PINC POWERPICKS

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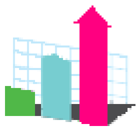
Here's the roster for the PINC PowerPicks:

Company	Sector	CMP (Rs)	Market Cap (Rs bn)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)		Earnings gr. (%) (FY10-12E)	ROE (%)	ROCE (%)
						FY11E	FY12E	FY11E	FY12E		FY11E	FY11E
Apollo Tyres	Auto Ancillary	83	42	110	32	9.6	7.6	5.6	4.6	(1.1)	20.3	17.9
Glenmark	Pharma	292	79	353	21	18.4	15.5	11.8	10.1	27.7	16.5	12.3
M&M	Auto	677	383	824	22	17.1	15.5	11.9	10.5	9.7	25.4	27.0
NIIT Tech	IT services	181	11	243	34	7.9	6.7	5.6	4.7	12.1	23.6	18.3
Patel Engg.	Const & Infra	393	28	567	44	15.2	11.9	8.0	7.1	20.9	12.5	14.3
Ranbaxy	Pharma	503	211	792	57	18.1	12.0	11.8	8.3	68.5	19.9	17.4
Shree Cement	Cement	2,062	72	2,697	31	10.7	10.0	4.9	4.2	(0.1)	31.4	22.0
Tata Steel	Metals	597	583	690	16	10.3	7.9	5.0	4.3	NA	18.8	9.8
TCS	IT services	894	1,750	985	10	22.1	19.1	16.6	13.3	15.6	31.2	35.2
Usha Martin	Metals	90	27	120	34	16.1	9.5	6.0	3.9	31.0	9.7	8.8



PINC POWERPICKS is a list of our high-conviction stock ideas, a choice of stocks from across sectors in our coverage universe.

What moved in and what moved out:

In our September issue of PINC Power Picks, we have introduced Tata Steel.

We have removed Coromandel International since our target price has been achieved and stock outperformed the SENSEX by ~30% in the past three months. Nevertheless, we are positive on the stock underpinned by structural changes in the Indian fertiliser sector in India.

15th September 2010

APOLLO TYRES: BUY, TP-Rs110 (32% upside)

Sector: Auto Ancillary
CMP: Rs83; Mcap: Rs42bn
Bloomberg: APTY IN; Reuters: APLO.BO

What's the theme?

The 70 day lockout at Apollo Tyres' Cochin plant was lifted in the last week of August'10. The lockout had a significant overhang on the stock as the facility accounted for a third of the company's domestic production capacity. This, along with the recent correction in price of natural rubber, the key raw material, augurs well for the domestic business. However, we do not expect volume growth in FY11 in the domestic business due to lockout at Cochin facility. Despite price hikes undertaken, margins are expected to take a 440bps knock to 11.3%. European SUbsidiary, VBBV reported a net profit margin of 6.5% in Q1FY11. We expect subsidiaries to contribute Rs1.9bn in profits in FY11.

What will move the stock?

1) Re-rating of the sector on the back of radialisation in the truck-bus radial (TBR) segment 2) Ramp up at the Chennai facility and commencement of production for TBR tyres 3) Correction in natural rubber prices on account of production growth or reduction in import duty on natural rubber as demanded by the tyre industry. 4) Continued strong performance in VBBV, which specialises in winter tyres.

Where are we stacked versus consensus?

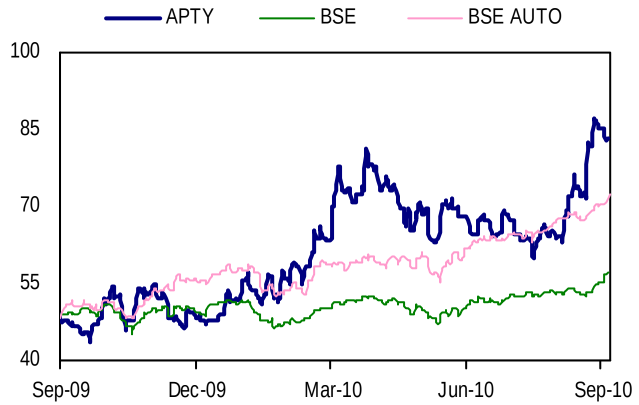
Our FY11 and FY12 consolidated earnings estimate are Rs8.7 and Rs11.0 respectively. With the end of the lockout at the Cochin facility, we have increased the earnings multiple to 10x (from 7.5x). We reiterate a 'BUY' recommendation on the stock with a revised price target of Rs110. Our consolidated earnings estimate for FY11 is 1.3% higher than the consensus estimate of 8.6.

What will challenge our target price?

