



## Economy News

- ▶ Differing sharply with the Commerce and Industry Ministry, the Mines Ministry favours export of all types of iron ore. It is also against canalising exports of high-grade iron ore through the State-run MMTC. (BL)
- ▶ As a positive signal for carmakers at the start of 2012, sales in January have shown a growth on an annual basis. Maruti Suzuki, after seven straight months of decline, posted a one per cent rise in sales, while all other major players posted double-digit growth. (BL)
- ▶ The HSBC PMI on Wednesday validated government optimism that the economy would start looking up from January. The index for manufacturing stood at 57.5 points in Jan, up from 54.2 in Dec, the highest since May 2011. It grew 6.08% in Jan sequentially, the highest rise since April 2009. (BS)
- ▶ The government is likely to put on hold its plan to transfer the underlying assets of the Special Undertaking of UTI (SUUTI) to an AMC and instead raise money by selling shares in state-run firms through a new auction method approved recently by SEBI. (ET)
- ▶ The country's sugar industry hopes a high-level committee instituted by the government to look into the crucial issue of decontrol in the sector will not become yet another exercise of a recommendatory nature. It is looking forward to prompt implementation of the recommendations in a future report by the panel headed by C Rangarajan, chairman of the PM's Economic Advisory Council. (BS)
- ▶ RBI sees a need to cap the total public debt as a proportion of the GDP, considering that excessive government borrowing could hamper the nation's long-term growth, its governor Mr. Subbarao said on Wednesday. (ET)

## Corporate News

- ▶ **ICICI Bank** is likely to restructure Rs 13bn of loans in the current Jan-Mar quarter. Key accounts expected to be part of the exercise include those of **GTL** and **3i Infotech**. The bank's net restructured loan portfolio was estimated at Rs 30.7bn as of Dec 31. (BS)
- ▶ **Binani Industries Limited** has acquired 3B, a Belgian fibreglass major, for euro 275 million. This is the third such global acquisition of the group in six years. Last year, the group acquired US-based composite maker CPI Inc. (ET)
- ▶ **Indian Oil Corporation** may have to pay Rs 9.79bn to the Uttar Pradesh Government in the next two weeks as the unpaid entry tax. This follows a Supreme Court directive to the company. "The matter is also being examined legally for further course of action," the company said. (BL)
- ▶ **SBI** has said interest rates may ease before the central bank reduces the policy rates, as higher rates have started hurting the industry. (BS)
- ▶ The Centre for Science and Environment (CSE) has alleged that **Lanco Infratech** flouted rules in bagging projects under the National Solar Mission, a charge refuted by the diversified group. It has alleged that Lanco created front companies and got about nine solar power projects having a total capacity of 235 MW. This is about 40% of the 620 MW worth of projects auctioned by the government. (BL)
- ▶ The committee of secretaries, led by the PM's principal secretary Pulok Chatterji, is understood to have recommended that state-run **Coal India** should step up supplies and face penalties if it fails to provide 80% of coal allocated to a power plant. (ET)

### Equity

	% Chg			
	1 Feb 12	1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	17,301	0.6	11.5	(0.9)
NIFTY Index	5,236	0.7	12.9	(0.4)
BANKEX Index	11,428	0.3	24.5	1.7
BSET Index	5,771	(0.1)	(0.9)	(0.0)
BSETCG INDEX	10,096	2.3	24.6	(6.7)
BSEOIL INDEX	8,561	0.7	12.2	(4.4)
CNXMcap Index	7,188	1.2	17.9	(0.5)
BSESMCAP INDEX	6,574	1.7	18.3	(5.2)
<b>World Indices</b>				
Dow Jones	12,716	0.7	4.1	7.4
Nasdaq	2,848	1.2	9.3	7.9
FTSE	5,791	1.9	3.9	5.6
NIKKEI	8,810	0.1	5.0	2.8
HANGSENG	20,333	(0.3)	11.8	4.5

### Value traded (Rs cr)

	1 Feb 12	% Chg - Day
Cash BSE	4,788	73.7
Cash NSE	16,815	22.8
Derivatives	96,832	11.2

### Net inflows (Rs cr)

	31 Jan 12	% Chg	MTD	YTD
FII	645	(910.3)	11,090	11,090
Mutual Fund	97	(129.3)	(1,847)	(1,847)

### FII open interest (Rs cr)

	31 Jan 12	% Chg
FII Index Futures	11,606	(1.0)
FII Index Options	32,543	3.8
FII Stock Futures	27,105	1.7
FII Stock Options	1,050	5.4

### Advances / Declines (BSE)

	1 Feb 12	A	B	T	Total	% total
Advances	143	1,400	324	1,867	63	
Declines	61	655	262	978	33	
Unchanged	1	72	40	113	4	

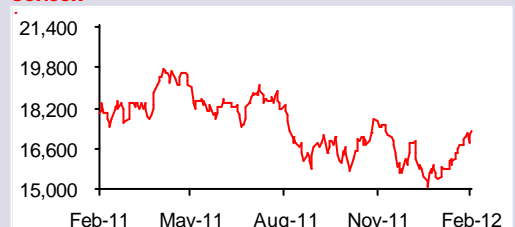
### Commodity

	% Chg			
	1 Feb 12	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	97.6	(0.1)	(1.3)	5.5
Gold (US\$/OZ)	1,745.2	0.8	11.7	1.1
Silver (US\$/OZ)	33.8	1.9	21.3	(0.8)

### Debt / forex market

	1 Feb 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.14	8.27	8.56	8.94
Re/US\$	49.3	49.5	53.3	49.3

### Sensex



## AUTO INDUSTRY UPDATE

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## AUTO INDUSTRY VOLUME UPDATE - JANUARY 2012

In January 2012, most of the OEM's posted recovery in volumes over December 2011. Except for Maruti Suzuki whose numbers came in ahead of expectations, other auto players reported volumes on expected lines. Dispatches remained strong for Maruti Suzuki, Tata Motors and M&M (auto segment). 2W volumes continue to remain weak with both TVS Motors and Hero MotoCorp reporting relatively subdued dispatch figures. In the near term, we expect volumes to remain under pressure. However our outlook for the medium to long term remains positive on the back of expected lowering of interest rates and improvement in macro environment.

### Summary - January 2012 volumes (Nos)

	Jan 2011	Dec 2011	Jan 2012	YoY gth (%)	MoM gth (%)	YTD FY11	YTD FY12	Growth (%)
<b>Hero MotoCorp</b>								
2W	466,524	540,276	520,272	12	(4)	4,414,537	5,183,450	17
<b>TVS Motor</b>								
Scooters	40,736	44,804	41,469	2	(7)	383,274	453,007	18
Motorcycles	67,721	54,686	65,608	(3)	20	685,717	710,349	4
Mopeds	53,268	66,439	63,945	20	(4)	577,836	643,683	11
<b>Total sales</b>	<b>161,725</b>	<b>165,929</b>	<b>171,022</b>	<b>6</b>	<b>3</b>	<b>1,646,827</b>	<b>1,807,039</b>	<b>10</b>
Exports	19,498	21,158	18,008	(8)	(15)	183,396	227,137	24
<b>Maruti Suzuki</b>								
A1&A2 (M-800, Alto, Wagon-R, Estilo, Ritz, Swift, A-Star)								
	74,355	59,246	77,792	5	31	678,860	569,401	(16)
A3 (SX4, D'zire)								
	11,930	10,032	10,576	(11)	5	104,348	93,057	(11)
A4 (Kizashi)								
	10	51	9	(10)	(82)	10	396	-
MUV (Grand Vitara, Gypsy)								
	192	238	231	20	(3)	4,890	4,765	(3)
C (OMNI, Eeco)								
	13,945	7,908	12,439	(11)	57	132,674	118,320	(11)
Total Domestic	100,432	77,475	101,047	1	30	920,782	785,939	(15)
Export	9,321	14,686	14,386	54	(2)	116,636	102,855	(12)
<b>Total Sales</b>	<b>109,753</b>	<b>92,161</b>	<b>115,433</b>	<b>5</b>	<b>25</b>	<b>1,037,418</b>	<b>888,794</b>	<b>(14)</b>
<b>M&amp;M</b>								
Passenger Vehicles (incl. Verito)	17,208	19,341	19,975	16	3	146,455	176,522	21
4W Commercial	10,193	13,757	13,725	35	(0)	84,165	124,455	48
3W	6,177	5,744	6,126	(1)	7	50,648	57,240	13
MNAL	1,023	1,049	1,543	51	47	9,298	11,049	19
Total Domestic	34,601	39,891	41,369	20	4	290,566	369,266	27
Export	2,117	2,870	3,349	58	17	15,597	23,892	53
<b>Total Sales</b>	<b>36,718</b>	<b>42,761</b>	<b>44,718</b>	<b>22</b>	<b>5</b>	<b>306,163</b>	<b>393,158</b>	<b>28</b>
Tractors	20,499	16,389	19,354	(6)	18	174,764	202,723	16
<b>Tata Motors</b>								
M&HCV	16,487	18,247	18,338	11	0	151,097	165,708	10
LCV	23,776	29,500	27,375	15	(7)	204,742	254,663	24
Utility	4,462	5,255	6,140	38	17	32,823	42,028	28
Cars	25,750	23,661	28,529	11	21	206,089	199,539	(3)
Total Domestic	70,475	76,663	80,382	14	5	594,751	661,938	11
Export	4,948	5,615	7,083	43	26	47,608	52,108	9
<b>Total Sales</b>	<b>75,423</b>	<b>82,278</b>	<b>87,465</b>	<b>16</b>	<b>6</b>	<b>642,359</b>	<b>714,046</b>	<b>11</b>

Source: Companies

## HERO MOTOCORP (HMCL)

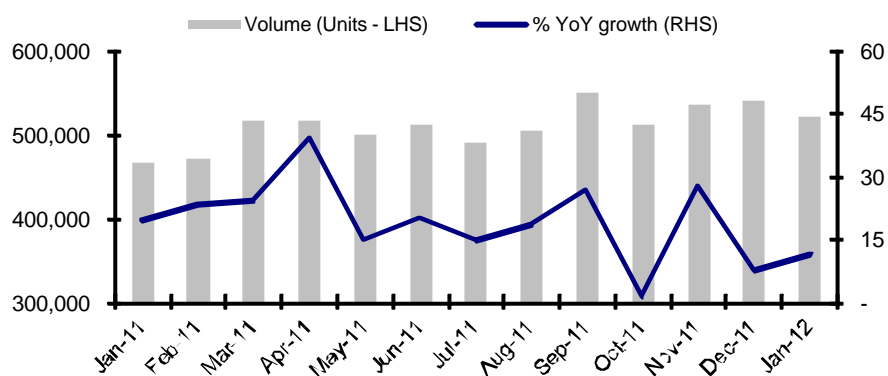
### Hero MotoCorp - sales volume (Nos)

	Jan 2011	Dec 2011	Jan 2012	YoY gth (%)	MoM gth (%)	YTD FY11	YTD FY12	Growth (%)
2W	466,524	540,276	520,272	11.5	(3.7)	4,414,537	5,183,450	17.4

Source: Company

- HMC's January volumes came in on expected lines. As expected the company's volume declined MoM on back of subdued 2 wheeler demand.
- Volumes in January 2012 stood at 520,272 units against 466,524 units reported during January 2011 resulting in a growth of 12%.
- Overall demand scenario for two wheeler's in the domestic market has deteriorated in the past few months. We do not expect any significant recovery in the near term.
- HMC is expected to launch 110cc Passion X Pro, 110cc scooter - Maestro and 125cc motorcycle - Ignitor over the next few months.
- Company's YTD volume growth stands at 17.4% as against our full year expectation of 15.7% growth in volumes. For FY13, we expect the company's volumes to grow by 12%.

