

# FIRST CALL

India Equity Research

November 2, 2011

## CONTENTS

### Latest Research

- **ACC** - Operating performance in line; Hold
- **Ambuja Cement** - Costs surprise positively; Reduce
- **Colgate Palmolive** - Sweet aftertaste; Hold
- **Dabur** - Not much to cheer; Buy
- **ElIH** - In recovery mode; Hold
- **Havells India** - Scorching the growth chart; Buy
- **Hindustan Petroleum Corporation** - Rupee depreciation hurts further; Buy
- **Navabharat Ventures** - One offs take a toll; Buy
- **Punjab National Bank** - Low slippages surprise, high restructuring snips; Reduce
- **Sadbhav Engineering** - Strong execution, order intake remains key; Buy
- **Shriram City Union Finance** - NIMs expand; growth robust; Buy
- **Usha Martin** - Operationally disappointing; Hold
- **Auto Sales Update** - Demand in lower gear
- **External Trade** - Deficit narrows on weak non-oil imports
- **EdelFlash: Media** - Digitization gets a thumbs up

### Regular Features

- Sales Trader's Commentary
- Insider Trades & Bulk Deals
- Technical Updates
- Eye Catchers

### Sectoral Movements

	% Change				
Ticker	1-Nov-11	1 D	1 M	3 M	1 Y
Banking	11,278	(1.5)	3.9	(8.1)	(22.3)
IT	6,214	(1.0)	9.4	(1.0)	(7.4)
Pharmaceuticals	6,111	(0.4)	4.1	(5.5)	(6.8)
Oil	8,890	(1.1)	4.7	0.2	(18.4)
Power	2,185	(0.9)	2.8	(11.1)	(30.6)
Auto	9,289	(2.0)	9.3	5.8	(6.7)
Metals	11,723	(1.5)	6.6	(13.7)	(30.3)
Real Estate	1,884	(1.9)	6.9	(6.2)	(48.3)
FMCG	4,171	(0.6)	6.7	3.2	14.7
Capital Goods	10,849	(1.1)	1.0	(16.1)	(33.8)

India		Change in %			
	1-Nov-11	1-d	1-mo	3-mo	
Nifty	5,258	(0.9)	6.4	(3.6)	
Sensex	17,481	(1.3)	6.2	(3.5)	
CNX 500	4,171	(1.1)	4.8	(5.1)	

Global Indices		Change in %			
	1-Nov-11	1-d	1-mo	3-mo	
DJIA	11,658	(2.5)	6.8	(1.8)	
NASDAQ	2,607	(2.9)	7.9	(2.3)	
Hang Seng	19,048	(1.7)	8.3	(15.0)	
Nikkei 225	8,665	(1.9)	(0.4)	(12.0)	

Net Inv (INR Bn)		Change in %		
	28-Oct-11	Buy	Sell	Net
FII Cash		26.1	21.3	4.8
FII F&O		169.7	164.1	5.6
MF Cash		4.1	5.6	(1.5)

Value Traded - India (INR Bn)		Change in %			
	1-Nov-11	1-d	1-mo	3-mo	
BSE Cash	22.4	2.2	(10.1)	(8.4)	
NSE Cash	97.7	(8.8)	(13.3)	1.7	
NSE F&O	927.1	(30.5)			

Forex/Money Market		Change in %			
	1-Nov-11	1-d	1-mo	3-mo	
INR/USD	49.3	(1.2)	(0.2)	(10.5)	
USD/EUR	1.4	(0.0)	4.0	(3.6)	
USD/YEN	0.0	(0.3)	2.0	1.3	
10 Yr G-Sec	8.9	1.1	5.2	5.6	

Commodities (USD/Mt ton)		Change in %			
	1-Nov-11	1-d	1-mo	3-mo	
Copper	7,714.5	(3.3)	10.2	(19.9)	
Aluminium	2,086.8	(5.0)	(1.8)	(18.4)	
*Gold	1,723.8	0.2	6.1	3.8	
*Silver	33.4	0.1	11.4	(18.2)	
**NYMEX	92	(1.1)	16.4	(2.9)	
*USD/Troy Ounce		**USD/bbl			

Agri Commodities (INR/QT)		Change in %			
	1-Nov-11	1-d	1-mo	3-mo	
Sugar	3,073.4	(0.2)	3.8	3.1	
^INR/Maund		^^INR/KG			

Open Interest (INR mn)		Change in %		
Volume	1-Nov-11	31-Oct-11	% Change	
Futures	501,672	505,779	(0.8)	
Call	285,113	273,082	4.4	
Put	366,136	362,952	0.9	
Total	1,152,921	1,141,813	1.0	

Put Call Ratios		Change in %		
Volume	1-Nov-11	31-Oct-11	% Change	
PCR	1.16	1.08	7.4	
WPCR	1.07	0.84	28.6	
OI PCR	1.28	1.32	(3.5)	
Total OI/ Volur	1.24	1.57	(20.6)	

Nifty IVs at 20 - 24% levels.

FII Activity\* (INR Mn) (31-Oct)



## STOCKS IN NEWS

**RIL, RCOM** may collaborate on tablets, voice services. (ET)

Airlines see red over **GMR** plan for 6-fold hike in user tariff at Delhi. (ET)

**PNB** loans to cos to be rejigged. (ET)

**Fortis** to buy promoters' Singapore co. (ET)

**IVRCL** close to selling 2 road projects to L&T. (ET)

**NIIT** sells US arm for USD 110 mn. (BS)

**Piramal**, Baxter settle patent suit. (BS)

No immediate hike in savings rate: **SBI**. (MINT)

## RESULTS FOR THE DAY

Name of company	Q2FY12E	Q2FY11	PAT		
			Y-o-Y	Q1FY12	Q-o-Q
Taj GVK	69	74	(6.8)	120	(42.5)
Allahabad Bank	4,512	4,026	12.1	4,181	7.9

## SALES TRADERS COMMENTARY

Greece has returned to haunt investors yet again. The country's call for a referendum on the bailout package spooked global markets, and India was no different. Indian equities ended the session on a disappointing note. Auto, realty and banking stocks lost ground.

The Sensex closed at 17480.83, down 1.27%. The Nifty ended down 1.29% at 5257.95.

Gainers were Hindustan Unilever (3.13%), Punjab National Bank (2.06%), Wipro (1.81%), Bharat Petroleum Corporation (1.42%), and Maruti Suzuki India (1.13%).

Losers were ICICI Bank (3.87%), Mahindra & Mahindra (3.75%), Reliance Infra (3.73%), Dr Reddy (3.69%) and HCL Tech (3.55%).

The Auto index was at 9289.34, down 187.85 points or 1.98%. Major losers were Ashok Leyland (3.49%), Bharat Forge (2.9%), Apollo Tyres (1.22%), Hero Motocorp (1.13%) and Bajaj Auto (1.05%).

The Realty index was at 1883.80, down by 35.88 points or 1.87%. Major losers were Indiabulls Real Estate (4.41%), DLF (2.19%), D B Realty (1.87%), Godrej Properties (1.49%) and Anant Raj Industries (0.93%).

The Bankex was at 11277.95, down 176.08 points or 1.54%. Major losers were ICICI Bank (3.8%), Indusind Bank (3.24%), IDBI Bank (2.48%), HDFC Bank (1.45%) and Kotak Mahindra Bank (1.21%).

The Metal index was at 11723.16, down 180.94 points or 1.52%. Major losers were Hindustan Zinc (4.06%), Bhushan Steel (2.66%), Jindal Steel & Power (1.1%), Coal India (0.71%) and Hindalco Industries (0.37%).

Globally, Asia ended on a mute note while Europe was trading down.

## CONFERENCE CALLS

Conference call details company	Date	Time
Bajaj Electricals	2-Nov-11	11.00 AM IST
Castrol India Limited	2-Nov-11	11.00 AM IST
J&K Bank	2-Nov-11	11.00 AM IST
United Breweries	2-Nov-11	2.30 PM IST
Bharat Petroleum Corporation Ltd.	2-Nov-11	3.30 PM IST
Agro Tech Foods Ltd.	2-Nov-11	3.00 PM IST
Apar Industries	2-Nov-11	4.00 PM IST

## ANALYST MEETS

Company	Date	Time	Venue	Topic
Oriental Bank of Commerce	2-Nov-11	4.00 PM IST	Hotel Trident, Gulmohar - Jacaranda, Nariman Point, Mumbai	Financial Results
L&T Finance Holdings	2-Nov-11	4.15 PM IST	Trident BKC - Gloconda Ballroom, Mumbai	Financial Results

## Operating performance in line

India Equity Research | Cement

With a 6.8% Q-o-Q decline in realisations and increased costs, ACC's EBITDA/tonne of INR 387 was in line with our estimates. Volumes for the quarter surged 18% Y-o-Y due to ramp up in new capacities. The reported PAT at INR 1.67 bn was, however, higher than estimates due to reversal of provisions related to earlier years worth INR 617 mn. With costs (power, fuel and freight) likely to go up further and the current strength in cement prices being unsustainable (due to low industry utilisations), we maintain 'HOLD' on the stock.

## Volume remains firm, realisation dips on correcting prices

Total volume for the quarter at 5.69 mn tonnes remained strong, surging 17.8% Y-o-Y (14.3% for 9MCY11) on account of stabilisation of the new Wadi and Chanda units. Realisation declined 6.8% Q-o-Q (in-line with our expectation) on account of a sharp fall in prices across regions except South.

## Higher coal and employee costs dent EBITDA/tonne

EBITDA/tonne at INR 387 (down 58.1% Q-o-Q) was dented by higher costs. In absolute terms, the employee cost increased 16% Q-o-Q largely on account of one-time bonus of ~INR 150 mn to mark the completion of 75 years of the company formation. Other expenditure surged 21% Y-o-Y and 4.2% Q-o-Q due to repairs and maintenance activity during the quarter. Power and fuel cost per tonne increased by 1.2% Q-o-Q due to a surge in coal costs. ACC's exposure to imported coal has gone up to ~20% from 10% earlier due to the shortage of domestic coal and going ahead, this is likely to increase power and fuels costs further. Freight cost is also expected to rise due to the levy of ~13% additional surcharge by railways.

## Outlook and valuations: Subdued quarter; maintain 'HOLD'

Improving from the lows of Q2, cement prices have recovered sharply to be close to the March 2011 peak levels in most regions. Prices are all set to inch up further due to the busy season. However, we do not expect the rise to be sustainable due to low industry capacity utilisation of ~75% in FY13E. At CMP, ACC trades at expensive valuations of 9.6x CY12E EV/EBITDA. We maintain 'HOLD/Sector Performer' recommendation/rating on the stock.

## Financials

(INR mn)

Year to December	Q3CY11	Q3CY10	% Chg	Q2CY11	% Chg	CY10	CY11E
Total operating income	22,487	16,885	33.2	24,329	(7.6)	77,173	93,583
EBITDA	3,191	2,212	44.3	5,802	(45.0)	15,540	16,221
Core profit	1,676	1,000	67.5	3,366	(50.2)	11,200	9,665
Diluted EPS (INR)	8.9	5.3	67.5	17.9	(50.2)	59.6	51.4
Diluted P/E (x)						19.9	23.0
EV/EBITDA (x)						12.9	12.2
ROAE (%)						17.9	14.6

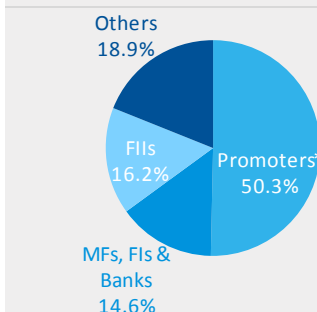
## EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

## MARKET DATA (R: ACC.BO, B: ACC IN)

CMP	: INR 1,184
Target Price	: INR 1,045
52-week range (INR)	: 1,237 / 915
Share in issue (mn)	: 187.7
M cap (INR bn/USD mn)	: 222 / 4,513
Avg. Daily Vol.BSE/NSE('000)	: 349.8

## SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

## PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	11.5	8.4	7.2
3 months	19.6	(2.3)	16.4
12 months	27.1	(10.5)	12.5

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## Financial snapshot

(INR mn)

Year to December	Q3CY11	Q3CY10	% Change	Q2CY11	% Change	CY10	CY11E	CY12E
Volume (million tonnes)	5.7	4.8	17.8	5.9	(4.0)	21.4	24.0	26.1
Realisation (inr/tonne)	3,779	3,390	11.5	4,052	(6.8)	-	-	-
Total operating income	22,487	16,885	33.2	24,329	(7.6)	77,173	93,583	107,536
Raw material costs	3,840	3,312	15.9	3,153	21.8	11,956	15,983	17,426
Power and fuel	5,524	3,615	52.8	5,687	(2.9)	15,987	21,728	25,583
Freight outward	3,329	2,255	47.6	3,482	(4.4)	10,703	14,045	16,118
Staff costs	1,382	1,174	17.8	1,197	15.5	4,619	5,081	5,589
Other expenses	5,221	4,316	21.0	5,008	4.2	18,369	20,526	22,585
Total expenditure	19,296	14,673	31.5	18,527	4.1	61,634	77,362	87,301
EBITDA	3,191	2,212	44.3	5,802	(45.0)	15,540	16,221	20,235
Depreciation	1,199	911	31.7	1,158	3.5	3,927	4,643	5,448
Other income	574	296	93.8	472	21.6	3,569	3,214	3,640
Interest	253	162	56.1	271	(6.5)	568	1,066	1,041
Profit before tax	2,312	1,435	61.1	4,845	(52.3)	14,614	13,725	17,386
Tax	637	435	46.4	1,479	(56.9)	3,414	4,060	5,390
Core profit	1,676	1,000	67.5	3,366	(50.2)	11,200	9,665	11,997
Extraordinary items								
Reported net profit	1,676	1,000	67.5	3,366	(50.2)	11,200	9,665	11,997
Equity capital (FV INR 10)	1,879	1,880		1,881		1,880	1,880	1,880
No. of shares (mn)	188	188		188		188	188	188
Diluted EPS (INR)	8.9	5.3	67.5	17.9	(50.2)	59.6	51.4	63.8
Market cap / rev. (x)	-	-		-		2.9	2.4	2.1

## As % of net revenues

Raw material	17.1	19.6		13.0		15.5	17.1	16.2
Employee cost	6.1	7.0		4.9		6.0	5.4	5.2
Power & fuel	24.6	21.4		23.4		20.7	23.2	23.8
Freight outward (% of revenue)	14.8	13.4		14.3		13.9	15.0	15.0
Other expenses	23.2	25.6		20.6		23.8	21.9	21.0
EBITDA	14.2	13.1		23.8		20.1	17.3	18.8
Reported net profit	7.5	5.9		13.8		14.5	10.3	11.2

**Table 1: Cost structure per tonne**

(INR/tonne)	Q3CY11	Q2CY11	% change	Q3CY10	% change
Realisation	3,779	4,052	(6.8)	3,390	11.5
Raw material	675	532	26.9	686	(1.6)
Power	971	959	1.2	748	29.7
Freight	585	587	(0.4)	467	25.3
Staff	243	202	20.4	243	(0.0)
Others	918	845	8.6	894	2.7
Cost	3,391	3,124	8.5	3,038	11.6
EBITDA	387	928	(58.3)	352	10.1

Source: Company, Edelweiss research

### Company description

ACC is the second largest cement manufacturer in India, with current installed capacity of 30 mtpa post the commissioning of 3 mtpa Chanda unit in Maharashtra. The company is a pan-India player with 16 plants spread across the country. Holcim, through its private subsidiary ACIL, holds ~50.3% stake in the company and is at the helm of the day-to-day affairs of the company.

### Investment theme

Improving from the lows of Q2, cement prices have recovered sharply to be close to the March 2011 peak levels in most regions. Prices are all set to inch up further due to the busy season. However, we do not expect the rise to be sustainable due to low industry capacity utilisation of ~75% in FY13E. We maintain 'HOLD/Sector performer' recommendation / rating

### Key risks

Prices remain firm with no major corrections due to production discipline..

Sharp decline in power and fuel cost.

## Financial Statements

Income statement					(INR mn)
Year to December	CY08	CY09	CY10	CY11E	CY12E
Total volume (mn tonnes)	21.3	21.7	21.4	24.0	26.1
Income from operations	71,658	80,272	77,173	93,583	107,536
Materials costs	8,862	9,559	11,843	15,813	17,246
Stores and tools	139	100	113	170	180
Power and fuel	15,990	15,397	15,987	21,728	25,583
Freight	11,786	10,544	10,703	14,045	16,118
Employee costs	4,130	3,677	4,619	5,081	5,589
Total SG&A expenses	4,188	6,838	7,339	8,384	8,936
Factory & administrative expenses	9,233	9,058	11,030	12,142	13,650
Total operating expenses	54,326	55,172	61,634	77,362	87,301
EBITDA	17,332	25,100	15,540	16,221	20,235
Depreciation & Amortization	2,942	3,421	3,927	4,643	5,448
EBIT	14,390	21,679	11,613	11,578	14,787
Other income	3,376	2,404	3,569	3,214	3,640
Interest expenses	400	1,046	568	1,066	1,041
Profit before tax	17,366	23,037	14,614	13,725	17,386
Provision for tax	5,238	6,877	3,414	4,060	5,390
Core profit	12,128	16,160	11,200	9,665	11,997
Profit After Tax	12,128	16,160	11,200	9,665	11,997
Profit after minority interest	12,128	16,160	11,200	9,665	11,997
Basic shares outstanding (mn)	188	188	188	188	188
Basic EPS (INR)	64.6	86.0	59.6	51.4	63.8
Diluted equity shares (mn)	188	188	188	188	188
Diluted EPS (INR)	64.6	86.0	59.6	51.4	63.8
CEPS (INR)	80.4	104.9	81.1	76.1	92.8
Dividend per share (INR)	20.0	23.0	30.5	30.5	30.5
Dividend payout (%)	30.9	26.7	51.1	59.2	47.7

### Common size metrics - as % of net revenues

Year to December	CY08	CY09	CY10	CY11E	CY12E
Operating expenses	75.8	68.7	79.9	82.7	81.2
Materials costs	12.4	11.9	15.3	16.9	16.0
Power and fuel	22.3	19.2	20.7	23.2	23.8
Freight	16.4	13.1	13.9	15.0	15.0
Depreciation	4.1	4.3	5.1	5.0	5.1
Interest expenditure	0.6	1.3	0.7	1.1	1.0
EBITDA margins	24.2	31.3	20.1	17.3	18.8
Net profit margins	16.9	20.1	14.5	10.3	11.2

### Growth ratios (%)

Year to December	CY08	CY09	CY10	CY11E	CY12E
Revenues	4.1	12.0	(3.9)	21.3	14.9
EBITDA	(9.7)	44.8	(38.1)	4.4	24.7
PBT	(10.0)	32.7	(36.6)	(6.1)	26.7
Net profit	(15.7)	33.2	(30.7)	(13.7)	24.1
EPS	(15.7)	33.2	(30.7)	(13.7)	24.1

**Balance sheet****(INR mn)**

<b>As on 31st December</b>	<b>CY08</b>	<b>CY09</b>	<b>CY10</b>	<b>CY11E</b>	<b>CY12E</b>
Equity capital	1,879	1,879	1,880	1,880	1,880
Reserves & surplus	47,399	58,283	62,815	65,905	71,234
Shareholders funds	49,277	60,162	64,695	67,785	73,113
Secured loans	4,500	5,500	5,099	5,000	5,000
Unsecured loans	320	169	139	-	-
Borrowings	4,820	5,669	5,238	5,000	5,000
Deferred tax (net)	3,358	3,493	3,615	3,615	3,615
<b>Sources of funds</b>	<b>57,456</b>	<b>69,324</b>	<b>73,548</b>	<b>76,400</b>	<b>81,729</b>
Gross block	58,357	68,263	80,770	100,770	108,770
Depreciation	23,660	26,680	29,945	34,588	40,036
Net block	34,697	41,583	50,824	66,181	68,733
Capital work in progress	16,029	21,562	15,628	2,628	1,628
Investments	6,791	14,756	17,027	17,027	17,027
Inventories	7,933	7,790	9,150	9,567	10,148
Sundry debtors	3,102	2,037	1,783	2,117	2,364
Cash and equivalents	9,842	7,464	10,800	12,379	16,305
Loans and advances	6,664	5,161	5,239	5,239	5,239
Other current assets	56	110	561	-	-
Total current assets	27,596	22,562	27,534	29,302	34,057
Sundry creditors and others	18,018	19,639	20,940	22,213	23,192
Provisions	9,639	11,500	16,525	16,525	16,525
Total current liabilities & provisions	27,657	31,139	37,464	38,737	39,716
Net current assets	(61)	(8,578)	(9,931)	(9,436)	(5,659)
<b>Uses of funds</b>	<b>57,456</b>	<b>69,324</b>	<b>73,548</b>	<b>76,400</b>	<b>81,729</b>
Book value per share (INR)	262.3	320.1	344.2	360.7	389.0

**Free cash flow****(INR mn)**

<b>Year to December</b>	<b>CY08</b>	<b>CY09</b>	<b>CY10</b>	<b>CY11E</b>	<b>CY12E</b>
Net profit	12,128	16,160	11,200	9,665	11,997
Depreciation	2,942	3,421	3,927	4,643	5,448
Deferred tax	43	135	123	-	-
Others	(316)	(1,883)	(432)	-	-
Gross cash flow	14,797	17,833	14,818	14,308	17,445
Less: Changes in WC	(2,286)	(6,138)	(4,690)	(1,084)	(150)
Operating cash flow	17,083	23,971	19,507	15,392	17,595
Less: Capex	14,028	15,840	7,234	7,000	7,000
<b>Free cash flow</b>	<b>3,055</b>	<b>8,131</b>	<b>12,273</b>	<b>8,392</b>	<b>10,595</b>

**Cash flow metrics**

<b>Year to December</b>	<b>CY08</b>	<b>CY09</b>	<b>CY10</b>	<b>CY11E</b>	<b>CY12E</b>
Operating cash flow	17,083	23,971	19,507	15,392	17,595
Investing cash flow	(11,704)	(21,803)	(9,804)	(7,000)	(7,000)
Financing cash flow	(2,971)	(4,546)	(6,367)	(6,906)	(6,668)
Net cash flow	2,408	(2,378)	3,336	1,486	3,927
Capex	(14,028)	(15,840)	(7,234)	(7,000)	(7,000)
Dividends paid	(4,339)	(4,359)	(5,002)	(6,668)	(6,668)



## Profitability & efficiency ratios

Year to December	CY08	CY09	CY10	CY11E	CY12E
ROAE (%)	26.7	29.5	17.9	14.6	17.0
ROACE (%)	31.9	41.2	20.9	20.0	23.8
Inventory day	76	81	80	66	61
Debtors days	15	12	9	8	8
Payable days	167	193	192	152	140
Cash conversion cycle (days)	(76)	(101)	(103)	(79)	(72)
Current ratio	1.0	0.7	0.7	0.8	0.9
Debt/EBITDA	0.3	0.2	0.3	0.3	0.2
Debt/Equity	0.1	0.1	0.1	0.1	0.1
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1
Interest coverage	36.0	20.7	20.5	10.9	14.2

## Operating ratios

Year to December	CY08	CY09	CY10	CY11E	CY12E
Total asset turnover	1.4	1.3	1.1	1.2	1.4
Fixed asset turnover	2.1	2.1	1.7	1.6	1.6
Equity turnover	1.6	1.5	1.2	1.4	1.5

## Du pont analysis

Year to December	CY08	CY09	CY10	CY11E	CY12E
NP margin (%)	16.9	20.1	14.5	10.3	11.2
Total assets turnover	1.4	1.3	1.1	1.2	1.4
Leverage multiplier	1.2	1.2	1.1	1.1	1.1
ROAE (%)	26.7	29.5	17.9	14.6	17.0

## Valuation parameters

Year to December	CY08	CY09	CY10	CY11E	CY12E
Diluted EPS (INR)	64.6	86.0	59.6	51.4	63.8
Y-o-Y growth (%)	(15.7)	33.2	(30.7)	(13.7)	24.1
Diluted PE (x)	18.3	13.8	19.9	23.0	18.6
Price/BV (x)	4.5	3.7	3.4	3.3	3.0
EV/tonne (USD/tonne)	205	173	147	146	143
EV/Sales (x)	2.9	2.6	2.6	2.1	1.8
EV/EBITDA (x)	12.2	8.2	12.9	12.2	9.6
EV/EBITDA (x)+1 yr forward	8.4	13.3	12.3	9.8	-
Dividend yield (%)	1.7	1.9	2.6	2.6	2.6

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	HOLD	SP	M	Ambuja Cement Ltd	REDUCE	SU	M
Grasim Industries	BUY	SO	M	India Cements	BUY	SO	H
Shree Cements	BUY	SO	M	UltraTech Cement	HOLD	SP	M

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# AMBUJA CEMENT

## Costs surprise positively

India Equity Research | Cement

Ambuja Cement reported results above our estimates. Almost all operating costs were below expectation though the 8.6% Q-o-Q dip in realisations was in-line. Cement volume at 4.69 mn tonnes was up ~7.8% Y-o-Y whereas EBITDA/tonne of INR 605 was down 45% Q-o-Q and 7% Y-o-Y. Reported revenues at INR 18.3 bn were up 15.8% Y-o-Y while the PAT at INR 1.7 bn was up 12.7% Y-o-Y. With current valuations remaining expensive, we maintain 'Reduce' on the stock.

### Blended realisations dip 8.6% Q-o-Q

Blended realisations fell 8.6% Q-o-Q to INR 3,754/tonne due to weak prices across regions. The quarter-wise decline is sharper than the 6.8% drop reported by its sister concern, ACC since it does not have any presence in the South where prices remained flat Q-o-Q. Total volume for the quarter was 4.81 mn tonnes (4.69 mn tonnes of cement, up ~7% Y-o-Y and 0.12 mn tonnes of clinker).

### Operating cost below estimate as freight, power costs decline

Most operating costs for the quarter were below estimates. While the outward freight cost/tonne declined 3.6% Q-o-Q, the absolute freight on internal material transfer fell 28% Q-o-Q (even as volume was down 9% Q-o-Q). The power and fuel cost/tonne too softened 3.3% Q-o-Q to INR 1,030/tonne. Adjusting to prior period expenses of INR 206 mn, the other expenditure for the quarter remained flat Y-o-Y. While the EBITDA/tonne is INR 605 (down 7% Y-o-Y and 45% Q-o-Q), adjusting to prior period expenses, the EBITDA/tonne for the quarter is INR 648.

### Outlook and valuations: Expensive; maintain 'REDUCE'

From the lows of Q2, cement prices have recovered sharply to be close to the March 2011 peak levels. Prices are all set to inch up further due to the busy season. However, we do not expect the rise to be sustainable due to low industry capacity utilisation of ~75% in FY13E. At CMP, the stock trades at expensive valuations of 9.6x CY12E EV/EBITDA. We maintain 'Reduce/Sector Underperformer' recommendation/rating on the stock.

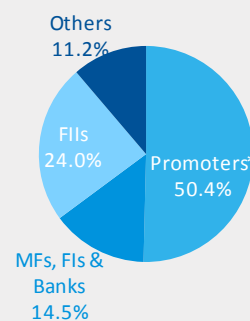
#### EDELWEISS 4D RATINGS

Absolute Rating	REDUCE
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: ABUJ.BO, B: ACEM IN)

CMP	: INR 155
Target Price	: INR 131
52-week range (INR)	: 167 / 112
Share in issue (mn)	: 1,532.6
M cap (INR bn/USD mn)	: 237 / 4,817
Avg. Daily Vol.BSE/NSE('000)	: 2,329.6

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	8.8	8.4	7.2
3 months	20.6	(2.3)	16.4
12 months	14.1	(10.5)	12.5

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November 1, 2011

#### Financials

(INR mn)

Year to December	Q3CY11	Q3CY10	% Chg	Q2CY11	% Chg	CY10	CY11E
Total operating inc.	18,337	15,830	15.8	21,891	(16.2)	73,902	84,237
EBITDA	3,194	3,022	5.7	5,984	(46.6)	18,236	17,768
Core profit	1,715	1,521	12.7	3,475	(50.7)	12,000	10,793
Diluted EPS (INR)	1.1	1.0	12.7	2.3	(50.5)	7.9	7.1
Diluted P/E (x)						19.7	21.9
EV/EBITDA (x)						11.7	11.8
ROAE (%)						18.5	14.1

## Financial snapshot

(INR mn)

Year to December	Q3CY11	Q3CY10	% Change	Q2CY11	% Change	CY10	CY11E	CY12E
Volume (million tonnes)	4.8	4.3	10.5	5.3	(9.1)	20.0	21.0	23.0
Realisation (inr/tonne)	3,754	3,595	4.4	4,108	(8.6)	-	-	-
Total operating income	18,337	15,830	15.8	21,891	(16.2)	73,902	84,237	97,523
Raw material	2,393	1,364	75.4	1,579	51.6	8,141	8,297	9,649
Power and fuel	4,950	4,426	11.8	5,633	(12.1)	16,973	21,563	25,784
Staff costs	1,032	989	4.3	1,099	(6.1)	3,437	3,952	4,426
SG&A	3,210	2,670	20.2	3,663	(12.4)	3,520	5,420	5,745
Other expenses	3,558	3,359	5.9	3,932	(9.5)	23,595	27,237	30,950
Total expenditure	15,143	12,809	18.2	15,906	(4.8)	55,666	66,470	76,554
EBITDA	3,194	3,022	5.7	5,984	(46.6)	18,236	17,768	20,969
Depreciation	1,079	1,018	6.0	1,074	0.5	3,872	4,408	4,862
Other income	571	305	87.1	562	1.7	2,476	2,847	3,563
Interest	138	89	54.3	152	(9.2)	487	594	520
Profit before tax	2,548	2,220	14.8	5,320	(52.1)	16,353	15,613	19,150
Tax	834	699	19.3	1,845	(54.8)	4,354	4,820	5,937
Core profit	1,715	1,521	12.7	3,475	(50.7)	12,000	10,793	13,213
Extraordinary items	-	-	-	-	-	636	-	-
Reported net profit	1,715	1,521	12.7	3,475	(50.7)	12,636	10,793	13,213
Equity capital (FV INR 2)	3,065	3,051	-	3,063	-	3,073	3,073	3,073
No. of shares (mn)	1,533	1,526	-	1,532	-	1,524	1,524	1,524
Diluted EPS (INR)	1.1	1.0	12.7	2.3	(50.5)	7.9	7.1	8.7
Market cap / rev. (x)	-	-	-	-	-	3.2	2.8	2.4

## As % of net revenues

Raw material	13.0	8.6	-	7.2	-	11.0	9.8	9.9
Employee cost	5.6	6.2	-	5.0	-	4.7	4.7	4.5
Power & fuel	27.0	28.0	-	25.7	-	23.0	25.6	26.4
Other expenses	19.4	21.2	-	18.0	-	31.9	32.3	31.7
SG&A	17.5	16.9	-	16.7	-	4.8	6.4	5.9
EBITDA	17.4	19.1	-	27.3	-	24.7	21.1	21.5
Adjusted net profit	9.4	9.6	-	15.9	-	17.1	12.8	13.5

Table 1: Cost structure

(INR/tonne)	Q3CY11	Q2CY11	% change	Q3CY10	% change
Realisation	3,754	4,108	(8.6)	3,595	4.4
Raw material	498	298	66.8	314	58.7
Power	1,030	1,065	(3.3)	1,017	1.2
Freight	668	692	(3.6)	614	8.8
Staff	215	208	3.3	227	(5.6)
Others	740	743	(0.5)	772	(4.2)
Cost	3,149	3,007	4.7	2,945	7.0
EBITDA	605	1,101	(45.1)	651	(7.1)

### Company description

Ambuja Cement (ACEM) is India's third-largest cement manufacturer with current installed capacity of 25.9 mn tpa. With additional grinding unit of 1 mtpa each at Bhatpara (Chhattisgarh), the installed capacity will increase to 27 mtpa in 2011. With a pan-India presence, ACL has ~10% market share in India. With ~50.39% stake in the company, Holcim Group is at the helm of the company's affairs.

### Investment theme

Improving from the lows of Q2, cement prices have recovered sharply to be close to the March 2011 peak levels in most regions. Prices are all set to inch up further due to the busy season. However, we do not expect the rise to be sustainable due to low industry capacity utilisation of ~75% in FY13E. We maintain 'Reduce/Sector Underperformer' recommendation / rating.

### Key risks

Prices remain firm with no major corrections due to production discipline.

Sharp decline in power and fuel cost.

