



Economy News

- ▶ The cost of electricity purchased over the Indian Energy Exchange by buyers in the South has shot up. In the trading that happened today (i.e., for supply tomorrow), the maximum price at which power was bought shot up to Rs 19 and minimum price was at Rs 6.01. The average price for the region was Rs 10.50 a unit. (BL)
- ▶ The government has run up fiscal deficit of 92.3% of its budget estimates in the first nine months of the current year, primarily due to lukewarm tax collections. The figures indicate that the government will not be able to meet its budgeted fiscal deficit target of 4.6% for the current fiscal. (ET)
- ▶ Credit ratings agency Fitch has affirmed a negative outlook for the Indian shipping industry in 2012 on account of lower international trade. (BL)
- ▶ The Union ministry of food and consumer affairs proposes to insert a new clause in the fresh discussion note for the Cabinet on allowing foreign direct investment (FDI) in multi-brand retail. The Cabinet had decided to allow 51 per cent FDI in multi-brand retail in November, but had put the move in abeyance, owing to political opposition. (BS)

Corporate News

- ▶ State-run **Indian Oil Corporation (IOC)** plans to invest Rs 77 bn by 2015 to expand its pipeline network, which has emerged as a highly profitable business, generating revenue of Rs 42 bn in the previous fiscal year with a net profit of Rs 30 bn (ET)
- ▶ The Gujarat Government has demanded that the Essar Group subsidiary **Essar Oil** repay Rs 63 bn (\$1.235 billion) plus interest of deferred sales tax. Essar Energy said that it had received the demand notice from the tax authorities in Gujarat, following the January 17 decision of the Supreme Court to overturn the 2008 Gujarat High Court ruling, which allowed Essar Oil to pay the sales tax in deferred instalments from 2021. (BL)
- ▶ **GMR Infrastructure** is close to finalizing a \$2 billion loan from a consortium of banks led by Barclays PLC to finance its bid for concessions to re-develop airports in Brazil. GMR may have to sign a 'bid bond' valued at \$500 million at the time of submitting its bid, deadlines for which expire on Thursday. (ET)
- ▶ Wind turbine-maker **Suzlon** said it has bagged an over Rs 6 bn contract from CLP India, the Indian subsidiary of Hongkong-based power company CLP, for setting up a 100-MW project in Rajasthan. (ET)
- ▶ Buckling under consumer pressure, **Coal India Ltd** has rolled back the price hike proposed under its new Gross Calorific Value-based pricing mechanism effective January 1. Coal India will delink the rates from international parity prices, said Mr N. C. Jha, Chairman. This would eventually reduce the prices for different grades of coal. However, the GCV-based grading of coal will continue and the anomalies in the pricing structure will be set right. (BL)
- ▶ The telecom department (DoT) has issued showcause notices to five telcos - **Bharti Airtel**, Vodafone, Reliance Communications, **Tata Teleservices** and **Idea Cellular** - asking them to pay up about Rs 16 bn in total, for allegedly understating revenues and hence paying lower levies during 2006-07 and 2007-08. (ET)

Equity

	31 Jan 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,194	2.0	11.2	(2.9)
NIFTY Index	5,199	2.2	12.4	(2.4)
BANKEX Index	11,391	3.8	24.4	(0.6)
BSET Index	5,778	1.6	0.4	(0.9)
BSETCG INDEX	9,865	0.8	22.3	(10.1)
BSEOIL INDEX	8,500	1.7	12.9	(5.4)
CNXMcap Index	7,101	2.3	16.2	(2.3)
BSESMCAP INDEX	6,463	1.4	16.5	(7.3)
World Indices				
Dow Jones	12,633	(0.2)	3.4	5.7
Nasdaq	2,814	0.1	8.0	4.8
FTSE	5,682	0.2	2.0	2.5
NIKKEI	8,803	0.1	4.3	(0.2)
HANGSENG	20,390	1.1	11.2	5.9

Value traded (Rs cr)

	31 Jan 12	% Chg - Day
Cash BSE	2,757	13.8
Cash NSE	13,696	16.2
Derivatives	87,079	13.0

Net inflows (Rs cr)

	30 Jan 12	% Chg	MTD	YTD
FII	(80)	(105.8)	10,445	10,445
Mutual Fund	(331)	17.6	(1,944)	(1,944)

FII open interest (Rs cr)

	30 Jan 12	% Chg
FII Index Futures	11,727	3.6
FII Index Options	31,340	4.5
FII Stock Futures	26,647	3.5
FII Stock Options	996	23.0

Advances / Declines (BSE)

	31 Jan 12	A	B	T	Total	% total
Advances	181	1,296	326	1,803	61	
Declines	23	758	252	1,033	35	
Unchanged	0	69	39	108	4	

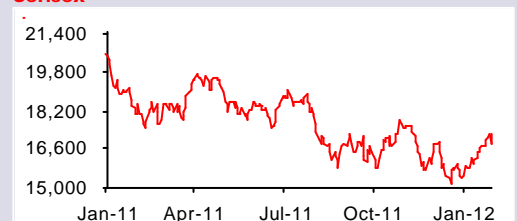
Commodity

	31 Jan 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	98.8	0.3	(0.1)	7.1
Gold (US\$/OZ)	1,731.0	0.0	10.4	1.5
Silver (US\$/OZ)	33.2	(1.2)	18.0	0.3

Debt / forex market

	31 Jan 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.28	8.28	8.40	8.94
Re/US\$	49.4	49.8	53.3	48.7

Sensex



RESULT UPDATE

Ruchir Khare

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HAVELLS INDIA LTD (HIL)**PRICE: Rs.480****TARGET PRICE: Rs.480****RECOMMENDATION: ACCUMULATE****FY13E P/E: 14.6x**

- ❑ HIL reported decent set of nos. for Q3FY12. Numbers are in line with our estimates on revenue and net profit front.
- ❑ Robust growth in domestic business across all verticals helped margin sustenance at the consolidated level. Consumer durable has been observing slowdown in the demand for higher value consumer goods like Ac's, LED's, refrigerators etc. However demand for smaller consumer appliances primarily home appliances remain intact.
- ❑ Management has concluded successful restructuring at Sylvania in the last fiscal and expects to report consistency in performance going ahead. Management expects to maintain Sylvania's margins.
- ❑ We increase our earnings estimate for FY13E to factor in growth in domestic as well as international markets. However in view of limited upside from current levels, we maintain 'ACCUMULATE' rating on company's stock with a one year DCF based price target of Rs 480 (Rs.395 earlier).

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	56,356	62,282	68,893
Growth (%)	5.6	11.0	10.8
EBITDA	5,718	6,250	6,881
EBITDA margin (%)	10.1	10.0	10.0
PBT	4066	4635	5343
Net profit	3,035	3,430	3,954
EPS (Rs)	25.2	28.5	32.9
Growth (%)	336.0	13.0	15.3
CEPS (Rs)	31.9	35.4	39.9
BV (Rs/share)	54.3	82.8	115.7
DPS (Rs)	1.3	1.4	1.4
ROE (%)	57.6	41.6	33.1
ROCE (%)	23.0	22.0	21.5
Net cash (debt)	(9,398)	(8,181)	(5,268)
NW Capital (Days)	18.5	26.0	28.6
EV/Sales (x)	1.2	1.1	1.0
EV/EBITDA (x)	11.7	10.7	9.7
P/E (x)	19.0	16.8	14.6
P/Cash Earnings (x)	15.0	13.6	12.0
P/BV (x)	8.8	5.8	4.1

Source: Company, Kotak Securities - Private Client Research

Standalone Result

(Rs mn)	3QFY12	3Q2011	YoY (%)	2QFY12	QoQ (%)
Net Income	8982	7279	23.4	8518	5.4
Decrease/ (Increase) in stock	(160)	(131)	22.1	(237)	(32.7)
Raw Material consumed	5534	4486	23.3	5389	2.7
Employee expenses	364	253	44.1	358	1.8
Other expenses	2105	1757	19.8	1980	6.3
Total expenditure	7843	6365	23.2	7489	4.7
EBITDA	1138	914	24.6	1029	10.6
Other income	1.4	1.4		1.7	(17.6)
Depreciation	103.5	75	37.6	91	13.6
EBIT	1036	840	23.4	940	10.3
Net Interest	69	52	32.3	71	(3.6)
PBT	968	788	22.8	868	11.4
Tax	179	177	1.1	166	7.7
PAT	789	611	29.1	702	12.3
EPS (Rs)	6.3	4.9	29.1	5.7	11.7
EBITDA (%)	12.7	12.6		12.1	
PAT (%)	8.8	8.4		8.2	
RM/Sales (x)	61.6	61.6		63.3	
Tax Rate (%)	18.5	22.4		19.1	

Source: Company

Sylvania

(Rs mn)	3QFY12	3Q2011	YoY (%)	2QFY12	QoQ (%)
Revenues	7818	7231	8.1	7460	4.8
EBITDA	534	367	45.5	555	(3.8)
PBT	204	27	655.6	102	