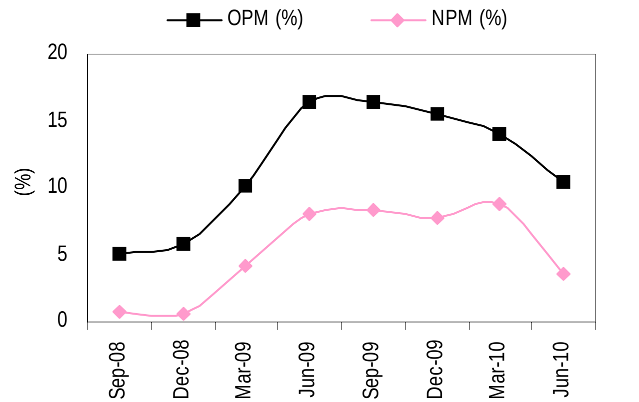
1) Further increase in natural rubber prices which is a key raw material; 2) Penalty imposition by Competition Commission of South Africa for alleged involvement in a price fixing cartel

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	49,841	81,207	93,271	14.9	109,430	17.3
EBITDA	4,161	11,796	10,895	(7.6)	13,181	21.0
EBITDA Marg. (%)	8.3	14.5	11.7	(280)bps	12.0	40 bps
Adj. Net Profits	1,286	5,659	4,385	(22.5)	5,540	26.4
Dil. EPS (Rs)	2.6	11.2	8.7	(22.5)	11.0	26.4
PER (x)	32.6	7.4	9.6	-	7.6	-
ROE (%)	10.2	34.1	20.3	(1380)bps	21.4	100 bps
ROCE (%)	13.5	29.3	17.9	(1140)bps	18.3	30 bps

Price performance



Sales Volumes Trend



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GLENMARK: BUY, TP-Rs353 (21% upside)

Sector: Pharmaceuticals
CMP: Rs292; Mcap: Rs79bn
Bloomberg: GNP IN; Reuters: GLEN.BO

What's the theme?

Glenmark has underperformed the BSE Healthcare Index on disappointment in the NCE R&D pipeline and slowing growth in the generic business. Thus, the stock is now available at cheaper valuations. We believe that as growth comes back, Glenmark offers potential for re-rating.

What will move the stock?

1) Growth in the US on approvals for niche products (dermatology, controlled substances, modified releases, hormones); 2) Improved profitability in RoW markets, strong volume growth, and stable currencies; 3) News flow on the innovative research program; and 4) Balance sheet improvement with reducing leverage and working capital requirements.

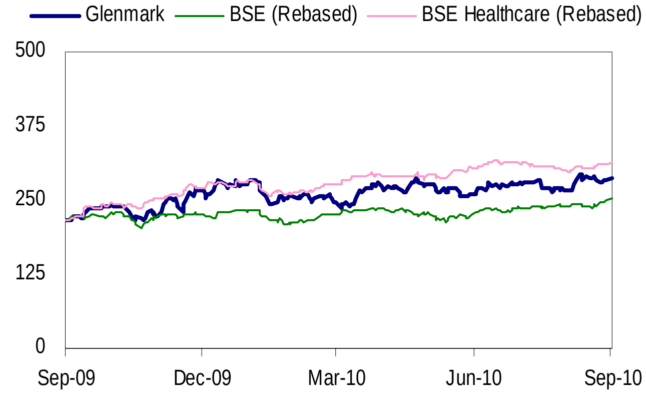
Where are we stacked versus consensus?

Our estimates are among the highest on the Street because we are more sanguine about Glenmark's return to high growth in the US market (more niche product launches vs. an existing plain vanilla generic product portfolio) and the RoW markets (volume growth and stabilizing currencies). Given near-term uncertainty over the NCE R&D pipeline and related milestones, we believe cost basis is a more appropriate method for valuing the NCE R&D effort. We value the base business at 18x Sept'11 earnings after adding back NCE R&D (net of tax shield). We also add Rs15/share as NPV for the 'at risk' launch of *Tarka* in the US. This gives us a TP of Rs353. Maintain 'BUY'.

What will challenge our target price?

1) Inability to launch differentiated products in the US generic market due to delays in securing approvals from the US FDA; 2) Inability to sustain growth in RoW markets.

Price performance



(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	21,160	24,653	29,661	20.3	33,837	14.1
EBITDA	4,549	5,969	7,825	31.1	8,834	12.9
EBITDA Marg. (%)	21.5	24.2	26.4	217 bps	26.1	(27)bps
Adj. Net Profits	1,916	3,123	4,292	37.4	5,088	18.6
Dil. EPS (Rs)	7.1	11.6	15.9	37.5	18.8	18.6
PER (x)	40.9	25.2	18.4	-	15.5	-
ROE (%)	12.3	15.8	16.5	69 bps	16.4	(6)bps
ROCE (%)	10.4	11.8	12.3	54 bps	12.7	32bps

ANDA Pipeline for US

ANDAs filled (inc partners)	Till FY09	Launched till FY09	Yet to be launched
Dermatology	18	3	15
Controlled Substance	6	3	3
Modified Release	4	0	4
Hormones	7	0	7
First to file (Para IV	9	1	8
Immediate release	43	39	4
Total	**87**		

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M&M: BUY, TP-Rs824 (22% upside)

Sector: Auto
CMP: Rs677; Mcap: Rs383bn
Bloomberg: MM IN; Reuters: MAHM.BO

What's the theme?

