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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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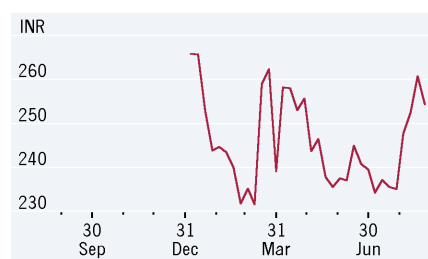
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DB Corp (DBCL.BO)

Buy/Low Risk	1L
Price (26 Aug 10)	Rs259.60
Target price	Rs280.00
Expected share price return	7.9%
Expected dividend yield	1.0%
Expected total return	8.8%
Market Cap	Rs47,124M
	US\$1,005M

Price Performance (RIC: DBCL.BO, BB: DBCL IN)



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Broad Exposure Supports Structural Growth

- **Healthy advertising growth** — Ad market turnaround is visible over the last 2-3 quarters; management has spoken about ad rates hikes of ~10%-12%. One needs to understand the drivers of growth going forward, including discussing details on advertiser's profile, increasing proportion of color ads, and potential for yield improvement.
- **Newsprint headwinds ahead?** — Newsprint is the largest cost item for DBCL. As newsprint prices inch up from their multi year lows of FY10, gross margins could be impacted in 2HFY11 and FY12. The current outlook on newsprint prices and the factors driving demand supply dynamics need to be understood. Existing low cost inventory, higher proportion of indigenous newsprint (~82% now, ~57% in FY06), and an appreciating rupee, should aid margins to some extent.
- **Bihar & Jharkhand launch** — Low penetration and relatively higher growth in these states makes DBCL's expansion strategy attractive. Management expects EBITDA losses of Rs1bn-1.2bn over the next three years, with capex to the tune of Rs700m-800m for these forays. Strategically, entry into high growth regional markets (current ad market size of ~Rs2bn) is a long-term positive, in our view. However, the launch strategy, break-even timelines, and competition can be discussed.
- **Radio business** — The recent radio business demerger from SMEL and merger with itself, could lead to some tax benefits accruing to DBCL, given SMEL's accumulated losses. Also, management views on regulatory changes permitting news on FM radio and Phase 3 bidding could be looked into. Radio companies had challenged the royalty rates being the same for metros and non metros, and recent talk by the government in favor of the radio companies could be a positive.
- **Stable margins** — Management expects stable EBITDA margins of ~29%-33% in the near- to medium-term, despite a rise in newsprint costs and the new launches. Discussions on cost rationalization initiatives, better contribution from maturing editions, ad buoyancy, etc. should help with understanding the profit growth drivers.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	476	2.82	-37.2	92.0	17.0	20.0	0.2
2010A	1,828	10.07	256.9	25.8	7.3	40.3	0.8
2011E	2,320	12.66	25.8	20.5	5.7	31.4	1.0
2012E	2,513	13.71	8.3	18.9	4.6	27.1	1.0
2013E	3,228	17.62	28.5	14.7	3.7	27.9	1.2

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	92.0	25.8	20.5	18.9	14.7
EV/EBITDA adjusted (x)	37.7	15.2	13.1	12.0	9.3
P/BV (x)	17.0	7.3	5.7	4.6	3.7
Dividend yield (%)	0.2	0.8	1.0	1.0	1.2
Per Share Data (Rs)					
EPS adjusted	2.82	10.07	12.66	13.71	17.62
EPS reported	2.82	10.07	12.66	13.71	17.62
BVPS	15.27	35.74	45.24	56.03	70.13
DPS	0.50	2.00	2.50	2.50	3.00
Profit & Loss (RsM)					
Net sales	9,490	10,505	12,223	14,393	16,638
Operating expenses	-8,426	-7,579	-8,985	-10,931	-12,259
EBIT	1,063	2,927	3,238	3,463	4,379
Net interest expense	-402	-245	-54	40	166
Non-operating/exceptionals	120	124	146	169	184
Pre-tax profit	782	2,806	3,330	3,672	4,730
Tax	-423	-1,057	-1,032	-1,175	-1,514
Extraord./Min.Int./Pref.div.	118	79	23	16	11
Reported net income	476	1,828	2,320	2,513	3,228
Adjusted earnings	476	1,828	2,320	2,513	3,228
Adjusted EBITDA	1,353	3,305	3,626	3,870	4,811
Growth Rates (%)					
Sales	11.6	10.7	16.3	17.8	15.6
EBIT adjusted	-28.5	175.2	10.6	6.9	26.5
EBITDA adjusted	-20.8	144.2	9.7	6.7	24.3
EPS adjusted	-37.2	256.9	25.8	8.3	28.5
Cash Flow (RsM)					
Operating cash flow	1,437	2,299	2,308	2,320	2,905
Depreciation/amortization	290	378	388	407	432
Net working capital	342	-244	-308	-391	-404
Investing cash flow	-3,773	-379	-612	-604	-279
Capital expenditure	-3,138	-382	-704	-814	-630
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	1,980	-421	-1,783	-1,036	-1,143
Borrowings	2,195	-2,424	-1,250	-500	-500
Dividends paid	-99	-424	-536	-536	-643
Change in cash	-356	1,499	-87	680	1,483
Balance Sheet (RsM)					
Total assets	10,914	12,420	13,194	15,027	17,481
Cash & cash equivalent	452	1,951	1,864	2,544	4,027
Accounts receivable	1,774	1,934	2,210	2,603	3,009
Net fixed assets	6,471	6,475	6,790	7,197	7,395
Total liabilities	8,213	5,889	4,875	4,732	4,601
Accounts payable	0	0	0	0	0
Total Debt	5,631	3,207	1,957	1,457	957
Shareholders' funds	2,701	6,531	8,318	10,295	12,880
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	14.3	31.5	29.7	26.9	28.9
ROE adjusted	20.0	40.3	31.4	27.1	27.9
ROIC adjusted	9.6	23.0	25.9	24.8	28.9
Net debt to equity	191.8	19.2	1.1	-10.6	-23.8
Total debt to capital	67.6	32.9	19.0	12.4	6.9

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DB Corp

Company description

DB Corp (DBCL) is one of India's leading publishing houses, with newspapers cumulatively commanding the highest readership in the country (average daily readership of 15.5m). The company benefits from a strong position in key non-metro markets like Madhya Pradesh, Chattisgarh, Rajasthan, Gujarat, Punjab, and Haryana. In total, it publishes seven newspapers, 48 newspaper editions, and around 130 sub-editions in three languages (Hindi, Gujarati, and English) in 11 Indian states. The company has interests in radio under the MY FM brand, operating in 17 FM radio stations across mini metros and small towns. Another subsidiary, I Media Corp provides exposure to internet and short messaging service (SMS) portals.

Investment strategy

We rate DBCL as Buy/Low Risk (1L) with a target price of Rs280. The company is well placed in key regional markets, growing at a faster pace than the industry average. Superior execution skills, localization of content/advertising, and scale result in strong competitive positioning. We expect 17% PAT CAGR over FY10E-12E, backed by multiple growth drivers. Strong growth in the Indian advertising market on strong economic growth, sustainable ad rate hikes, and breakeven of maturing editions, are significant drivers. With newsprint prices still ~20%-25% off peak levels, margins have rebounded sharply over the recent past. In FY11, we expect stable operating margins (~30% EBITDA margins) as we think healthy advertising growth (~17.5% YoY), better cost controls, and contribution from newer editions, should be able to offset newsprint increase.

Valuation

Our Rs280 target price is based on 21x Sept-11E EPS, at a premium to the Asian peer average. Strong franchise, presence in growth markets and advertising upturn should help DBCL sustain premium valuations. Asian publishing companies trade at a FY11E P/E of ~15x with 3-year earnings CAGR (FY09-12E) of 2%. Our P/E target multiple of 21x for DBCL seems reasonable given its ~17% EPS CAGR (FY10-12E). The Indian print media companies trade at 10x-20x FY11E P/E based on consensus earnings estimates. Given its good visibility on revenues and a good track record of earnings, we believe earnings-based valuations are the best way to value DBCL.

Risks

Our quantitative risk-rating system, which tracks 260-day share price volatility, suggests a Low risk rating for DBCL. We believe this is justified given the company's solid positioning in high growth regional print markets. Key downside risks to our target price are: 1) escalation in newsprint prices could affect gross margins; 2) slowing economic activity in India would lead to a decline in ad industry revenues, hitting DBCL's revenues and profitability; 3) increased competition in any of DBCL's key markets and inability to break into newer markets could lead to more sales promotions/discounts; 4) Rupee depreciation could have an adverse impact as ~18% of the newsprint is imported and USD denominated.

Glenmark Pharmaceuticals (GLEN.BO)

Buy/Medium Risk	1M
Price (26 Aug 10)	Rs284.90
Target price	Rs350.00
Expected share price return	22.9%
Expected dividend yield	0.4%
Expected total return	23.2%
Market Cap	Rs76,927M US\$1,642M

Price Performance (RIC: GLEN.BO, BB: GNP IN)



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Market Awaiting a Clear Catalyst

- **Street awaiting a clear catalyst** — Glenmark has been range-bound on the bourses recently, despite its relatively attractive valuations, as the Street awaits signs that the recent improvement in the biz is sustainable. While most key markets have come back on the growth path, and the balance sheet is in better shape, the weakness in margins is surprising – the latter is a key issue to focus on.
- **Key markets back on track** — Glenmark has reported decent growth in its key markets such as India, US, and Latin America over the last few quarters. Some niche launches in the US, including Tarka “at risk”, should ensure that this sustains. While adverse currency trends and some destocking (in Poland) have hit growth in a few markets, secondary sales trends remain healthy.
- **Margin weakness surprising** — Excluding R&D income, EBIDTA margins dropped to 23.8% in 1QFY11, well below 28.6% clocked in FY10. Management has indicated that it would end up in the 25% range for the full year. This is surprisingly low, given that growth rates have picked up and FY11 will also include upside from the exclusive launch of Tarka in the US.
- **Balance sheet is better** — Net debt declined by c.Rs1.6bn in 1Q, as cash released from working capital (debtor days down to 131) was used to repay debt. GLEN was also able to restructure its debt to bring down cost, as visible in the sharp 37% dip in interest cost. We expect further improvement over the full year.
- **R&D: potential catalyst but timing uncertain** — Despite setbacks on two lead NCEs, GNP’s R&D pipeline could be a key value driver – although it is difficult to time any catalyst. It has recently licensed out a pain molecule (GRC-15300) to Sanofi (upfront income: US\$20m) and has several more molecules in the pipeline. As the stock appears to build in no R&D value, this could provide a clear catalyst.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2008A	6,321	23.59	104.4	12.1	4.7	57.4	0.2
2009A	2,739	10.22	-56.7	27.9	4.5	17.6	0.1
2010E	3,592	13.18	28.9	21.6	3.3	18.4	0.4
2011E	5,712	20.95	59.0	13.6	2.7	22.2	0.4
2012E	5,939	21.78	4.0	13.1	2.3	19.0	0.4

