Economy News

- Railway Minister Malikarjun Kharge has proposed extension of rail connectivity to the northeastern states had been a focus area of the Centre and new lines were being laid in the region to provide better connectivity to the rest of the country. (BS)
- The industrial production growth rate remained in the negative zone for the third month in a row, contracting 0.6 per cent in December 2013, mainly on sluggishness in the manufacturing sector that contracted 1.6%. (TOI)
- Cabinet Committee on Economic Affairs (CCEA) would likely approve a subsidy amount of Rs 3,333 per tonne for export of 4 million tonne of raw sugar for February and March. The subsidy amount has been calculated on the basis of the current exchange rate. (ET)

Corporate News

- **ONGC Videsh (OVL)** has signed separate agreements with consortia of international banks for raising $2.5 billion offshore borrowings to fund the acquisition of a minority stake in an offshore gas field in Mozambique. (ET)
- Six months after a 50-day employees' strike at the Pune facility of **Bajaj Auto Ltd** was called off, the plant is bracing up for another showdown between employees and the management. (BL)
- Taking note of the IT industry's need to push the innovative agenda, **Wipro** has invested in technology two start-up companies. Details on the name or business of these companies were not immediately known. (BS)
- **Tata Motors Ltd** is set to enter Russia again, with both the Tata and Daewoo brands of trucks and buses. The company had entered Russia in 2008-09 but the plans did not take off because of the global financial crisis. (BL)
- **Ashok Leyland** would likely be selling its prime property in Chennai. This is part of a plan involving sale of immovable property to tackle the high debt it is facing following the slowdown in commercial vehicle sales over the last several quarters. (BL)
- **Balco** stake-sale gets Govt approval. The Department of Disinvestment has also initiated the process for selling the remaining stake sale through open auction in Hindustan Zinc. (BL)
- **Jet Airways** has sought approval of shareholders to sell the frequent flyer programme business to its subsidiary JPPL for Rs 6.9 bn. The firm sought nod of shareholders to transfer,sell or dispose of the Jet Privilege frequent flyer programme to its subsidiary Jet Privilege Private as a going concern on a slump sale basis. (BL)
- **GCPL** is set to launch mosquito repellent. Company will launch a liquid vaporizer called Good Knight Xpress. The repellent will be initially sold in tier-I and -II cities. (BS)
- **NTPC Ltd** is evaluating taking over at least six projects including Larsen and Toubro Ltd's (L&T) Rajpura project in Punjab and all the thermal power projects of Jaypee Group, as it seeks to consolidate its presence as India's largest power generation company, leveraging the cash on its books and the bargains on offer. (Livemint)

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

Equity

	12 Feb 14	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,448	0.4	(3.2)	1.3
NIFTY Index	6,084	0.4	(3.0)	1.6
BANKEX Index	11,832	1.0	(6.0)	(1.5)
BSET Index	9,243	0.2	(3.6)	9.1
BSETCG INDEX	9,592	1.5	0.3	10.0
BSEOIL INDEX	8,441	1.3	(3.4)	1.2
CNXMcap Index	7,581	(0.0)	(2.8)	2.3
BSESMCAP INDEX	6,349	0.0	(3.7)	7.8
World Indices				
Dow Jones	15,964	(0.2)	(1.8)	0.9
Nasdaq	4,201	0.2	2.1	5.9
FTSE	6,675	0.0	(1.2)	0.7
NIKKEI	14,800	0.6	(7.9)	0.6
HANGSENG	22,286	1.5	(2.9)	(1.0)

Value traded (Rs cr)

	12 Feb 14	% Chg - Day
Cash BSE	1,792	10.9
Cash NSE	9,955	4.5
Derivatives	103,808.8	28.4

Net inflows (Rs cr)

	11 Feb 14	% Chg	MTD	YTD
FII	(199)	(54)	(1,977)	(2,118)
Mutual Fund	(42)	(87)	(228)	(2,743)

FII open interest (Rs cr)

	11 Feb 14	% Chg
FII Index Futures	11,193	(2.5)
FII Index Options	47,006	(0.5)
FII Stock Futures	30,210	0.6
FII Stock Options	1,705	5.2

Advances / Declines (BSE)

12 Feb 14	A	B	T	Total	% total
Advances	89	767	391	1,247	46
Declines	116	880	355	1,351	49
Unchanged	2	78	54	134	5

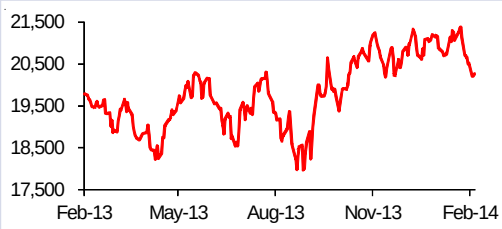
Commodity

	12 Feb 14	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	100.1	(0.2)	9.1	6.7
Gold (US$/OZ)	1,294.9	0.4	3.2	1.5
Silver (US$/OZ)	20.4	0.8	(0.2)	(1.3)

Debt / forex market

	12 Feb 14	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.8	8.8	8.7	8.9
Re/US$	62.1	62.2	61.5	63.7

Sensex



Interim Railway Budget

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Interim Railway Budget - 2014-15

Annual plan outlay revised lower; Operating ratio deteriorates; Rail Tariff Authority being set up

- The interim railway budget is almost in line with expectations with no major strategic initiatives announced.
- Freight rates and passenger fares have been left untouched
- Stress has been laid on more trains and better passenger amenities. 17 New Premium Trains, 38 Express Trains have been proposed
- Freight loading target raised to 1,052mn tons in FY14 and further to 1101 tons in FY15.
- However, the outlay for 2013-14 has been reduced and the operating ratio has also deteriorated to 90.8.
- The setting up of a Rail Tariff Authority has been announced

No change in freight rates and passenger fares; Rail Tariff Authority Being Set Up

As expected, the Railway Minister (RM) has left the Passenger Fares and Freight rates unchanged. However, we do understand that, freight rates are generally increased during the fiscal and passenger fares have also been increased during FY14.

An independent Rail Tariff Authority is being set-up to advise the Government on fixing of fares and freight of Railways. Determination of rates will no longer be an exercise behind veils where the Railways and the users could only peep covertly at what was happening on the other side.

The Rail Tariff Authority will not only consider the requirements of the Railways but also engage with all stake-holders to usher in a new pricing regime through a transparent process. This would lead to an era of rationalisation of fares and freight structures for improving the fare-freight ratio and gradually bringing down cross subsidization between different segments. It is expected that this would go a long way towards improving the financial health of the Railways, lead to growth to match expectations of the nation and provide stability by minimizing volatility of revenue streams.

Finances

- For 2013-14, earnings from freight and passenger services are estimated at Rs.1,315bn.
- Freight earnings and passenger earnings are expected to bring in Rs.940bn and Rs.375bn.
- With higher cost of fuel, employee recruitments, pension contribution and also higher dividends, the operating ratio is expected to be at 90.8% as against budget estimates of 87.8%.
- Thus, the plan outlay for 2013-14, which was at Rs.633bn, has been revised to Rs.594bn.
- Anticipating healthier economic growth, the Railways has targeted a record Rs.1600bn in revenue for FY15, though no increase has been proposed in passenger fares and freight rates.
- The budget estimates for goods, passenger, other coaching and sundry other earnings have been kept at Rs.1057bn, Rs.452bn, Rs.42bn and Rs.55bn, respectively.

- The ordinary working expenses have been proposed at Rs.1106bn in 2014-15, which is Rs.136bn higher than the revised estimate for 2013-14. Pension outgo has been budgeted at Rs.270bn as against the revised 2013-14 estimate of Rs.240bn.
- Total working expenses are budgeted at Rs.1442bn as compared to Rs.1273bn in revised estimate for 2013-14.
- The operating ratio is, thus, expected to be 89.8%.
- The Annual Plan for 2014-15 envisages investments of Rs.643bn v/s revised estimates of Rs.594bn in 2013-14. Budgetary support from general revenue has been proposed at Rs.302bn.

Stress on passenger amenities

The RM has stressed the need for better passenger amenities and has proposed several measures towards the same. Some of the announcements are as under :

- 17 New premium trains, 38 express trains and 10 passenger trains have been proposed
- Air-conditioned EMU services are expected to commence in Mumbai area by July 2014
- Passenger Information Display System will be installed in important trains to indicate the next station and expected arrival time
- The scheme for upgradation of passengers introduced in the year 2006 has been proposed to be extended to second class sitting, AC Chair car and Executive chair car passengers
- All 5400 unmanned level crossings have been eliminated
- Portable Fire-Extinguishers are proposed to be installed in Coaches and Induction Based Cooking systems to be introduced in Pantry Cars, to prevent fire
- More Bio-Toilets are proposed to be installed in trains and Green Curtains to be put up along the tracks close to major stations
- Considering the trend of passenger earnings, the revised target for 2013-14 has been kept at Rs.375bn as against budget estimates of Rs.422 bn.

Freight

- Railways is likely to surpass its freight loading target of 1047 million tonnes in FY14 and the revised target has been set at 1052 MT.
- The loading target for 2014-15 has been set at 1101 million tonnes. The revised freight earnings estimates stand at Rs.940bn as against budget estimates of Rs.935bn.
- The increased target for FY15 is based on expectations of growth returning to the economy, in turn bringing in more business to railways.
- In order to increase the share traffic, an innovative "Empty Flow Discount Scheme" is being formulated and will be implemented shortly.
- Moreover, some of the restrictions on movement of imported commodities through containers have been eased.
- Further, to increase throughput of container traffic, the permissible carrying capacity of 20 feet containers has been enhanced by 4 tonnes by necessary upgrade of rolling stock.

Expansion programs to be taken up

- The RM has announced various initiatives to expand the railway network.
- 2014-15 will see surveys for 19 new lines and doubling of 5 Tracks being taken up
- Railways will connect Meghalaya and Arunachal Pradesh with the rest of the country as the first line becomes operational in FY15.
- Feasibility study is being taken up for a High Speed Trains in Mumbai-Ahmedabad Corridor and Semi High Speed Projects will be taken up on other select routes.
- The RM has announced that, with a view to fund these initiatives, Railways will attract private investments from domestic investors in rail sector
- Also, a proposal is under consideration of the Government to enable Foreign Direct Investment (FDI) in rail infrastructure projects.

ECONOMY UPDATE

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DECEMBER IIP

IIP de-grew by -0.6% in Dec, CPI falls to 8.8%, Core CPI remains elevated at 8%

- **During Apr-Dec IIP contracted by -0.1%. CPI food inflation as expected cools down. CPI core inflation remains elevated.**
- **M-o-M improvement in IIP is broad based suggesting clear bottoming up of economic activities.**
- **We believe significant demand destruction seen in IIP (degrowth in consumer goods, and durables) should help in containing inflation expectations. There is strong dis-inflationary pressure building up and further monetary policy tightening may worsen the prospects of economic revival.**
- **Next monetary policy meeting is scheduled on 1st Apr. We are expecting a pause in monetary policy actions until the election outcome and full fiscal budget (likely in Jun/Jul).**

Industrial production in the month of Dec reported de-growth of 0.6% vs. de-growth of 1.3% in Nov (revised from -1.6%). On m-o-m basis, IIP Index reported a jump of 9% compared to 4% increase last month. M-o-M improvement in IIP is broad based suggesting clear bottoming up of economic activities. The 3-month moving average in IIP growth rate stays dismal at -1.5%. IIP growth in first nine months of current fiscal has averaged at -0.1%. We expect some recovery in economic activities from current levels. We believe significant turn around is only likely post next governments formation, assuming we would get stable and effective government.

