Investment Strategy | India
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Stress-testing risk:reward for Nifty companies

Bank of America Merrill Lynch

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Market woes to continue as global tail risks mount

We have been negative on Indian markets this year due to – a) high inflation and rising interest rates leading to a slowing economy, and b) earnings downgrades-led margin pressure from rising costs. In the past month, global tail risks have come to the fore, pressuring the market further – the Euro crisis is likely to grab mindshare over the next few weeks. Meanwhile, the probability of a US recession is also rising – our US economist has raised his recession probability to 40%.

Stress-testing risk:reward for Nifty companies

The slowing US economy poses further downside risk to our earnings. Given the macro gyrations globally, we have done a stress-test of the stocks in the Nifty index. Our stress-tests look at both – likely downside to our current earnings estimates, as well as possible contractions in valuations in an environment where risk premium expands. We also look at an upside scenario where rates in India are cut faster than currently expected and global commodity prices fall. A summary of our expectations is in Table 1 (see page 2).

Downside case: Sensex earnings CAGR at 8% (current: 17%)

Our bottom-up analyst forecasts currently indicate a Sensex EPS CAGR of 17% over FY11-13. Top-down, we believe this is optimistic and expect downgrades. In our downside scenario, the Sensex EPS CAGR over the next two years works out to 8%. By comparison, growth during FY08-10 (Lehman crisis) was close to 0%.

Stock and sector views – We like Maruti & ICICI Bank

The absolute risk:return figure may not be the best way to look at Table 1 (pg 2). The probability of and the scenarios under which these returns can be achieved is also important. Our key conclusions are:

1. In the current risk-averse environment, limited downside risk stocks are preferred. Stocks like **HDFC Bank (HDFCB IN), HDFC (HDFC IN)** and **ITC (ITC IN)** fit the criteria - high quality, though not cheap.

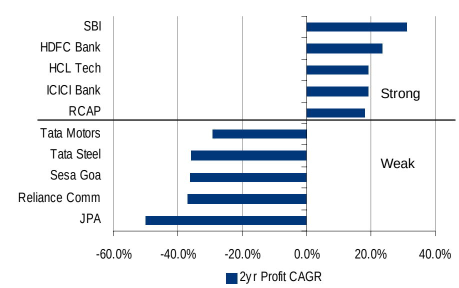
2. Stocks we like on risk:reward basis are **ICICI (ICICIBC IN)** & **Maruti (MSIL IN)**.

3. Stocks with unfavorable risk:reward (where analysts are negative) are **Ambuja (ACEM IN)** and **Bajaj Auto (BJAUT IN)**, in addition to metal names like **SAIL (SAIL IN)**.

4. High-risk, high-reward plays are **Jaiprakash Associates (JPA IN)** and **DLF (DLFU IN)**. While they have high upside potential, we think they need a "risk on" environment where investors are more willing to tolerate high-gearing companies.

Click the image above to watch the video.

Chart 1: Strong/weak 2 year profit CAGR (Downside scenario)



Source: BofA-Merrill Lynch Global Research

Contents

Stress-testing risk:reward: Summary

The table below gives the upside and downside price for each stock based on the views of our fundamental equity analysts.

Table 1: Summary of risk:reward

Company name	Current Price	Downside Scenario	Downside	Upside Scenario	Upside	Risk/Return
Reliance Infrastructure Ltd	448	410	-8.5%	992	121.3%	112.8%
Jaiprakash Associates Ltd	59	55	-7.3%	128	115.9%	108.6%
ICICI Bank Ltd	834	733	-12.1%	1200	43.9%	31.8%
Sterlite Industries India Ltd	125	105	-15.8%	180	44.3%	28.5%
DLF Ltd	187	150	-19.8%	275	47.0%	27.2%
State Bank of India	1,960	1744	-11.0%	2700	37.8%	26.8%
HDFC Bank Ltd	444	424	-4.4%	575	29.6%	25.2%
Maruti Suzuki India Ltd	1,111	885	-20.3%	1585	42.7%	22.4%
Tata Power Co Ltd	1,046	959	-8.3%	1361	30.1%	21.8%
HCL Technologies Ltd	372	325	-12.7%	500	34.3%	21.6%
ITC Ltd	202	195	-3.6%	252	24.5%	20.9%
Housing Development Finance Corp	628	585	-6.9%	800	27.3%	20.5%
IDFC Ltd	107	99	-7.4%	134	25.4%	18.0%
Tata Motors Ltd	714	560	-21.6%	980	37.2%	15.6%
Jindal Steel & Power Ltd	470	380	-19.2%	629	33.7%	14.5%
Tata Consultancy Services Ltd	950	834	-12.2%	1190	25.2%	13.0%
Dr Reddy's Laboratories Ltd	1,456	1240	-14.8%	1860	27.7%	12.9%
Infosys Ltd	2,183	1844	-15.5%	2800	28.2%	12.7%
Punjab National Bank	961	829	-13.7%	1200	24.9%	11.2%
Mahindra & Mahindra Ltd	697	610	-12.5%	860	23.3%	10.8%
Grasim Industries Ltd	2,162	1335	-38.3%	3220	48.9%	10.7%
Hero Honda Motors Ltd	1,902	1650	-13.3%	2350	23.5%	10.3%
Bharat Heavy Electricals Ltd	1,749	1494	-14.6%	2086	19.3%	4.7%
Sun Pharmaceutical Industries Ltd	471	385	-18.2%	575	22.2%	4.0%
Bharat Petroleum Corp Ltd	689	521	-24.4%	873	26.7%	2.4%
Reliance Industries Ltd	754	612	-18.8%	909	20.6%	1.9%
Axis Bank Ltd	1,019	847	-16.9%	1210	18.7%	1.8%
NTPC Ltd	170	160	-5.9%	183	7.6%	1.7%
Wipro Ltd	328	273	-16.8%	380	15.8%	-1.0%
Coal India	375	305	-18.6%	440	17.4%	-1.2%
Sesa Goa Ltd	218	160	-26.5%	260	19.4%	-7.2%
Larsen & Toubro Ltd	1,547	1240	-19.8%	1704	10.2%	-9.6%
Hindalco Industries Ltd	143	100	-30.2%	171	19.3%	-10.9%
Reliance Communications Ltd	81	58	-28.4%	95	17.3%	-11.1%
GAIL India Ltd	413	313	-24.2%	465	12.6%	-11.6%
Bajaj Auto Ltd	1,517	1215	-19.9%	1620	6.8%	-13.2%
Steel Authority of India Ltd	107	78	-26.8%	120	12.7%	-14.1%
ACC Ltd	1,015	600	-40.9%	1275	25.6%	-15.2%
Bharti Airtel Ltd	402	300	-25.4%	430	6.9%	-18.5%
Ranbaxy Laboratories Ltd	465	310	-33.3%	525	12.9%	-20.4%
Tata Steel Ltd	444	305	-31.3%	450	1.4%	-29.8%
Ambuja Cements Ltd	136	85	-37.5%	140	3%	-34.5%

Source: BofA Merrill Lynch Global Research

Nifty: Stress-testing risk:reward

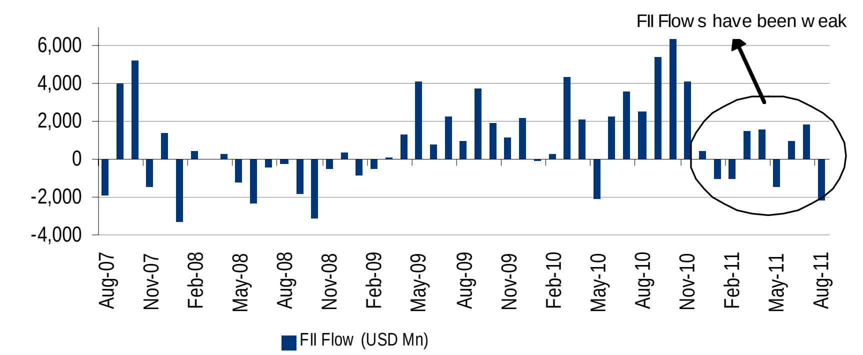
Three reasons to worry

The market continues to be volatile and has corrected nearly 15% over the past month. Near-term, there are three concerns hurting the market that could lead to further correction, in our view:

1. Global fears

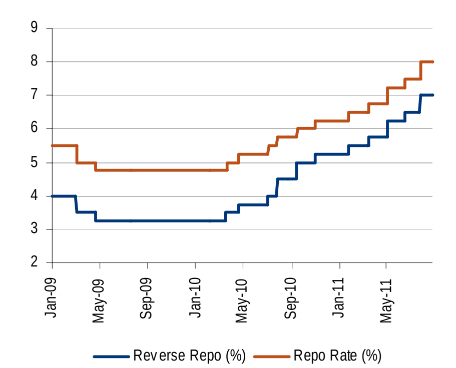
In our view, global tail risks have increased with the Euro crisis continuing to worry investors and the US economy slowing – we now see a 40% chance of a recession in the US. Global factors are the biggest risk to markets near term.

Chart 2: Weak FII Flows



Source: SEBI, BofA Merrill Lynch Global Research

Chart 3: RBI has hiked 11 times in 18 months...



Source: BofA Merrill Lynch Global Research

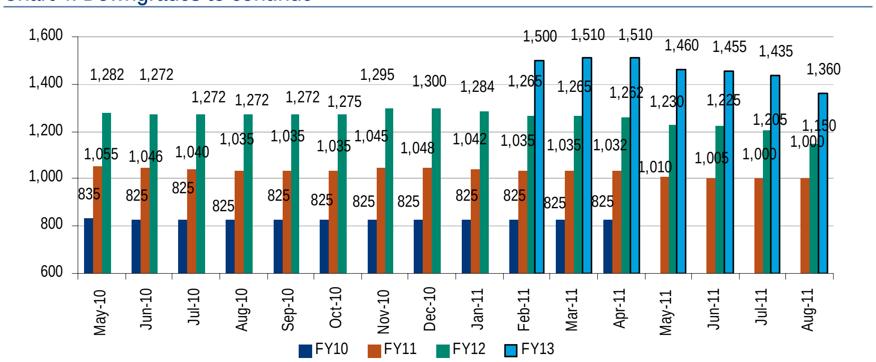
2. Interest rate increases slowing the economy

RBI has hiked rates by 475bp over past 18 months to combat rising inflation. GDP growth numbers are being lowered to reflect the impact of rising rates and a slowdown in the investment environment. We expect a SME-led credit cycle by end of this fiscal year and are also factoring in a moderation of loan growth to 15% by FY13. Please see - - Banks-Retail, 22 August 2011

3. Earnings downgrades continue

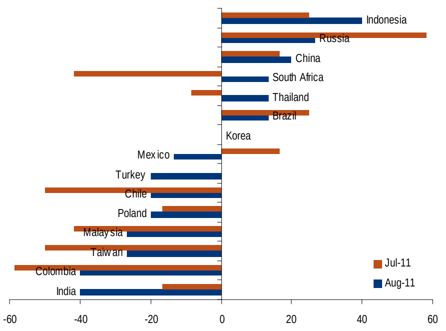
Our theme of earnings downgrades since the beginning of the year continues to play out. We have now downgraded FY13 Sensex EPS nearly 10% since the beginning of the year. We continue to believe that our bottom-up Sensex EPS estimates of Rs1,150 in FY12 and Rs1,360 in FY13 are vulnerable to downgrades. We expect Sensex EPS to be in the Rs1,250-1,300 range in FY13.

Chart 4: Downgrades to continue



Source: BofA Merrill Lynch Global Research

Chart 5: EM investors' country preferences - India unloved



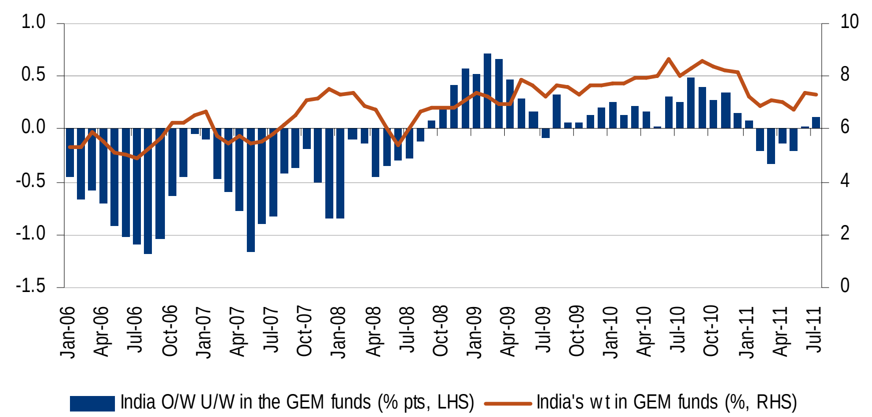
Source: BofA Merrill Lynch Global Research

Where is the silver lining?

1. Positioning

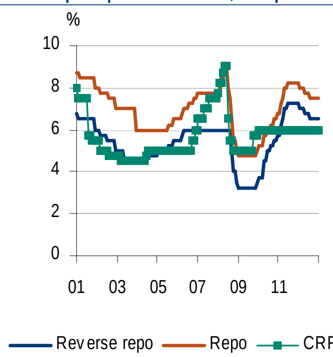
India has been an Underweight market for foreign investors (FII) in the past year. Being one of the worst-performing markets YTD, a lot of risks in India may be priced in, at least partly. Given that expectations are currently low, a positive trigger can lead to a market rally, in our view.

Chart 6: India has been an U/W market for GEM funds



Source: BofA Merrill Lynch Global Research

Chart 7: 25bp September hike, 75bp cut 2012...



Source: RBI, BofA Merrill Lynch Global Research estimates.

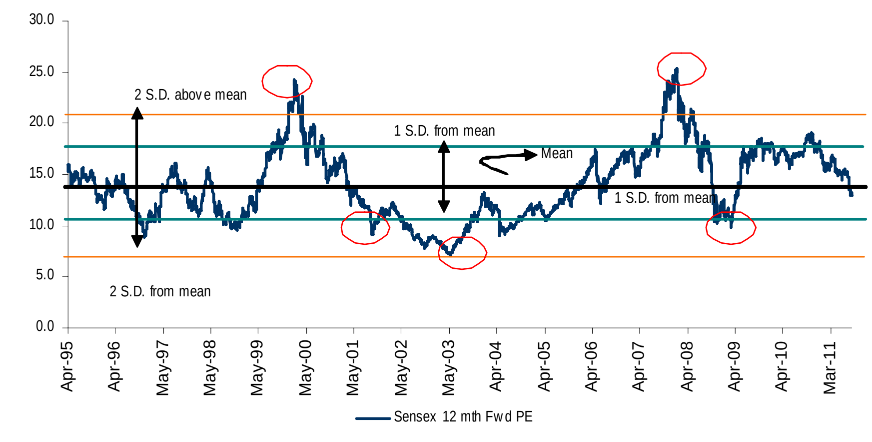
2. Rate increases may be peaking

Our India economist, Indranil Sen Gupta, believes that inflation is peaking and likely to come down from the 10% levels in September. Correspondingly, policy rates by RBI are likely to be hiked in Sept, 2011, but could be cut 75bps in 2012.

3. Valuations are slightly below long-term average

Markets are currently trading at 13x 1-year forward earnings. While not dirt cheap, they are cheap relative to the multiples for the past two years, and below the long-term average of 14.2x.

Chart 8: Sensex valuation – below the long-term average



Source: BofA-Merrill Lynch Global Research

Stress-testing the risk:reward scenario

Given uncertain macro environment globally, we have done a stress-test of the stocks in the Nifty index. The stress-tests look at not only the likely downside to our current earnings estimates, but also possible contractions in valuations in an environment where risk premium expands. The downside represents stock prices at which we believe stocks will offer attractive long-term appreciation potential.

We have also looked at a more benign environment for India, where rates are cut due to lower inflation, and hence, earnings are relatively less impacted. In this scenario we also assume that the risk premium does not expand as sharply.

It is probable that our downside scenario plays out near term, while stocks see our upside scenario over the next year.

What can get worse?

- US recession and the lingering Euro crisis
- Inflation in India remains relatively high, meaning rate cuts happen only in Q2 calendar 2012, and not earlier.

What can go right?

- Global sluggishness leads to a fall in commodity prices and lower inflation. This leads to an accelerated cut in interest rates.
- Falling commodity prices are a mixed blessing: it helps margins in the user industry, but hurts earnings of commodity companies.
- Acceleration of reforms by the government.

Downside case: Sensex earnings CAGR at 8% (current: 17%)

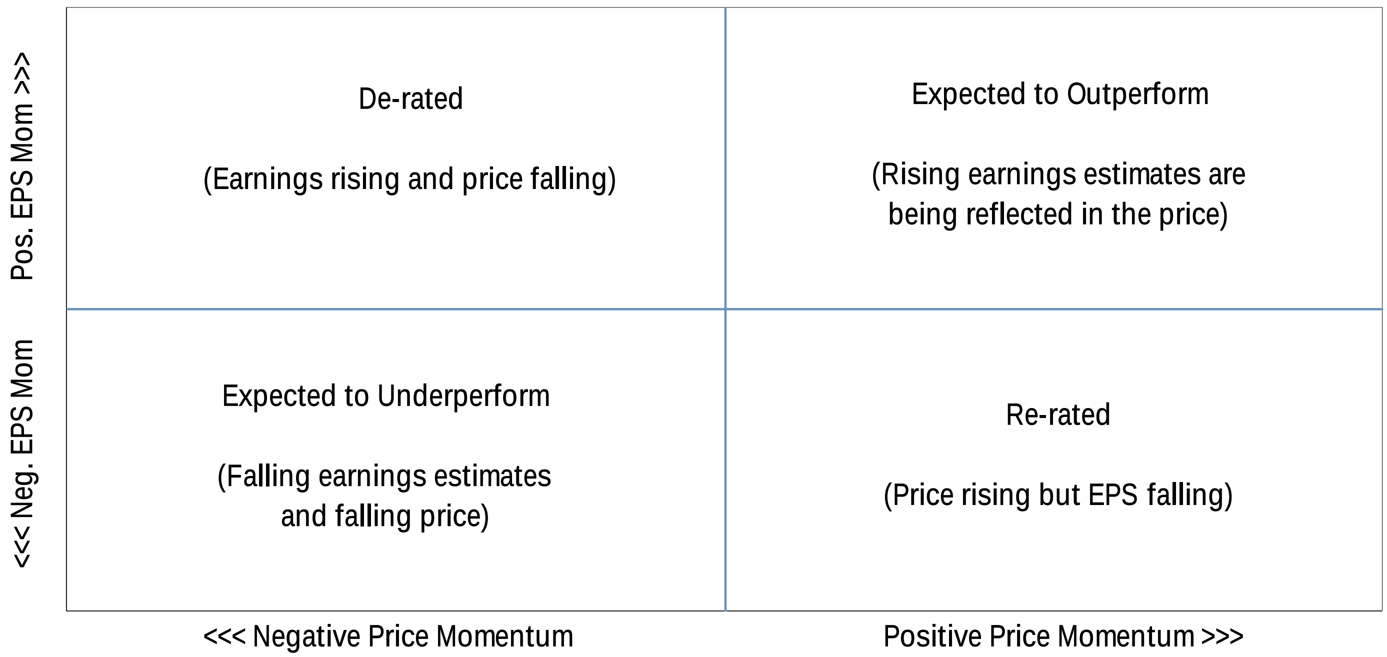
Our current Sensex earnings estimates imply an average compounded growth of 17% over FY11-13. In our downside scenario, the average growth falls to 8%. By way of comparison, growth during FY07-09 (Lehman crisis) was close to 0%. We are, of course, expecting the current slowdown to be more benign than during the Lehman crisis.

Sector and stock views

- The “absolute” risk:return figure may not be the best way to look at the above analysis. The probability of and the scenario under which these returns can be achieved is also important.
- In the current risk-averse environment, we would look at stocks like HDFC Bank, HDFC and ITC that are high quality, and have limited downside risk.
- While stocks like Jaiprakash Associates and DLF have high upside potential, they need a “risk on” environment, where investors are more willing to tolerate high-gearing companies, in our view.
- Sectors like global commodities appear most vulnerable to downside surprises if the global growth slows with a US slowdown/recession. We would avoid the metal names, despite their underperformance YTD.
- Stocks we like on a risk:reward basis are ICICI and Maruti.
- Stocks we would avoid are Ambuja and Bajaj Auto, in addition to metal names like SAIL.

Quant Analysis

Chart 9: Concept of Quant Analysis



Source: Merrill Lynch Asia Pac Quantitative Strategy

Girish Nair

Quadrant Analysis

This chart analyses the 43 stocks in Nifty for which we have price and earnings momentum. The vertical scale indicates the earnings momentum – i.e., magnitude of upgrades to the consensus earnings estimates in recent months. The horizontal axis indicates the strength of long-term price momentum (nine months).

Stocks in the top-right quadrant have rising earnings expectations and the market is expected to pay for those rising earnings expectations. Stocks in the bottom left quadrant have falling earnings expectations and falling price.

In contrast, the top-left and the bottom-right quadrants include stocks with earnings expectations and price heading in opposite directions. These are stocks for which changing earnings expectations are not providing a good signal for the direction of the share price.

Chart 10: Nifty – Quadrant Analysis

Source: Merrill Lynch Asia Pacific Quantitative Strategy

Note that not all of the 50 stocks in Nifty are included in the analysis due to data unavailability and compliance restrictions.

LEGEND

Dark Blue: BUY

Black: Underperform

Light Blue: Neutral

ACC (ACC IN, Underperform)

Reena Verma Bhasin

Amit Rathi

Current share price: Rs1015

Trough price: Rs600

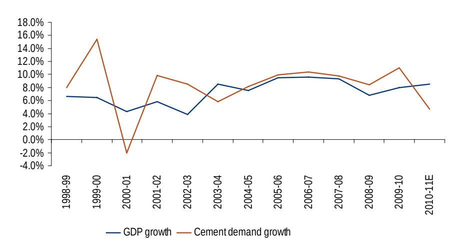
Upside price: Rs1275

Table 2: Sensitivity analysis

Yr ending 31 Dec	CY12E	
	EBITDA	EPS
100bps change in cement volumes	0.7%	0.9%
100bps change in cement price	4.4%	5.1%

Source: BofA Merrill Lynch Global Research estimates

Chart 11: Industry volume growth vs GDP



Source: BofA Merrill Lynch Global Research estimates, RBI, CMA

Downside scenario: What can go wrong?

- Volume growth can slow from about 12% in 1H CY11 to 5.5% in 2H CY11. Muted recovery in CY12 can limit volume growth to 7%.
- Cement prices can stay at current weak levels (about Rs230-235/bag) even post the monsoon. This implies an about 7% YoY drop in prices for CY12, in line with the previous downturn.
- International coal prices can stay around current levels of US$110-120/ton.
- EBITDA/ton can halve to about Rs438 in CY12 vs Rs923/ton in Jun 2011 (latest reported quarter).

Upside scenario: What can go right?

- There can be a strong recovery in CY12 volume growth, from 5.5% in 2H CY11 to 9% in CY12.
- Cement prices can recover post the monsoon and rise 3% YoY in CY12.
- International coal prices can fall by 40-45%, as witnessed in 2009. However, domestic coal prices are forecast to remain sticky at current levels.
- EBITDA/ton can drop 14% from Jun 2011 to about Rs790/ton.

Risk-reward: Not favorable

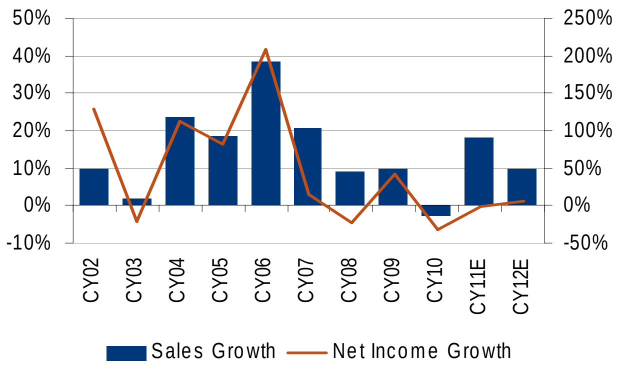
- In the worst-case scenario, we believe the stock could trade down to an FY13 EV/capacity valuation of about US60/ton (Rs600/sh). This is similar to levels witnessed in Oct 2008-Mar 2009 (about US$70/ton) but also during CY02 (US$50/ton) when RoE was close to 9%.
- In the best-case scenario, we expect the stock to trade at about US$150/ton on FY13 EV/capacity (Rs1,275/sh), led by an expected recovery in RoE to about 18%.
- Overall, the risk-reward appears unfavorable.

Table 3: Earnings outlook for ACC

				Variance vs. BofAMLe	
	BofAML estimates CY12E	Downside scenario CY12E	Upside scenario CY12E	Downside CY12E	Upside CY12E
Sales (Rs mn)	107,230	94,795	105,923	-11.6%	-1.2%
YoY (%)	10%	0%	12%		
EBITDA (Rs mn)	17,764	10,821	19,887	-39.1%	12.0%
EBITDA margin (%)	17%	11%	19%		
YoY (%)	-1%	-35%	20%		
Net Income (Rs mn)	11,312	5,985	12,716	-47.1%	12.4%
YoY (%)	6%	-39%	31%		
EPS (Rs)	60	32	68	-47.1%	12.4%
YoY (%)	6%	-39%	31%		
Free Cash Flow/Share(Rs)	98	56	109	-42.8%	10.3%

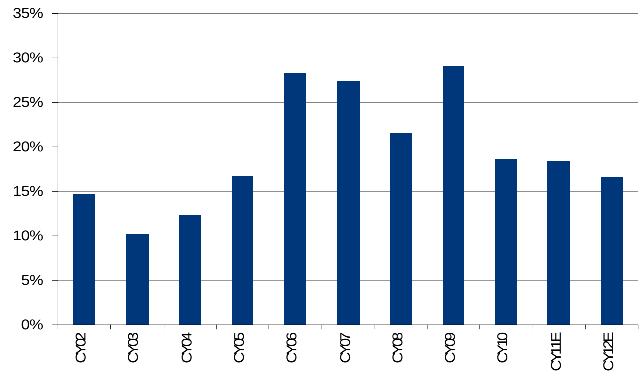
Source: BofA Merrill Lynch Global Research estimates

Chart 12: 10 yr Sales & Net profit growth



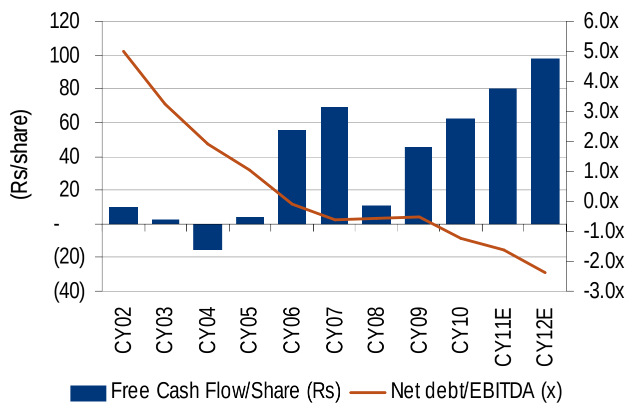
Source: BofA Merrill Lynch Global Research estimates

Chart 13: 10 yr Margins



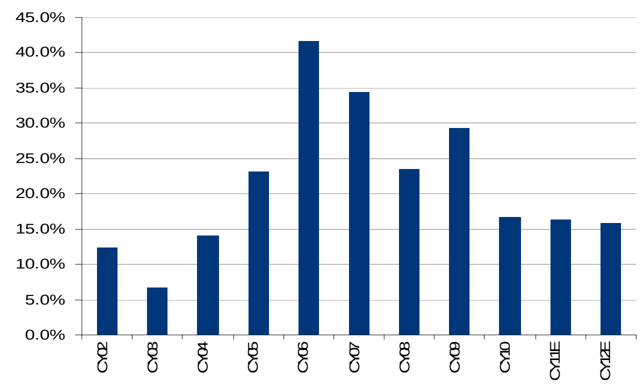
Source: BofA Merrill Lynch Global Research estimates

Chart 14: Free cash flow & Net debt/EBITDA



Source: BofA Merrill Lynch Global Research estimates

Chart 15: 10 year RoE



Source: BofA Merrill Lynch Global Research estimates

Chart 16: Trend in ACC's EV/capacity

Source: BofA Merrill Lynch Global Research estimates

Chart 17: EV/EBITDA chart

Source: BofA Merrill Lynch Global Research estimates

Reena Verma Bhasin
Amit Rathi

Ambuja Cement (ACEM IN, Underperform)

Current share price: Rs136
Trough price: Rs85
Upside price: Rs140

Downside scenario: What can go wrong?

- Volume growth can stay weak at about 5.5% in 2H CY11, with muted recovery in CY12 volume growth seen at 7%.
- Cement prices can stay at the current weak levels (about Rs230-235/bag) even post the monsoon. This implies an about 7% YoY drop in prices for CY12, in line with the previous downturn.
- International coal prices can stay around the current levels of US$110-120/ton.
- EBITDA/ton can halve to about Rs539 in CY12 vs Rs1,100/ton in Jun 2011 (latest reported qtr). RoE is estimated to fall to 9% in CY12 from 18% in CY10.

Table 4: Sensitivity analysis

Yr ending 31 Dec	CY12	
	EBITDA	EPS
100bps change in cement volumes	0.1%	0.03%
100bps change in cement price	4.4%	4.7%

Source: BofA Merrill Lynch Global Research estimates

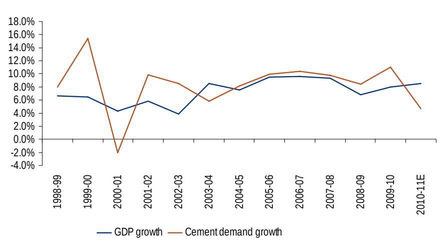
Upside scenario: What can go right?

- There can be a strong recovery in CY12 volume growth, from 5.5% in 2H CY11 to 9% in CY12.
- Cement prices can recover post the monsoons and rise 3% YoY in CY12.
- International coal prices can fall by 40-45%, as witnessed in 2009. However, domestic coal prices are forecast to remain sticky at the current levels.
- EBITDA/ton moves back to Jun 2011-levels at about Rs1,139/ton.

Risk-reward: Not favorable

- In the worst-case scenario, we believe the stock could trade down to an FY13 EV/capacity valuation of about US80/ton (Rs85/sh). This is similar to levels witnessed in Oct 2008-Mar 2009 (about US$78/ton) and also during CY02 (US$85/ton) when RoE was close to 12%.
- In the best-case scenario, we expect the stock to trade at about US$150/ton on FY13 EV/capacity (Rs140/sh) led by an expected recovery in RoE to about 20%. Overall, the risk-reward appears unfavorable.

Chart 18: Industry volume growth vs GDP



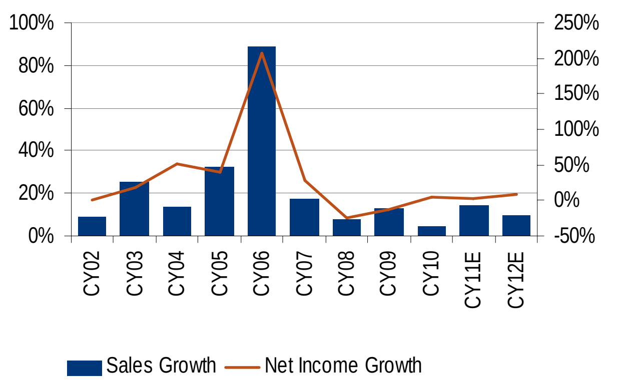
Source: BofA Merrill Lynch Global Research estimates, RBI, CMA

Table 5: Earnings outlook for Ambuja

	BofAML estimates CY12E	Downside scenario CY12E	Upside scenario CY12E	Variance vs. BofAMLe: Downside CY12E	Variance vs. BofAMLe: Upside CY12E
Sales (Rs mn)	93,147	81,434	91,876	-12.6%	-1.4%
YoY (%)	10%	0%	12%		
EBITDA (Rs mn)	21,077	12,201	26,269	-42.1%	24.6%
EBITDA margin (%)	23%	15%	29%		
YoY (%)	3%	-34%	42%		
Net Income (Rs mn)	14,257	7,653	17,942	-46.3%	25.8%
YoY (%)	9%	-34%	54%		
EPS (Rs)	9.34	5.01	11.75	-46.3%	25.8%
YoY (%)	9%	-34%	54%		
Free Cash Flow/Share(Rs)	11.7	6.6	14.3	-43.9%	21.9%

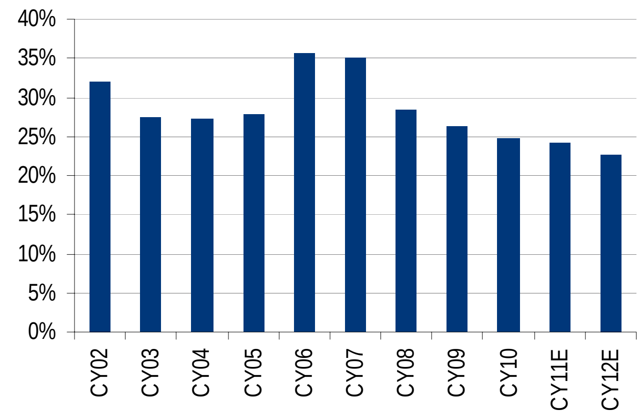
Source: BofA Merrill Lynch Global Research estimates

Chart 19: 10 yr Sales & Net profit growth



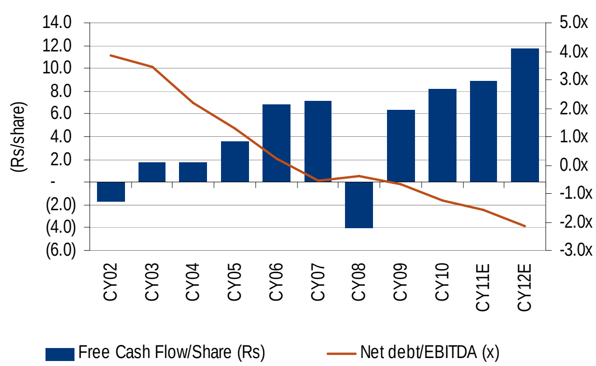
Source: BofA Merrill Lynch Global Research estimates

Chart 20: 10 yr Margins



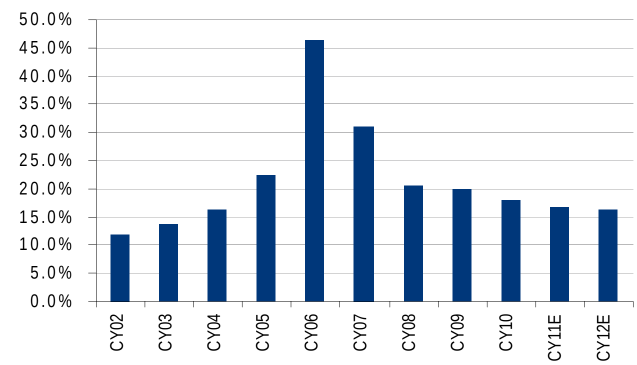
Source: BofA Merrill Lynch Global Research estimates

Chart 21: Free cash flow & Net debt/EBITDA



Source: BofA Merrill Lynch Global Research estimates

Chart 22: 10 year RoE



Source: BofA Merrill Lynch Global Research estimates

Chart 23: Trend in Ambuja's EV/capacity

Source: BofA Merrill Lynch Global Research estimates

Chart 24: EV/EBITDA chart

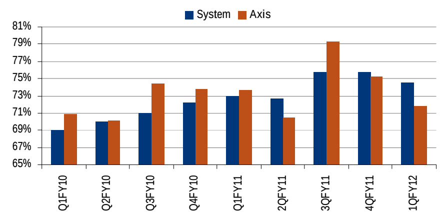
Source: BofA Merrill Lynch Global Research estimates

Rajeev Varma
Veekesh Gandhi

Current price: Rs1019
Trough price: Rs847
Upside price: Rs1210

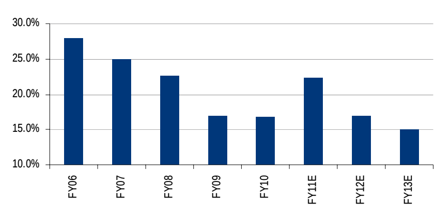
Our Base Case factors in emerging credit cycle by FY12 end and loan growth 15% in FY13: see- Banks-Retail, 22 August 2011

Chart 25: LDRs



Source: BofA Merrill Lynch Global Research Estimates

Chart 26: Credit growth (System)



Source: BofA Merrill Lynch Global Research Estimates

Axis Bank (AXSB IN, Neutral)

Downside scenario: What can go wrong?

- Volume growth of +18/16% for FY12/13E on rising macro concerns and the US double dip slowdown. The lag in distribution vs. private peers could hurt CASA, NIMs, and fee growth.
- Exposure to SME (incl. MSME) at 20-22% could hurt in an emerging credit cycle; Axis Bank could see higher NPLs ahead.
- Earnings growth could moderate to around 15% if stress in the sector increases vs. the earlier average of +30% over FY04-10.

Upside (Base) scenario: What can go right?

- Volume growth of +20/18% for FY12/13E leading to market share gains, as we assume the sector loan growth at +17/14% for FY12/13.
- As in the last cycle (2008-09), Axis Bank could well manage its asset quality assuming a moderate macro shock.
- Earnings growth of 19-20% could well sustain through FY12/13.

Risk-reward: Not favorable

Axis Bank, amongst the private banks, appears to have a higher exposure to the SME / manufacturing sector, including the MSME, at around 20-22%. In the 'downside case', Axis Bank could report higher NPLs and the stock could trade below 1 to 2 SD below average, implying a stock downside price of Rs847 and a PB multiple of 1.5x FY13E book.

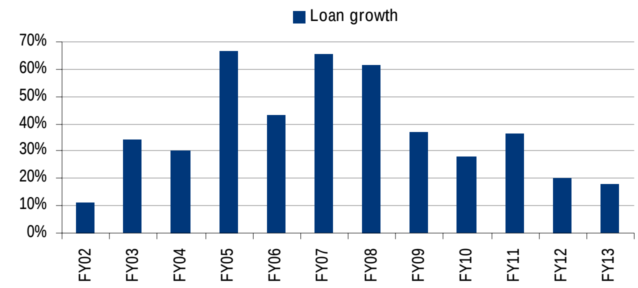
In an 'upside scenario', Axis Bank could trade up to the historically traded forward PB multiple, implying a multiple of 2.0x FY13E and PO of Rs1,210.

Table 6: Earnings outlook: Base case Vs Worst case

Axis Bank	Upside Case		Downside Case		Change %	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	80,031	96,516	78,706	93,371	-2%	-3%
NII growth	21.9%	20.6%	19.9%	18.6%		
Pre Provision Profit (PPP)	74,611	89,961	73,689	87,765	-1%	-2%
PPP growth	16.3%	20.6%	14.9%	19.1%		
Net Profit	40,289	48,131	38,588	44,694	-4%	-7%
Net Profit growth	18.9%	19.5%	13.9%	15.8%		
EPS (Rs)	98	117	94	109	-4%	-7%
EPS growth	18.9%	19.5%	13.9%	15.8%		
Dividend per share	17.0	19.0	17.0	19.0	0%	0%
Adjusted book value per share	520	599	513	582	-1%	-3%
RoE	19.5%	19.9%	19.9%	20.1%		
RoA	1.5%	1.6%	1.5%	1.5%		

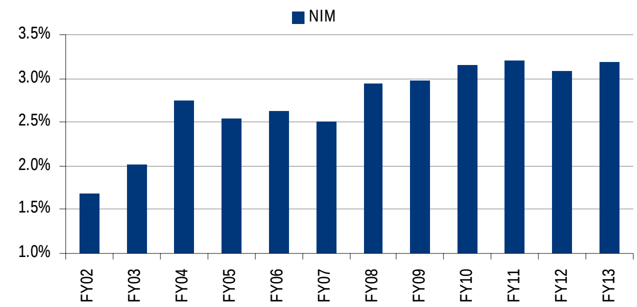
Source: BofA Merrill Lynch Global Research Estimates

Chart 27: Loan growth



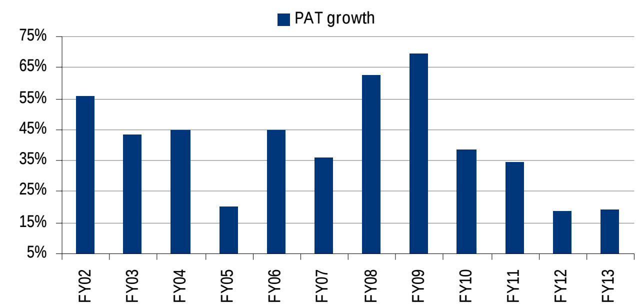
Source: BofA Merrill Lynch Global Research Estimates

Chart 28: Margins



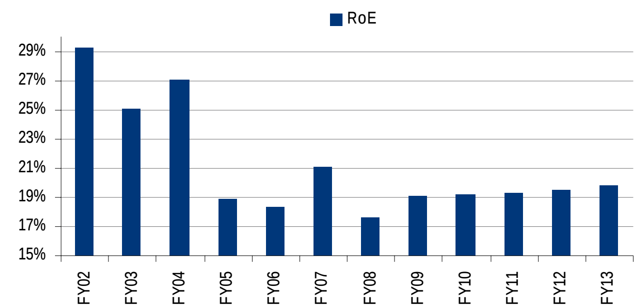
Source: BofA Merrill Lynch Global Research Estimates

Chart 29: Net Profit growth



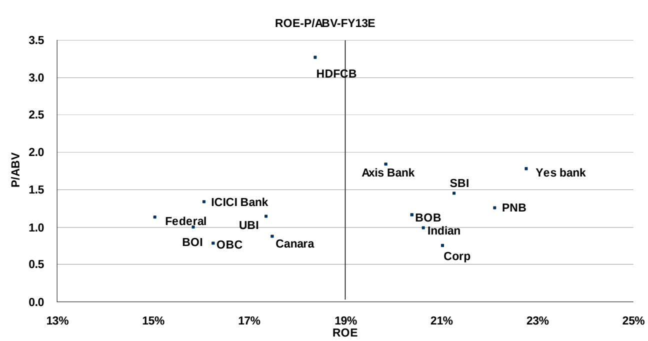
Source: BofA Merrill Lynch Global Research Estimates

Chart 30: RoE



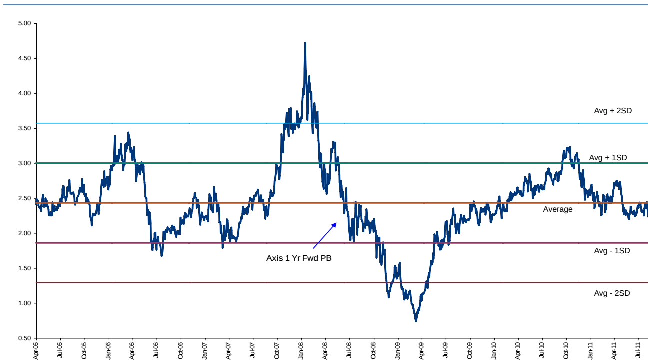
Source: BofA Merrill Lynch Global Research Estimates

Chart 31: PB RoE Chart



Source: BofA Merrill Lynch Global Research Estimates

Chart 32: P/B Chart



Source: BofA Merrill Lynch Global Research Estimates

Bajaj Auto (BJAUT IN, Underperform)

S.Arun

Current share price: Rs1517

Trough price: Rs1215

Upside price: Rs1620

Downside scenario: What can go wrong?

- Two-wheeler growth could decelerate to 13.5% in FY12E and further to 5% in FY13E in line with the global and domestic slowdown. Domestic sales growth in FY12/13E could touch 10%/5% due to rising competition with export growth at 22.5% and 5%, respectively.
- Standalone margins could contract to 18.7% in FY12E and further to 17.7% in FY13E, driven by higher commodity prices, an adverse sales mix favoring two-wheelers and the partial impact of DEPB withdrawal.

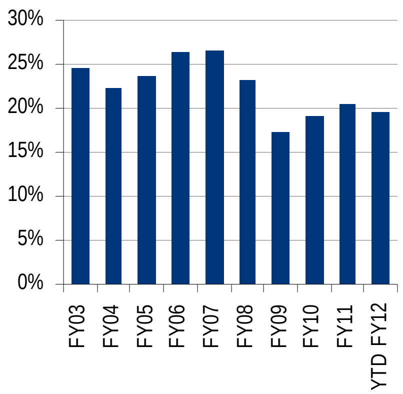
Upside scenario: What can go right?

- Two-wheeler volume growth could decelerate to 18.5% in FY12E and 8.5% in FY13E in line with the global and domestic slowdown. Domestic demand in FY12/FY13E could be slower at 15%/7.5%, respectively, due to rising competition. Export growth in FY12/FY13E could touch 27.5% and 10%, respectively, due to the global situation and new competition.
- Standalone margins could be capped at about 20% over FY12/FY13E due to competitive pressures offset by a softening of commodity prices.

Risk-reward: Not favorable

- In the worst case, the stock could trade at 12x FY13E P/E of 12x at Rs1,215/share, which is a 10% discount to Hero MotoCorp and the historic average, due to market-share loss and a lower earnings trajectory.
-
- In the best case, we believe the stock could trade at 14x FY13E P/E at Rs1,620/share, slightly ahead of the historic average due to an increasing global presence, but at about 10% discount to Hero MotoCorp.

