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Sharekhan
Your guide to the financial jungle

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Tata Consultancy Services

Reco: Buy

Stock Update

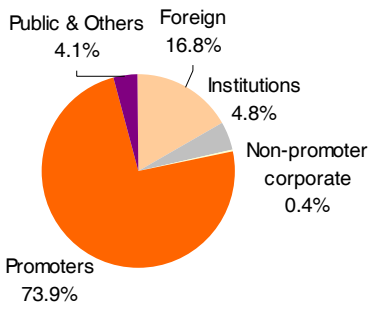
Good quarter, though misses expectation; price target revised to Rs3,010

CMP: Rs2,679

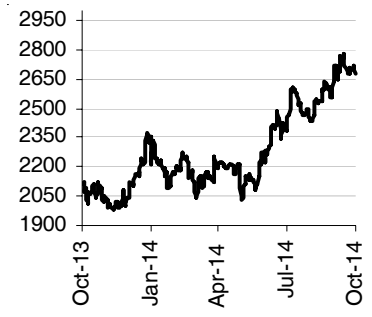
Company details

Price target:	Rs3,010
Market cap:	Rs524,547 cr
52 week high/low:	Rs2,834/1,960
NSE volume: (no. of shares)	11.1 lakh
BSE code:	532540
NSE code:	TCS
Sharekhan code:	TCS
Free float: (no. of shares)	51.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	13.2	28.1	25.8
Relative to Sensex	6.3	7.1	8.7	-3.2

Key points

- Tata Consultancy Services (TCS) reported higher than industry average revenues growth and impressive volume growth of 6.1% sequentially in Q2FY2015. However, it fell short of heightened Street's expectations due to lower than anticipated growth in the retail and insurance verticals. In USD terms, the consolidated revenues grew by 6.4% to $3,929 million which were affected by cross-currency movement since the revenue growth stood at 7.4% QoQ on a constant-currency basis. Excluding the consolidation of revenues from Mitsubishi JV, the comparable revenue growth stood at 4.6% in USD terms. EBIT margins 55BPS to 26.8%, largely led by an absence of depreciation impact, though consolidation on JV had a 40BPS negative impact on margins. The net income was higher by 4.6% QoQ to Rs 5,288.3 crore.
- The management reaffirmed that FY2015 would be stronger than FY2014 including Mitsubishi JV (the revenues had grown at 16.2% YoY in FY2014), however, on an organic basis the growth could lag, owing to cross-currency headwinds and delay in ramp-up of retail and softness in Diligenta, insurance platform in the UK. During Q2FY2015 the company signed five large deals and increased hiring target to above 55,000 employees for FY2015. During the quarter, TCS has announced amalgamation of its 51% subsidiary CMC to create long-term value for the shareholders.
- Notwithstanding the marginal disappointment in Q2, we have largely maintained our estimates for FY2015/FY2016 and introduced FY2017 EPS estimates of Rs143.5 on this note. TCS is the undisputed market leader and would continue to benefit from the improving demand environment (and report industry-leading growth rates). Thus, we see any weakness as an opportunity to buy into TCS and are consequently rolling over our price target to Rs3,010 based on FY2017 estimates. We retain Buy rating on the stock.

Results Rs cr

Particulars	Q2FY15	Q2FY14	Q1FY15	YoY %	QoQ %
USD/INR	60.6	62.9	59.9	-3.6	1.3
Revenues ($ mn)	**3,929.0**	**3,337.0**	**3,694.0**	**17.7**	**6.4**
Net sales	23,816.5	20,977.2	22,111.0	13.5	7.7
Direct costs	12,952.9	10,701.0	11,882.4	21.0	9.0
Gross profit	10,863.6	10,276.2	10,228.6	5.7	6.2
SG&A	4,054.9	3,637.2	3,861.6	11.5	5.0
EBITDA	**6,808.7**	**6,639.0**	**6,367.0**	**2.6**	**6.9**
Depreciation & amortization	414.5	309.5	552.1	33.9	-24.9
EBIT	6,394.2	6,329.5	5,814.9	1.0	10.0
Other income	565.9	-90.6	815.1	NA	-30.6
PBT	6,960.1	6,238.9	6,630.0	11.6	5.0
Tax provision	1,604.5	1,556.3	1,531.2	3.1	4.8
PAT	**5,355.6**	**4,682.6**	**5,098.8**	**14.4**	**5.0**
Minority interest	67.3	28.7	41.0	134.5	64.1
Net profit	**5,288.3**	**4,653.9**	**5,057.8**	**13.6**	**4.6**
EPS (Rs)	27.0	23.8	25.8		
Margin (%)					
GPM	45.6	49.0	46.3		
EBITDA	28.6	31.6	28.8		
EBIT	26.8	30.2	26.3		
NPM	22.2	22.2	22.9		
Tax rate	23.1	24.9	23.1		

Valuations

Particulars	FY14	FY15E	FY16E	FY17E
Total revenue (Rs cr)	81,809.4	96,332.0	113,172.7	129,925.1
EBIT margin (%)	29.1	26.5	26.6	25.8
Net profit (Rs cr)	19,116.9	21,426.9	25,195.3	28,269.4
EPS (Rs)	97.7	109.5	127.9	143.5
EV/EBITDA	20.5	18.5	15.5	13.6
RoE (%)	35.2	31.6	30.0	27.8
RoCE (%)	45.6	40.6	38.8	35.6
P/E (x)	27.4	24.5	20.9	18.7
Dividend yeild (%)	1.2	1.3	1.5	1.7

Result highlights

Revenue growth misses expectation

For Q2FY2015 TCS reported a revenue growth of 6.4% quarter on quarter (QoQ) to $3,929 million (which is lower than our estimate of a 7.4% growth for the quarter). In constant-currency terms the revenues grew by 7.4% QoQ while the volume grew by a decent 6.1% sequentially. Excluding the consolidation of Mitsubishi joint venture (JV), which has contributed $103 million on a constant-currency basis, organic revenues growth was at 4.6% QoQ. In rupee terms the revenue growth came in at 7.7% QoQ to Rs23,816.5 crore.

Margins improve marginally by 55BPS QoQ

Earnings before tax (EBIT) margins improved marginally by 55BPS QoQ to 26.8% largely led by the absence of depreciation impact, though consolidation on JV had a 40BPS negative impact on margins. The management expects integration impact of the JV will impact the margin in the next two quarters, however, maintained target range of margins at 26-28%.

Net income lower than expectation, owing to lower other income

For the quarter the company's net income grew by 4.6% QoQ to Rs5,288.3 crore, below our estimates of Rs5,453.4 crore. The miss in the net income line was led by lower other income, down by 30.6% QoQ to Rs565.9 crore.

Approved amalgamation of 51% subsidiary CMC

TCS and CMC's board of directors have approved the amalgamation of CMC into TCS. As per the amalgamation scheme, the shareholders of CMC would receive one equity share of Rs1 each of TCS for 71 equity shares of Rs10 each of CMC. The merger is expected to get completed in the next six to nine months. TCS's management has stated that the amalgamation of two entities will create a strong market positioning in the global markets and also the combined entity will be much stronger in India, to tap the high growth opportunities in the coming year in the digital India space and also in other government- and private-sector projects.

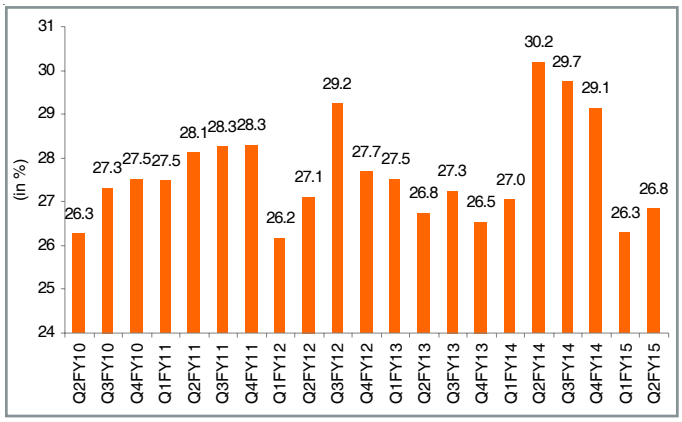
Key management commentary

- The management maintained its usual confidence on the demand environment going forward and reiterated that FY2015 would be better than FY2014, however owing to cross-currency headwinds and delay in ramp-up of retail and softness in Diligenta, insurance platform in UK, revenues growth on an organic basis will not be much higher than FY2014.
- The optimism with regard to the demand environment stemmed from three themes: 1) digital technologies (spends on digital technologies will only get better as it achieves scale going forward); 2) spending on simplification of operations by clients (which largely drives the traditional services); and 3) spending on compliance and regulatory initiatives. The company is well positioned to capture growth opportunities offered from all the three themes.
- The outlook in terms of geographies, service lines and verticals remained positive. However, the company saw softness in the insurance vertical, the banking and financial services (BFS) vertical remains strong and the management was confident of it growing above the company average.
- The revenues from the Indian operations (accounting for 6.5% of the total revenues) which were a pain-point for the company during FY2014 grew well by 9.7% QoQ, management has indicated at positive growth outlook for India geographies in the coming quarter.
- The company signed eight large deals during the quarter; five were in the USA, two in Europe and one in UK.

Other result highlights

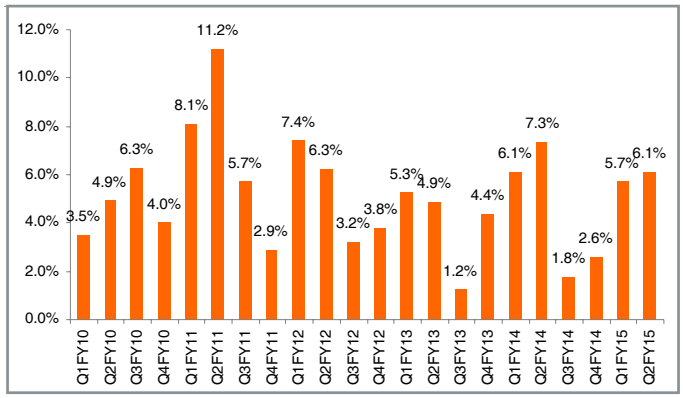
- The company added 20,350 employees on a gross basis (net addition at 8,326 employees) during the quarter. The total headcount for the company now stands at 313,757 employees. The company added 7,583 trainees during the quarter and 8,924 laterals in India and 3,843 employees overseas. The management has increased its hiring target to above 55,000, already hired more than 36,000 in H1FY2015.
- The attrition rate (excluding the business process outsourcing business) for the company increased from 12% in the last quarter to 12.8% in the current quarter.
- The utilisation rate for the quarter touched an all time high, excluding trainees inched up from 85.3% in Q1FY2015 to 86.3% in Q2FY2015. Including trainees the utilisation rate stood at 81.3% for the quarter against 79.8% in the previous quarter.
- The cash and cash equivalents for the quarter stood at Rs14,247 crore versus Rs20,989 crore in the previous quarter.

