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Top Mid-caps ideas

July 2008

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- **Liquid Mid-caps**
  - Adhunik Metaliks
  - Dishman Pharmaceuticals
  - Lupin
  - Marico Industries
  - MIC Electronics
  - Opto Circuits
  - Patel Engineering
  - Sintex Industries
  - Thermax
  - Tulip IT Services
- **Less liquid Mid-caps**
  - AIA Engineering
  - Infotech Enterprises
  - ING Vysya Bank
  - McNally Bharat
  - Orbit Corporation
  - Usher Agro

BUY

Price: INR 107, Mkt Cap: INR 9.7 bn / USD 230.2 mn

- With mines having reserves of 64 mn tonnes of iron ore and 36 mn tonnes of manganese ore, AML is entering into the high margin and high growth mining business with long term mining EBITDA margin of ~66% (initial margins higher at 75%).
- Manganese ore mining has started and iron ore mining is expected to start from Q2FY09
- Expanded steel capacity from 250 ktpa to 450 ktpa involving a mix of stainless & alloy steel in the enhanced capacity, thereby improving average realizations and margins.
- With captive iron ore reserves of 25 mn tonnes and captive mining expected to commence in early Q4FY09, AML will save ~INR 1,800/tonne on iron ore.
- Any weakness in alloy steel and steel product prices or delay in starting captive or merchant mining will negatively impact the future earnings growth.

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenues (INR mn)	7,358	10,046	19,397	23,115
Rev. growth (%)	*73.6*	*36.5*	*93.1*	*19.2*
EBITDA (INR mn)	1,159	1,602	4,599	7,586
Adj. Net profit (INR mn)	567	596	2,269	4,127
Shares outstanding (mn)	91.2	91.2	110.4	110.4
EPS (INR)	6.2	6.5	20.6	37.4
EPS growth (%)	*67.9*	*5.2*	*214.6*	*81.9*
P/E (x)	17.2	16.3	5.2	2.9
EV/EBITDA (x)	12.0	10.3	3.8	1.9
ROAE (%)	24.6	20.1	40.5	43.2

BUY

Price: INR 274, Mkt Cap: INR 22.1 bn / USD 524.4 mn

- Steady visibility on a revenue CAGR of more than 20% over FY08-FY10E.
- Increased capacities for Eprosartan due to higher order flow from solvay to drive revenue CAGR from this contract of 28% over FY08-FY10E.
- One new contract from an innovator and revenues from Japanese and Saudi Arabian operations to drive further revenue growth.
- Shifting of manufacturing for certain products from Carbogen Amcis to Dishman's facilities in India is expected to help margins.
- The company has been able to turn around carbogen amcis which had margins of 12-14% at the time of acquisition is now recording margins of 18%+.
- Losses in certain subsidiaries would reduce form FY09E onwards as revenues from these subsidiaries would begin.
- This would drive EBITDA CAGR of 27% and EPS CAGR of 23% over FY08-FY10E.

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	5,786	8,031	10,721	12,459
Rev. growth (%)	*108.5*	*38.8*	*33.5*	*16.2*
EBITDA (INR mn)	1,151	1,529	2,134	2,479
Net profit (INR mn)	928	1,215	1,541	1,828
Shares outstanding (mn)	81	81	81	81
Diluted EPS (INR)	11.5	15.0	19.0	22.6
EPS growth (%)	*80.5*	*31.0*	*26.8*	*18.6*
Diluted P/E (x)	24.0	18.3	14.5	12.2
EV/ EBITDA (x)	23.9	18.5	13.9	11.9
ROE (%)	29.1	28.0	26.5	24.1
ROCE (%)	12.6	13.4	15.4	15.6

BUY

Price: INR 718, Mkt. Cap: INR 59.0 bn / USD 1,396.4 mn

- Strong growth of more than 25% in domestic formulations for more than 10 quarters. This growth rate is expected to continue going forward.
- In the US markets its presence in niche markets of cephalosporin and prils which has limited competition. Presence in branded generics help better margins.
- Targets to file ~30 ANDAs for this year which would drive a growth of 20%+ over FY08-FY10E.
- It has recently acquired Kyowa in Japan. With Japanese markets set to grow for generics over the next 3-4 years, Lupin is well set to take advantage of that.
- The company has been able to monetise its R&D by receiving ~ EUR 40 mn by selling its process patents for Pelindopril.
- It has more than 4 products in its NCE pipeline. The company has indicated that it does not intend to hive off its R&D in short term, but we believe, the company can monetise its NCE R&D assets as well over the next 12-15 months.
- We expect EPS CAGR of 25%+ on its base business over FY08-FY10E.

