Economy News

- TRAI has proposed to reduce the reserve price of CDMA spectrum but made no change in its price recommendation for GSM spectrum auction. It suggested a cut in the reserve price of CDMA spectrum from 2 to 1.3 times the base price recommended for the 1,800 MHz band. (ET).
- The US, EU, Japan and Turkey are pushing India for dismantling its undue export subsidies to the textile industry. However, India is keen on further talks to temper the phase-out and to ensure that the key export sector is not stripped of all support (ET).

Corporate News

- **Coal India Ltd (CIL)** will go slow on underground (UG) mines as there is a drop of about 1 million tonne in production from these mines every year. Out of the total 467 mines, the company has 273 underground mines, 164 open cast mines and 30 mixed mine (BS).
- **ONGC** may be gearing up to take a call on the farm-in opportunities in its four coal bed methane blocks in West Bengal and Jharkhand soon. It has received four expressions of interests (EoI) from private players to pick up equity stake and help ONGC in monetising the CBM assets (BL).
- **Essar Oil** reported its third straight quarterly loss due to a decline in gross refining margin and reduced throughput because of a 35-day planned shutdown. It has posted a loss of Rs 5.2 bn for the March quarter, compared to a profit of Rs 3.2bn last year (ET).
- **Lupin Ltd** is expected to soon launch its generic version of the anti-HIV drug, Combivir, in the United States. The move was likely to lend a significant upside to the company's bottom line in the forthcoming quarters (BS).
- The Oil Ministry has refused permission to public sector oil companies for acquiring Asian Development Bank's stake in **Petronet LNG Ltd** so as to keep the nation's largest liquefied natural gas importer a private company (ET).
- After an impasse of about two months, the UK based energy major British Gas and representatives of the PSU consortium **Bharat Petroleum Corporation, Oil and Natural Gas Corporation, Gujarat State Petroleum Corporation** and **Oil India** bidding for its 65% stake in Gujarat Gas are planning to meet on May 18 to discuss the modalities of the deal (ET).
- The All India Biotech Association - Southern Chapter (AIBA-SC) has come out strongly in favour of the Indian Patents Office order in favour of **Natco Pharma Ltd.** Their reaction is with regard to the move of the German drug maker Bayer AG, to approach the Intellectual Property Appellate Board in the Nexavar battle (BL).
- Disappointed by uncertainty over fuel supply despite a presidential decree, top power generation firms have adopted a confrontational approach towards **Coal India** and decided to complain to the competition regulator against the company's monopolistic rejection of liabilities for default (ET).
- An agitation by a section of pilots of **Kingfisher Airlines** went off after the company began paying salaries to its employees amid a financial crunch (BS).

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

Equity

	11 May 12	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,293	(0.8)	(4.7)	(8.7)
NIFTY Index	4,929	(0.7)	(5.3)	(9.0)
BANKEX Index	10,836	0.0	(8.8)	(10.6)
BSET Index	5,482	(1.1)	1.4	(9.3)
BSETCG INDEX	8,809	(1.0)	(11.0)	(15.7)
BSEOIL INDEX	7,548	(0.5)	(5.4)	(14.0)
CNXMcap Index	6,986	(1.1)	(7.8)	(8.3)
BSESMCAP INDEX	6,395	(0.9)	(5.9)	(8.1)
World Indices				
Dow Jones	12,821	(0.3)	(0.2)	(0.4)
Nasdaq	2,934	0.0	(2.6)	0.1
FTSE	5,576	0.6	(1.3)	(5.5)
NIKKEI	8,953	(0.6)	(6.6)	(0.5)
HANGSENG	19,965	(1.3)	(3.9)	(4.9)

Value traded (Rs cr)

	11 May 12	% Chg - Day
Cash BSE	1,874	(1.1)
Cash NSE	9,264	(4.4)
Derivatives	123,629	11.7

Net inflows (Rs cr)

	10 May 12	% Chg	MTD	YTD
FII	342	(195.9)	(129)	43,340
Mutual Fund	-	(100.0)	(474)	(6,431)

FII open interest (Rs cr)

	10 May 12	% Chg
FII Index Futures	10,951	8.4
FII Index Options	39,286	5.8
FII Stock Futures	20,767	0.4
FII Stock Options	1,065	3.6

Advances / Declines (BSE)

11 May 12	A	B	T	Total	% total
Advances	59	717	205	981	34
Declines	143	1,306	322	1,771	62
Unchanged	1	86	30	117	4

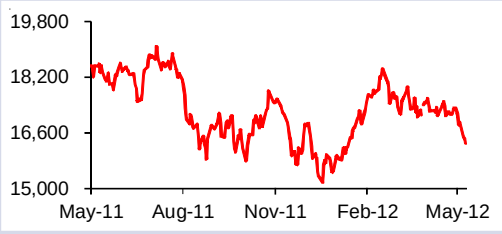
Commodity

	11 May 12	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	95.3	(0.9)	(7.3)	(5.4)
Gold (US$/OZ)	1,586.7	(0.6)	(5.1)	(7.8)
Silver (US$/OZ)	29.0	(0.7)	(8.7)	(13.7)

Debt / forex market

	11 May 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.56	8.56	8.47	8.27
Re/US$	53.6	53.4	51.4	49.2

Sensex



Economy Update

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March IIP: Contracts by 3.5%

Bad IIP at worst time

Index of Industrial production (IIP) in March surprised on the downside with decline of 3.5%; cumulative growth during FY12 has slowed to 2.8% vs. 8.2% last year, while the advance GDP estimates indicate the industrial sector growth for the entire FY12 at 3.9%.

As per the use-based classification, highest sequential growth was seen in the Capital goods (~18%), while it was down YoY by ~21%. At the same time, consumer non-durables declined 2.6% (even YoY growth was muted at 0.2%) during March 12.

As indicated in our last note on IIP, to maintain the GDP estimate IIP ought to be higher than 7.5%. With IIP contraction in March, we are estimating downward revision in GDP for FY12 towards lower end of the expectation at 6.5%.

Exhibit 1:Performance of Industrial Production (YoY %)

	Mining		Manufacturing		Electricity		General	
Month	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**
April	9.2	1.6	14.4	5.7	6.5	6.5	13.1	5.3
May	7.9	1.8	8.9	6.3	6.1	10.3	8.5	6.2
June	6.9	-1.4	7.9	11.1	3.5	8.0	7.4	9.5
July	8.7	0.7	10.8	3.1	3.7	13.1	9.9	3.7
August	5.9	-5.5	4.7	3.9	1.0	9.5	4.5	3.4
September	4.3	-7.5	6.9	3.1	1.8	9.0	6.1	2.5
October	6.1	-5.9	12.4	-6.0	8.8	5.6	11.3	-5.0
November	6.9	-3.5	6.5	6.6	4.6	14.6	6.4	6.0
December	5.9	-3.3	8.7	2.8	6.0	9.1	8.2	2.6
January	1.7	-2.4	8.1	1.4	10.5	3.2	7.5	1.1
February	1.2	2.8	7.5	3.9	6.8	8.0	6.7	4.1
March	**0.4**	**-1.3**	**11.0**	**-4.4**	**7.2**	**2.7**	**9.4**	**-3.5**

Source: MOSPI and Kotak Securities - Private Client Research

March IIP surprised on the downside with decline of 3.5%; cumulative growth during FY12 has also slowed to 2.8% vs. 8.2% last year. 3MMA of IIP fell sharply to 0.6% from 2.6% in February vs. 7.5% 3MMA in March 2011. Performance in Electricity (wt. 10.32%) at 2.74% (from 8.05% in Feb) saved the day despite contraction in manufacturing sector at -4.41% (wt. 75.53%), and in mining sector with -1.26% (wt. 14.16%).

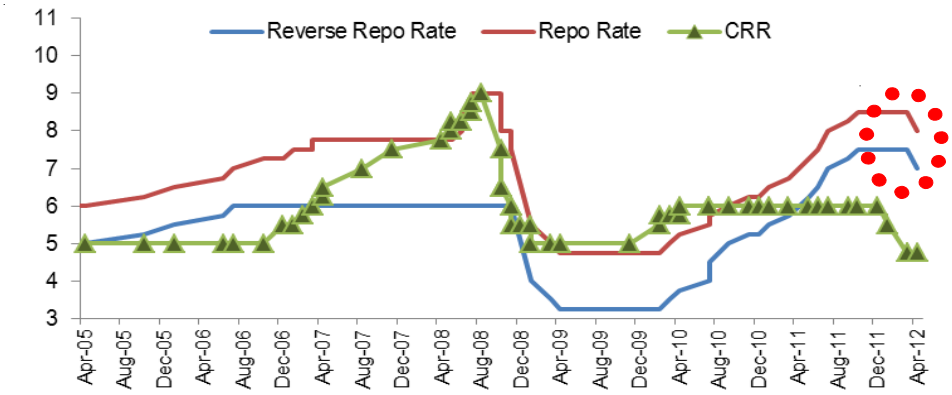
The cumulative growth in the three sectors during April-March, 2011-12 over the corresponding period of 2010-11 has been (-)2.0%, 2.9% and 8.2% respectively, which moved the overall growth in the General Index to 2.8%.

Implication for interest rate

We expect inflationary pressures to moderate albeit modestly due to crude prices. The core inflation is the main factor to watch out for with respect to monetary policy decisions. We define core inflation as non-food, non-fuel inflation, which would have direct impact through monetary policy actions as against food and fuel inflation, which are supply side phenomenon. Core inflation (non-food, non-fuel) has been moderating over the course of last few months, coming at 6% in February from highs of 10% plus in March/April.

We believe that the core inflation is still above the comfort zone of RBI and further moderation is warranted before further interest rate moderation gets realized. Also, RBI's guidance for fiscal at 6.5% has upside risks limiting the scope for easing. These include higher oil prices and suppressed inflation, exchange rate vulnerability, impact of tax increases, monsoon, higher food inflation and wage pressure. We now expect around 50 bps reduction in rate in FY13. Taking into account the above and our expectations for growth and inflation at 7% and 7.4%, we expect to see one more rate easing later this year. However it would be dependent on data/events, with key variables to watch being measures to meet the subsidy cap of 2%, pass-through of oil prices, and growth and inflation outturns. We are not penciling any moderation in policy stance in the next policy reviews on June 18.

