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Emkay Global Financial Services Limited

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Castrol India Ltd

CMP Rs 560 Target Rs 800 Time pd 1 yr

- **Strong brand & Pricing power**
- **Leader in passenger-car engine oils, premium two-stroke and four-stroke oils, and multi-grade diesel-engine oils. Has 20% share of overall lubricants market in India**
- **Largest manufacturing and marketing network in India: Five production plants and a distribution network of 270 distributors servicing over 70,000.retail outlets.**
- **Focus constant technology up-gradation.**
- **Strong relationship with almost all the OEMs like Tata Motors, Maruti, M&M, L&T Komatsu and JCB.**

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Castrol India Ltd

- **Financials**
  - **Robust Q2CY09 performance, remarkable improvement in margins due to lower base oil prices, higher unit realisation & better product mix.**
  - **Probably worst in terms of performance is behind. Though volume growth may be muted, savings on RMC will lead to wide expansion of margins.**
  - **High ROA, ROE & ROIC, Dividend yield**

(Rs cr)	CY10E	CY09E	CY08	CY07	CY06	CY05
Net Sales	2881	2401	2262	1966	1803	1464
Total Expenditure	2131	1782	1876	1631	1600	1281
Operating Profit	750	619	441	364	254	232
Interest	4	3	4	4	4	3
Depreciation	26	27	26	21	18	19
Tax	266	221	150	121	78	64
Reported Net Profit	495	410	262	218	154	147
Extraordinary Items			-1	0	12	2
Adjusted Net Profit	494	410	263	218	143	145
EPS (Rs)	40	33	21	18	12	12

Source: Capitaline, Emkay Estimates

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Castrol India Ltd

- **Outlook**
  - Increased production & sales of cars, 2&3 wheelers & expected rebound in commercial vehicles likely to reverse volume loss for Castrol.
  - Continue to command premium pricing due to strong brand
  - However due to increase in crude prices Q3 margins may not be as high as Q2 but increase in volume likely to result in sustaining margins.
- **Valuation & recommendation**

  Due to the consumable nature of its products Castrol has always been valued like a FMCG stock enjoying high PE multiples. At CMP of Rs 560 it is trading at 17x of CY09E & 14x of CY10E EPS. In view of strong promoter background, robust brand, wide reach & extremely high return ratios we value Castrol at 20x CY10E EPS. We recommend Buy at CMP for a target of Rs 800 with investment horizon of 1 year.
- **Key concerns**

  Vulnerable to volatility in crude oil prices

  Competition from PSU oil companies increasing thereby limiting growth in market share

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Torrent Pharma

CMP Rs 305 Target Rs 390 Time pd 1 yr

- **Rationale**
  - Reasons for de-rating have become the reasons for re-rating.
  - Play on valuation catch up with peers
  - International businesses at inflexion point.
  - Overall operating margins to expand by 210 bps mainly contributed by 620 bps expansion in margins of int'l operations.
  - Domestic business has come out of the phase of continued underperformance
  - Lowest working capital cycle of only 35 days as against industry average of 110 days

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Torrent Pharma

Financials

Financial Snapshot

Y/E, Mar	Net Sales	EBIDTA	EBIDTA (%)	PAT (Rs mn)	EPS (Rs.)	ROE (%)	P/E (x)	EV / EBIDTA	P/BV (x)	Div Yield (%)
FY2009	16,302	2,999	18.4	1,844	21.8	32	12.2	8.4	3.5	1.5
FY2010E	18,512	3,589	19.4	2,461	29.1	33	9.2	6.7	2.7	1.7
FY2011E	21,002	4,255	20.3	3,024	35.7	31	7.5	5.3	2.1	1.9
FY2012E	23,784	5,004	21.0	3,726	44.0	30	6.1	4.1	1.6	2.1

Source: Capitaline, Emkay Estimates

International business at a glance

Rs mn	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY05-09 (CAGR)	FY09-12E (CAGR)
Brazil	597	1157	1668	1771	2566	3053	3572	4144	44.0	17.3
Europe (including Heumann)	195	2164	3069	2730	3583	3579	3625	3829	107.0	2.2
Russia & CIS	130	377	574	594	658	822	1028	1254	50.0	24.0
USA	0	0	0	18	278	874	1355	1897	-	89.8
RoW	379	492	677	670	885	1107	1328	1527	23.6	19.9

