Rs.1.25 Bn up by 5.2% YoY and 19.3% on a sequential basis.
- Bottom line for Q1FY13 was at Rs.850 Mn up by 6.2% YoY and by 19.1% on sequential basis thereby translating into Q1FY13 EPS of Rs.6.1 and CEPS of Rs.9.1.
- In Q1FY13, the PAT margin stood at 11.2%, which is down by 370 bps on YoY basis but up by 110 bps on QoQ.

## Earnings estimates

**We recommend ACCUMULATE on IGL with a revised price target of Rs.260**

We expect IGL to book CNG gas volume of ~831 Mn Kgs and PNG 398 MSCMPA of natural gas in FY13E. We expect IGL to report EPS of Rs.29.8 and CEPS of Rs.41.6 in FY13E. We have assumed a capex of Rs.5 Bn in FY13E. Out of this around 50% will be invested in CNG and balance in PNG.

## Valuation & Recommendation

- Based on our DCF valuation model, the fair value of IGL is Rs. 260 (earlier Rs. 256).

RESULT UPDATE

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# JAGRAN PRAKASHAN

**PRICE: RS.88** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.110** **FY13E P/E: 15.0x**

**Jagran Prakashan reported in-line financials for 1QFY13. Advertising revenue growth, however, was stronger than our expectations and ahead of peers, at 8% (y/y), leading to revenue growth of 4.2% (lower other operating revenues). On expected lines, Jagran displayed flexibility in management of expenses (+7.2%, y/y). Key positive take-away from conference call is management of losses in recently - acquired Nai Dunia, as also Mid-Day. Jagran, along with print media stocks in general, trades at inexpensive valuations (15.0x PER FY13E, 4% dividend yield). Maintain BUY, with a price target of Rs 110 (unchanged).**

- **Jagran reported in-line results:** Revenues Rs 3175mn, EBITDA Rs 788 mn, were in-line with our expectations. PAT was ahead of expectations on zero provision for taxes. Advertising revenues grew 8%, ahead of peers in the quarter, and Jagran reported lower damages in national advertising (no de-growth, as per management). Newsprint expenses rose 15%, on account of higher circulation (+6%, y/y) as well as higher volumes (advertising growth completely volume-led), while other expenses registered soft growth.

- **Management circumspect but hopeful on advertising prospects, losses from acquisitions:** While the management refrained from providing guidance for full-year advertising growth, the company hopes that full-year growth shall be stronger than 1QFY13. Also, on the back of lower-than-expected losses from Nai-Dunia (<Rs 15 mn) and Mid-Day, management is hopeful that full-year losses shall be weaker than prior expectations, probably in the range of Rs 100mn for Nai-Dunia.

- **Readership Assets remain strong, current environment helpful to Jagran:** Jagran's readership assets remain strong (#1 newspaper of India, #1 in SEC-A). Competitive intensity, which is our most significant concern in the case of Jagran's model (significant dependence on Uttar Pradesh), is set to be milder than our prior expectations, we think, on account of lower aggression from competitors (Hindustan) in Uttar Pradesh. We also think Jagran may end up making a virtue of its Nai-Dunia acquisition, if expectations articulated by the management are realized - Nai Dunia can be a significant deterrent to DB Corp's aggression in Jagran markets (UP, Bihar).

- **Valuations inexpensive, visibility improving; Maintain BUY:** On our fresh estimates (including Nai Dunia), Jagran Prakashan is set to bring in EPS Rs 5.9/ Rs 7.0 (-6%/-4% to prior estimates) in FY13E/ FY14E. We believe Jagran's commentary allay concerns on to FY13/ FY14 earnings. At CMP, Jagran Prakashan trades at 15.0 PER FY13, and 4% dividend yield, providing an attractive entry point to investors. Triggers are still missing (on account of which our valuation is conservative), but business model is sound and valuations reasonable. BUY, with a price target of Rs 110.

- **Risks:** Competitive risks, higher newsprint prices, weaker advertising revenue growth on account of weakness in the economy. Monsoon can have a significant impact on regional media plays, including Jagran Prakashan.

**Summary table**

| (Rs mn) | FY12 | FY13E | FY14E |
|---|---|---|---|
| Sales | 13,557 | 15,267 | 16,964 |
| Growth (%) | 21.5 | 12.6 | 11.1 |
| EBITDA | 3,169 | 3,447 | 4,057 |
| EBITDA margin (%) | 23.4 | 22.6 | 23.9 |
| PBT | 2,556 | 2,814 | 3,318 |
| Net profit | 1,783 | 1,858 | 2,212 |
| EPS (Rs) | 5.6 | 5.9 | 7.0 |
| Growth (%) | (17.3) | 4.2 | 19.1 |
| CEPS (Rs) | 7.9 | 8.4 | 9.6 |
| BV (Rs/share) | 23.8 | 26.6 | 30.3 |
| Dividend / share (Rs) | 3.5 | 3.5 | 3.5 |
| ROE (%) | 24.5 | 23.3 | 24.6 |
| ROCE (%) | 16.7 | 16.5 | 20.7 |
| Net cash (debt) | (2,117) | (1,161) | 1,130 |
| NW Capital (Days) | 8 | 19 | 11 |
| P/E (x) | 15.6 | 15.0 | 12.6 |
| P/BV (x) | 3.7 | 3.3 | 2.9 |
| EV/Sales (x) | 2.1 | 1.8 | 1.5 |
| EV/EBITDA (x) | 9.0 | 8.0 | 6.3 |

*Source: Company, Kotak Securities - Private Client Research*

**1QFY13 Results Summary**

| SA, Rs mn, FY Ends Mar | 1QFY13 | 1QFY12 | % Grw. y/y | 4QFY12 | % Grw, q/q |
|---|---|---|---|---|---|
| **Revenues** | **3,175** | **3,046** | **4.2** | **3,104** | **2.3** |
| - Advertising Revenues | 2,207 | 2,043 | 8.0 | 2,103 | 4.9 |
| - Circulation Revenues | 641 | 582 | 10.1 | 628 | 2.1 |
| - Other | 327 | 422 | -22.4 | 373 | -12.3 |
| **Expenses:** | **2,387** | **2,226** | **7.2** | **2,445** | **-2.4** |
| Raw Material Expenses | 1,135 | 989 | 14.7 | 1,082 | 4.9 |
| Gross Profit | 2,040 | 2,057 | -4.9 | 2,022 | -100.0 |
| Gross Margin (%) | 64 | 68 | -3.3ppt | 65 | -0.9ppt |
| Personnel Expenses | 410 | 393 | 4.5 | 428 | -4.2 |
| Other Expenses | 842 | 844 | -0.2 | 935 | -9.9 |
| **EBITDA** | **788** | **821** | **-4.0** | **659** | **19.6** |
| Margin (%) | 24.8 | 26.9 | -2.1ppt | 21.2 | 3.6ppt |
| Depreciation | 148 | 150 | -1.6 | 181 | -18.6 |
| Interest Expenses | 76 | 28 | 175.2 | 45 | 67.3 |
| Other Income | -7 | 78 | -109.3 | 183 | -103.9 |
| **PBT** | **557** | **720** | **-22.7** | **615** | **-9.5** |
| Provision for Tax | 0 | 223 | -100.0 | 187 | -100.0 |
| **PAT** | **557** | **497** | **12.0** | **428** | **30.0** |
| **EPS (Rs)** | **1.8** | **1.6** | **12.0** | **1.4** | **30.0** |