Exhibit 3: Repo rate



Source: MOSPISector Trends:

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

	Basic goods		Capital goods		Intermediate goods		Consumer goods	
Month	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**
April	6.7	7.1	35.5	6.6	11.9	3.9	13.8	3.2
May	6.1	7.5	15.8	6.2	11.7	0.1	7.4	7.2
June	3.7	7.8	3.7	38.7	8.5	1.6	13.3	3.1
July	4.4	10.0	40.7	-13.7	8.5	-0.1	5.8	6.3
August	3.8	5.8	4.7	4.0	5.8	-1.0	4.6	2.1
September	3.5	5.3	7.2	-6.5	4.6	-1.4	9.7	5.7
October	9.8	1.3	21.0	-26.5	9.7	-8.3	9.3	0.0
November	5.7	6.4	25.7	-4.7	4.3	1.3	0.7	12.8
December	7.8	5.5	20.2	-16.0	8.1	-1.5	3.6	10.1
January	7.7	1.8	5.3	-1.7	7.4	-2.8	8.2	2.9
February	5.6	7.7	-5.7	10.1	6.3	-0.2	13.4	-0.3
March	6.4	1.1	14.5	-21.3	3.0	-2.1	13.2	0.7

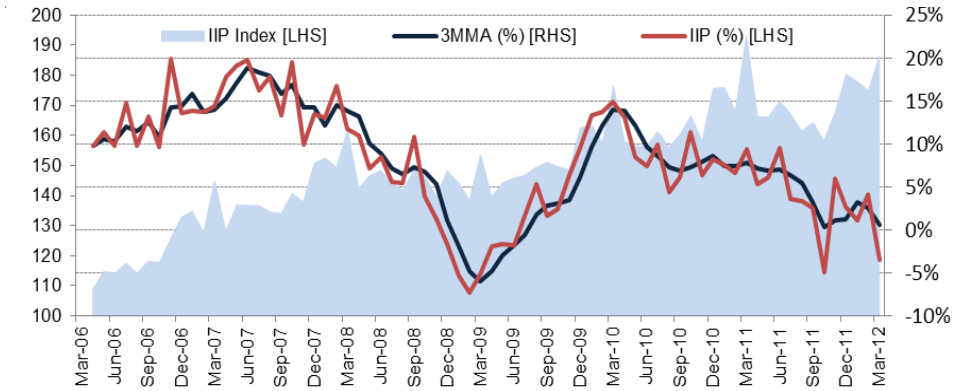
Source: MOSPI and Kotak Securities - Private Client Research

Sectoral Trends

(1) Under use-based classification, capital goods is the only segment reporting increased performance m-o-m was it was up 18.2%; Consumer goods saw marginal growth of 2.3%. Basic goods and Intermediate goods recorded moderate growth of 6.6% and 5.7%, respectively (m-o-m).

(2) Cumulatively growth during Apr-March was -2.0% in Mining; 2.9% in Manufacturing and 8.2% in Electricity; IIP growth during the period was 2.8% as against growth of 8.2% during same period in 2011.

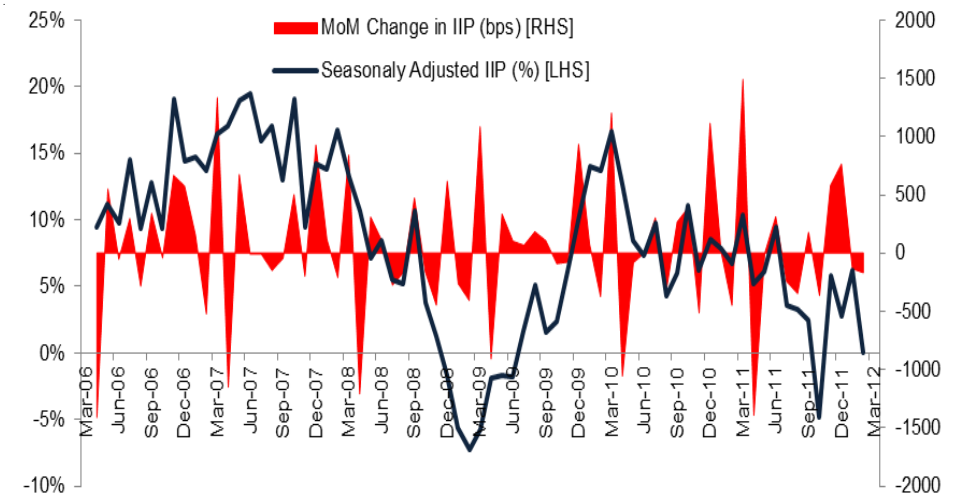
Exhibit 4: Comparative Performance of IIP



Source: MOSPI

Some of the important items of capital goods showing high negative growth during the current month and thus contributing to the growth of the overall index for the month include 'UPS/Inverter' (-78.0%), 'cable (-76.8%), 'heat exchangers' (-47.6%), 'sugar machinery' (-43.3%), 'transformers' (-39.5%) and 'ship building (-37.3%). However, some important items of capital goods are also showing positive growth. These are: 'cement machinery' 55.9%, 'electric motors' 44.5%, 'machine tools' 43.2% and 'drilling equipment' 42.9%.

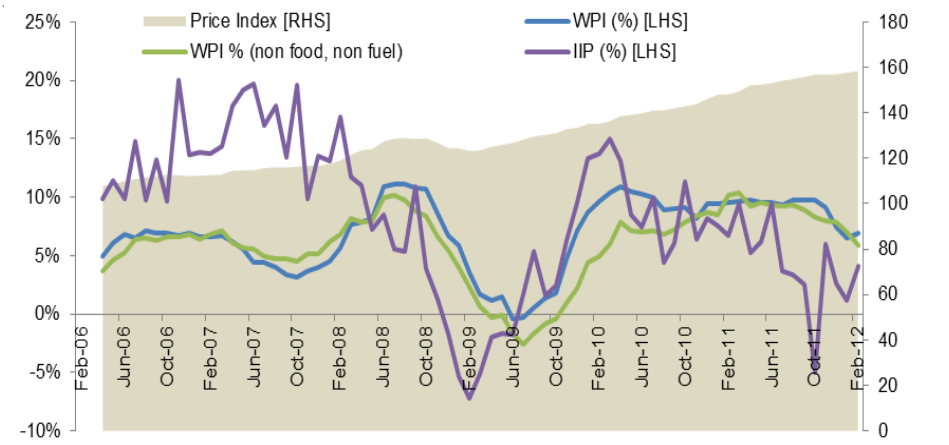
Exhibit 5: Seasonaly Adjusted & MoM Change in IIP



Source: MOSPI

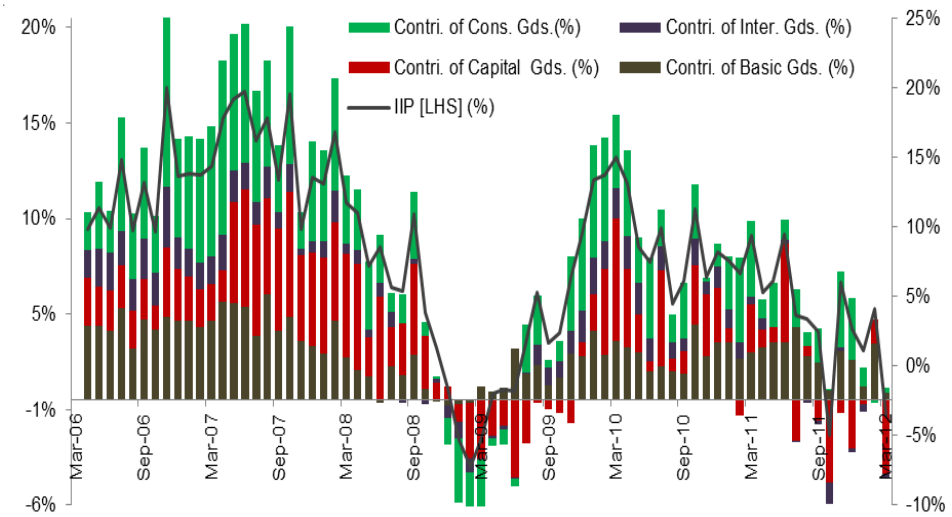
Some of the other important items showing high negative growth are: 'apparels' (-57.2%), 'air conditioners' (-49.4%), 'leather garments' (-34.1%) and 'HR sheets' (-33.4%). Some of the items that are showing high positive growth are 'pan masala' 665.5%, 'polythene bags 450.1%, 'coir mats & mattings' 61.4% and 'newspapers' 55.9%.

Exhibit 6: Inflation and growth trade-off



Source: MOSPI

Exhibit 7: Contribution to IIP



Source: MOSPI

In terms of contribution to IIP growth, manufacturing growth explains almost all of the contraction which contributed -3.56% to IIP de-growth of 3.47%; mining had a negative contribution of -0.14% while only electricity contributed positively by 0.65% in IIP. On use based classification, basic goods contributed 0.4% and consumer goods contributed 0.22% in IIP growth. Capital goods had a negative contribution of -3.83% and intermediate goods had a negative contribution of -0.27% to IIP growth.

As indicated in our last note on IIP, to maintain the GDP estimate IIP ought to be higher than 7.5%. With IIP contraction in March, we are estimating downward revision in GDP for FY12 towards lower end of the expectation at 6.5%.

RESULT UPDATE

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KPIT CUMMINS

PRICE: RS.110 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.116 **FY13E P/E: 9.4x**

We recommend buying the stock at declines.