### HHML - 2W sales volume



Source: Company

# TVS MOTORS (TVSM)

## TVS Motors - sales volume (Nos)

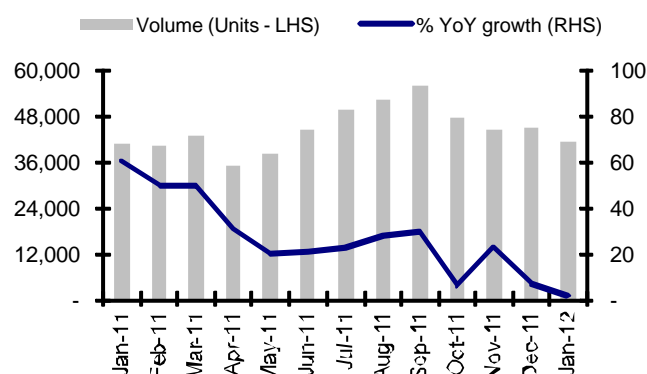
	Jan 2011	Dec 2011	Jan 2012	YoY gth (%)	MoM gth (%)	YTD FY11	YTD FY12	Growth (%)
Scooters	40,736	44,804	41,469	1.8	(7.4)	383,274	453,007	18.2
Motorcycles	67,721	54,686	65,608	(3.1)	20.0	685,717	710,349	3.6
Mopeds	53,268	66,439	63,945	20.0	(3.8)	577,836	643,683	11.4
<b>Total sales</b>	<b>161,725</b>	<b>165,929</b>	<b>171,022</b>	<b>5.7</b>	<b>3.1</b>	<b>1,646,827</b>	<b>1,807,039</b>	<b>9.7</b>
Exports	19,498	21,158	18,008	(7.6)	(14.9)	183,396	227,137	23.9

Source: Company

- TVSM's January 2012 dispatch figures reflected the somber mood for 2 wheeler's in the domestic market. Company's volumes remained in line with our 4QFY12 expectation of ~175,000 units monthly run-rate.
- TVS dispatched 173,242 units in January 2011, a 5% growth over January 2011 volumes of 165,152 units. Sequentially, volumes improved by 3% helped by recovery in motorcycle segment that witnessed a dip in December 2011.
- Scooters sales grew by 2% YoY that is much lower than the strong 20% plus growth reported during 1HFY12. Reasons for that include 1.Honda increasing production of Activa 2.Higher base effect and 3.Overall worsening sentiment for 2W's.

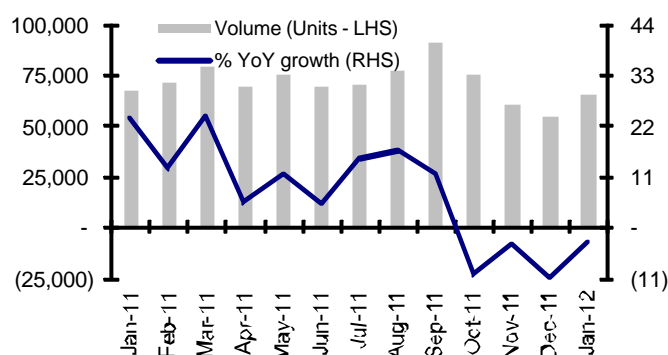
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### Scooters sales volume trend



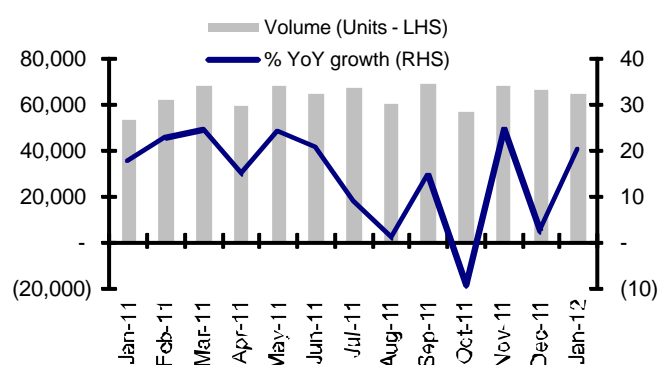
Source: Company

### Motorcycles sales volume trend



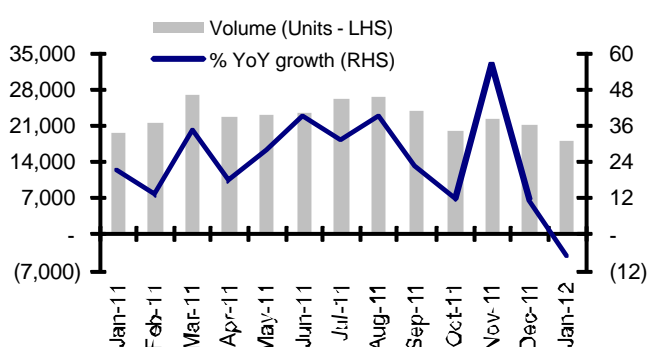
Source: Company

### Mopeds sales volume trend



Source: Company

### Exports sales volume trend



Source: Company

- Motorcycle sales in January 2012 reported some recovery after posting poor numbers in December 2011. While motorcycle volumes were down by 3% YoY, the same improved 20% over December 2011.
- Mopeds volumes during the month jumped by 20% over poor January 2011 base. However, the performance of the company in this segment has been much stable as compared to other segments.
- After a strong performance in 1HFY12, export volumes have been relatively turning weak. During January 2012 exports declined by 8% YoY to 18,008 units.
- 3W volumes continued with its weak performance in January 2012. 3W volumes at 2,402 units were down over January 2011 volumes of 3,427 units. Delay in release of new permits by the government is leading to poor performance in this segment.
- After experiencing a strong performance in 1HFY12, slowdown in 2W demand has led steep drop in the performance in the recent months. We expect the company's volumes to remain weak in the near term.
- Company has planned some new launches/refreshes over the next one year and that should provide some support to volume growth in the medium term.

# MARUTI SUZUKI INDIA LIMITED (MSIL)

## MSIL - sales volume (Nos)

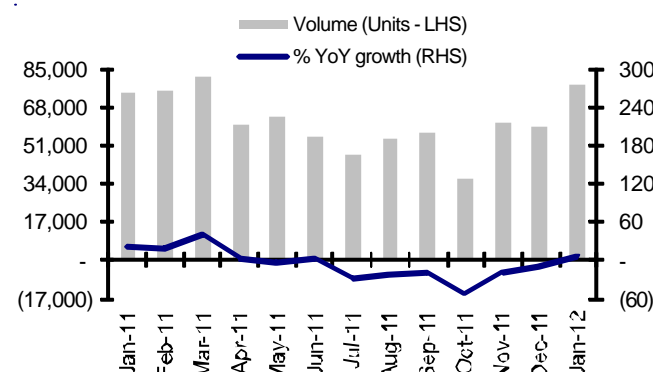
	Jan 2011	Dec 2011	Jan 2012	YoY gth (%)	MoM gth (%)	YTD FY11	YTD FY12	Growth (%)
A1&A2 (M-800, Alto, Wagon-R, Estilo, Ritz, Swift, A-Star)	74,355	59,246	77,792	4.6	31.3	678,860	569,401	(16.1)
A3 (SX4, D'zire)	11,930	10,032	10,576	(11.3)	5.4	104,348	93,057	(10.8)
A4 (Kizashi)	10	51	9	(10.0)	(82.4)	10	396	-
MUV (Grand Vitara, Gypsy)	192	238	231	20.3	(2.9)	4,890	4,765	(2.6)
C (OMNI, Eeco)	13,945	7,908	12,439	(10.8)	57.3	132,674	118,320	(10.8)
<b>Total Domestic</b>	<b>100,432</b>	<b>77,475</b>	<b>101,047</b>	<b>0.6</b>	<b>30.4</b>	<b>920,782</b>	<b>785,939</b>	<b>(14.6)</b>
Export	9,321	14,686	14,386	54.3	(2.0)	116,636	102,855	(11.8)
<b>Total Sales</b>	<b>109,753</b>	<b>92,161</b>	<b>115,433</b>	<b>5.2</b>	<b>25.3</b>	<b>1,037,418</b>	<b>888,794</b>	<b>(14.3)</b>

Source: Company

- MSIL reported a strong set of monthly volumes for January 2012 that were ahead of expectations.
- MSIL dispatched 115,433 units in January 2012 as against 109,753 units and 92,161 units dispatched in January 2011 and December 2011 respectively.
- Domestic volumes remained flat YoY but saw a significant 30% jump over December 2011.

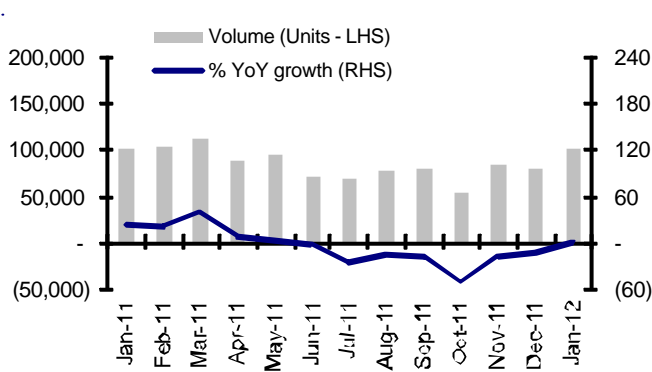
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### A1 & A2 segment domestic volume trend



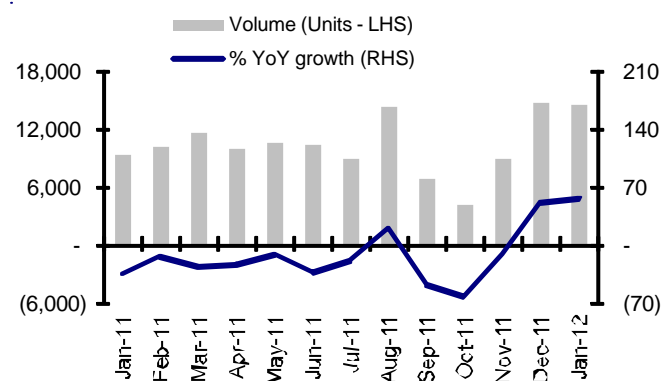
Source: Company

### Domestic sales volume trend



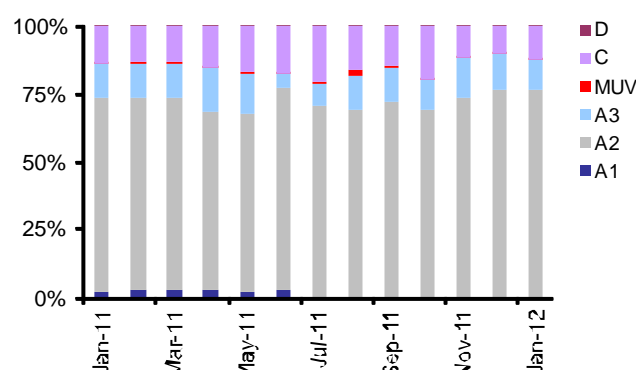
Source: Company

### Export volume trend



Source: Company

### Business Mix (Domestic)



Source: Company

- Sequential rise in domestic volumes happened due to 1. Six day plant shutdown in December 2011 leading to lower base 2.Increase in diesel engine capacity 3.Stock refilling at dealers end after strong retail sales in December 2011 and 4.Seasonality factor - traditionally dispatches in January are higher over December.
- On a YoY basis domestic volume growth remained almost flat at 101,047 units versus 100,432 units dispatched in January 2011.
- Demand for petrol car continue to remain weak and the same is witnessed from YoY de-growth reported in segments offering only petrol engine cars.
- Exports on the other hand have shown strength for second consecutive month in a row. Exports at 14,386 units grew by 54% YoY and remained almost similar to December 2011 figure.
- In an environment of weak rupee, the company's products would have become more competitive in the global markets and we believe the company is taking full advantage of the same.
- Going into FY13, we expect the company to report strong volume growth on account of 1.Increased availability of diesel engine (capacity increase and tie-up with Fiat) 2.Launch of new Dzire and Ertiga and 3.Poor FY12 base (due to strike and slowdown). Having said that, we continue to believe that demand for petrol run cars to remain weak in the near term.

# MAHINDRA AND MAHINDRA (M&M)

## M&M - sales volume (Nos)

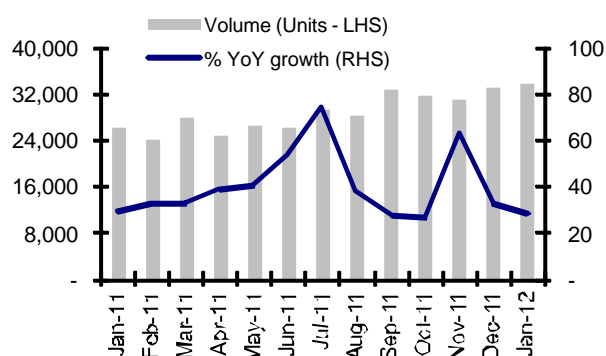
	Jan 2011	Dec 2011	Jan 2012	YoY gth (%)	MoM gth (%)	YTD FY11	YTD FY12	Growth (%)
Passenger Vehicles (incl. Verito)	17,208	19,341	19,975	16.1	3.3	146,455	176,522	20.5
4W Commercial	10,193	13,757	13,725	34.7	(0.2)	84,165	124,455	47.9
3W	6,177	5,744	6,126	(0.8)	6.7	50,648	57,240	13.0
MNAL	1,023	1,049	1,543	50.8	47.1	9,298	11,049	18.8
Total Domestic	34,601	39,891	41,369	19.6	3.7	290,566	369,266	27.1
Export	2,117	2,870	3,349	58.2	16.7	15,597	23,892	53.2
<b>Total Sales</b>	<b>36,718</b>	<b>42,761</b>	<b>44,718</b>	<b>21.8</b>	<b>4.6</b>	<b>306,163</b>	<b>393,158</b>	<b>28.4</b>
Tractors	20,499	16,389	19,354	(5.6)	18.1	174,764	202,723	16.0

Source: Company

- M&M auto division posted a strong show with volumes growing by 22% from 36,718 units in January 2011 to 44,718 units in January 2012. However slowing tractor volumes is a cause of concern for M&M.
- Domestic automotive volumes grew by 19.6% YoY to 41,369 units. Exports on the other hand jumped by 58% YoY to 3,349 units.