M&M, with a major rural presence, is expected to benefit from strong monsoons this year. The automobile segment is expected to record a volume growth of 20.8% in FY11 on the back of an impressive 30% growth in FY10. The tractor segment is expected to grow 10.3% in FY11 due to increased demand from the construction and infrastructure sectors.

What will move the stock?

1) Ssangyong, Korea has selected M&M as preferred bidder. The acquisition would provide M&M a 2-3 year leap in terms of product development. Financial details on the transaction are awaited 2) Production for JV with Navistar has begun at the Chakan plant 3) M&M has received the EPA approval for launch in the US 3) Strong demand for small commercial vehicles (SCVs), the fastest-growing CV segment, which M&M has recently entered with launch of Maximmo and Gio; 4) The company is expected to roll out its tractor segment capacity expansion plans to cater to future growth in the segment.

Where are we stacked versus consensus?

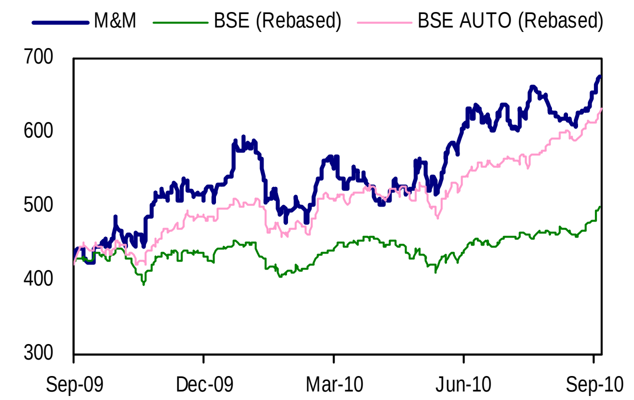
We expect EPS of Rs39.6 and Rs43.7 in FY11 and FY12 respectively. Our FY11 earnings estimate is 3.3% lower than the consensus estimate of Rs40.8. We value M&M using SOTP at Rs824, discounting the standalone business at 14x FY12E earnings.

What will challenge our target price?

1) Steep raw material price increases and M&M's inability to pass on the same to the customers; 2) Increased competition in the UV segment on new launches, affecting market share; 3) Litigation with Global Vehicles Distributor, US.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	126,491	180,381	215,629	19.5	240,800	11.7
EBITDA	10,923	29,758	32,372	8.8	36,094	11.5
EBITDA Marg. (%)	8.3	16.0	14.6	(140)bps	14.6	(0)bps
Adj. Net Profits	8,287	20,181	22,771	12.8	25,548	12.2
Dil. EPS (Rs)	16.2	36.3	39.6	9.0	43.7	10.4
PER (x)	41.8	18.6	17.1	-	15.5	-
ROE (%)	17.3	30.9	25.4	(550)bps	23.2	(220)bps
ROCE (%)	13.8	28.0	27.0	(100)bps	26.6	(30)bps

Price performance



SOTP Valuation

	Valuation Method	Per share (Rs)	Multiple	Value (Rs)
M&M (Standalone)	P/E	41.8	14	586
Tech Mahindra	CMP	66.1	0.8	53
Mahindra Holidays	CMP	61.3	0.8	49
M&M Financial Services	CMP	66.2	0.8	53
Mahindra Lifespace	CMP	16.6	0.8	13
M&M (Treasury Stocks)	CMP	60.0	0.8	48
Swaraj Engines	CMP	3.1	0.8	2
Mahindra Forgings	CMP	7.9	0.8	6
Mahindra Ugine Steel	CMP	2.0	0.8	2
Mahindra Composites	CMP	1.8	0.8	1
Mahindra Navistar	P/BV	6.8	1.5	10
SOTP Value (Rs)				**824**

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NIIT TECH: BUY, TP-Rs243 (34% UPSIDE)

Sector: Information Technology CMP: Rs181; Mcap: Rs11bn Bloomberg: NITEC IN; Reuters: NIITT.BO

What's the theme?

NIIT Tech has large exposure to high-growth niche verticals such as insurance and travel. New service lines will boost the non-linear growth and lead to improvement in realisations. NIIT Tech has no exposure to the PIIGS zone and has been able to achieve volume growth in Europe despite economic headwinds.

What will move the stock?

1) Recent wins in the Indian market: five-year BSF contract worth Rs2,280mn; 2) Good performance form the Insurance and Travel and transport verticals that contribute ~72% to revenue; 3) Large untapped opportunity in the APAC markets that are expected to be the highest IT spenders in CY10; 4) Strong order book and high growth in the top 10 clients; and 5) Stable EBITDA margins in the IT services business.

Where are we stacked versus consensus?