*Source: Company Reports*

- Jagran reported Rs 3175 mn revenues, Rs 788 mn EBITDA and Rs 557 mn PAT for 1QFY13. PAT is ahead of our estimates as there is no provision for taxes in the quarter (acquisition of Nai Dunia, and accumulated losses therein). Advertising revenues have been ahead of our estimates, while circulation revenues' growth has softened sequentially. Most expenses lines are in line with our estimates, and growth in expenses is modest (7.2%, y/y), despite a 15% rise in raw material expenses (higher circulation, volume growth in advertising) as Jagran is clearly in the cost control mode.

- As per management, the pressures in Jagran's advertising stream are lesser than what the industry is seeing at present (Jagran says there is no de-growth in national advertising, although local advertising has grown ahead of national advertising). Growth in advertising in the quarter has been completely volume-led, and is aided by strong growth in flanking newspaper I-Next and weekly City Plus which have contributed 1.5ppt to the topline growth. Management remains tight-lipped about the initiatives that are helping Jagran buck the trend; one factor that helps Jagran is its weaker base compared with competitors.

- The management has also provided some information about Mid-Day and Nai Dunia operations, which are not included in the (standalone) financials that have been reported. Nai Dunia's circulation has been raised by ~10% in the first two months since Jagran has taken over the management of the company, and the newspaper has seen strong traction in advertising revenues. Jagran management says that losses in Nai Dunia were much lower than initial estimates (Rs 15 mn for the quarter, versus FY12 losses of the entities that amounted to Rs 250mn). Mid Day has also performed strongly in the quarter, and has brought in minor losses only.

- The management has expressed hope (refusing to call it guidance) that advertising revenue growth in the remainder of the year shall be higher than the growth in the quarter. Also, the losses of the newspapers Nai Dunia shall be likely limited to Rs 100 mn, as per management. Newsprint prices are expected to remain steady in the course of the year. Staff costs have been low as the company has deferred certain increments (likely to come in from 2QFY13 onward), and have started rationalizing staff strength. The company's interest expenses, which have been high in the quarter on account of debt taken on for acquisition of Nai Dunia, is likely to reduce going forward, as the company has repaid a portion of the debt (Rs 650 mn of the total of Rs 2.25Bn). For the year, the effective tax rate shall be zero, on account of the acquisition of Nai Dunia.

## Investment View

- We include the financials of Nai Dunia into our estimates. The resultant change to EBITDA in FY13/FY14 is -2.5%/-1.1%. We note that we have assumed full taxation in our estimates as of now, for FY13/ FY14.

**Earning estimate**

| | Prior Est | | Revised Est | | % Chg. | |
|---|---|---|---|---|---|---|
| **Rs mn, FY Ends Mar** | **FY13** | **FY14** | **FY13** | **FY14** | **FY13** | **FY14** |
| Revenues | 14232 | 15745 | 15267 | 16964 | 7.3 | 7.7 |
| EBITDA | 3535 | 4101 | 3447 | 4057 | -2.5 | -1.1 |
| PAT | 1986 | 2297 | 1858 | 2212 | -6.4 | -3.7 |

*Source: Kotak Securities - Private Client Research*

- Jagran continues to hold its UP fort, and is displaying stronger trends than expected - we are especially impressed with the traction that the management says that Nai Dunia is gaining. We believe that although Jagran's earnings path may have become less predictable following the Nai Dunia acquisition, the acquisition can potentially be a significant long-term advantage for Jagran, if the company is able to manage a #2 position in the region (MP/ Chhattisgarh) with losses as low as the management claims it might have (Rs 100mn in FY13). A #2 position in some cities in MP can be a strong pre-emptive threat to DB Corp, against expanding aggressively in Jagran territories (UP, Bihar).

**We maintain BUY on Jagran Prakashan with a price target of Rs.110**

- Jagran Prakashan, along with other newspaper publishers, continues to be cheap. At 15.0x PER, and 4% dividend yield, the stock provides a relatively safe investment. We believe the company has also, with strong control on expenses, displayed that there is a case for high visibility in earnings of the company, even if advertising revenues grow at stall speed. We maintain **BUY** on Jagran Prakashan with a price target of Rs 110 (unchanged).

**Dainik Jagran - #1 daily of India**

| Top Indian Dailies, AIR, '000 | 2010Q1 | 2010Q2 | 2010Q3 | 2010Q4 | 2011Q1 | 2011Q2 | 2011Q3 | 2011Q4 | 2012Q1 |
|---|---|---|---|---|---|---|---|---|---|
| Dainik Jagran | 16315 | 15925 | 15950 | 16066 | 15910 | 16393 | 16458 | 16410 | 16412 |
| Dainik Bhaskar | 13330 | 13303 | 13488 | 13992 | 14016 | 14174 | 14876 | 14602 | 14553 |
| Hindustan | 9916 | 10143 | 10839 | 11452 | 11810 | 11985 | 12033 | 12045 | 12157 |
| Malayala Manorama (Daily) | 9582 | 9841 | 9927 | 9930 | 9938 | 9962 | 9912 | 9937 | 9875 |
| Amar Ujala | 8491 | 8417 | 8583 | 8640 | 8747 | 8891 | 8836 | 8842 | 8693 |
| Lokmat | 7360 | 7402 | 7809 | 7712 | 7486 | 7595 | 7438 | 7562 | 7485 |
| The Times Of India | 7032 | 7088 | 7254 | 7424 | 7442 | 7471 | 7467 | 7616 | 7652 |
| Daily Thanthi | 7354 | 7402 | 7245 | 7014 | 7187 | 7290 | 7447 | 7503 | 7477 |
| Rajasthan Patrika | 6682 | 6900 | 7217 | 7166 | 7033 | 6941 | 6918 | 6847 | 6807 |
| Mathrubhumi | 6696 | 6566 | 6678 | 6637 | 6800 | 6690 | 6630 | 6666 | 6600 |