Source: Powered by dataCentral

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	12.1	27.9	21.6	13.6	13.1
EV/EBITDA adjusted (x)	10.6	15.6	13.4	9.5	9.0
P/BV (x)	4.7	4.5	3.3	2.7	2.3
Dividend yield (%)	0.2	0.1	0.4	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	23.59	10.22	13.18	20.95	21.78
EPS reported	23.59	7.22	11.73	20.95	21.78
BVPS	61.03	63.79	85.43	105.47	126.36
DPS	0.69	0.40	1.00	1.00	1.00
Profit & Loss (RsM)					
Net sales	19,757	20,865	24,695	29,556	32,111
Operating expenses	-12,469	-16,042	-19,043	-21,681	-24,207
EBIT	7,288	4,823	5,651	7,876	7,904
Net interest expense	-632	-1,405	-1,576	-1,177	-977
Non-operating/exceptionals	458	-729	-269	101	142
Pre-tax profit	7,115	2,689	3,806	6,800	7,070
Tax	-794	-754	-609	-1,088	-1,131
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	6,321	1,935	3,197	5,712	5,939
Adjusted earnings	6,321	2,739	3,592	5,712	5,939
Adjusted EBITDA	8,005	5,850	7,065	9,439	9,606
Growth Rates (%)					
Sales	61.7	5.6	18.4	19.7	8.6
EBIT adjusted	89.8	-33.8	17.2	39.4	0.4
EBITDA adjusted	87.8	-26.9	20.8	33.6	1.8
EPS adjusted	104.4	-56.7	28.9	59.0	4.0
Cash Flow (RsM)					
Operating cash flow	3,718	159	5,017	6,801	6,859
Depreciation/amortization	717	1,027	1,413	1,563	1,702
Net working capital	-3,846	-3,877	-621	-1,768	-1,843
Investing cash flow	-5,099	-9,502	-2,199	-2,099	-1,908
Capital expenditure	-5,174	-9,561	-2,400	-2,200	-2,050
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	1,785	8,747	-2,991	-3,492	-4,292
Borrowings	692	9,838	-5,235	-2,000	-3,000
Dividends paid	-201	0	-315	-315	-315
Change in cash	404	-596	-173	1,210	659
Balance Sheet (RsM)					
Total assets	29,256	42,089	44,534	48,944	52,481
Cash & cash equivalent	1,565	715	1,012	2,222	2,881
Accounts receivable	8,069	9,553	9,878	11,470	12,844
Net fixed assets	12,557	21,117	22,103	22,740	23,088
Total liabilities	14,062	26,076	21,503	20,517	18,430
Accounts payable	3,030	4,399	4,939	5,735	6,422
Total Debt	9,909	20,943	15,708	13,708	10,708
Shareholders' funds	15,194	16,013	23,031	28,428	34,051
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	40.5	28.0	28.6	31.9	29.9
ROE adjusted	57.4	17.6	18.4	22.2	19.0
ROIC adjusted	32.3	13.3	13.4	17.1	16.2
Net debt to equity	54.9	126.3	63.8	40.4	23.0
Total debt to capital	39.5	56.7	40.5	32.5	23.9

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Glenmark Pharmaceuticals

Company description

Glenmark Pharmaceuticals is a fully integrated research-based pharmaceutical company, with a business model spanning drug discovery research, APIs, and formulations in the domestic and international markets. It operates in more than 65 countries, including the regulated markets of the US and Europe, with around 60% of its revenues coming from overseas markets. The company came into the limelight in September 2004 after it licensed out the US market rights of its first new chemical entity (NCE), GRC-3886, to Forest Laboratories.

Investment strategy

We have a Buy/Medium Risk (1M) rating on Glenmark. At current levels, the stock trades at reasonable valuations for the base business and does not appear to build in any value for its R&D pipeline. Meanwhile, there are signs of a turnaround in the company's core (non R&D) business and we believe that the worst may be behind us. We now have more comfort on the sustainability of positive trends in the core biz, with Glenmark being able to bring down debtor days, generate cash, and pay down debt. We believe recent underperformance in the stock and the signs of a recovery in Glenmark's core business have improved the risk reward for investors.

Valuation

Our target price for Glenmark Pharmaceuticals of Rs350 is based on 16x Sept-11E EPS for the base business. We are now more comfortable with the sustainability of the positive trends seen in Glenmark's key markets. This, along with the improvement in balance sheet (lower leverage, tighter working capital), lead us to use a multiple of 16x, a 10%-20% discount (to factor in the higher risk / uncertainty in the biz and weaker balance sheet) to that applied to sector leaders, such as Sun, Cipla, Dr Reddy's & Lupin, when valuing the base biz. At 16x Sept-11E EPS we arrive at a value of Rs325/sh for the base biz. Our TP also includes an option value of Rs25/sh for Glenmark's R&D deal with Sanofi for GRC-15300. Cumulatively, we arrive at a TP of Rs350/sh.

Risks

We rate Glenmark as Medium Risk, as we do not see any major downside on the R&D front in the near- to medium-term. Downside risks to our target price include: (1) Continued delay in product approvals would impact sales and profitability; (2) Glenmark's efforts to build its own front-end in regulated markets, if poorly executed, could prove to be a drag on earnings; and (3) Growing competition, rapid price erosion, and fragmented market share are risks inherent to the generics business.

Infosys Technologies (INFY.BO)

Hold/Low Risk	2L
Price (26 Aug 10)	Rs2,763.50
Target price	Rs3,065.00
Expected share price return	10.9%
Expected dividend yield	1.1%
Expected total return	12.0%
Market Cap	Rs1,578,145M US\$33,689M

Price Performance (RIC: INFY.BO, BB: INFO IN)



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Good Company But Limited Valuation Upside

- **Demand outlook** — With mixed signals emanating from the US, and concerns around Europe still lingering, demand outlook is a key focus area. Indicators, such as decision making speed, pipeline conversion rates, new development projects, etc., should be the issues to discuss. Management's sense of growth in the recent past due to pent up demand, and sustainability of the same in future, should be gauged.
- **Pricing scenario** — Management has indicated that pricing has stabilized, with declines seen in the last few quarters the tail effect of renegotiations that happened last year. Future prospects and scope for pricing increases could be an area worth exploring with the management.
- **Margin management** — Infosys has historically been known for its cost optimization abilities. However, wage hikes, INR appreciation and investments in sales and marketing could be near-term dampeners. Margin levers available to management in order to maintain margins could be an area of focus.
- **Supply side dynamics** — (1) Availability of talent (engineers) for next few years; (2) Initiatives on training; (3) Right-skilling of employees (e.g. hiring of science graduates); and (4) Expectation for wage hikes in the future.
- **Usage of cash balance** — The cash balance at the end of 1Q was US\$3.4bn, a big positive in an uncertain environment. The usage of cash, for higher dividend/buy-back/inorganic activity, could be explored.
- **SEZ strategy** — Infosys' SEZ readiness, given the expectation of STPI sunset coming into effect from FY12, should be discussed. Expectations of the tax rate in FY11/12/13E etc. needs to be understood.

Statistical Abstract

Year to 31 Mar	Net Profit (Rsm)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	59,880	104.42	28.5	26.5	8.7	37.4	0.9
2010A	62,660	109.31	4.7	25.3	6.8	30.3	0.9
2011E	70,174	122.82	12.4	22.5	5.6	27.3	1.1
2012E	82,703	144.76	17.9	19.1	4.6	26.3	1.3
2013E	95,946	167.93	16.0	16.5	3.8	25.2	1.5

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	26.5	25.3	22.5	19.1	16.5
EV/EBITDA adjusted (x)	20.8	18.5	15.5	12.8	10.6
P/BV (x)	8.7	6.8	5.6	4.6	3.8
Dividend yield (%)	0.9	0.9	1.1	1.3	1.5
Per Share Data (Rs)					
EPS adjusted	104.42	109.31	122.82	144.76	167.93
EPS reported	104.42	109.31	122.82	144.76	167.93
BVPS	318.71	403.77	495.52	604.35	730.37
DPS	23.50	25.00	31.00	36.00	42.00
Profit & Loss (RsM)					
Net sales	216,930	227,420	270,390	323,134	377,585
Operating expenses	-152,590	-157,860	-188,530	-226,736	-265,962
EBIT	64,340	69,560	81,860	96,398	111,623
Net interest expense	4,730	9,910	11,088	14,218	16,736
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	69,070	79,470	92,947	110,616	128,358
Tax	-9,190	-16,810	-22,774	-27,913	-32,413
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	59,880	62,660	70,174	82,703	95,946
Adjusted earnings	59,880	62,660	70,174	82,703	95,946
Adjusted EBITDA	71,950	78,610	90,743	107,270	124,142
Growth Rates (%)					
Sales	30.0	4.8	18.9	19.5	16.9
EBIT adjusted	38.7	8.1	17.7	17.8	15.8
EBITDA adjusted	37.4	9.3	15.4	18.2	15.7
EPS adjusted	28.5	4.7	12.4	17.9	16.0
Cash Flow (RsM)					
Operating cash flow	50,670	57,270	66,961	73,490	85,279
Depreciation/amortization	7,610	9,050	8,883	10,872	12,519
Net working capital	-12,020	-1,470	-1,008	-5,867	-6,451
Investing cash flow	-13,380	-9,060	-17,131	-22,283	-23,442
Capital expenditure	-13,380	-9,060	-17,131	-22,283	-23,442
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	-15,290	-12,390	-20,022	-20,557	-23,984
Borrowings	0	2,320	-2,320	0	0
Dividends paid	-13,456	-14,294	-17,702	-20,557	-23,984
Change in cash	22,000	35,820	29,808	30,650	37,853
Balance Sheet (RsM)					
Total assets	221,260	277,360	332,054	405,630	487,290
Cash & cash equivalent	96,950	105,560	146,456	191,324	245,912
Accounts receivable	36,720	34,940	41,910	51,701	60,414
Net fixed assets	53,540	53,550	61,798	73,209	84,132
Total liabilities	38,720	46,870	49,092	60,523	70,220
Accounts payable	20,040	23,430	28,854	36,287	42,022
Total Debt	0	0	0	0	0
Shareholders' funds	182,540	230,490	282,962	345,108	417,070
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	33.2	34.6	33.6	33.2	32.9
ROE adjusted	37.4	30.3	27.3	26.3	25.2
ROIC adjusted	73.1	62.0	65.3	66.0	65.4
Net debt to equity	-53.1	-45.8	-51.8	-55.4	-59.0
Total debt to capital	0.0	0.0	0.0	0.0	0.0

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Infosys Technologies

Company description

Infosys is the second-largest Indian IT services company with close to 115,000 professionals, and is a leader in the offshore services space. Infosys provides business consulting, application development & maintenance and engineering services to ~590 clients across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing and Utilities in the Americas, Europe and Asia Pacific. Infosys also sells a core banking application, Finacle, which is used by leading banks in India, the Middle East, Africa, and Europe. Its subsidiary, Infosys BPO, which employs ~19,000 people, is a provider of BPO services.

