

Market Strategy & Top Ideas

Investment Argument, Financials & Valuation discussion

December 2011

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(Prices as on December 8, 2011)

Summary

Global Macro

- **The ebb and flow of Sovereign debt crisis in Europe continues:** Long drawn and contentious negotiations of the troika of IMF, EU and ECB with Greece had revived investor hopes for an orderly transition but were quickly dissipated after referendum fears. Markets are now pinning hope on the ability of technocrat Prime Ministers of Greece and Italy and newly elected right-wing government in Spain to convince their electorate to swallow bitter pills by implementing deeply unpopular fiscal and economic reforms. Fears of loss of market access and eventual bail-out due to prolonged curve inversion looms large on Italy (like it did in case of Greece, Portugal and Ireland). Increase in bond yields in Core-Europe stokes fears of capital flows out of the region. After strong opposition by Germany of the idea of Euro Bonds, the markets are looking forward to a 'Silver Bullet' from the proposed EU submit. An EU treaty to create a tighter fiscal union with authority over budgets is a 'dream outcome' but in our opinion difficult to achieve. However, an increase in the size of rescue fund with help from IMF looks a distinct possibility.
- **A mixed picture from the US:** Data from housing and jobless claims shows marginal improvement, Consumer confidence indices mixed, modest rebound in manufacturing but unemployment rate still stubbornly high at 9%. Overall fears of double dip recession recede as economy moves from recovery to expansion. US Fed Officials predict CY 12 GDP to grow between 2.5 to 2.9% (down from 3.3 to 3.7% in June 11) and unemployment by Dec 12 to go no lower than 8.5% to 8.7% (up from a more upbeat 7.8% to 8.2% envisaged in June 11). The breakdown of talks in Super-committee is symptomatic of bitter bipartisan bickering over the ideological debate of tax increases versus spending cuts. US \$1.2 trillion automatic across-the-board spending cuts over 10 years to kick-in from 1st Oct 2012.
- **Most likely outcome is very slow growth over several years:** We believe that the most likely outcome for the global economy is likely to be stressed government finances, bloated central bank balance sheets and very slow core economic growth for several years.

Indian Macro

- **RBI facing Hobson's choice:** How to balance fears of high inflation becoming structural versus slowing growth. Worrying signals on structural imbalances in agriculture, infrastructure capacity bottlenecks, distorted administered pricing in oil/coal/electricity and feeble attempts at fiscal consolidation.
- **Collapse in investment demand:** High interest rates, policy paralysis led by issues pertaining to governance-deficit hampers the government's ability to push much-needed key reforms. A humbling retreat by the government on the crucial FDI proposal in multi-brand retail till consensus emerges among all stake holders and fears of policy paralysis continuing till after U.P. elections in March 2012 does not bode well for the markets. Fears of no bold decision on FDI in aviation/insurance; labor and banking sector reforms stuck, deferral of deadlines for enacting GST and DTC. Strong GDP downgrade fears of below 7% for FY13. Growth in eight core sectors constituting 37% of IIP in Oct'11 is at just 0.1% and the IIP nos. for Oct'11 to be announced next week are expected to show a sharp decline between 5-7% (Sep'11 IIP was at -1.9%).
- **Crowding out of private sector and shooting of yields a real worry due to expected large slippage in fiscal deficit for FY 12:** Shortfall in tax revenues and divestment proceeds, ballooning of fuel and fertilizer subsidies, pressure to infuse large doses of capital in banking sector to prop-up capital adequacy amidst growing fears of sharp rise in NPA's led by power/export and domestic focused SME/infra sector. Falling rupee to worsen imported inflationary pressures-Crude demand is relatively inelastic and no market adjustment in diesel, kerosene and cooking gas prices distorts demand.
- **A few green shoots:** Bountiful monsoons to cool-off food inflation, sharp drop in global commodities (except crude), RBI's pause signal in upcoming December policy.

India Earnings & Outlook

Market outlook:

- We believe the markets would continue to remain range bound between 4700 to 5300 range. Strong implementation of policy prescriptions by the embattled European governments, emergence of semblance of political consensus on fiscal consolidation in the US and strong policy action from the somnolent Indian government to kick start reforms and give a strong policy push can offer succor to the equity markets. The solution clearly lies primarily with politicians both globally and locally.

India earnings and Market Outlook:

- Margins cave in under severe cost pressures:** In June-Sep. quarter, both operating margins and net margins have plummeted due to severe rise in fuel and interest costs. A sharply depreciating rupee threatens to unfavorably hit companies with large unhedged forex exposures. The Principal disappointment was in the margin profile of Oil & Gas, Banking and Infrastructure sectors. Technology and Automobile on the other hand continued to show some resilience.
- Earnings under severe pressure:** We estimate an anemic 0.1% YoY earnings growth in NIFTY for FY12 and FY13 earnings growth which at current consensus stands at 15.8% YoY runs the full risk of downgrades. **At the beginning of FY12 the expected Nifty EPS for FY12 and FY13 was Rs414.3 and 496.2, a YoY growth of 22.7% and 19.8% respectively. However, as of 08/12/11 the EPS estimates have been progressively downgraded and now stand at Rs338.1 and 391.7 respectively, a growth of mere 0.1% in FY12 and 15.8% in FY13.** A decisive breakout and sustenance above the range is predicated on a strong V-shaped earnings rebound which appears difficult. A sharp fall in inflation over the next six months due to base effect and sharply slowing economy could provide RBI the much needed elbow room to aggressively cut rates. This accompanied by strong movement on reforms front is the only silver lining that could provide boost and bottom to the markets.

Nifty and Sensex Growth and Valuation

	FY10	FY11	FY12E	FY13E
Nifty as on Dec 8	4,944			
EPS (Rs) - Free Float	289.8	337.8	338.1	391.7
Growth (%)	21.1	16.6	0.1	15.8
PER (x)	17.1	14.6	14.6	12.6

EPS (Rs) - Free Float				
Nifty Cons.	289.8	337.8	349.2	403.6
Var. (PLe v/s Cons.) (%)	-	-	(3.2)	(2.9)

	FY10	FY11	FY12E	FY13E
Sensex as on Dec 8	16,488			
EPS (Rs) - Free Float	1,012.9	1,109.6	1,078.6	1,248.0
Growth (%)	29.1	9.5	(2.8)	15.7
PER (x)	16.3	14.9	15.3	13.2

Sensex Cons.	1,012.9	1,109.6	1,120.6	1,291.8
Var. (PLe v/s Cons.) (%)	-	-	(3.7)	(3.4)

Source: Company Data, PL Research

Top Picks Summary

	CMP (Rs.)	TP (Rs)	Revenue Growth (%)		Earnings Growth (%)		RoE (%)		PER (x)		P/BV (x)	
			2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E
Maruti Suzuki	976	1,200	(7.6)	20.3	(27.9)	44.0	11.5	14.9	16.9	11.7	1.9	1.6
Infosys	2,723	3,090	20.4	17.6	19.8	14.3	28.0	26.0	19.1	16.7	4.8	3.9
Jindal Steel & Power	529	654	32.0	13.5	18.7	9.1	28.4	24.3	10.7	9.8	2.7	2.1
ICICI Bank	744	975	15.2	21.6	19.2	22.8	10.8	12.4	10.6	8.6	1.5	1.4
SBI	1,868	2,200	27.1	10.6	31.0	17.0	16.4	17.5	7.7	6.5	1.2	1.1
NHPC	22	29	18.7	21.9	5.4	27.3	8.3	10.0	13.0	10.2	1.0	1.0
Coal India	314	395	18.3	10.3	34.5	10.7	38.0	32.9	13.5	12.2	4.5	3.6
Mahindra & Mahindra	730	833	26.3	13.7	7.9	16.1	23.9	23.5	13.2	11.3	3.9	3.3
HCL Technologies	418	550	22.2	26.5	21.9	20.7	22.4	22.3	13.4	11.1	2.8	2.3
Titan Industries	183	250	30.6	21.4	35.1	25.2	46.3	41.9	27.7	22.1	10.9	8.1
Petronet LNG	156	200	58.1	28.3	64.2	2.3	32.9	26.5	11.5	11.3	3.3	2.7
Cummins India	339	393	6.3	11.6	(14.2)	24.4	26.5	28.1	18.3	14.7	4.5	3.8

Ideas for Discussion

- Risk – Reward turning favourable:** Maruti Suzuki's (MSIL) stock price has declined by 31.6% in last 1 year underperforming the broader markets by 14.2%. Increased competition, negative currency impact (Yen appreciated by ~14%) coupled with higher commodity prices led to a severe underperformance. However, given the current valuation of 11.7x FY13E EPS, which is well below the 5yr average of 14.5x 1yr fwd PE, and the expected recovery in volumes in FY13E, we believe the risk: reward ratio for Maruti Suzuki is turning favourable.
- Worst case Scenario target price @ Rs916/share:** We assume volume growth of 9.8% against our base case of 16.8% volume growth in FY13E. At the same time, we have modeled only 50bps improvement in operating margins. As a result, we arrive at a TP of Rs916/ share based on 12.5x FY13E EPS of Rs73.3.
- New 'Swift' bookings at 1lac +:** Diesel engine capacity will be enhanced to 25k/month by January 2012 compared to 20k/month to cater to the increasing demand for diesel cars. The new 'Swift' has received a good response and MSIL already has an order backlog of ~1 lac units, out of which ~88% is diesel. Average discount increased to Rs13,500/vehicle in Q2FY12 compared to Rs9,500/vehicle. However, with diesel vehicles accounting for ~28% of overall volumes in FY13E compared to ~21% currently, discounts are likely to come down.
- Interest rate cycle nearing its peak:** With interest rate cycle nearing its peak, as indicated by RBI, we believe the four wheeler space will be the most likely beneficiary of the same.
- Outlook & Valuation:** . We expect the FY13E top-line to grow by 20.3% YoY, driven by 16.8% volume growth. We expect the margins to improve by ~100bps in FY13E, mainly on account of operating leverage and lower discounts. The stock is currently trading at 11.7x FY13E EPS, which in our view is attractive, given the 40%+ growth in FY13E earnings. Maintain **'Accumulate'** on expected improvement in volumes and margins from Q4FY12E onwards.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Revenue (Rs m)	208,525	296,229	370,402	342,257	411,709
<i>Growth (%)</i>	<i>16.3</i>	<i>42.1</i>	<i>25.0</i>	<i>-7.6</i>	<i>20.3</i>
EBITDA (Rs m)	19,658	39,761	36,439	27,452	37,947
PAT (Rs m)	12,187	25,194	23,181	16,713	24,074
EPS (Rs)	42.2	87.2	80.2	57.8	83.3
<i>Growth (%)</i>	<i>-31.6</i>	<i>106.7</i>	<i>-8.0</i>	<i>-27.9</i>	<i>44.0</i>
Net DPS (Rs)	3.5	6.0	7.5	8.5	10.5

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	9.4	13.4	9.8	8.0	9.2
RoE (%)	13.7	23.8	18.1	11.5	14.9
RoCE (%)	12.9	22.4	17.4	11.4	14.7
EV / sales (x)	1.3	1.0	0.7	0.8	0.6
EV / EBITDA (x)	13.7	7.3	7.1	9.4	6.8
PER (x)	23.1	11.2	12.2	16.9	11.7
P / BV (x)	3.0	2.4	2.0	1.9	1.6
Net dividend yield (%)	0.4	0.6	0.8	0.9	1.1

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(13.2)	(20.3)	(31.1)
Relative to Sensex	(7.0)	(9.9)	(14.8)

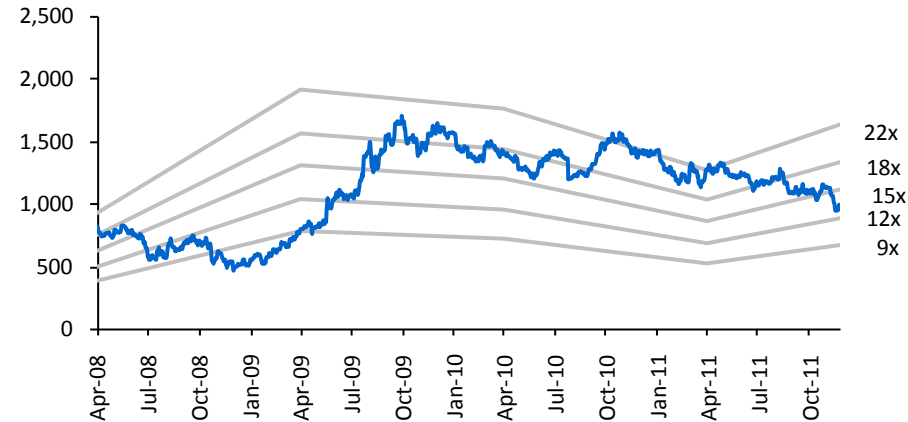
Maruti Suzuki – Risk Reward Turning Favorable

Operating Matrix

Y/e March	FY09	FY10	FY11	FY12E	FY13E
A2 segment volumes (nos)	511,396	633,190	808,552	685,950	788,843
A3 segment volumes (nos)	75,928	99,315	131,410	122,785	142,431
Domestic Volumes (nos)	722,144	870,790	1,132,739	987,517	1,153,978
Volumes (nos)	792,167	1,018,365	1,271,005	1,100,800	1,283,978
Growth (%)	3.6	28.6	24.8	(13.4)	16.6
Av. Real. / Veh. (Rs)	263,234	290,887	291,424	310,916	320,651
RM cost / veh. (Rs)	205,041	220,092	227,223	244,708	251,269
Growth (%)	14.9	7.3	3.2	7.7	2.7
Contr. / Veh. (Rs)	58,192	70,795	64,202	66,208	69,382
Other exp. / Veh. (Rs)	27,430	26,393	29,997	34,231	33,329
Growth (%)	28.0	(3.8)	13.7	14.1	(2.6)
EBITDA / Veh. (Rs)	24,815	39,044	28,669	24,938	29,554
Growth (%)	(17.3)	57.3	(26.6)	(13.0)	18.5
Net Profit / Veh. (Rs)	15,384	24,526	17,725	14,492	18,749

