Economy News

- Stalled projects are finally showing signs of traction, with the government taking steps to revive those projects which were stuck due to policy paralysis and land acquisition problems. According to CMIE statistics, 36 projects were revived in the September quarter as compared to 20 in the June quarter. (BS)
- The International Monetary Fund (IMF) has raised its medium-term assessment of the Indian economy, ignoring the setback of a deficient monsoon, arguing that the political stability arising from having a party with a clear majority in Parliament in charge will provide a launchpad for long-overdue structural reforms. The Fund, in its biannual World Economic Outlook (WEO), raised its growth projection for India to 5.6% for 2014-15 from 5.4% projected a little over six months ago. (Mint)
- The Centre has relaxed environment norms for industry in and around wildlife sanctuaries and national parks. To entertain states' proposals to have no eco-sensitive zones around national parks and sanctuaries, the environment ministry has made it possible for project developers to begin work in these areas without a central nod. This was done through various guidelines issued in the last week of September. (BS)
- Net direct tax collections in April-September increased just 7.09 per cent against a Budget target of 15.31 per cent for 2014-15, as income tax refunds shot up 54.51 per cent during the period. (BS)
- The Finance Ministry aims to complete the formalities for implementation of the new Monetary Policy Framework Agreement by February 1. However, it will be left to the Reserve Bank of India to decide on the date of implementation. (BL)

Corporate News

- Mahindra Two Wheelers Ltd is set to acquire 51 per cent stake in France-based Peugeot Motocycles. Mahindra Two Wheelers, an unlisted subsidiary of utility vehicle manufacturer **Mahindra & Mahindra**, will invest €28 million (about Rs2.15 bn) to finalise the deal. (BL)
- ONGC Videsh Ltd (OVL), the overseas arm of State-run **Oil and Natural Gas Corporation,** has said interests in Iran's discovered Farsi offshore block, now named Binaloud, are still alive. (BL)
- Aditya Birla group firm **Ultratech Cement** is believed to be looking at possible acquisition of Jaypee Group's three cement plants in Madhya Pradesh in a deal that could be worth about Rs 55-60bn. (BS)
- **Canara Bank** will raise Rs 15 bn Tier-I capital to support asset growth in the current financial year and maintain comfortable capital adequacy. (ET)
- **National Thermal Power Corporation** said it would seek a clarification from the Supreme Court on its recent order that cancelled the allocation of three coal mines that belonged the state-owned firm. (ET)
- Engineering firm **Punj Lloyd Ltd** plans to divest assets that aren't key to its main business by the end of October, seeking to raise upwards of Rs.10 bn to pare debt and make new investments. (Mint)
- **State Bank of India (SBI)**, the country's largest lender by assets, will focus on expanding its cash-management business to help shelter the company from the slowest loan growth in the nation since 2001. (Mint)
- Bangalore-based infrastructure conglomerate **GMR Infrastructure Ltd** has said the first 685 MW unit of GMR Chhattisgarh Energy Ltd's (GCEL's) 1370 MW supercritical coal-based thermal power plant at Raikheda in Chhattisgarh's Raipur District achieved synchronization with the grid on 2 October. (Mint)

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

Equity

		% Chg		
	7 Oct 14	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	26,272	(1.1)	(3.8)	2.7
NIFTY Index	7,852	(1.2)	(3.9)	3.0
BANKEX Index	17,386	(0.9)	(6.3)	1.1
BSET Index	10,807	(0.8)	2.6	14.3
BSETCG INDEX	13,913	(1.8)	(10.9)	(12.6)
BSEOIL INDEX	10,490	(0.7)	(10.0)	(2.8)
CNXMcap Index	11,247	(1.1)	(4.1)	2.7
BSESMCAP INDEX	10,558	(0.8)	(2.7)	4.2
World Indices				
Dow Jones	16,719	(1.6)	(2.3)	(1.1)
Nasdaq	4,385	(1.6)	(4.5)	(0.1)
FTSE	6,496	(1.0)	(5.0)	(3.6)
NIKKEI	15,784	(0.7)	(1.0)	1.6
HANGSENG	23,423	0.5	(7.7)	(1.3)

Value traded (Rs cr)

	7 Oct 14	% Chg - Day
Cash BSE	2,865	9.6
Cash NSE	15,375	17.5
Derivatives	146,210	33.1

Net inflows (Rs cr)

	1 Oct 14	% Chg	MTD	YTD
FII	586	(473)	586	22,230
Mutual Fund	221	(60)	221	9,368

FII open interest (Rs cr)

	1 Oct 14	% Chg
FII Index Futures	11,480	4.4
FII Index Options	60,211	0.4
FII Stock Futures	41,685	(1.2)
FII Stock Options	1,774	7.2

Advances / Declines (BSE)

7 Oct 14	A	B	T	Total	% total
Advances	78	771	232	1,081	37
Declines	220	1,273	232	1,725	59
Unchanged	2	82	26	110	4

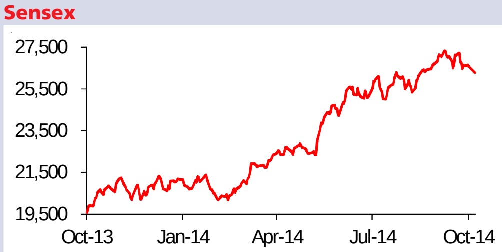
Commodity

		% Chg		
	7 Oct 14	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	88.5	(0.4)	(4.5)	(14.4)
Gold (US$/OZ)	1,211.3	0.3	(3.2)	(7.8)
Silver (US$/OZ)	17.2	(0.6)	(9.1)	(17.8)

Debt / forex market

	7 Oct 14	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.5	8.5	8.5	8.7
Re/US$	61.5	61.6	60.3	60.0

Sensex



RESULTS PREVIEW

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Q2FY15 RESULTS PREVIEW

7.5% revenue growth expected during the quarter

We expect stocks under our coverage (ex-banking / NBFCs) to report revenue growth of about 7.5% on a YoY basis. Among sectors, FMCG, Auto, IT and Cement are expected to predominantly propel this growth. The YoY growth in IT is expected to be driven by strong demand environment as developed economies, especially the USA, recover further. On the other hand, investment oriented sectors like Capital Goods and construction are expected to be a drag largely due to the lower investment activity in infrastructure and weak demand. Oil and Gas revenues are forecast to be lower YoY due to decline in crude prices and dip in domestic gas volumes.

For banks / NBFCs, net interest income is expected to grow at 12.2% YoY, with private banks growing at 15.6% YoY and PSU banks likely reporting moderate growth (9.0% YoY). Credit growth for the banking system has continued to remain sluggish at below 10% mark (9.6% YoY as on September 05, 2014), below the RBI's projection of 15%. However, private sector banks are likely to have done relatively better largely driven by overseas book given against the money borrowed under FCNR (B) deposit swap window.

We expect NIM to remain stable QoQ on back of lower interest reversal due to stable asset quality along with benign liquidity conditions. Although wholesale rates during Q2FY14 have risen marginally (QoQ), there has been sharp fall vis-à-vis last year. We believe, this could help banks having higher share of wholesale deposits in reducing their cost of borrowings.

Margins are expected to improve marginally for our coverage universe (ex-banking / NBFCs)

EBIDTA margins for the sectors under our coverage are expected to be marginally higher. Companies in Capital Goods, Logistics, Media, Cement and Paint sectors are expected to report improved margins YoY, whereas those in IT and Oil and Gas are expected to report a decline. Salary hikes by select companies is likely to weigh on IT sector margins. By and large, material prices (Steel, Aluminium, Copper and Rubber) have remained benign in the second quarter which should aid margin expansion.

As far as banks are concerned, pre-provisioning profits are expected to see moderate growth. We expect subdued performance on non-interest income for banks under our coverage in absence of any traction in the fresh sanctions along with the muted treasury performance. Stable yield curve during Q2FY15 (10 Yr G-Sec yields fell 5bps) did not provide any trading opportunity while income from forex is also likely to be muted given the lower volatility in the currency. NBFCs are also expected to report a growth of about 8.9% only in pre-provisioning profits

Q2FY15 estimates - Banking & NBFC

Sector	Net Interest Income			Pre-Provisioning Profit			PAT		
(Rs mn)	Q2FY15E	Q2FY14	YoY (%)	Q2FY15E	Q2FY14	YoY (%)	Q2FY15E	Q2FY14	YoY (%)
Banking (13)	411,545	366,588	12.3	297,830	285,662	4.3	137,454	132,096	4.1
NBFCs (5)	38,149	34,288	11.3	35,172	32,300	8.9	22,437	20,159	11.3
Total	**449,694**	**400,876**	**12.2**	**333,002**	**317,962**	**4.7**	**159,891**	**152,255**	**5.0**

Source: Companies, Kotak Securities - Private Client Research

Q2FY15 estimates - ex-Banking & NBFCs

Sector	Revenues (Rs mn)			EBIDTA (%)		EBIDTA (Rs mns)			PAT (Rs mns)		
	Q2FY15E	Q2FY14	YoY(%)	Q2FY15E	Q2FY14	Q2FY15E	Q2FY14	YoY(%)	Q2FY15E	Q2FY14	YoY(%)
Auto (9)	1,077,686	975,635	10.5	14.1	14.5	152,008	141,146	7.7	76,593	72,693	5.4
Capital Goods (22)	410,336	386,400	6.2	9.4	8.0	38,572	30,912	24.8	24,074	21,362	12.7
Cement (5)	186,807	161,450	15.7	17.7	13.9	33,091	22,483	47.2	15,237	9,850	54.7
Construction (5)	86,319	80,688	7.0	23.9	24.1	20,600	19,476	5.8	850	3,022	(71.9)
FMCG (6)	256,355	227,383	12.7	20.0	20.1	51,271	45,704	12.2	44,222	40,901	8.1
IT (11)	634,693	584,323	8.6	25.9	26.4	164,449	154,203	6.6	130,348	113,176	15.2
Logistics/Shipping (10)	75,766	73,470	3.1	30.2	28.5	22,848	20,974	8.9	13,312	7,812	70.4
Media (7)	38,286	35,531	7.8	27.2	26.6	10,414	9,451	10.2	5,670	5,229	8.4
Oil and Gas (8)	486,891	507,237	(4.0)	11.8	13.1	57,464	66,448	(13.5)	36,986	51,379	(28.0)
Paint (1)	10,200	7,917	28.8	13.0	11.6	1,325	917	44.5	810	517	56.7
Power (2)	264,963	243,238	8.9	21.0	19.7	55,642	47,918	16.1	20,346	25,679	(20.8)
Real Estate (1)	786	707	11.2	65.0	67.7	511	479	6.7	389	365	6.6
Ceramics (1)	5,432	4,781	13.6	16.0	13.7	869	653	33.1	424	269	57.6
Total	**3,534,520**	**3,288,760**	**7.5**	**17.2**	**17.0**	**608,194**	**560,111**	**8.6**	**369,261**	**352,254**	**4.8**

Source: Companies, Kotak Securities - Private Client Research

Focus areas

Domestically, we will focus on the order bookings of capital goods and construction companies. There has been sustained improvement in the business confidence post the recent reform initiatives from the Government. The same needs to be translated into project initiations and order bookings. Management commentary on momentum of decision-making and order placements will be important for us.

The asset quality issues of banks will be closely watched and so would be the amount of restructured assets. Private sector banks are also feeling the heat from asset quality side and that trend also needs to be monitored. We will also closely track comments of the managements of IT companies on the CY14 IT budget spends of clients.

Conclusion

Weakness in global markets, lower-than-expected macro data points and profit booking has resulted in markets coming off from their record highs. Market and business sentiment remains intact. Foreign as well as domestic flows continued in September, though the intensity of foreign flows reduced. Markets are looking out for further big investment commitments, especially by the private sector. Further action from RBI is dependent on the economic data and future inflation trajectory. We opine that, if the markets have to sustain the current levels and move up, it will need to have more confidence in the medium-to-long term growth rates of Corporate India. Growth rates will move up once the reforms initiatives start yielding results and interest rates come off. Disappointment in earnings or on future outlook may result in corresponding specific corrections.

