Equity Research

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INDIA

India Unlimited

Ninth Annual Investor Conference 2010

We concluded our ninth annual investor conference in Singapore last evening – over the two-day period, we hosted 36 companies and ~550 meetings. We thought the overall mood at the conference was neutral to slightly upbeat. Corporates are back in a growth phase and are aligning strategies accordingly. With the Government's budget proposals out of the way and with no signs of any major upheavals in the global markets, most investors appear reasonably comfortable with overall market levels, though there does not appear to be any overt bullishness either. Key highlights from various meetings are detailed below.

- **Financials.** The banks expect the transition to a base rate regime to be positive for net margins. FDI relaxation is expected to be cleared in the monsoon session of the Parliament (from 26% to 49%). Non banking financial companies (NBFCs) seeking bank licences expect the Reserve Bank of India (RBI) to announce several regulatory requirements and there is also uncertainty on whether NBFCs affiliated to industrial houses could be granted such licences.
- **IT Services.** Tata Consultancy Services (TCS) and Wipro are confident of surpassing NASSCOM's FY11 target of 13-15% revenue growth (dollar denominated) – we expect FY11E growth to be 20%. Wipro has revised wages as well, effective February (2% onsite and 8-10% offshore).
- **Metals.** The steel companies were quite upbeat. They expect at least 15% increase in domestic steel prices and given low dealer inventories, anticipate raw material price increase to be passed on. Capacity will significantly increase in India over the next few years but will still lag supply.
- **Oil&Gas – Fuel pricing.** Bharat Petroleum Corporation (BPCL) expects deregulation in auto fuel pricing in the next 6-9 months and only a minor increase in kerosene prices. ONGC expects APM gas prices to be revised in phases from US$1.8 to US$4.2/mmbtu over the next three years.
- **Power.** JSW Energy expects merchant rates of Rs5 per unit in FY11 and Rs4.5 in FY12. NHPC is in discussions with regulators to consider ~12% return on CWIP.
- **Real Estate & Infrastructure.** Volumes in the residential segment have picked up across geographies with strong demand for mid-income housing and prices, in some locations, have crossed January '08 highs. The commercial/retail segment remains lethargic. Lanco is looking to restructure and consolidate businesses to improve focus and funding options.
- **Telecom.** The Telecom Regulatory Authority of India (TRAI) chairman presented a keynote address – the health of the industry is also an important consideration for the regulators, in addition to the requirements of the consumer. Rural penetration is another focus area. Mobile number portability (MNP) is likely in three months time.

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* Not under our coverage.

Note: All prices in this report as of March 9, '10 unless otherwise indicated

Keynote address

Presented by: JS Sharma, Chairman, TRAI

Industry health essential to attract investment

The TRAI chairman strongly suggested the need to keep in view the industry health in order to attract investments. Also, the focus is to drive growth in broadband and rural areas, which have been deprived of choice. Rural areas still continue to see low penetration and limited choice with only 53% of rural villages having three or more operators. Key areas of consultation going forward are focus on rural growth, broadband penetration and the need to reassess current infrastructure sharing. Value-added services (VAS) are likely to be a growth driver versus voice, with the development of applications and penetration of smart phones.

- **Rural penetration & choice – Key priority.** The TRAI has set up a rural teledensity target of 40% and is also focussed on improving competition & choice in rural areas. While at present, 91% of the villages are covered by one or more operators, only 74% are covered by two or more and 53% by three or more operators. The focus of TRAI is to encourage infrastructure expansion in rural areas.
- **Health of industry critical for attracting investment.** The Telecom industry will require significant capital investment for deployment of 3G and penetration of broadband. The TRAI is committed to ensuring healthy growth of the industry through attracting investment and delivering adequate return on capital.
- **MNP likely to be rolled out in May '10.** MNP has been delayed and has been a major disappointment. However, the TRAI expects MNP to be a reality soon with no further slippages.
- **Mobile application & VAS – Key growth drivers.** VAS is likely to contribute to incremental growth in Telecom – it has increased its contribution to 11% of the overall revenues, which will continue going forward. Rapid growth in applications and penetration of smart phones will drive growth. Expect mobile banking to be a reality soon.

Aban Offshore (CMP: Rs1,283, Unrated)

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- Aban Offshore is positive on jack-up rig rate trend and expects jack-up rigs rates to increase ~20% in the next 1-2 quarters. Globally, jack-up rig day rates are currently at ~US$130,000-140,000/day for >375ft rigs and <US$120,000/day for <375ft jack-up rigs
- Out of its 20 assets, Aban has just three rigs, which remain to be deployed – two rigs are expected to be deployed in the next three months.
- Aban has rescheduled most of its US$3bn debt nine months back, with repayment expected in the next 10 years.
- At present, the company is witnessing impressive EBITDA margin at 56-60% owing to its younger fleets of rigs.

Adhunik Metaliks (CMP: Rs115, TP: Rs171, Buy)

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- Expansion projects are on schedule. Key investor queries revolved around: i) problems in Orissa (manganese mines), ii) execution of power projects and iii) equity raising options in Orissa Manganese and Minerals (OMML). The pellet plant in OMML is schedule for completion in April ’11 (expect 3-6 months delay at the most). Similarly, a coal JV with Tata Steel for power project through Adhunik Power and Natural Resources (APNRL) in Jamshedpur is expected to start from June ’12. To ensure supply given delayed production from captive coal mines, APNRL has obtained tapering coal linkages. As regards equity raising in OMML (through primary market), the management is taking a mixed view since OMML is expected to fund APNRL’s power project, which might be difficult in the presence of a PE investor.
- Adhunik Metaliks (AML) is setting up a 45MW power plant in the steel subsidiary along with 0.35mnte DRI. The power plant will come up in 2.5years. Also, debt repayments are lined up for AML; hence, the total debt is not going to rise substantially.
- We reiterate BUY on AML with Rs171 target price. While most of the past rerating in the stock was on account of the rapid ramp-up in mining operations, short-term future triggers come from OMML in the form of an impressive Q4FY10 (not yet built in), announcement of equity raising and scheduled capacity ramp-up (Q1FY11 to set the norm). As we move closer to FY12, incremental value will also come from power (first unit scheduled in January ’12). We maintain AML as our top pick in the mid-cap ferrous space.