EBIT margin improves marginally by 55BPS QoQ



Source: Company

Volume growth was at 6.1% including consolidation of revenues from Mitsubishi JV



Source: Company

Key operating metrics

Particulars	Q2FY15	Q2FY14	Q1FY15	YoY %	QoQ %	Comments
Revenues ($ mn)	**3929.0**	**3337.0**	**3694.0**	**17.7**	**6.4**	➢ Indian revenues grew by 9.7% QoQ after, delivering 7.2% in Q1FY15…
Geographic mix (%)						➢ UK growth was impacted by softness in Diligenta and cross-currency headwinds…
Americas	*51.0*	*53.2*	*52.2*	*12.9*	*3.9*	
in $ mn	2,003.8	1,775.3	1,928.3			
Latin America	*1.9*	*2.3*	*2.2*	*-2.7*	*-8.1*	
in $ mn	74.7	76.8	81.3			
UK	*17.1*	*17.3*	*17.7*	*16.4*	*2.8*	
in $ mn	671.9	577.3	653.8			
C Europe	*11.5*	*11.2*	*12.0*	*20.9*	*1.9*	
in $ mn	451.8	373.7	443.3			
India	*6.5*	*6.9*	*6.3*	*10.9*	*9.7*	
in $ mn	255.4	230.3	232.7			
APAC	*10.1*	*7.1*	*7.6*	*67.5*	*41.3*	
in $ mn	396.8	236.9	280.7			
MEA	*1.9*	*2.0*	*2.0*	*11.9*	*1.0*	
in $ mn	74.7	66.7	73.9			
Service offerings (%)						➢ Consulting revenues were up by 16.5% QoQ
ADM	*40.5*	*41.7*	*40.8*	*14.4*	*5.6*	
in $ mn	1,591.2	1,391.5	1,507.2			
Assurance services	*15.6*	*15.4*	*15.9*	*19.3*	*4.4*	
in $ mn	612.9	513.9	587.3			
Engg. & ind. services	*8.4*	*8.5*	*8.6*	*16.4*	*3.9*	
in $ mn	330.0	283.6	317.7			
IMS	*4.6*	*4.7*	*4.5*	*15.2*	*8.7*	
in $ mn	180.7	156.8	166.2			
Consulting	*13.8*	*11.8*	*12.6*	*37.7*	*16.5*	
in $ mn	542.2	393.8	465.4			
Asset leveraging	*3.2*	*3.3*	*3.2*	*14.2*	*6.4*	
in $ mn	125.7	110.1	118.2			
BPO	*2.3*	*2.7*	*2.5*	*0.3*	*-2.1*	
in $ mn	90.4	90.1	92.4			
Industry verticals (%)						➢ Growth in Banking, Financial Services and Institutions (BFSI) at 3% QoQ was below the company average primarily due to a softness seen in the insurance vertical
BFSI	*40.4*	*43.1*	*41.7*	*10.4*	*3.0*	
in $ mn	1,587.3	1,438.2	1,540.4			
Telecom	*8.9*	*9.3*	*9.4*	*12.7*	*0.7*	
in $ mn	349.7	310.3	347.2			

Cont...

Key operating metrics

Particulars	Q2FY15	Q2FY14	Q1FY15	YoY %	QoQ %	Comments
Retail & distribution	*13.5*	*13.9*	*13.8*	*14.4*	*4.0*	
in $ mn	530.4	463.8	509.8			
Manufacturing	*10.1*	*8.4*	*8.6*	*41.6*	*24.9*	
in $ mn	396.8	280.3	317.7			
Hi-tech	*5.7*	*5.4*	*5.5*	*24.3*	*10.2*	
in $ mn	224.0	180.2	203.2			
Life sciences	*6.3*	*5.7*	*6.3*	*30.1*	*6.4*	
in $ mn	247.5	190.2	232.7			
Travel & hosp.	*3.5*	*3.4*	*3.6*	*21.2*	*3.4*	
in $ mn	137.5	113.5	133.0			
Energy & utilities	*4.3*	*3.8*	*3.9*	*33.2*	*17.3*	
in $ mn	168.9	126.8	144.1			
Media & entertainment	*2.7*	*2.2*	*2.7*	*44.5*	*6.4*	
in $ mn	106.1	73.4	99.7			
Others	*4.6*	*4.8*	*4.5*	*12.8*	*8.7*	
in $ mn	180.7	160.2	166.2			
Client nos						
$100 million clients	24.0	22.0	24.0	2.0	0.0	➢ TCS managed to add clients in most of the brackets
$50 million clients	62.0	53.0	58.0	9.0	4.0	
$20 million clients	153.0	125.0	144.0	28.0	9.0	
$10 million clients	247.0	224.0	244.0	23.0	3.0	
$5 million clients	367.0	318.0	359.0	49.0	8.0	
$1 million clients	743.0	687.0	724.0	56.0	19.0	

Source: Company

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Bajaj Auto

Reco: Hold

Stock Update

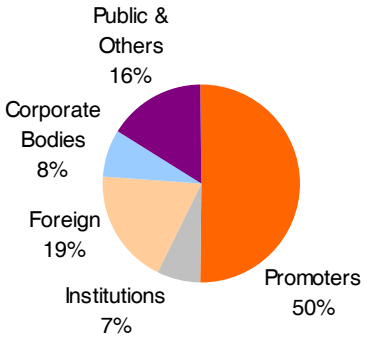
Pending delivery on volumes, maintain Hold with revised price target of Rs2,338

CMP: Rs2,363

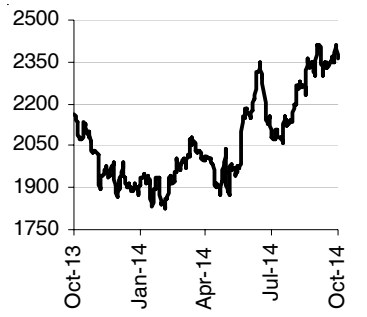
Company details

Price target:	Rs2,338
Market cap:	Rs68,375 cr
52 week high/low:	Rs2,455/1,796
NSE volume: (no. of shares)	3.4 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (no. of shares)	14.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.7	13.4	22.8	15.3
Relative to Sensex	5.5	7.2	4.2	-11.3

Key points

- Bajaj Auto (Bajaj) posted a strong operating performance on a sequential basis in Q2FY2015 aided by a favourable product mix and higher operating leverage. The higher percentage of three-wheelers and premium motorcycles (*Pulsars* and *KTM*) sold during the quarter boosted the GPM which was ultimately reflected in a 113-BPS Q-o-Q margin expansion. However, the company took a hit of Rs340 crore related to provisioning for National Calamity Contingent Duty payments on production from the Pantnagar facility. Adjusted for the same and a forex loss (Rs67 crore), the PAT was at Rs876 crore, marginally above our estimate.
- Bajaj's market share in the domestic motorcycle segment reached an all-time low of 16.3% in Q2FY2015 as the company ceded space in the executive segment. The management is confident of regaining the market share and the launch of the *Discover 150* has been the first step in the direction. Another couple of launches have been lined up in H2FY2015 which, the management expects, would propel the market share to the 20% mark. Meanwhile, the three-wheeler business continues to do extremely well driving the margin performance and profit growth.
- Given the strong traction in the three-wheeler business and growth in the premium motorcycle segment, the company is expected to maintain the margins at the current levels. We have increased our earnings estimates for FY2015 and FY2016 by 2.5% and 6.4% respectively to factor in the benefit of a higher OPM. We have also introduced our FY2017 earnings estimate of Rs167. Our revised price target of Rs2,338 (vs Rs2,195 earlier) is based on 15.5x FY2016E earnings and values Bajaj's 47.9% stake in premium motorcycle manufacturer, KTM AG, at Rs105 per share (a 30% discount to the CMP). However, given that the company is yet to successfully demonstrate its ability to claw back market share in the domestic motorcycle segment, we remain cautious on the stock and maintain a Hold recommendation.

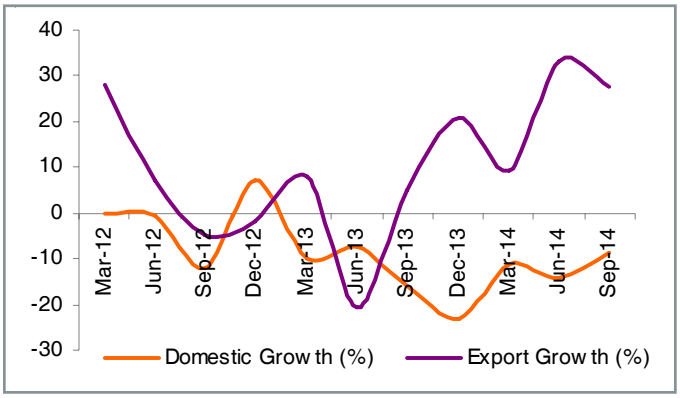
Results (stand-alone) **Rs cr**

Particulars	Q2FY15	Q2FY14	YoY %	Q1FY15	QoQ %
Revenues	5,963.1	5,174.9	15.2	5,252.4	13.5
EBIDTA	1,194.2	1,171.3	2.0	992.4	20.3
EBIDTA margins (%)	**20.0**	**22.6**		**18.9**	
Depreciation	68.6	44.3	54.9	69.2	-0.8
Interest	0.1	0.0	25.0	0.1	-54.5
Other income	113.6	124.2	-8.5	219.3	-48.2
PBT	1,239.1	1,251.2	-1.0	1,142.3	8.5
Tax	362.8	386.4	-6.1	355.3	2.1
Adjusted PAT	**876.3**	**864.7**	**1.3**	**787.0**	**11.3**
Reported PAT	590.9	837.2	-29.4	740.0	-20.1
Adjusted EPS	**30.3**	**29.9**		**27.2**	

Continues to lose market share in domestic motorcycle segment; exports strong

For the seventh consecutive quarter Bajaj posted a decline in the domestic motorcycle segment. During the quarter, volumes were lower by 8.8% year on year (YoY) as against the industry volume growth of 13.5%. In the process the company lost about 400 basis points (BPS) of market share. During the quarter Bajaj launched the new *Discover 150cc* motorcycle and was able to churn out 28,000 units of the same in September'14. While the executive segment remains a pain-point for Bajaj, in the premium motorcycle segment the Pulsar continues to do well and retained its market share. Motorcycle exports too remained strong with an impressive growth of 27.6%.