*Source: Company*

## Dainik Jagran continues to lead in Uttar Pradesh, India's largest print market (advtg) for Hindi

| Publications | 2010Q1 | 2010Q2 | 2010Q3 | 2010Q4 | 2011Q1 | 2011Q2 | 2011Q3 | 2011Q4 | 2012Q1 |
|---|---|---|---|---|---|---|---|---|---|
| Dainik Jagran | 9067 | 8847 | 8945 | 8938 | 8815 | 9007 | 8981 | 8934 | 8852 |
| Amar Ujala | 6517 | 6525 | 6749 | 6831 | 6946 | 7055 | 7021 | 7021 | 6872 |
| Hindustan | 2599 | 2919 | 3189 | 3526 | 3676 | 3806 | 3884 | 3988 | 4080 |
| Aj | 618 | 637 | 681 | 729 | 746 | 768 | 690 | 692 | 634 |
| Rashtriya Sahara | 562 | 524 | 570 | 624 | 635 | 692 | 662 | 665 | 628 |

*Source: Company*

## Acquired Nai-Dunia has a significant presence in MP

| Publications | 2010Q1 | 2010Q2 | 2010Q3 | 2010Q4 | 2011Q1 | 2011Q2 | 2011Q3 | 2011Q4 | 2012Q1 |
|---|---|---|---|---|---|---|---|---|---|
| Dainik Bhaskar | 3226 | 3201 | 3357 | 3534 | 3730 | 3806 | 3881 | 3791 | 3761 |
| Patrika | 583 | 725 | 937 | 1080 | 1113 | 1251 | 1430 | 1627 | 1747 |
| Nai Dunia | 880 | 982 | 1081 | 1209 | 1285 | 1226 | 1213 | 1185 | 1211 |

*Source: Company*

**RESULT UPDATE**

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# ICICI BANK

**PRICE: RS.928** **RECOMMENDATION: BUY**
**TARGET PRICE: RS.1108** **FY13E P/E: 14.1X, P/ABV: 1.7X**

## Q1FY13 results: Stable quarter with healthy earnings

- NII came in at Rs.31.93 bn (32.4% YoY) ahead of our expectations on back of 21.6% loan growth along with 40bps YoY improvement in NIM to 3%. Net Income also came ahead of expectations (Rs.18.15 bn; 36.2% growth), largely driven by strong core performance along with only marginal rise in provisions (2.6% YoY).
- CASA mix remained healthy at 40.6%, which is key to the likely improvement in its future NIM; we are modeling NIM to come at 2.9% during FY13E/14E as compared to 2.73% achieved during FY12.
- Asset quality continued to improve - net NPA declined to 0.61% at the end of Q1FY13 from 0.91% at the end of Q1FY12 and 0.62% at the end of Q4FY12. In absolute terms, gross NPA and net NPA rose marginally QoQ (3.6% and 2.5%, respectively).
- Credit cost remained stable at 73bps in Q1FY13 as compared to FY12 (similar number); coverage ratio also stood a healthy level - 80.6% at the end of Q1FY13, providing cushion to its future earnings due to any unforeseen deterioration in its asset quality. Restructured book is marginally down to Rs.41.7 bn (Q1FY13; 1.6% of advances) as compared to Rs.42.6 bn (Q4FY12) due to sale of KFL account which was standard at the end of FY12.
- We believe, there is likelihood of limited impact on its earnings (0.6% of FY13E PBT), if RBI's working group recommendations on restructuring are implemented. We are factoring lower credit costs (72bps in FY13 as compared to 73bps in FY12 and 126bps in FY11) due to decline in delinquencies in last couple of quarters.
- We are modeling earnings to grow 18.5% CAGR during FY13-14E 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. We reiterate BUY on the stock with the unchanged TP of Rs.1108 using SOTP method, where the value of its standalone business comes to Rs.886 (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) | Q1FY13 | Q1FY12 | % Change |
|---|---|---|---|
| Int. on advances | 64,558 | 49,351 | 30.8 |
| Int. on investments | 27,019 | 22,510 | 20.0 |
| Int. on RBI/Other balances | 1,236 | 1,138 | 8.6 |
| **Other Interest** | **2,643** | **3,185** | **-17.0** |
| Total Interest earned | 95,457 | 76,185 | 25.3 |
| Interest expenses | 63,527 | 52,076 | 22.0 |
| **Net interest income** | **31,929** | **24,109** | **32.4** |
| Other income | 18,799 | 16,429 | 14.4 |
| Net Revenue (NII + Other income) | 50,729 | 40,538 | 25.1 |
| **Total operating expense** | **21,235** | **18,198** | **16.7** |
| Employee cost | 9,870 | 7,329 | 34.7 |
| Other operating exp | 11,365 | 10,869 | 4.6 |
| **Operating profit** | **29,493** | **22,340** | **32.0** |
| Provisions | 4,659 | 4,539 | 2.6 |
| Provision for Taxes | 7,365 | 5,270 | 39.8 |
| Deferred tax | -681 | -791 | NM |
| **Net profit** | **18,151** | **13,322** | **36.2** |
| **EPS (Rs.)** | **15.74** | **11.56** | **36.2** |

*Source: Company*

## NII grew 32.4% during Q1FY13, ahead of our expectations; net Income was also strong aided by only marginal rise in provisions.

NII came in at Rs.31.93 bn (32.4% YoY) ahead of our expectations on back of 21.6% loan growth along with 40bps YoY improvement in NIM to 3%. Net Income also came ahead of expectations (Rs.18.15 bn; 36.2% growth), largely driven by strong core performance along with only marginal rise in provisions (2.6% YoY).

Domestic loan book grew 17.2% YoY while international book grew 34.6% YoY (8.1% YoY excluding currency impact). Corporate book saw strong growth (28.4% YoY) while retail book grew at moderate pace (10.2% YoY) despite strong growth in its disbursements (Rs.78 bn during Q1FY13 including Rs.50 bn disbursement on account of home loans) on back of two factors - 1) Unsecured retail book continued to decline and 2) Prepayment in secured retail book (mortgages)

**Trend in loan book**

| | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 |
|---|---|---|---|---|---|---|---|---|---|
| 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 | 2,537.3 |
| Retail including CV | 763 | 781 | 790 | 837 | 827 | 819 | 824 | 901 | 912 |
| Corporate & Project Finance | 443 | 542 | 620 | 565 | 633 | 676 | 766 | 718 | 813 |
| Agriculture | 166 | 132 | 153 | 210 | 188 | 175 | 175 | 223 | 207 |
| International | 451 | 487 | 504 | 552 | 558 | 669 | 697 | 695 | 752 |

*Source: Company*

CASA mix remained healthy at 40.6%; we are modeling NIM to come at 2.9% during FY13E/14E 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 43.5% at the end of FY12. Although reported quarter ending CASA number has declined 290bps QoQ to 40.6% at the end of Q1FY13, average CASA mix has remained stable QoQ at 39.1% during Q1FY13.

