



Economy News

- ▶ The UP government issued an ultimatum to millers that they resume operations and fixed new deadlines - of December 4 and 7 for the western and eastern part of the state, respectively - for sugar millers to start operations. (BS)
- ▶ Union cabinet deferred a decision on a contentious proposal that seeks to prevent multinational companies from taking control of existing critical care drug companies, following strong opposition from key stakeholder ministries, including finance, and the Planning Commission. (ET)
- ▶ An inter-ministerial panel is scheduled to meet on December 3 to decide on the long-awaited mergers and acquisitions norms for the telecom industry, widely expected to spark consolidation in the sector. (ET)
- ▶ The department of fertilizer plans to roll out special baking arrangement for the first time for all categories of fertilizer and not only urea unlike earlier. This follows a proposal for soft loan soon to be finalized by the ministry of finance to the tune of RS 100bn-120bn over and above the subsidy of RS 55bn already disbursed to the ministry of fertilizer. (BS)
- ▶ The Ministry of Heavy Industries has told that it favours an increase in customs duty on capital goods. The Ministry said that the prevailing rate of 7.5% is much lower than the WTO bound rate of customs duty for capital goods, which varies between 25 and 40%. (BL)
- ▶ The Reserve Bank of India (RBI) said it would consider relaxation of the 50% group limit for non-banking financial companies (NBFCs) investing in insurance companies, on a case-to-case basis. (Livemint)

Corporate News

- ▶ **NTPC, Larsen & Toubro, JSW Energy** and five other companies have submitted initial bids for the proposed 4,000-MW power project in Cheyyur, Tamil Nadu. **Jindal Steel and Power, Adani Power, Sterlite Infraventure, GMR Energy** and CLP India are the others in the fray for the ultra mega power project (UMPP), which will use imported coal. (BL)
- ▶ Wind turbine maker **Suzlon Energy Ltd**, said its subsidiary REpower Systems SE had announced the conclusion of EPC contract with Mitsui and Co. (Australia) Ltd. to deliver 52 wind turbines with a total rated output of 106.6 megawatts (MW). (Livemint)
- ▶ **Tech Mahindra** is considering merging Mahindra Engineering Services, a unit of Mahindra Group with itself. Mahindra Engineering Services has a yearly turnover of ~Rs 2.5 bn & has about 1,300 employees. (ET)
- ▶ The Reserve Bank of India has initiated a special inspection of Kolkata-based **United Bank of India**, apparently prompted by an alarming rise in bad loans that has forced the bank to report loss in the 2nd quarter. (ET)
- ▶ Gap Inc, the largest casual wear retailer in the US, looks set to enter the Indian market next year though a joint venture with Arvind Brands, two people familiar with the development said. (ET)
- ▶ **TCS** bagged a major deal to handle nearly 1,000 offshore jobs for British energy giant NPower as part of its restructuring. (ET)
- ▶ Prime Minister will preside over a meeting today that could see a decision on the long-delayed plans to sell government's stake in **Balco** and **Hindustan Zinc**. Both companies are part Vedanta Group which holds a controlling 51% stake in Balco and 65% in Hindustan Zinc (ET)
- ▶ The Calcutta high court extended status quo on the sale of 155 million shares of ailing **Haldia Petrochemicals Ltd (HPL)**, over the control of which The Chatterjee Group (TCG) and West Bengal government are embroiled in a legal battle. **The Indian Oil Corporation (IOC)** had bid for the shares of HPL, which the state wanted to disinvest. (Livemint)

Equity

	28 Nov 13	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,535	0.6	(1.9)	11.6
NIFTY Index	6,092	0.6	(2.1)	12.6
BANKEX Index	12,455	0.1	(2.9)	22.8
BSET Index	8,341	0.5	(1.3)	5.5
BSETCG INDEX	9,644	1.9	6.2	35.9
BSEOIL INDEX	8,543	0.9	(3.0)	5.5
CNXMcap Index	7,597	0.9	2.5	16.0
BSESMCAP INDEX	6,049	0.9	3.8	16.8
World Indices				
Dow Jones	16,097	0.2	3.4	8.6
Nasdaq	4,045	0.7	2.7	12.6
FTSE	6,654	0.1	(1.8)	2.6
NIKKEI	15,727	1.8	9.7	16.8
HANGSENG	23,789	(0.1)	4.4	9.9