Chart 33: Bajaj Auto two-whlr market share %



Source: SIAM, BofA Merrill Lynch Global Research estimates

Table 7: Standalone volume and margin outlook

	BofAML estimates		Downside scenario		Upside scenario	
	FY12	FY13	FY12	FY13	FY12	FY13
Vol (000s)						
Domestic	2953	3235	2882	3026	3013	3239
Exports	1504	1667	1475	1548	1535	1688
Vol growth						
Domestic	13%	10%	10%	5%	15%	8%
Exports	25%	11%	23%	5%	28%	10%
Margins	18.9%	18.2%	18.7%	17.7%	20.0%	19.4%

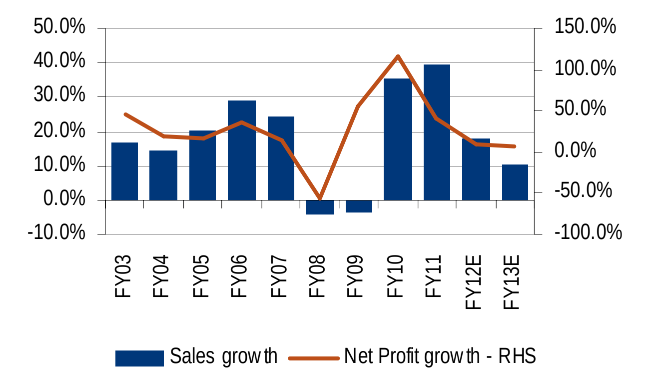
Source: Company, BofA Merrill Lynch Global Research estimates

Table 8: Earnings outlook for Bajaj Auto

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe: Downside FY13E	Variance vs. BofAMLe: Upside FY13E
Sales (Rs mn)	216,718	207,622	217,712	-4.20%	0.46%
YoY chg	10%	6%	9%		
EBITDA (Rs mn)	39,434	36,691	42,187	-6.96%	6.98%
EBITDA margin (%)	18%	18%	19%		
YoY chg	7%	1%	6%		
Net Income (Rs mn)	31,359	29,290	33,490	-6.60%	6.80%
YoY chg	8%	2%	8%		
EPS (Rs)	108	101	116	-6.60%	6.80%
YoY chg	8%	2%	8%		
Free Cash Flow/Share(Rs)	101	91	108	-10.16%	6.87%

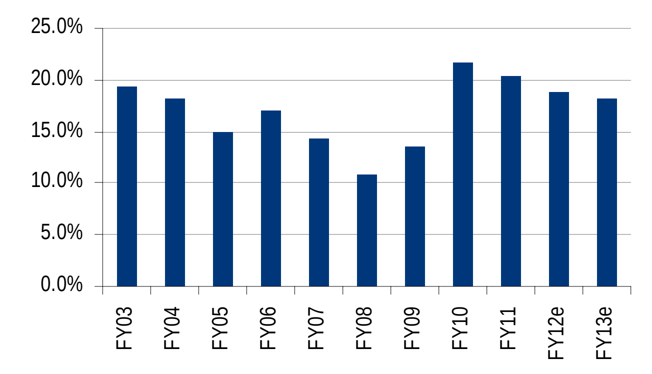
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 34: 10 yr Sales & Net profit growth



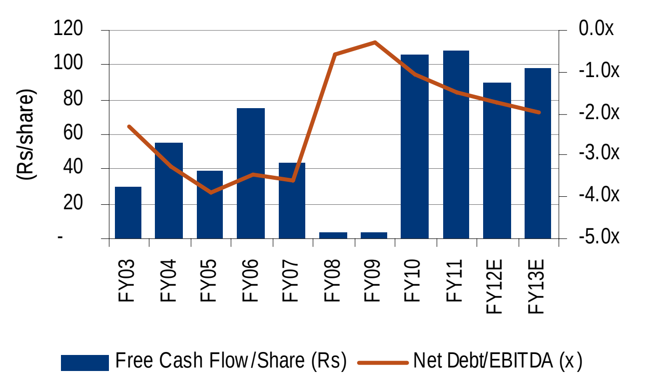
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 35: 10 yr Margins



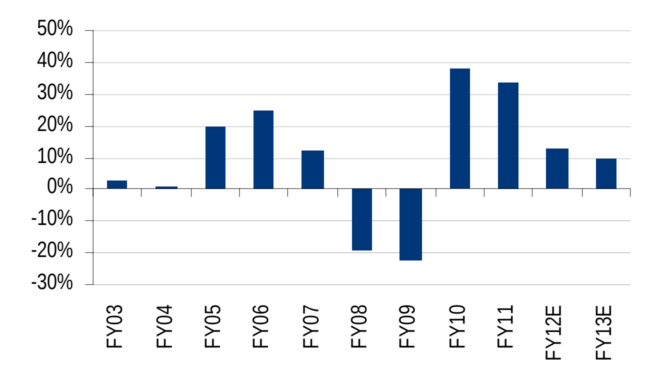
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 36: Free cash flow & Net debt/EBITDA



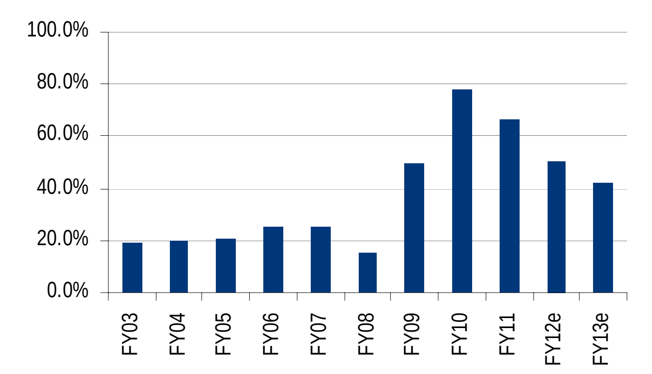
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 37: 10 yr domestic volume growth



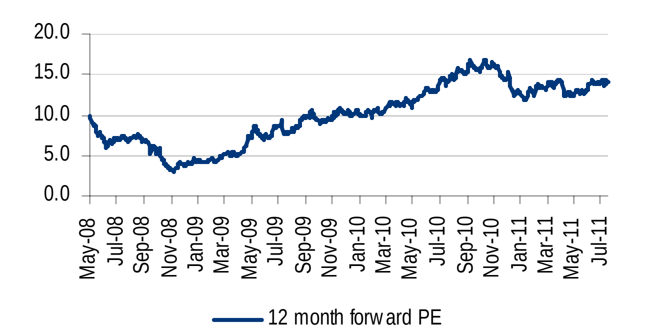
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 38: 10 year RoE



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 39: 12 month forward P/E band



Source: Company, BofA Merrill Lynch Global Research estimates

BHEL (BHEL IN, Buy)

Bharat Parekh

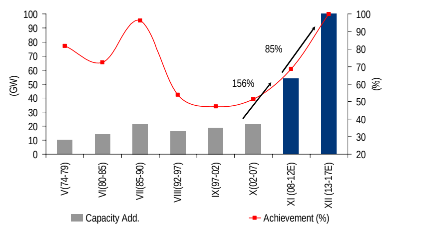
Current share price: Rs1749
Trough price: Rs1494
Upside price: Rs2086

Table 9: BHEL - Sensitivity analysis

	FY13E	
	EBITDA	EPS
50bps change in Material Prices	2.4%	2.5%

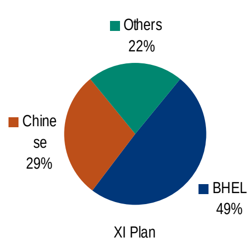
Souce: BofA Merrill Lynch Global Research

Chart 40: India 5-yr Planwise Power Capacity Creation



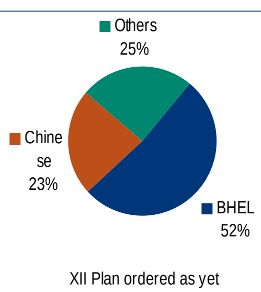
Source: Ministry of Power, BofA Merrill Lynch Global Research

Chart 41: BHEL - Market share in power capacity likely to benefit during XI plan



Source: Company, BofA Merrill Lynch Global Research

Chart 42: BHEL - Market share in power capacity likely to benefit during XII plan ordered as yet



Source: Company, BofA Merrill Lynch Global Research

Bear case: What can go wrong?

- Bear markets could delay capex especially of Pvt IPPs, which will slowdown order inflow. If we assume a 30% cut in our FY12-13E order inflow and 5% cut in sales to factor in 3-6 months delay in execution, sales growth could be flat in FY13.
- Material costs to rise in FY12, but fall in FY13 vs BofAMLe. We assume 50bp higher material costs in FY12, but cut FY13 material costs by 100bp vs our previous estimates.
- Cash yield to fall during FY12-13E, assuming a 200bp cut in cash yield in FY12-13E.
- Assuming 10% discount to last bear market multiples on de-rating of the stock, it could trade at 11.7x FY13E EPS or about Rs1,494/share.

Base case: What happens in deflation?

- In our base case assuming deflationary scenario, we cut FY12-13E order inflows 15%, leading to slowed (around 10%) sales growth in FY13.
- Assume no change in EBITDA margins as materials and cash yield remain high on continued high material costs and rate.
- Higher inflation and interest rates, could derail capex and cause the stock to de-rate to 13.5x FY13E (10% discount to last trough) EPS or about Rs2,086/share.

Risk-reward: Balanced while policy paralysis remains

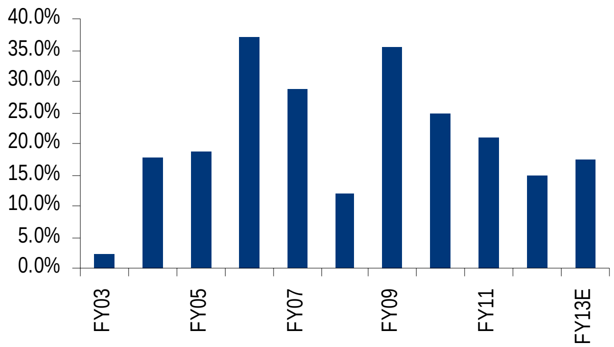
- In the bear case, we expect the stock to trade down to 11.7x FY13E EPS at Rs1,494/share.
- In the base case, we expect the stock to trade at 13.5x FY13E EPS at Rs2086/share
- The risk-reward appears balanced while government policy paralysis remains.

Table 10: BHEL - Earnings outlook

	BofAML	Downside	Upside	Variance vs BofAMLe	
	estimates	scenario	scenario	Downside	Upside
	FY13E	FY13E	FY13E	FY13E	FY13E
Sales (Rs mn)	547,515	465,154	515,945	-15%	-6%
Sales Growth	17%	0%	10%		
EBITDA (Rs mn)	116,040	93,133	109,337	-20%	-6%
EBITDA Margin (%)	21.2%	20.0%	21.2%		
EBITDA Growth	21%	-1%	14%		
Net Income (Rs mn)	80,724	62,512	75,633	-23%	-6%
Net Income Growth	22%	0%	15%		
EPS (Rs)	164.9	127.7	154.5	-23%	-6%
EPS Change (YoY)	22%	0%	15%		
Dividend/Share (Rs)	45.0	45.0	45.0	0%	0%
Free Cash Flow/Share (Rs)	143.6	172.9	151.5	20%	6%

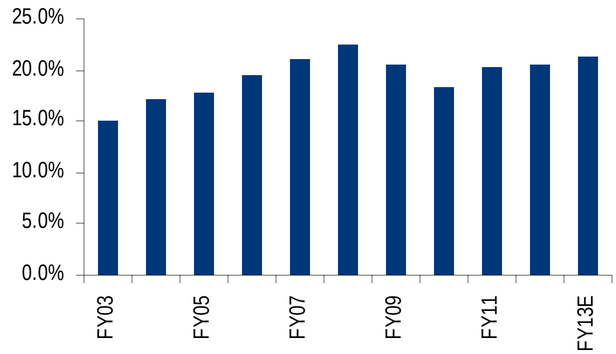
Souce: BofA Merrill Lynch Global Research

Chart 43: BHEL - Sales growth



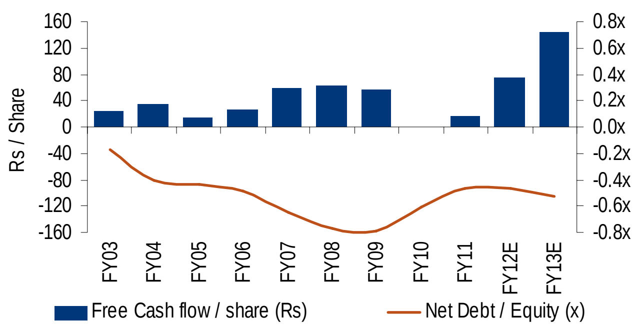
Source: Company, BofA Merrill Lynch Global Research

Chart 44: BHEL - EBITDA Margins



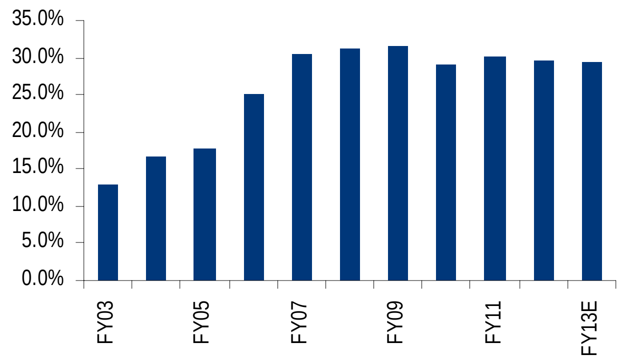
Source: Company, BofA Merrill Lynch Global Research

Chart 45: BHEL – Free Cash Flow and Net Debt/Equity



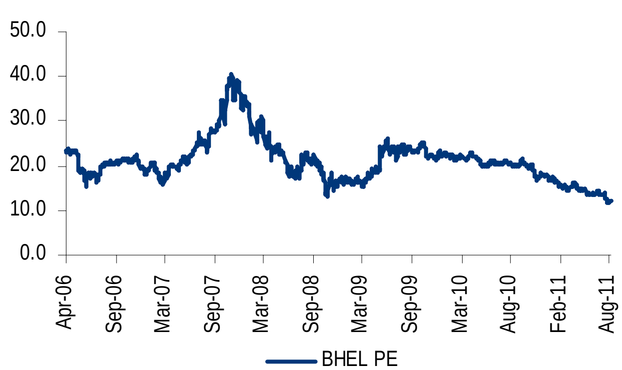
Source: Company, BofA Merrill Lynch Global Research

Chart 46: BHEL - RoE



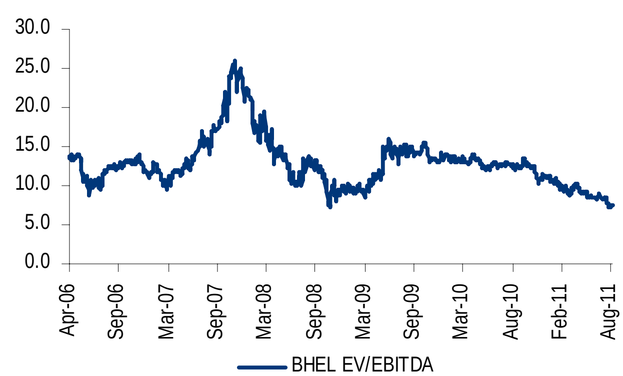
Source: Company, BofA Merrill Lynch Global Research

Chart 47: BHEL - PE Chart



Source: Company, BofA Merrill Lynch Global Research

Chart 48: BHEL - EV/EBITDA



Source: Company, BofA Merrill Lynch Global Research

BPCL (BPCL IN, Neutral)

Vidyadhar Ginde
Akash Gupta

Current share price: Rs689
Trough price: Rs521
Upside price: Rs873

Downside scenario: What can go wrong?

- R&M firms' earnings would be hit if they are asked to bear higher subsidy than the Rs85bn assumed by us for FY12 and the Rs70bn for FY13. In the bear case, we assume they have to bear subsidy of Rs140bn in FY12-13.
- BPCL's bear-case FY12 EPS would be Rs31.8 and FY13 EPS would be Rs31.1, which are 42-44% lower than the base case.
- We estimate BPCL's bear-case fair value is Rs521/share, which is based on 9x FY13E bear-case EPS and fair value of investments and E&P assets of Rs253/share.

Table 11: Sensitivity analysis

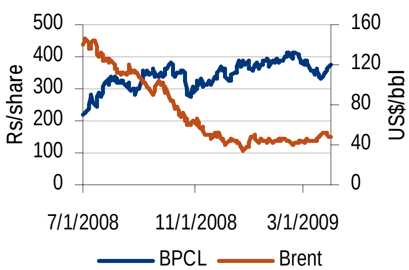
Yr ending 31 Mar	FY13E	
	EBITDA	EPS
Rs10bn increase in R&M subsidy	-5.0%	-7.5%

Source: BofA Merrill Lynch Global Research estimates

Upside scenario: What can go right?

- The bull-case scenario for BPCL is R&M companies bearing lower subsidy than assumed in the base case. In the bull case, we assume R&M companies have to bear Rs50bn of subsidy in FY12 and Rs35bn in FY13.
- BPCL's bull-case EPS is Rs50.6 in FY12E and Rs63.4 in FY13E.
- We estimate BPCL's bull-case fair value is Rs873/share based on 10x FY13 bull-case EPS and value of investments and E&P assets of Rs253/share.

Chart 49: From Jul-08 to Mar-09, Brent fell by 66% while BPCL was up by 74%



Source: Bloomberg

Risk-reward: Seems balanced

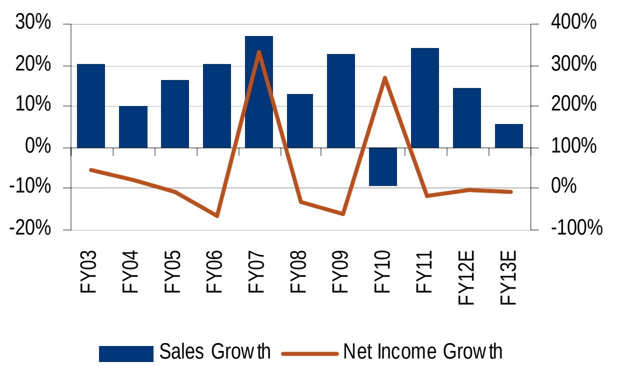
- Risk-reward for BPCL appears evenly poised – 24% potential downside based on bear-case fair value estimate of Rs521 and 27% potential upside based on bull-case fair value estimate of Rs873.
- In our view, the key factors driving BPCL's share price will be oil price and how much subsidy R&M companies have to bear. If oil prices fall significantly and stay at lower levels, BPCL's share price is likely to rise as investors see R&M companies as a play on declining oil prices. How much subsidy R&M companies have to bear is one of the most crucial factors determining the firms' earnings and, therefore, stock performance.

Table 12: Earnings outlook for BPCL

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	1,854,275	1,854,275	1,400,028	0%	-24%
YoY (%)	6%	6%	-20%		
EBITDA (Rs mn)	41,116	30,545	47,930	-26%	17%
EBITDA margin (%)	2%	2%	3%		
YoY (%)	-2%	2%	20%		
Net Income (Rs mn)	18,421	11,243	22,912	-39%	24%
YoY (%)	-6%	-2%	25%		
EPS (Rs)	51.0	31.1	63.4	-39%	24%
YoY (%)	-6%	-2%	25%		
Free Cash Flow/Share(Rs)	57	37	87	-35%	54%
Key assumptions					
R&M subsidy (Rs bn)	70	140	35	100%	-50%

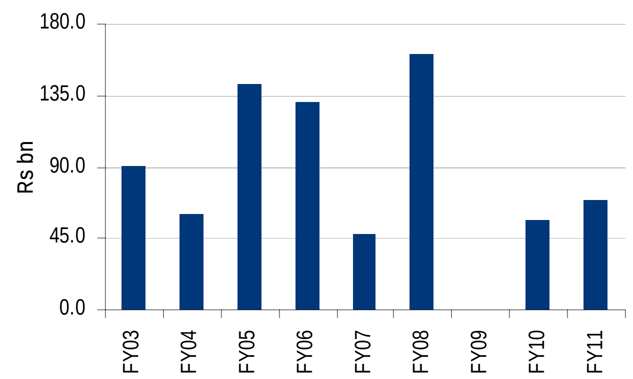
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 50: 10 year Sales & Net profit growth



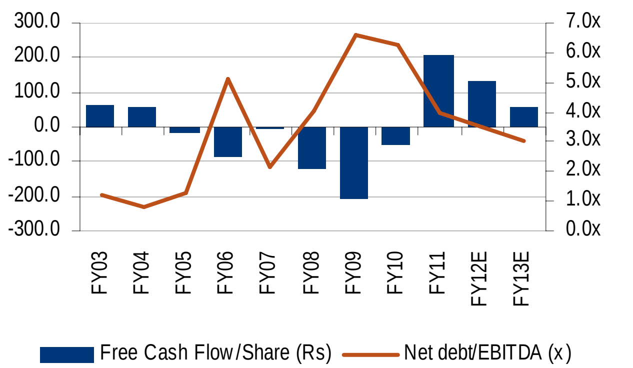
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 51: Subsidy borne by R&M companies since FY03



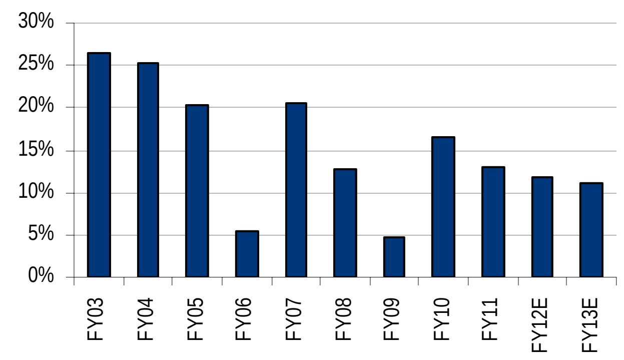
Source: BofA Merrill Lynch Global Research estimates

Chart 52: Free cash flow & Net debt/EBITDA



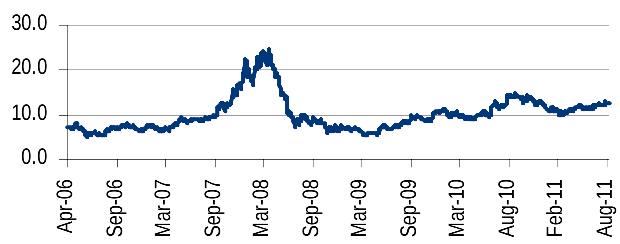
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 53: 10 year RoE



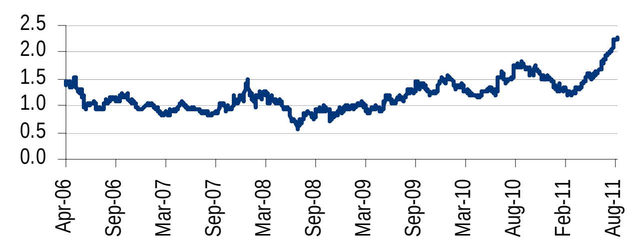
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 54: PE chart



Source: BofA Merrill Lynch Global Research estimates

Chart 55: PB chart



Source: BofA Merrill Lynch Global Research estimates

Reena Verma Bhasin
Amit Rathi

BHARTI (BHARTI IN, Neutral)

Current share price: Rs402

Trough price: Rs300

Upside price: Rs430

Downside scenario: What can go wrong?

- Revenue acceleration in India could fail to come through and topline could grow 8-9% YoY in FY12-13, in line with FY10. The slow revenue growth would mainly reflect a pullback in usage and slower 3G consumer adoption. Tariffs are expected to remain stable YoY, in line with our current forecasts.
- Wireless margins in India could stay at 4Q FY11 levels of about 33.5% in FY12 and drop 120bp YoY to about 32.3% in FY13. The margin pressure would mostly reflect higher dealer commissions.

Topline growth in Africa could also slow to about 9-12% YoY, owing to slower net adds and pull-back in usage despite largely stable tariffs. Even in the worst-case, however, we expect Bharti to deliver cost-efficiencies and hence expand margins versus 1Q FY12.

Table 13: Sensitivity analysis

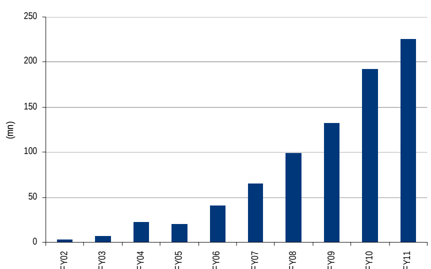
Yr ending 31 Mar	FY13	
	EBITDA	EPS
100bps change in subsribers	0.1%	0.02%
100bps change in ARPU	0.8%	2.0%

Source: BofA Merrill Lynch Global Research estimates

Upside scenario: What can go right?

- Post a slow FY12 due to macro-weakness, topline in India could accelerate strongly due to recovery in usage and higher 3G adoption.
- Wireless margins in India could improve almost 200bp YoY in FY13 as strong demand lowers customer acquisition costs and surging traffic drives scale economies.
- Africa revenue could accelerate sharply in FY13, led by higher net adds and usage recovery.

Chart 56: Trend in industry subscriber net adds



Source: TRAI

Risk-reward: Not favorable

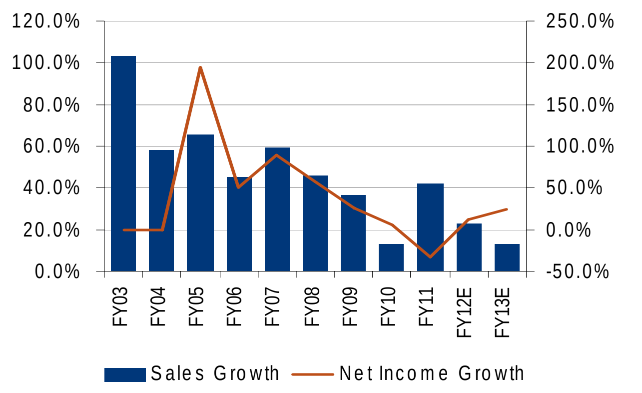
- In the worst-case scenario, we estimate that Bharti would trade at about 6.5x FY13 EV/EBITDA (Rs300/sh), implying a near-halving in its current premium versus GEM telcos due to slower EBITDA growth.
- In the best-case scenario, we expect Bharti to retain its current valuation premium versus GEM telcos and trade at about 7.5x FY13 EV/EBITDA (Rs430/sh). Overall, the risk-reward appears unfavorable.

Table 14: Earnings outlook for Bharti

				Variance vs. BofAMLe	
	BofAML estimates CY12E	Downside scenario CY12E	Upside scenario CY12E	Downside CY12E	Upside CY12E
Sales (Rs mn)	827,668	747,666	819,374	827,668	747,666
YoY (%)	13.2%	8.8%	19.2%	13.2%	8.8%
EBITDA (Rs mn)	291,208	250,585	288,237	291,208	250,585
EBITDA margin (%)	35%	34%	35%	35%	34%
YoY (%)	13.8%	6.8%	22.8%	13.8%	6.8%
Net Income (Rs mn)	84,984	57,949	83,388	84,984	57,949
YoY (%)	24.9%	8.3%	55.9%	24.9%	8.3%
EPS (Rs)	22.4	15.3	22.0	22.4	15.3
YoY (%)	24.9%	8.3%	55.9%	24.9%	8.3%
Free Cash Flow/Share(Rs)	20.1	13.6	21.8	20.1	13.6

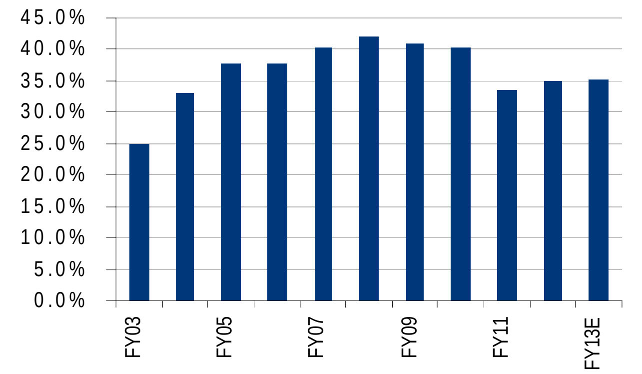
Source: BofA Merrill Lynch Global Research estimates

Chart 57: 10 yr Sales & Net profit growth



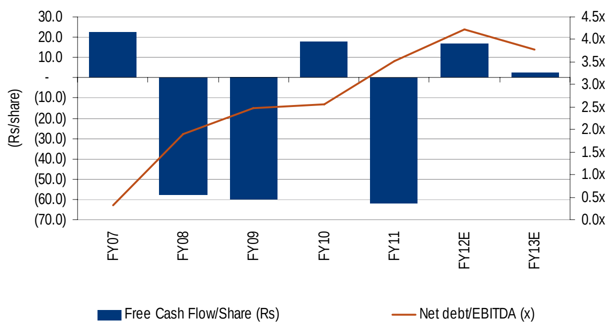
Source: BofA Merrill Lynch Global Research estimates

Chart 58: 10 yr Margins



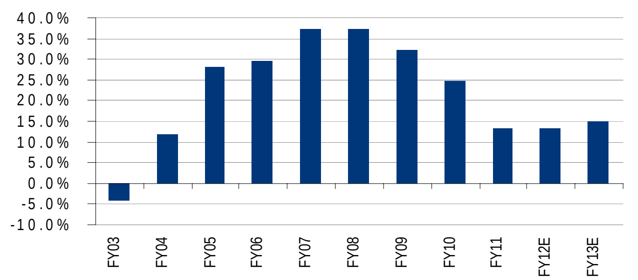
Source: BofA Merrill Lynch Global Research estimates

Chart 59: Free cash flow & Net debt/EBITDA



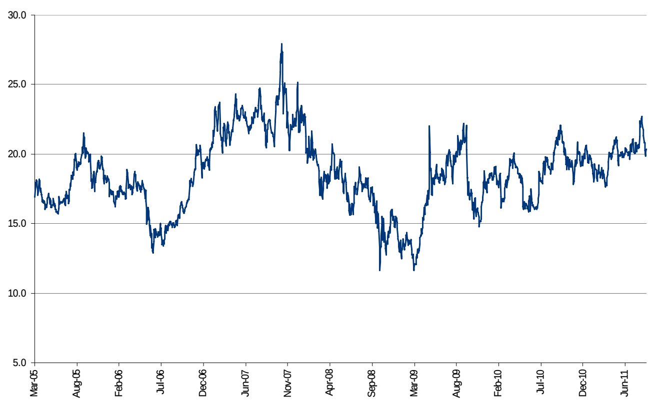
Source: BofA Merrill Lynch Global Research estimates

Chart 60: 10 year RoE



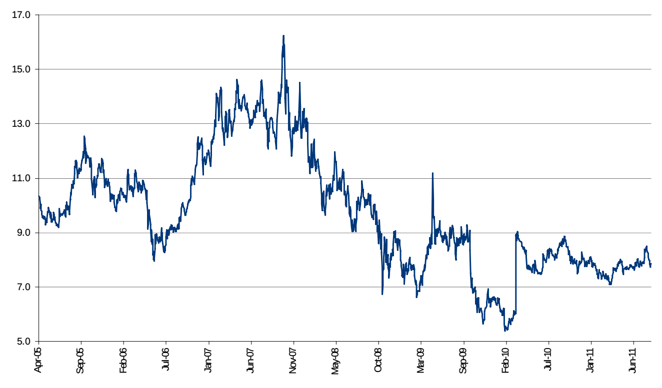
Source: BofA Merrill Lynch Global Research estimates

Chart 61: PE Chart



Source: BofA Merrill Lynch Global Research estimates

Chart 62: EV/EBITDA chart



Source: BofA Merrill Lynch Global Research estimates

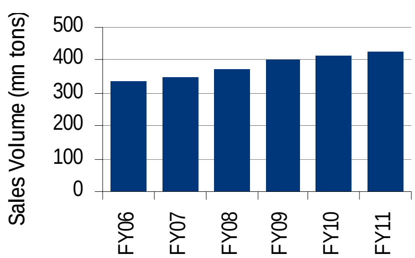
Coal India (COAL IN, Neutral)

Bhaskar.N.Basu, CFA
Current share price: Rs375
Trough price: Rs305
Upside price: Rs440

Downside scenario: What can go wrong?

- In this scenario, we assume Coal India report a slower volume CAGR of 3.5% over FY11-13E. Also, we assume ~10mt of BCCL volumes are disrupted due to Jharkhand Pollution Board's directive to close mines. We also assume Coal India does not raise notified prices in FY13 as inflation remains high. Also, wage cost hike surprises on the upside at 40% vs 30% in our base case.
- In this scenario, Coal India's FY12E EPS declines to Rs17.6 (down 19.6% from base case) in FY12E & Rs16.7 (down 29.8% from base case) in FY13E.
- We have not assumed potential mining tax (26% profit sharing) under the downside case scenario. In the worst case of assuming mining tax, FY13E EPS could be lower by 14%.

Chart 63: Coal India volumes



Source: Coal India, BofA Merrill Lynch Global Research

Upside scenario: What can go right?

- In this scenario, we assume Coal India achieves its volume guidance and delivers 454mt of volumes in FY12 and 478mt in FY13E. We assume Coal India delivers 5.6% volume CAGR over the next five years.
- We assume no further price hikes in FY12E, but Coal India is allowed to increase prices by 10% (base case 4%) in FY13E as inflation is expected to be low. We assume 30% wage hike in FY12E. In this scenario, we arrive at FY12E EPS of Rs21.9 and FY13E EPS of Rs27.3.

Risk-reward: Balanced

- Under the downside scenario, our NPV of Coal India reduces to Rs305 (implying a 19% downside potential). At this NPV, Coal India would trade at 8.4x FY12E OBR adjusted EBITDA.
- In the downside scenario which assumes mining tax (and no changes in ASP), our NPV reduces to Rs270 (implying 27% downside potential).
- In the upside scenario, our NPV increases to Rs440 (implying a 14% upside potential from current levels). Our NPV implies 10.5E x FY12 OBR adjusted EBITDA and 9.1x FY13E OBR adjusted EBITDA.

Table 15: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bps change in ASP	3.2%	3.0%
100bps change in volumes	1.6%	1.5%

Source: Coal India, BofA Merrill Lynch Global Research Estimates

Table 16: Assumptions for scenarios

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
ASP (Rs/t)	1,363	1,386	1,363	1,386	1,363	1,386
Vol. (mn t)	449	471	435	448	449	471

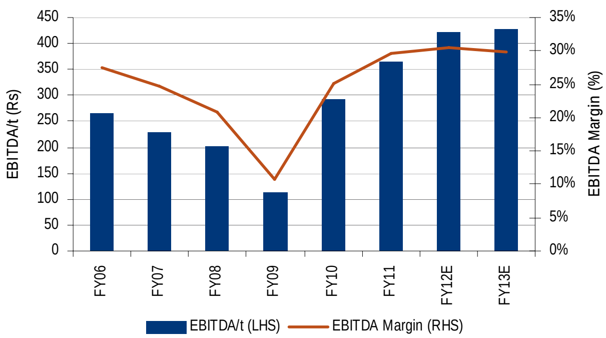
Source: Coal India, BofA Merrill Lynch Global Research Estimates

Table 17: Earnings outlook for Coal India

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe Downside FY13E	Variance vs. BofAMLe Upside FY13E
Sales (Rs mn)	686,402	620,640	712,150	-9.6%	3.8%
Sales Growth	9%	4%	13%		
EBITDA (Rs mn)	204,964	131,097	230,711	-36.0%	12.6%
EBITDA margin (%)	30%	21%	32%		
EBITDA Growth	7%	-13%	20%		
Net Income (Rs mn)	149,906	105,210	172,438	-29.8%	15.0%
Net Income Growth	8%	-6%	24%		
EPS (Rs)	23.7	16.7	27.3	-29.8%	15.0%
EPS Change (YoY)	8%	-6%	24%		
Free Cash Flow/Share(Rs)	19.6	11.6	21.7	-40.8%	10.7%

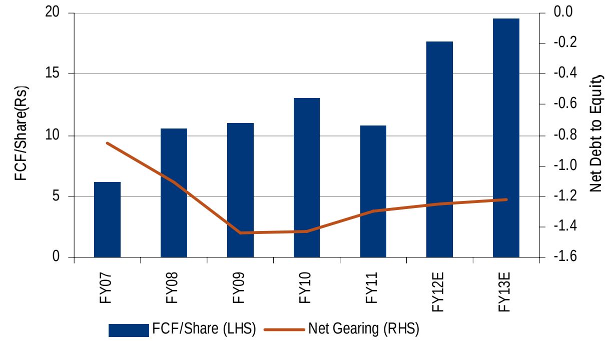
Source: Coal India, BofA Merrill Lynch Global Research Estimates

Chart 64: Coal India EBITDA/t and EBITDA margin (FY06-13E)



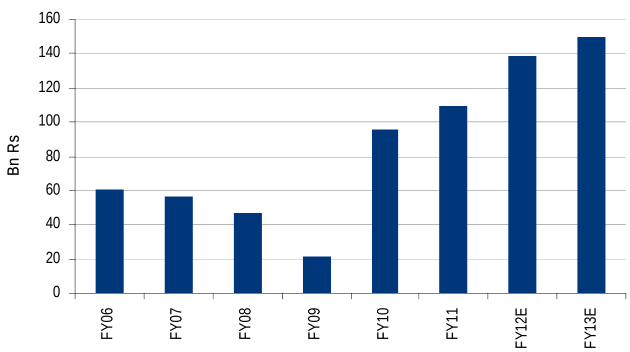
Source: Coal India, BofA Merrill Lynch Global Research Estimates

Chart 65: Coal India FCF/share and net gearing (FY07-13E)



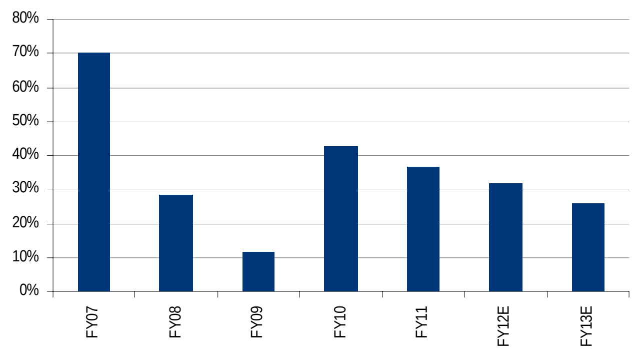
Source: Coal India, BofA Merrill Lynch Global Research Estimates

Chart 66: Coal India net profit (FY06-13E)



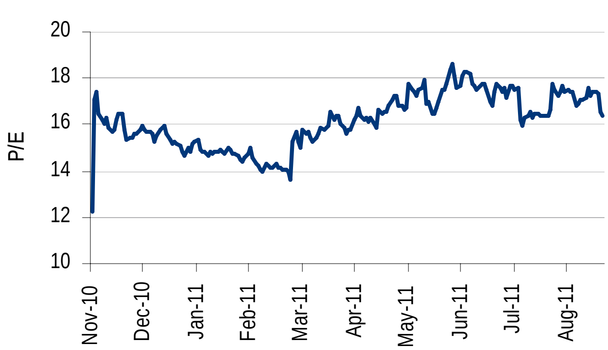
Source: Coal India, BofA Merrill Lynch Global Research Estimates

Chart 67: Coal India RoE (FY07-13E)



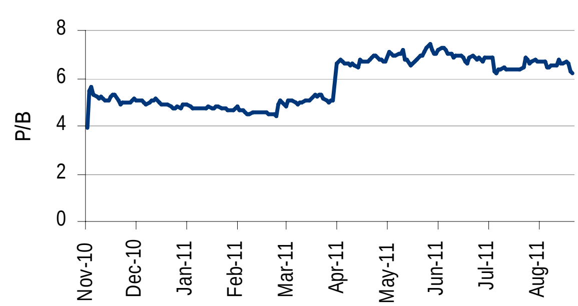
Source: Coal India, BofA Merrill Lynch Global Research Estimates

Chart 68: Coal India P/E



Source: Coal India, BofA Merrill Lynch Global Research Estimates

Chart 69: Coal India P/B



Source: Coal India, BofA Merrill Lynch Global Research Estimates

DLF (DLFU IN, Buy)

Gagan Agarwal

Current share price: Rs187

Trough price: Rs150

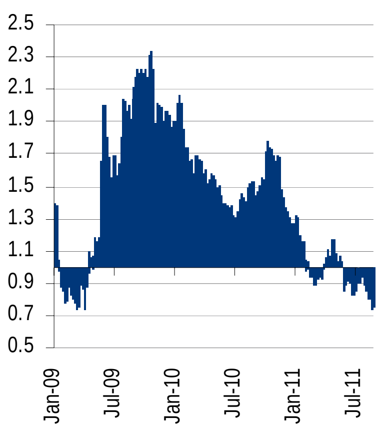
Upside price: Rs275

Table 18: Table 1: Sensitivity analysis

	NAV
1% change in residential prices	1.0%
1% change cap rate for commercial assets	5.0%
1% change in WACC	2.5%

Source: BofA Merrill Lynch Global Research estimates

Chart 70: BSE Realty index close to trough P/B multiple



Source: Bloomberg

Downside scenario: What can go wrong?

- The sales booking drops to 8mn sq ft for FY12/13 from 10mn sq ft that DLF averaged in the last two years along with a 10-15% drop in realizations with concentration of sales in plotted projects
- Delay in completion of asset sale – non-core asset sales delayed to FY14 due to poor economic outlook leading to concern on high leverage
- Incremental leasing of office space to drop to less than 1mn sq ft over the next 12-15 months leading to flattish rental earnings
-
- The above factors would lead to 50% drop in earnings from our current estimates for FY13

Upside scenario: What can go right?

- The sales booking revives – post cut in mortgage rates and drop in prices by 5-10% – to 13mn sq ft from 8.5mn sq ft in FY12
- Asset sale pick up pace leading to higher-than-expected reduction in debt of over 15% removing the key hangover from the stock
- Office leasing to remain stable at 3-4mn sq ft for the next 2-3 years leading to 10-15% growth in rental income annually

Risk-reward: Favorable

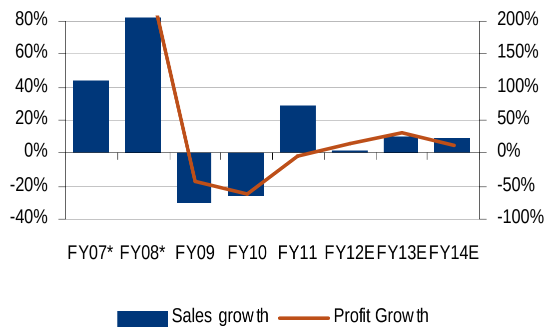
- In downside case, we estimate that DLF will trade at its trough P/B multiple of 1x (Rs150/share) similar to levels seen in Mar 2009 and implying 25% discount to the worse case NAV of Rs200.
- In upside case, we expect DLF to trade at NAV of Rs275, which factors strong volume growth in FY13 across residential and office segments with non-core asset monetization as planned
- Overall, the risk-reward appears favorable

Table 19: Earnings outlook for DLF

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	107,941	78,882	100,966	-27%	-6%
YoY (%)	10%	-8%	22%		
EBITDA (Rs mn)	50,213	36,984	47,663	-26%	-5%
EBITDA margin (%)	47%	47%	47%		
YoY (%)	10%	-4%	18%		
Net Income (Rs mn)	24,480	12,027	20,838	-51%	-15%
YoY (%)	30%	-7%	47%		
EPS (Rs)	14	7	12	-51%	-15%
YoY (%)	30%	-7%	47%		
Free Cash Flow/Share(Rs)	15	5	12	-49%	-19%

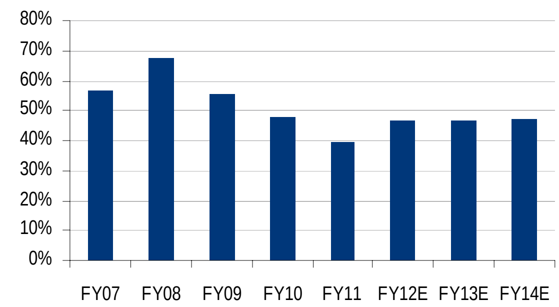
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 71: Sales & net profit growth



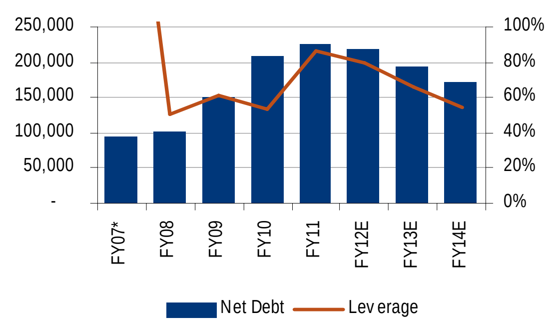
Source: Company, BofA Merrill Lynch Global Research estimates
* Note : FY07 and FY08 Profit growth was 370% and 304% respectively while sales growth in FY08 was 448%

Chart 72: EBITDA margins



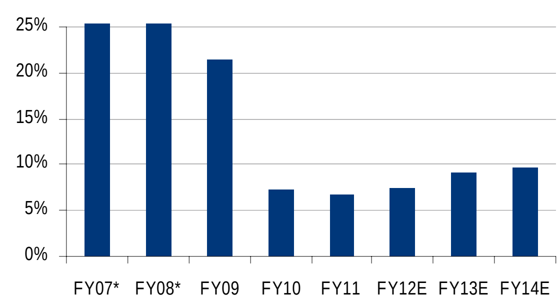
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 73: Net debt and leverage



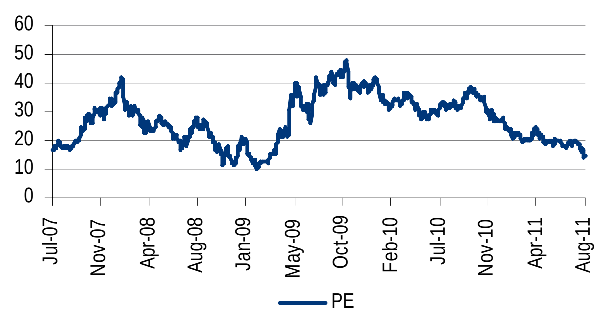
Source: Company, BofA Merrill Lynch Global Research estimates
* Note : FY07 leverage was 267%

Chart 74: ROE



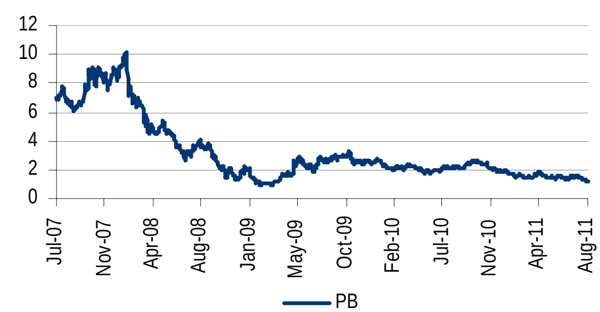
Source: Company, BofA Merrill Lynch Global Research estimates
* Note : FY07 and FY08 ROE was 107% and 73%

Chart 75: P/E chart



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 76: P/B chart – nearing the trough valuation

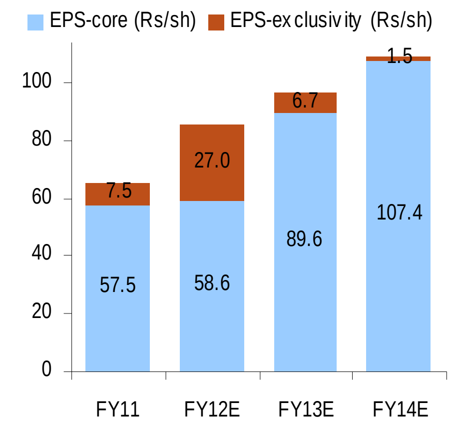


Source: Company, BofA Merrill Lynch Global Research estimates

Arun S
Arvind Bothra

Current share price: Rs1456
Trough price: Rs1240
Upside price: Rs1860

Chart 77: DRL-Breakdown of earnings



Source: Company, BofA Merrill Lynch Global Research

Dr Reddys Labs (DRRD IN, Buy)

Downside scenario: What can go wrong

- Domestic formulation (17% of sales) growth slows to 6-8% vs 15% assumed over next two years. Decline in key brands in pain, gastro-intestinal and anti-infective segments (35% of sales) due to competitive pressure.
- PSAI segment (27% of sales) to register flat sales on lower off-take from emerging markets (vs 5-6% assumed).
- Input costs increase on rising Chinese import costs as RMB appreciates. Chinese intermediates account for 25% of material costs, or about 10% of costs.
- US sales (26% of sales) growth is unlikely to be affected much due to litigation settlement, known launches from upcoming patent expirations.
- EBITDA margin gains to be restricted on slower sales growth as well as rising margin pressures (input costs, SG&A spending). Expect margins to shrink by around 180bp in the bear-case scenario.

Upside scenario: What can go right

- Domestic business to pick up gradually as expanded field force increases reach and new launches accelerate sales momentum to about 15%.
- Gradual pick up in customer order flow in API segment to lift PSAI outlook to 5-6% growth with improving profitability.
- US business to sustain strength on 12-14 timely new product launches and market share gains. Price erosion remains at manageable levels (3-4%).

Risk-reward: Favorable

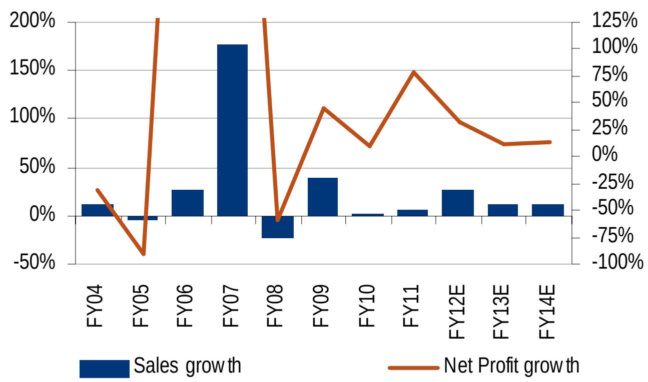
- We believe risk-reward is favorable at current levels, on relatively attractive valuations and strong product pipeline catalysts to result in upside triggers.
- In the worst case, we expect fair multiples to contract by 20% from current levels to 16x, implying valuation of Rs1240 (SOTP), exclusivity NPV of Rs67.