RESULTS PREVIEW

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AUTOMOBILES

2QFY15 was one of the better quarters in recent times for the automobile industry in terms of sales volumes. All the segments in the auto industry witnessed demand improvement during the quarter. As a result most of the companies reported YoY growth in wholesale volumes in 2QFY14. For players like TVS Motors, Maruti Suzuki and Hero MotoCorp, volume growth on a YoY basis remained strong during the quarter.

On a YoY basis, we expect strong earnings growth from players like TVS Motors, Maruti Suzuki and Eicher Motors, largely backed by robust increase in sales volumes. Recovery in MHCV demand is expected to positively turnaround Ashok Leyland's earnings. Apollo Tyres is expected to benefit from continued weakness in rubber prices. Hero Motocorp earnings will receive boost from completion of royalty amortization. On the EBITDA margin front, we expect YoY improvement in margins for Apollo Tyres, Ashok Leyland, TVS Motors and Eicher Motors.

Volumes

Company	Q2FY15	Q1FY15	QoQ (%)	Q2FY14	YoY (%)
Ashok Leyland	25,387	19,981	27.1	23,117	9.8
Bajaj Auto	1,055,582	988,430	6.8	961,330	9.8
Escorts	15,013	17,849	(15.9)	14,842	1.2
Hero MotoCorp	1,692,523	1,715,254	(1.3)	1,416,276	19.5
Maruti Suzuki	322,898	299,894	7.7	275,586	17.2
Tata Motors	126,624	110,612	14.5	150,930	(16.1)
TVS Motors	677,000	584,113	15.9	501,425	35.0

Source - Companies

- **Apollo Tyres (APTY):** We expect APTY to report marginal 2% YoY increase in revenues. However, on the back of decline in natural rubber prices and crude oil prices, we expect significant improvement in EBITDA margin - both YoY and QoQ. We thereby anticipate strong net profit growth for the company in 2QFY15.
- **Bajaj Auto (BAL):** Bajaj Auto's revenues are expected to grow by 14% YoY 12% QoQ on the back of increased volumes and better average selling price. Product mix during the quarter improved significantly and that is expected to aid QoQ margin improvement for the company. 2QFY14 margins were on the higher side and we thereby anticipate YoY decline in EBITDA margins. We expect adjusted net profit to grow by 3% YoY and 12% QoQ.
- **Eicher Motors (EML):** EML's standalone business profitability is expected to more than double YoY amid 70% volume growth and expansion in EBITDA margins. For VECV business, YoY revenue growth to be partly driven by volume increase. On a consolidated business, we expect 19% revenue growth and margin expansion to lead towards 54% YoY increase in net profits.
- **Escorts:** Tractor demand so far in FY15 has been significantly weak as compared to FY14. Escorts reported a mere 1% increase in tractor sales on a YoY basis. We accordingly anticipate marginal increase in revenues. Weakness in tractor demand is expected to keep EBITDA margins under pressure. We accordingly expect earnings de-growth for the company in 2QFY15.
- **Hero MotoCorp (HMC):** HMC's volumes on a QoQ basis declined marginally and we thereby expect 2% YoY revenue de-growth. However, as compared with 2QFY14, we foresee 21% revenue jump led by healthy volume growth. EBITDA margin is expected to improve sequentially. Royalty amortization got completed in 1QFY15 and that will boost earnings for the company in 2QFY15.

- **Maruti Suzuki India (MSIL):** MSIL posted strong volume growth performance in 2QFY15. We accordingly expect the company's revenues to psot growth - both YoY and QoQ. Healthy volume growth coupled with favorable forex movement is expected to aid EBITDA margin as compared with 1QFY15. As compared with 2QFY14, EBITDA margin is expected to stay similar as higher discounts will offset the benefits from operating leverage and positive forex movement. Net profits is expected to grow on a strong note as compared with 2QFY14.
- **M&M**: M&M's 2QFY15 financials include MTBL figures and hence they are not comparable YoY. Given that MTBL is a loss making subsidiary, EBITDA margins are expected to come down over 2QFY14 levels. Sequentially margins are expected to come down due to lower share in revenues from higher profitable tractor business. Automotive volumes during the quarter were down marginally YoY and tractor volumes were up by 3% YoY.
- **Tata Motors (TAMO):** TAMO's standalone business will continue to report loss from ordinary activities. JLR's revenues on a QoQ basis is expected to decline due to lower volumes and margins too is expected to be lower. We accordingly expect QoQ decline in net profits for TAMO at the consolidated level.
- **TVS Motors (TVSM):** TVSM's volume growth performance in 2QFY15 has been strong, with the company reporting 35% YoY and 16% QoQ jump in volumes. We accordingly expect strong revenue jump - both YoY and QoQ. Strong volume is expected to lead to EBITDA margin expansion for the company. Accordingly we expect TVSM to report significant growth in net profit during the quarter.

Quarterly estimates - Automobiles

Company	Revenues (Rs mn)					EBIDTA (%)			Adj. PAT (Rs mn)					Adj. EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Apollo Tyres	35,095	32,476	8.1	34,335	2.2	15.6	13.2	13.2	3,029	2,279	32.9	2,495	21.4	5.9	4.5	32.9	4.9	20.0
Ashok Leyland	31,574	24,778	27.4	25,496	23.8	7.2	4.7	2.2	314	(480)		(688)		0.1	(0.2)		(0.3)	
Bajaj Auto	58,842	52,524	12.0	51,749	13.7	20.2	18.9	22.6	9,065	8,072	12.3	8,765	3.4	31.3	27.9	12.3	30.3	3.4
Hero MotoCorp	69,151	70,368	(1.7)	57,262	20.8	13.9	13.5	14.5	7,145	5,628	27.0	4,814	48.4	35.8	28.2	27.0	24.1	48.4
Maruti Suzuki	124,282	113,696	9.3	104,681	18.7	12.5	11.7	12.6	8,410	7,623	10.3	6,702	25.5	27.8	25.2	10.3	22.2	25.5
M&M (incl. MVML)	93,585	99,073	(5.5)	86,604	8.1	13.7	14.3	14.5	7,658	8,964	(14.6)	10,276	(25.5)	13.0	15.2	(14.6)	17.4	(25.5)
Tata Motors	607,403	646,828	(6.1)	568,823	6.8	14.6	17.2	15.2	37,725	53,042	(28.9)	38,157	(1.1)	11.7	16.5	(28.9)	11.9	(1.1)
TVS Motors	26,724	23,054	15.9	19,884	34.4	8.1	5.7	5.9	1,327	723	83.4	661	100.6	2.8	1.5	83.4	1.4	100.6
Escorts	9,792	11,291	(13.3)	9,442	3.7	5.1	5.0	6.8	264	341	(22.7)	436	(39.5)	2.1	2.8	(22.7)	3.6	(39.5)
Eicher Motors *	21,239	22,454	(5.4)	17,361	22.3	13.4	12.7	12.1	1,656	1,574	5.2	1,074	54.1	61.2	58.2	5.2	39.8	53.8
Total	**1,077,686**	**1,096,543**	**(1.7)**	**975,635**	**10.5**	**14.1**	**15.4**	**14.5**	**76,593**	**87,767**	**(12.7)**	**72,693**	**5.4**					

*Source: Companies, Kotak Securities - Private Client Research; Note: * December year ending*

RESULTS PREVIEW

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CAPITAL GOODS, ENGINEERING & POWER

Capital Goods companies have been battling a severe downturn over the past couple of years, as order wins dropped in an economic downturn. Payment cycles worsened as power distributors delayed payments and companies, in turn, squeezed their suppliers.

Things have gradually begun to improve, our industry interactions indicate. Even at the bureaucratic level, the focus has shifted to finding solution to problem instead of deferring it. Along with improving business confidence, many grounded projects are coming back on track. However, the investment cycle would take 6-24 months to revive. In the initial phase, food processing, pharmaceuticals, textiles, chemicals and light engineering industries could see investment interest. Sectors like power and steel are likely to lag because of unresolved issues, but oil, gas and railway projects could see a pick-up due to policy reforms.

Another positive development for the sector will be a decline in metal prices. Softening prices of copper and aluminium are expected to aid profit margins of some capital goods companies by lowering their input costs.

Tendering activity is also showing improvement after falling sharply in the month of April 2014. Fresh investment plans announced by private and public sector has also shown improvement in August 2014.

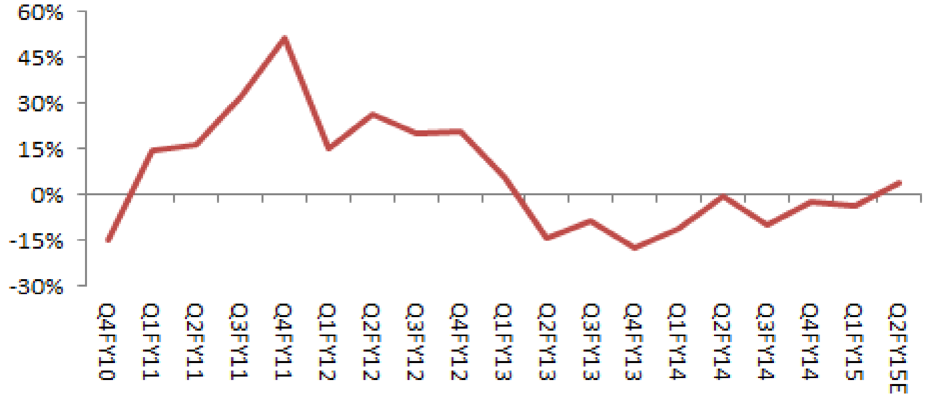
During the quarter, performance of the large cap capital goods stocks was weak. The BSE Capital Goods sector index itself was down 13% vs a 5% gain for the BSE Sensex. The underperformance could be attributed to weak set of first quarter numbers (BHEL, L&T and Thermax) and premium valuations. Select stocks in the sector (Blue Star, Voltas, Greaves Cotton and Bharat Electronics) continued to outperform.

At this juncture, we continue to be positive on L&T (quality play on infrastructure), Engineers India Ltd (beneficiary of PSU capex in O&G), Greaves Cotton, Bharat Electronics and Thermax (private capex play).

Preview Highlights

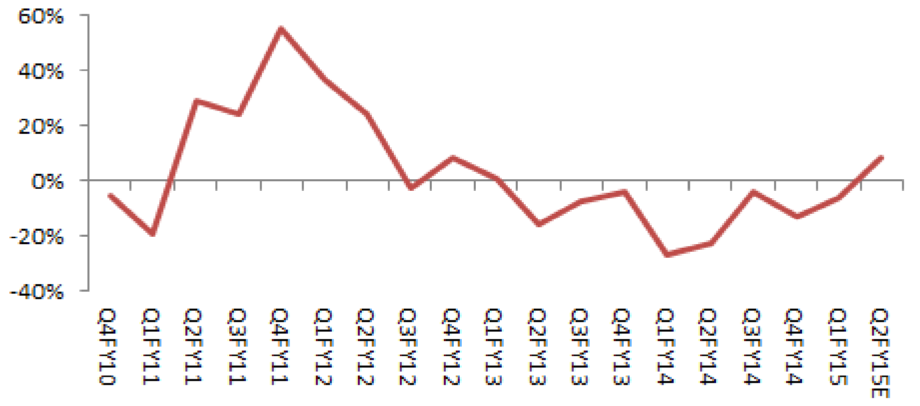
- We expect aggregate revenue growth to grow at a moderate pace of 6% yoy in the July-Sep ending quarter, aided mainly by L&T, Siemens and select midcaps.
- Aggregate EBITDA is expected to post a robust growth of 29% YoY as we project aggregate EBITDA margins to expand by 170 bps to 9.4%. Aggregate PAT is expected to post an increase of 13% yoy in Q2 FY15.