Exhibit 1: Performance of Industrial Production (YoY %)

	Mining		Manufacturing		Electricity		General	
Month	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**
April	-2.8%	-3.4%	-1.8%	1.8%	4.6%	4.2%	-1.3%	1.5%
May	-0.7%	-5.9%	2.6%	-3.2%	10.3%	6.2%	2.5%	-2.5%
June	-1.1%	-4.6%	-3.2%	-1.7%	8.0%	0.0%	-2.0%	-1.8%
July	-3.5%	-3.0%	0.0%	3.0%	13.1%	5.2%	-0.1%	2.6%
August	-0.3%	-0.9%	2.4%	-0.2%	9.5%	7.2%	2.0%	0.4%
September	2.2%	3.6%	-1.6%	1.4%	9.0%	12.9%	-0.7%	2.7%
October	-0.2%	-3.2%	9.9%	-1.8%	5.6%	1.3%	8.4%	-1.6%
November	-5.5%	1.7%	-0.8%	-2.7%	14.6%	6.3%	-1.0%	-1.3%
December	**-3.1%**	**0.4%**	**-0.8%**	**-1.6%**	**9.1%**	**7.5%**	**-0.6%**	**-0.6%**
January	-1.8%		2.7%		3.2%		2.5%	
February	-7.6%		1.9%		8.0%		0.5%	
March	-2.7%		4.2%		2.7%		3.4%	

Source: MOSPI and Kotak Securities - Private Client Research

CPI inflation for January 2014 came at 8.79% as compared to 9.87% for the month of December 2013. The corresponding provisional inflation rates for rural and urban areas for January 2014 are 9.43% (vs. 10.49% in Dec) and 8.09% (vs. 9.11% in Dec).

CPI Inflation (YoY %)

	CPI (%)	Core CPI (%)	CPI Food (%)
Jan-13	10.79%	8.44%	11.15%
Feb-13	10.91%	8.45%	9.73%
Mar-13	10.39%	8.60%	8.68%
Apr-13	9.39%	8.14%	7.81%
May-13	9.31%	7.76%	6.57%
Jun-13	9.87%	7.88%	7.43%
Jul-13	9.64%	8.27%	8.32%
Aug-13	9.52%	8.19%	9.29%
Sep-13	9.84%	8.47%	10.37%
Oct-13	10.17%	8.16%	12.36%
Nov-13	11.16%	8.01%	14.18%
Dec-13	9.87%	7.94%	10.58%
Jan-14	8.79%	7.97%	8.77%

Source: MOSPI and Kotak Securities - Private Client Research

The Mining, Manufacturing, and Electricity segments recorded y-o-y growth rates of 0.4%, (-) 1.6% and 7.5% as respectively. The cumulative growth in the three sectors during Apr-Dec is -1.8%, -0.6% and 5.6% respectively. As per Use-based classification, the growth rates in Dec are 2.4% in Basic goods, -3.0% in Capital goods and 4.5% in Intermediate goods. The Consumer durables and Consumer non-durables have recorded growth of of -16.2% and 1.6% respectively, with the overall growth in Consumer goods being -5.3%.

Components of Industrial Production

In terms of industries, less than 30% of the industry groups in the manufacturing sector have shown negative growth in Dec. The industry group 'Radio & TV' has shown the highest negative growth of -35.7%, followed by -26.1% in 'Furniture' and -22.1% in 'computing machinery'. On the other hand, the industry group 'wearing apparel' has shown a positive growth of 19.7% followed by 13.5% in 'chemicals products' and 12.9% in 'electrical machinery'.

Exhibit 2: Performance of Use Based Industries (YoY %)

	Basic goods		Capital goods		Intermediate goods		Consumer goods	
Month	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**
April	1.9%	1.4%	-21.5%	-0.3%	-1.8%	2.5%	3.7%	1.7%
May	4.4%	-0.3%	-8.6%	-3.7%	3.4%	1.1%	4.4%	-6.6%
June	3.6%	-1.9%	-27.7%	-6.6%	0.9%	1.3%	3.7%	-1.5%
July	1.0%	1.0%	-5.8%	15.9%	0.1%	3.2%	0.7%	-0.7%
August	3.0%	0.9%	-4.4%	-2.0%	2.7%	3.8%	3.6%	-0.9%
September	2.7%	6.7%	-13.3%	-6.6%	1.7%	4.4%	0.0%	1.0%
October	4.3%	-1.4%	7.0%	2.4%	9.6%	2.2%	13.8%	-4.9%
November	1.1%	2.7%	-8.5%	-0.1%	-1.4%	3.4%	-0.3%	-8.8%
December	2.2%	2.4%	-1.1%	-3.0%	-0.2%	4.5%	-3.6%	-5.3%
January	3.7%		-2.5%		3.5%		2.5%	
February	-1.8%		8.7%		-1.0%		0.4%	
March	3.0%		9.0%		2.4%		1.8%	

Source: MOSPI and Kotak Securities - Private Client Research

Some of the important items showing high negative growth during the current month over the same month in previous year include: 'polythene bags' (-58.4%), aluminium conductor (-55.9%), 'phones (-39.0%), 'boilers' (- 38.9%), 'earth moving machinery' (-38.2%), 'gems and jewellery' (-33.3%), 'polyester chips' (-31.9%), 'molasses' (- 30.3%), 'pens' (-29.2%), 'computers' (-25.9%), 'wood furniture' (-25.7%) and 'commercial vehicles' (-25.3%).

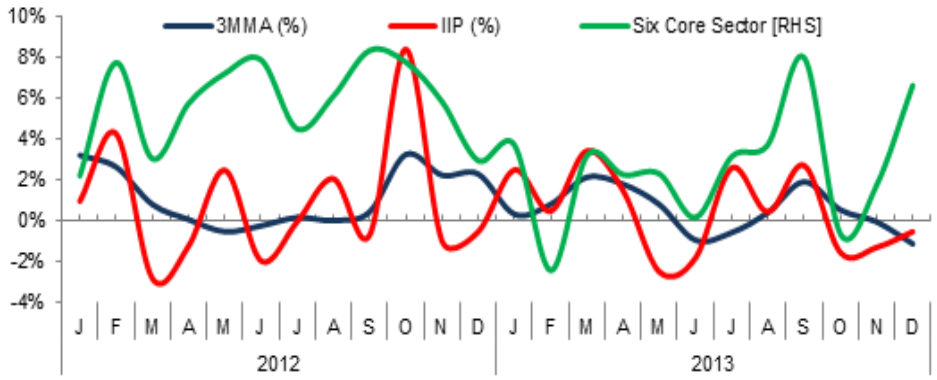
Some of the other important items showing high positive growth are: 'vitamins' (198.4%), 'sugar machinery' (78.8%), 'ayurvedic medicaments' (62.7%), 'cable, rubber insulated' (59.8%), 'room AC' (47.2%), 'steel structures' (38.5%), 'leather garments' (27.4%), 'transformers' (26.7%), 'stainless steel' (25.0%), 'cashew kernels' (23.4%) and 'antibiotics' (20.1%).

WPI Inflation (YoY %)

		Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
WPI (%)	Weight	5.2%	5.9%	7.0%	7.0%	7.2%	7.5%	6.2%
Primary (%)	20.1	8.8%	9.7%	13.6%	14.0%	14.6%	15.9%	10.8%
Fuel (%)	14.9	7.5%	11.4%	12.7%	11.7%	10.5%	11.1%	11.0%
Manufacturing (%)	65.0	2.9%	2.6%	2.3%	2.4%	2.8%	2.6%	2.6%
Inflation (non food)	85.7	4.0%	4.4%	4.3%	4.5%	4.8%	4.8%	4.5%
Food Inflation (primary plus mfg)	24.3	8.7%	9.3%	13.3%	12.9%	13.0%	13.8%	9.5%
Inflation (non food, non fuel)	60.8	2.6%	2.4%	2.2%	2.8%	3.5%	3.3%	3.0%
Inflation (non food manufacturing)	53.2	2.0%	2.0%	2.2%	2.6%	3.0%	2.6%	2.7%

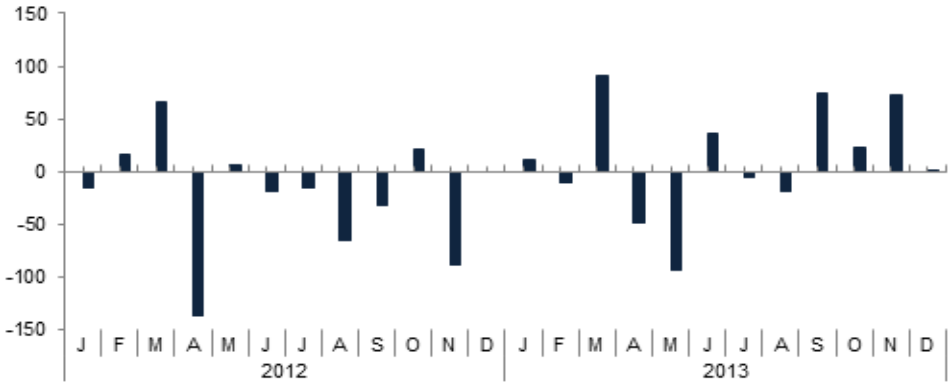
Source: MOSPI and Kotak PCG

Exhibit 3 : IIP & Core Secotr Growth Trend



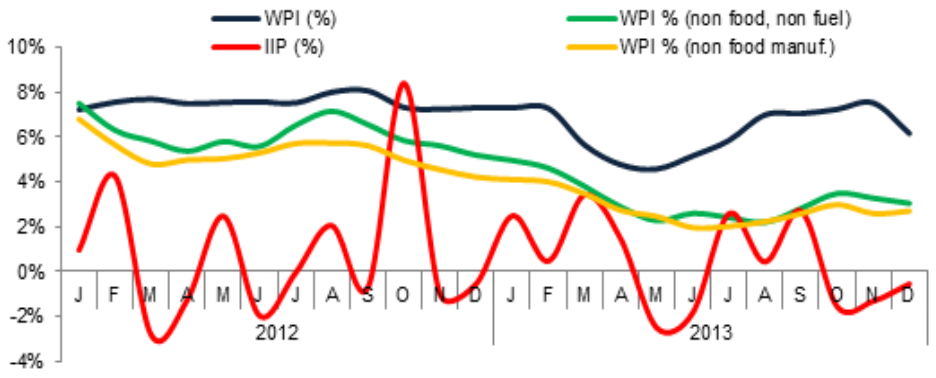
Source: MOSPI

Exhibit 4: Magnitude of IIP Revisions (in bps)



