PINC RESEARCH

PINC POWERPICKS

Apollo Tyres
Glenmark
Godawari Power
M&M
NIIT Tech
Patel Engg.
Ranbaxy
Shree Cement
Tata Steel
Usha Martin

Infinity.com
Financial Securities Ltd
SMALL WORLD, INFINITE OPPORTUNITIES

PINC POWERPICKS

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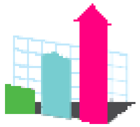
Here's the roster for the PINC PowerPicks:

Company	Sector	CMP (Rs)	Market Cap (Rs bn)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)		Earnings gr. (%)	ROE (%)	ROCE (%)
						FY11E	FY12E	FY11E	FY12E	(FY10-12E)	FY11E	FY11E
Apollo Tyres	Auto Ancillary	84	42	110	31	9.7	7.6	5.7	4.7	(1.1)	20.3	17.9
Glenmark	Pharma	309	83	353	14	19.4	16.4	12.4	10.7	27.7	16.5	12.3
Godawari Power	Metals	219	6	288	32	7.9	5.1	5.4	3.8	53.7	15.2	12.2
M&M	Auto	719	407	831	16	18.2	16.4	12.6	11.2	9.7	25.4	27.0
NIIT Tech	IT services	223	13	252	13	9.1	8.0	6.5	5.4	14.1	23.0	17.9
Patel Engg.	Const & Infra	390	27	567	45	15.1	11.8	7.9	7.1	20.9	12.5	14.3
Ranbaxy	Pharma	598	251	792	32	27.4	15.1	20.2	12.3	205.3	17.2	17.2
Shree Cement	Cement	2,050	71	2,697	32	10.7	9.9	4.9	4.1	(0.1)	31.4	22.0
Tata Steel	Metals	651	635	748	15	11.2	8.7	5.4	4.6	NA	18.8	9.8
Usha Martin	Metals	91	28	120	33	16.2	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 October issue of PINC Power Picks, we have introduced Godawari Power.

We have removed TCS since our target price has been achieved and stock outperformed the SENSEX by ~13% in the past three months.

15th October 2010

POWERFUL EVIDENCE:

Over the past seven months, we have presented our high-conviction ideas through PINC POWERPICKS. Some stocks have moved out because we achieved our price targets, making way for stocks with more potential. And while the tussle between the bulls and the bears continued, our stocks have held on, as bastions of strong earnings. We thought we will pause for a while and look back to quantify the returns in numbers. Here's a quick view of how PINC POWERPICKS performed over the past seven months.

Power Picks Performance				Stock Performance Absolute (%)			Relative to Sensex (%)		
Companies	**Month Added**	**Month Dropped**	**Returns(%)***	**1M**	**3M**	**6M**	**1M**	**3M**	**6M**
Apollo Tyres	June	-	30	2	25	8	(4)	11	(7)
Ashok Leyland	March	May	27	(3)	10	35	(9)	(5)	20
M&M	March	-	26	7	16	41	1	2	26
Ranbaxy	March	-	26	18	33	30	12	19	15
NIIT Tech	August	-	23	23	25	30	17	11	15
TCS	March	October	19	10	27	20	4	13	5
Glenmark	June	-	18	7	11	15	1	(3)	0
Coromandel Int	August	September	15	6	32	109	(0)	17	94
GSPL	March	July	14	9	16	30	3	2	15
Tata Steel	September	-	9	9	29	(6)	3	15	(21)
Jyothy Labs	July	August	5	(5)	4	65	(11)	(10)	50
Bajaj Auto	May	June	4	3	25	45	(2)	11	30
Sterlite Industries	March	April	2	6	9	(14)	0	(6)	(29)
Infosys	March	August	2	7	16	14	1	2	(1)
Usha Martin	September	-	1	1	12	(10)	(5)	(2)	(25)
Chambal fertiliser	March	May	1	22	36	42	16	21	27
GE Shipping	March	July	1	7	12	6	1	(2)	(9)
Patel Engg	June	-	(5)	(1)	(7)	(18)	(6)	(22)	(33)
Shree Cement	March	-	(12)	(2)	5	(10)	(8)	(9)	(25)
JSW steel	April	June	(17)	11	25	6	5	10	(9)

** MTM for companies currently in Power Picks; Returns till exited for others*

Note: We have / had a buy rating on all these stocks.