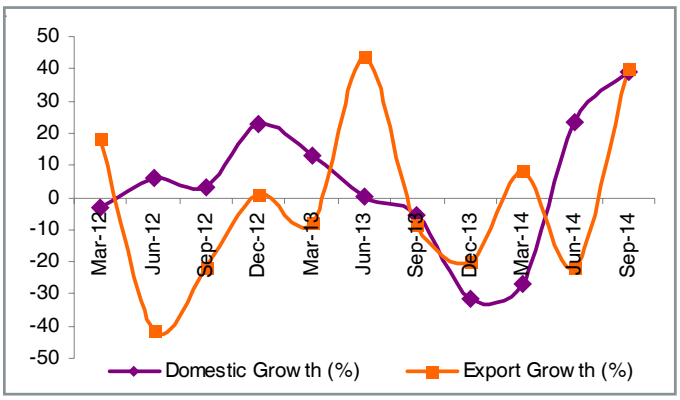
Motorcycle segment growth rate



Three-wheeler volume at an all-time high

Three-wheeler volume for Bajaj touched an all-time high of 156,429 units during the quarter with a growth of 39.6% YoY. The domestic three-wheeler volume continued to benefit from the release of permits in some key markets which enabled Bajaj, which is a market leader in the segment, to post a growth of 39% to almost 75,000 units. The company also expanded its market share in the diesel three-wheeler segment. Similarly, the resumption of exports to the key market of Egypt during the quarter aided in a 40% growth in the overall exports as against a decline of 21.8% in Q1FY2015. The momentum in three-wheeler volume is expected to sustain for another quarter.

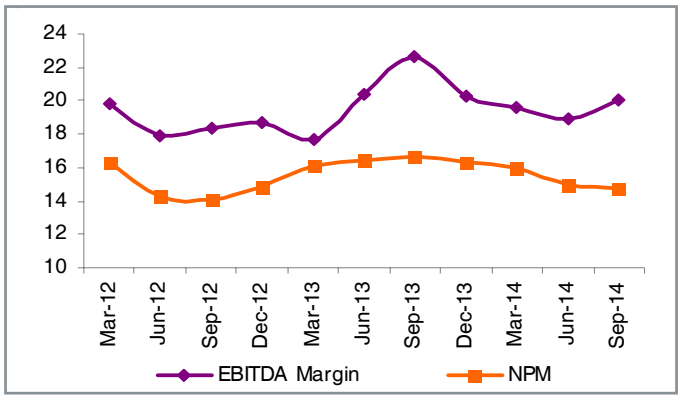
Three-wheeler segment growth rate



Margins above expectation

The product mix for Bajaj during the quarter was significantly richer, given the increased proportion of three-wheelers and premium segment motorcycles. As a result, the blended realisation for the quarter was higher by 4.9% YoY. The better product mix also enabled the company to expand its gross profit margin (GPM), which translated to a better performance at the operating level with the operating profit margin (OPM) expanding by 113BPS sequentially to 20%. The margin expanded on a quarter-on-quarter (Q-o-Q) basis despite the fact that the company donated Rs20 crore towards flood relief operations in Jammu & Kashmir as part of the Corporate Social Responsibility (CSR) spending.

Profitability margins



Provision of Rs340 crore towards payment of NCCD affects reported profits

The company made a provision of Rs340 crore related to the payment of National Calamity Contingent Duty (NCCD) levied on its production from the Pantnagar facility over the past seven years. Bajaj had filed a petition in the court claiming the benefit of exemption from payment of NCCD but the court's ruling went against the company. The company also reported a foreign exchange (forex) loss of Rs67 crore as a result of which the reported profit was lower by 29% YoY at Rs591 crore. Adjusted for the extraordinary provision and the forex loss, the profit was at Rs876 crore as against our expectation of Rs858 crore.

Bajaj planning two new motorcycle launches in H2FY2015

The company has been striving to regain the lost market share in the domestic motorcycle segment. Most of the loss has been in the executive or commuter segment wherein its brand *Discover* is losing flavour. In Q2FY2015, Bajaj launched the *Discover 150cc* to re-establish the brand. There are plans to launch another *Discover* in the next few months followed by a new *Platina*, which is an entry-level motorcycle. Bajaj is also expected to launch

the quadricycle RE60 in H2FY2015; however, the volume in the initial phase is not expected to be significant.

Valuations

We have broadly maintained our volume estimates for FY2015 and FY2016. The company delivered a better than expected operating performance during the quarter and expanded its margins sequentially helped by a superior product mix and higher operating leverage. Given the strong traction in the three-wheeler business and growth in the premium motorcycle segment, ie *Pulsar* and *KTM* family, the company is expected to maintain the margins at the current levels. We have increased our earnings estimates for FY2015 and FY2016 by 2.5% and 6.4% respectively to factor in the benefit of the higher OPM. We have also introduced our FY2017 earnings estimate of Rs167 in this note. Our revised price target of Rs2,338 (earlier Rs2,195) is based on 15.5x FY2016E earnings and values Bajaj's 47.9% stake in premium motorcycle manufacturer, KTM AG, at Rs105 per share (a 30% discount to the current market price). However, given the fact the company is yet to get its act together in the domestic executive segment, we remain cautious on the stock and reiterate our Hold recommendation on it.

Valuations

Particulars	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Net sales (Rs cr)	19,997.3	20,149.5	22,986.2	26,509.9	30,376.0
Growth (%)	*2.4*	*0.8*	*14.1*	*15.3*	*14.6*
EBITDA (Rs cr)	3,711.5	4,191.6	4,546.7	5,401.5	6,217.4
OPM (%)	*18.6*	*20.8*	*19.8*	*20.4*	*20.5*
PAT (Rs cr)	2,951.2	3,297.1	3,499.3	4,168.1	4,824.6
Growth (%)	*-4.7*	*11.7*	*6.1*	*19.1*	*15.8*
FD EPS (Rs)	102.0	113.9	120.9	144.0	166.7
P/E (x)	23.2	20.7	19.5	16.4	14.2
P/B (x)	8.7	7.1	6.2	5.2	4.4
EV/EBITDA (x)	17.3	14.5	13.0	10.5	8.7
RoE (%)	42.3	37.7	33.9	34.5	33.5
RoCE (%)	56.5	51.7	47.2	48.1	46.9

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Federal Bank

Reco: Buy

Stock Update

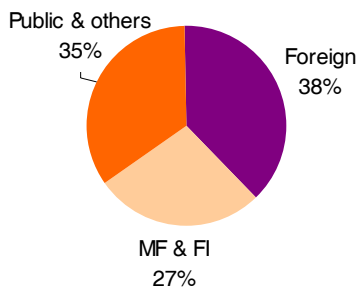
Asset quality continues to improve, price target revised to Rs156

CMP: Rs132

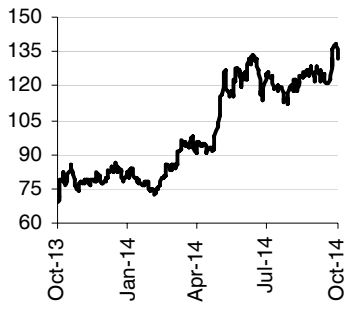
Company details

Price target:	Rs156
Market cap:	Rs11,253 cr
52 week high/low:	Rs140/67
NSE volume: (no. of shares)	48.8 lakh
BSE code:	500469
NSE code:	FEDERALBNK
Sharekhan code:	FEDERALBNK
Free float: (no. of shares)	85.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.1	18.8	45.0	103.1
Relative to Sensex	12.0	12.4	23.1	56.3

Key points

- In Q2FY2015 Federal Bank's net earnings grew by 6.4% YoY to Rs240.3 crore, driven by a strong growth in the non-interest income (up 37% YoY) and a one-off income (Rs27 crore) from the interest on an income tax refund. The net interest margin (NIM) on an adjusted basis remained stable (the reported NIM stood at 3.35%) despite a base rate cut during the quarter.
- The asset quality has showed an improving trend over the past five quarters, mainly due to the containment of slippages from the corporate segment. The fresh restructuring was also lower at Rs68 crore vs Rs88 crore in Q1FY2015. Going ahead, the management is confident of maintaining a stable to improving trend on the asset quality front.
- The growth in the advances picked up in Q2FY2015 and we expect the bank to report nearly 20% CAGR in the advances over FY2014-17 mainly from the SME and retail segments. We expect its earnings to grow at a CAGR of 19.5% over FY2014-17 leading to RoE of about 16% by FY2017. We have rolled our valuation to the FY2017 estimate resulting in an upward revision in the price target to Rs156 (1.4x FY2017E book value [BV]). We maintain our Buy rating on the stock. **Key risk:** While corporate slippages have been contained well, any negative surprise on the same could affect the profit.

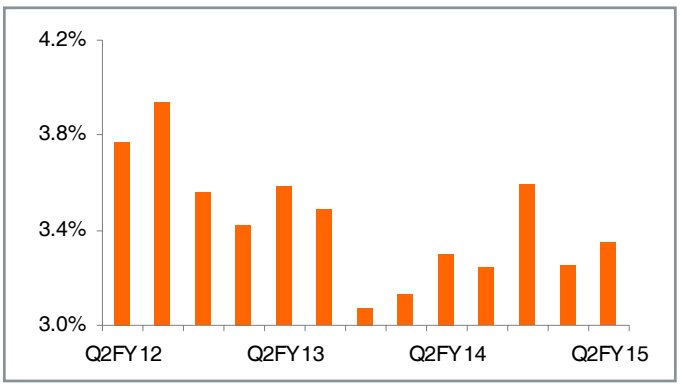
Results Rs cr

Particulars	Q2FY15	Q2FY14	YoY %	Q1FY15	QoQ %
Interest income	1,869.6	1,714.4	9.0	1,771.5	5.5
Interest expense	1,263.8	1,166.1	8.4	1,207.3	4.7
Net interest income	**605.8**	**548.4**	**10.5**	**564.2**	**7.4**
Non-interest income	195.9	143.4	36.6	156.5	25.1
Net total income	801.7	691.8	15.9	720.8	11.2
Operating expenses	391.9	352.8	11.1	369.2	6.1
Employee expenses	203.8	185.4	9.9	204.4	-0.3
Other operating expenses	188.1	167.4	12.4	164.8	14.1
Pre-provisioning profit	**409.8**	**338.9**	**20.9**	**351.5**	**16.6**
Provisions	45.7	-4.0	-1,237.1	22.1	107.0
Profit before tax	364.1	342.9	6.2	329.5	10.5
Tax	123.8	117.1	5.7	109.2	13.3
Profit after tax	**240.3**	**225.8**	**6.4**	**220.2**	**9.1**
Asset quality					
Gross NPLs	1,031.1	1,466.0	-29.7	1,016.4	1.4
Gross NPLs (%)	2.10	3.39	-129 BPS	2.22	-12 BPS
Net NPLs	318.5	411.4	-22.6	303.9	4.8
Net NPLs (%)	0.66	0.98	-32 BPS	0.68	-2 BPS
Capital adequacy (%)					
CAR	14.45	15.35	-90 BPS	15.16	-71 BPS
Tier I	0.60	14.64	-1404 BPS	14.56	-1396 BPS
Key reported ratios (%)					
NIM	3.35	3.30	5 BPS	3.25	10 BPS
CASA	30.56	30.73	-16 BPS	30.75	-19 BPS

NII growth aided by one-off income

The net interest income (NII) grew by 10.5% year on year (YoY) which included a one-off income of Rs27 crore from the interest on an income tax refund. Adjusting for the one-off income the NIM was stable at 3.25% (the reported NIM stood at 3.35%) which was stable on a quarter-on-quarter (Q-o-Q) basis. While the bank had reduced the base rate by 35 basis points (BPS) during the quarter, an increase in loans towards high yielding segments (retail, small and medium enterprises [SME]) offset the impact of the rate cut on the NIM. Meanwhile, the bank has strengthened its liability franchise (current account and savings account [CASA] ratio at about 31%) with an increase in the share of the non-resident deposits which, we believe, should help to sustain the margins at healthy levels.