Source: Company

Consolidated

(Rs mn)	3QFY12	3Q2011	YoY (%)	2QFY12	QoQ (%)
Revenues	16600.00	14260.00	16.4	15850.00	4.7
EBITDA	1760.00	1270.00	38.6	1710.00	2.9
PBT	1140.00	850.00	34.1	1050.00	8.6

Source: Company

Result Highlights

- Domestic revenue grew by 23.4% YoY at Rs 8.9 bn in Q3FY12 mainly driven by the 1) consumer division that grew 24% YoY 2) cables division that grew 26% YoY.
- Company maintained EBITDA margins at 12.7% driven by operating leverage. Efficient cost management and higher sales realization has mitigated the affect adverse currency movement in the quarter on the outstanding foreign currency loan of USD 30.25 mn.
- Revenues from Switchgear division at Rs 2.2 bn observed meaningful growth. We highlight that the revenue growth in the division had been sluggish in the past on account of declining export to the UK region.
- Company has been planning to launch switchgears in the international market and expects to maintain margins at the levels of over 20%.
- Fans division grew by 16% YoY in the quarter. This year, north India has observed lighter summer season which has led to sluggish growth for the industry and piling up of finished goods inventory. However company has commendably posted growth in the challenging environment.
- Electrical Consumer Durables further strengthen with revenues at Rs 1.4 bn. Management has indicated substantial growth in some of the newly launched products viz. Geasers in FY12.
- We believe that the company is well poised to maintain margins in the domestic market going ahead on account of 1) steady cost management across the board 2) increase in contribution from new product launches going ahead.

Segment reporting (Standalone)

(Rs mn)	3QFY12	3Q FY11	% YoY	2QFY12	QoQ%
Standalone Revenues					
Switchgear	2261	1843	22.7	2218	1.9
Cable and Wires	3907	3102	26.0	3692	5.8
Lighting and fixtures - India	1448	1190	21.7	1374	5.4
Electrical consumer durables	1346	1086	23.9	1220	10.3
PBIT					
Switchgear	894	651	37.3	839	6.5
Cable and Wires	385	267	44.2	342	12.7
Lighting and fixtures - India	379	239	58.6	336	12.8
Electrical consumer durables	390	277	40.5	338	15.3
PBIT (%)					
Switchgear	39.5	35.3		37.8	
Cable and Wires	9.9	8.6		9.3	
Lighting and fixtures - India	26.2	20.1		24.5	
Electrical consumer durables	28.9	25.5		27.7	

Source: Company

- Company reported strong standalone operating cash flows in 9MFY12 at Rs 2.06 bn vis-à-vis Rs 1.9 bn in same period last year.

- Interest outflow for the domestic business increased significantly at Rs 69 mn for the quarter vis-à-vis Rs.52 mn last year on account of considerable increase in interest rates and working capital.
- Management has concluded successful restructuring of Sylvania in last fiscal and expects to maintain operating margins at 7-8% in FY12. In the quarter, company has repaid the entire recourse debt of EUR 30 mn taken for Sylvania acquisition.
- Sylvania posted continued recovery with revenues at Rs 7.8 bn (EUR 114 mn) in Q3FY12. Revenues in EURO term has declined marginally, however company gained from the rupee depreciation vis-à-vis EURO in the quarter.
- Sylvania has reported EBITDA margin of 6.8% in the quarter. We highlight that the change in pension liabilities and other yearly costs of EUR 3.3 mn subject to previous year are included in the 3QFY12. Net of this, EBITDA margins would have been 9.7%.
- Net debt at Sylvania stood at EUR 64.7 mn at the end of Q3FY12. We believe that refinancing of this loan is likely to benefit the company in near term to fund its future growth.
- Company has recorded significant growth in consolidated PAT at Rs 886 mn for the quarter on back of successful streamlining of Sylvania's operations with the domestic business.

Price hike across various product categories and higher interest rates hits Indian consumer market in high value products like AC's, refrigerators etc; demand for lower value home appliances products remain intact

- Demand for home appliances has remained more or less intact over 9MFY12. We believe that this has been mainly on back of 1) growing disposable income within Indian households (urban & rural) 2) evolving lifestyle patterns in India leading to a peculiar shift in preference for premium products offered by organized players like HIL 3) shortening of product cycle due to higher rate of technological obsolescence 4) increasing electricity supply in urban and rural India.
- Penetration level of organized players like Havells, Bajaj Electricals etc. has been consistently increasing in semi-urban and rural market. The primary reason for this shift is explained by the unprecedented market growth of over 25% in these regions.
- Competition is intense in Lighting and luminaries' space due to the presence of no. of small-mid-sized players. Lately there has been meaningful increase in competition from Chinese players who strategize to sweep market by introducing various energy saving products.
- However, within the branded products, the preference is towards the lower cost product. We understand that, the tier ii / rural customers are more cost conscious than his urban counterpart.
- We therefore believe that future revenue growth would be a function of overall volume growth achieved by the industry in tier ii cities. Therefore extensive distribution network and deeper penetration across these areas would become a key differentiator for HIL.

Valuation and recommendation

- We expect consolidated revenues to grow at 10.5% CAGR between FY11-13E Rs. 56 bn in FY11 to Rs. 68 bn in FY13E. Within the revenue streams, we expect domestic sales to grow at 17.1% CAGR in the same period driven by all the segments-switchgears, wires & cables and consumer appliances. While Sylvania is likely to post marginal growth revenues in FY13, we expect EBITDA margins to increase from 1.9% in FY11 to 7.8% in FY13.
- We revise our consolidated revenues estimate for FY13 upward to factor in 1) resilient demand for company's products in domestic market 2) pick-up in sales contribution from Sylvania and 3) increase in margins in Sylvania from 6.5% earlier to currently 7.8%.

Change in estimates Rs (mn)

FY13E	New	Old	Change (%)
Revenues	68893	68472	0.6
EBITDA	6881	6517	5.3
PAT	3954	3585	9.3
EPS	32.9	29.80	9.4

Source: Kotak Securities - Private Client Research

We recommend ACCUMULATE on Havells India with a price target of Rs.415

- At current price of Rs.480, stock is trading at 14.6x P/E and 9.7x EV/EBITDA on FY13E earnings.
- In view of limited upside from current levels, we maintain 'Accumulate' rating on company's stock with a one year DCF based price target of Rs 480 (Rs.395 earlier).

RESULT UPDATE**Ruchir Khare**ruchir.khare@kotak.com
+91 22 6621 6448**SIEMENS INDIA LTD****PRICE: Rs.731****TARGET PRICE: Rs.735****RECOMMENDATION: REDUCE****CY12E P/E: 25.8x**

- ❑ Siemens Q1FY12 numbers are below our estimates on revenue and profitability front. Lower operating margins in energy and healthcare segment resulted in de-growth in PAT.
- ❑ The growth in Power T&D sector remained elusive. We believe that the sector is getting negatively affected by increasing interest rate trend and delays in the commissioning of power projects.
- ❑ We highlight that the company has a diversified product base which accounts for abbreviations in reported quarterly nos.
- ❑ We tweak earnings estimate for FY12 to factor in ongoing concerns in the domestic T&D space.
- ❑ In view of inadequate upside from current levels, we recommend REDUCE rating (accumulate earlier) with a DCF based revised price target of Rs 735 (Rs 740 earlier).

Summary table

(Rs mn)	FY10	FY11	F12E
Sales	94,001	121,064	137,332
Growth (%)	11.1	28.8	13.4
EBITDA	12,932	13,496	15,793
EBITDA margin (%)	13.8	11.1	11.5
PBT	12,588	12,749	14,248
Net profit	8,272	8,454	9,403
EPS (Rs)	24.5	25.1	27.9
Growth (%)	23.8	2.2	11.2
CEPS (Rs)	27.6	29.6	32.6
B V (Rs/share)	103.2	113.2	135.4
Dividend / share (Rs)	5.0	5.0	5.0
ROE (%)	25.9	23.2	22.4
ROCE (%)	25.9	23.2	22.4
Net cash (debt)	18,534	12,750	11,835
NW Capital (Days)	5.4	28.2	22.0
EV/Sales (x)	2.4	1.9	1.7
EV/EBITDA (x)	17.4	17.1	14.6
P/E (x)	29.4	28.7	25.8
P/Cash Earnings	26.2	24.4	22.2
P/BV (x)	7.0	6.4	5.3

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q1FY12	Q1FY11	YoY (%)	Q4FY11	QoQ (%)
Sales	23,969	25,813	(7.1)	36,085	(33.6)
Other Income	0	0		223	
(Inc)/dec in stock in trade	(3,759)	(1,178)	219.1	1,959	(291.9)
Raw materials	22,272	19,547	13.9	25,652	(13.2)
Employee cost	2,525	2,114	19.4	2,506	0.7
other expenditure	1,699	1,631	4.2	2,850	(40.4)
Total Expenses	22,737	22,114	2.8	33,189	(31.5)
EBITDA	1,231	3,699	(66.7)	2,896	(57.5)
depreciation	431	345	25.0	410	5.3
EBIT	800	3,354	(76.1)	2,709	(70.5)
interest	(249)	(258)		0	
PBT	1,050	3,611	(70.9)	2,709	(61.3)
tax	342	1,220	(71.9)	928	(63.1)
PAT	707	2,392	(70.4)	1,781	(60.3)
EPS	2.1	7.1	(70.6)	5.3	(60.2)
Raw materials/sales	92.9	75.7		71.1	
EBITDA%	5.1	14.3		8.0	
Tax Rate	32.6	33.8		34.3	

Source: Company

Q1FY12 highlights

- Revenue for the quarter declined by 7% due to lack of activity in domestic T&D space and muted industrial capex.
- The industrial division reported 5.4% de-growth in Q1FY12. The division includes motors, which is a play on Greenfield industrial capex as well as replacement demand. This division is largely short-cycle product business and traction in economic growth is reflected immediately in numbers.
- Affected by slowdown in domestic T&D sector, the power transmission business has reported YoY decline in revenue at Rs 9.8 bn vis-à-vis 10.3 bn.