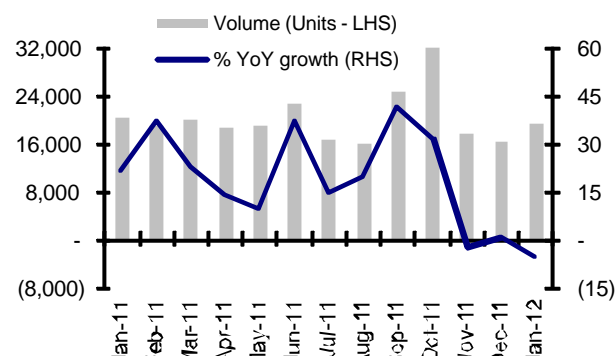
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## UV - domestic volume trend



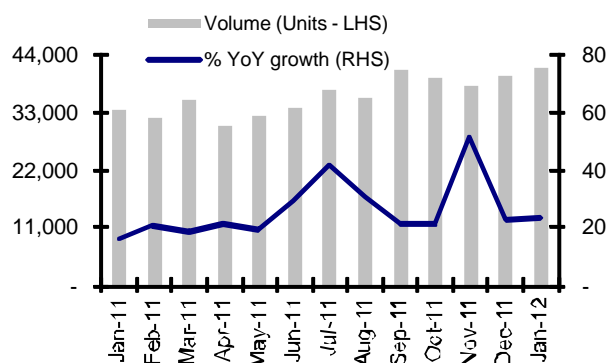
Source: Company

## Tractor - volume trend



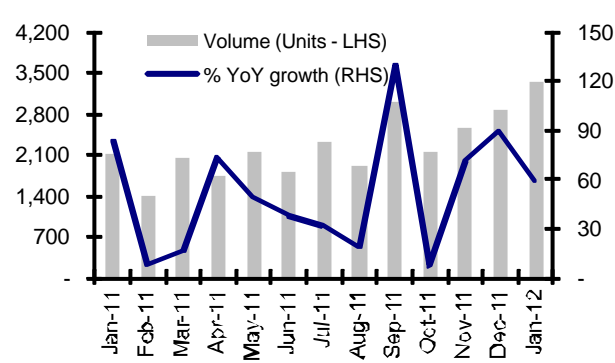
Source: Company

## Domestic volume trend (Automotive)



Source: Company

## Export volume trend (Automotive)



Source: Company

- Passenger vehicle dispatches were up by 16% from 17,208 units in January 2011 to 19,975 units in January 2012. Demand for UV's has been strong despite slow-down in the passenger car segment which we believe is on account of increase arbitrage in fuel cost between diesel and petrol.
- 4W commercial dispatches grew by 35% YoY on lower January 2011 base. Sequentially though growth in this segment remained flat.
- 3W sales were down by 1% YoY. Rising competition from the LCV segment has significantly impacted the 3W industry.
- MNAL sales at 1,543 units were up by 51% YoY and 47% MoM.
- Tractor sales displayed weakness for the third consecutive month. Domestic tractor volumes were down by 8% YoY at 17,950 units. Overall tractor sales were lower by 6% YoY at 19,354 units.
- Going ahead, auto sales is expected to grow in double digits in the near to medium term. However, increase in excise duty on diesel vehicles could impact the UV volumes negatively. Slowing tractor demand is expected to remain a cause of concern for the company.

# TATA MOTORS (TAMO)

## Tata Motors - sales volume (Nos)

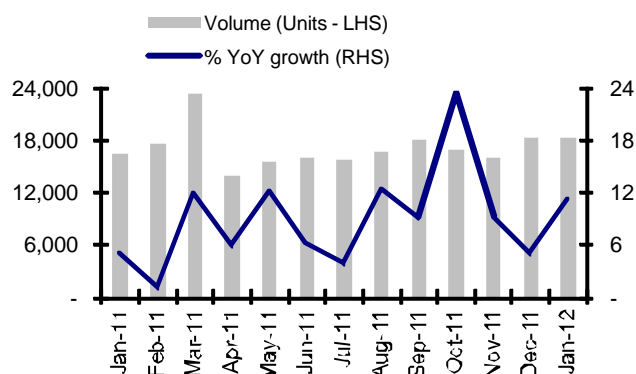
	Jan 2011	Dec 2011	Jan 2012	YoY gth (%)	MoM gth (%)	YTD FY11	YTD FY12	Growth (%)
M&HCV	16,487	18,247	18,338	11.2	0.5	151,097	165,708	9.7
LCV	23,776	29,500	27,375	15.1	(7.2)	204,742	254,663	24.4
Utility	4,462	5,255	6,140	37.6	16.8	32,823	42,028	28.0
Cars	25,750	23,661	28,529	10.8	20.6	206,089	199,539	(3.2)
Total Domestic	70,475	76,663	80,382	14.1	4.9	594,751	661,938	11.3
Export	4,948	5,615	7,083	43.1	26.1	47,608	52,108	9.5
<b>Total Sales</b>	<b>75,423</b>	<b>82,278</b>	<b>87,465</b>	<b>16.0</b>	<b>6.3</b>	<b>642,359</b>	<b>714,046</b>	<b>11.2</b>

Source: Company

- Tata Motors reported healthy January 2012 volume dispatches. January 2012 volumes at 87,465 units is now the highest ever reported by the company.
- Overall volumes were up by 16% YoY and 6.3% MoM. On a YoY basis, all the segments reported double digit growth.
- At 28,529 units the company reported their best monthly dispatches in the passenger car segment. Volumes in this segment grew by 11% YoY and 21% MoM. While Nano sales stood higher by 15%, Indica and Indigo sales grew by 9% and 10% respectively.

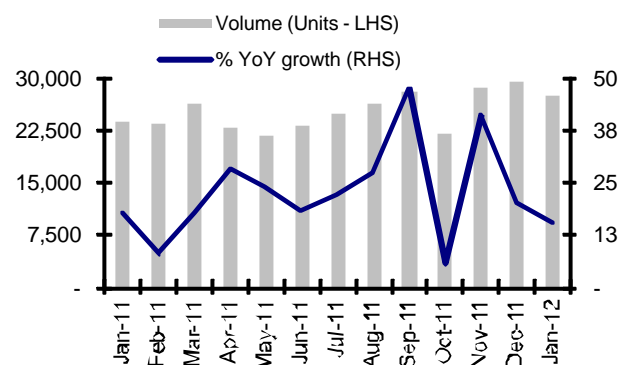
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## M&HCV - domestic volume trend



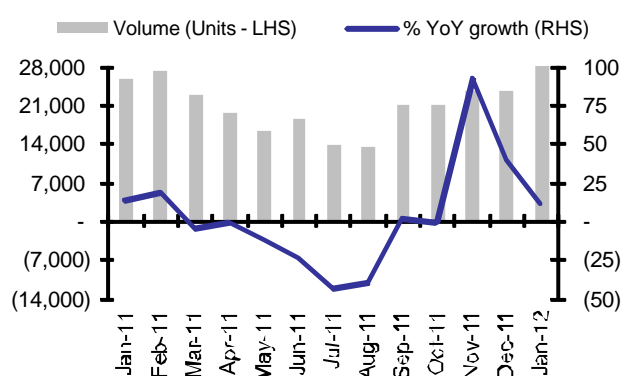
Source: Company

## LCV - domestic volume trend



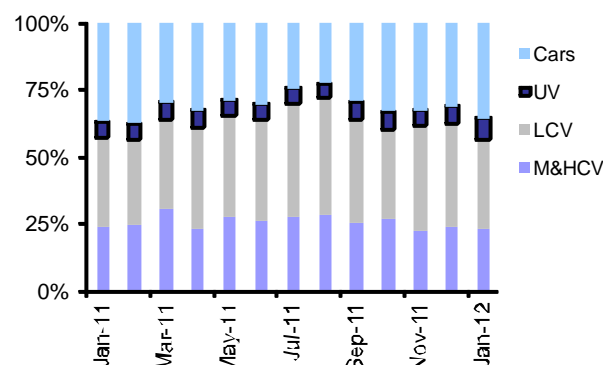
Source: Company

## Cars - domestic volume trend



Source: Company

## Business Mix ( Domestic)



Source: Company

- UV sales also grew on a strong note probably aided by new launches in the segment. UV sales at 6,140 units was 38% higher YoY.
- LCV demand remained robust with the company posting 15% YoY jump in volumes at 27,375 units. However volumes were 7% lower MoM.
- Despite difficult macro environment, the company posted 11% uptick in M&HCV volumes. Volumes in this segment rose from 16,487 units in January 2011 to 18,338 units in January 2012.
- Company reported their highest ever monthly exports at 7,083 units, 43% YoY growth.
- In the auto expo the company unveiled Tata Safari Storme (UV), Tata Ultra (LCV) and Tata LPT 3723 (M&HCV).
- After a poor performance on the volumes front in the first five months of FY12, the company has done a significant turnaround in the next five months. We expect the volumes for the company to grow in double digit in the near to medium term.

**RESULT UPDATE****Dipen Shah**dipen.shah@kotak.com  
+91 22 6621 6301**ORACLE FINANCIAL SERVICES LTD (OFSL)****PRICE: Rs.2087****RECOMMENDATION: ACCUMULATE****TARGET PRICE: Rs.2196****FY13E P/E: 15.5x**

Oracle's 3QFY12 numbers were marginally higher than estimates on the back of a near 30% YoY rise in product revenues. Margins were also better than our estimates. However, we note that, product revenues are volatile in nature. The new license signings at \$10.5mn (\$9mn) was marginally higher QoQ. The company is not seeing any major signs of budget deferrals or project cancellations, we understand. Services business continued to lose employees during the quarter, though. We increase our FY12 and FY13 earnings estimates on the back of changed currency assumptions and higher other income. Our FY12E earnings stand at Rs.125 per shares and FY13E earnings at Rs.135 per share. We maintain our price target at Rs.2196. Based on the limited upsides, we maintain ACCUMULATE. There can be potential gains from Oracle's offer, if any, to buy-back shares and de-list the company. A sharp deterioration in user economies and a sharper-than-expected rupee appreciation are key risks to our earnings estimates.

**Summary table**

(Rs mn)	FY11	FY12E	FY13E
Sales	29,956	32,631	36,576
Growth (%)	4.2	8.9	12.1
EBITDA	11,207	11,749	13,377
EBITDA margin (%)	37.4	36.0	36.6
PBT	12,467	15,106	16,167
Net profit	11,097	10,502	11,329
EPS (Rs)	132.3	125.1	135.0
Growth (%)	43.3	(5.4)	7.9
CEPS (Rs)	137.1	130.5	140.8
BV (Rs/share)	644.3	771.2	898.9
Dividend per share (Rs)	6.0	6.0	7.0
ROE (%)	22.9	18.8	16.2
ROCE (%)	25.7	26.6	23.0
Net cash (debt)	29,033	39,369	48,221
NW Capital (Days)	100.1	89.1	90.8
P/E (x)	15.8	16.7	15.5
P/BV (x)	3.2	2.7	2.3
EV/Sales (x)	4.9	4.2	3.5
EV/EBITDA (x)	13.0	11.6	9.5

Source: Company, Kotak Securities - Private Client Research

**3QFY12 results**

(Rs mns)	3QFY12	2QFY12	QoQ (%)	3QFY11	YoY (%)
<b>Revenues</b>	<b>8159</b>	<b>7562</b>	<b>7.9</b>	<b>7376</b>	<b>10.6</b>
Expenditure	5312	5078		4534	
<b>EBITDA</b>	<b>2847</b>	<b>2484</b>	<b>14.6</b>	<b>2842</b>	<b>0.2</b>
Depreciation	135	99		95	
<b>EBIT</b>	<b>2712</b>	<b>2385</b>	<b>13.7</b>	<b>2747</b>	<b>-1.3</b>
Interest	0	0		0	
Other inc	1588	1393		368	
<b>PBT</b>	<b>4300</b>	<b>3778</b>	<b>13.8</b>	<b>3116</b>	<b>38.0</b>
Tax	1443	826		291	
<b>PAT</b>	<b>2858</b>	<b>2952</b>	<b>-3.2</b>	<b>2824</b>	<b>1.2</b>
Share of Pft / (loss)	0	0		0	
<b>Adjusted PAT</b>	<b>2858</b>	<b>2952</b>	<b>-3.2</b>	<b>2824</b>	<b>1.2</b>
E.O items	172	866		0	
<b>EPS (Rs)</b>	<b>34.0</b>	<b>35.2</b>		<b>33.7</b>	
<b>Margins</b>					
OPM (%)	34.9	32.8		38.5	
GPM(%)	33.2	31.5		37.2	
NPM(%)	35.0	39.0		38.3	

Source : Company

**Product revenues grow by 30% YoY**

- On a consolidated basis, revenues for Oracle grew by about 8% QoQ.
- Product revenues rose by 30% YoY, led by a near 40% growth in both, the implementation and AMC revenues. License revenues were down by about 19% YoY, after dropping nearly 76% YoY in the previous quarter. This is concerning and we will watch this data closely over the next few quarters.
- Oracle added 8 (7 in 2Q) customers for its products business. 10 customers completed deployment for core banking operations during the quarter.
- We note that, license revenues (and hence, the product revenues as a whole) are very volatile in nature. These revenues vary based on completion of large product implementations and can be very volatile.