**Trend in Deposit growth**

| | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 |
|---|---|---|---|---|---|---|---|---|
| Deposits (bn) | 2,230.9 | 2,177.5 | 2,256.0 | 2,306.8 | 2,450.9 | 2,605.9 | 2,555.0 | 2,677.9 |
| Saving deposits | 632.5 | 645.8 | 668.7 | 668.6 | 701.5 | 735.0 | 760.5 | 779.2 |
| Current deposits | 348.6 | 316.2 | 347.8 | 297.8 | 330.0 | 400.4 | 349.7 | 307.5 |
| CASA (Low Cost Deposits) | 981.1 | 962.0 | 1,016.5 | 966.4 | 1,031.5 | 1,135.4 | 1,110.2 | 1,086.8 |
| Term deposits | 1,249.9 | 1,215.5 | 1,239.6 | 1,340.4 | 1,419.5 | 1,470.5 | 1,444.8 | 1,591.2 |
| CASA (%) | 44.0% | 44.2% | 45.1% | 41.9% | 42.1% | 43.6% | 43.5% | 40.6% |

*Source: Company*

During Q1FY13, positive surprise came on NIM front which remained stable QoQ at 3.01% during Q1FY13, while it saw 40bps improvement YoY. Domestic NIM remained stable QoQ at 3.32% during Q1FY13, while overseas NIM improved marginally from 1.52% in Q4FY12 to 1.60% in Q1FY13.

We expect its NIM to improve marginally during FY13 as ~Rs.4.0 bn (annual impact) worth of credit losses on securitized book which was booked under the interest income line has run-off from current 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 FY13E/14E as compared to 2.73% achieved during FY12.

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

Asset quality continued to improve - net NPA declined to 0.61% at the end of Q1FY13 from 0.91% at the end of Q1FY12 and 0.62% at the end of Q4FY12. In absolute terms, gross NPA and net NPA rose marginally QoQ (3.6% and 2.5%, respectively).

Credit cost remained stable at 73bps in Q1FY13 as compared to FY12 (similar number); coverage ratio also stood a healthy level - 80.6% at the end of Q1FY13, providing cushion to its future earnings due to any unforeseen deterioration in its asset quality.

Restructured book is marginally down to Rs.41.7 bn (Q1FY13; 1.6% of advances) as compared to Rs.42.6 bn (Q4FY12) due to sale of KFL account which was standard at the end of FY12. ICICI bank added ~Rs.3.0 bn worth of new account to restructured kitty during Q1FY13. However, management has guided that current restructured portfolio is closer to its peak without much left in the current pipeline. However, current macro-environment could always spring some surprises.

We believe, there is likelihood of limited impact on its earnings (0.6% of FY13E PBT), if RBI's working group recommendations on restructuring are implemented. With easing credit costs, expanding CASA and curtailed operating expenses, RoA has improved to 1.5% in FY12 from 1.35% in FY11. We are factoring lower credit costs (72bps in FY13 as compared to 73bps in FY12 and 126bps in FY11) due to decline in delinquencies in last couple of quarters.

## Valuation and Recommendation

At the current market price of Rs.928, the stock is trading at 14.1x its FY13E earnings and 1.7x its FY13E ABV. We are modeling earnings to grow 18.5% CAGR during FY13-14E 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 | 886 |
| 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** | | | | **1,108** |

*Source: Kotak Securities - Private Client Research*

**We reiterate BUY on ICICI Bank with a price target of Rs.1108**

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.1108 using SOTP method, where the value of its standalone business comes to Rs.886 (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) | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|
| Interest income | 259.74 | 335.43 | 390.41 | 452.00 |
| Interest expense | 169.57 | 228.08 | 258.61 | 297.45 |
| **Net interest income** | **90.17** | **107.34** | **131.79** | **154.55** |
| Growth (%) | 11.1 | 19.0 | 22.8 | 17.3 |
| Other income | 66.48 | 75.03 | 79.38 | 91.76 |
| **Gross profit** | **90.48** | **103.86** | **119.64** | **139.57** |
| **Net profit** | **51.53** | **64.66** | **76.09** | **90.81** |
| Growth (%) | 28.0 | 25.5 | 17.7 | 19.3 |
| Gross NPA (%) | 4.6 | 3.7 | 3.4 | 3.3 |
| Net NPA (%) | 1.1 | 0.7 | 0.8 | 0.9 |
| Net interest margin (%) | 2.7 | 2.7 | 2.9 | 2.9 |
| CAR (%) | 19.5 | 18.5 | 19.0 | 17.6 |
| RoE (%) | 9.7 | 11.2 | 12.0 | 13.0 |
| RoA (%) | 1.3 | 1.5 | 1.5 | 1.6 |
| Dividend per share (Rs.) | 14.0 | 16.5 | 17.5 | 18.5 |
| **EPS (Rs)** | **45.5** | **56.1** | **66.0** | **78.8** |
| **Adjusted BVPS (Rs)** | **457.4** | **507.8** | **553.7** | **609.5** |
| **P/E (x)** | **20.4** | **16.5** | **14.1** | **11.8** |
| **P/ABV (x)** | **2.0** | **1.8** | **1.7** | **1.5** |