YoY change in aggregate revenue for our coverage universe



Source: Company, Kotak Securities - Private Client Research

YoY change in aggregate profits for our coverage universe



Source: Companies, Kotak Securities - Private Client Research

Stock View

- **ABB:** The company ended the previous quarter with order backlog which was lower by 2% yoy. Although the company is optimistic on the demand for capital goods, the ground situation is still weak and some early signals of capex that it had seen in Q1CY14 quarter have weakened.
- **Alstom T&D:** The company's order backlog was up modestly on a yoy basis. The management has indicated that the government is aiming to step up investment in T&D sector.
- **AIA Engineering Ltd (AIA):** AIA is expected to report growth in revenues as well as profits in Q2FY15. This would mainly be on account of continued uptick in new market creation in mining space.
- **Bajal Electricals Limited (BAEL):** We expect BAEL to report improved results in Q2FY15 due to recovery in project business. We anticipate meaningful growth in consumer appliances business
- **Bharat Electronics:** The company has strong order backlog. The revenues of the company should grow at a faster clip in the medium term, our interaction with the management indicated.
- **BHEL:** We see the company continuing to report weak numbers in the second quarter as a contracting order backlog leads to lower revenue translation and consequently a dent on the bottomline. Despite the underperformance by the BHEL stock, we maintain negative stance on the company.
- **Blue Star:** We expect improving earnings growth trajectory in Blue Star as low margin orders get closed and higher margin orders start contributing to profitability.
- **Crompton Greaves:** CGL is expected to report improvement in operating margins in the quarter mainly as a result of restructuring in the international business.
- **Cummins India:** We expect moderate domestic demand due to sluggish industrial Capex. Company is likely to maintain operating margin in Q2FY15.
- **ELGI Equipment Ltd (EEL):** EEL is expected to report growth on back of pick-up in demand for compressors in domestic as well as overseas geographies. We expect company to expand margin contraction on YoY basis in the quarter.
- **EIL:** We expect company to report moderate YoY growth in revenues driven due to slowdown in Hydrocarbon Capex.
- **Greaves Cotton:** 3W industry volumes is showing signs of traction as economy is coming out of period of slowdown, which is positive for the company's engine manufacturing business. The company also announced that it is closing its loss making infrastructure equipment manufacturing business, which is a positive.

- **Havells India Ltd (HIL):** HIL is likely to report YoY growth in net profits. Sylvania is likely to show recovery in Q2FY14. Domestic business is likely to report moderation in growth pace in consumer alliances division.
- **Kalpataru Power Transmission:** KPTL is likely to observe YoY growth in revenues due to slight improvement in execution. We expect company to post maintain operating margin in the quarter.
- **Larsen & Toubro:** The L&T stock has underperformed post the Q2FY15 results as investors were disappointed by the massive loss reported by the company's hydrocarbon subsidiary. We would monitor the performance of this subsidiary in Q2FY15.
- **Pidilite:** We expect company to report YoY growth in revenues driven by consumer adhesive business. Company is likely to maintain operating margin in Q2FY15.
- **Siemens:** We forecast revenue growth in Q4FY14. Company financials are expected to post YoY growth Margins are likely to expand YoY in Q4FY14.
- **Thermax:** The company had missed street estimates in the first quarter due to delay in commencement of a large project. We expect good growth in profits in Q2FY15 aided by margin expansion and other income.
- **Time Technoplast:** The company is expected to report moderate revenue and profit growth. In our view, the key to stock performance remains 1) moderation in capex and consequent reduction in borrowings 2) ramp-up in composite cylinder volumes 3) Ramp-up in overseas operations
- **VA Tech Wabag:** The company has a strong order backlog and has delivered on execution front but to improve ROE further it needs to make progress on margin expansion and working capital reduction. We are expecting strong growth in revenue and profits in the second quarter.
- **Voltamp:** Given the sedate industrial capex scenario, the transformer demand continues to remain weak. Thus, not much is expected from the results. However, we note that the company has managed this extended downturn quite well and has a preserved its cash chest.
- **Voltas:** Industry room AC volumes have grown at an impressive pace in July. However, slowdown in projects business would moderate growth in profits in the second quarter.

Power

- **NTPC:** We expect to see weak set of numbers from the company on account of the impact of CERC norms 2014-19.
- **Tata Power** - Stock performance remains contingent upon early implementation of compensatory tariff hike at its Mundra UMPP. Coal prices have continued to soften in the second quarter.

Quarterly estimates - Capital Goods, Engineering & Power

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Capital Goods																		
ABB	17,944	18,100	(0.9)	17,205	4.3	7.0	6.9	6.3	477	517	(7.7)	411	16.1	2.3	2.4	(7.8)	1.9	16.0
Alstom T&D	8,825	6,733	31.1	8,033	9.9	10.8	11.4	9.4	397	283	40.3	206	92.7	1.7	1.2	40.7	0.9	84.4
AIA Engg	6,096	4,921	23.9	5,262	15.8	23.0	25.9	22.9	1,097	953	15.1	975	12.5	11.6	10.1	15.1	10.3	12.6
Bajaj Electricals	11,123	8,859	25.6	9,586	16.0	5.0	4.1	(0.2)	222	55	301.6	(154)	-	2.3	0.6	301.6	(1.6)	na
BEL	11,405	9,967	14.4	10,093	13.0	0.8	(4.6)	0.2	687	256	168.4	595	15.5	8.6	3.2	168.8	7.4	16.2
BHEL	79,112	50,676	56.1	88,190	(10.3)	8.5	4.3	4.7	4,991	1,935	157.9	4,560	9.5	2.0	0.8	150.0	1.9	5.3
Blue Star	6,262	8,418	(25.6)	5,810	7.8	5.6	6.3	3.9	160	308	(48.1)	78	105.1	1.8	3.4	(47.1)	0.9	100.0
CGL	35,135	34,415	2.1	32,049	9.6	6.0	5.0	5.0	808	640	26.2	585	38.2	1.3	1.0	26.2	0.9	38.2
Cummins	10,042	10,451	(3.9)	9,327	7.7	17.0	55.6	16.4	1,506	2,120	(28.9)	1,448	4.0	5.4	7.6	(28.9)	5.2	4.0
Elgi Equipment	3,636	3,237	12.3	3,212	13.2	7.8	7.2	7.0	127	130	(2.2)	79	61.1	0.8	0.8	(2.2)	0.5	61.1
EIL	4,808	4,355	10.4	4,652	3.4	17.0	12.6	19.0	4	4	-	3	7.4	3.6	2.4	49.4	3.3	7.4
Greaves Cotton	5,135	4,218	21.7	4,453	15.3	11.8	11.1	11.3	407	295	38.0	334	21.9	1.7	1.2	41.7	1.4	21.4
Havells	22,792	21,290	7.1	20,300	12.3	10.0	9.5	9.6	1,299	1,120	16.0	1,120	16.0	2.1	1.8	16.0	1.8	16.0
Kalpataru Power	10,274	10,634	(3.4)	9,622	6.8	10.0	10.0	9.5	339	419	(19.0)	310	9.4	2.2	2.7	(19.0)	2.0	9.4
L&T	134,426	103,376	30.0	123,084	9.2	11.0	10.5	9.6	9,582	7,221	32.7	8,646	10.8	16.4	12.3	33.0	14.8	10.8
Pidilite	12,618	13,438	(6.1)	11,001	14.7	15.0	17.9	17.2	1,325	1,676	(21.0)	1,175	12.7	2.6	3.3	(21.4)	2.3	11.8
Siemens	40,000	23,744	68.5	32,588	22.7	7.0	2.2	5.4	1,040	130	698.8	968	7.4	3.0	0.4	698.8	2.7	7.4
Thermax	10,500	8,307	26.4	10,296	2.0	10.9	6.9	9.1	731	414	76.6	604	21.0	6.1	3.5	74.3	5.1	19.6
VA Tech Wabag	6,069	4,010	51.3	4,655	30.4	7.5	5.1	6.8	284	109	160.6	178	59.6	10.7	4.1	161.0	6.7	59.7
Voltamp	917	834	10.0	980	(6.4)	3.4	4.9	1.4	48	68	(29.4)	40	20.0	4.8	6.7	(28.4)	3.9	21.8
Voltas	11,053	17,523	(36.9)	10,765	2.7	4.7	7.5	4.0	467	1,085	(57.0)	420	11.2	1.4	3.3	(57.3)	1.3	7.7
Time Technoplast	6,153	5,696	8.0	5,323	15.6	14.0	13.9	14.1	269	210	28.1	219	22.8	1.3	1.0	30.0	1.0	30.0
TOTAL	**410,336**	**334,589**	**22.6**	**386,400**	**6.2**	**9.4**	**8.0**	**7.7**	**24,074**	**18,140**	**32.7**	**21,362**	**12.7**	**7.5**	**11.0**		**6.2**	
Power																		
NTPC	167,546	180,865	(7.4)	162,723	3.0	22.8%	19.5%	26.1%	19,375	22,012	(12.0)	24,929	(22.3)	2.3	2.7	(14.8)	3.0	(23.3)
Tata Power	97,417	87,991	10.7	85,515	13.9	17.8%	20.2%	23.7%	971	(1,113)	(187.2)	750	29.5	0.4	(0.4)	(187.8)	0.3	28.6
TOTAL	**264,963**	**268,856**	**(1.4)**	**248,238**	**6.7**	**21.0**	**19.7**	**25.3**	**20,346**	**20,899**	**(2.6)**	**25,679**	**(20.8)**					

*Source: Companies, Kotak Securities - Private Client Research * - October year - end, # - December year-end.*

Results Preview

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Cement

We expect revenues in our coverage universe to grow by about 16% on YoY basis mainly led by demand and pricing improvement. Operating margins are expected to improve sequentially and on yearly basis led by cement price hikes but cost pressures may continue to remain. Net profit is expected to grow by 55% YoY for companies under our coverage led by improvement in dispatches as well as margins.

Cement demand has been registering a strong growth during this financial year till date. During Q2FY15, July-Aug,14 continued to witness double digit growth led by delayed onset of monsoons, revival in construction activity as well as low base of last year. Growth in the month of Sep,14 is expected to be impacted by monsoons. However, with demand improvement, we expect dispatches of cement companies to remain strong during Q2FY15 also. Cement prices also remained strong till Aug,14 due to delayed monsoons and witnessed some correction during Sep,14. Average cement prices at the end of September stood at nearly Rs 300 per bag. Pace of capacity additions has slowed down and thus post monsoons, cement prices are expected to firm up. Demand is expected to witness further improvement led by increased spending for rural and semi urban housing and improvement in ordering activity for infrastructure projects.

Going forward, we would be watching out for demand revival across regions as well as sustainability in cement price hikes. Stocks are currently trading at fair valuations but any weakness in the stocks should be used to buy attractively valued stocks. Our top pick in the cement sector remain Grasim Industries.

Key highlights about the sector

Demand growth improvement is being witnessed

As per the core industries data, cement production registered a growth of 16.5% YoY in July, 2014 and 10.3% YoY in Aug, 2014. Cumulative growth of cement production during April to Aug, 2014 was 11% as compared to April to Aug, 2013. We expect demand to grow a CAGR of 9.2% between FY14-16 mainly led by thrust of government on big ticket infrastructure projects, revival in road sector, setting up of smart cities as well as focus on low cost housing. With slowing pace of capacity additions, capacity utilizations are expected to improve slightly going forward.

Cost pressures to remain during Q2FY15

Cost pressures to likely to stay high during the quarter due to higher freight, power and fuel as well as other expenditure. Coal prices are also likely to move up going forward post cancellation of coal blocks and which is turn is likely to increase power and fuel cost per tonne. However, with improvement in the cement realizations during the quarter, we expect EBITDA per tonne to improve sequentially.