- **KPIT's 4QFY12 results were better than our expectations. Organic revenues grew by 12% QoQ in USD terms. This was higher than industry peers. EBIDTA margins also improved significantly QoQ organically likely due to scale benefits. The 12% growth comes on the back of high growth rates in the past five quarters. The company consolidated the financials of Systime WEF 4Q and that further increased the overall growth rates QoQ.**
- **Management commentary suggests decent visibility on revenues going ahead. We opine that, the company is strategically well positioned with focus verticals doing well. It has also made well - directed acquisitions which should help it penetrate clients and geographies. These acquisitions should scale up going ahead.**
- **Strong additions to the pipeline and additions to client acquisition resources should lead to consistent revenue growth ahead. KPIT is now increasingly focusing on non-linear revenues and has filed about 40 patents. 6-7% of overall revenues (mostly from auto electronics) currently accrue from non-linear initiatives. KPIT plans to have 25% of revenues from these initiatives in 3 years' time. We believe this is an important lever to protect and sustain margins.**
- **KPIT has initiated the 200 vehicle conversion project earlier during the quarter. As part of this program it will be converting vehicles of up to 4 different fleets and these trials would run for a period of up to 6 months. We have not yet accounted for these revenues in our projections.**
- **We fine tune our FY13E estimates on the back of the 4Q numbers and thus changed assumption on the exchange rate. We expect FY13E earnings at Rs.9.4 per share (Rs.8.6 earlier). Our PT stands at Rs.116 (Rs.101 earlier) based on FY13E earnings. There could be upsides based on Revolo financials. At our TP, the stock will be valued at about 12.5x FY13E earnings, a suitable discount to larger peers. We remain positive on the long term prospects of KPIT. The stock has run up recently and we thus, we will await better price points to get aggressive. ACCUMULATE.**
- **Slower-than-expected recovery in demand from major user economies and a sharper-than-expected appreciation in rupee remain the key risks for earnings. Revolo earnings can provide significant upsides, if successful.**

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	10,230	15,000	20,429
Growth (%)	39.8	46.6	36.2
EBITDA	1,522	2,181	2,855
EBITDA margin (%)	14.9	14.5	14.0
PBT	1,103	1,786	2,240
Net profit	947	1,453	1,657
EPS (Rs)	5.4	8.2	9.4
Growth (%)	(1.3)	51.5	14.0
CEPS (Rs)	7.8	10.7	12.5
BV (Rs/share)	34.5	38.9	47.9
Dividend / share (Rs)	0.4	0.4	0.4
ROE (%)	19.1	22.5	21.6
ROCE (%)	18.2	23.3	24.7
Net cash (debt)	991	(634)	643
NW Capital (Days)	90.1	85.1	78.8
P/E (x)	20.3	13.4	11.7
P/BV (x)	3.2	2.8	2.3
EV/Sales (x)	1.8	1.3	0.9
EV/EBITDA (x)	12.1	9.2	6.6

Source: Company, Kotak Securities - Private Client Research

4QFY12 results

(Rs.mn)	3QFY12	4QFY12*	% chg	4QFY11	% chg
Turnover	**3788.5**	**4800.1**	**26.7**	**3082.0**	**55.7**
Expenditure	3208.7	4039.8		2648.9	
EBDITA	**579.9**	**760.3**	**31.1**	**433.1**	**75.5**
Depreciation	133.3	101.7		162.1	
EBIT	**446.6**	**658.6**	**47.5**	**271.0**	**143.0**
Interest	15.9	39.0		-2.4	
Other Income	108.4	-112.9		32.5	
PBT	**539.1**	**506.7**	**-6.0**	**305.9**	**65.6**
Tax	128.2	149.8		42.3	
PAT	**410.9**	**356.9**	**-13.1**	**263.6**	**35.4**
Minority Int	5.3	22.0		0.3	
XO Item	0.0	100.5		0.0	
Adjusted PAT	**405.6**	**234.5**	**-42.2**	**263.3**	**-11.0**
EPS (Rs)	**4.6**	**2.7**		**3.0**	
Margins (%)					
OPM (%)	15.3	15.8		14.1	
GPM (%)	11.8	13.7		8.8	
NPM (%)	10.8	7.4		8.6	

*Source : Company * - includes Systime financials on a line-by-line basis*

Organic revenues up 12% QoQ in USD terms; volumes likely up by 9%

- Headline revenue growth was at 27% QoQ in INR terms, aided by the consolidatation of Systims's financials on a line-by-line basis. KPIT now holds about 57% in Systime.
- Organically, revenues grew by about 12% in USD terms, largely led by volumes which, we believe, grew by about 9%.
- The near-9% volume growth came on the back of a 4% growth in 3Q, 5% in 2Q, 4% in 1Q and 10% growth reported each in 4QFY11 and 3QFY11.
- Average realizations were higher because of a change in business mix. Like-to-like improvement was marginal, we understand. Realisations have improved in 4 out of the last 5 quarters, which is encouraging.

New accounts and Cummins

- KPIT is benefiting from the continuing demand in its focus verticals. The company has been able to win several new orders from existing and new accounts.
- The large deals which the company had won in earlier quarters started ramping up earlier than expected and led to the above-expected growth during the quarter.
- The company added one large account during the quarter. According to the management, the order pipeline is robust. In the past 6 months, the company has added three large deals, each worth more than $20mn.
- Revenues from Cummins grew by 3.2% sequentially during the quarter (about 10% growth in 3Q).
- Cummins itself is witnessing a revival in its own fortunes and KPIT is looking at more options to penetrate it further. On the IT business it is likely to roll out global programs to meet its global business needs and on the engineering side it is expected to continue investing in products to stay ahead of the competition.

- The environment is positive and the company is not experiencing any constraints in this account.
- KPIT has enough clarity on the work it wants to do within Cummins and expects to get more orders from this client.

Services

- The organic revenue growth in 4QFY12 came largely due to revenues from SAP vertical, which saw a jump of up 26% QoQ.
- SAP practice is witnessing traction, especially in the mid-market Utility industry, according to the management. Utilities are focusing on smart grid adoption.
- The company increased the number of SAP certified solutions to 6 in US and 5 in India. It has started seeing traction for these non-linear offerings.
- During 4Q, KPIT won the largest single order in excess of $20mn for an automotive customer.
- The A&E practice is benefiting from increasing spends on infotainment, Powertrain and AUTOSAR.
- KPIT has become the first Indian company to develop a in-vehicle infotainment platform which is compliant with GENIVI.
- The company has acquired new accounts spread across different industry verticals, which include some large value deals of USD 10mn+ in the manufacturing & automotive industry and also a few small size/ mid-size deals in Energy & Utility companies.
- In IES, the company has witnessed increased traction from existing clients for Manufacturing Execution Systems (MES), Enterprise Application Integration (EAI) and testing services.
- The inter-practice cross-selling has started gaining momentum as KPIT has won deals along with CPG and SYSTIME teams. Efforts are on to extend this to the JDE customers also.
- The semiconductor business (SSG) revenues have been volatile and have grown sharply for the second successive quarter (about 28% QoQ). However, this is on a small base. The revenue for the quarter was INR 124mn.
- KPIT plans to continue with the operational improvements which will help in adjusting the cost structure to be in line with the growth in business volume and also help in improving the quality of revenues.

Revenue break - up

Rs mns	3QFY12	4QFY12*	QoQ (%)	4QFY11	YoY (%)
Integrated Enterprise Solns	1384.33	1922.44	38.87	1185.33	62.19
Auto & Engineering	1043.36	1243.22	19.16	829.98	49.79
SAP	1263.48	1510.59	19.56	980.38	54.08
Semicon Solns Group	96.99	123.84	27.69	86.30	43.51

*Source : Company * - including Systime*

- Within verticals, the focus verticals of Auto / Engineering and Energy / Utilities grew at a fast pace.
- Within auto, companies are looking more at issues like green technology, hybrid vehicles, vehicle connectivity, infotainment, etc. KPIT is deeply involved in these areas and is looking at enhancing presence in these areas.
- In E&U, the trend is towards smart grids and increased security. US utilities are expected to spend $8.5bn on smart grid enterprise IT between 2011 and 2015. KPIT is once again already involved in these fiels and sees good traction in these segments.

Revenue break - up

(Rs mns)	3QFY12	4QFY12*	QoQ (%)	4QFY11	YoY (%)
Auto / Trans / Maft	2687.21	3426.78	27.52	2107.14	62.63
Energy / Utilities	415.22	538.57	29.71	148.24	263.30
Defense / Govt	44.70	80.64	80.39	9.55	744.05
Others	641.40	754.57	17.64	817.03	-7.64

*Source : Company * - including Systime*

Partnership with PACCAR

- The company has set up the initial team for this partnership and plans to scale it up in the next 2 - 3 quarters.
- KPIT has entered into a partnership with PACCAR, which is a global technology leader in the design, manufacture and customer support of light, medium and heavy duty trucks. It launched its first technical center in Pune in partnership with KPIT Cummins.
- This partnership is a significant achievement as it is one of the largest deals in our business history and it is spread across different business units.
- The technical center will focus on engineering, IT and component sourcing for worldwide production and aftermarket operations. The center will employ approximately 200 people.
- We view this as a reflection of the company's capabilities in the automotive sector.

Non-linear revenues is the focus

- The company has been focusing on non-linear initiatives.
- As part of its efforts in this direction, the company has entered into an engagement with a Japanese Tier I for AUTOSAR license sale for their new vehicle program.
- The company has filed around 40 patents already.
- Currently, about 6-7% of overall revenues (mostly from auto electronics) currently accrue from non-linear initiatives. KPIT plans to have 25% of revenues from these initiatives in 3 years' time. We believe this is an important lever to protect and sustain margins.

SYSTIME integration in progress

- KPIT and SYSTIME sales teams have merged. The sales teams are offering a bouquet of offerings related to middleware like BI, SCM, MES & PLM.
- The focus is now on medium size deals ($3 - $5 mn) and the company has won one such deal post integration, & there are currently 4 such deals in the pipeline.
- We note that, with the SYSTIME acquisition, KPIT has a strong Oracle and JD Edwards practice.
- Systime has achieved about 10% EBITDA margins for 4Q, which is in line with the stated goal.
- This was achieved through operational efficiencies like recruitment efficiency, bench control and utilization, especially offshore and planned SGA reductions by closure of offices globally.
- KPIT is also looking at increasing the productivity of the sales and delivery teams. SYSTIME's margins are target to reach KPIT's levels in FY13.
- KPIT now has 57% stake in Systime and hence, financials have been consolidated on a line-by-line basis.

- We see the acquisition of a 50% stake in SYSTIME (to buy remaining stake over a 3-year period) as a good strategic fit for KPIT.
- The combined practice has been able to compete more effectively in the Oracle / JD Edwards market.
- The investment has brought in 600+ JDE and 200+ Oracle Technology practitioners from SYSTIME and this will make it a 2000+ strong combined practice.
- Oracle continues to add 400+ customers for JPE every year. This throws open a big market for KPIT in terms of providing implementation / integration services. The investment is expected to bring in 25 key customers to KPIT.
- This partnership has also added capabilities in providing solutions and services in JDE ERP and Hyperion space, to KPIT Cummins' clients, thus increasing the wallet share of KPIT.
- Moreover, cross selling opportunities of services to SYSTIME clients have further aided KPIT's growth rates.