APOLLO TYRES: BUY, TP-Rs110 (31% upside)

Sector: Auto Ancillary
CMP: Rs84; 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 was a significant overhang on the stock as the facility accounts for a third of the company's domestic production capacity. This, along with recent correction in prices 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 the Cochin facility. Although the company has undertaken price increases, margins are expected to take a 440bps knock at 11.3%. VBBV reported a net profit margin of 6.5% in Q1FY11. We expect subsidiaries to contribute Rs1.9bn in profit 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 due to production growth or reduction in import duty on natural rubber as demanded by the tyre industry; and 4) Continued strong performance of VBBV, which specializes in winter tyres.

Where are we stacked versus consensus?

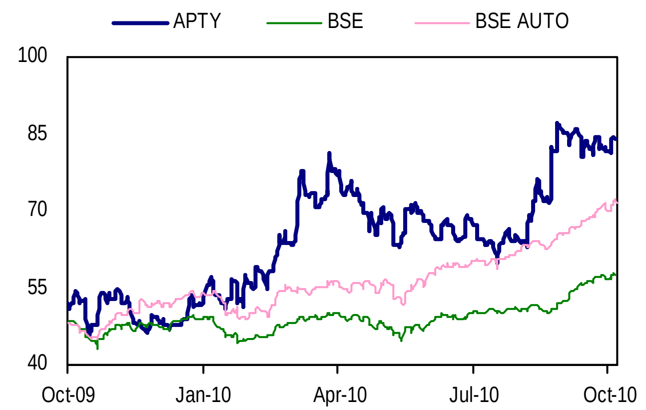
Our FY11 and FY12 consolidated earnings estimates are Rs8.7 and Rs11.0 respectively. With the end of the lockout at the Cochin facility, we have increased our target earnings multiple to 10x (from 7.5x). We reiterate our 'BUY' recommendation on the stock with a revised price target of Rs110. Our consolidated earnings estimate for FY11 is 2.0% higher than consensus estimate of Rs8.5.

What will challenge our target price?

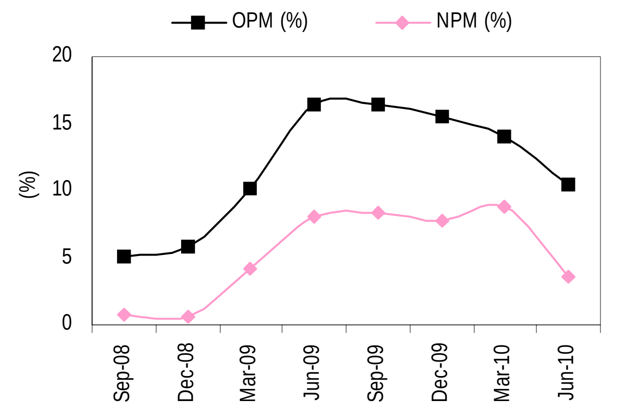
1) Further increase in natural rubber prices, a key raw material; and 2) Payment of penalty due to involvement in a price fixing cartel alleged by Competition Commission of South Africa.

(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)	32.9	7.5	9.7	-	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



Profitability Trend



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GLENMARK: BUY, TP-Rs353 (14% upside)

Sector: Pharmaceuticals
CMP: Rs309; Mcap: Rs83bn
Bloomberg: GNP IN; Reuters: GLEN.BO

What's the theme?

Glenmark has underperformed the BSE Healthcare Index on a disappointing 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 a 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 programme; and 4) Balance sheet improvement with reducing leverage and working capital requirements.