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue	20,137	27,064	33,232	37,306
Rev. growth (%)	*18.8*	*34.4*	*22.8*	*12.3*
EBITDA (INR mn)	2,922	4,359	5,618	6,306
Net profit (INR mn)	3,086	4,083	3,991	4,528
Shares outstanding (mn)	89	89	89	89
Diluted EPS (INR)	34.9	46.1	45.1	51.2
EPS growth (%)	*(10.9)*	*32.3*	*(2.2)*	*13.5*
Diluted P/E (x)	19.6	14.8	15.2	13.4
EV/ EBITDA (x)	22.4	16.0	12.6	11.1
ROE (%)	35.3	31.9	25.2	23.3
ROCE (%)	24.2	22.1	18.7	18.7

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BUY

Price: INR 56, Mkt. Cap: INR 34.2 bn / USD 809 mn

- At INR 56,Marico trades at 16.8x FY09E earnings and 13.6x FY10E;
  - Monopoly in Coconut oil and branded Edible oil : we expect Parachute to deliver 12-13% cagr growth in FY08-10E (7-8% volume growth). Taken 5% price hike in April, expect one more in August
  - Saffola to continue its robust performance riding on health and wellness platform :We expect ~20% growth in Edible oil business for FY09E and 18% for FY10E. Q1FY09 volumes grew 28%
  - Kaya to add 15 clinics per year for next 2 yrs : expect 28% CAGR for FY08-10E
  - Expect 32% growth in international business in FY09E on the back of Enaleni acquisition (in South Africa and 10% growth in Egypt Business
  - Prototyping Parachute Night Repair cream , Hair & Care Almond in metros
  - Risks: Decline in % EBITDA margins due to higher RM costs (Marico is targeting unit EBITDA margins), higher rentals to affect Kaya.

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	15,569	19,067	23,326	27,387
Rev. growth (%)	*36.1*	*22.5*	*22.3*	*17.4*
EBITDA (INR mn)	2,127	2,463	3,027	3,636
Net profit (INR mn)	1,129	1,692	1,864	2,336
Shares outstanding (mn)	609	609	609	609
Diluted EPS (INR)	2.0	2.6	3.1	3.8
EPS growth (%)	*33.6*	*33.1*	*17.6*	*25.3*
Diluted P/E (x)	28.6	21.5	18.3	14.6
EV/ EBITDA (x)	17.0	15.0	11.7	9.5
ROE (%)	52.5	62.5	49.5	45.3
ROCE (%)	34.7	38.6	39.5	45.7

BUY

Price: INR 102, Mkt. Cap: INR 10.2 bn / USD 214.8 mn

Investment rationale

- Only Indian player with capabilities in true multi-color LED displays & LED lighting
- Latest order book at over INR 3 bn for LED segment (executable over 12- 18 months)
- Revenues from deal with US based OOH (Out-Of-Home) player for supply of LED screens to begin in FY09E. This should result in annual revenues of around USD 40-50mn.
- Negotiations on with Railways to install 600 screens as per proposals of the Railway budget
- Stock is currently trading at 12.2x earnings of INR 8.3 for FY09E and 7.9x FY10E EPS of INR 12 (fully diluted and post split). We maintain our BUY recommendation on the stock.