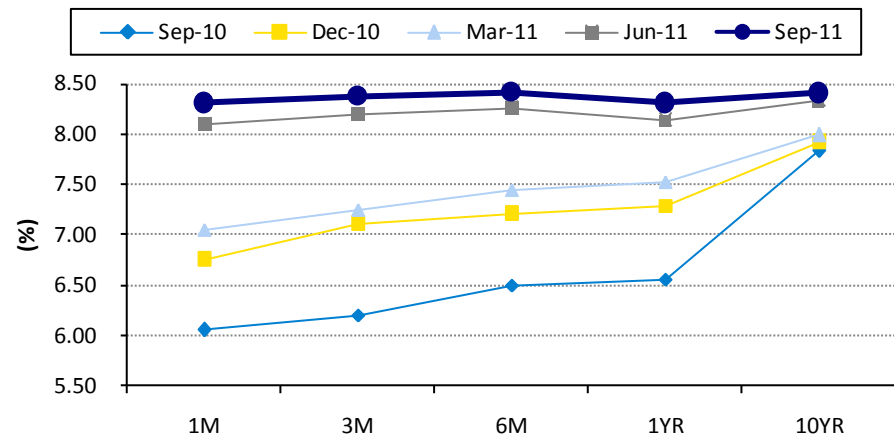
Source: Company Data, PL Research

1Yr Fwd P/E Chart



Source: Bloomberg, PL Research

Yield Curve



Source: Bloomberg, PL Research

Financials

Maruti Suzuki

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	208,525	296,229	370,402	342,257	411,709
Direct Expenses	162,427	224,134	288,801	269,375	322,624
<i>% of Net Sales</i>	<i>77.9</i>	<i>75.7</i>	<i>78.0</i>	<i>78.7</i>	<i>78.4</i>
Employee Cost	4,711	5,456	7,035	7,749	8,346
<i>% of Net Sales</i>	<i>2.3</i>	<i>1.8</i>	<i>1.9</i>	<i>2.3</i>	<i>2.0</i>
SG&A Expenses	7,382	9,160	11,029	11,039	12,851
<i>% of Net Sales</i>	<i>3.5</i>	<i>3.1</i>	<i>3.0</i>	<i>3.2</i>	<i>3.1</i>
Other Expenses	14,347	17,718	27,098	26,642	29,942
<i>% of Net Sales</i>	<i>6.9</i>	<i>6.0</i>	<i>7.3</i>	<i>7.8</i>	<i>7.3</i>
EBITDA	19,658	39,761	36,439	27,452	37,947
<i>Margin (%)</i>	<i>9.4</i>	<i>13.4</i>	<i>9.8</i>	<i>8.0</i>	<i>9.2</i>
Depreciation	7,065	8,250	9,635	10,306	11,335
PBIT	12,593	31,511	26,804	17,146	26,612
Interest Expenses	510	335	244	260	280
PBT	16,758	35,925	30,730	21,826	32,532
Total tax	4,571	10,949	8,201	5,872	8,458
<i>Effective Tax rate (%)</i>	<i>27.3</i>	<i>30.5</i>	<i>26.7</i>	<i>26.9</i>	<i>26.0</i>
PAT	12,187	24,976	22,529	15,953	24,074
Extraordinary Gain/(Loss)	-	(218)	(652)	(760)	-
Adjusted PAT	12,187	25,194	23,181	16,713	24,074

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Share Capital	1,445	1,445	1,445	1,445	1,445
Reserves & Surplus	92,003	116,906	136,883	149,945	170,448
Shareholder's Fund	93,448	118,351	138,328	151,390	171,893
Preference Share Capital	-	-	-	-	-
Total Debt	6,989	8,214	3,093	3,093	3,093
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	1,551	1,370	1,644	1,644	1,644
Total Liabilities	101,988	127,935	143,065	156,127	176,630
Gross Block	87,206	104,067	129,159	161,035	188,911
Less: Depreciation	46,498	53,820	63,455	73,761	85,096
Net Block	40,708	50,247	65,704	87,274	103,815
Capital Work in Progress	8,613	3,876	3,876	3,876	2,876
Cash & Cash Equivalent	51,123	72,748	75,762	73,072	73,924
Total Current Assets	55,100	37,724	63,607	67,985	74,007
Total Current Liabilities	34,165	35,678	40,798	49,824	52,049
Net Current Assets	20,935	2,046	22,809	18,161	21,958
Other Assets	-	-	-	-	-
Total Assets	101,989	127,935	143,065	156,127	176,630

Source: Company Data, PL Research

- Accelerated revenue guidance alleviate slowdown concerns:** Infosys revenue growth of 4.5% QoQ (@cc 5%) in US\$ term (Q4FY11: 1.1%, Q1FY12: 4.3%), with guidance of 5.5% CQGR in H2FY12 alleviate slowdown in revenue momentum as we enter next IT budget. The management maintained constant currency growth of 18-20% (downward revision to 17.2-19.2% attributed to cross currency movement) despite worsening macro-situation through FY12.
- In-line performance in a seasonally weak quarter would set the tone:** Q3 (OND) is a seasonally weak quarter for IT Sector due to 1) lower number of working days (2-3% impact on volume) 2) pushing IT investment to new year. Infosys guidance for 3.2-5.4% QoQ growth for Q3FY12 is steep task to achieve. The cautious management tone recently makes it tough to believe that they will beat upper-end of guidance. However, in-line performance i.e. 4-5% QoQ growth means 6-7% QoQ growth on seasonally adjusted basis.
- Unbilled revenue - indicates growth in the pipeline:** Unbilled revenue has increased to ~18% of quarterly revenue (avg: 10.6%) indicating another lever for strong growth.
- Continued margin focus strategy to deliver strong growth at bottom-line:** Infosys' continue to margin focus has yielded better than peers' margin. The company has pegged their focus on F500/G1000 clients, who have higher propensity to spend during cyclical upturn. The company announced ~25 such clients in last 4 quarters (FY11: ~140).
- Margin levers intact:** Infosys has the highest margin levers compared to peers. **1)** Utilization (excluding trainees): 77.3% is the lowest among peers **2)** The average age of employees surged to 27.1 years from 26.5 years due to spike in volume (expect rationalization of pyramid) **3)** Low unemployment rate in IT (US) would ease of visa trouble **4)** Growth from top clients as trouble for BT and BP bottomed out.
- BT and BP pain bottomed out:** Infosys grappled with business ramp-down from BT, moreover, IT budget cut from BP. With the BT annual run-rate now coming down to ~\$100mn/year from ~\$400m and BP IT budget stabilizing, we see little pain from top-10 clients of Infosys.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Revenue (Rs m)	216,930	227,420	275,010	331,186	389,543
<i>Growth (%)</i>	<i>30.0</i>	<i>4.8</i>	<i>20.9</i>	<i>20.4</i>	<i>17.6</i>
EBITDA (Rs m)	71,950	78,610	89,640	106,188	118,555
PAT (Rs m)	59,880	62,660	68,230	81,724	93,393
EPS (Rs)	104.7	109.5	119.3	142.9	163.3
<i>Growth (%)</i>	<i>28.5</i>	<i>4.6</i>	<i>8.9</i>	<i>19.8</i>	<i>14.3</i>
Net DPS (Rs)	43.6	23.5	26.5	31.5	37.9

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	33.2	34.6	32.6	32.1	30.4
RoE (%)	37.4	30.3	27.8	28.0	26.0
RoCE (%)	37.4	30.1	27.8	28.0	26.0
EV / sales (x)	6.7	6.4	5.1	4.1	3.4
EV / EBITDA (x)	20.3	18.5	15.7	12.9	11.0
PER (x)	26.0	24.9	22.8	19.1	16.7
P / BV (x)	8.5	6.8	6.0	4.8	3.9
Net dividend yield (%)	1.6	0.9	1.0	1.2	1.4

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(4.2)	(5.2)	(13.0)
Relative to Sensex	2.0	5.2	3.3

Financials

Infosys

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	216,930	227,420	275,010	331,186	389,543
Direct Expenses	117,650	120,710	150,540	184,858	222,442
<i>% of Net Sales</i>	<i>54.2</i>	<i>53.1</i>	<i>54.7</i>	<i>55.8</i>	<i>57.1</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	27,330	28,100	34,830	40,140	48,546
<i>% of Net Sales</i>	<i>12.6</i>	<i>12.4</i>	<i>12.7</i>	<i>12.1</i>	<i>12.5</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
EBITDA	71,950	78,610	89,640	106,188	118,555
<i>Margin (%)</i>	<i>33.2</i>	<i>34.6</i>	<i>32.6</i>	<i>32.1</i>	<i>30.4</i>
Depreciation	7,610	9,050	8,620	9,343	11,902
PBIT	64,340	69,560	81,020	96,845	106,652
Interest Expenses	-	-	-	-	-
PBT	69,070	78,990	93,130	111,129	122,296
Total tax	9,190	16,810	24,900	29,404	28,903
<i>Effective Tax rate (%)</i>	<i>13.3</i>	<i>21.3</i>	<i>26.7</i>	<i>26.5</i>	<i>23.6</i>
PAT	59,880	62,660	68,230	81,724	93,393
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	59,880	62,660	68,230	81,724	93,393

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	2,860	2,860	2,860	2,860	2,860
Reserves & Surplus	-	-	-	-	-
Shareholder's Fund	182,540	230,490	259,760	323,492	395,181
Preference Share Capital	-	-	-	-	-
Total Debt	-	-	-	-	-
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	182,540	230,490	259,760	323,492	395,181
Gross Block	70,930	78,390	85,010	111,231	127,981
Less: Depreciation	24,160	28,930	32,660	46,813	58,716
Net Block	46,770	49,460	52,350	64,418	69,266
Capital Work in Progress	6,770	4,090	5,250	6,322	7,436
Cash & Cash Equivalent	96,950	142,680	152,390	192,836	251,156
Total Current Assets	166,460	182,370	250,680	282,132	355,373
Total Current Liabilities	38,720	44,550	53,170	42,646	50,160
Net Current Assets	127,740	137,820	197,510	239,486	305,213
Other Assets	1,260	2,000	3,210	3,210	3,210
Total Assets	182,540	230,490	259,760	314,876	386,565

Source: Company Data, PL Research

- Investments in overseas coal assets to off-set the unavailability of domestic coal:** Company secured coal assets in Mozambique and Indonesia to insulate its 2400MW and other projects against the acute shortage of domestic coal. Coal mines in Mozambique and Indonesia has reserves of 1.5bn and 250m tonnes respectively. Low strip ratio, proximity to ports and better quality of coal render these assets very profitable proposition. Management expects the production to commence during H1FY13 at both the mines with aggregate production in the range of 1-2m tonnes.
- Activity on commissioning of 135MW units and coal mine on fast track:** Company continuously languished on commissioning of 10X135MW units at Raigarh and Angul. 3rd unit of 135MW is currently under synchronization and expected to commence commercial production during December. Management remained confident of commissioning 4 units by FY13 at Angul and remaining 1 unit by Q1FY13. While, with regard to captive Utkal B1 coal mines, management expects to commence mining and washery activity by Q1FY13. This would enhance company's coal mining capacity by 6tmta to 18m tonnes.
- Valuations attractive:** Backed by integrated operations, flexible product mix, domestic focussed operations and strong resource pipeline, JSPL commands best earnings quality in the entire sector with attractive return ratios in excess of 25%. Based on our SOTP valuation, we value the stock at Rs650 by valuing steel business at EV/EBITDA of 8.1x FY13 earnings and power business on DCF basis.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Revenue (Rs m)	108,510	110,915	131,116	173,138	196,465
<i>Growth (%)</i>	<i>97.7</i>	<i>2.2</i>	<i>18.2</i>	<i>32.0</i>	<i>13.5</i>
EBITDA (Rs m)	53,126	58,583	63,433	74,049	81,749
PAT (Rs m)	30,478	37,239	38,857	46,116	50,312
EPS (Rs)	32.9	40.0	41.6	49.4	53.9
<i>Growth (%)</i>	<i>138.5</i>	<i>21.6</i>	<i>4.0</i>	<i>18.7</i>	<i>9.1</i>
Net DPS (Rs)	0.9	1.3	1.5	2.1	2.2

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	49.0	52.8	48.4	42.8	41.6
RoE (%)	55.9	42.6	31.7	28.4	24.3
RoCE (%)	26.1	23.9	17.6	15.9	14.5
EV / sales (x)	5.2	5.2	4.8	3.8	3.5
EV / EBITDA (x)	10.6	9.8	9.9	8.9	8.3
PER (x)	16.1	13.2	12.7	10.7	9.8
P / BV (x)	7.0	4.7	3.5	2.7	2.1
Net dividend yield (%)	0.2	0.2	0.3	0.4	0.4

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(7.8)	(16.2)	(23.6)
Relative to Sensex	(1.6)	(5.8)	(7.3)

Operating Metrics

Jindal Steel & Power

Steel business	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E
Sales Volume	753	1,305	1,515	1,716	1,925	2,351	2,375
Net realisation (Rs/Tonnes)	22,152	26,077	33,675	26,428	31,515	34,113	34,600
<i>% change</i>	<i>(12.1)</i>	<i>17.7</i>	<i>29.1</i>	<i>(21.5)</i>	<i>19.2</i>	<i>8.2</i>	<i>1.4</i>
Net sales	35,198	54,108	76,769	73,676	95,736	120,935	142,720
<i>% change</i>	<i>35.9</i>	<i>53.7</i>	<i>41.9</i>	<i>(4.0)</i>	<i>29.9</i>	<i>26.3</i>	<i>18.0</i>
EBITDA	13,883	22,624	26,261	25,043	36,091	45,826	54,499
<i>% change</i>	<i>36.4</i>	<i>63.0</i>	<i>16.1</i>	<i>(4.6)</i>	<i>44.1</i>	<i>27.0</i>	<i>18.9</i>
Net profit	6,923	13,595	16,476	14,868	20,841	26,054	29,669
<i>% change</i>	<i>19.0</i>	<i>96.4</i>	<i>21.2</i>	<i>(9.8)</i>	<i>40.2</i>	<i>25.0</i>	<i>13.9</i>