Source: Emkay Research, Company

Revival in domestic growth post Q2FY09

YoY	FY05	FY06	FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09	Q1FY10
Domestic % growth	-13%	35%	39%	16%	1%	4%	-0.3%	7%	0.2%	3%	12%	17%	7%	15%

Source: Emkay Research, Company

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Torrent Pharma

Valuations & Recommendation

Trading at discount to its peers in all valuations parameter

	CMP	Sales (Rs mn)		EBIDTA (Rs mn)		EPS		ROE		EV/Sales		EV/EBIDTA		P/E	
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Glenmark	220	24393	28237	6610	7793	12.6	17.6	17.3	18.5	2.9	2.4	10.6	8.5	17.5	12.5
Lupin	1121	45384	52086	8260	9870	71.6	85.9	34%	29%	2.4	2.1	12.3	10.2	15.6	13.1
Piramal	368	37188	41683	7619	8641	22.6	26.9	31.9	30.7	2.1	1.9	10.2	9.1	16.3	13.7
Cadila	490	33797	39575	6583	7732	32.0	38.7	30.9	28.8	2.4	2.0	10.3	8.6	15.3	12.7
Ipca	725	15128	17412	3063	3526	73.7	88.3	26.3	25.6	1.5	1.2	7.3	6.0	9.8	8.2
Biocon	240	19861	22318	2824	3200	13.0	14.8	15.0	16.0	2.7	2.4	18.8	16.6	18.5	16.2
									Avg	2.3	2.0	11.6	9.8	15.5	12.7
Torrent	280	18512	21002	3589	4255	29.1	35.7	33%	31%	1.4	1.1	7.0	5.6	9.6	7.8

Source: Capitaline, Emkay Estimates

Historically Torrent pharma has traded at PER of 11x one year forward EPS. Our EPS estimate for FY12E are at Rs 44. At the target multiple of 11x we arrive at a target price of Rs 484 as on Diwali of 2010. However as of now we are valuing the company at around 11xFY11EPS which gives us a target of Rs 390.

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IRB Infra

CMP Rs 250 Target Rs 300 Time period 1 year

- **Rationale**
  - Play on road BOTs in India
  - 37060 kms of the BOT concessions yet to be awarded - a Rs1470bn opportunity
  - New projects to come at attractive terms - Upside to IRRs of new projects given pessimistic assumptions by developers
  - Best suited to take advantage of large opportunity because of strong internal accruals, low leveraged balance sheet.
  - Proven execution capability with experience of building 758 km of roads worth Rs 68bn in last 5 years .
  - Fully integrated from construction to toll collection.
  - Potential from new BOT projects, real estate & diversification into civil works of airports.

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IRB Infra

- **Positive tailwinds from soft interest rates scenario to boost equity IRRs**
  - 100 bps reduction in interest rates and discounting rates adds 10% to NPV of BOT concessions
- **Asset accretion to accelerate through new BOT concessions**
  - lucrative Bharuch-Surat BOT project equity IRR of 25%.
  - Bagged 4 new projects worth Rs43 bn, with VGF of Rs8.13 bn (expected IRRs 14-18%)
- **E&C order backlog at Rs100 bn 18X FY09 revenues provides strong visibility**
  - Faster execution to fuel earnings growth

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IRB Infra

- **Financials**
  - **Consolidated revenue CAGR of 77% over FY09-11.**
  - **Consolidated EBITDA CAGR of 58% over FY09-11 with average construction EBITDA margin at 18% & average toll operations EBITDA margin at 88%**

(Rs mn)	FY11E	FY10E	FY09	FY08	FY07
Net Sales	3096.89	1972.47	991.88	732.71	305.72
Other Income	64.38	59.96	40.20	56.87	23.02
Total income	3161.27	2032.43	1032.08	789.58	328.74
Total Expenditure	1985.31	1081.89	554.49	320.82	140.28
Operating Profit	1175.96	950.54	477.59	468.76	188.46
Interest	381.59	297.45	148.26	200.60	91.32
Depreciation	229.43	195.10	114.38	101.61	52.59
Tax	137.74	100.40	37.78	39.99	14.77
Net Profit	427.20	357.59	177.17	126.56	29.78
Minority Interest (after tax)	19.32	25.59	1.32	12.64	7.23
Extraordinary Items	0.00	0.00	-1.21	0.48	0.55
Adjusted Net Profit	407.88	332.00	177.06	113.44	22.00
EPS (Rs)	12.27	9.99	5.33	3.41	0.66