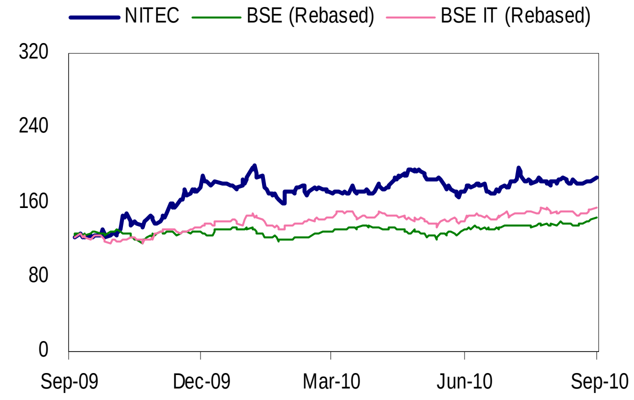
Our top-line estimates vary from consensus estimates by ~1.3% underpinned by stronger volumes and a modest uptick in the pricing for FY12. Our EBITDA margin estimates for FY12 are lower than consensus by ~70bps as we expect higher salary increases and promotions. Our FY12EPS estimate is in line with consensus.

What will challenge our target price?

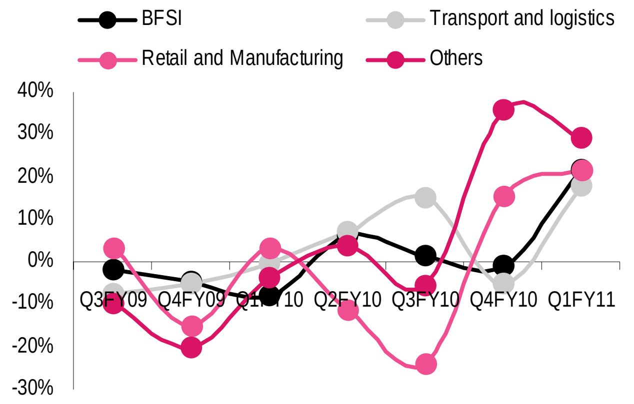
1) Slower recovery in the European economy; 2) Sharp currency volatility; 3) Higher attrition and wage increments; and 4) Project delays and cancellations in government contracts.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	9,800	9,138	10,431	14.1	12,492	19.8
EBITDA	1,765	1,889	1,947	3.0	2,347	20.6
EBITDA Marg. (%)	18.0	20.7	18.7	(201)bps	18.8	13 bps
Adj. Net Profits	1,148	1,265	1,356	7.2	1,588	17.1
Dil. EPS (Rs)	19.6	21.5	23.1	7.2	27.0	17.1
PER (x)	9.3	8.5	7.9	-	6.7	-
ROE (%)	29.5	21.7	23.6	188 bps	26.4	278 bps
ROCE (%)	17.1	19.1	18.3	(76)bps	19.5	120 bps

Price performance



Vertical split (QoQ growth)



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PATEL ENGG. - BUY, TP- Rs567 (44% upside)

Sector: Construction & Infrastructure
CMP: Rs393; Mcap: Rs28bn
Bloomberg:PEC IN; Reuters:PENG BO

What's the theme?

Patel Engineering is an attractive infrastructure and land bank story. Its infrastructure business comprising high-margin hydro power, irrigation and micro-tunneling are already showing signs of strong order inflows for FY11. Its L1 position has improved to Rs31bn in Q1FY11. In the Real estate segment, the Bangalore project has been pre-sold 90% and the Noida project has been pre-sold 75%. Revenue from this project is likely to accrue H2FY11 onward.

What will move the stock?

1) We believe the core business is undervalued, and are optimistic of enhanced valuations as we believe the order book would grow at~20.9% CAGR over FY10-12.

2) Order flow from the hydro power segment has been below potential over the past three years at ~Rs15.7bn average. Nevertheless, the company has a total order backlog of Rs110bn and it has L1 status in hydro power projects of ~Rs15bn.

3) Faster execution of the real estate projects would stimulate stock performance.

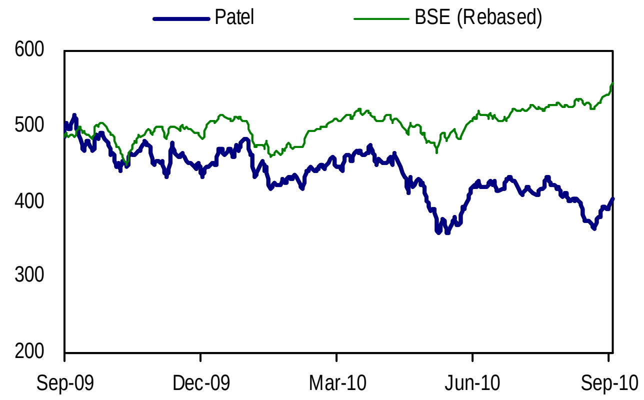
Where are we stacked versus consensus?

