

# Another disappointing quarter; Expect weakness to continue

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## Another disappointing quarter; retain Underperform

TTCH reported another disappointing quarter with 12%yoy decline in recurring PAT: 12% below our lowest on the Street estimate. Adjusting for forex gains PAT declined 25%yoy. While revenue was up 9%yoy led by trading and Rallis, margins were down 406bps led by across-the-board cost pressures. We cut estimates 7-9% and expect dilution ahead given company's capex plans. Reiterate U'perform rating with an unchanged PO of INR245 for ~30% downside potential.

## Company in expansion mode; expect dilution ahead

In H1FY11 the company entered in marketing pulses/banana and production of water purifiers. In Q3FY11 it announced GBP93mn acquisition of 'British Salt' to be funded by debt. The company also plans to invest ~USD1.2bn in various capacity expansion projects in the next 2-3yrs. Given ~USD800mn loan repayment scheduled over this timeframe we expect equity dilution ahead. Such large number of expansion projects will also stretch company's execution bandwidth.

## Soda ash to remain weak despite price hikes

As per the company, it has effected increases in soda ash prices from Q4FY11. However, we believe these hikes are led by costs and margins will continue to be pressured. We also expect raw material availability in complex fertilizer to plague capacity utilization and margins ahead. Given 0.15mn ton urea production has been lost in FY11, benefits from urea de-bottlenecking will be limited.

## Reiterate Underperform on unfavorable risk/reward

The stock trades at 12x FY12e PE for ~10% EPS CAGR. While new businesses like marketing pulses, water purifiers will have a limited impact on earnings, capex led dilution can compress earnings outlook ahead. Given low return ratios the risk/reward remains unfavorable. Reiterate Underperform rating.

## Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	7,200	7,310	6,920	7,358	8,328
EPS	26.68	24.94	28.49	30.29	34.28
EPS Change (YoY)	-32.8%	-6.5%	14.2%	6.3%	13.2%
Dividend / Share	10.55	15.56	8.87	9.43	10.67
Free Cash Flow / Share	11.94	57.36	57.38	22.01	58.53

## Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	13.18x	14.10x	12.34x	11.61x	10.26x
Dividend Yield	3.00%	4.43%	2.52%	2.68%	3.03%
EV / EBITDA*	6.64x	6.74x	6.54x	5.87x	5.26x
Free Cash Flow Yield*	3.40%	16.32%	16.32%	6.26%	16.65%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 10.

## Stock Data

Price	Rs351.60
Price Objective	Rs245.00
Date Established	25-May-2010
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs273.75-Rs446.50
Mrkt Val / Shares Out (mn)	US\$1,869 / 242.9
Average Daily Volume	422,023
BofAML Ticker / Exchange	TTCXF / NSI
Bloomberg / Reuters	TTCH IN / TTCH.NS
ROE (2011E)	14.0%
Net Dbt to Eqty (Mar-2011A)	75.7%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	71.0%

## Key Changes

(Rs)	Previous	Current
2012E EPS	32.48	30.29
2013E EPS	37.50	34.28

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Refer to important disclosures on page 11 to 13. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8.11013769

27 January 2011

## iQprofile<sup>SM</sup> Tata Chemicals Ltd.

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
<b>(Rs Millions)</b>					
Sales	122,577	95,438	107,846	116,843	134,046
Gross Profit	82,298	68,316	77,110	84,127	96,513
Sell General & Admin Expense	(63,664)	(49,942)	(58,178)	(63,045)	(72,997)
Operating Profit	14,407	13,907	14,284	15,717	17,852
Net Interest & Other Income	(4,050)	(3,192)	(1,858)	(1,502)	(1,094)
Associates	NA	NA	NA	NA	NA
Pretax Income	10,357	10,715	12,426	14,216	16,759
Tax (expense) / Benefit	(2,040)	(2,093)	(3,728)	(4,265)	(5,028)
Net Income (Adjusted)	7,200	7,310	6,920	7,358	8,328
Average Fully Diluted Shares Outstanding	243	243	243	243	243