Investment strategy

We rate Infosys shares as Hold/Low Risk (2L) for valuation reasons. We are positive on the company's fundamentals. Offshore IT outsourcing has become a mainstream option, and we think that scale and scalability, along with an ability to move up the value chain, are key criteria for successful offshore vendors. In this respect, Infosys appears well positioned and continues to gain ground given its strong branding and industry-leading sales force. We expect Infosys to deliver a revenue CAGR of ~22% (\$-terms) and an earnings CAGR of ~15% for FY10-13E. Unlike other high-growth firms in other industries, Infosys continues to generate solid FCF and its RoE of ~30% remains well above its cost of capital.

Valuation

Our Rs3,065 target price for Infosys is based on 22x Dec-11E EPS. This is around the mid-point of the last 3-year trading band of 11x-30x 12-month forward earnings and factors in some deceleration in growth. Our estimates continue to assume a certain PE premium to the market; this is justified, in our view, given the strong FCF and ROIC for Infosys vs. the overall market. We believe PE remains the most appropriate valuation measure given Infosys' profitability record and higher earnings visibility.

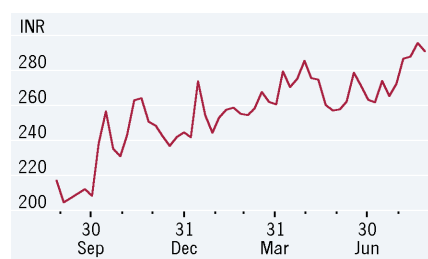
Risks

We rate Infosys Low Risk which is inline with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price include: (1) Any significant appreciation of the rupee against the USD/EUR/GBP; (2) Pressure on billing rates (as Infosys still continues to enjoy a 10-15% premium in its billing rates); and (3) A prolonged slowdown in the US economy. Key upside risks include: (1) Any significant depreciation of the rupee against the USD/EUR/GBP; and (2) A pickup in the US/global economy leading to better-than-expected spends.

IRB Infrastructure Developers (IRBI.BO)

Sell/Medium Risk	3M
Price (26 Aug 10)	Rs291.05
Target price	Rs278.00
Expected share price return	-4.5%
Expected dividend yield	0.0%
Expected total return	-4.5%
Market Cap	Rs96,735M
	US\$2,065M

Price Performance (RIC: IRBI.BO, BB: IRB IN)



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May Benefit from Strong Macro Tailwinds, But Expensive

- Leading player, looks well positioned to benefit from strong macro tailwinds** — NHAI intends to award 12,000km of road contracts in FY11 (~4x the FY10 level). IRB has a portfolio of 16 road assets covering ~1,250km. It has a market share of 7% in GQ projects and ~12% in NHAI FY10 project awards. While we do not expect IRB to maintain its current market share in future projects given larger rollouts, it looks well positioned to win a reasonable share of projects based on its technical qualifications and net worth.
- PAT CAGR estimated at 15% over the next two years** — 1) A revenue CAGR of 46% over the next two years due to project ramp-ups; 2) An EBITDA margin decline of 745bp due to a higher percentage of lower-margin EPC revenues. In its FY10 investor meeting, management indicated that another Rs60-80bn of projects can be funded without resorting to dilution. Our sense is that if the order flow is strong and faster-than-expected, there could be dilution.
- Capturing entire economic value chain in-house** — IRB has an in-house construction business, which undertakes the construction of road projects. Similarly, the operation and maintenance activities, including toll collection, pertaining to BOT projects are also executed within the IRB group. This not only captures the entire value chain in-house, but also reduces IRB's dependence on third-party contractors/sub-contractors.
- Pure play on roads, making it look expensive** — IRB is one of very few listed pure plays on roads in India and has already extracted a scarcity premium, which we think would limit its upside potential from current levels. IRB is trading at an average P/E of ~20x FY11E, in-line with mid-cap E&C peers but at a 31% premium to its global peers. We might become more constructive on the stock, all things being equal, if the price were to fall lower and if order wins surprise to the upside

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2008A	1,139	3.43	276.0	84.9	6.0	11.4	0.0
2009A	1,758	5.29	54.4	55.0	5.6	10.5	0.6
2010E	3,854	11.60	119.2	25.1	4.7	20.4	0.5
2011E	4,828	14.53	25.3	20.0	3.8	21.0	0.0
2012E	5,091	15.32	5.4	19.0	3.2	18.2	0.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	84.9	55.0	25.1	20.0	19.0
EV/EBITDA adjusted (x)	27.8	25.9	15.1	11.1	9.9
P/BV (x)	6.0	5.6	4.7	3.8	3.2
Dividend yield (%)	0.0	0.6	0.5	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	3.43	5.29	11.60	14.53	15.32
EPS reported	3.43	5.29	11.60	14.53	15.32
BVPS	48.76	52.05	61.89	76.42	91.74
DPS	0.00	1.68	1.50	0.00	0.00
Profit & Loss (RsM)					
Net sales	7,327	9,919	17,049	29,463	36,443
Operating expenses	-4,224	-6,689	-10,877	-20,148	-25,922
EBIT	3,103	3,230	6,171	9,315	10,520
Net interest expense	-1,958	-1,377	-2,494	-2,531	-3,444
Non-operating/exceptionals	520	296	490	0	0
Pre-tax profit	1,666	2,149	4,167	6,785	7,076
Tax	-400	-378	-134	-1,818	-1,973
Extraord./Min.Int./Pref.div.	-126	-13	-179	-138	-13
Reported net income	1,139	1,758	3,854	4,828	5,091
Adjusted earnings	1,139	1,758	3,854	4,828	5,091
Adjusted EBITDA	4,119	4,374	7,991	11,613	14,211
Growth Rates (%)					
Sales	139.7	35.4	71.9	72.8	23.7
EBIT adjusted	175.0	4.1	91.1	50.9	12.9
EBITDA adjusted	149.0	6.2	82.7	45.3	22.4
EPS adjusted	276.0	54.4	119.2	25.3	5.4
Cash Flow (RsM)					
Operating cash flow	1,895	1,870	7,406	10,017	9,231
Depreciation/amortization	1,016	1,144	1,819	2,298	3,690
Net working capital	-419	-1,200	1,554	2,753	437
Investing cash flow	-5,904	-7,237	-14,357	-18,240	-27,081
Capital expenditure	-4,333	-8,114	-14,357	-18,240	-27,081
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	5,527	4,293	7,921	10,409	17,747
Borrowings	-4,967	4,646	8,504	10,409	15,187
Dividends paid	0	-652	-583	0	0
Change in cash	1,518	-1,074	971	2,186	-102
Balance Sheet (RsM)					
Total assets	36,727	42,940	54,895	71,608	94,896
Cash & cash equivalent	5,221	4,147	5,118	7,304	7,202
Accounts receivable	0	0	0	0	0
Net fixed assets	27,737	34,707	47,244	63,186	86,576
Total liabilities	20,239	25,040	33,545	45,292	63,477
Accounts payable	0	0	0	0	0
Total Debt	20,212	24,859	33,363	43,773	58,960
Shareholders' funds	16,488	17,900	21,350	26,316	31,420
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	56.2	44.1	46.9	39.4	39.0
ROE adjusted	11.4	10.5	20.4	21.0	18.2
ROIC adjusted	9.7	8.5	14.0	13.6	11.7
Net debt to equity	90.9	115.7	132.3	138.6	164.7
Total debt to capital	55.1	58.1	61.0	62.5	65.2

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791



IRB Infrastructure Developers

Company description

Incorporated in 1998, IRB is one of the leading infrastructure companies in India focusing on development of roads and highways. IRB designs, builds and operates roads and highways. It manages one of the largest road portfolios in India - 16 roads with a total length of ~1250km. It has a market share of ~7.22% in the Golden Quadrilateral. The promoters of the company own ~74% of IRB.

Investment strategy

We rate IRB shares as Sell/Medium Risk (3M) with a target price of Rs278. IRB is one of very few listed pure plays on roads in India and has already extracted a scarcity premium, which we think would limit its upside potential from current levels. The stock trades in line with its average and mid-cap Indian E&C peers and at a large premium to its global peers. We believe the BOT business (~59% of value) lends some downside support to valuations as these are long-tenure projects and are expected to have recurring cash flows for 20-30 years. The EPC business is dependent on the road build-out in India and to that extent gives business and valuations double leverage on a project win. However, the EPC business could have downside if the NHAI build-out program were to be scaled back. We might become more constructive on the stock, all things being equal, if the price were to fall lower and if order wins surprise to the upside.

Valuation

Our target price is Rs278 based on an SOTP approach. 1) The BOT assets are valued at Rs164/share on a discounted FCFE basis; 2) The EPC business is valued at Rs84/share (11x Dec 11E P/E), a 25-30% discount to construction companies in our coverage universe given the captive nature of its order book; 3) Other investments and cash on books are valued at Rs13/share, based on book value; and 4) Given the huge opportunity in the roads sector in India (~12,000km of projects are expected to be awarded in FY11, 4x the FY10 level), we have assigned to IRB Rs17/share of probability adjusted value of future projects based on our market-share estimates in projects awarded.

Risks

Our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns a Medium Risk rating to IRB Infrastructure. We believe a Medium Risk rating is appropriate based on a number of factors, namely the status of projects under implementation, industry-specific risks, financial risk and management risk. Upside risks to our target price include faster execution, higher than expected project wins, and reduced competitive intensity in the roads sector.