Value traded (Rs cr)

	28 Nov 13	% Chg - Day
Cash BSE	2,097	20.7
Cash NSE	12,724	28.9
Derivatives	286,472	33.3

Net inflows (Rs cr)

	27 Nov 13	% Chg	MTD	YTD
FII	(94)	(75.1)	6,123	95,968
Mutual Fund	(264)	233.9	(1,662)	(21,905)

FII open interest (Rs cr)

	27 Nov 13	% Chg
FII Index Futures	11,829	(29.8)
FII Index Options	39,070	(31.3)
FII Stock Futures	28,347	(13.7)
FII Stock Options	106	(95.0)

Advances / Declines (BSE)

	28 Nov 13	A	B	T	Total	% total
Advances	140	1000	294	1,434	54	
Declines	63	701	249	1,013	38	
Unchanged	3	139	46	188	7	

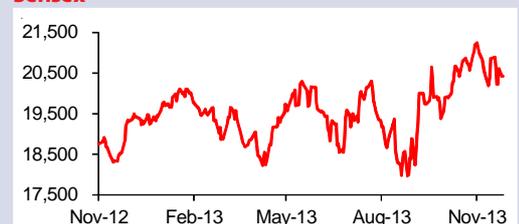
Commodity

	28 Nov 13	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	92.3	(0.0)	(6.0)	(15.2)
Gold (US\$/OZ)	1,244.1	0.3	(7.7)	(12.0)
Silver (US\$/OZ)	19.7	0.3	(12.3)	(17.7)

Debt / forex market

	28 Nov 13	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.7	8.7	8.7	9.0
Re/US\$	62.4	62.2	61.5	68.8

Sensex



COMPANY UPDATE

Sumit Pokharna
sumit.pokharna@kotak.com
+91 22 6621 6313

CASTROL INDIA LTD. (CIL)

PRICE: Rs.300

TARGET PRICE: Rs.330

RECOMMENDATION: ACCUMULATE

CY14E P/E: 26.7x

Castrol has launched various premium products in 9MCY13 which will improve its realization. Additionally, the recent appreciation of the rupee against dollar by ~10% (last three months) augurs well for the Company as its raw material is denominated in dollar terms. We believe the full benefit of the same will be reflected in Q4CY13 and onwards. Despite this, the stock (-5%) has under-performed nifty (15.4%) by ~20% in the last three months. Our revised earnings estimate with EPS of Rs.9.6 CY13E and Rs.11.2 CY14E. On the basis of our estimates, the stock at current market price of Rs. 300 is reasonably valued at 18.1x EV/EBITDA, 26.7x P/E and 24.3x P/BV on the basis of CY14 earnings. Based on our DCF valuation model, the 9-month target price of Castrol is Rs.330 and we recommend Accumulate (earlier Reduce) on Castrol.

Summary table

(Rs mn)	CY12	CY13E	CY14E
Sales	31,114	31,950	34,271
Growth (%)	4.3	2.7	7.3
EBITDA	6,347	6,817	7,875
EBITDA Margin	20.4	21.3	23.0
PBT	6,663	7,409	8,227
Net Profit	4,474	4,984	5,549
EPS (Rs.)	8.7	9.6	11.2
Growth (%)	(7.7)	10.9	16.7
CEPS	9.2	10.2	11.9
BV (Rs/Share)	13.1	12.7	12.3
DPS (Rs.)	7.0	9.0	10.0
ROE (%)	51.8	52.9	61.1
ROCE (%)	51.6	52.7	61.1
Net Debt / (Cash)	(5,629)	(5,963)	(5,896)
NW Capital (Days)	16.9	19.1	20.0
P/E (X)	34.6	31.2	26.7
P/BV (X)	22.9	23.5	24.3
EV/Sales (X)	4.6	4.5	4.2
EV/EBITDA (X)	22.5	20.9	18.1

