Changes in Conviction Ideas

Our Conviction List as on 25 March 2011

Large Cap	Mid Cap	Small Cap
ACC	Allahabad Bank	Century Textiles
Hindalco	BGR Energy Systems	ELGI Equipment
ICICI Bank	Cadila Healthcare	Entertainment Network
Infosys Technologies	Indian Bank	Sundaram Finance
Mundra Port and SEZ	Petronet LNG	Unichem Laboratories
Tata Motors	Rallis India	Vardhaman Textiles

Our Top Sells

ABB • CONCOR • JSW Energy

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	Additions	Deletions
Buy Ideas		
Largecap	ACC, ICICI Bank, Mundra Port	Asian Paints India, HDFC, Thermax, United Spirits
Midcap	Allahabad Bank, Cadila Healthcare India Bank, Petronet LNG	Biocon, Coromandel International, NIIT Tech, Oriental Bank of Commerce
Smallcap	Century Textiles, Sundaram Finance, Vardhaman Textiles, Unichem Laboratories	Everest Industries, Globus Spirits, IFB Industries, Indoco Remedies, VST Tillers, WABCO-TVS
Sell Ideas		
	ABB, CONCOR	GMR Infrastructure, Suzlon Energy

	Return (%)*	
	Absolute	Relative
Top Buy Ideas: Largecap		
Benchmark Index: Nifty 50		
Hindalco Industries	(8.4)	2.5
Infosys Technologies	(14.6)	(2.5)
Tata Motors	30.7	31.3
Top Buy Ideas: Midcap		
Benchmark Index: CNX Midcap		
BGR Energy Systems	(38.3)	(32.0)
Rallis India	(12.0)	2.7
Top Buy Ideas: Smallcap		
Benchmark Index: BSE SmallCap		
Elgi Equipments	21.3	59.8
Entertainment Network India	(4.5)	18.4
Top Sell Idea		
Benchmark Index: Nifty 50		
JSW Energy	(35.7)	22.7

* Since the Date of Recommendation

Price performance of Conviction Ideas

Company name	Recomm. Date	Price (Rs)		Return (%)	
		Recomm.	18-Mar-11	Absolute	Relative
Top BUY Ideas					
Largecap					
Benchmark Index: Nifty 50					
ACC	18-Mar-11	1,021	–	–	–
ICICI Bank	18-Mar-11	1,003	–	–	–
Mundra Port	18-Mar-11	134	–	–	–
Hindalco Industries	22-Nov-10	215	197	(8.4)	2.5
Infosys Technologies	31-Dec-10	3,443	2,941	(14.6)	(2.5)
Tata Motors	28-Jul-10	855	1,117	30.7	31.3
Midcap					
Benchmark Index: CNX Midcap					
Allahabad Bank	18-Mar-11	207	–	–	–
Cadila Healthcare	18-Mar-11	739	–	–	–
Indian Bank	18-Mar-11	211	–	–	–
Petronet LNG	18-Mar-11	118	–	–	–
BGR Energy Systems	28-Jul-10	715	441	(38.3)	(32.0)
Rallis India	31-Dec-10	1,444	1,271	(12.0)	2.7
Smallcap					
Benchmark Index: BSE SmallCap					
Century Textile & Industries	18-Mar-11	316	–	–	–
Sundaram Finance	18-Mar-11	474	–	–	–
Unichem Laboratories	18-Mar-11	180	–	–	–
Vardhman Textiles	18-Mar-11	253	–	–	–
Elgi Equipments	24-Sep-10	75	91	21.3	59.8
Entertainment Network India	31-Dec-10	235	224	(4.5)	18.4
Top Sell Ideas					
Benchmark Index: Nifty 50					
ABB India	18-Mar-11	749	–	–	–
Container Corp of India	18-Mar-11	1,187	–	–	–
JSW Energy	22-Nov-10	112	72	(35.7)	22.7

Share Data

Price (Rs)	749
BSE Sensex	17,879
Reuters code	ABB.BO
Bloomberg code	ABB IN
Market cap. (US$ mn)	3,523
6M avg. daily turnover (US$ mn)	2.7
Issued shares (mn)	212

Performance (%)	1M	3M	12M
Absolute	13	(3)	(12)
Relative	15	7	(14)

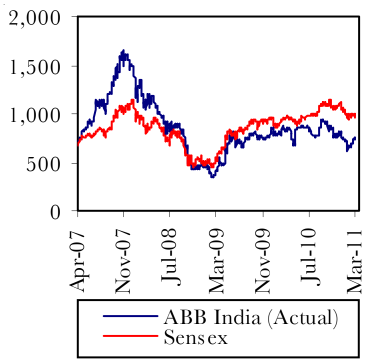
Valuation ratios

Yr to 31 Dec	CY11E	CY12E
EPS (Rs)	18.6	26.1
+/- (%)	524.5	40.3
PER (x)	40.2	28.7
PBV (x)	5.8	4.9
Dividend/Yield (%)	0.3	0.3
EV/Sales (x)	2.2	1.8
EV/EBITDA (x)	26.3	18.2

Major shareholders (%)

Promoters	75
FIIs	3
MFs	1
BFSI's	12
Public & Others	10

Relative performance



ABB

Maintain Underperformer

Expensive valuations for the limited growth visibility

Background

ABB Ltd. (ABB India), a 75% subsidiary of US$ 31.6 bn ABB, Switzerland, has been a leading player in the Indian power and industrial automation sector. ABB has paid a high price over the last 18 months for its wrong strategic decision of focusing on rural electrification (RE) projects as a key growth driver in CY07-08, which continues to pose a risk to earnings.

Why do we dislike the stock?

- Though earnings against a dismal CY10 (with 84% drop in earnings) will improve in CY11, but even on our optimistic earnings estimates, valuations are expensive at 40x CY11E and 28x CY12E earnings.
- Rs 700 mn relating to rural electrification business is pending to be executed in CY11, a potential risk to earnings in CY11 (Rs 1 bn provisioning made in CY10 towards costs relating to RE exit).
- While the modification in PGCIL procurement norms for EHV transformers qualify ABB to supply 765 kV transformers from India, the change in the substation package composition (removal of circuit breakers) suggest increased competition for ABB from the domestic EPC contractors. Though T&D orders will pick pace in 2HCY11, but margins are expected to be much lower.
- Order book of Rs 84 bn is at 1.3x TTM sales. CY10 inflows were lower by 27% YoY, at Rs 63.5 bn. Orders worth Rs 6.5 bn were de-logged from the books in 4Q due to indefinite postponement of some projects.
- In addition, their recent acquisition of LV businesses from the parent for cash outflow of Rs 4 bn is expensive (sales for CY11 expected to be Rs 2.5 bn) for business with low entry barriers, stiff competition and pricing pressures.
- While the probability of de-listing and buy back remains for ABB (as for the other MNC peers in India – Areva T&D and Siemens), there is no timeline as of now. Our target price of Rs 615 is based on 30x 1-year forward earnings (implying 34x CY11E and 24x CY12E earnings).

Key delta/triggers

- Completion of the remaining rural electrification projects (Rs 700 mn) pending in the order backlog.
- Significant improvement in the EHV transmission ordering activity and industrial capex to help growth in order flows.
- Price stabilisation in domestic transformer market and pick up in execution rate.

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ABB

Income Statement

Yr end 31 Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Net sales	**62,372**	**62,871**	**69,175**	**82,963**
Growth (%)	*(8.8)*	*0.8*	*10.0*	*19.9*
Operating expenses	(57,098)	(62,033)	(63,395)	(74,790)
Operating profit	5,274	838	5,780	8,173
EBITDA	**5,274**	**838**	**5,780**	**8,173**
Growth (%)	*(31.5)*	*(84.1)*	*590.1*	*41.4*
Depreciation	(485)	(517)	(585)	(673)
Other income	726	855	953	1,074
EBIT	**5,515**	**1,176**	**6,148**	**8,573**
Interest paid	(241)	(174)	(165)	(182)
Pre-tax profit (before non-recurring)	5,274	1,002	5,983	8,392
Pre-tax profit (after non-recurring)	5,274	1,002	5,983	8,392
Tax (current + deferred)	(1,728)	(370)	(2,034)	(2,853)
Net profit (before Minority Interest, Pref. Dividend, etc.)	3,546	632	3,949	5,539
Reported PAT	3,546	632	3,949	5,539
Adjusted net profit	**3,546**	**632**	**3,949**	**5,539**
Growth (%)	*(35.2)*	*(82.2)*	*524.5*	*40.3*

Balance Sheet

Yr end 31 Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Cash & marketable securities	5,241	5,871	8,154	11,899
Other current assets	42,251	43,391	46,699	52,646
Investments	169	168	268	293
Net fixed assets	7,895	8,238	8,152	8,379
Other non-current assets	1	46	50	50
Total assets	**55,557**	**57,714**	**63,323**	**73,267**
Current liabilities	31,320	33,477	35,681	40,687
Total liabilities	**31,320**	**33,477**	**35,681**	**40,687**
Share capital	424	424	424	424
Reserves & surplus	23,814	23,813	27,218	32,157
Shareholders' funds	**24,237**	**24,237**	**27,641**	**32,581**
Total equity & liabilities	**55,557**	**57,714**	**63,323**	**73,268**
Capital employed	**24,237**	**24,237**	**27,642**	**32,581**

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Pre-tax profit	5,274	1,002	5,983	8,392
Depreciation	485	517	585	673
Change in working capital	(581)	1,017	(1,152)	(996)
Total tax paid	(1,767)	(415)	(2,038)	(2,853)
Other operating activities	(3)	(137)	0	0
Cash flow from oper. (a)	**3,408**	**1,984**	**3,378**	**5,215**
Capital expenditure	(916)	(860)	(500)	(900)
Change in investments	442	1	(100)	(25)
Others	(630)	0	0	(0)
Cash flow from inv. (b)	**(1,104)**	**(859)**	**(600)**	**(925)**
Free cash flow (a+b)	**2,304**	**1,125**	**2,778**	**4,290**
Debt raised/(repaid)	(0)	0	0	0
Dividend (incl. tax)	(545)	(496)	(496)	(544)
Cash flow from fin. (c)	**(546)**	**(496)**	**(496)**	**(544)**
Net chg in cash (a+b+c)	**1,759**	**630**	**2,282**	**3,746**

Key Ratios

Yr end 31 Dec (%)	CY09	CY10	CY11E	CY12E
Adjusted EPS (Rs)	16.7	3.0	18.6	26.1
Growth	(35.2)	(82.2)	524.5	40.3
Book NAV/share (Rs)	113.7	113.7	129.8	153.1
Dividend/share (Rs)	2.0	2.0	2.2	2.4
Dividend payout ratio	14.0	78.4	13.8	10.8
Tax	32.8	36.9	34.0	34.0
EBITDA margin	8.5	1.3	8.4	9.9
EBIT margin	8.8	1.9	8.9	10.3
RoCE	24.0	4.9	23.7	28.5
Net debt/Equity	(21.6)	(24.2)	(29.5)	(36.5)

Valuations

Yr end 31 Dec (x)	CY09	CY10	CY11E	CY12E
PER	44.8	251.1	40.2	28.7
PCE	39.4	138.2	35.0	25.6
Price/Book	6.6	6.6	5.8	4.9
Yield (%)	0.3	0.3	0.3	0.3
EV/Net sales	2.5	2.4	2.2	1.8
EV/EBITDA	29.3	183.0	26.3	18.2

Du Pont Analysis – ROE

Yr end 31 Dec (x)	CY09	CY10	CY11E	CY12E
Net margin (%)	5.7	1.0	5.7	6.7
Asset turnover	1.1	1.1	1.1	1.2
Leverage factor	2.4	2.3	2.3	2.3
Return on equity (%)	15.6	2.6	15.2	18.4

Share Data

Price (Rs)	1,021
BSE Sensex	17,879
Reuters code	ACC.BO
Bloomberg code	ACCIN
Market cap. (US$ mn)	4,248
6M avg. daily turnover (US$ mn)	10.5
Issued shares (mn)	188

Performance (%)	1M	3M	12M
Absolute	4	(5)	5
Relative	6	6	3

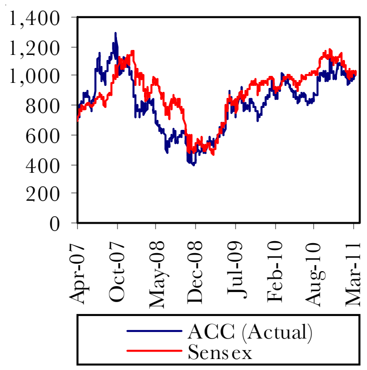
Valuation ratios

Yr to 31 Dec	CY11E	CY12E
EPS (Rs)	53.1	76.1
+/- (%)	-3.6	43.4
PER (x)	19.2	13.4
PBV (x)	2.8	2.4
Dividend/Yield (%)	2.3	2.3
EV/Sales (x)	1.9	1.6
EV/EBITDA (x)	9.1	6.5

Major shareholders (%)

Promoters	48
FIIs	16
MFs	1
BFSI's	15
Public & Others	20

Relative performance



ACC

Maintain Outperformer

Poised for concrete gains

Background

ACC, with ~30 mn tpa cement capacity, is one of India's largest cement players with a pan-India presence. We expect sector fundamentals to improve by end of CY11E, as excess supply gets absorbed and utilisation rates improve. Moreover, with FY12E being the last year of XIth 5-year plan, we expect infra spending to gain momentum, leading to higher cement demand and improved pricing.

