



## Pre Market Report

July 19, 2013

### TCS, Axis Bank results bring smile back to markets; all eyes on Reliance Q1FY14 earnings..

The market is going to keenly watch key earnings expected today. Strong April-June quarter numbers of TCS may also be a market game changer. On Thursday, equity benchmarks gained strength in late trade with the BSE Sensex gaining 180 points to close at 20128.41 on short covering in banks, capital goods and oil & gas stocks.

Globally, the Dow and the S&P 500 closed at record highs on Thursday after Morgan Stanley and others reported better-than-expected earnings and Federal Reserve Chairman Ben Bernanke's comments further reassured markets. The S&P financial index climbed 1.3 percent. Of the 21 financial companies that have reported quarterly earnings so far, 76 percent have surpassed analysts' estimates, Thomson Reuters data showed. Both the Dow and the S&P 500 also hit all-time intraday highs shortly after the opening bell. The Dow climbed as high as 15,589.40, while the S&P 500 set a record session high of 1,693.12. Bernanke, speaking before the Senate Banking Committee, reiterated comments he made on Wednesday to the House Financial Services Committee. He stressed that the timeline for winding down the Fed's stimulus program was not set in stone. Thursday's session marked the first time that both the Dow and the S&P 500 set intraday record highs since May 22. On that same day, the rally was interrupted when Bernanke hinted that the Fed planned to begin pulling back its stimulus. His comments triggered a sharp selloff, leading to a drop of nearly 6 percent in the S&P 500 over the next month. The Dow Jones industrial average rose 78.02 points, or 0.50 percent, to end at 15,548.54, a record high. The Standard & Poor's 500 Index gained 8.46 points, or 0.50 percent, to a record close of 1,689.37. The Nasdaq Composite Index added 1.28 points, or 0.04 percent, to 3,611.28.

### Q1FY14 Result snippets across sectors...

#### a) Kotak Mahindra Bank Q1FY14 Update: Richly priced, Recommend "Sell", Target Price: Rs.640

Private sector lender Kotak Mahindra Bank's first quarter (April-June) standalone profit after tax (PAT) rose by a forecast-beating 43 percent year-on-year to Rs 403 crore, driven by a spurt in the other income that nearly doubled to Rs 462 crore from Rs 241 a year ago. Standalone net interest income (NII or the difference between ) grew by 27 percent Y-o-Y to Rs 917 crore, which was slightly lower than expectations. Street had expected it to report standalone net profit at Rs 388 crore and NII at Rs 925 crore. During the quarter, the bank expanded its loans by 19 percent y-o-y to around Rs 50,500 crore. The gross non-performing asset (NPA) ratio rose to 1.95 percent from 1.60 percent in the corresponding quarter of the previous year. Net NPA ratio stood at 0.98 percent as against 0.80 percent a year back. Provisions and contingencies shot up five times from Rs 34 crore to Rs 169 crore y-o-y. Deposits grew 26 percent to around Rs 52,500 crore while savings deposits expanded at a faster pace by 45 percent to about Rs 8,050 crore. The bank is offering a maximum 7 percent rate of interest in savings account deposits. The Reserve Bank of India had penalised the lender a sum of Rs 1.501 crore for violating Know Your Customer (KYC) norms. Meanwhile, the consolidated net profit, which included profit from its subsidiaries, increased 41.4 percent y-o-y to Rs 627 crore and NII grew by 25 percent to Rs 1,374 crore during the three-month period. During the quarter, the net interest margin (NIM) improved marginally to 4.8 percent as against 4.7 percent in previous quarter. Among subsidiaries, Kotak Mahindra Prime reported the highest growth of 94 percent y-o-y at Rs 117 crore in its June quarter net profit while the bank's international subsidiaries incurred a loss of Rs 10 crore as against a net loss of Rs 5 crore a year back. The bank's restructured loans stood at Rs 6.3 crore during the quarter compared with Rs 7.8 crore in the Jan-March quarter.