- OFSS is also consolidating its operations in order to create a more customer-focused organization.
- Implementation and AMC revenues continued to grow and rose by 40% YoY each for the quarter. AMC revenues formed about 30% of the overall product revenues during the quarter.
- The rise in AMC revenues is a positive as they are a stable source of revenues and may reduce the volatility in the overall product revenues of the company.
- Services revenues de-grew by 8% QoQ, despite the sharp depreciation in rupee.
- The business continued to witness lackluster growth. The number of employees in the services business fell further by about 1.5% (4.5% fall in 2Q and 14% fall in 1Q).
- We understand that, this was largely due to attrition. However, we believe that, the consistent reduction could be due to the higher focus of the company on its products business and lack of scale up in the services business.

### Macro scene

- We understand that, the macro scene is still uncertain as compared to the previous quarter.
- While developed economies are showing signs of weakness, clients continue to be sanguine about their businesses. The sentiment has remained healthy and decision making has not been impacted significantly.
- We believe that, the transformation agenda of the clients, which was suspended, is being revived by clients. Moreover, compliance programs of clients are driving growth for products like Reveleus.

### Order bookings lower

- Oracle booked new license orders worth \$10mn (\$9mn) during the quarter.
- Due to slightly higher execution during the quarter, the tank size reduced marginally to around \$110mn, we understand.
- We need to watch the order bookings closely and only further strength in the medium term will add to our confidence. However, we understand that, the volatile nature of the business may result in lower bookings in any quarter.

### EBIDTA margins

- On an overall basis, margins were lower YoY. Products and services businesses witnessed lower profitability.
- Product business margins fell on a YoY basis (from 47.4% to 42.8%) on the back of lower proportion of license revenues.
- In services business, margins fell on a YoY and QoQ basis, due to a reduction in revenues.
- Oracle's margins in the services business have been surprisingly erratic, making it difficult to estimate the future trend.
- We believe that, a higher proportion of license revenues will be a key determinant of margins going forward.

### Financial projections and Recommendation

- We increase our FY12 and FY13 earnings estimates largely due to the changes in exchange rate assumptions.
- We expect the rupee to average 51 / USD in 4QFY12 and 49 / USD in FY13.
- We expect product revenues to grow by 15% and services revenues to grow by about 4% in FY13.
- EBIDTA margins are expected to marginally improve in FY13 due to higher proportion of product revenues.
- We have assumed lower other income component (QoQ appreciation in rupee assumed) and tax at 30% of PBT in FY13. Consequently, PAT is expected to rise by about 8% in FY13E, leading to an EPS of Rs.135.

### Recommendation

**We maintain ACCUMULATE rating on Oracle Financial Services with a price target of Rs.2196**

- We see the Oracle relationship as a key differentiator for OFSL and believe this could open up significant business opportunities for the company in addition to having endowed it with an MNC parentage.
- The valuations are not undemanding especially in the backdrop of a still uncertain macro scene. We, thus, recommend **ACCUMULATE** with an unchanged PT of Rs.2196 based on FY13E earnings, after according a discount as compared to valuations of large peers.
- We note that, the quarterly earnings are pretty volatile and may surprise on either side.
- A revised open offer by Oracle, if any, with a view to increase its stake further and de-list the stock from the bourses, will be an upside trigger, though we assign low probability to the same, for now.

### Risks

- A sharp deterioration in major user economies may impact our projections.
- A sharp acceleration in the rupee beyond our estimates may impact our earnings estimates for the company.

**RESULT UPDATE****Dipen Shah**dipen.shah@kotak.com  
+91 22 6621 6301**MAHINDRA SATYAM LTD (MSL)****PRICE: Rs.76****TARGET PRICE: Rs.84****RECOMMENDATION: ACCUMULATE****FY13E P/E: 8.7x**

MSL's results for 3QFY12 were disappointing. Volumes de-grew by about 1.5% QoQ. While December quarter is seasonally a weak quarter, peers have managed to report a volume growth for the quarter. Average realizations were higher by 1.3%, largely due to completion of fixed priced projects, we believe. The improvement in margins came in largely due to this improvement in pricing. Currency depreciation benefits were largely nullified by salary increments. Higher-than-expected forex gain helped PAT grow beyond out estimates. Attrition has remained at 16% levels. However, the company added only 188 employees on a net basis. Joining dates of some of the campus recruits have been deferred by about 1 - 2 months, we understand. This likely reflects the just-in-time hiring stance taken by the management in the backdrop of the macro uncertainties. We expect revenue growth to gain traction in future quarters. We also expect tax rates to increase in FY13E. Our FY12E EPS stands at Rs.8.7 (Rs.7.8 earlier) and for FY13E we expect an EPS of Rs. 8.8 (Rs.8.4 earlier). Our estimate revisions are partly due to the higher other income component and rupee depreciation v/s earlier estimates. The previous claims against the company are pending and the company is contesting the same. The company is also winding down its ADS program, which will increase liquidity in the domestic markets and may pressurize the stock price in the near term. The stock price may also be influenced by the potential merger ratio (with Tech Mahindra). We maintain ACCUMULATE and our DCF based fair price stands unchanged at Rs.84. A sharp deterioration in developed economies and a sharper-than-expected appreciation in rupee are the major risks.

**Summary table**

(Rs mn)	FY11	FY12E	FY13E
Sales	51,450	64,393	72,489
Growth (%)	-6.1	25.2	12.6
EBITDA	4,551	10,087	11,675
EBITDA margin (%)	8.8	15.7	16.1
PBT	5,549	12,696	13,785
Net profit	4,938	10,271	10,339
EPS (Rs)	4.2	8.7	8.8
Growth (%)	68.9	107.9	0.7
CEPS (Rs)	5.8	10.1	10.1
BV (Rs/share)	39.3	48.0	56.8
Dividend / share (Rs)	-	-	-
ROE (%)	27.4	44.4	30.3
ROCE (%)	9.7	19.8	18.7
Net cash (debt)	31,571	29,717	39,265
NW Capital (Days)	82.2	86.1	86.2
P/E (x)	18.1	8.7	8.7
P/BV (x)	1.9	1.6	1.3
EV/Sales (x)	1.1	0.9	0.7
EV/EBITDA (x)	12.7	5.9	4.3

Source: Company, Kotak Securities - Private Client Research

**3QFY12 numbers**

(Rs mns)	2QFY12	3QFY12	QoQ (%)	3QFY11	YoY (%)
<b>Income</b>	<b>15777.0</b>	<b>17180.8</b>	<b>8.9</b>	<b>12793.0</b>	<b>34.3</b>
Expenditure	13360.0	14399.9		11974.0	
<b>Operating profit</b>	<b>2416.9</b>	<b>2780.9</b>	<b>15.1</b>	<b>819.0</b>	<b>239.5</b>
Depreciation	396.1	385.2		381.0	
<b>Gross profit</b>	<b>2020.8</b>	<b>2395.7</b>	<b>18.6</b>	<b>438.0</b>	<b>447.0</b>
Interest	20.4	27.0		23.0	
Other income	967.4	1512.7		873.0	
<b>PBT</b>	<b>2967.8</b>	<b>3881.4</b>	<b>30.8</b>	<b>1288.0</b>	<b>201.4</b>
Tax	578.4	790.1		159.0	
<b>PAT</b>	<b>2389.4</b>	<b>3091.3</b>	<b>29.4</b>	<b>1129.0</b>	<b>173.8</b>
Sh of loss / Min Int	7.1	7.0		7.0	
PAT before E.O. items	2382.3	3084.3	29.5	1136.0	171.5
EO items	0.0	0.0			
Shares (mns)	1176.8	1176.8		1176.5	
<b>EPS (Rs)</b>	<b>2.02</b>	<b>2.62</b>		<b>1.0</b>	
<b>Margins</b>					
OPM (%)	15.3	16.2		6.4	
GPM(%)	12.8	13.9		3.4	
NPM(%)	15.1	18.0		8.8	

Source : Company

### Revenues up 8.9% QoQ; volumes de-grow

- MSL's revenues grew by 9% in 3QFY12 on the back of 9.2% depreciation in rupee. However, in USD terms, revenues de-grew by about 1.7% to \$325mn.
- The USD revenues were impacted by cross currency movements to the extent of 1.4%.
- Thus, on a CC basis, revenues de-grew by 0.3%. Volumes de-grew by 1.5% during the quarter, even as average realisations improved by 1.2%.
- The volume de-growth was disappointing despite there being an impact of the seasonality associated with the December quarter.
- The average rupee realization was at 52.90 per USD as compared to 47.74 per USD during 2Q. This is significantly higher v/s peers as the company booked a large part of the revenues towards the end of the quarter.
- The rupee had depreciated steeply in December 2011.
- Revenues were also helped by revenues from hardware and software license revenues of about Rs.300mn (marginally higher v/s 2Q), we opine.
- The volume de-growth was in contrast to the growth reported by peers. The under-performance likely indicates lack of scale up from existing clients.
- According to the company, this was due to the lower number of billing hours. We note that, the number of \$10mn accounts fell by 5 on a QoQ basis. We need to see if the higher number of billing hours in 4Q will help in getting higher revenues from these accounts. 2Q had also seen the number of \$10mn accounts falling on a sequential basis.
- MSL has indicated that, there is a delay in decision making atleast in large projects and in discretionary spends.
- The company is bidding for large contracts in the range of \$15mn - \$25mn (over a 3 - 5 year period) and expects to win some in the next couple of quarters.
- Revenues from USA grew by about 5% QoQ. However, Europe revenues were 13% higher QoQ, despite the macro concerns.
- Within verticals, BFSI continued to register a strong growth with a revenues rising by 20% QoQ.
- We understand that, over the past year, MSL faced various operational issues like possible scale down and exit of reference accounts, consequent lack of scale and lack of new accounts (due to unavailability of current financials).

### Employee additions low

- MSL added 188 employees on a net basis, which was below expectations.
- The company has indicated the need to improve margins and also the uncertain economic scenario as the reasons for the low addition.
- We see this as a reflection of a likely lower visibility on revenues for future quarter.
- MSL has also deferred the joining dates of about 1300 campus recruits (out of the 5000 offers made) to the next fiscal.
- We opine that, the company may have to overcome operational hurdles before it matches up to the industry growth rates.
- The management has indicated that, the billing rates were flattish QoQ. We believe that, the average realizations were marginally higher likely due to the mix change in favour of fixed price contracts.
- The proportion of fixed priced projects increased by 300bps during the quarter to 51%.

### Crucial data unavailable

- We do not have some crucial data-points relating to the exact number of billable employees.
- Thus, our estimates do have some approximation as far as projections are concerned.
- We believe that, the average realizations of MSL may be lower than the industry average.

### Margins improved

- EBIDTA margins in 3QFY12 were better than expectations.
- We believe this was largely due to the rupee depreciation (average realized rate much higher than expected) and also some efficiency in fixed price projects.
- The lower number of employee additions also likely helped margin improvement, we believe. Capacity utilization rates improved from 74% to 75% QoQ.
- Currency impact led to a 280bps improvement.
- However, salary increments WEF October impacted margins by about 230bps. There were some efficiency benefits.
- MSL has few levers which can be immediately deployed to improve margins significantly. However, revenue growth is the biggest driver of margins in the near term, in our opinion.
- The employee utilization rate does provide some cushion to margins apart from the benefits expected from broadening the employee pyramid and higher off-shore content.
- We believe that, the company has not recruited many freshers and doing so, may reduce the average employee costs for MSL.

