India Monsoons:

A Reality Check

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Executive Summary

Poor monsoons this year are being dreaded to have a significant impact on India's GDP. The sectors that could potentially be hit are Automobiles, FMCG and Cement. However, our analysis of the past trends and correlation between monsoons and the performance of these sectors (in terms of business and not stock market performance) indicate that the correlation has not been very strong as is being feared. More so, the gradual and consistent transition of the Indian economy over the years from an agrarian economy to one being led by the services and the manufacturing sectors, and the emergence of various other factors influencing consumer decision making, has ensured that the impact of the monsoons on the Indian economy reduces.

In fact, if we consider corporate India's annual Net Sales and Net Profit growth over the last decade, it is evident that the impact of poor monsoons on corporate profitability is not prominent. Thus, we have arrived at the conclusion that any impact on the stockmarket is primarily a factor of nervous investor sentiments who prefer to exit/stay on the sidelines pending concrete evidence of the little impact on India Inc.'s profits.

Further, in order to get a greater understanding of the impact of Monsoons on Agricultural GDP and the latter's impact on the Manufacturing and Services sectors and the Indian economy at large, we carried out a Regression Analysis of the same. This analysis indicates that the impact of a change in Agricultural GDP is minimal on the other two segments of the economy. Also, the impact on the GDP is largely restricted to that arising on account of the slowdown in agricultural GDP, which does get impacted by the monsoons.

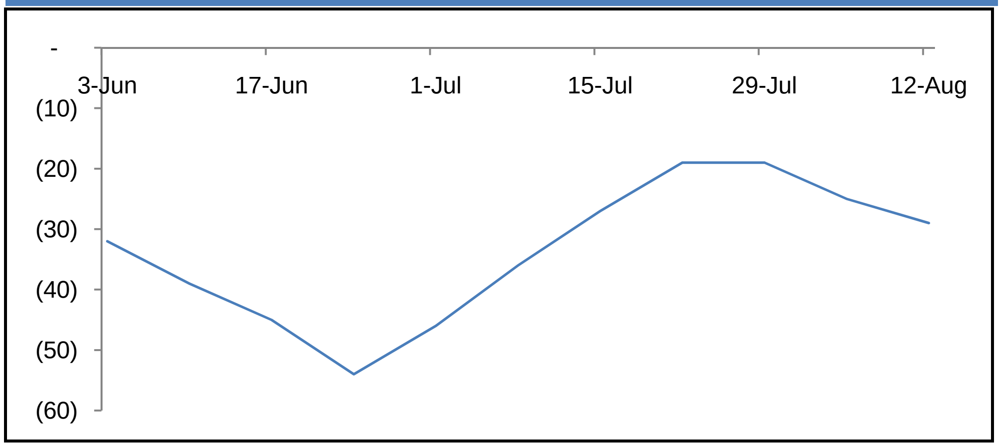
Current status

"Monsoon deficit rises to 29%"
"FMCG, durables makers on rain watch"

"Shrunken Hopes!"
"Clouds of apprehension"

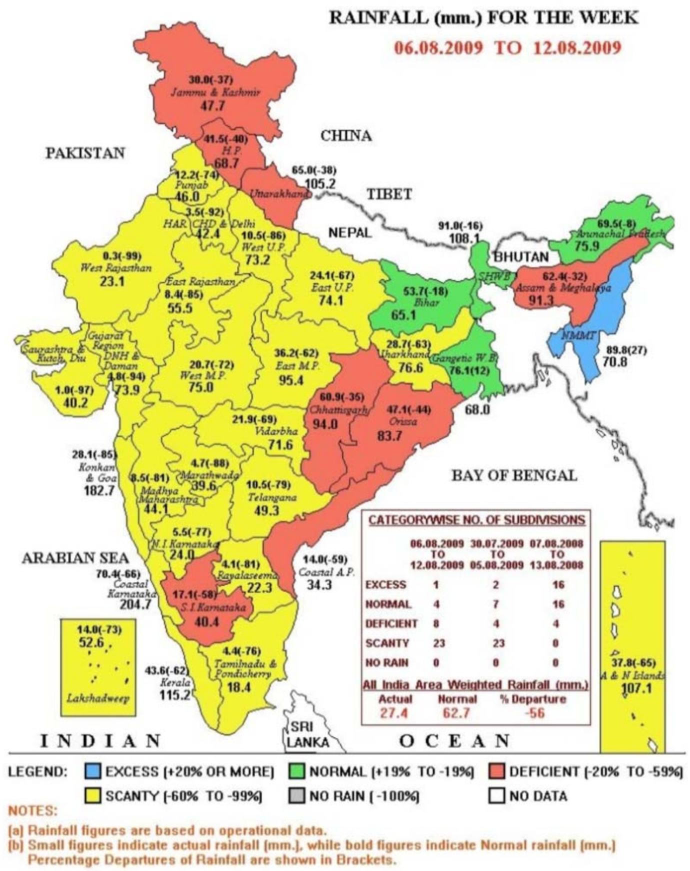
These are some of the headlines being flashed across the media, all depicting the poor state of monsoons in the country this year around. Contrary to the three bumper years of rains and agricultural produce in the country and the consequent good times witnessed by rural India, 2009 has been the worst in decades with the monsoon deficiency this season to date being a high 29% of Long Period Average (LPA). Latest figures reveal that 72% of Met districts in the country — comprising more than 40% of the geographical area — are rainfall deficient.

Exhibit 1: Cumulative Seasonal Rainfall as % of LPA (2009)



Source: India Meteorological Department

Exhibit 2: Sub-division wise rainfall for the period June 1 – August 12, 2009



Source: India Meteorological Department

Importance & Impact

This season has always been the most important season for the Indian sub-continent owing to the fact that almost 70% of the Indian population is dependant on the agrarian economy for a livelihood in some way or the other way, the fortunes of which in turn are decided by the monsoons in a particular year. Apart from being a source of livelihood, agriculture is also an important source of raw material for many industries.

Considering the weight of agriculture in the Indian economy in the 1990s, a slowdown in the segment had a telling impact (2-3%) on India's GDP. Further, monsoons do impact the short-term spending pattern of rural consumers, which is important for corporate India, especially for sectors like Automobiles, FMCG and Cement. Thus, if we consider the monsoon pattern and its impact over the last decade (a period which reflects the current times more aptly than the 1990s or 1980s when not only was the Indian economy structurally different but the factors affecting it and the Indian consumer demand was also different from today), some conclusions can be distinctly arrived at. And the crux of this is the fact that while the monsoons do alter the spending pattern of consumers temporarily, the impact is reflected largely in the form of a slowdown in volume sales for these sectors rather than de-growth across some or all sub-categories of products within these sectors.

Impact on Auto Industry

Thus, in the case of the Auto sector, data indicates that the behavior of auto sales is not consistent with the monsoon pattern on all occasions over the past decade, which suggests that there are other factors at play that influence the decision making of consumers at a particular time.