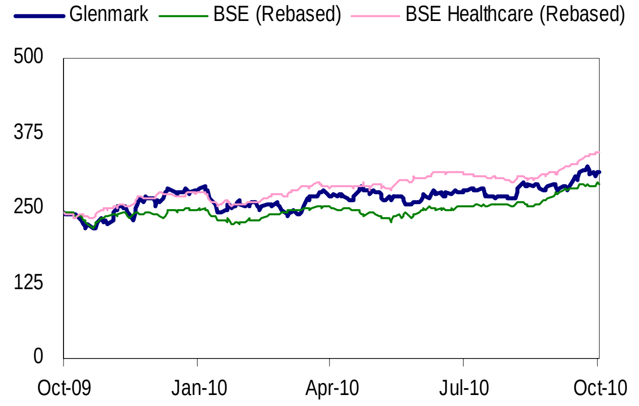
Where are we stacked versus consensus?

Our estimates are among the highest on the Street because we are more sanguine about Glenmark's return to high growth in the US (more niche product launches vs. an existing plain vanilla generic product portfolio) and 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 more appropriate for valuing the NCE R&D effort. We value the base business at 18x Sept'11E earnings after adding back NCE R&D (net of tax shield). We also add Rs15/share as NPV for 'at risk' launch of Tarka in the US. This yields 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; and 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)	43.4	26.7	19.4	-	16.4	-
ROE (%)	12.3	15.8	16.5	69 bps	16.4	(6)bps
ROCE (%)	10.4	11.8	12.3	54 bps	12.7	32 bps

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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GODAWARI POWER: BUY, TP-Rs288 (32% upside)

Sector: Metals
CMP: Rs219; Mcap: Rs6bn
Bloomberg: GODPI IN; Reuters: GDPI.BO

What's the theme?

GPIL is one of our top picks in the steel space, as we expect margin expansion and earnings CAGR of 54% over FY10-FY13, driven by backward integration. We expect the recently-commissioned 0.6mt pellet plant to boost GPIL's earnings further.

What will move the stock?

1) Timely commencement of the Boria Tibu mine in Q3 FY11 will boost margins. 2) The 20 MW biomass-based power plant, expected to be operational in H2 FY11, would ensure further power availability and become revenue accretive. 3) Strong upstream integration would boost top line and bottom line. 4) Production from the 0.6mtpa pellet plant in Orissa may provide further upside of Rs43/share (not included in our estimates).

Where are we stacked versus consensus?

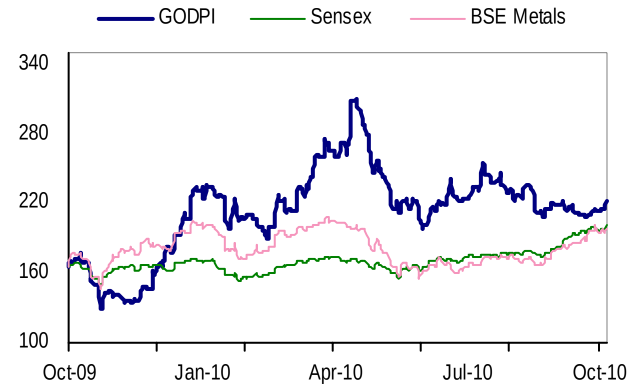
Our FY12 earnings estimate is in line with consensus.

What will challenge our target price?

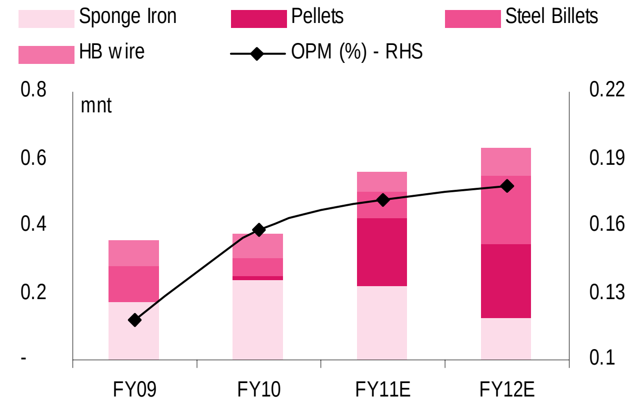
1) Lower-than-expected steel prices and volumes; 2) Delay in ramp-up of the Boria Tibu mine; and 3) Sharper increase in costs.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	10,355	7,764	10,039	29.3	12,924	28.7
EBITDA	1,226	1,226	1,724	40.6	2,300	33.4
EBITDA Marg. (%)	11.8	15.8	17.2	138 bps	17.8	62 bps
Adj. Net Profits	645	514	782	52.1	1,215	55.4
Dil. EPS (Rs)	23.0	18.3	27.9	52.1	43.3	55.4
PER (x)	5.7	12.0	7.9	-	5.1	-
ROE (%)	15.7	11.2	15.2	400 bps	20.2	(1015)bps
ROCE (%)	13.6	10.0	12.2	219 bps	15.9	373 bps