### Other income and tax

- The other income component was significantly higher than our estimates. The company held the amounts payable in class action suit (held in an escrow account) which yielded interest.
- Translation gain helped the company report a forex gain of Rs.660mn (translation gain 840mn, hedging loss 200mn). The company takes the MTM effect on forex to the balance sheet.
- Tax rate was at 20.4%. The company has indicated that, it is eligible for set-off of prior period losses (2009 and prior) which should lead to lower tax rates of about 18% - 19% in FY12.
- Surprisingly, the company has not indicated the amount of shield available to the company. Extinguishment of this shield will lead to much higher taxes for the company.
- We expect tax rate to shoot up to about 25% in FY13E, in absence of these tax covers.

### Contingent liabilities

- MSL faces the prospects of financial outgo in case any of the several litigations are decided against the company.
- With reference to the understated liability of Rs.12.3bn, the Company has received legal notices from thirty seven companies claiming repayment. The Company has not acknowledged any liability
- The Company had filed a petition before CBDT requesting for stay of demands for Financial Years (FY) 2002-03 to FY 2007-08 till the correct quantification of income and taxes payable is done for the respective years.
- The Company was directed to submit a Bank Guarantee (BG) for Rs.6,170 Million and also submit more details to CBDT.
- The Hon'ble High Court of Andhra Pradesh has heard the company in this case and the company is awaiting the order.
- During 1QFY12, Aberdeen Asset Management PLC, along with 170 other non-US based funds, gave notice of potential proceedings against MSL for alleged losses of about \$283mn due to the scam. This is in addition to the proceedings of Aberdeen, USA.
- The company will be defending itself but this could put pressure on the cash-flows of MSL, in case the company is unsuccessful in defending itself.
- In 2QFY12, the Income tax Department has raised draft notice of demand for Rs.18.7bn for AY2001-02 and AY2006-07, which the company is contesting.

### Winding down of the ADS program

- Mahindra Satyam has announced that, it expects to wind-down its American Depository Share program in 2012. The Company's American Depository Shares (ADSs) currently trade on the over-the-counter (OTC) market in the US.
- The company has now determined that it will not be able to become current in its SEC filing obligations because of the non-availability of various information / documentation relating to several unexplained transactions of prior years. .
- Consequently, the Company expects SEC to revoke the Company's registration at some time in the future. The revocation of registration, as and when it occurs, would prevent continued trading of the ADSs and the underlying equity shares in US markets or by US persons, and in order to protect the interests of ADS holders, the Company intends now to wind down the ADS program in an orderly fashion.
- Thus, there is a window for ADS holders to convert their ADS into underlying shares and sell them in the Indian market. This can be done either directly (for holders who are authorized to trade in India) or through the depository, Citibank, N.A. (otherwise).
- We believe this will significantly increase the liquidity in the Indian equity markets as ADRs form about 9% of the company's total outstanding equity capital.

### Future financials

- Based on 3QFY12 numbers, we have modified our FY12 and FY13 numbers.
- For FY13, we have built in a 13% volume growth and a marginal improvement in average realizations.
- Margins are expected to improve as the margin levers of utilization, off-shore leverage, pyramid benefits, etc offset the salary pressures and the impact of the expected rupee appreciation.
- We have assumed the rupee to appreciate to an average of Rs.49 per USD in FY13E.
- We have assumed higher tax rate at 25%, in line with our understanding that the tax cover of previous losses may get extinguished in FY12. The company is expected to start generating additional revenues from SEZs in FY13E.
- Consequently, FY13E EPS works out to Rs.8.8.

### Valuations and recommendation

- We have valued MSL based on DCF, which leads us to a fair price of Rs.84.
- At Rs.84, our FY13E EPS will be discounted by 10x, which is lower than larger peers but higher v/s mid-caps.
- We believe that, MSL will have to overcome several operational hurdles before it reaches industry growth and margins.
- There could be additional liquidity in the stock as the ADS program is expected to wind down.
- The management has indicated that, MSL will be merged with Tech Mahindra (or vice-versa) in the next 12 - 15 months.
- Thus, the stock price may also be influenced by the potential merger ratio (with Tech Mahindra).
- However, in case the macro scene improves, this may help MSL in reporting improved growth rates.
- Thus, we maintain **ACCUMULATE**.

### Concerns and risks

- A sharp appreciation in the rupee against various currencies will impact our earnings estimates.
- A sharp deterioration in major user economies will likely impact future revenue growth of the company.

**We maintain ACCUMULATE rating on Mahindra Satyam with a price target of Rs.84**

## RESULT UPDATE

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## LIC HOUSING FINANCE LTD

PRICE: Rs.254

TARGET PRICE: Rs.260

RECOMMENDATION: ACCUMULATE

FY13E P/E: 9.8x; P/ABV: 2.2x

## Q3FY12: NIM disappointed; PAT came higher on back of provision reversal.

- ❑ Net income came higher than expectations at Rs.3.06 bn (43.1% YoY) mainly on the back of reversal of Rs.780 mn worth of excess provisions done in the previous quarter. However, NII came slightly below our expectations (Rs.3.26 bn) due to decline in NIM to 2.27% in Q3FY12 (decline of 18 bps QoQ/87 bps YoY). However, we believe NIM to bottom-out by Q4FY12 before moving north thereafter (FY13).
- ❑ Loan book growth moderated to 26.6% YoY during Q3FY12 mainly on back of 27.2% decline in developers lending. Disbursement to individual segments was muted during Q3FY12 (8.4% YoY) on back of high base last year. During the same period, disbursement to developers declined 62.5% YoY. Management has guided that disbursement is likely to grow at ~20%, which in our view could be difficult to achieve.
- ❑ Asset quality has remained stable - gross NPA marginally improved to 0.63% at the end of Q3FY12 as against 0.64% at the end of Q2FY12 and 0.67% at the end of Q3FY11. However, net NPA rose (coverage ratio declined to 51.1% as against 81.6% in previous quarter) as management reversed the excess provisions. Management has indicated that they do not perceive any big risk to its asset quality, in near term.
- ❑ At the CMP, stock is trading at 2.2x its FY13E ABV and 9.8x its FY13E earnings. We have tweaked earnings estimate for FY12E to factor-in lower provisions. We do take cognizance of improvement in its NIM during FY13 on back of falling interest rate environment as well as re-pricing of its fix o float portfolio (Rs.90 bn). However, with limited upside from current levels, we maintain the ACCUMULATE rating on the stock with TP of Rs.260 (earlier Rs.240) based on 2.2x its FY13 ABV.

## Summary table

(Rs mn)	FY11	FY12E	FY13E
Interest Income	44,697	60,133	72,159
Interest expenses	30,977	46,067	54,095
NII	13,719	14,065	18,065
Growth (%)	55%	3%	28%
Non-Int Income	3,991	2,239	2,737
Total Income	17,710	16,304	20,801
Gross profit	15,550	14,132	18,386
Net profit	9,745	9,459	12,358
Growth (%)	47%	-3%	31%
Gross NPA (%)	0.5	0.7	0.5
Net NPA (%)	0.0	0.2	0.1
NIMs (%)	3.1	2.5	2.7
RoA (%)	2.2	1.7	1.8
RoE (%)	26.0	21.2	23.6
DPS (Rs)	22.6	24.9	32.5
EPS (Rs)	20.5	19.9	26.0
BV (Rs)	86.7	100.9	119.5
Adj. BV (Rs)	86.7	98.8	117.4
P/E (x)	12.4	12.8	9.8
P/ABV (x)	2.9	2.6	2.2

Source: Company, Kotak Securities - Private Client Research

## Result highlights

(Rs bn)	Q3FY12	Q2FY12	Q3FY11	YoY (%)	QoQ (%)
Interest income	15.39	14.58	11.61	32.5	5.5
Interest expenses	12.13	11.24	8.09	49.9	7.9
<b>Net Interest Income</b>	<b>3.26</b>	<b>3.34</b>	<b>3.52</b>	<b>(7.5)</b>	<b>(2.5)</b>
Non-Interest Income	0.54	0.57	1.93	(72.1)	(6.2)
Net Operating Income	3.80	3.92	5.45	(30.4)	(3.0)
Operating Expense	0.53	0.56	0.56	(4.8)	(4.9)
<b>Operating profit</b>	<b>3.26</b>	<b>3.35</b>	<b>4.89</b>	<b>(33.3)</b>	<b>(2.7)</b>
Provision for loan loss	(0.80)	2.05	2.33		
Profit before tax	4.06	1.31	2.56	58.4	210.5
Provisions for taxes	1.00	0.32	0.43		
<b>PAT</b>	<b>3.06</b>	<b>0.98</b>	<b>2.14</b>	<b>43.1</b>	<b>210.7</b>
<b>EPS (Rs)</b>	<b>6.46</b>	<b>2.08</b>	<b>4.50</b>		
Cost/Income ratio (%)	14.1	14.3	10.3		
Effective Tax rate (%)	24.7	24.7	16.7		
Disbursements	47.2	51.5	46.3	2.1	(8.3)
Mortgaged Loan	587.1	561.0	463.8	26.6	4.7
GNPA (%)	0.63	0.64	0.67		
NNPA (%)	0.30	0.12	0.18		

Source: Company

### Net income boosted by the reversal of Rs.780 mn of excess provisions; however, NII came lower due to sharp decline in NIM.

Net income came higher than expectations at Rs.3.06 bn (43.1% YoY) mainly on the back of reversal of Rs.780 mn worth of excess provisions done in the previous quarter. However, NII came slightly below our expectations (Rs.3.26 bn) due to decline in NIM to 2.27% in Q3FY12 (decline of 18 bps QoQ/87 bps YoY). Margin has been impacted by the falling share of high yielding builder loans (now stands at ~6% of total loan book) and rise in funding costs (being largely wholesale borrower).

We believe NIM to bottom-out by Q4FY12 before moving north on back of two factors - 1) In the falling interest rate environment, wholesale funded business is likely to benefit from lower interest rate. 2) Around Rs.90 bn worth of fix o float loans (given at 8.9% in initial phase) is coming for re-pricing during FY13.

### Loan book grew at 26.6% YoY; disbursement to individual segments was muted (8.4% YoY) on back of high base last year.

Loan book growth moderated to 26.6% YoY during Q3FY12 mainly on back of 27.2% decline in developers lending. Individual segments continued to do well - grew at 32.9% YoY during Q3FY12.

Disbursement to individual segments was muted during Q3FY12 (8.4% YoY) on back of high base last year. However, during the same period, disbursement to developers declined 62.5% YoY which now stands at only 6% of total loan book as against 11.3% during Q2FY11.

Management has indicated that sanctions during the month of December were robust (~50% in some part of the country). They have also guided that disbursement is likely to grow at ~20%, which in our view could be difficult to achieve.

### Asset quality remained stable - gross NPA marginally improved to 0.63%; coverage ratio is down on back of reversal of excess provisions.

Asset quality has remained stable - gross NPA marginally improved to 0.63% at the end of Q3FY12 as against 0.64% at the end of Q2FY12 and 0.67% at the end of Q3FY11. However, net NPA rose (coverage ratio declined to 51.1% as against 81.6% in previous quarter) as management reversed the excess provisions. Management has indicated that they do not perceive any big risk to its asset quality, in near term.

#### Trend in Asset Quality

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Gross NPA</b>	<b>3.7</b>	<b>3.2</b>	<b>3.1</b>	<b>2.4</b>	<b>4.4</b>	<b>3.6</b>	<b>3.7</b>
% chg (YoY)	-17	-22	-36	-8	21	12	18
% chg (QoQ)	40	-13	-2	-23	84	-19	3
Gross NPA Ratio %	0.92	0.74	0.67	0.47	0.84	0.64	0.63
<b>Net NPA</b>	<b>1.4</b>	<b>0.9</b>	<b>0.8</b>	<b>0.2</b>	<b>1.9</b>	<b>0.7</b>	<b>1.8</b>
% chg (YoY)	-26	-54	-68	-68	32	-27	114
% chg (QoQ)	202	-36	-7	-82	1134	-64	173
Net NPA Ratio%	0.35	0.21	0.18	0.03	0.35	0.12	0.30

Source: Company

### Valuation and recommendation

At the CMP, stock is trading at 2.2x its FY13E ABV and 9.8x its FY13E earnings. We have tweaked earnings estimate for FY12E to factor-in lower provisions. We expect earnings growth of 12.6% CAGR during FY11-13E; while FY12 net income is forecasted to come down by ~3%, FY13E is likely to witness robust earnings growth (low base). We expect EPS and ABV to come at Rs.26.0 and Rs.117.4, respectively, during FY13E.