- Company has been positive on the outlook for healthcare segment in the country. It has established meaningful market share over a period of years. Segment reported a growth of 9.5% in the quarter.
- At the end of Q1FY12, company has reported new order worth of Rs 28.3 bn up 11% YoY. We believe that the company is reasonably poised to benefit from any recovery in the overall infrastructure spending by the public and private sector. While the healthcare division is likely to report resilient demand, growth in energy and industry division would be sensitive to the economic revival.
- We believe that the company is likely to report traction in drive technologies and building technologies going ahead. We also believe that it would report reasonable growth in healthcare division in future. In our projections, we therefore build order intake of Rs 147.6 bn for FY12E.

Segment Revenue

(Rs mn)	Q1FY12	Q1FY11	YoY (%)
Infrastructure and cities	6324.8	7012.2	(9.8)
Energy	9706	10763	(9.8)
Industry	7352.3	7776	(5.4)
Healthcare	2020	1844	9.5

Source: Company

- EBITDA margins for the quarter stood at 5.1% compared to 14.3% in Q1 FY11. Company has been reporting sequential declining margins since past two quarters. We highlight that margins are also sensitive to the sales mix between products and projects.
- We highlight that the company has a diversified product base which accounts for abbreviations in reported quarterly nos.

Segment margins

(%)	Q1FY12	Q1FY11
Infrastructure and cities	6.2	13.0
Energy	(0.2)	16.6
Industry	3.0	7.6
Healthcare	(1.7)	21.7

Source: Company

Long term business outlook remain positive; company is well poised to benefit from recovery in domestic T&D market and pick up in industrial capex cycle

- We remain positive on the long term outlook for energy division. We believe expects that the solution to the current issues related to fuel linkages and environment clearances would maintain the growth of the sector in future.
- Another factor that contributed to the segment's performance is the additional solutions in its portfolio due to the amalgamation of the Company's Chennai-based subsidiaries Siemens Pvt. Ltd.
- Management shares a sanguine outlook for Indian drive technologies business. The DT division has been observing meaningful demand for its energy efficient and sustainable products due to increased compliance toward energy conservation.

- Demand for the segment has slightly moderated. Management expects that the segment is likely to benefit from any recovery in public spending on infrastructure and urban development programs. However it expects margins to remain subdued over FY12 due to increased labour cost and input prices.
- We remain positive on the healthcare segment and believe that company is likely to benefit from the new technologies planned to be launched in FY12. Company intends to increase its offerings in tier ii and tier iii cities.

Business Outlook: Domestic market is expected to remain subdued in 1HFY12E; company likely to observe margin pressure over FY12

- In our projected financials, we build growth at 23% CAGR between FY10-12E driven by industrial, energy and healthcare division.
- We believe that the company would continue to experience increase in competition in power space mainly from domestic players mainly in T&D space.
- We believe that the company would also experience margin pressure on account of increase in input prices. We opine that that margin would stabilize at current levels of 11-11.5% going ahead.
- In our projected financials, we build 13.4% growth in revenues driven by industrial, energy and healthcare division.

Valuation & Recommendation

We recommend REDUCE rating on Siemens India with a price target of Rs.735

- We remain cautious on the stock and the MNC Electrical Equipment sector due to ongoing competitive scenario coupled with stock valuations running ahead of earnings growth.
- Currently Siemens stock is trading at 25.8x P/E and 14.6x EV/EBITDA on FY12 estimated earnings.
- However, in view of rich valuations implied by current market price, we maintain **REDUCE** (Accumulate earlier) with a DCF based price target of Rs 735 (Rs 740 earlier) on company's stock.

RESULT UPDATE**Ritwik Rai**ritwik.raai@kotak.com
+91 22 6621 6310**ENIL****PRICE: Rs.231****TARGET PRICE: Rs.233****RECOMMENDATION: REDUCE****FY13E P/E: 19.8x**

- ❑ **Results - A Positive Surprise:** ENIL reported stronger than expected results, largely on account of lower expenses, which were helped by withdrawal of private treaties provisions (Rs.39mn). Reported PAT, Rs.182mn, was 17% above our estimates; even as revenues were largely in-line, at Rs 756mn.
- ❑ **Outlook:** The management has cited weak advertising environment and lower yields as the primary reason for weakness in revenues, which is likely to persist for a few quarters. Expenses management remains key to earnings delivery. We believe our estimates account fairly for reasonable growth through the remainder of FY12, and FY13. Our FY13 estimates also factor in a 1.6 ppt margin expansion, as maybe enabled by competitive position, or cost savings. As such, we believe there is little possibility of meaningful upsides to our earnings estimates.
- ❑ **Valuation and Rating:** ENIL trades at 19.8x FY13 PER - expensive, given lack of differentiators and fragmentation in the radio industry, and risks to earnings estimates given current economic environment. Our perception of advertising environment has weakened (poor 3QFY12 performance of media companies in general) since our last update, and competitive intensity in the radio FM industry continues to be high. On these counts, we reduce our fair value multiple for ENIL to 20x PERFY13 (22x earlier), and cut our price target on ENIL to Rs 233 (earlier Rs.257). As we see minor upsides from CMP, we maintain REDUCE on the stock; with a view to make an entry at correction of 10%+ from CMP.
- ❑ **Risks:** Improvements in competitive position of ENIL, improvement in advertising environment remain key risks to our estimates/ ratings. Phase - 3 of radio licensing (auctions likely in April/ May), and strategy of ENIL/ other players in the same, would be a factor to watch for.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	2,725	2,834	3,259
Growth (%)	18.4	4.0	15.0
EBITDA	835	873	1,055
EBITDA margin (%)	30.6	30.8	32.4
PBT	737	649	832
Net profit	522	455	557
EPS (Rs)	8.3	9.5	11.7
Growth (%)	123.6	15.0	22.6
CEPS (Rs)	12.7	16.6	18.7
Book value (Rs/share)	80.5	90.0	101.7
Dividend per share (Rs)	-	-	-
ROE (%)	11.1	11.2	12.2
ROCE (%)	13.8	11.1	12.2
Net cash (debt)	232	860	1,423
NW Capital (Days)	126	106	107
P/E (x)	27.9	24.2	19.8
P/BV (x)	2.9	2.6	2.3
EV/Sales (x)	4.0	3.6	2.9
EV/EBITDA (x)	12.9	11.6	9.1

Source: Company, Kotak Securities - Private Client Research

ENIL reported sales de-growth of 2%, broadly in line with our expectations. The company's EBITDA margin came in well higher than our expectations (41% versus 35.5%), leading to a positive PAT surprise (Rs 182mn, versus Rs 155mn estimated).

Weak advertising environment explains the company's topline de-growth. During the quarter, the company registered a yield decline of 8% (y/y), while blended utilization came in at 69%. AS per management, there has been weakness in certain higher yielding categories such as FMCG and telecom, due to which ENIL has had to utilize a greater part of its inventory to categories such as government advertising, and real estate, leading to lower yields.

While personnel expenses have come in higher than our expectations, on account of higher headcount as well as incentives and increments, marketing and other expenses have come in well below our expectations, leading to the margin surprise. We note that Other Expenses include a credit of Rs 39.9mn, on account of withdrawal of provisions made for private treaties. We note that this follows a write back of Rs 14.7mn in 2QFY12 on the same count. The total book size in the private treaties business is now at ~Rs 180mn.