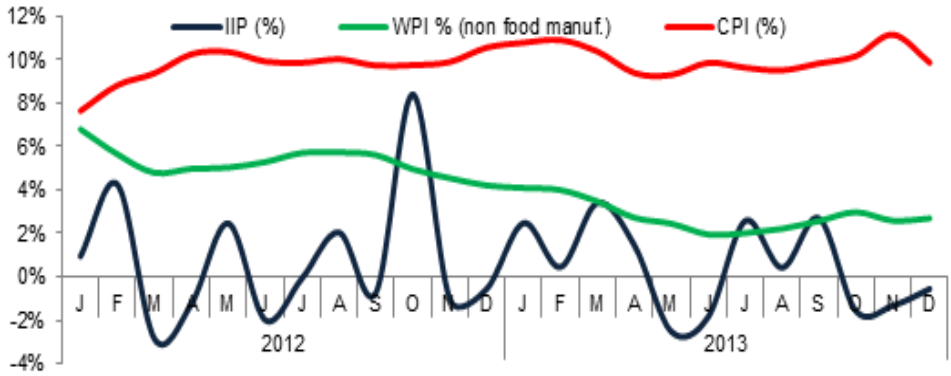
Source: MOSPI

Exhibit 5 A: Inflation and growth trade-off



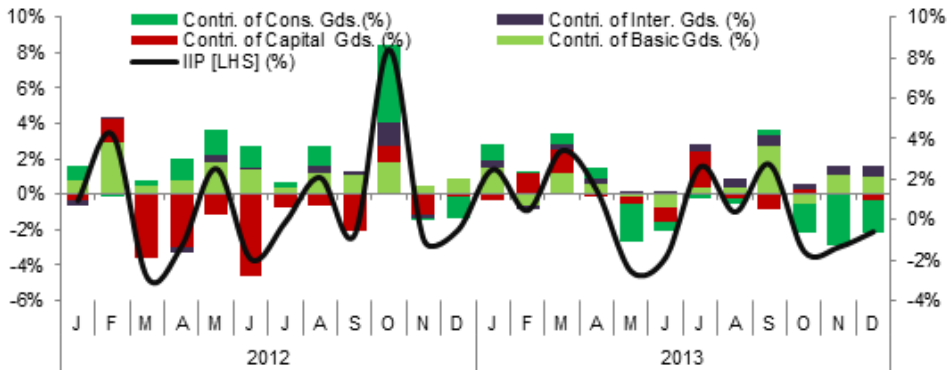
Source: MOSPI

Exhibit 5 B: Inflation vs. Growth



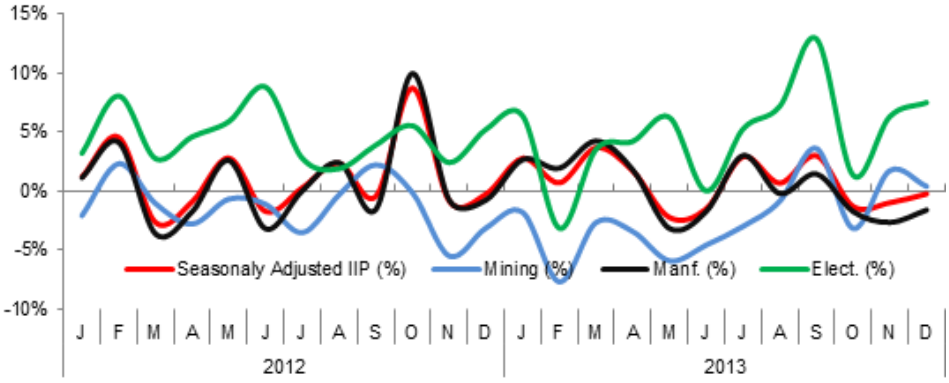
Source: MOSPI

Exhibit 6: Contribution to IIP



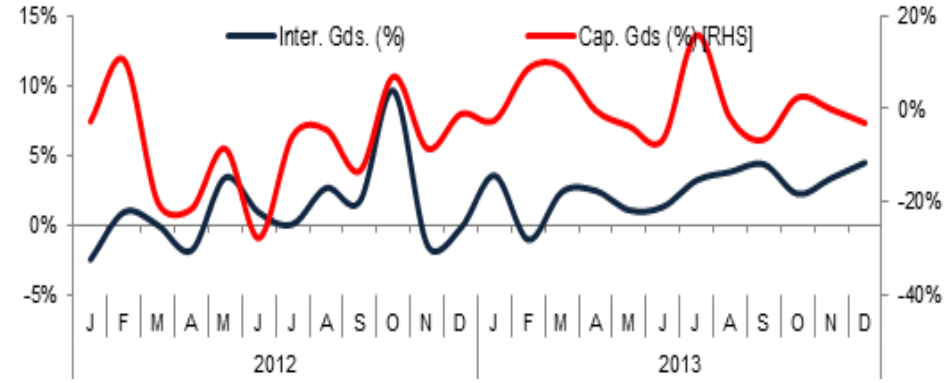
Source: MOSPI

Exhibit 7: Sectoral Compenents of IIP



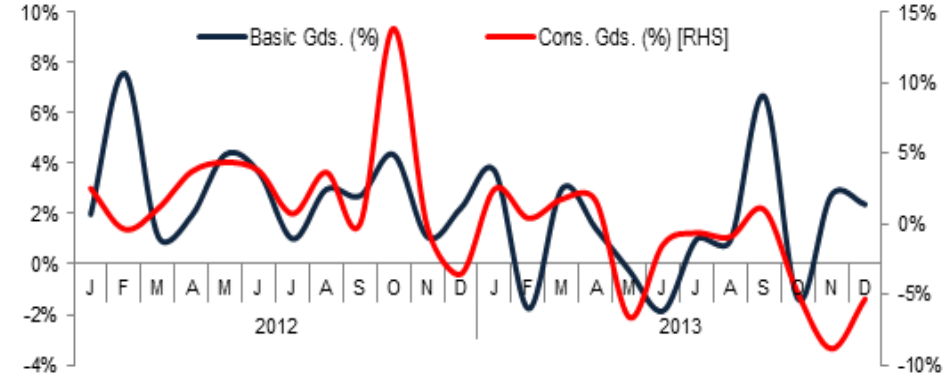
Source: MOSPI

Exhibit 8: Use Based IIP Compenents - Cap. Gds. & Inter. Gds.



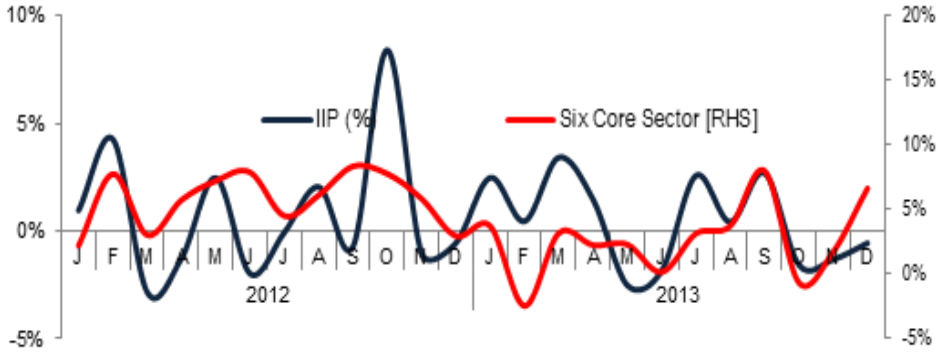
Source: MOSPI

Exhibit 9: Use Based Compenents of IIP - Consumer Goods



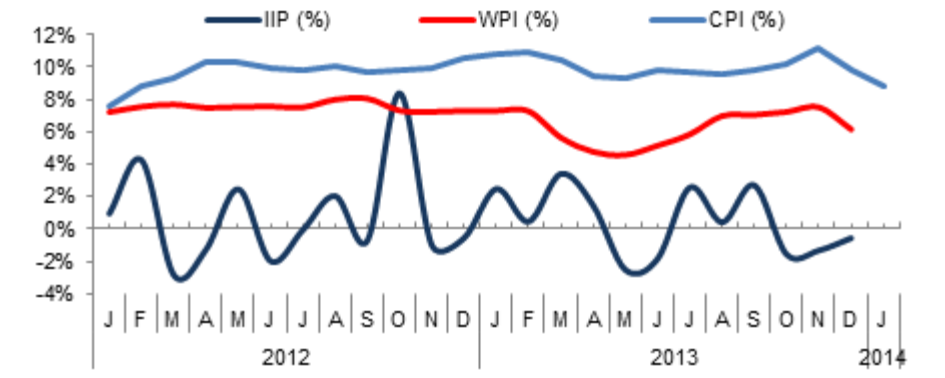
Source: MOSPI

Exhibit 10: Core Sector and IIP Growth Rates



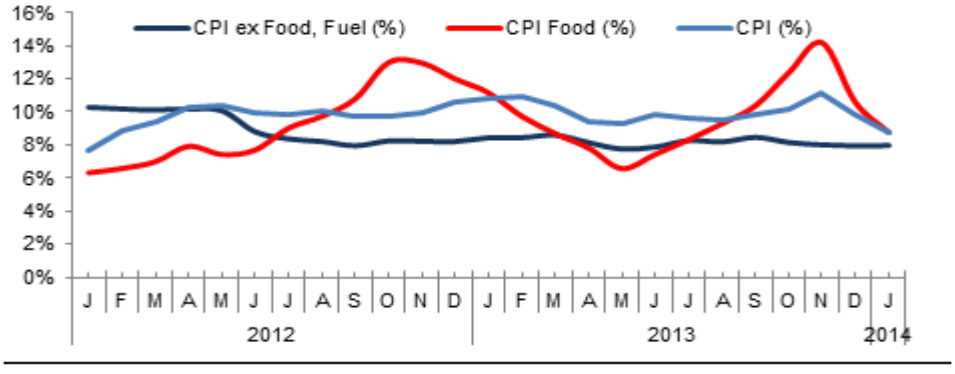
Source: MOSPI

Exhibit 11: Inflaiton (CPI/WPI) and Growth (IIP)



Source: MOSPI

Exhibit 12: CPI, Food and ex-Food CPI



Source: MOSPI

RESULT UPDATE

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BAJAJ ELECTRICALS LTD (BAEL)

PRICE: Rs.234 **RECOMMENDATION: SELL**
TARGET PRICE: Rs.197 **FY15E P/E: 16.1x**

BAEL has reported Q3FY14 results above our estimates on profitability front; operating margins expanded YoY on account of loss minimization in E&P business.

Margins in project business improved sequentially but continue to remain subdued on account of execution of legacy orders. We revise our FY15 earnings estimate upward to reflect improved margins in E&P business and reduced working capital requirement with closure of loss making legacy orders. However, in view of downside to our target price we maintain 'SELL' recommendation on company's stock with DCF based revised price target of Rs 197 (Rs 148 earlier).

Summary table

(Rs mn)	FY13	FY14E	FY15E
Sales	33876	42164	48684
Growth (%)	9.3	24.5	15.5
EBITDA	1108	1298	2888
EBITDA margin (%)	3.3	3.1	5.9
PBT	445	533	2182
Net profit	267	373	1440
EPS (Rs)	2.7	3.8	14.6
Growth (%)	-79.9	39.8	285.9
CEPS	4.2	5.9	16.6
Book value (Rs/share)	73.7	76.2	85.7
DPS (Rs)	2.8	2.0	1.1
ROE (%)	3.7	5.0	18.0
ROCE (%)	2.9	4.0	14.6
Net cash (debt)	(1099)	(975)	(850)
NW Capital (Days)	28	18	16
EV/Sales (x)	0.7	0.6	0.5
EV/EBITDA (x)	21.9	18.7	8.4
P/E (x)	86.6	61.9	16.1
P/Cash Earnings	56.2	39.6	14.1
P/BV (x)	3.2	3.1	2.7

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q3FY14	Q3FY13	YoY (%)	Q2FY14	QoQ (%)
Net Sales	**10334**	**8842**	**16.9**	**9602**	**7.6**
Other Income	25	27	(8.6)	20	21.8
Raw material cost	-245.6	262	(193.7)	1003	(124.5)
Purchase of traded goods	8137.8	6342.9	28.3	6608	23.2
Employee cost	456.3	396	15.2	585	(22.0)
other expenditure	1408.4	1370.2	2.8	1421	(0.9)
Total expenditure	9757	8371	16.6	9617	1.5
EBITDA	**577**	**471**	**22.4**	**(15)**	
Depreciation	104	35	194.6	39	166.1
PBIT	**497**	**463**	**7.4**	**(34)**	
Interest expense	197	177	11.5	196	0.7
PBT	300	286	4.9	(231)	
Tax Expense	99	57	73.1	(77)	
PAT	**200.4**	**228.3**	**(12.2)**	**(153.5)**	
EPS (adj)	**2.0**	**2.3**	**(12.2)**	**(1.5)**	
EBITDA (%)	5.6	5.3		(0.2)	
Tax (%)	33.1	20.1		33.4	
RM/Sales (%)	76.4	74.7		79.3	

Source: Company

Result Highlights

- In Q3FY14, BAEL revenues stood at Rs 10.3 bn up 17% YoY on account of 1) high execution of non-profitable orders in project business 2) growth in lighting diviosn. E&P segment reported loss minimization though margins continued to remain subdued on account of low margin legacy orders. E&P segment reported revenue at Rs 2.6 bn vis-à-vis Rs 1.4 bn in Q3FY13. Operating loss for the segment stood at Rs 135 mn vis-à-vis loss of Rs 401 mn in Q3FY13 and Rs 433 mn in Q2FY14.
- Management has stated that the major restructuring cost shall likely get over in the next two quarters and the company would thereafter aim for only high margin orders. However previous orders might continue to disrupt company's performance in Q4FY14. Current order book in E&P segment stands at Rs 21 bn including Rs 15 bn rural electrification and Rs 3 bn in high mast.