Exhibit 3: Monsoon impact on the Automobile Industry

Year	Monsoon (+/- LPA)	Tractors (% chg)	Commercial Vehicles (% chg)	Passenger Cars (% chg)	Two-wheelers (% chg)
FY2001	(12)	(9.5)	(12.3)	(7.5)	(0.8)
FY2002	(4)	(8.1)	5.4	5.1	15.0
FY2003	(20)	(20.8)	28.0	7.0	15.9
FY2004	5	11.7	36.8	32.7	12.8
FY2005	(9)	29.1	25.5	18.7	16.8
FY2006	(1)	18.3	12.4	6.9	15.0
FY2007	(5)	20.5	32.1	20.9	12.2
FY2008	(1)	(1.8)	6.2	12.0	(5.0)
FY2009	(10)	0.9	(22.3)	9.4	4.6

Source: CMIE, Cris Infac, Angel Research

Weak monsoons & imposition of uniform Sales Tax affect demand

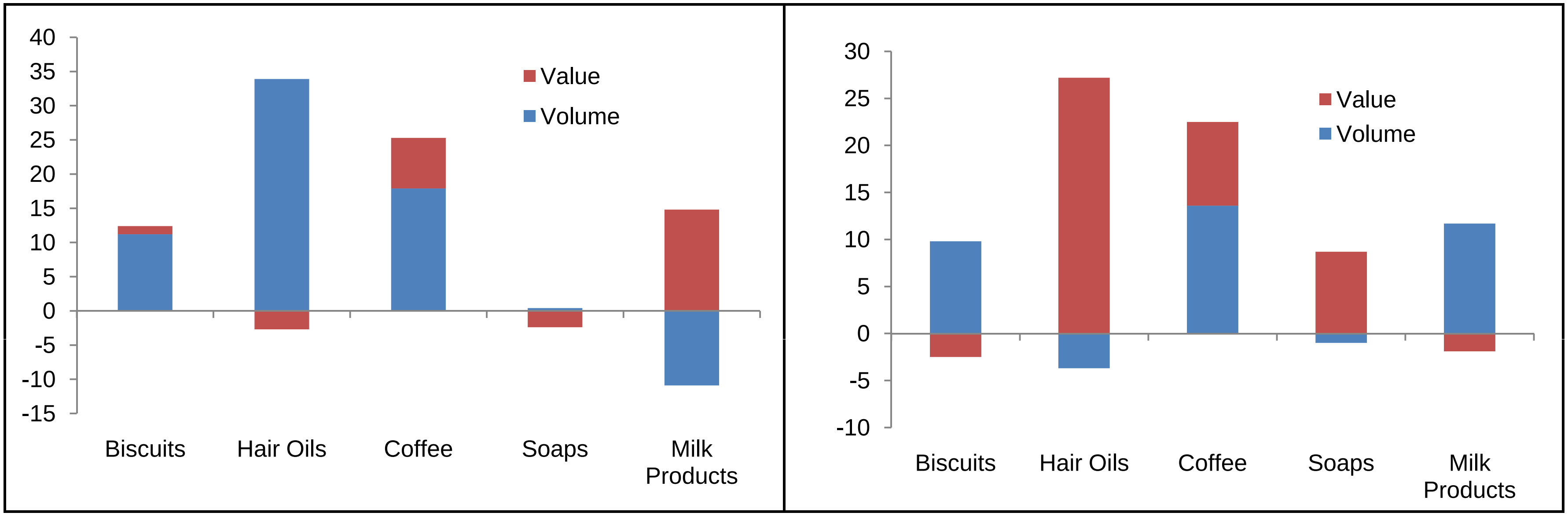
Weak monsoons hit tractor sales; CV's, Passengers Cars & Two-wheelers' growth resilient supported by low interest rates

Slowdown in sector to be viewed in the backdrop of economic slowdown and higher interest rates

Impact on FMCG Industry

Similarly in the case of FMCG, the trends were quite clear (though contradicting) in FY2001 and FY2003. Those companies which enjoyed strong volume growth witnessed pricing pressures and vice-versa. Nonetheless, the impact of weak monsoons was the most prominent on FMCG companies relative to other sectors.

Exhibit 4: Monsoon impact on the FMCG Industry – FY2001 (LHS) and FY2003 (RHS)



Source: Angel Research

Impact on Cement Industry

Cement, however, on the other hand, displays a much weaker co-relation with the success/failure of monsoons in a particular year. In fact, even during the lean monsoon period of FY2001-03 and assuming that there would be some lag effect on demand in FY2002 and in FY2004, cement consumption grew at a CAGR of 7.4% during FY2000-04.

Exhibit 5: Monsoon impact on the Cement Industry

Year	Monsoon (+/- LPA)	Cement (% chg)
FY2001	(12)	(2.1)
FY2002	(4)	10.0
FY2003	(20)	8.7
FY2004	5	5.8
FY2005	(9)	8.1
FY2006	(1)	10.1
FY2007	(5)	9.9
FY2008	(1)	10.1
FY2009	(10)	8.4

Source: CMIE

Weak monsoon and high base effect (FY2000 cement growth 12.3% yoy)

Truckers strike in April 2003 and prolonged monsoons affected growth

Pessimism justified?

While the impact of weak monsoons is inevitable on consumer spending, it is also important to assess the impact of poor monsoons on India Inc.'s profitability. The data below suggests that corporate profitability performance remained more-or-less intact over the last decade irrespective of the performance of the monsoon, which is a big positive for India Inc. This clearly indicates that the apprehensions raised on account of monsoons are largely unfounded and in fact are (now) restricted to a smaller universe of segments of the economy.

Exhibit 6: India Inc.– Performance over the years

	Monsoon (+/- LPA)	Net Sales (% chg)	Net Profit (% chg)
FY2001	(12)	23.2	20.1
FY2002	(4)	8.4	10.0
FY2003	(20)	15.9	49.6
FY2004	5	14.6	34.9
FY2005	(9)	22.6	28.7
FY2006	(1)	19.9	8.2
FY2007	(5)	29.0	39.7
FY2008	(1)	30.4	31.2

Source: Capital Line, Angel Research, Note: Data pertains to 300 listed companies representing over 70% of India's stock market capitalisation

Though Agricultural GDP hit, strong growth in Manufacturing and Services supported Corporate Profits

Pessimism justified?

Continued…

Exhibit 7: BSE 30 – Performance over the years

	Monsoon (+/- LPA)	Net Sales (% chg)	Net Profit (% chg)
FY2001	(12)	15.3	23.8
FY2002	(4)	22.2	23.0
FY2003	(20)	15.3	35.1
FY2004	5	16.1	23.3
FY2005	(9)	23.9	27.0
FY2006	(1)	23.3	25.6
FY2007	(5)	27.9	24.3
FY2008	(1)	18.8	19.2

Source: Capital Line, Angel Research

Agri GDP down 0.2% yoy, Mfg. up 6.4% & Serv. up 5.7%

Agri GDP down 7.2% yoy, Mfg. up 6.8% & Serv. up 7.5%

Even looking at the broader Manufacturing and Services components of our GDP, the impact of a fall in Agricultural GDP has been minimal in the past. In fact our Regression Analysis (20-years) of the same indicates that the impact of a 1% change in the former is minimal on the other two segments of the economy i.e. less than 0.05% respectively. Consequently, the impact on the GDP (0.2%) is largely restricted to that arising on account of the change in agricultural GDP itself.