Our FY11E and FY12E earnings estimates are among the lowest on the Street at Rs25.8 (13.9%) and Rs33, (9.6%), lower than mean consensus estimates. We expect top-line growth of ~11.1% at Rs35.4bn for FY11 and 19.9% at Rs42.4bn vs. consensus estimate of ~14.4% at Rs36.5bn and ~20.1 at Rs43.8bn. Our SOTP-based target price is Rs567 vs. consensus target of Rs510.

What will challenge our target price?

1) Lower-than-expected order inflow of Rs45bn in FY11; 2) Slowdown in the real estate market

Price performance



(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	24,598	31,909	35,433	11.0	42,483	19.9
EBITDA	3,897	5,087	5,598	10.1	6,670	19.1
EBITDA Marg. (%)	15.8	15.9	15.8	(14)bps	15.7	(10)bps
Adj. Net Profits	1,805	1,578	1,805	14.4	2,306	27.8
Dil. EPS (Rs)	30.3	22.6	25.8	14.4	33.0	27.8
PER (x)	13.0	17.4	15.2	-	11.9	-
ROE (%)	19.4	13.3	12.5	(76)bps	14.1	162 bps
ROCE (%)	14.6	17.4	14.3	(308)bps	15.6	132 bps

SOTP

Particulars	Rs/Share	Percentage
Cons. Construction business	396	69.9%
Real estate projects	55	9.8%
Road BOT	12	2.2%
Land bank valuation	67	11.8%
Power valuation	36	6.3%
Total	**567**	

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RANBAXY: BUY, TP-Rs792 (57% upside)

Sector: Pharmaceuticals
CMP: Rs503; Mcap: Rs211bn
Bloomberg: RBXY IN; Reuters: RANB.BO

What's the theme?

While some of the expected triggers have played out, we believe more triggers will likely play out over the next two years as Ranbaxy transitions from an aggressive Indian MNC focused on top-line growth to a conservative Japanese company focused on profitability.

What will move the stock?

1) Expected resolution of the USFDA issue at the Dewas and Poanta Sahib facility; 2) Margin improvement in the base business; 3) Strong domestic formulation on addition of 1500 field force; 4) Commencement of Nexium API and formulations supplies from Jan'11; 5) Possibility of a couple of FTFs in H2CY10; 6) Greater clarity from Daiichi on the roadmap to tap the Japanese generics market; and 7) Clarity on the alliances.

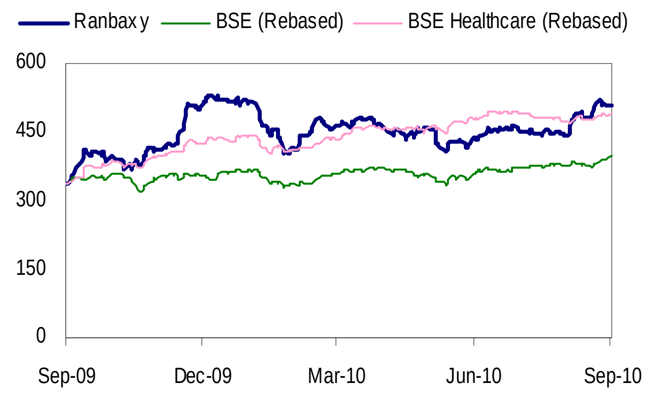
Where are we stacked versus consensus?

Our estimates are the highest on the Street because we are optimistic about an eventual resolution of the USFDA issue at the Dewas facility in H2CY10. Moreover, we expect the base business margins to improve substantially. Our 18-month target price of Rs792 is also the highest on the Street.

What will challenge our target price?

1) Ranbaxy's inability to secure USFDA clearance for the Dewas facility; 2) Outstanding forex hedges of USD1bn over the next eight years engendering volatility in near-term earnings.

Price performance



(Rs mn)	CY08	CY09	CY10E	YoY %	CY11E	YoY %
Net Sales	74,214	71,566	82,729	15.6	96,003	16.0
EBITDA	2,370	9,597	15,025	56.6	19,999	33.1
EBITDA Marg. (%)	3.2	13.4	18.2	475bps	20.8	267bps
Adj. Net Profits	(2,019)	4,837	9,134	88.8	13,731	50.3
Dil. EPS (Rs)	(4.3)	10.3	19.4	88.8	29.2	50.3
PER (x)	(81.9)	34.2	18.1	-	12.0	-
ROE (%)	(5.8)	11.5	19.9	838bps	24.9	501bps
ROCE (%)	3.9	11.9	17.4	552bps	19.4	206bps

Potential upside from Carbapenems

(USD mn)	CY10E	CY11E
Meropenem - US	25.4	57.1
Imipenem - US	22.5	33.8
Meropenem - EU	30.2	67.9
Imipenem -EU	22.5	33.8
Total	100.6	192.5
INR/USD	42.0	42.0
IN INR	**4,224**	**8,086**

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SHREE CEMENT: BUY, TP-Rs2,697 (31% upside)

Sector: Cement
CMP: Rs2,062; Mcap: Rs72bn
Bloomberg: SRCM IN; Reuters: SHCM BO

What's the theme?