- Consumer appliances division revenues stood to Rs 5.1 bn vis-à-vis Rs 5 bn in Q3FY13 implying muted YoY growth. We highlight that the slowdown in consumer appliances segment has also been reflected in the Q3FY14 results of Havells India and Crompton Greaves as well. We believe that the growth in the sector is getting adversely impacted by economic slowdown and inflation. Management has stated that the traction in some of the new products like induction cookers has remained low in the quarter.
- BAEL has reported significant YoY expansion in operating margins Q3FY14 at 5.6% against 1% in 1HFY14. Margin expansion is explained by execution of new adequate margin orders along with loss making legacy orders in E&P segment. In consumer business, margins reduced to 9.6% vis-à-vis 11.8% in Q3FY13. Margins appear to have improved sequentially on account of absence of one-time costs related to Rs 120 mn spent on special advertising campaign of 'Bajaj 75 Years advertisement series' and Rs 60 mn consultancy charges paid for corporate consulting.
- Company has been incurring additional cost on business promotion activities and has budgeted for nearly 25% increase in advertising expenses to Rs 750 mn in FY14. For FY15, company has guided for an advertising budget of Rs 400 to Rs 500 mn.

Segment Results Rs (mn)

	Q3FY14	Q3FY13	YoY%	Q2FY14	QoQ %
Consolidated revenues					
Lighting	2472	2215	12	2509	(1.5)
Consumer Durables	5192	5044	3	4539	14.4
Engg Projects	2667	1469	82	2544	4.8
PBIT					
Lighting	129	151	(15)	191	(32.7)
Consumer Durables	500	598	(16)	386	29.5
Engg Projects	(135)	(401)		(433)	na
PBIT (%)					
Lighting	5.2	6.8		7.6	
Consumer Durables	9.6	11.8		8.5	
Engg Projects	-5.1	-27.3			

Source: Company

- Higher depreciation at Rs 104 mn and interest charges at Rs 197 mn in Q3FY14 vis-à-vis Rs 177 mn resulted in PAT at Rs 200 mn vis-à-vis Rs 228 mn in Q3FY13.

Company likely to report margin expansion and sustain revenue growth in E&P business through FY15

We project revenue growth at 15.5% YoY at Rs 48 bn in FY15 on back of 13% and 15% growth in consumer durable and lighting business respectively. We build 20% revenue growth in E&C business in FY15 on back of Rs 21 bn order book executable over next 18 months.

Considering that majority of low margin legacy orders are over, we believe that the company would likely report margin expansion in E&P business in FY15. In our projected financials we now build 5.9% (5% earlier) EBITDA margins for FY15. We believe that with closure of old project locations, BAEL could benefit in FY15 in terms of release in working capital blocked in these sites.

Change in estimates.

FY15E Estimates

(Rs mn)	New	Old	(%) change
Revenues	48684	47857	1.7
EBITDA	2888	2560	12.8
PAT	1440	1233	16.8
EPS (Rs)	14.6	12.5	16.6

Source: Kotak Securities - Private Client Research

Change in target price to Rs 197 from Rs 148 earlier

- Upward revision in FY15 earnings due to 1) anticipated operating margin recovery in E&P business and 2) reduction in working capital requirement from 22 days to 18 days.

Valuation and recommendaton

We recommend SELL on Bajaj Electrcals with a price target of Rs.197

- At current price of Rs.234, company's stock is trading at 16.1x P/E and 8.4 x EV/EBITDA on FY15E earnings.
- In view of downside to our target price we maintain **'SELL'** recommendation on company's stock with DCF based revised price target of Rs 197 (Rs 148 earlier).

oiRESULT UPDATE

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NAGARJUNA CONSTRUCTION CO (NCC)

PRICE: Rs.26 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: Rs.28 **FY15E P/E: 13.3x**

Revenues of the company were inline with our estimates but lower margins and higher borrowings resulted in company posting a net loss for the quarter. We tweak our estimates and recommend buying the stock only on declines.

- Revenue growth of 26% YoY was healthy for Q3FY14 and stood in line with our estimates. This was mainly led by healthy order inflow for the company..
- Operating margins for Q3FY14 stood at 6.2% versus 7.2% in Q3FY13, lower than our estimates but margins are expected to recover in the coming quarters. Earnings continued to remain impacted by interest outgo but were boosted by tax write back.
- At current price, stock is trading at 13.3x P/E and 6.9x EV/EBITDA on FY14 and FY15 estimates. We revise our estimates downwards to factor in Q3FY14 performance and arrive at a revised price target of Rs 28 (Rs 30 earlier). Owing to limited upside from the current levels, we maintain ACCUMULATE rating on the stock. We believe that further progress on asset monetization and debt reduction are expected to be positive for the company.

Summary table

(Rs mn)	FY13	FY14E	FY15E
Sales	56,594	59,990	63,589
Growth (%)	8	6	6
EBITDA	4,054	4,319	4,769
EBITDA margin (%)	7.2	7.2	7.5
PBT	977	436	751
Net profit	627	292	503
EPS (Rs)	2.4	1.1	2.0
Growth (%)	74	-53	72
CEPS (Rs)	6.0	4.7	5.8
BV (Rs/share)	96.2	97.0	98.7
Dividend / share (Rs)	0.3	0.3	0.3
ROE (%)	2.6	1.2	2.0
ROCE (%)	10.8	9.7	9.8
Net cash (debt)	(21,450)	(27,461)	(27,109)
NW Capital (Days)	183.3	203.0	193.0
P/E (x)	10.6	22.8	13.3
P/BV (x)	0.3	0.3	0.3
EV/Sales (x)	0.5	0.6	0.5
EV/EBITDA (x)	6.8	7.7	6.9

Source: Company, Kotak Securities - Private Client Research

Financial highlights

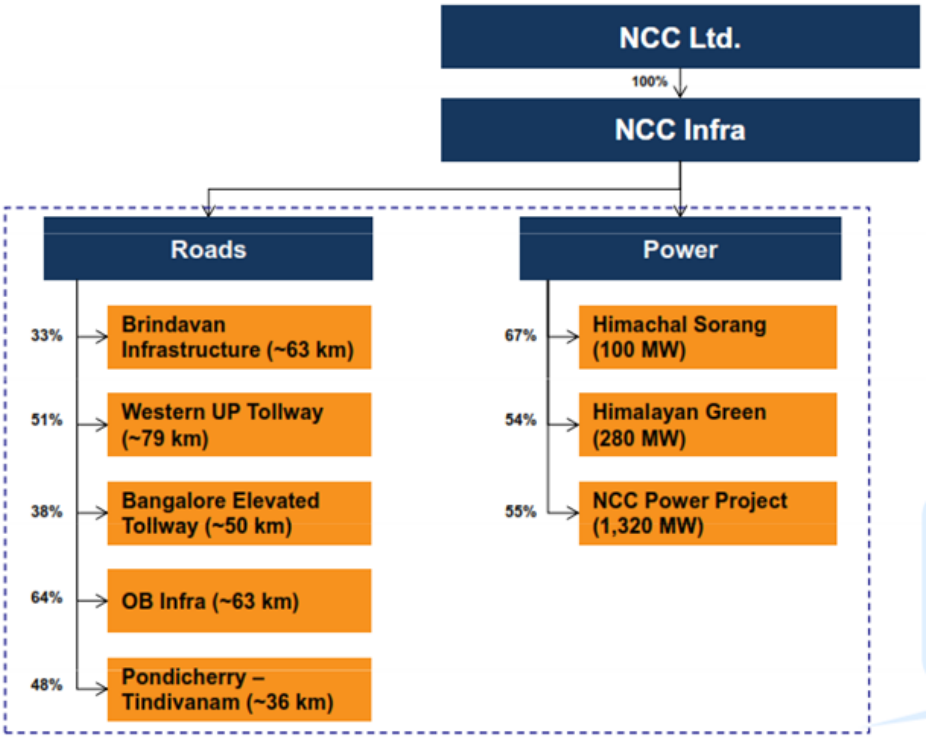
(Rs mn)	Q3FY14	Q3FY13	YoY (%)
Net Sales	**14,886**	**11,830**	**26%**
Expenditure	13,971	10,983	
Inc/Dec in stock	(1,308)	(252)	
Raw material	11,294	7,816	
As a % of net sales	67.09%	63.93%	
Other const exp	1,850	1,186	
As a % of net sales	12.43%	10.03%	
Labour	1,071	1,245	
As a % of net sales	7.19%	10.53%	
Staff cost	610	588	
As a % of net sales	4.10%	4.97%	
Other exp	453	399	
As a % of net sales	3.04%	3.38%	
EBITDA	**915**	**848**	**8%**
EBITDA margin	6.15%	7.17%	
Depreciation	(223)	(234)	
EBIT	**692**	**613**	**13%**
Interest	(1,179)	(989)	
EBT(exc other income)	(487)	(376)	
Other Income	355	494	
EBT	**(133)**	**118**	**-212%**
Tax	60	(10)	
Tax%	45.18%	8.48%	
PAT	**(73)**	**108**	**-167%**
NPM (%)	-0.49%	0.92%	
Equity Capital	513.17	513.17	
EPS (Rs)	**-0.28**	**0.42**	

Source: Company

Revenue growth in line with estimates

- Revenue growth of 26% YoY was healthy for Q3FY14 and stood in line with our estimates. This was mainly led by healthy order inflow for the company.
- Order inflow during current fiscal till date stood at Rs 58.7 bn and current order book of company stands at Rs 196.1 bn. Inflow during Q3FY14 stood at nearly Rs 11.3 bn with domestic orders forming Rs 55.8 bn and international orders contributing Rs 2.8 bn. Order book currently is diversified across roads, building, oil and gas (35%), water and railways (19%), irrigation (7%), electrical (6%), mining (2%), international (8%), metals (1%) and power (20%). Company expects an order inflow of Rs 66 bn for FY14 and based on the order inflow received till date, it expects to maintain its order inflow target.
- Revenues in 9MFY14 are diversified across roads, building, oil and gas (35%), water and railways (20%), irrigation (5%), electrical (5%), mining (1%), international (13%), metals (2%) and power (18%). Company has booked nearly Rs 13 bn from NCC power project and outstanding order book from this project currently stands at Rs 40 bn.
- On order inflow scenario, company expects buildings, water supply, electrical and transmission line segment to continue to witness increased activity thereby leading to better order inflows.
- We maintain our estimates and expect revenues to grow at a CAGR of 6% between FY13-FY15.