Recent Developments

ITNL has completed the Beawar-Gomti Road Project five months ahead of schedule and toll collection started from 25 August 2010.

ITNL achieved financial closure of the Rs10.88bn Gurgaon Metro project in June 2010 and has started construction. The project is expected to be ready by January 2013.

ITNL (ILFT.BO): Financial Summary

ITNL — Consolidated P&L Statement (RsM)

As on March 31	FY07	FY08	FY09	FY10
Revenues	1,887	3,616	12,254	24,029
% Growth		92%	239%	96%
Operating Exp	(407)	(922)	(5,459)	(10,146)
% of sales	22%	25%	45%	42%
Employees Cost	(128)	(204)	(2,995)	(3,565)
% of sales	7%	6%	24%	15%
Admin /General exp	(384)	(660)	(1,867)	(2,376)
% of sales	20%	18%	15%	10%
Total Expenses	(919)	(1,786)	(10,320)	(16,087)
EBITDA	968	1,830	1,933	7,942
EBITDA margin %	51%	51%	16%	33%
Depreciation	(33)	(76)	(353)	(603)
EBIT	936	1,754	1,580	7,339
EBIT margin %	50%	49%	13%	31%
Interest charges	(215)	(1,070)	(1,743)	(2,941)
Other Income	94	759	794	844
Forex fluctuation	0		272	
Diminution in value of investments	(100)	(100)	(100)	
Prelim exp written off	(3)	(0)		(1)
PBT	712	1,343	804	5,241
Tax	(255)	(471)	(483)	(1,858)
Tax rate	36%	35%	60%	35%
PAT	458	873	321	3,383
Minority interest	1	(13)	(32)	(26)
Own share in P/L of associate			0	
Share of P/L of associate	55	73	(27)	87
PAT after MI	514	933	263	3,444
% Margin	27%	26%	2%	14%
% Growth	-	81%	-72%	1211%

Source: DRHP and Company Annual Reports

Kotak Mahindra Bank (KTKM.BO)

Buy/Medium Risk	1M
Price (26 Aug 10)	Rs837.55
Target price	Rs1,050.00
Expected share price return	25.4%
Expected dividend yield	0.1%
Expected total return	25.5%
Market Cap	Rs306,403M
	US\$6,541M

Price Performance (RIC: KTKM.BO, BB: KMB IN)



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Bank with a Brokerage

- **Wealth management platform** — KTKM has transformed itself successfully into a bank with a brokerage rather than vice versa. This platform seeks to capture its strong capital markets business, aggressive financial services offerings, and consumer focused asset lending, with a defined upper end segmentation. While growth in the past has been dependent on capital market cyclicity, the increased scale of the banking business makes its business more broad-based, provides a better funding mix, stabilizes the return profile, while still retaining upside from the capital markets.
- **Lending business: critical mass achieved, growth push has begun** — Kotak's banking platform has reached critical scale, and is highly profitable with enough capital to leverage. The growth push in recent times appears to be sustainable as management targets strong 25%-30% p.a. distribution expansion for next three years. While the focus has shifted to corporate, it has not yet affected profitability (NIMs remain well above industry at 570bps) and reflects management's sharp focus on returns. Some caveats: a) Structurally, NIMs are under pressure with increased growth levels; and b) Deposit mix is still relatively wholesale biased.
- **Retail liabilities should gain** — While Kotak's liability franchise build-out has been focused, deliberate, and quite cost focused, its gains have been more in mix than scale. We believe this current market environment (liquidity and capital markets biased flows) provides it the opportunity to accelerate without undue risk. This is the right environment to build, although the gains will be more back-ended.
- **Capital Market segments, lower profitability but can bounce back fast** — While growth and profitability in brokerage and investment banking is currently low, the bounce-back can be sharp (although market linked). Financial Services segments are doing relatively better: life insurance profitability is looking up and so is growth, asset management has had a strong run (can moderate medium term), and the wealth management platform has been laid. However, given regulatory and distribution flux in these segments, profitability is likely to improve only gradually.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	6,524	18.85	-36.0	44.4	4.4	10.6	0.1
2010A	13,070	37.57	99.4	22.3	3.7	18.1	0.1
2011E	17,533	49.07	30.6	17.1	2.8	18.5	0.1
2012E	21,011	57.49	17.1	14.6	2.3	17.5	0.1
2013E	26,355	72.11	25.4	11.6	1.9	18.3	0.1

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	44.4	22.3	17.1	14.6	11.6
P/E reported (x)	44.4	22.3	17.1	14.6	11.6
P/BV (x)	4.4	3.7	2.8	2.3	1.9
P/Adjusted BV diluted (x)	4.8	3.9	2.9	2.4	2.0
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	18.85	37.57	49.07	57.49	72.11
EPS reported	18.85	37.57	49.07	57.49	72.11
BVPS	188.69	227.23	301.68	358.37	429.71
Tangible BVPS	188.69	227.23	301.68	358.37	429.71
Adjusted BVPS diluted	175.07	213.99	293.33	350.62	422.42
DPS	0.75	0.85	0.90	0.95	0.95
Profit & Loss (RsM)					
Net interest income	23,741	28,283	31,558	34,159	41,036
Fees and commissions	15,352	11,145	17,926	21,942	27,289
Other operating Income	2,080	12,187	10,462	15,839	19,232
Total operating income	41,173	51,615	59,947	71,939	87,557
Total operating expenses	-27,713	-27,479	-30,965	-37,006	-43,770
Oper. profit bef. provisions	13,460	24,136	28,981	34,933	43,787
Bad debt provisions	-3,298	-5,107	-2,566	-3,277	-4,071
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	10,162	19,029	26,415	31,656	39,716
Tax	-3,635	-5,755	-8,818	-10,567	-13,283
Extraord./Min. Int./Pref. Div.	-3	-204	-65	-78	-78
Attributable profit	6,524	13,070	17,533	21,011	26,355
Adjusted earnings	6,524	13,070	17,533	21,011	26,355
Growth Rates (%)					
EPS adjusted	-36.0	99.4	30.6	17.1	25.4
Oper. profit bef. prov.	-24.0	79.3	20.1	20.5	25.3
Balance Sheet (RsM)					
Total assets	402,338	551,148	641,942	843,947	1,112,388
Avg interest earning assets	375,233	445,240	552,435	682,279	903,207
Customer loans	229,666	303,437	405,980	537,813	710,135
Gross NPLs	7,906	9,167	9,600	11,543	14,098
Liab. & shar. funds	402,338	551,148	641,942	843,947	1,112,388
Total customer deposits	138,228	218,192	282,564	384,159	522,506
Reserve for loan losses	4,690	6,195	8,442	10,890	13,987
Shareholders' equity	65,225	79,109	109,975	130,640	156,648
Profitability/Solvency Ratios (%)					
ROE adjusted	10.6	18.1	18.5	17.5	18.3
Net interest margin	6.33	6.35	5.71	5.01	4.54
Cost/income ratio	67.3	53.2	51.7	51.4	50.0
Cash cost/average assets	6.9	5.8	5.2	5.0	4.5
NPLs/customer loans	3.4	3.0	2.4	2.1	2.0
Reserve for loan losses/NPLs	59.3	67.6	87.9	94.3	99.2
Bad debt prov./avg. cust. loans	1.5	1.9	0.7	0.7	0.7
Loans/deposit ratio	166.2	139.1	143.7	140.0	135.9
Tier 1 capital ratio	19.7	17.3	20.2	17.0	14.7
Total capital ratio	22.5	19.3	21.8	18.6	16.2

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791



Kotak Mahindra Bank

Company description

KTKM is a private-sector bank in which Mr. Uday Kotak, the major shareholder, and his associates have a 52% stake. Main businesses of the bank are consumer lending, retail broking, investment banking, asset management, and rapidly growing life insurance. Its focus is to develop a niche wealth-management platform.

Investment strategy

We rate KTKM as Buy/Medium Risk (1M) with a target price of Rs1,050. KTKM, in our view, is a play on the overall financial-services market in India and is backed by a management team that has a track record of managing market and credit risk well and of being conservative in its approach. We believe KTKM has transformed itself into a 'bank-asset manager-broker' from a more cyclical 'broker-bank'. We believe this increases the business stability, franchise and earnings sustainability, which were linked to capital market performance. KTKM's lending businesses have now reached critical scale, have enough capital for growth, improving deposit mix, a strong return profile, and improving asset quality performance. We believe this, along with a more open frame of mind for possible acquisitions, should drive stock value.

While capital market businesses (broking, asset management, life insurance), remain an integral part of overall customer strategy, they are currently under pressure from a cyclical, regulatory and competitive perspective. We believe, there is value and synergy to be had from these businesses but these will provide the upside kickers rather than form the bulk of the stock value.

Valuation

Our target price of Rs1,050 is based on our valuation of KTKM's different businesses via SOTP methodology. This values the banking business at Rs642/sh at 3.25x PBV 1-year fwd, the vehicle loan financing business at Rs103 at 2.5x 1Yr Fwd P/BV, the investment banking and broking business at 15x 1-year Fwd PE or Rs173, the insurance subsidiary at Rs51 at 12x 1Yr Fwd NBAP, and we attribute Rs81 to the AMC business (5% of AUM for MF and 7% for Portfolio and alternative assets). Our target multiples are in-line with the best of breed private sector banks and other financial services business, however they are not near peak multiples in the historical India scenario, this as we believe, the business' leverage to capital markets have reduced and the near-term challenges will cap growth at well below historical peak growth levels.

Risks

We rate KTKM as Medium Risk, even while our quantitative risk rating system, which tracks the 260-day share price volatility of the stock, suggests Low Risk. We believe the Medium Risk rating is justified on account of its relatively smaller balance sheet, capital market leverage and relatively moderate deposit franchise. Downside risks to the stock and business would be: a) Sharp downturn in the capital markets; b) Significant pressure on asset quality; and c) Sharp increases in interest rates, which can pressure its relatively wholesale funding mix. These risks could prevent the stock from achieving our target price.