Source: Company, Kotak Securities - Private Client Research

New product launches

- Some of the key launches offered are Castrol CRB and Castrol CRB Turbo with Durashieldtm Boosters, re-launch of BP brand of lubricants, revamp of the Castrol RX portfolio, Castrol Activ with Actibondm molecules, and Castrol Magnatec with intelligent molecules. The Company also has few more products in pipeline which will be launched in next few quarters. We expect this to improve the margins going forward as they are premium products.
- Recent approval of Castrol's products by three original equipment manufacturers (OEMs) namely Bharat Benz (Daimler), Mahindra for two-wheelers, and Ford Motors will ensure higher demand for Castrol's products.
- In the commercial vehicle segment, Castrol India and Tata Motors Limited has co-developed lube oil named as "Castrol RX Super Max Fuel Saver" which can increase the fuel efficiency of trucks by 1.5%. This will save substantial amounts of diesel as well as operating costs. It is expected that with the use of this latest lube oil the truck operator can save up to Rs. 20K annually in fuel cost. Castrol has priced this lube at Rs.389 / ltrs. As per 9MCY13 results, the average selling price of all the products of Castrol is Rs.158.4 / ltrs. Premium pricing of the new product can significantly improve Castrol's realizations, going forward. Both the companies were working on the product from last four years. The JV has invested ~USD \$ 1 Mn on the product.
- In 2013, the Company expects the two-wheeler lubricants segment to continue on its growth path, given that OEMs are all geared up to tap two key opportunity areas - rural and scooters. The emergence of women scooter owners/riders presents a new segment opportunity for differentiated products.
- The company is focusing on driving volume growth through increasing distribution reach and strengthening advocacy amongst key stakeholders.

Key risk remains in terms of:

- Forex volatility can adversely impact its margins
- Falling sales volume and rising competition is a big concern
- Industrial demand of lubricant is dependent on GDP growth. Any major fall in GDP growth can impact Castrol's industrial sales volume.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

Castrol's key developments

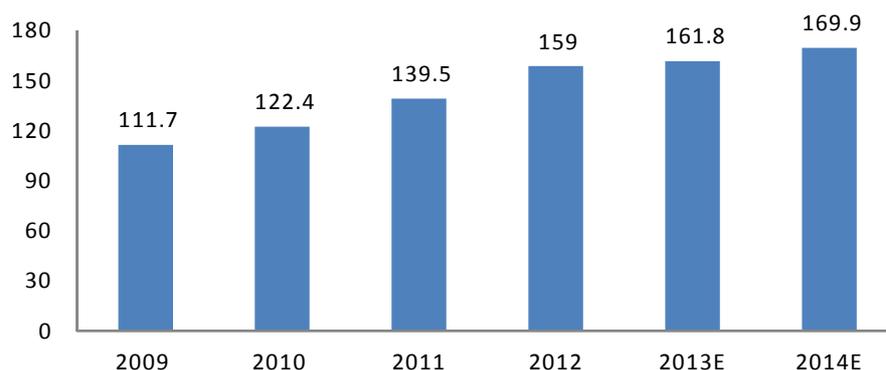
Share capital reduction

- The Company has proposed to reduce the share capital from the present face value of Rs.10/share to Rs. 5/Share. The Company will return or pay Rs.5 / share to all the shareholders of the Company whose name appears as on the record date, Subject to approvals. The Company has yet to fix the record date for share capital reduction. On the current share price of Rs. 300/share, this results in additional cash inflow for investors (1.6%) besides dividend. We expect Castrol to give a dividend of Rs. 9/share for CY13 (dividend yield of 3.0%) and Rs. 10/share for CY15 (dividend yield of 3.4%).

New product launches

- Some of the key launches offered are Castrol CRB and Castrol CRB Turbo with Durashieldtm Boosters, re-launch of BP brand of lubricants, revamp of the Castrol RX portfolio, Castrol Activ with Actibondm molecules, and Castrol Magnatec with intelligent molecules. The Company also has few more products in pipeline which will be launched in next few quarters. We expect this will improve the margins going forward as they are premium products.
- Recent approval of Castrol's products by three original equipment manufacturers (OEMs) namely Bharat Benz (Daimler), Mahindra for two-wheelers, and Ford Motors will ensure higher demand for Castrol's products.
- In the commercial vehicle segment, Castrol India and Tata Motors Limited has co-developed lube oil named as "Castrol RX Super Max Fuel Saver" which can increase the fuel efficiency of trucks by 1.5%. This will save substantial amounts of diesel as well as operating costs. It is expected that with the use of this latest lube oil the truck operator can save up to Rs. 20K annually in fuel cost. Castrol has priced this lube at Rs.389 / ltrs. As per 9MCY13 results, the average selling price of all the products of Castrol is Rs.158.4 / ltrs. Premium pricing of the new product can significantly improve Castrol's realizations, going forward. Both the companies were working on the product from last four years. The JV has invested ~USD \$ 1 Mn on the product.