Why do we like the stock

- **Better geographic mix:** With ~65% despatches to the growing markets of North, East and Central India and negligible presence in Andhra Pradesh, ACC is likely to have better demand-supply and pricing dynamics vis-à-vis players focused in South and West India.
- **Easing capacity constraints:** Capacity constraints set to ease with commissioning of new kiln at Wadi in 3QCY10 and 3 mn tpa at Chanda in 4QCY10. These new units will ensure strong volume growth of 10%+ in CY11E and CY12E and also ensure earnings stability.
- **Strong balance sheet:** Strong liquidity on the balance sheet with net cash of Rs 19.6 bn (CY10) provides comfort.
- **Valuation:** ACC is currently trading at an EV of US$ 122 per tonne on CY11E capacity.

Key delta triggers

- With price hikes of ~Rs 40 per bag undertaken across regions in the last two months, we expect strong improvement in EBITDA per tonne and overall profitability. These price hikes will more than compensate for the increase in coal, freight, raw material costs as well as increase in excise duty.
- Development of coal blocks in Chhattisgarh (JV with the government and six other players, ACC's stake at 14%) will help manage fuel cost escalations.

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ACC

Income Statement

Yr end 31 Dec (Rs mn)	CY09	CY10E	CY11E	CY12E
Net sales	**80,272**	**77,173**	**86,694**	**103,035**
Growth (%)	*9.8*	*(3.9)*	*12.3*	*18.8*
Operating expenses	(55,475)	(60,922)	(70,200)	(80,676)
Operating profit	24,797	16,251	16,494	22,359
Other operating income	1,637	1,940	2,110	2,210
EBITDA	**26,434**	**18,191**	**18,604**	**24,569**
Growth (%)	*39.2*	*(31.2)*	*2.3*	*32.1*
Depreciation	(3,421)	(3,927)	(4,435)	(4,302)
Other income	774	885	770	810
EBIT	**23,787**	**15,149**	**14,938**	**21,077**
Interest paid	(843)	(568)	(580)	(484)
Pre-tax profit (before non-recurring)	22,944	14,582	14,359	20,593
Non-recurring items	0	853	0	0
Pre-tax profit (after non-recurring)	22,944	15,435	14,359	20,593
Tax (current + deferred)	(6,877)	(4,234)	(4,379)	(6,281)
Net profit (before Minority Interest, Pref. Dividend, etc.)	16,067	11,200	9,979	14,312
Reported PAT	**16,067**	**11,200**	**9,979**	**14,312**
Adjusted net profit	**16,067**	**10,347**	**9,979**	**14,312**
Growth (%)	*38.0*	*(35.6)*	*(3.6)*	*43.4*

Balance Sheet

Yr end 31 Dec (Rs mn)	CY09	CY10E	CY11E	CY12E
Cash and Marketable sec.	19,218	24,825	29,525	40,818
Other current assets	15,481	16,733	18,654	20,794
Investments	3,003	3,003	3,003	3,003
Net fixed assets	63,145	66,452	62,435	61,100
Total assets	**100,846**	**111,013**	**113,617**	**125,715**
Current liabilities	31,522	37,464	36,693	40,092
Total debt	5,669	5,238	3,688	3,128
Other non-current liabilities	3,493	3,493	3,493	3,493
Total liabilities	**40,684**	**46,195**	**43,873**	**46,713**
Share capital	1,880	1,880	1,880	1,880
Reserves & surplus	58,282	62,938	67,864	77,122
Shareholders' funds	**60,162**	**64,818**	**69,743**	**79,002**
Total equity & liabilities	**100,846**	**111,013**	**113,617**	**125,715**
Capital employed	**69,324**	**73,549**	**76,924**	**85,622**

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY09	CY10E	CY11E	CY12E
Pre-tax profit	22,944	15,435	14,359	20,593
Depreciation	3,421	3,927	4,435	4,302
Change in working capital	4,336	(443)	1,046	842
Total tax paid	(5,600)	(751)	(6,469)	(5,863)
Cash flow from oper. (a)	**25,101**	**18,168**	**13,370**	**19,874**
Capital expenditure	(15,440)	(6,728)	90	(3,100)
Change in investments	(7,966)	(2,270)	(1,692)	(2,000)
Others	(401)	(506)	(508)	133
Cash flow from inv. (b)	**(23,806)**	**(9,504)**	**(2,109)**	**(4,967)**
Free cash flow (a+b)	**1,295**	**8,663**	**11,261**	**14,907**
Equity raised/(repaid)	19	(1)	0	0
Debt raised/(repaid)	849	(431)	(1,550)	(560)
Dividend (incl. tax)	(4,392)	(5,053)	(6,702)	(5,054)
Others	(150)	158	0	0
Cash flow from fin. (c)	**(3,674)**	**(5,326)**	**(8,252)**	**(5,614)**
Net chg in cash (a+b+c)	**(2,379)**	**3,337**	**3,009**	**9,293**

Key Ratios

Yr end 31 Dec (%)	CY09	CY10E	CY11E	CY12E
Adjusted EPS (Rs)	85.5	55.1	53.1	76.1
Growth	37.9	(35.6)	(3.6)	43.4
Book NAV/share (Rs)	320.0	344.9	371.1	420.3
Dividend/share (Rs)	23.0	30.5	23.0	23.0
Dividend payout ratio	31.4	64.8	50.6	35.3
Tax	30.0	27.4	30.5	30.5
EBITDA margin	32.3	23.0	20.9	23.3
EBIT margin	29.0	19.1	16.8	20.0
RoCE	37.5	21.2	19.9	25.9
Net debt/Equity	(22.5)	(30.2)	(37.0)	(47.7)

Valuations

Yr end 31 Dec (x)	CY09	CY10E	CY11E	CY12E
PER	11.9	18.5	19.2	13.4
PCE	9.9	13.4	13.3	10.3
Price/Book	3.2	3.0	2.8	2.4
Yield (%)	2.2	3.0	2.3	2.3
EV/Net sale	2.2	2.3	1.9	1.6
EV/EBITDA	6.8	9.6	9.1	6.5

Du Pont Analysis – ROE

Yr end 31 Dec (x)	CY09	CY10E	CY11E	CY12E
Net margin (%)	20.0	13.4	11.5	13.9
Asset turnover	0.9	0.7	0.8	0.9
Leverage factor	1.7	1.7	1.7	1.6
Return on equity (%)	29.4	16.6	14.8	19.2

Allahabad Bank

Maintain Outperformer

Best from the east

Background

Allahabad Bank (ALBK) is one of the oldest PSU bank with asset size of more than Rs 1.3 trn, GoI holding of 55.2% and seventh largest network of 2,403 branches, with a predominant presence in CASA rich eastern India. The bank has a wholly-owned financial subsidiary in the name of AllBank Finance Ltd. (ABFL) and 30% stake in Universal Sompo General Insurance Co. Ltd.

Investment drivers

- **Strong and improved fundamentals:** The bank has undertaken various structural changes in last couple of years (technology upgrade, balance-sheet management, improving loan mix, raising C-D ratio, leveraging branch network and improving productivity) leading to consistent improvement in RoAs > 1% and RoE >23%. Amongst mid-cap PSU banks, the bank has relatively better fee income/avg. assets (0.6%), which should also help the bank maintain healthy RoA.
- **Better placed to protect NIMs:** Healthy CASA ratio (~33%), lower dependence on wholesale deposits (also strategically raising low duration CD's to benefit from re-pricing), better loan mix (higher share of retail/SME loans), strong credit growth (~25%) and recent capital infusion should help bank manage margin at 3%+. The bank has a medium-term objective to maintain CASA ratio of 33-35%, on the back of branch expansion (add ~600 branches in the next three years) primarily focused in north-west region.
- **Asset quality likely to stabilise:** Slippages are likely to remain at elevated levels in near term impending system based NPA recognition, however, higher w/offs and likely sell-off of stressed loans would help bank contain NPAs. In the medium-term, the bank expects slippages to moderate and recoveries/upgrade to improve leading to better asset quality. Also the bank has relatively higher PCR at 80%, which should lead to lower credit cost going forward supporting profitability.
- **Attractively valued:** ALBK remains our top-pick in mid-size PSU bank given its strong profitability (healthy RoEs ~23%+, RoA ~1.2%) and better management sustainability. The stock is currently trading at 1.3x FY11E and 1.1x FY12E ABV.

Key risk/Challenges

- Slower growth and asset quality deterioration due to subdued economic growth and dominant presence in eastern India.

Key delta triggers

- Lower NIM compression and NPA formation.

Share Data

Price (Rs)	207
BSE Sensex	17,879
Reuters code	ALBK.BO
Bloomberg code	ALBK IN
Market cap. (US$ mn)	2,053
6M avg. daily turnover (US$ mn)	5.1
Issued shares (mn)	447

Performance (%)	1M	3M	12M
Absolute	(1)	(4)	44
Relative	1	6	41

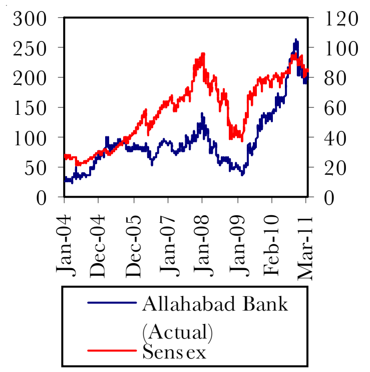
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	33.6	42.0
+/- (%)	24.4	25.0
ABV (Rs)	153.7	185.6
+/- (%)	23.2	20.7
PER (x)	6.2	4.9
PABV (x)	1.3	1.1
Dividend/Yield (%)	2.9	3.4

Major shareholders (%)

Promoters	55
FIIs	16
MFs	3
BFSI's	13
Public & Others	13

Relative performance



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Allahabad Bank

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Interest income	73,647	83,692	109,995	138,024
Interest expense	(52,061)	(57,187)	(70,938)	(93,523)
Net interest income	**21,587**	**26,505**	**39,057**	**44,501**
Growth (%)	*29.1*	*22.8*	*47.4*	*13.9*
Non-interest income	11,419	15,159	12,094	14,615
Operating income	33,006	41,664	51,151	59,116
Operating expenses	(13,994)	(16,178)	(20,397)	(24,189)
- Staff expenses	(8,739)	(10,114)	(13,048)	(15,705)
Pre-provisions profit	**19,012**	**25,485**	**30,754**	**34,927**
Core operating profit	**13,285**	**19,720**	**29,313**	**33,342**
Growth (%)	*31.7*	*48.4*	*48.6*	*13.7*
Provisions & Contingencies	(8,254)	(7,769)	(9,003)	(7,733)
Pre-tax profit (before non-recurring items)	10,758	17,716	21,751	27,194
Pre-tax profit (after non-recurring items)	10,758	17,716	21,751	27,194
Tax (current + deferred)	(3,072)	(5,653)	(6,308)	(7,886)
Net profit	**7,686**	**12,063**	**15,444**	**19,308**
Adjusted net profit	**7,686**	**12,063**	**15,444**	**19,308**
Growth (%)	*(21.1)*	*57.0*	*28.0*	*25.0*
Net income	**7,686**	**12,063**	**15,444**	**19,308**

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and balance with RBI/Banks	66,368	91,682	119,901	147,148
Investments	296,510	384,286	384,384	462,982
Advances	588,018	716,049	907,178	1,124,467
Interest earning assets	**950,896**	**1,192,017**	**1,411,462**	**1,734,597**
Fixed assets (Net block)	11,098	11,183	11,635	11,869
Other assets	14,487	13,792	16,553	18,198
Total assets	**976,480**	**1,216,992**	**1,439,650**	**1,764,665**
Deposits	849,717	1,060,558	1,268,103	1,559,525
Other interest bearing liab.	38,489	54,355	64,125	75,457
Total Int. bearing liab.	**917,960**	**1,149,463**	**1,356,983**	**1,666,454**
Other liabilities and prov.	29,754	34,550	24,754	31,472
Share capital	4,467	4,467	4,596	4,596
Reserves & surplus	54,052	63,063	78,071	93,615
Shareholders' funds	**58,519**	**67,530**	**82,667**	**98,211**
Total equity & liabilities	**976,480**	**1,216,992**	**1,439,650**	**1,764,665**

Key Ratios

Yr end 31 Mar	FY09	FY10	FY11E	FY12E
Valuation ratios (Rs)				
Adjusted EPS	17.2	27.0	33.6	42.0
BVPS	111.5	131.7	161.0	194.8
Adjusted Book NAV/share	105.2	124.8	153.7	185.6
PER (x)	12.1	7.7	6.2	4.9
Price/Book (x)	1.9	1.6	1.3	1.1
Price/Adjusted book (x)	2.0	1.7	1.3	1.1
Dividend Yield (%)	1.2	2.7	2.9	3.4
Du-Pont ratios				
NII/Avg. Assets (%)	2.4	2.4	2.9	2.8
Non-interest income/Avg Assets	1.3	1.4	0.9	0.9
- Fee income/Avg Assets	0.6	0.6	0.6	0.6
- Trading gains/Avg Assets	0.6	0.5	0.1	0.1
Cost/Avg Assets	1.5	1.5	1.5	1.5
Non-tax Provisions/Avg Assets	0.9	0.7	0.7	0.5
Tax Provisions/Avg Assets	0.3	0.5	0.5	0.5
RoA (%)	0.9	1.1	1.2	1.2
Leverage	19.3	20.2	20.0	19.6
RoE (%)	16.4	22.2	23.3	23.6
Balance Sheet ratios (%)				
Loan growth	18.3	21.8	26.7	24.0
Deposit growth	18.6	24.8	19.6	23.0
Loans/Deposits	69.2	67.5	71.5	72.1
Investments/Deposits	34.9	36.2	30.3	29.7
CASA ratio	34.6	34.5	33.2	32.5
Profitability ratios (%)				
NIMs	2.5	2.5	3.0	2.8
Interest spread	2.1	2.1	2.7	2.5
Yield on advances	10.2	9.9	10.3	10.7
Cost of deposits	6.2	5.6	5.7	6.2
Efficiency/other P/L ratios (%)				
Non-interest income/Net income	34.6	36.4	23.6	24.7
Trading income/Net income	17.4	13.8	2.8	2.7
Cost/Income (%)	42.4	38.8	39.9	40.9
Asset quality ratios (%)				
Gross NPLs	1.8	1.7	1.8	1.9
Net NPLs	0.7	0.7	0.6	0.6
Net NPLs/Net worth	8.0	7.6	6.5	6.8
Loan provisions/Avg loans	0.6	1.3	1.0	0.8
Provisions cover	60.9	61.5	70.0	70.0
Capitalisation ratios (%)				
Tier I cap.adequacy	8.0	8.1	8.5	8.3
Total cap.adequacy	13.1	13.6	13.7	13.3

Cadila Healthcare

Maintain BUY

Multi-pronged approach to drive earnings

Background

Cadila Healthcare has a well balanced business model (Generics + CRAMS) with strong focus in the US as well as domestic markets (strong positioning in CVS, GI, female healthcare and respiratory segments). The company has joint ventures with Hospira (for six products in the oncology space) and Nycomed (API manufacturing for US markets) for developed markets. It has signed licensing agreement with Abbott (for 14 products in 24 emerging markets) and has recently entered into a JV with Bayer in India.