*Source: Kotak Securities - Private Client Research*

RESULT UPDATE

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# PUNJAB NATIONAL BANK

**PRICE: RS.715** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.736** **FY13 P/E: 5.1x, P/ABV: 1.0x**

## Q1FY13 results: Disappointment continues; still not out of woods

- **Although earnings came ahead of our expectations, pain in balance sheet continued to disappoint. NII came at Rs.36.95 bn (18.6% YoY), on back of strong loan growth (21.1% YoY; aided by low base) along with modest NIM improvement (10bps QoQ). Similarly, net income also came ahead of our expectations (Rs.12.46 bn; 12.7% YoY) on back of write-back of investment depreciation (Rs.1.05 bn write-back in Q1FY13 as against Rs.1.34 bn provided during Q1FY12).**
- **Asset quality remained a key drag - gross and net NPAs further slipped (14.5% QoQ / 10.4% QoQ) and now stand at 3.34% and 1.68%, respectively. Slippage remained at the elevated levels (3.76% on annualized basis) translating into higher credit costs (154bps) during Q1FY13.**
- **Restructured book continued to swell - Rs.12.4 bn were further added during Q1FY13, taking total cumulative restructured book to Rs.255.2 bn (8.7% of loan book), which is higher than the peers. We believe, this could impact the PNB's future earnings (~5% over next 2 years), if RBI's working group recommendations on restructuring are implemented.**
- **Loan book grew 21.2% YoY on back of strong growth in overseas segment (currency depreciation did play a major role!!); while domestic loan book grew 17.5%, marginally higher than the systemic growth. PNB's CASA ratio declined 250bps YoY (60bps QoQ) to 35.6% at the end of Q1FY13 on back of subdued current account floats. We are modeling loan growth to come at 18-19% during FY13-14E.**
- **Although PNB is currently trading near the lower end of its historical valuation band (1.0x FY13E ABV; 5.1x FY13E earnings), we believe, the near term outlook remains challenging for the stock on back of high share (~12% of loan book) of stressed assets (restructured book + gross NPA) along with relatively lower coverage ratio (62.8%). Hence, we downgrade the stock to REDUCE from ACCUMULATE earlier with reduced TP of Rs.736 (Rs.875 earlier) based on P/ABV of 1.0x its FY13E adjusted book value. We now advice our clients to remain cautious on the stock and look for better entry opportunity in the future.**

### Result Performance

| (Rs. mn) | Q1FY13 | Q1FY12 | YoY (%) |
|---|---|---|---|
| Interest on advances | 81,965 | 65,759 | 24.6 |
| Interest on Investment | 22,831 | 16,858 | 35.4 |
| Interest on RBI/ banks' balances | 544 | 337 | 61.5 |
| Other interest | 110 | 199 | -44.6 |
| **Total interest earned** | **1,05,450** | **83,153** | **26.8** |
| Interest Expended | 68,498 | 52,000 | 31.7 |
| Net interest income (NII) | 36,951 | 31,153 | 18.6 |
| Other income (Non-interest income) | 11,660 | 10,837 | 7.6 |
| Net Revenue (NII + Other income) | 48,611 | 41,990 | 15.8 |
| **Operating Expenses** | **20,203** | **17,250** | **17.1** |
| Payments to / Provisions for employees | 14,197 | 12,126 | 17.1 |
| Other operating expenses | 6,005 | 5,124 | 17.2 |
| **Operating profit** | **28,409** | **24,739** | **14.8** |
| Provisions & contingencies | 10,325 | 8,935 | 15.6 |
| Provision for taxes | 5,627 | 4,753 | 18.4 |
| **Net profit** | **12,457** | **11,051** | **12.7** |
| **EPS (Rs.)_** | **36.73** | **34.88** | **5.3** |

*Source: Company*

## P&L performance ahead of expectations; however, B/S pain to persists

Although earnings came ahead of our expectations, pain in balance sheet continued to disappoint. NII came at Rs.36.95 bn (18.6% YoY), on back of strong loan growth (21.1% YoY; aided by low base) along with modest NIM improvement (10bps QoQ). Similarly, net income also came ahead of our expectations (Rs.12.46 bn; 12.7% YoY) on back of write-back of investment depreciation (Rs.1.05 bn write-back in Q1FY13 as against Rs.1.34 bn provided during Q1FY12).

NIM improved 10bps QoQ to 3.60% during Q1FY13 (24bps decline YoY) due to 46bps improvement in yield on assets while cost of deposits rose only 18bps. Yield on advances rose on back of higher yield on Investment (28bps QoQ) along with change in asset mix.

We expect margin to decline further during next few quarters, as full impact of PNB's recent 25bps cut in base rate/BPLR during the end of April 12, could be fully observed only during Q2FY13. We are modeling NIM to come at 3.37%/3.22% during FY13E/14E as compared to 3.84% witnessed during FY12.

## Strong loan book growth aided by traction in overseas advances; core fee-based income growth continues to do well

Loan book grew 21.2% YoY on back of strong growth in overseas segment (currency depreciation did play a major role!!); while domestic loan book grew 17.5%, marginally higher than the systemic growth. PNB's CASA ratio declined 250bps YoY (60bps QoQ) to 35.6% at the end of Q1FY13 on back of subdued current account floats (decline of 2.5% YoY; decline of 9.7% QoQ). We are modeling loan growth to come at 18-19% while deposit is likely to grow 17-18% during FY13-14E.

Bank also has 22%+ bulk deposits which they have to bring to 15% levels by end of FY13, implying less likely of card rate to come down in order to mobilize deposits. PNB has to shed ~Rs170-200 bn worth of bulk deposits during next 3 quarters, to reach below 15% mark, as has been ask by the MoF.

**PNB needed to shed bulk deposits during next 3 Qr.**

| (Rs bn) | Dep (FY13) - @15% | Dep (FY13) - @18% | Dep (FY13) - @20% |
|---|---|---|---|
| Dep (FY12) - 3,796 | 4365 | 4479 | 4555 |
| Current bulk deposits | 854 | 854 | 854 |
| Required bulk deposits | 655 | 672 | 683 |
| Need to reduce during next 3 Qr | 199 | 182 | 171 |

*Source: Company, Kotak Securities - Private Client Research*

Overall non-interest income grew at moderate pace (7.8% YoY) during Q1FY13 on back of subdued recovery from W/O a/cs and lower dividend from the subsidiaries despite strong trading profit (83.3% YoY). Core fee-based income witnessed healthy growth of 18.6% due to healthy traction in commission/exchange/brokerage segments (11.4% YoY) along with strong growth in profit on exchange transactions (61.8% YoY).