Financials

Year to June	FY07	FY08E	FY09E	FY10E
Revenue	2,695	3,295	4,851	7,249
Rev. growth (%)	*168.5*	*22.3*	*47.2*	*49.5*
EBITDA (INR mn)	434	754	1,309	1,989
Net profit (INR mn)	353	613	1,022	1,490
Shares outstanding (mn)	101	101	120	120
Diluted EPS (INR)	3.4	4.9	8.3	12.0
EPS growth (%)	*13.9*	*45.8*	*66.8*	*45.8*
Diluted P/E (x)	29.8	17.1	12.2	7.9
EV/ EBITDA (x)	22.6	13.0	8.2	5.0
ROE (%)	32.1	29.3	25.0	23.4
ROCE (%)	33.2	32.3	28.0	26.5

BUY

Price: INR 292, Mkt. Cap: INR 27.5 bn / USD 662.3 mn

Investment rationale

- Strong 55% CAGR growth in revenues from FY08-10E in non-invasive segment driven by SP02 sensors and the recent Criticare acquisition
- Invasive segment- scaled to INR 1.1bn in 2 years, expected to grow at 68% CAGR over next two years.
- Consolidated revenues and net profits to grow at a CAGR of ~54% and ~43% respectively from FY08-10E.
- Healthy return ratios and margins

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue	2,516	4,681	8,559	11,194
Rev. growth (%)	*80.0*	*86.1*	*82.9*	*30.8*
EBITDA (INR mn)	826	1,372	2,282	3,169
Net Profit (INR mn)	733	1,324	1,876	2,706
Shares outstanding (mn)	62	94	96	96
Diluted EPS (INR)	7.5	13.9	19.6	28.2
EPS growth (%)	77.7	84.8	40.7	44.3
Diluted PE (x)	38.8	21.0	14.9	10.3
EV/ EBITDA (x)	22.2	20.4	13.6	9.7
ROAE (%)	51.6	49.1	46.0	47.5
ROACE (%)	37.7	36.2	34.2	33.5

BUY

Price: INR 365, Mkt. Cap: INR 24.8 bn / USD 586.8 mn

* Robust order book; Strong presence in high margin segments like hydel power, irrigation and microtunnelling
* Long standing contracting expertise complemented by technological edge achieved through adoption of innovative technologies
* Historically held land bank of ~ 1000 acres ensures low cost land availability; strong value addition expected from real estate development
* Foray into asset ownership space in roads, thermal and hydel power segments as a natural extension of the contracting business
* Current valuations factor in concerns on real estate slump more than what is warranted

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	12,787	18,472	23,554	30,882
Rev. growth (%)	*26.0*	*44.5*	*27.5*	*31.1*
EBIDTA (INR mn)	1,547	2,615	3,361	5,194
Net profit (INR mn)	1,120	1,519	1,026	1,527
Shares outstanding (mn)	60	60	60	60
Diluted EPS (INR)	18.8	25.5	17.2	25.6
EPS growth (%)	*27.0*	*35.7*	*(32.5)*	*48.8*
P/E (x)	22.1	16.3	24.1	16.2
EV/ EBITDA	17.4	12.8	11.6	8.9
ROAE (%)	25.0	19.6	11.8	15.7
ROACE (%)	13.2	12.8	11.3	13.4

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BUY

Price: INR 339, Mkt. Cap: INR 46.3 bn / USD 1,096.5 mn

Investment rationale

- Plastics led by monoliths recorded impressive growth of 51% Y-o-Y in Q1FY09. Monolith has an order book of INR 15 bn to be executed over 24 months
- Impressive traction across all subsidiaries recording sequential CAGR growth of 16% over the last two quarters with EBITDA margins improving from 5.9% in Q2FY08 to 8.4% in Q1FY09
- Cash of INR 14 bn represents ~30% of current market cap

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	11,653	22,745	35,751	51,550
Rev. growth (%)	*36.5*	*95.2*	*57.2*	*44.2*
EBITDA (INR mn)	2,066	3,831	5,626	8,277
Net profit (INR mn)	1,167	2,273	3,164	4,929
Shares outstanding (mn)	112	134	147	147
Diluted EPS (INR)	9.7	14.0	19.5	30.3
EPS growth (%)	*3.8*	*44.1*	*39.2*	*55.8*
Diluted PE (x)	33.4	23.2	16.6	10.7
EV/ EBITDA (x)	18.1	10.1	7.9	5.7
ROE (%)	17.2	13.0	15.9	-
ROCE (%)	13.1	11.3	11.7	19.0