## Financial Statements

Income statement					(INR mn)
Year to December	CY08	CY09	CY10	CY11E	CY12E
Total volume (mn tonnes)	17.6	18.8	20.0	21.0	23.0
Income from operations	61,677	70,407	73,902	84,237	97,523
Materials costs	4,981	10,139	5,420	5,167	6,144
Stores and tools	2,506	2,555	2,721	3,129	3,505
Power and fuel	13,257	14,228	16,973	21,563	25,784
Freight	2,301	2,258	3,520	5,420	5,745
Employee costs	2,569	2,728	3,437	3,952	4,426
Total SG&A expenses	13,217	14,482	17,222	19,644	22,379
Factory & administrative expenses	5,777	5,512	6,373	7,593	8,571
Total operating expenses	44,607	51,901	55,666	66,470	76,554
EBITDA	17,070	18,506	18,236	17,768	20,969
Depreciation & Amortization	2,598	2,970	3,872	4,408	4,862
EBIT	14,472	15,536	14,364	13,360	16,108
Other income	5,547	2,558	2,476	2,847	3,563
Interest expenses	321	224	487	594	520
Profit before tax	19,698	17,870	16,353	15,613	19,150
Provision for tax	5,676	5,849	4,354	4,820	5,937
Core profit	14,023	12,021	12,000	10,793	13,213
Prior period adjustments (net)	-	-	(371)	-	-
Extraordinary income/ (loss)	-	-	265	-	-
Profit After Tax	14,023	12,021	12,636	10,793	13,213
Profit after minority interest	14,023	12,021	12,636	10,793	13,213
Basic shares outstanding (mn)	1,523	1,524	1,524	1,524	1,524
Basic EPS (INR)	9.2	7.9	7.9	7.1	8.7
Diluted equity shares (mn)	1,523	1,524	1,524	1,524	1,524
Diluted EPS (INR)	9.2	7.9	7.9	7.1	8.7
Dividend per share (INR)	2.2	2.4	2.6	2.5	2.5
Dividend payout (%)	23.9	30.4	31.4	35.3	28.8
Common size metrics - as % of net revenues					
Year to December	CY08	CY09	CY10	CY11E	CY12E
Operating expenses	72.3	73.7	75.3	78.9	78.5
Materials costs	8.1	14.4	7.3	6.1	6.3
Power and fuel	21.5	20.2	23.0	25.6	26.4
Freight	3.7	3.2	4.8	6.4	5.9
Depreciation	4.2	4.2	5.2	5.2	5.0
Interest expenditure	0.5	0.3	0.7	0.7	0.5
EBITDA margins	27.7	26.3	24.7	21.1	21.5
Net profit margins	22.7	17.1	16.2	12.8	13.5
Growth ratios (%)					
Year to December	CY08	CY09	CY10	CY11E	CY12E
Revenues	10.2	14.2	5.0	14.0	15.8
EBITDA	(15.3)	8.4	(1.5)	(2.6)	18.0
PBT	(27.4)	(9.3)	(8.5)	(4.5)	22.7
Net profit	(28.9)	(14.3)	(0.2)	(10.1)	22.4
EPS	(28.9)	(14.3)	(0.2)	(10.1)	22.4

Balance sheet					(INR mn)
As on 31st December	CY08	CY09	CY10	CY11E	CY12E
Equity capital	3,047	3,050	3,073	3,073	3,073
Reserves & surplus	53,684	61,662	70,228	76,565	85,322
Shareholders funds	56,730	64,711	73,301	79,638	88,395
Secured loans	1,000	999	-	-	-
Unsecured loans	1,887	657	650	650	650
Borrowings	2,887	1,656	650	650	650
Deferred tax (net)	3,808	4,858	5,309	5,309	5,309
<b>Sources of funds</b>	<b>63,424</b>	<b>71,226</b>	<b>79,260</b>	<b>85,597</b>	<b>94,354</b>
Gross block	57,069	62,241	87,788	99,788	102,788
Depreciation	25,142	27,841	31,511	35,919	40,781
Net block	31,928	34,400	56,278	63,869	62,008
Capital work in progress	19,472	27,144	9,307	4,307	8,307
Investments	3,324	7,270	6,260	12,000	13,000
Inventories	9,387	6,832	9,019	8,765	10,740
Sundry debtors	2,246	1,522	1,282	1,526	1,725
Cash and equivalents	8,518	8,807	17,482	14,980	21,467
Loans and advances	3,220	2,601	3,406	3,406	3,406
Other current assets	23	31	166	-	-
Total current assets	23,395	19,793	31,353	28,677	37,337
Sundry creditors and others	10,031	10,669	12,976	12,295	15,337
Provisions	4,706	6,740	10,966	10,966	10,966
Total current liabilities & provisions	14,737	17,409	23,942	23,261	26,302
Net current assets	8,658	2,384	7,412	5,416	11,035
Miscellaneous expenditure	43	27	5	5	5
<b>Uses of funds</b>	<b>63,424</b>	<b>71,226</b>	<b>79,260</b>	<b>85,597</b>	<b>94,354</b>
Book value per share (INR)	37.2	42.5	48.1	52.3	58.0

Free cash flow					(INR mn)
Year to December	CY08	CY09	CY10	CY11E	CY12E
Net profit	14,023	12,021	12,636	10,793	13,213
Depreciation	2,598	2,970	3,872	4,408	4,862
Deferred tax	24	1,051	(109)	-	-
Others	(4,580)	(1,339)	(1,304)	-	-
Gross cash flow	12,064	14,702	15,095	15,201	18,075
Less: Changes in WC	2,387	(6,562)	(3,647)	506	(868)
Operating cash flow	9,677	21,264	18,743	14,696	18,943
Less: Capex	16,415	13,439	8,342	7,000	7000
<b>Free cash flow</b>	<b>20,753</b>	<b>26,092</b>	<b>34,703</b>	<b>27,085</b>	<b>21,696</b>

Cash flow metrics					
Year to December	CY08	CY09	CY10	CY11E	CY12E
Operating cash flow	9,677	21,264	18,743	14,696	18,943
Investing cash flow	(2,856)	(16,316)	(5,333)	(12,741)	(8,000)
Financing cash flow	(4,729)	(4,659)	(4,735)	(4,457)	(4,457)
Net cash flow	2,092	289	8,675	(2,502)	6,487
Capex	(16,415)	(13,439)	(8,342)	(7,000)	(7,000)
Dividends paid	(3,902)	(3,900)	(4,248)	(4,457)	(4,457)

## Profitability & efficiency ratios

Year to December	CY08	CY09	CY10	CY11E	CY12E
ROAE (%)	27.2	19.8	18.5	14.1	15.7
ROACE (%)	28.7	25.0	21.0	18.2	20.8
Inventory day	120	101	101	92	86
Debtors days	11	10	7	6	6
Payable days	133	129	151	131	122
Cash conversion cycle (days)	(2)	(18)	(43)	(33)	(30)
Current ratio	1.6	1.1	1.3	1.2	1.4
Debt/EBITDA	0.2	0.1	-	-	-
Debt/Equity	0.1	-	-	-	-
Adjusted debt/equity	0.1	-	-	-	-
Interest coverage	45.1	69.3	29.5	22.5	31.0

## Operating ratios

Year to December	CY08	CY09	CY10	CY11E	CY12E
Total asset turnover	1.1	1.0	1.0	1.0	1.1
Fixed asset turnover	2.0	2.1	1.6	1.4	1.5
Equity turnover	1.2	1.2	1.1	1.1	1.2

## Du pont analysis

Year to December	CY08	CY09	CY10	CY11E	CY12E
NP margin (%)	22.7	17.1	17.2	12.8	13.5
Total assets turnover	1.1	1.0	1.0	1.0	1.1
Leverage multiplier	1.1	1.1	1.1	1.1	1.1
ROAE (%)	27.2	19.8	18.5	14.1	15.7

## Valuation parameters

Year to December	CY08	CY09	CY10	CY11E	CY12E
Diluted EPS (INR)	9.2	7.9	7.9	7.1	8.7
Y-o-Y growth (%)	(28.9)	(14.3)	(0.2)	(10.1)	22.4
Diluted PE (x)	16.8	19.6	19.7	21.9	17.9
Price/BV (x)	4.2	3.6	3.2	3.0	2.7
EV/tonne (USD/tonne)	267	219	185	169	163
EV/Sales (x)	3.7	3.1	2.9	2.5	2.1
EV/EBITDA (x)	13.3	12.0	11.7	11.8	9.6
EV/EBITDA (x)+1 yr forward	12.3	12.1	12.0	10.0	-
Dividend yield (%)	1.4	1.5	1.7	1.6	1.6



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	HOLD	SP	M	Ambuja Cement Ltd	REDUCE	SU	M
Grasim Industries	BUY	SO	M	India Cements	BUY	SO	H
Shree Cements	BUY	SO	M	UltraTech Cement	HOLD	SP	M

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# COLGATE PALMOLIVE

## Sweet aftertaste

India Equity Research | Consumer Goods

Colgate Palmolive's (Colgate) Q2FY12 revenue surged (19% Y-o-Y; marginally ahead of our estimate) on back of 13% Y-o-Y volume growth; its core Oral Care category grew 20% Y-o-Y. COGS pressure eased, leading to marginal dip in gross margin; EBITDA margin contracted significantly (342bps Y-o-Y) owing to high A&P spends (favorable base to aid margins in Q3FY12). Colgate rated as 'India's Most Trusted Brand' in Brand Equity Annual Survey 2011 clearly reflects its execution capabilities. One-off cost of ~INR 100 mn due to closing of the Hyderabad toothpowder facility led to flat PAT growth (adjusted PAT growth ~6% Y-o-Y). Maintain 'HOLD'.

### Robust volumes spur sales; closure of Hyderabad facility dents margin

Colgate reported robust sales spurt of 19% Y-o-Y to INR 6.5 bn on back of 13% Y-o-Y volume surge. Easing COGS pressure (up only 36bps Y-o-Y) led to healthy gross margin of 61%. However, heavy A&P spending (up 306bps Y-o-Y) dragged down EBITDA margin to 19.4% (down 342bps). Adjusted PBT stood at INR 1,395 mn, up 8.3% Y-o-Y (against reported PBT of INR 1,289 mn). Tax rate dipped 460bps Q-o-Q to 22.7%; we expect the full year tax rate to be ~24%.

### Mouthwash currying favour; innovation to help sustain market edge

Colgate lost marginal volume market share in toothpaste (40bps) and toothbrush (370bps) categories from 53% and 40% in May 2010-June 2011, respectively. This market share loss looks surprising as Colgate's oral care category grew 20% Y-o-Y (vis-à-vis Dabur's 6% growth and double digit growth for HUL). During the same period, mouthwash category's volume share jumped 240bps from 24.0% to 26.4% on back of new launches *Colgate Plax Mouthwash* finding favour with customers. To counter competitive intensity (Unilever and GSK Consumer enjoy strong market shares in gel and sensitive segments, respectively) and sustain its iron grip in core business, Colgate continued to focus on innovation and launched *Colgate 360° surround toothbrush*.

### Outlook and valuations: Fairly valued; maintain 'HOLD'

We continue to like Colgate's continued focus on innovation, market stronghold and building brand equity. At CMP, the stock is trading at 32.1x and 27.3x FY12E and FY13E, respectively, and the valuation looks fair. We maintain 'HOLD/SU'.

#### Financials

(INR mn)

Year to March	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	FY11	FY12E
Net revenues	6,572	5,518	19.1	6,111	7.6	22,206	25,692
EBITDA	1,308	1,297	0.9	1,356	(3.5)	5,270	5,680
Core profit	997	1,003	(0.6)	1,004	(0.8)	4,026	4,247
Diluted EPS (INR)	7.3	7.4	(0.6)	7.4	(0.8)	29.6	31.2
Diluted P/E (x)						33.9	32.1
EV/EBITDA (x)						25.1	23.1
ROAE (%)						113.4	101.6

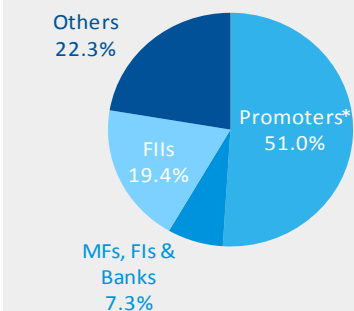
#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

#### MARKET DATA (R: COLG.BO, B: CLGT IN)

CMP	: INR 1,002
Target Price	: INR 950
52-week range (INR)	: 1,057 / 716
Share in issue (mn)	: 136.0
M cap (INR bn/USD mn)	: 136 / 2,796
Avg. Daily Vol.BSE/NSE('000)	: 114.2

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	2.9	8.4	4.8
3 months	1.5	(2.3)	2.4
12 months	16.6	(10.5)	19.0

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October 31, 2011

### One-off pressurises margins

With effect from September 29, 2011, Colgate discontinued its toothpowder manufacturing operations at Hyderabad factory. This led to INR 1,056 mn costs in Q2FY12 primarily in the form of VRS compensation of INR 82.2 mn; rest reflected in depreciation and other expenses. The company stated that this shutdown will not impact toothpowder segment performance as its current capacity is sufficient to meet demand.

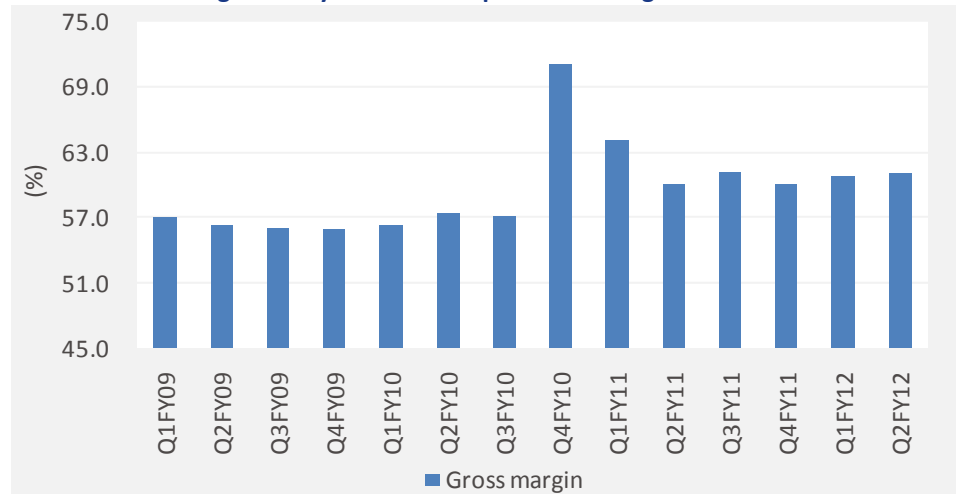
### Treading innovation path to garner market share

To counter 370bps market share loss in the toothbrush segment from 40% in May 2010-June 2011 to 36.3% in October 2010-September 2011 Colgate is treading the innovation path with the launch of *Colgate 360° surround toothbrush* across the country priced at INR 75. The toothbrush is equipped with a unique head that is packed with special cleaning features—surround bristles that simultaneously clean both sides of teeth and reach down to the gum line, a wraparound cleaner, and cheek & tongue cleaner, to provide a ‘whole mouth clean’ experience and 3x germ removal action.

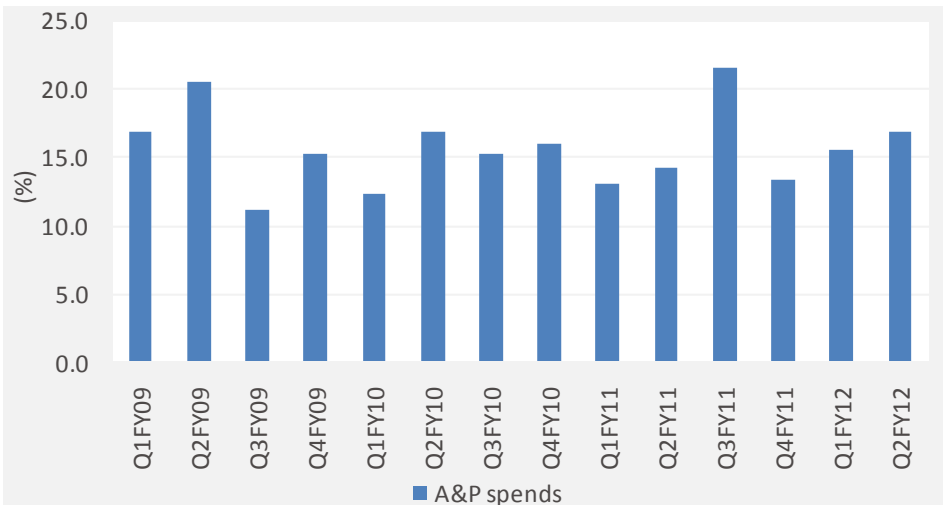
### Playing well on trust factor

Colgate was ranked as ‘India’s Most Trusted Brand’ in Brand Equity Annual Survey 2011. We believe the company’s dominant position is a clear reflection of why companies like P&G and ITC are reluctant to enter the toothpaste market.

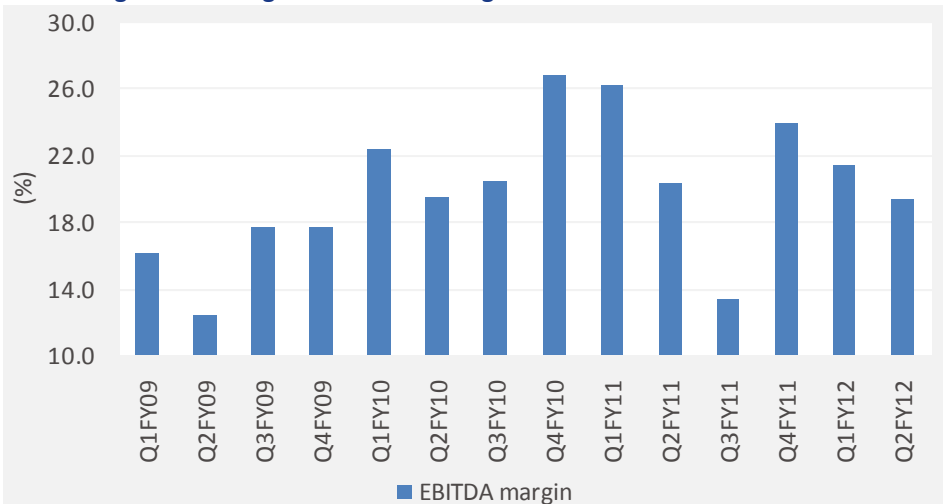
**Chart 1: Gross margin steady due to COGS pressure easing**



Source: Company, Edelweiss research

**Chart 2: A&P costs continue to balloon**

Source: Company, Edelweiss research

**Chart 3: Higher A&P drag down EBITDA margin**

Source: Company, Edelweiss research

**Table 1: Balance Sheet**

As on 30th September 2011 (INR mn)	Q2FY12	Q2FY11	% change Y-o-Y
<b>Sources of funds</b>			
Share capital	136	136	-
Reserves and surplus	4,441	3,804	16.7
Shreholders fund	4,577	3,940	16.2
Loan funds	1	1	-
<b>Total sources of funds</b>	<b>4,578</b>	<b>3,941</b>	<b>16.2</b>
<b>Uses of funds</b>			
Fixed assets	2,762	2,537	8.9
Investments	387	317	22.1
Deffered tax asset (net)	201.7	211.6	(4.7)
Inventories	1,658	1,119	48.1
Sundry debtors	458	317	44.5
Cash and bank balances	4,212	3,489	20.7
Interest accrued on investments/ deposits	89	97	(8.3)
Loans and advances	1,242	976	27.3
<b>Total current assets</b>	<b>7,659</b>	<b>5,997</b>	<b>27.7</b>
Current liabilities	5,246	4,451	17.8
Provisions	1,186	671	76.7
<b>Total current liabilities and provisions</b>	<b>6,432</b>	<b>5,122</b>	<b>25.6</b>
<b>Net current assets</b>	<b>1,227</b>	<b>875</b>	<b>40.2</b>
<b>Total uses of funds</b>	<b>4,578</b>	<b>3,941</b>	<b>16.2</b>

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	FY11	FY12E	FY13E
Net sales	6,572	5,518	19.1	6,111	7.6	22,206	25,692	29,639
Other operating income	183	175	4.5	183	0.2	763	760	909
Total revenue	6,755	5,693	18.7	6,294	7.3	22,969	26,452	30,548
Cost of goods sold	2,637	2,201	19.8	2,467	6.9	8,720	10,302	11,826
Gross profit	4,119	3,492	18.0	3,827	7.6	14,249	16,150	18,722
Staff cost	605	533	13.5	498	21.5	1,932	2,184	2,519
Adv. & sales promotions	1,143	789	44.8	988	15.7	3,493	4,239	4,816
Other expenditure	1,063	872	21.8	985	7.8	3,554	4,046	4,668
Total exp. (excl. COGS)	2,811	2,195	28.1	2,471	13.7	8,979	10,469	12,004
EBITDA	1,308	1,297	0.9	1,356	(3.5)	5,270	5,680	6,718
Dep., amortisation and imp.	106	84	25.8	88	20.1	342	392	429
EBIT	1,202	1,213	(0.9)	1,268	(5.2)	4,927	5,288	6,289
Other income	95	81	16.8	120	(21.0)	305	326	389
EBIT including other income	1,297	1,294	0.2	1,387	(6.5)	5,232	5,614	6,679
Interest expense	8	6	23.0	6	23.0	33	25	25
PBT	1,289	1,288	0.1	1,381	(6.7)	5,199	5,589	6,654
Provision for taxation	293	285	2.8	377	(22.4)	1,174	1,341	1,663
Reported Net profit	997	1,003	(0.6)	1,004	(0.8)	4,026	4,247	4,990
Equity capital (FV INR 1)	136	136		136		136	136	136
No. of shares (mn)	136	136		136		136	136	136
EPS (INR)	7.33	7.38		7.4		29.6	31.2	36.7

## as % of net sales

COGS	39.0	38.7		39.2		38.0	38.9	38.7
Staff costs	9.0	9.4		7.9		8.4	8.3	8.2
Adv. & sales promotions	16.9	13.9		15.7		15.2	16.0	15.8
Other expenditure	15.7	15.3		15.7		15.5	15.3	15.3
EBITDA	19.4	22.8		21.5		22.9	21.5	22.0
EBIT	17.8	21.3		20.1		21.5	20.0	20.6
EBIT incl. other income	19.2	22.7		22.0		22.8	21.2	21.9
PBT	19.1	22.6		21.9		22.6	21.1	21.8
Net profit	14.8	17.6		16.0		17.5	16.1	16.3
Tax rate	22.7	22.1		27.3		22.6	24.0	25.0

### Company Description

Colgate is India's biggest oral care products company with more than 95% of its sales coming from this product category. The company has products across variants and price points in toothpaste, toothpowder, and toothbrushes, and is the leader in each of these categories.

### Investment Theme

The company's leadership position in oral care has been strengthened by its continued market share gains. However, we believe further share gains are difficult as competition intensifies. Higher competition will induce Colgate to increase its brand spends, which could cap its margins. Also, fiscal tax benefits from its Baddi unit have come off in FY11, leading to a higher tax rate. Recent run-up in its share price makes Colgate's valuation reasonable with the upside capped.

### Key Risks

New entrants like P&G could hit the company hard.

Further risks arise from down trending by consumers in response to recent price hikes, which could hurt the company's top line.

A substantial part Colgate's turnover is derived from the rural market. Deficient rainfall could impact agricultural activity which in turn could hit rural demand.

Sharp rise in input prices or continued depreciation of the INR could increase cost of imported chemicals.

## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net revenue	16,948	19,625	22,206	25,692	29,639
Other operating income	760	727	763	760	909
Total operating income	17,708	20,352	22,969	26,452	30,548
Materials costs	7,413	7,768	8,720	10,302	11,826
Gross profit	10,295	12,584	14,249	16,150	18,722
Employee costs	1,434	1,591	1,932	2,184	2,519
Other expenses	2,768	3,014	3,554	4,046	4,668
Advertisement & sales costs	2,717	2,994	3,493	4,239	4,816
EBITDA	3,376	4,985	5,270	5,680	6,718
Depreciation & Amortization	229	376	342	392	429
EBIT	3,147	4,609	4,927	5,288	6,289
Other income	317	254	305	326	389
EBIT incl. other income	3,464	4,863	5,232	5,614	6,679
Interest expenses	11	15	33	25	25
Profit before tax	3,453	4,848	5,199	5,589	6,654
Provision for tax	551	615	1,174	1,341	1,663
Core profit	2,902	4,232	4,026	4,247	4,990
Profit after minority interest	2,902	4,232	4,026	4,247	4,990
Basic shares outstanding (mn)	136	136	136	136	136
Basic EPS (INR)	21.3	31.1	29.6	31.2	36.7
Diluted equity shares (mn)	136	136	136	136	136
Diluted EPS (INR)	21.3	31.1	29.6	31.2	36.7
CEPS (INR)	23.0	33.9	32.1	34.1	39.8
Dividend per share (INR)	17.6	23.4	25.7	26.2	30.8
Dividend payout (%)	82.4	75.2	86.7	84.0	84.0

### Common size metrics - as % of net revenues

Year to March	FY09	FY10	FY11	FY12E	FY13E
Materials costs	41.9	38.2	38.0	38.9	38.7
Employee expenses	8.1	7.8	8.4	8.3	8.2
Advertising & sales costs	15.3	14.7	15.2	16.0	15.8
Other expenses	15.6	14.8	15.5	15.3	15.3
Depreciation	1.3	1.8	1.5	1.5	1.4
Interest expenditure	0.1	0.1	0.1	0.1	0.1
EBITDA margins	19.1	24.5	22.9	21.5	22.0
EBIT margins	17.8	22.6	21.5	20.0	20.6
Net profit margins	16.4	20.8	17.5	16.1	16.3

### Growth ratios (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	15.0	14.9	12.9	15.2	15.5
EBITDA	47.7	47.6	5.7	7.8	18.3
PBT	66.6	40.4	7.3	7.5	19.1
Net profit	97.5	45.8	(4.9)	5.5	17.5
EPS	97.5	45.8	(4.9)	5.5	17.5



Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11	FY12E	FY13E
Equity capital	136	136	136	136	136
Reserves & surplus	2,027	3,125	3,705	4,384	5,183
Shareholders funds	2,163	3,261	3,841	4,520	5,319
Unsecured loans	47	46	1	1	1
Borrowings	47	46	1	1	1
Deferred tax liability	(177)	(179)	(168)	(168)	(168)
<b>Sources of funds</b>	<b>2,033</b>	<b>3,128</b>	<b>3,673</b>	<b>4,352</b>	<b>5,151</b>
Gross block	4,253	5,345	5,798	6,268	6,918
Depreciation	2,513	2,876	3,248	3,640	4,069
Net block	1,739	2,469	2,550	2,628	2,850
Capital work in progress	47	62	123	123	123
Investments	383	210	387	387	387
Inventories	824	1,106	1,537	1,522	1,747
Sundry debtors	111	98	430	298	336
Cash and equivalents	2,511	3,476	3,956	5,256	6,355
Loans and advances	1,930	1,222	1,122	1,122	1,122
Total current assets	5,377	5,901	7,044	8,197	9,560
Sundry creditors and others	3,945	4,267	4,739	5,290	6,076
Provisions	1,568	1,248	1,693	1,693	1,693
Total current liabilities & provisions	5,513	5,515	6,432	6,984	7,769
Net current assets	(136)	387	612	1,214	1,791
<b>Uses of funds</b>	<b>2,033</b>	<b>3,128</b>	<b>3,673</b>	<b>4,352</b>	<b>5,151</b>
Book value per share (INR)	15.9	24.0	28.2	33.2	39.1

Free cash flow					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net profit	2,902	4,232	4,026	4,247	4,990
Add : Non cash charge	240	391	375	417	454
Depreciation	229	376	342	392	429
Others	11	15	33	25	25
Gross cash flow	3,143	4,623	4,401	4,665	5,444
Less: Changes in WC	(389)	(53)	291	(698)	(522)
Operating cash flow	3,531	4,677	4,110	5,363	5,966
Less: Capex	55	1,093	453	470	650
<b>Free cash flow</b>	<b>3,476</b>	<b>3,584</b>	<b>3,657</b>	<b>4,893</b>	<b>5,316</b>

Cash flow metrics					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating cash flow	3,194	3,974	3,854	5,363	5,966
Investing cash flow	418	345	(145)	(470)	(650)
Financing cash flow	(2,551)	(3,375)	(3,230)	(3,593)	(4,217)
Net cash flow	1,061	944	479	1,300	1,099
Capex	(55)	(1,093)	(453)	(470)	(650)
Dividends paid	(2,391)	(3,182)	(3,489)	(3,568)	(4,192)

**Profitability & efficiency ratios**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
ROAE (%)	153.4	156.1	113.4	101.6	101.4
ROACE (%)	271.9	201.8	158.9	145.9	144.1
Inventory day	17	18	22	22	22
Debtors days	2	2	4	4	4
Payable days	94	98	93	93	93
Cash conversion cycle (days)	(75)	(78)	(67)	(67)	(67)
Current ratio	1.0	1.1	1.1	1.2	1.2

**Operating ratios**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Total asset turnover	10.3	7.9	6.8	6.6	6.4
Fixed asset turnover	9.7	9.7	9.2	10.2	11.2
Equity turnover	9.4	7.5	6.5	6.3	6.2

**Du pont analysis**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
NP margin (%)	16.4	20.8	17.5	16.1	16.3
Total assets turnover	10.3	7.9	6.8	6.6	6.4
Leverage multiplier	0.9	1.0	1.0	1.0	1.0
ROAE (%)	153.4	156.1	113.4	101.6	101.4

**Valuation parameters**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Diluted EPS (INR)	21.3	31.1	29.6	31.2	36.7
Y-o-Y growth (%)	97.5	45.8	(4.9)	5.5	17.5
CEPS (INR)	23.0	33.9	32.1	34.1	39.8
Diluted PE (x)	47.0	32.2	33.9	32.1	27.3
Price/BV (x)	63.0	41.8	35.5	30.2	25.6
EV/Sales (x)	7.6	6.5	5.8	5.0	4.3
EV/EBITDA (x)	39.5	26.6	25.1	23.1	19.3
Dividend yield (%)	1.8	2.3	2.6	2.6	3.1

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Colgate	HOLD	SU	M
Dabur	BUY	SO	M	Emami	BUY	SO	H
Godrej Consumer	BUY	SO	H	Hindustan Unilever	BUY	SO	L
ITC	BUY	SO	L	Marico	BUY	SP	M
Nestle Ltd	HOLD	SU	L	United Spirits	BUY	SP	H

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# DABUR

## Not much to cheer

India Equity Research | Consumer Goods

Dabur's Q2FY12 revenue jumped 29.8% Y-o-Y to INR 12.6 bn (in line with our estimate). ~4.5% Y-o-Y volume growth in the domestic business was disappointing and shampoos, home care, skin care and digestive & baby care segments were in slowdown mode. However, foods business and hair care segment put up a creditable performance. EBITDA margin contracted 239bps, largely driven by 302bps surge in COGS, primarily offset by lower ad spends (231bps). Organic growth in the international business division (IBD) was robust at 22.8% despite political disturbances in Middle East. Net profit growth of 8.4% Y-o-Y to INR 1.7 bn was largely in-line with our estimate. We maintain 'BUY'.

### Sales expand, margins contract

Dabur's Q2FY12 revenue surged 29.8% Y-o-Y to INR 12.6 bn (12.9% excluding acquisitions). EBITDA margin contracted 239bps Y-o-Y to 15.1%. This was primarily led by a surge in COGS (302bps) and other expenditure (163bps) primarily offset by lower A&P spends (~231bps). Domestic business grew a meager 11% Y-o-Y (~5% volume led).

### Food, hair oil shine; shampoos, home care, skin care lose sheen

The company's domestic business grew 11% Y-o-Y in Q2FY12 with hair care, the largest category, posting robust 15.9% growth on back of hair oil surging 26.6%. Shampoos declined 25.4%, oral care grew 6%, health supplements grew 7.8%; home care, skin care and digestives and baby care reported flat growth; OTC & Ethicals contracted 5.9% due to realignment of distribution. Foods grew strong at 27.5%. IBD grew organically by 22.8% (constant currency growth at 26%) led by Nigeria, Egypt and GCC.

### Outlook and valuations: Growing strong; maintain 'BUY'

Continuous slowdown in domestic volume growth over the past few quarters is a cause of concern. However, in H2FY12, Dabur expects volume growth to revive and gross margin to improve. EBITDA is likely to remain under pressure due to higher ad spends. Benefits from Hobi and Namaste acquisitions are likely to be long-term positives. At CMP, the stock is trading at P/E of INR 27.2 and INR 22.6 on FY12E and FY13E, respectively. We maintain 'BUY' recommendation with 'Sector Performer' rating.

### Financials

(INR mn)

Year to March	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	FY11	FY12E
Net revenues	12,623	9,728	29.8	12,046	4.8	40,774	50,196
EBITDA	2,449	2,129	15.1	1,787	37.0	7,625	9,063
Core profit	1,739	1,604	8.4	1,279	35.9	5,689	6,489
Diluted EPS (INR)	1.0	0.9	7.8	0.7	35.9	3.3	3.7
Diluted P/E (x)						31.2	27.2
EV/EBITDA (x)						23.6	19.4
ROAE (%)						51.2	43.2

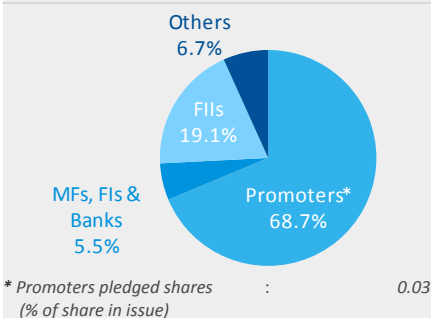
### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

### MARKET DATA (R: DABU.BO, B: DABUR IN)

CMP	: INR 101
Target Price	: INR 120
52-week range (INR)	: 123 / 87
Share in issue (mn)	: 1,742.0
M cap (INR bn/USD mn)	: 176 / 3,620
Avg. Daily Vol.BSE/NSE('000)	: 1,778.7

### SHARE HOLDING PATTERN (%)



### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	(3.9)	8.4	4.8
3 months	(7.5)	(2.3)	2.4
12 months	0.2	(10.5)	19.0

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**Table 1: Segment-wise snapshot**

Segment	Growth Y-o-Y(%)	Key Takeaways Q2FY12
<b>Domestic Business</b>	<b>11</b>	
Hair Care	15.9	<ul style="list-style-type: none"> <li>Hair oil witnessed robust volume growth of 10.7% and the realization grew 26.6% Y-o-Y</li> <li>Market share of Amla increased 80bps Q-o-Q while that of Vatika increased by 50 bps Q-o-Q</li> <li>Anmol Coconut Oil gained market share</li> <li>Shampoo sales dipped Y-o-Y by 25.4% but showed volume growth of 17%. Segment margins have declined to almost half from its peak</li> </ul>
Health Supplement	7.8	<ul style="list-style-type: none"> <li>Chyawanprash saw a good growth on the back of lift in sales during monsoons</li> <li>Honey recorded healthy growth supported by strong marketing</li> <li>The company expects strong sales during the winter season</li> </ul>
Food	27.5	<ul style="list-style-type: none"> <li>Beverages saw a growth of ~20% Y-o-Y</li> <li>Plans to launch more variants under both Real and Activ brands</li> <li>Activ brand (new fibre added juices) aided growth momentum</li> <li>35% of pulp for the beverages is sourced from India, and the rest is imported for cost efficiency</li> </ul>
Oral Care	6.0	<ul style="list-style-type: none"> <li>~1% increase in market share Q2FY12</li> <li>Toothpaste witnessed 7.8% growth, impacted by supply constraints in Dabur Red toothpaste.</li> <li>Toothpowder grew 1.7% growth and witnessed gain in market share</li> </ul>
Digestive and Baby Care	flat	<ul style="list-style-type: none"> <li>Hajmola variants reported flat growth due to supply constraints</li> <li>Lal Tail performed well due to consumer activations</li> <li>Recently launched Hajmola Mint Masti Candy posted good performance</li> </ul>
Skin Care	flat	<ul style="list-style-type: none"> <li>Fem Bleaches saw a flat growth due to distribution restructuring</li> <li>Launched Anti Ageing cream and face scrub in Uveda product portfolio and extended to Southern markets</li> </ul>
Home Care	0.5	<ul style="list-style-type: none"> <li>Sales of Odoroms declined due to lack of any epidemic and decline in institutional orders</li> <li>Aerosol business performed well, with Sanifresh gaining market share</li> </ul>
OTC & Ethicals	-	<ul style="list-style-type: none"> <li>Ethical portfolio contracted 11.6% while OTC 5.9%</li> <li>Growth impacted on account of re-alignment of distribution</li> <li>company expects growth to revive in H2FY12</li> </ul>
<b>International Division</b>	<b>22.8</b>	<ul style="list-style-type: none"> <li>International sales increased 22.8% organically led by strong volume growth of 19% — same currency growth of 26%</li> <li>Nigeria, Egypt and GCC grew strong; Yemen, Syria and Libya remained weak as political instability persist</li> <li>Nepal achieved a robust growth of ~30%, Bangladesh ~45%, while Pakistan seen under stress</li> <li>Hobi and Namaste contributed 12.8% to topline growth. Individual revenues stood at INR 314 mn and INR 1310 mn respectively</li> <li>Namaste- EBITDA margin ~13%</li> <li>Hobi- EBITDA margin ~10.5%; plan to introduce Hobi products in MENA and India in H2FY12.</li> </ul>

Source: Company, Edelweiss research

## Key conference call takeaways

- **Domestic volume growth slows down further:** Domestic volume growth is likely to recover to high single digits in H2FY12 from ~5% in Q2FY12. This recovery will be due to: (1) restructuring of Consumer Health segment is largely complete; (2) toothpaste supply is back to normal; (3) increase in ad spends; and (4) more innovation in products.
- **Gross margin pressure:** Raw material costs have peaked out and the company expects gross margin expansion in H2FY12. However, it also stated that costs are volatile along with currency fluctuations.
- **Ad spends to surge:** Ad spends likely to jump significantly in H2FY12. In Q2FY12, Dabur spent just 10.1% of sales on ads while the long-term average is likely to be 12-13%. Higher ad spends are likely in beverages, health supplements and hair oils.
- **Restructuring of Consumer Health segment:** Restructuring is largely complete and the company has overhauled the distribution network and merged it with Consumer Care segment. In Q2FY12, this led to an adverse impact on sales and margins (impact of INR 200 mn) but recovery is likely in H2FY12.
- **Hair oils:** The category grew 26.6% Y-o-Y in value terms with volume growth of 10.7%. Market share of Amla increased 80bps Q-o-Q while that of Vatika increased by 50bps Q-o-Q. Margins were maintained as price hikes helped offset cost inflation. The company is not looking to enter the cooling oil segment.
- **Shampoos:** Though volume surged 17% Y-o-Y, overall sales declined 25.4% Y-o-Y in Q2FY12 due to price cuts. Segment margins in shampoos declined to almost half from peak and competitive intensity remains high. Dabur expects margin to remain under pressure in the shampoo business in the coming quarters.
- **Health supplements:** Health supplements grew 7.8% Y-o-Y. Chyawanprash posted good growth on back of lift in sales during monsoons. The company expects strong sales during the winter season.
- **Home Care:** Home Care grew 0.5% Y-o-Y in Q2FY12. Sales of Odoroms declined due to absence of any epidemic and decline in institutional orders. On the other hand, aerosol business performed well, with Sanifresh gaining market share.
- **Foods:** Foods business reported robust growth of 27.5% Y-o-Y during Q2FY12. Beverages grew ~20% Y-o-Y. The company plans to launch more variants under both Real and Activ brands. 35% of pulp for beverages is sourced from India and balance is imported for cost efficiency.
- **Glucose:** Glucose saw a relatively quiet quarter due to seasonality.
- **Rural growth rate:** Rural growth rate has slowed down and is now at par with the urban rate. High inflation dampened sales in rural India. Hair oil and Chyawanprash were the most affected with the demand slowdown. But the company expects revival in rural demand in H2FY12 on back of a good crop; however, food inflation could be a risk.
- **Focus on South India:** North India accounts for almost 45% of the company's domestic sales. Dabur faces supply chain constraints in South India; but, in spite that, South India is the fastest growing market for it. The company is making enhanced efforts to improve the logistics and setting up a manufacturing plant in Sri Lanka is a step towards that.