Shree Cement is well positioned to overcome the current over supply situation in the cement industry, given its balanced portfolio of cement and power. During FY11, it plans to commission 1.0mn MT grinding capacity at Jaipur and 1mn MT of clinker at Ras. Over the next twelve months, it is scheduled to commission 300MW of power which will be available for sale on a merchant basis. SRCM has aggressive plans in power business with a further addition of 300MW.

What will move the stock?

1) Given a normal monsoon across the country, we expect strong cement demand 2) For SRCM, we expect a 11.1% volume CAGR over FY10-12 3) With improvement in the demand scenario, we expect realisations to improve from recent lows 4) We expect the power business to contribute ~20% to revenue by FY12E and provide an incremental source of earnings

Where are we stacked versus consensus?

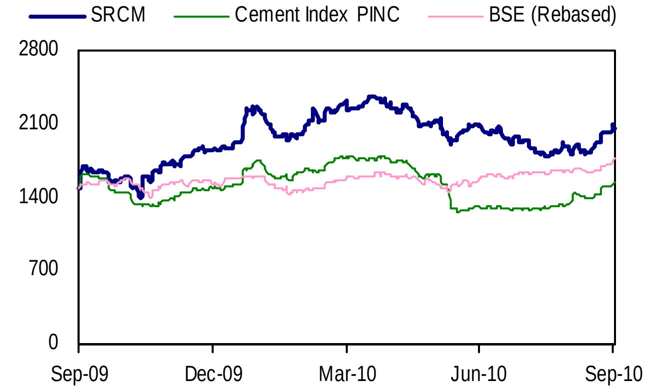
Our FY11 and FY12 earnings estimate are Rs192 and Rs206 respectively. Our FY11 EPS estimate of Rs192 is 9.2% higher than consensus estimate of Rs176. We remain positive on the stock due to management's excellent track record in project execution and strong earnings visibility.

What will challenge our target price?

1) Slowdown in construction activity in the NCR region post the Commonwealth Games 2) Delay in commissioning of power projects.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	27,106	36,321	40,630	11.9	47,481	16.9
EBITDA	9,377	14,807	14,322	(3.3)	16,553	15.6
EBITDA Marg. (%)	34.4	40.7	35.1	(560)bps	34.7	(40)bps
Adj. Net Profits	5,743	7,198	6,686	(7.1)	7,186	7.5
Dil. EPS (Rs)	164.9	206.6	191.9	(7.1)	206.3	7.5
PER (x)	12.5	10.0	10.7	-	10.0	-
ROE (%)	61.0	47.3	31.4	(1590)bps	26.2	(520)bps
ROCE (%)	33.6	30.7	22.0	(870)bps	21.4	(60)bps

Price performance



Shree Cement's Power Story

	FY08	FY09	FY10	FY11E	FY12E
Rated Power Cap (MW)	102	119	210	260	560
Effective Power Cap (MW)	77	112	150	258	373
Captive Power Cons (MW)	77	95	112	133	144
Surplus Power Available (MW)	-	17	38	125	228
Surplus Power Sold (Mn units)	-	117	264	872	1,596
Power Sales Revenue (Rs Mn)	-	806	1,770	4,794	7,980
% of Net Sales	-	3.0	4.8	11.6	16.7
% of EBITDA	-	3.0	5.3	18.3	28.9

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TATA STEEL: BUY, TP-Rs690 (16% upside)

Sector: Metals
CMP: Rs597; Mcap: Rs583bn
Bloomberg: TATA IN; Reuters: TISC.BO

What's the theme?

We expect Tata Steel's EBITDA to grow at 48.7% CAGR over FY10-12, driven by the profitable Indian operation, turnaround at Corus, improved capacity utilization, leaner cost structure, partial resource integration, and improving steel profitability. We expect Tata Steel's consolidated net profit to be Rs56.5bn in FY11 and Rs73.4bn in FY12. At 4.3x FY12E EV/EBITDA, we find the stock attractively valued.

What will move the stock?

1) Likely sequential improvement in steel profitability in Q3FY11; 2) Consummation of sale of Teesside Cast products (TCP); 3) Easing of high financial leverage; 4) Sustainability of turnaround at Corus; 5) Progress on raw material integration; and 6) Brownfield expansion of 2.9mn tonnes at Jamshedpur as per schedule.