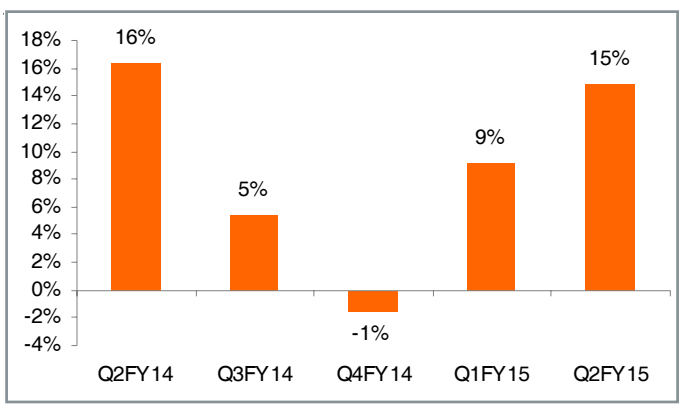
NIM



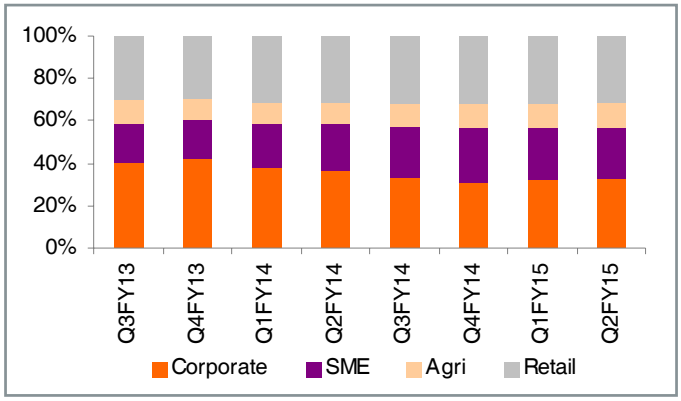
SME, retail sectors clock nearly 25% growth in advances

As guided by the management, the growth in advances picked up (up about 15% YoY and 7.7% quarter on quarter [QoQ]) and it expects to grow the advances by about 20% in FY2015. The retail and SME segments, identified by the bank as core areas of growth, grew by 25.9% and 24.7% respectively in Q2FY2015. In addition, the bank reduced its base rate by 35BPS in June 2014 to attract more business. Going ahead, with a strong capital position and increasing market share within and outside the home state of Kerala, the bank is likely to post a healthy growth in the advances.

Growth in advances



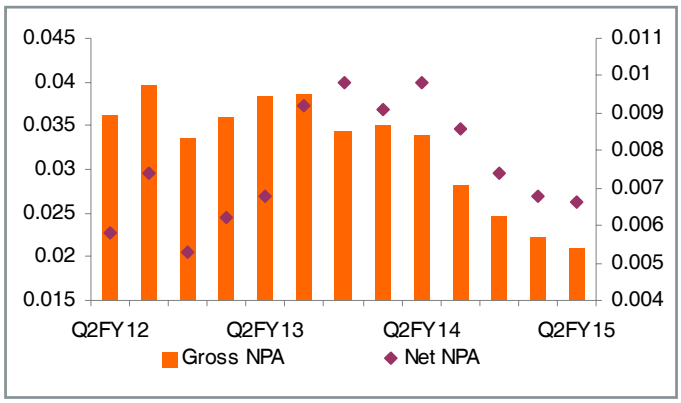
Break-up of advances



Asset quality continues to improve

The reported non-performing assets (NPAs) have declined for five quarters in a row mainly contributed by the containment on slippages from the corporate segment. The slippages from the SME and retail segments remained within manageable limits. The bank restructured Rs68 crore worth of advances in Q2FY2015 (total restructured loans 6% of the book). The credit rating for the corporate and SME books has improved over the quarters which is a healthy trend. The provisions increased sharply in Q2FY2015 (mainly due to a low base of Q1FY2014) including a write-back of Rs23 crore from restructured loans. Federal Bank's provision coverage ratio of 85.14% is among the highest in the industry.

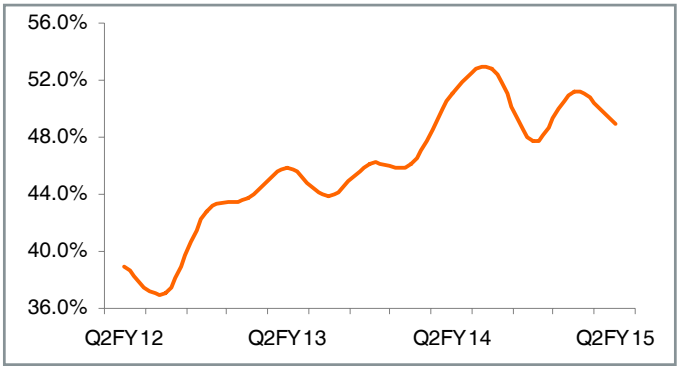
Gross and net NPAs



Non-interest income up 37% aided by treasury income

Overall, the non-interest income increased by 37% YoY, led by a strong growth in the treasury income (Rs42 crore vs Rs7 crore in Q2FY2014). The foreign exchange (forex) income increased by 14.3% YoY while the fee income grew by 14% YoY. Going ahead, the management has guided for a 22% growth in the fee income (ahead of the growth in the advances) which could drive an improvement in the return on asset (RoA). The cost/income ratio was at 48.9%, which the bank aims to maintain at about 47%.

Cost/income ratio



Price target revised to Rs156, maintain Buy

The growth in advances picked up in Q2FY2015 and we expect the bank to report a compounded annual growth rate (CAGR) of about 20% in the advances over FY2014-17 mainly from the SME and retail segments. We expect its earnings to grow at a CAGR of 19.5% over FY2014-17 leading to a return on equity (RoE) of about 16% by FY2017. We have rolled our valuation to the FY2017 estimate resulting in an upward revision in the price target to Rs156 (1.4x FY2017E BV). We maintain our Buy rating on the stock.

Profit and loss statement Rs cr

Particulars	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	**1,975**	**2,229**	**2,602**	**3,062**	**3,645**
Non-interest income	664	694	830	981	1,189
Net total income	**2,639**	**2,922**	**3,432**	**4,043**	**4,834**
Operating expenses	1,185	1,442	1,624	1,856	2,148
Pre-provisioning profit	**1,455**	**1,480**	**1,807**	**2,187**	**2,685**
Provisions	261	268	352	425	518
Profit before tax	1,194	1,212	1,455	1,761	2,167
Tax	356	373	480	581	737
Profit after tax	**838**	**839**	**975**	**1,180**	**1,430**

Balance sheet Rs cr

Particulars	FY13	FY14	FY15E	FY16E	FY17E
Liabilities					
Networth	6,365	6,951	7,697	8,601	9,897
Deposits	57,615	59,731	70,483	83,875	99,811
Borrowings	5,187	5,688	6,688	7,705	7,926
Other liabilities & provisions	1,866	2,224	2,050	2,365	3,334
Total liabilities	**71,033**	**74,594**	**86,918**	**102,545**	**120,967**
Assets					
Cash & balances with RBI	2,742	3,104	3,418	4,026	4,791
Balances with banks & money at call	977	1,425	1,511	1,563	1,618
Investments	21,155	24,118	27,111	31,025	34,363
Advances	44,097	43,436	52,123	63,069	76,944
Fixed assets	400	425	467	514	566
Other assets	1,662	2,086	2,287	2,347	2,685
Total assets	**71,033**	**74,594**	**86,918**	**102,545**	**120,967**

Key ratios

Particulars	FY13	FY14	FY15E	FY16E	FY17E
Per share data (Rs)					
Earnings	9.8	9.8	11.4	13.8	16.7
Dividend	1.8	2.0	2.3	2.8	3.3
Book value	71.8	78.6	87.4	97.9	111.9
Adj. book value	69.5	76.3	80.4	90.3	103.6
Spreads (%)					
Yield on advances	11.3	11.4	11.3	11.2	11.1
Cost of deposits	7.2	7.2	6.8	6.6	6.6
Net interest margins	3.2	3.3	3.5	3.5	3.5
Operating ratios (%)					
Credit to Deposit	76.5	72.7	74.0	75.2	77.1
Cost to income	44.9	49.3	47.3	45.9	44.4
CASA	27.2	31.2	31.8	32.5	33.2
Non-interest income/ total income	25.2	23.7	24.2	24.3	24.6
Assets/Equity (x)	10.9	10.9	11.0	11.6	12.1
Return ratios (%)					
RoE	13.9	12.6	13.3	14.5	15.5
RoA	1.2	1.1	1.1	1.2	1.2
Asset quality ratios (%)					
Gross NPA	3.4	2.5	2.4	2.1	1.9
Net NPA	0.5	0.5	1.1	1.0	0.9
Growth ratios (%)					
Net interest income	1.1	12.9	16.7	17.7	19.0
Pre-provisioning profit	-3.4	1.8	22.1	21.0	22.8
Profit after tax	7.9	0.1	16.2	21.1	21.2
Advances	16.8	-1.5	20.0	21.0	22.0
Deposits	17.7	3.7	18.0	19.0	19.0
Valuation ratios (%)					
P/E	12.7	12.7	10.9	9.0	7.4
P/BV	1.7	1.6	1.4	1.3	1.1
P/ABV	1.8	1.6	1.5	1.4	1.2
Capital adequacy (%)					
CAR	14.7	15.1	14.6	13.8	0.0
Tier I	14.1	14.6	14.1	13.4	0.0
Productivity ratios (Rs cr)					
CASA per branch	14	16	18	20	23
Business per branch	92	88	98	110	125
Business per employee	10	10	11	13	16

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Crompton Greaves

Reco: Buy

Stock Update

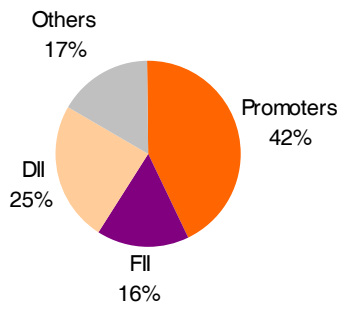
Unfavourable demerger structure led to a revised price target of Rs260