Aditya Birla Nuvo (CMP: Rs861, Unrated)

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Birla Sunlife Insurance Company

- The market share among private players, on an APE basis, has increased to 9.5% in 9MFY10 from 5.3% in FY07. The sharp increase in market share has been driven by distribution network ramp-up with 600 branches as on December '09 as against 167 in FY07 and 178,000 agents as on December '09 as against 57,000 in FY07.
- New business growth, on an APE basis, for nine months ended December '09 stood at 15% YoY. However, sales for January and February have been low on account of regulatory cap on charges by IRDA. Birla Sunlife claims that it has rejiged its entire product portfolio to meet IRDA guidelines. The company claims that there has been little impact on account of the cap on charges by IRDA.
- New business premium growth is likely to be higher than the industry average for private players with focus on improving persistency.
- While capital infused till date stood at Rs23bn, the management expects an incremental Rs5bn of capital requirement through the next two years.
- Recently, Birla Sunlife has declared the embedded value of its insurance business at Rs30.6bn with an implied VNB margin at 20.3%

Birla Sunlife Asset Management Company

- Birla Sunlife Asset Management is the fifth largest asset management company with AUMs of Rs681bn as on December '09 and an overall market share of 8.7%

Other Businesses

- Aditya Birla Financial Services has business interests in distribution and wealth management, NBFCs, insurance advisory and broking business, retail broking and PE. The management aims at unlocking value in financial services business by housing all companies in financial services into a separate entity and plans to list this entity.

Ascendas (CMP: S$0.99, Unrated)

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- About 34% of the current leased portfolio is coming for renewal in FY11; rentals for these properties are to be watched closely.
- About 34% of the current leased portfolio is coming for renewal in FY11; rentals for these properties are to be watched closely.
- The company is not expecting a significant rise in rentals and expects them to remain stable or marginally rise going forward.
- Three commercial properties (including a retail mall) from the company will hit the market in FY11; tenancy for new property will be watched closely.

Bajaj FinServ (CMP: Rs339, Unrated)

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- Bajaj Allianz Life Insurance venture is highly retail oriented with strong presence in tier II and III cities. Tied agency sales account for 55% of total sales, while corporate agents account for 20% and bancassurance for 10%. The management indicated its preference for maintaining a predominantly tied agency sales force as commissions are lower.
- Bajaj Allianz Life is well capitalised for the next few years and has maintained a strong solvency ratio of 2.6x. Further, 60% of the business comes from non-metro areas where the reliance on ULIPs is lower. At present, ULIPs account for ~85% of new business sales and new business margin stands at 18%.
- Bajaj General Insurance's outstanding book consists of 65% motor insurance and a chunk of health insurance (primarily individual health policies). The company has a combined ratio of sub-100%, which is the best in the private non-life industry.
- Bajaj Auto Finance (BAFL) is involved in two-wheeler financing – it finances ~20-23% of two-wheelers sold by Bajaj Auto. It is strongly positioned in consumer financing and small business lending domains. Among the new business channels, it is about to start construction equipment financing and loan against shares.
- BAFL is focussing on mass affluent customers to whom it can cross-sell high margin personal loans, insurance, home equity loans, etc. and where the risk of default is lower than low-ticket personal loans to ordinary customers.

Balrampur Chini Mills (CMP: Rs109, Unrated)

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- Sugar production is expected to go up to 21mnte in SY11E and will likely be ~16mnte in SY10E.
- Cane prices attractive at Rs190/qtl compared with other crops. Balrampur's average cane procurement cost was at Rs228-229/qtl in the current season.
- Recent sugar price correction from Rs43/kg to Rs34/kg (ex-mill) was owing to the following reasons:
  - Weekly quota imposed by the Government reducing flexibility
  - Better crop expectations in Brazil (34mnte in the current year, 39mnte in the next year)
- India to import ~ 7.0mnte sugar in SY10E.

Bhushan Steel (CMP: Rs1,728, Unrated)

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- Bhushan Steel (BSL) is building a 2.5mtpa integrated steel plant in Orissa (Meramandali) at a cost of ~Rs55bn; this capacity could be expanded to 5mtpa.
- Phase II for the Orissa plant has been completed and HRC capacity has been increased to 2.5mnte. The plant had DRI capacity of 0.7mnte and billet capacity 0.3mnte earlier. Next year, we expect HRC production of 1.4mnte as against cold rolled cold annealed (CRCA) production of 1.2mnte.
- BSL has already been allocated a coal mine in the New Patrapara block, which has >600mnte reserves; of these, 200mnte is allocated to BSL. Owing to ownership issues, Adhunik Metaliks (joint allotee) moved the Supreme Court (SC), which gave a stay order. However, the SC has directed BSL to carry on development activities in the interim.
- BSL has got a prospecting licence (PL) for an iron-ore block in Keonjhar, Orissa with 224mnte reserves. Mining is expected to commence in the next 2-3 years.
- For coking/PCI coal, BSL has acquired a 60% stake in the Australian exploration company, Bowen Energy.
- Further to 5.35% stake in Orissa Sponge (OSL), BSL acquired 9.5% and 3.5mn warrants of OSL from Unitech, taking the total stake to 14.9%. Post this, Bhushan Power (owned by Sanjay Singhal) made an open offer at Rs300/share, which was at 91% premium to the prevailing market price then, for 26% stake. This was followed by Monnet Ispat's (holding 15%) open offer for 20% stake in OSL at Rs310/share. Meanwhile, BSL has acquired another 2% in OSL from the market. BSL plans to carry out an open offer, which has been cleared by the SEBI. BSL may convert its 3.5mn warrants (of OSL), which would increase its total stake to 29%.