REVOLO - commercial production may start in FY14

- KPIT is holding a major trial of Revolo. 200 vehicles have been converted into plug-in hybrid models by installing Revolo kits. These trials will run for 6 months.
- The company is looking to have some support from the regulatory side. We understand that, the launch will happen only after it gets the regulatory support.
- We expect the commercial production to start sometime in the next fiscal.
- We have not assumed any revenues from this JV in our estimates.

Employee strength up marginally

- The total employee strength of KPIT stood at 7719 (6707) as at the quarter end. This includes nearly 900 people from Systime.
- Organically, the company has added close to 100 employees.
- Capacity utilization was up significantly QoQ.

EBITDA Margins - higher due to utilisation and scale benefits

- Organically, EBIDTA margins improved QoQ to about 16.5% during 4Q. Systime had about 10% margins and this brought down the consolidated profitability to 15.3%.
- Margins improved on the back of improved capacity utilization and also better leverage on the sales and marketing expenses.
- We believe that, the company has a few levers which will allow it to improve margins going ahead.
- The potential improvement in Systime's margins is an important lever.
- It is also looking at a higher off-shore proportion to sustain and improve margins. Currently, about 48% of revenues come from off-shore services. KPIT is also looking at non-linear revenues (about 40 patents filed) to improve profitability.
- Going forward, if billing rates improve, they may provide further cushion to margins. The management has also indicated that it will rationalize low-margin, non-focus projects with a view to improve profitability.

Earnings estimates tweaked

- We have fine-tuned our FY13 earnings estimates post 4Q numbers and on changed exchange rate assumption.
- For FY13, we expect revenues to grow by 36%, largely on the back of higher volumes. Part of this is due to Systime's consolidation. SYSTIME revenues will be for the full 12 months as against 3 months in FY12.
- Rupee is expected to average 49 / USD in FY13, which may impact margins positively. Margins are expected to be almost flat YoY due to salary impact and the relatively low margins of Systime (consolidation for full year).
- PAT is expected to grow by 14% to Rs.1.66bn, an EPS of Rs.9.4

Valuations and recommendation

- The stock has moved up sharply in the past few sessions and is currently quoting at 11.7x FY13E earnings.
- We have accorded KPIT valuations higher than comparable peers, based on the higher revenue growth and potential upsides to margins. The valuations are at a suitable discount to larger peers, though. Our PT is at Rs.116. At our target price, KPIT's FY13E earnings will be discounted 12.3x.
- ACCUMULATE.

We recommend ACCUMULATE on KPIT Cummins with a price target of Rs.116

Risks and concerns

Slower-than-expected recovery in demand from major user economies and a sharper-than-expected appreciation in rupee remain the key risks for earnings. Revolo earnings can provide significant upsides, if successful.

RESULT UPDATE

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NTPC

PRICE: RS.148 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.170 **FY13E P/E: 13.1x**

- **Generation growth was flat during the year due to grid unavailability, capacity expansion delays and fuel shortages.**
- **The capacity commissioned in FY12 was 2820 MW vs the target of 4320 MW. The company has scaled down its 12th plan capacity addition target.**
- **NTPC has been consistently missing out on its capacity addition targets. As a result, the earnings are projected to grow at 1% CAGR between FY11-13. Consequently, the stock has remained lackluster. The sentiment for power utilities has been further dampened by deteriorating state of SEB financials and domestic coal shortages. We maintain Accumulate with a revised target price of Rs 170 (Rs 188 earlier) based on DCF. Thus, at our target price, the P/BV works out to 1.8x FY13 BV.**
- **Concerns: Continued to delay in capacity additions and fuel supply risk.**

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	549	611	667
Growth (%)	18.4	11.3	9.0
EBITDA	141.4	139.0	141.5
EBITDA margin (%)	25.7	31.5	31.2
PBT	120	123	124
Net profit	91	92	93
EPS (Rs)	11.0	11.2	11.3
Growth (%)	4.3	1.3	1.0
CEPS (Rs)	14.1	14.6	15.0
Book value (Rs/share)	82.3	88.9	95.6
Dividend per share (Rs)	4.0	3.9	4.0
ROE (%)	14.0	13.1	12.2
ROCE (%)	13.1	11.9	10.5
Net cash (debt)	-155.3	-200.2	-406.0
NW Capital (Days)	48.3	25.9	48.0
EV/EBITDA (x)	10.5	12.2	13.2
P/E (x)	13.4	13.2	13.1
P/Cash Earnings	10.5	10.2	9.9
P/BV (x)	1.8	1.7	1.5

Source: Company, Kotak Securities - Private Client Research

Financial performance

(Rs mn)	Q4 FY12	Q4 FY11	YoY (%)
Net sales	**162,636**	**155,189**	**5**
Other op income	979.5	4586.7	-79
Expenditure	**121512**	**117002**	**4**
-Fuel Cost	104430	97256	7
-Staff Cost	8963	7082	27
provisions	166	2840	-94
-Others	7953	9825	-19
Operating profit	**42104**	**42774**	**-2**
Depreciation	7363	6981	5
Gross profit	**34741**	**35793**	**-3**
Interest	4870	5300	-8
Other income	6700	2056	226
PBT	**36571**	**32549**	**12**
Tax	10640	4750	124
-current	9323	6163	51
-deferred	1316	-1414	-193
PAT	**25931**	**27799**	**-7**
Ratios			
Fuel cost/Net sales (%)	64.2%	62.7%	
Staff cost/Net sales (%)	5.5%	4.6%	
Other expenditure to sales (%)	4.9%	6.3%	
EBITDA/Sales (%)	25.9%	27.6%	
Net profit margin (%)	15.9%	17.9%	

Source: Company

Highlights

- Power generation volume remained muted in the quarter at 60.8 bn units, up 5.4% yoy.
- Revenue growth for the quarter stood at 5% yoy aided by higher volumes.
- Average realization for the quarter was flat at Rs2.7 per unit.

- For FY12, generation was flat at 222 bn units due to capacity addition slippages, coal availability issues combined with lower offtake by SEBs. Most of the company's gas based units operated at lower PLF due to low demand from state distribution utilities.
- Loss due to grid unavailability rose to 16.1 bn in FY12 vs 13.2 bn units in FY11.
- Plant availability factor continued to remain high and improved in Q4 FY12 to 94% vs 85% and 96.4% in Q3FY12 and Q4FY11 respectively.
- Availablity of fuel (coal) has improved in Q4FY12 and the company indicated that coal realization from CIL has been at 100% of the contracted amount.
- For the fiscal, the company procured 129 mn tons from CIL vs 126 mn ton in FY11. Blending of imported coal increased to 8.5% in FY12 vs 7.7% in FY11.
- Gas supply continued to remain constrained in FY12 with total availability of 13.09 mmscmd vs 13.77 mmscmd.
- Overall tax rate stood at 29.1% vs 14.6% in Q4 FY11 (there was writeback of deferred tax in Q4FY11). The company expects ROE to be grossed up at corporate rate, thus there could be some tax savings.
- At the end of Q4 FY12, receivables stood at Rs 58.5 bn implying 39 days of sales vs 62 days at the end of Q4FY11.
- The NTPC installed capacity at group level stands at 37 GW. During the quarter, the company completed the bidding process for 11x660 MW boiler units.

Capacity addition update

- During the quarter, the company commissioned 2820 MW of capacity vs a target of 4320 MW. The company fell short by 500 MW each at Vallur, Jhajjar and Mouda. NTPC recently announced commissioning of 500 MW unit at Mouda.
- The company could achieve COD (Commerial Operation Date) of only 1660 MW consisting of Simhadri III (500 MW), Sipat I (660 MW) and Jhahar I (500 MW).
- The company's revised plan for capacity addition for 12th plan stands at 14000 MW consisting of 11878 MW of new projects and 2160 MW spillover projects from the 11th plan.
- The company targets to commission 4000 MW in FY13. We have forecast 3300 MW addition in the current fiscal.

Capacity addition

Unit	Capacity (MW)
Sipat I	660
jhajjar uni II	500
Sipat II	660
Simhadri IV	500
Vallur (JV)	500
Total	2820

Source: Company

Valuation and Recommendation

- In view of the slippages in capacity addition, we have reviewed our earnings estimates for FY13. Our earnings for FY13 stand reduced by 11% to Rs11.3 per share.
- NTPC is currently trading at 13.1x and 1.55x on FY13 earnings and BV basis respectively.
- NTPC has been consistently missing out on its capacity addition targets. As a result, the earnings are projected to grow at 1% CAGR between FY11-13. Consequently, the stock has remained lackluster. The sentiment for power utilities has been further dampened by deteriorating state of SEB financials and domestic coal shortages. We maintain Accumulate with a revised target price of Rs 170 (Rs 188 earlier) based on DCF. Thus, at our target price, the P/BV works out to 1.8x FY13 BV.