CMP: Rs189

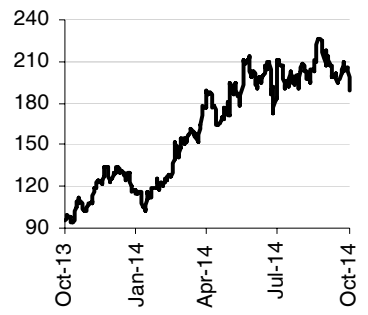
Company details

Price target:	Rs260
Market cap:	Rs12,143 cr
52-week high/low:	Rs231/94
NSE volume: (no. of shares)	49.5 lakh
BSE code:	500093
NSE code:	CROMPGREAVE
Sharekhan code:	CROMPGREAVE
Free float: (no. of shares)	36.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	16.3	17.4	112.2
Relative to Sensex	-4.7	10.1	-0.4	63.3

Key points

- Crompton Greaves Ltd (CGL) reported a net profit growth of 19% YoY to Rs70 crore in Q2FY2015, in line with our estimate, which was supported by a decent revenue growth and hefty rise in other income. During this quarter, CGL exhibited an overall margin improvement YoY in all the three segments; notably PBIT margin in industrial systems expanded by 151BPS YoY to 9.2%.
- The board of directors of CGL approved a proposal to demerge its consumer products business into a separately listed entity (called Crompton Consumer Products Ltd [CCPL]). Under the demerger scheme, existing shareholders of CGL will get three shares of CCPL for every four shares of CGL; plus CGL will hold 25% stake in CCPL upon completion of demerger. Instead of issuing equal number of shares to existing shareholders of CGL the transfer of 25% stake of CCPL to CGL does not fully unlock the value for minority shareholders (it would be seen as a strategic stake and attract holding discount while valuing CGL). Also, it gives higher indirect stake to promoters in CCPL (42.67% direct stake and around 10% indirect holding through stake in CGL).
- During post Q2 result conference call, the management sounded fairly positive on gradual recovery of its overseas operations and signs of improvement in order inflow. However, the unfavourable structure of demerger of consumer product business has disappointed investors since value unlocking benefit for the existing minority shareholders could not percolate fully. We see a 10-15% downside in the value un-locking exercise than initially estimated. Nevertheless, the stock has corrected by 8% today and any further correction should be capitalised as a buying opportunity, despite re-working post announcement of the demerger structure, there is a healthy potential upside to our revised down price target of Rs260. We retain Buy rating on the stock.

Results Rs cr

Particulars	Q2FY15	Q2FY14	YoY %	Q1FY15	QoQ %
Total income from operation	**3,430**	**3,205**	**7.0**	**3,442**	**(0.3)**
Total expenditure	3,262	3,044	7.2	3,269	(0.2)
Operating profits	**168**	**161**	**4.4**	**173**	**(2.5)**
Other income	45	33	39.6	39	17.9
EBIDTA	**214**	**194**	**10.3**	**211**	**1.2**
Interest	23	19	16.6	24	(7.8)
Depreciation	66	66	(0.1)	67	(1.4)
PBT	**125**	**108**	**15.6**	**120**	**4.5**
Tax	57	51	11.7	55	3.7
PAT before MI	**68**	**58**	**18.1**	**65**	**5.2**
Minority interest	(0)	(1)		(0)	NA
Shares of profits	(1)	(1)		1	NA
PAT after MI (Adj.)	**70**	**58**	**19.1**	**64**	**8.7**
Reported PAT	**70**	**58**	**19.1**	**64**	**8.7**
Ratios (%)			**BPS**		**BPS**
OPM	4.9	5.0	(12)	5.0	(11)
PAT M	2.0	1.8	21	1.9	17
Tax rate	45.5	46.7	(117)	45.9	(35)

Valuations

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales (Rs cr)	11,249	12,094	13,481	14,862	16,543
Operating profit (Rs cr)	810	383	682	999	1,222
OPM (%)	7.2	3.2	5.1	6.7	7.4
Adj PAT (Rs crore)	380	85	244	540	709
Adjusted EPS (Rs)	5.9	1.3	3.9	8.6	11.3
Growth YoY (%)	(59.0)	(77.8)	195.7	121.0	31.3
PER (x)	31.9	143.4	48.5	21.9	16.7
P/B (x)	3.4	3.4	3.3	2.9	2.6
EV/EBIDTA (x)	14.2	32.6	19.2	12.6	9.9
RoCE (%)	14.7	5.5	10.9	14.2	17.1
RoNW (%)	10.5	(1.0)	6.7	13.4	15.6
Div yield (%)	0.7	0.6	0.6	1.1	1.5

Q2FY2015 Performance

On a consolidated basis, the revenues of CGL grew by 7% year on year (YoY) to Rs3,430 crore in Q2FY2015 mainly due to a healthy performance in the consumer segment which grew by 13% YoY. The growth in the consumer segment was backed by a stable growth seen in fans, lighting and appliances business. However, the power systems and industrial systems showed a growth in the range of 5-6% during the period. The traction in the automation business coupled with healthy exports orders helped the power system business to grow during the quarter.

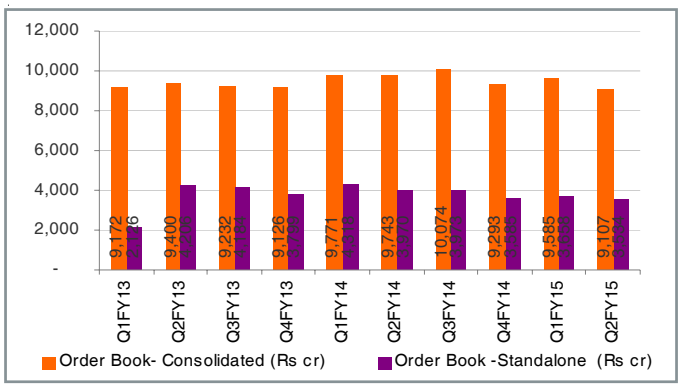
CGL reported a blended profit before interest and tax (PBIT) margin of 5.1% in Q2FY2015, as all the three segments witnessed margin improvement. Notably, PBIT margin in industrial system expanded by 151 basis points (BPS) YoY and the management expect this as a trend with signs of improving order inflow environment. On the other hand, the consumer business continued to notch above average industry margin of 12%. The domestic power system managed to report PBIT margin of 8.4% but due to losses in the overseas power system business, on a consolidated level PBIT of power system was 2%.

The operating profit margin grew by 4% YoY but supported by hefty rise in other income, the net profit grew by 19% YoY to Rs70 crore, in line with our estimate.

Other highlights

Order book and inflow: The consolidated order inflow stood at Rs2,505 crore, a growth of 11% YoY, due to a healthy growth of 8% in the power division (mainly due to growth of 37% YoY in domestic power segment) in Q2FY2015. The industrial order inflow grew by 25% YoY to Rs581 crore during the period. Internationally, the order inflow remained subdued which saw a decline of 4% on year-on-year (Y-o-Y) basis while robust growth of 40% YoY was seen in the domestic business in Q2FY2015. The automation order inflow stood at Rs263 crore during the period. Further, the management expects the order inflow activity in the domestic business to show an uptick from H2FY2015. The consolidated order backlog declined by 7% to Rs9,108 crore while, the export order backlog stood at Rs821 crore in Q2FY2015.

Order book (Rs cr)



Result snapshot Rs cr

Performance YoY	Consolidated			Stand-alone			Subsidiaries (derived)		
	Q2FY15	Q2FY14	Grwth (%)	Q2FY15	Q2FY14	Grwth (%)	Q2FY15	Q2FY14	Grwth (%)
Net sales	3,430	3,205	7.0	1,923	1,766	8.9	1,507	1,439	4.7
Operating profits	168	161	4.4	167	159	5.0	1	2	-38.4
Other Income	45	33	39.6	29	30	-2.3	17	3	444.1
Interest	23	19	16.6	(4)	(11)	-64.1	26	30	-12.2
Depreciation	66	66	-0.1	24	22	10.5	42	45	-5.3
PBT	125	108	15.6	176	178	-1.0	(50)	(69)	-27.0
Tax	57	51	12.7	50	43	16.4	7	8	-7.5
Adj. PAT	70	58	19.1	126	135	-6.6	(56)	(76)	-26.2
			BPS			BPS			BPS
OPM (%)	4.9	5.0	(12)	8.7	9.0	(32)	0.1	0.2	(7)
NPM (%)	2.0	1.8	21	6.5	7.6	(109)	-3.7	-5.3	157
Tax rate (%)	45.5	46.7	(117)	28.3	24.1	423	-14.4	-11.3	(304)