3QFY12 Results Summary (Standalone)

(Rsmn) FY Ends Mar	3QFY12	3QFY11	Grw, y/y	2QFY12	Grw, q/q
Net Sales	740	746	-1%	679	9%
Other Operating Income	16	29	-46%	12	29%
Total Operating Income	756	775	-2%	692	9%
Expenses:	446	493	-10%	508	-12%
Production Expenses	38	35	7%	37	1%
License Fees	38	38	-1%	35	10%
Employees cost	174	141	23%	161	8%
Marketing Expenses	87	69	26%	134	-35%
Administration and Other Exp	110	210	-48%	141	-22%
EBITDA	310	282	10%	184	69%
Margin	41.0%	37.8%	3.23ppt	26.5%	14.48ppt
Depreciation	28	30	-8%	27	3%
Amortisation	54	54	0%	54	0%
EBIT	228	197	16%	102	123%
Other Income	18	0	4928%	20	-7%
Interest (net)	-7	-9	-24%	-5	28%
PBT (Pre-exc)	253	207	23%	127	99%
Exceptional Items		124			
PBT Reported	253	330	-23%	127	99%
Provision for Tax	71	82	-13%	37	92%
PAT (bef. minority)	182	249	-27%	90	102%
Minority Interest (Loss) / Profit		0		0	
Net Profit / (Loss) for the period	182	249	-27%	90	102%
Shares Outstanding	48	48	0%	48	0%
Earnings per Share (EPS) (Rs.)	3.8	5.2	-27%	1.9	102%

Source: Company

Outlook and Investment View

The management expects that advertising environment could remain weak for another quarter or two, and could improve on favorable government and monetary policy action. The company has reiterated that it remains committed to increasing investments behind its brands (strong marketing spends should continue), and that the company could continue to enjoy benefits of withdrawals of private treaties provisions, although the extent of the same shall vary from quarter to quarter. On Phase -3 of FM radio licensing, the management has reassured that ENIL shall remain focused on value generation and profitability rather than network size. ENIL has, helped by better working capital management as well as cash generation, enhanced cash and investments to Rs 1.73Bn, and remains in a strong position to participate in the Phase-3 of FM licensing as well as consolidation that the radio industry may see going forward.

We believe ENIL shall be able to meet our EPS estimates for the year, likely with some help from further provision writebacks, even if marketing spends were to rise. However, we believe upsides to our estimates are limited (our EPS estimates for the year are well below consensus for FY12 - as such we think there is likelihood of downward revisions in ENIL's consensus EPS estimates for FY12 (Rs 11.8, Source: Bloomberg Consensus estimates)). We also tend to think that our revenue growth estimates and EBITDA margin expectations for FY13 (15% and 32.4% respectively), are likely aggressive rather than conservative, given: a/ weak macroeconomic environment leading to weak adex and continued stress on yields, and 2/ rising competitive intensity in radio, which is likely to limit the company's ability to manage expenses.

**We maintain REDUCE on ENIL
with a price target of Rs.233**

On the above counts, we reduce our target PER for ENIL to 20x FY13 earnings (22x earlier), leading to a price target of Rs 233/ share. Phase -3 licensing could be a factor to look to for a possible re-rating; however, there is little information at present to make a judgment of whether the same shall be value accretive, given possibilities of aggressive bidding in the auctions. On account of perceived earnings risks, and rather weak upside even post correction, we maintain **REDUCE** on ENIL. We would look for better entry points, and would reconsider our rating on declines of over 10%.

RESULT UPDATE

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TVS MOTORS (TVSM)

PRICE: Rs.52

TARGET PRICE: Rs.63

RECOMMENDATION: BUY

FY13E P/E: 9.3x

- TVSM delivered 3QFY12 results that were broadly in line with our expectations. Revenue during the quarter grew at a slow pace due to subdued domestic demand for two wheelers during the quarter.
- Volumes during the quarter remained weak for the company in line with industry trend. Accordingly operating margins witnessed a drop both YoY and QoQ as the company could not take full advantage of economies of scale.
- Demand for the domestic two wheelers is expected to remain under pressure in the near term. Accordingly we expect the company's volumes to remain weak over the next few months. Further rising competition in the gearless scooter segment will add to the pressure.
- We are thereby lowering our FY12 and FY13 volume estimates. We believe that slowdown in volumes and rising competition will negatively impact company's operating margin. After taking into effect the above mentioned factors, our revised net profits for TVSM stands lower than our earlier estimates by 5.2% and 15.5% for FY12 and FY13 respectively.
- Based on downward revision in earnings we lower our target price to Rs63 (from Rs75). Due to adequate upside from the current levels we retain our BUY rating on the stock.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	62,913	72,424	80,507
Growth (%)	42.0	15.1	11.2
EBITDA	4,108	4,849	5,347
EBITDA margin (%)	6.5	6.7	6.6
PBT	2,481	3,291	3,577
Net profit	1,946	2,476	2,683
EPS (Rs)	4.1	5.2	5.6
Growth (%)	121.1	27.3	8.3
CEPS (Rs)	6.4	7.6	8.3
Book value (Rs/share)	21.0	25.1	29.6
Dividend / share (Rs)	1.1	1.0	1.0
ROE (%)	21.2	22.6	20.7
ROCE (%)	15.4	18.9	18.7
Net cash (debt)	(7,373)	(7,636)	(7,647)
NW Capital (Days)	(7)	(11)	(16)
P/E (x)	12.8	10.1	9.3
P/BV (x)	2.5	2.1	1.8
EV/Sales (x)	0.5	0.4	0.4
EV/EBITDA (x)	7.9	6.7	6.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	3QFY12	3QFY11	YoY%	2QFY12	QoQ%
Total Revenues	17,622	16,467	7.0	19,918	(11.5)
Total expenditure	16,400	15,295	7.2	18,458	(11.2)
RM consumed	12,717	12,046	5.6	14,731	(13.7)
Employee cost	905	868	4.2	938	(3.6)
Other expenses	2,778	2,381	16.7	2,789	(0.4)
EBITDA	1,223	1,171	4.4	1,460	(16.3)
EBITDA margin (%)	6.9	7.1	-	7.3	-
Depreciation	295	279	5.7	286	3.2
Amortisation	69	165	(58.2)	77	(10.3)
Forex gain/(loss)	(0)	(0)	100.0	-	-
Interest cost (net of income)	103	96	7.4	112	(7.4)
Other Income	1	72	(99.0)	23	(97.0)
Extraordinary income / (loss)	-	-	-	-	-
PBT	756	703	7.5	1,009	(25.1)
PBT margins (%)	4.3	4.3	-	5.1	-
Tax	190	145	30.9	244	(21.8)
Tax rate (%)	25.2	20.7	-	24.1	-
Reported PAT	565	558	1.4	765	(26.1)
PAT margins (%)	3.2	3.4	-	3.8	-
Reported EPS (Rs)	1.2	1.2	1.4	1.6	(26.1)
Total Volumes	527,700	524,171	0.7	604,208	(12.7)
Net Realization (Rs)	32,833	30,781	6.7	32,309	1.6
RM cost per vehicle (Rs)	24,099	22,981	4.9	24,380	(1.2)

Source: Company

Domestic demand slowdown leads to single digit revenue growth

- TVSM's revenues during the quarter grew by a mere 7% from Rs16,467mn in 3QFY11 to Rs17,622mn.
- Volumes during the same period remained almost flat at 527,700 units versus 524,171 units reported during corresponding quarter previous year.
- Average realization during the quarter was up by 6.7% on account of various prices hikes announced in the past 12 months.
- On a sequential basis, revenues de-grew by 11.5% on back of 12.7% QoQ drop in volumes.
- Demand for two wheelers in the domestic market has turned weak post festive season. We expect the current situation to persist in the near term. Further competition is expected to heat up in the scooter segment with many new launches expected to happen over the next few quarters.
- We have therefore altered TVSM's volume growth expectation for 4QFY12 and FY13. We have trimmed our volume estimates by 5.6% and 7.6% for FY12 and FY13 respectively.

Operating margins declines YoY and QoQ

- TVSM's operating margins in the quarter witnessed a decline both YoY and QoQ.
- While the company benefitted to a certain extent from lower raw material cost during the quarter, but could not take full advantage of economies of scale due to weak volumes. Employee cost per vehicle and other expenses per vehicle were 10.4% and 14% higher QoQ mainly on account of 12.7% sequential drop in volumes.

Per vehicle data

(Rs)	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ (%)
Realization	32,833	30,781	6.7	32,309	1.6
RM cost	24,099	22,981	4.9	24,380	(1.2)
Employee cost	1,714	1,656	3.5	1,552	10.4
Other expenses	5,264	4,542	15.9	4,617	14.0

Source: Company

- EBITDA margin for the quarter stood at 6.9% versus 7.1% in 3QFY11 and 7.3% in 2QFY12.
- Going forward, we expect the company's margins to get impacted by slowdown in volumes and rise in competitive intensity.

PAT remains flat YoY but 26% lower sequentially

- TVSM's PAT for the quarter was at Rs565mn, 1.4% higher over 3QFY11 PAT of Rs558mn.
- YoY decline in amortization compensated for lower other income of Rs1mn as against Rs72mn reported in 3QFY11.
- Tax rate for the quarter remained higher YoY at 25.2% versus 20.7% reported in 3QFY11.
- Interest cost for the quarter declined marginally over 2QFY12.
- EPS for the quarter stood at Rs1.2.

Other highlights

- During the quarter, PT TVS Motor Company, Indonesia recorded 2W sales of 4,033 units as against 3,800 units reported during 3QFY11. Company YTD sales from this subsidiary stands higher by 28%.
- During 3QFY12, the company invested Rs.376mn in subsidiaries and related companies. Rising investments in loss making subsidiary continue to remain a cause of concern.

Change in estimates

- In wake of weakening domestic two wheeler demand, we are lowering our FY12 and FY13 volume estimates by 5.6% and 7.6% respectively.
- We trim our EBITDA margin estimate marginally on account of subdued demand and rising competition.
- After taking into effect the above mentioned factors, our revised net profits for TVSM stands lower than our earlier estimates by 5.2% and 15.5% for FY12 and FY13 respectively.