Castrol's net realization improving due to premium product launch and price hike undertaken (Rs/ltr)



Source: Company, Kotak Securities - Private Client Research

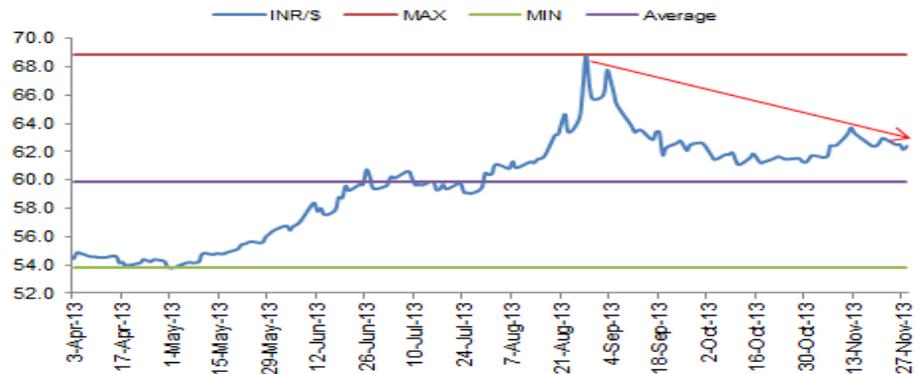
Raw material prices have significant impact on the profitability

- Castrol's earnings are highly leveraged to raw material prices. In Q3CY13, the Company's performance got impacted due to steep depreciation in currency. However, the recent reversal of the currency can partly lower its raw material cost. Castrol imports its raw material, which is denominated in dollar terms, and sells lubricants in the domestic market which is realized in rupee terms. Hence, rupee appreciation lowers its raw material cost and can partly improve its margins.

Rupee Dollar

- We expect rupee to strength further from here on account of various actions taken by government and RBI.

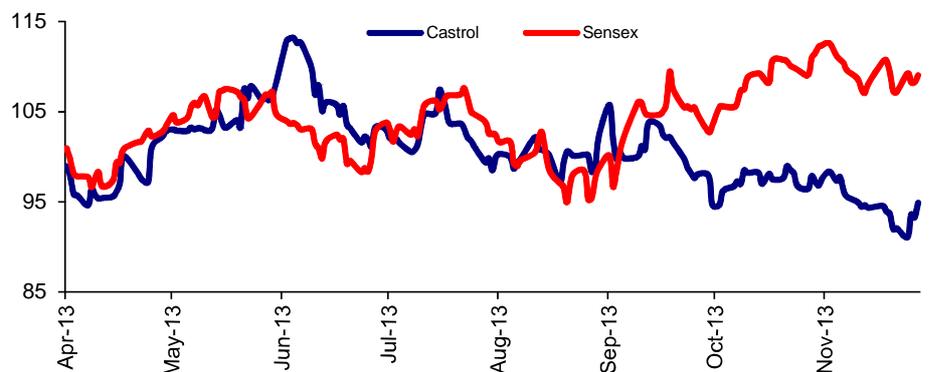
Chart showing currency volatility



Source: Bloomberg

- The lubricant business is a seasonal business and volume gets affected due to various seasonal factors. We have observed that for Castrol Quarter 2 (April-June) and Quarter 4 (Oct-Dec) of the calendar year are generally the best quarters. We expect Castrol to report a better performance in Q4CY13 on sequential basis as the last quarter is generally one of the best quarters, secondly lower raw material cost due to rupee appreciation and finally improvement in realizations.