#### b) TCS – Q1FY14 update: Recommend – Quality deserves premium, "BUY", Target Price: Rs. 1,815

India's largest software services exporter Tata Consultancy Services' first quarter consolidated net profit rose higher-than-expected 16 percent year-on-year (6 percent quarter-on-quarter) to Rs. 3,831 crore, helped by new deal wins and a foreign exchange gain. It was another stellar quarter, N Chandrasekaran, CEO said, adding momentum going ahead is strong. The company's revenue growth was also better-than-expected 21 percent YoY (10 percent sequentially) at 17,987 crore in April-June. Street participants on an average had expected TCS to report net profit of Rs. 3,787 crore, on revenue of Rs. 17,705 crore. Dollar revenues increased by 4.1 percent quarter-on-quarter to US\$ 3.17 billion in first quarter. Overall the environment is quite good from the industry point of view. Management sees a great momentum. The Company has delivered well rounded growth. US, UK, Europe have been spectacular this quarter. The growth has been across sectors. The Company sees great momentum, not only in transformational deals but also in the digital space. Last quarter, TCS' operating profit margin was at 26.9 percent, which too was higher than forecast of 26.25 percent. Other income in the quarter was at Rs 258 crore, up 39 percent from a year ago (down 42 percent QoQ). The IT firm added two new USD 100 million clients during the quarter. The gross employee additions were 10,611 in April-June quarter. Its utilisation rate, excluding trainees, was at 82.7 percent in the quarter. TCS' Bangalore-based rival Infosys, which has had to play a catch up game with its rivals in the last several quarters, had also surprised the street with a better-than-expected 4 percent year-on-year (1 percent sequential dip) in net profit at Rs. 2,374 crore, and a revenue growth of 17 percent YoY (8 percent QoQ) to Rs. 11,267 crore,



MEMBER : NSE → BSE → MCX-SX → OTCEI → MPSE → CDSL → MCX\*

\*Through Subsidiary Company

last week. With Accenture, Oracle and SAP struggling to meet forecasts, there have been concerns about the prospects of India US\$100 bn (6 lakh Crore) information technology industry. It has signed 10 large deals across verticals. It has added new clients in US\$100 mn +. We believe in the midst of the uncertain global environment, especially in Europe and the US, the Company has done exceptionally well. **We recommend a "BUY" with a target price of Rs. 1,815.**

**TCS Share performance update:** TCS shares closed at Rs. 1,660.40 on NSE, down 1.1 percent on Thursday. The stock had hit a new high of Rs. 1,692.30, earlier in the session. The results were announced after market closed.

**c) Axis Bank – Q1FY14 update: Recommend –Strong performance amidst stress in economy, "BUY", Target Price: Rs. 1,380**

India's third largest private sector lender Axis Bank reported a 22 percent rise in its first quarter (April-June) net profit to Rs. 1409 crore, aided by higher net interest income (NII), that rose more than 30 percent to Rs. 2,865 crore during the quarter. Other income rose 33 percent to Rs. 1,781 crore adding to the profit margin. Earnings were on expected lines. Street participants on an average had expected the bank to report net profit at Rs 1398 crore and net interest income at Rs. 2,744 crore. The bank expanded its loans nearly 16 percent to Rs 1.98 lakh crore. Following its earlier stated stance, Axis Bank is growing its retail credit at a faster pace. Retail loans grew 40 percent y-o-y to Rs 56,700 crore compared with a growth of 16 percent at Rs 1 lakh crore. Interestingly, the bank contracted its agriculture loans, which de-grew over 13 percent to Rs 13,600 crore. During the three-month period, the gross non-performing asset (NPA) ratio rose marginally to 1.10 percent in June quarter from 1.06 percent a year back. The net NPA ratio too increased from 0.31 to 0.35 percent. Provisions and contingencies increased from Rs. 595 crore to Rs. 712 crore. However, deposits grew at a slower pace of just 7 percent y-o-y to around Rs 2.38 lakh crore. The share of current and savings account (CASA) increased from 36 percent to 39 percent of total deposits. During the quarter, CASA grew 17 percent y-o-y to Rs 1.01 lakh crore.