We recommend ACCUMULATE on NTPC with a price target of Rs.170

RESULT UPDATE

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GREAVES COTTON

PRICE: RS.76 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.84 **FY13E P/E: 11.7X**

- **Earnings were lower than expectations due to weak 3W volumes especially of Piaggio and margin compression.**
- **EBITDA margins were lower largely due to loss in infrastructure equipment division.**
- **The company has continued to invest in capability building and plans to spend Rs 1.5 bn in FY13. However, near-term profit growth is likely to remain moderate due to overall slowdown in 3W and infrastructure segment.**
- **There appears to be a structural shift in the LCV (Light Commercial Vehicle) industry with 4W LCVs maintaining a healthy growth even as the 3W segment (GCL's main segment) has slowed down in FY12. There is possible cannibalization of the 3W segment as customers upgrade into better products. How the company responds to this emerging risk would be critical for the company. The company has had some success in penetrating the 4W segment through Tata Motors but it needs to make inroads into other OEMs as well.**
- **We maintain Accumulate with a revised target price of Rs 84 (Rs 97 earlier)**
- **Risks and Concerns: Upgrade by customers to 4W LCVs may cannibalise 3W LCV volumes which is the stronghold of GCL. We would remain watchful about this emerging threat.**

Summary table

(Rs mn)	FY11	FY12	FY13E
Sales	12505	17534	19145
Growth (%)	-7.4	40.2	9.2
EBITDA	1978	2382	2715
EBITDA margin (%)	15.8	13.6	14.2
PBT	1837	2522	2341
Net profit	1178	1403	1592
EPS (Rs)	4.8	5.7	6.5
Growth (%)	-2.9	19.0	13.5
CEPS	5.8	7.2	8.2
Book value (Rs/share)	19.5	24.6	28.5
DPS (Rs)	1.5	2.2	2.2
ROE (%)	25	24	23
ROCE (%)	25	23	22
Net cash (debt)	554.8	502.6	720.7
NW Capital (Days)	66	60	84
EV/Sales (x)	1.4	1.0	0.9
EV/EBITDA (x)	9.0	7.5	6.6
P/E (x)	15.5	12.9	11.7
P/Cash Earnings	13.2	10.6	9.3
P/BV (x)	3.9	3.1	2.7

Source: Company, Kotak Securities - Private Client Research; Note: FY11 was July-March fiscal

Quarterly performance

(Rs mn)	Jan-Apr 2012	Jan-Apr 2011	YoY (%)
Gross Revenues	**4915**	**4961**	**-1%**
Excise duty	469	434	8%
Net Revenues	**4446**	**4527**	**-2%**
other op income	8	1	457%
Expenditure	**3857**	**3862**	**0%**
RM costs	2954	2842	4%
Purchase of traded goods	90	361	-75%
Staff costs	342	292	17%
Other costs	471	367	28%
Operating profit	**597**	**667**	**-10%**
Depreciation	88	72	22%
Other income	34	98	-65%
Gross Profit	**544**	**693**	**-22%**
Interest	14	24	-44%
PBT	**530**	**669**	**-21%**
Tax	-185	-202	-9%
Adjusted PAT	**345**	**467**	**-26%**
extraordinary items	433	0	
Reported PAT	778	467	67%
Excise rate (%)	9.5	8.7	
OPM (%)	13.4	14.7	
RM costs to sales (%)	68.5	70.8	
Other exp to sales (%)	10.6	8.1	
Tax rate (%)	-31%	(30.3)	
EPS Rs	**1.4**	**1.9**	

Source: Company; Note: FY11 was a nine month fiscal ending April 2011.

- The company is the sole supplier of light diesel engines to OEMs like Piaggio, M&M and Atul Auto. Piaggio is the prime client accounting for the bulk of automotive engines revenue. We estimate 3W's to account for roughly 70-80% of auto revenues and around 50% of total revenue for the company and hence is an important variable to monitor.
- The company is thus a play on the 3W segment (passenger and cargo) which in turn is driven by rising urbanization and usage of light cargo vehicles for intra-city transportation. Indian 3W market recorded a modest growth in the previous fiscal and Piaggio volumes have been weak.
- We understand from our industry interaction that the general inflationary conditions and firm interest rates have pulled down the growth in 3W in current fiscal. Apart from this, there is general shift in demand from 3W cargo to 4W mini trucks. Over the medium-term, the 3W segment is forecast to grow at 8-10% pa.
- The 4W LCV segment has continued to defy the economic slowdown and has been posting strong volumes. Tata Motors continues to lead this segment with a market share of 55%.
- Tata Motors has an exclusive sourcing arrangement with GCL for single cylinder diesel engine to be fitted for its Magic Iris/Ace Zip LCV models in the 0.6 ton range. Supplies have started meaningfully since the month of September with monthly volumes in the range of 5500-6000. In the current fiscal, the company recorded sales of roughly 35000 engine units to Tata Motors.

DG sets - (15-17% of revenues)

- GCL is mainly present in the low and mid KVA range upto 250 KVA. The market for DG sets has slowed down in the current fiscal due to moderating economic activity and sharp cutback by the Telecom industry. As a result, there has been price undercutting by various players.
- However, demand from the southern region has been strong especially from TN due to the extended load shedding.
- The company is gearing up to comply with the upcoming CPCB norms for off-highway engines. As of now, the company only ~ 50% of its engines are compliant but the company expects to source requisite technology well in time.
- A positive fallout of the CPCB norms is that Chinese competition can drastically decline as they may not be inclined to upgrade their product offerings to comply with the CPCB norms.

Infrastructure Equipment segment - (9% of revenues)

- In the infrastructure equipment segment, the company makes concrete mixers and pavers. During the quarter, the offtake of concrete mixers as well as road making equipments has dipped which resulted in decline in overall infrastructure equipment segment revenues.
- Nevertheless, the management sounded optimistic regarding the future prospects of the infrastructure equipment segment due to vibrant road building activity.

Power Tillers- - (15-17% of revenues)

The power tiller sector in India is largely dependent on Government. The industry is witnessing intense competition from Chinese brand tillers that are increasing their presence in the domestic market and posing a major challenge in this segment.

Segment Revenues

(Rs mn)	Jan-Apr 2012	Jan-Apr 2011	YoY (%)
Engines	3947	3744	5%
Infrastructure	383	652	-41%
Others (Power tillers)	126	133	-5%
Total	4456	4529	-2%

Source: Company

EBITDA margins declined due to loss in infrastructure

- EBITDA margin for the quarter was down 130 bps yoy to 13.4% in Q4FY12.
- While profitability in the engine business was healthy, the infrastructure equipment division suffered margin erosion and was mainly responsible for lower overall margins.
- In the infrastructure equipment segment, the share of concrete mixers has declined during the quarter. Concrete mixers enjoy higher profitability and hence segment margins were down.

Other Highlights

- The company has exited the year with close to 380000 engines pa capacity (360000 units in FY11) spread between Aurangabad (old and greenfield). It is expanding capacity at Ranipet (110000 pa), which will take its overall capacity to 500000 units by FY13.
- The company envisagages a capex of Rs 1.5 bn in FY13 mainly towards capacity expansion, engine upgradation and R&D.
- A structural change that the LCV industry is undergoing is that there appears to be shift in customer preference towards 4W over 3W. This is reflected in robust growth in 4W while the 3W volumes have been weak. GCL is making efforts to address this trend. It plans to make further inroads into the 4W LCV segment of OEMs like M&M, Piaggio and Tatas.
- The company's medium term objective is to move up into higher capacity engines and tap greater share of OEM business. The LCV market is largely sub one ton currently. As the market moved in the higher tonnage category, GCL would be ready with its engine meeting the applicable emission norms.
- Although the company is not actively looking at acquisitions, but a reasonably priced facility for manufacturing high precision engine components could be considered. GCL makes single and twin cylinder engines currently. For graduating into three cylinder engines, the company may look at acquiring technology.

Earnings Revision - weak profitability in the infrastructure equipment segment remains a concern FY13

Rs mn	Earlier	Revised
Revenue	20,485.00	19,145
EBITDA %	14.1%	14.2%
EPS (Rs)	7.00	6.52
% change		-7%

Source: Company

Valuation

We recommend ACCUMULATE on Greaves Cotton with a price target of Rs.84

GCL is currently trading at 11.7x on FY13 earnings. In view of the weak 3W growth outlook in near-term coupled the capex plan, we maintain **ACCUMULATE** on the stock with a revised DCF based price target of Rs 84 (Rs 97 earlier).

Summary

FCF in FY13	388
WACC (%)	14
Revenue growth between FY12-17 (%)	11
TV	8,114
NPV of forecast cash flows	8,019
Add net cash	510
Shares outstanding mn	244
PV per share	84

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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TV18 BROADCAST

PRICE: Rs.23 **RECOMMENDATION: REDUCE**
TARGET PRICE: Rs.20 **FY13E P/E: NM**

- **Weak Financials for 4QFY12:** Adjusted for one-off items (but not new ops), TV18 Broadcast (TV18) has brought in EBITDA losses of Rs 300mn. Losses are largely attributable to new operations of the company; but the matured operations, with adjusted EBITDA of Rs 2 mn are not in the pink of health, this quarter shows. Advertising revenues of the company's entertainment segment have likely registered negative growth, and are the key disappointment among the mature operations of the company.
- **Weakening performance of Colors, large losses in new channels are medium-term negatives:** The competitive position of the company's key channel Colors has weakened considerably. The channel has, in recent weeks, ended at #4 position. We also find the losses incurred by the new channels significantly higher than our prior expectations. Advertising environment is weak, and Colors is likely to underperform industry growth in the coming year (given weaker position), in our understanding. Also, losses of the new channels shall likely be largely determined by carriage and distribution fees and are, although to a lower extent, likely to persist in the next 3-4 quarters.
- **Earnings Estimates Down Sharply, to have an impact on valuations, cash position:** We cut our EBITDA estimates for FY13/FY14 to Rs (95)mn/ Rs 99 mn, and believe TV18's current operations shall be loss-making through FY13/FY14. This has significant implications for our valuation: 1/ deteriorating competitive position of the company's Hindi GEC should mean cut in valuation multiples, 2/ weaker financials for FY13/FY14 imply that the cash raised by rights issue may be insufficient to make TV18 debt-free, against the assurance of the management in announcing the ETV transaction.
- **Rights Issue Document Updates in Valuation bring in further reduction in assessed fair value:** The rights issue for TV18, which aims to raise Rs 27 Bn, and utilize Rs 6Bn to make TV18 debt-free, is likely to begin by June/ July of 2012. Based on the financials provided in the document, and using multiples of 1.5x EV/ Sales (FY13E), we believe that TV18 is paying Rs 21 Bn for assets whose fair value should likely have been in the region of Rs 4.7Bn.
- **Value TV18 at Rs 19/share, downgrade to REDUCE:** We value the operations of TV18 and ETV acquired entities at Rs 23.2 Bn, based on 1.5xEV/ Sales 2013E. On account of weaker financial performance and financing of losses that shall be generated in the next year, we believe that TV18's balance sheet shall carry net debt of Rs 2.3Bn (post ETV transaction and rights issue): all this adds to a fair market value of Rs 24Bn for the entity resulting from the transaction. Price of the rights issue remains a key variable: as per our calculations, the value of TV18 stock shall vary from Rs 17/ share to Rs 23/ share depending on whether the rights issue is priced at Rs 25/ share or Rs 40/ share. We therefore see little to gain even when the rights issue is priced aggressively. Downgrade to REDUCE, with a price target of Rs 20 (mid-way between rights issue prices discussed above).
- **Risks to our investment view include:** Corporate actions which may include non-completion of rights issue and/ or subsequent sale of Viacom18 assets to Viacom (put options may be exercised after July 2012), improvement in the competitive position of the company's channels, and digitization and consequent improvement in margins.