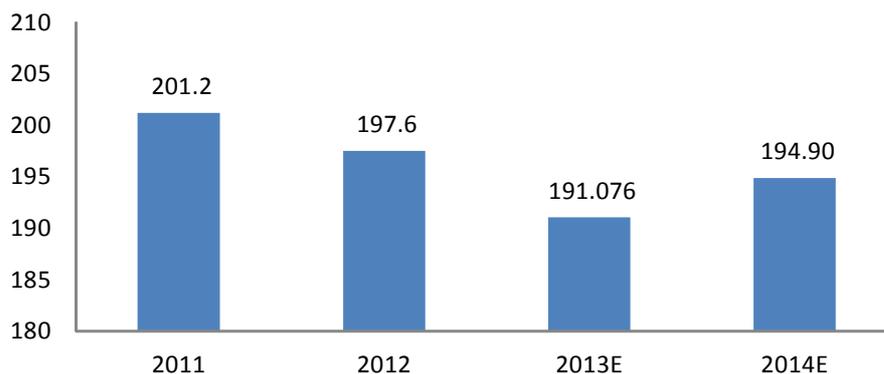
Castrol vs Sensex



Source: Bloomberg

Key Financials:

- **Revenue growth:** We expect revenues to grow by 2.7% and 7.3% in CY13E and CY14E respectively on account of realization growth with premium product launch.
- **Volume Growth:** We model -3.28% YoY growth in volumes in CY13E and 2.0% YoY growth in volumes in CY14E. Stronger emission norms and demand for fuel efficiency is pushing OEMs to develop new engine technology at a faster pace. India has also become an export hub for many global players, who are demanding higher specification engines and engine oils to meet the more stringent international specifications. These factors could result demand for higher quality lubricants, leading the industry towards wider acceptance of synthetic technology superior and semi synthetic lubricants.

Sales volume (mn ltrs)

Source: Kotak Securities - Private Client Research

- **Operating margins:** We expect operating margin of 21.2% and 22.83% in CY13E and CY14E respectively as against 20.4% in CY12E. In CY13E, we expect EBIDTA to be Rs.6.8 Bn and Rs. 7.9 Bn in CY14E.
- **Earnings:** Our revised earnings estimate stands at Rs. 9.6 CY13E and Rs. 11.2 CY14E after considering strong rupee and lower raw material cost.

Valuations:

Our revised earnings estimate with EPS of Rs.9.6 CY13E and Rs.11.2 CY14E. On the basis of our estimates, the stock at current market price of Rs. 300 is reasonably valued at 18.1x EV/EBIDTA, 26.7x P/E and 24.3x P/BV on the basis of CY14 earnings. In the longer run, Castrol India is in a strong position to benefit from growth opportunities in the lubricant market on account of its strong brands, and enduring relationships with key stakeholders.

Based on our DCF valuation model, the 9-month target price of Castrol is Rs.330 and we recommend Accumulate on Castrol. We have assumed zero debt.

Key risk remains in terms of:

- Forex volatility can adversely impact its margins
- Falling sales volume is a big concern in the industry.
- Industrial demand of lube oil is dependent on GDP growth. Any major fall in GDP growth can impact Castrol's sales volume
- Lower Industrial growth may led to lower lubricant consumption in manufacturing units