Recommendation

We believe that recent decline in cement prices provides a good opportunity to enter cement stocks with attractive valuations. Cement prices are also likely to firm up going forward from Oct, 2014. Going forward, we would be watching out for demand revival across regions as well as sustainability in cement prices hikes. Our top picks in the cement sector remain Shree Cement and Grasim Industries.

Quarterly estimates - Cement

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Grasim	76,304	79,763	(4.3)	68,008	12.2	18.0%	14.4%	14.5%	5,697	4,869	17.0	4,503	26.5	62.0	53.0	17.0	49.0	26.5
ACC*	29,016	30,090	(3.6)	25,087	15.7	10.9%	13.3%	9.0%	1,893	2,410	(21.5)	1,208	56.6	10.1	12.8	(21.5)	6.4	56.6
India Cement	12,240	12,262	(0.2)	10,859	12.7	14.5%	12.9%	11.7%	281	(30)	-	(225)	-	0.9	(0.1)	-	(0.7)	-
Shree Cement**	15,393	16,514	(6.8)	12,475	23.4	25.0%	26.2%	20.0%	2,064	2,770	(25.5)	1,722	19.8	59.2	79.5	(25.5)	49.4	19.8
Ultratech Cement	53,854	59,886	(10.1)	45,021	19.6	19.6%	17.3%	14.7%	5,303	6,280	(15.6)	2,641	100.8	19.3	22.9	(15.6)	9.6	100.7
TOTAL	**186,807**	**198,516**	**(5.9)**	**161,450**	**15.7**				**15,237**	**16,300**	**(6.5)**	**9,850**	**54.7**					

*Source: Companies, Kotak Securities - Private Client Research; *ACC is CY ending company; results are for Q3CY14; ****Shree Cements has changed its financial yr to June; results are for Q1FY15*

RESULTS PREVIEW

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CONSTRUCTION

High debt and interest rates are likely to weigh on profitability of the sector during Q2FY15 also. Lack of order inflows during last year is also expected to impact revenue growth for the companies during the quarter. Revenues are expected to grow by 7% YoY for construction companies in our coverage universe while on Qoq basis, revenues are expected to grow by 4.2%. Operating margins are expected to remain a mixed bag but continued high working capital requirements as well as borrowings are expected to result in decline in profitability on YoY basis.

Government is taking number of steps to improve the investment climate for the sector in terms of easing bottlenecks which have impacted projects performance so far. Project award activity is also expected to increase in the road segment with NHAI planning to award nearly 5000 km through EPC mode and 3000 km through BOT mode. Urban infra and housing is likely to see an improvement with further progress on smart cities plan. With bifurcation of Andhra Pradesh, projects are likely to improve in irrigation and building segment from AP region also.

Companies are also in talks with various players for selling stake in their BOT projects along with land monetization to bring down the borrowings. Fund raising through equity issuance is also expected to bring down debt for few companies. Players like JP associates and NCC have been able to issue equity through QIP and rights issue respectively and they are also in talks to sell stake in their projects to reduce borrowings. Improvement in order inflows and cash from asset sales will likely improve liquidity for companies in FY15.

We recommend a selective stance on the sector and would prefer players which have strong balance sheet or are likely to benefit from debt reduction going forward. Thus we would prefer players like IRB Infrastructure, IL&FS Transportation Networks and NCC ltd.

We also like Phoenix mills as we expect company to benefit from increased consumption and rentals going forward. Among allied sector companies, we like Kajaria Ceramics and expect it to benefit from volume and pricing improvement going forward.

Key highlights about the sector

Revenues to depict a slower pace of growth

Revenue growth of the companies during Q2FY15 is likely to be impacted by monsoons. Pace of improvement in revenues is expected to be slower for companies in order to contain working capital cycle. For some companies, it may also be impacted by lack of order inflows during last year. Order inflow has started recovering in select segments of infrastructure so order book is likely to improve sequentially.

Operating margins are likely to witness an improvement

Operating margins are likely to witness an improvement during the quarter due to change in the project mix for few companies like IRB while Simplex and NCC are likely to see an improvement due to decline in competition and sufficient cushion built in at the time of bidding. ILFS transportation network is expected to witness a decline in margins on yearly basis due to lower fee income during the quarter.

Net profit performance likely to remain weak

Aggregate net profit of companies in our coverage universe is expected to decline by 72% YoY for Q2FY15 led by steep increase in interest outgo. Interest outgo and overall borrowings are likely to remain high during the quarter also due to stretched working capital cycle and higher interest rates. However, equity issuances through QIP/rights issue or stake sale by companies at the SPV level going forward would be positive for the sector since it would help in reducing overall interest outgo.

Remain selective on the sector

We recommend a selective stance on the sector and would prefer players which have strong balance sheet or are likely to benefit from debt reduction going forward. Thus we would prefer players like IRB Infrastructure, IL&FS Transportation Networks and NCC ltd.

We also like Phoenix mills as we expect company to benefit from increased consumption and rentals going forward. Among allied sector companies, we like Kajaria Ceramics and expect it to benefit from volume and pricing improvement going forward.

Quarterly estimates - Construction & Real estate

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Construction																		
Jaiprakash Associates	31,111	29,937	3.9	31,494	(1.2)	25.0	25.2	24.2	(992)	(806)	-	677	-	(0.4)	(0.5)	-	0.3	-
IRB Infra	9,900	10,367	(4.5)	9,674	2.3	56.2	56.9	46.5	1,267	1,503	(15.7)	1,068	18.6	3.8	4.5	(15.7)	3.2	18.6
IL&FS Transportation	15,500	14,200	9.2	13,407	15.6	29.0	29.6	37.2	518	1,378	(62.4)	1,113	(53.4)	2.1	5.6	(62.4)	5.7	(63.3)
NCC	14,724	14,896	(1.2)	13,292	10.8	8.0	7.3	7.0	(112)	(30)	-	52	-	(0.2)	(0.1)	-	0.2	-
Simplex Infra	15,084	13,404	12.5	12,822	17.6	10.5	10.8	11.0	170	127	33.9	113	50.9	3.4	2.6	33.9	2.3	50.9
TOTAL	**86,319**	**82,804**	**4.2**	**80,688**	**7.0**				**850**	**2,171**	**(60.8)**	**3,022**	**(71.9)**					
Real Estate & Allied																		
Phoenix mills Ltd	786	756	4.0	707	11.2	65.0	65.9	67.7	389	352	10.6	365	6.6	2.7	2.4	10.6	2.5	6.6
Ceramics																		
Kajaria Ceramics	5,432	5,029	8.0	4,781	13.6	16.0	15.9	13.7	424	386	9.8	269	57.4	5.6	5.1	9.8	3.7	53.2

Source: Companies, Kotak Securities - Private Client Research

RESULS PREVIEW

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FMCG

We expect sales growth in our FMCG universe to continue showing moderation, with 12.7% y/y growth. We expect margins of several companies to register expansion on the back of improving gross margins/ lower competitive pressures. Expect strong PAT growth for Colgate - Palmolive, GCPL on the back of improving margins. Marico is likely to register strong PAT growth on the back of strong sales (value) growth. ITC, HUL, Nestle,and Dabur are likely to lag, leading to a modest 8% growth in our coverage universe PAT.

- **Colgate - Palmolive (India):** We expect sales growth for the company shall show further moderation, on a high base (12% y/y growth modelled, largely led by pricing). 2QFY14 is a high base quarter on revenues, but low base on profitability. We expect gross margins to recover 110 bps on improved pricing, and EBITDA margin expansion of 230 bps on lower spends in advertising and promotion. We expect 21% y/y growth in PAT.
- **Dabur:** We estimate 13% growth in revenues, with 6-7% growth in volumes. Expect gross margins to decline on a y/y basis, on higher costs of several raw materials, leading to 1.2 ppt decline in EBITDA margin. We estimate 9.4% growth in PAT.
- **Godrej Consumer:** We expect 8.5% y/y growth, with similar growth in Indian and international markets. Gross margin for the company is likely to register improvements on the back of sharp declines in palm oil prices in recent months, leading to 80 bps rise in EBITDA margin. We expect 20% y/y growth in PAT for the company.
- **Hindustan Unilever:** We expect 12% growth in revenues, with equal contribution from pricing and volume. Gross margin is likely to see improvements on declines in palm oil prices (as also crude-related inputs), leading to 1.5 ppt expansion in EBITDA margin. We expect 13% growth in PAT.
- **ITC:** We expect 13% growth in net sales, with 8% growth in cigarette net sales (assumption of 3% volume de-growth). Since we are factoring in strong growth in agri-business, we expect margins to contract 180 bps. We expect 5% growth in PAT.
- **Marico:** Largely on the back of sharp price hikes taken in coconut oil, we expect Marico to register 30% y/y growth in revenues for the quarter. Gross margin will register decline on the back of rise in raw material expenses , leading to a 140 bps contraction in EBITDA margin. We expect 21% growth in PAT.
- **Nestle India:** We expect 10% growth in sales for the company. EBITDA margin of the company is likely to display compression on higher raw material expenses, and expenses on launch of new products. We expect 3% growth in PAT.

Quarterly estimates - FMCG

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Colgate Palmolive	10,032	9,506	5.5	8,957	12.0	18.1	19.7	15.8	1,321	1,349	-2.1	1,095	20.6	9.7	9.9	-2.1	8.1	20.6
Dabur	19,762	18,639	6.0	17,488	13.0	17.3	14.1	18.5	2,739	2,111	29.7	2,504	9.4	1.6	1.2	29.7	1.4	9.4
Godrej Consumer	21,277	18,885	12.7	19,617	8.5	16.1	12.8	15.3	2,335	1,435	62.7	1,950	19.7	6.9	4.2	62.7	5.7	19.7
Hindustan Unilever	77,352	77,163	0.2	68,926	12.2	17.2	17.1	15.7	10,291	10,569	-2.6	9,138	12.6	4.8	4.9	-2.6	4.2	12.6
ITC	87,659	91,644	-4.3	77,758	12.7	37.9	34.8	39.7	23,334	21,864	6.7	22,305	4.6	2.9	2.8	6.7	2.8	4.6
Marico	14,524	16,192	-10.3	11,154	30.2	13.4	16.2	14.8	1,283	1,853	-30.8	1,059	21.2	2.0	2.9	-30.8	1.6	21.2
Nestle India	25,749	24,189	6.4	23,483	9.6	20.2	20.1	21.0	2,919	2,879	1.4	2,850	2.4	30.3	29.9	1.4	29.6	2.4
Total	**256,355**	**256,220**	**0.1**	**227,383**	**12.7**	**20.0**	**19.3**	**20.1**	**44,222**	**42,059**	**5.1**	**40,901**	**8.1**					

Source: Company Reports, Kotak Securities - Private Client Research

RESULT PREVIEW

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INFORMATION TECHNOLOGY

We expect companies under our coverage to report a strong performance on the revenue front. The industry is seeing strong demand trends as developed economies, especially USA, recover further. Cross currency benefits should have a negative impact to the extent of 50-80bps. Margins are expected to be maintained QoQ as the benefits from rupee depreciation and SG&A leverage are offset by salary hikes by select companies and seasonal variations.

We understand that, over the quarter, the overall demand scenario has remained stable / improved across sectors. The US economy has continued to show signs of improvement. While European economic growth in EU remains challenged, deeper penetration into clients and challenges on revenues / costs of clients are leading to higher outsourcing from that region, we understand. TCS has already indicated that, growth should be in line with its expectations. The new strategic vision to be laid down by Infosys as well as any revision to Infosys' FY15 guidance will be closely watched.

We maintain our constructive view on the medium-to-long term prospects of the sector on expectations of improving demand over this period. The Rupee has depreciated over the past few weeks and has provided tailwinds to the sector. However, we believe that, the probability of a significant depreciation from the current levels is low.