BPCL (CMP: Rs536, TP: Rs495, Sell)

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- Out of BPCL's Rs100bn subsidy burden, the company has clarity on Rs60bn so far; it expects to collect the remaining Rs40bn.
- On the auto fuel deregulation front, BPCL expects complete deregulation in the next 6-9 months. On the domestic LPG front, the company is positive on the implementation of the six-cylinder ration scheme, and with respect to Kerosene price hikes, it expects minor increase in Kerosene prices, though rationing is not expected till the Unique Identity project is implemented.
- BPCL's Bombay GRMs remain under pressure because of OCTROI stipulations.
- BPCL significantly committed to its upstream E&P business under Bharat Petroleum Resources (BPRL), and as of date has spent close to US$300mn, with an additional US$600mn to be spent in the next three years. The key rationale for upstream expansion has been to derisk the downstream risks by having an additional presence in upstream, which also provides vertical integration

advantages. Also, with E&P focused outside the country, there is no burden to subsidise downstream.

- Bina will continue to be the thrust for significant capex. Bina complexity allows for Euro 3 & Euro 4 production and BPCL has asked for a complete pass-through of additional charges related to Euro 3 & Euro 4 grades.
- BPCL is very positive on its investment in Indraprastha Gas (IGL). The company has also expanded into auto LPG with 24 outlets in Bangalore and Chennai.
- BPCL continues to build its business around green fuels including biodiesel, Hydrogen based, solar, wind etc.

DB Corp (CMP: Rs235, Unrated)

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- DB Corp has expanded its presence from Madhya Pradesh to Rajasthan (1996), Gujarat ('04) and Punjab ('06) and has emerged as a strong leader, presently positioned among the top-two in these critical markets.
- The ad industry is expected to grow at 11%+ in '10 driven by strong volume growth. DB Corp's strategy will be to accelerate growth through rate hikes.
- Newsprint prices are expected to stabilise at ~US$560/MT levels, although prices might peak out at US$600/MT in the short term. DB Corp's business model is strongly geared to reduce consumption in case of erratic newsprint price increase. It has also tied up for newsprint for less than US$550/MT price in '10.
- DB Corp is aggressively looking at new markets for expansion with Jammu & Kashmir and Bihar/Jharkhand as the key markets. It will launch operations in Bihar and Jharkhand in '10 as high cover price in these markets makes it relatively easy to penetrate with minimum losses.
- The strategy for the radio business – focus on tier II & II towns – has delivered well; the business is expected to be profitable by end FY10.
- DB Corp has focussed on an ad-based model with low contribution from subscription revenues. The company's strategy targets achieving leadership in urban areas within its footprint.

Dhanlaxmi Bank (CMP: Rs140, Unrated)

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- While the outstanding advances as on December '09 stood at Rs44bn, the management aims at growing the book at significantly higher-than-industry growth rate (+50%) for the next few years. Wholesale banking, which is currently 62%, is likely to come down to 40% as the management intends to increase focus on retail products.
- NIMs rose 61bps QOQ to 2.52% driven by lower cost of funds and rising exposure to SME segment. While the current CASA stood at 22%, the management expects this to increase over a period of time with expansion in distribution network.

- Total employee strength is 4,000, with 1,100 falling under the union. However, as per the management, unions are not a material problem as unionised employees have been given salary hikes way higher than that recommended by the RBI.
- Current tier I capital is 9.14% – while high growth will trigger capital raising at the margin, the management indicated that capital raising would be gradual in nature (based on capital requirement) as against any significant dilution at one go.
- Management focus is likely to be high on non fund based income (third-party distribution) though recent regulatory changes could lead to pressure on this revenue stream. Dhanlaxmi Bank has applied for mutual fund licence (and is awaiting regulator response on the same). The bank will launch products such as credit cards, forex, investment banking and move to transaction banking as CBS implementation is completed.

GMR Infrastructure (CMP: Rs57, TP: Rs80, Buy)

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- Execution of Terminal 3 in Delhi is on track, with ~90-95% of the project completed – it is likely to be completed by March '10 and become operational by Q2FY11. We expect a re-rating in the stock once the terminal becomes operational. With economic recovery on track, passenger traffic is expected to increase significantly. Of the total 250 acres, GMR has awarded 45 acres for hotel projects to developers and plans to launch another 50 acres this fiscal.
- Hyderabad airport land deals are gaining traction. GMR signed an MoU with Jet Airways and MAS GMR Engineering for heavy-maintenance services for 10 years and received a notification for the aviation sector-specific SEZ.
- GMR is mulling the private equity route to raise capital in its power venture, GMR Energy. The company may not opt for an IPO route since most of the projects are at early stage. However, once the power portfolio becomes large enough it may likely tap in primary markets.

HCL Infosystems (CMP: Rs139, Unrated)

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- PC sales gained momentum in October but lost sheen in November. With competition likely to have adopted an aggressive pricing policy, HCL Info is not keen to lower prices for increasing market share. Along with BSNL, it recently launched HCL broadband PC under the National Broadband Penetration Programme.
- HCL Info enjoys a strong orderbook of Rs20bn for its systems integration projects, spread across verticals such as power, telecom, e-governance, infrastructure and railways, to be executed in the next 12-18 months. The management is more optimistic on growth potential in telecom and power. It believes that progress in e-governance is not up to the mark but remains optimistic going forward. It also expects growth in power to pick-up going forward.

- HCL Info, in partnership with Motorola, has recently bagged a Rs1bn order from the Delhi Government, to set up India's first exclusive Government Radio Network (GRN) for providing a secure communication network. HCL Info also bagged a Rs1.1bn contract from the Gujarat Government that would include supply, implementation of biometric attendance & computer-aided learning systems for the state's tribal development. The company bagged India's first Restructured Accelerated Power Development & Reform Programme order of over Rs5bn for implementing state-wide power solution in Rajasthan.
- HCL Info emerged as an L1 bidder for BSNL contracts worth Rs35bn for all four regions, of which two are expected to be finally awarded to the company.
- Fund raising of Rs4.73bn via QIP will be utilised for expansion of existing businesses (Command & Control Centre), developing infrastructure for growth, meeting working-capital requirements for SI projects and acquisitions.
- HCL Info witnessed increased opportunities in physical homeland security and education & training. The company is developing an integrated command & control centre for physical homeland security surveillance – Version 1 release is expected soon.
- HCL Info has identified education as a key growth area and is creating its own K-12 content through tying up with content providers for multimedia-based education in private schools. It is one of the leading ICT suppliers for most leading market players