**We maintain ACCUMULATE rating on LIC Housing Finance with a revised price target of Rs.260**

We do take cognizance of improvement in its NIM during FY13 on back of falling interest rate environment as well as re-pricing of its fix o float portfolio (Rs.90 bn). However, with limited upside from current levels, we maintain the **ACCUMULATE** rating on the stock with TP of Rs.260 (earlier Rs.240) based on 2.2x its FY13 ABV.

## RESULT UPDATE

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## JAGRAN PRAKASHAN

PRICE: Rs.96

TARGET PRICE: Rs.136

RECOMMENDATION: BUY

FY13E P/E: 12.2x

## Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	12,211	13,863	15,416
Growth (%)	29.6	13.5	11.2
EBITDA	3,568	3,632	4,467
EBITDA margin (%)	29.2	26.2	29.0
PBT	3,078	2,953	3,805
Net profit	2,103	2,095	2,553
EPS (Rs)	6.6	6.6	8.1
Growth (%)	13.8	(0.4)	21.9
CEPS (Rs)	8.7	8.9	10.4
Book value (Rs/share)	22.2	24.1	27.2
Dividend per share (Rs)	3.5	3.8	4.6
ROE (%)	32.0	28.6	31.5
ROCE (%)	24.7	22.8	26.1
Net cash (debt)	(1,562)	(1,110)	(252)
NW Capital (Days)	51	43	47
P/E (x)	14.8	14.9	12.2
P/BV (x)	4.4	4.1	3.6
EV/Sales (x)	2.6	2.2	1.9
EV/EBITDA (x)	8.7	8.5	6.7

Source: Company, Kotak Securities - Private Client Research

- Jagran Prakashan reported strong set of 3QFY12 Results: Revenues came in at Rs 3240 mn, and EBITDA came in at Rs 851 mn, ahead of our expectations. PAT came in lower than our expectations, on account of forex losses (Rs 130 mn). Overall sales grew 13.3%, EBITDA declined 5.5%, and PAT declined 21% (y/y comparisons). We view these as strong results as: 1/ advertising revenues grew 15%, ahead of other listed newspaper publishers as well as broadcasters, and 2/ margins have been in-line, despite strong gross margin pressures, and even after accounting for newly launched operations (Jagran Punjabi).
- Earnings Outlook: As with other media companies, topline growth is likely to be subdued in the near-term on account of weakness in advertising expenditures. We believe Jagran's advertising revenues shall continue to outperform peers in 4QFY12, on account of greater exposure to assembly elections held in Jan/ Feb, 2012. Circulation revenues of the company are likely to see further growth on account of cover price increases. FY13 profits shall be likely impacted by improving margins from Jagran as well as Mid-Day operations. Newsprint prices are likely to be stable along with other costs, leading to margin expansion going forward. However, continued strength in newsprint expenses as well as lower than expected other income necessitates a cut in FY12/ FY13 estimates. Our fresh FY12/FY13 EPS estimates are 8.8%/ 7.6% below prior estimates.
- Valuations and Rating: We believe valuations at CMP (12.2x PER) are cheap, considering the strength in Jagran Prakashan's readership and long-term drivers of revenues. Although competitive concerns remain, given Jagran's high exposure to the state of Uttar Pradesh, we believe current valuations factor the same well enough. We re-iterate BUY on Jagran Prakashan.
- Risks: Further rise in newsprint prices, further weakening in advertising environment and competitive risks are the key downside risks to our estimates. Upside risks to our estimates could arise from decline in newsprint prices.

## 3QFY12 results Summary

Rs mn, FY Ends Mar	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ (%)
<b>Revenues</b>	<b>3240</b>	<b>2860</b>	<b>13.3%</b>	<b>3054</b>	<b>6.1%</b>
- Advertising Revenues	2235	1945	14.9%	2119	5.5%
- Circulation Revenues	623	570	9.3%	612	1.8%
- Other	382	345	10.9%	323	18.3%
Expenses:	2389	1962	21.8%	2263	5.6%
Raw Material Expenses	1135	863	31.5%	1075	5.5%
<b>Gross Profit</b>	<b>2106</b>	<b>1997</b>	<b>5.4%</b>	<b>1979</b>	<b>6.4%</b>
Gross Margin	65%	70%	-4.8ppt	65%	0.2ppt
Personnel Expenses	407	363	12.0%	376	8.1%
Other Expenses	848	736	15.2%	812	4.4%
<b>EBITDA</b>	<b>851</b>	<b>898</b>	<b>-5.2%</b>	<b>791</b>	<b>7.6%</b>
Margin	26.3%	31.4%	-5.1ppt	25.9%	0.4ppt
Depreciation	165	146	13.1%	160	3.2%
Interest Expenses	44	21	111.1%	29	52.9%
Other Income	-42	55	NM	40	NM
<b>PBT</b>	<b>600</b>	<b>786</b>	<b>-23.7%</b>	<b>642</b>	<b>-6.5%</b>
Provision for Tax	187	259	-27.8%	184	1.6%
<b>PAT</b>	<b>413</b>	<b>527</b>	<b>-21.6%</b>	<b>458</b>	<b>-9.8%</b>
<b>EPS (Rs)</b>	<b>1.3</b>	<b>1.8</b>	<b>-25.6%</b>	<b>1.4</b>	<b>-9.8%</b>

Source: Company

- Jagran Prakashan reported 15% growth in advertising revenues, strong under the present circumstance, to beat our revenue estimates while registering a 13.3% growth in topline (vs est: 8.5% y/y). Advertising revenues have grown largely on the back of strength in national advertising, as per management - this is contrary to what the industry at large is witnessing at the moment. Jagran management has ascribed the outperformance to certain marketing innovations of the company. The quarter's ratio of national: local advertising revenues are closer to 43:57, than 40:60 seen in FY11. Advertising revenues have been almost completely led by growth in volumes. The management said that yields were almost flat in the quarter. Circulation revenues benefited from higher circulation (-6%), as well as higher cover prices, which became effective in certain territories in the month of December.
- Newsprint prices have continued to be strong in the quarter (Rs 32/ kg). Along with higher circulation and volume - led growth in advertising revenues, the same has led to a 31.5% growth in newsprint expenses. The company's gross margins have declined 4.8 ppt as a result, and EBITDA margins have contracted 5.1 ppt. Reported margins are in line with our estimates.
- Other income has been adversely impacted by forex losses, which have had a net impact of Rs 86.7mn in the quarter. Rs 85mn of the forex losses of Rs 130mn relate to losses on account of long-term liabilities of the company (ECBs) that is likely to reverse in the near future (likely in 4QFY12, if the recent appreciation in the INR sustains).

### Outlook and Investment View

Change in Estimates - We factor in higher newsprint expenses for FY12/FY13, on account of higher than expected rise in quantity of newsprint consumed (lack of yield improvements as well as higher circulation). We also factor in lower other income than our prior estimates. With certain other minor changes, the revised estimates are summarized below:

#### Change in Estimates

(Rs mn)	Revised		Prior		% Chg.	
	FY12	FY13	FY12	FY13	FY12	FY13
Revenues	13863	15416	13863	15416	0.0	0.0
EBITDA	3632	4467	3752	4532	-3.2	-1.4
PAT	2095	2553	2296	2764	-8.8	-7.6

Source: Kotak Securities - Private Client Research

Jagran Prakashan trades at 12.2x PER FY13E, and 3.8% dividend yield. Valuations are therefore attractive in our opinion, even as earnings expectations have weakened. We expect Jagran Prakashan to outperform peers' advertising revenues in 4QFY12 as well, on the back of favourable exposure to geographies that are in the process of holding assembly elections in an/ Feb 2012. Sentiment is therefore likely to be strong (relative to peers) as well in the near-term.

Longer-term, we remain positive on Jagran Prakashan on account of: 1/ strength in key UP print market, 2/ lowest cost per thousand to advertisers as compared with peers. Although we hold a view that Jagran shall underperform peers over the long-term, we believe the current valuations factor in that possibility adequately.

**We maintain BUY on Jagran Prakashan with a price target of Rs.136**

Further strength in newsprint prices and weakening of advertising expenditures remain the two key worries. However, we note that: 1/ our projections for revenue growth in FY13 are rather soft, at 11%, and 2/ although newsprint prices have not declined, there are indications that they could stagnate / decline from present levels, in so much as pulp prices can be viewed as lead indicators of newsprint prices. A decline in newsprint prices may provide triggers for price-value convergence. Maintain **BUY**, with a price target of Rs 136 (Rs 140 previously).

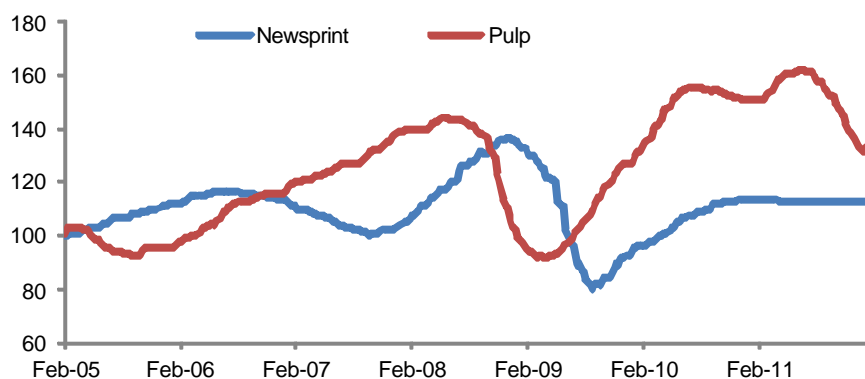
## Dainik Jagran : High Exposure to Assembly Elections in Jan/ Feb 2012

### Dainik Jagran, Readership in States going to Assembly Elections in Jan/ Feb 2012

Readership by States, AIR, '000		2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3
Uttar Pradesh	Dainik Jagran	9067	8847	8945	8938	8815	9007	8981
	Amar Ujala	6517	6525	6749	6831	6946	7055	7021
	Hindustan	2599	2919	3189	3526	3676	3806	3884
	Aj	618	637	681	729	746	768	690
Uttarakhand	Amar Ujala	849	831	805	810	842	888	911
	Dainik Jagran	620	606	586	568	578	619	657
	Hindustan	185	193	222	251	289	313	289
Punjab	Punjab Kesari	1150	1100	1078	1070	1005	959	955
	Jag Bani	1026	1018	991	965	1027	973	1035
	Dainik Jagran	958	891	802	819	764	729	699
	Ajit	1058	1125	1126	1118	1123	1158	1162
	Dainik Bhaskar	828	773	810	849	862	825	814

Source: IRS

### Indexed Newspaper and Pulp Prices



Source: Bloomberg, Kotak Securities - Private Client Research

**RESULT UPDATE**

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**CROMPTON GREAVES****PRICE: Rs.144****TARGET PRICE: Rs.125****RECOMMENDATION: REDUCE****FY13E P/E: 12.9x**

- ❑ Crompton Greaves reported Q3FY12 results below our estimates; revenues grew on back of improved execution in power system division but margins came under significant pressure.
- ❑ Company reported margin erosion in the quarter on account of 1) execution of several low margin orders mainly in the overseas subsidiaries 2) increase in input prices 3) pricing pressure due to increasing competition in domestic power systems division
- ❑ Overseas subsidiary has been experiencing headwinds of economic slowdown in certain geographies; debt has increased substantially in subsidiaries
- ❑ We believe that the stock will continue to underperform the broader market; interest rates trend and execution in domestic T&D space would be the key variables to monitor.
- ❑ We maintain our 'REDUCE' rating on the company's stock with a one year DCF based revised target price of Rs 125 (Rs 130 earlier).