- **International business:** Organically, international business grew 22.8% Y-o-Y with a robust volume growth of 19%. Growth in constant currency terms was at 26% Y-o-Y for Q2FY12. Business in Yemen, Syria and Libya was impacted by political disturbance. Operations in Nepal are moving towards normalcy, achieving a robust growth of ~30%. Business in Bangladesh grew about 45% while Pakistan is at breakeven. Margin pressure in international segment is lower than in the domestic segment.
- **Hobi:** Sales of INR 314 mn in Q2FY12 with a ~10.5% EBITDA margin. On the brighter side, the company is planning to introduce Hobi products in MENA and India in H2FY12.
- **Namaste:** Sales of INR 1.31 bn in Q2FY12 and EBITDA margin of ~13%.
- **Debt:** Total gross debt stands at INR 10 bn, with cash & cash equivalents at INR 5 bn. So net debt of INR 5 bn. The D/E ratio is 0.4. Overall interest cost is 2-2.2%. Repayment starts from February-March 2012.

**Table 2: Segmental performance**

Year to March - Revenues (INR mn)	Q2FY11	Q1FY12	Q2FY12	% growth Y-o-Y	% growth Q-o-Q
Consumer care business	7,525	9,500	10,003	32.9	5.3
Consumer health biz	788	770	721	(8.4)	(6.3)
Foods business	1,244	1,567	1,499	20.5	(4.4)
Retail business	48	84	95	97.5	13.0
Others	200	242	380	90.0	56.9
<b>Gross income (Excl other income)</b>	<b>9,805</b>	<b>12,162</b>	<b>12,697</b>	<b>29.5</b>	<b>4.4</b>
Year to March - PBIT (INR mn)					
Consumer care business	2,138	1,922	2,268	6.1	18.0
Consumer health biz	163	185	205	25.9	10.9
Foods business	272	248	333	22.4	34.4
Retail business	(26)	(26)	(27)	(4.2)	4.2
Others	22	4	28	26.4	578.0
<b>PBIT</b>	<b>2,569</b>	<b>2,332</b>	<b>2,806</b>	<b>9.3</b>	<b>20.3</b>
Year to March - Margin					
Consumer care business	28.4	20.2	22.7		
Consumer health biz	20.7	24.0	28.4		
Foods business	21.9	15.8	22.2		
Retail business	(54.8)	(31.3)	(28.9)		
Others	11.0	1.7	7.3		
<b>Margin</b>	<b>26.2</b>	<b>19.2</b>	<b>22.1</b>		

Source: Company, Edelweiss research

Chart 1: Sales contribution H1FY12

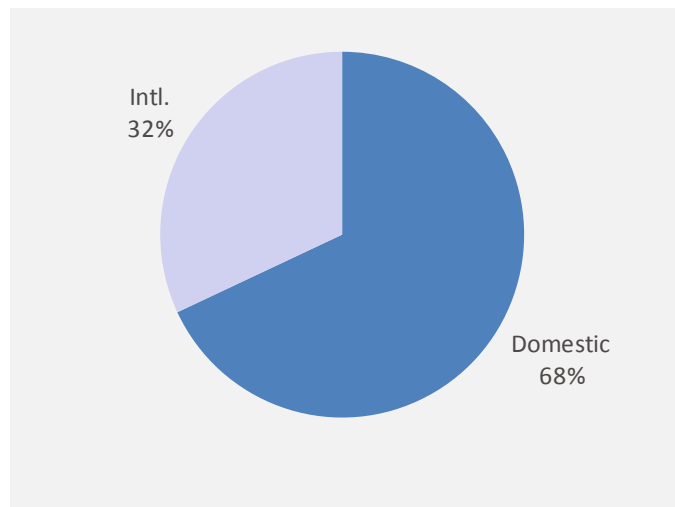


Chart 2: Y-o-Y sales growth rates (H1FY12)

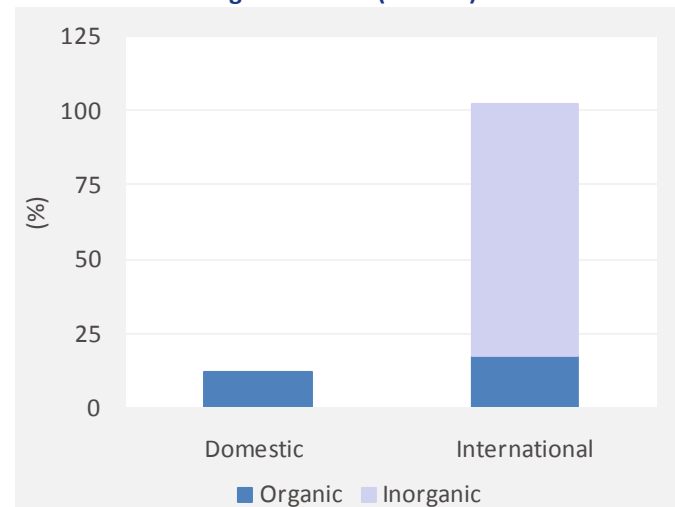


Chart 3: Category wise growth Q2FY12

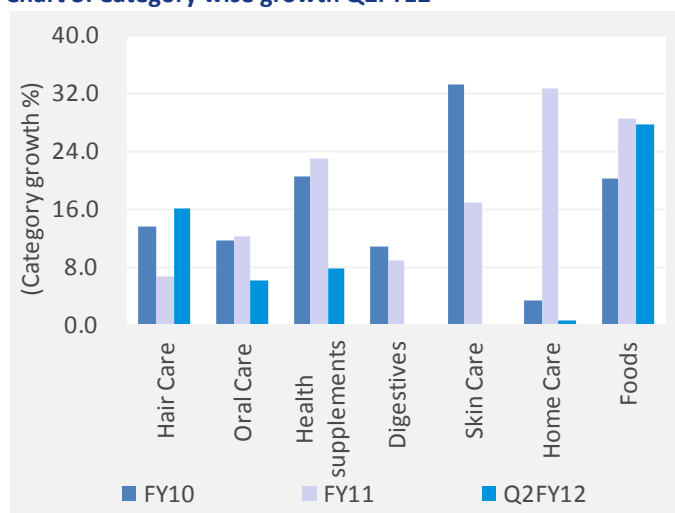


Chart 4: Consumer care: category contribution in H1FY12

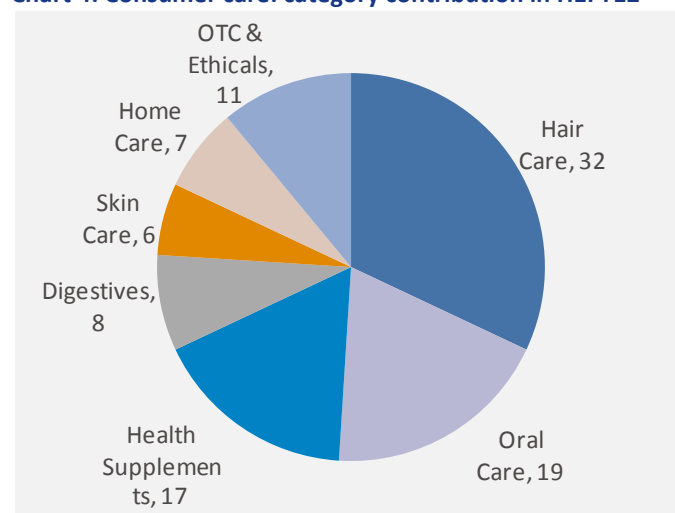


Chart 5: Consumer care: category growth rate in H1FY12

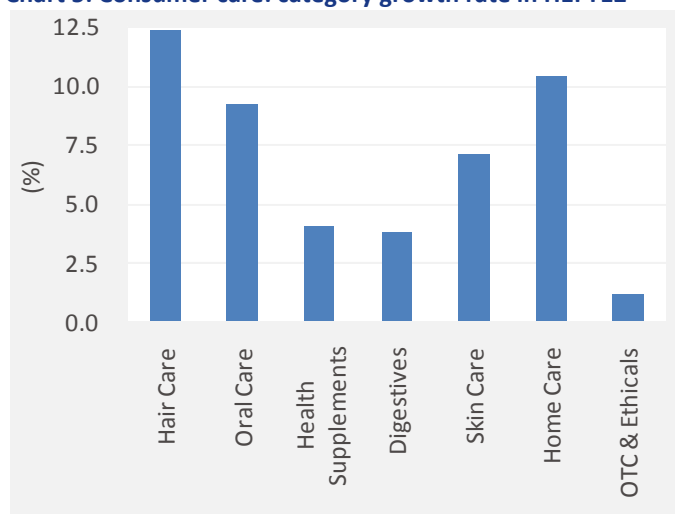
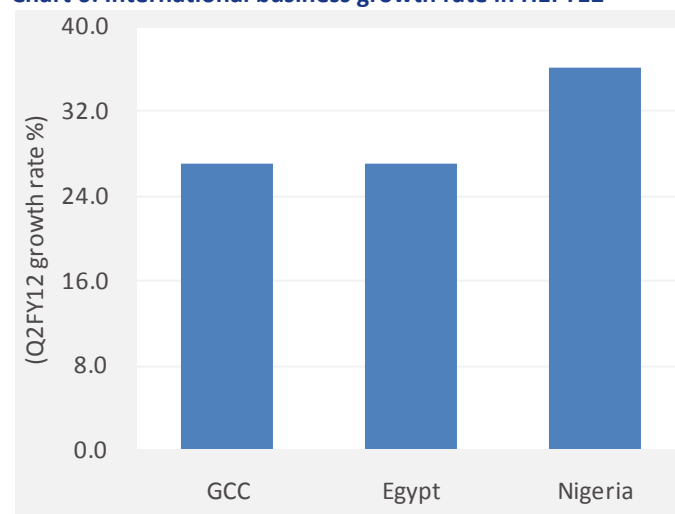


Chart 6: International business growth rate in H1FY12



Source: Company, Edelweiss research



Table 3: Balance Sheet

(INR mn)

As on 30th September 2011	Q2FY12	Q2FY11	% change Y-o-Y
<b>Sources of funds</b>			
Share capital	1,740	1,740	0%
Reserves and surplus	13,580	10,370	31%
Shareholders fund	15,320	12,110	27%
Loan funds	10,740	3,350	221%
Deferred tax liability	260	130	100%
Minority interest	40	40	0%
<b>Total sources of funds</b>	<b>26,360</b>	<b>15,630</b>	<b>69%</b>
<b>Uses of funds</b>			
Fixed assets	16,150	7,050	129%
Investments	2,070	1,490	39%
Inventories	7,700	5,680	36%
Sundry debtors	4,310	2,170	99%
Cash and bank balances	3,340	4,010	-17%
Loans and advances	6,080	5,040	21%
Total current assets	21,430	16,900	27%
Current liabilities	6,330	5,970	6%
Provisions	7,810	4,840	61%
Total current liabilities and provisions	14,140	10,810	31%
Net current assets	7,290	6,090	20%
Misc. expenditure (not written off)	850	1,000	-15%
<b>Total uses of funds</b>	<b>26,360</b>	<b>15,630</b>	<b>69%</b>

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q2FY12	Q2FY11	% Change	Q1FY12	% Change	FY11	FY12E	FY13E
Net revenues	12,623	9,728	29.8	12,046	4.8	40,774	50,196	58,535
Other operating income	84	98	(14.9)	80	4.9	271	311	358
Total operating income	12,707	9,826	29.3	12,125	4.8	41,045	50,508	58,893
Cost of goods sold	6,309	4,582	37.7	6,290	0.3	19,053	25,131	29,042
Gross profit	6,398	5,244	22.0	5,836	9.6	21,992	25,377	29,851
Staff costs	1,014	779	30.3	951	6.6	3,222	4,016	4,741
Advt. sales & promotions	1,278	1,215	5.1	1,515	(15.7)	5,346	5,773	6,878
Other expenses	1,657	1,121	47.8	1,583	4.7	5,799	6,526	7,610
Total exp. (excl. cogs)	3,949	3,115	26.8	4,049	(2.5)	14,367	16,314	19,229
EBITDA	2,449	2,129	15.1	1,787	37.0	7,625	9,063	10,623
Depreciation & amortization	217	190	14.6	211	3.2	624	864	928
EBIT	2,232	1,939	15.1	1,577	41.6	7,001	8,199	9,694
Other income	106	67	58.1	151	(30.2)	381	490	551
EBIT including other income	2,338	2,006	16.5	1,728	35.3	7,382	8,689	10,245
Interest	172	46	276.4	126	36.2	303	578	501
Profit before tax	2,166	1,960	10.5	1,602	35.2	7,079	8,111	9,745
Provision for taxes	427	356	20.0	323	32.4	1,390	1,622	1,949
Core profit	1,739	1,604	8.4	1,279	35.9	5,689	6,489	7,796
PAT	1,739	1,604	8.4	1,279	35.9	5,689	6,489	7,796
Minority interest		(1)	(112.5)	(2)	(105.6)	(3)	(4)	(4)
Reported net profit	1,739	1,604	8.4	1,277	36.1	5,686	6,485	7,791
Diluted EPS (INR)	1.0	0.9	7.8	0.7	35.9	3.3	3.7	4.5

## As a % of sales

COGS	49.7	46.6		51.9		46.4	49.8	49.3
Employee cost	8.0	7.9		7.8		7.9	8.0	8.1
Other expenses	13.0	11.4		13.1		14.1	12.9	12.9
Adv. & sales promotions	10.1	12.4		12.5		13.0	11.4	11.7
EBITDA	19.3	21.7		14.7		18.6	17.9	18.0
EBIT	17.6	19.7		13.0		17.1	16.2	16.5
PBT	17.0	20.0		13.2		17.2	16.1	16.5
Reported net profit	13.7	16.3		10.5		13.9	12.8	13.2
Tax rate	19.7	18.2		20.1		19.6	20.0	20.0

### Company Description

Dabur has three divisions in India apart from its international operations. Consumer care division (CCD) offers a wide range of products in hair care, oral care, health supplements, digestives and candies, and baby and skin care products, based on ayurveda. The consumer health division (CHD) includes over-the-counter (OTC) products, Asavs, and branded ethical, and classic products. CHD division has been merged with CCD to leverage distribution. The third division, Dabur Foods Ltd produces fruit juices, cooking pastes, sauces, and items for institutional food purchases. Dabur is unique among its FMCG peers because of its positioning as an Indian company whose products are derived from exotic sources such as ancient ayurvedic texts and natural ingredients such as herbs.

The company has various brand leaders in different market segments - Dabur Chyawanprash, a health tonic, and Hajmola - a digestive tablet. Real, launched during 1996-97, has also successfully carved its niche in the market.

### Investment Theme

Dabur's broad product portfolio provides a good play on Indian FMCG spend by virtue of its strong presence in less penetrated and high growth categories. Dabur's positioning on the 'health and wellness' platform, backed by its ANH (ayurvedic/natural/herbal) image is very progressive. This, combined with its demonstrated ability to create new categories and sub-categories, makes it well-placed to capture lifestyle changes-led growth in the FMCG space. Dabur has also demonstrated its ability to make and integrate smart acquisitions (Balsara) that complement its product portfolio and thereby drive inorganic growth. Improvement in margins of foods and international businesses are expected to result in improvement in margins for the consolidated operations.

### Key Risks

A slowdown in rural demand due to lower government spending or a monsoon failure could impact Dabur's revenues significantly. The company's products such as Dabur Chyawanprash and Dabur Lal Tail are prominently sold in the rural areas, and hence, depend on growth in rural demand.

Further rise in competitive intensity in categories like Shampoo, Oral care, OTC and ethical may further put pressure on volumes.

Management bandwidth post acquisition in various international geographies is a concern.

## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net revenue	28,054	33,905	40,774	50,196	58,535
Other Operating Income	186	238	271	311	358
Total operating income	28,241	34,143	41,045	50,508	58,893
Materials costs	13,762	15,507	19,053	25,131	29,042
Gross profit	14,479	18,636	21,992	25,377	29,851
Employee costs	2,347	2,847	3,222	4,016	4,741
Other Expenses	3,852	4,383	5,799	6,526	7,610
Advertisement & sales costs	3,433	4,935	5,346	5,773	6,878
EBITDA	4,847	6,470	7,625	9,063	10,623
Depreciation & Amortization	449	503	624	864	928
EBIT	4,398	5,968	7,001	8,199	9,694
Other income	282	244	381	490	551
EBIT incl. other income	4,681	6,211	7,382	8,689	10,245
Interest expenses	232	202	303	578	501
Profit before tax	4,449	6,009	7,079	8,111	9,745
Provision for tax	540	985	1,390	1,622	1,949
Core profit	3,908	5,024	5,689	6,489	7,796
Minority interest	4	8	(3)	(4)	(4)
Profit after minority interest	3,912	5,032	5,686	6,485	7,791
Basic shares outstanding (mn)	1,730	1,734	1,740	1,741	1,741
Basic EPS (INR)	2.3	2.9	3.3	3.7	4.5
Diluted equity shares (mn)	1,738	1,741	1,750	1,741	1,741
Diluted EPS (INR)	2.2	2.9	3.3	3.7	4.5
CEPS (INR)	2.5	3.2	3.6	4.2	5.0
Dividend per share (INR)	0.9	1.0	1.2	1.3	1.6
Dividend payout (%)	38.7	34.5	35.2	35.2	35.2

### Common size metrics - as % of net revenues

Year to March	FY09	FY10	FY11	FY12E	FY13E
Materials costs	48.7	45.4	46.4	49.8	49.3
Employee expenses	8.3	8.3	7.9	8.0	8.1
Advertising & sales costs	12.2	14.5	13.0	11.4	11.7
Other expenses	13.6	12.8	14.1	12.9	12.9
Depreciation	1.6	1.5	1.5	1.7	1.6
Interest expenditure	0.8	0.6	0.7	1.1	0.8
EBITDA margins	17.2	19.0	18.6	17.9	18.0
EBIT margins	15.6	17.5	17.1	16.2	16.5
Net profit margins	13.8	14.7	13.9	12.8	13.2

### Growth ratios (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	19.6	20.9	20.2	23.1	16.6
EBITDA	20.1	33.5	17.9	18.9	17.2
PBT	15.7	35.1	17.8	14.6	20.1
Net profit	17.1	28.6	13.2	14.1	20.1
EPS	16.9	28.3	12.7	14.7	20.1

Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11	FY12E	FY13E
Equity capital	865	869	1,741	1,741	1,741
Reserves & surplus	7,323	8,485	12,170	16,371	21,417
Shareholders funds	8,188	9,354	13,911	18,111	23,157
Minority interest (BS)	46	38	41	44	49
Secured loans	981	702	703	4,505	4,280
Unsecured loans	1,319	1,091	9,807	5,506	5,231
Borrowings	2,300	1,793	10,510	10,010	9,510
Deferred tax liability	70	107	189	189	189
<b>Sources of funds</b>	<b>10,603</b>	<b>11,291</b>	<b>24,651</b>	<b>28,355</b>	<b>32,905</b>
Gross block	7,992	9,857	19,338	20,838	22,338
Depreciation	2,994	3,391	4,351	5,214	6,143
Net block	4,998	6,466	14,987	15,623	16,195
Capital work in progress	593	301	430	430	430
Investments	3,470	2,641	4,274	4,274	4,274
Inventories	3,755	4,262	7,085	6,971	8,113
Sundry debtors	1,779	1,198	3,555	2,912	3,380
Cash and equivalents	1,484	1,923	2,724	6,742	10,332
Loans and advances	2,490	3,674	5,161	5,161	5,161
Total current assets	9,508	11,058	18,525	21,786	26,986
Sundry creditors and others	4,615	4,669	7,141	7,334	8,555
Provisions	3,438	4,533	7,435	7,435	7,435
Total current liabilities & provisions	8,053	9,202	14,576	14,769	15,990
Net current assets	1,455	1,855	3,950	7,017	10,996
Miscellaneous expenditure	86	27	1,010	1,010	1,010
<b>Uses of funds</b>	<b>10,603</b>	<b>11,291</b>	<b>24,651</b>	<b>28,355</b>	<b>32,905</b>
Book value per share (INR)	4.7	5.4	8.0	10.4	13.3

Free cash flow					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net profit	3,912	5,032	5,686	6,485	7,791
Add : Non cash charge	677	697	931	1,445	1,433
Depreciation	449	503	624	864	928
Others	228	194	307	582	505
Gross cash flow	4,589	5,729	6,616	7,931	9,224
Less: Changes in WC	750	(127)	2,708	(951)	389
Operating cash flow	3,838	5,857	3,908	8,881	8,836
Less: Capex	695	1,865	9,480	1,500	1,500
<b>Free cash flow</b>	<b>3,143</b>	<b>3,991</b>	<b>(5,572)</b>	<b>7,381</b>	<b>7,336</b>

Cash flow metrics					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating cash flow	3,838	5,857	3,908	8,881	8,836
Investing cash flow	(2,128)	(1,037)	(11,114)	(1,500)	(1,500)
Financing cash flow	(695)	(2,740)	6,086	(3,363)	(3,746)
Net cash flow	1,016	2,080	(1,119)	4,018	3,590
Capex	(695)	(1,865)	(9,480)	(1,500)	(1,500)
Dividends paid	(1,771)	(2,031)	(2,328)	(2,285)	(2,745)
Share issuance/(buyback)	1	4	872	-	-

**Profitability & efficiency ratios**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
ROAE (%)	55.2	57.8	51.2	43.2	39.7
ROACE (%)	69.9	75.6	48.2	36.9	36.8
Inventory day	44	43	51	51	51
Debtors days	23	16	21	21	21
Payable days	72	61	64	65	65
Cash conversion cycle (days)	(5)	(2)	8	7	7
Current ratio	1.2	1.2	1.3	1.5	1.7
Debt/EBITDA	0.5	0.3	1.4	1.1	0.9
Debt/Equity	0.3	0.2	0.8	0.6	0.4
Adjusted debt/equity	0.3	0.2	0.8	0.6	0.4
Interest coverage	19.0	29.5	23.1	14.2	19.4

**Operating ratios**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Total asset turnover	3.1	3.1	2.3	1.9	1.9
Fixed asset turnover	5.9	6.0	3.8	3.3	3.7
Equity turnover	3.9	3.9	3.5	3.2	2.9

**Du pont analysis**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
NP margin (%)	13.9	14.7	13.9	12.8	13.2
Total assets turnover	3.1	3.1	2.3	1.9	1.9
Leverage multiplier	1.3	1.3	1.6	1.8	1.6
ROAE (%)	55.3	57.8	51.2	43.2	39.7

**Valuation parameters**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Diluted EPS (INR)	2.2	2.9	3.3	3.7	4.5
Y-o-Y growth (%)	16.9	28.3	12.7	14.7	20.1
CEPS (INR)	2.5	3.2	3.6	4.2	5.0
Diluted PE (x)	45.1	35.1	31.2	27.2	22.6
Price/BV (x)	21.4	18.8	12.7	9.7	7.6
EV/Sales (x)	6.2	5.1	4.5	3.5	3.0
EV/EBITDA (x)	35.6	26.7	23.6	19.4	16.1
Dividend yield (%)	0.9	1.0	1.1	1.3	1.6

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Colgate	HOLD	SU	M
Dabur	BUY	SP	M	Emami	BUY	SO	H
Godrej Consumer	BUY	SO	H	Hindustan Unilever	BUY	SO	L
ITC	BUY	SO	L	Marico	BUY	SP	M
Nestle Ltd	HOLD	SU	L	United Spirits	BUY	SP	H

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# EAST INDIA HOTELS

## In recovery mode

India Equity Research | Hotels

East India Hotels (EIH) reported Q2FY12 EBIDTA of INR 294 mn as against our estimate of INR 357 mn. While occupancy rates (ORs) improved to 54% from 46% in Q2FY11, average room rates (ARRs) declined 4% Y-o-Y, a negative surprise. PAT adjusted for extraordinary income came in higher at INR 54 mn vs a loss of INR 337 mn in Q2FY11 led by lower taxes and interest expenses. We maintain 'HOLD' with target price of INR 87.

### Occupancy rates improve, but ARRs disappoint

EIH's sales of INR 2.37 bn (up 9.3% Y-o-Y) was in-line with our estimates. ORs improved to 54% compared to 46% in Q2FY11 led by improved occupancies at Mumbai properties (Trident, BKC and Oberoi, Nariman Point). However, ARRs of INR 8600 were down 4% Y-o-Y. The general decline in ARRs is in contrast to peers who are reporting higher ARRs. EBIDTA margin surged 680bps to 12.4% on the operating leverage which helped PAT margin adjusted for extraordinary income to improve to ~2% (from -15.5%) in Q2FY11. Lower interest costs due to repayment of debt (from proceeds of rights issue) also helped EIH report a PAT of INR 54 mn.

### Slow recovery in operations, earnings growth pinned on ARRs

Due to the shifting of businesses from South Mumbai to North Mumbai, company's properties in South Mumbai are expected to remain under pressure. Also, with no major expansion in the near future, EIH's earnings growth is majorly dependent on a rise in ARRs and ORs where we expect only a modest improvement. We maintain our 5% increase in ARRs for FY12E and FY13E along with 65% and 70% ORs for FY12E and FY13E respectively.

### Outlook and valuations: Fairly valued; maintain 'HOLD'

Two representatives from Reliance Industries have joined the board as additional directors which could have significant implications from a strategic point of view. We continue to value the company on EV/EBIDTA multiple rolling over to FY13 with a target multiple of 12x and maintain our target price of INR 87. We maintain 'HOLD' recommendation on the stock.

#### Financials (Standalone)

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	FY11	FY12E
Revenue (INR mn)	2,372	2,169	9.3	2,466	(3.8)	10,445	12,605
EBIDTA (INR mn)	294	122	140.0	478	(38.6)	2,356	3,127
Net profit (INR mn)	166	(524)	(131.7)	155	7.4	644	1,477
Diluted EPS (INR)	0.3	(0.4)	(176.2)	0.3	7.4	1.1	2.6
Diluted PE (x)						83.4	36.4
EV/EBIDTA (x)						22.9	15.7
ROAE (%)						3.2	5.6

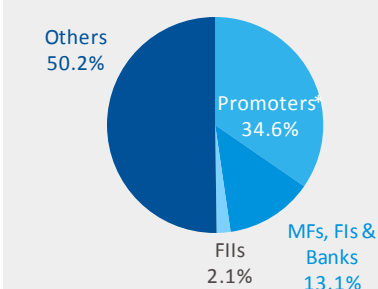
#### EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	None

#### MARKET DATA (R: EIHO.BO, B: EIH IN)

CMP	: INR 94
Target Price	: INR 87
52-week range (INR)	: 116 / 74
Share in issue (mn)	: 571.6
M cap (INR bn/USD mn)	: 54 / 1,102
Avg. Daily Vol. BSE/NSE ('000)	: 289.2

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.0	8.3	6.3
3 months	(9.6)	0.4	9.9
12 months	(25.9)	(11.9)	14.1

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October 31, 2011



## Financial snapshot (Standalone)

(INR mn)

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	FY11	FY12E	FY13E
Net sales	2,170	1,995	8.8	2,273	(4.5)	9,685	12,605	14,184
Other operating income	202	174	15.6	192	4.8	760	-	-
Total income	2,372	2,169	9.3	2,466	(3.8)	10,445	12,605	14,184
Consumption of provisions, stores, wines and others	357	312	14.4	361	(1.2)	1,385	1,625	1,666
Employee cost	822	897	(8.3)	784	4.8	3,189	3,508	3,683
Power & fuel	200	194	3.0	205	(2.6)	727	945	1,064
Other expenditure	699	644	8.5	637	9.7	2,788	3,400	3,797
EBIDTA	294	122	140.0	478	(38.6)	2,356	3,127	3,974
Depreciation	237	225	5.0	215	10.0	874	881	914
EBIT	57	(103)	(155.6)	263	(78.3)	1,482	2,246	3,060
Interest	119	402	(70.4)	207	(42.5)	1,552	287	269
Other income	97	33	NM	93	NM	983	279	300
PBT and extraordinary items	35	(472)	(107.5)	150	(76.4)	913	2,238	3,091
Extraordinary items	112	187	-	-	-	(44)	-	-
PBT	147	(659)	(122.3)	150	(1.8)	869	2,238	3,091
Tax	(19)	(135)	(85.9)	(5)	282.0	225	761	1,051
PAT	166	(524)	(131.7)	155	7.4	644	1,477	2,040
EPS	0.3	(0.4)	(176.2)	0.3	7.4	1.1	2.6	3.6
<b>As % of net revenue</b>								
Employee cost	34.7	41.3	-	31.8	-	30.5	27.8	26.0
Power & fuel	8.4	8.9	-	8.3	-	7.0	7.5	7.5
Other expenditure	29.5	29.7	-	25.8	-	26.7	27.0	26.8
Total expenditure	87.6	94.4	-	80.6	-	77.4	75.2	72.0
EBIDTA	12.4	5.6	-	19.4	-	22.6	24.8	28.0
Net profit	7.0	(24.2)	-	6.3	-	6.2	11.7	14.4
Tax rate	(13.0)	20.5	-	(3.3)	-	25.8	34.0	34.0

## Company Description

EIH, the third largest hospitality company in India after Indian Hotels and the ITC Welcome Group, manages more than 3,000 rooms across India. It is the largest company in the Oberoi Group. The group, founded in 1934, manages luxury hotels across five countries under the *Oberoi* and *Trident* brands. The group's portfolio includes hotels, operations in flight catering, airport restaurants, travel & tour services, car rentals, project management, and corporate air charters. The company manages 3,500 rooms across India and the international market. It also operates luxury cruises in India. Besides hotels, the group also has a printing press business.

## Investment Theme

With the revival of ARR and ORs across India, the hotel industry is looking for better times ahead. With India emerging as one of the fastest growing economy, FTAs of both business and leisure are expected to pick up. Domestic tourism is also on a revival path and with more Indians ready to take holidays, is expected to perform well in years to come. We like EIH's under leveraged balance sheet, but the slow expansion along with other businesses like printing press and car rental services where margins are sub-standard. We believe the company is not in a position to exploit growth in Indian hospitality industry to its fullest.

## Key Risks

Further stake increase by ITC, announcement of major projects, sale of land bank, and an income surprise from international operations.

## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Income from operations	11,769	10,281	12,521	14,963	16,728
Total operating expenses	7,625	7,583	9,867	11,388	12,558
Employee cost	2,726	2,658	3,603	4,143	4,558
F&B	1,099	1,236	1,566	1,745	1,887
Power & fuel	700	648	869	973	1,087
Other expenditure	3,100	3,041	3,829	4,528	5,026
EBITDA	4,143	2,699	2,654	3,575	4,171
Depreciation and amortisation	749	878	1,166	1,224	1,273
EBIT	3,394	1,821	1,488	2,351	2,897
Interest	953	1,103	1,690	409	467
Total other income	333	340	448	514	643
Profit before tax	2,774	1,058	246	2,456	3,074
Provision for tax	1,074	348	329	810	1,014
Core Profit	1,701	710	(83)	1,645	2,059
Profit after tax	1,701	710	(127)	1,645	2,059
Shares outstanding (mn)	393	393	572	572	572
EPS (INR) basic	4.3	1.7	(0.0)	2.9	3.6
Diluted shares (mn)	393	393	572	572	572
EPS (INR) diluted	4.3	1.7	(0.0)	2.9	3.6
Dividend per share (INR)	1.2	1.2	0.9	1.2	1.4
Dividend payout (%)	33.1	78.8	NA	48.8	46.8

## Common size metrics- as % of net revenues

Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating expenses	64.8	73.8	78.8	76.1	75.1
Employee cost	23.2	25.9	28.8	27.7	27.2
Other expenditure	35.7	41.6	43.1	41.9	41.3
Depreciation and amortisation	6.4	8.5	9.3	8.2	7.6
Interest expenditure	8.1	10.7	13.5	2.7	2.8
EBITDA margins	35.2	26.2	21.2	23.9	24.9
Net profit margins	14.4	6.9	(0.7)	11.0	12.3

## Growth metrics (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	(7.1)	(12.6)	21.8	19.5	11.8
EBITDA	(16.3)	(34.9)	(1.7)	34.7	16.7
PBT	(24.6)	(61.9)	(76.8)	899.4	25.2
Core net profit	(24.5)	(61.1)	(101.2)	NA	25.2
EPS	(24.5)	(61.1)	(100.8)	NA	25.2

Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11	FY12E	FY13E
Equity capital	786	786	1,143	1,143	1,143
Reserves & surplus	13,339	13,162	24,320	25,140	26,212
Shareholders funds	14,125	13,947	25,464	26,283	27,355
Secured loans	11,399	13,502	10,639	5,639	4,639
Unsecured loans	10	855	44	44	44
Borrowings	11,409	14,357	10,683	5,683	4,683
Minority interest	272	350	356	379	401
Deferred tax (net)	1,210	1,385	1,551	1,551	1,551
<b>Sources of funds</b>	<b>27,016</b>	<b>30,039</b>	<b>38,054</b>	<b>33,896</b>	<b>33,991</b>
Gross block	21,101	27,687	31,554	32,854	34,154
Depreciation	5,241	5,852	7,446	8,670	9,943
Net block	15,860	21,835	24,108	24,184	24,211
Capital work In progress	6,171	3,094	2,356	2,356	2,356
Intangible assets	186	225	3,050	3,050	3,050
Investments	2,659	2,411	1,164	1,164	1,164
Inventories	345	337	446	414	478
Sundry debtors	1,062	1,159	1,514	1,544	1,780
Cash and bank balances	787	648	6,856	2,592	2,613
Loans and advances	3,152	3,110	2,201	2,305	2,421
Other current assets	7	4	7	7	7
Total current assets	5,353	5,258	11,024	6,862	7,299
Sundry creditors and others	2,521	2,101	2,833	2,912	3,280
Provisions	694	692	823	823	823
Total current liabilities & provisions	3,215	2,792	3,656	3,735	4,104
Net current assets	2,137	2,465	7,367	3,127	3,195
Misc expenditure	-	9	9	9	9
<b>Uses of funds</b>	<b>27,016</b>	<b>30,039</b>	<b>38,054</b>	<b>33,896</b>	<b>33,991</b>
Book value per share (BV) (INR)	36	35	45	46	48

Free cash flow					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net profit	1,705	663	(52)	1,645	2,059
Depreciation	749	878	1,166	1,224	1,273
Deferred tax	108	110	115	114	114
Others	748	(374)	(831)	204	257
Gross cash flow	3,310	1,276	398	3,187	3,704
Less: Changes in working capital	1,040	495	(1,791)	29	47
Operating cash flow	2,270	782	2,188	3,157	3,657
Less: Capex	3,097	3,666	1,744	1,300	1,300
<b>Free cash flow</b>	<b>(828)</b>	<b>(2,885)</b>	<b>445</b>	<b>1,857</b>	<b>2,357</b>

Cash flow metrics					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating cash flow	2,270	782	2,188	3,157	3,657
Financing cash flow	1,342	2,445	7,400	(6,213)	(2,431)
Investing cash flow	(3,301)	(3,416)	(3,773)	(1,208)	(1,205)
Net cash flow	311	(189)	5,816	(4,264)	22
Capex	(3,097)	(3,666)	(1,744)	(1,300)	(1,300)
Dividend paid	(709)	(482)	(519)	(804)	(965)

**Ratios**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
ROAE (%)	12.8	4.7	(0.0)	6.4	7.7
ROACE (%)	15.1	7.0	4.6	6.8	8.8
Inventory (days)	11	12	11	10	10
Debtors (days)	37	39	39	37	36
Payable (days)	110	111	91	92	90
Cash conversion cycle	(62)	(60)	(41)	(44)	(44)
Current ratio	0.2	0.2	0.1	0.2	0.2
Debt/EBITDA	2.8	5.3	4.0	1.6	1.1
Interest cover (x)	3.6	1.7	0.9	5.7	6.2
Fixed assets turnover (x)	0.8	0.5	0.5	0.6	0.7
Total asset turnover (x)	0.5	0.4	0.4	0.4	0.5
Equity turnover(x)	0.9	0.7	0.6	0.6	0.6
Debt/Equity (x)	0.8	1.0	0.4	0.2	0.2
Adjusted debt/Equity	0.8	1.0	0.4	0.2	0.2

**Du pont analysis**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
NP margin (%)	14.5	6.4	(0.1)	11.0	12.3
Total assets turnover	0.5	0.4	0.4	0.4	0.5
Leverage multiplier	1.9	2.0	1.7	1.4	1.3
ROAE (%)	12.8	4.7	(0.0)	6.4	7.7

**Valuation parameters**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Diluted EPS (INR)	4.3	1.7	(0.0)	2.9	3.6
Y-o-Y growth (%)	(24.5)	(61.1)	(100.8)	NA	25.2
CEPS (INR)	6.5	4.5	2.2	5.0	5.8
Diluted P/E (x)	21.7	55.7	NM	32.7	26.1
Price/BV(x)	2.6	2.7	2.1	2.0	2.0
EV/Sales (x)	5.2	6.3	4.5	3.7	3.3
EV/EBITDA (x)	14.9	24.1	21.2	15.6	13.1
EV/EBITDA (x)+1 yr forward	22.9	24.5	15.8	13.3	
Dividend yield (%)	1.3	1.3	1.0	1.3	1.5

# HAVELL'S INDIA

## Scorching the growth chart

India Equity Research | Engineering and Capital Goods

Havells India (HAVL) reported strong Q2FY12 results – both standalone and Sylvania - despite a tough macro environment. HAVL has merged Standard Electricals with itself hence we have adjusted the Q2FY11 numbers to be comparable with Q2FY12. The standalone reported robust revenues led by a steady volume growth. Sylvania is sustaining its margin expansion spree to achieve 8% margin by the year end. Positive surprises came from 3% growth in Europe. We remain confident of HAVL's performance in both domestic and international geographies hence reiterate 'BUY' rating with target price of INR 477.

### Robust growth in standalone business, margin brightens

Adjusted revenue grew 24% to INR 8.5 bn led by a strong growth across all segments. EBTIDA margin improved 130bps to 13.6% as the operating leverage played out on the back of firm volume growth besides reduced advertisement costs. High interest cost dented the PAT which grew 13% to INR 702 mn. If we were to adjust for forex losses (of INR 131 mn), PAT would have been up 41% Y-o-Y to INR 808 mn during the quarter.

### Sylvania: Delivering on promises

Sylvania reported a revenue growth 3% Y-o-Y at EUR 115.5 mn in which the European region grew by a surprising 4% while America expanded by 3% (10% in USD terms, given the adverse movement in local currencies). The company persisted with its promised path of margin improvement in Sylvania, delivering 150bps Y-o-Y margin growth to 7.4%. Its focus on profitability and calibrated efforts to cut costs has helped it post a PAT of EUR 1.7 mn, a 31% growth Y-o-Y.

### Outlook and valuations: Positive; maintain 'BUY'

We continue to remain positive on both the standalone business and Sylvania given the strong the growth drivers in place. With its focus on profitability in Sylvania and expansion of product portfolio and geographical reach in the domestic business, we believe HAVL in on the right track. On a consolidated basis, the stock is trading at 12.8x and 10.8x FY12E and FY13E earnings respectively. We reiterate 'BUY/ Sector Outperformer' recommendation/ rating with a target price of INR 477.

#### Financials (Standalone)

(INR mn)

Year to March	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	FY11	FY12E
Net revenues	8,518	6,631	28.5	8,027	6.1	28,817	34,037
EBITDA	1,161	794	46.2	884	31.3	3,406	4,050
Net profit	702	586	19.9	575	22.2	2,415	2,819
Diluted EPS (INR)	5.6	4.7	19.9	4.6	22.2	19.4	22.6
Diluted P/E (x)						19.7	16.9
EV/EBITDA (x)						12.1	10.2
ROAE (%)						19.5	19.3

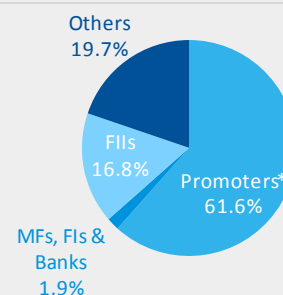
#### EDELWEISS 4D RATINGS

<b>Absolute Rating</b>	<b>BUY</b>
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

#### MARKET DATA (R: HVEL.BO, B: HAVL IN)

CMP	: INR 381
Target Price	: INR 477
52-week range (INR)	: 451 / 290
Share in issue (mn)	: 124.8
M cap (INR bn/USD mn)	: 48 / 964
Avg. Daily Vol.BSE/NSE('000)	: 336.9

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	0.1	8.4	(1.2)
3 months	(0.6)	(2.3)	(10.8)
12 months	(11.3)	(10.5)	(25.9)

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### Key takeaways from Q2FY12 results conference call

#### Standalone business:

- High focus on dealers and entry into smaller towns helped the company report strong revenue growth during the quarter.
- Initial response to appliances seems positive and encouraging. The management plans to achieve sales of INR 500 mn – INR 600 mn during FY12 from this new vertical.
- Havells will roll out high end fixtures from its new manufacturing facility in India starting next month which will initially replace the outsourced fixtures.
- The company has reduced its capex plan for FY12 from INR 1.9 bn to INR 1.5 bn – INR 1.6 bn. During FY13, the capex is being planned at INR 0.8 bn – INR 1.0 bn.
- HAVL plans to double its exclusive showrooms – Havells Gallery to 240 by next year and increase its dealers by 50% to 6,000 with a focus on smaller town and tier II cities.

#### Sylvania:

- Better product mix along with increased prices help Sylvania expand margin.
- Americas reported a muted revenue growth of 3% in Euro whereas the revenue growth in USD stood at 10% due to the unfavourable currency movement.
- Further, the forex loss (of EUR 2.6 mn) in Sylvania was primarily due to an adverse movement in Brazilian real. The management has indicated that half of the forex loss has been reversed due to a reverse currency movement in the Brazilian currency.
- The management has guided for EUR 450 mn topline with Europe expected to clock a –ve 2% to flat growth whereas America is expected to clock ~10% growth. EBITDA margin is expected to be 8.0% by the end FY12.
- Over the medium to long term, the company plans to increase its margins from ~8% to double digits on the back of a change in product mix in favour of fixtures from lamps which currently account for 55% of Sylvania sales (which it seeks to reverse over the same period).

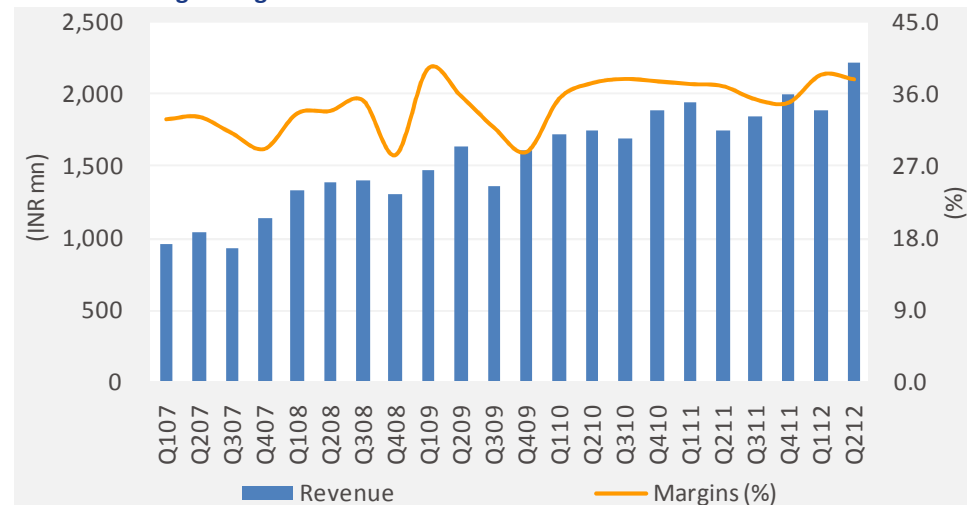
**Table 1: Segmental performance**

Year to March	Q2FY12	Q2FY11	% change	H1FY12	H1FY11	% change
<b>Segment revenue (INR mn)</b>						
Switchgear	2,218	1,747	26.9	4,325	3,605	20.0
Cable & Wire	3,692	2,839	30.0	7,256	5,674	27.9
Lighting & Fixtures	1,374	1,053	30.6	2,584	2,055	25.7
Electrical Consumer Durables	1,220	972	25.6	2,562	2,151	19.1
Others	-	3	NM	-	16	
Total	8,504	6,613	28.6	16,728	13,501	23.9
<b>Segment revenue mix (%)</b>						
Switchgear	26.1	26.4		25.9	26.7	
Cable & Wire	43.4	42.9		43.4	42.0	
Lighting & Fixtures	16.2	15.9		15.4	15.2	
Electrical Consumer Durables	14.3	14.7		15.3	15.9	
Others	-	0.0		-	0.1	
<b>EBIT (INR mn)</b>						
Switchgear	839	646	29.9	1,645	1,370	20.1
Cable & Wire	342	272	25.6	652	470	38.6
Lighting & Fixtures	336	189	77.9	638	355	79.7
Electrical Consumer Durables	338	271	24.5	756	605	24.9
Others	-	1	NM	-	6	
Total	1,855	1,380	34.4	3,691	2,806	31.5
<b>EBIT margin (%)</b>						
Switchgear	37.8	37.0		38.0	38.0	
Cable & Wire	9.3	9.6		9.0	8.3	
Lighting & Fixtures	24.5	18.0		24.7	17.3	
Electrical Consumer Durables	27.7	27.9		29.5	28.1	
Others	NM	37.5		NM	37.4	
Total	21.8	20.9		22.1	20.8	
<b>EBIT mix (%)</b>						
Switchgear	45.2	46.8		44.6	48.8	
Cable & Wire	18.4	19.7		17.7	16.8	
Lighting & Fixtures	18.1	13.7		17.3	12.7	
Electrical Consumer Durables	18.2	19.7		20.5	21.6	
Others	-	0.1		-	0.2	

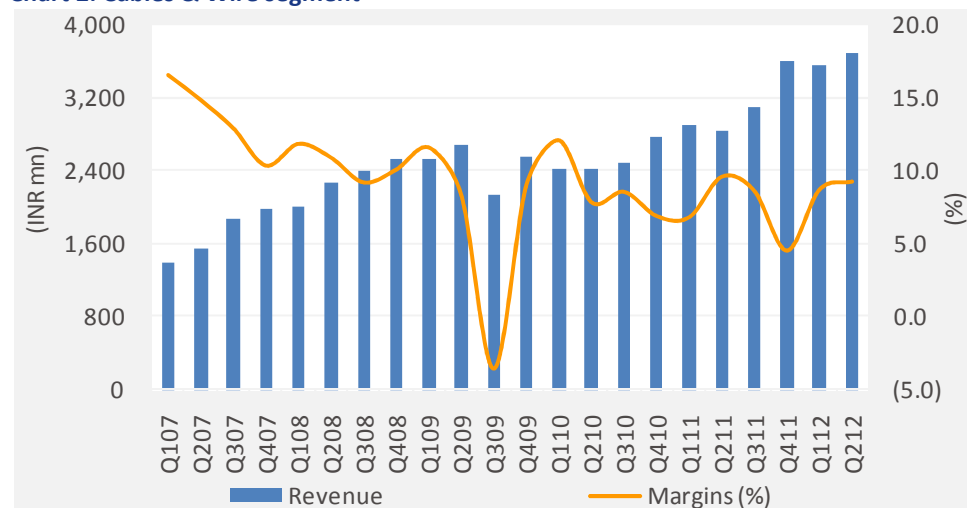
Source: Company, Edelweiss research



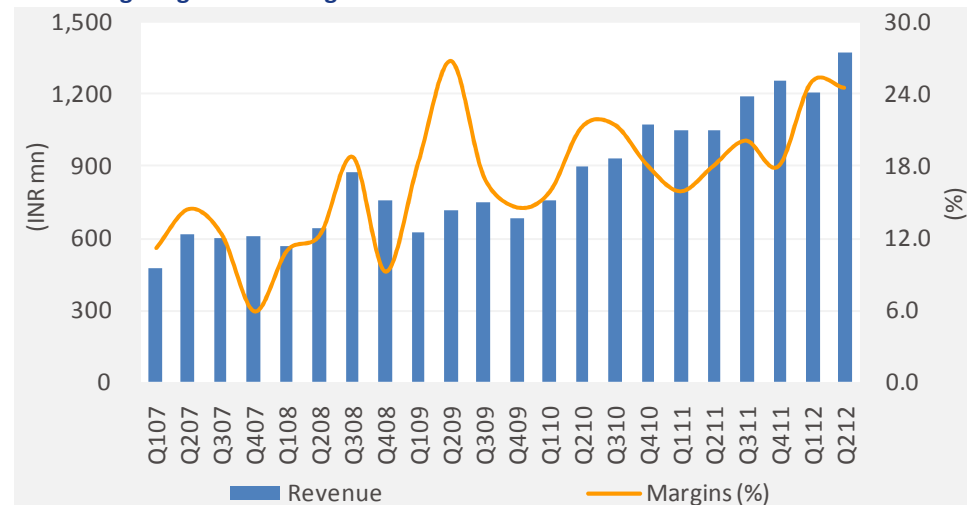
**Chart 1: Switchgear segment**



**Chart 2: Cables & Wire segment**



**Chart 3: Lighting & fixture segment**



Source: Company, Edelweiss research

Chart 4: Electrical Consumer durable segment

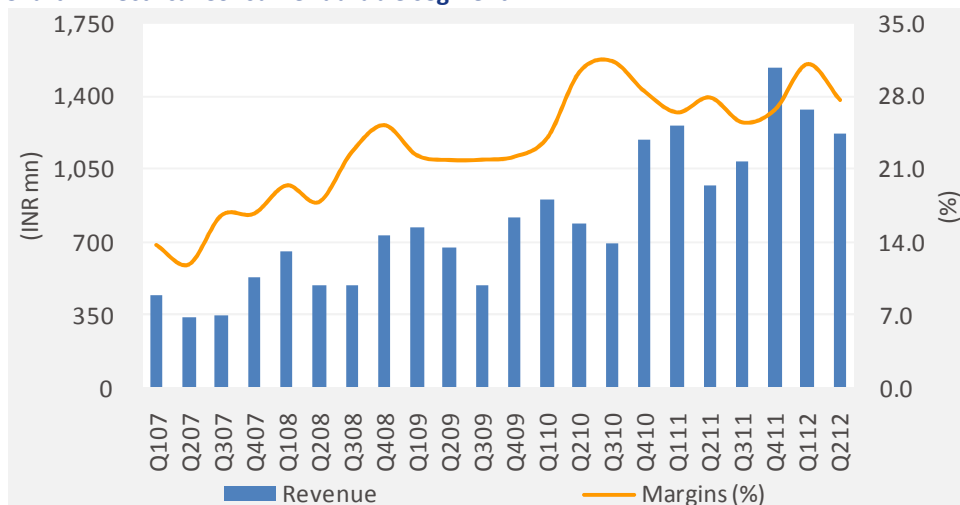


Chart5: Revenue mix of Sylvania in Q2FY12

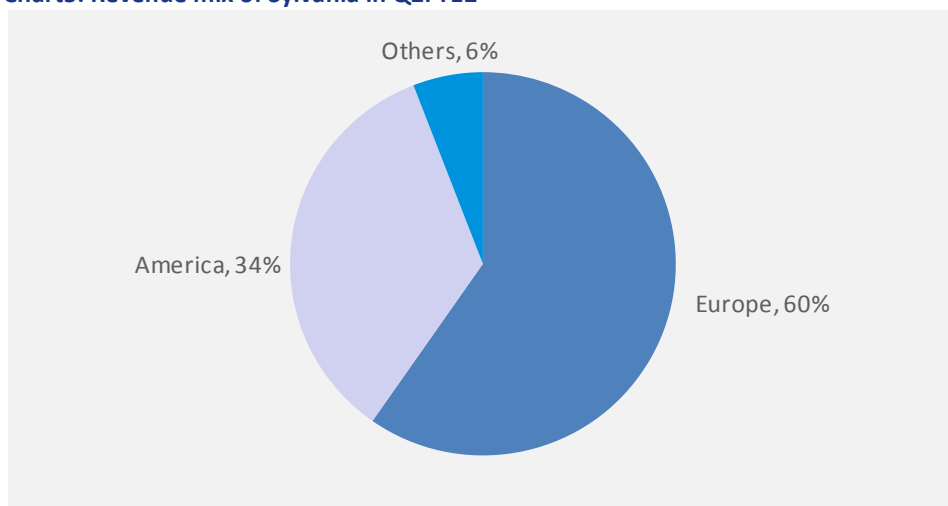


Table 2 - Adjusted financials (including Standard Electricals)

(INR mn)	Q2FY12	Q2FY11	% change
Net Revenue	8,518	6,865	24.1
EBITDA	1,161	847	37.1
EBITDA margins (%)	13.6	12.3	
PBT	868	801	8.4
Tax	166	177	(6.2)
PAT	702	623	12.7

Source: Company, Edelweiss research

**Table 3 - Sylvania financials**

(INR mn)	Q2FY12	Q2FY11	% change
Net Revenue	7,461	6,700	11.4
EBITDA	555	396	40.2
EBITDA margins (%)	7.4	5.9	25.9
Depreciation	122	126	(3.2)
Interest	200	192	4.2
Other income	119	23	NM
Exceptional Items	(176)	46	NM
PBT	176	147	NM
Tax	74	71	4.2
PAT	102	76	NM

Source: Company, Edelweiss research

## Financial snapshot(Standalone)

(INR mn)

Year to March	Q2FY12	Q2FY11	% Change	Q1FY12	% Change	FY11	FY12E	FY13E
Net revenues	8,518	6,631	28.5	8,027	6.1	28,817	34,037	39,528
Direct costs	5,151	4,085	26.1	4,828	6.7	20,912	23,451	27,236
Employee expenses	358	262	36.6	332	7.8	1,103	1,089	1,265
Other expenses	1,848	1,490	24.0	1,982	(6.8)	3,395	5,446	6,324
EBITDA	1,161	794	46.2	884	31.3	3,406	4,050	4,704
Depreciation	91	72	26.0	83	9.2	293	355	401
EBIT	1,070	722	48.2	801	33.6	3,113	3,696	4,303
Other income	2	1	21.4	1	21.4	177	77	100
Interest	71	31	132.6	84	(14.8)	191	250	287
Profit before tax	868	757	14.8	718	20.9	3,099	3,523	4,117
Provision for taxes	166	175	(5.3)	143	15.8	683	705	823
Extraordinary items	-	5		-		-	-	-
PAT	702	581	20.8	575	22.2	2,415	2,819	3,294
Reported net profit	702	586	19.9	575	22.2	2,415	2,819	3,294
Equity capital (FV INR 5)	624	624		624		624	624	624
No. of shares (mn)	125	125		125		125	125	125
Diluted EPS (INR)	5.6	4.7	19.9	4.6	22.2	19.4	22.6	26.4
<b>As % of net revenues</b>								
Raw material	60.5	61.6		60.1		72.6	68.9	68.9
Employee cost	4.2	4.0		4.1		3.8	3.2	3.2
Other expenses	21.7	22.5		24.7		11.8	16.0	16.0
EBITDA	13.6	12.0		11.0		11.8	11.9	11.9
Depreciation	1.1	1.1		1.0		1.0	1.0	1.0
EBIT	12.6	10.9		10.0		10.8	10.9	10.9
Interest expenditure	0.8	0.5		1.0		0.7	0.7	0.7
Other income	-	-		-		0.6	0.2	0.3
Reported net profit	8.2	8.8		7.2		8.4	8.3	8.3
Tax rate	19.1	23.2		20.0		22.1	20.0	20.0

### Company Description

Incorporated in 1983, HAVL is one of the largest and fastest growing manufacturers of electrical components and systems in India. It is the market leader in light-duty power distribution products. Its offerings include electrical products like circuit protection equipment (domestic and industrial switchgears), cables and wires, and consumer durables like fans, CFLs, and lighting fixtures.

With the acquisition of Sylvania in April 2007, the company now has international presence and operations in over 52 countries. Sylvania is one of the world's largest manufacturers of artificial light sources. It has a broad product offering, from incandescent light bulbs, halogen and low-energy lamps for the consumer market, to fluorescent lamps, HID lamps and various special products for the professional specifier. It owns powerful brands like *Crabtree*, *Sylvania*, *Concord*, *Luminance*, *Linolite*, and *SLI Lighting*.

### Investment Theme

We expect overall margins to improve on the back of the two restructuring programmes undertaken by the company at Sylvania. Under 'Project Phoenix' the company intends to cut costs through employee rationalisation. Under 'Project Prakram' the company intends to rationalise the employee cost further and also dwell on fixed cost reduction. This project was initiated in September 2009 and is expected to end by June 2010 with a onetime cost of EUR 23 mn.

HAVL is currently one of the fastest growing fans brands in the Indian market with market share at ~17%. The company has launched innovative products with its energy efficient fans (consuming only 50W) making it the largest energy efficient fan in the country. In the switchgear market, HAVLS is the market leader in the low voltage segment with ~ 20% share (market size INR 12 bn) with the largest manufacturing facility (48 mn pieces per annum) in the country. It has the second largest CFL manufacturing capacity in India at 50 mn annually. HAVL with the Sylvania acquisition has presence in 52 countries with 94 branches. In India, the company has a network of ~4,000 distributors spread across the four regions servicing ~35,000 retailers.

### Key Risks

#### Slowdown in domestic business

Slowdown in key consumer segments of construction and industrial capex could impact the domestic business. Lower-than-anticipated volume growth and higher price cuts in the domestic business are risks to our estimates. Also, slowdown in power T&D could impact the demand for its cables and wires business.

#### International business has its own risks

Slowdown in the international business could put pressure on margins which have improved through the restructuring program adopted by the company.

## Financial Statements (Consolidated)

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Income from operations	54,775	54,315	56,126	65,862	73,119
Materials costs	32,736	32,430	35,753	41,069	45,770
Employee costs	8,477	7,645	6,405	6,734	6,886
Other manufacturing expenses	10,676	11,019	8,398	11,430	12,829
Total operating expenses	51,889	51,093	50,556	59,233	65,485
EBITDA	2,886	3,222	5,571	6,629	7,634
Depreciation & Amortization	905	837	804	1,012	1,191
EBIT	1,981	2,385	4,766	5,617	6,443
Other income	86	222	237	108	132
Interest expenses	1,253	979	902	1,026	965
Profit before tax	814	1,628	4,102	4,698	5,610
Provision for tax	429	932	1,031	996	1,201
Deferred taxes	-	266	559	559	559
Core profit	385	696	3,071	3,702	4,409
Extraordinary income/ (loss)	1,987	-	31	-	-
Profit After Tax	2,372	696	3,102	3,702	4,409
Minority interest	-	-	(4)	-	-
Profit after minority interest	2,372	696	3,099	3,702	4,409
Basic shares outstanding (mn)	120	125	125	125	125
Basic EPS (INR)	3.2	5.6	24.6	29.7	35.3
Diluted equity shares (mn)	120	125	125	125	125
Diluted EPS (INR)	3.2	5.6	24.6	29.7	35.3
CEPS (INR)	10.7	14.9	31.9	37.8	44.9
Dividend per share (INR)	1.5	2.2	2.9	4.5	4.5
Dividend payout (%)	45.7	38.9	11.8	15.2	12.7

### Common size metrics - as % of net revenues

Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating expenses	94.7	94.1	90.1	89.9	89.6
Materials costs	59.8	59.7	63.7	62.4	62.6
Employee expenses	15.5	14.1	11.4	10.2	9.4
Other manufacturing expenses (Growth	19.5	20.3	15.0	17.4	17.5
Depreciation	1.7	1.5	1.4	1.5	1.6
Interest expenditure	2.3	1.8	1.6	1.6	1.3
EBITDA margins	5.3	5.9	9.9	10.1	10.4
Net profit margins	0.7	1.3	5.5	5.6	6.0

### Growth ratios (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	9.5	(0.8)	3.3	17.3	11.0
EBITDA	(16.7)	11.7	72.9	19.0	15.2
Net profit	(76.1)	80.8	NM	20.6	19.1
EPS	(76.1)	74.4	NM	20.6	19.1

## Engineering and Capital Goods

Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11	FY12E	FY13E
Equity capital	301	312	624	624	624
Share warrants	24	-	-	-	-
Reserves & surplus	5,822	3,690	5,914	9,117	13,027
Shareholders funds	6,147	4,002	6,537	9,741	13,651
Minority interest (BS)	2	2	6	6	6
Secured loans	10,624	9,963	10,473	10,323	10,173
Unsecured loans	1,654	700	700	700	700
Borrowings	12,278	10,664	11,173	11,023	10,873
Deferred tax (net)	97	-	-	-	-
<b>Sources of funds</b>	<b>18,425</b>	<b>14,934</b>	<b>18,275</b>	<b>21,329</b>	<b>25,089</b>
Gross block	28,961	26,963	28,454	29,729	30,329
Depreciation	20,427	18,089	18,499	19,511	20,701
Net block	8,534	8,874	9,955	10,219	9,628
Capital work in progress	308	336	249	249	249
Goodwill	3,581	3,212	3,354	3,354	3,354
Inventories	7,947	8,250	10,860	12,798	14,396
Sundry debtors	7,573	6,982	7,724	10,105	13,021
Cash and equivalents	2,473	1,481	1,779	2,109	2,841
Loans and advances	2,335	1,574	1,615	1,776	2,132
Other current assets	77	102	100	110	121
Total current assets	20,406	18,389	22,077	26,899	32,510
Sundry creditors and others	13,934	15,555	16,722	18,893	20,154
Provisions	567	321	639	499	499
Total current liabilities & provisions	14,501	15,876	17,361	19,392	20,653
Net current assets	5,905	2,513	4,717	7,507	11,857
Miscellaneous expenditure	-	-	-	-	-
<b>Uses of funds</b>	<b>18,425</b>	<b>14,934</b>	<b>18,275</b>	<b>21,329</b>	<b>25,089</b>
Book value per share (INR)	51.1	32.1	52.4	78.1	109.4

Free cash flow					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net profit	2,372	696	3,102	3,702	4,409
Depreciation	905	837	804	1,012	1,191
Deferred tax	(6)	331	99	-	-
Others	(3,240)	(1,493)	584	1,243	958
Gross cash flow	31	371	4,589	5,957	6,558
Less: Changes in WC	(2,168)	(2,543)	2,013	2,459	3,619
Operating cash flow	2,200	2,914	2,576	3,498	2,938
Less: Capex	1,177	1,077	1,647	1,500	600
<b>Free cash flow</b>	<b>1,023</b>	<b>1,837</b>	<b>929</b>	<b>1,998</b>	<b>2,338</b>

Cash flow metrics					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating cash flow	2,200	2,914	2,576	3,498	2,938
Investing cash flow	(1,160)	(1,061)	(1,719)	(1,492)	(592)
Financing cash flow	(515)	(2,858)	(572)	(1,675)	(1,614)
Net cash flow	525	(1,005)	286	330	732
Capex	(1,177)	(1,077)	(1,647)	(1,500)	(600)
Dividends paid	(145)	(226)	(207)	(499)	(499)

**Profitability & efficiency ratios**

Year to March	FY09	FY10	FY11	FY12E	FY13E
ROAE (%)	5.9	13.7	58.3	45.5	37.7
ROACE (%)	10.4	14.3	28.7	28.4	27.8
Inventory day	102	91	98	105	108
Debtors days	53	49	48	49	58
Payable days	159	166	165	158	156
Cash conversion cycle (days)	(4)	(26)	(19)	(4)	10
Current ratio	1.4	1.2	1.3	1.4	1.6
Debt/EBITDA	4.3	3.3	2.0	1.7	1.4
Debt/Equity	2.0	2.7	1.7	1.1	0.8
Adjusted debt/equity	2.0	2.7	1.7	1.1	0.8
Interest coverage	1.6	2.4	5.3	5.5	6.7

**Operating ratios**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Total asset turnover	2.9	3.3	3.4	3.3	3.2
Fixed asset turnover	6.9	6.2	6.0	6.5	7.4
Equity turnover	8.4	10.7	10.7	8.1	6.3

**Du pont analysis**

Year to March	FY09	FY10	FY11E	FY12E	FY13E
NP margin (%)	0.7	1.3	5.5	5.6	6.0
Total assets turnover	2.9	3.3	3.4	3.3	3.2
Leverage multiplier	2.9	3.3	3.2	2.4	2.0
ROAE (%)	5.9	13.7	58.3	45.5	37.7

**Valuation parameters**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (INR)	3.2	5.6	24.6	29.7	35.3
Y-o-Y growth (%)	(76.1)	74.4	341.3	20.6	19.1
CEPS (INR)	10.7	14.9	31.9	37.8	44.9
Diluted PE (x)	119.0	68.2	15.5	12.8	10.8
Price/BV (x)	7.5	11.9	7.3	4.9	3.5
EV/Sales (x)	1.0	1.0	1.0	0.9	0.8
EV/EBITDA (x)	19.3	17.6	10.2	8.5	7.3
Dividend yield (%)	0.4	0.6	0.8	1.2	1.2



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	REDUCE	SU	L	AIA Engineering	HOLD	SU	M
Bajaj Electricals	BUY	SO	M	BGR Energy Systems	HOLD	SP	M
Bharat Heavy Electricals	HOLD	SP	L	Crompton Greaves	REDUCE	SU	M
Cummins India	BUY	SO	L	Havell's India	BUY	SO	M
Jyoti Structures	HOLD	SP	M	Kalpataru Power Transmission	HOLD	SP	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Siemens	BUY	SO	L	Techno Electric & Engineering	BUY	None	None
Thermax	BUY	SO	L	Voltamp Transformers	HOLD	SU	M
Voltas	HOLD	SP	L				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# HINDUSTAN PETROLEUM

## Rupee depreciation hurts further

India Equity Research | Oil, Gas and Services

Hindustan Petroleum's (HPCL) Q2FY12 loss at INR 33.6 bn was higher than the estimated INR 17.0 bn loss due to lower earnings from refining (lower margins); marketing (lower subsidies from upstream) and exchange losses of ~INR 10.0 bn. We have cut our FY12E and FY13E EPS 53.4% and 7.6%, respectively, to incorporate lower GRMs (USD 3.23/5.22/bbl for FY12/FY13 against USD 4.94/5.33 earlier) and higher FY13 subsidies. Our FY13 estimates assume INR 75 bn of under-recoveries (moving to absolute assumption) to be shared by OMCs. Accordingly, we have cut our target price to INR 411/share (from INR 464). We maintain our bearish stance on crude prices as well as 'BUY' recommendation.

### Throughput in line at 4.19 mmt, but GRM's lower at USD 1.9/bbl

Refining throughput at 4.19 mmt was in line with the estimated 4.24 mmt. While Visakh refinery reported a throughput of 2.33 mmt versus 2.32 mmt expected, Mumbai refinery's throughput was marginally lower at 1.85 mmt (1.93 mmt expected). HPCL's GRM of USD 1.9/bbl against the expected USD 3.5/bbl was muted due to lower industry margins (diesel spreads corrected) and the impact of high cost crude (INR depreciation).

### Forex loss and absence of government subsidies add fuel to fire

HPCL's gross under-recovery of INR 46.9 bn was lower than the estimated INR 49.5 bn. During Q2FY12, upstream companies (ONGC, OIL and GAIL) and the government shared one-third (INR 15.6 bn) and NIL, respectively, leaving HPCL to bear INR 31.2 bn. The company reported exchange loss of ~INR 10.0 bn for Q2FY12. Marketing posted an inventory gain of INR 8.7 bn against the expected INR 1.1 bn.

### Outlook and valuations: Bearish on crude; maintain 'BUY'

We have revised down our FY12E and FY13E EPS 53.4% and 7.6% to INR 7.5/share and INR 45.1/share, respectively, to incorporate lower GRM and higher subsidy burden. We maintain our bearish stance on crude prices and our 'BUY/Sector Outperformer' recommendation/rating. At INR 337, it is trading at 44.9x and 7.5x FY12E and FY13E EPS, respectively. Revised TP of INR 411/share offers 22% upside from current level.