HDFC Bank (CMP: Rs1,811, TP: Rs1,648, Hold)

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- Credit growth likely to be 3-5% higher than systemic credit growth (expect +25% credit growth in FY11E). The growth in corporate loans and mortgages will continue to remain higher than unsecured retail lending. Retail loans will likely comprise 50-55% of overall loans in the next few years.
- While higher rates should aid NIMs in a rising rates environment, some of these benefits will be offset owing to changing loan mix (rising proportion of corporate and mortgages) and higher interest that will be paid on savings accounts balances (this will impact NIMs ~15bps). NIMs are likely to sustain at 4-4.2%.
- Operating leverage is likely to play out with cost-to-income ratio at ~47-48%, driven by productivity gains from Centurion Bank branches and changing loan profile towards corporate loans and mortgages. Core fee income growth will likely be driven by branch expansion and cross selling initiatives even as regulatory changes on mutual fund and insurance distribution fee are likely to hurt this stream to an extent.
- Asset quality will remain robust on account of revival in the economy, run-down of significant proportion of Centurion's unsecured book and changing loan mix (higher proportion of corporate loans and mortgages). Lower loan-loss provisions will be the key earnings driver going forward.

HT Media (CMP: Rs144, TP: Rs190, Buy)

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- After a steep decline of 8.5% for 9MFY10 in English ad revenues owing to discounting and lower volumes, metro advertising is witnessing traction. HT Media expects to increase rate cards going forward to drive growth. Also, the successful business paper *Mint* is likely to start gaining traction among advertisers.
- *Hindustan*, HT Media's Hindi daily, was the key growth driver in FY09, with regional advertising being resilient to the impact of the slowdown. *Hindustan's* ad revenues grew 23.7% in 9MFY10 as compared with 1.7% dip for the company.
- HT Media has filed for an IPO for the Hindi business to raise Rs3,000mn for expansion into the Uttar Pradesh market. The Hindi business is garnering traction and with expansion in Uttar Pradesh, *Hindustan* will cover the entire Hindi belt.
- Newsprint prices have increased to ~US$540/MT levels from it lows of ~US$450/MT in September '09. Hence, increase in raw material cost will bring down margin.

Info Edge (CMP: Rs860, TP: Rs960, Buy)

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- Online recruitment demand is picking up with the worst behind for the Technology sector (25% of revenues from naukri.com). The management is upbeat on growth in Infrastructure (23% of revenues). However, it still believes that growth in retail and real estate is likely to be muted in the short term. We believe the worst in terms of online recruitment is behind and with its leadership in online recruitment and mounting losses of competitors in the slowdown, Info Edge will enjoy better pricing power. Traffic share for Info Edge, as per comscore.com, has remained consistently above 60% for the past six months. We expect 24% recruitment revenue CAGR over FY10E-12E.
- More than 20% total revenue growth will lead to margin improvement. The management believes that with most of the cost items being fixed, increased revenue growth is likely to lead to higher incremental margins. However, less than 20% revenue growth will unlikely lead to any major positive margin surprise as Info Edge is planning for a wage hike (wages have remained stable for the past two years) and higher ad spend through television. We expect total revenues to rise 21.2% in FY11E and 25.7% in FY12E.
- While jeevansathi.com has been steady and 99acres.com still struggling, shiksha.com has been gaining traction. While jeevansathi.com grew 21.6% YoY in Q3FY10 and shiksha.com saw increased traction, 99acres.com was still impacted by the slowdown in real estate. But better growth for 99acres.com is expected going forward by the management, with North & West India showing initial signs of recovery in real estate. The management expects revenues from shiksha.com to double due to higher traction and low base. We expect non-recruitment revenue CAGR of 20% over FY10E-12E.

- We are long-term positive on Info Edge as it enjoys a unique business model with high operating leverage, negative working capital, minimal capex and strong cashflow generation. With cash kitty in excess of Rs3.3bn, Info Edge is uniquely placed vis-à-vis competition, to take advantage of the economic recovery. We expect EBITDA margin to rise to 31.3% by FY12E from 27.8% in FY10E

JSW Energy (CMP: Rs108, Unrated)

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- JSW Energy (JSWEL) will focus on coal. The company is looking at mine acquisition in Australia/ Africa and long-term coal tie-up with Australia and Indonesia. The company requires 5mnte in FY11E, of which 2mnte will be supplied by Sungai Belati and the rest is expected to be procured from the market.
- Merchant rates to remain buoyant. JSWEL expects merchant rates of Rs5/unit in FY11 and Rs4.5/unit in FY12. The company has tied up for 100% power sales till July '10 with rates upward of Rs5/unit. In Q4FY10, the company expects to realise ~Rs4.75/unit. Most of the short-term contracts are entered for three months duration with state electricity boards and a significant part of the contracts are bilateral.
- JSWEL expects to reach 3,140MW capacity by March '11 with significant merchant capacity.

KEC International (CMP: Rs561, Unrated)

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- RPG cable merger. KEC International (KEC) is focussing on improving product mix to better its margin in cable business and increasing focus on distribution business to boost RPG cables volumes.
- Tax credit on accumulated losses of RPG cables to bring down FY10 tax bill to negligible levels. KEC has reported Rs1.26bn PAT in 9MFY09 versus Rs1.16bn in FY09. The company expects to report ~Rs2.5bn PAT in FY10.
- Rural electrification will fuel growth till FY13 owing to strong Government focus on rural electrification under 'Power for all' projects; increase in substation business will offset the reduced rural electrification business beyond FY13.
- EBITDA margin at 10% sustainable; commodity fluctuation is a pass-through in the domestic business. In the international business, adequate hedging is done to avoid loss from commodity fluctuation.
- Business model shifting to BOT is an emerging challenge as it is an assets ownership model. KEC plans to participate through a JV with a finance partner to protect its market share without exposing its balance sheet.