### Key Cash Flow Statement Data

Net Income	7,200	7,310	6,920	7,358	8,328
Depreciation & Amortization	4,226	4,468	4,647	5,365	5,664
Change in Working Capital	(6,835)	3,522	592	551	751
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	5,687	4,545	4,778	4,074	4,476
Cash Flow from Operations	10,279	19,845	16,937	17,347	19,219
Capital Expenditure	(7,378)	(5,911)	(3,000)	(12,000)	(5,000)
(Acquisition) / Disposal of Investments	(58,072)	(115,266)	(1,000)	(1,000)	(1,000)
Other Cash Inflow / (Outflow)	58,554	121,384	958	924	723
Cash Flow from Investing	(6,896)	207	(3,042)	(12,076)	(5,277)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(2,472)	(3,645)	(2,076)	(2,207)	(2,498)
Cash Flow from Financing	(916)	(14,027)	(10,892)	(11,634)	(17,654)
Free Cash Flow	2,901	13,934	13,937	5,347	14,219
Net Debt	52,940	38,348	29,345	28,707	19,080
Change in Net Debt	2,789	(12,548)	(9,003)	(638)	(9,627)

### Key Balance Sheet Data

Property, Plant & Equipment	37,585	38,310	36,662	43,298	42,634
Other Non-Current Assets	68,275	60,668	60,573	61,594	62,615
Trade Receivables	16,358	11,111	12,555	13,603	15,606
Cash & Equivalents	9,899	11,589	14,592	8,230	4,517
Other Current Assets	18,315	14,961	16,657	17,426	19,201
Total Assets	150,431	136,638	141,039	144,151	144,572
Long-Term Debt	62,838	49,937	43,937	36,937	23,597
Other Non-Current Liabilities	1,206	1,947	1,994	1,994	1,994
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	37,167	34,089	37,821	40,189	44,718
Total Liabilities	101,211	85,973	83,752	79,120	70,309
Total Equity	49,220	50,665	57,287	65,030	74,263
Total Equity & Liabilities	150,431	136,638	141,039	144,151	144,572

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	11.4%	10.4%	9.7%	10.6%	12.3%
Return On Equity	17.0%	15.4%	14.0%	13.5%	13.9%
Operating Margin	11.8%	14.6%	13.2%	13.5%	13.3%
EBITDA Margin	15.2%	19.3%	17.6%	18.0%	17.5%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.4x	2.7x	2.4x	2.4x	2.3x
Asset Replacement Ratio	1.7x	1.3x	0.6x	2.2x	0.9x
Tax Rate (Reported)	19.7%	19.5%	30.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	107.6%	75.7%	51.2%	44.1%	25.7%
Interest Cover	3.6x	3.5x	5.1x	6.5x	9.8x

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

### Company Description

Tata Chemicals is a leading fertilizer manufacturer in India and forms about 4% of the total urea produced domestically. It is also the second largest soda ash manufacturer globally and controls 12% of global soda ash capacity. It is a leader in the branded salt market in India with over 50% market share. The company recently ventured into the agri-produce wholesale business called Khet-Se and is also running pilot for the new bio-fuel business.

### Investment Thesis

We expect Tata Chemicals earnings to suffer due to the slowdown in soda ash, which will likely offset gains made in fertilizers through de-bottlenecked urea capacity. While we expect improvement in IMACID JV performance, the poor showing in non-urea fertilizers is likely to continue. Our Underperform rating is led by the pressured price outlook in soda ash, expectation of continuing softness in non-urea fertilizers and rich valuations despite poor earnings growth.