Further, while the inter-linkage between Agriculture and the other segments of the economy have not been strong, it is also important to note the impact of the change in monsoon patterns on Agricultural GDP. In this case, our Regression Analysis (20-years) indicates that the impact of a 1% deviation in monsoons affects India's Agricultural GDP by ~0.3%.

The Mitigating Factors
- Lower dependence on Agriculture

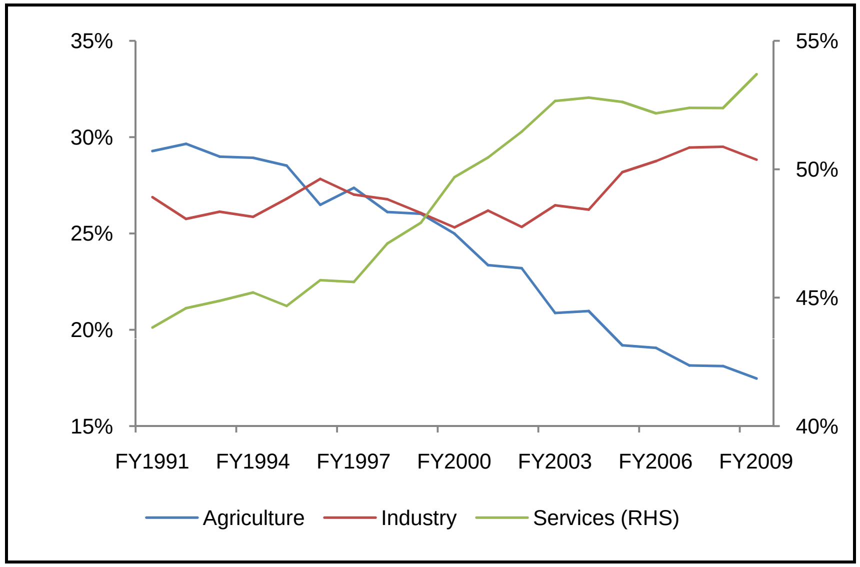
Over the years, the dependence of the Indian economy on agriculture, and consequently the monsoons, has been on the decline. Notably, agriculture had a share of over 29% in FY1991 in Indian GDP, which has come down to 17.2% in 4QFY2009.

Exhibit 8: Progressively lesser impact of Agriculture on India's GDP

	Monsoon (+/- LPA)	Agri GDP (% chg yoy)	India GDP (% chg yoy)	Agriculture (% of GDP)
FY2000	-	2.7	6.4	25.0
FY2001	(12)	(0.2)	4.4	23.4
FY2002	(4)	6.3	5.8	23.2
FY2003	(20)	(7.2)	3.8	20.9
FY2004	5	10.0	8.5	21.0
FY2005	(9)	0.0	7.5	19.2
FY2006	(1)	5.9	9.5	19.1
FY2007	(5)	4.0	9.7	18.2
FY2008	(1)	4.9	9.0	18.1
FY2009	(10)	1.6	6.7	17.5

Source: CMIE

Exhibit 9: Falling contribution of Agriculture in India's GDP



Source: CMIE

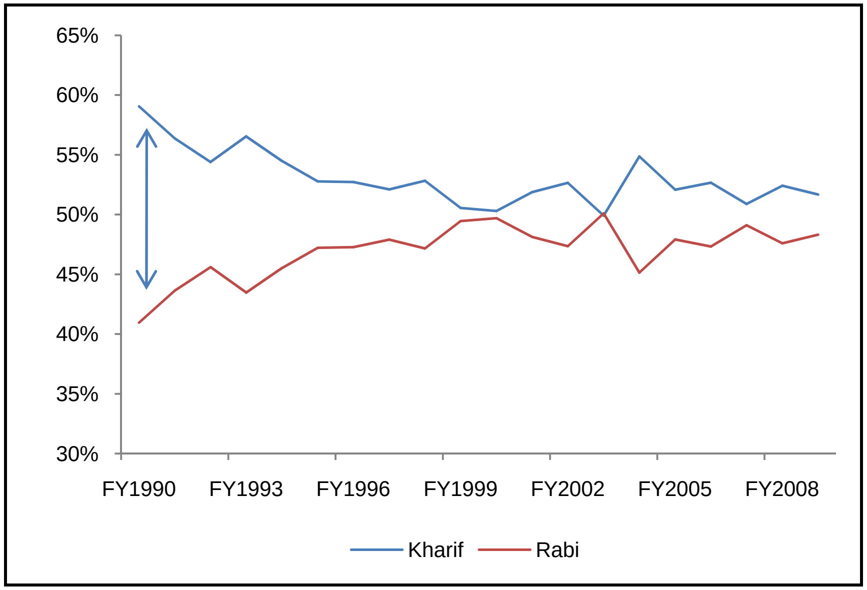
Thus, in the current scenario, a poor agriculture season would affect the Indian GDP by 1-1.5%. This cushioned impact could also be attributed to some other factors.

The Mitigating Factors
- Lower seasonal dependence & higher Irrigation

Firstly, India's dependence on monsoons for foodgrains has been relatively reducing. Notably, the contribution of the Kharif crop (Monsoon Crop) has steadily declined from 60% of India's foodgrains production in FY1990 to the current ~50%, while that of the Rabi Crop (Winter Crop) has gone up in proportion.

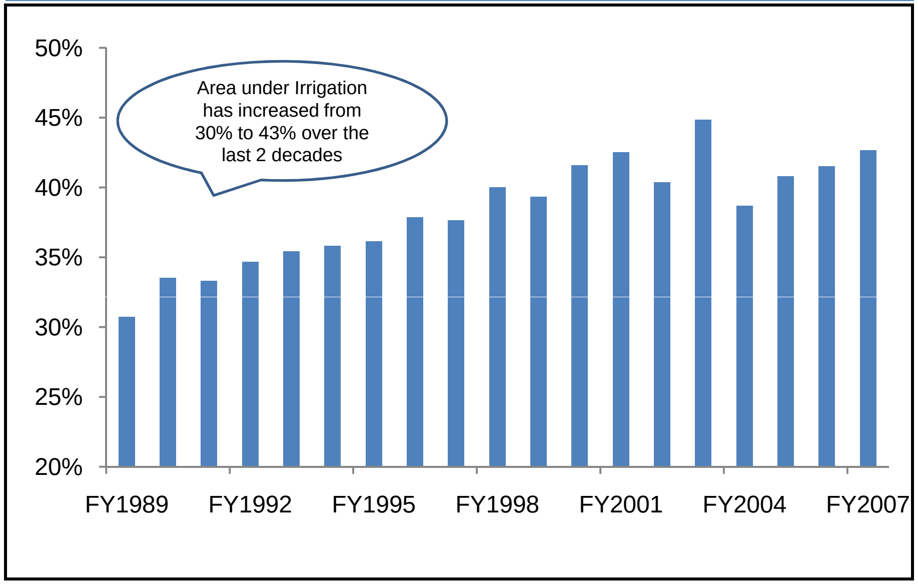
Secondly, the area under irrigation has also increased over the years, thus effectively reducing the dependence on monsoons for a good crop.