Table 20: Earnings outlook for Dr Reddys

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe Downside FY13E	Variance vs. BofAMLe Upside FY13E
Sales (Rs mn)	106412	99870	106412	-6%	0%
YoY (%)	12%	11%	12%	(196bps)	0bps
EBITDA (Rs mn)	19462	16180	19462	-17%	0%
EBITDA margin (%)	18%	16%	18%	(209bps)	0bps
YoY (%)	6%	0%	6%	(625bps)	0bps
Net Income (Rs mn)	16353	13581	16353	-17%	0%
YoY (%)	12%	6%	12%	(659bps)	0bps
EPS (Rs)	96	80	96	-17%	0%
YoY (%)	12%	6%	12%	(659bps)	0bps
Free Cash Flow/Share(Rs)	35.2	38.2	35.2	8%	0%

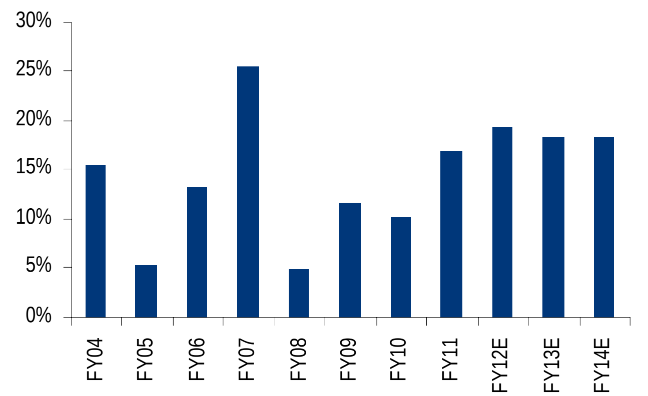
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 78: 10 yr Sales & Net profit growth



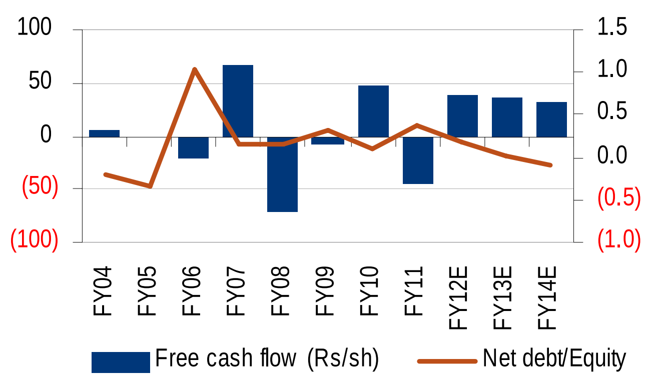
Source: Company, BofA Merrill Lynch Global Research, *Financials under IFRS/USGAAP from FY07

Chart 79: 10 yr EBITDA Margins



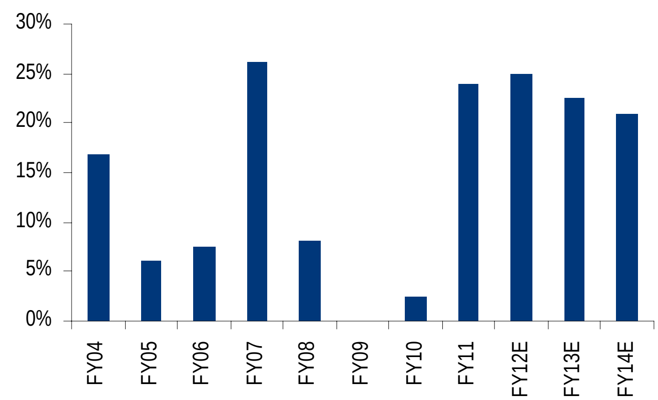
Source: Company, BofA Merrill Lynch Global Research, *Financials under IFRS/USGAAP from FY07

Chart 80: Free cash flow & Net debt/Equity



Source: Company, BofA Merrill Lynch Global Research, *Financials under IFRS/USGAAP from FY07

Chart 81: 10 yr RoE

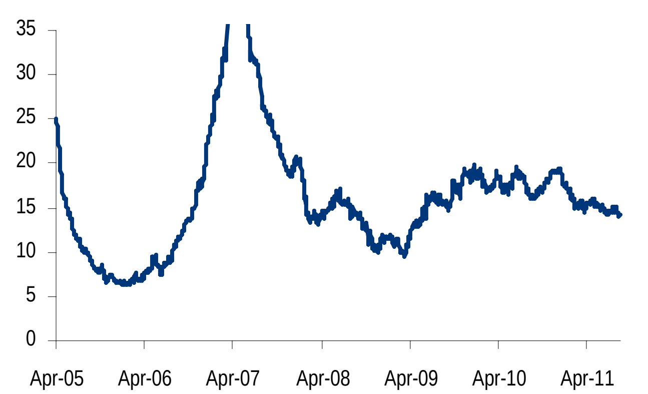


Source: Company, BofA Merrill Lynch Global Research, *Financials under IFRS/USGAAP from FY07

Chart 82: DRL – 1 yr forward P/E bands

Source: Company, BofA Merrill Lynch Global Research, *Financials under IFRS/USGAAP from FY07

Chart 83: DRL – 1 yr forward EV/EBITDA bands



Source: Company, BofA Merrill Lynch Global Research, *Financials under IFRS/USGAAP from FY07

GAIL (GAIL IN, Underperform)

Vidyadhar Ginde
Akash Gupta

Current share price: Rs413

Trough price: Rs313

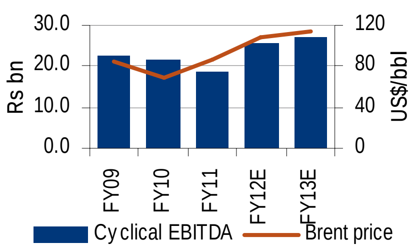
Upside price: Rs465

Table 21: Sensitivity analysis

Yr ending 31 Mar	FY13E	
	EBITDA	EPS
US$10/bbl increase in Brent price	1.3%	1.4%

Source: BofA Merrill Lynch Global Research estimates

Chart 84: GAIL's net (of subsidy) cyclical EBITDA moves in line with oil price



Source: Company, BofA Merrill Lynch Global Research estimates

Downside scenario: What can go wrong?

- A recession in the US and global economic slowdown are likely to lead to decline in oil price. That would hurt GAIL. This is because when oil price declines, GAIL's LPG and petrochemical EBITDA decline usually is more than the decline in the subsidy GAIL has to bear.
- In the bear case, we assume Brent at US$80-100/bbl in FY12-13, which is 7-30% lower than the base case. GAIL's FY12-13 EPS in the bear case would be Rs30.7-31.3, which is 9-13% lower than the base case.
- Even in the bear case, we expect GAIL's FY12-13 EPS to be 2-9% YoY higher (7-20% YoY up in the base case). Even during the last recession in the US in FY09-10, GAIL's earnings grew by 8-12% YoY.
- GAIL's bear-case fair value is Rs313, which is 10x FY13 EPS. GAIL's share price declined to 8.3x FY09 EPS at its low in 2008.

Upside scenario: What can go right?

- The bull case in GAIL would be the government deciding to cap the number of subsidized LPG cylinders to four. If such a cap is implemented, it would cut LPG subsidy by 40%.
- We estimate GAIL's bull-case EPS to be Rs40.6 in FY13.
- We estimate GAIL's bull-case fair value to be Rs465/share, which is based on 6-7x FY13 bull-case LPG and petrochemical EBITDA, DCF value of gas and LPG transmission business. and value of investments of Rs65/share

Risk-reward: Not favorable

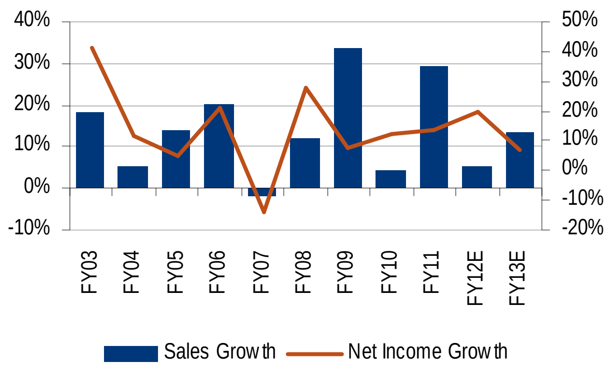
- Risk-reward for GAIL does not appear favorable – 24% potential downside in the bear case but only 13% upside in the bull case.

Table 22: Earnings outlook for GAIL

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	389,724	359,957	389,724	-8%	0%
YoY (%)	14%	9%	14%		
EBITDA (Rs mn)	76,122	67,554	85,064	-11%	12%
EBITDA margin (%)	20%	19%	22%		
YoY (%)	11%	7%	24%		
Net Income (Rs mn)	45,501	39,715	51,540	-13%	13%
YoY (%)	7%	2%	21%		
EPS (Rs)	35.9	31.3	40.6	-13%	13%
YoY (%)	7%	2%	21%		
Free Cash Flow/Share(Rs)	-65	-69	-58	6%	-10%
Key assumptions					
Brent price (US$/bbl)	114	80	114	-30%	0%
Subsidy (Rs bn)	36.6	15.4	27.6	-58%	-24%
Net cyclical EBITDA (Rs bn)	27.1	18.5	36.1	-32%	33%

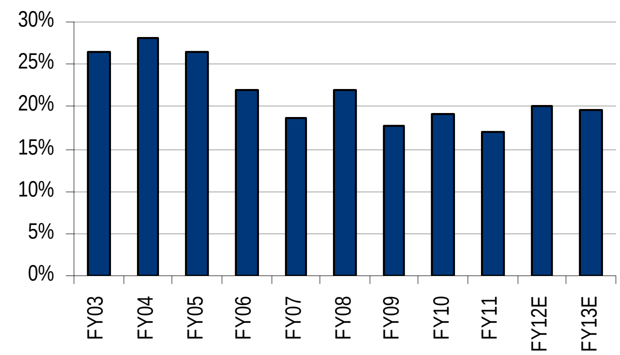
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 85: 10 year Sales & Net profit growth



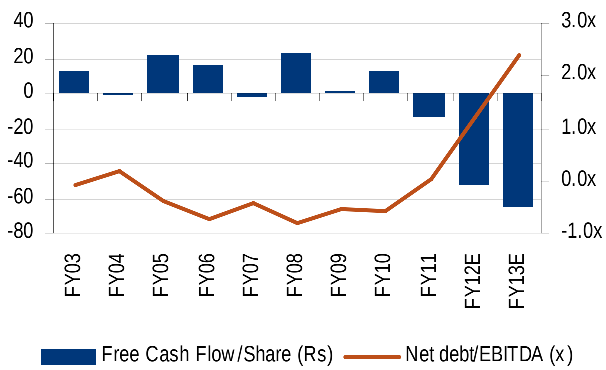
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 86: 10 year EBITDA Margins



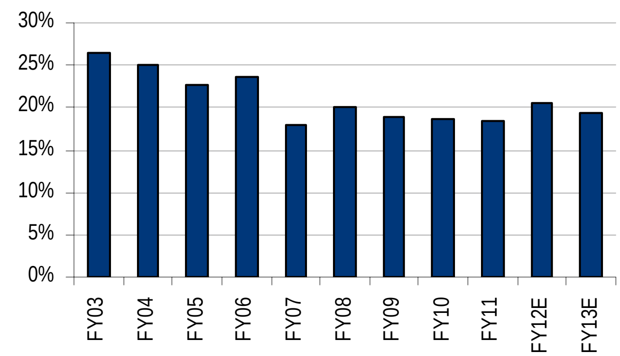
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 87: Free cash flow & Net debt/EBITDA



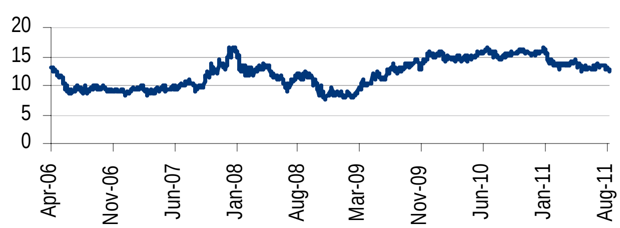
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 88: 10 year RoE



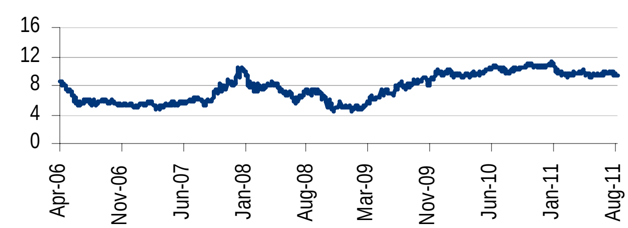
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 89: PE chart



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 90: EV/EBITDA chart



Source: BofA Merrill Lynch Global Research estimates

Grasim (GRASIM IN, Neutral)

Reena Verma Bhasin

Amit Rathi

Current share price: Rs2162

Trough price: Rs1335

Upside price: Rs3220

Downside scenario: What can go wrong?

- Cement volume growth could remain weak at about 3% in FY12, with muted recovery in FY13 volume growth to 7%. VSF volume growth could contract 12% YoY in FY13, in line with the trend in FY09 (credit-crisis year).
- Cement prices could stay at the current weak levels (about Rs230-235/bag) even post the monsoon. This implies an about 7% YoY drop in prices for FY13, in line with the previous downturn. VSF prices could stay around the current weak levels in FY13, implying a 5-6% YoY price drop.
- International coal prices can stay around current levels of US$110-120/ton.

Table 23: Sensitivity analysis

Yr ending 31 Mar	FY13	
	EBITDA	EPS
100bps change in cement volume	0.8%	0.7%
100bps change in cement Price	3.4%	2.9%

Source: BofA Merrill Lynch Global Research estimates

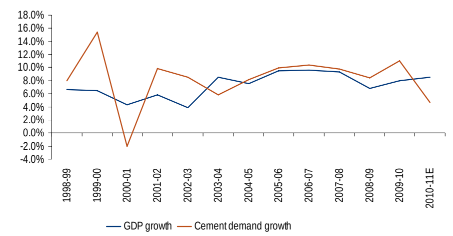
Upside scenario: What can go right?

- Sharp rebound in VSF offtake from a 12% decline in FY12 to about 29% growth in FY13, in line with the recovery witnessed in FY10 (post the credit crisis).
- Cement prices could recover post the monsoon and rise 3% YoY in FY13. VSF prices could recover 5-6% in FY13 vs the current levels.
- International coal prices could fall by 40-45% as witnessed in 2009. However, domestic coal prices are forecast to remain sticky at current levels.

Risk-reward: Favorable

- In the worst-case scenario, we estimate Grasim's sum-of-the-parts value at Rs1,335/sh. Grasim's cement business could trade down to an FY13E EV/capacity valuation of about US60/ton while VSF could drop to about 6x FY13 PE. The is similar to levels witnessed in Oct 2008-Mar 2009, both for cement & VSF.
- In the best-case scenario, we estimate Grasim's sum-of-the-parts value at Rs3,220/sh. We expect Grasim's cement business to trade at about US$150/ton on FY13 EV/capacity, led by an expected recovery in RoE to about 22% while VSF could trade at about 10x PE. Overall, the risk-reward appears favorable.

Chart 91: Industry volume growth vs GDP



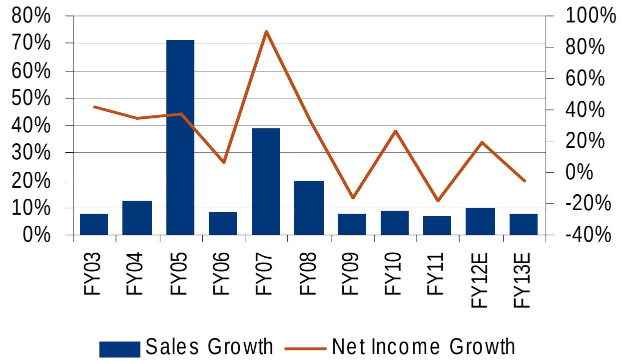
Source: BofA Merrill Lynch Global Research estimates, RBI, CMA

Table 24: Earnings outlook for Grasim

	BofAML estimates CY12E	Downside scenario CY12E	Upside scenario CY12E	Variance vs. BofAMLe Downside CY12E	Variance vs. BofAMLe Upside CY12E
Sales (Rs mn)	252,623	219,184	260,264	-13.2%	3.0%
YoY (%)	8%	-3%	15%		
EBITDA (Rs mn)	51,108	31,925	66,662	-37.5%	30.4%
EBITDA margin (%)	-3%	-34%			
YoY (%)	-3%	-34%	37%		
Net Income (Rs mn)	25,510	15,645	31,666	-38.7%	24.1%
YoY (%)	-6%	-36%	29%		
EPS (Rs)	278	171	345	-38.7%	24.1%
YoY (%)	-6%	-36%			
Free Cash Flow/Share(Rs)	131	(15)	240	-111.1%	82.3%

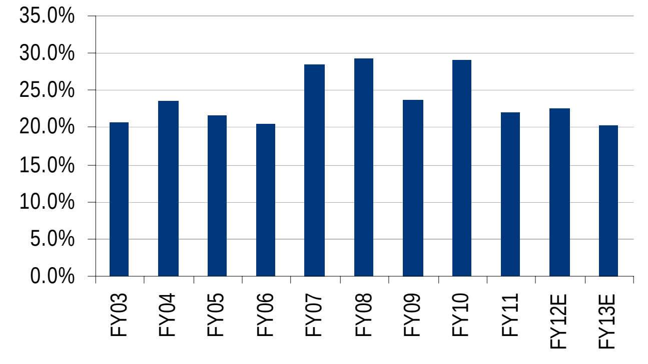
Source: BofA Merrill Lynch Global Research estimates

Chart 92: 10 yr Sales & Net profit growth



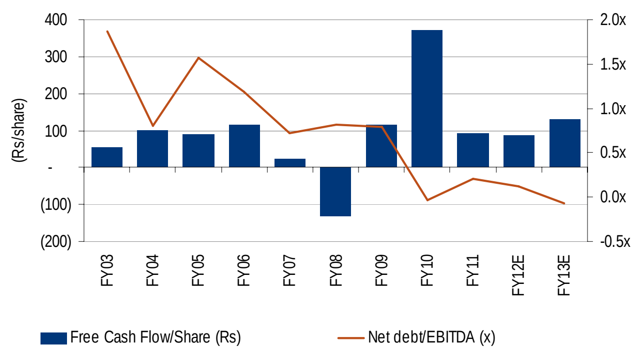
Source: BofA Merrill Lynch Global Research estimates

Chart 93: 10 yr Margins



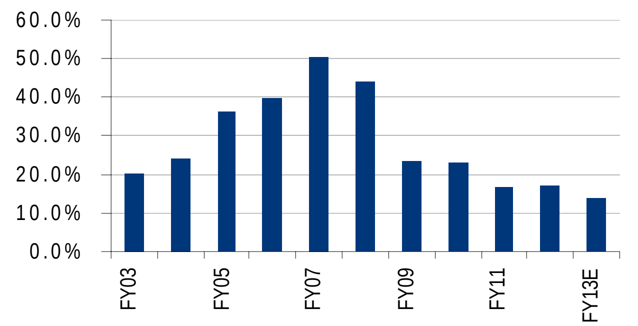
Source: BofA Merrill Lynch Global Research estimates

Chart 94: Free cash flow & Net debt/EBITDA



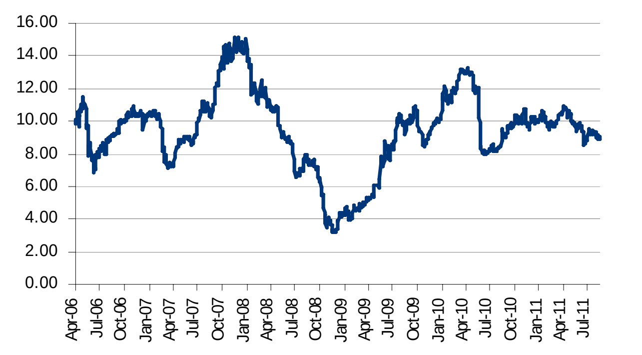
Source: BofA Merrill Lynch Global Research estimates

Chart 95: 10 year RoE



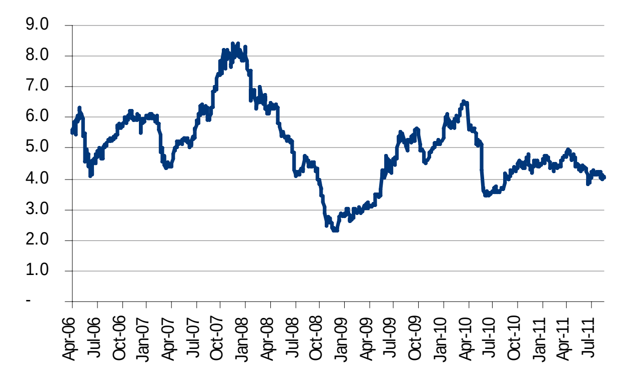
Source: BofA Merrill Lynch Global Research estimates

Chart 96: PE Chart



Source: BofA Merrill Lynch Global Research estimates

Chart 97: EV/EBITDA chart



Source: BofA Merrill Lynch Global Research estimates

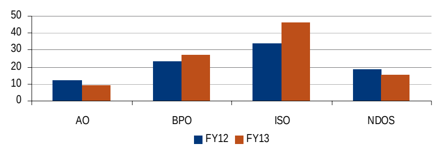
Mitali B. Ghosh
Pratish Krishnan
Kunal Tayal

Current share price: Rs372

Trough price: Rs325

Upside price: Rs500

Chart 98: Outlook strong for infra services to which HCLT is best exposed



Source: BofA Merrill Lynch Global Research

Table 25: Sensitivity of EBIT margin

1% pricing decline	88
1% appreciation of INR	35
1% decline in utilization	30-40

Source: BofA Merrill Lynch Global Research

HCL Technologies (HCLT IN, Buy)

Downside scenario: What can go wrong?

- Volume from Enterprise Solutions (21% of revenue) and Product Engineering (18% of revenue) are discretionary in nature could be impacted. Price realization could also come under pressure vs current expectations of a flattish trajectory. This could result in 14% and 15% growth in revenue in FY12 and FY13, a sharp drop from the 31% growth seen in FY11.

- HCLT's enterprise solutions is largely consulting and implementation work and a decline in that business could impact margins disproportionately. This could lead to a decline of 100bp and 60bp in GAAP EBIT margins for FY12 and FY13 vs our current assumption of flattish margins.

Upside scenario: What can go right?

- In the upside scenario (which is also our printed numbers), we estimate volume-led 18% and 20% revenue growth in FY12 and FY13, driven by a strong position in growth markets of infrastructure management services, emerging geographies and market share gains in large deals coming up for renewal, where HCL is not an incumbent vendor.

- Operating margins expand 20bp YoY in FY12 on increased intake of freshers, BPO turnaround and gradual increase in offshore mix.

Risk-reward: Favorable

- In our upside case, we expect HCLT to trade up to Rs500, at 14x FY13 P/E. Our target P/E is at close to a 10% discount to that for Wipro and is lower than the average 5 yr P/E of 16x. Given our forecast 25% FY11-14 EPS growth forecast, we see a good chance of a higher multiple.

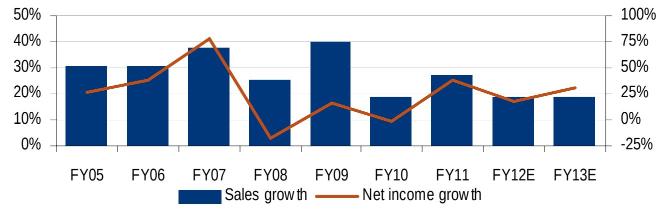
- Worst case 1yr forward P/E for the stock has been 5x. However, strong earnings outlook and improved cash flow and balance sheet should restrict the bear-case multiple to about 10x (its 5yr average multiple less 1 standard deviation). The stock could thus trade down 13% to Rs325 in the bear case.

Table 26: Earnings outlook for HCLT

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	226,377	214,852		-5%	
Sales Growth	18.7%	12.8%			
EBITDA (Rs mn)	38,596	35,978		-7%	
EBITDA margin (%)	17.0%	16.7%			
EBITDA Growth	22.9%	17.5%			
Net Income (Rs mn)	25,112	22,878		-9%	
Net Income Growth	30.4%	23.7%			
EPS (Rs)	35.7	32.5		-9%	
EPS Change (YoY)	30.2%	23.5%			
Dividend/Share (Rs)	8.9	8.9		0%	
Free Cash Flow/Share (Rs)	27.1	24.9		-8%	

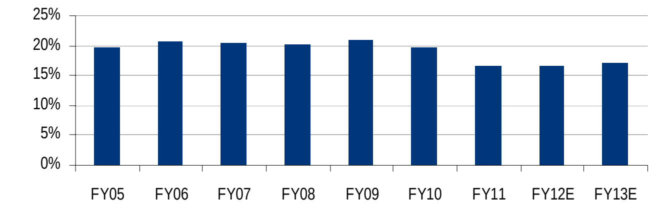
Source: BofA Merrill Lynch Global Research

Chart 99: 10 yr Sales and Net income growth



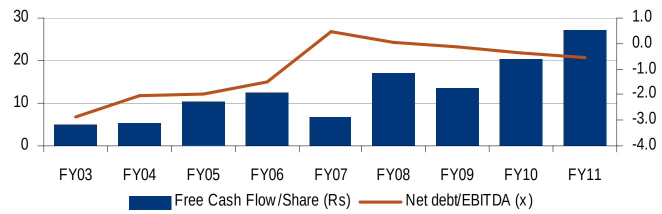
Source: BofA Merrill Lynch Global Research

Chart 100: 10 yr Margins



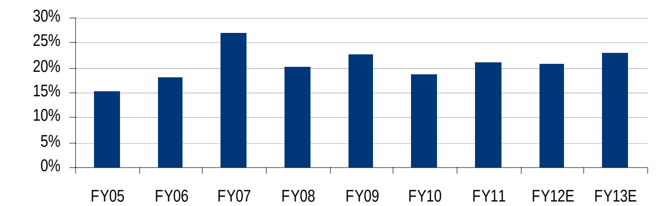
Source: BofA Merrill Lynch Global Research

Chart 101: Free cash flow & Net debt/EBITDA



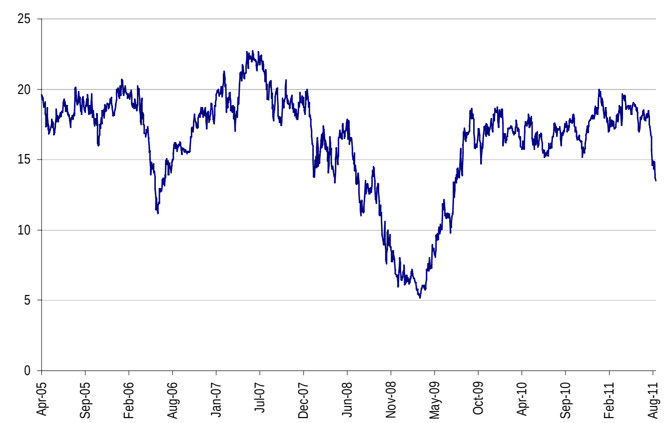
Source: BofA Merrill Lynch Global Research

Chart 102: 10 year RoE



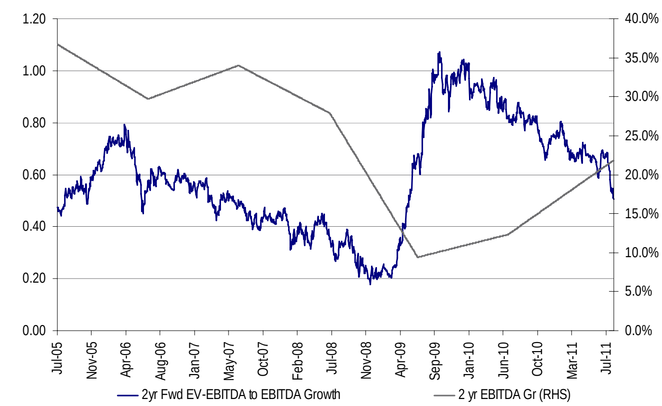
Source: BofA Merrill Lynch Global Research

Chart 104: 1 year forward PE



Source: BofA Merrill Lynch Global Research

Chart 105: EV/EBITDA to 2yr EBITDA growth



Source: BofA Merrill Lynch Global Research

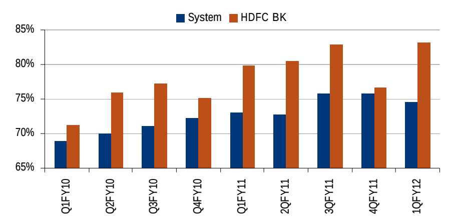
HDFC Bank (HDFCB IN, Buy)

Rajeev Varma
Veekesh Gandhi

Current price: Rs444
Trough price: Rs424
Upside price: Rs575

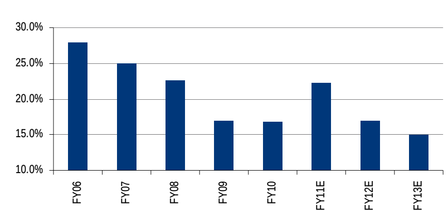
Our Base Case factors in emerging credit cycle by FY12 end and loan growth 15% in FY13: see- Banks-Retail, 22 August 2011

Chart 106: LDRs



Source: BofA Merrill Lynch Global Research Estimates

Chart 107: Credit growth (System)



Source: BofA Merrill Lynch Global Research Estimates

Downside scenario: What can go wrong?

- Volume growth of +19/16% for FY12/13E on rising macro concerns and the US double dip slowdown.
- Although HDFC Bank has the most seasoned book and is exposed to retail loans (50% of loans), a sharp economic slowdown could lead to some retail NPLs.
- Earnings growth could moderate to about 23-24% in FY12/13, if stress in the sector increases vs. the earlier average of +30% over FY04-10. However, given the higher share of retail loan book and high CASA, margins could well remain protected and earnings growth could still be much higher than sector average growth.

Upside (Base) scenario: What can go right?

- Volume growth of +22/18% for FY12/13E leading to market share gains, as we assume the sector loan growth at +17/14% for FY12/13. HDFC Bank is likely to be the least impacted owing to its lower exposure to Infrastructure and MSME. Moreover, retail loans account for 50% of the loans and given the seasoned book, the risk of higher slippages (retail) is unlikely.
- Earnings growth of +27/26% could well sustain through FY12/13. HDFC Banks is among the better placed banks in regards to earnings trajectory. The recently expanded distribution (+385 new branches in last 12 months) should provide some fillip to CASA, NIMs, and fees going ahead.

Risk-reward: Favorable

HDFC Bank may still trend closer to its average P/B multiples given earnings growth of +20 In FY12/13 in a 'downside scenario' given its much better loan profile and strong credit risk assessment record and high CASA levels. HDFC Bank is the only bank that will likely show the least downside risk in a stress scenario.

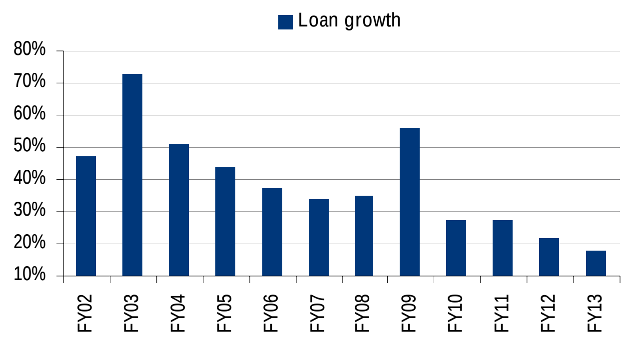
HDFC Bank remains the least vulnerable to the expected credit cycle given its loan profile. Hence, we believe it may continue to trade at between average and 1 SD above average. Hence, our 'upside scenario' valuation is set at Rs575.

Table 27: Earnings outlook: Base case Vs Worst case

HDFC Bank	Upside Case		Downside Case		Change %	
Rs Mn	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	124,137	145,955	120,077	139,326	-3%	-5%
NII growth	17.7%	17.6%	13.9%	16.0%		
Pre Provision Profit (PPP)	92,987	113,927	89,975	109,000	-3%	-4%
PPP growth	20.4%	22.5%	16.5%	21.1%		
Net Profit	50,215	63,346	48,778	60,035	-3%	-5%
Net Profit growth	27.9%	26.1%	24.2%	23.1%		
EPS (Rs)	22	27	21	26	-3%	-5%
EPS growth	27.0%	26.1%	23.3%	23.1%		
Dividend per share	4.5	5.8	4.5	5.8	0%	0%
Adjusted book value per share	123	142	123	140	0%	-1%
RoE	18.4%	20.0%	18.5%	20.1%		
RoA	1.7%	1.8%	1.6%	1.7%		

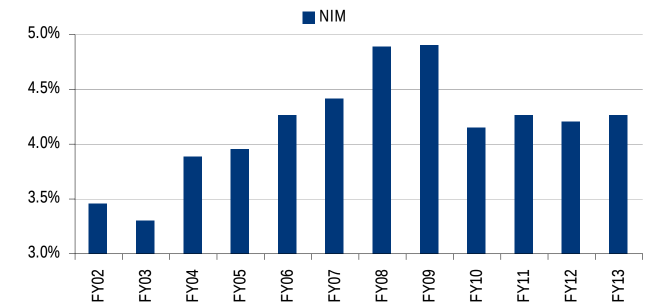
Source: BofA Merrill Lynch Global Research Estimates

Chart 108: Loan growth



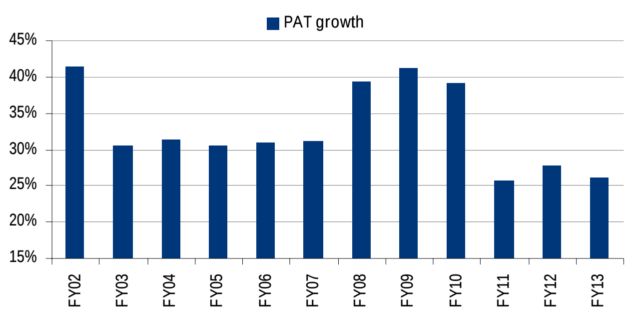
Source: BofA Merrill Lynch Global Research Estimates

Chart 109: Margins



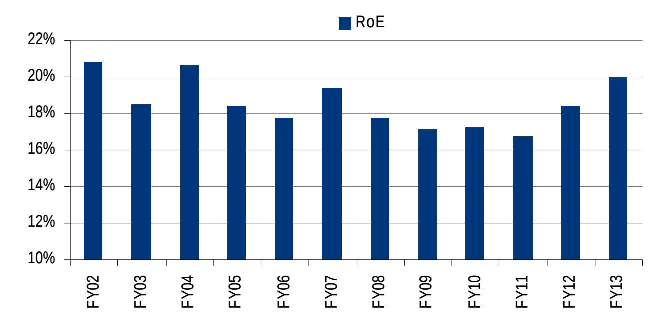
Source: BofA Merrill Lynch Global Research Estimates

Chart 110: Net Profit growth



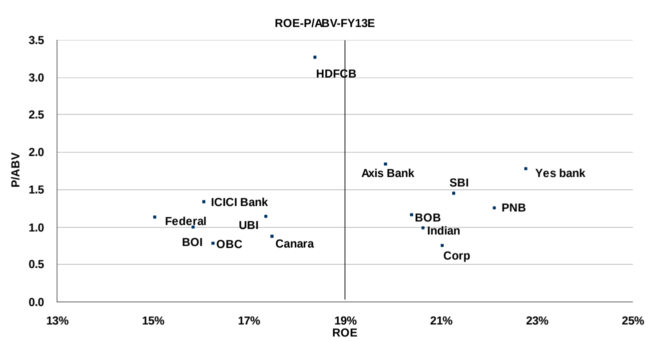
Source: BofA Merrill Lynch Global Research Estimates

Chart 111: RoE



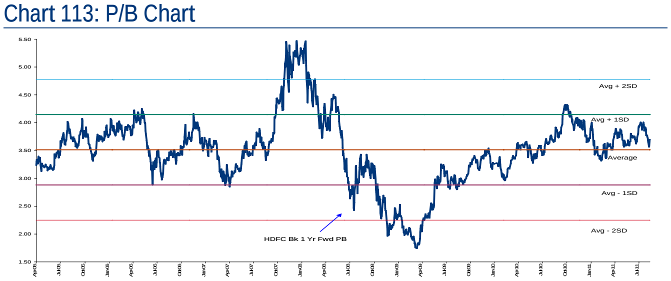
Source: BofA Merrill Lynch Global Research Estimates

Chart 112: PB RoE chart



Source: BofA Merrill Lynch Global Research Estimates

Chart 113: P/B Chart



Source: BofA Merrill Lynch Global Research Estimates

Hero MotoCorp Ltd (HMCL IN, Buy)

S.Arun

Current share price: Rs1902

Trough price: Rs1650

Upside price: Rs2350

Downside scenario: What can go wrong?

- Two-wheeler growth could slow to 14% in FY12E and further to 7.5% in FY13E, higher than historic troughs, driven by increased capacity and new launches.
- Margins to trend towards historic troughs on high commodity prices, R&D spend and marketing initiatives at 11.6%/12% over FY12/13E.

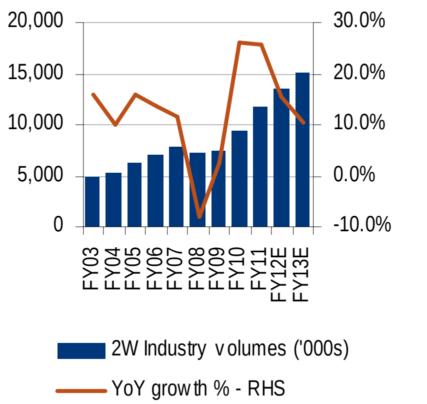
Upside scenario: What can go right?

- Two-wheeler volumes could grow 17.5% in FY12E, due to a strong franchise and new launches, but slow to 10% in FY13E, slightly higher than the industry. Growth rates would be unlikely to hit historic peaks due to increased competition.
- Margins could improve on the back of stronger sales, lower commodity prices, albeit capped by increased R&D, marketing spend. Range of 13-14% in line with the historic average, but below the peak of 17.5% due to increased competition.

Risk-reward: Even

- In the worst case, we think the stock could trade at 13.5x FY13E P/E at Rs1,650/share, which is a slight discount to the historic average on likely market-share moderation.
- In the best case, we believe the stock could re-rate to 15.5x FY13E P/E at Rs2,350/share, which is about a 10% premium to the historic average on market-share gains.

Chart 114: Two wheeler ind volume and growth



Source: SIAM, BofA Merrill Lynch Global Research estimates

Table 29: Volume and margin outlook

	BofAML estimates		Downside scenario		Upside scenario	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Vol(000s)						
Two whlr	6348	7239	6157	6622	6348	6985
Vol Growth						
Two whlr	17%	14%	14%	8%	17%	10%
Margins	12.1%	13.0%	11.6%	12.0%	12.8%	14.0%

Source: Company, BofA Merrill Lynch Global Research estimates

Table 28: Earnings outlook for Hero MotoCorp

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	275,148	253,732	266,350	-7.78%	-3.20%
YoY chg	15%	9%	12%		
EBITDA (Rs mn)	35,679	30,386	37,296	-14.84%	4.53%
EBITDA margin (%)	13%	12%	14%		
YoY chg	23%	13%	22%		
Net Income (Rs mn)	28,882	24,403	30,272	-15.51%	4.81%
YoY chg	20%	9%	19%		
EPS (Rs)	145	122	152	-15.51%	4.81%
YoY chg	20%	9%	19%		
Free Cash Flow/Share(Rs)	148	123	154	-16.92%	3.92%

Source: Company, BofA Merrill Lynch Global Research estimates

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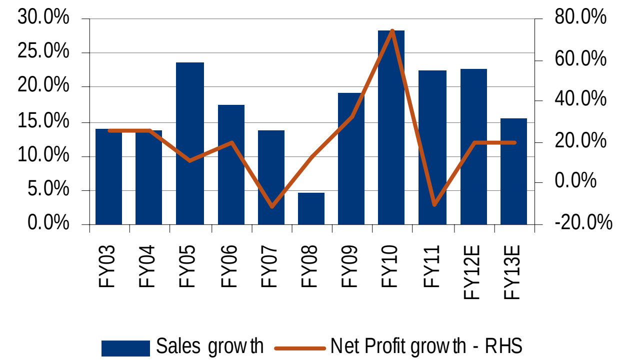
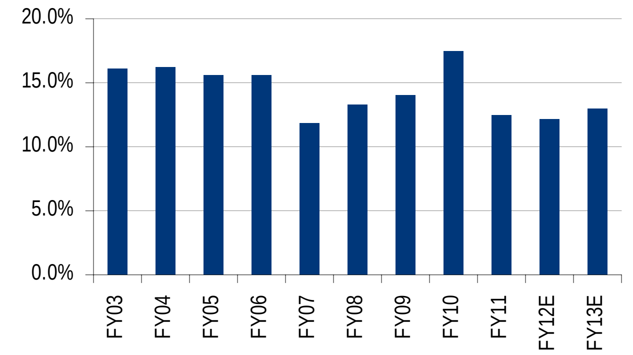
Chart 115: 10 yr Sales & Net profit growth



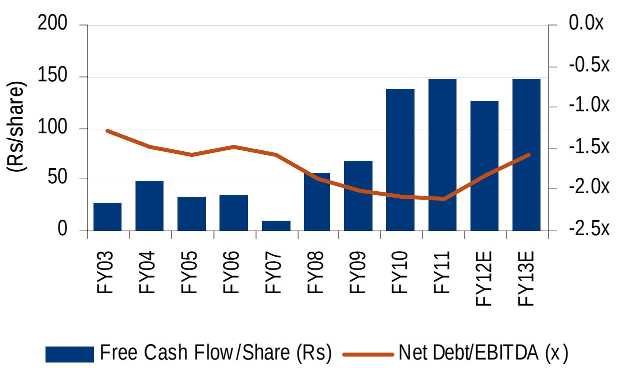
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 116: 10 yr Margins



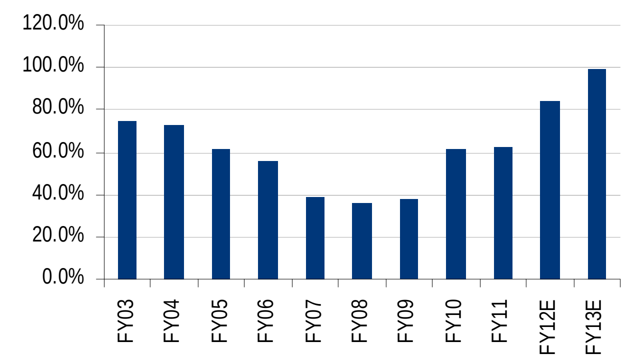
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 117: Free cash flow & Net debt/EBITDA



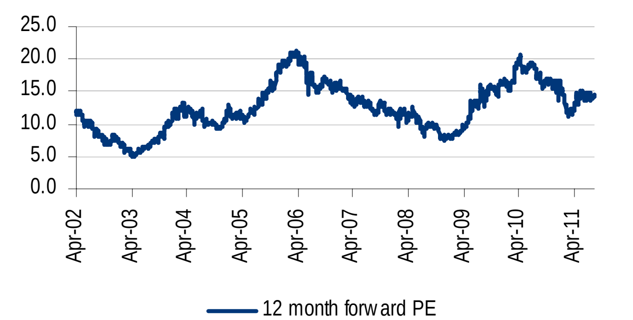
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 118: 10 year RoE



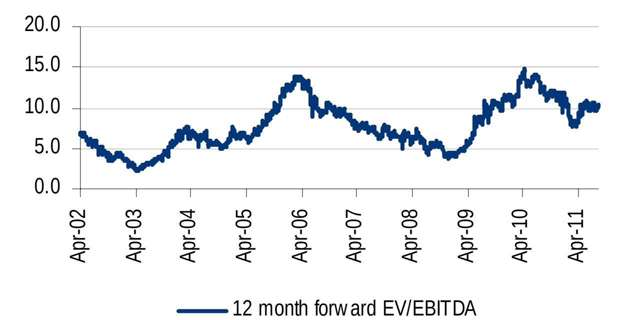
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 119: 12 month forward P/E band



Source: Company, BofA Merrill Lynch Global Research estimates

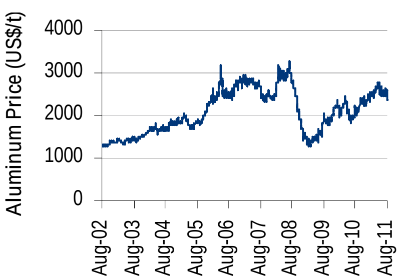
Chart 120: 12 month forward EV/EBITDA band



Source: Company, BofA Merrill Lynch Global Research estimates

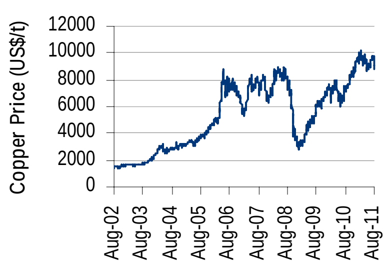
Bhaskar.N.Basu, CFA
Current share price: Rs143
Trough price: Rs100
Upside price: Rs171

Chart 121: Aluminum LME price



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 122: Copper LME price



Source: Bloomberg, BofA Merrill Lynch Global Research

Table 30: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bp change in Al ASP	0.9%	1.9%
100bp change in Al volumes	0.2%	0.5%

Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Table 31: Assumptions for scenarios

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Al Price ($/t)	2,619	2,875	2,105	2,105	2,619	2,875
Al Vol. (kt)	562	660	562	660	562	660
Cu Price ($/t)	9,782	9,875	7,445	7,445	9,782	9,875
Cu Vol. (kt)	323	318	323	318	323	318

Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Hindalco (HNDL IN, Neutral)

Downside scenario: What can go wrong?

- We assume base metal prices correct by 10-15% from current spot prices. We assume metals demand does not collapse as growth in emerging markets remains resilient.
- We assume Al LME corrects by 10% from spot prices to US$2,100/t and Cu LME declines by 10% to US$7,445/t in FY12-13E.
- At Novelis, volumes growth declines 6% in FY12 and remains flat in FY13 led by slowdown in demand in OECD countries.
- We assume conversion premium to sustain close to current levels, but lower mix of high-margin US/Europe volumes will lead to lower margins.
- Our EPS reduces by 45% to Rs9.1 in FY12E and by 53% to Rs8.5 in FY13E.

Upside scenario: What can go right?

- Under this scenario, we assume global economic cycle rolls over though near-term headwinds ease and industrial activity stabilizes. In this scenario, we expect base metal prices to be broadly in line with our base case forecasts.
- We forecast Al LME of US$2619/t in FY12E and US$2875/t in FY13E. We assume Novelis' volumes to grow at 3-4% over the next two years, mainly led by de-bottlenecking.
- In this scenario, we arrive at FY12E EPS of Rs16.6 and FY13E EPS of Rs18.2.

Risk-reward: Unfavorable

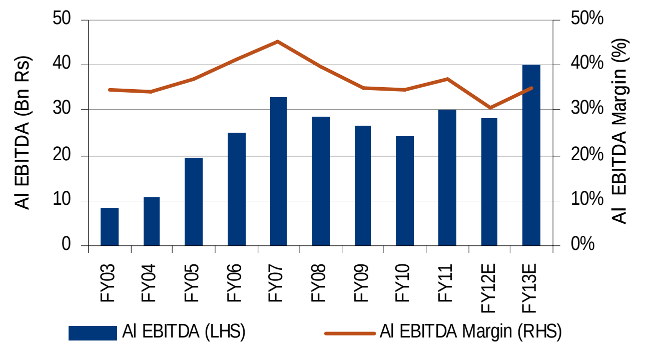
- Applying upper limit of the valuation range (~7x FY12 EBITDA) on HNDL's primary Al earnings under the downside scenario, we get a valuation of Rs103 (implying a further 31% downside potential under this scenario).
- Under the upside scenario, we forecast the stock to trade closer to our base case NPV of Rs171, which implies 6.1x FY12E EBITDA in line with historical average multiple over the past five years.