Change in estimates

(Rs mn)	FY12			FY13		
	Old	New	% chg	Old	New	% chg
Volumes	2.3	2.2	(5.6)	2.6	2.4	(7.6)
Revenues	75,901	72,424	(4.6)	86,356	80,507	(6.8)
EBITDA margin (%)	6.8	6.7	-	6.9	6.6	-
PAT	2,613	2,476	(5.2)	3,175	2,683	(15.5)

Source: Kotak Securities - Private Client Research

Valuation

We retain BUY on TVS Motors with a price target of Rs.63

At the CMP of Rs52 the stock trades at 10.1x and 9.3x its expected FY12 and FY13 earnings respectively.

Based on downward revision in earnings we lower our target price to Rs63 (from Rs75). Due to adequate upside from the current levels we retain our **BUY** rating on the stock.

RESULT UPDATE

Saday Sinha

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+91 22 6621 6312**ICICI BANK****PRICE: Rs.902****TARGET PRICE: Rs.1103****RECOMMENDATION: BUY****FY13E P/E: 14.3x, P/ABV: 1.6x****Q3FY12 results: Balanced quarter with healthy earnings**

- ❑ NII came at Rs.27.12 bn (17.3% YoY) beating our as well consensus estimate on back of 19.1% loan growth along with 10 bps improvement in NIM. Net Income also came ahead of expectations (Rs.17.28 bn; 20.3% growth) well supported by lower credit costs (63 bps in Q3FY12 as against 102 bps in Q3FY11).
- ❑ CASA mix marginally improved QoQ to 43.6% (Q3FY12) which is key to the likely improvement in its future NIM. Margins saw 10 bps improvements QoQ to 2.7%; international book also saw 30 bps improvements (QoQ) to 1.4% during Q3FY12. We are modeling NIM to come at 2.7% during FY12-13E.
- ❑ Domestic loan book grew 13.0% YoY while international book grew 38.1% YoY (exchange rate movement did play an important role). Other segments like corporate and agriculture grew at 23.5% and 14.3%; growth in retail book at 4.3% YoY looks subdued but disbursement in secured retail book has been strong at ~15%.
- ❑ Asset quality continued to improve - net NPA declined to 0.70% at the end of Q3FY12 from 1.16% at the end of Q3FY11 and 0.80% at the end of Q2FY12. In absolute terms also, it declined 27.5% YoY and 6.9% QoQ.
- ❑ Management's focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock. We are modeling earnings to grow 18.9% CAGR during FY11-13E and reiterate BUY on the stock with the revised TP of Rs.1103 (SOTP method; earlier TP Rs.1089), where the value of its standalone business comes to Rs.879 (1.6x FY13E ABV) and the value of subsidiaries at Rs.224 (holding company discount: 20% to the fair value of its subsidiaries at Rs.280).

Quarterly Performance

(Rs. mn)	Q3FY12	Q3FY11	% Chg
Int. on advances	56858	41620	36.6
Int. on investments	24725	21212	16.6
Int. on RBI/Other balances	1341	954	40.7
Other Interest	2994	3174	-5.7
Total Interest earned	85919	66960	28.3
Interest expenses	58799	43842	34.1
Net interest income	27120	23117	17.3
Other income	18919	17488	8.2
Net Revenue (NII + Other income)	46039	40605	13.4
Total operating expense	19168	17179	11.6
Employee cost	8366	7605	10.0
Direct marketing agency expenses	373	405	-7.8
Other operating exp	10429	9170	13.7
Operating profit	26871	23426	14.7
Provisions	3411	4643	-26.5
Provision for Taxes	4929	5703	-13.6
Deferred tax	1250	-1290	NM
Net profit	17281	14370	20.3
EPS (Rs.)	14.99	12.48	20.1

Source: Company

NII grew 17.3%, ahead of our expectations; net Income was aided by lower credit costs during Q3FY12.

NII came at Rs.27.12 bn (17.3% YoY) beating our as well consensus estimate on back of 19.1% loan growth along with 10 bps improvement in NIM. Net Income also came ahead of expectations (Rs.17.28 bn; 20.3% growth) well supported by lower credit costs (63 bps in Q3FY12 as against 102 bps in Q3FY11).

Domestic loan book grew 13.0% YoY while international book grew 38.1% YoY (exchange rate movement did play an important role). Other segments like corporate and agriculture grew at 23.5% and 14.3%; growth in retail book at 4.3% YoY looks subdued but disbursement in secured retail book has been strong at ~15%. However, closing number has been impacted by two factors - 1) Unsecured retail book continued to decline and 2) Prepayment in secured retail book (mortgages)

Trend in loan book

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Advances (bn)	1,843.8	1,942.0	2,066.9	2,163.7	2,206.9	2,339.5	2,461.6
Retail including CV	763	781	790	837	827	819	824
Corporate & Project Finance	443	542	620	565	633	676	766
Agriculture	166	132	153	210	188	175	175
International	451	487	504	552	558	669	697

Source: Company

CASA mix marginally improved QoQ to 43.6%; we expect NIM to remain stable at 2.7% during FY12-13E.

The bank has been focusing on improving its funding mix by increasing the share of CASA mix which improved from 28.7% at the end of FY09 to 45.1% at the end of FY11. During Q3FY12, CASA mix marginally improved to 43.6% (150 bps QoQ) which is again key to the likely improvement in its future NIM. Even the average CASA mix improved from 38.3% in Q2FY12 to 39.0% in Q3FY12.

Trend in Deposit growth

	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12
Deposits (bn)	2,230.9	2,177.5	2,256.0	2,306.8	2,450.9	2,605.9
Saving deposits	632.5	645.8	668.7	668.6	701.5	735.0
Current deposits	348.6	316.2	347.8	297.8	330.0	400.4
CASA (Low Cost Deposits)	981.1	962.0	1,016.5	966.4	1,031.5	1,135.4
Term deposits	1,249.9	1,215.5	1,239.6	1,340.4	1,419.5	1,470.5
CASA (%)	44.0%	44.2%	45.1%	41.9%	42.1%	43.6%

Source: Company

Its NIM saw 10 bps improvements QoQ to 2.7% during Q3FY12. We believe its NIM to witness some improvement during FY13 as ~Rs.4.0 bn (annual impact) worth of credit losses on securitized book which are booked under the interest income line would run-off from next year (i.e. FY13 onwards). Even international book saw 30 bps improvements (QoQ) in NIM to 1.4% during Q3FY12 which is likely to support NIM at higher levels. We are modeling NIM to come at 2.7% during FY12-13E.

Asset quality continued to improve; Rs.8.0 bn worth of loans re-structured during the quarter.

Asset quality continued to improve - net NPA declined to 0.70% at the end of Q3FY12 from 1.16% at the end of Q3FY11 and 0.80% at the end of Q2FY12. In absolute terms also, it declined 27.5% YoY and 6.9% QoQ.

ICICI bank restructured Rs.8.0 bn worth of loans during the quarter taking total cumulative restructured book to Rs.30.7 bn (~1.2% of advances), lower than the industry average. Management has also indicated that exposure worth ~Rs.13.0 bn has been referred under CDR (names like GTL and 3I Infotech) which could be re-structured during Q4FY12.

Management has guided credit costs to come at 70 bps during FY12/13 looking at the prevailing macro-environment as well as quality of their portfolio. We have factored in credit costs to come at 70 bps during FY12 and 75 bps during FY13 as against ~60 bps witnessed during last two quarters.

Valuation and Recommendation

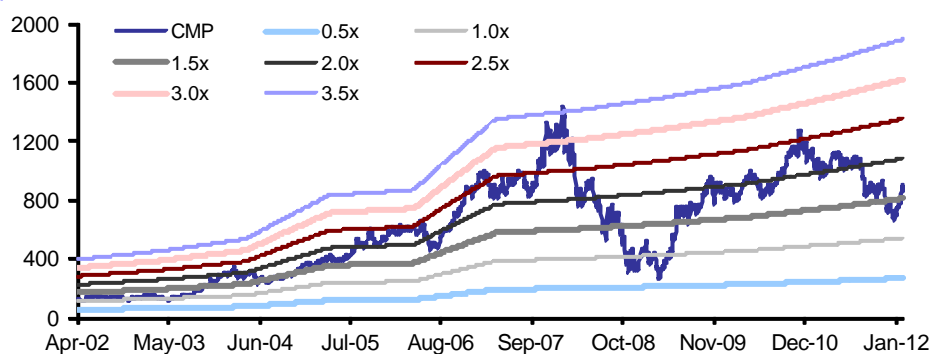
At the current market price of Rs.902, the stock is trading at 14.3x its FY13E earnings and 1.6x its FY13E ABV. We are modeling earnings to grow 18.9% CAGR during FY11-13E and expect bank to focus on liability franchise (CASA mix) and profitability (RoA; RoE will improve with increase in leverage in next 2-3 years); loan growth target would track the deposit mobilization with CASA share being maintained at ~40%.