Investment drivers

- India branded business shaping up well with strong growth of 18% (Rs 12.6 bn for 9MFY11) on the back of ~30-40 launches annually. We expect this run-rate to sustain over the next two-three years on the back of strong presence in niche therapies.
- Hospira JV to gather momentum: We expect the next two-three quarters growth to remain robust on account of Taxotere launch in the US (US$ 1.2 bn opportunity, Hospira enjoys exclusivity/first to launch). We expect incremental EPS of Rs 5-6 (~15% upside from current FY12 EPS) on account of Taxotere.
- Entry into new areas of Oncology, injectibles, transdermals vaccines, topical and pulmonary segments; Cumulative market opportunity pegged at US$ 180 bn (strong pipeline in place for Cadila).
- Strong pipeline for US markets: Cadila has cumulative filings for 118 ANDAs (59 pending USFDA approvals) and 96 DMFs. It further plans to launch ~10-12 products annually to drive incremental growth (current revenues at US$ 152 mn for 9MFY11).
- Increasing focus towards emerging markets: Tie-ups with Abbott and recent JV with Bayer in India, Cadila has increased its focus towards emerging markets. Besides these, it has its own presence in Brazil, South Africa, etc.
- Valuation: At the current market price of Rs 739, the stock trades at 18.4x FY12E EPS of Rs 40.1 and 14.5x FY13E EPS of Rs 50.8.

Key risks/Challenges

- Delays in execution of expanded Nycomed JV and Hospira JV.
- Maintaining stable growth in the French/EU business.

Key delta/Triggers

- JV with Hospira to gain traction (launch of Taxotere underway).
- Has a basket of ten biologics (to be launched over the next two-three years; initial launches to be in the domestic market).
- It plans to launch 14 vaccines over the next two-three years in the domestic market.

Share Data

Price (Rs)	739
BSE Sensex	17,879
Reuters code	CADI.BO
Bloomberg code	CDH IN
Market cap. (US$ mn)	3,362
6M avg. daily turnover (US$ mn)	1.8
Issued shares (mn)	205

Performance (%)	1M	3M	12M
Absolute	(4)	(2)	40
Relative	(3)	9	38

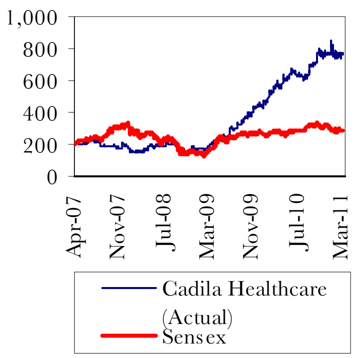
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	32.7	40.1
+/- (%)	31.2	22.8
PER (x)	22.6	18.4
PBV (x)	6.7	5.1
Dividend/Yield (%)	0.7	0.7
EV/Sales (x)	3.7	3.0
EV/EBITDA (x)	15.5	12.7

Major shareholders (%)

Promoters	75
FIIs	5
MFs	8
BFSI's	6
Public & Others	7

Relative performance



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Cadila Healthcare

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	**28,624**	**35,741**	**43,052**	**52,015**
Growth (%)	*26.3*	*24.9*	*20.5*	*20.8*
Operating expenses	(23,217)	(28,782)	(34,231)	(40,873)
Operating profit	5,407	6,959	8,821	11,142
Other operating income	442	531	1,377	1,060
EBITDA	**5,849**	**7,490**	**10,199**	**12,202**
Growth (%)	*32.5*	*28.1*	*36.2*	*19.6*
Depreciation	(1,118)	(1,339)	(1,470)	(1,610)
Other income	164	743	310	355
EBIT	**4,895**	**6,894**	**9,039**	**10,947**
Interest paid	(956)	(809)	(780)	(693)
Pre-tax profit (before non-recurring)	3,939	6,085	8,259	10,253
Non-recurring items	(241)	(46)	0	0
Pre-tax profit (after non-recurring)	3,698	6,039	8,259	10,253
Tax (current + deferred)	(666)	(741)	(1,321)	(1,794)
Net profit (before Minority Interest, Pref. Dividend etc.)	3,032	5,298	6,937	8,459
Prior period adjustments	(1)	(247)	(250)	(250)
Reported PAT	**3,031**	**5,051**	**6,687**	**8,209**
Adjusted net profit	**3,272**	**5,097**	**6,687**	**8,209**
Growth (%)	*23.7*	*55.8*	*31.2*	*22.8*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and Marketable securities	2,517	2,507	5,219	8,849
Other current assets	13,094	15,242	18,587	22,384
Investments	249	207	207	207
Net fixed assets	17,187	19,326	20,356	21,246
Other non-current assets	438	102	102	102
Total assets	**33,485**	**37,384**	**44,471**	**52,788**
Current liabilities	6,915	8,661	10,457	12,304
Total debt	12,674	10,905	10,405	9,905
Other non-current liabilities	1,316	1,141	1,141	1,141
Total liabilities	**20,905**	**20,707**	**22,003**	**23,350**
Share capital	682	682	1,024	1,024
Reserves & surplus	11,670	15,603	21,052	28,022
Shareholders' funds	**12,352**	**16,285**	**22,075**	**29,046**
Minorities interests	**228**	**392**	**392**	**392**
Total equity & liabilities	33,485	37,384	44,471	52,788
Capital employed	**26,570**	**28,723**	**34,013**	**40,484**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	3,698	6,039	8,259	10,253
Depreciation	1,118	1,339	1,470	1,610
Change in working capital	(1,529)	(724)	(1,554)	(1,950)
Total tax paid	(511)	(744)	(1,321)	(1,794)
Other operating activities	(478)	(247)	(250)	(250)
Cash flow from oper. (a)	**2,298**	**5,663**	**6,603**	**7,869**
Capital expenditure	(4,240)	(3,301)	(2,500)	(2,500)
Change in investments	5	42	0	0
Others	(64)	(177)	0	0
Cash flow from inv. (b)	**(4,299)**	**(3,317)**	**(2,500)**	**(2,500)**
Free cash flow (a+b)	**(2,001)**	**2,346**	**4,103**	**5,369**
Equity raised/(repaid)	(77)	0	342	0
Debt raised/(repaid)	4,297	(1,769)	(500)	(500)
Dividend (incl. tax)	(662)	(751)	(1,233)	(1,239)
Others	34	164	0	0
Cash flow from fin. (c)	**3,592**	**(2,356)**	**(1,391)**	**(1,739)**
Net change in cash (a+b+c)	**1,591**	**(10)**	**2,712**	**3,630**

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	16.0	24.9	32.7	40.1
Growth	(24.1)	55.7	31.2	22.8
Book NAV/share (Rs)	61.5	81.5	109.7	143.8
Dividend/share (Rs)	3.1	5.0	5.0	5.0
Dividend payout ratio	22.8	24.3	18.5	15.1
Tax	18.0	12.3	16.0	17.5
EBITDA margin	20.1	20.6	23.0	23.0
EBIT margin	16.8	19.0	20.3	20.6
RoCE	20.8	24.9	28.8	29.4
Net debt/Equity	80.7	50.4	23.1	3.6

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	46.2	29.7	22.6	18.4
PCE	34.4	23.5	18.5	15.4
Price/Book	12.0	9.1	6.7	5.1
Yield (%)	0.4	0.7	0.7	0.7
EV/Net sales	5.6	4.5	3.7	3.0
EV/EBITDA	27.4	21.4	15.5	12.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	11.4	14.3	15.5	15.8
Asset turnover	1.0	1.0	1.1	1.1
Leverage factor	2.5	2.4	2.1	1.9
Return on equity (%)	28.0	34.8	34.2	31.6

Share Data

Price (Rs)	316
BSE Sensex	17,879
Reuters code	CNTY.BO
Bloomberg code	CENT IN
Market cap. (US$ mn)	673
6M avg. daily turnover (US$ mn)	5.0
Issued shares (mn)	93

Performance (%)	1M	3M	12M
Absolute	(7)	(24)	(39)
Relative	(6)	(15)	(41)

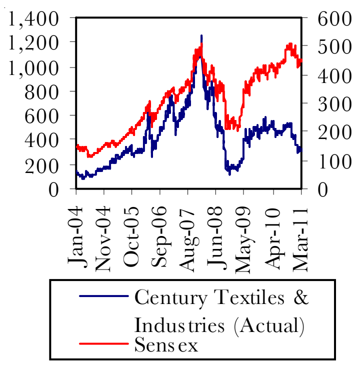
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	24.8	36.2
+/- (%)	(48.0)	45.7
PER (x)	14.5	9.9
PBV (x)	1.7	1.5
Dividend/Yield (%)	1.5	1.5
EV/Sales (x)	1.1	1.0
EV/EBITDA (x)	8.7	6.1

Major shareholders (%)

Promoters	40
FIIs	9
MFs	9
BFSI's	8
Public & Others	34

Relative performance



Century Textiles

Maintain Outperformer

Core businesses improving

Background

Century Textiles and Industries (CENT) is the flagship company of the B.K. Birla group a diversified conglomerate with business interest in Cement, Paper, Textile and Real Estate. CENT has capacity of 7.8 mn tpa in cement segment, 265,130 tpa capacity under various divisions in paper segment and 25 mn meter capacity in textiles segment. CENT is also exploring to unlock value through real estate development at its defunct textile mill in Mumbai.

Why do we like the stock

- **Worst seems to be over for cement:** CENT has ~82% dispatches to the growing markets of East and Central India where pricing has been on an uptrend during the past few months. Demand outlook remains positive in CENT's key markets with expected momentum in infra spending in FY12, being the last year of XIth 5-year plan. The 1.5 mn tpa unit at Murshidabad to be commissioned by FY12 end will ensure volume growth from FY13E onwards.
- **Improved performance in textiles:** The performance in the textile segment witnessed a turnaround with positive EBIT after a long period, due to improved demand and realisation. Though there could be some margin pressure due to rising input cost but would be offset due to increase in utilisation level.
- **Potential of value accretion from real estate development:** The commercial development of 32.5 acres of land (excluding 10 acres in litigation) in Central Mumbai is expected to provide significant value to CENT. The development is expected to be ~6.4 mn sqft. Of this, the under construction commercial property at Prabhadevi (~0.23 mn sq ft) is expected to start yielding lease rental income and help generate cash flows by this year end. Remaining land parcel of ~30 acres, if and when taken up for execution (currently valued on land bank basis), could also prove to be value accretive (the company has already received approval for ~18 acres).
- **Valuation:** We are valuing CENT at a SOTP valuation of Rs 439 (post conglomerate discount of 10%), based on EV of US$ 80/tonne for cement, EV/EBITDA of 4x for textiles and 2x for paper businesses and Rs 356 contribution from real estate.

Key delta triggers

- EBITDA per tonne in cement is expected to improve as there have been price hikes of ~Rs 40 per bag across regions in the last two months. The price hikes will more than compensate for the rising coal, freight, raw material costs as well as increase in excise duty and improve overall profitability.
- Improved profitability scenario in textile segment despite input pressure as a result of operational efficiency.
- Any clarity on exploitation of available land bank or announcement on development of incremental phases at Worli.