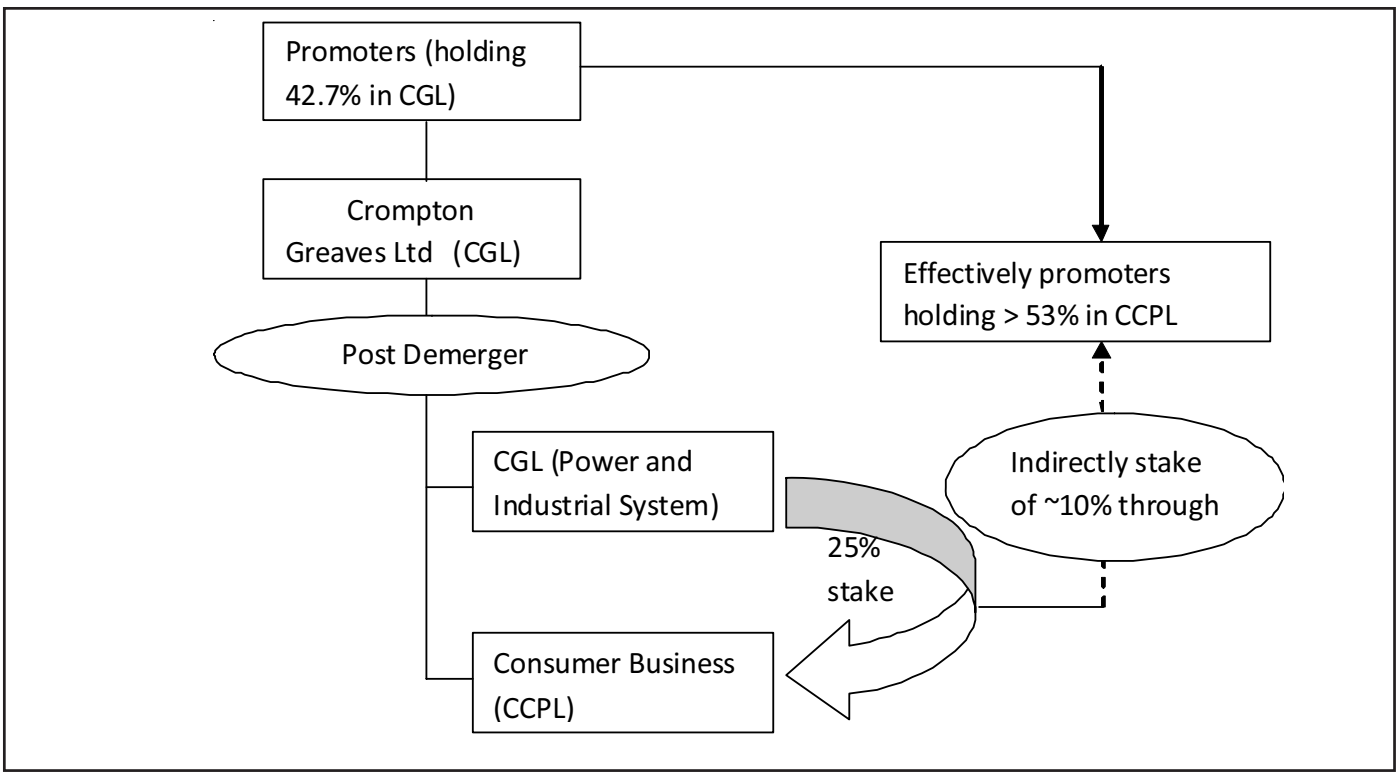
Segmental snapshot Rs cr

Performance YoY	Consolidated			Stand-alone			Subsidiaries (derived)		
	Q2FY15	Q2FY14	Grwth (%)	Q2FY15	Q2FY14	Grwth (%)	Q2FY15	Q2FY14	Grwth (%)
Total revenues	3,440	3,217	7	1,933	1,778	9	1,507	1,439	5
Power systems	2,138	2,026	5	709	667	6	1,429	1,360	5
Consumer products	743	659	13	743	659	13	-	-	-
Industrial systems	462	438	5	386	362	7	75	76	(1)
Others	97	93	4	94	90	4	3	3	(7)
Less: inter-segment revenues	(10)	(12)	(22)	(10)	(12)	(22)	-	-	-
Segment revenues	3,430	3,205	7	1,923	1,766	9	1,507	1,439	5
PBIT									
Power systems	48	41	17	59	62	(5)	(12)	(22)	NA
Consumer products	89	77	16	91	77	18	(2)	-	NA
Industrial systems	42	33	26	41	38	9	1	(4)	NA
Others	(4)	3	(262)	(5)	3	(275)	1	(0)	NA
Total	175	154	14	187	180	4	(12)	(26)	NA
PBIT margins (%)			**BPS**			**BPS**			**BPS**
Power systems	2	2	22	8	9	(98)	(1)	(2)	77
Consumer products	12	12	29	12	12	52	NA	NA	NA
Industrial systems	9	8	151	11	10	25	1	(6)	691
Others	(4)	3	(719)	(5)	3	(810)	20	(4)	2,328

Land sale: The board of directors has approved sale of portion of land (8 acre) at Kanjurmarg to M/s Evie Real Estate Private Ltd for a sum of Rs302.26 crore. The management has adopted the strategy to monetise the land in order to optimise its usage. Further, the management informed that the proposed land sale will not affect the operation in Kanjurmarg .

View—Demerger structure led to cut in price target but retain Buy

The board of directors of CGL approved a proposal to demerge its consumer products business into a separately listed entity, CCPL. Under the demerger scheme, existing shareholders of CGL will get 3 shares of CCPL for every 4 shares of CGL; plus CGL will hold 25% stake in the newly listed entity CCPL, upon completion of demerger.



We believe such structure would be unfavourable to minority shareholders as with CGL holding 25% stake in the new entity would not fully unlock value for minority share holders; rather effectively it will translate into higher indirect stake to the promoters in CCPL. Currently, the promoters hold a 42.67% stake in CGL which would be the direct stake and again through proposed 25% stake, indirectly promoters will get additional 10% holding in CCPL.

We believe with the proposed structure of demerger of consumer product business would be disappointing for existing minority investors since full benefit of value unlocking could not percolate into their account. Further, the CCPL's 25% stake in CGL would be seen as a strategic stake and attract holding discount while valuing CGL. We have assigned 50% holding discount to the 25% stake of CCPL in CGL while we re-work the sum-of-the-parts (SoTP) calculation. We see a 10-15% downside in the value unlocking exercise than initially we had estimated. We have fine-tuned our SoTP valuation and revised down our price target by 13% to Rs260.

Given the above mentioned unfavourable demerger structure, the stock could react negatively in short-term. Nevertheless, the stock has corrected by 8% today and any further correction should be capitalised by investors as a buying opportunity, despite re-working post announcement of the demerger structure, there is still a healthy potential upside to our revised down price target and during post Q2 result conference call, the management sounded fairly positive on gradual recovery of its overseas operations and signs of improvement in order inflow both domestic as well as overseas market. Hence, we retain Buy rating on the stock.

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

NIIT Technologies

Reco: Book out

Stock Update

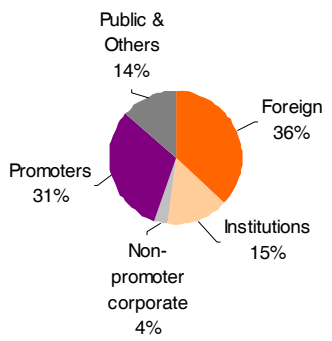
Earnings revival seems bleak, recommend Book profit at current levels

CMP: Rs377

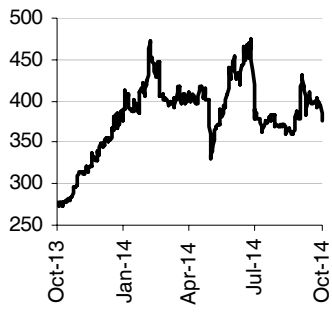
Company details

Market cap:	Rs2,317 cr
52 week high/low:	Rs486/273
NSE volume: (no. of shares)	1.53 lakh
BSE code:	532541
NSE code:	NIITTECH
Sharekhan code:	NIITTECH
Free float: (no. of shares)	4.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.3	-14.9	1.2	35.6
Relative to Sensex	4.0	-19.5	-14.1	4.3

Key points

- For Q2FY2015 NIIT Technologies has delivered another operationally weak performance, with revenues dropping by 0.8% QoQ to $95.6 million in a seasonally strong quarter owing to clients-specific issues. Also, despite a favourable currency impact and hedging gains, the margin improved by only 55BPS QoQ to 14%. Further, owing to a higher depreciation cost and the absence of other income, the net income was down 7.2% QoQ and 35.7% YoY to Rs40.1 crore in the quarter.
- The management does not see any meaningful improvement in the next two quarters and expects an improvement only by FY2016. Further, its commentary on order booking and margin trajectory does not inspire any confidence.
- Given the absence of improvement in the revenues and margins, we have further downgraded our estimates for FY2015 and FY2016; we now expect the earnings growth to remain muted over FY2014-16. Further, a high capex of around Rs170 crore in FY2015 and lower cash flows from operations could also affect the dividend pay-out of the company which could further de-rate the stock. We had initiated coverage on the stock at Rs210 on January 19, 2011; it has appreciated by close to 95% since then. We see a limited scope for re-rating of the stock till the company's earnings trajectory improves. We, therefore, recommend investors to Book profit of the stock at the current levels.

Results Rs cr

Particulars	Q2FY15	Q2FY14	Q1FY15	YoY %	QoQ %
Net sales	588.3	587.3	577.6	0.2	1.9
Direct costs	392.1	389.3	387.7	0.7	1.1
Gross profit	196.2	198.0	189.9	-0.9	3.3
SG&A	114.0	109.4	112.4	4.2	1.4
EBITDA	82.2	88.6	77.5	-7.2	6.1
Depreciation	25.4	15.5	18.9	63.9	34.4
PBIT	56.8	73.1	58.6	-22.3	-3.1
Other income	-0.4	18.2	3.6	-102.2	NA
PBT	56.4	91.3	62.2	-38.2	-9.3
Tax	15.4	26.9	16.2	-42.8	-4.9
PAT	41.0	64.4	46.0	-36.3	-10.9
Minority interest	0.9	2.0	2.8	-55.0	-67.9
Net profit (reported)	40.1	62.4	43.2	-35.7	-7.2
EPS (Rs)	6.6	10.3	7.1	-36.0	-7.2
Margin (%)					
GPM	33.4	33.7	32.9		
EBITDA	14.0	15.1	13.4		
EBIT	9.7	12.4	10.1		
NPM	6.8	10.6	7.5		
Tax rate	27.3	29.5	26.0		

Valuation

Particulars	FY13	FY14	FY15E	FY16E
Revenues	2,021.4	2,305.0	2,367.5	2,545.9
yoy grth (%)	28.2	14.0	2.7	7.5
EBITDA	329.5	351.5	338.6	409.1
EBITDA Margin (%)	16.3	15.3	14.3	16.1
Net Profit	213.2	230.5	186.9	250.6
yoy grth (%)	9.5	8.1	(18.9)	34.1
EPS	35.1	38.0	30.8	41.3
PE (x)	10.7	9.9	12.2	9.1
EV/EBITDA (x)	6.0	5.6	5.4	4.0
ROE (%)	20.7	19.1	13.7	16.4
ROCE (%)	27.3	25.9	19.1	22.6
Dividend yield (%)	2.2	2.4	1.8	2.2

Other operational highlights Rs cr

Particulars	Q2FY15	Q1FY15	Growth (%)
Revenue			
GIS	31.8	26.0	22.31
Room solutions	40.9	39.1	4.60
Morris JV	40.6	38.7	4.91
Proyecta	18.4	18.5	(0.54)
Hardware	5.6	17.0	(67.06)

Particulars	Q2FY15	Q1FY15	Change in BPS
Margins (%)			
GIS	28.0	24.0	400.0
Room solutions	16.0	15.0	100.0
Morris JV	10.0	16.0	-600.0
Proyecta	11.0	3.0	800.0

Result highlights

- **Client ramp-downs and lower government revenues hampered revenue growth:** For Q2FY2015 NIIT Technologies Ltd (NTL) has reported a sequential decline of 0.8% in the revenues in dollar terms to $95.6 million, though the revenues of the core services business rose by 2.2% quarter on quarter (QoQ). The revenue growth for the company remained weak owing to the impact of a ramp-down in projects by a couple of clients in the USA (the banking, financial services and insurance [BFSI] segment), which affected the growth in the US geography, and lower government revenues, as projects move to the Operational and Maintenance (O&M) phase. In rupee terms, led by higher hedging gains to the tune of Rs9.6 crore and favourable currency movement, the revenues were up by 1.9% QoQ.

- **Margin outlook tapered:** Though the operating profit margin (OPM) performance for the quarter was a tad ahead of our estimate, but the margin improvement was led largely by higher hedging gains in the revenue line; excluding that the margin declined by 130 basis points (BPS) QoQ to 12.1% owing to a transition cost associated with the large deals won in Q1FY2015. Given the weak revenue outlook and the transition cost of the large deals, the management does not see any meaningful improvement in the margins in next two quarters.

