

Bet on quality midcaps with better risk return trade off...

In December 2011, 4600 levels on the Nifty coupled with a ₹54 on the exchange rate, the ongoing tough ground realities made the consensus scary for a further slide on the indices as well as the exchange rate and register new lows. But only variable, liquidity behaved strangely. This led to Indian markets posting their best ever January performance induced by liquidity and reversal of risk on trade. While after a sharp jump the Indian markets may consolidate over the next two or three months. Volatility is likely to get amplified as the markets take cues from domestic events like the outcome of polls in five states, Q3 GDP number and Budget 2012 (which may provide visibility on reforms). Also, the outcome of events in the Euro area may add volatility to the markets till March 2012. Apart from this, clarity on various macro headwinds such as monetary easing (given the RBI has commenced the loosening process with the recent CRR cut), direction of commodities and rollover of focus on FY13 earnings outlook will act as key catalysts for the markets making a move ahead.

In such a scenario, we are recommending select large caps and midcaps which offer better risk return trade off and should benefit from improved macroeconomic condition and liquidity.

Orient Paper & Industries

Company	Code	CMP	TP
Orient Paper	ORIPAP	59	71

Valuation Ratios	FY11	FY12E	FY13E
P/E (x)	8.0	6.4	6.0
EV/EBITDA(x)	5.5	4.6	3.9
RoE(%)	15.8	17.0	15.9
RoCE(%)	14.7	16.7	17.6

- Orient paper & industries (OPIL) is a lowest cost cement producer, having presence in western & southern region. With the utilisation rates are expected to improve going forward, we expect the cement volume to increase at ~6% CAGR during FY11-13E to 3.8 million tonnes in FY13E.
- With the cement business is likely to be demerged by April 2012; we expect the re-rating of the cement business as the cash flows from the business will be used for cement operations rather than covering the losses of paper business.
- At the CMP, the core cement business is trading at cheap valuations of \$42/tonne at FY13E capacity, which is steep discount of ~70% to the current replacement cost. We value the cement business at \$50/tonne at its FY13E capacity of 5 million tonne.

Biocon

Company	Code	CMP	TP
Biocon	BIOCON	278	366

Valuation Ratios	FY11	FY12E	FY13E
P/E (x)	15.1	16.9	13.7
EV/EBITDA(x)	8.8	9.7	7.9
RoE(%)	18.1	14.4	15.7
RoCE(%)	19.3	15.6	17.5

- Biocon is Asia's largest manufacturer of insulin and one of the leading manufacturers of statins & immuno-suppressants. It has major presence in the domestic insulin segment and also has presence in other therapies like Oncology, Nephrology and Cardiology.
- Last year it struck with Pfizer for supply of four human insulin products according to which Pfizer will launch these products in both advanced and emerging markets. Pfizer had already launched two of these drugs in India and is in the process of filing dossiers in other emerging markets. The approvals and launch of these drugs in various geographies would drive the growth.
- It started supply of Fidaxomicin (Anti-infective) API to US based Optimer's innovative brand Difacid. Biocon is the sole supplier of API. The increase in off take would improve both sales and profitability.
- Off late, R & D services business is witnessing consistent double digit growth. Biocon plans to unlock the value through IPO.
- We value the stock at ₹ 366 i.e. 18x FY13E EPS of ₹ 20.4

Motherson Sumi

Company	Code	CMP	TP
Motherson Sumi	MOTSUM	155	171

Valuation Ratio	FY11	FY12E	FY13E
P/E (x)	15.3	20.1	12.6
EV/EBITDA(x)	7.6	8.1	6.1
RoE(%)	28.5	19.5	27.8
RoCE(%)	26.6	16.9	23.5

- MSSL is India's largest supplier of wire harnesses and rear view mirrors for passenger cars, with market shares of 65%/48%, respectively, and a global market share of 22% in rear view mirrors. Its key strengths lie in large customer base across various geographies with Tier-I status.
- MSSL continues to add new marquee clients through new acquisitions /JV's across geographies/segments, the recent acquisition of Peguform Plc another one. We expect revenues to grow ~ 15% CAGR (FY13-11E) even as European growth remains weak. The increase in content-per-car, ramp up of newer facilities in both domestic/foreign markets we expect EBITDA margins to improve to ~11.5% (up ~250bps YoY) in FY13E. Earnings are expected to rise ~16% CAGR (FY13-11E).

- MSSL is currently trading at ~11.5x FY13E EPS of ₹ 13.6 and 5.6x FY13E EV/EBITDA. Our target price for the stock is ₹ 171.