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Century Textiles

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	**38,157**	**44,529**	**46,768**	**52,858**
Growth (%)	*10.8*	*16.7*	*5.0*	*13.0*
Operating expenses	(31,990)	(36,009)	(40,968)	(44,654)
Operating profit	6,167	8,520	5,801	8,204
EBITDA	**6,167**	**8,520**	**5,801**	**8,204**
Growth (%)	*(9.2)*	*38.2*	*(31.9)*	*41.4*
Depreciation	(2,053)	(2,345)	(2,434)	(3,029)
Other income	1,168	1,343	1,512	1,462
EBIT	**5,282**	**7,519**	**4,879**	**6,637**
Interest paid	(1,448)	(1,402)	(1,699)	(1,938)
Pre-tax profit (before non-recurring items)	3,834	6,117	3,180	4,699
Non-recurring items	551	15	–	–
Pre-tax profit (after non recurring items)	4,385	6,132	3,180	4,699
Tax (current + deferred)	(822)	(1,674)	(869)	(1,331)
Net profit	**3,564**	**4,458**	**2,311**	**3,368**
Prior period adjustments	(1,198)	(1,064)	–	–
Reported PAT	**2,365**	**3,395**	**2,311**	**3,368**
Adjusted net profit	**3,012**	**4,443**	**2,311**	**3,368**
Growth (%)	*(24.2)*	*47.5*	*(48.0)*	*45.7*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	15,940	19,341	21,207	24,658
Cash & marketable sec.	665	574	1,702	2,379
Other current assets	15,275	18,767	19,506	22,279
Investments	465	584	584	584
Net fixed assets	28,080	37,718	41,695	44,983
Total assets	**44,486**	**57,642**	**63,487**	**70,225**
Current liabilities	10,088	13,771	15,724	17,876
Total debt	17,583	23,668	25,835	27,635
Other non-current liab.	2,901	2,513	2,523	2,538
Total liabilities	**30,571**	**39,953**	**44,083**	**48,050**
Share capital	930	930	930	930
Reserves & surplus	14,025	16,822	18,536	21,307
Less: Misc. expenditure	(1,041)	(62)	(62)	(62)
Shareholders' funds	**13,915**	**17,690**	**19,404**	**22,176**
Total equity & liabilities	**44,486**	**57,642**	**63,487**	**70,225**
Capital employed	**34,398**	**43,871**	**47,763**	**52,349**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	4,385	6,132	3,180	4,699
Depreciation	(2,053)	(2,345)	(2,434)	(3,029)
Chg in working capital	(1,882)	(2,090)	355	(1,937)
Total tax paid	–	114	–	–
Other operating activities	(1,200)	(1,065)	–	–
Cash flow from oper. (a)	**3,357**	**5,436**	**5,969**	**5,791**
Capital expenditure	(4,561)	(11,841)	(6,412)	(6,317)
Chg in investments	(188)	(119)	–	–
Others	(1,384)	838	–	(5)
Cash flow from inv. (b)	**(6,133)**	**(11,122)**	**(6,412)**	**(6,317)**
Free cash flow (a+b)	**(2,776)**	**(5,686)**	**(443)**	**(526)**
Debt raised/(repaid)	3,415	6,085	2,167	1,800
Dividend (incl tax.)	(490)	(490)	(597)	(597)
Cash flow from fin. (c)	**2,967**	**5,595**	**1,570**	**1,203**
Net chg in cash (a+b+c)	**191**	**(91)**	**1,128**	**677**

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	32.4	47.8	24.8	36.2
Growth	(24.2)	47.5	(48.0)	45.7
Book NAV/Share (Rs)	147.7	188.3	206.7	236.5
Dividend/Share (Rs)	4.5	5.5	5.5	5.5
Dividend payout ratio	16.3	13.4	25.8	17.7
Tax	18.7	27.3	27.3	28.3
EBITDA margin	16.2	19.1	12.4	15.5
EBIT margin	13.8	16.9	10.4	12.6
RoCE	17.0	19.2	10.6	13.3
Net debt / Equity	121.6	130.5	124.4	113.9

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	11.1	7.5	14.5	9.9
PCE	6.6	4.9	7.1	5.2
Price/Book	2.4	1.9	1.7	1.5
Yield (%)	1.3	1.5	1.5	1.5
EV/Net sales	1.3	1.1	1.1	1.0
EV/EBITDA	8.2	5.9	8.7	6.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	7.9	10.0	4.9	6.4
Asset turnover	0.9	0.9	0.8	0.8
Leverage factor	3.2	3.2	3.3	3.2
Return on equity (%)	24.0	28.1	12.5	16.2

CONCOR

Maintain Underperformer

Share Data

Price (Rs)	1,187
BSE Sensex	17,879
Reuters code	CCRI.BO
Bloomberg code	CCRI IN
Market cap. (US$ mn)	3,359
6M avg. daily turnover (US$ mn)	1.6
Issued shares (mn)	130

Performance (%)	1M	3M	12M
Absolute	8	(5)	(7)
Relative	10	5	(8)

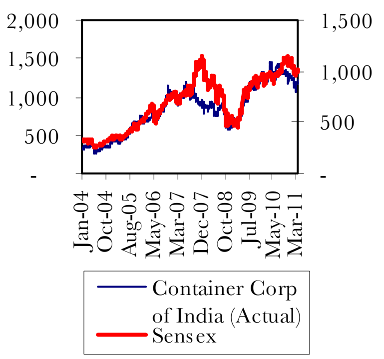
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	68.2	79.9
+/- (%)	12.6	17.3
PER (x)	18.0	15.4
PBV (x)	3.2	2.8
Div. / Yield (%)	1.4	1.6
EV / Sales (x)	3.6	3.1
EV / EBITDA (x)	12.8	11.0

Major shareholders (%)

Promoters	63
FIIs	24
MFs	4
BFSI's	6
Public & Others	3

Relative performance



Declining market share

Background

Container Corporation of India (CONCOR) was incorporated in 1988 and commenced operation with 7 ICD's from Indian Railways (IR). It has the largest network of 59 ICD's/ CFS's with a fleet of 229 rakes. It derives ~78% of its revenues from EXIM segment and 22% from the domestic segment.

Why should we sell the stock?

- IR, operating ratio has been declining over the years which has resulted in irrational price hikes by the IR specially for the private container operators who have been unable to pass on the price hikes to the customers due to intensifying competition, which is still bleeding.
- As JNPT is running close to full capacity volume growth is coming in from minor ports like Mundra and Pipavav which are 250-300 kms closer to key demand area in the NCR. This is reducing the lead distance bringing down the profitability of the firm, as railways are cheaper over longer distance.
- The problem of reducing lead distance is coupled with losing market share at the minor ports which are the high growing ports making it very difficult for CONCOR to retain both market share and profit margins it currently commands.
- Indian Railways capacity in certain belts is over 100% and only marginal capacity augmentation is through measures such as automatic signalling system, etc. is possible.
- The incremental volume growth was expected to come from dedicated freight corridor which has already been delayed. Also to make matter worse the funding of western corridor was to be done by the Government of Japan which is now expected to be delayed post the ongoing crisis in Japan.

Key triggers

Increase in haulage charges by IR to improve their profitability which CONCOR may not be able to pass on to final customers will bring their profitability down. This could also result in loss of market share, as CONCOR has already witnessed loss of about 25,000 TEU's p.m. in the last quarter.

IR's revenue and expenditure

(Rs bn)	FY06	FY07	FY08	FY09	FY10
Gross revenue receipts (GRR)	563	648	733	817	892
of which					
Freight traffic	355	411	464	517	569
% of GRR	63.1	63.4	63.4	63.4	63.8
Passenger traffic	151	172	198	219	234
% of GRR	26.8	26.5	27.0	26.8	26.2
Total working expenses	483	503	549	725	837
Net revenue receipts	80	145	183	9174	55
% of NRR to capital charge					
Operating ratio	83.7	78.68	75.94	90.6	95.3

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CONCOR

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	**34,172**	**37,057**	**39,962**	**46,162**
Growth (%)	*2.0*	*8.0*	*8.0*	*16.0*
Operating expenses	(24,861)	(27,440)	(28,839)	(33,279)
Operating profit	9,311	9,616	11,123	12,883
EBITDA	**9,311**	**9,616**	**11,123**	**12,883**
Growth (%)	*4.6*	*3.3*	*15.7*	*15.8*
Depreciation	(1,159)	(1,351)	(1,509)	(1,732)
Other income	2,111	1,801	1,600	2,000
EBIT	**10,262**	**10,066**	**11,214**	**13,151**
Pre-tax profit (before non-recurring items)	10,262	10,066	11,214	13,151
Pre-tax profit (after non-recurring items)	10,262	10,066	11,214	13,151
Tax (current + deferred)	(2,347)	(2,199)	(2,355)	(2,762)
Net profit	**7,915**	**7,867**	**8,859**	**10,389**
Reported PAT	**7,915**	**7,867**	**8,859**	**10,389**
Adjusted net profit	**7,915**	**7,867**	**8,859**	**10,389**
Growth (%)	*5.5*	*(0.6)*	*12.6*	*17.3*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	21,780	25,724	31,740	38,136
Cash & marketable sec.	17,635	19,895	29,240	35,616
Other current assets	4,144	5,829	2,500	2,520
Investments	2,030	2,427	2,427	2,427
Net fixed assets	21,947	23,608	25,477	28,445
Total assets	**45,756**	**51,758**	**59,644**	**69,008**
Current liabilities	6,197	6,285	7,561	9,232
Other non-current liab.	1,938	2,109	2,459	2,809
Total liabilities	**8,135**	**8,394**	**10,020**	**12,041**
Share capital	1,300	1,300	1,300	1,300
Reserves & surplus	36,322	42,064	48,325	55,667
Shareholders' funds	**37,622**	**43,364**	**49,624**	**56,966**
Total equity & liab.	**45,756**	**51,758**	**59,644**	**69,008**
Capital employed	**39,560**	**45,473**	**52,083**	**59,775**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	10,262	10,066	11,214	13,151
Depreciation	(1,159)	(1,351)	(1,509)	(1,732)
Chg in working capital	488	(1,596)	4,604	1,651
Total tax paid	(2,147)	(2,028)	(2,005)	(2,412)
Cash flow from oper. (a)	**9,763**	**7,793**	**15,322**	**14,122**
Capital expenditure	(4,703)	(3,013)	(3,378)	(4,699)
Chg in investments	(476)	(397)	–	–
Others	(30)	–	–	–
Cash flow from inv. (b)	**(5,210)**	**(3,410)**	**(3,378)**	**(4,699)**
Free cash flow (a+b)	**4,553**	**4,383**	**11,945**	**9,423**
Equity raised/(repaid)	650	–	–	–
Dividend (incl tax.)	(2,135)	(2,125)	(2,599)	(3,047)
Cash flow from fin. (c)	**(2,133)**	**(2,123)**	**(2,599)**	**(3,047)**
Net chg in cash (a+b+c)	**2,420**	**2,260**	**9,346**	**6,376**

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	60.9	60.5	68.2	79.9
Growth	5.5	(0.6)	12.6	17.3
Book NAV/Share (Rs)	289.4	333.6	381.8	438.3
Dividend/Share (Rs)	14.0	14.0	17.0	20.0
Dividend payout ratio	27.0	27.0	29.3	29.3
Tax	22.9	21.8	21.0	21.0
EBITDA margin	27.2	26.0	27.8	27.9
EBIT margin	30.0	27.2	28.1	28.5
RoCE	28.1	23.7	23.0	23.5
Net debt/Equity	(46.9)	(45.9)	(58.9)	(62.5)

Valuations

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
PER	20.2	20.3	18.0	15.4
PCE	17.6	17.3	15.4	13.2
Price/Book	4.2	3.7	3.2	2.8
Yield (%)	1.1	1.1	1.4	1.6
EV/Net sales	4.2	3.8	3.6	3.1
EV/EBITDA	15.3	14.8	12.8	11.0

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	23.2	21.2	22.2	22.5
Asset turnover	0.8	0.8	0.7	0.7
Leverage factor	1.2	1.2	1.2	1.2
Return on equity (%)	22.8	19.4	19.1	19.5

Share Data

Price (Rs)	1,003
BSE Sensex	17,879
Reuters code	ICBK.BO
Bloomberg code	ICICIBC IN
Market cap. (US$ mn)	25,524
6M avg. daily turnover (US$ mn)	110.5
Issued shares (mn)	1,149

Performance (%)	1M	3M	12M
Absolute	(2)	(9)	4
Relative	(1)	1	2

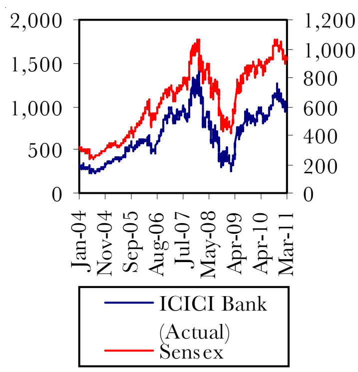
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	44.8	56.0
+/- (%)	23.9	25.0
ABV (Rs)	468.3	501.9
+/- (%)	6.3	7.2
PER (x)	22.4	17.9
PABV (x)	2.1	2.0
Dividend/Yield (%)	1.2	1.2

Major shareholders (%)

FIIs	39
MFs	7
BFSI's	16
Public & Others	38

Relative performance



ICICI Bank

Maintain Outperformer

Wired for growth

Background

ICICI Bank is the second largest bank in India, with a balance sheet size of Rs 3.9 trn and branch network more than 2,500. As a part of its inorganic growth strategy to expand branches and thus improve liability profile, till now the bank has acquired Sangli Bank, Bank of Madura and most recently Bank of Rajasthan (BoR). The bank's strategic focus will be to have balanced and qualitative growth with focus on improving profitability and return ratios. The bank has diversified business interests including insurance, asset management, securities and debt market.