### Stock Data

Price to Book Value 1.6x

## Financial tables

Table 1: Q3FY11 results snapshot

Consolidated, INR mn	Q3FY11	Q3FY10	YoY	Q2FY11	QoQ	Q3FY11E	Variation
Net sales	28,598	26,223	9.1%	29,347	-2.6%	27,091	5.6%
Other operating income	311	276	12.6%	562	-44.7%	600	-48.3%
<b>Total operating revenue</b>	<b>28,909</b>	<b>26,499</b>	<b>9.1%</b>	<b>29,909</b>	<b>-3.3%</b>	<b>27,691</b>	<b>4.4%</b>
<b>Expenditure</b>							
Decrease/ (increase) in stock in trade and WIP	3,300	726	354.3%	(350)	-1043.7%	(1,357)	-343.2%
Consumption of raw material	7,537	6,980	8.0%	8,261	-8.8%	7,753	-2.8%
Traded goods purchased	1,656	2,431	-31.9%	5,585	-70.3%	5,261	-68.5%
Staff cost	2,102	1,849	13.7%	1,982	6.1%	1,980	6.2%
Stores, spare parts and consumables	1,221	1,000	22.1%	1,059	15.3%	1,108	10.2%
Power and fuel	2,974	2,962	0.4%	2,883	3.1%	2,215	34.2%
Freight and forwarding charges	2,872	2,730	5.2%	3,020	-4.9%	2,769	3.7%
Other expenditure	2,832	2,711	4.4%	3,286	-13.8%	2,769	2.3%
<b>Total expenditure</b>	<b>24,495</b>	<b>21,388</b>	<b>14.5%</b>	<b>25,727</b>	<b>-4.8%</b>	<b>22,499</b>	<b>8.9%</b>
<b>EBITDA</b>	<b>4,414</b>	<b>5,111</b>	<b>-13.6%</b>	<b>4,182</b>	<b>5.5%</b>	<b>5,192</b>	<b>-15.0%</b>
Depreciation	1,115	1,113	0.1%	1,095	1.8%	1,125	-0.9%
<b>EBIT</b>	<b>3,299</b>	<b>3,997</b>	<b>-17.5%</b>	<b>3,087</b>	<b>6.9%</b>	<b>4,067</b>	<b>-18.9%</b>
Interest	802	909	-11.9%	988	-18.9%	1,050	-23.7%
Other income	148	64	132.7%	382	-61.2%	415	-64.3%
Forex (gain)/loss	(62)	222	-127.8%	(20)	212.7%	220	-128.0%
PBT	2,707	2,930	-7.6%	2,500	8.3%	3,212	-15.7%
Tax	788	921	-14.5%	655	20.3%	964	-18.3%
Minority	441	373	18.3%	575	-23.2%	575	-23.3%
Share of profit and loss of associates		38	-100.0%				
<b>Recurring PAT</b>	<b>1,478</b>	<b>1,674</b>	<b>-11.7%</b>	<b>1,271</b>	<b>16.3%</b>	<b>1,673</b>	<b>-11.7%</b>
Exceptional	148	450	-67.1%				
<b>Reported PAT</b>	<b>1,626</b>	<b>2,124</b>	<b>-23.4%</b>	<b>1,271</b>	<b>28.0%</b>	<b>1,673</b>	<b>-2.8%</b>
<b>Margins</b>							
EBITDA	15.4%	19.5%	-406bps	14.2%	118bps	19.2%	-373bps
EBIT	11.5%	15.2%	-371bps	10.5%	102bps	15.0%	-348bps
Recurring PAT	5.2%	6.4%	-121bps	4.3%	84bps	6.2%	-101bps
Effective tax rates	29.1%	31.4%	-235bps	26.2%	291bps	30.0%	-91bps

Source: Company, BofAML Global Research

Table 2: Company plans multiple expansion initiatives

Purpose	Duration	Investment planned	Nature
Acquisition of British Salt	FY11-12	GBP93mn	Acquisition
Domestic salt capacity	FY12	USD40mn	Expansion of capacity
GCIP capex	FY12-14	USD100mn	Expansion of soda ash capacity
Babralla plant	FY12-14	USD1,000mn	Doubling of urea capacity
Haldea plant	FY12	USD3mn	Expansion of SSP capacity
Biofuels	FY12	USD15mn	New initiative