Jindal power Ltd (JPL)

Unit sales (Mn KWH)	450	5,726	7,493	7,812	7,812	7,812	7,812
Realised rate/KWH	2.8	6.0	5.5	4.3	3.9	3.7	3.7
Net revenue	1,259	34,068	41,213	33,592	30,467	28,905	28,905
<i>% change</i>			<i>2,606.8</i>	<i>21.0</i>	<i>(18.5)</i>	<i>(9.3)</i>	<i>(5.1)</i>
EBITDA	960	29,897	35,854	28,639	24,305	22,703	22,703
<i>% Margin</i>		<i>76.3</i>	<i>87.8</i>	<i>87.0</i>	<i>85.3</i>	<i>79.8</i>	<i>78.5</i>
Net profit	194	16,523	24,779	19,648	18,270	18,223	18,223

Shadeed

Sales volume (000 tonnes)	1,050	1,200
Realisation per tonne (US\$)	460	460
Cost per tonne (US\$)	377	376
EBITDA per tonne (US\$)	83	84
Revenue (US\$ m)	483	552
EBITDA (US\$ m)	87	101
PAT (US\$ m)	44	45

SOTP Valuation

Jindal Steel & Power

	FY13	Multiple on FY13	Value (Rs m)
Standalone Power EBITDA	12,682	6.0	76,726
Steel EBITDA	41,817	6.0	252,987
CWIP in Steel business			93,180
Shadeed EBITDA	4,548	5.5	25,240
Bolivia			341,562
JPL			208,080
Equity valuation of 1000MW			42,186
Equity valuation of 2400MW			91,296
Gross debt of 2400MW			184,079
Net debt			605,615
Total Shareholder's value			650
Value per share	12,682	6.0	76,726

High RoE investment (1.6mtpa gas based sponge iron and steel plant), not considered for our earnings estimate. Likely for commissioning during FY13.

Financials

Jindal Steel & Power

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	108,510	110,915	131,116	173,138	196,465
Direct Expenses	55,384	52,333	67,683	99,088	114,715
<i>% of Net Sales</i>	<i>51.0</i>	<i>47.2</i>	<i>51.6</i>	<i>57.2</i>	<i>58.4</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
EBITDA	53,126	58,583	63,433	74,049	81,749
<i>Margin (%)</i>	<i>49.0</i>	<i>52.8</i>	<i>48.4</i>	<i>42.8</i>	<i>41.6</i>
Depreciation	9,641	9,970	11,510	13,131	14,669
PBIT	43,485	48,613	51,923	60,918	67,081
Interest Expenses	5,166	4,508	3,589	6,471	8,386
PBT	38,111	45,535	49,880	58,562	64,215
Total tax	8,040	9,189	11,840	13,256	14,712
<i>Effective Tax rate (%)</i>	<i>21.1</i>	<i>20.2</i>	<i>23.7</i>	<i>22.6</i>	<i>22.9</i>
PAT	30,478	37,239	38,857	46,116	50,312
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	30,478	37,239	38,857	46,116	50,312

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	155	931	934	934	934
Reserves & Surplus	70,360	103,237	140,169	182,739	229,300
Shareholder's Fund	70,515	104,168	141,103	183,674	230,234
Preference Share Capital	-	-	-	-	-
Total Debt	81,133	86,043	139,766	171,512	187,076
Other Liabilities(net)	45	1,659	2,335	2,987	3,637
Deferred Tax Liability	7,170	8,455	10,055	11,828	13,934
Total Liabilities	158,863	200,325	293,258	370,000	434,880
Gross Block	116,724	131,625	192,756	235,213	330,993
Less: Depreciation	22,415	32,651	44,321	57,452	72,121
Net Block	94,309	98,974	148,435	177,761	258,872
Capital Work in Progress	32,554	79,470	100,409	132,987	109,868
Cash & Cash Equivalent	11,832	4,312	7,781	6,800	5,729
Total Current Assets	64,186	69,065	108,109	138,907	163,452
Total Current Liabilities	34,194	50,900	67,649	83,610	101,266
Net Current Assets	29,992	18,166	40,460	55,297	62,186
Other Assets	395	1,085	1,222	1,222	1,222
Total Assets	158,863	200,325	293,258	370,000	434,880

Source: Company Data, PL Research

- Lending business return ratios converging to industry levels:** Low return ratios has been the primary reason for relatively low valuations for ICICI's lending business. ROAs have inched up from ~1.0% in FY09 to 1.4% in FY11 and we expect margin expansion to drive ROAs to ~1.6%. Slower growth could marginally delay the leveraging up process but lending business ROEs is expected to inch upto 16% in FY13 and >17% in FY14 closing the ROE gap significantly v/s peers. This should drive lower discounts v/s peers.
- Asset quality – Power remains a concern, RE not so much, High retail and low SME book comforting:** Power and asset owners exposure continue to remain a risk but ICICI bank's book is relatively more seasoned with ~50% operational projects. We are less worried about the Rs200bn of commercial RE exposure where loss given defaults is low given high LTV (~2x cover). Also high retail exposure (~35% of loan book) and low share of SME book provides comfort.
- Valuations attractive even after factoring in write offs from stress book:** Asset quality concerns do remain but market is discounting significant stress with the book trading at 1.4x Sep-12 book. Our Sep-12 PT of Rs975/share implies 25% upside and we believe higher lending ROEs would be a key driver along with stable qtrly performance. Current valuations are trading at ~25% discount to historical average and factoring in book write downs from Infra portfolio and stress sectors, valuations are still at 15% discount.
- Different Perspectives – Sanity check:** ICICI v/s HDFCB: ICICI bank's domestic book is comparable in size to HDFCB and assuming very conservative valuations for ICICI's subsidiaries and international book, current market cap imply a value of Rs530bn for ICICI's domestic business v/s >Rs1000bn of HDFCB's market cap with similar ROA levels and marginally lower ROEs. HDFCB's consistency, liability franchise and low risk asset book deserves a hefty premium but we believe 80-90% premium is high. Similar sanity check showed ICICI's bank over valuation during Nov-10 with ICICI's lending business value at par with HDFCB's Mcap.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Net interest income	83,666	81,141	90,169	103,854	126,248
<i>Growth (%)</i>	<i>14.5</i>	<i>(3.0)</i>	<i>11.1</i>	<i>15.2</i>	<i>21.6</i>
Operating profit	89,252	97,319	90,476	99,519	126,587
PAT	37,582	40,248	51,514	61,402	75,420
EPS (Rs)	33.8	36.1	44.7	53.3	65.5
<i>Growth (%)</i>	<i>(9.7)</i>	<i>6.9</i>	<i>23.9</i>	<i>19.2</i>	<i>22.8</i>
Net DPS (Rs)	11.0	12.0	14.0	19.0	24.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
NIM (%)	2.30	2.34	2.48	2.50	2.63
RoAE (%)	7.8	8.0	9.7	10.8	12.4
RoAA (%)	1.03	1.16	1.42	1.48	1.57
P / BV (x)	1.67	1.61	1.56	1.46	1.36
P / ABV (x)	1.67	1.61	1.56	1.46	1.36
PE (x)	16.7	15.6	12.6	10.6	8.6
Net dividend yield (%)	1.5	1.6	1.9	2.6	3.2

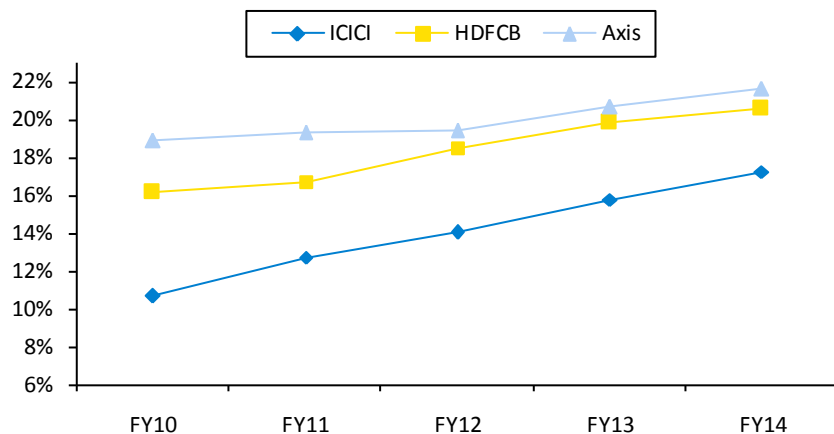
Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(15.5)	(29.1)	(32.6)
Relative to Sensex	(9.4)	(18.7)	(16.3)

Operating Metrics

ICICI's return ratio gap with peers is coming off drastically (ROE)



Source: Company Data, PL Research

ROA improvement likely

	2009	2010	2011	2012E	2013E	2014E	FY11-14E
NII/Assets	2.30%	2.34%	2.48%	2.50%	2.63%	2.69%	0.20%
Fees/Assets	1.73%	1.91%	1.89%	1.78%	1.79%	1.79%	-0.10%
Investment gains	0.36%	0.25%	-0.06%	-0.02%	0.08%	0.08%	0.14%
Net revenues/Assets	4.40%	4.50%	4.31%	4.26%	4.51%	4.55%	0.24%
Opex/Assets	-1.94%	-1.69%	-1.82%	-1.86%	-1.87%	-1.82%	0.00%
Provisions/Assets	-1.05%	-1.27%	-0.63%	-0.38%	-0.49%	-0.52%	0.11%
Taxes/Assets	-0.37%	-0.38%	-0.44%	-0.53%	-0.58%	-0.60%	-0.15%
Total Costs/Assets	-3.36%	-3.34%	-2.90%	-2.78%	-2.94%	-2.94%	-0.04%
ROA	1.03%	1.16%	1.42%	1.48%	1.57%	1.61%	0.19%
Equity/Assets	13.22%	14.61%	14.70%	13.70%	12.69%	11.67%	-3.03%
ROE	7.83%	7.96%	9.66%	10.79%	12.40%	13.83%	4.18%
Lending ROE	10.05%	10.65%	12.75%	14.02%	15.80%	17.28%	4.53%

Source: Company Data, PL Research

High retail and low SME book provides offset

Loan & exposure mix	ICICI	Axis	SBI	PNB	BOB	BOI	Union
Corporate	21%	40%	33%	53%	37%	42%	55%
SME	5%	15%	18%	16%	12%	17%	16%
Agri	10%	12%	13%	16%	12%	10%	14%
Retail	39%	19%	22%	10%	14%	9%	11%
International	26%	14%	14%	5%	25%	21%	4%

Source: Company Data, PL Research

ICICI Bank: PT of Rs975/share

Risk free rate	8.0%
Equity Risk Premium	6.0%
Beta	1.15
Cost of Equity	14.9%
Normalised ROE	18.5%
Terminal growth	5.0%
Stage 2 growth	25.0%
Lending business value (Sep-12)	792
Subsidiary valuation	187
Total value(Sep-12)	979
Equity Risk Premium	975
Implied P/E lending business	13.3
Implied P/B lending business	1.90

Source: Company Data, PL Research

Financials

ICICI Bank

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Interest Earned from Advances	223,238	173,727	164,248	221,845	262,464
Interest Earned from Investments	74,031	64,663	79,052	96,516	110,762
Others	13,657	18,677	16,441	17,574	19,331
Total Interest Income	310,925	257,067	259,740	335,936	392,557
Interest expense	227,259	175,926	169,571	232,081	266,309
NII	83,666	81,141	90,169	103,854	126,248
<i>Growth</i>	<i>14.5</i>	<i>(3.0)</i>	<i>11.1</i>	<i>15.2</i>	<i>21.6</i>
Treasury Income	13,040	8,662	(2,023)	(1,000)	4,000
NTNII	62,998	66,115	68,501	73,982	85,819
Non Interest Income	76,037	74,777	66,479	72,982	89,819
Total Income	159,703	155,918	156,648	176,836	216,067
<i>Growth</i>	<i>(0.9)</i>	<i>(2.4)</i>	<i>0.5</i>	<i>12.9</i>	<i>22.2</i>
Operating Expense	70,451	58,598	66,172	77,316	89,479
Operating Profit	89,252	97,319	90,476	99,519	126,587
<i>Growth</i>	<i>12.1</i>	<i>9.0</i>	<i>(7.0)</i>	<i>10.0</i>	<i>27.2</i>
NPA Provisions	37,500	43,722	19,769	15,979	23,271
Investment Provisions	977	(27)	2,038	-	-
Total Provisions	38,082	43,969	22,868	15,979	23,271
PBT	51,170	53,351	67,607	83,540	103,316
Tax Provisions	13,588	13,103	16,093	22,138	27,895
<i>Effective Tax Rate</i>	<i>26.6</i>	<i>24.6</i>	<i>23.8</i>	<i>26.5</i>	<i>27.0</i>
PAT	37,582	40,248	51,514	61,402	75,420

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Par Value	10	10	10	10	10
No. of equity shares	1,113	1,115	1,152	1,152	1,152
Equity	11,133	11,149	11,518	11,518	11,518
Networth	495,330	516,184	550,909	586,706	629,784
Adj. Networth	495,330	516,184	550,909	586,706	629,784
Deposits	2,183,478	2,020,826	2,256,021	2,561,276	3,020,658
<i>Growth</i>	<i>(10.7)</i>	<i>(7.4)</i>	<i>11.6</i>	<i>13.5</i>	<i>17.9</i>
Low Cost deposits	626,678	842,818	1,016,465	1,066,521	1,265,360
<i>% of total deposits</i>	<i>28.7</i>	<i>41.7</i>	<i>45.1</i>	<i>41.6</i>	<i>41.9</i>
Total Liabilities	3,793,010	3,634,656	4,062,336	4,673,854	5,383,228
Net Advances	2,183,108	1,812,056	2,163,659	2,531,481	2,936,518
<i>Growth</i>	<i>(3.2)</i>	<i>(17.0)</i>	<i>19.4</i>	<i>17.0</i>	<i>16.0</i>
Investments	1,004,582	1,172,574	1,185,396	1,339,667	1,515,081
Total Assets	3,793,010	3,634,656	4,062,336	4,673,854	5,383,228