Investment drivers

- **Growth back on track:** Post successful implementation of 4C strategy (high CASA, better credit quality, controlling cost and conserving capital), the bank has now adopted 5C strategy replacing "credit growth" over "conserving capital" and adding "Customer Service". With liability driven business model in place and improving credit quality, the bank has already accelerated its credit growth pace registering ~15% YoY in 3QFY11 and expects ~18% growth in FY11 and ~20% in FY12. As a strategy, the bank will be focusing on domestic credit growth (primarily wholesale driven) with share of international loan book to come down to ~15% from existing ~25% and retail share to come down to ~35% from 40% in long run.
- **NIMs to improve in long run:** NIMs are likely to witness pressure in the near term given rising cost, however, better credit growth, healthy CASA ratio and improvement in its international NIM (~1.2-1.3% from existing 0.8%) should help the bank improve its NIM to 3% from ~2.5% in the next three-four years. To sustain its CASA ratio >35% in medium-long run, the bank is planning aggressive branch expansion (~400-500) over the next three-four years and to leverage BoR's acquired branch network.
- **Lower credit cost to support RoA:** Recently, the bank has witnessed strong profitability driven by healthy NII growth and lower credit charges. Credit charges are likely to decline further with improving asset quality and the bank being already above 70% mandatory PCR, which should support the bank's profitability. Fee income would remain moderate in near term, however, should mirror credit growth in the longer term further supporting RoA expansion to ~1.4-1.5%.
- **Valuation:** At the current market price, the stock is attractively trading at 2.0x FY11E and 1.9x FY12E ABV on SOTP basis, adjusted for subsidiaries/investments value.

Key risk/Challenges

- Lower than expected growth, maintaining CASA ratio >35% and savings rate de-regulation.

Key delta/Triggers

- Any policy reforms allowing increase in FDI limit/IPO in insurance would lead to potential unlocking of value from its insurance venture.
- Positive surprise on asset quality.

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ICICI Bank

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Interest income	310,925	257,069	259,950	317,361
Interest expense	(227,259)	(175,926)	(171,957)	(213,407)
Net interest income	**83,666**	**81,144**	**87,993**	**103,953**
Growth (%)	*14.5*	*(3.0)*	*8.4*	*18.1*
Non-interest income	76,037	74,777	68,548	83,438
Operating income	**159,703**	**155,920**	**156,541**	**187,391**
Operating expenses	(70,451)	(58,598)	(65,766)	(78,756)
- Staff expenses	(19,717)	(19,258)	(27,140)	(35,886)
Pre-provisions profit	**89,252**	**97,322**	**90,775**	**108,634**
Core operating profit	**71,248**	**90,005**	**92,238**	**105,708**
Growth (%)	*17.2*	*26.3*	*2.5*	*14.6*
Provisions & Contingencies	(38,083)	(43,869)	(24,046)	(22,748)
Pre-tax profit (before non-recurring items)	51,170	53,453	66,728	85,886
Pre-tax profit (after non-recurring items)	51,170	53,453	66,728	85,886
Tax (current + deferred)	(13,588)	(13,203)	(16,015)	(21,472)
Net profit	**37,581**	**40,250**	**50,713**	**64,415**
Adjusted net profit	**37,581**	**40,250**	**50,713**	**64,415**
Growth (%)	*(9.6)*	*7.1*	*26.0*	*27.0*
Net income	**37,581**	**40,250**	**50,713**	**64,415**

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and balance with RBI/Banks	299,666	388,737	378,709	446,917
Investments	1,030,583	1,208,928	1,364,139	1,540,084
Advances	2,183,108	1,812,056	2,139,688	2,587,418
Interest earning assets	**3,513,357**	**3,409,721**	**3,882,536**	**4,574,419**
Fixed assets (Net block)	38,016	32,127	38,841	43,791
Other assets	241,636	192,149	208,009	218,234
Total assets	**3,793,010**	**3,633,997**	**4,129,386**	**4,836,445**
Deposits	2,183,478	2,020,166	2,431,951	2,945,406
Other interest bearing liab.	931,555	942,636	1,014,359	1,120,978
Total Int. bearing liab.	**3,297,679**	**3,117,814**	**3,578,288**	**4,237,092**
Other liabilities and prov.	182,647	155,012	131,978	170,708
Share capital	11,133	11,149	11,510	11,510
Reserves & surplus	484,197	505,035	539,588	587,843
Shareholders' funds	**495,330**	**516,184**	**551,098**	**599,353**
Total equity & liab.	**3,793,010**	**3,633,997**	**4,129,386**	**4,836,445**

Key Ratios

Yr end 31 Mar	FY09	FY10	FY11E	FY12E
Valuation ratios (Rs)				
Adjusted EPS	33.8	36.1	44.8	56.0
BVPS	445.0	463.3	486.4	520.7
Adjusted Book NAV/share	418.0	440.6	468.3	501.9
PER (x)	29.7	27.7	22.4	17.9
Price/Book (x)	2.3	2.2	2.1	1.9
Price/Adjusted book (x)	2.4	2.3	2.1	2.0
Dividend Yield (%)	1.1	1.2	1.2	1.2
Du-Pont ratios				
NII/Avg. Assets (%)	2.1	2.2	2.3	2.3
Non-interest income/Avg Assets	2.0	2.0	1.8	1.9
- Fee income / Avg Assets	1.4	1.6	1.6	1.6
- Trading gains / Avg Assets	0.5	0.2	0.0	0.1
Cost / Avg Assets	1.8	1.6	1.7	1.8
Non-tax Provisions / Avg Assets	1.0	1.2	0.6	0.5
Tax Provisions / Avg Assets	0.3	0.4	0.4	0.5
RoA (%)	1.0	1.1	1.3	1.4
Leverage	8.1	7.3	7.3	7.8
RoE (%)	7.5	7.7	9.2	10.9
Balance Sheet ratios (%)				
Loan growth	(2.7)	(16.4)	18.4	20.5
Deposit growth	(10.7)	(7.5)	20.4	21.1
Loans/Deposits	100.0	89.7	88.0	87.8
Investments/Deposits	47.2	59.8	56.1	52.3
CASA ratio	28.7	41.7	42.4	41.9
Profitability ratios (%)				
NIMs	2.3	2.4	2.4	2.5
Interest spread	1.6	1.7	1.8	1.9
Yield on advances	10.2	8.9	8.4	8.9
Cost of deposits	6.8	5.5	5.2	5.6
Efficiency/other P/L ratios (%)				
Non-interest income/Net income	47.6	48.0	43.8	44.5
Trading income/Net income	11.3	4.7	-0.9	1.6
Cost/Income	44.1	37.6	42.0	42.0
Asset quality ratios (%)				
Gross NPLs	4.3	5.1	4.7	4.2
Net NPLs	2.1	2.1	1.5	1.3
Net NPLs/Net worth	8.9	7.2	5.5	5.3
Loan provisions/Avg loans	1.7	2.1	1.2	0.9
Provisions cover	52.8	59.5	70.0	70.5
Capitalisation ratios (%)				
Tier I cap.adequacy	11.8	14.0	12.8	12.0
Total cap.adequacy	15.5	19.4	17.5	16.0

Share Data

Price (Rs)	211
BSE Sensex	17,879
Reuters code	INBA.BO
Bloomberg code	INBK IN
Market cap. (US$ mn)	2,083
6M avg. daily turnover (US$ mn)	3.4
Issued shares (mn)	430

Performance (%)	1M	3M	12M
Absolute	(4)	(16)	24
Relative	(2)	(7)	22

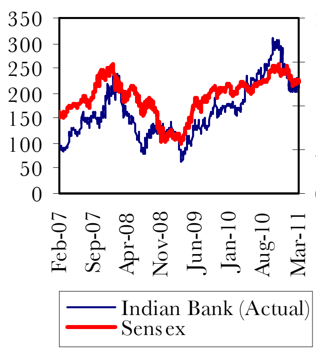
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	39.3	45.6
+/- (%)	8.5	16.2
ABV (Rs)	177.7	209.9
+/- (%)	16.5	18.2
PER (x)	5.4	4.6
PABV (x)	1.2	1.0
Dividend/Yield (%)	3.5	4.0

Major shareholders (%)

Promoters	80
FIIs	11
MFs	2
BFSI's	2
Public & Others	5

Relative performance



Indian Bank

Maintain Outperformer

Strong return profile; attractive valuations

Background

Indian Bank (INBK) is one of the leading mid-size PSU bank in Southern India with business size of Rs 1,749 bn and 1,822 branches. There has been tremendous improvement in business fundamentals post capital restructuring in FY07 and the bank has performed consistently well on all business parameters with better profitability over the past few years. Mr T.M. Bhasin – current CMD has longer term (> four years), which is a key for the bank's long-term strategy and performance.

Investment drivers

- **Strong and sustainable NIMs:** The bank has relatively higher NIMs amongst PSU banks (3.8% Q3FY11), primarily led by higher growth, healthy CASA ratio (33%) and better yields (high yielding loan portfolio). The bank plans to steadily improve its franchisee network (~200), which should help the bank sustain its CASA ratio >30% and NIMs at ~3.5%.
- **Healthy asset quality and capital adequacy:** Despite migrating to system based NPA management system since 1QFY11, the bank has relatively lower GNPA at 1% with higher PCR at 83%, leading to lower NNPAs at 0.6%. The bank aims to steadily move towards zero level NNPAs in medium term. With strong capital base (Tier I CAR – 9.7%), INBK is well positioned to leverage its balance sheet growth and will also help the bank withstand any asset quality shocks in the near-term.
- **Sustainably higher RoE:** INBK's higher RoE (22%) has a greater sustainability as the same is driven by higher RoA (1.5%), rather than leverage as the case for other banks. The bank has relatively higher cost structure (cost/assets at ~1.8%) due to higher employee base, which could drive even higher RoA as the productivity levels improve.
- **Attractive valuations:** INBK remain one of our top-mid cap pick given strong NIMs, RoE ~22%, RoA ~1.5%, healthy CAR and management longevity. At the current market price, the stock is attractively trading at 4.6x FY12E PER and 1.0x FY12E ABV. Also the bank has relatively better dividend yield at ~3.5%.

Key risk/Challenges

- Asset quality deterioration (due to higher restructured loans) and higher retirement benefit related expenses (the bank has already increased earlier stated pension liability by Rs 1.2 bn to Rs 4.0 bn).

Key delta/Triggers

- Indian Bank was the first to migrate to system-based NPA recognition in 1QFY11 leading to higher slippages and thus have relatively lower asset quality risk. However, other banks are yet to fully move on to system based recognition leading to higher risk.
- The bank to raise ~Rs 16 bn through FPO in CY11, which should enhance bank's capital adequacy and also improve liquidity in the stock.

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Indian Bank

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Interest income	68,303	78,571	96,074	121,112
Interest expense	(42,218)	(45,532)	(55,559)	(74,743)
Net interest income	**26,085**	**33,039**	**40,515**	**46,369**
Growth (%)	*31.0*	*26.7*	*22.6*	*14.5*
Non-interest income	10,354	11,737	11,773	13,988
Operating income	**36,440**	**44,776**	**52,287**	**60,357**
Operating expenses	(15,881)	(17,302)	(20,325)	(24,761)
- Staff expenses	(11,528)	(12,124)	(14,266)	(17,550)
Pre-provisions profit	**20,558**	**27,474**	**31,962**	**35,596**
Core operating profit	**18,611**	**25,297**	**30,656**	**34,029**
Growth (%)	*31.2*	*35.9*	*21.2*	*11.0*
Provisions & Contingencies	(2,702)	(3,957)	(6,777)	(6,324)
Pre-tax profit (before non-recurring items)	17,856	23,516	25,185	29,272
Pre-tax profit (after non-recurring items)	17,856	23,516	25,185	29,272
Tax (current + deferred)	(5,403)	(7,966)	(8,311)	(9,660)
Net profit	**12,453**	**15,550**	**16,874**	**19,612**
Adjusted net profit	**12,453**	**15,550**	**16,874**	**19,612**
Growth (%)	*23.5*	*24.9*	*8.5*	*16.2*
Net income	**12,453**	**15,550**	**16,874**	**19,612**

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and balance with RBI/Banks	66,838	81,132	86,345	104,625
Investments	228,006	282,683	329,214	383,137
Advances	513,965	621,461	777,223	950,250
Interest earning assets	**808,809**	**985,277**	**1,192,782**	**1,438,013**
Fixed assets (Net block)	15,942	15,796	16,245	16,757
Other assets	15,787	12,821	16,085	18,496
Total assets	**840,538**	**1,013,893**	**1,225,112**	**1,473,266**
Deposits	725,818	882,277	1,067,894	1,294,490
Other interest bearing liab.	8,308	9,574	11,416	13,325
Total Interest bearing liab.	**769,179**	**931,172**	**1,130,369**	**1,364,235**
Other liabilities and prov.	35,053	39,322	51,059	56,420
Share capital	8,298	8,298	8,298	8,298
Reserves & surplus	63,062	74,423	86,445	100,733
Shareholders' funds	**71,359**	**82,721**	**94,743**	**109,031**
Total equity & liabilities	**840,538**	**1,013,893**	**1,225,112**	**1,473,266**