JK Tyre

Company	Code	CMP	TP
JK Tyre	JKIND	76	88

Valuation Ratios	FY11	FY12E	FY13E
P/E (x)	5.1	NA	3.5
EV/EBITDA(x)	4.1	5.8	2.2
RoE(%)	8.6	NA	12.0
RoCE(%)	9.1	7.4	12.2

- JK Tyre is the market leader in the Truck/Bus radial segment and one of the largest players in passenger car radial (PCR) space. Moreover, in line with rapid growth witnessed in truck radicalization, the company has made significant investments to enhance its Truck/Car radial capacities. JK Tyre caters to marquee clients viz Maruti, Chevrolet, Fiat etc. to name a few.
- We believe with possibility of interest rate cuts from H2CY12, so a demand pick-up in the interest rate sensitive PV and M&HCV segment would be a reasonable assumption. We have factored in topline CAGR (FY13-11E) of 18.6%. Also, with rubber prices cooling off from its peak of ~₹250/kg by ~28% to ~195/kg, thus margins are expected to rise ~6.2% (140 bps YoY) in FY13E. The PAT is estimated to post a CAGR (FY13-11E) growth of 21.9%.
- The stock is trading at trough valuations of 3.5x FY13E EPS and even more attractively 0.4x P/BV on 1-year trailing basis. Our target price for the stock is ₹ 88.

Oil India

Company	Code	CMP	TP
Oil India	OILIND	1259	1490

Valuation Ratios	FY11E	FY12E	FY13E
P/E (x)	10.6	10.6	10.6
EV/EBITDA(x)	4.6	3.6	3.0
RoE(%)	18.5	20.1	18.8
RoCE(%)	20.4	21.3	22.3

- Oil India, a Navratna PSU, is engaged in exploration, development, production & transportation of crude oil & natural gas in India & abroad. We expect Oil India to report a CAGR of 12.2% & 16.6%, in revenue & net profit respectively over FY11-13E on the back of healthy oil & gas production growth.
- The company is focused to increase crude oil production via EOR measures. We expect the oil production to grow at a CAGR of 5.5% over the FY11-13E period. The outlook for gas production remains robust, with the gas production estimated to grow at a CAGR of 9.9% over the FY12-13E period.
- The company has a strong oil & gas reserve base where its 1P reserve base stands at 505 million boe. Such a strong reserve base reflects a significant growth potential. OIL has maintained a strong & consistent reserve replacement ratio (RRR) of 1.42.
- OIL's strong balance sheet in terms of cash position & negligible debt provides support for value accretive overseas acquisition which will improve the business model. At the CMP of ₹1259, the stock is trading at 8.3x FY12E & 7.7x FY13E EPS of ₹151.1 & ₹163.3, respectively. We value OIL at ₹1490, ~ 9x FY13 EPS of ₹163.3.

Navneet Publications

Company	Code	CMP	TP
Navneet Publications	NAV PUB	57	65

Valuation Ratios	FY11	FY12E	FY13E
P/E (x)	20.2	16.0	13.2
EV/EBITDA(x)	12.1	9.9	8.3
RoE(%)	21.7	24.5	25.8
RoCE(%)	29.8	32.4	34.3

- Navneet Publications, an established supplementary book publisher is poised for a healthy topline growth on the back of the line-up of syllabus changes and also the ramping of its E-learning business. We expect the topline to grow at a CAGR of 13.4% during FY11-13E. Going forward we expect the E-learning business (currently ~1% of sales) to aid topline growth as the company targets to increase the number of schools catered from 487 schools in FY11 to 1,000 – 1,200 schools in FY12E and further increase it to ~ 5,000 schools by FY15E.
- The company has been able to pass on the impact of rising input costs (primarily paper) and has maintained an EBITDA margin of ~20%. With the stabilizing of the stationery segment and higher share of revenues from the e-learning business (which is a high-margin business), we expect a 270 bps expansion in the operating margin to 23.4% by FY13E.
- The company's healthy financials make it a strong case for investment. It has always maintained a virtually debt free status (largely requires working capital debt). The debt/equity as on H1FY12 stands at 0.3x. Navneet has a strong history of rewarding shareholders consistently and has maintained a dividend payout of over 40%.
- At the current price the stock is trading at 16.0x and 13.2x its FY12E and FY13E EPS of ₹ 3.5 and ₹ 4.3, respectively. We expect the topline, operating profit and bottomline to grow at a CAGR of 13.4%, 20.5% and 24.3%, respectively, during FY11-13E. Considering the virtually debt free status, healthy return ratios (RoE of 20%+), strong free cashflow generation and the potential to the boost to the earnings through inorganic growth, we believe that Navneet Publications is a good play on the Indian education sector. We have a **BUY** rating on the stock with a target price of ₹ 65 (based on 15.0x FY13E EPS).