Lanco Infratech (CMP: Rs53, TP: Rs61, Buy)

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- Lanco Infratech's power portfolio is growing stronger and is expected to reach 2,000MW operational capacity in the next six months. Increase in total operational merchant power capacity in Amarkantak-I and Kondapalli II to ~500MW will contribute significantly to earnings from FY11.
- Lanco's power portfolio is on track – Amarkantak II will be synchronised in March '10. Kondapalli II, commissioned in December '09, will significantly contribute to Q4FY10 earnings. Financial closure of Amarkantak III & IV (1,200MW), Vidharbha (1,320MW), Babandh (2,600MW), Kondapali III (740MW) and Anapara extension (660MW) is expected in the next few months. Advances to equipment suppliers have already been granted for Amarkantak III & IV, Vidharbha and Kondapalli III, with construction expected to commence by Q1FY11. Further, its two road projects will be operational by July & August '10.
- Lanco has been aggressive than its counterparts in getting fuel linkages as is evident from the fact that it has recently received coal linkage from Maharashtra, though others who started with projects even prior to Lanco are still awaiting for the same.
- Lanco has plans to restructure its power and infrastructure business. The company plans to consolidate its power projects under a single entity with an option to list it independently. However, this restructuring will take 3-4 quarters to materialise.
- Real estate has still not picked up in Hyderabad and Lanco is looking for an opportune time to exit the Lanco Hill project.

Mahindra Holidays & Resorts India (CMP: Rs526, Unrated)

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- Membership additions on track and leadership position maintained with 109,110 vacation ownership (VO) members.
- A strong resort portfolio of 30 (11 owned, 14 long lease & five short lease). Expansion on track with planned resorts in Astamundi, Coorg and greenfield development in Lonavala and Shimla.

Mahindra Lifespaces (CMP: Rs389, Unrated)

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- Annuity income continues to be strong with two operational business districts of ~4,600 acres in Chennai and Jaipur.
- Execution is strong with ~8mn sqft under construction in projects across Mumbai, national capital region, Chennai, Pune and Nagpur, with focus on mid-income and premium segments.
- The new Chennai business district (1,550 acres) has three SEZs and an integrated township – i) Commercial has 60,000 sqft operational, ~75 acres are planned to be developed & potential land-bank at 120 acres, ii) the second residential phase of 1.5mn sqft launched, third phase of 0.8mn sqft to be launched shortly with 150 acres balance land bank
- The Jaipur multi-product SEZ is operational (3,000 acres) including 700 acres of residential and social infrastructure.

NHPC (CMP: Rs32, Unrated)

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- Return on CWIP. Considering the higher risk involved in hydro project, NHPC is asking regulators to allow ~12% return on CWIP. Given the focus on green energy and significant hydro potential in India (~148GW versus 36GW current capacity), there is a need to increase the attractiveness of hydro projects.
- Capacity addition of ~ 2242MW in XI FYP will take the total capacity to 7,417MW by FY12.
- Delay in hydro projects is not a norm. NHPC has completed four hydro projects on time (Chamera II-300MW, Dhauliganga I-280MW, Indira sagar-1,000MW, Omkareshwar-520MW) affirming that delay in Hydro projects is not a norm.
- NHPC is planning to foray into thermal power through 660MW*2 via NHDC. The rationale for this project is lack of hydro potential in Madhya Pradesh and to utilise the current man power available.

NIIT (CMP: Rs66, TP: Rs83, Buy)

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- NIIT believes that growth rates in ILS are likely to increase to 12-18% in FY11 with recovery in the technology sector. As per the company, with the recovery in revenues, margins are likely to increase with increasing capacity utilisation and return of pricing power in the medium-to-long term as prices have not been raised in the past two years. We estimate 8% growth in FY10E and 12% in FY11E.
- NIIT China will continue to post higher growth. NIIT, despite not being the leader in China and not present across the country, estimates growth to continue at higher levels with expectations of more than 25-30% growth in the coming years. At present, NIIT has 200 centres in China versus ~500 in India and ~200 in rest of the world.

- Within school learning solutions (SLS), NIIT expects higher growth to continue at 25-30%. Within the e-guru initiative, an interactive learning solution, the company expects higher growth on a low base and high potential given the low penetration within private schools in India. SLS margin is likely to rise due to higher growth in high-margin interactive solutions
- Worst seems behind for corporate learning solutions (CLS) and margins are likely to increase to 15-17% from the current 6-7% in the next 2-3 years (margin for the largest competitor is ~>20%, though NIIT does not expect to reach this level in Element-K due to a different business model). Fresh order intake in CLS grew 12% QoQ (9% YoY) to US$34.7mn, while pending orderbook rose 8% QoQ (10% YoY) to US$89.3mn.
- Losses from new businesses will likely reduce. FMT enrolments grew in both banking and management training programmes and order intake surged from Rs69mn in Q2FY10 to 94mn in Q3FY10. We expect lower losses in these businesses from Q4FY10.
- Worst seems behind for NIIT and we expect consolidated margins within incremental revenue growth to be higher, leading to outperformance in EBITDA growth versus revenues going forward. We expect revenue and EBITDA CAGR of 11% and 21% respectively through FY10E-12E.

ONGC (CMP: Rs1,095, TP: Rs1,290, Buy)

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- Modest production ramp-ups expected by ’11-12 in oil&gas, including production from Jeevan GS-15 and Vasai East. Capex plans of Rs270bn per annum to continue.
- So far, upstream companies, including ONGC, have not been asked to fund under-recoveries in cooking fuels. Upstream continues to contribute towards petrol and diesel subsidies. However, during the third quarter, ONGC was asked for a higher allocation towards subsidies vis-à-vis GAIL and Oil India.
- ONGC expects APM gas prices to be revised in three phases from the current price of US$1.8/mmbtu to US$4.20/mmbtu during the next three years. Out of the resultant topline gains, most should translate to the bottomline, barring royalty and other miscellaneous charges.
- Sharp profit dip in ONGC Videsh (OVL) is explained largely by a fall in production volumes along with other factors such as interest charges paid to ONGC (this obligation has been waived off now) and due to goodwill amortisations related to the Imperial Energy acquisition.
- No plans to divest cross holding stakes in IOCL or GAIL.