Key Ratios

Yr end 31 Mar	FY09	FY10	FY11E	FY12E
Valuation ratios (Rs)				
Adjusted EPS	29.0	36.2	39.3	45.6
BVPS	127.5	154.7	184.1	218.7
Adjusted Book NAV/share	126.1	152.4	177.7	209.9
PER (x)	7.3	5.8	5.4	4.6
Price/Book (x)	1.7	1.4	1.1	1.0
Price/Adjusted book (x)	1.7	1.4	1.2	1.0
Dividend Yield (%)	2.4	3.1	3.5	4.0
Du-Pont ratios				
NII/Avg. Assets (%)	3.4	3.6	3.6	3.4
Non-interest income/Avg Assets	1.3	1.3	1.1	1.0
- Fee income / Avg Assets	0.4	0.4	0.3	0.3
- Trading gains / Avg Assets	0.3	0.2	0.1	0.1
Cost / Avg Assets	2.1	1.9	1.8	1.8
Non-tax Provisions / Avg Assets	0.3	0.4	0.6	0.5
Tax Provisions / Avg Assets	0.7	0.9	0.7	0.7
ROA (%)	1.6	1.7	1.5	1.5
Leverage	14.2	14.3	14.6	14.9
ROE (%)	22.9	24.1	22.0	21.7
Balance Sheet ratios (%)				
Loan growth	29.0	20.9	25.1	22.3
Deposit growth	18.9	21.6	21.0	21.2
Loans/Deposits	70.8	70.4	72.8	73.4
Investments/Deposits	31.4	32.0	30.8	29.6
CASA ratio	31.6	32.2	32.2	31.8
Profitability ratios (%)				
NIMs	3.5	3.7	3.7	3.5
Interest spread	2.9	3.2	3.2	3.0
Yield on advances	11.2	10.2	10.5	10.8
Cost of deposits	6.1	5.6	5.6	6.2
Efficiency/other P/L ratios (%)				
Non-interest income/Net income	28.4	26.2	22.5	23.2
Trading income/Net income	5.3	4.9	2.5	2.6
Cost/Income	43.6	38.6	38.9	41.0
Asset quality ratios (%)				
Gross NPLs	0.9	0.8	1.1	1.3
Net NPLs	0.2	0.2	0.5	0.6
Net NPLs/Net worth	1.5	2.0	4.8	5.6
Loan provisions/Avg loans	0.2	0.7	0.9	0.7
Provisions cover	79.5	71.6	50.0	55.0
Capitalisation ratios (%)				
Tier I cap.adequacy	11.9	11.1	10.2	9.8
Total cap.adequacy	14.0	12.8	12.7	12.8

Share Data

Price (Rs)	134
BSE Sensex	17,879
Reuters code	MPSE.BO
Bloomberg code	MSEZ IN
Market cap. (US$ mn)	5,946
6M avg. daily turnover (US$ mn)	4.8
Issued shares (mn)	2,003

Performance (%)	1M	3M	12M
Absolute	(7)	(10)	(6)
Relative	(5)	1	(8)

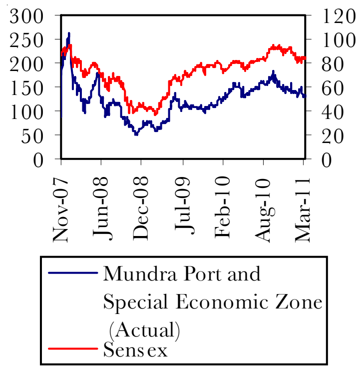
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	4.5	7.4
+/- (%)	29.8	62.0
PER (x)	29.5	18.2
PBV (x)	6.3	4.8
Dividend/Yield (%)	0.3	0.3
EV/Sales (x)	15.3	10.9
EV/EBITDA (x)	20.9	14.5

Major shareholders (%)

Promoters	78
FIIs	10
BFSI's	4
Public & Others	8

Relative performance



Mundra Port and SEZ

Maintain Outperformer

Volume momentum to continue

Background

Mundra Port and SEZ (MPSEZ) was incorporated in 1998 as Gujarat Adani Port Limited (GAPL) and commenced operations in October 2001. MPSEZ has exclusive right to develop, operate and maintain ~3,404 acres. Currently it has access to 40 kms of water front.

Why do we like the stock

- Deepest draught ports on India's west coast with draught of 18 mtrs at berth and 32 mtrs and is capable of accommodating Capesize (225,000 dwt), VLCC (320,000 dwt) and Containership of 12,000 TEUs.
- Has proximity to highly industrialised and landlocked northern and north western ports of Delhi, Punjab, Haryana and Rajasthan. Rail connectivity reduces distance on NCR by 232 kms vis-à-vis competing ports.
- MPSEZ is not governed by tariff authority of major ports which enables MPSEZ to set and charge competitive tariffs.
- Large available water front and back up area with connectivity through rail, pipeline, road and air provides the scalability to the port, as volumes grow.
- Diversified mix of cargo with ~50% of volumes coming from long-term contracts lends visibility to the earnings of MPSEZ.
- Imposition of MAT on the SEZ operators would result in the company paying MAT rate as against no tax earlier. Although this would result in impacting the cash flows of the company, it will avail MAT credit which would negate the impact on earnings. The NPV of the cash outflows would be ~5% impact.

Key triggers

The commissioning of the coal terminal and Dahej in 3QFY11 will provide the fillip to the volumes in the near term. The SPM would also commence operations in FY12 and would keep the momentum going.

The company is also looking at several other port projects especially on the east coast. Any news flows on these would be key trigger for the stock.

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Mundra Port and SEZ

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net Sales	**11,351**	**13,925**	**18,701**	**25,272**
Growth (%)	*39.0*	*23.0*	*34.0*	*35.0*
Operating Expenses	(3,952)	(4,535)	(5,004)	(6,318)
Operating Profit	7,399	9,390	13,697	18,954
EBITDA	**7,399**	**9,390**	**13,697**	**18,954**
Growth (%)	*38.2*	*26.9*	*45.9*	*38.4*
Depreciation	(1,372)	(1,681)	(1,886)	(1,993)
Other Income	443	311	436	780
EBIT	**6,470**	**8,019**	**12,247**	**17,741**
Interest Paid	(1,664)	(415)	(2,559)	(2,538)
Pre-tax profit (before non-recurring items)	4,806	7,605	9,688	15,203
Non-recurring items	334	–	–	–
Pre-tax profit (after non recurring items)	5,140	7,605	9,688	15,203
Tax (current + deferred)	(529)	(595)	(591)	(469)
Net Profit	**4,611**	**7,010**	**9,097**	**14,735**
Reported Pat	4,611	7,010	9,097	14,735
Adjusted net profit	**4,277**	**7,010**	**9,097**	**14,735**
Growth (%)	*110.5*	*63.9*	*29.8*	*62.0*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	15,789	17,136	22,866	34,115
Cash & marketable sec.	11,307	8,587	14,524	26,010
Other current assets	4,482	8,549	8,342	8,106
Investments	4,317	7,210	7,210	7,210
Net fixed assets	44,840	56,045	55,287	54,228
Total assets	**64,946**	**80,392**	**85,363**	**95,554**
Current liabilities	3,548	4,900	4,939	4,986
Total debt	23,130	31,572	28,384	25,237
Other non-current liabilities	8,815	9,037	9,410	9,660
Total liabilities	**35,494**	**45,509**	**42,733**	**39,884**
Share capital	4,035	4,035	4,035	4,035
Reserves & surplus	25,418	30,848	38,595	51,636
Shareholders' funds	**29,453**	**34,882**	**42,630**	**55,671**
Total equity & liabilities	**64,946**	**80,392**	**85,363**	**95,554**
Capital employed	**61,398**	**75,491**	**80,424**	**90,568**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	5,140	7,605	9,688	15,203
Depreciation	(1,372)	(1,681)	(1,886)	(1,993)
Chg in working capital	352	(3,008)	28	65
Total tax paid	(6)	(80)	–	–
Other operating activities	(242)		54	55
Cash flow from Oper. (a)	**6,616**	**6,198**	**11,656**	**17,316**
Capital expenditure	(14,070)	(12,534)	(1,127)	(935)
Chg in investments	(1,351)	(2,893)	–	–
Other investing activities	4,297	–	–	–
Others	335	(353)	–	–
Cash flow from Inv. (b)	**(10,790)**	**(15,780)**	**(1,127)**	**(935)**
Free cash flow (a+b)	**(4,174)**	**(9,582)**	**10,528**	**16,381**
Debt raised / (repaid)	4,063	8,442	(3,187)	(3,147)
Dividend (incl tax.)	(914)	(914)	(914)	(914)
Cash flow from fin. (c)	**(4,602)**	**1,432**	**(11,705)**	**(17,918)**
Net chg in cash (a+b+c)	**(8,776)**	**(8,150)**	**(1,177)**	**(1,537)**

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	2.1	3.5	4.5	7.4
Growth	(57.9)	63.9	29.8	62.0
Book NAV/Share (Rs)	14.7	17.4	21.3	27.8
Dividend/Share (Rs)	0.4	0.4	0.4	0.4
Dividend payout ratio	21.4	13.0	10.0	6.2
Tax	10.3	7.8	6.1	3.1
EBITDA margin	65.2	67.4	73.2	75.0
EBIT margin	57.0	57.6	65.5	70.2
RoCE	11.2	11.7	15.7	20.8
Net debt / Equity	40.1	65.9	32.5	(1.4)

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	62.7	38.3	29.5	18.2
PCE	47.5	30.9	24.4	16.0
Price/Book	9.1	7.7	6.3	4.8
Yield (%)	0.3	0.3	0.3	0.3
EV/Net sales	24.3	20.5	15.3	10.9
EV/EBITDA	37.2	30.4	20.9	14.5

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	37.7	50.3	48.6	58.3
Asset turnover	0.2	0.2	0.2	0.3
Leverage factor	2.2	2.3	2.1	1.8
Return on equity (%)	15.4	21.8	23.5	30.0

Petronet LNG

Maintain Outperformer

Gas deficit to benefit PLNG

Background

Petronet LNG Ltd. (PLNG) was formed by the Indian Government to meet the increasing demand of natural gas in the country by importing LNG. It is a joint venture of GAIL India Ltd., ONGC, IOCL and BPCL. Each company has an equal stake of 12.5%. PLNG has set up South East Asia's first LNG receiving and re-gasification terminal of 10.5 mmtpa capacity at Dahej, Gujarat (India), commercially operational since April 2004.

Why do we like the stock

- Capacity expansion would drive growth – PLNG's operable capacity will increase from 10.5 mmtpa to 17.5 mmtpa going by FY14. Kochi LNG terminal of capacity 5 mmtpa will be completed in 4QCY12 and the second jetty and de-bottlenecking at the Dahej terminal will be complete in FY13. Thus, PLNG is all set to take the benefit of the growing gas demand with its spare capacities.
- Gas deficit to continue – PLNG is set to benefit from the expansion in its capacities amid a gas deficit situation prevailing in the country and a rapid rise in gas-based infrastructure. Domestic gas supply is unlikely to increase till FY13 due to reservoir related issues of KG-D6.
- Fall in LNG prices – US is the biggest importer of LNG. With the massive impetus in the US shale gas production, the country's demand-supply gap is likely to plunge reducing the demand of LNG from USA thus softening LNG prices going forward, allowing PLNG to import more LNG to utilise its spare capacity.

Key triggers

- The delay in the ramp up of KG-D6 to its full capacity will increase the demand for RLNG. The current production of KG D6 also has dropped to ~52 mmscmd and Reliance Industries Limited (RIL) has also stated to DGH that the KG D6 gas volumes may further drop to 38 mmscmd in FY13.

Share Data

Price (Rs)	118
BSE Sensex	17,979
Reuters code	PLNG.BO
Bloomberg code	PLNG IN
Market cap. (US$ mn)	1,961
6M avg. daily turnover (US$ mn)	6.6
Issued shares (mn)	750

Performance (%)	1M	3M	12M
Absolute	5	(6)	53
Relative	7	5	50

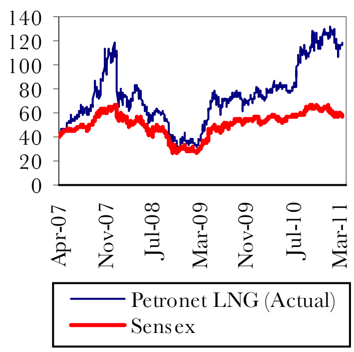
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	7.1	9.1
+/- (%)	32.3	27.7
PER (x)	16.5	13.0
PBV (x)	3.2	2.7
Dividend/Yield (%)	1.6	2.0
EV/Sales (x)	0.8	0.5
EV/EBITDA (x)	8.9	7.1

Major shareholders (%)

Promoters	50
FIIs	10
MFs	2
BFSI's	1
Public & Others	37

Relative performance



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Petronet LNG

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Net Sales	**84,287**	**106,491**	**134,706**	**225,602**
Growth (%)	*31.0*	*26.0*	*26.0*	*67.0*
Operating Expenses	(75,275)	(98,026)	(122,974)	(210,810)
Operating Profit	9,012	8,465	11,732	14,792
EBITDA	**9,012**	**8,465**	**11,732**	**14,792**
Growth (%)	*23.3*	*(6.1)*	*38.6*	*26.1*
Depreciation	(1,025)	(1,609)	(1,872)	(2,007)
Other Income	765	978	300	350
EBIT	**8,752**	**7,834**	**10,160**	**13,135**
Interest Paid	(1,012)	(1,839)	(2,207)	(2,961)
Pre-tax profit (before non-recurring items)	7,740	5,995	7,953	10,174
Pre-tax profit (after non recurring items)	7,740	5,995	7,953	10,174
Tax (current + deferred)	(2,555)	(1,950)	(2,602)	(3,340)
Net Profit	**5,185**	**4,045**	**5,351**	**6,834**
Reported Pat	**5,185**	**4,045**	**5,351**	**6,834**
Adjusted net profit	**5,185**	**4,045**	**5,351**	**6,834**
Growth (%)	*52.8*	*(22.0)*	*32.3*	*27.7*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Current assets	18,097	12,216	15,041	24,176
Cash & Marketable Securities	6,578	3,405	3,800	4,800
Other Current Assets	11,519	8,811	11,241	19,376
Investments	3,043	5,386	4,537	4,400
Net fixed assets	33,156	42,012	55,269	63,505
Total assets	**54,296**	**59,614**	**74,847**	**92,081**
Current Liabilities	8,922	9,006	11,297	18,235
Total debt	22,817	24,998	32,148	36,673
Other non-currnet liabilities	2,722	3,262	3,392	4,060
Total Liabilities	**34,461**	**37,266**	**46,838**	**58,968**
Share capital	7,500	7,500	7,500	7,500
Reserves & Surplus	12,334	14,848	20,509	25,613
Shareholder's funds	**19,834**	**22,348**	**28,009**	**33,113**
Total equity & liabilities	**54,295**	**59,614**	**74,847**	**92,081**
Capital Employed	**45,373**	**50,609**	**63,549**	**73,846**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Pre-tax profit	7,740	5,995	7,953	10,174
Depreciation	(1,025)	(1,609)	(1,872)	(2,007)
Chg in working capital	(3,314)	2,791	(138)	(1,198)
Total tax paid	(2,525)	(1,410)	(2,472)	(2,672)
Cash flow from Oper. (a)	**2,926**	**8,985**	**7,215**	**8,311**
Capital expenditure	(7,888)	(10,461)	(15,128)	(10,243)
Chg in investments	2,431	(2,344)	849	137
Other investing activities	2	5	1,000	90
Others	(2)	(4)	0	0
Cash flow from Inv. (b)	**(5,457)**	**(12,803)**	**(13,279)**	**(10,016)**
Free cash flow (a+b)	**(2,531)**	**(3,818)**	**(6,064)**	**(1,705)**
Debt raised / (repaid)	7,041	2,181	7,150	4,525
Dividend (incl tax.)	(1,536)	(1,536)	(1,697)	(2,110)
Cash flow from fin. (c)	**5,505**	**646**	**6,459**	**2,705**
Net chg in cash (a + b + c)	**2,974**	**(3,173)**	**395**	**1,000**