Larsen & Toubro (LART.BO)

Buy/Low Risk	1L
Price (26 Aug 10)	Rs1,862.10
Target price	Rs2,110.00
Expected share price return	13.3%
Expected dividend yield	0.8%
Expected total return	14.1%
Market Cap	Rs1,126,474M US\$24,047M

Price Performance (RIC: LART.BO, BB: LT IN)



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Strong Order Inflow Growth Ahead

- **Order inflows up 63% YoY in 1QFY10** — At Rs156bn in 1QFY10, order inflows imply the company is largely on track to meet FY11E inflow guidance of Rs870bn. L&T ended the quarter with a backlog of Rs1078bn, up 51% YoY. Asking rate is 19% YoY (Rs713bn) in the remaining nine months of FY11E to meet 25% inflow growth guidance. L&T has won ~Rs117bn of order so far in 2QFY11.
- **Strong order inflows ahead** — FY11 order inflow growth could see upside if railway orders pick up. L&T IDPL has won the ~Rs120bn Hyderabad Metro BOT project and its EPC order may be awarded in 2HFY11. L&T is seeing increased bidding activity in metro rail space in Chennai and Bangalore and the company is in talks with the government to set up feeder lines for the Mumbai monorail. It is also talking to several state governments to set up monorails in congested cities.
- **Back in the fray for NTPC/DVC boiler tenders** — After having been disqualified from TG set tenders, L&T-MHI JV has rebid for NTPC/DVC boiler orders. Other bidders for the order are BHEL, GB Engineering-Ansaldo JV, and BGR-Hitachi JV. The order is likely to be awarded by January 2011.
- **Why was sales growth muted in 1QFY10?** — Inflows were heavily back ended in FY10 with 60% of orders coming in 2HFY10 and 34% of orders coming in 4QFY10. Quantity of long-cycle jobs with lengthier execution timelines has increased. However, 7% YoY sales growth in 1QFY11 is in line with the company's revenues accruals planned this year to meet the 20% YoY growth guidance.
- **Strong subsidiary performance continues** — L&T Infotech, L&T Finance, and L&T Infra Finance reported robust PAT growth of 30%, 142% and 118% YoY respectively in 1QFY11. L&T is also looking to raise funds in L&T Finance and L&T Infra Finance in the near future.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	27,092	46.25	34.4	40.3	8.8	24.7	0.6
2010A	31,076	51.19	10.7	36.4	6.1	20.2	0.7
2011E	40,507	66.72	30.3	27.9	5.3	20.4	0.8
2012E	48,301	79.56	19.2	23.4	4.5	20.8	0.9
2013E	57,482	94.68	19.0	19.7	3.8	21.0	0.9

Source: Powered by dataCentral

Other Per Share Data

NAV	240.75
Discount to NAV	-673%

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	40.3	36.4	27.9	23.4	19.7
P/BV (x)	8.8	6.1	5.3	4.5	3.8
Dividend yield (%)	0.6	0.7	0.8	0.9	0.9
Payout Ratio (%)	22.7	24.4	21.0	20.1	18.0
Per Share Data (Rs)					
EPS adjusted	46.25	51.19	66.72	79.56	94.68
EPS reported	59.44	72.07	66.72	79.56	94.68
BVPS	212.30	303.69	354.58	416.07	491.63
DPS	10.50	12.50	14.00	16.00	17.00
Profit & Loss (RsM)					
Net sales	336,466	366,752	439,956	527,947	620,337
Operating expenses	-300,957	-323,630	-386,754	-465,053	-547,489
EBIT	35,509	43,122	53,201	62,894	72,849
Net interest expense	-3,502	-5,100	-5,093	-4,447	-2,681
Non-operating/exceptionals	7,398	9,177	11,460	12,584	14,364
Pre-tax profit	39,404	47,199	59,569	71,031	84,532
Tax	-12,312	-16,123	-19,062	-22,730	-27,050
Extraord./Min.Int./Pref.div.	7,725	12,679	0	0	0
Reported net income	34,817	43,755	40,507	48,301	57,482
Adjusted earnings	27,092	31,076	40,507	48,301	57,482
Adjusted EBIT	35,509	43,122	53,201	62,894	72,849
Growth Rates (%)					
Sales	35.4	9.0	20.0	20.0	17.5
EBIT adjusted	35.2	21.4	23.4	18.2	15.8
EPS adjusted	34.4	10.7	30.3	19.2	19.0
Cash Flow (RsM)					
Operating cash flow	6,097	59,625	57,097	83,991	99,868
Depreciation/amortization	3,060	4,146	5,044	6,267	7,438
Net working capital	-31,651	11,434	11,541	29,418	34,943
Investing cash flow	-31,979	-70,287	-45,214	-42,714	-42,714
Capital expenditure	-18,565	-15,871	-20,214	-17,714	-17,714
Acquisitions/disposals	-13,415	-54,416	-25,000	-25,000	-25,000
Financing cash flow	23,991	17,228	-11,864	-26,273	-43,449
Borrowings	29,720	2,448	-2,000	-15,000	-31,471
Dividends paid	-7,168	-8,630	-9,864	-11,273	-11,978
Change in cash	-1,892	6,566	19	15,004	13,705
Balance Sheet (RsM)					
Total assets	368,818	464,094	535,468	623,776	711,783
Cash & cash equivalent	7,753	14,319	14,338	29,342	43,047
Accounts receivable	100,555	111,637	133,920	160,704	188,827
Net fixed assets	50,292	61,998	77,066	88,412	98,587
Total liabilities	244,469	281,211	321,942	373,222	415,725
Accounts payable	98,000	0	0	0	0
Total Debt	65,560	68,008	66,008	51,008	19,537
Shareholders' funds	124,348	182,884	213,526	250,554	296,058
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	10.6	11.8	12.1	11.9	11.7
ROE adjusted	24.7	20.2	20.4	20.8	21.0
ROA adjusted	8.5	7.5	8.1	8.3	8.6
Net debt to equity	46.5	29.4	24.2	8.6	-7.9
Total debt to capital	34.5	27.1	23.6	16.9	6.2

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791



Larsen & Toubro

Company description

L&T is a diversified conglomerate with market leadership in engineering and construction (E&C) and electrical-equipment businesses in India. L&T Information Technology is its 100% subsidiary in software services. L&T demerged its cement business into a separate company, selling it to Grasim.

Investment strategy

We rate L&T as Buy/Low Risk (1L). With earnings CAGR of 23% over FY10-13E for the core business, and spawning new businesses such as railways and power equipment, we believe L&T is fundamentally one of the best proxies for India's infrastructure build-out. L&T's Rs1078bn order backlog and forecast stable margins provide good earnings visibility. Its thrust of process and hydrocarbons, and India's infrastructure spending, should augur well for the order pipeline. We are positive on management efforts to improve product mix by raising the share of high-technology products for process industries, defense, nuclear, and aerospace applications, as well as engineering and embedded services. These segments have better growth potential and margins than the projects business, in our view.

Valuation

Our Rs2,110 target price is based on sum-of-the-parts (SOTP). We use 23x Dec11E earnings for the parent (Rs1,756), on par with BHEL. We also believe that the parent's numbers do not capture the value inherent in subsidiaries, which we value at Rs354, with L&T Infotech at Rs78 (12x Dec11E EPS, in-line with second-tier peers), the finance business and the 51% stake in L&T-MHI JV at Rs71, and L&T IDPL at Rs95. Over the past 15 years L&T has traded at an average premium of ~ 39% to BHEL. However, during economic slowdowns BHEL trades at a premium to L&T. The trend reverses in good times. We believe that India economic growth is still 6 months away from a full-fledged revival so we peg L&T on par with BHEL. Our target multiple for BHEL at 23x is set a ~25% premium to the stock's historical average P/E of 18.4x.

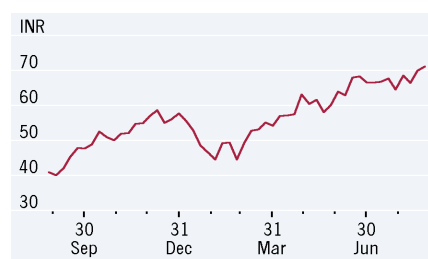
Risks

We rate L&T shares Low Risk, in-line with our quantitative risk-rating system, and because L&T's order backlog of c.Rs1078bn represents two years' sales and provides earnings visibility. Downside risks that could prevent the shares from reaching our target price include: 1) attracting and retaining talent; 2) the E&C and electrical equipment businesses are sensitive to economic variables; 3) competitive pressures; and 4) L&T needs to keep abreast with technology trends to sustain valuations and earnings. Upside risks to our target price include: 1) better-than-expected order booking; 2) a better-than-expected execution rate; and 3) higher-than-expected EBITDA margins.

Lanco Infratech (LAIN.BO)

Buy/Medium Risk	1M
Price (26 Aug 10)	Rs71.20
Target price	Rs80.00
Expected share price return	12.4%
Expected dividend yield	0.0%
Expected total return	12.4%
Market Cap	Rs171,436M US\$3,660M

Price Performance (RIC: LAIN.BO, BB: LANCI IN)



The Dark Horse Is Delivering

- **Solid execution** — Solid execution has resulted in capacity increasing to 2,082MW now (from 511MW at end-FY09). We expect LANCI to increase capacity 4.2x to 8,384MW by FY15E (FY11E - 507.5MW, FY12E - 1,270MW, FY13E - 76MW, FY14E- 2,556MW, and FY15E- 1,980MW). This should drive EPS growth of 23% over FY10-13E with average RoEs of 19%. LANCI remains one of our top picks in the rated India Electric Utility universe.
- **Execution on track** — LANCI has added Amarkantak 1 (300MW) in March 2010, Udupi 1 (600MW) in June 2010 and Kondapalli (133MW) in July 2010, taking total capacity to 2,082MW from 511MW in less than one year. Udupi 2 is set to be synchronized by September 2010. LANCI has increased employee count from 3,200 in FY08 to 5,500 in FY10, a clear sign of the execution ramp up.
- **Under development projects are now starting construction** — LANCI has tied up coal supply, land for main plant, and necessary clearances for 3,960MW capacity. Construction of Babandh (1,320MW) and Amarkantak 3&4 (1,320MW) has started while Vidarbha (1,320MW) is set to start construction in 1-2 months. Construction of Kondapalli expansion (742MW) is in full swing and company expects the plant to be commissioned in the XIth plan.
- **Aggressive foray into third party BoP orders** — LANCI won the Rs13bn Koradi 1,980MW BoP order at an implied price of Rs6.6mn/MW compared to BGR's historical average price of Rs15.7mn/MW. Even allowing for variation in scope of work, LANCI seems to have adopted an aggressive pricing strategy for third party BoP orders. LANCI has also won a Bhubaneswar Airport construction order. The company has set a long-term target of ~25% of orders from external projects.