Source: Company

Table 3: Profit and loss statement

INR mn	FY09	FY10	FY11E	FY12E	FY13E
Gross sales	124,322	96,629	111,081	120,349	138,068
Excise duty	1,745	1,191	3,235	3,505	4,021
<b>Net sales</b>	<b>122,577</b>	<b>95,438</b>	<b>107,846</b>	<b>116,843</b>	<b>134,046</b>
Expenditure					
Consumption of raw material	40,279	27,122	30,736	32,716	37,533
Traded goods purchased	20,415	7,285	9,814	10,516	12,064
Staff cost	7,517	7,497	8,471	9,347	10,724
Stores/ spare parts and consumption	3,188	4,628	5,392	5,842	6,702
Power and fuel	13,737	10,407	11,760	12,853	15,415
Freight and forwarding charges	5,719	10,145	11,464	12,269	14,075
Other expenditure	13,089	9,980	11,277	12,218	14,017
Total expenditure	103,943	77,064	88,914	95,761	110,530
<b>EBITDA</b>	<b>18,634</b>	<b>18,374</b>	<b>18,931</b>	<b>21,082</b>	<b>23,516</b>
Depreciation	4,226	4,468	4,647	5,365	5,664
<b>EBIT</b>	<b>14,407</b>	<b>13,907</b>	<b>14,284</b>	<b>15,717</b>	<b>17,852</b>
Other income	826	1,823	958	924	723
Interest charges	3,953	3,932	2,816	2,426	1,816
Forex (gain)/ loss	923	1,083	-	-	-
<b>PBT</b>	<b>10,357</b>	<b>10,715</b>	<b>12,426</b>	<b>14,216</b>	<b>16,759</b>
Taxes	2,040	2,093	3,728	4,265	5,028
Minority interest	1,117	1,311	1,778	2,593	3,403
<b>Recurring PAT</b>	<b>7,200</b>	<b>7,310</b>	<b>6,920</b>	<b>7,358</b>	<b>8,328</b>
Extra ordinaries	(719)	(1,251)	-	-	-
<b>Reported PAT</b>	<b>6,481</b>	<b>6,059</b>	<b>6,920</b>	<b>7,358</b>	<b>8,328</b>
<b>Margins</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
EBITDA	15.2%	19.3%	17.6%	18.0%	17.5%
EBIT	11.8%	14.6%	13.2%	13.5%	13.3%
PAT- recurring	5.9%	7.7%	6.4%	6.3%	6.2%
Effective tax rate	19.7%	19.5%	30.0%	30.0%	30.0%
<b>YoY growth</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
Sales	103.5%	-22.1%	13.0%	8.3%	14.7%
EBITDA	91.1%	-1.4%	3.0%	11.4%	11.5%
EBIT	117.9%	-3.5%	2.7%	10.0%	13.6%
PAT- recurring	51.0%	1.5%	-5.3%	6.3%	13.2%
EPS- Basic	30.7	31.2	29.6	31.4	35.6
EPS- Diluted	29.6	30.1	28.5	30.3	34.3

Source: Company, BofAML Global Research

**Table 4: Balance sheet**

INR mn, yr ending 31 <sup>st</sup> March	FY09	FY10	FY11E	FY12E	FY13E
<b>Sources of funds</b>					
Shareholders' funds					
Share capital	2,352	2,433	2,433	2,433	2,433
Reserves and surplus	45,346	44,731	49,575	54,726	60,556
<b>Total shareholders' funds</b>	<b>47,698</b>	<b>47,164</b>	<b>52,008</b>	<b>57,159</b>	<b>62,989</b>
<b>Minority interest</b>	<b>1,522</b>	<b>3,501</b>	<b>5,279</b>	<b>7,871</b>	<b>11,274</b>
Loan funds					
Secured	8,413	18,389	18,389	18,389	18,389
Unsecured	54,425	31,549	25,549	18,549	5,209
<b>Total loan funds</b>	<b>62,838</b>	<b>49,937</b>	<b>43,937</b>	<b>36,937</b>	<b>23,597</b>
Deferred capital grants	90	43	90	90	90
Deferred tax liability	1,116	1,904	1,904	1,904	1,904
<b>Total sources of funds</b>	<b>113,264</b>	<b>102,549</b>	<b>103,218</b>	<b>103,962</b>	<b>99,854</b>
<b>Application of funds</b>					
Fixed assets					
Gross block	70,148	74,722	77,722	89,722	94,722
Less: acc. Depreciation and impairment	37,303	41,597	46,244	51,608	57,272
Net block	32,845	33,125	31,478	38,114	37,450
CWIP	4,740	5,184	5,184	5,184	5,184
<b>Total fixed assets</b>	<b>37,585</b>	<b>38,310</b>	<b>36,662</b>	<b>43,298</b>	<b>42,634</b>
Goodwill on consolidation	56,213	53,247	53,247	53,247	53,247
Investments	8,698	5,577	6,577	7,577	8,577
Deferred tax assets	990	1,765	650	651	652
Foreign currency monetary item translation difference	2,374	79	79	79	79
Current assets, loans and advances					
Inventories	12,761	9,587	11,284	12,053	13,827
Sundry debtors	16,358	11,111	12,555	13,603	15,606
Cash and bank balance	9,899	11,589	14,592	8,230	4,517
Loans and advances	5,554	5,373	5,373	5,373	5,373
Total	44,571	37,660	43,804	39,259	39,323
Current liabilities and provisions					
Current liabilities	24,994	21,021	24,253	26,121	30,150
Provisions	12,173	13,068	13,568	14,068	14,568
Total	37,167	34,089	37,821	40,189	44,718
<b>Net current assets</b>	<b>7,404</b>	<b>3,572</b>	<b>5,983</b>	<b>(930)</b>	<b>(5,394)</b>
Miscellaneous expenditure	-	-	20	40	60
<b>Total application of funds</b>	<b>113,264</b>	<b>102,549</b>	<b>103,218</b>	<b>103,962</b>	<b>99,854</b>