Table 32: Earnings outlook for Hindalco

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	895,172	664,220	895,172	-25.8%	0.0%
Sales Growth	10%	3%	10%		
EBITDA (Rs mn)	104,735	73,083	104,735	-30.2%	0.0%
EBITDA margin (%)	12%	11%	12%		
EBITDA Growth	14%	9%	14%		
Net Income (Rs mn)	34,861	16,225	34,861	-53.5%	0.0%
Net Income Growth	10%	-7%	10%		
EPS (Rs)	18.2	8.5	18.2	-53.5%	0.0%
EPS Change (YoY)	10%	-7%	10%		
Free Cash Flow/Share(Rs)	8.4	0.3	8.4	-96.8%	0.0%

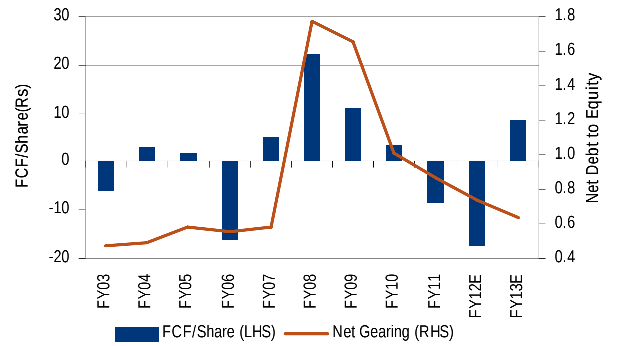
Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Chart 123: Aluminum EBITDA and EBITDA margin (FY03-13E)



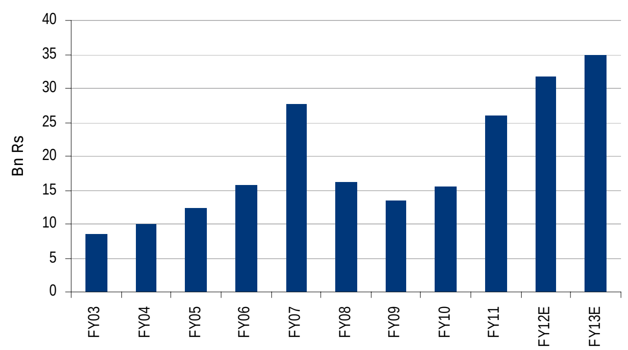
Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Chart 124: Hindalco FCF/share and net gearing (FY03-13E)



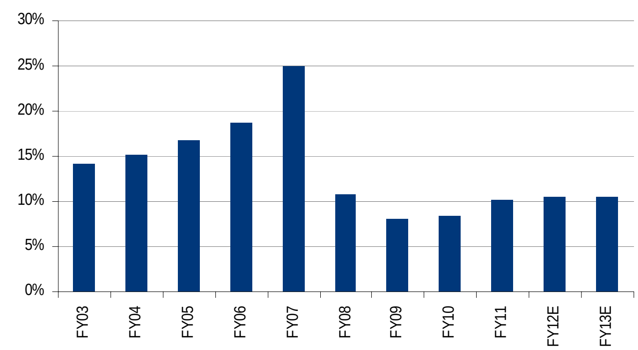
Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Chart 125: Hindalco net profit (FY03-13E)



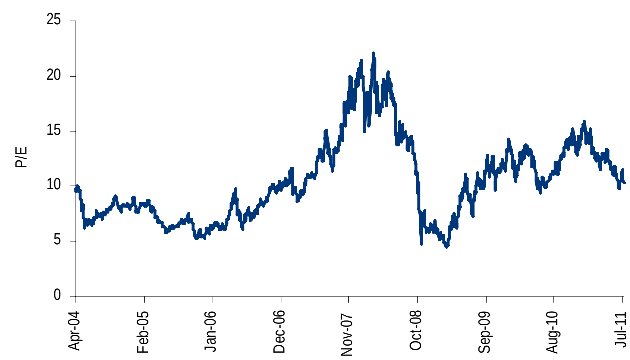
Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Chart 126: Hindalco RoE (FY03-13E)



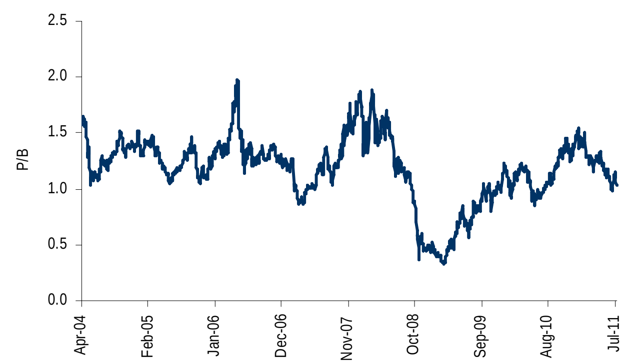
Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Chart 127: Hindalco P/E



Source: Hindalco, BofA Merrill Lynch Global Research Estimates

Chart 128: Hindalco P/B



Source: Hindalco, BofA Merrill Lynch Global Research Estimates

HDFC Ltd (HDFC IN, Buy)

Rajeev Varma

Veekesh Gandhi

Current price: Rs628

Trough price: Rs585

Upside price: Rs800

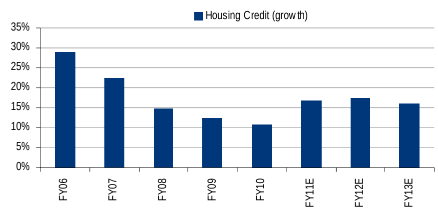
Downside scenario: What can go wrong?

- Volume growth at only +16/15% for FY12/13E owing to a sharp slowdown in the downside scenario; in particular, loans to developer / non-residential (accounting for around 30% of total loans) likely to see a sharper slowdown.
- The scenario assumes value of subsidiaries at Rs128/shr for FY13E, with HDFC Bank making up almost +70-75% of the value.
- Earnings growth could moderate to +13-14% for FY13E vs. historical at +20%. Spreads and asset quality still likely to remain very manageable.

Upside (Base) scenario: What can go right?

- Volume growth of 20% for FY12-13E, assuming market share gains driven by leadership position.
- The scenario assumes value of subsidiaries at Rs176/shr for FY13E, with HDFC Bank making up almost +75-80% of the value.
- Earnings growth could still be around 18% in FY/1213E driven by strong top-line led by volumes, but building in lower treasury gains. Spreads and asset quality to remain very manageable.

Chart 129: Housing credit growth



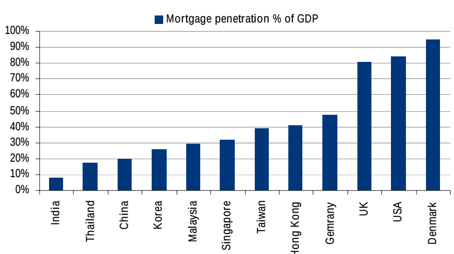
Source: BofA Merrill Lynch Global Research Estimates

Risk-reward: Favorable

While spreads and asset quality may be manageable for HDFC, we believe that it may still trend closer to its 2SD below average owing to historical rich valuations. But HDFC is likely to still show earnings growth of +13-14% in a 'downside case' given its much better loan profile and strong credit risk assessment record. Our 'downside case' valuation is Rs585, implying about 2.9x one-year forward for the core business, and add to that 'downside case' subsidiary value of Rs128/shr; closer to what the stock is trading at currently on FY13E book.

Our PO for HDFC Ltd. is at Rs800 for the 'upside case'. We believe HDFC being a quality "defensive growth" stock, valuations for the stock will be more "PE" led than BV led. Hence, the stock trading at around 22-23x FY11e earnings (adj. for subs) can continue to trade at similar multiples one year out.

Chart 130: Mortgage penetration % of GDP



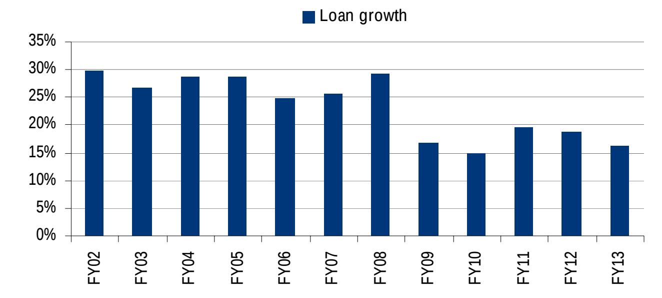
Source: European Mortgage Federation, 2008, World Bank, 2008 & BCG Banking Report, 2010

Table 33: Earnings outlook: Base case Vs Worst case

HDFC ltd	Upside Case		Downside Case		Change %	
Rs Mn	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	52,313	64,354	50,530	59,973	-3%	-7%
NII growth	23.2%	23.0%	19.0%	18.7%		
Pre Provision Profit (PPP)	60,000	71,997	57,616	66,943	-4%	-7%
PPP growth	22%	20%	17%	16%		
Net Profit	42,620	51,171	40,778	47,070	-4%	-8%
Net Profit growth	20.6%	20.1%	15.4%	15.4%		
EPS (Rs)	28	34	27	31	-4%	-8%
EPS growth	16.2%	20.1%	11.2%	15.4%		
Dividend per share	10.5	12.5	10.5	12.5	0%	0%
Adjusted book value per share	148	164	147	161	0%	-2%
RoE	21.1%	20.9%	20.3%	19.6%		
RoA	2.8%	2.8%	2.7%	2.8%		

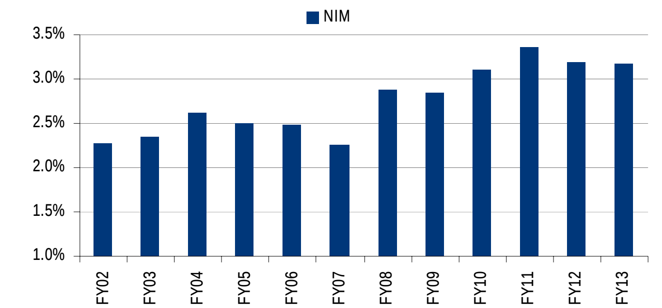
Source: BofA Merrill Lynch Global Research Estimates

Chart 131: Loan growth



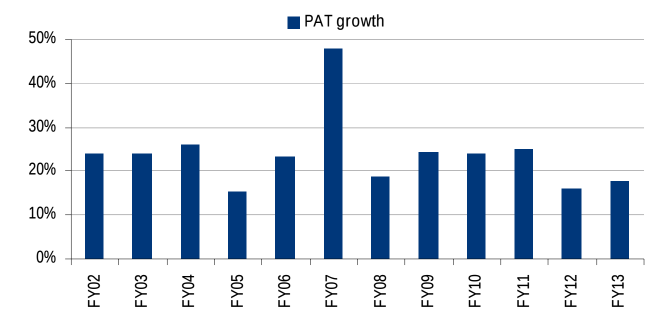
Source: BofA Merrill Lynch Global Research Estimates

Chart 132: Margins



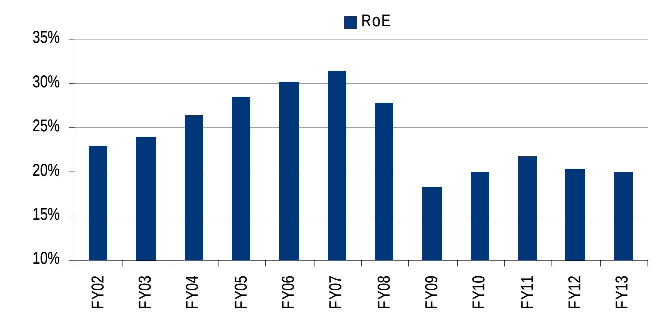
Source: BofA Merrill Lynch Global Research Estimates

Chart 133: Net Profit growth



Source: BofA Merrill Lynch Global Research Estimates

Chart 134: RoE



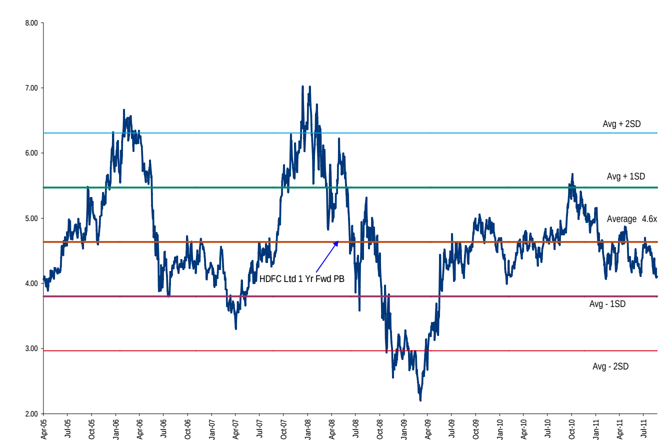
Source: BofA Merrill Lynch Global Research Estimates

Table 34: SOTP (base)

Total Value of Biz. (US$ mn)	FY11	FY12	FY13
Life Insurance	1,726	1,584	1,545
AMC	1,010	1,086	1,093
HDFC Bank	4,715	6,287	6,942
Total	7,451	8,957	9,580
Per Share Value (Rs) (HDFC's Share)	FY11	FY12	FY13
Life Insurance	38	34	34
AMC	20	21	21
HDFC Bank	148	193	205
Total	206	247	260
Value / Shr of Subs	206	247	260
Less : Value of HDFC's invst	51	53	54
Less: Holdco Discount	21	28	30
Net Value of Subs / Shr	134	166	176

Source: BofA Merrill Lynch Global Research Estimates

Chart 135: P/B Chart



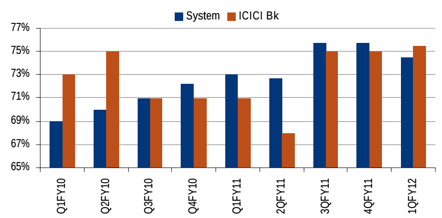
Source: BofA Merrill Lynch Global Research Estimates

Rajeev Varma
Veekesh Gandhi

Current price: Rs834
Trough price: Rs733
Upside price: Rs1200

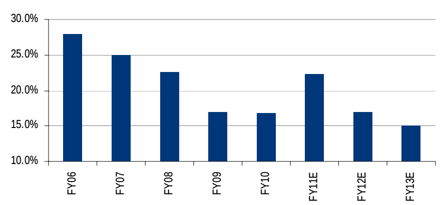
Our Base Case factors in emerging credit cycle by FY12 end and loan growth 15% in FY13: see- Banks-Retail, 22 August 2011

Chart 136: LDRs



Source: BofA Merrill Lynch Global Research Estimates

Chart 137: Credit growth (System)



Source: BofA Merrill Lynch Global Research Estimates

ICICI Bank (ICIBC IN, Buy)

Downside scenario: What can go wrong?

- Volume growth of +16/15% for FY12/13E on rising macro concerns and the US double dip slowdown.
- Large projects could be restructured leading to higher provisioning and an earnings hit. Exposure to Power is around 4.5% / commercial real estate is ~6-7% of loans. International loans, which make up 25% of its domestic B/s could also show some stress, but exposure is ~90% to Indian Corporates.
- Earnings growth could moderate to about 18-19%, in a 'downside case'. However, margins could well continue to rise owing to changing loan mix.

Upside (Base) scenario: What can go right?

- Volume growth of +18/17% for FY12/13 leading to market share gains, as we assume the sector loan growth at +17/14% for FY12/13. The recently expanded distribution (+1200 branches in last 18 months) will provide some fillip to CASA, NIMs, and fees going ahead.
- ICICI Bank is likely to be the least impacted owing to its lower exposure to Infrastructure and MSME. Moreover, retail loans account for ~40% of loans and given the seasoned book, the risk of higher slippages (retail) is unlikely.
- Earnings growth of +22/24% could well sustain through FY12/13. ICICI Bk is among better placed banks in regards to earnings trajectory driven by normalizing of credit costs at ~80bp vs. +2.4% in last credit cycle (2009-10).

Risk-reward: Favorable

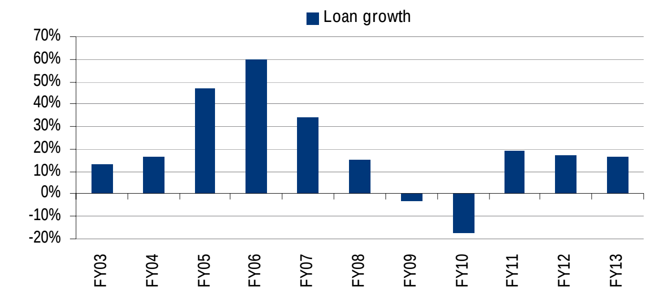
- We believe ICICI Bank has limited downside risk from current levels. While the stock is likely to trend towards 2 SD below average in a 'downside scenario', we do think the sharp correction in share price in the past few days is already capturing much of the earnings and asset quality risk. This implies a stress price of Rs735. However, the risk-return is most positive for ICICI Bank, with the least downside risk (<10-12%), but maximum upside (+40%).
- Our PO for ICICI is at Rs1,200 for the 'upside case'. Our PO is currently based on the average historical PB multiple. Also, ICICI Bank has amongst the best asset quality (most seasoned book), & is the best capitalized bank.

Table 35: Earnings outlook: Base case Vs Worst case

ICICI Bank	Upside Case		Downside Case		Change %	
Rs mn	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	105,836	124,654	104,799	121,449	-1%	-3%
NII growth	17.4%	17.8%	16.2%	15.9%		
Pre Provision Profit (PPP)	107,933	131,121	105,957	123,718	-2%	-6%
PPP growth	19%	21%	17%	17%		
Net Profit	63,656	78,838	61,658	73,175	-3%	-7%
Net Profit growth	23.6%	23.8%	19.7%	18.7%		
EPS (Rs)	55	68	54	64	-3%	-7%
EPS growth	21.6%	23.8%	17.8%	18.7%		
Dividend per share	18.5	23.0	18.5	23.0	0%	0%
Adjusted book value per share	486	520	481	505	-1%	-3%
RoE	14.0%	16.1%	13.7%	15.3%		
RoA	1.47%	1.61%	1.42%	1.50%		

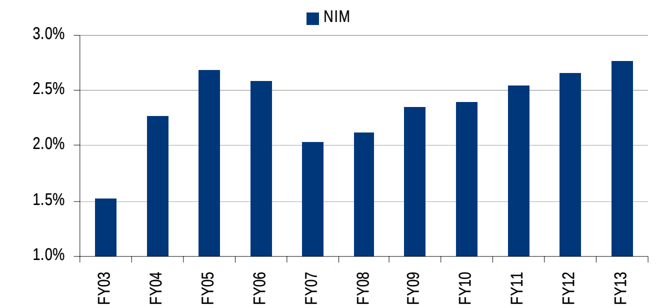
Source: BofA Merrill Lynch Global Research Estimates

Chart 138: Loan growth



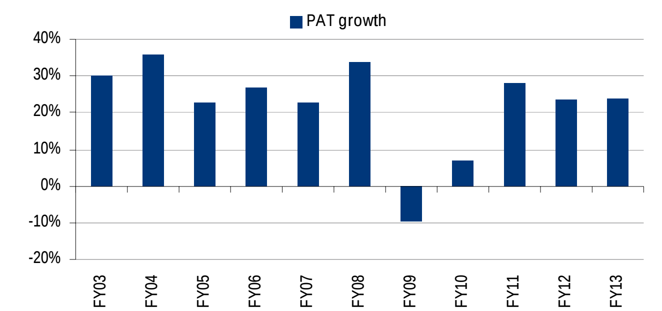
Source: BofA Merrill Lynch Global Research Estimates

Chart 139: Margins



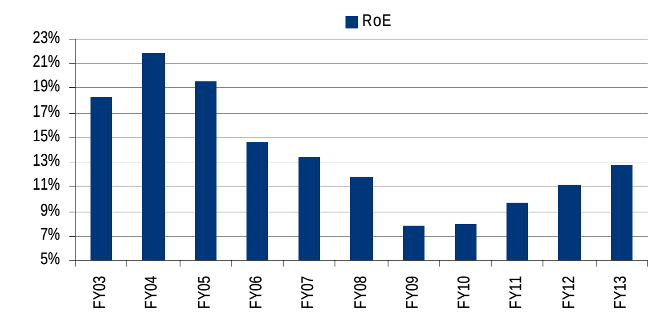
Source: BofA Merrill Lynch Global Research Estimates

Chart 140: Net Profit growth



Source: BofA Merrill Lynch Global Research Estimates

Chart 141: RoE



Source: BofA Merrill Lynch Global Research Estimates

Chart 142: SOTP

SOTP - US$ mn	FY11	FY12	FY13
Life Insurance -	4,156	4,120	4,332
General Insurance -	-250	1,031	1,121
Asset Management -	700	914	1,126
Venture-	405	527	605
Home Finance	291	310	328
Broking -	578	736	895
Mkt value of Non-Banks Subsid.	**5,881**	**7,638**	**8,408**
Aggregate SOTP - Per Share	**FY11**	**FY12**	**FY13**
Life Insurance (74% stake)	125.8	119.3	124.9
General Insurance (74% stake)	-8.1	33.3	36.2
Asset Management (51% stake)	15.6	20.3	25.1
Venture (100%)	17.7	23.0	26.4
Home Finance	20.9	23.5	22.2
Broking (100%)	25.2	33.1	40.1
Total of Non-Bank Subs / Share	**197**	**253**	**275**
Final Subs Value (Post Disc. = 10%)	**177**	**230**	**247**

Source: BofA Merrill Lynch Global Research Estimates

Chart 143: P/B Chart

Source: BofA Merrill Lynch Global Research Estimates

IDFC Ltd (IDFC IN, Underperform)

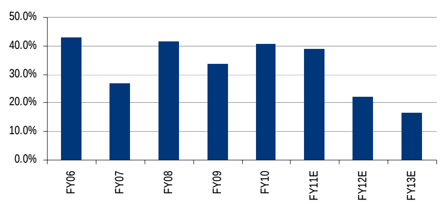
Rajeev Varma
Veekesh Gandhi

Current price: Rs107
Trough price: Rs99
Upside price: Rs134

Downside scenario: What can go wrong?

- Volume growth at only +17/15% for FY12/13E owing to a sharp slowdown in the weaker macro scenario; growth to be in-line with the sector average.
- Capital-linked businesses that make up almost around 25-30% of profits could come under higher stress as the markets remain volatile. This could not only impair earnings growth for IDFC (as already captured) but also de-rate the valuation benchmark for capital market businesses.
- Earnings growth could collapse to <10% through FY13 on sector average volume growth, rise in NPLs, and weak contribution from capital-linked business.

Chart 144: Infra. Loan growth (Sector)



Source: BofA Merrill Lynch Global Research Estimates

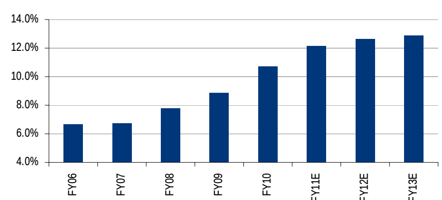
Upside (Base) scenario: What can go right?

- Volume growth of +24-25% for FY12-13E driven by top-line growth of +30/20%.
- Earnings growth could still be around 19-20% in FY12/13E, despite the strong top-line led by volumes owing to building in lower gains from the capital market business.

Risk-reward: Not Favorable

IDFC could trade down at +1.0-1.1x FY13E core business (Infrastructure) book given RoEs (core of <12.5% on the back of very weak earnings growth (<10%), and more importantly, de-rating of the capital market linked business. Non-core business adds another Rs30/shr.

Chart 145: Infra Loan as % of Total loans



Source: BofA Merrill Lynch Global Research Estimates

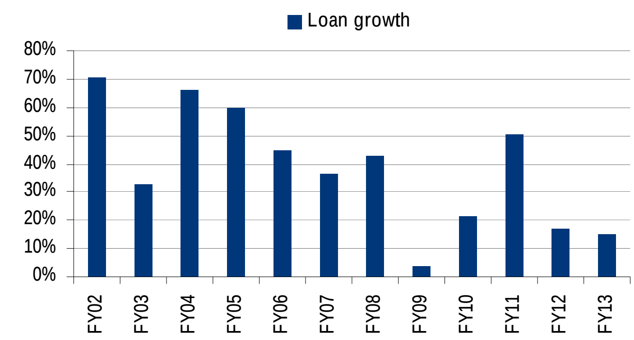
Our PO for the 'upside case' still assigns a +30% premium to Gordon multiples for IDFC's core business (target P/B of +1.4-1.5x FY13E book) owing to its strong management / asset quality comfort, but core RoEs are capped at +14-15%. The non-core business is valued at Rs36/shr.

Table 36: Earnings outlook: Base case Vs Worst case

IDFC	Upside Case		Downside Case		Change %	
Rs Mn	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	20,349	24,705	18,825	21,921	-7%	-11%
NII growth	30.4%	21.4%	20.6%	16.4%		
Pre Provision Profit (PPP)	24,182	28,964	22,458	25,008	-7%	-14%
PPP growth	20%	20%	12%	11%		
Net Profit	15,411	18,355	14,187	14,901	-8%	-19%
Net Profit growth	20.5%	19.1%	10.9%	5.0%		
EPS (Rs)	10	12	9	10	-8%	-19%
EPS growth	16.5%	19.1%	7.2%	5.0%		
Dividend per share	2.4	2.9	2.4	2.9	0%	0%
Adjusted book value per share	82	91	80	85	-2%	-6%
RoE	13.6%	14.1%	12.5%	11.7%		
RoA	2.8%	2.8%	2.7%	2.5%		

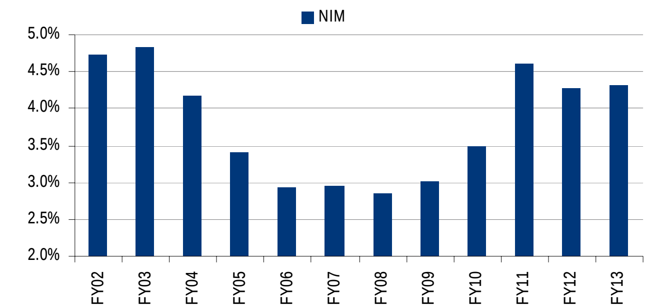
Source: BofA Merrill Lynch Global Research Estimates

Chart 146: Loan growth



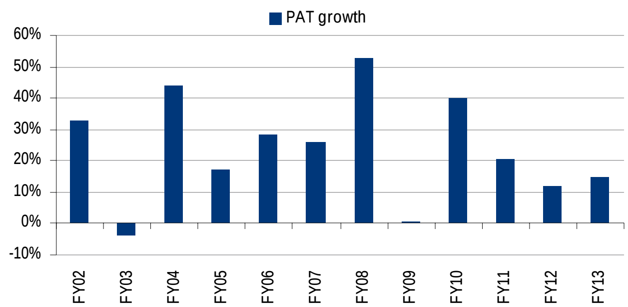
Source: BofA Merrill Lynch Global Research Estimates

Chart 147: Margins



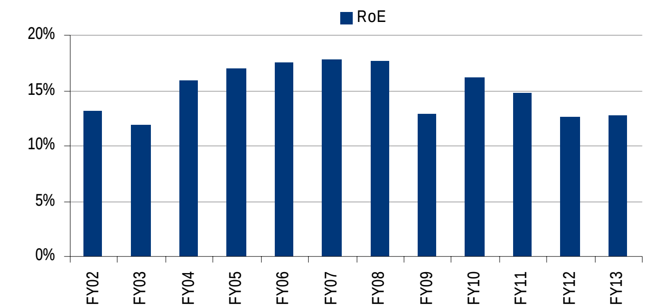
Source: BofA Merrill Lynch Global Research Estimates

Chart 148: Net Profit growth



Source: BofA Merrill Lynch Global Research Estimates

Chart 149: RoE



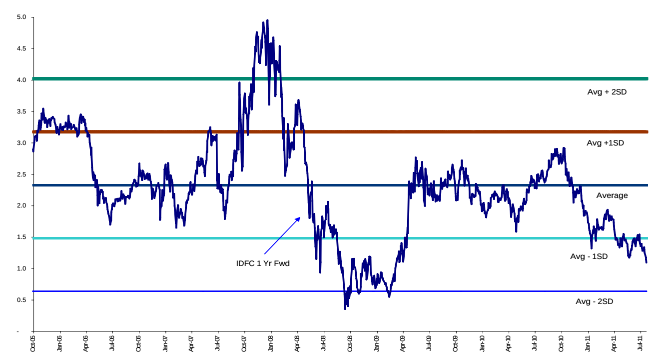
Source: BofA Merrill Lynch Global Research Estimates

Chart 150: SOTP (Base Case)

Sum of parts Value	**FY13**	
Business	Value (Rs bn)	Value / Shr (Rs)
Infrastructure Financing	147.4	97.7
Asset Management	10.7	7.1
Listed / Other Investments	8.0	5.3
NSE stake	8.1	5.3
SSKI stake	15.8	10.4
Standard Chartered AMC	11.7	7.8
Total Value	**201.7**	**134**

Source: BofA Merrill Lynch Global Research Estimates

Chart 151: P/B Chart



Source: BofA Merrill Lynch Global Research Estimates

Mitali B. Ghosh

Pratish Krishnan

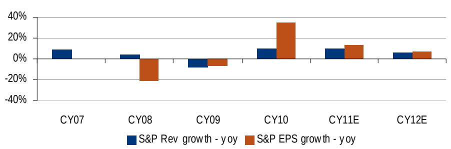
Kunal Tayal

Current share price: Rs2183

Trough price: Rs1844

Upside price: Rs2800

Chart 152: S&P500 co's expected to show profitable growth in CY11/12 – unlike CY08/09



Source: BofA Merrill Lynch Global Research

Table 37: Sensitivity of EBIT margin

1% pricing decline	74
1% appreciation of INR	40
1% decline in utilization	30-40

Source: BofA Merrill Lynch Global Research

INFOSYS (INFO IN, Buy)

Downside scenario: What can go wrong?

- Infosys could report revenue growth of 13% and 8% in FY12 and FY13 vs its guidance of 18-20% revenue growth for FY12, driven by cuts in enterprise solutions, which tends to be discretionary in nature and sluggishness in US (64% of revenue). It has lower exposure to secular growth markets of emerging geos and infrastructure management services.
- Company's recent reorganization could also impact growth due to organization distraction. Its relatively premium pricing position could come under pressure give increasing competition.
- Margins could fall 300bp in FY12, due to lower utilization levels and pricing pressure. Employee utilization rates for Infy stands lower than peers as the company was preparing for back-ended growth in FY12.

Upside scenario: What can go right?

- The company could show revenue growth of 16% and 18% in FY12 and FY13 as clients leverage the global sourcing model. Pain from exposure to the telecom-wire line segment is now behind and it is on its way to increasing exposure to emerging markets and telecom-wireless, satellite and media.
- Infy could see improved deal wins helped by the recent reorganization allowing vertical heads to be more nimble.
- Decline in operating margins for FY12 is restricted to 240bp on employee pyramid benefits and SG&A optimization.

Risk-reward: Favorable

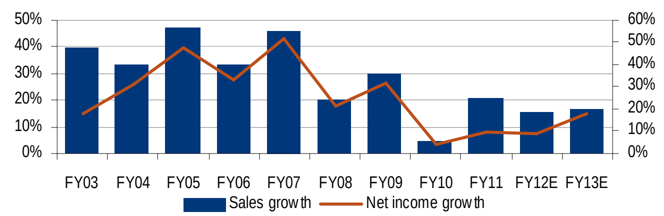
- In our bull case, Infosys could trade up to Rs2,765 (18x 1yr fwd EPS – 10% lower than its 5yr average P/E, given the uncertain environment).
- In the worst case, it could trade down to Rs1,844 at 13.5x 1yr fwd EPS – 10% lower than its average P/E less 1 SD of 15x. While the P/E dipped to 11x in Sep08-Mar09, barring this brief window, the lowest has been c.15x.

Table 38: Earnings outlook for Infosys

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	370,793	343,730		-7%	
Sales Growth	16.6%	8.8%			
EBITDA (Rs mn)	113,351	102,385		-10%	
EBITDA margin (%)	30.6%	29.8%			
EBITDA Growth	16.4%	8.4%			
Net Income (Rs mn)	87,819	78,133		-11%	
Net Income Growth	18.1%	7.5%			
EPS (Rs)	153.5	136.5		-11%	
EPS Change (YoY)	17.9%	7.3%			
Dividend/Share (Rs)	39.0	39.0		0%	
Free Cash Flow/Share (Rs)	126.3	116.4		-8%	

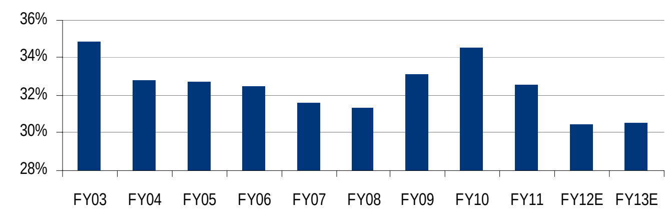
Source: BofA Merrill Lynch Global Research

Chart 153: 10 yr Sales and Net profit growth



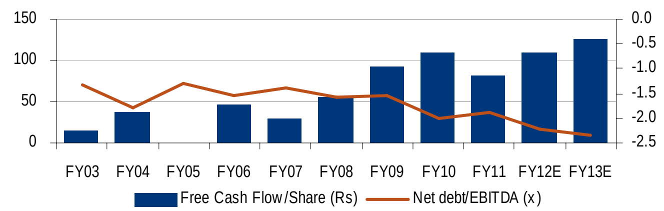
Source: BofA Merrill Lynch Global Research

Chart 154: 10 yr Margins



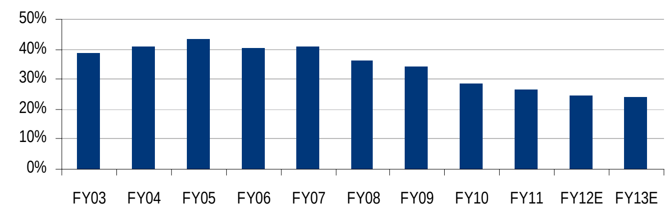
Source: BofA Merrill Lynch Global Research

Chart 155: Free cash flow & Net debt/EBITDA



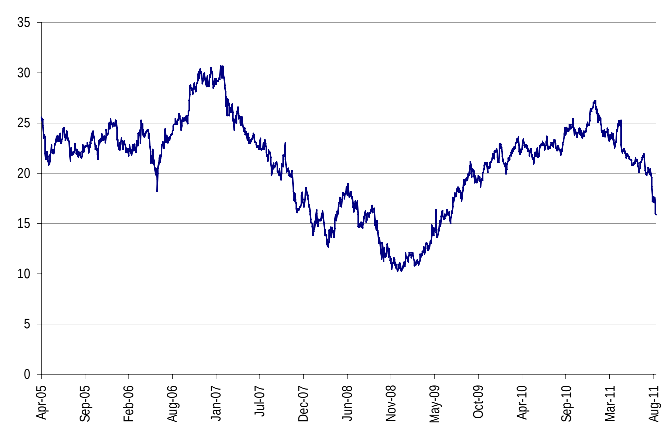
Source: BofA Merrill Lynch Global Research

Chart 156: 10 year RoE



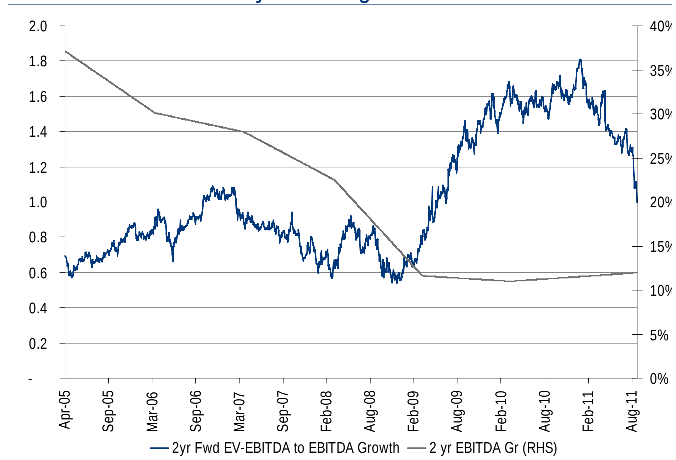
Source: BofA Merrill Lynch Global Research

Chart 157: 1yr fwd PE



Source: BofA Merrill Lynch Global Research

Chart 158: EV/EBITDA to 2yr EBITDA growth



Source: BofA Merrill Lynch Global Research

ITC (ITC IN, Buy)

Prasad Deshmukh

Current share price: Rs202

Trough price: Rs195

Upside price: Rs252

Table 39: Sensitivity analysis

Yr ending 31 Dec	FY13E	
	EBITDA	EPS
100bps change in cigarette volumes	1.5%	2%

Source: BofA Merrill Lynch Global Research estimates

Downside scenario: What can go wrong?

- Volume growth in cigarettes to slow from about 9% in Q1 CY11 to 3-4% in 2H CY11. Decline of 1% in volumes seen in CY12 if excise hike is material.
- Non-cigarette FMCG to see industry-wide price cuts due to high competition. This implies that EBITDA-level breakeven may be delayed beyond FY14.
- Sharp decline in tourist arrivals leading to hotels occupancies falling to 55% from 65% now, along with a 10% decline in average room rents.
- Failure in monsoon leading to lower availability of agricultural produce for trading in the agri business.

Upside scenario: What can go right?

- Strong recovery in cigarette volumes at 9% in Q1FY12 sustains through FY12, courtesy stable excise duties.
- Non-cigarette FMCG achieves break-even sooner-than-expected in FY13 due to price hikes, softer raw material costs and closure of loss-making units.
- Tourist arrivals continue to remain strong with about 70% occupancy and 10% higher average room rents.
- Normal monsoon leads to wide availability of agricultural produce, resulting in segmental revenue growth of more than 20%.

Risk-reward: Favorable

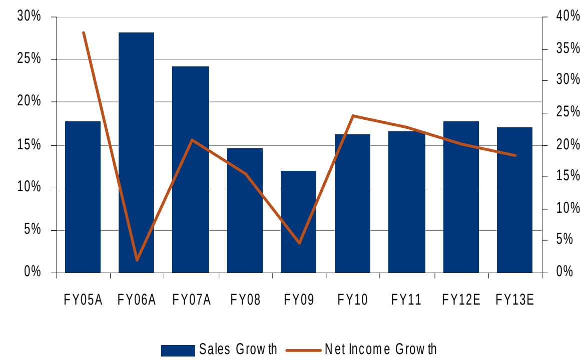
- Worst case, the stock could trade down to a DCF-based price level of INR195, in our view, which implies about 5% potential downside.
- Best case, we expect the stock to trade at about INR252, which implies about 23% upside potential from current levels.
- Overall, the risk-reward appears favorable.

Table 40: Earnings outlook for ITC

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	291,413	273,973	301,405	-5.98%	3.43%
YoY (%)	17%	13.9%	18.7%		
EBITDA (Rs mn)	109,198	97,806	117,177	-10.43%	7.31%
EBITDA margin (%)	37.5%	35.7%	38.9%		
YoY (%)	18%	12.6%	21.7%		
Net Income (Rs mn)	70,895	63,099	76,363	-11.00%	7.71%
YoY (%)	18.4%	12.6%	22.3%		
EPS (Rs)	9.2	8.2	9.9	-10.87%	7.61%
YoY (%)	18.4%	12.6%	22.3%		
Free Cash Flow/Share(Rs)	7.8	6.9	8.4	-11.54%	7.69%

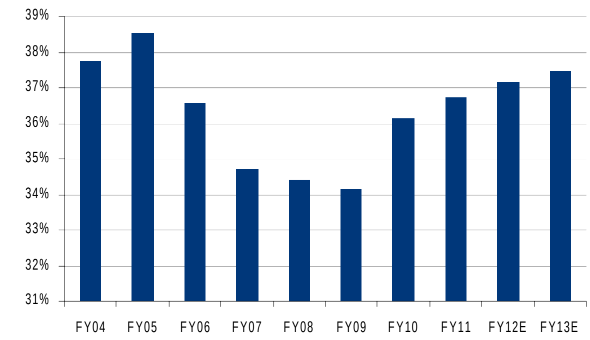
Source: BofA Merrill Lynch Global Research estimates

Chart 159: 9 yr Sales & net profit growth



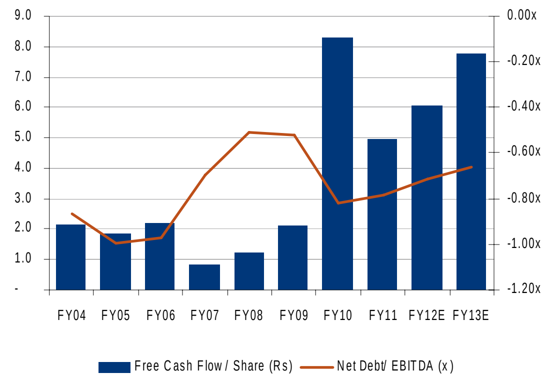
Source: BofA Merrill Lynch Global Research estimates

Chart 160: 10 yr margins



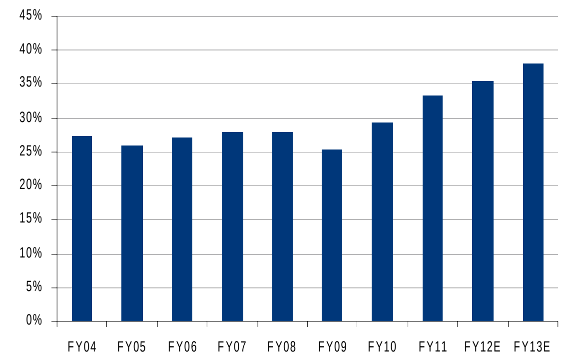
Source: BofA Merrill Lynch Global Research estimates

Chart 161: Free cash flow & net debt/EBITDA



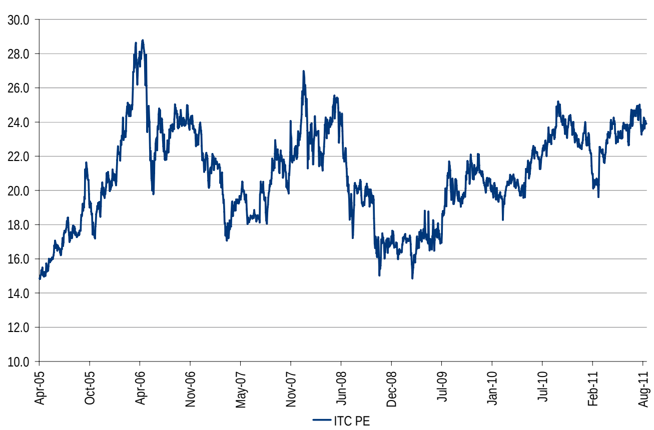
Source: BofA Merrill Lynch Global Research estimates

Chart 162: 10 year RoE



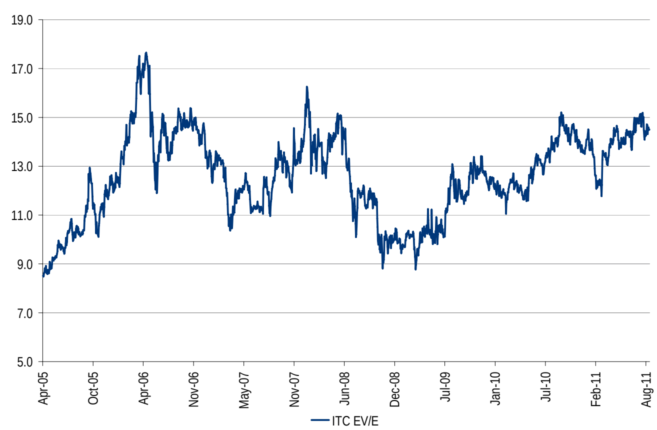
Source: BofA Merrill Lynch Global Research estimates

Chart 163: ITC PE chart



Source: Bloomberg for prices, BofA Merrill Lynch Global Research

Chart 164: ITC EV/EBITDA chart



Source: Bloomberg for prices, BofA Merrill Lynch Global Research

JPA (JPA IN, Buy)

Bharat Parekh

Current share price: Rs59
Trough price: Rs55
Upside price: Rs128

Bear case: What can go wrong

- In bear markets, equity funding for its new power projects may toughen so we remove all future projects starting after FY15E that are not ordered yet.
- For JP Infra, our realty team assumes no price growth at Noida parcel until FY14 vs (5% in FY12-13E) causing a 15% EPS cut in FY13E. Parcel 2 is valued at cost vs development basis. Raise discount to NAV to 20% vs 15%.
- Bear markets could delay capex, which will slow cement volume growth by 500bp to 17% in FY12E and 23% in FY13 vs our estimates.
- Weak demand drive cements ASP to fall 7% in FY13, leading to a 70% cut in parent EPS in FY13E.
- As realty and capex slow, we assume 12-17% cut in E&C revenue and a 5% fall in FY13E revenue at JPA Noida realty, on delay in deliveries.
- Interest rate to fall, assume a 100bp interest rate cut in FY12 and 13E.
- All of the above could severely hit cash flow as FY13E parent EPS could fall 83% impacting debt repayment ability given JPA's leveraged parent balance-sheet (net D/E 2x).

Base case: What happens in deflation

- In our base case assuming a deflationary scenario, we expect cement costs to go up. We assume a 5bp rise in cement costs.
- Expect the stock to trade at Rs128 with parent E&C at 5.4x FY13 EBITDA and parent cement US$78/tn of FY13E capacity.

Risk-reward: Favorable once dust settles

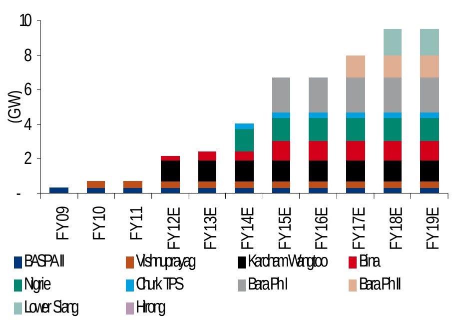
- In our bear case, we expect the stock could trade at Rs55 implying 11% downside to CMP. We value parent E&C at 3x FY13 EBITDA, parent cement business at US$60/tn of FY13E capacity and raise the discount to power projects at JP Power and JP Infratech DCF to 20% vs 15%.
- In our base case, we expect the stock to trade at Rs128 implying 106% upside to CMP.
- Overall, risk-reward appears favorable once leverage concerns subside and markets pay rational attention to cash flow contained in long-tail assets.

Table 41: JPA - Sensitivity Analysis

	FY13E	
	EBITDA	EPS
5% change in E&C revenue	1.9%	4.6%
5% change in Cement volume	3.4%	9.3%
5% change in cement prices	9.7%	26.8%

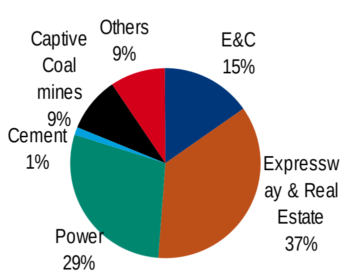
Souce: BofA Merrill Lynch Global Research

Chart 165: JPA: Installed Power Capacity



Source: Company, BofA Merrill Lynch Global Research

Chart 166: JPA – SOTP Breakup



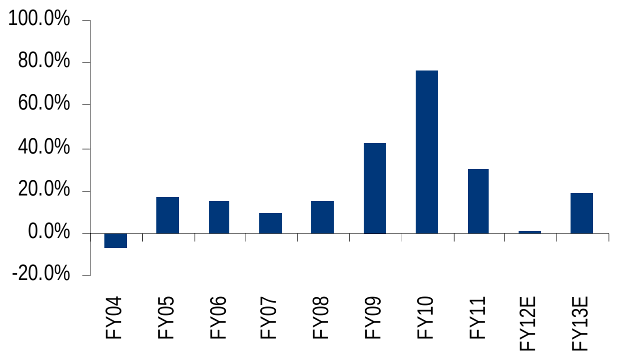
Source: BofA Merrill Lynch Global Research

Table 42: JPA (Parent) - Earnings outlook

	BofAML	Downside	Upside	Variance vs BofAMLe	
	estimates	scenario	scenario	Downside	Upside
	FY13E	FY13E	FY13E	FY13E	FY13E
Sales (Rs mn)	154,511	131,525	154,511	-15%	0%
Sales Growth	18%	11%	18%		
EBITDA (Rs mn)	40,719	26,616	37,665	-35%	-7%
EBITDA Margin (%)	26.4%	20.2%	24.4%		
EBITDA Growth	29%	-4%	29%		
Net Income (Rs mn)	10,645	1,853	8,349	-83%	-22%
Net Income Growth	49%	-69%	53%		
EPS (Rs)	5.0	0.9	3.9	-83%	-22%
EPS Change (YoY)	49%	-69%	53%		
Dividend/Share (Rs)	1.0	1.0	1.0	0%	0%
Free Cash Flow/Share (Rs)	14.2	8.9	13.0	-37%	-8%

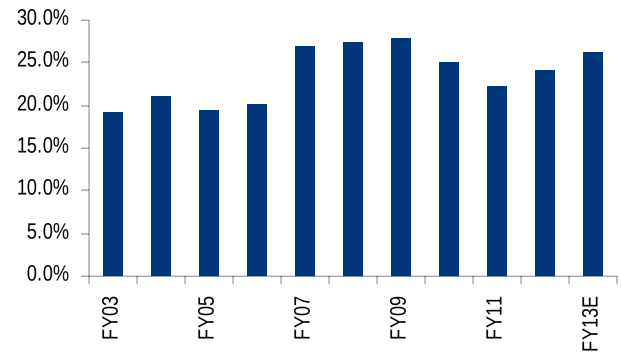
Souce: BofA Merrill Lynch Global Research

Chart 167: JPA - Sales growth



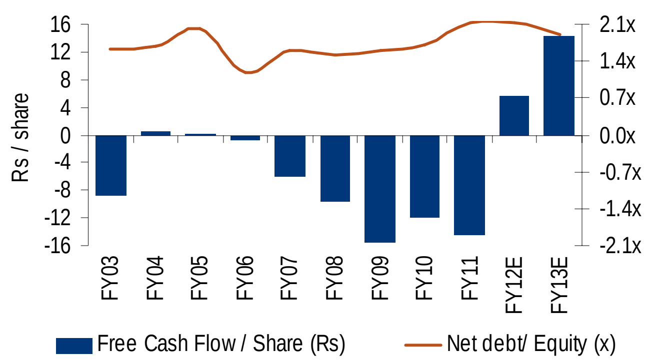
Source: Company, BofA Merrill Lynch Global Research

Chart 168: JPA - EBITDA Margins



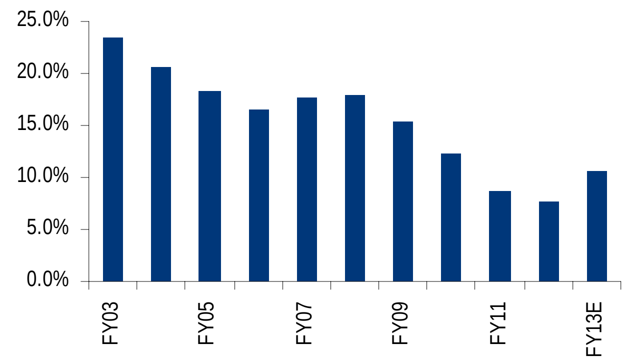
Source: Company, BofA Merrill Lynch Global Research

Chart 169: JPA – Free Cash Flow & Net debt / Equity



Source: Company, BofA Merrill Lynch Global Research

Chart 170: JPA - RoE



Source: Company, BofA Merrill Lynch Global Research

Chart 171: JPA - PE Chart

Source: Company, BofA Merrill Lynch Global Research

Chart 172: JPA - P/B Chart

Source: Company, BofA Merrill Lynch Global Research

JSPL (JSP IN, Underperform)

Bhaskar.N.Basu, CFA
Current share price: Rs470
Trough price: Rs380
Upside price: Rs629

Downside scenario: What can go wrong?