Summary table

(Rs mn)	FY12(AA)	FY13E	FY14E
Sales	13,058	13,840	14,650
Growth (%)		6.0	5.9
EBITDA	(472)	(95)	100
EBITDA margin (%)	(3.6)	(0.7)	0.7
PBT	(1,274)	(1,236)	(815)
Net profit	(1,108)	(865)	(570)
EPS (Rs)	(3.1)	(2.4)	(1.6)
Growth (%)	NM	NM	NM
CEPS (Rs)	(2.1)	(1.5)	(0.7)
BV (Rs/share)	22.7	20.3	19.8
Dividend / share (Rs)	-	-	-
ROE (%)	(27.0)	(11.1)	(7.8)
ROCE (%)	(6.6)	(2.6)	(0.2)
Net cash (debt)	(8,337)	(8,128)	(8,131)
NW Capital (Days)	305	272	272
P/E (x)	NM	NM	NM
P/BV (x)	1.0	1.1	1.2
EV/Sales (x)	0.6	0.6	0.6
EV/EBITDA (x)	NM	NM	81.7

Source: Company, Kotak Securities - Private Client Research, (AA: Analyst Adjustments)

4QFY12 Results - Weak on Account of Entertainment Channels, including New Channels

TV18 has reported a weak set of 4QFY12 financials: revenues Rs 5120 mn, EBITDA (loss) Rs (458) mn, and PAT Rs 334 mn, as reported by the company each include significant one-off items: 1/ income from operations include one-off revenues of ~Rs 80mn, also includes one-off items relating sale of rights to Star India to the extent of Rs 1165mn, 2/ marketing and distribution expenses include certain one-offs relating with new channels of the company, as well as movies released during the quarter, 3/ other expenses carry one-offs related to write-offs of movie rights held for launch of Hindi Movie Channel and TIFC, 4/lastly, exceptional items include amounts received from parent as indemnity income against amounts written off against TIFC library.

TV18 4QFY12 Financials

Rs mn, FY Ends Mar	4QFY12	4QFY11	% Chg	3QFY12	% chg
Revenues	**5120**	**2058**	**149%**	**3428**	**49%**
Income from Operations	5031	2057	145%	3349	50%
Other Operating Income	89	1	8709%	78	14%
Expenditure					
Staff Costs	575	314	83%	724	-21%
Mktg. & Distribution Expenses	1618	659	146%	1186	36%
Other Expenses	3385	1014	234%	1859	82%
Total Expenses	5578	1986	181%	3769	48%
EBITDA	**-458**	**72**	**-739%**	**-341**	**34%**
Margin	-9.0%	3.5%	-12.4ppt	-10.0%	-1.0ppt
Depreciation	94	38	150%	91	4%
EBIT	**-553**	**34**	**-1727%**	**-432**	**28%**
Other Income	118	20	477%	67	75%
Interest Expenses	349	139	151%	302	15%
PBT (before exceptional items)	**-783**	**-84**	**828%**	**-667**	**17%**
Exceptional Items	393		NM		NM
Provision for Tax	24	47	-49%	-1	-1957%
PAT	**-414**	**-132**	**215%**	**-666**	**-38%**
Minority Interest	80		NM	-131	-161%
PAT post minority interest	-334	-132	154%	-535	-38%

Source: Company

Reported financials include the following, which need to be adjusted for when arriving at the company's reported pro-forma figures: 1/one-time losses of 477mn from discontinued operations of the company on account of deferment of the Hindi movie channel and TIFC, 2/ Rs 294mn losses on account of new operations of the company, which include channels Sonic, Comedy Central and Colors HD. For full-year, the losses towards these were Rs 526mn, and Rs 1270mn respectively, 3/ In addition new launch History brought in losses of Rs 154mn, and Rs 483mn respectively for 4QFY12 and FY12 respectively. The pro-forma figures produced by the company are reproduced below:

Segment performance (Rs mn)

	4QFY12	4QFY11	3QFY12	FY12	FY11
Revenues	**3487**	**3011**	**3405**	**12572**	**11102**
News	1944	1655	1650	6349	5580
General News	916	705	773	3026	2522
Business News	1028	950	876	3323	3058
Entertainment	1569	1356	1823	6351	5522
Operating Profit	**82**	**369**	**284**	**891**	**1390**
News	140	267	92	560	750
General News	-17	-22	-16	-44	-122
Business News	157	289	108	604	880
Entertainment	-58	102	192	331	640

Source: Company

However, even these pro-forma figures have certain one-offs: 1/ news operations revenues have received a boost from subscription revenue growth which has risen c.46% q/q, on the back of one-offs, which have boosted the quarterly margins. Adjusting for these, the company has made, excluding discontinued operations and new channels, Rs 2mn in operating profits for the quarter. Entertainment, which has revenues of Rs 1569mn, has Rs 301mn in operating losses of new channels launched by the company - which are not necessarily one - offs. The company is still in the investment mode.

The reported financials of TV18 carry several one-offs of discontinued operations - relating to the abandoned idea of the Hindi Movie Channel (HMC) and assumption of TIFC assets, the company has brought in additional sales of Rs 1169mn, and incurred costs (amortization) of Rs 1408mn. For the year, these figures are Rs 1169mn, and Rs 1804 mn. From what we understand, the amortization/ expensing of movies relating to this is not complete yet. We would expect significant write-offs to continue in the coming quarters.

Outlook: We believe that TV18 shall continue to be a set of loss-making operations, except for the business news operations, (which account for 26% of the revenues) until DAS implementation. Until this point, TV18 shall make losses at a rough run-rate (per quarter) of Rs 200-300mn at the EBITDA level, until the next round of negotiations for subscription revenues. Add to these interest expenses, which would likely come in at Rs 300mn/ qtr, too arrive at a run-rate of Rs 500-Rs600mn in losses per quarter for the next two quarters on a continuing operations basis.

The dominant theme in our investment view of TV18 has been the leverage that the company shall obtain from subscription revenues. Colors, the Hindi GEC of JV Viacom18 has been a crucial pillar on which the investment view on TV18 was formed. We had postulated, since initiation and until recently, that the fact that Colors remained a contender for the top position in the Hindi GEC space provided TV18 an opportunity to raise subscription revenues substantially. We believe this line of thinking now faces a severe challenge, given that Colors has now dropped to #4 among Hindi GECs.

The implementation of DAS may be thought of as another silver lining. This needs weighing against the fact that the larger players may utilize a part of the reduction in their carriage fees to raise content expenses. Overall, we see little possibility that TV18 Broadcast shall break even in FY13/FY14 on an adjusted PAT level.

We make changes to our estimates to account for weaker financial performance of the company. A summary of current estimates in comparison to prior estimates is provided below:

Estimates vs Prior Estimates

	Revised Est.		Prior Est.	
	FY13	FY14	FY13	FY14
Revenues	13840	14650	14,723	16,918
EBITDA	-95	99	1,486	2,300
PAT	-865	-570	220	738

Source: Kotak Securities - Private Client Research

Our revised estimates imply that the company shall continue to make losses through FY13/FY14, as the company, in our opinion, is less capable of ramping up subscription revenues, given its weak position in the Hindi GEC space. Advertising revenues for the industry as a whole are likely to be under pressure, and we think the company's advertising revenues are likely to underperform the industry (4% versus 8%) in the medium-term.

The outlook on the company's stock shall be dependent, in addition on the acquisition of ETV channels, which is to be consummated post the rights issue of the company. The company has filed a DLOO with the SEBI, and we believe the rights issues shall commence in June/ July. The rights issue price shall have a ceiling of Rs 40/ share.

As per DLOO filed by TV18, the acquired entities of ETV shall have (proportional) revenues of Rs 2.5 Bn. The entities to be acquired currently do not make positive operating profit. (EBIT)

Our valuation of TV-18 is based on the following: Acquired Entitiees attract a valuation of Rs 4.7Bn (versus Rs 21 bn being paid by TV18), TV18 operations are provided a valuation of Rs 24Bn, based on 1.5x EV/ Sales FY13E. Lastly, based on our estimates, we think that the management's belief that TV18 shall be debt-free post the dilution, shall not come true - on account of losses incurred through FY12/ FY13, the net debt of TV18 is likely to be in the region of Rs 4 Bn (FY13 -end). We value TV18 stock at Rs 17, assuming that the rights issue shall be priced at Rs 25/ share. We note that if the rights issue is completed at the higher end of Rs 40, the value of TV18 shall come in at Rs 23. We set our fair value target midway through these price points, at Rs 20/share.

We recommend REDUCE on TV18 Broadcast with a price target of Rs.20

Since even the best-case scenario in the rights issue is unlikely to provide the investor with meaningful returns, we downgrade the stock to **REDUCE**, with a price target of Rs 20.

We recognize there are several upside risks to our investment view, the most significant of which is the put option to sell stake in Viacom 18 (exercisable post July 2012). The other significant risk is implementation of DAS (as per current deadlines, to kick off in July 2012). Digitization may significantly alter financials of broadcasting companies. We believe, however, that an investor may be better off playing these event risks as they come (in case of DAS implementation, may choose to play via other broadcasters).