**Summary table**

(Rs mn)	FY11	FY12E	FY13E
Sales	100051	110224	122841
Growth (%)	9.5	10.2	11.4
EBITDA	13438	7989	11349
EBITDA margin (%)	13.4	7.2	9.2
PBT	12284	6568	9771
Net profit	9184	4795	7133
EPS (Rs)	14.3	7.5	11.1
Growth (%)	11.4	-47.8	48.8
CEPS (Rs)	17.3	10.6	14.7
BV (Rs/share)	51.0	57.4	67.4
Dividend/share (Rs)	1.3	2.3	3.3
ROE (%)	28.6	13.2	16.7
ROCE (%)	35.7	16.3	20.4
Net cash (debt)	(1719)	(6444)	(2177)
NW Capital (Days)	31.4	46.7	40.3
EV/Sales (x)	0.9	0.9	0.8
EV/EBITDA (x)	7.0	11.7	8.2
P/E (x)	10.0	19.1	12.9
P/Cash Earnings	8.3	13.4	9.7
P/BV (x)	2.8	2.5	2.1

Source: Company, Kotak Securities - Private Client Research

**Consolidated Quarterly financials**

(Rs mn)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
<b>Net Sales</b>	<b>30280</b>	<b>23970</b>	<b>26.3</b>	<b>27055</b>	<b>11.9</b>
RM costs	18023	12407	45.3	15698	14.8
Purchase of traded goods	3273	2490	31.5	2502	30.8
Staff costs	3939	3005	31.1	3574	10.2
Other costs	3227	2667	21.0	3021	6.8
Total Expenditure	28462	20568	38.4	24796	14.8
<b>PBIDT</b>	<b>1817</b>	<b>3402</b>	<b>(46.6)</b>	<b>2260</b>	<b>(19.6)</b>
Interest	112	39		102	
Other Income	155	120	28.5	215	(28.1)
<b>PBDT</b>	<b>1860</b>	<b>3483</b>	<b>(46.6)</b>	<b>2373</b>	<b>(21.6)</b>
Depreciation	627	467	34.3	726	(13.7)
<b>PBT</b>	<b>1233</b>	<b>3017</b>	<b>(59.1)</b>	<b>1646</b>	<b>(25.1)</b>
Tax	487	703	(30.8)	463	5.1
<b>PAT</b>	<b>746</b>	<b>2313</b>	<b>(67.8)</b>	<b>1183</b>	<b>(36.9)</b>
<b>EPS (Rs)</b>	<b>1.2</b>	<b>3.6</b>	<b>(67.5)</b>	<b>1.8</b>	<b>(35.1)</b>
RM costs to sale (%)	70.3	62.1		67.3	
staff costs (%)	13.0	12.5		13.2	
other costs (%)	10.7	11.1		11.2	
OPM (%)	6.0	14.2		8.4	
Total tax rate (%)	39.5	23.3		28.1	

Source: Company

**Result Highlights**

- Company has reported order intake of Rs 29.3 bn up 61% YoY in power business on back of order flows in both domestic and overseas business.
- Consolidated revenues grew by 26% YoY mainly driven by power and industrial business. However company has reported significant fall in the operating margins at 6% in Q3FY12 vis-à-vis 14.2 % in Q3FY11.

- Consolidated revenues in Power system division reported YoY growth of 33% to Rs 20.6 bn. However, EBIT margins for the segment came down significantly at 2.5% mainly due to the closure of large ticket order of EUR 50 mn in Europe that has lead to the exceptional loss in the international subsidiary.
- Management has stated that the company is likely to restore margins over the next two to three quarters as company is now well placed in the new geographies like Indonesia and Brazil. Company aims at targeting niche markets with newly developed high margin products.
- Company aims at making India as an export hub for sourcing of various products for its international operations. Management believes that the company would immensely benefit by leveraging on its low production cost base in India.
- Revenues in the domestic power division have grown by close to 30% YoY at Rs 7.5 bn. We highlight that the company has reported growth in the segment after several quarters of disappointment in a row. EBIT margins for domestic power stood at 10.2% in the quarter.
- Revenue in Consumer Product division stood at Rs 5 bn. Company plans to expand in the rural areas for sustaining growth. Management has stated that the company has been able to clear the channel inventory in fans to a large extent.
- In the quarter company has successfully bagged a bulk order of supplying 300,000 fans from the Tamil Nadu Civil Supply Corporation. Management has stated that the current market share in Fans segment has increased to 22.7% in the quarter.

#### Segment revenue

(Rs bn)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Power	20689	15452	33.9	15166	36.4
Consumer	5033	4751	5.9	5437	(7.4)
Industrial	4749	3809	24.7	3797	25.1

Source: Company

#### Segment PBIT

(%)	Q3FY12	Q3FY11	Q2FY12
Power	2.5	13.0	2.6
Consumer	11.8	14.0	13.9
Industrial	10.4	18.2	13.4

Source: Company

- Industrial division observed 24.7% YoY revenue growth at Rs. 4.7 bn. However margins remained under pressure for the segment due to higher input prices.

#### Domestic power sector likely experience margin pressure due to stiff competition; growth in overseas markets critical for company's future growth

- With the increasing capacity in the transformer space, company is likely to observe pricing pressure in the power system division going ahead. We opine that in view of the increased competition in the industry, it would be difficult for the company to increase margins substantially, even in course of economic recovery.
- We believe that the company is currently exploring growth opportunities in the overseas industrial market and has been realizing limited prospects in the domestic market.

- Company has been making successive acquisitions in the overseas markets especially in the industrial business. We believe that it would be a challenging task for the company to establish itself in the highly competitive and technologically driven US/European markets.
- Also, in addition to the sunk costs that the company is likely to incur in the overseas geographies, it might also observe the headwinds due to the economic turmoil in the European region.
- In consumer business, we believe that the Indian market has been undergoing a transition in terms of consumer preference. Customers have shifted their preference toward branded products manufactured by the company and peer group (Havells, Bajaj Electricals etc) over the other unorganized players.
- We opine that peaking out of interest rates and inflation would be the key variables to monitor for the overall growth of the sector.

### **Financials: operating margins under pressure due to increase in input prices; debt increases substantially at the end of H2FY12**

- We project 9.4% and 11.4% growth in consolidated revenues for FY12E and FY13E respectively driven mainly by the industrial systems segment.
- We believe that the company is likely to experience margin pressure over the next two years on account of 1) increase in input prices 2) lower volumes 3) increase in overheads for funding company's future growth mainly in industrial systems division.
- In our projections, we build 9.2% EBITDA margins for FY13E. We highlight that the company has reported substantial increase in consolidated debt ascertained by the overseas subsidiaries of the company.

### **Valuation & Recommendation**

- We opine that the investment in the infrastructure space (particularly power in sector) are delayed in the short run but is likely to recover and sustain in the long term. We believe that with various power plants coming on stream in next few years, off take in T&D infrastructure is inevitable.
- However we believe that the company is likely to experience the brunt of increasing competition in the domestic market even in the longer run. Also, we opine that the overseas subsidiaries are likely to experience sluggish growth over FY12-13E due to prevailing economic crisis.
- At the current price of Rs 144, company's stock is trading at 12.9x P/E and 8.2 x EV/EBITDA on FY13E earnings.
- We maintain our '**REDUCE**' rating on the company's stock with a one year DCF based revised target price of Rs 125 (Rs 130 earlier).

**We recommend REDUCE on Crompton Greaves with a revised price target of Rs.125**

## RESULT UPDATE

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## GATEWAY DISTRI PARKS LTD

PRICE: Rs.131  
TARGET PRICE: Rs.154

RECOMMENDATION: BUY  
FY13E P/E: 9.2x

## Slightly subdued performance from CFS and Rail Segment

GDL reported its consolidated net profit at Rs 331 mn (+18%YoY, -2% QoQ). It was a tad above our expectations of Rs 325 million. Revenues have grown by ~25% YoY to Rs 1,942 mn. We were disappointed with the performance of the key CFS segment. Volumes of the CFS segment has degrown 8% both YoY and QoQ to 79,347 primarily due to poor performance of JNPT CFS. However, realisation of the CFS segment has improved to Rs 9800/TEU from Rs 9200/TEU QoQ as company has rationalized the tariffs plus the dwell time in the current quarter has increased to 12 days (previous quarter 10.5 days). We believe the high realisation in the segment is not sustainable as dwell time may come down and also because of competition. We were also disappointed with the performance of the container rail segment for which the volumes have declined ~1% QoQ to 42,697 TEUs. The company continues to operate 21 rakes primarily on Exim routes for the last 4 quarters. With Indian railways behaving inconsistently in increasing the rail haulage charges coupled with competition from Concor, the margins have dipped by 50 bps to 16.5% in the container rail segment. Operational performance of the cold chain business has improved significantly but it continues to be a small part of the consolidated entity. We assign a target price of Rs 154 for the stock and reiterate BUY. We have brought down the target price from Rs 160 as the key CFS segment is showing signs of slowing. We would wait and see the performance of one more quarter to change our estimates and again change the target price.

## Financial highlights are:

- Revenues grew by ~26% YoY and 6% QoQ in Q3FY12 to Rs.1,942 mn.
- Consolidated operating margins has decreased by ~350 bps to 31.5% QoQ led by margin contraction both in the container rail segment and CFS business as operational cost increase and competition intensifies.
- The effective tax rate has increased for the company to 30% in the current quarter from average of 15% over FY07 to FY11. This was due to the CFS business attracting full tax from FY12 (benefit under section 80IA was available until FY11 end).
- Net profit after minority interest has increased by ~ 18% YoY to Rs.331 mn in Q3FY12.

## Quarterly financial performance (consolidated)

## Consolidated quarterly snapshot

(Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Revenues</b>	<b>1546</b>	<b>1678</b>	<b>1830</b>	<b>1841</b>	<b>1,942</b>
Growth QOQ (%)	14.0	9.5	11.9	0.8	5.5
Growth YOY (%)	19.8	20.9	42.8	34.9	25.6
Expense	1,102	1,140	1,212	1,194	1,330
<b>EBIDTA</b>	<b>444</b>	<b>538</b>	<b>618</b>	<b>647</b>	<b>612</b>
EBIDTA (%)	28.7	32.1	33.8	35.1	31.5
<b>PAT (Adj)</b>	<b>280</b>	<b>350</b>	<b>334</b>	<b>335</b>	<b>331</b>
Growth QOQ (%)	37.5	27.7	-11.4	0.5	-1.2
Growth YOY (%)	40.0	38.3	138.6	63.4	18.2
Equity Capital	1,078	1,078	1,078	1,078	1,078
<b>EPS (Rs)</b>	<b>2.6</b>	<b>3.2</b>	<b>3.1</b>	<b>3.1</b>	<b>3.1</b>

Source: Company

Summary table			
(Rs mn)	FY11	FY12E	FY13E
Sales	5,893	7,632	8,813
Growth (%)	14.0	29.5	15.5
EBITDA	1,577	2,222	2,637
EBITDA margin (%)	26.8	29.1	29.9
PBT	1,018	1,724	2,069
Net profit	964	1,277	1,533
EPS (Rs)	8.9	11.8	14.2
Growth (%)	21.6	32.5	20.0
CEPS (Rs)	13.5	17.2	20.1
BV (Rs/share)	67.5	75.3	85.6
Dividend / share (Rs)	5.0	4.0	4.0
ROE (%)	13.2	15.7	16.6
ROCE (%)	7.7	10.7	11.5
Net cash (debt)	(3,123)	(3,126)	(2,858)
NW Capital (Days)	2.6	14.5	19.7
EV/EBITDA (x)	6.9	4.9	4.2
P/E (x)	14.6	11.0	9.2
P/Cash Earnings	9.6	7.6	6.5
P/BV (x)	1.9	1.7	1.5

Source: Company, Kotak Securities - Private Client Research

### CFS business performs poorly on the volume front

Volumes at all the CFS for GDL has de grown by 8% both YoY and QoQ to 79,347 TEUs. We reckon this drop in volumes because of stagnant port volumes at JNPT and increased competition. We now expect the total CFS volumes for the company to de grow by 1% to 3.3 lakh TEUs in FY12 and increase by 12% to 3.68 lakh TEUs in FY13E with the start of the Vallarpadam facility. However, the realizations has improved significantly in Q3FY12 to -Rs 9800/TEU from Rs 9200/TEU QoQ as the company has rationalized the CFS tariffs plus the dwell time in the current quarter has increased to 12 days (previous quarter 10.5 days). We believe the high realisation in the segment is not sustainable as dwell time may come down and also because of competition.

#### Performance of CFS business

CFS business	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Mumbai	61,743	60,797	59,340	57,756	50,650
Chennai	17,691	18,477	23,140	19,138	19,237
Kochi/Vizag	7,206	8,248	8,379	9,996	9,460
<b>Throughput (TEUs)</b>	<b>86,640</b>	<b>87,522</b>	<b>90,859</b>	<b>86,890</b>	<b>79,347</b>
QOQ %	3.8	1.0	3.8	-4.4	-8.7
YOY %	12.5	15.8	19.9	4.1	-8.4
<b>Revenue (Rs Mn)</b>	<b>651</b>	<b>706</b>	<b>801</b>	<b>794</b>	<b>777</b>
QOQ %	13.6	13.6	13.6	13.6	13.6
YOY %	22.5	-9.1	72.3	50.4	6.8
Revenue per TEU	7,514	8,067	8,816	9,138	9,795
EBIDTA	315	364	434	418	404
EBIDTA (%)	48.4	51.6	54.2	52.6	52.0
<b>PAT</b>	<b>267</b>	<b>307</b>	<b>281</b>	<b>276</b>	<b>270</b>

Source: Company

### Current Facilities

GDL currently has CFS operations in four locations and ICD operations at Garhi and Ludhiana. The below mentioned table explains the current facilities of GDL group. JNPT continues to be the key CFS for the company.