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Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	2,804	1.26	-20.8	56.5	7.5	14.3	0.0
2010A	4,586	1.90	51.0	37.4	5.1	16.9	0.0
2011E	8,974	3.73	95.7	19.1	4.1	23.9	0.0
2012E	8,888	3.69	-1.0	19.3	3.4	19.3	0.0
2013E	8,486	3.52	-4.5	20.2	2.9	15.5	0.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	56.5	37.4	19.1	19.3	20.2
EV/EBITDA adjusted (x)	23.1	14.7	8.5	8.4	9.4
P/BV (x)	7.5	5.1	4.1	3.4	2.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	1.26	1.90	3.73	3.69	3.52
EPS reported	1.26	1.90	3.73	3.69	3.52
BVPS	9.43	13.89	17.31	21.00	24.52
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	60,710	81,076	119,322	140,130	153,412
Operating expenses	-52,899	-69,284	-96,155	-112,687	-125,855
EBIT	7,810	11,792	23,167	27,443	27,557
Net interest expense	-2,185	-3,554	-7,975	-12,567	-13,904
Non-operating/exceptionals	-90	906	483	465	180
Pre-tax profit	5,535	9,144	15,676	15,341	13,833
Tax	-1,690	-3,643	-3,902	-3,807	-3,749
Extraord./Min.Int./Pref.div.	-1,041	-915	-2,799	-2,646	-1,598
Reported net income	2,804	4,586	8,974	8,888	8,486
Adjusted earnings	2,804	4,586	8,974	8,888	8,486
Adjusted EBITDA	8,884	15,270	33,912	43,828	44,309
Growth Rates (%)					
Sales	87.3	33.5	47.2	17.4	9.5
EBIT adjusted	25.6	51.0	96.5	18.5	0.4
EBITDA adjusted	27.0	71.9	122.1	29.2	1.1
EPS adjusted	-20.8	51.0	95.7	-1.0	-4.5
Cash Flow (RsM)					
Operating cash flow	-2,076	-6,135	28,559	20,270	24,466
Depreciation/amortization	1,073	3,479	10,745	16,385	16,752
Net working capital	-5,955	-15,028	8,840	-5,003	-772
Investing cash flow	-21,035	-29,747	-136,799	-71,376	-71,619
Capital expenditure	-18,164	-19,355	-136,799	-71,376	-71,619
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	25,604	35,605	100,034	50,313	50,610
Borrowings	24,320	27,644	97,981	47,667	49,012
Dividends paid	0	0	0	0	0
Change in cash	2,493	-277	-8,206	-793	3,456
Balance Sheet (RsM)					
Total assets	115,485	160,283	278,832	339,045	400,577
Cash & cash equivalent	9,905	9,628	1,421	628	4,084
Accounts receivable	11,943	22,270	29,338	32,752	34,411
Net fixed assets	54,139	70,015	196,069	251,061	305,928
Total liabilities	87,476	119,727	227,249	275,928	327,376
Accounts payable	29,750	32,191	41,654	42,666	45,102
Total Debt	55,970	83,614	181,594	229,262	278,273
Shareholders' funds	28,009	40,556	51,584	63,117	73,201
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	14.6	18.8	28.4	31.3	28.9
ROE adjusted	14.3	16.9	23.9	19.3	15.5
ROIC adjusted	11.5	10.1	12.4	9.7	7.9
Net debt to equity	164.5	182.4	349.3	362.2	374.6
Total debt to capital	66.6	67.3	77.9	78.4	79.2

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Lanco Infratech

Company description

Lanco Infratech, founded in 1993, as a construction and EPC company, has leveraged its EPC expertise to become one of the fastest growing independent power producers in India. It now has 2,082MW of capacity operational which will reach 8,384MW by FY15E. Its EPC division has expertise spanning several segments of infrastructure space but specializes in EPC of coal and gas-based power plants. The EPC division acts as backbone for executing power projects. Apart from power and EPC, Lanco Infratech has also forayed into roads, real estate, and electricity trading.

Investment strategy

We have a Buy/Medium Risk (1M) rating on Lanco Infratech. The company has 2,082MW of capacity operational and is executing another 4,700MW over the next 3-4 years with a large part in advanced stages of completion.

It is on a high growth path with an estimated 8,384MW operational by FY15E. It has strategically developed its power plant portfolio with a focus on Case-II / MoU developmental projects, which come with land and fuel visibility.

It has de-risked its business model by weighting its power portfolio heavily in favor of power projects with either complete or partial (fuel cost only) pass-through mechanisms. Over FY11-15E these projects will constitute ~70-80% of total capacity. This reliance on pass-throughs provides downside support to valuation. A strong in-house EPC division not only provides a backbone for faster project execution but also helps it optimize the need for infusing and blocking upfront equity into projects under development.

Lanco Infratech is at inflexion point on its growth trajectory. We expect PAT and revenue to grow at CAGR of 23% and 24% respectively over FY10-13E compared with 22% and 94% over FY07-FY09A. Earnings growth and expansion will be driven by: (1) rapid capacity addition, (2) addition of merchant capacity to portfolio, and (3) execution of projects by EPC division.

Valuation

Traditional valuation methodologies like P/E and EV/EBITDA multiples can be misleading if used to value pure infrastructure asset holders, as project profitability can be lumpy, given the year of commissioning and life of the asset. Infrastructure assets, especially electric utilities, generate regular and largely predictable cash flow streams for a fixed period. Therefore, discounted cash flow (DCF) is best suited.

While applying the DCF one can either choose free cash flow to the firm (FCF) or free cash flow to equity (FCFE). We prefer FCFE as individual projects are highly geared and gearing changes as debt is rapidly paid off.

We value Lanco Infratech at Rs80/share with EPC at Rs23/share (11x Dec-11E EPS, a 20% discount to mid-cap construction), Power at Rs56.8/share (DCF on FCFE using 13% CoE), Roads at Rs2/share (DCF on FCFE using 13% CoE) and other businesses at Rs(-1.6)/share.

Risks

Our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns a High Risk rating to Lanco Infratech. However, we believe a Medium Risk rating is more appropriate given the status of projects under implementation, industry-specific risks, financial risk and management risks.

LANCI's Medium Risk rating is more appropriate as: 1) its 6,000MW of capacity under implementation, has fuel, land, off-take arrangement and bulk of financing tied up; 2) The construction on a large part of this capacity is in advanced stage; 3) The power portfolio has ~80% of capacity operating on full/fuel cost pass-through mechanism. These factors, we believe, reduce risk substantially.

Given that LANCI is a play on both execution and operation of power plants, execution delays would have a bigger impact on numbers and company value. Other downside risks that could prevent the stock from reaching our target price include financial closure delays, fuel supply disruption, equipment quality and lower-than-expected merchant tariffs.

Shriram Transport Finance (SRTR.BO)

Buy/Medium Risk	1M
Price (26 Aug 10)	Rs732.95
Target price	Rs615.00
Expected share price return	-16.1%
Expected dividend yield	1.0%
Expected total return	-15.1%
Market Cap	Rs165,293M
	US\$3,529M

Price Performance (RIC: SRTR.BO, BB: SHTF IN)



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Road to Returns

- **In the fast lane** — Shriram is India's largest organized pre-owned commercial-vehicle (CV) financier with: 1) Strong loan growth (19% pa in FY10-13E); 2) A robust return profile (23%-28% ROE); 3) A biz model that is unique and has scale; and 4) Cyclical upside from an improving CV cycle (52% CV sales growth YTD).
- **Business model is unique, and has scale** — In our view, the following factors differentiate Shriram: a) Regulatory arbitrage – preferred access to funding, demand for its loans (priority sector); b) Low-cost distribution network and operations; and c) Operating and regulatory flexibility. Few regulatory barriers to entry exist, but scale, asset quality management, asset concentration, and now widening of asset mix/distribution channels, will likely keep it a one-of-a-kind lender in India.
- **Better than a bank?** — Management is less interested in converting Shriram to a bank even if given the option. This, along with Shriram's higher growth and return profile, operating/regulatory flexibility, and uniqueness, appear a good trade-off against the liability franchise value and regulatory protection that a banking license brings. We believe it is the scale, sweet spot in the market, regulatory arbitrage, and management record, that make Shriram attractive.
- **Value more cyclical than volume?** — Shriram has been a low-beta stock, but its: a) asset/growth concentration, b) asset-side-only value (no retail liability franchise), c) wholesale funding (rate/liquidity sensitive) – a current risk, and d) Finco platform, could result in greater stock cyclicity. We believe the business itself, asset and funding expansion, and returns, will remain strong and more predictable.
- **Recent results** — Shriram's 1Q11 profits were up 17% YoY with NIMs increasing 180bps to 825bps, due to: a) additional capital infusion, b) shift in asset mix, and c) better liability management. Asset growth is stable at 25% YoY, with enough capital (16% Tier 1) to continue growing, as is asset quality (NPLs 2.5%, coverage increasing to 83%). Shriram operates in a niche lending segment, growth remains healthy, and its return ratios are strong (close to 30% ROE currently).
- **Key risks** — Asset quality, wholesale funding, execution and regulatory changes.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	6,124	30.12	49.6	24.3	6.4	29.6	0.7
2010A	8,731	40.70	35.1	18.0	4.3	28.5	0.8
2011E	11,129	49.35	21.2	14.9	3.5	26.1	1.0
2012E	13,236	58.69	18.9	12.5	2.8	25.0	1.1
2013E	15,152	67.18	14.5	10.9	2.3	23.3	1.1