Valuation Summary

(Rs mn)	FY11		
Prism (50% to be acquired)			
Revenues	2670		
EBITDA	466		
Margin	0		
EBIT	**-345**		
Eenadu TV (24.5% to be acquired)			
Revenues	1745		
EBITDA	783		
EBIT	**-654**		
Panorama (100% to be acquired)			
Revenues	756		
EBITDA	138		
EBIT	**55**		
Proportional Revenues of Entities Bought Out	2519		
Assumed 2 - yr Sales Growth, Acq entities	25%		
Enterprise Value Attributable (1.5x EV/ Sales)	4723		
Ent. Value, TV 18 Ops (1.5x EV/ Sales)	20760		
Less: Net Debt, TV18	1628		
Mkt. Cap, Resulting Entity	23855		
Scenario	1	2	Avg.
Shares Outstanding (post rights issue)	1,442	1037.1	
Fair Value/ share	**16.5**	**23.0**	**19.8**

Source; Company

RESULT UPDATE

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ESCORTS LTD

PRICE: Rs.67 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.89 **FY12E P/E: 8.2x**

- **Escorts 2QFY12 results came in ahead of our and street expectation. Despite weak tractor demand scenario, margin improvement in the agri-machinery business was the key highlight of the results.**
- **Even in other segments like the railway equipment and the auto ancillary division, the company showcased sequential improvement in margins.**
- **Tractor demand is currently on the weaker side. Going forward, good monsoons will be the key for demand revival. Further reduction in interest rates will also provide some boost to volumes over the medium to long term.**
- **At the CMP of Rs67, the stock trades at a PE of 8.2x its expected September end FY12 EPS of Rs8.2. We maintain our price target of Rs89 on the stock. However due to decline in stock price we change our rating from ACCUMULATE to BUY.**

Summary table (Rs mn)

Year end Sept	FY10	FY11	FY12E
Sales	33,242	40,503	41,960
Growth (%)	28.0	21.8	3.6
EBITDA	1,909	1,304	1,518
EBITDA margin (%)	5.7	3.2	3.6
PBT	1,813	1,097	1,123
Reported PAT	1,320	1,264	778
Reported EPS (Rs)	13.8	13.2	8.2
Growth (%)	289.0	(4.3)	(38.4)
CEPS (Rs)	19.4	18.3	15.1
BV (Rs/share)	176.5	186.7	193.9
Dividend per share (Rs)	1.7	1.7	1.1
ROE (%)	8.3	7.7	4.3
ROCE (%)	9.7	6.5	5.5
Net cash / (debt)	(1,936)	(1,702)	(589)
NW Capital (Days)	45	46	50
P/E (x)	4.8	5.1	8.2
P/BV (x)	0.4	0.4	0.3
EV/Sales (x)	0.3	0.2	0.2
EV/EBITDA (x)	4.7	6.7	5.1

Source: Company, Kotak Securities - Private Client Research

Quarterly Data - Standalone entity

(Rs mn)	2QFY12	2QFY11	YoY(%)	1QFY12	QoQ (%)
Revenues	**7,912**	**8,898**	**(11.1)**	**8,231**	**(3.9)**
Total expenditure	7,513	8,502	(11.6)	7,989	(6.0)
RM consumed	5,595	6,380	(12.3)	6,064	(7.7)
Employee cost	921	864	6.6	927	(0.7)
Other expenses	998	1,258	(20.7)	999	(0.1)
EBITDA	**400**	**396**	**0.8**	**242**	**65.2**
EBITDA margin	5.0	4.5	-	2.9	-
Depreciation	96	99	(3.0)	95	1.3
Interest cost	210	132	59.1	190	10.2
Other operating income	38	74	(47.8)	24	62.1
Other Income	102	119	(14.5)	115	(11.3)
EO income/(loss)	3	43	(92.2)	9	(62.3)
PBT	**237**	**401**	**(40.8)**	**104**	**128.2**
PBT margins	3.0	4.5		1.3	
Tax	56	(331)	-	(5)	-
Tax rate	23.6	(82.7)	-	(4.5)	-
Reported PAT	**181**	**732**	**(75.2)**	**109**	**66.9**
PAT margins	2.3	8.2	-	1.3	-
No. of equity shares	102	102	0.0	102	-
EPS	**1.8**	**7.2**	**(75.2)**	**1.1**	**66.9**

Source: Company; September year ending

Standalone Result Highlight

- Escorts standalone revenues in 2QFY12 came in at Rs7,912mn, a decline of 11% over 2QFY11 revenues of Rs8,898mn. Decline in revenues was primarily on account of YoY de-growth in tractor volumes.
- Tractor volumes over the past few months have turned weak and the same reflected on the company's revenue from the agri-machinery business.

Segmental Revenues - Standalone entity

(Rs mn)	2QFY12	2QFY11	YoY(%)	1QFY12	QoQ (%)
Agri Machinery	7,185	8,184	(12.2)	7,726	(7.0)
Auto Ancillary	400	377	6.2	311	28.8
Railway Equipment	404	509	(20.5)	303	33.3

Source: Company

- Agri-machinery business posted revenues of Rs7,185mn, 12% lower than 2QFY11 revenues of Rs8,184mn.
- In the auto ancillary segment, revenues grew by 6% YoY to Rs400mn. On a sequential basis though, the jump was a steep 29%.
- Lack of orders from the railways had kept the railway equipment division under pressure and accordingly the revenues in this segment declined by 20% YoY to Rs404mn. However, sequential the situation seems to have improved with the company reporting 33% QoQ jump in revenues.
- Lower raw material cost during the quarter helped the company improve margins both YoY and QoQ. We believe price hike taken during the quarter and fall in certain raw material prices like rubber helped the company lower their input cost.
- Raw material cost as a % of sales came down from 71.7% in 2QFY11 to 70.7% in 2QFY12. Sequentially the fall was steeper.Employee cost and other expenses remained relatively stable over 1QFY12.
- Escorts EBITDA margins in 2QFY12 came in at 5% as against 4.5% in 2QFY11 and 2.9% in 1QFY12. Margins remained ahead of our expectation of 3.4%.

Segmental margins - Standalone entity

(Rs mn)	2QFY12	2QFY11	1QFY12
Agri Machinery	7.7	7.1	6.0
Auto Ancillary	(7.2)	(6.0)	(17.5)
Railway Equipment	7.0	5.2	(6.6)

Source: Company

- Agri-machinery segment led the way with EBIT margins of 7.7% in 2QFY12 as against 7.1% and 6% reported during 2QFY11 and 1QFY12 respectively.
- Railway equipment division that posted loss at the EBIT level in 1QFY12 turned positive with 7% EBIT margin in 2QFY12.
- Auto ancillary segment continued to post losses with negative EBIT margin of 7.2% in 2QFY12.
- Interest cost for the company increased from Rs132mn in 2QFY11 and Rs190mn in 1QFY12 to Rs210mn during the quarter under review.
- On a YoY basis, other operating income declined by 48% to Rs38mn. Other income was also down YoY by 15% to Rs102mn.
- Despite flat YoY EBITDA, Escorts PBT dropped by 40% due to rise in interest cost and decline in other income and other operating income.
- In 2QFY11, the company made a significant tax write-back making YoY PAT comparison irrelevant. On a sequential basis, PAT improved by 66% from Rs109mn to Rs181mn. Reported PAT came in ahead of our expectation of Rs101mn.

Merger with associates and subsidiary

- Escorts has announced merger of Escorts Construction Equipment Limited (ECEL), Escorts Finance and Investments Private Limited and Escotrac Finance Investments and Leasing Private Limited into Escorts Limited.
- Accordingly meeting has been called upon on 20th May 2012 for shareholders/ stakeholders approval.
- We have not factored the same in our numbers as the shareholder approval is yet to be obtained.

Valuation

We recommend BUY on Escorts with a price target of Rs.89

- Tractor demand is currently on the weaker side. Going forward, good monsoons will be the key for demand revival. Further reduction in interest rates will also provide some boost to volumes over the medium to long term.
- At the CMP of Rs67, the stock trades at a PE of 8.2x its expected September end FY12 EPS of Rs8.2. We maintain our price target of Rs89 on the stock. However due to decline in stock price we change our rating from ACCUMULATE to **BUY.**

RESULT UPDATE

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INDIAN BANK

PRICE: Rs.180 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: Rs.215 **FY13E P/E: 4.2x, P/ABV: 0.8x**

Q4FY12 Results: Washout Quarter

- **Indian bank's reported earnings came below expectations - NII declined 2.6% YoY on back of sharp NIM compression (70bps YoY), while net income declined 21.3% YoY due to spike in provisions (4.4x YoY); this decline could have been further exacerbated (~55% decline), if the tax reversal of Rs.1.5 bn had not come during Q4FY12.**
- **NIM declined sharply - 70bps YoY to 3.16% during Q4FY12 due to interest reversal on slipped loan portfolio along with higher cost of deposits. For FY13, we maintain our conservative approach and expect NIM to come at 3.23% as against 3.43% achieved during FY12.**
- **Business growth was moderate during Q4FY12 - loan growth came at 20.4% YoY mainly aided by corporate segments and overseas book; deposits grew relatively at moderate pace (14.2% YoY) leading to improvement in C/D ratio (~400bps YoY) at the end of FY12.**
- **Slippage jumped during the quarter and came at 5.34% (annualized), much higher than our as well as street's expectations. Restructuring portfolio continued to swell - Rs.36 bn were further added during FY12, taking total cumulative restructured book to Rs.80 bn (8.8% of loan book), which is higher than the peers.**
- **At CMP of Rs.180, the stock is trading at 4.2x FY13E earnings and 0.8x FY13E ABV. We believe high share (~11% of loan book) of stressed assets (restructured book + gross NPA) is likely to be an overhang on the stock, going forward. Hence, we downgrade the stock to ACCUMULATE from BUY earlier with revised TP of Rs.215 (Rs.270 earlier) based on P/ABV of 1.0x its FY13E adjusted book value.**

Result Performance

(Rs. mn)	Q4FY12	Q4FY11	YoY (%)
Interest on advances	24,135	19,843	21.6
Interest on Investment	7,727	6,052	27.7
Interest on RBI/ banks' balances	48	48	1.5
Other interest	-	-	-
Total Interest earned	**31,911**	**25,942**	**23.0**
Interest expenses	21,085	14,832	42.2
Net interest income	**10,826**	**11,110**	**-2.6**
Other income	3,070	2,716	13.0
Net Revenue (NII + Other income)	**13,896**	**13,826**	**0.5**
Operating Expenses	5,923	4,796	23.5
Payments to / Provisions for employees	3,865	3,092	25.0
Other operating expenses	2,058	1,704	20.8
Operating profit	**7,973**	**9,030**	**-11.7**
Provisions & contingencies	5,618	1,268	343.1
Provision for taxes	(1,100)	3,374	-132.6
Net profit	**3,454**	**4,389**	**-21.3**
EPS (Rs.)	**7.77**	**9.94**	**-21.8**

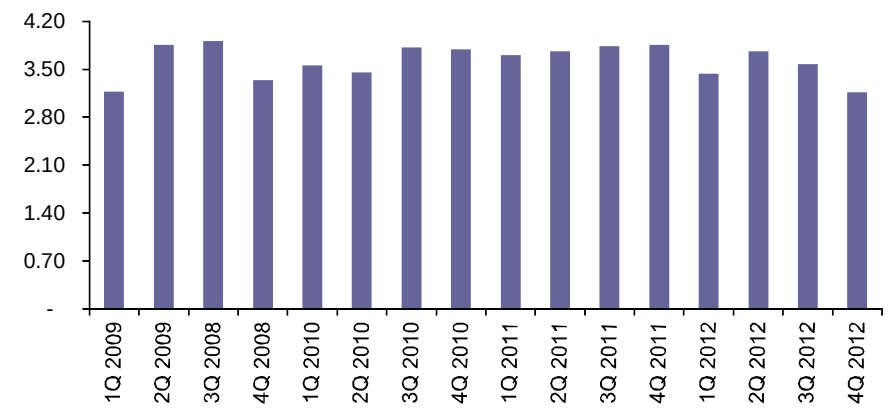
Source: Company

Reported earnings disappointed; NIM contracted by 43 bps QoQ

Indian bank's reported earnings came below expectations - NII declined 2.6% YoY to Rs.10.83 bn during Q4FY12 on back of sharp NIM compression (70bps YoY), while net income declined 21.3% YoY to Rs.3.45 bn in Q4FY12 due to spike in provisions (4.4x YoY). The decline in net income could have been further exacerbated (~55% decline), if the tax reversal of Rs.1.5 bn had not come during Q4FY12.