Source: Company Data, PL Research

- Margin story strong:** SBI's margin story is expected to remain strong with some more favourable repricing left on dual rate home loans though 1000 day deposit benefits have mostly been accrued and this would help offset near term fee income pressure. Savings deregulation would pressure cost of funds but we do not expect large banks to raise rates indiscriminately and hence margin impact would be limited.
- Asset quality – Worst over but some more pain to come, Low power exposure a big positive:** We believe worst in terms of slippages (>4% annualized in 2Q12) is behind us but we do expect asset quality pain to remain the next 2 qtrs especially SMEs and hence management's guidance on 1.7% net NPAs looks optimistic. Power is a sector wide concern but relatively lower power exposure, very low discom funding and large exposure to marquee names reduces overall risk from power exposure.
- Valuations very attractive – ROA dip not as bad as some peers:** Our Sep-12 PT of Rs2200/share based on 2 stage Gordon growth model implies 14% upside from current levels. We believe return ratios resilience will be relatively better for SBI with ROAs expected to bounce back to >1.0% by FY13 driven by strong topline performance which would not be the case with BOI/Union.
- Timing important – Buyers below Rs1800, Capital and loose monetary policy would be possible upsides:** We believe that the overall macro would remaining challenging over the next 1-2 quarters including asset quality but market is ignoring low power/airlines related risks for SBI. Recent 15% up move makes upside on our PT look modest but at <Rs/1800share, risk reward seems very favourable (<1x Sep-12 book). Possible news flow on capital infusion and a loose monetary policy stance including CRR cut would be potential upside catalysts

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Net interest income	290,405	334,432	455,500	579,091	640,472
<i>Growth (%)</i>	<i>23.3</i>	<i>15.2</i>	<i>36.2</i>	<i>27.1</i>	<i>10.6</i>
Operating profit	239,610	245,229	332,395	400,409	435,246
PAT	112,392	116,982	111,798	146,495	194,527
EPS (Rs)	177.0	184.3	176.1	230.7	269.9
<i>Growth (%)</i>	<i>22.1</i>	<i>4.1</i>	<i>(4.4)</i>	<i>31.0</i>	<i>17.0</i>
Net DPS (Rs)	25.2	30.0	30.0	36.0	43.2

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
NIM (%)	2.62	2.53	3.06	3.39	3.27
RoAE (%)	16.8	15.0	13.4	16.4	17.5
RoAA (%)	1.02	0.89	0.75	0.86	0.99
P / BV (x)	1.64	1.43	1.42	1.24	1.07
P / ABV (x)	1.64	1.43	1.42	1.24	1.07
PE (x)	10.0	9.6	10.0	7.7	6.5
Net dividend yield (%)	1.3	1.6	1.6	1.9	2.3

Source: Company Data, PL Research

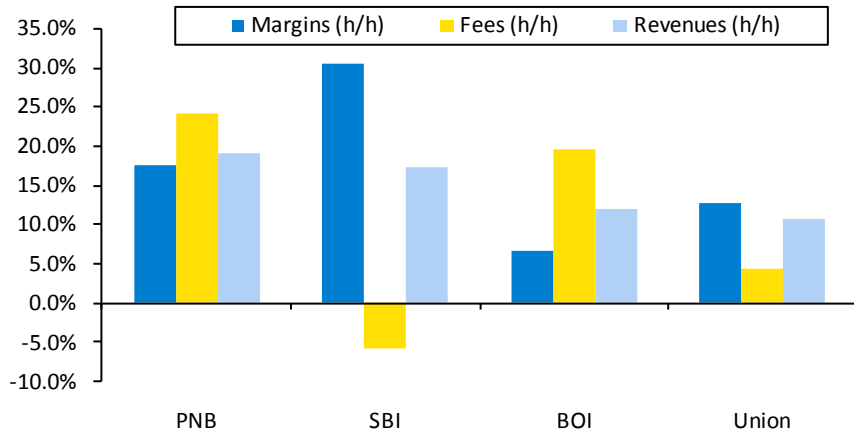
Stock Performance

(%)	1M	6M	12M
Absolute	(6.5)	(18.6)	(33.4)
Relative to Sensex	(0.3)	(8.2)	(17.1)

Operating Metrics

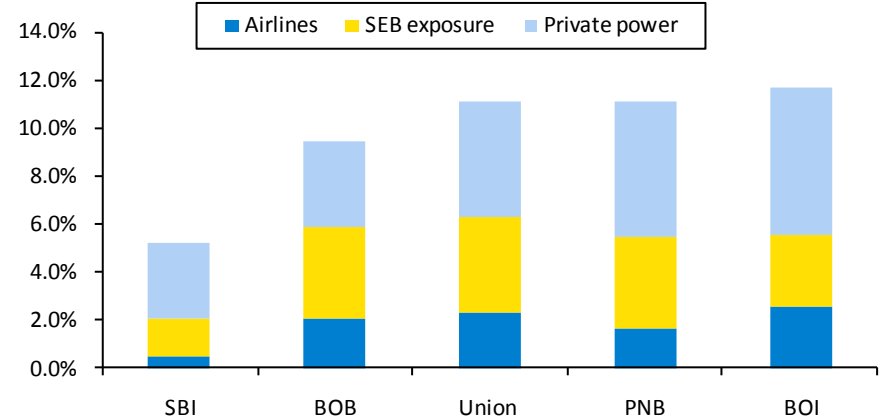
State Bank of India

SBI's margin performance has more than offset fee income pressure



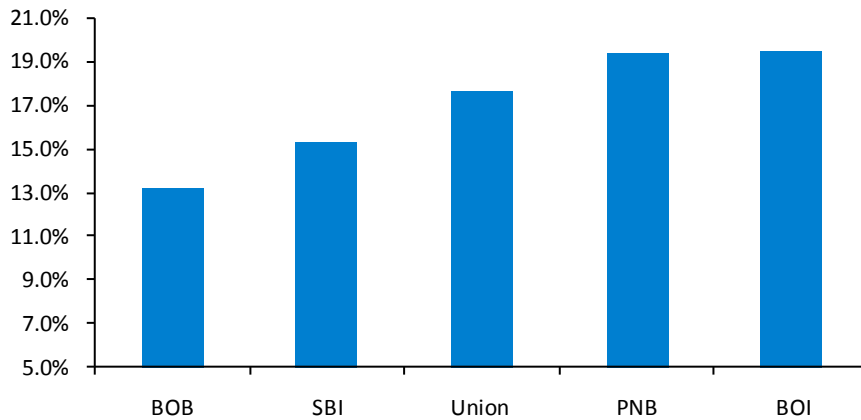
Source: Company Data, PL Research

Low exposure to high stress sectors like Airlines and Power



Source: Company Data, PL Research

Book write off from stressed asset lowest among PSUs for SBI



Source: Company Data, PL Research

SBI: Sep 12 PT of Rs2200/share

Risk free rate	8.0%
Equity Risk Premium	6.0%
Beta	1.20
Cost of Equity	15.2%
Terminal growth	5.0%
Stage 2 growth	16.5%
Normalised ROE	15.9%
Lending business value	2,112
Subsidiary value	100
Total value	2,212
Sep-12 PT	2200
Implied Sep-12 P/B	1.36
Implied Sep-12 P/E	8.4

Source: Company Data, PL Research

Financials

State Bank of India

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Interest Earned from Advances	672,851	722,987	837,972	1,106,920	1,278,083
Interest Earned from Investments	220,793	246,141	276,795	328,579	375,214
Others	23,026	31,679	21,597	17,564	20,343
Total Interest Income	916,670	1,000,807	1,136,364	1,453,064	1,673,641
Interest expense	626,265	666,375	680,864	873,972	1,033,168
NII	290,405	334,432	455,500	579,091	640,472
<i>Growth</i>	<i>23.3</i>	<i>15.2</i>	<i>36.2</i>	<i>27.1</i>	<i>10.6</i>
Treasury Income	26,570	19,712	10,614	4,800	9,000
NTNII	131,306	157,472	184,197	188,794	227,835
Non Interest Income	157,876	177,184	194,811	193,594	236,835
Total Income	448,281	511,616	650,312	772,686	877,307
<i>Growth</i>	<i>22.2</i>	<i>14.1</i>	<i>27.1</i>	<i>18.8</i>	<i>13.5</i>
Operating Expense	208,671	266,387	317,917	372,276	442,062
Operating Profit	239,610	245,229	332,395	400,409	435,246
<i>Growth</i>	<i>31.1</i>	<i>2.3</i>	<i>35.5</i>	<i>20.5</i>	<i>8.7</i>
NPA Provisions	39,211	63,814	125,176	140,502	123,347
Investment Provisions	13,528	(13,157)	7,661	23,000	-
Total Provisions	60,001	61,563	133,198	167,877	126,472
PBT	179,609	183,666	199,197	232,532	308,774
Tax Provisions	67,218	66,684	87,399	86,037	114,246
<i>Effective Tax Rate</i>	<i>37.4</i>	<i>36.3</i>	<i>43.9</i>	<i>37.0</i>	<i>37.0</i>
PAT	112,392	116,982	111,798	146,495	194,527

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Par Value	10	10	10	10	10
No. of equity shares	635	635	635	635	721
Equity	6,349	6,349	6,350	6,350	7,207
Networth	723,904	831,356	834,712	954,462	1,262,562
Adj. Networth	723,904	831,356	834,712	954,462	1,262,562
Deposits	10,119,883	11,164,646	12,555,625	14,566,916	16,288,607
<i>Growth</i>	<i>30.3</i>	<i>10.3</i>	<i>12.5</i>	<i>16.0</i>	<i>11.8</i>
Low Cost deposits	3,890,830	4,762,179	5,637,899	6,414,398	7,213,249
<i>% of total deposits</i>	<i>38.4</i>	<i>42.7</i>	<i>44.9</i>	<i>44.0</i>	<i>44.3</i>
Total Liabilities	13,025,975	14,475,026	16,449,168	19,070,641	21,678,458
Net Advances	7,503,624	8,695,016	10,064,015	11,674,258	13,425,397
<i>Growth</i>	<i>24.4</i>	<i>15.9</i>	<i>15.7</i>	<i>16.0</i>	<i>15.0</i>
Investments	3,527,461	3,783,305	3,953,776	4,592,811	5,092,560
Total Assets	13,025,975	14,475,026	16,449,168	19,070,641	21,678,458

Source: Company Data, PL Research

- Healthy capacity addition in next two years:** Capacities aggregating to 1080MWs are in advance stages of completion which we are expecting to come up in FY12-13. For other projects also we have taken a 2 -3 years delay despite them all being 50-60% plus complete in terms of earth work. We expect NHPC to add 471MWs in FY12E and 609MWs in FY13E, which we feel is conservative compared to management and street expectations. Post that we are further expecting NHPC to add close to 1000MWs taking the operating capacity to 5947MWs by FY16. Over and above this NHPC is a going concern with 3775MWs already operational.
- Execution has picked up:** Except Kishanganga (330MWs) all the other project's Earthwork is moving on smoothly, and is 50% plus complete. Also there has been an improvement in the socio-economic- political environment in the troubled states off late which has helped a pick up in the execution. As far as North East states are concerned we accept the fact that more of planned capacities are in Arunachal Pradesh which can move very slowly, but here also the company has inked MOUs now with Manipur Government which can be used as a proxy to AP. Orissa (300MWs) and Uttarakhand (1GWs) is new avenues where future growth should happen. For the present projects in AP and Sikkim (2.2GWs) the projects will atleast get completed though we have factored delay of 1yr.
- Regulated Equity and thus ROE's should start inching upwards now:** Suppressed investments in CWIP will start yielding better returns as 1000MWs is expected to commission in next 12-15 months. Thus the ROEs (excluding tax effect) of the company will start reflecting a change upwards. We expect the regulated equity to move up at least at a CAGR of 10% over next five years which will result into a 35% growth in the Book Value over the same period. New ventures in Solar, wind and thermal may aid the ROE growth in long term.
- Valuation:** Positive movement in ROE's, better placed than thermal power in terms of input related risks and steady capacity addition make NHPC a strong candidate for re rating from current levels of sub 1x to 1.2x. Thus the stock can give a potential return of 15-20% (at 1.2x FY13E Book Value of Rs23.3). We value NHPC using a combination of NPV (explicit period) and LTSSG (perpetual period) and arrive at a SOTP of Rs28.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Revenue (Rs m)	27,208	43,320	42,253	50,148	61,134
<i>Growth (%)</i>	<i>5.9</i>	<i>59.2</i>	<i>-2.5</i>	<i>18.7</i>	<i>21.9</i>
EBITDA (Rs m)	16,492	33,349	28,455	34,824	45,677
PAT (Rs m)	10,747	17,340	19,940	21,011	26,752
EPS (Rs)	1.0	1.4	1.6	1.7	2.2
<i>Growth (%)</i>	<i>7.0</i>	<i>46.7</i>	<i>15.0</i>	<i>5.4</i>	<i>27.3</i>
Net DPS (Rs)	0.3	0.6	0.7	0.6	0.7

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	60.6	77.0	67.3	69.4	74.7
RoE (%)	6.1	8.4	8.3	8.3	10.0
RoCE (%)	4.7	5.8	5.7	5.5	6.6
EV / sales (x)	12.9	8.3	9.2	8.0	6.9
EV / EBITDA (x)	21.3	10.8	13.7	11.6	9.3
PER (x)	23.0	15.7	13.7	13.0	10.2
P / BV (x)	1.4	1.2	1.1	1.0	1.0
Net dividend yield (%)	1.5	2.9	3.1	2.7	2.9

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(10.1)	(9.8)	(20.6)
Relative to Sensex	(4.0)	0.6	(4.3)