Price performance



Volume growth and margin expansion



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M&M: BUY, TP-Rs831 (16% upside)

Sector: Auto
CMP: Rs719; Mcap: Rs407bn
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 volume growth of 20.8% in FY11, after 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 a 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 the JV with Navistar has begun at the Chakan plant. 3) M&M has received EPA approval for launch in the US. 3) There is strong demand for small commercial vehicles (SCVs), the fastest-growing CV segment, which M&M recently entered into with the launch of Maximmo and Gio. 4) The company is expected to roll out expansion plans to ramp up capacity given current growth in the tractor segment.

Where are we stacked versus consensus?

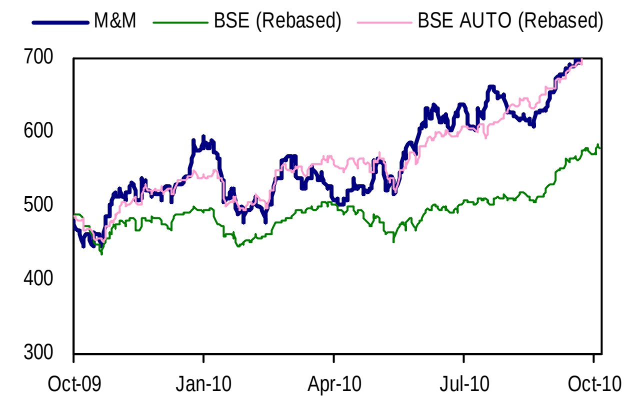
We expect EPS of Rs39.6 and Rs43.7 in FY11 and FY12 respectively. Our FY11 earnings estimate is 3.3% lower than consensus estimate of Rs40.9. We value M&M using SOTP at Rs831, discounting the standalone business at 14x FY12E earnings.

What will challenge our target price?

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

(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)	44.4	19.8	18.2	-	16.4	-
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	70.3	0.8	56
Mahindra Holidays	CMP	57.5	0.8	46
M&M Financial Services	CMP	67.2	0.8	54
Mahindra Lifespace	CMP	17.0	0.8	14
M&M (Treasury Stocks)	CMP	66.1	0.8	53
Swaraj Engines	CMP	3.4	0.8	3
Mahindra Forgings	CMP	7.9	0.8	6
Mahindra Ugine Steel	CMP	2.1	0.8	2
Mahindra Composites	CMP	1.9	0.8	2
Mahindra Navistar	P/BV	6.8	1.5	10
SOTP Value (Rs)				**831**

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NIIT TECH: BUY, TP-Rs252 (13% UPSIDE)

Sector: Information Technology
CMP: Rs223; Mcap: Rs13bn
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 from 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?

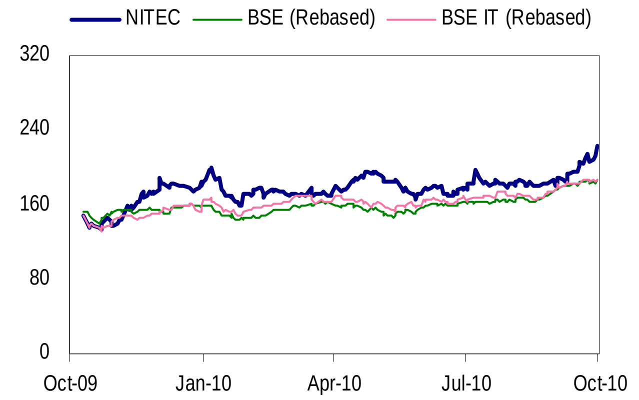
Our top-line estimates vary from consensus estimates by ~4.6% underpinned by stronger volumes and a modest uptick in the pricing for FY12. Our EBITDA margin estimates for FY12 are lower than consensus by ~70bps as we expect higher salary increases and promotions. Our FY12EPS estimate is in line with consensus.