#### Financials

(INR mn)

Year to March	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	FY11	FY12E
Net revenues	371,042	308,702	20.2	409,169	(9.3)	1,384,928	1,552,770
EBITDA	(28,697)	24,829	NA	(25,684)	NA	35,541	20,015
PAT	(33,644)	20,896	NA	(31,880)	NA	17,020	2,899
Diluted EPS (INR)	(99.4)	61.7	NA	(94.2)	NA	51.2	7.5
Diluted P/E (x)		1.4				6.6	44.9
EV/EBITDA (x)						9.5	18.2
ROAE (%)						13.6	1.9

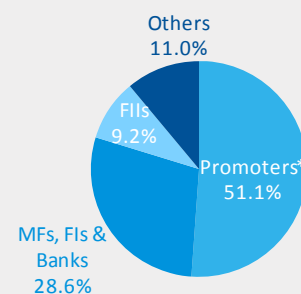
#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

#### MARKET DATA (R: HPCL.BO, B: HPCL IN)

CMP	: INR 337
Target Price	: INR 411
52-week range (INR)	: 505 / 304
Share in issue (mn)	: 338.6
M cap (INR bn/USD mn)	: 114 / 2,307
Avg. Daily Vol.BSE/NSE('000)	: 1,012.6

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW O & G Index
1 month	(7.0)	8.4	8.1
3 months	(8.6)	(2.3)	2.6
12 months	(28.7)	(10.5)	(14.1)

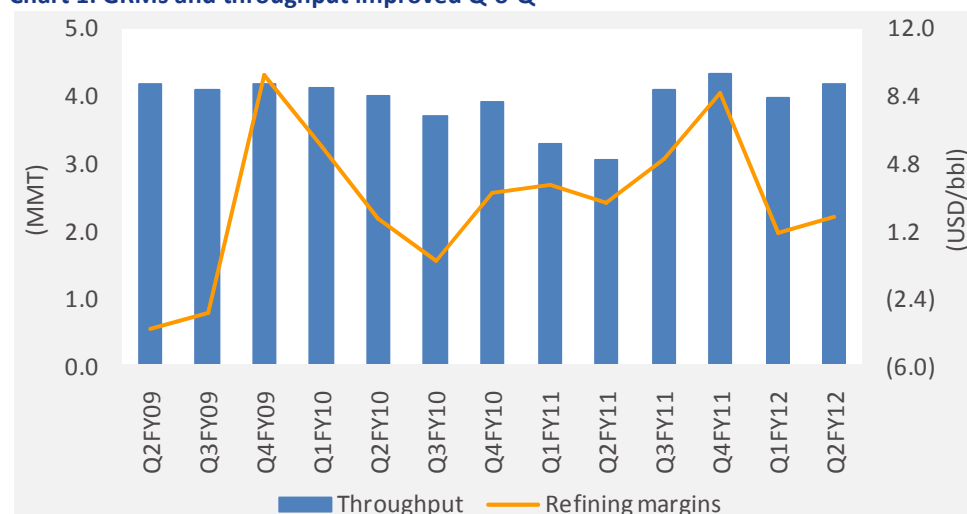
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November 1, 2011

## Other highlights

- Marketing product sales at 6.94 mmt were down 4.5% Q-o-Q due to lower sales of diesel (down 14.7% Q-o-Q), kerosene (down 8.3% Q-o-Q), and other products (down 9.7% Q-o-Q). LPG sales grew 6.7% sequentially to 860 mmt.
- Q2FY12 other expenses at INR 28.7 bn were higher than the estimated INR 12.0 bn due to forex loss of INR 10.0 bn (INR depreciation on USD based loans).
- Interest expenses jumped 14.7% Q-o-Q to INR 3.0 bn due to higher debt of INR 313 bn during Q2FY12 (INR 250 bn as on March 31, 2011), INR depreciation and higher interest costs. Cash balance as on September 30, 2011, was INR 1.1 bn.
- Depreciation expenses at INR 4.15 bn were higher than estimate (INR 3.90 bn). Other income was also higher at INR 2.2 bn against INR 1.5 bn expected.
- HPCL paid marginal tax of INR 0.7 mn during Q2FY12 due to the losses reported.

**Chart 1: GRMs and throughput improved Q-o-Q**



Source: Company, Edelweiss research

**Table 1: Upstream share was lower than expected**

(INR bn)

INR bn	Q2FY12	Q2FY11	Y-o-Y change (%)	Q1FY12	Q-o-Q change (%)
Gross under-recovery	46.9	24.2	93.3%	95.0	-50.7%
Discount from Upstream	15.6	8.1	93.2%	31.7	-50.7%
Gol bonds	0.0	28.3	NM	32.7	-100.0%
Net under-recovery	31.2	-12.2	-356.9%	30.6	NM
Discount from upstream (%)	33.3%	33.3%	NM	33.3%	NM
Gol subsidy (%)	0.0%	116.8%	NM	34.5%	NM
Net under-recovery (%)	66.7%	-50.2%	NM	32.2%	NM

Source: Company, Edelweiss research

**Table 2: Revising down our FY12 and FY13 EPS estimates 53.4% and 7.6%**

	Revised		Earlier		Change (%)	Reason (Change in
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E assumptions)
Revenues (INR bn)	1,553	1,569	1,565	1,622	(0.8)	(3.3) FY12 - Lower EBITDA from
EBITDA (INR bn)	20	43	26	48	(23.2)	(11.1) refining; FY13 - higher share of
PAT (INR bn)	3	16	5	17	(46.8)	(5.1) under-recoveries
EPS (INR/share)	7.5	45.1	16.1	48.8	(53.4)	(7.6)

Source: Company, Edelweiss research

**Table 3: Cutting SOTP by INR 53/share to INR 411**

Segment details	Base value (USD bn)	Base value (INR bn)	Base value (INR/share)
HPCL refining (@ EV/EBITDA = 6x)	3.0	131	388
HPCL marketing (@ EV/EBITDA = 3x)	1.1	51	149
HPCL pipelines (@ EV/EBITDA = 6x)	0.9	41	120
Upsides from subsidies (1/3rd of FY12 net under-recoveries)			
Enterprise Value from operations	5.0	223	657
Investments at 20% discount to fair value (Mar-12)	1.9	84	249
Cash & Cash equivalents (Mar-12)	0.7	29	86
Gross debt (Mar-12) - net of GOI receivables	4.9	220	648
CWIP (Mar-12) - adjusting by 50%	0.5	23	68
Net debt (Mar-12) - net of investments/WIP	1.9	83	245
Equity fair value (SOTP) (Mar-12)	3.1	139	411
CMP (INR)			337
Return on CMP (%)			22.1%

Source: Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q2FY12	Q2FY11	% Change	Q1FY12	% Change	FY11	FY12E	FY13E
Net revenues	371,042	308,702	20.2	409,169	(9.3)	1,384,928	1,552,770	1,568,853
Raw material costs	366,506	264,633	38.5	418,207	(12.4)	1,269,870	1,457,143	1,447,107
Gross profit	4,536	44,069	(89.7)	(9,038)	(150.2)	115,058	95,627	121,746
Employee expenses	4,512	4,406	2.4	5,395	(16.4)	20,646	22,293	24,071
Other expenses	28,721	14,834	93.6	11,251	155.3	58,871	53,320	54,751
Other operating expenses	33,233	19,240	72.7	16,646	99.6	79,516	75,612	78,822
Total expenditure	399,739	283,873	40.8	434,854	(8.1)	1,349,386	1,532,755	1,525,928
EBITDA	(28,697)	24,829	NA	(25,684)	NA	35,541	20,015	42,924
Depreciation & amortization	4,150	3,234	28.3	3,886	6.8	14,980	17,013	19,186
Other income	2,231	2,213	0.8	1,397	59.7	15,076	11,145	11,027
Interest	3,028	2,200	37.7	2,641	14.7	9,105	11,354	12,579
Profit before tax	(33,644)	21,610	NA	(30,815)	NA	26,532	2,794	22,187
Tax	-	712	(100.0)	1,078	(100.0)	9,183	239	6,836
Core profit	(33,644)	20,898	NA	(31,892)	NA	17,348	2,555	15,351
PAT	(33,644)	20,896	NA	(31,880)	NA	17,020	2,899	15,713
Equity capital	3,386	3,386		3,386		3,390	3,403	3,403
Diluted shares (mn)	339	339		339		339	341	341
Diluted EPS (INR)	(99.4)	61.7	NA	(94.2)	NA	51.2	7.5	45.1

## As % of net revenues

Direct costs	98.8	85.7		102.2		91.7	93.8	92.2
Gross profit	1.2	14.3		(2.2)		8.3	6.2	7.8
Other expenditure	7.7	4.8		2.7		4.3	3.4	3.5
EBITDA	(7.7)	8.0		(6.3)		2.6	1.3	2.7
PBT	(9.1)	7.0		(7.5)		1.9	0.2	1.4
Reported net profit	(9.1)	6.8		(7.8)		1.3	0.2	1.0
Tax rate	-	3.3		(3.5)		34.6	-	30.8

## Company Description

HPCL is the third-largest refining company in India with ~19% market share in the total sales of petroleum products in the country. The company owns and operates two refineries—Mumbai refinery of 7.9 mtpa capacity and Vizag refinery of 8.3 mtpa capacity. It has a 16.95% equity stake in Mangalore Refineries (a subsidiary of ONGC) with an operable capacity of ~12 mtpa. It has a 6,667-strong nation-wide retail outlet network, the third-largest in India after IOCL and Bharat Petroleum Corporation.

## Investment Theme

HPCL is an integrated refining and marketing player with a high share in metros, giving it the advantage of higher margins, higher growth rate, and lower competition. We estimate the pipeline's EBITDA to increase at a CAGR of 37% in three years. Addition of a new 9-mtpa Bhatinda refinery in North India by FY10 will remove the company's marketing skew. Gradual phasing out of auto-fuel subsidies and continued governmental support in the form of oil bonds will help reduce under-recoveries of oil-marketing companies.

## Key Risks

Increase in crude prices will increase under-recoveries for oil marketing companies.

Any regulatory or policy change in the form of reduction in duty protection, reduction in quantum of oil bonds or a cut in retail prices will impact HPCL's earnings.

Competition from private players in auto-fuel marketing may result in reduction in market share.

## Financial Statements (Consolidated)

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net revenue	1,290,546	1,114,679	1,384,928	1,552,770	1,568,853
Materials costs	1,201,023	1,007,664	1,269,870	1,457,143	1,447,107
Gross profit	89,523	107,015	115,058	95,627	121,746
Employee costs	11,627	16,428	20,646	22,293	24,071
Other Expenses	45,241	62,929	58,871	53,320	54,751
Operating expenses	56,868	79,357	79,516	75,612	78,822
Total operating expenses	1,257,891	1,087,021	1,349,386	1,532,755	1,525,928
EBITDA	32,655	27,658	35,541	20,015	42,924
Depreciation & Amortization	10,661	12,505	14,980	17,013	19,186
EBIT	21,994	15,153	20,561	3,003	23,739
Other income	9,243	18,325	15,076	11,145	11,027
Interest expenses	21,123	9,321	9,105	11,354	12,579
Profit before tax	10,114	24,156	26,532	2,794	22,187
Provision for tax	2,545	9,443	9,183	239	6,836
Current taxes	3,280	6,607	5,955	119	6,870
Deferred taxes	428	2,259	3,341	231	82
Other taxes	(1,162)	577	(113)	(111)	(116)
Core profit	7,568	14,713	17,348	2,555	15,351
Extraordinary income/ (loss)	(5)	(39)	328	(344)	(362)
Profit After Tax	7,573	14,752	17,020	2,899	15,713
Basic shares outstanding (mn)	339	339	339	341	341
Basic EPS (INR)	22.3	43.4	51.2	7.5	45.1
Diluted equity shares (mn)	339	339	339	341	341
Diluted EPS (INR)	22.3	43.4	51.2	7.5	45.1
CEPS (INR)	55.0	87.0	105.2	58.1	101.6
Dividend per share (INR)	5.2	12.0	14.0	1.0	8.0
Dividend payout (%)	23.5	27.6	27.3	13.3	17.7

### Common size metrics - as % of net revenues

Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating expenses	4.4	7.1	5.7	4.9	5.0
Materials costs	93.1	90.4	91.7	93.8	92.2
Depreciation	0.8	1.1	1.1	1.1	1.2
Interest expenditure	1.6	0.8	0.7	0.7	0.8
EBITDA margins	2.5	2.5	2.6	1.3	2.7
Net profit margins	0.6	1.3	1.3	0.2	1.0

### Growth ratios (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	16.9	(13.6)	24.2	12.1	1.0
EBITDA	69.3	(15.3)	28.5	(43.7)	114.5
PBT	(30.0)	138.9	9.8	(89.5)	694.0
Net profit	(45.4)	94.4	17.9	(85.3)	500.9
EPS	(45.4)	94.4	17.9	(85.3)	500.9

## Balance sheet

(INR mn)

As on 31st March	FY09	FY10	FY11	FY12E	FY13E
Equity capital	3,390	3,390	3,390	3,403	3,403
Reserves & surplus	108,036	119,366	129,427	130,899	142,269
Shareholders' funds	111,441	122,756	132,817	134,301	145,671
Secured loans	17,232	40,892	91,672	73,591	72,091
Unsecured loans	223,380	202,472	219,573	243,713	254,560
Borrowings	240,612	243,364	311,245	317,303	326,651
Deferred tax liability	16,864	19,123	32,431	32,663	32,745
<b>Sources of funds</b>	<b>368,943</b>	<b>385,268</b>	<b>476,503</b>	<b>484,277</b>	<b>505,076</b>
Gross block	219,496	267,458	315,540	347,136	388,963
Depreciation	92,873	105,024	119,367	136,380	155,565
Net block	126,623	162,435	196,173	210,756	233,398
Capital work in progress	64,547	89,165	126,482	142,726	135,345
Total fixed assets	191,169	251,600	322,655	353,482	368,743
Investments	128,274	96,172	81,175	42,744	42,681
Inventories	91,163	131,050	173,241	183,707	191,460
Sundry debtors	24,920	27,033	31,577	33,649	35,107
Cash and equivalents	12,763	8,030	7,516	25,067	24,080
Loans and advances	43,457	54,307	77,518	81,147	82,005
Other current assets	1,853	1,440	1,060	1,596	1,613
Total current assets	174,155	221,859	290,913	325,167	334,265
Sundry creditors and others	112,294	163,119	200,254	230,163	224,204
Others current liabilities	12,371	21,253	18,385	6,953	16,408
Total current liabilities & provisions	124,665	184,372	218,639	237,116	240,613
Net current assets	49,490	37,487	72,274	88,051	93,652
Miscellaneous expenditure	10	9	400	-	-
<b>Uses of funds</b>	<b>368,943</b>	<b>385,268</b>	<b>476,503</b>	<b>484,277</b>	<b>505,076</b>
Book value per share (INR)	328.8	362.1	390.7	394.3	427.7

## Free cash flow

(INR mn)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Net profit	7,573	14,752	17,019	2,899	15,713
Depreciation	10,661	12,505	14,980	17,013	19,186
Deferred tax	428	2,259	3,341	231	82
Others	11,158	(9,358)	(6,217)	(880)	828
Gross cash flow	29,820	20,157	29,124	19,263	35,809
Less: Changes in WC	(28,946)	(7,270)	35,300	(1,773)	6,588
Operating cash flow	58,765	27,427	(6,176)	21,037	29,221
Less: Capex	36,124	72,581	85,398	47,839	34,447
<b>Free cash flow</b>	<b>22,641</b>	<b>(45,154)</b>	<b>(91,574)</b>	<b>(26,803)</b>	<b>(5,226)</b>

## Cash flow metrics

Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating cash flow	58,765	27,427	(6,176)	21,037	29,221
Investing cash flow	(102,794)	(32,831)	(63,826)	1,737	(23,357)
Financing cash flow	44,375	(11,387)	53,185	(6,022)	(6,851)
Net cash flow	346	(16,790)	(16,817)	16,752	(987)
Capex	(36,124)	(72,581)	(85,398)	(47,839)	(34,447)
Dividends paid	(2,142)	(4,801)	(5,576)	(726)	(3,620)



**Profitability & efficiency ratios**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Gross profit margin (%)	6.9	9.6	8.3	6.2	7.8
EBITDA margin (%)	2.5	2.5	2.6	1.3	2.7
ROAE (%)	6.9	12.6	13.6	1.9	11.0
ROACE (%)	9.2	5.7	6.0	0.7	5.3
ROA	2.3	3.9	4.0	0.5	3.1
Receivable turnover (x)	56.1	42.9	47.3	47.6	45.6
Inventory turnover (x)	11.0	9.1	8.3	8.2	7.7
Payables turnover (x)	10.0	7.3	7.0	6.8	6.4
Inventory day	33	40	44	45	47
Debtors days	7	9	8	8	8
Payable days	36	50	52	54	57
Cash conversion cycle (days)	3	(1)	(1)	(2)	(2)
Current ratio	1.4	1.2	1.3	1.4	1.4
Quick ratio	0.7	0.5	0.5	0.6	0.6
Cash ratio	0.1	-	-	0.1	0.1
Debt/EBITDA	7.4	8.8	8.8	15.9	7.6
Debt/Equity	2.2	2.0	2.3	2.4	2.2
Adjusted debt/equity	2.2	2.0	2.3	2.4	2.2
Interest coverage	1.0	1.6	2.3	0.3	1.9
Long term debt / Capital employed (%)	65.2	63.2	65.3	65.5	64.7
Total debt / Capital employed (%)	103.6	116.0	118.0	121.2	118.8

**Operating ratios**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Total asset turnover	3.9	3.0	3.2	3.2	3.2
Fixed asset turnover	10.1	7.7	7.7	7.6	7.1
Equity turnover	11.8	9.5	10.8	11.6	11.2

**Du pont analysis**

Year to March	FY09	FY10	FY11	FY12E	FY13E
NP margin (%)	0.6	1.3	1.3	0.2	1.0
Total assets turnover	3.9	3.0	3.2	3.2	3.2
Leverage multiplier	3.0	3.2	3.4	3.6	3.5
ROAE (%)	6.9	12.6	13.6	1.9	11.0

**Valuation parameters**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (INR)	22.3	43.4	51.2	7.5	45.1
Y-o-Y growth (%)	(45.4)	94.4	17.9	(85.3)	500.9
CEPS (INR)	55.0	87.0	105.2	58.1	101.6
Diluted PE (x)	14.9	7.7	6.5	44.4	7.4
Price/BV (x)	1.0	0.9	0.9	0.8	0.8
EV/Sales (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	6.5	9.1	9.4	18.1	8.7
EV/EBITDA (x)+1 yr forward	7.7	7.1	16.8	8.5	5.9
Dividend yield (%)	1.6	3.6	4.2	0.3	2.4

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aban Offshore	HOLD	SU	H	Bharat Petroleum Corporation	BUY	SO	M
Cairn India	HOLD	SO	M	Chennai Petroleum Corporation	HOLD	SP	H
Essar Oil	BUY	SO	H	GAIL (INDIA)	REDUCE	SU	L
Gujarat State Petronet	REDUCE	SU	M	Hindustan Petroleum Corporation	BUY	SO	L
Indian Oil Corporation	BUY	SO	M	Indraprastha Gas	BUY	SO	L
ONGC	BUY	SO	L	Petronet LNG	BUY	SO	L
Reliance Industries	BUY	SO	M	Shiv Vani Oil & Gas Exploration Service	BUY	SO	M

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# NAVABHARAT VENTURES

## One offs take a toll

India Equity Research | Power

Nava Bharat Ventures' (NBV) Q2FY12 earnings were significantly below estimates largely due to one-offs like forex loan costs, higher material costs and tax rates. We expect things to improve going forward with the restructuring of ferro alloys revenue model, increase in power capacity and traction from coal mining business. Maintain 'BUY' with target price of INR 365/share.

### Standalone revenue in line, but PAT disappoints

NBV's standalone revenue at INR 2.6 bn was broadly in line with our estimate. However, reported PAT of INR 244 mn was significantly below our INR 516 mn estimate due to higher forex loan costs, lower coal supplies due to the Telangana stir, and higher income tax. The impact was partially offset by improved performance of ferro alloys business with an EBIT of INR 185.7 mn against loss of INR 5 mn last year.

### Signs merchant power rates at INR 4.2/kwh till May'12

Compared to merchant tariffs of INR 3.3/kwh during Q2FY12, NBV has entered into contracts yielding an average of INR 4.2/kwh for the period November'11-May'12. As coal supplies improve post the strike, PLF is also expected to increase from ~82% in Q2FY12. In order to avoid bad debts, the company continues to sell via traders.

### Zambia operations, Tata Steel outsourcing deal to begin in Q3

Management indicated that ferro alloys supplies on tolling basis to Tata Steel will begin from November 2011 with full recovery of fixed costs and power tariffs benchmarked to grid levels (for industrial customers). The Zambian coal mining operations have also commenced and management expects the output (metallurgical coal @ USD65/t) of 40 KT/month in FY12 and gradually rise to 80 KT/month in FY14.

### Outlook and valuations: Improving traction; maintain 'BUY'

We expect earnings to improve in light of the ferro alloys contract and commissioning of the 64 MW power project. Commercialisation of 150 MW getting deferred to FY13-end and volatile merchant prices are key risks to cash flows. At INR 181/share, the stock is trading at an attractive 7.8x and 5.2x FY12E and FY13E earnings respectively. Maintain **BUY** recommendation with a SOTP based target price of INR 365/share.

#### Financials

(INR mn)

Year to March	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	FY11	FY12E
Total operating income	2,597	2,880	(9.8)	2,375	9.3	11,000	10,686
Net revenues	2,567	2,875	(10.7)	2,347	9.4	10,905	10,686
EBITDA	331	934	(64.5)	587	(43.6)	3,165	2,357
Net profit	244	847	(71.1)	515	(52.5)	2,885	2,081
Diluted EPS (INR)	2.7	11.1	(75.3)	6.7	(59.4)	37.7	23.3
Diluted P/E (x)						4.8	7.8
ROAE (%)						18.3	10.3

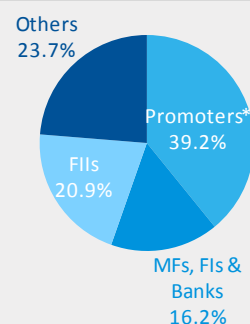
#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Value

#### MARKET DATA (R: NABV.BO, B: NBVL IN)

CMP	: INR 181
Target Price	: INR 365
52-week range (INR)	: 381 / 153
Share in issue (mn)	: 89.3
M cap (INR bn/USD mn)	: 16 / 328
Avg. Daily Vol. BSE/NSE ('000)	: 42.9

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.0	-2.7	(4.8)
3 months	-9.6	-21.3	(11.8)
12 months	-25.9	-49.2	(23.3)

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November 1, 2011

## Financial snapshot

(INR mn)

Year to March	Q2FY12	Q2FY11	% Change	Q1FY12	% Change	FY11	FY12E	FY13E
Net revenues	2,567	2,875	(10.7)	2,347	9.4	10,905	10,686	14,260
Total operating income	2,597	2,880	(9.8)	2,375	9.3	11,000	10,686	14,260
Staff costs	123	134	(7.6)	134	(7.7)	705	780	858
Cost of goods sold	1,779	1,581	12.5	1,307	36.1	5,659	5,638	6,540
Gross profit	1,018	1,019	(0.1)	698	45.9	3,297	2,411	2,411
Other expenses	487	366	33.1	480	1.3	2,176	2,691	3,713
Total expenditure	2,266	1,946	16.4	1,788	26.7	7,835	8,329	10,253
EBITDA	331	934	(64.5)	587	(43.6)	3,165	2,357	4,007
Other income	148	72	104.0	133	10.9	1,277	538	601
PBDIT	479	1,006	(52.4)	720	(33.5)	4,442	2,895	4,609
Depreciation	107	103	4.4	109	(1.6)	471	500	662
Interest	35	59	(40.4)	39	(9.7)	383	90	331
Profit before tax	337	844	(60.1)	572	(41.2)	3,589	2,306	3,616
Tax	92	(3)	(3,703.4)	57	60.5	200	206	362
Extraordinary items						(68)		
Minority interest	-	-		-		132	19	135
Reported net profit	244	847	(71.1)	515	(52.5)	3,189	2,081	3,119
Forex fluctuations	120.2	53.0		17.0				
Adjusted net profit	244	847	(71.1)	515	(52.5)	2,885	2,081	3,119
No. of shares (mn)	89	76		76		76	89	89
Diluted EPS (INR)	2.7	11.1	(75.3)	6.7	(59.4)	37.7	23.3	34.9

## As % of net revenues

COGS	68.5	54.9		55.0		51.5	52.8	45.9
Gross profit	39.2	35.4		29.4		30.0	22.6	16.9
Other expenditure	18.7	12.7		20.2		19.8	25.2	26.0
Total expenses	87.2	67.6		75.3		71.2	77.9	71.9
EBITDA	12.8	32.4		24.7		28.8	22.1	28.1
Adjusted net profit	9.4	29.4		21.7		26.2	19.5	21.9
Tax rate	27.4	(0.3)		10.0		5.6	8.9	10.0

Table 1: SOTP valuation

Business segments	Method	Main assumptions	INR /Sh
Existing Power Capacity (237MW)	DCF	Merchant prices - INR 4/kWh FY13 onwards	140
Cash	FY12E Book Value		57
Sugar	Book Value		10
Ferro Alloy	4X EV/EBITDA (5 year average)		24
Orissa Power Capex (64MW)	DCF	Merchant prices - INR	55
AP Domestic Coal (150MW)		4/kWh FY13 onwards	33
Coal - Zambia	DCF - implied \$3 EV/tonne of Reserve		46
<b>Total SOTP</b>			<b>365</b>

Source: Edelweiss research

## Company Description

NVL has historically been a ferro alloy and sugar manufacturing company with captive power generation capacities to fulfill requirement of these businesses. However, the company has, over the past two years, shifted focus to power and coal mining while toning down its ferro alloy business. In FY11, bulk of the INR 3,055 mn PBIT in FY11 came from power sales (~40 MW captive sales and ~200 MW merchant sales).

## Investment Theme

**Power & Coal capex:** NVL's power capacities will almost double to 450 MW by FY14 with addition of 64 MW in Orissa by Q4FY12 and 150 MW in Andhra Pradesh (AP) by FY14. In Zambia, the company has acquired 65% stake in a coal mine with access to 60 mt reserves of high grade coal (GCV 6,500 kcal/kg) for sale in the open market and additional 60 mt thermal coal (GCV 4,500 kcal/kg) which is to be used for fueling a 300 MW power plant (to be set up and operated by NVL). The company expects to produce 0.5 mn tonnes of high grade coal in FY12 and 1 mtpa by FY14. NVL is targeting PBT margins of USD 10/tonne. The power plant is expected to achieve financial closure by mid FY12 and to be commissioned by FY15.

**Ferro alloy capacity a hedge against falling merchant prices:** Exposure to the ferro alloy price cycle has resulted in high volatility in NVL's PAT historically (FY05-09). However, with the company raking in almost all future profits from the power segment, PBT is expected to be relatively stable (FY11-13). Falling merchant rates will be partly compensated by steady coal earnings and rising other income from a strong cash position. In FY14, new power capacities of 150 MW will further boost earnings.

## Key Risks

**Correction in merchant prices and scarcity of coal:** Since the company has maximum exposure to merchant power prices (i.e., short term power sales contracts of 3-6 months) any sharp correction in them will immediately impact profitability. We have assumed merchant rates falling to INR 4 / kWh FY13 onwards for our projections. Prices below these levels will be a risk to our earnings estimates. However, we expect NVL to participate in case-I bidding soon for incremental capacities to tie up a sizable portion through assured bid prices and reduce its exposure to market prices by FY13. The coal situation in India is worsening due to Coal India's production target reducing progressively, casting a shadow of doubt on availability of linkage coal for additional capacities. NVL's upcoming capacities have ~30% of their coal requirement through linkage while balance is contracted with existing washeries for washery rejects. Hence the risk lies in 30% of its incremental coal requirement.

**Delay in power and coal mine capacity addition:** A chunk of NVL's capacity is coming up by FY14, which adds INR 33/share to our SOTP. Its 64 MW Orissa plant is expected by 4QFY12, valued at INR 55/share. Any delay in the commissioning of these plants will delay cash flows and hence impact earnings and valuations. The company expects to post 1 mtpa coal sales by FY14 (Zambia) at USD 10 / tonne PBT margin. We have factored 0.18 mt sales in FY12 from Zambia, growing to 1 mt by FY14. Any delay in this project and/or short fall in volumes and margin pose a risk to our estimates and valuations.

## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Income from operations	13,364	11,742	10,905	10,686	14,260
Direct costs	4,914	4,917	5,909	5,638	6,540
Employee costs	573	685	709	780	858
Other Expenses	1,845	608	1,260	1,911	2,855
Total operating expenses	7,332	6,210	7,879	8,329	10,253
EBITDA	6,032	5,532	3,026	2,357	4,007
Depreciation & Amortization	381	447	471	500	662
EBIT	5,651	5,085	2,555	1,857	3,346
Other income	319	270	1,378	538	601
Interest expenses	332	296	413	90	331
Profit before tax	5,638	5,059	3,521	2,306	3,616
Provision for tax	433	124	200	206	362
Core profit	5,206	4,935	3,321	2,099	3,254
Extraordinary income/ (loss)	-	-	(305)	-	-
Profit After Tax	5,206	4,935	3,016	2,099	3,254
Minority interest	-	-	132	19	135
Profit after minority interest	5,206	4,935	2,885	2,081	3,119
Basic shares outstanding (mn)	76	76	76	89	89
Basic EPS (INR)	68.3	64.7	41.7	23.3	34.9
Diluted equity shares (mn)	76	76	76	89	89
Diluted EPS (INR)	68.3	64.7	37.7	23.3	34.9
Dividend per share (INR)	9.4	8.7	8.2	8.2	8.2
Dividend payout (%)	13.8	13.4	21.7	35.1	23.4

Common size metrics - as % of net revenues					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating expenses	54.9	52.9	72.2	77.9	71.9
Depreciation	2.9	3.8	4.3	4.7	4.6
Interest expenditure	2.5	2.5	3.8	0.8	2.3
EBITDA margins	45.1	47.1	27.8	22.1	28.1
Net profit margins	39.0	42.0	30.5	19.6	22.8

Growth ratios (%)					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	45.4	(12.1)	(7.1)	(2.0)	33.4
EBITDA	54.3	(8.3)	(45.3)	(22.1)	70.0
PBT	49.9	(10.3)	(30.4)	(34.5)	56.8
Net profit	62.8	(5.2)	(32.7)	(36.8)	55.0
EPS	66.6	(5.3)	(35.5)	(44.2)	49.9

**Balance sheet**

(INR mn)

<b>As on 31st March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Equity capital	354	153	153	179	179
Reserves & surplus	11,682	15,854	18,750	21,492	24,015
Shareholders funds	12,036	16,007	18,903	21,670	24,193
Minority interest (BS)	-	2	(1,006)	(691)	(556)
Secured loans	2,887	2,530	4,693	6,667	7,513
Unsecured loans	1,417	1,408	2,268	8	8
Borrowings	4,304	3,938	6,960	6,675	7,522
Deferred tax (net)	211	202	206	206	206
<b>Sources of funds</b>	<b>16,551</b>	<b>20,149</b>	<b>25,063</b>	<b>27,861</b>	<b>31,365</b>
Gross block	9,080	9,773	12,276	17,674	17,674
Depreciation	2,026	2,427	2,882	3,382	4,044
Net block	7,054	7,346	9,394	14,292	13,630
Capital work in progress	156	1,295	3,010	2,546	6,755
Total fixed assets	7,210	8,641	12,405	16,838	20,385
Investments	32	975	1,986	1,986	1,986
Inventories	4,455	2,806	2,974	3,144	3,870
Sundry debtors	948	913	763	747	997
Cash and equivalents	4,446	6,978	6,728	5,131	4,938
Loans and advances	1,799	2,709	3,592	3,592	3,592
Total current assets	11,647	13,406	14,057	12,615	13,398
Sundry creditors and others	2,339	2,873	3,385	3,579	4,405
Total current liabilities & provisions	2,339	2,873	3,385	3,579	4,405
Net current assets	9,309	10,533	10,672	9,036	8,993
<b>Uses of funds</b>	<b>16,551</b>	<b>20,149</b>	<b>25,063</b>	<b>27,861</b>	<b>31,365</b>
Book value per share (INR)	158.0	209.7	247.3	242.7	271.0

**Free cash flow**

(INR mn)

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Net profit	5,206	4,935	2,885	2,081	3,119
Depreciation	381	447	471	500	662
Others	(354)	(481)	(1,150)	(430)	(135)
Gross cash flow	5,233	4,901	2,205	2,151	3,646
Less: Changes in WC	1,797	(1,308)	389	(39)	150
Operating cash flow	3,436	6,209	1,816	2,189	3,496
Less: Capex	1,122	1,832	4,219	4,933	4,209
<b>Free cash flow</b>	<b>2,314</b>	<b>4,377</b>	<b>(2,403)</b>	<b>(2,744)</b>	<b>(712)</b>

**Cash flow metrics**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Operating cash flow	3,436	6,209	1,816	2,189	3,496
Investing cash flow	(2,395)	(3,006)	(2,306)	(4,395)	(3,608)
Financing cash flow	(572)	(1,138)	1,982	609	(81)
Net cash flow	470	2,065	1,492	(1,597)	(193)
Capex	(1,122)	(1,832)	(4,219)	(4,933)	(4,209)
Dividends paid	(718)	(661)	(626)	(731)	(731)

**Profitability & efficiency ratios**

Year to March	FY09	FY10	FY11	FY12E	FY13E
ROAE (%)	51.2	35.2	18.3	10.3	13.6
ROACE (%)	39.4	28.5	12.1	7.6	12.1
Debtors days	22	29	28	26	22
Current ratio	5.0	4.7	4.2	3.5	3.0
Debt/EBITDA	0.7	0.7	2.3	2.8	1.9
Average working capital turnover	3.4	2.8	2.9	2.7	3.6
Average capital employed turnover (x)	0.9	0.6	0.5	0.4	0.5
Debt/Equity	0.4	0.2	0.4	0.3	0.3
Adjusted debt/equity	0.4	0.2	0.4	0.3	0.3

**Operating ratios**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Total asset turnover	0.9	0.6	0.5	0.4	0.5
Fixed asset turnover	2.0	1.5	1.0	0.7	0.8
Equity turnover	1.3	0.8	0.6	0.5	0.6

**Du pont analysis**

Year to March	FY09	FY10	FY11	FY12E	FY13E
NP margin (%)	39.0	42.0	29.2	19.5	21.9
Total assets turnover	0.9	0.6	0.5	0.4	0.5
Leverage multiplier	1.4	1.3	1.3	1.3	1.3
ROAE (%)	51.2	35.2	18.3	10.3	13.6

**Valuation parameters**

Year to March	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (INR)	68.3	64.7	37.7	23.3	34.9
Y-o-Y growth (%)	66.6	(5.3)	(41.6)	(38.3)	49.9
CEPS (INR)	36.7	70.5	47.9	28.9	42.3
Diluted PE (x)	2.7	2.8	4.8	7.8	5.2
Price/BV (x)	1.1	0.9	0.7	0.7	0.7
EV/Sales (x)	1.0	0.9	1.2	1.6	1.3
EV/EBITDA (x)	2.3	1.8	3.7	6.4	4.0
Dividend yield (%)	5.2	4.8	4.5	4.5	4.5



# PUNJAB NATIONAL BANK

## Low slippages surprise, high restructuring snips

India Equity Research | Banking and Financial Services

PNB's (PNB) Q2FY12 PAT at INR 12.05 bn (up 12% Y-o-Y) came in above our estimates of INR 11.6 bn. Key highlights during the quarter were: commendable core performance with a margin improvement of ~10% Q-o-Q, fee income growth of 23% and proactive provision taken on bond portfolio. Major positives during the quarter: decline in slippages ratio below 1.6% (as against 2% on a quarterly run-rate basis) despite the system migration done during the quarter. However, jump in restructured assets to 8% (increase of INR 40.8 bn during Q2) was a negative and a key monitorable. Given the macro headwinds culminating in a slower growth and rising NPL coupled with higher bond yields, we maintain our underweight call on PSU banks and maintain "REDUCE" on the stock. We prefer BoB over PNB.