**Axis Bank Share performance update:** Axis Bank shares on Thursday rose 4 percent to close at Rs 1,238 crore on NSE.

**d) Reliance Q1FY14 expectations, "BUY" - Target Price: 1,038**

Amid wait for a formal communication to hike gas price, Reliance Industries(RIL) is all set to announce June quarter numbers on Friday. Though no major surprises are expected from KG-D6 production and refining margins, management commentary on impact of the new gas price hike could be one of the key factors to watch out for. Street had expected RIL to post profit of anything between Rs 5,500- 6,000 crore on revenues of Rs 92,000 crore. The firm had posted Rs 44730 crore profit on revenues of Rs 918750 crore in the year-ago period.

**Factors that will drive company profit**

Gross refining margin (GRM) is likely to expand over 12 percent YoY to around USD 9/barrel.

Higher production of refined crude from RIL's Jamnagar refinery as the plant was partly shut in the year-ago period. Petchem margins will be around 11 percent from 8.6 percent YoY on higher import duty on polymer products to 7.5 percent from the earlier 5 percent.

As a major chunk of RIL's earnings comes from exports, a weak rupee will boost bottomline.

**Factors that will continue to remain a drag on numbers**

KG-D6 is likely to drop to an average of 15 million standard cubic metres per day, around 50 percent lower than in the year-ago quarter.

Lower crude oil production from MA-1 field

**Management commentary**

Update on Rs one lakh crore capex which the company has earmarked for various businesses.

The management may announce additional investment of around 8 billion in oil and gas exploration activities including an additional USD 4 billion in KG-D6, if the new gas price formula turns out to be viable. **We recommend to "BUY" Reliance with a target price of Rs. 1,038 (14x at estimated FY14EPS of Rs. 14.2)**

**Ajcon's view**

**1) Indian markets trade at ~14.0x FY14E and ~12.0x FY15E versus historic average of 15.5x. We believe that valuations have room for upside.**



- 2) The Indian government has moved on a number of important policy reforms in the form of FDI in multi-brand retail & aviation, besides unleashing other measures like SEB debt restructuring, diesel price deregulation, gas price hike, Cabinet Committee on Investment (CCI) and direct cash transfer (DCT). The Union Budget has also been balanced and credible one with more emphasis on fiscal correction.
- 3) A creditable reform from UPA II has been the curtailment of the fiscal deficit, the diesel price deregulation and more recently the proposed gas price hike. The Finance Minister has also promised continuation of the reforms agenda, notwithstanding the political uncertainty surrounding the Lok Sabha elections.
- 4) We see the main Indian indices ending FY14 on a positive note although in the short-term there could be some temporary hiccups due to political uncertainty, weakness in the rupee, expected flat growth Q1FY14 earnings season and some uncertainty surrounding Fed's QE exit.
- 5) At this juncture, we believe markets offer value buying opportunities in midcap space. Investors with a longer term horizon should ideally pick good large cap stocks as well at this moment. We recommend buying Banks like Bank of Baroda, HDFC Bank, ICICI Bank, DCB and Standard Chartered Bank, Union Bank of India, Syndicate Bank and State Bank of India. We recommend selling Kotak Mahindra and IndusInd bank at current levels. In the Oil space, we recommend buying Reliance Industries, Oil India, ONGC and Cairn. In the Commodities space, we recommend investors to accumulate NMDC, Coal India and Manganese Ore. In the Pharma sector, we advise to accumulate stocks like Merck, Glenmark Pharma and Dr. Reddy's, Lupin, Sun Pharma and SPARC. In the Consumption space, we recommend accumulating ITC, Jyothy Labs, and Nestle. In the midcap space, we recommend investors to accumulate Cera Sanitaryware, Astec Lifescience, Apcotex, Liberty Phosphate, Petronet LNG, VaTech Wabag, Sangam (India), Voltas, Can Fin Homes, United Phosphorous, Tata Chemicals, Havells, KSB Pumps, Hathway Cable, Industrial Prudential and Investment Company.



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