Source: Company, BofAML Global Research

Table 5: Cash flow statement

INR mn	FY09	FY10	FY11E	FY12E	FY13E
<b>Cash flow from operating activities</b>					
PBT- reported	9,173	9,329	12,426	14,216	16,759
Add					
Employee separation compensation	5	-	-	-	-
Depreciation	4,226	4,468	4,647	5,365	5,664
Interest expense	3,845	3,932	2,816	2,426	1,816
Amortisation of grant	(58)	(47)	47	-	-
Profit on sale of investments	225	(945)	-	-	-
Investment income	(718)	(661)	(958)	(924)	(723)
Provision for doubtful debts	38	(10)	-	-	-
Loss on asset sold/discarded	43	-	-	-	-
Exchange differences (including consolidation)	(20)	-	-	-	-
Provision for employee benefit	1,033	-	-	-	-
Others	1,751	3,135	-	-	-
Operating profit before working capital changes	19,544	19,200	18,978	21,082	23,516
Adjustments for					
Trade and other receivables	(8,979)	6,474	(1,444)	(1,048)	(2,003)
Inventories	(3,459)	4,714	(1,696)	(769)	(1,775)
Trade payable and other liabilities	5,603	(7,666)	3,733	2,368	4,529
Payment towards employee separation compensation	(7)	-	-	-	-
Cash generated from operations	12,702	22,722	19,570	21,633	24,267
Taxes paid	(2,423)	(2,877)	(2,612)	(4,266)	(5,029)
Others			(20)	(20)	(20)
<b>Net cash from operating activities</b>	<b>10,279</b>	<b>19,845</b>	<b>16,937</b>	<b>17,347</b>	<b>19,219</b>
<b>Cash flow from investing activities</b>					
Acquisition of fixed assets	(7,378)	(5,911)	(3,000)	(12,000)	(5,000)
Sale of fixed assets	47	26	-	-	-
Purchase of investments	(58,072)	(115,266)	(1,000)	(1,000)	(1,000)
Acquisition of subsidiaries	-	(4,609)	-	-	-
Sale of investments	57,792	120,565	-	-	-
Dividend/interest received	762	819	958	924	723
<b>Net cash from investing activities</b>	<b>(6,849)</b>	<b>(4,377)</b>	<b>(3,042)</b>	<b>(12,076)</b>	<b>(5,277)</b>
<b>Free cash flow</b>	<b>2,901</b>	<b>13,934</b>	<b>13,937</b>	<b>5,347</b>	<b>14,219</b>
<b>Cash flow from financing activities</b>					
Proceeds from equity issuance					
Proceeds from borrowings	5,257	(6,524)	(6,000)	(7,000)	(13,340)
Lease rent paid	-	-	-	-	-
Dividends paid	(2,472)	(3,645)	(2,076)	(2,207)	(2,498)
Others/interest paid	(3,701)	(3,858)	(2,816)	(2,426)	(1,816)
<b>Net cash from financing activities</b>	<b>(916)</b>	<b>(14,027)</b>	<b>(10,892)</b>	<b>(11,634)</b>	<b>(17,654)</b>
Net increase/ (decrease) in cash	2,514	1,441	3,003	(6,362)	(3,713)
Cash and eq. at the beginning of the yr	6,767	9,899	11,589	14,592	8,230
Cash from acquisitions	-	1,147	-	-	-
Impact of foreign exchange	617	(898)	-	-	-
<b>Cash and eq at close of the year</b>	<b>9,899</b>	<b>11,589</b>	<b>14,592</b>	<b>8,230</b>	<b>4,517</b>