Strong USD revenue growth expected; rupee to help growth in INR terms

We expect organic revenues in USD terms to grow by 3% - 5% QoQ, for the top 4 companies. Cross currency impact is expected to impact revenues by about 50bps - 80bps.

We believe that, the demand scenario has remained stable or has improved across verticals. We also expect better growth in ley areas like US geography and the BFS vertical. Troubled verticals like Insurance may continue to show subdued growth. However, specific cases of ramp-downs by clients or cut-overs (closed project not substituted with new ones) may continue to impact some mid-tier companies.

Average realizations are expected to have remained largely stable QoQ. For the companies under our coverage, INR revenues are expected to witness a 5.6% growth.

EBIDTA margins to be sustained

Margins are expected to be sustained on a QoQ. The rupee depreciation (1.2% QoQ) and leverage on SG&A expenses will largely be set off by salary increments for some players as well as seasonal variations. For the companies under our coverage, we expect EBIDTA to rise by about 5.7% QoQ.

PAT expected to rise by about 2.7% QoQ

Other income component is expected to be lower QoQ because of hedging losses due to the rupee appreciation as well as one-offs. That will result in a near 2.7% QoQ growth in net profits, we estimate. Companies follow different hedging strategies and different accounting policies. This may lead to corresponding impact of currency volatility on other income.

What to watch out for?

The new management of Infosys will detail the strategic vision for the medium term, which will be closely watched. Moreover, we will look out for any changes to the FY15 guidance. We will also watch out for comments by company managements on the situation in Europe, where economic growth is moderating. Discretionary spends have been improving and we will watch out for comments relating to the same. While we expect pricing to remain largely stable, we will closely watch the management commentary about their expectations on the same. We understand that, competitive intensity has increased.

It will be interesting to see if companies re-invest the benefits of the rupee depreciation in demand - generating initiatives or retain the same.

We will also watch the progress made by and expectations of the various companies in new areas of opportunities like Cloud Computing, Analytics, Mobility, etc. Demand trends in these businesses will be of interest to us. Non-linear initiatives are becoming very important from the perspective of sustaining margin. Progress on the same by various companies will be something to watch out for.

Remain constructive on medium-to-long term prospects; to watch rupee closely

We understand that, over the quarter, the overall demand scenario has remained stable / improved across sectors. The USA economy has continued to show signs of improvement. This should bode well for CY14 revenue growth. We expect deeper penetration by Indian companies to increase outsourcing business from Europe.

We maintain our constructive view on the medium-to-long term prospects of the sector on expectations of improving demand over this period. The rupee has depreciated recently and is a tailwind for the sector. However, we do not expect the rupee to depreciate significantly from the current levels. We will closely watch the movement of the Rupee, going ahead.

Quarterly Estimates (Jul - Sep 2014) - Information Technology

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mns)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Infosys ^	127,700	133,133	4.3	129,650	2.7	25.1	25.4	23.6	28,860	29,892	3.6	26,260	13.8	50.5	52.3	3.6	46.0	13.8
TCS	221,110	237,448	7.4	209,772	13.2	28.8	29.5	31.6	50,578	54,218	7.2	47,018	15.3	25.8	27.7	7.2	24.0	15.3
Wipro	112,456	119,410	6.2	109,920	8.6	23.7	23.0	22.7	21,032	21,656	3.0	19,424	11.5	8.5	8.8	3.0	7.9	11.4
HCL Tech *	84,240	87,515	3.9	79,610	9.9	26.3	25.3	26.3	18,350	16,426	(10.5)	14,160	16.0	26.0	23.3	(10.5)	20.1	16.0
TOTAL	**545,506**	**577,506**	**5.9**	**528,952**	**9.2**				**118,820**	**122,191**	**2.8**	**106,862**	**14.3**					
Geometric	2,688	2,840	5.6	2,865	(0.9)	16.1	15.3	23.0	192	192	0.1	166	16.1	3.0	3.0	0.1	2.6	16.1
Mphasis $	14,902	15,332	2.9	15,940	(3.8)	16.6	17.1	17.5	1,748	1,915	9.6	1,902	0.7	8.3	9.1	9.6	9.1	0.7
Cyient	6,217	6,451	3.8	5,493	17.4	14.1	16.3	19.8	685	720	5.1	725	(0.7)	6.1	6.5	5.1	6.5	(0.7)
KPIT	6,897	7,268	5.4	7,028	3.4	12.0	13.3	15.4	508	625	23.1	667	(6.3)	2.7	3.4	23.1	3.6	(6.3)
NIIT Ltd	2,252	2,729	21.2	2,624	4.0	5.7	9.7	9.3	6	237	3,855.9	119	99.5	0.0	1.4	3,855.9	0.7	99.5
NIIT Tech	5,776	5,816	0.7	5,873	(1.0)	13.4	13.8	15.1	433	479	10.6	624	(23.2)	7.1	7.9	10.6	10.3	(23.2)
Oracle	10,730	10,301	(4.0)	9,650	6.7	45.0	39.3	37.9	3,944	3,510	(11.0)	3,595	(2.4)	46.9	41.7	(11.0)	42.7	(2.4)
Zensar ^^	6,048	6,451	6.7	5,898	9.4	12.6	11.0	15.7	559	476	(14.7)	706	(32.6)	12.9	10.9	(15.5)	16.3	(33.1)
TOTAL	**55,510**	**57,187**	**3.0**	**55,371**	**3.3**				**8,075**	**8,157**	**1.0**	**8,504**	**(4.1)**					
TOTAL	**601,016**	**634,693**	**5.6**	**584,323**	**8.6**	**25.9**	**25.9**	**26.4**	**126,896**	**130,348**	**2.7**	**115,366**	**13.0**					

Source: Companies, Kotak Securities - Private Client Research

** - Estimates are for 1QFY15*

^ - Margin numbers and % are EBIT and EBIT %, respectively, for Infosys

^^ - Financials of Digital Access consolidated WEF 14/8/2014

$ - Previous year numbers are for the quarter August - October 2013

RESULTS PREVIEW

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LOGISTICS

Port volumes at key ports in Q2FY15

Performance of Logistics companies involved with container rail business, CFS business and related business is strongly linked to performance of the port sector in the country. With the container volumes in Q2FY15 at the 12 major ports of the country at 1.80 mn TEUs (vs. 1.77 mn TEUs YoY) and minor ports like Adani and Gujarat Pipavav (and other unlisted ports) estimated to grow much faster (between 12 to 20% YoY), we expect the Logistics companies in our coverage to report healthy growth in Q2FY15. The growth would be primarily on account of improved volumes/ realisation and diversified business profile.

Container Corporation of India (BUY: Target Price - Rs 1470)

- With pick-up in Exim trade and market share gain for Concor, we expect the company to report decent growth in volumes and revenues with improvement in margins by 180 bps QoQ. It is important to note here that Concor primarily operates in Exim segment out of JNPT.
- However margins may not expand as expected primarily due to increased competition in the Exim segment, higher discounts and higher haulage cost in domestic segment (not completely passed to customers till date).

Gateway Distriparks Ltd (Accumulate: Target Price - Rs 275)

- We expect GDL to report modest growth in revenue and profitability and it would be driven by higher lead time in the CFS segment, improvement in rail volumes with improvement in the rail load factor. Also the cold chain segment is expected to contribute significantly to the revenues.
- Healthy performance of the cold chain segment, stable CFS realizations (YoY) and improved performance in the rail business, we expect GDL to report operating profit of Rs 816 mn which translates into operating margin of ~27.1% (~26% YoY).

Allcargo Logistics (BUY: Target price - Rs 296)

- We expect Allcargo's revenue to grow by 30% YoY with consolidation of its two acquisitions in the MTO business - Econocaribe Consolidators and FCL Marine Agencies.
- We expect the margins of the company to stabilise at 9% with increased contribution of low margin MTO business in the overall revenues.

Adani Port and Special Economic Zone (ADSEZ) (BUY: Target price - Rs 300)

- The consolidated volume is expected to reach 40 mn tonnes in the current quarter (Q1FY15 ~-37.5 mn tonnes) with significant contribution from coal and container. We are expecting only marginal sales in the SEZ segment due to uncertainty of laws on taxation of SEZ units and SEZ developers (as mentioned in Direct Tax Code) and also due to slowing corporate capex.
- Q2FY15 consolidated revenue is expected to increase ~ 19% YoY to Rs 13.6 bn. The revenues would be primarily led by volume growth and improving realisation per tonne/per TEU.
- We expect the company to report sustained healthy operating margins of ~64%. Quicker berthing of ships, faster turnaround time, mechanized operations, ample storage facility and good hinterland connectivity enables the company to command superior realisation in comparison to government ports and even private counterparts.

Gujarat Pipavav Port (GPPL) (BUY: Target price - Rs 160)

- We expect GPPL to report volumes of 0.6 lakh tonnes (flat YoY) in the bulk segment and highest ever volume in the container segment at 2 lakh TEUs (+40% YoY).
- The company continues to sign long-term contracts in its container business which will help the volumes to grow YoY/QoQ.
- We are not very optimistic about the bulk and liquid cargo in near term as captive liquid and bulk volume would depend on revival or restart of certain stalled projects in the vicinity.
- Q2FY15/Q3CY14 consolidated revenue is expected to increase ~ 44% YoY and increase ~8% QoQ to Rs 1820 mn.
- With depreciation of rupee by ~3% QoQ, EBIDTA of the company is expected to improve with the realisations of the company in USD.

Blue Dart Express (BDE) (SELL: Target price - Rs 2920)

- We expect BDE to report 2% QoQ growth in the number of shipments and similar growth in the total weight of cargo in Q2FY15. Historically volumes have grown for the company at 3x the growth in domestic GDP. .
- Q2FY15 consolidated revenue is expected to increase ~ 18% YoY and increase ~5% QoQ to Rs 5550 mn on the back of improved realisation, sustained YoY 12% volume growth in Air express and increasing market share in the surface express industry and E-commerce segment.
- With improving operating leverage and aircraft utilisation, operating profit is expected at Rs 625 mn which translates into an operating margin of ~11.3%
- Net profit for Q2FY15 is expected at Rs.375 mn (+25% YoY).

Quarterly estimates - Logistics

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Concor	13,100	12,697	3.2	12,540	4.5	24.0	23.5	22.1	2,620	2,512	4.3	2,418	8	13.4	12.9	3.9	12.4	8.1
Gateway Distriparks	3,013	2,799	7.6	2,675	12.6	27.1	27.0	25.9	385	370	4.1	337	14	3.6	3.4	5.9	3.1	16.1
Allcargo Logistics	13,912	13,206	5.3	10,719	29.8	9.2	9.0	8.7	525	491	6.9	421	25	4.2	3.9	7.7	3.3	27.3
Adani Port	13,650	12,616	8.2	11,499	18.7	64.1	65.9	63.5	6,122	5,769	6.1	3,425	79	3.0	2.8	7.1	1.7	76.5
Gujarat Pipavav Port	1,820	1,683	8.1	1,264	44.0	59.6	58.8	48.7	901	805	11.9	443	103	1.9	1.7	11.8	0.9	111.1
Bluedart	5,550	5,269	5.3	4,716	17.7	11.3	10.8	8.9	375	342	9.6	301	25	15.8	14.4	9.7	12.7	24.4

Source: Companies; Kotak Securities - Private Client Research

RESULTS PREVIEW

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MEDIA

We expect 2QFY15 to be a muted quarter for the media sector, as advertising expenditures by companies have continued to lag, as per our interactions. We estimate that our coverage universe shall register 8% y/y growth. TV and radio companies are likely to register higher revenue growth, while print is likely to lag. We expect on 80 bps expansion in margin of our coverage universe,led by broadcasters. We estimate 8.5% y/y growth in PAT for our coverage universe.