DB Corp

Company	Code	CMP	TP
DB Corp	DBCORP	195	230

Valuation Ratios	FY11E	FY12E	FY13E
P/E (x)	13.7	18.1	13.5
EV/EBITDA(x)	8.9	9.7	7.2
RoE(%)	31.2	20.0	21.9
RoCE(%)	33.7	25.1	27.3

- DB Corp is the second largest paper in India. With the English ad revenue to readership ratio at ~ 9 times that of Hindi, we expect hindi ad revenues to grow faster than that of English as has been the case in the last few years. Among the hindi space, DB Corp is our top pick on the back of growing readership in already established markets as well as in markets where they have entered recently. As per the latest IRS report for Q3CY11, DB Corp added 0.8 million readers to reach a total base of 19.2 million readers.
- With the RBI cutting the CRR by 50 bps and hinting at reversal of monetary stance, corporates are expected to come back to spend on ads in big numbers. We expect the revenues of the company to grow at a CAGR of 12.8% from FY11-13 on the back of a 12.6% growth in ad revenues. With no more plans of new launches in the next 6-9 months, we expect the EBITDA margin of the company to improve from 27.9% to 33.0%.
- At the CMP of ₹ 195, DB Corp. is trading at 18.1x times FY12 EPS of ₹ 10.7 and 13.5x times FY13 EPS of ₹ 14.4. We value the stock at 16x times FY13 EPS to arrive at a target price of ₹ 230 implying an upside potential of 18%.

Bharti Airtel

Company	Code	CMP	TP
Bharti Airtel	BHATE	389	450

Valuation Ratios	FY11E	FY12E	FY13E
P/E (x)	28.3	33.6	21.2
EV/EBITDA(x)	11.6	9.5	7.7
RoE(%)	12.4	9.5	13.2
RoCE(%)	8.6	9.6	12.2

- Bharti Airtel is the market leader in telecom with ~30.9% revenue market share and strongest fundamentals in the industry. Falling capex intensity, repayment of debt and reduced interest expense thereon, margin expansion in African business and high quality subscribers (first takers of 3G) led uptake in 3G services would support the growth in the future.
- The licenses of Bharti are insulated from the recent Supreme court ruling of canceling 122 licenses which were awarded on or after January 2008. However, as the industry leader, Bharti would be the key beneficiary of the ruling as it presents an opportunity to acquire subscribers relating to the licenses which stand to be cancelled which form ~ 5% of the total subscriber base.
- We expect domestic revenues to grow at 16.9% CAGR over FY11-13E on the back of 18.5% CAGR in the mobility business. The growth in mobility business would be on the back of 9.7% CAGR in total traffic and improvement in ARPM. EBITDA margins are expected to expand from 33.6% in FY11 to 35.0% in FY13 on the back of reduced network rollout costs as a % of sales.
- Assuming revenue CAGR of 10.8% over FY11-FY20E and terminal growth of 3% thereon, we have arrived at a target price of ₹ 450/ share for Bharti Airtel. Our target price discounts FY12E and FY13E EPS of ₹ 13.4 and ₹ 21.3 by 33.6x and 21.2x, respectively. The stock is currently trading at ₹ 389. Our target price implies an upside potential of 16%.

Dish TV

Company	Code	CMP	TP
Dish TV	DISHTV	64	71

Valuation Ratios	FY11E	FY12E	FY13E
P/E (x)	0.0	0.0	267.0
EV/EBITDA(x)	29.7	15.6	11.5
RoE(%)	-12.2	-9.2	1.5
RoCE(%)	-5.5	-0.2	5.0

- The digitization mandate passed by the government has opened up huge opportunity for the DTH industry. Currently there are 70 million analog cable households who will have to move to either DTH or Digital Cable. Digital cable would face an outgo of ~ ₹ 25000 crore to accommodate so many subscribers. On the other hand, DTH industry is in the best position to capitalize on this opportunity as it is relatively well funded and has a distribution infrastructure in place already. We believe, Dish TV being the market leader of the DTH industry would be the highest beneficiary of the mandatory digitization bill passed by the government
- We expect Dish TV to post a CAGR of 26.7% on the revenue front from FY11-13 on the back of a subscriber addition of 2.7 million in FY12 and FY13 each and an increase in ATP from ₹ 140 to ₹ 162. Due to its high operational leverage, we expect the margins to improve from 16.6% in FY11 to 28.2% in FY13.
- Assuming revenue CAGR of 16.7% over FY11E-FY20E and terminal growth of 4.5% thereon, we have arrived at a target price of ₹ 71/share. The stock is currently trading at Rs 64. Our target price implies an upside potential of 11.0%.