Power Grid Corporation (CMP: Rs109, TP: R97, Sell)

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- Low capitalisation in FY10 owing to delay in Barh-balia project of Rs28bn. Capitalisation in FY10E expected to be Rs50bn. FY11E & FY12E likely to witness capitalisation of Rs70bn and Rs100bn respectively.
- Delay in generation project caused lower capex. XI FYP capacity addition target has been brought down from 78GW to 62GW, leading to a corresponding fall in Power Grid Corporation of India's (PGCIL) capex to Rs400bn from Rs550bn in XI FYP. The company expects to incur ~Rs100bn by FY12 against open access projects, taking the overall capex in XI FYP to Rs500bn.
- Open access agreement for 30GW signed and another 20GW in pipeline. Overall capex of Rs500bn likely through January '11-September '14.
- Concern over slow capex rate owing to constraint at supplier level. PGCIL believes that the capex pace should increase gradually; trained man power availability is a key challenge.
- Capex benchmarking a difficult exercise owing to significant variation from project to project.
- PGCIL believes that growth will remain attractive despite competitive bidding made mandatory from FY12 owing to strong current project pipeline.

Punjab National Bank (CMP: Rs923, TP: Rs986, Buy)

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- FY11 credit growth expected to be higher 1-2% at ~21-22% than systemic growth and will likely be broad-based in nature. The management expects NIMs at +3.5% for FY11 with an upward bias (3.84% in Q3FY10).
- The impact on NIMs on account of interest on saving account balances being paid on daily averages is likely to be limited at 10bps. Change to base rate regime is likely to be positive for NIMs.
- Delinquencies have peaked out in Q3FY10 as per the management. Of the total restructured assets portfolio of Rs106bn, Rs3.63bn has turned NPLs. The management expects total slippages from this portfolio to peak at 7%. Overall, GNPAs will likely be lower than 2%.
- Other income growth, ex-treasury, is likely to be robust at 18-20%. Operating expenses are likely to remain under control as wage arrears have been provided for to the extent of 20%.
- Rising rates not to hit significantly as just 115 of G-Secs are in AFS. While the book has been marked to market for up to 10-year yield of 7.69, every incremental 1bp rise in yields will hit profit by Rs30mn.

Reliance Capital (CMP: Rs801, Unrated)

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Reliance Life Insurance Company

- The management expects new business premium (NBP) growth of 10% YoY in FY10 (NBP for 9MFY10 has been lower 6% YoY). The current growth needs to be viewed in the backdrop of 28% APE growth achieved in FY09 and the recent IRDA guidelines on charges leading to slower growth. As per the management, early signs of pick-up are already visible with new business growth for February being +25%.
- While the declared NBAP margin stood at 20.13% for Q3FY10, there could be an erosion of ~100bps on account of change in the charge structure. However, the management does not envisage a sharp erosion in NBAP margin due to the new charge structure.
- While the cumulative capital invested till date stood at Rs28bn, incremental capital requirement is likely to come down significantly on account of slower APE growth at the margin.

Reliance Capital Asset Management Company

- Overall AUMs stood at Rs1,200bn with debt and equity mix at 69% and 31% respectively. Incremental focus is likely to be on increasing equity AUMs as per the management given the higher stickiness of equity AUMs coupled with higher asset management fee.
- Recent regulatory changes on distribution charges for mutual funds, has, to an extent led to relatively slower growth in AUMs for the MF business. The company aims at increasing focus on its direct distribution, which currently comprises 10% AUMs (to raise this to 20%).

Reliance General Insurance

- Reliance General Insurance has invested capital of Rs8bn with its book comprising 67% Motor, 12% Health and 7% Fire Insurance. It has a combined ratio (with pool) of 112%, as on Q3FY10, and has established a stable re-insurance network with five leading re-insurers.
- While the combined ratio of the pool stood at 112%, the company is increasingly reducing focus on unprofitable segments with high combined ratios.
- Reliance Consumer Finance manages Rs23bn under Home Finance and Rs39bn under Asset Finance, with total book size of Rs78bn. The company is increasingly focusing on bringing down its exposure to unsecured lending.
- Reliance Money is the retail financial services arm of Reliance Capital and provides a platform for the sale of services (Investment Banking, Wealth Management, Money Changing etc.), distribution of products (mutual funds, insurance, loans etc.) and retail broking through its 5,000 outlets.
- On an overall basis, the management aims at increasing focus on profitability after a high growth phase for the past four years (FY06-09). For FY09, while the core businesses contributed 20% to profits (financing and investments contributing 80%), the focus is on reversing the ratio in the next 2-3 years. Given the

announcement in the Budget wherein the RBI may issue banking licences to some NBFCs, Reliance Capital might apply for the same once the regulatory requirements are laid out in detail.

Sobha Developers (CMP: Rs283, TP: Rs377, Buy)

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- Sobha is confident of generating cumulative net operating cashflows of ~Rs22.3bn from real estate, Rs2bn from contractual business and another Rs3.5bn from land sale in the next three years.
- Sobha has targetted sales of 12mn sqft (3mn sqft existing inventory, 9mn sqft new launches) in the next three years – 3mn sqft for FY11, 4mn sqft for FY12 and 5mn sqft for FY13. The company has achieved a sales run-rate of ~2.8mn sqft in FY10, and we believe the targetted sales over the next three years will be achieved comfortably.
- Average realisations of the apartments currently stand at Rs3,400-3,500/sqft which is likely to reach Rs4,000/sqft in FY11.
- Sobha has witnessed strong pick-up in execution – it has delivered 4.8mn sqft (residential: 1.4mn sqft, contractual: 3.4mn sqft) in 9MFY10 and targets delivery of another 2mn sqft residential in Q4FY10.
- At present, Sobha has a debt/equity ratio of 0.8x (with net debt at Rs14bn). The company is targetting to achieve a D/E ratio of 0.5x by March FY11 and reducing it going forward.