- **DB Corp:** We estimate 8% y/y growth in revenues, led by subscription revenues. We model for 7.5% growth in advertising revenues, and 13% growth in circulation revenues. Newsprint expenses are likely to decline only modestly, and yields will likely see some pressure post elections. We expect the margins to be flattish y/y. We estimate 12% y/y growth in PAT.
- **Dish TV:** We model for 12% y/y growth in revenues (3.3%, q/q), helped largely by higher ARPUs (price hikes taken in recent months). We expect modest gains in gross margins (higher ARPUs), leading to 70 bps rise in EBITDA margin. We expect PAT (loss) to be reduced to (Rs 18mn) in the quarter.
- **ENIL:** We expect that the radio industry shall continue to outperform print post elections, as advertising shall continue to be led by promotions. We estimate 13.3% growth in sales. ENIL has done significant marketing campaigns in Delhi and Mumbai in the quarter, which will likely lead to a (q/q) compression in margins on a QoQ basis. However, on a y/y basis, we expect margins to expand by 60 bps. We expect 16% y/y growth in PAT.
- **Jagran Prakashan:** We expect 6% growth in revenues, with 7% growth in advertising revenues. We expect margins to remain flat y/y, as expenses continue to rise in line with revenues. We estimate 7% growth in PAT.
- **Sun TV Network:** Advertising revenues shall likely continue to display sub-industry growth (8% modelled y/y). We estimate 8% revenue growth. We expect margins to register modest gains on higher advertising, subscription revenues and contained expenses; PAT is likely to be flattish as we model for lower other income.
- **TV18 Broadcast:** We model for 12% revenue growth on account of consolidation of ETV financials (positive impact on advertising and subscription revenues), and release of a significant movie in the quarter (Mary Kom). Margins are likely to witness a 3 ppt rise on account of better margins in the broadcasting business (budget in the quarter to impact company positively). We expect Rs 273 mn PAT for the quarter.
- **Zee Entertainment:** We expect that Zee Entertainment shall continue to lead industry growth in advertising, as the company's ratings performance has continued to be robust. We model for 15% y/y growth in advertising and 12% growth in revenues from operations. We expect margins to register an expansion of 1.7 ppt, on contained growth in content as well as other expenses. PAT is likely to be flat on lower other income and higher tax rate.

Quarterly estimates - Media

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
DB Corp	4,712	4,892	-3.7	4,380	7.6	24.7	27.5	24.6	675	792	-14.8	602	12.1	3.7	4.3	-14.8	3.3	12.1
Dish TV	6,621	6,407	3.3	5,926	11.7	25.7	24.5	25.0	(18)	(161)	-88.7	(160)	NM	0.0	-0.2	-88.7	-0.1	-88.6
ENIL*	981	933	5.2	865	13.3	29.8	37.4	29.2	191	243	-21.6	164	16.1	4.0	5.1	-21.6	3.4	16.1
Jagran Prakashan*	4,087	4,135	-1.1	3,852	6.1	23.6	25.6	23.6	499	559	-10.6	468	6.7	1.6	1.8	-10.6	1.5	6.7
Sun TV Network*	5,026	6,336	-20.7	4,664	7.8	47.8	36.1	47.2	1,694	1,656	2.3	1,692	0.1	4.3	4.2	2.3	4.3	0.1
TV18 Broadcast	5,250	5,277	-0.5	4,831	12.2	9.0	9.0	8.2	273	92	196.2	100	173.0	0.16	0.05	196.2	0.1	173.0
Zee Entertainment	11,608	10,857	6.9	11,013	12.2	29.9	28.5	28.2	2,357	2,106	11.9	2,363	-0.3	2.5	2.2	11.9	2.5	-0.3
Total	**38,286**	**38,837**	**-1.4**	**35,531**	**7.8**	**27.2**	**27.0**	**26.6**	**5,670**	**5,287**	**7.2**	**5,229**	**8.4**					

*Source: Company Reports, Kotak Securities - Private Client Research; * *Standalone; Note: EBIT margin for Sun TV Network*

RESULTS PREVIEW

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OIL & GAS

Key readings of the oil and gas sector - Volatile currency, Lower crude oil prices (may result in inventor losses), Lower product prices....

In Q2FY15, local and global news flow kept the sector in focus. During the quarter, the crude oil price fell significantly by 14% to ~US$94/bbls, mainly due to improving supply, strong dollar and concerns about tepid demand for oil in Europe and China. The average crude oil price for the quarter was ~US$103.5/bbls. According to the latest oil ministry data, the Indian basket of crude stood at ~$94/bbls. Just to highlight, lower crude oil prices is a positive development for India in general.

Indian currency against US dollar remained volatile, initially appreciated but later depreciated to INR 61.82/US$ (INR 60.19/$ as on 30th Jun'14) mainly due to stronger dollar. Just to highlight that, lower crude oil price is a positive development for India in general.

Due to the fall in global crude prices and regular monthly diesel price hikes, OMCs have not only recovered all the under-recoveries but are having over-recovery of ~Rs 1/ltrs, raising expectations of a diesel price cut for the first time since January 2009. Oil ministry officials said they had sought the permission of the Election Commission to cut prices. The Union Cabinet may decontrol diesel that will give a bonanza to RIL and Essar OIL (both stocks not under-coverage).

Lower crude oil price is positive for oil marketing companies (CPCL, IOCL, BPCL, and HPCL) and RLNG importers like PLNG. But it will negatively impact private upstream companies such as Cairn India, HOEC (not under-coverage), Selan exploration (not under-coverage), etc. However, OINL is expected to benefit from lower under-recoveries.

On the refining side, Singapore GMRs were lower sequentially. This may impact the performance of private and public refineries.

The key focus area was the potential gas price hike. We do understand that natural gas price deferral to November 15 is a marginal negative development for the sector. However, we believe that, gas prices will be revised sooner or later. We believe that, the gas price will be hiked to US$6.5-7/mmbtu. Higher price for natural gas is essential for any meaningful reinvestment in existing fields and investments in new discovered fields and unexplored regions, which is necessary to sustain and grow domestic production.

In FY15, total energy deficit is around 258 million tonne of oil equivalent (mtoe), including short supplies of coal, natural gas, crude oil and electricity. This deficit is expected to soar to 472 mtoe by 2020. In order to bridge this gap, we would need expenditure of ~$2 Tn by 2020 end and $3.4 tn by 2030.

Key highlights of the quarter

We expect oil and gas sector performance to be mixed in Q2FY15 mainly on account of lower GRMs, lower crude oil price, diesel over-recovery and lower imported LNG prices. Gas utility companies can see some volume pressure on account of lower domestic natural gas supply but partly it will get compensated by higher LNG imports.

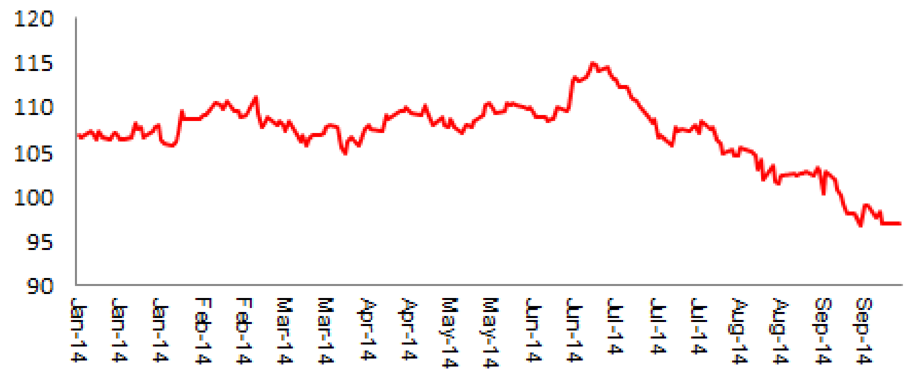
Companies

- **Cairn India Ltd.** We expect CIL to report lower bottom line, which reflects 1). Lower average crude oil prices, 2). Fall in crude oil production in Rajasthan block due to temporary shutdown in Barmer. We estimate average net realization of US$92/bbls for Cairn India in Q2FY15. We have assumed tax rate at 8% for Q2FY15.

- **Castrol.** The lubricant business is a seasonal business and volume gets affected due to various seasonal factors. Hence, quarter-on-quarter result comparison will not give the correct picture. We have observed that for Castrol Quarter 2 (April-June) and Quarter 4 (Oct-Dec) of the calendar year are generally the best quarters. On a YoY basis, Castrol is expected to benefit from pick-up in commercial vehicle (CV) sales, which accounts for about 30% of its revenues, likely gains on the macro growth (benefiting industrial segment, which forms about 10% of its revenues) and weak base oil prices (main raw material).
- **Indraprastha Gas (IGL).** We expect IGL to show marginal volume growth mainly due to conversion of vehicles to CNG. We expect flat PAT growth in Q2FY15. We have assumed EBIDTA per unit of sales of Rs.6.0 on account of lower raw material cost and price hikes under-taken.
- **Gujarat State Petronet Ltd (GSPL).** We expect GSPL to report growth in profits on account of higher gas volumes. The Supreme Court has directed the union government to supply natural gas to Gujarat at the price it supplies to Delhi and Mumbai. Accordingly, the Centre has started supplying gas under the APM from Dec'13. We believe the full benefit of higher gas transmission volume will be reflected in Q2FY15 and onwards.
- **OIL India (OINL):** We expect OIL to report flat EBITDA growth YOY, led by lower net crude realizations and lower production volumes. We expect upstream oil companies to provide US$55/bbl of subsidy discount to downstream companies.
- **Petronet LNG (PLNG):** In Q2FY15, LNG prices have cooled off mainly due to lower crude oil prices. This is positive for PLNG. We expect Dahej to operate at ~109%. However, under utilisation of the Kochi plant will impact the earnings. We expect PAT to increase due to higher demand of cheaper LNG and higher marketing margins on spot volumes.
- **MRPL:** We expect MRPL's performance to be subdued mainly on account of lower GRMs and inventory losses. We have assumed crude throughput of 3.1 MMTPA.
- **CPCL:** In Q2FY15, CPCL's performance to get impacted by inventory losses due to lower crude oil prices. We expect company to report lower GRMs. We have assumed crude through put of 2.9 Mn MTPA, higher by 2.7% QoQ and 3.9% YoY. Actual performance will depend on marketing margins passed on by IOC to CPCL.

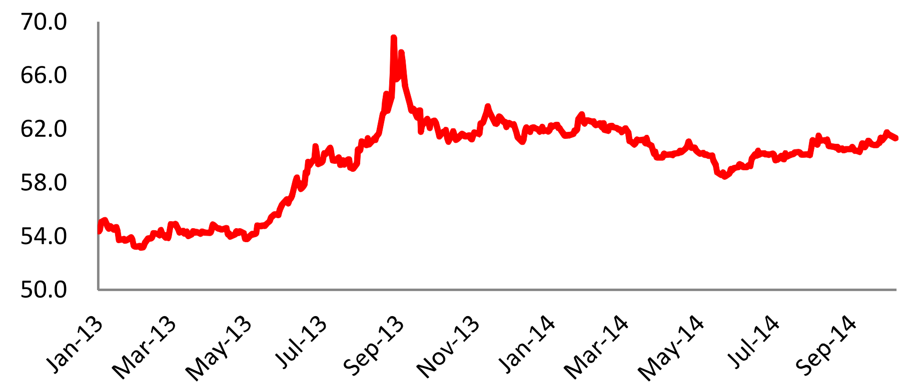
Finally, we recommend BUY on OINL, MRPL and Cairn India.