- We assume iron ore prices correct to US$120/t CFR in FY13E.
- We assume domestic realizations correct by 10% as a result. We do not assume domestic steel prices to collapse to 2008 lows as we expect iron ore prices to sustain at higher prices relative to CY08 due to supply issues.
- We forecast steel EBITDA/t of US$263/t in FY12E and US$270/t in FY13E. We assume lower volumes due to slow demand, supply increase and India's inability to export surplus steel. We assume Orissa expansion is pushed back to FY14.
- We forecast steel volumes of 2.4mt in FY12E and in FY13E. We assume merchant power tariff of Rs3.5/kwh in FY12E and Rs3.0/kwh in FY13E. We assume new power projects are deferred and exclude Tamnar II and Jharkhand projects from our valuation.
- We forecast FY12 EPS of Rs36 (-30%) and FY13 EPS of Rs33 (-30%).

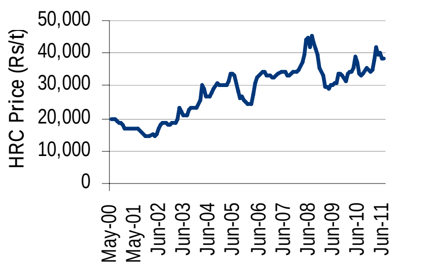
Upside scenario: What can go right?

- We assume realizations to be similar to our base case. We forecast EBITDA/t of US$336/t in FY12E and US$288/t in FY13E. We assume JSPL delivers volumes of 2.4mt in FY12E and 2.9mt in FY13E. Also, metallic volume increases due to commissioning of Orissa 1.6mtpa DRI unit. We assume new captive power capacity ramps up as scheduled and incremental power is sold externally.
- We forecast FY12 EPS of Rs51.5 and FY13 EPS of Rs47.2 in this case.

Risk-reward: Marginally favorable

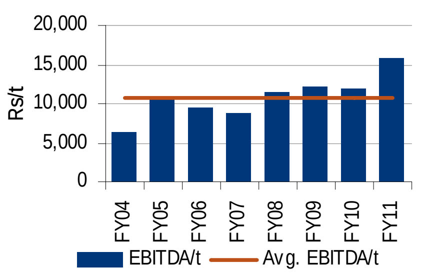
- In the downside scenario, we get a valuation of Rs380 (implying a 19% downside potential). This implies Rs163 for domestic steel business (7x FY12e EBITDA), Rs200 for power and Rs18 for Shadeed Steel.
- In our base case, we assume the Jharkhand and Tamnar II projects come on stream and value these projects in our SOTP-based NPV. In this scenario, we get a base valuation of Rs629 (implying a 34% upside potential from current levels).

Chart 173: Domestic HRC prices (incl. excise)



Source: CRISIL, BofA Merrill Lynch Global Research **= includes excise and freight

Chart 174: JSPL's EBITDA/t for steel



Source: JSPL, BofA Merrill Lynch Global Research

Table 43: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bps change in steel ASP	1.2%	1.6%
100bps change in steel volumes	0.2%	0.3%
100bps change in power ASP	0.4%	0.6%
100bps change in power volumes	0.2%	0.3%

Source: JSPL, BofA Merrill Lynch Global Research

Table 44: Assumptions for Upside

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Steel						
EBITDA/t (Rs/t)	15,119	12,971	11,825	12,149	15,119	15,119
Vol. (mn tons)	2.5	3.3	2.5	2.5	2.5	2.5
Power						
Units (mn KWH)	7832	7832	7832	7832	7832	7832
Tariff (Rs/kWh)	3.9	3.1	3.2	2.9	3.9	3.9

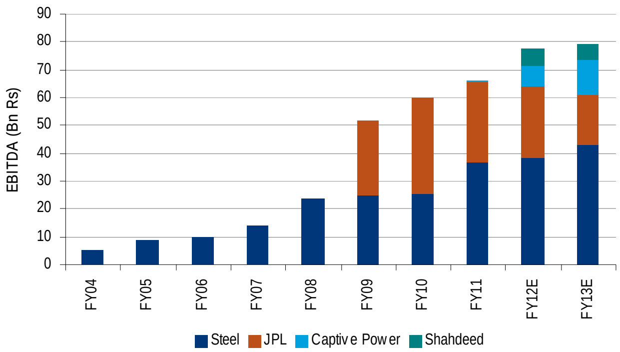
Source: JSPL, BofA Merrill Lynch Global Research Estimates

Table 45: Earnings outlook for JSPL

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe Downside FY13E	Variance vs. BofAMLe Upside FY13E
Sales (Rs mn)	167,291	137,133	167,291	-18.0%	0.0%
Sales Growth	12%	3%	3%		
EBITDA (Rs mn)	79,299	59,143	79,299	-25.4%	0.0%
EBITDA margin (%)	47%	43%	47%		
EBITDA Growth	2%	0%	2%		
Net Income (Rs mn)	43,773	20,847	43,773	-29.5%	0.0%
Net Income Growth	-8%	-7%	-8%		
EPS (Rs)	47.2	33.2	47.2	-29.5%	0.0%
EPS Change (YoY)	-8%	-7%	-8%		
Free Cash Flow/Share(Rs)	-24.4	-47.2	-24.4	94.0%	0.0%

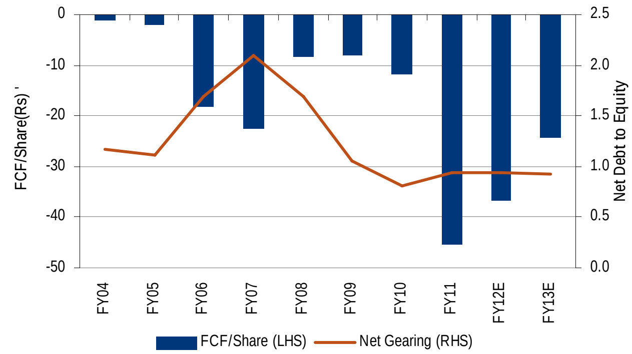
Source: JSPL, BofA Merrill Lynch Global Research Estimates

Chart 175: JSPL's EBITDA break-up (FY04-13E)



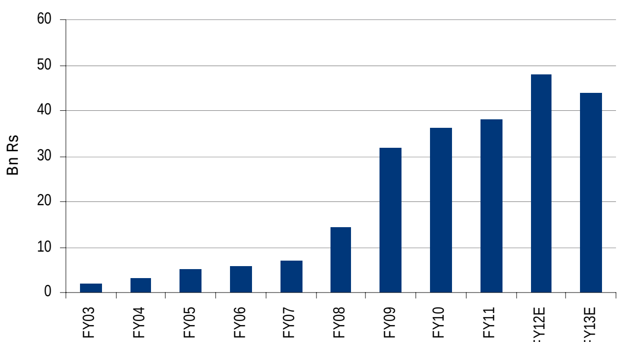
Source: JSPL, BofA Merrill Lynch Global Research Estimates

Chart 176: JSPL's FCF/share and net gearing (FY04-13E)



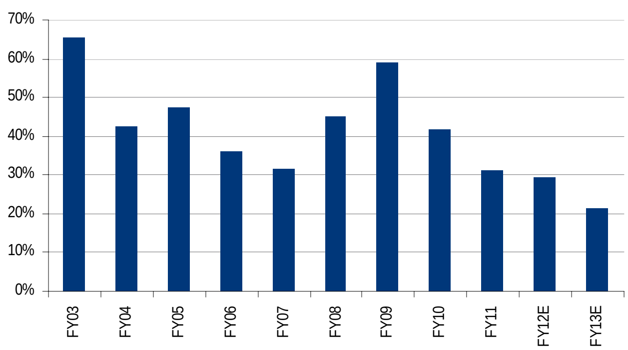
Source: JSPL, BofA Merrill Lynch Global Research Estimates

Chart 177: JSPL net profit (FY03-13E)



Source: JSPL, BofA Merrill Lynch Global Research Estimates

Chart 178: JSPL RoE (FY03-13E)



Source: JSPL, BofA Merrill Lynch Global Research Estimates

Chart 179: JSPL P/E

Source: JSPL, BofA Merrill Lynch Global Research Estimates

Chart 180: JSPL P/B

Source: JSPL, BofA Merrill Lynch Global Research Estimates

Bharat Parekh

Current share price: Rs1558 / US$34.8
Trough price: Rs1240 / US$28
Upside price: Rs1704 / US$38

Table 46: L&T (Parent) - Sensitivity analysis

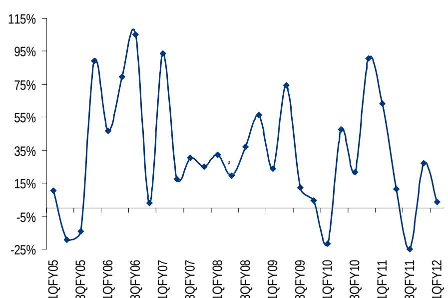
	FY13E	
	EBITDA	EPS
50bps change in Material Prices	4.0%	4.2%

Souce: BofA Merrill Lynch Global Research

Chart 181: L&T (Parent) - Qtrly Order book growth

Source: Company

Chart 182: L&T (Parent) - Qtrly Order Inflows growth



Source: Company

L&T (LT IN, Buy)

Bear case: What can go wrong

- Bear markets could delay capex, which could slowdown order inflow. We assume a 30% cut in our FY12-13E order inflows, leading parent sales growth to slow to 14% in FY12 and 9% in FY13.
- Fall in material/construction costs would lead to expansion in EBITDA margin. Assume margin to expand 25bp in FY12 and 50bp in FY13 on fall in material/construction costs.
- Cash yield and interest rate to fall during FY12-13E, assuming a 200bp cut in cash yield and interest rate in FY12-13E.
- Also we assume a 25% discount to subsidiary values in bear case.
- Key risk ahead is transformation of L&T into an infra developer, which would expose it to interest rate cycles far more then in the past.

Base case: What happens in deflation

- In our base case assuming a deflationary scenario, we factor a 15% cut in our FY12-13E order inflows for 19% parent sales growth in FY12 and 16% in FY13.
- Assume EBITDA margins to fall 25bp over FY12-13E.
- We assume a 10% discount to subsidiary values in our base case.
- Expect the stock to trade at parent core business at 16x (10% discount to current target), FY13E parent EPS or about Rs1,704/share (US$38).

Risk-reward: Well balanced

- In our bear case, we expect the stock to trade down to 14x FY13E consolidated EPS at Rs1,240/share (US$28) assuming parent core business at 12x FY13E parent EPS.
- In our base case, we expect the stock to trade at 18x FY13E consolidated EPS at Rs1,704/share.
- Overall, risk-reward appears unfavorable.

Table 47: L&T (Parent) - Earnings outlook

	BofAML	Downside	Upside	Variance vs BofAMLe	
	estimates	scenario	scenario	Downside	Upside
	FY13E	FY13E	FY13E	FY13E	FY13E
Sales (Rs mn)	664,338	544,273	604,306	-18%	-9%
Sales Growth	23%	9%	16%		
EBITDA (Rs mn)	84,074	71,610	74,952	-15%	-11%
EBITDA Margin (%)	13%	13%	12%		
EBITDA Growth	22%	11%	15%		
Net Income (Rs mn)	55,590	45,695	49,378	-18%	-11%
Net Income Growth	24%	12%	17%		
EPS (Rs)	91.0	74.8	80.8	-18%	-11%
EPS Change (YoY)	24%	12%	17%		
Dividend/Share (Rs)	18.0	18.0	18.0	0%	0%
Free Cash Flow/Share (Rs)	38.1	42.4	36.6	11%	-4%

Souce: BofA Merrill Lynch Global Research

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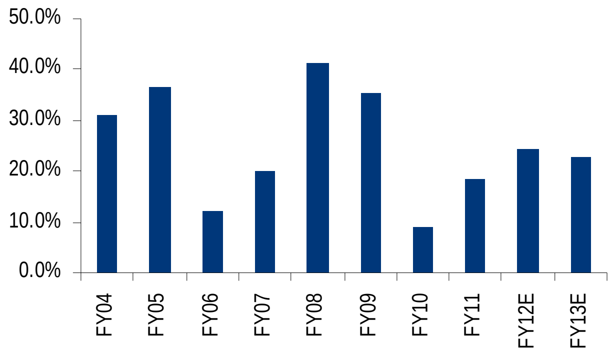
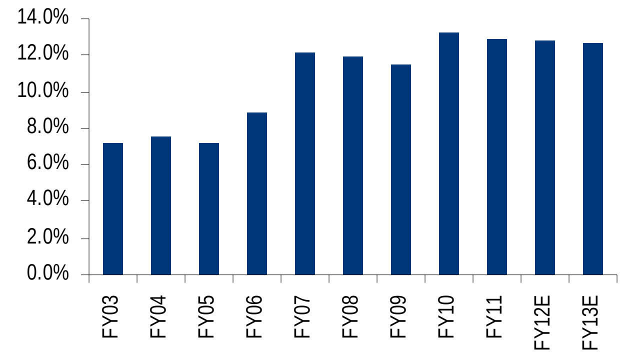
Chart 183: L&T (Parent) - Sales growth



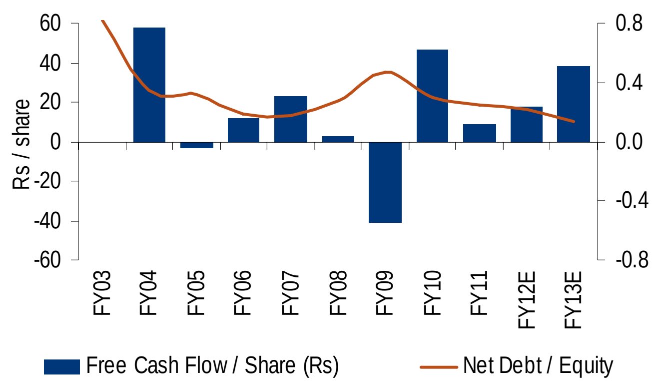
Source: Company, BofA Merrill Lynch Global Research

Chart 184: L&T (Parent) - EBITDA Margins



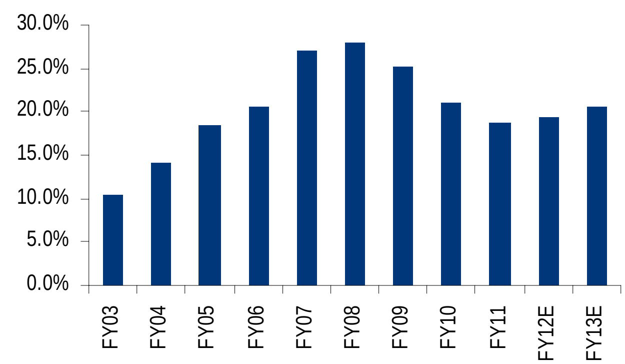
Source: Company, BofA Merrill Lynch Global Research

Chart 185: L&T (Parent) – Free Cash Flow & Net debt / Equity



Source: Company, BofA Merrill Lynch Global Research

Chart 186: L&T (Parent) - RoE



Source: Company, BofA Merrill Lynch Global Research

Chart 187: L&T - PE Chart

Source: Company, BofA Merrill Lynch Global Research

Chart 188: L&T - EV/EBITDA chart

Source: Company, BofA Merrill Lynch Global Research

M&M (MM IN, Neutral)

S.Arun

Current share price: Rs697

Trough price: Rs610

Upside price: Rs860

Downside scenario: What can go wrong?

- Historically, auto/tractor sales have been impacted by product gaps and excess supply, but this has changed post-PTL acquisition and success in LCVs. We therefore expect volume to grow 18% in autos and 10% in tractors for FY12, and moderate to 10%/0% in FY13.
- Standalone margins can hit 13%/12.5% in FY12/FY13E, still higher than the long-term historic averages on the increased scale of operations, tractor profitability.

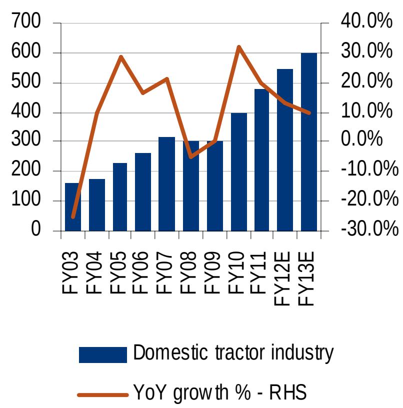
Upside scenario: What can go right?

- We expect growth of 30% in autos and 17.5% in tractors for FY12, driven by new products, market-share gains. Auto growth could stay higher due to mini-trucks/LCVs, but this could be unlikely in tractors due to the absence of incremental benefit of NREGA. We therefore estimate growth to moderate to 15% and 10%, respectively.
- Standalone margins could touch about 14% over FY12/13E, due to higher volumes and softer commodity prices, but lower than the historic peak due to an adverse sales mix favoring autos and withdrawal of VAT incentives.

Risk-reward: Favorable

- Our worst-case value of Rs610 implies (1) standalone business at 10x FY13E P/E (Rs 423/share), inline with the historic average and (2) operating subs at Rs187/share, with 20% imputed holding-company discount.
- Our best-case value of Rs860 implies (1) standalone business at 12x FY13E P/E (Rs673/share), ahead of historic average, and (2) operating subs at Rs187/share, with 20% imputed holding-company discount.

Chart 189: Tractor industry volume and growth



Source: Company, BofA Merrill Lynch Global Research estimates

Table 48: Standalone volume and margin outlook

	BofAML estimates		Downside scenario		Upside scenario	
	FY12	FY13	FY12	FY13	FY12	FY13
Vol ('000s)						
Tractors	231	254	223	223	238	262
Autos	419	476	394	435	432	499
Exports	40	43	37	37	42	45
Vol growth						
Tractors	14%	10%	10%	0%	18%	10%
Autos	24%	14%	17%	11%	28%	16%
Exports	39%	6%	28%	1%	45%	8%
Margins	13.4%	13.2%	13.0%	12.5%	13.7%	13.9%

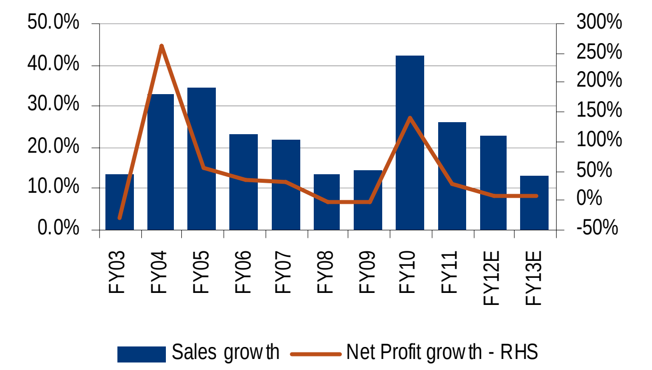
Source: Company, BofA Merrill Lynch Global Research estimates

Table 49: Earnings outlook for M&M

	BofAML estimates FY13	Downside scenario FY13	Upside scenario FY13	Variance vs. BofAMLe Downside FY13	Variance vs. BofAMLe Upside FY13
Sales (Rs mn)	629,378	600,383	641,900	-4.61%	1.99%
YoY chg	15%	12%	15%		
EBITDA (Rs mn)	85,376	79,468	89,669	-6.92%	5.03%
EBITDA margin (%)	14%	13%	14%		
YoY chg	21%	17%	23%		
Net Income (Rs mn)	40,767	36,078	44,152	-11.50%	8.30%
YoY chg	17%	11%	21%		
EPS (Rs)	69	61	75	-11.50%	8.30%
YoY chg	17%	11%	21%		
Free Cash Flow/Share(Rs)	13	6	18	-54.08%	40.36%

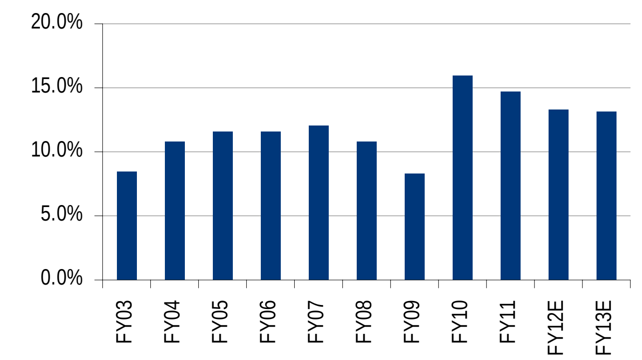
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 190: 10 yr Sales & Net profit growth



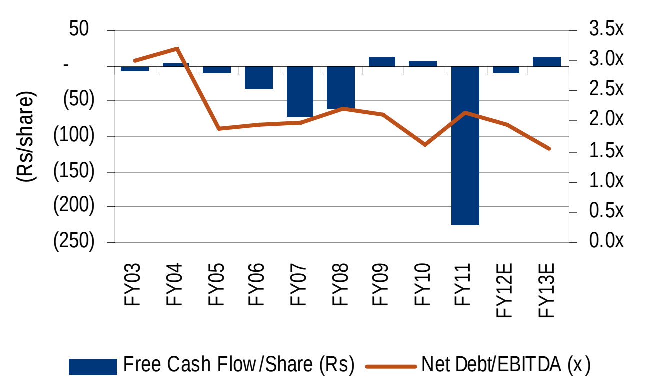
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 191: 10 yr margins



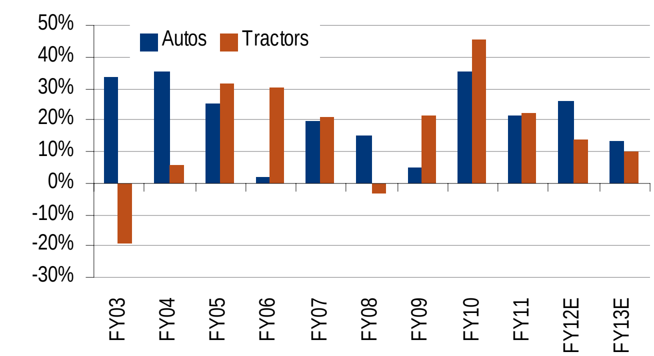
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 192: Free cash flow & Net debt/EBITDA



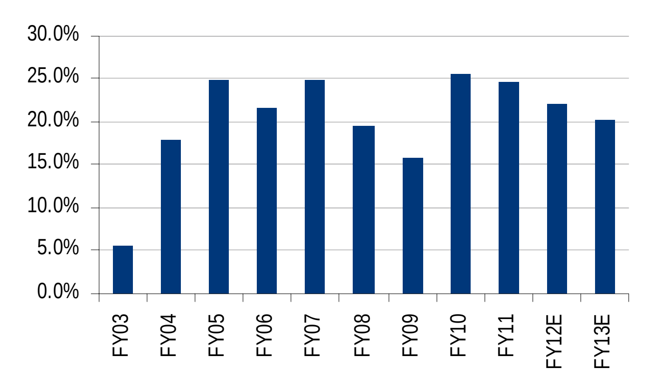
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 193: 10 yr Sales volume growth – Standalone



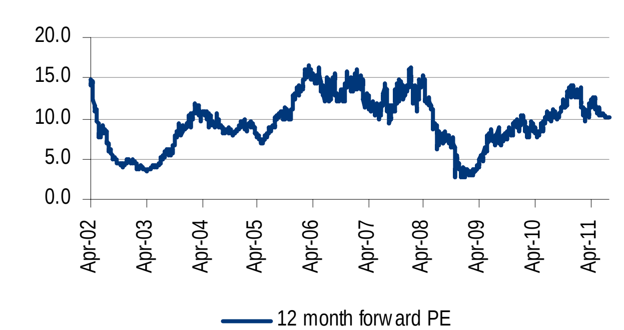
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 194: 10 year RoE - Standalone



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 195: 12 month forward P/E band – standalone



Source: Company, BofA Merrill Lynch Global Research estimates

Maruti (MSIL IN, Buy)

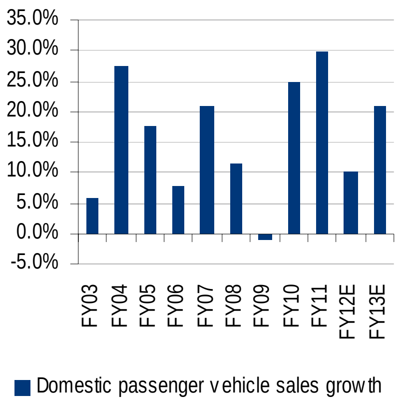
S.Arun

Current share price: Rs1111

Trough price: Rs885

Upside price: Rs1585

Chart 196: Pass vehicle industry vol growth rate



Source: SIAM, BofA Merrill Lynch Global Research estimates

Table 50: Standalone volume and margin outlook

	BofAML estimates		Downside scenario		Upside scenario	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Vol (000s)						
Domestic	1133	1416	963	1060	1189	1427
Exports	131	144	131	138	138	152
Vol growth						
Domestic	0%	25%	-15%	10%	5%	20%
Exports	-5%	10%	-5%	5%	0%	10%
Margins	9.2%	9.8%	8.7%	8.5%	9.4%	10.5%

Source: Company, BofA Merrill Lynch Global Research estimates

Downside scenario: What can go wrong?

- Car sales volumes could contract 15% in FY12E, well below the historic trough of flattish growth, largely due to rising competition and strikes at the plant. Muted recovery of 10% growth in FY13E, driven by new launches.
- Standalone margins could be higher than troughs due to stronger volume, better mix and increased localization. Margins could hit 8.7%/8.5% over FY12/FY13E.

Upside scenario: What can go right?

- Car sales volumes can slow to 5% in FY12 due to strikes at the plant, diesel capacity constraints. Sharp sales rebound of 20% in FY13E, driven by diesel/CNG segments and slew of new launches, but still lagging historic peaks due to competition.
- Standalone margins could be below historic peaks due to competitive pressures. Margins could hit 9.4% in FY12E due to high fixed costs and an adverse currency, but improve to 10.5% in FY13E on localization and softening of commodities.

Risk-reward: Favorable

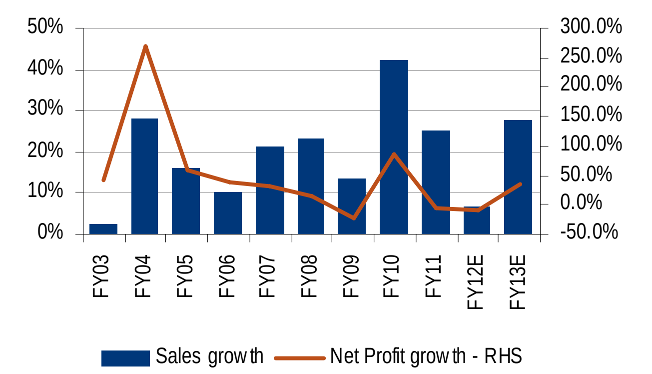
- In the worst case scenario, we think the stock could trade at FY13E P/E of about 14x at Rs885/share, which is slightly ahead of the historic average on expectation of an early cycle of recovery.
-
- In the best case scenario, we think the stock could trade at FY13E P/E of 13.5x at Rs1,585/share, which is in line with the historic average.

Table 51: Earnings outlook for Maruti

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe Downside FY13E	Variance vs. BofAMLe Upside FY13E
Sales (Rs mn)	511,227	388,915	502,653	-23.93%	-1.68%
YoY chg	28%	13%	22%		
EBITDA (Rs mn)	50,000	33,078	52,750	-33.84%	5.50%
EBITDA margin (%)	10%	9%	10%		
YoY chg	35%	11%	37%		
Net Income (Rs mn)	31,695	17,959	33,888	-43.34%	6.92%
YoY chg	36%	1%	37%		
EPS (Rs)	110	62	117	-43.34%	6.92%
YoY chg	36%	1%	37%		
Free Cash Flow/Share(Rs)	76	25	86	-67.61%	12.93%

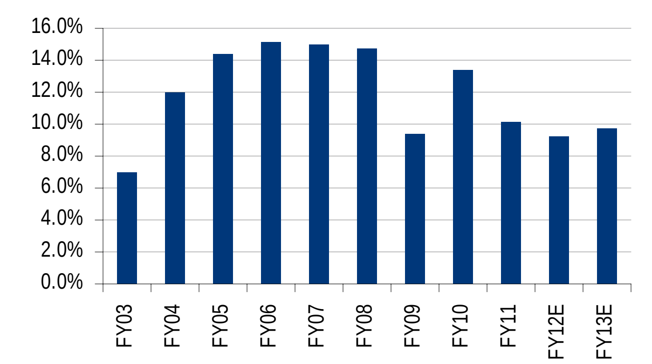
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 197: 10 yr Sales & Net profit growth



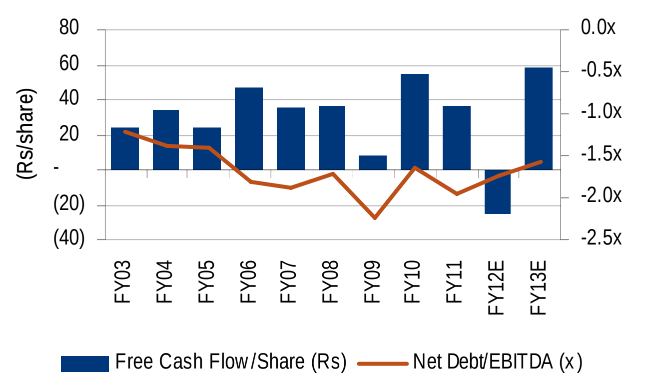
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 198: 10 yr Margins



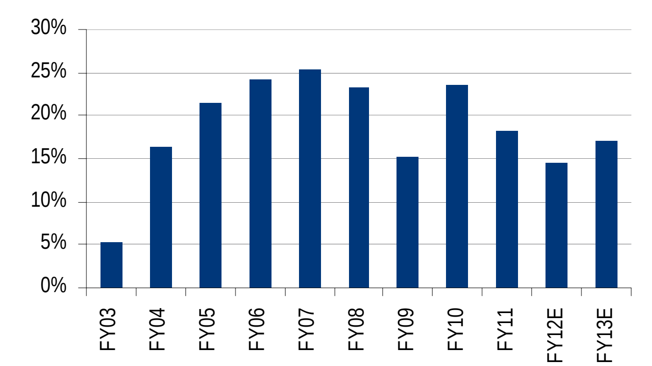
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 199: Free cash flow & Net debt/EBITDA



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 200: 10 year RoE

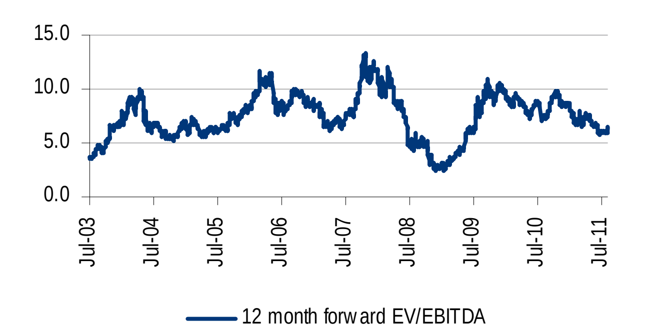


Source: Company, BofA Merrill Lynch Global Research estimates

Chart 201: 12 month forward P/E band - Consol

Source: Company, BofA Merrill Lynch Global Research estimates

Chart 202: 12 month forward EV/EBITDA band - Consol



Source: Company, BofA Merrill Lynch Global Research estimates

NTPC (NTPC IN, Underperform)

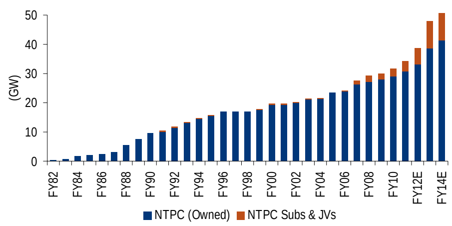
Bharat Parekh

Current share price: Rs170
Trough price: Rs160
Upside price: Rs183

Bear Case: What can go wrong?

- On likely narrowing of power deficit to mid-single digits, we assumed Govt. to cut regulatory return on equity to 14% vs 15.5% from FY14E.
- Assumed, a 15% cut in UI charges, availability, thermal and other incentives due to lower utilization (cut PLF by 100bps) due to shortage of coal.
- Removed North Karanpura 1.98GW project (8% of 12th plan capacity addition) due to its location on coal bearing areas which is being opposed by Coal India. However, we still grow parent capacity to reach 63GW vs 31GW now.
- Consequently, our EPS cut by 4% in FY13E and 9% in FY14E.

Chart 203: NTPC - Likely capacity



Source: BofA Merrill Lynch Global Research

Base Case: What happens in deflation?

- Risk free rate to go up, assumed a 25bps increase in risk free rate.
- In the base case, we expect the stock could trade at Rs183/share based on DCF translating into 1.7x FY13E P/BV.

Risk-Reward: Unfavorable on limited upside

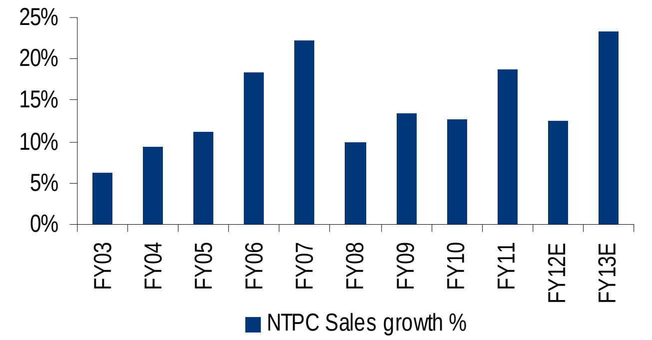
- In the bear case, we expect the stock could trade at Rs160/share based on DCF translating into 1.65x FY13E P/BV.
- In the base case, we expect the stock could trade at Rs183/share based on DCF translating into 1.7x FY13E P/BV.
- Overall, the risk-reward appears unfavorable.

Table 52: NTPC - Earnings outlook

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs BofAMLe Downside FY13E	Variance vs BofAMLe Upside FY13E
Sales (Rs mn)	754,671	743,466	754,671	-1%	0%
Sales Growth	23%	23%	23%		
EBITDA (Rs mn)	195,704	189,654	195,704	-3%	0%
EBITDA Margin (%)	25.9%	25.5%	25.9%		
EBITDA Growth	29%	29%	29%		
Net Income (Rs mn)	112,504	108,370	112,504	-4%	0%
Net Income Growth	11%	11%	11%		
EPS (Rs)	13.6	13.1	13.6	-4%	0%
EPS Change (YoY)	11%	11%	11%		
Dividend/Share (Rs)	4.9	4.7	4.9	-4%	0%
Free Cash Flow/Share (Rs)	(18.4)	(16.9)	(18.4)	-8%	0%

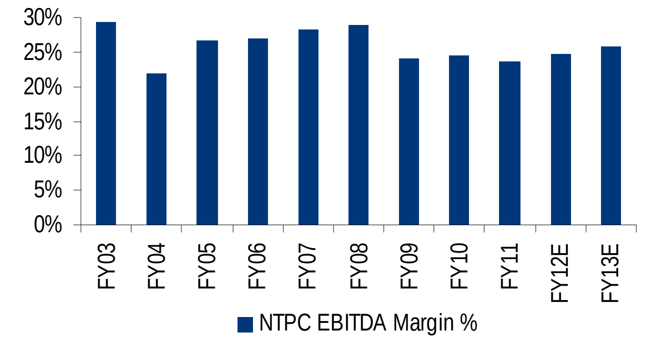
Souce: BofA Merrill Lynch Global Research

Chart 204: NTPC - Sales growth



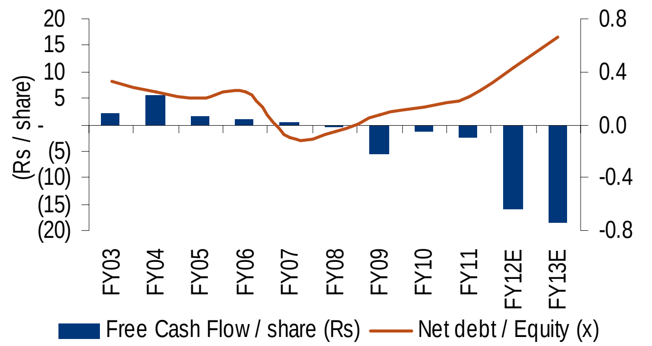
Source: Company, BofA Merrill Lynch Global Research

Chart 205: NTPC - EBITDA Margins



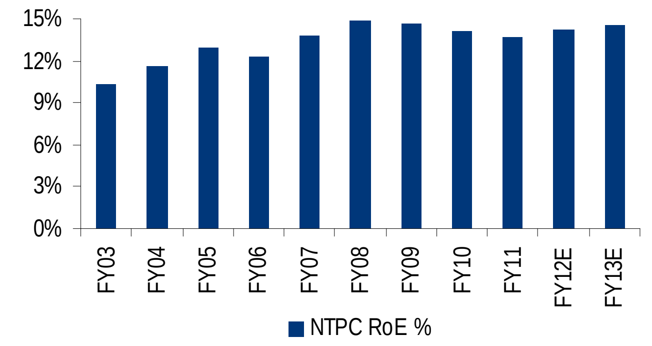
Source: Company, BofA Merrill Lynch Global Research

Chart 206: NTPC - Free Cash Flow & Net debt / Equity



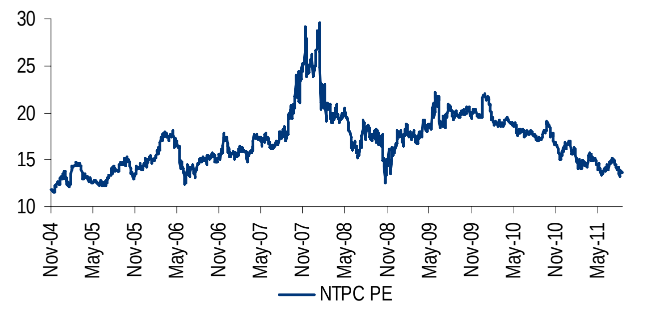
Source: Company, BofA Merrill Lynch Global Research

Chart 207: NTPC - RoE



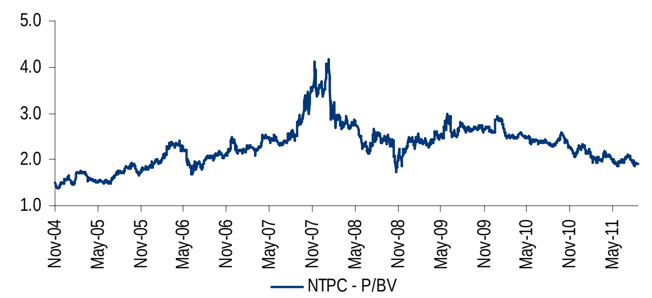
Source: Company, BofA Merrill Lynch Global Research

Chart 208: NTPC - PE Chart



Source: Company, BofA Merrill Lynch Global Research

Chart 209: NTPC - P/B Chart



Source: Company, BofA Merrill Lynch Global Research

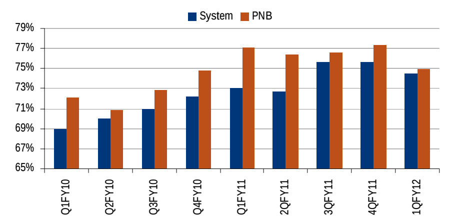
PNB (PNB IN, Buy)

Rajeev Varma
Veekesh Gandhi

Current price: Rs961
Trough price: Rs829
Upside price: Rs1200

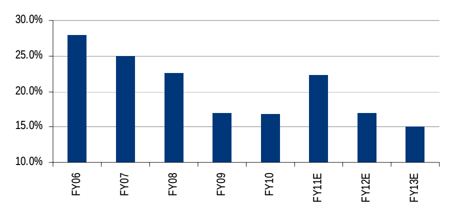
Our Base Case factors in emerging credit cycle by FY12 end and loan growth 15% in FY13: see- Banks-Retail, 22 August 2011

Chart 210: LDRs



Source: BofA Merrill Lynch Global Research Estimates

Chart 211: Credit growth (System)



Source: BofA Merrill Lynch Global Research Estimates

Downside scenario: What can go wrong?

- Volume growth of +16/13% expected for FY12-13E, but margins are holding up at 'base case' levels owing to pricing power leading to top-line (NII) growth of +13/16% for FY12/13E.
- NPLs in SME / Power, Roads, Real Estate, etc could increase slippages to 2.6% (FY13E) vs. the 'base case' estimate of 2.4%. Alternatively in the 'worst case' scenario, bond yields could come off sharply leading to write-back of MTM on investment book and treasury gains, which could help set-off some higher NPL provisions.
- Earnings growth could still be around 20% in FY13E owing to stronger top-line (NIM expansion) and operating leverage.

Upside (Base) scenario: What can go right?

- Volume growth of about 18/15% for FY12-13E and margins holding-up owing to pricing power leading to top-line (NII) growth of 15-16% for FY12/13E.
- Slippages seen at about 2.4% in FY13E. But asset quality is expected to remain manageable with net NPLs at 1.2% of loans.
- Earnings growth of +15/20% could well sustain through FY12/13. We think PNB is amongst the better placed banks in regards to earnings trajectory.

Risk-reward: Favorable

In a 'downside case', PNB is set apart from banks where we have factored in higher delinquency levels suggesting lesser impact to its earnings forecasts. PNB could report higher NPLs and the stock could trade below 1 to 2 SD below average, implying a downside price of Rs829.

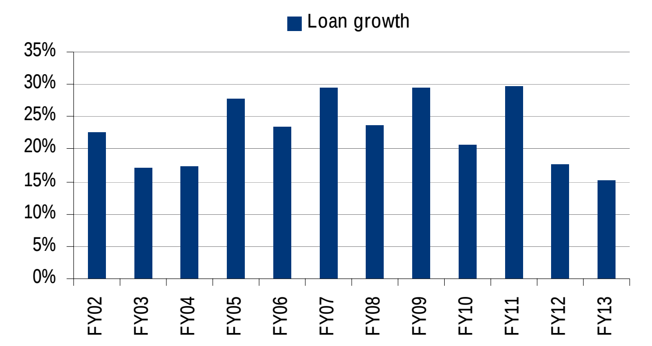
We set our PO on PNB at Rs1,200 for the 'upside case'. Our PO is based on the average historical PB multiple. Our PO is still at a 5% discount to theoretical multiples owing to PNB's exposure to possible problem sectors (Power, Textiles, Steel, Comm. Real Estate, etc) at +20%. However, we maintain our Buy owing to PNB still delivering +21-22% RoEs and +15/20% earnings in FY12-13E and the stock trading at 1.2x FY13E book.

Table 53: Earnings outlook: Base case Vs Worst case

PNB	Upside Case		Downside Case		Change %	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	135,700	156,853	133,997	155,992	-1%	-1%
NII growth	14.9%	15.6%	13.5%	16.4%		
Pre Provision Profit (PPP)	102,793	121,905	100,700	120,549	-2%	-1%
PPP growth	14%	19%	11%	20%		
Net Profit	51,037	62,338	48,813	58,475	-4%	-6%
Net Profit growth	15.1%	22.1%	10.1%	19.8%		
EPS (Rs)	161.1	196.8	154.1	184.6	-4%	-6%
EPS growth	15.1%	22.1%	10.1%	19.8%		
Dividend per share	27.0	33.0	27.0	33.0	0%	0%
Adjusted book value per share	675	801	665	768	-1%	-4%
RoE	21.6%	22.1%	21.6%	22.5%		
RoA	1.2%	1.3%	1.2%	1.2%		

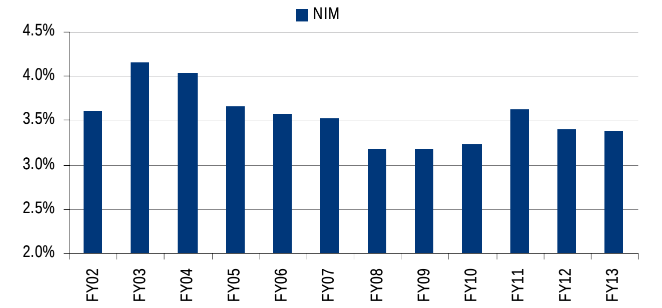
Source: BofA Merrill Lynch Global Research Estimates

Chart 212: Loan growth



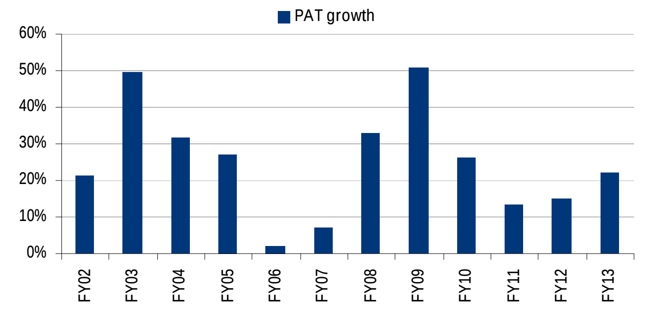
Source: BofA Merrill Lynch Global Research Estimates

Chart 213: Margins



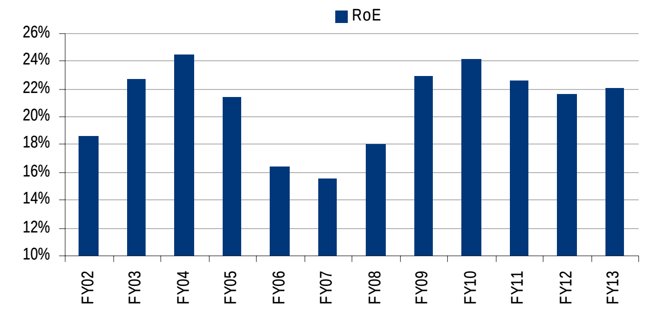
Source: BofA Merrill Lynch Global Research Estimates

Chart 214: Net Profit growth



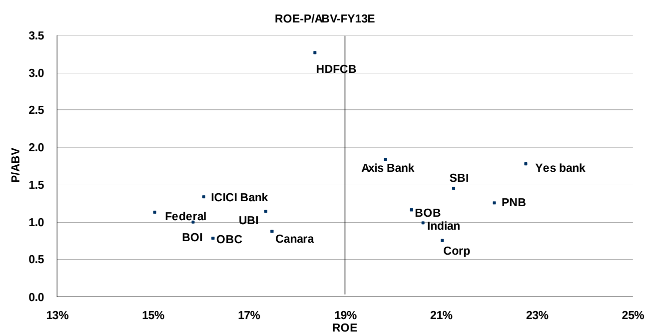
Source: BofA Merrill Lynch Global Research Estimates

Chart 215: RoE



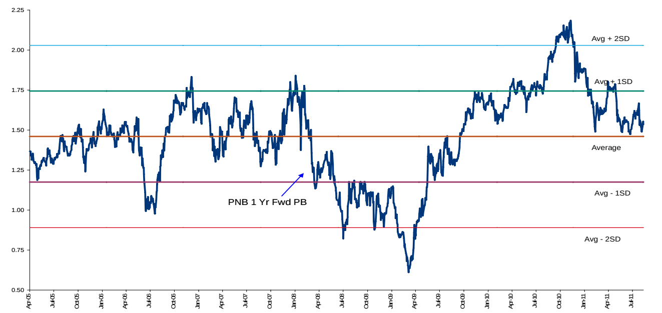
Source: BofA Merrill Lynch Global Research Estimates

Chart 216: PB RoE chart



Source: BofA Merrill Lynch Global Research Estimates

Chart 217: P/B Chart



Source: BofA Merrill Lynch Global Research Estimates

Arun S

Arvind Bothra

Current share price: Rs462

Trough price: Rs310

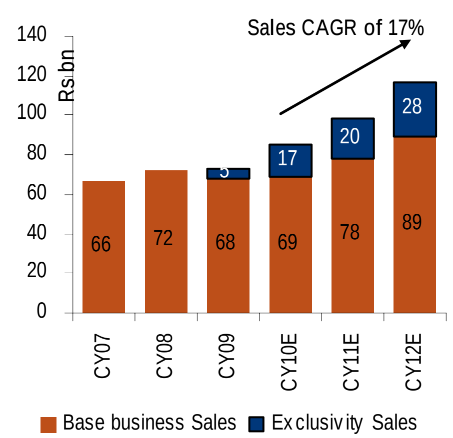
Upside price: Rs525

Ranbaxy (RBXY IN, Buy)

Downside scenario: What can go wrong

- Impact of Project Viraat (new field force) to help grow closer to industry average of 12%, with weaker performance of anti-infective portfolio to drag overall growth rates, despite 35% addition to field force.
- While exclusivities value in US market would be protected, through launch or selling the rights, increased competitive pricing may reduce the upside.
- Given widespread presence, slowdown in RoW markets (40% of sales) would hurt profitability as fixed overheads absorption would be difficult.
- Base EBITDA margin to be affected by about 300bp to factor in slower sales growth as well as rising margin pressures (input costs, SG&A spending)

Chart 218: Exclusivities drive value



Source: Company, BofA Merrill Lynch Global Research

Upside scenario: What can go right

- Our base-case scenario factors in the best possible outcome, and hence there is no change to our upside scenario assumptions.
- Project Viraat, new launches to help outgrow industry over medium term, with growth of 18-20%.
- US FDA resolution, prior to Lipitor launch with likely penalty of c.US$200mn to help unlock value from exclusivities and open up new product approvals.
- Core margins to improve on higher operational scale, control over costs and reducing spending on regulatory remediation. We expect gradual margin recovery from 8% currently to around 14% over next two years.
- Improving operational performance, removal of overhangs to lead to large cap valuation multiple of 20x for core business, exclusivities valued on NPV at Rs125, implying overall valuation of Rs525/share.