Source: Capitaline, Emkay Estimates

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IRB Infra

- **Valuations & Recommendation**
  - We believe the company's aggressive management has been able to leverage its strong project management and execution skills and is ideally placed to exploit significant growth potential in the road BOT space in India. At current levels the stocks is trading at 25x its FY2010E & 20.4x FY2011E earnings respectively.
  - In view of the high growth in the sector, trigger from soft interest rates & higher traffic growth make IRB a sound investment bet. As of now based on FY11 numbers and factory in possible positive newsflow we get a target of around Rs 300.
  - We believe the stock price will move more on the on new projects wins & favorable policy announcements instead of earnings estimates. Thus we think it has potential to become multi bagger by next Diwali.

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IRB Infra

- **Key Concerns**
  - **Regulatory risk**
  - **Inflation (any increase will squeeze construction subsidiary margins)**
  - **Traffic risk (BOT projects are highly sensitive to growth in traffic. Any downturn in macro economy may lead to fall in traffic).**

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Havells India Ltd

CMP Rs 325 Target Rs 575 Time pd 1 yr

- **Investment Rationale**
  - On path to turning around loss making overseas subsidiary (Sylvania) into profit making.
  - Restructuring at Sylvania currently underway
    - Moratorium of 2 years obtained from Barclays for rescheduling loan repayment. Earlier this loan was scheduled to be repaid in FY10 & FY11 @ 12m euro.
    - Restructuring at Sylvania
      - Phase 1: Jan 09 – Sep 09. This will lead to an annual saving 18m euros, essentially by way of reducing manpower from 3700 to 2500.
      - Phase 2 : Sep 09 to Jun '10, Cost 23m euro, annualized saving of 22m euro to be funded by fresh equity of 12m euro from Havells (already brought in) and 12m euro of deferment of loans.

In Phase 2 Company will do

1. Rationalization of fixed costs
2. Increase outsourcing from lower cost countries like India and China
3. Increase saving in material costs
4. value engineering and process optimization. i.e. moving up in the ladder in terms of higher end products within lamps and fixtures. Process optimization involves moving back office operations to India, merger certain other functions etc.

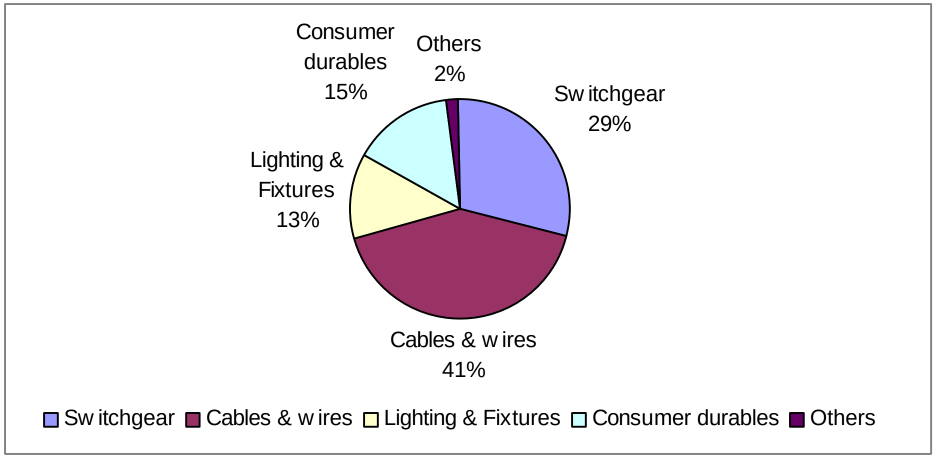
Havells India Ltd

- **Financials**
  - **Based on our interaction with management of the company & first cut analysis, on a consolidated basis we expect company to record EPS of Rs 37.5 for FY11 & Rs 57.5 for FY12.**

	Mar-10			Mar-11			Mar-12		
(Rs Cr)	Stand alone	Sylvania	Consolidated	Stand alone	Sylvania	Consolidated	Stand alone	Sylvania	Consolidated
Sales	2700	2800	5500	3250	2950	6200	3900	3100	7000
EBITDA	270	-250	20	325	200	525	390	280	670
Deprecaition			100			125			125
Interest			125			125			125
Tax			45			50			75
PAT			-250			225			345
EPS						37.5			57.5

Source: Capitaline, Emkay Estimates

Segment performance (Havells India stand alone Q1FY10)



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Havells India Ltd

- **Valuation & Recommendation**
  - Havells India's standalone operations are profitable at all levels and are expected to continue to do well on the back of likely recovery in the domestic economy. This coupled with turnaround in Sylvania post the restructuring & cost rationalization exercise currently underway, the consolidated entity is also likely to report robust numbers. Assigning a conservative PER of 10x on FY12E EPS we get a target price in range of Rs 575.