Project Execution

NHPC

The past and present

Project	State	Capacity MWs	Company COD	Likely COD	Issues	Present status	Probability of Completion
Teesta Low Dam III	Sikkim	132	FY12	FY14	Dealy in clearances	Earthwork completed upto 90%,	High in FY13
					Local law & order problem	E&M work to be completed in FY12	
					Floods in 2007,2009 & 2010		
Uri II	Jammu & Kashmir	240	FY12	FY12	Distrubances in Valley affecting supplies	Earthwork completed upto 80%,	High in FY12
					Earthquake in 2005	HM(May 2011) /E&M to be completed in FY12	
					Flood 2007 & 2010		
					Land slide and bridge collapse in 2008		
Chamera III	Himachal Pradesh	231	FY12	FY12	Labour agitation in 2006	Earthwork completed upto 95%,	High in FY12
					Coffer dam washed away in 2007	HM expected in FY12	
Teesta Low Dam IV	Sikkim	160	FY13	FY15	Dealy in clearances	Earthwork completed upto 80%,	Low in FY13
					Local law & order problem	E&M work to be completed in FY12/FY13	
					Floods in 2007,2009 & 2010		
Nimoo Bazgo	Jammu & Kashmir	45	FY12	FY13	Extreme cold climate	Earthwork completed upto 70%,	High in FY13
					Poor participation in tendering	E&M work to be completed in FY12	
Parbati III	Himachal Pradesh	520	FY12	FY13	Poor Geology	Earthwork completed upto 70%,	High in FY13
					Dealy in award of pakages	E&M work to be completed in FY12	
					Alternatate road had to be constructed		
					Land Acquisition problem		
Parbati II	Himachal Pradesh	800	FY15	FY16	Poor Geology	Earthwork completed upto 60%,	Low in FY15
					Fault Zone	E&M wroks also started	
					Rock busting, slide in power house in 2004,2006 & 2007		
Chutak	Jammu & Kashmir	44	FY12	FY13	Extreme cold climate/ Floods in Ladhak	Earthwork completed upto 70%,	High in FY12
					Distrubances in Valley affecting supplies	E&M work to be completed in FY12	
					High price bid delayed award of HM works		
Subansiri Lower	Assam / Arunachal Pradesh	2,000	FY15	FY17	Local law & order problem	Earthwork completed upto 50%,	Low in FY15
					Coffer dam washed away	Concreting and other earth works need to be completed	
					Disputes between states		
Kishanganga	Jammu & Kashmir	330	FY16	FY18	Pakistan building another HEP on same river	Earthwork completed upto 28%,	High in FY16
					Distrubances in Valley affecting supplies		

Source: Company Data, PL Research

Financials

NHPC

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	27,208	43,320	42,253	50,148	61,134
Direct Expenses	3,265	3,044	5,501	5,545	5,950
<i>% of Net Sales</i>	<i>12.0</i>	<i>7.0</i>	<i>13.0</i>	<i>11.1</i>	<i>9.7</i>
Employee Cost	4,925	5,298	6,996	7,346	7,713
<i>% of Net Sales</i>	<i>18.1</i>	<i>12.2</i>	<i>16.6</i>	<i>14.6</i>	<i>12.6</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	2,526	1,629	1,300	2,433	1,794
<i>% of Net Sales</i>	<i>9.3</i>	<i>3.8</i>	<i>3.1</i>	<i>4.9</i>	<i>2.9</i>
EBITDA	16,492	33,349	28,455	34,824	45,677
<i>Margin (%)</i>	<i>60.6</i>	<i>77.0</i>	<i>67.3</i>	<i>69.4</i>	<i>74.7</i>
Depreciation	5,182	10,333	9,167	8,852	12,567
PBIT	11,310	23,016	19,288	25,973	33,110
Interest Expenses	5,052	4,571	4,136	3,783	5,388
PBT	11,778	24,021	28,785	30,783	33,440
Total tax	1,031	3,116	7,118	6,772	6,688
<i>Effective Tax rate (%)</i>	<i>8.8</i>	<i>13.0</i>	<i>24.7</i>	<i>22.0</i>	<i>20.0</i>
PAT	10,747	20,905	21,667	21,011	26,752
Extraordinary Gain/(Loss)	-	3,565	1,727	-	-
Adjusted PAT	10,747	17,340	19,940	21,011	26,752
No of units sold (kwh/hr)	13,000	14,600	16,185	18,118	23,674
Avg. realizations (Rs/Unit)	2.1	2.3	2.4	2.5	2.5
Operating capacity (MW)	3,614	3,655	3,775	4,246	4,855

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	111,825	123,007	123,007	123,007	123,007
Reserves & Surplus	-	-	-	-	-
Shareholder's Fund	179,806	232,732	245,839	259,496	278,222
Preference Share Capital	-	-	-	-	-
Total Debt	122,340	138,682	145,693	169,434	187,007
Other Liabilities(net)	13,295	14,374	14,066	14,245	14,245
Deferred Tax Liability	-	1,391	1,613	1,652	1,652
Total Liabilities	315,441	387,179	407,210	444,826	481,126
Gross Block	214,600	213,024	228,749	257,919	297,504
Less: Depreciation	38,163	49,074	57,740	66,592	79,159
Net Block	176,437	163,949	171,009	191,327	218,345
Capital Work in Progress	104,986	140,250	171,225	180,156	200,075
Cash & Cash Equivalent	46,937	94,914	82,636	88,353	81,681
Total Current Assets	44,194	83,218	68,612	88,458	89,882
Total Current Liabilities	38,135	44,178	57,627	64,564	72,372
Net Current Assets	6,058	39,040	10,985	23,894	17,510
Other Assets	23	-	176	-	-
Total Assets	315,441	387,180	407,389	444,827	481,127

Source: Company Data, PL Research

- Pressure on Government to expedite the production:** Given the acute deficit of domestic coal, Government is in urgency to enhance the production by curtailing the stringent approval process, allowing Coal India to invest in railway infrastructure, relaxing the harsh norms under CEPI moratorium. All these measures would augur well for Coal India and would enable Coal India to sustain the growth in production at range of 5-6% in medium to long term.
- Concerns associated with MMDRA overstated:** We expect negative impact to the tune of Rs23bn (net of tax) in FY13 based on the provisions of new bill. It would translate to dilution of 14% of our expected earnings without considering the cut in voluntary spending by Coal India on CSR and various social welfare activities. We strongly believe that bill is likely to strong pull back by opposition as it carries immense benefit to ruling party, like NREGA.
- Risk remains on wage revision front:** We expect that an additional wage bill of Rs40n on annualized basis based on pay hike of 30% with an additional impact of Rs13bn for every 10% hike. We expect that concerns have been over-exaggerated in the light of strikes announced by various trade unions.
- Valuations attractive:** On the back of judicious exploitation of the pricing power, CIL's earnings are expected to grow at a CAGR of 18-20% during FY11-13, despite substantial escalation in wage cost, uncertain regulatory environment and elevated logistic bottlenecks. We value the stock at Rs395 based on 15x FY13E operational EPS of Rs19.5 and cash per share of Rs103. We believe that valuations are justified given the sustainable RoE in excess of 27%.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Revenue (Rs m)	387,888	446,153	502,336	594,202	655,694
<i>Growth (%)</i>	<i>18.9</i>	<i>15.0</i>	<i>12.6</i>	<i>18.3</i>	<i>10.3</i>
EBITDA (Rs m)	24,611	105,360	134,791	164,405	182,426
PAT (Rs m)	20,788	96,224	108,674	146,145	161,756
EPS (Rs)	3.3	15.2	17.2	23.1	25.6
<i>Growth (%)</i>	<i>(60.4)</i>	<i>362.9</i>	<i>12.9</i>	<i>34.5</i>	<i>10.7</i>
Net DPS (Rs)	2.7	3.5	3.9	5.1	5.7

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	6.3	23.6	26.8	27.7	27.8
RoE (%)	11.5	43.0	36.8	38.0	32.9
RoCE (%)	10.4	37.5	33.2	35.1	30.7
EV / sales (x)	4.4	3.6	3.1	2.4	2.0
EV / EBITDA (x)	69.3	15.3	11.4	8.8	7.3
PER (x)	95.3	20.6	18.2	13.5	12.2
P / BV (x)	10.4	7.7	5.9	4.5	3.6
Net dividend yield (%)	0.9	1.1	1.2	1.6	1.8

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(4.2)	(23.1)	(1.7)
Relative to Sensex	1.9	(12.7)	14.6

Operating Metrics

Coal India

Y/e March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Raw coal prod (mn tn)	379	404	431	431	431	462
Coal despatches (mn tn)	375	400	415	424	431	462
Vol sold under FSA/MoU (mn tn)	325	330	352	356	362	394
Vol sold under E-auction (mn tn)	29	49	43	48	49	49
Beneficiated coal vol (mn tn)	14	15	15	15	15	15
Vol sold to power utilities (mn tn)	280	296	298	304	335	350
Real. / tonne (Rs)	867	964	1,070	1,170	1,366	1,408
Total cost per tonne (Rs)	682	747	946	833	868	997
Cash cost per tonne (Rs)	631	683	794	731	808	915
Employee cost / tonne (Rs)	320	355	437	386	422	515
EBITDA / tonne (Rs)	161	62	254	318	381	395
OBR adj / tonne (Rs)	47	41	54	71	61	62

Source: Company Data, PL Research

Figures in (Rs m)	FY12	FY13	FY14
PAT	146,145	161,756	190,129
Interest income	49,248	52,526	62,544
Interest income adjusted for tax	33,270	35,484	42,252
Pure mining profit including OBR adjustment	131,001	146,081	169,094
26% share of pure mining profit (before tax benefit)	22,978	34,060	37,981
Amount adjusted for tax	15,523	23,009	25,658
Operational PAT after 26% profit sharing	115,479	123,071	143,436
Operational EPS adjusted for 26% profit sharing and OBR adj	18.3	19.5	22.7
P/E		15.0	13.0
Valuation per share on operational EPS		292	296
Net Cash per share	82	102	120
Price target		395	416
Book value	99.4	121.3	143.9
P/BV at our target		3.3	2.9
RoE (%)		26.8	25.5
OBR adjustment (Tax adjusted)	18,126	19,809	21,217

Financials

Coal India

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	387,888	446,153	502,336	594,202	655,694
Direct Expenses	62,929	59,994	56,914	78,594	88,417
<i>% of Net Sales</i>	<i>16.2</i>	<i>13.4</i>	<i>11.3</i>	<i>13.2</i>	<i>13.5</i>
Employee Cost	197,421	166,555	182,110	222,116	242,641
<i>% of Net Sales</i>	<i>50.9</i>	<i>37.3</i>	<i>36.3</i>	<i>37.4</i>	<i>37.0</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	102,927	114,243	128,520	129,088	142,210
<i>% of Net Sales</i>	<i>26.5</i>	<i>25.6</i>	<i>25.6</i>	<i>21.7</i>	<i>21.7</i>
EBITDA	24,611	105,360	134,791	164,405	182,426
<i>Margin (%)</i>	<i>6.3</i>	<i>23.6</i>	<i>26.8</i>	<i>27.7</i>	<i>27.8</i>
Depreciation	16,629	13,138	16,462	19,107	19,045
PBIT	7,702	92,066	118,062	145,023	163,078
Interest Expenses	1,788	886	791	746	734
PBT	57,420	139,649	164,632	211,805	234,429
Total tax	36,632	43,425	55,959	65,659	72,673
<i>Effective Tax rate (%)</i>	<i>63.8</i>	<i>31.1</i>	<i>34.0</i>	<i>31.0</i>	<i>31.0</i>
PAT	20,788	96,224	108,674	146,145	161,756
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	20,788	96,224	108,674	146,145	161,756

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	63,164	63,164	63,164	63,164	63,164
Reserves & Surplus	126,918	194,789	270,008	372,310	485,539
Shareholder's Fund	190,082	257,952	333,172	435,474	548,703
Preference Share Capital	-	-	-	-	-
Total Debt	21,485	19,631	15,536	14,536	13,536
Other Liabilities(net)	12,257	15,010	16,540	20,419	24,648
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	223,824	292,594	365,247	470,429	586,887
Gross Block	332,550	349,453	367,211	404,805	441,653
Less: Depreciation	222,462	229,099	238,782	258,164	277,512
Net Block	110,088	120,354	128,429	146,641	164,141
Capital Work in Progress	19,195	22,107	22,181	26,311	31,311
Cash & Cash Equivalent	312,002	403,603	469,260	562,646	672,589
Total Current Assets	469,364	543,248	643,960	741,134	860,853
Total Current Liabilities	399,423	415,557	448,725	463,061	488,822
Net Current Assets	69,941	127,691	195,235	278,073	372,031
Other Assets	9,549	9,620	8,766	8,766	8,766
Total Assets	223,824	292,594	365,247	470,429	586,887