Company	Code	CMP	TP
Bank of Baroda	BANBAR	770	954

Valuation Ratios	FY11	FY12E	FY13E
P/ABV (x)	1.6	1.4	1.1
P/E(x)	7.1	6.3	5.3
RoE(%)	23.5	20.8	20.7
RoA(%)	1.3	1.2	1.2

Bank of Baroda

- Bank of Baroda is among the top 4 PSU bank with business size of ₹ 609800 crore as on December 2012. It has strong international presence with over 20% of business coming from overseas.
- On account of aviation and telecom exposures, some slippages and restructuring were witnessed in recent quarters. However, strong profitability matrix is expected to wither the higher provisions arising from asset quality pressures. Currently, outstanding restructured assets stand at 3.8% of credit book. We expect GNPA ratio at 1.6% and NNPA ratio at 0.6% by FY13E.
- The bank has managed to maintain credit growth of over 20% even in current environment with NIM close to 3%. We expect the robust performance to continue with 20% CAGR in credit and 16% CAGR in PAT.
- At the CMP of ₹ 770, the bank is trading at valuation of 1.1x FY13E ABV. It has been consistently reporting strong return ratio with RoA of ~1.2% and RoE of ~20%. Among the public sector peers, it has one of the best asset quality and hence commands premium. We value BOB at 1.4x FY13E ABV and recommend BUY with target price of ₹ 954

Company	Code	CMP	TP
Dena Bank	DENBAN	73	84

Valuation Ratios	FY11	FY12E	FY13E
P/ABV (x)	0.8	0.7	0.6
P/E(x)	3.4	2.9	2.5
RoE(%)	21.2	18.6	18.7
RoA(%)	1.0	0.9	0.9

Dena Bank

- Dena bank is a mid sized PSU bank with presence in rich CASA based western part of country. It has healthy CASA ratio of 35.6% as on Q2FY12.
- We expect the bank to maintain credit growth of 16-18% and NIM in range of 2.9-3.0%.
- Asset quality is better than industry average as its GNPA ratio for Q2FY12 stood at 1.9% compared to industry average of 2.8%. The outstanding restructured book constituted 3.6% of total credit book in Q2FY12. Relatively higher exposure to power and infra space have remained a drag on valuations, however, the bank has not shown any deteriorating performance in that portfolio till now.
- At the CMP of ₹ 73, the bank is trading at an attractive valuation of 0.6x FY13E ABV. It has been consistently reporting RoA of ~1% and RoE of ~20% for past 13 quarters. As risk reward remains favourable, we value Dena bank at 0.7x FY13E ABV and recommend BUY with target price of ₹ 84.

Company	Code	CMP	TP
Simplex Infra	SIMCON	199	285

Valuation Ratios	FY11E	FY12E	FY13E
P/E (x)	8.0	11.1	8.7
EV/EBITDA(x)	5.6	5.7	5.3
RoE(%)	12.0	7.9	9.2
RoCE(%)	11.9	11.0	11.5

Simplex Infrastrucutre

- Simplex Infrastructure (SIL) is one of oldest construction company with well-diversified project execution skills. The company has executed projects across the verticals and has marquee clientele across the verticals.
- The order book stood at ₹ 15,034 crore (as on Q2FY12) implying 2.94x order book to bill (on TTM basis) and providing revenue visibility for the next couple of years. The differentiating factor for SIL is that the order book is well diversified with no contentious orders unlike its peers and minimal captive orders (~500 crore) assuring execution on almost complete order book. Furthermore, the company has lowest equity commitment towards its subsidiary which gives us comfort in terms for funding constraint which otherwise is faced across industry.
- At the CMP, the stock is trading at 8.7x FY13E EPS and 0.8x FY13E P/BV. SIL's strong well diversified order book, lowest equity commitment towards subsidiary and execution capabilities makes it a strong candidate for sharp earning upgrade and re-rating in the multiples when the macro environment improves. We have a target price of ₹ 285 on the stock

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