What will challenge our target price?

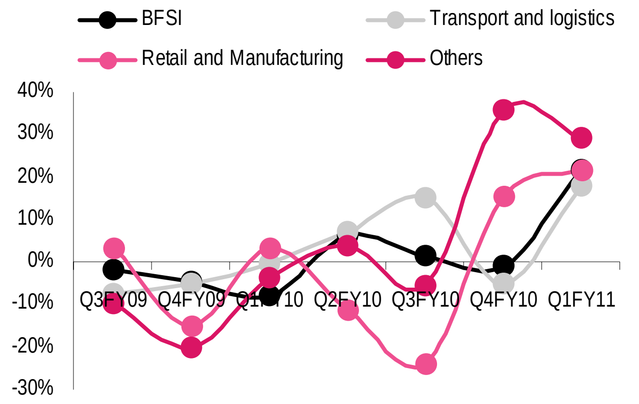
1) Slower recovery in the European economy; 2) Sharp currency volatility; 3) Higher attrition and wage increments; and 4) Project delays and cancellations in government contracts.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	9,800	9,138	11,831	29.5	12,949	9.5
EBITDA	1,765	1,889	2,070	9.6	2,481	19.8
EBITDA Marg. (%)	18.0	20.7	17.5	(318)bps	19.2	166 bps
Adj. Net Profits	1,148	1,265	1,441	13.9	1,646	14.3
Dil. EPS (Rs)	19.6	21.5	24.5	13.9	28.0	14.3
PER (x)	11.4	10.4	9.1	-	8.0	-
ROE (%)	29.5	21.7	23.0	130 bps	24.9	189 bps
ROCE (%)	17.1	19.1	17.9	(119)bps	19.4	155 bps

Price performance



Vertical split (QoQ growth)



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PATEL ENGG. - BUY, TP- Rs567 (45% upside)

Sector: Construction & Infrastructure
CMP: Rs390; Mcap: Rs27bn
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.

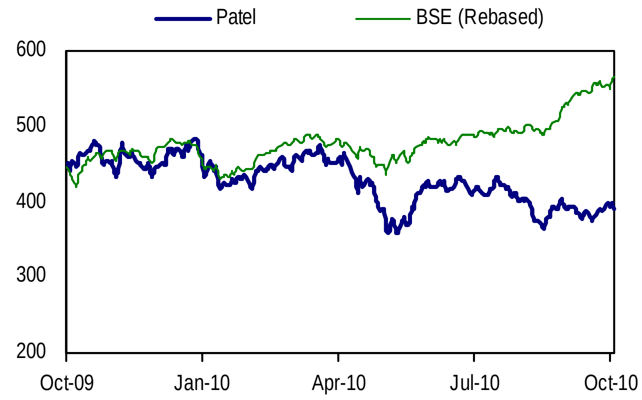
Where are we stacked versus consensus?

Our FY11E and FY12E earnings estimates are among the lowest on the Street at Rs25.8 (12.8 %) and Rs33, (8.5%), 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 ~11.5% at Rs35.5bn and ~22.2 at Rs43.5bn. Our SOTP-based target price is Rs567 vs. consensus target of Rs507.

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)	12.9	17.3	15.1	-	11.8	-
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 (32% upside)

Sector: Pharmaceuticals
CMP: Rs598; Mcap: Rs251bn
Bloomberg: RBXY IN; Reuters: RANB.BO

What's the theme?

While some of the expected triggers have played out, we believe more are likely 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 formulations on addition of 1500 in the 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 alliances.