Source: Company Data, PL Research

- **Growth expected to be strong across segments:** Across UVs and LCVs, M&M has gained significant share from Tata Motors, led by positive response to new launches as well as success of variants. M&M, with its strong product portfolio of 'Balero', 'Scorpio' and 'Xylo', enjoys a market share of ~55% in the UV segment.
- **Maxximo & Gio gaining traction:** Within LCVs, a relatively new segment, M&M is now the No.2 player largely due to its success in the sub-1t segment, with Gio and Maxximo models (which have taken share from 3-wheelers).
- **Tractor growth likely to be 10%+:** M&M indicated that the growth in the tractor segment is likely to be in excess of 15% for FY12E, driven by higher MSPs, good monsoon and three new launches including variants. M&M has launched a 15HP tractor 'Yuvraj' priced at Rs1.6lac, targeted at the marginal farmers (holding < 5 acres).
- **EBITDA margins likely to stabilize at 13.0-14.0%:** We expect higher operating leverage to partially mitigate the impact of higher raw material cost. With tractor volumes expected to grow at 12% CAGR for FY10-FY12E, we expect margins to stabilize in 13-14% range.
- **Our volume estimate:** We expect the automotive segment to grow at 14.0% CAGR in volume terms for next two years on account of the full impact of 'Maxximo' as well as 'Gio' and a XUV 500. Tractor segment continues to gain traction and is expected to grow at a CAGR of 12-13% for the next two years.
- **Outlook & Valuation:** In the four-wheeler listed space, we expect M&M to outperform the volume growth of the auto industry, given its leadership position and strong traction for its recently launched products. On sum-of-parts valuation, excluding Rs190/share assigned to its subsidiaries, the stock currently trades at 11.3x its standalone FY13E EPS, which in our view is fair. We maintain our '**Accumulate**' rating on the stock.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Revenue (Rs m)	130,747	185,296	234,210	295,872	336,289
<i>Growth (%)</i>	<i>13.3</i>	<i>41.7</i>	<i>26.4</i>	<i>26.3</i>	<i>13.7</i>
EBITDA (Rs m)	12,886	29,962	34,094	37,644	43,970
PAT (Rs m)	9,220	20,451	24,892	26,860	31,192
EPS (Rs)	16.5	35.1	38.0	41.0	47.6
<i>Growth (%)</i>	<i>-6.7</i>	<i>112.8</i>	<i>8.2</i>	<i>7.9</i>	<i>16.1</i>
Net DPS (Rs)	5.0	9.1	10.2	11.0	11.5

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	9.9	16.2	14.6	12.7	13.1
RoE (%)	19.2	31.2	27.4	23.9	23.5
RoCE (%)	11.7	20.4	20.4	18.9	19.1
EV / sales (x)	3.3	2.4	2.1	1.7	1.5
EV / EBITDA (x)	33.6	14.6	14.5	13.3	11.3
PER (x)	32.7	15.4	14.2	13.2	11.3
P / BV (x)	7.7	5.4	4.6	3.9	3.3
Net dividend yield (%)	0.7	1.2	1.4	1.5	1.6

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(12.7)	10.0	(7.4)
Relative to Sensex	(6.5)	20.4	8.9

Operating Metrics

Mahindra & Mahindra

Operating Matrix

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
UV volumes (Nos)	121,232	161,293	186,343	222,167	263,144
3-wheelers & LCVs (nos)	83,449	120,825	167,730	204,255	223,418
Total Automotive Volumes (nos)	204,681	282,118	354,073	426,422	486,561
Tractor Volumes (nos)	119,708	175,196	214,325	256,118	281,730
Total Volumes (nos)	324,389	457,314	568,398	682,540	768,291
Average realization / Vehicle (Rs)	403,055	405,184	404,923	421,146	437,711
EBITDA / Vehicle (Rs)	39,724	65,518	58,944	53,583	57,231
Net Profit / Vehicle (Rs)	28,422	44,720	43,036	38,232	40,599

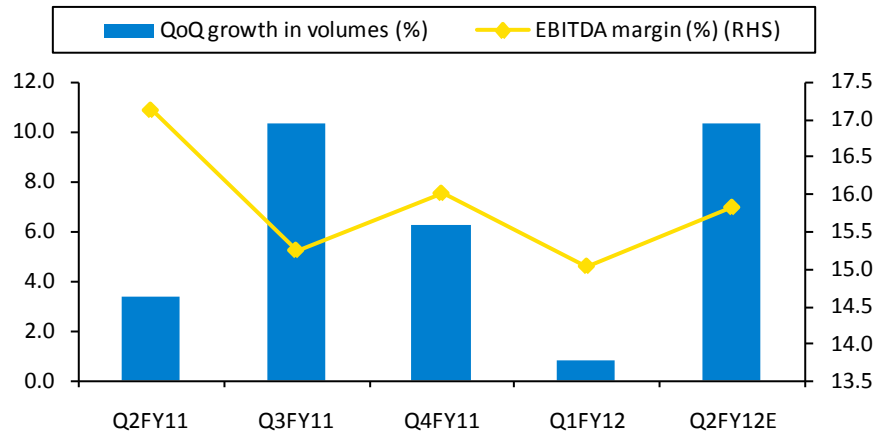
Source: Company Data, PL Research

SOTP Valuation

Y/e March	Parameter	Value (Rs / share)
M&M standalone	13.5x FY13E EPS	643
Subsidiaries	at 30% discount	190
SOTP Valuation		833

Source: Company Data, PL Research

EBITDA margins sensitive to volume growth



Source: Company Data, PL Research

Financials

Mahindra & Mahindra

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	130,747	185,296	234,210	295,872	336,289
Direct Expenses	92,782	123,329	162,639	214,206	243,500
<i>% of Net Sales</i>	<i>71.0</i>	<i>66.6</i>	<i>69.4</i>	<i>72.4</i>	<i>72.4</i>
Employee Cost	10,246	11,985	14,196	16,848	18,433
<i>% of Net Sales</i>	<i>7.8</i>	<i>6.5</i>	<i>6.1</i>	<i>5.7</i>	<i>5.5</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	14,833	20,020	23,281	27,174	30,387
<i>% of Net Sales</i>	<i>11.3</i>	<i>10.8</i>	<i>9.9</i>	<i>9.2</i>	<i>9.0</i>
EBITDA	12,886	29,962	34,094	37,644	43,970
<i>Margin (%)</i>	<i>9.9</i>	<i>16.2</i>	<i>14.6</i>	<i>12.7</i>	<i>13.1</i>
Depreciation	2,915	3,708	4,139	4,768	5,189
PBIT	9,971	26,255	29,955	32,876	38,781
Interest Expenses	486	278	(503)	108	263
PBT	11,805	27,970	33,553	35,668	41,468
Total tax	2,585	7,519	8,661	8,808	10,276
<i>Effective Tax rate (%)</i>	<i>21.9</i>	<i>26.9</i>	<i>25.8</i>	<i>24.7</i>	<i>24.8</i>
PAT	8,371	20,878	26,621	26,540	31,192
Extraordinary Gain/(Loss)	(849)	426	1,729	(320)	-
Adjusted PAT	9,220	20,451	24,892	26,860	31,192

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	2,792	2,910	3,274	3,274	3,274
Reserves & Surplus	49,829	75,358	99,860	118,354	141,000
Shareholder's Fund	52,621	78,268	103,134	121,627	144,273
Preference Share Capital	-	-	-	-	-
Total Debt	40,528	28,802	24,053	32,053	30,053
Other Liabilities(net)	-	2,438	3,544	-	-
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	93,149	109,507	130,730	153,680	174,326
Gross Block	48,939	52,763	62,277	77,277	90,277
Less: Depreciation	23,263	25,378	28,417	33,185	38,374
Net Block	25,676	27,385	33,860	44,092	51,903
Capital Work in Progress	6,467	9,642	9,859	9,859	9,859
Cash & Cash Equivalent	73,608	81,371	99,399	111,121	122,137
Total Current Assets	50,629	60,424	61,435	81,983	89,747
Total Current Liabilities	47,978	51,965	67,675	85,506	88,435
Net Current Assets	2,652	8,459	(6,240)	(3,523)	1,312
Other Assets	490	41	-	-	-
Total Assets	93,149	109,507	130,732	153,680	174,326

Source: Company Data, PL Research

- No negative surprise – the management guided in Q4FY11 for volume growth in Q2FY12:** In Q4FY11 results, HCLT's management highlighted volume growth to be back in Q2FY12. So 4.5% QoQ (5.1% @cc) growth was soft, but we should have anticipated. EBITDA margin eroded by 116bps (PLe: 190bp, Cons: 159bp) QoQ to 17.1% was better than expected. We believe that disappointment due to in-line performance was unwarranted. We see stronger performance in Q2FY12.
- Deal funnel healthy – vendor churn could provide opportunity:** According to TPI, the JAS-11 quarter witnessed a churn of US\$5bn and expected the same to go up to US\$8bn in OND-11 quarter. We believe the cost conscious clients to look for vendors with better RoI. Hence, we expect HCLT'S value proposition to be a good bargain. We expect the company to lead revenue growth among Tier-1 in CY12. TPI ranked HCLT among top-six players to reap churn benefits.
- Roadmap for margin improvement and FCF focus:** HCL Tech increased its focus on profitability and expected to improve margin by 1) increasing utilization (lowest utilization among the peers) 2) improving revenue productivity 3) rationalizing cost by increasing focus on fresher recruits (setting up new training facility for fresher) 4) cost absorption as wage hike is already in the price 5) BPO reversing back to profitability as investment phase is over. The management highlighted their focus on FCF generation. For FY12, the company has FCF/EBITDA discount to top three peers is consistent and expect ratio to be in 45-60% range.
- Valuation & Recommendation – Reiterate “BUY” with TP of Rs550:** We expect HCLT to deliver stronger than peers' performance in FY12. We reiterate “BUY” rating with a TP of Rs550, 16x Mar-12e earnings estimates.

Key Financials (Rs m)

Y/e June	FY09	FY10	FY11	FY12E	FY13E
Revenue (Rs m)	106,301	125,650	160,342	195,925	247,805
<i>Growth (%)</i>	<i>39.1</i>	<i>18.2</i>	<i>27.6</i>	<i>22.2</i>	<i>26.5</i>
EBITDA (Rs m)	23,456	25,728	27,488	32,253	39,102
PAT (Rs m)	12,722	13,001	17,099	20,838	25,159
EPS (Rs)	19.0	19.4	25.5	31.1	37.5
<i>Growth (%)</i>	<i>12.1</i>	<i>2.2</i>	<i>31.5</i>	<i>21.9</i>	<i>20.7</i>
Net DPS (Rs)	10.7	4.7	4.7	4.7	4.7

Source: Company Data, PL Research

Profitability & valuation

Y/e June	FY09	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	22.1	20.5	17.1	16.5	15.8
RoE (%)	23.3	20.4	22.2	22.4	22.3
RoCE (%)	16.7	13.1	15.4	16.8	18.3
EV / sales (x)	2.9	2.4	1.8	1.4	1.1
EV / EBITDA (x)	13.0	11.7	10.8	8.8	7.0
PER (x)	22.0	21.5	16.4	13.4	11.1
P / BV (x)	4.9	4.0	3.3	2.8	2.3
Net dividend yield (%)	2.6	1.1	1.1	1.1	1.1

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(2.5)	(17.8)	(3.1)
Relative to Sensex	3.7	(7.5)	13.2

Financials

HCL Technologies

Income Statement (Rs m)

Y/e June	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	106,301	125,650	160,342	195,925	247,805
Direct Expenses	65,483	81,957	109,140	133,815	171,014
<i>% of Net Sales</i>	<i>61.6</i>	<i>65.2</i>	<i>68.1</i>	<i>68.3</i>	<i>69.0</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	17,362	17,965	23,714	29,857	37,689
<i>% of Net Sales</i>	<i>16.3</i>	<i>14.3</i>	<i>14.8</i>	<i>15.2</i>	<i>15.2</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
EBITDA	23,456	25,728	27,488	32,253	39,102
<i>Margin (%)</i>	<i>22.1</i>	<i>20.5</i>	<i>17.1</i>	<i>16.5</i>	<i>15.8</i>
Depreciation	4,493	5,009	4,974	5,578	6,285
PBIT	18,963	20,719	22,514	26,676	32,818
Interest Expenses	-	-	-	-	-
PBT	15,292	15,417	21,953	27,419	33,770
Total tax	2,543	2,404	4,854	6,581	8,611
<i>Effective Tax rate (%)</i>	<i>16.6</i>	<i>15.6</i>	<i>22.1</i>	<i>24.0</i>	<i>25.5</i>
PAT	12,722	13,001	17,099	20,838	25,159
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	12,722	13,001	17,099	20,838	25,159

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e June	FY09	FY10	FY11	FY12E	FY13E
Share Capital	1,341	1,341	1,341	1,341	1,341
Reserves & Surplus	55,506	69,012	82,684	100,357	122,350
Shareholder's Fund	56,846	70,352	84,025	101,698	123,691
Preference Share Capital	-	-	-	-	-
Total Debt	29,771	26,632	26,632	20,632	14,632
Other Liabilities (net)	7,650	7,402	7,402	7,402	7,402
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	94,267	104,386	118,059	129,732	145,725
Gross Block	15,862	18,486	21,944	26,451	32,398
Less: Depreciation	-	-	-	-	-
Net Block	15,862	18,486	21,944	26,451	32,398
Capital Work in Progress	-	-	-	-	-
Cash & Cash Equivalent	4,573	5,393	11,720	17,406	22,454
Total Current Assets	56,777	63,760	91,403	107,509	126,275
Total Current Liabilities	32,675	31,329	48,103	56,362	64,497
Net Current Assets	24,102	32,431	43,301	51,147	61,777
Other Assets	53,933	52,762	52,107	51,427	50,842
Total Assets	94,267	104,386	118,059	129,732	145,725

Source: Company Data, PL Research

- Healthy volume and expansion to drive exciting 27% earnings CAGR:** We expect Gold volume growth to post a healthy 10-12% CAGR driven by rising consumerism; and increasing disposable income as indeed the lower branded jeweler penetration. In Watches, we expect improving penetration, expansion in distribution footprint and aggressive new launches and collections to lead to a 13% volume cagr for FY11-13E.
- Robust expansion plans:** Titan has strong expansion plans in all its key divisions i.e. Jewellery (~20 new stores in 2 years), Watches (~200 new stores in 4 years) and Eye-wear (to open 150 new stores in 2 years).
- Moderate margin expansion and robust free cash generation:** Improving product mix in Gold and Watches to drive our expected 50bps Operating margin expansion in FY11e-FY13e. Rising proportion of studded jewellery should help drive the mix improvement in Jewellery.
- Direct play on the Indian domestic consumption story:** Given its well – entrenched leadership position in branded jewellery and watches market, we believe Titan is a direct play on the rising affluence as well as aspirations of Indian consumer and favourable long term demand demographics of the Indian consumer market
- Valuation and outlook:** We value Titan at a PER of 30x FY13E EPS to arrive at our March-13 target price of Rs 250.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Revenue (Rs m)	38,326	46,772	65,330	85,330	103,568
<i>Growth (%)</i>	<i>27.9</i>	<i>22.0</i>	<i>39.7</i>	<i>30.6</i>	<i>21.4</i>
EBITDA (Rs m)	3,039	3,960	5,895	7,872	9,831
PAT (Rs m)	1,639	2,513	4,331	5,851	7,328
EPS (Rs)	1.8	2.8	4.9	6.6	8.3
<i>Growth (%)</i>	<i>17.1</i>	<i>53.3</i>	<i>72.4</i>	<i>35.1</i>	<i>25.2</i>
Net DPS (Rs)	0.5	0.8	1.3	1.7	2.1