### Decline in slippages a plus, restructuring up a negative

Contrary to expectation, slippages came in lower at INR 9.9 bn despite the migration of less than INR 1mn to system based NPL recognition (INR 4.3 bn due to migration). Led by lower write-off, GNPL increased by 5% to INR 51.5 bn (2.05% - upper range of the guidance). NNPL was however flat taking the provisioning coverage up by 83 bps to 75.1%. Key negative was the multifold increase in fresh restructuring by INR 45 bn to INR 199.6 bn (7.9% of loan book). Major accounts restructured were TNEB's INR 17.5 bn and ~ INR 6.35 bn of Aban. Weak assets at 10% (GNPL + restructured assets) make us cautious on the overall NPLs despite the decline in the slippage ratio in Q2FY12.

### Outlook and valuations: Asset quality an overhang; maintain 'REDUCE'

With its strong franchise and diversified loan book, PNB's margins continue to remain well above the industry average. Elevated levels of restructuring and consistently high slippages (despite an improvement this quarter) are key reasons straining the earnings growth and keeping the profit around INR 11-12 bn for the last eight quarters. We estimate a 13% CAGR in PAT over FY11-13E on the back of an 19% growth in loans and 3.2-3.4% NIMs (cal.). The stock is trading at 1.2 FY13E book (down from a peak of 2x, but higher than its five-year average). Given the near term macro headwinds, margins and NPLs, we believe downside risks prevail. We maintain 'REDUCE' and rate it 'Underperformer' on relative returns.

#### Financials

Year to March	Q2FY12	Q2FY11	Growth %	Q1FY12	Growth %	FY11	FY12E
Net int. inc. (INR mn)	34,527	29,767	16.0	31,153	10.8	118,073	134,563
Net profit (INR mn)	12,051	10,746	12.2	11,051	9.1	44,335	48,556
BV per share (INR)						632.5	761.3
EPS (INR)	38.0	34.1	11.6	34.9	9.1	139.9	153.3
Price/ Adj Book (x)						1.7	1.4
Price/ Earnings (x)						7.2	6.6

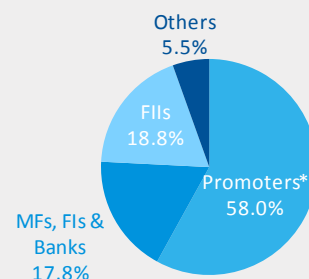
#### EDELWEISS 4D RATINGS

Absolute Rating	REDUCE
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

#### MARKET DATA (R: PNBK.BO, B: PNB IN)

CMP	: INR 1,013
Target Price	: INR 900
52-week range (INR)	: 1,400 / 871
Share in issue (mn)	: 316.8
M cap (INR bn/USD mn)	: 321 / 6,512
Avg. Daily Vol.BSE/NSE('000)	: 320.1

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(1.7)	8.4	3.4
3 months	(13.5)	(2.3)	(8.1)
12 months	(25.8)	(10.5)	(18.0)

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November 1, 2011

### Margin inches closer to ~4, best in class

Sequential margin improved by ~10 bps as the bank benefited from a strong re-pricing of 54 bps in yield on advances which offset the ~10 bps increase in cost of funds. Margin improvement was restricted largely due to the decline in LDR by 200bps to 73%. Bulk deposit proportion remained steady at 24%. The management maintained its guidance of 3.5% given the saving bank rate deregulation which we consider has upside risks.

### Non-interest income puts up a good show

Core non-interest income of INR 6.9 bn posted an impressive increase of 26% Y-o-Y led by strong performance in the forex which made up for the modest performance in LC income and decline in processing fees. Another highlight was the broad based nature of the growth across service offerings. The management indicates that the only area of disappointment has been in the distribution of insurance products. PNB's recent acquisition of 30% in MetLife which is pending regulatory approvals along with the renewed focus on Principal PNB AMC can serve as a growth vector going forward. However, the environment for both Insurance and asset management businesses continues to be challenging.

### Retirement benefits account for major staff expenses

The bank has provided for retirement benefits to the tune of INR 5.2 bn out of which INR 1.66 bn is on account of amortization of outstanding obligation on enhanced gratuity limits and second pension option. The rest is attributable to current service costs (INR 2.5 bn towards pension and INR 0.5 bn towards gratuity). Going forward, the management indicated this can be assumed to be the run rate given majority of the employees now fall under the defined benefit scheme. Unamortised liability carried forward stands at INR 25 bn.

### Other highlights:

- The bank has restructured INR 45 bn of loans during the quarter taking the total restructured pool to ~8% of advances. In the power sector, it has restructured INR 21.5 bn in Q2FY12 - primarily TNEB's INR 17.5 bn and another INR 4 bn in the private sector (four cases). TNEB was borrowing for one year period with a bullet repayment which now has been converted into a long term loan of 5-years with a monthly installment (without any change in interest rates). In the drilling sector, it has restructured loans of INR 6.35 bn provided to Aban. Restructuring in textile worth INR 1.15 bn is being distributed across eight accounts.
- Investment depreciation: Though the bank has provided INR 1.61 bn, it would have been required to provide only INR 510 mn based on G-sec yields as of September '11 (at 8.44%). However, it has made an additional provisioning of INR 1.1 bn and protected its investment book for a further 18 bps increase in G-sec yields (upto 8.62%).
- The bank has made a conscious decision to lower the proportion of short term loans in the overall lending - INR 250 bn of short term loans has now come down to INR 95 bn.
- Growth in commercial real estate is 4% in which lease rental discounting has grown by more than 30% - so the entire growth is driven by more secured lending as rental discounting is for completed projects and there is no risk of project execution.
- 30% of savings deposits below INR 0.1 mn in quantum and 94% of savings accounts are in the INR 0.1 mn category.

**Table 1: Loan growth in line with industry; CD ratio contracts 200 bps**

(%)	Q211	Q311	Q411	Q112	Q212
Advances (INR tn)	2.1	2.2	2.4	2.4	2.5
Advances growth Q-o-Q	6.0	6.0	9.4	0.3	2.5
Advances growth Y-o-Y	27.6	30.0	29.7	23.4	19.3
Deposits (INR tn)	2.7	2.9	3.1	3.2	3.4
Deposits growth Q-o-Q	7.1	5.7	8.3	3.6	5.5
Deposits growth Y-o-Y	18.4	23.5	25.5	26.9	25.0
CD ratio	76.4	76.6	77.4	74.9	72.9
CASA	40.6	40.6	40.6	38.1	37.1

**Table 2: Large corporate segment driving overall loan growth**

(%)	Q211	Q311	Q411	Q112	Q212
Agriculture	15.5	15.3	14.6	14.1	14.1
Industry	46.0	46.0	47.1	47.3	47.5
SME	11.2	11.4	11.1	11.3	11.1
Large	34.8	34.6	36.0	36.1	36.4
Retail	10.8	9.8	9.8	9.9	9.9
Others	27.7	28.8	28.5	28.7	28.4

**Table 3: Slippages lower than average run-rate of 2.4%**

	Q211	Q311	Q411	Q112	Q212
Incremental slippages (%)	2.2	2.3	2.7	2.4	1.9
Gross NPA (INR mn)	40,248	45,411	43,794	48,936	51,502
Gross NPA (%)	1.9	2.0	1.8	2.0	2.1
Net NPA (INR mn)	14,255	15,751	20,386	20,908	20,885
Net NPA (%)	0.69	0.72	0.85	0.88	0.84
Provision coverage (%)	64.6	65.3	53.4	57.3	59.4

**Table 4: Delinquencies under control despite migration to system based recognition**

(INR mn)	Q2FY11	Q3FY11	Q411	Q112	Q212
Opening GNPA	36,138	40,248	45,418	43,794	48,936
Addition	9,110	9,770	12,490	11,770	9,930
Reductions	5,000	4,600	14,114	6,628	7,364
-Cash recovery	3,060	2,410	2,330	4,178	5,132
-Upgradation	650	340	1,800	2,340	2,060
-Write off	1,290	1,850	9,984	110	180
Closing GNPA	40,248	45,418	43,794	48,936	51,502

**Table 5: Investment depreciation was higher, protected upto 8.62% Gsec yields**

	Q2FY12	Q2FY11	Growth	Q1FY12	Growth
NPA prov	3,190	3,590	(11.1)	5,660	(43.6)
MTM Investment prov	1,600	650	146.2	1,340	19.4
Other provision	730	140	421.4	350	NA
Standard asset provisions	860	380	126.3	1,590	NA
Total	6,380	4,760	34.0	8,940	(28.6)

Source: Company

**Table 6: Lower processing fee led to muted CEB income**

	Q2FY12	Q2FY11	Growth	Q1FY12	Growth
Commission, exc. & brokerage	4,740	4,740	0.0	5,980	(20.7)
Tresury gains	530	380	39.5	480	10.4
Exchange	1,330	310	329.0	1,310	1.5
Other non interest income	2,289	1,753	30.6	3,067	(25.4)
Total	8,889	7,183	23.8	10,837	(18.0)

**Table 7: CASA came off marginally**

(%)	Q211	Q311	Q411	Q112	Q212
CASA ratio	40.6	39.1	39.2	38.1	37.1

**Table 8: Cost/income sustained at 41%**

(%)	Q211	Q311	Q411	Q112	Q212
Cost-income ratio	39.9	40.9	40.9	41.1	41.4

**Table 9: NIMs improved benefiting from lending rate hike**

(%)	Q211	Q311	Q411	Q112	Q212
NIM (%)	4.1	4.1	3.9	3.8	4.0
Cost of deposit (%)	5.0	5.2	5.6	6.3	6.5
Cost of fund (%)	4.4	4.5	4.9	5.4	5.5
Yield on advances (%)	10.6	10.6	10.8	11.4	11.9
Yield on investments (%)	6.7	6.8	6.4	7.7	7.8
Yield on fund (%)	8.2	8.3	8.3	8.7	9.0

Source: Company

## Financials snapshot

(INR mn)

Year to March	Q2FY12	Q2FY11	Growth (%)	Q1FY12	Growth (%)	FY11	FY12E	FY13E
Interest on advances	70,448	50,352	39.9	65,759	7.1	211,046	272,475	323,855
Interest on investments	18,524	13,972	32.6	16,858	9.9	56,376	70,446	81,664
Interest on other resources	484	205	136.4	337	43.6	2,444	4,348	4,946
Interest income	89,521	64,554	38.7	83,152	7.7	269,865	347,269	410,464
Interest expenses	54,994	34,787	58.1	52,000	5.8	151,791	212,705	260,934
Net interest income	34,527	29,767	16.0	31,153	10.8	118,073	134,563	149,531
Other income	8,889	7,183	23.8	10,837	(18.0)	10,266	10,423	20,103
Fee income	8,889	6,803	30.7	10,357	(14.2)	33,104	36,653	41,988
Operating expenses	18,137	15,949	13.7	17,250	5.1	63,642	69,744	76,634
Staff expense	12,404	11,131	11.4	12,126	2.3	44,611	46,651	50,676
Other opex	5,732	4,818	19.0	5,124	11.9	19,031	23,093	25,958
Pre prov Op profit (PPP)	25,279	20,621	22.6	24,259	4.2	87,535	101,472	114,884
Provisions	7,103	5,160	37.7	8,935	(20.5)	24,920	31,000	33,863
Profit before tax	18,176	15,841	14.7	15,804	15.0	65,637	72,472	84,522
Provision for tax	6,124	5,095	20.2	4,753	28.8	21,302	23,916	27,470
Profit after tax	12,051	10,746	12.2	11,051	9.1	44,335	48,556	57,052
EPS (INR)	38	34.1	11.6	34.9	9.1	140	153	180
<b>Ratios</b>								
NII / GII	38.6	46.1		37.5		43.8	38.7	36.4
Cost - income	41.8	43.2		41.1		41.5	41.5	39.1
Provisions / PPOP	28.1	25.0		36.8		28.5	30.6	29.5
Tax rate	33.7	32.2		30.1		32.5	33.0	32.5
<b>Balance sheet data</b>								
Advances (INR bn)	2,490	2,088	19.3	2,429	2.5	746	966	1,195
Deposits (INR bn)	3,418	2,734	25.0	3,241	5.5	1,197	1,399	1,665
<b>Asset quality</b>								
Gross NPA (INR mn)	51,502	40,248	28.0	48,936	5.2	43,794	54,789	75,121
Net NPA (INR mn)	20,885	14,255	46.5	20,908	(0.1)	20,386	21,095	28,211
Gross NPA (%)	2.1	1.9		2.0		1.8	1.9	2.2
Net NPA(%)	0.8	0.7		0.9		0.8	0.7	0.8
<b>Ratios</b>								
Prov. cov. (rep)	75.1	77.1		74.3		53.0	61.2	62.1
Adj. B/V per share (INR)						587	715	850
Price/ Adj. book (x)						1.7	1.4	1.2
Price/ PPOP (x)						3.7	3.2	2.8
Diluted P/E (x)						7.2	6.6	5.6

### Company Description

PNB is northern India-based bank with over 5000 branches, most of which are in the states of Punjab, Haryana, Uttar Pradesh, Madhya Pradesh and Bihar. More than 50% of its branches are in rural and semi-urban areas. The bank's balance sheet stands at around ~INR 4tn and has one of the highest CASA ratio among nationalized banks. The government's shareholding, at 58%, leaves little scope for significant dilution/capital rising hereon. Foreign holding too is nearing maximum permissible of 20%.

### Investment Theme

With its strong franchise and diversified loan book, PNB's margins continue to remain well above the industry average. Elevated levels of restructuring and consistently high slippages (despite an improvement this quarter) are key reasons straining the earnings growth and keeping the profit around INR 11-12 bn for the last eight quarters. Given the near term macro headwinds, margins and NPLs, we believe downside risks prevail. We maintain REDUCE and rate it 'Underperformer' on relative returns.

### Key Risks

Any downturn in agricultural growth will hurt the bank's asset quality

Given the pace of expansion delinquencies can rise faster than expected. Higher than expected slippages from restructured assets can risk asset quality.

Management is a key factor for the bank to sustain premium valuations (among PSU banks). The key risk to our recommendation is replacement of present management by a weaker business manager.

## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Interest income	193,262	214,669	269,865	347,269	410,464
Interest expenses	122,953	129,440	151,791	212,705	260,934
Net Interest income	70,309	85,229	118,073	134,563	149,531
Non interest income	29,197	35,653	36,126	38,653	45,488
- Fee & forex income	17,002	23,230	26,662	30,128	34,647
- Misc. income	5,530	4,366	6,442	6,525	7,340
- Investment profits	6,664	8,058	3,022	2,000	3,500
Net revenues	99,505	120,882	154,199	173,216	195,018
Operating expense	42,062	47,619	63,642	69,744	76,634
- Employee exp	29,244	31,211	44,611	46,651	50,676
- Other opex	12,818	16,408	19,031	23,093	25,958
Preprovision profit	57,444	73,263	90,557	103,472	118,384
Provisions	9,774	14,236	24,920	31,000	33,863
- Loan loss provisions	8,853	9,994	20,037	27,500	32,613
- Investment depreciation	(2,163)	684	1,475	2,000	500
- Other provisions	3,085	3,558	3,408	1,500	750
PBT	47,669	59,027	65,637	72,472	84,522
Taxes	16,760	19,973	21,302	23,916	27,470
PAT	30,909	39,054	44,335	48,556	57,052
EPS (INR)	98.0	123.9	139.9	153.3	180.1
DPS (INR)	20.0	22.0	22.0	21.0	25.0
Payout ratio (%)	20.4	17.8	15.7	16.0	16.2

Growth ratios (%)					
Year to March	FY09	FY10	FY11	FY12E	FY13E
NII growth	29.5	21.2	38.5	14.0	11.1
Fees growth	27.3	36.6	14.8	13.0	15.0
Opex growth	22.4	13.2	33.6	9.6	9.9
PPOP growth	42.5	28.4	34.2	15.9	13.2
PPP growth	43.4	27.5	23.6	14.3	14.4
Provisions growth	37.6	45.7	75.0	24.4	9.2
PAT growth	50.9	26.4	13.5	9.5	17.5

Operating ratios (%)					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Yield on advances	10.7	9.8	9.8	10.3	10.3
Yield on investments	7.5	6.5	6.5	7.0	7.3
Yield on assets	9.0	8.1	8.2	8.7	8.8
Net interest margins	3.3	3.2	3.6	3.4	3.2
Cost of funds	6.1	5.3	5.0	5.7	6.0
Cost of deposits	6.1	5.2	4.9	5.7	5.9
Cost of borrowings	6.1	6.2	5.4	5.9	6.9
Spread	2.8	2.9	3.3	3.0	2.8
Cost-income	42.3	39.4	41.3	40.3	39.3
Tax rate	35.2	33.8	32.5	33.0	32.5

## Banking and Financial Services

Balance sheet					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>					
Equity capital	3,153	3,153	3,168	3,168	3,168
Reserves	128,246	159,156	197,210	238,008	285,825
<b>Net worth</b>	<b>131,399</b>	<b>162,309</b>	<b>200,378</b>	<b>241,176</b>	<b>288,993</b>
Sub bonds/pref cap	80,853	106,903	111,903	126,903	141,903
Deposits	2,097,605	2,493,298	3,128,987	3,754,153	4,394,714
Borrowings	43,744	85,721	203,994	153,022	168,050
Other liabilities	100,659	103,429	123,572	126,260	158,882
<b>Total</b>	<b>2,454,259</b>	<b>2,951,660</b>	<b>3,768,834</b>	<b>4,401,515</b>	<b>5,152,542</b>
<b>Assets</b>					
Loans	1,547,030	1,866,012	2,421,067	2,881,069	3,399,662
Investments					
<i>Gilts</i>	<i>551,983</i>	<i>664,626</i>	<i>798,756</i>	<i>904,735</i>	<i>1,058,470</i>
<i>Others</i>	<i>81,869</i>	<i>112,619</i>	<i>152,868</i>	<i>155,070</i>	<i>160,364</i>
Cash & equi	214,131	234,736	296,912	354,285	414,736
Fixed assets	8,834	10,215	16,349	20,064	23,189
Other assets	50,412	63,452	82,883	86,289	96,121
<b>Total</b>	<b>2,454,259</b>	<b>2,951,660</b>	<b>3,768,834</b>	<b>4,401,515</b>	<b>5,152,542</b>
<b>Balance sheet ratios (%)</b>					
Credit growth	28.9	19.1	30.2	19.0	18.0
Deposit growth	26.0	18.9	25.5	20.0	17.1
EA growth	24.5	20.2	27.5	17.0	17.2
SLR ratio	25.8	25.8	24.0	24.0	24.0
C-D ratio	75.9	76.4	79.3	78.6	79.2
Low-cost deposits	38.8	40.8	38.5	37.6	37.1
Gross NPA ratio	1.8	1.7	1.8	1.9	2.2
Net NPA ratio	0.2	0.5	0.8	0.7	0.8
Provision coverage	90.5	69.5	53.4	61.5	62.4
Incremental slippage	1.4	1.8	2.3	2.2	2.4
Net NPA / Equity	2.0	6.0	10.2	8.7	9.8
Capital adequacy	14.0	13.0	10.7	10.6	10.4
- Tier 1	9.0	8.4	7.3	7.1	7.0

### ROA decomposition (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Net interest income/Assets	3.3	3.2	3.6	3.4	3.2
Fees/Assets	1.0	1.0	1.0	0.9	0.9
Investment profits/Assets	0.3	0.3	0.1	0.1	0.1
Net revenues/Assets	4.6	4.6	4.7	4.3	4.2
Operating expense/Assets	(1.9)	(1.8)	(1.9)	(1.8)	(1.6)
Provisions/Assets	(0.5)	(0.5)	(0.8)	(0.8)	(0.7)
Taxes/Assets	(0.8)	(0.8)	(0.7)	(0.6)	(0.6)
Total costs/Assets	(3.2)	(3.1)	(3.4)	(3.1)	(3.0)
ROA	1.4	1.5	1.4	1.2	1.2
Equity/Assets	5.5	5.6	5.5	5.5	5.7
ROAE	25.8	26.6	24.4	22.0	21.5



## Valuation metrics

Year to March	FY09	FY10	FY11	FY12E	FY13E
EPS (INR)	98.0	123.9	139.9	153.3	180.1
EPS growth (%)	50.9	26.4	13.0	9.5	17.5
Book value per share (INR)	417	515	632	761	912
Adjusted book value/share (INR)	411	493	587	715	850
Price/Earnings (x)	10.3	8.2	7.2	6.6	5.6
Price/ BV (x)	2.4	2.0	1.6	1.3	1.1
Price/ ABV (x)	2.5	2.1	1.7	1.4	1.2
Dividend yield (%)	2.0	2.2	2.2	2.1	2.5
Price to income (x)	9.0	7.3	6.2	5.4	4.7
Price to PPOP (x)	6.3	4.9	3.7	3.2	2.8

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	REDUCE	SO	H	Axis Bank	BUY	SO	M
Bank of Baroda	HOLD	SO	L	Federal Bank	BUY	SO	M
HDFC	HOLD	SU	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	H
Infrastructure Development Finance	HOLD	SU	M	ING Vysya	HOLD	SP	H
Karnataka Bank	BUY	SO	L	Kotak Mahindra Bank	REDUCE	SP	L
LIC Housing Finance	HOLD	SP	M	Manappuram General Finance	HOLD	SU	M
Oriental Bank Of Commerce	REDUCE	SU	H	Power Finance Corp	BUY	SO	L
Punjab National Bank	REDUCE	SU	L	Reliance Capital	BUY	SP	M
Rural Electrification Corporation	BUY	SO	L	Shriram City Union Finance	BUY	SO	H
South Indian Bank	HOLD	SP	H	State Bank of India	HOLD	SP	L
Union Bank Of India	HOLD	SO	L	Yes Bank	BUY	SO	M
Mahindra & Mahindra Financial Services	HOLD	SP	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss  
Ideas create, values protect



# SADBHAV ENGINEERING

Strong execution, order intake remains key

India Equity Research | Construction

Sadbhav Engineering (SEL) has again delivered a strong performance in Q2FY12 contrary to its peers, driven by a robust execution, lower leverage and better working capital management. PAT (Standalone) at INR 181 mn, up 32% Y-o-Y, was ahead of ours and street expectations. However, due to a weak order inflow in H1FY12 and rise in interest rates, we have revised down our earnings estimates by 5% for FY12-13. Our revised SOTP based TP stands at INR 173/share (earlier INR 180). We reiterate SEL as our top pick in the construction space and maintain 'BUY'.

## Captive road projects steering growth

SEL's Q2FY12 revenue at INR 4.3 bn (up 65% Y-o-Y) was 20% ahead of our estimates. The outperformance was once again driven by a strong execution in captive road projects (running 3-12 months ahead of schedule), contributing 86% to the revenue. EBITDA margins at 10.5% were slightly lower than expected due to a rise in bitumen costs during the quarter. With lower leverage and better working capital management, interest cost was kept under control at INR 154 mn.

## Weak order inflow, encouraging pipeline

SEL's order inflow during the quarter was weak with the company bagging only one road project (EPC mode) worth INR 1 bn. We believe the management deserves credit for not treading the path of its peers by bidding aggressively for road projects. Order pipeline remains encouraging with bids already placed for BOT road projects worth INR 72 bn and irrigation and mining projects worth INR 18 bn.

## Outlook and valuations: Positive; maintain 'BUY'

Our SOTP-based target price of INR 173 per share consists of INR 102 from construction business (valued at 9x FY13E P/E) and INR 71 from BOT projects (valued on DCF, implied P/BV at 2x on Q2FY12). We reiterate SEL as our top pick in the construction sector and maintain 'BUY'.

## Financials

(INR mn)

Year to March	Q2FY12	Q2FY11	% Chg	Q1FY12	% Chg	FY11	FY12E
Net revenues	4,304	2,609	65.0	6,129	(29.8)	22,092	27,209
EBITDA	453	314	44.1	678	(33.2)	2,258	2,944
Net profit	181	137	32.1	338	(46.3)	1,196	1,487
Diluted EPS (INR)	1.4	1.0	32.1	2.3	(38.7)	8.0	9.9
Diluted P/E (x)*						7.7	6.2
EV/EBITDA (x)*						4.8	3.7
ROAE (%)						23.5	21.4

\* For implied construction business

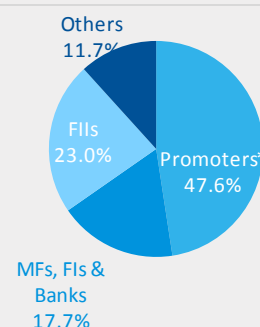
## EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

## MARKET DATA (R: SADE.BO, B: SADE IN)

CMP	: INR 131
Target Price	: INR 173
52-week range (INR)	: 158 / 91
Share in issue (mn)	: 149.9
M cap (INR bn/USD mn)	: 20 / 399
Avg. Daily Vol. BSE/NSE ('000)	: 140.0

## SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

## PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.0	(0.5)	(2.5)
3 months	(9.6)	(6.7)	2.9
12 months	(25.9)	(8.9)	17.0

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## BOT projects progressing well

Execution on its captive road projects continues to run 3-12 months ahead of schedule. The management reiterated that it would earn early completion bonus of INR 1 bn over FY12 and FY13 in construction business which had not been factored in our estimates. Tolling has started on the complete stretch in the Mumbai-Nasik project. Traffic growth on Ahmedabad ring road and Aurangabad-Jalna was strong at 13-15% Y-o-Y during the quarter.

## Other highlights

- SEL's order book stands at INR 62.5 bn (INR ~70 bn at FY11 end). Of this, roads contribute INR 43.7 bn (of which INR 25.1 bn are captive BOT projects and INR 18.6 bn are cash contracts), irrigation projects are INR 11.1 bn and the balance INR 7.8 bn are from mining projects.
- Revenue break-up for Q2FY12: INR 3.7 bn from captive BOT projects, INR 0.1 bn from road cash contracts, INR 170 mn from irrigation projects and INR 399 mn from mining projects.
- **Future bids:** SEL has submitted four bids in the mining space for projects worth INR 12.5 bn. Apart from this it has put three bids in the irrigation space worth INR 5.25 bn.

**Border check post:** SEL has so far received possession of 12 check posts. It expects to complete construction of five posts by March 2012 and nine check posts by June 2012.

**Table 1: Details of equity investment**

Project name	(INR mn)	
	Equity invested till Q2FY12	Balance to be invested
Mumbai Nasik Expressway	214	0
Ahmedabad Ring Road	417	0
Aurangabad Jalna	829	0
Nagpur Seoni Expressway	315	0
Maharashtra Border Check Post	1,404	127
Dhule Palesner	959	206
Hyderabad – Yadgiri	600	289
Bijapur-Hungund	1,055	0
Rohtak-Panipat	2,427	1,820
<b>Total</b>	<b>8,220</b>	<b>2,442</b>

Source: Company, Edelweiss research

Table 2: Valuation

Segments	Basis	Cost of equity (%)	Equity value (INR mn)	Value per share (INR)	% of total	Implied P/BV (Q2FY12)
<b>BOT Projects</b>						
<b>Operational projects (A)</b>			<b>4,111</b>	<b>27</b>	<b>16</b>	<b>2.5</b>
Mumbai Nasik Expressway	DCF	13.5	681	5	3	4.8
Ahmedabad Ring Road Infrastructure	DCF	13.5	1,999	13	8	5.2
Aurangabad Jalna Tollway	DCF	13.5	1,322	9	5	1.5
Nagpur Seoni Expressway	DCF	13.5	108	1	0	0.5
<b>Projects under construction (B)</b>			<b>5,114</b>	<b>34</b>	<b>20</b>	<b>1.8</b>
Maharashtra Border Check Post Network	P/BV		1,658	11	6	2.1
Dhule Palesner Tollway	DCF	14.0	1,046	7	4	1.9
Hyderabad – Yadgiri Tollway	DCF	14.0	280	2	1	1.3
Bijapur-Hungund Tollway	DCF	14.0	1,989	13	8	2.4
Rohtak-Panipat Tollway	DCF	14.0	140	1	1	0.3
<b>Value from BOT projects (A+B)</b>			<b>9,224</b>	<b>62</b>	<b>36</b>	<b>2.0</b>
Surplus cash (adjusted for Sadbhav's stake in SIPL)			1,386	9	5	
<b>Total value of SIPL</b>			<b>10,611</b>	<b>71</b>	<b>41</b>	
EPC	9x FY13 P/E			102	59	
<b>Total value per share</b>				<b>173</b>	<b>100</b>	

Source: Edelweiss research

## Financial snapshot - Standalone

(INR mn)

Year to March	Q2FY12	Q2FY11	% Change	Q1FY12	% Change	FY11	FY12E	FY13E
Net revenues	4,304	2,609	65.0	6,129	(29.8)	22,092	27,209	31,596
Staff costs	91	49	87.7	92	(1.1)	308	352	472
Direct costs	3,468	2,025	71.3	5,153	(32.7)	18,669	22,858	26,512
Other expenses	292	221	31.9	206	41.8	857	1,055	1,194
Total expenditure	3,851	2,295	67.8	5,451	(29.3)	19,834	24,265	28,177
EBITDA	453	314	44.1	678	(33.2)	2,258	2,944	3,419
Depreciation	70	67	5.4	69	1.0	269	278	305
EBIT	383	248	54.5	609	(37.1)	1,989	2,666	3,114
Other income	52	2	2,104.3	16	226.9	195	48	49
Interest	154	42	267.5	126	22.5	427	507	644
Profit before tax	281	208	35.1	499	(43.6)	1,757	2,207	2,519
Tax	100	71	40.8	161	(38.0)	562	721	822
Core profit	181	137	32.1	338	(46.3)	1,196	1,487	1,696
Reported net profit	181	137	32.1	338	(46.3)	1,196	1,487	1,696
Equity capital	131	131		150		150	150	150
No. of shares (mn)	131	131		150		150	150	150
Diluted EPS (INR)	1.4	1.0	32.1	2.3	(38.7)	8.0	9.9	11.3
Diluted P/E (x)*						7.7	6.2	5.4
EV/EBITDA (x)*						4.8	3.7	3.9
ROAE (%)						23.5	21.4	20.1

### As % of net revenues

Direct costs	80.6	77.6		84.1		84.5	84.0	83.9
Other expenses	6.8	8.5		3.4		3.9	3.9	3.8
EBITDA	10.5	12.0		11.1		10.2	10.8	10.8
Reported net profit	4.2	5.3		5.5		5.4	5.5	5.4
Tax rate	35.5	34.0		32.2		32.0	32.6	32.7

\* For implied construction business

## Company Description

Founded in 1988, SEL is an infrastructure development and construction company focusing on roads and highways, irrigation and mining operations. SEL's expertise includes rehabilitating, upgrading, widening and strengthening roads and highways, construction of earthen dams, etc. The company is reputed for completing projects ahead of schedule and excellent quality of projects. Till March 2011, the company has successfully completed 20 roads & highway projects, 21 irrigation projects and 5 mining projects. The completed 20 road projects correspond to ~ 3,738 lane km of national and state highways.

## Investment Rationale

### Superior execution paving way for exemplary performance

SEL's revenue has grown at one of the fastest rates (50% CAGR) in the last five years in the construction space. It has been able to achieve this feat on back of: (1) its focus on roads, which is one of the fastest growing segments in construction space; (2) ownership of road projects via BOT route, enabling greater control; and (3) consistently completing work ahead of schedule.

### BOT assets on track; funding in place

Of SEL's nine BOT road projects, four are already operational. The company has raised INR 4 bn by divesting 22.22% stake in Sadbhav Infrastructure Projects, the holding company for its BOT assets to PE investors. This would take care of its equity requirements of the ongoing projects.

## Key Risks

### Equity dilution in SIPL

SEL has exposure to the road BOT space, which entails upfront investments with returns generally being back-ended. While the company is currently well funded, it needs to win large amount of BOT projects to maintain its current growth momentum. This is likely to stretch SIPL's balance sheet and may lead to equity dilution.

### Inherent risk associated with BOT-toll projects

With the company focusing on PPP projects, it is exposed to risks associated with gaining right-of-way on land stretches, execution risk, 'force majeure' risk, etc. Also, the focus on toll projects exposes it to the unpredictability of traffic growth.