Sum of Parts Valuation

	Basis	Multiple	Year	Value / Share
Core Banking Business (standalone)	ABV	1.60	FY13	879
Overseas Banking Subsidiaries	ABV	1.50	FY13	61
Life Insurance Business	NBAP	12	FY13	158
ICICI Securities	PAT	12	FY13	14
Asset Management	AUM	5%	FY13	23
Private Equity	AUM	10%	FY13	21
Non Life Insurance	PAT	12	FY13	4
Total Value of subsidiaries				280
20% discounted value				224
Total Value				1,103

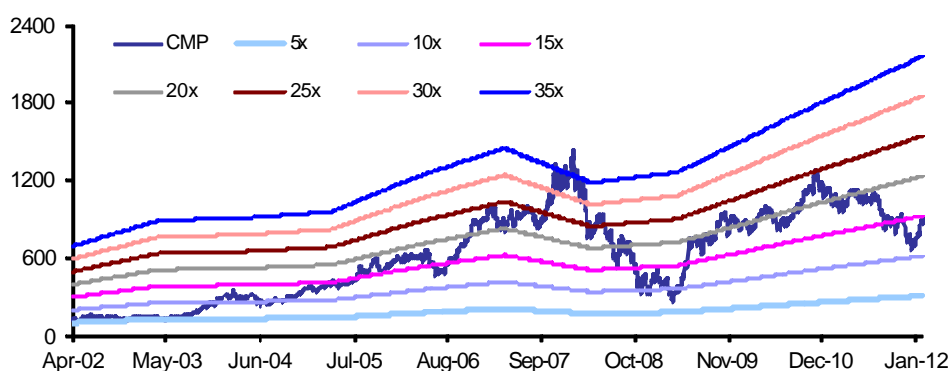
Source: Kotak Securities - Private Client Research

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

Focus on CASA, NIM and asset quality continues; management focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock. We reiterate BUY on the stock with the revised TP of Rs.1103 (SOTP method), where the value of its standalone business comes to Rs.879 (1.6x FY13E ABV) and the value of subsidiaries at Rs.224 (holding company discount: 20% to the fair value of its subsidiaries at Rs.280).

Key data

(Rs bn)	FY10	FY11	FY12E	FY13E
Interest income	257.07	259.74	331.97	383.48
Interest expense	175.93	169.57	226.85	260.34
Net interest income	81.14	90.17	105.12	123.14
Growth (%)	-3.0%	11.1%	16.6%	17.1%
Other income	74.78	66.48	69.33	78.86
Gross profit	97.32	90.48	98.31	114.51
Net profit	40.27	51.53	62.45	72.88
Growth (%)	7.1%	28.0%	21.2%	16.7%
Gross NPA (%)	5.2	4.6	4.0	3.6
Net NPA (%)	2.1	1.1	0.9	0.8
Net interest margin (%)	2.5	2.7	2.7	2.7
CAR (%)	19.4	19.5	18.6	17.4
RoE (%)	8.0	9.7	10.9	11.6
RoA (%)	1.1	1.3	1.4	1.5
Dividend per share (Rs.)	12.0	14.0	15.0	15.0
EPS (Rs)	36.1	45.5	54.2	63.3
Adjusted BVPS (Rs)	428.5	457.4	500.7	549.4
P/E (x)	25.0	19.8	16.6	14.3
P/ABV (x)	2.1	2.0	1.8	1.6

Source: Kotak Securities - Private Client Research

RESULT UPDATE

Saday Sinha

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+91 22 6621 6312**PUNJAB NATIONAL BANK****PRICE: Rs.941****TARGET PRICE: Rs.1050****RECOMMENDATION: ACCUMULATE****FY13 P/E: 5.2x, P/ABV: 1.1x****Q3FY12 results: Disappointing**

- ❑ Core earnings came at Rs.35.37 bn (10.4% YoY) in line with expectation; however, net income came lower on back of higher provisions. Core fee-based income witnessed healthy growth of 22.7%, which is well spread across segments. However, overall non-interest income grew at moderate pace (11.4%) on back of subdued trading profit and muted recovery from W/O accounts.
- ❑ Loan grew 18.7% on back of strong traction in retail as well as MSME manufacturing segments. We are modeling loan growth of ~17% and ~19% during FY12 & FY13, respectively. NIM during Q3FY12 came at 3.88% (9MFY12: 3.85%), higher than our expectations. We are a bit conservative and have modeled NIM at 3.7% and 3.5% during FY12E and FY13E, respectively.
- ❑ Sharp deterioration in asset quality; slippages came at 2.78% (annualized), higher than the average run rate of previous 6 quarters. Loan book worth Rs.19.43 bn were restructured during the quarter, taking total cumulative restructured book to Rs.168.9 bn (~6.4% of loan book), which is higher than the industry average.
- ❑ At CMP of Rs.941, the stock is trading reasonable at 5.2x FY13E earnings and 1.1x FY13E ABV. Although we like its positioning strategy of being a dominant player in the Indo-Gangetic belt, we opine high share (~9% of advances) of stressed assets (restructured book + gross NPA) is likely to be an overhang on the stock, going forward. We have cut the TP and recommend ACCUMULATE rating on the stock with revised TP of Rs.1050 (Rs.1300 earlier) based on P/ABV of 1.25x its FY13E adjusted book value.

Result Performance

(Rs mn)	Q3FY12	Q3FY11	YoY (%)
Interest on advances	73,314.1	54,894.0	33.6
Interest on Investment	20,271.2	14,925.7	35.8
Interest on RBI/ banks' balances	807.9	255.2	216.6
Other interest	417.1	1,116.3	-62.6
Total interest earned	94,810.3	71,191.2	33.2
Interest Expended	59,443.9	39,158.3	51.8
Net interest income (NII)	35,366.4	32,032.9	10.4
Other income (Non-interest income)	9,540.9	8,572.3	11.3
Net Revenue (NII + Other income)	44,907.3	40,605.2	10.6
Operating Expenses	18,143.0	17,106.1	6.1
Payments to / Provisions for employees	12,636.2	12,235.4	3.3
Other operating expenses	5,506.8	4,870.7	13.1
Operating profit	26,764.3	23,499.1	13.9
Provisions & contingencies	9,461.0	7,138.9	32.5
Provision for taxes	5,802.9	5,462.5	6.2
Net profit	11,500.4	10,897.7	5.5
EPS (Rs.)	36.30	34.40	5.5

Source: Company

Core earnings came at Rs.35.37 bn (10.4% YoY) in line with expectation; however, net income came lower on back of higher provisions

PNB reported NII at Rs.35.37 bn (10.4% YoY) in line with expectation, mainly aided by 18.7% growth in loan book despite 25 bps YoY decline in NIM (7 bps QoQ). However, disappointment came on the net profit growth front (5.5% YoY) on back of higher provisions (Rs.9.5 bn in Q3FY12 as against Rs.7.2 bn in Q3FY11).

Healthy growth in core fee-based income; NIM also surprised positively

Core fee-based income witnessed healthy growth of 22.7% which is well spread across segments. However, overall non-interest income grew at moderate pace (11.4%) on back of subdued trading profit and muted recovery from W/O accounts.

Trend in non-interest income

(Rs bn)	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012	YoY (%)
C/E/B	4.36	4.13	4.70	5.98	4.76	5.10	23.5
Profit on Exchange transaction	0.31	1.25	1.09	1.31	1.33	1.54	23.2
Miscellaneous fee income	0.76	0.88	1.70	0.65	0.84	1.04	18.2
Trading Profit	0.38	0.87	0.53	0.48	0.53	0.87	0.0
Miscellaneous Income	1.38	1.44	3.43	2.40	1.48	1.00	-30.6
Total non-interest income	7.18	8.57	11.45	10.84	8.89	9.54	11.4

Source: Company

NIM during Q3FY12 came at 3.88% (9MFY12: 3.85%), higher than our expectations. We are a bit conservative and have modeled NIM at 3.7% and 3.5% during FY12E and FY13E, respectively.

Loan grew 18.7% on back of strong traction in retail as well as MSME manufacturing segments; CASA mix also remains at healthy level. We are modeling loan growth of ~17% and ~19% during FY12 & FY13, respectively.

Advances grew 18.7% on back of strong traction in retail (19.7% YoY) as well as MSME manufacturing segments (18.5% YoY) while deposits grew at 23.4%.

CASA mix also remained healthy at ~35% at the end of Q3FY12, despite recent rise in the interest rates offered on saving deposits and FDs.

PNB enjoys one of the highest CASA among Indian banks which helps in better NIM as compared to its peers. During Q3FY12, saving account deposits grew at healthy pace (14.3% YoY) while current account floats remained flat QoQ; term deposits grew at 30.9% leading to some compression in CASA share (decline from 39.1% at the end of Q3FY11).

Sharp deterioration in asset quality; slippages came at 2.78% (annualized), higher than the average run rate of previous 6 quarters. Loan book worth Rs.19.43 bn were restructured during quarter (cumulative restructured book at 6.4%).

PNB witnessed sharp deterioration in its asset quality with gross NPA and net NPA sequentially rising in absolute terms by 25.1% and 38.9%, respectively. Even in the percentage terms, it deteriorated to 2.42% (2.05% in Q2FY12) and 1.11% (0.84% in Q2FY12), respectively, at the end of Q3FY12.