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ACCUMULATE

Price: INR 419, Mkt. Cap: INR 50.0 bn / USD 1,183.5 mn

- TMX is a key player in the captive power, industrial boilers and chillers and the environment solutions segment
- With entry into Utility range boilers segment (agreement with Babcock & Wilcox) TMX can now cater to higher capacity private and public power plants.
- TMX has received an order of INR 8.2 bn for boilers (of ~4X100 MW) in Q2FY09 leading to improved growth visibility. Few more orders in this segment in FY09, which we believe is likely, can completely transform the company’s business model.
- The environment business has shown robust growth with air pollution and water treatment business witnessing strong investments.
- High Efficiency ratios; Strong Balance Sheet
  - Fixed asset turnover of ~10x coupled with negative cash conversion cycle
  - RoCE’s of over 50%, zero debt company and cash and liquid investments of over 6 bn in FY08.

Financials (Consolidated)

Year to March	FY07	FY08	FY09E	FY10E
Revenues (INR mn)	23,266	34,815	40,294	50,695
Growth (%)	*43.1*	*49.6*	*15.7*	*25.8*
EBITDA (INR mn)	2,889	4,267	4,585	5,795
Net profit (INR mn)	1,937	2,907	3,105	3,844
Shares outstanding (mn)	119	119	119	119
EPS (fully diluted) (INR)	16.7	24.2	26.1	32.3
EPS growth (%)	*95.7*	*44.9*	*7.6*	*23.8*
P/E (x)	25.1	17.3	16.1	13.0
EV/EBITDA (x)	15.0	10.3	9.2	7.1
ROAE (%)	38.0	42.9	37.4	38.3
ROACE (%)	520.7	339.6	137.8	106.8

BUY

Price: INR 946, Mkt. Cap: INR 27.4 bn / USD 649.4 mn

- Investment rationale
  - Integrated provider of network equipment and connectivity for SMEs; presence in a fast growing IP VPN market estm. to double over FY08-12E to INR 28 bn
  - Strong traction in IP VPN business driving core profitability and margin expansion; revenue share at ~63% in FY10E versus 37.5% in FY07
  - IP VPN network of ~2000 cities by FY10E, subscriber base estimated to grow 2.5x over FY08-10E
  - Estimate robust revenue growth of 26% CAGR and net profit growth of 35% CAGR over FY08-10E
  - Underlying growth in IP VPN operations and robust return ratios place TTSL on the acquisition radar
  - Attractive valuations - P/E of 11.9x and 9.6x and EV/EBITDA of 6.8x and 5.1x FY09E and FY10E respectively.

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	8,408	12,164	16,115	19,216
Rev. growth (%)	*65.5*	*44.7*	*32.5*	*19.2*
EBITDA (INR mn)	1,339	2,456	3,847	4,771
Net profit (INR mn)	946	1,871	2,765	3,405
Shares outstanding (mn)	29	34	34	34
Diluted EPS (INR)	27.5	54.4	80.4	99.0
EPS growth (%)	*92.5*	*97.8*	*47.8*	*23.2*
Diluted P/E (x)	33.2	16.8	11.4	9.2
EV/ EBITDA (x)	20.5	11.5	6.5	4.9
ROE (%)	40.6	53.4	50.2	40.2
ROCE (%)	33.4	23.5	21.9	22.6

LESS LIQUID STOCK

BUY

Price: INR 1,271, Mkt Cap: INR 23.9 bn / USD 565.8 mn

- Huge opportunity from the ongoing capex in mining and cement (Addressable market - Mining ~2.4 mn MT, Cement ~0.6 mn MT)
- Over 30% market share in the global ex china cement market for grinding media and over 95% market share in India
- Increasing grinding media capacity from currently 169000 MT to 269000 MT by April 2009
- We expect a revenue and net profit CAGR FY08-FY10 of 36% and 25% respectively
- The company has low D/E ratio of 0.1, high ROCE of 30% and free cash flow of INR 0.7 bn which is equivalent of 70000 MT capacity