Exhibit 10: Reducing dependence on the Kharif crop; a positive



Source: CMIE

Exhibit 11: Increasing dependence on Irrigated land

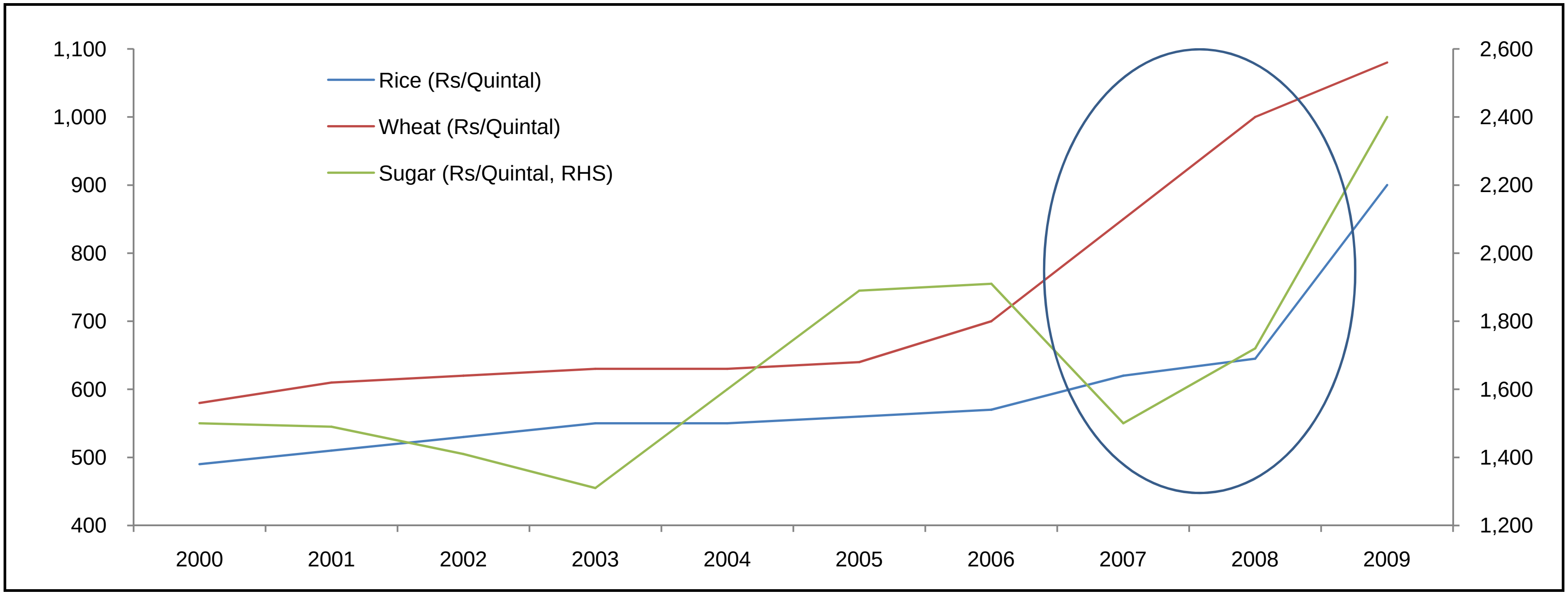


Source: CMIE

The Mitigating Factors
- Higher agri-product realizations

Apart from this, it would not be incorrect to assume that, broadly, an Indian farmer would be far better off than 3-4 years ago considering that the agricultural GDP has performed quite well since FY2006 (CAGR of 4.1% over FY2005-09) on account of the normal monsoons received by the country. The benefits were further enlarged for rural India as the Minimum Support Prices (MSPs) for rice and wheat increased substantially. Sugar prices have also been on an upward trajectory since 2008.

Exhibit 12: Higher agri-product realizations = Good times for rural India



Source: CMIE, Angel Research

The Mitigating Factors
- Government measures

Other factors that would help mitigate the impact of poor monsoons are the various measures taken by the government.

Measures like the National Rural Employment Guarantee Scheme (NREGS) have and will continue to provide considerable support to rural India, which will ensure that the demand from this segment of the economy does not collapse. The table below indicates the concerted government efforts towards this programme and the huge allocation that has been made towards it indicate of the government's seriousness of making this plan a huge success. This plan already covers the entire nation and provides a good support to the rural income.

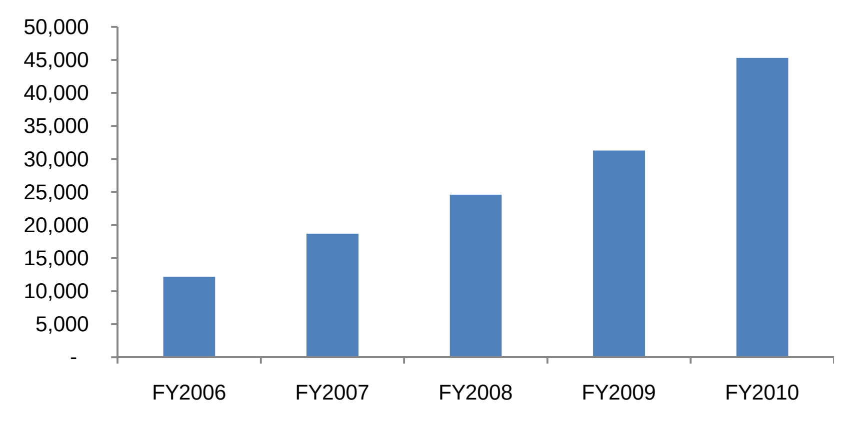
Government's spending on Infrastructure – both rural and urban – will also provide the necessary cushion in the event of a slowdown in the economy by supplementing rural incomes.

Exhibit 13: NREGS – An apt social safety net

	Rs crore	% chg yoy	Employed (cr households)
FY2007	11,300	-	2.1
FY2008	12,000	6.2	3.4
FY2009	16,000	33.3	4.5
FY2010	39,100	144.4	2.3*

*Source: Budget Documents, Angel Research, *FY2010 to date*

Exhibit 14: Bharat Nirman – Supplementing India's growth (Rs cr)