#### Current facility of GDL

Location	CFS/ICD	Area (acres)	Capacity (TEUs)	Status
JNPT	CFS	35	216,000	Fully operational
Punjab Conware	CFS	27.5	150,000	Fully operational
Chennai	CFS	19	80,000	Fully operational
Kochi	CFS	20	24,000	Fully operational
Garhi	ICD	90	100,000	Fully operational
Ludhiana	ICD	33	250,000	Partly Operational
Faridabad	ICD	66	100,000	Partly Operational
Vallarpadam	CFS	8	75,000	H2FY13

Source: Company

### Vallarpadam Container Freight Station (CFS)

Company in Q3FY11 had won a contract to operate a CFS at Vallarpadam (Kochi) close to International Container Transshipment Terminal (ICTT), which would boost the CFS business of the company from FY13E. This is 60:40 joint-venture of the company and the Chakiat group. Vallarpadam is a transshipment port and would primarily replace the transshipment requirement of India shifted from Colombo and Singapore. Currently dredging work is being undertaken at the port to increase the draft to enable large size container vessels to enter the port which would be over by end of FY12E.

Volume at Vallarpadam - At Vallarpadam the company has one plot of land which is of 6.5 acres and on which the company is currently constructing a CFS which would have a capacity of 50,000 TEUs from FY13E. GDL has another plot of 20 acres which is at some distance from the port and which the company would utilize in future to expand the CFS capacity. We estimate GDL's Vallarpadam CFS to handle about 25,000 TEUs in FY13E and 27,000 TEUs in FY14E. Since it is a transshipment hub (unlike JNPT and Chennai), we need to wait and see how volumes develop for all the CFS's at the port once transshipment activity starts.

### Upcoming ICD at Faridabad

This ICD would have a total capacity of 100,000 TEUs per annum and has been partly operational from Q3FY12. We expect the volumes to be low for this ICD in FY12E as container train service would begin from the terminal only in FY13E. This terminal is close to congested Tughlakabad ICD of Concor (key ICD with 20% of total volumes for Concor) and which handles close to 450,000 Exim TEUs per annum. GDL expects some of these volumes to shift from Tughlakabad to their ICD at Faridabad from FY13E onwards. Post the rail connectivity in place from FY13E, we anticipate volumes of Faridabad to grow at healthy pace.

### Container rail business

As expected, Gateway's container train business continues to be in black (4th consecutive quarter). However, the volumes were disappointing in the quarter. The volumes have declined ~1% QoQ to 42,697 TEUs. Realizations have improved 6% QoQ to Rs 23,465. The fill factor in the quarter for the company has improved to 87% in the current quarter from 84% in Q3FY11. The management indicated that the company has started new Exim service from Sanand and Jodhpur which has impacted the margins of the rail business in the current quarter.

#### Performance of rail segment

Rail Business	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Throughput (TEUs)</b>	<b>34494</b>	<b>36822</b>	<b>39159</b>	<b>43057</b>	<b>42,697</b>
QOQ %	9.3	6.7	6.3	10.0	-0.8
YOY %	20.2	15.9	37.6	36.4	23.8
<b>Revenue (Rs Mn)</b>	<b>803</b>	<b>842</b>	<b>896</b>	<b>957</b>	<b>1,002</b>
<b>Revenue per TEU</b>	<b>23,279</b>	<b>22,867</b>	<b>22,881</b>	<b>22,226</b>	<b>23,468</b>
EBIDTA	101	143	154	163	165
EBIDTA (%)	12.6	17.0	17.2	17.0	16.5
PAT	3	38	46	52	51

Source: Company

## Rail Haulage business - 5 to 6 rakes to be added till FY13, more focus on Exim segment

GDL currently owns 21 rakes. Almost 2/3 of these rakes run on Exim routes which are more profitable because of low empty running and assured cargo. Going forward the company intends to add 5/6 more rakes and most of them would be primarily placed on Exim routes. Company currently runs Exim operations primarily out of JNPT and Mundra and would start Pipavav service in the current financial year. Start of Faridabad ICD operations should help improving the Exim business and overall Ebidta margins of the company.

## Cold Chain Business

GDL operates the cold chain business through Snowman Frozen Foods (GDL owns 50.12% stake) which has 16 cold stores spread across the country with a total capacity of 19,000 pallets, It also operates around 120 refrigerated trucks and has the capability to handle variety of products. GDL would be investing around Rs 200 million in increasing the capacity to more than 30,000 pallets in the next 30 months. In our view, this business will take time to scale up for GDL given that the industry is still nascent. This segment reported topline of Rs 163 mn in Q3FY12. Management has guided that this segment would contribute Rs 1000 mn in revenues by FY13E (we estimate Rs 798 mn) with an EBIDTA margin of 20%.

### Performance of the cold chain business

Cold Chain	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Revenue (Rs Mn)	114	139	134	137	163
EBIDTA	28	31	31	32	42
EBIDTA (%)	24.6	22.3	22.8	23.4	25.8
PAT	5.1	10.1	7.7	7.9	11.0

Source: Company

## Capex to drive topline

GDL would be spending around ~Rs 2 bn on network development (ICD/CFS), purchasing rakes for its haulage business (rakes) and expanding cold chain business over the next 24 months.

### Committed capex as on January 2011

Capex Rs mn	FY12E	FY13E	FY14E
CFS/ICD	200	200	200
Rail Haulage/ICD	820	820	820
Cold Chain	100	100	100
<b>Total</b>	<b>1120</b>	<b>1120</b>	<b>1120</b>

Source: Company

The capex would be primarily done through internal accruals. The company currently has a cash balance of Rs 1.5 bn and gross debt of Rs 1.2 bn (excluding PE investment by Blackrock of ~ Rs 3 bn) on the balance sheet with operating cash flow generation of Rs 2 bn in FY13E (FY12E = 1.4bn). The above capex would expand its capacity from current two ICD at Garhi and Ludhiana and 21 rakes to three ICDs (adding Faridabad by Q3FY11) and up to 26 rakes by FY13E. With this capex we expect GDL's sales to grow at 20% CAGR over FY11 to FY13E.

### Key risk- fall in Global Trade

The most important risk to GDLs business is the fall in global trade. Sharp deterioration in overall economy/ trade would have a substantial negative impact. Exim trade typically grows at ~2x growth in GDP, and any significant drop in India's GDP could lead to a sharp deceleration in Exim trade growth, impeding GDL's growth prospects.

### Valuation and Outlook

**We recommend BUY on Gateway Distriparks with a revised price target of Rs.154**

GDL is into multiple businesses 1) CFS - slowing down but steady 2) rail business - capital intensive, fast growing venture and highly competitive 3) cold storage business - small and nascent but a big opportunity.

Combining GDL's various businesses of different capital intensity and different growth trajectory; we value the company on 3 financial parameters - EV/EBITDA, P/B and P/E. We assign a target price of Rs 154 for the stock and reiterate BUY. From the CMP of Rs 131 the stock has an upside of 18 %. We have brought down the target price as the key CFS segment is showing signs of slowing. We would wait and see the performance of one more quarter to change our estimates and further change the target price.

#### Valuation

Parameter	Historical average one-year (FY09 to FY11)	FY13E (x)	Target (Rs)
Price/Earnings	14.0	12.0	170
Price/Book	2.5	2.0	171
EV/EBIDTA	7.5	6.5	120
Target Price (Rs)			154

Source: 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)
1-Feb	8K Miles Soft	Padmanabhan Raghavan	S	42,200	57.4
1-Feb	Arrow Securi	Shardaraj Tradefin Ltd	B	56,000	13.9
1-Feb	Arrow Securi	Yoginkumar H Patel	S	56,000	13.9
1-Feb	Aryaman Fin	Sadhana Sachin Deshmukh	B	90,000	22.3
1-Feb	Aryaman Fin	Rajesh H Huf	S	90,000	22.3
1-Feb	Axtel Inds	Kirit Tulsidas Vassa	S	50,576	11.4
1-Feb	Banas Finance	Pondurai	S	700,000	55.7
1-Feb	Banas Finance	Pondurai Balaselvi	S	724,000	55.7
1-Feb	Clarus Finance	Piyush Shah	B	100,000	59.0
1-Feb	Clarus Finance	Lilygold Merchants Pvt Ltd	S	163,475	59.0
1-Feb	Compulearn	Srecko Indhan Ltd	S	131,887	16.6
1-Feb	Cupid Trades	Applitech Infotech Pvt Ltd	B	20,000	218.2
1-Feb	Cupid Trades	Shreeji Broking Pvt Ltd	S	20,008	218.2
1-Feb	Cupid Trades	Ramashivaleasefinance PvtLtd	S	15,400	213.3
1-Feb	Cupid Trades	Ami Dipesh Talati	S	6,285	214.5
1-Feb	Cupid Trades	Siddhi Vinayak Tradelink Pvt.Ltd.	S	5,337	214.0
1-Feb	Essen Supp	D R Finance And Investments (India)	B	34,000	57.8
1-Feb	Essen Supp	Krishna Anil Chokhani	S	57,500	57.8
1-Feb	Gflfin	Manu Vyapar Pvt. Ltd.	B	120,000	31.3
1-Feb	Gflfin	Ankit Lefine Pvt Ltd	B	40,000	31.2
1-Feb	Gflfin	Anand Dubey	S	49,500	31.3
1-Feb	Gflfin	Kalptaru Investments Pvt Ltd	S	50,000	31.3
1-Feb	GK Consultants	Usha Agarwal	B	47,500	14.3
1-Feb	HDFC	Cmp Asia Ltd	S	20,000,000	677.2
1-Feb	Kajaria Cerm	Kala Hiralal Doshi	B	412,939	117.3
1-Feb	Kanchan Intl	Dharmendra Harilal Bhojak	B	28,316	87.5
1-Feb	Kanchan Intl	Slp Traders (Satish Vasant Ghone )	B	23,500	84.3
1-Feb	Kanchan Intl	Dharmendra Harilal Bhojak	B	23,426	84.5
1-Feb	Kanchan Intl	Savitaben Mangukiya	S	25,000	84.5
1-Feb	Kanchan Intl	Narendrakumar Popatlal Vora Huf	S	30,000	87.5
1-Feb	Kanchan Intl	Paresh Arvindlal Shah	S	50,000	86.9
1-Feb	Kanchan Intl	Geetadevi Pratapsinh Jadhav	S	35,000	85.3
1-Feb	Karma Ind	Multiplast Trading Company Pvt Ltd	B	170,790	46.8
1-Feb	LKP Fin	Grovsnor Investment Fund Ltd	B	250,000	71.0
1-Feb	LKP Fin	G K K Capital Markets Pvt Ltd	S	224,000	71.0
1-Feb	Mudit Finlease	Arihant Advertising Pvt Ltd	B	40,000	243.6
1-Feb	Mudit Finlease	Decent Financial Services Pvt Ltd	B	35,000	241.0
1-Feb	Niraj Cement	Niftys Technologies Pvt Ltd	B	93,315	18.5
1-Feb	Parichay Invest	Megha Nirav Shah	B	13,500	37.2
1-Feb	Parichay Invest	Jitendrakumar Ramanlal Gandhi	B	13,000	37.5
1-Feb	Parichay Invest	Niravkumar Saitshkumar Shah	B	13,500	37.2
1-Feb	Parichay Invest	Maitry Kamlesh Parekh	S	15,000	37.2
1-Feb	Parichay Invest	Kamlesh Bachubhai Parekh	S	25,000	37.4
1-Feb	Pasupati Fin	Amit Krishnakant Thakker	B	30,000	31.9
1-Feb	Ranklin Sol-\$	D V Durgam	B	36,010	11.3
1-Feb	Ranklin Sol-\$	Chandra Sekhara Rao Battula	B	27,001	11.4
1-Feb	Ranklin Sol-\$	Vaddepalli Anjaneyulu	S	36,000	11.3
1-Feb	Ravinay Trad	Nile Enterprises Pvt Ltd	B	31,000	322.1
1-Feb	Scope Ind	Suryakantbhai Kashinath Soni	B	70,013	17.2
1-Feb	Scope Ind	Umadevi Alluri	S	67,000	17.0
1-Feb	Tutis Tech-\$	Bhanwarlal M Sanghvi HUF	B	94,500	16.1

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Ind	831	1.7	7.8	3.8
L&T	1,345	2.6	6.0	3.3
Tata Steel	471	4.5	4.4	8.2
<b>Losers</b>				
ICICI Bank	890	(1.4)	(4.6)	8.0
ITC	202	(1.2)	(4.2)	5.8
HDFC	689	(1.3)	(3.9)	5.0

Source: Bloomberg

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