Project details



Source: Company

Status of key projects

Project details	Size (Rs mn)	NCC's stake (%)	NCC Equity (Rs mn)	Equity invested till date	COD	Current status
Roads						
Brindavan Infrastructure	2475	33%	150	59	June,06	All annuities are received on due dates
Western UP tollway	7566	51%	1715	1111	April,11	Toll collection is Rs 25 lac per day;Heavy vehicular traffic impacted by SC ban on mining
Bangalore elevated tollway	9903	38%	1597	1597	April,10	Toll collection is Rs 24 lac per day
OB Infra	5848	64%	940	940	June,09	All annuities are received on due dates
Pondicherry Tindivaram	3619	48%	556	675	Dec, 11	Toll collection is only Rs 3.5 lac per day vs estimate of Rs 8 lac per day; Talking to lenders for restructuring of loans
Power						
Himachal sorang	8900	67%	1470	1277	Mar, 14	Test runs going on
Himalayan Green	19600	54%	3626	91	-	Project cancelled by Sikkim Govt since it is on river Teesta
NCC Power Project	70470	55%	9690	5720	Apr, 16	Civil work going on; BTG order placed; Lenders ve visited the site
Total	128381		19744	11470		

Source: Company

Operating margins lower than estimates

Operating margins for Q3FY14 stood at 6.2% versus 7.2% in Q3FY13, lower than our estimates but margins are expected to recover in the coming quarters. Decline in the margins was mainly led by delays in payments and cost overruns which could not be passed on to the clients.

Company expects that margins can improve from the current levels. We thus tweak our estimates and expect margins of 7.2% and 7.5% for FY14 and FY15 respectively.

Profitability impacted by high borrowings and high interest rates

Earnings continued to remain impacted by interest outgo but were boosted by higher other income and tax credit. Interest costs have moved up due to higher interest rates as well as higher bank charges since the commission on bank guarantees has also moved up for the company in comparison with the last quarter. Profitability on a consolidated basis was impacted by losses mainly on the road BOT projects.

Borrowings have moved up slightly in the current quarter to Rs 27 bn on a sequential basis and mainly comprises of Rs 18.59 bn of working capital loan, Rs 6.2 short term loans, Rs 1.9bn NCDs and Rs 660 mn for machinery loan.

We revise our estimates downwards to factor in Q3FY14 performance and expect net profits of Rs 292 mn (Rs 540 mn earlier) and Rs 503 mn (Rs 567 mn earlier) for FY14 and FY15 respectively.

Asset monetization plans: Borrowings are likely to come down going forward as NCC power projects has entered into an agreement with Sembcorp Utilities Pte Ltd (SCU), Singapore, wholly owned subsidiary of Sembcorp Industries Ltd for divestment of 45% of the stake in NCC power projects (NCCPPL). NCCPPL is executing the 1320 MW Coal Fired Power Project near Krishnapatnam, Nellore, Andhra Pradesh along with Gayatri projects. NCCPPL would enter into additional conditional agreements, which would give SCU right and obligation to acquire a further stake in the company of up to 20% subject to required approvals. As per company, NCCPPL has sold the stake for Rs 8.5 bn, translating into P/BV of 1.07x.

In this project, Sembcorp has agreed to put in fresh equity directly in the project. Once coal ministry's approvals come, Semcorp can directly buy NCC's stake in the project. So now no further equity in this project would be required to be put in. As per the conditions, NCC would receive Rs 1 bn by end of this month and remaining Rs 4.7 bn which NCC has invested after coal ministry's approval in 9 months. If approvals are delayed further, then NCC would receive the equity on Cod ie by Apr, 16.

Along with this, company intends to sell stake in Western UP tollway, Bangalore elevated expressway and Himachal Sorang power project along with real estate monetization and expects to raise Rs 2-3 bn from these projects. These funds are likely to be utilized for debt reduction.

For Himachal Sorang project, company has sold partial stake and remaining on completion of the project. From real estate monetization also, company expects to repay nearly Rs 1.1bn of debt. Thus, by end of March, 2015, company expects to bring down the debt levels to Rs 20 bn from current levels of Rs 27 bn.

Valuation and recommendation

We maintain ACCUMULATE on NCC with a price target of Rs.28

At current price, stock is trading at 13.3x P/E and 6.9x EV/EBITDA on FY14 and FY15 estimates. We revise our estimates downwards to factor in Q3FY14 performance and arrive at a revised price target of Rs 28 (Rs 30 earlier). Owing to limited upside from the current levels, we maintain ACCUMULATE rating on the stock. We believe that further progress on asset monetization and debt reduction are expected to be positive for the company.

Sum of the parts valuation

FY15	Rs/share	Parameter
Core business valuation	8	Based on 4x one year forward P/E multiple
Road BOT and power projects	14	Based on NPV and P/BV methodology
Real estate and other inv	7	Based on P/BV of 0.5x of investments
Total value per share	**28**	

Source: Kotak estimates

RESULT UPDATE

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IL&FS TRANSPORTATION NETWORKS LTD

PRICE: RS.108 **RECOMMENDATION: BUY**
TARGET PRICE: RS.151 **FY15E P/E: 4.6x**

IL&FS Transportation Networks Ltd (ITNL) revenues for the quarter were better than our estimates led by improvement in execution in its under construction projects. Margins are down sequentially due to lower fee income during the quarter. Profitability was boosted by tax credit. Based on current order book and portfolio of projects, we expect construction revenues to remain strong while completion of work on under construction projects is expected to increase the toll revenues from FY14 onwards. We maintain BUY on the stock.

Result highlights

- Revenues of the company for Q3FY14 reported a growth of 11% YoY, ahead of our estimates.
- Operating margins stood at 24.8% during Q3FY14 as against 25.5% in Q3FY13 due to lower fee income during the quarter.
- Net profit reported a growth of 5.5% YoY for Q3FY14 and was impacted by increase in interest and depreciation charges but was boosted by tax credit.
- At current price of Rs 108, stock is trading at 5.4x and 4.6x P/E and 9.4x and 8.9x EV/EBITDA on FY14 and FY15 estimates respectively. We tweak our estimates and arrive at a revised price target of Rs 151 on FY15 estimates. (Rs 171 earlier). We continue to maintain BUY on ITNL.

Summary table - Consolidated

(Rs mn)	FY13	FY14E	FY15E
Sales	66,448	66,773	72,303
Growth (%)	18.5	0.5	8.3
EBITDA	18,404	19,927	23,587
EBITDA margin (%)	27.7	29.8	32.6
PBT	7,684	4,941	6,992
Net profit	5,202	3,898	4,599
EPS (Rs)	26.8	20.1	23.7
Growth (%)	4.7	(25.1)	18.0
CEPS(Rs)	31.6	27.4	33.5
Book value(Rs/share)	187.4	202.7	221.6
DPS (Rs)	4.0	4.0	4.0
ROE (%)	16.2	10.3	11.2
ROCE (%)	12.2	10.1	10.1
Net debt	132,168	159,022	181,159
NW Capital (Days)	59	27	22
P/E (x)	4.0	5.4	4.6
P/BV (x)	0.6	0.5	0.5
EV/Sales (x)	2.4	2.8	2.9
EV/EBITDA (x)	8.7	9.4	8.9

Source: Company, Kotak Securities - Private Client Research

Financial highlights

DESCRIPTION	Dec-13	Dec-12	YoY (%)
Net Sales	**19659.0**	**17644.0**	**11.4%**
Total Expenditure	14782.2	13146.5	12.4%
(Increase) / Decrease In Stocks	6.5	14.2	
Cost of Services & Raw Materials	420.9	214.8	
Purchase of Finished Goods	6.2	0.2	
Operating & Manufacturing Expenses	13228.1	12040.8	
Employee Cost	1120.5	876.5	
EBITDA	**4876.8**	**4497.2**	**8.4%**
EBITDA %	24.8%	25.5%	
Depreciation	435.2	219.5	
EBIT	**4441.6**	**4277.7**	**3.8%**
Interest	4160.2	2843.9	
EBT(exc other income)	281.4	1433.8	-80.4%
Other Income	378.8	321.6	
PBT	**660.2**	**1755.4**	**-62.4%**
Tax	-368.4	654.1	
Tax (%)	-55.8%	37.3%	
PAT	**1028.6**	**1101.3**	**-6.6%**
Minority Interest	37.6	-63.6	
Shares of Associates	32.1	3.3	
Consolidated net profit	1098.3	1041.0	5.5%
Equity Capital	1942.7	1942.7	
Face Value (In Rs)	10.00	10.00	
EPS (Rs)	**5.65**	**5.36**	**5.5%**

Source: Company

Revenue growth ahead of our estimates

Revenues of the company for Q3FY14 reported a growth of 11% YoY, ahead of our estimates. This is boosted by higher EPC revenues and improvement in toll collections during the quarter. Company has commenced construction on Kiratpur Ner Chowk during the quarter and projects like Chenani Nashri and Moradabad Bareilly contributed to EPC revenue growth. During the quarter Q3FY14, company has also tied up for loans for recently awarded projects - Barwah Adda Panagarh Section (Project cost Rs 24.34 bn) and Khed-Sinnar Section (Project cost Rs 20.15 bn).

Company has also received a provisional completion certificate to commercially operate another border check post - Indore - Icchapur Border Check post and Mhow Neemuch Border Check from MP Border Checkpost Development company, which has been mandated the development of 24 border check post by MPRDC with effect from 17th Nov,2013 and January 27, 2014 respectively. Company has also completed MetroRail Link Project comprising of approx. 5 kms long track starting from Delhi Metro Sikanderpur Station to NH - 8 in Gurgaon consisting of 6 stations developed by Rapid Metro Rail Gurgaon.

During the quarter, Elsamax has also been awarded a contract from State Road Agency of Ukraine for rehabilitation and improvement of a road stretch worth Rs 4.27 bn. Company is also eyeing to enhance its presence internationally by entering into joint venture with companies based in China for carrying out road related O&M in international markets.

During Jan 14, it also received provisional completion certificate for granted by Andhra Pradesh Road Development Corporation for Four Laning of Narketpally - Addanki - Medarametla Road in the State of Andhra Pradesh.

Elsamex revenues have improved by 11% YoY for Q3FY14. Fee income during the quarter has declined during the quarter as company had largely booked fee income from Barwa-Adda and Kher-Sinnar project during Q2FY14. It also included supervision fees from projects under construction. Toll revenues reported a growth of 28.4% YoY for the quarter.

Order book stays strong

Company's order book stands at nearly Rs 110 bn and we expect construction division revenues to grow to Rs 44 bn and Rs 45 bn for FY14 and FY15 respectively. This is likely to be led by construction of Chenani Nashri project and Shillong Jorbat project on the annuity side. For Shilong Jorbat project, construction work was delayed on account of issues with the contractor and now the project is expected to be complete by Apr,14 as against earlier expectation of Jan,14. On under construction toll projects, construction revenues are likely to be led by further progress on Chandrapur Warora project, Moradabad Bareilly project coupled with Kiratput Ner Chowk, Kharagpur Baleshwar project and Sikar Bikaner project. Chandrapur-Warora toll project is expected to get completed by Feb/March,14 while Moradabad Bareilly toll project was impacted due to a stretch of 35 km related to construction of bypass. Problem related to bypass has now been resolved and company expects provisional completion by Feb,14. Beawer Gomti Phase 2 project is likely to start mainly from FY15 while revenue booking from EPC from Khed Sinnar and Barwa Addah project is also likely to come mainly from FY15.

BOT revenues are expected to grow at a CAGR of 43% between FY13-FY15 led by improvement in toll collection on operational projects. Overall consolidated revenues are expected to grow at a CAGR of 4.3% between FY13-FY15.

Operating margins declined sequentially along with expectations

Operating margins stood at 24.8% during Q3FY14 as against 25.5% in Q3FY13 due to lower fee income during the quarter. We tweak our estimates and expect margins to be 29.8% and 32.6% for FY14 and FY15 respectively. Margins for the full year are expected to increase in FY15 due to increase in proportion of toll revenues to the total revenues.