**Trend in non-interest income**

| (Rs. bn) | 1Q2011 | 2Q2011 | 3Q2011 | 4Q2011 | 1Q2012 | 2Q2012 | 3Q2012 | 4Q2012 | 1Q2013 | Gr (YoY) |
|---|---|---|---|---|---|---|---|---|---|---|
| C/E/B | 4.7 | 4.4 | 4.1 | 4.7 | 6.0 | 4.8 | 5.1 | 6.1 | 6.7 | 11.4 |
| Profit on Exchange transaction | 1.1 | 0.3 | 1.3 | 1.1 | 1.3 | 1.3 | 1.5 | 1.6 | 2.1 | 61.8 |
| Miscellaneous fee income | 0.6 | 0.8 | 0.9 | 1.7 | 0.7 | 0.8 | 1.0 | 1.0 | 0.7 | -1.5 |
| Trading Profit | 1.2 | 0.4 | 0.9 | 0.5 | 0.5 | 0.5 | 0.9 | 1.6 | 0.9 | 83.3 |
| Others | 1.4 | 1.4 | 1.4 | 3.4 | 2.4 | 1.5 | 1.0 | 2.5 | 1.4 | -43.3 |
| Total non-interest income | 8.7 | 7.2 | 8.6 | 11.5 | 10.8 | 8.9 | 9.5 | 12.7 | 10.8 | 7.8 |

*Source: Company*

## Asset quality remained a key drag - slippage remained at the elevated levels 3.76% (annualized). Cumulative restructured book stands at Rs.255.2 bn (8.7% of loan book), a potential risk, in our view.

Asset quality remained a key drag - gross and net NPAs further slipped (14.5% QoQ / 10.4% QoQ) and now stand at 3.34% and 1.68%, respectively at the end of Q1FY13. Slippage remained at the elevated levels (Rs.27.7 bn; 3.76% on annualized basis), similar to Rs.28.2 bn (4.66% on annualized basis) witnessed during Q4FY12, translating into higher credit costs (154bps) during Q1FY13.

**Trend in NPAs**

| | Q1FY11 | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 |
|---|---|---|---|---|---|---|---|---|---|
| Gross NPA (Rs. bn) | 36.1 | 40.3 | 45.4 | 43.8 | 48.9 | 51.5 | 64.4 | 87.2 | 99.9 |
| % of Net NPA | 1.82 | 1.91 | 2.03 | 1.79 | 2.00 | 2.05 | 2.42 | 2.93 | 3.34 |
| Net NPA (Rs. bn) | 12.8 | 14.3 | 15.8 | 20.4 | 20.9 | 20.9 | 29.0 | 44.5 | 49.2 |
| % of Net NPA | 0.66 | 0.69 | 0.72 | 0.85 | 0.86 | 0.84 | 1.11 | 1.52 | 1.68 |

*Source: Company*

Restructured book continued to swell - Rs.12.4 bn were further added during Q1FY13, taking total cumulative restructured book to Rs.255.2 bn (8.7% of loan book), which is higher than the peers. PNB has almost completed the restructuring of discoms - out of Rs.83.0 bn of SEB exposure (Q1FY13), Rs.72.7 bn has already been restructured (87.6%), implying lower risk arising in terms of addition to restructured portfolio.

**Break-up of Restructured Portfolio**

| (Rs bn) | Q4FY12 | Share | Q1FY13 | Share |
|---|---|---|---|---|
| Infrastructure | 84.9 | 33.9% | 91.2 | 35.7% |
| Power | 70.9 | 28.3% | 72.7 | 28.5% |
| Telecom | 9.4 | 3.7% | 10.5 | 4.1% |
| Iron & Steel | 21.3 | 8.5% | 21.3 | 8.4% |
| Aviation | 29.9 | 12.0% | 29.9 | 11.7% |
| Drilling | 16.6 | 6.6% | 16.6 | 6.5% |
| Textiles | 14.2 | 5.7% | 14.2 | 5.6% |
| Hotels | 7.3 | 2.9% | 7.7 | 3.0% |
| Sugar | 7.5 | 3.0% | 7.5 | 2.9% |
| Education | 5.8 | 2.3% | 7.0 | 2.7% |
| Paper / Printing | 5.2 | 2.1% | 5.2 | 2.0% |

*Source: Company*

However, potential risk lies in terms of higher credit costs, going forward. As most of the restructured portfolio (SEBs: Rs.72.7 bn, Air India:Rs.27.0 bn etc) are sticky in nature, they will remain as a part of PNB's restructured portfolio. We believe, this could impact the PNB's future earnings (~5% over next 2 years), if RBI's working group recommendations on restructuring are implemented.

Decline in PCR over last couple of quarters which is now touching almost 63% mark, does not bode well for the stock (used to enjoy ~90% provision coverage ratio only 9-10 quarters back).

## Valuation & recommendation

Although PNB is currently trading near the lower end of its historical valuation bands (1.0x FY13E ABV; 5.1x FY13E earnings), we believe, the near term outlook remains challenging for the stock on back of high share (~12% of loan book) of stressed assets (restructured book + gross NPA) along with relatively lower coverage ratio (62.8%).

We cut the earnings estimate by ~15% for FY13E to take into account higher credit costs (155bps in FY13 as against 138bps in FY12) and now expect net Income to grow at 6.9% CAGR during FY12-14E. We also expect its return ratios to come-off from the highs seen during FY09-11 - RoE and RoA are likely to come at ~16%/ 1.0% during FY13-14E as compared to ~24%/1.4%, reported during FY09-11.

**We recommend REDUCE on Punjab National Bank with a price target of Rs.736**

Hence, we downgrade the stock to **REDUCE** from ACCUMULATE earlier with reduced TP of Rs.736 (Rs.875 earlier) based on P/ABV of 1.0x its FY13E adjusted book value. We now advice our clients to remain cautious on the stock and look for better entry opportunity in the future.

### Key Data

| (Rs bn) | 2011 | 2012 | 2013E | 2014E |
|---|---|---|---|---|
| Interest income | 269.9 | 364.3 | 436.0 | 505.5 |
| Interest expense | 151.8 | 230.1 | 284.8 | 333.6 |
| **Net interest income** | **118.1** | **134.1** | **151.3** | **171.9** |
| Growth (%) | 39.3 | 13.6 | 12.8 | 13.7 |
| | | | | |
| Other income | 36.1 | 42.0 | 48.6 | 56.5 |
| Gross profit | 90.6 | 106.1 | 117.8 | 135.2 |
| **Net profit** | **44.3** | **48.8** | **47.6** | **55.8** |
| Growth (%) | 13.5 | 10.2 | -2.5 | 17.3 |
| | | | | |
| Gross NPA (%) | 1.8 | 2.9 | 3.5 | 3.7 |
| Net NPA (%) | 0.9 | 1.5 | 1.5 | 1.3 |
| Net int. margin (%) | 3.9 | 3.6 | 3.3 | 3.2 |
| CAR (%) | 12.4 | 12.6 | 11.1 | 10.8 |
| **RoE (%)** | **23.0** | **20.1** | **16.2** | **16.6** |
| RoA (%) | 1.3 | 1.2 | 1.0 | 1.0 |
| Dividend per share (Rs) | 22.0 | 22.0 | 24.0 | 24.0 |
| | | | | |
| **EPS (Rs)** | **139.9** | **144.0** | **140.4** | **164.6** |
| **Adjusted BVPS (Rs)** | **554.9** | **646.1** | **735.7** | **874.3** |
| | | | | |
| **P/E (x)** | **5.1** | **5.0** | **5.1** | **4.3** |
| **P/ABV (x)** | **1.3** | **1.1** | **1.0** | **0.8** |