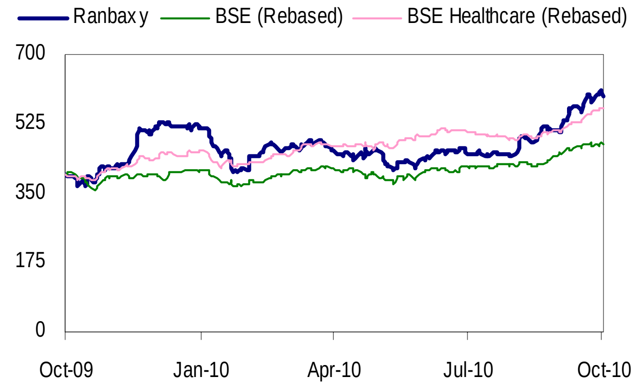
Where are we stacked versus consensus?

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; and 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	75,972	84,456	11.2	96,719	14.5
EBITDA	2,370	8,409	11,637	38.4	18,642	60.2
EBITDA Marg. (%)	3.2	11.1	13.8	271 bps	19.3	550 bps
Adj. Net Profits	(2,019)	1,474	7,595	415.2	13,738	80.9
Dil. EPS (Rs)	(4.3)	3.1	16.2	415.2	29.2	80.9
PER (x)	(103.0)	141.1	27.4	-	15.1	-
ROE (%)	(5.8)	3.6	17.2	1,364 bps	26.0	880 bps
ROCE (%)	3.9	12.7	17.2	452 bps	23.4	619 bps

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 (32% upside)

Sector: Cement
CMP: Rs2,050; Mcap: Rs71bn
Bloomberg: SRCM IN; Reuters: SHCM BO

What's the theme?

Shree Cement is well positioned to overcome the current oversupply situation in the cement industry, given its balanced portfolio of cement and power. During FY11, it plans to commission 1.0mn MT of grinding capacity at Jaipur and 1mn MT of clinker at Ras. Over the next 12 months, it also intends to commission 300MW of power, which will be available for sale in the merchant market. The company has aggressive plans in the power business with addition of 600MW.

What will move the stock?

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

Where are we stacked versus consensus?

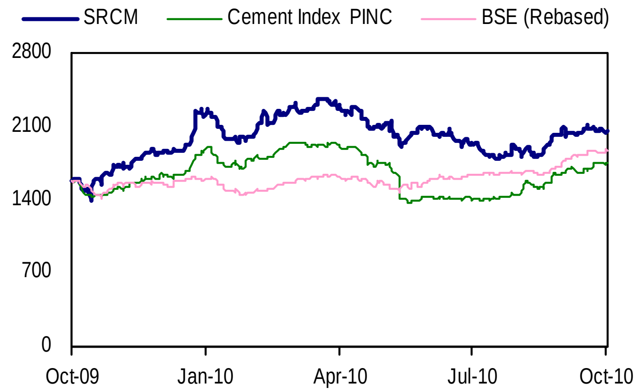
Our FY11 and FY12 earnings estimates are Rs191.9 and Rs206.3 respectively. Our FY11 EPS estimate of Rs191.9 is 18.5% higher than consensus estimate of Rs161.9. We remain positive on the stock due to management's excellent track record in project execution and strong earnings visibility.

What will challenge our target price?

1) Slowdown in construction activity in the NCR region after the Commonwealth Games; and 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)	12.4	9.9	10.7	-	9.9	-
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-Rs748 (15% upside)

Sector: Metals
CMP: Rs651; Mcap: Rs635bn
Bloomberg: TATA IN; Reuters: TISC.BO

What's the theme?

We expect Tata Steel's EBITDA to grow at 49% CAGR over FY10-12, driven by its profitable Indian operations, 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. We find the stock attractively valued at 4.6x FY12E EV/EBITDA.

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 with recent debt restructuring at Corus; 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.