Key Ratios

Yr end 31 Mar (%)	FY09	FY10E	FY11E	FY12E
Adjusted EPS (Rs)	6.9	5.4	7.1	9.1
Growth	52.8	(22.0)	32.3	27.7
Book NAV/Share (Rs)	26.4	29.8	37.3	44.2
Dividend/Share (Rs)	1.8	1.8	1.9	2.4
Dividend payout ratio	29.6	38.0	31.7	30.9
Tax	33	32.5	32.7	32.8
EBITDA margin	10.7	7.9	8.7	6.6
EBIT margin	10.4	7.4	7.5	5.8
RoCE	21.9	16.3	17.8	19.1
Net debt / Equity	81.9	96.6	101.2	96.3

Valuations

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
PER	17.1	21.9	16.5	13.0
PCE	14.3	15.7	12.3	10.0
Price / Book	4.5	4.0	3.2	2.7
Yield (%)	1.5	1.5	1.6	2.0
EV / Net sales	1.2	1.0	0.8	0.5
EV / EBITDA	11.6	12.4	8.9	7.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
Net margin (%)	6.2	3.8	4.0	3.0
Asset turnover	1.8	1.9	2.0	2.7
Leverage factor	2.6	2.7	2.7	2.7
Return on equity (%)	28.8	19.2	21.3	22.4

Sundaram Finance

Maintain Outperformer

Focused on quality!!!

Share Data

Price (Rs)	471
BSE Sensex	17,879
Reuters code	SNFN.BO
Bloomberg code	SUF IN
Market cap. (US$ mn)	580
6M avg. daily turnover (US$ mn)	0.3
Issued shares (mn)	56

Performance (%)	1M	3M	12M
Absolute	(5)	(20)	30
Relative	(3)	(11)	27

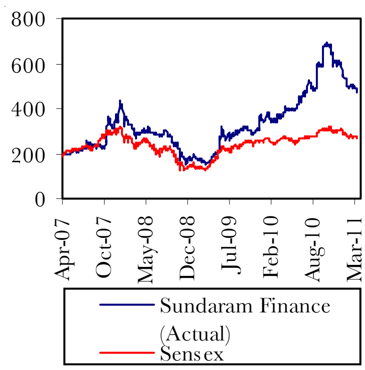
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	48.4	54.4
+/- (%)	33.4	12.4
ABV (Rs)	271.2	315.8
+/- (%)	16.6	16.4
PER (x)	9.7	8.7
PBV (x)	1.7	1.5
Dividend/Yield (%)	2.3	2.3

Major shareholders (%)

Promoters	41
FIIs	2
MFs	8
BFSI's	5
Public & Others	44

Relative performance



Background

Sundaram Finance (SUF), the flagship company of the Sundaram group, is a leading asset financing NBFC with commercial vehicles (CV) and car finance accounting for 87% of the overall disbursements of Rs 58 bn in FY10. SUF also has a presence in businesses such as housing finance, asset management and non-life insurance. SUF has a nationwide network of more than 5,000 branches and employee base of more than 2,600.

Why do we like the stock

- **Riding on a buoyant auto demand** – SUF continues to reap the benefits of buoyant demand in the CV (28.7% FY11E YTD) and passenger car segments (29.9% FY11E YTD). Going ahead, we expect CV demand to moderate to a sustainable 1.5-2x GDP as base effect sets in. Loan book growth is also likely to moderate to a sustainable 15%+ CAGR over FY11-13E.
- **Asset quality to remain healthy** – SUF has one of the most conservative and best-in-class management with prime focus on asset quality, which coupled with stringent lending norms, has enabled SUF to maintain a superior asset quality with average GNPAs of 1.6% and average NNPAs of 0.6% over FY05-10. We expect GNPAs and NNPAs to further improve to 1.2% and 0.4%, respectively, over FY11-12E.
- **Subsidiaries and JVs to add significant value** – SUF's other businesses like asset management, home finance and general insurance adds significant value to the stock. Sundaram MF is among the few profitable AMCs in India, despite the MF industry going through a trough owing to regulatory changes (abolition of entry loads). Sundaram BNP Paribas Home Finance is witnessing strong business momentum with disbursements growth of 39.6% in FY10 to Rs 7.4 bn and continued traction with disbursements of Rs 5.4 bn in 1HFY11E.
- **Attractive valuations** – We believe that SUF is a proxy play on auto demand in India. Currently, available at attractive valuations (1.5x FY12E ABV), despite factoring in lower loan book CAGR of 15%+ over FY11-13E and a 20-30 bps margin compression over FY11-12E. Excluding the value of subsidiaries and JVs, SUF is trading at 1.2x FY12E ABV.

Key delta triggers

- Sustained buoyancy in auto demand leading to superior loan book growth.
- SUF's ability to pass on the higher cost of funds and maintain spreads in the rising interest rate environment.

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Sundaram Finance

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Interest Income	10,828	11,819	13,444	16,173
Interest Expended	6,454	6,338	7,208	9,217
Net Interest Income	**4,373**	**5,481**	**6,236**	**6,956**
Growth (%)	*8.0*	*25.3*	*13.8*	*11.5*
Other Income	320	414	402	425
Total net income	**4,693**	**5,895**	**6,638**	**7,381**
Growth (%)	*9.9*	*25.6*	*12.6*	*11.2*
Operating expenses	2,034	2,054	2,351	2,614
Pre-Provision Profit	**2,659**	**3,842**	**4,286**	**4,767**
Provisions & Contingencies	462	861	336	358
Profit before tax	2,197	2,981	3,951	4,409
Provision for tax	690	967	1,264	1,389
Tax Rate (%)	*31.4*	*32.4*	*32.0*	*31.5*
Adjusted Net Profit	**1,507**	**2,014**	**2,686**	**3,020**
Growth (%)	*11.0*	*33.6*	*33.4*	*12.4*
Extraordinary Items	0	254	0	0
Reported Net Profit	**1,507**	**2,267**	**2,686**	**3,020**
Growth (%)	*(29.1)*	*50.4*	*18.5*	*12.4*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Capital	556	556	556	556
Reserves & Surplus	10,971	12,608	14,775	17,275
Networth	**11,527**	**13,164**	**15,330**	**17,830**
Borrowings	62,121	82,488	93,839	106,992
Sub-ordinated debt	500	2,450	2,818	3,240
Current Liabilities & Provisions	5,788	6,736	7,181	7,649
Total Liabilities	**79,936**	**104,837**	**119,168**	**135,711**
Advances	61,750	75,998	98,983	112,419
Investments	5,119	5,374	5,525	6,099
Fixed assets	2,778	3,617	3,537	3,845
Deferred tax asset	509	553	650	715
Current Assets, Loans and advances	9,780	19,294	10,472	12,633
Total Assets	**79,936**	**104,837**	**119,168**	**135,711**

Key Ratios

Yr end 31 Mar	FY09	FY10	FY11E	FY12E
Operational & financial ratios (Rs)				
Adjusted EPS	27.1	36.2	48.4	54.4
Book Value	207.5	237.0	276.0	321.0
Adjusted Book Value	201.5	232.6	271.2	315.8
Core ABV*	157.5	183.7	211.5	250.1
DPS	6.5	10.0	11.0	11.0
Spread Analysis (%)				
Yield on Advances	15.3	14.6	13.5	13.6
Cost of funds	9.3	7.7	7.2	8.2
Interest Spread	5.9	6.9	6.3	5.4
Net Interest Margin	5.3	5.5	5.4	5.3
Profitability Ratios (%)				
RoAA	1.9	2.2	2.4	2.4
RoAE	13.7	16.3	18.9	18.2
Core RoAA*	1.8	2.0	2.3	2.3
Core RoAE*	15.4	18.4	22.1	21.3
Asset quality ratios (%)				
Gross NPAs	1.8	1.3	1.1	1.1
Net NPAs	0.8	0.5	0.4	0.4
Net NPAs/Total Assets	0.6	0.3	0.3	0.3
Net NPAs/Net worth	4.3	2.7	2.6	2.4
Provision coverage	54.5	64.4	65.0	67.0
Capitalisation ratios (%)				
Tier I cap.adequacy	14.0	14.3	13.7	13.1
Total cap.adequacy	14.7	16.9	16.2	15.5
Total assets/Equity	6.9	8.0	7.8	7.6
Loans/Assets	77.2	72.5	83.1	82.8
Investments/Assets	6.4	5.1	4.6	4.5
Efficiency ratios (%)				
Cost/Income	43.3	34.8	35.4	35.4
Cost/Assets	2.6	2.2	2.1	2.1
Productivity ratios (Rs mn)				
Staff cost per employee	0.4	0.5	0.5	0.5
Business per employee	58.5	64.2	73.2	80.8
Assets per employee	38.1	47.7	49.7	53.2
Adjusted net profit per employee	0.7	0.9	1.1	1.2
Valuation ratios (x)				
PER	17.3	13.0	9.7	8.7
Price/ Book value	2.3	2.0	1.7	1.5
Price/Adjusted book value	2.3	2.0	1.7	1.5
Yield (%)	1.4	2.1	2.3	2.3

*Adjusted for investment in subsidiaries/JVs

Share Data

Price (Rs)	180
BSE Sensex	17,879
Reuters code	UNLB.BO
Bloomberg code	UL IN
Market cap. (US$ mn)	362
6M avg. daily turnover (US$ mn)	0.5
Issued shares (mn)	90

Performance (%)	1M	3M	12M
Absolute	(5)	(32)	13
Relative	(3)	(24)	11

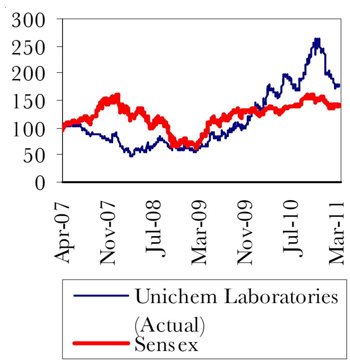
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	13.2	16.8
+/- (%)	(3.1)	26.5
PER (x)	13.6	10.8
PBV (x)	2.6	2.3
Dividend/Yield (%)	2.8	3.3
EV/Sales (x)	1.9	1.6
EV/EBITDA (x)	10.0	7.8

Major shareholders (%)

Promoters	48
FIIs	5
MFs	9
BFSI's	3
Public & Others	35

Relative performance



Unichem Laboratories

Maintain BUY

Investing into future growth

Background

Unichem is a domestic centric (75% revenues from domestic market) mid sized pharmaceutical company with strong focus on the lifestyle diseases (derives ~43% of revenues from CVS segment). It is ranked 25th in India in terms of size and has leading brands such as Losar and Ampoxin in its portfolio. It also plans to enter new therapies such as nutritional, women's healthcare, hospital products & biologicals.

Investment drivers

- Strong brands in portfolio: Unichem has created strong brands in domestic market such as Losar (~Rs 1.2 bn), Ampoxin (~Rs 700 mn), Trika, Unienzyme, etc.
- Focus on high growth chronic/lifestyle segment: Apart from strong brands it also focuses on high margin/growth therapies such as CVS, CNS and Diabetes (contributes excess of 60% of overall revenues). It has field force strength of 2,250 MR's in India.
- Focusing on second-tier brands: Unichem is nurturing its second line of products such as Telsar and Olsar (later generation drugs from CVS segment) to reduce revenue concentration risk and drive growth.
- Tie-ups with MNCs: Few MNCs are in the process of creating JVs/tie-ups with Indian companies to gain access to Indian markets as well as capitalise on efficient manufacturing for sourcing key products globally. Tie-ups of this nature could boost earnings in the short/medium term for Unichem.
- New growth areas: Besides expanding into newer therapies like gynaecology and nutritionals and expanding field force, other initiatives like Pithampur SEZ, biotech foray (Insulin) could emerge as long-term earnings opportunities for Unichem.

Key risks/challenges

- Delays in new deals/signing of partnerships.
- Niche Generics Plc. (UK subsidiary) continues to drag overall performance.
- Higher investments eating into profits.

Valuation and view

We believe that Unichem is in the process of moving up the vale chain and at current levels offers investors an attractive entry point. At the current market price of Rs 180, the stock is trading at 11x FY12E EPS of Rs 17 and 9x FY13E EPS of Rs 21. We maintain Buy recommendation on Unichem.