Profitability boosted by tax credit

Net profit reported a growth of 5.5% YoY for Q3FY14 and was impacted by increase in interest and depreciation charges but was boosted by tax credit.

Interest and depreciation charges have moved up due to commissioning of projects. Interest outgo is also likely to remain high going forward due to higher debt availed for the under construction projects. Standalone debt has moved up to Rs 43 bn for Q3FY14 as compared to Rs 41 bn at the end of Q2FY14. Company's current consolidated debt has moved up to Rs 174 bn for Q3FY14 as against Rs 166 bn at the end of Q2FY14. However, debt:equity for the quarter has come down during the quarter to 3.57x due to issue of preference shares worth Rs 6.5 bn (Rs 4 bn in H1FY14 and Rs 2.5 bn in Q3FY14) and grants received for some projects to the tune of Rs 1.78 bn.

During the quarter, company also changed the estimates used to compute tax based on High Court judgement related to disallowance of expenses under Section 14A and hence during Q3FY14, there is a reversal of Rs 234.3 mn pertaining to H1FY14 and Rs 248 mn pertaining to FY13. Hence, this resulted in a tax credit during Q3FY14.

Valuation and recommendation

We recommend BUY on IL&FS Transporation Networks with a price target of Rs.151

At current price of Rs 108, stock is trading at 5.4x and 4.6x P/E and 9.4x and 8.9x EV/EBITDA on FY14 and FY15 estimates respectively. We tweak our estimates to factor in higher standalone borrowings and arrive at a revised price target of Rs 151 on FY15 estimates (Rs 171 earlier). We continue to maintain BUY on ITNL.

Sum of the parts valuation

	EPS (FY15E)	Multiple	EV (Rs mn)	Stake (%)	Value per share
Core construction division	20	5			101
Toll projects	**Cost of equity (%)**				
Noida Toll bridge	14.0%	Operational	3910	25%	5
West Gujarat Exp Ltd	14.0%	Operational	837	100%	4
Gujarat Roads	14.0%	Operational	9625	84%	42
RIDCOR Phase 1	14.0%	Operational	8531	50%	22
Beawer Gomti	14.0%	Operational	295	100%	2
Pune-Sholapur	14.0%	Operational	6294	100%	32
RIDCOR Phase 2	14.0%	Under Cons	1420	50%	4
Chandrapur Warora	14.0%	Under Cons	639	35%	1
Moradabad Bareilly	14.0%	Under Cons	7145	100%	37
Narkatpally Adanki	14.0%	Operational	2738	50%	7
Kiratpur Ner chowk	14.0%	Under Cons	1725	100%	9
Sikar Bikaner	14.0%	Under Cons	416	100%	2
Kharagpur Baleshwar	14.0%	Under Cons	169	100%	1
Annuity Projects					
North Karnataka Exp	14.0%	Operational	540	88%	2
Andhra Pradesh Exp	14.0%	Operational	860	100%	4
Thiruvanantpuram Phase 1	14.0%	Operational	-34	50%	0
East Hyd Exp	14.0%	Operational	446	74%	2
Thiruvanantpuram Phase 2	14.0%	Under Cons	-780	50%	-2
Jharkhand roads -RRR,RPR1,RPR2	14.0%	Under Cons	1626	100%	8
Jharkhand roads -CKC,AK	14.0%	Operational	1203	100%	6
Hazaribag Ranchi	14.0%	Under Cons	1210	74%	5
Chenani Nashri	14.0%	Under Cons	2894	100%	15
Jorabat-Shillong	14.0%	Under Cons	1004	50%	3
Other projects					
Elsamex		P/BV of 1.5 x	2700	100%	21
Gurgaon Metro Rail		P/BV of 1.5 x	1860	59.30%	9
MP border check post		P/BV of 1.5 x	1136	51%	4
Bus transport system		P/BV of 1 x	156	90%	1
Yuhe Expressway		P/BV of 1 x	1100	49%	3
Net Debt at standalone level			38369		198
Total					151

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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UNITY INFRAPROJECTS LTD

PRICE: Rs.21 **RECOMMENDATION: REDUCE**
TARGET PRICE: Rs.22 **FY15E P/E: 2.9x**

We discontinue coverage on the stock.

- **Revenues of the company reported a decline of 6% YoY for Q3FY14 and stood in line with our estimates.**
- **Operating margins declined sharply and came at 10.6% for the quarter vis-a-vis 13.9% in Q3FY13, lower than our estimates. Sharp drop in margins coupled with steep increase in interest expenses led to 93% YoY decline in net profits, much below our estimates.**
- **Order inflow for the company has remained below its peers and execution is also impacted by range of issues such as delays in payments from clients, lack of approvals as well as high interest rates which limits the execution in order to contain working capital cycle. We believe that till macroeconomic environment improves and order inflow and execution ramps up, stock will continue to underperform broader markets.**
- **We thus discontinue coverage on the stock and would relook at it once execution and order inflow starts witnessing improvement.**

Summary table

(Rs mn)	FY13	FY14E	FY15E
Sales	20,398	19,378	20,153
Growth (%)	3	-5	4
EBITDA	2,737	2,519	2,721
EBITDA margin (%)	13.4	13.0	13.5
PBT	1,225	569	814
Net profit	926	378	541
EPS (Rs)	12.5	5.1	7.3
Growth (%)	-11	-59	43
CEPS (Rs)	15.5	7.9	10.6
BV (Rs/share)	112.9	117.8	124.9
Dividend / share (Rs)	1.0	0.2	0.2
ROE (%)	11.7	4.4	6.0
ROCE (%)	15.0	12.4	13.0
Net cash (debt)	(10,791)	(9,275)	(9,666)
NW Capital (Days)	264.6	301.0	301.0
P/E (x)	1.7	4.1	2.9
P/BV (x)	0.2	0.2	0.2
EV/Sales (x)	0.6	0.6	0.6
EV/EBITDA (x)	4.5	4.3	4.1

Source: Company, Kotak Securities - Private Client Research

Financial highlights

(Rs mn)	Q3FY14	Q3FY13	YoY (%)
Net Sales	**5,184**	**5,511**	**-6%**
Expenditure	(4,632)	(4,746)	
EBITDA	**551**	**765**	**-28%**
EBITDA margin	10.6%	13.9%	
Depreciation	(50)	(55)	
EBIT	**501**	**710**	**-29%**
Interest	(599)	(425)	
EBT(exc other income)	-97	285	-134%
Other income	142	76	
EBT	**44**	**361**	**-88%**
Tax	(24)	(80)	
Tax (%)	53.2%	22.2%	
PAT	**21**	**281**	**-93%**
NPM (%)	0.4%	5.1%	
Net Profits	**21**	**281**	**-93%**
Equity Capital	148	148	
EPS (Rs)	**0.3**	**3.8**	

Source: Company

Key highlights of the results

- Revenues of the company reported a decline of 6% YoY for Q3FY14 and stood in line with our estimates.
- Order inflow for the company in the current fiscal till date (April,13-Feb,14) stands at nearly Rs 13.3 bn, lower than its peers. Current order book of company stands at nearly Rs 33.5 bn to be executed over 24-30 months. Out of the current order book, nearly 90% pertains to government projects while remaining is contributed by private projects. Current order book is diversified across civil , water and transportation.

- Execution is also impacted by delays in payments from clients coupled with lack of approvals. For road BOT projects, work is currently progressing only on one project - Chomu-Mahala project while the remaining two projects - Punjab-Jind project (worth Rs 5.1 bn) and Suratgarh- Sriganganagar road project (worth Rs 3.1 bn) have still not commenced due to issues related to land acquisition.
- We revise our estimates downwards to factor in execution slowdown due to lower than expected order inflow and expect revenues to decline by 5% during FY14 and then register a growth of 4% in FY15. Margins are likely to remain around 13% for FY14 and 13.5% going forward owing to high margin project mix. Net profit performance is expected to remain impacted by high borrowings and hence net profits are expected to be Rs 378 mn and Rs 541 mn for FY14 and FY15 respectively.
- Due to lack of improvement in macro-economic indicators, order inflow of the company has not revived. This is likely to have negative impact on revenue growth going forward. We thus believe that despite cheap valuations of 4.1x and 2.9x P/E on FY14 and FY15 respectively, stock may continue to underperform the broader markets. We revise our estimates downwards and arrive at a revised price target of Rs 22 on FY15 estimates and recommend **REDUCE** on the stock as against ACCUMULATE earlier. We also discontinue coverage on Unity Infraprojects and would relook at it once execution and order inflow starts witnessing improvement.

We recommend REDUCE on Unity Infraprojects with a price target of Rs.22

RESULT UPDATE

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OIL INDIA LIMITED (OINL)

PRICE: Rs.461 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.580 **FY15E P/E: 7.8x**

- In Q3FY14, OIL India's performance is marginally lower than our expectation. The Company has reported a PAT of Rs. 9.03 Bn, down by 0.1% QoQ and by 4.0% YoY mainly on account of 1). Lower crude oil production and sales, 2). Higher other expenses (up by 32% QoQ to Rs. 2.8 Bn and 3). Lower other income (down by 5.3% to Rs. Rs.4.5 Bn).
- In Q3FY14, OINL's realized net crude oil price of US$ 52.1/bbls versus US$ 52.3/bbls in Q2FY14. OINL's share in the under-recovery in Q3FY14 is Rs. 21.74 bn or USD$ 56.0/bbls in crude price oil equivalent terms.
- The Company has highlighted that recoverability of dues of Rs 1051.3 Mn as on 31st Dec'13 from Suntera Nigeria 205 in which OINL is having 25% interest in equity along with Suntera Resources (50%) and IOC (25%) is dependent upon its ability to continue as a going concern with the support of its shareholding companies. This loan is however due for repayment on 31st Dec'14 only. Accordingly, the Company has not made any provision in accounts for the same.
- Our positive view on OINL is premised on: 1) Relatively under-exploited resource base; 2) quality assets with relatively low finding and development costs; 3) resilient production growth; 4) strong balance sheet; 5) an attractive valuation; and 6) OINL's potential to maintain a reserve replacement ratio (RRR) of 1.
- We expect OINL to report an EPS of Rs. 56 FY14E and Rs.60 in FY15E. On the basis of our estimates, the stock at current market price of Rs. 461 is attractively valued at 7.8x P/E and 6.2x P/cash earnings on the basis of FY15E. We recommend BUY on OINL with a revised price target of Rs. 580 (earlier Rs.595). We are bullish on OIL India from medium to long term on account of key triggers such as 1). Increase in domestic gas price, 2). Regular diesel price hike resulting in lower subsidy burden, etc.