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	5,230	6,911	9,813	12,711
Rev. growth (%)	*28.5*	*32.1*	*42.0*	*29.5*
EBITDA (INR mn)	1,243	1,639	2,352	3,035
Net profit (INR mn)	943	1,334	1,634	2,088
Shares outstanding (mn)	18	19	19	19
Diluted EPS (INR)	50.2	71.0	86.9	111.1
EPS growth (%)	*70.3*	*41.5*	*22.4*	*27.8*
Diluted P/E (x)	25.4	18.0	14.7	11.5
EV/ EBITDA (x)	17.9	14.3	9.7	7.2
ROE (%)	24.8	24.4	24.0	24.6
ROCE (%)	27.9	26.2	29.8	31.0

BUY

Price: INR 195, Mkt Cap: INR 10.2 bn / USD 238.0 mn

- Major player in the GeoSpatial (GIS) and Engineering services
- Visibility of more than 75% for FY09 revenues; highest ever (24) no. of client addition in the current quarter
- Foray into marine engineering and further looking to build up capabilities in embedded systems (hi-tech and auto) through inorganic route
- Extension of contract with TeleAtlas increases visibility and strong deal pipeline in aerospace vertical
- Healthy cash position of USD 80mn; equivalent to 34% of the current market capitalisaiton
- At INR 195, the current P/E ratio stands at 9.6x (6.5x ex-cash) on FY09 fully diluted earnings.

Financials

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenues (INR mn)	3,625	5,425	6,741	8,876	11,438
Growth (%)	*41.0*	*49.7*	*24.3*	*31.7*	*28.9*
EBITDA (INR mn)	673	1,134	1,219	1,607	2,093
Net profit (INR mn)	505	836	868	1,153	1,495
Adj. shares outstdg (mn)	15	46	55	57	57
Adj. EPS (INR)	32.8	18.0	15.7	20.3	26.0
EPS growth (%)	*424.5*	*(45.1)*	*(12.6)*	*29.2*	*28.1*
P/E (x)	6.0	10.8	12.6	9.6	7.5
EV/EBITDA (x)	19.8	10.7	7.6	5.9	3.9
ROE (%)	27.4	33.0	18.8	16.8	18.3

BUY

Price: INR 237, Mkt. Cap: INR 24.3 bn / USD 578 mn

- Strong turnaround play-Senior management firmly in place to improve under utilized franchise.
- Fee income, which has been historically weak, (CAGR growth of 12% from FY04-07) is now reviving under new leadership (grew 60% in FY08).
- Significant operating leverage- Cost to income ratio of 66% vs private average of 50%
- VYSB is one of the most attractively valued private banks, trading at 1.6x FY09E adjusted book and 11.6x FY09E earnings.
- With improved operating performance we believe the valuations should under go a rerating and come in line with other high growing private banks

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	7,380	9,319	10,893	12,880
Rev. growth (%)	*9.2*	*26.3*	*16.9*	*18.2*
Net II (INR mn)	4,456	4,984	5,915	7,416
Net profit (INR mn)	889	1,569	2,088	2,800
Shares outstanding (mn)	91	102	102	102
Diluted EPS (INR)	9.8	15.3	20.4	27.3
EPS growth (%)	*879.4*	*56.6*	*33.1*	*34.1*
Diluted P/E (x)	24.2	15.5	11.6	8.7
P/adj. Book (x)	2.4	1.8	1.6	1.4
ROE (%)	9.4	13.0	13.8	16.2

BUY

Price: INR 127, Mkt. Cap: INR 3.9 bn / USD 93.4 mn

- Huge opportunity from the ongoing capex in power generation, mineral beneficiation, cement, and port handling. (Power INR 112Bn Metals INR 68Bn)
- McNally better placed than peers on raw material cost risk as it has higher mix of steel capex in its orderbook
- We expect improvement in EBITDA margin on consolidation of high margin equipment business of Sayaji Iron and Engg.
- We expect a revenue and net profit CAGR FY08-FY10 of 60% and 70% respectively
- The company has low D/E ratio of 0.5, high ROCE of 29% and order book to sales ratio of 4x