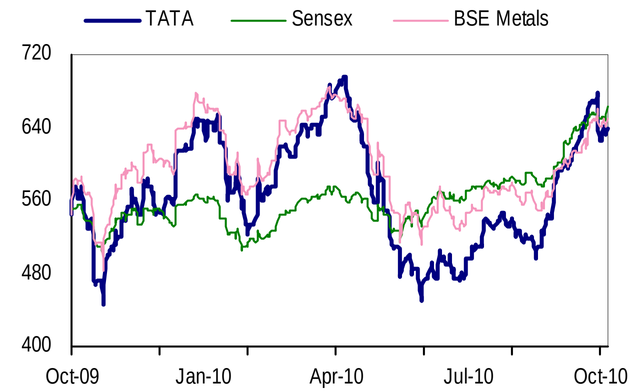
Where are we stacked versus consensus?

Our consolidated estimates are almost in line with consensus. We value Tata Steel using SOTP methodology at Rs748.

What will challenge our target price?

1) Lower steel profitability on correction in steel prices and/or significant rise in input costs; 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 bps	14.8	101 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	-	11.2	-	8.7	-
ROE (%)	26.4	-	18.8	NA	20.3	152 bps
ROCE (%)	13.7	-	9.8	NA	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	6	679,118	601,294	616
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.	**5.6**	**998,636**	**730,593**	**748**

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USHA MARTIN: BUY, TP-Rs120 (33% upside)

Sector: Metals
CMP: Rs91; Mcap: Rs28bn
Bloomberg: USM IN; Reuters: USBL.BO

What's the theme?

We expect Usha Martin to benefit from 38% volume CAGR over FY10-FY12E and an improved cost structure, with completion of capacity expansion of metallics by 0.4mtpa and steel by 0.6mtpa and full integration from mineral resources to value-added products. We estimate 30% EBITDA CAGR and 31% EPS CAGR over FY10-FY12.

What will move the stock?

1) Volume growth on higher metallics 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?

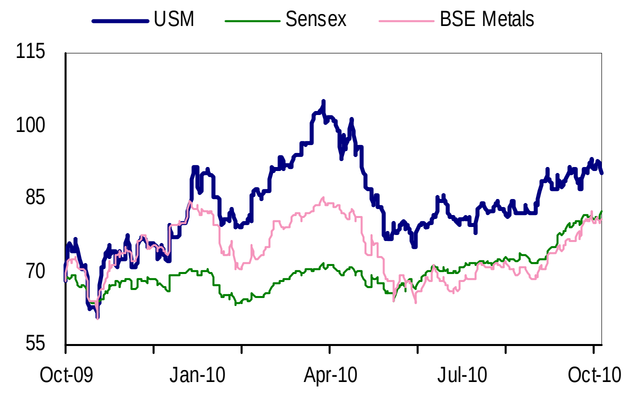
Our operating profit estimates are slightly lower than consensus owing to our cautious outlook on steel profitability and conservative volume estimates for Usha Martin (FY12E sales volume at 0.72mnt vs. guidance of 0.8mnt).

What will challenge our target price?

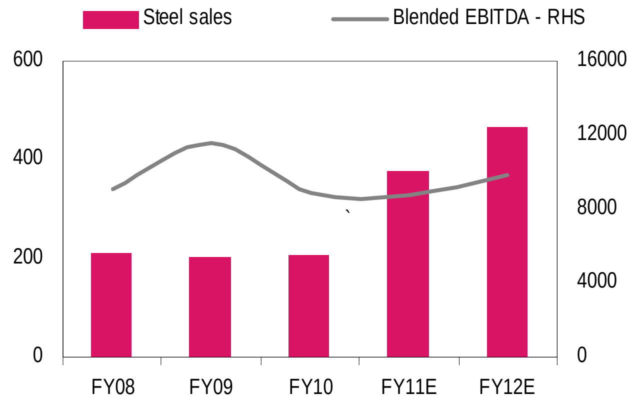
1) Delay in stabilization of recently-commissioned capacity impacting volumes; 2) Weak recovery in Europe, which contributes >10% to consolidated revenue; 3) Impact on mining operation either due to regulatory changes or naxalite activities; and 4) Severe decline in steel profitability.

(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	16.4	16.2	-	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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