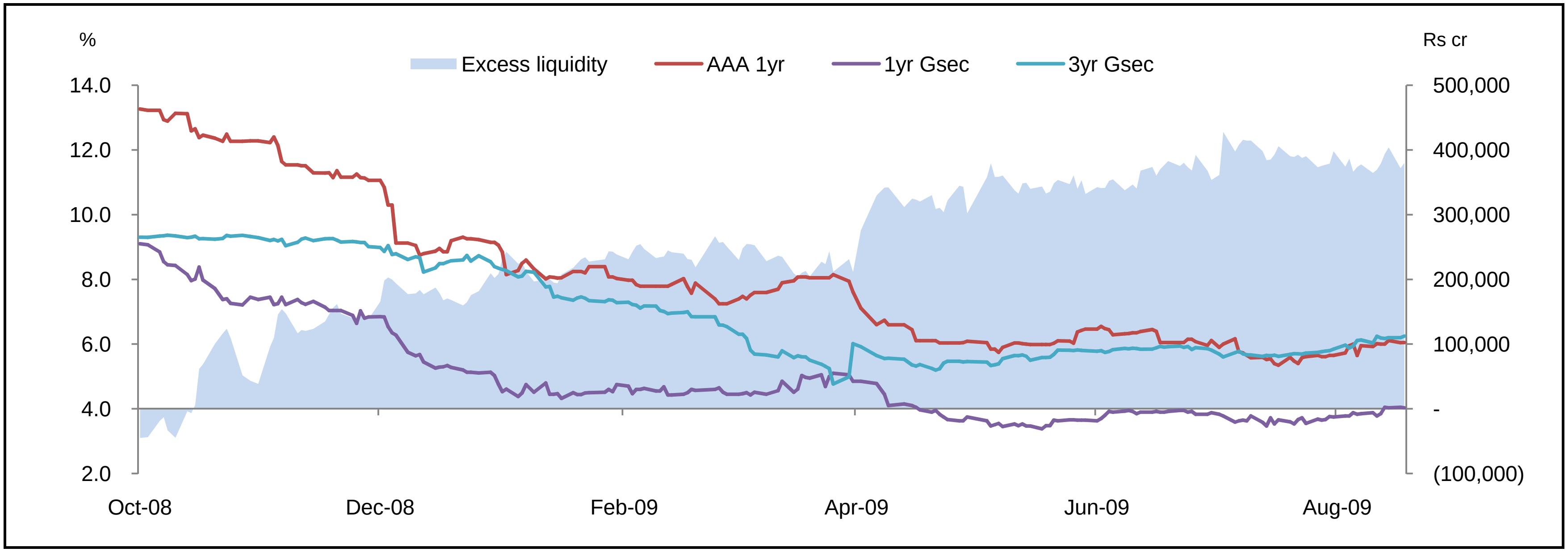
Source: Budget Documents, Angel Research

The Mitigating Factors
- Low Interest Rates

One of the other factors that will come to the rescue of the Indian economy is the falling Interest rates. Domestic interest rates have come crashing down by almost 3 to 4% over the last one year.

Banks are flush with liquidity, having recently deployed an excess of almost Rs4lakh crore in risk-free investments like government bonds and reverse repo auctions, even as our strong domestic savings continue to drive 22% growth in deposits. As a result, although rural incomes could be under some pressure in the current fiscal, however, given the availability of credit (directed and otherwise) at attractive interest rates, there is scope for consumption demand to be less affected in the current year on the back of borrowings.

Exhibit 15: Huge excess liquidity in the banking system is driving a sharp fall in interest rates



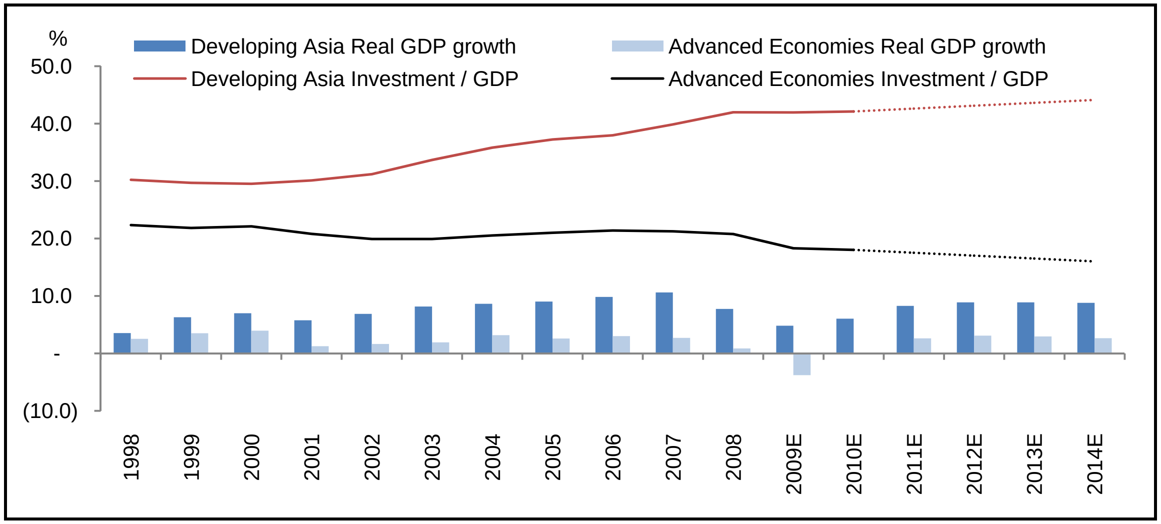
Source: RBI, Bloomberg, Angel Research, Note: Excess Liquidity = Excess SLR + Daily Reverse Repo balances

The Mitigating Factors
- Capital Inflows to improve

Further, the coordinated efforts taken by governments across the world, both on the monetary front – through a lowering of interest rates and an unprecedented increase in the money supply – and on the fiscal front – through stimulus packages – have been successful in bringing back confidence over the past few months. This has enhanced the risk appetite of investors and restored stability in global financial markets.

At the same time, the amount of liquidity waiting on the sidelines to finance corporate India's funding needs is huge. It was the emerging economies which were driven primarily by domestic demand that remained resilient in the face of the crisis. This growth momentum for emerging markets is likely to accelerate further in the future, with lower interest rates acting as a lever. Moreover, now, developed economies, such as the US, have largely saturated their potential for growth from any increase in financial leverage. Therefore, it is unlikely that the US, for instance, will continue to attract the kind of inflows that it relished during the boom. India, which even in the current scenario is the second-fastest growing economy, has seen FII inflows accelerate in recent months. Between Jan-Jul 2009, we have seen a massive US $6.5bn of net FII inflows as compared to an outflow of US $7bn during the corresponding period last year. India's forex reserves have swelled by almost US $12bn during this period, after declining by a total of almost US $57bn through most of FY2009. Out of the massive global pie, even small re-allocations of capital to India, as little as US $40-50bn, would mean additional investments of 4 to 5% of our GDP; this, in turn, could take our GDP growth back up to 8%.

Exhibit 16: Emerging economies like India to attract larger and larger share of global investments



Source: IMF World Economic Outlook, Angel Research. Note: GDP growth figures upto 2014 are IMF estimates, while Investment / GDP figures upto 2010 are IMF estimates

Conclusion

Considering all of the above, we believe that while the impact of a high monsoon deficiency will be felt largely across rural India, we expect the impact on consumption trends *not to be severe and short-term in nature*. Undoubtedly agricultural GDP will be hurt; however, we expect the recovery in manufacturing and services segments in 2HFY2010 to mitigate these pressures.

Nonetheless, it is possible that in the near-term, the Indian stockmarkets would not be able to escape the negative sentimental impact that arises from the likely repercussions that a highly deficient monsoon may have on India's GDP (which we concur) and India Inc.'s profitability (which we do not concur with in totality). Thus, we would advise investors to take advantage of any correction that may come by to Accumulate/Buy stocks on the decline, as these would provide a good entry point for investors looking to invest with a 12-18 month horizon. The biggest risk to our investment calls would arise if the monsoon deficiency worsens significantly from hereon, which could have a much larger impact on consumption trends than what we are anticipating.