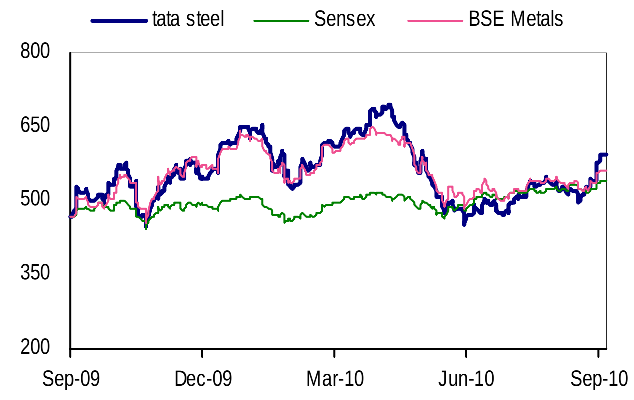
Where are we stacked versus consensus?

Our consolidated EPS estimates at Rs57.9 and Rs75.2 for FY11 and FY12 respectively are in line with the consensus. We value Tata Steel using SOTP at Rs690.

What will challenge our target price?

1) Lower steel profitability on correction in steel prices and/or significant rise in input cost; 2) Weak recovery in Europe leading to lower capacity utilization at Corus; 3) Delay in brownfield expansion; and 4) Delay in resource integration.

Price performance



(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	1,473,293	1,023,931	1,093,914	6.8	1,198,919	9.6
EBITDA	181,277	80,427	151,124	87.9	177,749	17.6
EBITDA Marg. (%)	12.3	7.9	13.8	596	183.5	16972 bps
Adj. Net Profits	90,454	(6,430)	56,571	NA	73,402	29.8
Dil. EPS (Rs)	104.1	(6.8)	57.9	NA	75.2	29.8
PER (x)	4.4	-	10.3	-	7.9	-
ROE (%)	26.4	-	18.8	1875 bps	20.3	152 bps
ROCE (%)	13.7	-	9.8	976 bps	11.6	181 bps

SOTP Valuation (Based on EV/EBITDA multiple)

In Rs mn	Target EV/EBIDTA	Target EV	Residual Equity	Target Price (Rs)
Tata Steel India	5.5	622,525	544,701	558
Tata Steel Europe (Corus)	5.0	289,868	99,648	102
Tata Steel Thailand	4.5	16,964	16,964	17
Natsteel	4.5	12,687	12,687	13
Tata Steel cons.	**5.3**	**942,043**	**674,000**	**690**

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TCS: BUY, TP-Rs985 (10% upside)

Sector: Information Technology
CMP: Rs894; Mcap: Rs1,750bn
Bloomberg: TCS IN; Reuters: TCS.BO

What's the theme?

TCS will continue to exhibit strong growth driven by recovery in the key BFSI segment and in the US market. Further, strengthening of EUR against USD will have positive near-term impact.

What will move the stock?

1) We expect a robust volume growth of 25%YoY for FY11; 2) Strong and broad-based growth across key geographies and verticals; 3) Robust deal pipeline for FY11 (15 large deals); 4) Upward revision of hiring guidance to 40,000 (gross adds) for FY11 5) Expectation of uptick in pricing toward end-FY11.

Where are we stacked versus consensus?

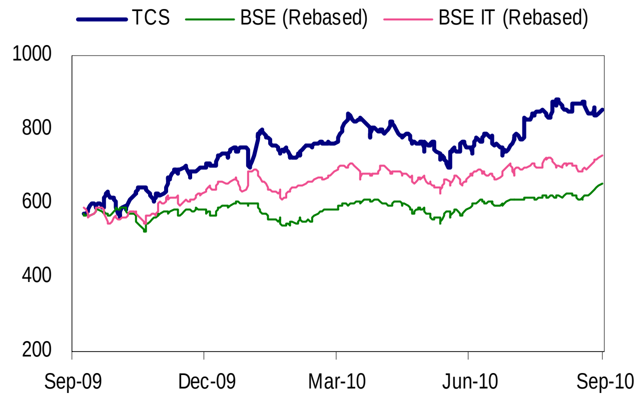
Our top-line estimates vary from Consensus estimates by ~6.1%, underpinned by stronger volumes and a modest uptick in pricing for FY12. Our EBITDA margin estimates for FY12 are lower than consensus by ~50bps as we expect a moderate salary increase due to a high variable payout structure. Our FY12 EPS estimate is 3.1% higher than consensus.

What will challenge our target price?