Risk-reward: Not Favorable

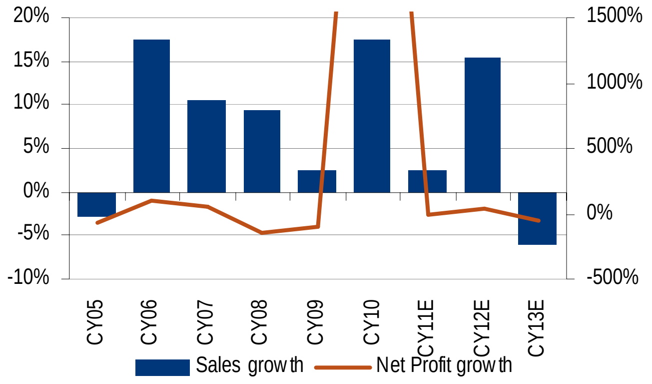
- We find risk-reward to be unfavorable in case of Ranbaxy, should global slow down risks intensify. High exposure to emerging markets (45% of sales), impending issues with US FDA to result in muted profitability and valuations.
- In the worst case, we expect core multiples to contract 10% to 18x, implying valuation of Rs310, including exclusivity value of Rs100/share (NPV).

Table 54: Earnings outlook for Ranbaxy

	BofAML	Downside	Upside	Variance vs. BofAMLe	
	Est	Scenario	Scenario	Downside	Upside
	FY13E	FY13E	FY13E	FY13E	FY13E
Sales (Rs mn)	119,253	105,636	119,253	-11%	0%
YoY (%)	19%	15%	-		
EBITDA (Rs mn)	30,878	21,124	30,878	-32%	0%
EBITDA margin (%)	26%	20%	-		
YoY (%)	33%	25%	-		
Net Income (Rs mn)	23,433	15,625	23,433	-33%	0%
YoY (%)	41%	34%	-		
EPS (Rs)	55	37	55	-33%	0%
YoY (%)	41%	34%	-		
Free Cash Flow/Share(Rs)	32	37	32	15%	0%

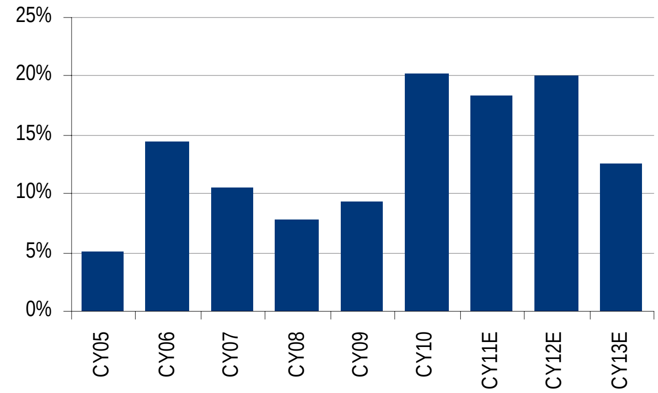
Source: BofA Merrill Lynch Global Research

Chart 219: 10 yr Sales & Net profit growth



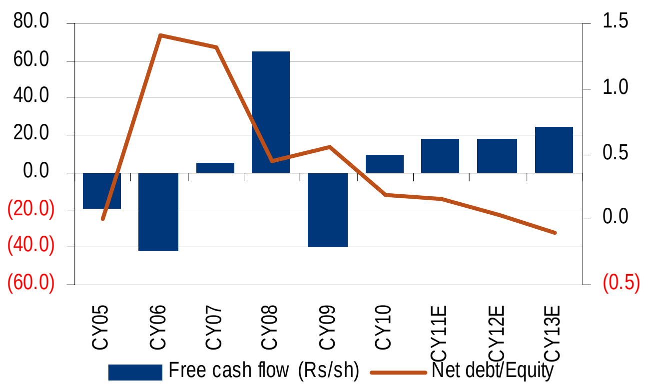
Source: Company, BofA Merrill Lynch Global Research estimates, 50x growth in net profits in CY10 (exceptionals)

Chart 220: 10 yr EBITDA Margins



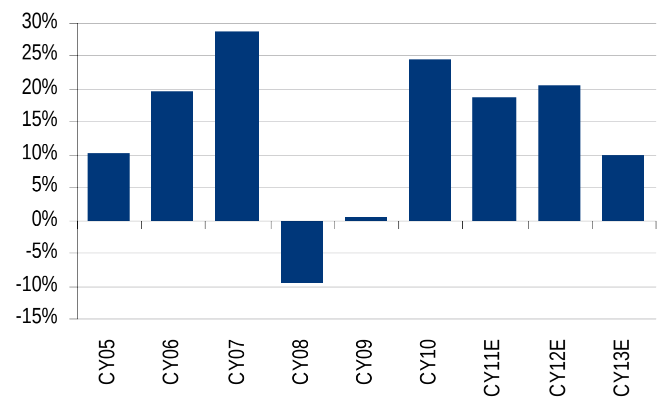
Source: Company, BofA Merrill Lynch Global Research estimates, 50x growth in net profits in CY10 (low base)

Chart 221: Free cash flow & Net debt/Equity



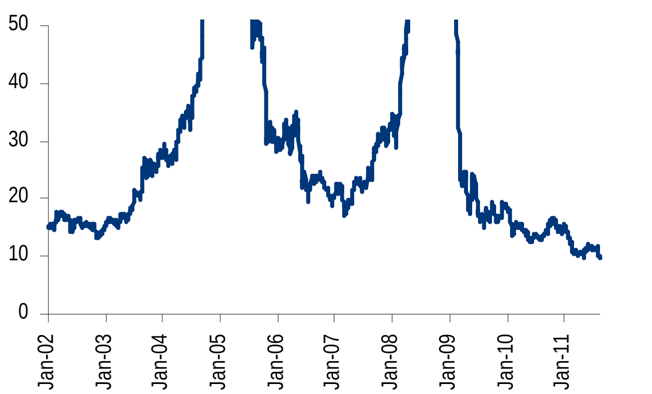
Source: Company, BofA Merrill Lynch Global Research estimates, 50x growth in net profits in CY10 (low base)

Chart 222: 10 yr RoE



Source: Company, BofA Merrill Lynch Global Research estimates, 50x growth in net profits in CY10 (low base)

Chart 223: Ranbaxy – 1 yr forward P/E



Source: Company, BofA Merrill Lynch Global Research estimates, 50x growth in net profits in CY10 (low base)

Chart 224: Ranbaxy – 1 yr forward EV/EBITDA

Source: Company, BofA Merrill Lynch Global Research estimates, 50x growth in net profits in CY10 (low base)

RCom (RCOM IN, Underperform)

Reena Verma Bhasin
Amit Rathi

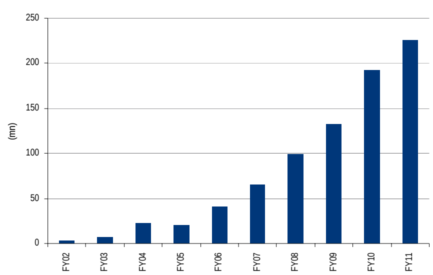
Current share price: Rs81
Trough price: Rs58
Upside price: Rs95

Table 55: Sensitivity to change in subs

	FY13E	
	EBITDA	EPS
100bps change in subsribers	0.4%	1.0%
100bps change in ARPU	1.0%	5.1%

Source: BofA Merrill Lynch Global Research estimates

Chart 225: Trend in industry subscriber net adds



Source: TRAI

Downside scenario: What can go wrong?

- Revenue acceleration could fail to come through and topline could grow 5-10% YoY in FY12-13 vs our current assumption of 8-14% for the said period. The slow revenue growth would mostly reflect significantly slower net adds and continued poor subscriber quality. Tariffs are expected to remain stable YoY, in line with our current forecasts.
- Wireless margins could stay at 4Q FY11E levels of about 27.4% in FY12E and drop 110bp YoY to about 26.3% in FY13E. The margin pressure would mostly reflect higher dealer commissions.

Upside scenario: What can go right?

- Post a slow FY12E due to macro-weakness, topline in India could accelerate strongly due to recovery in usage and higher 3G adoption.
- Wireless margins in India could improve almost 200bp YoY in FY13E as strong demand lowers customer acquisition costs and surging traffic drives scale economies.

Risk-reward: Not favorable

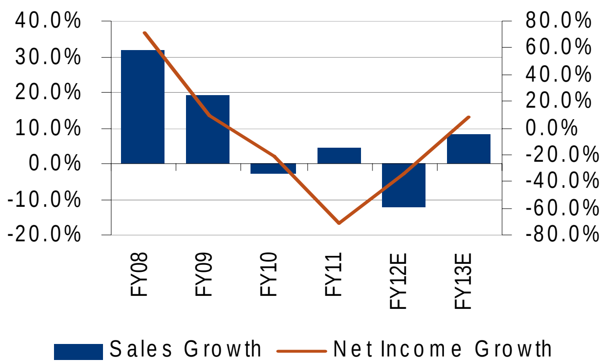
- In the worst-case scenario, we estimate that RCom will trade at about 5.7x FY13E EV/EBITDA (Rs58/sh), implying an about 25% discount versus Bharti due to a much higher leverage and lower returns.
- In the best-case scenario, we expect RCom to retain its current valuation premium versus GEM telcos and trade at about 6.5x FY13 EV/EBITDA (Rs95/sh). This implies a tad narrower discount (10-15%) versus Bharti.
- Overall, the risk-reward appears unfavorable.

Table 56: Earnings outlook for RCom

				Variance vs. BofAMLe	
	BofAML estimates CY12E	Downside scenario CY12E	Upside scenario CY12E	Downside CY12E	Upside CY12E
Sales (Rs mn)	219790	211607	215209	-3.7%	-2%
YoY (%)	8.3%	6.1%	7.9%		
EBITDA (Rs mn)	75024	68728	76335	-8.4%	2%
EBITDA margin (%)	34%	32%	35%		
YoY (%)	10.5%	4.6%	16.1%		
Net Income (Rs mn)	9488	5326	10262	-43.9%	8%
YoY (%)	7.7%	-25.5%	43.5%		
EPS (Rs)	4.6	2.6	5.0	-43.9%	8%
YoY (%)	7.7%	-25.5%	43.5%		
Free Cash Flow/Share(Rs)	2.3	(0.5)	2.4	NA	2%

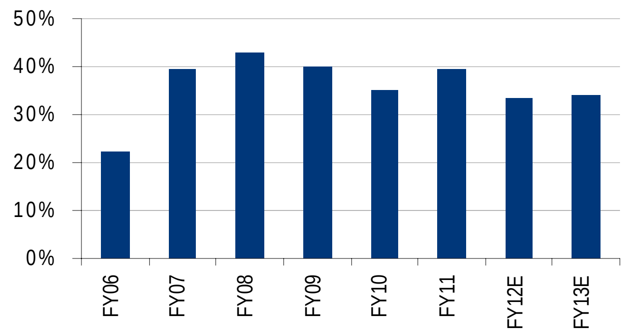
Source: BofA Merrill Lynch Global Research estimates

Chart 226: 10 yr Sales & Net profit growth



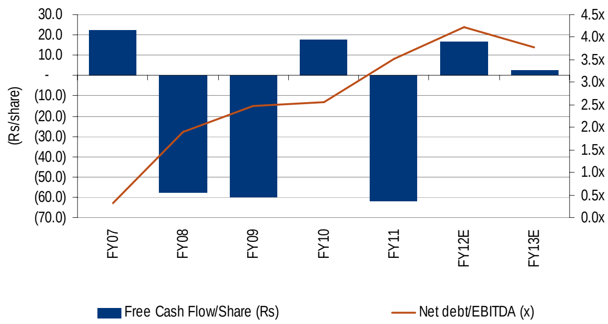
Source: BofA Merrill Lynch Global Research estimates

Chart 227: 10 yr Margins



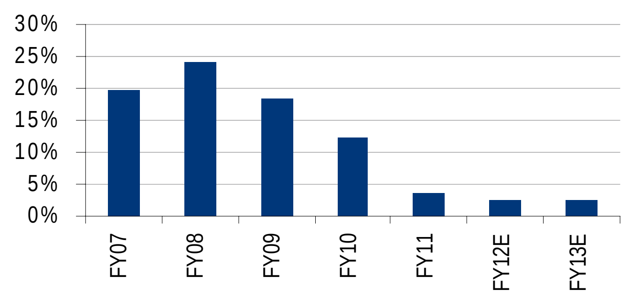
Source: BofA Merrill Lynch Global Research estimates

Chart 228: Free cash flow & Net debt/EBITDA



Source: BofA Merrill Lynch Global Research estimates

Chart 229: 10 year RoE



Source: BofA Merrill Lynch Global Research estimates

Chart 230: PE Chart

Source: BofA Merrill Lynch Global Research estimates

Chart 231: EV/EBITDA chart

Source: BofA Merrill Lynch Global Research estimates

Reliance Ind (RIL IN, Buy)

Vidyadhar Ginde
Akash Gupta

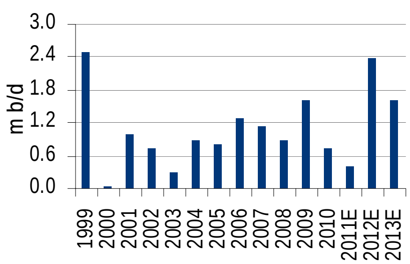
Current share price: Rs754
Trough price: Rs612
Upside price: Rs909

Table 57: Sensitivity analysis

Yr ending 31 Mar	FY13E	
	EBITDA	EPS
US$1/bbl increase in RIL's GRM	5.2%	5.9%

Source: BofA Merrill Lynch Global Research estimates

Chart 232: Refining capacity addition at 2.4m b/d in 2012 may be the highest since 1999



Source: BP Statistical Review, IEA

Downside scenario: What can go wrong?

- A recession in the US would mean lower petrochemical and refining margins (GRM) vs the base case.
- In the bear case, we are assuming RIL's FY12-13 GRM at US$7.0-8.0/bbl, which is 20-34% lower than the base-case GRM. Recession in the US could mean 2.8m b/d of refining over-capacity is added in 2012, causing a sharp fall in GRM. Global oil demand could decline by 0.4m b/d in 2012 in case of a US recession (Global Energy Weekly, 05 August 2011), while 2.4m b/d of new refining capacity will be added in 2012, as per IEA.
- RIL's blended petrochemical margin in FY12-13 is assumed at US$400-430/ton in the bear case, which is 5-22% lower than the base case.
- RIL's bear-case FY12-13 EPS would be Rs57.8-60.1, which is 17-32% lower than the base case. This would mean 2% YoY decline in FY12 and 4% YoY decline in FY13 EPS (17% YoY growth in FY12-13 in the base case)
- We essstimate RIL's bear-case fair value at Rs612/share based on 6x FY13 bear-case refining and petrochemical EBITDA and bear-case E&P value of Rs166/share (Reliance Industries Ltd., 22 August 2011).

Upside scenario: What can go right?

- Our base-case FY12-13 EPS (4-9% higher than consensus) and base-case fair value (PO) are also our bull-case EPS and fair value, respectively.

Risk-reward: Evenly poised

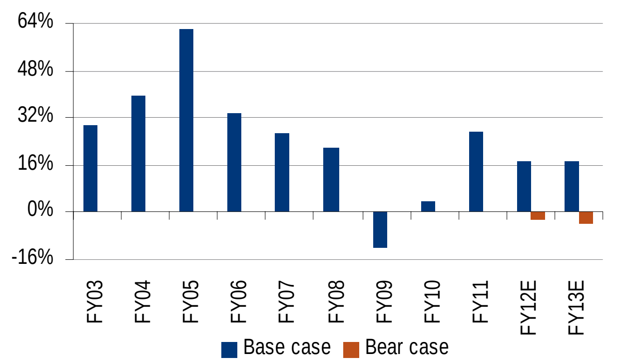
- Risk-reward appears to be balanced – bear-case fair value implies 20% potential downside while bull case (same as PO) implies 19% potential upside. Key, in our view, is the probability of US recession, which we now estimate at 40% and rising further.

Table 58: Earnings outlook for RIL

				Variance vs. BofAMLe	
	BofAML estimates FY13	Downside scenario FY13	Upside scenario FY13	Downside FY13	Upside FY13
Sales (Rs mn)	3,076,210	2,723,643	3,076,210	-11%	0%
YoY (%)	3%	-8%	3%		
EBITDA (Rs mn)	408,399	298,760	408,399	-27%	0%
EBITDA margin (%)	13%	11%	13%		
YoY (%)	9%	-8%	9%		
Net Income (Rs mn)	277,384	189,824	277,384	-32%	0%
YoY (%)	17%	-4%	17%		
EPS (Rs)	84.4	57.8	84.4	-32%	0%
YoY (%)	17%	-4%	17%		
Free Cash Flow/Share(Rs)	58	33	58	-43%	0%
Key assumptions					
GRM(US$/bbl)	10.6	7.0	10.6	-34%	0%
Blended petrochemical margin (US$/t)	514	400	514	-22%	0%

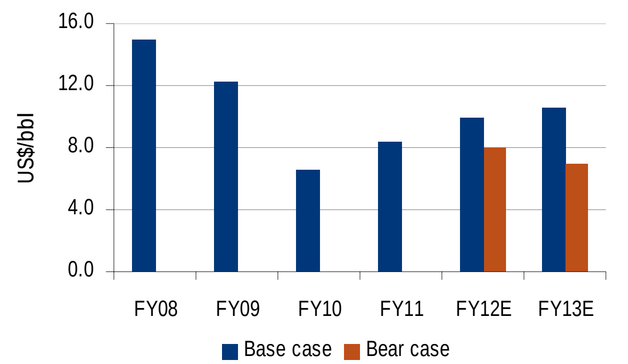
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 233: 10 year EPS growth



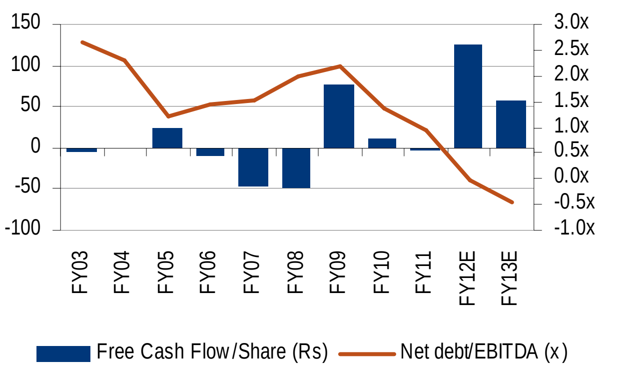
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 234: RIL's GRM trend since FY08 & forecasts for FY12-13



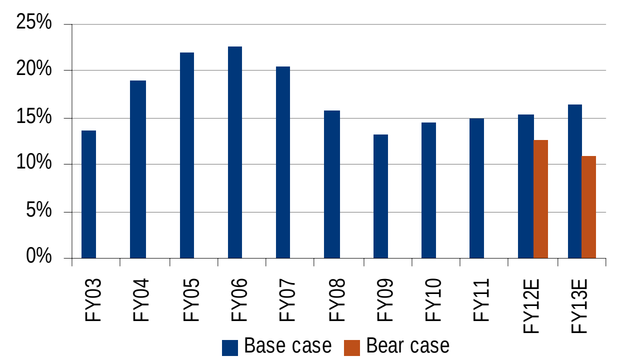
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 235: Free cash flow & Net debt/EBITDA



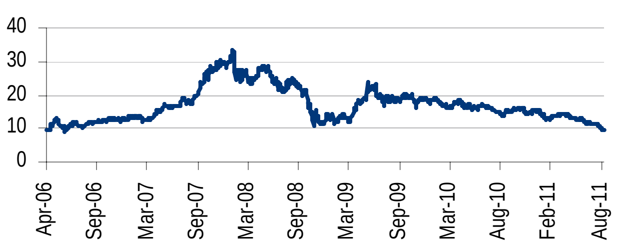
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 236: 10 year RoE



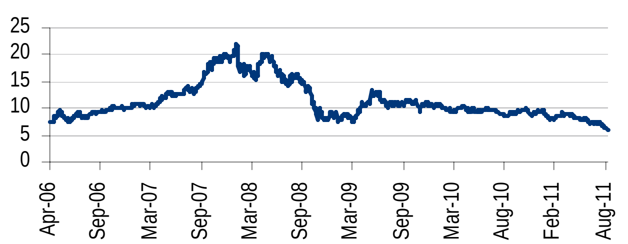
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 237: PE chart



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 238: EV/EBITDA chart



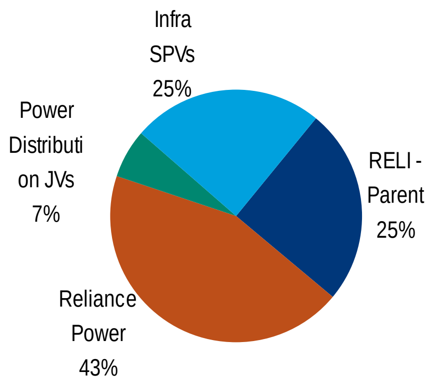
Source: BofA Merrill Lynch Global Research estimates

Reliance Infra (RELI IN, Buy)

Bharat Parekh

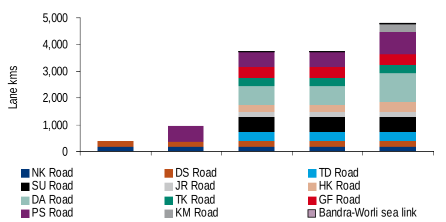
Current share price: Rs448
Trough price: Rs410
Upside price: Rs992

Chart 239: Reliance Infra – SOTP Breakup



Source: BofA Merrill Lynch Global Research

Chart 240: Road / Sea link tolled (Lane kms)



Source: BofA Merrill Lynch Global Research

Bear case: What can go wrong

- In the bear case, RELI's Mumbai regulated discom should be very resilient so may have no impact on earnings. However, the risk lies with the promoters' involvement in the 2G scam and regulatory and commercial risks at R. power
- We remove 12GW of Reliance Power, an associate of R-Infra, projects from our SOTP, which are facing regulatory or commercial challenges or are not ordered including Chitrangi (21% of our current SOTP), Krishnapatnam UMPP, Shahpur Coal TPP, Siyom, Tato II and Kalai II. Also, assume project commissioning will be delayed by a year. This would also impact E&C revenues of R Infra and lead to a 7% cut to BofAMLe and 1% fall in FY13E parent EPS.
- Assume a 200bp higher cost of equity to price-in promoter risk.
- Toll/ticket revenue to decline on fall in traffic at road/metro projects, assume a 10% cut in traffic at the roads and metro projects in FY12-13E.
- Assume a 100bp cut in interest rates in FY12-13E.

Base case: What happens in deflation

- We expect a year delay in commissioning of Reliance Power projects.
- Assume a 50bp higher risk free rate.
- In the base case, we expect the stock will trade at Rs992 valuing it at 1x consolidated FY11 P/B.

Risk-reward: Favorable subject to promoter concerns

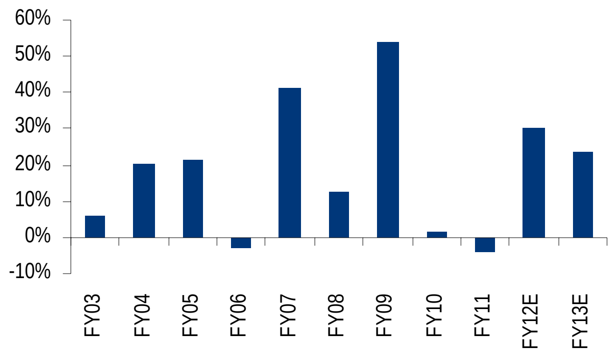
- In the bear case, we expect the stock to trade at Rs410 for 10% downside from CMP, valuing it at 0.4x consolidated FY11 P/B.
- In the base case, we expect the stock to trade at Rs992 valuing it at 1x consolidated FY11 P/B.
- The risk-reward appears favorable once concern surrounding the ADAG group recedes and the company demonstrates an execution track-record, which should also reduce treasury/cash concerns.

Table 59: Reliance Infra (Parent) - Earnings outlook

	BofAML	Downside	Upside	Variance vs BofAMLe	
	estimates FY13E	scenario FY13E	scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	154,242	143,935	154,242	-7%	0%
Sales Growth	23%	15%	23%		
EBITDA (Rs mn)	17,547	16,671	17,547	-5%	0%
EBITDA Margin (%)	11.4%	11.6%	11.4%		
EBITDA Growth	7%	2%	7%		
Net Income (Rs mn)	13,230	12,359	13,230	-7%	0%
Net Income Growth	5%	-1%	5%		
EPS (Rs)	49.9	46.6	49.9	-7%	0%
EPS Change (YoY)	5%	-1%	5%		
Dividend/Share (Rs)	7.4	7.4	7.4	0%	0%
Free Cash Flow/Share (Rs)	47.8	44.0	47.8	-8%	0%

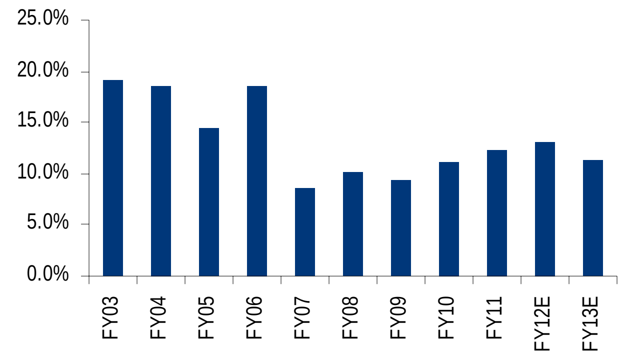
Souce: BofA Merrill Lynch Global Research

Chart 241: Reliance Infra - Sales growth



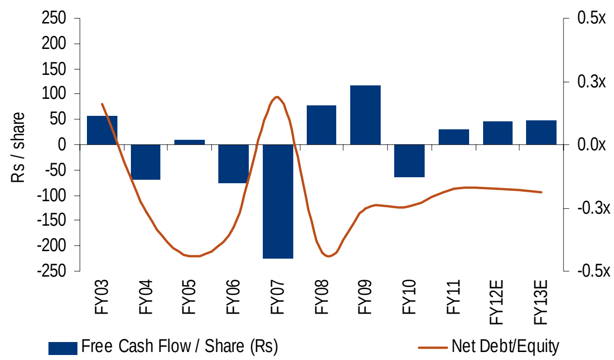
Source: Company, BofA Merrill Lynch Global Research

Chart 242: Reliance Infra - EBITDA Margins



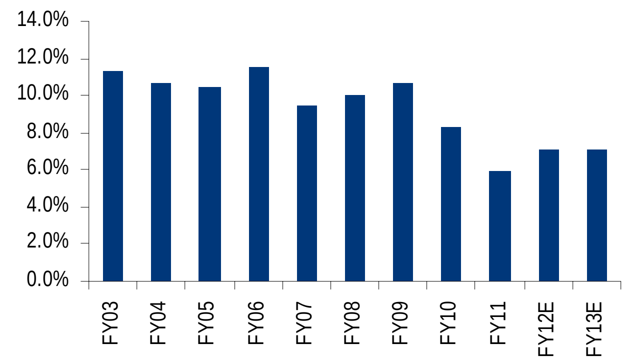
Source: Company, BofA Merrill Lynch Global Research

Chart 243: Reliance Infra - Free Cash Flow & Net debt / Equity



Source: Company, BofA Merrill Lynch Global Research

Chart 244: Reliance Infra - RoE



Source: Company, BofA Merrill Lynch Global Research

Chart 245: Reliance Infra - PE Chart

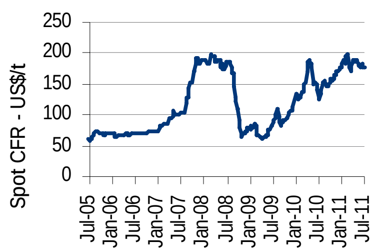
Source: Company, BofA Merrill Lynch Global Research

Chart 246: Reliance Infra - P/B Chart

Source: Company, BofA Merrill Lynch Global Research

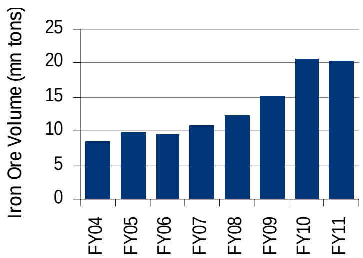
Bhaskar.N.Basu, CFA
Current share price: Rs218
Trough price: Rs160
Upside price: Rs260

Chart 247: Spot CFR for Iron Ore



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 248: Sesa Goa volumes



Source: Sesa Goa, BofA Merrill Lynch Global Research

Table 60: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bps change in Iron Ore ASP	1.5%	1.5%
100bps change in Iron Ore volumes	1.0%	0.9%

Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Table 61: Assumptions for scenarios

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
CFR/t ($/t)	173	168	120	120	173	168
Volumes (mn t)	22.4	24.8	18.9	20.5	22.4	24.8

Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Sesa Goa (SESA IN, Underperform)

Downside scenario: What can go wrong?

- In this scenario, we assume iron ore spot prices correct 35% from the current spot iron ore prices to US$120/t CFR in FY13E. Our medium-term forecast (till FY15E) assumptions are ~30% below our base case iron ore forecasts.
- We assume volumes to be hit by potential mining ban at Karnataka mines (25% of FY12E volumes). Hence, we forecast volumes of 18.9mt in FY12E and 20.5mt in FY13E. We forecast volume growth to slow to 5% over the next three years due to issues relating to delay in approvals and disruptions from the Karnataka mining ban. In this scenario, we arrive at FY12E EPS of Rs18.1 and FY13E EPS of Rs19.1.

Upside scenario: What can go right?

- Under this scenario, we assume global economic cycle rolls over though near-term headwinds ease and industrial activity stabilizes. In this scenario, we assume iron ore prices close to our base case. However, we value the financial investments in oil assets at current market price.
- We forecast iron ore spot CFR prices of US$173/t in FY12e and US$168/t in FY13e. We forecast volumes of 22.4mt in FY12 and 24.8mt in FY13. In this scenario, we arrive at FY12E EPS of Rs40.8 and FY13E EPS of Rs41.9.

Risk-reward: Unfavorable

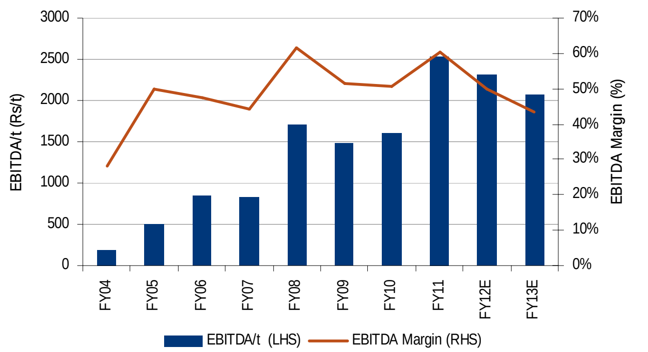
- Under the downside scenario, our NPV of Sesa Goa declines to Rs160 (implying a 27% downside potential). A multiple-based valuation assuming Sesa Goa's iron ore business to trade at 3x FY12 EBITDA (marginally below historical average) and valuing financial investments in oil assets at a 15% discount to current market price yields a value of Rs160.
- We assume average multiple rather than upper limit of valuation multiples as iron ore prices are at peak levels and even after assuming a 30% correction in iron ore prices, our assumptions stay above our long-term price estimates.
- Under the upside scenario, we get an NPV of Rs260. This assumes valuation of financial investments in oil assets at market price. At our NPV, Sesa Goa would trade at 2xFY12 EBITDA in line with the lower end of the valuation range (given that iron ore prices are at cyclical peak levels).

Table 62: Earnings outlook for Sesa Goa

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	123,900	76,537	123,900	-38.2%	0.0%
Sales Growth	14%	19%	14%		
EBITDA (Rs mn)	53,404	25,048	53,404	-53.1%	0.0%
EBITDA margin (%)	43%	33%	43%		
EBITDA Growth	-1%	2%	-1%		
Net Income (Rs mn)	37,708	17,168	37,708	-54.5%	0.0%
Net Income Growth	3%	5%	3%		
EPS (Rs)	41.9	19.1	41.9	-54.5%	0.0%
EPS Change (YoY)	3%	5%	3%		
Free Cash Flow/Share(Rs)	36.7	15.2	36.7	-58.5%	0.0%

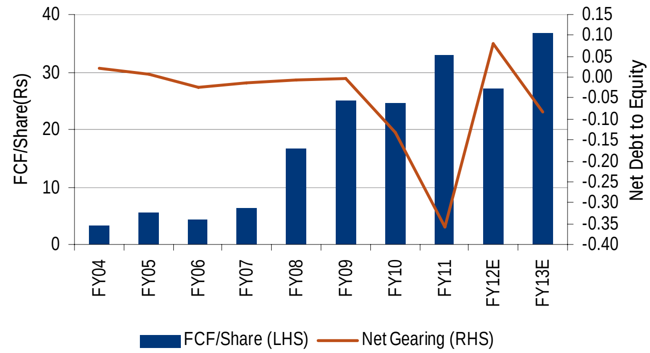
Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Chart 249: Sesa Goa EBITDA/t and EBITDA margin (FY04-13E)



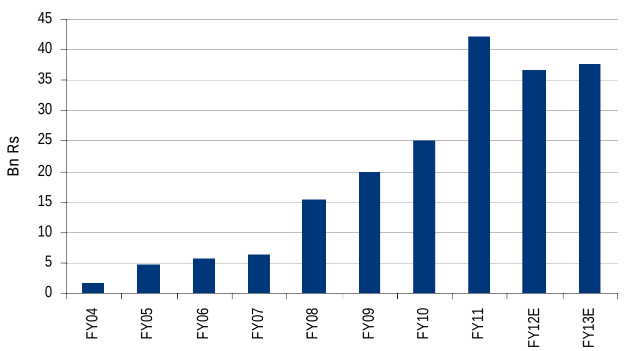
Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Chart 250: Sesa Goa FCF/share and net gearing (FY04-13E)



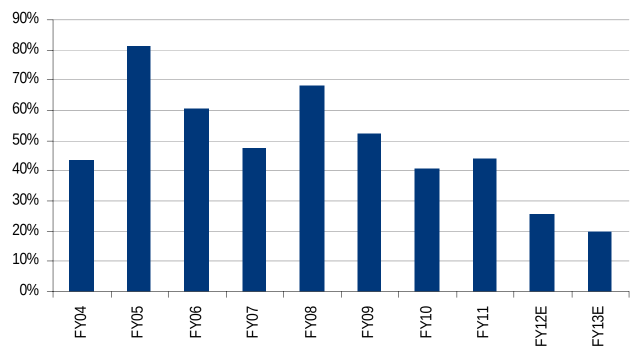
Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Chart 251: Sesa Goa net profit (FY04-13E)



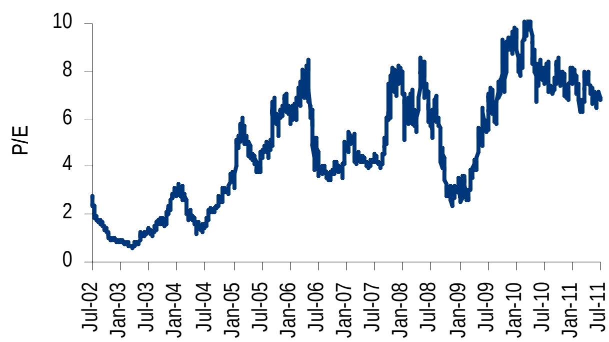
Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Chart 252: Sesa Goa RoE (FY04-13E)



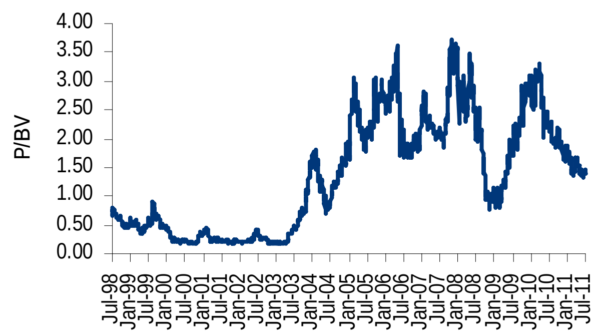
Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Chart 253: Sesa Goa P/E



Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Chart 254: Sesa Goa P/BV



Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates

Rajeev Varma

Veekesh Gandhi

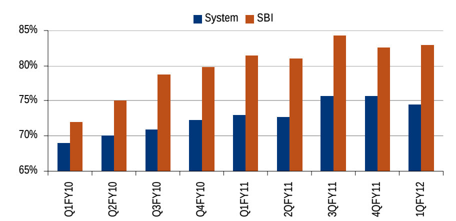
Current price: Rs1960

Trough price: Rs1744

Upside price: Rs2700

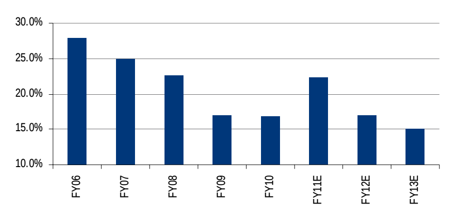
Our Base Case factors in emerging credit cycle by FY12 end and loan growth 15% in FY13: see- Banks-Retail, 22 August 2011

Chart 255: LDRs



Source: BofA Merrill Lynch Global Research Estimates

Chart 256: Credit growth (System)



Source: BofA Merrill Lynch Global Research Estimates

SBI (SBIN IN, Buy)

Downside scenario: What can go wrong?

- Lack of capital (Tier 1 at 7.6%) infusion in a timely manner could hamper future growth.
- NPLs in SME / Power, Roads, etc could increase slippages to 3.5% (FY13E). But alternatively, in the 'worst case' scenario, bond yields could come-off sharply leading to write-back of MTM on investment book and treasury gains, which can help set-off some higher NPL provisions.
- Earnings growth could still be +25% through FY12/13 owing to stronger top-line (NIM expansion) and operating leverage.

Upside (Base) scenario: What can go right?

- Capital infusion, as envisaged, would help SBI continue its growth trajectory.
- Slippages seen at about 2.9% in FY12E (same as in FY11) and rising further to 3.2% in FY13E, but asset quality stays manageable with provisioning cover at +70%.
- Earnings growth of +45/25% could well sustain through FY12/13. SBI is amongst the better placed banks in regards to earnings trajectory. The bank's margin could well continue to surprise even in a downside scenario owing to its aggressive lending rate hikes recently (+175bp in the last 4-5 months).

Risk-reward: Favorable

In the 'downside case', we think SBI could report higher NPLs and the stock could trade below 1 to 2 SD below average, implying a stress price of Rs1,744.

Our 12-month price objective on SBI is Rs2,700 on the 'upside case'. Our PO is based on the average historical PB multiple. Risk-return remains positive, with RoEs (banking biz.) at 20-21% in FY13E (vs +15% in FY11E) and the stock trading at 1.5x FY13E BV. Moreover, SBI is still likely to deliver earnings growth of +45/25% for FY12/13E led by the top-line. The firm's non-banks businesses add another Rs265/share (FY13E).

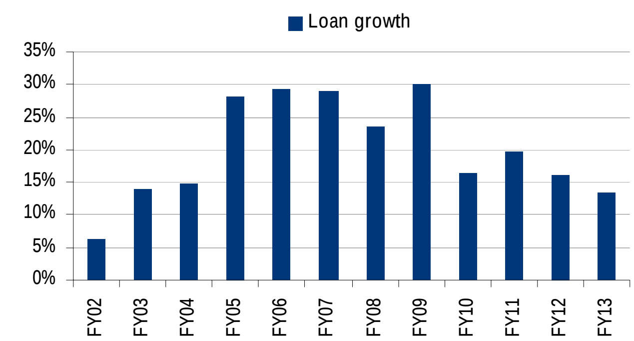
Table 63: Earnings outlook: Base case Vs Worst case

State Bank of India	Upside Case		Downside Case		Change %	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Interest Income (NII)	396,001	452,098	371,064	423,969	-6%	-6%
NII growth	21.7%	14.2%	14.1%	14.3%		
Pre Provision Profit (PPP)	312,034	358,784	306,016	354,535	-2%	-1%
PPP growth	23%	15%	21%	16%		
Net Profit	120,046	149,738	112,117	142,270	-7%	-5%
Net Profit growth	45.3%	24.7%	35.7%	26.9%		
EPS (Rs)	189	236	177	224	-7%	-5%
EPS growth	45.2%	24.7%	35.6%	26.9%		
Dividend per share	45.0	56.0	45.0	56.0	0%	0%
Adjusted book value per share	955	1,082	938	1,030	-2%	-5%
RoE	19.3%	21.3%	18.9%	21.2%		
RoA	0.92%	1.01%	0.85%	0.96%		

Source: BofA Merrill Lynch Global Research Estimates

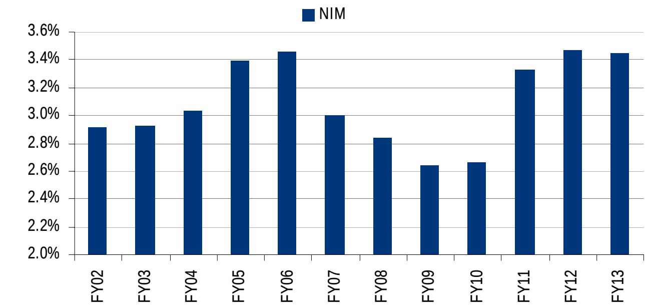
CR

Chart 257: Loan growth



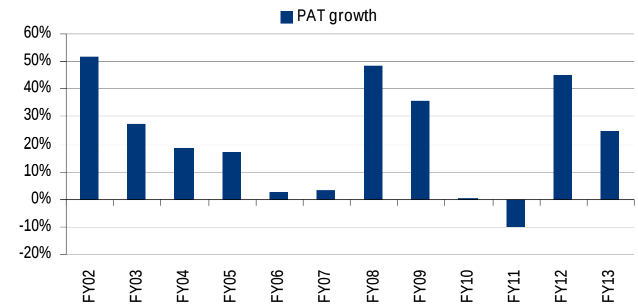
Source: BofA Merrill Lynch Global Research Estimates

Chart 258: Margins



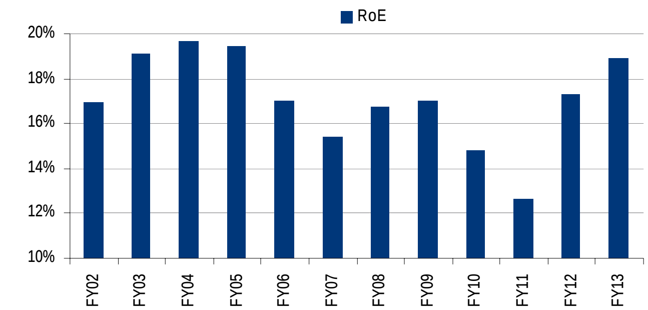
Source: BofA Merrill Lynch Global Research Estimates

Chart 259: Net Profit growth



Source: BofA Merrill Lynch Global Research Estimates

Chart 260: RoE



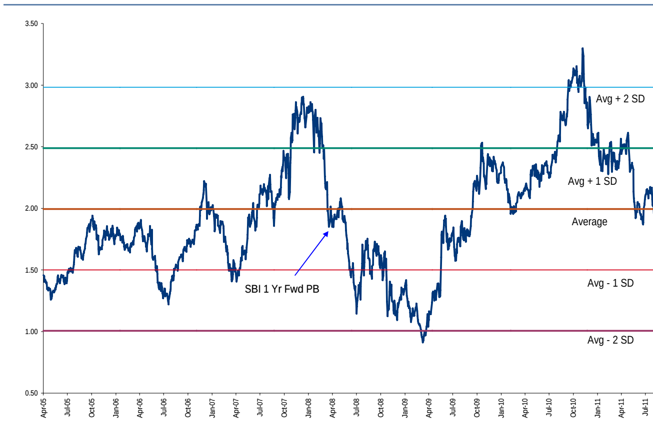
Source: BofA Merrill Lynch Global Research Estimates

Chart 261: SOTP

US$ mn	FY11	FY12	FY13
SBI Life Insurance	2,239	2,366	2,629
SBI Funds (100%)	436	454	499
Others (75-100%)	941	941	889
Mkt value of key investments	650	650	650
Non-Banks Subs	4,266	4,410	4,668
SBI' share (Rs/Shr)	FY11	FY12	FY13
SBI Life Insurance	123	130	144
SBI Funds (100%)	32	34	37
Others (75-100%)	70	70	66
Mkt Value of invst	48	48	48
Non-Banks Subs	273	281	295
Associate Banks	341	385	428
Sum of Parts Value	273	281	295
Value in US$ mn- SBI	3,848	3,964	4,161
SOTP Post Holdco Disc.	245	253	265

Source: BofA Merrill Lynch Global Research Estimates

Chart 262: P/B Chart

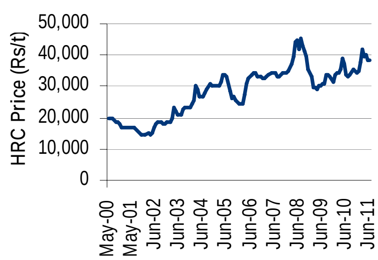


Source: BofA Merrill Lynch Global Research Estimates

SAIL (SAIL IN, Underperform)

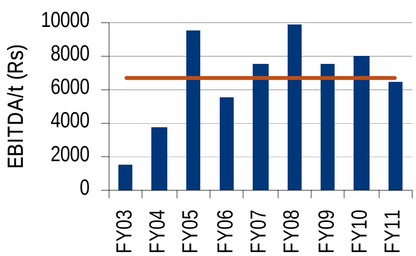
Bhaskar.N.Basu, CFA
Current share price: Rs107
Trough price: Rs78
Upside price: Rs120

Chart 263: Domestic HRC Prices* (incl. excise)



Source: CRISIL, BofA Merrill Lynch Global Research, **= includes excise and freight

Chart 264: SAIL EBITDA/t



Source: SAIL, BofA Merrill Lynch Global Research

Table 64: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bps change in steel ASP	4.6%	5.2%
100bps change in volumes	0.6%	0.7%

Source: SAIL, BofA Merrill Lynch Global Research Estimates

Table 65: Assumptions for scenarios

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
EBITDA/t (Rs)	6,543	7,138	4,330	4,858	6,543	7,075
Vol. (mt)	12.6	14.3	12.2	13.1	12.6	14.1

Source: SAIL, BofA Merrill Lynch Global Research Estimates

Downside scenario: What can go wrong?