Slippage came at 2.78% (annualized), higher than the average run rate (~2.1%) witnessed during previous 6 quarters. Loan book worth Rs.19.43 bn were restructured during the quarter, taking total cumulative restructured book to Rs.168.9 bn (~6.4% of loan book), which is higher than the industry average.

During 9MFY12, advances worth of Rs.65.0 bn were restructured which mainly came from Infrastructure segments (Infra: Rs.37.3 bn which included Power: Rs.21.8 bn, Telecom: Rs.9.8 bn), Drilling (Rs.6.63 bn) and CRE (Rs.1.4 bn). High exposure to stressed sectors like Infrastructure segments (Rs.410.3 bn; 15.6% of loans), Basic metals (5.6%) and Textiles (2.7%) etc is likely to remain as an overhang on the stock.

Decline in PCR over last couple of quarters which is now touching almost 70% mark, does not bode well for the stock (used to enjoy ~90% provision coverage ratio only 9-10 quarters back).

Trend in NPAs

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Gross NPA (Rs. bn)	36.1	40.3	45.4	43.8	48.9	51.5	64.4
% of Net NPA	1.82	1.91	2.03	1.79	2.00	2.05	2.42
Net NPA (Rs. bn)	12.8	14.3	15.8	20.4	20.9	20.9	29.0
% of Net NPA	0.66	0.69	0.72	0.85	0.86	0.84	1.11

Source: Company

Valuation & recommendation

**We recommend
ACCUMULATE on PNB with a
revised price target of
Rs.1050**

At CMP of Rs.941, the stock is trading reasonable at 5.2x FY13E earnings and 1.1x FY13E ABV. Although we like its positioning strategy of being a dominant player in the Indo-Gangetic belt as well its strong liability franchise, we opine high share (~9% of advances) of stressed assets (restructured book + gross NPA) is likely to be an overhang on the stock, going forward.

We have cut the TP and recommend **ACCUMULATE** rating on the stock with revised TP of Rs.1050 (Rs.1300 earlier) based on P/ABV of 1.25x its FY13E adjusted book value.

Key Data

(Rs bn)	2010	2011	2012E	2013E
Interest income	214.22	269.86	364.13	420.41
Interest expense	129.44	151.80	227.24	266.97
Net interest income	84.78	118.07	136.89	153.45
Growth (%)	20.6%	39.3%	15.9%	12.1%
Other income	36.10	36.13	39.25	45.57
Gross profit	73.26	90.55	103.97	122.15
Net profit	39.05	44.33	47.61	57.85
Growth (%)	20.7%	13.5%	7.4%	21.5%
Gross NPA (%)	1.7	1.8	2.4	2.2
Net NPA (%)	0.5	0.9	1.1	0.6
Net int. margin (%)	3.5	3.9	3.7	3.5
CAR (%)	14.2	12.4	12.4	11.7
RoE (%)	24.6	23.0	20.6	21.0
RoA (%)	1.4	1.3	1.2	1.2
Dividend per share (Rs)	22.0	22.0	24.0	25.0
EPS (Rs)	123.9	139.9	150.3	182.6
Adjusted BVPS (Rs)	483.6	568.1	661.0	842.6
P/E (x)	7.6	6.7	6.3	5.2
P/ABV (x)	1.9	1.7	1.4	1.1

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Saday Sinha

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+91 22 6621 6312**JAMMU & KASHMIR BANK****PRICE: Rs.829**
TARGET PRICE: Rs.1060**RECOMMENDATION: BUY**
FY13E P/E: 4.6x, P/ABV: 0.9x**Q3FY12 Results: Largely in line quarter**

- ❑ NII came at Rs.4.51 bn (15.7% YoY) largely in line with our expectations, on back of healthy loan growth (17.2% YoY) despite marginal contraction in NIM (7bps YoY to 3.63%). Net income grew 27.0% YoY mainly aided by lower credit costs along with healthy core performance and moderate rise in operating expenses.
- ❑ Muted non-interest income (decline of 5.1% YoY) at Rs.736 mn during Q3FY12 came on the back of lower trading profit (decline of 50.8%) which fell from Rs.179 mn during Q3FY11 to Rs.88 mn during Q3FY12.
- ❑ J&K bank has witnessed healthy balance sheet growth - loan book and deposits grew at 17.2% and 19.3%, respectively during Q3FY12. Its liability franchise improved both YoY as well as QoQ, unlike the industry trends (CASA mix improved by 200 bps QoQ/60 bps YoY to 40.2% at the end of Q3FY12).
- ❑ Its asset quality continues to remain amongst the best in class - gross NPA and net NPA improved QoQ to 1.80% and 0.16%, respectively (Q3FY12). Its coverage ratio is also one of the best and now stands at 91.0% (94.1% including technical W/O) providing cushion to its future earnings during rainy days (future deterioration in asset quality).
- ❑ At the current market price of Rs.829, stock is trading at 4.6x its FY13E earnings and 0.9x its FY13E ABV. We retain BUY rating on the stock with unchanged TP of Rs.1060 based on 1.1x its FY13E ABV.

Result Performance

(Rs. mn)	Q3FY12	Q3FY11	YoY (%)
Int. on advances	8801.5	6498.5	35.4
Int. on investments	3747.0	2802.3	33.7
Int. on RBI/Other balances	116.8	45.8	155.0
Total interest earned	12665.3	9346.6	35.5
Interest expenses	8157.4	5451.3	49.6
Net interest income	4507.9	3895.3	15.7
Other income	736.3	775.6	-5.1
Net Revenue (NII + Other Income)	5244.2	4670.9	12.3
Operating Expenses	2008.6	1862.6	7.8
Employee cost	1308.2	1276.3	2.5
Other operating exp	700.4	586.3	19.5
Operating profit	3235.6	2808.3	15.2
Provisions	181.6	306.3	-40.7
Taxes	922.1	823.2	12.0
Net profit	2131.9	1678.8	27.0
EPS (Rs.)	43.98	34.63	27.0

Source: Company

NII came at Rs.4.51 bn (15.7% YoY) largely in line with our expectations; NIM improved marginally (3bps YoY).

J&K bank's core earnings grew at healthy pace - NII came at Rs.4.51 bn (15.7% YoY) largely in line with our expectations, on back of healthy loan growth (17.2% YoY) despite marginal contraction in NIM (7bps YoY to 3.63%).

Net income grew 27.0% YoY mainly aided by lower credit costs (provisions declined from Rs.306 mn in Q3FY11 to Rs.182 mn in Q3FY12) along with healthy core performance (15.7% NII growth) and moderate rise in operating expenses (7.8% YoY).

NIM saw marginal decline both YoY as well as QoQ to 3.63% in Q3FY12 as against 3.69% in Q2FY12 and 3.70% in Q3FY11. J&K bank has robust liability franchise (CASA mix improved by 200 bps QoQ/60 bps YoY to 40.2% at the end of Q3FY12) which has helped over the years to deliver strong margins.

We are of the view that its margin would witness some compression during Q4FY12 & FY13 as bank might go for higher loan growth outside J&K state, where spread is likely to be lower. We are modelling NIM at 3.58% (9MFY12: 3.64%) and 3.42% for FY12E and FY13E, respectively.

Healthy balance sheet growth; Liability franchise improved both YoY as well as QoQ, unlike the industry trends.

J&K bank has witnessed healthy balance sheet growth - loan book and deposits grew at 17.2% and 19.3%, respectively during Q3FY12. Its liability franchise improved both YoY as well as QoQ, unlike the industry trends (CASA mix improved by 200 bps QoQ/60 bps YoY to 40.2% at the end of Q3FY12).

In our view, bank enjoys enough balance sheet liquidity as its C/D ratio has remained at ~60%, far below its peers. We believe, bank is comfortably placed in terms of C/D ratio as compared to its peers and this implies it can easily grow its loan book without mobilizing much of high interest rate bearing bulk deposits.

Muted non-interest income on back of lower trading profit

Muted non-interest income (decline of 5.1% YoY) at Rs.736 mn during Q3FY12 came on the back of lower trading profit (decline of 50.8%) which fell from Rs.179 mn during Q3FY11 to Rs.88 mn during Q3FY12.

Trend in non-interest income

(Rs. mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Other Income	936.9	744.8	775.6	1,190.2	670.0	712.2	736.2	-5.1	3.4
Commission/ Exchange	353.9	330.4	343.0	432.8	341.5	338.7	387.1	12.9	14.3
Trading Income (Net of Amortization)	336.3	181.6	178.7	227.2	101.3	84.8	88.0	-50.8	3.8
Insurance Income	64.4	54.5	61.2	81.3	74.2	58.5	61.1	-0.2	4.4
Misc. Income	182.3	178.3	192.7	448.9	153.0	230.2	200.0	3.8	-13.1

Source: Company

Asset quality continues to remain amongst the best in class; coverage ratio at 94.1% (including technical W/O), one of the best in the industry.

Its asset quality continues to remain amongst the best in class - gross NPA and net NPA improved QoQ to 1.80% and 0.16%, respectively (Q3FY12). Even in absolute terms, its net NPA declined 22.4% QoQ while gross NPA remained stable (0.6% QoQ).