Financials

Year to March	FY07	FY08	FY09E	FY10E
Revenue (INR mn)	5,039	5,490	11,256	14,207
Rev. growth (%)	*52.1*	*9.0*	*105.0*	*26.2*
EBITDA (INR mn)	282	449	940	1,281
Net Profit (INR mn)	174	224	544	760
Shares outstanding (mn)	27	31	31	31
Diluted EPS (INR)	6.6	8.0	17.5	24.4
EPS growth (%)	*233.8*	*20.6*	*118.9*	*39.8*
Diluted P/E (x)	19.0	15.8	7.2	5.2
EV/ EBITDA (x)	4.7	3.1	3.5	3.3
ROE (%)	23.8	18.7	27.9	30.4
ROCE (%)	14.5	18.4	28.9	30.8

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BUY

Price: INR 240, Mkt Cap: INR 8.6 bn / USD 200 mn

- Premium real estate developer with strong presence in redevelopment of dilapidated buildings in island city of Mumbai.
- Company's expertise lies in identifying and acquiring margin-lucrative projects, creating premium properties through superior design and construction material, and timely completion
- Projects located at premium locations provide higher ability to monetize assets even in tight markets.
- Orbit currently has 14 projects (saleable area of ~ 766,866 sq ft) & expects to add another 7 projects (saleable area of ~ 1.949,507 sq ft) by FY10.
- It is planning to develop a 200 acres gated township near Mumbai, at Mandwa, already acquired 110 acres of land.
- At a CMP of INR 240 on fully diluted basis the stock is trading at 2.5x FY09E and 1.8x at FY10E earnings.

Financials

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenue	7	1,915	7,055	12,694	17,057
Rev. growth (%)	NA	26,568	268	80	34
EBITDA (INR mn)	2	740	3,458	7,029	9,325
Net Profit (INR mn)	1	572	2,358	4,384	6,035
Profit growth (%)	NA	52,200	312	86	38
Shares outstanding (mn)	27	27	36	41	45
Diluted EPS (INR)	0.0	21.1	52.0	96.6	133.0
EPS growth (%)	NA	52,199.5	146.8	85.9	37.7
Diluted PE (x)	5,886.0	11.3	4.6	2.5	1.8
EV/ EBITDA (x)	3,258.9	7.5	2.9	0.2	(0.1)
ROE (%)	0.2	28.4	57.8	51.7	38.0
ROCE (%)	0.0	26.3	55.8	59.8	50.7

Not Rated

Price: INR 114, Mkt. Cap: INR 2.1 bn / USD 48.0 mn

- **Investment rationale**
  - Non Basmati rice processing is a highly fragmented space, presents significant opportunity for existing players to scale up capacities.
  - Usher Agro plans to add 1,94,400 tonnes of rice milling capacity by October 2008 and to raise it by another 1 mn tonne by January 2010, which will make it one of the largest rice processor in India. Existing capacity of 57600 tonnes in paddy processing and 75000 tonnes in wheat processing.
  - Usher has formed an associate company Usher Eco Power to setup a 16 MW husk-based power plant at its planned 1 mn tonne rice processing facility. Expects the power plant to come online in next eighteen months.

Financials

Year to June	FY06	FY07	9MFY08
Revenue (INR mn)	385	696	1,011
Rev. growth (%)	*16.2*	*80.9*	*NA*
EBITDA (INR mn)	38	71	132
Net profit (INR mn)	16	39	72
Shares outstanding (mn)	6	18	18
Diluted EPS (INR)	2.7	1.8	3.3
EPS growth (%)	*64.9*	*(34.7)*	*NA*
Diluted P/E (x)	42.3	64.7	NA
EV/ EBITDA (x)	58.3	30.9	NA
ROE (%)	12.0	16.2	NA
ROCE (%)	11.6	16.0	NA

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