- We assume iron ore prices correct to US$120/t CFR in FY13E (current spot US$175/t). We assume average realizations to correct by 11-12% over FY12-13E as a result.
- We forecast SAIL volumes of 12.2mt (4%YoY) in FY12E and 13.1mt in FY13E. We forecast EBITDA/t of US$96/t in FY12E and US$108/t in FY13E.
- We note that SAIL's trough quarterly EBITDA/t during FY09 (financial crisis) was US$103/t. However, as we have highlighted SAIL's cost structure has structurally increased by US$41/t due to hike in wage cost, SAIL's cost position is worse relative to CY08 crisis. Hence, we expect SAIL's trough EBITDA/t to be lower than FY08 in a down cycle.
- In this scenario, SAIL's EPS declines to Rs7.0 (down 41% from base case) in FY12E and to Rs8.4 (down 43% from base case) in FY13E.

Upside scenario: What can go right?

- We assume realizations of Rs37,345/t in FY12E and Rs35,804/t in FY13E in line with our base case. In this scenario, we forecast EBITDA/t of US$145/t in FY12E and US$159/t in FY13E.
- We assume volumes of 12.5mt in FY12E and 14mt in FY13E. In this scenario, we forecast FY12 EPS of Rs11.8 and FY13 EPS of Rs14.4.

Risk-reward: Unfavorable

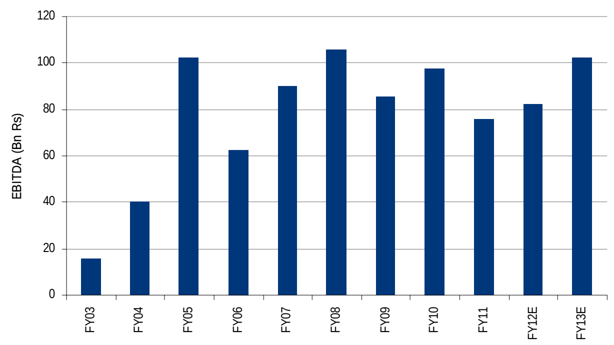
- Under the downside scenario, applying EV/EBITDA of 8.5x (upper-end of SAIL's valuation range), we get a valuation of Rs78 (implying a potential 29% downside).
- Under the upside case, assuming EV/EBITDA/t of 6.5x FY1E EBITDA, we get a valuation of Rs120 for SAIL (implying a 10% potential upside).

Table 66: Earnings outlook for SAIL

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe: Downside FY13E	Variance vs. BofAMLe: Upside FY13E
Sales (Rs mn)	538,682	449,115	531,816	-16.6%	-1.3%
Sales Growth	9%	2%	8%		
EBITDA (Rs mn)	102,161	63,589	99,835	-37.8%	-2.3%
EBITDA margin (%)	19%	14%	19%		
EBITDA Growth	24%	20%	22%		
Net Income (Rs mn)	61,031	34,885	59,454	-42.8%	-2.6%
Net Income Growth	25%	21%	22%		
EPS (Rs)	14.8	8.4	14.4	-42.8%	-2.6%
EPS Change (YoY)	25%	21%	22%		
Free Cash Flow/Share(Rs)	0.8	-4.6	0.6	-667.7%	-26.0%

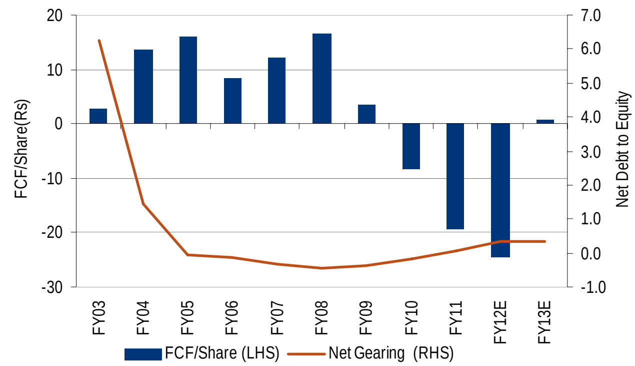
Source: SAIL, BofA Merrill Lynch Global Research Estimates

Chart 265: SAIL EBITDA (FY03-13E)



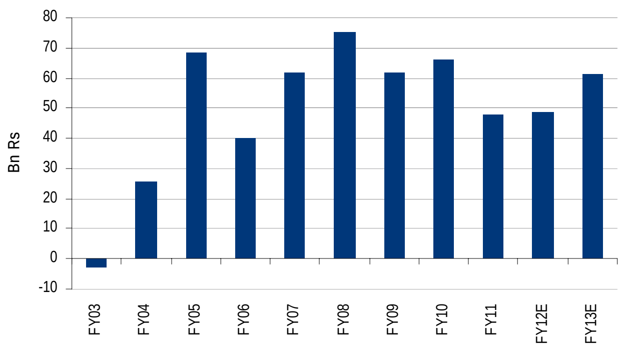
Source: SAIL, BofA Merrill Lynch Global Research Estimates

Chart 266: FCF per share and net gearing (FY03-13E)



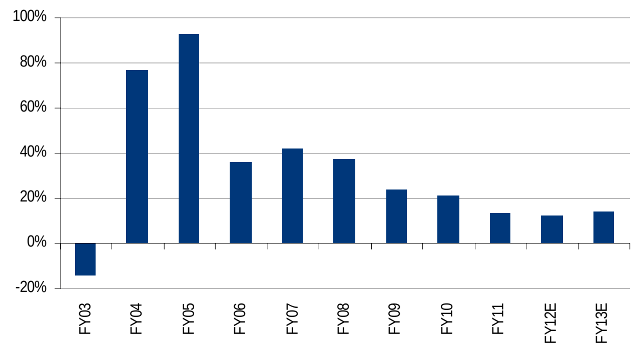
Source: SAIL, BofA Merrill Lynch Global Research Estimates

Chart 267: SAIL net profit (FY03-13E)



Source: SAIL, BofA Merrill Lynch Global Research Estimates

Chart 268: SAIL RoE (FY03-13E)

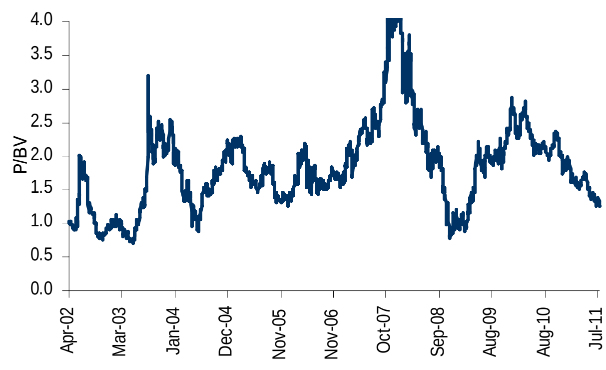


Source: SAIL, BofA Merrill Lynch Global Research Estimates

Chart 269: SAIL P/E

Source: SAIL, BofA Merrill Lynch Global Research Estimates

Chart 270: SAIL P/B

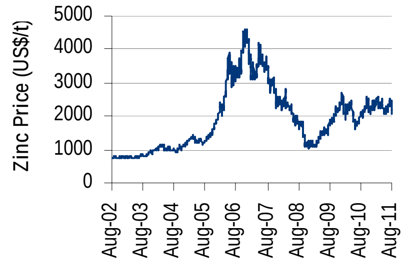


Source: SAIL, BofA Merrill Lynch Global Research Estimates

Bhaskar.N.Basu, CFA

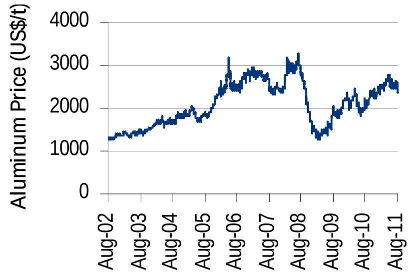
Current share price: Rs125
Trough price: Rs105
Upside price: Rs180

Chart 271: Zinc LME price



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 272: Aluminum LME price



Source: Bloomberg, BofA Merrill Lynch Global Research

Table 67: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bps change in Zn ASP	1.0%	1.1%
100bps change in Zn volumes	0.15%	0.17%
100bps change in Al ASP	0.3%	0.3%
100bps change in Al volumes	0.05%	0.05%

Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Table 68: Assumptions for scenarios

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Zinc - $/t	2289	2525	1753	1753	2289	2525
Al. - $/t	2619	2875	2105	2105	2619	2875
Copper - $/t	9782	9875	7445	7445	9782	9875
Lead - $/t	2566	2663	1865	1865	2566	2663

Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Sterlite (STLT IN, Buy)

Downside scenario: What can go wrong?

- We assume base metal prices correct by 10-15% from current spot prices.
- We assume metals demand doesn't collapse as growth in emerging markets remains resilient. Hence, we do not assume metal prices at CY08 lows.
- We forecast Al LME of US$2105/t, Zn LME of US$1753/t and Lead LME at US$1865/t in FY12E and FY13E. We assume merchant prices decline to Rs3.5/kwh in FY12E and Rs3/kwh in FY13E due to slowdown in India.
- At Vedanta Aluminum (VAL), we assume Sterlite's loans and advance to VAL gets converted to equity and Sterlite's stake in VAL increases to 100% (29.5% currently) due to inability of VAL to repay debt.
- In this scenario, our FY12E EPS reduces by 46% (vs. base case) to Rs9.6 in FY12E and by 61% to Rs8.5 in FY13E.

Upside scenario: What can go right?

- Under this scenario, we assume global economic cycle rolls over though near-term headwinds ease and industrial activity stabilizes. In this scenario, we expect base metal prices to be broadly in line with our base-case forecasts. We forecast Zn LME of US$2289/t in FY12 and US$2525/t in FY13. In VAL, we assume Sterlite exposure remains at 29.5%.
- In this scenario, we arrive at FY12E EPS of Rs18.1 and FY13E EPS of Rs21.8.

Risk-reward: Favorable

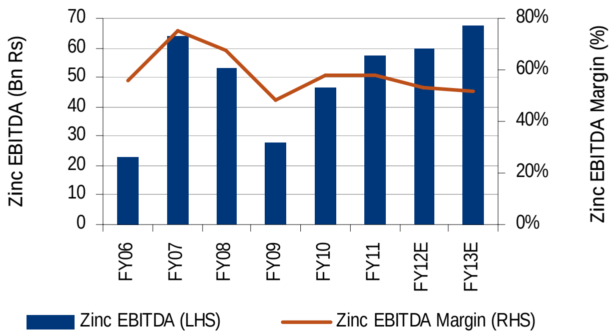
- Under the downside scenario, our SOTP-based valuation of Sterlite declines to Rs105. Our valuation implies zinc business trading at 7x 12m forward EBITDA. At these valuations, Sterlite will trade at 10.9x FY12 P/E (4.5x FY12e EBITDA).
- Under the upside case assuming zinc business trades at 5.5x 12m forward EBITDA, we get a valuation of Rs180.

Table 69: Earnings outlook for Sterlite

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Downside FY13E	Upside FY13E
Sales (Rs mn)	396,593	285,566	396,593	-28.0%	0.0%
Sales Growth	10%	0%	10%		
EBITDA (Rs mn)	133,373	68,409	133,373	-48.7%	0.0%
EBITDA margin (%)	34%	24%	34%		
EBITDA Growth	14%	-9%	14%		
Net Income (Rs mn)	73,271	28,611	73,271	-61.0%	0.0%
Net Income Growth	20%	-12%	20%		
EPS (Rs)	21.8	8.5	21.8	-61.0%	0.0%
EPS Change (YoY)	20%	-12%	20%		
Free Cash Flow/Share(Rs)	28.0	12.7	28.0	-54.5%	0.0%

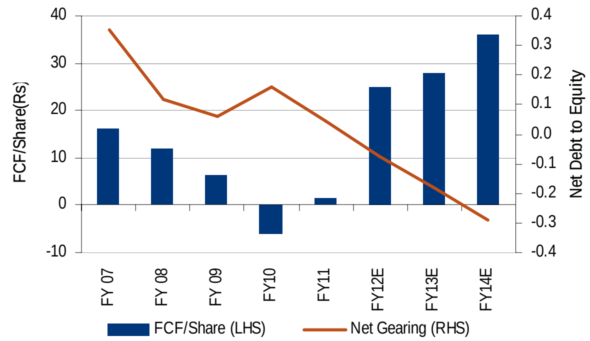
Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Chart 273: Sterlite EBITDA and EBITDA margin for zinc (FY06-13E)



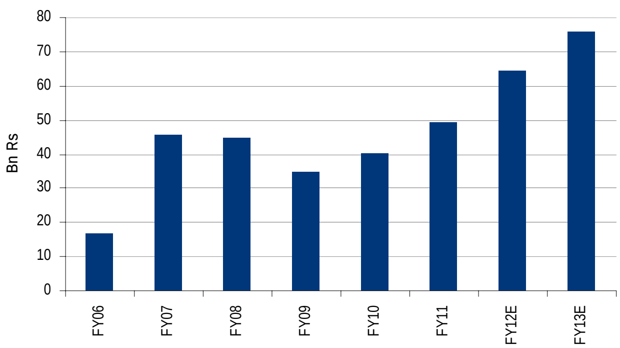
Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Chart 274: Sterlite FCF/share and net gearing (FY07-13E)



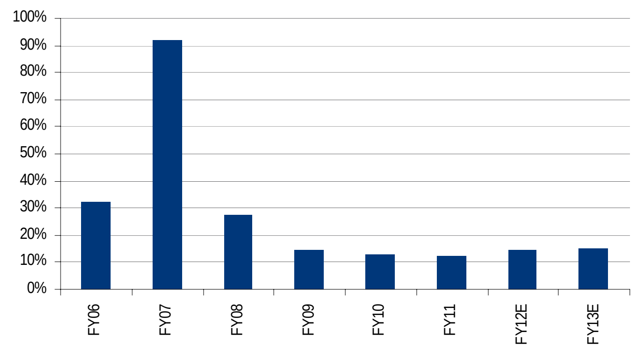
Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Chart 275: Sterlite net profit (FY06-13E)



Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Chart 276: Sterlite RoE (FY06-13E)



Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Chart 277: Sterlite P/E

Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Chart 278: Sterlite P/B

Source: Sterlite, BofA Merrill Lynch Global Research Estimates

Arun S

Arvind Bothra

Current share price: Rs471

Trough price: Rs385

Upside price: Rs575

Sun Pharma (SUNP IN, Buy)

Downside scenario: What can go wrong

- Slowdown in domestic formulations not to have much effect, owing to high share of chronic therapy (around 75%). However, overall slowdown may reduce growth to 12%, slightly ahead of the industry.
- US business growth may be affected by delayed approvals and aggressive pricing by competition. Improvement in Taro sales could be impacted.
- EBITDA margins in Taro to revert to about 22% (close to 2010 levels) on rising input costs while ex-Taro margins decline to around 34%, due to lower domestic growth.

Upside scenario: What can go right

- Domestic formulation strength to be sustained on high-growth chronic therapy. Expect Sun to outpace industry growth by 4-5% (about 20%).
- US business to benefit from new approvals (widest ANDA pipeline) as well as improving volumes in Taro's business. Expect resolution of US FDA warning letter for Caraco in the next 18 months to unlock value.
- Margins to improve on synergies with Sun's operations in US (for Taro). Taro's margins to improve to 27% (vs 22% in 2010), Para IV launches to boost profitability as well, implying ex-Taro margins of 36%.
- In the upside scenario, Sun would sustain large-cap premium multiple of 22x one-year forward P/E, implying a best-case valuation of Rs575.

Table 70: Sun- Segment wise growth

Growth YoY (%)	FY11	FY12E	FY13E	FY14E
Formulations				
Domestic	37%	20%	20%	20%
US Sales	25%	-7%	35%	18%
Taro	n.a	107%	12%	10%
Rest of World	-10%	25%	25%	25%
Formulations total	54%	30%	21%	17%
API/Crams	-4%	10%	10%	10%
Total sales	46%	28%	20%	17%

Source: Company, BofA Merrill Lynch Global Research

Risk-reward: Favorable

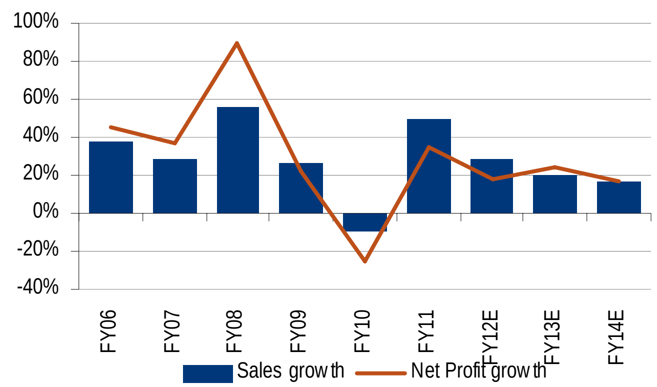
- Overall, we believe risk-reward is favorable given strong and stable domestic business lending support, while US business stands strong on large product pipeline. Lower exposure to emerging market and EU is a positive.
- In the worst case scenario, we expect valuations to trend at lower end, still at premium to sector noting strong return ratios/margins and defensive business. We expect target multiple to contract by 10% from current levels to 20x, implying downside scenario valuation of Rs385.In the upside scenario, Sun would sustain large-cap premium multiple of 22x one-year forward P/E, implying best case valuation of Rs575.

Table 71: Earnings outlook for Sun Pharma

	BofAML Est FY13E	Downside Scenario FY13E	Upside Scenario FY13E	Variance vs. BofAMLe Downside FY13E	Variance vs. BofAMLe Upside FY13E
Sales (Rs mn)	89,276	77,407	89,726	-13%	1%
YoY (%)	20%	10%	20%		
EBITDA (Rs mn)	29,518	22,374	30,037	-24%	2%
EBITDA margin (%)	33%	29%	33%		
YoY (%)	23%	10%	25%		
Net Income (Rs mn)	26,608	20,077	27,081	-25%	2%
YoY (%)	25%	11%	27%		
EPS (Rs)	26	19	26	-25%	2%
YoY (%)	25%	11%	27%		
Free Cash Flow/Share(Rs)	5	3	5	-44%	3%

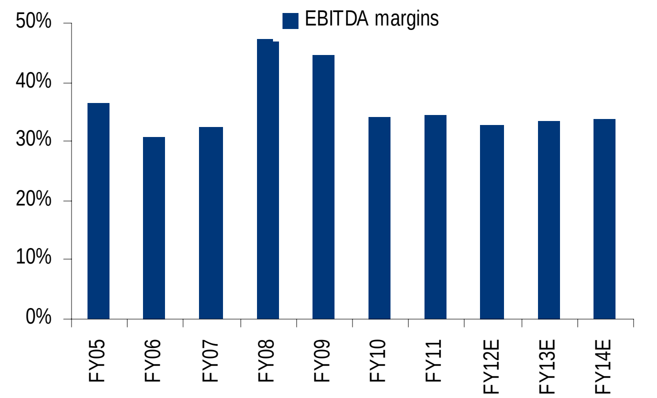
Source: BofA Merrill Lynch Global Research

IChart 279: 10 yr Sales & Net profit growth



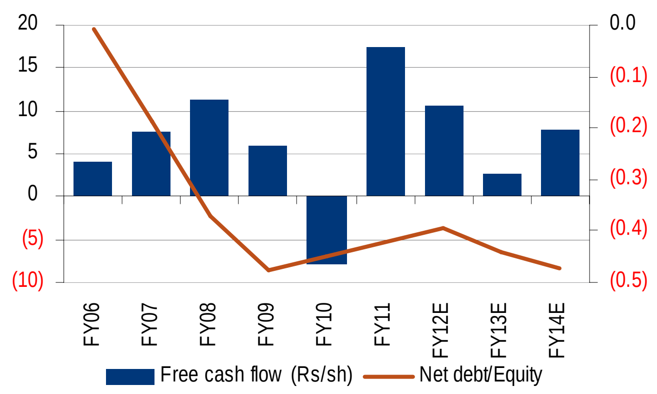
Source: Company, BofA Merrill Lynch Global Research

Chart 280: 10 yr EBITDA Margins



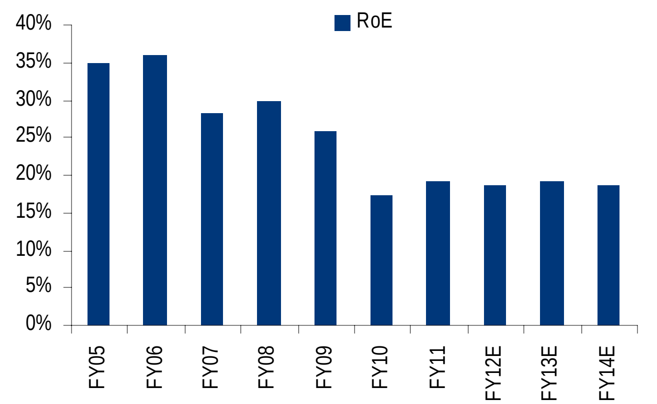
Source: Company, BofA Merrill Lynch Global Research

Chart 281: Free cash flow & Net debt/Equity



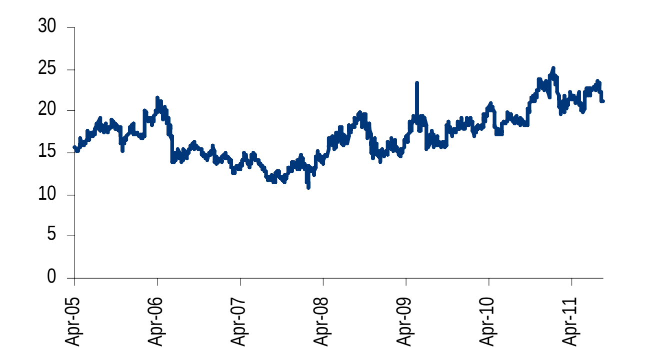
Source: Company, BofA Merrill Lynch Global Research

Chart 282: 10 year RoE



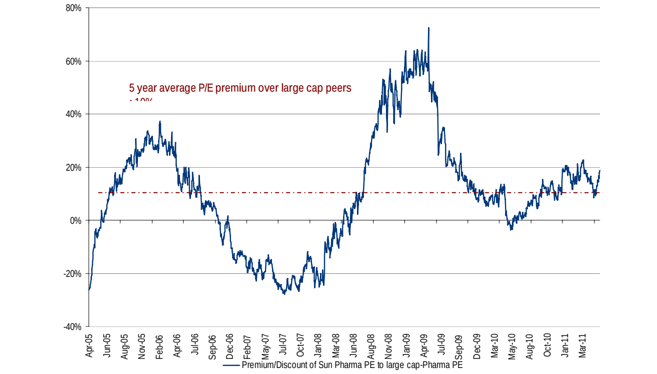
Source: Company, BofA Merrill Lynch Global Research

Chart 283: Sun Pharma-1 yr forward P/E bands



Source: Company, BofA Merrill Lynch Global Research

Chart 284: Sun Pharma-trades at premium to large peers



Source: Company, BofA Merrill Lynch Global Research

Mitali B. Ghosh
Pratish Krishnan
Kunal Tayal

Current share price: Rs950

Trough price: Rs834

Upside price: Rs1190

Table 72: TCS best exposed to emg markets

	%of Revs	YoY growth	
	(FY11)	FY10	FY11
TCS	21%	14%	34%
Infy	13%	11%	48%
Wipro	16%	30%	34%
HCLT	17%	31%	69%

Source: BofA Merrill Lynch Global Research

Table 73: Sensitivity of EBIT margin

1% pricing decline	74
1% appreciation of INR	35
1% decline in utilization	30-40

Source: BofA Merrill Lynch Global Research

TCS (TCS IN, Buy)

Downside scenario: What can go wrong?

- Revenue growth drops to 18% and 10% in FY12 and FY13 vs 29% growth reported in FY11, due to cut backs in the banking vertical, which is over 40% of TCS revenue, and pricing coming under pressure.
- Managing operating margins through cost/productivity optimization would be more challenging than FY09/10 as most of these levers have already been pulled. FY12 margins could take a hit of 240bp YoY on price cuts and a robust wage hike effective April this year.

Upside scenario: What can go right?

- In our recently printed scenario, we forecast 23% and 18% revenue growth in FY12 and FY13, as clients leverage global sourcing to optimize costs. Unlike last time, cuts in IT spending by banks could be much lower than in 2008, given a bulk of the spending is on regulation and compliance. Highest exposure to emerging markets, market share gains in infrastructure services should help company grow better than peers.
- Declines in operating margins from wage hikes for FY12 is restricted to 140bp YoY by employee pyramid broadening, stable pricing and improved offshore mix. Rupee depreciation beyond Rs45.5 and Rs45 average in FY12/13 estimates could further boost earnings.

Risk-reward: Favorable

- In our bull case, we think TCS could trade up to Rs1,190 at 20x FY13 P/E in line with Infy's 5-yr average P/E and rerated from its own average of 18x, given its track record of superior and balanced earnings growth.
- In worst case we think it could trade down to Rs834 (15x 1yr fwd EPS, which is at Infy's average P/E less 1 standard deviation). Lowest multiple TCS saw in 2008 was 7x given it was primarily a banking sector shock. It has since been rerated and trades at a 10% premium to Infy.

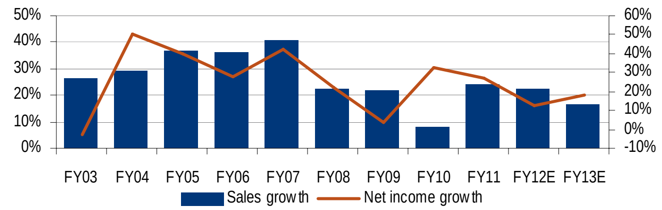
Table 74: Earnings outlook for TCS

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe Downside FY13E	Variance vs. BofAMLe Upside FY13E
Sales (Rs mn)	533,978	501,714		-6%	
Sales Growth	16.7%	13.3%			
EBITDA (Rs mn)	152,928	143,553		-6%	
EBITDA margin (%)	28.6%	28.6%			
EBITDA Growth	16.6%	16.5%			
Net Income (Rs mn)	116,075	108,769		-6%	
Net Income Growth	18.2%	18.2%			
EPS (Rs)	59.3	55.6		-6%	
EPS Change (YoY)	18.2%	18.2%			
Dividend/Share (Rs)	17.8	16.7		-6%	
Free Cash Flow/Share (Rs)	41.3	39.9		-3%	

Source: BofA Merrill Lynch Global Research

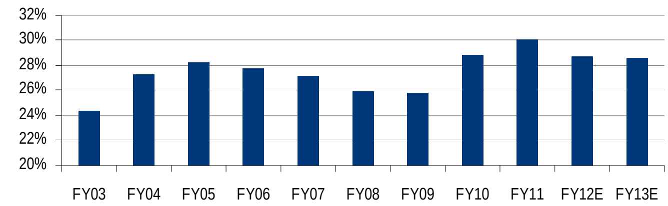
CR

Chart 285: 10 yr Sales and Net profit growth



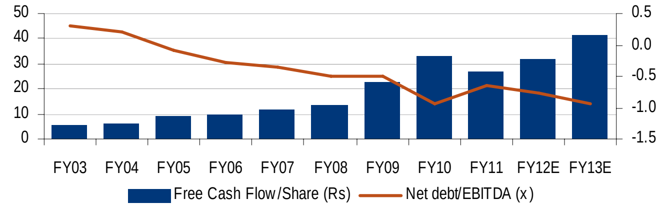
Source: BofA Merrill Lynch Global Research

Chart 286: 10 yr Margins



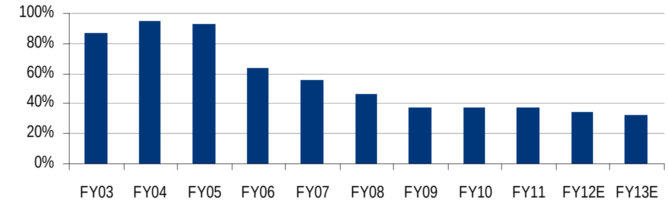
Source: BofA Merrill Lynch Global Research

Chart 287: Free cash flow & Net debt/EBITDA



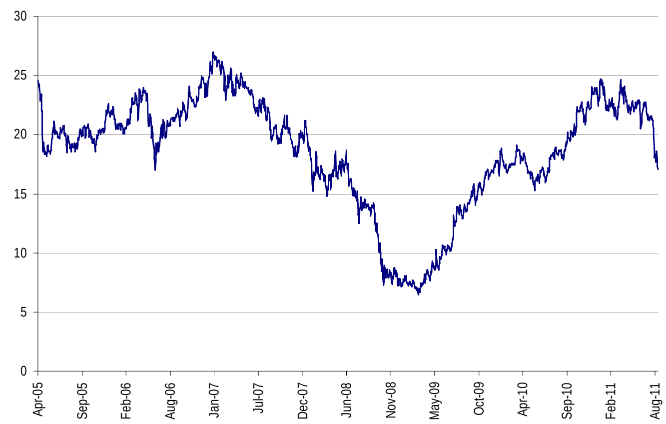
Source: BofA Merrill Lynch Global Research

Chart 288: 10 year RoE



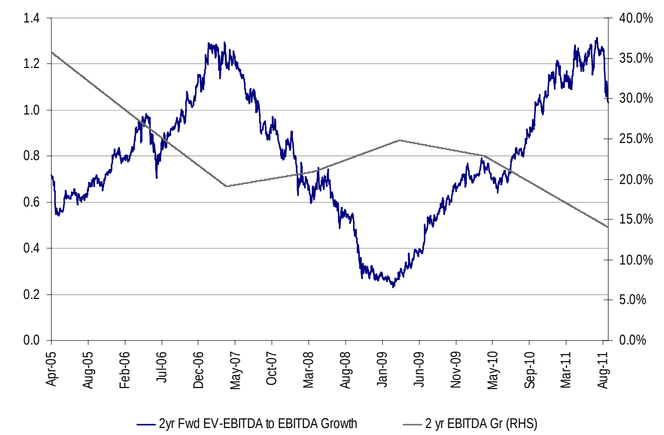
Source: BofA Merrill Lynch Global Research

Chart 289: 1yr fwd PE



Source: BofA Merrill Lynch Global Research

Chart 290: EV/EBITDA to 2yr EBITDA growth



Source: BofA Merrill Lynch Global Research

Tata Motors (TTMT IN, Buy)

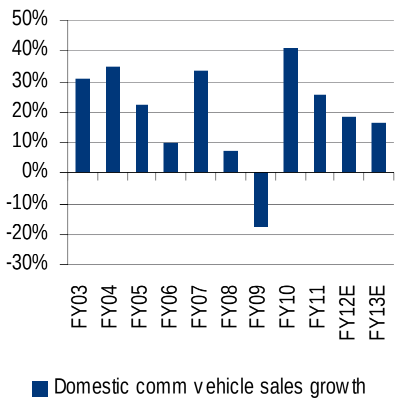
S.Arun

Current share price: Rs714

Trough price: Rs560

Upside price: Rs980

Chart 291: Comm vehicle industry vol growth rate



Source: SIAM, BofA Merrill Lynch Global Research estimates

Table 75: Volume/Margin scenarios

	BofAML estimates		Downside scenario		Upside scenario	
	FY12	FY13	FY12	FY13	FY12	FY13
Vol growth						
CVs	15%	15%	10%	7%	20%	15%
PVs	-12%	13%	-20%	0%	-10%	10%
JLR	15%	14%	11%	-4%	19%	5%
Margins						
Standalone	9.0%	9.2%	8.4%	7.7%	9.0%	9.2%
JLR	15.0%	15.1%	13.7%	13.2%	15.2%	15.3%

Source: Company, BofA Merrill Lynch Global Research estimates

Downside scenario: What can go wrong?

- Commercial vehicles (CVs) unlikely to capitulate, due to light vehicles. We expect volume growth to slow to 10% in FY12, and 7% in FY13. Passenger vehicle (PV) volume looks set to lag the industry due to weak franchise and new competition. We expect sales to decline 20% in FY12, and flat in FY13E.
- Jaguar Land Rover (JLR) sales collapsed in the previous cycle due to product gaps. We expect 270k units in FY12, but lower at 260k units in FY13.
- Standalone margins expected to be slightly higher than troughs of about 6% due to the profitable light vehicles business. JLR margins look set to worsen to 13.7/13.2% in FY12/13E on adverse FX rates and competitive pressures.

Upside scenario: What can go right?

- CV volumes could grow 20% in FY12E and 15% in FY13E, lower than previous cycles due to competition. PV volume could lag the industry due to relative franchise, and so register a modest 10% decline in FY12E and 10% growth in FY13E.
- JLR sales in FY12/FY13E can hit 290k units and 305k units, respectively, as easing of capacity constraints, new launches and increasing presence in emerging markets could more than offset a Europe/US slowdown .
- Margins could be about 9% lower than historic mean due to competition, and low profitability of PVs. JLR margins could be capped at c.15% due to higher fixed costs.

Risk-reward: Favorable

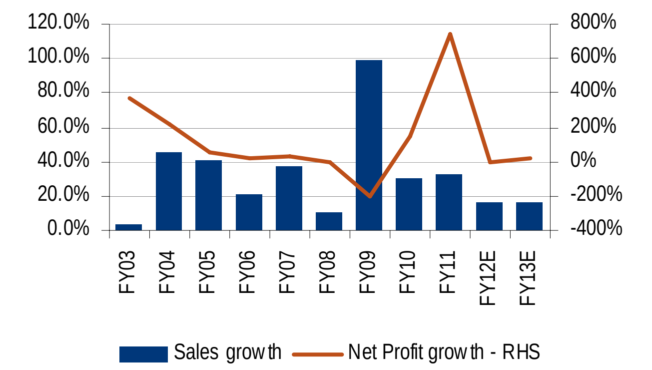
- Our worst-case value of Rs560 implies (1) standalone business at 7x FY13E EV/EBITDA (Rs199/share), slight discount to early cycle multiple, (2) JLR at 3.5x FY13E adjusted EV/EBITDA (Rs242/share), in line with Europe majors.
- Our best-case value of Rs980 implies (1) standalone business at 6.0x FY13E EV/EBITDA (Rs331/share), in line with late-cycle multiple, (2) JLR at 3.5x FY13E EV/EBITDA (Rs533/share), on market-share gains.

Table 76: Earnings outlook for Tata Motors

	BofAML estimates FY13E	Downside scenario FY13E	Upside scenario FY13E	Variance vs. BofAMLe: Downside FY13E	Variance vs. BofAMLe: Upside FY13E
Sales (Rs mn)	1,665,572	1,398,665	1,639,808	-16.02%	-1.55%
YoY chg	16%	2%	11%		
EBITDA (Rs mn)	226,132	167,684	223,014	-25.85%	-1.38%
EBITDA margin (%)	14%	12%	14%		
YoY chg	18%	-2%	11%		
Net Income (Rs mn)	96,746	45,064	94,032	-53.42%	-2.80%
YoY chg	14%	-33%	2%		
EPS (Rs)	144	67	140	-53.42%	-2.80%
YoY chg	14%	-33%	2%		
Free Cash Flow/Share(Rs)	32	-60	20	-284.93%	-37.24%

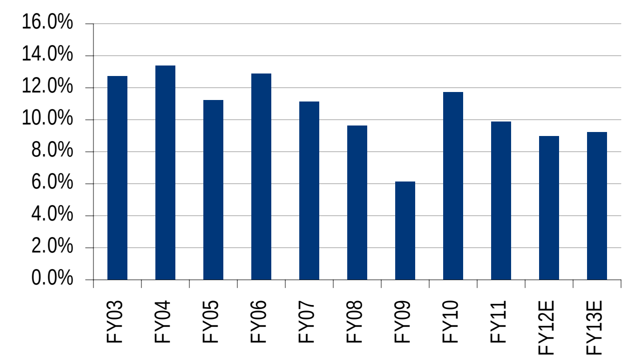
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 292: 10 yr Sales & Net profit growth



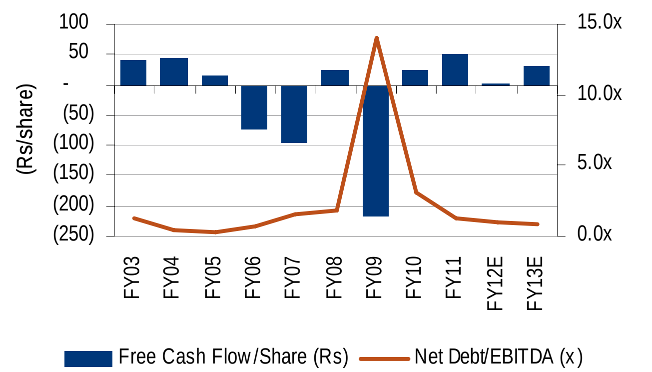
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 293: 10 yr Margins – Standalone



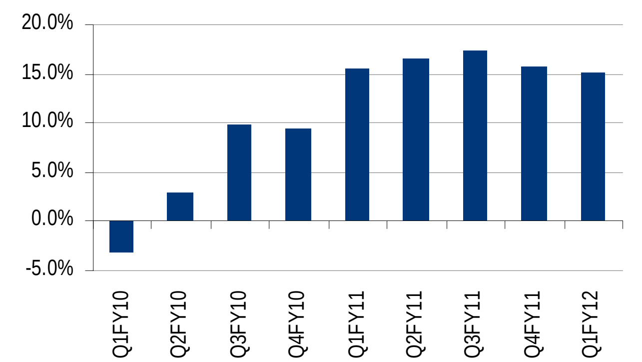
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 294: Free cash flow & Net debt/EBITDA



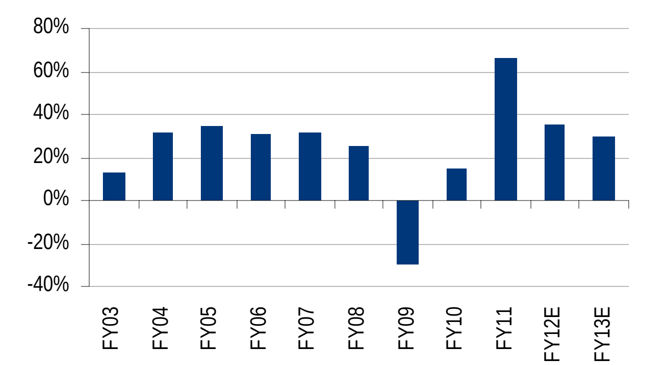
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 295: JLR Margins – Quarterly



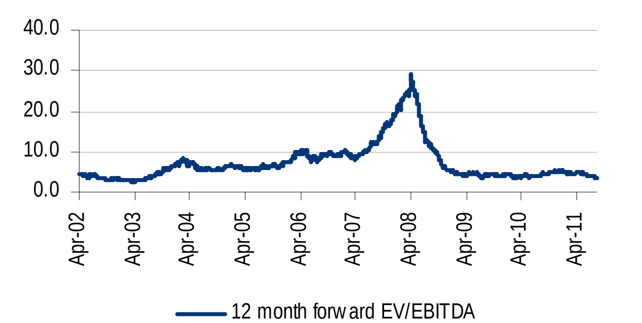
Source: Company, BofA Merrill Lynch Global Research estimates

Chart 296: 10 yr RoE – Consol



Source: Company, BofA Merrill Lynch Global Research estimates

Chart 297: 12 month forward EV/EBITDA band – Consol



Source: Company, BofA Merrill Lynch Global Research estimates

Tata Power (TPWR IN, Neutral)

Bear case: What can go wrong

- Expect coal prices to fall, we assume a cut of 5% in FY12, 25% in FY13 and 32% for our long-term estimates for coal prices at Indonesian coal mines. Further, we assume 3% (vs 6%) growth in coal cost/tn in FY13E.
- Assume 5% and 25% cut in market-linked coal prices for Mundra UMPP in FY12 and FY13E, respectively. Further, assume that Mundra UMPP will not be able to get five-year fixed price coal and has to source the same at market rate.
- Assume a 13% cut in FY13E merchant tariff at parent leading to an 8% cut in parent EPS.
- Consequently, our consolidated EPS falls 51% in FY13E.
- Assume a 50bp cut in risk free rate.
- We assume a 30% discount to power subsidiary/investments and 50% discount to telecom investments value.

Base case: What happens in deflation

- Assume a 50bp increase in risk free rate.
- Assume a 15% holdco discount to subsidiary/investments value.
- In the base case, we expect the stock to trade at Rs1,361 at 2x FY13E consolidated P/B.

Risk-reward: Favorable

- In our bear case, we expect the stock to trade at Rs959 at 1.5x FY13E consolidated P/B.
- In our base case, we expect the stock to trade at Rs1,361 at 2x FY13E consolidated P/B.
- Overall, the risk-reward appears favorable.

Bharat Parekh

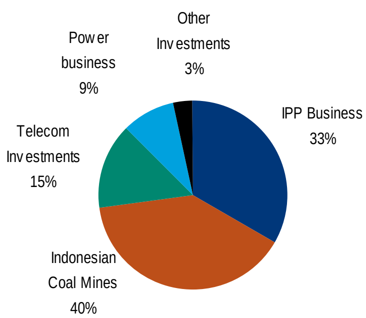
Current share price: Rs1046
Trough price: Rs959
Upside price: Rs1361

Table 77: Tata Power (Cons) - Sensitivity analysis

	FY13E	
	EBITDA	EPS
5% change in Coal price at coal mines & Mundra UMPP	-5.1%	-10.3%

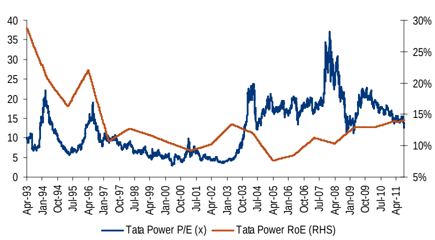
Souce: BofA Merrill Lynch Global Research

Chart 298: Tata Power – SOTP Breakup



Source: BofA Merrill Lynch Global Research

Chart 299: Tata Power Cons. PE vs ROE



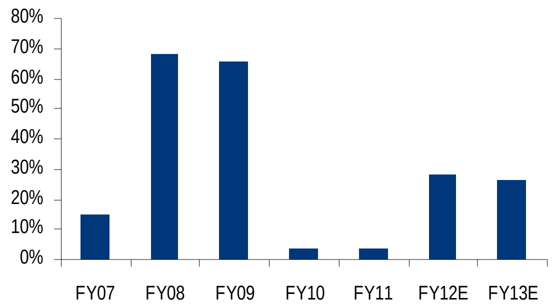
Source: BofA Merrill Lynch Global Research

Table 78: Tata Power (Cons) - Earnings outlook

	BofAML	Downside	Upside	Variance vs BofAMLe	
	estimates	scenario	scenario	Downside	Upside
	FY13E	FY13E	FY13E	FY13E	FY13E
Sales (Rs mn)	312,633	285,386	312,633	-9%	0%
Sales Growth	26%	17%	26%		
EBITDA (Rs mn)	77,041	58,170	77,041	-24%	0%
EBITDA Margin (%)	24.6%	20.4%	24.6%		
EBITDA Growth	19%	-1%	19%		
Net Income (Rs mn)	20,182	9,906	20,182	-51%	0%
Net Income Growth	-1%	-39%	-1%		
EPS (Rs)	85.1	41.7	85.1	-51%	0%
EPS Change (YoY)	-1%	-39%	-1%		
Dividend/Share (Rs)	14.9	14.9	14.9	0%	0%
Free Cash Flow/Share (Rs)	120.8	83.2	120.8	-31%	0%

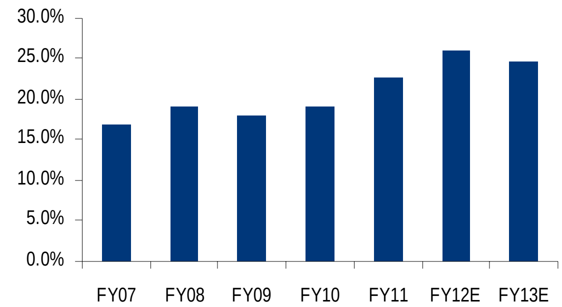
Souce: BofA Merrill Lynch Global Research

Chart 300: Tata Power (Cons) - Sales growth



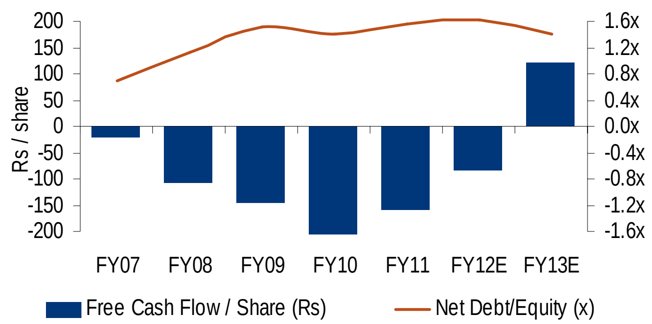
Source: Company, BofA Merrill Lynch Global Research

Chart 301: Tata Power (Cons) - EBITDA Margins



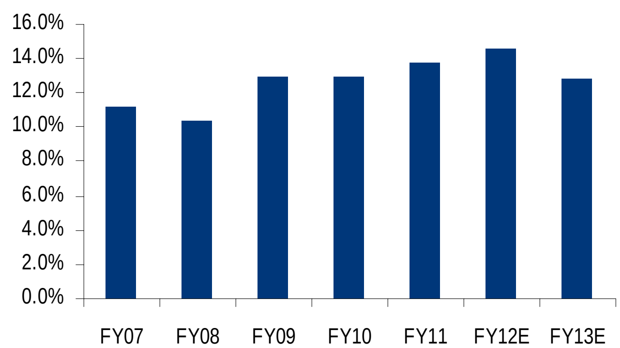
Source: Company, BofA Merrill Lynch Global Research

Chart 302: Tata Power (Cons) - Free Cash Flow & Net debt / Equity



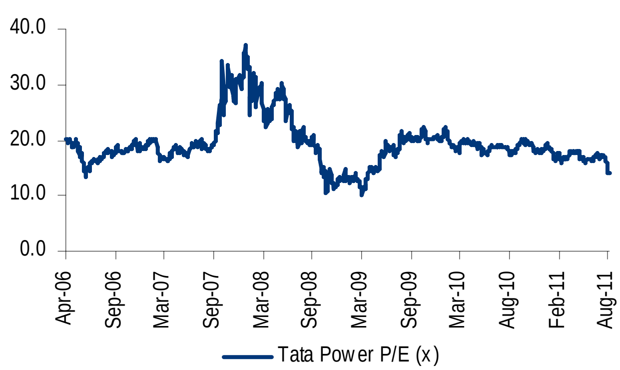
Source: Company, BofA Merrill Lynch Global Research

Chart 303: Tata Power (Cons) - RoE



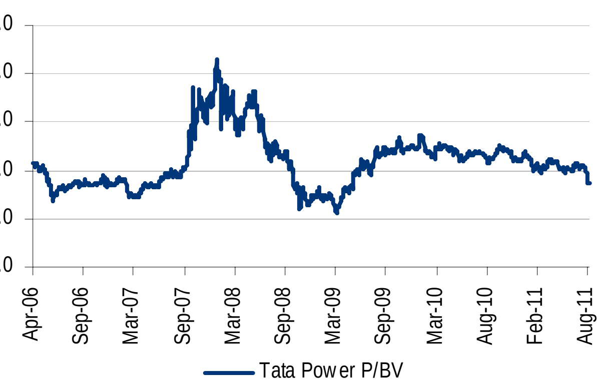
Source: Company, BofA Merrill Lynch Global Research

Chart 304: Tata Power (Cons) - PE Chart



Source: Company, BofA Merrill Lynch Global Research

Chart 305: Tata Power (Cons) - P/B Chart



Source: Company, BofA Merrill Lynch Global Research

Tata Steel (TATA IN, Underperform)

Bhaskar.N.Basu, CFA
Current share price: Rs444
Trough price: Rs305
Upside price: Rs450

Downside scenario: What can go wrong?

- We assume iron ore prices correct to US$120/t CFR in FY12E and FY13E. We assume domestic realizations correct by 10% as a result.
- In India, we forecast standalone EBITDA/t of US$315/t in FY12E and US$285/t in FY13E. We assume lower volumes due to weaker demand.
- At TSE (Corus), we assume TSE makes marginal profits (at EBITDA level) and forecast EBITDA/t of US$12/t in FY12E and US$10/t in FY13E. We highlight that TSE has generally made losses at EBITDA level during previous down cycles. Hence, Tata Steel could report loss at EBITDA level. However, we believe the probability of sustained losses at EBITDA level is low given quarterly re-pricing of inputs. We assume TSE volumes of 13.4mt in FY12E and FY13E, implying a 75% utilization (85% in our base case) factoring in slow demand and excess capacity in Europe.
- Under the downside case, we forecast group EPS at Rs22.8 (-58% vs base case) and Rs22.2 (-66% vs base case) for FY12E and FY13E, respectively.