Summary table

(Rs mn)	FY13	FY14E	FY15E
Net Sales	95,464	100,765	122,346
Growth (%)	0.3	5.6	21.4
EBIDTA	43,813	44,015	54,322
EBIDTA margin (%)	45.9	43.7	44.4
PBT	52,883	50,112	53,350
Net profit	35,923	33,498	35,659
EPS (Rs)	59.8	55.7	59.3
Growth (%)	4.2	-6.8	6.5
CEPS (Rs)	69.1	67.7	74.7
BV (Rs/share)	320.2	356.5	395.1
DPS (Rs)	30.00	16.72	17.80
ROE (%)	17.45	15.57	14.96
ROCE (%)	18.47	17.12	18.91
Net Cash (Debt)	121,367	98,999	95,761
NW Capital (Days)	-0.1	43.8	39.8
EV/Sales (x)	1.63	1.77	1.48
EV/EBIDTA (x)	3.6	4.0	3.3
P/E (x)	7.7	8.3	7.8
P/BV (x)	1.4	1.3	1.2
P/CEPS (X)	6.7	6.8	6.2

Source: Company, Kotak Securities - Private Client Research

Quarterly Table

OIL India (Rs.mn)	Dec-13	Dec-12	YoY (%)	QoQ (%)
Net Sales/Income from ops	**26,070**	**24,136**	**8.0**	**(3.9)**
Incr/(Decr) in stock	(76)	(63)	20.6	(70.4)
Total Expenditure	14,315	12,825	11.6	5.3
EBIDTA	**11,678**	**11,248**	**3.8**	**(12.1)**
Depreciation + Depletion & Write-offs	2,208	2,224	(0.7)	(52.6)
EBIT	**9,470**	**9,024**	**4.9**	**9.7**
Other income	4,454	4,889	(8.9)	(5.3)
Interest-net	330.4	1.3	25315.4	10558.1
PBT	**13,594**	**13,912**	**(2.3)**	**2.0**
Tax	4,564	4,509	1.2	6.3
PAT	**9,030**	**9,403**	**(4.0)**	**(0.1)**
Equity Capital	6,011	6,011	0.00	0.0
Basic EPS	**15.0**	**15.6**	**(4.0)**	**(0.1)**

Source: Company

KEY RISK AND CONCERNS

- Uncertainty over under-recovery sharing could impact valuations.
- Nationalization of foreign assets (like in Venezuela) by the respective government can significantly impact the valuations of the Company.
- Significant drop in crude prices and sharp rupee appreciation remains the key downside risks to earnings.
- OINL has been producing oil from its Assam discoveries from last few decades with recovery factor more than 50%. We believe incremental crude oil production will be more expensive.
- OINL is initiating significant exploration activity in the NELP blocks, which increases the risks of failures and hence material dry wells write-offs. This can impact earnings and cash flows in the short-run.
- Any higher rate of royalty imposed by government of India.

Ratios

	Dec-13	Dec-12	YoY (%)	QoQ (%)
Margins Performance (%)				
EBITDA Margin	44.8	46.6	(1.8)	(4.2)
EBIT Margin	36.3	37.4	(1.1)	4.5
Adj PAT Margin	34.6	39.0	(4.3)	1.3
Other Income/PBT	32.8	35.1	(2.4)	(2.5)
Tax/PBT	33.6	32.4	1.2	1.4
Expenses (Rs. Mn)				
Staff costs	3,701	3,179	16.4	9.6
Statutory Levies	7,835	7,607	3.0	(3.5)
Other Expenditure	2,779	2,039	36.3	32.6
Total	14,315	12,825	11.62	5.30
Expenses Ratio (%)				
Employee to Sales	14.24	13.21	1.03	1.68
Statutory Levies to VoP	30.14	31.60	(1.46)	(0.07)
Other Exp. to Sales	10.69	8.47	2.22	2.89

Source: Company

Performance Analysis

- Realization: In Q3FY14, OINL's realized net crude oil price of US$ 52.1/bbls versus US$ 52.3/bbls in Q2FY14. OINL's share in the under-recovery in Q3FY14 is Rs. 21.74 bn or USD$ 56.0/bbls in crude price oil equivalent terms.
- Oil and gas production and sales volumes: In Q3FY14, OINL has produced crude oil and condensate of 0.0.89 MMT which is lower by 2.6% QoQ and by 3.5% YoY. Natural gas production of 0.678 bcm is up by 0.59% YoY and by 1.95% QoQ.
- In Q3FY14, OINL's crude oil sale is 0.89 MMT down by 3.6% YoY and by 3.5% QoQ whereas gas sales stood at 0.545 bcm, higher by 1.7% YoY and by 2.8% QoQ
- OINL's LPG sales stood at 12,197 Ton in Q3FY14 higher by 3.6% QoQ but down by 0.7% YoY.
- Net Revenue: Net revenues for Q3FY14 were at Rs. 26.07 bn, up by 8.0% YoY but down by 3.9% QoQ. The top line has fallen mainly due to 1). Lower sales volume and 2). Marginally lower realization.

- Subsidy burden: In Q3FY14, OIL India shared Rs. 22.34 Bn as subsidy burden which is higher by 12.7% QoQ and by 7.5% YoY. OIL's share of under recovery is mainly to IOCL (Rs. 1.03 Bn) and BPCL (Rs. 1.2 Bn). Among upstream companies, OIL India shared 13.35 % of the total upstream subsidy which is 40 bps down YoY but up by 40 bps QoQ.
- Employee cost: Staff cost for Q3FY14 is at Rs. 3.7 bn, higher by 9.6% QoQ and by 16.4% YoY.
- Other expenditure: In Q3FY14, other expenses has increased by 36.3% YoY and by 32.6% QoQ to Rs. 2.8 Bn.
- Statutory levies: In Q3FY14, statutory levies has increased by 3.0% YoY but down by 3.5% QoQ due to lower sales volume.
- Decline in operating profit: In Q3FY14, operational profit has increased by 3.8% YoY but down by 12.1% QoQ to Rs. 11.7 bn due to lower revenues and higher operating expenses.
- Margin pressure: The Company has seen drop in its operating margin both on sequential and year-on-year basis. In Q3FY14, the operating margin is at 44.8% as against 49.0% in Q2FY14 on account of the reason mentioned above.
- Lower Depreciation, Depletion & Amortization (DD&A) expenses: In Q3FY14, DD&A expenses has fallen by 52.6% QoQ and by 0.7% YoY to Rs. 2.2 Bn mainly on account of lower provision for dry wells.
- Lower other Income: Other income has fallen by 8.9% YoY and by 5.3% QoQ to Rs. 4.45 Bn due to lower dividend income sequentially.
- PBT for Q3FY14 is at Rs. 13.6 bn down by 2.3% YoY but up by 2.0% QoQ due to factors mentioned above.
- In Q3FY14, it has paid tax at a rate of 33.6%. The tax rate is higher in this quarter as compared to other quarters mainly due to lower divided income which is tax free.
- PAT for Q3FY14 is at Rs. 9.03 Bn down by 0.1% QoQ and by 4.0% on YoY basis thereby translating into quarterly EPS of Rs. 15.0.

Valuation & Recommendation- SOTP

Our positive view on OINL is premised on:

Our positive view on OINL is premised on: 1) Relatively under-exploited resource base; 2) quality assets with relatively low finding and development costs; 3) resilient production growth; 4) strong balance sheet; 5) an attractive valuation; and 6) OINL's potential to maintain a reserve replacement ratio (RRR) of 1.

We expect OINL to report an EPS of Rs. 56 FY14E and Rs.60 in FY15E. On the basis of our estimates, the stock at current market price of Rs. 461 is cheaply valued at 7.8x P/E and 6.2x P/cash earnings on the basis of FY15E. We recommend BUY on OINL with a revised price target of Rs. 580 (earlier Rs.595). We are bullish on OIL India from medium to long term on account of key triggers such as 1). Increase in domestic gas price, 2). Regular diesel price hike resulting in lower subsidy burden, etc.

Our BUY rating and target price of Rs 580, comprises:

We recommend BUY on Oil India Ltd with a price target of Rs.580

- Core business valued at P/E of 8.5 x FY15E core EPS. We believe PE captures the uncertainty relating to the under-recovery, so we value OINL on a PE basis (value per share of Rs.387).
- OINL's investment in Venezuela (value per share of Rs.57.5)
- Investment in refinery is considered at book value (value per share of Rs. 20.1)
- Cash at Rs.115/share (considered at a ~30% discount).

RESULT UPDATE

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APOLLO TYRES (APTY)

PRICE: RS.118 **RECOMMENDATION: BUY**
TARGET PRICE: RS.139 **FY15E P/E: 6.8x**

APTY reported strong set of 3QFY14 results. Consolidated revenues were up by 8% largely driven by strong growth in the European operations. EBITDA grew by 36% YoY supported by soft natural rubber prices. Standalone business reported EBITDA margin of 12% and at consolidated level margins came in at 15% on the back of robust operating performance form the European operations in a seasonally strong quarter. Adjusting for exceptional items, profitability was strong and ahead of expectations. Demand growth is expected to stay subdued in the near to medium term. Soft rubber prices is expected to continue supporting margins over the near to medium term. We retain BUY on the stock with revised price target of Rs139 (earlier Rs120).

Summary table

(Rs mn)	FY13	FY14E	FY15E
Sales	127,946	134,495	146,710
Growth (%)	5.3	5.1	9.1
EBITDA	14,567	18,061	18,793
EBITDA margin (%)	11.4	13.4	12.8
PBT	8,587	11,934	12,205
Net profit	6,126	9,312	8,737
EPS (Rs)	12.2	18.5	17.3
Growth (%)	49.5	52.0	(6.2)
CEPS (Rs)	20.0	26.8	26.4
BV (Rs/share)	67.5	85.1	101.9
Dividend / share (Rs)	0.5	0.5	0.5
ROE (%)	19.3	24.2	18.5
ROCE (%)	18.1	21.9	19.9
Net cash (debt)	(23,332)	(21,125)	(15,867)
NWCapital (Days)	55.1	67.4	68.8
P/E (x)	5.8	3.8	4.0
P/BV (x)	1.0	0.8	0.7
EV/Sales (x)	0.5	0.4	0.3
EV/EBITDA (x)	4.0	3.1	2.7

Source: Company, Kotak Securities - Private Client Research

Standalone result highlights

Quarterly performance (Standalone)

Rs mn	3QFY14	3QFY13	YoY%	2QFY14	QoQ%
Revenues	**21,436**	**20,361**	**5.3**	**21,068**	**1.7**
Total expenditure	18,856	18,311	3.0	18,338	2.8
RM consumed	14,492	14,442	0.3	14,254	1.7
Employee cost	1,255	1,102	13.8	1,145	9.6
Other expenses	3,110	2,766	12.4	2,939	5.8
EBITDA	**2,579**	**2,050**	**25.8**	**2,730**	**(5.5)**
EBITDA margin (%)	12.0	10.1	-	13.0	-
Depreciation	649	548	18.5	609	6.5
Interest cost	635	668	(5.1)	615	3.2
Other Income	421	192	119.9	158	166
Exceptional item	(56)			(50)	
PBT	**1,661**	**1,025**	**61.9**	**1,614**	**2.9**
PBT margins (%)	7.7	5.0		7.7	
Tax	558	287	94.2	523	6.6
Tax rate (%)	33.6	28.0	-	32.4	-
Reported PAT	**1,103**	**738**	**49.4**	**1,091**	**1.1**
PAT margins (%)	5.1	3.6	-	5.2	-
Reported EPS (Rs)	**2.2**	**1.5**	**49.4**	**2.2**	**1.1**

Source: Company

- APTY's standalone revenues increased from Rs.20,361mn in 3QFY13 to Rs21,436mn in 3QFY14, a growth of 5% lead by 4% higher volumes. Over 2QFY14, revenues improved marginally by 1.7%.
- Soft natural rubber prices led to 330bps gain in gross margins that increased from 29.1% in 3QFY13 to 32.4% during the quarter under consideration. Average domestic natural rubber prices are down by almost 9% YoY. Over 2QFY14, gross margins remained static.
- Employee cost at Rs1,255mn in 3QFY14 was 14% and 10% higher YoY and QoQ respectively. Other expenses too witnessed an increase on account of increase in advertising and marketing spends.