- **Net income below estimate:** The net income for the quarter declined by 7.2% sequentially to Rs41 crore (against our estimate of Rs43.7 crore); the miss in the net income level was on account of a weak top line growth and a higher depreciation cost (as the Chennai and Kolkata airports went live for the Airport Authority of India projects and large infrastructure deals contributed to higher depreciation). The other income for the quarter was at negative Rs0.4 crore as compared with Rs7.9 crore in Q1FY2015.

Highlights of the management's conference call

- The management indicated that the transition could take longer than anticipated. The company could see a meaningful recovery in the revenue growth trajectory in FY2016 and some improvement by Q4FY2015.

- The company had fresh order intake of $103 million in the quarter. It signed one large deal to the tune of $20 million. The management indicated one large deal may be signed in every quarter going forward. The order pipeline looks healthy; however, there will not be any significant improvement in order booking. The management was comfortable with order booking of around $100 million per quarter.

- The management saw worrying signs in Europe on account of weak macro data from some pockets like Germany. The Ebola outbreak is also affecting the airline volume which could affect the company's travel & transport segment (which accounts for 42% of its total revenues).

- The company added five clients during the quarter (four in the USA and one in India, out of which three were in the travel & transport segment and one each in the BFSI and government segments.

Other highlights of the quarter

- The company's DSO days decreased by five days to 90 days. The cash and cash equivalents increased from Rs195.1 crore to Rs263.8 crore but the increase was largely on account of an increase in the working capital debts to Rs48.7 crore for the overseas subsidiary. The capital expenditure (capex) for the quarter was at Rs47.8 crore; the company had already incurred Rs71.5 crore capex in Q1FY2015 and is planning to incur another Rs50-55 crore in H2FY2015.

- The employee strength marginally increased by six employees to 8,288 employees. The attrition rate for the quarter stood at 15.8%, up 340BPS YoY. The utilisation rate for the quarter increased by 60BPS QoQ to 78.6%.

- The company has dollar hedges worth $51.24 million (as against $51.1 million in Q1FY2014) for the next 12 months at an average rate of 65.26 per dollar.

Key operating metrics

Particulars	Q2FY15	Q2FY14	Q1FY15	YoY %	QoQ %	Comments
Revenues	**588.3**	**587.3**	**577.6**	**0.2**	**1.9**	➢ The revenues from the USA fell by 0.8% on a constant-currency basis due to ramp-down in projects by a couple of clients
Geographic mix (%)						
Americas	*44.0*	*41.0*	*44.0*	*7.5*	*1.9*	
Revenue (in Rs cr)	258.9	240.8	254.1			
EMEA	*38.0*	*36.0*	*36.0*	*5.7*	*7.5*	➢ The revenues from the RoW declined by 10.7% on a constant currency basis led by India, as government contracts fell down by 49% QoQ
Revenue (in Rs cr)	223.6	211.4	207.9			
RoW	*18.0*	*23.0*	*20.0*	*-21.6*	*-8.3*	
Revenue (in Rs cr)	105.9	135.1	115.5			
Industry verticals (%)						
BFSI	*33.0*	*33.0*	*34.0*	*0.2*	*-1.1*	➢ BFSI revenues fell by 3.7% on a constant-currency basis largely because of project ramp-down seen in 2 clients in the USA
Revenue (in Rs cr)	194.1	193.8	196.4			
Transportation	*42.0*	*37.0*	*39.0*	*13.7*	*9.7*	
Revenue (in Rs cr)	247.1	217.3	225.3			
Manufacturing	*7.0*	*6.0*	*7.0*	*16.9*	*1.9*	➢ Government revenues down by 49% QoQ on account of lower hardware revenues as contracts moved to O&M phase
Revenue (in Rs cr)	41.2	35.2	40.4			
Government	3.0	10.0	6.0	-69.9	-49.1	
Revenue (in Rs cr)	17.6	58.7	34.7			
Others	*15.0*	*14.0*	*14.0*	*7.3*	*9.1*	
Revenue (in Rs cr)	88.2	82.2	80.9			
Client contribution (%)						
Top 5 clients	*34.0*	*36.0*	*34.0*	*-5.4*	*1.9*	➢ Revenues from top 5 clients declined for third consecutive quarter largely due to ramp-down in the large client accounts
Revenue (in Rs cr)	200.0	211.4	196.4			
Top 10 clients	47.0	49.0	48.0	-3.9	-0.3	
Revenue (in Rs cr)	276.5	287.8	277.2			
Others	*53.0*	*51.0*	*52.0*	*4.1*	*3.8*	
Revenue (in Rs cr)	311.8	299.5	300.4			
Service lines (%)						
ADM	*63.0*	*62.0*	*62.0*	*1.8*	*3.5*	➢ Barring managed services, which grew by 14.6% QoQ due to AAI project execution, revenues from all service lines remained muted
Revenue (in Rs cr)	370.6	364.1	358.1			
IP asset based	*9.0*	*9.0*	*9.0*	*0.2*	*1.9*	
Revenue (in Rs cr)	52.9	52.9	52.0			
Managed services	*18.0*	*12.0*	*16.0*	*50.3*	*14.58*	
Revenue (in Rs cr)	105.9	70.5	92.4			
System int. & package impl.	*4.0*	*12.0*	*7.0*	*-66.6*	*-41.8*	
Revenue (in Rs cr)	23.5	70.5	40.4			
BPO	*6.0*	*5.0*	*6.0*	*20.2*	*1.9*	
Revenue (in Rs cr)	35.3	29.4	34.7			

Source: Company

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Dhanuka Agritech

View: Positive

Viewpoint

Near-term growth guidance lowered, long-term prospects intact

CMP: Rs428

Key points

- The management of Dhanuka Agritech has lowered its growth guidance for FY2015 to 10-15% from the earlier range of 20-25% due to a weak monsoon in the kharif season. The south-west monsoon for the country as a whole remains weak, with the cumulative rainfall during the year remaining 12% below the long period average (LPA). Consequently, a much higher rainfall deficit (of 21%) in north-west India (a key area for the company) has further weakened the consumption of agrochemcials. The lowering of the guidance is likely to remain a key hangover in the near term for the stock.
- However, the long-term growth prospects of the company remain intact because the company has a robust pipeline of exclusive products (which have a relatively higher margin) and non-exclusive products which will help it to regain its growth trajectory and improve its margin. The company is planning to launch two to three new products every year which will help it achieve a decent growth and maintain the margin at the current level. Recently, the company launched exclusive products, Mortar (an insecticide) and Sakur (a weedicide for soya bean, pick-up in sales will be in the kharif season of 2015). The company is waiting for the registration of molecule Sempra (a weedicide) which will be the game changer in terms of profitability and volume.
- Taking our cue from the management guidance, we have also revised downwards our rough-cut earnings estimates for FY2015 and FY2016 to the range of 10-12%. However, any short-terms decline in the share price can be used as an opportunity to accumulate the stock at lower levels. At the current market price the stock is trading at 18.8x and 14.9x FY2015 and FY2016 estimated earnings. We maintain our positive view on the stock with a time frame of two to three years.

Valuations

Particulars	FY2012	FY13	FY2014	FY2015E	FY2016E	FY2017E
Net sales (Rs cr)	529.8	589.2	745.3	838.3	972.8	1138.8
EBIDTA	80.0	88.8	125.7	148.7	187.0	210.3
Adj. PAT	57.1	64.4	93.1	111.0	140.2	156.6
EBIDTA margin (%)	15.1	15.1	16.9	17.7	19.2	18.5
PAT margin (%)	10.8	10.9	12.5	13.2	14.4	13.8
EPS (Rs)	11.4	12.9	18.6	22.2	28.0	31.3
P/E	36.6	32.5	22.5	18.8	14.9	13.4
RoCE (%)	23.4	22.5	25.7	24.6	24.6	22.2
RoE (%)	26.6	24.5	28.0	26.3	25.9	23.1
Debt/Equity	0.2	0.1	0.1	0.1	0.1	0.1

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Aurionpro Solutions

View: Positive

Viewpoint

Growth at discounted valuations

CMP: Rs270

Key points

- **The mid-sized company with marquee clients and niche offerings:** Aurionpro Solutions Ltd (ASL) is a mid-sized IT company, which has made its presence felt in the niche segment of Oracle IDM product and also has its presence in the IT consulting and banking products space. The company is looking at deepening its engagement with its existing relationships with 34 Fortune 500 companies to double its revenues from the Oracle practice. Further, the company's banking payment solution ($25 million) is expected to get a strong traction, in the advent of payments banks are taking shape in India, the payment solutions expect to grow much faster in the next two to three years.
- **Strategic restructuring to accelerate growth:** The company has undergone strategic and operational restructuring in the last three years, some of the key initiatives are 1) Consolidation of top management, and inclusion of industry stalwarts like Carol Realini, Hari Murthy and Frank P. Osusky into board level roles, which helps the company to deepen its clients' relationship and cross selling of services and accelerate the global growth. 2) With gradual exit from the low-margin business, the company will entirely phase out from the low-margin business by the end of FY2015. 3) Expansion of sales team; more than doubled in the last one year and also geographical expansion into Germany, helps to penetrate clients further 4) Rationalisation of G&A and consolidation of operations and gradual shift of clients' engagement to offshore, (plans to double offshore strength in the next two years) to have a positive impact on margins over the next three years.
- **Strong earnings trajectory, 30% earnings CAGR over FY2014-16E:** Driven by strategic restructuring initiatives, ASL has gradually turned around its fortune and delivered strong operating profit margins of 18% in Q1FY15, highest in the last two years. Driven by further improvement in the operational efficiency and phase out of low margin business, margins expect to improve by 830BPS over FY2014-16E to touch 20% by FY2016E. Also, a strong traction in the oracle IDM space and banking products will aid to 14% CAGR in topline over the same period. Further, with improvement in free cash flows, we expect to net cash positive by the end of FY2016 (high interest bearing India debt to the tune of Rs40 crore to over Q2FY2015) and the company is able to finance its further capital expenditure from its internal accruals in the next two years.
- **Valuation:** Earnings to drive re-rating: With strong operating leverage to kick in with improvement in revenues growth and exit from the low margin business augurs well for further margins improvement. We expect 30% CAGR in earnings over FY2014-16E. At the cmp of Rs270, stock trades at 6.3x and 4.7x FY2015/16E earnings estimates which leaves scope for significant re-rating from here. Thus, we have a positive view on the stock.