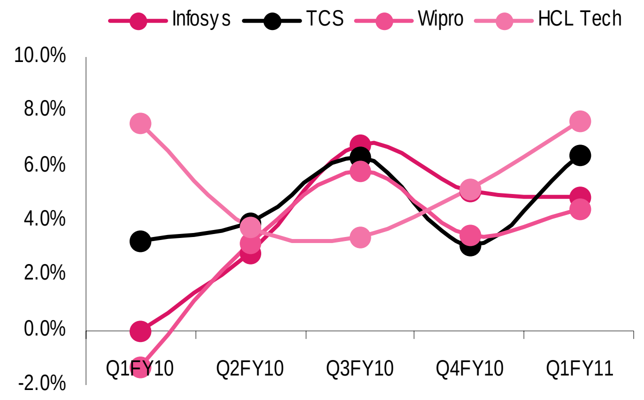
1) Slower recovery in the US economy; 2) Appreciation of INR vs. USD; 3) Increase in tax rates after the sunset clause; 4) Higher attrition and wage increments; and 5) Project delays and cancellation in government contracts.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	278,128	300,289	357,032	18.9	444,312	24.4
EBITDA	73,384	86,799	102,867	18.5	125,051	21.6
EBITDA Marg. (%)	26.4	28.9	28.8	(9)bps	28.1	(67)bps
Adj. Net Profits	51,708	68,728	79,052	15.0	91,783	16.1
Dil. EPS (Rs)	13.2	35.1	40.4	15.0	46.9	16.1
PER (x)	33.8	25.5	22.1	-	19.1	-
ROE (%)	32.3	32.9	31.2	(164)bps	29.3	(187)bps
ROCE (%)	40.0	35.6	35.2	(42)bps	34.9	(32)bps

Price performance



USD revenue (QoQ growth)



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USHA MARTIN: BUY, TP-Rs120 (34% upside)

Sector: Metals
CMP: Rs90; Mcap: Rs27bn
Bloomberg: USM IN; Reuters: USBL.BO

What's the theme?

With the completion of capacity expansion of metalliks by 0.4mtpa & steel by 0.6mtpa, and full integration from mineral resources to value-added products, we expect Usha Martin to benefit from 38% volume CAGR over FY10-FY12E and improved cost structure. We expect 30% EBITDA CAGR and 31% EPS CAGR over FY10-FY12E.

What will move the stock?

1) Volume growth on higher metalliks and billet output from the recently commissioned 0.4mntpa blast furnace and 0.6mntpa SMS respectively; 2) Liquidation of inventory build-up in Q1FY11; 3) Stabilization of output from the Kathuria coal mine; and 4) Improved profitability following recent increase in steel prices and lower input cost (Q3FY11 contract prices of iron ore and coking coal declined ~7-14% QoQ).

Where are we stacked versus consensus?

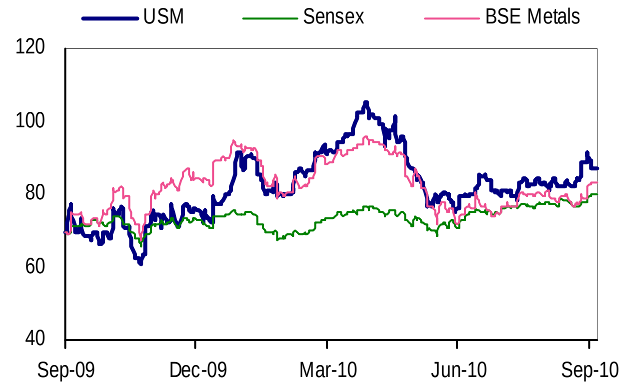
Our operating profit estimates are slightly on the lower side of street estimates owing to our cautious outlook on steel profitability, and conservative volume estimates for Usha Martin (0.72mnt sales volume in FY12 vs. company's guidance of 0.8mnt)

What will challenge our target price?

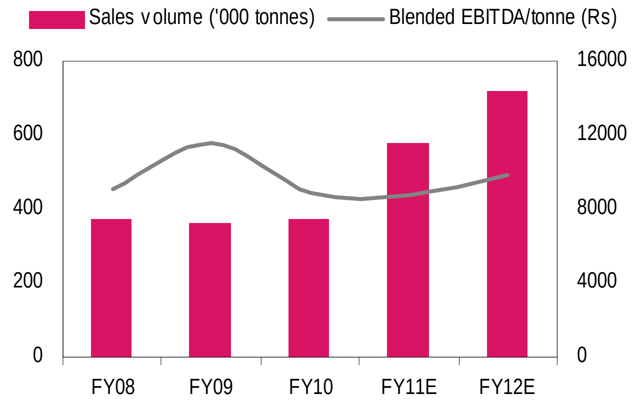
1) Delay in stabilization of recently commissioned capacity, impacting volumes; 2) Weak recovery in Europe, which contributes >10% to consolidated revenue; 3) Impact on mining operation either due to regulatory changes or naxalite activities; and 4) Severe decline in steel profitability

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	29,619	25,344	34,080	34.5	43,044	26.3
EBITDA	5,258	4,895	6,122	25.1	8,237	34.5
EBITDA Marg. (%)	17.8	19.3	18.0	(135)bps	19.1	117 bps
Adj. Net Profits	1,853	1,686	1,702	0.9	2,895	70.1
Dil. EPS (Rs)	7.4	5.5	5.6	0.9	9.5	70.1
PER (x)	8.8	16.2	16.1	-	9.5	-
ROE (%)	17.6	11.9	9.7	(224)bps	15.0	525 bps
ROCE (%)	11.5	9.5	8.8	(68)bps	11.4	259 bps

Price performance



Volume growth and margin expansion



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