Top Picks

Note: Price as on August 19, 2009

Apollo Tyres

- **Stable Raw Material Prices to boost ATL's profitability:** The prices of natural rubber and other crude related raw materials have declined substantially from their peak levels in 1HFY2009. The consequent stability in these is expected to boost Apollo Tyres' (ATL) profitability going ahead.

- **Capacity addition to drive growth:** Apollo Tyres is currently ramping up its capacities to 1,000TPD from 744TPD in India through both green and brown-field additions, entailing an investment of Rs1,000cr. In May 2009, Apollo acquired 100% shareholding of Vredestein Banden (VBBV), a Dutch Tyre manufacturing company, with a production capacity of 5.5mn tyres and enjoying a marketshare of 1.67% in the European Market. This acquisition is expected to add further impetus to the company's growth in overseas markets. We believe ATL is well-positioned to take advantage of the revival in the domestic and global auto industries.

- **Capacity addition in Radial capacity - boon for well-entrenched Cross-ply players:** We expect a demand-supply mismatch in the Cross-ply segment on account of the existing players concentrating on building new radial facilities. ATL stands to benefit on account of better realisations in Cross-ply segment thereby improving its Margins and Profitability in the long term.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
41	53	2,064	2.8	5.1	6.6	54.2	10.3	15.5	16.8	14.8	8.0	6.2

Axis Bank

- **Equity dilution to be Book accretive; aid faster marketshare gains:** Axis Bank's planned Equity dilution of about 17% will result in Book Value accretion of about Rs94 per share (25% increase over pre-dilution estimates), with a reasonable post-dilution leverage of 12x, average RoEs of about 16% over FY2010-11E and EPS dilution of about 7.5% in FY2011E. We believe this dilution is a precursor to marketshare gains at a faster growth rate of 8-10 percentage points above the industry over the next few years, strongly positioning the Bank for the imminent revival in GDP growth from early FY2011E onwards.

- **Other factors in place for profitable increase in marketshare:** Steady branch expansion, comprehensive product range and channel presence are driving consistent CASA marketshare gains (increased fourfold since FY2003). Fee income contribution across a spectrum of services including cash management, syndication, bond underwriting, wealth management and cards, apart from the traditional CEB and Fx income, has been a meaningful 2% of average assets.

- **Valuations in comfort zone:** At the CMP, the stock is trading at attractive valuations of 1.8x FY2011E ABV (post-dilution). Post-dilution valuations imply an almost 40% discount to HDFC Bank (also factoring in preferential allotment to HDFC), despite similar return ratios over FY2010-11E.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/ABV (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
821	1,089	29,546	50.7	56.7	68.3	16.1	19.2	17.3	15.4	2.9	2.0	1.8

Bajaj Auto (BAL)

- **Aiming to win back lost marketshare:** BAL is positioning itself in line with its strategy of 'value and price product' wherein it proposes to tap the higher value bike segments where growth and realisations are higher. Hence, BAL would be once again launching a series of new products. Recently, the company also launched a new product in value-Executive segment to capture market share from Hero Honda's *Splendor and Passion* duo, which have a strong foothold.

- **Exports to support better earnings growth:** BAL registered strong Exports CAGR of 42% during FY2005-09 aided by 50% CAGR in Two-wheeler exports and 21% CAGR in Three-wheeler exports. Amidst the ongoing economic slowdown, we estimate BAL to clock around 14% CAGR over FY2009-11E. However, export profitability is likely to improve in FY2010 because of favourable currency rates.

- **Favourable risk-reward:** BAL stock is trading at 12.3x FY2011E EPS. We believe BAL would gain some marketshare aided by new product launches in the Two- and Three-wheeler Segments over the next 6-9 months. Further, considering the recent positive sequential volume performance of BAL, it offers better risk-reward. There also exists an upside risk to our estimates on higher than expected response to its new model launches in the medium-term.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
1,098	1,322	16,219	53.2	82.1	91.1	30.9	35.0	45.4	39.0	20.7	13.4	12.0

Bajaj Electricals

- **Leveraging on strong Brands and substantial marketshare:** BEL has strong brand positioning and well-spread distribution network. As per the company's internal estimates, it is the fastest growing player in the Rs4,500cr+ Domestic Appliances market, which is growing at 20% p.a. In the Small Appliances market, BEL enjoys a marketshare of over 15-30% across products. The company has a strong pan-India marketing and distribution network.

- **Focus on high-Margin E&P Division:** BEL has been focusing on the high-margin E&P division segment, which enjoyed an EBIT Margin of 12.9% in FY2009 as against the company's overall EBIT Margin of 10.4%. At the end of 1QFY2010, the company's E&P Division had an Order Book of Rs900cr, providing good revenue visibility. Close to 50% of the E&P Segment orders are from the Rural Electrification space, with the balance from the Transmission Towers and Galvanised Poles Segment. Going ahead, we expect the company's E&P Division to be the major driver of growth on account of the huge opportunities available in the power transmission space.

- **Compelling Valuations:** The stock is currently trading at 7.6x FY2011E Earnings and 2.2x FY2011E P/BV. Considering the company's healthy return ratios and earnings outlook coupled with the management track record in meeting its set targets, we believe BEL is a good long term story to bet on.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
579	722	1,002	51.6	60.0	72.2	18.4	36.8	31.9	29.0	11.2	9.7	8.0

Bayer CropScience

- **Leader in Indian markets:** Bayer CropScience (BCS) is a leader in the Indian agrichemical sector with a marketshare of 23%. We believe there exists substantial opportunity for BCS to grow its domestic business considering India produces 16% of the world's total food grain but utilises mere 2% of pesticides. The penetration of pesticides in India stands at abysmally low at 0.48kg/ha compared to 4.5kg/ha for USA and 11kg/ha for Japan.

- **Exports – Riding the outsourcing bandwagon:** BCS's export registered robust 20.5% CAGR during CY2005-FY2008, while its contribution to Total Revenue was in range of 11-16% in mentioned period. Around 80% of the export revenues comes from Bayer AG (global parents) group companies. This indicates BCS strong ability to grow internationally despite its parent having global presences.

- **Hidden Value of Land Bank:** BCS has shut down its Thane plant post extending a VRS scheme to the employees of the plant. Currently plot (108 hectare) is lying vacant and could come up for sale at appropriate valuations. At market value of Rs10/hectare, its worth around Rs1,000cr. We have conservatively factored in 50% discounted value of the land in our estimates translating into Rs101/share (post tax)

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
300	501	1,186	23.9	30.4	36.9	24.2	23.0	23.9	23.5	12.6	9.9	8.1

Blue Star

- **BSL to maintain leadership position owing to superior Execution skills:** Blue Star's (BSL) strength lies in its superior execution skills compared to competition. The company, with its 30% market share in the Central Air-Conditioning System Segment, is a preferred vendor with the institutional clients. It's list of national account customers provide it repetitive business. Although the company is currently facing demand side pressures from segments such as IT and Retail, which we believe will improve with the recovery in the economy, the demand from Infrastructure and other sectors like Hospitality, Education and Government continue to remain robust.