- **Key concerns**
  - Management's ability to turnaround overseas subsidiary without time & cost overrun.
  - Company's fortunes are correlated to performance of real estate & infrastructure sectors any downturn there may have rub off impact on it.

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Zen Technologies

CMP Rs 240 Target Rs 543 Time pd 1-2 yr

- **Investment rationale**
  - Only company in India producing simulators for defense services
  - High entry barriers as products offered highly technical in nature & business total relationship driven
  - Multi year experience of dealing with defense establishments (key requirement for generating business, company established in 1993)
  - Wide basket of product offerings
  - Stock has potential to be re-rated

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Zen Technologies

- **Investment rationale**
  - **Multiple triggers for the stock to re-rate**
    - **Expecting final award of around Rs 200-250 cr orders out of LI in Rs 400 cr worth orders from defense.**
    - **Intends to participate in new tenders worth Rs 1500 cr to be floated by defense in next 6 months. These orders will have to be fulfilled between FY12-15.**
    - **Focusing only on those segment of defense orders where large international players do not participate due to their high operational expenses & small order size.**
    - **Looking at partnering various companies in India & abroad for simulator training for drivers. Company is doing a project for European countries for providing training courses to drivers of trucks, dumpers & other heavy vehicles where it will be paid on hourly basis. Since this course is compulsory for all drivers & has to be repeated at regular intervals, this will generate recurring income for Zen.**
    - **Zen has entered into gaming in collaboration with Sony for developing games. We believe any success in this segment will be a game changer for the company in next 2 years. A blockbuster game can command valuation in the range of $1-2bn. Even an average game commands value of $ 100-150m. Any success in this field will catapult Zen into totally different orbit.**

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Zen Technologies

- **Financials**
  - In the past Zen had wide variance in quarterly profits due to nature of its business from defense. 60% of revenues & profits come in last qtr. However since now the co. is up the learning curve in dealing with defense & has widened product offerings, this lumpiness in numbers is likely to reduce as is evidenced from Q1FY10 results.
  - We expect Zen to clock turnover of Rs 100 cr in FY10 & Rs 140 cr in FY11. Though gaming is likely to start contributing something from last quarter of CY10, taking a conservative view we have not considered any contribution from gaming in these numbers.
  - Expect PAT of Rs 33.6 cr in FY10 & Rs 48.8 cr in FY11 yielding an EPS of Rs 37.3 & Rs 54.3 in FY10E & FY11E respectively.

Zen Technologies

Financials

(Rs cr)	FY11E	FY10E	FY09	FY08	FY07
Net Sales	140.0	100.0	63.1	25.2	22.3
Total Expenditure	81.0	59.0	40.7	13.4	12.8
Operating Profit	59.0	41.0	22.3	11.8	9.5
Interest	2.5	2.5	1.2	0.6	0.5
Depreciation	0.7	0.5	0.5	0.3	0.2
Tax	8.4	5.7	3.4	1.7	2.9
Other Income	1.4	1.4	1.3	1.7	1.4
Net Profit	48.8	33.6	18.6	11.0	7.2
EPS (Rs)	54.3	37.3	21.8	12.9	8.5

Source: Capitaline, Emkay Estimates

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Zen Technologies

- **Valuations & Recommendations**
  - In view of the multiple triggers for re-rating in the stock, highly scalable business model, high entry barriers for competition, we expect Zen Technologies to command premium valuations. Assigning extremely conservative PER of 10 on FY12E EPS gives us a target of Rs 543.
- **Key Concerns**
  - Fully dependant on orders from defense which is politically sensitive issue hence there is always a potential of time delays.
  - Tie ups with European nations for driver training at nascent stage & yet to reach threshold levels for meaningful contributions.
  - Developing new games is risky as rate of obsolescence is very high. Company needs to follow up initial success (if any) with continuous innovations & upgrades.

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Wish You All Happy Diwali & Prosperous New Year

Thank You

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