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Unichem Laboratories

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	**7,352**	**7,474**	**8,467**	**9,765**
Growth (%)	*9.5*	*1.7*	*13.3*	*15.3*
Operating expenses	(5,930)	(5,765)	(6,834)	(7,727)
Operating profit	1,422	1,708	1,633	2,039
EBITDA	**1,422**	**1,708**	**1,633**	**2,039**
Growth (%)	*57.2*	*20.2*	*(4.4)*	*24.9*
Depreciation	(224)	(232)	(283)	(306)
Other income	95	66	132	136
EBIT	**1,293**	**1,543**	**1,482**	**1,868**
Interest paid	(19)	(10)	(17)	(16)
Pre-tax profit (before non-recurring)	1,274	1,532	1,465	1,853
Pre-tax profit (after non-recurring)	1,274	1,532	1,465	1,853
Tax (current + deferred)	(192)	(304)	(271)	(343)
Net profit (before Minority Interest, Pref. Dividend etc.)	1,082	1,228	1,194	1,510
Prior period adjustments	0	3	0	0
Reported PAT	**1,082**	**1,231**	**1,194**	**1,510**
Adjusted net profit	**1,082**	**1,231**	**1,194**	**1,510**
Growth (%)	*90.6*	*13.8*	*(3.0)*	*26.5*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and Marketable securities	344	236	391	898
Other current assets	2,907	3,208	3,658	4,091
Investments	10	592	592	592
Net fixed assets	3,767	3,970	4,387	4,595
Total assets	**7,028**	**8,006**	**9,029**	**10,177**
Current liabilities	1,463	1,673	2,032	2,293
Total debt	397	358	338	318
Other non-current liabilities	324	347	347	347
Total liabilities	**2,184**	**2,377**	**2,717**	**2,958**
Share capital	180	180	180	180
Reserves & surplus	4,664	5,449	6,132	7,040
Shareholders' funds	**4,844**	**5,629**	**6,312**	**7,221**
Total equity & liabilities	**7,028**	**8,006**	**9,029**	**10,178**
Capital employed	**5,565**	**6,334**	**6,996**	**7,884**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	1,274	1,532	1,465	1,853
Depreciation	224	232	283	306
Change in working capital	(278)	(175)	(307)	(262)
Total tax paid	(191)	(281)	(271)	(343)
Other operating activities	(144)	0	0	0
Cash flow from oper. (a)	**884**	**1,308**	**1,170**	**1,554**
Capital expenditure	(538)	(382)	(700)	(515)
Change in investments	(9)	(582)	0	0
Others	(39)	(53)	0	0
Cash flow from inv. (b)	**(587)**	**(1,016)**	**(700)**	**(515)**
Free cash flow (a+b)	**297**	**292**	**470**	**1,040**
Equity raised/(repaid)	3	2	0	0
Debt raised/(repaid)	154	(40)	(20)	(20)
Dividend (incl. tax)	(211)	(337)	(294)	(511)
Cash flow from fin. (c)	**(54)**	**(375)**	**(314)**	**(531)**
Net change in cash (a+b+c)	**244**	**(83)**	**155**	**509**

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	12.0	13.7	13.2	16.8
Growth	(23.7)	13.8	(3.1)	26.5
Book NAV/share (Rs)	53.8	62.5	70.0	80.1
Dividend/share (Rs)	2.0	4.0	5.0	6.0
Dividend payout ratio	19.5	34.2	42.8	39.8
Tax	15.1	19.9	18.5	18.5
EBITDA margin	19.3	22.9	19.3	20.9
EBIT margin	17.6	20.6	17.5	19.1
RoCE	25.2	25.9	22.2	25.1
Net debt/Equity	1.1	2.2	(0.9)	(8.0)

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	15.0	13.2	13.6	10.8
PCE	12.4	11.1	11.0	8.9
Price/Book	3.4	2.9	2.6	2.3
Yield (%)	1.1	2.2	2.8	3.3
EV/Net sales	2.2	2.2	1.9	1.6
EV/EBITDA	11.5	9.6	10.0	7.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	14.7	16.5	14.1	15.5
Asset turnover	1.1	1.0	1.0	1.0
Leverage factor	1.5	1.4	1.4	1.4
Return on equity (%)	24.1	23.5	20.0	22.3

Share Data

Price (Rs)	253
BSE Sensex	17,879
Reuters code	VART.BO
Bloomberg code	VTEX IN
Market cap. (US$ mn)	355
6M avg. daily turnover (US$ mn)	0.5
Issued shares (mn)	63.6

Performance (%)	1M	3M	12M
Absolute	(7)	(15)	6
Relative	(5)	(5)	4

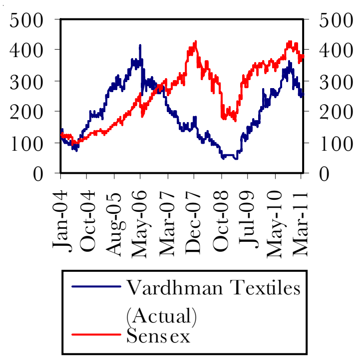
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	69.3	70.6
+/- (%)	53.1	1.8
PER (x)	3.6	3.6
PBV (x)	0.7	0.5
Dividend/Yield (%)	1.3	1.6
EV/Sales (x)	0.9	0.7
EV/EBITDA (x)	3.9	3.3

Major shareholders (%)

Promoters	61
FIIs	3
MFs	17
BFSI's	3
Public & Others	16

Relative performance



Vardhman Textiles

Maintain BUY

Fully integrated 'Textile' business

Background

Vardhman Textiles Limited (VTL), promoted by Mr S.P. Oswal in 1965, is a fully integrated textile player, with presence across the entire value chain from fibre to fabrics and garments. The company is the largest listed yarn manufacturer in India with capacity of around 0.85 mn spindles. Currently, its product mix comprises of yarn, fabric, sewing thread, acrylic fibre and garments.

Why do we like the stock

- **Proven track record of execution:** VTL has been operating in the textile industry since 1965 and has become one of the largest textile manufacturer and exporter in India.
- **Diversified product folio:** During 9MFY11, VTL's 56% of total income was from yarn products; which comprised commoditised yarn (45%), compact yarn (25%) and specialised and value added yarn (30%). Compact and value-added yarn helps the company to command better realisations.
- **Foray into garments:** VTL entered into a 51:49 JV with Nisshinbo Textile Inc. (Japan) to manufacture garments. The company has current capacity of 1.2 mn pieces p.a. which it plans to raise to 1.8 mn pieces by FY12. The company is expected to generate revenue from this segment 1QFY12 onwards.
- To be completely focused on textile business, the company has demerged its steel business into a separate group company -Vardhman Special Steels Ltd. (VSSL) with effect from 01 January 2011. Under this demerger arrangement, every shareholder holding 5 shares in VTL will get one share of the newly formed company – VSSL.

Key delta triggers

- Responding to the strong demand momentum the company has impressive plans to add another ~0.19 mn spindles, 650 looms, and 30 mmpa processing capacity over the next 2.5 years with a total capex of Rs 15 bn.
- Cotton prices have almost doubled in the last one year, which may put pressure on the EBITDA margins if the company is not able to pass it on fully.

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Vardhman Textiles

Income Statement (Consolidated)

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	**29,655**	**33,507**	**42,392**	**48,917**
Growth (%)	*24.2*	*13.0*	*26.5*	*15.4*
Operating expenses	(24,771)	(26,457)	(32,428)	(37,665)
Operating profit	4,883	7,051	9,963	11,252
EBITDA	**4,883**	**7,051**	**9,963**	**11,252**
Growth (%)	*28.0*	*44.4*	*41.3*	*12.9*
Depreciation	(2,434)	(2,566)	(2,736)	(3,103)
Other income	170	852	550	525
EBIT	**2,620**	**5,337**	**7,777**	**8,674**
Interest paid	(1,324)	(1,223)	(1,476)	(1,734)
Pre-tax profit	1,296	4,114	6,301	6,940
(before non-recurring items)				
Non-recurring items	1,134	0	(898)	0
Pre-tax profit	2,430	4,114	5,403	6,940
(after non-recurring items)				
Tax (current + deferred)	(513)	(1,089)	(1,432)	(1,839)
Net profit (before Minority	1,917	3,024	3,971	5,101
Interest, Pref. Dividend etc.)				
Minority interests	(205)	(409)	(536)	(689)
Reported PAT	1,713	2,615	3,435	4,412
Adjusted net profit	**578**	**2,615**	**4,333**	**4,412**
Growth (%)	*(57.2)*	*352.2*	*65.7*	*1.8*

Balance Sheet (Consolidated)

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash & Marketable Securities	3,730	2,624	4,837	8,562
Other Current assets	14,946	21,211	24,592	29,562
Investments	1,401	923	923	923
Net fixed assets	26,308	25,986	26,807	26,714
Other non-current assets	51	29	29	29
Total assets	**46,435**	**50,773**	**57,188**	**65,790**
Current liabilities	2,905	3,294	4,142	4,823
Total Debt	25,331	26,430	27,773	29,425
Other non-current liabilities	2,080	2,287	2,287	2,287
Total liabilities	**30,316**	**32,011**	**34,202**	**36,536**
Share capital	566	566	625	625
Reserves & surplus	13,266	15,476	19,105	24,685
Shareholders' funds	**13,832**	**16,042**	**19,730**	**25,310**
Minorities interests	2,287	2,720	3,256	3,944
Total equity & liabilities	**46,435**	**50,773**	**57,188**	**65,790**
Capital employed	**43,530**	**47,479**	**53,046**	**60,966**

Cash Flow Statement (Consolidated)

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	2,430	4,114	5,403	6,940
Depreciation	1,327	2,487	2,736	3,103
Chg in working capital	1,019	(5,966)	(2,517)	(4,356)
Total tax paid	(65)	(819)	(1,432)	(1,839)
Cash flow from oper. (a)	**4,711**	**(184)**	**4,191**	**3,848**
Capital expenditure	(2,102)	(2,165)	(3,557)	(3,010)
Chg in investments	(1,347)	478	0	0
Others	13	1	(1,481)	1,500
Cash flow from inv. (b)	**(3,436)**	**(1,686)**	**(5,038)**	**(1,510)**
Free cash flow (a+b)	**1,275**	**(1,870)**	**(847)**	**2,338**
Equity raised/(repaid)	(285)	(124)	2,000	0
Chg in minorities	1,307	24	0	0
Debt raised/(repaid)	992	1,099	1,343	1,652
Dividend (incl. tax)	(284)	(234)	(281)	(266)
Other financing activities	6	0	0	0
Cash flow from fin. (c)	**1,736**	**764**	**3,061**	**1,386**
Net chg in cash (a+b+c)	**3,011**	**(1,106)**	**2,214**	**3,725**

Key Ratios (Consolidated)

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	10.0	45.3	69.3	70.6
Growth	(57.2)	352.2	53.1	1.8
Book NAV/share (Rs)	279.0	324.8	367.7	467.9
Dividend/share (Rs)	3.2	4.0	3.2	4.0
Dividend payout ratio	42.2	10.8	6.1	7.5
EBITDA margin	16.5	21.0	23.5	23.0
EBIT margin	8.8	15.9	18.3	17.7
RoCE	6.3	11.7	15.5	15.2
Net debt/Equity	134.0	126.9	99.8	71.3

Valuations (Consolidated)

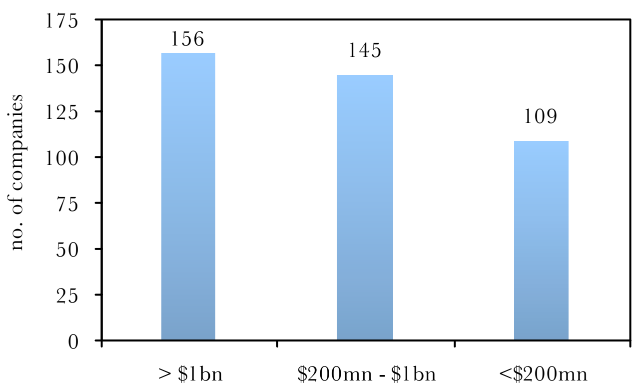
Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	25.2	5.6	3.6	3.6
PCE	4.8	2.8	2.2	2.1
Price/Book	0.9	0.8	0.7	0.5
Yield (%)	1.3	1.6	1.3	1.6
EV/Net sales	1.3	1.2	0.9	0.7
EV/EBITDA	7.7	5.6	3.9	3.3

Du Pont Analysis – ROE (Consolidated)

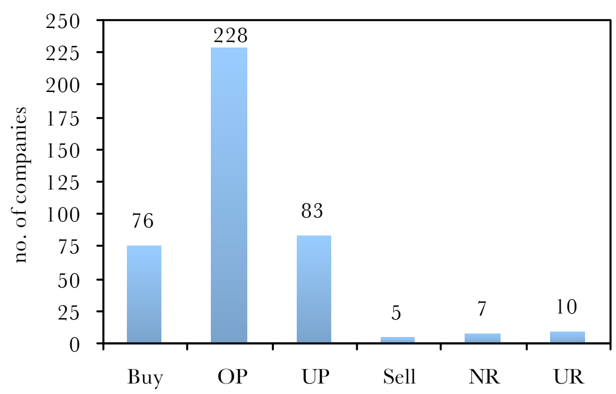
Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	2.0	7.8	10.2	9.0
Asset turnover	0.7	0.7	0.8	0.8
Leverage factor	3.0	2.8	2.6	2.4
Return on equity (%)	3.9	15.0	20.8	16.9

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
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