*Source: Company, Kotak Securities - Private Client Research*

**RESULT UPDATE**

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# UNION BANK OF INDIA

**PRICE: RS.164** **RECOMMENDATION: REDUCE**
**TARGET PRICE: RS.175** **FY13E P/E: 4.9x; P/ABV: 0.9x**

## Q1FY13 Results: Washout Quarter

- Net interest income (NII) came largely in line with our expectations (Rs.18.22 bn; 14.6% YoY) during Q1FY13 on back of 19.5% growth in loan book while NIM declined 9bps YoY (25bps decline QoQ). Net profit came slightly lower than our expectations (Rs.5.1 bn; 10.2% YoY) on back of lower trading profit (decline of 20.3% YoY).
- Asset quality remained a key drag - gross and net NPAs further slipped (20.0% QoQ / 23.9% QoQ) and now stand at 3.76% and 2.20%, respectively, at the end of Q1FY13. Slippage came at Rs.16.31 bn (3.6% on annualized basis), translating into higher credit costs (104bps) during Q1FY13 (164bps in FY12).
- Rs.16.4 bn were added (includes one SEB) to restructure portfolio during Q1FY13, taking total cumulative restructured book to Rs.135.2 bn (7.8% of loan book), which is higher than the peers. We believe higher slippage (3.6% on annualized basis) during Q1FY13 along with lower coverage levels (~43%), imply lower cushion to its future earnings with any unforeseen deterioration in the asset quality. The recent recommendation of RBI's working group on restructuring, if implemented, could impact ~7% of PBT over next two years.
- We have cut the earnings estimate to factor in higher credit costs during FY13E/14E (142bps and 136 bps, respectively) and now expect net Income to grow at 8.5% CAGR during FY12-14E. We also expect its return ratios to come-off from the average seen during FY08-11 - RoE and RoA are likely to come at ~14%/0.6% during FY13-14E as compared to an average of ~23%/1.2%, reported during FY08-11.
- At the CMP of Rs.164, the stock is trading at 4.6x its FY13E earnings and 0.9x its FY13E ABV. Near-term outlook remains challenging for the stock on back of high share (~11.5% of loan book) of stressed assets (restructured book + gross NPA) along with relatively lower coverage ratio (42.7% excluding technical W/O). Hence, we downgrade the stock to REDUCE from ACCUMULATE earlier with reduced TP of Rs.175 (Rs.240 earlier) based on P/ABV of 0.95x its FY13E adjusted book value.

### Result Performance

| (Rs mn) | Q1FY13 | Q1FY12 | YoY (%) |
|---|---|---|---|
| Interest on advances | 47292.3 | 37541.7 | 26.0 |
| Interest on Investment | 12656.9 | 10634.0 | 19.0 |
| Interest on RBI/ banks' balances | 529.2 | 754.9 | -29.9 |
| Other interest | 220.6 | 226.6 | -2.6 |
| **Total Interest earned** | **60699.0** | **49157.2** | **23.5** |
| Interest expenses | 42481.7 | 33255.1 | 27.7 |
| **Net interest income** | **18217.3** | **15902.1** | **14.6** |
| Other income | 4912.0 | 4839.6 | 1.5 |
| **Net Revenue (NII + Other income)** | **23129.3** | **20741.7** | **11.5** |
| Operating Expenses | 10458.7 | 9083.7 | 15.1 |
| Payments to / Provisions for employees | 6794.6 | 5917.8 | 14.8 |
| Other operating expenses | 3664.1 | 3165.9 | 15.7 |
| **Operating profit** | **12670.6** | **11658.0** | **8.7** |
| Provisions & contingencies | 5184.7 | 4283.8 | 21.0 |
| Provision for taxes | 2370.0 | 2730.0 | -13.2 |
| **Net profit** | **5115.9** | **4644.2** | **10.2** |
| **EPS (Rs.)** | **9.29** | **8.86** | **4.9** |

*Source: Company*

### NII largely in line with our expectations; however, net profit came slightly lower on back of lower trading profit.

Net interest income (NII) came largely in line with our expectations (Rs.18.22 bn; 14.6% YoY) during Q1FY13 on back of 19.5% growth in loan book while NIM declined 9bps YoY (25bps decline QoQ).

NIM declined both YoY as well as QoQ by 9bps/25bps; cost of funds remained stable QoQ at 6.54% in Q1FY13, while yield on assets decline 37bps QoQ to 9.34% in Q1FY13. NIM during Q4FY12 was also higher than the normalized number as bank had ramped up its LDR (loan deposit ratio) to 81.2%, which is anyway not sustainable. We are modeling NIM at 3.0%/2.9% during FY13/FY14 as compared to 3.21% witnessed during FY12.

Net profit came slightly lower than our expectations (Rs.5.1 bn; 10.2% YoY) on back of lower trading profit (decline of 20.3% YoY).

### Moderate business growth; LDR improved YoY but declined QoQ from 81%+ levels in FY12, as it was not sustainable.

Slow growth in deposit mobilization (11.5% YoY) impacted the overall business growth (14.9% YoY). Deposit growth was impacted by the slower CASA mobilization. Despite growth in term deposits at low teens (12.4%), CASA share declined 33bps QoQ, which is not very encouraging.

Gross advances grew 19.5% YoY (decline of 3.9% QoQ) to Rs.1739.1 bn at the end of Q1FY13. Faster YoY growth in loan book vis-à-vis deposit led to improvement in LDR from 73.1 % at the end of Q1FY12 to 78.3% at the end of Q1FY13.

### Slippage came at 3.6% (on annualized basis); Near-term outlook remains challenging for the stock on back of high share (~11.5% of loan book) of stressed assets (restructured book + gross NPA).

Asset quality remained a key drag - gross and net NPAs further slipped (20.0% QoQ / 23.9% QoQ) and now stand at 3.76% and 2.20%, respectively, at the end of Q1FY13. Slippage came at Rs.16.31 bn (3.6% on annualized basis), translating into higher credit costs (104bps) during Q1FY13 (164bps in FY12).