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	24.3	18.0	14.9	12.5	10.9
P/E reported (x)	24.3	18.0	14.9	12.5	10.9
P/BV (x)	6.4	4.3	3.5	2.8	2.3
P/Adjusted BV diluted (x)	6.9	4.5	3.6	2.9	2.3
Dividend yield (%)	0.7	0.8	1.0	1.1	1.1
Per Share Data (Rs)					
EPS adjusted	30.12	40.70	49.35	58.69	67.18
EPS reported	30.12	40.70	49.35	58.69	67.18
BVPS	113.82	168.72	209.87	259.20	317.02
Tangible BVPS	113.82	168.72	209.87	259.20	317.02
Adjusted BVPS diluted	106.57	163.02	205.80	254.70	313.40
DPS	5.00	6.03	7.00	8.00	8.00
Profit & Loss (RsM)					
Net interest income	17,098	21,878	25,981	30,203	34,846
Fees and commissions	0	305	427	641	834
Other operating Income	437	345	486	611	786
Total operating income	17,535	22,528	26,895	31,455	36,466
Total operating expenses	-5,271	-5,176	-6,338	-7,469	-8,729
Oper. profit bef. provisions	12,264	17,352	20,557	23,987	27,736
Bad debt provisions	-3,049	-4,104	-3,946	-4,231	-5,122
Non-operating/exceptionals	-8	-2	0	0	0
Pre-tax profit	9,206	13,246	16,611	19,756	22,615
Tax	-3,082	-4,515	-5,482	-6,519	-7,463
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	6,124	8,731	11,129	13,236	15,152
Adjusted earnings	6,124	8,731	11,129	13,236	15,152
Growth Rates (%)					
EPS adjusted	49.6	35.1	21.2	18.9	14.5
Oper. profit bef. prov.	43.9	41.5	18.5	16.7	15.6
Balance Sheet (RsM)					
Total assets	249,897	269,393	311,384	367,632	431,629
Avg interest earning assets	212,549	246,580	268,358	317,253	377,207
Customer loans	179,031	179,650	222,820	264,857	304,520
Gross NPLs	3,843	5,113	6,772	8,711	10,993
Liab. & shar. funds	249,897	269,393	311,384	367,632	431,629
Total customer deposits	49	1,148	1,320	1,452	1,597
Reserve for loan losses	2,368	3,828	5,853	7,695	10,178
Shareholders' equity	23,166	38,053	47,335	58,461	71,501
Profitability/Solvency Ratios (%)					
ROE adjusted	29.6	28.5	26.1	25.0	23.3
Net interest margin	8.04	8.87	9.68	9.52	9.24
Cost/income ratio	30.1	23.0	23.6	23.7	23.9
Cash cost/average assets	2.4	2.0	2.2	2.2	2.2
NPLs/customer loans	2.1	2.8	3.0	3.3	3.6
Reserve for loan losses/NPLs	61.6	74.9	86.4	88.3	92.6
Bad debt prov./avg. cust. loans	1.8	2.3	2.0	1.7	1.8
Loans/deposit ratio	nm	15,649.6	16,878.4	18,238.9	19,063.8
Tier 1 capital ratio	11.9	15.8	18.6	19.5	20.9
Total capital ratio	16.4	21.0	24.1	24.5	25.5

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Shriram Transport Finance

Company description

Shriram Transport is the largest organized player in the pre-owned commercial vehicle (CV) financing segment in India. Shriram was started in 1979 by three entrepreneurs and focuses primarily on financing of CVs. Subsequently it diversified into financing of 3-wheelers and tractors, and into providing working capital, engine replacement, and tire loans to truck operators. Shriram has built a strong distribution network with 482 branches, more than 12,000 employees and tie-ups with over 500 local financiers across the country. It has a wide presence in South India.

Investment strategy

We rate Shriram as Buy/Medium Risk (1M). It has a unique business model, long track record of operating profitably in a segment considered difficult by banks, healthy asset quality, and an experienced and stable management team. The following factors support our positive view: a) The turnaround in the Indian CV sales cycle (32% YoY new CV sales growth in April 2009-February 2010) and its linkage to the industrial production cycle (IP growth rose sharply to 16.7% yoy in January 2010); b) Healthy demand for financing of used vehicles as CVs financed during the last growth cycle (FY03-07) come up for refinancing; c) An improving asset quality outlook for the industry as economic activity has picked up smartly and the prospects remain healthy (we estimate 8.4% GDP growth in FY11E); and d) A robust return profile for Shriram, with ROEs of 24-28% over FY10-12E.

Valuation

We value Shriram at Rs615 based on our EVA model, which captures the long-term value of the business and is our standard valuation measure for the CIRA India Banking coverage. Our EVA model assumes: a) a risk-free rate of 8% (in line with secondary market yields); b) longer-term loan loss provisions of 200bps given the company's relatively higher asset risk profile; c) loan spreads of 800bps due to its relatively higher yielding asset profile; and d) long-term fee income growth of 10%. As a reference, off 2.5x 1Yr Fwd P/BV, the mid-point of our target multiples for private-sector banks (1.4-3.5x), the stock would be valued at Rs563. We believe Shriram can trade towards the higher end of private banks during strong economic growth and asset quality cycles due to its higher loan growth, superior ROE profile, and relatively niche lending segment, with high entry barriers for larger players.

Risks

We rate Shriram Medium Risk, in line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. We believe Shriram's large capital base, significant growth potential, superior return profile and niche competitive positioning moderate its risk profile. Key downside risks that could cause the stock to trade below our target include: a) Asset quality - good so far, but rapid pace of loan growth suggests credit costs can rise; b) Wholesale funding - can hurt in a tight-liquidity scenario; c) Execution of the planned fee income initiatives; and d) Regulatory changes in the NBFC and transportation sectors, among others.

Tata Consultancy Services (TCS.BO)

Hold/Low Risk	2L
Price (26 Aug 10)	Rs874.10
Target price	Rs930.00
Expected share price return	6.4%
Expected dividend yield	1.3%
Expected total return	7.7%
Market Cap	Rs1,710,807M US\$36,521M

Price Performance (RIC: TCS.BO, BB: TCS IN)



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Good Business Momentum; Valuations Limit Upside

- **Big beneficiary of pickup in BFSI** — Among tier-I Indian IT Services companies, TCS has the highest exposure to BFSI at ~45% of revenues. The recent recovery has been led by BFSI – partly due to some M&A integration projects. Management’s outlook on the same would be an area to focus on.
- **Demand outlook** — Demand outlook remains the key question for the entire IT Services sector – Q1, for TCS, was operationally strong with a volume growth of ~8% QoQ. Growth was led by top 10 clients – outlook on the same should be discussed with the management.
- **Margin management** — Operating margins surprised in Q1 with only ~35bps decline QoQ despite salary hikes – partly helped by reversal of bad-debt provisions. Investors should focus on understanding the margin outlook given that the company has already announced salary hikes and is resorting to higher variable payouts in order to retain talent.
- **Supply side dynamics** — TCS’ view on supply side should be another area of discussion, focusing on: (1) availability of talent for next few years, (2) initiatives on training, and (3) expectation for wage hikes in the future.
- **M&A interest** — TCS has been active with acquisitions in the past, the Citi BPO acquisition in late CY08 being a case in point. Any updates on management’s thought process on the same should be sought.
- **SEZ strategy** — TCS’ SEZ readiness, given the expectation of STPI sunset coming into effect from FY12, should be discussed. Expectations of the tax rate in FY11/12/13E etc. could be gauged.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2009A	51,721	26.42	3.0	33.1	10.9	37.0	0.8
2010A	68,729	35.11	32.9	24.9	8.2	37.6	2.3
2011E	80,009	40.87	16.4	21.4	6.4	33.7	1.3
2012E	89,104	45.52	11.4	19.2	5.1	29.7	1.3
2013E	99,239	50.70	11.4	17.2	4.2	26.6	1.3

Source: Powered by dataCentral

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	33.1	24.9	21.4	19.2	17.2
EV/EBITDA adjusted (x)	23.5	19.4	16.0	13.7	11.7
P/BV (x)	10.9	8.2	6.4	5.1	4.2
Dividend yield (%)	0.8	2.3	1.3	1.3	1.3
Per Share Data (Rs)					
EPS adjusted	26.42	35.11	40.87	45.52	50.70
EPS reported	26.42	35.11	40.87	45.52	50.70
BVPS	79.97	107.03	135.89	170.41	210.11
DPS	7.00	20.00	11.00	11.00	11.00
Profit & Loss (RsM)					
Net sales	278,129	300,289	356,280	417,168	481,265
Operating expenses	-212,114	-220,698	-261,706	-310,119	-360,749
EBIT	66,015	79,591	94,574	107,049	120,516
Net interest expense	-4,673	2,255	3,373	8,520	12,322
Non-operating/exceptionals	-6	-10	0	0	0
Pre-tax profit	61,336	81,836	97,947	115,569	132,838
Tax	-9,011	-12,089	-16,850	-25,377	-32,511
Extraord./Min.Int./Pref.div.	-604	-1,018	-1,088	-1,088	-1,088
Reported net income	51,721	68,729	80,009	89,104	99,239
Adjusted earnings	51,721	68,729	80,009	89,104	99,239
Adjusted EBITDA	71,781	86,800	102,659	116,226	130,863
Growth Rates (%)					
Sales	21.7	8.0	18.6	17.1	15.4
EBIT adjusted	23.0	20.6	18.8	13.2	12.6
EBITDA adjusted	20.9	20.9	18.3	13.2	12.6
EPS adjusted	3.0	32.9	16.4	11.4	11.4
Cash Flow (RsM)					
Operating cash flow	71,458	30,303	102,463	80,194	87,135
Depreciation/amortization	5,766	7,209	8,085	9,178	10,347
Net working capital	8,694	-44,398	16,654	-10,655	-11,217
Investing cash flow	-12,673	-53,876	-37,906	-20,108	-14,955
Capital expenditure	-7,495	-11,421	-22,798	-18,575	-19,799
Acquisitions/disposals	11,907	-16,382	3,845	8,520	12,322
Financing cash flow	-18,995	-14,183	-23,512	-21,533	-21,533
Borrowings	-1,788	621	0	0	0
Dividends paid	-13,703	-39,151	-21,533	-21,533	-21,533
Change in cash	39,791	-37,756	41,045	38,553	50,648
Balance Sheet (RsM)					
Total assets	226,858	274,546	347,869	427,009	516,893
Cash & cash equivalent	13,440	10,249	68,687	116,206	173,243
Accounts receivable	60,463	58,098	81,944	95,949	110,691
Net fixed assets	37,494	41,706	56,419	65,816	75,268
Total liabilities	67,215	60,978	77,803	89,372	101,550
Accounts payable	0	0	0	0	0
Total Debt	7,913	3,417	3,383	3,383	3,383
Shareholders' funds	159,643	213,568	270,065	337,637	415,343
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.8	28.9	28.8	27.9	27.2
ROE adjusted	37.0	37.6	33.7	29.7	26.6
ROIC adjusted	49.1	42.8	44.5	44.5	43.1
Net debt to equity	-3.5	-3.2	-24.2	-33.4	-40.9
Total debt to capital	4.7	1.6	1.2	1.0	0.8

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Tata Consultancy Services

Company description

TCS is the largest and among the oldest IT companies in India. It is a part of the diversified Tata Group, one of the largest corporate groups in Asia, with more than 160,000 employees (including subsidiaries). It provides a comprehensive range of IT services to industries such as Banking & Financial Services, Insurance, Manufacturing, Telecom, Retail and Transportation. It has more than 900 active clients. The company started with data processing work in 1968, and was the first to provide offshore services in 1974. Over the past three decades, it has come a long way with deep technical and project management expertise in handling complex client projects and strong offshore processes.