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	7.9	8.5	9.0	9.2	9.5
RoE (%)	32.7	39.0	49.0	46.3	41.9
RoCE (%)	26.6	35.1	46.0	44.5	40.9
EV / sales (x)	4.3	3.4	2.3	1.7	1.4
EV / EBITDA (x)	53.8	40.7	25.8	18.9	14.7
PER (x)	99.0	64.6	37.5	27.7	22.1
P / BV (x)	29.1	22.2	15.7	10.9	8.1
Net dividend yield (%)	0.3	0.4	0.7	0.9	1.2

Source: Company Data, PL Research

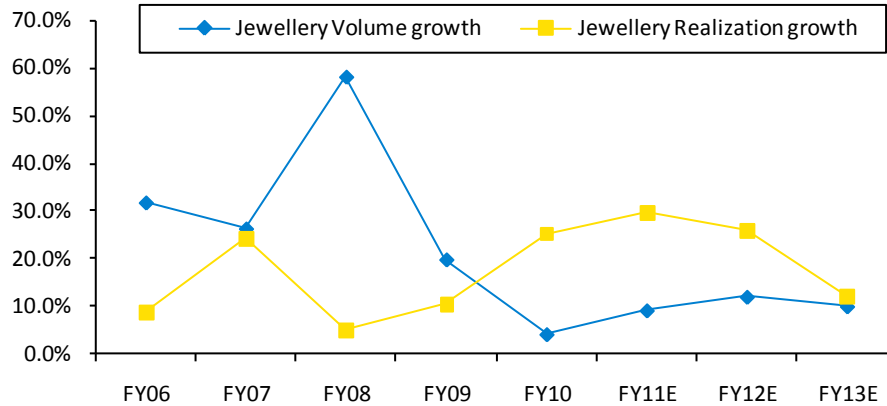
Stock Performance

(%)	1M	6M	12M
Absolute	(17.6)	(17.3)	2.3
Relative to Sensex	(11.5)	(6.9)	18.6

Operating Metrics

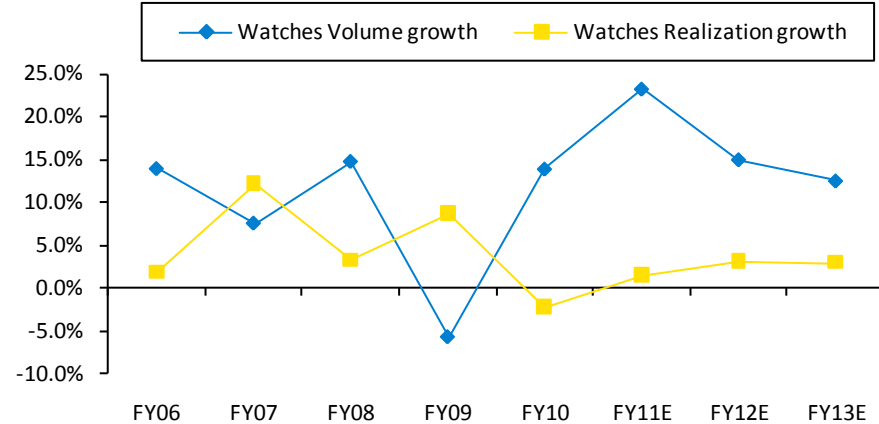
Titan Industries

Jewellery segment performance



Source: Company Data, PL Research

Watches segment performance



Source: Company Data, PL Research

Watches	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
No of units sold	8,336,498	8,964,354	10,286,451	9,693,922	11,036,272	13,597,658	15,629,111	17,576,382
Watches Volume growth	13.9%	7.5%	14.7%	-5.8%	13.8%	23.2%	14.9%	12.5%
Revenues (Rs Mn)	6,086	7,341	8,696	8,900	9,903	12,375	14,667	16,986
Watches realizations (Rs/Unit)	730	819	845	918	897	910	938	966
Watches Realization growth	1.8%	12.2%	3.2%	8.6%	-2.3%	1.4%	3.1%	3.0%
Jewellery								
No of units sold	570,221	720,241	1,138,910	1,364,813	1,421,645	1,551,794	1,738,009	1,911,810
Jewellery Volume growth	31.8%	26.3%	58.1%	19.8%	4.2%	9.2%	12.0%	10.0%
Revenues (Rs Mn)	6,575	10,318	17,120	22,650	29,552	41,850	59,059	72,760
Jewellery Realizations (Rs/Unit)	11529.8	14325.2	15,032	16,596	20,787	26,969	33,981	38,058
Jewellery Realization growth	8.9%	24.2%	4.9%	10.4%	25.3%	29.7%	26.0%	12.0%

Financials

Titan Industries

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	38,326	46,772	65,330	85,330	103,568
Direct Expenses	29,482	36,453	50,303	65,612	79,152
<i>% of Net Sales</i>	<i>76.9</i>	<i>77.9</i>	<i>77.0</i>	<i>76.9</i>	<i>76.4</i>
Employee Cost	2,365	2,779	3,974	5,190	6,299
<i>% of Net Sales</i>	<i>6.2</i>	<i>5.9</i>	<i>6.1</i>	<i>6.1</i>	<i>6.1</i>
SG&A Expenses	2,299	2,562	3,760	4,949	6,214
<i>% of Net Sales</i>	<i>6.0</i>	<i>5.5</i>	<i>5.8</i>	<i>5.8</i>	<i>6.0</i>
Other Expenses	1,141	1,018	1,398	1,707	2,071
<i>% of Net Sales</i>	<i>3.0</i>	<i>2.2</i>	<i>2.1</i>	<i>2.0</i>	<i>2.0</i>
EBITDA	3,039	3,960	5,895	7,872	9,831
<i>Margin (%)</i>	<i>7.9</i>	<i>8.5</i>	<i>9.0</i>	<i>9.2</i>	<i>9.5</i>
Depreciation	423	607	351	529	553
PBIT	2,616	3,353	5,544	7,344	9,278
Interest Expenses	288	254	82	74	62
PBT	2,271	3,197	6,000	7,907	9,903
Total tax	632	684	1,668	2,056	2,575
<i>Effective Tax rate (%)</i>	<i>27.8</i>	<i>21.4</i>	<i>27.8</i>	<i>26.0</i>	<i>26.0</i>
PAT	1,639	2,513	4,331	5,851	7,328
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	1,639	2,513	4,331	5,851	7,328

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Share Capital	444	444	444	888	888
Reserves & Surplus	3,746	5,486	8,523	12,632	17,778
Shareholder's Fund	5,579	7,319	10,356	14,909	20,055
Preference Share Capital	-	-	-	-	-
Total Debt	1,666	730	680	580	480
Other Liabilities (net)	-	-	-	-	-
Deferred Tax Liability	187	53	21	(19)	(69)
Total Liabilities	7,432	8,102	11,057	15,470	20,466
Gross Block	6,058	6,374	6,855	7,716	8,704
Less: Depreciation	3,259	3,696	3,971	4,499	5,052
Net Block	2,800	2,678	2,884	3,217	3,651
Capital Work in Progress	195	123	194	194	194
Cash & Cash Equivalent	580	1,989	11,109	14,306	18,422
Total Current Assets	14,823	18,235	34,465	44,926	55,117
Total Current Liabilities	10,402	12,949	26,512	32,893	38,522
Net Current Assets	4,421	5,285	7,953	12,033	16,595
Other Assets	-	-	-	-	-
Total Assets	7,432	8,102	11,057	15,470	20,466

Source: Company Data, PL Research

- Kochi terminal to de-risk going ahead:** We expect gradual de-risking of the Kochi terminal going ahead, which augers well for the company's business model. PLNG expects to replace the liquid fuel demand via LNG in the southern region. According to the management, there is a demand for the tune of around 35mmscmd (equivalent to around 9 MMTPA) in the southern markets. Thus, we believe the concerns over the utilisation of the Kochi terminal seem exaggerated.
- Adverse impact of high priced LNG exaggerated:** Key rationale for PLNG's recent subdued stock performance is the spurt in the International spot LNG prices. We believe fears of spot LNG prices exceeding the crude index prices and significant increase in the slope of the spot LNG to international crude oil prices is unlikely. Domestic demand continues to remain robust as indicated by volumes tie-up by PNG for Q3FY12. Also, the recent LNG agreement with GDF to source 0.6MMT of LNG point towards the fact that demand continues to remain strong.
- Upside to Dahej capacity Utilisation:** PLNG has operated its Dahej terminal at 106% utilisation in the Q2FY12. This is a commendable task, given the fact that during the quarter, Dahej terminal has been operating at 50% utilisation for the period of three days due to hooking activity for ONGC project (forming almost 1.6% quarter time). Also, as this was a monsoon quarter, flexibility to use the jetty would have been limited. Thus in H2FY12, jetty flexibility is bound to increase the volumes.
- Outlook and Valuation:** We continue to believe that the changing volume mix in favour of spot volumes on account of strong demand estimates is likely to keep PLNG in good stead. Moreover, we expect the strength in marketing margins to continue going ahead due to subdued domestic gas production profile. Increase news flows on the new LNG terminal planned on the east coast and capacity expansion at Dahej is likely to guide Petronet LNG into high growth orbit going ahead. While PLNG's utility nature of business (stable re-gasification margins and term contracts), low regulatory risks (re-gasification margins are not currently under PNGRB's purview), coupled with domestic gas shortages, will result in significant further upsides to the stock. We recommend 'BUY', with a DCF-based target price of Rs200/share.

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Revenue (Rs m)	84,287	106,491	131,973	208,646	267,750
<i>Growth (%)</i>	<i>28.6</i>	<i>26.3</i>	<i>23.9</i>	<i>58.1</i>	<i>28.3</i>
EBITDA (Rs m)	9,013	8,465	12,163	18,274	19,853
PAT (Rs m)	5,184	4,045	6,196	10,176	10,409
EPS (Rs)	6.9	5.4	8.3	13.6	13.9
<i>Growth (%)</i>	<i>9.2</i>	<i>-22.0</i>	<i>53.2</i>	<i>64.2</i>	<i>2.3</i>
Net DPS (Rs)	1.8	1.8	2.0	2.1	2.4

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin (%)	10.7	7.9	9.2	8.8	7.4
RoE (%)	28.8	19.2	25.2	32.9	26.5
RoCE (%)	15.7	11.7	14.1	17.0	14.6
EV / sales (x)	1.6	1.3	1.1	0.7	0.6
EV / EBITDA (x)	14.8	16.4	12.2	8.5	7.9
PER (x)	22.6	29.0	18.9	11.5	11.3
P / BV (x)	5.9	5.2	4.4	3.3	2.7
Net dividend yield (%)	1.1	1.1	1.3	1.3	1.5

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(9.1)	11.0	28.3
Relative to Sensex	(2.9)	21.4	44.6

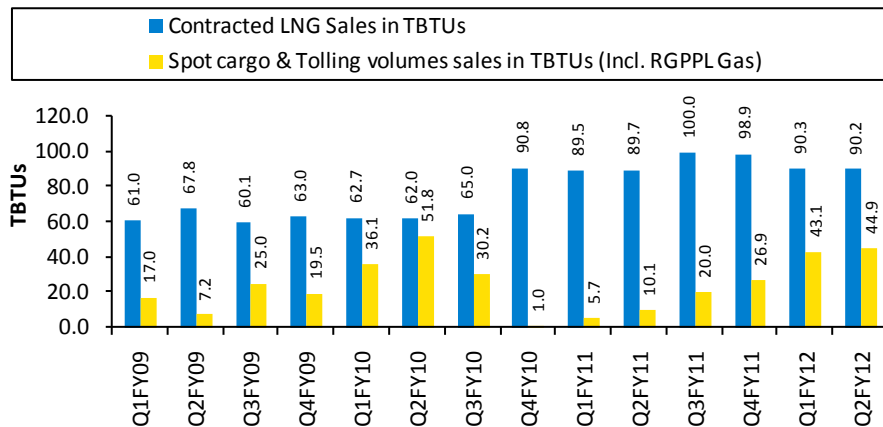
Operating Metrics

Petronet LNG

Y/e March	FY09	FY10E	FY11E	FY12E	FY13E
Installed capacity (TBTU)	331	586	586	586	586
Total volumes processed (TBTU)	325	405	442	538	573
Fixed contract (Rasgas)	252	252	252	252	252
Fixed contract (Rasgas Tranche 'A')	-	29	126	125	125
Spot/medium term contracts	69	104	36	118	153
Tolling Volumes	-	15.2	25.0	40.0	40.0
Total Volumes processed (MMTPA)	6.4	7.9	8.7	10.6	11.2
Effective capacity utilisation	98.2%	69.1%	75.4%	91.8%	97.7%
Regasification charges (Rs per mmbtu)	29.2	30.6	32.2	33.8	35.5
EBDITA per TBTU (Rs)	28.1	21.2	27.7	34.1	33.3