- **Present in high-Margin Segments:** BSL is a diversified player in the Air-Conditioning Industry and is focused on high-Margin segments including Central Air-conditioning, Commercial Refrigeration, and Cold Storage. The stability in commodity prices is expected to improve the company's Margins going ahead.

- **Huge Potential for Centralised Air-conditioning and Cold Storage to drive future growth:** In all, the cumulative non-residential opportunity in air-conditioners is expected to be close to Rs38,000cr over the next five years. This huge potential in the non-residential segment augurs well for the company's Central Air-conditioning division. BSL's Cooling Products division too has high growth potential with the aggregate cost of providing a nation-wide cold chain infrastructure estimated to cost more than Rs15,000cr.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
329	382	2,961	20.0	22.1	27.3	16.8	48.7	40.1	38.0	16.4	14.9	12.0

ICICI Bank

- **Large value-unlocking potential:** Market-leading subsidiaries across financial services spectrum provides highest leverage to improving GDP and Capital Market outlook and large value-unlocking potential
- **Commendable execution of present strategy of consolidation:** Present strategy is not only credible but execution is decisive and commendable. Balance Sheet mix and Earnings quality improvement (exiting riskier asset segments, CASA ratio 30%+, strict cost rationalisation) to peak right in time for the revival in growth from early FY2011E
- **Branch expansion and large capital adequacy to drive marketshare gains:** Huge buildup in Branch network (further 580 branches in FY2010E) and huge capital adequacy precursor to significant marketshare gains over the next few years
- **Valuations in favour:** Excluding SOTP value of subsidiaries (Rs220 per share), stock is trading at reasonable valuations of 1.5x FY2011E ABV. Major subsidiaries also valued conservatively (15x NBP for Life Insurance, 5% AUM for AMC, 12x P/E for Brokerage, 0.5x BV for International Banking subsidiaries) – leaving potential for upsides.

CMP (Rs)	Tgt Price	MCap	EPS (Rs)			EPS CAGR	RoE (%)			P/ABV (x)		
	(Rs)	(Rs cr)	FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
717	888	79,820	33.8	32.4	41.1	10.4	7.9	7.3	8.9	1.7	1.7	1.6

IPCA Labs

- **Exports Formulations to be the next avenue for growth:** The next leg of growth for the company to come from the Export Segment as it leverages its API capabilities to create a sturdy business in the Regulated and Emerging Formulations market. We expect the company to clock a CAGR of 22.1% over FY2009-11E in the export formulation segment.

- **Domestic Formulations business the cash cow:** Ipca has been successful in changing its business focus to the high-Margin Chronic and Lifestyle Segments from the low-margin Anti-Malarial segment. Going ahead, we estimate the company's Domestic Formulations business to post a CAGR of 14.4% over FY2009-11E surpassing the expected Industry growth rate of 12%.

- **Major Capacity in place:** In the last two years, Ipca incurred capex of Rs203cr primarily at the Indore SEZ. With this, the company is through with its major expansion plans and would sweat its assets going forward improving the cash flows. Hence, we expect the company's Net Debt/Equity to improve from 0.7x in FY2009 to 0.4x in FY2011E.

CMP (Rs)	Tgt Price	MCap	EPS			EPS CAGR	RoE (%)			P/E (x)		
	(Rs)	(Rs cr)	FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
612	770	1,535	36.3	68.5	85.5	53.5	13.3	24.0	24.8	16.9	8.9	7.2

IVRCL Infrastructure

- **BOT projects to lend a helping hand:** IVRCL's BOT Assets portfolio comprise of four projects, which are all at the final stages of construction and require no further Equity commitment. Management has guided that it would be clocking Revenues to the tune of Rs365cr per year once these projects get operational from Dec2009. We believe that IVRCL is on the verge to reap the benefits of these investments.

- **Strong Balance Sheet:** Even after considering its exposure to BOT projects, IVRCL's leverage is hovering at just about 1.5x. This is mainly on account of the management's foresight not to over leverage its Balance Sheet by not bidding for capital intensive projects. IVRCL was also able to raise money for its Real Estate subsidiary, IVR Prime, through an IPO which helped it maintain a healthy Balance Sheet.

- **Outlook remains bright:** Andhra Pradesh (AP) government has chalked out a substantial Rs18,000cr outlay for Irrigation projects to be implemented over FY2010 in the state. Therefore, with Infra spend being the prerogative of the AP government and Congress back in power in the state, we believe that companies like IVRCL stand to gain.

- **Strong earnings momentum:** We expect IVRCL to register a Bottom-line CAGR of 21.6% over FY2009-11E on the back of a Top-line CAGR of 27.5% as a consequence of stable EBITDA margins at around 9.5% and strong Order-Book of Rs13,900cr.

CMP (Rs)	Tgt Price	MCap	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
	(Rs)	(Rs cr)	FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
325	399	4,338	16.3	20.9	24.1	21.7	13.2	14.4	14.2	19.9	15.5	13.5

Jagran Prakashan

- **Steady Top-line growth:** While slowdown in the economy and Ad-spend cuts remains a cause of concern for Print Media companies, we expect Jagran to post steady growth (up-tick post 2HFY2010E) owing to its strong foothold in the Hindi belt (*Dainik Jagran*, India's No1 daily), focus on local advertising and rising colour inventory.

- **Significant Margin expansion:** We expect Margins to improve by 750bp over FY2009-11E driven by lower newsprint costs (declined 35-40% from peak of US$950), lower losses in new initiatives and higher operating leverage (as ad-rate hikes get absorbed). 2QFY2010 and 3QFY2010 will register sharpest Gross Margin expansion due to base effect.

- **Strong Balance Sheet:** Net Cash Surplus position of Rs100cr (despite Rs120cr Capex in FY2009) and FY2010E Operating Cash Flow of Rs185cr makes Jagran well placed in terms of funding future growth. Moreover, Jagran maintained its 70%+ dividend payout even in a tough year like FY2009 where most of its peers slipped.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
93	108	2,804	3.0	4.8	5.7	36.7	16.1	23.5	25.7	30.6	19.4	16.4

Lupin

- **To register strong growth across geographies:** We believe Lupin is one of the best plays in the generic space given its strong execution capabilities, improving financial performance and diversifying business model. Lupin registered stellar growth in Top-line and Bottom-line during FY2006-09. Going ahead, we expect Lupin to extend its robust growth albeit on a high base. Accordingly, we expect the company to clock 16.2% and 18.5% CAGR in Top-line and Bottom-line respectively, over FY2009-11E on back of strong growth across US, Japan, Europe and India regions.

- **Strong Balance Sheet:** Lupin has one of the better Balance Sheets in the Pharma Sector with Net Debt/Equity (incl FCCBs) of 0.8x and RoCE of 25.0% as on FY2009. Moreover, with its balance FCCBs of US $61mn also likely to get converted into equity and increasing operating cash flow, we expect Lupin's Net Debt/Equity to decline to 0.3x in FY2011E.

- **Mandideep – a short-term overhang:** Management expects re-inspection of this facility by the US FDA to be completed over the next few months and is confident of resolving the matter, which would help improve the valuations of the stock.