Investment strategy

We rate TCS as Hold/Low Risk (2L). The company has benefitted significantly from the return of spends in the BFSI segment and we are worried that this might taper off. We may see good growth in FY11 due to pent up demand, however, we are concerned that expectations are running ahead of reality. Its earlier valuation discount vis-à-vis Infosys has virtually ceased to exist.

Valuation

Our target price of Rs930 is based on 21x Dec-11E EPS. Given that businesses are bottoming and we estimate TCS' earnings will grow at an ~13% CAGR over FY10-13E, we believe the stock should trade closer to the higher end of its historical three-year trading range of 7-27x 12-month forward earnings. We believe PE remains the most appropriate valuation measure given TCS' past profitability and future earnings visibility.

Risks

We rate TCS Low Risk which is in-line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks that could cause the shares to be lower than our target price are: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) a prolonged recession in the US; and (3) any margin-dilutive acquisition. Key upside risks that could cause the shares to be higher than our target price are: (1) any significant depreciation of the rupee against the USD/EUR/GBP; (2) aggressive pent up demand from corporates in the US; and (3) any margin accretive acquisition.

United Spirits (UNSP.BO)

Buy/Medium Risk	1M
Price (26 Aug 10)	Rs1,389.55
Target price	Rs1,622.00
Expected share price return	16.7%
Expected dividend yield	0.1%
Expected total return	16.9%
Market Cap	Rs174,520M
	US\$3,721M

Price Performance (RIC: UNSP.BO, BB: UNSP IN)



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Virtue - and Value - in Vice

- **Great domestic story** — Parent business revenue growth is expected to be healthy over the medium-term, driven by: a) steady volumes ~12%-15%+ Y/Y, b) pricing benefits (~2%-2.5% price hike for the portfolio is achievable), and c) favorable mix impact. With >55% market share, UNSP's market positioning in a high growth market remains attractive.
- **Sharp EBITDA margin expansion ahead** — Wet goods costs have softened to ~Rs140/case, down from the FY10 average cost of ~Rs151/case. The declining trend in input costs is likely to continue into 2HFY11. We reckon EBITDA margin of 19.6% in 1Q should rise above 20%, buoyed by operating leverage (volumes) in 2Q and higher gross margins in 3/4Q. Higher gross margins, coupled with lower discretionary expenses, should lead to 6ppt expansion in parent EBITDA margins to ~22% between FY10-12.
- **W&M: Less bulk, more brands** — W&M will focus on emerging markets and branded scotch, moving away from its current bulk business. The new strategy will impact near-term earnings – management has guided to EBITDA of STG£33m in FY11 on a revenue base of STG£110m. It targets attaining EBITDA of STG£60m in five years. Execution remains a key imponderable. Strategically, we think the shift to branded products is a positive. From an asset perspective, W&M's scotch inventory is ~103m litres, valued at STG£430m as of June 2010.
- **Debt repayment needs balanced with escalating capex & working capital** — Overall, gross debt is Rs56.8bn (end June), higher due to working capital requirements and investments in tie up units. We don't expect debt levels to meaningfully reduce, despite strong profit growth, against a backdrop of: a) elevated capex spends over the next three years (we factor Rs12bn for the next three yrs), and b) uncertainty on working capital/NCA. That said, from a cash flow/debt servicing perspective, UNSP is comfortably poised.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2008A	1,174	13.25	-49.0	104.9	5.9	6.8	0.1
2009A	3,830	37.19	180.7	37.4	6.0	17.2	0.2
2010E	3,826	31.71	-14.7	43.8	3.7	11.0	0.1
2011E	5,610	46.49	46.6	29.9	3.3	11.7	0.2
2012E	7,893	65.41	40.7	21.2	2.9	14.5	0.3

Source: Powered by dataCentral

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	104.9	37.4	43.8	29.9	21.2
EV/EBITDA adjusted (x)	21.8	23.6	17.8	14.8	12.0
P/BV (x)	5.9	6.0	3.7	3.3	2.9
Dividend yield (%)	0.1	0.2	0.1	0.2	0.3
Per Share Data (Rs)					
EPS adjusted	13.25	37.19	31.71	46.49	65.41
EPS reported	30.72	-39.66	31.71	46.49	65.41
BVPS	234.52	231.64	376.66	419.62	480.05
DPS	1.50	2.09	2.06	3.02	4.25
Profit & Loss (RsM)					
Net sales	46,275	54,681	64,059	68,940	80,285
Operating expenses	-37,374	-45,753	-52,580	-55,224	-63,007
EBIT	8,901	8,927	11,479	13,717	17,278
Net interest expense	-5,448	-7,176	-6,240	-5,586	-5,684
Non-operating/exceptionals	1,063	1,038	472	500	550
Pre-tax profit	4,516	2,790	5,710	8,630	12,143
Tax	-2,661	-916	-1,884	-3,021	-4,250
Extraord./Min.Int./Pref.div.	865	-5,959	0	0	0
Reported net income	2,721	-4,084	3,826	5,610	7,893
Adjusted earnings	1,174	3,830	3,826	5,610	7,893
Adjusted EBITDA	9,642	9,853	12,552	14,806	18,413
Growth Rates (%)					
Sales	58.2	18.2	17.2	7.6	16.5
EBIT adjusted	121.4	0.3	28.6	19.5	26.0
EBITDA adjusted	121.3	2.2	27.4	18.0	24.4
EPS adjusted	-49.0	180.7	-14.7	46.6	40.7
Cash Flow (RsM)					
Operating cash flow	-8,361	-7,040	-5,890	4,667	4,878
Depreciation/amortization	741	926	1,073	1,090	1,135
Net working capital	-9,990	-3,540	-10,788	-2,033	-4,150
Investing cash flow	-48,724	-5,182	6,241	-4,000	-7,000
Capital expenditure	-6,713	-6,321	-800	-4,000	-7,000
Acquisitions/disposals	-42,011	1,139	7,041	0	0
Financing cash flow	55,588	17,233	158	-2,167	2,122
Borrowings	51,240	7,564	-17,119	-1,248	3,214
Dividends paid	-159	-252	-291	-427	-601
Change in cash	-340	-948	510	-1,500	0
Balance Sheet (RsM)					
Total assets	101,986	118,418	119,428	125,047	137,686
Cash & cash equivalent	5,438	4,490	5,000	3,500	3,500
Accounts receivable	8,370	8,880	11,160	12,800	14,997
Net fixed assets	11,163	16,558	16,285	19,195	25,060
Total liabilities	79,221	94,500	73,914	74,350	79,697
Accounts payable	9,256	9,256	9,878	11,123	12,713
Total Debt	66,041	73,605	56,486	55,238	58,452
Shareholders' funds	22,765	23,919	45,514	50,697	57,989
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.8	18.0	19.6	21.5	22.9
ROE adjusted	6.8	17.2	11.0	11.7	14.5
ROIC adjusted	11.9	9.7	10.9	11.2	12.5
Net debt to equity	266.2	289.0	113.1	102.1	94.8
Total debt to capital	74.4	75.5	55.4	52.1	50.2

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United Spirits

Company description

United Spirits is the largest player in India's branded spirits market with more than a 55% market share. It pursues an inorganic growth strategy, acquiring second-largest Indian liquor manufacturer Shaw Wallace and scotch manufacturer Whyte & Mackay (W&M). While the Shaw Wallace acquisition enhanced its competitive position, raising its market share in branded spirits market, Whyte & Mackay gave it access to scotch inventory to drive the next leg of its India growth strategy. UNSP also acquired French winemaker Bouvet Ladubay – the wine arm of champagne major Taittinger – and plans to introduce its products to the Indian market. UNSP also owns the Bangalore IPL cricket team 'Royal Challengers' in a 100%-owned subsidiary.

Investment strategy

We rate United Spirits shares as Buy/Medium Risk (1M) with a target price of Rs1,622. The company is well positioned to benefit from India's organized liquor market that is growing at a rate of ~10%-15% (driven by rising disposable incomes, favorable demographics and a shift in consumption patterns). On steady revenues, as input costs sequentially decline, gross margins should witness a sharp expansion. UNSP has demonstrated the ability to pare discretionary cost items that further buffer EBITDA growth. The Whyte & Mackay acquisition remains a long-term strategic fit and should significantly enhance UNSP's plans to expand its presence in the Indian premium whisky segments and provide UNSP access to the European market. UNSP is well positioned to enhance the value of Whyte & Mackay's inventory of scotch whiskey, by providing access to a ready and fast growing market for premium whisky.

Valuation

Our target price of Rs1,622 is based on a two-part EV/EBITDA methodology. We value the domestic operations at 15x Dec11E EV/EBITDA. The multiple is at a 25% premium to international peers. We think this is merited, given that: a) volume growth in India continues at mid teen levels vs. nominal growth in developed markets, b) With >55% market share, UNSP's market positioning in a high growth market is attractive, and c) India's demographic story is also attractive from a longer term alcohol consumption story. We value the W&M EBITDA stream at 9x (which is a ~25% discount to the global majors). We think this discount is merited, because of W&M's status as a bulk scotch manufacturer. While over the longer term, we think that W&M could re-rate, given management focus on building the branded business; but it is still early days - thus we maintain the discount given the execution risks. We also ascribe Rs44/share to value the Bangalore IPL cricket team franchise at investment.

Risks

We rate United Spirits shares Medium Risk, instead of Low Risk as suggested by our quantitative risk-rating system, which tracks 260-day historical share-price volatility. We believe this is warranted as the capital structure of the company remains a challenge vis-à-vis peers - gross debt remains high, in the backdrop of: a) elevated capex spends over the next three years, and b) uncertainty on working capital/NCA. However, from a cash flow/debt servicing perspective, UNSP is comfortably poised.

The key downside risks to our rating and target price include: 1) the liquor industry is highly regulated and thus any change in policy (like increase in taxes, further control on distribution or an outright ban on liquor sales in some states) could adversely impact growth and profitability; 2) a significant uptrend or delay in correction of molasses/ENA and packaging costs could adversely impact operating margins; 3) high interest expenses may impact earnings growth, if United Spirits is unable to deleverage its balance sheet over the medium term.

Appendix A-1

Analyst Certification

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Data current as of 30 Jun 2010

	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	54%	35%	12%
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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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