We recommend ACCUMULATE on Castrol India with a price target of Rs.330

Company Background

Castrol India manufactures and markets a range of automotive and industrial lubricants. With the largest manufacturing and marketing network among the lubricant companies in India, the Company has leadership positions in most of the segments in which it operates including passenger-car engines oils, four-stroke oils and multi-grade diesel engine oils. The three manufacturing facilities include a state-of-the-art plant in Silvassa. Customers are reached through distributors, servicing over 91,000 retail outlets.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price
28-Nov	Aagam Cap	Winsome Tracom Pvt Ltd	B	30,000	132.0
28-Nov	Aagam Cap	Mono Herbicides Pvt. Ltd.	S	30,000	132.0
28-Nov	Arrow Securi	Niraj Rameshbhai Shah	S	59,800	4.9
28-Nov	Crest Animation	Yusons Investment Pvt Ltd	S	242,392	3.0
28-Nov	Eastern Sugar	Surendra Singh Bengani	B	150,000	4.3
28-Nov	Eastern Sugar	Anoop Nopany	S	169,449	4.3
28-Nov	Eastern Sugar	Supriya Kishor Hadawale	B	100,000	4.6
28-Nov	G Tech Info	Jhaveri Trading & Investment Pvt Ltd	S	523,401	0.4
28-Nov	Jay Mahesh Infr	Om Prakash	S	34,141	15.4
28-Nov	KBS India	Rudraksha Expo Pvt Ltd	S	50,000	9.2
28-Nov	KBS India	Shree Mallikarjun Trad Invest Pvt Ltd	B	50,000	9.2
28-Nov	Neha Intl	Blue Peacock Securities Pvt Ltd	B	151,000	11.8
28-Nov	Pankaj Poly	Saryu Pandey HUF	S	131,500	12.9
28-Nov	Pankaj Poly	Hem Insurance Brokers Ltd	B	131,484	12.9
28-Nov	Parikh Herbals	Heena Rameshbhai Patel	S	562,787	22.1
28-Nov	Polychem	Rai Investments Ltd	S	2,070	237.5
28-Nov	Prime Cap	Shardaben Kakadia	S	56,000	20.2
28-Nov	Prime Cap	Divya Drishti Traders Pvt Ltd	B	125,700	20.2
28-Nov	Prime Cap	Ravjibhai Lajibhai Kakadia	S	67,000	20.2
28-Nov	Saint Gobain	Shri Gopal Rajgarhia	S	732,576	14.0
28-Nov	Tiger Logs	Vikas Meel	B	32,000	74.0
28-Nov	Tiger Logs	Kunj Bihari Ajmera (HUF)	S	32,000	74.0
28-Nov	Westlife Dev	Stichting Pensioenfonds Abp	B	1,067,940	400.0
28-Nov	Westlife Dev	Bay Capital Investments Ltd	S	2,197,525	400.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Jaiprakash Asso	49	7.2	(0.0)	45.7
BHEL	151	3.3	(0.0)	8.5
Power Grid	95	2.8	(0.0)	12.3
Losers				
Cairn India	318	(1.9)	(0.0)	2.9
Cipla	380	(0.5)	(0.0)	2.0
NDFC	125	(0.5)	(0.0)	2.3

Source: Bloomberg

Fundamental Research Team
Dipen Shah

IT
dipen.shah@kotak.com
+91 22 6621 6301

Sanjeev Zarbade

Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Teena Virmani

Construction, Cement
teena.virmani@kotak.com
+91 22 6621 6302

Saurabh Agrawal

Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Saday Sinha

Banking, NBFC, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Arun Agarwal

Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6621 6143

Ruchir Khare

Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448

Ritwik Rai

FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310

Sumit Pokharna

Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313

Amit Agarwal

Logistics, Transportation
agarwal.amit@kotak.com
+91 22 6621 6222

Jayesh Kumar

Economy
kumar.jayesh@kotak.com
+91 22 6652 9172

K. Kathirvelu

Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Technical Research Team**Shrikant Chouhan**

shrikant.chouhan@kotak.com
+91 22 6621 6360

Amol Athawale

amol.athawale@kotak.com
+91 20 6620 3350

Premshankar Ladha

premshankar.ladha@kotak.com
+91 22 6621 6261

Derivatives Research Team**Sahaj Agrawal**

sahaj.agrawal@kotak.com
+91 79 6607 2231

Rahul Sharma

sharma.raahul@kotak.com
+91 22 6621 6198

Malay Gandhi

malay.gandhi@kotak.com
+91 22 6621 6350

Prashanth Lal

prashanth.lalu@kotak.com
+91 22 6621 6110

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

Kotak Securities Limited. Reg Off.: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E) Mumbai 400 05. CIN: U99999MH1994PLC134051, Tel No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com. Correspondence address: Infinity IT Park, Bldg. No 21, Opp Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Tel No :66056825. SEBI Reg No's: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230/INE 011207251, OTC INB 200808136, MCX SX INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164.NSDL: IN-DP-NSDL-23-97. CDSL: IN-DPCDSL-158-2001. Investment in securities market is subject to market risk, please read the combined risk disclosure document prior to investing. Compliance Officer - Mr. Sandeep Chordia. Tel. No: 022 6605 6825, Email id: ks.compliance@kotak.com.

In case you require any clarification or have any concern, kindly write to us at below email ids: "For Trading Account related queries: service.securities@kotak.com; "For Demat Account related queries: ks.demat@kotak.com.

Alternatively, you may feel free to contact our customer service desk at our toll free numbers 18002099191 or 1800222299. You may also call at 30305757 by using your city STD code as a prefix.

In case you wish to escalate your concern / query, please write to us at ks.escalation@kotak.com and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com.