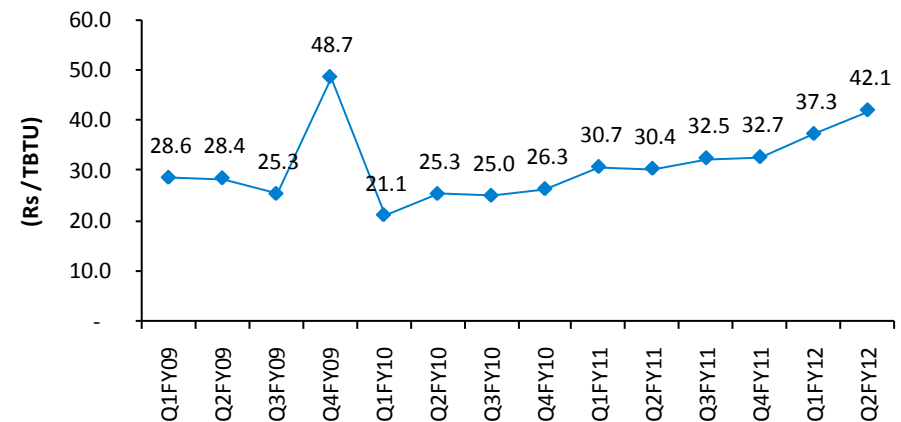
Source: Company Data, PL Research

R-LNG volumes



Source: Company Data, PL Research

Netback / TBTU



Source: Company Data, PL Research

Financials

Petronet LNG

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	84,287	106,491	131,973	208,646	267,750
Direct Expenses	73,756	96,648	118,012	188,293	244,880
<i>% of Net Sales</i>	<i>87.5</i>	<i>90.8</i>	<i>89.4</i>	<i>90.2</i>	<i>91.5</i>
Employee Cost	196	204	306	325	519
<i>% of Net Sales</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	1,322	1,174	1,493	1,754	2,499
<i>% of Net Sales</i>	<i>1.6</i>	<i>1.1</i>	<i>1.1</i>	<i>0.8</i>	<i>0.9</i>
EBITDA	9,013	8,465	12,163	18,274	19,853
<i>Margin (%)</i>	<i>10.7</i>	<i>7.9</i>	<i>9.2</i>	<i>8.8</i>	<i>7.4</i>
Depreciation	1,025	1,609	1,847	1,848	2,758
PBIT	7,988	6,856	10,316	16,426	17,094
Interest Expenses	1,012	1,839	1,931	1,888	2,557
PBT	7,740	5,995	9,064	15,238	15,587
Total tax	2,556	1,950	2,868	5,062	5,178
<i>Effective Tax rate (%)</i>	<i>33.0</i>	<i>32.5</i>	<i>31.6</i>	<i>33.2</i>	<i>33.2</i>
PAT	5,184	4,045	6,196	10,176	10,409
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	5,184	4,045	6,196	10,176	10,409

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	7,500	7,500	7,500	7,500	7,500
Reserves & Surplus	12,334	14,849	19,302	27,647	35,952
Shareholder's Fund	19,834	22,349	26,802	35,147	43,452
Preference Share Capital	-	-	-	-	-
Total Debt	22,817	24,998	32,161	40,561	46,875
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	2,722	3,262	3,480	3,581	3,995
Total Liabilities	45,373	50,609	62,443	79,290	94,322
Gross Block	19,748	35,495	35,537	35,537	77,551
Less: Depreciation	5,062	6,667	8,513	10,361	13,119
Net Block	14,686	28,829	27,024	25,176	64,432
Capital Work in Progress	18,470	13,184	22,029	38,279	9,020
Cash & Cash Equivalent	9,621	8,791	13,189	14,091	18,509
Total Current Assets	18,097	12,216	13,875	22,567	32,323
Total Current Liabilities	8,922	9,006	12,134	18,381	23,616
Net Current Assets	9,175	3,211	1,741	4,186	8,707
Other Assets	-	-	-	-	-
Total Assets	45,373	50,609	62,443	79,290	93,807

Source: Company Data, PL Research

- Technology edge:** Access to parent technology given frequent change in emissions regulations, which necessitate continuous innovation, gives technology edge to Cummins to leap frog competition and also commend premium in the market. Change in emission norms for off high way machines to be implemented from April 2011 to help drive growth for the industrial segment. With ~40% share in global mining equipment industry, it will leverage its expertise in the global market to tap Indian markets. Entry of private miners is also increasing the demand for higher HP products..It is likely to be the biggest beneficiary oh change in emission norms for diesel genset in July 2013. Even in difficult time like last 6 months the company has been able to take 2 price hikes and still maintain market share.
- Wide product range and reach:** Wide product range across the entire range of engines from 7.5- 2000kVA and High penetration with channel partners. largest network of dealers, spare & service availability , low operating expense of its machines and pricing are the key success variables for Cummins. It has 4 Zonal Offices , 19 Area Offices, 44 Dealerships,,212 Dealer Branch offices, 7 Depots and more than 2000 Trained Engrs & technicians .
- India's importance in the global scheme:** Cummins Inc sees India operation . as a growth market and as a low-cost manufacturing destination for global sales. the group sees India's contribution to its global business rising to 15 per cent from the current 10 per cent It has invested heavily in capacity building in India. It is building 5-6 new factories in Phlatan mega site(Fig 1) with a capex of ~Rs 6-7bn over next 2-3 years.
- Outlook:** The stock is currently trading at 14.7x FY13E earnings. Though there might be some near-term pain due to macro concerns , we believe the company is on track to double its turn over the next five years. With investment in capacity and technology leadership, the company will be able to capitalize once the market bounces back. Strong balance sheet and cash flow will continue to support valuations. We maintain our 'BUY' rating on the stock

Key Financials (Rs m)

Y/e March	FY09	FY10	FY11	FY12E	FY13E
Revenue (Rs m)	35,986	28,990	40,568	43,118	48,122
<i>Growth (%)</i>	<i>30.3</i>	<i>-19.4</i>	<i>39.9</i>	<i>6.3</i>	<i>11.6</i>
EBITDA (Rs m)	5,995	5,817	7,748	7,028	8,373
PAT (Rs m)	4,629	4,559	5,992	5,146	6,402
EPS (Rs)	16.7	16.5	21.6	18.6	23.1
<i>Growth (%)</i>	<i>32.0</i>	<i>-1.5</i>	<i>31.4</i>	<i>-14.2</i>	<i>24.4</i>
Net DPS (Rs)	6.4	8.6	10.7	7.4	8.1

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY09	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	16.7	20.1	19.1	16.3	17.4
RoE (%)	34.0	29.9	35.6	26.5	28.1
RoCE (%)	33.4	29.8	35.5	26.1	27.7
EV / sales (x)	2.6	3.2	2.3	2.2	1.9
EV / EBITDA (x)	15.6	16.1	12.0	13.4	11.1
PER (x)	20.3	20.6	15.7	18.3	14.7
P / BV (x)	6.3	6.0	5.2	4.5	3.8
Net dividend yield (%)	1.9	2.5	3.2	2.2	2.4

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(10.1)	(30.2)	(38.1)
Relative to Sensex	(4.0)	(19.8)	(21.9)

Operating Metrics

Cummins India

Sales Break-up (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Domestic	20,210	24,660	29,605	30,213	33,310
<i>% of Net Sales</i>	<i>61.2%</i>	<i>85.1%</i>	<i>73.0%</i>	<i>71.5%</i>	<i>70.6%</i>
<i>YoY</i>	<i>26.2%</i>	<i>22.0%</i>	<i>20.1%</i>	<i>2.1%</i>	<i>10.2%</i>
Exports	12,830	4,330	10,963	12,059	13,868
<i>% of Net Sales</i>	<i>38.8%</i>	<i>14.9%</i>	<i>27.0%</i>	<i>28.5%</i>	<i>29.4%</i>
<i>YoY</i>	<i>76.2%</i>	<i>-66.3%</i>	<i>153.2%</i>	<i>10.0%</i>	<i>15.0%</i>
Total	33,040	28,990	40,568	42,273	47,178
<i>YoY</i>	<i>41.8%</i>	<i>-12.3%</i>	<i>39.9%</i>	<i>4.2%</i>	<i>11.6%</i>

Source: Company Data, PL Research

Phaltan capacity expansion

Facility	Comments	Status	
Unit 1	HHP rebuild center	Rebuilds mechanical/electronic engines from 19L to 60L	Operational
Unit 2	Tata Cummins Limited	Manufacturing the B series & ISB electronic engines for Tata Cummins	Operational
Unit 3	ReCon facility	Remanufacturing facility for parts and engines	Operational
Unit 4	Parts distribution center	Takes care of distribution business	Operational by Aug'11
Unit 5	Engine upfit plant	Upfit B series engines, manufacture C series	Planned
Unit 6	Power genset plant	Targeted for export; expected capacity 40K/annum	Planned
Unit 7	Mid range HP engines	Engines ranging from 6L to 9L	Planned
Unit 8	Fuel systems plant	Fuel systems for various applications, including off highway trucks	Planned
Unit 9	Large size engines	Engines ranging from 19L to 60L	Planned

Source: Company Data, PL Research

Segmental Break-up (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
PGBU	10,020	10,410	13,533	12,856	13,885
<i>YoY</i>	<i>0.0%</i>	<i>3.9%</i>	<i>30.0%</i>	<i>-5.0%</i>	<i>8.0%</i>
<i>% of Net Sales</i>	<i>29.8%</i>	<i>35.8%</i>	<i>33.4%</i>	<i>30.4%</i>	<i>29.4%</i>
IBU	3,550	4,390	5,575	5,687	6,142
<i>YoY</i>	<i>0.0%</i>	<i>23.7%</i>	<i>27.0%</i>	<i>2.0%</i>	<i>8.0%</i>
<i>% of Net Sales</i>	<i>10.5%</i>	<i>15.1%</i>	<i>13.8%</i>	<i>13.5%</i>	<i>13.0%</i>
Auto	1,060	2,590	2,616	2,747	3,021
<i>YoY</i>	<i>0.0%</i>	<i>144.3%</i>	<i>1.0%</i>	<i>5.0%</i>	<i>10.0%</i>
<i>% of Net Sales</i>	<i>3.1%</i>	<i>8.9%</i>	<i>6.5%</i>	<i>6.5%</i>	<i>6.4%</i>
DBU	6,210	7,390	8,499	8,923	10,262
<i>YoY</i>	<i>0.0%</i>	<i>19.0%</i>	<i>15.0%</i>	<i>5.0%</i>	<i>10.0%</i>
<i>% of Net Sales</i>	<i>18.4%</i>	<i>25.4%</i>	<i>21.0%</i>	<i>21.1%</i>	<i>21.8%</i>
Exports	12,830	4,330	10,262	12,059	13,868
<i>YoY</i>	<i>0.0%</i>	<i>-66.3%</i>	<i>137.0%</i>	<i>5.0%</i>	<i>10.0%</i>
<i>% of Net Sales</i>	<i>38.1%</i>	<i>14.9%</i>	<i>25.3%</i>	<i>28.5%</i>	<i>29.4%</i>
Total	33,671	29,113	40,486	42,273	47,178

Source: Company Data, PL Research

Financials

Cummins India

Income Statement (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Net Revenue	35,986	28,990	40,568	43,118	48,122
Direct Expenses	23,741	18,358	25,808	27,811	31,038
<i>% of Net Sales</i>	<i>66.0</i>	<i>63.3</i>	<i>63.6</i>	<i>64.5</i>	<i>64.5</i>
Employee Cost	2,301	1,953	2,546	2,975	3,320
<i>% of Net Sales</i>	<i>6.4</i>	<i>6.7</i>	<i>6.3</i>	<i>6.9</i>	<i>6.9</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	3,948	2,864	4,466	5,304	5,390
<i>% of Net Sales</i>	<i>11.0</i>	<i>9.9</i>	<i>11.0</i>	<i>12.3</i>	<i>11.2</i>
EBITDA	5,995	5,817	7,748	7,028	8,373
<i>Margin (%)</i>	<i>16.7</i>	<i>20.1</i>	<i>19.1</i>	<i>16.3</i>	<i>17.4</i>
Depreciation	482	361	366	389	478
PBIT	5,514	5,456	7,382	6,640	7,896
Interest Expenses	34	21	19	68	18
PBT	6,191	6,109	8,023	7,216	8,740
Total tax	1,738	1,670	2,114	2,165	2,447
<i>Effective Tax rate (%)</i>	<i>28.1</i>	<i>27.3</i>	<i>26.3</i>	<i>30.0</i>	<i>28.0</i>
PAT	4,629	4,559	5,992	5,146	6,402
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	4,629	4,559	5,992	5,146	6,402

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	396	396	396	554	554
Reserves & Surplus	14,456	15,214	17,667	20,525	24,350
Shareholder's Fund	14,852	15,610	18,063	20,842	24,667
Preference Share Capital	-	-	-	-	-
Total Debt	261	-	183	683	183
Other Liabilities(net)	19	-	-	-	-
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	15,132	15,610	18,245	21,525	24,850
Gross Block	7,572	7,776	9,144	12,144	13,644
Less: Depreciation	4,423	4,440	4,734	5,122	5,600
Net Block	3,149	3,337	4,411	7,022	8,044
Capital Work in Progress	3	-	-	-	-
Cash & Cash Equivalent	4,917	7,888	8,292	8,059	9,590
Total Current Assets	15,313	12,672	16,804	17,988	20,443
Total Current Liabilities	7,985	7,812	10,411	10,928	12,081
Net Current Assets	7,328	4,860	6,393	7,060	8,363
Other Assets	238	84	187	189	189
Total Assets	15,136	15,610	18,245	21,525	24,850

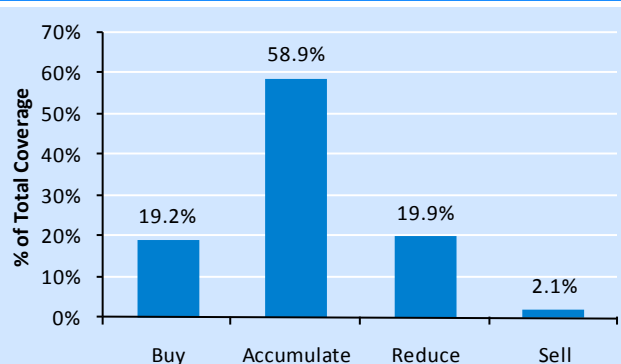
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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