Valuations

Particulars	FY2013	FY2014	FY2015E	FY2016E
Net sales (Rs cr)	568	649	746	873
OPM(%)	13.0	11.7	18.0	20.0
Net profit (Rs cr)	43	61	76	103
EPS (Rs)	25.5	33.9	42.3	57.6
PER (x)	10.5	7.9	6.3	4.7
P/BV (x)	1.0	0.8	0.7	0.6
EV/EBIDTA (x)	8.2	7.9	3.9	2.6
Div yield (%)	0.5	0.8	1.1	1.5
RoCE (%)	9.7	9.7	13.7	17.8
RoNW (%)	9.9	11.3	11.9	14.3

Risks: Our earnings growth and margins improvement is based on the topline growth and currency estimates, if the growth is slower than expected and in the event of rupee appreciates against the USD, our estimates can be at risk.

Investment triggers

Longstanding client's engagements, IDM and Banking products to uplift revenues growth: Aurionpro Solutions Ltd (ASL) is a mid-sized information technology (IT) company, which specializes in IT consulting and banking products space with an employee strength of around 1,200 headcounts. Over the next two to three years, ASL's revenues uplift will be driven by Oracle IDM piece, which constitutes 27% of the total revenues of the company and catering to 34 clients out of Fortune 500 companies. With deep clients' engagement this piece of business revenues expect to get double in the next three years. Further, the company's banking payments solutions ($25 million) is expected to get a strong traction, with the advent of payments banks are taking shape in India, the payment solutions is expected to grow much faster in next two to three years.

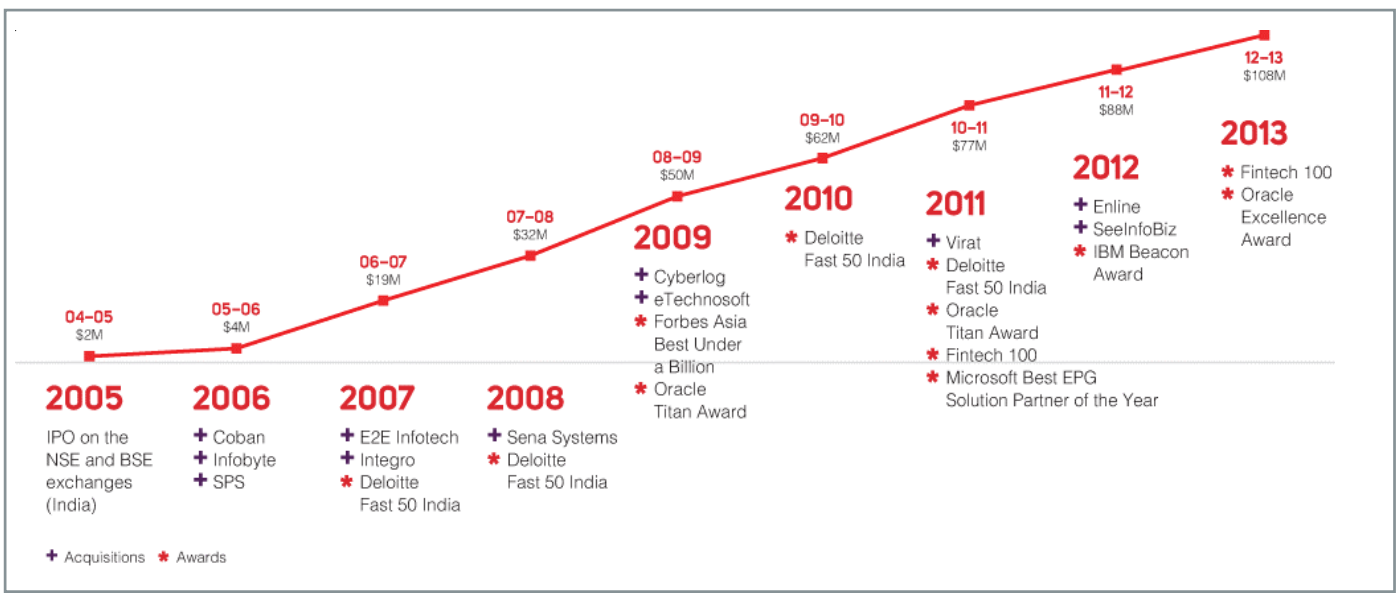
The company revenues has been primarily divided into four parts, 1) Oracle consulting ($40 million), IT consulting ($23 million), banking platforms ($25 million) and Supply Chain Management (SCM) Software ($5 million) and low margin product business, which constitutes around $10-12 million of revenues, which is going to phase out by FY2015. The company has 34 clients out of Fortune 500 companies and it gets 54% of its revenues from USA, UK and Australia, 36% from India and Middle East and 10% from South East Asia (excluding India).

Strategic restructuring to accelerate growth: The company has undergone strategic and operational restructuring in the last three years, some of the key initiatives are:

- Consolidation of top management; Samir Shah was appointed the global CEO and Nirav Shah has taken on the role of global COO and also inclusion of industry stalwarts like Carol Realini, Hari Murthy and Frank P. Osusky into board-level roles, helps the company to deepen the clients' relationship and cross selling of services and accelerate the global growth.
- To improve the margins profile, the low-margin products and business process outsourcing (BPO) business, which constitutes around $13 million in revenues will phase out by the end of FY2015. The management has appointed KPMG as consultants to advice on the write-off some of the non-performing assets and past acquisitions, which will also bring down the non-performing total gross block of the company and reduce the depreciation cost.
- Expansion of sales team; more than doubled in last one year and also geographical expansion into Germany helps to penetrate clients further.
- Rationalisation of general and administrative expense (G&A) and consolidation of operations and gradual shift of clients' engagement to offshore (plans to double offshore strength in the next two years) to have positive impact on margins over the next three years. The management is planning to build 1,600 seats offshore development centre (ODC) over the next two years, and to increase the offshore headcounts to 600. Currently, out of total headcounts of around 1,200, 300 are in offshore (155 in clients' ODC).

Company Background

Aurionpro was founded in 1997 to service the rapidly expanding banking industry in India. The company develops software products for the banking and supply chain management industries and also deliver IT consulting services.



Management team

Paresh Zaveri	Chairman
Amit Sheth	Vice Chairman
Samir Shah	CEO
Nirav Shah	COO
Robert Levine	President, Western Region
Shekhar Mullatti	President, APMEA (Asia Pacific, Middle East, Africa)
Dusan Jovanovic	Chief Financial Officer
Jonathan Bank	Chief Marketing Officer
Craig Jones	EVP, Operations, North America
Ed Jackowiak	EVP, Sales, North America
Swapnil Mehta	EVP, Products, North America
Sanjay Bali	President, Government Solutions, India
Ashish Pujari	SVP, Supply Chain Managemen
Nisha Sidhwani	SVP, Customer Communications Products
Mike Nelsey	Managing Director, UK & EMEA

Select Customers' History

Customer	Location	Customer since
American Water Works	US	March 2012
Barclays Capital	US, UK & SG	January 2008
BDP Global Services	SG	February 2003
Chevron	US	October 2009
CITI Group	US	November 2007
Eaton	US	October 2012
Experian	US	March 2012
Freddie Mac	US	November 2009
Genentech	US	May 2008
ILCS	SG	June 2013
Overseas Chinese Banking Corporation (OCBC)	SG	March 2005
State Compensation Insurance Fund	US	August 2007
Suncorp	AUS	May 2011
United Overseas Bank (UOB)	SG	August 2001
US Airways	US	October 2005

Key Customer Facts:

- 5% - revenue contribution from top producing customer (TTM)
- <30% - revenue contribution from top 10 customers (TTM)
- 35 - # customers with >$500k revenue (TTM)

Operating Metrics

Revenues by Geographies

Particulars	Q1FY15	Q4FY14	Q1FY14
North Americas (%)	38	37	42
Europe (%)	8	9	9
India (%)	26	29	26
RoW (%)	28	25	22

Clients' Revenue Contribution

Particulars	Q1FY15	Q4FY14	Q1FY14
Top Client (%)	4.7	5.1	4.9
Top 5 Clients (%)	18.2	15.9	15.7
Top 10 Clients (%)	24.5	23.7	24.1

Customer Engagement Size:

Particulars	Q1FY15	Q4FY14	Q1FY14
>$1Mn	4	2	3
$0.5Mn - $1Mn	5	7	7
<$0.5Mn	55	53	54

Services Utilization

Particulars	Q1FY15	Q4FY14	Q1FY14
Onsite (%)	86.8	81.9	82.2
Offshore (%)	70.1	67.4	65.5

Key Employee Metrics

Particulars	Q1FY15	Q4FY14	Q1FY14
Technical (Delivery)	964	952	871
Trainees	25	17	14
Operations	76	74	69
Sales	38	36	35
Management	15	15	14
Total	1,118	1,094	1,003
Attrition Rate (TTM basis) (%)	14.3	15.1	16.2
Average Experience (years)	6.7	6.5	6.1

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan Stock Ideas

Automobiles

Apollo Tyres
Ashok Leyland
Bajaj Auto
Gabriel India
M&M
Maruti Suzuki India
TVS Motor Company

Banks & Finance

Allahabad Bank
Andhra Bank
Axis (UTI) Bank
Bajaj Finserv
Bajaj Finance
Bank of Baroda
Bank of India
Capital First
Corp Bank
Federal Bank
HDFC
HDFC Bank
ICICI Bank
IDBI Bank
LIC Housing Finance
Punjab National Bank
PTC India Financial Services
SBI
Union Bank of India
Yes Bank

Consumer goods

Bajaj Corp
GSK Consumers
Godrej Consumer Products
Hindustan Unilever
ITC
Jyothy Laboratories
Marico
Mcleod Russel India
Zydus Wellness

IT / IT services

CMC
Firstsource Solutions
HCL Technologies
Infosys
NIIT Technologies
Persistent Systems
Tata Consultancy Services
Wipro

Capital goods / Power

Bharat Heavy Electricals
CESC
Crompton Greaves
Finolex Cables
Greaves Cotton
Kalpataru Power Transmission
PTC India
Thermax
V-Guard Industries

Infrastructure / Real estate

Gayatri Projects
ITNL
IRB Infra
Jaiprakash Associates
Larsen & Toubro
Pratibha Industries
Punj Lloyd

Oil & gas

Oil India
Reliance Ind
Selan Exploration Technology

Pharmaceuticals

Aurobindo Pharma
Cadila Healthcare
Cipla
Divi's Labs
JB Chemicals & Pharmaceuticals
Glenmark Pharmaceuticals
Ipca Laboratories
Lupin
Sun Pharmaceutical Industries
Torrent Pharma

Agri-Inputs

UPL

Building materials

Grasim
Orient Paper and Industries
Shree Cement
The Ramco Cements
UltraTech Cement

Discretionary consumption

Cox & Kings
Eros International Media
Indian Hotel Company
KKCL
Raymond
Relaxo Footwears
Speciality Restaurants
Sun TV Network
Zee Entertainment Enterprises

Diversified / Miscellaneous

Aditya Birla Nuvo
Bajaj Holdings
Bharti Airtel
Bharat Electronics
Gateway Distriparks
Max India
Ratnamani Metals and Tubes
Supreme Industries
Technocraft Industries (India)

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