Rs.16.4 bn were added (includes one SEB) to restructure portfolio during Q1FY13, taking total cumulative restructured book to Rs.135.2 bn (7.8% of loan book), which is higher than the peers. Near-term outlook remains challenging for the stock on back of high share (~11.5% of loan book) of stressed assets (restructured book + gross NPA), which is on the higher side vis-à-vis its peers.

We believe higher slippage (3.6% on annualized basis) during Q1FY13 along with lower coverage levels (~43%), imply lower cushion to its future earnings with any unforeseen deterioration in the asset quality. The recent recommendation of RBI's working group on restructuring, if implemented, could impact ~7% of PBT over next two years.

### Valuation & recommendation

We have cut the earnings estimate to factor in higher credit costs during FY13E/14E (142bps and 136 bps, respectively) and now expect net Income to grow at 8.5% CAGR during FY12-14E. We also expect its return ratios to come-off from the average seen during FY08-11 - RoE and RoA are likely to come at ~14%/0.6% during FY13-14E as compared to an average of ~23%/1.2%, reported during FY08-11.

**We recommend REDUCE on Union Bank of India with a price target of Rs.175**

At the CMP of Rs.164, the stock is trading at 4.6x its FY13E earnings and 0.9x its FY13E ABV. Near-term outlook remains challenging for the stock on back of high share (~11.5% of loan book) of stressed assets (restructured book + gross NPA) along with relatively lower coverage ratio (42.7% excluding technical W/O). Hence, we downgrade the stock to **REDUCE** from ACCUMULATE earlier with reduced TP of Rs.175 (Rs.240 earlier) based on P/ABV of 0.95x its FY13E adjusted book value.

## Key data

| Rs bn | FY11 | FY12 | FY13E | FY14E |
|---|---|---|---|---|
| Interest income | 164.5 | 211.4 | 244.9 | 278.4 |
| Interest expense | 102.4 | 142.4 | 170.1 | 194.1 |
| **Net interest income** | **62.2** | **69.1** | **74.8** | **84.3** |
| Growth (%) | 48.3 | 11.1 | 8.3 | 12.7 |
| Other income | 20.4 | 23.3 | 24.1 | 27.3 |
| **Gross profit** | **43.0** | **52.5** | **54.3** | **61.4** |
| **Net profit** | **20.8** | **17.9** | **18.3** | **21.0** |
| Growth (%) | 0.2 | -14.1 | 2.6 | 14.8 |
| Gross NPA (%) | 2.4 | 3.0 | 3.4 | 3.4 |
| Net NPA (%) | 1.2 | 1.7 | 2.0 | 1.9 |
| Net interest margin (%) | 3.3 | 3.2 | 3.0 | 2.9 |
| CAR (%) | 13.0 | 11.9 | 11.5 | 11.3 |
| RoE (%) | 18.9 | 14.8 | 13.5 | 14.1 |
| RoA (%) | 1.0 | 0.7 | 0.6 | 0.6 |
| Dividend per share (Rs) | 8.0 | 8.0 | 10.0 | 10.0 |
| **EPS (Rs)** | **39.7** | **32.5** | **33.3** | **38.2** |
| **Adjusted BVPS (Rs)** | **179.0** | **181.0** | **182.5** | **200.8** |
| **P/E (x)** | **4.1** | **5.1** | **4.9** | **4.3** |
| **P/ABV (x)** | **0.9** | **0.9** | **0.9** | **0.8** |

*Source: Company, Kotak Securities - Private Client Research*

# Bulk deals

## Trade details of bulk deals

| Date | Scrip name | Name of client | Buy/ Sell | Quantity of shares | Avg. price (Rs) |
|---|---|---|---|---|---|
| 27-Jul | 7seas Tech | Meenu JainbhanshaliTop of Form | S | 102,510 | 33.8 |
| 27-Jul | Acclaim Ind | Abhishek Mehta | S | 77,139 | 35.8 |
| 27-Jul | Bedmutha Inds | Sanjibani Barter Pvt Ltd | B | 158,157 | 12.6 |
| 27-Jul | Bedmutha Inds | Aristro Capital Markets Pvt Ltd | S | 160,000 | 12.6 |
| 27-Jul | Exelon Infra | Avani Kaushik Kanakia | B | 80,000 | 8.0 |
| 27-Jul | Finalysis Cred | Pravin Ravabhai Rabari | B | 40,000 | 64.9 |
| 27-Jul | Finalysis Cred | Shah Mayurkumar Dhirajlal | S | 40,000 | 64.9 |
| 27-Jul | Gujarat Narm Fly | G F L Financials India Limited | B | 54,194 | 40.7 |
| 27-Jul | Gujarat Narm Fly | Goyal Financials (India) Limited | B | 50,100 | 41.0 |
| 27-Jul | Minolta Fin | Shri Krishna Bhatter | S | 105,712 | 9.2 |
| 27-Jul | Minolta Fin | Geeta Rajesh Rawlani | B | 54,923 | 9.2 |
| 27-Jul | NHC Foods | Pankaj Ganjoo | B | 20,000 | 21.0 |
| 27-Jul | NHC Foods | Jamson Securities Pvt Ltd | B | 150,000 | 20.9 |
| 27-Jul | NHC Foods | Apoorva Shah | S | 165,000 | 20.8 |
| 27-Jul | NHC Foods | Mustafa Hussaini Sayed | B | 26,000 | 20.7 |
| 27-Jul | Rammaica India | Thanga Manikandan P | S | 93,000 | 12.9 |
| 27-Jul | Rammaica India | Shaym Agarwal Huf | B | 17,000 | 12.9 |
| 27-Jul | Shalibhadra Fin | Shah Anilbhai Naginlal | S | 46,400 | 56.6 |
| 27-Jul | Subex | Elara Capital Plc (Fccb) | S | 1,500,000 | 16.3 |
| 27-Jul | Vision Tech | Srinivas Karrothi | S | 148,990 | 8.1 |

*Source: BSE*

## Gainers & Losers

### Nifty Gainers & Losers

| | Price (Rs) | chg (%) | Index points | Volume (mn) |
|---|---|---|---|---|
| **Gainers** | | | | |
| HDFC Bank | 585 | 3.3 | 10.9 | 3.4 |
| ITC Ltd | 255 | 2.2 | 9.5 | 6.4 |
| ICICI Bank | 928 | 2.4 | 7.9 | 7.1 |
| **Losers** | | | | |
| SBI | 1,941 | (3.8) | (6.3) | 4.2 |
| PNB | 715 | (5.4) | (1.8) | 3.4 |
| Kotak Mahindra Bank | 530 | (2.2) | (1.4) | 1.4 |

*Source: Bloomberg*


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