## Financial Statements - Standalone

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Income from operations	10,625	12,569	22,092	27,209	31,596
Direct costs	9,017	10,535	18,669	22,858	26,512
Employee costs	157	186	308	352	472
Other Expenses	368	470	857	1,055	1,194
Total operating expenses	9,542	11,191	19,834	24,265	28,177
EBITDA	1,083	1,378	2,258	2,944	3,419
Depreciation & Amortization	157	233	269	278	305
EBIT	926	1,145	1,989	2,666	3,114
Other income	117	166	195	48	49
Interest expenses	214	331	427	507	644
Profit before tax	829	981	1,757	2,207	2,519
Provision for tax	192	328	562	721	822
Core profit	637	653	1,196	1,487	1,696
Prior period adjustments (net)	4	113	-	-	-
Profit After Tax	633	540	1,196	1,487	1,696
Profit after minority interest	633	540	1,196	1,487	1,696
Basic shares outstanding (mn)	125	125	150	150	150
Basic EPS (INR)	5.1	4.3	8.0	9.9	11.3
Diluted equity shares (mn)	125	125	150	150	150
Diluted EPS (INR)	5.1	4.3	8.0	9.9	11.3
CEPS (INR)	6.3	6.2	9.8	11.8	13.4
Dividend per share (INR)	0.4	0.4	0.6	0.6	0.6
Dividend payout (%)	9.2	10.8	8.2	6.6	5.8

Common size metrics - as % of net revenues					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating expenses	89.8	89.0	89.8	89.2	89.2
Depreciation	1.5	1.8	1.2	1.0	1.0
Interest expenditure	2.0	2.6	1.9	1.9	2.0
EBITDA margins	10.2	11.0	10.2	10.8	10.8
Other income	1.1	1.3	0.9	0.2	0.2
Tax	1.8	2.6	2.5	2.6	2.6
EBIT margins	8.7	9.1	9.0	9.8	9.9
Net profit margins	6.0	5.2	5.4	5.5	5.4

Growth ratios (%)					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	21.8	18.3	75.8	23.2	16.1
EBITDA	12.4	27.2	63.9	30.4	16.1
Net profit	35.3	2.6	83.1	24.3	14.1
EPS	20.8	(14.7)	84.8	24.3	14.1



**Balance sheet**

(INR mn)

<b>As on 31st March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Equity capital	125	125	150	150	150
Reserves & surplus	3,310	3,790	6,108	7,496	9,095
Shareholders funds	3,435	3,915	6,257	7,646	9,245
Secured loans	2,111	2,740	3,159	3,159	5,659
Unsecured loans	-	1,502	802	742	827
Borrowings	2,111	4,242	3,961	3,901	6,486
Deferred tax (net)	110	141	161	161	161
<b>Sources of funds</b>	<b>5,656</b>	<b>8,298</b>	<b>10,379</b>	<b>11,708</b>	<b>15,891</b>
Gross block	2,606	3,322	3,715	3,965	4,465
Depreciation	1,061	1,221	1,418	1,695	2,000
Net block	1,545	2,101	2,298	2,270	2,465
Total fixed assets	1,545	2,101	2,298	2,270	2,465
Investments	1,246	1,441	3,264	3,264	5,264
Inventories	276	540	692	847	983
Sundry debtors	2,782	4,408	6,869	6,596	8,526
Cash and equivalents	100	448	846	758	882
Loans and advances	2,359	4,668	5,861	5,986	6,003
Other current assets	5	28	73	73	73
Total current assets	5,522	10,092	14,341	14,261	16,466
Sundry creditors and others	2,592	5,273	8,269	6,581	6,496
Provisions	74	63	1,255	1,506	1,808
Total current liabilities & provisions	2,666	5,336	9,524	8,088	8,304
Net current assets	2,856	4,756	4,817	6,173	8,162
<b>Uses of funds</b>	<b>5,656</b>	<b>8,298</b>	<b>10,379</b>	<b>11,708</b>	<b>15,891</b>
Book value per share (INR)	27.5	31.3	41.8	51.0	61.7

**Free cash flow**

(INR mn)

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Net profit	633	540	1,196	1,487	1,696
Depreciation	157	233	269	278	305
Others	(24)	37	78	(98)	(98)
Gross cash flow	766	809	1,542	1,666	1,903
Less: Changes in WC	464	184	2,174	1,444	1,865
Operating cash flow	302	625	(631)	222	38
Less: Capex	278	770	479	250	500
<b>Free cash flow</b>	<b>24</b>	<b>(145)</b>	<b>(1,110)</b>	<b>(28)</b>	<b>(462)</b>

**Cash flow metrics**

<b>Year to March</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
Operating cash flow	302	625	(631)	222	38
Investing cash flow	(760)	(2,267)	270	(250)	(2,500)
Financing cash flow	463	1,983	769	(60)	2,585
Net cash flow	5	341	408	(88)	123
Capex	(278)	(770)	(479)	(250)	(500)
Dividends paid	(58)	(58)	(98)	(98)	(98)
Share issuance/(buyback)	-	-	1,230	-	-

## Profitability & efficiency ratios

Year to March	FY09	FY10	FY11	FY12E	FY13E
ROAE (%)	20.2	17.8	23.5	21.4	20.1
ROACE (%)	18.7	17.1	22.9	26.0	24.0
Inventory day	23	14	12	12	13
Debtors days	74	104	93	90	87
Payable days	94	136	132	119	90
Cash conversion cycle (days)	3	(18)	(27)	(16)	10
Current ratio	2.1	1.9	1.5	1.8	2.0
Debt/EBITDA	1.9	3.1	1.8	1.3	1.9
Average working capital turnover	4.6	3.3	4.6	5.0	4.4
Average capital employed turnover (x)	2.8	2.2	3.2	3.5	3.3
Debt/Equity	0.6	1.1	0.6	0.5	0.7
Adjusted debt/equity	0.6	1.1	0.6	0.5	0.7
Net Debt/Equity	0.6	1.0	0.5	0.4	0.6
Interest coverage	4.3	3.5	4.7	5.3	4.8

## Operating ratios

Year to March	FY09	FY10	FY11	FY12E	FY13E
Total asset turnover	2.1	1.8	2.4	2.5	2.3
Fixed asset turnover	7.1	6.9	10.0	11.9	13.3
Equity turnover	3.4	3.4	4.3	3.9	3.7

## Du pont analysis

Year to March	FY09	FY10	FY11	FY12E	FY13E
NP margin (%)	6.0	5.2	5.4	5.5	5.4
Total assets turnover	2.1	1.8	2.4	2.5	2.3
Leverage multiplier	1.6	1.9	1.8	1.6	1.6
ROAE (%)	20.2	17.8	23.5	21.4	20.1

## Valuation parameters

Year to March	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (INR)	5.1	4.3	8.0	9.9	11.3
Y-o-Y growth (%)	20.8	(14.7)	84.8	24.3	14.1
CEPS (INR)	6.3	6.2	9.8	11.8	13.4
Diluted PE (x)*	12.1	14.2	7.7	6.2	5.4
Price/BV (x)	4.8	4.2	3.1	2.6	2.1
EV/Sales (x)*	0.9	0.9	0.5	0.4	0.4
EV/EBITDA (x)*	8.3	8.3	4.8	3.7	3.9
Dividend yield (%)	0.3	0.3	0.5	0.5	0.5

\* For implied construction business

# SHRIRAM CITY UNION FINANCE

## NIMs expand; growth robust

India Equity Research | Banking and Financial Services

Shriram City Union Finance's (SCUF) Q2FY12 PAT of INR 811 mn (up 46% Y-o-Y, flat Q-o-Q) was ahead of our expectation. Disbursements continued to be robust (up 58% Y-o-Y) led by business/gold loans while margins improved 40bps to 12.1% aided by repricing of the loan book. Gross NPLs were sustained at 1.7% even as credit cost was capped at 173bps. We maintain 'BUY' with a TP of INR 650 (assigning 2x multiple to 12 months rolling book).

### Business, gold loans buoy disbursement growth

Business and gold loans mainly contributed to the 58% Y-o-Y growth in disbursement (at INR 28.6 bn). Gold loans form ~30% of the loan book. It securitized INR 8 bn of loans and on-book AUMs grew 12% Q-o-Q (53% Y-o-Y) to INR 89 bn. The management sustained its focus on enterprise loans as key growth driver. We expect disbursements and therefore the loan book to register 30-34% CAGR over FY11-13E. Dedicated efforts (new branches, processes) to scale up the business lending are yielding results.

### Margins expand 40bps to 12.1%, cost of funds up

Upward repricing of the loan book (with a higher churn) led to 150bps expansion in yields and 40bps increase in NIMs to 12.1%. This was despite higher contribution from low-yielding gold loans in incremental disbursements. Cost of funds inched up by 150bps with banks raising base rates in May-August period. Going forward, we believe rising interest rates will keep NIMs under pressure hence build in 10.0%-10.2% margin for FY12-13E. SCUF's gross NPLs came off marginally at 1.72% (from 1.83% in Q2FY11) while credit cost was capped at 173bps (net NPLs were contained at 0.4%). Amidst macro issues, we expect gross NPAs to move up, but only to remain sub 2.5% by FY12E.

### Outlook and valuations: Positive; maintain 'BUY'

Even as traction in disbursements sustains amid a decline in margins, we believe asset quality will continue to provide succour. We like SCUF for its presence in high-yielding, high-growth business and a superior RoA of ~3.4%. The stock is trading at 6.8x FY13E earnings for 26% CAGR in EPS over FY11-13E and at 1.5x FY13E adjusted book for sustainable RoE of 20% plus. We maintain 'BUY/Sector Outperformer' recommendation/rating on the stock.

#### Financials

Year to March	Q2FY12	Q2FY11	Growth (%)	Q1FY12	Growth (%)	FY11	FY12E
Net oper. Inc. (INR mn)	2,399	1,645	45.8	2,045	17.3	7,233	9,601
PAT (INR mn)	811	556	45.8	829	(2.2)	2,406	3,240
BV per share (INR)						244.8	299.0
Diluted EPS (INR)	16.1	11.1	45.8	16.3	(1.3)	48.8	65.8
Price/ Book (x)						2.1	1.7
Diluted P/E (x)						10.7	8.0

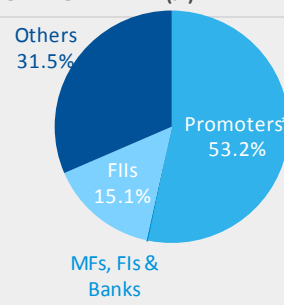
#### EDELWEISS 4D RATINGS

<b>Absolute Rating</b>	<b>BUY</b>
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Equalweight

#### MARKET DATA (R: SHCU.BO, B: SCUF IN)

CMP	: INR 523
Target Price	: INR 650
52-week range (INR)	: 710 / 486
Share in issue (mn)	: 49.8
M cap (INR bn/USD mn)	: 26 / 528
Avg. Daily Vol.BSE/NSE('000)	: 3.5

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : NIL  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW BFSI Index
1 month	(4.4)	8.4	3.4
3 months	(10.1)	(2.3)	(8.1)
12 months	(25.0)	(10.5)	(18.0)

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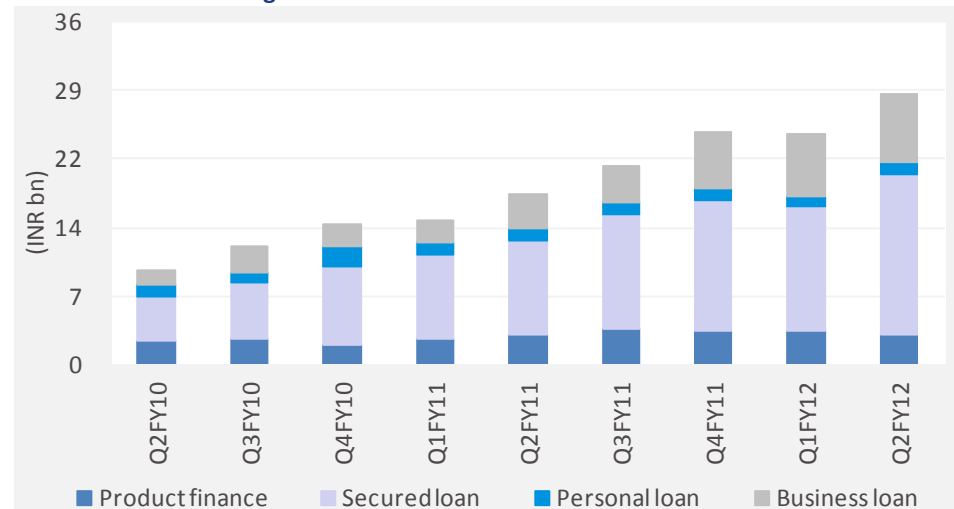
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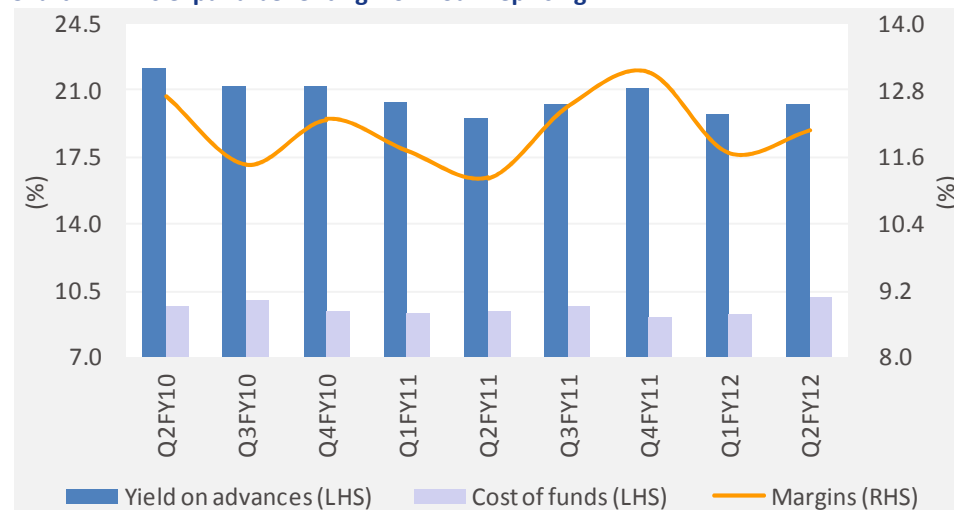
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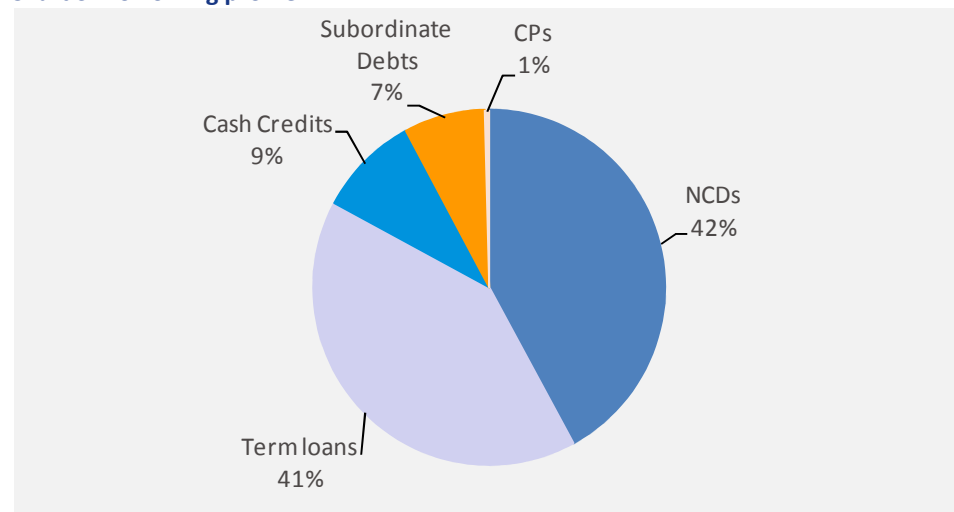
**Chart 1: Disbursement growth momentum sustained**



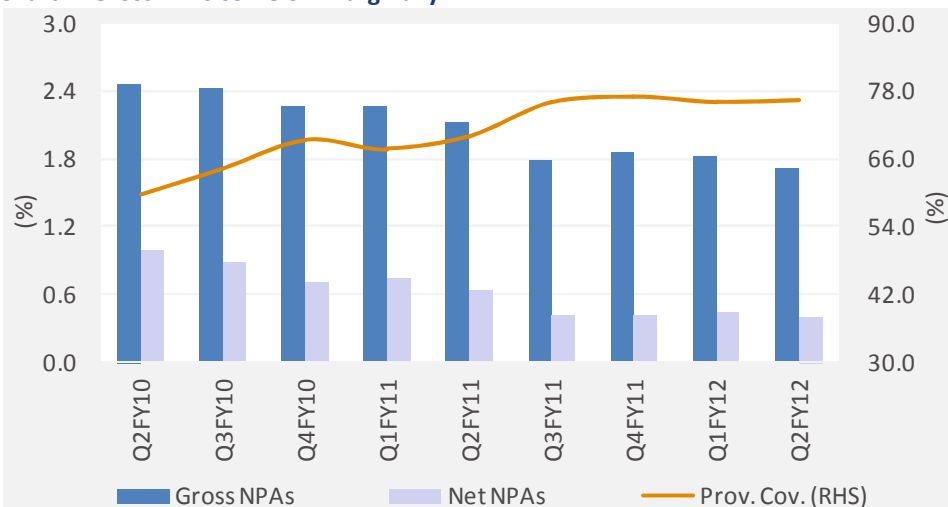
**Chart 2: NIMs expand benefiting from loan repricing**



**Chart 3: Borrowing profile**



Source: Company

**Chart 4: Gross NPLs come off marginally**


Source: Company

**Financials snapshot**

(INR mn)

Year to March	Q2FY12	Q2FY11	Growth (%)	Q1FY12	Growth (%)	FY11	FY12E	FY13E
Operating income	4,764	2,954	61.3	4,151	14.8	13,118	18,195	22,173
Interest expanded	(2,365)	(1,309)	80.7	(2,106)	12.3	(5,885)	(8,594)	(10,911)
Net operating income	2,399	1,645	45.8	2,045	17.3	7,233	9,601	11,262
Other income	25	1	1,671.4	131	NA	191	207	225
Total income	2,424	1,647	47.2	2,176	11.4	7,425	9,809	11,487
Operating expenses	(826)	(563)	46.7	(610)	35.4	(2,584)	(3,161)	(3,589)
Pre-provision profit	1,599	1,084	47.5	1,566	2.0	4,841	6,647	7,897
Provisions and write off	(346)	(235)	47.1	(337)	2.6	(1,160)	(1,693)	(2,096)
Operating profit	1,253	849	47.6	1,229	1.9	3,681	4,954	5,801
Depreciation	(27)	(17)	63.3	(26)	3.0	(75)	(83)	(90)
Profit before tax	1,226	832	47.3	1,203	1.9	3,606	4,871	5,711
Tax	(415)	(276)	50.3	(374)	10.8	(1,200)	(1,632)	(1,902)
Profit after tax	811	556	45.8	829	(2.2)	2,406	3,240	3,809
Diluted EPS (INR)	16.1	11.1	45.8	16.3	(1.3)	48.8	65.8	77.3
<b>Ratios (%)</b>								
Cost/income	34.1	34.2		28.0		34.8	32.2	31.2
Tax rate	33.9	33.2		31.1		33.3	33.5	33.3

### Company Description

SCUF was incorporated in 1986 as a deposit accepting NBFC. Prior to 2002, it was exclusively engaged in transport finance with special emphasis on financing pre-owned commercial vehicles to small road transport operators. In 2002, it extended its product lines to include small-ticket retail financing, viz., consumer durables, two wheelers, personal, and enterprise loans. It deliberately went slow on disbursements in the CV segment, which has become a key area of its group company Shriram Transport Finance. The company's operations are largely concentrated in the southern states of Andhra Pradesh, Tamil Nadu, and Karnataka and the western region (particularly Maharashtra).

SCUF offers only small-ticket retail products (ranging from INR 25,000-250,000) with shorter tenures (12-30 months), which generate yields in excess of 20%. It leverages the large investor base (1.2 mn investors) of the Shriram Group's chit fund entities to continuously build its asset book and utilises 600 chit fund outlets for marketing its products and collecting loans. The company has been successful in keeping its default rates at lower levels by better assessment of its customers and effective collection of its loans and has maintained best in class NIMs at 10-11%.

### Investment Theme

SCUF follows a unique and sound business model with presence in the high-yielding, high-growth, small-ticket retail finance segment (consumer durable finance, auto loans, personal loans, business finance, and retail gold loans), and superior sustainable RoEs of 20% plus. The concept of chit fund-based lending is gradually losing its sheen and SCUF aims to fill this space by lending to these customers, thereby retaining decades old relationships.

### Key Risks

SCUF operates in the small-ticket retail finance segment in semi-urban and rural areas and may face stiff competition from banks, other financial institutions, and multinational players, which have access to cheap funds. Our earnings estimates may not fructify if the company is unable to maintain its spreads at expected levels of 10-12% due to inability to maintain yields at 22-24%, amidst stiff competition. Risk of frauds and NPA accretion is inherent to the retail lending business and NPA provisioning could be higher than our estimates in case of any economic slowdown or dip in income levels.

## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Income from operations	9,221	10,692	13,118	18,195	22,173
Interest charges	4,307	4,668	5,885	8,594	10,911
Operating income (net of interest expenses)	4,914	6,024	7,233	9,601	11,262
Other income	129	335	191	207	225
Net revenues	5,043	6,359	7,425	9,809	11,487
Operating expense	2,465	2,332	2,659	3,244	3,680
- Employee exp	358	361	437	633	759
- Depreciation /amortisation	221	47	75	83	90
- Other opex	1,886	1,924	2,147	2,528	2,830
Preprovision profit	2,578	4,028	4,766	6,564	7,807
Provisions	781	1,166	1,160	1,693	2,096
PBT	1,797	2,862	3,606	4,871	5,711
Taxes	627	920	1,200	1,632	1,902
PAT	1,170	1,942	2,406	3,240	3,809
Reported PAT	1,170	1,942	2,406	3,240	3,809
Basic number of shares (mn)	45.1	49.2	49.5	49.5	49.5
Basic EPS (INR)	25.8	39.4	48.4	65.2	76.7
Diluted number of shares (mn)	51.8	49.2	49.2	49.2	49.2
Diluted EPS (INR)	22.4	39.4	48.8	65.8	77.3
DPS (INR)	4.1	4.0	6.0	7.0	8.0
Payout ratio (%)	18.9	11.9	14.5	12.6	12.2

### Growth ratios (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating income growth	37.3	22.6	20.1	32.7	17.3
Net revenues growth	35.0	26.1	16.8	32.1	17.1
Opex growth	26.5	(5.4)	14.0	22.0	13.4
PPP growth	44.3	56.2	18.3	37.7	18.9
PAT growth	33.5	66.0	23.9	34.6	17.6

### Operating ratios (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Yield on assets	22.0	20.1	18.6	19.8	19.8
Cost of funds	11.8	10.4	9.8	10.9	11.4
Spread	10.2	9.7	8.8	8.9	8.4
Net interest margins	11.7	11.3	10.2	10.4	10.0
Cost-income	48.9	36.7	35.8	33.1	32.0
Tax rate	34.9	32.1	33.3	33.5	33.3

Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>					
Equity capital	491	492	495	495	495
Reserves	6,606	9,508	11,632	14,318	17,656
<b>Net worth</b>	<b>7,097</b>	<b>10,000</b>	<b>12,127</b>	<b>14,814</b>	<b>18,152</b>
Preference capital	0	0	0	0	0
Subordinate debt	4,172	5,300	5,330	5,830	6,330
Secured loans	39,045	41,286	65,696	76,690	98,665
Unsecured loans	11	10	2,253	2,215	2,170
Deferred tax liability	(31)	(15)	(158)	29	281
<b>Total liabilities</b>	<b>50,294</b>	<b>56,581</b>	<b>85,247</b>	<b>99,578</b>	<b>125,597</b>
<b>Assets</b>					
Loans	37,540	47,310	69,890	97,686	125,483
Investments	61	66	55	66	66
<b>Current assets</b>	<b>16,412</b>	<b>14,055</b>	<b>23,729</b>	<b>9,873</b>	<b>11,203</b>
<b>Current liabilities</b>	<b>4,091</b>	<b>5,191</b>	<b>8,721</b>	<b>8,383</b>	<b>11,530</b>
Net current assets	12,321	8,864	15,008	1,490	(327)
Fixed assets (net block)	372	341	294	336	375
<b>Total assets</b>	<b>50,294</b>	<b>56,581</b>	<b>85,247</b>	<b>99,578</b>	<b>125,597</b>
<b>Balance sheet ratios (%)</b>					
Loan growth	36.6	26.0	47.7	39.8	28.5
EA growth	46.6	12.7	51.1	16.8	26.2
Gross NPA ratio	2.1	2.5	1.9	2.1	2.4
Net NPA ratio	1.0	0.9	0.4	0.5	0.6
Provision coverage	53.9	65.0	77.2	77.0	75.0

RoE decomposition (%)					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating income (net of int exp)/Assets	11.7	11.3	10.2	10.4	10.0
Other income/Assets	0.3	0.6	0.3	0.2	0.2
Net revenues/Assets	12.0	12.0	10.5	10.7	10.2
Operating expense/Assets	(5.9)	(4.4)	(3.8)	(3.5)	(3.3)
Provisions/Assets	(1.9)	(2.2)	(1.6)	(1.8)	(1.9)
Taxes/Assets	(1.5)	(1.7)	(1.7)	(1.8)	(1.7)
Total costs/Assets	(9.2)	(8.3)	(7.1)	(7.1)	(6.8)
ROA	2.8	3.7	3.4	3.5	3.4
Equity/Assets	13.5	16.1	15.7	14.6	14.7
ROAE	20.6	22.7	21.7	24.0	23.1

Valuation metrics (%)					
Year to March	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (INR)	22.4	39.4	48.8	65.8	77.3
<b>EPS growth (%)</b>	<b>3.2</b>	<b>75.4</b>	<b>24.0</b>	<b>34.7</b>	<b>17.6</b>
Book value per share (INR)	154.8	203.5	244.8	299.0	366.4
Adjusted book value per share (INR)	149.3	197.6	240.6	292.4	356.0
Diluted P/E (x)	23.3	13.3	10.7	8.0	6.8
Price/ BV (x)	3.4	2.6	2.1	1.7	1.4
Price/ Adj. BV (x)	3.5	2.6	2.2	1.8	1.5
Dividend yield (%)	0.8	0.8	1.1	1.3	1.5



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	REDUCE	SO	H	Axis Bank	BUY	SO	M
Bank of Baroda	HOLD	SO	L	Federal Bank	BUY	SO	M
HDFC	HOLD	SU	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	H
Infrastructure Development Finance Co	HOLD	SU	M	ING Vysya	HOLD	SP	H
Karnataka Bank	BUY	SO	L	Kotak Mahindra Bank	REDUCE	SP	L
LIC Housing Finance	HOLD	SP	M	Manappuram General Finance	HOLD	SU	M
Oriental Bank Of Commerce	REDUCE	SU	H	Power Finance Corp	BUY	SO	L
Punjab National Bank	REDUCE	SU	L	Reliance Capital	BUY	SP	M
Rural Electrification Corporation	BUY	SO	L	Shriram City Union Finance	BUY	SO	H
South Indian Bank	HOLD	SP	H	State Bank of India	HOLD	SP	L
Union Bank Of India	HOLD	SO	L	Yes Bank	BUY	SO	M
Mahindra & Mahindra Financial Services	HOLD	SP	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Ideas create, values protect



# USHA MARTIN

## Operationally disappointing

India Equity Research | Metals and Mining

Usha Martin's (UML) Q2FY12 consolidated EBITDA was ~20% below our estimate due to lower volumes and realizations, though total operational costs were in line. Forex loss of INR 1.2 bn was also higher than expected. We are marginally revising down consolidated EBITDA by ~3% for both FY12E and FY13E and reducing our TP from INR 50 to INR 42. We maintain 'HOLD'.

### Standalone operations affected by lower volumes and realisations

UML reported standalone EBITDA of INR 1.2 bn, below our INR 1.5 bn expectation, largely led by disappointment on the top line. Total volumes at ~115 kt and blended realization at INR 59.6k/t were below our estimates by ~7% and ~4%, respectively.

### International operations also fail to deliver on expectations

Net revenue from international operations declined ~10% Q-o-Q to INR 1.42 bn, below our expectation of INR 1.58 bn. EBITDA at INR 249 mn was also lower than our expectation of INR 322 mn. Going forward, UML's operations are likely to be adversely affected by the floods in Thailand. The Thailand subsidiary had production of 35-40 kt in FY11 with PBT of INR 200 mn. The plant is shut currently.

### Forex loss dents profit further; gross debt rises by INR 9.7 bn

Due to sharp depreciation of the INR against USD, INR 1,203 mn was booked as notional loss on forex loans/liabilities aggregating to USD 277 mn. Consolidated gross debt (excl. capex LCs) has risen by INR 9.7 bn from March 2011 due to forex loss of INR 1.2 bn, capex of INR 2.6 bn, increase in net working capital and cash of INR 2.5 bn and INR 3.4 bn, respectively.

### Outlook and valuations: Execution risk; maintain 'HOLD'

We are revising down consolidated volumes by ~10% and ~6% and consolidated EBITDA by ~3% and ~3.5% for FY12E and FY13E, respectively. Led by lower estimates, our target price reduces from INR 50 to INR 42. We maintain 'HOLD' recommendation with a 'Sector Performer' rating on the stock.

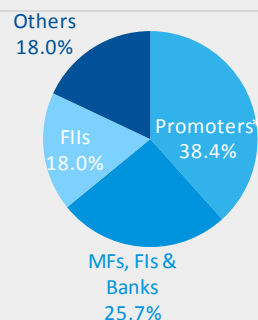
#### EDELWEISS 4D RATINGS

<b>Absolute Rating</b>	<b>HOLD</b>
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: USBL.BO, B: USM IN)

CMP	: INR 32
Target Price	: INR 42
52-week range (INR)	: 90 / 30
Share in issue (mn)	: 304.7
M cap (INR bn/USD mn)	: 10 / 197
Avg. Daily Vol.BSE/NSE('000)	: 379.5

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : 1.7  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(3.2)	8.4	1.5
3 months	(29.5)	(2.3)	(13.7)
12 months	(61.9)	(10.5)	(13.6)

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November 1, 2011

#### Financials (Consolidated)

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	FY11	FY12E
Revenues (INR mn)	8,288	7,702	7.6	7,663	8.1	30,466	32,125
EBITDA (INR mn)	1,454	1,589	(8.5)	1,446	0.6	5,623	6,006
Net profit (INR mn)	(627)	459	(236.5)	458	(237.0)	1,370	1,079
Diluted EPS (INR)	(2.1)	1.5	(236.5)	1.5	(237.0)	4.5	3.5
Diluted P/E (x)						7.1	9.1
EV/EBITDA (x)						4.6	5.3
ROAE (%)						7.9	5.9

### **Standalone performance: Volumes and realisations disappoint; forex loss adds further blow**

- UML's standalone sales volume increased ~16% Q-o-Q from ~99 kt to ~115 kt, but was lower than our assumption of ~124 kt. We believe the subdued market and the company's conservative sales policy affected volumes.
- Blended realizations at INR 59.6 k/t were down 3% Q-o-Q despite 1.5% increase in prices of longs, which is the primary segment UML operates in (our assumption was also a 1.5% increase in realisations).
- EBITDA at INR 1.2 bn (up 7% Q-o-Q and down 8% Y-o-Y) was ~20% below our estimate of INR 1.5 bn, largely led by disappointment in the top line. Overall, operational costs were in line with estimates. However, raw material costs increased by 25% Q-o-Q on account of bought out metallics, higher coking coal cost, and lower availability of captive minerals due to monsoon disruption. Also, there has been constant build up of inventory over the past four quarters. From our previous management interaction we understand that there is ~1.8 mt of iron ore inventory which the company is looking to dispose of once it gets approval for the same.
- Forex loss: Due to the sharp depreciation of the INR against USD, INR 1,203 mn was booked as notional loss on forex loans/liabilities aggregating to USD 277 mn. We had estimated forex loans/liabilities lower at USD 220 mn on which some amount of hedging would have partially offset the impact. Hence, the extent of forex loss was also a negative.
- Monsoon hindered both coal as well as iron ore production during the quarter. While coal production was down ~75% Q-o-Q to 24kt, iron ore production at 266 kt was down ~30% Q-o-Q (Q1FY12: 374kt). Production was also down ~40% and 23% on Y-o-Y for coal and iron ore, respectively.
- EBITDA/t in Q2FY12 stood at USD 229/t (down ~10% Q-o-Q) due to lower realizations and raw material cost escalation.

### **Consolidated performance: International business also below estimates**

- Consolidated revenues increased ~8% Q-o-Q to INR 8.3 bn (our estimate: INR 9.3 bn), blended realisation in the consolidated entity decreased 5% Q-o-Q while raw material costs increased ~36% Q-o-Q. As a result, consolidated EBITDA/t declined Q-o-Q by ~14% to USD 249.
- Net revenue from USM's international subsidiaries declined ~10% Q-o-Q to INR 1.42 bn, below our expectation of INR 1.58 bn. EBITDA at INR 249 mn was also lower than our expectation of INR 322 mn.
- Going forward, the company's operations are likely to be adversely affected by the floods in Thailand. UML's Thailand subsidiary had production of 35-40 kt in FY11 with PBT of INR 200 mn. The plant has been shut currently and will be opened shortly.

### **Balance sheet : Gross debt increases by ~INR 9.7 bn from March 2011**

- Consolidated gross debt increased by ~INR 9.7 bn from March 2011, excluding any change in capex LCs. Of this, INR 1.2 bn was on account of forex translation loss and balance was towards funding of capex of INR 2.6 bn and increase in net working capital and cash of INR 2.5 bn and INR 3.4bn, respectively

- We understand that the consolidated net debt (including capex LCs) has surged from INR 20 bn as on March 31, 2011, to INR 25.2 bn as on September 30, 2011.

**Table 1: Billet production up ~8% Q-o-Q, sales volume up ~16% Q-o-Q**

Production (MT)	Q2FY12	Q2FY11	% change	Q1FY12	% change
Sponge Iron	40,981	52,522	(22.0)	51,543	(20.5)
Hot Metal	91,414	79,747	14.6	95,257	(4.0)
Billets	124,105	129,265	(4.0)	115,214	7.7
Blooms	36,026	25,217	NA	27,013	33.4
Wire Rod & Bars	84,156	95,406	(11.8)	83,171	1.2
Wire Ropes	18,959	17,253	9.9	24,946	(24.0)
Wire & Strand	27,310	29,084	(6.1)	30,672	(11.0)
Bright Bar	3,667	5,253	(30.2)	4,773	(23.2)
<b>Subsidiaries</b>					
Wire Ropes	8,393	7,878	6.5	7,770	8.0
Wire & Strand	4,475	4,142	8.0	4,757	(5.9)
<b>Standalone sales (MT)</b>					
Wire rod, bar & blooms	67,670	76,930	(12.0)	57,396	17.9
Wire ropes	19,200	16,317	17.7	16,428	16.9
Wire & strand	24,640	25,525	(3.5)	20,870	18.1
Bright bar	3,764	4,570	(17.6)	4,426	(15.0)
Total saleable volume	115,274	123,342	(6.5)	99,120	16.3
<b>Consolidated sales (MT)</b>	<b>127,818</b>	<b>110,938</b>	<b>15.2</b>	<b>111,907</b>	<b>14.2</b>
<b>EBITDA/t (USD)</b>					
Standalone	229	227	0.8	253	(9.8)
Consolidated	249	252	(1.3)	289	(13.8)

Source: Company, Edelweiss research

**Table 2: Lower realization and high RM cost drive EBITDA/t down to USD 229**

Net realisations (INR/t)	Q2FY12	Q1FY12	% change
Steel products	45,000	45,600	(1.3)
Wire Ropes	95,100	91,950	3.4
Wire & Strand	49,650	51,950	(4.4)
Bright Bar	61,100	60,550	0.9
Blended realisations (standalone)	59,569	61,407	(3.0)
Blended realisations (consolidated)	64,839	68,480	(5.3)

Source: Company, Edelweiss research

### Revision in estimates and target price

Considering the continuing disappointment in volumes, we are revising down our FY12E and FY13E consolidated sales volume by 10.4% and 6.4%, respectively; the cut in EBITDA is lower at 3.3% and 3.6%, respectively, due to tweaking of our realization and cost assumptions. Our target price reduces from INR 50/share to INR 42/share. We consider 50% discount to the company's estimated CWIP as on March 31,2012.