- Adjusted EBITDA for the quarter at Rs2,579mn, grew by 26% YoY led by improved gross margins. Sequentially though, higher employee and other expenses led to 6% decline in adjusted EBITDA. Adjusted EBITDA margin came in at 12% as against 10.1% in 3QFY13 and 13% in 2QFY14.
- Other income increased sharply during the quarter from Rs192mn in 3QFY13 and Rs158mn in 2QFY14 in 2QFY14 to Rs421mn during the quarter under review. Sharp jump in other income was on account of one-off income earned from SRI. APTY's Indian operations provided certain IT related services to enable smooth transfer of South African business to SRI.3QFY13 other income included Rs80mn as one-off income related to insurance claim.
- During the quarter, the company reported Rs842mn as income related to VAT and CST refund from the Tamil Nadu government as incentive in connection with its investment in Chennai plant. Further, there is a onetime contingent liability provision to the tune of Rs350mn related to certain taxes. Apart from these, the company's financials also includes Rs548mn as exceptional expenses incurred in connection with proposed acquisition of Copper Tires which was eventually terminated. We have included all the three one-off income/expenses under the exceptional gain/loss category in the quarterly table.
- Company reported PAT of Rs1,103mn, a robust 49% growth over 3QFY13 net profit of Rs738mn.

Consolidated result highlights

Quarterly performance (Consolidated)

Rs mn	3QFY14	3QFY13	YoY%	2QFY14	QoQ%
Revenues	**34,751**	**32,173**	**8.0**	**34,335**	**1.2**
Total expenditure	29,554	28,351	4.2	29,815	(0.9)
RM consumed	20,361	20,105	1.3	20,213	0.7
Employee cost	4,129	3,555	16.1	4,227	(2.3)
Other expenses	5,064	4,691	7.9	5,376	(5.8)
EBITDA	**5,197**	**3,822**	**36.0**	**4,520**	**15.0**
EBITDA margin (%)	15.0	11.9	-	13.2	-
Depreciation	1,064	919	15.7	1,038	2.4
Interest cost	742	806	(8.0)	756	(1.9)
Other Income	496	268	85.3	186	166.7
Exceptional item	214		-	(300)	-
PBT	**4,102**	**2,364**	**73.5**	**2,611**	**57.1**
PBT margins (%)	11.8	7.3		7.6	
Tax	722	558	29.3	417	73.3
Tax rate (%)	17.6	23.6	-	16.0	-
PAT (before minority interest/ associates profit)	3,380	1,806	87.2	2,195	54.0
Share of associates/Minority Interest	-	(0)	-	-	-
Reported PAT	**3,380**	**1,806**	**87.2**	**2,195**	**54.0**
PAT margins (%)	9.7	5.6		6.4	
Reported EPS (Rs)	6.7	3.6	87.2	4.4	54.0

Source: Company

- APTY's consolidated revenues grew by 8% YoY to Rs34,751mn. Increase in revenues has been driven by Indian and European operations. Over 2QFY14, revenue growth was a meagre 1%.
- Indian operations reported 5% YoY jump in revenues driven by 4% volume increase. Impact of price and mix was positive 1%.

- Revenues from the South African operations are not strictly comparable - both YoY and QoQ. Company closed the deal with SRI in November 2013 and thereby December 2013 revenues consist of only one plant. Accordingly company reported YoY and QoQ decline in revenues.
- From the European operations the company reported a strong 33% growth in revenues that stood at Rs10,883mn during the quarter. Revenue growth happened on account of 14% jump in volumes and 20% impact on account of currency.
- At the consolidated level, the company made 390bps gain in gross margins on account of softness in natural rubber prices. Sequentially too, gross margins improved by 30bps.
- Employee cost increased by 16% YoY which we believe was on account of exchange rate movement. Over 2QFY14, employee cost was lower by 2.7%. Other expenses witnessed a sharp QoQ decline at the subsidiary level.

Segmental performance

Rs mn	3QFY14	3QFY13	YoY%	2QFY14	QoQ%
Segmental Revenues					
India	22,699	20,552	10.4	21,227	6.9
South Africa	3,626	4,129	(12.2)	3,752	(3.3)
Europe	10,883	8,161	33.4	10,609	2.6
EBIT margins					
India	12.5	8.2	-	10.7	-
South Africa	9.3	1.2	-	2.2	-
Europe	18.5	17.2	-	11.8	-

Source: Company

- Consolidated EBITDA grew by 36% YoY and 15% QoQ to Rs 5,197mn. EBITDA margins improved from 11.9% in 3QFY13 and 13.2% in 2QFY14 to 15%. EBITDA margin improvement on a YoY basis was largely driven by strong operating performance across all three operations.
- European operations EBITDA margin improved to ~22% from 20% in 3QFY13. For 9MFY14, EBITDA margins stand at 18% versus 18.5% for 9MFY13.
- In South Africa, margins were exceptionally higher at 8.5% as against earlier range of 3.5-5%. During the quarter, the company benefitted to the tune of ZAR75mn on account of certain export related scheme (earlier 75% recognition versus 100% now). This was a onetime benefit and we expect margins to normalize going into next quarter.
- Depreciation increased on YoY basis which in our view is largely on account of currency movement. Interest cost came down both YoY and QoQ due to reduction in debt levels. Sharp jump in other income was on account of one-off income earned from SRI.
- Exceptional items include - 1.Rs842mn as income related to VAT and CST refund in the standalone business 2.Rs350mn contingent liability provision related to Indian operations 3. Expenses incurred by both the Indian and European operations for proposed acquisition of Copper Tires and 4.Gain from sale of South African business.
- Consolidated tax rate was lower YoY as there was no tax on capital gain earned on sale of South African business. 2QFY14 tax rate was also lower due to write back of tax provision in the European subsidiary.
- Consolidated PAT came in at Rs3,380mn, ahead of our expectation on account of strong operational performance, net exceptional gain and higher other income.

Conference Call Highlights

- In the India operations, OE demand continues to be low and replacement demand is growing in low single digits.
- In Europe, while the overall industry demand de-grew by 1% in 2013, APTY witnessed 11% volume growth and that was on account of 1.Additional focus on summer tyres and 2.Emphasis on strengthening marketing/distribution network.
- APTY's South African operations concluded the deal with SRI wherein APTY sold Apollo Tyres South Africa (ATSA) including the Ladysmith Tyre plant, Dunlop Brand rights in Africa and the sales & distribution network at a consideration of $60mn. APTY now retains the Durban plant that manufactures truck radials, LCV radial, Agrityres and off highway tyres and has a capacity of 90 tons per day (1,100 truck radial tyres per day).
- On a consolidated basis, truck and passenger car tyres accounts for 83% of revenues. Revenue mix for the Indian operations was - truck tyres - 64% (66% in 3QFY13), PCR - 14% (16% in 3QFY13) and tractor tyres - 11% (8% in 3QFY13). Replacement segments share in the standalone revenue mix increased from 63% in 3QFY13 to 68% and for OE, that declined from 28% to 22% YoY.
- Debt levels witnessed a sharp decline during the quarter led by low working capital at the European subsidiary, strong operating performance and part sale of South African operations. In Europe, the company witnessed a sharp decline in working capital (largely due to decline in receivables) and is cash surplus. In the South African operations, company got rid of debt by selling portion of operations to SRI for $60mn. At the end of 3QFY14, net debt at the consolidated level stood at Rs12.5bn and at standalone level, net debt was Rs16.5bn. Gross debt stood at Rs23bn.
- Capacity utilization at the Indian operations is 75% and at European operations at 95%.
- Truck radialization is currently at 25% with APTY enjoying 28% market share. Management expects the radialization in the truck segment to increase to 35% over the next couple of years.
- Management indicated that the company is evaluating steps to set up new green field projects in East Europe and South East Asia. Company is looking to make some decision in this regard over the next 2 months. APTY's maintenance capex is around Rs2bn.
- In Chennai plant, the company is eligible for VAT and CST refund from the Tamil Nadu government as incentive in connection with its investment in Chennai plant. Company invested Rs21bn in the Chennai plant. Benefit is upto 18 years and will be based on sales within Tamil Nadu. Company expects quarterly benefit of Rs100mn.
- While major portion of the cost related to proposed Cooper Tire acquisition was accounted for during the quarter, there could be some expenses (relatively lower) in 4QFY14 as the APTY-Cooper Tire deal is still under litigation.
- Average raw material cost for the quarter was - Natural Rubber Rs175/kg, Synthetic Rubber Rs120/kg, Tyre Cord Fabric Rs260/kg and Carbon Black Rs85/kg.

Outlook

- In India, OE demand is expected to stay weak given volume decline in the commercial vehicle and passenger car segment. Replacement demand is expected to drive single digit growth over the near to medium term.
- In the European operations, APTY's performance has been strong. Company is laying more emphasis on improving its presence in the summer tyre segment. While the overall industry growth is subdued, we expect APTY to grow led by market share gains.
- Natural rubber prices have been weak and that have supported margins and profitability. In 4QFY14, so far natural rubber prices have corrected further and that gels well for the company's profitability. While 3QFY14 margins may not be sustainable, we expect the margins in the next 2-3 quarters to remain healthy.

We recommend BUY on Apollo Tyres with a price target of Rs.139

- We have revised our FY14 estimates and FY15 estimates upwards to factor in strong 3QFY14 results and soft natural rubber prices.
- At the CMP of Rs118, the stock trades at a PE of 6.8x its expected FY15 earnings. We retain our **BUY** rating on the stock with revised price target of Rs139 (earlier Rs120).

Change in estimates

	FY14			FY15		
Rs mn	**Old**	**New**	**% chg**	**Old**	**New**	**% chg**
Revenues	133,889	134,495	0.5	146,112	146,710	0.4
EBITDA margin	12.3	13.4		12.0	12.8	
PAT	7,136	9,312	30.5	7,544	8,737	15.8

Source: Kotak Securities - Private Client Research

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	999	3.1	NA	3.9
ONGC	283	2.6	NA	3.3
GAIL India	357	2.5	NA	1.1
Losers				
Tata Steel	374	(4.0)	NA	9.4
Cairn India	325	(2.8)	NA	4.7
Maruti Suzuki	1,648	(1.8)	NA	0.4

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
13-Feb	Ahmednagar Forging, Amtek Auto, Ansal Buildwell, Autolite India, Bombay Dyeing, Bombay Rayon, Brooks Lab, C&C Const, Coral India, Cranes Soft, Dredging Corp, Essar Shipping, Excel Ind, GV Films, Hanung Toys, Hind Syntex, Hindalco Ind, Hindustan Dorroliver, Hitech Plast, Hotel Leela, IG Petro, Igarashi Motors, Indian Oil Corp, J Kumar Infra, JK Paper, Mawana Sugars, MCX, Mukand, Natco Pharma, National Steel, ONGC, Panacea Bio, Ruchi Infra, Sun Pharma, Technofab Engg, Total Exports, United Spirits, United Textiles, Voltamp Trans earnings expected
14-Feb	ABC Bearings, ABG Infra, ABG Shipyard, Allcargo Logistics, Apple Finance, Aruna Hotels, Arvind Remedies, Ashirwad Steel, Asian Hotels, Bannari Amman Sugar, Britannia Ind, Cifco Finance, Clutch Auto, CRISIL, Deep Inds, Dishman Pharma, Elder Pharma, Financial Tech, Gammon India, Garware Poly, Gayatri Proj, Geodesic, GPT Infra, Gujarat Apollo, HBL Power, Hitech Gears, JBM Auto, Kesoram Inds, Lakshmi Vilas Bank, Lyka Labs, M&M, Mcnally Bharat, Micro Tech, MTNL, National Plastics, NCC Finance, Nestle India, Om Metals, Patel Engg, PSL, Punj Lloyd, Rajesh Exports, Ram Informatics, REI Agro, Rico Auto, SAIL, Samtel Colour, SBI, Shipping Corp, Simplex Infra, Spice Jet, Steel strips, Stone India, Suzlon Energy, Unitech, Zenith Comp earnings expected

Source: Bloomberg

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