Brent crude price moved lower



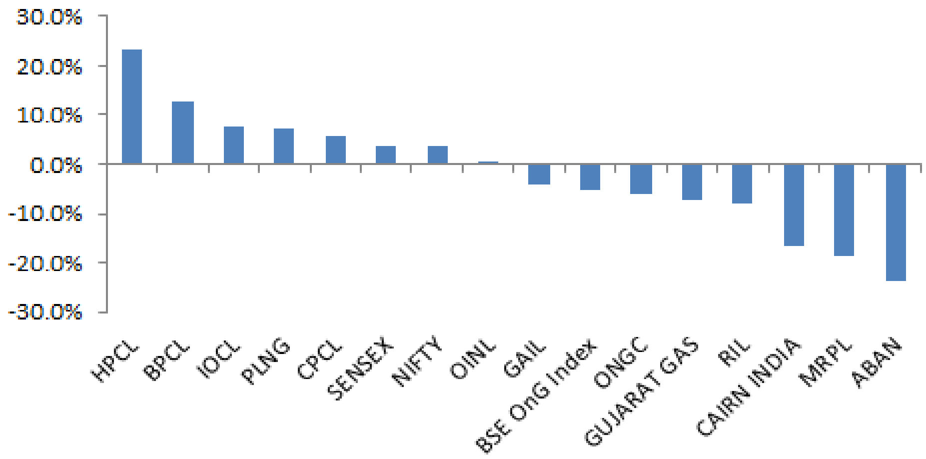
Source: Bloomberg

Rupee remained weak (Rs/US$)



Source: Bloomberg

3M performance



Source: Bloomberg

Quarterly estimates - Oil & Gas

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Cairn india	40,632	44,829	(9.4)	46,499	(12.6)	70.5	68.1	74.9	22,085	10,929	102.1	33,851	(34.8)	11.6	5.8	98.2	17.7	(34.8)
Castrol *	8,009	9,103	(12.0)	7,196	11.3	22.2	20.2	20.3	1,250	1,244	0.5	1,045	19.6	2.5	2.5	0.5	2.1	19.6
IGL	9,762	8,672	12.6	10,090	(3.3)	20.8	23.8	19.8	1,037	1,140	(9.1)	927	11.8	7.4	8.1	(9.1)	6.6	11.8
GSPL	2,502	2,304	8.6	2,770	(9.6)	87.7	86.8	90.6	1,097	850	29.1	1,141	(3.8)	1.9	1.5	29.1	2.0	(3.8)
MRPL	157,190	157,414	(0.1)	187,623	(16.2)	1.6	(1.0)	2.6	48	(361)	NA	2,358	NA	0.0	(0.2)	NA	1.3	NA
OIL India	28,071	25,148	11.6	27,137	3.4	49.1	44.3	49.0	9,029	8,519	6.0	9,036	(0.1)	15.0	14.2	6.0	15.0	(0.1)
CPCL	138,500	129,849	6.7	130,987	5.7	1.7	(0.1)	2.8	458	5,101	NA	1,203	NA	3.1	34.2	NA	8.1	NA
PLNG	102,225	101,608	0.6	94,935	7.7	4.1	3.5	3.8	1,983	1,566	26.6	1,818	9.1	2.6	2.1	26.6	2.4	9.1
TOTAL	**486,891**	**478,927**	**1.7**	**507,237**	**(4.0)**	**11.8**	**10.3**	**13.1**	**36,986**	**28,988**	**27.6**	**51,379**	**(28.0)**					

*Source: Companies; Kotak Securities - Private Client Research; * Follows calendar year*

RESULTS PREVIEW

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PAINTS

We expect paint companies to report healthy set of numbers in Q2FY15 on the back of; 1) Continued healthy performance of the Decorative paint segment (growth of 2x GDP) and 2) Most paint companies including Asian Paints and KNPL have taken price increases in the last six months which should reflect in the financials of Q2FY15, 3) Fall in the price of key raw material Titanium Dioxide. Even performance of the auto sector (main customer for industrial paints) has improved QoQ.

Kansai Nerolac Paints Limited (BUY; Target Price - Rs 2250)

- With improving auto sales numbers in Q2FY15 and the company gaining market share in the high margin decorative paint segment, we expect the company to report revenue of Rs 10.2 bn (+10% QoQ and +29% YoY)
- Also we expect the margins of the company to improve by 240 bps YoY / 44 bps QoQ at 13.0%
- Company is expected to report PAT of Rs 810 mn (+11% QoQ and +57% YoY)

Quarterly estimates - Paints

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
Kansai Nerolac Paints	10,200	9,237	10.4	7,917	28.8	13.0	12.7	11.6	810	729	11.1	517	57	15.0	13.5	11.1	9.6	56.3

Source: Companies; Kotak Securities - Private Client Research

RESULTS PREVIEW

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SHIPPING

Shipping market in Q2FY15

Supply side pressure has eased across segments

Despite fresh ordering in the last 6 months, the order book to fleet ratio in the dry bulk segment has improved to 22.5% from 23.5% QoQ and from 30% YoY, while in dirty tanker segment the ratio has remained flat at 12% QoQ and improved from 19% YoY. Even asset prices across segments have improved ~2% QoQ and ~10% YoY which would help the NAV of shipping companies. With demand improving especially from China for bulk and for crude from Europe and US, the shipping markets have improved in the last 2 quarters. Currently we estimate scrapping to be equal to or more than new order placement which is positive for the sector. With continuous reduction in global shipping order book, we expect stable shipping market for H2FY15 with shipping companies including SCI and GE Shipping reporting improved financial performance.

Reduction in global shipping order book

Global order book	Oct-14		Oct-13	
(mn dwt)	Order book (dwt)	% of fleet	Order book (dwt)	% of fleet
Dry Bulk fleet	156,770	22.5	218,756	*30.0*
Tanker fleet	46,736	12.5	70,846	*19.0*
Container fleet	42,391	19.6	44,039	*21.1*

Source: Bloomberg

Assets prices have also improved in the last 3 to 6 months

Asset prices across segments have improved between 2 to 10 % which indicates recovery and renewed interest in the sector. With increase in asset prices we also expect that the Net Asset value of shipping companies to have increased in the last one quarter.

New build asset prices across segments

($ mn)	VLCC	Capesize	Suezmax	Aframax
Oct-14	99	61	68	55
Apr-14	97	59	67	54
Dec-13	93	56	63	51
Oct-13	90	49	56	47
Dec-12	74	46	57	38
Jun-11	81	52	58	40
Mar-11	83	58	59	43
Dec-10	90	59	62	47
Oct-10	98	59	69	55
Oct-09	120	66	85	69

Source: Bloomberg.

Bunker prices have also corrected in the last 6 months giving reprieve to shipping companies

$ per tonne	Current	6 M Ago	1 Year Ago	2 Year Ago
Singapore	585	662	445	408
Rotterdam	576	647	428	378

Source: Bloomberg

Great Eastern Shipping Co (ACCUMULATE: Target Price - Rs 450)

- We expect GESCO to report flattish revenues with improvement in margins on the back of stable shipping markets, healthy offshore markets and lower bunker prices in the quarter.
- We also estimate gross NAV of the company (including shipping and offshore) to have gone up from Rs 550 from the previous quarter.

Shipping Corporation of India (BUY: Target Price - Rs 77)

- We expect SCI's Q2FY15 revenues to increase, led by increased fleet size of the company and improved shipping market.
- The company is also expected to report improvement in operating margins and profitability on the back of improved shipping market and lower bunker prices..
- We again expect SCI to report net profit for the quarter at Rs 563 mn (vs. profit of Rs 505 mn in Q1FY15). It is important to note that SCI had reported loss for 8 consecutive quarters before Q4FY14.
- We also estimate the gross NAV of the company to have increased for the company from Rs 115/share QoQ. .

ABG Shipyard (SELL: Target Price - Rs 208)

- We expect ABG to report weak revenues and profitability for Q2FY15 with the company facing serious cash flow problems with deferral of deliveries, rising raw material cost, halted capex and invoking of bank guarantees (due to order cancellations)..
- We don't expect the company to book any significant subsidy amount in the quarter.
- The company is going through the process of getting its debt of ~Rs 110bn restructured (total including bank guarantees).

Pipavav Defence and Offshore Limited (SELL: Target Price - Rs 46)

- We expect even Pipavav to report weak revenues and profitability for Q2FY15 due to poor shipbuilding market. Trading revenue is expected to offset the weak shipbuilding revenues to some extent.
- PDO was planning to raise around $150 million through a listing on the London Stock Exchange (LSE) or through a strategic stake sale which we believe won't materialise in near term due to poor shipbuilding market.

Quarterly estimates - Shipping

Company	Revenues (Rs mn)					EBIDTA (%)			PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	Q2 FY14	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)
GE shipping	8,310	8,082	2.8	7,738	7.4	47.2	45.9	50.6	2,436	2,229	9.3	1,608	51	16.1	14.8	8.8	10.7	50.5
SCI	10,986	10,689	2.8	10,501	4.6	16.9	16.8	12.6	563	505	11.5	(1,214)	(146)	1.2	1.1	9.1	(2.6)	(146.2)
ABG Shipyard	2,430	2,660	(8.6)	3,743	(35.1)	23.6	34.6	40.9	(652)	(560)	16.4	28	(2,429)	(12.8)	(11.0)	16.4	0.6	(2,427.3)
Pipavav Defence	2,995	3,165	(5.4)	8,075	(62.9)	26.4	44.4	18.2	37	54	(31.5)	45	(18)	0.1	0.1	-	0.1	-

Source: Companies; Kotak Securities - Private Client Research

RESULTS PREVIEW

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BANKING & NBFCs

We expect strong performance for banks under our coverage on back of low base - net income is expected to grow at 27.8% YoY; PSU banking universe is likely to grow faster vis-à-vis private banks. Credit growth for the banking system has continued to remain sluggish at below 10% mark (9.6% YoY as on September 05, 2014), below the RBI's projection of 15%. We expect NIM to remain stable QoQ on back of lower interest reversal due to stable asset quality along with benign liquidity conditions.

Subdued non-interest income during Q2FY15 in absence of any traction in the fresh sanctions as well as muted treasury performance; however, stable yield curve does not pose any risk of MTM hit on investment book. We expect fresh slippages to stabilize during Q2FY15 while restructuring to remain high as the restructuring pipeline continues to pile up. While PSU bank's fresh delinquency is likely to remain at elevated levels (albeit lower than earlier quarters), headline numbers might look better on back of aggressive recovery and sell-down to ARCs.

Low base likely to aid banks in reporting strong earnings growth; however, divergent trend visible in core performance

During Q2FY15, net income for banks under our coverage is expected to grow at faster pace (27.8% YoY) on back of low base (last year). PSU banks under our coverage are likely to report 45.1% YoY growth while private banks are likely to grow at relatively moderate pace (14.2% YoY). NBFCs are expected to report muted earnings (6.2% YoY) on back of moderate loan growth and rising credit costs.

Nonetheless, we are expecting slightly divergent trend in the core performance - private banks are likely to grow faster at 15.6% YoY, while PSU banks are likely to grow at 9.0% YoY. During the same period, NBFC's core earnings are likely to grow at healthy pace (20.2% YoY), largely driven by strong performance of HDFC Ltd and STFC.

Sluggish credit growth likely to continue while NIM is likely to remain stable QoQ

Credit growth for the banking system has continued to remain sluggish at below 10% mark (9.6% YoY as on September 05, 2014), below the RBI's projection of 15%. However, private sector banks are likely to have done relatively better largely driven by overseas book given against the money borrowed under FCNR (B) deposit swap window. At the same time, deposit growth has continued to be faster than the loan growth, resulting into sufficient liquidity in the system.

We expect NIM to remain stable QoQ on back of lower interest reversal due to stable asset quality along with benign liquidity conditions. Although wholesale rates during Q2FY14 have risen marginally, there has been sharp fall vis-à-vis last year. We believe, this could help banks having higher share of wholesale deposits in reducing their cost of borrowings.

Certificate of deposits (CDs) - (%)

	Q2FY14	Q1FY15	Q2FY15
12M	9.61	8.90	9.08
6M	9.63	8.75	8.88
3M	9.63	8.59	8.66

Source: Bloomberg

Muted treasury gains would have limited impact on pre-provisioning profit; stable yield curve does not pose any risk of MTM hit on investment book.