Its coverage ratio is also one of the best and now stands at 91.0% (94.1% including technical W/O) providing cushion to its future earnings during rainy days (future deterioration in asset quality).

Trend in asset quality

(Rs. mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPA	4,500.7	5,127.1	5,038.3	5,188.3	5,283.3	5,419.0	5,450.0	8.2%	0.6%
Gross NPA (%)	1.92%	2.17%	1.95%	1.95%	1.97%	1.89%	1.80%		
Net NPA	80.5	309.1	106.1	532.4	583.5	630.3	489.0	360.9%	-22.4%
Net NPA (%)	0.03%	0.13%	0.04%	0.20%	0.22%	0.22%	0.16%		

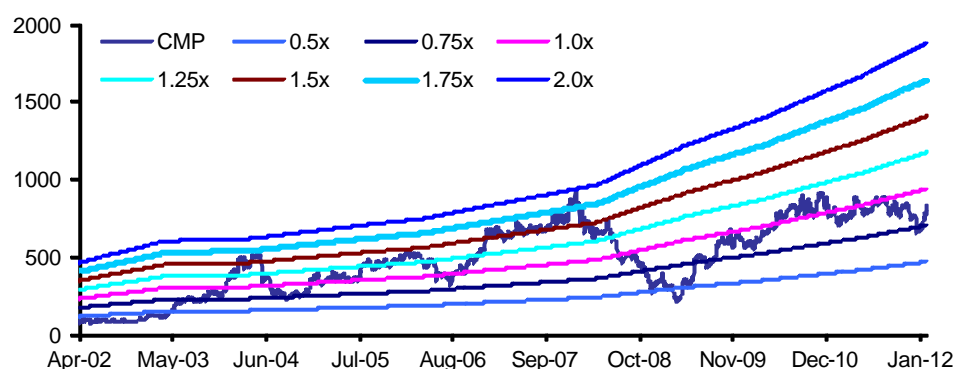
Source: Company

J&K bank added Rs.1.77 bn worth of advances to its restructured portfolio during Q3FY12 taking cumulative restructured book to Rs.17.1 bn (5.4% of advances), in line with the industry trends. We have modeled slippage at ~1.2% during FY12E & FY13E as compared to 1.3% witnessed by the bank during FY11.

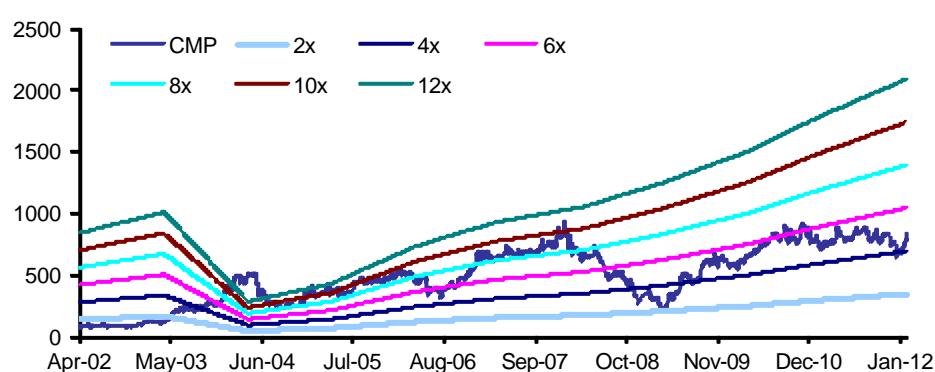
Valuation & recommendation

We retain BUY on J&K Bank with a price target of Rs.1060

At the current market price of Rs.829, stock is trading at 4.6x its FY13E earnings and 0.9x its FY13E ABV. We are modeling earnings to grow 18.6% CAGR during FY11-13E, while return profile is also expected to remain healthy (RoA: ~1.4%, RoE: ~20%) during next two years. Hence, we retain BUY rating on the stock with unchanged TP of Rs.1060 based on 1.1x its FY13E ABV.

Rolling 1-year forward P/ABV band

Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band

Source: Company, Kotak Securities - Private Client Research

Key data

(Rs bn)	FY10	FY11	FY12E	FY13E
Interest income	30.57	37.13	48.16	54.86
Interest expense	19.37	21.69	30.17	34.69
Net interest income	11.20	15.44	17.99	20.18
Growth (%)	11.9%	37.9%	16.6%	12.1%
Other income	4.16	3.65	3.18	3.87
Gross profit	9.58	11.49	12.89	14.95
Net profit	5.13	6.15	7.46	8.66
Growth (%)	20.3%	20.0%	21.2%	16.1%
Gross NPA (%)	2.0	1.9	1.8	1.7
Net NPA (%)	0.3	0.2	0.3	0.3
Net interest margin (%)	3.0	3.6	3.6	3.4
CAR (%)	15.9	13.7	13.5	13.7
RoE (%)	18.2	19.0	19.8	19.6
RoA (%)	1.3	1.3	1.4	1.4
Dividend per share (Rs)	22.0	26.0	28.0	30.0
EPS (Rs)	105.7	126.9	153.8	178.5
Adjusted BVPS (Rs)	607.6	706.4	822.6	964.1
P/E (x)	7.8	6.5	5.4	4.6
P/ABV (x)	1.4	1.2	1.0	0.9

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)
31-Jan	Aanjaneya Life	Muskan Agencies & Trading	B	70,000	551.4
31-Jan	Bhandari Hos	Nitin Bhandari	S	56,064	33.0
31-Jan	Bridge Sec	By Multitrade Private Limited	B	20,000	31.3
31-Jan	Cubical Fin	Rashmi Bajaj	B	100,000	36.6
31-Jan	Cubical Fin	Rakesh Jain	B	66,999	37.1
31-Jan	Cubical Fin	The Hindustan Times Limited	S	100,000	36.6
31-Jan	Dhvanil Chem	Narendra B Prajapati	B	45,000	37.1
31-Jan	Dhvanil Chem	Jadav Lalit Ratilal	B	35,000	37.0
31-Jan	Dhvanil Chem	Sameerkumar Shantilal Gadesha	S	55,000	37.0
31-Jan	Essen Supp	D R Finance And Investments (India)	B	50,000	58.1
31-Jan	Essen Supp	Anil R Chokhani (Huf)	S	41,000	58.2
31-Jan	Essen Supp	Bimalkumar Badriprasad Bajoria	S	37,500	58.2
31-Jan	Gujarat Medi	Gold Dust Trading Co	B	60,402	18.5
31-Jan	Gujarat Medi	Ekta Agarwal	S	60,000	18.5
31-Jan	Kailash Ficom	Mahendra Gosar Gada	B	100,000	24.5
31-Jan	Kailash Ficom	Affluence Commodities	S	59,804	24.5
31-Jan	Kanchan Intl	Pareesh Arvindlal Shah	B	50,000	84.9
31-Jan	Kanchan Intl	Arvind Babulalji Goyal	S	18,958	83.3
31-Jan	Kanchan Intl	Dharmendra Harilal Bhojak	S	34,020	85.0
31-Jan	Kanchan Intl	Karamshibhai Mangukiya	S	25,000	82.5
31-Jan	Kanchan Intl	Savitaben Mangukiya	S	25,000	82.5
31-Jan	Kanchan Intl	Gunjan Narendrakumar Vora	S	30,000	87.9
31-Jan	Krishna Deep	Vimalkumar Sureshchandra Raval	B	21,332	58.3
31-Jan	LKP Fin	Sea Glimpse Investments Private Ltd	B	83,880	70.0
31-Jan	LKP Fin	Padmakshi Financial Services Ltd	S	83,880	70.0
31-Jan	Niraj Cement	Nifty Technologies Private Ltd	B	105,147	16.0
31-Jan	Parichay Invest	Pushpa Bai	B	10,000	35.0
31-Jan	Parichay Invest	Mohanlal	B	10,000	35.0
31-Jan	Pasupati Fin	Rohnil Boradia	S	26,200	31.6
31-Jan	Ranklin Sol-\$	Vaddepalli Anjaneyulu	B	36,000	11.0
31-Jan	Scope Ind	Amit S Soni	B	67,904	16.3
31-Jan	Scope Ind	Umadevi Alluri	S	52,257	16.4
31-Jan	Tutis Tech-\$	Bhanwarlal M Sanghvi HUF	S	95,000	15.7

Source: BSE

Forthcoming events

Company/Market

Date	Event
1-Feb	Ashok Leyland, Finolex Cables, Satyam Comp, Tube Investment, Uco Bank, Welcorp earnings expected
2-Feb	Andhra Bank, Chennai Petro, Corporation Bank, EIH, Escorts, Essar Ports, Gillette India, Hexaware Tech, Manappuram Finance, Marico, Piramal Health, Procter & Gamble, Rashtriya Chem, Thermax, Whirlpool earnings expected

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	902	5.9	18.9	10.3
Reliance Ind	817	2.8	12.4	6.3
HDFC Bank	492	2.7	7.7	2.7
Losers				
Coal India	327	(2.5)	(1.8)	6.4
Hindustan Unilever	379	(0.9)	(1.1)	5.4
PNB	941	(1.5)	(0.6)	2.1

Source: Bloomberg

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