Steel Authority of India (CMP: Rs233, TP: Rs270, Buy)

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- SAIL has embarked on a US$15bn expansion and modernisation programme, which includes US$8bn for 9mnte expansion across plants. The management expects 4-5% volume growth form the current levels of 14mnte crude steel. Further, 1-1.5mnte will come up in FY12 (mainly through IISCO), another 3.5mnte will come up in FY13 (IISCO+ Rourkela) and finally 3mnte will come up in FY14, taking the total crude steel capacity to 21mnte.
  - **IISCO (Burnpur).** The first major expansion will come in IISCO, Burnpur where a 2.9mnte blast furnace (BF) is being set up. Integrated commissioning will happen by June '11. Coke oven and sinter plant commissioning will happen by FY11E. Excess coke from IISCO will be supplied to other steel plants.
  - **Rourkela Steel Plant** (RSP). The second 2.9mnte BF will be installed in RSP. A wider width plate mill will also be installed. Integrated commissioning will happen in Rourkela by December '11.
  - **Bhilai Steel plant** (BSP) will see an installation of another 2.9mnte BF. With the use of BOF and the concast routes of steelmaking, the old teeming route will be phased out. BOF orders have already been placed. Orders for BF and

sinter plant will be placed soon. Also, a plate, bar and rod mill will be installed in BSP with integrated commissioning by March '13.

- **Bokaro Steel plant** (BSL). A minor tinkering in steel melting shop will be carried out in BSL. Also, a cold rolling mill will be installed in BSL. Thereby, the capacity will increase to 5.2mnte from 3.8mnte.
- **Durgapur steel plant** (DSP). Sales from DSP contain 60% semi-finished material, which will be phased out gradually. Value addition module in DSP includes medium structural mill and bloom & round caster. This will lead to incremental 0.75-1mnte volume growth from December '12.

- Cost savings of 20% will likely flow in. Reduction in coke rate from 515Kg/te to 450Kg/te (larger BFs), reduction in energy consumption from 6.5Gcal/te to 5.5Gcal/te and phasing out of teeming system to concast system are the key sources of cost savings.
- Topline accretion will be owing to improving sales mix. SAIL is targetting high-end value addition across all its plants, in coordination with established global partners. Value addition and technological upgradation comprise 18% of SAIL's Rs600bn expansion plan. Particular focus on value addition and improving technical parameters is also visible at IISCO's each unit. IISCO will comprise most (1.2mnte) of SAIL's volume increase in FY12E, with 0.4mnte coming from BSL. Also, phasing out of semis in DSP will further increase realisations. RH Degassers are being installed in long products expansion in IISCO and BSP, implying that low-carbon & high value-added steel will be targetted. Also, SAIL's presence in the auto sector will increase with the installation of CRM in BSL.
- At present, SAIL has access to 3bnte iron ore reserves, of which ~1bnte in Chiria is disputed. Also, to resolve the Chiria issue, SAIL has agreed to set up a 10mnte plant in Jharkhand. The company also owns ~40mnte fines in Gua, which is shown at nil value in the inventory. Hence, SAIL is planning to set up two pellet plants of 4mnte capacity each. The company produces 0.5mnte of coking coal in the Chasnala block and 0.5mnte of thermal coal in the Jitpur block. Further, SAIL has placed tenders for the Tasra block and has adopted the rehabilitation policy of the Jharkhand Government. Tasra will produce 3mnte and has 150mnte of proven reserves. Further, coking coal will be produced from the Sitanala block (50mnte of proven reserves), for which the mining plan is being developed by CPIDL.
- *Maharatna* status for SAIL will help in asset acquisitions abroad. Of the 18 *Navaratnas*, SAIL (along with ONGC and NTPC) has met the stiff criteria set by the Government, including a three-year track record of annual net profits of over Rs50bn, net worth of Rs150bn and turnover of Rs250bn, besides being listed entity in the bourses. The coveted status has empowered SAIL to take investment decisions up to Rs50bn as against the present Rs10bn limit without seeking government approval.
- However, acquisition of coking coal asset will be difficult for SAIL. A joint venture (International Coal Venture) has been formed to scout for coal assets abroad. But the disputed nature of ownership of coal assets abroad in geographies such as Indonesia, Mozambique and Latin America will be a bottleneck for a PSU major such as SAIL. An SPV formation (similar to the one by JSW Steel in Latin America) is the only way of legalising ownership.

- As per sources, the chairmanship will remain with SAIL. Though the Public Enterprise Selection Board (PESB) has recommended Mr. C.S. Verma (BHEL) and Mr. Arup Roychowdhury (NBCC) as eligible candidates for the next Chairman of SAIL, the final decision is to be taken by Cabinet Committee of Employment, which will be then agreed upon by the PMO. Hence, candidate selection by the PESB is only guiding and not binding in nature. We believe the Director Finance (with 36 years of work experience, 1.5 years of term left) is an internal favourite for the Chairmanship. The second favorite, as of now, is the new MD of DSP.
- We maintain SAIL as our top pick in the ferrous space with a target price of Rs270/share.

Tata Consultancy Services (CMP: Rs770, TP: Rs860, Buy)

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- TCS seems confident of surpassing NASSCOM growth rate of 13-15% in FY11. The company believes that the opportunity to mine existing clients alone will drive a significant part of future growth due to continuing importance of large vendors and resulting ongoing vendor consolidation. In the coming quarters, TCS expects broad-based growth to continue (out of 10 large deal wins in Q3FY10, nine are from non-BFSI).
- Despite wage inflation due in FY11, TCS believes that margin will likely continue at Q3FY10 levels (EBITDA margin 29.7% & EBIT margin 27.3%), counting on levers such as offshoring (excluding Citi eServe, offshoring is still lower than peers at <49% versus Infosys' 54%), employee pyramid (employees with less than three years experience have reduced to 42% in Q3FY10 versus 48% in Q2FY09 and compared with Infosys' ~53% in FY09) and improvement in subsidiaries' profitability (e.g. Diligenta posted Rs530mn PBT level loss in FY09 and will likely break-even in FY10, providing margin upside in the medium-to-long term). We and the market estimate margin to decline from Q3FY10 levels and hence, believe that flat margin in FY11 (at Q3FY10 levels) will be a material positive surprise.
- TCS is planning to improve the non-linear part of revenues. The company has more than 20-25 parameters in terms of observing the reusable components in project executions on an ongoing basis.
- Unique growth opportunities galore for TCS. With a strong base of > 900 local Chinese employees, tie-up with the Chinese Government and the successful implementation of core banking platform for the Bank of China, the local market within China can throw up many opportunities for TCS. Also, SAAS-based ERP platform for SME (under pilot stage for 50-70 clients in India) could provide added impetus in the long term. Post acquiring Citi eServe, TCS is witnessing healthy BPO demand from other big BFSI players and after the integration of 11-13 different systems to one platform in the Diligenta deal by Q1FY11, many cross-sell opportunities for BPO services within Insurance administration will emerge.
- We maintain BUY on Infosys and TCS among top three Indian IT large-caps. With likely outperformance in BFSI in FY11 and relatively better margin visibility for Infosys and TCS, we do not rule out any upgrade in FY11 EPS estimates.