Source: Company, BofAML Global Research

**Table 6: Key ratios**

	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
<b>Margins</b>					
EBITDA	15.2%	19.3%	17.6%	18.0%	17.5%
EBIT	11.8%	14.6%	13.2%	13.5%	13.3%
PAT	5.9%	7.7%	6.4%	6.3%	6.2%
Tax rate	19.7%	19.5%	30.0%	30.0%	30.0%
<b>Per Share Data</b>					
Basic EPS (INR)	30.7	31.2	29.6	31.4	35.6
Diluted EPS (INR)	29.6	30.1	28.5	30.3	34.3
CEPS (INR)	47.0	48.5	47.6	52.4	57.6
Dividend Payout %	38.0%	30.0%	30.0%	30.0%	30.0%
Dividend Per Share (INR)	10.6	15.6	8.9	9.4	10.7
Book-value (INR)	204	201	222	244	269
<b>Growth Ratios</b>					
Revenue	103.5%	-22.1%	13.0%	8.3%	14.7%
EBITDA	91.1%	-1.4%	3.0%	11.4%	11.5%
EBIT	117.9%	-3.5%	2.7%	10.0%	13.6%
PAT	51.0%	1.5%	-5.3%	6.3%	13.2%
EPS diluted	51.0%	1.5%	-5.3%	6.3%	13.2%
<b>Other Key Metrics</b>					
Debt to equity ratio	1.32	1.06	0.84	0.65	0.37
Assets Turnover	3.4	2.5	2.9	2.9	3.1
DSO	49	42	42	42	42
Current assets as a % of sales	0.4	0.4	0.4	0.3	0.3
Cash and cash equivalents	18,596	17,166	21,169	15,807	13,094
Free cash flow	2,901	13,934	13,937	5,347	14,219

Source: Company, BofAML Global Research

## Price objective basis & risk

### Tata Chemicals Ltd (TTCXF)

We set our PO of INR245 at an 8x FY12E P/E - at a 10% discount to the 8-year average. Given weakened soda ash demand, muted earnings growth and increasing pension liabilities, we believe the 10% discount to the average P/E is reasonable. Upside risks are i) a better-than-expected recovery in soda ash demand and prices, and ii) a surge in global fertilizer prices. Downside risks: Worse-than-expected prices in soda ash and urea.

## Link to Definitions

### Basic Materials

Click [here](#) for definitions of commonly used terms.

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India - General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Vollas	VTSJF	VOLT IN	Sanjaya Satapathy
<b>NEUTRAL</b>				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
<b>UNDERPERFORM</b>				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	UltraTech Cemen	XDJNF	UTCEM IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy

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**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

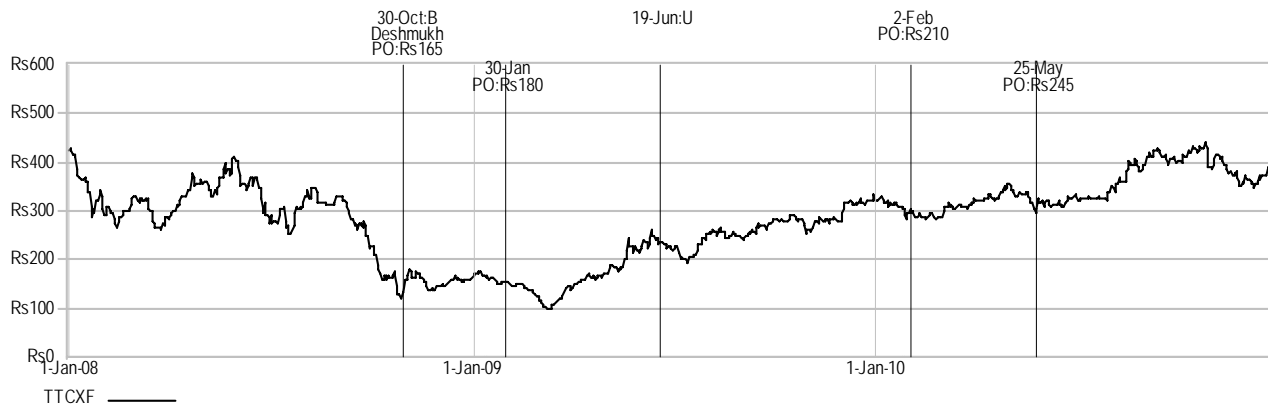
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B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	61.90%	Buy	29	51.79%
Neutral	18	17.14%	Neutral	10	62.50%
Sell	22	20.95%	Sell	6	28.57%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Underperform	N/A	≥ 20%

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