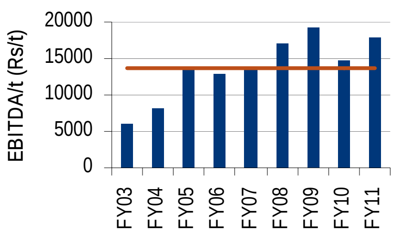
Upside scenario: What can go right?

- We assume realizations in line with our base case which assumes moderating demand and increasing supply. We forecast EBITDA/t of US$394/t in FY12E and US$352/t in FY13E for India and volumes of 6.6mt and 8.9mt, respectively. In TSE, we forecast volumes of 15mt in FY12E and 15.3mt in FY13E. We forecast TSE EBITDA/t of US$52/t and US$59/t. We forecast FY12 EPS of Rs55.5 and FY13 EPS of Rs65.4 in this scenario.

Risk-reward: Unfavorable

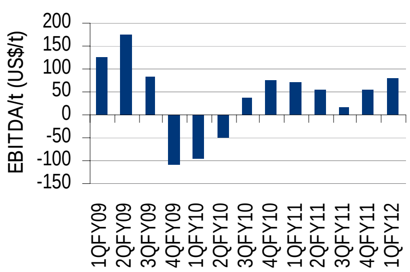
- In the downside case, we get a valuation of Rs305 (implying a 35% potential downside from the current market price). We assume domestic business to trade at 7.5x 12m forward EBITDA and TSE to trade at 6.5x 12m forward EBITDA. Our valuation implies 7.7x FY12E EBITDA & 6.7x FY13E EBITDA.
- In our upside case, we get a valuation of Rs450 (assuming India at 6x 12m forward EBITDA and TSE at 5.5x 12m forward EBITDA), implying a 2% downside potential.

Chart 306: Tata Steel's EBITDA/t for India



Source: Tata Steel, BofA Merrill Lynch Global Research

Chart 307: Tata Steel's EBITDA/t for Corus



Source: Tata Steel, BofA Merrill Lynch Global Research

Table 79: Sensitivity analysis

Yr ending 31 March	FY13E	
	EBITDA	EPS
100bps change in steel ASP	6.0%	10.8%
100bps change in volumes	1.1%	2.0%

Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Table 80: Assumptions for scenarios

	Base		Downside		Upside	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
India						
EBITDA/t ($)	394	352	315	285	394	352
Vol. (mn t)	6.6	9.0	6.6	8.5	6.6	9.0
Corus						
EBITDA/t ($)	51.6	58.8	11.5	9.7	51.6	58.8
Vol. (mn t)	15.0	15.3	13.4	13.4	15.0	15.3

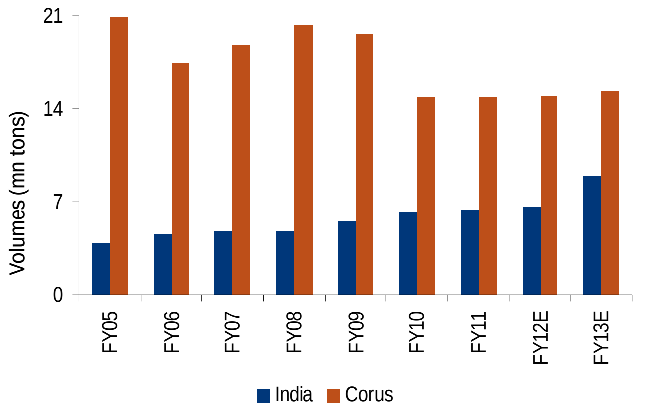
Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Table 81: Earnings outlook for Tata Steel

	BofAML estimates	Downside scenario	Upside scenario	Variance vs. BofAMLe Downside	Variance vs. BofAMLe Upside
	FY13E	FY13E	FY13E	FY13E	FY13E
Sales (Rs mn)	1,323,436	1,122,748	1,323,436	-15.2%	0.0%
Sales Growth	5%	-1%	5%		
EBITDA (Rs mn)	186,486	118,799	186,486	-36.3%	0.0%
EBITDA margin (%)	14%	11%	14%		
EBITDA Growth	19%	13%	19%		
Net Income (Rs mn)	67,588	22,915	67,588	-66.1%	0.0%
Net Income Growth	17%	-2%	17%		
EPS (Rs)	65.4	22.2	65.4	-66.1%	0.0%
EPS Change (YoY)	18%	-3%	18%		
Free Cash Flow/ Share(Rs)	51.0	13.9	51.0	-72.7%	0.0%

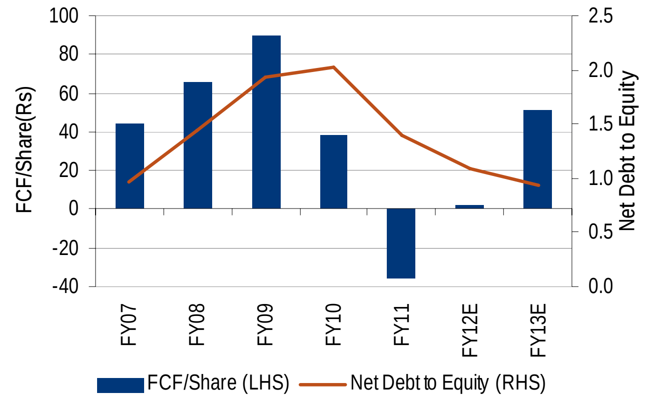
Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Chart 308: Volume for Corus and India operations (FY05-13E)



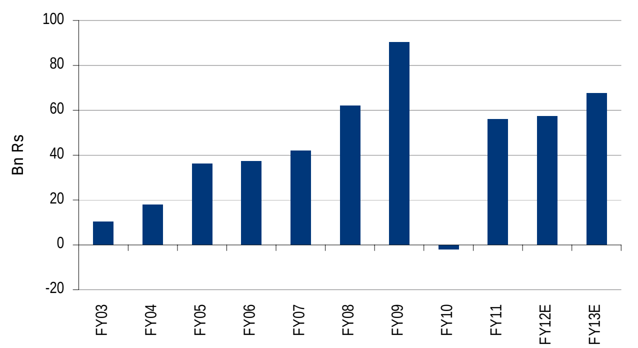
Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Chart 309: FCF per share and net gearing (FY07-13E)



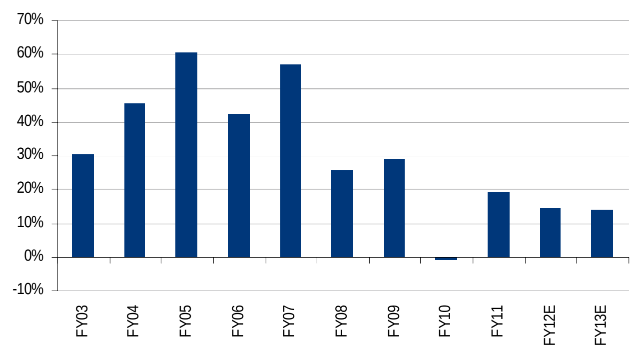
Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Chart 310: Tata Steel net profit adjusted (FY03-13E)



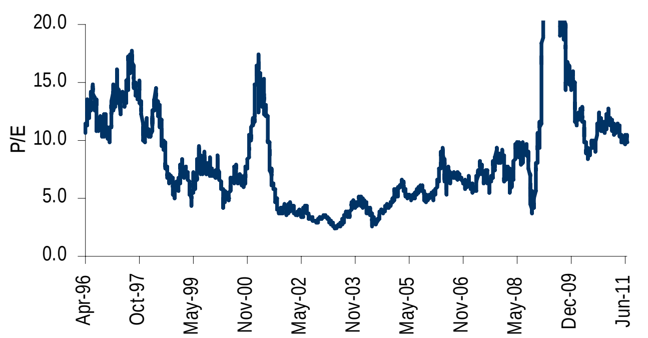
Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Chart 311: Tata Steel RoE (FY03-13E)



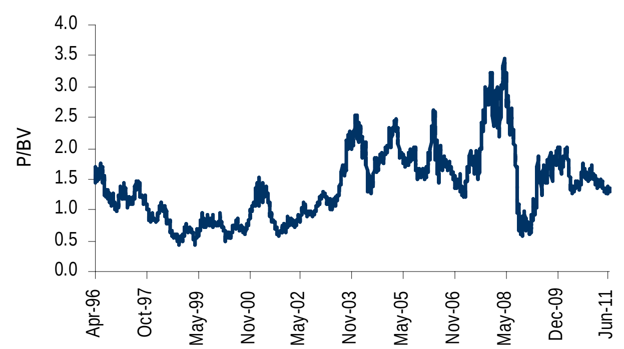
Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Chart 312: Tata Steel P/E



Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

Chart 313: Tata Steel P/B



Source: Tata Steel, BofA Merrill Lynch Global Research Estimates

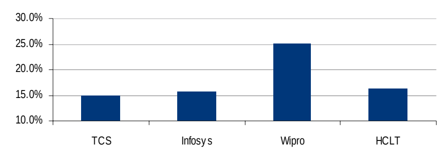
Mitali B. Ghosh
Pratish Krishnan
Kunal Tayal

Current share price: 328

Trough price: Rs273

Upside price: Rs380

Chart 314: Mgmnt churn has resulted in high employee attrition



Source: BofA Merrill Lynch Global Research

Table 82: Sensitivity of EBIT margin

1% pricing decline	80
1% appreciation of INR	35
1% decline in utilization	30-40

Source: BofA Merrill Lynch Global Research

WIPRO (WPRO IN, Neutral)

Downside scenario: What can go wrong?

- The company could grow revenue at as low as 8.4% and 2.7% in FY12 and FY13, given higher exposure to technology/telecom vertical at c.25% of revenue. Moreover, it is grappling with the recent reorganization, management changes and rising competition from Cognizant and HCL Tech.
- Employee attrition rates are 5-6% higher than other tier-1 vendors in the past few quarters at 23% and could limit flexibility in managing labor costs.
- FY12 margins could decline 190bp QoQ given steep wage hikes announced in May 2011. Managing operating margins through cost/productivity optimization will be more challenging than FY09/10 as most of these levers have already been pulled.

Upside scenario: What can go right?

- Revenue growth could be 11% and 12% in FY12 and FY13 as its efforts at mining clients begin to pay off and clients look to leverage offshore.
- In the previous downturn, Wipro was more aggressive in improving productivity through fungibility of resources and industrializing delivery.

Risk-reward: Balanced

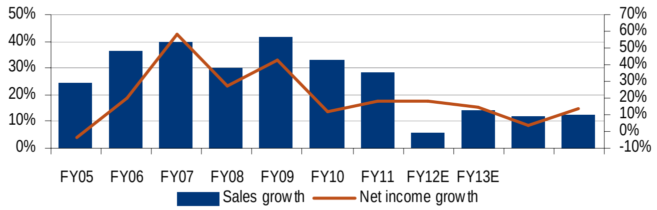
- In our upside scenario we have a target price of Rs380, at 15x FY13E P/E, a 15% discount to the target P/E for Infosys, given the slower growth trajectory.
- In the worst case, it could trade down to as low as Rs273 at 11.5x 1yr fwd EPS, again at a 15% discount to Infy's target trough multiple. While in Sep-Mar09, the stock dipped to 8x 1 yr fwd multiple, barring this brief window, the lowest multiple for Wipro has been about 10x 1yr fwd PE.

Table 83: Earnings outlook for Wipro

				Variance vs. BofAMLe	
	BofAML estimates FY13E	Downside scenario FY1E	Upside scenario FY13E	Downside FY13	Upside FY13E
Sales (Rs mn)	391,011	373,253		-5%	
Sales Growth	12.4%	7.8%			
EBITDA (Rs mn)	76,869	72,003		-6%	
EBITDA margin (%)	19.7%	19.3%			
EBITDA Growth	11.7%	7.0%			
Net Income (Rs mn)	62,219	58,269		-6%	
Net Income Growth	14.0%	9.3%			
EPS (Rs)	25.4	23.8		-6%	
EPS Change (YoY)	14.0%	9.3%			
Dividend/Share (Rs)	5.7	5.7		0%	
Free Cash Flow/Share (Rs)	12.4	15.2		23%	

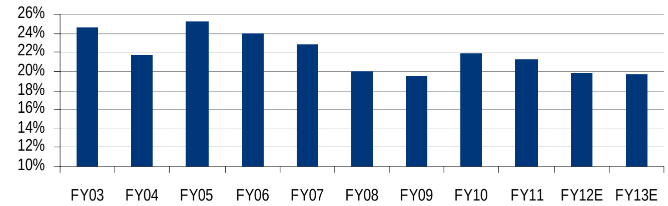
Source: BofA Merrill Lynch Global Research

Chart 315: 10 yr Sales and Net profit growth



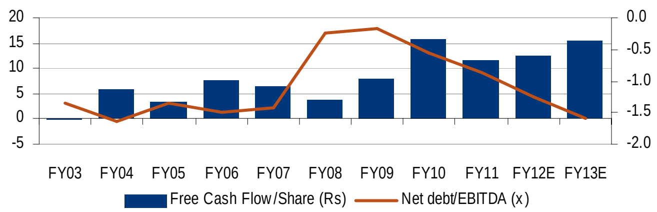
Source: BofA Merrill Lynch Global Research

Chart 316: 10 yr Margins



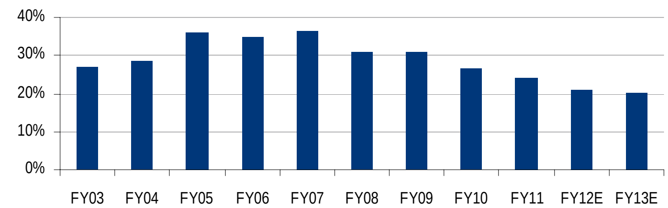
Source: BofA Merrill Lynch Global Research

Chart 317: Free cash flow & Net debt/EBITDA



Source: BofA Merrill Lynch Global Research

Chart 318: 10 year RoE

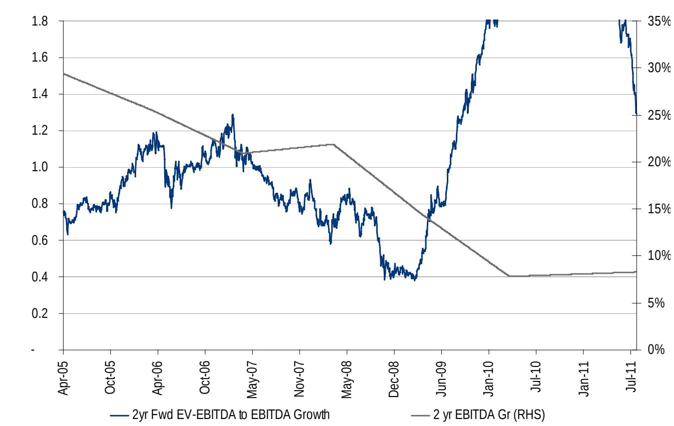


Source: BofA Merrill Lynch Global Research

Chart 319: 1 year forward PE

Source: BofA Merrill Lynch Global Research

Chart 320: EV/EBITDA to 2yr EBITDA growth



Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Ambuja Cements (AMBUF)

We have a price objective of Rs100/sh for Ambuja. We value the company at CY12E EV/capacity of around US$95-100/ton based on a 20-25% discount to the industry's current replacement cost of US$120-125/ton. Trough discount vs replacement cost was steeper at 40-45% in the previous cycle but structurally improved RoEs and significantly healthier balance sheets may warrant lower discount in current cycle. The 20-25% discount is in line with the average (rather than trough) discount witnessed through the previous downturn (1997-2002). Upside risks to our outlook stem from 1) renewed rational pricing behaviour by cement producers across the industry, 2) sharp easing in energy prices and 3) stronger than expected demand recovery. Downside risks stems from further demand weakness and unforeseen rise in energy prices.

Assoc. Cement (ADCLF)

We have a price objective of Rs900/sh for ACC. We value the company at CY12E EV/capacity of around US$95-100/ton based on a 20-25% discount to the industry's current replacement cost of US$120-125/ton. Trough discount vs replacement cost was steeper at 40-45% in the previous cycle but structurally improved RoEs and significantly healthier balance sheets may warrant lower discount in current cycle. The 20-25% discount is in line with the average (rather than trough) discount witnessed through the previous downturn (1997-2002). Upside risks to our outlook stem from 1) renewed rational pricing behaviour by cement producers across the industry, 2) sharp easing in energy prices and 3) stronger than expected demand recovery. Downside risks stems from further demand weakness and unforeseen rise in energy prices.

Axis Bank (XAXSF)

We set our PO on Axis Bank to Rs1210 (US$27). Our PO is based on historical traded forward PB multiple, implying a multiple of 2.0x FY13. We are still assigning a +40% premium to theoritical multiples owing to Axis Bks RoEs of +19-20%, good franchise, high low-cost deposi tbase and manageable asset quality. We now estimate Axis Bks earnings to grow at more modest +18-19% growth rate through FY12/13E (vs. +30% earlier). We believe Axis trading at +2.0 FY13E book will trade at similar multiples 1-year out (FY13E) given a leg down in growth. Risks to our PO are a sharp rise in NPLs leading to higher credit costs or the MTM hits arising from the corporate investment book or inability to grow in sync with expectations owing to moderation in the growth cycle.

Bajaj Auto (XBJBF)

Our PO of Rs1,355 is based on 12.5x FY13E P/E, which is 10% discount to dominant competitor Hero Honda (which we value at 14x FY13E P/E), adjusted for differential growth forecasts. At our PO, the stock would trade at 8x FY13E EV/EBITDA. Upside risk: More than anticipated success of recent launches, and lower commodity prices. Downside risk: Economic slowdown, both in India and globally, and increased competition.

Bharat Heavy (BHHEF)

Our Price Objective of Rs2500 is based on 15x FY13E earnings with PEG of 0.8x (vs 1x) to factor-in slower future growth and increased competition, which is inline to its current multiples, the 41pct discount to peak PE in the last cycle (94-97) and the mid-range of PE bands. On FY12E, BHEL trades at 5% discount to the market, despite BHEL's superior market position, forecast earnings growth (19pct for BHEL vs. the market 21pct) and RoE (30pct vs. the market 19pct). Risks to our price objective are Govt. encouragement to its competitors with continued zero % import duty / assured orders, Chinese, Japanese and Korean competition, a rebound in metal prices, higher-than-expected wage hikes and on-ground project execution challenges.

Bharti (BHTIF)

Our PO of Rs450/sh values Bharti at a FY13E-EV/EBITDA of around 7.5x post-Zain. The consolidated valuation places Bharti at nearly 30-40% premium vs GEM wireless majors on EV/EBITDA. Long-term EBITDA growth for Bharti is estimated at around 13% vs lower growth of 9-10% for GEM majors. Upside risks to our PO could stem from 1) stronger than expected profit contribution from Bharti-Africa, 2) sooner than expected industry consolidation in India, and 3) unforeseen 3G adoption in India. Weaker than expected subscriber quality and renewed competitive intensity in India, weak 3G impact, dramatic regulatory changes and poor execution in Africa pose downside risks.

BPCL (XBPCF)

Our PO of Rs739/share is based on P/E of 9.5x on BPCL's FY12E consolidated EPS (excluding dividend income from IGL and PLNG) of Rs53.0/share. PO includes value of BPCL's share in oil reserves in Wahoo block (Brazil) and gas resources in Mozambique at Rs104/share. It also includes the market value of investments in Indraprastha Gas (IGL), Petronet LNG (PLNG), Oil India (OIL) and cost of investment in Bina oil refinery of Rs131/share.

Upside risks: (1) Government compensation/grants are higher than our expectations, (2) Government eliminates subsidies on all products, (3) Refining margins are higher than forecast by us, (4) Rise in market prices of IGL and PLNG. (5) Significant reserve accretion in BPCL's E&P exploration assets in India and abroad. Downside risks: (1) Government does not issue enough oil bonds, (2) government reverts to a cost-plus-based regulated pricing mechanism, (3) steep decline in regional and hence BPCL's refining margins, and (4) steep decline in the market price of IGL and PLNG.

Coal India Limited (XOXCF)

Our PO of Rs400 is set at our NPV estimate. Our NPV analysis assumes a WACC of 13% and a terminal growth of 2%. At our PO Coal India would trade at 9.5x FY12E EBIDTA . We forecast coal volumes to grow at a CAGR of 5% over next five years

Stronger volume growth, higher realisations and lower costs pose upside risks to our valuations. Downside risks to our valuations are slower pace of environmental approvals, prohibition of coal mining in areas where CIL reserves are located, sharper than expected increase in wage costs and inability to raise prices to pass thru wage cost hikes.

DLF Limited (XVDUF)

Our preferred valuation methodology is NAV, calculated by discounting the cash flows from each of the real estate projects. Our price objective of Rs275 is therefore based on our NAV estimate of Rs275. We expect DLF to trade at its NAV because of its benchmark position in the Indian real estate market, large size, and well diversified land bank. Key assumptions underlying our NAV estimate are WACC of 14.2%, capitalization rate of 11% and inflation of 5% from FY13 on both selling price and construction costs. On a P/E basis, at our PO of Rs275, the stock would trade at 22x FY12E earnings. Downside risks are lower than expected volume and higher than expected debt.

Dr Reddy's Lab (DRYBF)

Our PO of Rs1860 (US$41.8 for ADR) is based on the sum of (a) Rs1793/sh (US$40.3/ADR) for base business, valued at 20x FY13E EPS, in line with large cap Indian Pharma peers (Sun, Cipla, Lupin), and (b) Rs67 (US$1.5/ADR) for limited period exclusivity opportunity (generic Arixtra, Allegra OTC, Zyprexa, Geodon), valued on an NPV basis.

Risks are: (a) delays in approval of niche filings in US Generics business, (b) slower-than-expected revival of domestic formulations business (c) higher-than-expected pain in Betapharm (Germany) operations, and (d) adverse impact of ruble exchange fluctuation.

Gail India (XGLAF)

Our SOTP-based PO of Rs424 (US$59.15 for GDR) comprises (1) Core businesses (Rs359/sh), and (2) market value of investments in ONGC, Petronet LNG, IGL and China Gas (Rs65/sh). The value of natural gas and LPG transmission businesses of GAIL is based on DCF valuation using WACC of 10.3%. We have valued LPG production business of GAIL on EV/EBITDA of 6x and petrochemical business of GAIL on EV/EBITDA of 7x on FY13E EBITDA. Downside risks: (1) Gas transmission volumes are lower than expected, (2) Gas tariff on pipelines is below expectations, (3) Decline in LPG and petrochemical prices (4) Subsidy burden is far above expectations (5) Plunge in market prices of ONGC, Petronet LNG, IGL and China Gas. Upside risks: (1) Gas transmission volumes beat estimates, (2) Gas tariff on pipelines is above expectations, (3) Increase in LPG and petrochemical prices, (4) Subsidy burden is much lower than expected, (5) Surge in market prices of ONGC, Petronet LNG, IGL and China Gas.

Grasim (GRSJF)

We have a price objective of Rs2360 (GDR of US$52) for Grasim. We value the company's dominant cement business at 20% discount to the industry's current replacement cost of US$120-125/ton. The 20% discount is in line with the average (rather than trough) discount witnessed through the previous downturn (1997-2002). The VSF business is pegged at an FY13E-PE of about 7.5x implying a sharp discount vs local market (BSE 30). Sharp slowdown in VSF demand and unforeseen rise in energy prices for the cement business present downside risks to our PO. Upside risk could stem from strong and sustained rational pricing behaviour of cement producers across the industry and unforeseen rise in cotton and PSF prices.

HCL (XHCLF)

Our Price Objective of Rs500 is at 14x FY13 PE. Our target PE is at close to 10% discount to that for Wipro and is lower than the average 5 yr PE of 16x. Given our strong EPS growth forecast, we see potential upside to our target multiple. Downside risks stem from macro led delays in discretionary IT spending, slower than expected growth in top 5 accounts, higher than expected wage hike pressures and Rupee appreciation.

HDFC Bank (XHDFF)

We set our PO at Rs575 (US$40/ADR). HDFC Bank remains the least vulnerable to the expected credit cycle given its loan profile. Hence, we believe it may continue to trade at between average and 1 SD above average. We believe

HDFC BK is likely to deliver RoEs of 18/20% on profit growth of +26-28% through FY12-13. Moreover, we believe the stock, trading at 21x FY12 earnings can arguably continue to trade at similar levels in FY13 earnings, if there is visibility of earnings growth sustaining at +25% and comfort on asset quality. Risks: A sharp rise in NPLs and inability to maintain growth are risks to our price objective.

HDFC (HGDFF)

We set our PO at Rs800 to factor in 1) overall growth momentum sustaining, especially in retail and 2) we believe HDFC is likely to deliver RoEs of +23% (pre-warrants) on profit growth of 21/20% in FY12/13. Our PO is based on a premium to the Gordon model theory. Moreover, we believe HDFC being a quality defensive growth stock, valuations for the stock tend to be more PE led than BV led. Hence, the stock, trading at 23x FY11 earnings (adj. for subs), can continue to trade at similar multiples 1-year out, given profit growth of +21/20% in FY12/13. We think there may be upside to our SOTP (Rs166/shr), especially from HDFC Bk (expanding distribution and market share) and life insurance. A sharp rise in NPLs and an inability to maintain growth are risks to our price objective.

Hero MotoCorp Ltd (HRHDF)

Our PO of Rs 2,025 is based on 14x FY13E P/E (same as earlier), in line with historic average, and slight premium to peers due to superior growth. At PO stock would trade at 9.8x FY13E EV/EBITDA. Risks: Execution risk during transition period and new models from competition. Higher input costs would also impact profitability.

Hindalco (HNDFF)

Our PO of Rs171 is based on our DCF valuation. We assume a WACC of 12.5% and perpetuity growth of 0%. Our DCF currently assumes aluminum prices of US$2619/t in FY12E, US$2875/t in FY13E. At our PO the stock would trade at 1.0x FY12E P/B and 6.3x FY12E EBITDA.

Upside risks: Higher aluminum prices due to stronger demand and production cuts in aluminum. Also stronger margin gains in Novelis. Downside risks: Lower aluminum prices, execution risks and delays in capacity expansion, weaker margins in Novelis

ICICI Bank (ICIJF)

We set our PO at Rs1200/USD54. Our PO is currently based on average historical PB multiple. We think the sharp correction in the share price in past few days is already capturing much of the earnings risk and asset quality risk. Moreover, as highlighted earlier, we do believe the risks are overdone as retail is almost 38% of its loan mix. Moroever, ICICI Bk has amongst the best asset quality (most seasoned book), the best capitalized bank and one of the well positioned banks in the current operating environment. Hence, we reiterate our Buy. Moreover, on a PE basis, our PO implies that the bank sustained its earnings multiples of 14x, one year forward. Risks are sharp rise in interest rates could hurt margins (35% of total deosits wholesale for ICICI Bank) and slowdown in macro growth could lead to lower volume growth and earnings trajectory for FY12.

Infosys Tech (INFYF)

Our Price Objective of Rs2,800 (USD63.5) is at 18x 1yr fwd EPS, in line with its FY12-14 EPS growth estimate. This is 10% lower than its 5yr average PE multiple, given the uncertain environment. Apart from macro risks, risks are Infys greater exposure to discretionary services, longer than expected organization distraction post recent leadership succession and increasing competition

Infrastruct Dev (IFDFF)

We value IDFC on a sum-of-the-parts approach resulting in an aggregate value of Rs134/share. Valuing its core infrastructure lending business at +1.4-1.5x FY13E book on a appro. 15% core ROE for a value of Rs98/share and each of the businesses and investments by different valuation metrics separately, adding Rs36/share to the equity-linked business (benchmarked to industry leaders), we get our SOTP value of Rs134/share. Upside risks to our PO are buoyant equity markets as most of its non-infrastructure business is equity-linked or if markets were to value the bumper earnings (which it may make based on the equity returns) on a P/E basis. Downside risks are inability to access low cost deposits and not have the ability to price loans in sync with the loan tenor, which could result in margin pressure. NPLs could arise given the long gestation of some power projects. Focus on asset management and fee-based businesses could make earnings more lumpy.Upside risks are a windfall gain in income from PE exits that could bump up a years earnings

ITC Limited (ITCTF)

We value ITC on Discounted Cash Flow basis and validate PO with Sum of the Parts (SOTP) where we compare cigarettes business to international cigarettes comparable peer and FMCG, Hotels and Paper business with Indian industry peers. Our DCF based PO of Rs235 is in line with SOTP. PO implies a 1yr fwd multiple of 24x at a higher end of historical trading range for ITC. We believe this is justified given improving return ratios, sustained dividend payout and successful diversification.

Risks: (1) competitive FMCG intensity could delay breaking even, (2) severe monsoon failure could impact raw material availability and (3) upside risks from better-than-expected performance in non-cigarette FMCG.

Jaiprakash Associates Limited (JPRKF)

Our PO of Rs138 for JPA is based SOTP valuation. E&C business is valued at Rs31/share at 6x FY13 EBITDA - 50pct discount to target multiples of E&C majors - BHEL & L&T. JP Greens Gr. Noida is valued at Rs5/share (WACC 11.5pct) and JP Greens Noida at Rs16/share (WACC 14.2pct). Expressway business are valued at Rs38/share on DCF basis/Book Value. Captive coal mines are valued at Rs13/share based on DCF. Stake of 50.3-100pct in Power projects are valued at 15pct discount to DCF at Rs49 per share. Cement business is valued at Rs59/share - Cement & captive power (Parent) FY12E capacity at Rs53/share at US$78/tn - 29% discount to the industry's current replacement cost of US$110/ton, SAIL Bhillai JV and Bokaro JV at book value of Rs2/share and Rs1/share respectively and other cement projects under construction at book value of Rs4/share. Hotel business is valued at 2.5x 1 year forward Sales at Rs3/share. Projects under construction are valued at Rs8/share at book value. 189mn Treasury stock (adding Rs11/share to SOTP) are valued Rs124/share at a 10% discount to our SOTP value. Removing net debt of Rs96/share we arrive at an SOTP value of Rs138 per share. JPA offers a blend of asset play & 20pct CAGR in parent EPS (FY11-13E). Risks to our PO: a) Political/land acquisition hurdles at Yamuna Expressway, b) slowdown in hydro power capex, c) demand-supply imbalance in cement business, d) delay in monetization of assets and e) hydrology.

Jindal Steel and Power Limited (XJDLF)

Our PO of Rs629 is based on SOTP valuation of JSPL's steel and power business based on DCF. This implies Rs216 for steel business (including Shadeed Steel) and Rs413 for the power business. Our NPV calculation is based on a WACC of 12.5% and terminal growth rate of 0%. Our NPV of steel business implies 6x FY12e EBITDA.

Our domestic HRC assumptions are Rs33419 in FY12e and Rs31476 in FY13e. In merchant power we forecast merchant tariff of Rs4.45/kwh in FY12e and Rs3.25 in FY13e.

Upside risks to our valuation are higher steel prices, higher power tariff, better visibility on the execution of Bolivia mine project. Downside risks to our valuation are sharper-than-expected fall in steel prices, lower-than-expected steel production, and lower power tariff.

Larsen & Toubro (LTOUF)

Our PO of Rs2100 (US$46.6/GDR) for L&T is based on sum-of-the-parts valuation. We have valued the core business at Rs1637 per share at a PER of 18x estimated FY13E EPS. L&T International is valued at 1.5x book value at Rs19 per share. Its 97.5pct stake in L&T IDPL (Infrastructure SPVs) is valued at L&T acquisition value of IDFC stake in 4Q10 - 2.4x FY12E P/BV at Rs80 per share. The 100% stakes in three Road BOT projects are valued at 1.5x FY12E P/BV at Rs29 per share. The stakes in Dhamra Port (43pct) and L&T Urban Infra (65pct) are valued on a DCF basis at Rs15 and Rs11 per share respectively. The Investment in L&T Seawoods is valued at book value at Rs14 per share. Its 100pct stake in L&T Infotech is valued at 10x 1-year forward EPS - in line with niche 2nd tier stocks, at Rs66 per share. The stake of 96pct in L&T Finance is valued at 1.75x estimated 1-year forward P/BV at Rs122 per share. Its 51% stakes in L&T MHI Boilers and L&T MHI Turbine Generators are valued at 15x 1-year forward EPS at Rs52 and Rs10 per share respectively. The additional investments in L&T Power Development and L&T Shipbuilding are valued at book value at Rs15 and Rs10 per share respectively. Other subsidiaries are valued at 2x book value at Rs15 per share. Risks to Price Objective: Slowdown in EPS growth on a higher base, Raw materials, Competition, Project execution.

M & M (MAHHF)

Our PO of Rs 740 (US$17 for GDR) is based on sum of the parts of constituent businesses. We value (1) the standalone business at 11x FY13E EPS (Rs 553/share), slightly below peers (same as earlier) and (2) key operating subsidiaries at Rs 187/share. We have imputed a holding company discount of 20pc to subsidiaries, again in line with percentage for peers.

Downside risks: Slowdown in the economy and increasing competition that would adversely affect volume growth, and rising input costs.

Maruti Suzuki India (MUDGF)

Our PO of Rs 1,460 is based on the sum of the core business, at a 12.5x FY13E P/E at Rs 1,165/sh, and cash and equivalents at Rs 295/sh. At this PO, the stock would trade at a 13.3x FY13E P/E, a slight 5% discount to its historical average to factor in increased competition and a lower RoE. Risks: Rising competition, which would adversely affect volume growth, and adverse currency movements, which could hurt profitability.

NTPC Ltd (NTHPF)

Our PO of Rs192 for NTPC is based on DCF valuation which assumes WACC of 10.4pct on a lower risk-free rate and a terminal growth rate of 1pct. It is led by higher capacity, utilization rates & efficiency gains on the back of increased fuel security. Risks to our price objective are: (a) Gas supply to existing/new plants, (b) Likely end to the negotiated project allocation window from FY12E, (c) Potential cut in RoE with likely improved demand-supply gap of power, (d) Potential entry into unrelated businesses (boilers) and (e) Increased competition from the private sector. Upside risks: A pick-up in capex and higher than 15.5% RoE on gross-up of income tax / coal capex.

Punjab (PUJBF)

We set our PO on PNB at Rs1200. Our PO is based on average historical PB multiple. Our PO is still at a 5% discount to theoritical multiples owing to PNBs exposure to possible problem sectors (Power, textiles, Steel, Comm. Real Estate, etc) at +20%. But we maintain Buy owing to PNB still delivering +21-22% RoEs and +15/20% earnings growth through FY12-13 and the stock trading at 1.2x FY13 book. Downside risks to our PO are further rise in NPLs and slower asset growth leading to weak earnings outlook. Risks are higher exposure to commercial real estate can lead to rise in NPLs and a sharp rise in interest rates at sector level could lead to a slowdown in growth and earnings.

Ranbaxy Laboratories Limited (XIZZF)

Our PO of Rs525/sh is based on SoTP comprising Rs401/sh for the core business and Rs124/sh for the first to file (FTF) launches expected till 2014. Our Rs401/sh valuation of Ranbaxy's core business is based on 20x Dec-12E core EPS, in line with stock's long term historical valuations and large cap peers like Sun Pharma, DRL, Cipla, etc. We believe that high multiple is justified given improving base business profitability as well as higher confidence on USFDA issue resolution. Our Rs124/sh valuation for Ranbaxy's FTF products (Aricept, Lipitor, Caduet, Actos, Nexium deal, etc) is based on NPV of the expected launches in each of the years. Overall we forecast 38pc reported EPS CAGR (CY10-12E).

Risks (1) USFDA and Department of Justice (DoJ) issues relating to manufacturing plants (Poanta Sahib and Dewas), (2) poor base business profitability, (3) lower than expected synergies from Daiichi Sankyo integration and (4) Impact of forex fluctuations.

RCVL (RLCMF)

We have a price objective of Rs95/sh for RCom. Our PO is based on sum-of-parts and DCF. Reliance Infratel (towerCo) is valued based on recent acquisition deals in the towerCo space. We value RCom's non-wireless businesses at 4.5x FY13E EV/EBITDA while RCom's wireless business is rough-stab valued at around 5x FY13E EV/EBITDA (post-towers), implying valuation at par with GEM wireless majors. Upside surprise could be led by asset sales at strong premiums. Downside risk to our outlook could stem from continued failure to monetize the tower business and unforeseen margin pressures post 3G.

Reliance Inds (XRELF)

Our PO of Rs909 (GDR US$38.41) is a sum-of-the-parts valuation. It includes EV of RIL's 3 businesses of Rs849/share and net cash of Rs60/share. The EV of the refining and petrochemical businesses is calculated based on 6x FY13E EBITDA and EV of E&P business is calculated on a DCF basis, using a WACC of 11.8pct.

Refining and marketing (Rs347) is 41pct of the EV, E&P valuation (Rs208) 24pct, and petrochemicals (Rs294) 35pct. Downside risks are (1) 7-year income tax holiday being disallowed on gas production, which would mean lower cash flow, profit and fair value, (2) Lower-than-expected oil price, (3) Large disappointments on the E&P front, (4) refining and petrochemical margins being lower than expected, and (5) Large acquisitions that are value dilutive. Upside risks are (1) Refining and petrochemical margins being better than expected, (2) Higher-than-expected oil price, (3) Higher-than-expected reserve accretion in the next 12-24 months and (4) Large acquisitions that increase fair value significantly.

Reliance Infrastructure (RCTDF)

Our PO of Rs1081 is based on SOTP valuation. The parent business is valued at Rs271/share based on DCF. We value the stake of 29-51pct in power projects of Reliance Power at Rs475/share at 15% discount to DCF valuation, while we value the stake of 49pct in Power distribution business at Rs72/share. Its 74-100pct stake in Power Transmission business is valued at Rs22/share at 1.2x book value and stakes of 69pct in the Mumbai Metro project, 95pct in Delhi Metro Airport Express line and 100pct in road projects are valued based on DCF at Rs145/share. A stake of 66pct in real estate business is valued at Rs25/share on DCF basis. Other investments are valued at Rs75/per share on book value. Based on this, we arrive at an SOTP value of Rs1086/share. Our PO translates into 1.6x FY12E P/BV (Parent), which is below the utility sector leaders such as NTPC 2x.

Risks to our PO are: ability to source quality power, viable gas supply, discontinuity/delay of power sector reforms, delay in project execution, non-availability of fuel, currency and freight risks, potential matching of demand-supply of power in India leading fall in power rates.

SBI (SBINF)

Our 12-month price objective on SBI is Rs2700 (US$120/GDR). Our PO is based on average historical PB multiple. Risk-return remains positive, with RoEs (banking biz.) at +20-21% in FY13 (vs +15% in FY11) and stock trading at 1.5x FY13 BV. Moreover, SBI still likely to deliver earnings growth of +45/25% for FY12/13 led by topline. Non-banks biz. add another Rs265/share (FY13E). Assuming capital raise in FY12 (US$1.5bn), RoEs still likely at 18%, with stock to trade at +1.3-1.4x FY13 book). Our PO is benchmarked to Gordon model theory where we assume RoE of 20pct and CoE of 14% and assign a +25% premium to theoretical multiples owing to its large liability franchise and dominant position in the market (+23pct market share at group level). On a PE basis, the stock is trading at 6.7x FY13E if we adjust the share price for the subsidiary value. Risks are a sharp rise in NPLs and a hike in interest rates.

Sesa Goa Limited (XSGAF)

Price objective of Rs270 is set at 0.9x our NPV estimate. We believe Sesa could trade at a discount to our NPV estimate as we see potential risks to our NPV analysis due to lower medium term volume outlook and overhang related to volume headwinds, regulatory uncertainties and uncertainty around proposed oil asset acquisition. At our PO Sesa would trade at 6.6x FY12e EPS.

Our NPV estimate assumes a WACC of 12.5% and a terminal growth of 0%.

We forecast iron ore spot CFR prices of US$173/t in FY12 , US$168/t in FY13e and US$158/t in FY14e. We forecast volumes of 22.4mn tons in FY12, 24.8mn tons in FY13e. Our forecasts assume further reserve upgrade and assume reserves of 333mn tons vs. 306mn tons of reserves as on March 11.

Downside risks to our valuation are lower iron ore prices due to lower-than-expected global steel output and ramp-up in Chinese mines output. Lower-than-expected volume growth and adverse regulatory policy changes including mining tax.

Upside risks are stronger iron ore prices, stronger volume growth, better visibility on volumes led by additional mine approvals, export tax reversal and reserve accretion.

Steel Authority of India (SLAUF)

Our PO of Rs124 is based on our NPV valuation. This assumes a WACC of 12.5% and perpetuity growth of 0%. Our PO implies 8.0x FY12e EBIDTA and 10.5x FY12E P/E.

Upside risks to our valuation are higher steel prices and lower employee and input costs. Downside risks are lower-than-expected steel prices and volumes, and higher input costs.

Sterlite Industries India Limited (XTNDF)

Our PO of Rs199 (US$17.69) is based on an SOTP valuation of Sterlite's metals and power businesses. Our PO implies Rs 171 for the metals business and Rs28 for the power business. At our PO Sterlite would trade at 10.3x FY12E EPS and 5.5x FY12E EBITDA.

Our NPV for the metals business is Rs171/share based on WACC of 12.5% and perpetuity growth of 0%. We forecast long-term zinc price of US$2085/t and long-term aluminum price of US$2,395/ton.

Our valuation of the power business implies Rs28 for Sterlite Energy (including Rs1 for Talwandi Sabo project).

Upside risks: Higher-than-forecast metal prices and higher-than-forecast power capacity over the next two years. Downside risks: Lower metals prices, delays in expansions, lower PLF and higher cost at SEL due to coal shortage, VAL BS stress and increase in VAL stake.

Sun Pharmaceuticals Limited (XPUCF)

Our PO of Rs565 based on 22x FY13E EPS (in line with its historical average premium to peers). Given Suns superiour growth rate and profitability, we believe it should trade at premium to large peers average. In terms of PEG, Sun trades at 1x, We expect Sun to sustain its c10pc premium valuation to the sector on P/E multiples, given: (a) continuing strong earnings growth (b) superior business model with margins consistently ahead of peers. Risks: (a) acquisition-related challenges (b) US generics pricing pressures (c) litigation risks relating to the companys Para IV challenges.

Tata Consultancy (TACSF)

Our Price Objective of Rs1,190 is at 20x FY13E PE. This is in line with the earnings growth trajectory during FY12-14. It is also in line with Infys 5-yr average PE and re rated from its own avg PE of 18x, given TCSs track record of superior and balanced earnings growth in last 3 years.

Risks to earnings stem from double dip recession, protectionism, increasing competition and specially for TCS, any shock to the banking sector.

Tata Motors Ltd. (TENJF)

Our PO of Rs 1110 for ordinary shares is sum-of-the-parts of: (1) stand-alone business valued at same as earlier 6.5x FY13E EV/EBITDA, in line with late-cycle multiple, (2) JLR at same 4x FY13E EV/EBITDA, in line with European majors, aligned for accounting treatment of R&D expenses, and (3) subsidiaries valued in line with comparables, with 20% holding company discount.

Our PO for Class-A shares of Rs 722 is based on 35% discount on existing PO for ordinary shares, which is equivalent to historic average, but narrower than existing discount of 45%, on expectations of increasing float. Risks: Economic slowdown, which would adversely affect volume growth, both in domestic operations and JLR. Rising competition also pose significant earnings risk.

Tata Pwr. Co. (XTAWF)

Our PO of Rs1470 for Tata Power is based SOTP valuation. IPP business is valued at Rs525 per share. The parent business is valued at Rs343 per share on DCF basis at CoE of 13.2pct, 100% stake in Mundra UMPP at Rs71 per share on DCF at cost of equity of 12.4pct, 74% stake in Maithon JV is valued at Rs56 per share on DCF basis at CoE of 13.7pct and 74% stake IEL captive power plant is valued Rs21 per share at 1.5x 1-year forward P/BV . Its Telecom investments have been valued at Rs218 per share at current market BofAML PO / deal valuations. Power and coal related investments valued at Rs711 per share on DCF (Indonesian coal mines) or P/BV (NDPL, Powerlinkes) or PE (Tata BP Solar) based methods. Other Investments are valued at Rs50 per share. Risks: project execution challenges, mismatch in imported coal price hike for Mundra project vs. rise in the coal index, availability of low price fuel for merchant power projects.

Tata Steel (TAELF)

Our PO of Rs470 is based on our NPV estimate. Our NPV estimate assumes a WACC of 12.5% and perpetuity growth rate of 0%. Our PO implies 6x FY12 EBITDA in line with domestic peers.

Our domestic HRC assumptions are Rs33792 in FY12e and Rs32421 in FY13e. In Tata Steel Europe we forecast EBITDA/t of US$52/t in FY12e and US$59/t in FY13e.

Upside risks to our PO are higher steel prices and volumes, lower input costs, and higher domestic import duty. Downside risks to our PO are lower-than-expected steel prices, volumes, delays in commissioning of new expansion and sharper than expected increase in costs.

Wipro (WIPRF)

Our Price Objective of Rs380 (USD11.55) is at 15x FY13 PE, a 15% discount to the target PE for Infosys, given the slower growth trajectory. Apart from macro risks, key risks stem from higher than expected organization distraction and increasing competition.

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Click here for definitions of commonly used terms.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	53	56.38%	Buy	34	73.91%
Neutral	18	19.15%	Neutral	10	66.67%
Sell	23	24.47%	Sell	5	26.32%

Investment Rating Distribution: Banks Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	120	48.58%	Buy	56	56.57%
Neutral	66	26.72%	Neutral	34	62.96%
Sell	61	24.70%	Sell	29	49.15%

Investment Rating Distribution: Building Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	57	58.16%	Buy	16	30.19%
Neutral	21	21.43%	Neutral	7	36.84%
Sell	20	20.41%	Sell	7	36.84%

Investment Rating Distribution: Chemicals Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	64	58.18%	Buy	28	50.00%
Neutral	26	23.64%	Neutral	12	50.00%
Sell	20	18.18%	Sell	6	31.58%

Investment Rating Distribution: Energy Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	165	57.89%	Buy	93	61.18%
Neutral	70	24.56%	Neutral	34	59.65%
Sell	50	17.54%	Sell	19	43.18%

Investment Rating Distribution: Engineering & Construction Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	33	62.26%	Buy	13	44.83%
Neutral	8	15.09%	Neutral	2	25.00%
Sell	12	22.64%	Sell	4	33.33%

Investment Rating Distribution: Financial Services Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	180	55.38%	Buy	78	45.35%
Neutral	96	29.54%	Neutral	47	50.00%
Sell	49	15.08%	Sell	15	31.91%

Investment Rating Distribution: Health Care Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	141	54.44%	Buy	69	52.27%
Neutral	67	25.87%	Neutral	29	46.77%
Sell	51	19.69%	Sell	19	37.25%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	50	64.10%	Buy	30	69.77%
Neutral	19	24.36%	Neutral	9	56.25%
Sell	9	11.54%	Sell	2	25.00%

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	113	66.47%	Buy	36	36.36%
Neutral	35	20.59%	Neutral	13	40.63%
Sell	22	12.94%	Sell	1	5.00%

Investment Rating Distribution: Real Estate/Property Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	73	54.89%	Buy	17	24.64%
Neutral	33	24.81%	Neutral	5	15.15%
Sell	27	20.30%	Sell	4	15.38%

Investment Rating Distribution: Steel Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	25	40.98%	Buy	11	50.00%
Neutral	16	26.23%	Neutral	7	53.85%
Sell	20	32.79%	Sell	8	42.11%

Investment Rating Distribution: Technology Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	130	51.59%	Buy	63	52.50%
Neutral	51	20.24%	Neutral	27	55.10%
Sell	71	28.17%	Sell	17	27.42%

Investment Rating Distribution: Telecommunications Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	50.28%	Buy	43	58.90%
Neutral	53	29.61%	Neutral	28	62.22%
Sell	36	20.11%	Sell	14	46.67%

Investment Rating Distribution: Utilities Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	42.22%	Buy	35	51.47%
Neutral	48	26.67%	Neutral	30	69.77%
Sell	56	31.11%	Sell	20	40.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2024	53.94%	Buy	935	50.68%
Neutral	944	25.16%	Neutral	442	51.64%
Sell	784	20.90%	Sell	273	37.24%

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Buy	≥ 10%	≤ 70%
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