NIM declined sharply - 70bps YoY to 3.16% during Q4FY12 due to interest reversal on slipped loan portfolio along with higher cost of deposits. During Q4FY12, yield on advances rose 33bps YoY while cost of deposits rose by 115bps. For FY13, we maintain our conservative approach and expect NIM to come at 3.23% as against 3.43% achieved during FY12.

Trends in NIM (%)



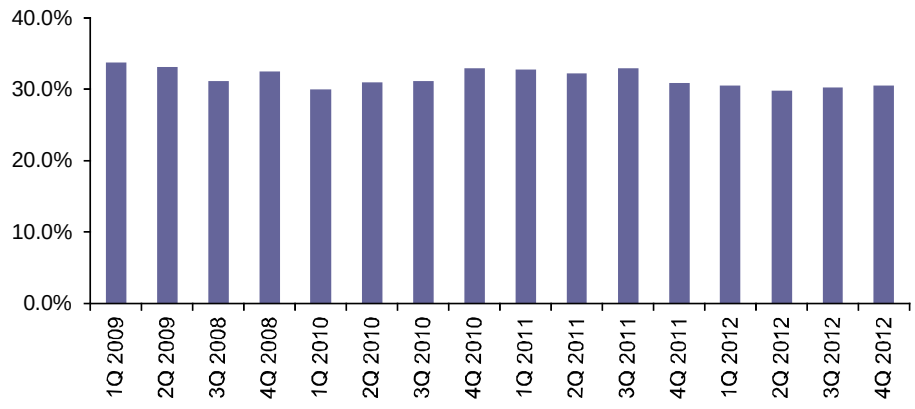
Source: Company

Business growth was moderate during Q4FY12; funding mix remained stable QoQ

Business growth was moderate during Q4FY12 - loan growth came at 20.4% YoY mainly aided by corporate segments and overseas book; out of Rs.31.4 bn QoQ addition in loan book, Rs.29.4 bn was added during Q4FY12 in corporate segments only.

The deposits grew relatively at moderate pace (14.2% YoY) leading to improvement in C/D ratio (~400bps YoY) at the end of FY12. Its funding mix also remained stable with CASA mix coming at 30.5% at the end of Q4FY12, 30bps QoQ improvement.

Trends in CASA (%)



Source: Company

Asset quality deteriorated sharply; slippages as well restructured book spiked during Q4FY12.

Asset quality deteriorated sharply - sequentially, gross NPA and net NPA rose 55.5% and 72.1%, respectively, during Q4FY12. In absolute terms, gross NPA as well net NPA rose both YoY as well as QoQ. It came at 2.03% and 1.33%, respectively during Q4FY12.

Trend in NPAs

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Gross NPA (Rs. bn)	9.88	9.04	7.52	7.40	8.06	10.48	11.90	18.51
% of Net NPA	1.45	1.29	1.02	0.98	0.98	1.21	1.35	2.03
Net NPA (Rs. bn)	5.11	5.06	4.17	3.97	4.19	5.96	6.95	11.97
% of Net NPA	0.76	0.73	0.57	0.53	0.51	0.69	0.80	1.33

Source: Company

Slippage jumped during the quarter and came at 5.34% (annualized), much higher than our as well as street's expectations. Restructuring portfolio continued to swell - Rs.36 bn were further added during FY12, taking total cumulative restructured book to Rs.80 bn (8.8% of loan book), which is higher than the peers.

Its PCR (including W/O a/cs) has come down to 70.1% at the end of Q4FY12,which does not bode well for the stock (used to enjoy ~90% provision coverage ratio only 9-10 quarters back).

Valuations and recommendation

We have cut the earnings estimate by ~15% for FY13 by taking into account higher credit costs due to sharp deterioration in asset quality. We expect net profit to grow 5.3% YoY during FY13 leading to EPS and ABV to come at Rs.42.8 and Rs.214.8.

We recommend ACCUMULATE on Indian Bank with a price target of Rs.215

At CMP of Rs.180, the stock is trading at 4.2x FY13E earnings and 0.8x FY13E ABV. We believe high share (~11% of loan book) of stressed assets (restructured book + gross NPA) is likely to be an overhang on the stock, going forward. Hence, we downgrade the stock to **ACCUMULATE** from BUY earlier with revised TP of Rs.215 (Rs.270 earlier) based on P/ABV of 1.0x its FY13E adjusted book value.

Key data

(Rs. Bn)	2010	2011	2012E	2013E
Interest income	77.1	93.6	122.3	141.2
Interest expense	45.5	53.2	78.1	92.5
Net interest income	**31.6**	**40.4**	**44.2**	**48.7**
Growth (%)	21.2%	27.7%	9.5%	10.2%
Other income	13.2	11.8	11.7	12.5
Gross profit	**27.5**	**32.9**	**34.0**	**37.2**
Net profit	**15.5**	**17.1**	**17.5**	**18.4**
Growth (%)	24.9%	10.2%	1.9%	5.3%
Gross NPA (%)	0.8	1.0	2.0	2.0
Net NPA (%)	0.2	0.5	1.3	1.3
Net interest margin (%)	3.5	3.7	3.5	3.3
CAR (%)	12.2	12.8	13.0	13.0
RoE (%)	24.1	22.3	19.5	17.8
RoA (%)	1.7	1.5	1.3	1.2
Dividend per share (Rs)	6.5	7.5	7.5	8.0
EPS (Rs)	**36.2**	**39.9**	**40.6**	**42.8**
Adjusted BVPS (Rs)	**151.3**	**175.2**	**187.1**	**214.8**
P/E (x)	**5.0**	**4.5**	**4.4**	**4.2**
P/ABV (x)	**1.2**	**1.0**	**1.0**	**0.8**

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
11-May	Aroma Ent	Varshaben Ajaybhai Naik	B	45,000	12.1
11-May	Aroma Ent	Kirti Popatji Thakor	S	45,000	12.1
11-May	Autolite India	Autolite Manufacturing Ltd	B	271,815	16.9
11-May	Autolite India	Palsoft	S	271,815	16.9
11-May	Cinerad Comm	Premji Bhuralal Gala	B	50,000	13.8
11-May	Cinerad Comm	Vimesh Zaveri	S	49,500	13.8
11-May	Cressanda Sol	Abharaj Traders Pvt Ltd	B	628,000	8.1
11-May	Cressanda Sol	Sandeep Talwar	S	628,000	8.1
11-May	Ekam Leasing	Gajraj Jain	S	80,000	32.9
11-May	Emtex Inds	Ginni Holdings Ltd	B	27,959	4.7
11-May	Emtex Inds	Subhash Udaipuri Chiranjilal	S	27,959	4.7
11-May	Essen Supp	Greenview Tracom Pvt Ltd	B	65,000	21.5
11-May	Essen Supp	Samiksha Resources Pvt Ltd	S	65,000	21.5
11-May	Finalysis Cred	Ashraf Usmani	S	35,000	56.9
11-May	Jaihind Syn	Dinesh Jayntalal Doshi	S	25,500	12.8
11-May	Marvel Capital	Ragini Naresh Singh	B	25,000	20.9
11-May	Pasupati Fin	Vipul Mohanlal Joshi	B	25,000	22.6
11-May	Pasupati Fin	Sitadevi Arunkumar Tulsiyan	S	25,000	22.7
11-May	Pasupati Fin	Krishnakumar Ramchandra Modi	S	25,000	22.6
11-May	Santowin Corp	Esquire Enclave Pvt Ltd	B	500,000	13.6
11-May	Santowin Corp	Sanjay Srichand Vanwari	S	500,000	13.6
11-May	Shreychem	Arsenal Finstock Services Pvt Ltd	S	42,617	47.3
11-May	Suryanagri Fin	Nilkamal Properties Priva Te Ltd	B	100,000	50.4
11-May	Suryanagri Fin	Brain Business Pvt. Ltd	B	40,000	50.5
11-May	Suryanagri Fin	Chimanlal Jaigopal Shah	S	150,000	50.4
11-May	Swasti Vinay Syn	Rohit Anil Dixit	B	476,552	8.2
11-May	Swasti Vinay Syn	Rajiv Om Prakash Bhargava	B	1,191,751	8.3
11-May	Swasti Vinay Syn	Sabiha Shaikh	S	1,000,485	8.3
11-May	Uniroyal Inds	Arvind Mahajan	B	42,899	5.0
11-May	Vaishnavi	Sai Nithisha Parvathaneni	B	101,201	7.1

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Tata Motors	298	2.9	4.7	8.0
Bajaj Auto	1,558	3.6	2.3	0.3
Reliance Ind	697	0.4	1.6	3.0
Losers				
ITC	234	(2.1)	(8.7)	5.2
Infosys Ltd	2,311	(1.4)	(5.1)	1.1
HDFC Bank	511	(1.3)	(4.0)	2.0

Source: Bloomberg

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