United Spirits (CMP: Rs1,468, Unrated)

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- United Spirits (USL) witnessed a robust volume growth of 13% YoY YTD February '10, with 12% coming from first-line brands. Cyclicality in molasses prices has resulted in decline in raw material costs. USL expects margins within 17-18%.
- As a part of its future strategy, one of the key goals of USL is to sustain margins. Towards this, the company is: i) developing a multi-substrate capability to process molasses and grain (to counter the impact of cyclicality in molasses) with an expenditure of ~Rs6bn and an anticipated IRR of 28%, ii) in-house bottling capability, with an anticipated IRR of 38% and iii) malt spirit production capability. USL has plans to spend Rs10.5bn in the next three years towards the above projects.
- In its Whyte & Mackay (W&M) business, out of the current EBITDA of £55mn, £20mn comes from a bulk sale contract to Diaigio, which is set to expire in FY10. USL is currently evaluating whether it will sell this bulk produce to fringe players or keep it for in-house use
- USL may plan some treasury stock disinvestment, after six months or so to deleverage itself.
- It is also looking for strategic partnerships with branded players.

Wipro (CMP: Rs701, TP: Rs745, Hold)

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- CY10 IT budget growth will be positive. CEOs of global companies are positive; besides cost rationalisation strategy, clients have started looking at new investment projects. However, Wipro still believes that discretionary spend will pick up momentum by H2FY11. Project cancellations have stopped due to increasing focus of clients on due-diligence of ongoing and new projects. Overall, Wipro believes that CY10 IT budgets are likely to be marginally positive with offshore budgets likely to increase materially.
- While revenues grew at the higher-end of the industry average in the recent past, momentum for top-10 clients was weaker than some peers – this is being addressed by hiring client partners from top global consulting/IT services firms (recent additions being Mark Fleming, a former Accenture partner; a telecom industry veteran has been hired to head Wipro's telecom, media and technology businesses. Mark will take over from TK Kurien, who is now designated as the CEO of Wipro's clean energy business).
- Hirings have revived with ~7,500 fresher additions being planned in the next two quarters and just-in-time lateral recruitment ongoing. Net 4,855 employees were added with Q3FY10 utilisation (with trainees) rising to 80.7% for global IT.
- Across-the-board wage hike effective February '10 onwards – offshore ~8% and onsite ~2-3%. Wage hikes will impact short-term margins.

- Margin to face headwinds in the short term as Wipro plans to increase investment in sales & marketing besides increased hirings & wage hike. With most margin levers at the optimal, short-term margin performance is a concern; productivity gain may continue. However, from a medium-to-long term perspective, Wipro remains confident on margin management within a narrow band with levers such as employee pyramid, focus on recruiting more non-engineers, improvement in profitability of acquired companies and better hedge position in an appreciating rupee scenario playing out.
- Increasing focus on non-linear revenue model with internal target of material increase from the current ~7-8% of revenues through higher fixed-price, IP-based offerings and outcome & platform-based pricing models. Wipro also believes that with innovative pricing models and increasing demand for total outsourcing, clients' dependence on the vendor increases and it also gains from reducing vendor management cost.

Yes Bank (CMP: Rs249, TP: Rs335, Buy)

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- Yes Bank aims to maintain a growth rate of 2x the industry growth rate with a targetted balance sheet growth of 35% CAGR in the next few years. Yes Bank has been a primarily corporate-focussed bank, but is incrementally focussing on building its retail and SME base. It expects these two accounts to increase to 25% of the outstanding credit book in the next five years from ~4% at present.
- Yes Bank proposes to first build out the retail liabilities product suite, complemented by the retail asset suite. Branch expansion is likely to drive CASA accretion to 25% by FY12E.
- Focus on non-interest income streams continues to be strong with rise in activity in trade finance and improved financial market income. The bank is witnessing very strong traction in its debt capital markets functions and favourable pick-up in equity capital market streams. The bank is also looking at launching various third-party retail products and has a non-life insurance distribution tie-up with Bajaj Allianz and a life insurance distribution tie-up with Max New York Life.
- Yes Bank has been providing adequately for all loans and makes specific provisions for certain loans which are on its 'watch-list' as per its internal rating mechanism. It has ~US$10-11mn fully written-off loans.

Zee News (CMP: Rs61, TP: Rs71, Buy)

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- Regional general entertainment channels (R-GEC) are expected to be demerged in FY10 in favour of Zee Entertainment Enterprises (ZEEL) as proposed in a ratio of 4:19 – four ZEEL shares for every 19 Zee News (ZNL) shares. Post R-GEC demerger, ZNL will have a net debt of Rs300mn.
- ZNL's Hindi news channel has increased its market share from ~11% in July '09 to ~13% in January '10. The company expects better ad revenue in the News segment as it will be able to monetise the rise in its viewership.
- ZNL gleaned ~Rs700mn revenues from subscription revenues, which is owing to a legacy arrangement with Zee Turner. High contribution from subscription at 17.5% for 9MFY10 will help generate strong profitability. In contrast, other news channels struggle to even generate 10% from subscription revenues.
- ZNL has expanded to Uttar Pradesh and Andhra Pradesh with the launch of two news channels. The channel also caters to Marathi, Bengali & Tamil space. ZNL was the first entrant in regional news in Marathi & Bengali.

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)
BUY: +10% outperformance; **HOLD**: -10% to +10% relative performance; **SELL**: +10% underperformance

ANALYST CERTIFICATION

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