CMP (Rs)	Tgt Price	MCap	EPS			EPS CAGR	RoE (%)			P/E (x)		
	(Rs)	(Rs cr)	FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
966	1,112	8,215	60.6	71.6	79.4	14.5	37.1	34.6	28.0	16.0	13.5	12.2

Madhucon Projects

- **Wide ranging mix of Assets, Revenue stream:** Madhucon Projects (MPL) has a good mix of assets, which yield consistent returns and cash flows and which we believe will facilitate it to continue investing in the high-growth businesses of Real Estate, Power and Coal going ahead.

- **Robust Top-line, Margin expansion to boost Earnings:** We expect MPL to report a CAGR of 40.6% over FY2009-11E boosted by robust Top-line growth and Margin expansion. We expect MPL's Return Ratios to improve significantly during the period owing to strong Earnings growth, returns on investments made in the past and Operating leverage.

- **Watch out for Re-rating:** We prefer MPL to other Mid-Cap Construction stocks on account of the following: 1) Cooling commodity prices, which we believe would benefit MPL as it has orders with fixed price contracts; 2) There exists a substantial valuation arbitrage between MPL and its peers; 3) MPL is one of the biggest beneficiaries of the improving liquidity scenario as it has an attractive portfolio of offerings; and 4) Certain catalysts/triggers (Power and Coal business) are still not priced in.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
169	242	622	13.3	19.1	25.7	39.0	9.2	11.8	13.8	12.7	8.8	6.6

Punj Lloyd

- **Strong Earnings growth over FY2009-11E:** FY2009 saw Punj post a huge loss of Rs250cr due to the SABIC episode. Our interaction with the management suggests that there are no further liabilities on the SABIC order and its low margin legacy Order Book is mere Rs300cr, which is insignificant compared to its total Order Book of around Rs28,000cr. Hence we expect an uptick on the OPM front going ahead and expect Punj to post strong Earnings CAGR of 67.8% (*over Bottom-line of Rs241.5cr excluding exceptional losses of Rs473cr) FY2009-11E.*

- **QIP eases liquidity concern:** Punj has raised funds to the tune of Rs670cr via the QIP placement route which substantiates management's strong resolve to de-leverage its Balance sheet. This would not only improve Punj's liquidity position but also increase its Net Worth in turn enhancing its bidding ability, foray into different growth areas and augment future Top-line growth.

- **Re-rating in valuation likely:** We believe that most of the negatives that have dogged the stock price this far are either exaggerated, particularly the concerns on Order inflow, or are factored in the reasonable valuations. Hence, we are optimistic on Punj Lloyd, a diversified infra conglomerate, and bullish on its future performance.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
229	289	7,601	-	11.7	20.5	67.8*	-	12.9	17.7	-	19.6	11.2

*Note: *Adjusting for losses to the tune of Rs473cr in FY2009*

Reliance Industries

- **Gas litigation acting as overhang on the stock:** RIL's stock price has borne the brunt of negative news flows on the gas litigation front between the Ambani brothers. However, we believe that the current price has discounted the worst case scenario and there can be positive upside for the stock.

- **E&P segment offers huge opportunity:** Hardy Oil, RIL's partner in D3 and D9 block, has pegged the initial reserve-in-place estimates at 9.5 TCF and 10.8 TCF respectively for D3 and D9 in the KG basin. These disclosures suggest that RIL's current reserves form just a tip of the ice-berg in terms of further growth prospects in the E&P segment.

- **Odd's in RIL's favour in gas tussle**: Though it is difficult to predict the outcome on gas tussle, however with the government's intervention, the case gets strengthened in RIL's favour. The government's stand is that the MOU is against its prioritization policy and adversely affects the national interest. The Government has raised concerns over arms-length pricing of the gas. Moreover, ADAG's gas based power plant is likely to come-up by 2015, thus committing existing gas supply for the plant does not appear feasible.

- **Superior earnings profile compared to Sensex:** Moreover, we believe that the company's Refinery and Petrochem businesses deserve a premium to global peers on an EV/EBDITA basis, as the company earns much higher margins and ROEs. Even on a P/BV basis, the stock trades at 1.7x FY2011E BV, at a discount to the Sensex valuations of 2.4x FY2011E BV, which we believe is cheap given the superior earnings growth rate and return ratios of the company.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
1,883	2,340	293,528	94.5	122.9	162.6	31.2	15.6	16.5	18.8	19.9	15.3	11.6

Sintex Industries

- **Reputed name in value-added plastics business:** Sintex Industries (Sintex) is a market leader in the manufacture and sale of value-added plastics and textile-based products. The company is also reputed for its acumen to recognise and enter new and evolving businesses. Sintex intends to leverage its established brand name to increase its Revenues and Profits going ahead.

- **High Revenue visibility:** Sintex has presence across geographies and caters to a highly diversified customer base from different industries. Its Monolithic business has an order book of approximately Rs1,600cr. We believe this segment has immense growth potential as India's housing shortage stands at a high 24.7mn units and the government has been focusing on relocating this strata of the populace at the earliest.

- **Adequately funded growth plans:** Sintex is sitting on a cash pile and also has investments to the tune of Rs1,500cr in its Balance Sheet. It expects to utilise this cash to fund its capex and acquisitions if any going ahead and embark on high-growth trajectory. The company raised Rs900cr through an FCCB issue convertible in FY2013.

CMP (Rs)	Tgt Price	MCap	EPS (Rs)			EPS CAGR	RoE (%)			P/E (x)		
	(Rs)	(Rs cr)	FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
198	249	2,698	24.2	30.1	35.5	21.2	15.6	17.1	17.1	8.2	6.6	5.6

Tata Motors (TML)

- **Domestic business on recovery path:** Strong standalone results in 1QFY2010 and improving industrial production trends augur well for TML's core business. We believe that FY2010 will be a year of recovery for TML's standalone business as glimmers of improvement in economic parameters become visible. Our estimates for TML now factor in 13% CAGR in CV volumes over FY2009-11E against 9% CAGR earlier. Followed by a recovery in its core business, its key subsidiaries (linked to the fortunes of CV industry) are also expected to show a turnaround going forward.

- **Overall cashflow pressure reducing:** With the positive trend in the external environment, particularly the financial markets, and improvement in general liquidity, TML is now expected to meet its overall funding requirements (including JLR) at reasonable terms. Further, full recovery in domestic CV cycle in FY2011, is expected to reduce pressure on cashflow and would facilitate debt repayment.

- **Re-rating in valuations likely:** We estimate TML to record Consolidated Net Loss in FY2010 and estimate a recovery in FY2011. We believe that JLR's weakness will continue in the short-term but expect a breakeven at Operating level in FY2011. Thus, a better Earnings outlook, potential upside in CV volumes and improving cash flows will support a re-rating in TMLs valuations.

CMP (Rs)	Tgt Price (Rs)	MCap (Rs cr)	EPS			EPS CAGR	RoE (%)			P/E (x)		
			FY09	FY10E	FY11E	FY09-11E (%)	FY09	FY10E	FY11E	FY09	FY10E	FY11E
430	520	22,413	(59.6)	(15.4)	25.1	-	(42.3)	(15.9)	25.1	-	-	17.1

Note: Consolidated Numbers

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