**Table 3: Revising FY12 and FY13 EBITDA by ~3.3% and 3.6% respectively**

Volumes	FY12E			FY13E		
	New	Old	% change	New	Old	% change
Billet/bloom production (MT)	470,000	520,000	(9.6)	550,000	600,000	(8.3)
Consolidated sales volume (MT)	530,484	591,814	(10.4)	642,898	687,172	(6.4)
<b>Consolidated financials</b>						
Revenue (INR mn)	32,125	32,846	(2.2)	35,428	36,406	(2.7)
EBITDA (INR mn)	6,006	6,208	(3.3)	7,124	7,388	(3.6)
PAT (INR mn)	1,079	1,147	(5.9)	1,672	1,769	(5.5)
EPS ( INR)	3.5	3.8	(5.9)	5.5	5.8	(5.5)

Source: Edelweiss research

**Table 4: Target price of INR 42/share**

	FY13
Applicable multiple (x)	5.00
Consolidated EBITDA (INR mn)	7,124
Enterprise value (INR mn)	35,619
Less:Net debt (INR mn)	25,889
Add: Adjusted CWIP (INR mn)	3,383
Less:Minority interest (INR mn)	188
Market cap (INR mn)	12,926
No. of shares (mn)	305
<b>Fair value per share (INR)</b>	<b>42</b>
<b>Current market share (INR)</b>	<b>32</b>
Upside (%)	32.3

Source: Edelweiss research

## Financials snapshot (standalone)

(INR mn)

Year to March	Q212	Q211	% change	Q112	% change	FY11	FY12E	FY13E
Total net revenues	6,867	6,444	6.6	6,087	12.8	25,342	26,281	29,139
(Inc)/Decr in stock in trade	(619)	235	NA	(781)	NA	(1,357)	0	0
Raw materials	3,316	2,384	39.1	2,653	25.0	10,682	11,493	13,293
Purchase of general merchandise	9	6	60.3	9	2.2	38	20	20
Power and fuel	982	818	20.1	871	12.7	3,243	3,010	2,992
Consumption of stores and spares	508	493	3.0	480	5.8	1,934	1,740	1,740
Staff costs	377	370	1.9	361	4.5	1,389	1,325	1,417
Other expenses	1,089	836	30.3	1,370	(20.5)	4,651	3,558	3,489
Total expenditure	5,662	5,141	10.1	4,963	14.1	20,580	21,146	22,952
EBITDA	1,205	1,303	(7.6)	1,123	7.2	4,762	5,135	6,187
Interest	582	429	35.5	526	10.7	1,742	2,295	2,311
Depreciation	480	401	19.6	490	(2.1)	1,765	2,007	2,119
Other income	27	27	0.7	6	NA	198	273	273
PBT	170	500	(66.0)	114	48.8	1,453	1,105	2,030
Tax	(315)	175	NA	38	NA	458	354	650
Extraordinary items	(1,203)	0	NA	0	NA	0	0	0
Reported net profit	(718)	325	NA	76	NA	995	752	1,380
Equity capital (FV INR 1)	305	305		305		305	305	305
No. of shares (mn)	305	305		305		305	305	305
Basic EPS (INR)	(2.4)	1.1	NA	0.3	NA	3.3	2.5	4.5

## as % of net revenues

Raw materials	39.3	40.6		30.8		36.8	43.7	45.6
Purchase of general merchandise	0.1	0.1		0.1		0.1	0.1	0.1
Power and fuel	14.3	12.7		14.3		12.8	11.5	10.3
Consumption of stores and spares	7.4	7.6		7.9		7.6	6.6	6.0
Staff costs	5.5	5.7		5.9		5.5	5.0	4.9
Other expenses	15.9	13.0		22.5		18.4	13.5	12.0
EBITDA	17.5	20.2		18.5		18.8	19.5	21.2
Reported net profit	(10.5)	5.0		1.3		3.9	2.9	4.7
Tax rate	NA	34.9		33.2		31.5	32.0	32.0

## Financials snapshot (consolidated)

(INR mn)

Year to March	Q2FY12	Q2FY11	% change	Q1FY12	% change	FY11	FY12E	FY13E
Total net revenues	8,288	7,702	7.6	7,663	8.1	30,466	32,125	35,428
(Inc)/Decr in stock in trade	(1,163)	199	NA	(689)	NA	(1,521)	0	0
Raw materials	4,540	2,951	53.8	3,332	36.2	13,306	13,171	14,171
Purchase of general merchandise	10	6	62.7	10	0.0	39	32	35
Power and fuel	1,036	866	19.5	919	12.7	3,436	3,102	3,421
Consumption of stores and spares	534	521	2.6	509	5.0	0	0	0
Staff costs	605	578	4.8	572	5.7	2,027	2,249	2,303
Other expenses	1,273	993	28.1	1,565	(18.7)	7,556	7,565	8,374
Total expenditure	6,834	6,113	11.8	6,218	9.9	24,842	26,119	28,304
EBITDA	1,454	1,589	(8.5)	1,446	0.6	5,623	6,006	7,124
Interest	605	449	34.7	546	10.8	1,823	2,424	2,441
Depreciation	540	462	16.9	549	(1.6)	2,010	2,230	2,347
Other income	11	6	92.7	15	(27.9)	206	104	82
PBT	320	683	(53.2)	567	(43.5)	2,041	1,456	2,418
Tax	(260)	216	NA	100	NA	640	364	725
Adjusted net profit	580	468	24.0	466	24.3	1,400	1,092	1,692
Extraordinary items	(1,199)	0	NA	0	NA			
Minority interest	(8)	(8)	(7.1)	(9)	(10.3)	(30)	(13)	(20)
Reported net profit	(627)	459	NA	458	NA	1,370	1,079	1,672
Equity capital (FV INR 1)	305	305		305		305	305	305
No. of shares (mn)	305	305		305		305	305	305
Basic EPS (INR)	(2.1)	1.5	NA	1.5	NA	4.5	3.5	5.5

## as % of net revenues

Raw materials	40.7	40.9		34.5		38.7	41.0	40.0
Purchase of general merchandise	0.1	0.1		0.1		0.1	0.1	0.1
Power and fuel	12.5	11.2		12.0		11.3	9.7	9.7
Consumption of stores and spares	6.4	6.8		6.6		0.0	0.0	0.0
Staff costs	7.3	7.5		7.5		6.7	7.0	6.5
Other expenses	15.4	12.9		20.4		24.8	23.5	23.6
EBITDA	17.5	20.6		18.9		18.5	18.7	20.1
Reported net profit	(7.6)	6.0		6.0		4.5	3.4	4.7
Tax rate	NA	31.6		17.7		31.4	25.0	30.0

## Company Description

UML is India's largest and the world's second-largest manufacturer of steel wire ropes. It is engaged in the manufacture of steel wire rods, wires, wire ropes, and other related products with a steel capacity of 0.9 mt. It is a global company with a presence, through either manufacturing or sales and marketing, in over 13 countries. In India, its manufacturing facilities are located near Ranchi and Jamshedpur in Jharkhand and Hoshiarpur in Punjab. The company has various overseas subsidiaries, with manufacturing facilities located at Bangkok (Thailand), Dubai (UAE), and Worksop (UK).

It set up a wire rope manufacturing plant in the US through its subsidiary Brunton Shaw Americas. UML also has a wide marketing and distribution network in India, Singapore, USA, Scandinavia, the UK, Dubai, and South Africa.

## Investment Theme

UML enjoys 70% market share in the global wire ropes industry catering to high-end oil offshore services. It has a wide product portfolio and operates across all levels of the value chain and manufactures sponge iron, pig iron, billets, rolled products, wire rods and bars, wires, strands, and wire ropes. It has a significant presence in value-added products such as conveyor cords, specialty steel, and bright bars. UML is the sole company in the world to manufacture wire ropes from the mineral stage. The company is 100% captive for its iron ore requirement. The capacity expansion plan completed by the company will lead to volume growth (capacity increase from 0.4 mt to 0.9 mt) and further enrich the product mix. Increased metallurgical capacity (DRI capacity of 0.2 mt) and captive coal mining will reduce costs.

## Key Risks

- Delay in ramp up/completion of expansion projects.
- Lower than expected volume growth.
- Disruption in captive power, iron ore and thermal coal supply.
- Lower than expected realizations.



## Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net revenue	29,498	25,144	30,466	32,125	35,428
Accretion to stock	(366)	(853)	(1,521)	0	0
Raw material costs	14,177	11,582	13,306	13,171	14,171
Purchase of goods	36	60	39	32	35
Employee expenses	1,710	1,781	2,027	2,249	2,303
Power and freight	1,806	2,272	3,436	3,102	3,421
SGA and other expenses	7,168	5,808	7,556	7,565	8,374
Total operating expenses	24,532	20,650	24,842	26,119	28,304
EBITDA	4,966	4,494	5,623	6,006	7,124
Depreciation and amortisation	1,086	1,295	2,010	2,230	2,347
EBIT	3,880	3,199	3,614	3,777	4,776
Interest expenses	1,422	1,255	1,823	2,424	2,441
Other income	176	255	206	104	82
VRS & other expenses	171	201	44	0	0
Profit before tax	2,806	2,400	2,041	1,456	2,418
Provision for tax	922	685	640	364	725
Core profit	1,884	1,715	1,400	1,092	1,692
Profit after tax	1,884	1,715	1,400	1,092	1,692
Minority interest	30	29	30	13	20
Profit after minority interest	1,853	1,686	1,370	1,079	1,672
Basic shares outstanding (mn)	250	305	305	305	305
Basic EPS	7.4	5.5	4.5	3.5	5.5
Diluted shares (mn)	305	305	305	305	305
Diluted EPS	6.1	5.5	4.5	3.5	5.5
Dividend per share (INR)	1.0	1.0	1.0	1.0	1.0
Dividend payout (%)	15.8	21.1	25.8	33.1	21.4
Tax rate (%)	32.9	28.5	31.4	25.0	30.0

### Common size metrics- as % of net revenues

Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating expenses	83.2	82.1	81.5	81.3	79.9
Depreciation	3.7	5.1	6.6	6.9	6.6
Interest expenditure	4.8	5.0	6.0	7.5	6.9
EBITDA margins	16.8	17.9	18.5	18.7	20.1
Net profit margins	6.4	6.8	4.6	3.4	4.8

### Growth metrics (%)

Year to March	FY09	FY10	FY11	FY12E	FY13E
Revenues	27.8	(14.8)	21.2	5.4	10.3
EBITDA	20.4	(9.5)	25.1	6.8	18.6
PBT	13.7	(14.5)	(15.0)	(28.7)	66.1
Net profit	6.7	(8.9)	(18.4)	(22.0)	55.0
EPS	5.7	(9.0)	(18.7)	(21.3)	55.0

Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11	FY12E	FY13E
Equity capital- Voting shares	251	305	305	305	305
Reserves & surplus	11,111	16,570	17,538	18,259	19,574
Shareholders funds	11,362	16,875	17,843	18,565	19,880
Secured loans	16,447	9,673	17,219	24,422	28,429
Unsecured loans	266	285	304	304	304
Minority interest	168	162	175	188	208
Deferred tax liability	1,306	1,784	2,237	2,157	2,141
<b>Sources of funds</b>	<b>29,548</b>	<b>28,779</b>	<b>37,778</b>	<b>45,636</b>	<b>50,962</b>
Gross block	24,377	37,040	43,947	47,087	48,926
Depreciation	10,249	11,358	13,440	15,670	18,017
Net block	14,129	25,682	30,507	31,418	30,909
CWIP	12,104	6,095	3,886	6,766	9,075
Total fixed assets	26,232	31,777	34,393	38,184	39,983
Investments	4	4	4	4	4
Loans and advances	2,831	2,716	2,695	3,634	4,008
Inventories	6,513	8,878	11,938	13,080	14,247
Sundry debtors	4,264	3,098	4,437	5,721	6,309
Cash and equivalents	1,088	476	1,478	2,475	7,004
Other current assets	286	361	400	400	400
Total current assets	14,982	15,529	20,948	25,310	31,968
Sundry creditors and others	11,217	18,099	17,109	17,338	20,422
Provisions	460	431	458	523	570
Total CL & provisions	11,677	18,530	17,567	17,861	20,992
Net current assets	3,305	(3,001)	3,381	7,448	10,975
Miscellaneous expenditure	7	0	0	0	0
<b>Uses of funds</b>	<b>29,548</b>	<b>28,779</b>	<b>37,778</b>	<b>45,636</b>	<b>50,962</b>
Book value per share (BV) (INR)	45	55.3	58.4	60.8	65.1

Free cash flow metrics					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Net profit	1,853	1,686	1,370	1,079	1,672
Depreciation	1,086	1,295	2,010	2,230	2,347
Deferred tax	1,151	685	188	444	741
Others	1,264	35	1,532	1,914	1,704
Gross cash flow	5,355	3,701	5,100	5,666	6,464
Less: Changes in W. C.	(2,799)	(3,835)	1,625	3,070	(1,002)
Operating cash flow	8,154	7,537	3,475	2,595	7,466
Less: Capex	10,669	4,846	7,895	6,020	4,147
<b>Free cash flow</b>	<b>(2,515)</b>	<b>2,691</b>	<b>(4,421)</b>	<b>(3,425)</b>	<b>3,319</b>

Cash flow statement					(INR mn)
Year to March	FY09	FY10	FY11	FY12E	FY13E
Operating cash flow	8,154	7,537	3,475	2,595	7,466
Financing cash flow	2,793	(3,435)	5,387	4,422	1,209
Investing cash flow	(10,580)	(4,718)	(7,867)	(6,020)	(4,147)
Net cash flow	367	(616)	995	997	4,528
Capex	(10,669)	(4,846)	(7,895)	(6,020)	(4,147)
Dividends paid	(304)	(310)	(369)	(357)	(357)
Share issuance/(buyback)	0	4,577	0	0	0

## Ratios

Year to March	FY09	FY10	FY11	FY12E	FY13E
ROAE (%)	17.6	11.9	7.9	5.9	8.7
ROACE (%)	14.9	11.0	10.9	9.1	9.9
Inventory (days)	189	260	321	346	351
Debtors (days)	46	53	45	58	62
Payable (days)	284	496	543	476	485
Cash conversion cycle (days)	(49)	(182)	(177)	(73)	(72)
Debt/EBITDA	3.4	2.2	3.1	4.1	4.0
Current ratio	1.3	0.8	1.2	1.4	1.5
Debt/ Equity	1.5	0.6	1.0	1.3	1.4
Adjusted debt/Equity	1.5	0.6	1.0	1.3	1.4

## Turnover

Year to March	FY09	FY10	FY11	FY12E	FY13E
Fixed assets t/o (x)	2.2	1.3	1.1	1.0	1.1
Total asset turnover (x)	1.1	0.9	0.9	0.8	0.7
Equity turnover (x)	2.8	1.8	1.8	1.8	1.8

## Du pont analysis

Year to March	FY09	FY10	FY11	FY12E	FY13E
NP margin (%)	6.3	6.7	4.5	3.4	4.7
Total assets turnover	1.1	0.9	0.9	0.8	0.7
Leverage multiplier	2.5	2.1	1.9	2.3	2.5
ROAE (%)	17.6	11.9	7.9	5.9	8.7

## Valuation parameters

Year to March	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (INR)	6.1	5.5	4.5	3.5	5.5
Y-o-Y growth (%)	5.7	(9.0)	(18.7)	(21.3)	55.0
CEPS (INR)	16.3	12.0	11.7	12.3	15.6
Diluted P/E (x)	5.3	5.8	7.1	9.1	5.8
Price/BV(x)	0.7	0.6	0.5	0.5	0.5
Market cap/Sales (x)	0.3	0.4	0.3	0.3	0.3
EV/Sales (x)	0.8	0.8	0.9	1.0	0.9
EV/EBITDA (x)	4.8	4.3	4.6	5.4	4.5
Dividend yield (%)	3.1	3.1	3.1	3.1	3.1

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bhushan Steel	HOLD	SP	M	Coal India	BUY	SO	M
Hindalco Industries	BUY	SO	M	Hindustan Zinc	BUY	SO	L
Jindal Steel & Power	BUY	SO	M	JSW Steel	BUY	SO	M
National Aluminium Company	HOLD	SU	M	Sesa Goa	HOLD	SP	M
Steel Authority of India	HOLD	SU	L	Sterlite Industries (India)	BUY	SP	M
Tata Steel	BUY	SO	M	Usha Martin	HOLD	SP	M

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

# AUTOMOBILES

## Demand in lower gear

India Equity Research | Automobiles

**Demand growth moderated post the festive season across all segments and companies. Maruti Suzuki's performance, however, was hit mainly by labour woes. Tractor growth was an exception as it continued to post a strong performance. We reiterate our preference for two wheeler and tractor makers over car and truck makers. We recommend 'BUY' on Bajaj Auto (BAL) and Mahindra & Mahindra (M&M).**

### Cars: Growth dries up post festivities

Post the festival season sales, growth has declined for all car makers. Companies with strong diesel models or with new launches have outperformed the industry. Maruti Suzuki suffered from production losses due to the strike while its domestic sales declined by 52% Y-o-Y at 51,458 units. Booking beyond the festival season does not provide any encouraging signs either. (Refer table 4 & 6 for details).

### Two wheelers: High base starts to dent HMCL growth

Hero MotoCorp (HMCL) has reported monthly sales of 512k units (up 1% Y-o-Y, down 7% M-o-M). The growth moderated due to (1) high base in H2FY12 and (2) fewer production days in October though retail sales have been strong at 650,000 units. Yamaha continues to benefit from new launches and reported sales of 47,240 units (growth of 27% Y-o-Y and 9% M-o-M)

### Commercial vehicles: MHCV sales benefit from low base

Tata Motors (TTMT) MHCV sales at 16,822 units were up 23% Y-o-Y, primarily benefitting from last year's low base and strong tipper demand from the construction sector. On the LCV front, while TTMT sales growth moderated to 6% Y-o-Y (production disruption due to riots in Uttaranchal), M&M's LCV/pickup segment sales grew by 41% Y-o-Y, driven by successful new launches.

### Tractors: Strong trajectory continues

M&M registered sales of 31,838 units (up 31% Y-o-Y; 29% M-o-M) which in our view could be attributable to the festival season demand in North and Central India adding the zing to already firm demand in South and West India.

#### Sales performance

Units	Oct-11	Oct-10	% Change	YTDFY12	YTDFY11	% Change
Hero Honda	512,238	505,553	1.3	3,586,130	3,022,467	18.6
Mah. & Mah.	73,344	58,776	24.8	414,341	326,658	26.8
Maruti Suzuki	55,595	118,908	(53.2)	589,428	715,886	(17.7)
Tata Motors*	68,009	64,757	5.0	467,671	444,874	5.1

\*Excluding Fiat sales

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November 1, 2011

# EXTERNAL TRADE

## Deficit narrows on weak non-oil imports

India Equity Research | Economy

India's trade deficit narrowed to ~USD 9.8 bn in Sep as against ~USD 14.0 bn in Aug due to a fall in non-oil imports. The data clearly shows that ongoing domestic and external economic problems are hurting India's trade. Going forward, we expect the weakness in data to continue with exports slowing at a sharper pace than imports leading to widening of trade deficit.

**Table 1: India's merchandise trade**

(USD bn)	Sep-11	Aug-11	Sep-10	April-Sep	
				FY11	FY12
Imports	34.6	38.3	29.5	176.4	233.5
Oil imports	9.2	10.3	8.0	49.4	70.3
Non-oil imports	25.4	28.0	21.5	127.0	163.2
Exports	24.8	24.3	18.2	105.2	160.0
Trade balance	(9.8)	(14.0)	(11.3)	(71.1)	(73.5)

Source: Ministry of Commerce

### Global weakness starts to impact exports

Exports came in at ~USD 24.8 bn in Sep, not far from ~USD 24.3bn in Aug. Though broadly stable on a sequential basis this month, exports declined meaningfully from the start of the fiscal when the monthly exports were in range of ~ USD 27 –USD 28 bn. This could be the initial signs of an impending weakness in exports as global growth struggles. Presently, the US and Europe - which account for ~28% of merchandise exports - face threats of a recession while other emerging economies like China are also slowing down. Given the weak global growth outlook, exports are expected to be under pressure in the near future.

### Imports too moderate on domestic slowdown

The import bill for Sep came in at ~USD 34.6 bn compared to ~ USD 38.4 bn last month, mainly reflecting the fall in non-oil imports which came in at ~USD 25.4 bn (~USD 28.1 bn last month). This fall in non-oil imports could be on account of the on-going slowdown in the domestic economy. Meanwhile, oil imports also fell to ~USD 9.2 bn compared to ~USD 10.3 bn last month. Going forward, growth in non-oil imports is expected to be weak due to the slowdown in domestic economic activity.

### Trade deficit to widen on weakness in exports

Trade deficit came in at ~USD ~9.8 bn – close to its normal range of ~USD 9-10 bn and much lower than last month's ~USD 14 bn. The narrowing trade deficit is the result of a fall in non-oil imports. Going forward, we expect exports growth to slow down considerably from the current elevated levels given the ongoing economic weakness in the Western world, emerging moderation in the EM economies and also softening in commodity prices. On imports, we feel that non-oil imports may remain subdued but high oil prices and INR weakness may keep the overall import bill steady. Accordingly, we anticipate a higher level of trade deficit in the coming months.

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## MEDIA

### *Digitization gets a thumbs up*

India Equity Research | Media

The President of India Mrs. Pratibha Patil has approved the ordinance that seeks to fast-track the process of digitization of the cable and satellite broadcast industry. The President's approval on the ordinance, which was cleared by the Union Cabinet on October 13, 2011, had been pending. We expect a revision in target dates for implementation of digitization as they are a bit aggressive. The ordinance is expected to expedite the process of digitization in the top 4 metros by 2012 and pan-India by 2014.

#### Digitization to provide a level playing field

Digitization with addressability implies there should be a Set Top Box (STB) in every household. This will reduce broadcasters' dependence on ad revenues and they will look to target subscription revenues because of lower under-declaration. We believe it will provide a level playing field to all stakeholders in the industry—broadcasters, multi system operators (MSOs), local cable operators (LCOs), and subscribers.

#### Likely to weed out system inefficiencies

With digitization, capacity constraint will decline and there will be visibility on the paying potential of subscribers. LCOs are likely to get to share revenue pie from pay channels and broadband services. They can offer a wider variety of channels and improved quality of service. There will be enhanced transparency in the business, which will reduce litigations and the necessity of regulatory interventions. We also expect higher taxes for government and surge in stakeholder confidence in the sector.

#### DTH, cable companies, broadcasters gung-ho over digitization

Carriage costs are expected to decline substantially for broadcasters because of the higher bandwidth available on the digital platform. In fact, Hathway believes that its carriage revenues will dip by ~70%; however, it expects the surge in subscribers to more than make up for this impact. Dish TV believes DTH companies will potentially add ~60% market share in metros due to their strong brand equity, whereas cable companies believe that DTH will garner only ~20% of incremental subscribers. If cable companies provide free STBs initially, DTH players will need to pull up their socks, in our view.

#### Win win for all; execution a huge challenge

Broadcasting (Zee, TV18, Sun TV), DTH (Dish TV) and cable companies (Hathway, Den Networks, WWIL, Incable) will benefit. However, execution (pending inter-connect agreement of TRAI, STB availability, deadline implementation, brand building for cable companies) will remain a key challenge and needs to be monitored.

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November 1, 2011



## PLEDGE SHARES

Reporting Date	Company Name	Name of the Entity	Pledged Quantity	Pledged % of the total capital
1-Nov-11	Nissan Copper	Danilal Investments	3,630,000	5.78%
1-Nov-11	Nissan Copper	Sanjay Mardia	2,762,738	4.40%
1-Nov-11	Nissan Copper	Sunita Mardia	2,453,482	3.90%
1-Nov-11	Nissan Copper	Ratanlal Mardia	6,133,000	9.76%
1-Nov-11	Mukand	Rajesh V Shah	2,818,795	3.86%
1-Nov-11	Birla Machining & Toolings	Shearson Investment & Trading Co	875,000	7.35%
1-Nov-11	Birla Machining & Toolings	Nirved Traders	2,500,000	21.00%
1-Nov-11	Bombay Burmah Trading Corporation	Nowrosjee Wadia & Sons	115,000	0.82%



## INSIDER TRADES

Company Name	Acquirer/Seller	B/S	Qty Traded
Aarti Industries	Aarti Healthcare	Buy	200000
Avon Corporation	Pankaj P Saraiya	Buy	49139
Cerebra Integrated Technologies	K Gururaja Upadhya	Buy	130000 Pref. Allotment
Cerebra Integrated Technologies	P Bharath	Buy	130000 Pref. Allotment
Cerebra Integrated Technologies	P Vishwamurthy	Buy	130000 Pref. Allotment
Cerebra Integrated Technologies	Shridhar S Hegde	Buy	130000 Pref. Allotment
Cerebra Integrated Technologies	V Ranganathan	Buy	130000 Pref. Allotment
Dish TV India	Dhaka Warriors Sports	Buy	2000000 off market
Dish TV India	Essel Corporate Resources	Buy	208044217 off market
Dish TV India	Premier Finance & Trading Co	Buy	500000 off market
eClerx Services	HDFC Mutual Fund & Others	Buy	26000
Everest Kanto Cylinder	Pushkar Khurana	Buy	30000
Hathway Bhawani Cabletel And Datacom	Kuldeep Puri	Buy	30013
Ind Tra Deco	Rokadia Resources	Buy	999333 off market
Kemrock Industries & Exports	Binita Patel	Buy	32000
Lanco Infratech	Lanco Group & PACs	Buy	549808134
Maharashtra Seamless	Stable Trading Co	Buy	42623
Maharashtra Seamless	Stable Trading Co. Limited	Buy	89303
Maithan Alloys	Raghav Agarwalla	Buy	100000
Maithan Alloys	Sangita Agarwalla	Buy	124000
Neha International	Vinod Reddy Gaddam	Buy	77730
Raj Packaging Industries	Kankaria Leasing & Finance	Buy	15000
Raj Packaging Industries	Prem Kankaria	Buy	15000
Raj Packaging Industries	Prem Kankaria & Family	Buy	17796
Raj Packaging Industries	Rajendra Kankaria & Family	Buy	15000
Raj Packaging Industries	Ramesh Chandr Singhi & Family	Buy	15000
Raj Packaging Industries	Ramesh Chandra Singhi	Buy	15000
Raj Packaging Industries	U C Bhandari & Family	Buy	30000
Ravinay Trading Company	Innocent Infrastructure Lt	Buy	26100
Shakti Pumps (India)	Dinesh Patidar	Buy	98936
Shriram Transport Finance Company	Shriram Capital	Buy	235178
Suditi Industries	Maloo Building Materials	Buy	25000
USG Tech solution	Satish Kumar Gupta	Buy	625200 off market
Zicom Electronic Security Systems	Coronet Properties and Investm	Buy	20000
Akar Tools	Hari Om Trades & Agencies	Sell	45400
Dish TV India	Churu Trading Company	Sell	19357425 off market
Dish TV India	Prajatma Trading Co	Sell	55685201 off market
Dish TV India	Subhash Chandra	Sell	500000 off market
Dish TV India	Veena Investments	Sell	107135618 off market





Company Name	Acquirer/Seller	B/S	Qty Traded
Ind Tra Deco	Lilyland Developers	Sell	999333 off market
ITC	P.V Dhobale	Sell	40000
ITC	Mr. Nakul Anand	Sell	140000
Meghmani Organics	Karana Ramesh Patel	Sell	22000
Mysore Petro Chemicals	Madan Mohan Dhanuka as a Trustee	Sell	16300
Nelcast	P. Viraja	Sell	16234
Piramal Glass	Sanjay Tiwari	Sell	17353

## BULK DEALS

Date	Company Name	Acquirer/Seller	B/S	Qty Traded	Price
1-Nov-11	Aanjaneya Lifecare	Domebell Electronics India .	Buy	100000	417
1-Nov-11	Aanjaneya Lifecare	Jhelum Holding	Sell	100000	417
1-Nov-11	AIA Engineering	Nalanda India Equity Fund	Buy	1200000	310
1-Nov-11	AIA Engineering	Reliance Capital Trustee Co A/C Reliance Growth Fund	Sell	1200000	310
1-Nov-11	Ashutosh Paper Mills	Kpm Infotech	Buy	46800	174.41
1-Nov-11	Bhoruka Aluminium	Alfa Fiscal Services	Buy	337142	3.5
1-Nov-11	Bhoruka Aluminium	Chetan Laxmikant Dave	Buy	673043	3.5
1-Nov-11	Dhvanil Chemicals	Mayurbhai Dhirubhai Vekariya	Buy	42000	24.4
1-Nov-11	Dhvanil Chemicals	Rohitkumar Shantilal Bhow	Sell	42100	24.4
1-Nov-11	Dhvanil Chemicals	Samjuben Dhirubhai Vekariya	Buy	41000	24.4
1-Nov-11	Diamant Infrastructure	Jigar Praful Ghoghari	Sell	375000	15.75
1-Nov-11	Diamant Infrastructure	Nishil Surendrabhai Marfatia	Buy	200000	15.74
1-Nov-11	Indiabulls Financial Services	Oberon	Sell	2017816	150.27
1-Nov-11	Kirloskar Pneumatic Company	Pca Securities Investment Trust Co. A/C. Pca India Eq Fund	Buy	256335	475
1-Nov-11	Kosha Cubidor Containers	Suman Gupta	Sell	60000	38.9
1-Nov-11	Krishnadeep Trade & Investments	Ganga Jamuna Financial Advisor	Buy	25000	146.64
1-Nov-11	Nikki Global Finance	Nilliampathy Tracon	Buy	22000	342.65
1-Nov-11	Nu Tek India	B M Traders	Buy	800000	1.36
1-Nov-11	Onelife Capital Advisors Limited	Aarav Financial Services .	Sell	13000	228.3
1-Nov-11	Onelife Capital Advisors Limited	Babulal V Shah	Buy	90000	230
1-Nov-11	Onelife Capital Advisors Limited	Prakashbhai Ishwarbhai Rana	Sell	16014	228.34
1-Nov-11	Passari Cellulose	Blue Peacock Securities	Buy	22984	100.58
1-Nov-11	Passari Cellulose	Varun Prem Budhrani	Buy	24478	98.02
1-Nov-11	Polytex India	Kiran Bhiku Bhanaes	Buy	70000	126.04
1-Nov-11	Prakash Constrowell	Alfa Fiscal Services	Buy	25000	237.96
1-Nov-11	Prakash Constrowell	Ashroj Credit India	Buy	32705	236.5
1-Nov-11	Rama Paper Mills	Manisha Vikas Shinde	Buy	43500	101.14
1-Nov-11	Sirhind Enterprises	Chunilal Mishrimal Sanghvi	Sell	27000	89.5
1-Nov-11	Sirhind Enterprises	Kanchanbhai Baldevbhai Patel	Buy	27000	89.5
1-Nov-11	Sirhind Enterprises	Manoj Prakash Sanghvi	Sell	300000	89.98
1-Nov-11	Sirhind Enterprises	Pinac Stock Brokers	Buy	36000	89.95
1-Nov-11	Sirhind Enterprises	Priyal International	Buy	200000	90
1-Nov-11	Sirhind Enterprises	Sheetal P Jain	Sell	80000	89.95
1-Nov-11	Sirhind Enterprises	Shree Suprinit Tradinvest .	Buy	36000	89.95
1-Nov-11	Sirhind Enterprises	Shreebhuvanakaram Tradinvest	Buy	36000	89.95
1-Nov-11	Sirhind Enterprises	Shreemallikarjun Tradinvest	Buy	36000	89.95
1-Nov-11	Sirhind Enterprises	Volga International	Buy	36000	89.95



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Date	Company Name	Acquirer/Seller	B/S	Qty Traded	Price
1-Nov-11	Surya Chakra Power Corporation	Alfa Fiscal Services	Buy	992473	6.1
1-Nov-11	Tera Software	Niraj Rajnikant Shah	Buy	72321	89.36
1-Nov-11	Vertex Securities	Manish Rameshbhai Vyas	Buy	235000	43
1-Nov-11	Vertex Securities	Tripurari Properties	Sell	240000	43
1-Nov-11	Volant Textile Mills	Arjun Comtrade	Sell	416000	2.81
1-Nov-11	Zenu Infotech	Rekha Lalit Jain	Sell	50000	40.5
1-Nov-11	Zenu Infotech	Umanath Raghunath Agarwal	Buy	27000	40.48

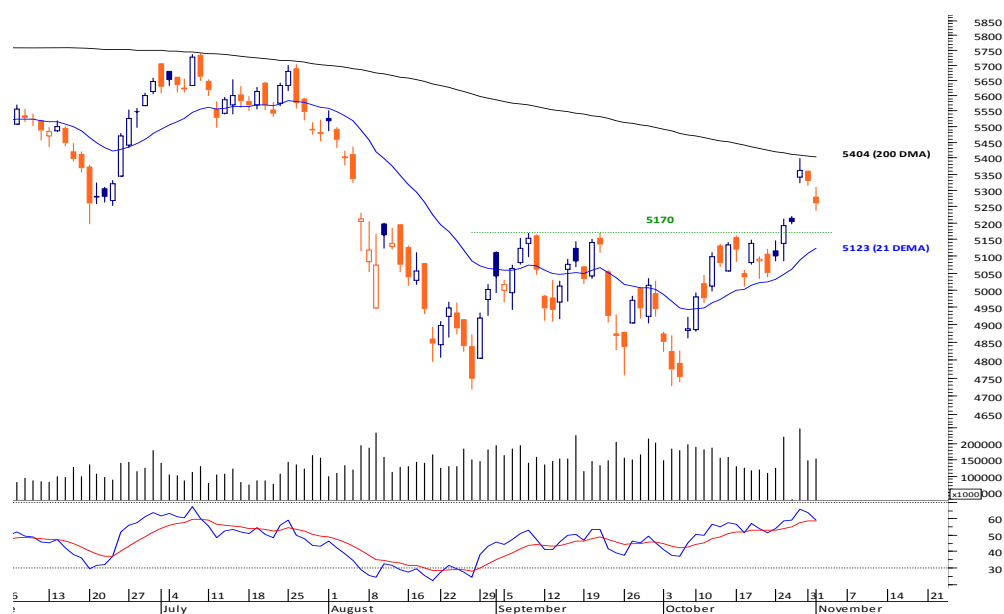
## TECHNICAL UPDATES

Nifty opened lower on Tuesday and continued to trade down on lingering concerns emerging from Europe. The index has slipped below the 5300 mark since making a high on Friday near the 200 DMA. The second consecutive negative close has shifted the balance in favor of a near-term decline as the 'bullish island gap' has nearly been closed at 5230. Trading volumes were at an average but market breadth dragged in favor of declines suggesting broad-based fear in the market. With the 'bullish island gap' getting closed quickly, the euphoria in the market has done down as Nifty looks to test the bullish breakout area at between 5170-5200. Hourly oscillators had warned of a correction with a sell crossover but the MAs could not hold support. Daily setup on the other hand continues to remain constructive thus making it a critical trend determining phase. Key pivot for Nifty lies at 5170 (multiple supports, earlier resistance) which if broken lower will shift the balance in favor of bears.

All the sectoral indices ended in red with the rate sensitive Autos and Realty taking the biggest knock of ~2%. High beta Banking and Metals followed suit with losses of 1.50% each. The defensives Healthcare and FMCG outperformed the market with loss of ~0.50%. Broader market Mid-cap and Small-cap indices too ended lower however managed to outperform the frontline peers with loss of ~0.6%.

**Bullish Setups:** CNXBANK, ABGS, NMDC, HUVR

**Bearish Setups:** RBXY, LPC, BPCL, INFY



### Nifty Index

Bloomberg Code	NIFTY Index
Spot Price	5,257
Resistance 1	5,376
Resistance 2	5,314
Support 1	5,220
Support 2	5,170
Nifty 20 SDMA	5,070
Nifty 50 SDMA	5,015
Nifty 200 SDMA	5,404
Adv : Dec [NSE]	501 : 963
Turnover Rs Crs.	12,010
BSE+NSE cash	

Indicator	Outlook	Points*
Candlestick	Positive	1
Stochastic	Positive	1
Moving Avg	Negative	(1)
RSI	Neutral	0
ADX	Neutral	0
MACD	Neutral	0
<b>Aggregate</b>	<b>Positive</b>	<b>1</b>

## EYE CATCHERS

### Futures Snapshot

#### Top OI Rises

Scrip	% OI Chg	OI	% Price Chg	% Future Vol Chg
Colgate Palmolive	34	254	3.9	72
Havells India	32	668	7.1	676
NMDC Ltd	26	937	-	631
Central Bank	18	2,256	(5.6)	174
Oil Ltd	16	48	(2.2)	123
Areva T&D	15	1,974	(1.6)	82
Tata Chemicals	14	393	(3.4)	101
Orchid Chemicals	12	6,638	6.2	332

#### Top OI Falls

Scrip	% OI Chg	OI	% Price Chg	% Future Vol Chg
Glaxosmithkline	(10)	12	2.2	(31)
Mini NIFTY	(9)	990	(1.3)	28
Tech Mahindra	(7)	330	1.0	50
CNX IT	(7)	25	(1.0)	20
Power Finance Corp	(6)	8,026	3.1	104
Century Textiles	(6)	2,582	(1.4)	(69)
Kingfisher Airlines	(5)	9,408	(1.2)	85
Vijaya Bank	(5)	7,028	(2.2)	(56)

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