We expect subdued performance on non-interest income for banks under our coverage in absence of any traction in the fresh sanctions along with the muted treasury performance. Stable yield curve during Q2FY15 (10 Yr G-Sec yields fell 5bps) did not provide any trading opportunity while income from forex is also likely to be muted given the lower volatility in the currency.

Similarly, stable yield curve does not pose any risk of MTM hit on investment book.

Asset quality cycle likely to stabilize; credit costs for PSU banks are likely to be higher vis-à-vis private banks.

We expect fresh slippages to stabilize during Q2FY15 while restructuring to remain elevated as the restructuring pipeline continues to pile up. Although, private sector banks are better placed with significant exposure to retail assets, we will be closely watching the corporate book - especially exposure to sensitive sectors like power, aviation, textiles, Iron & steel and construction etc.

While PSU bank's fresh delinquency is likely to remain at elevated levels (albeit lower than earlier quarters), headline numbers might look better on back of aggressive recovery and sell-down to ARCs. Although NBFCs have performed better than the banks in terms of asset quality, past few quarters have witnessed steady rise in NPAs.

Top Picks: ICICI bank, Axis Bank, SBI and HDFC Bank

Quarterly estimates - Banking & NBFC

Company	Net Interest Income (Rs mn)					Pre-Provisioning Profit (Rs mn)					PAT (Rs mn)					EPS (Rs)				
	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q1 FY15	QoQ (%)	Q2 FY14	YoY (%)	Q2 FY15	Q2 FY15	QoQ (%)	Q2 FY14	YoY (%)
Banks																				
Allahabad Bank	14,322	16,097	(11.0)	13,091	9.4	10,595	12,195	(13.1)	11,535	(8.2)	1,595	1,127	41.5	2,758	(42.2)	2.9	2.1	41.5	5.5	(46.9)
Andhra Bank	8,887	8,035	10.6	10,454	(15.0)	6,283	6,263	0.3	6,428	(2.3)	1,233	1,071	15.2	706	74.6	2.1	1.8	15.2	1.3	65.7
Axis Bank	33,934	33,105	2.5	29,367	15.6	29,184	28,957	0.8	27,498	6.1	16,134	16,668	(3.2)	13,623	18.4	34.2	35.4	(3.2)	29.0	17.9
BOB	32,951	33,283	(1.0)	28,948	13.8	24,493	24,796	(1.2)	21,246	15.3	13,643	13,619	0.2	11,681	16.8	31.7	31.6	0.2	27.6	14.6
DCB	1,169	1,390	(15.9)	913	28.1	588	812	(27.6)	401	46.5	458	446	2.6	331	38.4	1.8	1.8	2.6	1.3	38.6
HDFC Bank	52,710	51,716	1.9	44,765	17.7	39,860	38,438	3.7	33,867	17.7	24,010	22,330	7.5	19,823	21.1	10.0	9.3	7.5	8.3	21.1
ICICI Bank	46,749	44,919	4.1	40,435	15.6	44,249	45,167	(2.0)	38,879	13.8	26,249	26,553	(1.1)	23,521	11.6	22.7	23.0	(1.1)	20.4	11.4
Indian Bank	10,867	10,720	1.4	10,937	(0.6)	6,805	6,370	6.8	7,056	(3.6)	2,405	2,072	16.1	306	686.6	5.2	4.5	16.1	7.1	(27.3)
IOB	14,407	14,269	1.0	14,518	(0.8)	7,367	6,864	7.3	7,910	(6.9)	2,917	2,717	7.4	1,326	120.1	2.4	2.2	7.4	1.4	64.6
J&K Bank	6,763	6,377	6.1	6,818	(0.8)	4,513	4,475	0.8	4,965	(9.1)	2,013	1,301	54.8	3,027	(33.5)	41.5	26.8	54.8	62.4	(33.5)
PNB	44,285	43,797	1.1	40,155	10.3	30,050	31,253	(3.9)	25,348	18.5	11,050	14,051	(21.4)	5,055	118.6	30.5	38.8	(21.4)	14.0	118.6
SBI	136,036	132,522	2.7	121,907	11.6	83,234	87,877	(5.3)	63,117	31.9	30,234	33,491	(9.7)	23,750	27.3	40.5	44.9	(9.7)	31.8	27.3
Union Bank	21,137	21,172	(0.2)	19,545	8.1	13,092	13,719	(4.6)	12,249	6.9	6,092	6,641	(8.3)	2,081	192.7	10.2	11.1	(8.3)	3.5	192.7
NBFCs																				
HDFC Ltd	17,800	16,477	8.0	14,585	22.0	19,860	19,597	1.3	17,363	14.4	13,860	13,447	3.1	12,663	9.5	8.8	8.6	3.1	8.1	8.8
LIC Housing	5,165	5,062	2.0	4,534	13.9	5,090	4,973	2.4	4,577	11.2	3,332	3,223	3.4	3,101	7.4	6.6	6.4	3.4	6.1	7.4
M&M Finance	7,250	6,802	6.6	6,779	7.0	4,720	4,611	2.4	4,625	2.1	1,980	1,549	27.8	2,212	(10.5)	3.5	2.7	27.8	3.9	(10.5)
Shriram Transport	7,850	7,179	9.3	5,762	36.2	7,565	7,398	2.3	7,258	4.2	3,390	3,064	10.6	3,268	3.7	14.9	13.5	10.6	14.4	3.7
TOTAL	**462,281**	**452,922**	**2.1**	**413,512**	**11.8**	**337,548**	**343,765**	**(1.8)**	**294,324**	**14.7**	**160,594**	**163,369**	**(1.7)**	**129,231**	**24.3**					
Private Sector	**141,324**	**137,507**	**2.8**	**122,298**	**15.6**	**118,394**	**117,849**	**0.5**	**105,609**	**12.1**	**68,864**	**67,298**	**2.3**	**60,324**	**14.2**	**110.3**	**96.2**	**14.6**	**121.4**	**(9.2)**
Public Sector	**282,892**	**279,895**	**1.1**	**259,554**	**9.0**	**181,919**	**189,338**	**(3.9)**	**154,890**	**17.4**	**69,169**	**74,789**	**(7.5)**	**47,663**	**45.1**	**125.5**	**137.0**	**(8.4)**	**92.2**	**36.0**
Banks	**424,216**	**417,401**	**1.6**	**381,852**	**11.1**	**300,312**	**307,187**	**(2.2)**	**260,500**	**15.3**	**138,032**	**142,087**	**(2.9)**	**107,987**	**27.8**	**235.7**	**233.2**	**1.1**	**213.6**	**10.3**
NBFCs	**38,065**	**35,520**	**7.2**	**31,660**	**20.2**	**37,235**	**36,579**	**1.8**	**33,824**	**10.1**	**22,562**	**21,283**	**6.0**	**21,244**	**6.2**	**33.9**	**31.2**	**8.6**	**32.6**	**4.0**

Source: Companies; 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)
07-Oct	Asyainfo	Jignesh Hasmukhlal Shah	B	25,000	20.4
07-Oct	Asyainfo	Tejas Rameshchandra Doshi	B	25,000	20.4
07-Oct	Asyainfo	Amit Priyakant Pandya	B	25,000	20.5
07-Oct	Asyainfo	Stockwatch Securities Pvt Ltd	S	115,000	20.4
07-Oct	Bhandhos	Value Plus Shares N Securities Pvt Ltd	B	76,097	43.9
07-Oct	Bostontek	Mridul Securities Pvt Ltd	S	45,025	36.3
07-Oct	Bostontek	Nitin Kumar Bansal	B	65,000	36.3
07-Oct	Bostontek	Shivprakash Bansal	B	65,000	36.3
07-Oct	Bostontek	Jatin Kumar Bansal	B	65,000	36.3
07-Oct	Cubifin	Ratul Puri	S	449,127	23.2
07-Oct	Cubifin	Sun Rays Agro Products Pvt Ltd	B	441,400	23.2
07-Oct	Hansugar	Ajay Nathwani	B	105,000	7.6
07-Oct	Hansugar	Prem Shrikant Agrawal	S	113,520	7.6
07-Oct	HGS	Birla Sun Life Mutual Fund	B	578,000	650.0
07-Oct	HGS	Credit Suisse (Singapore) Limited A/C Credit Suisse (Singapo	S	334,071	650.3
07-Oct	HGS	Goldman Sachs Investments Mauritius	S	290,929	650.0
07-Oct	Hindtin-$	Uno Metals Limited	B	68,000	110.6
07-Oct	Indiahome	Gopal Purshotam Abichandani	B	61,000	43.1
07-Oct	Kaypowr	Cpr Capital Services Ltd	B	54,145	16.8
07-Oct	Linksoni	Suhana Infrabuildcon Pvt Ltd	S	17,931	119.2
07-Oct	Naisarg	Pradeep Narendra Bhatt	B	245,936	19.9
07-Oct	Naisarg	Veena Rajesh Shah	B	200,000	20.1
07-Oct	Naisarg	Subhashbhai Nathalal Shah	S	36,000	20.1
07-Oct	Naisarg	Hiral Alpesh Shah	S	50,000	20.1
07-Oct	Naisarg	Subhashbhai Shah Alpesh	S	45,000	19.5
07-Oct	Naisarg	Jankiben Uttambhai Kadam	S	33,500	19.3
07-Oct	Naisarg	Shehnazbanu Asarafkhan Chauhan	S	48,100	20.1
07-Oct	Naisarg	Surekhaben Jitendrakumar Shah	S	35,000	20.1
07-Oct	Naisarg	Rajvi Divya Shah	S	35,000	20.1
07-Oct	Naisarg	Rinni Kaivanbhai Shah	S	35,000	20.1
07-Oct	Naisarg	Kaivan Jitendrakumar Shah HUF	S	35,000	20.1
07-Oct	Naisarg	Kaivan Jitendrakumar Shah	S	34,999	20.1
07-Oct	Naisarg	Shah Jitendrakumar Mafatlal HUF	S	35,000	20.1
07-Oct	Naisarg	Jitendrakumar Mafatlal Shah	S	35,000	20.1
07-Oct	Prismmedi	Nikita Narendrabhai Shah	S	10,000	20.3
07-Oct	Prismmedi	Narendrabhai Shivabhai Parmar	B	10,000	20.3
07-Oct	Suranaind	Itf Mauritius	B	500,000	64.5
07-Oct	Suranaind	Cogent Corporate Pathfinders Ltd	S	500,000	64.5
07-Oct	TDpowersys	Hitoshi Matsuo	S	1,000,000	315.0
07-Oct	TDpowersys	HDFC Trustee Co. Ltd Hdfc Mf Mthly Income Plan Long Term Plan	B	200,000	315.0
07-Oct	TDpowersys	HDFC Trustee Company Limited - HDFC Infrastructure Fund	B	794,000	315.0
07-Oct	TDpowersys	Saphire Finman Services Pvt Ltd	S	1,000,000	315.1
07-Oct	TDpowersys	HDFC Trustee Company Ltd - HDFC Prudence Fund	B	1,000,000	315.0
07-Oct	Thirinfra	Avinash T Jain HUF	B	33,000	35.2
07-Oct	Thirinfra	Vinap Avinash Jain	S	30,000	35.4
07-Oct	Vinrklb	Manoj Kumar Jain	S	44,560	17.0
07-Oct	Vinrklb	Anupam BeraBottom of Form	B	50,650	17.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
NTPC Ltd	141	1.2	NA	5.7
GAIL India	443	1.0	NA	1.9
Power Grid Corp	137	1.0	NA	5.0
Losers				
DLF Ltd	142	(5.9)	NA	12.0
Sesa Sterlite	259	(4.6)	NA	6.6
Hindalco Ind	148	(4.5)	NA	12.9

Source: Bloomberg

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